Flash note: View on Banking system's provision after 1 year of restructuring

Sector: Banking

Recommendation: **Outperform**

Maintain

Equity research team

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Foreword

- This report continues last topic on Banks' provision published in Sep 2020 named "Banks' Provision and Bad Debts Clearance in the first Haft of 2020".
- The content here only considered the aspect of loan loss provision setting of the bank up to present (including for restructured loan according to Circular 01/2020), the update of Circular 03/2021 as the amendment of Circular 01, its impact on banks.
- From that, we will point out some banks that enjoy benefit from these changes as well as some still under difficulty.

Key notes

1. Circular 03/2021 dated April 02/2021 eases one-time-large -provision pressure for banks having high restructured loan (VPB, TCB, TPB)
2. Profit is expected to breakthrough in banks owning strong provision buffer. VCB is the most prudent bank in the sector
3. VAMC provision expenses pressure is removed, but provision expenses burden on banks' profit is still high, especially in VPB. Potential of improving margin for CTG is promising

The amendment of Circular 01/2020, Circular 03/2021 dated April 02/2021 eases one-time-large -provision pressure for banks having high restructured loan (VPB, TCB, TPB)

Main content of Circular 03/2021

1. Debt rescheduling for clients affected by the Covid-19 pandemic until December 31, 2021

Credit institutions and foreign bank branches shall conduct debt rescheduling debit balance of debts that fully meet the following conditions:

- Firstly, arising before June 10, 2020, from lending and financial leasing activities;
- Secondly, giving rise to obligations to repay loan principals and/or interests from January 23, 2020 to December 31, 2021.
- Thirdly, the debt rescheduling for a debit balance of debts shall be carried out in the following cases: Such debit balance is not due or falls overdue for up to 10 days from the due date under the contract or agreement; Debit balance of the debts arising before January 23, 2020 and overdue from January 23, 2020 to March 29, 2020; Debit balance of the debts arising from January 23, 2020 and overdue before May 17, 2021.
- Fourthly, being of clients that are unable to make due payment of their loan principals and/or interests under contracts or agreements due to loss of their revenues or incomes as a consequence of the Covid-19 pandemic, as evaluated by credit institutions or foreign bank branches; etc.

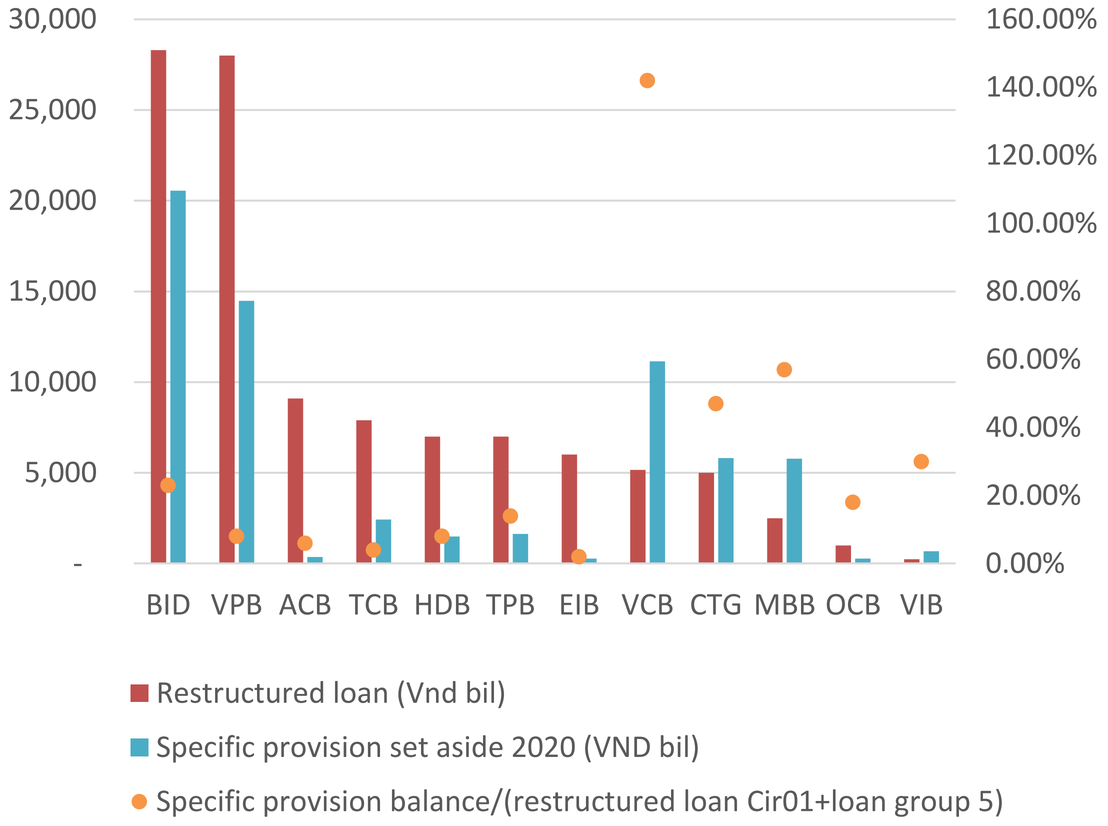
2. Timeline for loan loss provision

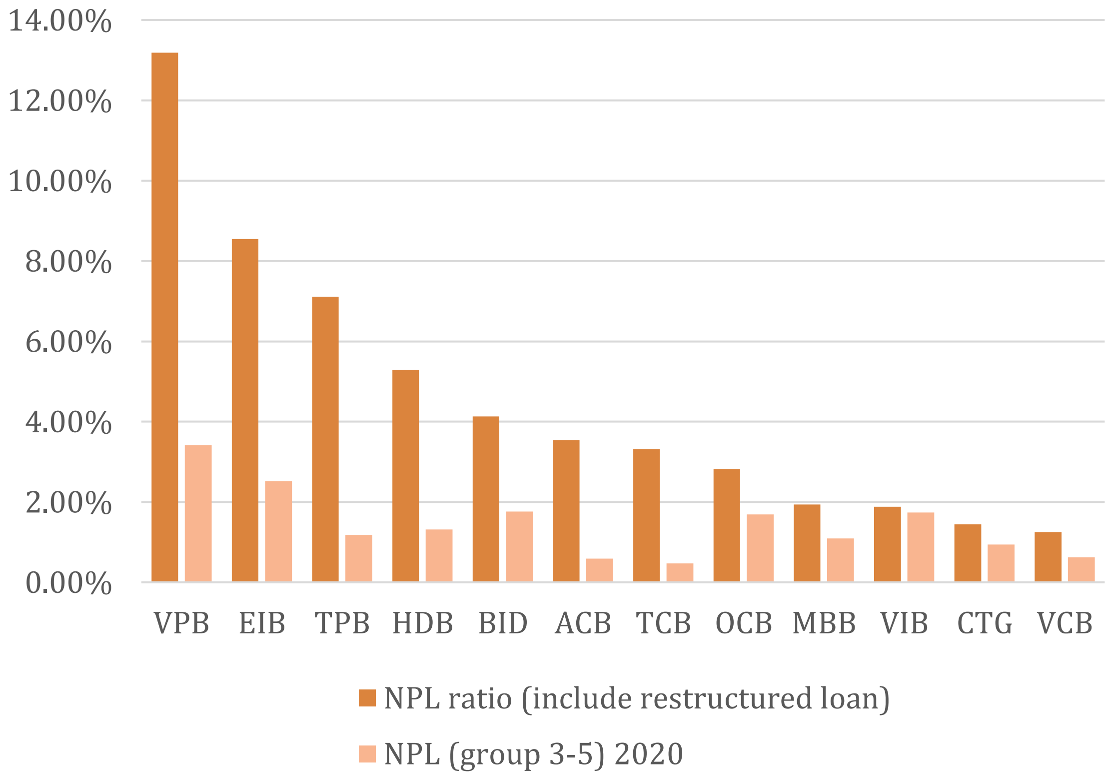
Despite the extension of the debt classifications, the new circular states commercial banks must set aside money for potentially unrecoverable COVID-19 affected loans within three years, starting from 2021. The central bank last year allowed commercial banks to avoid making the provisions in 2020 to support banks and borrowers affected by the pandemic.

Under the new circular, the ratio of the provisions will increase gradually, from 30 per cent of COVID-19-affected loans by the end of 2021 to 60 per cent by the end of 2022 and 100 per cent by the end of 2023.

Profit is expected to breakthrough in banks owning strong provision buffer

VCB is the most prudent bank in the sector



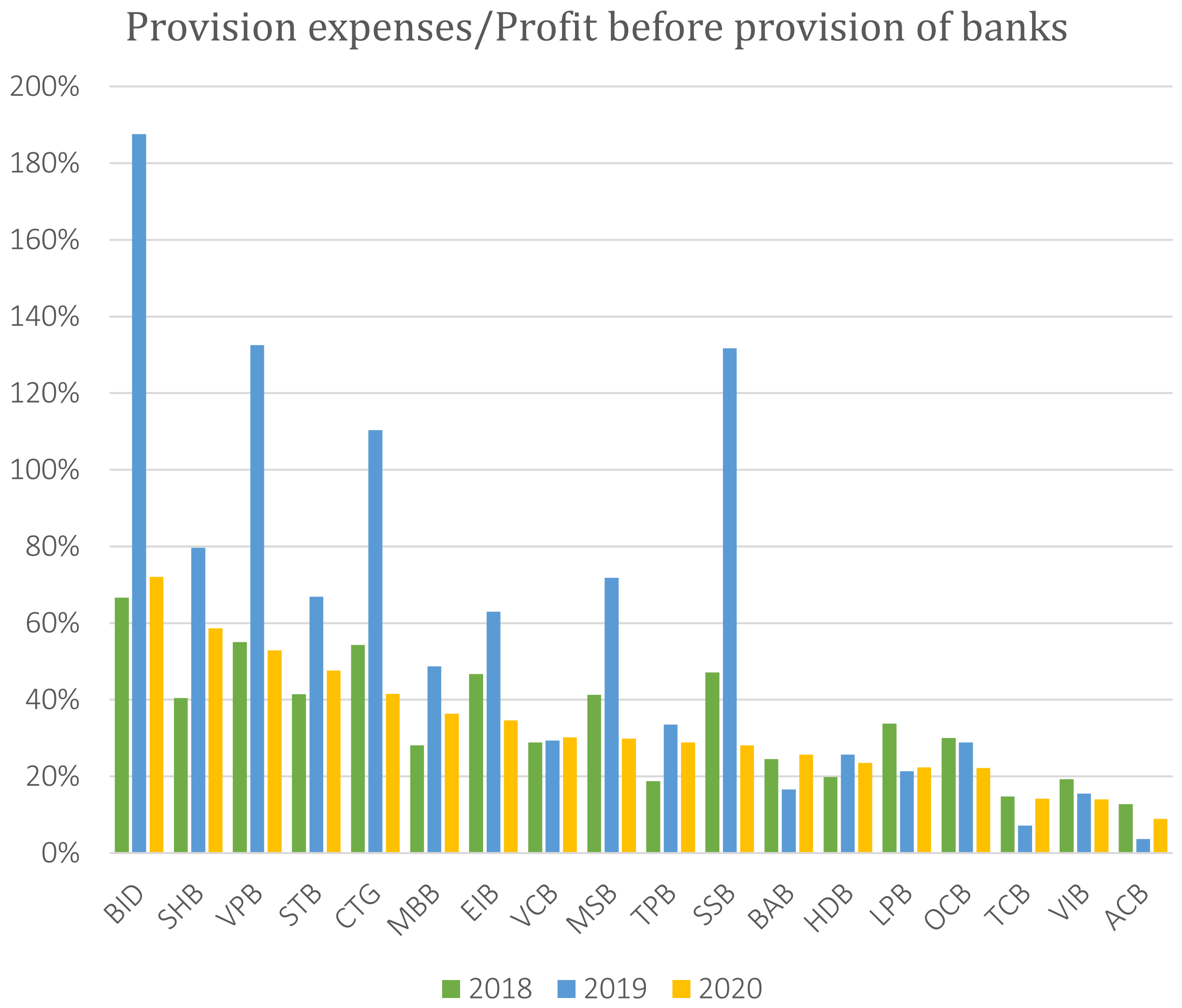


Sources: banks, IVS Research

According to the new circular, banks have large restructured loan portfolio and low provision still face cost pressure in coming time meanwhile the remaining banks can recover sooner.

VAMC provision expenses pressure is removed, but provision expenses burden on sector's profits is still high, especially in in VPB. Potential of improving margin for CTG is promising

- Provision expenses eroded up tp 60% TOI of banks, highest in Bid, SHB and VPB.
- Despite the higher pressure, the ratio of provision cost/TOI in many banks in 2020 is lower than in the period of 2018-2019 thanks to the elimination of VAMC provision (most banks have cleared VAMC debt by the end of 2019).
- Notably, in 2020, CTG cleared VAMC debts in 2020. CTG's specific provision balance is also relatively high, so the pressure to set up a provision in CTG will decrease significantly (the ratio of provision expenses/TOI is expected to be 30%, equivalent to VCB), helping to improve profit margin.
- On the other hands, provision/TOI in VPB will remain high due to the business nature and high restructured loan portfolio.



Sources: IVS Research

CONCLUSION

- Remain outperform rating for Banking sector.
- Circular 03/2021 of the SBV is timely supporting measure to relieve pressure on the entire banking sector thanks to the amendment of debt restructuring time limit, guidance on setting up provision for restructured balances. The amended clauses are not too surprise than previously expected. Accordingly, banks will have time to reschedule the setting up of provision expenses and debt handling.
- Although benefiting from Circular 03/2021 which helps relieve the pressure of provision in the short term, the low specific provision balance / restructured loans shows that the profitability of VPB, ACB, TCB, HDB, TPB group has not really broken through in the short term due to pressure from provisioning.
- We note that **VPB** with the characteristics of outstanding loans belonging to consumer finance and SMEs, will face challenge to sharply reduce the size of restructured balances, so it will continue to be at the top of the provision costs in the coming period.
- On the other hands, **VCB, CTG, MBB** group have been able to be more confident about a sustainable recovery in profits since this year.

Equity research rating definition

COMPANY

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
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

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

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