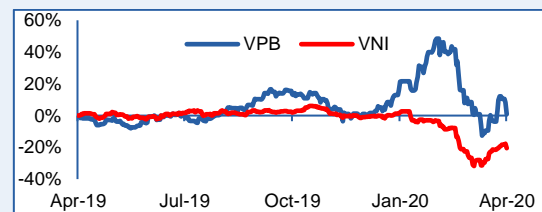


Industry:	Banking		2019	Q1'20	2020F
Report Date:	April 21, 2020	PPOP y/y	17.5%	32.8%	13.1%
Current Price:	VND19,550	NPAT y/y	12.4%	62.7%	27.9%
Current Target Price:	VND35,000	NIM	9.33%	8.92%	9.16%
Upside:	79.0%	NPLs/loans	3.42%	3.03%	3.36%
Dividend yield:	0.0%	CIR	33.9%	33.1%	34.5%
TSR:	79.0%	P/E	5.8x	N/A	4.5x
Rating:	BUY	P/B	1.1x	N/A	0.9x



			VPB	Peers	VNI
Market Cap:	USD2.0bn	P/E (ttm)	5.2x	5.7x	12.0x
Foreign Room:	USD5.6mn	P/B (curr)	1.1x	1.1x	1.7x
ADTV30D:	USD3.5mn	ROE (ttm)	21.1%	21.3%	14.8%
State Ownership:	0%	ROA (ttm)	2.4%	1.7%	2.5%
Outstanding Shares:	2.438 bn				
Fully Diluted Shares:	2.438 bn				

**Company overview**

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

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**Q1 results are broadly on track with our forecast**

VPB released consolidated results for Q1 2020 with bottom-line net profit totalling VND2.3tn (USD99mn; +62.7% YoY), which achieved 22% our FY2020 forecast. Q1 2020 NII was up 18.2% YoY — achieving 23% our FY2020 forecast — with consolidated NIM at 8.92% (relatively unchanged YoY). Annualized Q1 2020 ROE and ROA stood at 21.3% and 2.4%, respectively. However, due to the prolonged COVID-19 pandemic that we believe will have a negative impact on the consumer finance sector, we see downside risk to our earnings forecasts and/or target price, pending a more extensive review.

- 3M 2020 consolidated loan growth was 2.6% YTD, which was derived from 2.9%/1.8% loan growth at the parent bank/FE Credit (FEC). However, credit growth of the consolidated bank in 3M 2020 was 7.9% YTD as the corporate bond balance surged 104% YTD.
- Our estimated loan book size for FEC as of Q1 2020 was VND61.6tn/USD2.6bn. The NPL ratio of FEC was contained in Q1 at 4.43% — the lowest level since Q3 2017. However, annualized write-offs to gross loans at FEC remained high at 14.4% vs 14.0% in FY2019 and 13.8% in Q1 2019.
- We estimate that FEC's loan yield inched down in Q1 to 37.7% vs 39.2% in FY2019.
- The parent bank's NPL ratio stood at 2.65% with annualized write-offs to gross loans remaining unchanged at 2.89%.
- High write-offs at both the parent bank and FEC were partially offset by high income from the recovery of written-off debts in Q1 2020. Consolidated recovery income stood at VND453bn/USD19.4mn (+101% YoY).
- Q1 2020 consolidated provision charges achieved 27% our FY2020 forecast.

**Consolidated net fee income (NFI) — including FX income — was down 2% YoY in Q1 2020 from a high base.** While fee income revenue experienced 27% YoY growth, consolidated pure net fee income declined -7% YoY, which was mainly due to high commission expenses. We observed that strong growth momentum in banking service fees remained in Q1 (+93% YoY in net fees). Net fees from bancassurance experienced 5% YoY growth. Q1 2020 NFI, including FX, achieved 21% our FY2020 forecast.

**Total non-interest income (NOII) increased 60% YoY, which was mainly due to a surge in gains from trading and investment securities.** VPB recorded a 331% YoY jump in net gains from trading and investment securities in Q1 2020, which coupled with the aforementioned strong growth of recovery income from written-off debts, more than offset the slight decrease in NFI. Total NOII was up 60% YoY in Q1 2020, which achieved 26% of our FY2020 forecast.

**Apart from a 40-bps jump in write-offs at FEC in Q1 2020, other credit quality metrics at the parent and subsidiary level do not raise any red flags.** Group 2 loans as a percentage of gross loans moved up on a QoQ basis, up 44 bps and 67 bps for the parent and subsidiary, respectively; however, they dropped 63 bps and eight bps on a YoY basis, respectively. Accrued interest over IEAs also looks benign — especially when we account for the fact that Government bonds and corporate bonds have moved up from 18.8% to 24.3% of IEAs during the last 12 months. While we believe consumer finance sits on the pinnacle of vulnerability to a downturn, there is nothing per se in Q1 2020 results to suggest this view of vulnerability is well-placed.

**Figure 1: VPB's consolidated Q1 2020 results**

VND bn	Q1 2020	Q1 2019	YoY	Q4 2019	QoQ
NIM	8.92%	8.92%	0 bps	9.36%	-44 bps
Interest-earning asset yield	14.74%	14.95%	-21 bps	15.36%	-62 bps
Cost of funds	6.35%	6.69%	-34 bps	6.61%	-26 bps
CASA ratio*	12.2%	9.7%	2.5 ppts	13.3%	-1.1 ppts
CASA ratio plus term deposits in FX	13.3%	11.2%	2.1 ppts	14.4%	-1.1 ppts
NII	8,021	6,785	18.2%	8,064	-0.5%
NOII	1,884	1,177	60.1%	1,958	-3.8%
OPEX	-3,283	-2,976	10.3%	-3,192	2.8%
PPOP	6,623	4,987	32.8%	6,830	-3.0%
Provision expenses	-3,712	-3,204	15.8%	-3,695	0.5%
Net profit	2,314	1,422	62.7%	2,514	-8.0%
CIR	33.1%	37.4%	-4.3 ppts	31.9%	1.2 ppts
NPL ratio	3.03%	3.62%	-59 bps	3.42%	-39 bps
Group 2 loans / Gross loans	5.20%	5.83%	-63 bps	4.76%	44 bps
Accrued interests / IEAs	1.52%	1.48%	4 bps	1.72%	-20 bps
Loan growth**	2.6%	4.3%	-1.7 ppts	1.2%	1.4 ppts
Deposit growth**	0.8%	10.1%	-9.3 ppts	4.1%	-3.3 ppts

Source: VPB, VCSC – \*CASA volume included demand deposits and margin deposits, \*\* Q1 2019, Q4 2019 and Q1 2020 loans and deposits are QoQ growth.

**Figure 2: VPB's standalone Q1 2020 results**

VND bn	Q1 2020	Q1 2019	YoY	Q4 2019	QoQ
NIM	4.54%	4.58%	-4 bps	4.74%	-20 bps
Interest-earning asset yield	10.02%	9.84%	18 bps	10.42%	-40 bps
Cost of funds	5.16%	5.08%	8 bps	5.57%	-41 bps
CASA ratio*	12.4%	9.8%	2.6 ppts	13.5%	-1.1 ppts
CASA ratio plus term deposits in FX	13.6%	11.4%	2.2 ppts	14.6%	-1.1 ppts
NII	3,393	2,921	16.1%	3,372	0.62%
NOII	1,784	854	108.8%	3,156	-43.49%
OPEX	-1,779	-1,593	11.6%	-1,833	-2.95%
PPOP	3,398	2,182	55.7%	4,695	-27.64%
Provision expenses	-1,324	-1,147	15.5%	-1,170	13.16%
Net profit	1,659	829	100.2%	3,099	-46.47%
CIR	34.4%	42.2%	-7.8 ppts	28.1%	6.3 ppts
NPL ratio	2.65%	3.00%	-35 bps	2.69%	-4 bps
Group 2 loans / Gross loans	3.63%	3.71%	-8 bps	2.96%	67 bps
Accrued interests / IEAs	1.39%	1.30%	9 bps	1.57%	-18 bps
Loan growth**	2.9%	3.7%	-0.8 ppts	1.6%	1.3 ppts
Deposit growth**	0.6%	10.4%	-9.8 ppts	4.2%	-3.6 ppts

Source: VPB, VCSC – \*CASA volume included demand deposits and margin deposits, \*\* Q1 2019, Q4 2019 and Q1 2020 loans and deposits are QoQ growth.

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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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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**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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