

VIETNAM BANKING INDUSTRY

2021 Outlook: Challenges ahead

August 18th, 2021

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Monetary market highlights

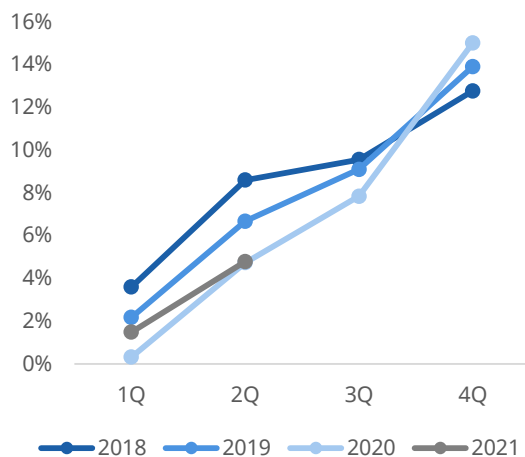
Another rate cut could come in handy: In order to mitigate the effects of the pandemic, the State Bank of Vietnam (SBV) has conducted three central rate cuts totalling more than 150bps for all tenors. Due to the unstable status of the forth wave of COVID-19, banks will have to offer interest exemption/reduction packages to those are affected. Therefore, additional rate cuts in FY21 are highly likely to support banks, whose incomes will be negatively impacted by relief programs.

Decent liquidity boosted credit momentum: Due to the sudden growth of deposits in the last quarter of 2020, asset allocation of banks has yet to be well-balanced. Deposits surplus had been reallocated into high yield assets such as corporate bonds and customer loans. The loan to deposit ratio (LDR) cap relaxation applied to private commercial banks was not fully capitalized in FY20, which will also enable such banks to improve their asset mix profitability.

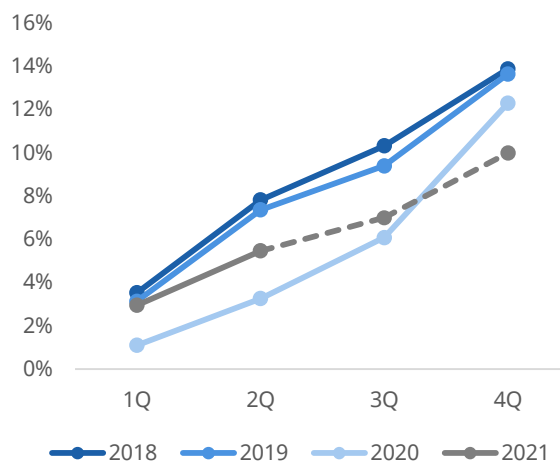
Pressures from COVID-19 peaked: The most-affected customer groups of the pandemic were SMEs and low-income individuals. Therefore, bank earnings showed high credit exposure to the aforementioned groups (e.g. VPB, HDB, SHB), and pressures — on interest income and provisioning, in particular — should continue.

Private banks to drive credit growth: Growth in the assets and credit of most private commercial banks outperformed that of state-owned banks, thanks to stronger capital buffers, higher profitability, and better asset quality stances. In addition, better capital-raising capability of private banks also helped them to catch up with market demand. For 2021, we expect credit would grow at about 8-9%.

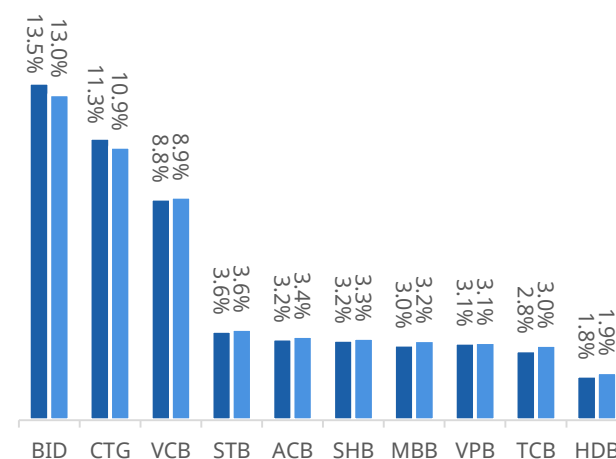
Vietnam deposit growth (YTD)



Vietnam credit growth (YTD)



Credit market share of top-10 listed banks

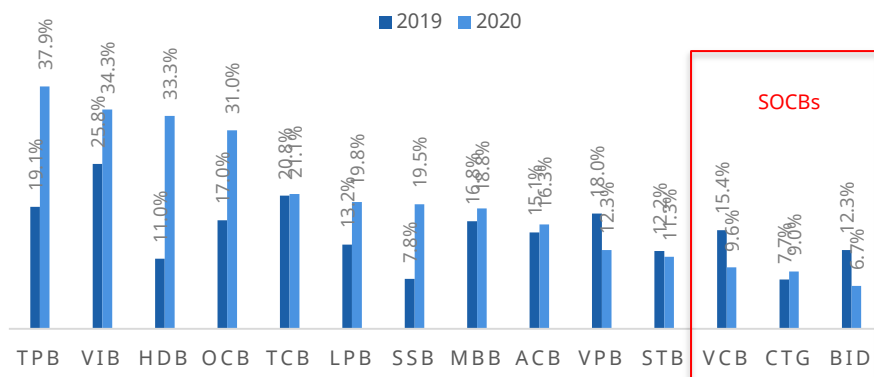


Source: SBV, Mirae Asset Vietnam Research

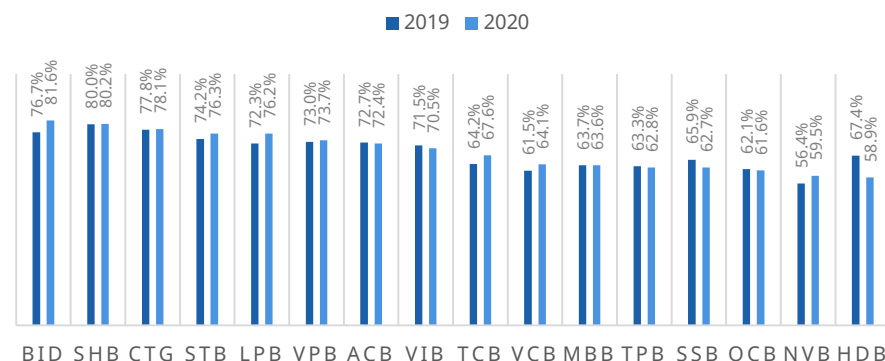
Monetary market highlights (cont'd.)

- ✓ Year on year increases of interest-earning assets saw strong divergences between state-owned banks (SOCBs) and private banks. Divergence is expected to continue in medium term.
- ✓ Listed banks' securities growth (+18.8% YoY) outperformed that of loans (+15% YoY) in 2020, while there was a counterblast in 1H21. Due to effects of fourth wave of COVID-19, we expect business banking and wholesale banking will outperform that of retail banking in 2H21.
- ✓ LDR was steady in FY20, but it is expected to slightly reduce in 2021 due to weak demand or less confidence of banks in expanding their loan books.

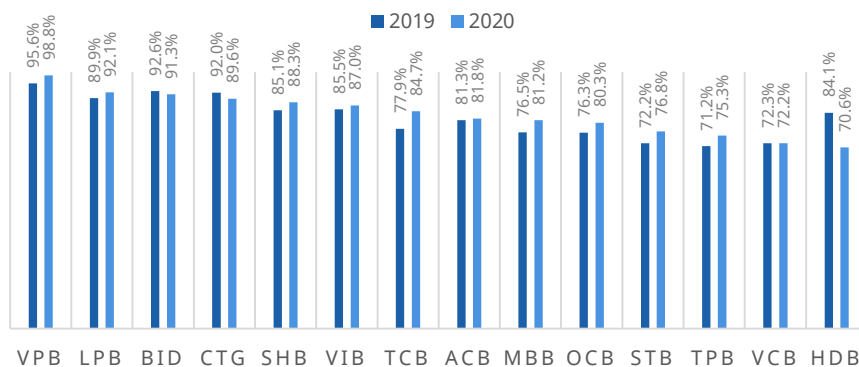
Loans and securities growth



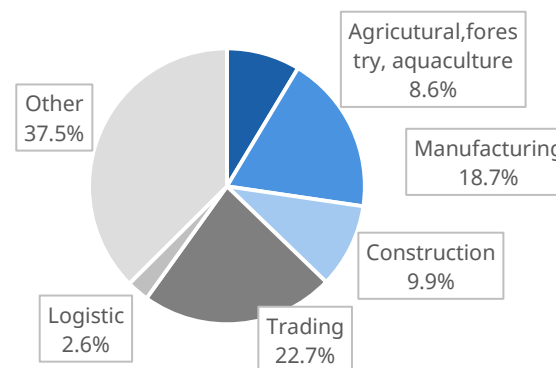
Loans to IEA



Pure LDR



Credit structure by industry



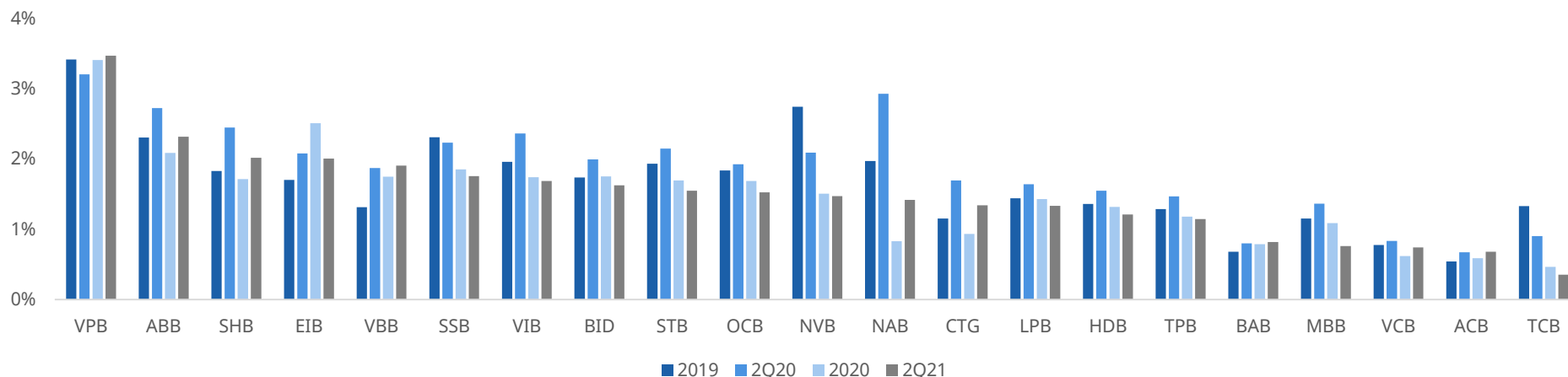
Source: SBV, Mirae Asset Vietnam, company data

Asset quality

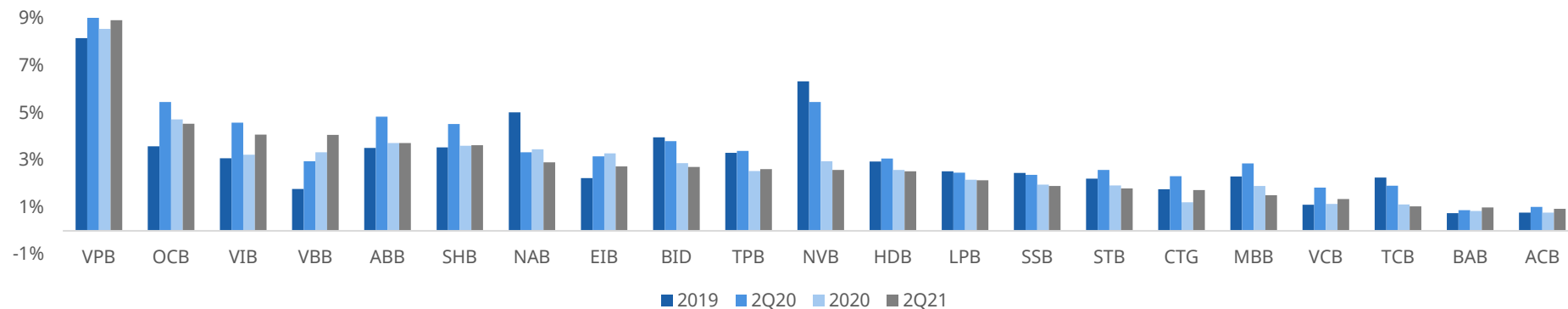
✓ **Bracing balance sheet prior to the hit.** Regardless of effects from COVID-19, most banks was able to reduce proportion of non-performing loans within their loans books or maintain the percentage at pre-COVID-19 level.

✓ **Should not lower vigilance yet due to effects of Cir.01/2020/TT-NHNN and Cir. 03/2021/TT-NHNN, which allow credit institutions to restructure loans without changing loan's group.**

NPLs (group 3-5)



Gross NPLs (group 2-5)

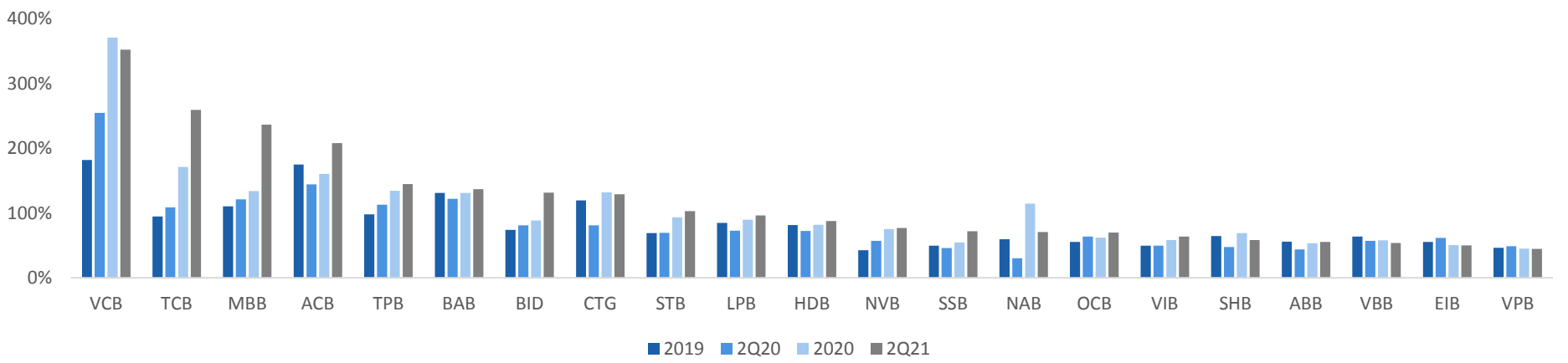


Source: Mirae Asset Vietnam, company data

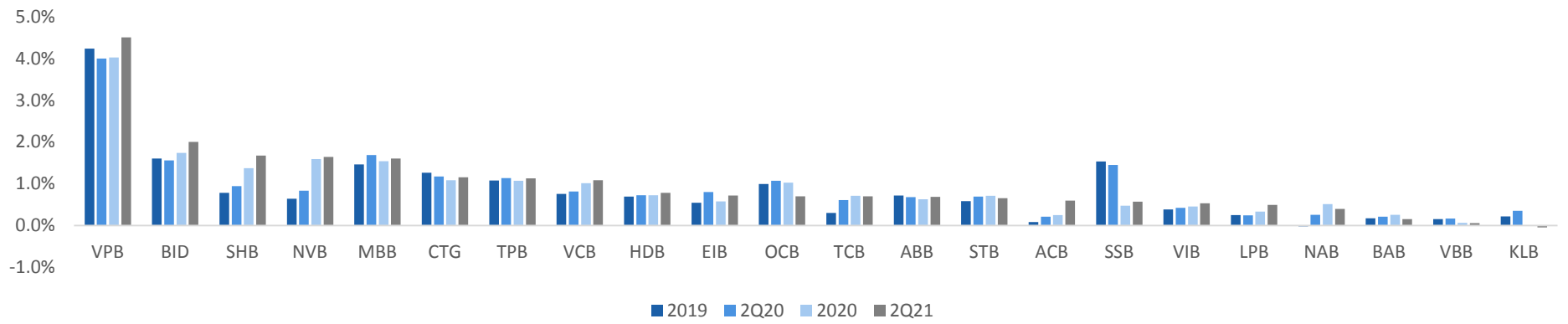
Asset quality (cont'd.)

- ✓ **Reinforce provision buffer.** Due to uncertainties in the economic downturn led by the pandemic, banks lifted their provision coverage to avoid heavy provisioning pressure in medium terms.
- ✓ **Credit cost is expected to saw quick uptick in 2H21 and following years.** The longer it took to isolate the virus, the higher credit cost will be. Due to the new variation of the virus, community immunity is the new target of Vietnam’s governments, but it will take a long time.

Provision coverage



Credit cost (TTM)

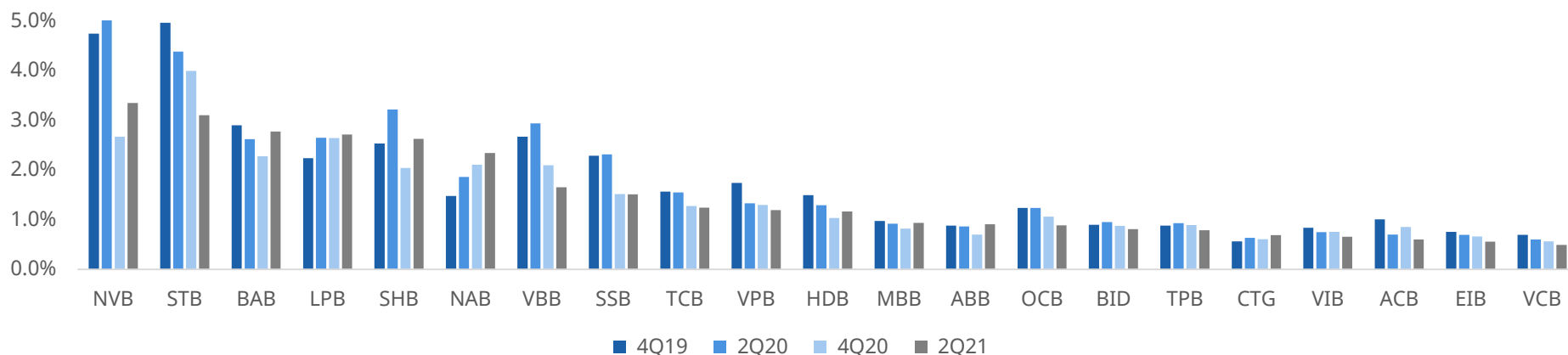


Source: Mirae Asset Vietnam, company data

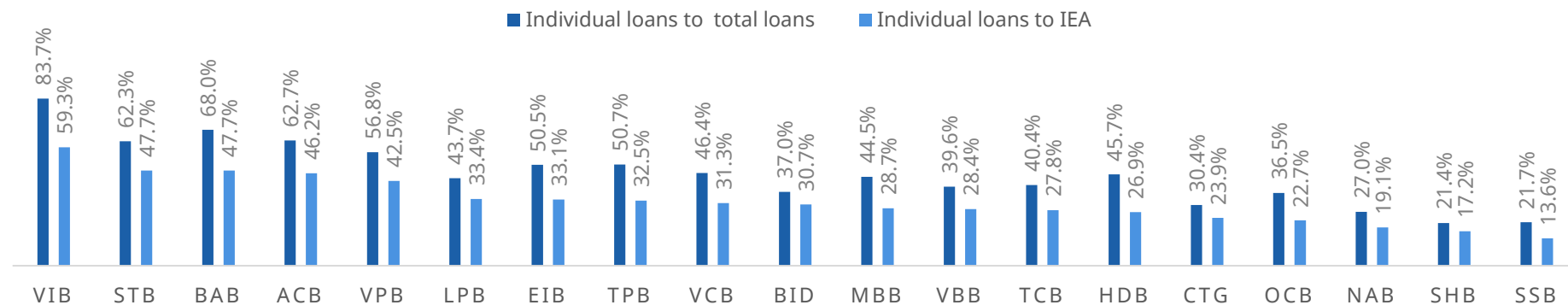
Asset quality (cont'd.)

- ✓ **Reducing accrued interest ease concern over off-balance sheet bad debt.** Although business and investment banking outperformed that of individual banking (shorter payment interval), the reduction of accrued interest imply the genuine of reported NPL.
- ✓ **Lenders, whose exposure to individual was high, will take the initial hits from COVID-19.** Due to social distancing approaches, which applied for more than two months in major cities or one months for almost nation wide, personal incomes are heavily affected. Consequently, incomes pressure related to COVID-19 will soon to reflect in financial report from 3Q21, retail banking leaders in particular.

Accrued interest to IEA



Weight of individual exposure in credit portfolio (2020)

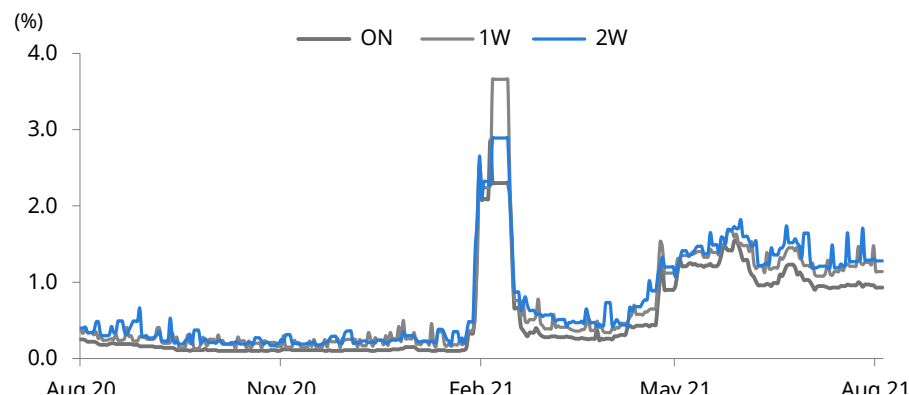


Source: Mirae Asset Vietnam, company data

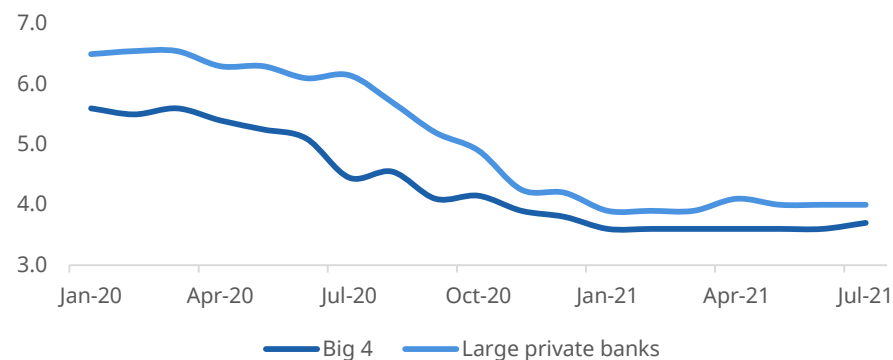
Rates and index performance

- ✓ **Without possible rate cut, funding cost (liabilities) would increase.** Due to high credit growth in Q1 and Q2 of 2021, liquidity of the sectors reduced. As the result, interbank rates increased.
- ✓ **The pandemic pressures on deposits growths.** Due to incomes of both business entities and personals are distressed by COVID-19, deposits source will reduce. In addition, social distances approach significantly reduce entities' income, which force them to tapping on saving accounts.
- ✓ **Strong performance of local currency to support market valuation.**

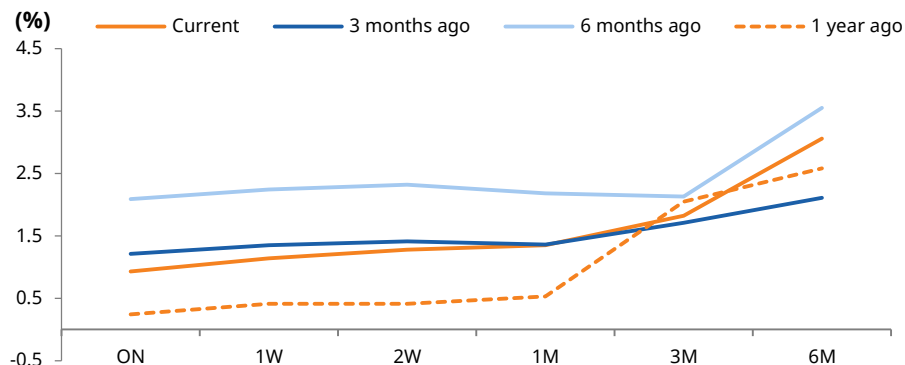
Vietnam interbank rates



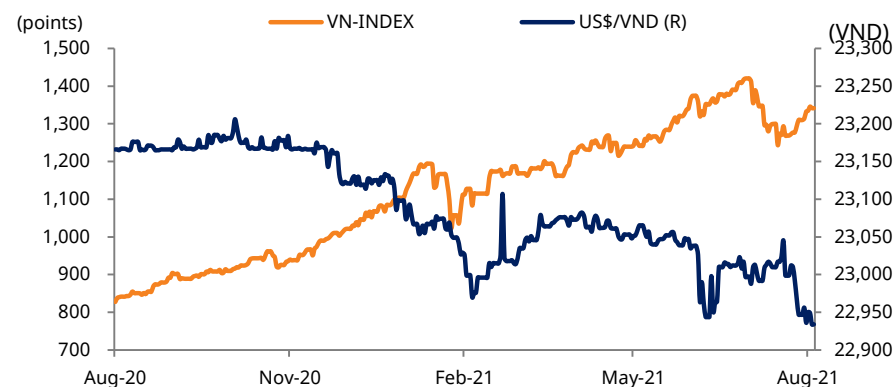
13M deposits rate



Vietnam interbank rate curve



Index and VND performance

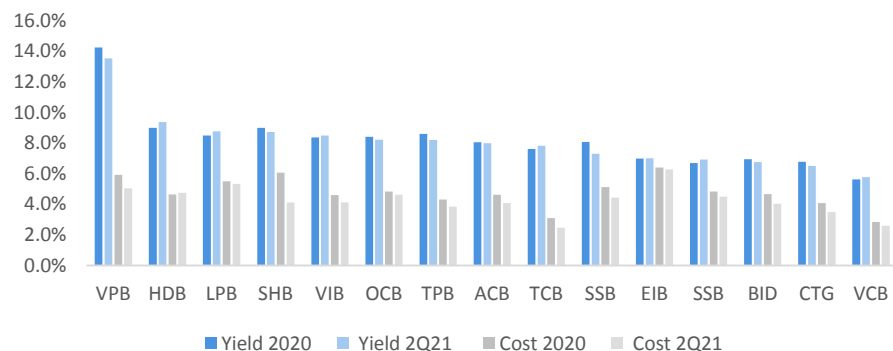


Source: Bloomberg, Mirae Asset Vietnam, Company data

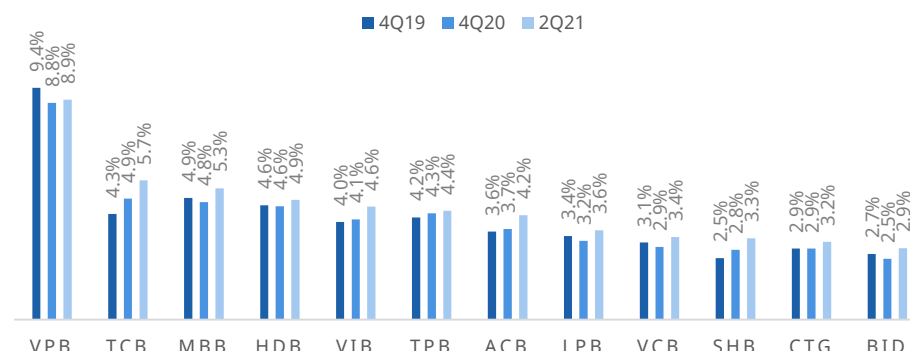
Yield vs cost

- ✓ **Other than concern over increasing funding cost, yield are expected to reduce in 1H21.** In 1H21, average IEA's yield of listed banks advanced by 0.1%p YTD to 8.1%, following the drop of 0.6%p YoY in FY20. In comparison to FY20, social distancing approach was applied for much longer period. In the peak time of COVID-19 last year, about 20% of credit balance of the sector was negatively impacted, while the figure went up to 50% of some banks during the fourth wave of COVID-19 starting from late April 2021. Accordingly, those affected loans received rate incentives of up to 150bps. **In all, NIM to see pressures ahead.**
- ✓ **Operational optimization using technology will curtail pressure for provisioning hikes on the bottom line in 2021.**

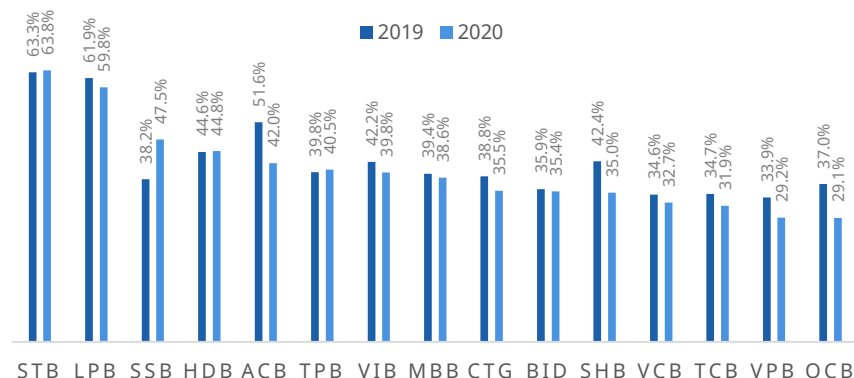
Yield vs. cost



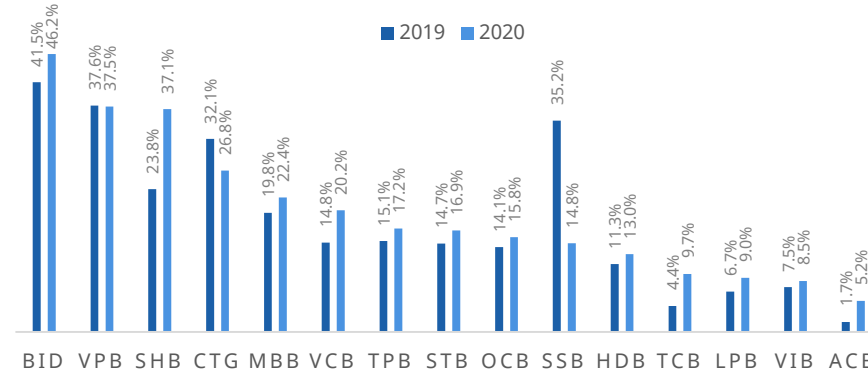
NIM (%)



CIR



Provisioning to TOI

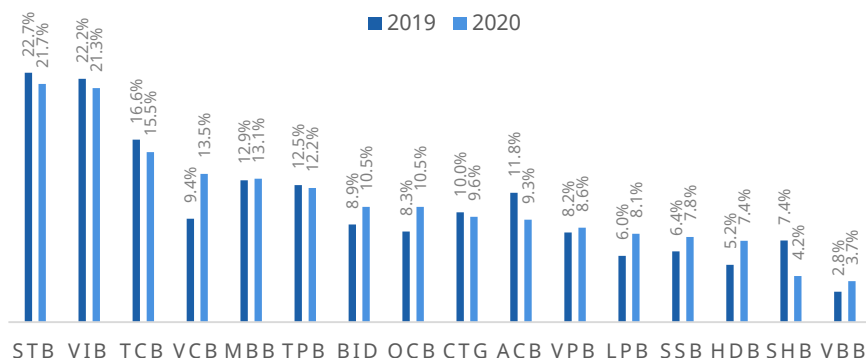


Source: Mirae Asset Vietnam, company data

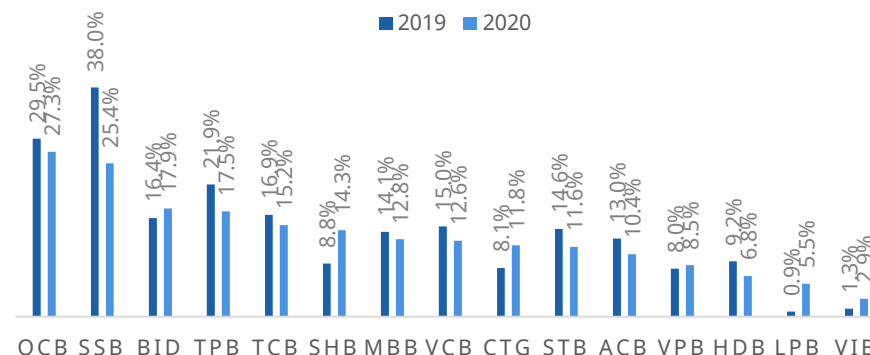
Income structure and profitability ratios

- ✓ **Non-interest incomes could also loose its momentums.** Services incomes are getting more important in banks' incomes structures in the recent year. However, social distancing approaches and slow economic growth outlook put pressure on service income, due to lower transaction fees. Other incomes such as profit from FX and securities trading gains are unlikely recurs due to high base, while the pandemic makes bad-debt more difficult to collect.
- ✓ **Reducing profitability ratio accompanying with worse macro economic outlook for 2H21 will stress on valuation benchmark.**

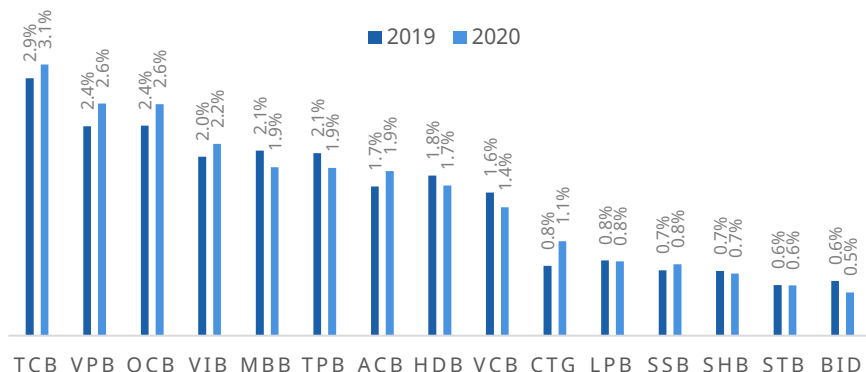
NSI to TOI



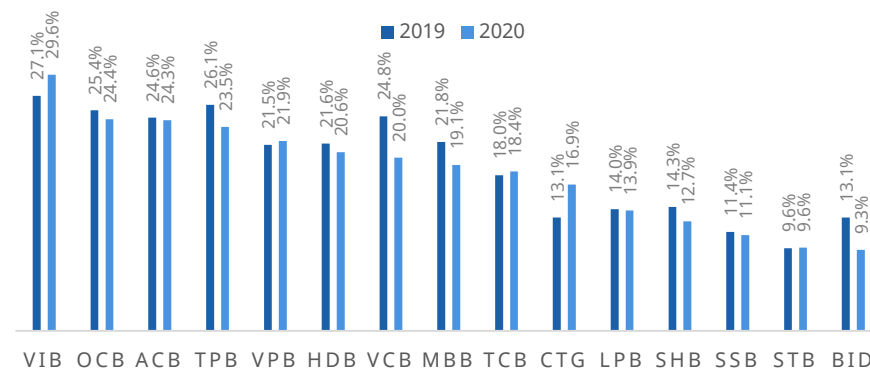
Other income to TOI



ROA



ROE



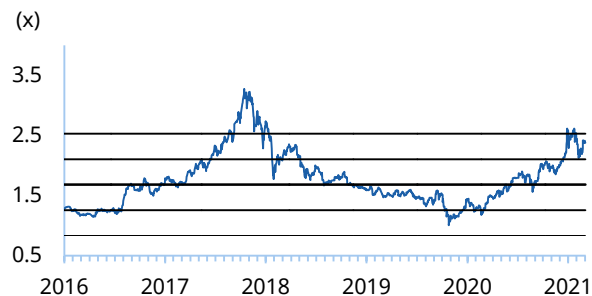
Source: Mirae Asset Vietnam, company data

Price-to-book (P/B) ratio

CTG



ACB



VPB



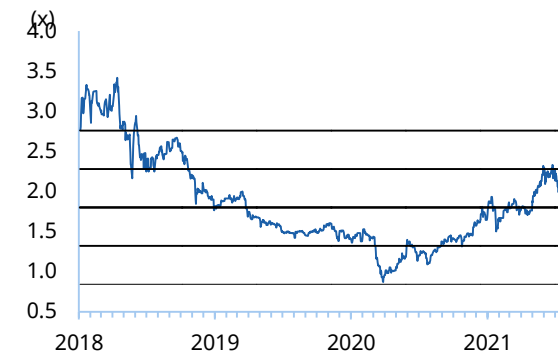
BID



MBB



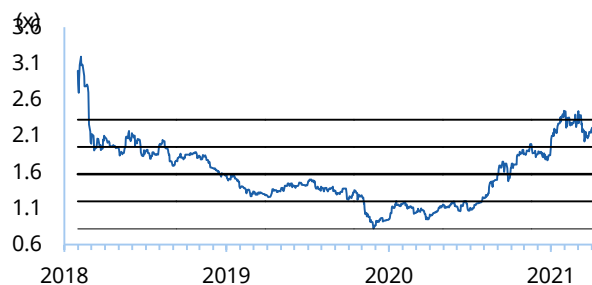
HDB



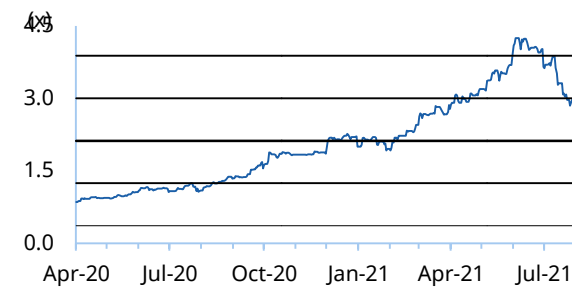
VCB



TCB



VIB

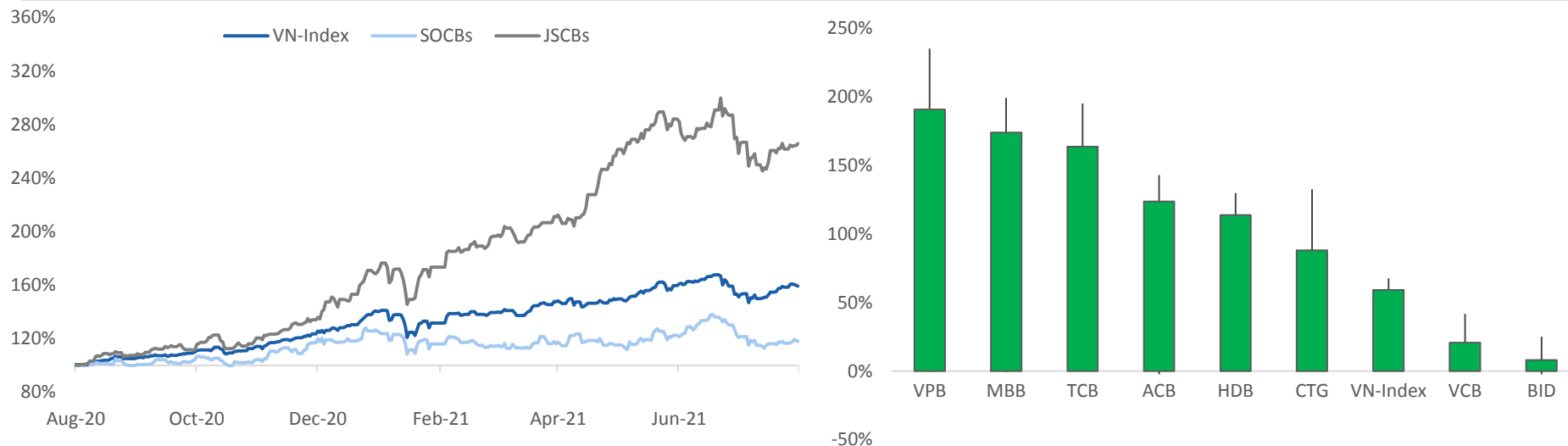


Source: Mirae Asset Vietnam, Bloomberg

Valuation

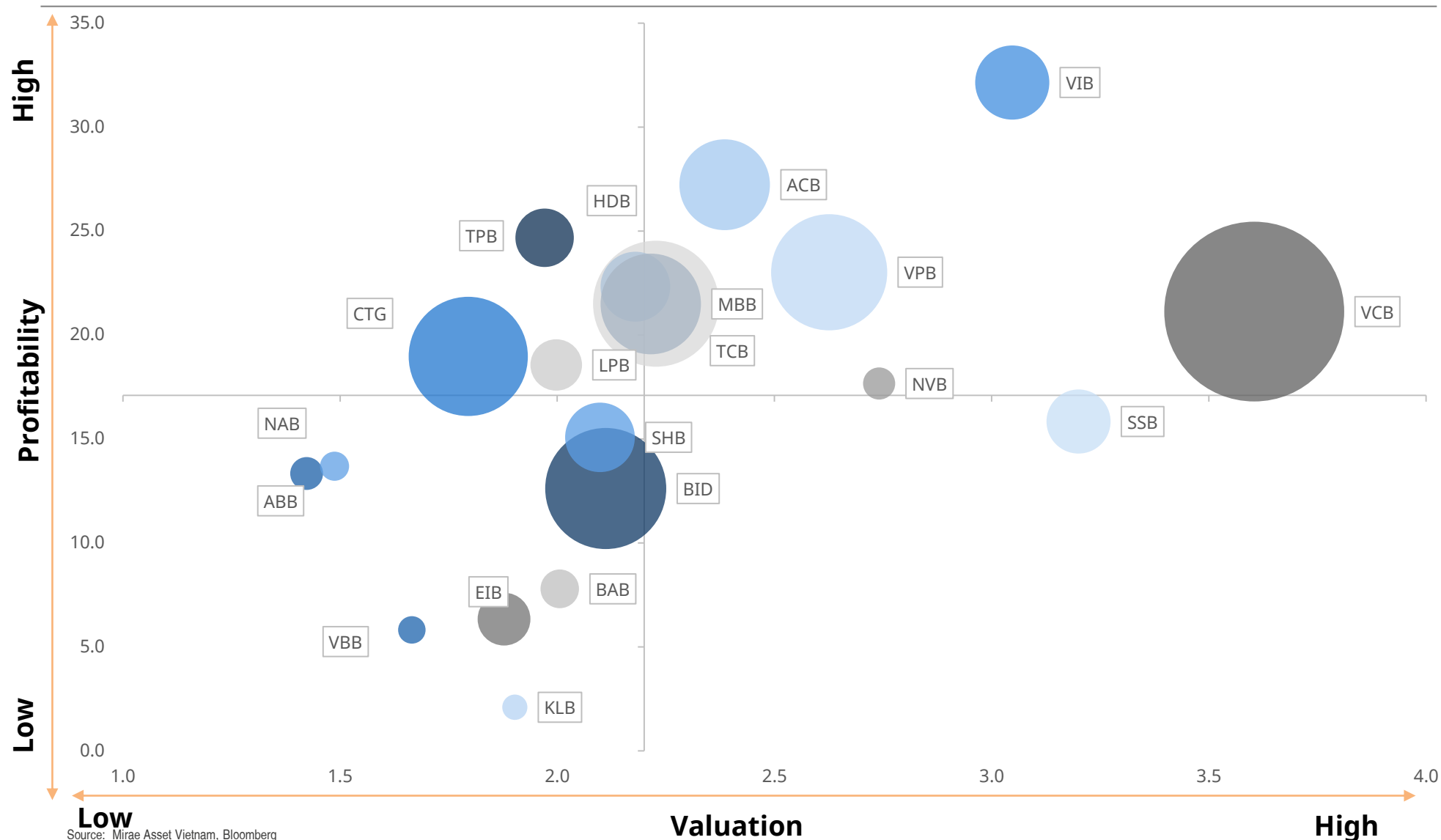
- ✓ Valuations of banks — and those of private commercial banks in particular — appreciated significantly, thanks to robust economic recovery until 2Q21. However, valuation metrics approached historical highs (P/B multiple), which caused correction in late June and July 2021.
- ✓ Despite Vietnam's successful containment of three COVID-19 waves in FY20, the new variation of virus – Delta – erased all anti-epidemic achievements. High daily case nationwide forced authority to extend social distancing, causing challenges to continuous operation of businesses. In the current circumstances, social distancing approach cannot be relaxed any time sooner than late September. In addition, due to the shortage of available vaccine as well as effectiveness of vaccine to the new variation, it is hard to totally open the economy. Consequently, local economy as well as banking sector will face challenges to growth.

1-year share price performance



Source: Mirae Asset Vietnam, Bloomberg

Valuation (cont'd.)



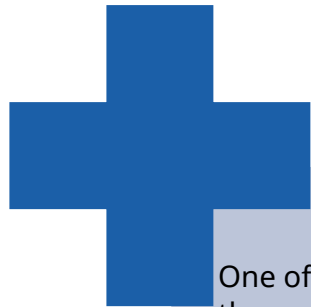
Source: Mirae Asset Vietnam, Bloomberg

Comparable

Ticker	P/B (x)	Mkt CAP (VND Tr)	NPL (%)	Provision coverage (%)	ROA (%)	ROE (%)	Equity Multiplier (x)	NIM (%)
ABB	1.4	12.7	2.1	53.3	1.0	13.3	13.1	2.4
ACB	2.4	96.1	0.6	160.3	2.2	27.2	13.1	4.4
BAB	2.0	17.4	0.8	130.9	0.6	7.8	13.9	2.0
BID	2.1	171.5	1.8	89.2	0.6	12.6	19.9	2.9
CTG	1.8	166.5	0.9	132.0	1.2	19.0	16.0	3.2
EIB	1.9	32.5	2.5	50.5	0.7	6.3	10.1	2.5
HDB	2.2	56.9	1.3	82.1	1.8	22.3	13.0	5.0
KLB	1.9	7.4	5.4	15.6	0.1	2.1	14.1	2.0
LPB	2.0	31.2	1.4	89.6	1.1	18.6	16.6	3.1
MBB	2.2	117.9	1.1	134.1	2.2	21.5	10.6	5.4
NAB	1.5	9.8	0.8	114.5	0.7	13.7	19.8	2.5
NVB	2.7	12.0	1.5	75.3	1.0	17.7	19.8	2.6
OCB	1.8	34.2	1.7	62.1	2.9	23.8	9.4	4.0
SHB	2.1	56.6	1.8	61.4	0.9	15.1	18.3	3.3
SSB	3.2	47.8	1.9	54.8	1.2	15.8	13.7	2.5
TCB	2.2	185.8	0.5	171.0	3.6	21.5	6.1	5.7
TPB	2.0	39.9	1.2	134.2	2.0	24.7	12.4	4.8
VBB	1.7	8.8	1.8	58.1	0.4	5.8	15.6	0.8
VCB	3.6	377.9	0.6	368.0	1.6	21.1	14.6	3.4
VIB	3.0	64.0	1.7	59.1	2.5	32.1	13.7	5.0
VPB	2.6	157.1	3.4	45.3	2.9	23.0	8.4	8.9

Source: Mirae Asset Vietnam, Bloomberg

Summary



One of the sector can operate continuously throughout the pandemic, thanks to supports of modernized operating systems (e.g., updated core banking, virtualized credit granting process, etc.).

Receiving special treatments from legislators

Embraced balance sheets prior to the hits

Outstanding performance in 1H21 with profit surged by 55.3% YoY compared to that of 1H20 (+13.4% YoY)

Social distancing force non-observed economy (e.g., household business), which normally does cash transaction, to deal with bank (online transaction) more frequently. In the other words, banks can save customer acquisition costs.

Possible of reducing NIM due to lower liquidity level compared to that of 2020

Choosing between rate incentives or high provisioning

Unstable outlook related to COVID-19

As the result of low economic growth in 2H20, Vietnam's government will limit credit growth to avoid credit to GDP ratio go further than threshold of 140%

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