

Vietcombank (HSX: VCB)

- We expect VCB's net profit in 2025 to increase by 15% yoy thanks to sustained credit demand of 13% and NIM improvement of 13 bps.
- VCB's asset quality continues to lead the industry with the highest LLR ratio (212%) in peer average and group 2 debt decreased sharply since 2Q24.
- Upgrade to ADD rating with TP of VND110,500/share

2Q24 business results in-line with our forecasts

In 2Q24, total operating income (TOI) reached 13,908VNDbn (-4.1% yoy), of which net interest income (NII) decreased slightly 1% yoy due to NIM narrowing by 15 bps yoy. While non-interest income (NOII) declined 18% yoy in 2Q24 mainly driven by 1) -7.5% yoy in net fee income, 2) -21.5% yoy in FX trading gain and 3) -90.6% yoy in net other income. VCB sharply cuts provisioning expense in 2Q24 (-40% yoy). Thus, net profit in 2Q24 achieved 8,119VNDbn (+9.4% yoy). Overall, in 1H24, net profit reached 16,669VNDbn (+1.8% yoy), fulfilling 50% guidance in FY24 and 47.2% our forecast.

Impaired asset quality but still best in class

As of end-2Q24, VCB's NPL ratio decline slightly to 1.20% from 1.22% 1Q24, but this figure still higher than 2Q23 by 39bps. At end-2Q24, VCB's LLR decreased sharply 173 bps yoy, but still maintained its first place with a ratio of 212% - outplayed other peers and sector's average (82%). We expect asset quality to improve in 2H24 thanks to 1) a warming economy and a recovery in production and business activities; 2) the group 2 loan to total loan ratio decline by 20 bps qoq and 33 bps yoy, supporting to reduce the pressure on increasing bad debt in 2H24 and 3) VCB will try to strengthen its balance sheet through write-offs and provisioning in 2H24. As a results, we forecast that VCB's NPL ratio will reach 1.02% in 2024 (+4 bps yoy).

Compelling valuation for one of the top-tier banks

The current price is 2.4x at FY24F BVPS, which is 25% below P/B 3-year average of 3.2x. We believe that VCB is still sturdy pick given 15% yoy net profit growth in FY25F and premier asset quality with largest provision buffer among banking sectors. Thus, we upgrade to ADD rating with a valuation of VND110,500/share based on a combination of residual income and P/B methods. Investment risk includes 1) consumer credit demand recovered more slowly than expected, and lending rates remaining low longer than projected and 2) VCB may lower lending rates more than expected to support customers, negatively impacting the NIM.

Financial indicator	31/12/2023	31/12/2024	31/12/2025	31/12/2026
Net interest income	53,621	57,960	66,726	79,033
Total operating income	67,723	72,158	81,865	94,780
Total provision charges	(4,565)	(6,185)	(7,237)	(9,697)
Net profit	33,033	34,641	39,768	45,971
Net Interest Margin (NIM)	3.00%	3.06%	3.17%	3.32%
Deposit growth	12.24%	11.60%	10.20%	12.50%
Customer loan growth	10.94%	12.00%	13.00%	13.78%
Net profit growth	10.48%	4.87%	14.80%	15.60%
BVPS	30,156	36,354	43,469	51,694
P/B	2.93	2.43	2.03	1.71

Source: VCB, MBS Research

ADD

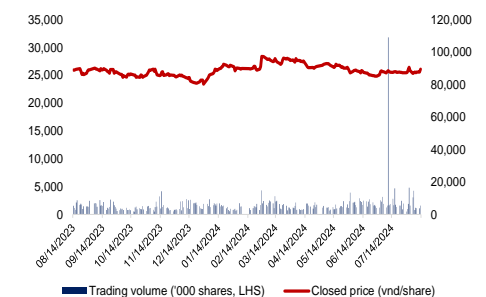
Target price

110,500 VND

Upside

25%

Information



Source: MBS Research

Market price (VND)	88,000
High 52w (VND)	97,400
Low 52w (VND)	80,300
Market cap (VNDbn)	490,722
P/E (TTM)	14.7
P/B	2.7
Dividend yield (%)	0
Foreign ownership (%)	23.52

Source: <https://s24.mbs.com.vn/>

Ownership structure

State Bank	74.8%
Mizuho Bank Ltd	15.0%
GIC Private Ltd	2.55%

Source: <https://s24.mbs.com.vn/>

Analyst



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Investment thesis & Valuation

Investment thesis

We like VCB for 1) one of the leading state-owned commercial banks, 2) stable and solid asset quality over many years, 3) credit growth is expected to reach 12%/13% yoy in FY24/25F, supporting for earnings growth and 4) NIM will expand 11 bps yoy to 3.2% in FY25F, driven by a higher net interest rate spread due to the ability to pass on interest costs amid a strong recovery in retail demand.

Valuation

The current price is 2.4x at FY24F BVPS, which is 25% below P/B 3-year average of 3.2x. We believe that VCB is still sturdy pick given premier asset quality with largest provision buffer among banking sectors. With a valuation of VND110,500/share based on a combination of residual income and P/B methods, we recommend ADD on VCB:

- **Residual Income Method:** We also utilize the residual income method, as the majority of the bank's value depends on the book value at the time of valuation. Therefore, the bank's valuation will closely reflect the actual book value and be less volatile with changes in forecasting conditions.
- **P/B Valuation Method:** we apply a target price-to-book (P/B) ratio of 3.2x to the bank's FY24 book value. The bank consistently trades at a premium compared to other local peers, thanks to its industry-leading business strengths and superior asset quality. We think it deserves to be valued at its 3-year average of 3.2x.

Figure 1: RI valuation

RI valuation	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Risk free rate (5-year VGB yield)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Beta	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Long-term growth rate							3.0%
Opening shareholder's equity	168,543.32						
PV of RI (7 years)	112,461.15						
PV of Terminal Value	304,953.13						
Implied EV	585,957.61						
No. of o/s shares	5,589.09						
Implied value per share	104,840						

Source: VCB, MBS Research

Figure 2: Blended target price

Blended target price	Price	Weight	Weight price (VND)
P/B (With BVPS 2024 and VCB's average 3y P/B is 3.2)	116,332	50%	58,166
RI	104,840	50%	52,420
Target price			110,586
Target price (rounded)			110,500

Source: VCB, MBS Research

Figure 3: Peer comparison

	Price (VND)	Market cap (VNDbn)	P/E		P/B		ROE		ROA	
			TTM	2024F	TTM	2024F	TTM	2024F	TTM	2024F
BID	46,800	266,780	11.6x	10.6x	2.1x	1.8x	18.8%	16.9%	1.0%	0.9%
CTG	31,450	168,886	8.4x	7.5x	1.3x	1.2x	15.9%	16.5%	1.0%	1.1%
VCB	90,700	506,931	15.0x	14.3x	2.8x	2.4x	19.5%	17.3%	1.8%	1.8%
MBB	23,400	124,168	5.9x	5.2x	1.3x	1.1x	22.6%	22.2%	2.3%	2.4%
VPB	18,550	147,174	12.4x	10.1x	1.1x	1.0x	9.1%	11.7%	1.4%	1.8%
TCB	23,000	162,035	6.9x	8.3x	1.1x	1.1x	16.2%	16.6%	2.5%	2.5%
ACB	23,950	106,976	6.4x	5.0x	1.4x	1.1x	22.9%	21.6%	2.3%	2.3%
STB	28,050	52,880	6.7x	6.6x	1.1x	1.0x	17.6%	16.2%	1.2%	1.2%
HDB	25,800	75,144	6.3x	5.7x	1.6x	1.3x	26.2%	23.3%	2.1%	1.9%
VIB	20,700	52,512	6.7x	5.4x	1.4x	1.2x	20.5%	23.4%	1.9%	2.2%
OCB	14,450	29,692	7.8x	6.0x	1.0x	0.9x	13.0%	15.9%	1.6%	1.9%
TPB	17,700	38,969	8.0x	7.3x	1.1x	1.1x	14.1%	14.5%	1.3%	1.5%
Average (except SOEs group)			7.5x	6.6x	1.2x	1.1x	18.0%	18.4%	1.9%	2.0%
<i>Average</i>			8.5x	7.7x	1.4x	1.3x	18.0%	18.0%	1.7%	1.8%

Investment risk

(1) Consumer credit demand recovered more slowly than expected, and lending rates remaining low longer than projected.

(2) Provisioning costs are higher than projected due to an increase in bad debt or a longer-than-expected timeframe for resolving bad debts, owing to the liquidity of collateral assets.

(3) The bank may lower lending rates more than expected to support customers, negatively impacting the NIM.

Vietcombank

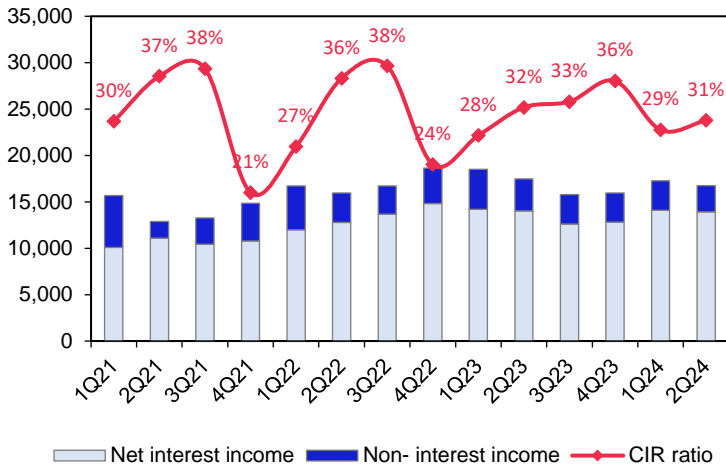
2Q24 Business Results: In line with MBS Research's forecast

Figure 4: 2Q24 results comparison

VNDbn	2Q24	2Q23	yoy	1H24	1H23	yoy	% 2024 MBS forecast	Comment
Net interest income	13,908	14,021	-1%	27,986	28,224	-1%	47%	Although credit growth reached 7.7% ytd (-0.3% in 1Q24), NIM decreased by 15 bps yoy, leading to a slight decrease in NII of 1% ytd.
Non-interest income	2,844	3,450	-18%	6,046	7,764	-22%	39%	NOII declined 18% yoy in 2Q24 mainly driven by 1) -7.5% yoy in NFI, 2) -21.5% yoy in FX trading gain and 3) -90.6% yoy in net other income
Operating income	16,752	17,470	-4.1%	34,032	35,987	-5%	46%	
Operating expense	5,122	5,656	-9%	10,176	10,930	-7%	42%	
POPP	11,630	11,814	-2%	23,856	25,057	-5%	47%	
Provision expenses	1,514	2,536	-40%	3,022	4,558	-34%	49%	
Profit before tax	10,116	9,278	9%	20,835	20,499	2%		Profit before tax in 1H24 completed 50% of VCB's 2024 business plan
Net profit	8,119	7,423	9.4%	16,699	16,409	1.8%	47.2%	Net profit increased 9.4% yoy in 2Q24 as provision expenses plunged 40% yoy, offsetting NOII reduction.
Credit growth (YTD)	7.7%	2.7%	+50 bps	7.7%	2.7%	+50 bps		We think that credit growth momentum in Q2/24 may come from large corporate customers as demand for retail loans remains weak.
Deposit growth (YTD)	-1.5%	6.7%		-1.5%	6.7%			
NIM	3.05%	3.20%	-15 bps	3.02%	3.29%	-27 bps		Asset yield in 2Q24 decreased 152 bps yoy, higher 140 bps yoy drop in COF as VCB continued to lower interest rate to support customers. Thus, NIM edged down 15 bps yoy and 11 bps qoq.
CIR	30.6%	32.4%	-180 bps	30.4%	32.8%	32.4%		
CASA	33.9%	29.0%	+490 bps	34.2%	29.0%	29.0%		
NPL	1.20%	0.83%	+37 bps	1.2%	0.8%	+37 bps		NPL ratio in 2Q24 edged up 2bps qoq and decreased 22 bps ytd. VCB's group 2 ratio declined by 20 bps qoq, while % NPL formation / loan group 2 in 2Q24 showed positive signal, achieving 35% (54% in 1Q24).
LLR	212.1%	385.8%	-173 bps	212%	386%	-173 bps		
ROAE	20.0%	23.6%	-36 bps	20.0%	23.6%	-36 bps		
ROAA	1.8%	2.0%	-11 bps	1.8%	2.0%	-11 bps		

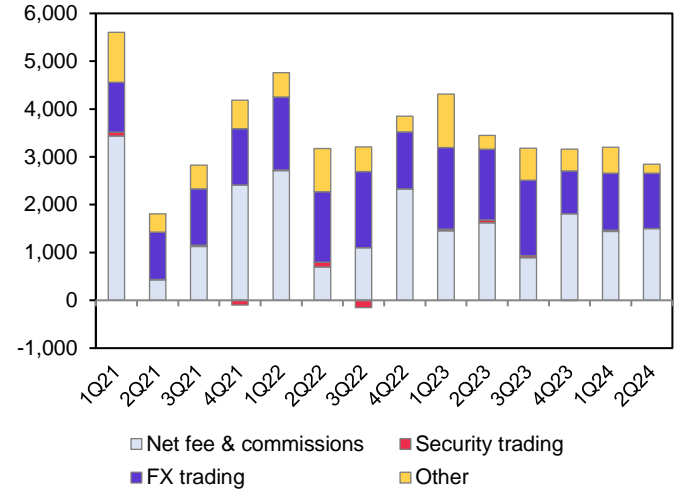
Source: VCB, MBS Research

Figure 5: CIR decrease slightly 10 bps yoy in 2Q24



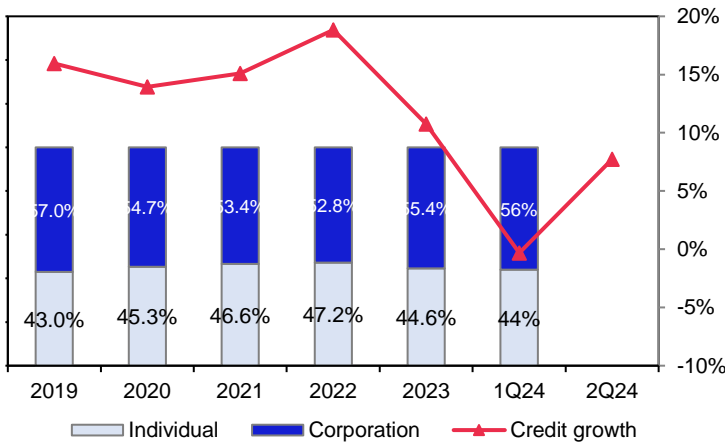
Source: VCB, MBS Research

Figure 6: NFI and FX trading gain declined 7.5% and 21.5% yoy in 2Q24



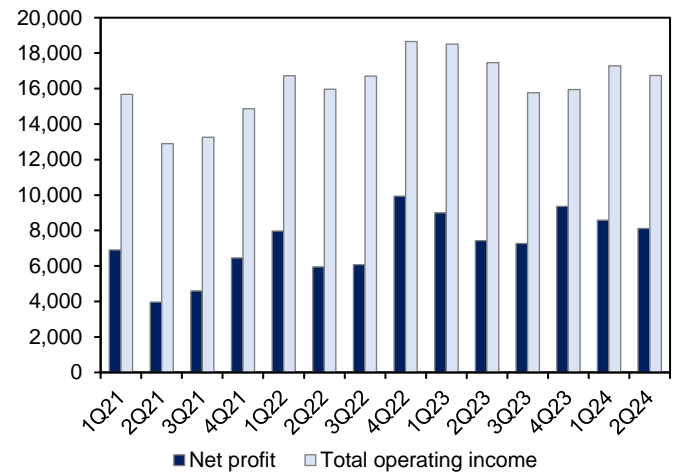
Source: VCB, MBS Research

Figure 7: VCB's credit structure



Source: VCB, MBS Research

Figure 8: VCB's net profit and total operating income quarterly



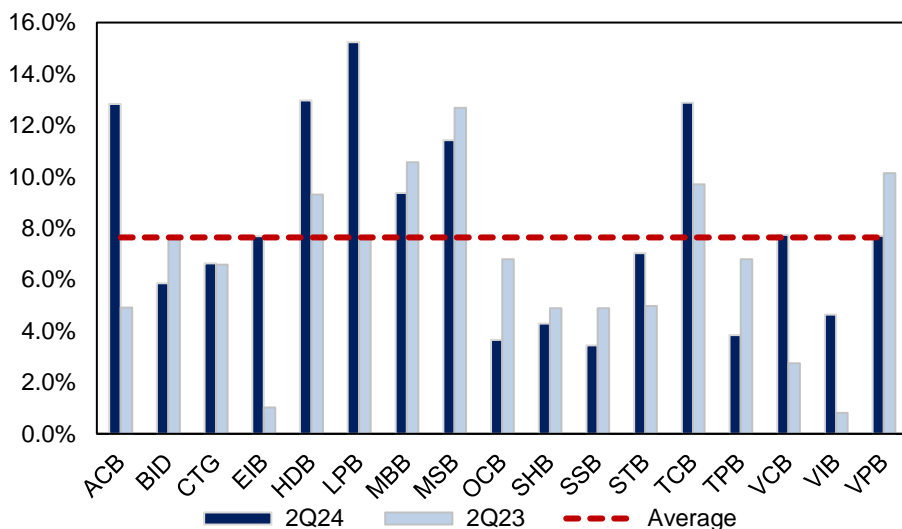
Source: VCB, MBS Research

Business outlook in 2024-25

We maintain our credit growth forecast of 12% in 2024

In 6M24, VCB's credit growth stood at 7.7% ytd (-0.3% ytd in 1Q24), equivalent to average peers (7.6%). In which, loan customer increased 7.8% ytd while corporate bonds decreased 1.8% vs 4Q23 and accounted for 0.7% of total credit. We estimate that credit growth momentum in 2Q24 may come from large corporate customers as demand for retail loans remains weak.

Figure 9: VCB’s credit growth reached 7.7% in 2Q24 ytd, equivalenting average bank industry



Source: BCTC, MBS Research

We expect credit growth in 2024 to be 12% yoy, thanks to

- VCB has been a strong performer in the corporate banking segment for many years. We expect corporate lending to remain the primary driver of credit growth in 2H2024, as low lending rates are likely to significantly stimulate demand in this segment. Moreover, in Jun-24, VCB CTG BID will provide credit of US\$1.8bn for the Long Thanh International Airport project phase one invested by ACV, equivalent to about 45% of the total investment of the project. In which, VCB is the leading bank, contributing US\$1bn. We expect Long Thanh air- port project to start disbursing from the 3Q24, supporting credit growth for VCB in 2H24.
- We believe that the individual segment will rebound in 2H24 as the economy recovers and retail credit demand returns. Additionally, We expects consumer credit to improve in 2H24, building on the low base established in 2023.

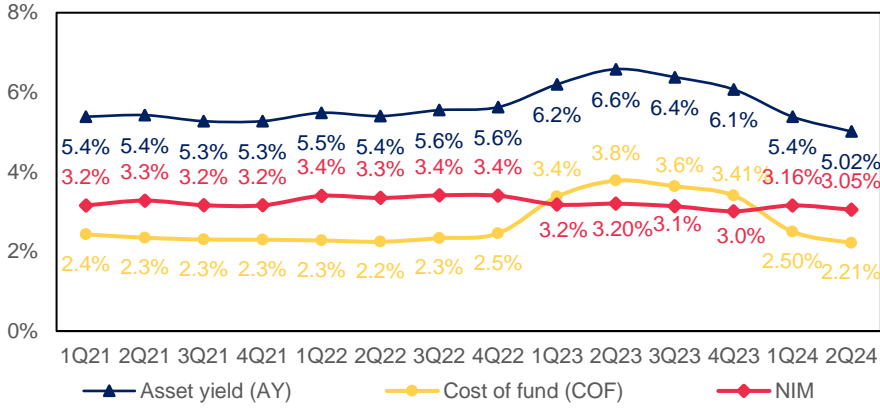
We forecast VCB credit growth to achieve 13% in 2025 while VCB will promotes retail lending thanks to increased consumer demand and recovery in personal income.

We expect NIM to remain flat in 2H24 before a robust improvement in 2025

In 2Q24, VCB’s asset yield declined 40 bps qoq/106 bps vs. 2023 as VCB is still the leading bank in lowering lending rates to support customers. While cost of fund stood at 2.2% in 2Q24 (- decreased 29 bps qoq/120 bps vs. 2023) due to the low interest rate level of the previous period has been reflected. As a result, NIM decreased slightly 15 bps qpq (+ 5 bps vs 2023). We forecast NIM to remain flat in 2H24, reaching 3.07% (lower 7 bps vs. previous forecast) in 2024 as VCB will still maintain low lending rates to support businesses. In additionally, we think that VCB will increase slightly deposit rate thanks to higher credit demand in 2H24, but it will take time to reflect in COF. As a result, we forecast COF to achieve 2.39% in 2024 (-102 bps yoy).

We forecast NIM on recover in FY25F , reaching 3.2% (+11 bps yoy) as AY will improves 35 bps yoy thanks to a higher interest rate base and increasing demand for retail lending, which offers higher lending yields. While we forecast COF will rise more slowly , by 25 bps yoy in 2025 due to a low base interest environment in FY24.

Figure 10: VCB's NIM expanded 4 bps in 2Q24 vs. 2023, achiving 3.05%



Source: BCTC, MBS Research

Figure 11: Some medium and small private banks have increased deposit interest rates since Jun-24

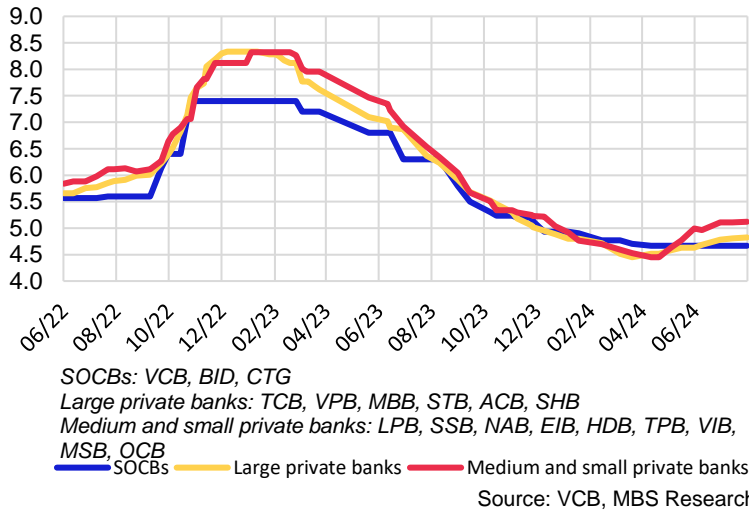
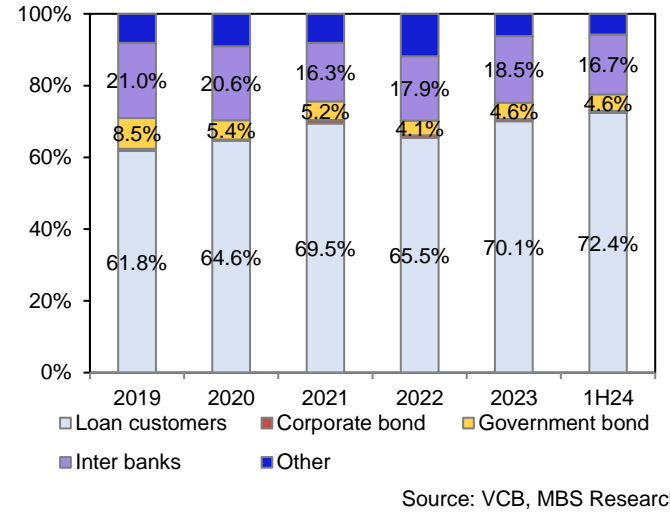


Figure 12: VCB's non-interest income structure



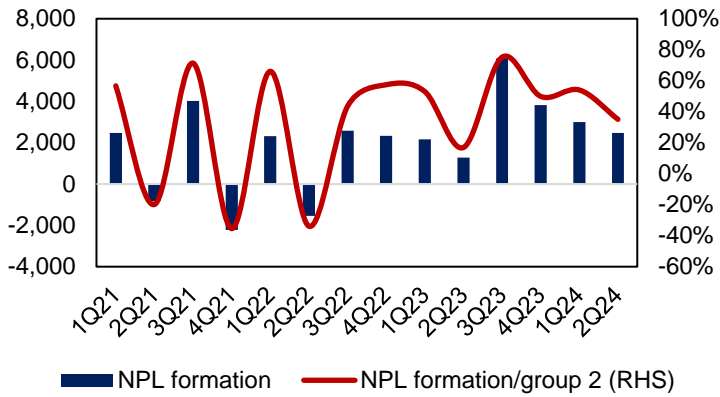
We expect asset quality to improve in 2H24

As of end-2Q24, VCB's NPL ratio decline slightly to 1.20% from 1.22% 1Q24, but this figure still higher than 2Q23 by 39bps. NPL ratio improved qoq in 2Q24 thanks to (1) VCB used VND1,484bn to write-off bad debt in 2Q24 and 2) credit increased sharply by 8% qoq (equivalent to VND103,101bn). At end-2Q24, VCB's LLR still maintained its first place with a ratio of 212% - outplayed other peers and sector's average (82%).

We expect asset quality to improve in 2H24 thanks to 1) a warming economy and a recovery in production and business activities; 2) the group 2 loan to total loan ratio decline by 20bps qoq and 33bps yoy, supporting to reduce the pressure on increasing bad debt in 2H24 and 3) VCB will try to strengthen its

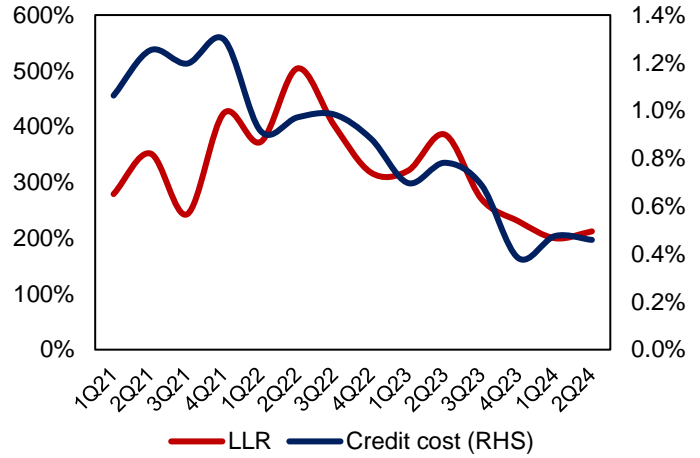
balance sheet through write-offs and provisioning in 2H24. As a result, we forecast that VCB's NPL ratio will reach 1.02% in 2024 (+4 bps yoy).

Figure 13: NPL formation / loan group 2 in 2Q24 showed positive signal, achieving 35% (54% in 1Q24)



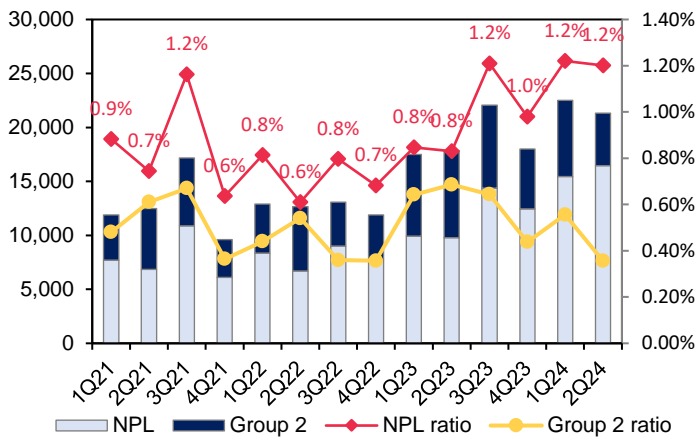
Source: VCB, MBS Research

Figure 14: Credit cost in 2Q24 decreased 9 bps qoq thanks to provisioning reduction



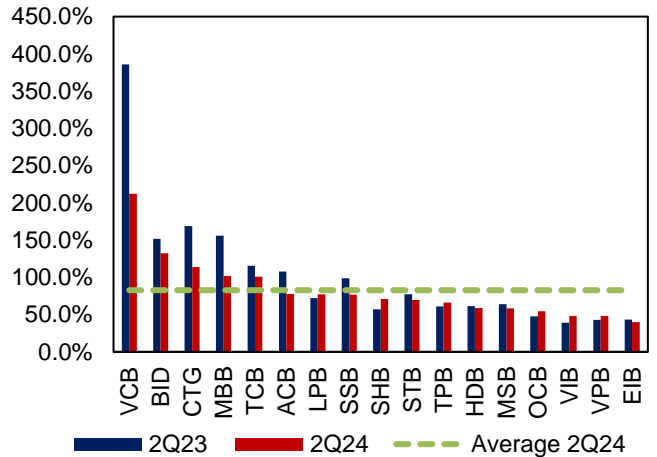
Source: VCB, MBS Research

Figure 15: Asset quality deteriorated yoy but remained flat qoq



Source: VCB, MBS Research

Figure 16: VCB's LLR still maintained its first place with a ratio of 212% - outplayed other peers and sector's average (82%)



Source: VCB, MBS Research

Earnings forecast 2024-25: We forecast VCB's net profit to increase by 5%/15% yoy in 2025

Figure 17: 2024-25 earnings forecast

VNDbn	2023		2024F				2025F				Comments
	Old	New	% yoy	% change	Old	New	% yoy	% change			
Net interest income	53,621	59,272	57,960	8.1%	-2.2%	65,476	66,726	15.1%	1.9%	We increase VCB's net interest income in 2025 by 1.9% vs previous forecast driven by higher NIM (+7 bps).	
Non-interest income	14,103	15,362	14,198	0.7%	-7.6%	16,307	15,139	6.6%	-7.2%	We reduce VCB's NOII in 2024 by 7.6% vs previous forecast as 1H24 business results lower than expectation.	
Operating income	67,723	74,634	72,158	6.5%	-3.3%	81,783	81,865	13.5%	0.1%		
Operating expense	21,915	24,246	22,644	3.3%	-6.6%	26,676	24,891	9.9%	-6.7%		
POPP	45,809	50,388	49,513	8.1%	-1.7%	55,107	56,973	15.1%	3.4%		
Provision expenses	(4,565)	(6,169)	(6,185)	35.5%	0.3%	(7,152)	(7,237)	17.0%	1.2%		
Profit before tax	41,244	44,219	43,328	5.1%	-2.0%	47,955	49,737	14.8%	3.7%		
Net profit	33,033	35,354	34,641	4.9%	-2.0%	38,343	39,768	14.8%	3.7%		
Credit growth (YTD)	10.8%	12.0%	12.0%			12.98%	13.00%				
Deposit growth (YTD)	12.2%	11.6%	11.6%			10.2%	10.2%				
NIM	3.0%	3.13%	3.06%			3.11%	3.17%			We increase our NIM forecast by 6 bps due to stronger demand for retail lending which offers higher lending yields.	
CIR	32.4%	32.5%	31.4%			32.6%	30.4%				
CASA	33.9%	32.5%	32.5%			33.1%	33.1%				
NPL	1.0%	0.97%	1.02%			0.8%	0.9%				
LLR	230.3%	216.7%	205.2%			240.0%	217.3%				
ROAE	19.6%	17.3%	17.0%			15.8%	16.4%				
ROAA	1.8%	1.8%	1.7%			1.7%	1.7%				

Source: VCB, MBS Research

Financial statement

Income statement	31/12/2024	31/12/2025	31/12/2026
Interest income	98,784	116,830	137,057
Interest expense	(40,824)	(50,104)	(58,024)
Net interest income	57,960	66,726	79,033
Non interest income	14,198	15,139	15,748
Total operating income	72,158	81,865	94,780
Total operating costs	22,644	24,891	27,593
Pre-provision operating profit	49,513	56,973	67,187
Total provision charges	(6,185)	(7,237)	(9,697)
Post-provision operating profit	43,328	49,737	57,490
Profit after tax	34,662	39,789	45,992
Minority interest	(21)	(21)	(21)
Net profit	34,641	39,768	45,971

Balance sheet	31/12/2024	31/12/2025	31/12/2026
Total gross loans	1,741,337	1,973,829	2,258,984
Total securities items	221,940	258,547	247,830
Total reserve	(29,949)	(31,747)	(36,487)
Total net income earning assets	1,933,328	2,200,628	2,470,327
Total non-earning assets	85,647	115,142	133,362
Total assets	2,018,975	2,315,770	2,603,689
Customer deposits	1,586,051	1,756,826	1,975,376
Deposits from other credit institutions	185,437	268,957	284,150
Total liabilities	1,815,790	2,072,818	2,314,765
Charter capital	55,891	55,891	55,891
Retained earnings	114,619	148,422	187,497
Equity	203,185	242,953	288,924
Minority interests	94	94	94
Total liabilities and equity	2,019,148	2,315,944	2,603,863

Financials ratio	31/12/2024	31/12/2025	31/12/2026
Deposit growth	11.6%	10.2%	12.5%
Customer loan growth	12.0%	13.0%	13.8%
Total Asset Growth	9.8%	14.7%	12.4%
Net interest income growth	8.1%	15.1%	18.4%
Non-interest income growth	0.7%	6.6%	4.0%
Net profit growth	4.9%	14.8%	15.6%
Credit/funding	81.3%	80.5%	82.1%
Net Interest Margin (NIM)	3.1%	3.2%	3.3%
Cost of Operation/Income (CIR)	31.4%	30.4%	29.1%
Provision/loan costs for customers	0.4%	0.5%	0.5%
Non-performing loan ratio (NPL)	1.0%	0.9%	0.9%
Loan Loss Reserve Ratio (LLR)	205.2%	217.3%	216.2%
Capital Adequacy Ratio (CAR)			
ROAA	172%	172%	177%
ROAE	17.05%	16.37%	15.91%
EPS	6,198	7,115	8,225
Book value/share	36,354	43,469	51,694
Dividend / share (VND)			
P/B	2.43	2.03	1.71

Source: VCB, MBS Research

DISCLAIMER

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MBS RECOMMENDATION FRAMEWORK

Stock Ratings

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Add	The stock's total return is expected to reach 15% or higher over the next 12 months
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

Segment Ratings

Positive	Stocks in the segment have, on a market cap-weighted basis, a positive absolute recommendation
Neutral	Stocks in the segment have, on a market cap-weighted basis, a neutral absolute recommendation.
Negative	Stocks in the segment have, on a market cap-weighted basis, a negative absolute recommendation.

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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Consumer - Retail

Ly Nguyen Quynh

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