



BANKING SECTOR REPORT

Earnings Update Q1/2023

Outlook: Neutral (maintained)

May 2023

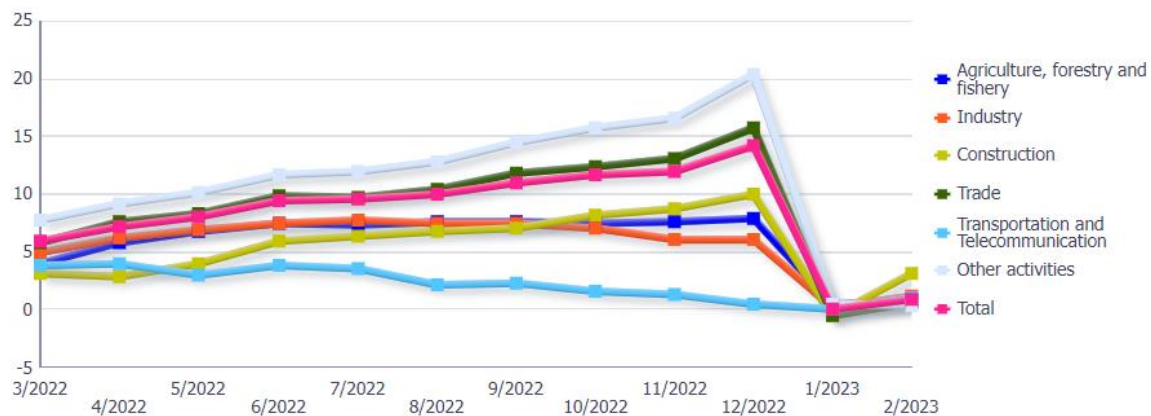
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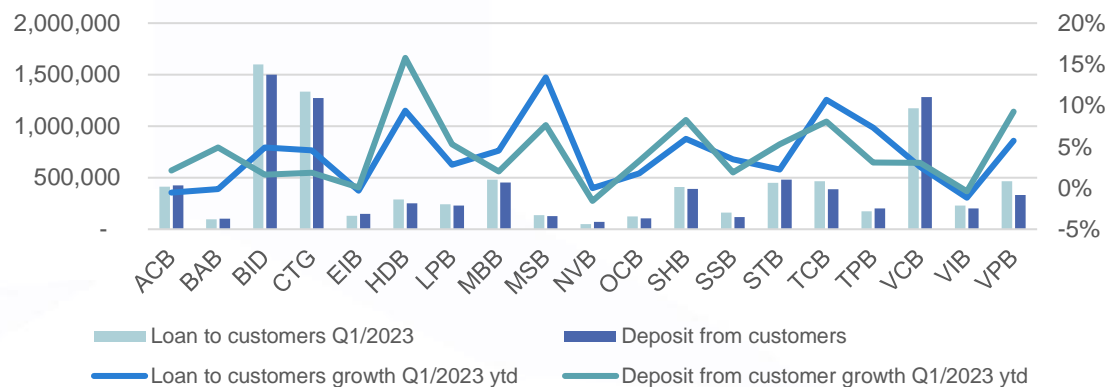
Sluggish credit growth

Credit to The Economy - The rate of increase (decrease)



According to data from the State Bank of Vietnam (SBV), credit for the whole economy only increased by 2.06% in the first three months of the year (compared to 5.04% in the same period last year). Interest rate pressure and cautious assessment in lending activities of banks with weaker corporate profiles in the context of slower economic growth were the main reasons for the low credit growth at the beginning of the year. More specifically, in the first 3 months of the year, in priority areas, bank loans for agriculture and rural areas decreased by 0.09%. Meanwhile, credit to risky sectors including real estate increased by 2.19%, of which credit to real estate business increased by 6.45%, for self-use purposes increased by 0.25%. Particularly, credit for investment and securities trading increased the most with 13.39%.

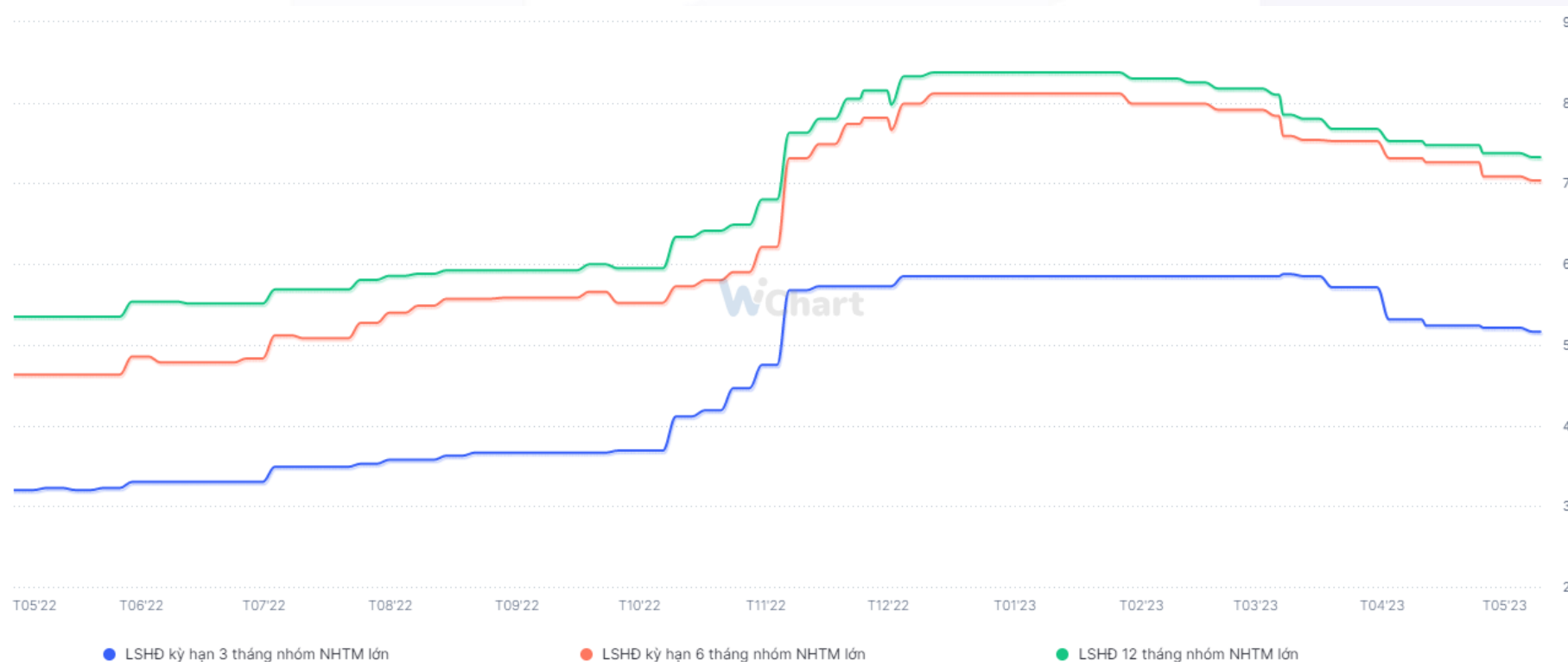
Credit and deposit of listed banks



Sources: SBV, Fiiipro, GTJASVN



Interest rate up and down

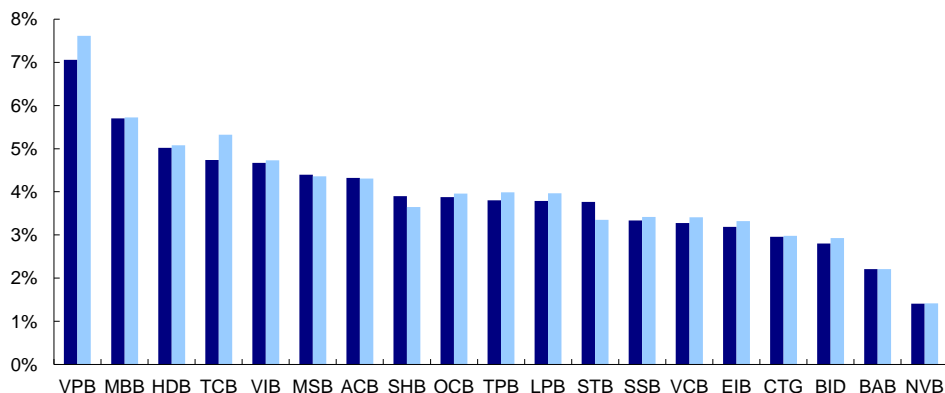
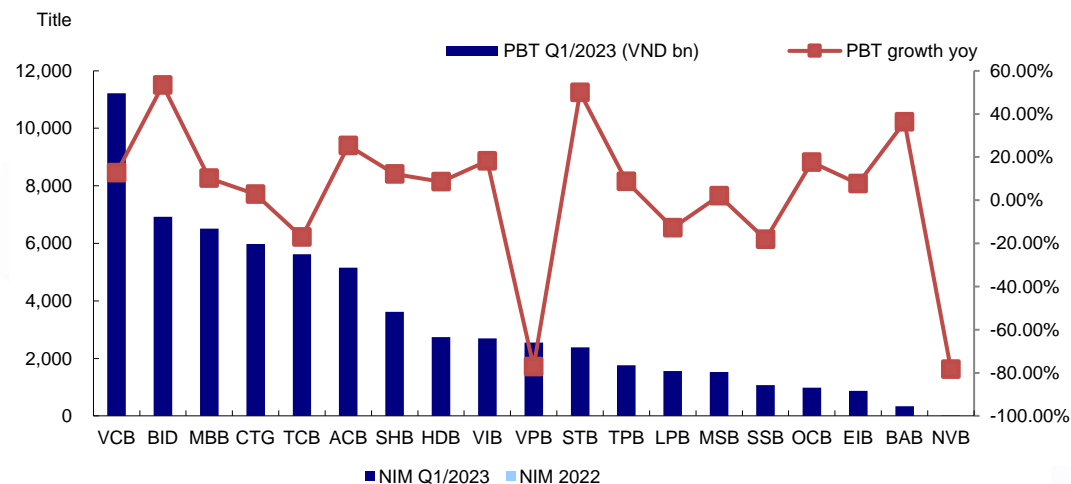


Sources: Wichart

According to the State Bank of Vietnam (SBV), the average new lending interest rate decreased by 0.4% compared to the end of 2022 (as of early March 2023). Savings deposit rates of banks also decreased by 1%-2%/year.



PBT of listed bank down 4.4%yoy



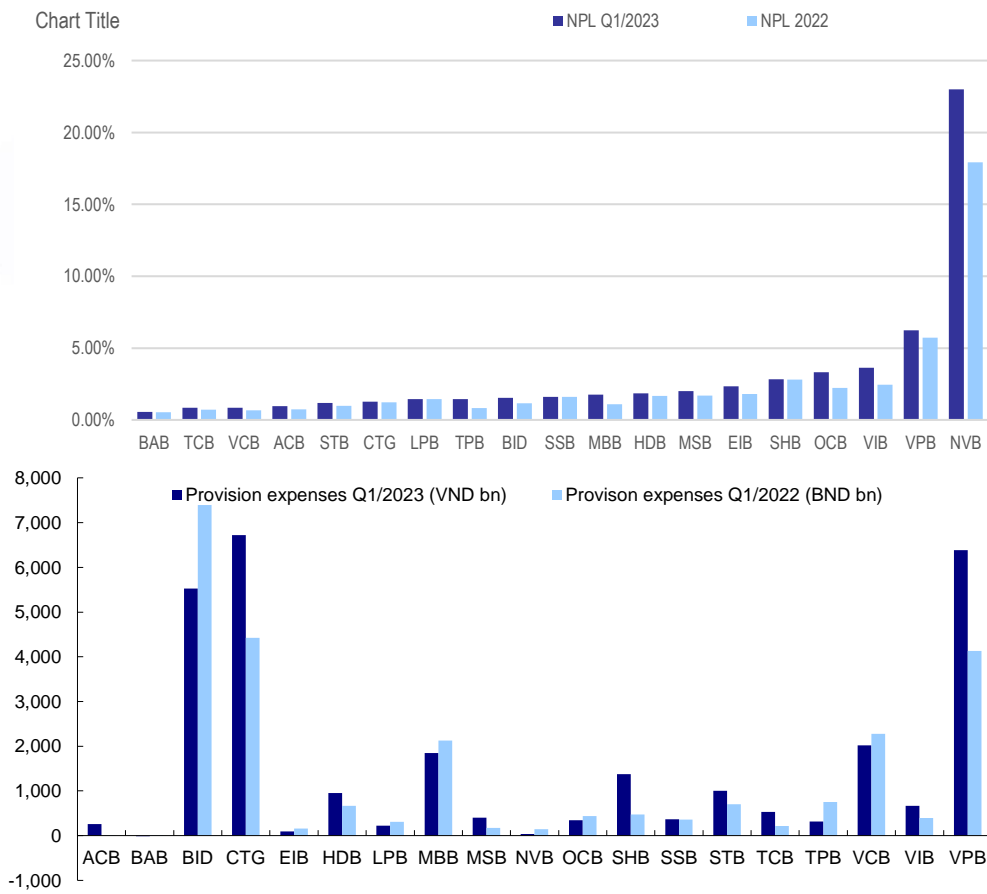
Sources: SBV, Fiiipro, GTJASVN

In general, the profit picture of the banking sector is not too pessimistic if excluding the extraordinary income of VPB in Q1 last year, the average profit before tax of listed banks increased by nearly 8%yoy (compared to 48% in the same period last year). It is clear to see the divergence between the business results of banks. The prominent name in the joint stock trading group is TCB, which showed a negative earning growth due to the higher cost of fund as well as the decline income from other revenue sources (banca, IB). In general, the number of banks recoding positive PBT growth was overwhelming in the 1st quarter.

The system's NIM in general decreased due to pressure to reduce output lending interest rate while deposit cost increased (average NIM of listed banks decreased from 3.99% to 3.91%). Some names have an upstream NIM but not too much such as MSB.



NPL ratio surged in Q1



Sources: SBV, Fiiipro, GTJASVN

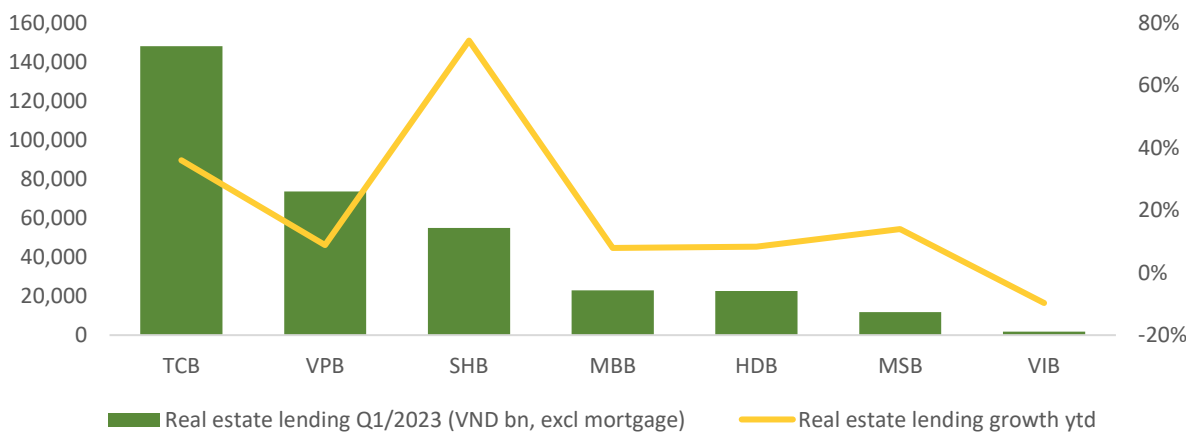
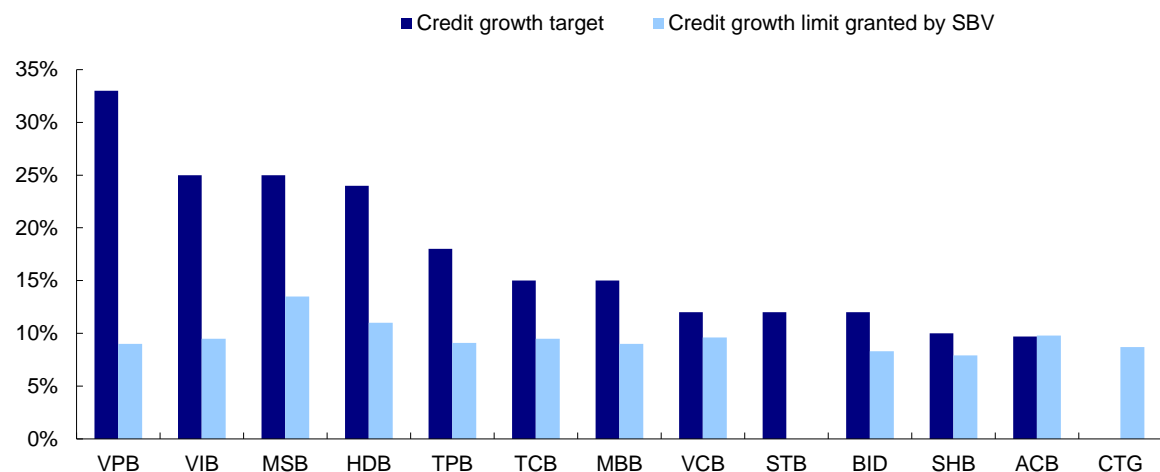
The NPL ratio of listed banks increased from 2.49% to 3.09% by the end of the first quarter of 2023. Besides, according to statistics from the SBV, the bad debt ratio on the balance sheet of the whole system has increased from 2% at the end of 2022 to 2.91% at the end of February. The data shows the riskier lending environment that makes banks more prudent in disbursing new loans. Also, that reflects the impact of the restructuring loan balance during the Covid period on on-balance sheet bad debt when supporting policies expired.

The provision expenses increased sharply in VPB, SHB, VIB... mainly due to the impact of consumer loans without collateral (unsecured lending).

Meanwhile, the loan loss coverage ratio of listed bank decreased from 124% to 105%.



Growth target of banks



Sources: Fiinpro, GTJASVN

In 2023, many banks still set very ambitious growth targets despite the difficulties encountered in the first half of the year. However, the positive signals in terms of policy and improvement of the business environment - especially in the real estate sector (policies), partly help to strengthen the business expectations of banks. On the other hand, we note some names have more conservative business plans this year such as TCB, MBB.



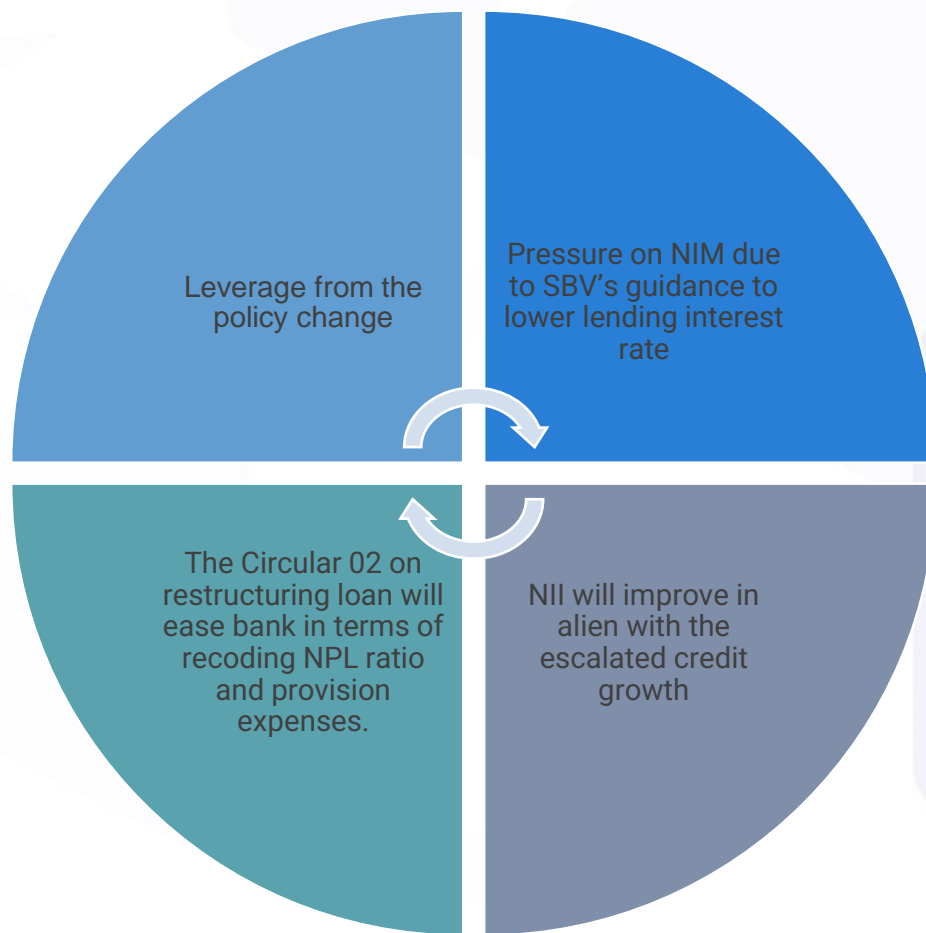
Reversed policies to support the economy and system

New policies since the beginning of the year	Detail
2 times interest rate cut in March and April	Decision No. 313/QĐ-NHNN dated March 14, 2023 on the refinancing interest rate, the rediscounting interest rate, the overnight rate for the inter-bank electronic payments, and the interest rate applied to loans to finance short-term balances in the clearing transactions between the SBV and the credit institutions. Accordingly, the refinancing rate is maintained at 6% p.a.; the rediscounting rate is reduced from 4.5% to 3.5% p.a.; the overnight rate for the inter-bank electronic payments and the rate applied to loans to finance short-term balances in the clearing transactions between the SBV and the credit institutions is lowered from 7.0% to 6.0% p.a.
	The maximum VND mobilization interest rate for demand and below 1-month terms is declined from 1% p.a. to 0.5% p.a.; the maximum VND mobilization interest rate for time deposits of 1-month to below 6-month terms decreases from 6.0% p.a. to 5.5% p.a.; the maximum VND mobilization interest rate for short-term loans in VND applied to the People's Credit Funds and the Micro Finance Institutions is cut down from 6.5% p.a. to 6.0% p.a.; the interest rate cap is reduced from 5.0% p.a. to 4.5% p.a.; the interest rate cap applied to the VND short-term loans in the priority sectors and areas provided by the People's Credit Funds and the Micro Finance Institutions is lowered from 6.0% p.a. to 5.5% p.a.
Circular 02 on restructuring loans of credit institutions	Circular 02/2023/TT-NHNN (issued in April) provides instructions for credit institutions and foreign branch banks (FBBs) on debt rescheduling and retention of debt category to assist borrowers of business loans and consumer loans.
Circular 03 on corporate bond investment activities of banks	Circular 03 allows banks to immediately buy back corporate bonds they have sold before December 31, 2023

Many solutions have been put in place to support the banking industry and the economy right in the first quarter. The modification of the LDR calculation that took effect from the beginning of the year also helps to ease the technical pressure on banks.



Banks are still cautious about Q2 results but optimistic in the second half of the year

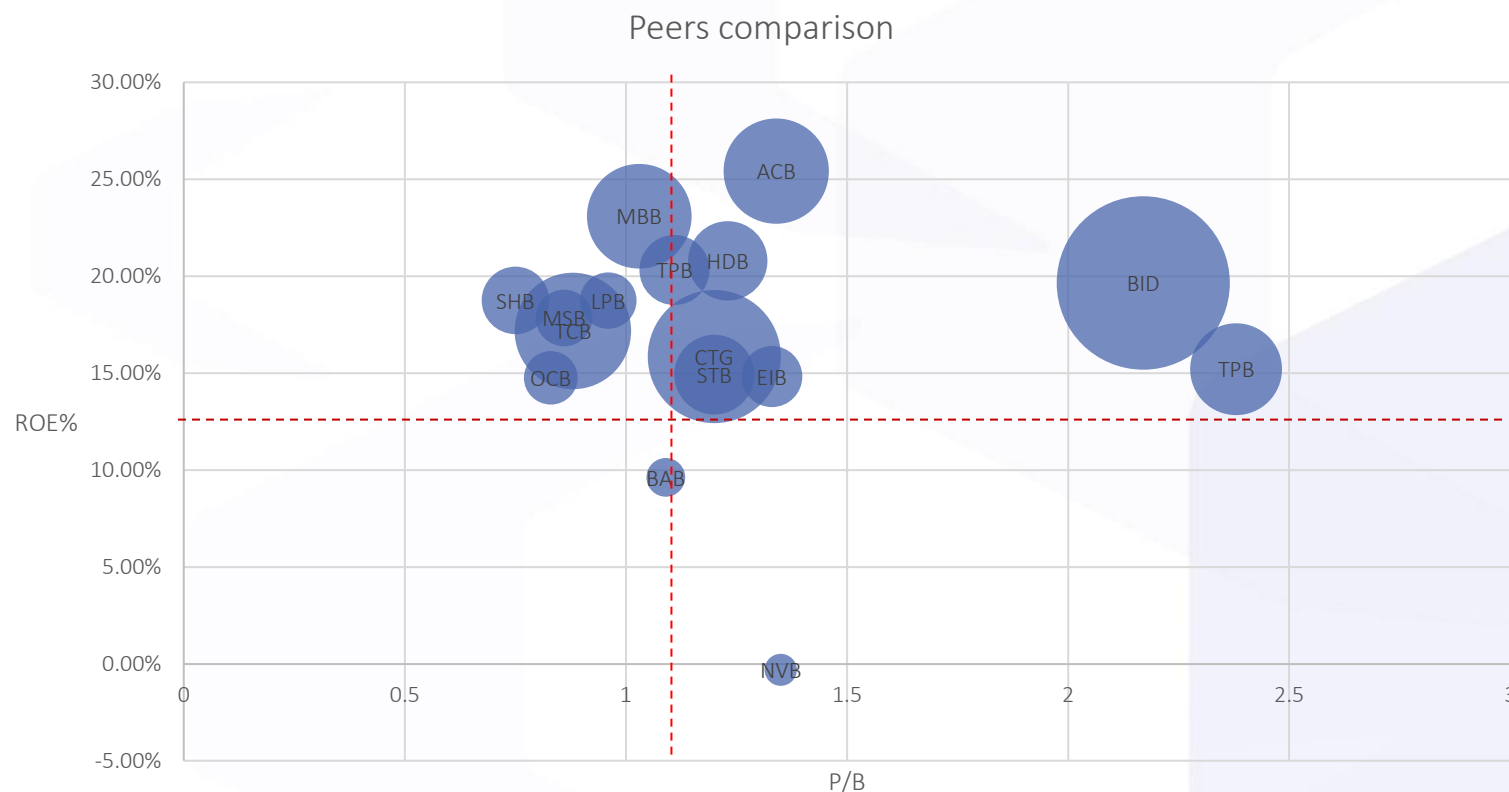


In fact, credit growth in April has improved, especially real estate credit.

Data published by the State Bank of Vietnam (SBV) shows that, in the first four months of 2023, real estate credit increased by 9.78%, while the overall credit of the economy increased by 3.24%. The data shows that some problems in real estate credit have been removed.



Investment opportunities



Sources: Fiinpro, GTJASVN

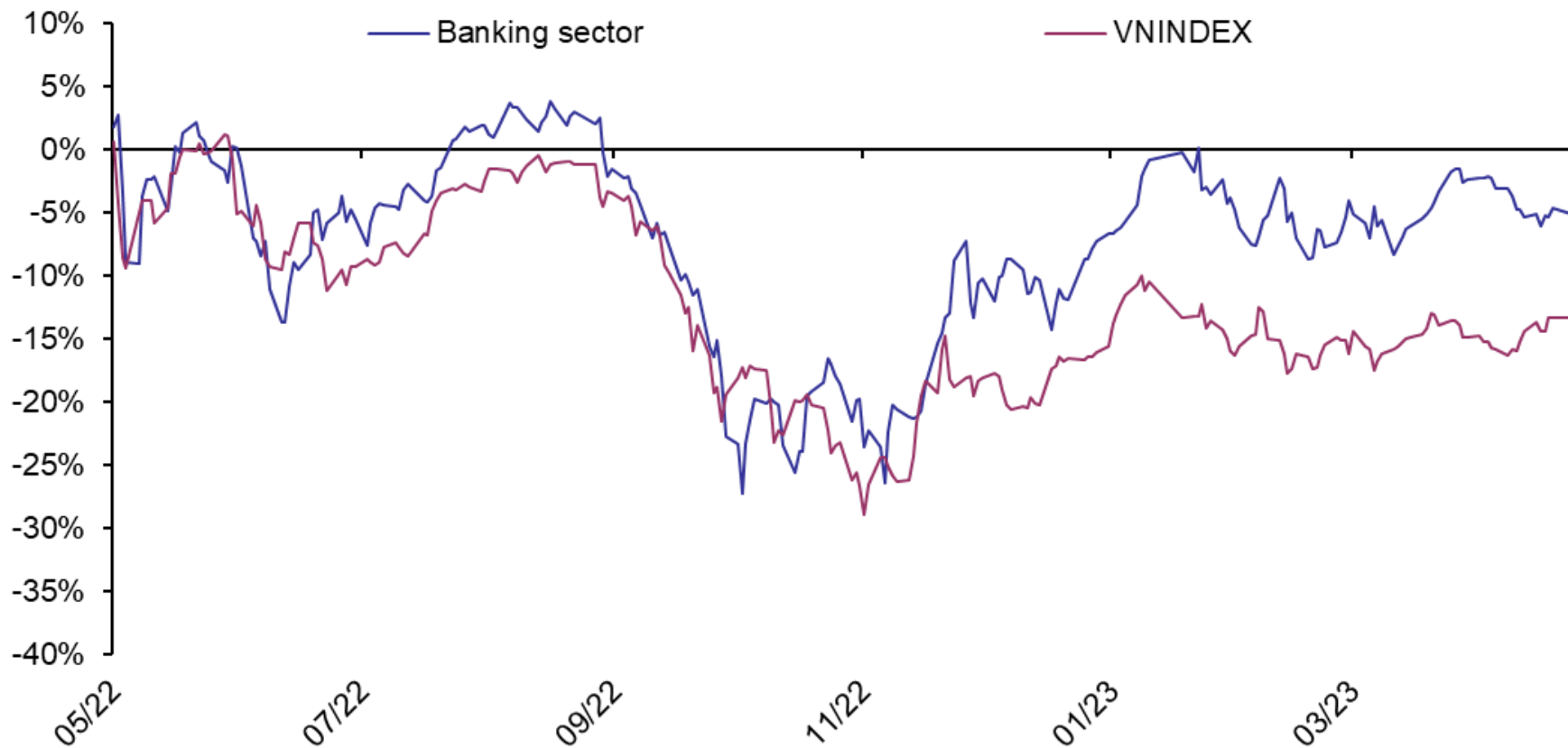
Valuations of bank stocks are generally relatively cheap compared to the past. However, it is necessary to consider investment in the context of the whole economy and factors affecting the short-term business results of banks.

In general, the business picture of banks is expected to be brighter in the second half of the year, raising the better expectations for banking stock investment.

Investors should still aim for banks with good asset quality for long-term investment strategy (SOBs). In addition, it is possible to pay attention to some names benefiting from the credit recovery or policies such as the group of banks participating in restructuring weak credit institutions and may be lifted the foreign ownership limit up to 49%.



Banking stock performance



Sources: Bloomberg, GTJASVN





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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