May, 2020

BANK FOR FOREIGN TRADE OF VIETNAM (HSX: VCB)

Pushing provisions to prepare for the next quarters

Particulars (VND Bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Total operating income	12,285	10,667	15.2%	11,768	4.4%
PBT and provision	7,375	7,481	-1.4%	7,384	-0.1%
PBT	5,223	5,510	-5.2%	5,878	-11.1%
NPAT	4,178	4,397	-5.0%	4,707	-11.2%

Source: VCB, Rong Viet Securities

1Q2019: Modest income growth; declining earnings due to surged provision cost

- Operating income increased by 4.4% YoY with modest growth in both NII and service income, while other activities (except FX trading) tended to decline. The 6.3% YoY growth in NII was the result of quarterly NIM expansion of 22bps YoY (to 3.3%) and a 2.8% YTD growth in total credit.
- Service income only expanded by 5.4% YoY. FX income saw growth of 19.3% YoY while income from other activities declined by 10.9% YoY and securities trading incurred a loss of VND54bn (USD 1.2mn).
- TOI growth was offset by operating expenses growth (+12.0% YoY), leading to a flat profit before provision YoY. Following, that the bank escalated provision expenses by 42.9% YoY reduced PBT by 11.1% YoY.

2020 Outlook: Modest growth due to proactive supports to impacted customers

- Considering the impact of Covid-19, we cut our credit growth forecast to 13.0% and expect it to rise back to 15% in 2021. We also expect that NIM 2020 would be reduced by 7bps to 3.06% mainly due to the wide adoption of measures to support customers including lending rate cuts and loan extensions.
- With the official launch of the exclusive bancassurance agreement since April, we expect services income to escalate (+38.7% YoY), equivalent to 11.3% of TOI.
- CIR to drop slightly by 1ppt to 36.3% due to cost savings. Provision charge is very likely to be boosted to handle potential NPL, for which we forecast to grow by 81.0% YoY (excluding provisions for lending to other banks).
- We reduce the core NPAT growth forecast to 7.5% YoY (excluding a part of the upfront fee with FWD agreement to be booked since this year).

Valuation and recommendation

Despite the anticipated slowdown due to the negative impact of Covid-19, we expect the bank's growth to recover quickly upon an economic recovery. We believe that its sector-leading position, solid balance sheet, and conservative approach (both in the past and during the virus situation), would allow the bank to withstand the current storm.

*With a lower 2020 earnings growth forecast and less favorable conditions in the stock market, we revise VCB's target price to **VND85,000,** which is 10% lower than the latest in our 2020 Strategy report (VND95,000). Coupled with the plan of a cash dividend at VND800/share (which has been shared by the bank that will be kept until further official instruction by SBV), this target price translates to an upside of **14%** from the closing price on 12 May 2020. We thereby have an **ACCUMULATE** recommendation on the stock.*

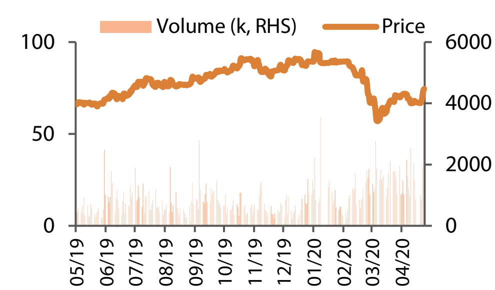
ACCUMULATE +14%

Target price (VND)	85,000
Current market price (VND)	75,600
Cash dividend (VND)*	800
*within next 12 months	

Stock Info	
Sector	Banks
Market Cap (VND bn)	327,864.8
Current Shares O/S (mn)	3,708.9
3M Avg. Volume (K)	860.2
3M Avg. Trading Value (VND bn)	73.2
Remaining Foreign Room (%)	6.2
52 weeks High (VND)	51,000
52 weeks Low (VND)	92,500

	FY2019	Current
EPS	4,580	4,437
EPS Growth (%)	24.9	10.6
Diluted EPS	4,580	4,437
P/E	19.7	17.0
P/B	4.1	3.3
Cash dividend (%)	8.0	8.0
ROE (%)	25.9	21.9

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: 1Q 2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Interest and Similar Income	18,104	17,455	3.7%	16,094	12.5%
Interest and Similar Expenses	-9,070	-8,815	2.9%	-7,595	19.4%
Net Interest Income	**9,034**	**8,640**	**4.6%**	**8,499**	**6.3%**
Non-interest Incomes	3,251	2,028	60.3%	3,269	-0.5%
Net Fee and Commission Income	1,127	886	27.2%	1,069	5.4%
Net gain/(loss) from foreign currency and gold dealings	1,108	843	31.4%	928	19.3%
Net gain/(loss) from trading of trading securities	-54	30	-284.3%	66	-182.7%
Net gain/(loss) from disposal of investment securities	0	7	-100.0%	0	-
Net Other income/expenses	1,039	252	311.6%	1,166	-10.9%
Income from capital contribution	32	10	214.2%	39	-19.1%
Total operating income	**12,285**	**10,667**	**15.2%**	**11,768**	**4.4%**
Operating expenses	-4,910	-3,186	54.1%	-4,384	12.0%
Operating Profit Before Provision	7,375	7,481	-1.4%	7,384	-0.1%
Provision expenses	-2,152	-1,971	9.2%	-1,506	42.9%
Profit before tax	**5,223**	**5,510**	**-5.2%**	**5,878**	**-11.1%**
Corporate income tax	-1,040	-1,110	-6.3%	-1,167	-10.9%
NPAT	**4,183**	**4,400**	**-4.9%**	**4,711**	**-11.2%**
Attributable to parent company	**4,178**	**4,397**	**-5.0%**	**4,707**	**-11.2%**

Source: VCB, Rong Viet Securities

Exhibit 2: 1Q 2020 Performance Analysis

(%)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Profitability (TTM)					
NIM	3.3	3.1	22 bps	3.1	22 bps
CIR	35.3	34.6	149 bps	33.9	149 bps
ROAE	22.8	24.7	-180 bps	24.6	-180 bps
ROAA	1.6	1.5	10 bps	1.5	10 bps
Assets Quality					
NPLs ratio	0.8	0.8	-21 bps	1.0	-21 bps
Bad debt coverage ratio	235.0	182.0	6580 bps	169.2	6580 bps
Equity-to-Assets ratio	7.4	7.0	63 bps	6.8	63 bps
Operating Safety Ratio					
Loans to customers & other CIs to total assets ratio	80.1	79.5	268 bps	77.4	268 bps
Customer LDR (Customer loans/Customer deposit)	93.7	97.1	-95 bps	94.7	-95 bps
Adjusted LDR ((Customer loans + Corporate bonds) /(Customer deposit + Valuable papers))	79.8	78.1	172 bps	79.1	71 bps

Source: VCB, Rong Viet Securities

Exhibit 3: 2Q 2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- (qoq)	+/- (yoy)	Comment
Net interest income	8,469	-6.3%	-1.3%	The negative impact on NIM in 2Q is likely to reduce NII. Service fee to pick up and moderate TOI reduction. The impact on loan quality is expected to become more visible, but existing high LLR should calm provision growth. Overall, we expect 2Q earnings to decline by a lesser extent than in 1Q (-4.6% YoY).
Total operating income	11,900	-3.1%	5.3%	
Profit before tax and provision	7,160	-2.9%	-1.1%	
NPAT	4,166	-0.4%	-4.6%	

Source: VCB, Rong Viet Securities

Update

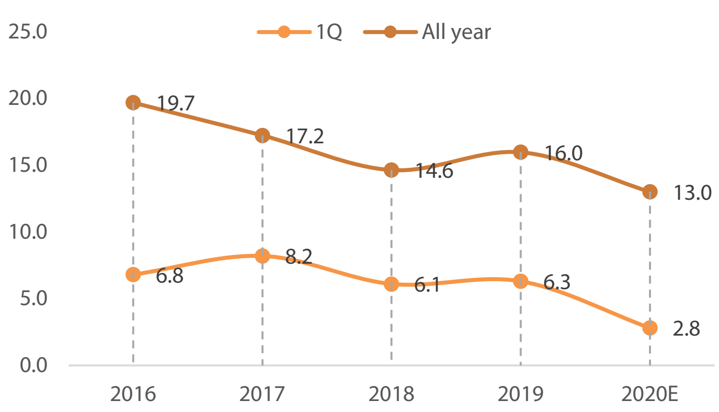
Net interest income slowed down significantly

Credit expanded by 2.8% YTD (customer loans by 2.7% YTD). Despite the slowdown, compared to 1Q2019's (6.3% YTD), the lending trajectory was still positive versus a stagnation in other state-owned banks, and even private counterparts. Credit growth was pushed by retail lending (+3.4% YTD, 51% of total lending), especially mortgage lending (+6% YTD, 58% of retail lending). This is still in line with the credit direction of the bank and the target to raise the portion of retail lending from 51% to 55% in the next 2-3 years.

Meanwhile, customer deposits remained mostly flat (+0.6% YTD, much lower than the +4.5% YTD in 1Q2019). The retail segment remains the main contributor to total deposit. So far, the bank found no difficulties attracting deposits from customers. With credit expansion outpacing deposit, LDR rose to 80.8% from 79.1% at the end of 2019.

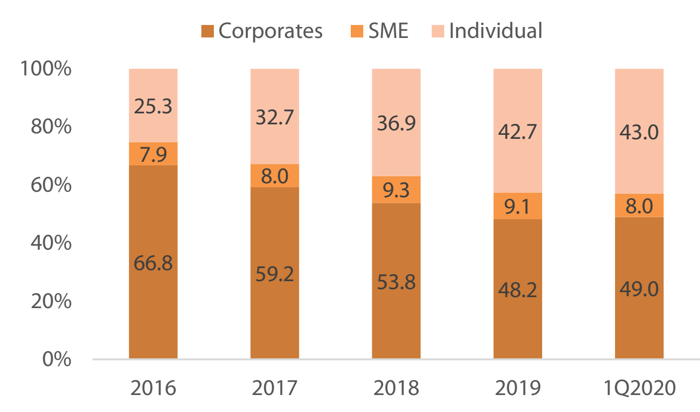
The push of LDR and retail lending can only compensate partly for the impact on NIM caused by lending rate cuts applied to distressed customers. VCB has run the first rate cut since February and the second in mid-April, by which the bank estimates that it would cost more than VND 2,240bn (USD 97.4mn) in 2020 earnings. Besides, CASA was reduced slightly from 30.8% to 29.4%, which seems to be the common trend amongst banks due to the impact of Covid-19. As such, 1Q2020 NIM declined to 3.17% (-12bps from 1Q2019). Coupled with a 12.0% YoY credit growth, NII expanded modestly by 6.3% YoY, significantly lower than in 1Q2019 (+37.1% YTD).

Figure 1: VCB's credit growth (% YTD)



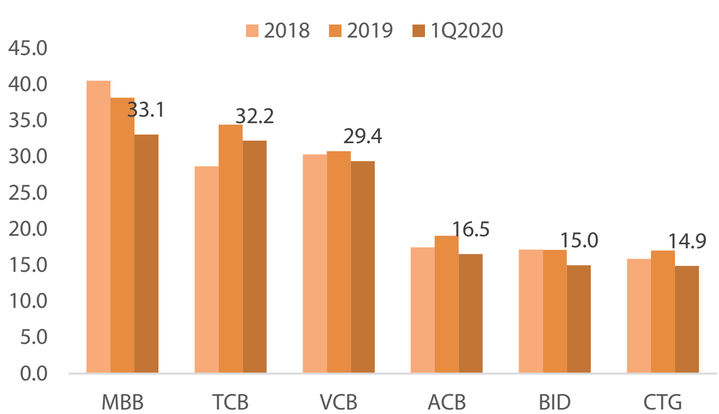
Source: VCB, Rong Viet Securities

Figure 2: VCB's customer lending structure (%)



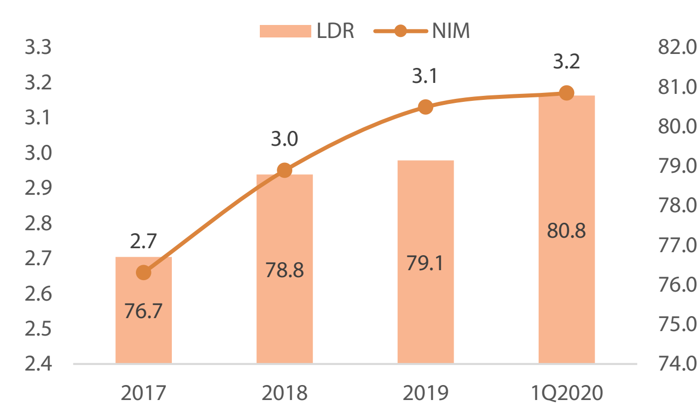
Source: VCB, Rong Viet Securities

Figure 3: CASA of some leading listed banks (%)



Source: Banks' FS, Rong Viet Securities

Figure 4: VCB's NIM and LDR (%)



Source: VCB, Rong Viet Securities

Considering the credit slowdown in 1Q as well as the impact of Covid-19, we expect credit growth in 2020 to be lower than that in 2019. As such, we lower our 2020 credit growth forecast to 13% YoY (-3ppt vs. our previous forecast in the 2020 Strategy report).

We also expect that VCB (as well as other state-owned banks) should see a stronger negative impact on NIM than their private counterparts, due to their more proactive roles in cutting lending rates to support distressed customers, partly also due to the request by SBV. However, for VCB the downside is unlikely to be severe owing to its relatively high CASA, ample LDR improvement room as well as a substantial portion of government bonds (9.1% of total asset by 1Q2020, which could allow better utilization of the policy rate cut). We forecast 2020 NIM to be reduced by 7bps to 3.06% (which is 15bps lower than our previous forecast). This translates to a modest expansion of 8.3% YoY for the NII 2020 forecast.

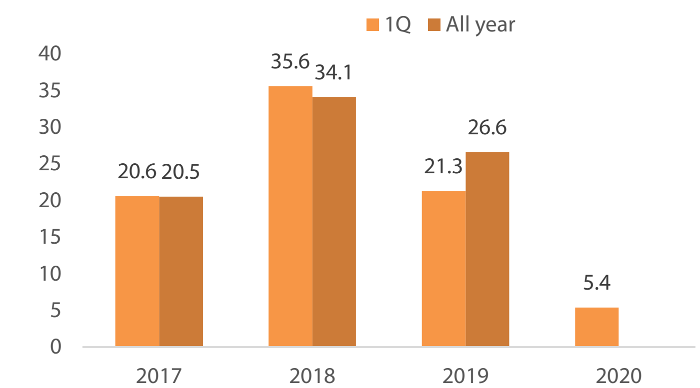
In the longer term, we maintain our view that VCB still has ample room to improve NIM based on its low-cost funding advantage, the transition towards retail banking as well as the effective allocation of interest earning assets. We expect credit growth to recover to 15% and NIM to 3.2% in 2021.

Non interest income should pick up from 2Q

Service income only expanded modestly by 5.4% YoY, which appeared to be impacted significantly by the virus situation against the consistent growth of at least 20% YoY in 1Q over the last three years. Though there was no breakdown of service fee stream, we believe the significant slowdown was primarily caused by the stagnation in settlement fees, which accounted for more than 50% of service fees in 2019.

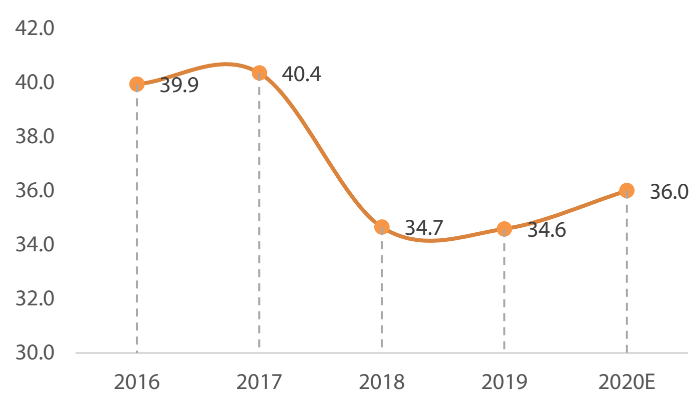
The exclusive bancassurance contract with FWD has been signed in November last year, but the actual distribution only kick started in mid-April. This should be reflected in service fees income from 2Q2020 on. Also, the demand for bancassurance is likely to be impacted (yet not too severe) by the less favorable economic conditions. However, longer-term, we still expect VCB to emerge as a top bancassurance distributor owing to its reputation and the largest customer base amongst listed banks. We expect this trend to partly relieve the bank from the current dependence on settlement income.

Figure 5: VCB's service income YoY growth (%)



Source: VCB, Rong Viet Securities

Figure 6: VCB's CIR (%)



Source: VCB, Rong Viet Securities

Considering the impact of Covid-19, we lower our service income forecast by 30%, on the back of flat settlement income and revise down the bancassurance income forecast. This still implies a new service fee growth forecast of 38.7% YoY, which should be sufficient to lead the overall growth in the context of slowing down NII and other income while soaring provision expenses.

The remaining activities also saw moderate reduction in 1Q. Income from other activities was reduced by 10.9% YoY, while dividends income went down by 19.1% YoY and trading securities incurred a loss of 54bn. FX is the only activity that saw income rising, by 19.3% YoY. For 2020, we expect that VCB would recognize a part of its upfront fees from the bancassurance agreement with FWD, which is likely to spread evenly over a period of several years. This will help VCB to secure a desirable overall earnings growth and moderate the Covid-19 impact on 2020's performance.

Operating costs controlled closely

Operating expenses increased by 12.0% YoY, which was also due to the advance booking of some expense items under the Covid-19 situation. This is still pretty much in line with the overall stable trend of VCB's operating expenses during the last several years. CIR increased from 37.3% to 40.0%, yet primarily due to TOI slowdown (+4.4% YoY). The bank expects that in case the virus is soon to be contained, they can recognize some reversals and CIR of the entire year can be normalized at around 36.0% in 2020.

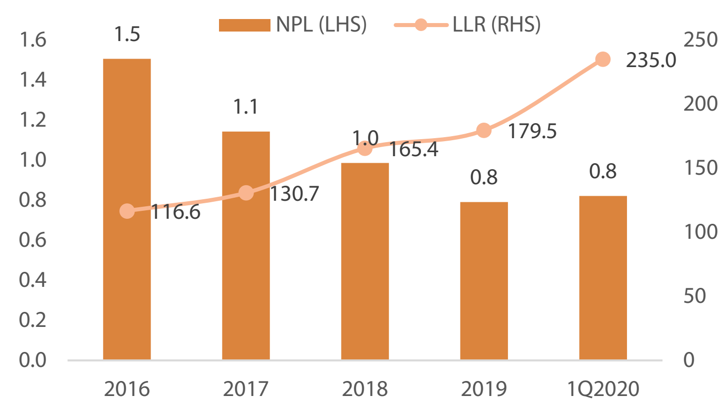
Pushing provision to prepare for the next quarters

1Q2020 NPL ratio seems yet to be impacted much when it only increased slightly from 0.79% to 0.82% and VCB disclosed that the portion of debt extension/restructuring is still minor. However, the impact of Covid-19 should take some time to be reflected on NPL ratio, especially since the Group 2 ratio has increased from 0.33% to 0.67%. To prepare for probable bad debts, VCB book nearly 4Tn of specific provision in 1Q, which is mostly equivalent to the amount booked in 2019. As such, provision expenses reached VND2,152 bn (USD 93.6mn, +42.9% YoY), which is equivalent to a rise in provision expenses by 181.5% YoY if we exclude the 2Tn reversal of provision for lending to other banks. This raised customer provisions coverage to 235.0%, from the already outstandingly high level in 2019 (179.5%), which is quite in line with the bank's traditionally prudent approach.

If the economy can recover in June/July, VCB expects that improved conditions can eliminate the adverse impact on retail and mortgages loans. Meanwhile, corporate loans appeared to be impacted more strongly, yet not too severe as airlines and hospitality (the most distressed sectors by epidemic) each only account for less than 1% of credit. We hold the view that with current low NPL and very high LLR, VCB has been sparing decently for a potential deterioration of loan quality in upcoming quarters.

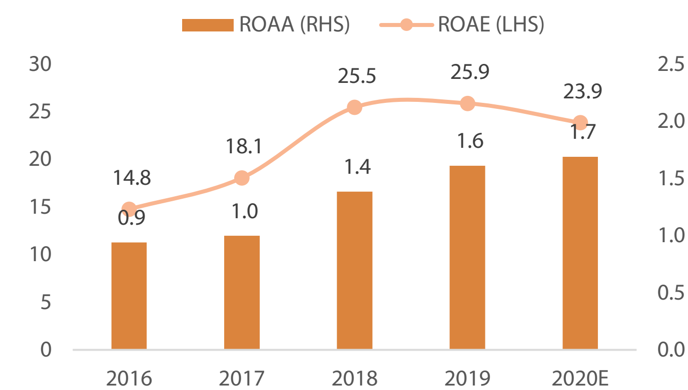
We forecast customer provision expenses to growth by 81.0% YoY in 2020, which, taken into account the impact of provision for lending to other banks, translates to flat provision expenses (VND6.8Tn, or USD295.7mn).

Figure 7: VCB's asset quality (%)



Source: VCB, Rong Viet Securities

Figure 8: VCB's profitability (%)



Source: VCB, Rong Viet Securities

Outlook

With the forecast revised due to Covid-19, we reduce our earnings growth forecast for 2020 to 7.5% YoY on the ground of lower credit growth, NIM, service income growth and higher provision expenses. The booking of a part of FWD up-front fee (assume that it spreads in five years) might raise earnings growth to 16% YoY. We keep our 2021E earnings growth forecast at 20% YoY.

Longer term, we believe that VCB, with its sector-leading position, solid balance sheet and exceptional provision buffers, will be able to withstand the Covid-19 storm. We also expect the bank's growth to recover quickly upon the virus containment owing to its conservative advance booking of provisions. Current Basel 2 CAR is at 10.2% (increasing from 9.6% at end 2019, which is relatively strong), while the bank still has a plan to make private placement of up to 6.5% of capital by 2021.

Unit: VND Bn

INCOME STATEMENT	FY2018A	FY2019A	FY2020E	FY2021F
Interest and Similar Income	55,864	67,724	72,888	83,743
Interest and Similar Expenses	-27,455	-33,147	-35,247	-39,635
Net Interest Income	**28,409**	**34,577**	**37,641**	**44,107**
Non-interest Incomes	10,870	11,153	15,246	18,660
Net Fee and Commission Income	3,402	4,307	5,975	8,052
Net gain/(loss) from foreign currency and gold dealings	2,266	3,378	4,054	4,459
Net gain/(loss) from trading of trading securities	250	146	175	193
Net gain/(loss) from disposal of investment securities	0	7	0	0
Net Other income/expenses	3,234	3,070	4,797	5,711
Income from capital contribution	1,716	245	245	245
Total operating income	**39,278**	**45,730**	**52,887**	**62,768**
Operating expenses	-13,611	-15,818	-19,194	-22,466
Operating Profit Before Provision	25,667	29,913	33,693	40,302
Provision expenses	**-7,398**	**-6,790**	**-6,843**	**-7,737**
Profit before tax	**18,269**	**23,122**	**26,850**	**32,565**
Corporate income tax	-3,647	-4,596	-5,349	-6,487
NPAT	**14,622**	**18,526**	**21,502**	**26,078**
Attributable to parent company	**14,606**	**18,511**	**21,487**	**26,063**

Unit: %

FINANCIAL RATIO	FY2018A	FY2019A	FY2020E	FY2021F
Growth				
Customer loans	16.1	16.5	12.6	15.2
Customer deposit	13.2	15.8	8.5	12.3
Net interest incomes	29.5	21.7	8.9	17.2
Operating income	33.6	16.4	15.6	18.7
NPAT	60.7	26.7	16.1	21.3
Total Assets	3.7	13.8	8.6	12.7
Equity	18.3	30.1	22.8	23.3
Profitability (TTM)				
NIM	2.8	3.1	3.1	3.2
CIR	39.7	37.3	36.3	35.8
ROAE	25.5	25.9	23.8	23.5
ROAA	1.4	1.6	1.7	1.8
Assets Quality				
NPLs ratio	1.0	0.8	1.0	0.9
NPLs + VAMC ratio	1.0	0.8	1.0	0.9
Bad debt coverage ratio	165.4	179.5	176.9	178.5
Equity-to-Assets ratio	5.8	6.6	7.5	8.2
Operating Safety Ratio				
Loans to customers & other CIs to total assets ratio	81.2	79.6	81.2	81.2
Customer LDR	78.8	79.1	82.4	84.4
Adjusted LDR	77.7	78.1	81.3	83.6

Unit: VND Bn

BALANCE SHEET	FY2018A	FY2019A	FY2020E	FY2021F
Cash and precious metals	12,792	13,778	14,437	17,051
Balances with the SBV	10,846	34,684	20,147	22,615
Placements with and loans to other credit institutions	250,228	249,470	261,944	275,041
Trading securities, net	2,655	1,801	4,198	4,351
Derivatives and other financial assets	276	98	0	0
Loans and advances to customers, net	621,573	724,290	815,535	939,416
Investment securities	149,296	167,530	179,401	203,525
Investment in other entities and long-term investments	2,476	2,464	2,464	2,957
Fixed assets	6,527	6,710	7,381	8,489
Investment properties	0	0	0	0
Other assets	17,357	21,892	21,892	21,892
TOTAL ASSETS	**1,074,027**	**1,222,719**	**1,327,400**	**1,495,338**
Due to Gov and borrowings from SBV	90,685	92,366	94,213	103,634
Deposits and borrowings from other credit institutions	76,524	73,617	75,089	82,598
Deposits from customers	801,929	928,451	1,007,369	1,130,772
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international & other institutions	26	20	25	25
Convertible bonds/CDs and other valuable papers issued	21,461	21,384	21,384	21,384
Other liabilities				
Total liabilities	**1,011,847**	**1,141,836**	**1,227,978**	**1,372,796**
Shareholder's equity	**62,179**	**80,883**	**99,319**	**122,415**
Capital	36,322	42,429	42,429	42,429
Reserves	9,446	12,186	15,367	19,226
Foreign currency difference reserve	84	16	16	16
Difference on assets revaluation	119	113	113	113
Retained Earnings	16,139	26,055	41,394	60,631
Minority interest	69	83	102	126
LIABILITIES AND SHAREHOLDER'S EQUITY	**1,074,027**	**1,222,719**	**1,327,400**	**1,495,338**

Unit: VND Bn

FOOTNOTES	FY2018A	FY2019A	FY2020E	FY2021F
Interest Income	**55,864**	**67,724**	**72,888**	**83,743**
From customers	43,757	53,185	57,860	67,315
From other Cis	2,880	4,413	4,523	4,749
From fixed-income investment	8,305	8,894	9,651	10,812
From guarantee	412	0	0	0
From other activities	223	905	565	564
Interest Expenses	**-27,455**	**-33,147**	**-35,247**	**-39,635**
To customers	-25,365	-31,225	-34,933	-39,355
To other Cis	-544	-337	-39	-42
To fixed-income investment	-1,516	-1,500	-227	-183
To other activities	-30	-85	-49	-55
Operating expenses	**-13,611**	**-15,818**	**-19,194**	**-22,466**
Provision expenses	**-7,398**	**-6,790**	**-6,843**	**-7,737**

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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