



Company Report: Vietnam Prosperity Commercial Joint Stock Bank (VPB)

Analyst
Trần Thị Hồng Nhung, CFA
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Fe Credit has not recovered as expected

PERFORMANCE UPDATES

In the first half of 2023, VPB is one of the banks with the highest credit growth rate in the system, at 13.1%ytd (parent bank).

Deposits grew faster than loans and the increasing cost of capital (COF) was the main reason for the decrease in NII of the bank.

On the non-interest income side, income from securities trading & investment activities as well as from FX activities are still less positive. Meanwhile, the absence of one-off revenue (from the contract with AIA 1H22) caused the bank's TOI to decline. Excluding this one-off, the parent bank's TOI was flat in the first half of the year.

However, OPEX surged 28.6% in 1H, causing the consolidated bank's profit to decrease compared to the same period last year. Meanwhile, FE Credit's activities continued to record losses, causing a sharp drop in consolidated profit.

COMMENT

In the short term, with the parent bank, we believe VPB can take advantage of its large capital buffer to boost growth in the second half of the year with an ambitious credit growth target of over 30% in 2023. However, the business environment is still not positive considering that Fe Credit's business is expected to face difficulties in the second half of the year in the context of the sluggish domestic economy and weak consumer demand, as well as the real estate and mortgage sectors might not recover as expected.

We maintain VPB's targeted price at VND25,000/share.

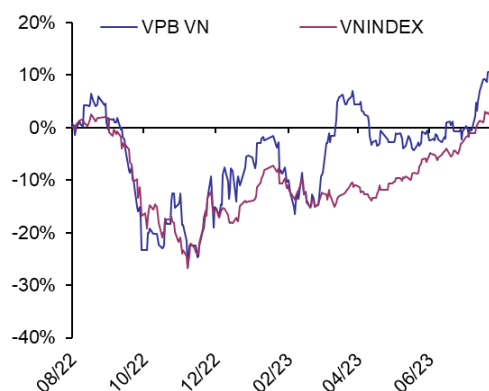
Recommendation:

-

6-18m TP: 25,000

Current price: VND21,950

Price performance



Price change	1 M	3 M	1Y
Abs. %	9.5%	11.1%	9.4%
Relative to VN index	15.7%	25.5%	6.5%
Avg price (VND)	21,478	20,305	18,918

Sources: Bloomberg, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2021A	44,301	11,477	2,647	-38.02	11,622	-	-	7.77	-24.20	16.51
2022A	57,797	16,909	2,718	2.68	14,360	-	-	7.64	-24.42	17.82
2023F	68,193	17,233	2,556	-5.98	16,047	1,000	5%	6.50	-29.00	16.62
2024F	94,200	27,624	4,096	60.30	19,143	1,000	5%	7.00	-29.00	19.87
2025F	122,839	38,770	5,749	40.35	23,893	1,000	5%	7.20	-29.00	22.38

Shares in issue (m)	6,713.20	Major shareholder (%)	Dragon Capital	6%
Market cap (VND b)	146,012.19	Free float (%)		65%
3- month average vol. ('000)	15,765.07	LDR (%)		76
52w high/low (VND)	23000 / 13650	CAR (%)		13.9

Sources: the Company, Guotai Junan (VN).

COST OF CAPITAL WEIGHS ON PROFITABILITY IN THE FIRST HAFT

The parent bank's performance

The loan to customers increased by 15.45%ytd with the main drivers coming from real estate business lending and lending to household related activities. Meanwhile, home loans also recorded an increase of 6.64%ytd. The corporate bond portfolio decreased slightly, causing the parent bank's credit to increase by 13.1% compared to the beginning of the year.

Net interest income in the second quarter continued to decline and reached the lowest level in the last 6 quarters. NII weakened due to a sharp increase in COF, bank deposits especially increased faster than credit growth. Besides, the competitive interest rate policy to attract deposits may be one of the main reasons for VPB's increase in deposit costs.

Foreign exchange business continued to record a loss while securities trading did not improve.

Other operating income was the main driver supporting VPB's TOI growth in Q2 and in the first half of 2023.

Excluding extraordinary income from insurance cooperation with AIA in the first quarter of 2022, VPB's TOI in the first half of 2023 was flat compared to the same period last year at VND 17,500 billion.

However, the increase in provision expenses and operating expenses pulled the bank's pre-tax profit down compared to the same period in 2022. Specifically, VPB's operating expenses increased by 34%yoy in Q2 and 28.6%yoy in the first half. year. Provision expenses for the parent banks increased 10%yoy in Q2 and increased 5%yoy in 1H 2023.

Excluding the one-off income, VPB's profit before tax in the first half of 2023 decreased by about 18% yoy.

Fe Credit has not recovered as expected

According to the consolidated financial statements of the bank, the bank's consolidated pre-tax profit reached nearly VND 8,000 billion while the parent bank's pre-tax profit reached nearly VND 5,200 billion, indicating a loss of nearly VND 2,800 billion from subsidiaries. The largest member of which is Fe Credit.

According to the bank, Fe Credit continued to face difficulties in the second quarter due to the less active domestic credit market and the impact of declining asset quality. However, the loss in the second quarter was reduced compared to the first quarter.

Asset quality

The NPL ratio of both parent bank and the consolidated bank increased sharply since the beginning of the year, in line with the whole industry picture. Notably, the bank's group- 2 debt balance also increased more than 2 times to VND 32,700 billion at individual bank and increased by 68% ytd at a consolidated bank, to VND 40,000 billion. The NPL ratio of parent bank (Circular 11) increased from 2.66% in Q1 to 2.81% at the end of Q2.

Regarding the application of Circular 02 for debt restructuring, VPB restructured for corporate and SME customers of the bank with a balance of about 6,000 billion at the end of Q2.

COMMENT

In the short term, with the parent bank, we believe VPB can take advantage of its large capital buffer to boost growth in the second half of the year with an ambitious credit growth target of over 30% in 2023. However, the business environment is still not positive considering that Fe Credit's business is expected to face difficulties in the second half of the year in the context of the sluggish domestic economy and weak consumer demand, as well as the real estate and mortgage sectors might not recover as expected.

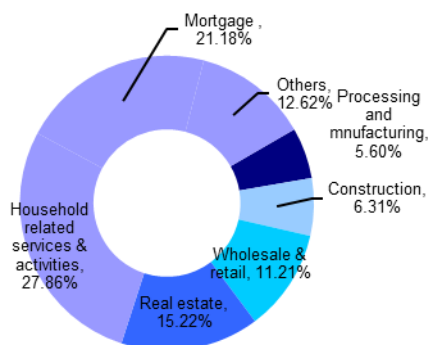
We believe the bank's net interest income can recover in the next 2 quarters thanks to the gradual repricing in cost of capital and lending yield, in line with current market interest rates. Accordingly, NIM's bottom may be around here and NIM is expected to recover from the end of Q3.

In terms of asset quality, the proportion of VPB's real estate loans is not too high (19% of outstanding loans to individual bank- including corporate bonds) and large customer groups such as NVL still retain in the group-1 debt classification. In addition, the positive policy signals for the real estate sector help alleviate concerns about outstanding loans in this sector. Instead, difficult domestic business conditions affecting the income of individuals and households remain the main risk threatening the asset quality of Fe's home loan and consumer loan.

It is expected that in the third quarter, the bank will officially complete the sale of 15% of capital to SMBC, helping to strengthen the capital buffer and liquidity, thereby supporting business activities in the long term.

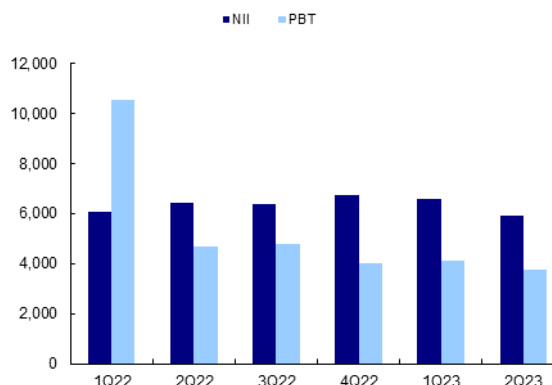
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Figure-1: Credit breakdown by sector (parent bank)



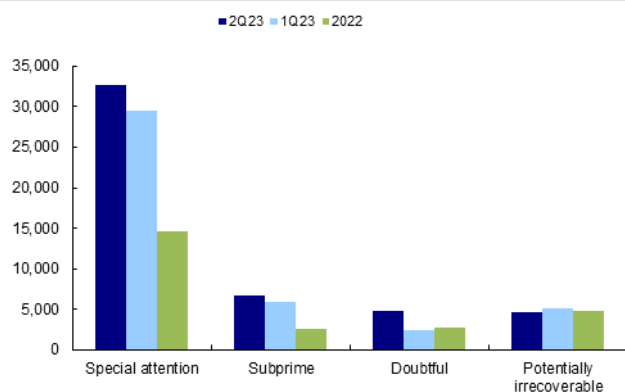
Source: VPB, Guotai Junan (VN).

Figure-2: NII and PBT (parent bank)



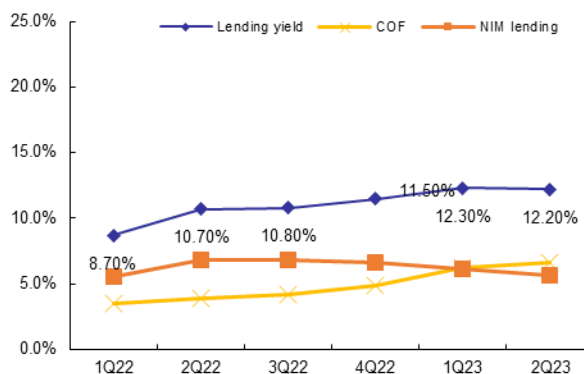
Source: VPB, Guotai Junan (VN).

Figure-3: Group 2-5 loan (parent bank)



Source: VPB, Guotai Junan (VN).

Figure-4: Yield and NIM (parent bank)



Source: VPB, Guotai Junan (VN)

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% Or The Fundamental outlook of the sector is unfavorable

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GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

Trần Thị Hồng Nhung, CFA

Equity Analyst- Banking sector

nhungtth@gtjas.com.vn

(024) 35.730.073 – ext:703

Võ Thế Vinh

Head of Research

vinhvt@gtjas.com.vn - ext:701

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CHỨNG KHOÁN GUOTAI JUNAN (VIỆT NAM)
GUOTAI JUNAN SECURITIES (VIETNAM)

CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 st Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	3 rd Floor, No. 2 BIS, Công Trường Quốc Tế, P. 6, Q.3, Tp.HCM
Stock ordering: (024) 35.779.999	Tel: (024) 35.730.073	Tel: (028) 38.239.966
Email: gtja@gtjas.com.vn Website: www.gtjai.com.vn	Fax: (024) 35.730.088	Fax: (028) 38.239.696

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