

20 Aug 2020

Banking

Overweight (Maintain)

A makeup names restructuring

Big restructuring in 2Q20

The local banking industry carried big restructuring on COVID-19 impacted debtors in 2Q20 with a total loan book ~VND180tn as of June 2020 (said by the SBV governor), equaling to 2.1% of whole industry credit outstanding. The figures were VND115tn and 2.8% respectively for compound KIS banking universe. Circular 01.2020 allows credit institutions to reschedule payment terms and postpone debt classification during the pandemic, a technical measure to help lenders and borrowers to maintain a healthy balance sheet to reduce liquidity stress and prevent asset sell-offs.

Company	Rating	TP (VND)
ACB	BUY	25,100
MBB	BUY	22,200
TCB	BUY	24,400
VCB	HOLD	
VPB	HOLD	

Table 1. Cir.01 restructured loans as of June 2020 (VND tn, %)

	Total loans	Restructured loans	
		VND tn	% of total
BID	1,139.2	40.0	3.51%
CTG	941.5	8.4	0.89%
ACB	283.8	9.2	3.24%
MBB	261.4	7.0	2.68%
TCB	231.7	8.3	3.60%
VCB	770.7	11.8	1.53%
VPB	270.1	28.0	10.37%
VIB	137.9	2.0	1.45%
KIS universe	4,036.3	114.7	2.84%
Whole industry	8,400.0	180.0	2.14%

Source: Company data, reporter, KIS

1. Keep NPL ratio low

Thanks to Cir.01/2020 and big restructured COVID-19 loans, banks were able to keep NPL ratios at reasonable levels. The NPL ratio and delinquency ratio of KIS universe in 2Q20 were flat at 1.6% and 3.1% respectively against 1Q20. Comparing to 4Q19, the compound NPL ratio increased by ~20bps and the delinquency ratio increased by ~40bps. The strongest NPL ratio rises were witnessed at CTG (+54bps vs. 4Q19) and VIB (+41bps vs.4Q19) while TCB and VPB reported a decrease by 43bps and 23bps against 4Q19.

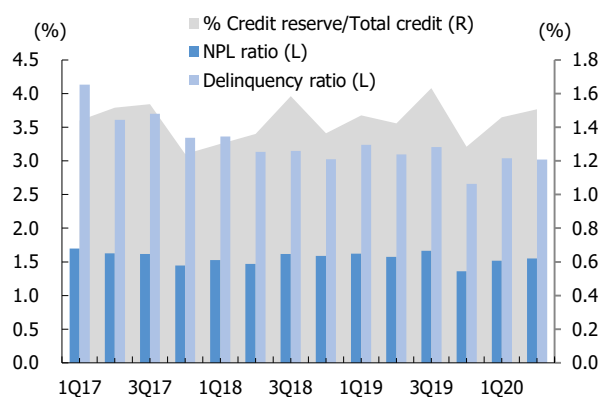
2. Credit cost retreat in 2Q20

After accelerating to VND19.4tn in 1Q20 (~an annualized credit cost of 1.92%), the compound credit provision of our coverage dropped to VND13.2tn (~1.29% of credit). So the compound credit cost of whole coverage was 1.59% in 1H20, down ~10bps yoy. However, there was differentiation in provisioning among banks. ACB, MBB, TCB and VCB raised their credit costs vs. 1H19 while BID, CTG and VPB showed declines. In the meantime, VIB kept it flat at 0.6%. These caused NP's growths to be varied among banks.

Yen Tran

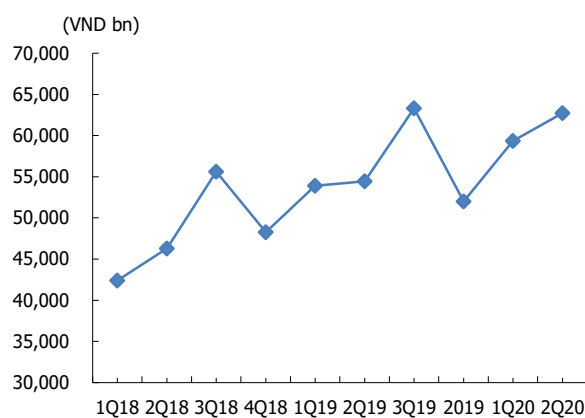
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Figure 1. NPL adjusted of universal



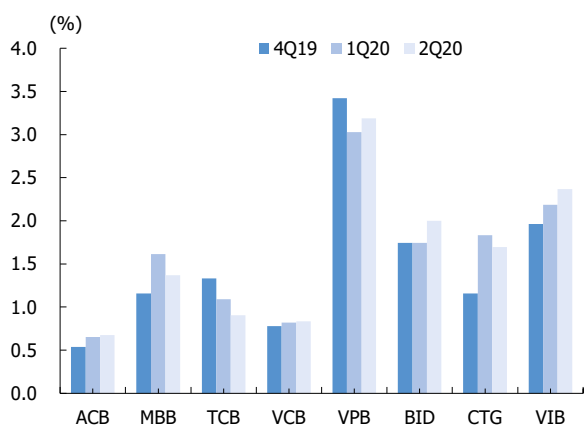
Note: Universal incl ACB, MBB, TCB, VCB, VPB, BID, CTG and VIB
Source: Company data, KIS

Figure 2. Provision reserve of universal



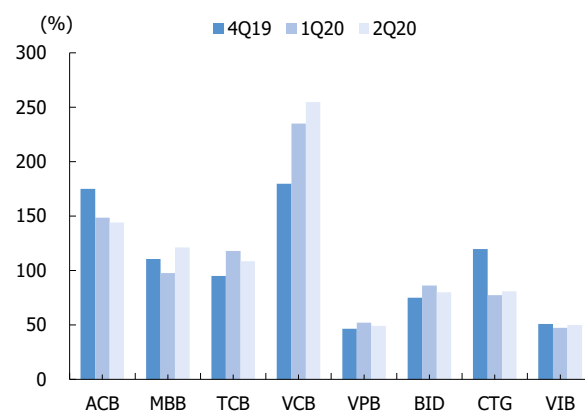
Note: Universal incl ACB, MBB, TCB, VCB, VPB, BID, CTG and VIB
Source: Company data, KIS

Figure 3. NPL ratio by banks (4Q19-2Q20)



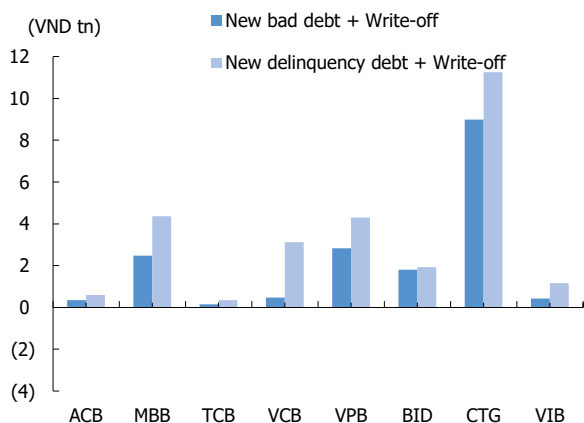
Source: Company data, KIS

Figure 4. LLC by banks (4Q19-2Q20)



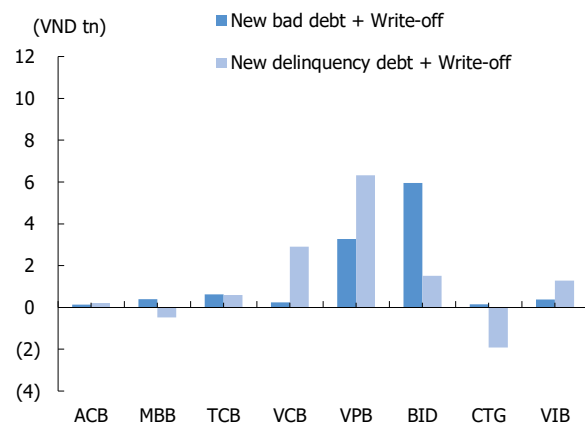
Source: Company data, KIS

Figure 5. New bad debt adjusted 1Q20

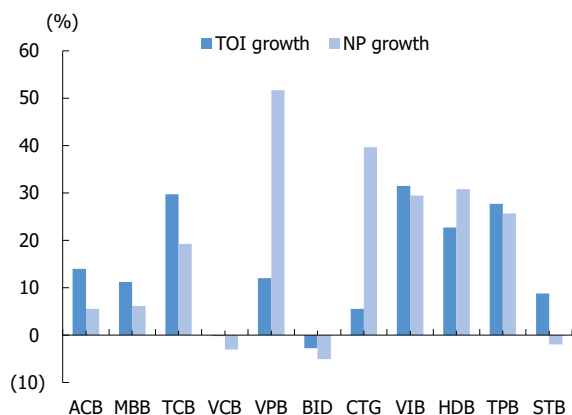


Source: Company data, KIS

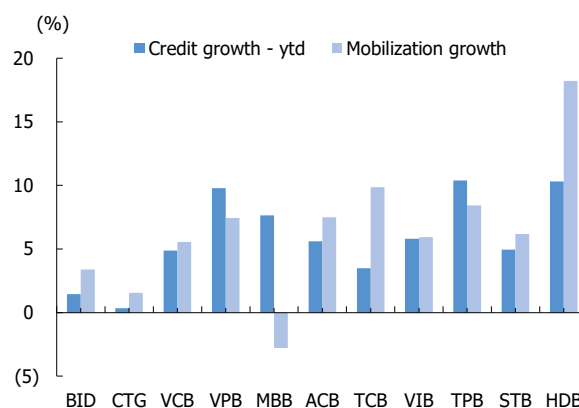
Figure 6. New bad debt adjusted 2Q20



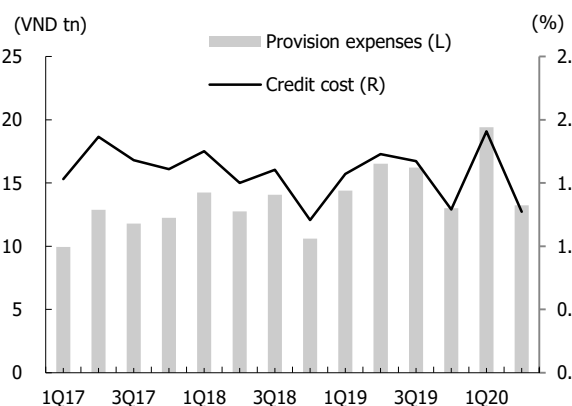
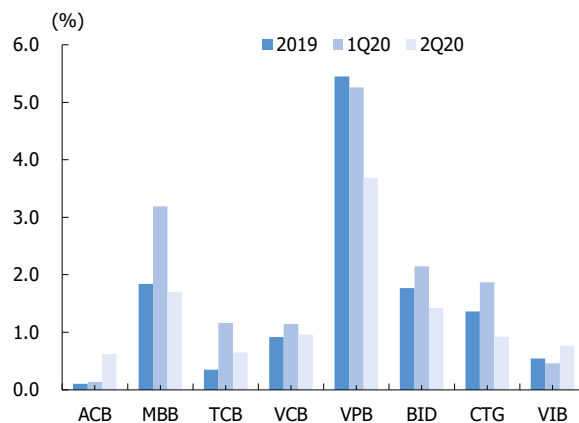
Source: Company data, KIS

Figure 7. 1H20 TOI & NP yoy growth

Source: Company data, KIS

Figure 8. 1H20 credit and mobilization ytd growth

Source: Company data, KIS

Figure 9. Credit cost of universalNote: Universal incl ACB, MBB, TCB, VCB, VPB, BID, CTG and VIB
Source: Company data, KIS**Figure 10. Credit cost of banks (2019 - 2Q20)**

Source: Company data, KIS

Banking saves overall corporate profit

Overall, the banking industry posted strong 1H20 earnings growth despite of strong headwind from the virus globally. Combined net profit (NP) of non-financial HSX companies was down 23% yoy while financial led by banks reported a NP growth of 15% yoy in 1H20. Particularly, our banking coverage posted 1H20 NP growth of 14% yoy on a slim TOI growth of 7.6% ytd. Apart from provisioning reason, the bottom line growth was rescued by OPEX cut with 1.7 %p yoy of CIR.

While banking's assets quality and profitability in 1H20 were colored by accounting adjustment, negative impacts from the virus may be seen via weak credit growth and distressed NIM vs. last year.

Maintain Overweight. Focus on conservative players.

We maintain overweight on banking sector as the Government may keep its supportive acts on impacted debtors and count on banks to retain a resilient economy. The central bank still emphasizes its loose monetary policy and its wish to promote credit flow to the economy, which may be seen via: 1) frozen T-bill issuance on OMO despite of excessive liquidity surplus; 2) approving any credit growth requests from commercial banks; 3) delaying the effective day of stricter short-term fund for medium & long-term loans ratio (from 40% to 37%) by 1 year to 01 Oct 2021 (cited in Cir.08 date 14 August 2020); 4) working on a draft for further extension on debt restructuring and bad debt reclassification (amendment of Cir.01); and 5) sending directives to credit institutions repeating its guidance on macro stability and incentives for 2H20.

On the other hand, the economy is improving from 2Q20 low-base but still facing difficulties with many uncertainties. We expect banks to lift provision expenses in coming quarters to enrich their credit buffers upon more deteriorated balance sheet. However, improving credit buffers may be still a choice rather than a must within local banking system given supportive regulations from the authorities. Earnings differentiation may continue in 2H20. Given such mixed colors, it is better to weight on conservative players who have well-prepared for the upcoming storm.

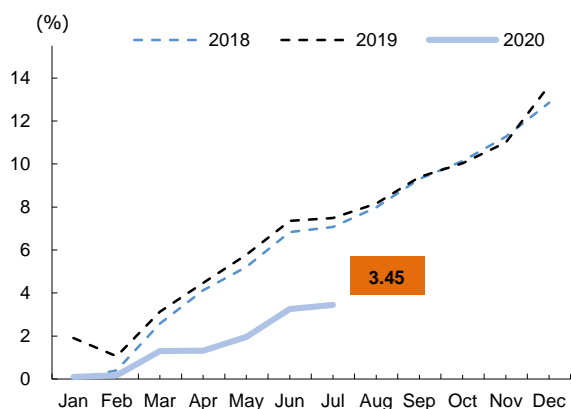
Table 2. KIS Universe 2Q20 review

(VND tn, %)

	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20		
							yoy	qoq
Total income	55,119	58,823	61,220	65,545	63,223	59,343	0.9	(6.1)
Interest income	43,586	45,457	46,763	48,790	48,749	44,098	(3.0)	(9.5)
Non-interest income	11,533	13,366	14,457	16,755	14,474	15,245	14.1	5.3
Fee income	7,413	8,339	8,287	9,242	8,539	9,291	11.4	8.8
Securities/deriv.	503	965	1,795	1,892	2,905	2,817	191.9	(3.0)
Others	3,617	4,062	4,375	5,621	3,030	3,137	(22.8)	3.5
Provisions	14,411	16,521	16,227	13,017	19,411	13,246	(19.8)	(31.8)
Net revenue	40,708	42,302	44,993	52,528	43,812	46,097	9.0	5.2
OPEX	19,815	21,526	21,414	27,191	22,572	19,824	(7.9)	(12.2)
OP	20,893	20,776	23,579	25,337	21,240	26,273	26.5	23.7
Non-operating profit	-	-	-	-	-	-	-	-
EBT	20,893	20,776	23,579	25,337	21,240	26,273	26.5	23.7
NP	16,735	16,701	18,944	20,116	17,032	21,138	26.6	24.1
Controlling-int. NP	16,584	16,556	18,847	19,939	16,881	20,825	25.8	23.4

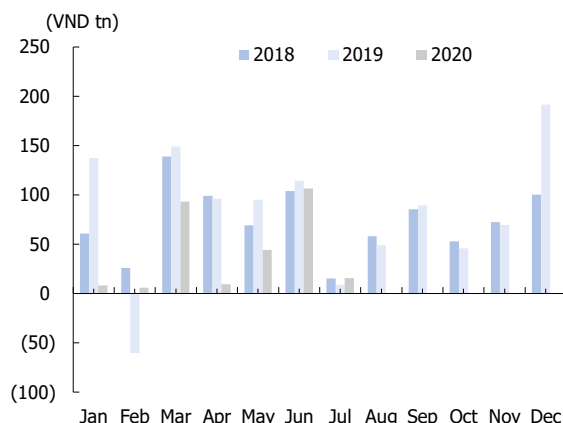
Source: Company data, KIS

Figure 11. Credit growth of banking system



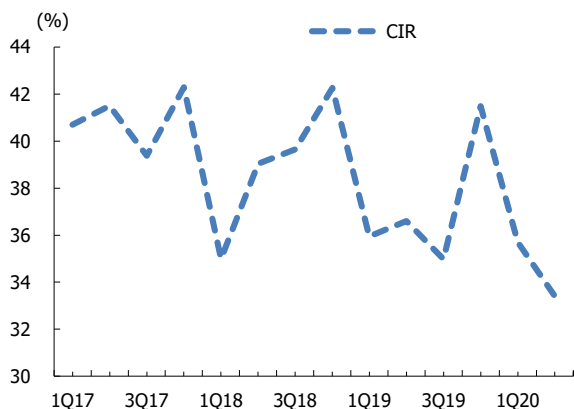
Source: SBV, KIS

Figure 12. Monthly new credit of banking system



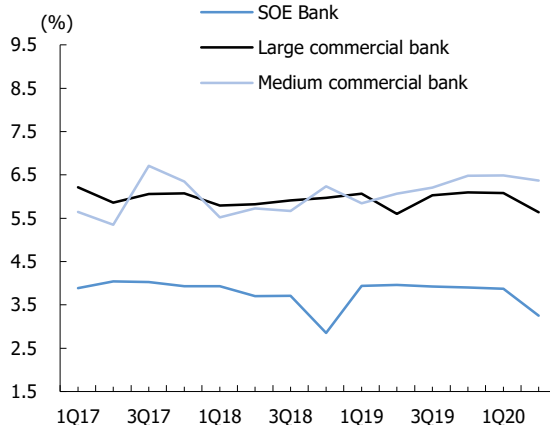
Source: SBV, KIS

Figure 13. CIR of KIS universal



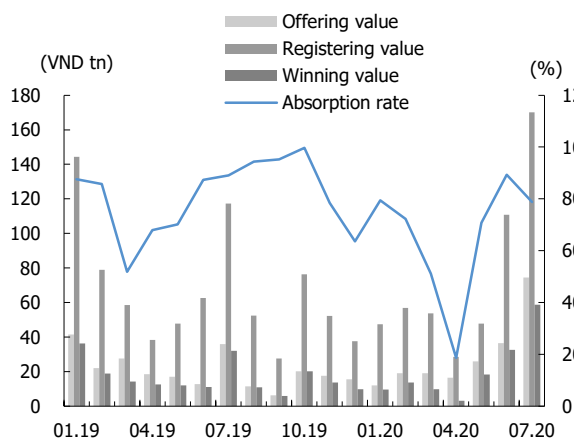
Note: Universal incl ACB, MBB, TCB, VCB, VPB, BID, CTG and VIB
Source: Company data, KIS

Figure 14. NIM of SOEs, Large and Medium JSCB



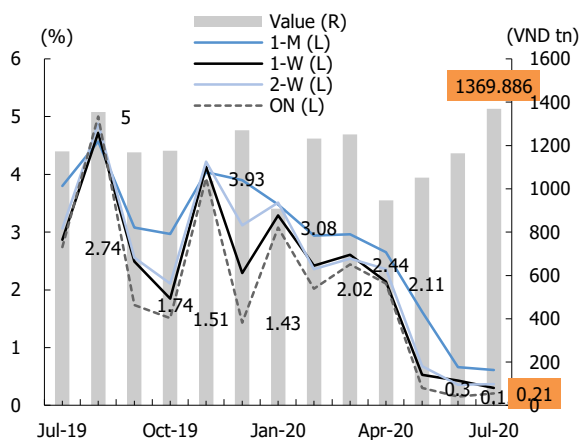
Note: SOE bank (BID, CTG, VCB); Large commercial bank (ACB, MBB, TCB, VPB); Medium commercial bank (VIB, TPB)
Source: Company data, KIS

Figure 15. Government bond issuance

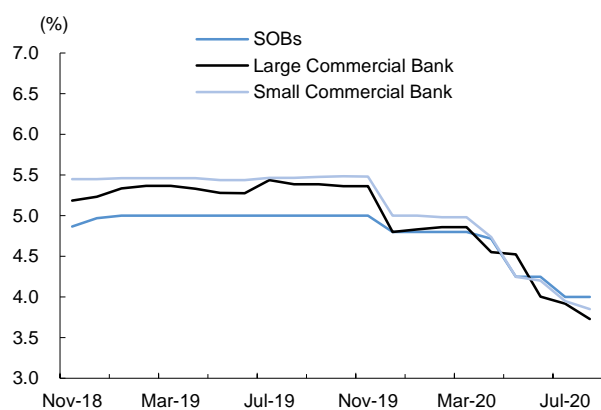


Source: HNX, KIS

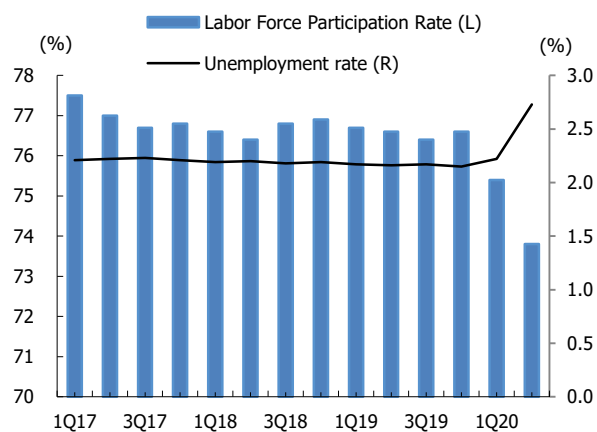
Figure 16. Interbank transaction



Source: Bloomberg, KIS

Figure 17. 3-month deposit rate

Note: SOE bank (BID, CTG, VCB); Large commercial bank (ACB, MBB, TCB, VPB); Medium commercial bank (VIB, TPB)
Source: Company data, KIS

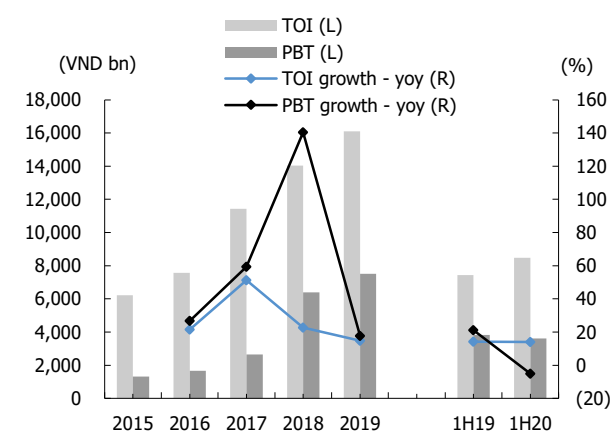
Figure 18. Vietnam quarterly unemployment rate

Source: GSO, KIS

Asia Commercial Bank (ACB, BUY): ACB reported 1H20 controlling-interest NP at VND3.1tn, up 5.5% yoy. The bank's TOI was strong at VND8.5tn, up 14% yoy thanks to solid NII (+13% yoy) and significant gain from securities investment (VND753bn vs. VND25bn in 1H19). It raised provision expenses to VND532bn (~a credit cost of 0.39d%) from VND95bn in 1H19 (~a credit cost of 0.08%). However, most of the provision increase came from interbank loans which is unusual amid ample liquidity in the system at that time. So that, if adding that amount to credit reserves its LLC mounted to ~160%, ranking second after VCB.

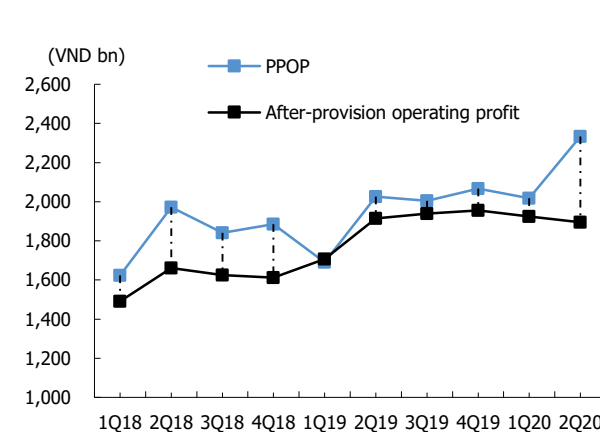
Further spices are added to ACB dish in coming quarter which are: 1) progression related to exclusive bancassurance distribution agreement via ACB's network; 2) possible addition into the VN30 index, VN Fin Select index and VN Diamond index after relisting on HSX; and 3) possibility to realize extra gain on its government bond portfolio since most of them have yet marked to the market. Trailing forward to 2021, we revised target price to up VND25,100.

Figure 1. 1H20 results



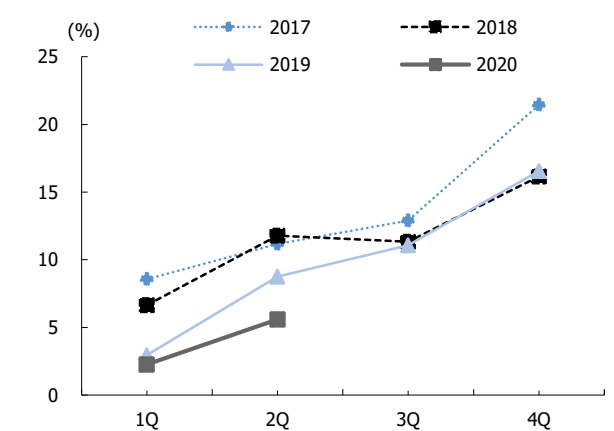
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income



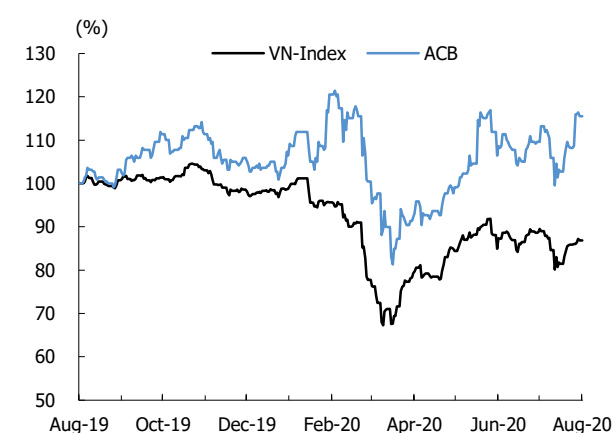
Source: Company data, KIS

Figure 3. Quarterly credit growth



Source: Company data, KIS

Figure 4. 1-Year price performance

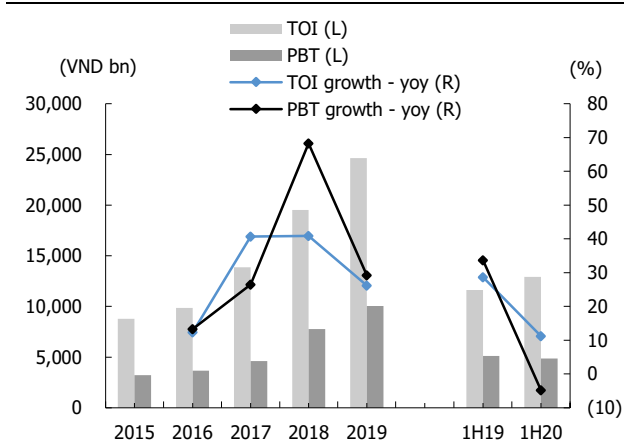


Source: Bloomberg, KIS

Military Bank (MBB, BUY): 1H20 NP was up 5% yoy to VND4.0tn on TOI of VND12.9tn, up 11% yoy. NIM was flat at 4.8% vs. 1H19 while CIR reduced by 2.9%p yoy to 35%. MBB 1H20 credit growth was slowdown to 7.6% ytd vs. 13.9% ytd in 1H19. New credit skewed to CIB (corporate and investment banking) segment rather than SMEs, retail and consumer finance. We believe MBB has determined proper approaches and exposed itself less to high credit risk segments. It also raised credit cost to 2.4% and LLC to 121% in 1H20.

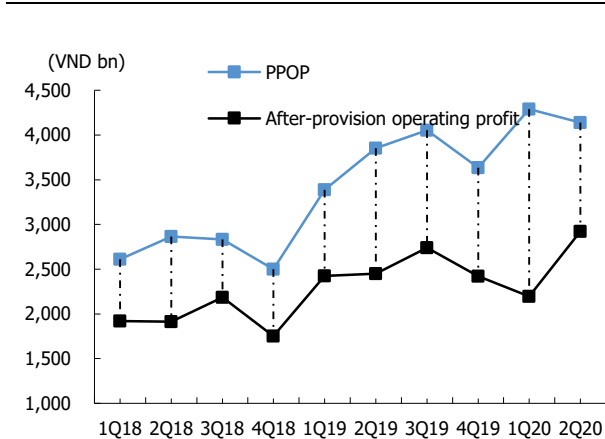
We expect MBB to achieve a credit growth of 12% this year. 2020F NP is expected at VND7.5tn, - 4% yoy. In this update we adjust downward 2020F P/B to 1.11x due to MBB's traditional poor market performance against the peers, then trimmed target price by 13.3% to VND22,200. However, given price plummet by ~20% from beginning of the year, MBB is still fall into BUY range.

Figure 1. 1H20 results



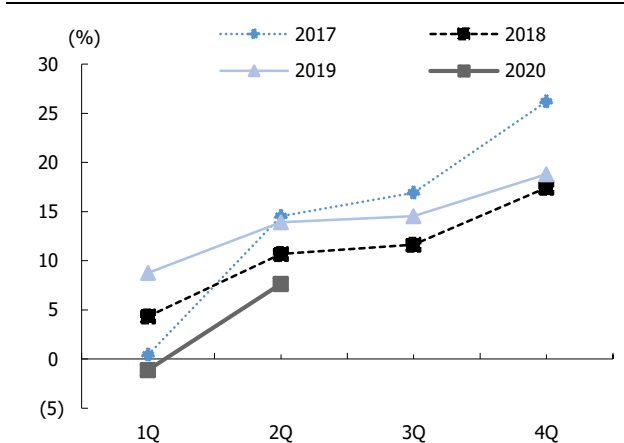
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income



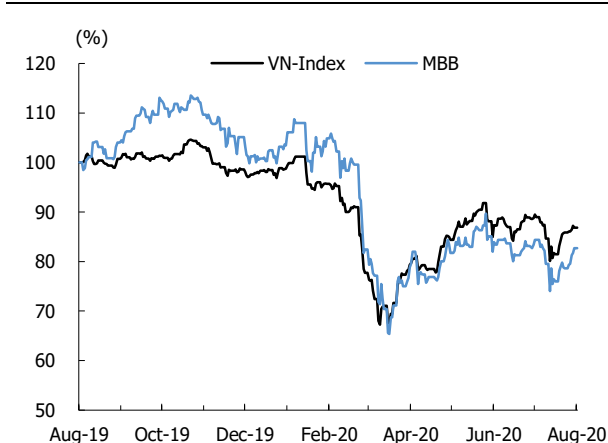
Source: Company data, KIS

Figure 3. Quarterly credit growth



Source: Company data, KIS

Figure 4. 1-Year price performance

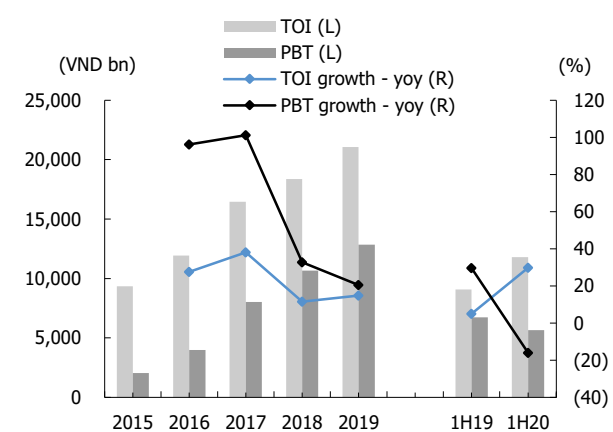


Source: Bloomberg, KIS

Techcombank (TCB, BUY): NP reached VND2.9tn (+19% yoy) in 2Q20 and VND5.3tn (+17% yoy) in 1H20. Notably, TCB's credit was standstill at VND271tn from 1Q20 which may due to 1) Grand park delivery schedule missed VHM's target; 2) TCB's limited exposure BB clients in real estate value chain during peak period of COVID-19 locally; and 3) capital demand of its WB clients were satisfied by its investment banking business.

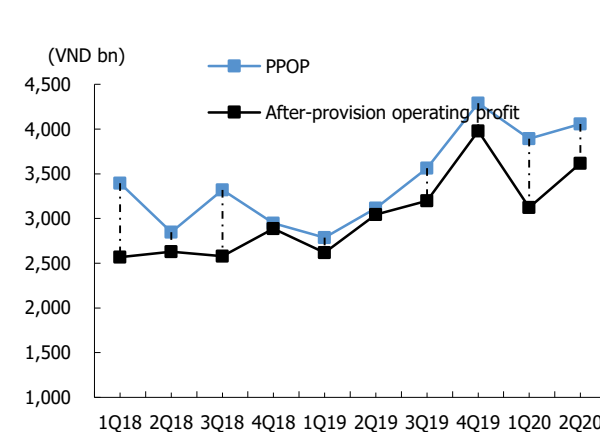
For whole 2020, we expect TCB to gain a credit growth of ~17% thanks to low interest rate base, limited house supply with the dominant of VHM projects and "new normal" in Vietnam. Even though the NP growth may calm down in 2020-2021 due to high credit cost from the pandemic, we maintain BUY on TCB for long-term investment horizon. Apart from lending, its investment banking is outstanding and is able to quickly adapt stricter regulations (Decree 81.2020 and New Securities Law) on corporate bond thanks to a combination of TCBS, TCBC and the parent bank. We expect TCB is one of winner of potential local corporate bond market.

Figure 1. 1H20 results



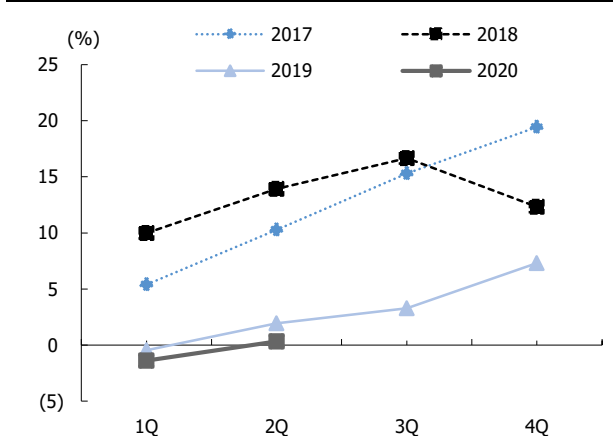
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income



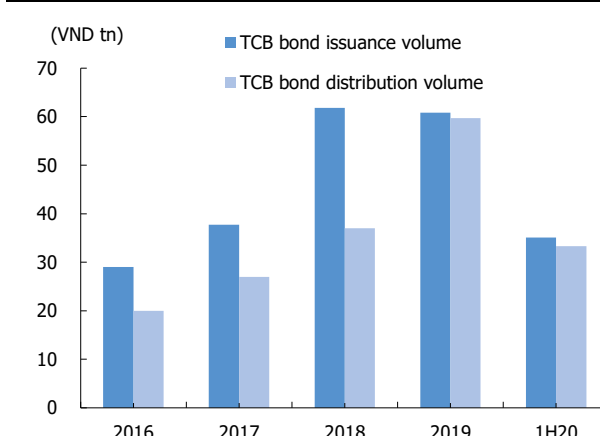
Source: Company data, KIS

Figure 3. Quarterly credit growth



Source: Company data, KIS

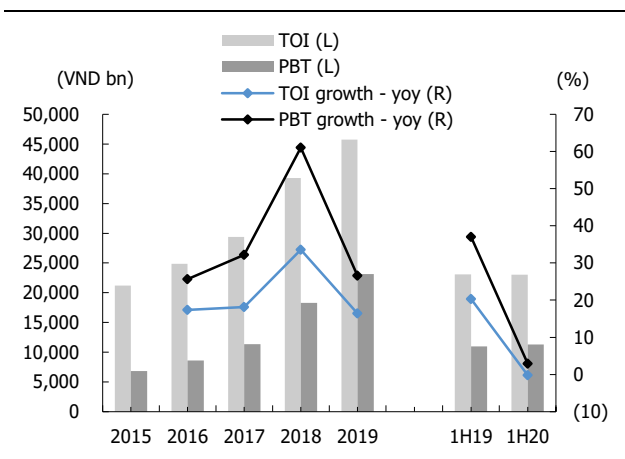
Figure 4. Bond segment of TCB



Source: Bloomberg, KIS

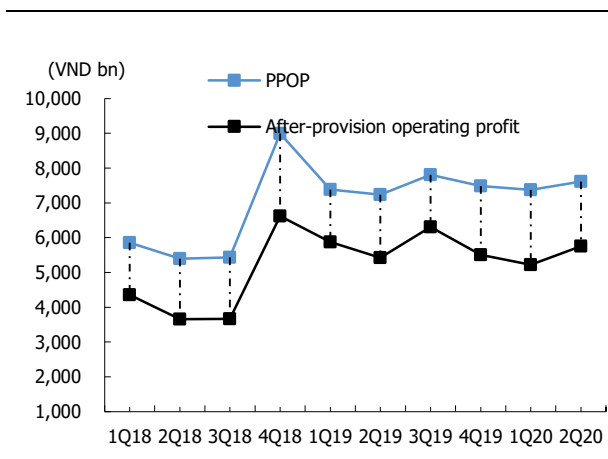
Vietcombank (VCB, HOLD): VCB is the most defensive banks in the industry with an LLC of 254% as of June 2020. Specific allowance made in 1H20 was VND5.6tn, doubling same period last year as the bank carries early provisioning practice. VCB is one of rare banks posted negative TOI growth in 2Q20 (-5% yoy) and 1H20 (-0.2% yoy). It reported NP at VND4.1tn (+3.8% yoy) in 2Q20 and VND8.8tn (-3.1%) in 1H20. However, VCB's earnings in coming period are secured by thick credit provision buffer and extraordinary income from exclusive banca distribution agreement signed late last year. We reiterate HOLD on VCB at 2020F P/B of 3.2x.

Figure 1. 1H20 results



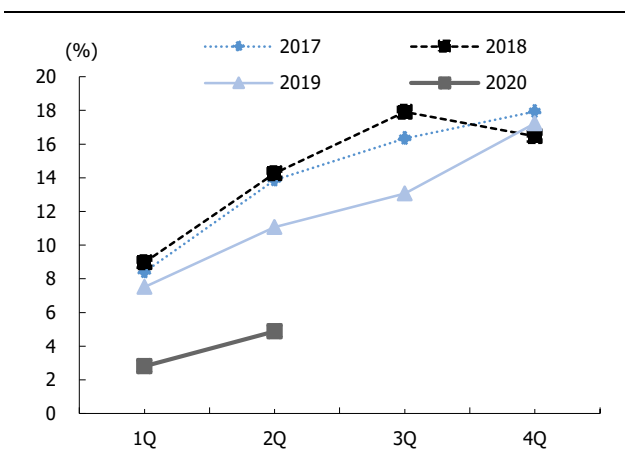
Source: Company data, KIS

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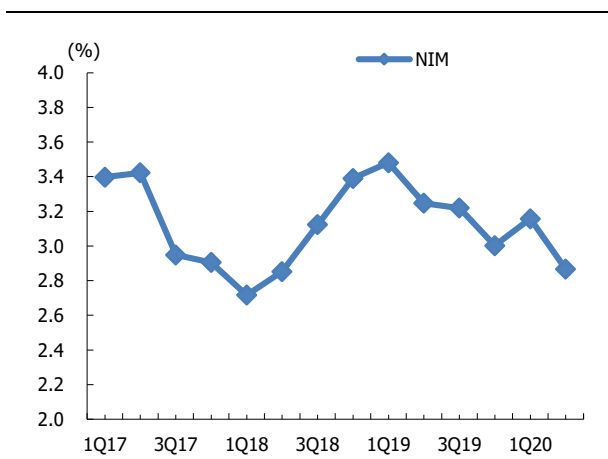
Source: Company data, KIS

Figure 3. Quarterly credit growth



Source: Company data, KIS

Figure 4. NIM of VCB

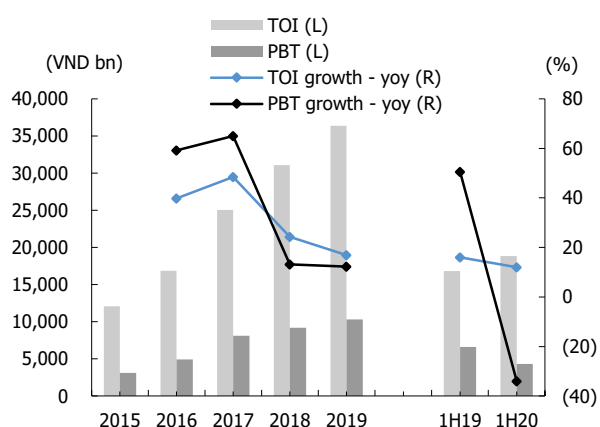


Source: Bloomberg, KIS

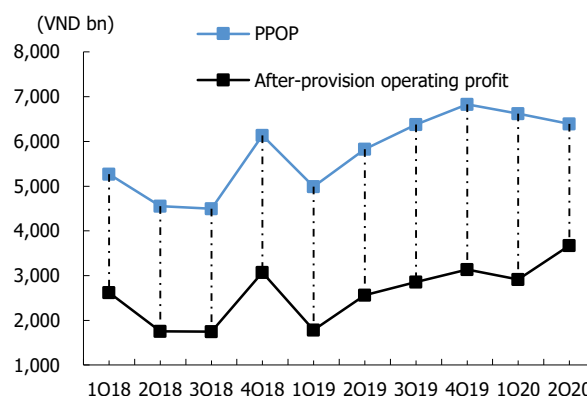
VPBank (VPB, HOLD):

VPB seems still pursuing high growth story despite of the pandemic which is quite risky at this time. The parent bank grasped robust credit growth of 12.7% ytd in order to offset a pause at FE Credit. Consolidated NP reached VND3.0tn (+44% yoy) in 2Q20 and VND5.3tn (+52% yoy) in 1H20. The steeply NP growth was results of the facts that 1) TOI keeping two-digit growth of 12% yoy to VND18.8tn; 2) great OPEX saving effort at CIR of 31% (-4.8% yoy), the lowest ratio among KIS universal; and 3) maintaining low NPL ratio with vast restructuring, then saving credit cost by 0.8% yoy to 4.5%.

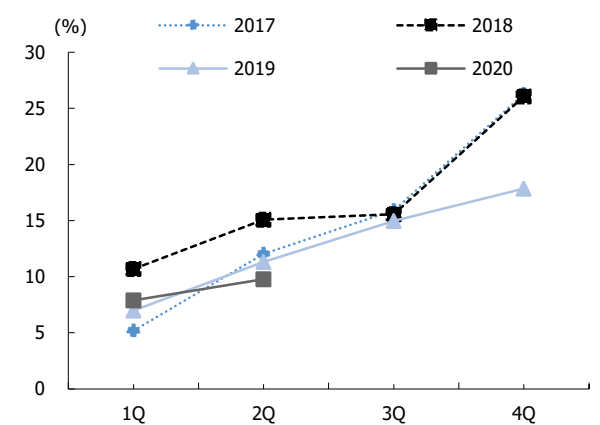
Nevertheless, we concerned that uncertainty of COVID-19, prolong border lockdown and stagnant unemployment rate (2.73% as of June 2020) may put great pressure on VPB to maintain such positive outcomes. The delay of FE's IPO, one key catalyst on VPB market price a year ago may be another strain. As such, we downgrade to it HOLD. We believe it is better having positive sign on labor market or more attractive market price as consequence of the inclusion of COVID-19 credit cost into VPB's earnings before entering a BUY on VPB.

Figure 1. 1H20 results

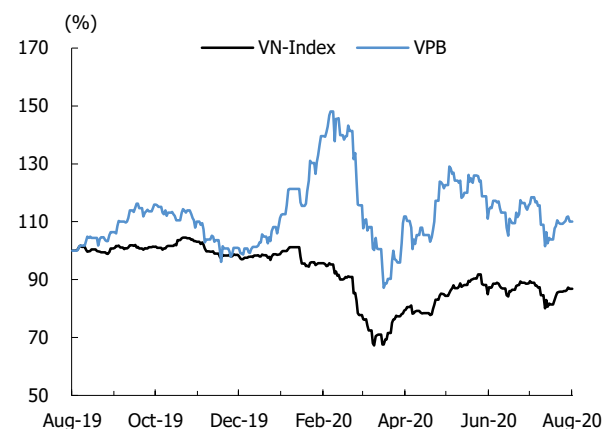
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income

Source: Company data, KIS

Figure 3. Quarterly credit growth

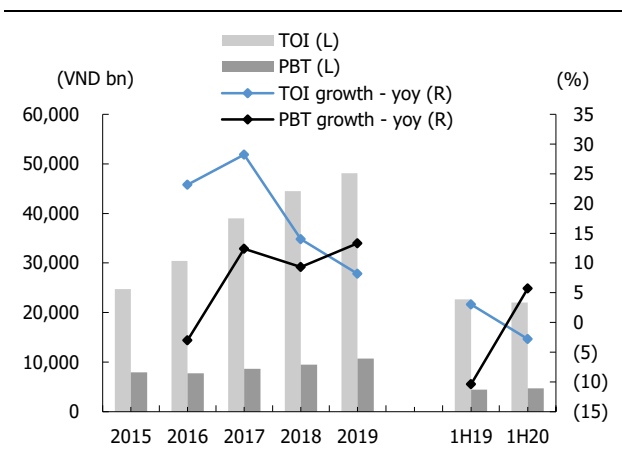
Source: Company data, KIS

Figure 4. 1-Year price performance

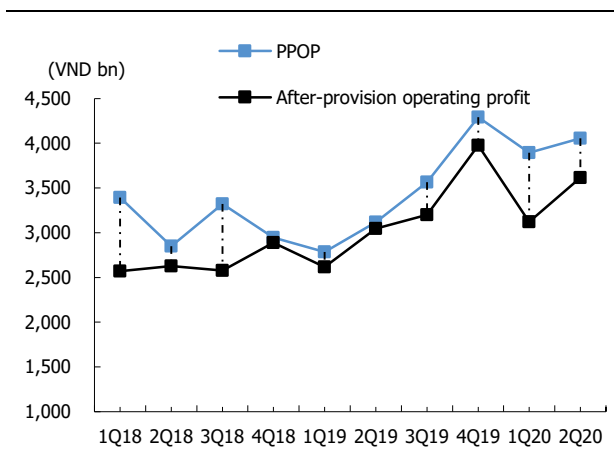
Source: Bloomberg, KIS

BIDV (BID; N/A):

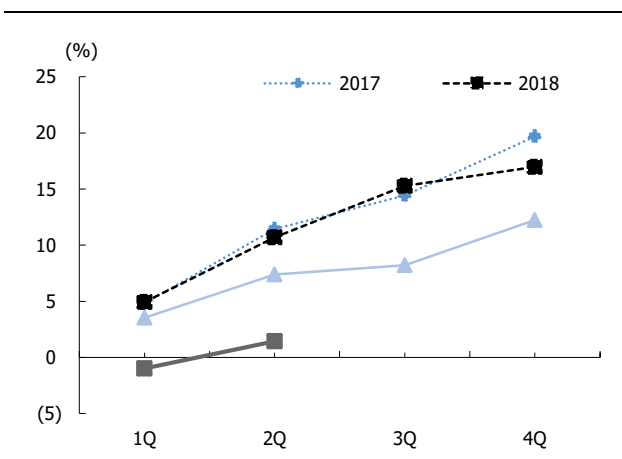
BID reported 1H20 NP at VND3.5tn, down 5.6% yoy on TOI of VND22tn, down 2.8% yoy. Notably, there were contracted movements between the bank's TOI and NP in 1Q20 and 2Q20. While 1Q20 NP dropped by 28.4% yoy on a TOI of VND11.3tn, up 5.9% yoy, the bank reported 2Q20 NP to up 20.6% yoy to VND2.1tn on TOI of VND10.7tn, down 10.6% yoy. This was explained by a plummet in provision expenses to VND4.1t in 2Q20 from VND6.0tn in 1Q20 given VAMC bonds clearance. Lending was stagnant at ytd growth of ~2% in 1H20 with restructured COVID-19 loan book of VND40tn, ~3.5% of total loans.

Figure 1. 1H20 results

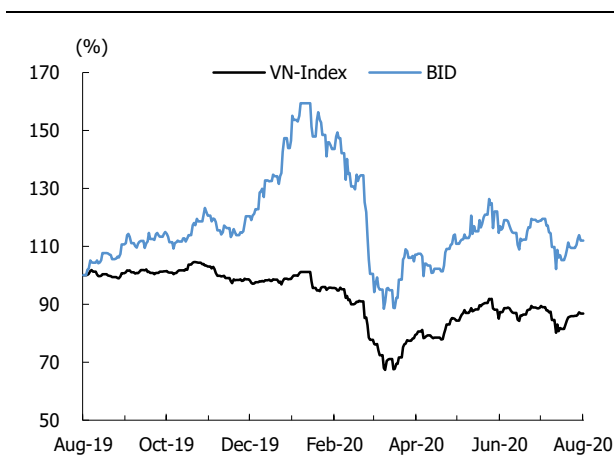
Source: Company data, KIS

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Source: Company data, KIS

Figure 3. Quarterly credit growth

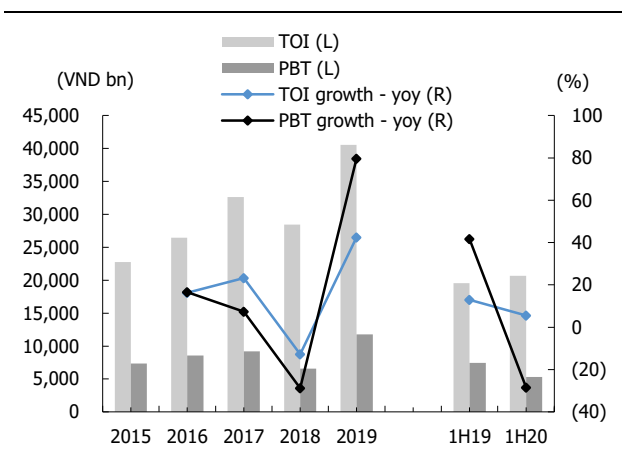
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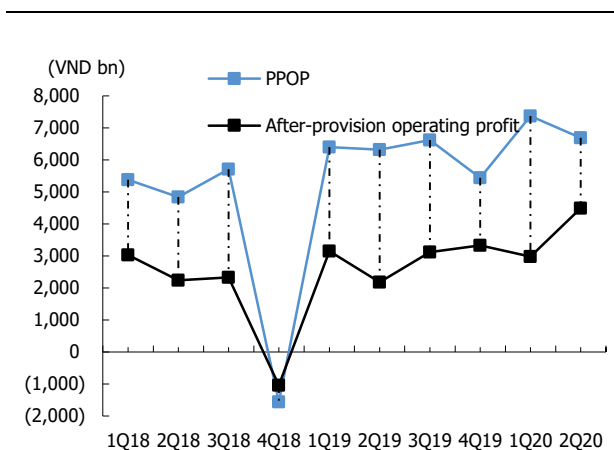
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Vietinbank (CTG; N/A):

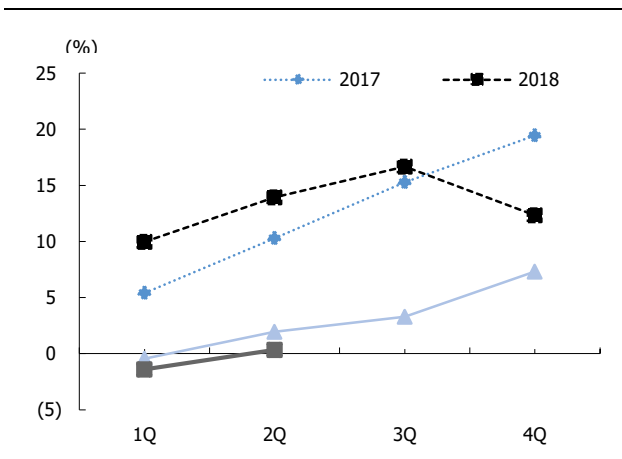
CTG posted 1H20 NP to grow 39.4% yoy to VND6.0tn given a 47% yoy drop of provision expenses in 2Q20. The bank's credit growth was weak at 0.34% ytd in 1H20. NPL ratio increased from 1.2% in 4Q19 to 1.7%. Delinquency loans jumped from 1.8% in 4Q19 to 2.3%. LLC dropped to 77%. Net VAMC bond declined to VND3.3tn as of June 2020. CTG is still waiting for amendment regulations related to managing SOE-capital for paying stock dividend and capital raise.

Figure 1. 1H20 results

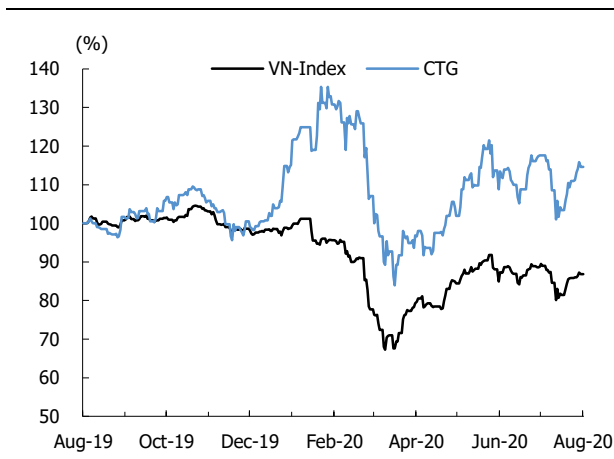
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income

Source: Company data, KIS

Figure 3. Quarterly credit growth

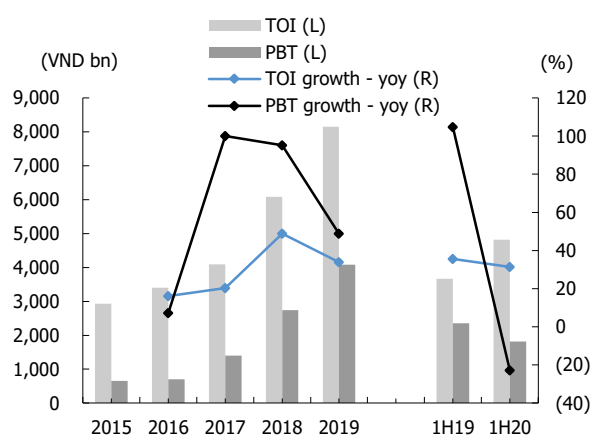
Source: Company data, KIS

Figure 4. 1-Year price performance

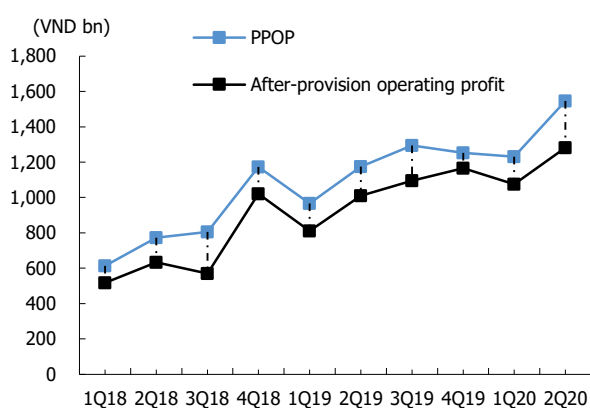
Source: Bloomberg, KIS

VIB (VIB; N/A)

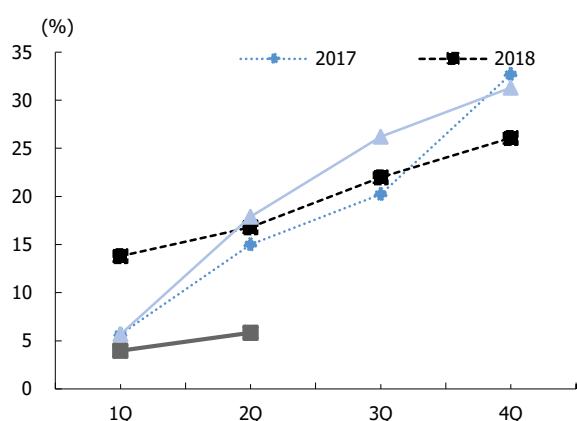
VIB released strong 1H20 results with ~30-32% yoy increase in TOI and NP. NIM was solid at 4.04% in 1H20 while non-interest income grew rapidly at 49.4% yoy thanks to bancassurance and transaction fees. VIB achieved a credit growth of 5.8% ytd in 1H20, a far distance from BOD's guidance of 20.5% for whole 2020. VIB revealed COVID-19 impacted debtors to account for 1.93% or VND2.6tn of its loan book and it restructured just VND500bn or ~0.4% of loans book by June 2020. Its NPL moved up by VND700bn and delinquency loans increased by VND2.4tn vs. 4Q19. However, VIB did not change its provision practice and kept credit cost and LLC at 0.6% and 50%. We noted that auto loan and mortgage are likely deteriorated from the pandemic.

Figure 1. 1H20 results

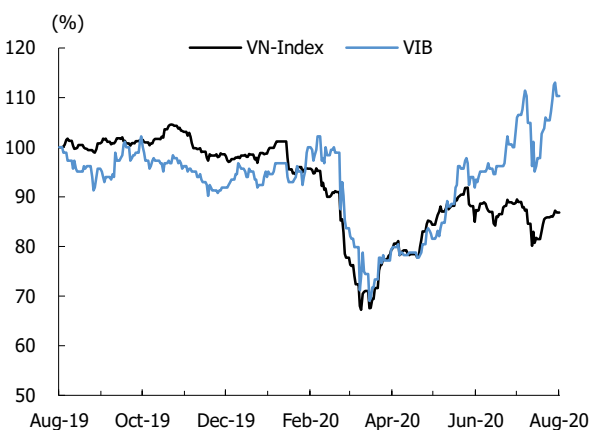
Source: Company data, KIS

Figure 2. Provision expenses affect Oper. Income

Source: Company data, KIS

Figure 3. Quarterly credit growth

Source: Company data, KIS

Figure 4. 1-Year price performance

Source: Bloomberg, KIS

Table 6. Coverage valuation

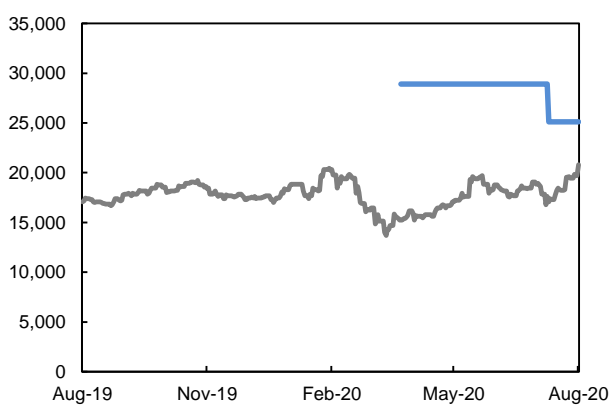
Recommendation & TP			Earnings & Valuation										
Company				TOI	PPE	NP	EPS	BPS	PE	PB	ROA	ROE	DY
				(VND bn)	(VND bn)	(VNDbn)	(VND, adj.)	(VND, adj.)	(X)	(X)	(%)	(%)	(%)
ACB VN	Recommendation	BUY	2018A	14,033	7,321	5,137	2,390	9,972	8.7	2.1	1.67	27.7	0.0
(ACB)	TP (VND)	28,900	2019A	16,079	7,790	6,010	2,744	16,761	7.6	1.2	1.69	24.6	0.0
	Price (19 Aug, VND)	25,600	2020F	17,839	9,755	6,399	2,914	18,113	7.1	1.1	1.57	20.7	0.0
	Mkt cap (VND bn)	42,566	2021F	20,679	11,308	6,896	3,141	21,254	6.6	1.0	1.51	18.6	0.0
			2022F	24,491	13,393	8,285	3,780	24,534	5.5	0.8	1.62	16.7	2.4
MBB VN	Recommendation	BUY	2018A	19,537	10,803	6,190	2,461	13,990	6.5	1.1	1.83	19.4	3.5
(MBB)	TP (VND)	22,200	2019A	24,650	14,927	8,069	3,165	16,326	5.1	1.0	2.09	21.8	3.8
	Price (19 Aug, VND)	17,050	2020F	25,763	16,334	7,749	2,515	19,747	5.6	0.8	1.78	17.2	0.0
	Mkt cap (VND bn)	41,115	2021F	28,347	17,972	8,379	2,740	22,898	5.2	0.7	1.73	15.5	0.0
			2022F	31,767	20,141	10,831	3,575	27,009	4.0	0.6	2.01	17.1	4.2
TCB VN	Recommendation	BUY	2018A	18,351	12,508	8,475	2,409	14,770	8.4	1.4	2.87	21.6	0.0
(TCB)	TP (VND)	23,800	2019A	21,068	13,756	10,226	2,872	17,568	7.1	1.1	2.90	18.0	0.0
	Price (19 Aug, VND)	20,200	2020F	23,922	16,112	10,577	2,944	20,513	6.5	0.9	2.59	15.8	0.0
	Mkt cap (VND bn)	70,703	2021F	26,849	17,915	11,024	3,069	23,581	6.3	0.8	2.37	14.2	0.0
			2022F	30,273	20,200	12,930	3,602	27,183	5.3	0.7	2.44	14.5	0.0
VCB VN	Recommendation	HOLD	2018A	39,278	25,667	14,622	3,334	17,244	20.8	4.0	1.39	25.5	0.0
(VCB)	TP (VND)	N.A	2019A	45,730	29,913	18,526	4,287	21,763	16.1	3.2	1.61	25.9	0.7
	Price (19 Aug, VND)	83,000	2020F	48,728	31,922	19,586	4,385	26,156	17.4	2.9	1.55	22.0	1.3
	Mkt cap (VND bn)	307,837	2021F	58,513	38,333	22,243	5,050	30,216	15.1	2.5	1.64	21.3	1.3
			2022F	67,504	44,223	26,424	6,049	35,276	12.6	2.2	1.77	21.7	1.3
VPB VN	Recommendation	HOLD	2018A	31,086	20,452	7,356	2,994	14,145	6.7	1.4	2.45	22.8	0.0
(VPB)	TP (VND)	N.A	2019A	36,356	24,022	8,268	3,392	17,315	6.0	1.2	2.36	21.5	0.0
	Price (19 Aug, VND)	21,400	2020F	37,939	25,574	7,582	3,110	20,426	6.9	1.0	1.85	16.5	0.0
	Mkt cap (VND bn)	52,168	2021F	41,377	27,748	7,575	3,107	23,533	6.9	0.9	1.62	14.1	0.0
			2022F	46,153	30,689	8,963	3,677	27,210	5.8	0.8	1.73	14.5	0.0

Source: Respective company data, KIS

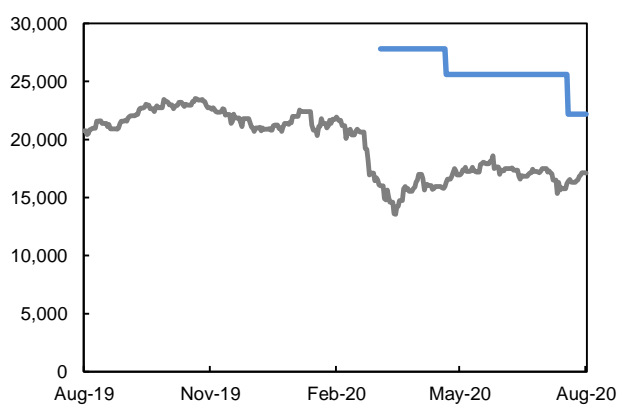
Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)	Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Asia Commercial Bank	29 Jul 20	BUY	VND25,100			Military Commercial Joint Stock Bank	06 Aug 20	BUY	VND22,200		
	28 Apr 20	BUY	VND28,900				07 May 20	BUY	VND25,600		
	20 Mar 20	BUY	VND28,900				20 Mar 20	BUY	VND27,800		
Viet Nam Technological and Commercial JSB	06 Aug 20	BUY	VND24,400			Bank for Foreign Trade of Vietnam	23 Apr 20	HOLD			
	12 May 20	BUY	VND23,800								
	20 Mar 20	BUY	VND23,800								
Vietnam Prosperity Joint Stock Commercial Bank		HOLD									
	23 Apr 20	BUY	VND26,400								
	08 Apr 20	BUY	VND26,900								

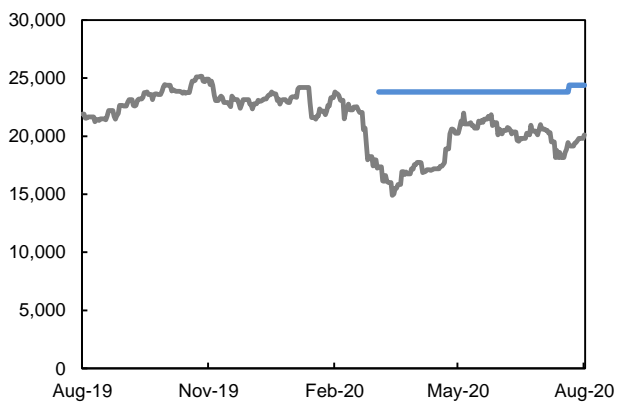
Asia Commercial Bank (ACB)



Military Commercial Joint Stock Bank (MBB)



Viet Nam Technological and Commercial JSB (TCB)



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- Hold: Expected total return will be between -5% and 15%
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