

What's new?

- SBV increased credit growth quota for banks in 4Q21.
- Digitization helps improve cost efficiency and increase CASA.
- Sector's adj. CIR was 40% in 9M21 (-8ppt YoY) and CASA ratio was 22% (+80bps YoY) in 3Q21.
- Catalysts: capital raising in 2022E.

Our view

- We expect net-II and fee income to rebound in 2022E and beyond, along with the economic recovery.
- Valuation is reasonable. Sector trades at 1.7x 2022E P/B with ROE of 20%.
- We believe credit cost to increase due to expected rising NPLs. Thus, we recommend to stick with high-LLR banks such as VCB and MBB.

Sector allocation recommendation: Neutral. We expect PPOP to recover in 2022E along with the economic recovery; however, we also believe that credit cost will increase especially at low-LLR banks due to expected rising NPLs. Valuations are reasonable in our view, and we prefer quality banks with high-LLR ratios such as VCB and MBB.

Fair valuations; focus on quality

We expect banks' earnings to improve in 2022E along with the economic recovery. We believe that banks will continue to support Covid-impacted borrowers with eased credit terms, which will constraint NIM. However, fee income should increase more sharply, driven by bancassurance sales and credit card fees.

CASA ratios to increase as banks have been actively investing in digital banking, which should help to boost CASA deposits.

Digitalization will also help banks improve cost efficiency in 2022E and beyond. Sector's median adj. CIR (27-listed banks) was 40% in 9M21 (-8ppt YoY), and we expect CIR to continue decreasing going forward.

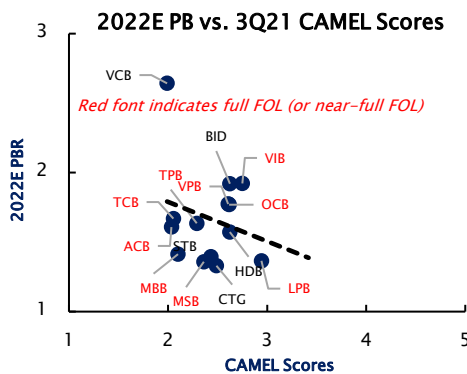
We expect credit costs to jump, especially at low-LLR banks given the potential new NPL formation due to the Covid impact. **However**, high-LLR banks will have the flexibility to reduce provisioning to boost their earnings without sacrificing asset quality.

Sector loan loss reserve (LLR) ratio was 115% (-6ppt QoQ/+32ppt YoY) in 3Q21. The sector's NPL ratio was 1.62% (+21bps QoQ/-23bps YoY), and provisioning policies were mixed among banks (see figure 6).

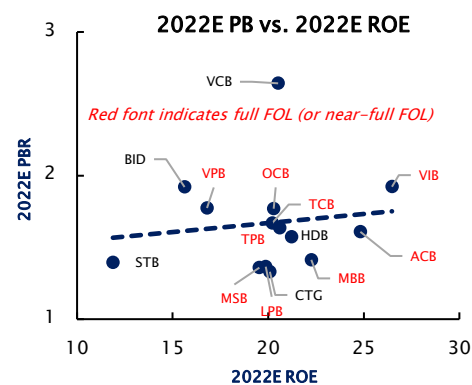
Neutral weighting on the sector given the impact of Covid. We expect NPLs to jump in 2022E and low-LLR banks might need to boost provisioning, which will drag their earnings.

Reasonable valuations. The sector trades at an average of 1.7x 2022E P/B. We expect the broad stock market to increase in 2022E and the bank sector to play a major role in that process due to its scale.

We continue to recommend sticking with high-quality banks with high LLR ratios especially [VCB](#) and [MBB](#) given the impact of the pandemic.



Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg, Yuanta Vietnam

Research Analyst:

Tanh Tran

+84 28 3622 6868 ext 3874

tanh.tran@yuanta.com.vn

Bloomberg code: YUTA

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Yuanta Vietnam Bank Coverage Universe

Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	2021E Dividend yield	12-m TSR*
Asia Commercial Bank	ACB VN	3,959	7.8	BUY	33,300	30,492	0.0%	-8%
BIDV	BID VN	7,857	3.5	SELL	44,400	37,300	2.9%	-16%
HD Bank	HDB VN	2,673	5.0	BUY	30,500	25,300	0.0%	-17%
MB Bank	MBB VN	4,821	15.8	BUY	29,000	39,350	0.0%	36%
Sacombank	STB VN	2,397	19.2	SELL	28,900	24,000	0.0%	-17%
Vietcombank	VCB VN	16,138	4.2	BUY	98,900	114,650	1.2%	17%
Vietnam Prosperity Bank	VPB VN	7,374	20.3	HOLD-OPF	37,700	36,667	0.0%	-3%

Source: Bloomberg, Yuanta Vietnam

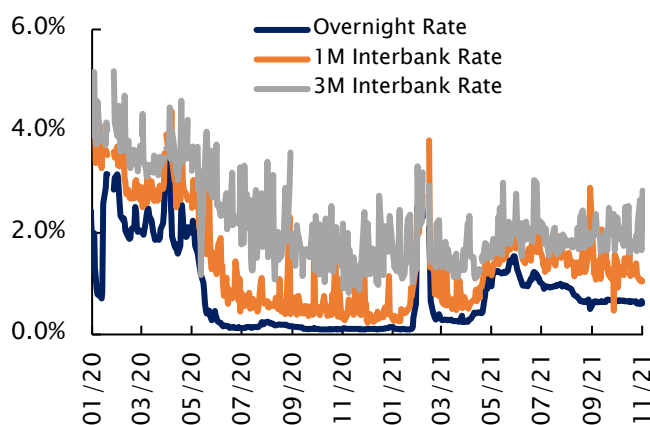
We expect a recovery in 2022E

We believe the Covid-impacted economy bottomed out in 3Q21, and we expect a recovery in 2022E. We thus expect credit demand to recover next year, along with the economic recovery. The banks that have strong capital levels, solid risk management, and full compliance with the SBV’s forbearance policies (i.e., directives on restructuring loans and reducing interest rates to support Covid-impacted clients, such as VCB, MBB, ACB, and TCB) will likely receive higher credit quotas.

We believe that the SBV will continue to maintain accommodative monetary policy in 2022 to support the economy.

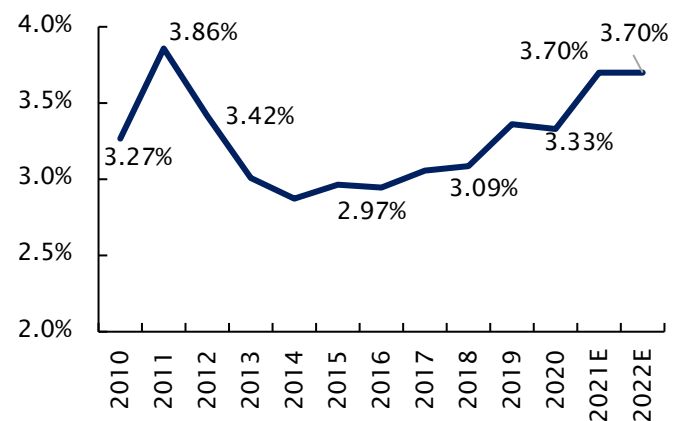
However, we don’t think that the SBV will reduce the interest rate significantly like they did during the past year. Thus, we expect loan yields to remain at current levels or slightly higher at least during 1H22. **Thus**, we expect bank NIMs to be flat at best going forward.

Figure 1: Interbank interest rates remain low



Source: FiinPro, Yuanta Vietnam

Figure 2: Banks’ NIM from 2010 to 2022E (Aggregate)

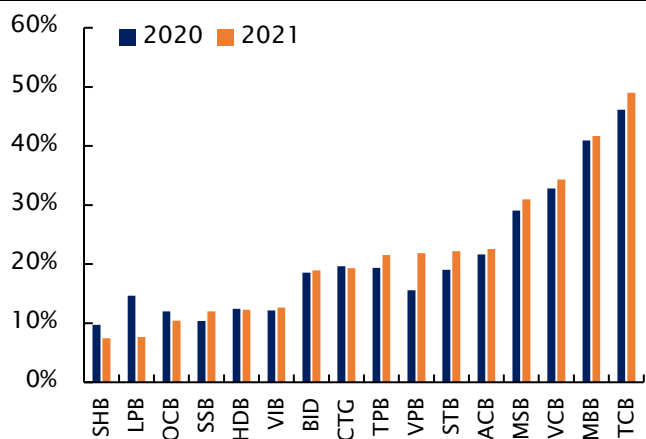


Source: FiinPro, Yuanta Vietnam

Digitization drives CASA

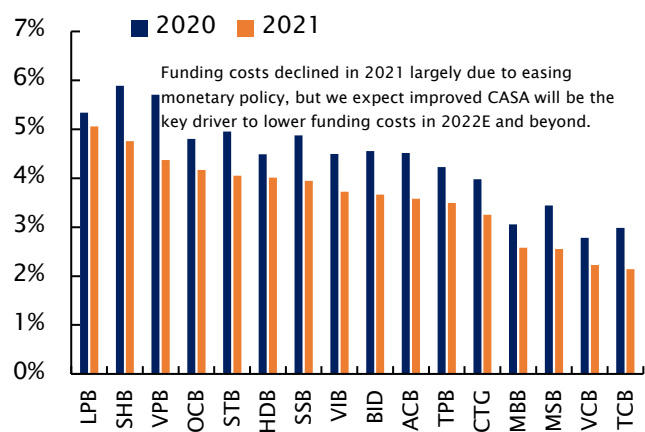
Many banks have been investing in digitalization to attract more CASA deposits which helps reduce their funding costs, and we believe this is a key trend going forward. **However**, this process invariably will take time to produce results. Banks that already have high CASA ratios (i.e. VCB, MBB, TCB, and MSB) should be able to support NIM more effectively than those with low CASA ratios.

Figure 3: CASA Ratios are on uptrend



Source: FiinPro, Yuanta Vietnam

Figure 4: Funding costs are on downtrend



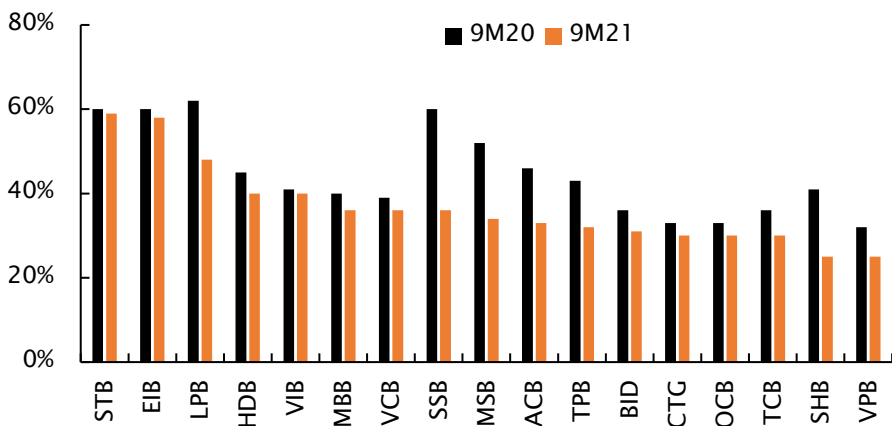
Source: FiinPro, Yuanta Vietnam

Digitization will also help improve cost efficiency

The banking sector has become increasingly competitive, especially with the appearance of fintech innovators. Thus, maximizing efficiency is more important than ever, and digitization is key in this process. If done right, banks can save operational costs significantly. As a result, banks can have more freed-up funds to expand their businesses.

Adj. CIR of the sector median (27-listed banks) was 40% in 9M21 (-8ppt YoY), and we expect this ratio to continue to decrease in 2022E and beyond as the digitization progress becomes more effectively.

Figure 5: CIR on downward trend thanks to digitization

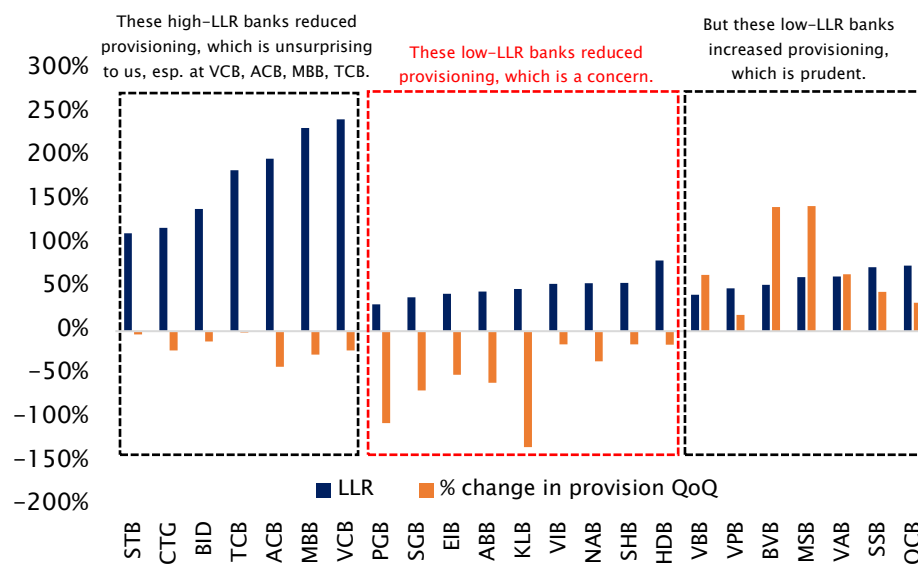


Source: FiinPro, Yuanta Vietnam

We expect credit costs to increase in 2022E at low-LLR banks

Provisioning policies were mixed in 3Q21. The banks with high loan loss reserve ratios (i.e., high-LLR banks) reduced provisioning in 3Q21, which should not be too surprising given that these banks have already recognized substantial credit costs. By contrast, declining credit costs at low-LLR banks amid widespread forbearance on COVID-impacted borrowers was not particularly impressive to us. However, some low-LLR banks increased provisioning in 3Q21, which we think is the prudent approach.

Figure 6: Mixed provisioning policies among banks in 3Q21



Source: FiinPro, Yuanta Vietnam

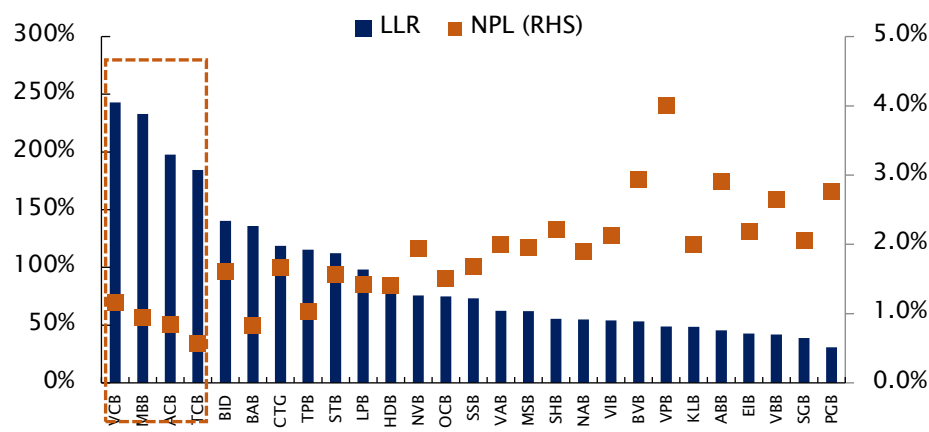
Continue to focus on banks with high LLR ratios

Though we believe the economic trough was in 3Q21, we still think that the Covid consequences will continue to hit banks’ asset quality and earnings, probably until next year. Thus, we continue to recommend focusing on banks with high LLR ratios. Although many bankers argue that provisioning coverage should depend on collateral values, we believe that certain types of collateral (e.g., auto loans and other consumer finance) might see volatility in market value and might also take a long time to liquidate amid the pandemic.

Thus, we prefer banks with high LLR ratios. We believe that banks with high loan loss reserves (LLR) have stronger buffers to weather asset quality deterioration due to the pandemic. VCB’s LLR ratio of 243% is the highest in the sector, which provides VCB the flexibility to lower provisioning to boost earnings in 2022E without sacrificing its asset quality. TCB, MBB, and ACB are pursuing a prudent approach with high loan loss reserve ratios (see figure 7).

Banks’ earnings in 2022E will partly depend on the ability to collect payments on restructured loans. If these assets become bad loans, banks—and especially those with low LLR ratios—will have to put aside additional provisions, which will thus hurt their earnings.

Figure 7: 3Q21 loan loss reserve ratios (LLR/NPL)

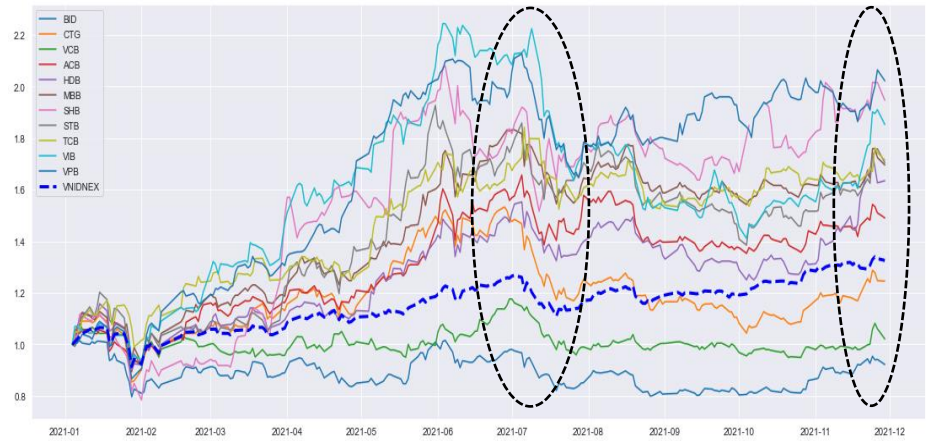


Source: FiinPro, Yuanta Vietnam

Valuations

Banks stock prices corrected substantially at the beginning of 3Q21 after leading the overall market rally during 1H21. However, share prices have recovered in recent days as investors became excited again over the increased credit quotas for 4Q21. Currently, the bank sector's median 2022E P/B is 1.7x with 2022E ROE of 20% (*Bloomberg consensus*), which is reasonable in our view.

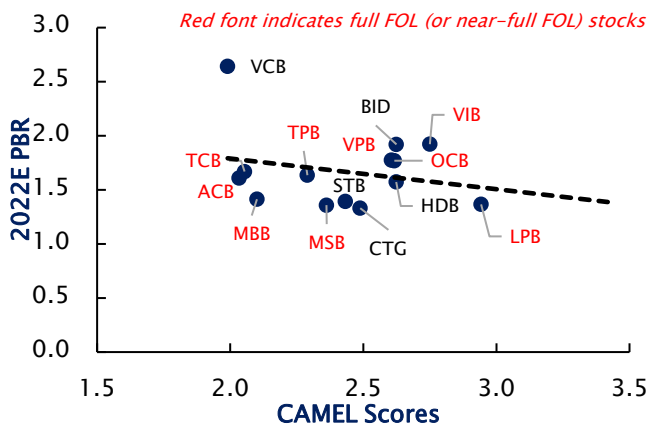
Figure 8: Banks stocks from the beginning of the year



Source: Bloomberg, Yuanta Vietnam

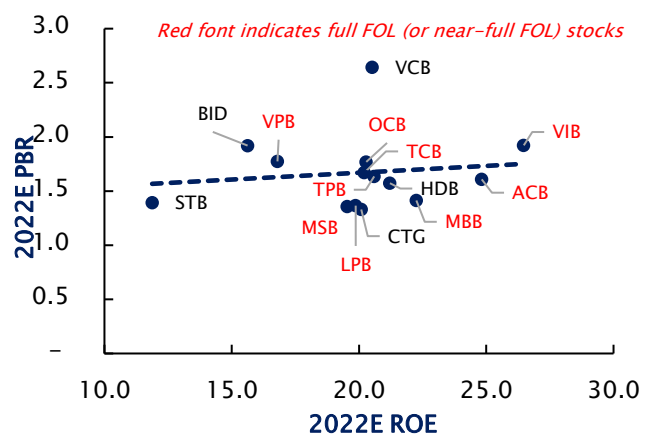
However, we believe that high-quality banks deserve valuation premiums, and thus stock selection is key. Our top picks are MBB and VCB. [MBB \(BUY\)](#) is a high-quality bank with strong operational results but that offers a relatively attractive valuation. [VCB \(BUY\)](#) trades at a substantial premium, which we are aware is a concern to some investors. However, this valuation gap is not new nor (in our view) temporary; we see the premium as justified for VCB given our view that it is the highest-quality bank in Vietnam.

Figure 9: 2022E P/BV vs. 3Q21 CAMEL Scores



Source: Bloomberg, Yuanta Vietnam

Figure 10: 2022E P/BV vs. 2022E ROE



Source: Bloomberg, Yuanta Vietnam

Catalysts

Capital raising. Commercial banking is a capital-intensive business. We believe that capital raising will be a catalyst for bank stocks in 2022, especially at state-owned banks (BID, CTG, and VCB).

Considering FOL limitations, BID and VCB have more room to increase capital than CTG does. Remaining FOL room at VCB (6.4%), and BID (13.3%) allows them flexibility to increase capital by selling stakes to foreign investors. In addition, both banks' strategic investors (i.e., KEB Hana Bank at BID and Mizuho Bank at VCB) currently own 15% stakes vs. the cap of 20%, which gives BID and VCB room to raise additional capital from their existing foreign strategic investors.

By contrast, CTG's strategic investor (Bank of Tokyo Mitsubishi UFJ) already owns 19.7%, which is close to the cap of 20%.

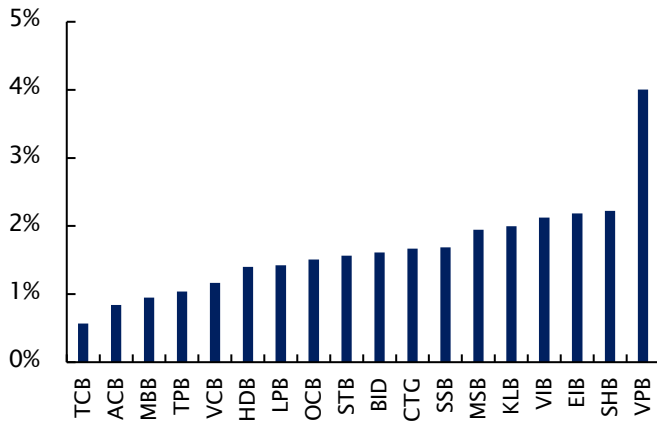
The market has long chattered over the possibility that the government might increase the FOL cap for banks to higher than 30%, which would obviously create more room for banks to raise capital. We also notice that some banks currently don't have foreign strategic investors, which might imply opportunity to have foreign investors on board in the future. We aren't suggesting that this will happen now or anytime soon, but that might be something possible to happen in the future - which will create positive catalyst for banks stock prices.

Banks	FOL remaining room (%)	Foreign Strategic investors	% Foreign strategic investors owned
ACB	0.0%	No	
BID	13.3%	KEB Hana Bank	15.0%
CTG	4.8%	Mitsubishi UFJ Financial Group	19.7%
EIB	0.4%	Sumitomo Mitsui Financial Group	15.0%
HDB	4.0%	No	
LPB	1.0%	No	
MBB	0.0%	No	
MSB	0.0%	No	
OCB	0.0%	Aozora Bank	15.0%
SHB	6.4%	No	
SSB	5.0%	No	
STB	12.8%	No	
TCB	0.0%	No	
TPB	0.5%	No	
VCB	6.4%	Mizuho Financial Group	15.0%
VIB	0.0%	Commonwealth Bank of Australia	20.0%
VPB	0.0%	No	

Source: Bloomberg

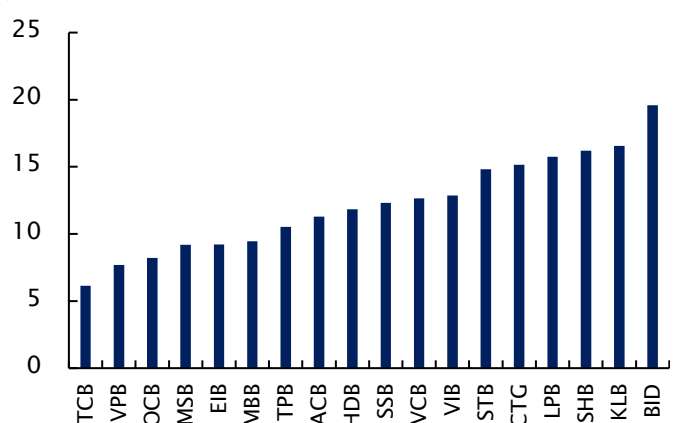
Banks key ratios

Figure 11: NPL ratios as at 3Q21



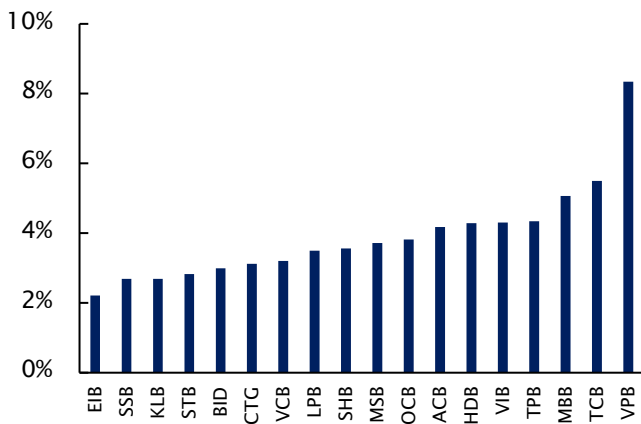
Source: FiinPro, Yuanta Vietnam

Figure 12: Asset/Equity Leverage (x) as at 3Q21



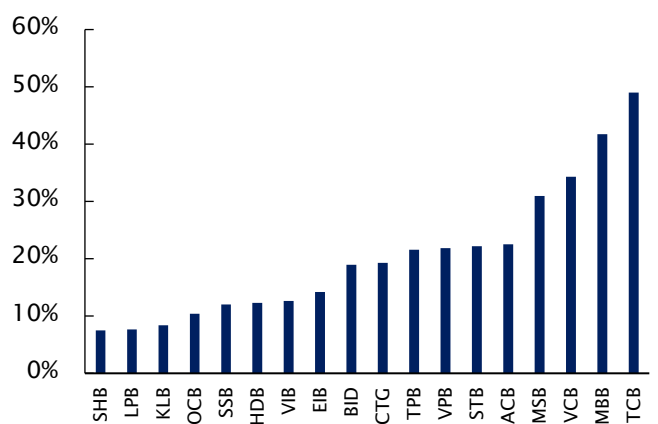
Source: FiinPro, Yuanta Vietnam

Figure 13: NIM (LTM)



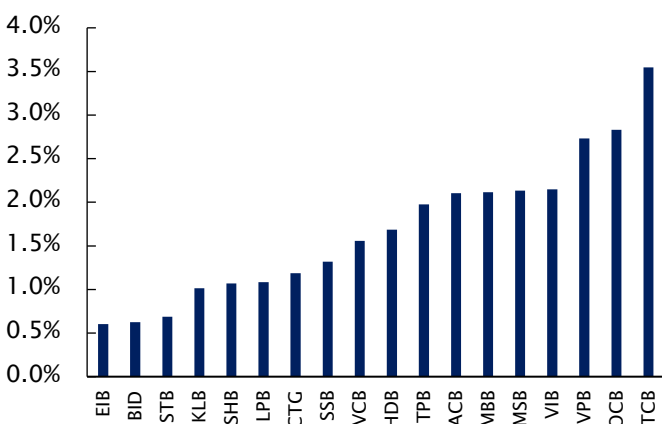
Source: FiinPro, Yuanta Vietnam

Figure 14: CASA ratio as at 3Q21



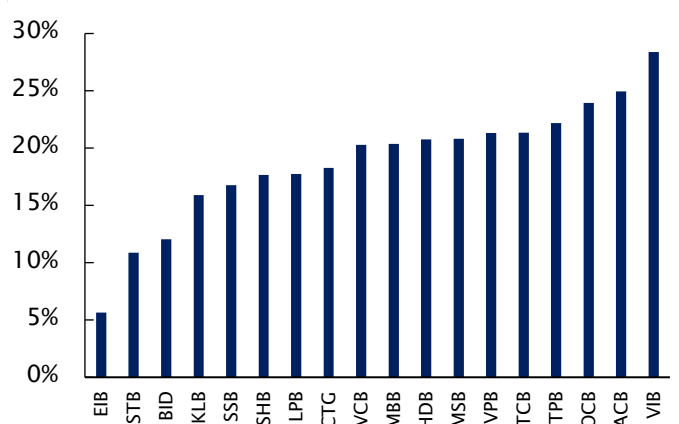
Source: FiinPro, Yuanta Vietnam

Figure 15: ROAA (LTM)



Source: FiinPro, Yuanta Vietnam

Figure 16: ROAE (LTM)



Source: FiinPro, Yuanta Vietnam

Basic Statistics

Figure 17: Large cap banks (>US\$2 bn) stock prices performance vs. VNINDEX from Jan – Nov 2021 (all start at 1)



Source: Bloomberg, Yuanta Vietnam

Figure 18: Medium and small cap banks (<US\$2 bn) stock prices performance from Jan – Nov 2021 (all starts at 1)



Source: Bloomberg, Yuanta Vietnam

Figure 19: Banks' stock cumulative monthly return from Aug 2018 – Nov 2021



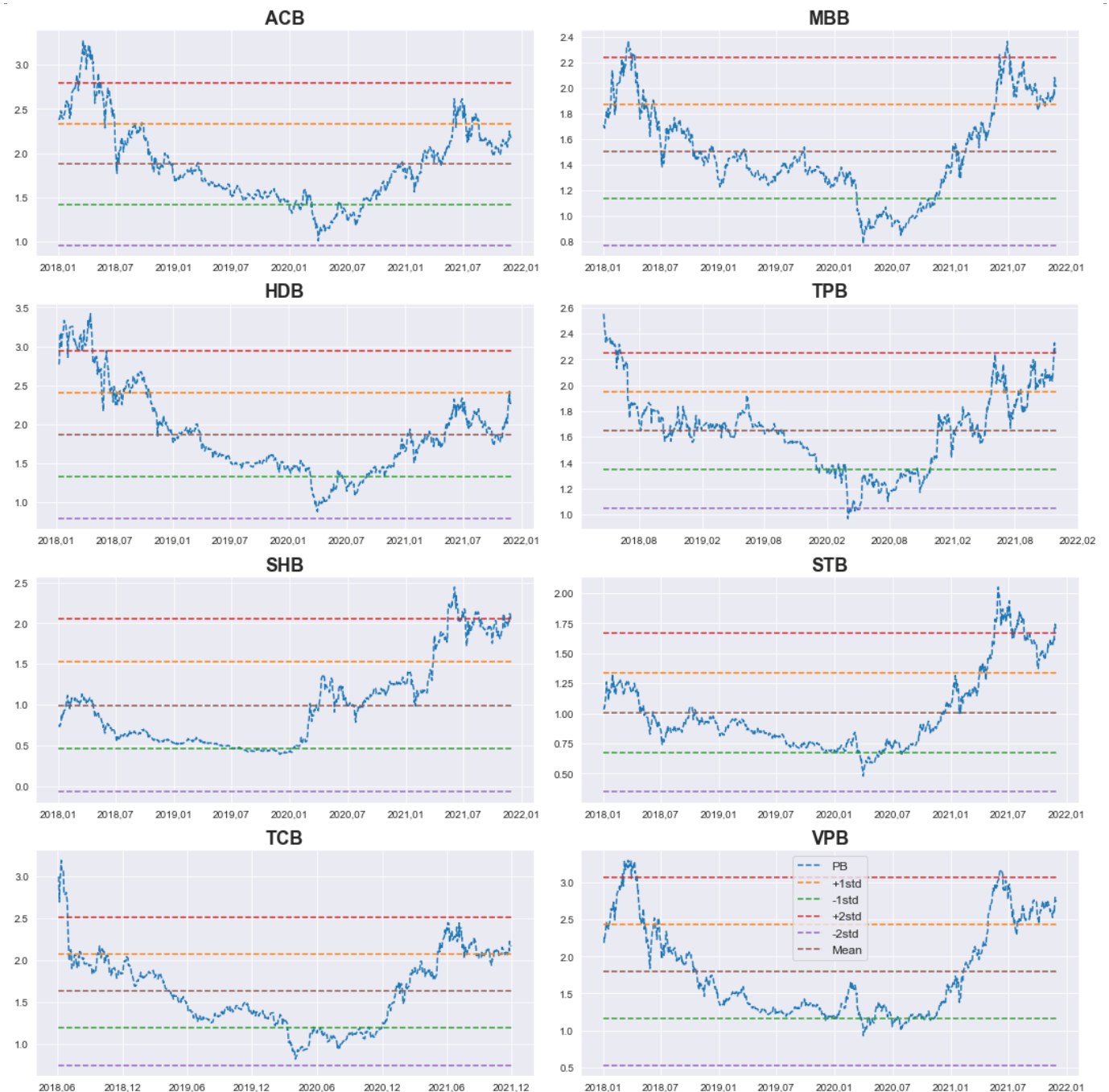
Source: Bloomberg, Yuanta Vietnam

Figure 20: Valuation – Current P/B of SOCBs (state-owned banks)



Source: Bloomberg, Yuanta Vietnam

Figure 21: Valuation – Current P/B of JOCBs



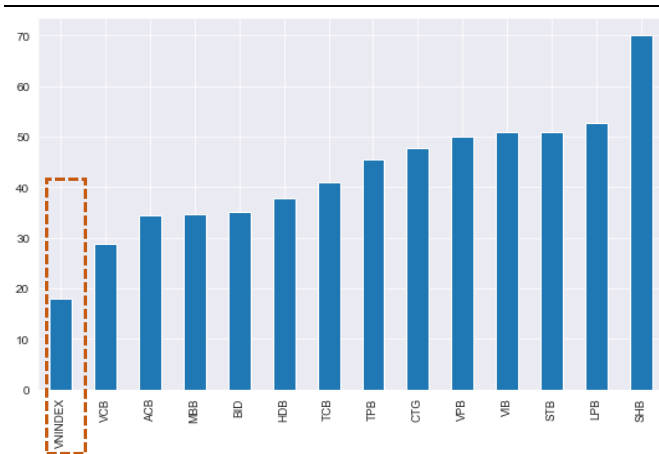
Source: Bloomberg, Yuanta Vietnam

Figure 22: Correlation between banks and VNINDEX (based on monthly return from Aug 2018 to Nov 2021)

	VNINDEX	BID	CTG	VCB	ACB	HDB	LPB	MBB	SHB	STB	TCB	TPB	VIB	VPB
VNINDEX	1.000000	0.761541	0.789774	0.810503	0.805649	0.788251	0.622151	0.853243	0.035386	0.661398	0.826043	0.591276	0.704206	0.754037
BID	0.761541	1.000000	0.734859	0.652634	0.650303	0.696400	0.515128	0.626546	0.030381	0.565816	0.725069	0.565425	0.589593	0.612004
CTG	0.789774	0.734859	1.000000	0.610824	0.868658	0.814274	0.691190	0.822323	0.328884	0.736745	0.764886	0.614236	0.773207	0.768754
VCB	0.810503	0.652634	0.610824	1.000000	0.589999	0.617475	0.348460	0.672946	-0.153535	0.348244	0.557089	0.370601	0.461202	0.508874
ACB	0.805649	0.650303	0.868658	0.589999	1.000000	0.852380	0.710167	0.838255	0.221285	0.733121	0.801396	0.601094	0.745714	0.776309
HDB	0.788251	0.696400	0.814274	0.617475	0.852380	1.000000	0.717831	0.804582	0.203737	0.820927	0.805213	0.651052	0.728251	0.715746
LPB	0.622151	0.515128	0.691190	0.348460	0.710167	0.717831	1.000000	0.678955	0.365030	0.865566	0.702027	0.462098	0.825015	0.646273
MBB	0.853243	0.626546	0.822323	0.672946	0.838255	0.804582	0.678955	1.000000	0.075654	0.727520	0.818375	0.647188	0.740283	0.744899
SHB	0.035386	0.030381	0.328884	-0.153535	0.221285	0.203737	0.365030	0.075654	1.000000	0.379757	0.096830	0.034077	0.283512	0.347807
STB	0.661398	0.565816	0.736745	0.348244	0.733121	0.820927	0.865566	0.727520	0.379757	1.000000	0.793667	0.630138	0.736215	0.698331
TCB	0.826043	0.725069	0.764886	0.557089	0.801396	0.805213	0.702027	0.818375	0.096830	0.793667	1.000000	0.726784	0.716907	0.755354
TPB	0.591276	0.565425	0.614236	0.370601	0.601094	0.651052	0.462098	0.647188	0.034077	0.630138	0.726784	1.000000	0.487873	0.553971
VIB	0.704206	0.589593	0.773207	0.461202	0.745714	0.728251	0.825015	0.740283	0.283512	0.736215	0.716907	0.487873	1.000000	0.682688
VPB	0.754037	0.612004	0.768754	0.508874	0.776309	0.715746	0.646273	0.744899	0.347807	0.698331	0.755354	0.553971	0.682688	1.000000

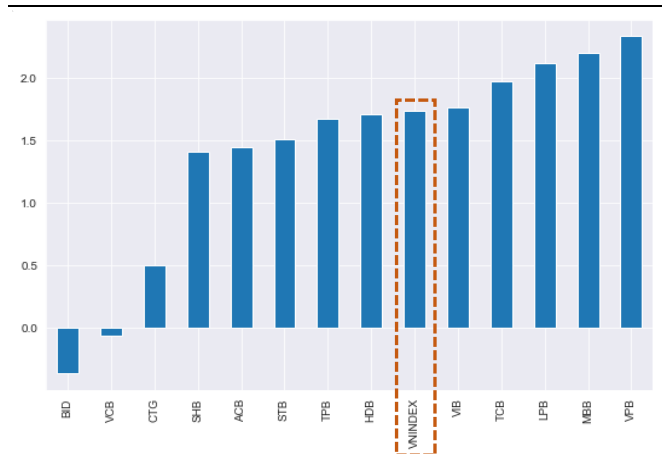
Source: Bloomberg, Yuanta Vietnam

Figure 23: Annualized volatility (Jan 2021–Nov 2021)



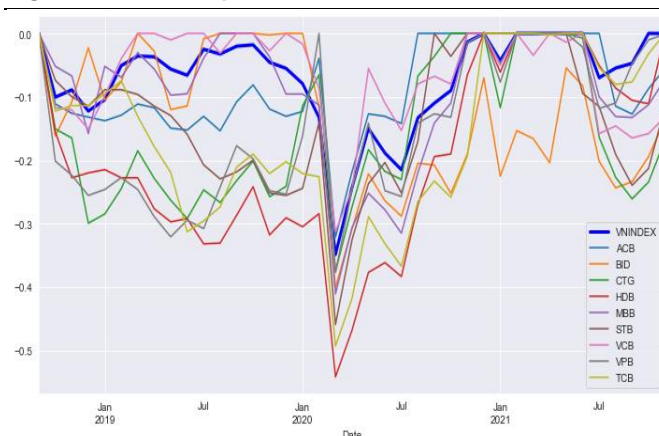
Source: Bloomberg, Yuanta Vietnam

Figure 24: Sharpe ratio (Jan 2021 – Nov 2021)



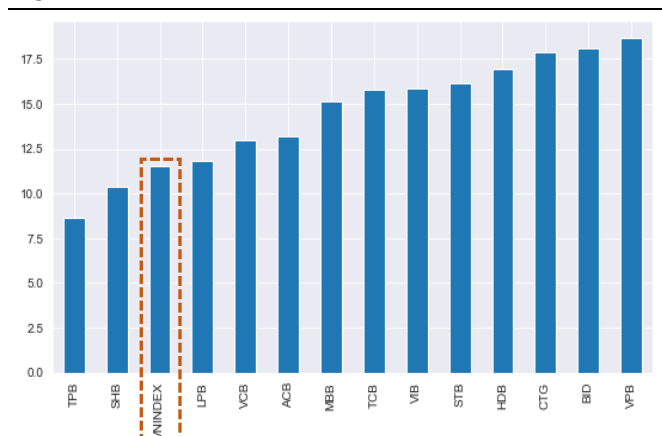
Source: Bloomberg, Yuanta Vietnam

Figure 25: Monthly drawdown



Source: Bloomberg, Yuanta Vietnam

Figure 26: Value at Risk (VaR) at 5% (08.2018–11. 2021)



Source: Bloomberg, Yuanta Vietnam

Appendix A: Important Disclosures

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Ratings Definitions

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

HOLD–Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

Global Disclaimer

© 2020 Yuanta. All rights reserved. The information in this report has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

This report provides general information only. Neither the information nor any opinion expressed herein constitutes an offer or invitation to make an offer to buy or sell securities or other investments. This material is prepared for general circulation to clients and is not intended to provide tailored investment advice and does not take into account the individual financial situation and objectives of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, investments or investment strategies discussed or recommended in this report. The information contained in this report has been compiled from sources believed to be reliable but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This report is not (and should not be construed as) a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on such business in that jurisdiction.

Yuanta research is distributed in the United States only to Major U.S. Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended and SEC staff interpretations thereof). All transactions by a US person in the securities mentioned in this report must be effected through a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, as amended. Yuanta research is distributed in Taiwan by Yuanta Securities Investment Consulting. Yuanta research is distributed in Hong Kong by Yuanta Securities (Hong Kong) Co. Limited, which is licensed in Hong Kong by the Securities and Futures Commission for regulated activities, including Type 4 regulated activity (advising on securities). In Hong Kong, this research report may not be redistributed, retransmitted or disclosed, in whole or in part or and any form or manner, without the express written consent of Yuanta Securities (Hong Kong) Co. Limited.

Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities Investment Consulting
4F, 225,
Section 3 Nanking East Road, Taipei 104
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities (Hong Kong) Co. Ltd
23/F, Tower 1, Admiralty Centre
18 Harcourt Road,
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office
Yuanta Securities Building

Euljiro 76 Jung-gu
Seoul, Korea 100-845
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
PT YUANTA SECURITIES INDONESIA
(A member of the Yuanta Group)
Equity Tower, 10th Floor Unit EFGH
SCBD Lot 9
Jl. Jend. Sudirman Kav. 52-53
Tel: (6221) - 5153608 (General)

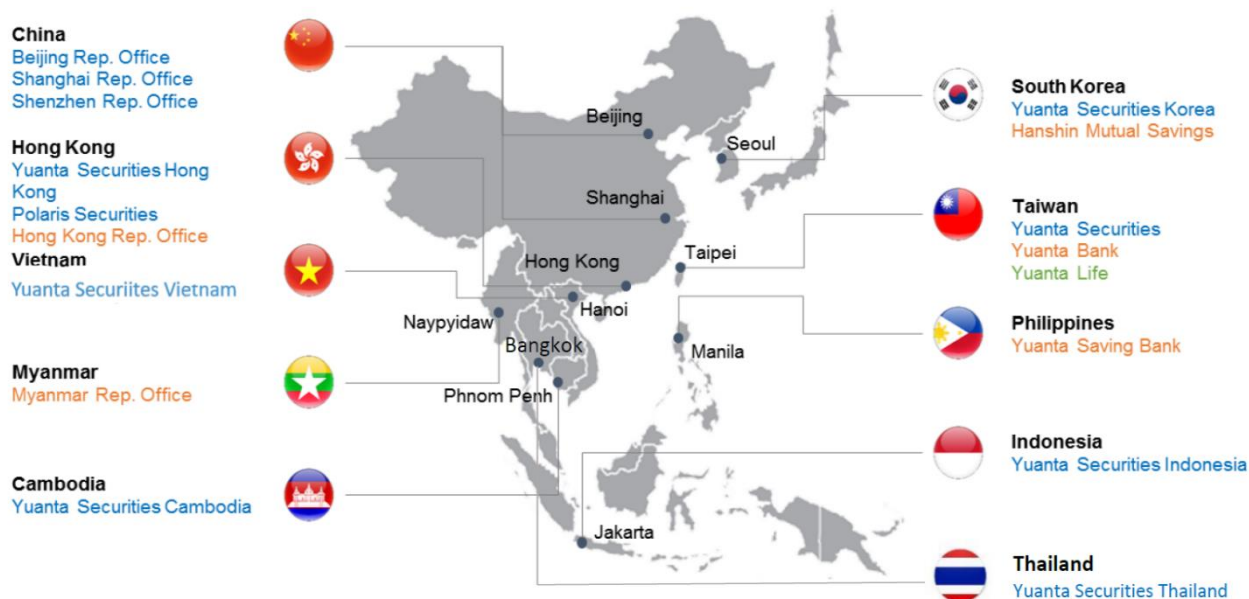
Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Thailand)
127 Gaysorn Tower, 16th floor
Ratchadamri Road, Pathumwan
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Vietnam)
4th Floor, Saigon Centre
Tower 1, 65 Le Loi Boulevard,
Ben Nghe Ward, District 1,
HCMC, Vietnam

YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA

Head of Research

Tel: +84 28 3622 6868 (ext. 3815)

matthew.smith@yuanta.com.vn

Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

binh.truong@yuanta.com.vn

Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

tam.nguyen@yuanta.com.vn

Tanh Tran

Deputy Manager (Banks)

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Di Luu

Assistant Analyst

Tel: +84 28 3622 6868 (ext. 3845)

di.luu@yuanta.com.vn

Institutional Sales

Huy Nguyen

Head of Institutional sales

Tel: +84 28 3622 6868 (3808)

Huy.nguyen@yuanta.com.vn

Trung Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

trung.nguyen1@yuanta.com.vn

Anh Nguyen

Sales Trader Supervisor

Tel: +84 28 3622 6868 (ext. 3890)

anh.nguyen2@yuanta.com.vn