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BANKING INDUSTRY

Challenging time



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CONTENTS

I. Overview of listed banks

II. Update business results 9M2022

III. Outlook for 2023

IV. Outstanding company



I. Overview of listed banks

Banking model of banks in Vietnam

Marketing

- Attracting and retaining customers
- Defining segmentation
- Digital banking
- Data analysis

Sales

- Banking products
- Engagement and retention

Products & Services

- Corporates, retails, other institutions, etc.
- Mortgage/ car loans, credit cards, etc.
- *Interest earning assets*
- Saving/ Current accounts
- Valuable papers, CDs, etc.
- *Interest bearing liabilities*
- Service charges and fees
- Bancasurrance
- Gold and foreign exchange, etc.
- *Non-interest income*
- Investment banking

Transactions

- Payments
- Trading
- Online/ Offline

Risk management
Capital Adequacy Ratio (CAR); Credit risk: NPL, LLR; Liquidity: LDR, Mid-term long-term lending by short-term deposit; Interest rate risks, Operation risks

Technology development
Digital banking, online/mobile banking, data analytics, etc.

Human resources
Internal and external

Bank infrastructure
From physical to technology, data center, multi level security framework, etc.

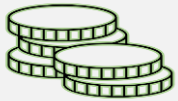
I. Overview of listed banks

Interest incomes and interest expenses



Deposits from customers are the main source of funds
~ VND 7,793 trillion

Mobilize loans or deposits from SBV/ Government



Mobilize loans or deposits from other credit institutions



Banks also issue valuable papers to raise funds





Lending to customers is main activity
~ VND 8,257 trillion



Another component in credit portfolio is corporate bond
~ VND 304 trillion



Loans to other credit institutions

Total net interest income accumulated 9M2022
~ VND 315 trillion
(~77% of TOI)

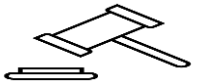


Income from commission fees (services, bancassurance,...)

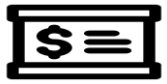
Income from trading gold and foreign currency



Income from trading securities



Income from investment securities



Other net incomes

Net non interest income 9M2022
~ 95 trillion (~23% of TOI)

I. Overview of listed banks

27 listed banks: 17 banks on HOSE,
2 banks on HNX and 8 banks on UPCOPM

Vietcombank, BIDV, VietinBank, TECHCOMBANK, VPBank, ACB, MB, SeABank, HDBank, VIB, EXIMBANK, TPBank, Sacombank, SHB, MSB, OCB, LienVietPostBank, BAC A BANK, NCB, ABBANK, NAM A BANK, KienlongBank, PG BANK, Viet Capital Bank, SAIGON BANK, Ngân hàng Bản Việt, VIET A BANK, VIETBANK

Source: Fiinpro, Shinhan Securities Vietnam

Market cap. of the industry
~ 27% total market cap.

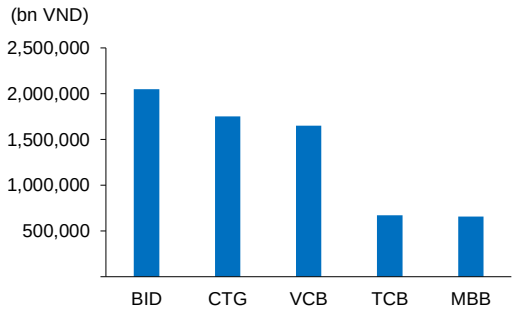
Trading value
~ 32% trading value of the market

Trading volume
~ 29% trading volume of the market

Total assets 9M2022
~ VND 12 quadrillion

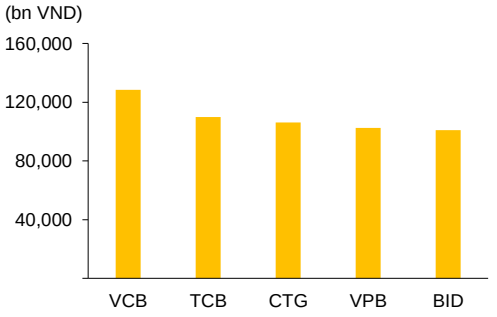
Total equity 9M2022
~ VND 1 quadrillion

Top 5 banks have largest assets



Source: Company data, Fiinpro, Shinhan Securities Vietnam

Top 5 banks have largest equity



Source: Company data, Fiinpro, Shinhan Securities Vietnam

As of 15/11/2022

CONTENTS

I. Overview of listed banks

II. Update business results 9M2022

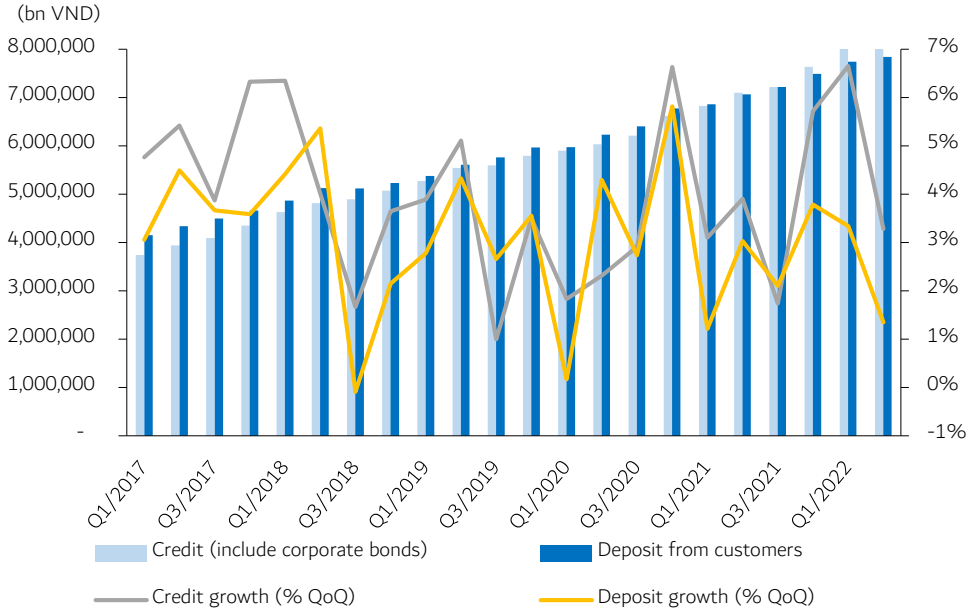
III. Outlook for 2023

IV. Outstanding company



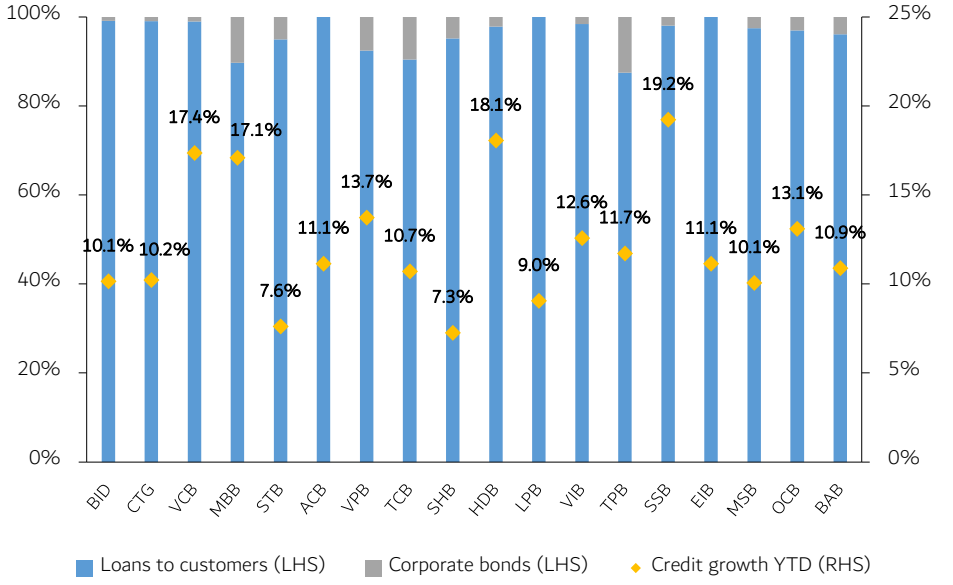
Credit growth in 9M2022 was much higher over the same period in the last few years. Many banks reached their credit limit with an increase in both customer loans and corporate bonds.

Credit and Deposit growth of the industry



Source: Company data, Fiinpro, Shinhan Securities Vietnam

Credit components of banks in the industry

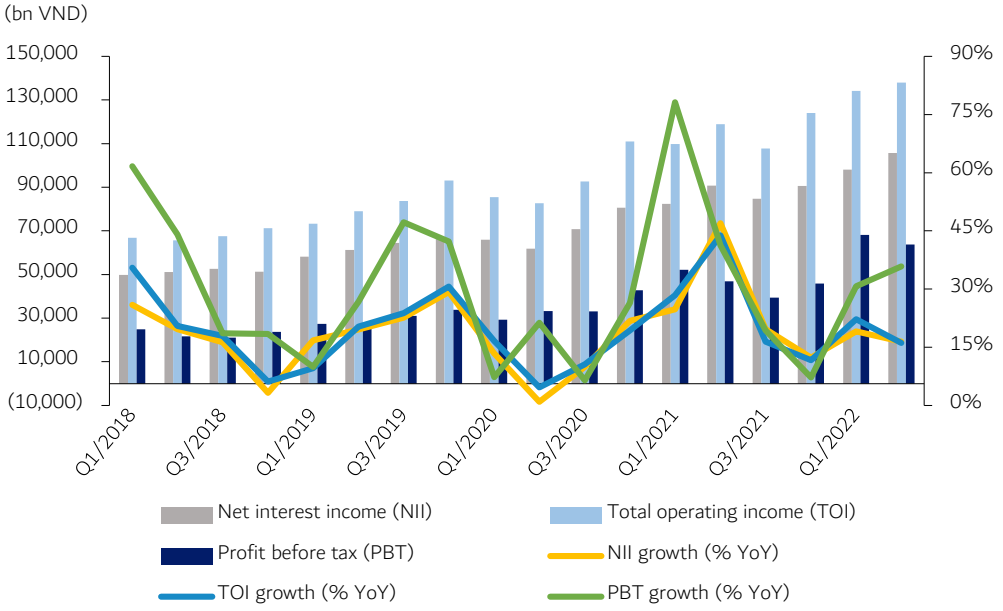


Source: Company data, Fiinpro, Shinhan Securities Vietnam

- As of September 2022, the credit growth of banking industry was 11.7% compared to the end of 2021, while the credit growth for 2022 is maintained as the plan of SBV at 14%. On September 20th, SBV expanded credit room for many banks. The significant credit growth showed a strong increase in credit demand due to the needs of economic recovery activities, and also reflected the liquidity stress.
- In 9M2022, deposits increased by 4.06% compared to the end of 2021, slower than credit growth, even though banks are constantly racing to increase deposit interest rates in the first 9M2022 to attract customer deposits.

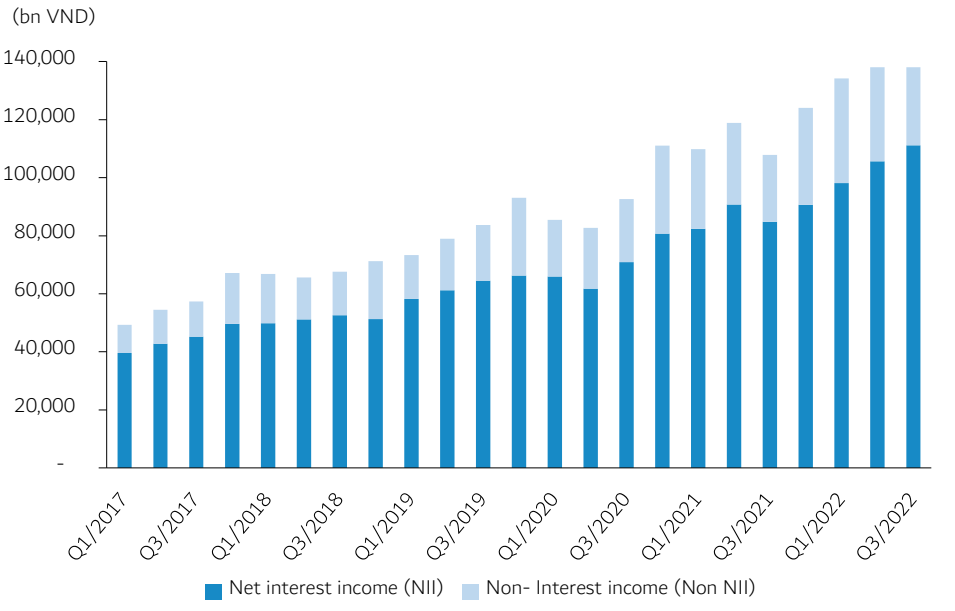
Net interest income increased considerably in 9M2022 thanks to the growth of credit, and the rise of net non-interest income compared to the same period.

Incomce performance of the industry



Source: Company data, Fiinpro, Shinhan Securities Vietnam

Net interest income and Net non-interest income of industry

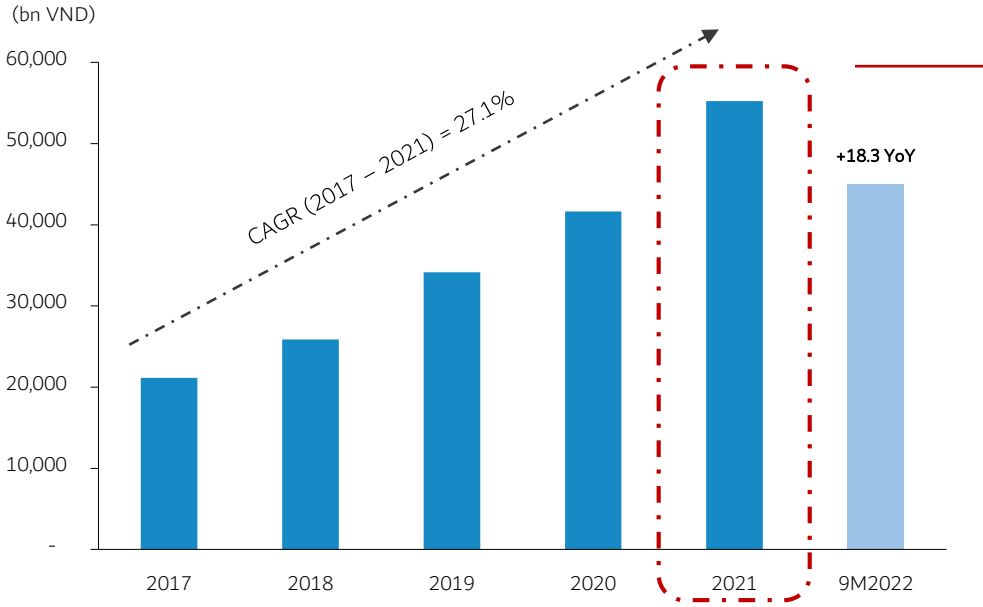


Source: Company data, Fiinpro, Shinhan Securities Vietnam

- Net interest income of 27 listed banks in has increased over years, gaining VND 314,852 billion (+22.1% YoY) in 9M2022, thanks to the considerable growth of banks' credit.
- Net non-interest income continuously increased compared to the same period, reaching VND 95,351 trillion (+21.5% YoY), and contributed importantly to TOI. Therefore, TOI reached VND 410,203 billion (+21.9% YoY) in 9M2022.

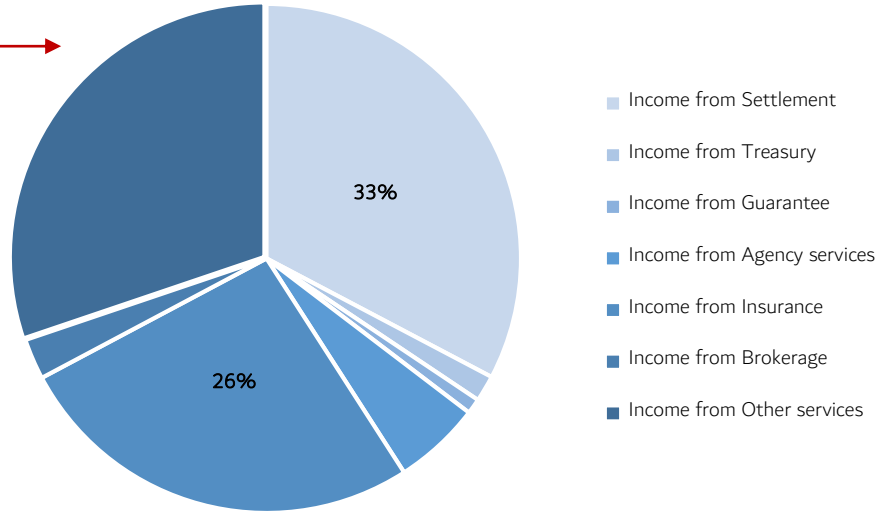
Bancassurance has contributed significantly to the fee & commission income.

Net fee & commission income



Source: Company data, Fiinpro, Shinhan Securities Vietnam

Components of fee & commission income

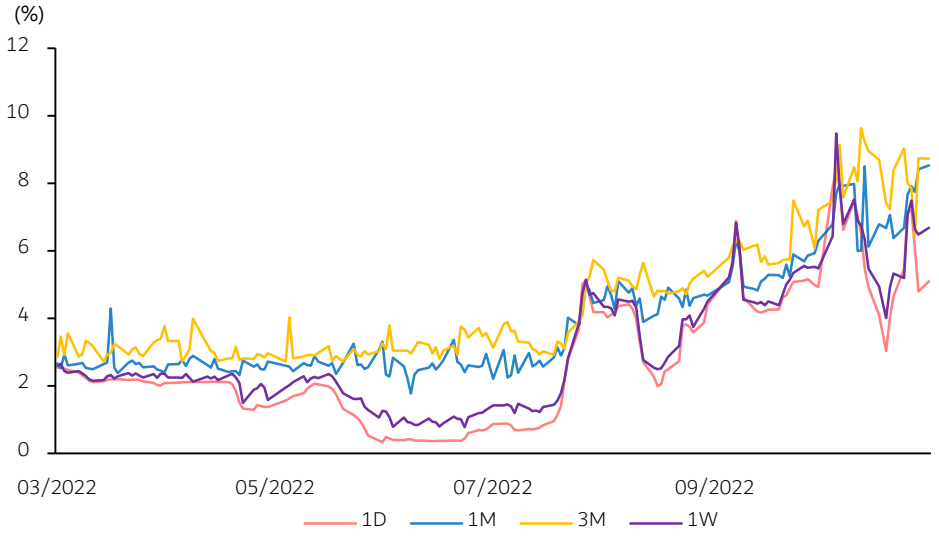


Source: Company data, Fiinpro, Shinhan Securities Vietnam

- Net fee & commission income accounts for nearly 11% of total operating income, and has showed a strong growth rate over few years with a significant contribution of income from settlement services and bancassuarance.
- The coorperation between banks and insurance companies has brought huge income to banks when banks are stepping up insurance cross-selling contracts. Bancassuarance is expected to continue to contribute a large proportion to profit in 2022.
- As the many banks promote investment in technology and new products with a digital platform, it is expected that income from fee and commission will increase in 2022.

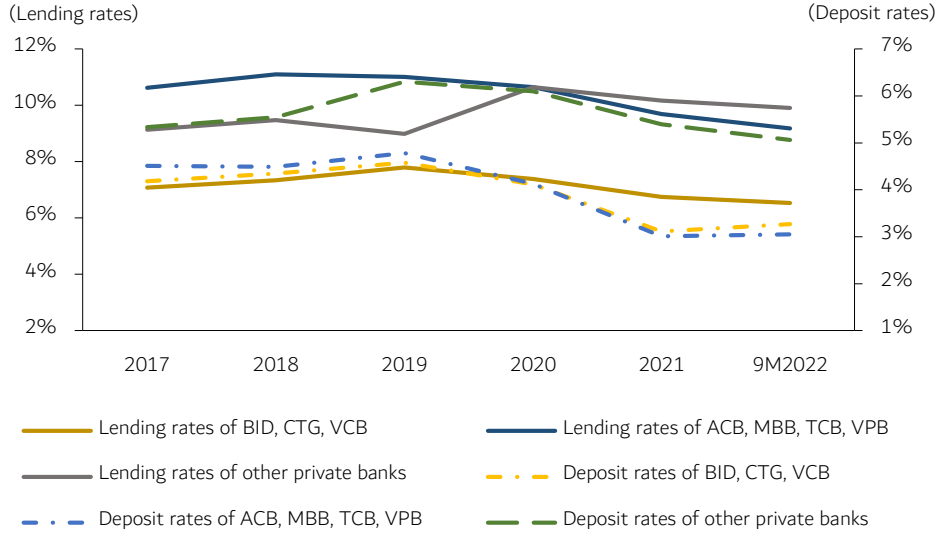
Interest rates have fluctuated since beginning of the year, interbank interest rates has significantly increased, especially in Q2/2022. SBV also raised the operating interest rates leading to the increase of deposit interest rates at many terms.

Interbank interest rates



Source: Bloomberg, Shinhan Securities Vietnam

Lending rates and Deposit costs

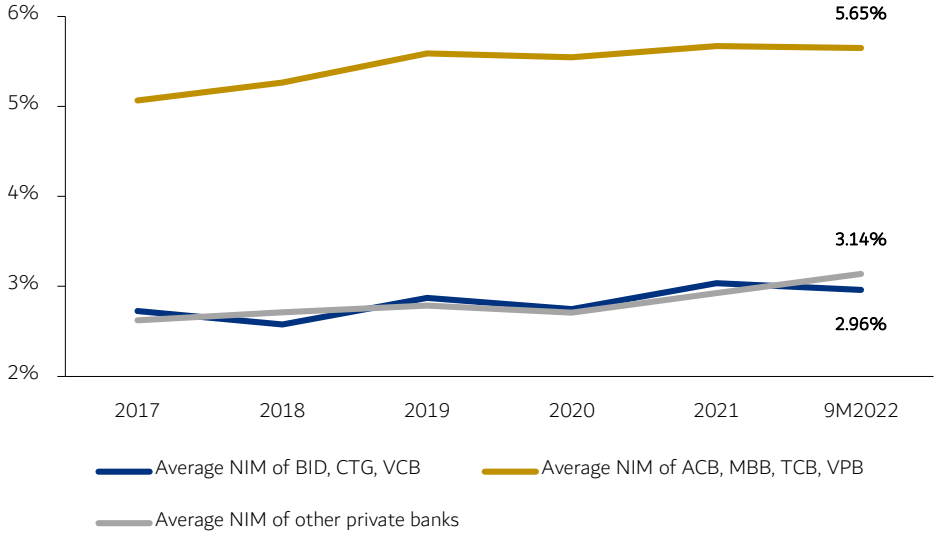


Source: Company data, Fiinpro, Shinhan Securities Vietnam

- Interbank interest rate has risen since beginning of the year, there were some periods the interest rates went higher 8% at all terms. SBV then supported the liquidity in the system through forward buying and continued to use interest rate bidding through Open Market Operation (OMO).
- In order to control inflation, FED and other Central banks raised their interest rates. In the same trend, SBV also increased operating interest rates in September and October 2022, leading to the rise of deposit interest rates of many banks.
- Despite the sharp increase of deposit interst rates, the cost of funds is currently quite low as the CASA ratio were high at most banks.
- There is an upward pressure on lending rates but there is time lag compared to deposit interest rates.

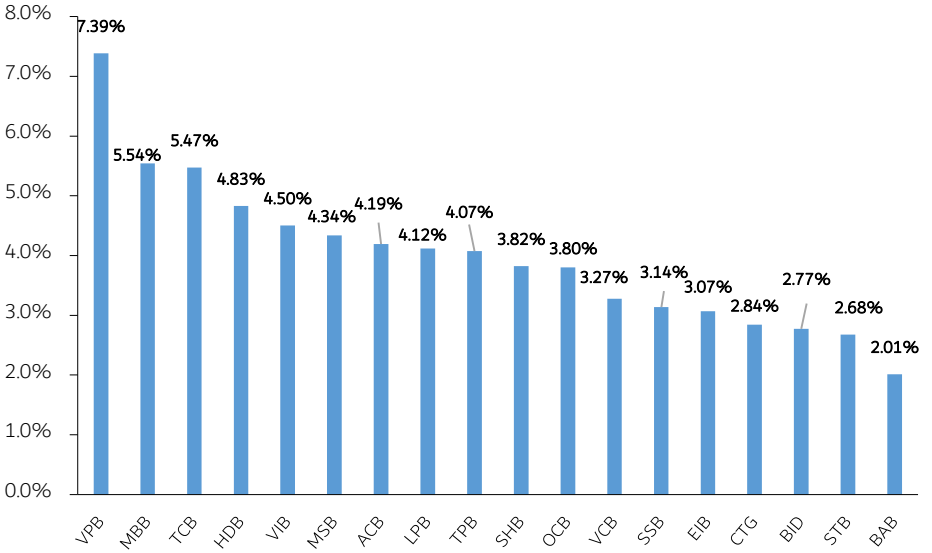
NIM at the private banks remained the growth nearly as same as 2021, while NIM the stat-owned banks have been adjusted slightly in 9M2022.

Average NIM by bank groups



Source: Bloomberg, Shinhan Securities Vietnam

NIM (TTM) as of September 20222 of banks

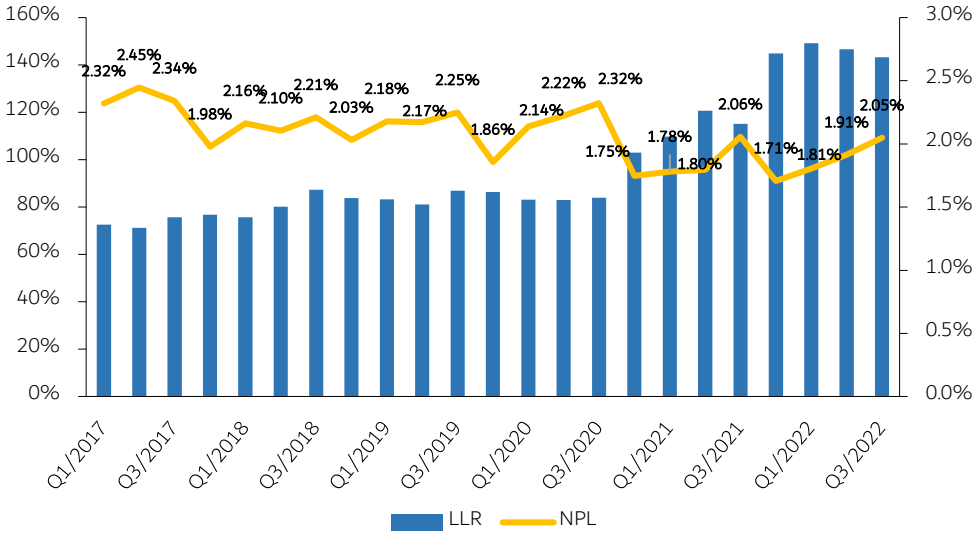


Source: Company data, Fiinpro, Shinhan Securities Vietnam

- The group of private banks including ACB, MBB, TCB and VPB currently have the highest NIM, as the deposit interest rate of this group of banks increased in the race to mobilize deposits, still lower than that of other private banks, and the loan interest rate remained relatively high.
- Banks with high CASA ratio have an advantage in terms of NIM such as VPB, MBB, and TCB.
- In contrast, NIM at the stated-owned banks decreased slightly when the growth rate of deposit interest rates at those banks were higher than others, while the lending rates were remained relatively low.

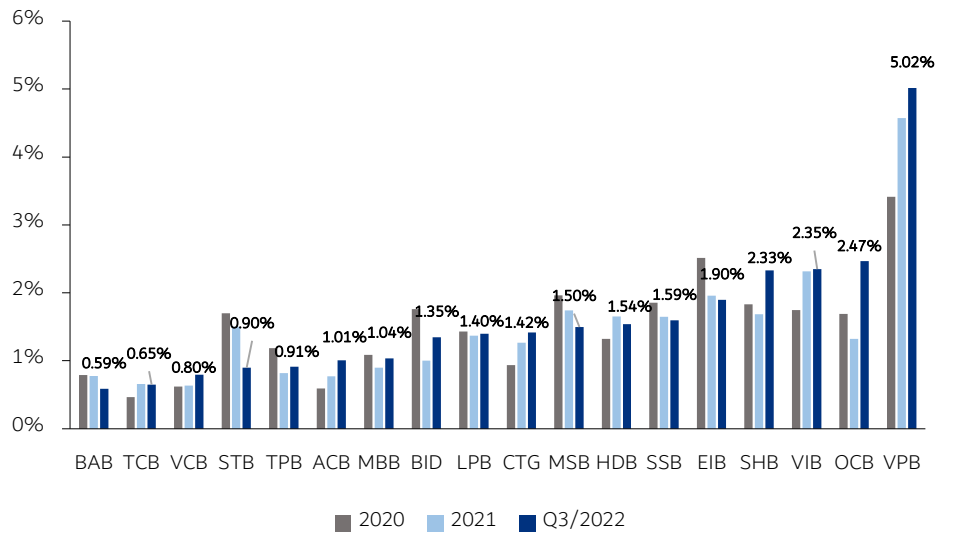
Even though the NPL ratios of the industry have rose slightly since 2021, they were lower than before the pandemic, showing that banks are controlling well their bad debt. Meanwhile, many banks considerably increased loan-loss provisions.

Non-performing loan (NPL) ratio and Loan-loss provisions (LLR) ratio



Source: Company data, Fiinpro, Shinhan Securities Vietnam

NPL of banks in the industry



Source: Company data, Fiinpro, Shinhan Securities Vietnam

- In 9M2022, bad credit balance of 27 listed banks was about VND 132 trillion (+33.4% YTD). NPL ratio slightly rose to 2.05%. The increasing NPL may result from the expiration of Circular 14/2021/TT-NHNN for restructured loans during the Covid. NPL is expected to continue to increase in the end of 2022 and early 2023.
- Provisioning is being the top priority of the SBV. By the end of Q3, the system's LLR reached 143%.
- NPL ratio in the first 6 months was divergent among banks, banks with NPL kept below 1% such as BAB, TCB, VCB, STB, TPB. Most banks had NPL increased in Q3/2022. Notably, VPB had NPL higher than 5%, ranking second in the banking system.

CONTENTS

I. Overview of listed banks

II. Update business results 9M2022

III. Outlook for banking industry

IV. Outstanding company



III. Outlook for banking industry

Outlook for 2023:

- In terms of credit growth, **we maintain the growth of 14% in 2022, and the increase was lower to reach 12.4% in 2023,** in the context of monetary tightening to control inflation, and global economy is stable.
- **NIM may remain unchanged or adjust slightly in Q4/2022 and early 2023** due to the increase in deposit interest rates, while the lending rates have a time lag.
- **However, NIM has potential to expand** when banks increase lending interest rates to boost net interest income and high demand of credit in 2H2023.
- **Bad debt from restructured debt** can recover better than expected, thanks to the economy's recovery. Besides, **most banks had reserved 100% earlier than SBV's regulation.**
- **Several domestic banks in Vietnam have 90% of their transactions on digital platforms.** Half of the banking services are expected to be digitalized, and 70% of transactions will be online by 2025. The contribution of technology in banking will help to attract a massive amount of customers and improve efficiency.

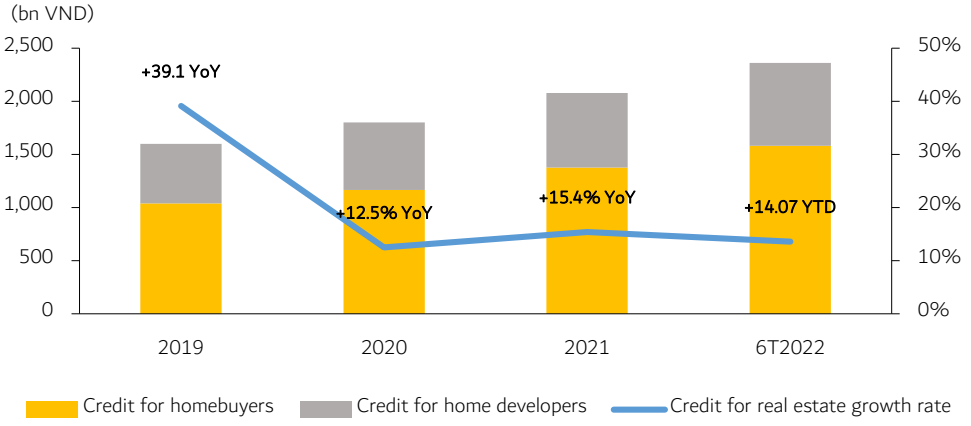
Risks:

- Slow growth of the economy/ recession may continue to increase interest rates.
- Credit risk from real estate when real estate market is fluctuating, impacting the loans secured by real estate and corporate bonds issued by this industry.



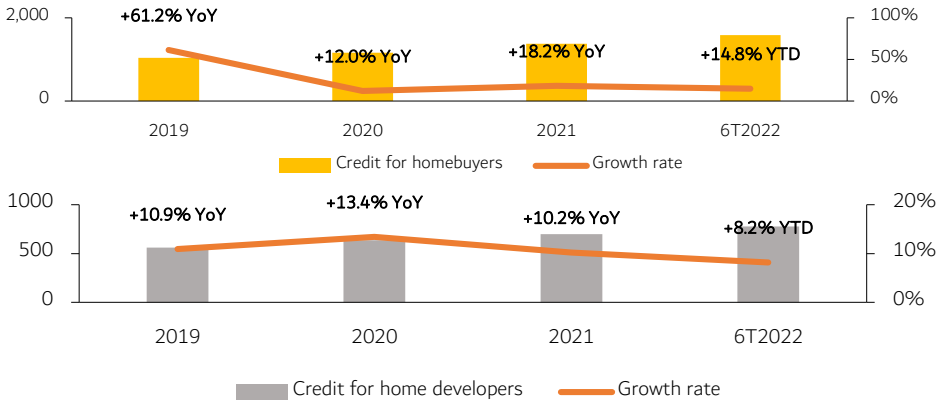
Uncertainty from credit risks of real estate.

Total credit for real estate



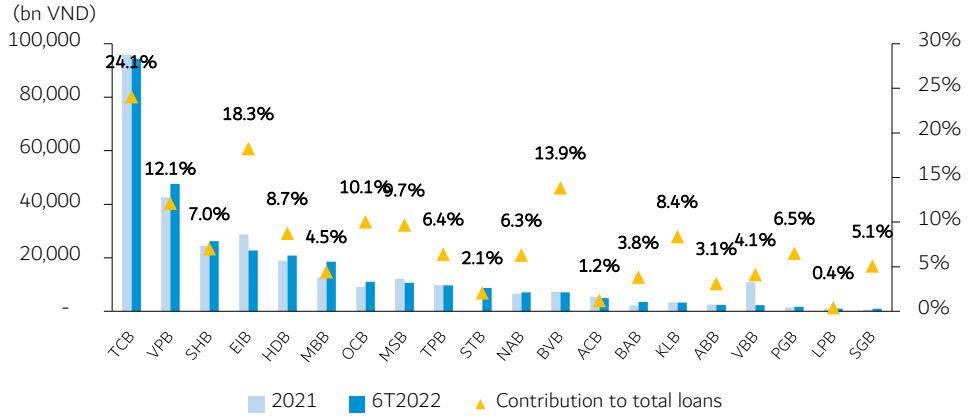
Source: FiiinResearch, Shinhan Securities Vietnam

Credit for homebuyers and credit for home developers



Source: FiinResearch, Shinhan Securities Vietnam

Loans to real estate activities at many banks



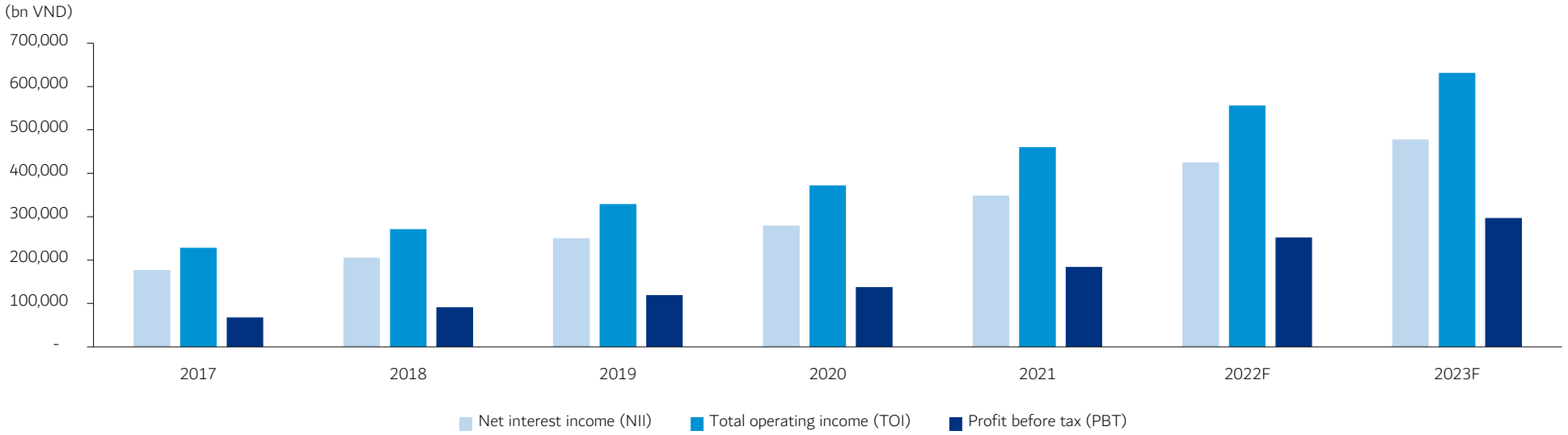
Source: Fiiinpro, Shinhan Securities Vietnam

- According to SBV, credit outstanding fro real estate as of June 2022 reached VND 2.36 quadrillion (+14.07% compared to the end of 2021). Credit for homebuyers still accounts for large contribution in credit for real estate.
- Real estate loans at banks are classified in different forms. In terms of lending to real estate activities, this industry accounts for a relatively high proportion of outstanding loans at some banks.

III. Outlook for banking industry

Profit growth in 2023 remains positive thanks to (1) Credit growth reaching 12.4%; (2) Increased lending interest rate helps to preserve NIM value; (3) Real estate credit stabilizes again.

Forecast income of 27 listed banks



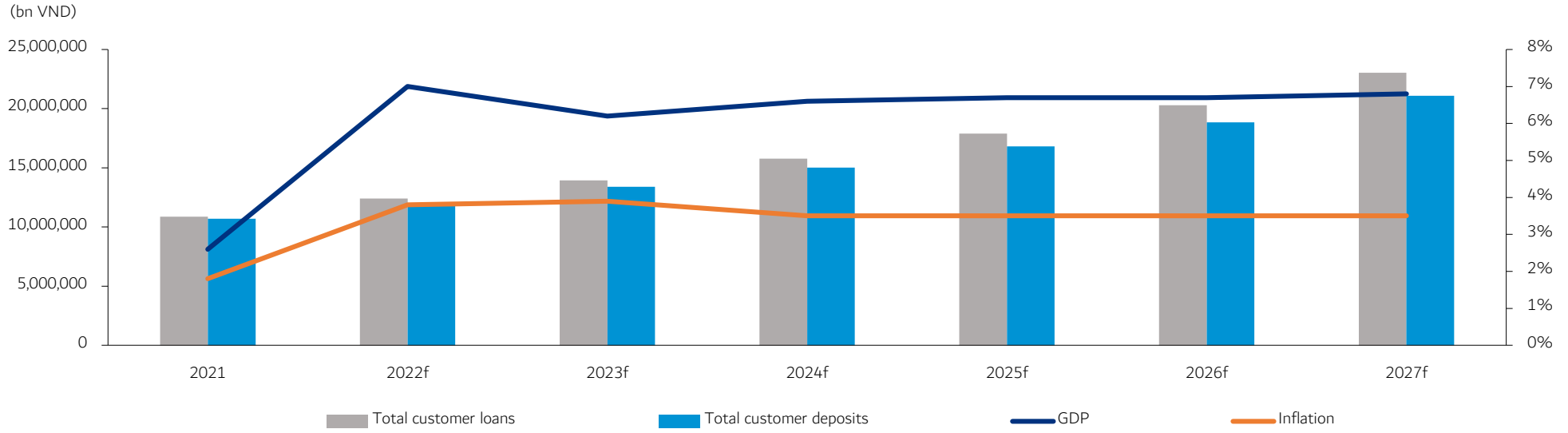
Source: Shinhan Securities Vietnam

- We forecast that the NII in next year will be around 12.4%.
- While the net non-interest income is expected to rise about 17% in 2023 thanks to the contribution of service fees and bancassurance.
- Leading to the growth of TOI and PBT are 13.5% and 17%, respectively, in 2023.

III. Outlook for banking industry

The growth prospect is positive in the long term thanks to the economy maintaining a high growth rate.

Forecast loans and deposits along with GDP, inflation



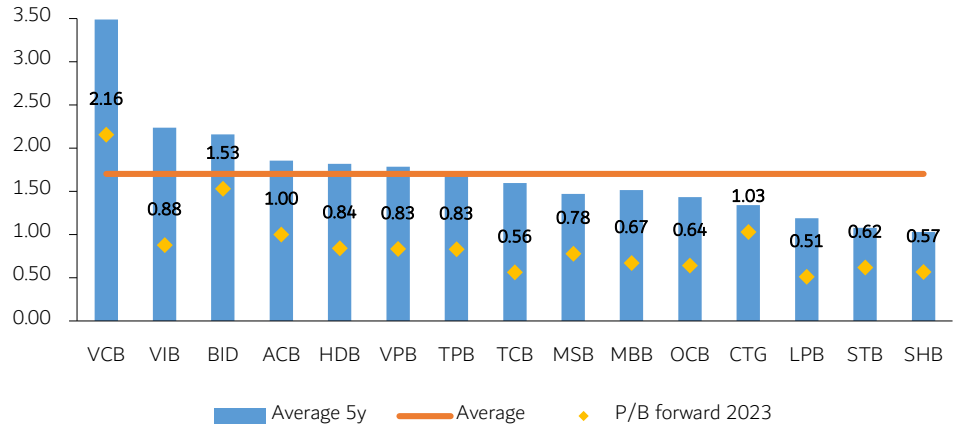
Source: Fitch Solutions, Shinhan Securities Vietnam

- We forecast the growth rate of customer loans and customer deposits are forecasted to maintain at 12-14%, based on the forecast GDP remains at 6-7% in the next few years.

III. Outlook for banking industry

Most banks are at attractive prices.

P/B trung bình 5 năm và P/B dự phóng 2022



Source: Bloomberg, Bloomberg Consensus, Shinhan Securities Vietnam
As of 15/11/2022

- According to the P/B valuation method, **most of the banks in the industry are at attractive prices.**
- Most banks are trading around 1x forward P/B and below the 5-year average about 30% (such as VCB, BID), and 60% (VIB, TCB, VPB).
- Nearly 50% of banks are trading with P/B below 1x.

Banks raised capital through bond issuance and international syndication in 2022.

Ticker	Total value of bond issuance (bn VND)	International sysdication (mn USD)
BID	21,872	
MBB	13,820	
TPB	6,399	
TCB	13,050	800
OCB	12,300	
ACB	10,950	
VIB	6,948	150
HDB	6,600	
LPB	6,000	
CTG	5,610	
STB	4,300	
BAB	3,500	
MSB	3,400	
VCB	3,340	
VPB	2,200	1,100
SSB	1,749	200
BVB	1,110	
ABB	800	
NAB	300	

Source: HNX, company data, Shinhan Securities Vietnam consolidates
Data is consolidated in 2022 unitil 17/11/2022

III. Outlook for banking industry

Tickers	Market cap (bn VND)	Target price (VND)	Net interest income growth 9M2022 (% YoY)	TOI growth 9M2022 (% YoY)	Net profit after tax growth 9M2022 (% YoY)	Asset/Equity (x)	NIM (TTM)	NPL (TTM)	ROA (TTM)	ROE (TTM)	P/E (TTM)	P/B (TTM)
VCB	355,412	87,200	21.61	18.11	29.13	12.8	3.27	0.80	1.72	22.03	13.08	2.69
BID	180,589	40,600	15.48	10.12	65.34	20.3	2.77	1.35	0.85	17.49	10.29	1.73
VPB	104,055	29,200	19.02	35.50	68.28	5.8	7.39	5.02	3.17	19.18	6.38	1.24
CTG	119,183	34,800	11.75	20.56	13.04	16.5	2.84	1.42	0.94	15.54	7.28	1.08
TCB	77,731	58,700	20.65	16.93	22.96	6.1	5.47	0.65	3.42	20.88	4.28	0.84
MBB	68,463	33,200	38.70	26.19	52.91	8.7	5.54	1.04	2.73	25.44	4.55	1.10
ACB	68,900	34,700	20.70	18.59	50.78	10.1	4.19	1.01	2.45	26.37	5.44	1.29
SSB	60,801	N/A	31.91	41.44	59.58	9.3	3.14	1.59	1.69	17.03	15.41	2.44
EIB	23,974	N/A	63.66	63.01	228.33	9.1	3.07	1.90	1.57	14.49	15.74	2.14
VIB	37,938	36,500	31.31	28.71	46.34	11.2	4.50	2.35	2.52	30.78	5.08	1.40
HDB	37,477	29,300	29.02	32.73	31.77	10.7	4.83	1.54	1.95	22.10	5.34	1.14
TPB	32,980	37,100	20.62	20.67	34.89	10.4	4.07	0.91	1.98	21.44	5.58	1.10
STB	30,446	30,500	17.26	39.87	28.82	15.3	2.68	0.90	0.76	11.64	7.84	0.88

Source: Fiinpro, Bloomberg Consensus, Shinhan Securities
As of 15/11/2022

CONTENTS

I. Overview of listed banks

II. Update business results 9M2022

III. Outlook for 2023

IV. Outstanding company



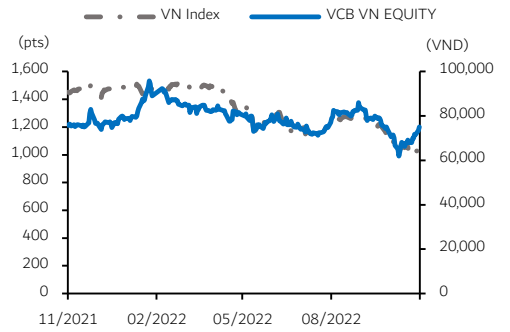
BUY

(Initiation Coverage)

Target price (12 months)	VND 87,200
Curren price (03/11/22)	VND 73,600
Return (%)	18.5%

VNINDEX	1,023
HNXINDEX	212
Market Cap (bn VND)	348,313
Outstanding shares (mn)	4,733
Free-Floating (mn)	1,192
52-Wk High/Low (VND)	96,000/62,000
90-day avg. trading volume (mn)	1.10
90-day avg. turnover (bn VND)	86
Foreign ownership (%)	23.6
Shareholders (%) SBV	74.8
Shareholders (%) Mizuho Bank, Ltd.	15

Performance	3M	6M	12M
Absolute (%)	-1.8	-15.5	-4.6
Relative to VNIndex(%)	2.2	12.0	14.4



Bank for Foreign Trade of Vietnam (VCB)

Bank for Foreign Trade (HoSE: VCB) is one of the "Big 4" state-owned banks with the largest market capitalization in the banking industry. VCB has always maintained the advantage of being the most efficient bank in business, improved asset quality over the years, and constantly made efforts in digital transformation. In addition, VCB always aims at international standards throughout its operation, continuously being trusted by prestigious organizations worldwide.

Investment thesis & Catalyst

- Good asset quality, low NPL ratio, and highest loan-loss reserves ratio in the industry. NPL ratio remained low when it reached 0.64% at the end of 2021, increasing to 0.80% as of Q3/2022. VCB's bad debt coverage ratio has been leading the industry for years, with 424% at the end of 2021, continuing to remain high LLR with 402% as of Q3/2022.
- VCB has diversified funding sources, and a relatively low cost of capital, create many potentials to improve NIM. Thanks to its reputation, business characteristics, and extensive branch network, VCB has mobilized abundant capital from the State Bank (SBV), other credit institutions, and large enterprises.
- VCB has outstanding business results with industry-leading profits. VCB leads the system in terms of EBT, reaching VND 27,385 billion (+18.82% YoY) at the end of 2021. After being surpassed in Q1/2022, VCB returned to the throne in Q2/2022 and temporarily leading in Q3/2022, with accumulated EBT results in 9M2022 reached VND 24,940 billion (+29.15% YoY). Thanks to the positive contribution from foreign exchange trading and service activities, besides effective cost management, CIR remained around 33.78%.

Outlook for 2023

- We forecast VCB will continue to grow in 2023 with credit growth of 17%, and interest income will increase 18.5%. PBT is expected to grow 21.5% with earnings forecast to grow with stable control of cost.
- Risks: (1) Risk of economic slow growth/recession; (2) Exchange rate risk; (3) Bad debt increasing.

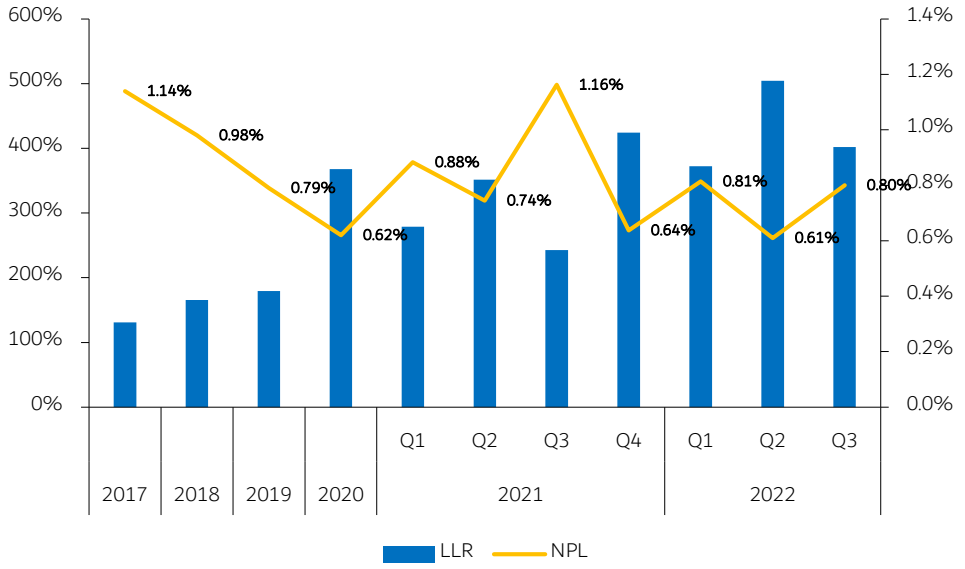
Year to Dec.	2021	2022F	2023F	2024F	2025F
Net interest income (bn VND)	42,273	48,888	57,912	69,794	83,745
Net non-interest income (bn VND)	14,357	17,743	21,172	25,609	30,831
TOI (bn VND)	56,630	66,631	79,084	95,403	114,576
Profit before provision (bn VND)	38,964	46,701	56,301	69,143	84,047
NPAT (bn VND)	22,017	29,049	35,293	43,144	54,269
EPS (VND)	5,936	6,138	7,458	9,117	11,467
EPS growth rate (%)	19.2	3.4	21.5	22.2	25.8
P/E (x)	12.6	12.9	10.6	8.7	6.9
P/B (x)	3.4	2.6	2.2	1.9	1.5
ROA (%)	1.6	1.9	1.9	2.0	2.1
ROE (%).	21.6	23.8	23.9	24.5	25.5

Source: Company data, Shinhan Securities Vietnam

IV. Outstanding company

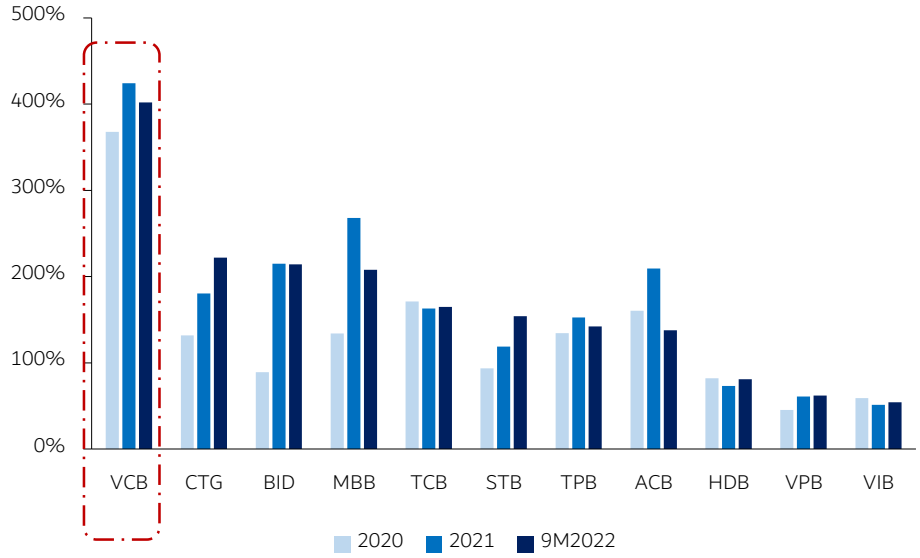
VCB has good asset quality, controls NPL ratio at low level , and maintains the highest loan-loss reserves ratio in the industry supporting the Bank to maintain its position in the context of the following volatile economic conditions.

Non-performing loan (NPL) ratio and Loan-loss provisions (LLR) ratio



Source: Company data, Shinhan Securities Vietnam

LLR of banks in the industry

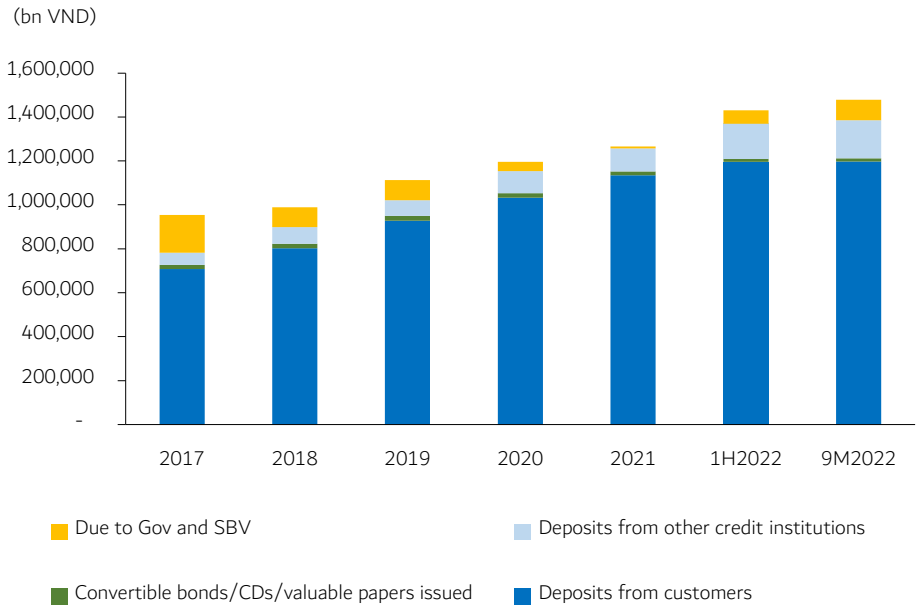


Source: Company data, Shinhan Securities Vietnam

- VCB's NPL improved significantly reaching 0.61% as of 2Q2022, but increasing again to 0.80% as of Q3/2022. However, VCB still belongs to the group of banks with low NPL ratio, showing that the Bank is well controlling the quality of loans, as well as evaluating quality of customer files.
- VCB's business and lending orientation has always been in a cautious direction as the bad debt coverage ratio (LLR) continued to increase and reached the highest level in the system.

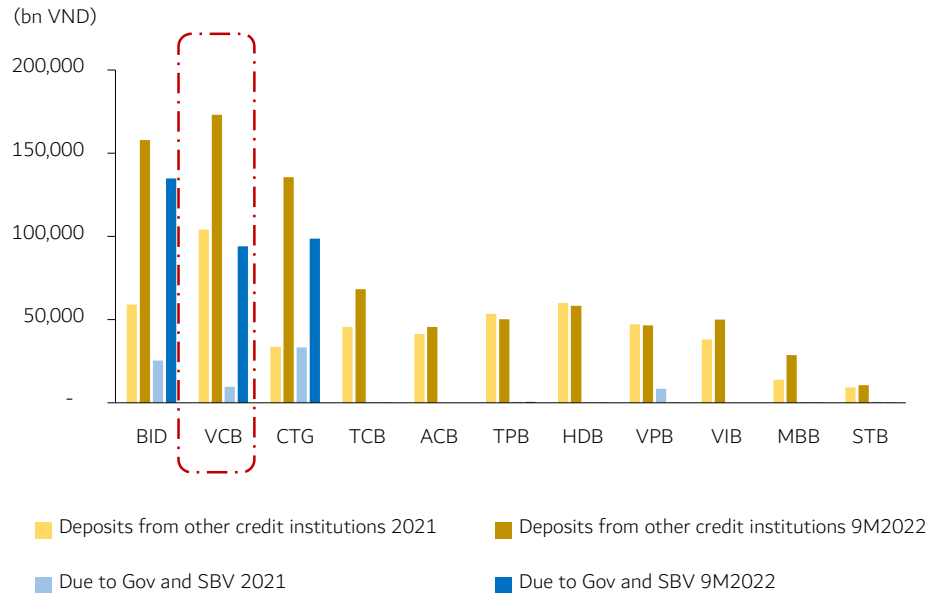
Mobilized capital of VCB is abundant and sustainable thanks to deposits from SBV/ Government, other credit institutions and large enterprises

Mobilized capital components of VCB



Source: Company data, Shinhan Securities Vietnam

Deposits from credit institutions- Due to Gov & loans from SBV of banks



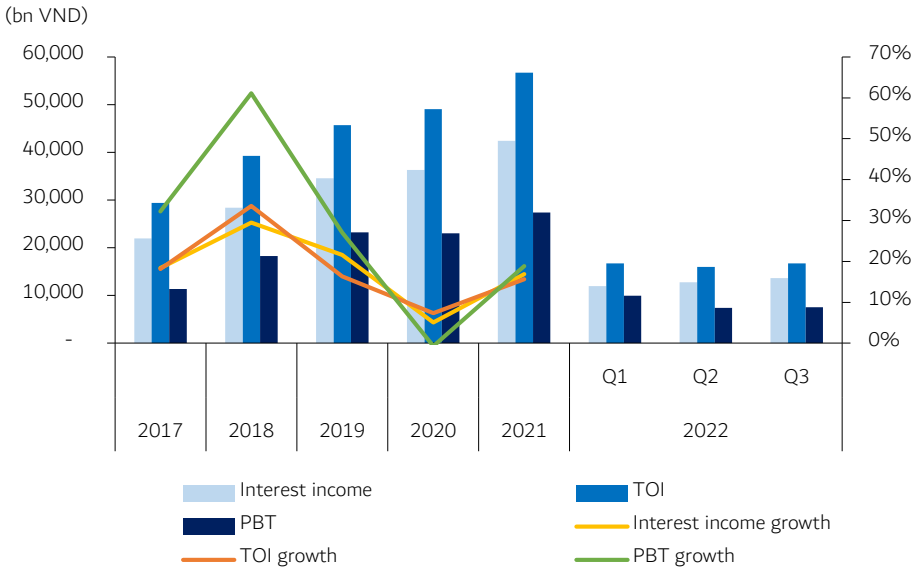
Source: Company data, Fiinpro, Shinhan Securities Vietnam

- State-owned commercial banks, in general, have an advantage in the race to raise money thanks to their reputation, operational characteristics, and nationwide network of branches and transaction offices.
- VCB is not under too much pressure to raise deposit rates during this period and can limit the increase in capital costs.

IV. Outstanding company

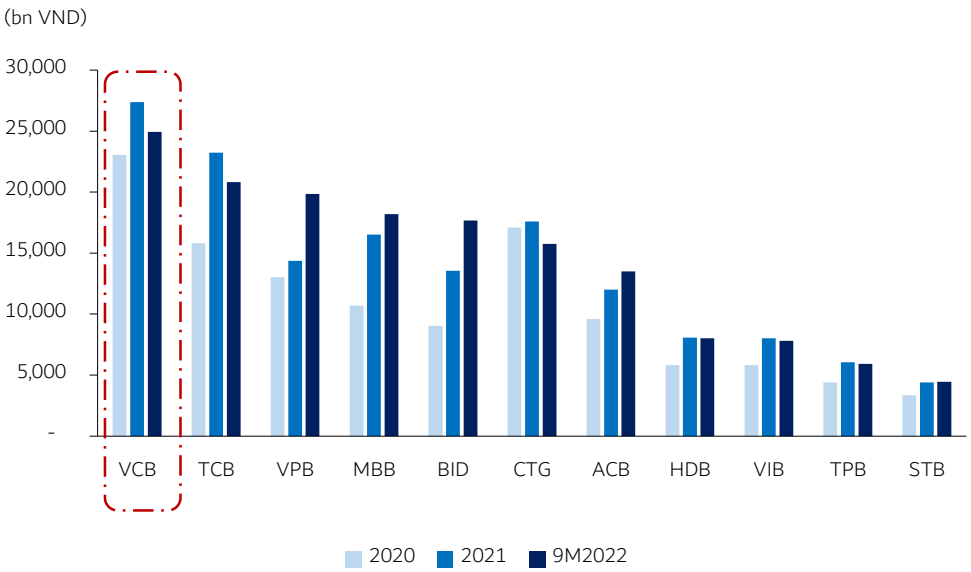
VCB has outstanding business results and has led the industry in profits for many years.

Net interest income- TOI and profit before tax off VCB



Source: Company data, Shinhan Securities Vietnam

Profit before tax of banks in the industry



Source: Company data, Shinhan Securities Vietnam

- VCB's pre-tax profit (PBT) has increased rapidly over the years, reaching VND 27,385 billion (+18.82% YoY) in 2021, leading the industry thanks to the positive results of its business segments.
- With the ownership of more than 600 branches and transaction offices (by the end of 2021), the free policy will be a catalyst to help VCB attract a significant number of customers in the future.
- VCB has focused on digital transformation, improving customer experience, and increasing competition for retail market share with large private banks that have been digitally transformed for many years.

VCB is valuated at attractive price

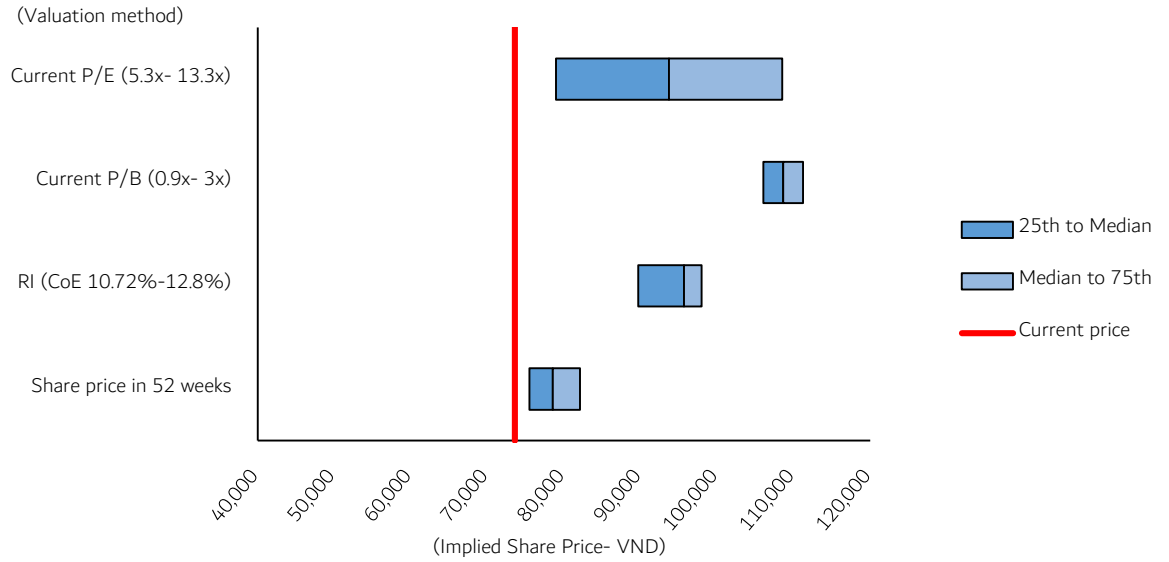
RI valuation method	Q4/2022F	2023F	2024F	2025F	2026F
(bn VND)					
Cost of equity	11.47%	11.47%	11.47%	11.47%	11.47%
Cost of equity after 2026					11.47%
Net income	9,070	35,293	43,144	54,269	64,486
Residual income (RI)	5,938	19,851	24,813	32,262	37,685
PV of RI	**5,760**	**17,270**	**19,354**	**22,583**	**23,742**

Valuation		
Method	Proportion	Target price (VND)
Residual income	60%	93,973
P/B average (3x)	40%	77,034
Target price (VND)	**87,197**	

Terminal value of RI (bn VND)	**401,217**
Terminal growth (%)	1.00%
PV of RI (bn VND)	88,709
PV of terminal value (bn VND)	252,767
Beginning equity (bn VND)	128,390
Total value (bn VND)	469,866
Total outstanding shares (*) (mn)	4.732
Target price (VND)	**93,973**
Cost of Equity (%)	**11.47%**
Beta (x)	0.75
Adjusted beta (x)	0.83
Risk-free rate (%)	5.00%
Equity risk premium (%)	7.80%

Source: Shinhan Securities Vietnam

Football field valuation



Source: Shinhan Securities Vietnam

(*) If VCB increases its charter capital by issuing shares to pay dividends from the remaining profit in 2019 and 2020, the number of shares expected to be issued is about 856 million shares at the price of 10,000 dong/ share. The target price is adjusted to 77,000.

Appendix – Important Disclosure



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