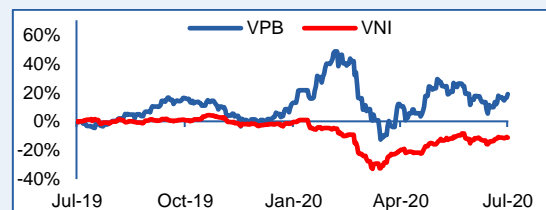


Industry:	Banking		2019	H1'20	2020F
Report Date:	July 17, 2020	PPOP y/y	17.4%	20.4%	8.5%
Current Price:	VND23,050	NPAT y/y	12.3%	51.7%	-1.2%
Target Price:	VND30,100	NIM	9.39%	8.47%	8.85%
Upside:	30.6%	NPLs/loans	3.42%	3.19%	3.30%
Dividend yield:	0.0%	CIR	34.0%	31.0%	34.3%
TSR:	30.6%	P/E	6.8x	N/A	6.9x
Rating:	BUY	P/B	1.3x	N/A	1.1x



			VPB	Peers	VNI
Market Cap:	USD2.4bn	P/E (ttm)	5.6x	6.6x	14.4x
Foreign Room:	USD0	P/B (curr)	1.2x	1.1x	1.9x
ADTV30D:	USD2.3mn	ROE (ttm)	22.4%	20.8%	13.5%
State Ownership:	0%	ROA (ttm)	2.6%	1.7%	2.3%
Outstanding Shares:	2.438 bn				
Fully Diluted Shares:	2.530 bn				

Company overview

Vietnam Prosperity Joint Stock Commercial Bank is a Vietnam-based commercial bank with two wholly owned subsidiaries: an asset management company (VPBank AMC) and a consumer finance company (FE Credit). VPB derived around half of its consolidated net income from FE Credit in 2019.

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Contained provision charges drive earnings growth

VPB released consolidated results for H1 2020 with net profit totalling VND5.3tn (USD226mn; +51.7% YoY), which achieved 64% our FY2020 forecast. H1 2020 NII was up 8.8% YoY — achieving 48% our FY2020 forecast — with consolidated NIM at 8.47% vs our 2020F NIM at 8.85%. The strong H1 2020 consolidated net income growth was mainly derived from (1) a decrease in CIR (-4.8 ppts YoY) and (2) contained provision expenses (-0.6% YoY). We do not anticipate material changes to our earnings forecasts and/or target price, pending a more extensive review.

- H1 2020 consolidated loan growth was 5.0% YTD, which was derived from 7.0%/-0.5% YTD loan growth at the parent bank/FE Credit (FEC). The consolidated credit growth was 9.8% as of H1 2020 as the corporate bond balance increased 96% YTD.
- FEC's loan book was stagnant YTD to register a balance of VND60.2tn/USD2.6bn. We believe the company cut exposure to new-to-bank customers and increased its existing customers' portion in the loan book.
- The NPL ratio of FEC was relatively contained at 5.36% as of H1 2020 against 5.37% in H1 2019 and 5.98% as of YE2019, with annualized write-offs to gross loans decreasing to 13.0% vs 14.0% in FY2019 and 13.4% in H1 2019.
- We estimate that FEC's loan yield decreased in H1 to 36.4% vs 39.2% in FY2019.
- The parent bank's NPL ratio stood at 2.61% with annualized write-offs to gross loans at 2.29% vs 1.90% for the same time last year and 2.89% in Q1 2020.
- The momentum of recovery income from written-off debts at both the parent bank and FEC remained strong in Q2 with H1 2020 consolidated recovery income at VND1tn/USD44mn (+37% YoY).

Strong total non-interest income (NOII) in H1 (+32% YoY) was supported by a surge in gains from trading and investment securities in Q1 2020. Total trading and investment securities gains occupied 27% of H1 2020 NOII. H1 2020 net fee income, including FX income, was up 7.7% YoY and achieved 45% of our full-year forecast.

Consolidated NIM decrease was mainly driven by FEC. As mentioned in our update report, [FEC shows resilience in Q1, set to grow in late 2020](#), dated May 19, 2020, we expect consolidated NIM will decline from a high base due to support for borrowers who are severely affected by COVID-19. VPB disclosed that the parent bank received a credit growth quota top-up for 2020 to 21.5% vs the initial quota of 13%.

Credit quality metrics look benign, apart from a 116-bps jump in consolidated group 2 (special mentioned) loans. The parent bank saw a 73-bp increase in group 2 loans to gross loans, reaching a level not seen since Q3 2018. However, accrued interest over IEAs and NPL ratio was contained in H1 2020. With a strong net income base and contained credit costs in H1 2020, we believe VPB is well-prepared for the disruption of COVID-19.

Figure 1: VPB's consolidated Q2 2020 results

VND bn	H1 2020	H1 2019	YoY	Q2 2020	Q2 2019	YoY
NIM	8.47%	9.14%	-67 bps	8.30%	9.69%	-139 bps
Interest-earning asset yield	14.07%	14.85%	-78 bps	13.88%	15.32%	-144 bps
Cost of funds	6.17%	6.32%	-15 bps	6.15%	6.22%	-7 bps
CASA ratio*	12.1%	10.4%	1.7 ppts	12.1%	10.4%	1.7 ppts
CASA ratio plus term deposits in FX	13.1%	11.7%	1.4 ppts	13.1%	11.7%	1.4 ppts
NII	15,722	14,451	8.8%	7,701	7,666	0.5%
NOII	3,132	2,381	31.6%	1,248	1,204	3.7%
OPEX	-5,838	-6,020	-3.0%	-2,555	-3,044	-16.0%
PPOP	13,016	10,813	20.4%	6,393	5,826	9.7%
Provision expenses	-6,431	-6,470	-0.6%	-2,720	-3,266	-16.7%
Net profit	5,265	3,471	51.7%	2,951	2,049	44.0%
CIR	31.0%	35.8%	-4.8 ppts	28.6%	34.3%	-5.7 ppts
NPL ratio	3.19%	3.43%	-24 bps	3.19%	3.43%	-24 bps
Group 2 loans / Gross loans	6.21%	5.05%	116 bps	6.21%	5.05%	116 bps
Accrued interests / IEAs	1.31%	1.34%	-3 bps	1.31%	1.34%	-3 bps
Loan growth	5.0%	11.6%	-6.6 ppts	2.4%	7.0%	-4.6 ppts
Deposit growth	10.7%	15.5%	-4.8 ppts	9.8%	4.9%	4.9 ppts

Source: VPB, VCSC – *CASA volume includes demand deposits and margin deposits.

Figure 2: VPB's standalone Q2 2020 results

VND bn	H1 2020	H1 2019	YoY	Q2 2020	Q2 2019	YoY
NIM	4.39%	4.43%	-4 bps	4.43%	4.43%	0 bps
Interest-earning asset yield	9.71%	9.75%	-4 bps	9.82%	9.95%	-13 bps
Cost of funds	5.08%	5.20%	-12 bps	5.14%	5.41%	-27 bps
CASA ratio*	12.2%	10.6%	1.6 ppts	12.2%	10.6%	1.6 ppts
CASA ratio plus term deposits in FX	13.3%	11.9%	1.4 ppts	13.3%	11.9%	1.4 ppts
NII	6,849	5,834	17.4%	3,457	2,913	18.7%
NOII	2,927	3,415	-14.3%	1,143	2,561	-55.4%
OPEX	-3,189	-3,238	-1.5%	-1,411	-1,645	-14.2%
PPOP	6,587	6,011	9.6%	3,189	3,829	-16.7%
Provision expenses	-2,397	-2,385	0.5%	-1,074	-1,239	-13.3%
Net profit	3,352	3,181	5.4%	1,693	2,353	-28.0%
CIR	32.6%	35.0%	-2.4 ppts	30.7%	30.1%	0.6 ppts
NPL ratio	2.61%	2.89%	-28 bps	2.61%	2.89%	-28 bps
Group 2 loans / Gross loans	4.06%	3.33%	73 bps	4.06%	3.33%	73 bps
Accrued interests / IEAs	1.16%	1.11%	5 bps	1.16%	1.11%	5 bps
Loan growth	7.0%	10.3%	-3.3 ppts	3.9%	6.4%	-2.5 ppts
Deposit growth	10.6%	16.0%	-5.4 ppts	9.9%	5.0%	4.9 ppts

Source: VPB, VCSC – *CASA volume includes demand deposits and margin deposits.

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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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