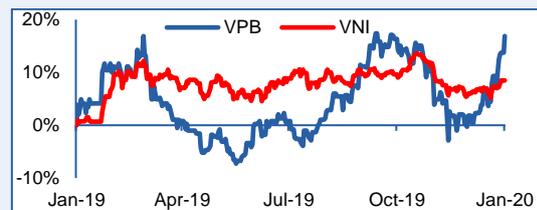


Industry:	Banking		<u>2018</u>	<u>2019</u>
Report Date:	January 21, 2020	PPOP y/y	26.8%	17.5%
Current Price:	VND22,500	NPAT y/y	14.2%	12.4%
Current Target Price:	VND23,400	NIM	8.82%	9.33%
Upside:	4.0%	NPLs/loans	3.51%	3.42%
Dividend yield:	0.0%	CIR	34.2%	33.9%
TSR:	4.0%	P/E	7.5x	6.6x
Rating:	OUTPERFORM	P/B	1.6x	1.3x



Market Cap:	USD2.3bn	<u>VPB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room:	USD0	P/E (ttm)	6.6x	7.4x
ADTV30D:	USD1.2mn	P/B (curr)	1.3x	1.4x
State Ownership:	0%	ROE (ttm)	21.5%	21.0%
Outstanding Shares:	2.438 bn	ROA (ttm)	2.4%	1.7%
Fully Diluted Shares:	2.438 bn			2.4%

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.

Nghia Dien
Senior Analyst
nghia.dien@vcsc.com.vn
+84 28 3914 3588 ext. 138

Long Ngo
Associate Director
long.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 123

Results ahead of forecast on non-interest income

VPB released consolidated results for FY2019 with the bottom line totalling VND8.3tn (USD355mn, +12.4% YoY or +23.9% excluding a one-off gain from a bancassurance upfront with AIA in Q1 2018), which surpassed our forecast by 9.4%. The beat in net income was mainly due to 18% and 8% higher-than-expected pure net fee income (NFI) and income from recovery of written-off debts, respectively. 2019 ROE and ROA stood at 21.5% and 2.4%, respectively. We see upside risk to our earnings forecasts and/or target price, pending a fuller review.

- 2019 consolidated loan growth was 15.9% YoY with 14.5%/13.6% YoY loan growth at the parent bank/FE Credit (FEC) (the disparity between consolidated figure and latter numbers is the result of a reclassification of syndicated loans from FEC to the parent bank). The parent bank ended 2019 with 16.9% credit growth YoY as its corporate bond balance surged 61% YoY. FEC almost reached its loan growth quota by the end of Q3 2019; as a result, there was not much increase in the Q4 loan book (+0.4% QoQ).
- Our estimated loan book size for FEC as of YE2019 was VND60.5tn/USD2.6bn. The company liquidated the syndicated loans built up in Q4 2018; therefore, with 13.6% loan book growth, the estimated growth of consumer finance loans was 21.1% YoY.
- We believe that FEC's loan yield continued to trend in a positive direction as it stood at 39.2% in FY2019 vs 36.8% in FY2018. 2019 consolidated NIM was up 51 bps YoY to 9.33% with consolidated NII growth at 23.4%.
- Consolidated NPL ratio was contained at 3.42% with 2.69%/5.98% at the parent bank/FEC. Write-offs to gross loans stood at 14.0% (-30 bps YoY) at FEC and 2.14% (+32 bps YoY) at the parent bank. The rise in the parent's write-off rate was offset by a strong recovery.
- The parent bank has fully provisioned for its VAMC balance by YE2019.

Consolidated NFI – including FX income – was strong in 2019 as it grew 82%. Consolidated pure NFI growth was 84% with the parent bank recording 65% growth. The strong performance at the parent bank was supported by bancassurance (+41% YoY in net fees) and banking services (+139% YoY in net fees). Other fee income, which was primarily driven by the credit card business, grew 93%. The higher growth rate in consolidated pure NFI was because of a bounce at FEC from a low base in 2018.

Core business of both the parent bank and FEC indicates encouraging improvements. FEC has demonstrated superior business execution in the context of intensifying competition in the consumer finance sector with 21.1% YoY growth in consumer finance loans. Loan yield continued to trend up in Q4 as it stood at high level of ~39%. Given that FEC has more than 90% market

share in credit cards among consumer finance companies – in addition to its aggressive expansion plan – we expect the credit card segment will offset the drop in the cash loan portion that we anticipate in coming years.

Figure 1: VPB's consolidated 2019 results

VND bn	2019	2018	Growth	Q4 2019	Q3 2019	Growth
NIM	9.33%	8.82%	51 bps	9.36%	9.56%	-20 bps
Interest-earning asset yield	15.20%	14.38%	82 bps	15.36%	15.54%	-18 bps
Cost of funds	6.44%	6.10%	34 bps	6.61%	6.65%	-4 bps
CASA ratio*	13.3%	13.7%	-0.4 ppts	13.3%	10.3%	3.0 ppts
CASA ratio plus term deposits in FX	14.4%	15.5%	-1.1 ppts	14.4%	11.5%	2.9 ppts
NII	30,492	24,702	23.4%	8,064	7,977	1.1%
NOII	5,863	6,384	-8.2%	1,958	1,522	28.7%
Provision expenses	-13,688	-11,253	21.6%	-3,695	-3,523	4.9%
PPOP	24,021	20,452	17.5%	6,830	6,379	7.1%
Net profit	8,268	7,356	12.4%	2,514	2,283	10.1%
CIR	33.9%	34.2%	-0.3 ppts	31.9%	32.9%	-1.0 ppts
NPL	3.42%	3.51%	-9 bps	3.42%	3.50%	-8 bps
Loan growth	15.9%	21.5%	-5.6 ppts	1.2%	2.6%	-1.4 ppts
Deposit growth	25.2%	27.9%	-2.7 ppts	4.1%	4.2%	-0.1 ppts

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

Figure 2: VPB's standalone 2019 results

VND bn	2019	2018	Growth	Q4 2019	Q3 2019	Growth
NIM	4.54%	4.37%	17 bps	4.74%	4.74%	0 bps
Interest-earning asset yields	9.97%	9.28%	69 bps	10.42%	10.39%	3 bps
Cost of funds	5.18%	4.70%	48 bps	5.57%	5.58%	-1 bps
CASA ratio*	13.5%	14.0%	-0.5 ppts	13.5%	10.5%	3.0 ppts
CASA ratio plus term deposits in FX	14.6%	15.8%	-1.2 ppts	14.6%	11.7%	2.9 ppts
NII	12,479	10,459	19.3%	3,372	3,274	3.0%
NOII	7,851	7,313	7.4%	3,156	1,279	146.7%
Provision expenses	-5,049	-3,732	35.3%	-1,170	-1,494	-21.7%
PPOP	13,685	11,666	17.3%	4,695	2,978	57.6%
Net profit	7,469	6,915	8.0%	3,099	1,188	160.8%
CIR	32.7%	34.4%	-1.7 ppts	28.1%	34.6%	-6.5 ppts
NPL	2.69%	2.72%	-3 bps	2.69%	2.91%	-22 bps
Loan growth	14.5%	22.0%	-7.5 ppts	1.6%	2.2%	-0.6 ppts
Deposit growth	25.9%	29.8%	-3.9 ppts	4.2%	4.2%	0 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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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Ha Dao, Analyst, ext 194
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Senior Analyst, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Nghia Le, Analyst, ext 181
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Senior Analyst, ext 173
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn