

BANKING SECTOR

Sector rating: **Outperform**

Maintained

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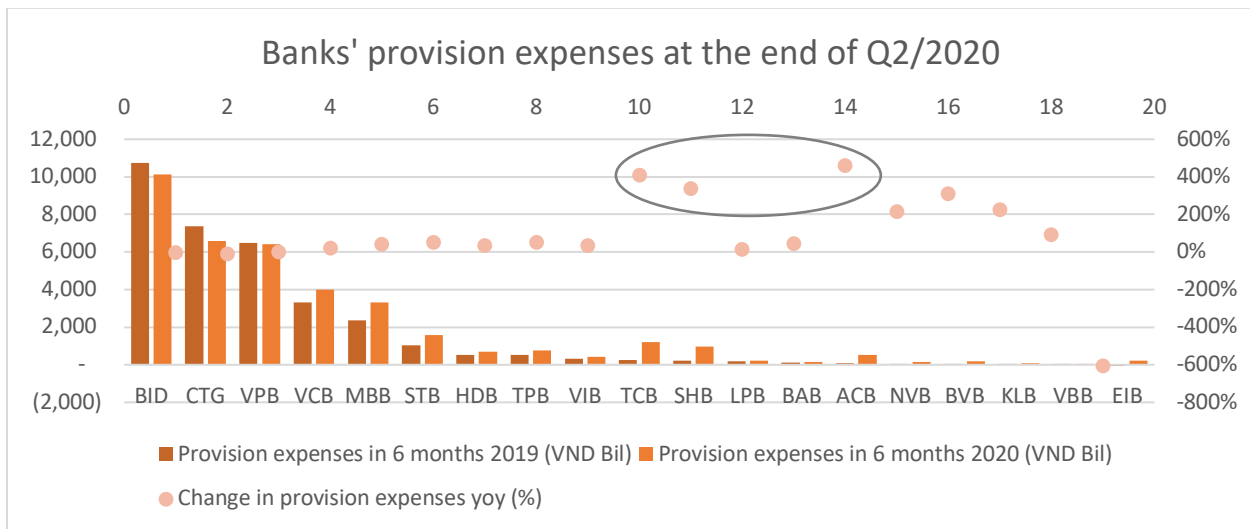
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BANKS' PROVISION AND BAD DEBTS CLEARANCE IN THE FIRST HAFT OF 2020

Acting to the Covid-19 outbreak impact on credit quality, Vietnamese banks have actively raised the provision expenses for credit losses in the first haft of 2020.

Based on the 1st haft financial statement of banks, we have observed some movement in the sector:

- The divergence of loan loss provision expenses growth between state-owned bank (SOBs) and Joint Stock Commercial Bank (JSCBs) groups.
- Banks accelerated to clear bad debts, unfreezing the pressure on NPL ratio.
- Loan loss provision coverage ratio was maintained relatively low.



Source: Fiinpro, IVS Research

In details:

Regarding to loan loss provision and bad debts write off:

- **State-owned bank group (SOBs):**
 - o VCB is the only SOB bank recording provision expenses growth in the first haft of 2020. Notably, though escalating provision expenses, VCB has not used any provision to clear bad debts in the period yet.
 - o The 02 remaining banks including BIDV (BID) and Vietinbank (CTG) spent less for provision account in the first haft. In the recent years, BIDV and CTG have accelerated their restructuring plan and steadily clear their bad debts on the loan book. BIDV spent

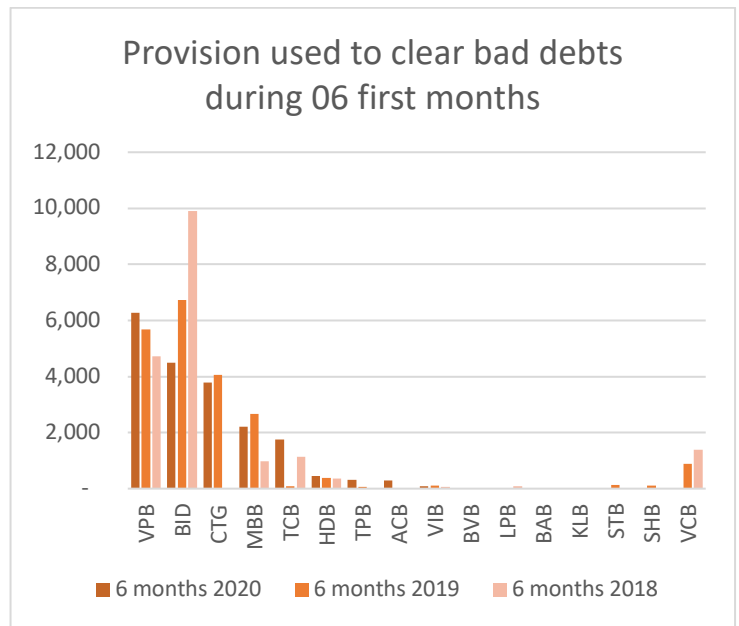
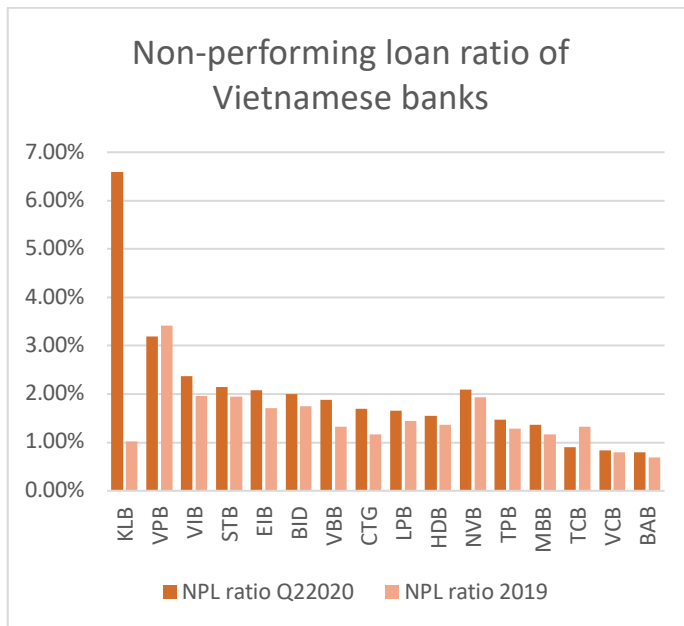
nearly 4,500 VND billion (-50%yoy) in the first haft of 2020. Meanwhile, CTG while promoting its restructuring plan started since 2018, has actively written off 3,787 VND billion non-performing loans in past 6 months (lower than the figure of 4,047 VND billion in first haft of 2019).

- **Joint Stock Commercial Bank group (JSCB):**

- o Almost banks in this group sharply raised provision cost compared to the same period in 2019 (exempt for EIB). In which, TCB, SHB and ACB increased this account the most (3-4 times compared to the last year same period).

Relating to non-performing loan written off, VPB and TCB are 02 most active players:

- o VPB used 6,284 VND billion specific provision to clear bad debts which help to lower bank's NPL ratio to 3.19% from 3.42%.
- o Meanwhile, the amount of bad debts written off in TCB was 1,746 VND billion, 20 folded compared to the same period in 2019.



Source: Fiiipro, IVS Research

Thin loan loss provision coverage ratio

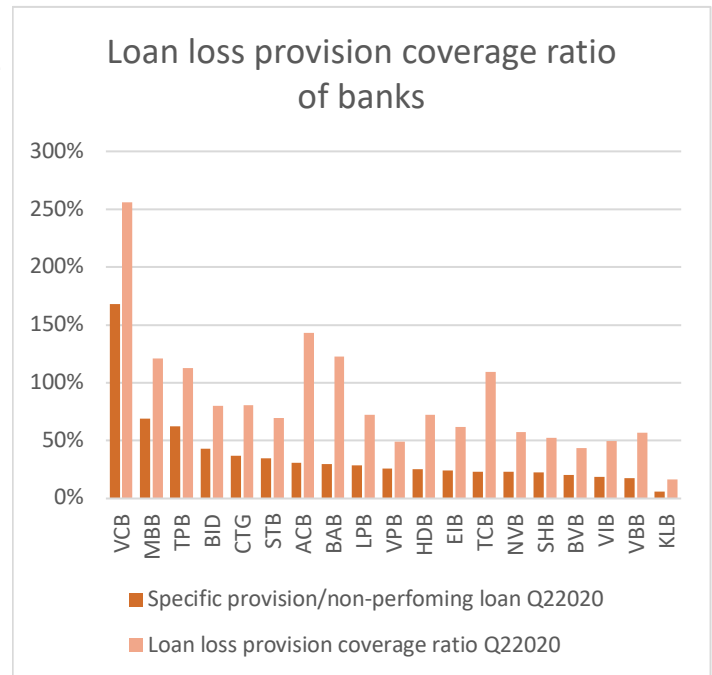
It should be noted that although banks significantly raised provision in the first haft, can only **specific provisions** be used to directly write off bad debts. Therefore, considering the **loan loss specific provision coverage ratio** (specific provision/non-performing loan) may reflect the picture of banks better, instead of using the general loan loss provision coverage ratio (general provision+ specific provision/non-performing loan).

At the end of Q2/2020, the mentioned ratio- **specific provision/non-performing loan** in the system is relatively low, mostly lying within the 20%-30% range.

Up to present, Vietcombank is owning the highest coverage and left other competitors far behind. If covering 8,200 VND billion restructured loan (bank publicized in 04/2020), the specific provision to (non-performing loan + restructured debts) ratio is still above 110%. That shows the solid shield the bank has built to face crisis.

2 followers- MBB and TPB stick to the track with quite high specific coverage which is around 60%-70%.

Notably, breaking down the provision account of ACB, we see that though recording skyrocketing provision expenses in the first haft of 2020, the specific provision of the bank is still very low in comparison with its non-performing loan, making the mentioned ratio just 31%.



Source: Fiinpro, IVS Research

RECOMMENDATION

From those figure and analysis above, we believe that the prudent assessment is maintained among banks as they will continue to spend more for provision in the coming period. At the same time, specific provision will be used to clear bad debts, contributing to maintain banks' NPL ratio below the target rate even in case restructured debts are officially recorded in the loan book.

Remaining the hope that Vietnamese banks will handle well with the Covid-19 impacts while actively write-off the non-performing loan as mentioned above, together with supporting factors including the Vietnamese authorities' ability to control the outbreak, Vaccine invention, we, IVS **maintain** the rating "**Outperform**" for the banking sector.

Stocks in our banking sector watch list: VCB (hold), ACB (buy), VPB (buy), TCB (accumulate), CTG (accumulate) and MBB (hold).

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% Or The Fundamental outlook of the sector is unfavorable

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