

Company Update Report

VCB – Vietcombank

BSC

21/02/2019

Recommendation

TRACKING

Vuong Chi Tam (FA)

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Target price	66,616
Closing price	60.010
Upside	11%

Le Quoc Trung (TA)

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Target price	65,000
Cut loss price	60,000

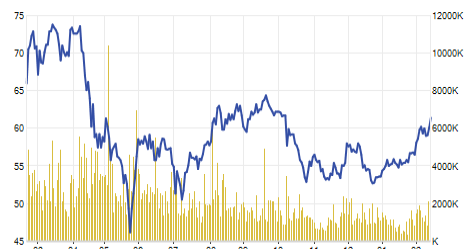
Market data

Number of shares (stock)	3,709
Capitalization (billion VND)	222,903
Highest price 52 weeks	76,500
The average trading volume of 10 sessions (shares)	1,383,276
Foreign ownership	23.4%

Major shareholders (%)

State Bank of Vietnam	55.41%
Mizuho Bank	15%
GIC Private Ltd	2.55%
CTCP FPT	1.17%
FPT Corp.	0.55%

Price movements



Company overview: VCB is the leading bank, leading the profit target. VCB is currently pursuing the sale of capital to foreign shareholders in 2019.

SELLING STRATEGIC CAPITAL

Valuation

We recommend TRACKING with VCB shares with a target price of VND 66,616/ share, upside 11% by P/B method = 3.4x with the expectation of selling capital to strategic shareholders in 2019.

Forecast of business results 2019

We forecast that VCB will record TOI and PBT in 2019 to reach VND 44,988 billion (+ 14.5% yoy) and VND 20,654 billion (+ 12.9% yoy). If excluding extraordinary income from divestment, PBT of VCB increased by 24.6% yoy. This forecast is based on the assumption that (1) credit growth in 2019 will reach 14%, equivalent to the target set by the SBV, (2) lending + 15.19% yoy, mobilizing + 11.3% yoy, mobilizing/deposits reached 81.7%, lower than the SBV ceiling, (3) NIM improved to 3% due to continued loan structure and conversion of retail lending, (3) NPL = 0.97% , the ratio of bad debt = 165%, (4) off-balance sheet bad debt recovery reached VND 3,500 billion.

Investment Risk

High valuation, P / B = 3.4x (industry average = 1.5x).

Business update (Refer to page 2 for details)

2018 business results. In 2018, VCB recorded TOI and PBT at VND 39,288 billion (+ 33.61% yoy) and VND 18,300 billion (+ 61.4% yoy).

Net interest income + 29.5% yoy due to (1) credit growth in 2018 reached 14.78%, (2) NIM improved to 2.77%, (3) high CASA rate, 28.3% mobilization structure.

Non-interest income + 29.5% yoy and currently accounts for 27.7% TOI, In our opinion, the sustainable profit structure of banks (about 70% of profit comes from net interest income).

Asset quality continues to improve. NPL = 0.97% (industry average = 1.65%), bad debt coverage ratio = 165% is the highest in the whole industry.

Continue to pursue strategic sales with GIC in 2019. In early 2019, VCB sold 3% (average price of about 58,000 VND/share) and is expected to continue selling 7% to GIC strategic partner in 2019

Business update

2018 business results. In 2018, VCB recorded TOI and PBT at VND 39,288 billion (+ 33.61% yoy) and VND 18,300 billion (+ 61.4% yoy). Loans + 16.41% yoy, deposits increased by 13.23% yoy, lending / deposit rates continued to remain low compared to SBV's permitted rate, reaching 78.86% to ensure liquidity and help banks continue growth in the future. PBT increased by 61.4% due to (1) net interest income + 29.5% yoy to VND28,409 billion, (2) income from services + 34.01% to VND 3,401 billion thanks to the increase in transaction fee in early 2018, (3) recovery NPLs table VND 3,273 billion (+ 49.7% yoy), (4) divestments from MBB, EIB and recorded VND 1,728 billion, (5) CIR improved to 34.6%, if excluding the divestment, CIR is 36.2% (industry average 47%).

Net interest income + 29.5% yoy Because (1) credit growth in 2018 reached 14.78%, lower than the ceiling of 17% of the state level, (2) NIM improved to 2.77%, up 30 bps thanks to the shift to retail lending and restructuring existing loans on higher-interest loans. Currently, VCB's retail lending rate accounts for about 37% of customer loans (up from 33% in 2017), (3) high rate of loans, 28.3% of mobilization structure (middle industry average of 15.7%) helps VCB take advantage of cheap capital. We expect that in 2019, credit growth will reach 14% as directed by the SBV and VCB will continue to maintain its leading position with a great advantage to maintain the current NIM.

Non-interest income + 29.5% yoy and currently accounts for 27.7% TOI, In our opinion, the sustainable profit structure of banks (about 70% of profit comes from net interest income), including the improvement of service fee + 34% yoy due to the increase in service fees, positive in the recovery of bad debt handling.

Asset quality continues to improve. NPL = 0.97% (industry average = 1.65%), the rate of bad debt = 165% is the highest in the whole industry.

Continue to pursue strategic sales with GIC in 2019. In early 2019, VCB sold 3% (average price of about 58,000 VND/share) and is expected to continue selling 7% to GIC strategic partner in 2019.

Forecast 2019. We forecast that VCB will record TOI and PBT in 2019 to reach VND 44,988 billion (+ 14.5% yoy) and VND 20,654 billion (+ 12.9% yoy). If excluding extraordinary income from divestment, PBT of VCB grew 24.6%. This forecast is based on the assumption that (1) credit growth in 2019 will reach 14%, equivalent to the target set by the SBV, (2) lending + 15.19% yoy, mobilizing + 11.3% yoy, mobilizing/deposits reached 81.7%, lower than the SBV ceiling, (3) NIM improved to 3% due to continued loan structure and conversion of retail lending trend, (4) NPL = 0.97% , bad debt coverage ratio = 165%, (5) off-balance sheet bad debt recovery reached VND 3,500 billion. Currently, VCB shares are currently traded with P/E = 22.7x and P/B = 3.4x, much higher than the current industry average P/B = 1.5x due to its leading position in the industry.

Technical analysis

VCB_ Breakout

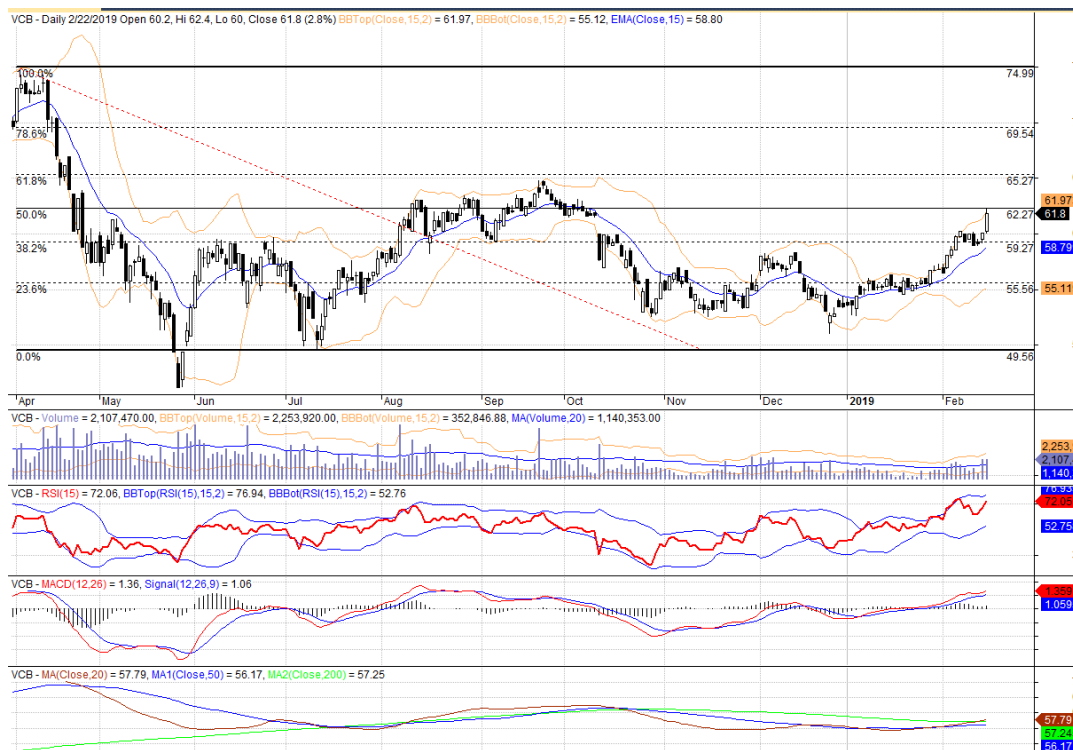
Technical highlights:

- Current trend: Price increase.
- MACD trend indicator: Positive divergence, MACD is pointing up.
- RSI indicator: The overbought area, the trend is increasing.
- MA lines: MA 20 surpasses both the MA50 and MA200.

Outlook: VCB is in the momentum to fill the gap of the previous adjustment period. Stock liquidity in the recent two gaining sessions exceeded the 20-day average. The MACD indicator showed strong momentum when positive divergence while RSI indicated that the uptrend might stop because RSI is in overbought zone. The movement of 3 MA lines showed that the stock is still in an uptrend with a strong support level at MA200 at the price level of 58. VCB will rise again and meet the resistance at 65. If the liquidity continues. To maintain the upward momentum, VCB will return to the price range of 70.

Recommendations: Buy stocks at the price range of 61-62, cut loss if stocks lose the threshold of 60 and take profit at the price of 65 if the liquidity in the session exceeds this level is low. If the liquidity breaks above 65, investors should take profit at the price range of 68-70.

Technical chart of VCB



Source: Amibroker, BSC

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Appendix 01: Overview of VCB

	2014	2015	2016	2017	2018	2019
SCALE						
Charter capital (billion VND)	26,650	26,650	35,978	35,978	35,978	35,978
Equity (billion VND)	40,896	42,495	45,292	49,443	60,103	66,948
Total assets (billion VND)	576,996	674,395	787,935	1,035,293	1,072,983	1,259,063
Equity/Total assets	7.09%	6.30%	5.75%	4.78%	5.60%	5.32%
GROWTH (YOY)						
Asset growth	23.03%	16.88%	16.84%	31.39%	3.64%	17.34%
Lending growth	17.87%	19.91%	18.85%	17.93%	16.41%	15.19%
Deposit growth	27.08%	18.70%	17.82%	20.00%	13.23%	11.13%
CASA/mobilization	24.27%	26.49%	25.43%	26.69%	26.60%	26.33%
Loans/deposits	76.58%	77.36%	78.04%	76.70%	78.86%	81.74%
ASSET QUALITY						
NPL ratio	2.31%	1.84%	1.50%	1.14%	0.98%	0.98%
NPL ratio includes debt sold to VAMC	2.83%	2.44%	1.50%	1.14%	0.98%	0.98%
Provision for bad debts/Total outstanding loans	2.19%	2.22%	1.75%	1.49%	1.62%	1.62%
Bad debt coverage ratio/Total bad debt	94.94%	120.63%	116.82%	130.67%	165.31%	165.00%
Real interest income/Interest income (ytd)	99.76%	95.97%	97.51%	99.50%	97.51%	99.00%
Interest and fees receivable/loan	1.13%	1.25%	1.26%	1.11%	1.17%	1.17%
Doubtful property	34,512	28,287	25,043	24,103	26,880	26,872
% Total asset	5.98%	4.19%	3.18%	2.33%	2.51%	2.13%
% Equity	85.46%	67.84%	57.05%	50.89%	49.08%	42.30%
BUSINESS EFFICIENCY (YOY)						
% Net interest income	69.47%	72.89%	74.47%	74.60%	72.31%	76.04%
Net profit before credit risk provision (VND billion)	10,436	12,896	14,947	17,540	25,679	26,543
% yoy	12.65%	23.57%	15.91%	17.35%	46.40%	3.37%
Provision expenses for credit risk (VND billion)	4,591	6,068	6,369	6,198	7,379	5,889
% to pre-provision profit	44.00%	47.06%	42.61%	35.34%	28.73%	22.19%
Profit after tax (billion VND)	4,586	5,332	6,895	9,111	14,658	16,592
% yoy	4.75%	16.28%	29.31%	32.13%	60.89%	13.19%
NIM (TTM)	2.37%	2.54%	2.61%	2.47%	2.77%	3.01%
CIR (TTM)	26.56%	28.62%	25.59%	21.08%	18.78%	13.09%
ROA (TTM)	0.88%	0.85%	0.94%	1.00%	1.39%	1.42%
ROE (TTM)	11.35%	12.79%	15.71%	19.23%	26.76%	26.12%
EPS (VND/share) (TTM)	1,714	1,994	1,911	2,527	4,070	4,563
Diluted EPS (TTM)	1,705	1,994	1,911	2,527	4,031	4,563
Book value (VND/share)	13,409	13,933	13,365	14,470	17,589	19,593

Source: BSC research

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Appendix 02: Overview of listed banks 2018

	MBB	CTG	VCB	BID	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
Scale												
Charter capital (billion VND)	21,605	37,234	35,978	34,187	18,852	34,966	25,300	12,886	9,810	7,500	8,566	7,835
Equity (billion VND)	34,173	67,469	63,889	54,693	24,632	51,783	34,750	21,018	16,828	10,201	10,642	10,667
Total assets (billion VND)	362,361	1,164,318	1,072,983	1,313,038	406,041	321,049	323,308	329,333	216,107	175,095	136,179	139,000
Equity/Total assets	9.43%	5.79%	5.95%	4.17%	6.07%	16.13%	10.75%	6.38%	7.79%	5.83%	7.81%	7.67%
Growth (ytd)												
Asset growth	15.45%	6.32%	3.64%	9.21%	10.20%	19.18%	16.40%	15.83%	14.14%	7.13%	9.72%	12.86%
Lending growth	16.16%	8.89%	16.26%	14.12%	14.94%	-0.89%	21.38%	15.92%	17.86%	18.43%	21.59%	20.71%
Deposit growth	8.99%	9.68%	13.23%	15.08%	9.17%	17.84%	27.93%	11.85%	6.24%	-2.59%	8.31%	24.11%
CASA	33.48%	15.02%	28.27%	16.35%	14.85%	27.14%	13.25%	16.67%	8.35%	18.18%	18.16%	14.29%
Loans/deposits	88.13%	103.16%	77.58%	98.65%	72.48%	78.20%	127.53%	84.44%	95.11%	94.21%	100.21%	112.25%
Asset quality												
NPL ratio	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
NPL ratio includes debt sold to VAMC	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
Provision for bad debts/Total outstanding	1.52%	1.53%	1.65%	1.27%	1.39%	1.51%	1.64%	1.12%	1.10%	1.26%	1.17%	0.92%
Bad debt coverage ratio/Total bad debt	113%	96%	165%	74%	65%	85%	46%	152%	71%	88.25%	103%	36%
Interest and fees receivable/loan	1.33%	1.86%	1.40%	2.12%	2.35%	2.17%	2.42%	1.50%	2.58%	3.46%	1.76%	1.53%
Business efficiency (ytd)												
% Net interest income	74.64%	78.34%	72.31%	78.57%	65.37%	60.64%	79.46%	73.85%	80.99%	102.89%	77.80%	79.78%
Net profit before credit risk provision (VND billion)	10,805	14,490	25,679	28,366	3,839	12,507	20,452	7,321	4,999	1,831	2,780	3,362
% yoy	37.33%	-17.44%	46.40%	20.64%	66.31%	7.40%	26.78%	40.21%	45.59%	-20.02%	66.66%	91.57%
Provision expenses for credit risk (VND billion)	(3,038)	(7,748)	(7,379)	(18,894)	(1,592)	(1,846)	(11,253)	(932)	(994)	(618)	(522)	(620)
% to pre-provision profit	28.11%	53.47%	28.73%	66.61%	41.47%	14.76%	55.02%	12.74%	19.89%	33.77%	18.79%	18.46%
Profit after tax (billion VND)	6,190	5,428	14,658	7,542	1,790	8,474	7,356	5,137	3,202	960	1,805	2,193
% yoy	77.34%	-27.23%	60.89%	8.58%	51.51%	31.47%	14.20%	142.53%	63.81%	-29.83%	87.29%	95.09%
NIM (TTM)	4.56%	2.08%	2.78%	2.98%	2.34%	4.13%	8.81%	3.56%	4.05%	3.50%	3.69%	3.79%
CIR (TTM)	44.70%	49.59%	34.64%	36.24%	67.12%	31.84%	34.21%	47.83%	47.05%	62.47%	50.59%	44.45%
ROA (TTM)	1.83%	0.48%	1.39%	0.61%	0.46%	2.87%	2.45%	1.67%	1.58%	0.93%	1.39%	1.67%
ROE (TTM)	19.41%	8.27%	25.18%	14.52%	7.48%	21.53%	22.83%	27.73%	20.27%	15.92%	20.84%	22.55%
Diluted EPS (TTM)	2,865	1,456	4,070	2,152	950	2,420	2,907	3,987	2,897	1,280	2,107	2,800
Book value (VND/share)	15,109	18,040	17,739	15,109	13,066	14,790	13,735	16,311	15,938	13,601	12,424	13,615
Valuation												
P/E	7.71	14.49	14.69	15.10	13.69	11.38	7.45	7.63	10.77	7.03	10.11	6.32
P/B	1.46	1.17	3.37	2.15	0.99	1.86	1.58	1.86	1.96	0.66	1.71	1.30

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