Vietcombank [VCB VN]

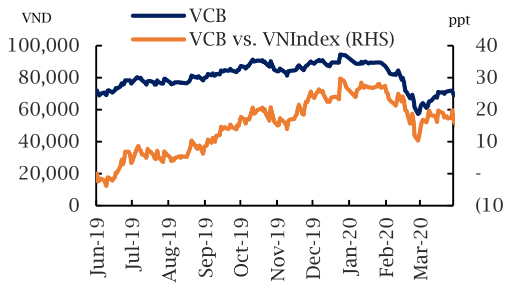
26 June 2020

BUY

TP upside/(downside) -7%

Close 26 June 2020

Price	VND 83,300
12M Target	VND 77,600



Market cap	US$13.3 bn
6M avg. daily turnover	US$4.5 mn
Outstanding shares	3,709 mn
Free float	11%
FINI ownership	23.8%
Major shareholders	92.4%
2020E Asset/equity (x)	13.3
2020E P/E (x)	17.0
2020E P/B (x)	3.1
FOL remaining room	6.2%
2020E Dividend yield (%)	0.0%

Source: FiinPro, Yuanta Vietnam

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Annual General Meeting Takeaways

VCB held its annual general meeting (AGM) on June 26.

Key Takeaways

VCB targets 2020E credit growth of 10% YoY (vs. our forecast of 13% YoY). In 1H20, the bank estimates credit growth of 3.4% YTD.

The bank has not set a 2020E PBT target but estimates PBT of VND11.3 tn in 1H20, fulfilling 44% of our full-year PBT forecast.

Stock dividend at 18% of par value is to be paid in the 2H20, resulting in an additional 668 mn new shares.

VCB plans to sell 6.5% of charter capital via private placement, equivalent to 241 mn new shares to be issued with lock-up period of 1 year. VCB might issue 36 mn shares to its strategic partner, Mizuho Bank, which would maintain Mizuho's ownership stake at 15%. The other 205 mn shares will be issued to other investors (although Mizuho could also choose to raise its stake to higher than 15%).

NPL ratio target is below 1.50% vs. our forecast of 0.87%. VCB estimates its 2Q20 NPL ratio at 0.82% (+4bps YTD).

Our view

Our 2020E credit growth forecast of 13% YoY appears high vs. the bank's guidance of 10%.

Capital strengthening. VCB's CAR (under Basel II) was 9.2% as at 4Q19 which is just slightly above the 8% minimum requirement for CAR, indicating a need for capital strengthening. Thus, we believe that VCB's decision not to pay a cash dividend is due to the SBV's prudential guidance for all the banks but also its specific need for capital retention. The additional capital from the private placement should help increase CAR by 1.5ppt to 10.7%.

Strong deposit franchise. VCB has the cheapest funding cost in the sector, backed by its high CASA ratio of 29.4% as at 1Q20. This is a competitive advantage vs. peers in cushioning NIM downside as banks cut lending rates to support Covid-impacted borrowers. VCB's loan loss coverage ratio of 235% - the highest in the sector - implies a strong buffer for the bank to weather the probable asset quality deterioration that has and will occur amid the global crisis.

Our recommendation is under review. Our forecasts for 2020E appears too high vs guidance, and our fair valuation is below the current market price. We believe that investors should focus on quality in the current dismal global outlook, and we view VCB as the highest quality name in our coverage. This should at least cushion the downside risk, but trees do not grow to the sky.

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