RONG VIET SECURITIES

PRELIMINARY 2H2021 OUTLOOK

BANKING

CAUTIOUSLY OPTIMISTIC ABOUT THE HEADWINDS

Tam Pham – tam.ptt@vdsc.com.vn
Thanh Nguyen – thanh.nn@vdsc.com.vn

6M2021: unimpacted earnings growth in the context of complicated development of the pandemic…

- Interruptions caused by the pandemic outbreaks did not have a material impact on demand in general: credit and deposit bases expanded robustly, payment transaction rose, and asset markets bloomed. Earnings results show robust growth across the board, with +57% YoY on average in 1H21.

… due to NIM expansion on low base and idiosyncratic drivers

- The driving factors are different among banks. Some were supported by the low comparison base due to the impact of the initial interest rate cut last year, while other experienced robust non-interest income growth in bancassurance, bond trading, and settlement income. Non-recurring items were profit engine at several banks. Most of those experienced strong NIM expansion.
- Repricing gap and structural change in the funding mix widened NIM. It caused the lending-deposit rat gap to extend. Fastened CIR reduction due to digitalization and easing credit costs given the supportive Circular 03 are favorable conditions for PBT growth. Besides, there were catalysts backing up the stock price rally at several banks such as dividend and divestment.

Figure 1: Stock performance of listed banks in 1H2021 (%, YTD)

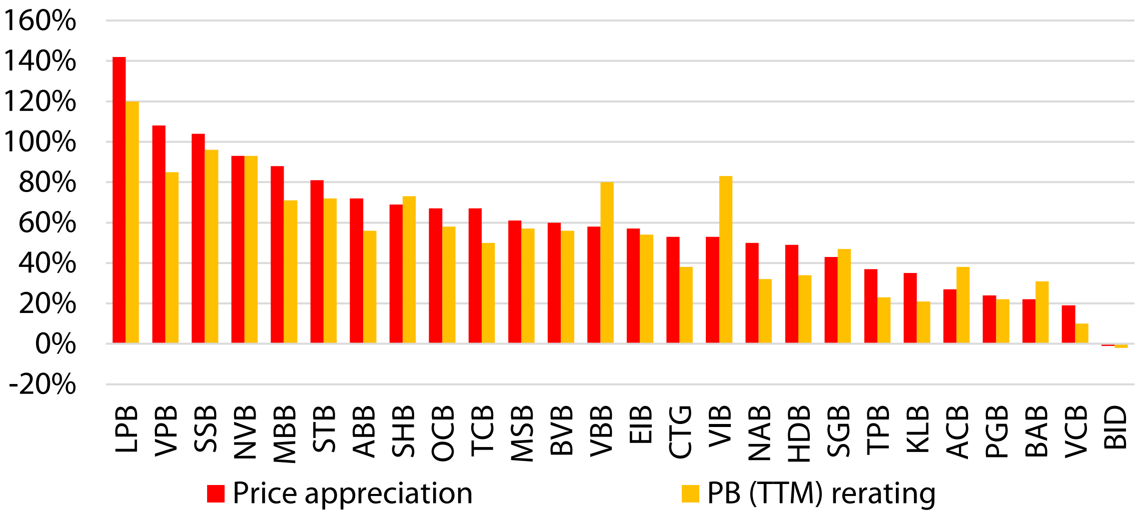
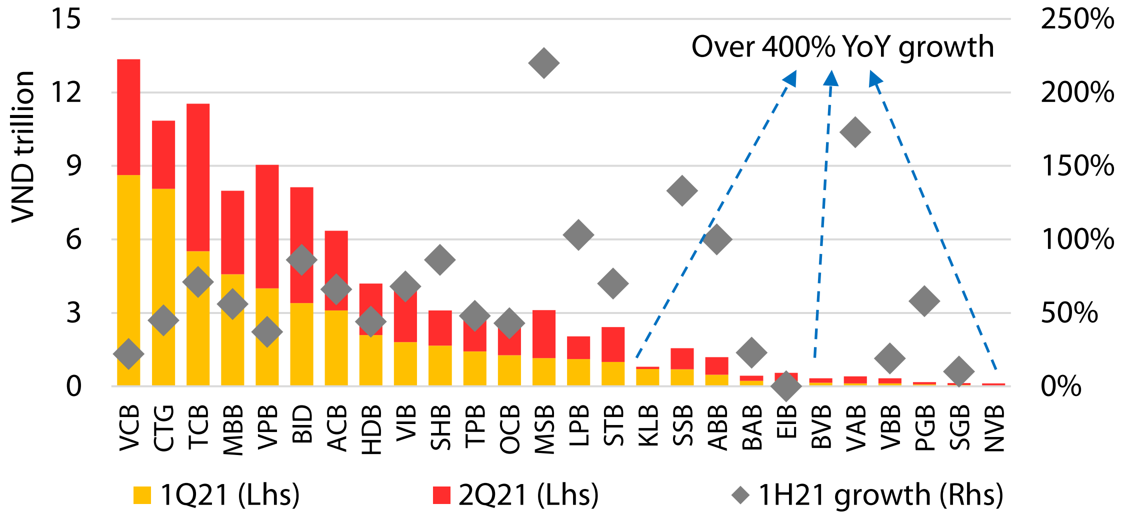


Figure 2: Quarterly PBT and 1H2021 growth (VND, %YoY)



Source: Fiinpro, RongViet Securities

Credit growth accelerated after December 2020, while deposit growth sustained the momentum

- 1H2021 credit growth was at 6.5%, higher than that of 1H2020 (3.7%). Deposit growth in 1H2021 was slightly lower than 1H2020 (4.1% versus 4.7% respectively). Credit demand was resilient despite two major Covid outbreaks. The credit - deposit growth gap turned positive but there was no pressure on liquidity. This meets our expectation posted in the 2021 Strategy Report: the system's liquidity was able to afford a positive gap in 1.0-1.5 years.

Uneven demand across industries concerns authorities, but forward-looking credit growth stays resilient

- There might be a "K-shape" impact: different parts of the economy were hit at different times and magnitudes. This left the demand intact in several regions and sectors where the capital flowed into. Real estate was one of those, where authorities was worried about speculation.
- The macroenvironment was within our scenarios in 1H2021. We maintain the prior forecast of credit (13.1%) and deposit growth (10.8%). The conclusion of Covid-19 to us is uncertain and can not be projected. Therefore, we stay cautiously optimistic on the banking sector given the supportive policies.

Figure 3: Deposit growth (Base = 2018)

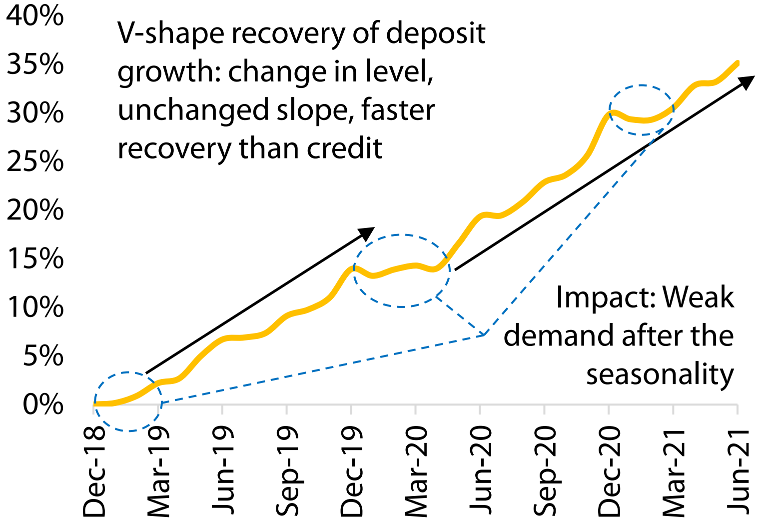


Figure 4: Credit growth (Base = 2018)

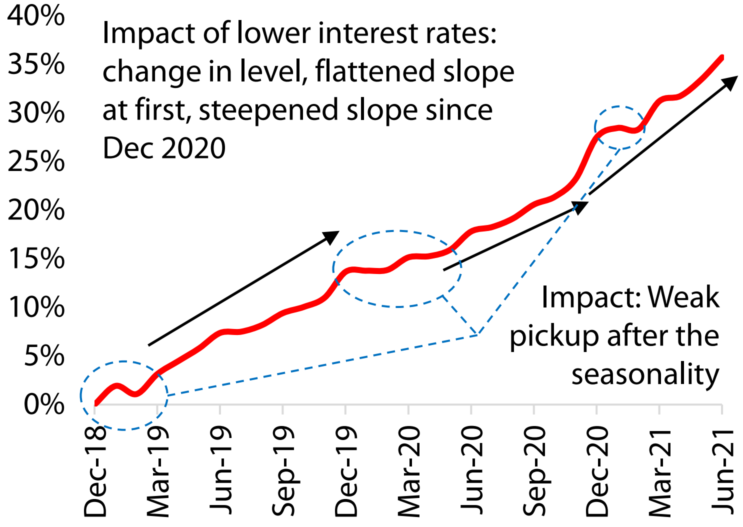
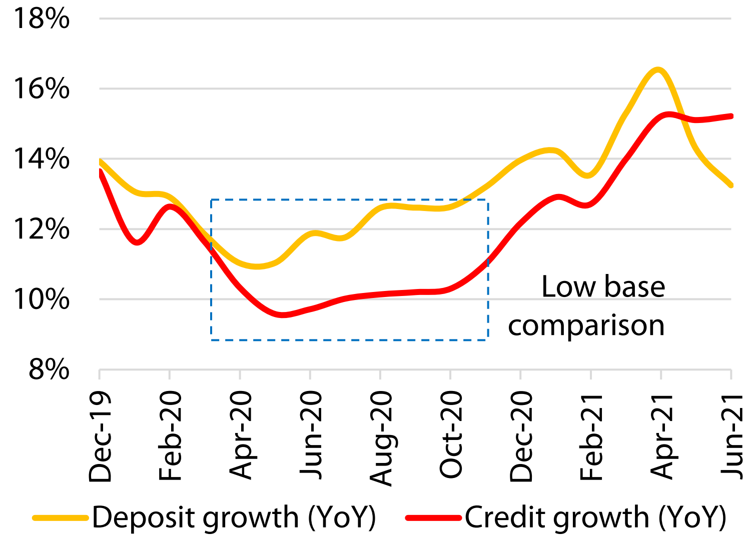


Figure 5: Credit and deposit growth (YoY)



Source: SBV, RongViet Securities

Figure 6: Auctioned government bond in 1H2021 (vertical percentage: winning rate, %; arrow: range of bidding yield, %)

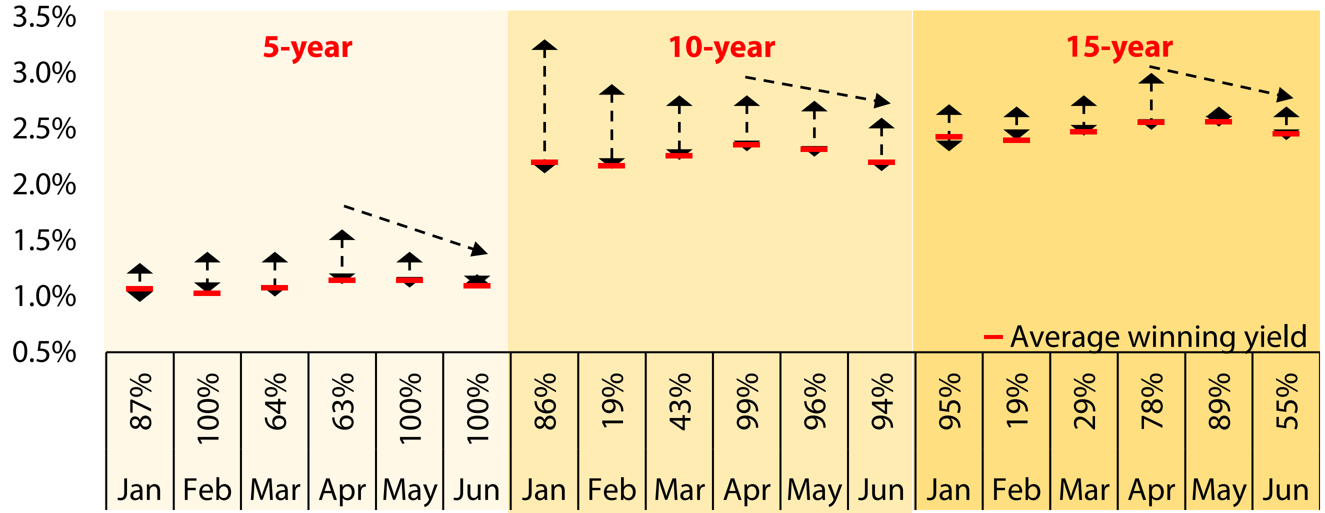
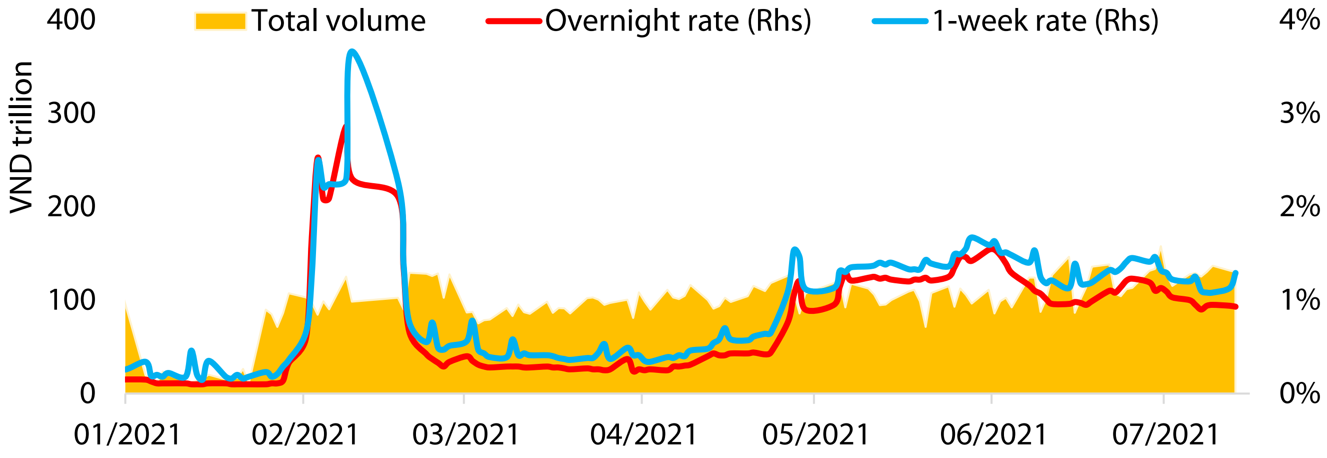


Figure 7: Interbank rate in 1H2021



Source: SBV, Fiinpro, RongViet Securities

Liquidity remained abundant in 1H2021

- Interbank rates stayed low since the mid 2020. It was up during seasonal periods due to local lack of liquidity.
- Generally, ample liquidity directed the bank resources into low yield high quality liquid assets, given negligible interest paid on excessive reserves and interbank loans. Thereby, government bond yields were low. The winning rate increased, and the yield fell toward mid-year, as looking-forward liquidity further improved due to the expiration of the currency forward contracts with SBV.
- Liquidity in 2H2021 is expected to remain bid due to the lower-than-expected credit quota as the SBV is conservative.

Expecting to maintain credit growth momentum backed by firm liquidity buffer in 2H2021

- Given the latest interest rate package, the supportive monetary policy and no liquidity constraint, we are optimistic about the forward credit expansion.

6M2021: NIM thrived on low base as lending-deposit rate gap widened

- Annualized NIM increased since the mid-2020, after the effect of repricing faded out. Deposit rates continuously decreased with better CASA base while lending rates were stagnant.

Possibly higher NIM at some banks towards year end, depending on CASA

- Retail has been the dominant CASA driver as corporate CASA declined due to optimization of cash flow at firms. In 2H2021, the continuous shift into retail banking, retail penetration backed by the cashless payment trend, and digital transformation will make the CASA race more competitive, probably on the fee side, and drive CASA at different pace among banks.

Figure 8: Annualized NIM of listed banks (%)

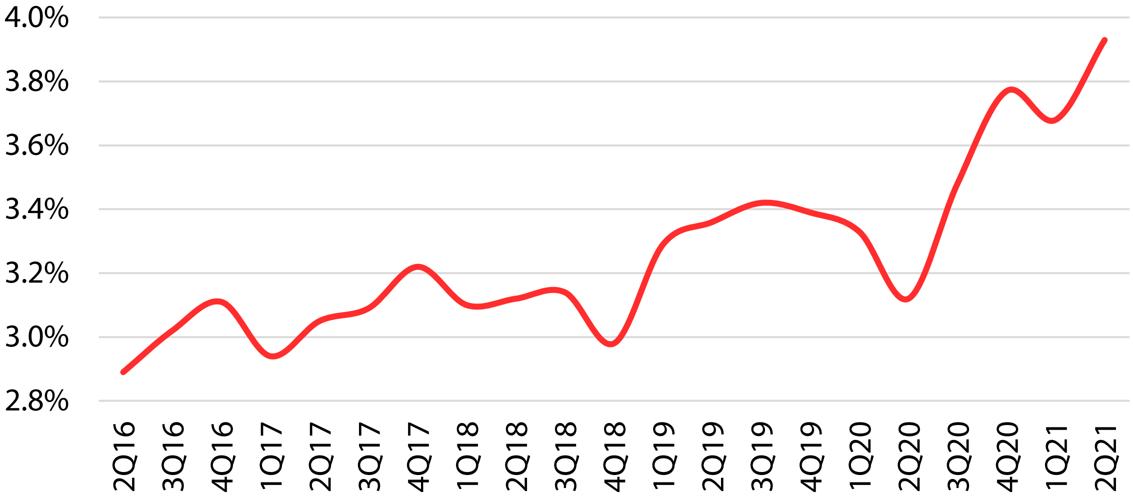


Figure 9: Sector retail CASA ratio (%)

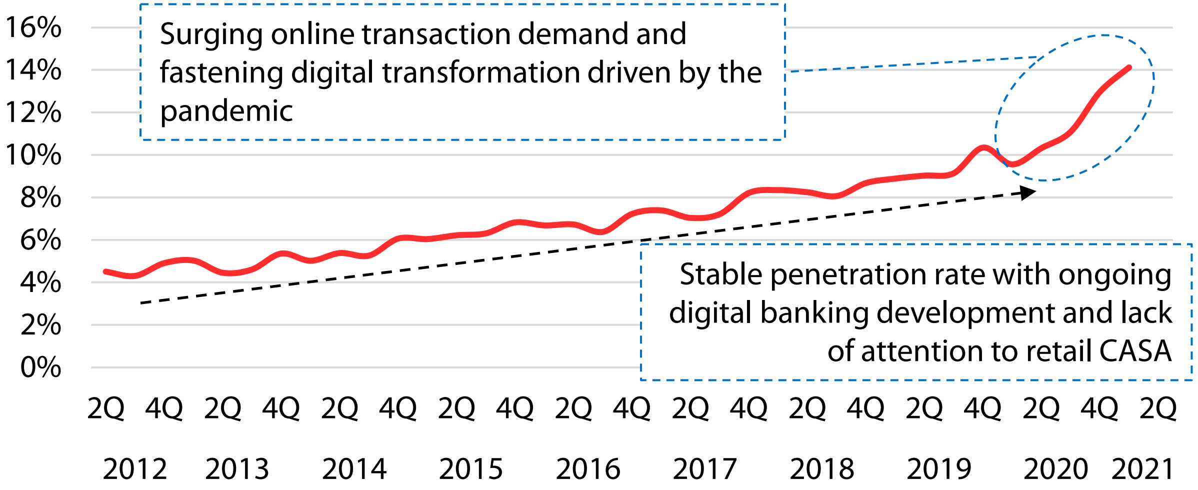
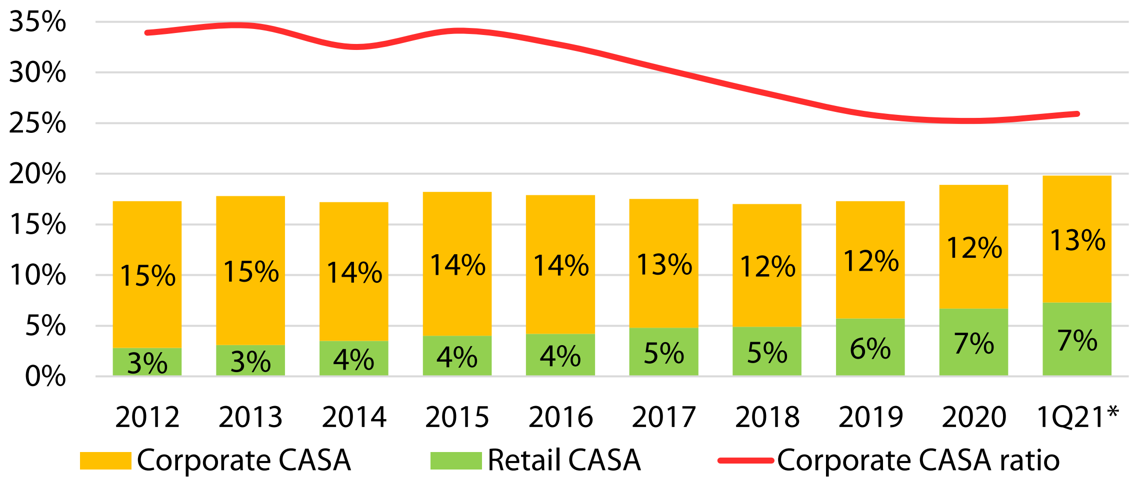


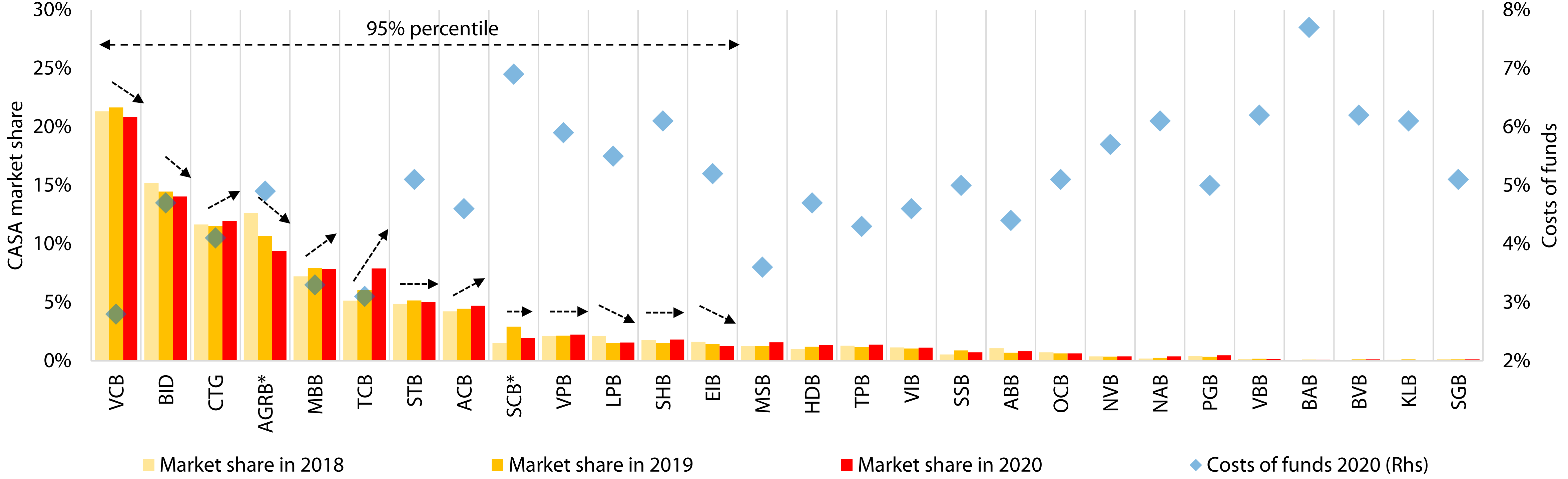
Figure 10: Corporate CASA ratio and sector CASA breakdown (%)



*Source: SBV, Banks' FS, RongViet Securities. Corporate CASA is estimated from banking group holding 86-87% of deposit market share. * indicates calculation from banking group holding 72% of market share.*

Figure 11: CASA market share in the last three years and 2020 funding costs (%)

*Source: SBV, Fiinpro, RongViet Securities. Banks with * are unlisted*



The CASA race: severe competition leaves small and traditional banks behind

- *In the 95% percentile, CASA market share improved at leading private commercial banks. This interest non-sensitive liability costs low and helps develop a stable funding structure. Larger banks tend to have higher CASA market share and better funding mix, thereby, having lower costs of funds. The funding costs will affect the pricing of lending products at smaller banks , usually leading to riskier loan portfolio and volatile risk-adjusted NIM, which affect profitability and balance sheet growth.*
- *In the past, retail CASA did not have market's attention due to its low contribution, undeveloped digital banking, and slow-changing consumer behavior, while leading banks with advantage of relationships with large corporates were outstanding due to the high level of corporate CASA. In the future, we expect banks which deliver added-value non-interest products led by convenience, accessibility and agility to have the advantage of retail CASA franchise.*

Interest rate packages are headwinds for NIM

- Despite the stickiness due to benchmarking to longer-term interest rates, direct supportive credit packages drove lending yield lower. However, given the different reset and maturity gap, banks experienced inconsistent fall in lending yield regarding level, timing and magnitude, depending on the structure of loan book. It pressures NIM and therefore, affecting the efficiency of balance sheet growth. We expect lending yield to further decline in 2H2021 as extensive packages are released, but the level will be polarized among banks. In 2022, lending rates could pickup if the pandemic outbreak is less severe.

The low yield environment affects the optimization of assets, promoting liquidity position

- Low yield on non-loan assets and insufficient credit quota negatively affect the optimized asset structure and help keeps government bond yield low. It leads to the abundance of liquidity, shift in investment portfolio allocation and higher proportion of interbank deposits and excessive reserves.

Figure 12: Average loan yield (annualized, %)

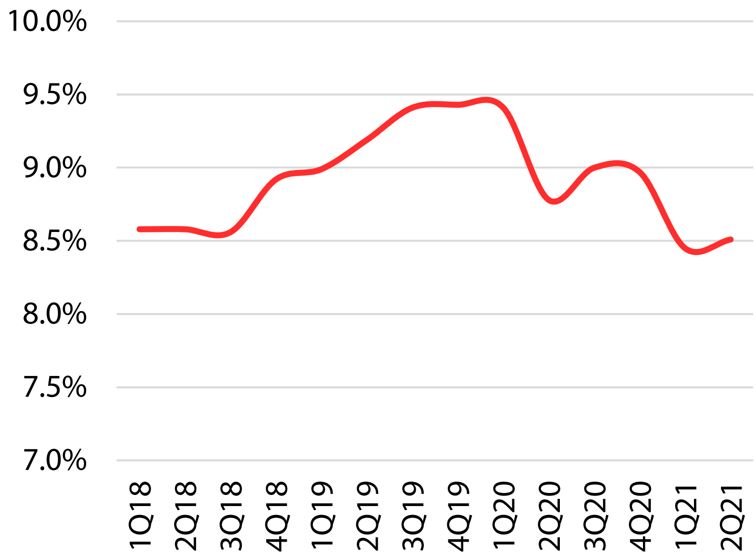


Figure 13: Average yield on reserves and interbank (annualized, %)

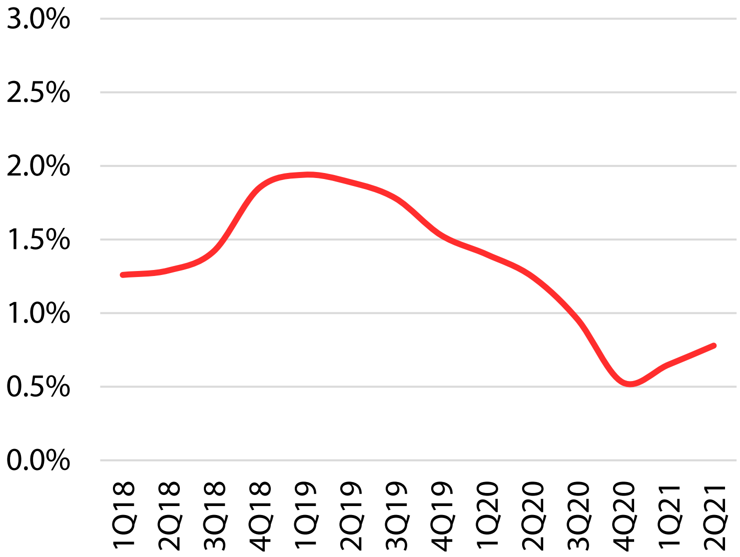
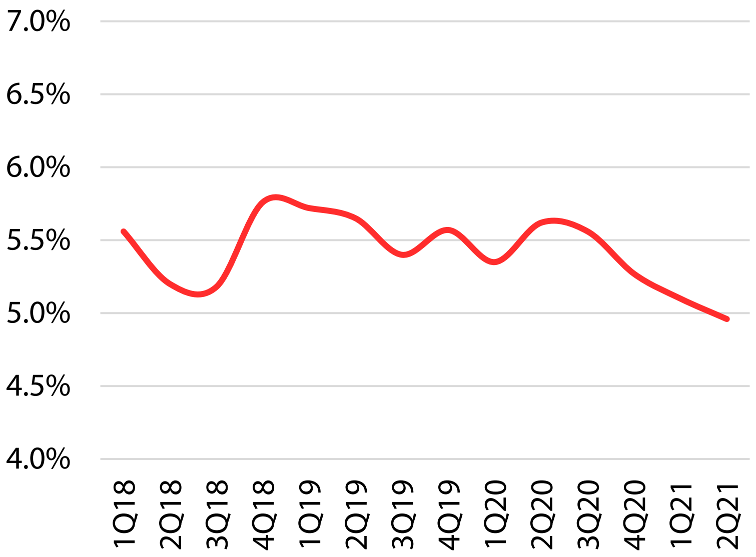


Figure 14: Average yield on debt securities (annualized, %)



Source: Fiinpro, RongViet Securities

Funding structure changed to afford credit growth and meet regulatory limits

- There was a trend of expanding the balance sheet with interbank funds on both side of the balance sheet at several banks approaching the LDR limit, which was enabled by stably low interbank rates. Given the constitutional CASA trend, some banks planned on funding high growth with valued papers to achieve a stable funding base and take advantage of the current low yield environment. The allocation of funding base shifted toward interbank funds (interbank deposit and borrowings) and bonds. We expect the pattern to continue in 2H21 and probably in 1H2022 based on forward interbank rates.

Change in deposit maturity gap and higher CASA ratio secure a competitive funding base

- We estimated a shift in deposit allocation towards shorter time maturities. Combined with the enhanced CASA ratio, the funding base of the sector was strengthened generally. We expect the deposit restructure to end soon, implying a flat annualized yield on term deposits for 2H2021. The further improvement in funding costs and average deposit rates will depend on the CASA ratio development.

Figure 15: Funding mix (%)

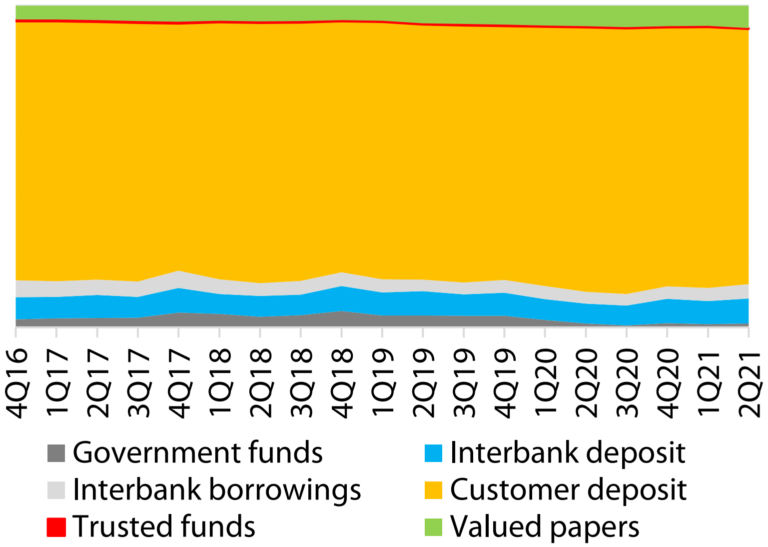


Figure 16: Funding costs (annualized, %)

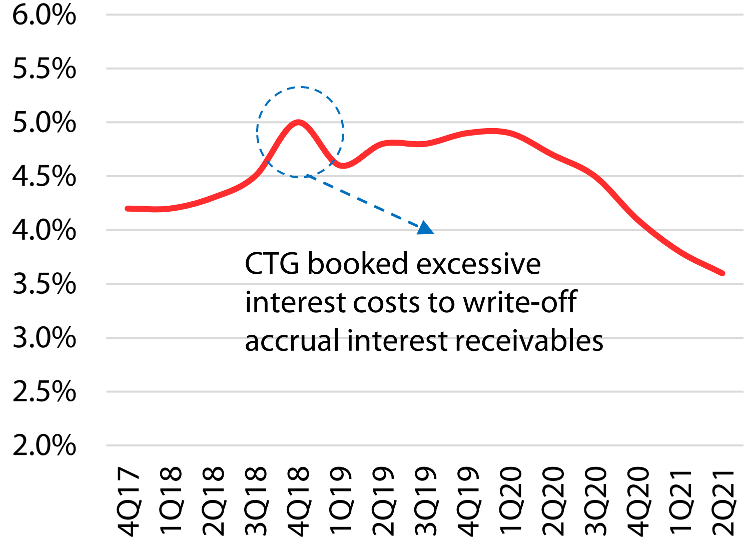
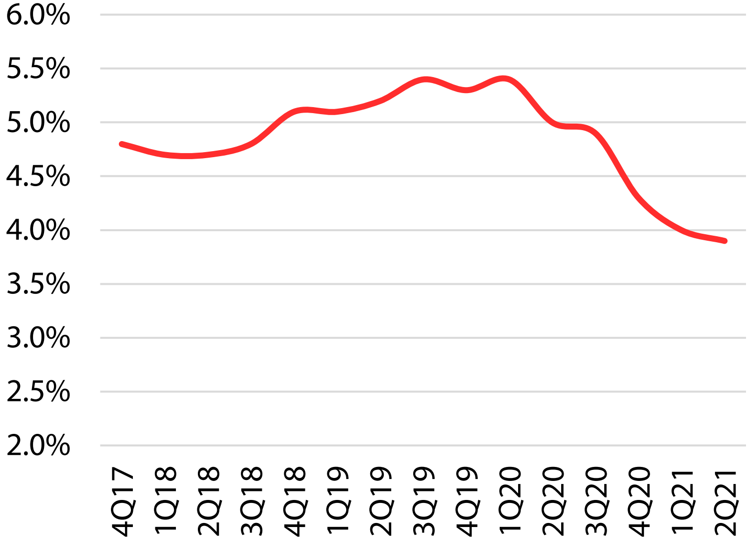


Figure 17: Deposit rate (annualized, %)



*Source: Fiinpro, RongViet Securities. * is calculated from banks that already published 2Q21 data.*

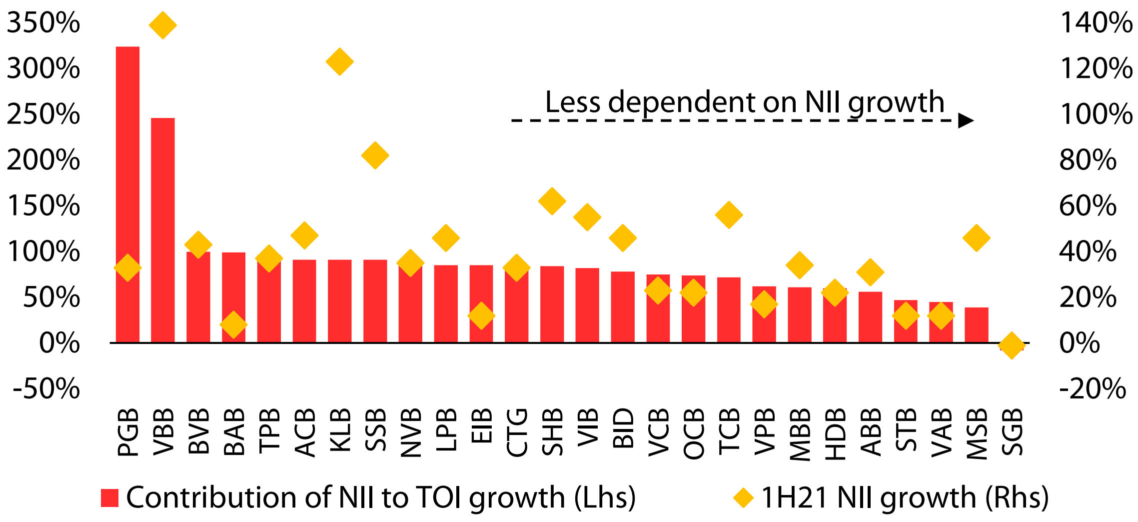
Net interest income was the pivotal growth engine in 1H2021 due to NIM expansion, low comparison base of credit and portfolio shifting

- NIM expanded robustly since 4Q2020, similarly to net interest income. The shift toward retail banking also contributed to the higher NIM. Net interest income was the main total operating income growth driver for most banks.

Expecting lower growth momentum towards year end

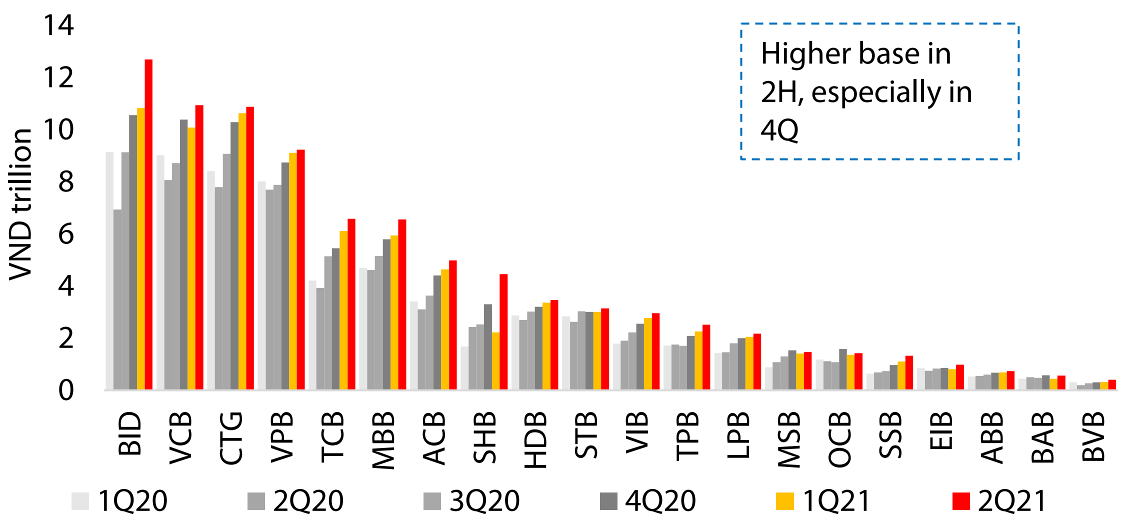
- We think that the favorable comparison base for NII will be sustained in 3Q21 and becomes less supportive in 4Q. This also applies to NIM, credit and balance sheet growth. NIM of banks announcing the new preferential interest rate package will be pressured due to less headroom to adjust deposit rates. We expect SBV to grant higher credit quota as the pandemic impact is severe and banks accept to lower lending rates.
- As forward credit growth is resilient, NIM might be lower modestly and balance sheet expands cautiously, 2H2021 NII is projected to grow slower than 1H. The differentiation factor will be NIM, as banks with more stagnant lending yields and improved CASA ratio will benefit.

Figure 18: NII growth and contribution to TOI growth (%, YoY)



Source: Fiinpro, RongViet Securities

Figure 19: Net interest income of several listed banks (VND)



Distorted service income growth due to non-recurring items during the year

- Several banks were equipped with non-recurring items, notably the booking of upfront fee at MSB and VCB. If it had not been for the one-off income, VCB would have ranked fifth or sixth. The case for MSB is similar.
- Beside that, the sector witnessed healthy growth in net service income. The major drivers were payment including card segment and LC/LG UPAS, and bancassurance. Changing customer behavior which favored online transactions and competitive fees also helped.

The increasingly growing bancassurance market backed by the macroenvironment

- Bancassurance became popular as a result of the pandemic and higher penetration rate from a low base, therefore, bringing a new potential growth driver. In 2H2021, we expect resilient performance of income from bancassurance as digitalization facilitates and maintains the contract underwriting process without being impacted by the lockdowns. However, the strength of bancassurance franchise differs among banks and insurance partners.

Figure 20: Service income growth of listed banks in 1H21 (%, YoY)

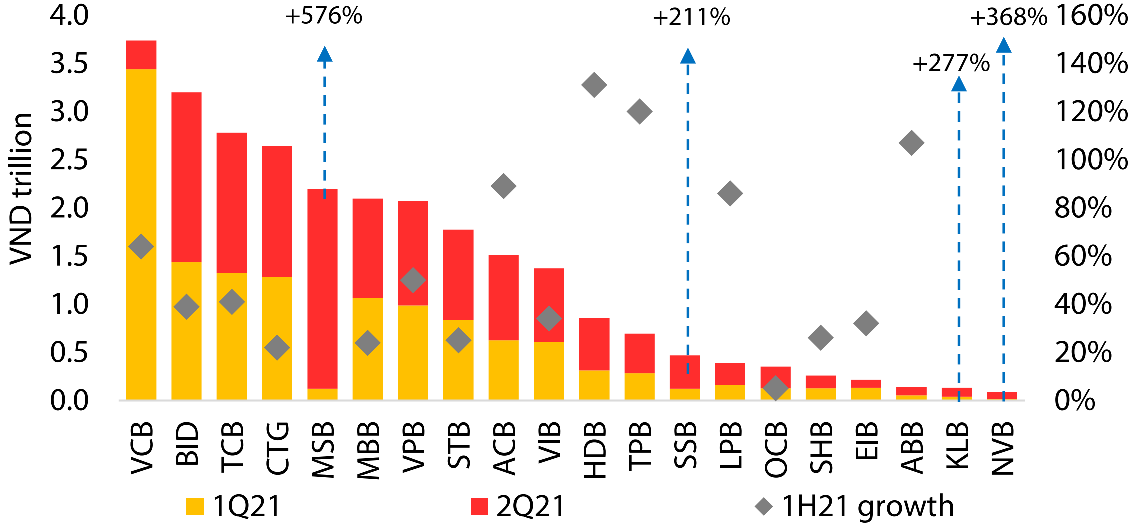
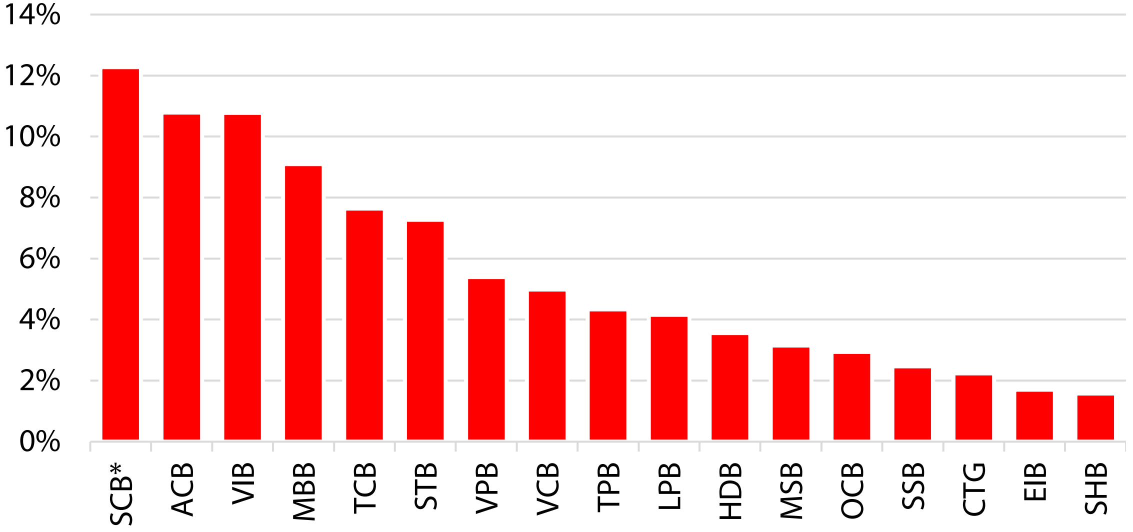


Figure 21: 1H21 bancassurance market share of several banks (%)



*Source: Prudential, Fiinpro, RongViet Securities. Banks with * are unlisted*

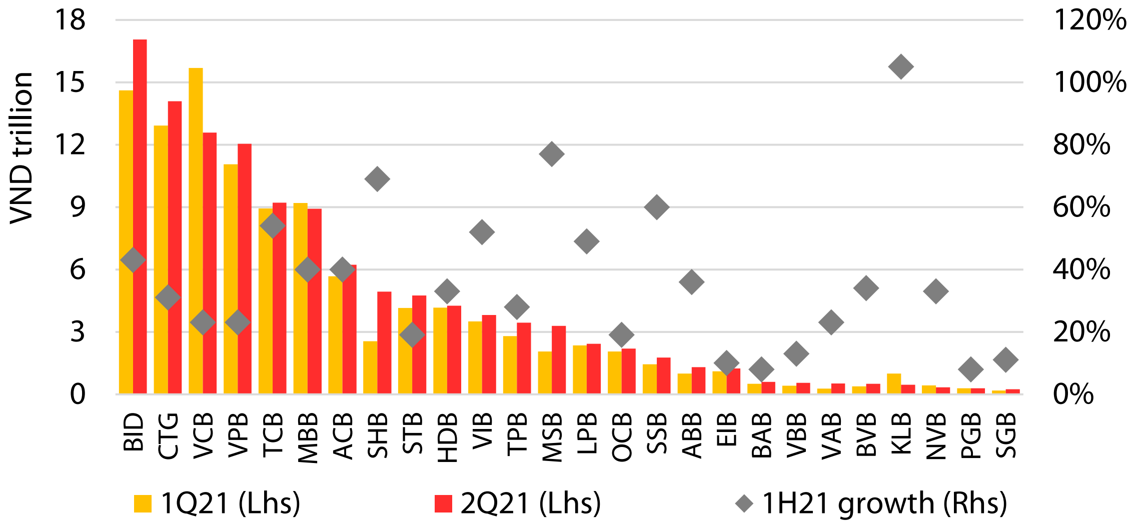
While net interest income with widened NIM and low comparison base drove total operating income in the first half ...

- Overall, total operating income grew robustly in 1H2021. Net interest income continued to lead the growth. Banks that had net interest income growth lagging that of peers also delivered lower than average growth, such as OCB, STB, VPB, VCB. Those results are usually considered healthy (10-25%) which seems to be weak performance in this abnormal time. The consumer finance segment was hit severely, leading to lower-than-average performance of banks focusing on that. Despite booming NII, the income structure witnessed higher contribution of non-II, partially due to non-recurring items.

... growth prospect in 2H2021 is different among banks as SBV becomes conservative and will be determined by non-interest income

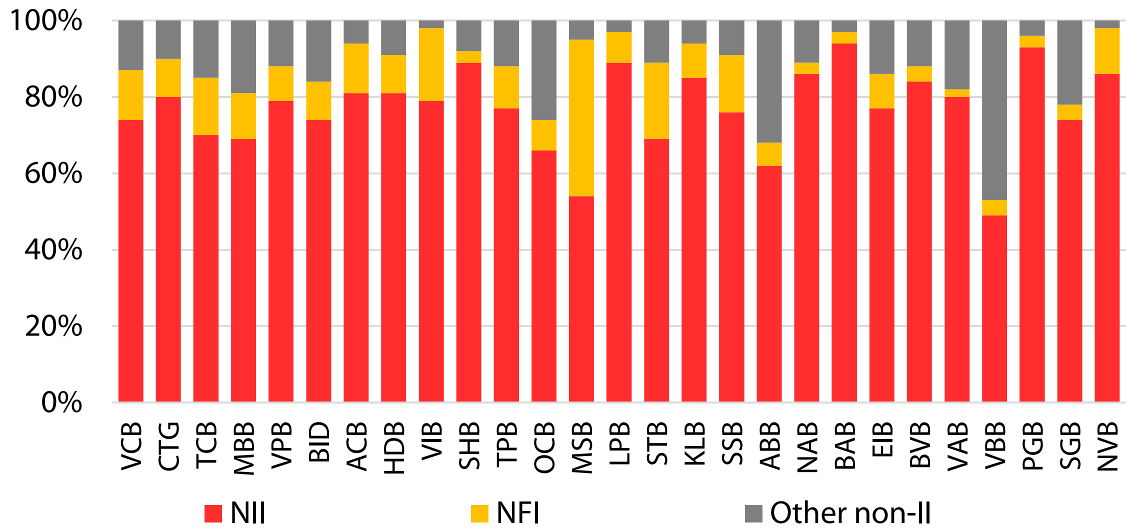
- We forecast that total operating income will continue to deliver good results, but the growth level will be lower than in 1H2021. SBV is conservative in granting credit quota. Despite the expectation of easing quota granting policy ultimately, timing of the next raise of credit growth limit will have an impact on year-on-year balance sheet growth and thus, affecting quarterly total operating income performance. Non-interest income growth will be intact given secular trends of bancasurrance and payment, headroom for bond trading and potential bad debt recovery, thereby, becoming the main driver.

Figure 22: Operating income growth of listed banks (%, YoY)



Source: Fiinpro, RongViet Securities

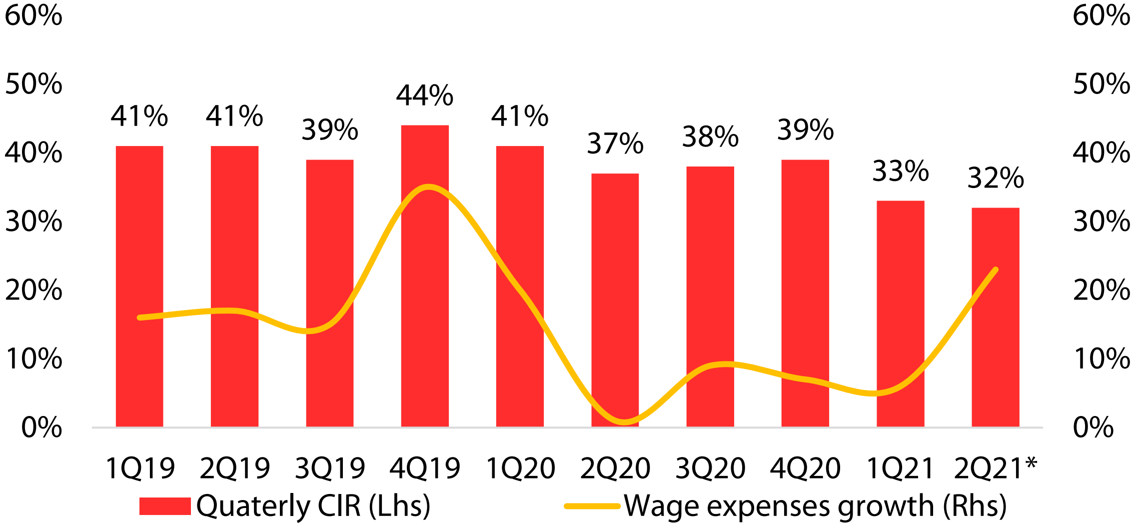
Figure 23: 1H21 income structure of listed banks (%)



Costs saving was an effective method to achieve optimization in growth

- When NIM was strongly and quickly affected, the banking sector decreased CIR sharply in 2Q2020 by having zero wage expenses growth. It dropped again in 1H2021 mostly due to the growth of the numerator (TOI), and the delay of investment projects at several banks such as TCB, ACB as a result of the disruptions caused by the pandemic.
- Wage cuts had an immediate effect on CIR, thereby, helping banks to deal with shocks in NIM. Wage expenses have recovered since 3Q2020. For banks with affected NIM, high base of credit costs and risky lending, the impact was more severe. Therefore, to optimize balance sheet growth with lower NIM and surging provision expenses, staff base was reduced to ensure operating efficiency. Those experiencing negative change in staff base were banks with consumer finance segments such as VPB, STB, MBB, HDB, OCB.
- We do not think the method was sustainable, but it was necessary. We think that those banks will have less headroom to reduce costs by cutting wages or decrease the staff base if the disruptions sustain due to the impact on scale.

Figure 24: CIR and wage expenses growth (%, YoY)



Source: Banks' FS, Fiinpro, RongViet Securities

Figure 25: Staff base (people)

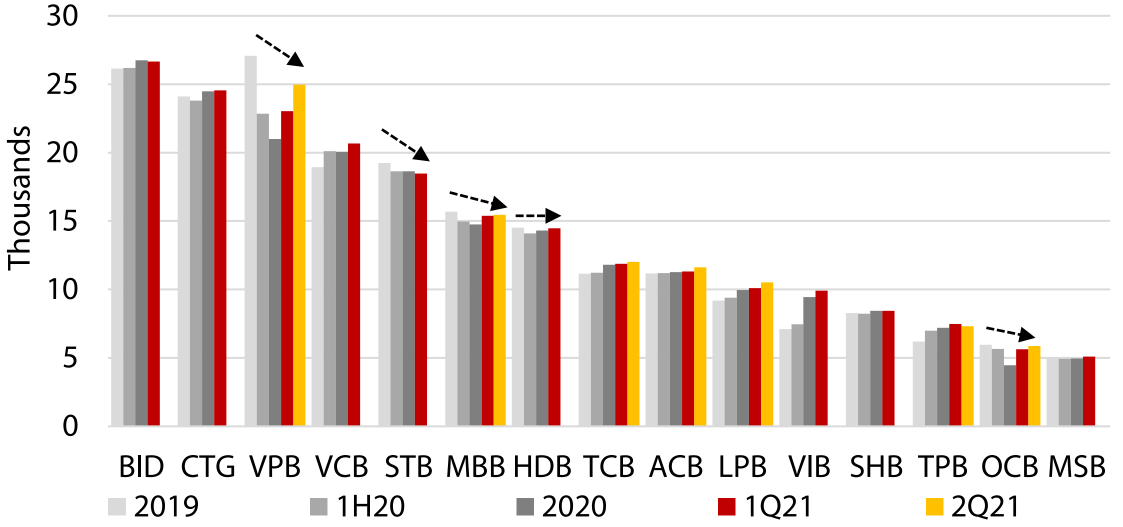


Figure 26: Credit costs (TTM, %, excl. VAMC)

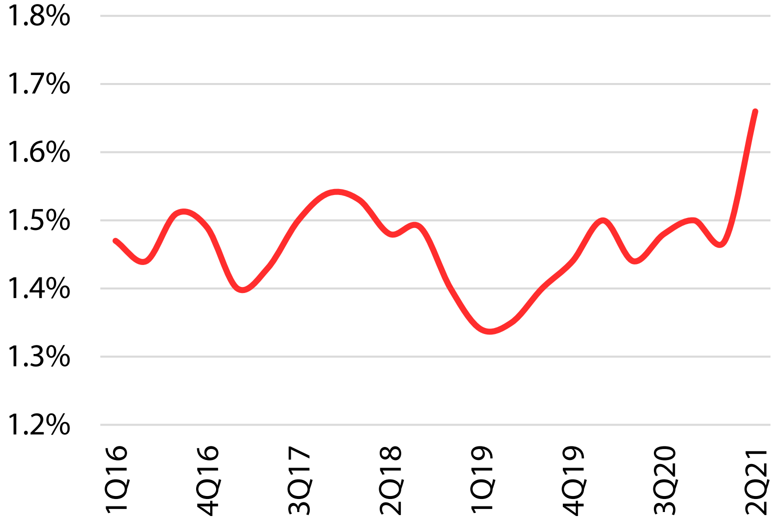


Figure 27: Provision expenses (%,YoY)

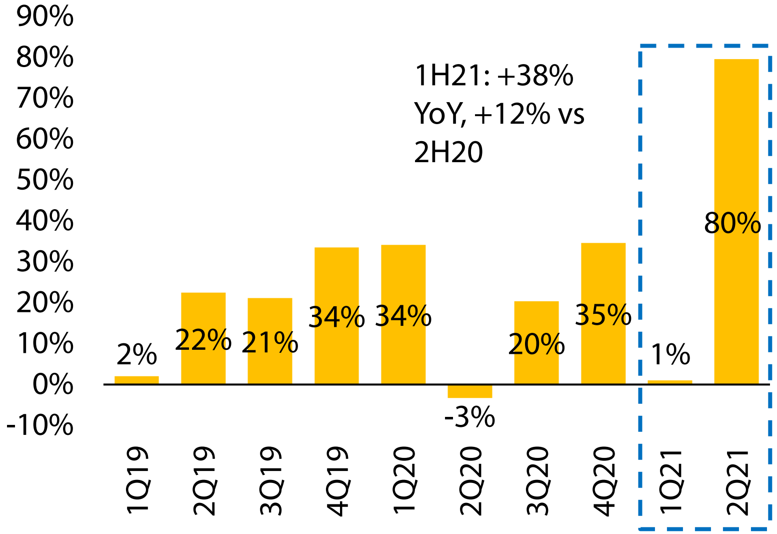


Figure 28: Debt groups and LLR to loans (%)

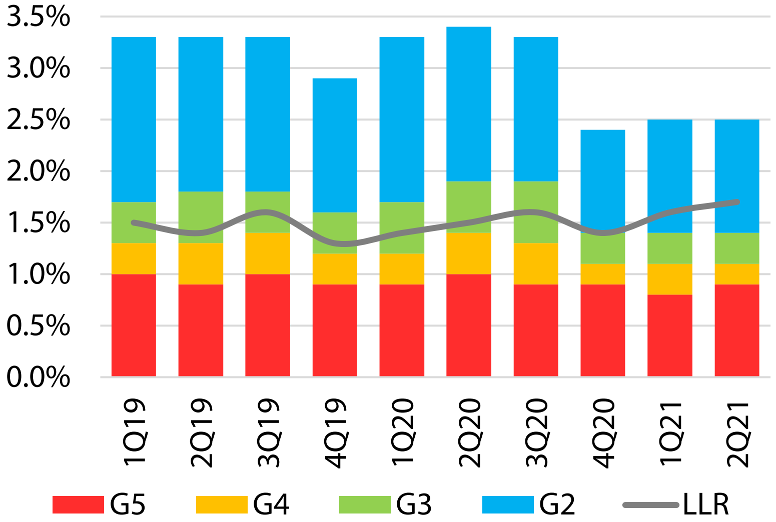
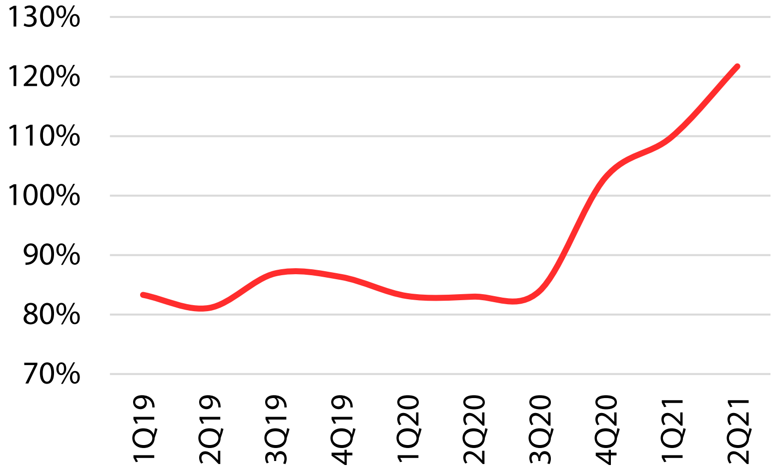


Figure 29: NPL coverage (%)



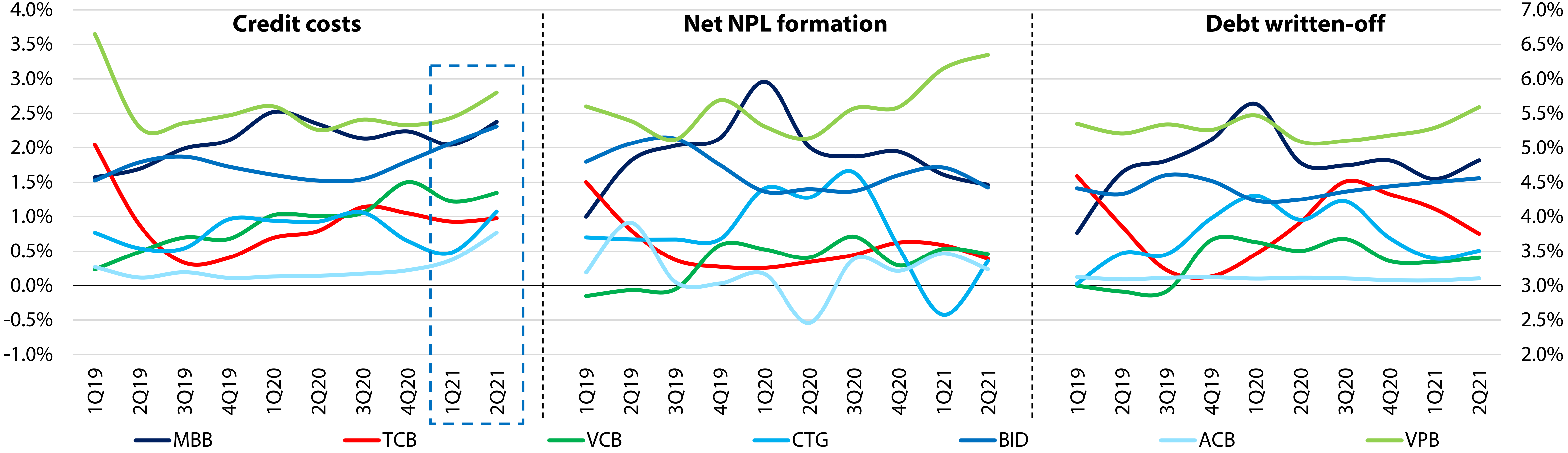
Source: Fiinpro, RongViet Securities

Supportive policies were the key

- Credit costs increased in 1H2021. Provision costs eased in 1Q2021 due to the choice of provision allocation by several banks, before surging in 2Q, coming from large banks.
- NPL coverage rose sharply since 4Q20 due to prudent risk costs, controlled bad debt formation being supported by Circular 03 and write-off activities.
- Given the high base of provision costs, VAMC bonds settlement at several banks, strict provision policy in 2Q21 at BID, CTG, ACB, and conservative approach such as TCB, VCB, MBB, provision expenses will be controlled in the base case, thus, becoming a growth driver in 2H. Credit costs will gradually converge to the 2020's level. If provision expenses are sustained in 2H from the 1H level, YoY growth would be around 12%. If credit costs ease faster, provision expenses might be up at one-digit rate.

Figure 30: Credit costs, NPL formation and debt written-off to loans of the largest listed banks (TTM, %, excl. VAMC)

Source: Fiinpro, RongViet Securities.



Different buffers behind resilient balance sheets

- *Among the seven largest banks accounting for a half of the sector lending market share and 60% of the consumer finance market, the provision buffers differs. Aside from VPB and CTG, the others experienced controlled net NPL formation thanks to the Circular 03, relieving pressure on the assets. VPB had large exposure to consumer lending while CTG was prudent with large corporate customers which were reclassified to upper groups. Credit costs rose altogether and mostly stayed higher than the NPL formation.*
- *We think that ultimately consumer finance will be worse, when lower mass customers have smaller reserves to use during lockdown periods. Banks with high NPL formation rate, moderate level of credit costs, considerable restructured loans and high balance sheet growth will be more vulnerable and sensitive to shocks, such as VPB, BID. Banks making early provisions for restructured debt will have headroom to deal with rising credit risks, such as ACB. Banks with conservative view towards the pandemic, high financial capacity to absorb surging credit costs and low base of bad debt formation are expected to be resilient in the 2H2021, such as VCB, TCB.*

Figure 31: ROA of sector's average and listed banks in 2Q21(%, TTM)

Source: Fiinpro, RongViet Securities

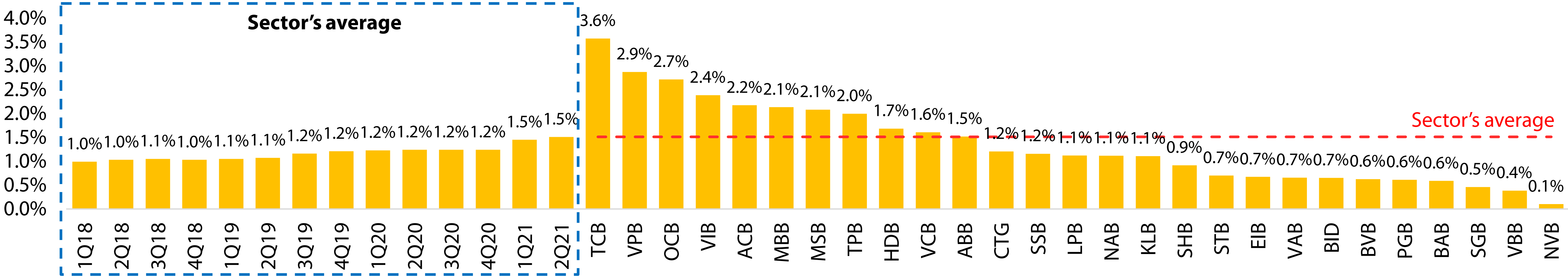
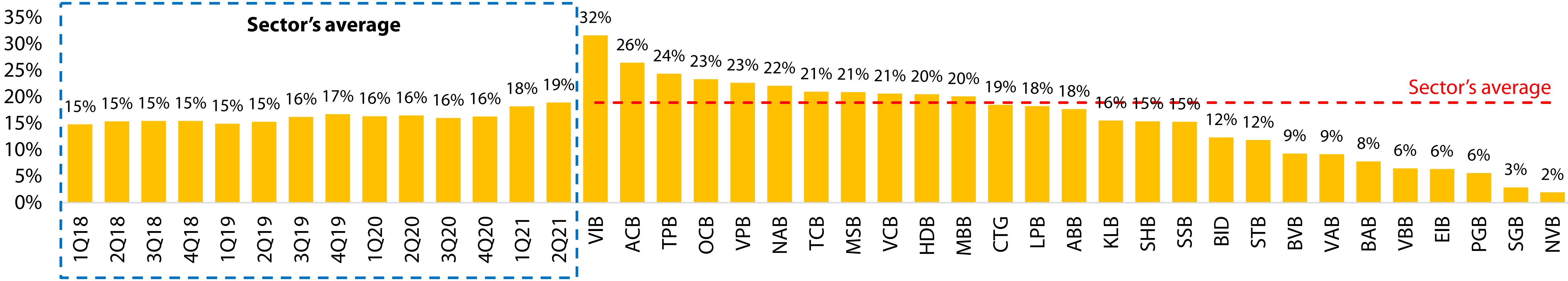


Figure 32: ROE of sector's average and listed banks in 2Q21 (%, TTM, pre-welfare and bonus fund)



- The banking sector has developed steadily in the recent years following the end of restructuring process at banks. ROE and ROA increased as more efficient lending, funding base with higher CASA backed by digitalization and better products, healthier loan book and stronger capital led to improvement in NIM and CIR, lower NPL ratio and higher LLR. However, those ratios of some banks might not be sustainable due to contribution of volatile income, tight provision and supportive cycle.
- Adjusted ROE of the sector is about 17.5-18%. We think the current plausible PB ratio for the sector is 1.8 - 2.1, and 1.4-1.7 in the higher interest rate environment.

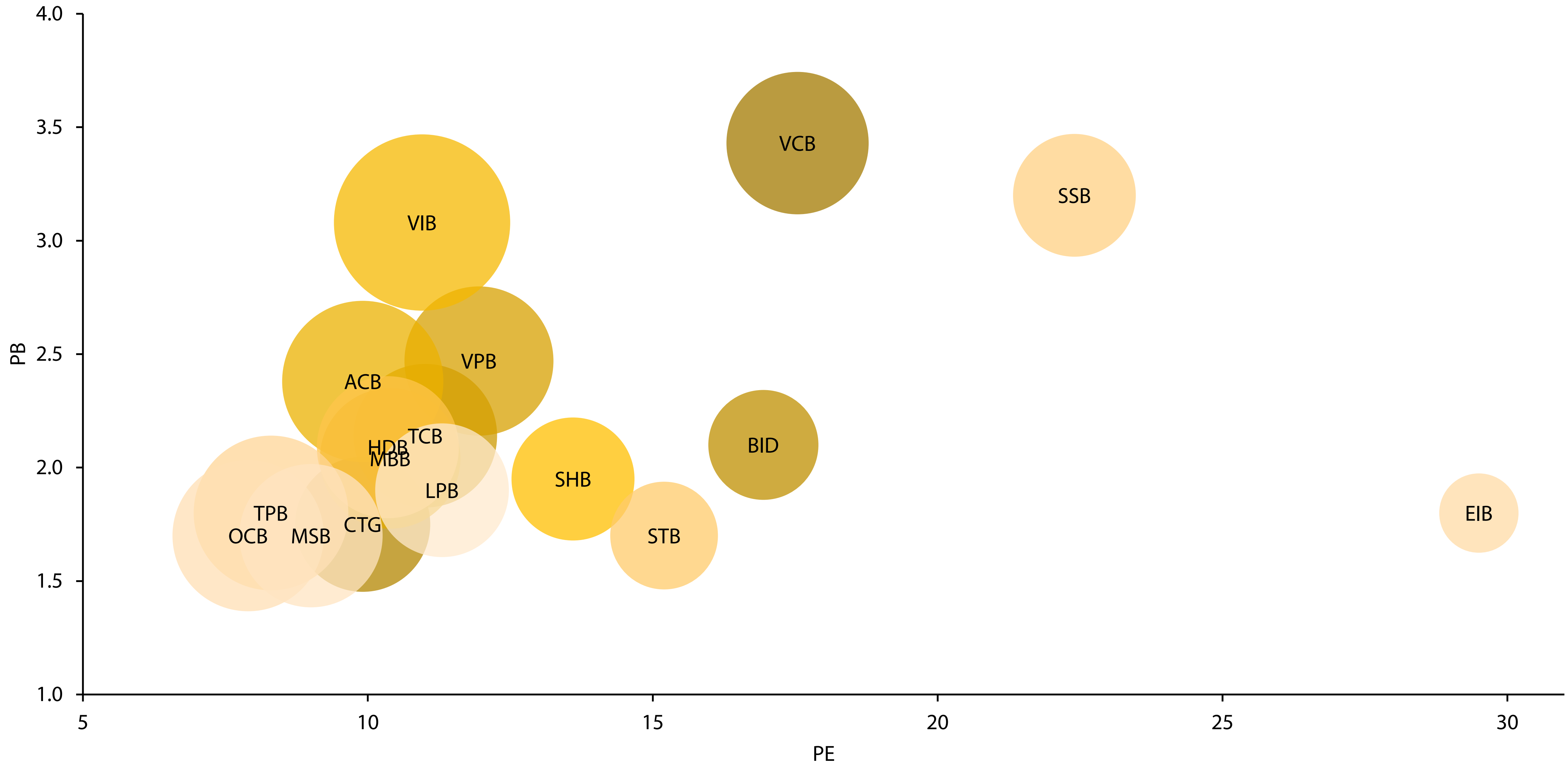
Table 1: 2021 capital raising plan (reds are completed event)

	Cash Dividend	Share Dividend/Bonus	Share Issuance	ESOP
VCB		27.6%	6.5%	
CTG		29.07%		
TCB				0.17%
MBB		35%	2.50%	0.70%
VPB		62.15%	17.85%	0.59%
BID		12.20%	8.50%	
ACB		25%		
HDB		25%		2.51%
VIB		40%	3%	
SHB		10% + 10.5%	28%	
TPB			9.33%	
OCB		25%	6.40%	0.5%
MSB		30%	6%	0.4%
LPB		12%	30.87%	3.26%
KLB		13%		
SSB		9.12%		1.92%
ABB		35%	20%	2%
KLB		13%		

Source: Banks, RongViet Securities

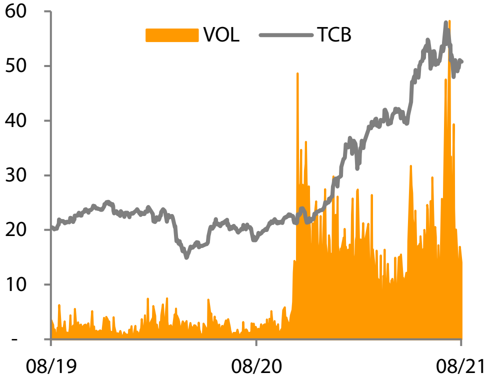
Ticker	Market cap (USD mn)	Target price (VND)	Net interest income growth (TTM, %YoY)	Net service income growth (TTM, %YoY)	Operating income growth (TTM, %YoY)	Net profit growth (TTM, %YoY)	NIM (TTM)	NPL ratio (%)	ROA (%)	ROE (%)	PE (TTM)	PB	Dividend yield (TTM, %)
VCB	15,642	117,000	16.4%	84.2%	19.4%	12.5%	3.2%	0.7%	1.6%	20.6%	17.5	3.4	0.0%
CTG	7,052	40,100	23.0%	13.1%	24.1%	46.9%	3.1%	1.3%	1.2%	18.5%	9.9	1.8	0.0%
BID	7,441	41,400	25.6%	33.5%	24.9%	23.8%	2.9%	1.6%	0.7%	12.3%	16.9	2.1	0.0%
TCB	7,741	71,000	47.8%	25.7%	40.5%	48.4%	5.7%	0.4%	3.6%	21.0%	11.0	2.1	0.0%
VPB	6,446	66,200	10.1%	29.7%	12.8%	22.9%	8.7%	3.5%	2.9%	22.6%	12.0	2.5	0.0%
MBB	4,731	36,100	24.9%	30.0%	25.5%	30.3%	5.1%	0.8%	2.1%	20.1%	10.4	2.0	0.0%
ACB	4,176	37,300	37.2%	33.7%	25.9%	57.5%	4.2%	0.7%	2.2%	26.4%	9.9	2.4	0.0%
VIB	2,819	n/a	50.6%	33.3%	47.9%	60.2%	4.4%	1.7%	2.4%	31.6%	11.0	3.1	0.0%
SHB	2,286	n/a	41.4%	-2.6%	48.9%	52.7%	3.3%	2.0%	0.9%	15.4%	13.6	1.9	0.0%
HDB	2,370	36,800	18.9%	121.4%	26.2%	24.3%	4.6%	1.2%	1.7%	20.5%	10.4	2.1	0.0%
STB	2,298	n/a	19.9%	22.1%	22.8%	42.5%	2.7%	1.6%	0.7%	11.8%	15.2	1.7	0.0%
SSB	2,087	n/a	47.9%	100.1%	4.1%	61.0%	2.5%	1.8%	1.2%	15.3%	22.4	3.2	0.0%

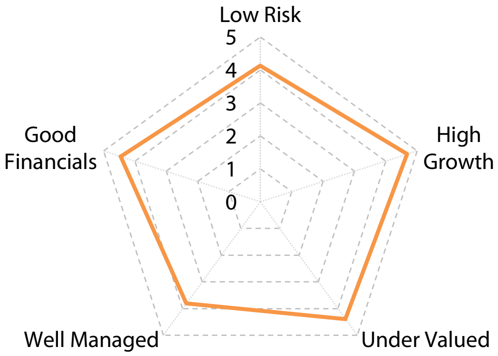
Source: Fiinpro, Rong Viet Securities. Share price as of 02 Aug 2021.



Source: Fiinpro, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 02 Aug 2021.

<BUY: +40%> <MP: 50,800> <TP: 71,000>





STOCK INFO

Sector	Banks
Market Cap ($ mn)	7,741.3
Current Shares O/S (mn shares)	3,504.9
3M Avg. Volume (K)	22,022.8
3M Avg. Trading Value (VND Bn)	1,133.8
Remaining foreign room (%)	-
52-week range ('000 VND)	18.15 - 58

FINANCIALS

FINANCIALS	2020A	2021E	2022F
NII (VND bn)	18,751	26,062	32,905
TOI (VND bn)	27,042	36,662	45,825
NPAT (VND bn)	12,325	18,056	23,119
ROA (%)	3.0	3.7	3.8
ROE (%)	18.0	21.7	22.3
Asset growth (%)	14.6	24.8	23.6
Book Value (VND)	21,289	26,302	32,898
P/E (x) (*)	6.8	9.9	7.8
P/B (x) (*)	2.4	1.9	1.5

INVESTMENT RATIONALES

The 2021-2025 strategy marks an acceleration phase capitalizing on competitive advantages: invested infrastructure, thick capital base and strong ecosystem

- We expect TCB to robustly grow its balance sheet in the next five years, supported by strong fundamentals: a leading technology system with a considerable budget securing customer experience at scale, a thick capital buffer to tackle stress scenarios and help receive desirable credit quota, and capability to deliver distinctive services thanks to the in-depth cooperation with conglomerates which creates high switching costs. This will improve ROE which has potentially undermined stock price performance in the 2018-2020 period.

Top tier efficiency will be further boosted by steadily enhanced NIM, diversified non-funded growth and cost excellence

- By holding a leading tech-enabled securities company which is pursuing the WealthTech model and owning a sizeable CASA base driving operating and funding costs lower, TCB is able to widen and stabilize NIM by better pricing lending products, thereby controlling risk costs, and cross-selling non-interest ones. The diverse income sources also ensure growth quality.

Firmly established funding structure backed by a leading retail franchise focusing on high-profile customers is the foundation for cross-board expansion in various scenarios

- Extensive customer base in fast-growing classes with appropriate risk return balance funds TCB's demand deposit, which is the core advantage of sustaining NIM when expanding the balance sheet due to optimized costs. This will provide resources to improve risk-adjusted returns robustly, especially in a higher-than-current interest rate cycle.

RISKS TO OUR CALL

- Prolonged COVID-19 will ultimately affect less vulnerable entities, thus, raising credit costs. TCB also bears risks relating to real estate, despite its exposure to high-end segments.

1H2021: WELL PERFORMANCE ACROSS THE BOARD

Figure 1: TOI growth contribution and asset growth (%, YoY)

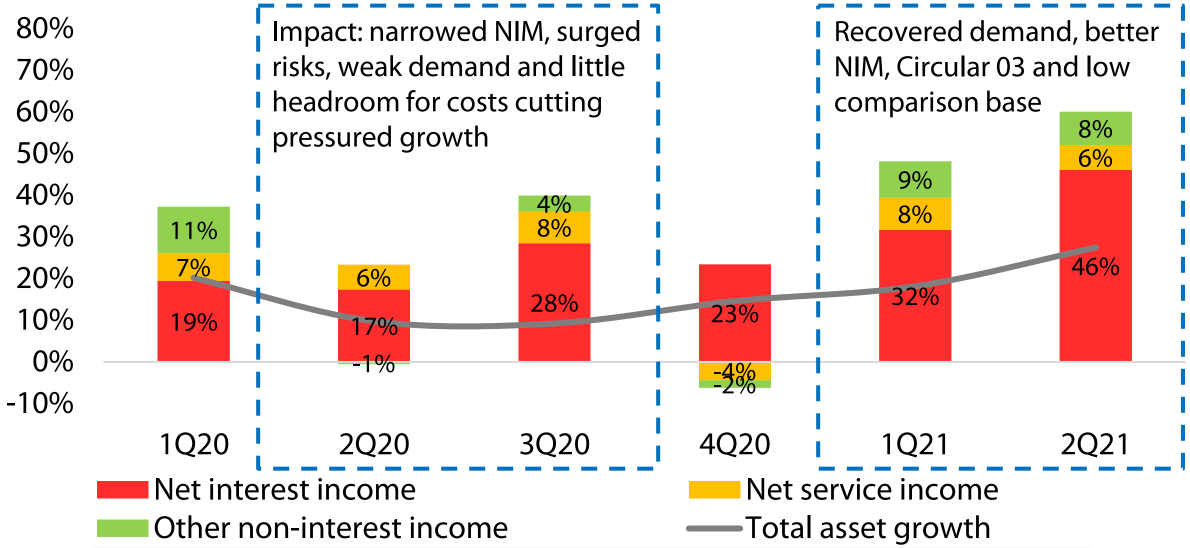
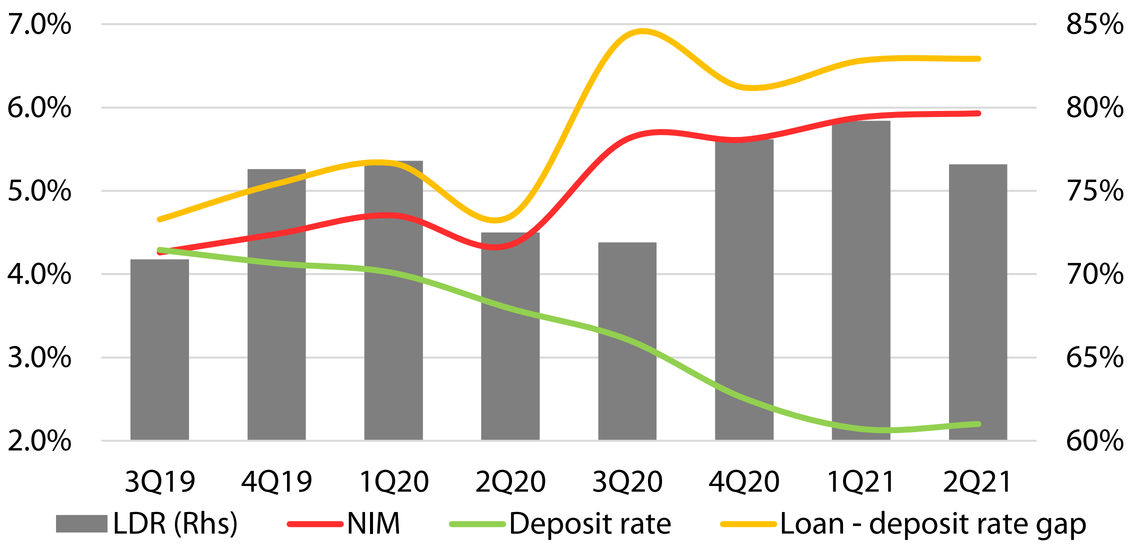


Figure 2: NIM, gap, deposit rate and LDR (annualized, %)



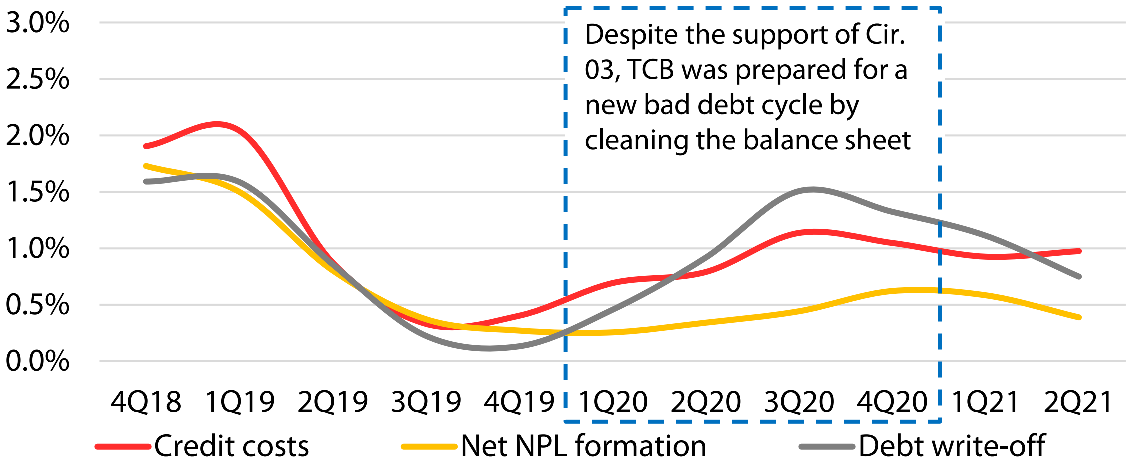
NIM and low comparison base of credit are the major TOI drivers

- NII continued to be the growth engine due to stably widened NIM and increasing balance sheet expansion, which also propelled non-II. Stagnant output rates and falling funding costs backed by higher CASA ratio widened the gap and NIM in 1H2021. The low base in mid-2020 was due to the repricing gap and drop in LDR, which later pull-backed.
- 1H21 PBT grew 71% YoY, contributed by over 66% growth each quarter.

Maintaining prudent provisions despite improved credit risks

- TCB had conservative approach since 2019 by keeping credit costs significantly higher than net NPL formation despite the recent fall.

Figure 3: Credit costs, debt write-off and NPL formation (%, TTM)



Source: TCB, RongViet Securities

Figure 4: TOI breakdown

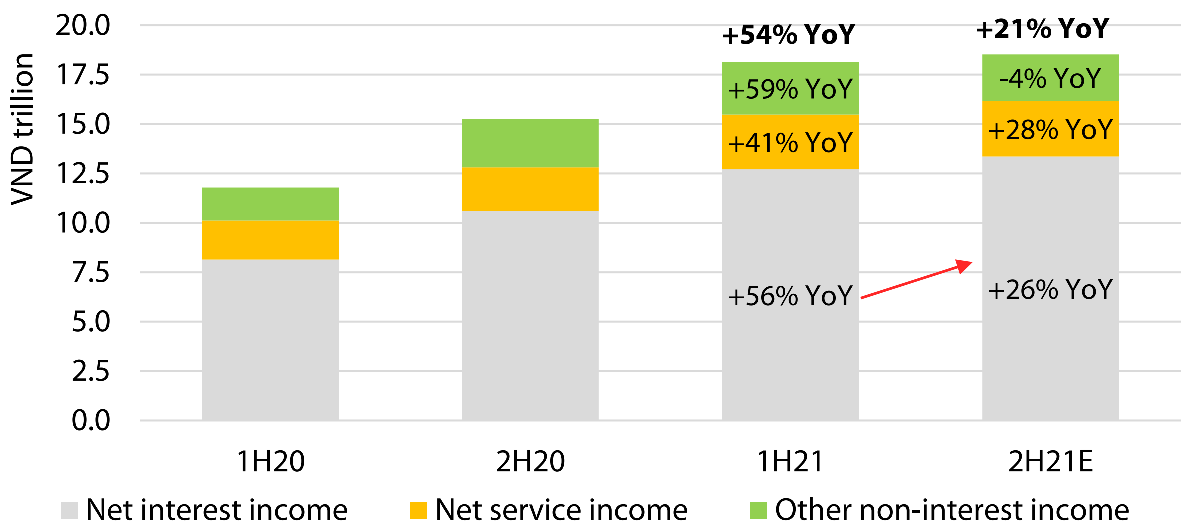
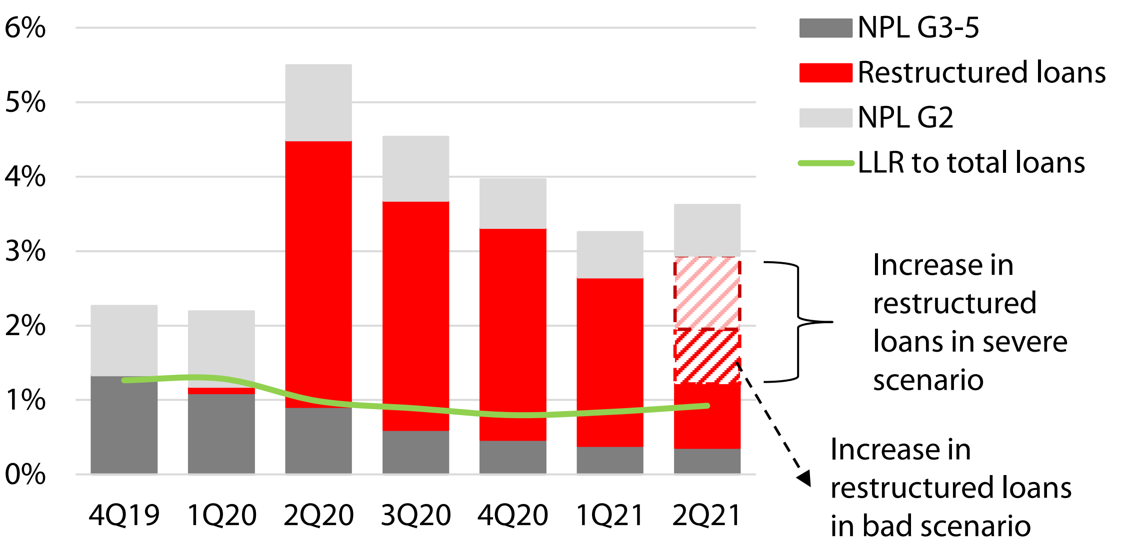


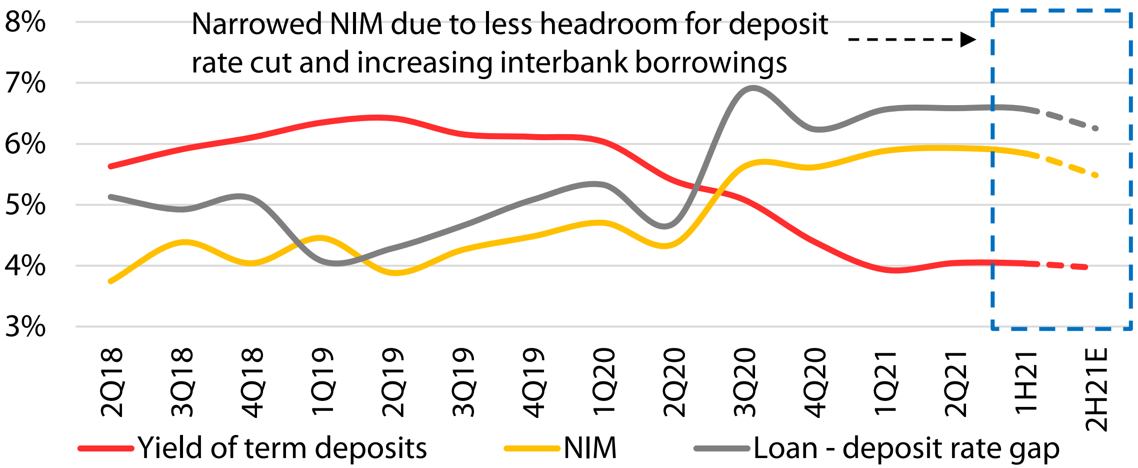
Figure 5: Debt groups and loan loss coverage to total loans (%)



Looking forward to a billion USD profit as 2H TOI sustains

- We expect TCB to reach roughly a billion USD in 2021 PBT in the base case, driven by a slightly lower NIM, high credit growth and fall in credit costs. 2H2021 NIM is expected to drop to the level of last year, caused mainly by a 0.3-0.4% decrease in average lending rate as a result of the new preferential package while CASA ratio improves and yield on investment portfolio maintains. CIR will increase moderately.
- Credit costs are likely to fall as the current severe disruption by the pandemic is within expectation and the launch of the new loan origination system in 2H will further improve risk governance.

Figure 6: Yield on term deposits, NIM and gap (%, annualized)



Source: TCB, RongViet Securities

Figure 7: NIM adjustments and assets growth (annualized, YoY, %)

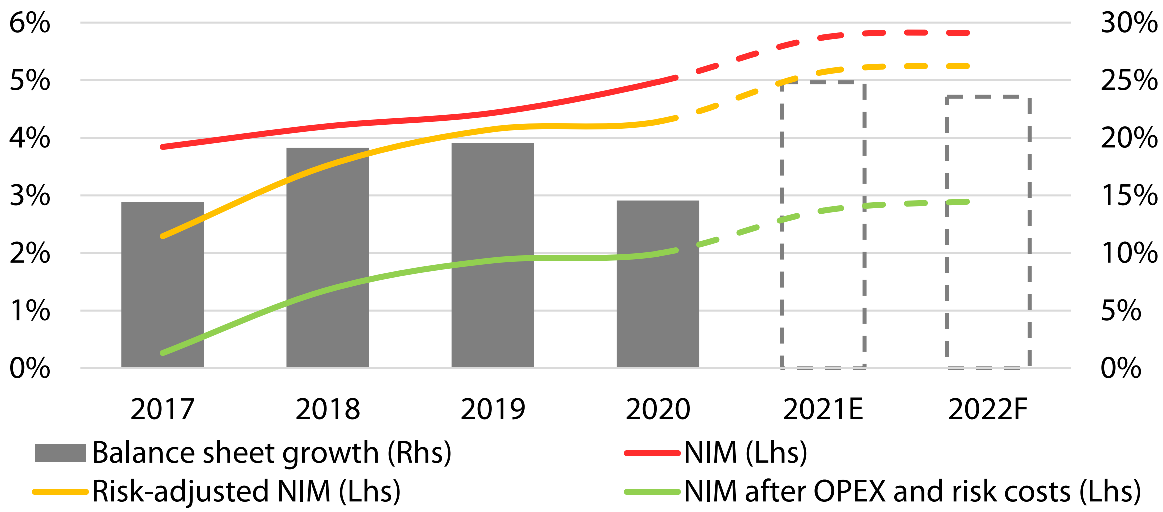
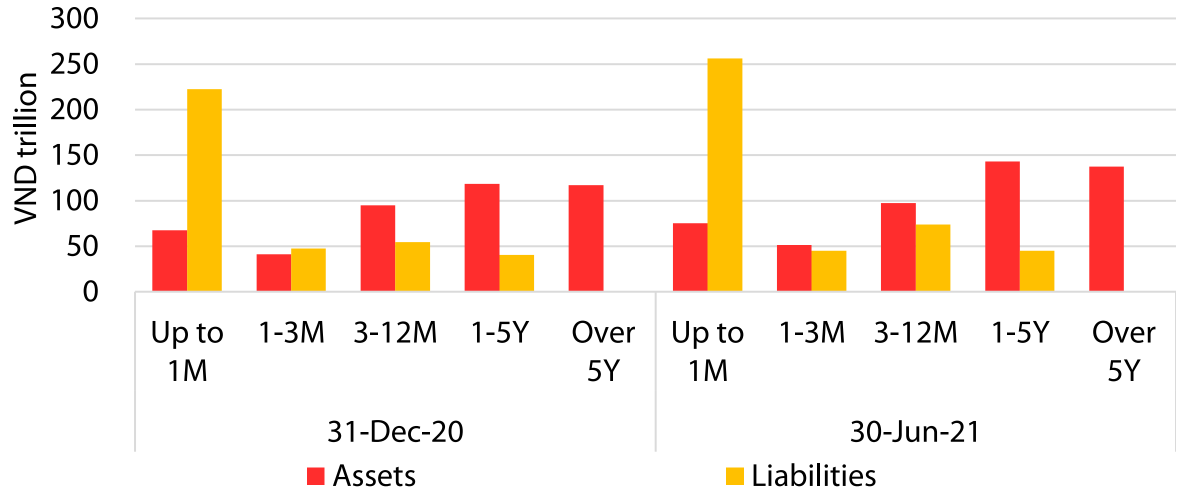


Figure 8: Assets and liabilities allocation by days to maturity bucket



Source: TCB, RongViet Securities

Capitalizing the economic revival with sustainable credit quota, stably improved NIM and negative momentum of risk costs

- We expect a maintained supportive monetary policy and recovery of demand in 2022, granting TCB a high credit limit. The pace of recovery is still uncertain, but the vaccine roll-out is expected to at least ease the disruption in 2H22.
- Housing demand was intact in 1H21 but the paperwork process has been interrupted, which is likely to end in 2022 the latest. Term deposit rate is projected to flatten or pickup modestly. Combining with a larger CASA base which is supported by the resilient payment demand and the termination of preferential package, NIM is widened with stable funding costs and better lending yield. We are cautiously optimistic of the slightly improved forward risk costs, implying a huge upside in the case of community immunity.

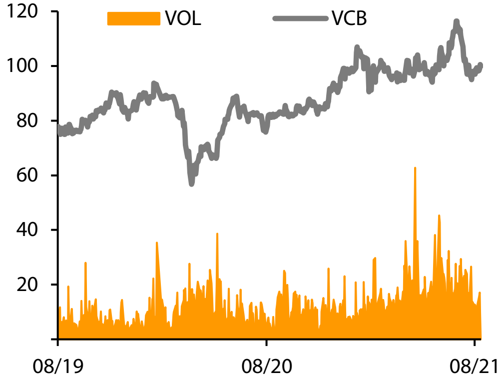
TCB benefits the most from a higher yield environment as enhanced efficiency results from accelerating asset growth with controlled NIM

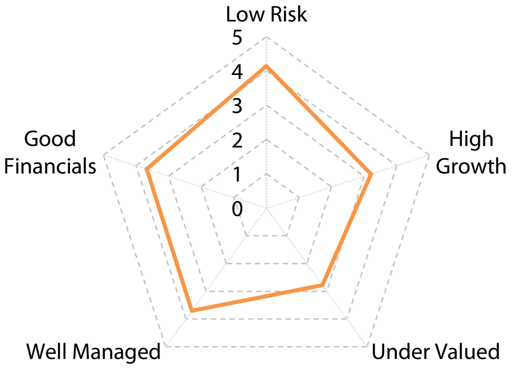
- Aided by the economic recovery, lower customer credit risks, the advantage of competitive and less-sensitive funding costs, the balance sheet is projected to grow effectively and extensively from 2021, resulting in both ROA and ROE improvement. The current maturity gap caused by the sustainable and outstanding demand deposit base will benefit TCB if the yield curve steepens.

A GIANT AWAKENED BY THREATENED STRENGTHS

HSX: VCB

<BUY: +21%> **<MP: 97,000>** **<TP: 117,000>**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	15,641.8
Current Shares O/S (mn shares)	3,708.9
3M Avg. Volume (K)	2,230.5
3M Avg. Trading Value (VND Bn)	230.4
Remaining foreign room (%)	6.4
52-week range ('000 VND)	78.162 - 116.4

FINANCIALS

FINANCIALS	2020A	2021E	2022F
NII (VND bn)	36,225	43,121	51,722
TOI (VND bn)	48,999	58,218	67,704
NPAT (VND bn)	18,447	22,547	27,323
ROA (%)	1.4	1.6	1.7
ROE (%)	20.5	20.7	20.4
Asset growth (%)	8.6	13.9	16.0
Book Value (VND)	26,655	32,103	38,797
P/E (x) (*)	18.3	16.1	13.7
P/B (x) (*)	3.6	3.0	2.5

INVESTMENT RATIONALES

Well-known reputation, wide network and quality customer base enhance the advantage of the funding base and non-interest income

- VCB has the lowest costs of funds among the sector mostly due to the substantial weight of short-term customer deposit. The bank also owns large interbank deposit because of its role appointed by the SBV as the only clearing bank for Visa transactions for domestic members. Its multi-currency payment system (VCB-Money) plays a key role in the overall payment system. Those are solid moats allowing VCB to receive low-costs funds from customers and financial institutions in various currencies. Backed by the relationships with the top domestic exporters and importers and the extensive corresponding network, VCB has sustainable advantage in leading non-interest business segments, such as payment, trade financing and FX.

Leading retail banking with excellent management capability drives efficiency

- VCB maintains a stable proportion of retail loan and deposit, helping the bank to hold the largest retail CASA market share and leading CASA ratio. It has a conservative approach regarding lending and provisions, which results in significantly low NPL formation and strong provision buffer. These factors drive the sustainably high efficiency of the bank.

Sustainable growth despite scale bases on adequate capital with headroom and well-managed liquidity

- Based on a thick capital base with a pending equity issuance and strong liquidity position as a large offerer on the interbank market, VCB can sustain a two-digit asset growth at this scale.

RISKS TO OUR CALL

- The downside risks include unknown level of potential NPL formation and higher yield affecting the leading multiple valuation. The upside risks include index tracking and stock dividend.

Figure 1: TOI contribution and PBT growth (VND, %YoY)

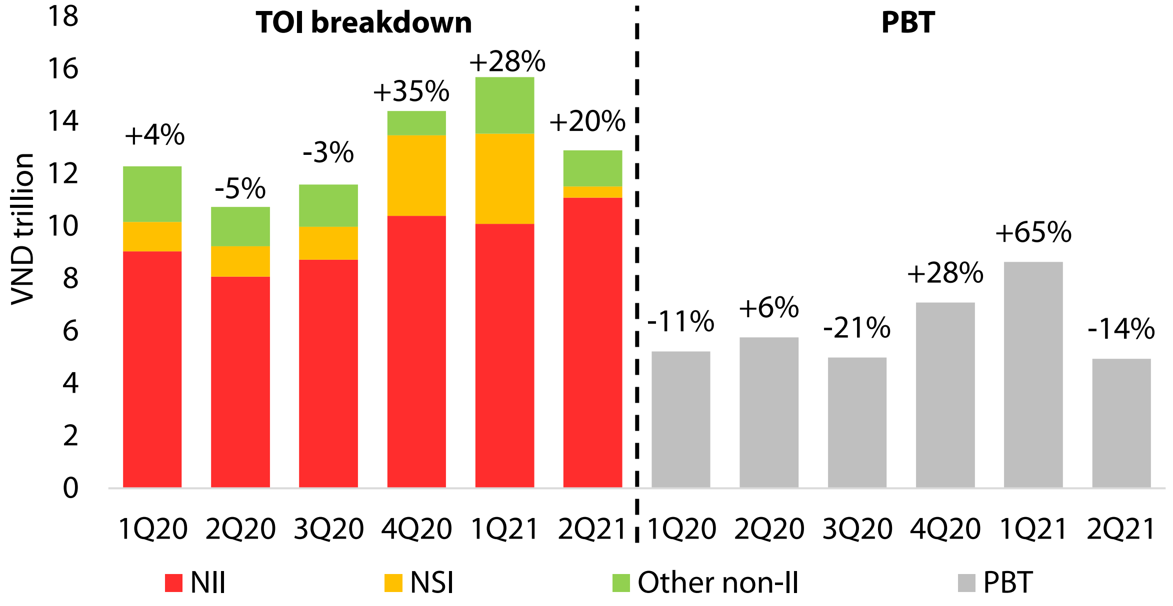
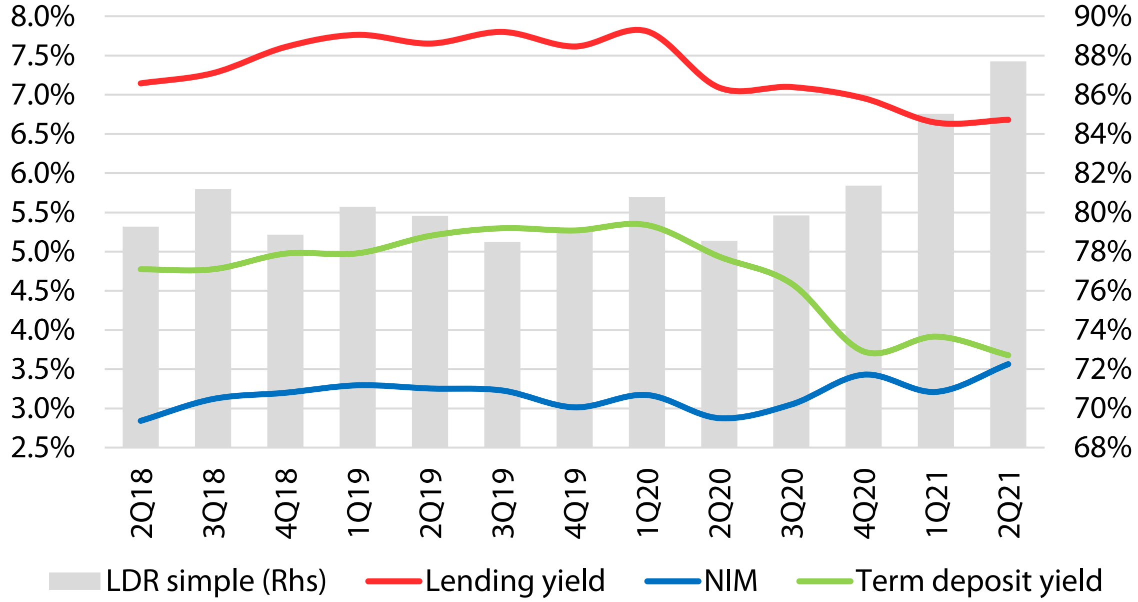


Figure 2: NIM, lending – term deposit rate and LDR (annualized)



Widening lending-deposit rate gap, weak deposit growth and low comparison base drove net interest income

- VCB reported 1H2021 net interest income growth at +24% YoY, while interest earning assets expanded 10% YoY. Increasing NIM (annualized) contributed significantly, reaching 3.6% in 2Q21, highest in the recent years, and 3.3% in 1H21. Lending rate dropped since the beginning of 2021 with a large preferential interest rate package, before being stagnant in 1H2021. CASA fluctuated while yield on term deposit continued to fall to 3.7%, the lowest among the sector and lower than the bank's quoted six-month deposit rate. This indicates the competitive advantage of short-term term deposit.

Upfront fee reallocation and strict provisions had a strong impact on quarterly earnings

- We estimate that 2Q21 and 1H21 PBT growth would be +14% and +38% instead of -14% and +24% respectively if VCB did not revert a part of the upfront fee and followed the planned provision expenses rather than making conservative provision. Beside NIM, the overall performance met our expectation.

Source: VCB, RongViet Securities

Figure 3: Net service income (NSI) and gross margin (VND, %, %YoY)

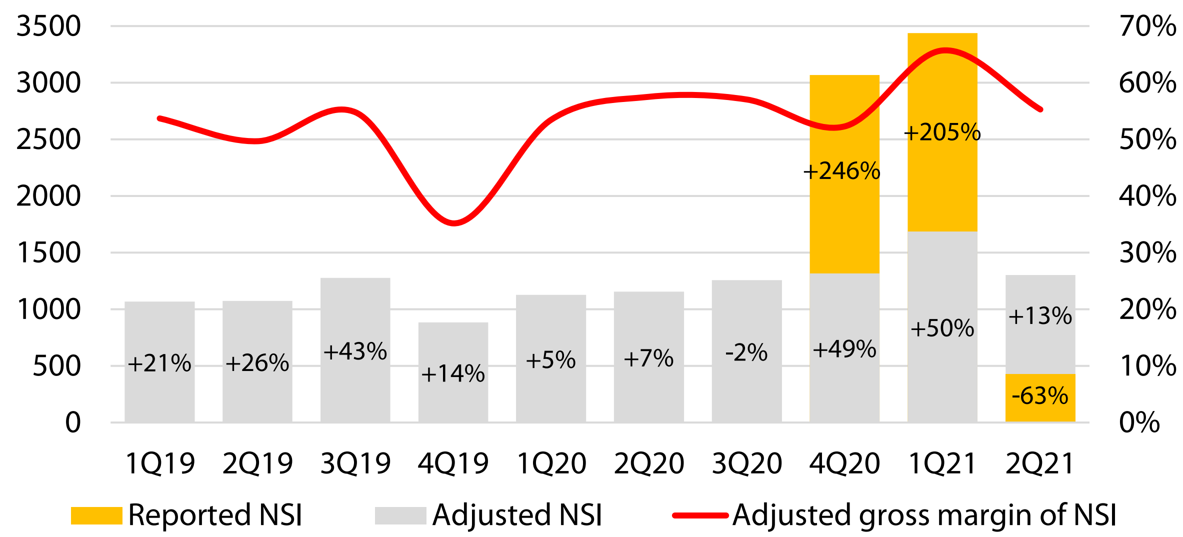
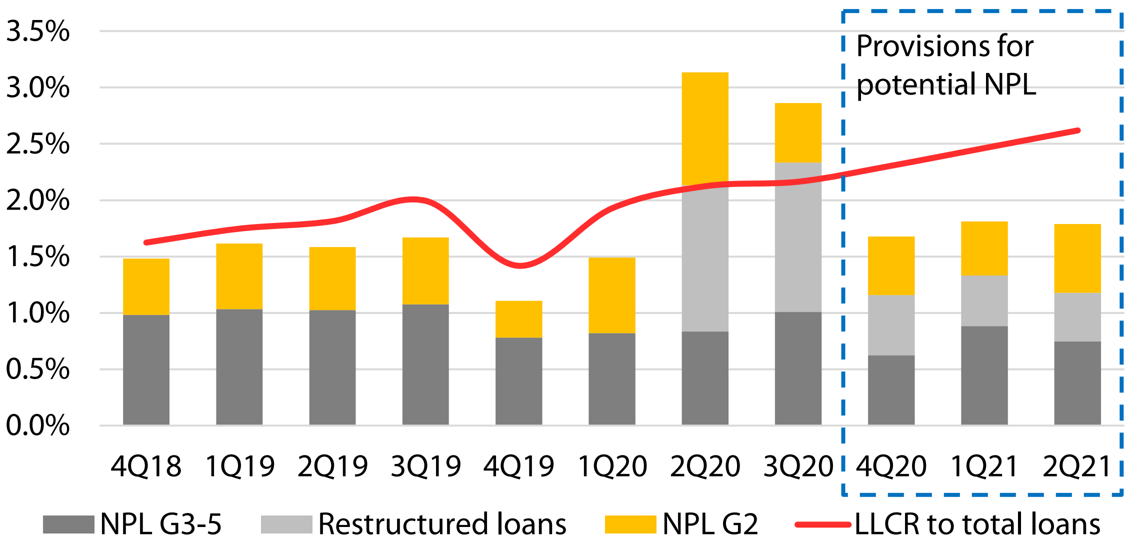


Figure 4: Debt groups, restructured loans and LLCR to loans (%)



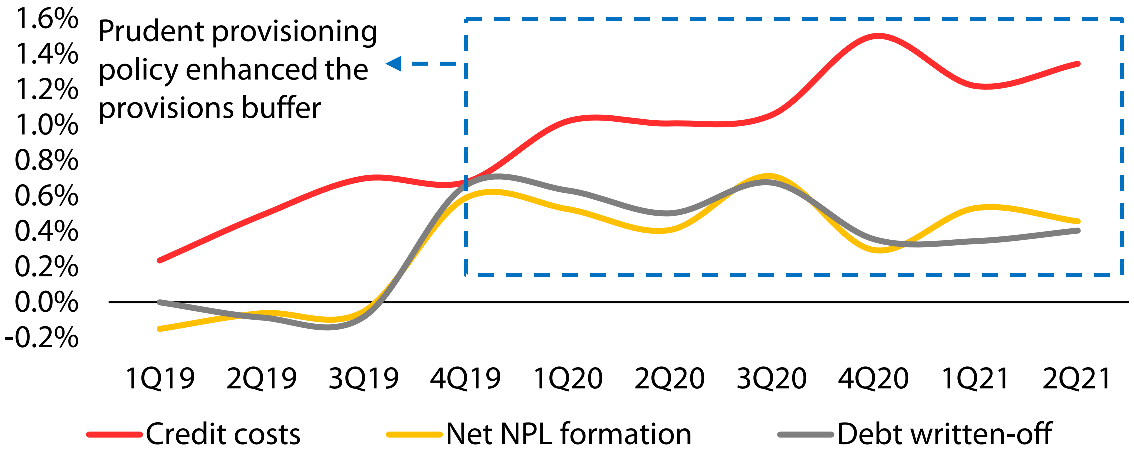
Core service income is expected to have stable growth

- Adjusted net service income (NSI) was resilient with two-digit growth. We estimate that payment was the driver. Trade financing and domestic payment will remain as service income growth engine in 2H21 and 2022.

Given the solid provision buffer, credit costs will become the driver

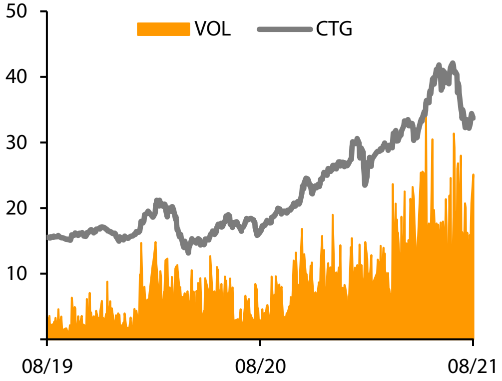
- We expect resilient PBT growth in 2H21, at VND 14.6 tn (USD 635 mn, +21% YoY) due to lower risk costs. 2H TOI growth is projected at +14%.
- In 2022, we think the pressure from the pandemic disruption will be less severe. Lending rate will be higher, followed by better NIM. Thereby, PBT will sustain growth with robust TOI and maintained provision expenses.

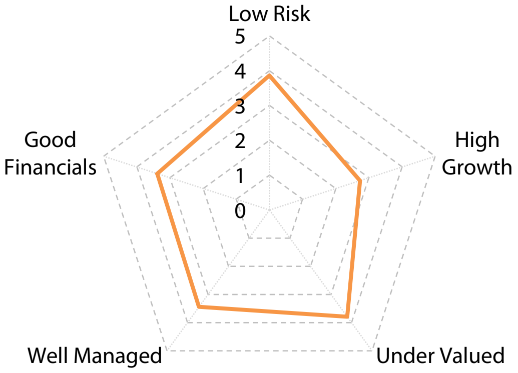
Figure 5: Credit costs, NPL formation and debt write-off (%, TTM)



Source: VCB, RongViet Securities

<BUY: +25%> <MP: 33,750> <TP: 42,200>





STOCK INFO

Sector	Banks
Market Cap ($ mn)	7,051.9
Current Shares O/S (mn shares)	4,805.8
3M Avg. Volume (K)	18,355.6
3M Avg. Trading Value (VND Bn)	838.8
Remaining foreign room (%)	5.5
52-week range ('000 VND)	42.149 – 16.614

FINANCIALS

FINANCIALS	2020A	2021E	2022F
NII (VND bn)	35,581	42,001	46,375
TOI (VND bn)	45,280	55,272	59,648
NPAT (VND bn)	13,679	19,821	22,307
ROA (%)	1.1	1.4	1.4
ROE (%)	16.8	21.3	20.7
Asset growth (%)	8.1	10.1	11.9
Book Value (VND)	17,769	20,882	24,025
P/E (x) (*)	11.8	10.4	9.3
P/B (x) (*)	1.9	1.6	1.4

INVESTMENT RATIONALES

Improving asset quality and funding mix backed by the shift towards retail banking and loan book restructuring

- Since the restructuring process, CTG strictly wrote off bad debt and made provisions for VAMC bonds to clean up the balance sheet. By removing non-performing assets, CTG is relieved from the pressure of significant risk costs that make up a majority of earnings, thereby, boosting earnings growth and profitability ratios. The retail banking transformation is expected to further increase the efficiency by promoting non-interest services and CASA ratio with the support of a wide customer base and partnerships with leading companies in various sectors. These drivers will help diversify growth engines and lead to stable and competitive funding costs.

Widened risk-adjusted NIM and ramping up non-interest income growth aided by payment and bad debt recovery boost efficiency ratios

- By investing in technology, combined with the increasing risk-adjusted NIM as costs of funds drops sharply and credit costs are controlled, CTG is capable of growing the balance sheet efficiently despite pressure from the capital base. The upcoming increase in settlement volume and debt collection will contribute to a higher profitability via non-interest income growth.

In the medium-term, combining an appropriate growth strategy with sustainable profitability will help strengthen the capital base

- We expect that the CAR could be at a safer level in 2023-2025 given the modest balance sheet expansion, sustaining profitability, deleveraging strategy and retail banking orientation.

RISKS TO OUR CALL

- Downside risks include the prolonged COVID-19 and yields increasing sooner than expected. Upside risks include the timing and allocation of the upfront fee.

Figure 1: TOI contribution, PBT and growth (VND, %YoY)

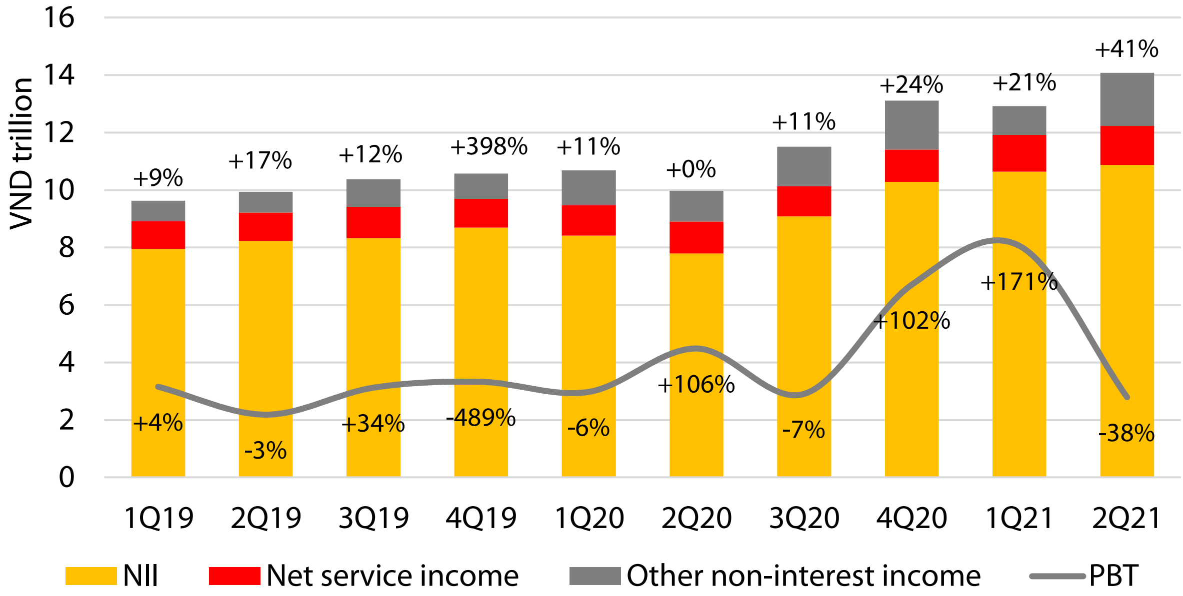
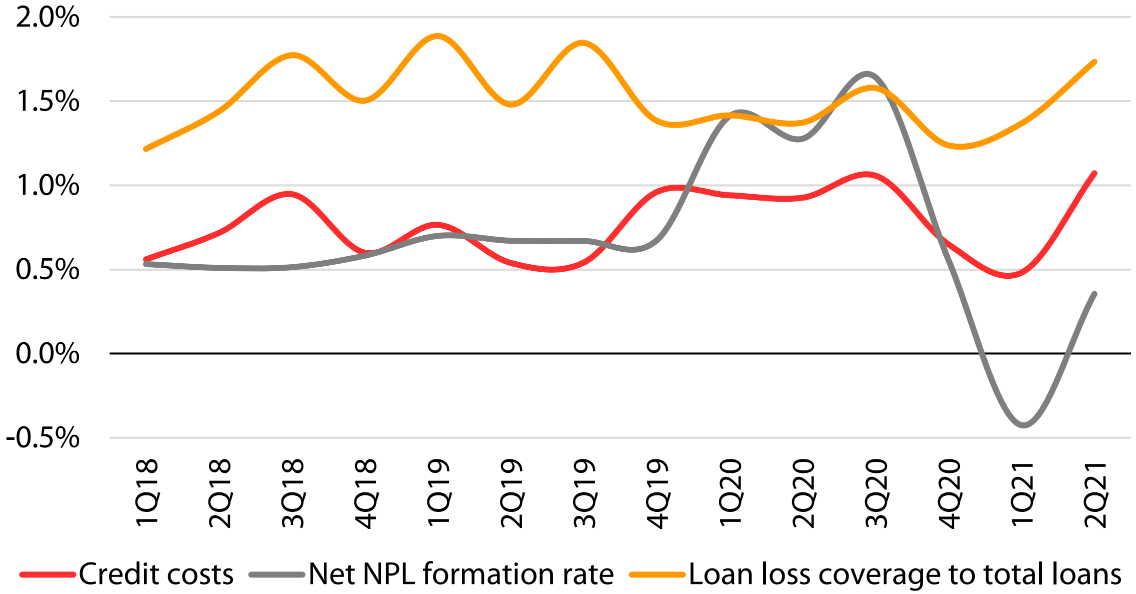


Figure 2: Credit costs, NPL formation and LLR to loans (TTM, %)



Good performance in 1H2021, but quarterly results raised concern

- Contrary to the three-digit growth in 1Q21, CTG missed expectations in 2Q due to surging provisions as a group of loans was restructured according to Circular 02. 2Q21 pre-provision profit grew +48%. NPL ratio increased to 1.3% while credit costs reached a five-year peak. 1H21 PBT growth was +45% YoY.
- Service income remained resilient, growing over 20% each quarter in 1H21. Bancassurance has not yet contributed strongly (23%) due to the inconclusion of the new partnership deal. Settlement was the driver, contributing 49% to net service income. In which, trade financing segment thrived robustly.

Strict provisioning policy strengthen the buffers

- Based on the prudent approach of CTG and the facts that the new bad debt belongs to several leading conglomerates which will recover soon and without those, net NPL formation would have been low (-0.1% compared to the actual 0.4%), we think the loan degradation in 2Q21 is temporary.

Source: CTG, RongViet Securities

Figure 3: Loan yield, deposit and term deposit rates (annualized, %)

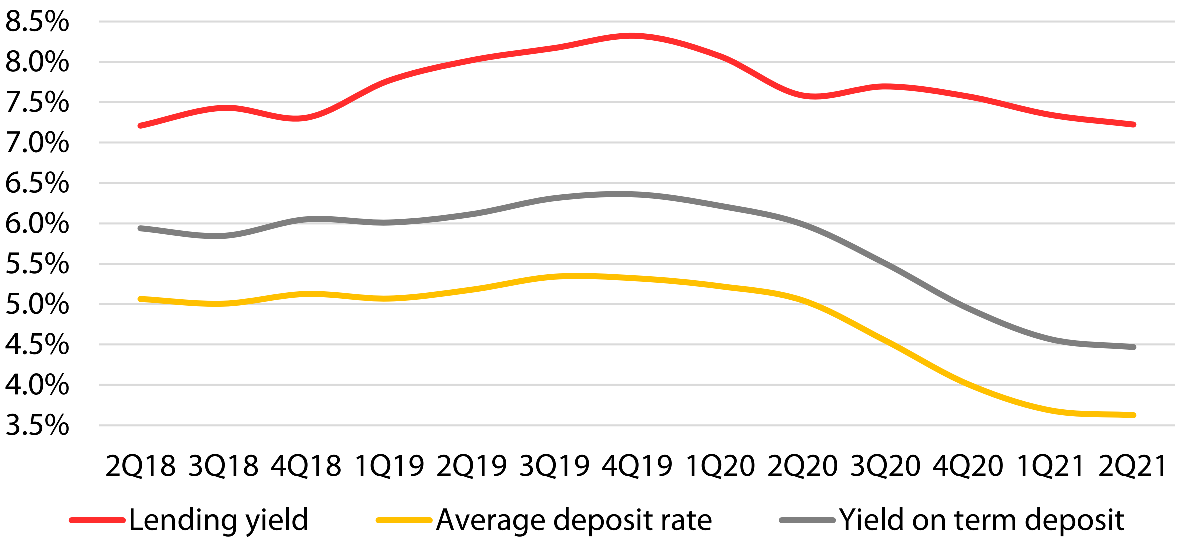
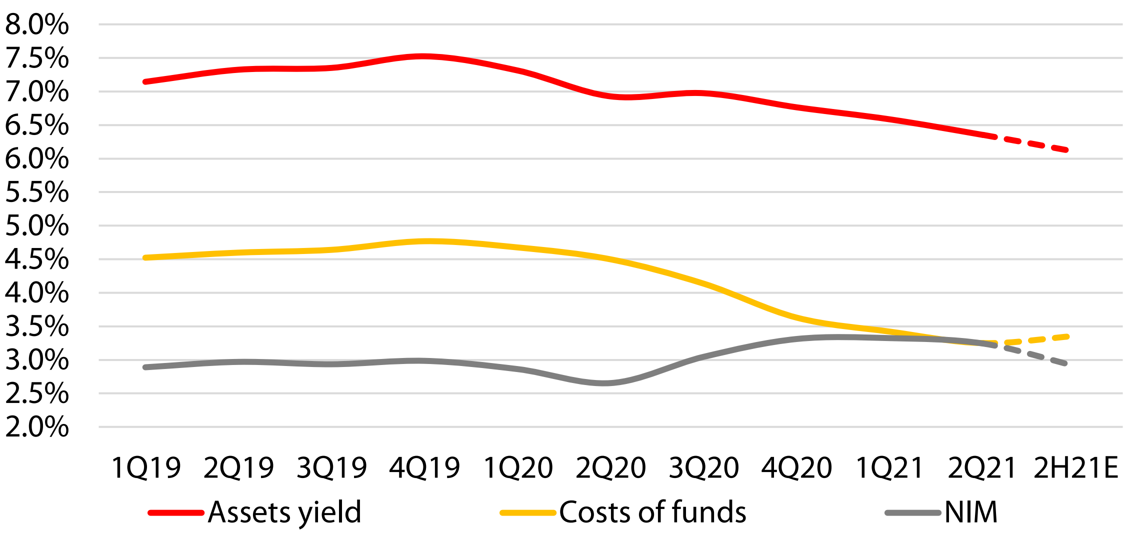


Figure 4: Assets yield, funding costs and NIM (annualized, %)



NIM falls, credit costs drive earnings growth resilient

- NIM might shrink in 2H given the supportive package leading to lower loan yield. The misalignment of credit and deposit growth due to pressured LDR will also narrow NIM and direct resources into low yield high quality liquid assets. Combined with a limited credit quota, NII growth will be low.
- Credit costs are expected to stay flat at 1.1%, implying annual provision expenses reaching the higher bound of the initial plan. Net NPL formation is projected to fluctuate given the bad debt upgradation after the probation and eased lockdowns. CTG might make further provisions for restructured debt. 2021 PBT will exceed USD 1 bn due to the controlled provisions expenses. We also expect an allocation of upfront fee in 4Q.

Table 1: Performance and forecasts (VND, %YoY)

Unit: VND bn	2H20A	1H21A	2H21E	%YoY	2021E	%YoY
Net interest income	19,365	21,521	20,480	6%	42,001	18%
Total operating income	24,621	27,006	28,266	15%	55,272	22%
Provision expenses	(5,548)	(8,456)	(3,558)	-36%	(12,014)	-1%
Profit before tax	9,610	10,850	13,892	45%	24,742	45%

Source: CTG, Rong Viet Securities

Figure 5: Credit costs and net NPL formation rate (TTM, %)

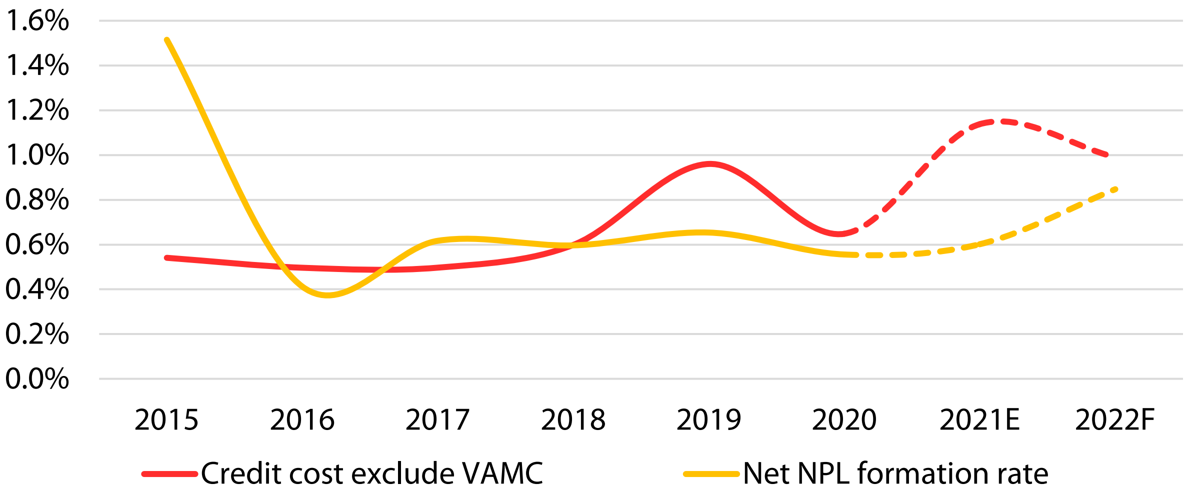
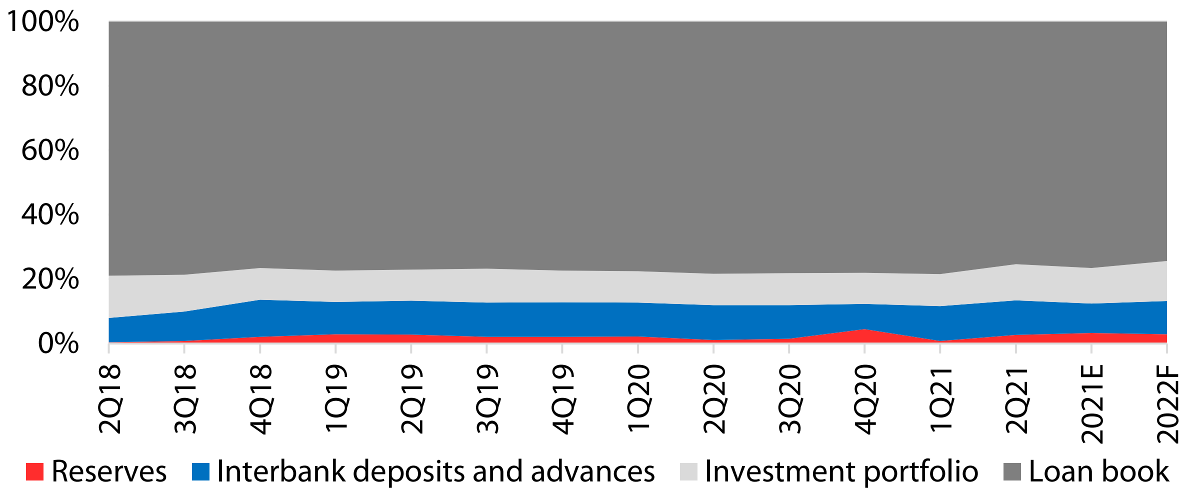


Figure 6: Interest earning assets allocation (%)



Source: CTG, Rong Viet Securities

The conclusion of the pandemic will have a major impact on income

- Despite the low expected net NPL formation in 2021, the recovery pace in 2022 will have a major impact on net profit, given the large customer base (15 million) covering many economic classes. We expect the net NPL formation to trend up, factoring the lag in bad debt formation, but the provision buffer will relieve pressure on credit costs. However, the provisioning policy is still conservative.
- We expect Circular 03 to be amended to support customers, which might lead to the increase in restructured debt. The early booking of additional provisions (currently over 40% and will increase in 2H21) will help. Provision costs are expected to drop slightly, propelling net profit (+13%) at a lower pace than 2021.

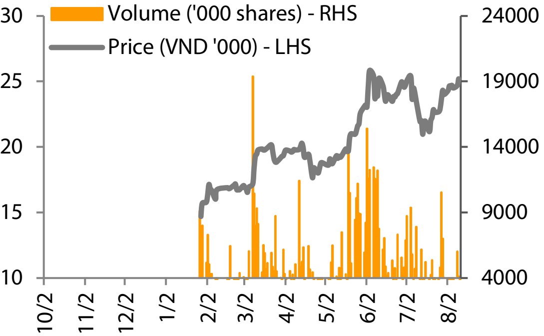
Asset reallocation in a low interest rate environment and capital constraint remain concerns

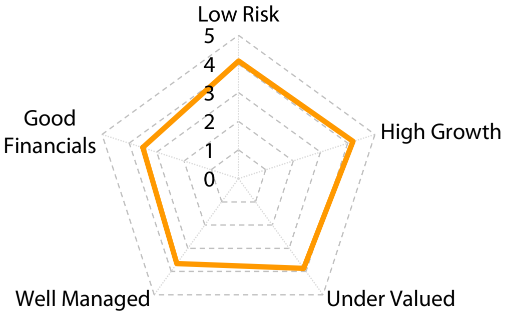
- TOI growth is expected to at one-digit (+8%), mainly due to weak growth of NII (+11%) and fall in other non-II. The asset structure is shifting towards investment portfolio and interbank resources, which are low yielding. The addition of government bond, limited supply of financial institution bond and sustainably low interbank rates will pressure NIM, despite the possibility of a sharp increase in loan yield in 2022 following the termination of some supportive packages.
- Capital is likely to remain an obstacle to balance sheet growth for several years despite the shift to retail lending and retaining capital.

SMALL BANK WITH POTENTIALS

HSX: OCB

<BUY: 32%> **<MP: 24,300>** **<TP: 32,100>**





STOCK INFO

Sector	Banking
Market Cap ($ mn)	145
Current Shares O/S (mn shares)	1,370
3M Avg. Volume (K)	5,138
3M Avg. Trading Value (VND Bn)	147
Remaining foreign room (%)	0
52-week range ('000 VND)	18.4-32.3

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND bn)	8,013	9,718	11,983
NPATMI	3,535	4,420	5,663
ROA (%)	2.6	2.7	2.8
ROE (%)	24.4	22.5	22.9
EPS (VND)	2,471	3,117	4,025
Book Value (VND)	12,728	15,954	20,088
Cash dividend (VND)	0	0	0
P/E (x) (*)	9.5	7.8	6.0
P/B (x) (*)	1.9	1.5	1.2

INVESTMENT RATIONALES

High interest income growth from balance sheet optimization

- Leading capital adequacy and ample liquidity will ensure OCB to continue to be granted a credit growth (over 2x% per year) higher than the industry average as in recent years. In the meantime, reducing cost of funding via attracting more mid- and long-term funds from international financial institutions (IFC, ADB) and valuable papers with cost of equaling a half of that of deposits of the same terms. By personalizing customer experience, OCB focuses on retail lending (including consumer lending), SME and micro-SME, which are high-interest-rate segments with plenty of room for growth. As a result, NIM still has potential to improve from its higher than average currently.

Credit quality is strictly controlled. As the earliest Vietnamese bank to comply with Basel II, risk management is OCB's core competency, which is reflected in the low debt write-off rate and falling NPL ratio from 2.3% (2018) to 1.5% (1H2021). Due to the early adjustment of the loan book since the beginning of the pandemic, the restructured debt only weighted for 1%.

Leading and continuously improving operating effectiveness through digitalization and technology. Since applying centralized management by digitization on the omnichannel platform in 2018, CIR has decreased from over 53% in 2017 to 28% in 1H2021, the lowest figure among listed banks.

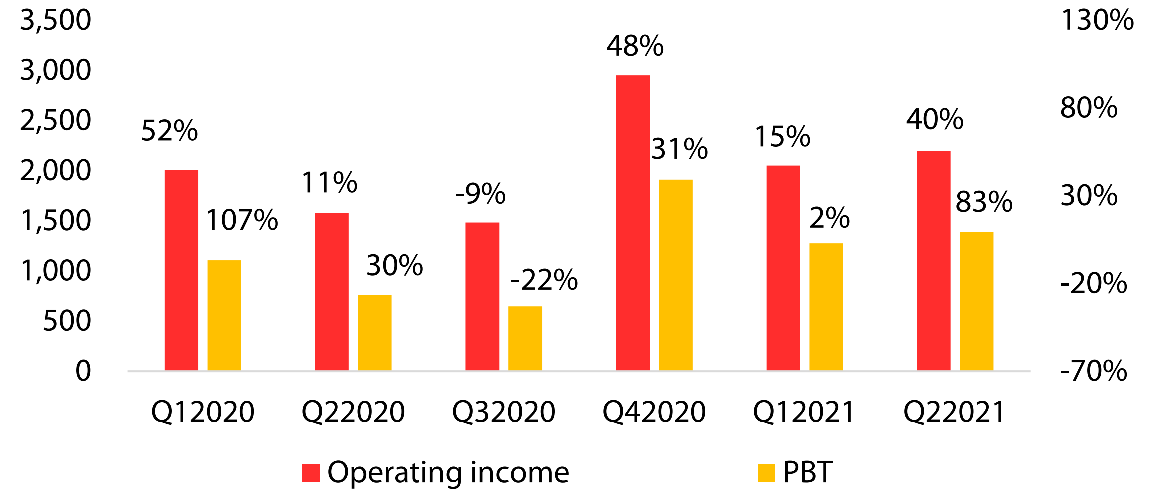
Full of potentials for fee income growth. In addition to bancassurance income with Generali accounting for 65-70% of service fee income, from 2021 the bank will promote other service segments including payment, cards and IB consulting services to diversify service income. The renegotiation with Generali will also increase income for the bancassurance segment.

RISKS TO OUR CALL

- Upside risks include positive news on renegotiation with Generali and private placement.
- Downside risks include rising competition in the retail banking segment, stronger and longer-lasting impact of the pandemic than expected.

1H2021: EXPANDING NIM, PROVISION FELL

Figure 1: Operating income, PBT and growth (VND bn, % YoY)



Consolidated PBT surged 42.6% YoY on expanded NIM and reduced provision

- Funding cost fell thanks to increased issuance of low-yielded bonds in Q2. Higher proportion of home and auto loans partially offset asset yield while the bank reduced lending rates to support customers. Asset yield fell less than funding cost, expanding NIM and NII up 21.6% YoY.
- Fee and service income rose 98% YoY (excluding one-time income from extra banca commission in 1H2020): card service +152% and banca +78%.
- CIR fell to 28.4%, the lowest among listed banks.
- Provision plummeted 40.2% YoY because of well-controlled credit quality. NPL ratio decreased from 1.69% at 2020 end to 1.53%. Debt write-off declined 29.2% YoY.

Figure 2: Deposit structure (VND trn), asset yield, cost of capital and NIM (%, TTM)

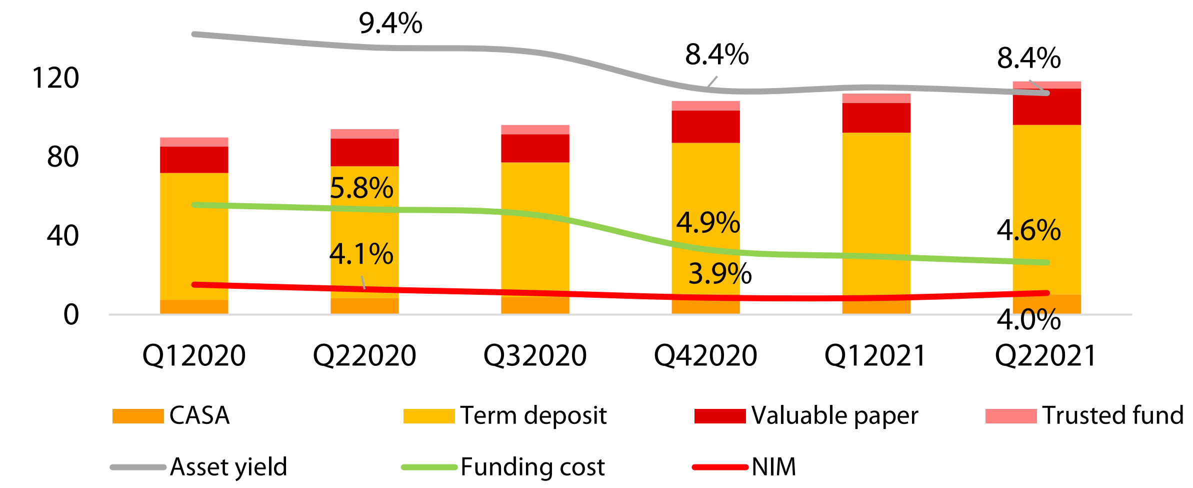
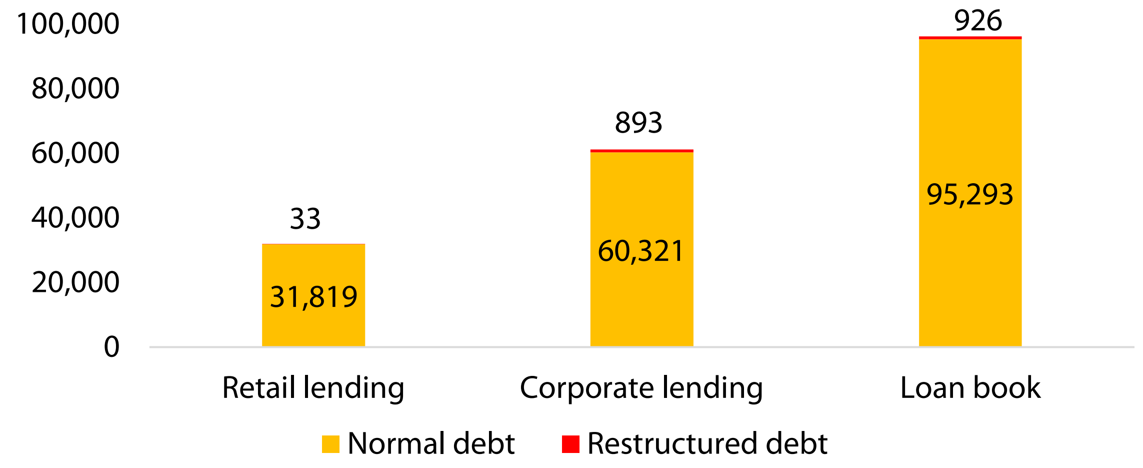


Figure 3: Restructuring debt, end of Q2 2021 (VND bn)



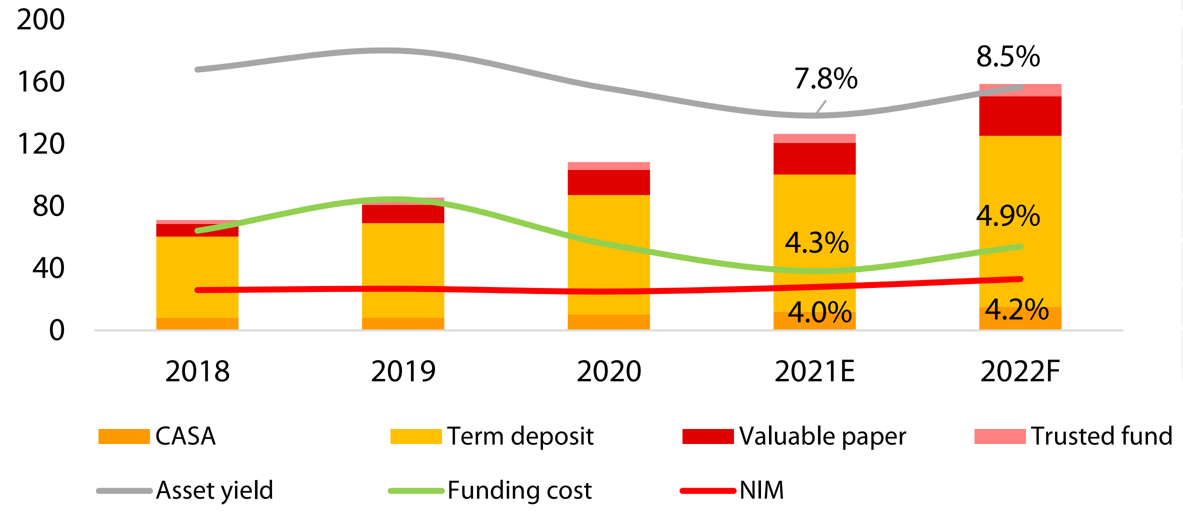
Source: OCB, Rong Viet Securities

Table 1: Results 2020-2021E (VND bn)

	2H20A	1H21A	2H21E	%YoY	2021E	%YoY
Net interest income	2,678	2,800	3,448	+28.8%	6,248	+25.4%
Total operating income	4,431	4,249	5,469	+23.4%	9,718	+21.3%
PBT	2,556	2,661	2,866	+12.1%	5,527	+25.0%

Source: Rong Viet Securities

Figure 4: Deposit structure (VND tn), asset yield, cost of capital and NIM (TTM)



Source: OCB, Rong Viet Securities

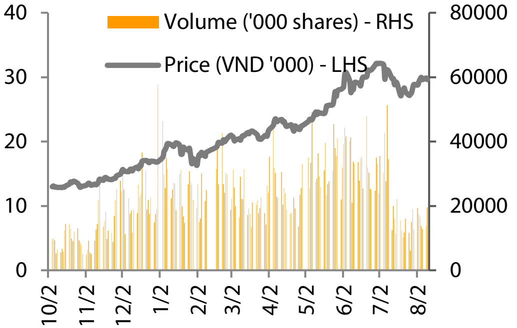
2H2021: Growth slows down on high lending base in the same period and strengthened asset quality

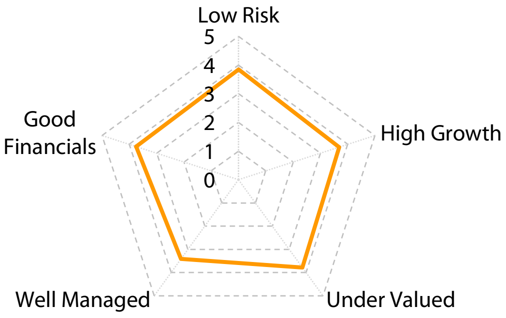
- Interest rate incentives for customers in 2H2021 can be partially offset by the funding structure's adjustment towards low-cost long-term sources. NIM TTM for 2021 remains same as 1H2021 (4.0%) but higher than 3.88% of 2020. The fourth pandemic outbreak in 2H2021 causes 2H2020 a high base for loan growth.
- The goal of improving the provisioning buffer compared to 2020 makes provisioning cost increase by 87% YoY.

2022: NIM continues to expand, stable provision

- Lending rates recover and funding cost improves because of higher proportion of low-cost long-term sources (IFC, ADB and bond issuance). High NIM (4.16%) will be the main driver of growth with net profit and TOI advances by 26.9% and 23.3%, respectively.
- CIR drops to 26.7% owing to the efficiency of digital transformation projects.
- Provision expenses rise slightly by 11.5% based on the stable and healthy asset quality.

<BUY: 25%> **<MP: 28.800>** **<TP: 36.100>**





STOCK INFO

Sector	Banking
Market Cap ($ mn)	4,731
Current Shares O/S (mn shares)	3,778
3M Avg. Volume (K)	23,015
3M Avg. Trading Value (VND Bn)	838
Remaining foreign room (%)	1.4
52-week range ('000 VND)	16.2-43.5

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND bn)	27,362	35,560	41,959
NPATMI	8,606	11,985	15,628
ROA (%)	1.8	2.2	2.5
ROE (%)	18.4	21.8	23.2
EPS (VND)	2,993	3,194	4,164
Book Value (VND)	13,350	15,891	20,056
Cash dividend (VND)	0.0	0.0	0.0
P/E (x) (*)	10.4	9.0	6.9
P/B (x) (*)	1.7	1.8	1.4

INVESTMENT RATIONALES

Income growth driver comes from retail banking expansion (including consumer finance)

- The high and stable CASA ratio (nearly 40%) and long-standing relationships with large military enterprises such as Viettel, Vinacomin, Saigon Newport and Vietnam Helicopter helps MBB maintain a low funding cost. The proportion of retail lending has continuously increased and will continue to expand into the housing loan segment thanks to the strategic partnership with Novaland from the beginning of 2021. As a result, NIM will remain high. The expanding retail customer base also facilitates non-interest income from cross-selling products such as insurance and credit cards.

Growth focuses on quality

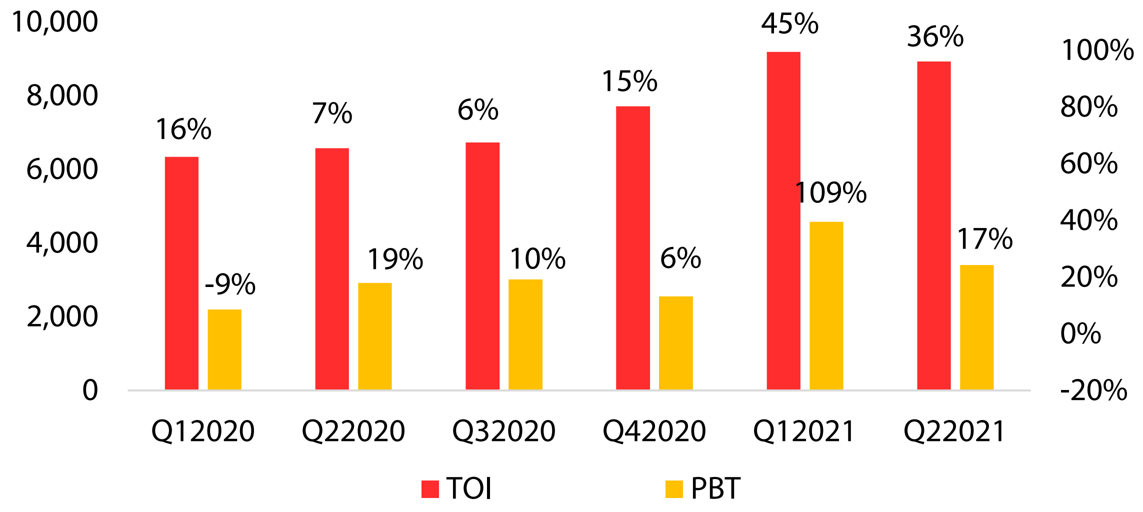
- Low exposure to industries affected by the pandemic and restructuring of MCredit since Q12020, has improved asset quality. The impact of the pandemic on the loan book has been negligible. However, MBB is still carefully building a thick capital buffer and high liquidity to be ready to deal with the prolonged pandemic situation.
- The business strategy for 2021-2026 period focuses on improving asset quality. Compared to the 2016-2020 period, the growth rates of balance sheet, credit, income and profit will all be lower while the rate of mobilization will be higher.

Investing in long-term competitiveness may make it difficult for CIR to improve in the medium term. The agent banking model through Viettel, Vietnam Post and MWG along with MBB's Smart Bank automotive transaction offices both contribute to increase coverage and save operating costs. Rich digital customer experiences will assist in maintaining the CASA ratio. However, large investment in IT and expansion of the southern market may make it difficult for CIR to improve before 2024.

RISKS TO OUR CALL

- Challenges in maintaining CASA, increased competition in retail banking, and the pandemic caused a stronger and longer impact than expected.

Figure 1: Total operating income and PBT (VND bn, % YoY)



Consolidated PBT surged 56% YoY due to strong NIM expansion and written-off debt recovery.

- Short-term deposit rates plunged, and CASA improved in Q2 to reduce funding costs. Rising in medium- and long-term and retail lending supported asset yields. As a result, NIM increased by 56 bps to 5.36%.
- Service income growth decelerated as the insurance segment experienced a stronger increase in expenses than revenue.
- Written-off debt collection doubled that of 1H2020, improved TTM actual CIR. Both quarterly actual CIR and quarterly underlying CIR increased vs Q1 but lower than Q22020.
- Provision expenses doubled in Q2 because the bank reinforced its asset quality to prepare for a less positive outlook in Q3.

Figure 2: Lending rate, deposit rate and NIM (%, TTM)

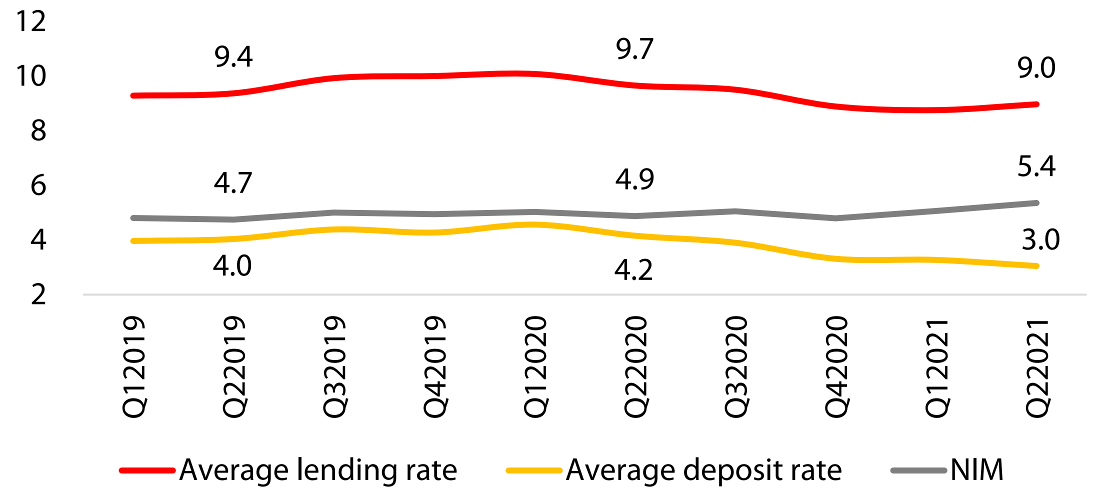
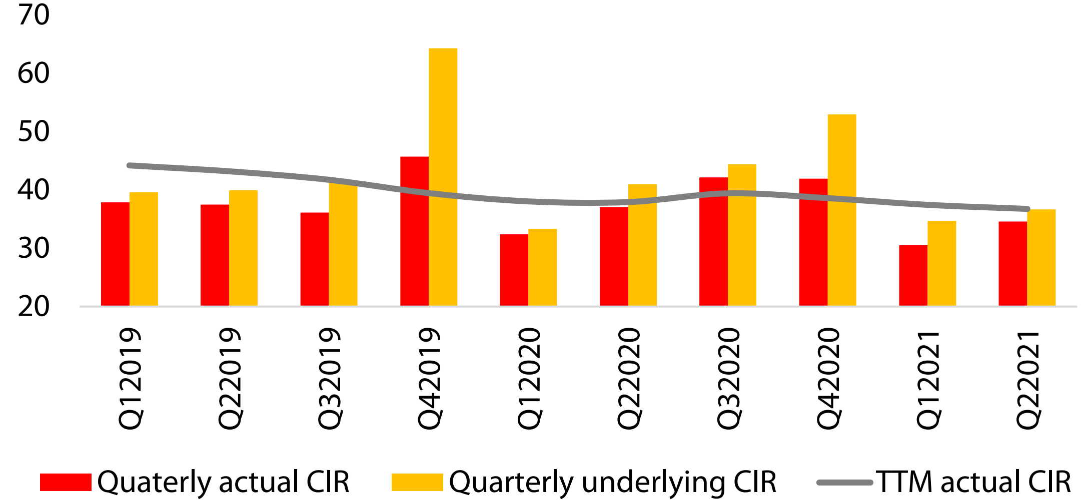


Figure 3: Quarterly underlying CIR, quarterly actual CIR and TTM actual CIR (%)



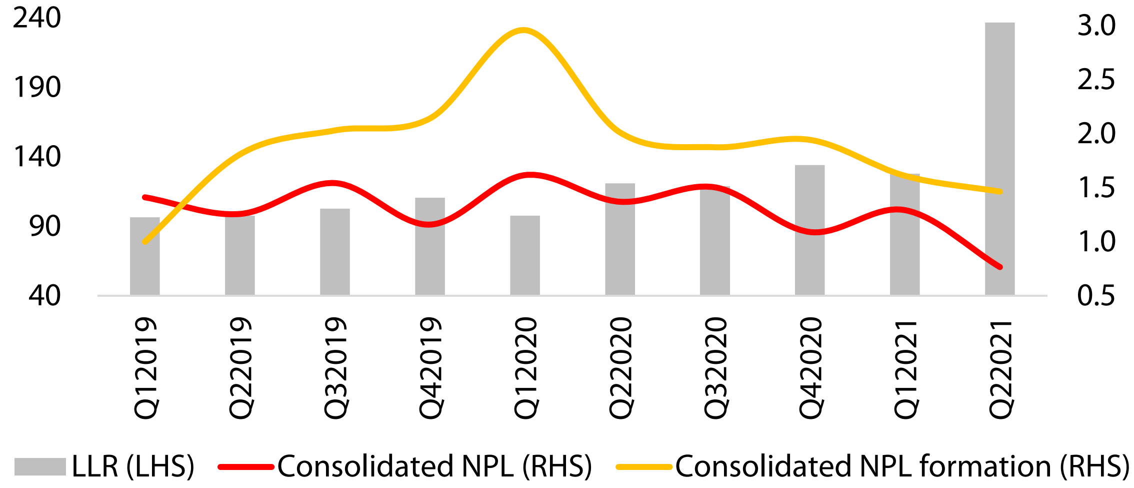
Source: MBB, Rong Viet Securities. Underlying CIR: Actual CIR without one-off incomes

Table 1: 2020-2021E business results (VND bn)

	2H20A	1H21A	2H21E	%YoY	2021E	%YoY
Net interest income	10,959	12,515	13,267	+21.1%	25,782	+27.1%
Total operating income	14,450	18,117	17,443	+20.7%	35,560	+30.0%
PBT	5,570	7,986	7,386	+32.6%	15,372	+43.8%

Source: Rong Viet Securities

Figure 4: NPL ratio, new bad debt formation ratio and loan lost coverage ratio LLR (%, TTM)



Source: MBB, Rong Viet Securities

2H2021: Growth slows down on high comparison base and interest rate support program for customers

- The preferential lending rate for customers in 2H2021 could be partially offset by the adjustment in the deposit structure, the low deposit interest rate as well as the increase in retail lending. Although NIM TTM 2021 narrows compared to 1H, it will still remain high at 5.16% and outperforms 4.8% of 2020. The complicated pandemic in 2H2021 makes 2H2020 a high comparison base of credit growth.
- NPLs may increase in Q3 and gradually decrease in Q4. But thanks to the high provisioning buffer at the end of Q2, provision expenses will not as high as in 1H.

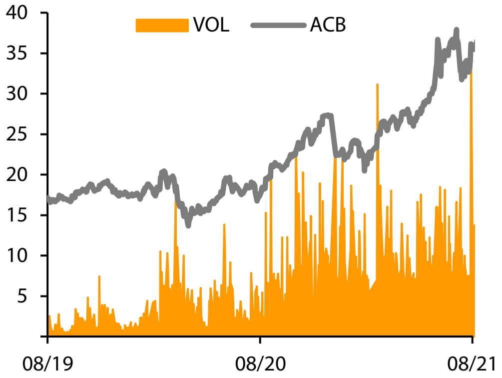
2022: NIM to be maintained and reduce provisions

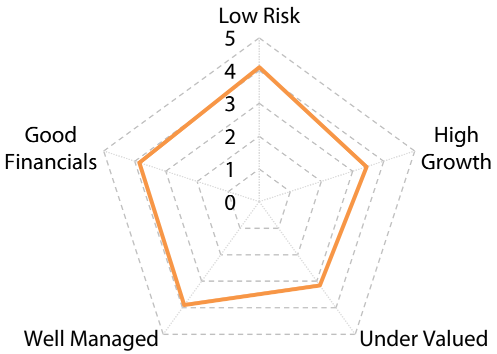
- Lending and deposit rates recovered to neutralize the rolling yield effect of investment bond and valuable paper. NIM will reach 5,19% and NII will increase 19%.
- It is difficult for the underlying CIR to improve strongly before 2024 owing to the large increase of IT personnel and the expansion in the southern market.
- Thanks to a slowdown in the growth of the balance sheet and a healthier loan portfolio after restructuring, new NPL formation ratio and credit costs fall from a high base of 2021.

SUSTAINBLE GROWTH ON SOLID FOUNDATIONS

HSX: ACB

<ACCUMULATE: +5%> **<MP: 35,550>** **<TP: 37,300>**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	4,176.3
Current Shares O/S (mn shares)	2,701.9
3M Avg. Volume (K)	11,285.5
3M Avg. Trading Value (VND Bn)	413.0
Remaining foreign room (%)	-
52-week range ('000 VND)	17.845 - 37.95

FINANCIALS

FINANCIALS	2020A	2021E	2022F
NII (VND bn)	14,582	18,772	21,451
TOI (VND bn)	18,161	23,581	27,263
NPAT (VND bn)	7,683	10,542	12,836
ROA (%)	1.9	2.2	2.3
ROE (%)	24.3	25.9	24.9
Asset growth (%)	15.9	15.6	14.8
Book Value (VND)	13,119	17,021	21,072
P/E (x) (*)	10.1	9.2	7.6
P/B (x) (*)	2.7	2.1	1.7

INVESTMENT RATIONALES

Stable funding base targeting loyal and fast-growing customers will secure balance sheet growth and cross-selling ability

- ACB owns a strong retail franchise. The steadily growing customer base focusing on middle-and-high profile segments secures a robust funding structure, the core advantage to sustain the stable and efficient NIM. This grants ACB the capability to attain optimal balance sheet growth to suit the risk appetite and enhances cross-selling ability. Leading bancassurance market share and the sustainable growth of active users are the evidences of the strength of payment-based income and income from bancassurance, the two major non-interest income drivers.

Prudent lending approach and controlled operating costs are the fundamentals for sustainable efficiency

- The healthy balance sheet is the result of the conservative lending and the moderate pace of expansion. This will give ACB the ability to control risk costs and stay resilient in various macro environment. Combined with the improving CIR ratio by investing in digitization and automation and the sustainable NIM, ACB is expected to maintain good efficiency ratios.

Intact growth expectation during the pandemic based on adequate capital base and excessive liquidity buffer

- ACB possesses a well-balanced buffer with sufficient capital and liquidity position. This ensures the bank's steady growth rate by helping to receive desirable credit quota.

RISKS TO OUR CALL

- The uncertain development of the pandemic might lead to surging provision costs. The prolonged low yield environment will pressure on the high-quality liquid assets when rolling.

Figure 1: Profit before tax and total operating income (VND, % YoY)

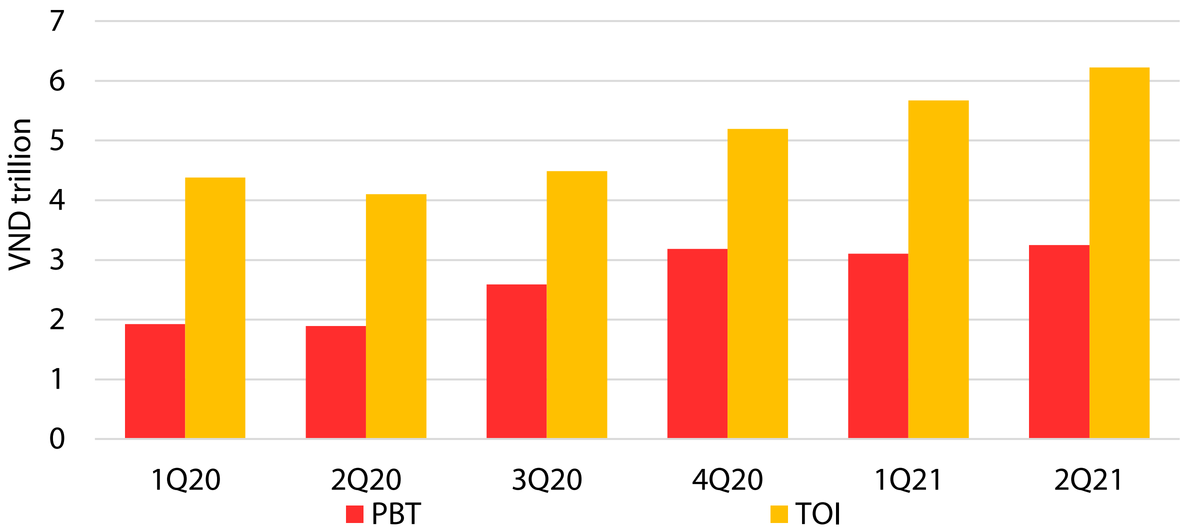
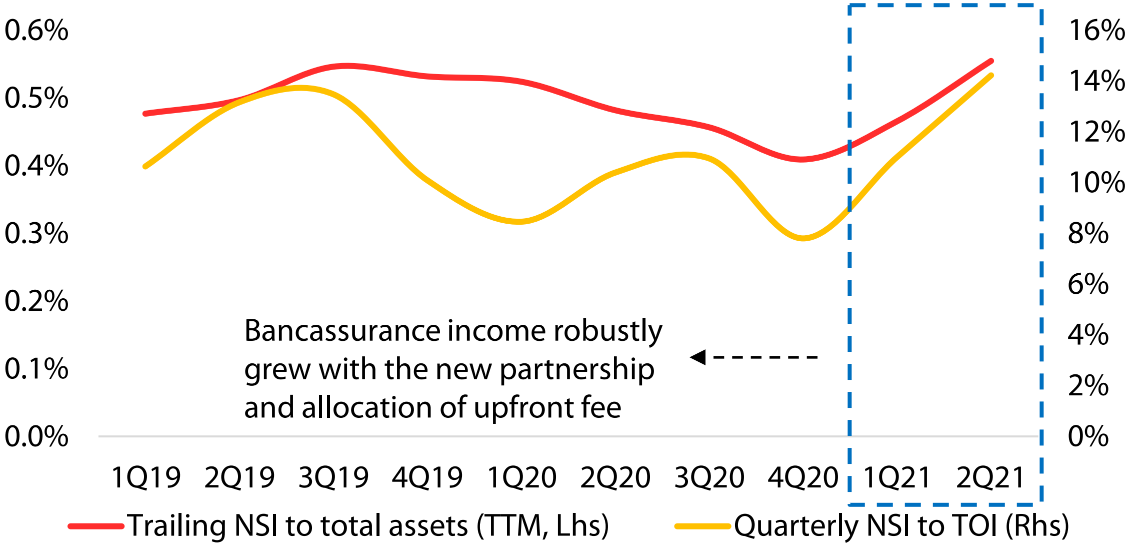


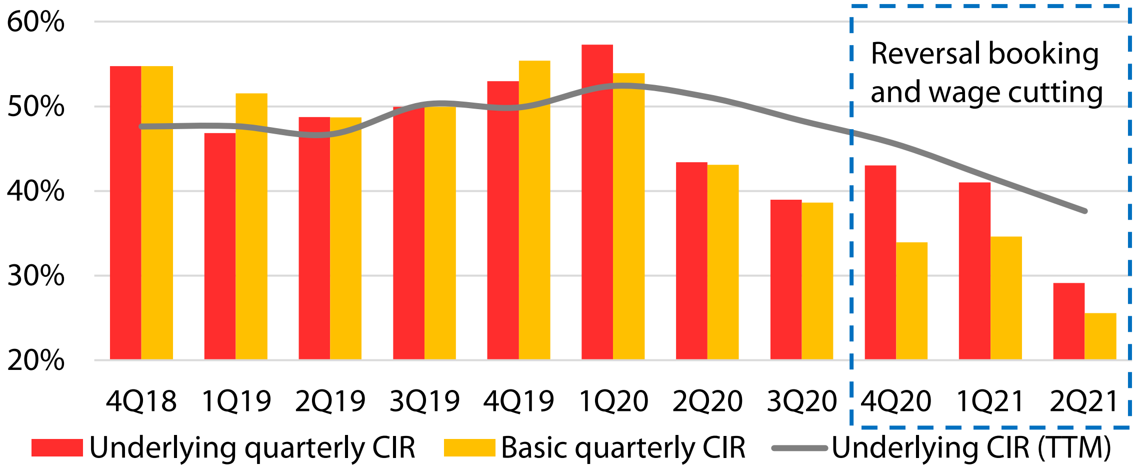
Figure 2: Net service income (NSI) to assets and TOI (TTM, %)



1H21: High growth due to widened NIM, bancassurance and reversal

- ACB posted strong PBT result in 1H21 (+66% YoY) driven mostly by a stably widened NIM (annualized) on a low comparison base, robust net service income growth and improvement in CIR.
- Sharp drop in yield of term deposit, slightly higher CASA ratio and newly issued valued papers with low interest rate helped improve funding costs, while average lending yield fell modestly due to repricing. As a result, 1H21 NIM expanded by 39 bps from 2H20.
- Bancassurance was the main service income driver as growing 60% YoY. With the non-recurring item, the enhancement in CIR helped neutralize the surging credit costs due to full provision of the restructured loans.

Figure 3: Basic, underlying and trailing quarterly CIRs (%)



Source: ACB, RongViet Securities

Expecting slower growth in 2H2021 based on less supportive comparison base and substantial interest rate reduction package

- 2H2021 PBT is forecasted to increase 18% YoY, down from 66% growth of 1H2021. Net interest income (NII) is the major cause.
- The interest rate cut will have impact on over 90% of the existing customer loans, driving 2H2021 NIM 0.5% lower than 1H2021. The average lending yield is projected to drop by 0.7%, following the up to 0.8% rate deduction for short-term loans and the up to 1.0% rate deduction for medium-and-long-term loans. 2H2021 deposit rate is expected to stay flat, as CASA ratio is projected to increase slightly while the yield on term deposit fluctuates. The comparison base for NIM and credit growth will also be higher in 2H2021.

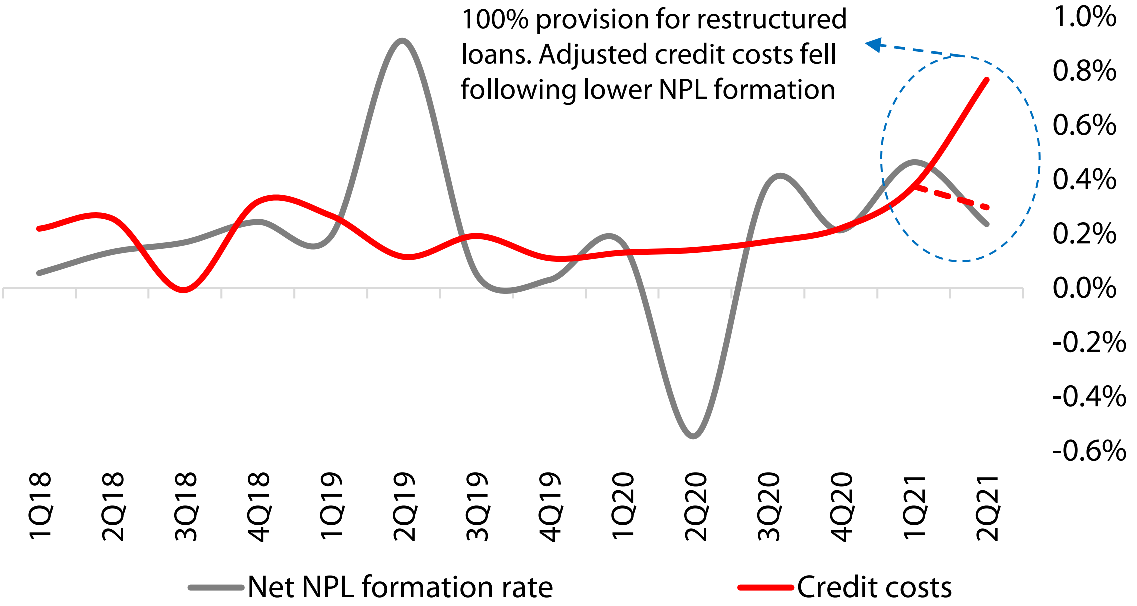
Bancassurance and credit costs continue to be the main driver while CIR will be less encouraging

- CIR is expected to be higher in 2H21, at 38%, compared to 30% of 1H21 and 36% of 2H20, indicating no supportive comparison base.
- Since ACB took advantage of the reversal to make full provision for the restructured loans, credit costs will be relieved in the 2H21. Given the slowdown in balance sheet expansion to focus on customer base and the healthy loan book, the NPL formation and the adjusted credit costs will be resilient to the pandemic outbreak and remain at low level.
- Bancassurance will remain an income driver aided by the upfront fee.

Table 1: 2020-2021 performance and forecasts (%)

Unit: VND billion	2H20A	1H21A	2H21E	%YoY	2021E	%YoY
Net interest income	8,051	9,630	9,142	14%	18,772	29%
Total operating income	9,681	11,903	11,679	21%	23,581	30%
Profit before tax	5,776	6,353	6,801	18%	13,153	37%

Figure 4: Credit costs and net NPL formation rate (%, TTM)



Source: ACB, RongViet Securities

Figure 5: Term deposit yield and deposit growth (%, annualized, YoY)

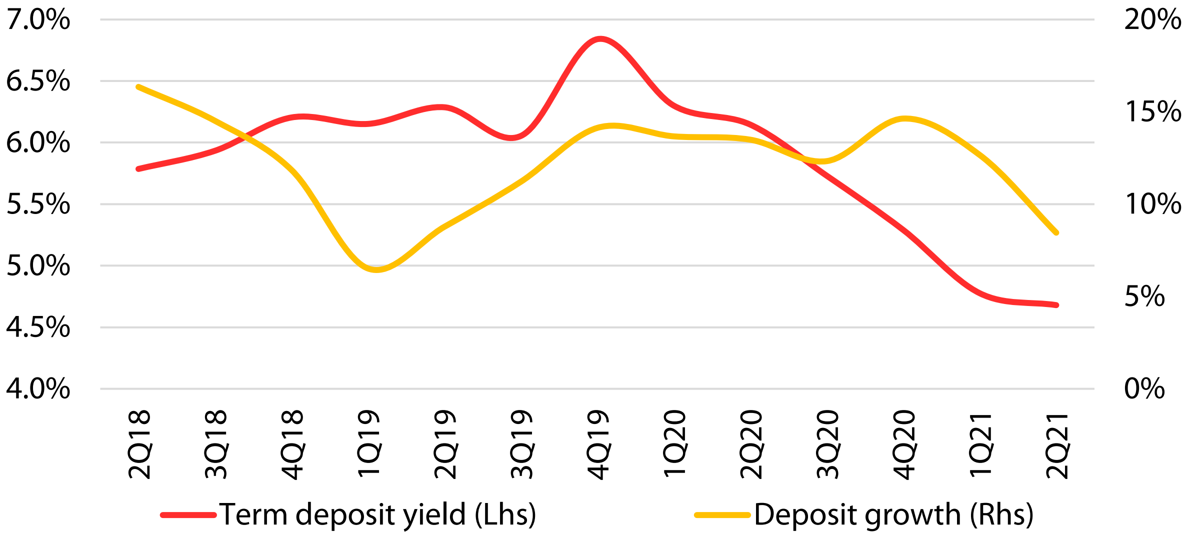
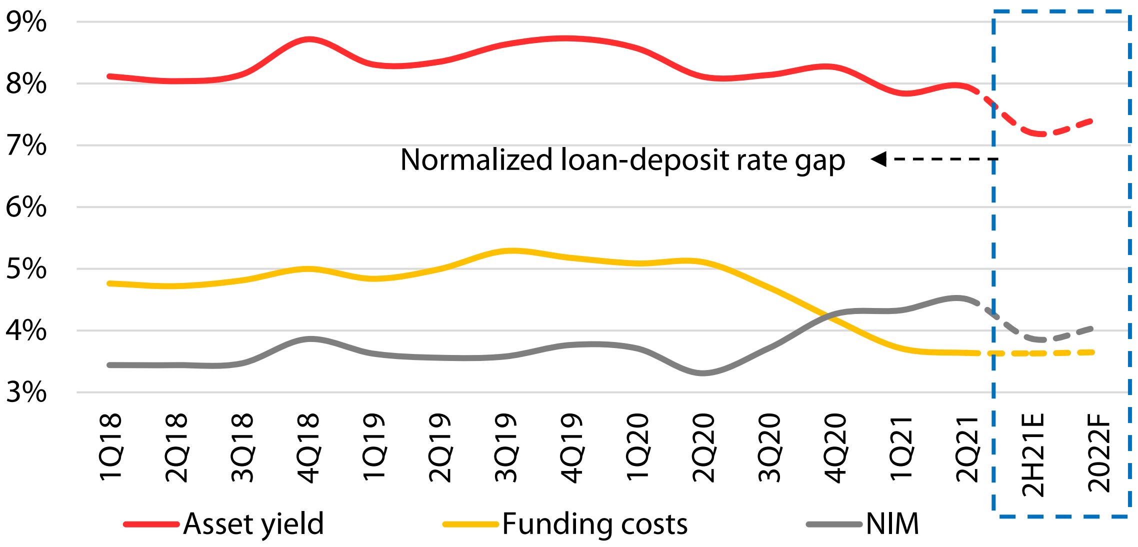


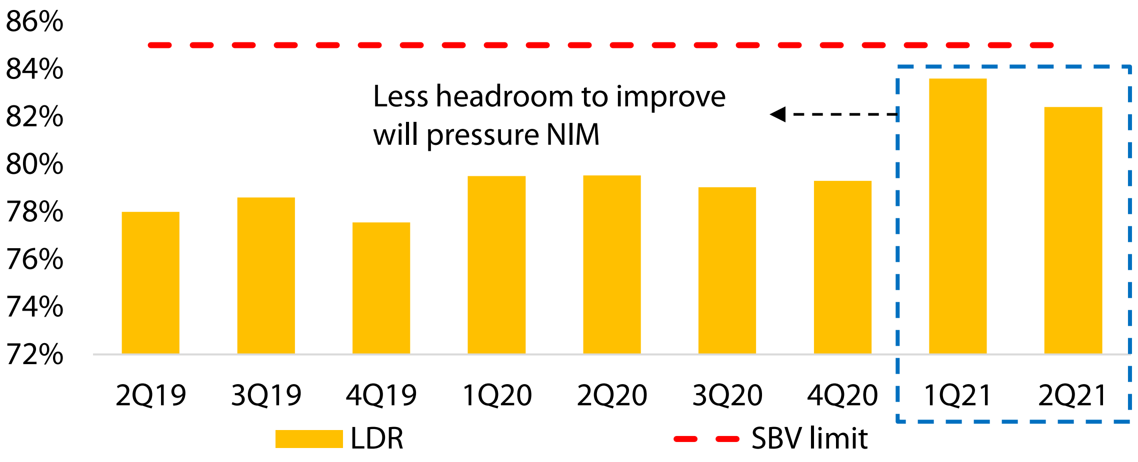
Figure 6: NIM, asset yield and funding costs (annualized, %)



Sustained NIM and high base of non-II normalizes TOI and PBT growths

- The yield on term deposit is expected to fluctuate around the current level given the low need for balance sheet growth and higher deposit demand from a larger customer base. This will help control NIM when lending yield recovers after the end of the preferential interest rate period and yield on investment portfolio drops as repricing and rolling. Non-interest income is expected to grow slower as the effect of upfront fee fades out. TOI is projected to expand 16% YoY.
- CIR is expected to rise as we do not think a decreasing wage is sustainable, but the risk costs will be lower given less pressure from the provision for Circular 03. PBT will grow by 22%, equaled to that of TOI.

Figure 7: LDR (%)

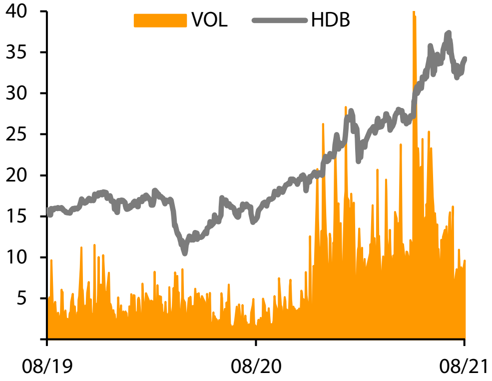


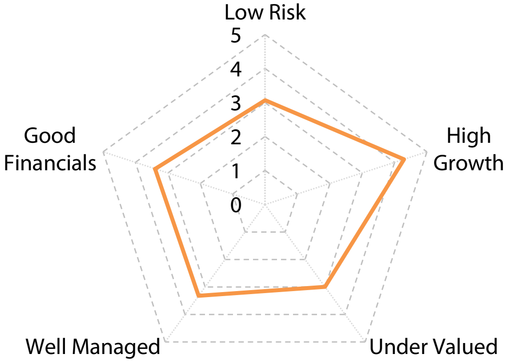
Source: ACB, RongViet Securities

GOOD EFFICIENCY AND STABLE GROWTH BUT THIN BUFFERS

HSX: HDB

<ACCUMULATE: +8%> **<MP: 34,200>** **<TP: 36,800>**





STOCK INFO

Sector	Banks
Market Cap ($ mn)	2,369.9
Current Shares O/S (mn shares)	1,593.8
3M Avg. Volume (K)	5,695.9
3M Avg. Trading Value (VND Bn)	186.6
Remaining foreign room (%)	3.6
52-week range ('000 VND)	14.788 – 37.4

FINANCIALS	2020A	2021E	2022F
NII (VND bn)	11,898	14,551	18,551
TOI (VND bn)	13,779	17,500	22,171
NPAT (VND bn)	4,249	6,100	7,885
ROA (%)	1.5	1.7	1.8
ROE (%)	18.8	22.8	24.3
Asset growth (%)	39.1	24.5	24.9
Book Value (VND)	14,430	18,033	22,625
P/E (x) (*)	9.2	9.2	7.0
P/B (x) (*)	2.4	1.9	1.5

INVESTMENT RATIONALES

Good profitability driven by effective high-yield lending and improving operating costs

- HDB has the capability to well maintain efficiency ratios due to robust risk-adjusted NIM as a result of risk management, appropriate lending yield and stably high balance sheet growth. We expect the bank to further enhance the ROA as technology application helps improve productivity, thereby, driving CIR lower and boosting net profit margin.

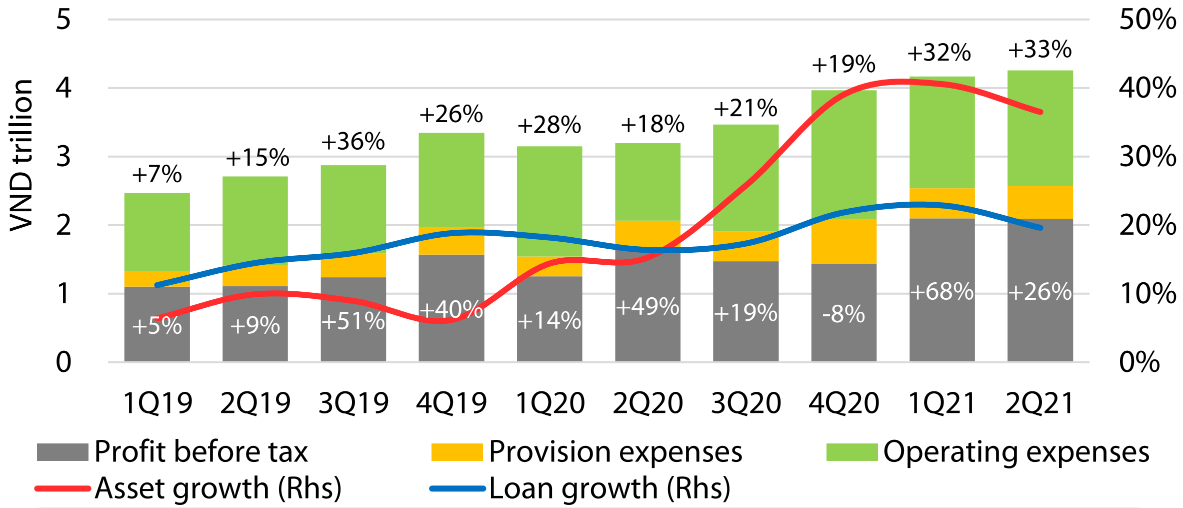
Sustainable lending market share in middle segments with resilient growth backed by a leading consumer finance company, a long-term funding structure and sufficient capital

- HDSaison is among the largest institutions in the consumer lending segment, which promotes the bank's ecosystem and gives it advantages in approaching early-staged customers who will later thrive to upper classes as the economy evolves and become loyal customer of the parent bank. We appreciate the wide ecosystem with value chain lending approach in middle segments, and therefore, expect stable loan growth and intact market share given the fast-growing demand and the bank's favorable position.
- The stable funding mix with long-term deposits and valued papers is the foundation to deliver stable liquidity and pursue high-yield lending. Combined with the resilient capital base with headroom to develop via equity issuance, we expect HDB to achieve high credit quota in the upcoming period.

RISKS TO OUR CALL

- A pro-cycle business segment is vulnerable to the pandemic, thus, having unanticipated NPL formation. The prolonged pandemic will also affect risky lending segments and hamper balance sheet growth. We also think that the delicate provision buffer makes HDB exposed to any bad debt cycle.

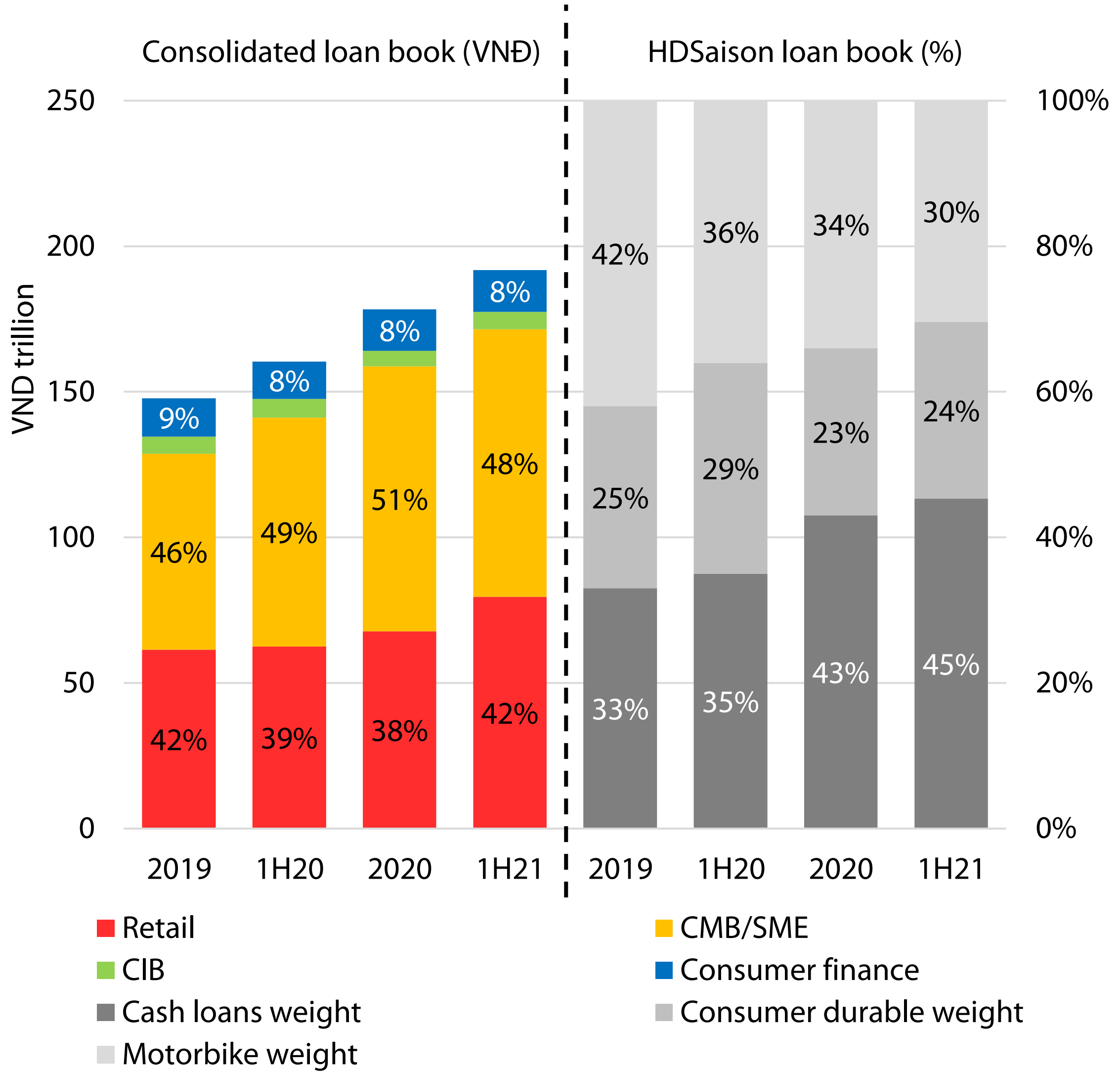
Figure 1: TOI allocation and asset and credit growth (%, YoY)



High balance sheet growth, low quota granted pressured performance

- Deposit expanded robustly (+14% YTD, +39% YoY), driving balance sheet growth and relieving pressure on interbank funding. However, low quota granted directed the resources into reserves and interbank lending which were yielding low and increased the liquidity, thereby, hindering NIM.
- Credit grew (+8% YTD, +19% YoY) with lower contribution from HDSaison due to limited operations during the pandemic. Loan book shifted to moderate risk, fast-growing segments (business households, mortgage, manufacturing). Retail contribution on both lending and funding sides indicated efficient retail banking. However, CASA could not follow.
- HDB's NIM diverged from uptrend of sector's NIM. CIR falling sharply due to productivity was the main profit driver in 1H21 (+44% YoY).

Figure 2: Loan book, consolidated and HDSaison (%)

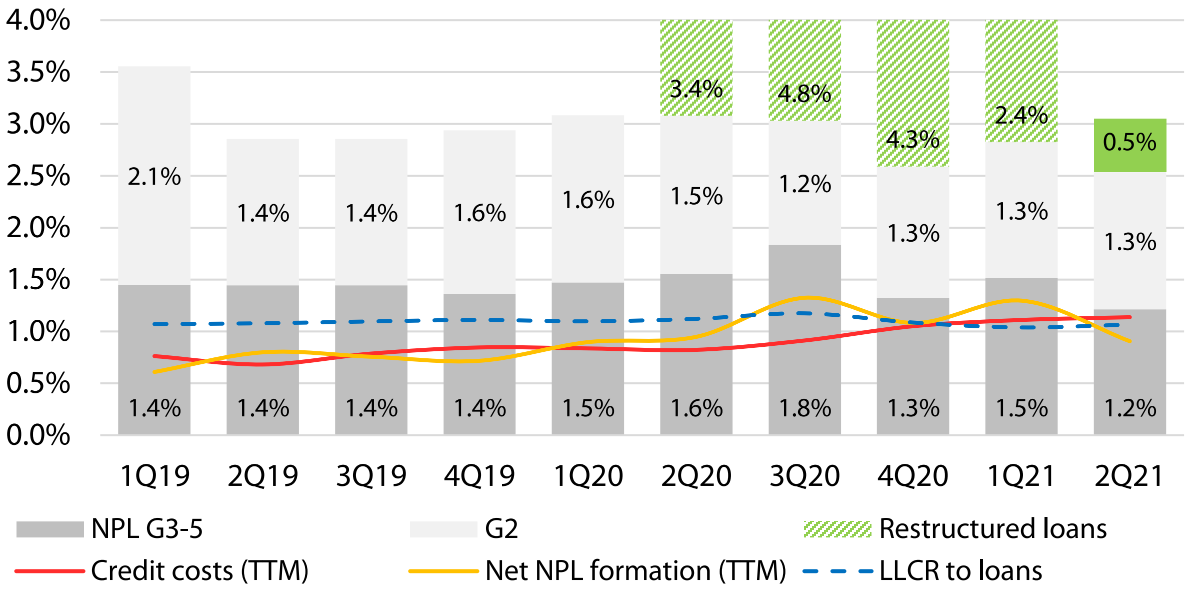


Source: HDB, RongViet Securities

Figure 3: Performance and forecasts (VND, %, YoY)

Unit: VND billion	2H20A	1H21A	2H21E	%YoY	2021E %YoY	2022F %YoY
Net interest income	6,234	6,832	7,719	+14%	+22%	+27%
Total operating income	7,433	8,422	9,078	+21%	+27%	+27%
Profit before tax	2,911	4,193	3,932	+18%	+40%	+27%

Figure 4: Debt groups, coverage, credit costs and NPL formation (%)



Source: HDB, RongViet Securities

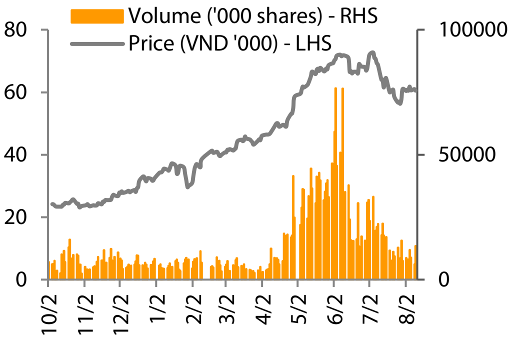
2H2021: lower momentum from total operating income

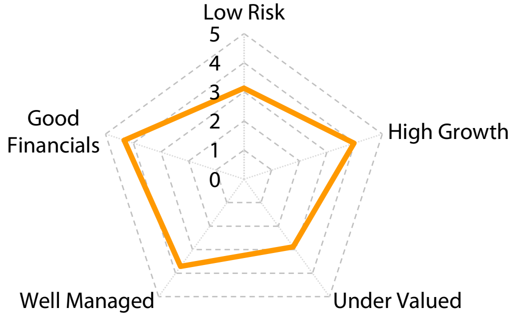
- We expect the profit in 2H21 to be sustained from the level of 1H as TOI grew following higher lending quota while CIR picks up.
- We think NIM will fluctuate in 2H. We expect the lending rate to trend lower due to the interest rate package. With higher credit quota and good liquidity, resources will be redirected to loans from low-yield high quality liquid assets, thus, driving assets yield. CASA ratio might be better due to less pressure from assets growth. Low CASA base and sustained term deposit yield will lead to stagnant deposit rate.
- By reallocating the loan book and given the supportive Circular 03, net NPL formation decreased in 2Q21. However, we think that the current level of credit costs is thin, making the provision buffer delicate. Credit costs of the parent bank in 1H only equaled to 22% of NPL formation rate while the target customers are low to middle classes and the pandemic is becoming severe. Therefore, despite expecting sustained credit costs in 2H21 based on the provisioning policy, we think HDB does not have a good counter-cycle buffer.

2022 outlook: counting on recovery and supportive policy

- We expect NIM to recover slowly given the proportion of priority sectors in the loan book. CIR will pickup following the ramping up operations of HDSaison. Credit costs are not likely to fall due to weak provisions buffer unless the economy recovers strongly. Thus, PBT is projected to grow 27%, lower than the balance sheet growth.

<ACCUMULATE: 11%> **<MP: 60,400>** **<TP: 67,000>**





STOCK INFO

Sector	Bank
Market Cap ($ mn)	644.5
Current Shares O/S (mn shares)	2,454.7
3M Avg. Volume (K)	27,672.8
3M Avg. Trading Value (VND Bn)	1,849.5
Remaining foreign room (%)	0.0
52-week range ('000 VND)	20.9-72.7

FINANCIALS

FINANCIALS	2020A	2021F	2022F
Revenue (VND bn)	39,033	46,455	54,617
NPATMI	10,414	11,947	16,022
ROA (%)	2.6	2.7	3.2
ROE (%)	21.9	19.6	20.7
EPS (VND)	4,282	4,867	6,527
Book Value (VND)	21,709	28,211	34,947
Cash dividend (VND)	0	0	0
P/E (x) (*)	4.7	12.4	9.3
P/B (x) (*)	0.9	2.1	1.7

INVESTMENT RATIONALES

Maintaining high income growth with SMBC's participation

- The new capital flow from FE Credit (FEC) 49% divestment to SMBC and the upcoming "huge" capital increase plan will add liquidity and capital buffer, maintaining a credit growth rate that outperforms many other banks. At the same time, the ability to utilize low-cost international funding sources (SMBC, IFC, ADB, Proparco) provides a base for NIM expansion by reducing funding costs.
- The diversified fee income structure creates a foundation for sustainable growth. The bank is also promoting the bancassurance segment on the basis of improving online sales and a strategy to exclusively reach high-end customers. Renegotiating bancassurance with AIA, if successful, will be a strong catalyst for bancassurance growth.
- High credit risk in the 2H of the consumer finance segment (accounting for 20% of VPB's loan portfolio) could cause credit costs to rise in Q3 before improving in Q4.

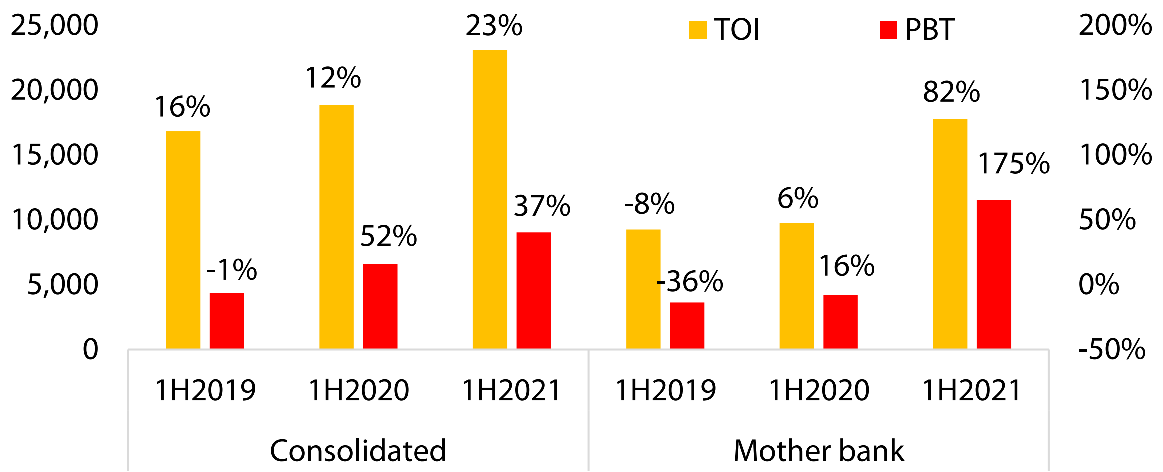
Continue to lead in operational efficiency. Early and continuous investment in technology secures the bank's leading position in operational efficiency. However, CIR's strong improvement in 1H2021 was on staff cutting at FE Credit. Therefore, CIR may increase in 2H2021 (as FE Credit will boost lending in Q4) before improving from 2022.

Plenty of room for stock price appreciation in the short-term: Although the FEC deal has been completed and is likely to bring VND30 tn (USD1.3bn) to the mother bank in Q3, information on the other components of the capital raising plan from VND53 tn (USD2.3 bn, 2020 end) to more than VND 90 tn (USD3.9 bn, in early 2022) including 75 mn treasury shares, 80% stock dividend and 15% private placement will still be strong drivers for higher valuation in the short term which we have not reflected in our model.

RISKS TO OUR CALL

- Upside risks: FEC being less affected by the pandemic and recovering stronger than expected.
- Downside risks: the fourth outbreak lasts longer than expected, causing a slow recovery of the consumer credit segment and a higher-than-expected bad debt.

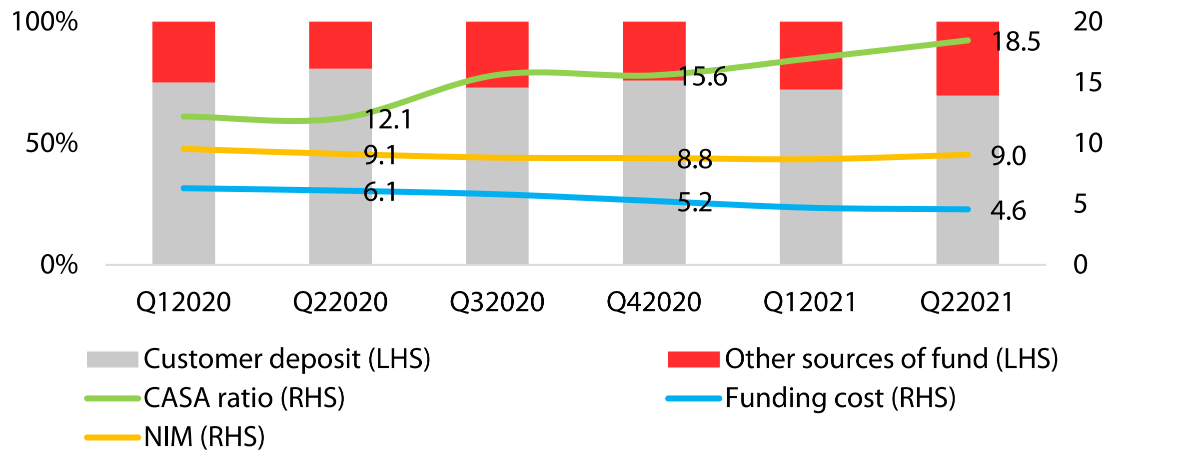
Figure 1: Consolidated and parent bank result and growth (VND bn, % YoY)



Consolidated PBT rose 37% YoY due to the improvement in business and operational efficiency. Credit quality was under control.

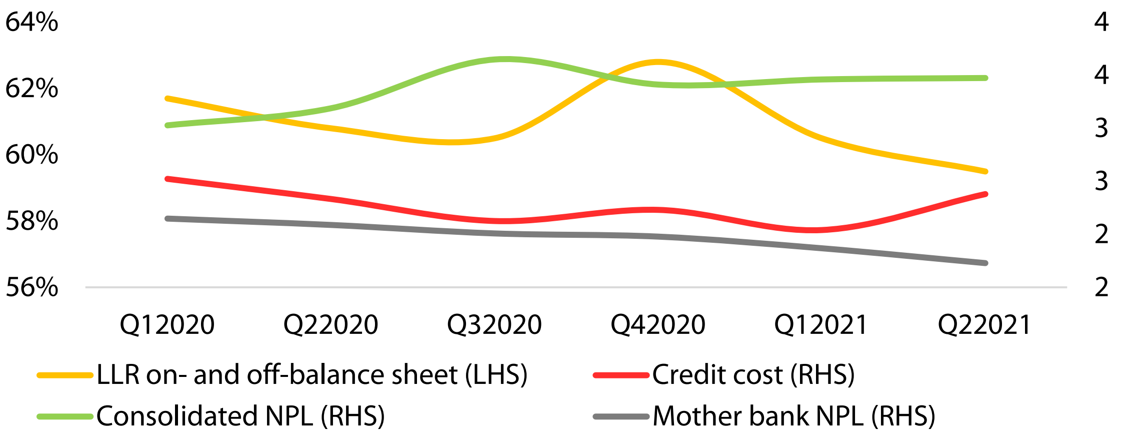
- More conservative credit growth was at FEC (-7.1% Ytd) compared to +7.5% Ytd at the parent bank and lower lending rates to support customers caused asset yield to drop but thanks to the continued balance sheet optimization, the funding cost fell faster than the asset yield. NIM increased to 9.05% from 8.79% at the end of 2020.
- CIR plummeted to 25.3% (2020: 29.3%) due to a 3.2% reduction in FEC staff.
- Consolidated provision expenses increased 35% YoY, mainly at FEC while were flat at the parent bank. Although FEC's debt write-off ratio grew faster than the parent bank's, FEC's NPL ratio still increased. These indicators all improved at the parent bank.

Figure 2: Parent bank's capital structure, CASA ratio, funding cost and NIM (%, TTM)



Other sources of fund: money market, UPAS LC, domestic and international bonds, long-term loans

Figure 3: Credit cost, LLR on- and off-balance sheet, consolidated NPL, parent bank NPL (%, TTM)



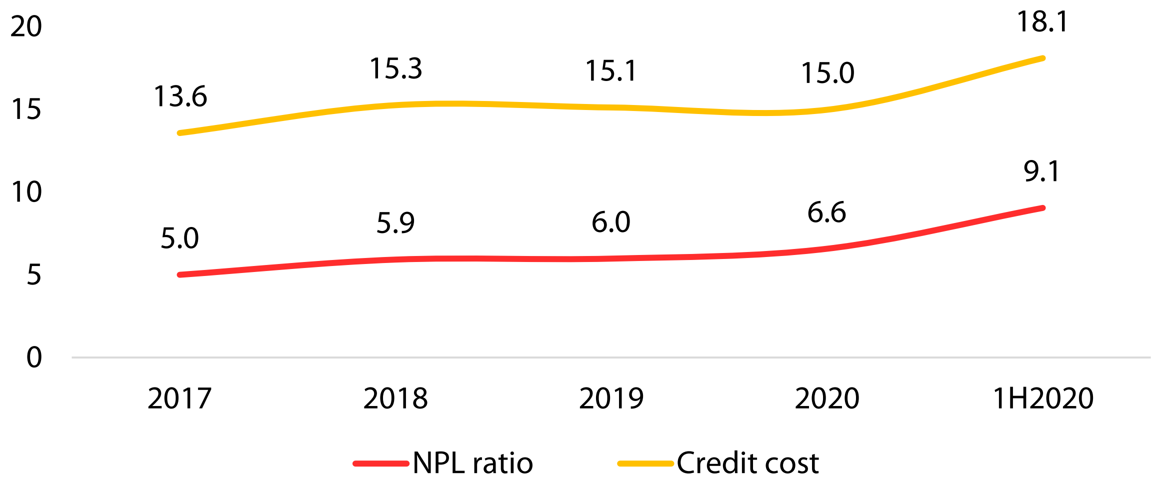
Source: VPB, Rong Viet Securities

Table 1: Business result 2020-2021E (VND bn)

	2H20A	1H21A	2H21E	%YoY	2021E	%YoY
Net interest income	16,624	18,325	18,668	+12.3%	36,993	+14.4%
Total operating income	20,179	23,098	23,357	+15.6%	46,445	+19.0%
PBT	6,435	9,037	6,949	+8.0%	15,986	+22.8%

Source: VPB, Rong Viet Securities

Figure 4: FEC NPL ratio and credit cost (%, TTM)



Source: VPB, Rong Viet Securities

2H2021: Proceeds from FEC's divestment to reduce the pressure of mobilization from customers; Operating costs and credit costs increase

- The proceeds from the divestment of FEC (~VND26 tn or USD1.13 bn after tax) in Q3 can be used for lending in 2H2021 in order to reduce mobilization pressure and funding costs. As a result, despite the reduction in lending rates to support customers, 2021 NIM will remain positive at 8.91% (2020: 8.79%). Credit growth only recovers from Q4 2021, making 2H2020 a high comparison base of credit growth.
- CIR 2021 reached 27.4%, lower than 2020 (29.2%) and higher than 1H2021 (25.3%) as FE Credit will increase recruitment to expand lending after the outbreak is contained.
- Credit costs will rise in Q3 amid the impact of the severe and prolonged outbreak, then recover in Q4.

2022: NIM keeps expanding because of low funding costs; risks of bad debt falls, causing credit costs to go down

- Asset yield recovers in line with lending rates and FEC's regains high credit growth while funding cost fall because of abundant new capital of SMBC. NIM climbs to 9.47% (2021: 8.91%). NII surges 21.5%, fee income grows 35% and TOI increases 17.6%.
- Income and debt repayment ability of customers recover after the outbreak is under control. Bad debt risks is reduced, supporting the improvement in credit costs compared to 2021.

DISCLAIMER:

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

DISCLAIMER:

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at Floor 36, 444 Madison Avenue, Floor 36, New York, NY 10022. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law. This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

VIET DRAGON SECURITIES CORPORATION

Viet Dragon Tower, 141 Nguyen Du Street, Dist.1, HCMC, Vietnam

vdsc.com.vn

Ms. Lam Nguyen
Head of Research
F: + 84 28 6299 2006 (Ext: 1313)
E: lam.ntp@vdsc.com.vn

Mr. Vu Nguyen
Head of Institutional Clients
F: + 84 8 6299 2006 (Ext: 1367)
M: vu.na@vdsc.com.vn