BSC

Công ty Cổ phần chứng khoán
Ngân hàng Đầu tư và Phát triển Việt Nam

BÁO CÁO
TRIỂN VỌNG NGÀNH
2021

NGÀNH NGÂN HÀNG – TRỞ LẠI CƠN SÓNG LỚN

SUMMARY OF CONTENTS

The banking industry is in a good position to fend off risks and can take advantage of the economic recovery in 2021 as a springboard for revenue and profit growth. Experiencing a volatile 2020 year, the whole industry has made some changes and prepared for the next major fluctuations. Asset quality is well controlled and is expected to remain at the current level in 2021. Many banks focus on reducing costs to increase operational efficiency. In addition, many catalysts from stocks (1) going to the exchange and changing the exchange, (2) selling a part of subsidiaries and signing bancassurance contracts are factors that help the banking industry attract the attention of domestic and international investors.

Therefore, BSC recommends **POSITIVE** for the banking industry in 2021 with the view that (1) high profit growth thanks to the recovery of the economy, (2) good control of asset quality after the epidemic. We recommend **BUY** for shares of VCB, CTG, VPB, and TCB in 2021.

Table 1: Forecasts of business results of enterprises

	TOI	% yoy	PBT	% yoy	EPS	BVPS	ROAA	ROAE	P/E F	P/B F	Close price	Target price	Upside
ACB	20,977	15.5%	11,681	21.7%	4,327	20,726	2.0%	23.3%	7.3	1.5	31,700	41,500	30.9%
BID	57,323	14.6%	12,508	35.8%	2,409	22,323	0.6%	11.4%	18.3	2.0	44,000	44,600	N/A
CTG	49,807	10.0%	20,765	21.6%	4,469	27,424	1.2%	17.7%	8.3	1.4	37,050	49,400	33.3%
HDB	17,020	23.5%	7,288	25.3%	3,308	18,973	1.6%	19.3%	7.8	1.4	25,950	32,300	24.5%
LPB	9,350	20.3%	2,907	19.8%	2,075	15,319	0.9%	14.5%	7.0	1.0	14,600	15,300	4.8%
MBB	32,973	20.5%	13,995	30.9%	3,866	21,743	2.0%	19.5%	7.1	1.3	27,400	34,800	27.0%
STB	20,020	15.9%	3,993	19.6%	1,701	17,061	0.7%	10.5%	11.1	1.1	18,800	20,500	9.0%
TCB	32,442	20.0%	20,716	31.1%	4,610	25,995	3.3%	19.5%	8.6	1.5	39,800	52,000	30.7%
TPB	12,904	24.4%	6,203	41.3%	4,629	21,929	2.3%	24.7%	6.0	1.3	27,950	32,900	17.7%
VCB	57,721	17.8%	29,046	26.0%	6,269	32,938	1.7%	21.0%	16.0	3.0	100,000	131,800	31.8%
VIB	14,407	28.5%	7,654	31.9%	5,519	21,719	2.3%	29.1%	6.7	1.7	37,200	39,100	5.1%
VPB	47,151	20.8%	16,892	29.7%	5,340	26,208	2.9%	22.7%	7.6	1.5	40,500	55,000	35.8%
OCB	8,917	11.3%	5,393	22.0%	3,149	15,877	2.7%	22.0%	6.8	1.3	21,350	22,200	4.0%
MSB	8,620	20.0%	3,390	34.3%	2,299	16,661	1.5%	14.8%	8.2	1.1	18,800	21,700	15.4%

Source: BSC Research

BANKING INDUSTRY IN 2021 - FAST RECOVERY AFTER A HARD YEAR

BSC believes that the banking industry will have a strong year of growth from (1) size expanding thanks to the economic recovery, (2) good asset quality control, (3) effective cost management.

SCALE - SCALE UP WITH CREDIT GROWTH

BSC believes that the scale of the banks will expand in 2021 thanks to (1) forecasted credit growth of 14.0% in 2021, (2) optimization of funding sources, and devising strategies to increase CASA rate, reduce cost of capital.

BSC forecasts credit growth of the entire banking industry will reach 14.0% in 2021.

Credit growth in 2020 was 12.13%, the lowest in recent years due to the impact of the COVID-19 epidemic in Q1 - Q3, making demand for credit decline. Many banks actively reduced individual and SME loans due to concerns about bad debts during this period. However, credit growth in Q4.2020 has recovered strongly thanks to the positive information of the vaccine to help support the market.

Credit has shown positive signs of recovery for individual and SME loans. The economic recovery is clearly shown in Q4.2020 credit growth of ~ 6.1%, equivalent to the level of 2017-2018 - which is the best period for the banking industry. Many banks have given a positive scenario in 2021 with credit growth from 14.0% - 20.0% in 2021.

Figure 1: Strong growth of credit in Q4.2020

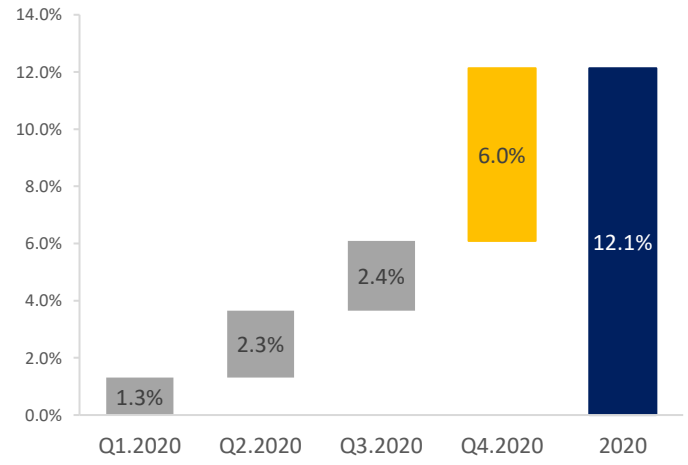
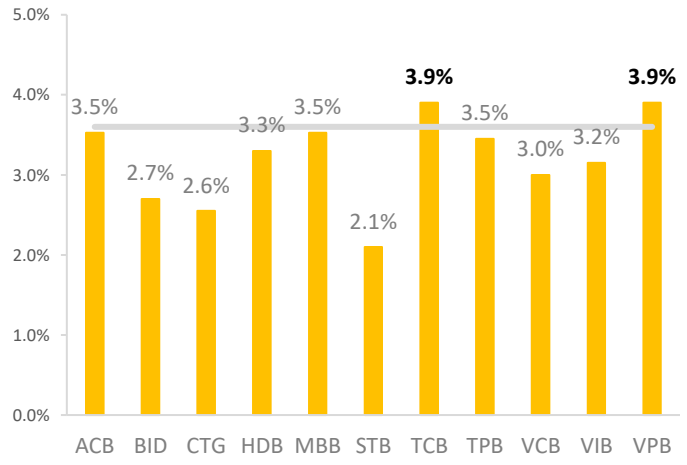


Figure 2: Credit Q1.2020 as allowed by SBV



Source: SBV, BSC Research

We believe that the banking industry credit growth will reach ~ 14.0% in 2021 thanks to (1) economic recovery, enterprises return to production and business, (2) low interest rates support economic growth, (3) promoting public investment, stimulating disbursement of loans in projects on road and bridge construction.

According to BSC's macro strategy report for 2021, BSC forecasts that GDP growth in 2021 will reach 6.3%. Macro-economy will be stable with inflation around 3%, USD / VND exchange rate slightly increased from 1% and 12-month deposit interest rate flat at 5.5%. Fiscal policies will be promoted through promoting public investment along with tax exemptions, reductions and stretches implemented in 2020. In terms of monetary policy, the State Bank maintains an active, flexible and prudent monetary policy, closely coordinating with the fiscal policy to control inflation, stabilize the macroeconomic and monetary policy and support economic growth.

Table 2: The macro indicators over the years and the forecast for 2021

	2016	2017	2018	2019	2020	2021
GDP YoY (%)	6.2	6.8	7.08	7.02	2.91	**6.3-7.0**
Inflation YoY (%)	4.7	3.5	2.98	5.3	0.2	2.7-3.0
Export (Billion USD)	175.9	211.9	243.5	263.45	281.5	305.9
Inport (Billion USD)	173.3	209.3	236.7	253.51	262.4	286.2
Balance of trade (Billion USD)	2.6	2.7	6.80	9.9	19.1	19.7
Exchange (VND/USD)	22,365	22,750	23,355	23,229	23,229	**22,321-22,668**
Public debt /GDP (%)	63.6	61.3	58.4	57.4	56.8	N/A
Government debt /GDP (%)	52.7	51.7	50	49.9	50.8	N/A
Disbursement of budget capital	268,596	290,459	324,906	342,948	**466,597**	**462,321**
Credit growth (%)	18.7	17	14	13	12	**14**
Registered FDI (Billion USD)	20.9	29.7	25.57	22.5	21.1	22.9
Disbursed FDI (Billion USD)	15.80	17.50	19.1	20.4	20.0	N/A

Source: SBV, BSC Research

With the macro situation forecast to recover strongly and interest rates kept low, we believe that this will increase the demand for credit for production and business activities, helping to promote economic growth achieved the level as expected by BSC.

Promoting individual and SME loans is the step of many banks. In the period 2016 - 2019, the retail loan growth was 27.0% in the period from 2015 to 2019 and decreased to 13.5% in 2020. Banks in the first 9 months of 2020 have actively cut down individual and SME loans, focusing on lending to large customers to minimize risks. Thanks to the economic recovery, we believe that individual and SME loans will continue to be boosted both on the demand and supply side, thereby supporting credit growth in 2021.

Currently, althought there is no specific figures for each banks' credit growth, many banks plan rapid growth due to the recovery of the economy. We believe that these are feasible numbers and help banks increase their scale in the near future.

Figure 3: SME and individual loans recovered strongly in Q4.2020

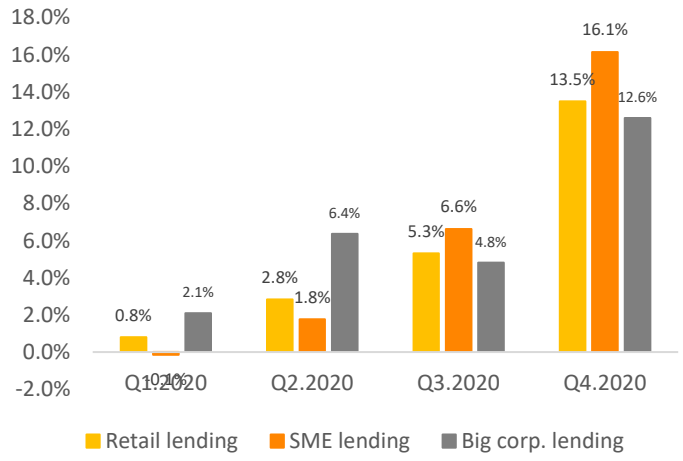


Figure 4: Estimated credit of some banks

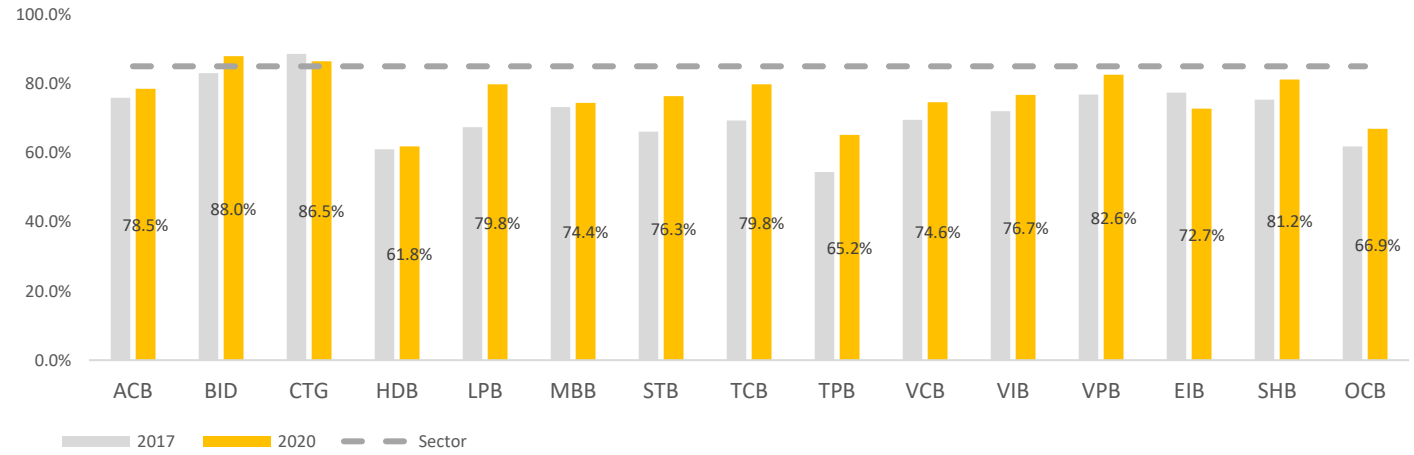
	2020	Kế hoạch
BID	12.2%	10% - 12%
CTG	7.3%	8% - 11%
HDB	18.0%	15% - 20%
STB	15.3%	12.0%
TCB	19.0%	20.0%
VCB	16.0%	12.0%
MSB	23.2%	30%
MBB	18.8%	N/A
TPB	29.4%	N/A
VPB	17.6%	N/A
ACB	14.9%	N/A
Sector	**12.1%**	**12.0%**

Source: Listed banks, BSC Research

Optimized capital mobilization, promoting CASA is the direction in the long term.

Currently, the ratio of credit / deposit at banks is being kept at an average of 72.4%, much lower than the limit of 85.0%. In which, this rate in the group of state-owned commercial banks = 82.0%, and the joint stock commercial banks at 72.0%. We believe that joint stock commercial banks will take advantage of this ratio increase in the coming time to improve NIM.

Figure 5: Promoting LDR can help improve banking industry performance



Note: BSC's estimated LDR is based on data published on listed banks' financial statements.
Source: BSC Research

The customer's capital mobilization structure has gradually shifted to the low-cost capital structure. Currently, many banks focus on increasing CASA, cheap capital by many strategies (1) focusing on reducing transaction and transfer fees, (2) upgrading infrastructure and systems. In the period from 2016 to 2020, the proportion of CASA is gradually improving to ~ 18.0% in 2020 and is expected to continue to increase its proportion in the coming time.

Figure 6: CASA increase to ~ 18.0% in 2020

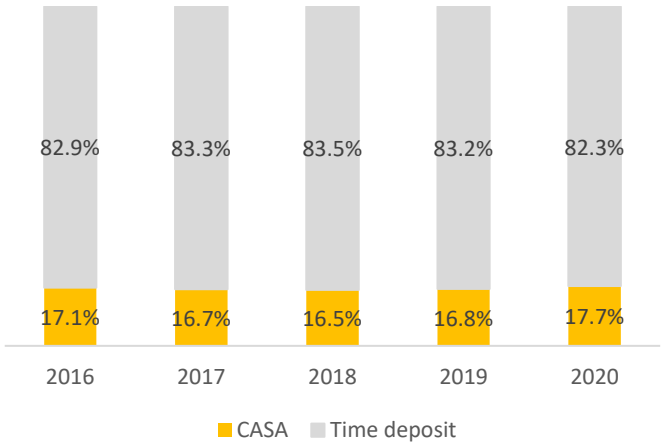


Figure 7: VCB, TCB, MBB are banks focusing on CASA

	2016	2017	2018	2019	2020
VCB	**28.4%**	**30.1%**	**30.3%**	**30.8%**	**32.8%**
TCB	**22.7%**	**24.1%**	**28.7%**	**34.5%**	**46.1%**
MBB	**39.2%**	**39.7%**	**40.6%**	**38.4%**	**40.9%**
BID	17.9%	19.3%	17.1%	17.1%	18.6%
CTG	16.3%	16.1%	15.9%	17.0%	19.6%
VPB	12.7%	15.0%	13.7%	13.3%	15.6%
TPB	14.0%	16.8%	19.1%	16.5%	19.4%
ACB	16.3%	16.7%	17.5%	19.1%	21.6%
HDB	9.9%	12.9%	9.0%	12.6%	12.4%
LPB	41.4%	28.6%	18.4%	14.5%	14.6%
STB	13.5%	14.2%	15.1%	17.0%	16.8%
VIB	18.9%	16.6%	14.6%	11.5%	12.2%
EIB	14.8%	14.1%	15.2%	13.7%	15.2%
SHB	12.2%	9.6%	8.9%	7.7%	9.7%
MSB	20.6%	20.9%	21.7%	20.7%	29.0%
OCB	N/A	9.7%	13.4%	12.2%	12.0%

Source: Listed banks, BSC Research

Competition for CASA market share will increase in the future. Many banks focus on CASA growth strategies thanks to technology, taking advantage of cheap capital to help reduce capital costs. In addition, the sacrifice of a part of transaction fees (interbank transfer, account management fees...) helps many banks increase CASA from individual customers. In 2021, we believe that this competition will be fiercer when many large banks start to increase competition, making it difficult for banks with existing strategies to increase their position in the future.

Table 3: Some of the fee policies of banks

No.	Bank	Provision	Time application	Conditions apply
1	**TCB**	**(1) Free transfer for all transactions inside and outside the system. (2) Free SMS (3) Cashback program 1.0% of total transactions.**	**2016**	**Maintain an average balance of 2 million VND / day in the account to be free from monthly management fee**
2	TPB	Free online money transfer on Internet Banking application - TPBank eBank Free withdrawal for ATM cards	Q4/2019	
3	NAB	100% free of charge for withdrawals, transfers, and some other services. Free 24/7 interbank and system transfer and other service fees. Free of charge 100% of service charges of the following types of services: Internet Banking, SMS Banking, Mobile Banking, Open Banking	4/2020	Money order with a value of 500,000 VND or less. Only applies to new customers
4.	BVB	Free money transfer on Internet Banking and Mobile banking within the first 3 months of using.	3/2020 - 12/2020	
5.	**MBB**	**Free lifetime money transfer for customers**		**Register and use MBBank app**
6.	VPB	Free transfer for all transactions inside and outside the system.	4/2020	
7.	**VCB**	**Free interbank money transfer, free account management.**	**Q1/2021**	**Maintain a minimum balance of VND 4 million/month.**
8.	VIB	Free interbank fast money transfer, with transaction value from 500,000 VND or less Completely free of all online transactions		Applicable to customers using E-Banking and MyVIB app
9.	HDB	For Individual Customers: free property management; Internet Banking and Mobile Banking services; open ATM card, annual fee for ATM card ... For corporate customers: Free of charge for domestic and external money transfer within HDBank system	5/2020	Applicable to all customers with a deposit balance of VND 5 million or more
10.	MSB	Completely free with unlimited amount of 24/7 transfer for all customers	1/4/2020	Applied to account packages M1, M-Business, M-Premier Plus

Source: Listed banks, BSC Research

ASSET QUALITY - GOOD CONTROLS

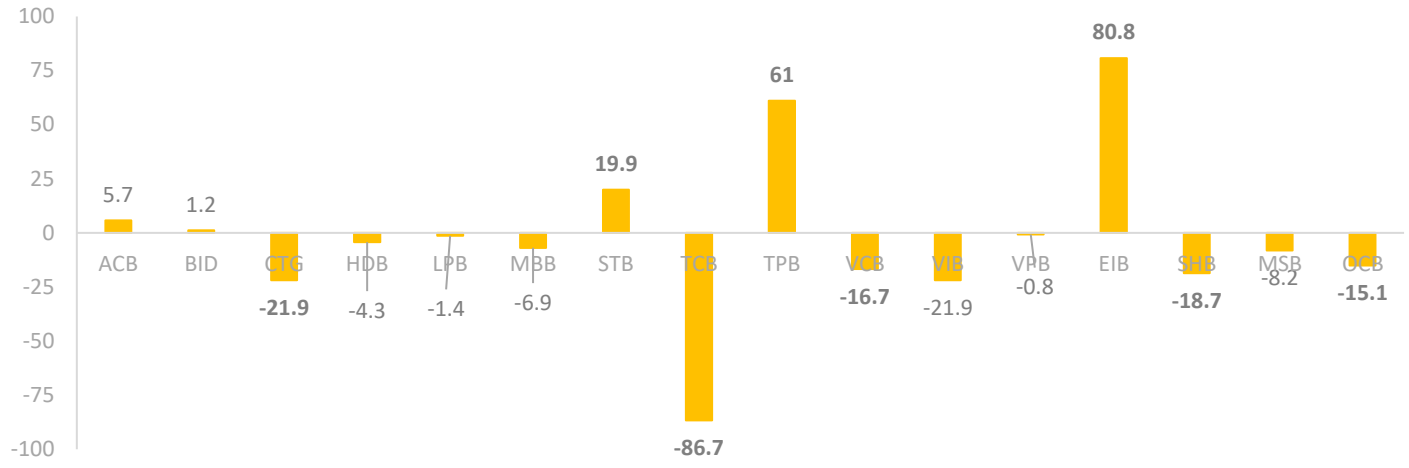
BSC believes that the banking industry is in a good position to withstand major fluctuations in the economy thanks to both external and internal factors. Regarding external factors, BSC expects that thanks to the recovery of the economy, businesses and individuals will start to return to production and business activities and generate enough cash flow to pay debts to banks, thereby reducing risks of bad debt in the coming time. Many banks have increased their provisioning for hedging in 2020, pushing their bad debt coverage to a high level to help cope with rising risks of bad debts. Many VAMC debts have been resolved, reducing pressure to make provisions for these debts.

BSC expects the industry's NPLs to be controlled at 1.8% in 2021.

NPLs in 2020 are well controlled <2.0%. This is an impressive result of the complicated disease situation. Total on-balance-sheet NPLs stood at VND 97,124 billion (+ 29.2% ytd) compared with credit growth of 12.13% in 2020. This partly reflects the deterioration in asset quality due to the epidemic.

Many banks are controlling well asset quality such as TCB, CTG, VCB and SHB. On the other side, the asset quality of TPB, STB and EIB sharply plunged.

Figure 8: Changes (bps) of NPLs of banks (2020 vs 2019)



Note: NPLs 2020 – NPLs 2019
Source: BSC Research

Circular 01 is a policy to support the banking industry to overcome a big wave. Specifically, in 2020, the SBV issued Circular 01 with provisions on (1) restructuring the repayment term (principal and / or interest) from January 23, 2020 to the following date after 3 months from the date the Prime Minister announces the end of the COVID-19 for customers who do not have the ability to repay their principal and / or interest on time according to the loan agreement, (2) exemption or reduction of interest and fees for these debts, (3) keeping the debt group and (4) banks are not allowed to record accrued interest on these debts (if interest is restructured).

This is a supportive policy for both the economy and the banking industry, where the capital is transferred from the economy. According to the State Bank's data, by the end of November 2020, credit institutions have rescheduled the repayment period of ~ 341,800 billion VND of outstanding loans, not much increase compared to ~ 321,000 billion VND at the end of September 2020. However, according to statistics of BSC in listed banks, **restructured loans under Circular 01 began to fall in Q4.2020** thanks to (1) the strong recovery of Vietnam's economy in Q3 and Q4 helped restructured debts begin to return to business operations, from which there is no need for restructuring and (2) the restructured loans have been repaid and are no longer in the category of restructuring.

Table 4: Restructured loans balance at some listed banks

Bank	Restructured loans			% total loans		
	Q2.2020	Q3.2020	Q4.2020	Q2.2020	Q3.2020	Q4.2020
ACB	9,000	9,200	9,000	3.2%	3.1%	2.9%
BID	4,000	36,000	28,000	0.4%	3.1%	2.3%
CTG	8,400	8,400	6,500	0.9%	0.9%	0.6%
HDB	5,000	7,900	6,100	3.1%	4.8%	3.4%
MBB	7,000	5,100	2,700	2.7%	1.9%	0.9%
STB	7,000	1,000	800	2.3%	0.3%	0.2%
TCB	500	7,100	7,900	0.2%	3.1%	2.8%
TPB	1,700	8,000	8,416	1.7%	7.3%	7.0%
VCB	11,000	10,400	5,100	1.4%	1.3%	0.6%
VIB	600	600	400	0.4%	0.4%	0.2%
VPB	20,000	27,000	28,000	7.4%	9.7%	9.6%
Total	**74,200**	**120,700**	**102,916**	**1.6%**	**2.6%**	**2.0%**

Note: Debts are restructured according to Circular 01, statistics of listed banks
Source: Listed banks, BSC Research

VAMC debts and accrued interest are no longer major risks to the system. The year 2020 is also a successful year for large and small banks in handling and making provisions for VAMC bad debts. Currently, the largest VAMC debt belongs to STB (~ 26,700 billion VND), SHB (~ 4,300 billion VND) and EIB (~ 1,200 billion VND) while most banks have finished

handling VAMC debt before maturity (CTG, BID). For EIB and SHB, these two banks are expected to finish handling the VAMC debt by 2023, and STB plans to finish handling these debts by 2025.

Total interest accrued for the whole industry is estimated at 1.6% of total loans, a sharp decline compared to 2016 (at 2.5%).

Figure 9: Remaining balance of VAMC in listed banks

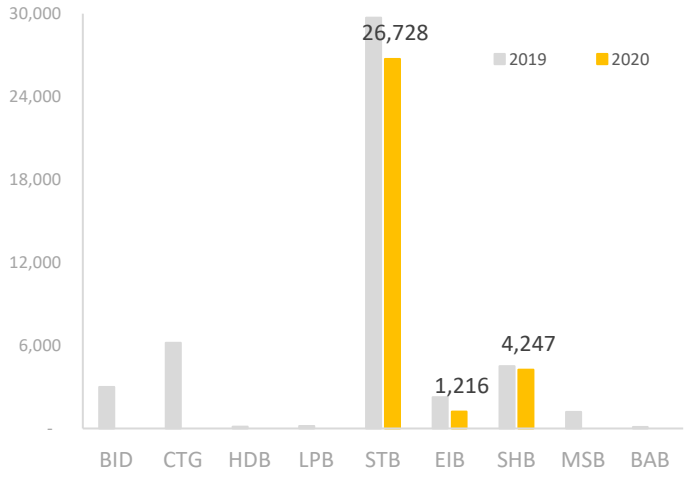
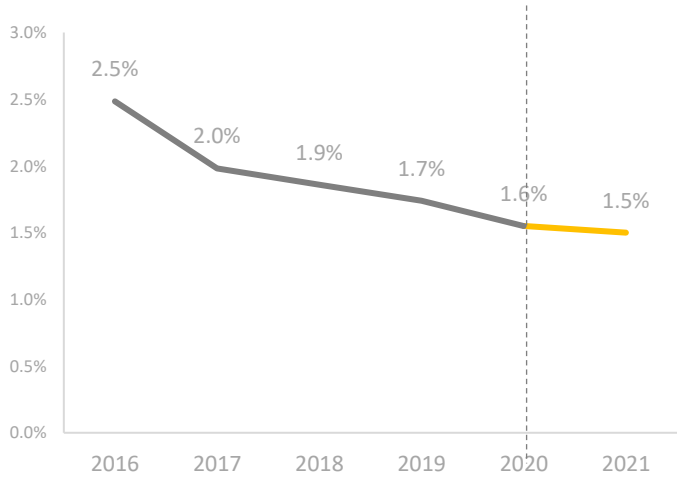


Figure 10: Interest accrued/loaned for the whole industry



Note: LLCR median of banks in BSC's track
Source: Listed banks financial reports, BSC Research

Promote the provisioning to ensure system safety. In 2020, banks boost provisioning and write off bad debts to clean up their balance sheets. Credit costs in 2020 are currently at 1.6% - the highest level in many recent years. The current level of provisioning has reached 1.3% of total outstanding loans, push LLCR level to 82.6%. Besides, banks also actively write off bad debts on the balance sheet. Total bad debts written off in 2020 will be ~ 53,000 billion VND (+ 3.6% yoy), in which many banks push to write off bad debts on the balance sheet such as TCB, HDB, VIB, CTG. We believe that thanks to this foundation and the recovery of the economy, the banking industry is in a good position to withstand the risks of general fluctuations in the economy.

Figure 11: NPL coverage of the whole banking industry

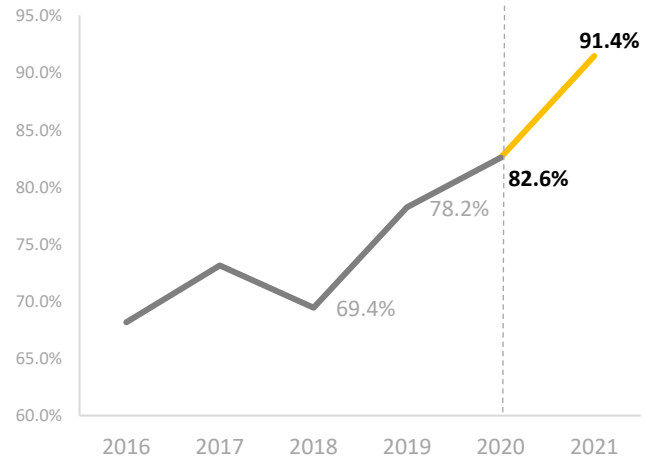
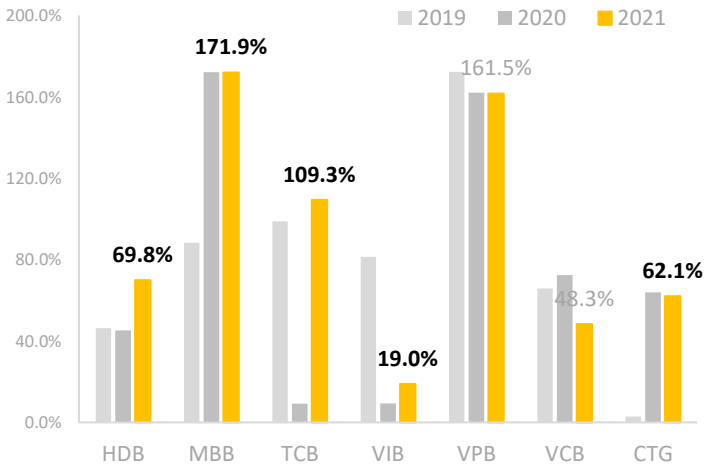


Figure 12: Debt write-offs/NPLs of several banks in the preceding year



Note: Median of banks in BSC's monitoring
Source: Listed banks financial reports, BSC Research

Capital adequacy ratio (CAR) is high. Capital adequacy ratio is high. Thanks to the gradual shift to credit management according to the risk of each loan, the CAR of listed banks is kept at a high level - 10.6% on average. MTLT (midterm longterm lending by shorterm deposit) decreased to 28.0%, much lower than the proposed level of SBV (currently at 40.0%).

Figure 11: CAR Basel II ratio of some listed banks

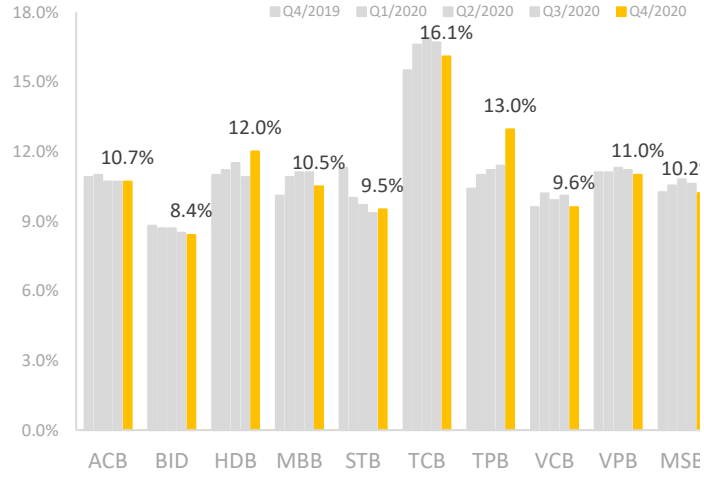
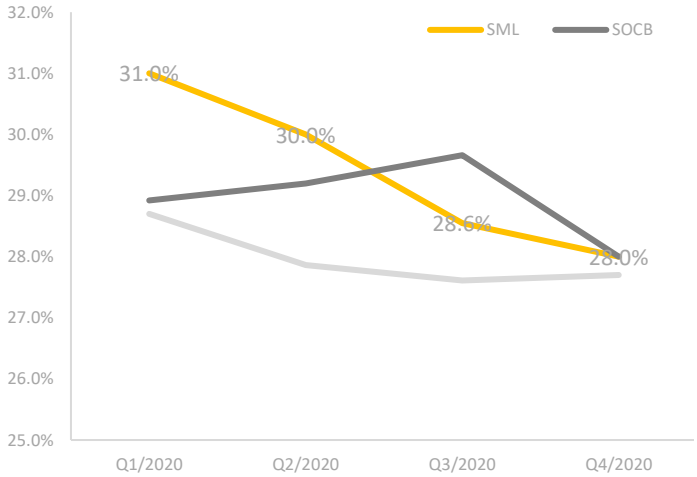


Figure 12: Short-term capital for medium to long-term loans ratio (whole system)



Source: Listed banks financial reports, BSC Research

2021 – Year of recovery. The economy is expected to recover, making the bad debt of the whole industry improve and is controlled bellow 2.0%. Many banks have upgraded their lending standards and credit review processes, thereby helping to control NPLs more closely. In addition, after applying TT41, many banks turned to control lending through the RWA of loans instead of credit limits, thereby tightening lending standards. Therefore, we believe that the banking industry can completely control the current asset quality in 2021.

We believe that restructured debts will not negatively affect banks' balance sheets. If restructured debts become NPLs, provisions will be made within 3 years from the date they become NPLs. According to BSC's statistics, 80% - 90% of enterprises that have restructured debt can return to production and business activities and continue to pay principal and interest. This helps the NPL ratio in restructured loans to be only 10% -20%.

BSC assumes that in **the base case where 10% of outstanding loans turn into bad debt**, the total credit costs of companies will increase by 0.06% and will not affect these enterprises' revenue and profit.

Bảng 5: BSC assumptions for provisioning restructured loans.

	Restructured loans	% restructured loans	NPL			Provision expense			+/- credit costs (%)		
			5%	**10%**	20%	5%	**10%**	20%	5%	**10%**	20%
ACB	9,000	2.9%	450	**900**	1,800	150	**300**	600	0.05%	**0.09%**	0.18%
BID	28,000	2.3%	1,400	**2,800**	5,600	467	**933**	1,867	0.04%	**0.07%**	0.15%
CTG	6,500	0.6%	325	**650**	1,300	108	**217**	433	0.01%	**0.02%**	0.04%
HDB	6,100	3.4%	305	**610**	1,220	102	**203**	407	0.05%	**0.10%**	0.21%
MBB	2,700	0.9%	135	**270**	540	45	**90**	180	0.01%	**0.03%**	0.05%
STB	800	0.2%	40	**80**	160	13	**27**	53	0.00%	**0.01%**	0.02%
TCB	7,900	2.8%	395	**790**	1,580	132	**263**	527	0.04%	**0.08%**	0.16%
TPB	8,416	7.0%	421	**842**	1,683	140	**281**	561	0.11%	**0.22%**	0.44%
VCB	5,100	0.6%	255	**510**	1,020	85	**170**	340	0.01%	**0.02%**	0.04%
VIB	400	0.2%	20	**40**	80	7	**13**	27	0.00%	**0.01%**	0.01%
VPB	28,000	9.6%	1,400	**2,800**	5,600	467	**933**	1,867	0.14%	**0.28%**	0.56%
Total	**102,916**	**2.0%**	**5,146**	**10,292**	**20,583**	**1,715**	**3,431**	**6,861**	**0.03%**	**0.06%**	**0.13%**

Chú thích:
(1) Credit cost = Provision expense/Avg.(latest 2 years loans)

(2) % bad debt provision calculated from % restructured loans.
(3) Make provision for restructured debt turned into bad debts within 3 years from 2021 to 2023.
Source: Listed banks, BSC Research

ENHANCE OPERATIONAL EFFICIENCY THANKS TO COST REDUCTION

In 2021, BSC believes that banks will focus on improving efficiency through good operating cost (OPEX) and credit cost management, thereby increasing the whole industry profit.

(1) TOTAL OPERATION INCOME - Forecast growth of 12.7% in 2021

The interest rate is expected to be at a low level in 2021. The interest rate was cut in 2020 to support enterprises affected by COVID-19. In 2020, the State Bank has repeatedly cut the operating rate to support the economy.

Table 6: Executive interest rates adjusted by SBV in 2020.

	3rd adjustment (October/2020)	2nd adjustment (May/2020)	1rst adjustment (March/2020)	Old regulations	Differences from the beginning of the year (bps)
Commercial banks apply to customers					
Interest rate ceiling					
Non-maturity deposits and < 1M maturity deposits	0.20%	0.20%	0.50%	0.80%	-60
1M - 6M maturity deposits	4.00%	4.25%	4.75%	5.00%	-100
Lending rate ceiling					
Short-term loans in VND for 6 prioritized sectors	4.50%	5.00%	5.50%	6.00%	-150
The State bank apply to commercial banks					
Repo	2.50%	3.00%	3.50%	4.00%	-150
Discount rate	2.50%	3.00%	3.50%	4.00%	-150
Refinancing rate	4.00%	4.50%	5.00%	6.00%	-200
Interbank lending rate	5.00%	5.50%	6.00%	7.00%	-200
Interest rates pay for provisions in VND			1.00%	0.80%	-80

Source: SBV, BSC summarised

This reduction in interest rates, along with interest rate subsidies, helps reduce the lending interest rate level to ~ 9.6% / year by the end of 2020 (-30 bps). Deposit rates fell sharply, from 5.2% to 4.7% thanks to (1) interest rate cuts in accordance with the SBV's circular, (2) increasing the CASA rate to help save capital costs.

Figure 13: Average customer lending rate in listed banks

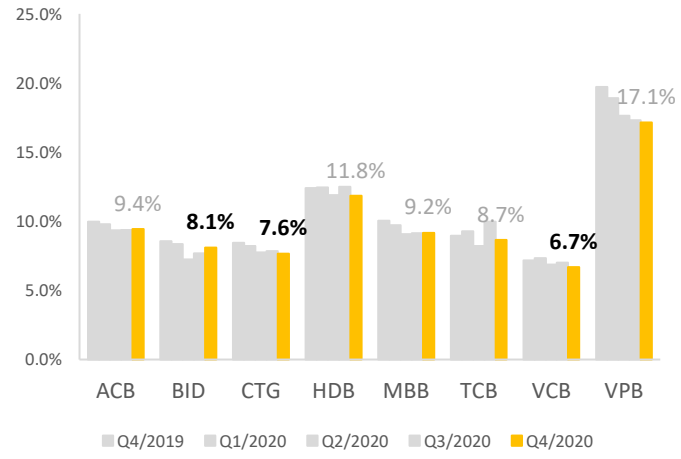
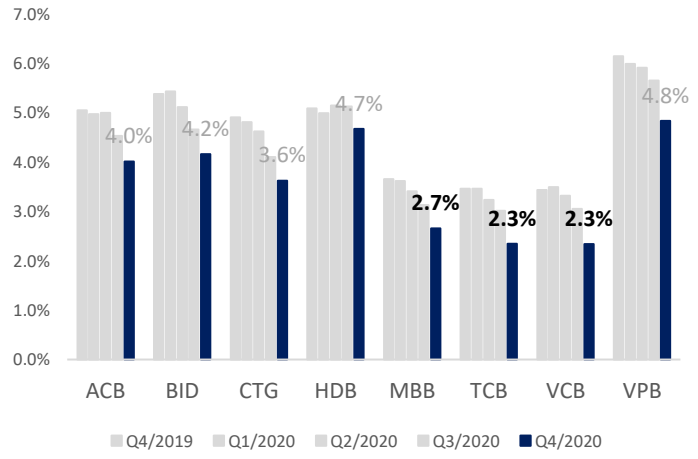


Figure 14: Average customer mobilization rate for listed banks



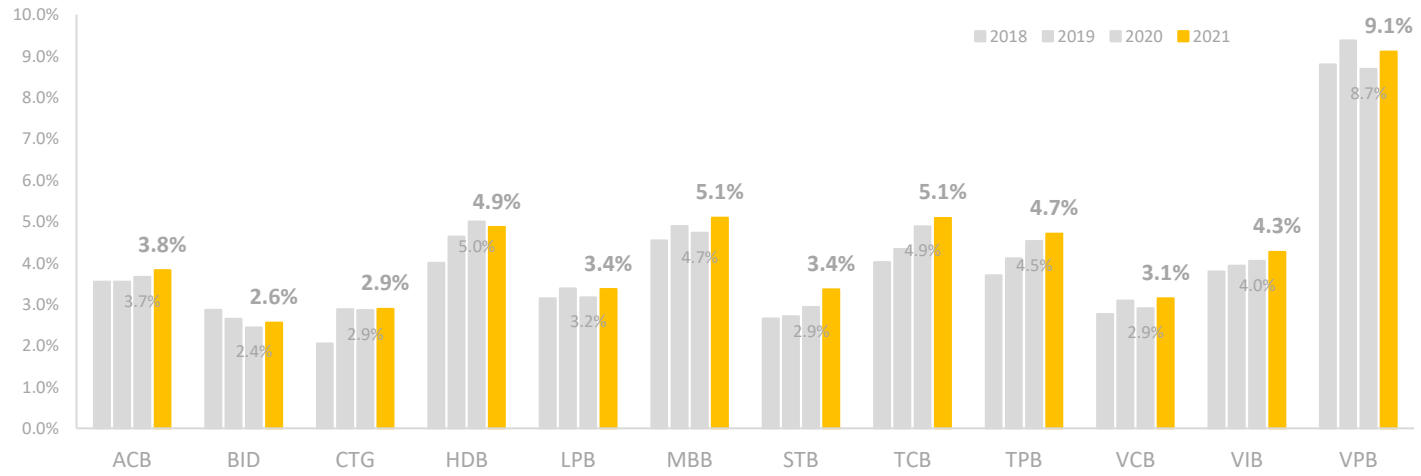
Note: Average interest rate calculated from listed banks financial reports
Source: Listed banks financial statements, BSC Research

Expectation in 2021 - Low interest rates help stimulate economic growth. Regarding fiscal and monetary policies, BSC believes that Vietnam will continue to go in a stimulating direction, keeping interest rates at a low level as at present. Maintaining the current interest rate level will help (1) support affected businesses to have more capital to recover, (2) promote economic growth in 2021.

BSC forecasts that the banking industry's NIM will slightly increase to a median of 3.7% (+15 bps) in 2021 thanks to (1) a stable interest rate level, (2) support loans affected by the COVID-19 epidemic in 2020 will be expired, thereby helping banks have more NII support, (3) focus on increasing CASA to reduce capital costs.

BSC forecasts that net interest income (NII) will grow at 17.8% yoy in 2021 assuming (1) credit growth + 14% yoy, (2) NIM = 3.7% (+15 bps).

Figure 15: NIM of some listed banks and BSC forecasts in 2021



Source: BSC Research

BSC believes that non-interest income will grow by 10.4% yoy, mainly from:

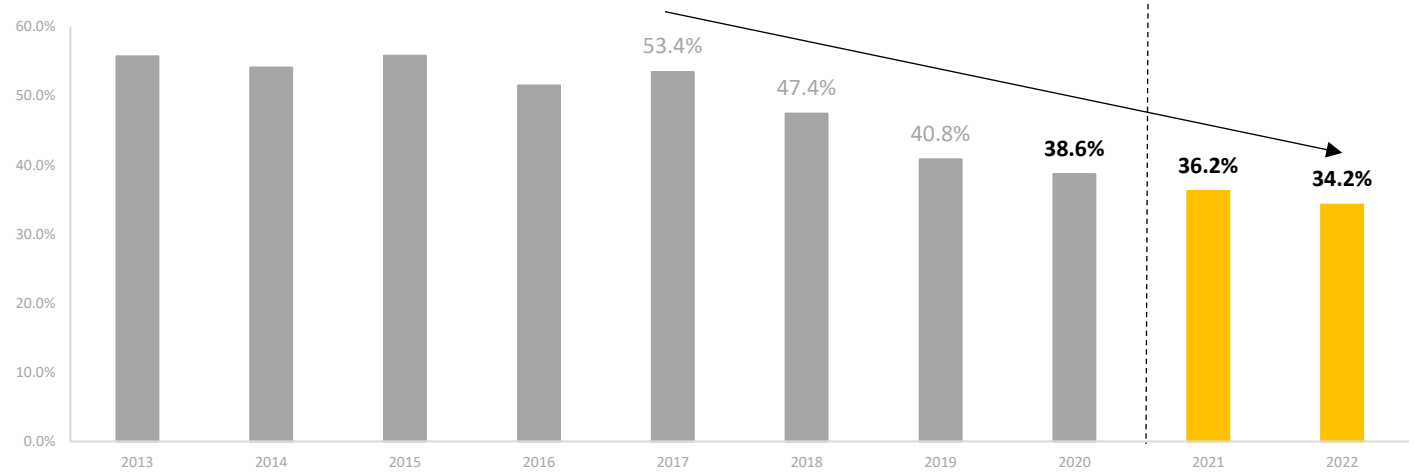
- **Service fee +17.8% yoy.** Banks boost financing its operation from fees after the period of fee reduction. In addition, insurance sales are boosted when the economy recovers, thereby contributing to service fee growth. However, parts of the fee growth may be affected as banks increase their strategy of reducing fees and increasing CASA.
- **Profit from selling government bonds** will not be high as many banks have already recorded large profits since 2020, and do not promote this activity.
- **Bad debts recovery improves** thanks to economic recovery.
- **Extraordinary profits** from (1) upfront fee from bancassurance were recognized in 2021 (ACB, VCB, MSB, HDB) and (2) divestment and partial sale of subsidiaries and associates (ACB, VPB, SHB, MSB ...). ACB continues to seek partners to sell a part of ACBS's capital in 2021, and MSB seeks more partners to divest from FCCom.

OPERATION EXPENSES - Reduced

Reduce costs, lower CIR to an average of 36.2% in 2021.

From 2013 to 2020, cutting costs and increasing operational efficiency were the common direction of banks, the industry CIR was cut from ~ 55% to ~ 40%. We believe that increasing the operational efficiency of employees, promoting cross-selling of banking products to save costs, boosting system investment and digital banking will continue to be the priority of the banking industry in 2021.

Figure 16: CIR of the entire banking industry



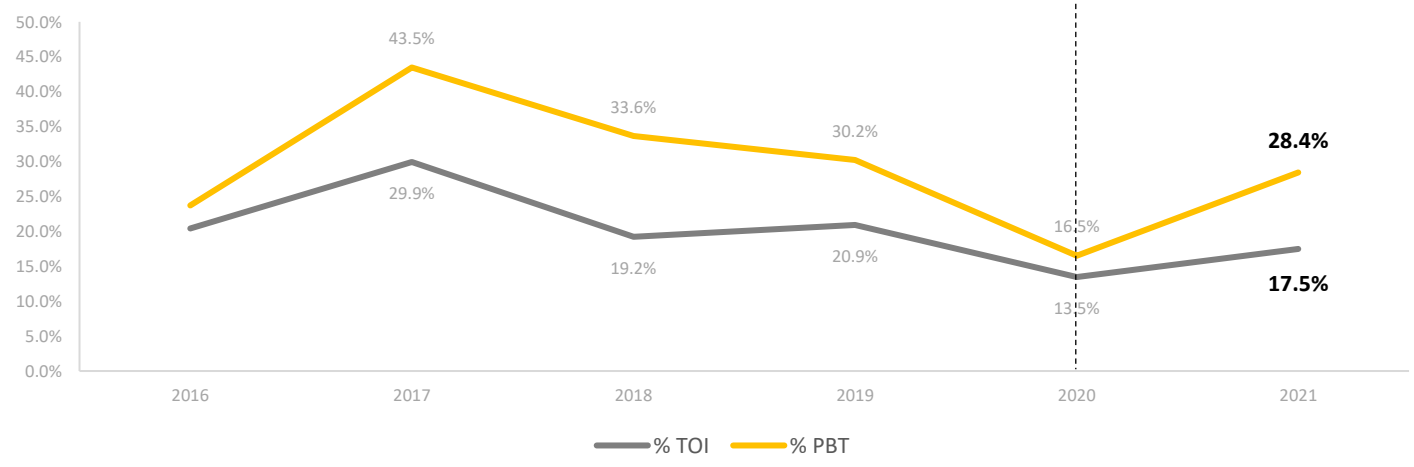
Source: Listed banks, BSC Research

Reducing pressure to make provisions. With the expectation of economic recovery in 2021, we believe that the bad debt growth rate of banks will decrease, thereby reducing pressure on provisioning, (2) many banks have also finished handling debt sold to VAMC in 2020 (BID, CTG, MSB) and reduce the pressure on provisioning from these debts in 2021, and (3) restructured debts will not be a big problem in 2021. In the base case, BSC believes that the credit costs of the entire industry will increase by 0.06% in 2021, assuming 10% of restructured loans turn into bad debt.

BSC believes that EBT of the banking industry will be up by 28.4% yoy in 2021.

BSC believes that EBT of the industry will grow strongly at + 28.0% yoy, mainly contributed by (1) credit growth + 14% in 2021, (2) interest rate is flat, but the industry's NIM will grow slightly due to the lower pressure to support interest rates, (3) reduce operating costs and (4) reduce burden on provision expenses.

Figure 17: Banking sector's TOI and PBT growth



Note: Calculated from total TOI and total PBT of BSC monitored banks
Source: Listed banks, BSC Research

VALUATION - Attractive and many catalysts to re-evaluate the value.

P / B valuation for 2021 at 1.3x. BSC estimates the whole banking industry is being traded at 1.3x PBR, much lower than the peak of 2018 (2.3 PBR valuation).

Trend of upcoming IPOs and stock exchange changes attract investors. According to the roadmap for the year 2021, many banks must list on the stock exchange. This will increase the size of the entire banking industry. In addition, this trend will continue in 2021 when many banks still listed on UPCOM will switch to trading on the HSX. The exchange change helps (1) disclose more transparent and timely information, (2) increase liquidity for stocks, thereby enhacing exchange-exchange banks valuations.

Some banks continue to sign bancassurance exclusive contracts, recording extra extraordinary profits from upfront fee - a catalyst that many investors are interested in. In 2021, there are 2 banks that will sign exclusive bancassurance contracts including MSB and HDB. In addition, many banks will record profit from upfront fee starting from 2021 including (1) ACB, (2) CTG, (3) VCB to contribute to non-interest income for the whole banking industry.

Table 7: Some contracts signed exclusive insurance in the period from 2017 - 2020.

Year	Banks	Partners	Term	Upfront fee	Total asset*	Equity*
Signed an exclusive insurance contract						
2017	STB	Daiichi	20 years	2,000	368,469	23,236
2017	TCB	Manulife	15 years	1,446	269,392	26,931
2017	VPB	AIA	15 years	1,600	277,752	29,696
2018	SHB	Daiichi	15 years	1,000	323,276	16,333
2019	OCB	Generali	15 years	850	118,160	11,507
2019	TPB	Sunlife	15 years	1,840	164,439	13,075
2019	VIB	Prudential	N/A	750	184,531	13,430
2020	VCB	FWD	15 years	9,200	1,327,537	98,859
2020	SSB	Prudential	20 years	2,320	180,207	13,670
2020	CTG	Manulife	N/A	N/A	1,341,393	85,395
2020	ACB	Sunlife	15 years	8,400	444,530	35,448
Coming to sign an exclusive insurance contract						
2021	MSB			N/A	189,858	20,357
2021	HDB			N/A	338,430	29,495

(*) Data as of the end of the signing year, figures are in VND billion.
Source: Listed banks, BSC Research

We believe that with a favorable business environment, high profit growth and many supportive catalysts, the banking industry can be valued at a level equivalent to the current PB trailing **Therefore, we set an industry-wide base valuation at 1.7x PBR for the entire banking industry and adjust the expected valuation for each bank based on (1) size, (2) asset quality and (3) performance.**

INVESTMENT RECOMMENDATION - POSITIVE

BSC recommends POSITIVE for the banking sector in 2021 with the view that (1) high profit growth thanks to the recovery of the economy, (2) good control of asset quality after the epidemic. We recommend BUY for shares of VCB, CTG, VPB, and TCB in 2021.

Table 8: BSC recommendations for the year 2021

	Market Cap	Current Price	TP 2021	Upside	PE (x)			PB (x)			ROE (%)		
					2019	2020	2021	2019	2020	2021	2019	2020	2021
ACB	68,521	31,700	41,500	30.9%	5.9	8.9	7.3	1.2	1.9	1.5	24.6%	24.3%	23.3%
VCB	370,888	100,000	131,800	31.8%	14.4	20.1	16.0	3.3	3.8	3.0	25.9%	20.5%	21.0%
BID	176,969	44,000	N/A	N/A	17.1	24.8	18.3	1.9	2.2	2.0	12.7%	9.1%	11.4%
CTG	137,952	37,050	49,400	33.3%	7.6	10.1	8.3	0.9	1.6	1.4	13.1%	16.8%	17.7%
MBB	76,686	27,400	34,800	27.0%	4.9	9.3	7.1	1.0	1.5	1.3	21.1%	18.4%	19.5%
STB	33,909	18,800	20,500	9.0%	7.3	13.2	11.1	0.6	1.2	1.1	9.6%	9.6%	10.5%
HDB	41,358	25,950	32,300	24.5%	5.6	9.8	7.8	1.0	1.7	1.4	19.4%	18.8%	19.3%
TCB	139,495	39,800	52,000	30.7%	5.9	11.3	8.6	1.0	1.9	1.5	17.7%	18.0%	19.5%
VPB	99,417	40,500	55,000	35.8%	6.0	9.8	7.6	1.1	1.9	1.5	21.5%	21.9%	22.7%
TPB	28,835	27,950	32,900	17.7%	5.1	8.5	6.0	1.1	1.8	1.3	26.1%	23.5%	24.7%
VIB	41,269	37,200	39,100	5.1%	4.2	8.9	6.7	1.0	2.3	1.7	27.1%	29.6%	29.1%
LPB	15,690	14,600	15,300	4.8%	3.9	8.4	7.0	0.6	1.1	1.0	14.0%	13.9%	14.5%
MSB	21,983	18,800	21,700	15.4%	N/A	11.0	8.2	N/A	1.3	1.1	7.3%	12.7%	14.8%
OCB	23,507	21,350	22,200	4.0%	N/A	N/A	6.8	N/A	N/A	1.3	25.4%	24.4%	22.0%
Median					**5.9**	**9.8**	**7.7**	**1.0**	**1.8**	**1.4**	**20.3%**	**18.6%**	**19.5%**

Source: Listed banks financial statements, BSC Research



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