

Vietnam

April 22, 2020

ADD (no change)

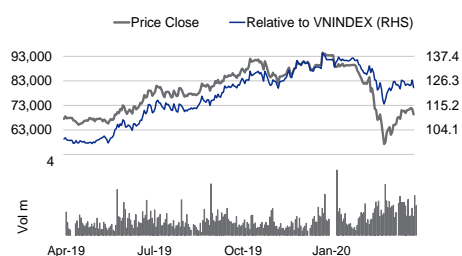
Consensus ratings*: Buy 9 Hold 5 Sell 0

Current price:	VND69,300
Target price:	VND86,200
Previous target:	VND86,200
Up/downside:	24.4%
CGS-CIMB / Consensus:	-3.2%
Reuters:	VCB.HM
Bloomberg:	VCB VN
Market cap:	US\$10,955m
	VND257,025,200m
Average daily turnover:	US\$3.67m
	VND85,971m
Current shares o/s	3,709m
Free float:	7.6%

*Source: Bloomberg

Key financial forecasts

	Dec-20F	Dec-21F	Dec-22F
Net Profit (VNDb)	21,155	24,689	28,977
Core EPS (VND)	4,685	5,467	6,417
Core EPS Growth	14.3%	16.7%	17.4%
FD Core P/E (x)	14.79	12.68	10.80
Recurring ROE	18.4%	17.9%	17.4%
P/BV (x)	2.49	2.07	1.72
DPS (VND)	800.0	800.0	800.0
Dividend Yield	1.15%	1.15%	1.15%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.7	-25.8	2.1
Relative (%)	4.4	-3.3	22.5

Major shareholders	% held
State Bank of Vietnam	74.8
Mizuho Corporate Bank	15.0
GIC Private Limited	2.6

Analyst(s)

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Vietcombank

Save for a rainy day

- 1Q20 net profit fell 11.2% yoy on surging provision expenses. VCB ramped up its provision buffer in light of possible hike in bad debts.
- 1Q20 net profit came in at 19.7% of our full-year forecast. We keep our FY20 forecasts as we see stronger quarters ahead.
- Maintain Add as VCB is trading below its 5-year average P/BV while having the best recovery outlook among stocks under our coverage.

Modest income growth in 1Q20

- VCB announced 1Q20 total operating income grew a slight 4.4% yoy, driven by 6.3% yoy growth in net interest income (NII); non-interest income (Non-II) was flat yoy.
- Loan book rose 12.1% yoy, lower than the 16.5% growth in 1Q19, on subdued credit demand due to the Covid-19 outbreak.
- Net interest margin dropped 13bp yoy to 3.1% due to lower lending rates and reduction/waiver of interest to support customers affected by the pandemic.
- Non-II was flat, due to a reduction in service fees to support customers amid the pandemic and higher provisioning for trading securities as the stock market plunged.

Net profit contracted due to surging provision expense

- 1Q20 pre-provision profit remained flat yoy, but provision expenses jumped 42.9% yoy, thus net profit dropped 11.2% yoy to VND4,178bn.
- We view this surge in provision as a sign that VCB has taken one step forward to set aside provisions for potential rise in bad debts as its 1Q20 non-performing loan (NPL) ratio rose only slightly to 0.82% from 0.79% at end-FY19.
- Heavy provisioning and a contained NPL led to higher loan-loss-reserves (LLR), which jumped from 179.5% at end-FY19 to 235% at end-1Q20.
- VCB is the first bank in Vietnam to proactively book additional provision to buffer against potential rise in bad debts. This is a good move, showing the bank's conservative stance in our view.

VCB on track to meet our FY20 forecasts

- 1Q20 net profit accounted for only 19.7% of our full-year forecast.
- However, we expect VCB will meet our FY20 forecasts, based on the following: 1) our forecasts include VND1,800bn one-off income from its exclusive bancassurance deal with FWD Insurance, which has not been booked in 1Q20; 2) VCB will have a new income stream from insurance commission, as it started selling FWD insurance in Apr; and 3) we expect its performance to pick up in 2H20F after the pandemic eases.

Reiterate Add with unchanged TP of VND86,200

- As we believe VCB will meet our FY20 forecasts, we make no changes to our forecasts. We project FY20F net profit to grow 14.3% yoy.
- VCB is trading at an attractive valuation of 2.5x FY20F P/BV, which is 20% below its 5-year average. We believe its current share price has reflected the impact of the Covid-19 outbreak.
- In our view, VCB will be the first bank to recover post-pandemic thanks to its continued expansion into retail lending, strong fee income growth from its new bancassurance business, and better asset quality which lowers the risk of a spike in bad debts.
- We reiterate Add on VCB. Our TP of VND86,200 is based on an equal weighting of residual income valuation (COE: 13.0%; LTG: 4.0%) and 2.8x FY20F P/BV.

Downside risk and re-rating catalyst

- Downside risk could arise if the pandemic lasts until the second half of 2020, resulting in higher-than-expected bad debts and credit cost.
- Potential re-rating catalyst would be a shorter period to book the one-off income from its exclusive bancassurance deal (we currently forecast a 5-year booking period), thereby increasing FY20-22F earnings.

Figure 1: Results summary (VND bn, unless stated otherwise)

Profit & Loss statement	1Q20	1Q19	yoy%	4Q19	qoq%	VNDIRECT FY20F forecasts	% of VNDIRECT FY20F forecasts	Comments
Net interest income	9,034	8,499	6.3%	8,640	4.6%	39,286	23.0%	In line with our forecasts. We expect interest income will improve in the latter half as credit growth would pick up post-pandemic.
Non-interest income	3,251	3,269	-0.5%	2,025	60.5%	14,901	21.8%	On track to meet our full year forecasts. We expect VCB will book VND1,800bn one-off upfront fee from the exclusive bancassurance deal in the second half of 2020. New income stream from insurance commission will boost fee income from Apr 2020.
Operating revenue	12,285	11,768	4.4%	10,665	15.2%	54,187	22.7%	
Operation expenses	(4,910)	(4,384)	12.0%	(3,184)	54.2%	(19,507)	25.2%	In line with our forecasts.
Pre-provision profit	7,375	7,384	-0.1%	7,481	-1.4%	34,680	21.3%	
Provision expenses	(2,152)	(1,506)	42.9%	(1,971)	9.2%	(8,216)	26.2%	In line with our forecasts.
Pre-tax profit	5,223	5,878	-11.1%	5,510	-5.2%	26,464	19.7%	
Net profit	4,178	4,707	-11.2%	4,394	-4.9%	21,155	19.7%	On track to meet our full year forecasts.

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: Regional peer comparison

Banks	Bloomberg Code	Recomm endation	Closing price	Target price	Market cap	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(local curr.)	(local curr.)		FY20F	FY21F	FY20F	FY21F	%	FY20F	FY21F
HDFC Bank	HDFCB IN	ADD	922	1,275	65,774	2.6	2.3	17.2	14.8	17.6%	16.4%	16.5%
Bank Central Asia	BBCA IJ	ADD	25,800	34,400	41,124	3.1	2.8	18.2	16.5	12.8%	17.8%	17.7%
Bank Rakyat Indonesia	BBRI IJ	HOLD	2,720	4,100	21,690	1.4	1.3	7.9	7.1	11.2%	18.2%	18.8%
Public Bank Bhd	PBK MK	ADD	16	20	13,906	1.3	1.2	10.9	10.9	2.2%	12.2%	11.5%
Bank Mandiri	BMRI IJ	ADD	4,350	9,000	13,124	0.9	0.8	5.8	5.0	14.9%	15.2%	16.8%
Indusind Bank	IIB IN	ADD	401	725	3,618	0.7	0.6	5.5	4.7	17.0%	14.0%	14.5%
Techcombank	TCB VN	ADD	16,850	27,400	2,514	0.8	0.7	5.4	4.6	14.6%	16.1%	16.2%
Vietnam Prosperity JSC Bank	VPB VN	ADD	19,550	25,800	2,031	0.9	0.7	4.7	4.0	17.1%	21.2%	20.1%
Military Commercial Joint Stock Bank	MBB VN	ADD	15,650	26,200	1,609	0.8	0.7	4.3	3.7	13.3%	19.3%	18.3%
Asia Commercial Joint Stock Bank	ACB VN	ADD	19,800	30,400	1,403	1.0	0.8	4.6	4.0	15.7%	22.9%	22.1%
Average						1.4	1.2	8.4	7.5	13.6%	17.3%	17.3%
Vietcombank	VCB VN	ADD	71,500	86,200	11,303	2.5	2.1	12.4	10.6	16.1%	18.4%	17.9%

PRICE AS OF 21 APR 2020

SOURCES: CGS-CIMB RESEARCH, VNDIRECT RESEARCH

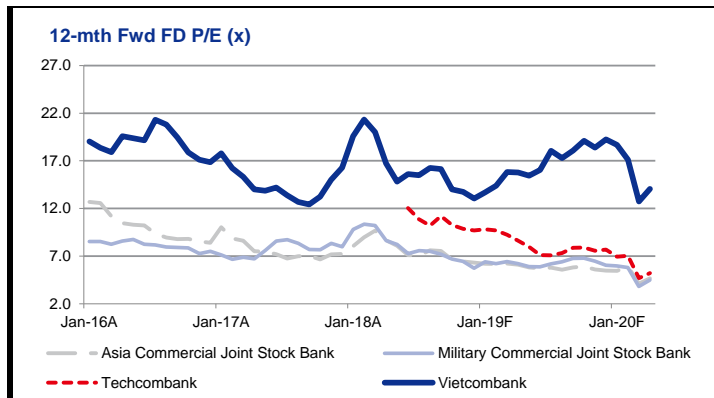
BY THE NUMBERS

Profit & Loss				
(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Net Interest Income	34,577	39,286	44,573	51,576
Total Non-Interest Income	11,156	14,901	19,646	26,524
Operating Revenue	45,733	54,187	64,219	78,100
Total Non-Interest Expenses	(15,820)	(19,507)	(23,119)	(28,116)
Pre-provision Operating Profit	29,913	34,680	41,100	49,984
Total Provision Charges	(6,790)	(8,216)	(10,216)	(13,735)
Operating Profit After Provisions	23,123	26,464	30,885	36,248
Pretax Income/(Loss) from Assoc.	0	0	0	0
Operating EBIT (incl Associates)	23,123	26,464	30,885	36,248
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	23,123	26,464	30,885	36,248
Exceptional Items				
Pre-tax Profit	23,123	26,464	30,885	36,248
Taxation	(4,595)	(5,293)	(6,177)	(7,250)
Consolidation Adjustments & Others				
Exceptional Income - post-tax				
Profit After Tax	18,528	21,171	24,708	28,999
Minority Interests	(14)	(16)	(18)	(22)
Prof. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
Net Profit	18,514	21,155	24,689	28,977
Recurring Net Profit	15,205	17,375	20,277	23,799

Balance Sheet				
(VNDb)	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Gross Loans	983,436	1,096,359	1,228,558	1,387,452
Liquid Assets & Invst. (Current)	204,113	230,643	260,626	294,508
Other Int. Earning Assets				
Total Gross Int. Earning Assets	1,187,550	1,327,002	1,489,185	1,681,960
Total Provisions/Loan Loss Reserve	(10,417)	(13,155)	(16,265)	(20,843)
Total Net Interest Earning Assets	1,177,133	1,313,847	1,472,920	1,661,117
Intangible Assets	2,261	2,351	2,445	2,542
Other Non-Interest Earning Assets	30,808	32,035	33,309	34,635
Total Non-Interest Earning Assets	33,070	34,386	35,754	37,177
Cash And Marketable Securities	13,778	14,327	14,897	15,490
Long-term Investments	0	0	0	0
Total Assets	1,223,981	1,362,559	1,523,571	1,713,784
Customer Interest-Bearing Liabilities	949,798	1,060,138	1,194,299	1,357,834
Bank Deposits	73,622	77,303	81,168	85,226
Interest Bearing Liabilities: Others	92,386	94,234	96,119	98,041
Total Interest-Bearing Liabilities	1,115,806	1,231,675	1,371,586	1,541,102
Bank's Liabilities Under Acceptances				
Total Non-Interest Bearing Liabilities	22,422	27,656	27,867	23,531
Total Liabilities	1,138,228	1,259,331	1,399,453	1,564,632
Shareholders' Equity	85,671	103,146	124,036	149,070
Minority Interests	(82)	(82)	(82)	(82)
Total Equity	85,589	103,064	123,954	148,988

Balance Sheet Employment				
	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Gross Loans/Cust Deposits	79.1%	79.8%	80.5%	81.3%
Avg Loans/Avg Deposits	79.0%	79.5%	80.2%	80.9%
Avg Liquid Assets/Avg Assets	38.8%	37.8%	37.0%	36.0%
Avg Liquid Assets/Avg IEAs	40.0%	38.9%	37.9%	36.8%
Net Cust Loans/Assets	59.2%	60.0%	61.1%	62.3%
Net Cust Loans/Broad Deposits	70.8%	71.8%	72.9%	74.0%
Equity & Provsns/Gross Cust Loans	13.1%	14.0%	14.8%	15.6%
Asset Risk Weighting	77.0%	81.2%	83.2%	85.1%
Provision Charge/Avg Cust Loans	0.99%	1.05%	1.15%	1.35%
Provision Charge/Avg Assets	0.59%	0.64%	0.71%	0.85%
Total Write Offs/Average Assets	0.58%	0.42%	0.49%	0.57%

Key Ratios				
	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Total Income Growth	16.4%	18.5%	18.5%	21.6%
Operating Profit Growth	16.5%	15.9%	18.5%	21.6%
Pretax Profit Growth	26.6%	14.4%	16.7%	17.4%
Net Interest To Total Income	75.6%	72.5%	69.4%	66.0%
Cost Of Funds	3.15%	3.06%	3.12%	3.19%
Return On Interest Earning Assets	6.07%	5.98%	6.05%	6.18%
Net Interest Spread	2.92%	2.92%	2.93%	2.99%
Net Interest Margin (Avg Deposits)	4.00%	3.99%	4.02%	4.10%
Net Interest Margin (Avg RWA)	4.14%	3.83%	3.75%	3.78%
Provisions to Pre Prov. Operating Profit	22.7%	23.7%	24.9%	27.5%
Interest Return On Average Assets	3.01%	3.04%	3.09%	3.19%
Effective Tax Rate	19.9%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	16.0%	14.0%	12.0%	10.2%
Return On Average Assets	1.61%	1.64%	1.71%	1.79%



Key Drivers				
	Dec-19A	Dec-20F	Dec-21F	Dec-22F
Loan Growth (%)	16.3%	13.0%	14.0%	15.0%
Net Interest Margin (%)	3.1%	3.1%	3.2%	3.3%
Non Interest Income Growth (%)	2.6%	33.6%	31.8%	35.0%
Cost-income Ratio (%)	34.6%	36.0%	36.0%	36.0%
Net NPL Ratio (%)	-4.3%	-4.5%	-4.7%	-5.1%
Loan Loss Reserve (%)	182.0%	157.3%	138.8%	142.5%
GP Ratio (%)	0.7%	0.8%	0.9%	1.0%
Tier 1 Ratio (%)	8.1%	8.4%	9.0%	9.5%
Total CAR (%)	9.6%	9.9%	10.5%	11.0%
Deposit Growth (%)	15.8%	12.0%	13.0%	14.0%
Loan-deposit Ratio (%)	78.0%	78.6%	79.2%	79.7%
Gross NPL Ratio (%)	0.8%	1.0%	1.2%	1.3%
Fee Income Growth (%)	26.6%	81.8%	49.0%	45.4%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

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HANA, HMPRO, INTUCH, IRPC, IVL, JAS, JMT, KBANK, KCE, KKP, KTB, KTC, LH, MAJOR, MBK, MEGA, MINT, MTC, ORI, OSP, PLANB, PRM, PSH, PSL, PTG, PTT, PTTEP, PTTGC, QH, RATCH, RS, SAWAD, SCB, SCC, SGP, SPALI, SPRC, STA, STEC, STPI, SUPER, TASCO, TCAP, THAI, THANI, THG, TISCO, TKN, TMB, TOA, TOP, TPIPP, TQM, TRUE, TTW, TU, VGI, WHA, BEAUTY, JMART, LPN, SISB, WORK.

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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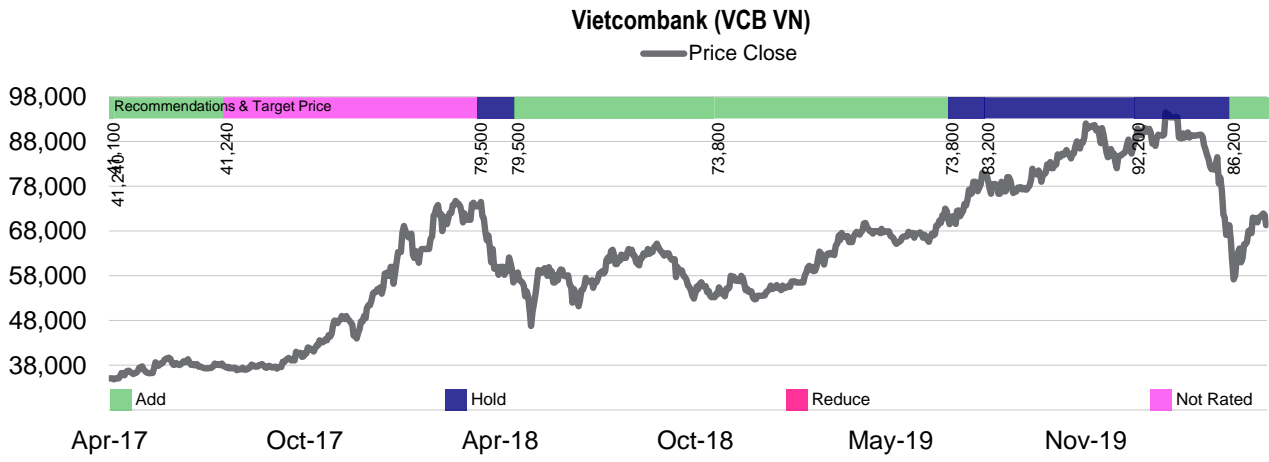
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811 companies under coverage for quarter ended on 31 March 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.8%	0.1%
Hold	27.6%	0.0%
Reduce	11.6%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI) .

RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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