

Bank Sector: Dividend Policy Assessment

15 April 2024

Stock code	Yuanta Rating	Current price (VND)	Target price (VND)	12-m TSR*
ACB VN	BUY	28,000	33,790	24%
BID VN	HOLD-UPF	53,400	47,470	-11%
HDB VN	BUY	24,300	29,450	25%
MBB VN	BUY	24,650	32,480	34%
STB VN	HOLD-OPF	29,100	34,930	20%
VCB VN	BUY	94,600	106,910	13%
VPB VN	BUY	19,700	23,400	24%

Source: Bloomberg (pricing date: Apr 12), Yuanta Vietnam

What's new?

- Presenting our evaluation of dividend policies among the Vietnam banks.
- Investors love dividends but should determine whether cash payouts are too high, too low, or just right.
- Our framework comprises four financial criteria: FCFE, excess return, Jensen's alpha, and Tier 1 capital ratios.

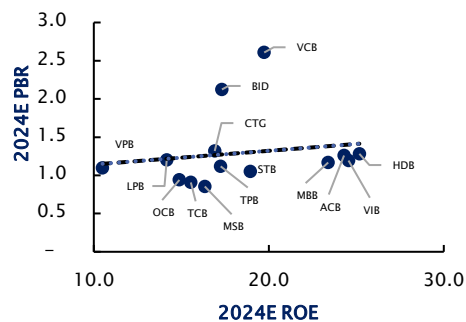
Our view

- Dividend policy is appropriate at most of the JSC banks under our coverage – (e.g., ACB, HDB, MBB, and VPB) given their strong FCFE and capital positions.
- STB's zero payout is an exception among the JSCs due to restructuring.
- State-owned banks should not pay cash dividends in our view, as capital levels are too low, especially at BID.

Dividend policy assessment framework

Current cash flow	Excess Return	Jensen Alpha	Tier 1	Conclusion
FCFE > Dividends	ROE < COE	Stock return < COE	Tier 1 > 8%	Highest
FCFE > Dividends	ROE >= COE	Stock return >= COE	Tier 1 = 8%	Consider paying more dividends
FCFE > Dividends	ROE > COE	Stock return > COE	Tier 1 = 8%	Allow cash accumulation
FCFE < Dividends	ROE < COE	Stock return < COE	Tier 1 = 8%	Reduce dividends over time
FCFE < Dividends	ROE >= COE	Stock return >= COE	Tier 1 = 8%	Cut dividends now
FCFE < Dividends	ROE > COE	Stock return > COE	Tier 1 < 8%	Stop paying dividends

Source: Yuanta Vietnam
(Please see page 2 for more details)



Source: Bloomberg, Yuanta Vietnam

Dividend assessment: High, low, or appropriate?

Presenting our evaluation of the banks' cash dividend policies. Our framework assesses the total cash that the banks return to their shareholders through dividends and share buybacks and determines the appropriateness of these capital distribution policies.

Our analysis begins by calculating free cash flow to equity (FCFE), which determines how much cash is available for distribution to shareholders. We compare this figure to the actual cash dividend payouts and share buybacks of each respective bank.

We combine this with three other criteria -- excess return, Jensen's alpha, and capital levels -- to determine whether each bank's cash dividend and share buyback policies are too high, too low, or appropriate.

The framework also suggests an appropriate future dividend policy. Comparing forecast FCFE and potential management decisions about cash dividend payouts results in two extreme cases: A bank should --

1) Return cash to shareholders immediately if the following conditions emerge: FCFE > Dividends; ROE is less than COE; stock return is less than COE; and Tier 1 is greater than 8%.

2) Stop returning cash to shareholders if the following conditions occur: FCFE < Dividends; ROE > COE; Stock return > COE; and Tier 1 < 8%.

Our Conclusions:

Cash dividend policies are appropriate at most of the JSC banks under our coverage (i.e. ACB, HDB, MBB, and VPB), given their strong FCFE, high excess returns, significant Jensen alpha, and robust capital levels.

STB is an exception. The restructuring precludes the bank from paying dividends, but we believe that STB should not pay cash dividends even after the restructuring is complete given its Tier 1 ratio of less than 8%.

State-owned banks should not return cash given their relatively low capital levels, particularly at BID. However, BID & VCB both plan to raise capital, which should improve their balance sheets. We estimate Tier 1 ratio to increase to 8% for BID (see p.48) and 13% for VCB (see p.27).

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Research Analyst:

Tanh Tran

+84 28 3622 6868 ext 3874

tanh.tran@yuanta.com.vn

Bloomberg code: YUTA

Below is our framework for dividend policies assessment of banks

Current cash flow	Excess Return	Jensen Alpha	Tier 1	Conclusion: Pressure to return cash
FCFE > Dividends	ROE < COE	Stock return < COE	Tier 1 > 8%	Highest
FCFE > Dividends	ROE ≥ COE	Stock return ≥ COE	Tier 1 = 8%	Consider paying more dividends
FCFE > Dividends	ROE > COE	Stock return > COE	Tier 1 = 8%	Allow cash accumulation
FCFE < Dividends	ROE < COE	Stock return < COE	Tier 1 = 8%	Reduce dividends over time
FCFE < Dividends	ROE ≥ COE	Stock return ≥ COE	Tier 1 = 8%	Cut dividends now
FCFE < Dividends	ROE > COE	Stock return > COE	Tier 1 < 8%	Stop paying dividends

Notes:

- *Free Cash Flow to Equity (FCFE) is the difference between net income and the change in regulatory capital during the measured period.*
- *Please note that for banks that have Tier 1 capital of below 8% (i.e. BID and STB), we input 8% when computing change in regulatory capital and FCFE.*
- *Cash paid includes cash dividends and share buybacks.*
- *We use our 2024E forecasts for all the banks mentioned in this report except TCB (Not Rated), for which we use the Bloomberg consensus forecast and payout based on the bank's announced cash dividend plans.*
- *We calculate cost of equity (COE) using the CAPM, using the risk-free rate and market return (VNINDEX) of 2023.*
- *Excess return: ROE – COE*
- *Jensen's alpha is the difference between the stock return and cost of equity.*

We apply the above framework to banks as follows (please see the next page):

Banks	FCFE vs. cash paid (VND bn)	ROE, COE, and Jensen Alpha	Conclusion
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ACB

Year	2023	2024E
FCFE	8,258	9,800
Dividend paid	3,377	3,884
Share buyback	-	-
Total cash paid	3,377	3,884
FCFE – Cash paid	4,881	5,916

Performance Ratios	2023
1. Accounting Measure	
ROE	24.4%
Required rate of return	12.6%
ROE – Cost of Equity	11.9%
2. Stock Performance Measure	
Returns on stock	30.6%
Required rate of return	12.6%
Jensen's alpha	18.0%

According to our dividend assessment framework:

- FCFE > Dividends
- ROE > COE
- Stock return > COE
- Tier 1 (12.9%) > 8.0%

ACB's FCFE was higher than its dividend payment in 2023. It generated excess return of about 12% and delivered significant alpha for its shareholders of 18%.

Thus, ACB should retain its current cash dividend policy. It would also be acceptable to reduce cash payouts given its high excess return and Jensen's alpha.

BID

Year	2023	2024E
FCFE	(22,036)	(2,517)
Dividend paid	-	-
Share buyback	-	-
Total cash paid	-	-
FCFE – Cash paid	(22,036)	(2,517)

Performance Ratios	2023
1. Accounting Measure	
ROE	17.2%
Required rate of return	11.8%
ROE – Cost of Equity	5.4%
2. Stock Performance Measure	
Returns on stock	26.7%
Required rate of return	11.8%
Jensen's alpha	14.9%

- FCFE < 0
- ROE > COE
- Stock return > COE
- Tier 1 (6.4%) < 8.0%

BID didn't pay any cash dividend in 2023. It generated excess return of about 5% (lower than ACB's 12%) and delivered high alpha for its shareholders of 15%.

Most importantly, BID's Tier 1 (6.4%) is less than 8.0%.

Thus, BID should continue to retain earnings and should not pay cash dividends.

HDB

Year	2023	2024E
FCFE	6,429	3,836
Dividend paid	2,515	2,893
Share buyback	-	-
Total cash paid	2,515	2,893
FCFE – Cash paid	3,914	943

Performance Ratios	2023
1. Accounting Measure	
ROE	24.7%
Required rate of return	13.3%
ROE – Cost of Equity	11.4%
2. Stock Performance Measure	
Returns on stock	46.3%
Required rate of return	13.3%
Jensen's alpha	33.0%

- FCFE > Dividends
- ROE > COE
- Stock return > COE
- Tier 1 (10%) > 8%

HDB's FCFE was higher than its dividend payment in 2023. It generated excess return of about 11% and delivered substantial alpha for its shareholders of 33%.

Thus, HDB should stick with its current cash dividend policy. It could also consider reducing cash payment to strengthen its Tier 1 capital given its high excess return and alpha.

MBB

Year	2023	2024E
FCFE	3,552	6,459
Dividend paid	2,267	2,607
Share buyback	-	-
Total cash paid	2,267	2,607
FCFE – Cash paid	1,285	3,852

Performance Ratios	2023
1. Accounting Measure	
ROE	23.1%
Required rate of return	12.9%
ROE – Cost of Equity	10.2%
2. Stock Performance Measure	
Returns on stock	25.4%
Required rate of return	12.9%
Jensen's alpha	12.5%

- FCFE > Dividends
- ROE > COE
- Stock return > COE
- Tier 1 (9.7%) > 8.0%

MBB's FCFE was slightly higher than its dividend payment in 2023. It generated excess return of about 10% and delivered alpha of 13%.

Thus, MBB should maintain its current cash dividend policy. However, it could also consider reducing its cash payment to strengthen its Tier 1 given its high ROE and positive alpha. MBB's Tier 1 ratio of 9.7% is far below that of ACB, at 12.9%.

STB

Year	2023	2024E
FCFE	(1,063)	575
Dividend paid	-	-
Share buyback	-	-
Total cash paid	-	-
FCFE – Cash paid	(1,063)	575

Performance Ratios	2023
1. Accounting Measure	
ROE	16.1%
Required rate of return	13.3%
ROE – Cost of Equity	2.8%
2. Stock Performance Measure	
Returns on stock	24.2%
Required rate of return	13.3%
Jensen's alpha	10.9%

- FCFE < 0
- ROE > COE
- Stock return > COE
- Tier 1 (7.8%) < 8.0%

Even if FCFE were positive, the SBV would not allow STB to pay dividend as it is still under the restructuring plan. We expect STB to complete restructuring by end-2024 and the bank will be able to pay dividend.

We estimate that STB will generate positive FCFE in 2024E. However, **we don't think that STB should pay any cash dividend given its low Tier 1 ratio of only 7.8%.**

Banks	FCFE vs. cash paid (VND bn)		ROE, COE, and Jensen Alpha		Conclusion		
VCB	Year	2023	2024E	Performance Ratios		<ul style="list-style-type: none"> • High FCFE • ROE > COE • Stock return > COE • Tier 1 (10%) > 8% <p>VCB's FCFE is significantly higher than almost any other Vietnam bank's. VCB did not pay any cash dividend in 2023, but it plans to do so in 2024.</p> <p>We think it is acceptable for VCB to retain earnings and avoid cash dividend payouts given its high excess return of 10% and Jensen's alpha of 13%.</p> <p>VCB's capital level is relatively low compared to the JSC banks. Thus, VCB should not return cash.</p>	
	FCFE	20,765	13,389	2023			
	Dividend paid	-	-	1. Accounting Measure			
	Share buyback	-	-	ROE	23.1%		
	Total cash paid	-	-	Required rate of return	12.9%		
	FCFE - Cash paid	20,765	13,389	ROE - Cost of Equity			10.2%
				2. Stock Performance Measure			
			Returns on stock	25.4%			
			Required rate of return	12.9%			
			Jensen's alpha		12.5%		

VPB	Year	2023	2024E	Performance Ratios		<ul style="list-style-type: none"> • FCFE < Dividends • ROE < COE • Stock return < COE • Tier 1 (17%) > 8% <p>Though VPB's FCFE was slightly lower than its cash dividends in 2023, its ROE was lower than COE. In 2023, VPB's stock return was far below its required rate of return.</p> <p>VPB's 17% Tier 1 ratio is by far the highest in the sector.</p> <p>Thus, we think VPB should continue to pay out cash dividends.</p>	
	FCFE	7,342	6,642	2023			
	Dividend paid	7,934	7,934	1. Accounting Measure			
	Share buyback	-	-	ROE	8.7%		
	Total cash paid	7,934	7,934	Required rate of return	12.9%		
	FCFE - Cash paid	(592)	(1,292)	ROE - Cost of Equity			-4.3%
				2. Stock Performance Measure			
			Returns on stock	7.3%			
			Required rate of return	12.9%			
			Jensen's alpha		-5.7%		

TCB	Year	2023	2024E	Performance Ratios		<ul style="list-style-type: none"> • FCFE > 0 • ROE > COE (but slightly) • Stock return > COE • Tier 1 (14.8%) > 8.0% <p>We don't cover TCB, so we use the Bloomberg consensus forecasts for this exercise.</p> <p>Historically, TCB did not dividends despite positive FCFE. ROE was just slightly higher than COE in 2023. TCB generated positive alpha of about 8%, but this was far below the likes of ACB (18%) & HDB (33%).</p> <p>TCB has the second highest Tier 1 capital ratio in the sector.</p> <p>Thus, we think TCB should continue to return cash to shareholders.</p>	
	FCFE	3,018	6,020	2023			
	Dividend paid	-	5,284	1. Accounting Measure			
	Share buyback	-	-	ROE	14.7%		
	Total cash paid	-	5,284	Required rate of return	12.9%		
	FCFE - Cash paid	3,019	736	ROE - Cost of Equity			1.8%
				2. Stock Performance Measure			
			Returns on stock	21.4%			
			Required rate of return	12.9%			
			Jensen's alpha		8.4%		

Appendix A: Important Disclosures

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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

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YUANTA SECURITIES VIETNAM OFFICE

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

Matthew Smith, CFA

Head of Research

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

matthew.smith@yuanta.com.vn

Tanh Tran

Analyst (Banks)

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

tanh.tran@yuanta.com.vn

Di Luu

Analyst (Consumer)

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

di.luu@yuanta.com.vn

Institutional Sales

Lawrence Heavey

Head of Institutional Sales

Tel: +84 28 3622 6868 (ext. 3835)

lawrence.heavey@yuanta.com.vn

Dat Bui

Sales Trader

Tel: +84 28 3622 6868 (ext. 3941)

dat.bui@yuanta.com.vn

Binh Truong

Deputy Head of Research (O&G, Energy)

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

binh.truong@yuanta.com.vn

Tam Nguyen

Analyst (Property)

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

tam.nguyen@yuanta.com.vn

An Nguyen

Assistant Analyst

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

an.nguyen@yuanta.com.vn

Anh Nguyen

Sales Trader Supervisor

Tel: +84 28 3622 6868 (ext. 3909)

anh.nguyen2@yuanta.com.vn

Hien Le

Sales Trader

Tel: +84 28 3622 6868

hien.le@yuanta.com.vn

Vi Truong

Sales Trader

Tel: +84 28 3622 6868 (ext. 3940)

vi.truong@yuanta.com.vn