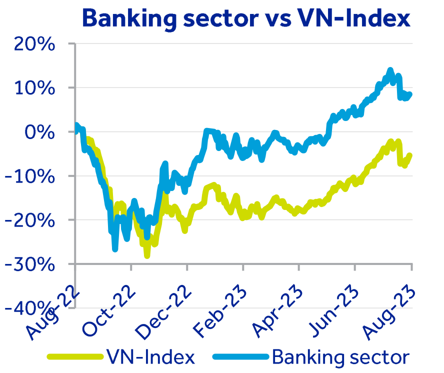
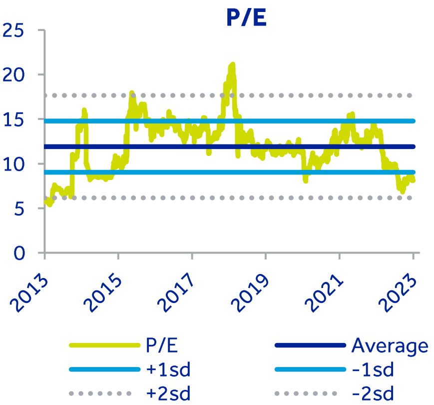
SECTOR UPDATE – BANKING

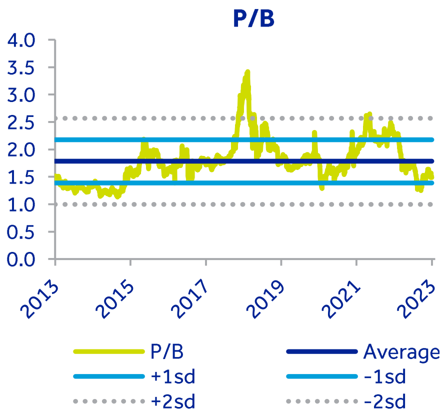
September 5, 2023

Hung Cao, CFA
(+84 28) 7300 7000 (x1049)
hungcv@acbs.com.vn

PROFIT IS EXPECTED TO RECOVER FROM Q3/2023, VALUATION IS STILL ATTRACTIVE WITH A MID AND LONG TERM HORIZON







The outlook of profit in 2H2023 is expected to improve, based on:

- NIM is forecast to recover thanks to a rapid decrease in deposit rates and increase in CASA. Meanwhile, new lending rates are now in line with customers' expectations and will decrease slower than deposit rates.
- Profit from government bond trading is forecast to recover strongly as Vietnam government bond yields fell by more than 2% in most maturities since the beginning of the year.
- However, provision expenses will be under upward pressure in the second half of 2023 as NPLs remain high and loan loss coverage are no longer thick.
- Profits of banks in the VN-Index are forecast to grow by 10% in 2023 (compared to a decrease of 2.5% in the first 6 months of 2023), slowing down from 34.6% growth in the year 2022.

Valuation is still attractive enough for mid to long-term investors

- Bank stock price has recovered 48% since the bottom in November 2022 and is currently trading at P/E of 9.3x and P/B of 1.8x, lower than 22.2% and 11.5% than the 10-year historical average, respectively.
- Although banking sector profits are forecast to slow down in 2023, with valuations still in attractive territory and bank stocks therefore are still suitable investment opportunities for mid to long-term investors.

Recommended stocks

The stocks in our **BUY** recommendation list are:

- STB (target price: 45,300 VND/share, +39.4%);
- MBB (target price: 25,200 VND/share, +37.0%);
- and TCB (target price: 43,000 VND/share, +26.5%).

List of bank stocks with BUY recommendation:

Ticker	PBT 2023F (VND bn)	PBT 2024F (VND bn)	PBT growth 2024F	ROE 2023F	ROE 2024F	P/E 2023F	P/B 2023F	P/E 2024F	P/B 2024F	Market price (VND)	Target price (VND)	Upside
STB	10.612	20.006	88,5%	18,6%	28,4%	7,7	1,3	4,0	1,0	32.500	45.300	+39,4%
MBB	23.692	28.682	21,1%	19,9%	19,7%	4,2	0,9	4,2	0,7	18.400	25.200	+37,0%
TCB	22.501	27.649	22,9%	14,6%	15,4%	6,8	0,9	5,5	0,8	34.000	43.000	+26,5%

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Banks' profits reached bottom in Q2/2023?

Our statistics show that the total PBT in Q2/2023 of banks listed in the VN-Index decreased by 4.8% q/q and decreased by 1.0% y/y. Specifically:

(1) Net interest income (NII) Q2/2023 decreased by 3.9% q/q and only increased slightly by 2.1% y/y. The main reason comes from NIM shrinking by 22 basis points (bps) q/q and 34 bps y/y, although credit growth of listed banks is still quite good, grew 11.1% y/y (whole sector: 9.3% y/y).

(2) Non-interest income (NFI) Q2/2023 had a recovery of 17.6% q/q thanks to profits from securities (mainly government bonds) trading and a slight increase of 3% compared to the high base at the same period last year.

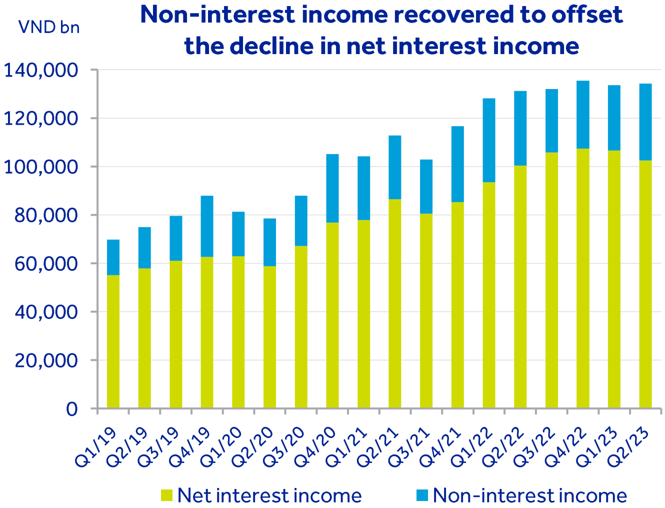
(3) Operating expenses (OPEX) in Q2/2023 increased by 7.8% q/q and increased by 6.9% q/q as banks continued to increase investment in assets and digital technology infrastructure. CIR (cost to income ratio) of banks is still at a good level of 33.2%, up slightly from 31.0% in the previous quarter.

(4) Provision costs Q2/2023 only increased by 1.3% q/q and increased by 2.7% y/y, although the NPL ratio in Q2/2023 increased. Credit costs (provision costs/outstanding credit) in Q2/2023 were only 0.34%, equivalent to the pre COVID-19 period.

(5) NPL ratio increased to 1.93%, an increase of 16 bps q/q and an increase of 46 bps ytd due to category 2 loans transferred from. Meanwhile, restructured loans under Circular 02/2023 by the end of Q2/2023 accounted for 0.5% of the total outstanding loan of the whole sector.

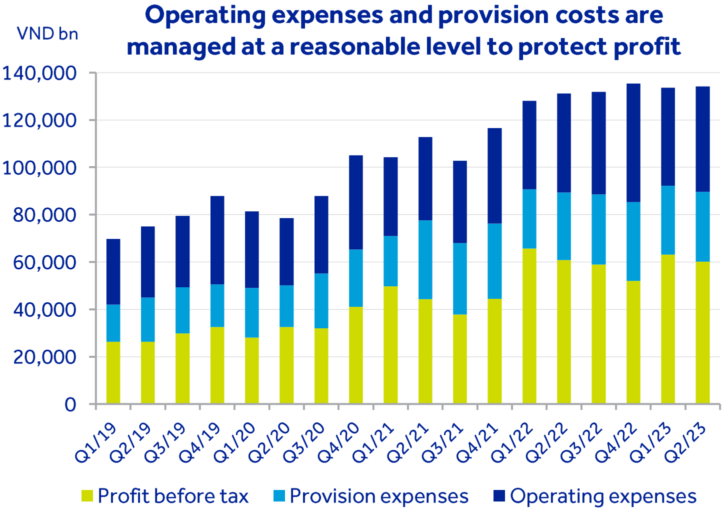
(6) NPLs increased while provision costs only increased slightly, causing the loan loss reserve buffers continued to be thinned. NPL coverage ratio decreased to 109% from a peak of 160% in Q3/2022.

Non-interest income recovered to offset the decline in net interest income



Source: Banks, ACBS

Operating expenses and provision costs are managed at a reasonable level to protect profit



Source: Banks, ACBS

In general, the picture of profit in 6M2023 is not positive. However, **we forecast that banks' profits will improve from Q3/2023** going forward thanks to reducing deposit rates and improving CASA, which will begin to impact banks' funding costs, leading to NIM recovery. Meanwhile, new lending rates are currently at a more reasonable level with customers' expectations and will therefore decrease more slowly than deposit rates. Net interest income has always been the most important source of income for banks, accounting for about 80% of total income, thus, recovering NIM will play an important role in the profit growth of banks.

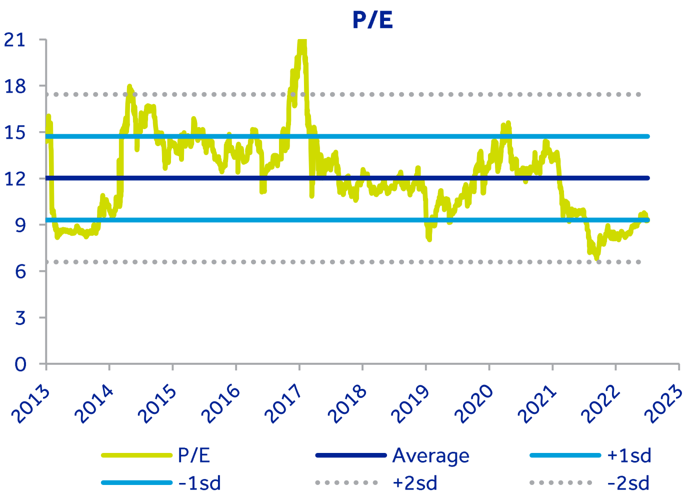
We forecast credit growth in 2023 to reach 12%, lower than the 14.2% increase in 2022 and the State Bank's credit growth orientation of 14%-15%. Although lending rates have been lowered significantly, banks have not lowered credit standards in the context of increased NPL risks and the real estate market has not recovered. However, in general, most listed banks can achieve higher credit growth than the industry's average thanks to their better financial health and higher profitability.

For the whole year 2023, **we maintain the expectation that the profit growth of the banking sector will reach 10%**, slowing down compared to the 34.6% increase in 2022. However, 2023's profit growth will hava a clear differentiation between each banks. Banks with strong liquidity and especially good credit risk management capabilities will have abilities to achieve higher profit growth than average.

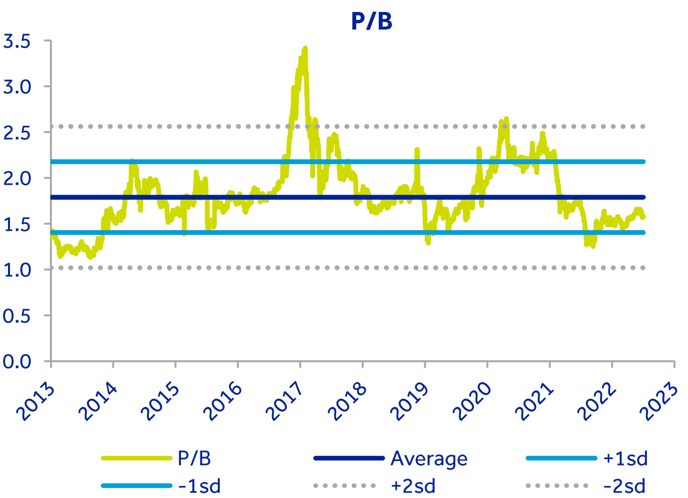
VALUATION AND INVESTMENT RECOMMENDATION

As of August 28, 2023, banking industry stock prices are trading at a P/E of **9.3x** and P/B of **1.8x**, lower than **22.2%** and **11.5%**, respectively compared to the 10-year historical average. Banking sector's stock price have had an impressive recovery of 48% since the bottom in November 2022, however, the P/E ratio of banking sector is still 1 standard deviation lower than the historical average of 12x.

Although the profit outlook for 2023 is not too positive (expectation of 10% growth), the current valuation is still quite attractive with a mid and long-term investment horizon.



Source: Fiinpro, ACBS



Source: Fiinpro, ACBS

Factors that positively impact banking stock price:

(1) Policies to support the real estate sector and corporate bond market continue to be implemented by the Government and achieve positive results, helping to support the financial health of the banking industry;

(2) The economic growth prospects of Vietnam in particular and the world in general are positive, thereby supporting credit demand.

Factors that negatively impact banking stock price:

(1) The economy continues to grow slowly, credit demand is weak;

(2) Prolonged real estate market problems (legal problems, capital congestion and gloomy sales) cause NPLs and provision costs of the banking system related to credit for the real estate sector increased;

(3) Inflation in the US is difficult to cool down, forcing the FED to continue to increase and keep interest rates high, thereby affecting the exchange rate and interest rates of the Vietnamese banking system.

List of bank stocks with BUY recommendation:

Ticker	PBT 2023F (VND bn)	PBT 2024F (VND bn)	PBT growth 2024F	ROE 2023F	ROE 2024F	P/E 2023F	P/B 2023F	P/E 2024F	P/B 2024F	Market price (VND)	Target price (VND)	Upside
STB	10.612	20.006	88,5%	18,6%	28,4%	7,7	1,3	4,0	1,0	32.500	45.300	+39,4%
MBB	23.692	28.682	21,1%	19,9%	19,7%	4,2	0,9	4,2	0,7	18.400	25.200	+37,0%
TCB	22.501	27.649	22,9%	14,6%	15,4%	6,8	0,9	5,5	0,8	34.000	43.000	+26,5%

Source: ACBS

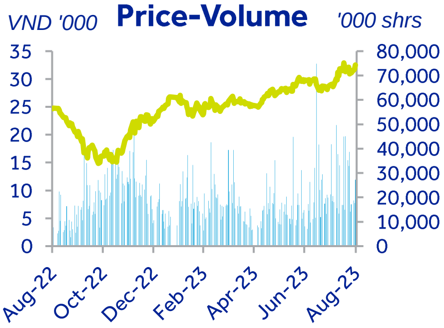
Hung Cao, CFA
(028) 7300 7000 (ext: 1049)
hungcv@acbs.com.vn

Recommendation	**BUY**
	HOSE: STB
	Banking
Current price (VND)	**32,500**
Target price (VND)	**45,300**
Expected share price return	+39.4%
Expected dividend yield	0.0%
Expected total return	+39.4%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	44.4	10.8	14.6	27.8
Relative	22.6	10.7	1.8	31.4

Source: Bloomberg



Ownership

VAMC	32.5%
Duong Cong Minh (Chairman)	3.32%

Stock Statistics	**30-Aug-2023**
Bloomberg code	**STB VN**
52-week range (VND)	14,050-32,900
No. of shares (m)	1,885
Mkt cap (VND bn)	61,270
Mkt cap (USD m)	2,520
Foreign room left (%)	6.3
Est. free float (%)	94.5
3m avg daily vol (shs)	21,122,180
VND/USD	24,315
Index: VNIndex / HNX	1213.16/247.96

SAI GON THUONG TIN JOINT STOCK BANK (STB)

1H2023 business results were weak, in line with the whole sector

STB's 1H2023 business results were quite similar to the weakening state of the economy and the banking industry. NIM and NFI decreased while STB did not have any significant income from off balance sheet loan collection. However, thanks to no longer having to write off accrued interests and reducing provision expenses for VAMC bonds, 1H2023's PBT increased by 63.5% y/y.

Asset quality of STB was under controlled despite the deterioration of the whole industry. As of the end of Q2/23, NPL ratio was at 1.8%, +60 bps q/q due to the overdued loans transfered from category 2.

Profit is expected to surge from 2024 after completing the restructuring plan

The progress of liquidation of collaterals has been slow due to their high value and the illiquidity situation in the economy. We expect STB will continue to use its profits from business to make provisions for the remaining VND4,400 billion of VAMC bonds from now until the end of 2023 to complete the restructuring plan.

We expect PBT in 2023 to reach VND10,612 billion, +67.4% y/y (plan: VND9,500 billion, +50% y/y). Profit in 2024 is forecasted to surge to VND20,006 billion (+88.5% y/y), equivalent to same size peers after the pressure to make provisions for the legacy assets is negligible.

Valuation and recommendation

STB is trading at a seemingly unattractive level with a trailing P/E and P/B of 10.3x and 1.3x, along with 2023's forward P/E and P/B of 6.6x and 1.1x respectively. However, further forward looking, the valuation multiples will become appealing with 2024's forward P/E and P/B of 3.4x and 0.8x when STB no longer has pressure to made provisions for the VAMC bonds.

We reiterate our **BUY** recommendation for STB with a target price of **VND45,300/share**. Our target price is equivalent to target P/E and target P/B of **6.7x** and **1.5x** respectively.

(VND bn)	2020	2021	2022	2023F	2024F	2025F
Credit growth	14.9%	14.0%	13.1%	14.0%	14.0%	14.0%
NIM	3.0%	2.8%	3.5%	4.4%	4.4%	4.4%
NFI proportion	33.3%	32.4%	34.4%	20.8%	18.8%	18.6%
TOI growth	18.0%	2.5%	47.7%	20.3%	13.4%	14.5%
CIR	63.1%	55.1%	41.8%	38.4%	37.9%	37.4%
Net credit costs	0.9%	0.9%	2.1%	1.8%	0.4%	0.4%
Profit before tax	3,339	4,400	6,339	10,612	20,006	23,104
Growth	3.8%	31.8%	44.1%	67.4%	88.5%	15.5%
Profit attributable	2,277	3,004	4,636	7,936	15,368	17,750
Adjusted EPS (VND)	1,208	1,593	2,459	4,209	8,152	9,416
BVPS (VND)	15,360	18,174	20,489	24,699	32,850	42,266
ROA	0.5%	0.6%	0.8%	1.3%	2.1%	2.2%
ROE	8.2%	9.5%	12.7%	18.6%	28.3%	25.1%
P/E (x)	23.0	17.4	11.3	6.6	3.4	3.0
P/B (x)	1.8	1.5	1.4	1.1	0.8	0.7

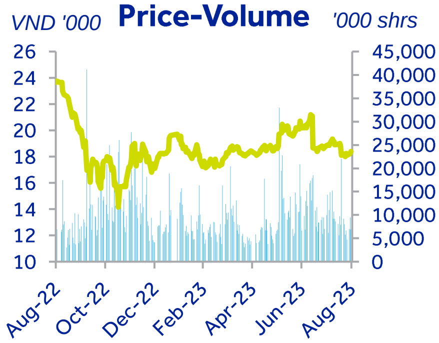
Hung Cao, CFA
(+84 28) 3823 4159 - Ext: 326
hungcv@acbs.com.vn

Recommendation	**BUY**
	HOSE: MBB
	Banking
Current price (VND)	**18,400**
Target price (VND)	**25,200**
Expected share price return	+37.0%
Expected dividend yield	0.0%
Expected total return	+37.0%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	26.9	-2.4	14.8	-8.0
Relative	5.0	-2.5	1.9	-4.4

Source: Bloomberg



Ownership

Viettel	14.0%
SCIC	9.3%
Vietnam Helicopter	7.4%
Saigon New Port	7.1%

Stock Statistics	**30-Aug-23**
Bloomberg code	**MBB VN**
52-week range (VND)	11,478-20,826
No. of shares (m)	5,214
Mkt cap (VND bn)	95,939
Mkt cap (USD m)	3,946
Foreign room left (%)	0.0
Est. free float (%)	58.6
3m avg daily vol (shs)	12,047,310
VND/USD	24,315
Index: VNIndex / HNX	1213.16/247.96

MILITARY COMMERCIAL JS BANK (MBB)

We expect provision expenses to face pressure of rising due to (1) the economy is facing global headwinds, (2) the domestic corporate bond market remains stagnant and (3) the taking over of Oceanbank. However, MBB's stock price is in an attractive level and has the potential to recover when policies and macro factors improve.

Outlook for 2023

In addition to the responsibility of restructuring Oceanbank, MBB (and the banking sector in general) will face the risk of increasing NPLs in the context of real estate sector and corporate bond market facing many difficulties.

As a result, MBB's credit costs may have to remain at the high level of 2.0% in the coming years.

We forecast 2023's PBT will reach VND 23,692 billion, a slight increase of 5.1% YoY.

Valuations and recommendations

The earnings outlook for 2023 is marginal as increases in provisioning are expected to be a drag on the bottom line, however, MBB is trading at an attractive level with a P/E of **4.7x** and a P/B of **1.1x**.

MBB's share price has the potential to recover when the Government's policies to support the real estate sector are realized and the macro situation improves.

We reiterate our **BUY** recommendation with a target price of VND**30,200** per share using the discounted residual income method. Our target price equates to a forward P/E and P/B of **8.2x** and **1.5x** respectively.

(VND bn)	2019	2020	2021	2022F	2023F	2024F
Credit growth	18.8%	21.4%	26.1%	22.4%	20.0%	20.0%
NIM	4.94%	4.77%	5.10%	5.56%	5.49%	5.43%
NFI proportion	27.0%	25.9%	29.1%	23.4%	22.5%	22.1%
TOI growth	26.2%	11.0%	35.0%	20.3%	15.7%	18.2%
CIR	39.4%	38.6%	33.5%	33.7%	32.1%	30.6%
Credit costs	-2.00%	-2.08%	-2.20%	-1.53%	-2.06%	-2.06%
Profit before tax	10,036	10,688	16,527	22,551	23,692	28,682
Growth	29.2%	6.5%	54.6%	36.4%	5.1%	21.1%
Profit attributable	7,373	7,714	11,888	16,253	17,075	20,671
Adjusted EPS (VND)	3,170	2,782	3,146	3,585	3,693	4,471
BVPS (VND)	16,338	17,275	15,768	17,075	20,439	24,910
ROA	1.9%	1.7%	2.2%	2.5%	2.2%	2.2%
ROE	20.9%	18.0%	22.1%	23.7%	19.9%	19.7%
P/E (x)	9.1	8.7	5.6	4.1	3.9	3.2
P/B (x)	1.8	1.4	1.1	0.9	0.7	0.6
DPS (VND)	600	-	-	-	-	-

Hung Cao, CFA
(+84 28) 7300 7000 (ext: 1049)
hungcv@acbs.com.vn

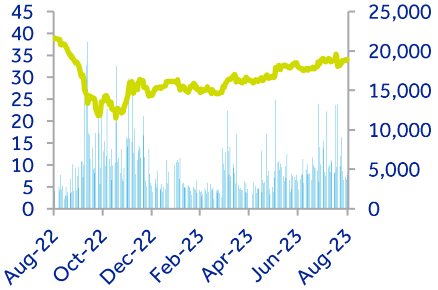
Recommendation	**BUY**
	HOSE: TCB
	Banking
Current price (VND)	**34,000**
Target price (VND)	**43,000**
Expected share price return	+26.5%
Expected dividend yield	0.0%
Expected total return	**+26.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	31.5	0.3	12.3	-12.5
Relative	9.7	0.2	-0.6	-8.9

Source: Bloomberg

Price-Volume



Ownership

Masan Group	15.0%
Chairman & relatives	13.9%
Others	71.1%

Stock Statistics

Stock Statistics	**30-Aug-23**
Bloomberg code	**TCB VN**
52-week range (VND)	19,300-39,150
No. of shares (m)	3,517
Mkt cap (VND bn)	119,586
Mkt cap (USD m)	4,918
Foreign room left (%)	0.0
Est. free float (%)	77.2
3m avg daily vol (shs)	5,435,424
VND/USD	24,315
Index: VNIndex / HNX	1213.16/247.96

VIETNAM TECHNOLOGICAL AND COMMERCIAL JS BANK (TCB)

6M2023 business results decreased y/y

Profit before tax in 6M2023 dropped by 20.1% y/y mainly due to a sharp decrease in NIM. Cost of funds continued to increase in Q2/23, although at a slower rate, due to high deposit rates in the Q4/22-Q1/23 period. Meanwhile, TCB lowered lending rates in Q2/23, causing NIM to decrease. The bright spot came from the nearly 3 percentage point increase in CASA ratio in Q2/23.

NPL ratio increased by 22 bps q/q, but is still well controlled at 1.07%. The increase in NPLs came from individual and SME lending. Large enterprise lending still maintain a perfect NPL ratio of 0%. Category 2 loan ratio remained at a high level around 2% but management expects it will start decreasing in Q3/23. Restructured loans according to Circular 02/2023 only accounted for a negligible proportion.

NPLs increased while TCB only made moderate provisions, causing LLCR to drop to 116%.

Brighter outlook in 2H 2023

We expect TCB's NIM to start recovering from Q3/23 and full-year 2023's NIM at 4.1%, 127 bps lower than 2022. We expect 2024's NIM to continue to recover 20 bps to 4.3% supported by falling cost of funds and CASA's rebound.

The management believes that the arising of NPLs will continue, however, the growth rate will be slow. We forecast credit costs to come at 0.5% in 2023 and 2024, up from 0.4% in 2022.

We forecast TCB's PBT will reach VND22,500 billion for the whole year of 2023, down 12% compared to 2022 (AGM plan: VND22,000 billion). For 2024, PBT is forecasted to recover more strongly, reaching VND27,600 billion, up 23% compared to 2023, mainly thanks to the recovery of NIM.

Valuations & Recommendations

We reiterate our recommendation to **BUY** with a 1-year target price of **VND43,000 per share** using a discounted residual income method. Our target price is equivalent to 1-year forward P/E and P/B of **7.6x** and **1.1x** respectively.

(VND bn)	2019	2020	2021	2022	2023F	2024F
Credit growth	19.0%	24.0%	26.5%	12.5%	18.2%	15.7%
NIM	4.40%	4.94%	5.76%	5.37%	4.10%	4.30%
NFI proportion	32.3%	30.7%	28.0%	25.9%	28.8%	26.0%
TOI growth	14.8%	28.4%	37.1%	10.3%	-7.0%	18.1%
CIR	34.7%	31.9%	30.1%	32.8%	34.0%	31.6%
Net credit costs	0.07%	-0.46%	-0.42%	-0.14%	-0.29%	-0.32%
Profit before tax	12,838	15,800	23,238	25,568	22,501	27,649
Growth	20.4%	23.1%	47.1%	10.0%	-12.0%	22.9%
Profit attributable	10,075	12,325	18,052	20,150	17,642	21,705
Adjusted EPS (VND)	2,878	3,516	5,142	5,729	5,016	6,171
BVPS (VND)	17,651	21,151	26,259	31,927	36,943	43,114
ROA	2.9%	3.0%	3.6%	3.2%	2.3%	2.4%
ROE	17.8%	18.1%	21.7%	19.7%	14.6%	15.4%
P/E (x)	11.7	9.6	6.5	5.8	6.7	5.4
P/B (x)	1.9	1.6	1.3	1.1	0.9	0.8

Q2/2023 BUSINESS RESULTS AND OUTLOOKS

NIM continued to decrease in Q2/2023 but is expected to recover in the coming time

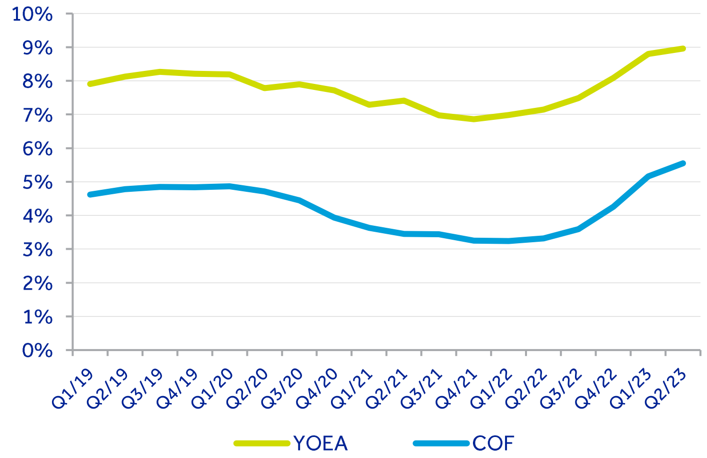
Interest rates for new deposits have decreased by about 2%-3% ytd due to a abundant liquidity in the banking system, however, the consequences of high interest rate mobilization in Q4/2022-Q1/2023 still had a negative impact on NIM of banks in Q2/2023. Mobilizing long-term deposits (6-12 months) with high interest rates (8%-11%/year depending on each bank) in Q4/2022-Q1/2023 caused banks' funding costs to continue to in Q2/2023, up 39 bps q/q, although the pace of increase is slower.

Meanwhile, the yield on earning assets only increased slightly by 16 bps q/q in Q2/2023 due to: (1) lending rates of many banks have exceeded the threshold that customers cannot accept and there is no room for further rise in Q2/2023 and (2) the drastic instruction in lowering lending rates by the Government and the State Bank of Vietnam is also the reason why banks quickly reduce lending interest rates in Q2/2023.

The above factors caused NIM Q2/2023 to decrease by 22 bps q/q and 34 bps q/q to 3.66% and dropped to the level equivalent to the bottom in Q3/2021 – the time of the 4th wave of Covid epidemic, but still higher than the pre Covid-19 period.

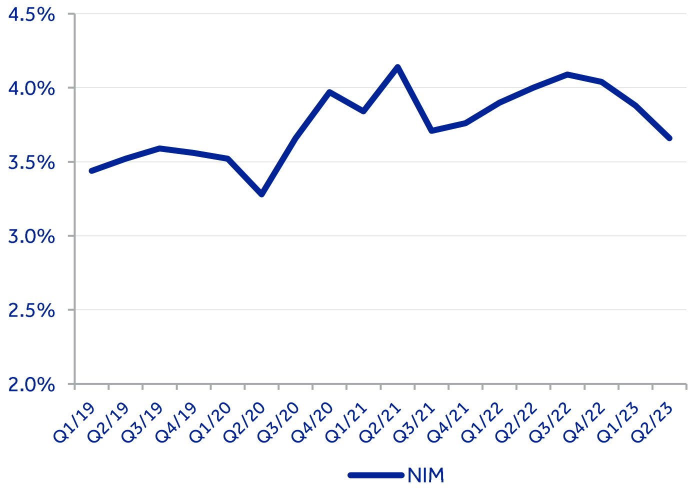
Although the general picture of NIM was quite negative in Q2/2023, the NIM of each bank was differentiated. Banks with good liquidity and high proportion of personal loans still kept their NIM from falling sharply, even increasing slightly (VCB +2 bps q/q).

Yield on earning assets increased less than cost of funds...



Source: Banks, ACBS

... caused NIM to continue to shrink



Source: Banks, ACBS

A sharp drop in deposit interest rates and a recovery in CASA will begin to have an impact on banks' capital costs in the second half of 2023. Deposits are rolled over at the new savings rate (currently at 6%-7%/year for 12-month term, down 2%-3% ytd) will help reduce funding costs of banks. Meanwhile, new lending interest rates are now at a more reasonable level with customers' expectations and will decrease slower than deposit rates. Therefore, we expect banks' NIM will begin to recover slightly in Q3/2023 and recover more clearly in Q4/2023 onwards.

Government bond yields fell sharply, helping non-interest income recover

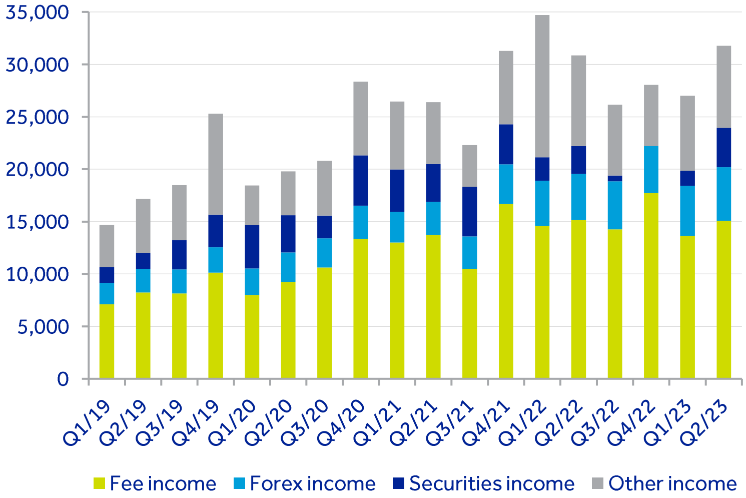
Non-interest income in Q2/2023 recovered by 17.6% q/q and increased slightly by 3.0% compared to the high base level in the same period last year. Of which:

(1) Fee income from services continued to be low because some businesses such as bancassurance and investment banking services were affected by negative news about wrongdoings in cross-selling the insurance and investment products to customers. However, the largest fee income from payment have recovered in Q2/2023.

(2) Profits from securities trading recovered strongly thanks to government bond yields falling more than 2% ytd. Excessive liquidity in the banking system created conditions for interest rates in the interbank market to fall sharply and the value of government bond portfolios of banks to increase.

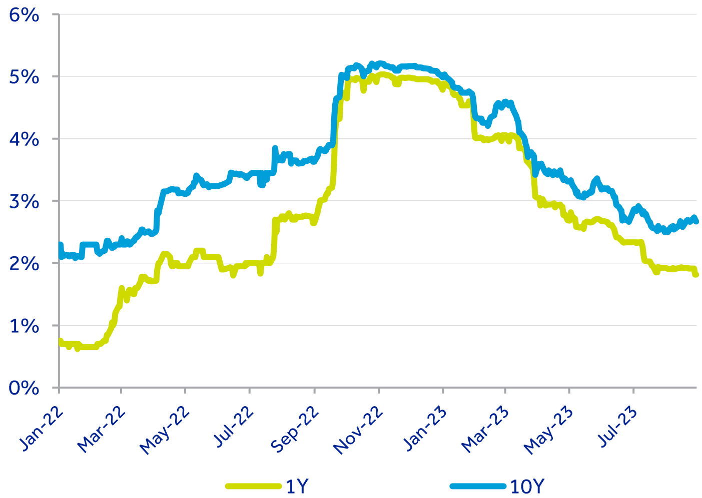
(3) Income from off-balance sheet loan collection continued to remain at a low level due to the lack of clear improvement in real estate market liquidity, causing difficulties for banks in liquidating collateral assets.

Banks began to make profits from government bonds, helping non-interest income recover



Source: Banks, ACBS

Vietnam governmend bond yields have fallen sharply since the beginning of the year



Source: VBMA

We believe that non-interest income from bancassurance and investment banking business will continue to face difficulties because the corporate bond market for retail investors is still very gloomy and the sentiment of insurance buyers is still negatively affected. In addition, weak credit demand makes cross-selling insurance products more difficult for banks.

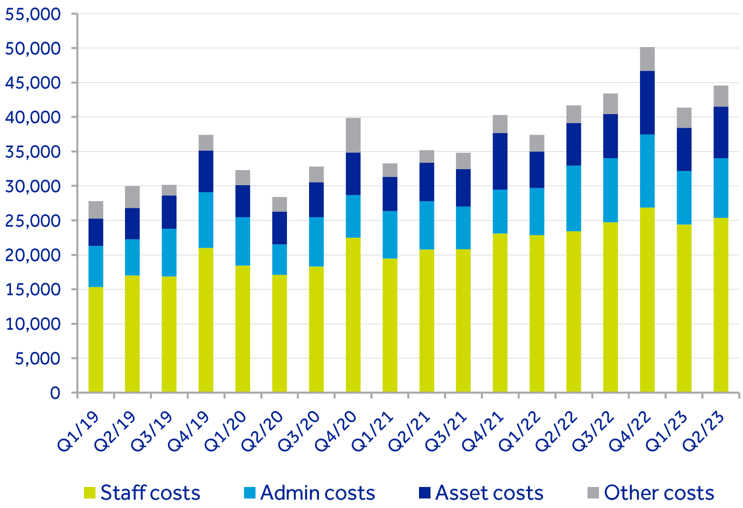
The bright spot came from a sharp drop in government bond yields, giving the investment activities of banks that bought government bonds with high coupon rate at the beginning of the year to sell and record profits. In addition, the recovering stock market also creates conditions for bank's subsidiaries are securities companies to record better profits.

Banks put effort in controlling operating expenses amid impacted income

Operating expenses increased by 6.9% y/y and 7.8% q/q, mainly due to the sharp increase in asset costs, while the largest expense item was staff expenses were controlled well at a moderate level, increasing 8.4% y/y and increasing 4.8% q/q.

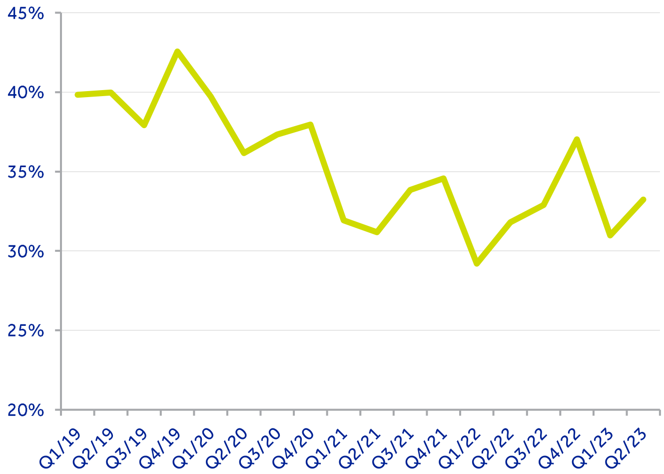
As mentioned earlier, total income has been almost flat since Q3/2022 until now due to the weakening economy and the real estate crisis. That made banks have to be more cautious in spending. Therefore, the CIR (cost to income ratio) of banks only increased slightly to 33.2% from 31.0% in the previous quarter, but is still a good level compared to global banks.

Operating expenses have been controlled more tightly...



Source: Banks, ACBS

... kept CIR stay at good level



Source: Banks, ACBS

We forecast that operating expenses of banks will continue to increase as the trend of digital transformation forces banks to increase investment in technology infrastructure as well as attract personnel in the information technology and data analytics fields.

However, we also expect banks to control their costs more tightly in 2023 to cope with the worsening macro environment and increasing policy uncertainty.

For the full year of 2023, we expect banks' CIR to stay around 35.0%, up from 32.8% in 2022 due to a slower growth in TOI.

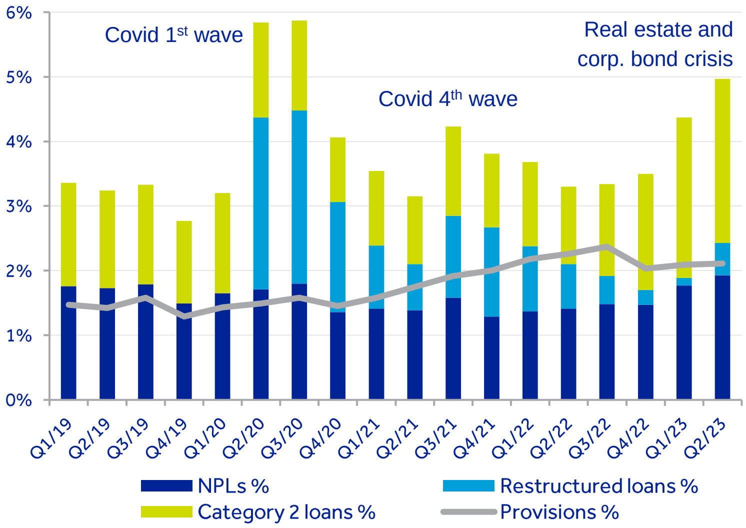
Asset quality continued to decline, risk of NPL arising is still ahead

The asset quality of the banking industry is influenced by the economy in general and the real estate market in particular. Economic growth at home and abroad weakened. The domestic and foreign economy is less positive, causing Vietnam's GDP growth in 6M2023 to only reach 3.7% y/y and total import-export turnover in 8M2023 to decrease by 12.9% y/y.

We estimate the amount of loans turned overdue (including restructured loans) in Q2/2023 at 0.9% of outstanding loan, double the historical average of 0.4% per quarter. By the end of Q2/2023, the NPL ratio increased to 1.93% (+16 bps q/q, +46 bps ytd and +52 bps y/y).

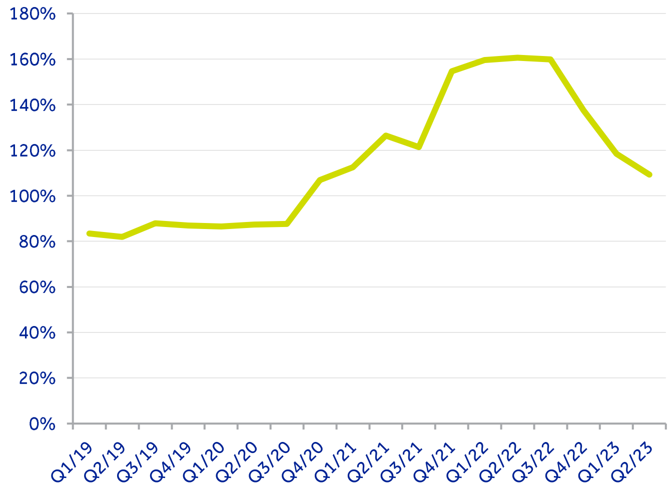
Meanwhile, the category 2 loan ratio did not increase significantly (+6 bps q/q) due to Circular 02/2023 taking effect from April 2023 allowing banks to extend repayment term and maintain the loan group to support customers in difficulty. According to the State Bank, outstanding loan restructured according to Circular 02/2023 by the end of Q2/2023 accounted for 0.5% of total outstanding credit.

Problematic loans continued to rise



Source: Banks, ACBS

LLCR became thinner



Source: Banks, ACBS

NPLs increased while banks barely increased provisioning, causing banks' reserve buffers to become thinner. The loan loss coverage ratio continued to decrease to 109% from a peak of 160% in Q3/22. However, this is still a higher level than the pre-COVID-19 period of 80-88%.

The downward pressure on asset quality on banks will continue to increase in the second half of 2023 when the economy recovers slowly and pressure from the world macro returns. In addition, outstanding loans related to the real estate sector still have many potential risks, putting pressure on the asset quality of banks, which do not have much room to write off NPLs with the reserve buffers no longer thick.

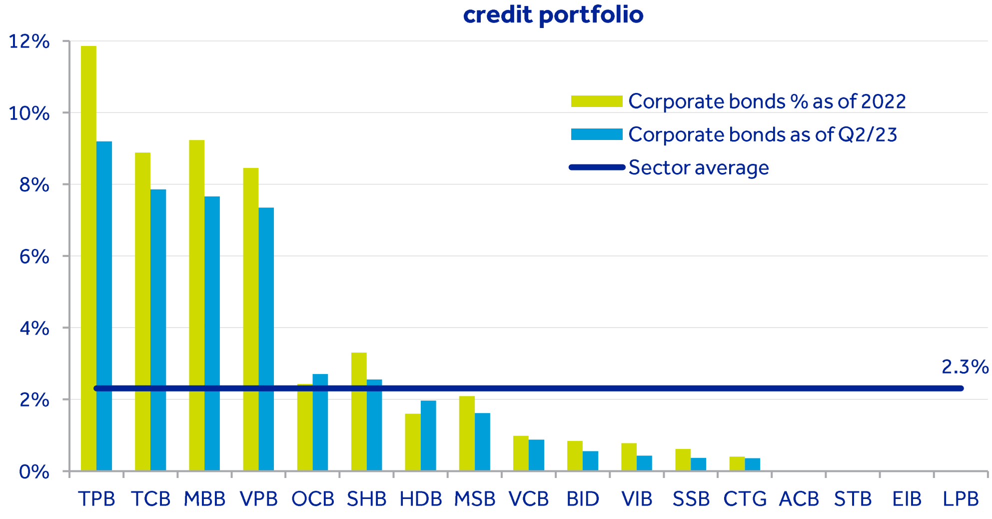
The proportion of corporate bonds in banks' credit structure decreased

Although Circular 03/2023/TT-NHNN allows banks to buy back corporate bonds until December 31, 2023 to fulfill commitments (if any) for previously sold bonds, we see that most banks have reduced the proportion of corporate bonds in the context of credit risks of issuers are still high.

The NPL ratio of corporate bond portfolios on banks' balance sheets as of the end of Q2/2023 remained at approximately 0%. However, in reality, many companies have been late in paying interests and principals on their issued bonds according to statistics from the Hanoi Stock Exchange, including many large corporations such as Novaland, Dat Xanh, Hung Thinh, Trung Nam,... However, Decree 08/2023/ND-CP of the Government allows extending bond term (up to 02 years) to help the above companies avoid being converted into NPL. According to statistics of Fiingroup, the default ratio (including extended bonds) of corporate bonds by the end of Q2/2023 is 26.9% and is forecast to increase to 40% by the end of 2023.

Banks are currently the largest bondholders, holding about 34% of the total outstanding corporate bonds (excluding bank bonds). As of the end of Q2/23, outstanding corporate bond accounted for 2.3% of total outstanding credit of banks, down from 2.5% at the end of 2022. Among them, corporate bonds of real estate companies accounts for about half, equivalent to 1.2% of outstanding credit loans of banks.

Most banks reduce the proportion of corporate bonds in their credit portfolio



Source: Banks, ACBS

The funding channel from corporate bonds – accounting for about 30% of outstanding credit of real estate businesses – is still frozen and has no breakthrough solution yet. Real estate businesses will continue to face difficulties in accessing new capital while the payment pressure will increase when the bonds mature at the end of 2023.

The lack of good real estate supply has made the sales progress of real estate businesses not really prosper, although home loan interest rates have now decreased by 2%-3% ytd. Money is therefore still congested in retail area and the liquidity problem of real estate businesses has not been completely resolved.

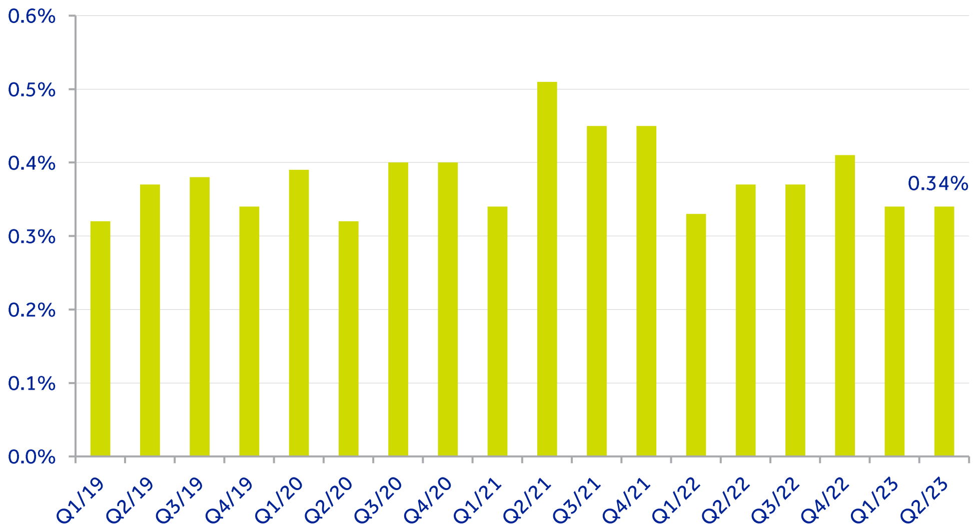
The government and state authorities have promoted many supports to remove legal obstacles for real estate projects, which will facilitate real estate businesses to mobilize bank loans and open for sale project in the future, although we think this process will take a long time to unfrozen the real estate market.

Banks made provisionning at a moderate level to protect profits

Provision expenses in Q2/2023 were flat, only increased by 1.3% q/q and 2.7% of y/y. NPLs incurred high since Q4/2022 but provision expenses did not increase in line, helping banks' profits remain relatively stable. Credit costs (provision costs/credit balance) in Q2/2023 was only 0.34%, similar to the pre-COVID-19 period.

The reason is that banks (especially state-owned commercial banks) have proactively set aside provisions early to thicken their reserve buffer to have room to counter new NPLs. That helps these banks' provisioning expenses not increase sharply in 1H2023, despite the high increase in NPLs.

Credit costs were at a moderate level

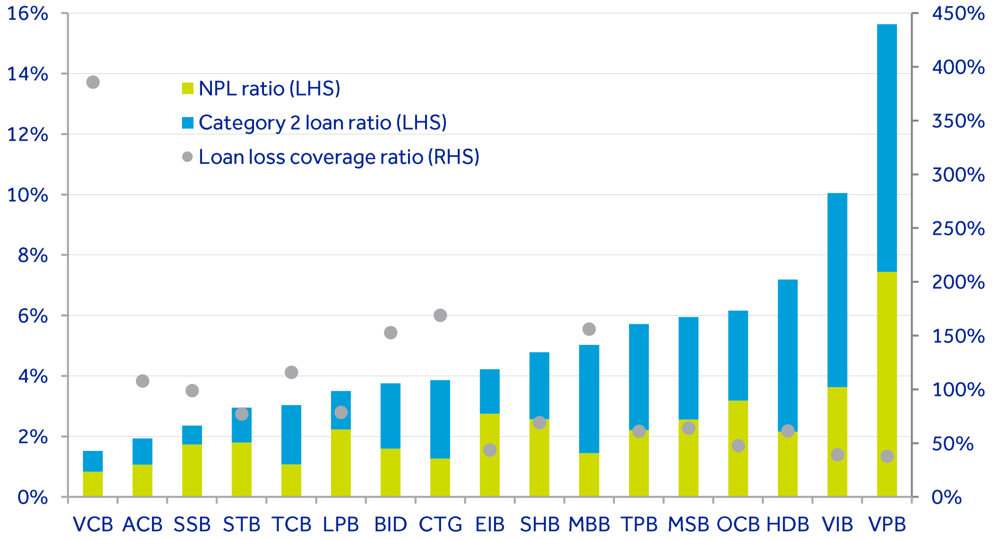


Source: Banks, ACBS

We believe that some banks with thick provision buffers still have room to control provision costs from increasing too high in 2023. We forecast credit costs will be at **1.5%** of outstanding loans in 2023, equivalent to 2022, and provision expenses increased only slightly by 10% compared to 2022.

Asset quality as well as provision costs will vary, depending on each bank's risk appetite and credit risk management capacity. Banks that can control overdue loan ratio at low levels such as VCB (1.5%) and ACB (1.9%) are likely to maintain good asset quality in the second half of 2023.

Overdue loan ratio of banks as of the end of Q2/2023



Source: Banks, ACBS

Banks with high loan loss coverage ratio such as VCB (386%), CTG (169%) and MBB (156%) and BID (153%) will also have room to write off NPLs with provision to protect their quality of its assets and keep provisioning costs at a .

The ability to control NPL as well as having a thick reserve buffer are important factors for banks to have a stable profit growth and achieve high profitability, in the context of the domestic economy and international environment are still facing many potential risks.

BANKS' KEY FINANCIAL RATIOS AS OF Q2/2023

(Unit: VND billion)

Ticker	Listing	Market cap 28-Aug-23	Equity	Total Assets	NPL ratio	Category 2 loan ratio	LLCR	ROA	ROE	P/E	P/B
VCB	HOSE	486,251	152,001	1,704,273	0.8%	0.7%	385.8%	1.8%	23.0%	15.0	3.2
BID	HOSE	229,657	114,152	2,124,768	1.6%	2.2%	151.5%	1.0%	19.0%	11.3	2.1
CTG	HOSE	149,699	118,060	1,860,105	1.3%	2.6%	168.9%	1.0%	15.8%	8.5	1.3
VPB	HOSE	136,278	107,564	739,762	6.5%	8.2%	43.0%	1.8%	11.1%	11.7	1.3
TCB	HOSE	119,586	122,465	732,470	1.1%	2.0%	115.6%	2.5%	15.3%	6.7	1.0
MBB	HOSE	94,896	86,069	806,238	1.4%	3.6%	156.1%	2.5%	22.3%	5.2	1.2
ACB	HOSE	85,643	62,867	630,893	1.1%	0.9%	107.6%	2.4%	24.1%	4.9	1.4
SSB	HOSE	69,440	27,722	245,206	1.7%	0.6%	98.7%	1.4%	12.9%	20.2	2.5
STB	HOSE	59,667	41,793	622,178	1.8%	1.2%	77.1%	1.1%	17.2%	8.8	1.4
VIB	HOSE	50,229	33,910	378,663	3.6%	6.4%	39.1%	2.5%	27.7%	5.6	1.5
HDB	HOSE	47,149	40,477	483,936	2.2%	5.0%	61.3%	1.8%	20.3%	5.9	1.2
SHB	HOSE	43,789	47,614	585,270	3.0%	2.8%	56.9%	1.4%	17.7%	5.5	0.9
TPB	HOSE	41,831	30,986	343,407	2.2%	3.5%	60.9%	1.8%	18.6%	7.1	1.4
LPB	HOSE	40,411	25,497	350,243	2.4%	1.7%	72.1%	1.1%	14.7%	9.1	1.3
EIB	HOSE	37,621	21,422	190,301	2.7%	1.5%	43.6%	1.4%	12.2%	14.8	1.8
MSB	HOSE	27,400	29,518	237,816	2.6%	3.4%	63.8%	2.2%	17.5%	5.7	0.9
OCB	HOSE	25,480	27,272	211,292	3.2%	3.0%	47.5%	2.1%	16.3%	6.1	0.9
NAB	UPCOM	13,838	13,793	200,205	2.7%	2.2%	37.9%	1.1%	15.7%	6.8	1.0
BAB	HNX	11,668	10,395	135,266	0.7%	0.5%	157.8%	0.7%	9.0%	12.8	1.1
ABB	UPCOM	8,906	13,291	154,449	4.5%	3.7%	33.5%	0.4%	4.4%	15.6	0.7
PGB	UPCOM	8,582	4,814	46,968	3.1%	4.0%	35.1%	0.9%	9.4%	19.6	1.8
NVB	HNX	8,018	5,775	84,616	25.6%	5.0%	8.1%	0.0%	-0.1%	n/a	1.4
VBB	UPCOM	5,486	6,540	115,699	3.9%	2.7%	27.4%	0.5%	7.9%	10.9	0.8
BVB	UPCOM	5,267	5,834	81,821	4.4%	3.1%	35.5%	0.1%	2.2%	41.3	0.9
SGB	UPCOM	4,928	4,002	26,849	2.3%	2.9%	44.4%	0.7%	5.0%	25.1	1.2
KLB	UPCOM	4,833	5,517	86,408	1.7%	1.4%	73.1%	0.7%	11.1%	8.2	0.9
VAB	UPCOM	4,258	7,684	104,625	2.5%	1.2%	42.5%	0.9%	11.7%	4.9	0.6
Average		**67,437**	**43,223**	**491,990**	**3.4%**	**2.8%**	**83.1%**	**1.3%**	**14.1%**	**11.4**	**1.3**
Median		**40,411**	**27,722**	**245,206**	**2.4%**	**2.7%**	**60.9%**	**1.1%**	**15.3%**	**8.7**	**1.2**

Source: Fiinpro, ACBS

CONTACTS

Ho Chi Minh City Head Office
Leman Tower, 117 Nguyen Dinh Chieu, District 3,
Ho Chi Minh City, Vietnam
Tel: (+84 28) 7300 1000

Hanoi Office
10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi
Tel: (+84 24) 3942 9395
Fax: (+84 24)3942 9407

RESEARCH DEPARTMENT

Acting Head of Research
Trang Do
(+84 28) 7300 7000 (x1041)
trangdm@acbs.com.vn

Manager – Real Estate
Truc Pham
(+84 28) 7300 7000 (x1043)
trucptt@acbs.com.vn

Manager – Financials
Hung Cao
(+84 28) 7300 7000 (x1049)
hungcv@acbs.com.vn

Manager – Retail
Chi Luong
(+84 28) 7300 7000 (x1042)
chiltk@acbs.com.vn

Associate – Materials & Chemicals
Trung Tran
(+84 28) 7300 7000 (x1045)
trungtn@acbs.com.vn

Associate – Oil & Gas
Hung Phan
(+84 28) 7300 7000 (x1044)
hungpv@acbs.com.vn

Associate – Energy
Toan Pham
(+84 28) 7300 7000 (x1051)
toanpd@acbs.com.vn

Associate – Strategy
Hoa Nguyen
(+84 28) 7300 7000 (x1050)
hoant@acbs.com.vn

Analyst – Technical
Huu Vo
(+84 28) 7300 7000 (x1052)
huuvp@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director
Huong Chu
(+84 28) 7300 6879 (x1083)
huongctk@acbs.com.vn

Trader
Thu Le
(+84 28) 7300 6879 (x1095)
thanhlnt@acbs.com.vn

Trader
Dung Ly
(+84 28) 7300 6879 (x1084)
dungln.hso@acbs.com.vn

Trader
Huynh Nguyen
(+84 28) 7300 6879 (x1088)
thanhtt@acbs.com.vn

Trader
Khoi Hoang
(+84 28) 7300 6879 (x1098)
nhinp@acbs.com.vn

Trader
Dung Nguyen
(+84 28) 7300 6879 (x1101)
dungnt@acbs.com.vn

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SELL : total stock returns (including dividend yield) over the next 12 months are forecast to be -20% or lower.

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