

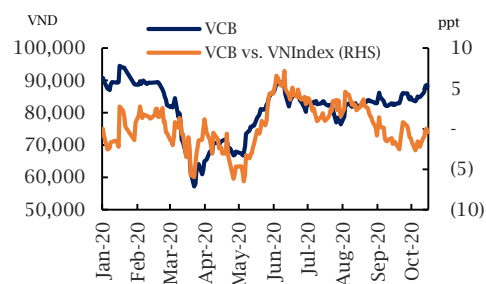
HOLD-Underperform

TP upside (downside) -13%

Close 21 Oct 2020

Price VND 86,200
12M Target VND 75,140

Share price performance relative to VNI



Source: Bloomberg

Market cap	US\$14 bn
6M avg. daily turnover	US\$4.4 mn
Outstanding shares	3,709 mn
Free float	11%
FINI ownership	23.6%
Major shareholders	93%
2020E Asset/Equity (*)	13.3x
2020E P/E (*)	19.4x
2020E P/B (*)	3.3x
FOL Remaining Room	6.4%
Dividend yield (*)	0.0%

Source: FiinPro, (*) Yuanta Vietnam

Research Analyst:

Tanh Tran

+84 28 3622 6868 ext
3874

tanh.tran@yuanta.com.vn

Bloomberg code: YUTA

VIETCOMBANK (VCB VN)

3Q20 PATMI (-13% QoQ/-21% YoY)

Event

VCB reported 3Q20 PATMI of VND4.0 tn (-13% QoQ/-21% YoY) driven by higher operating expenses and higher provisioning in 3Q20. In 9M20, VCB's PATMI was VND12.8 tn (-10% YoY), fulfilling just 68% of our forecast for 2020E.

Details

Loans increased by 7% YTD, completing 65% of our 2020E forecast.

3Q20 net interest income was VND8.7 tn (+8% QoQ/-2% YoY).

NIM on total average assets was 2.94% in 3Q20 (+17bps QoQ but -17bps YoY), which we attribute to slightly lower funding costs due to VCB's improved CASA ratio and [SBV easing](#).

3Q20 net fee income was VND1.3 tn (+9% QoQ but -2% YoY). Other income (which we believe was mostly loan loss recoveries) was VND540 bn (+89% QoQ but -39% YoY).

Operating expenses was VND4.6 tn (+47% QoQ/+9% YoY).

Provisioning increased by +9% QoQ/ +35% YoY to reach VND2.0 tn in 3Q20. As a result, provisioning in 9M20 surged by +25% YoY to reach VND6.0 tn. The reported NPL ratio was 1.01% (+17bps QoQ but -7bps YoY) on aggregate NPLs of VND7.9 tn (+23% QoQ/+3% YoY). Category 3 NPLs soared by +169% QoQ/+136% YoY, and Category 4 NPLs rose by +74% QoQ/+5% YoY.

VCB's LLR ratio was 215% (-39ppt QoQ/ but +30ppt YoY) in 3Q20, by far the highest reserve coverage figure in the sector.

CASA deposits rebounded. CASA deposits were VND299 tn (+6% QoQ/+11% YoY). VCB's CASA ratio was 30.5% in 3Q20 (+2ppt QoQ).

Our view

We continue to view VCB as the highest quality bank in Vietnam. VCB's leading loan loss coverage reflects a prudent approach to credit risk that is not matched by all of its peers. Credit costs were among the main negative factors for YTD earnings, but the resulting high coverage ratio gives VCB greater flexibility than most other banks have to lower provisioning in upcoming periods, and thus to boost forward earnings without sacrificing asset quality.

Sector-low funding costs are driven by VCB's relatively high CASA ratio of 30.5%. This is a key competitive advantage over peers that should continue to support its NIM amid the low interest rate environment.

Maintain HOLD-Underperform, a recommendation that is entirely based on VCB's relatively high valuation. The bank trades at 3.3x 2020E P/B vs. the sector median of 1.3x.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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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.

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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)

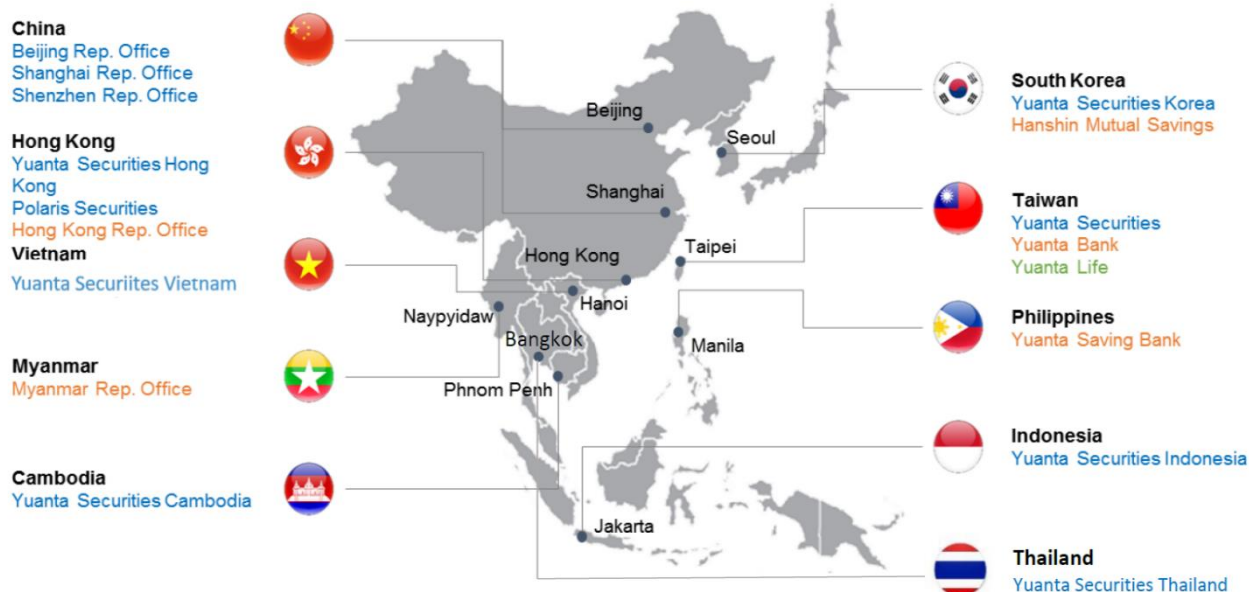
Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

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

Tam Nguyen

Analyst (Property)

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

tam.nguyen@yuanta.com.vn

Tram Nguyen

Assistant Analyst

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

tram.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