SECTOR UPDATE – BANKING

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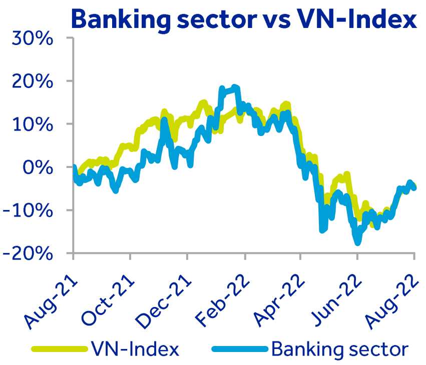

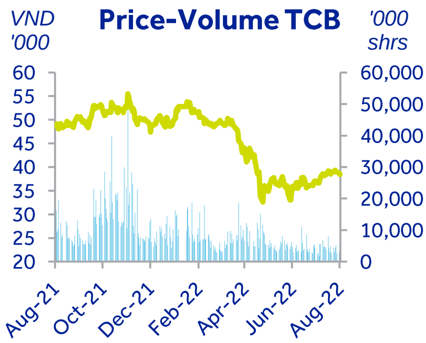

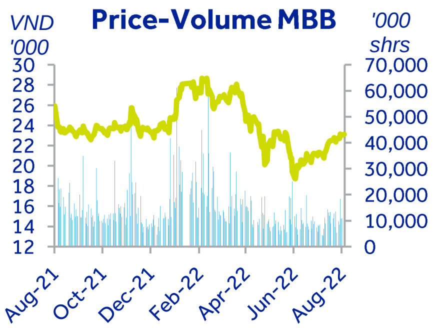

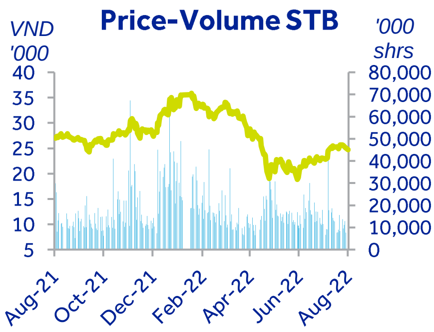

BANKING SECTOR VALUATION HAS DROPPED TO AN ATTRACTIVE LEVEL

We have a positive outlook for the banking sector thanks to attractive valuations and high profit growth expectations in the second half of 2022 from the core business growth and stable asset quality.

News and highlights

- SBV maintains its credit growth orientation for the whole year at 14%. YTD credit growth is 9.4%, with many banks reaching their currently allocated quotas, indicating that the SBV will need to lift quotas in the coming months to reach whole year expectations.
- Deposit rates have increased by around 0.5% in the first half of 2022 and we forecast another 0.5% increase in the second half of 2022.
- System liquidity fluctuated strongly in July and August due to stagnant money at banks and the SBV continuously intervening to control VND interbank interest rates and exchange rates in interbank market.
- The Government is still continuing to seek opinions to amend Decree 153/2020, making it difficult for real estate businesses to issue corporate bonds.

Summary of Q2/22 business results

- PBT in Q2/22 of banks listed on HOSE grew by 37.4% y/y.
- Asset quality slightly improved. In which, NPL ratio and group 2 loan ratio remained low and was flat q/q. COVID-19 restructured loans continued its downward trend and accounted for only 0.7% of total outstanding loans.
- Net interest income and non-interest income both grew well in Q2/22, reaching 16.0% and 17.5% YoY respectively.

Outlook for the last 6 months of 2022

- New credit growth quota is expected to be approved by SBV at the end of Q3/22. Banks taking over weak banks, including VCB, MBB, VPB and HDB may be granted higher credit quota than the industry average.
- NIM will remain stable or improve slightly, although deposit rates may increase by 0.5% in the second half of 2022.
- A thick provision buffer and good asset quality will reduce the pressure of banks' provisioning. We see that NPL risk in real estate sector is not a concern at the moment, although further monitoring is needed as real estate loans account for about 20% of total outstanding loans in the banking sector.
- Profits of banking sector are expected to maintain a strong growth in 2H2022.

Valuation and recommendation

- Valuation of the banking sector has become attractive with P/E and P/B of **9.9x** and **1.75x**, respectively, 20.4% and 13.1% lower than 5-year average P/E and P/B.
- We have a positive outlook for the banking sector given (1) its attractive valuations and (2) profit growth of the banks in our coverage list are expected to reach **45.2%** in 2H2022 and **34.6%** for the whole year of 2022.

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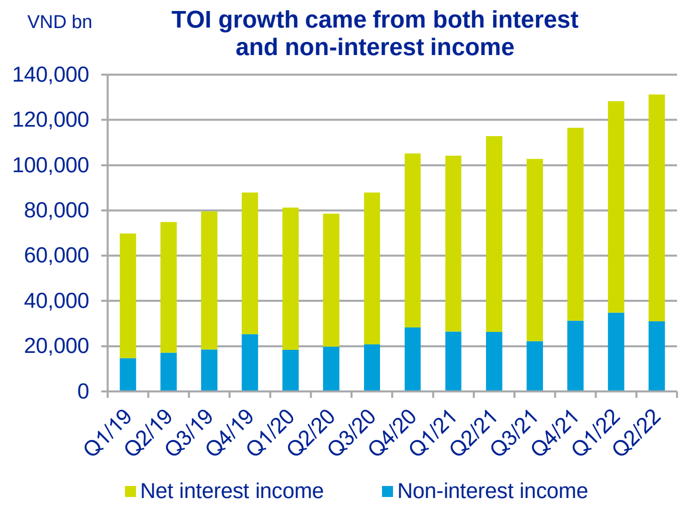
Q2/22 business results was positive

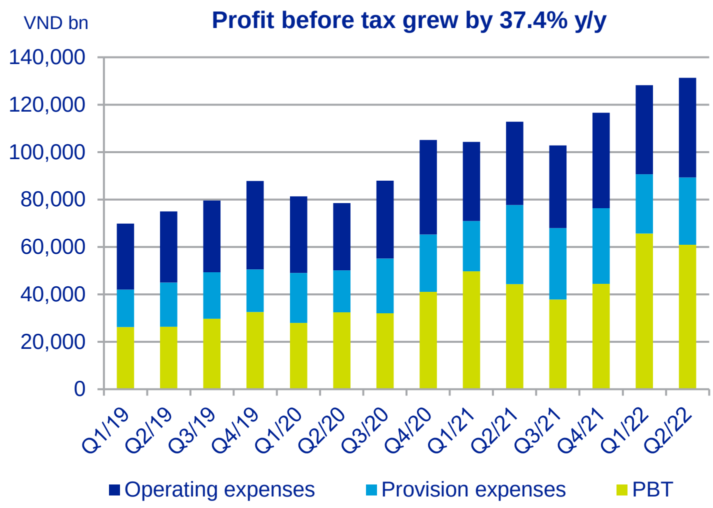
Q2/22's PBT of listed banks grew by 37.4% y/y

Business results of the banking industry continued to grow strongly in Q2/22 following the recovery of the Vietnamese economy. Reported results show that the total PBT of 17 banks listed on HOSE grew by 37.4% y/y but decreased by 7.3% q/q. However, excluding upfront fees from bancassurance deals in Q1/22 of VPB and CTG, Q2/22's PBT increased by 3.6% q/q.

The key driver for profit growth in Q2/22 came from (1) net interest income and non-interest income growing well at +16.0% and +17.5% y/y, respectively, and (2) provision expenses decreased by 14.7% y/y as the pressure to make provisions for COVID-19 restructured loans has decreased significantly.



Source: Banks, ACBS



Source: Banks, ACBS

We expect the banking sector's profit growth to maintain its strong growth in 2H2022 thanks to (1) good growth in core businesses and (2) reduction in provision expenses thanks to stable asset quality and high provision buffer.

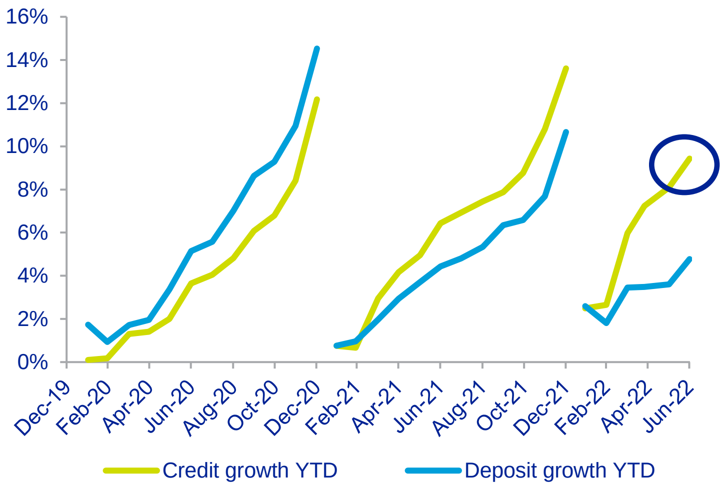
We forecast the PBT of the banks in our coverage universe to grow **45.2%** in 2H2022 and grow by **34.6%** in the whole year of 2022.

Strong credit growth caused a tightening of system liquidity, deposit interest rates may continue to increase

The economy recovered after the pandemic and lending interest rates were still at a moderate levels, helping stimulate credit demand to grow strongly. By the end of June 2022, credit growth reached 9.44% compared to the beginning of the year, much higher than deposit growth of 4.77%.

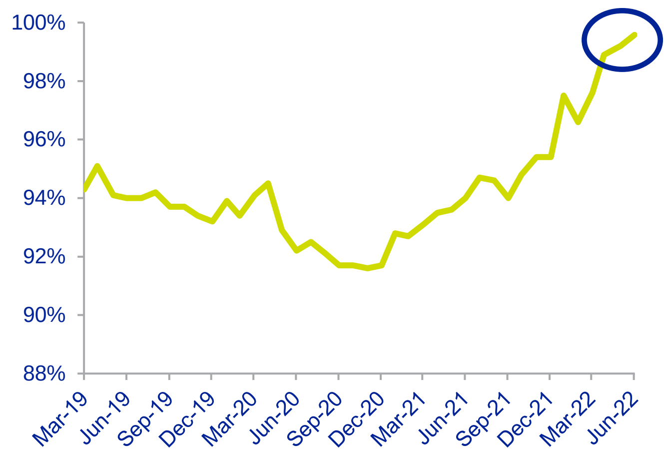
Strong credit growth put pressure on banking system liquidity in the first 6 months of 2022, before banks hit the credit growth quota and liquidity pressure therefore eased.

Credit growth in 6M2022 outperformed deposits



Source: SBV

Sector's loan-to-deposit increasing high



Source: SBV

Deposit rates of private commercial banks increased by 0.5-0.8% and State-owned commercial banks by 0.1% in 1H2022. In 2H2022, we see many factors that can increase demand for VND as follows:

- Credit growth quota is expected to be extended by 4-5% by the end of Q3/22;
- SBV's USD11 billion forward sale will be due for payment at the end of 2022. Commercial banks will therefore need to prepare VND250,000 billion (equivalent to about 2.2% of total system's deposits) in advance for the payment;
- Disbursement of public investment is expected to improve in the second half of the year, after only reaching 34.5% of the annual plan in the first 7 months of 2022. The deposit balance of the State Treasury at commercial banks can therefore decrease and put pressure on system's liquidity.

Therefore, we expect banks will have to increase deposit rates by 0.5% in the second half of 2022 to supplement customer deposits and keep their liquidity stable.

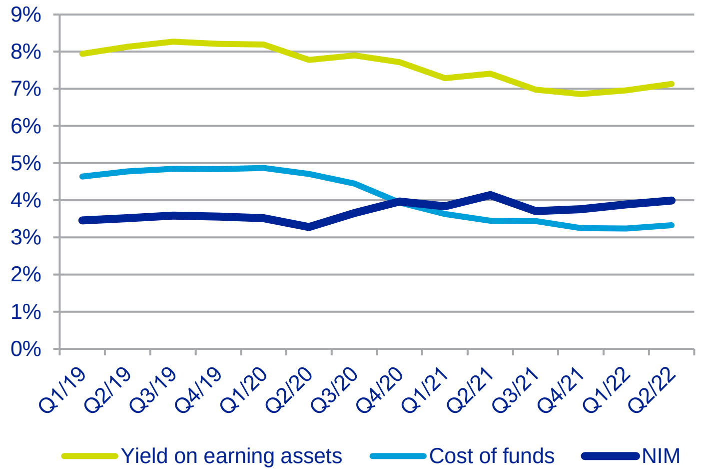
NIM slightly improved, despite an upward trend in deposit rates

The deposit interest rate tends to increase in 6M2022, however, we see banks' NIMs still improving slightly in Q2/22, although not yet returning to the peak of Q2/21.

For the second half of 2022, we expect banks' NIMs to be flat compared to Q2/22 and improve slightly compared to the second half of 2021. Of which:

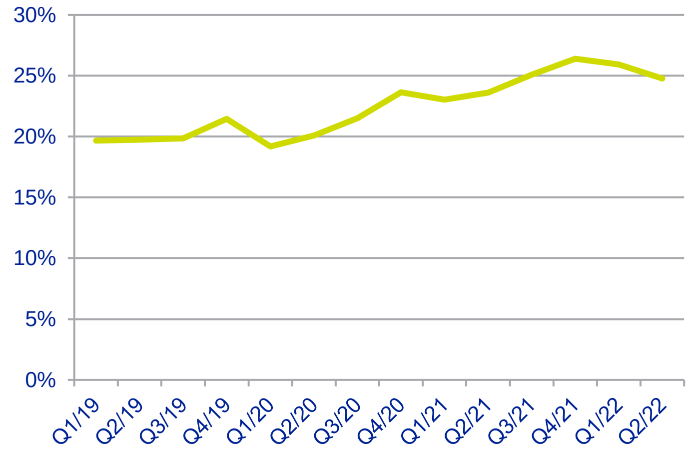
- The COVID-19 lending interest support packages has ended at the end of 2021. Loan interest rates returned to normal levels, thereby supporting asset yields of banks, especially the state-owned commercial banks (VCB, BID and CTG).
- Lending interest rates may increase in line with the increasing trend of deposit rates, in the context of high credit demand and limited credit growth quota.
- Cost of funds were well-controlled thanks to high CASA ratio. In which, the banks with the highest CASA ratio in the system are TCB (47.5%), MBB (44.3%), VCB (36.5%), and MSB (34.4%).
- CASA ratio improved thanks to the increasing trend of digital payment. Although the CASA ratio decreased in Q2/22, we expect this is only a temporary trend. The reason CASA declined in Q2/22 was due to the recovery in investment demand to expand businesses after the epidemic, while customers' borrowing ability was limited (because banks had hit the credit growth quota). Therefore, customers were forced to utilize their CASA to serve their investment and consumption needs.

Yields improved and cost of funds were well, supporting for NIM



Source: Banks, ACBS

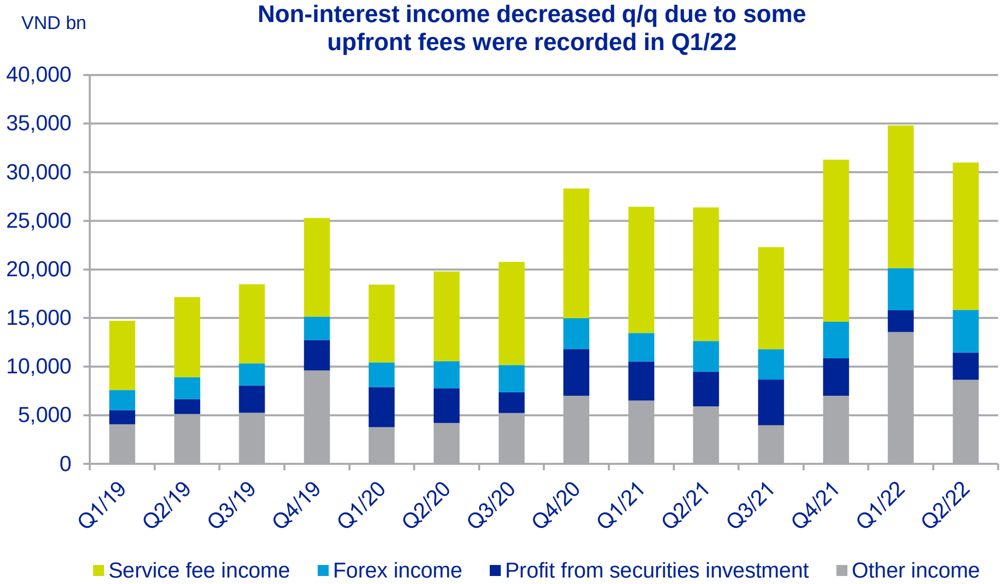
CASA decreased but remained at a high level, helping to limit the impact of the increase in deposit rates



Source: Banks, ACBS

Non-interest income continued to recover well after the epidemic

Non-interest income grew by 17.4% y/y but decreased by 11.0% q/q due to some upfront fees received from exclusive bancassurance agreements of VPB and CTG recorded in Q1/22. If excluding these extraordinary income, non-interest income grew by 11.0% q/q.



Source: Banks, ACBS

Non-interest income activities such as payment, bancassurance, investment banking services are expected to continue to grow strongly thanks to the economy recovering from the epidemic. Of which:

- Income from payment fees and trade finance recovered thanks to the recovery of corporate customers after the epidemic. Bancassurance activities continue to grow well thanks to the large potential of the Vietnamese market, in which the proportion of the population with life insurance by the end of 2021 only reached 11%.
- Investment banking services are forecasted to face difficulties due to unfavorable movements of the stock market in terms of both price and liquidity. In addition, the income from issuance consulting fees may be negatively affected by the Government's strict control over the issuance of corporate bonds after some violations of real estate companies.
- Income from securities trading is expected to decline in 2022 as government bond yields tend to increase in line with international interest rates, although banks will not have to make provision for the devaluation of government bonds investment according to Circular 24/2022 of the Ministry of Finance.
- Off-balance sheet debt collection will face difficulties due to low liquidity in the real estate market. Therefore, the process of liquidating collateral assets (mainly real estate) to collect debts is expected to slow down in the coming time.

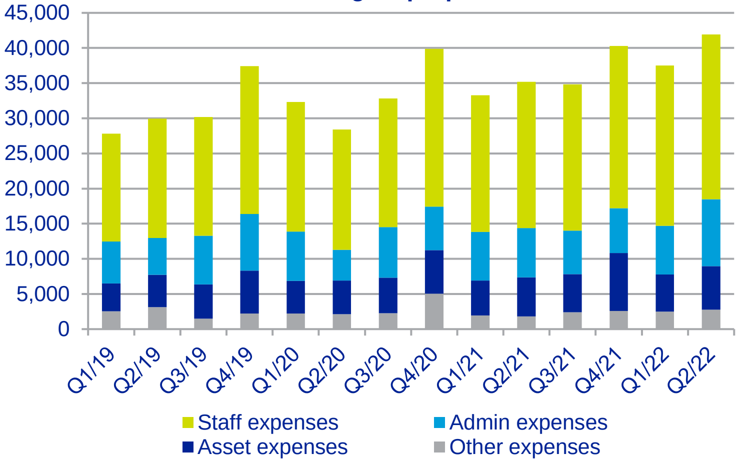
CIR remained low despite rising operating expenses

Operating expenses in Q2/22 increased by 19.2% YoY and 11.7% QoQ. In which:

- Administration expenses increased strongly by 35.8% y/y and 38.4% q/q. In which, banks with a high increase y/y were VCB (+55.5%), TCB (85.5%), TPB (49.9%), EIB (+52.7%), OCB (60.4%) and LPB (+47.8%).
- Employee expenses in Q2/22 increased by 12.7% y/y. This is still the largest expense of banks, accounting for about 56% of total operating expenses.

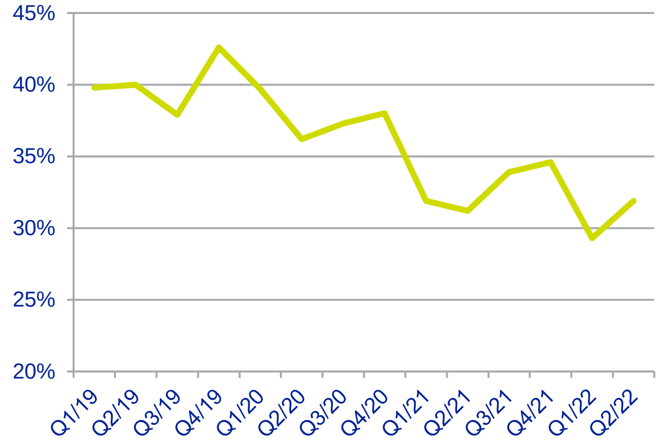
According to the General Statistics Office, employees in Finance, Banking and Insurance sectors have the highest average income (2021: 24.5 million VND/month) and highest income growth rate. However, CIR ratio in the recent years has been on a downward trend, showing that banks' operations are more and more efficient.

Employee expenses accounted for the largest proportion



Source: Banks, ACBS

CIR maintained at low level



Source: Banks, ACBS

We expect banks' operating expenses, especially staff expenses, have to continue to increase due to:

- The pressure to compete for staff in the finance – banking sector is getting fiercer as the size of banks is increasing.
- The trend of digital transformation also forces banks to increase spending on technology infrastructure and attract experienced staff in Information Technology and Data Analytics fields.

However, we expect CIR of banks to remain low as their TOIs (total operating incomes) are still growing at a high rate.

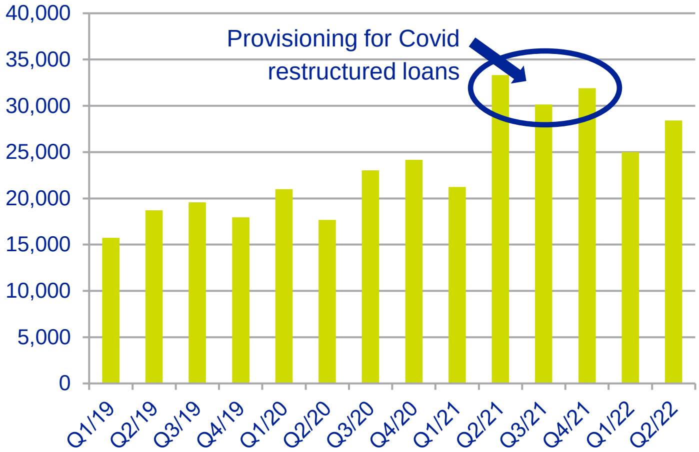
Provisioning pressure decreased as banks has made adequate provision for restructured loans

Provision expenses in Q2/22 decreased by 14.7% y/y but increased by 13.6% q/q due to STB making provisions for VAMC bonds and FE Credit (a subsidiary of VPB) accelerate provisioning for arising NPLs.

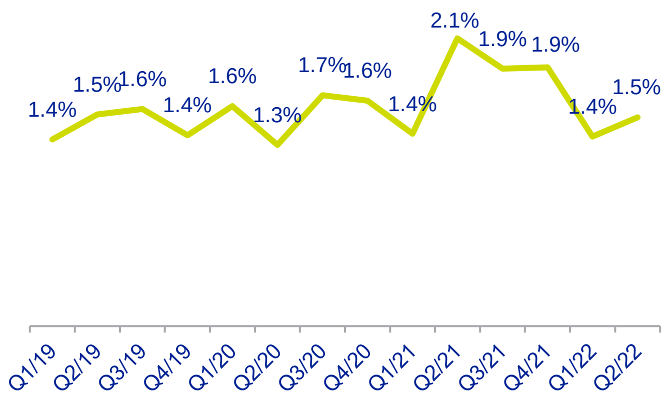
However, in general, provisioning pressure in Q2/22 remained low. Credit costs have fallen to the pre-epidemic normal level of 1.4-1.5%, after increasing sharply to 2% in the period of Q2/21 - Q4/21 when the 4th epidemic broke out and banks started making provisions for COVID-19 restructured loans in accordance with Circular 03/2021 and Circular 14/2021.

The pressure of provisioning for COVID-19 restructured loans was negligible since the beginning of 2022, which is the main reason for the low provision expenses. We noticed that many banks have made 100% provision for COVID-19 restructured loans such as VCB, CTG, BID, MBB, TCB, ACB, STB, HDB and TPB.

Provision expenses decreased 14,7% y/y



Credit costs (*) returned to the normal level as in the pre-epidemic period



Source: Banks, ACBS

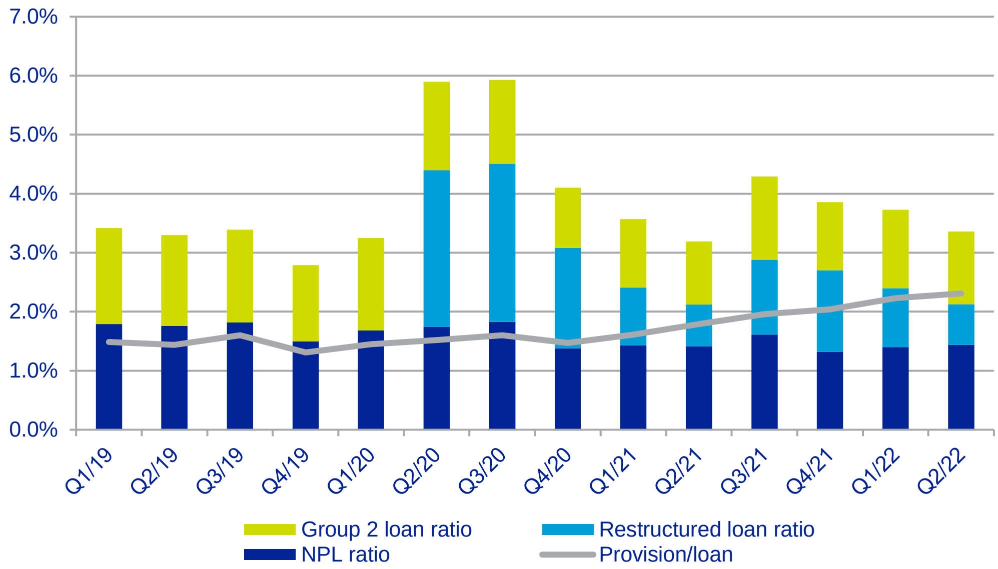
We expect provisioning expenses to stay low in the second half of 2022 on the basis of stable asset quality and a growing provision buffer.

Asset quality slightly improved with a thicker provision buffer

Asset quality is at a good level and even slightly improved q/q. In which:

- NPL ratio and group 2 loan ratio remained low and stable in Q2/22. In which, NPL ratio is at 1.44% (+4 bps q/q) and group 2 loan ratio is at 1.23% (-10 bps q/q).
- COVID-19 restructured loans tend to decrease gradually since the end of Q3/21 – the time when the economy reopens after the 4th epidemic. We estimate the restructuring loan balance due to COVID-19 only accounted for about 0.69% of outstanding loans.
- Outstanding loans in areas vulnerable to COVID-19 have been localized and well-handled by the banking system. We expect COVID-19 restructured loans to continue its downward trend in the second half of 2022.

Asset quality improved on the back of a thicker provision buffer



Source: Banks, ACBS

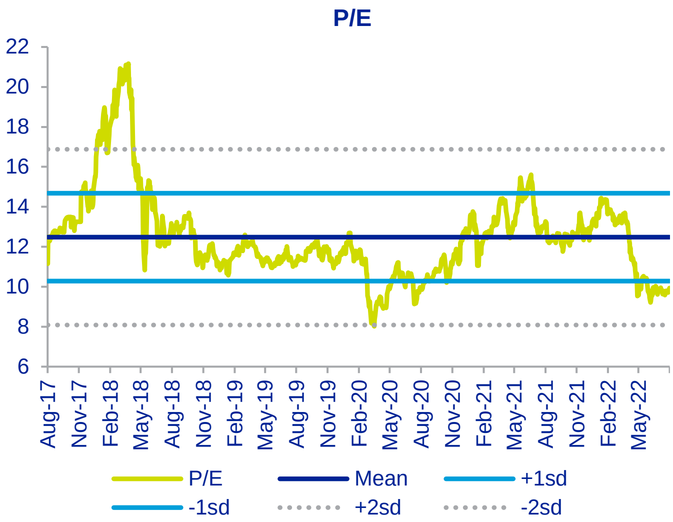
We expect asset quality to remain stable and help reduce provisioning pressure on banks in the second half of 2022, thanks to:

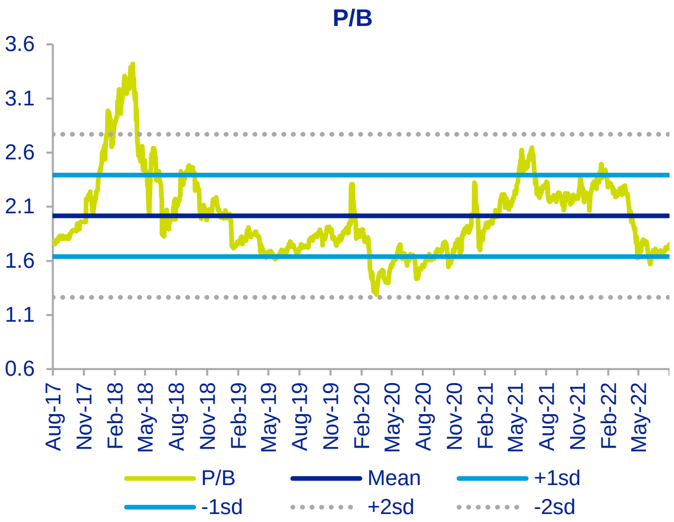
- Vietnam's economy is in the recovery phase after the pandemic, thereby helping customers' financial situation improve.
- Although credit costs have returned to pre-epidemic normal levels, banks' provision buffers are still getting thicker. This will help banks have room to handle risks of new arising NPLs (if any) in the future and be a potential source of income from provision reversal.
- The Government's credit control moves make it difficult for real estate businesses to access capital. However, the financial situation of real estate businesses in Vietnam is generally quite healthy and the demand for housing is still very high. Therefore, we see that the credit risk to the real estate sector is not a concern at the moment and the NPL in this sector will remain at a low level in the second half of 2022.

INVESTMENT RECOMMENDATION

The strong correction of the market in Q2/22 brought the banking stock price to an attractive level. As of August 15, 2022, the banking industry is trading at P/E and P/B of **9.9x** and **1.75x**, respectively, 20.4% and 13.1% lower than 5-year average P/E and P/B, respectively.

We have a **positive outlook** for the banking industry thanks to attractive valuations and high growth expectations in 2H 2022.





Source: Fiinpro, ACBS

Banks under ACBS coverage

(Unit: VND billion)

Ticker	Market price 17-08-22	Target price	Expected price appreciation	Market cap 17-08-22	NPL ratio Q2/22	G2 loan ratio Q2/22	NPL coverage Q2/22	ROA	ROE	P/E	P/B
VCB	81,500	96,500	+18.4%	385,700	0.61%	0.54%	505.88%	1.70%	21.65%	15.46	3.14
CTG	29,100	40,700	+39.9%	139,847	1.35%	1.25%	189.73%	0.93%	15.05%	9.52	1.37
TCB	39,300	63,100	+60.6%	137,979	0.60%	0.53%	171.60%	3.45%	21.05%	6.82	1.33
MBB	23,125	36,833	+59.3%	104,848	1.20%	1.36%	221.42%	2.55%	24.25%	6.67	1.55
STB	25,400	35,800	+40.9%	47,885	1.27%	0.39%	138.38%	0.67%	10.30%	13.36	1.34

Source: Fiinpro, ACBS

Financial indicators as of 2Q22

(Unit: VND billion)

Ticker	Market cap 17-08-22	Equity	Total Assets	NPL ratio	Group 2 loan ratio	NPL coverage	ROA	ROE	P/E	P/B
VCB	385,700	122,990	1,602,392	0.61%	0.54%	505.88%	1.70%	21.65%	15.46	3.14
BID	202,341	93,988	1,979,416	1.02%	1.17%	262.51%	0.72%	14.66%	15.50	2.22
CTG	139,847	102,782	1,691,062	1.35%	1.25%	189.73%	0.93%	15.05%	9.52	1.37
TCB	137,979	104,475	623,739	0.60%	0.53%	171.60%	3.45%	21.05%	6.82	1.33
VPB	134,031	98,524	608,275	5.25%	3.87%	61.99%	3.05%	19.58%	7.99	1.48
MBB	104,848	70,907	658,274	1.20%	1.36%	221.42%	2.55%	24.25%	6.67	1.55
ACB	84,267	52,066	543,737	0.76%	0.38%	185.09%	2.26%	25.07%	7.16	1.62
SSB	62,398	23,557	229,723	1.60%	0.32%	95.72%	1.66%	17.91%	16.03	2.65
VIB	55,116	28,250	348,023	2.45%	2.81%	54.06%	2.28%	28.85%	7.55	1.95
HDB	53,827	35,367	384,267	1.33%	2.27%	93.04%	1.87%	21.63%	7.72	1.62
STB	47,885	35,798	551,422	1.27%	0.39%	138.38%	0.67%	10.30%	13.36	1.34
TPB	45,396	29,008	310,769	0.85%	1.53%	161.46%	1.87%	20.37%	8.27	1.56
SHB	41,603	39,681	522,131	2.55%	0.90%	63.11%	1.42%	20.05%	5.43	1.05
EIB	36,883	19,073	174,582	1.88%	1.00%	70.68%	1.21%	11.18%	18.09	1.93
MSB	29,481	24,578	195,057	1.50%	0.83%	84.28%	2.13%	18.44%	7.02	1.20
OCB	24,932	23,147	188,857	1.96%	2.67%	61.42%	2.02%	16.74%	6.73	1.08
LPB	23,832	19,750	300,919	1.40%	1.26%	121.27%	1.46%	23.19%	4.83	1.06
Median	**55,116**	**35,798**	**522,131**	**1.35%**	**1.17%**	**121.27%**	**1.87%**	**20.05%**	**7.72**	**1.55**

Source: Fiinpro, ACBS

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Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.
HOLD: where we believe it will be -15% to 15%.
SELL: where we believe it will be lower than -15%.

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