



BANKING SECTOR REPORT

1H Results Update

Outlook: Neutral (maintained)

08/ 2023

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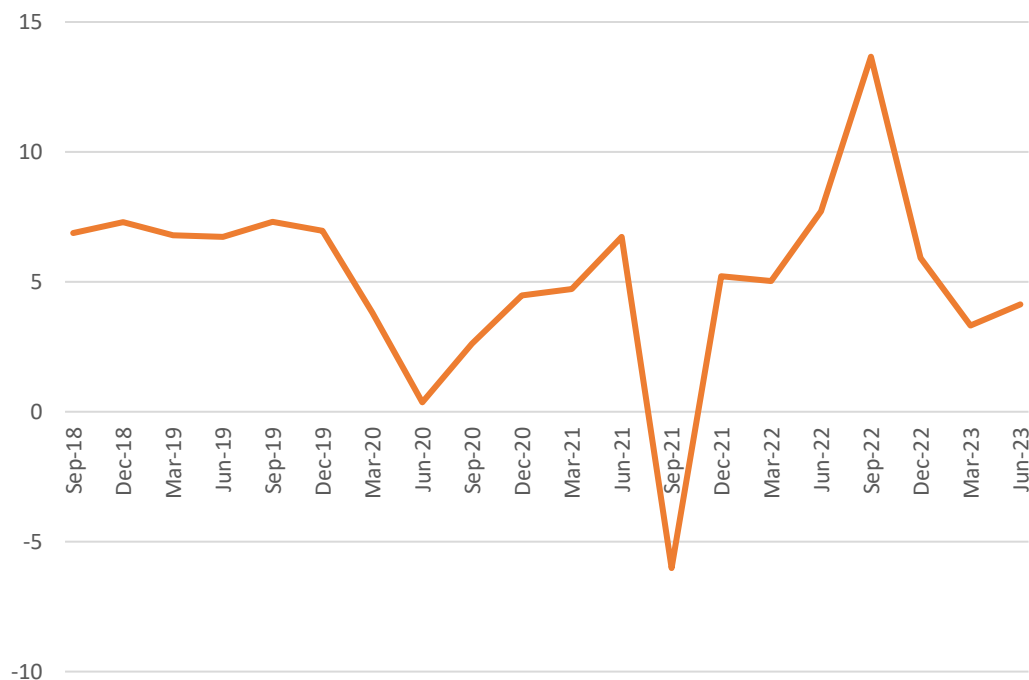
KEY POINTS

- Sluggish credit growth due to an unfavorable macro environment. Credit grew by 4.73% while deposits increased by more than 3% in the first half of the year.
- There have been 4 times of reducing policy rates since the beginning of the year. Lending rates decreased by 0.5%-3% while average deposit rates decreased by 1%-1.5%.
- Banks' credit growth and profit are differentiated. SOBs recorded credit growth of around 5%ytd and maintained profit growth in the first half of the year. Meanwhile, joint stock commercial banks recorded differentiated credit growth. Total profit of listed banks decreased by 2%yoy.
- NIM narrows in most banks.
- The NPL ratio of the whole industry continued to increase, putting pressure on provision expenses. The bad debt coverage ratio remained above 100%.
- Expectations: Credit growth of the whole industry will reach 12%-13% for the whole year of 2023. Second half profit will grow by 5%-10% thanks to credit promotion and improvement in some business segments. NIM might be flat in the second half of the year.
- Investment outlook: maintaining the “**Neutral**” rating for the Banking Sector.



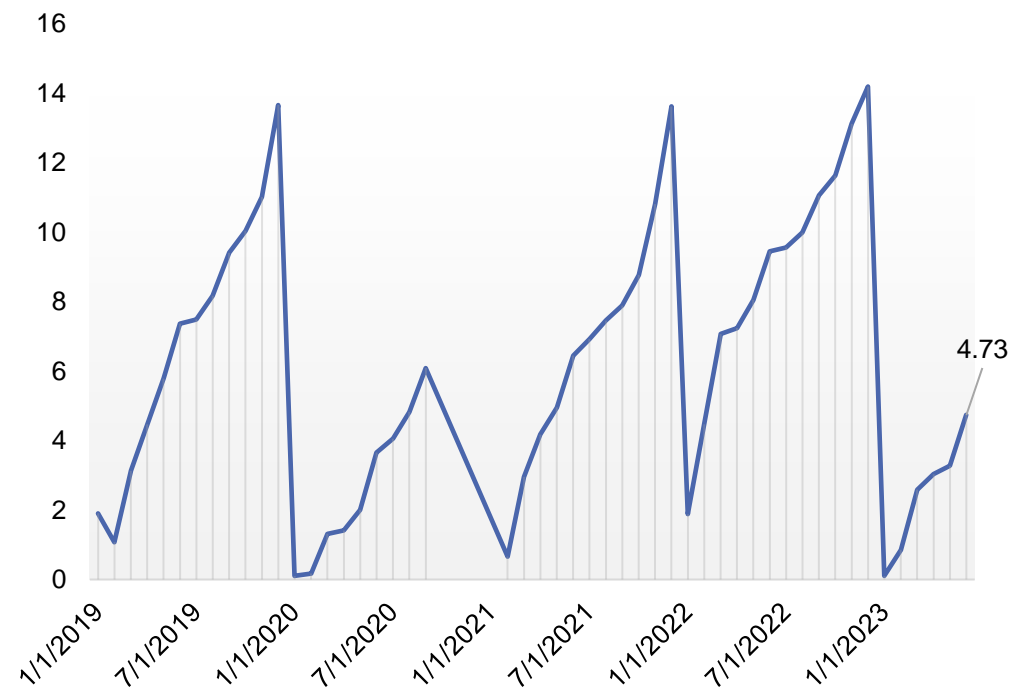
Tăng trưởng kinh tế thấp hơn kỳ vọng cùng tín dụng tăng chậm

GDP growth (quarterly)



Sources: Bloomberg, GTJASVN

Credit growth ytd

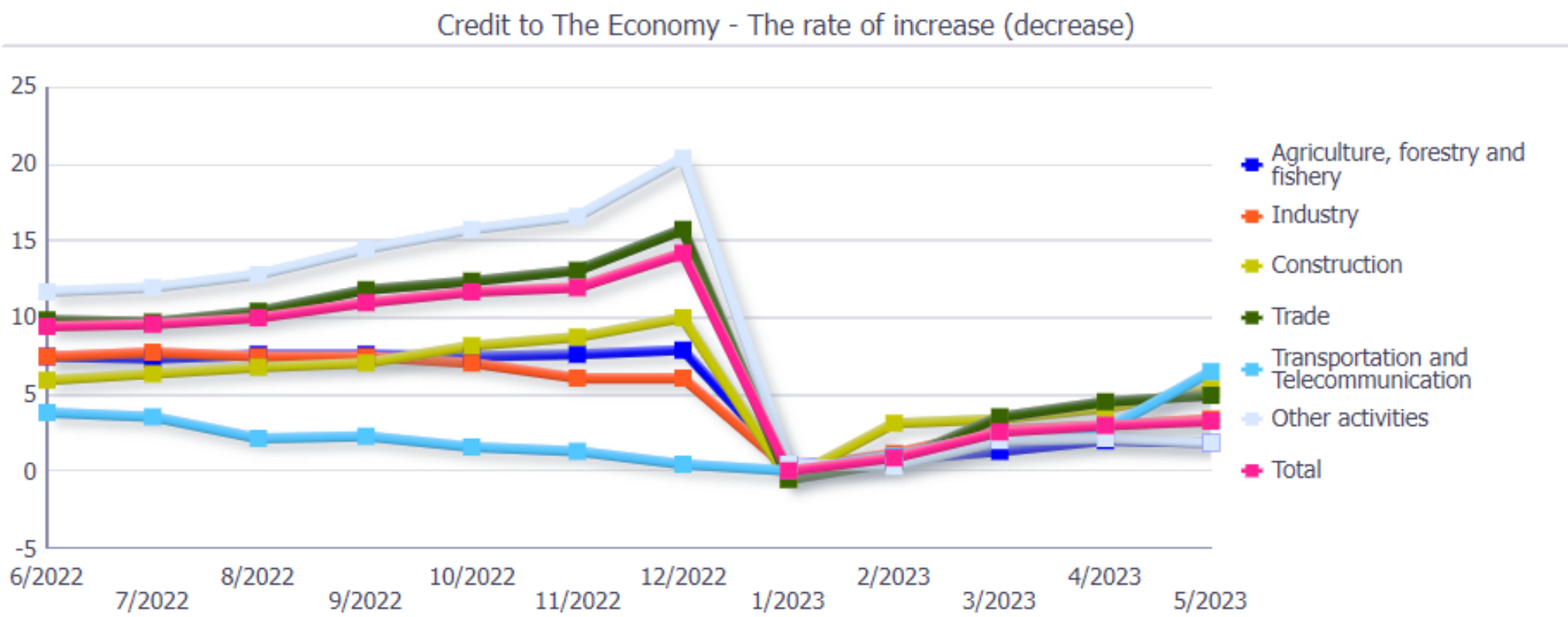


Sources: SBV, Bloomberg, GTJASVN





Credit to sectors

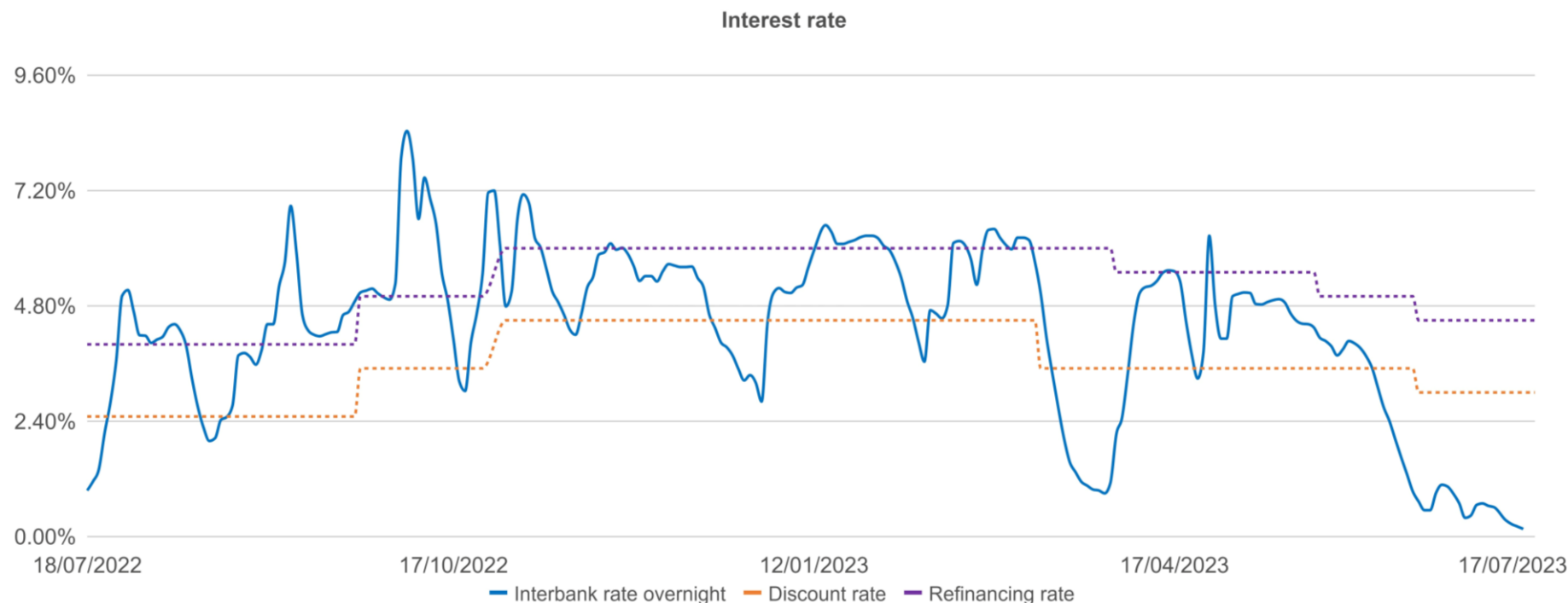


Credit flows stronger to the manufacturing sectors according to the orientation of the SBV. Meanwhile, personal credit growth is much lower.

Sources: SBV



Policy rate



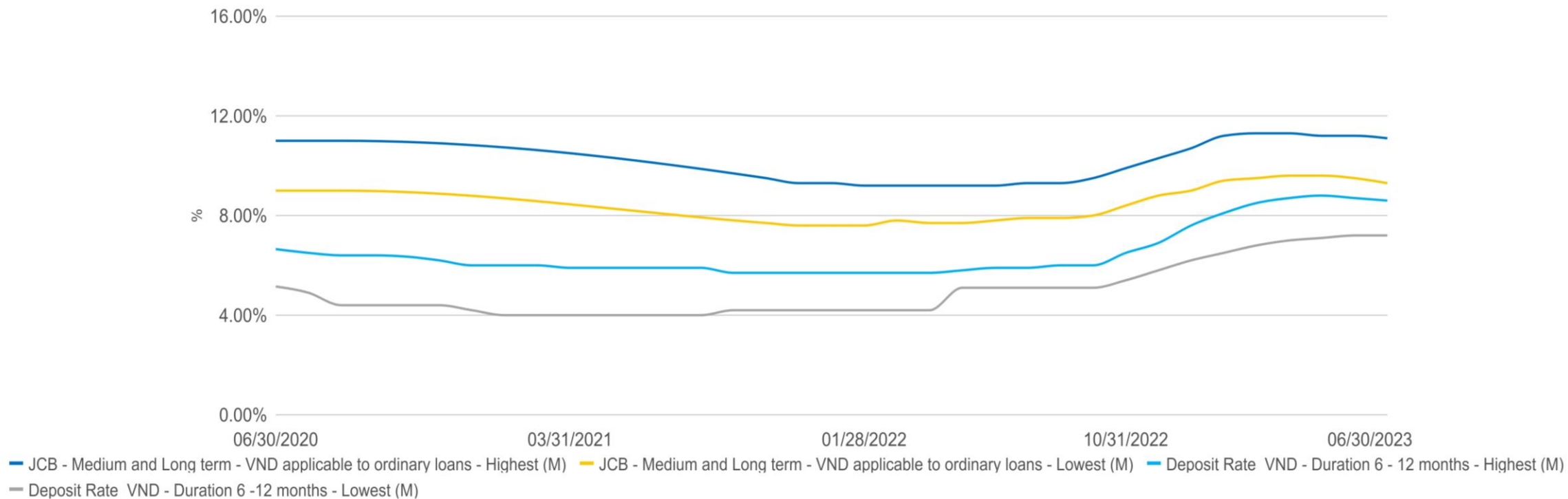
Sources: FiinproX

There have been 4 reductions policy rates since the beginning of the year. The average deposit interest rate of banks has decreased by 1%-1.5%. At the same time, under the direction of the State Bank, the banks in the system also sharply reduced the lending interest rate by 0.5%-3%/year depending on the loan tenor and types.



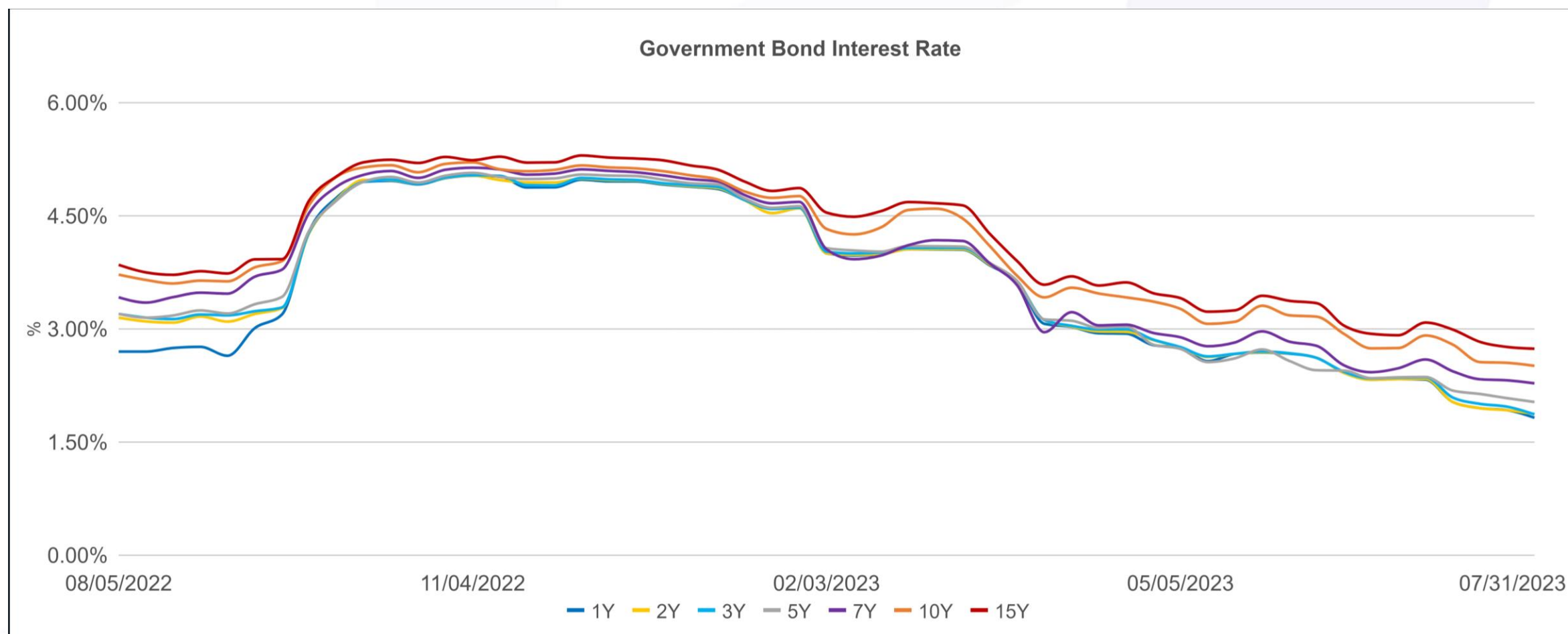
Lending and deposit rates

Credit and deposit rate



Sources: Fiinpro X





Sources: Fiiipro X



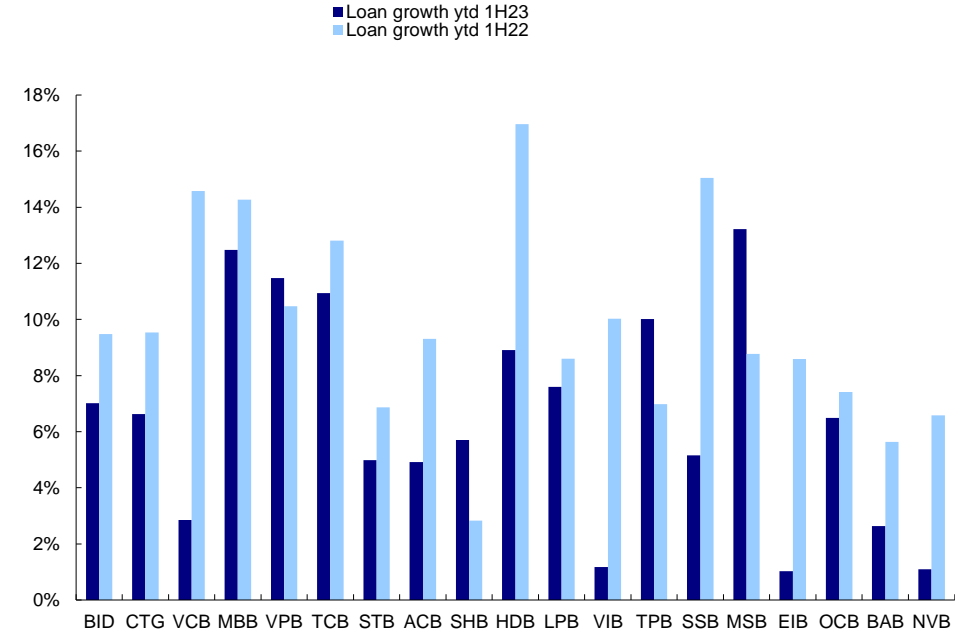
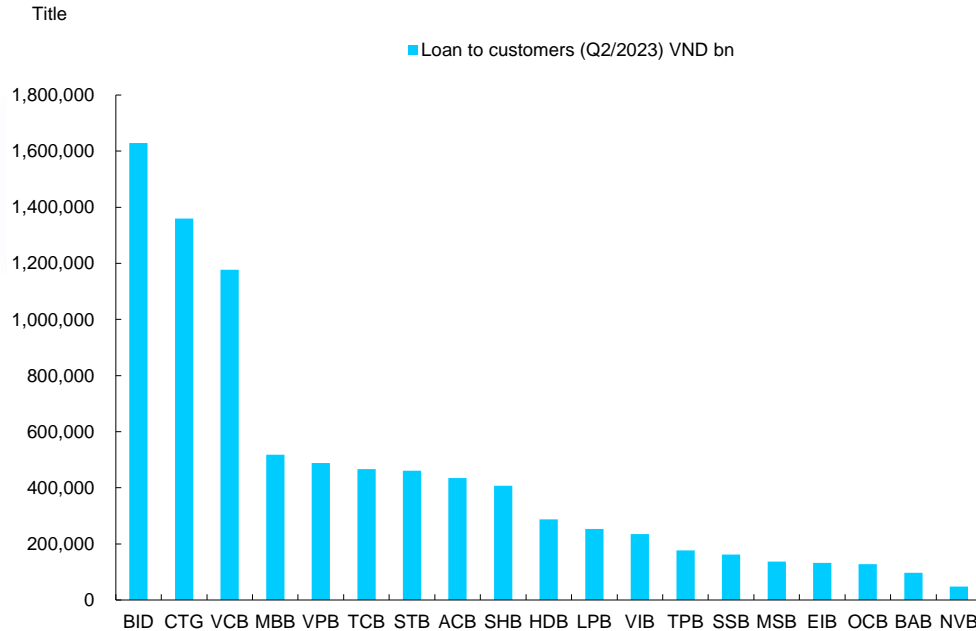


BANKING SECTOR- BUSINESS PERFORMANCE 1H2023





Sluggish credit growth



Sources: Fiiipro, GTJASVN

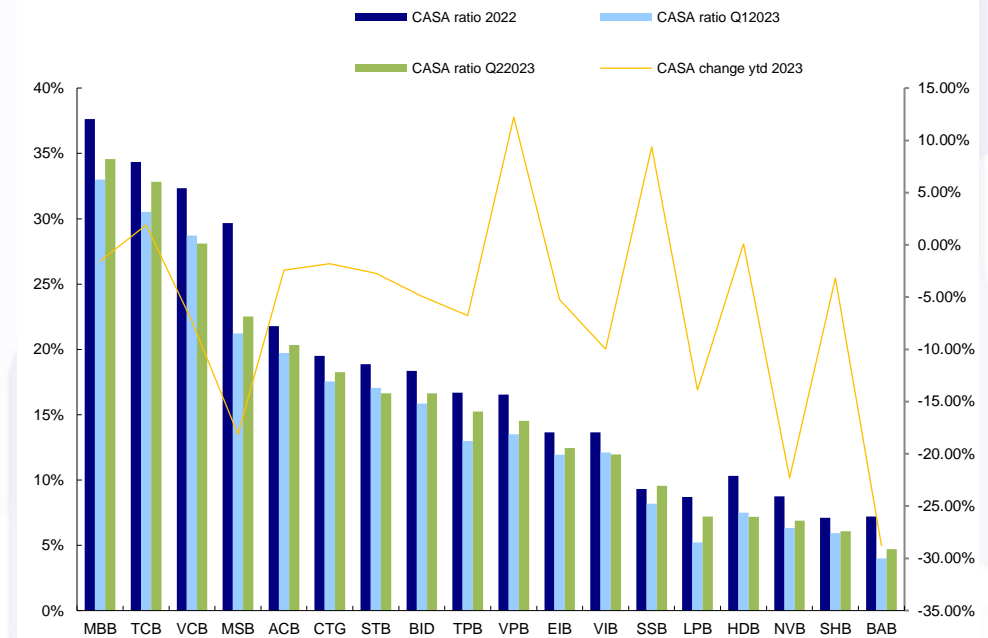
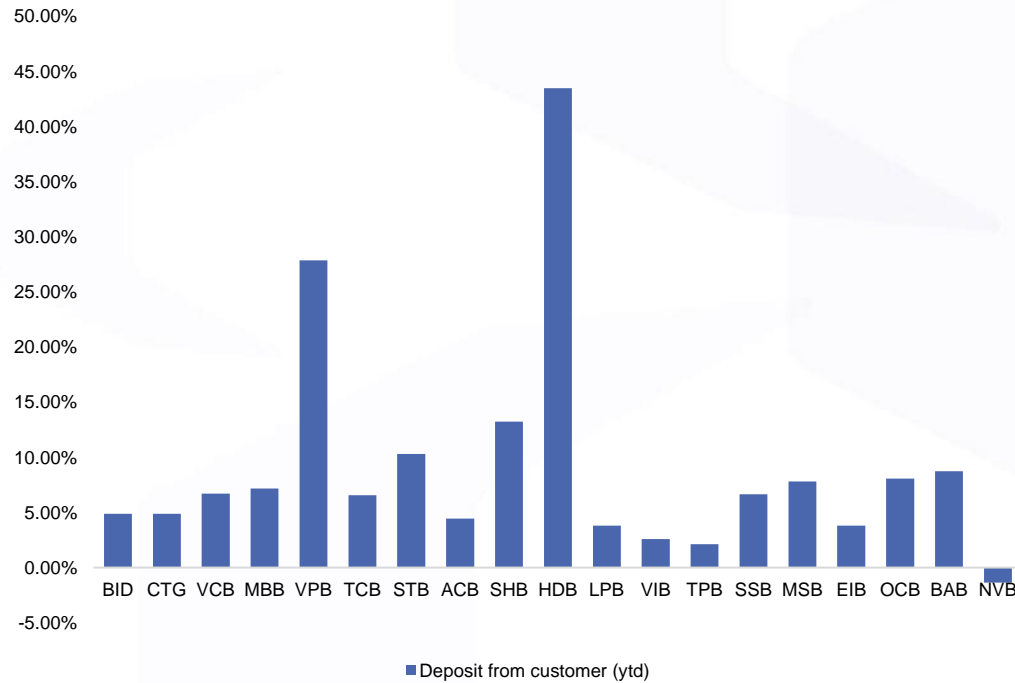
According to the State Bank of Vietnam (SBV), as of June 30, 2023, the credit balance of the economy reached VND 12.4 million billion, an increase of 4.73% compared to the end of 2022 (Credit grew 9.3%ytd in 1H2022). In the latest move, the SBV still maintains its credit growth target this year at 14%-15%.

The top group of joint stock commercial banks still maintained the highest credit growth rate (over 10%ytd) while the SOBs' credit growth was 5%-6% on average.





Deposit grew 3%ytd- CASA amount slightly improved in Q2



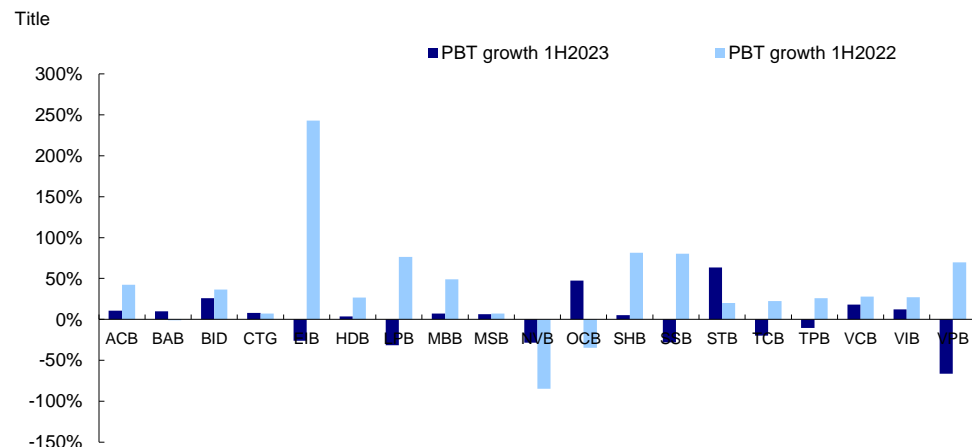
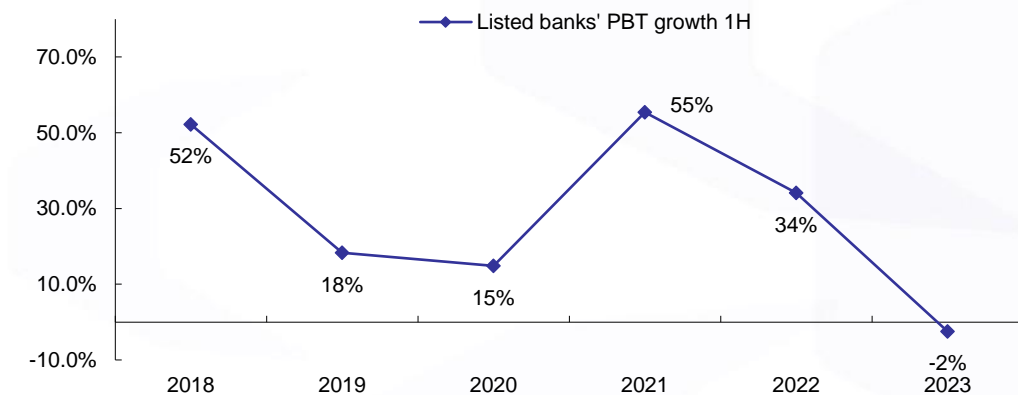
Sources: Fiiipro, GTJASVN

CASA in the system continued its strong downward trend from late 2022 and recovered slightly by the end of June 2023.

The average CASA ratio of banks in the system dropped sharply from a peak of 22% to about 16% at the end of Q2.



Profit has not stop declining



Souces: Fiinpro, GTJASVN

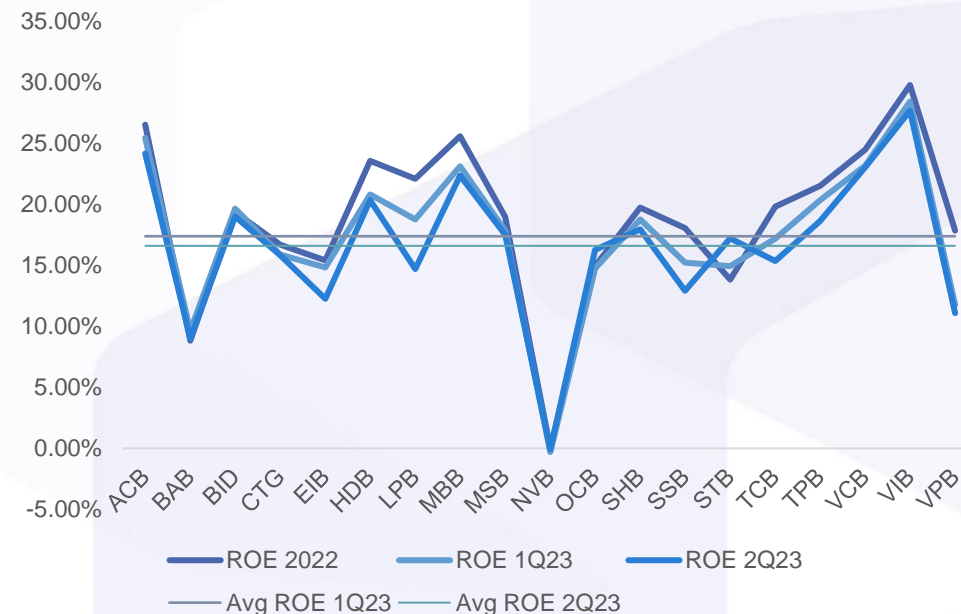
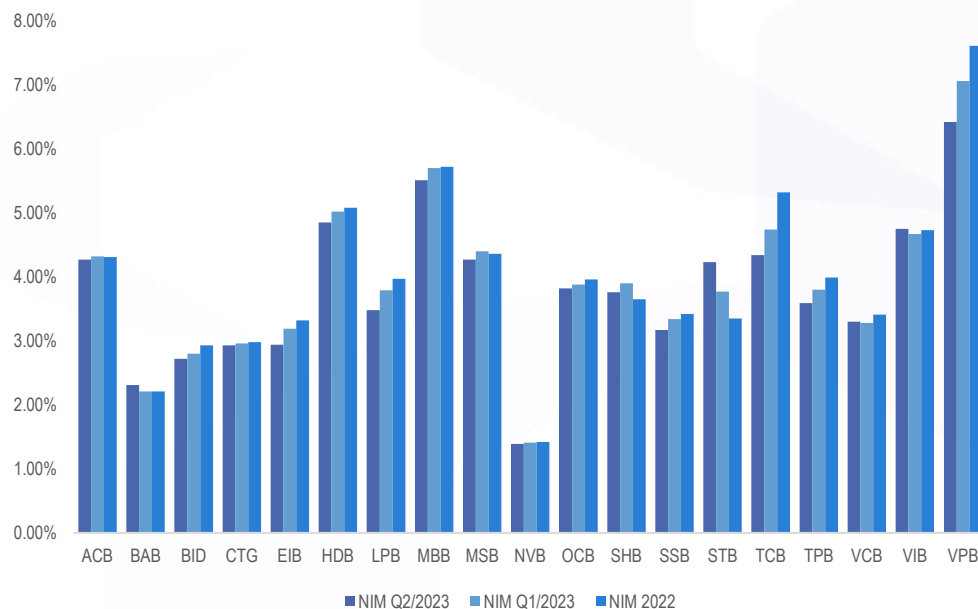
Total profit of all banks decreased by 12%yoy, while the 1st haft profit of all listed banks decreased by 2% compared to the same period last year. Excluding VPB, the total profit of listed banks still grew by 6% (12/19 banks recorded profit growth in 1H2023).

Profit differentiation continues. In which, SOB banks recorded modest profit growth. Some banks with stories like STB recorded an outstanding growth rate of 63%yoy thanks to a sharp decrease in provisioning while the top commercial joint stock banks, typically TCB, recorded negative growth in profit or VPB's profit dropped sharply because of the one-off income from the deal with AIA in the first half of 2022.

The profit decline was the result of a combination of factors including non-NII down 10% yoy, provision expense increased 8% yoy. Meanwhile, NII increased by 8%yoy could not make up for the above decrease.



Lower profitability

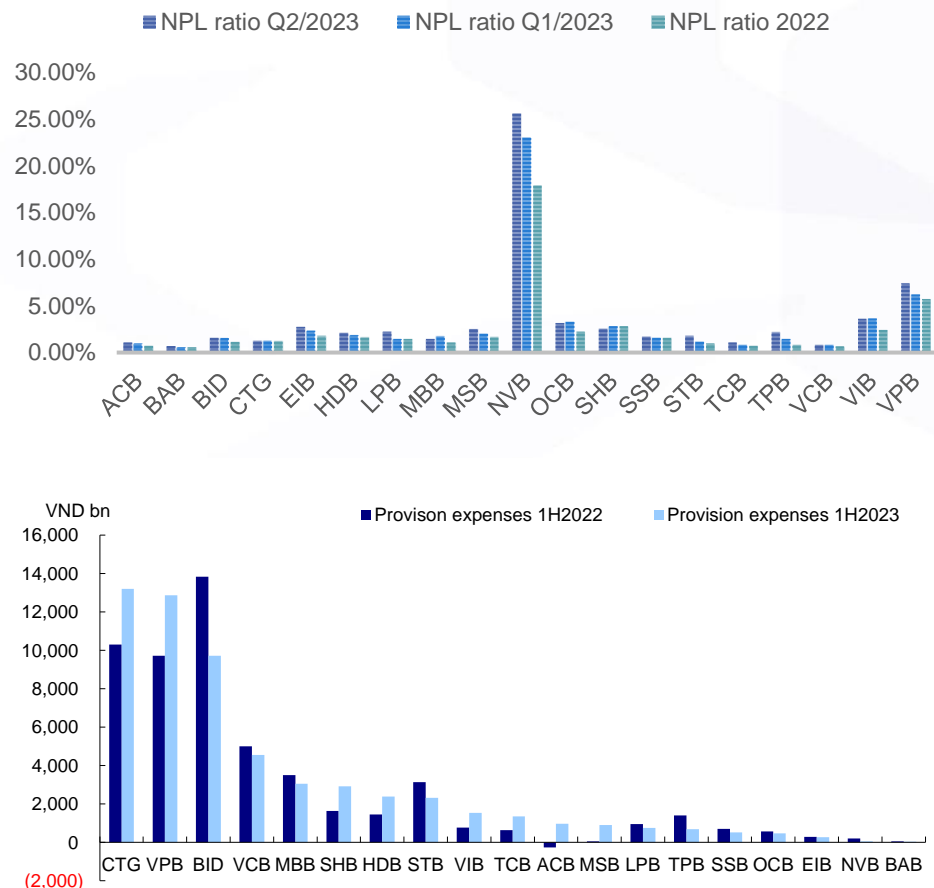


Sources: Fiinpro, GTJASVN

NIM of the whole system narrowed due to (1) increase in deposit interest expense due to rate hikes, (2) decrease in CASA (3) lower-than-expected lending rate due to the implementation of interest rate support packages. In the short term, we believe NIM might have little room to rebound in the short-term and thus stay flat until the end of the year.



Non-performing loans continued to rise



Sources: Fiinpro, GTJASVN

The average on-balance sheet NPL ratio of listed banks increased from 3.09% in Q1/2023 to 3.49% by the end of Q2/2023. Besides, according to statistics from the State Bank of Vietnam, the bad debt ratio on the balance sheet of the whole system increased from 2% at the end of 2022 to 3.42% at the end of April 2023.

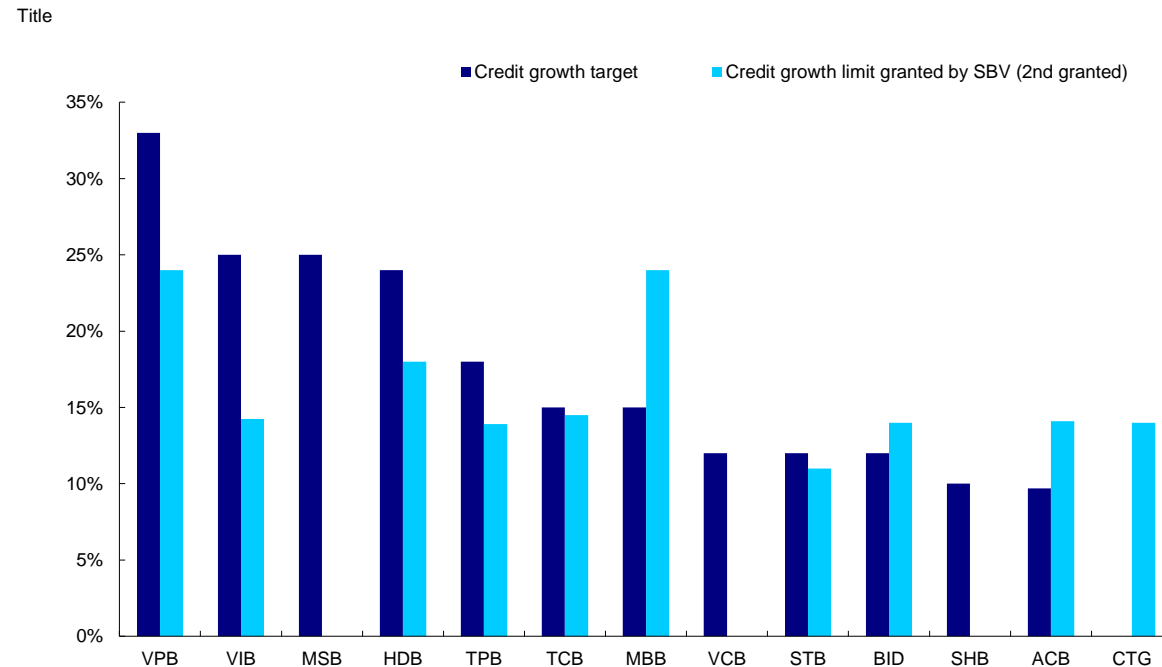
Provision expenses increased sharply, especially in banks which focus on retail banking and consumer lending since loans from individual customers were downgraded due to reduced income.

The industry average bad debt coverage ratio continued to decrease slightly for the third consecutive quarter but remained above 100%.





SBV granted new credit growth limit in July



With the credit growth target of 14%-15% this year, SBV has extended the credit growth limit for banks in early July.

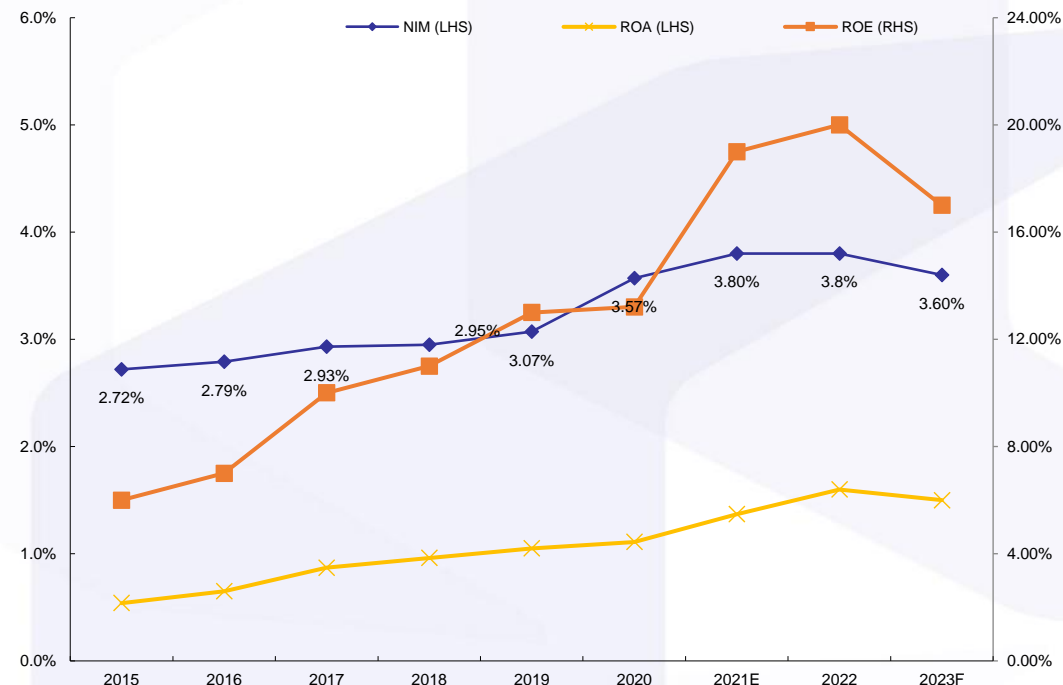
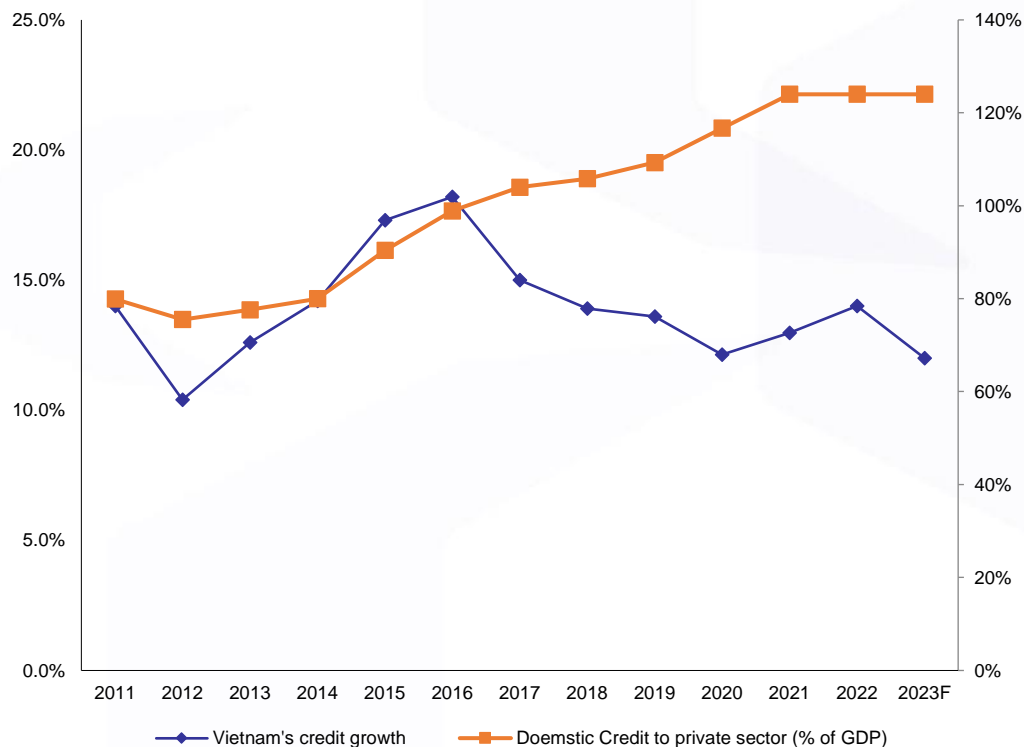
However, we believe that macroeconomic conditions are still unfavorable, making lending activities of banks still difficult in 2H (although improved compared to 1H), especially at banks focusing on retail lending such as VIB, ACB.

On the other hand, corporate lending will continue to increase more strongly, in line with the trend in 1H.

Sources: banks, GTJASVN



2023 expectation



We forecast the system credit growth would be 12%-13% by the end of 2023.

NIM is expected to move sideways on the condition that profit margins are difficult to improve due to many interwoven barriers, especially difficulty in increasing lending rates and competition among banks.

The average ROE of the whole industry decreased as banks in the system increased capital and weak profits.



There would be profit growth in 2H



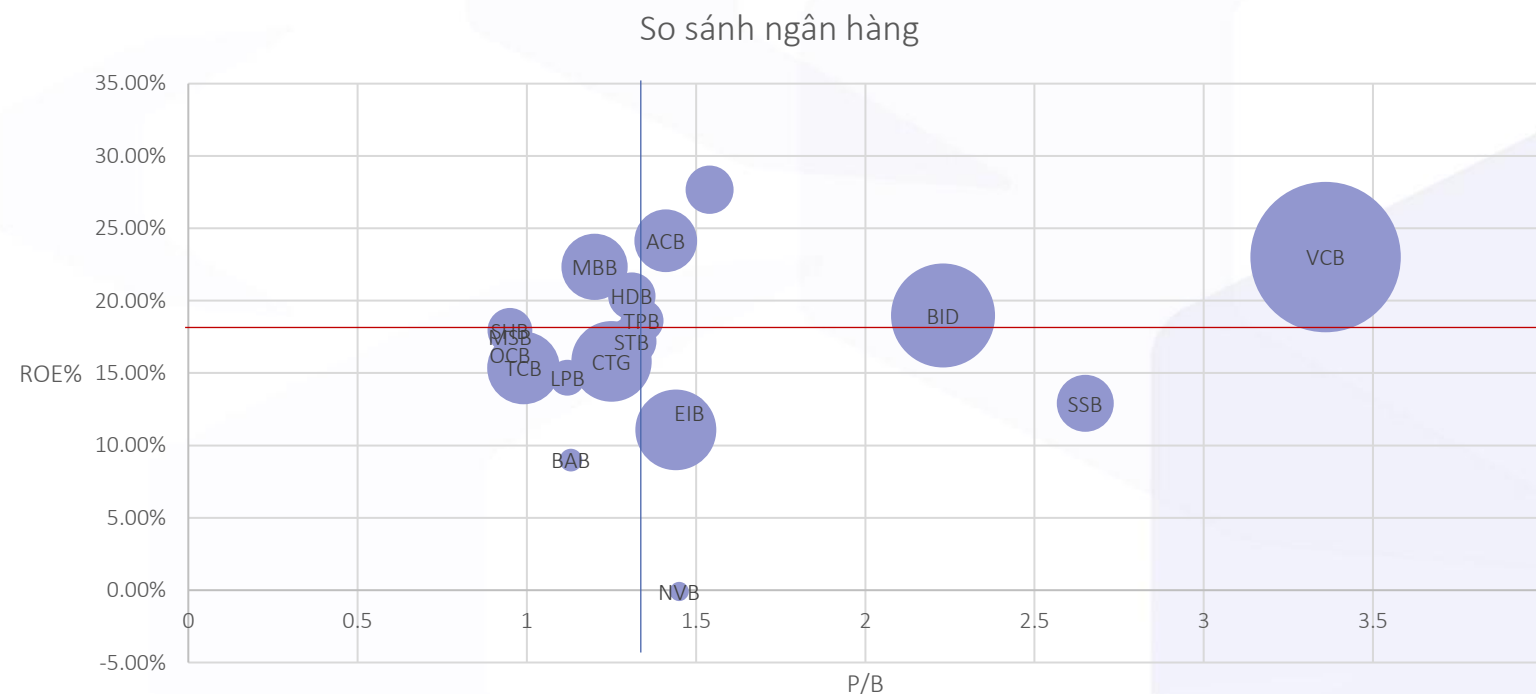
We believe that with more room for credit growth, banks will record better interest income in the second half of 2023. Besides, we expect continued improvement in non-interest income such as service fees, IB.

In terms of costs, provision costs will continue to pressure banks' profits.

However, we expect a faster improvement in profit to help PBT in the sector grow in the second half with a target expectation of 5%-10% YoY.



Investment expectation



Sources: Fiinpro, GTJASVN

Banking stocks experienced a strong rally in the first half of the year with low P/B valuation.

However, we remain cautious with the investment outlook of the whole sector with a “Neutral” rating.

We prefer good asset quality banks such as VCB, ACB, or banks with their own stories like VPB, STB. In addition, it might be a suitable time to pay attention again to the group of banks with the hope of recovering credit and solving current difficulties- TCB, MBB.





Banking stock performance



Sources: FiinproX



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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