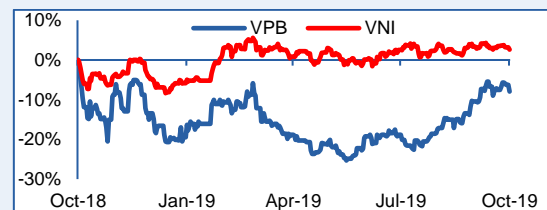


Industry:	Banking		2018	9M 19	2019F
Report Date:	October 21, 2019	PPOP y/y	26.8%	20.1%	11.0%
Current Price:	VND22,000	NPAT y/y	14.2%	17.4%	1.3%
Current Target Price:	VND24,700	NIMs	8.82%	9.29%	9.19%
Upside:	12.3%	NPL	3.51%	3.50%	3.74%
Dividend yield:	0.0%	CIR	34.2%	34.7%	35.0%
TSR:	12.3%	Div/Sh (VND)	0	N/A	0
Rating:	BUY	P/B	1.6x	1.3x	1.2x



Market Cap:	USD2.3bn	VPB	Peers	VNI
Foreign Room:	USD0	P/E (ttm)	6.6x	8.6x
ADTV30D:	USD4.1mn	P/B (curr)	1.3x	1.5x
State Ownership:	0%	ROE (ttm)	22.7%	19.7%
Outstanding Shares:	2.432 bn	ROA (ttm)	2.5%	1.7%
Fully Diluted Shares:	2.432 bn			2.5%

Company overview

Vietnam Prosperity Joint Stock Commercial Bank is a Vietnam-based commercial bank with two-fully owned subsidiaries: an asset management company (VPBank AMC) and a consumer finance company (FE Credit). VPB derived ~50% of its consolidated NPAT-MI from FE Credit in 2018.

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Loan yields well-tracked; results broadly in line

VPB released consolidated results for 9M 2019 with the bottom line totalling VND5.7tn (USD247mn, +17.4% YoY or +36.3% excluding a one-off gain from a bancassurance upfront with AIA in Q1 2018), which achieve 77% our FY2019 forecast. Annualized 9M 2019 ROE and ROA stood at 21.2% and 2.3%, respectively. We do not anticipate any material changes to our earnings forecasts and/or target price, pending a fuller review.

- 9M 2019 loan growth of the consolidated bank was 14.5% YTD with 12.7% YTD loan growth at the parent bank. Our estimate of FE Credit's (FEC) loan book at quarter-end is VND60tn/USD2.6bn (+13.1% YTD or +20.6% YTD if excluding the institutional syndicated loan component in Q4 2018).
- 9M 2019 credit growth at the parent bank was 13% YTD against its 2019 credit growth quota of 16%. With our estimated YTD loan growth at FEC, the company nearly reached its 2019 credit growth quota of 13.7%.
- Our estimated loan yields at FEC in 9M 2019 were at 38.7% vs 38.2% in H1 2019 and 36.8% in FY2018. 9M 2019 consolidated NIM stood at 9.29% (+33 bps YoY) with consolidated NII growth at 23.3% YoY.
- Write-off rates decreased in Q3 2019 with annualized 9M 2019 write-offs to gross loans at parent bank/FEC at 1.85%/13.1% vs H1 2019 at 1.90%/13.4%. However, NPL ratio inched up QoQ to 2.91%/5.62% at the parent bank/FEC vs 2.89%/5.37% as of the end of H1 2019.
- 9M 2019 consolidated CIR was 34.7% against our 2019F at 35.0%.

Interest-earning assets (IEA) yields continued rising, but increasing funding costs weigh on continuous NIM expansion outlook. As discussed, we estimate an increase in FEC's loan yields. IEA yields at the parent bank have trended up for three consecutive quarters in 2019 to 10.4% in Q3 2019 against 9.5% in Q4 2018. Retail and household lending portion at the parent bank saw a drop to 44.6% as of the end of Q3 2019 against 46.7% as of YE2018. Consolidated funding costs are rising YoY and QoQ (**Figure 2**). The rising funding costs were because (1) consolidated customer deposits/valuable papers increased 20.3%/18.2% YTD, which was thereby faster than loan growth, and (2) VPB is offering attractive rates to mobilize funds. It is challenging for consolidated NIM to continue increasing from the current level, in our view.

Credit quality was relatively contained in Q3 2019. As mentioned previously, the write-off rate continued to trend down at FEC and the parent bank in Q3 2019. While FEC's NPL ratio inched up QoQ, the magnitude is too small to be concerning, in our view. Consolidated 9M 2019 provision expenses to gross loans stood at 5.24% with the loan loss reserve ratio standing at 49.6% (vs

45.9% as of YE2018). 9M 2019 consolidated income from the recovery of written-off debts was VND1.2tn/USD53mn (-21.5% YoY), mainly because of the 59% YoY drop at FEC (to VND521bn/USD22mn) offset the 117% YoY surge in the parent bank's recovery income (to VND732bn/USD31mn).

Growth rate of consolidated pure net fee income (NFI) remained strong at 93% YoY in 9M 2019. The standalone bank saw 52% YoY growth in pure NFI, supported by strong performance in banking services (156% YoY growth in net fee), bancassurance (up 32% YoY) and net 'other fee income' (up 69% YoY). Per management, 'other fee income' mainly driven by credit card services. The high growth rate of consolidated pure NFI was because of FEC's improvement from a low base in 2018.

Figure 1: VPB's consolidated Q3 2019 results

VND bn	9M 2019	9M 2018	Growth	Q3 2019	Q2 2019	Growth
NIM	9.29%	8.96%	33 bps	9.56%	9.69%	-13 bps
Interest-earning asset yields	15.10%	14.62%	48 bps	15.54%	15.32%	22 bps
Cost of funds	6.48%	6.28%	20 bps	6.65%	6.22%	43 bps
CASA ratio*	10.3%	12.3%	-2.0 ppts	10.3%	10.4%	-0.1 ppts
CASA ratio plus term deposits in FX	11.5%	14.3%	-2.8 ppts	11.5%	11.7%	-0.2 ppts
NII	22,428	18,189	23.3%	7,977	7,666	4.1%
Non-NII	3,905	3,923	-0.5%	1,522	1,204	26.4%
Provision expenses	-9,993	-8,194	21.9%	-3,523	-3,266	7.9%
PPOP	17,192	14,319	20.1%	6,379	5,826	9.5%
Net profit	5,754	4,900	17.4%	2,283	2,049	11.4%
CIR	34.7%	35.2%	-0.5 ppts	32.9%	34.3%	-1.4 ppts
NPL	3.50%	4.70%	-120 bps	3.50%	3.43%	7 bps
Loan growth	14.5%	9.5%	5.0 ppts	2.6%	7.0%	-4.4 ppts
Deposit growth	20.3%	17.1%	3.2 ppts	4.2%	4.9%	-0.7 ppts

Source: VPB, VCSC – *CASA volume included demand deposits and margin deposits.

Figure 2: VPB's standalone Q3 2019 results

VND bn	9M 2019	9M 2018	Growth	Q3 2019	Q2 2019	Growth
NIM	4.53%	4.51%	2 bps	4.74%	4.43%	31 bps
Interest-earning asset yields	9.95%	9.55%	40 bps	10.39%	9.95%	44 bps
Cost of funds	5.29%	4.92%	37 bps	5.58%	5.41%	17 bps
CASA ratio*	10.5%	12.6%	-2.1 ppts	10.5%	10.6%	-0.1 ppts
CASA ratio plus term deposits in FX	11.7%	14.7%	-3.0 ppts	11.7%	11.9%	-0.2 ppts
NII	9,108	7,727	17.9%	3,274	2,913	12.4%
Non-NII	4,694	5,839	-19.6%	1,279	2,561	-50.0%
Provision expenses	-3,879	-2,553	51.9%	-1,494	-1,239	20.6%
PPOP	8,990	9,255	-2.9%	2,978	3,829	-22.2%
Net profit	4,369	5,934	-26.4%	1,188	2,353	-49.5%
CIR	34.9%	31.8%	3.1 ppts	34.6%	30.1%	4.5 ppts
NPL	2.91%	4.19%	-128 bps	2.91%	2.89%	2 bps
Loan growth	12.7%	11.3%	1.4 ppts	2.2%	6.4%	-4.2 ppts
Deposit growth	20.9%	18.2%	2.7 ppts	4.2%	5.0%	-0.8 ppts

Source: VPB, VCSC – *CASA volume included demand deposits and margin deposits.

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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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