



Sector Report: Vietnam Banking Sector

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Glowing long-term prospect - Outperform

In the short term, the banking sector will be hit by the 4th Covid outbreak, causing the third quarter credit growth to slow down somewhat. Provision expenses pressure and interest rate support packages would reduce profit growth compared to the 1st haft.

However, after reviewing, we assumed that NIM overall would only slightly decrease by about 0.2%-0.3% in the second half of the year. Moreover, some banks can still maintain high NIM (TCB, TPB) thanks to their low funding cost advantage in market 2.

Policy is the most important factor contributing to the sector's asset quality under control. In 1H2021, many banks have sharply reduced restructuring loan as well as NPL, while debts collection has been escalated, provision expenses also increased. Those actions partly reduce the pressure for the second half of the year.

There would be less catalysts in 2H2021 as most banks have completed dividend payment as well as important deals have been unveiled (as at VPB).

RECOMMENDATION

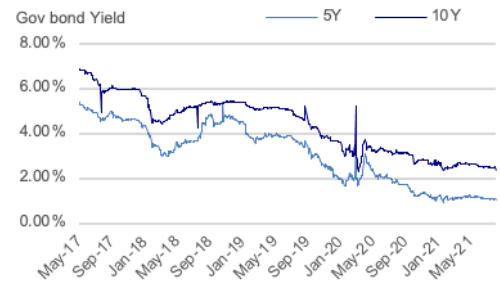
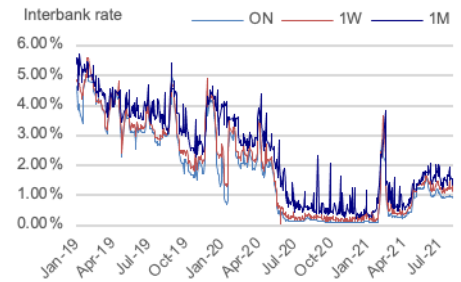
With the above discussions, we maintain an "Outperform" rating for the Banking sector.

We expect total credit growth of the economy at 9%-10% in 2021, NIM averaged at 3.3% and profit growth of 30%yoy.

Regarding the investment ideas for the next 6-18 months, we are interested in stocks with positive business prospects, effective business models, good asset quality with a high bad debt coverage ratio. Accordingly, we select TCB, MBB, CTG and VCB as potential investment.

Rating:

Outperform
(Maintain)



Macro 1H2021

GDP growth yoy	5.64%
Total credit ('000 trillion)	9.695
Total credit/GDP (est)	116%
Credit growth ytd	5.47%
Inflation yoy	0.87%
Refinance rate	4%

Source: Fiiipro, Guotai Junan (VN)

	Exchange	Total Credit 1H (VND b)	TOI 1H (VND b)	Net Profit 1H (VND b)	NIM TTM (%)	CIR TTM (%)	ROE TTM (%)	EPS (VND)
ACB	HOSE	341,668	11,903	5,072	4.15%	-25.57%	26.44%	3,588
BID	HOSE	1,297,445	31,661	6,510	2.86%	-23.92%	12.32%	2,512
CTG	HOSE	1,076,581	27,006	8,710	3.13%	-29.73%	18.50%	3,404
EIB	HOSE	106,353	2,350	445	2.30%	-62.67%	6.35%	874
HDB	HOSE	191,841	8,422	3,352	4.59%	-39.56%	20.50%	3,303
LPB	HOSE	191,228	4,775	1,617	3.54%	-45.11%	18.23%	2,221
MBB	HOSE	331,147	18,117	6,397	5.14%	-34.59%	20.07%	2,772
MSB	HOSE	91,381	5,359	2,479	3.68%	-32.83%	20.90%	3,240
OCB	HOSE	96,152	4,249	2,120	3.86%	-27.81%	23.34%	3,062
SSB	HOSE	111,578	3,199	1,238	2.50%	-36.30%	15.27%	1,628
STB	HOSE	361,109	8,891	1,914	2.74%	-49.22%	11.82%	1,920
TCB	HOSE	313,514	18,138	9,283	5.67%	-28.14%	20.97%	4,614
TPB	HOSE	132,204	6,233	2,407	4.33%	-36.04%	24.36%	4,158
VCB	HOSE	921,948	28,580	10,868	3.23%	-36.69%	20.60%	5,532
VIB	HOSE	182,945	7,308	3,164	4.37%	-35.35%	31.61%	3,811
VPB	HOSE	310,853	23,098	7,218	8.73%	-23.38%	22.64%	5,054
BAB	HNX	78,147	1,095	348	2.09%	-55.66%	7.81%	931
NVB	HNX	41,740	759	101	2.56%	-66.51%	1.94%	205
SHB	HNX	331,480	7,495	2,475	3.25%	-25.31%	15.37%	2,007

VN Listed banks. Source: the Company, Guotai Junan (VN).

BUSINESS RESULTS 1H2021

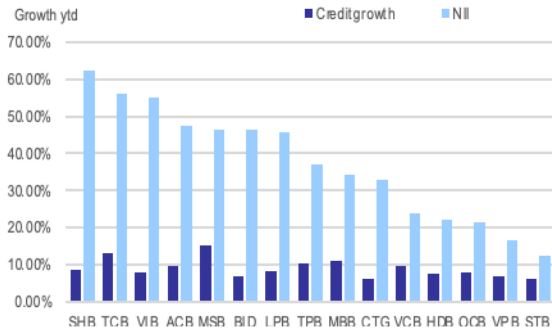
Credit expansion has generally remained positive with an average growth of over 7%ytd at listed banks. The top private commercial banks recorded the highest growth rate (10%-12%ytd) and have reached the SBV’s credit limit.

Sector-wide profit maintained positive momentum, +58%yoy: (i) SoBs group had the least positive results due to the strong influence of picking up provision expenses; (ii) The top commercial bank group grew quite well thanks to NIM expansion and cost reduction (MBB, TCB, VPB, ACB, TPB); (iii) Small commercial bank group (BVB, KLB) recorded the strongest profit growth - PBT doubled, tripled compared to the same period last year (this group had some unusual income, sharply reduced provision expenses in 1H).

Key factors driving profit growth in the first half:

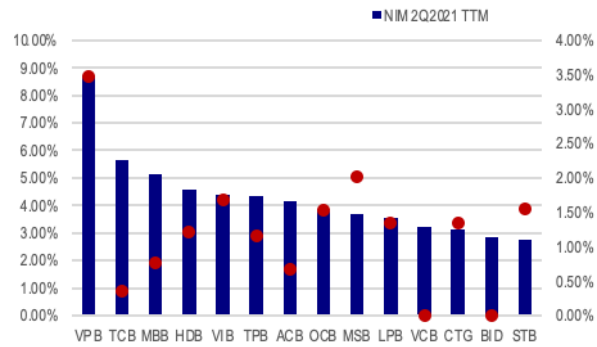
- NIM improved thanks to lower funding costs: interest income grew by just 6.3%, but a 13.84% drop in funding cost was the main reason for net interest income growing above 35%yoy.
- Non- interest income grew 35%yoy
- Tightly controlled operating costs which rose only 13%yoy, CIR ratio decreased at most banks.
- However, except for a few banks such as VPB, HDB, the results of many banks in Q2/2020 are not positive and therefore create a low base for high growth this year.

Figure-1: Credit and Profit growth 1H2021 (yoy)



Source: Fiinpro, Guotai Junan (VN).

Figure-2: NIM and NPL ratio 1H2021



Source: Fiinpro, Guotai Junan (VN).

SECTOR OUTLOOK

Due to the prolonged impact of the epidemic, the business results in 3Q/2021 will somewhat slow down. However, with the expectation that the epidemic will be controlled soon at the beginning of September along with accelerated vaccinations progress, we believe that the banking sector will still enjoy the peak season in the fourth quarter to help total credit growth of the economy reach 9%-10% in 2021. In particular, the listed banking group will get an average credit growth of 15%.

In terms of profitability, there will a differentiation among SOBs, top commercial bank group and small commercial bank group. In details:

- 1) Small scale and focused customer make it easy for small commercial banks to expand credit balance and thus achieve impressive growth rate.
- 2) In contrast, the SOBs group faces challenges from many sides: (i) eroded profit as promoting customer support and reducing interest rates under the direction of SBV (ii) large customers base is affected by the epidemic causes the risk of bad debts to increase, (iii) less advantages in digitalization and flexibility, large branch network makes operating costs remain high and (iv) personnel changes at CTG and VCB (change Chairman) may lead to a change in the bank’s strategy/risk appetite.
- 3) In the middle group, joint stock commercial banks with credit balance of VND200,000-400,000 billion such as TCB, MBB, VPB, VIB, STB also have a certain differentiation. In which, we highly appreciate TCB and MBB given their improved asset quality and business performance. The operating segment of 2 stated banks is also more sustainable and less affected in the short term than VPB which have faced difficulties as many customers of the bank as well as FE Credit are

affected by the epidemic.

NIM 2H2021 is expected to decrease by an average of 0.2%-0.3% due to supporting packages while less room for lower funding cost.

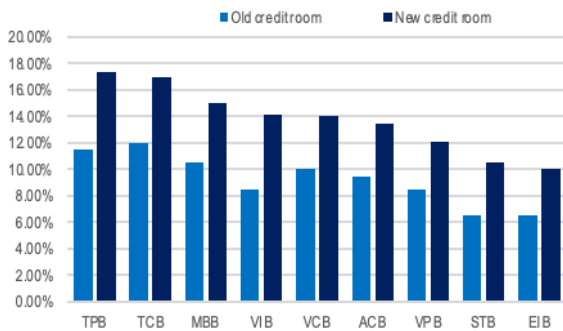
In terms of provision, provision balances of banks, especially large banks, are still maintaining at a high level. Many banks have set up provision over the requirement according to the TT03/2021 roadmap (VCB, CTG). However, due to prolonged Covid affecting consuming activities, some banks have to increase their provision in the near future due to incurring bad debts.

For the medium & long-term outlook, we expect the sector will enjoy better result in 2022 with the hope that Vietnam's economy will recover from this epidemic, especially after the majority of the population has been vaccinated and achieve community immunity. The credit growth rate is expected to be at 14% thanks to the recovery of business and consumer activities.

Policy is one of the main factors that makes us hold a positive view of the banking sector. Since 2020, Cir01/2020 has been issued to support banks as well as customers. The guidance on interest rate cuts or amendments to Cir01/2020 with Cir03/2021, over the course of 2 years, help banks to relieve their bad debt handling activities.

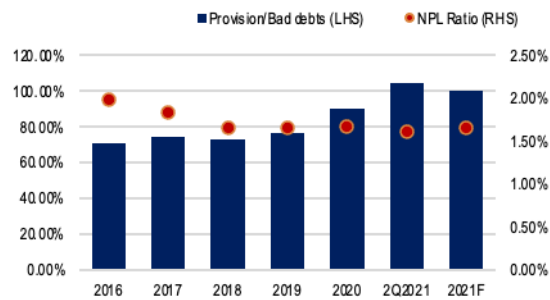
Interest rates raising depends on the economic recovery roadmap. In the context of many challenges to completely control the epidemic, all economic activities cannot open well as pre-Covid outbreak, we believe that those above support actions from SBV will remain. In a positive scenario, SBV may consider to raise interest rates from 2023 when Covid is well controlled globally as well as Vietnam achieves community immunity.

Figure-3: Credit growth limit 2021



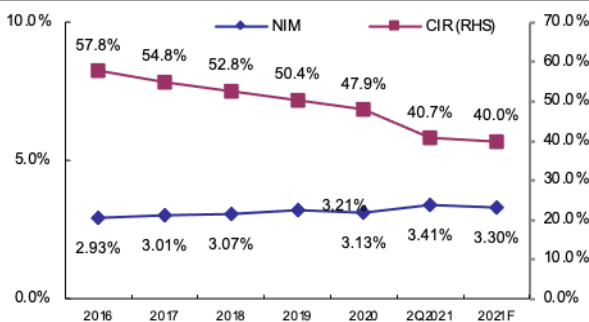
Source: Fiinpro, Guotai Junan (VN).

Figure-4: Asset quality



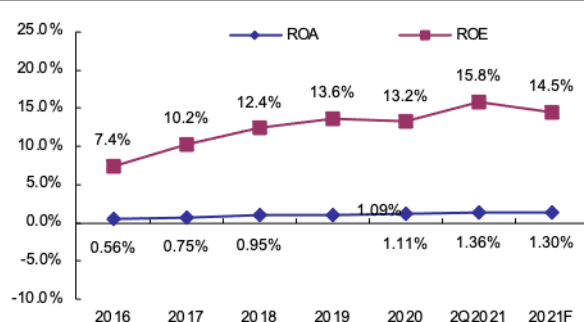
Source: Fiinpro, Guotai Junan (VN).

Figure-5: NIM and CIR



Source: Fiinpro, Guotai Junan (VN).

Figure-6: Profitability



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COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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