

VIB COMMERCIAL JSB (VIB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND16,900	VND23,800	0.0%	ADD	FINANCIALS

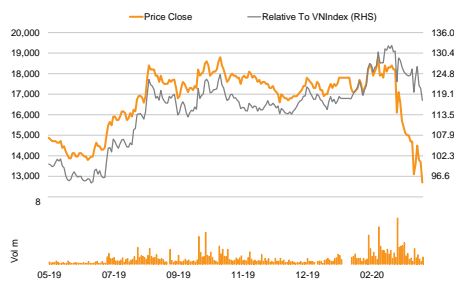
02 June 2020

Outlook – Short term:	Neutral
Outlook – Long term:	Neutral
Valuation	Positive
Consensus*: Add:3 Hold:0 Reduce:0	
Target price / Consensus:	4.8%

Key changes in the report

- FY20-21F EPS increased by 7.2-9.4%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	19,413
52w low (VND)	13,114
3m Avg daily value (VNDm)	16,533
Market cap (VNDbn)	15,624
Free float (%)	20.0
TTM P/E (x)	4.5
Current P/B (x)	1.1

Ownership

Chairman & related parties	14.9%
Commonwealth Bank of Australia	20.0%
BOD members and related parties	12.9%
Others	52.2%

Source: VND RESEARCH

Analyst(s):


Thuy Le Minh

thuy.leminh@vndirect.com.vn

Robust 1Q20 growth on flat provisioning

- VIB posted robust 1Q20 net profit growth (+32.8% yoy) to reach VND860bn, thanks to strong growth in both interest and non-interest income and flat provision expense.
- We expect 2H20 provision expense to rise as bad debt has increased.
- Maintain ADD with higher TP of VND23,800 on 7.2-9.4% upward revision in FY20-21F EPS forecasts.

Strong net interest income (NII) growth on high loan growth

1Q20 NII grew 29.9% yoy on strong loan growth (+32.3% yoy), driven by an expansion of individual loan to 80.9% of loan balance at end-1Q20 from 74.9% at end-1Q19. Net interest margin (NIM) fell 10bp yoy due to 33bp yoy hike in funding costs, which is higher than the rise in asset yields (+22bp yoy). The underlying factors for lower NIM were the reduction of interest rates to support customers amid the Covid-19 outbreak and the increase of valuable papers issuance (+68.6% yoy). VIB was among banks having the highest loan growth in 1Q20, with individual loan was the major contributor of the new loan amount.

Income from payment services surged while insurance sales slowed down

1Q20 non-interest income rose 40.2% yoy on the back of 18.2% yoy increase in net fee income; VND51bn gain in investment securities vs VND1bn gain in 1Q19; a smaller loss in FX trading activities (-VND10bn vs -VND61bn in 1Q19). Of the fee income, income from payment services increased by two folds yoy thanks to robust card issued in FY19. However, insurance income fell 13.2% yoy amid subdued demand caused by the pandemic.

Flat provision expense boosted the bottom line but bad debt has increased

Non-performing loan (NPL) ratio climbed to 2.19% at end-1Q20 from 1.96% at end-FY19. Besides, group 2 loan also jumped 50.3% vs. end-FY19. VIB only wrote-off a small amount of bad debt in 1Q20 (annualised write-off rate was 0.05% in 1Q20, lower than 0.2% in FY19). Due to modest write-off, bad debt increased vs. end-FY19 and provision expense was flat yoy. As a result, net profit surged 32.8% yoy to VND860bn, ahead of our FY20F forecasts at 26.7%. Post-pandemic, VIB can achieve a higher-than-average loan growth in FY20F driven by auto loans on lower car prices and 50% registration fees reduction. However, provision expense will rise in the remaining quarters to curb bad debt.

Reiterate ADD with higher target price of VND23,800

We lifted our TP to VND23,800 on 7.2-9.4% upward revision in FY20-21F EPS forecasts. Our TP is based on residual income valuation (COE: 16.8%; LTG: 3.0%) and 1.0x FY21F P/BV, with equal weighting. Upside risk is better-than-expected loan growth. Downside risk would be higher-than-expected bad debt.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net interest income (bn)	4,825	6,213	7,692	9,546
Net interest margin	3.8%	3.9%	3.9%	4.0%
Total operating income (bn)	6,086	8,152	9,954	12,294
Total provision charges (bn)	(653)	(633)	(1,169)	(1,697)
Net profit (bn)	2,194	3,266	3,525	4,151
Net profit growth	95.1%	48.9%	7.9%	17.8%
Adjusted EPS	2,522	3,687	3,927	4,625
BVPS	11,539	14,527	17,772	22,263
ROAE	22.6%	27.1%	23.6%	22.4%

Source: VND RESEARCH

1Q20 recap: Strong income growths and flat provision expense boosted the bottom line

Figure 1: 1Q20 results summary (VND bn, otherwise noted)

FYE (VNDbn)	1Q20	1Q19	% yoy	4Q19	% qoq	VND FY20F old forecasts	% of VND FY20F old forecasts	Comments
Net interest income	1,799	1,385	29.9%	1,677	7.3%	7,408	24.3%	In line with our forecast.
Non-interest income	461	329	40.2%	605	-23.8%	2,033	22.7%	Below our forecast as insurance sales was slower than our expectation due to the impact of Covid-19 outbreak.
Operating revenue	2,260	1,714	31.9%	2,282	-1.0%	9,440	23.9%	
Operating expenses	(1,029)	(748)	37.6%	(1,002)	2.8%	(4,059)	25.4%	Slightly higher than our forecast due to higher salary expenses. 1Q20 cost-to-income ratio (CIR) increased to 45.5% from 43.6% in 1Q19 as the staff headcounts increased 26.7% yoy while average salary rose 16.5% yoy.
Pre-provision profit	1,231	966	27.4%	1,281	-3.9%	5,381	22.9%	
Provision expenses	(156)	(156)	-0.3%	(114)	37.0%	(1,357)	11.5%	Below our forecast as VIB did not increase provisioning and loan write-offs in 1Q20, as such 1Q20 provision expense was flat yoy and NPL ratio rose 23bp from end-FY19 to 2.19% at end-FY20F. We expect provision expenses to increase in the remaining quarters to curb the rising bad debt.
Pretax profit	1,075	810	32.8%	1,167	-7.9%	4,024	26.7%	
Net profit	860	648	32.8%	934	-7.9%	3,219	26.7%	Above our forecast as 1Q20 provision expense is tracking behind our projection.

Source: VND RESEARCH, COMPANY REPORTS

Figure 2: VIB key ratios by quarters

Key ratios	1Q19	2Q19	3Q19	4Q19	1Q20
Net interest income/Total operating income	80.8%	78.6%	73.3%	73.5%	79.6%
Non-interest income/Total operating income	19.2%	21.4%	26.7%	26.5%	20.4%
NIM (annualised)	4.0%	3.9%	3.9%	3.9%	3.9%
Non-performing loan (NPL) ratio	2.5%	2.4%	2.0%	2.0%	2.2%
Loan-loss-reserves (LLR)	40.3%	42.3%	49.9%	50.7%	47.3%
Credit cost (annualised)	0.6%	0.6%	0.6%	0.6%	0.5%
ROAA (trailing 12 months)	1.8%	1.9%	2.1%	2.0%	2.0%
ROAE (trailing 12 months)	23.9%	25.6%	28.0%	27.5%	27.6%

Source: VND RESEARCH, COMPANY REPORTS

Outlook: FY20F net profit growth is projected at 7.9% yoy
Figure 3: Earnings revision (VND bn, otherwise noted)

FYE (VNDbn)	Old forecasts		New forecasts		Change		Comments
	FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	
Net interest income	7,408	9,031	7,692	9,546	3.8%	5.7%	We lower our loan growth forecast for FY20F from 25% previously to 18%, as the pandemic hampers loan demand. However, VIB would be among the banks with the highest loan growth in the sector, driven by auto loans thanks to lower car prices and 50% reduction in registration fee. Our new NII forecasts are based on actual FY19 results, which were better than our previous FY19 projections due to better loan growth and lower-than-expected credit cost. Hence, NII forecasts are revised upward by 3.8% and 5.7% for FY20-21F, respectively.
Non-interest income	2,033	2,455	2,262	2,748	11.3%	11.9%	We increase non-II projections for FY20-21F as FY19 fee income was higher than our forecast on strong insurance income and payment services income, with the latter was driven by the launch of new card products.
Operating revenue	9,440	11,486	9,954	12,294	5.4%	7.0%	
Operating expenses	(4,059)	(4,824)	(4,380)	(5,410)	7.9%	12.1%	Higher operating expenses forecasts are due to a surge in the staff headcounts.
Pre-provision profit	5,381	6,662	5,574	6,885	3.6%	3.3%	
Provision expenses	(1,357)	(1,825)	(1,169)	(1,697)	-13.9%	-7.0%	We reduce our provision expenses forecasts because bad debt increased at a slower pace than our expectation in FY19. We lower our credit cost assumptions from 1.0-1.1% previously to 0.8-1.0% in FY20-21F, however FY20-21F credit costs will be higher than the level of 0.6% in FY19 due to rising bad debt.
Pretax profit	4,024	4,837	4,405	5,188	9.5%	7.3%	
Net profit	3,219	3,869	3,525	4,151	9.5%	7.3%	
No. of outstanding shares (m)	924	924	924	924	0.0%	0.0%	
EPS (VND/share)	3,588	4,313	3,927	4,625	9.4%	7.2%	

Source: VND RESEARCH

Valuation: Reiterate Add with a higher TP of VND23,800

We raised our TP to VND23,800 on the back of 7.2-9.4% upward revision in FY20-21F EPS forecasts because our new forecasts are based on actual FY19 results, which were better than our previous projections thanks to better loan growth and lower credit cost. Our TP is based on residual income valuation and P/BV multiple valuation, with 50% weighting for each method. Our TP of VND23,800 implies 41% upside, thus we recommend Add on this stock.

Figure 4: Our target price calculation

Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	25,361	12,681
P/BV multiple (at 1.0x FY21F P/BV)	50%	22,263	11,131
Target price (VND/share)			23,812
Target price (VND/share, rounded)			23,800

Source: VND RESEARCH

Figure 5: Residual income valuation, based on our estimates

Key assumptions	2020E	2021E	2022E	2023E	2024E	Terminal
Risk free rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
Opening shareholder's equity	13,430					
PV of RI (5 years)	4,585					
PV of Terminal value	5,431					
Implied Equity value	23,446					
No. of outstanding shares (m shares)	924.5					
Implied value per share (VND/share)	25,361					

Source: VND RESEARCH

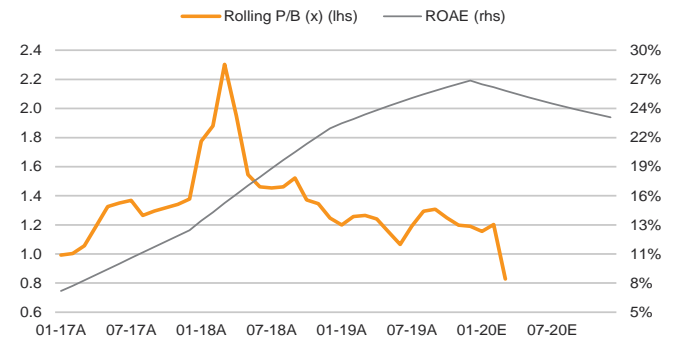
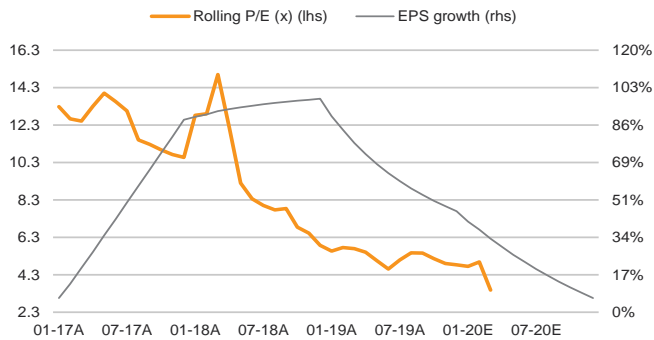
Figure 6: Vietnam banks comparison

Banks	Ticker	Recommendation	Closing Price	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(VND)	(VND)	(US\$m)	FY20F	FY21F	FY20F	FY21F	%	FY20F	FY21F
Vietcombank	VCB	HOLD	86,500	86,200	13,447	3.3	2.7	18.5	15.8	16.1%	23.6%	22.7%
BIDV	BID	N/a	41,450	N/a	6,863	2.2	2.0	22.2	17.6	14.0%	10.2%	12.4%
Vietinbank	CTG	N/a	23,500	N/a	3,565	1.1	1.0	13.1	9.7	14.7%	10.0%	12.1%
Techcombank	TCB	ADD	21,300	27,400	3,145	1.0	0.9	7.0	6.0	12.5%	15.9%	15.8%
VPBank	VPB	HOLD	24,550	25,000	2,422	1.2	1.0	7.2	5.8	15.5%	17.8%	18.4%
MBBank	MBB	ADD	17,850	26,200	1,765	0.9	0.8	5.2	4.6	13.3%	20.5%	19.4%
Asia Commercial Bank	ACB	ADD	25,100	28,500	1,620	1.3	1.1	6.5	5.8	11.6%	21.6%	20.4%
HDBank	HDB	N/a	24,950	N/a	995	1.1	0.9	7.1	5.7	11.9%	19.9%	20.7%
TPBank	TPB	N/a	21,300	N/a	718	1.1	n/a	4.6	4.3	13.9%	25.7%	21.6%
Lien Viet Post Bank	LPB	ADD	8,000	10,000	328	0.6	0.5	6.8	5.7	11.2%	11.3%	11.9%
Average						1.4	1.2	9.8	8.1	13.5%	17.7%	17.5%
Vietnam International Bank	VIB	ADD	16,900	23,800	641	1.0	0.8	4.3	3.7	13.9%	23.6%	22.4%

Price as of 1 Jun 2020

Source: VND RESEARCH, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net interest income	6,213	7,692	9,546
Non interest income	1,939	2,262	2,748
Total operating income	8,152	9,954	12,294
Total operating costs	(3,437)	(4,380)	(5,410)
Pre-provision operating profit	4,715	5,574	6,885
Total provision charges	(633)	(1,169)	(1,697)
Income from associates & JVs			
Net other income			
Pre-tax profit	4,082	4,405	5,188
Tax expense	(816)	(880)	(1,037)
Profit after tax	3,266	3,525	4,151
Minority interest	0	0	0
Net profit	3,266	3,525	4,151

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Gross loans to customers	129,200	152,456	187,521
Loans to banks			
Total gross loans	129,200	152,456	187,521
Securities - total	27,925	43,262	51,908
Other interest earning assets	23,052	16,840	22,163
Total gross IEAs	180,177	212,558	261,591
Total provisions	(1,368)	(1,802)	(2,530)
Net loans to customers	127,914	150,870	185,250
Total net IEAs	178,808	210,756	259,061
Cash and deposits	1,160	1,229	1,303
Total investments	106	112	119
Other assets	4,458	4,725	5,009
Total non-IEAs	5,723	6,067	6,431
Total assets	184,531	216,822	265,491
Customer deposits	122,357	146,828	183,536
Cds outstanding	17,155	18,870	24,531
Customer interest-bearing liabilities	139,512	165,699	208,067
Bank deposits	0	0	0
Broad deposits	139,512	165,699	208,067
Other interest-bearing liabilities	27,238	29,961	32,956
Total IBLs	166,750	195,660	241,023
Deferred tax liability			
Other non-interest bearing liabilities	4,352	4,732	3,887
Total non-IBLs	4,352	4,732	3,887
Total liabilities	171,102	200,392	244,910
Share capital	9,245	9,245	9,245
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	1,590	4,591	8,742
Other reserves	2,594	2,594	2,594
Shareholders' equity	13,430	16,430	20,582
Minority interest	0	0	0
Total equity	13,430	16,430	20,582
Total liabilities & equity	184,531	216,822	265,491

	12-19A	12-20E	12-21E
Growth rate (yoy)			
Cust deposit growth	44.2%	20.0%	25.0%
Gross cust loan growth	34.4%	18.0%	23.0%
Net interest income growth	28.8%	23.8%	24.1%
Pre provision operating profit growth	38.8%	18.2%	23.5%
Net profit growth	48.9%	7.9%	17.8%
Growth in IEAs	32.7%	17.9%	22.9%
Share value			
Basic EPS (VND)	3,580	3,813	4,490
BVPS (VND)	14,527	17,772	22,263
DPS (VND)	567	0	500
EPS growth	46.3%	6.5%	17.8%

Key ratios

	12-19A	12-20E	12-21E
Net interest margin	3.9%	3.9%	4.0%
Cost-income ratio	(42.2%)	(44.0%)	(44.0%)
Reported NPLs / gross cust loans	2.0%	2.3%	2.5%
Reported NPLs / net cust loans	2.0%	2.3%	2.5%
GP charge / average cust loans	0.6%	0.8%	1.0%
Total CAR	9.7%	9.9%	10.1%
Loan deposit ratio	92.6%	92.0%	90.1%
Margins and spreads			
Return on IEAs	8.8%	8.9%	9.0%
Cost of funds	5.2%	5.4%	5.4%
Interest return on average assets	3.8%	3.8%	4.0%
ROAE	27.1%	23.6%	22.4%

Source: VND RESEARCH

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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. |

Hien Tran Khanh – Deputy Head of Research

Email: hien.trankhanh@vndirect.com.vn

Thuy Le Minh – Senior Analyst

Email: thuy.leminh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>