



Company Report: JSC Bank For Foreign Trade of Vietnam (VCB)

Analyst
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A very solid position

BUSINESS RESULT UPDATE

Credit growth in the first 9 months of the bank was only 4%ytd, lower than the sector average growth rate and the lowest among banks.

Net interest margin continued to narrow in the context of preferential interest rate packages and higher COF compared to the previous year.

Non-interest income narrowed due to pressure on reducing service income and other income sources. The bright spot is that income from FX activities continues to increase strongly.

The bank's NPL ratio was also not out of the sector trend, increasing to 1.21% at the end of Q3. However, provision expenses in Q3 and accumulated 9 months decreased sharply by more than 20%.

At the end of the first 3 quarters, VCB recorded a pre-tax profit of nearly 30,000 billion VND, continuing to lead the banking sector in terms of profits.

COMMENT

VCB is the most effective bank in the SOBs group with the number one position to large corporate customers in Trade finance & international settlement and foreign exchange trading activities.

Possessing a large reserve buffer and a cautious risk appetite, the impact of bad debts arising in a weak economic context on the bank's profits has been minimized, helping to maintain profit growth momentum in the first 9 months of the year.

We value VCB shares at 93,000VND/share and recommend "Hold" in the long-term investment portfolio.

Recommendation:

Hold

(Updated)

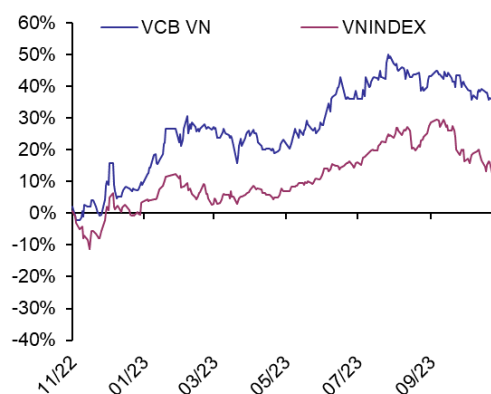
6-18m TP:

VND93,000

Current price:

VND86,800

Price performance



| Price change | 1 M | 3 M | 1Y |
|----------------------|--------|--------|--------|
| Abs. % | 0.3% | -5.1% | 43.2% |
| Relative to VN index | -10.7% | -20.9% | 43.3% |
| Avg price (VND) | 85,659 | 87,735 | 79,350 |

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 | 56,724 | 21,939 | 4,195 | -6.15% | 23,057 | 1,200 | 12% | 3.22% | -30.98% | 21.57% |
| 2022A | 68,083 | 29,912 | 6,316 | 50.56% | 29,158 | - | 0% | 3.40% | -31.23% | 24.19% |
| 2023F | 72,374 | 32,913 | 5,885 | -6.82% | 31,310 | 800 | 8% | 3.19% | -32.00% | 21.02% |
| 2024F | 83,705 | 40,606 | 7,262 | 23.39% | 37,775 | 800 | 8% | 3.30% | -30.00% | 21.02% |
| 2025F | 94,211 | 45,604 | 8,156 | 12.31% | 45,135 | 800 | 8% | 3.30% | -30.00% | 19.67% |

| | | | |
|------------------------------|---------------|-----------------------|-----------|
| Shares in issue (m) | 5,589.09 | Major shareholder (%) | SBV 74.8% |
| Market cap (VND b) | 485,133.12 | Free float (%) | 25% |
| 3- month average vol. ('000) | 1,217.45 | LDR (%) | 88 |
| 52w high/low (VND) | 93700 / 58340 | CAR (%) | 11.3 |

Sources: the Company, Guotai Junan (VN).

LEADING SECTOR IN TERMS OF PROFIT

In the first 9 months of 2023, the credit allocated to each segment of the bank has not changed so much with a quite balancing allocation among corporate and retail clients. As of the end of the third quarter, the bank recorded an outstanding loan of 1,190 trillion VND, an increase of only 4% compared to the beginning of the year. Although it has improved compared to the second quarter (at the end of the second quarter it increased by 2.6%ytd), but VCB's low outstanding loan growth partly reflects the bank's cautious assessment in approaching and disbursing new loans.

NII continued to decrease for the third consecutive quarter as NIM narrowed under pressure from reducing lending interest rates and supporting interest rate packages to customers.

Non-interest income meanwhile also showed a downward trend from the first quarter, mainly coming from a decrease in service income. FX - the bank's strength continues to hike and is the largest contributor to VCB's non-interest income in the third quarter as well as the first 9 months of 2023. Cumulatively for 9 months, VCB's non-interest income is almost flat compared to the same period last year.

The NPL ratio climbed to 1.21%

The bank's NPL ratio increased from 0.83% at the end of the second quarter to 1.21% at the end of the third quarter with the bad debt balance increasing by 84% compared to the beginning of the year.

Although bad debt balance increased, provision expense in the first 9 months of the year decreased by 22% yoy as the bank had previously built a large set of provisions with a bad debt coverage ratio of nearly 400%. As of the end of the third quarter, because part of the provision was used to handle bad debts, VCB's bad debt coverage ratio decreased to only 270%, however it is still the highest level in the banking sector.

With a slight improvement in operating income and a sharp decrease in provision expenses, VCB's pre-tax profit in the first 9 months of the year reached VND 29,550 billion, + 18.5%yoy and helping VCB maintains its leading position in the industry in terms of profitability.

COMMENT

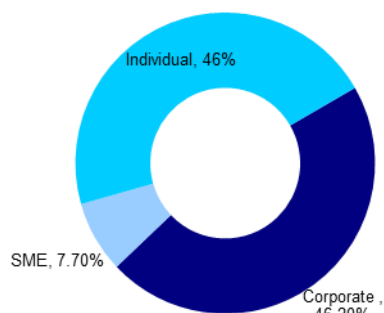
VCB is the most effective bank in the SOBs group with the number one position to large corporate customers in Trade finance & international settlement and foreign exchange trading activities.

Possessing a large reserve buffer and a cautious risk appetite, the impact of bad debts arising in a weak economic context on the bank's profits has been minimized, helping to maintain profit growth momentum in the first 9 months of the year.

We believe that with the current conservative appetite, VCB will not use the full credit growth limit granted this year (9.7%). We forecast that the bank will achieve credit growth of about 8.5% for the whole year. NIM is flat compared to the third quarter while other non-interest activities continue the current growing momentum, thereby forecasting PBT for the whole year to reach 41,000 billion VND, corresponding to a growth of 10% compared to 2022.

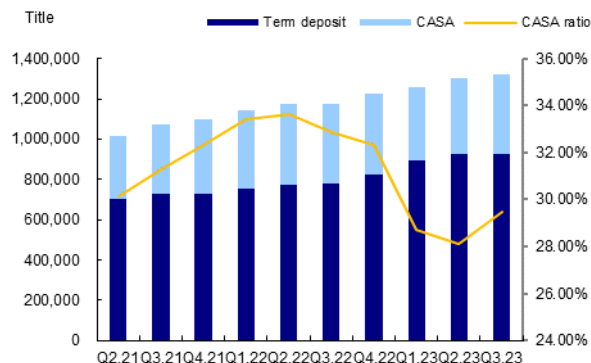
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Figure-1: Credit breakdown by segment



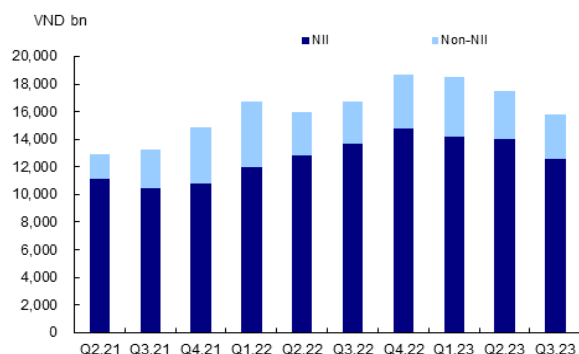
Source: VCB, Guotai Junan (VN).

Figure-2: Deposit breakdown



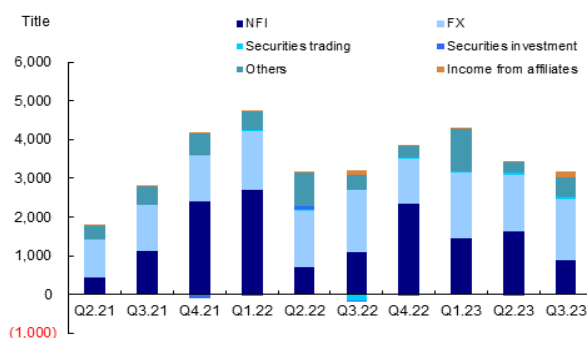
Source: VCB, Guotai Junan (VN).

Figure-3: TOI structure



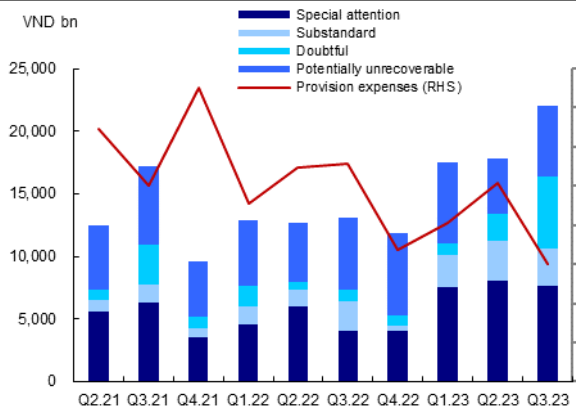
Source: VCB, Guotai Junan (VN).

Figure-4: Non-interest income breakdown



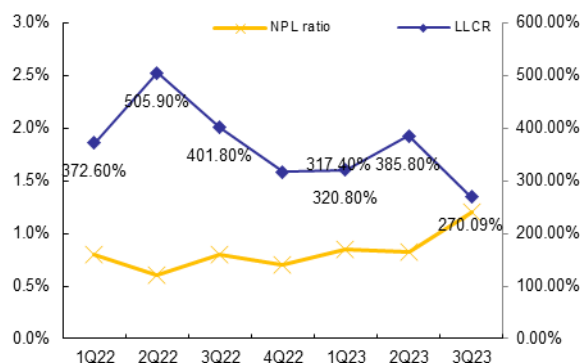
Source: VCB, Guotai Junan (VN)

Figure-5: Loan group 2-5



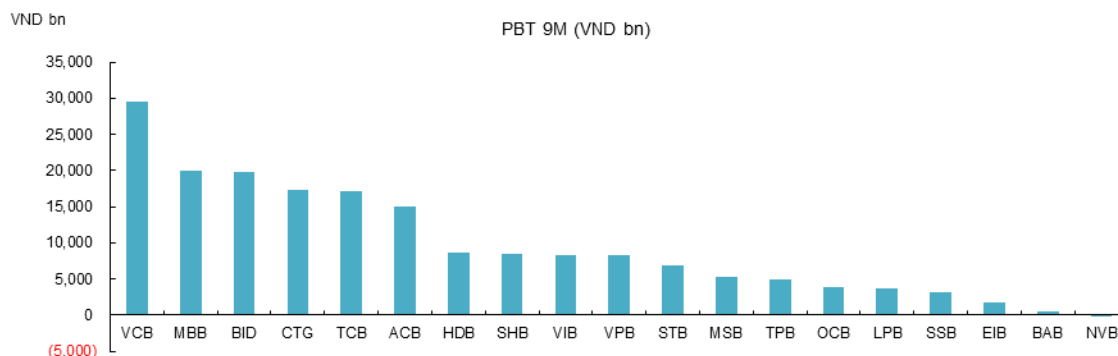
Source: VCB, Guotai Junan (VN).

Figure-6: NPL and LLCR



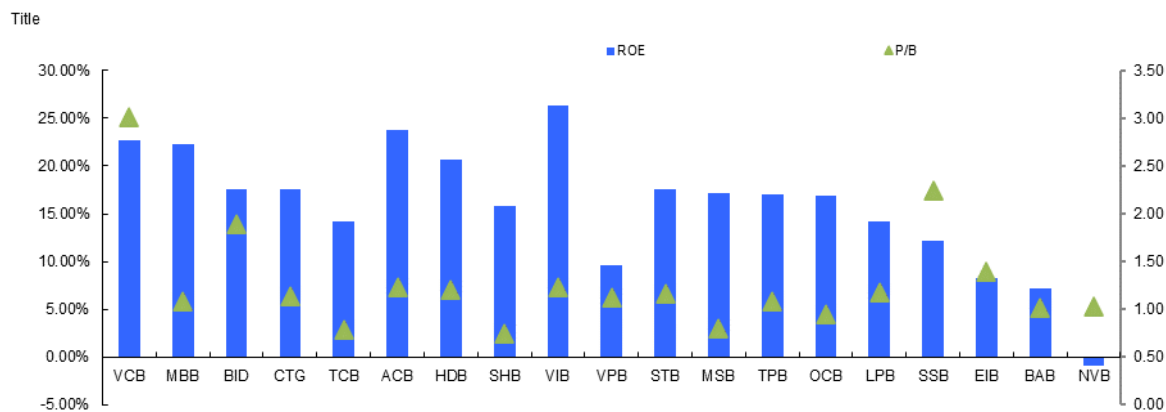
Source: VCB, Guotai Junan (VN)

Figure-7: PBT of VCB and peers



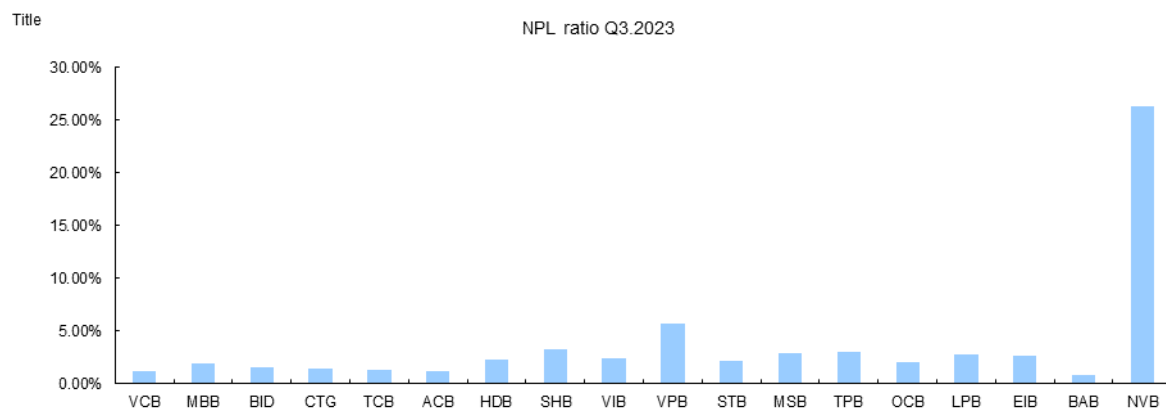
Source: Fiiopro, Guotai Junan (VN).

Figure-8: P/B and ROE



Source: Fiinpro, Guotai Junan (VN).

Figure-9: NPL ratio of banks



Source: Fiinpro, 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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Vietcombank (VCB)

Company Report