

**VPB – OUTPERFORM**

**STOCK INFORMATION**  
(May 11<sup>th</sup> 2022)

Stock exchange	HOSE
Market price (VND)	33.400
Average 10-day volume	16.668.910
Market cap (bn VND)	147.443
Outstanding shares	4.414.473.387

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**INVESTMENT CATALYSTS**

**Business outcome:** End of 1Q/2022, consolidated profit before tax got 11,146 bn VND (nearly doubled that figure of last year). In this, net fee from bancassurance contract extension got around 5,500 bn VND, accounting for more than 50% of consol PBT.

**Outlook for VPB separate:**

- (1) **Expectation of expanding credit room at high level among banks, around 23%.** Net fee from divestiture of FE Credit (around 24 thousand bn VND) helps consol VPB's own equity to be on Top high of the market, facilitating high credit expanding room. Loan customer segment of VPB mainly focus on Lower Mass experiencing high risk during the pandemic, then being priority subjects receiving post-Covid support.
- (2) **Fee from bancassurance:** VPB now deploys 2 bancassurance contracts: life insurance with AIA and non-life with OPES. We expect fee from bancassurance to increase much since 2022.

**Outlook for FE Credit:**

- (1) **Bright side of debt collection and loan quality improvement:** Debt collection situation got much better since 4Q/2022, we forecast PBT of FE Credit in 2022 will get higher than in 2021.
- (2) **Expectation of support from SMBC:** expect foreign strategic partner to support FE Credit with low-cost capital, better technological platform from big financial group of Japan.

**Recommendation:** We recommend **OUTPERFORM** to sticker VPB with target price of **39,159 VND/share**.

Unit: Bn VND	2019	2020	2021	2022F
Net interest income	30,670	32,346	34,349	42,247
Net fee income	5,685	6,687	9,953	19,644
TOI	36,356	39,033	44,301	61,891
Operating expense	12,344	11,392	10,719	14,975
Provision expense	13,688	14,622	19,218	20,886
PBT	10,324	13,019	14,365	26,030
NIM	9.3%	8.7%	7.6%	7.6%
ROE	21.5%	21.9%	17.4%	22.6%
CIR	34.0%	29.2%	24.2%	24.2%
CAR	11.1%	12.0%	14.3%	na
NPL ratio (on BS)	3.4%	3.4%	4.5%	4.5%
LLCR	46.4%	45.3%	60.9%	60.9%
CASA	12.9%	15.2%	21.9%	24.2%

Source: VPB, VCBS compiles and forecasts

## BUSINESS OUTCOME Q1.2022

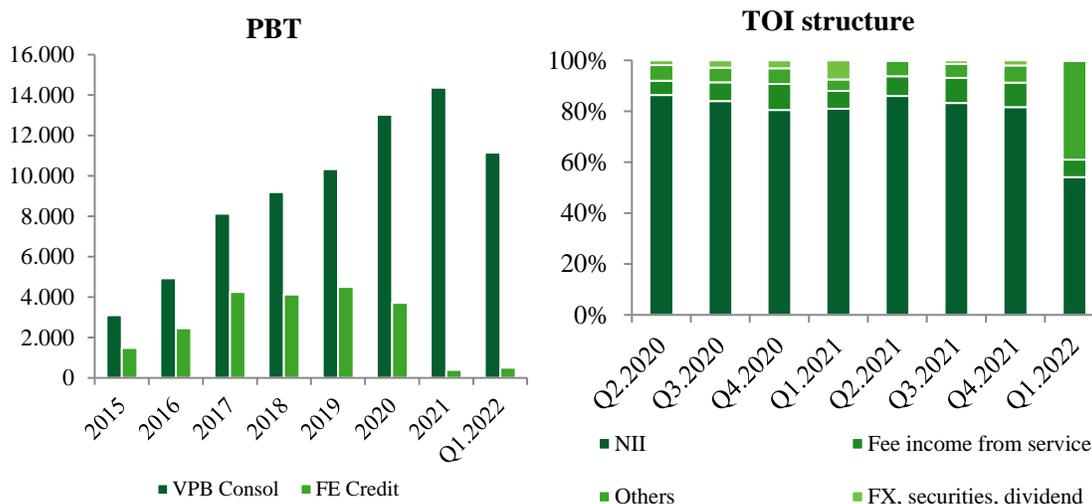
### PBT of separate bank continues to grow

**1Q/2022:** PBT of separate bank got 11,146 bn VND (nearly doubled that figure of last year). In this, net fee from bancassurance contract extension got around 5.500 bn VND, accounting for more than 50% of consol PBT. PBT from FE Credit was forecast to be more than 500 bn VND, overcoming that figure of 2021.

### FE Credit comes back to increasing PBT trend

**Consolidated loan balance** reached 362.946 bn VND (+5% yoy). Loan interest rate slightly fell compared to that of IV/2021 (15.1% versus 15.4%).

**Deposit mobilization** got 274 thousand bn VND (+13.6% yoy). Deposit interest rate thinly increase (4.12% versus 3.92%).



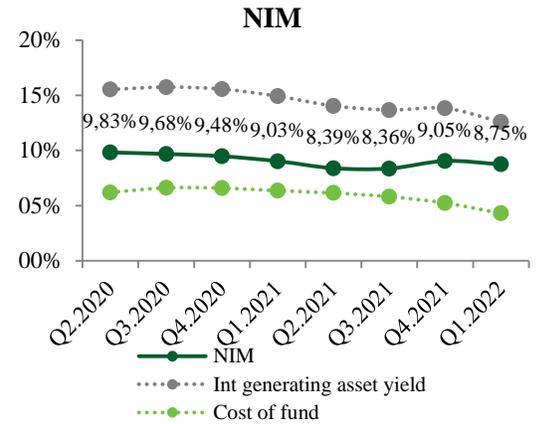
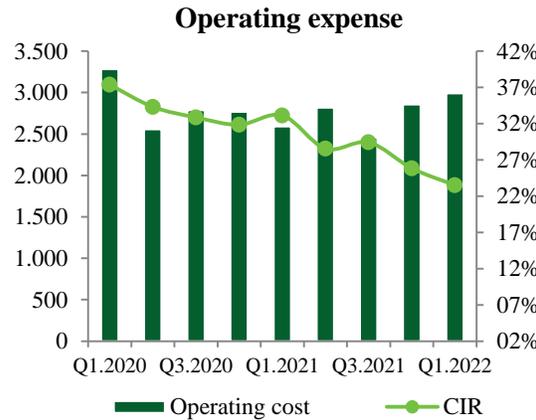
Source: VPB, VCBS compiles

**Total operating income reached 18.270 bn (+65.3% yoy), including:**

- (1) Net interest income recorded at 9,888 bn VND (+8.4% yoy). Consol NIM experienced slight decrease (-8.75%) yoy while separate NIM has seen modern growth yoy (from 5.14% to 5.51%).
- (2) Net fee income got 8,382 bn VND, in which fee from bancassurance contract extension around 5.500 bn VND, outstanding growth (+49.2% yoy if excluding the extension fee) came from banca, payment fees.

**Operating expense recorded at 2,990 bn VND (+15% yoy) helping CIR to reduce to 23.5% if excluding extension fee, the lowest figure among banks and history of VPB.**

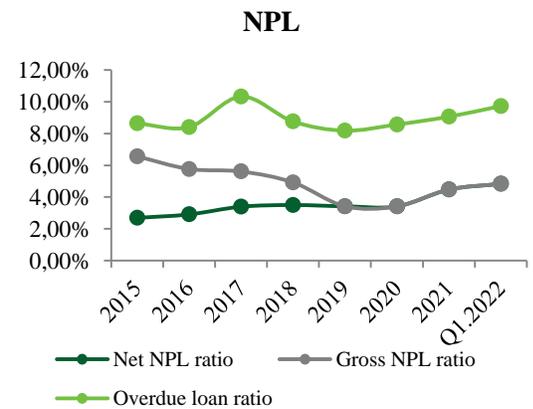
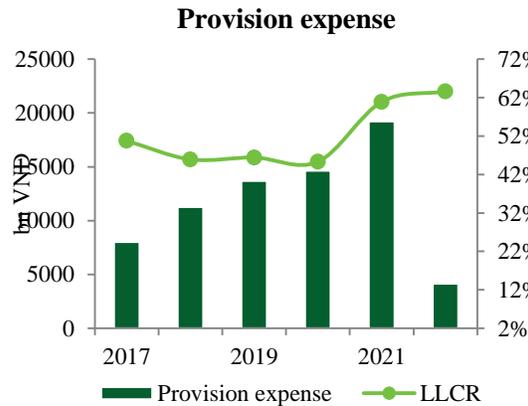
ROE trailing 4 quarters at the end of 1Q/2022 got 29.4%, spiked thanks to fee from extension contract.



Source: VPB, VCBS compiles

**Asset quality fell and loan loss coverage ratio still low**

**NPL ratio including restructure loan climbs but LLCR still low in sector:** 1Q/2022, NPL ratio is rising to 4,83%. LLCR still low among banks, at 64%. Provision cost at 4.132 tỷ đồng, reduce 7% yoy. VPB purchases strategy focus on high risk segment, including low-income individuals, small enterprises, SME being hit by pandemic. FE Credit alone volunteers to drop 4,000 bn VND, PBT for 1Q/2022 has recovered well yoy.



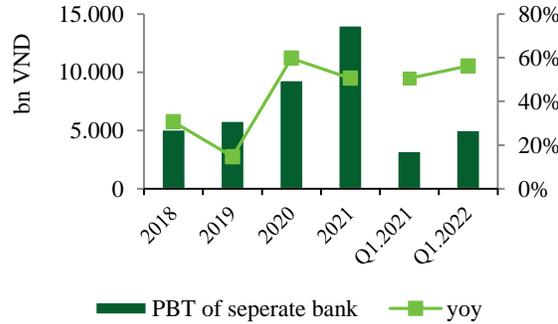
**SEPARATE VPBANK**

**Continous growth in both net interest income and net fee income even excluding bancassurance contract extension fee**

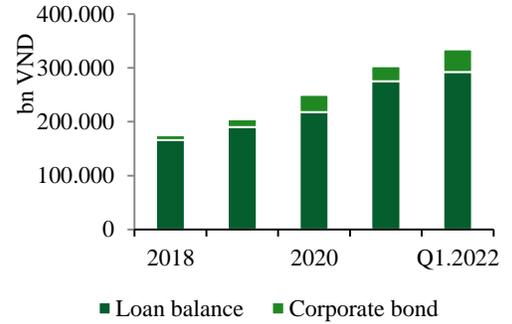
**VPB separate recorded PBT at 10,527 bn VND (tripled yoy). If excluding contract extension fee, PBT at around 5 thousand bn VND, increasing by 55% yoy.**

Net fee income got around 2,614 bn VND if excluding extension contract fee of about 5,500 bn VND, nearly sixfold yoy. Growth mostly came from derivatives tool net loss (828 bn VND versus 131 bn VND), payment fee (453 bn VND compared to 239 bn VND yoy) and collection from bad debt (623 bn VND versus 279 bn VND yoy).

**PBT of separate bank excluding dividend from FE Credit**



**Credit portfolio of separate bank**

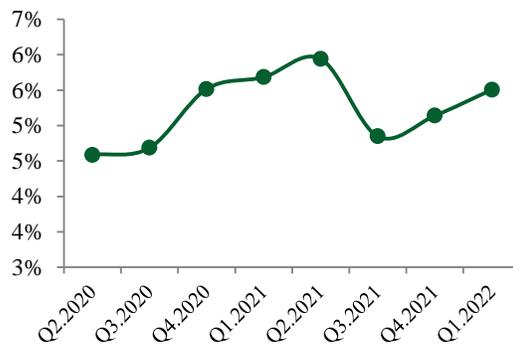


Source: VPB, VCBS compiles

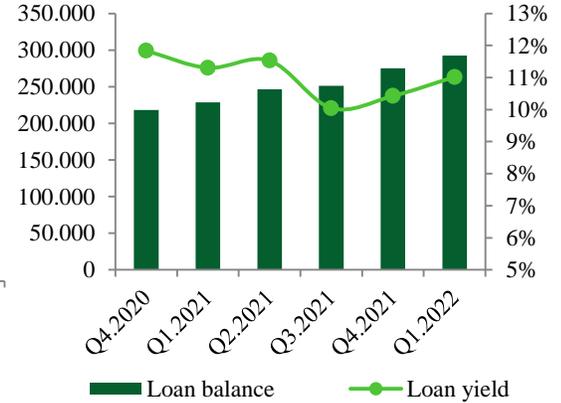
**Rapid drop of cost of fund due to CASA growth, helping NIM to improve compared with second half of 2021**

Owing to **CASA ratio speedy growth**, from 17% to 20.6%. Deposit interest rate for 1Q/2022 at 4.3%, increased compared with that of 4Q/2021 but decreased much to 1Q/2021 (4.31%).

**NIM**



**Loan balance**

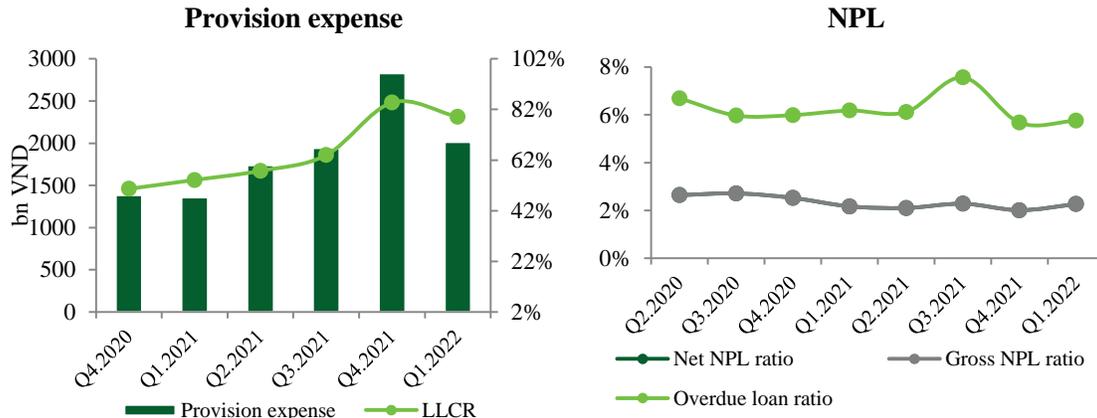


Source: VPB, VCBS compiles

**Bad debt is displaying on balance sheet**

1Q/2022, provision expense of separate bank at 2,013 tỷ đồng, +48.56% yoy. LLCR at 79%, much higher than 54% yoy. **Despite improvement in LLCR, it is still low among banks.**

In spite of high risk business strategy, bad debt ratio gradually decreases. Overdue loan ratio was 5.75%, showing strong fall from 6.18% yoy, however, slight increase compared with 2021 (5.67%). Bad debt ratio at the end of 1Q/2022 reached 2.27%, raising in comparison with that of 2021. **This signals rise in bad debt amid Covid impacts on high risk customer segment focus though separate bank is improving asset quality and loan portfolio.**

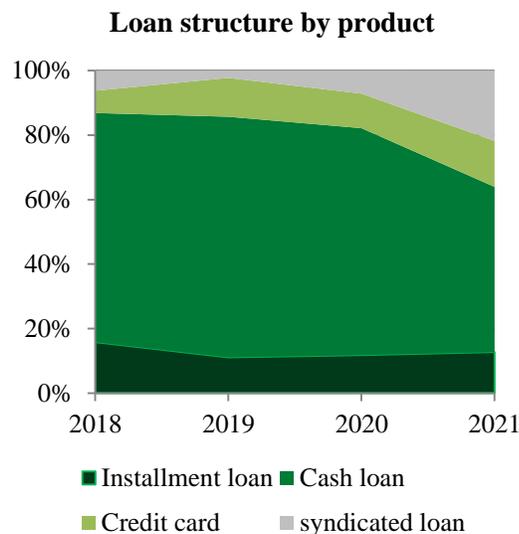
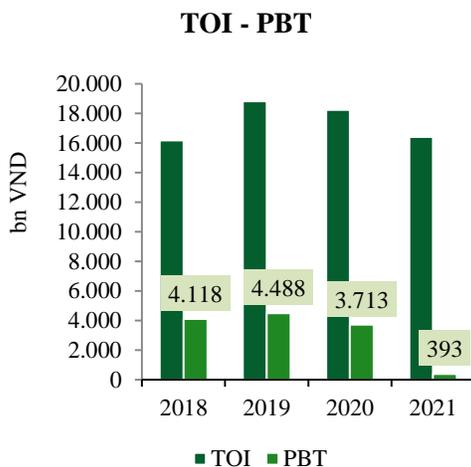


Source: VPB, VCBS compiles

**FE-CREDIT FINANCE COMPANY**

**Due to bad impact of pandemic, profit margin of FE went down, bad debt increased significantly**

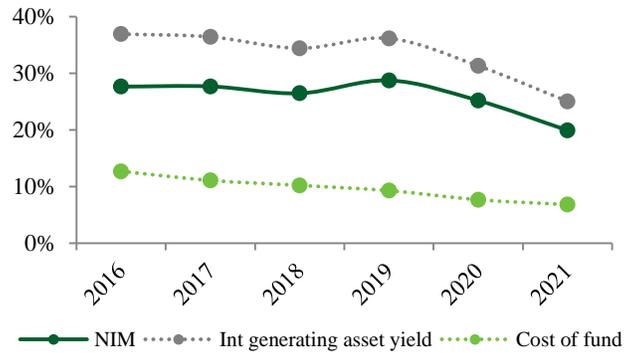
**Loan structure by product changes** following TT43/2016/NHNN. Accordingly, by 2024 the direct loan balance limits to 30% of total loan balance of finance company. Direct loan balance fell from 71% to 51% between 2018-2021. Syndicated loan over total balance increases significantly, from 6% to 22% during 2018-2021. According to information from finance company, syndicated loan is mostly corporated with holding bank.



**Capital mobilization interest rate fall help cost of fund to decrease, however, due to impacts of Covid, NIM 2021 dropped to nearly 20%, the lowest level of its operation history.**

Because of business model's focus on high risk customer base, FE-Credit are bound to record high level of provision expense up to 15% of total loan balance. We assess that with regard to customer segment, debt collection procedure is very important to FE-Credit, directly impacting on provision ratio and factually, FE-Credit has well done this part. **Nonetheless, in 2020 and 2021, according to TT01 and TT03, FE-Credit has set aside high provision for bad debt meanwhile decreased loan interest rate to support customers, causing NIM to fall from 25%-28% to nearly 20% in 2021.**

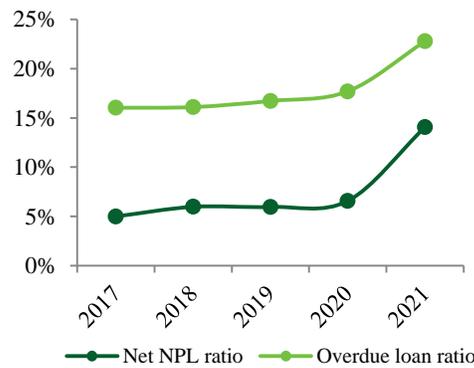
**NIM**



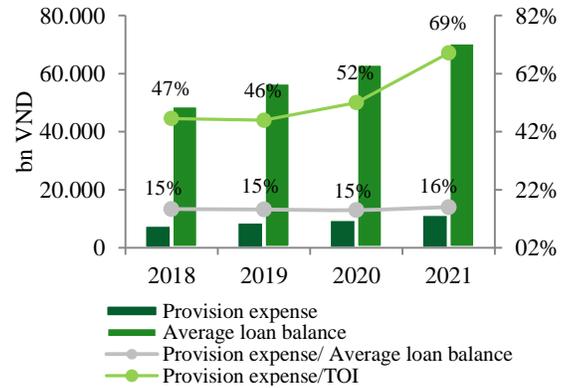
Source: FE-Credit, VCBS compiles

Bad debt of 2021 rose to 14.1% compared with 6.6% in 2020. **Provision expense reached 11,329 bn VND, accounting for 69% of TOI, up 19.5% compared with 2020.**

**NPL**



**Provision expense**

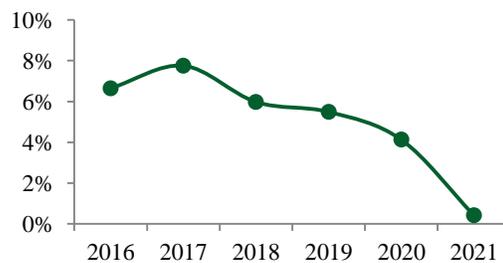


Source: FE-Credit, VCBS compiles

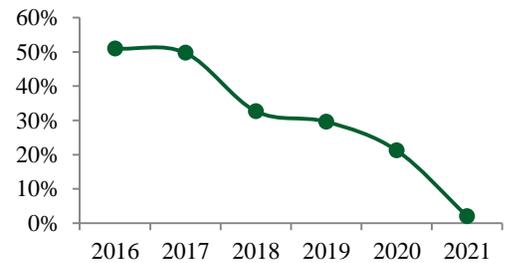
**Rate of return in 2021 dropped due to fall in profit**

Due to crash fall of profit in 2021, rate of return on asset and equity of FE-Credit all drop. ROA of 0.4% compared with 5.5%-6% in pre-Covid period. ROE dropped to 2%, the lowest level in its history.

**ROA**



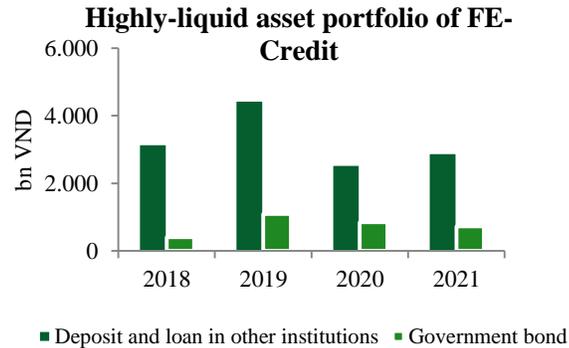
**ROE**



Source: FE-Credit, VCBS compiles

**The bright point is that FE-Credit still remains highly liquid asset portfolio, which helps FE-Credit to buffer in 2022. Deposit and loan in other institutions at 2,889 bn VND, slightly increasing**

compared with 2,542 bn VND in 2020.

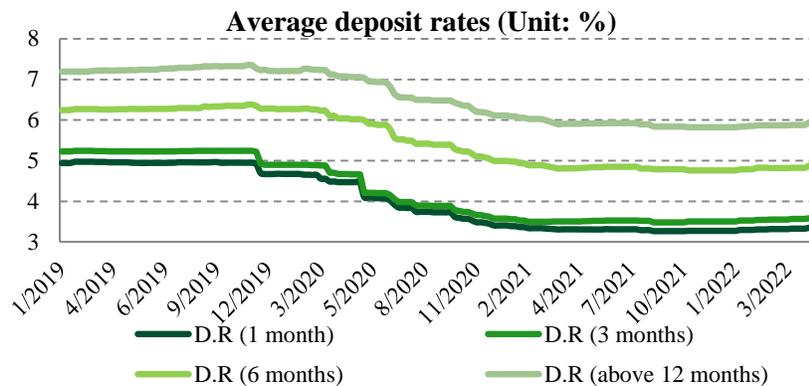


Source: FE-Credit, VCBS compiles

## BUSINESS OUTLOOK AND RISK

**Macro-economic conditions: pressure of deposit interest rate increase and inflationary risk**

Deposit interest rate sends signal to increase in commercial joint stock banks, however stable and go flat in state-owned joint stock banks and some big commercial banks. Meanwhile, loan interest rate under pressure to keep unchanged or slightly decrease to support customers, facilitating economic recovery. **Therefore, we analyze NIM to go flat or thinly fall, however, some commercial joint stock banks still have perspective to increase NIM from outstanding CASA strength among peers.**



Source: Many banks, VCBS compiles

### Outlook for separate bank

#### Key outlook for separate bank VPB:

- (1) Expectation of expanding credit room at high level among banks, around 23%.** Net fee from divestiture of FE Credit (around 24 thousand bn VND) helps consol VPB's over equity to be on Top high of the market, facilitating high credit expanding room. Loan customer segment of VPB mainly focus on Lower Mass experiencing high risk during the pandemic, then being priority subjects receiving post-Covid support. When providing high credit growth room, VPB has potential to expand credit for consumer and manufacturing segment, helping NIM to improve net interest income.
- (2) Fee from bancassurance: extension fee of life contract with AIA of around 5,500 bn VND and fee from non-life contract with OPES.** VPB and AIA signed first exclusive distribution contract in 2017, with 15 years length. Fee for extension contract around 5,500 bn VND has been recorded in 1Q/2022. Life insurance market is assessed to be highly potential for next

few years due to low coverage over population, about 10%, while in developed countries such as the US, the UK and Japan, the figures amount to 90%. In some Southeast Asian countries, the coverage ratios are: Singapore 80% and Malaysia 50%. During the pandemic time, intuition of Vietnamese people on insurance gets clear, then penetration rate becomes higher than pre-Covid time. Besides, VPB has plan to acquire OPES in order to cater for all needs of customers. Hence, we forecast that VPB will have better fee from bancassurance since 2022.

- (3) **Acquire ASC securities company:** in order to create ecosystem to VPB, serve for all financial needs of customers, VPB has acquired ASC securities company with more than 97% share and rename it to VPBank securities company. High management team's plan to get revenue of 1,509 bn VND and PBT of 632 bn VND. We expect this year this company will bring in 50%-60% planned PBT.

**VPB confronts risk of bad debt:** bad debt ratio is increasing on balance sheet, we assess high risk of increasing bad debt ratio when TT14 comes out of effort.

## Outlook for FE-Credit

### Key outlook for FE Credit in 2022:

- (1) **Bright side of debt collection and loan quality improvement:** 2022 is expected to be year of economic recovery, especially in manufacturing and consuming. Debt collection situation got much better since 4Q/2022, we forecast PBT of FE Credit in 2022 will get higher than in 2021.
- (2) **Expectation of support from SMBC with low-cost capital, modern technological platform.** SMBC constitutes "huge financial group" in Japan with big potential of capital: huge capital, interest rate in Japan is at very low level. Hence, FE Credit is expected to receive support with lower-cost capital, helping NIM to come back to pre-Covid time. This foreign strategic partner is considered pioneer in technological transformation in business, helping the finance company to transform on technology and product utility.

**FE-Credit bears risk on bad debt and debt collection:** as said above, bad debt is potentially increasing for this finance company. Besides, debt collection is of much importance to this company. The amended law to prohibit collection service agency from 01/01/2021 affects much to operation of FE-Credit when this service is acquired in many finance company.

## VALUATION

**Forecast of separate bank:** We base our forecast of separate bank on some key assumptions:

- (1) Credit growth at 23%.
- (2) NPL ratio at 2%, equivalent to the figure of last year.
- (3) Cost of fund at 3,63%. NIM 5%, equivalent to the figure of last year.
- (4) CIR at 25%.

We forecast PBT of separate bank at 22,982 bn VND (+65.34% yoy after excluding fee from divestiture of FE-Credit).

**Forecast of FE-Credit:** We base our forecast of FE-Credit on some key assumptions:

- (1) Credit growth at 16% in 2022.
- (2) NPL ratio drops to 7.1%.

(3) Cost of fund raises to 6.98%. NIM improves to 22,4%.

(4) CIR at 26.5% from 28.5%.

Hence, we forecast FE-Credit to get 3,022 bn VND of PBT in 2022 (+672,9% yoy).

## Forecast of consol bank:

Key assumptions for consol bank:

(1) Credit growth at 22%.

(2) Cost of fund at 4.26%. NIM equivalent to last year, at 7.6%.

(3) CIR at 24.2%, equivalent to 2020's figure.

Therefore, we expect VPB to get **26,030 bn VND of consol PBT in 2022 (+81,21% yoy)** meaning EPS at 3.,818 VND/share and BVPS at 20,421 VND/share.

Unit: bn VND	2021	1Q2022	% change	2022F	% change
Net interest income	34.349	9.888	6,19%	42.247	22,99%
Total operating income	57.576	18.270	29,96%	68.187	10,17%
Provision expense	-19.218	-4.132	31,44%	-20.886	8,68%
PBT	14.365	11.146	10,33%	26.030	81,21%
Minority interest	244	245		1.041	326,72%
ROE	17,43%	43,9%		22,61%	

Source: VCBS forecasts

## P/B Multiple:

We use the peer banks that have many similarities with the bank to perform the valuation: Using the median P/B multiplier of 1.8x, VPB's valuation in 2022 is 37,279 VND/share.

## Residual income

*Discount the residual value with cost of equity of 15,65%:*

Unit: bn VND	2021	2022F	2023F	2024F	2025F	2026F	2027F
EoP Equity	78.398	105.813	123.442	147.122	165.071	187.617	215.412
Net Income	11.679	19.783	19.898	26.727	31.955	37.143	43.68
Cost of Equity		12.271	16.562	19.321	23.028	25.837	29.366
Residual Income		<b>7.512</b>	<b>3.336</b>	<b>7.405</b>	<b>8.928</b>	<b>11.306</b>	<b>13.702</b>
PV of Terminal Value							82.005
Sum of Present Value							212.643
Number of shares (million)							5.182
VPB price							<b>41,039</b>

## Combining valuation methods:

reasonable price of 39,159 VND/share

Using a combination of the two methods. The reasonable price for VPB share is 39,159 VND/share: :

Valuation method	Price (VND/share)	Weight
P/B	<b>37,279</b>	50%
Residual Income	<b>41,039</b>	50%
<b>Target price</b>	<b>39,159</b>	

## RECOMMENDATION

**Recommendation:**  
**OUTPERFORM**

VPB has deployed active and efficient business model. By this, this bank has acquired good results under stable macroeconomic conditions. However, the business strategy to focus on high risk customer segment may trigger bank to cope with high credit risk during difficult economic time.

We recommend **OUTPERFORM** to sticker VPB with target price of **39,159 VND/share**.

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