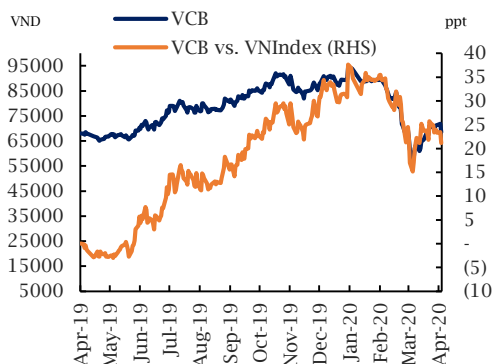


BUY
TP upside (downside) +13%
Close 21 Apr 2019
Price VND 68,500
12M Target VND 77,600
Share price performance relative to VNI

Source: Bloomberg

Market cap	US\$10.8 bn
6M avg. daily turnover	US\$3.2 mn
Outstanding shares	3,709 mn
Free float	25%
FINI ownership	23.7%
Major shareholders	92.4%
2020E Asset/Equity (*)	13.3x
2020E P/E (*)	14.0x
2020E P/B (*)	2.5x
FOL Remaining Room	6.3%
Dividend yield (*)	0.0%

Source: Bloomberg, (*) Yuanta Vietnam

Note that: We forecast 1.8% for dividend in the previous report, but [the SBV just ordered banks not to pay cash dividend in this year.](#) Thus, we revised it to 0.0% for 2020E.

Research Analyst:
Tanh Tran

 +84 28 3622 6868 ext
 3874

tanh.tran@yuanta.com.vn
Bloomberg code: YUTA

Vietcombank (VCB VN)

1Q20 earnings -11.2% YoY

Event

VCB reported 1Q20 PATMI of VND4.2 tn (-5.2% QoQ/-11.2% YoY), largely due to the +9.2% QoQ/+42.9% YoY rise in credit costs. VCB has achieved 20% of Bloomberg consensus for 2020E.

Details

Credit growth increased by only 2.7% YTD. The bank targets 14% credit growth for 2020E, while we estimate 13% YoY growth.

1Q20 Net interest income was VND9.0 tn (+4.6% QoQ/+6.3% YoY).

Falling CASA deposits is a concern. CASA deposits fell by 7% QoQ. As at 1Q20, VCB's CASA ratio was 29.4%, down 1.4ppt vs. 2019A.

1Q20 net fee income was VND1.1 tn (+27.2% QoQ/5.4% YoY). Net gain from FX and gold dealing was also VND1.1 tn (+31% QoQ/+19%YoY). By contrast, net income from trading securities declined by -284% QoQ and -183% YoY.

Provisioning increased by +9.2% QoQ and +42.9% YoY to reach VND2.2 tn in 1Q20. NPLs (0.82%) were flat QoQ but SMLs jumped by 110% QoQ. The bank's loan loss ratio increased by 53ppt QoQ/+66ppt YoY to reach 235%.

Our view

Earnings forecasts for 2020E appear stretched (both ours and the consensus, which has already fallen since our [March report](#)). Credit growth, NIM, fee income, and provision costs will all be under pressure. 2Q20 is very likely to be worse than 1Q20, which puts the full year target at downside risk. Thus, negative earnings revisions for 2020 are likely to be forthcoming relatively soon.

Credit costs & LLR are key to monitoring asset quality in 2020. Reported NPLs (which are basically flat) will understate the degree of asset quality deterioration due to the SBV's forbearance policies. We think the bank's increased provisions and LLR reflect a prudent approach to preparing for the future, as not all borrowers will be able to repay. However, we think that VCB is taking the right approach by building up a strong buffer to weather the probable asset quality deterioration in upcoming quarters.

We reiterate our BUY recommendation. VCB trades at 2.5x 2020E P/B, which we consider to be attractive. Despite the current operational headwinds, VCB remains the highest-quality bank and is well positioned as a proxy on Vietnam's positive multiyear macro story.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

HOLD–Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

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Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities Investment Consulting
4F, 225,
Section 3 Nanking East Road, Taipei 104
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities (Hong Kong) Co. Ltd
23/F, Tower 1, Admiralty Centre
18 Harcourt Road,
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office
Yuanta Securities Building
Euljiro 76 Jung-gu
Seoul, Korea 100-845
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
PT YUANTA SECURITIES INDONESIA
(A member of the Yuanta Group)
Equity Tower, 10th Floor Unit EFGH
SCBD Lot 9
Jl. Jend. Sudirman Kav. 52-53
Tel: (6221) - 5153608 (General)

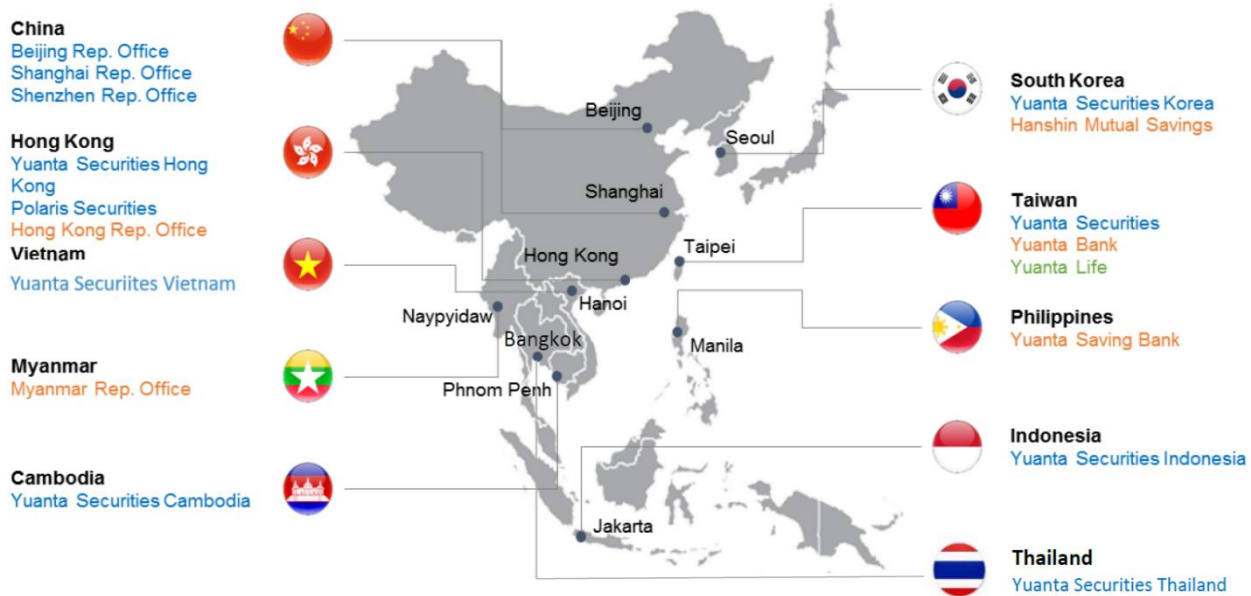
Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Thailand)
127 Gaysorn Tower, 16th floor
Ratchadamri Road, Pathumwan
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Vietnam)
4th Floor, Saigon Centre
Tower 1, 65 Le Loi Boulevard,
Ben Nghe Ward, District 1,
HCMC, Vietnam

YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA

Head of Research

Tel: +84 28 3622 6868 (ext. 3815)

matthew.smith@yuanta.com.vn

Quang Vo

Analyst (Consumer)

Tel: +84 28 3622 6868 (ext. 3872)

quang.vo@yuanta.com.vn

Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen

Head of Institutional sales

Tel: +84 28 3622 6868 (3808)

Huy.nguyen@yuanta.com.vn

Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

binh.truong@yuanta.com.vn

Tanh Tran

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Duyen Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

duyen.nguyen@yuanta.com.vn