

01/10/2024

VPBankS Research



## VIET NAM INTERNATIONAL COMMERCIAL JS BANK (HOSE: VIB)

### Banks

#### STOCK RATING

# HOLD

Target price (12M)	21,786 <sup>d</sup>
Upside	12.88%
Previous close	19,300 <sup>d</sup>

### Adjusted expectations due to poor 1H2024 results

We update our valuation for VIB shares at VND21,786/share using the residual income discount method (RI), adjusted for dilution after VIB paid stock dividends and issued ESOP shares. At the same time, due to VIB's poor business performance in 1H2024, we adjust our forecast to a conservative scenario, recommending Hold.

#### Investment thesis:

- We still expect a recovery in VIB's consumer lending and card products when the economy recovers along with low interest rates. We have seen VIB deploy many programs to stimulate consumption such as launching the American Express cashback card according to customers' choices, sponsoring the Anh Trai Say Hi program, adding airport privileges at many international airports for the Travel Elite card, etc. Therefore, we expect that VIB's non-interest income this year, although affected by the fact that the banca market has not really recovered, will be offset by card fees and increased risk handling (write-off). We expect the Non-IL/TOI ratio to remain stable at 24% instead of 20% as in previous years.
- VIB's credit growth limit this year is the highest among banks at 16.1%. Because VIB has diversified 20% of its credit portfolio for corporate customers, and at the same time, has strength in consumer credit in the Southern region, we expect VIB to still be able to push the credit room up to 90% or more. Especially when people's purchasing power in the year-end credit season in the Southern region is not negatively affected by Typhoon Yagi as in the Northern region.

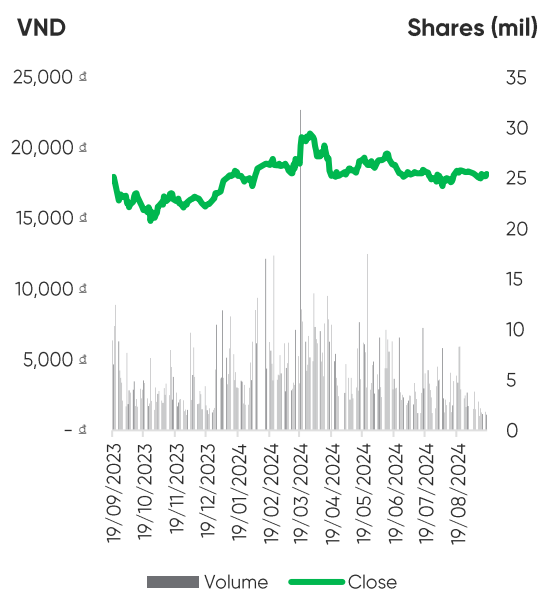
#### Risks:

- Due to VIB's strong price competition, NIM decreased by 50 bps yoy and 30 bps qoq, a decrease higher than our forecast. We assess that price competition in the financial industry is an unsustainable competitive method for VIB because VIB's capital costs are anchored at a high level. VIB will need to supplement its capital buffer in the coming years and diversify its capital mobilization structure to continue competing on price in the future.
- If VIB cannot optimally utilize its credit room, it will be pushed to other banks. The deterioration in asset quality leads to a sharp increase in provisions and affects the overall business results.
- Therefore, we adjust our profit before tax forecast to VND9,218 billion (-14% yoy), equivalent to completing 77% of the 2024 business plan.

#### TRADING INFO

Market cap (VNDb)	53,810 <sup>d</sup>
Outstanding shares	2,979,128,000
52W Average volume	5,448,899
52W High	21,026 <sup>d</sup>
52W Low	14,829 <sup>d</sup>
Beta	1.25

#### STOCK PRICE MOVEMENT



VNDb	1H2023	1H2024	% yoy
NII	8,706	7,981	-8.3%
TOI	10,294	10,358	0.6%
PBT	5,642	4,605	-18.4%
EPS	3,534	3,048	-13.7%
BVPS	13,367	15,118	13.1%
NIM	4.7%	4.2%	-10.6%
CIR	30.3%	35.5%	17.0%
ROA	2.7%	2.0%	-24.0%
ROE	29%	21%	-27.6%

#### Analyst

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## Completion status of 2024's guidance

Target	2024's guidance	Completed as of 1H2024	% completion
Total Asset	492,000	430,962	88%
Deposit	315,200	263,624	84%
Credit	320,600	274,589	86%
PBT	12,045	4,605	38%
NPL	< 3%	2.4%	Met

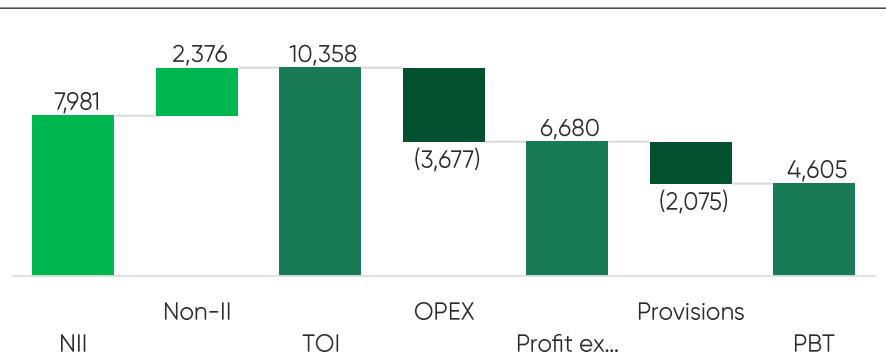
With the completion of 38% of PBT guidance in 1H2024, we believe that VIB will find it difficult to complete the 2024's guidance. At the same time, in the context of interest rates falling to the lowest level in history, special support for capital costs, VIB's NIM decreased by 50 bps yoy, showing that VIB is very competitive in price - a strategy that we believe is not very sustainable. Therefore, we lower VIB's PBT forecast for 2024 from VND12,036 billion to VND9,218 billion.

1H2024 results declined sharply compared to the same period, mainly due to a decrease of 8% yoy in net interest income, although non-interest income increased by 50% yoy, but due to the low proportion in operating income of only 23%, TOI only increased by 1% yoy. Meanwhile, operating expenses and provision expenses both increased sharply, at 18% and 36% yoy, respectively.

VIB's strength is its diversification of non-interest income, especially in card products, so the Non-Il/TOI ratio of 23% is high compared to the industry average of 21% in Q2/2024. However, marketing costs for these products are pushing VIB's CIR to a high level compared to the industry (VIB's CIR in Q2/2024 was 35.8%, much higher than the industry average of 31.8%). The high CIR is due to (1) VIB opening 14 new branches in 2024; (2) investing further in the core banking system; (3) In 2023 and 2024, VIB is the main sponsor of 2 programs: The Masked Singer and "Anh trai say Hi". VIB brand and card products are widely advertised to young and 'willing to spend' segments. Therefore, the number of newly opened credit cards of VIB has reached more than 300 thousand cards, the consumption value has reached more than 110 thousand billion in just the past year. Therefore, in our forecast, we do not adjust the forecast of VIB's non-interest income (maintained at 5,449 billion, completed 44% by the end of 1H2024).

### Figure 1. KQKD 1H2024

Unit: VNDb



Source: AR VIB, IR Pack, FS

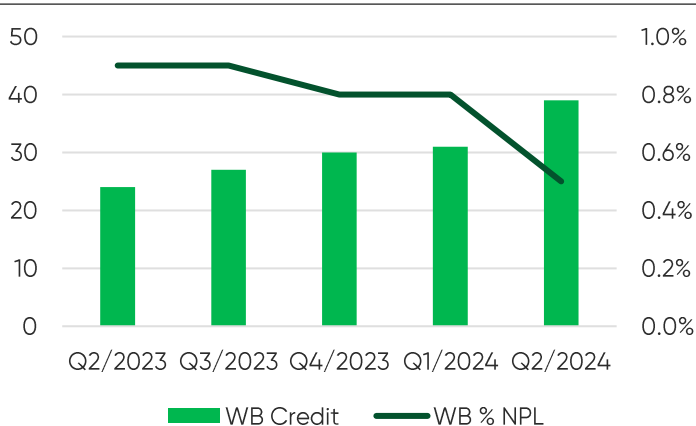
We expect VIB's credit growth to accelerate in 2H2024 because, similar to the past 5 years, 62% of the credit growth of the whole year was promoted by VIB in the last 6 months of the year, at the same time as the year-end consumer credit season. We also expect VIB's credit growth to be less affected by Typhoon Yagi because 60% of interest income is contributed by the Southern region. VIB's BoD also shared that the credit growth driving force in 2H2024 will be lending to townhouses, cars, promoting lending to financial companies (FI loan to Securities Companies, Asset Management Companies, Insurance Companies, etc.), lending to SMEs, and corporate customers. This year, we forecast VIB's loan growth to be equal to our industry-wide credit growth forecast of 14.8% - which is also the level VIB achieved last year.

The corporate customer segment increased outstanding loans well with a growth rate of 25% yoy, reaching nearly 40 trillion VND, maintaining a proportion of 19.4% and will maintain this level or increase to around 20% in the coming time. In particular, outstanding loans of the corporate customer segment have a very low NPL rate, only 0.5% at the end of Q2/2024. Regarding lending industries, the agricultural and industrial production sector reached 19.8 trillion VND, up 19.3% yoy. Real estate and construction loan reached 8,340 billion VND, up 1.3 times over the same period. FI loan is a tool to promote credit in 1H2024 of the banking industry in general, VIB is no exception when increasing loans of this sector by 9.2% yoy, reaching 10,630 billion VND. However, lending to households and personal consumption only increased by 1.6% yoy despite accounting for 80.55% of total loan. Therefore, in 1H2024, VIB's NII decreased by 8.3% yoy due to a 17% yoy decrease in interest revenue despite a 25% yoy decrease in interest expenses thanks to low deposit interest rates. Revenue from customer loans reached VND 13,558 billion (-15% yoy), revenue from investment securities reached VND 1,222 billion, down 40% yoy. VIB's NIM decreased by 50 bps yoy, 30 bps qoq, to 4.2% and will try to maintain the level of 4-4.2% for the whole year as VIB chooses to compete with price. We also forecast 2024F NIM to be 4.2%.

**Better credit growth expected in 2H2024 but NIM will still be at 1H2024 level**

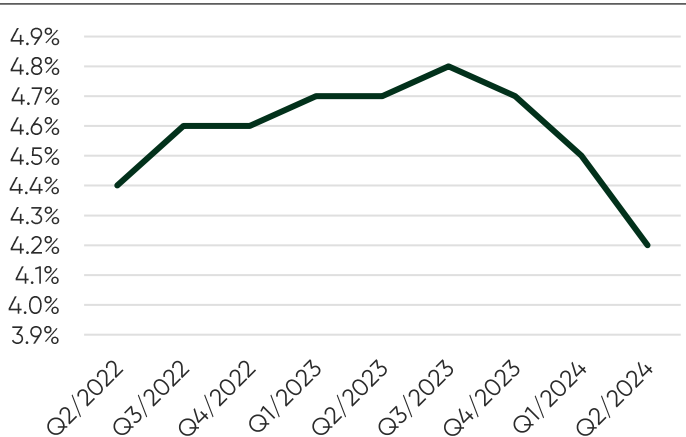
**Figure 2. Tín dụng và tỷ lệ nợ xấu dư nợ KHDN**

Unit: nghìn VNDb; %



**Figure 3. NIM hợp nhất**

Unit: %

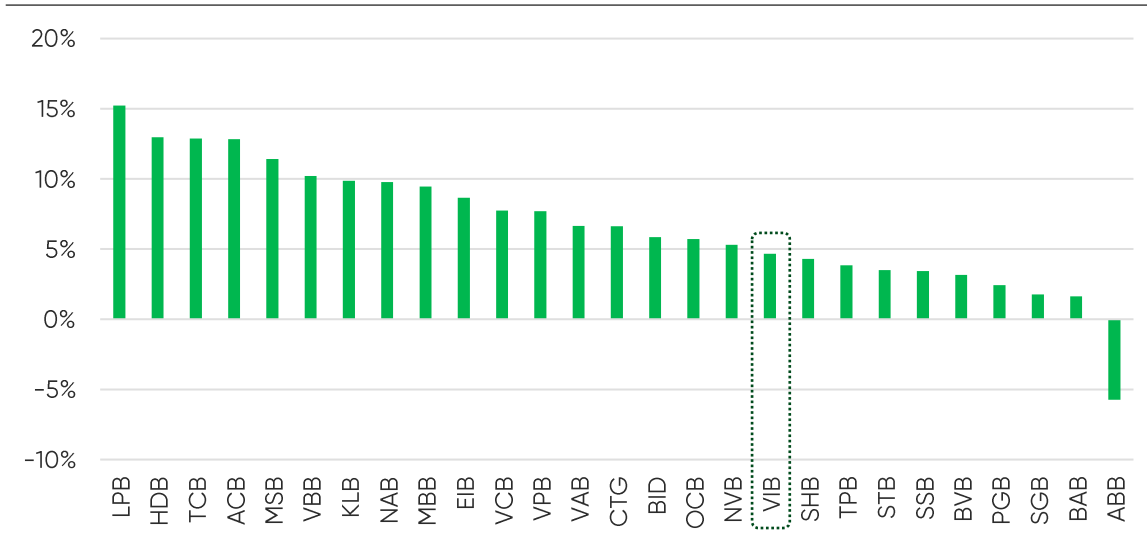


Source: IR Pack, FS

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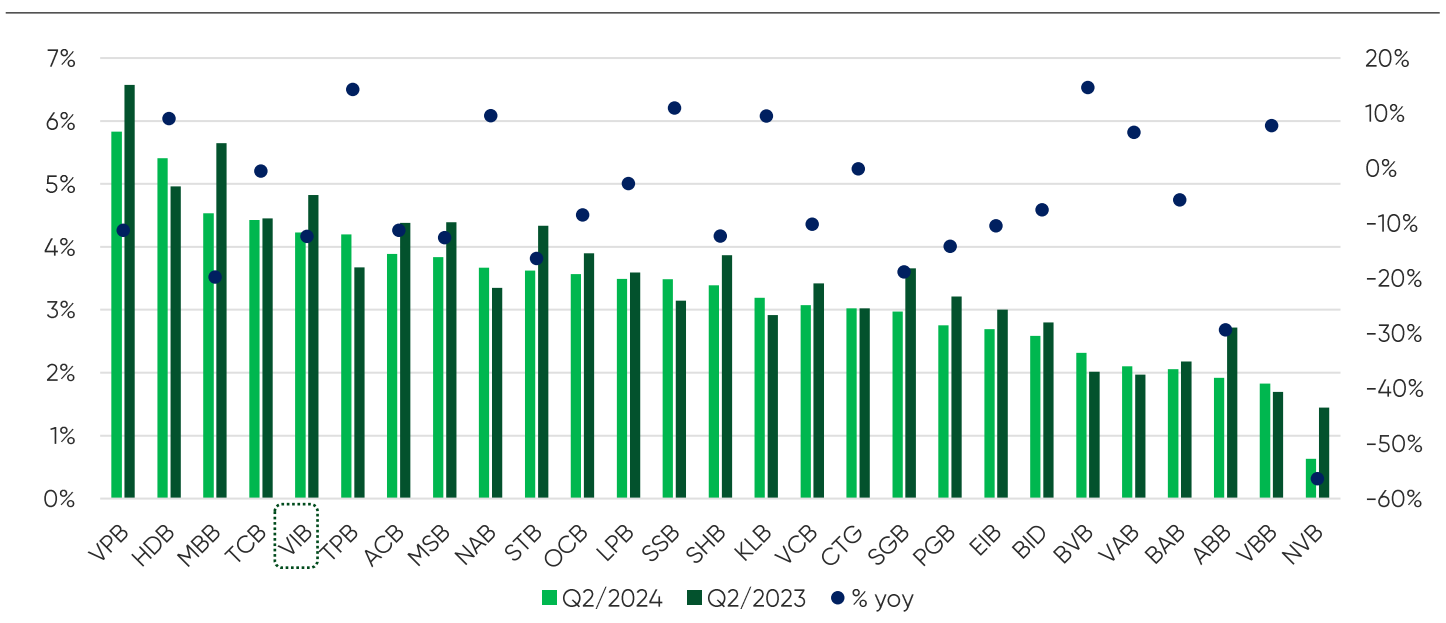
**Figure 4. Credit growth Q2/2024**

Unit: % ytd



**Figure 5. VIB is among the majority of banks with lower NIM compared to the same period last year**

Unit: %



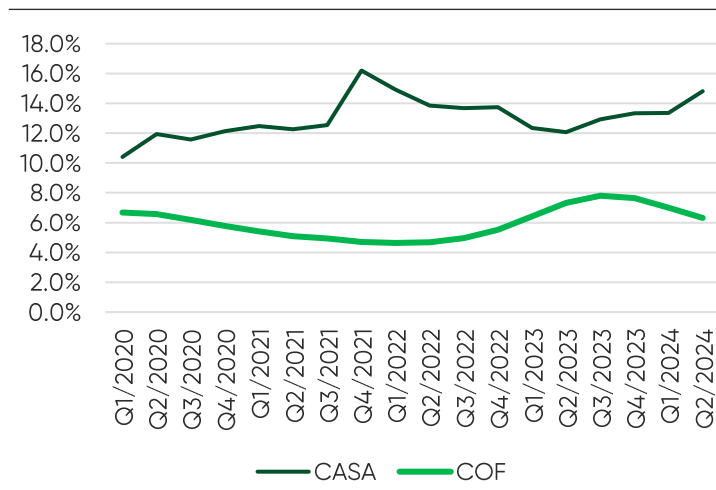
Source: FS

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VIB's strategic shift from retail to partial wholesale has initially paid off, as evidenced by strong growth in CASA and foreign currency deposit from corporate customers (+56% yoy; +17.5% qoq). This shift has not only improved the bank's overall funding stability but also significantly reduced its cost of funds (COF decreased by 130 bps ytd at the end of Q2) and increased its CASA ratio (up 140 bps ytd, reaching 14.8%).

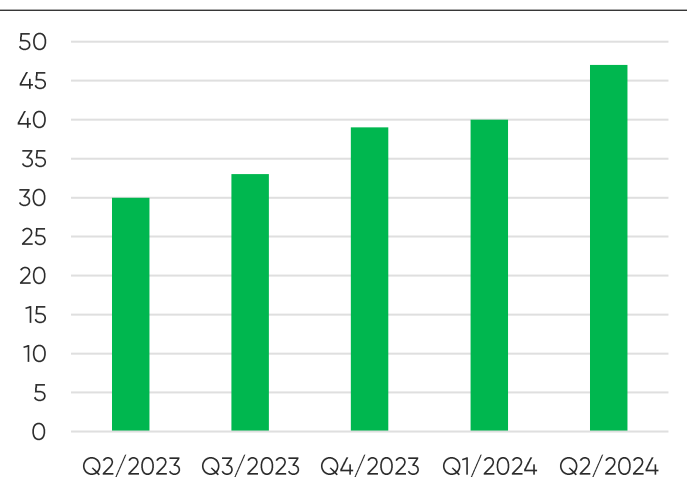
**Figure 6. Consolidated CASA and COF**

Unit: %



**Figure 7. WB CASA & FCY Deposit**

Unit: VND trillion

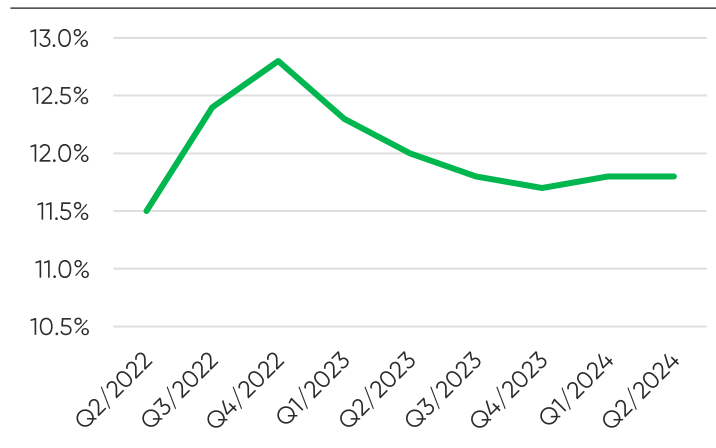


VIB has increased its charter capital from VND25,368 billion to VND29,791 billion through the issuance of bonus shares to existing shareholders (VND4,313 billion) and the issuance of ESOPs. At the same time, the divestment of strategic shareholder CBA will also bring some capital to VIB, supporting CAR to increase to over 12% in 2024.

VIB will also not be under liquidity pressure this year when credit growth is boosted in 2H2024 because LDR is at 72%, much lower than the SBV's ceiling of 85%, the ratio of short-term capital for medium and long-term loans is also at 26%, below the ceiling of 30%, hence there is still much room for growth.

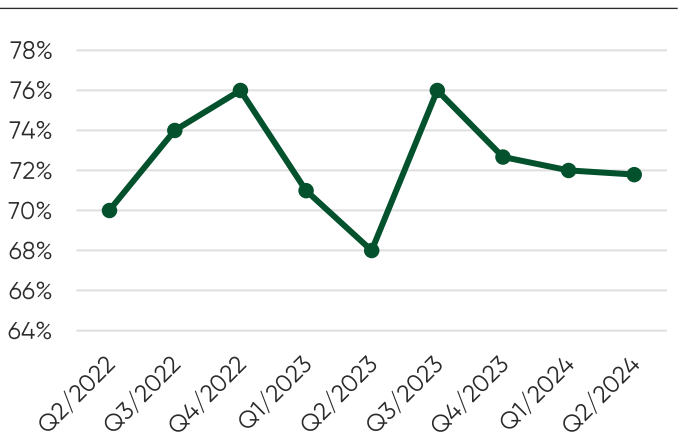
**Figure 8. Consolidated CAR Basel II**

Unit: %



**Figure 9. Consolidated LDR**

Unit: %



Source: IR Pack, FS

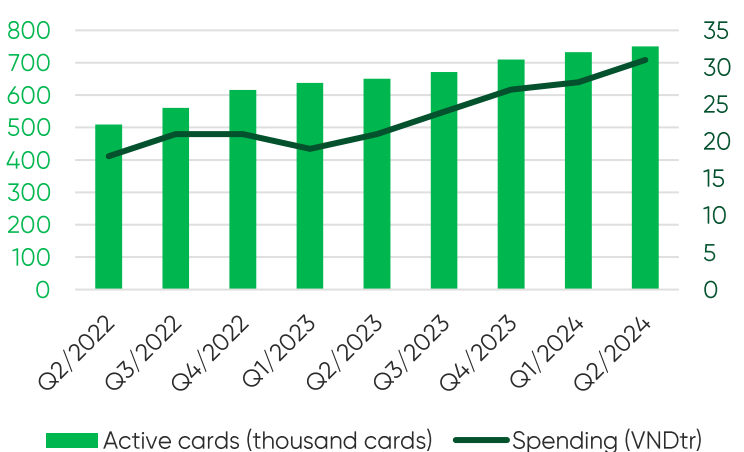
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In 1H2024, payments income decreased by 5.7% yoy although spending via VIB cards reached nearly 59 trillion VND (more than 2.3 billion USD). The increase in the number of issued cards and quarterly spending value shows the positive results of promoting the design of features, and incentives for cardholders. However, in the short term, VIB is incurring many investment costs for these products, such as sponsoring the "Anh Trai Say Hi" program, along with investing in 14 new branches and core banking system, thereby increasing the CIR ratio to 36% by the end of Q2/2024. We expect these programs to bring profits to VIB soon, and CIR is expected to return to a downward trend in 2025, while in 2024, we still forecast CIR at 35%.

**Efforts to maintain TOP 5 card sales are raising costs**

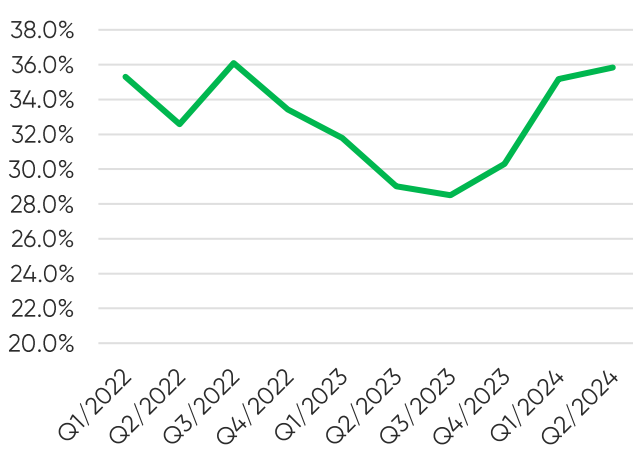
**Figure 10. Credit card products are doing well**

Unit: thousand cards; VND trillion



**Figure 11. Consolidated CIR**

Unit: %



Source: IR Pack, FS, VIB

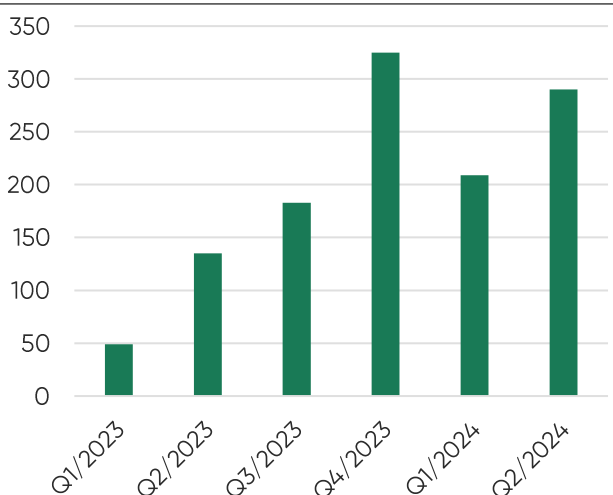
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Other income grew by 145% yoy, mainly due to debt recovery income growing by 170% yoy, reaching VND498.6 billion, accounting for 94% of other income. At the same time, group 2 debt also decreased by 18% qoq, showing that risk management policies are effective and the market is recovering. NPL according to Circular 11 increased by 24 bps ytd to 2.44%, approaching 3%. Of which, 80% of NPL comes from the retail segment, so VIB has actively increased provisions with 95% of provision expenses allocated to retail. We assess that VIB is exposed to a fairly large economic cycle risk, so pure NPL in 2024 (group 3-5 debt on total outstanding debt) is forecast at 3.8%.

**Besides rising operating costs, provision costs also increased by 36% yoy**

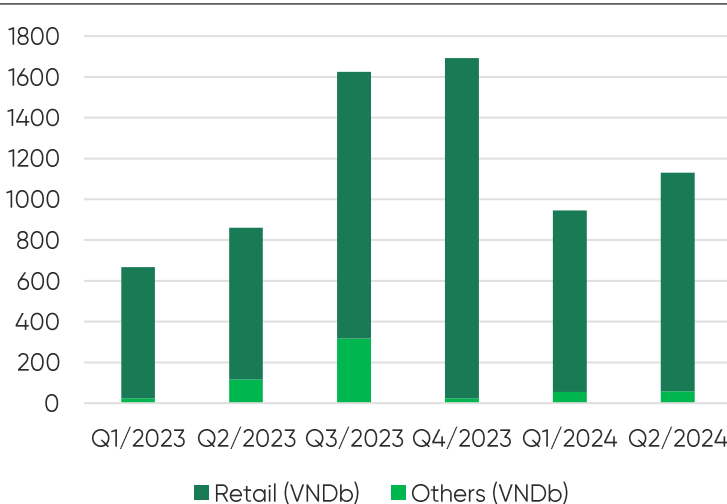
**Figure 12. Recovery income**

Unit: VNDb



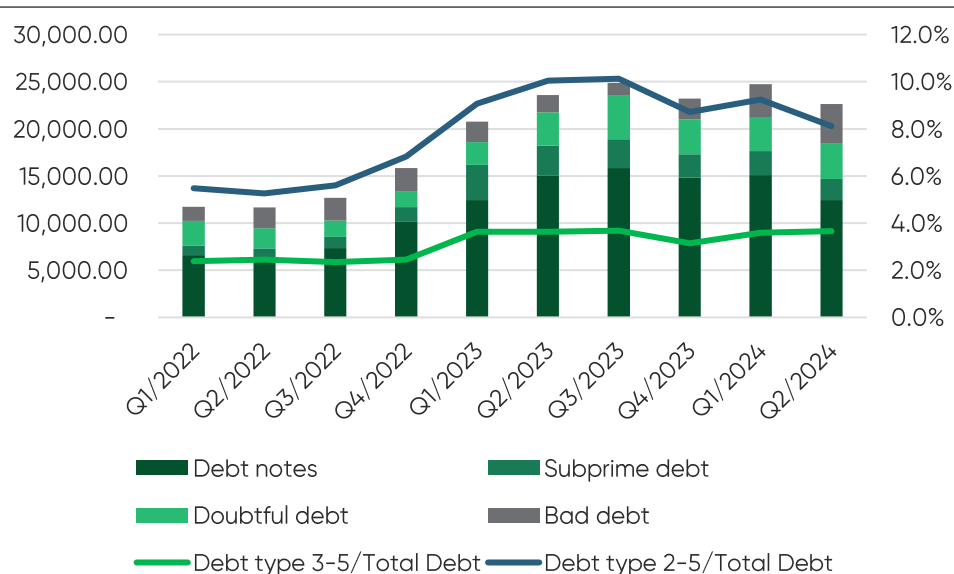
**Figure 13. Provisions structure**

Unit: VNDb



**Figure 14. Overdue debt structure**

Unit: VNDb; %



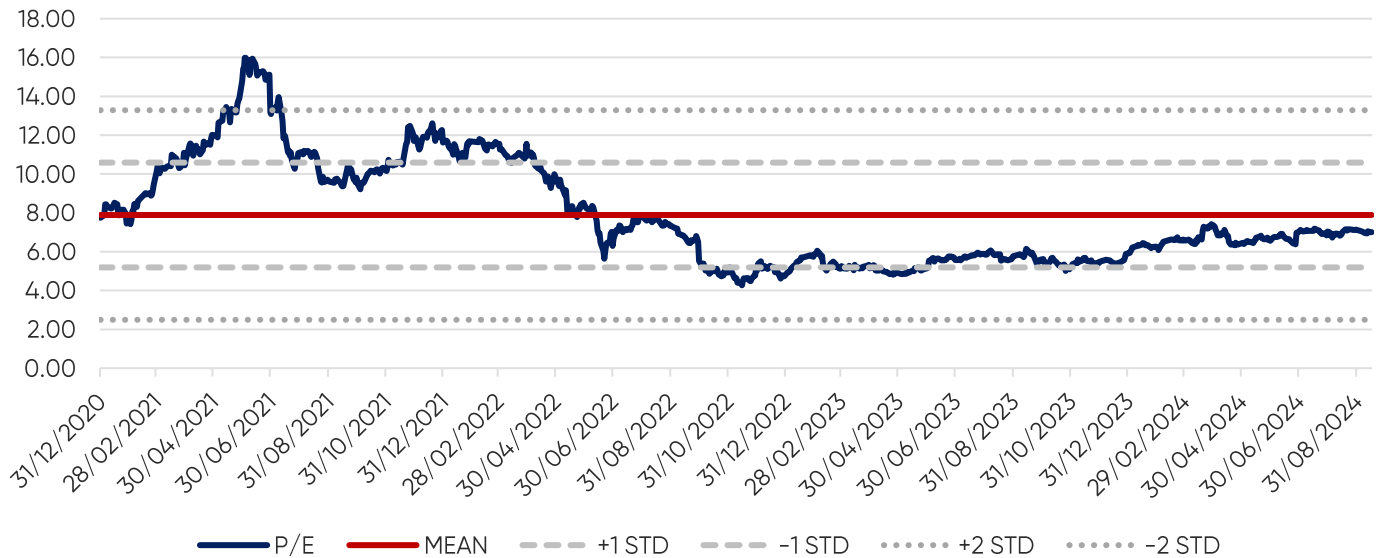
**Bad debt is still on the rise because 80% of credit is retail**

Source: IR Pack, FS

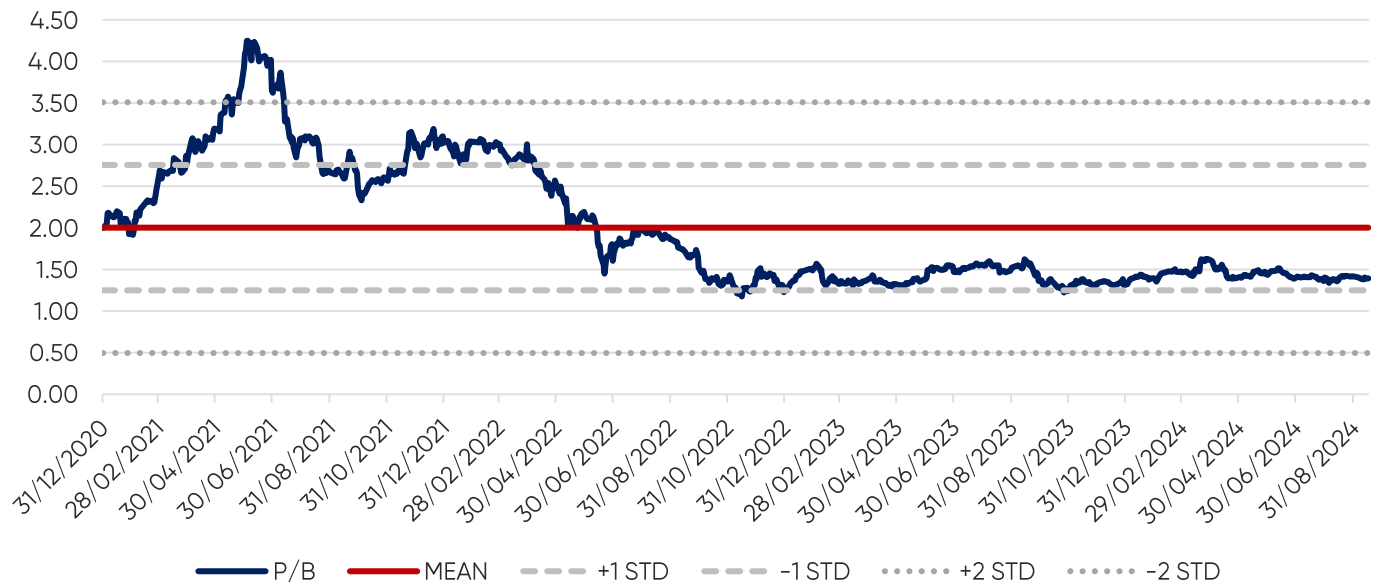
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**Figure 15. P/E movement**

Unit: time

**Figure 16. P/B movement**

Unit: time



VIB's P/B is attractive compared to history, approaching -1 STD. Current P/B (1/10/2024) is 1.31, lower than the industry average of 1.5. Current P/E (1/10/2024) is 7.53, approaching the 5-year average. Overall, VIB is still trading at a fairly attractive level compared to historical valuation.

Source: Bloomberg

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## VALUATION: RESIDUAL INCOME VALUATION METHOD

### VPBankS Research's Assumptions

Based on VIB's most recent business results and a cautious assessment of its business prospects in the coming years, we forecast that VIB's business results in 2024 will complete about 77% of the PBT guidance, mainly due to the decline in net interest income from VIB's price competition strategy. However, we still expect VIB to have driving forces from card products and from the corporate customers' credit. Key forecast assumptions are followed:

- NIM: 4.2%, according to BOD's guidance
- Growth in Customer Deposits was 11.3%
- Growth in Customer Loans was 14.8%
- CIR: 35%
- NPL: 3.8%

	2019	2020	2021	2022	2023	2024F
NIM	3.85%	4.51%	4.82%	5.00%	4.82%	<b>4.20%</b>

### Summary of comparables

We use the comparison sample of listed banks on the Vietnamese stock exchange. In which, the comparison indicators including P/E and P/B are taken from the updated value to the current valuation time. We note that VIB is trading at a quite high P/B compared to other private banks of the same size and the trading P/B is still lower than the average of the entire banking industry at 1.5.

Ticker	P/E	P/B	Assumption	New	Old	Change
ACB	6.72	1.42	<b>NIM</b>	4.2%	4.5%	-30 bps
HDB	6.00	1.40	<b>Deposit Growth</b>	11.5%	4.5%	+7%
MBB	5.73	1.19	<b>Loan Growth</b>	14.8%	16.1%	-1.3%
MSB	6.19	0.89	<b>CIR</b>	35%	30%	+5%
SHB	5.39	0.78	<b>NPL</b>	3.8%	3.8%	-
STB	6.85	1.13	<b>LNTT</b>	9,218	12,036	-23%
TCB	8.33	1.21				
TPB	8.39	1.11				
<b>VIB</b>	<b>7.53</b>	<b>1.31</b>				
VPB	12.26	1.07				
<b>MEAN</b>	<b>7.34</b>	<b>1.15</b>				
<b>MEDIAN</b>	<b>6.78</b>	<b>1.16</b>				

Source: Bloomberg

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## APPENDIX – CONSOLIDATED FINANCIAL STATEMENT

VNDb	2022	2023	2024F	VNDb	2022	2023	2024F
<b>Balance Sheet</b>				<b>Profit and Loss Statement</b>			
Cash and gold	1,618	1,681	2,337	Interest and similar income	27,509	35,568	35,299
Balances with the SBV	10,063	8,218	9,685	Interest and similar expense	(12,547)	(18,207)	(18,100)
Balances with and credit granting to other CIs	51,900	68,198	51,076	<b>Net interest and similar income</b>	<b>14,963</b>	<b>17,361</b>	<b>17,199</b>
Held-for-Trading Securities	0	0	0	Fee and commission income	4,529	4,801	5,937
Derivatives and other financial assets	21	157	50	Fee and commission expense	(1,341)	(1,475)	(1,439)
Loans to customers	228,879	262,075	302,305	Net fee and commission income	3,188	3,327	4,497
Investment Securities	40,279	60,988	66,323	Net profit/(loss) from trading of foreign currencies	(275)	548	42
Long-term investments	69	69	69	Net profit/(loss) from Held-for-Trading securities	0	0	0
Fixed Assets	700	756	912	Net profit/(loss) from investment securities	(176)	130	76
Other assets	9,270	7,739	10,731	Net profit/(loss) from other operating activities	355	792	831
<b>TOTAL ASSETS</b>	<b>342,799</b>	<b>409,881</b>	<b>443,489</b>	Income from investments in other entities	3	3	3
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>342,799</b>	<b>409,881</b>	<b>443,489</b>	<b>TOTAL OPERATING INCOME</b>	<b>18,058</b>	<b>22,160</b>	<b>22,648</b>
Due to the Government and the SBV	0	0	0	<b>TOTAL OPERATING EXPENSE</b>	<b>(6,197)</b>	<b>(6,611)</b>	<b>(7,927)</b>
Deposits and borrowings from other financial institutions and other CIs	71,166	98,640	89,209	<b>Net profit before provision for credit losses</b>	<b>11,861</b>	<b>15,550</b>	<b>14,722</b>
Deposits from customers	200,124	236,577	263,426	Provision expenses for credit losses	(1,280)	(4,846)	(5,503)
Derivatives and other financial liabilities	0	0	21	<b>PROFIT BEFORE TAX</b>	<b>10,581</b>	<b>10,704</b>	<b>9,218</b>
Other borrowed and entrusted funds	8	7	15	Corporate income tax expense	(2,112)	(2,141)	(1,842)
Valuable papers issued	31,775	23,897	34,670	<b>PROFIT AFTER TAX</b>	<b>8,469</b>	<b>8,563</b>	<b>7,376</b>
Other liabilities	7,075	12,821	10,249	Non-controlling interests	0	0	0
<b>TOTAL LIABILITIES</b>	<b>310,148</b>	<b>371,942</b>	<b>397,590</b>	<b>Net profit of the Bank's Shareholders</b>	<b>8,469</b>	<b>8,563</b>	<b>7,376</b>
Share capital	21,078	25,370	29,682	<b>Growth</b>			
Charter Capital	21,077	25,368	29,681	Deposits	15.3%	18.2%	11.3%
Share premium	2	2	2	Credit	15.1%	14.8%	14.8%
Treasury shares	0	0	0	Total Assets	10.8%	19.6%	8.2%
Reserves	2,518	3,470	4,577	Total Equity	34.4%	16.2%	21.0%
Preferred equity	0	0	0	NII	26.6%	16.0%	-0.9%
Other capitals	0	0	0	OPEX	17.3%	6.7%	19.9%
Retained earnings	9,055	9,099	11,640	PBT	32.1%	1.2%	-13.9%
Non-controlling interests	0	0	0	Net Profit	32.1%	1.1%	-13.9%
<b>TOTAL OWNERS' EQUITY</b>	<b>32,651</b>	<b>37,940</b>	<b>45,899</b>	<b>Capital</b>			
<b>Capital</b>				<b>Profitability</b>			
CAR	12.8%	11.7%	12.8%	NIM	5.0%	4.8%	4.2%
Asset/Equity	11.5	10.7	10.2	Non-II/TOI	17.1%	21.7%	24.1%
<b>Asset quality</b>				ROAA	2.6%	2.3%	1.7%
NPL	2.5%	3.1%	3.8%	ROEA	29.7%	24.3%	17.6%
LLR	54%	51%	58%	<b>Valuation Multiples</b>			
<b>Liquidity</b>				P/E	3.63	5.81	7.85
Loan to Deposit Ratio - LDR	93.7%	93.2%	92.2%	P/B	0.93	1.31	1.26
				BVPS	15,492	14,956	15,464

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