true friend KIS Viet Nam Securities Corporation

Sector
Note

Financials
19 May 2023

Banking

Fear of profitability erosion

Non-rated

The 1Q23 flat net profit growth was discouraging

The total profit of the listed 27 banks was almost unchanged at -4.4%yoy in 1Q23 vs 17.9%yoy in 4Q22 and 31%yoy in 1Q22. However, the results were divergent among banks. Outperformers in large and medium banks include BID (+52.8%yoy), VCB (+12.9%yoy), MBB (+10.1%yoy), STB (+49.1%yoy), ACB (+25.8%yoy), VIB (+18.2%yoy), and OCB (+17.7%yoy) in 1Q23. Meanwhile, other banks contracted their profit growth such as TCB (-19.2%yoy), and VPB (-81.5%yoy) in the backdrop of the corporate bond market stagnation, the property market downturn, and economic contraction.

1Q23 credit growth took a breath

The estimated 1Q23 credit growth of the economy was 2.06%YTD (as of 28 March 2023), lower than the 1st quarters in 2018-2019 and 2021-2023. Most of the banks saw 1Q23 credit growth slowness and corporate bond balance slump. The main reasons for lower credit growth lie in the consumer demand decrease, the real estate market collapse, and the bond market stagnation.

1Q23 NIM shrank amid the deposit rate hike

1Q23 NIM of most banks plunged amid the costlier interest rate, except for SHB, VIB, NAB, and KLB. Amid the deposit rate uptrend, the cost of fund (COF) often rises faster than Asset yield. Per our estimation, the NIM of BID, CTG, MBB, VBB, and PGB slid less than the remainder. All banks suffered the CASA reduction due to a shift from non-term to term deposits as a result of the term deposit rate increase in late 4Q22-1Q23.

1Q23 bad debt ignited amid the economic downturn

The NPL (3-5) ratio of 27 listed banks (accounting for 74% of total credit to the economy) ticked up from 4Q22's 1.6% to 1Q23's 1.9% but looked manageable (below the target of 3%). However, the special mentioned loan (group 2) surged 43%qoq in 1Q23; the ratio of total loan group 2-5 to cross loan rose sharply from 3.4% in 4Q22 to 4.4% in 1Q23, higher than the COVID-19 pandemic peak. MBB, VPB, VIB, TPB, MSB, OCB, ABB, and VBB grew the most in 1Q23's NPL.

NIM could improve to offset the low credit demand in 2Q23

There are no clear signals for strong credit demand recovery amid the economic downtrend. However, 2Q23 NIM will slightly improve qoq thanks to a decrease in funding cost in 2Q23. Besides, the policy of rescheduling principal/interest payments and maintenance of debt groups (circular 02) will help banks to reduce burdens from increasing bad debts. Risk factors: An unforeseen prolonged recession period leads to slower operating performance and uncontrolled increasing bad debt. A large number of corporate bonds maturing in the last months of the year remain challenging.

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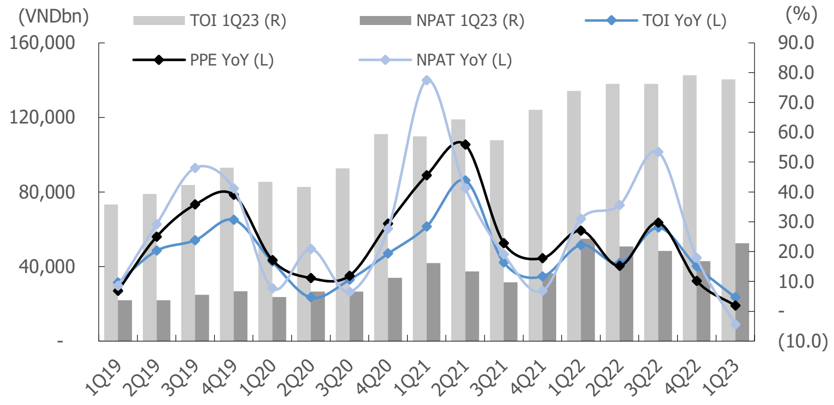
Figure 1: Aggregated TOI and NPAT stayed flat in 1Q23

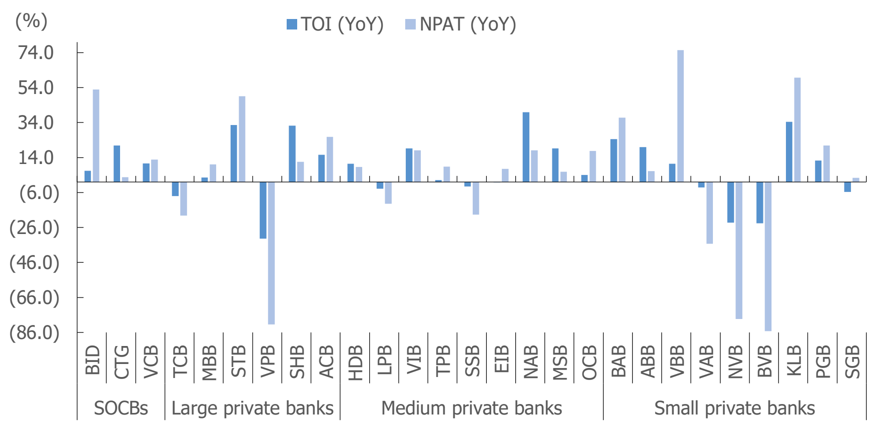
The NPAT growth was unchanged in 1Q23 as a result of sluggish credit growth, squeezed NIM decline, and lower Non-interest incomes.



Source: Fiinpro, KISVN

Figure 2: TOI and PAT: Banks' profit diverged in 1Q23

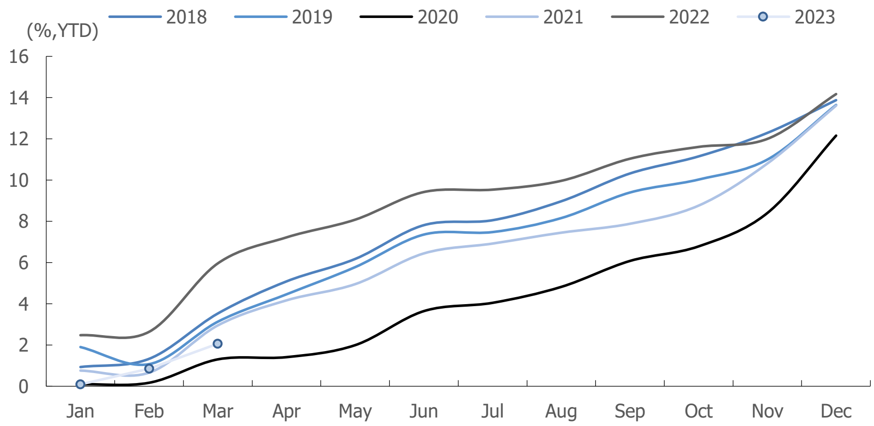
Bank diverged: SOCBs and large JSBs outperformed, except for TCB, VPB.



Source: Fiinpro, KISVN

Figure 3: Credit growth to the economy: 1Q23 witnessed the abnormality

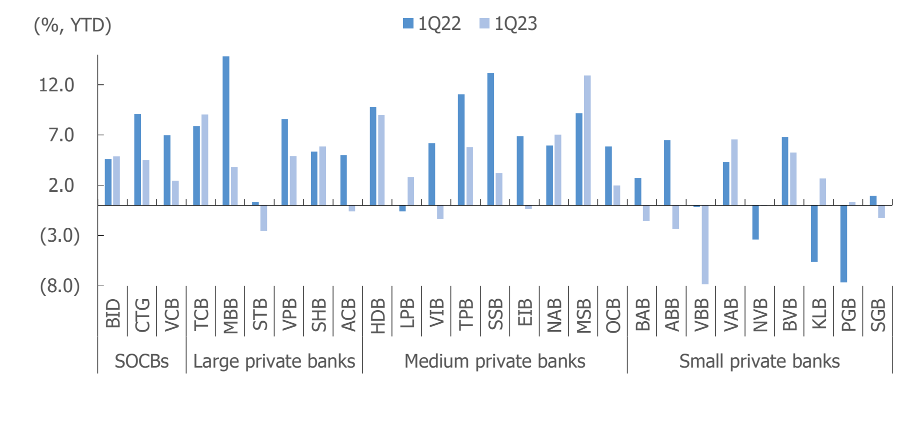
The estimated 1Q23 credit growth of the economy was 2.06%YTD (as of 28 March 2023), lower than quarter 1 of 2018-2019 and 2021-



Source: SBV, KISVN

Banks saw 1Q23 slower credit growth except for BID, TCB, SHB, NAB, MSB, VAB, and KLB. Credit growths of three SOCBs,

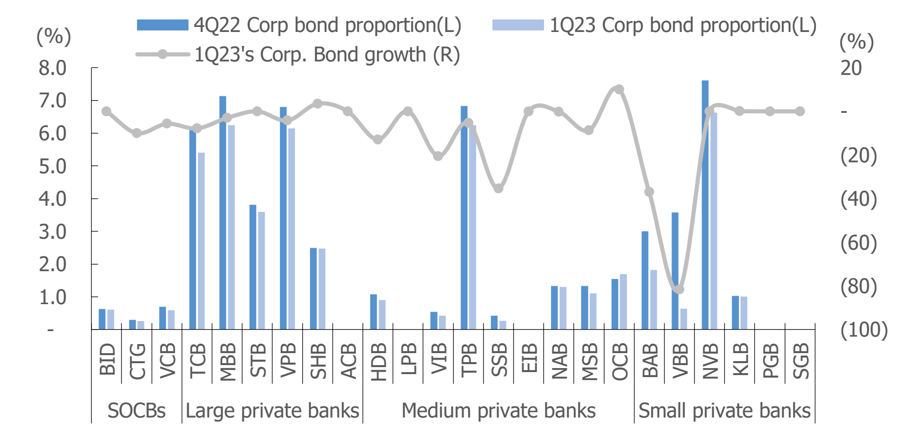
Figure 4: Credit growth: SOCBs could weather the storms smooth



Source: Fiinpro, KISVN

Most of banks reduced their corporate bond book in line with the bond market stagnation

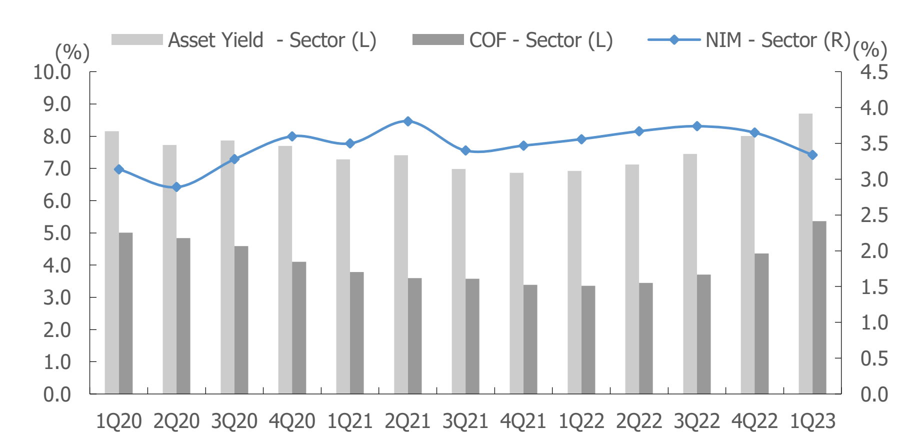
Figure 5: Corporate bond: Banks reduced outstanding balance



Source: Fiinpro, KISVN

1Q23 NIM retreated amid the deposit uptrend and COF usually increased faster than Asset yield.

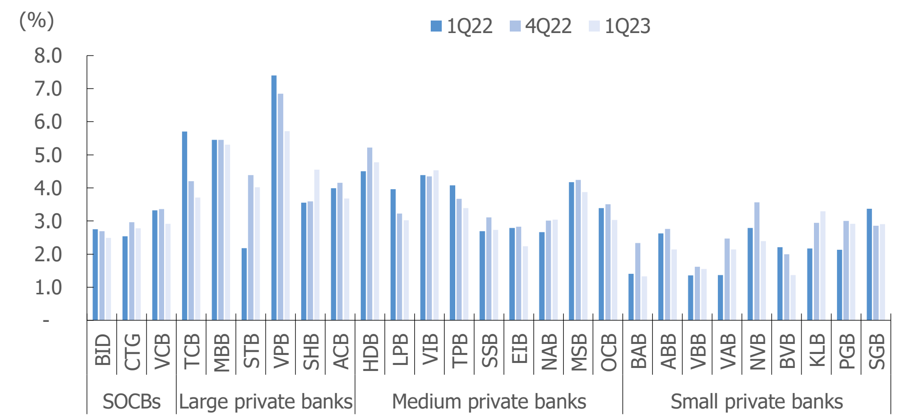
Figure 6: 1Q23 NIM was weak ue to the increasing Cost of fund



Source: Fiinpro, KISVN

VPB's NIM was hit the most due impacts of lower-class customers' inability to pay the debt. TCB's NIM plunged in light of the CASA drop. SHB, VIB, NAB, and KLB fared well with higher NIM growth than peers.

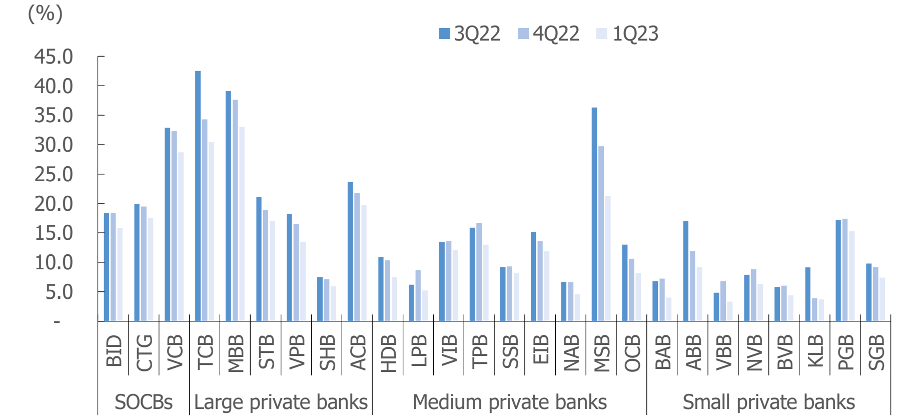
Figure 7: NIM by bank: All banks narrowed the margin



Source: Fiinpro, KISVN

CASA decline led to costlier COF due to a shift to term deposits after hiking interest rates.

Figure 8: CASA by bank: All banks squeezed the CASA ratio

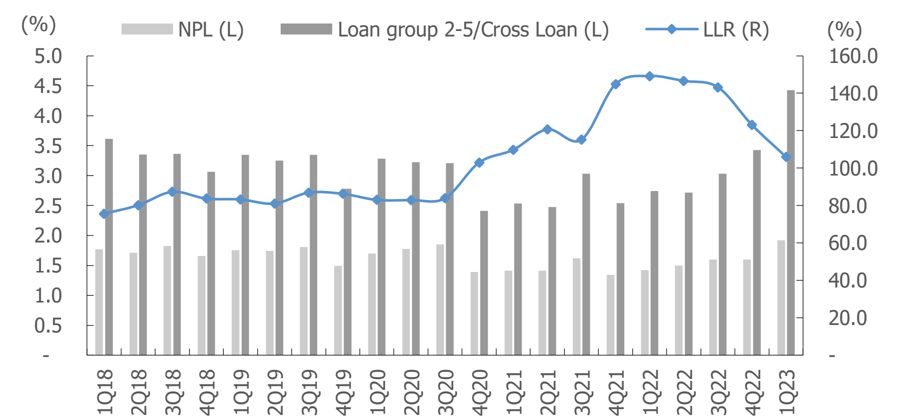


Source: Fiinpro, KISVN

NPL of 27 listed banks (74% of total economy credit) increased from 1.6% in 4Q22 to 1.9% in 1Q23.

The ratio of total loan group 2-5 to cross loan rose sharply from 3.4% in 1Q22 to 4.4% in 1Q23, higher than rates during the Covid-19 pandemic peak (2020-2021)

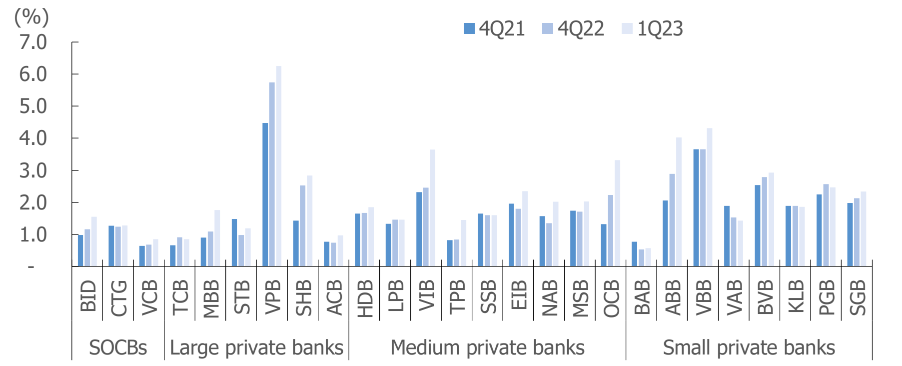
Figure 9: Sector's NPL went up rapidly during the recession period



Source: Fiinpro, KISVN

Among medium and large banks, VIB, OCB, and ABB have the highest NPLs.

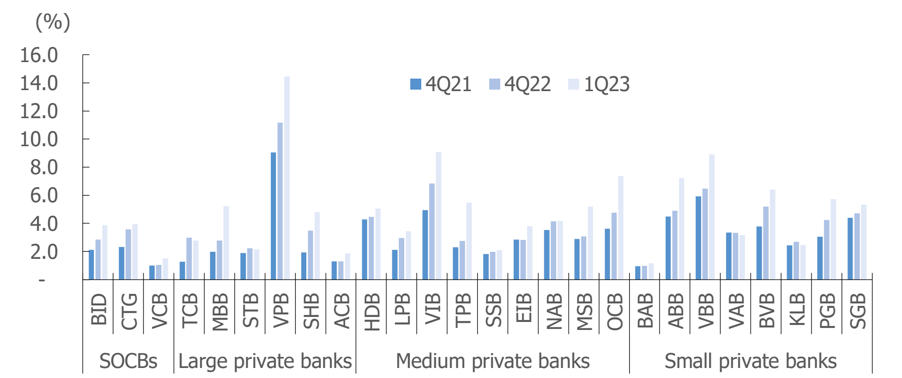
Figure 10: NPL slightly edged



Source: Fiinpro, KISVN, Note: current loan: group 1, Special mentioned loan: group 2, Substandard loan: group 3, doubtful loan:; group 4, estimated loss loan: group 5.

The ratio of total loan group 2-5 to cross loan moved up, except for TCB, STB, VAB, and KLB.

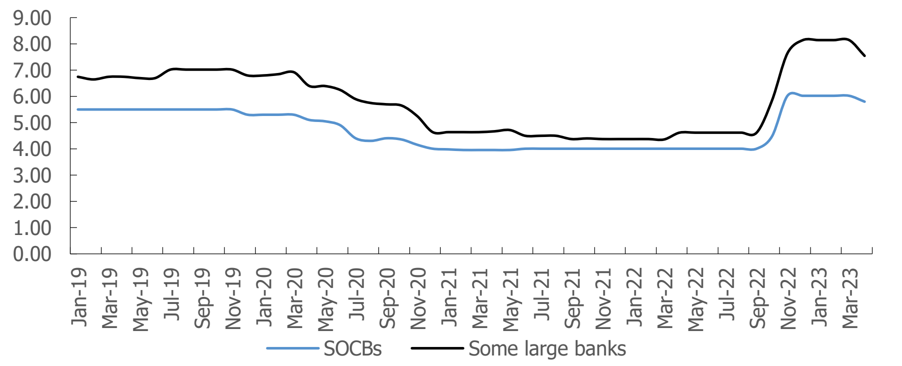
Figure 11: Loan group 2-5/Cross loan climbed in 1Q23



Source: Fiinpro, KISVN. Note: current loan: group 1, Special mentioned loan: group 2, Substandard loan: group 3, doubtful loan:; group 4, estimated loss loan: group 5.

The 2Q23 NIM is forecasted to be higher than 1Q23 but still lower than 2Q22.

Figure 12: Deposit rate (6 months) is cooling down



Source: Banks, KISVN

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