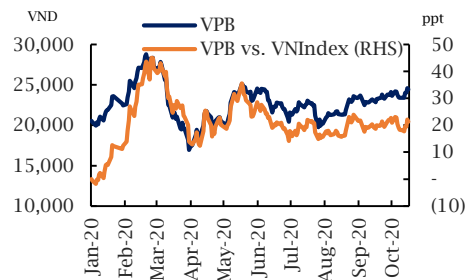


Vietnam: Banking
21 October 2020
HOLD - Underperform
TP upside (downside) -9%
Close 20 Oct 2020
Price VND 24,800
12M Target VND 22,500

Share price performance relative to VNI

Source: Bloomberg

Market cap	US\$2.6 bn
6M avg. daily turnover	US\$5.8 mn
Outstanding shares	2,438 mn
Free float	70%
FINI ownership	22.8%
Major shareholders	5.3%
2020E Asset/Equity (*)	8.3x
2020E P/E (*)	8.4x
2020E P/B (*)	1.2x
FOL Remaining Room	0.1%
2020E Dividend yield (*)	0.0%

Source: FiinPro, (*) Yuanta Vietnam
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Vietnam Prosperity Bank (VPB VN)
Credit costs soar in 3Q20
Event

VPB reported 3Q20 PATMI of VND2.3 tn (-24% QoQ/-1% YoY). The decline was largely to increased provisioning. In 9M20, VPB's PATMI was VND7.5 tn (+31% YoY), fulfilling 106% of our forecast for 2020E.

Details

Credit growth (including corporate bonds) was 16.5% YTD. The SBV has increased VPB's full-year credit growth allocation to 23%.

3Q20 net interest income was VND7.9 tn (+2% QoQ/-1% YoY), while NIM on total average assets was 7.75% (-2bps QoQ/-1.3ppt YoY).

3Q20 net fee income was VND941 bn (+37% QoQ/ +33% YoY). Other non-interest income (mostly recoveries) decreased by -4% QoQ/-5% YoY to reach VND521 bn.

Provisioning jumped by +42% QoQ/+10% YoY to reach VND3.9 tn in 3Q20, which dented earnings. In 9M20, total provisioning increased slightly (+3% YoY) to reach VND10.3 tn. The NPL ratio (Cat. 3-5 NPLs) was 3.65% (+44bps QoQ/+15bps YoY).

LLR ratio was 48% (-1ppt QoQ/-2ppt YoY) in 3Q20. Despite the increase in provisioning in 3Q20, VPB's reserve coverage remains among the lowest figures in the industry.

Short-term capital for medium to long-term loans was 27.8%, well below the 40.0% regulatory cap.

Our view

Increased provisioning is negative but not surprising. As discussed in our [3Q20 earnings preview](#), we anticipated that VPB's relatively low LLR ratio in 2Q20 might force it to increase provisioning in 3Q20. This has indeed come to pass, and we expect this issue to persist in 4Q20 given the bank's even lower LLR ratio of 3Q20 than that of 2Q20.

Capital levels are strong with total CAR (under Basel II) of slightly more than 11%, well above the minimum requirement of 8%.

Keep an eye on rising NPLs. Total NPLs were VND10.1 tn (+23bps YTD) as at 3Q20. Of which, cat. 3 NPLs increased by 15% YTD & cat. 4 NPLs jumped by 36% YTD.

Reiterate HOLD-Underperform. The unsecured consumer finance business remains our key concern. Although everything has its price, VPB's discount to the sector is insufficient to elicit our buying interest. The stock trades at 1.2x 2020E P/B vs. the sector median of 1.3x despite what we view as its higher-than-sector-average asset risk. Our target price implies -9% 12-month downside.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Ratings Definitions

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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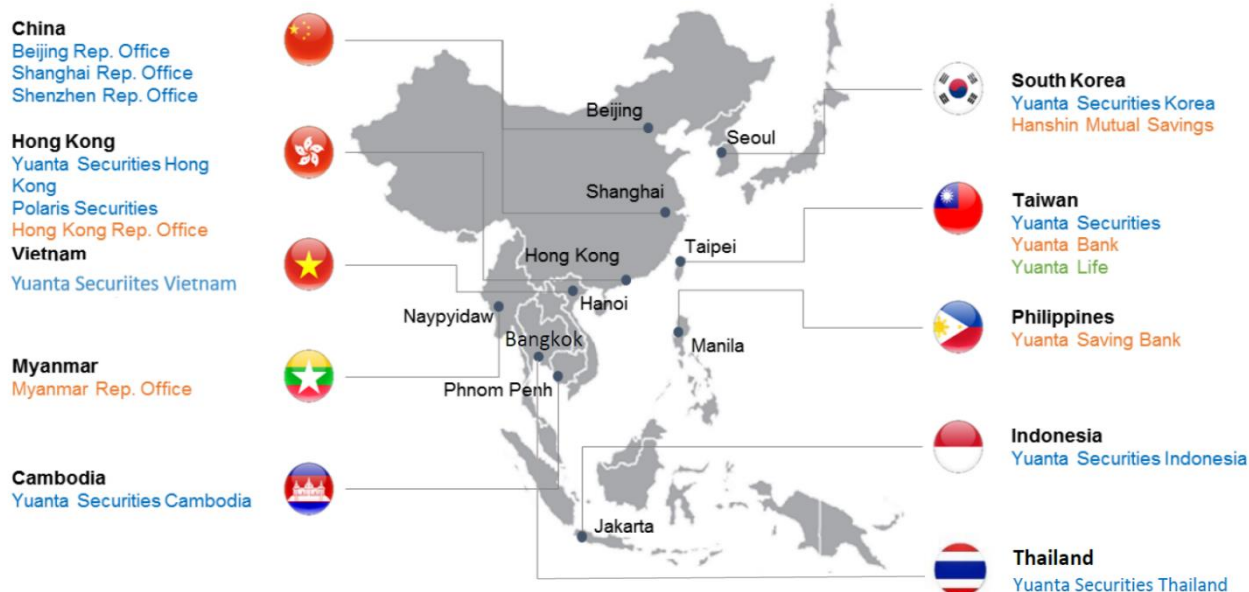
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