BANK FOR FOREIGN TRADE OF VIETNAM (HSX: VCB)

Short-term pressure does not affect resilient competitiveness

VND Bn	3Q-FY20	2Q-FY20	+/- QoQ	3Q-FY19	+/- YoY
Total operating income	11,586	10,733	8.0%	11,995	-3.4%
PBT and provision	7,008	7,615	-8.0%	7,812	-10.3%
PBT	4,983	5,759	-13.5%	6,309	-21.0%
NPAT	3,991	4,610	-13.4%	5,048	-20.9%

Source: VCB, Rong Viet Securities

9M2020: Weak income growth, high costs, extraordinary profit not yet recorded

- Credit growth slightly above the sector's average (+6.5% & 6.1% YTD) and decreased NIM (trailing, -21 bps YoY) led to no growth in NII in 9M2020 (-0.4% YoY). Non-II declined 3.9% because a lower growth in FX income (+16.9%) could not cover decrease in net other income (-33.8%), which was not supported by upfront fees and bad debt recovery. Service income also grew weakly (+3.4%), likely due to competition, leading to a decrease of -1.3% in TOI.
- YTD CIR rose after a decrease in 2Q, reaching 36.4%. In 3Q, OPEX rose 9.5% YoY. Credit costs grew 25.2% YoY in 9M, in which 3Q saw 34.7% increase. This was due to the lag in NPL, which rose to 1.01% from 0.83% in 2Q. Thus, LLR decreased to 215%. Overall, PBT shrank 21.0% YoY in 3Q, resulting in a fall of 9.4% in 9M.

2020/2021 outlook: Bright prospect based on pandemic control and capital raising

It should take several quarters to fully reflect the effect of the pandemic. Thus, for 2020, we estimate a PBT growth of -1.6% (at VND 22,754 bn, USD 989.3 mn) due to the booking of some upfront fees. VCB is estimated to achieve a credit growth of 10%, while deposit growth would slow down to 8% because of slowed lending and abundant liquidity. NIM is expected at 2.9% resulting in a NII growth of 0.4%. TOI grows 4.3% YoY due to slower growth in non-II, while CIR is maintained. In 4Q, VCB could have significant bad debt formation, but write-off activities and strict provision policies are estimated to keep 2020 NPL stable (1.0-1.2%) and LLR high (above 200%). For 2021, we believe that the pandemic will be controlled, leading to a slower pace in credit costs, and higher credit growth ceiling (13-15%) for VCB due to capital raising. NIM will recover and services income is expected to have two-digit growth. PBT is forecasted at VND 26,375 bn (+15.9%, USD 1.1 bn).

Valuation and recommendation

We maintain a positive view for VCB. Healthy lending, strong balance sheet, sustainable low funding cost, reputable brand, diversified customer base, sustainable market share in international settlements and foreign exchange are VCB's robust rationales. We anticipate an insignificant loss of market share in individual loans, domestic settlement and credit cards due to competition. In the longer term, we evaluate its significant valuation premium on average multiples justifiable, although it could be lower than historically due to lower sustainable ROE as a result of lower leverage.

*With a strong earnings growth forecast following a capital raise, along with rising competition pressure in several segments, we value VCB at **VND105,900**. Coupled with no cash dividend, this translates into an upside of **13%** from the closing price on 02 December 2020. We thereby have an **ACCUMULATE** recommendation on the stock.*

ACCUMULATE +13%

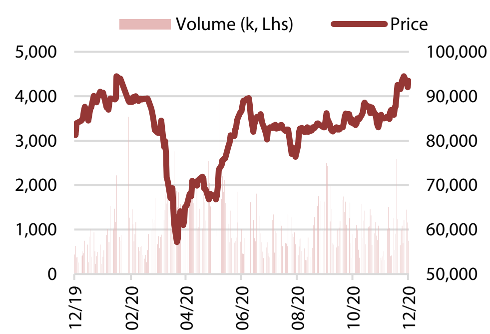
Target price (VND)	105,900
Current market price (VND)	93,500
Cash dividend (VND)*	-
*within next 12 months	

Stock Info

Sector	Banks
Market Cap (VND bn)	346,780.0
Current Shares O/S (mn)	3,708.9
Beta	1.1
Free float (%)	25.2
52 weeks High (VND)	94,500
52 weeks Low (VND)	57,200
Avg. Daily Volume (in 20 sessions)	986,342

	FY2019	Current
EPS	4,481	4,630
EPS Growth (%)	25.0	-12.2
Diluted EPS	4,481	4,630
P/E	18.0	20.2
P/B	4.1	3.7
Cash dividend (%)	8.0	0.0
ROE (%)	25.9	19.6

Price performance



Major Shareholders (%)

SBV	74.8
Mizuho Bank, Ltd	15.0
GIC Private Limited	2.55
Foreign ownership room left (%)	*6.2*

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Exhibit 1: 3Q 2020 Results

(VND Bn)	3Q-FY20	2Q-FY20	+/- QoQ	3Q-FY19	+/- YoY
Interest and Similar Income	17,024	16,835	1.1%	17,466	-2.5%
Interest and Similar Expenses	-8,301	-8,758	-5.2%	-8,607	-3.6%
Net Interest Income	**8,723**	**8,077**	**8.0%**	**8,859**	**-1.5%**
Non-interest Incomes	2,863	2,656	7.8%	3,135	-8.7%
Net Fee and Commission Income	1,257	1,156	8.8%	1,278	-1.7%
Net gain/(loss) from foreign currency and gold dealings	1,034	821	26.0%	908	14.0%
Net gain/(loss) from trading of trading securities	7	33	-80.3%	32	-79.4%
Net gain/(loss) from disposal of investment securities	0	0	-	0	-
Net Other income/expenses	540	286	88.8%	883	-38.9%
Income from capital contribution	26	360	-92.9%	34	-23.9%
Total operating income	**11,586**	**10,733**	**8.0%**	**11,995**	**-3.4%**
Operating expenses	-4,579	-3,118	46.9%	-4,182	9.5%
Operating Profit Before Provision	7,008	7,615	-8.0%	7,812	-10.3%
Provision expenses	-2,025	-1,856	9.1%	-1,503	34.7%
Profit before tax	**4,983**	**5,759**	**-13.5%**	**6,309**	**-21.0%**
Corporate income tax	-987	-1,144	-13.7%	-1,258	-21.5%
NPAT	**3,996**	**4,615**	**-13.4%**	**5,052**	**-20.9%**
Attributable to parent company	**3,991**	**4,610**	**-13.4%**	**5,048**	**-20.9%**

Source: VCB, Rong Viet Securities

Exhibit 2: 3Q 2020 Performance Analysis

(%)	3Q-FY20	2Q-FY20	+/-(QoQ)	3Q-FY19	+/-(YoY)
Profitability (TTM)					
NIM	3.1	3.1	-6 bps	3.3	-21 bps
CIR	34.9	33.7	118 bps	31.3	358 bps
ROAE	19.6	22.0	-234 bps	27.1	-750 bps
ROAA	1.5	1.6	-12 bps	1.8	-34 bps
Assets Quality					
NPLs ratio	1.0	0.8	17 bps	1.1	-7 bps
Bad debt coverage ratio	215.1	254.5	-3935 bps	185.2	2992 bps
Equity-to-Assets ratio	7.9	7.6	32 bps	7.0	84 bps
Operating Safety Ratio					
Customer Loans-to-Total Assets ratio	79.2	76.3	292 bps	78.7	52 bps
Customer LDR	91.0	87.8	325 bps	96.5	-547 bps
Adjusted LDR	78.8	77.6	121 bps	77.5	133 bps

Source: VCB, Rong Viet Securities

Exhibit 3: 4Q 2020 Performance Forecast

Particulars (VND Bn)	4Q-FY20	+/- (QoQ)	+/- (YoY)	Comment
Net interest income	9,097	4.3%	5.3%	Expansion of loans to meet credit growth limit (10%) is expected to cover the reduction in NIM. TOI is strongly supported by upfront fees, while service income still grows at one-digit rate. High growth of OPEX due to a low base brings down growth of PPOP slightly. However, credit costs surging at a slower pace than PPOP results in an increase in NPAT growth.
Total operating income	13,299	14.8%	24.7%	
Profit before tax and provision	9,140	30.4%	22.2%	
NPAT	5,431	35.9%	23.4%	

Source: VCB, Rong Viet Securities

Update

Slowdown in credit growth and pressure on NIM

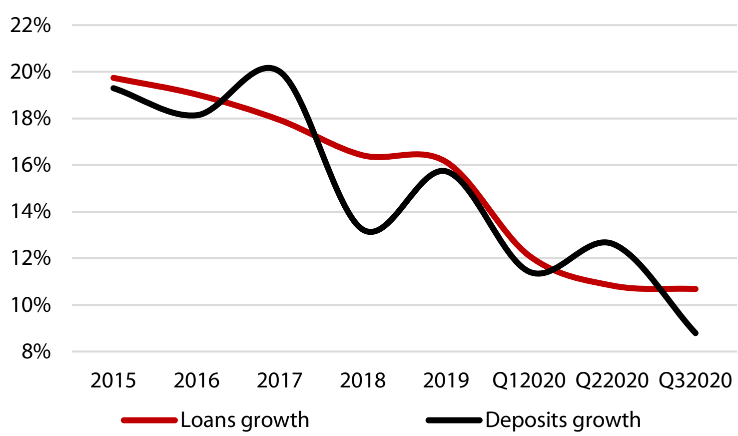
In 3Q2020, NII shrank 1.5% YoY, pulling the 9M NII growth to -0.4% YoY. As the largest contributor of TOI (75% in 9M2020), zero growth of NII explained the decrease of -1.3% in 9M TOI, when other contributors did not change significantly. The decrease in NII was due to slow expansion of credit and reduction in NIM, which were consequences of the pandemic.

In 9M2020, credit expansion showed a significant slowdown (+6.5% YTD, compared to +11.9% YTD in 9M2019). Loans and advances to customers, which accounted for most of the credit balance, grew only 6.7% since the end of 2019. Poor growth of credit as well as loan balance, and abundant liquidity led to weak growth of deposits from customers, which also accounted for a majority of mobilization (deposits from customers and valued papers). VCB maintained a positive gap between loans and deposits growth in 3Q. Despite the poor performance of loan growth, its higher loan book extension compared to the industry implies a stable lending market share. In 2021, we look forward to VCB maintaining a positive gap between loans and deposits growth due to the bank's abundant liquidity and low interest rates.

NIM also faced pressures from output interest rates. Assets yields decreasing more than costs of funds were the cause of thinner NIM in 3Q. Trailing NIM at the end of Sep was recorded at 3.01%, which was a fall of 6 bps from 2Q. Sharp fall of lending interests was the main factor, as VCB had to provide preferential interest rates to support affected customers.

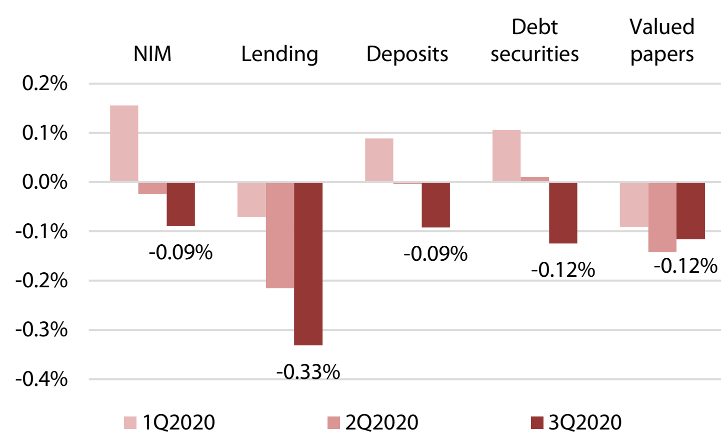
In 4Q, we expect the pace of the drop in NIM to slow down. Deposit interest rates are predicted to drop due to strong liquidity and active adjustments to match falling lending interest rates. In 2021, depending on the pandemic situation and capital raising result, we expect NIM to fluctuate in a range of 2.9-3.1% as current level of liquidity could afford a positive gap between loans and deposits growth. The economic recovery could lead to a surge in loan demand and indirectly, lending interest rates. New capital lowering ROE would also put pressure on increasing assets yield.

Figure 1: VCB's loan and deposit growth (YoY)



Source: VCB, Rong Viet Securities

Figure 2: NIM and major input and output interest rates compared to 2019 (%)



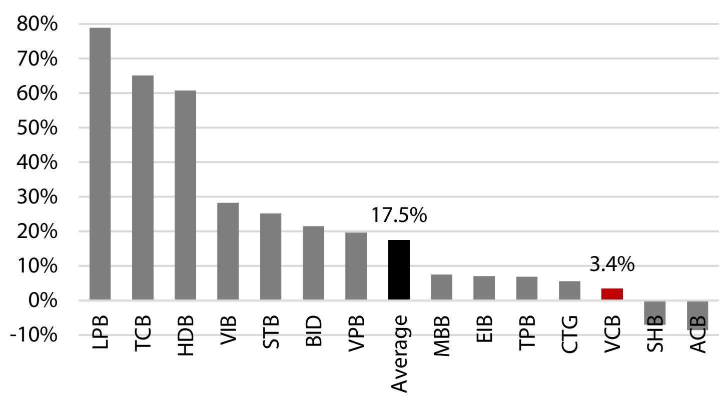
Source: VCB, Rong Viet Securities

Weak growth of some business segments

VCB is known to be the leading bank in trade financing and international settlement with a large market share, long-standing player, and a wide customer base including top importers and exporters. This is a robust investment rationale due to the potential of Vietnam in cross-border transactions, which will boost demand for international settlement and foreign exchange significantly. However, VCB has been experiencing a lower-than-average growth in those segments. Given the size of the bank and potential of the market, we think that a strong effort of other banks is understandable and would result in a loss of VCB's market share. In the longer term, we think that the upside of the market is still huge. VCB's market share is expected to be gradually stable due to strong foundations. An extensive global network (with over 2,000 banks all over the world) and global standard services with trade-oriented strategy since establishment are competitive advantages to believe in its maintenance of strength and market share. Trade financing and international settlement will still be growth engine despite short-term peer pressure and the pandemic.

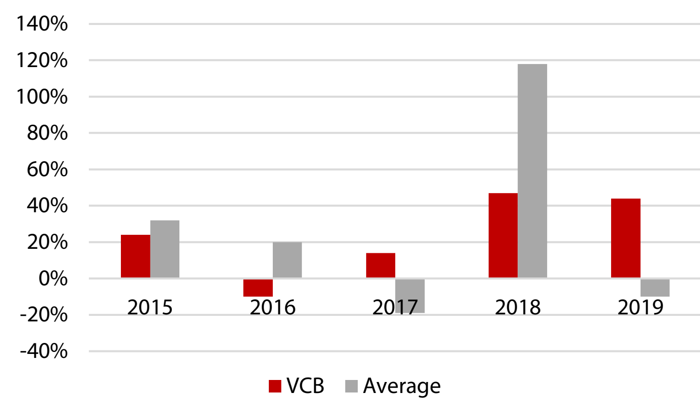
In 9M2020, VCB showed a weak growth in fees and commission income (-2.6% YoY), but net services income still maintained slight growth of 3.4% YoY due to sharp declines in fees and commission expenses. This rate was still significantly lower than most of listed banks, which achieved an average of 18% YoY. We estimate that about a major part of this income belongs to payment, and the other part is attributed to bancassurance. Thus, we think that there was a competition in payment market, as other banks are providing preferential fee programs to attract CASA and increase market shares, and digital transformation toward cashless payments also leads to lower costs of acquiring customers and switching costs. In 4Q, we anticipate a recovery in net service income growth partially due to low base comparison (4Q2019 recorded -31% QoQ). For 2021 and longer term, we expect a double-digit growth in settlement income given rising demand for cross-border business needs.

Figure 3: 9M2020 net service income growth (YoY) of large listed banks



Source: VCB, Rong Viet Securities

Figure 4: VCB's growth in trading spot foreign currency



Source: VCB, Rong Viet Securities

For bancassurance income, exclusive bancassurance deal with FWD provided VCB USD 400 mn of upfront fees (equivalent to 40% of 2019's PBT), which will be allocated over five years. This gives VCB an abnormal income, which has not yet been recorded in 9M2020. We expect a part of this extraordinary income to be booked in 4Q to support TOI. Another explanation for weak services income growth is low expansion in lending in 9M2020, which would affect bancassurance income. In 2021, net services income is expected to be supported by higher extension in loans.

Regarding VCB's strength in foreign exchange, the bank maintained a significant growth in spot trading since 2017 (Figure 4). This was the main driver for income from foreign exchange trading (over 80% in 2018 and 2019). In 9M2020, the growing pace slowed down, when VCB only recorded 16.9% growth in profits from foreign exchange (9M2019 recorded a growth of over 50%). We think that lower transaction volume was due to weak growth of FDI inflows, export and import turnover. It nullified the positive impact of enlarged USDVND bid ask spread. Nevertheless, in the longer term, we expect the firm role in foreign exchange transactions, the advantage of owning a multi-currency payment system (VCB-Money) with almost all domestic credit institutions and several foreign bank branches having accounts, and quality services to be robust rationales to believe in strong growth and large market share of VCB in FX trading. We expect a stable 5-8% contribution to TOI of FX profit.

Credit costs surged following higher NPL as a consequence of the pandemic

NPL of VCB increased to 1.0% in 3Q from 0.8% in 2Q as a result of the lag of the pandemic impact. However, prudent approach in credit provisions helped to create a buffer, which relieves pressure in pandemic time. VCB maintained a trailing credit costs to loans above 1% for many years. In 9M2020, while other large banks with low NPL (ACB & TCB) experienced a surge by multiple times, VCB witnessed a 25% YoY increase in credit costs, with a slight decrease in trailing credit costs to loans. VCB even rose its LLR to over 200% in 9M, which peaked at over 250% in 2Q2020, while lower lending rates than peers should imply lower risks. We estimate that this provision buffer could absorb a pickup in NPL to 1.2% in 4Q, and still maintain LLR above 170% without the need to increase credit costs to loans ratio, assuming no bad debt write-off.

2020/2021 outlook

The last quarter of 2020 might witness a strongly positive results due to booking of upfront fees. We estimate a 23% growth in PBT in the last quarter, in which abnormal income will account for 22%. For 2020, we estimate a negative growth of -2% in PBT, while TOI slightly increases 5%. This is because of a 6% rise in OPEX and a 24% surge in provision expenses. Overall, upfront fees only help cover a part of the slowdown in core lending and non-II. NIM is estimated to decrease to 2.9%. NPL might stabilized at 1.0%, as bad debt write-off covers bad debt formation. Credit costs to loans ratio is predicted to be 1.1%, equivalent to an increase of 24% in provision expenses, keeping LLR above 200%.

In 2021, we expect that a control of the pandemic will boost economic recovery and VCB's lending. We look forward to 13-15% growth of VCB in credit, given the bounce back in loan demand and raise in VCB's capital via private placement, which we price in a 50% additional capital (plan is 6.5% of chartered capital) sold at 80,000 VND/share. In addition to robust loans growth which drags recovery of NIM, we predict a maintained positive gap between loans and deposits growth (2-3%) due to abundant liquidity. PBT will experience a 16% growth (VND 26,375 bn, USD 1.1 bn), while credit costs grow at slower pace (+4%) due to high comparison base. In fact, we think that the credit costs to loans ratio will decrease slightly to 1.0%. One-third of the increase in PBT is attributed to upfront fee, while strong NII growth (+14%) is the key for 2021's expansion. We think that CIR will be maintained at 35% to not put pressure on PBT. NPL is expected to be maintained at 1.1% in the base case of pandemic being controlled in 1H2021 with the lag in bad debt lasting until the end of 2021 at most and the effect of Circular 01 being reduced gradually rather than immediately. This will reduce pressure on LLR, which is forecasted at 200%. ROA is expected to rise to 1.6% in 2021 and 1.7-1.8% in longer term to cover reduction in ROE (17.5-19.0%) due to the private placement.

Unit: VND Bn

INCOME STATEMENT	FY2018A	FY2019A	FY2020E	FY2021F
Interest and Similar Income	55,864	67,724	69,729	77,764
Interest and Similar Expenses	-27,455	-33,147	-34,797	-37,870
Net Interest Income	**28,409**	**34,577**	**34,932**	**39,894**
Non-interest Incomes	10,870	11,153	12,972	14,059
Net Fee and Commission Income	3,402	4,307	4,479	4,927
Net gain/(loss) from foreign currency and gold dealings	2,266	3,378	3,963	3,459
Net gain/(loss) from trading of trading securities	250	146	15	146
Net gain/(loss) from disposal of investment securities	0	7	0	0
Net Other income/expenses	3,234	3,070	4,065	4,841
Income from capital contribution	1,716	245	450	686
Total operating income	**39,278**	**45,730**	**47,904**	**53,953**
Operating expenses	-13,611	-15,818	-16,766	-18,883
Operating Profit Before Provision	25,667	29,913	31,138	35,069
Provision expenses	**-7,398**	**-6,790**	**-8,384**	**-8,694**
Profit before tax	**18,269**	**23,122**	**22,754**	**26,375**
Corporate income tax	-3,647	-4,596	-4,514	-5,247
NPAT	**14,622**	**18,526**	**18,240**	**21,128**
Attributable to parent company	**14,606**	**18,511**	**18,225**	**21,113**

Unit: %

FINANCIAL RATIO	FY2018A	FY2019A	FY2020E	FY2021F
Growth				
Customer loans	16.1	16.5	9.8	13.8
Customer deposit	13.2	15.8	8.0	12.0
Net interest incomes	29.5	21.7	1.0	14.2
Operating income	33.6	16.4	4.8	12.6
NPAT	60.7	26.7	-1.5	15.8
Total Assets	3.7	13.8	1.8	11.7
Equity	18.3	30.1	34.4	19.4
Profitability (TTM)				
NIM	2.8	3.1	2.9	3.1
CIR	34.7	34.6	35.0	35.0
ROAE	25.5	25.9	19.2	17.7
ROAA	1.4	1.6	1.5	1.6
Assets Quality				
NPLs ratio	1.0	0.8	1.0	1.1
Bad debt coverage ratio	165.4	179.5	199.8	202.6
Equity-to-Assets ratio	5.8	6.6	8.7	9.3
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	81.2	79.6	79.9	80.3
Customer LDR	78.8	79.1	81.0	82.4

Unit: VND Bn

BALANCE SHEET	FY2018A	FY2019A	FY2020E	FY2021F
Cash and precious metals	12,792	13,778	12,451	15,307
Balances with the SBV	10,846	34,684	30,082	33,692
Placements with and loans to other credit institutions	250,228	249,470	199,576	211,551
Trading securities, net	2,655	1,801	1,647	1,585
Derivatives and other financial assets	276	98	0	0
Loans and advances to customers, net	621,573	724,290	795,141	905,135
Investment securities	149,296	167,530	172,129	186,642
Investment in other entities and long-term investments	2,476	2,464	2,464	2,464
Fixed assets	6,527	6,710	7,471	8,349
Investment properties	0	0	0	0
Other assets	17,357	21,892	24,081	26,489
TOTAL ASSETS	**1,074,027**	**1,222,719**	**1,245,043**	**1,391,214**
Due to Gov and borrowings from SBV	90,685	92,366	10,326	12,391
Deposits and borrowings from other credit institutions	76,524	73,617	75,906	76,698
Deposits from customers	801,929	928,451	1,002,727	1,123,054
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international & other institutions	26	20	18	18
Convertible bonds/CDs and other valuable papers issued	21,461	21,384	21,384	23,522
Other liabilities				
Total liabilities	**1,011,847**	**1,141,836**	**1,136,359**	**1,261,681**
Shareholder's equity	**62,179**	**80,883**	**108,668**	**129,781**
Capital	36,322	42,429	52,072	52,072
Reserves	9,446	12,186	14,884	18,010
Foreign currency difference reserve	84	16	16	16
Difference on assets revaluation	119	113	113	113
Retained Earnings	16,139	26,055	41,582	59,570
Minority interest	69	83	83	83
LIABILITIES AND SHAREHOLDER'S EQUITY	**1,074,027**	**1,222,719**	**1,245,110**	**1,391,546**

Unit: VND Bn

FOOTNOTES	FY2018A	FY2019A	FY2020E	FY2021F
Interest Income	**55,864**	**67,724**	**69,729**	**77,764**
From customers	43,757	53,185	55,977	63,512
From other Cis	2,880	4,413	2,974	3,131
From fixed-income investment	8,305	8,894	9,405	9,628
From guarantee	412	0	0	0
From other activities	223	905	1,046	1,166
Interest Expenses	**-27,455**	**-33,147**	**-34,797**	**-37,870**
To customers	-25,365	-31,225	-33,106	-36,077
To other Cis	-544	-337	-187	-229
To fixed-income investment	-1,516	-1,500	-1,505	-1,564
To other activities	-30	-85	0	0
Operating expenses	**-13,611**	**-15,818**	**-16,766**	**-18,883**
Provision expenses	**-7,398**	**-6,790**	**-8,384**	**-8,694**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. We strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. Investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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