Vietnam International Bank (HOSE: VIB)

A Highly Differentiated Retail Bank That Will Deliver Long-Term Value

- **A deep retail-oriented strategy along with the competitive advantage of fast retail loan processing will enable VIB to unlock the untapped potential of personal credit.**
- **Mortgage - the bank's key product - though faces short-term challenges but its future demand is assured.**
- **VIB has the capability to sustain above industry average profitability given its unique characteristics.**

We are initiating coverage on ***Vietnam International Bank (HSX: VIB)*** *with a* ***BUY*** *recommendation and a one-year target price of* ***24,600 VND****. Established in 1996, VIB has successfully transformed into a distinctive retail-oriented bank with the highest personal lending ratio in the banking system. This unique strategic direction has been executed initially through its competitive advantage in processing small and medium-sized loans faster than its competitors and attractive commission policies for loan referral partners. Moreover, the prompt completion of Basel II standards, along with meticulous risk management in real estate lending policies during the preceding economic cycle, has facilitated VIB in obtaining extended high credit growth limits over several years. This accomplishment has led to enhanced income growth, balance sheet strength, and operational efficiency, markedly surpassing industry performance in the 2017-2022 period.*

Nonetheless, the stagnant real estate market and impacted household income have significantly reduced the credit growth, asset quality, and profitability landscape of VIB in 2023. Looking ahead to the next year, we anticipate an improvement in financial indicators owing to (1) reduced credit costs and (2) credit growth driven by lower and more stable lending rates, along with a modest recovery in household income buoyed by brighter prospects in trade and an improved secondary real estate market. In the long term, we believe VIB's retail orientation will continue to be effective, as the penetration rate of personal credit in Vietnam still has considerable room for growth, parallel to the prospects of increasing household incomes.

Regarding valuation, the current market price implies a 2023F/24F P/B ratio of 1.2x/1.0x, which presents a deep discount compared to the three-year average of 2.0x. This reflects the impact on growth and asset quality in a challenging macroeconomic environment. However, we also perceive limited downside risk at the current valuation levels and anticipate that the improved profitability expected in 2024F has significant potential to drive VIB's valuation towards our target range.

Key financial ratios

Y/E Dec (VND Bn)	FY2021A	FY2022A	FY2023F	FY2024F
Total Operating Income	**14,891**	**18,058**	**21,262**	**23,554**
%change	*33%*	*21%*	*18%*	*11%*
PAT	**6,410**	**8,469**	**8,637**	**11,445**
% change	*38%*	*32%*	*2%*	*33%*
ROAA (%)	2.3	2.6	2.3	2.6
ROAE (%)	30.3	29.7	24.4	26.9
EPS (VND)	1,733	2,603	2,654	3,517
Cash dividend (VND)	0	1500	600	0
Book value per share (VND)	9,604	12,910	15,064	18,581
P/E (x)	15.7	5.7	7.2	5.4
P/BV (x)	2.8	1.1	1.3	1.0

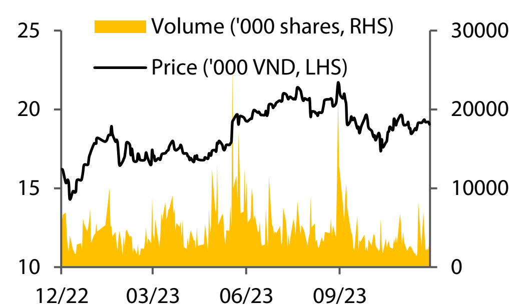
Source: VIB, Rong Viet Securities. Based on the closing price on Dec 13th, 2023.

BUY	+35%
Market price (VND)	18,700
Target price (VND)	24,600
Cash dividends (VND)	600

** Expected in the next 12 months*

Stock Info

Sector	Banks
Market Cap (VND Bn)	48,326.2
Share O/S (Mn)	2,536.8
Beta	1.2
Free Float (%)	40
52 weeks high	21,700
52 weeks low	14,299
Average trading volume (20 sessions)	3,099.1



Performance (%)

	3M	1Y	2Y
VIB	-12.2	17.5	43.9
Banks	-6.4	22.0	49.7
VN-Index	-9.0	5.8	4.3

Major shareholders (%)

Commonwealth Bank of Australia	19.9
Dang Khac Vy – Chairman	5.95
Funderra JSC	4.68
Remaining Foreign Room (%)	*0.0*

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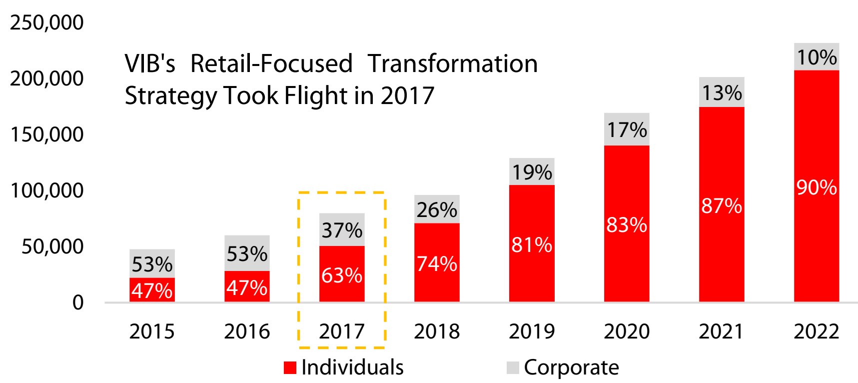
Investment Rationales

Harnessing the power of strategic alignment and a competitive edge in flexibility, VIB is poised to unlock the full potential of personal lending in the long run.

A judicious shift coupled with VIB's unique advantages yields substantial value

The year 2017 marked a significant turning point for VIB as it embarked on the execution of a retail banking transformation strategy. Consequently, there has been a notable shift in the structure of individual and corporate debt portfolios (see Figure 1), and a streamlining of the organizational structure within the business segments catering to corporate clients. During the same year, VIB also successfully acquired the retail banking operations of CBA Bank - a major shareholder of VIB and a leading retail bank in Australia.

Figure 1: VIB's Outstanding Loans by customer segmentation (VND trillion)

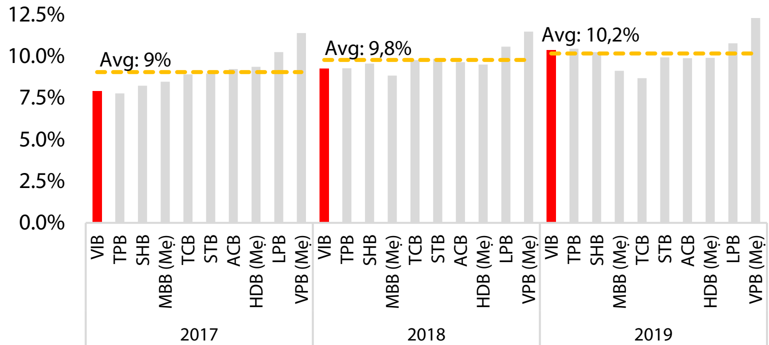


Source: VIB, Rong Viet Securities

This strategy aligns seamlessly with the prevailing industry trend of seeking growth through a robust push in high-margin personal lending, coupled with the expansion of non-interest income sources from card fees and bancassurance. On the flip side, it distinguishes itself from the majority of other commercial banks by the degree of focus applied to tapping into this particular segment of individual customers. This dual-pronged approach reflects VIB's astute market positioning, capitalizing on lucrative lending avenues while differentiating itself in a landscape where other commercial banks may not be as concentrated on the individual customer segment.

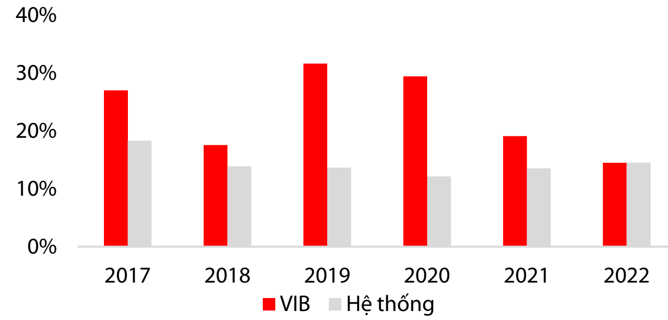
To bring this strategy to fruition, VIB has implemented a series of measures, including (1) introducing competitive interest rate packages for loans between 2017 and 2019 (see Figure 2), (2) formulating commission policies to incentivize loan referrals for enticing partners, such as in the case of auto loans, (3) expediting disbursement for eligible loans through fast approval delegation at branch levels. Furthermore, thanks to VIB's prudent credit policies that curtailed exposure to real estate business after the last bubble cycle, the bank's capital adequacy ratio remained largely unaffected even when the State Bank of Vietnam raised the risk coefficient for real estate business lending to 200% (2017) and 250% (2018). This pivotal factor has enabled VIB to secure high credit limits allocation during the 2019-2021 period.

Figure 2: Average lending interest rates of medium and large private commercial banks from 2017-2019



Source: Bank reports, Rong Viet Securities

Figure 3: VIB credit growth is much higher than the whole system for most of time between 2017 and 2022



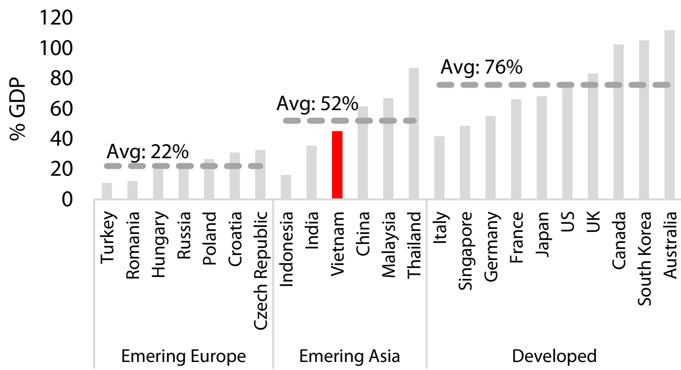
Source: VIB, SBV, Rong Viet Securities

While this strategic direction has delivered outstanding growth for VIB compared to the industry since 2017 (CAGR 2017-2022: 50%), it is poised to continue generating compelling growth for the bank's long-term income and balance sheet. Consequently, we believe that the flexibility advantage in personal lending operations will enable VIB to realize the full potential of retail banking in Vietnam. There is ample room for increasing market penetration in personal credit and insurance products, in tandem with the rising income levels and favorable demographic structures. Moreover, we anticipate that the enhanced ability to expand the individual customer base through digital platforms will sustain growth prospects in a resilient manner.

The "golden" demographic structure coupled with sustained improvements in long-term income quality is expected to propel the demand for consumer credit products. According to the 2021 General Statistics Office (GSO) Population Dynamics Survey, Vietnam is currently experiencing a "golden demographic" period, with the age group between 15-64 years constituting 68% of the country's total population. Additionally, McKinsey forecasts that in the next decade, an additional 36 million people will join the middle-class segment in Vietnam, driven by the growth in the workforce and disposable income in a steadily growing economy. Consequently, the middle-class population is expected to surge accordingly, with a projected CAGR of 14% during the 2020-2030 period. This demographic shift could potentially represent 74% of the population by 2030, up from 40% in 2020, according to McKinsey's data. These crucial demographic factors are poised to act as robust catalysts for consumer demand, investment, insurance, and the utilization of personal credit products offered by the bank.

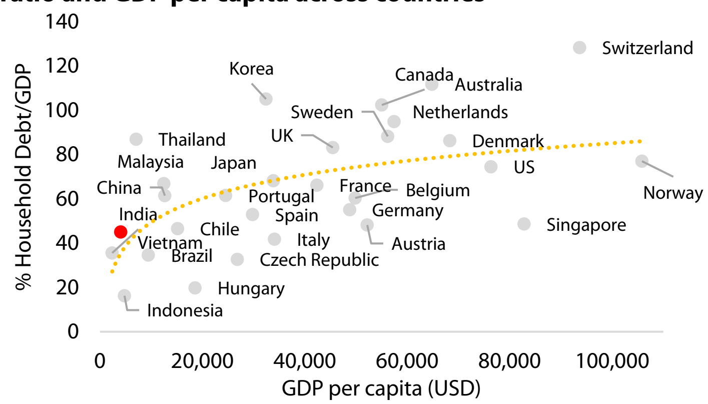
The scale of the retail credit market has witnessed substantial growth over the past five years, yet the developmental potential remains considerable. Based on the financial statements of listed banks, we estimate that the outstanding personal loans within the banking system reached VND 4.4 quadrillion (USD 181.7 billion) in 2022, demonstrating a compound annual growth rate (CAGR) of 19% from 2017 to 2022. This accounts for approximately 45% of Vietnam's GDP, a notable increase from the 37% recorded in 2017. The sustained and rapid growth in consumer lending is evident, driven by the conducive environment of low and stable interest rates. However, when compared to the penetration levels of personal credit in emerging Asian markets and developed countries globally, we believe that the retail banking segment in Vietnam has significant untapped potential, especially in the context of the long-term improvement in people's incomes. Consequently, banks with a clear retail orientation, such as VIB, can leverage and solidify their growth trajectory over the long term. The prospect of consumer loan balances in Vietnam is also forecasted by Euromonitor to experience a compounded annual growth of 14.6% in the 2022-2027 period.

Figure 4: Ratio of household debt to GDP (2022) by markets



Source: IMF, Rong Viet Securities

Figure 5: Positive correlation between household debt/GDP ratio and GDP per capita across countries



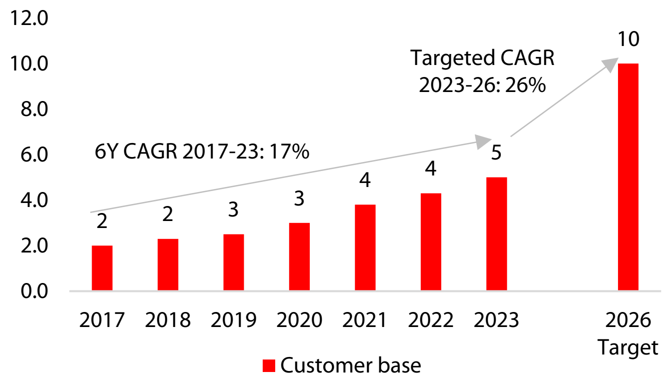
Source: IMF, Rong Viet Securities

Expansion of the customer base is anchored in a concerted emphasis on brand promotion and robust investments in digital transformation. The customer base stands as a cornerstone in the developmental strategy of any retail bank. While VIB may not boast an ecosystem of partner enterprises that could offer the same extensive customer reach as some other banks in the system, it has distinctive avenues for expanding its customer base. To reach potential customers, VIB actively engages in brand promotion activities, both through traditional channels and digital platforms, with an annual investment budget of up to USD30 million for these endeavors. A notable example is the sponsorship of the "Masked Singer" show, garnering over 2 billion views in 2022 and 2023, along with advertising initiatives reaching over 200 million impressions monthly. These efforts underscore VIB's commitment to broadening its customer base through a strategic blend of traditional and digital brand-building initiatives.

In conjunction, VIB's substantial investment in digital transformation serves as a pivotal factor in refining the process of converting potential customers into actual clients, offering optimized digital banking experiences. As a result, the approval process for credit cards and loans for cardholders is expedited through standardized data and automated workflows. Moreover, VIB's collaborations with major technology companies contribute significantly to expanding the customer database, fostering in-depth insights into customer behavior.

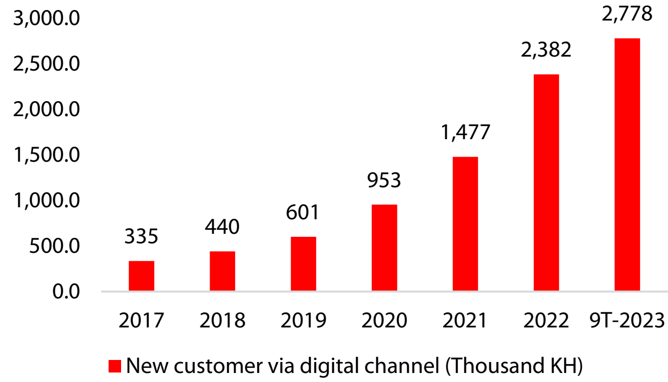
We believe that these initiatives will enable the bank to reach a substantial number of young customer segments, particularly Millennials (born between 1980-1994) and Gen Z (born in 1995 and later), who collectively represent over 40% of Vietnam's population. Currently, this demographic comprises approximately 65% of VIB's total customer base, and the bank anticipates this proportion to increase to 85% by the year 2025. This demographic is poised to become the primary customer segment for digital banking products in Vietnam over the next decade.

Figure 6: VIB sets an ambitious strategic goal of "10 million customers" by 2026



Source: VIB, Rong Viet Securities

Figure 7: The consistent growth in the number of customer registrations through digital channels over the years underscores the effectiveness of initiatives aimed at expanding the customer base



Source: VIB, Rong Viet Securities

Figure 8: VIB has established collaborations with technology companies boasting a significant user base, aiming to expand its customer database.

Source: VIB, Rong Viet Securities

Mortgage is the key product facing short-term challenges but ensuring sustained demand in the future.

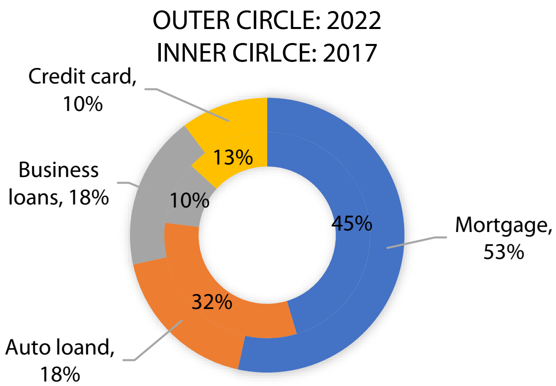
VIB's lending product portfolio includes home purchase/construction, home renovation, auto loans, credit cards, and business loans. Specifically:

(1) **Home Purchase/Construction and Renovation Loans:** This product category holds the largest share and consistently contributes 53% to the total personal loans in 2022, reflecting its significant importance.

(2) **Auto Loans:** The growth rate for auto loans has decelerated as VIB has gradually shifted focus away from this product. This shift is influenced by factors such as reduced demand for car purchases post-pandemic, higher non-performing loans compared to other mortgage products, and intensified market competition.

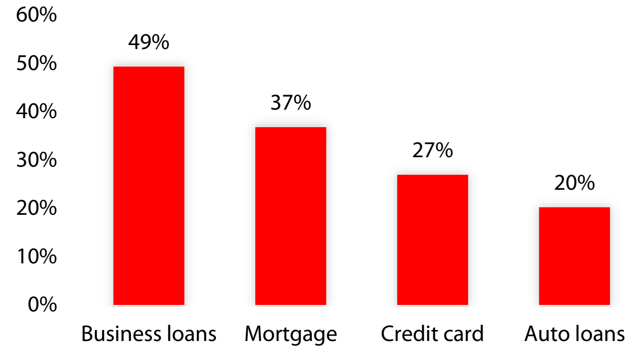
(3) **Business Loans**: In contrast, VIB has actively promoted this type of product over the past three years, particularly those related to providing working capital support for small businesses.

Figure 9: Structure of outstanding loans to individual customers by product (2017 and 2022)



Source: VIB, Rong Viet Securities

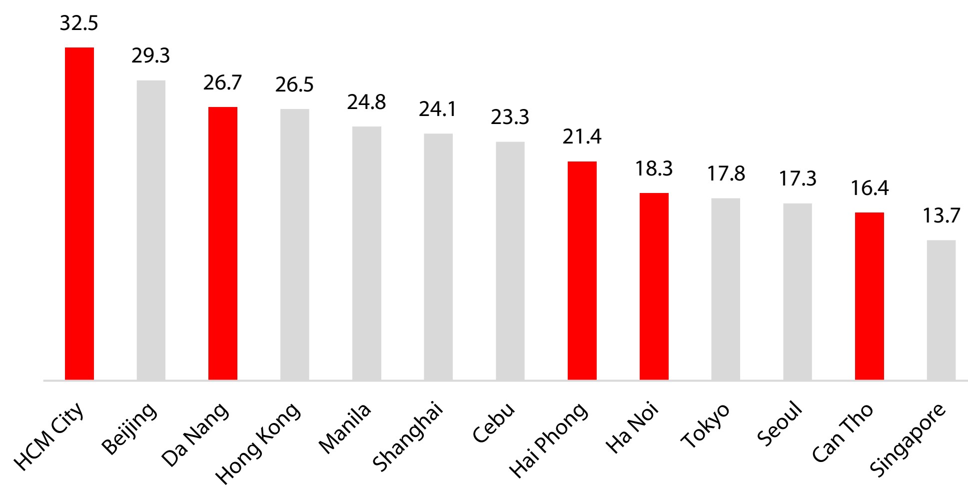
Figure 10: 5Y CAGR over 2017-2022 by individual credit products



Source: VIB, Rong Viet Securities Company

The demand for home purchase loans remains high in the long term. The ongoing urbanization process, with the Ministry of Construction forecasting an increase in the urban population ratio to approximately 45% by 2030 from the current level of around 40%, coupled with overall population growth, is expected to drive continuous growth in the demand for home purchases over the years. Furthermore, the fact that the house price-to-income ratio for Vietnamese households is relatively high within the Asian region reinforces the demand for real estate loans for residential purposes.

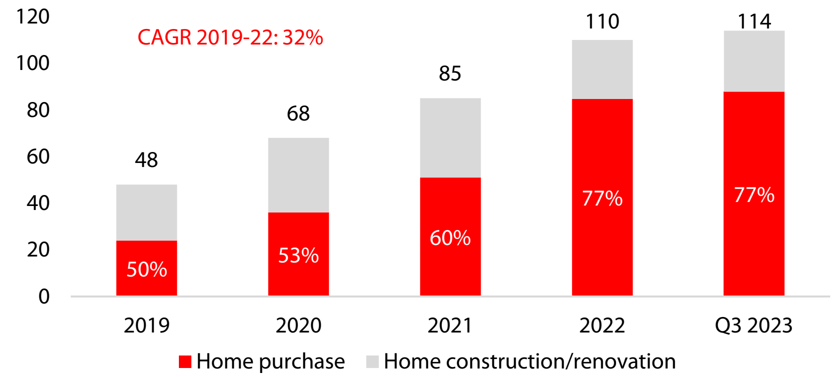
Figure 11: The house price-to-household income ratio in major urban centers of Vietnam is relatively high within the region



Source: ULI, Rong Viet Securities

Nearly 80% of the outstanding balance of mortgage product consists of secondary market home purchase, with the remaining portion allocated for home construction, renovation, or other consumer purposes. An overwhelming 99.5% of these loans are secured by mortgages on properties with red books or pink books (this also implies the legal certainty of the mortgaged properties), or other real estate assets that satisfy VIB's loan-to-value (LTV) criteria.

Figure 12: The debt structure of VIB's mortgage product (VND trillion)

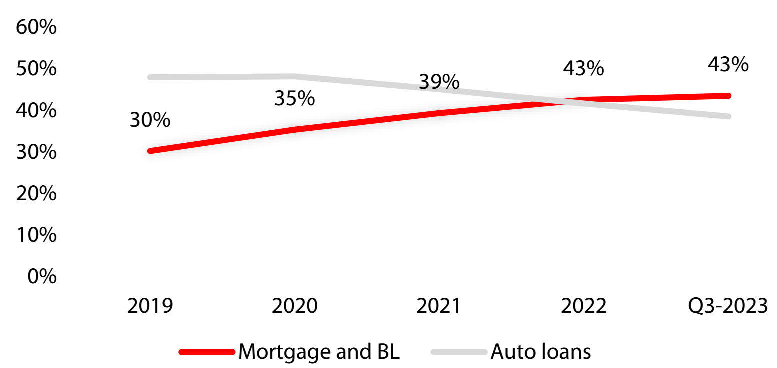


Source: VIB, Rong Viet Securities

VIB's loan-to-value (LTV) ratio, calculated based on the appraised value of collateralized assets, is relatively secure. Considering the appraised value of assets currently mortgaged at VIB and assuming that all these assets are real estate properties serving as collateral for home purchase/construction and renovation loans, as well as business loans, we estimate the LTV ratio for this product group to be around 43%. We note that the actual LTV ratio for real estate loans may be higher than this figure due to (1) a portion of these collateralized assets may be securing corporate loans, and (2) the LTV ratio for business loans is typically lower than for real estate loans since most of the real estate is mortgaged to secure credit lines. Nevertheless, we observe that an LTV ratio ranging from 45% to 50% remains relatively secure compared to private commercial banks with a high concentration in real estate lending.

Similarly, assuming all assets are vehicles pledged to secure auto loans, the estimated LTV ratio for auto loan product is currently around 39%. This ratio has consistently decreased since 2019 (from 48%), reflecting, in part, stricter regulations on auto loans (prioritizing new car loans, and expedited approval for qualified loans with low LTV).

Figure 13: Estimated LTV ratio by VIB's retail loan product group



Source: VIB, Rong Viet Securities

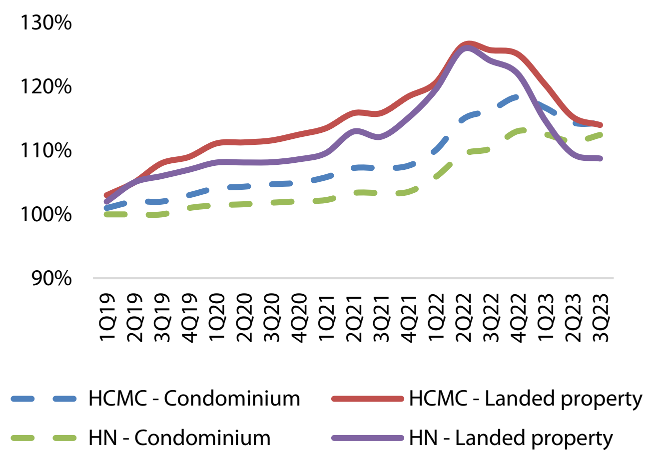
While we believe that long-term growth in demand for real estate loans is inevitable, VIB is currently facing short-term challenges due to its heavy reliance on this product. This is attributed to the real estate market entering a downturn cycle starting in 2022, stemming from difficulties in the supply side (frozen bond fundraising channels and legal entanglements) and the demand side (unstable jobs/income for individuals post-pandemic, high interest rates). However, we anticipate that the following factors could contribute to a healthier outlook for this pivotal product in the coming years.

- **Demand in the secondary real estate market in tier-1 cities has shown signs of recovery,** evidenced by the bottoming-out signals of low-rise housing prices and a slight increase in condominium prices in Q3/2023. One contributing factor is the secondary real estate market not being as constrained in supply as the primary market, while also having more legal certainty. With the primary real estate market facing limitations for years due to project construction progress, legal procedures, and the financial situation of developers, homebuyers are showing more interest in the secondary real estate market, including completed condominium projects (with red books) and individual houses. When purchasing these secondary real estate properties, customers can move in immediately, and they often come with more affordable prices compared to similar primary market products (still depending on usage time and location). This factor is a crucial condition for the growth of demand for loans to purchase secondary real estate, alongside other considerations such as real estate prices, loan interest rates, and borrower income.

Figure 14: The supply of new apartments in tier-1 urban areas is very limited in 2023

Source: CBRE, Rong Viet Securities

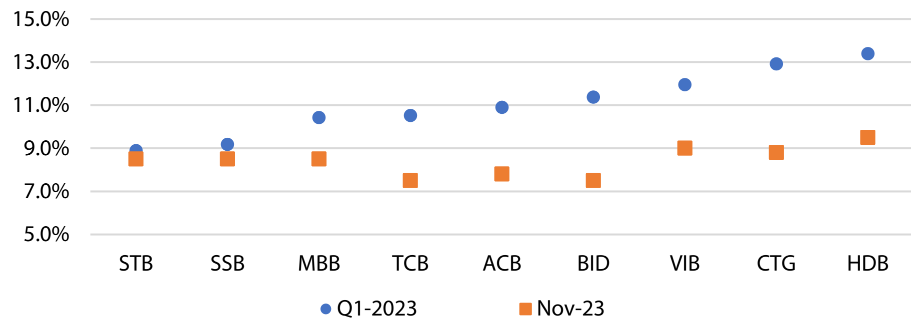
Figure 15: On the secondary market in Hanoi and Ho Chi Minh City, low-rise house prices have bottomed out, while condo prices rose slightly in Q3/23



Source: Institute of Architecture and Construction, Rong Viet Securities

- **Lending rates have come down largely from the peak at the beginning of 2023.** This occurs in the context of SBV drastically reducing the policy interest rate to stimulate economic growth, and the overall system's mobilization pressure decreasing. By Q3-2023, the interest rate landscape has dropped by approximately 4-5 percentage points compared to the early months of the year. We anticipate that the SBV will have ample room to maintain the current interest rate environment for most of 2024, as the likelihood of the Federal Reserve starting interest rate cuts from mid-2024 is increasing due to the decreasing trend in core inflation in the United States. Therefore, the current interest rate environment will provide stronger support for the prospects of consumer credit demand recovery in 2024.

Figure 16: Preferential interest rates* for home loans have decreased sharply compared to the beginning of 2023



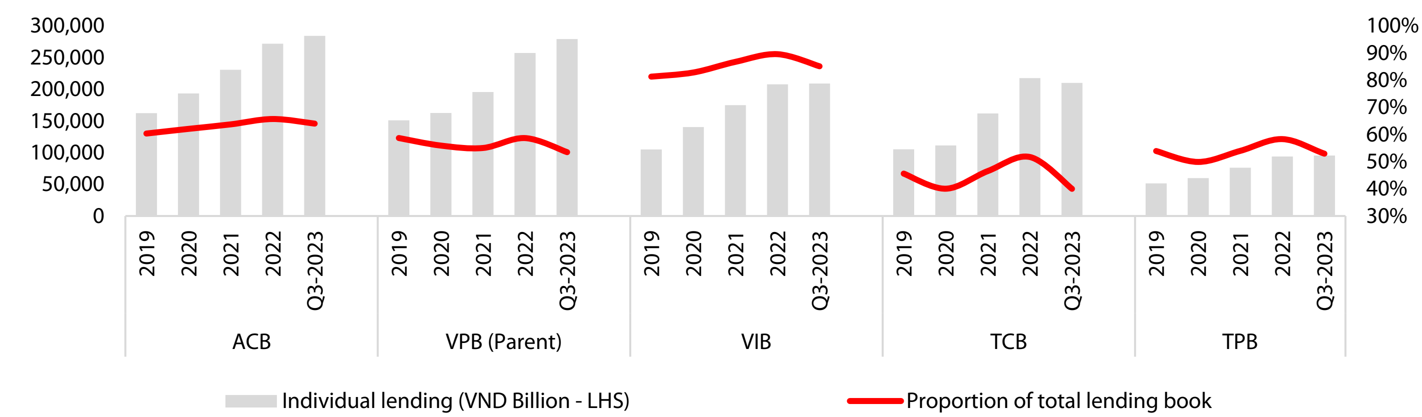
*Source: Batdongsan.com.vn, Rong Viet Securities, * Preferred Interest Rate Period ranges from 6 months to 1 year*

As a retail-oriented bank with distinctive characteristics, VIB has the ability to maintain high profitability compared to the overall market

Among the standout private joint-stock commercial banks in the retail direction (Figure 17), VIB boasts the highest concentration in the proportion of personal loans, accounting for 86% as of Q3-2023. With its current scale, VIB ranks among the top 5 private commercial banks in terms of personal customer loans and holds a 5% market share in the overall individual lending market.

In addition to lending activities, VIB also leads the market in various other retail banking areas, such as bancassurance market share (12% nationwide in 2021). For several consecutive years, VIB has held the top position in bancassurance sales productivity per branch and credit card spending. The steadfast commitment to the retail banking strategy has yielded significant value for VIB, evident in the growth rate of total assets, profitability, and return on equity (see Overview section).

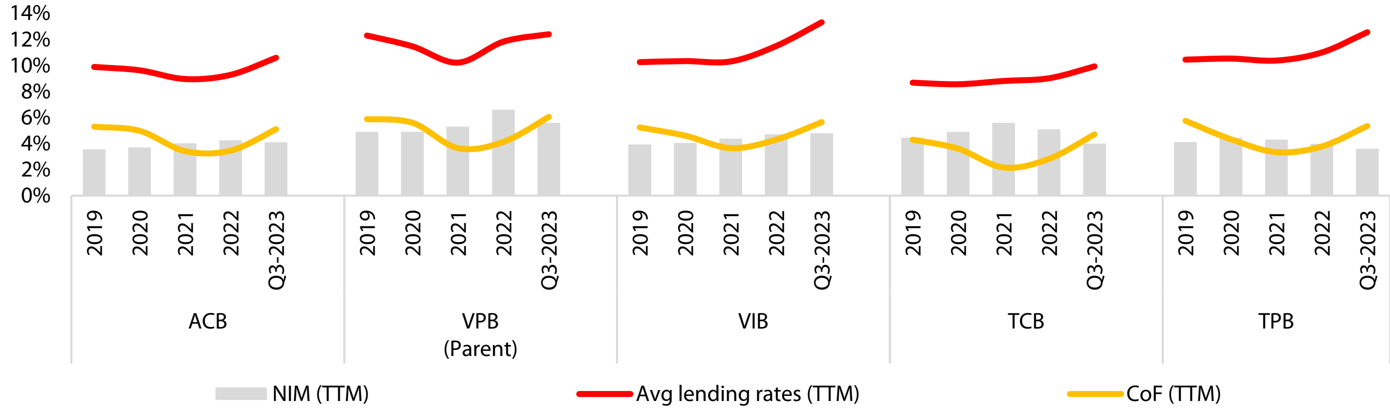
Figure 17: Scale and proportion of individual customer loans at typical private commercial banks



Source: Bank reports, Rong Viet Securities

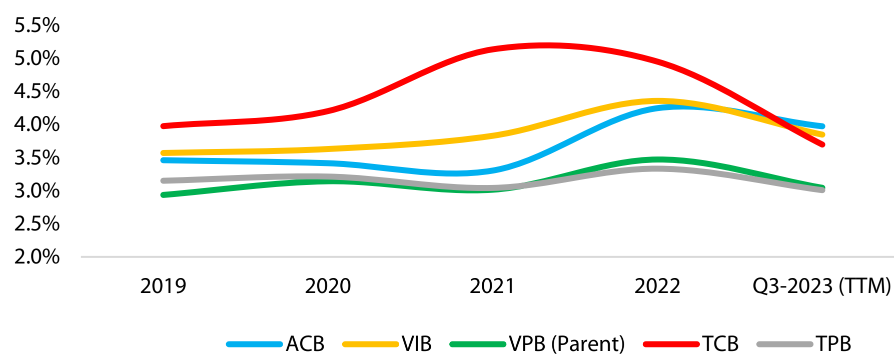
VIB's retail-focused strategy has consistently delivered top-tier performance indicators within the system. Furthermore, the distinct retail banking characteristics mentioned above have positioned VIB as one of the few banks capable of maintaining NIM during the challenging times of 2023, thanks to: (1) a high proportion of retail loans and long-term loans that rapidly increase the average loan interest rate (Figure 18) and (2) effective liquidity and cost of capital management. The LDR ratio is maintained at a reasonable level of 72% at the end of Q3/23 (compared to 76% at the end of 2022). This abundant liquidity helps alleviate mobilization pressure. Additionally, the diverse funding structure involves actively increasing interbank market funding amid very low interbank interest rates.

Figure 18: VIB is the only private joint-stock commercial bank with a strong retail focus that can protect NIM during the unfavorable development of the banking industry in 2023



Source: Bank reports, Rong Viet Securities

Figure 19: After adjusting for credit risk, VIB's NIM ranks second only to ACB (considering the top 5 banks mentioned), a bank with top-tier asset quality in the system



Source: Bank reports, Rong Viet Securities

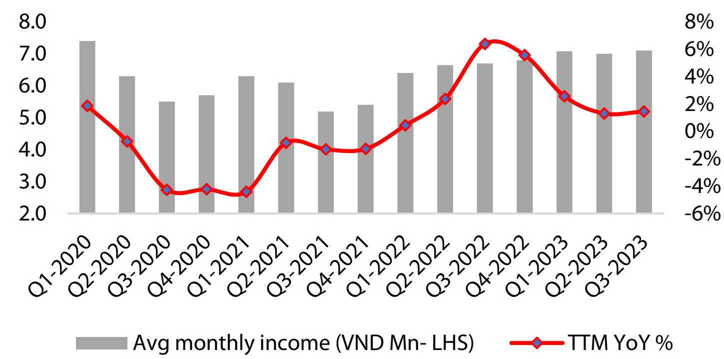
Risks

Short-term challenges related household income constrains the expansion of consumer credit and fee income growth from bancassurance

Consumer credit and life insurance, in general, have a high correlation with the economic cycles. During periods of economic expansion, the increased income of Vietnamese households will result in higher surplus income, leading to increased demand for consumer spending, savings, and insurance. A healthy economy will realize the growth of penetration rates for consumer credit and life insurance products, which are currently at relatively low levels compared to other developing countries such as Vietnam.

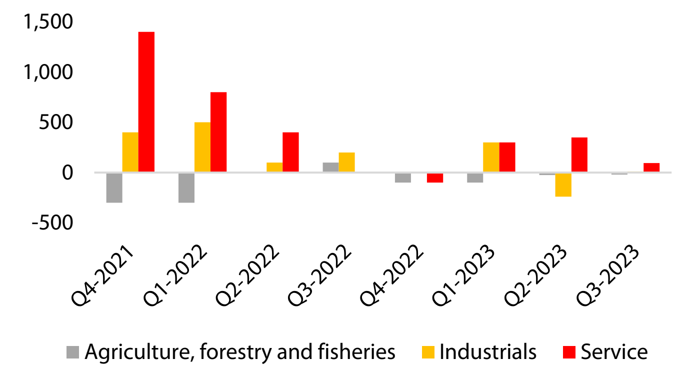
However, the current impact on people's income is a challenge for the growth of personal loan debt and investment in life insurance. This trend affects the growth of debt in products such as auto loans, real estate loans, and income from bancassurance (currently contributing over 35% of VIB's net fee income).

Figure 20: Average wage growth decelerates since Q3-2022



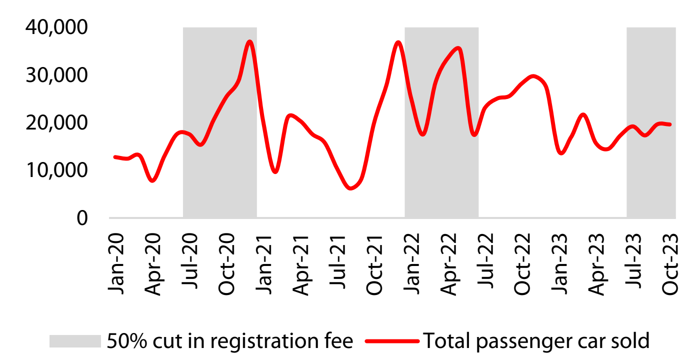
Source: GSO, Rong Viet Securities

Figure 21: Employment in the industrial sector (especially in export-oriented manufacturing enterprises) has weakened over the past four quarters due to a lack of new orders



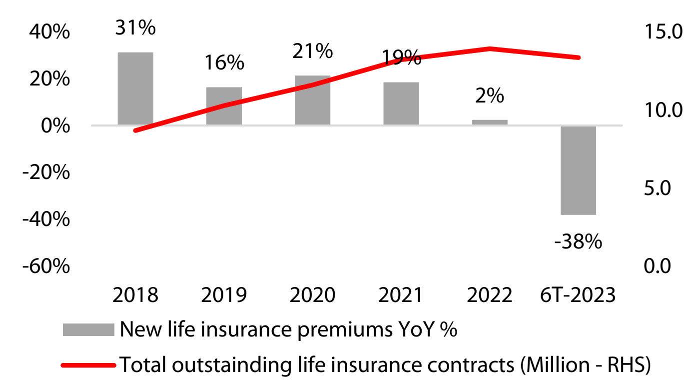
Source: GSO, Rong Viet Securities

Figure 22: The overall passenger cars market in 10M-2023 down by 32% YoY, despite a 50% reduction in vehicle registration fees in the second half of 2023 and numerous promotional campaigns offering discounts on cars.



Source: VAMA, Rong Viet Securities

Figure 23: The insurance market experienced a significant decline in 2023

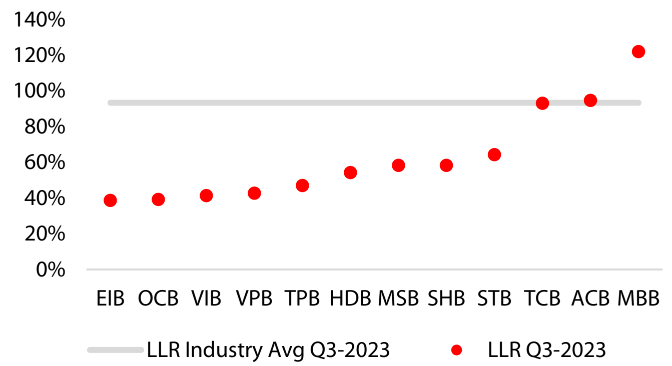


Source: Ministry of Finance, Rong Viet Securities

The risk of asset quality deterioration poses a challenge, leading to pressure on credit risk provision given the low Loan Loss Reserve (LLR) ratio

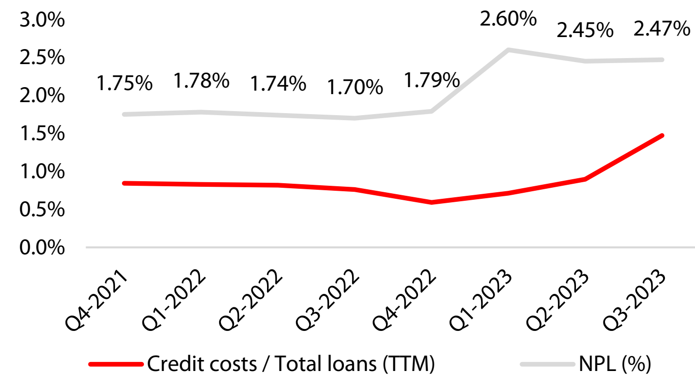
Although VIB is currently provisioning in accordance with the State Bank of Vietnam's regulations, when deducting the value covered by collateralized assets, this low coverage ratio poses a significant provision pressure amid declining asset quality, significantly impacting the bank's profit outlook.

Figure 24: VIB falls within the group of banks with a low LLR ratio



Source: Bank reports, Rong Viet Securities

Figure 25: VIB's credit costs surged considerably in 2023



Source: VIB, Rong Viet Securities

The probability of new foreign strategic investors represents an upside risk. Although the extraordinary General Meeting of Shareholders at the end of 2022 approved raising the foreign ownership limit to a maximum of 30%, it remains locked at 20%, potentially awaiting the search for new strategic partners for the bank. While there is currently no private placement plan for 2024, we believe that VIB is an attractive choice among private banks today, given its compelling profitability and positive long-term growth prospects, driven by a distinct retail focus combined with favorable demographic factors in Vietnam.

Bank Overview

Vietnam International Commercial Joint Stock Bank (VIB) was established in 1996 with an initial charter capital of VND 50 billion. VIB commenced a 10-year strategic transformation journey in 2017-2026 with a focus on developing the retail banking sector in Vietnam. In the first 6 years of this trajectory, VIB progressively realized strategic objectives regarding the growth rate of scale and profitability. The 5Y CAGR for the period 2017-2022 of Total Assets/Loans/Net Profit before Tax for VIB were 23%/24%/50%, respectively. Additionally, VIB stands out as one of the banks with leading ratios for retail lending and profitability efficiency in the industry. Personal loans accounted for 86% of the total lending book as of Sep 30, 2023, up from 47% at the end of 2016, with a ROE reaching 27% by the end of Q3/2023.

Charter capital

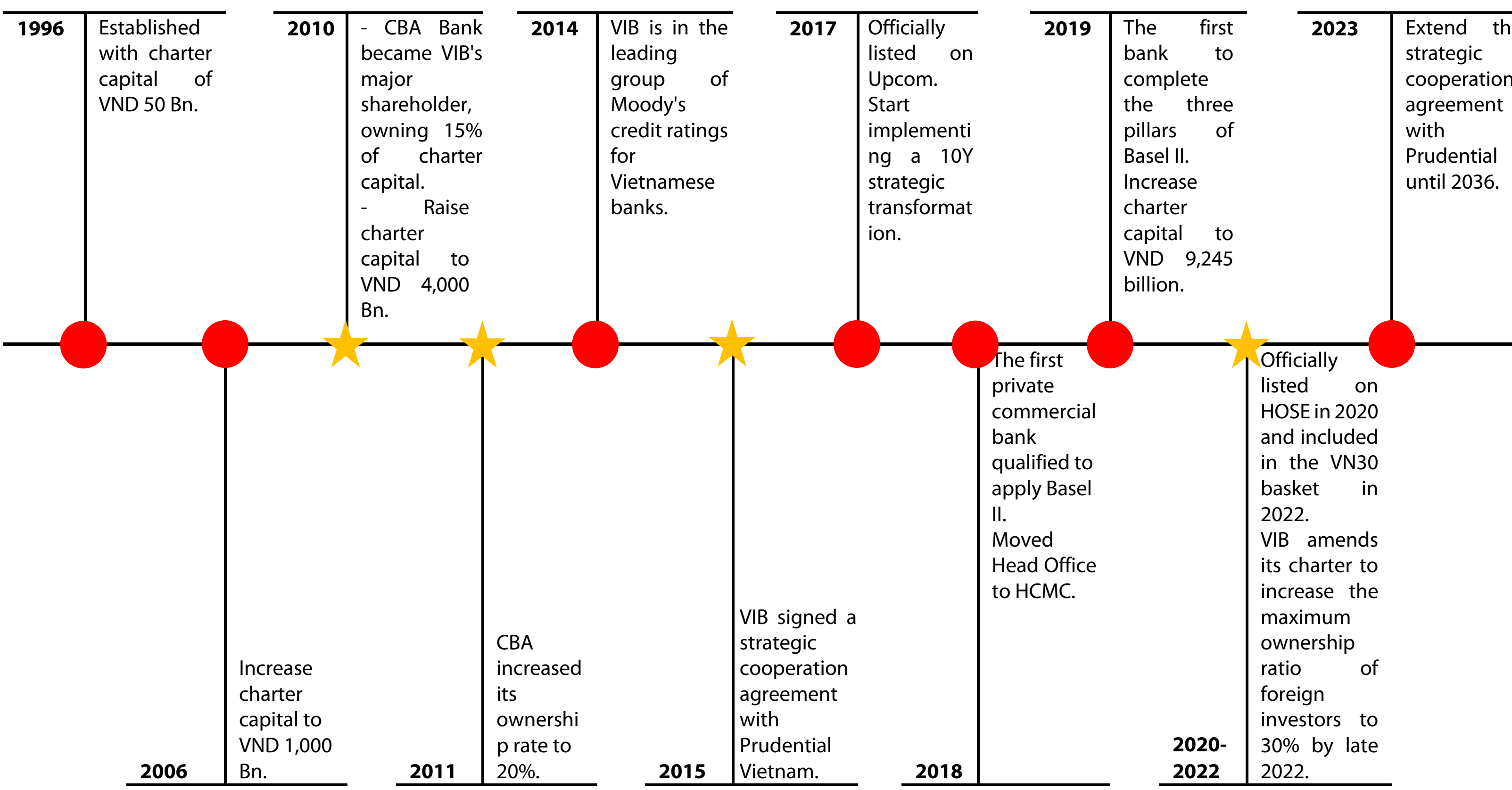
Having undergone over 30 capital increases since its establishment, VIB's charter capital has surpassed VND 25,000 billion (USD 1.03 billion), positioning it among the top 10 banks with the largest charter capital in the entire commercial banking system of Vietnam. By end Q3/23, VIB's equity has reached over 36,000 billion VND (USD 1.49 billion), and its total assets have approached nearly VND 385,000 billion (USD 15.9 billion).

Scale of Operations

As of the end of Q3/2023, VIB employs over 11,800 staff working across 178 branches and transaction offices in 28 key provinces and cities nationwide. VIB owns one subsidiary, VIB AMC, with a charter capital of VND 100 billion (USD 4.13 million). VIB AMC's mission is to receive collateralized assets and pledged assets of bad debts within the VIB system for management, and liquidation.

Development history

Figure 26: Key Milestones of VIB Bank up to 2023

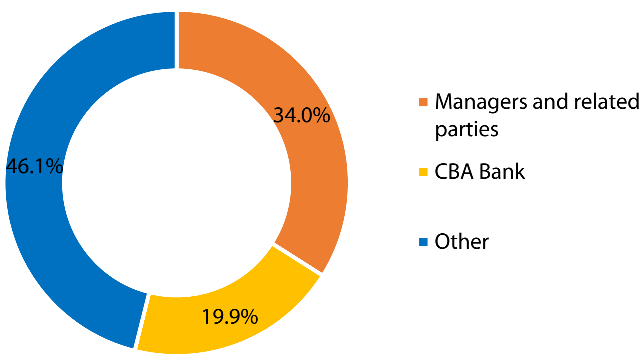


Source: VIB, Rong Viet Securities

Ownership structure

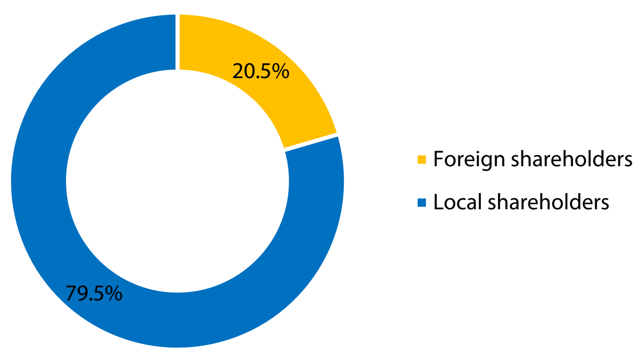
VIB has a foreign strategic shareholder, the Commonwealth Bank of Australia (CBA) – the largest bank in Australia. CBA entered into a comprehensive economic cooperation agreement with VIB in 2008, becoming an official strategic shareholder in 2010 with a 15% ownership stake. In 2011, CBA increased its ownership to 20%, and decreased to 19.9% by 2023 following ESOP issuances. With an additional 0.6% owned by other foreign shareholders, the total foreign ownership at VIB is currently 20.5%. Although the maximum FOL was increased to 30% according to the last amendment in 2022 from the previous 20.5%, VIB continues to cap foreign ownership at 20.5%. It is estimated that the Board of Directors and related parties hold approximately 34% of the bank's charter capital.

Figure 27: Estimated ownership ratio of major shareholders



Source: VIB, Rong Viet Securities

Figure 28: Ownership structure of foreign investors



Source: HSX, Rong Viet Securities

Overview of business activities

1. Lending activities

VIB is a pure retail bank with the scale and proportion of individual customer loans continuously increasing since 2017 – the beginning year of its Transformation Strategy. By the end of Q3-2023, the scale of personal loans reached nearly VND 210 trillion (USD 8.67 billion), accounting for 86% of the total customer loans, the highest in the commercial banking system and significantly surpassing other retail-oriented banks.

For individual customer groups, VIB provides 4 key credit products: mortgage, auto loans, business loans and credit cards. If calculated on total customer loans, mortgages account for about 46%, car loans account for 16%, business loans account for 16%, credit card loans account for about 9%.

- *Mortgages:* VIB lends to customers purchasing secondary real estate with complete legal documentation (red book, pink book) and does not provide financing for real estate purchase linked to developing projects like many other banks, including TCB, VPB, MBB, etc. This lending model carries less concentration risk (higher risk diversification due to numerous small loans from various individual customers with varying risk profiles) compared to financing projects where funds are channeled through a series of entities from project developers to contractors and final buyers. The sales channel can be direct or indirect through regional real estate brokers. The Loan-to-Value ratio (LTV) - the loan amount over the appraised property value (in this case, the real estate being transacted) - can go up to 90%. The Non-Performing Loan (NPL) ratio for this product is similar to the NPL ratio for the entire portfolio due to its significant contribution to the debt structure.
- *Auto loan:* This is a product that VIB has developed quite successfully, leveraging competitive advantages such as (1) Developing a referral channel with a competitive commission rate for partners,

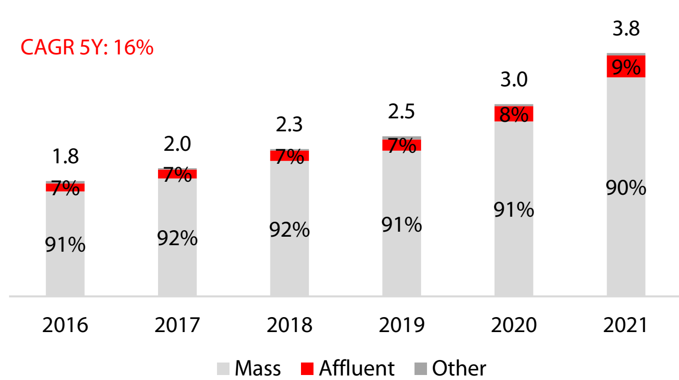
up to 1% of the loan amount, and (2) Fast loan approval process due to the typically small value of these loans (mostly under VND 1 billion or USD 42,000) and credit approval being granted at the branch level, not requiring a multi-step centralized approval process.

Fundamentally, VIB finances both new and used cars with maximum LTV ratios of 80% and 65%, respectively. However, since late 2021, VIB has proactively reduced its used car financing activities, which inherently carry higher risks compared to new car loans. We believe this is a prudent step to better control risks and maintain the asset quality of auto loans, given that the NPL ratio for this product is relatively higher compared to the overall retail banking portfolio of VIB and tends to increase rapidly in challenging macroeconomic conditions. Although this product is no longer a primary focus, VIB continues to maintain a leading market position with a 15% market share as of Q3-2023.

- *Business loan:* This product caters to the working capital needs (credit lines) and business investment of individual business households and micro-enterprises. VIB only accepts real estate with a certificate as collateral, and financing can cover up to 100% of the working capital needs and 80% for business investment loans. This product has received more development attention from VIB compared to auto financing products recently.
- *Credit cards:* VIB collaborates with three major global organizations, namely MasterCard, Visa, and American Express (newly partnered in Q2/2023), in the credit card sector and currently owns a diverse credit card product portfolio with various special features. Presently, VIB holds approximately 35% of the transaction market share with MasterCard. The bank is dynamic in brand promotion activities, sponsoring high-viewership television programs, yielding positive results in new cards registration through digital channels. The number of circulating cards has increased sixfold in the last four years, reaching 651 thousand in Q2-2023, with an average monthly expenditure per card of about 11 million VND (USD 454.26). The Credit Card Outstanding Balance Compound Annual Growth Rate (CAGR) was 27% during the period from 2017 to 2022.

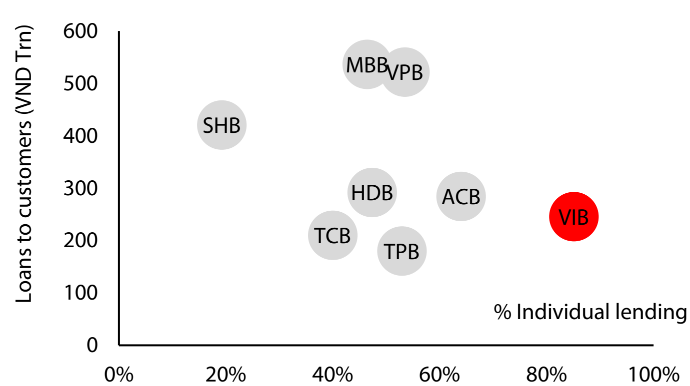
For corporate lending, VIB focuses on industries related to manufacturing, trading, and financial services (Figure 32). The proportion of lending to real estate investment and construction enterprises is negligible, accounting for only 8% of corporate lending and 1% of the total lending, as it does not provide comprehensive financing for real estate projects but only for individual clients in the secondary real estate market, as mentioned above. Although there is no strong emphasis on wholesale banking, VIB will maintain a stable lending proportion in this segment, focusing on financially sound and low-risk businesses.

Figure 29: VIB's customer base and customer segments



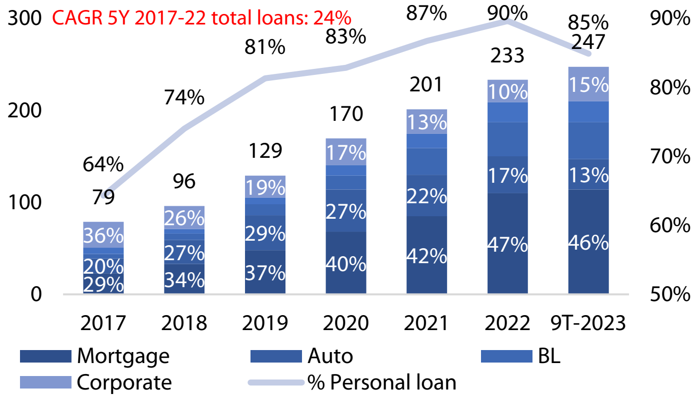
Source: VIB, Rong Viet Securities

Figure 30: VIB has the highest personal loan rate in the system (Q3/2023)



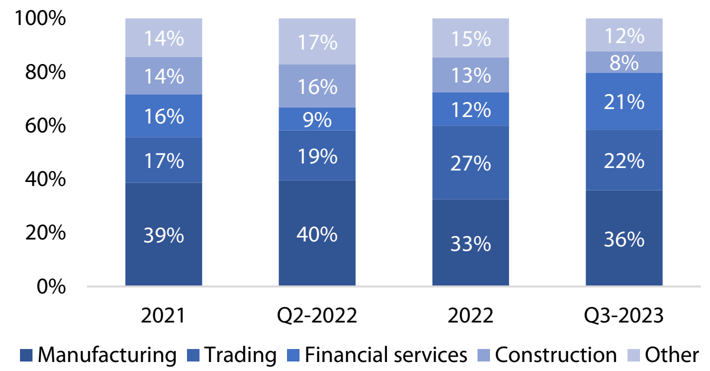
Source: Bank reports, Rong Viet Securities

Figure 31: The proportion of mortgage loans accounts for nearly half of VIB's loan structure



Source: VIB, Rong Viet Securities

Figure 32: Corporate lending structure classified by industry



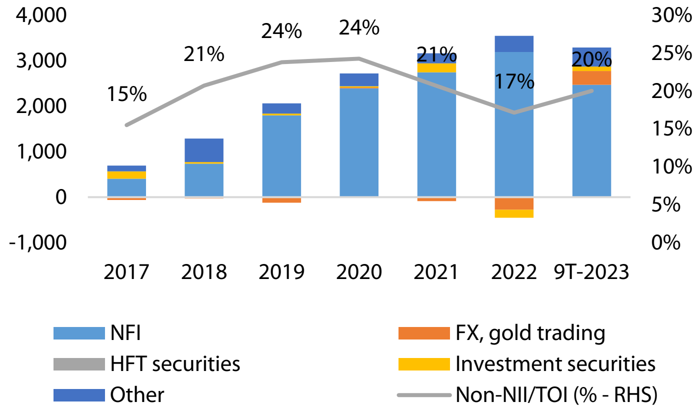
Source: VIB, Rong Viet Securities

2. Non-interest income

The trend of Non-Interest Income (Non-NII) within the structure of VIB's Total Operating Income (TOI) has been decreasing over the past three years and currently contributes a relatively low percentage of 15%. Within this, FX operations, gold, valued papers trading generally do not generate significant income for VIB, primarily serving to ensure the bank's liquidity. Conversely, net fee income makes the main contribution (about 90%), experiencing 5Y CAGR of 51% during the 2017-2022 period, providing impetus to the growth of VIB's Non-NII. In services activities, two significant income sources are settlement services and insurance.

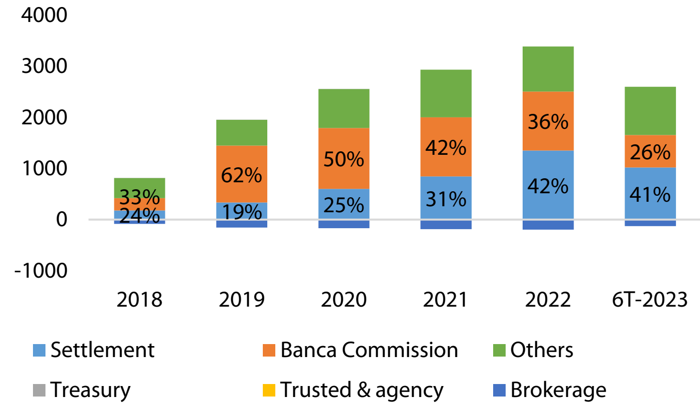
- *Settlement:* The expansion of credit cards, payment cards and catering corporate transactions has helped the payment service fee grow rapidly at a high rate in recent years (5Y CAGR 2017-2022: 67%). VIB's strategy for the near future is to increase customer base by collaborating with technology companies (leveraging AI and Big Data to solidify customer base), aiming to increase the number of cards (payment and credit) to over 2.5 million cards through digital channels, thereby increasing fee income from individual payment services.
- *Insurance commissions:* VIB and Prudential Vietnam started a long-term strategic partnership agreement and implemented a bancassurance business model from 2015. VIB is currently a primary bancassurance partner of Prudential - a company leading in new life insurance premium revenue in the first half of 2023 - alongside six other banks.
  The life insurance market has experienced some disruptions in 2023 following incidents of bancassurance. Additionally, the impact on people's income has slowed the demand for life insurance. In the first half of 2023, the total new premium revenue across the market was estimated at VND 15,508 billion (USD 640.4 million), a 38% YoY decrease, and VIB's net bancassurance commission income decreased by 43% YoY. These are also reasons why, in Q2-2023, VIB and Prudential extended their strategic cooperation agreement until 2036 to establish new standards for bancassurance in Vietnam (with criteria and conditions for monitoring advisory activities, ensuring a certain contract maintenance ratio). The upfront fee from this deal will be amortized evenly annually until the end of the cooperation period (2036), not including any bonuses that VIB may receive after achieving major milestones in sales. We believe that VIB will be able to maintain stable growth after 2024 thanks to the significant growth potential of the bancassurance model as the insurance penetration rate in Vietnam is still low.

Figure 33: NFI plays an important role in VIB's non-interest income structure



Source: VIB, Rong Viet Securities

Figure 34: NFI structure



Source: VIB, Rong Viet Securities

Financial analysis

Credit Market Share

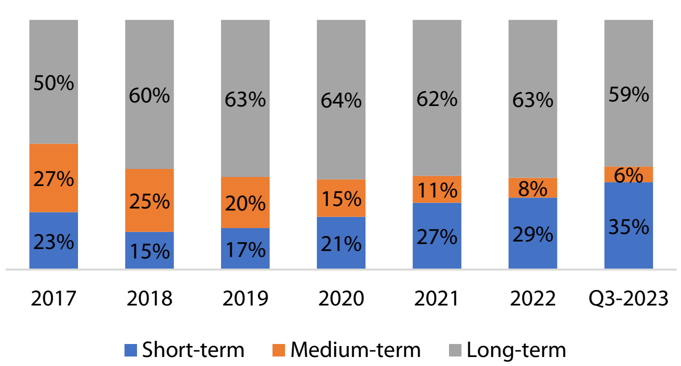
Since the merger with CBA's HCM branch in 2017, VIB has actively expanded its retail credit operations. While the customer loan to total asset ratio has maintained an average of 67% over the last 5 years, customer loans have grown with a CAGR of 24% from 2017 to 2022. As a result, VIB's credit market share for individual customers within the banking system (excluding Agribank due to the specific nature of personal loans) has steadily increased over the years, from 3.0% in 2017 to 5.1% by the end of 2022.

In terms of market share by product, we estimate that VIB's key product – home loans – achieved a market share of 5% in 2019, increasing to 6.4% in Q3-2023. For auto loans, VIB continues to lead the market with a market share of around 15% in Q3-2023, although it is no longer the prioritized credit growth product in the current period.

VIB's lending activities are prominently focused on extending credit to individual customers for real estate purchases, leading to high proportions of long-term loans.

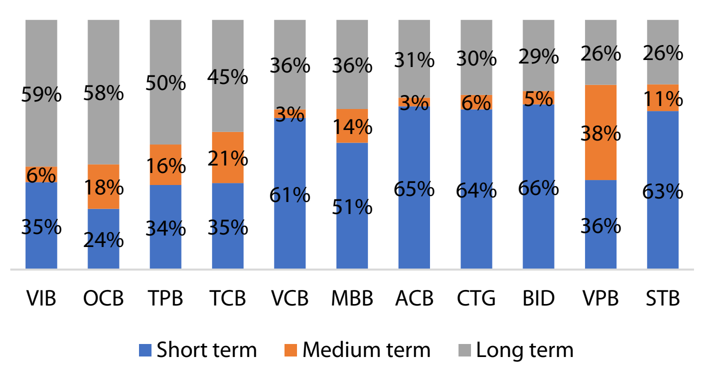
VIB's lending operations exhibit a considerable concentration in long-term loans, primarily driven by the substantial share of real estate purchase loans in its loan structure (as of Q3/2023: 46%). These loans typically have long-term durations, with a maximum term of 30 years. Consequently, the proportion of long-term loans at VIB has increased from 50% in 2017 to 63% in 2022 and stands at 59% as of Q3/2023. However, short-term loans have also experienced an uptick, rising from 23% at the end of 2017 to 35% by the end of Q3/2023. This aligns with the broader trend of increasing demand for credit card products, business loans, and notably, corporate loans in 2023. In general, VIB's loan portfolio structure, categorized by loan tenure, significantly deviates from the industry norm, with a heightened emphasis on long-term loans.

Figure 36: Long-term loans account for the largest proportion in VIB's credit structure



Source: VIB, Rong Viet Securities

Figure 37: Credit structure by term of commercial banks (Q3/2023)



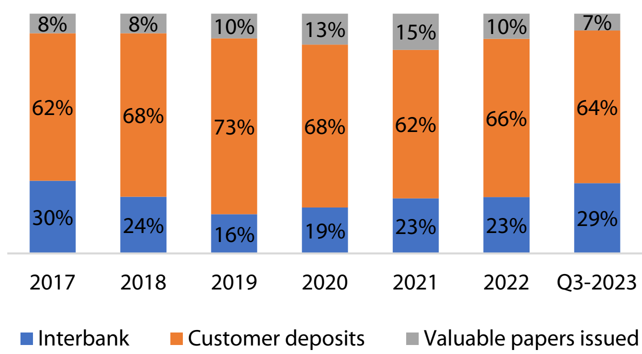
Source: Banks reports, Rong Viet Securities

Funds mobilization has shifted towards sources with lower interest costs.

VIB relies on two primary sources for capital mobilization: customer deposits and funds from other credit institutions. While the proportion of funds mobilized from customers has been maintained at just over 60%, there is a noticeable upward trend in the share of deposits and borrowings from other credit institutions, particularly during the period from 2020 to the first half of 2022 and 9M-2023. This rational reallocation is driven by the fact that interbank interest rates during these periods have remained below 1%, thanks to the State Bank of Vietnam's implementation of a easing monetary policy and ample liquidity in the banking system. The ratio of deposits and borrowings from other credit institutions has increased from 16% in 2019 to 29% as of Q3/2023. Conversely, the proportion of funds raised through the issuance of bonds began to decline in 2022, reaching 7% by the end of Q3/2023 – a period coinciding with the Federal Reserve's initiation of monetary policy tightening in response to inflation concerns.

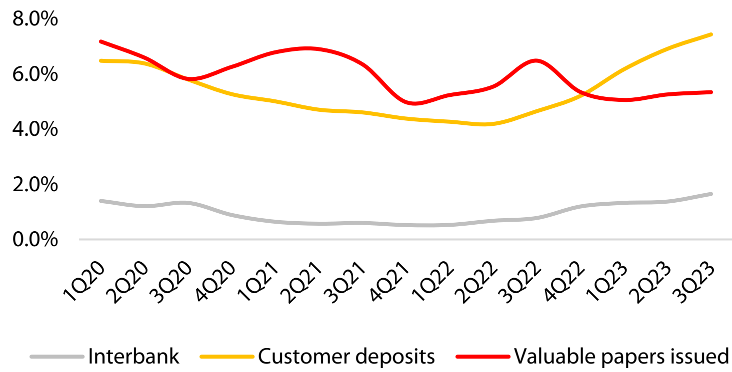
VIB's CASA ratio is not high, fluctuating around 12%-13% in recent years. In late 2022, the interest rate environment began to rise rapidly as the SBV consistently increased its policy rates. Consequently, the CASA ratio continued its downward trend from 13.7% at the end of 2022 to 13.0% in Q3/23. Additionally, economic challenges have constrained the production and consumption activities of businesses and individuals, further contributing to the reduction in the CASA ratio.

Figure 38: VIB mobilization structure



Source: VIB, Rong Viet Securities

Figure 39: Estimated cost of funds (TTM) by source

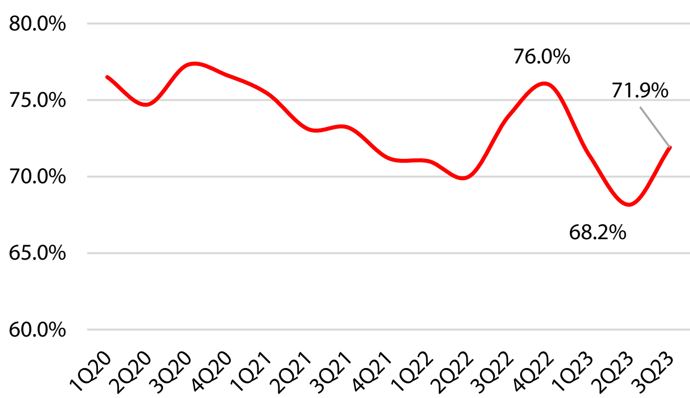


Source: VIB, Rong Viet Securities

Liquidity compliance aligns with SBV regulations.

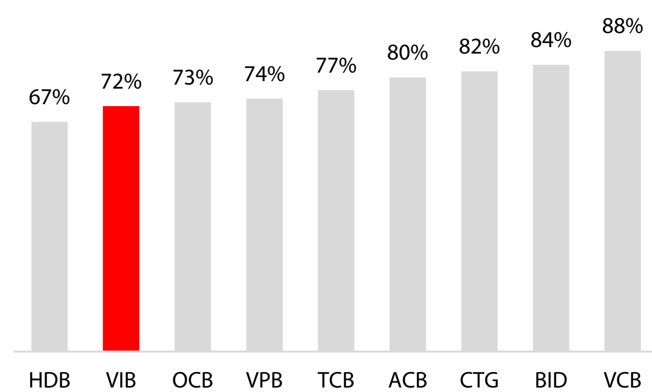
VIB has consistently maintained a Loan-to-Deposit Ratio (LDR) within the range of 70-75% over the past five years, demonstrating a relatively strong liquidity management capability. Despite the liquidity strain caused by the Van Thinh Phat event at the end of Q3/2022, which exacerbated systemic liquidity shortages, pushing VIB's LDR to 76% by the end of 2022, there has been a subsequent improvement in liquidity conditions. As of Q3/2023, the LDR stood at 71.9%, indicating a positive trend in liquidity management.

Figure 40: LDR ratio of VIB



Source: VIB, Rong Viet Securities

Figure 41: Comparison of LDR ratios of commercial banks (Q3/2023)

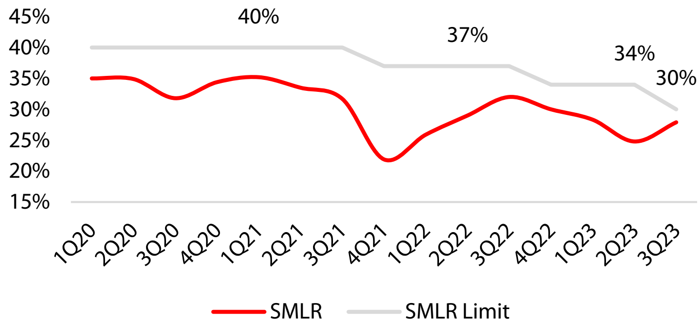


Source: Banks reports, Rong Viet Securities

The short-term capital for medium and long-term loans ratio (SMLR) remains within a safe threshold.

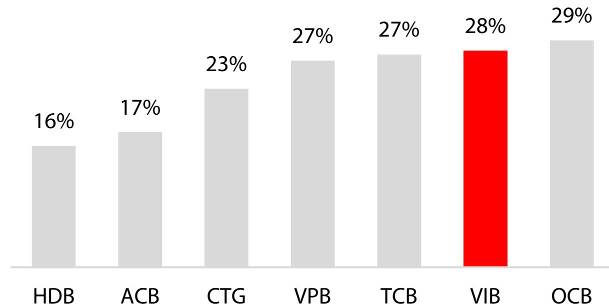
This ratio has shown a decreasing trend, dropping from 40.8% at the end of 2017 to 30% by the end of 2022, and as of Q3/2023, it stood at 27.9%, meeting the safety regulations set by the SBV. The maximum short-term capital ratio for medium to long-term lending has been consistently controlled and reduced by the SBV along a phased schedule, starting from 45% in 2018 (Circular 19/2017/TT-NHNN) and reaching 30% from October 1, 2023 (Circular 08/2020/TT-NHNN). With the ratio as of Q3/2023, VIB will face minimal pressure for restructuring its mobilization and lending portfolio according to the prescribed terms.

Figure 42: VIB's SMLR



Source: VIB, Rong Viet Securities

Figure 43: SMLR comparison between some commercial banks (Q3/2023)

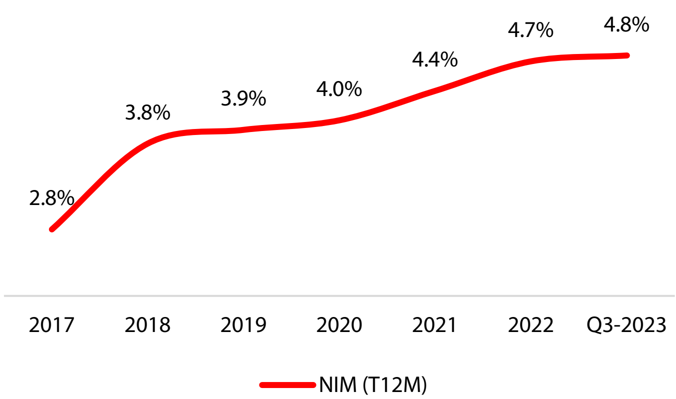


Source: Banks reports, Rong Viet Securities

NIM has been on an upward trajectory since 2017, experiencing significant improvement particularly from 2020 to the present.

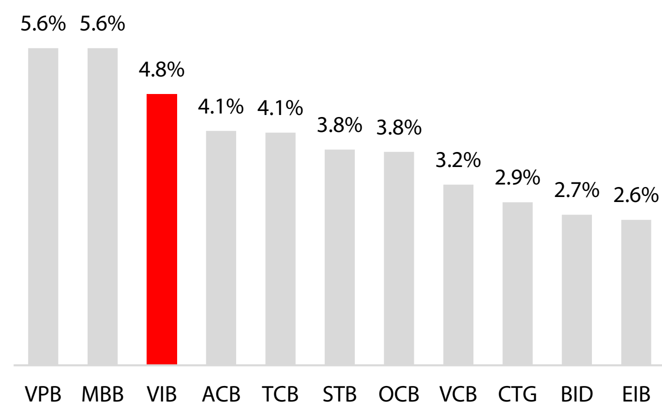
The primary driver behind this trend stems from the strong emphasis on retail lending, with the proportion of retail loans consistently increasing from 63% in 2017 to approaching 90% by end-2022. Additionally, there has been a rise in the share of short-term unsecured consumer lending products such as credit cards. Furthermore, leveraging interbank funding, as previously mentioned, has allowed VIB to lower the average cost of funds. During the era of low-interest rates in 2020-2021, the cost of funds gradually decreased from 5.2% to 3.7%, while the average lending rates remained steady, ranging from 10.3% to 10.9%. In the period from 2022 to the present, the cost of funds increased to 4.3% in 2022 and 5.65% in Q3/2023. However, VIB's NIM (TTM) even showed a slight improvement, reaching 4.8%, primarily driven by an increase of over 2.7 ppts in the average lending rates, compensating for the 2.3 ppts rise in the cost of funds.

Figure 44: VIB's NIM trend has continuously expanded since 2017



Source: VIB, Rong Viet Securities

Figure 45: NIM comparison with other commercial banks (Q3/2023)



Source: Banks reports, Rong Viet Securities

Asset quality deteriorated following a rapid increase in lending interest rates since Q4-2022.

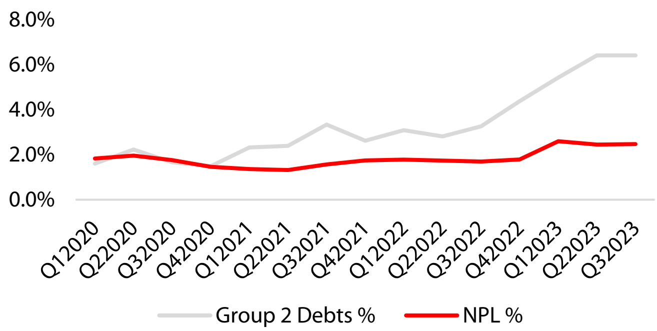
Against the backdrop of a weakened macroeconomic environment coupled with elevated interest rates from late 2022 to mid-2023, customers' ability to repay debt has diminished, impacting VIB's loan portfolio quality. Consequently, while VIB managed to control its NPL ratio at 1.8% at the end of 2022, it has experienced an increase of nearly 70 basis points, reaching 2.45% by the end of Q3/2023. Additionally, concerns persist regarding Group 2 overdue debts, which have seen a 2 ppts increase to 6.4% compared to the beginning of the year.

The Loan Loss Provision Coverage (LLC) ratio witnessed a decreasing trend.

Amid a challenging macroeconomic environment and a rapid increase in NPLs, VIB had to increase its provision for credit losses to over VND 3,150 billion (USD 130.1 million) in 9M-2023, marking a 3.4-fold increase compared to the same period last year. The credit cost to total outstanding loans ratio (TTM) has risen to 1.5%. Concurrently, the ratio of bad debts written-off to total outstanding loans (TTM) has also increased to 1.1% as of Q3/2023. However, both credit costs and the pace of NPL written-off remain lower than the internal NPL formation rate (2.7% in Q3/2023), leading to a decline in the LLC ratio from 54% in 2022 to 41% in Q3/2023.

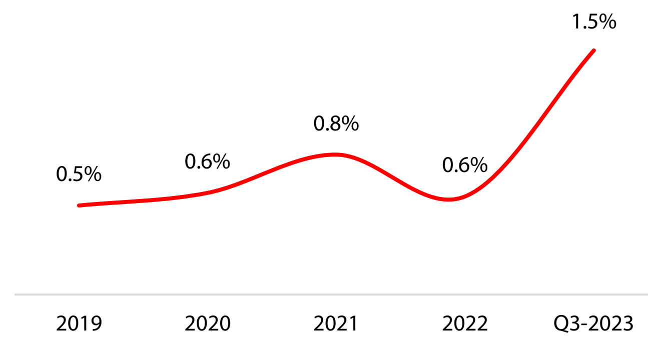
Given the relatively high NPL ratio at VIB and the currently low LLC ratio, we anticipate that the bank will need to increase provisions in Q4 of this year and the first half of 2024 to ensure that the NPL ratio trends towards the target of 2%.

Figure 46: The ratio of bad debts and Group 2 debts have increased rapidly in the last 12 months



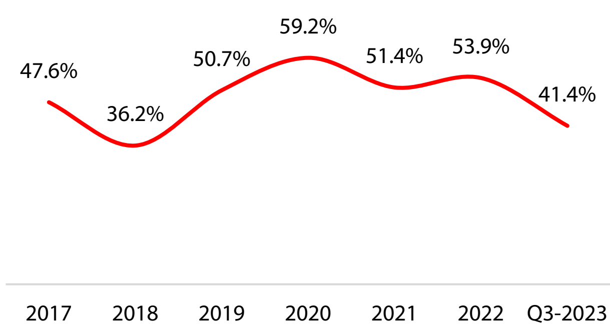
Source: VIB, Rong Viet Securities

Figure 47: Credit costs / Total loan to customers (TTM)



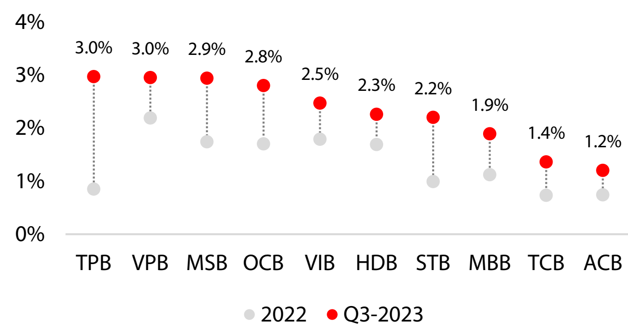
Source: VIB, Rong Viet Securities

Figure 48: LLC ratio of VIB



Source: VIB, Rong Viet Securities

Figure 49: The bad debt ratios at private commercial banks have increased in tandem since the end of 2022

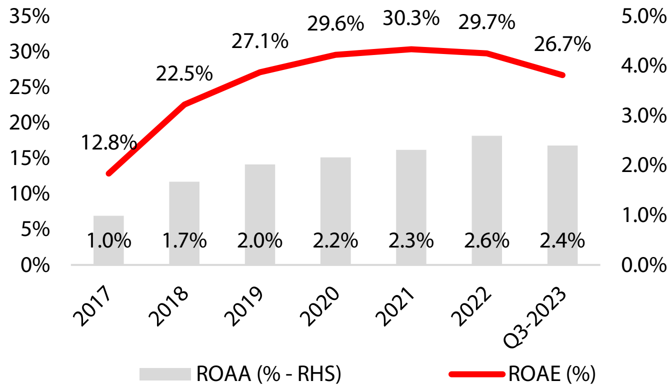


Source: Banks reports, Rong Viet Securities

Despite a slight decline in 2023, VIB's operational efficiency remains among the top performers.

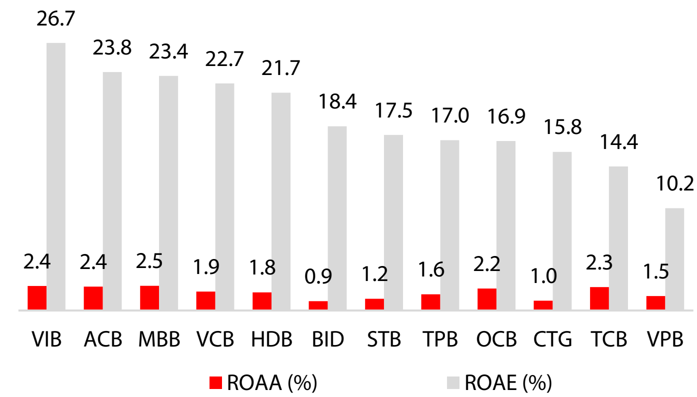
The CAGR of NPAT for the period 2017-2022 was an impressive 50%, reaching VND 8,469 billion (USD 349.7 million) by the end of 2022. Thanks to this robust growth, VIB's return on average assets (ROAA) and return on average equity (ROAE) have significantly improved since 2017. As of Q3/2023, VIB's ROAE and ROAA stand at 27% and 2.4%, respectively, positioning the bank at the leading group of the banking industry in terms of operational efficiency.

Figure 50: Operational efficiency (TTM) of VIB since 2017



Source: VIB, Rong Viet Securities

Figure 51: Operating efficiency compared to other commercial banks (Q3-2023)

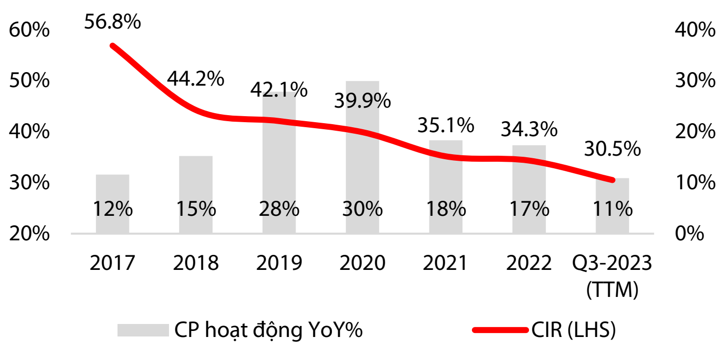


Source: Banks reports, Rong Viet Securities

Operating costs are consistently optimized

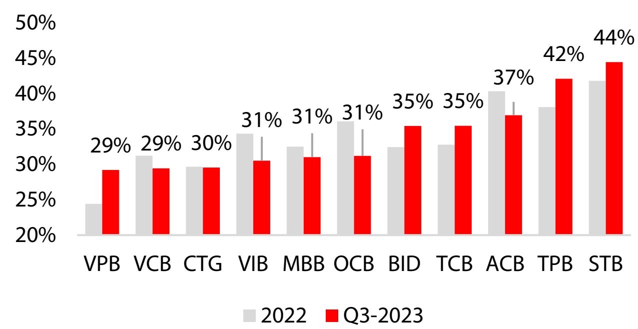
VIB has significantly optimized operating costs through its digital transformation efforts, resulting in a declining CIR over the years (from 56.8% in 2017 to 30.5% in Q3/2023), placing it among the lower range compared to other commercial banks. Furthermore, the intensified focus on digital transformation has allowed the bank to reach and enhance interactions with both current and potential customers without the need to expand its branch network or traditional transaction offices, thereby stabilizing operating costs. In fact, the current number of VIB branches and transaction offices is 178, representing an increase of only 17 points since the end of 2017.

Figure 52: CIR ratio and operating cost growth of VIB



Source: VIB, Rong Viet Securities

Figure 53: VIB's CIR ratio compared to other commercial banks



Source: Banks reports, Rong Viet Securities

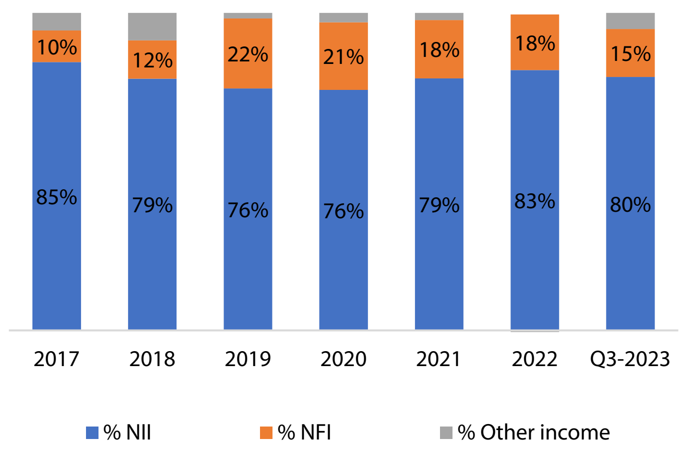
Contributions from non-interest income in total operating income (TOI) are relatively modest.

Fee-based income accounts for 15% of TOI in 9M-2023, primarily driven by contributions from net fee income related to payments and bancassurance commissions from strategic partner Prudential.

Income from foreign exchange, gold, and investment securities trading makes a very low contribution to the overall TOI structure. As of Q3/2023, VIB's investment portfolio mainly comprises bonds from other credit institutions, making up nearly 90%, government bonds accounting for 10%, and bonds from economic organizations holding a very small share of 2%.

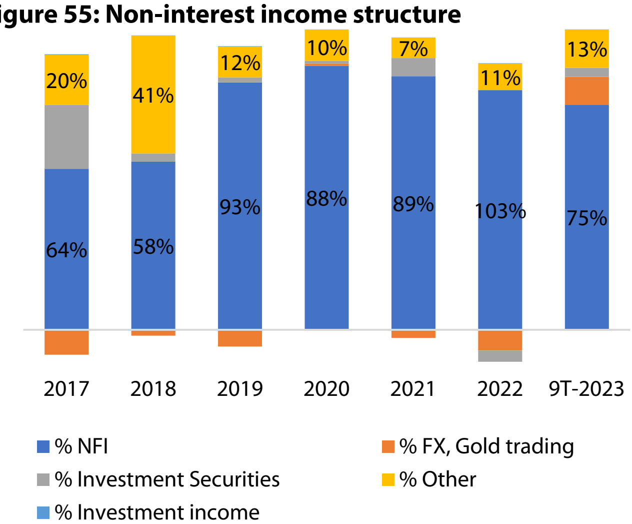
Other operating activities contribute more than 10% to VIB's non-interest income, thanks to activities related to the recovery of previously processed bad debts. We estimate that over the three years of the Covid pandemic, VIB recovered an average of about 20% of bad debts written-off in the two consecutive years prior.

Figure 54: TOI Structure



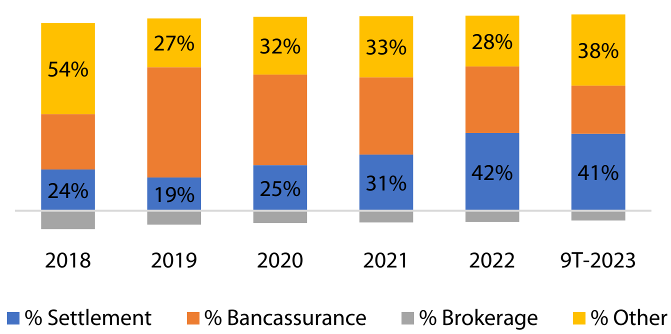
Source: VIB, Rong Viet Securities

Figure 55: Non-interest income structure



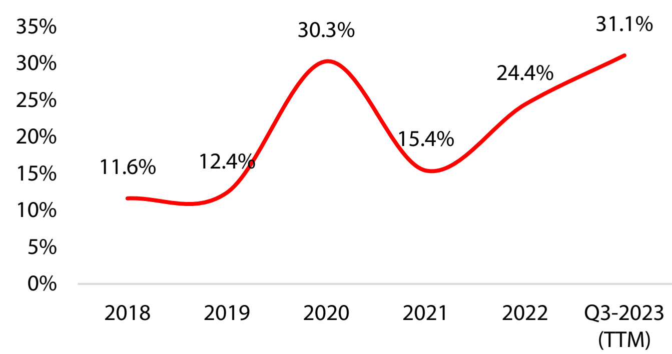
Source: VIB, Rong Viet Securities

Figure 56: NFI structure by services



Source: VIB, Rong Viet Securities

Figure 57: Bad debts recovery rate / total bad debts written-off in the previous two years



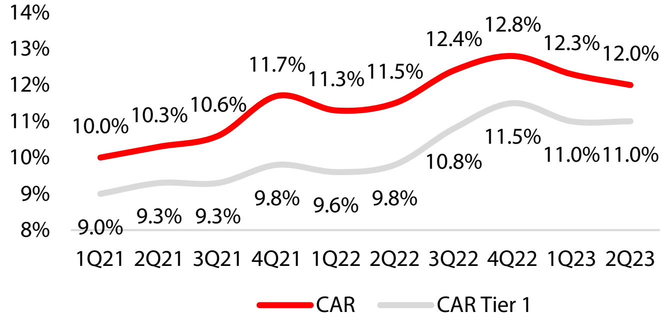
Source: VIB, Rong Viet Securities

The capital adequacy ratio at VIB remains within the safe threshold.

The bank has benefited from maintaining a high return on equity (ROE) and refraining from cash dividends in the years 2020-2022, resulting in a relatively abundant tier 1 capital that bolsters a significant improvement in CAR. Even after 15% of par value cash dividend payout, the CAR (Basel II) remains high, standing at 12.0% as of the end of September 2023, with a tier 1 capital adequacy ratio of 11%. VIB is expected to sustain a level between 12% and 13% in 2023, in compliance with the State Bank's regulations stipulated in Circular 41/2016/TT-NHNN, which sets a minimum requirement of 8%.

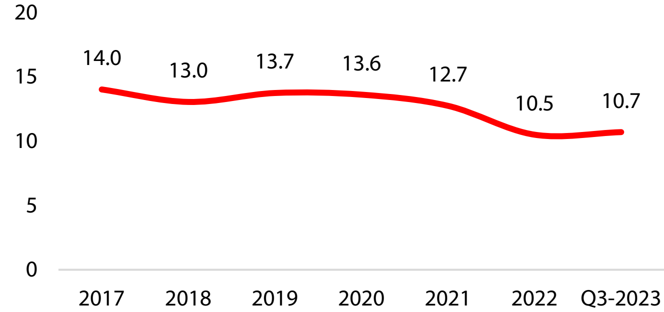
The leverage ratio of VIB has been trending downward over the years and is currently around 10.7 times. This decrease aligns with the industry-wide trend, where the overall capital buffer has been effectively strengthened from 2021 to the present. This improvement is attributed to moderate credit growth during this period, which has been lower than historical levels. The exceptional earnings growth in 2022, supported by an expanding Net Interest Margin (NIM), Non-Financial Income (NFI), and an improving Cost-to-Income Ratio (CIR), has contributed to this positive trend.

Figure 58: VIB's CAR (Basel II)



Source: VIB, Rong Viet Securities

Figure 59: VIB's leverage ratio



Source: VIB, Rong Viet Securities

2023F-24F Forecasts

As of the cumulative period ending in Q3-2023, TOI recorded a robust YoY growth of +22%, reaching VND 16.3 trillion (USD 673.1 million). However, NPAT increased only +7% YoY to VND 8.3 trillion, as credit risk provision expenses surged by 240% YoY. The breakdown is as follows:

- **Net interest income reached VND 13 trillion (USD 536.9 million), showing an +18% YoY growth** primarily driven by maintaining NIM at a high level of 4.8% in Q3-2023 (almost unchanged from the same period in 2022). Despite a 70 bps decrease in the CASA ratio to 13%, NIM maintained due to (1) a 2.0 ppts YoY increase in the average lending interest rate in 9M-2023, (2) leveraging interbank funding with very low interest rates.
- **Non-interest income exhibited strong growth, reaching +42% YoY, driven by profits from FX operations** (a profit of VND 304 billion (USD 12.55 million) compared to a loss of VND 223 billion in 9M-2022) and gains from trading government bonds (a profit of VND 99 billion (USD 9.21 million) compared to a loss of VND 79 billion (USD 3.26 million) in 9M-2022). Other income also saw substantial growth at +55% YoY, attributed to proactive bad debt recovery efforts. Fee-based income grew at a slow pace, +5% YoY, mainly due to a 23% YoY decrease in bancassurance commission following unfavorable developments in the life insurance market.
- **Operating costs have been optimized, with the Cost-to-Income Ratio (TTM) now standing at only 30.5%.**
- **VIB has adopted a more cautious approach in credit provisioning amid increasing NPL formation rate**. Credit risk provision expenses increased by 240% YoY, reaching VND 3.2 trillion (USD 132.14 million), and the NPL ratio at the end of Q3-2023 remained at 2.47%, unchanged from the previous quarter.

Table 1: VIB's 9M-2023 business results

Indicators	Q3-2023	YoY %	9M-2023	YoY %	Commentaries
Net interest income (NII)	4,321	13%	13,027	18%	Growth was mainly due to NIM being maintained despite reduced lending interest rates thanks to taking advantage of interbank funding, and on the other hand, reducing valuable paper balance (foreign currency debts).
Net Fee Income (NFI)	1,062	34%	2,467	5%	Led by other services (+21% YoY), when revenue from payments only up +7% YoY, and Banca down by -23% YoY.
Other income	641	-12962%	824	-2956%	Profits from FX operations and government bonds trading have contributed VND 400 billion to VIB, compared to a loss of VND 300 billion in the same period. Debt recovery from previously written-off bad debts reached VND 370 billion, showing an acceleration but still falling short of previous expectations (estimated at VND 900-1000 billion).
TOI	**6,024**	**30%**	**16,318**	**22%**	
OPEX	-1,717	3%	-4,840	5%	The Cost-to-Income Ratio (TTM) hit a historical low for the bank, standing at 30.5%.
Profit before provisions	4,308	46%	11,478	31%	
Provision for credit losses	-1,625	881%	-3,153	240%	Due to the low LLC ratio, VIB had to increase credit risk provisioning and write off bad debts to control NPL ratio within regulated limit.
PBT	**2,683**	**-4%**	**8,325**	**7%**	
Credit growth	5.1%	-9.4 ppts			The overall loan growth is being driven by a robust increase in lending to corporate customers (up by +44% YTD). However, the growth in retail credit has not shown significant improvement, increasing by only 0.5% YTD. This is impacted by a decline in auto loans (-16% YTD), while home loans grew by 2.6% YTD.

Mobilization growth	2.2%	-1.6 ppts	
NIM (T12M)	4.8%	0 bps	The NIM is being sustained as mentioned above
NPL	2.5%	+80 bps	The NPL ratio remained flat compared to the previous quarter despite a significant increase in credit provisions in Q3.

Source: VIB, Rong Viet Securities

Based on the above results, combined with a cautious view on asset quality, we forecast business results for both 2023 and 2024F and key assumptions as follows.

Table 2: Projection 2023F-24F

Targets	2023F	YoY %	2024F	YoY %	Note
Net interest income (NII)	16,742	12%	18,958	13%	Corporate lending will be optimized to promote credit growth in 2023. The real estate (condo and landed properties) prices in major urban areas have shown signs of reaching a bottom, indicating a resurgence in demand. Home loans may begin to witness signs of recovery in the coming year, potentially driving retail credit growth to reach 14% in 2024.
Service fee income (NFI)	3,378	6%	4.148	23%	The bancassurance commission is expected to recover with double-digit growth in 2024. VIB plans to allocate an estimated amount of VND 250-350 billion in upfront fees annually from now until 2036, not to mentioned potential bonuses.
Other income	1.141	-1326%	448	-61%	
Total operating income	**21,262**	**18%**	**23,554**	**11%**	
OPEX	-6,264	1%	-6,860	10%	
Profit before provisions	14,998	26%	16,693	11%	
Provision for credit losses	-4,204	229%	-2,391	-43%	We expect the internal bad debts formation rate to peak in 2023, aided by the lower lending interest rate environment, which will contribute to a considerable reduction in credit risk provisioning in 2024.
PBT	**10,793**	**2%**	**14,302**	**33%**	
Credit growth	14.2%	-30 bps	14.4%	+15 bps	
NIM (T12M)	4.6%	-15 bps	4.5%	-15 bps	We believe VIB will reduce lending rates and NIM to stimulate credit growth in 2024.
NPL	2,3	+60 bps	1.9	-40 bps	Expectations of bad debt formation rated have peaked in 2023.

Source: Rong Viet Securities

Credit growth. In the context of a sluggish macroeconomic environment in 2023, leading to significantly weaker consumer borrowing demand compared to previous years, VIB is less likely to fully utilize the granted credit growth quota (14.25%) if relying solely on personal credit growth as previous years. We estimate that personal lending growth will decelerate to 5.4%, primarily due to a substantial slowdown in key products such as home and auto loans. VIB will need to boost corporate customer credit (projected growth of 90%) to optimize the granted credit growth quota, expected to reach 14.2%.

For 2024, we anticipate an improved demand for home loans with real residential purpose as interest rates are expected to remain reasonably low (floating lending interest rates to be around 10%-12%).

Capital mobilization. To achieve the abovementioned credit growth, we project the mobilization growth rate of 18%/14% in 2023F/24F. Specifically, for 2023F/24F, customer deposits are expected to grow by 12%/10%, interbank funding to increase by 55%/25%, while valuable papers balance is projected to decrease by 30%/0%.

NIM. We expect that VIB will slightly narrow its NIM by reducing loan interest rates to promote credit growth for the next year. The NIM projection for 2023 is 4.6%, a 15 bps decrease from Q3-2023, and a further 10 bps decrease to 4.5% for 2024.

CIR. The optimization of CIR is prioritized. The forecast indicates that operating costs in 2023F and 2024F will increase by 1% YoY and 10% YoY, with the CIR maintained at 30%. Despite actively expanding the sales force in Q3-2023 in preparation for retail credit growth and bancassurance cross-selling activities, VIB has significantly improved its CIR from 34% in 2022 to 30.5% in Q3-2023.

Credit risk provisioning is likely to remain well-controlled in 2024, but there will be continued pressure in Q4-2023. The assumption is that credit provisioning costs in 2024 will decrease by 41% YoY to VND 2,400 billion (USD 99.1 million), corresponding to a credit cost of 0.9% (compared to 1.7% in 2023F). This expectation is based on the assumptions of a more stable macroeconomic outlook and an interest rate environment in 2024. Therefore, the estimated net NPL formation rate for 2023 is 2.2%, expected to decrease to around 1% in 2024.

Valuation and Recommendations

We utilize an equal weighting of the Target P/B valuation method and the Residual Income Model (RIM) to evaluate the fair value of VIB.

- Under the RIM approach, we assume a cost of equity (Re) of 15.2% and a long-term growth rate of 0.2%. The estimated share price is VND 25,300.

- For the P/B method, we apply a target P/B multiple of 1.3x, benchmarked against historical data correlating P/B with ROE since listed in 2018. This data indicates that for periods with an ROE above 25%, the lowest valuation for VIB was 1.2x, excluding Q1-2020 during the Covid outbreak when the P/B valuation was 1.0x. With a projected 2024F ROE of 26%, we believe a target P/B of 1.3x is prudent and reasonable.

We estimate the fair share price of VIB at VND 24,600 per share, implying a 2024F P/B of 1.3x at the target price, with **an expected total return of 35% as of December 20th, 2023**. We recommend **BUYING** this stock.

Table 3: Summary of valuation

Method	Target price	Weight	Weighted average
Residual income	25,300	50%	12,700
P/B Multiple (Target 1.3x @ BVPS 2024F: 18,580 VND)	23,900	50%	12,000
Total		**100%**	**24,600**
Implied 2024F P/B			1.3x
Current price			18,700
Cash dividends in the next 12M (VND per share)			600
Total expected return			**35%**

Source: Rong Viet Securities

Table 4: Cost of equity assumption

Criteria	5Y	> 5Y
Risk-free rate (Rf)	2.1%	2.4%
Market return (Rm)	14.6%	14.9%
Equity risk premium (ERP)	12.5%	12.5%
Beta	1.05	1.05
Cost of equity capital	**15.2%**	**15.5%**

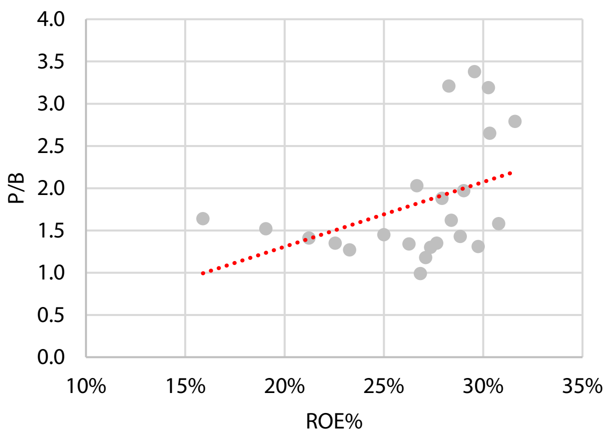
Source: Rong Viet Securities

Table 5: Residual income forecasts

	2023F	2024F	2025F	2026F	2027F	Terminal
Terminal growth	0.2%					
NPAT	8,637	11,445	13,863	15,832	17,346	17,385
Cash dividends	1,518	0	0	0	0	0
Retained earnings	7,119	11,445	13,863	15,832	17,346	
Equity at the beginning of the period	32,651	38,100	46,996	57,771	70,077	70,077
ROE	*24.4%*	*26.9%*	*26.5%*	*24.8%*	*22.8%*	*22.8%*
Re	*15.2%*	*15.2%*	*15.2%*	*15.2%*	*15.2%*	*15.5%*
Implied residual income	**3,004**	**4,452**	**5,287**	**5,518**	**5,301**	**33,409**

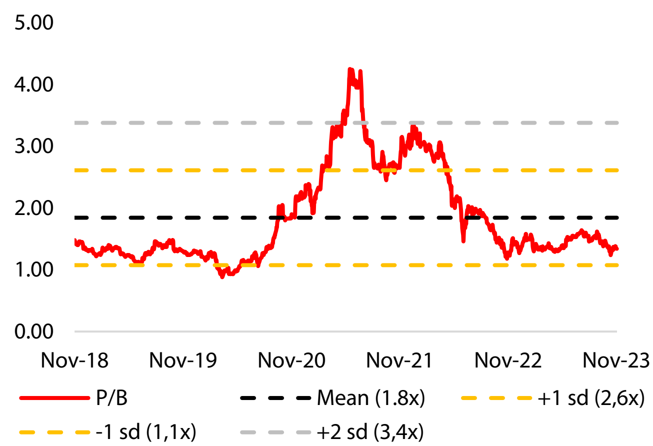
Source: Rong Viet Securities

Figure 60: The correlation between the historical valuation of P/B and ROE on a TTM basis, analyzed quarterly since 2018, indicates that for periods with an ROE exceeding 25%, the lowest P/B was 1.2x



Source: Fiinpro, Rong Viet Securities

Figure 61: VIB is trading at a P/B ratio of 1.3x, which is close to the lowest level within the last five years.



Source: Fiinpro, Rong Viet Securities

VND Bn

INCOME STATEMENT	FY2021A	FY2022A	FY2023E	FY2024F
Interest and Similar Income	20,975	27,509	36,113	39,427
Interest and Similar Expenses	-9,159	-12,547	-19,371	-20,469
Net Interest Income	**11,816**	**14,963**	**16,742**	**18,958**
Non-interest Income	3,075	3,095	4,520	4,596
Net fee and commission Income	2,742	3,188	3,378	4,148
Net gain/(loss) from foreign currency and gold dealing	-87	-275	448	-145
Net gain/(loss) from trading of securities	0	0	0	0
Net gain/(loss) from disposal of investment securities	197	-176	130	77
Net other income/expenses	221	355	561	513
Income from capital contribution	2	3	2	2
Total operating income	**14,891**	**18,058**	**21,262**	**23,554**
Operating expenses	-5,282	-6,197	-6,264	-6,860
Operating profit before provision	9,609	11,861	14,998	16,693
Provision expenses	**-1,598**	**-1,280**	**-4,204**	**-2,391**
Profit before tax	**8,011**	**10,581**	**10,793**	**14,302**
Corporate income tax	-1,601	-2,112	-2,157	-2,857
NPAT	**6,410**	**8,469**	**8,636**	**11,445**
Attributable to parent company	**6,410**	**8,469**	**8,637**	**11,445**

%

FINANCIAL RATIO	FY2021A	FY2022A	FY2023E	FY2024F
Growth				
Customer loans	18.6	14.9	14.0	15.1
Customer deposit	15.4	15.3	12.0	10.0
Net interest income	39.1	26.6	11.9	13.2
Operating income	32.8	21.3	17.7	10.8
NPAT	38.1	32.1	2.0	32.5
Total Assets	26.5	10.8	18.5	14.6
Equity	35.1	34.4	16.7	23.3
Profitability				
NIM	4.4	4.7	4.6	4.4
CIR	35.5	34.3	29.5	29.1
ROAE	30.3	29.7	24.4	26.9
ROAA	2.3	2.6	2.3	2.6
Asset Quality				
NPL ratio	1.7	1.8	2.3	1.9
Bad debt coverage ratio	51.4	53.9	57.5	49.3
Equity-to-Asset ratio	7.8	9.5	9.4	10.1
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	73.4	81.9	81.2	82.2
Customer LDR	116.2	116.0	118.8	123.6

VND Bn

BALANCE SHEET	FY2021A	FY2022A	FY2023E	FY2024F
Cash and precious metals	1,522	1,618	1,813	1,612
Balances with the SBV	24,891	10,063	7,845	8,629
Placements with and loans to other credit institutions	27,985	51,900	69,027	82,142
Trading securities, net	0	0	0	0
Derivatives and other financial assets	0	21	0	0
Loans and advances to customers, net	199,275	228,982	260,935	300,379
Investment securities	44,737	40,279	57,354	63,535
Investment in other entities and long-term investments	70	69	82	94
Fixed assets	604	700	812	931
Investment properties	3	3	0	0
Other assets	10,431	9,165	8,248	8,248
TOTAL ASSETS	**309,517**	**342,799**	**406,117**	**465,571**
Due to Gov and borrowings from SBV	0	0	0	0
Deposits and borrowings from other credit institutions	64,456	71,166	110,308	137,885
Deposits from customers	173,565	200,124	224,139	246,553
Derivatives and other financial liabilities	64	0	0	0
Funds received from Gov, international & other institutions	9	8	9	10
Convertible bonds/CDs and other valuable papers issued	42,298	31,775	22,242	22,242
Other liabilities	6,900	7,495	8,556	9,897
Total liabilities	**285,226**	**310,148**	**368,017**	**418,575**
Shareholder's equity	**24,291**	**32,651**	**38,100**	**46,996**
Capital	15,533	21,078	25,294	25,294
Reserves	1,787	2,518	3,263	4,250
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	6,971	9,055	9,543	17,452
Minority interest	0	0	0	0
LIABILITIES AND SHAREHOLDER'S EQUITY	**309,517**	**342,799**	**406,117**	**465,571**

VND Bn

FOOTNOTES	FY2021A	FY2022A	FY2023E	FY2024F
Interest Income	**20,975**	**27,509**	**36,113**	**39,427**
From customers	19,150	24,932	31,792	34,237
From other Cis	165	774	748	994
From fixed-income investment	1,628	1,754	3,523	4,146
From guarantee	0	0	0	0
From other activities	32	50	50	50
Interest Expenses	**-9,159**	**-12,547**	**-19,371**	**-20,469**
To customers	-7,093	-9,714	-16,543	-17,069
To other Cis	-278	-809	-1,407	-2,116
To fixed-income investment	-1,762	-1,979	-1,364	-1,223
To other activities	-26	-45	-58	-61
Operating expenses	**-5,282**	**-6,197**	**-6,264**	**-6,860**
Provision expenses	**-1,598**	**-1,280**	**-4,204**	**-2,391**

Company Report

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.

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

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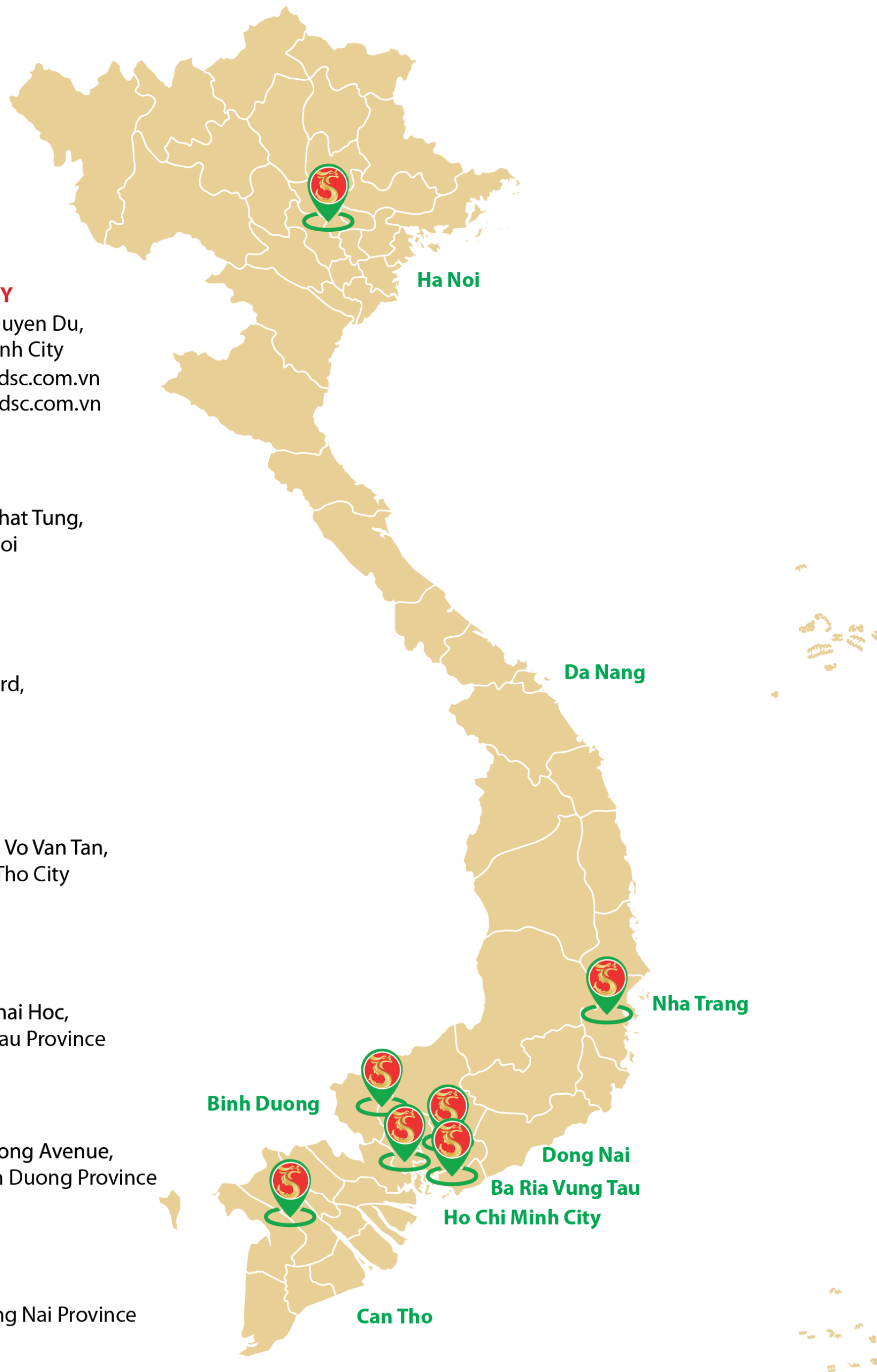

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