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

SECTOR REPORT 2021:

BANKING INDUSTRY OUTLOOK

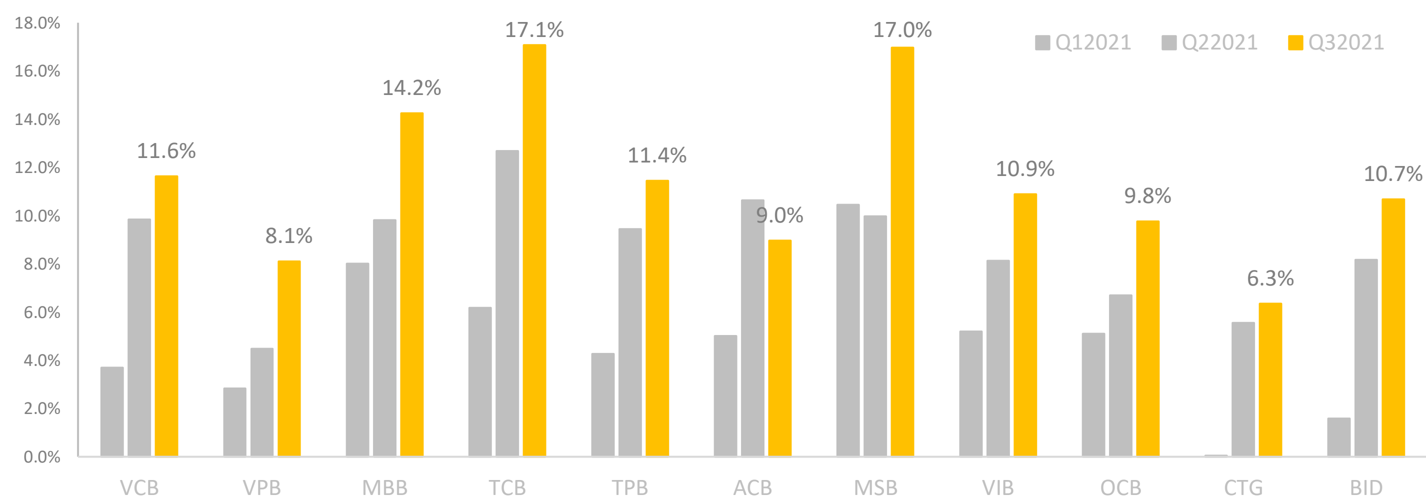
VIETNAM BANKING SECTOR UPDATE 9M.2021

CREDIT ROOM - GROWTH THROUGH THE ECONOMY OPENING

Credit growth in 9M.2021 reached 7.42% ytd. The strong recovery of the economy after a period of good control of the epidemic helped restore credit demand. However, the wave of epidemics that began in May 2021 has adversely affected Ho Chi Minh City and southern provinces, which contribute nearly 50% of GDP for the whole country. Credit in Q3.2021 only grew by 1.0% compared to Q2.2021, showing the impact of the pandemic on credit demand. Therefore, reopening for business and production activities along with the effort to enter new normal will help restore credit demand in Q4.2021.

BSC believes that the wide scale of the 4th epidemic will reduce credit demand for the second half of 2021, however, the economy reopening will make it possible for credit growth forecast for the whole industry to reach at 13.0. Therefore, we assume that the credit demand will keep on at the level of ~13% in 2022, followed by (1) economy reopening post-COVID pandemic, (2) the support package can be up to 800,000 billion VND in 2-3 years, which will boost consumer demand and production and business.

Figure 1: Credit growth by the end of 9M.2021 of some listed banks



Note: Credit room is granted for the whole year of each bank
Source: Banks' Financial Statements, SBV, BSC Research

Figure 2: Credit growth forecast in Q4.2021

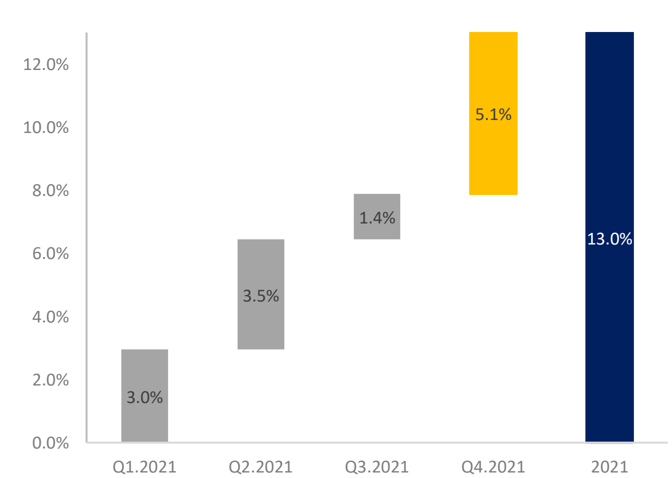
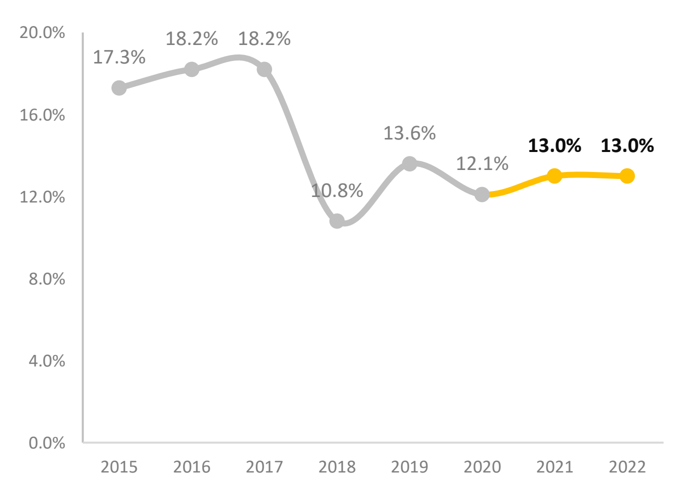


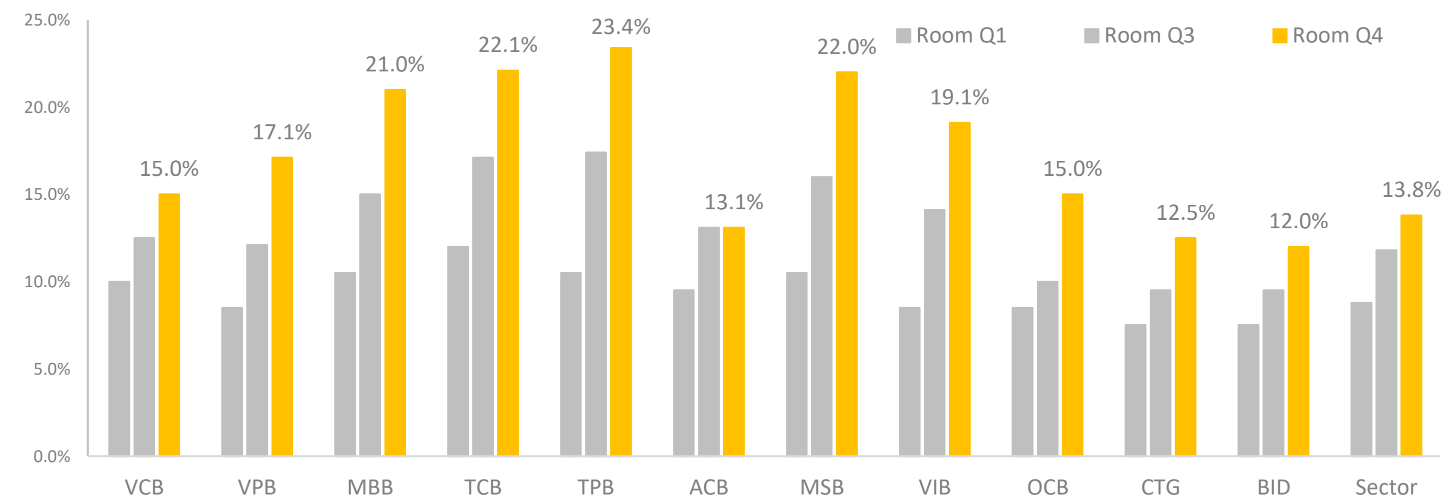
Figure 3: Credit growth forecast in 2021



Source: SBV, BSC Research

Credit target of 13.0% in 2021 is supported by the loosening of credit target in Q4.2021 for Banks. Many banks will be granted additional credit room in Q4.2021, which will allow banks to grow in the near future, given that many of them have already reached the limit during nine months of 2021 so far.

Figure 4: New credit growth granted by SBV in Q4.2021 of some listed banks



Note: Credit room is granted for the whole year of each bank
Source: Listed Commercial Banks, BSC Research

SME and Retail are two groups of customers that are strongly influenced when the epidemic returns. Currently, these two customer groups contribute at an average of 75% - 80% of the lending structure of the whole industry**.** Particularly in 3Q2021, while the speed of personal lending continued to be accelerated, lending to SMEs and large enterprises slowed down due to the period of social distancing that caused disruption to production and business. Therefore, we believe that the nationwide reopening from the beginning of Q4.2021 will help corporate customers back to operation, thereby boosting growth in Q4.2021 and 2022.

Figure 5: Credit growth by customer type

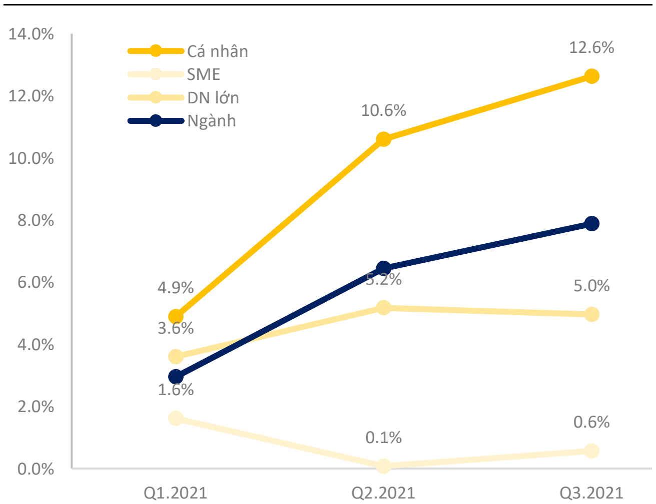
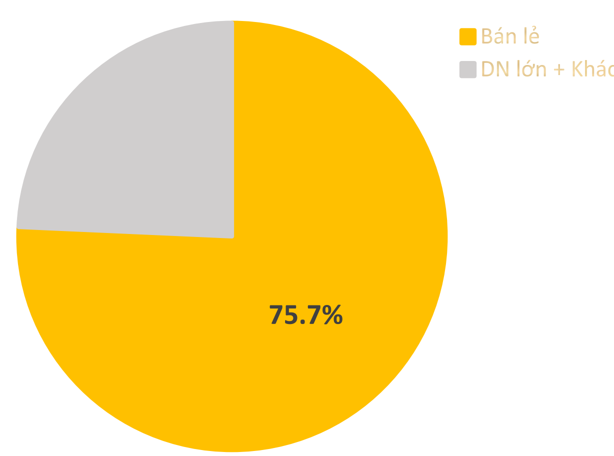


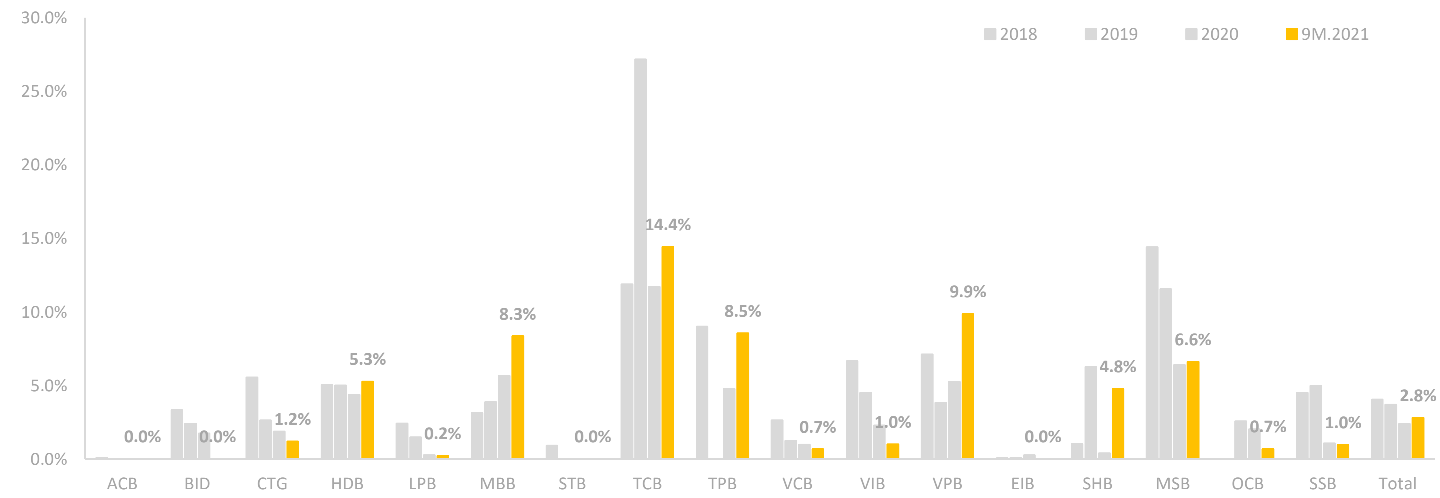
Figure 6: % of retail loans in total outstanding loans 9M.2021



Source: Listed Commercial Banks, BSC Research

Many banks increased the proportion of corporate bonds such as MBB, TCB, TPB, VPB, MSB through corporate bonds, many banks improved NIM due to higher interest rates compared to direct lending.

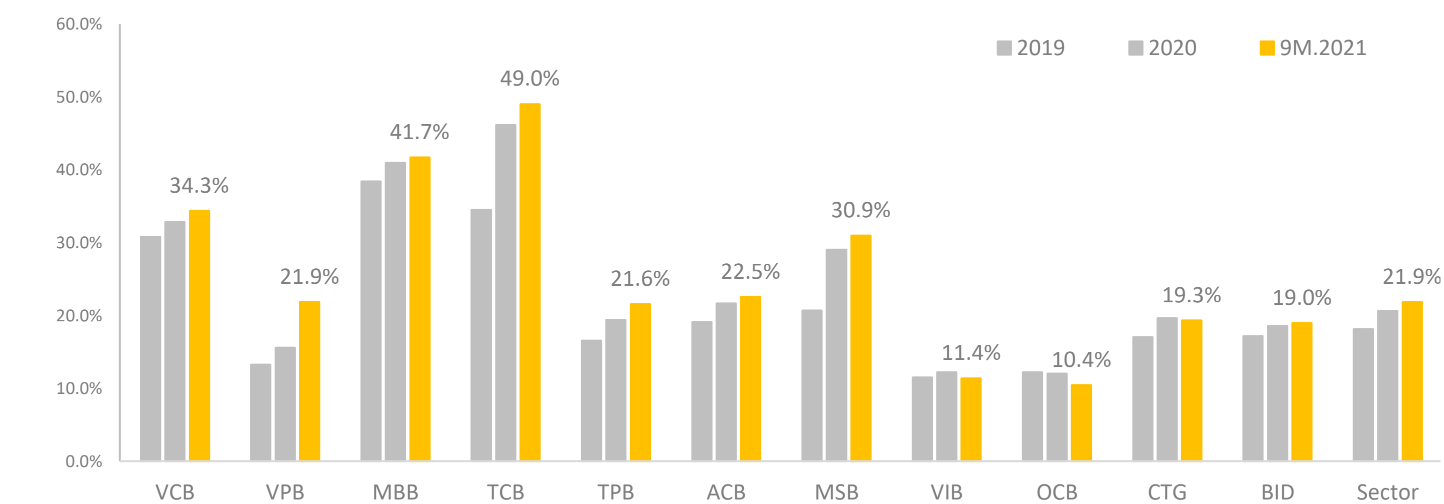
Figure 7: The proportion of corporate bonds accounts for ~2.8% of the total credit outstanding of the whole industry



Source: Listed Commercial Banks, BSC Research

The increase in CASA will decline the costs of capital. Mobilization structure will promote CASA growth. This is the general trend for banks in the near future. In addition, further reduction in deposit rates will allow banks to reduce their costs of capital in both 2021 and 2022. Some banks have the advantage of a high CASA ratio (TCB, MBB, VCB, MSB) with a ratio higher than 30%, which helps these banks to have low capital costs, thereby increasing lending efficiency.

Figure 8: CASA ratio of some listed banks



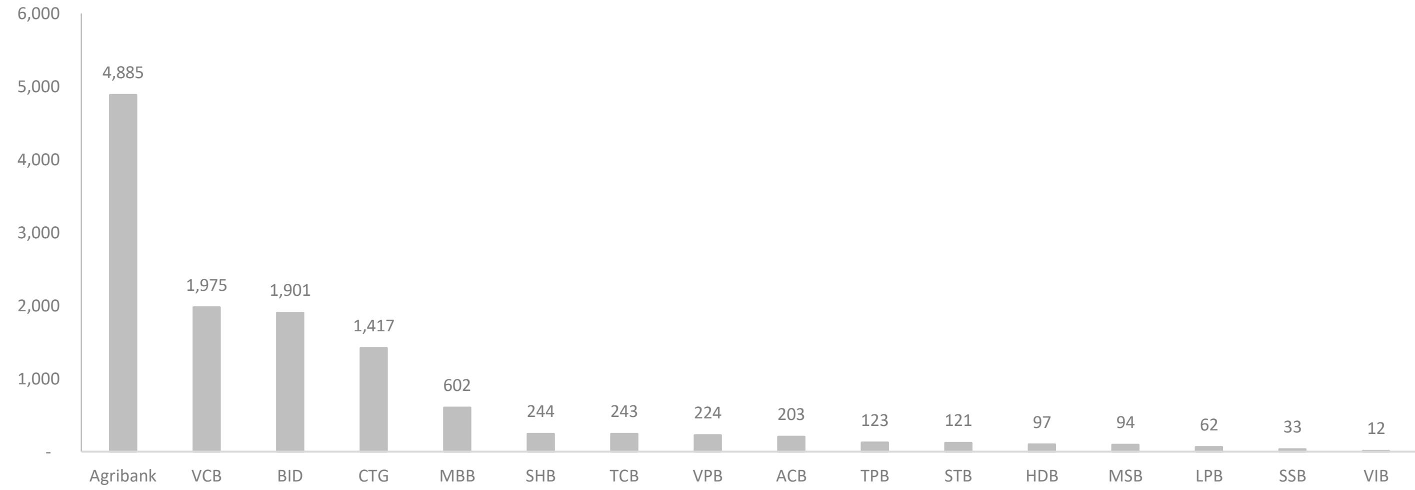
Source: Listed Commercial Banks, BSC Research

INTEREST – REDUCING INTEREST TO SUPPORT THE ECONOMY

Banks have reduced interest rates to support economic growth. At the request of SBV, many banks, such as BIDV, VCB, ACB,... have gradually reduced the interest rates, which allows businesses to access loans at ease.

The 1.0% - 1.5% reduction in interest rate applies for almost all loans, and this reduction is in effect from July 1, 2021, to December 31, 2021. As a result, banks expected a portion of their interest income might decrease to support the whole year's performance of 2021. We believe that although the interest rate reduction will affect NII, this will be nullified by an expansion in credit room for banks, which in turn, upsize the loan scale in 2022.

Figure 9: Scale of interest rate reduction in 3Q2021 of some listed banks



Source: Listed Commercial Banks, BSC Research

Average lending interest rates were flat, mainly due to the reduction in interest rates to support businesses and individuals affected by the epidemic. Meanwhile, thanks to the reduction in costs of capital, the average deposit interest rate of the whole industry remained low. As a result, NIM in Q3.2021 fell by 20 bps compared to Q2.2021, reaching 4.0%. The reduction in interest rates will temporarily reduce NII growth expectations in 4Q2021, but higher credit growth will help banks with a high credit base to prepare for growth in 2022.

BSC believes that NIM in 2022 will be +35 bps compared to 2021 due to (1) the recovery of the economy helps high credit growth, especially focusing on SMEs and individuals with high NIM, (2) interest loan rate recovers after the support period (estimated by the end of 2021), (2) increases CASA structure in 2022 to help reduce capital costs.

Figure 11: Average customer lending rate in listed banks in Q3.2021

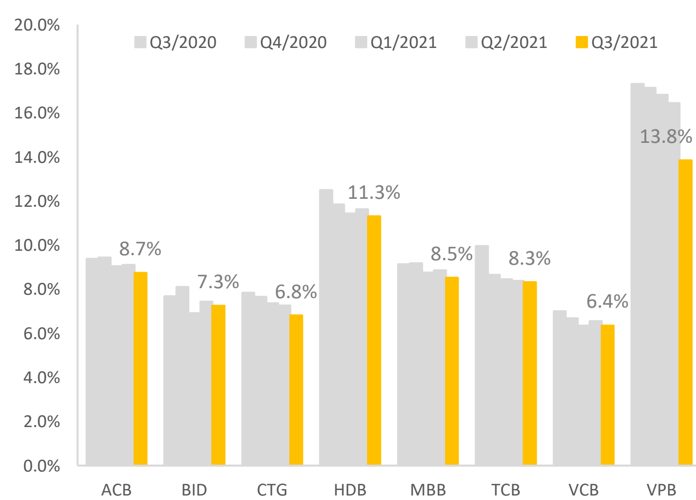
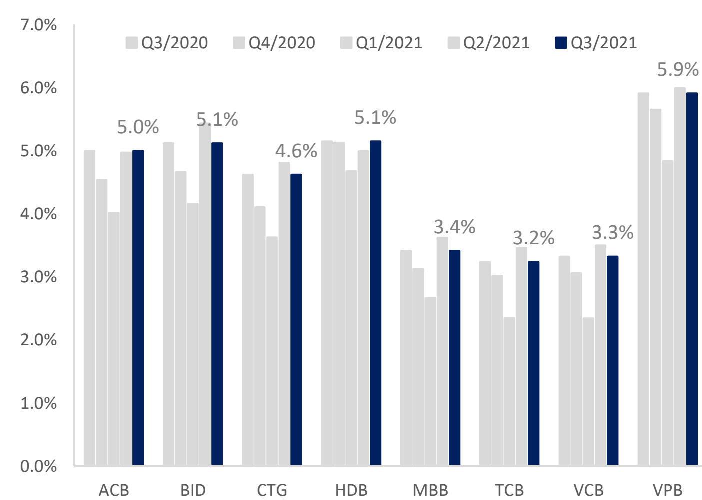
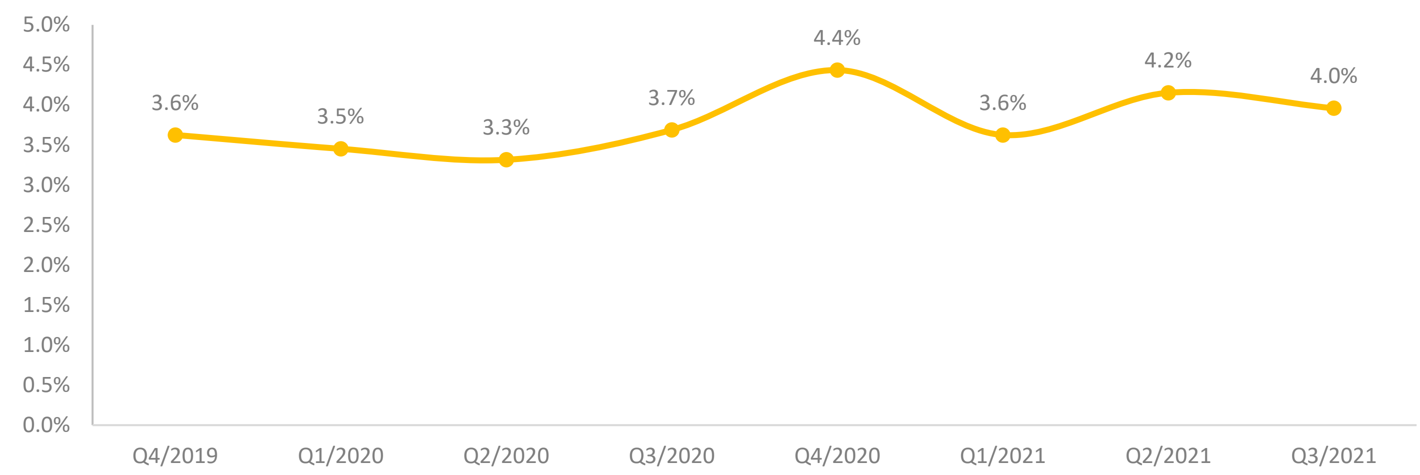


Figure 12: Average customer mobilization rate for listed banks in Q3.2021



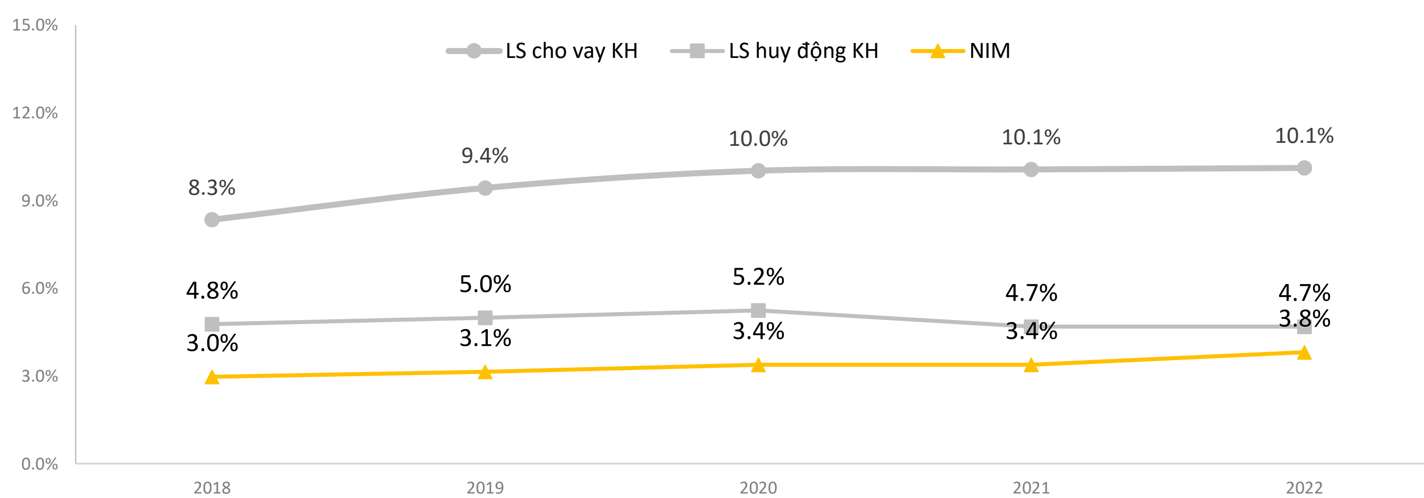
Source: Banks' Financial Statements, SBV, BSC Research

Figure 13: NIM of the whole industry in 3Q2021 decreased due to interest rate cuts



Note: Calculated according to the average value NIM of enterprises in the BSC's watch list
Source: Listed Commercial Banks, BSC Research

Figure 14: NIM forecast for 2022



Note: Calculated according to the average value of average lending and deposit interest rates of enterprises in the BSC's watch list
Source: Listed Commercial Banks, BSC Research

ASSET QUALITY – In control

Asset quality has declined due to the pandemic.

(1) NPL ratio and debt coverage are high and improving. However, the complicated development of the disease in the southern provinces raised concerns about the deterioration of asset quality. We believe that, although there is a negative impact on asset quality, with a strict credit policy combine with a high NPL coverage ratio, banks can maintain their asset quality well at the current levels (~1.6-1.7% NPLs). Many banks have increased their provisions, which strongly improved the bad debt coverage ratio (BID, MBB, TCB, VCB, ...)

Figure 14: NPLs are controlled at ~1.6%

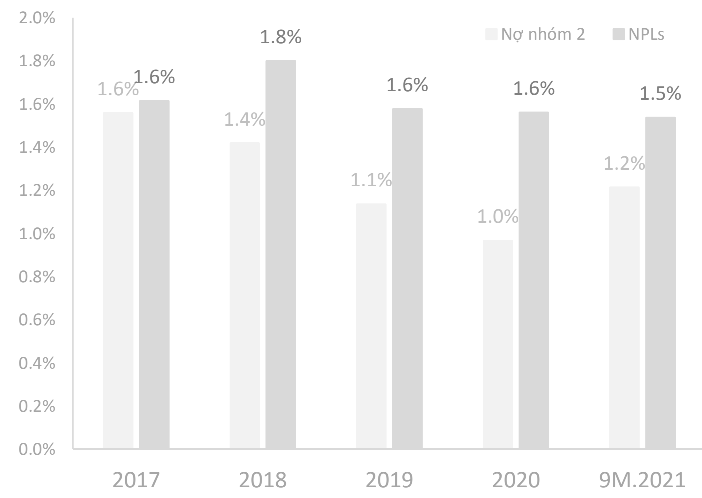
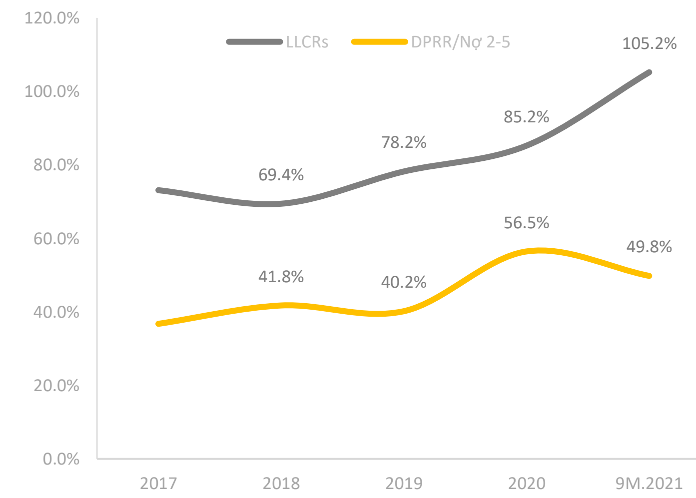


Figure 15: Debt coverage ratios are enhancing



Source: Banks' Financial Statements, SBV, BSC Research

(2) Restructuring debt increased again to 1.5% due to the 4th wave of COVID-19 epidemic. Some banks have also set aside 30% - 100% for current and projected restructuring debts. It is expected to make deductions according to Circular 03 in the near future. BSC believes that the restructuring loan balance will not affect the business results of banks too much because (1) the bank's TOI is at a high level, helping banks to be able to make more provision without affecting growth. (2) it is expected that restructuring debt will not increase much thanks to the reopening of the economy.

Table 1: Restructured debt at some banks

	RESTRUCTURED LOANS						% GROSS LOANS					
	Q2/2020	Q3/2020	Q4/2020	Q1/2021	Q2/2021	Q3/2021	Q2/2020	Q3/2020	Q4/2020	Q1/2021	Q2/2021	Q3/2021
ACB	9,000	9,200	9,024	8,516	8,195	13,416	3.2%	3.1%	2.9%	2.6%	2.4%	4.0%
BID	4,000	36,000	28,000	18,000	9,400	25,000	0.4%	3.1%	2.3%	1.5%	0.7%	1.9%
CTG	8,400	8,400	6,500	4,500	4,160	7,800	0.9%	0.9%	0.6%	0.4%	0.4%	0.7%
HDB	5,000	7,900	6,100	1,270	992	181	3.1%	4.8%	3.4%	0.7%	0.5%	0.1%
MBB	7,000	5,100	2,700	2,000	2,700	3,000	2.7%	1.9%	0.9%	0.6%	0.8%	0.9%
STB	7,000	1,000	700	500	1,500	500	2.3%	0.3%	0.2%	0.1%	0.4%	0.1%
TCB	500	7,100	7,900	6,700	2,700	2,900	0.2%	3.1%	2.8%	2.3%	0.9%	0.9%
TPB	1,700	8,000	8,416	1,742	1,268	1,455	1.7%	7.3%	7.0%	1.4%	1.0%	1.1%
VCB	11,000	10,400	5,100	3,900	4,100	9,000	1.4%	1.3%	0.6%	0.4%	0.4%	1.0%
VIB	3,664	3,618	3,201	2,819	2,486	1,800	2.7%	2.4%	1.9%	1.6%	1.4%	1.0%
VPB	20,000	27,000	13,600	7,500	6,600	15,900	7.4%	9.7%	4.7%	2.5%	2.1%	5.0%
MSB	4,200	4,200	1,500	473	243	1,759	6.0%	5.7%	1.9%	0.5%	0.3%	1.8%
OCB	N/A	N/A	1,300	1,123	1,166	2,000	N/A	N/A	1.5%	1.2%	1.2%	2.0%
Total	**81,464**	**127,918**	**94,041**	**59,042**	**45,510**	**84,711**	**1.7%**	**2.6%**	**1.8%**	**1.1%**	**0.8%**	**1.5%**

Source: Listed Commercial Banks, BSC Research

(3) The capital adequacy ratio is maintained at high levels. The Basel II CAR ratio continues to be kept at a high level, and MTLT (medium-to-long-term lending by short-term deposit) is kept at a safe level. These ratios are well-satisfied with the SBV's required level, and BSC expects this to be maintained in the future with plans to increase capital, facilitating the growth of enterprises in terms of scale and profitability.

Figure 11: CAR Basel II ratio of some listed banks

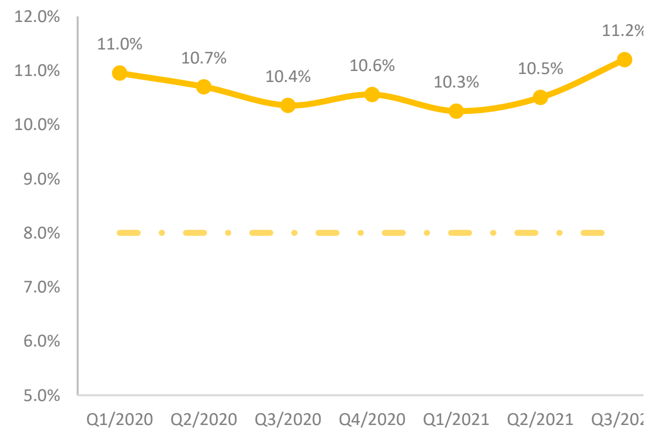
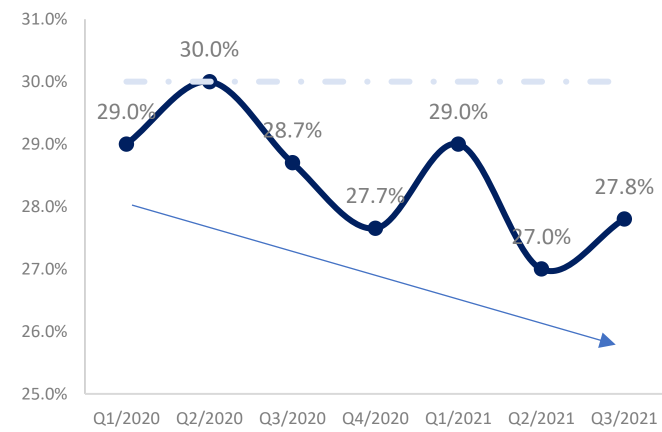


Figure 12: Short-term capital for medium to long-term loans ratio (whole system)



Source: Banks' Financial Statements, SBV, BSC Research

Business results in Q3.2021 are differentiated. By the end of 3Q2021, some banks have completed 80%-90% of the plan set out at the beginning of the year. Therefore, with the expectation of economic recovery starting from 4Q2021, we believe that many banks will exceed their profit target in 2021. NPLs are well controlled at <2%, and many banks have made a large provision in Q2.2021 and Q3.2021, helping to reduce pressure on profit in Q4.2021.

Table 2: 9M.2021 Business results compared to year-end plans of some listed banks

	YEAR-END PLAN						PROGRESS 9M.2021		
	% Credit	% Capital Raised	% TTS	PBT	% PBT	NPLs	% Credit	PBT (% KH)	NPLs
BID	10% - 12%	12% - 15%	N/A	13,000	44.0%	<1.6%	9.1%	82.6%	1.6%
ACB	9.5%	9.0%	10.0%	10,602	10.5%	<2%	9.0%	84.6%	0.8%
CTG	7.5%	8-12%	6-10%	16,800	-1.6%	<1.5%	6.3%	82.8%	1.7%
HDB	25.8%	25.3%	25.1%	7,281	25.1%	<2%	7.7%	83.6%	1.4%
LPB	20.3%	15.0%	16.5%	3,200	31.9%	N/A	10.7%	87.6%	1.4%
MBB	10-11%	N/A	11.0%	13,200	23.5%	<1.5%	14.2%	90.0%	0.9%
STB	9.0%	9.0%	8.0%	4,000	19.8%	<2%	19.2%	81.2%	1.6%
TCB	12.0%	14.7%	N/A	19,800	25.3%	<2%	17.1%	86.4%	0.6%
TPB	25.0%	20.0%	21.0%	5,800	32.2%	<2%	11.4%	75.8%	1.0%
VCB	10.5%	7.0%	5.0%	25,000	8.5%	<1%	11.6%	77.2%	1.2%
VIB	25.5%	31.0%	31.2%	7,510	29.5%	<3%	10.9%	71.1%	2.1%

Source: Documents from the General Meeting of Shareholders of Listed Commercial Banks, BSC Research

VALUATION – Fair value to accumulate

Currently, the banking industry is valued at 1.7x the book value as of November 19, 2021, down about 15% from the industry peak due to the impact of the epidemic, making investors worried about the risk of losing money. the decrease in profit compared to the expectation at the beginning of the year. Although COVID-19 has adverse impacts on banks' credit demand and provisions, we believe that the earnings will not decrease significantly since banks have completed ~80% of the year-end plan and allocated a sufficient amount of provisions for most of the restructured debts in 2021. We believe that the current financial health of banks should deserve a higher valuation.

BANKING SECTOR FORECAST FOR FY 2021 & FY 2022

We decreased our TOI and PBT forecasts for the entire banking sector to VND 406,694 billion (+16.7% yoy) and VND 163,846 (+24.2% yoy), accounting for -2.1% và -4.6% of our most recent report, respectively. Although the figure is lower than expected, the profit growth rate is expected to increase sharply than that of 2020, and higher than the general growth rate of the whole market. The reasons for these adjustments mainly come from the updated provision for debts in Circular 03 for the second half of 2021, and the epidemic may lead to a slight decrease in asset quality. In the long term, in 2022, we expect the growth rate of the banking industry to be better than the previous forecast, specifically to 22.2% (formerly 18.4%) thanks to the post-epidemic recovery and lower overall earnings in 2021.

Table 3: Forecast of business results of the whole banking industry

	2017	2018	2019	2020	2021	2022
GROWTH						
% Credit	18.2%	10.8%	13.6%	12.1%	13.0%	14.0%
% Asset	20.3%	9.8%	13.2%	11.1%	10.3%	9.7%
% Loan	19.9%	13.6%	16.0%	13.5%	13.0%	13.2%
% Deposit	15.2%	12.2%	13.9%	12.8%	9.9%	8.0%
% Net Interest Income	25.1%	16.3%	22.5%	12.3%	17.7%	14.5%
% Non Interest Income	49.3%	28.9%	16.2%	17.2%	13.7%	6.6%
% Fee Income	51.6%	23.2%	31.4%	22.4%	19.6%	14.1%
% Operating Income	29.9%	19.2%	20.9%	13.5%	16.7%	12.6%
% Earnings before Provisions	38.4%	23.4%	25.5%	18.2%	19.7%	13.9%
% Provision	32.6%	11.0%	18.7%	20.9%	12.7%	-1.1%
% Earnings before Tax	43.5%	33.6%	30.2%	16.5%	24.2%	22.8%
BUSINESS PERFORMANCE						
Group 2 debt ratio	1.6%	1.4%	1.1%	1.0%	1.0%	1.0%
NPLs	1.6%	1.8%	1.6%	1.6%	1.5%	1.5%
Bad debt provision/Total debts	1.2%	1.3%	1.3%	1.3%	1.3%	1.4%
LLCR	73.1%	69.4%	78.2%	85.2%	93.3%	99.1%
Bad debt provision/Group 2-5	36.8%	41.8%	40.2%	56.5%	58.7%	59.8%
Cost of Credit	1.5%	1.4%	1.5%	1.6%	1.6%	1.4%
LDR	70.8%	74.5%	75.9%	76.5%	80.8%	85.0%
CAR Basel I	10.7%	10.8%	10.7%	10.5%	11.4%	12.1%
CASA	16.7%	16.5%	16.8%	17.7%	19.9%	23.2%
Average interest rates	7.5%	7.9%	8.6%	8.1%	8.2%	8.4%
Average Cost of Capital	4.6%	4.8%	4.9%	4.5%	4.5%	4.4%
NIM	3.1%	3.3%	3.5%	3.52%	3.84%	4.12%
CIR	53.4%	47.4%	40.8%	39.2%	37.1%	35.7%
ROAA	0.9%	1.4%	1.6%	1.5%	1.8%	2.0%
ROAE	14.3%	18.7%	18.5%	18.2%	18.8%	18.6%

Source: Fiinpro, BSC Research

Table 4: Q3.2021 Business results of listed banks in BSC's watchlist

	ACB	VCB	CTG	HDB	LPB	MBB	STB	TCB	TPB	MSB	VIB	VPB
SIZE												
Authorized Capital	27,019	37,089	48,058	16,088	12,036	37,783	18,852	35,109	11,717	11,750	15,531	25,300
Equity	42,483	109,527	95,601	29,270	16,157	58,847	33,383	88,384	24,759	21,289	22,159	62,322
Total Assets	479,309	1,385,235	1,447,809	346,355	254,623	555,595	494,295	541,625	260,328	195,513	285,035	479,432
Equity/ Total Assets	8.9%	7.9%	6.6%	8.5%	6.3%	10.6%	6.8%	16.3%	9.5%	10.9%	7.8%	13.0%
GROWTH												
% Credit	9.0%	11.6%	6.3%	7.7%	10.7%	14.2%	19.2%	17.1%	11.4%	17.0%	10.9%	8.1%
% Asset	7.8%	4.3%	7.9%	8.5%	5.1%	12.2%	0.3%	23.2%	26.2%	10.6%	16.5%	14.4%
% Deposit	3.6%	7.4%	8.3%	11.3%	2.5%	10.6%	-2.1%	14.0%	13.5%	7.4%	13.5%	2.5%
% TOI	26.9%	14.4%	6.5%	6.8%	12.8%	29.2%	-12.7%	17.1%	65.8%	29.6%	1.6%	7.0%
% Earnings before Provisions	24.8%	17.7%	10.9%	20.4%	23.1%	45.6%	-18.8%	22.8%	94.4%	47.3%	-13.4%	14.8%
% PBT	0.9%	15.1%	5.4%	28.3%	3.9%	29.3%	-8.1%	40.0%	40.2%	45.9%	-17.0%	-4.1%
ASSET QUALITY												
Group 2 debt ratio	0.7%	0.7%	0.5%	3.0%	0.9%	1.1%	0.5%	0.9%	2.6%	1.3%	3.3%	7.7%
NPLs	0.8%	1.2%	1.7%	1.4%	1.4%	0.9%	1.6%	0.6%	1.0%	1.9%	2.1%	4.0%
DPRR/ Total debts	1.7%	2.8%	2.0%	1.1%	1.4%	2.2%	1.8%	1.1%	1.2%	1.2%	1.1%	2.0%
LLCRs	197.7%	242.9%	118.6%	80.9%	98.2%	232.8%	112.2%	184.4%	115.4%	62.1%	54.1%	48.9%
Bad debt provision/Group 2-5	106.2%	154.0%	93.2%	25.5%	61.2%	107.6%	84.7%	69.9%	33.3%	36.9%	21.0%	16.7%
Cost of Credit	1.0%	1.1%	2.1%	0.8%	0.6%	2.1%	1.1%	0.7%	4.1%	2.5%	0.6%	6.3%
LDR	4.0%	1.0%	0.7%	0.1%	0.0%	0.9%	0.1%	0.9%	1.1%	1.8%	1.0%	5.0%
LIQUIDITY RISK & CAPITAL SAFETY												
LDR	80.8%	77.9%	83.5%	61.7%	84.9%	75.2%	80.8%	79.0%	57.9%	58.6%	73.0%	78.4%
Leverage	11.3	12.6	15.1	11.8	15.8	9.4	14.8	6.1	10.5	9.2	12.9	7.7
CAR Basel II	11.2%	10.0%	9.1%	13.5%	0.0%	11.0%	10.4%	15.2%	14.6%	11.2%	10.6%	12.4%
MTLT	22.7%	29.0%	24.2%	23.0%	0.0%	32.0%	27.1%	32.6%	20.5%	17.1%	32.0%	28.0%
BUSINESS EFFICIENCY												
TOI	5,690	13,253	12,255	3,706	2,241	8,700	4,198	8,779	3,674	2,311	3,080	10,133
Earnings before Tax	2,616	5,738	3,061	1,891	766	3,898	825	5,562	1,387	1,009	1,385	2,698
NII/TOI	81.5%	74.7%	79.6%	83.0%	86.2%	71.9%	68.9%	71.8%	70.0%	60.3%	79.8%	78.7%
CASA	22.5%	34.3%	19.3%	12.3%	7.6%	41.7%	22.2%	49.0%	21.6%	30.9%	11.4%	21.9%
Average Gross Profit	7.2%	5.3%	5.9%	8.2%	0.0%	7.5%	6.9%	7.5%	7.4%	6.4%	7.5%	10.6%
Avarage cost of capital	3.5%	2.3%	3.2%	4.1%	0.0%	2.6%	3.8%	2.2%	3.3%	2.5%	3.7%	4.0%
NIM	4.0%	3.1%	2.9%	4.2%	0.0%	5.3%	3.0%	5.9%	4.4%	4.0%	4.2%	7.1%
CPDP/PPOP	20.1%	31.1%	41.6%	20.8%	26.6%	35.5%	36.7%	9.8%	33.9%	19.7%	14.5%	53.9%
CIR	33.2%	31.9%	32.6%	41.0%	50.4%	35.2%	62.8%	29.1%	33.9%	38.2%	39.5%	24.2%
ROAA	2.1%	1.6%	1.2%	1.7%	1.1%	2.1%	0.7%	3.5%	2.0%	2.1%	2.1%	2.7%
ROAE	25.0%	20.3%	18.3%	20.8%	17.7%	20.4%	10.9%	21.3%	22.2%	20.8%	28.4%	21.3%
VALUATION												
EPS	3,599	5,696	3,439	3,484	2,240	2,938	1,798	4,956	3,932	3,380	3,665	4,852
BVPS	15,723	29,531	19,893	18,193	13,424	15,575	17,708	25,174	21,131	18,118	14,267	24,634

Source: Banks' Financial Statements, BSC Research

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