


Preliminary 2H2020 outlook

August 2020

RONG VIET SECURITIES

BANKING INDUSTRY: Outlook hampered by the epidemic, yet to remain constructiVE

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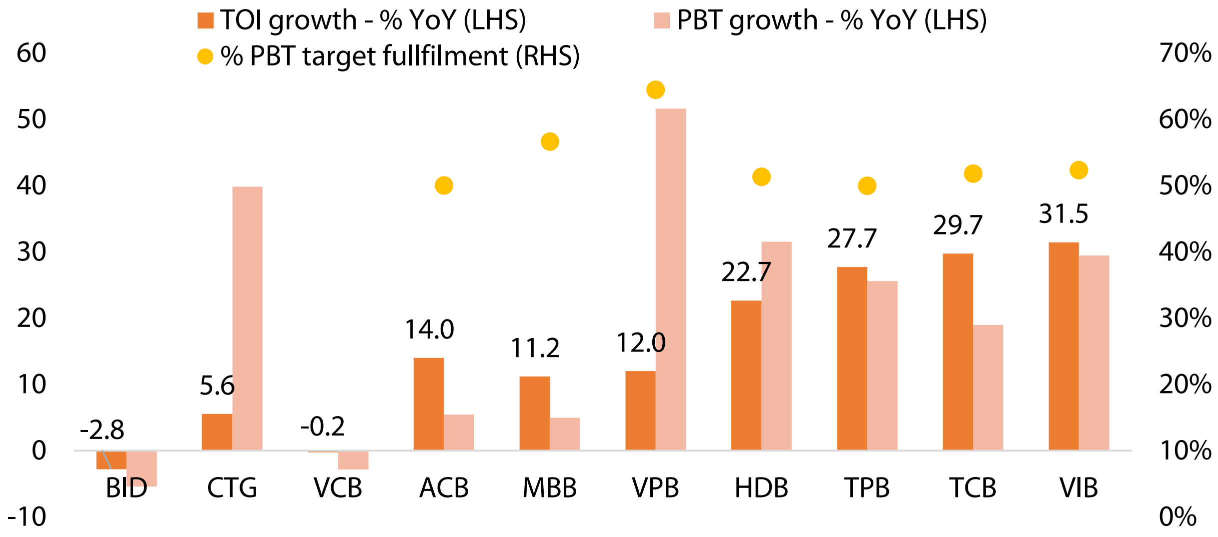
Lower TOI and PBT growth

1H2020: Covid-19 has hamperedgrowth, yet the impact is moderated…

- TOI growth at listed bank is 9.1% YoY, lower than 1H2019 (16.1% YoY). TOI was -9.6% YoY in 2Q, after a 15.2% YoY growth in 1Q. PBT growth reached 15.6% YoY, much lower than 18.4% in 1H2019. 2Q earnings grew by 15.6%, lower than 26% in 2Q2019 but much improved from 3.1% in 1Q.
- We can see that the advance booking of provision expenses in 1Q and the subsequent easing in 2Q enabled a higher 2Q PBT growth despite the downtrend in TOI.

Figure 1: YoY PBT growth of some listed banks (%)



Source: Banks' FS, Rong Viet Securities. State-owned banks' guidance are yet to be finalized/updated.

… and the influence on each bank is quite diverse so far.

- State-owned banks achieved much lower, even negative, TOI and PBT growth YoY, which is mainly attributed to weak credit expansion (see Figure 3), higher portion of corporate lending (seems to be impacted earlier and more significantly by the virus situation), and more active lending at discount rates to support distressed customers.
- Private banks still saw a moderate to high TOI and PBT YoY growth. VPB, MBB (those trying to be less aggressive than they used to be), and ACB who is a traditionally a conservative bank, saw moderate TOI and PBT growth. HDB, TPB, TCB, VIB, on the other hand showed their resilience with >20% YoY in TOI and PBT by adapting their existing strategies.
- CTG, VPB secured a leading PBT growth of 40-50% YoY, much higher than TOI's due to the saving on both OPEX and provision costs. Meanwhile, some banks such as ACB, VCB and TCB raised provisions to prepare for potential bad debt.
- All private banks in our list have fulfilled at least 50% of this year's guidance, while state-owned banks' guidance is yet to be finalized under epidemic uncertainties.

Weakening credit demand

Figure 2: Sector credit and mobilization growth (% YTD)

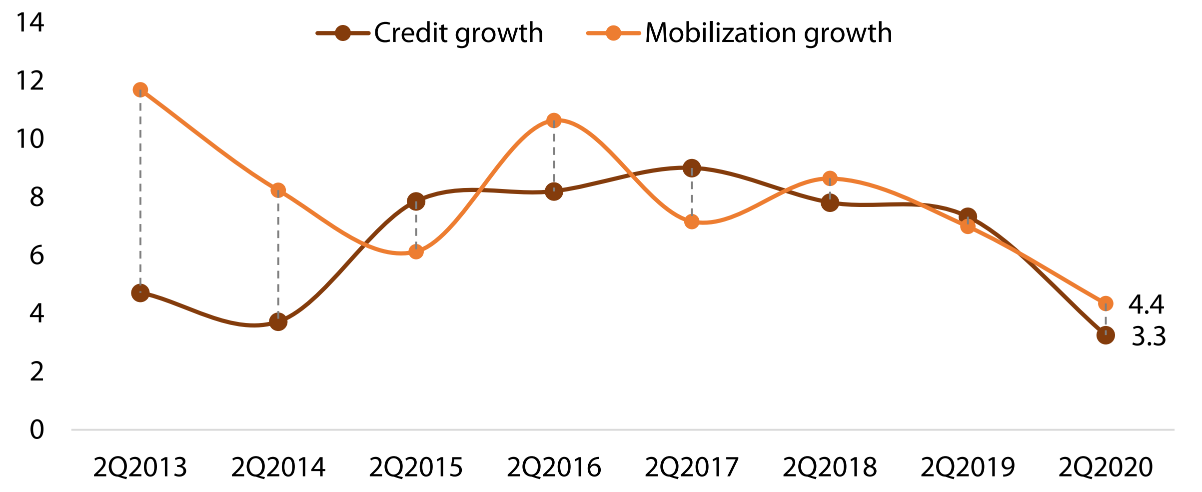
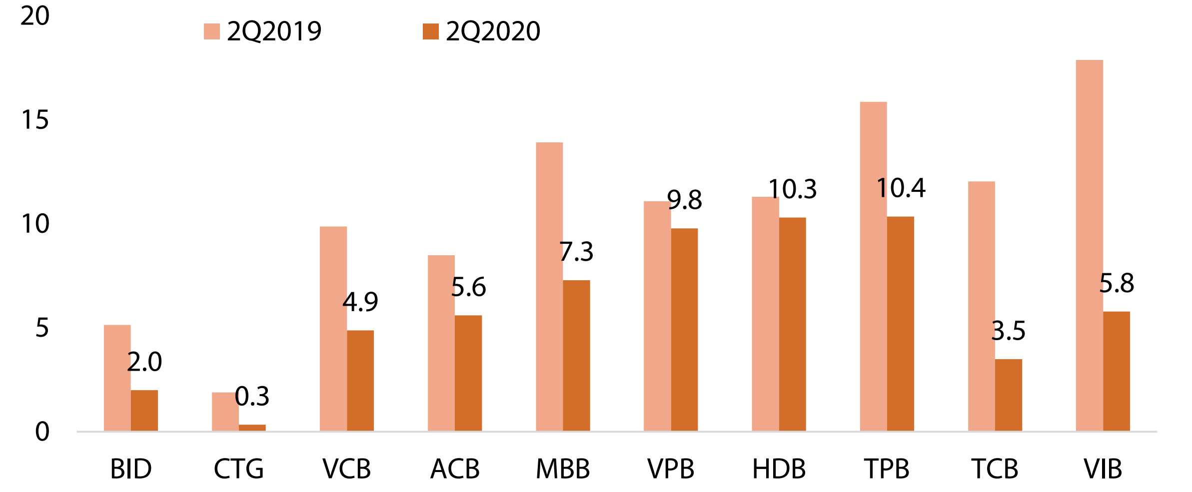


Figure 3: Credit growth at some listed banks (% YTD)



Source: Banks' FS, Rong Viet Securities.

- Upon the outbreak, the government urged banks to implement relief programs for distressed customers such as lending rate cuts and debt extension (Cir. 01/2020/TT-NHNN). It was followed by supporting measures such as extension of scope and time, policy rate cut, and credit quota top-up for banks.
- Sector credit growth in 1H2020 reached 3.26% YTD, the lowest level in recent years though somehow recovered from 1Q. As of 28 July, sector credit growth is 3.45% YTD, versus 7.13% in the same period last year.
- All banks in our list achieved a lower credit growth level than 1H2019. However, the gap at each single bank is quite diverse.
- BID and CTG came as the banks with the lowest credit growth, which might be partly due to their capital constraint and low penetration of retail lending.
- Meanwhile, VCB and private counterparts achieved decent customer lending growth ranging from 5-6% YTD. VPB, TPB, MBB saw an above-average growth owing to the strong expansion in corporate bonds. Two exceptional banks are HDB who achieved c. 10% growth in both customer loans and total credit, and TCB whose credit growth was virtually pushed entirely by corporate bonds.

Likely a credit recovery in 2H, though not too significant

Figure 4: LDR, SML and CAR of some listed banks as of YE2019 (%)

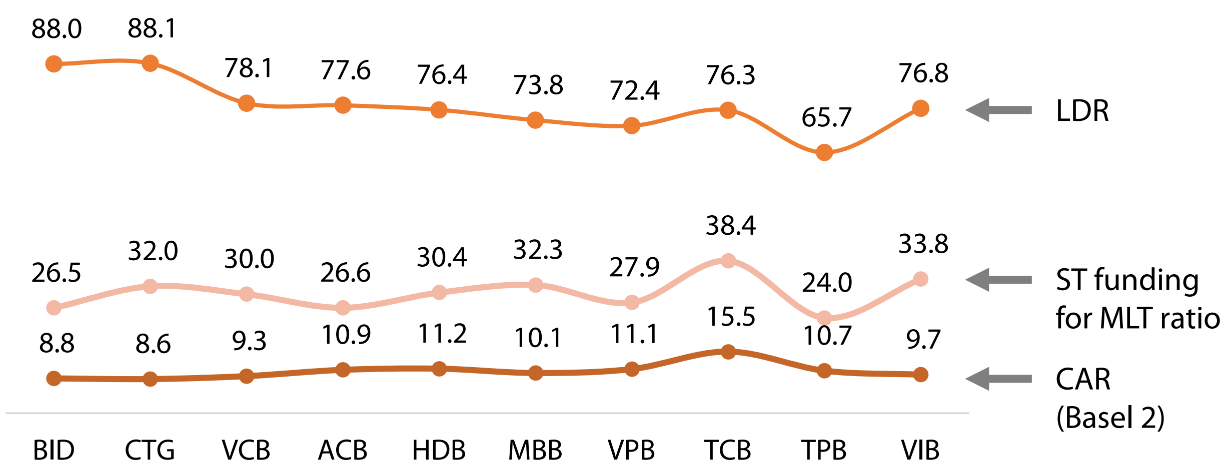
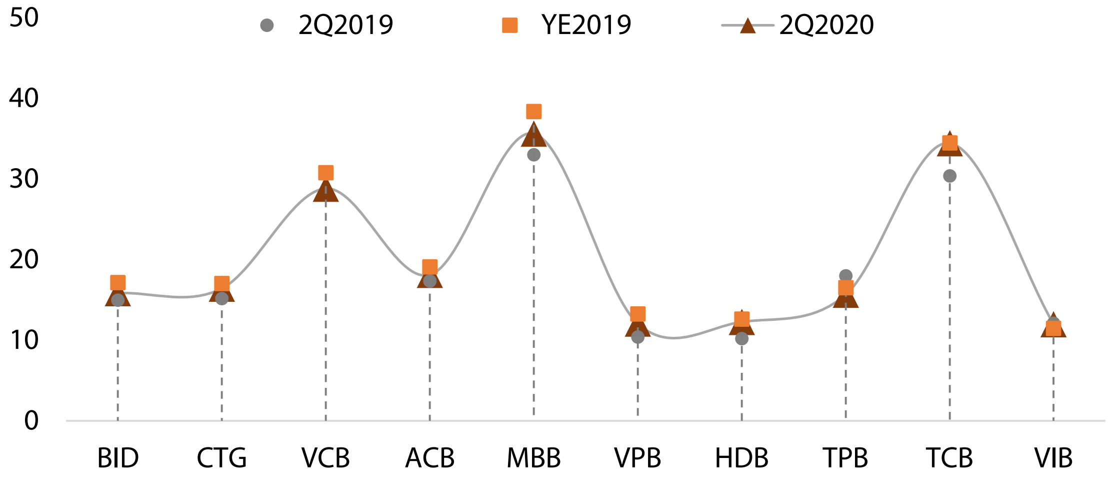


Figure 5: CASA ratio of some listed banks (%)



Source: Banks' FS, Rong Viet Securities.

Healthy liquidity reserves and capital buffers.

- Most banks, except for CTG and BID, are maintaining healthy capital adequacy and liquidity as their CAR, LDR and the ratio of ST funding for MLT as of YE2019 have well complied to SBV's requirements.
- In 2Q2020, these safety ratios even improved for many banks, such as HDB, VPB, TCB and VIB. Meanwhile, CTG and BID are having plans to raise capital and are given some more time to migrate their LDR to 85%.

An expected credit recovery in 2H, though not too significant.

- As of July, the SBV has granted additional credit limit to some private banks that already saw strong credit growth in 1H. VPB, HDB, TPB, TCB, and VIB were given c.20% as new total credit quota.
- While state-owned banks are likely to maintain a modest to moderate credit growth, credit demand can be redirected towards private banks who have prepared well to accommodate the expected credit recovery during 2H in terms of liquidity and credit quota.
- In base case, should the epidemic is confined to a cluster of provinces but not Hanoi and HCMC, or is contained within 3Q, a credit recovery in 2H can be expected. Yet we think the recovery would not be too significant and it should be challenging to achieve the target of 10% growth for the entire sector.

Pressure on net interest margin

1H2020: Most banks saw their NIM flatten.

- NIM has been undermined by (1) bank's discounted interest rates to support credit demand, applied to both existing and new loans, and (2) loan restructuring for certain distressed customers leading to delay in the recognition of NII.
- The downside has been moderated by the policy rate cut of 1.0-1.5ppt and lower short-term deposit ceiling rates of 0.75ppt since Jan.

We forecast NIM 2020 to go sideway or slightly decline for most banks, mainly due to a stronger downside caused by loan forbearances than the potential upside by policy rate cuts.

- The impact should be relatively stronger in VPB and MBB (upon their switch to defensive mode) and BID (due to the dependency on long-term bonds), yet less intensive in VCB, ACB and VIB due to their strong liquidity and the potential to improve asset allocation especially in retail segment.
- We expect some banks should still be able to increase NIM versus 2019 such as HDB (with strong asset yields expansion momentum) and TCB (with the ability to save funding cost owing to CASA strong uptrend).

Figure 6: NIM of some listed banks (%)

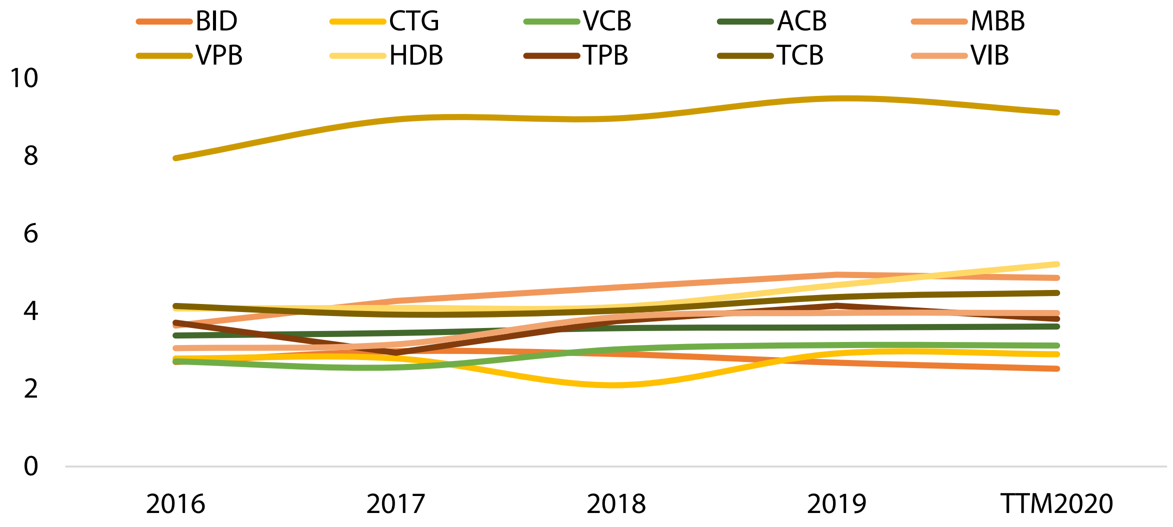
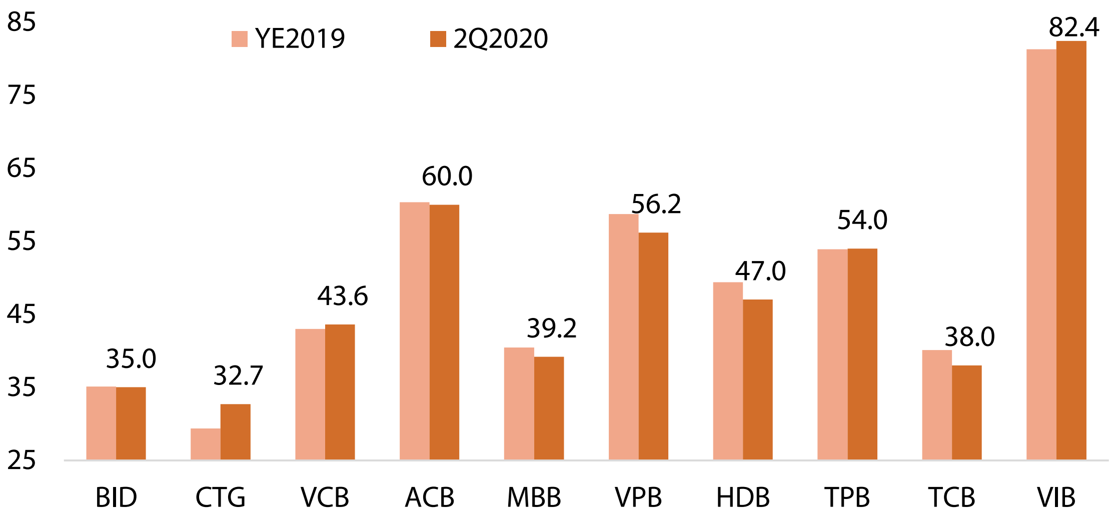


Figure 7: Retail lending portion of total loan book (%)



Source: Banks' FS, Rong Viet Securities.

Limitation on NII growth due to slow credit growth and NIM

1H2020: NII growth has been undermined.

- Amongst listed banks, NII growth in 1H2020 has fallen to 7.2% YoY against 18.9% YoY in 1H2019. It contributed to ~76.9% of operating income (1H 2019: 78.3%) .
- Banks with strong credit growth and/or NIM movement, including HDB, TPB, TCB and VIB, still maintained a desirable NII growth momentum.

Overall, we expect the slowdown trend to persist in 2H2020.

- State-owned banks are likely to witness a stronger pressure on NII than their private counterparts, due to lower credit growth and their more proactive roles in customer relief programs, as requested by SBV.
- Private banks should still see a decent NII growth throughout 2020 as they leverage current liquidity to accommodate a credit recovery in 2H.

Figure 8: 1H2020 NII growth in some banks (% YoY)

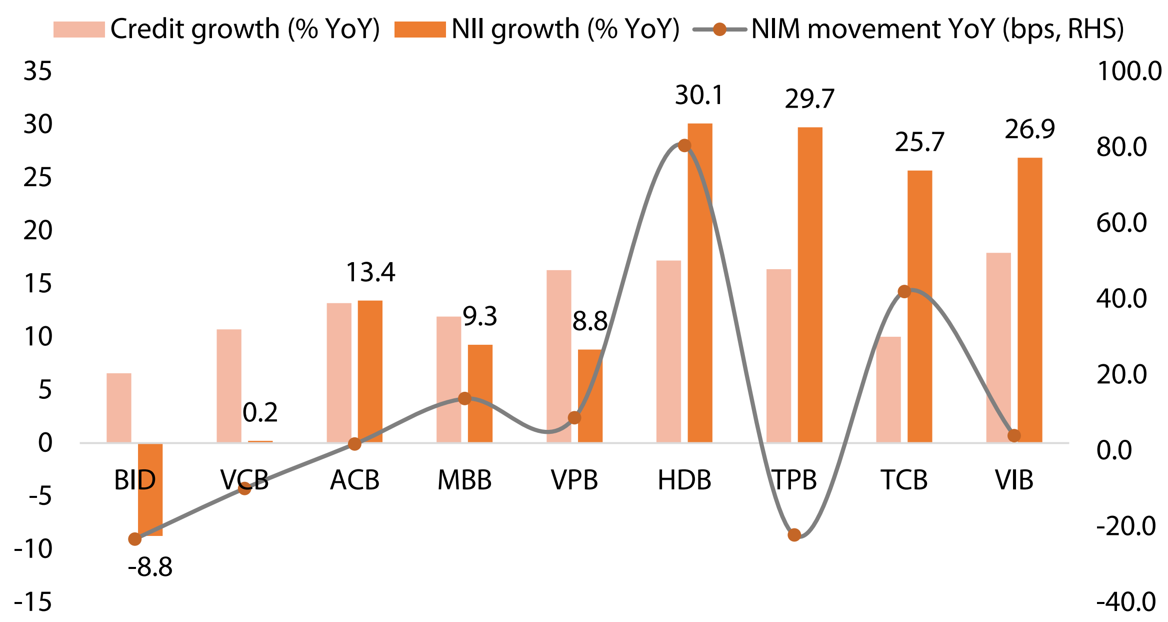
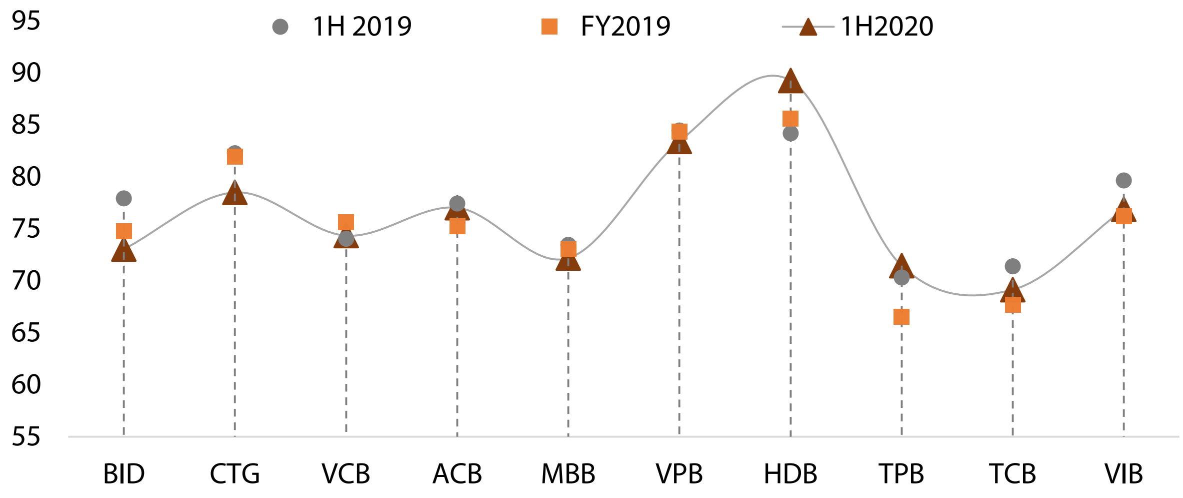


Figure 9: NII's contribution to TOI (%)



Source: Banks' FS, Rong Viet Securities.

Weak performance of service income

Figure 10: Service income growth (% YoY)

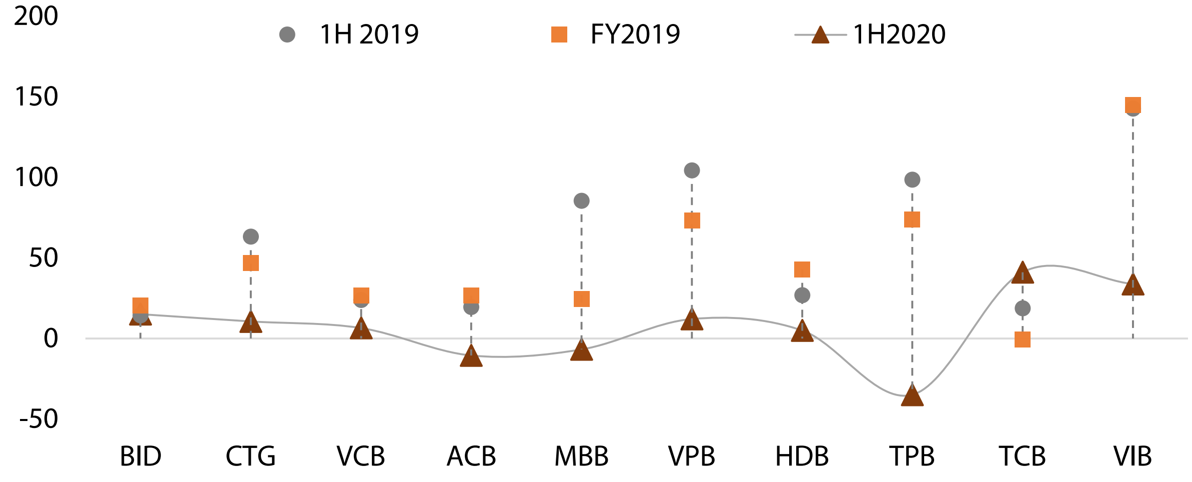
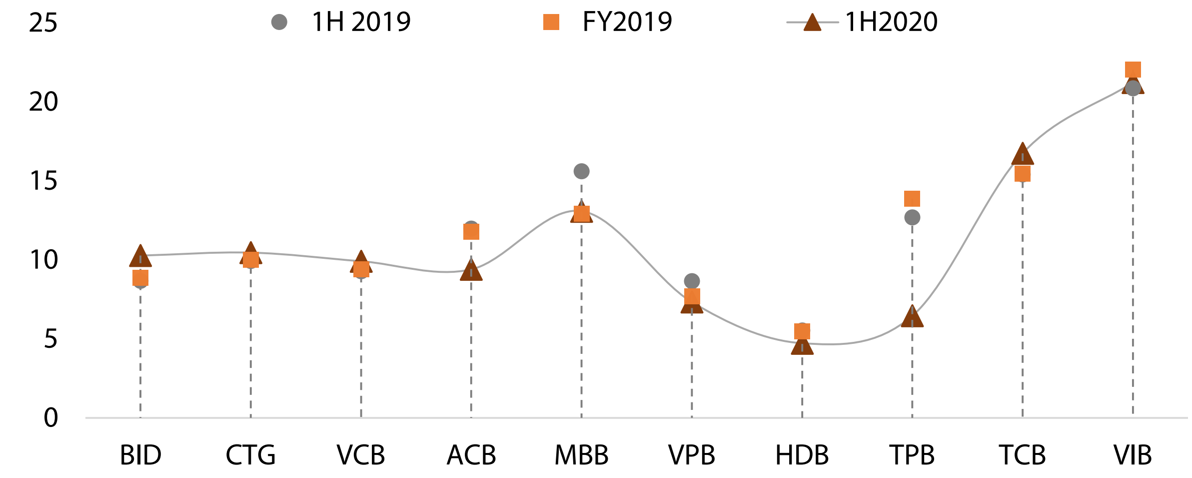


Figure 11: Service income contribution to TOI (%)



Source: Banks' FS, Rong Viet Securities.

1H2020: Service income performance has been temporarily hampered…

- Weak credit demand impact banking services thru many channels, particularly payment, insurance, trade service fee and FX gains. Net payment fee slowed down upon tariff discount, while bancassurance fee slowed down upon decline in customer traffic on counters.
- Service income in listed banks increased by 9.9% YoY, much lower than 42.1% in 1H2019, contributing to 10.6% of operating income (similar to 1H2019).
- Banks with more diverse service income structure (VPB and TCB) still successfully maintained 1H2020 fee growth of more than 40% YoY.

… yet there is still large growth potential in the long term

- Payment income is expected to grow strongly as banks focus on the retail segment and invest on digital transformation.
- Bancassurance fees should continue to see solid growth upon stronger penetration of insurance and the contribution of banca channel on total insurance premiums (especially life-insurance). See Figure 12.
- Service fee streams should become more diverse. The proportion of card service and bond service fees are expected to contribute more upon retail banking strategy and the rising importance of the bond market.

Weak performance of service income

Figure 12: YoY growth rate of banca life premiums and the contribution to total life market premium

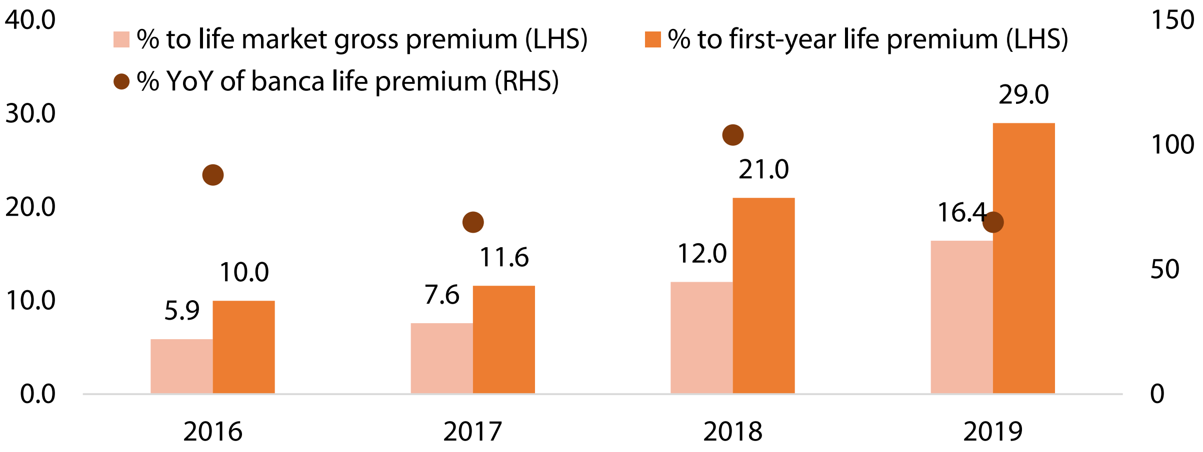
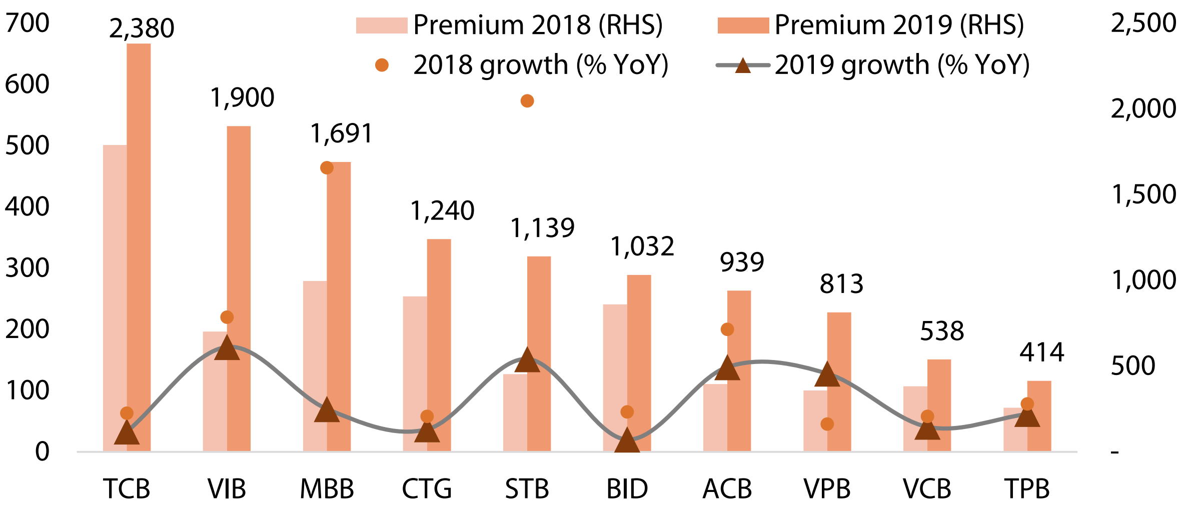
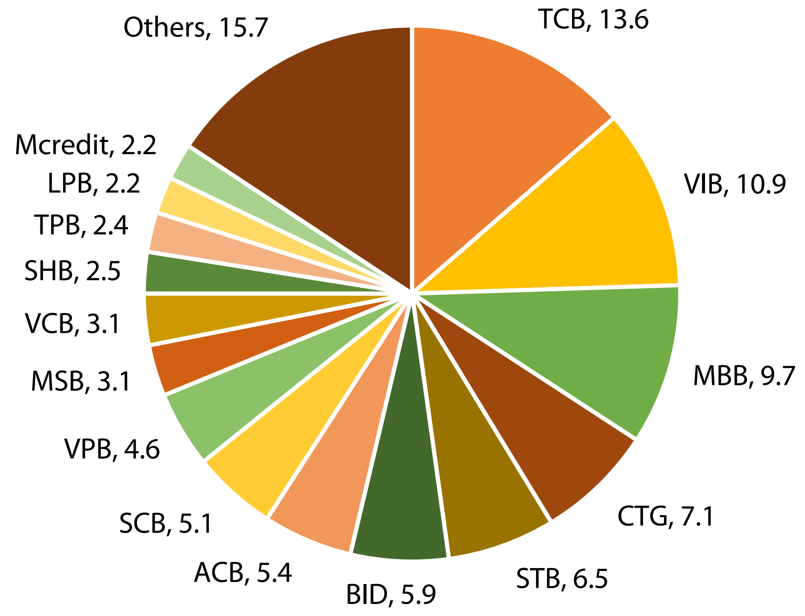


Figure 14: Banca life premiums (VNDbn) and YoY growth in some banks



Source: Vietnam Insurance Aassociation, Rong Viet Securities.

Figure 13: Banca premium market share FY2019 (%)

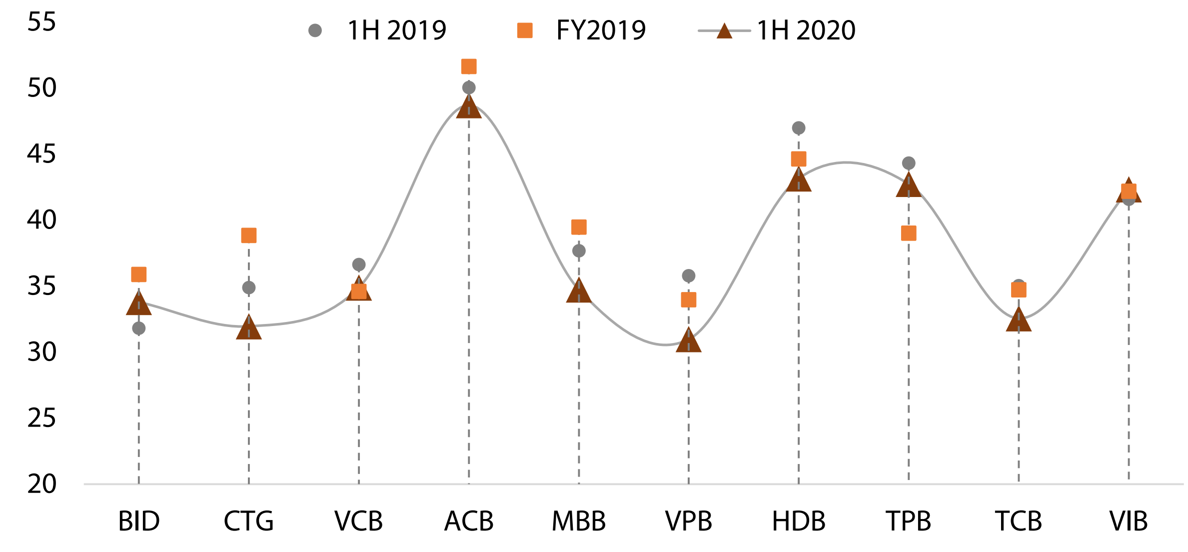


- VCB, ACB should be the next banks to post a solid bancassurance fee growth thanks to their newly signed banca agreements on the back of their large/loyal customer base. Banca fees should remain as the primary income source for these two.
- Banks seeking exclusive insurance partnerships (ACB, HDB and BID) should be able to earn a substantial up-front fee for such agreements.

Operating efficiency improvement

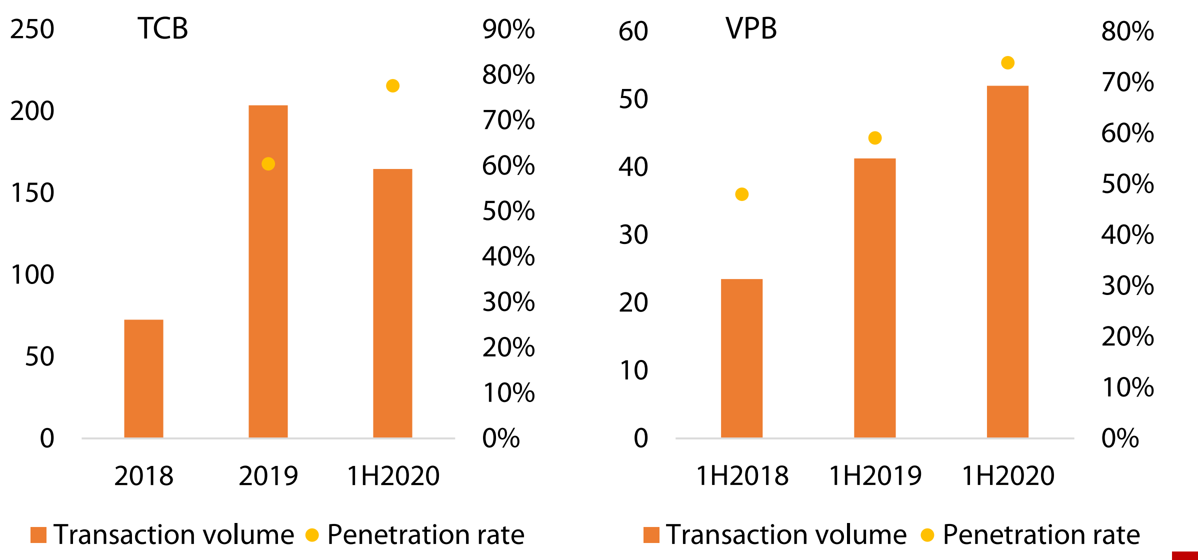
- Behavioral shift towards digital banking. The penetration of digital banking has reached a substantially higher level with the improvement most clearly seen in digital pioneers such as TCB and VPB.
- Average CIR of listed banks was reduced from 39.6% in 1H2019 to 37.8% in 1H2020 with 8/10 banks in our list seeing either stable or CIR improvement versus both FY2019 and 1H2019, implying more effective operations. We expect this trend to continue in 2020, but the improvement is unlikely to be too significant as banks still need to keep investing in digital banking to capture the expansion of CASA and non-cash payment. For the case of BID, the bank is in need to upgrade its core banking system, which is expected to weigh on the bank's CIR for at least two years before normalization.
- We expect the positive impact on operating expenses to become more significant in the long-term upon customer acquisition and behavioral shift, starting with heavy investors in digital transformation, including VPB, TCB, TPB and ACB.

Figure 15: CIR at some listed banks (%)



Source: Banks' FS, Rong Viet Securities.

Figure 16: E-banking volume and penetration rate at TCB and VPB (%)



Covid-19 impact has been partly reflected in asset quality

- As of June, restructured loans due to Covid-19 were worth 2% of total loans for the sector. Most banks in our list announced this portion ranging from 3-4%; only VPB reported the a higher portion of 10.4%.
- The initial impact of Covid-19 on asset quality can be seen in the average NPL ratio of listed banks which has moved up from 1.7% at YE2019 to 2.0% at 2Q2020 and Group 2/gross loans ratio from 1.5% to 1.7%. However, these banks only increased provision expenses by 11.2% YoY (vs 15% YoY in 1H2019) with the strongest YoY surge most clearly at ACB, TCB (+c. 400%) and VCB (+c. 80%). Average LLR improved from 83.1% to 87.5%.
- Provision costs in 2H are likely to ease at TCB (with much more room for NPL and LLR accumulated during 1H), ACB and VCB (with an exceptional LLR level). However, we expect the burden to escalate for the remaining banks, where the impact is delayed owing to loan extension instructions. Our expectation is that VIB, CTG and MBB - those seeing the most unfavorable movement in asset quality during 1H - will see their provision cost in 2H2020 affected the most.

Figure 17: NPL + G2 ratio and provision coverage (%)

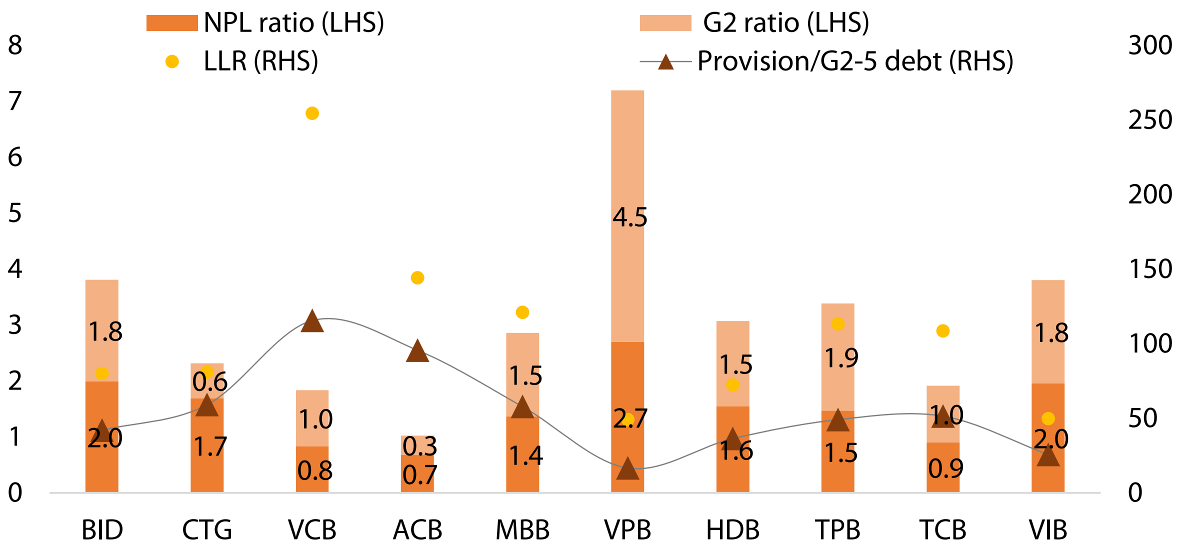
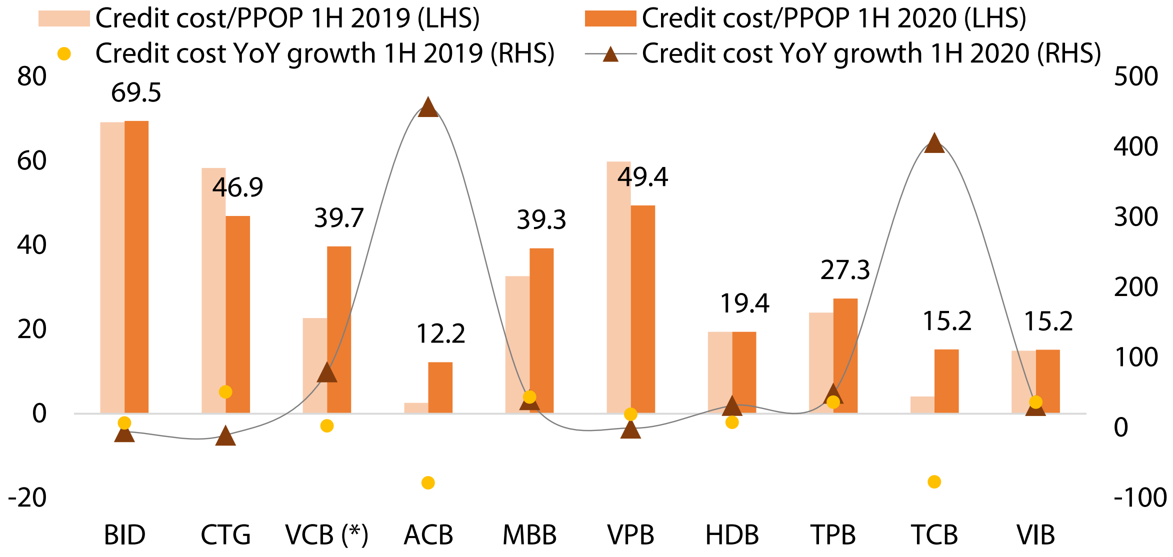


Figure 18: YoY growth of provision expense (%)



Source: Banks' FS, Rong Viet Securities. (*) excluding VND1.9Tn (USD 85mn) provision reversal of VCB in 1H2020

Capital raising/listing plans

Capital raising plans:

- BID has a plan to make public offering/private placements of up to 8.5% capital to foreign investors in 2020/2021.
- CTG has a plan to raise capital by stock dividends, yet this must wait until the relevant regulation amendment is finished.
- SBV has asked banks to delay cash dividends so that they would have more resources to support distressed customers. As such, most of other banks also have capital raising plan from bonus share/stock dividends.

Listing/equitizing plan:

- The "Development strategy of Vietnam banking sector to 2025, with orientations to 2030" and the "Project of restructuring the securities market and the insurance market until 2020 with orientation to 2025" require all commercial banks to list by the end of 2020.
- ACB, VIB and LPB have announced their plan to transfer their listings to HSX by late 2020/early 2021. Other banks who also have listing plans are OCB, An Binh, Maritime, and Nam A Bank.
- Agribank is to be equitized by 2020, yet some procedures are still pending.

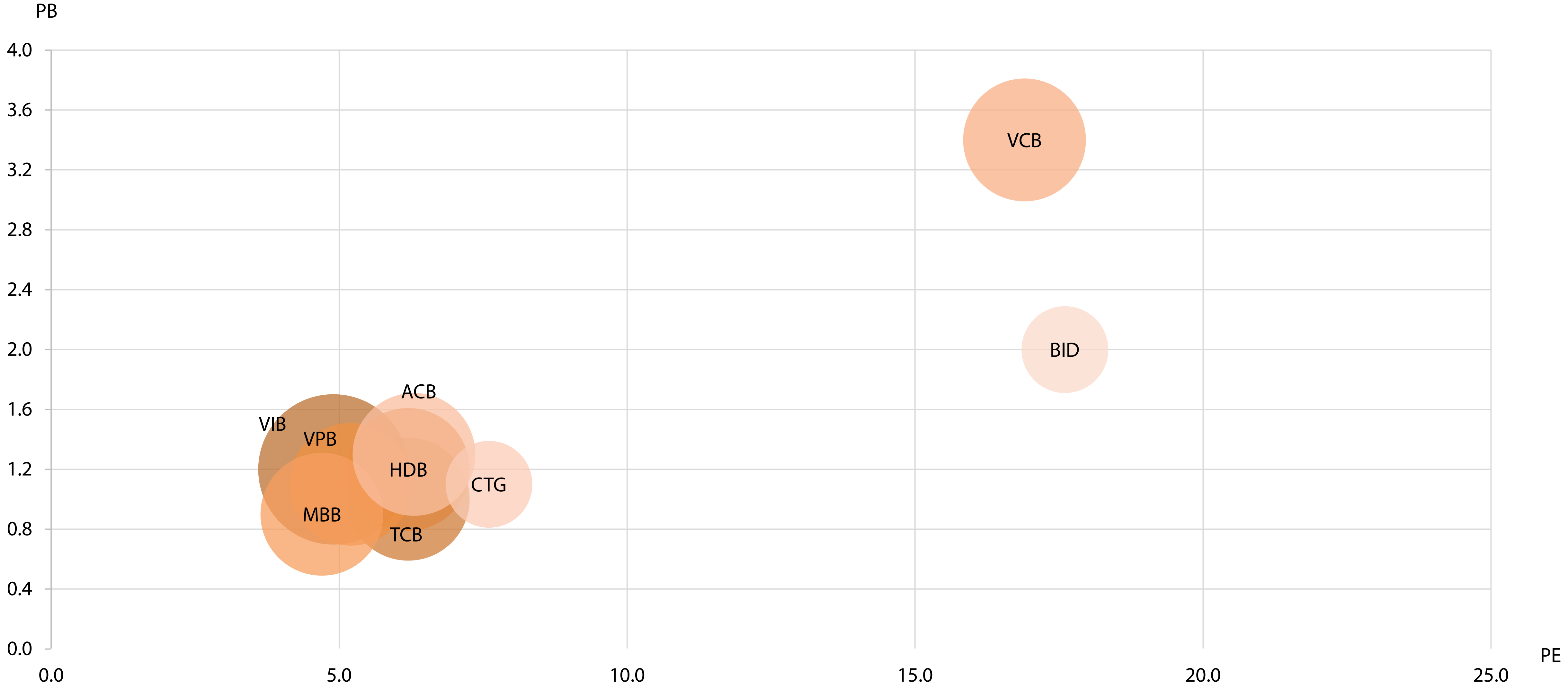
	2019 Charter capital (VND bn)	% of capital raising	2020E charter capital (VND bn)	2020 capital raising plan
VCB	37,088	24.5%	**46,175**	18% through stock dividend, 6.5% through private placement
BID	40,220	13.2%	**45,549**	7% through stock dividend, 8.5% through public offering/private placement
CTG	37,234	16.2%	**43,275**	Through stock dividend or retaining earnings
TCB	35,001	0.14%	**35,049**	0.14% through ESOP issuance, face value VND10,000
MBB	23,727	18.0%	**27,988**	15% through stock dividend
VPB	25,299	0.67%	**25,470**	0.672% through ESOP issuance
ACB	16,627	30.0%	**21,615**	30% through stock dividend from undistributed earnings in Aug
HDB	9,810	65.0%	**16,187**	30% through stock dividend from undistributed earnings, 15% through bonus shares from equity surplus
VIB	9,245	20.0%	**11,094**	20% through stock dividend
TPB	8,566	19.1%	**10,199**	20% through stock dividend

Industry comparable (1H 2020)

Ticker	Credit growth (% YTD)	Net interest Income Growth (% YoY)	Net Interest Margin (TTM - %)	Service Income Growth (% YoY)	CIR (%)	Provision Expense Growth (% YoY)	NPL ratio (%)	TOI Growth (% YoY)	PBT growth (% YoY)	Return on Assets (TTM – %)	Return on Equity (TTM - %)	Trailing PE (x)	Trailing PB (x)	Trailing DY (%)
ACB	5.6	13.4	3.6	-10.6	48.7	457.3	0.7	14.0	5.4	1.6	21.7	6.9	1.3	0.0
BID	2.0	-8.8	2.5	15.0	33.8	-5.6	2.0	-2.8	-5.4	0.6	11.2	17.6	2.0	0.0
CTG	0.3	0.2	2.9	10.5	31.9	-10.6	1.7	5.6	39.8	0.9	14.3	7.6	1.1	0.0
MBB	7.3	9.3	4.9	-6.8	34.7	40.0	1.4	11.2	5.0	0.7	19.3	4.7	0.9	3.7
VCB	4.9	0.2	3.1	6.4	34.9	20.9	0.8	-0.2	-2.8	1.5	21.3	16.9	3.4	1.0
VPB	9.8	7.0	9.1	36.9	31.0	-0.6	2.7	12.0	51.6	2.6	23.0	5.2	1.1	0.0
HDB	10.3	30.1	5.2	4.9	43.1	31.6	1.6	22.7	31.5	1.8	19.6	6.2	1.2	0.0
TPB	10.4	29.7	3.8	-34.9	42.7	49.1	1.5	27.7	25.6	2.0	25.7	5.1	1.2	0.0
TCB	3.5	25.7	4.5	41.1	32.5	406.1	0.9	29.7	19.0	2.8	17.2	6.2	1.0	0.0
VIB	5.8	26.9	4.0	33.7	42.3	31.7	2.0	31.5	29.5	2.0	26.7	4.9	1.2	2.9

Source: Banks' FS, Rong Viet Securities.

Industry comparable



Source: FiinGroup, Rong Viet Securities. Size of the bubbles: ROE.

VPB – A HIGH RISK APPETITE RETAIL BANK

INVESTMENT RATIONALE

The ability to maintain a desirable NII growth especially upon the virus containment

- VPB should be able to maintain a sector-leading credit expansion owing to its low leverage, strong capital and early adoption of all three Basel 2 Tiers.
- It also has ample room to improve NIM owing to a healthy liquidity (LDR at <75% and the ratio of ST fund for MLT loans at <30%, both quite far below regulatory thresholds).
- FE Credit (FEC) with a focus to shift to credit card lending, should be able to lower direct disbursement ratio to satisfy Circular 18/2019/TT-NHNN, though both lending and margin growth can slowdown. We expect FEC's loan growth to recover to >10%/year upon the virus containment.

A diversified service fee structure for more sustainable growth

- The current service fee structure of VPB is quite diverse with equally significant contribution from payment fees, insurance commissions, card fees and other income.

A leading bank in terms of operation efficiency

- VPB launched its digital projects quite soon compared to peers. It has set a vision to become the most consumer friendly bank through technology by 2022.
- With a decent investment in technology, VPB holds the most desirable CIR amongst banks in our coverage. We expect that the bank would be able to continue its CIR improvement thanks to intensive digital transformation efforts.

RISK TO OUR CALL

- Downside risks include (1) worsen situation of Covid-19 that hampers the economic recovery, leading to unpredicted high NPLs and credit costs, (2) the reduction of cash loan proportion (due to Circular 18) that affects FEC's loans growth and NIM more negatively than expected.
- Upside risks include the plan of IPO/strategic placement of FEC (which would not be earlier than in 2Q2021).

BUY +25%

CMP (VND)	**21,250**
Target price (VND)	**26,500**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	2,236
Current Shares O/S (mn shares)	2,438
3M Avg. Volume (K)	5,759
3M Avg. Trading Value ($ mn)	5.7
Remaining foreign room (%)	0.0
52-week range ('000 VND)	16-29.3

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**31,086**	**36,356**	**40,007**	**46,066**
Growth (%)	*24.2*	*17.0*	*10.0*	*15.1*
NPATMI (VND bn)	**7,356**	**8,260**	**9,568**	**11,971**
Growth (%)	*14.2*	*12.3*	*15.8*	*25.1*
ROA (%)	2.4	2.4	2.3	2.5
ROE (%)	22.8	21.5	19.7	19.4
EPS (VND)	3,025	3,397	3,925	4,911
Book Value (VND)	14,289	17,357	22,542	28,024
Cash dividend (VND)	0	0	0	500
P/E (x) (*)	6.6	5.9	5.4	4.3
P/B (x) (*)	1.4	1.2	0.9	0.8

(*) Share price as of Aug 7th, 2020.

Figure 1: Lending structure - VPB parent

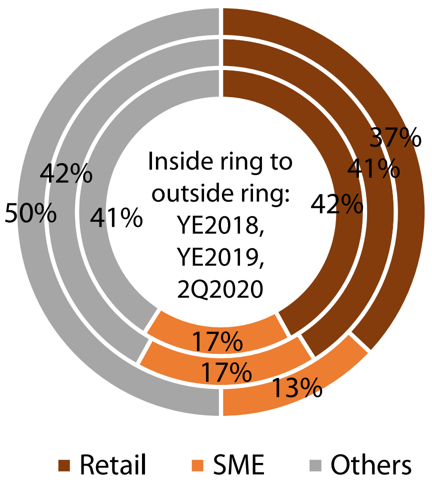


Figure 2: Lending structure - FE Credit as of 2Q2020

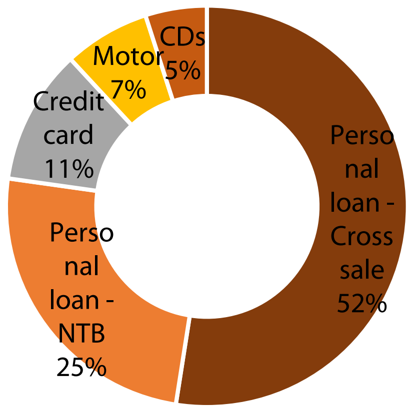
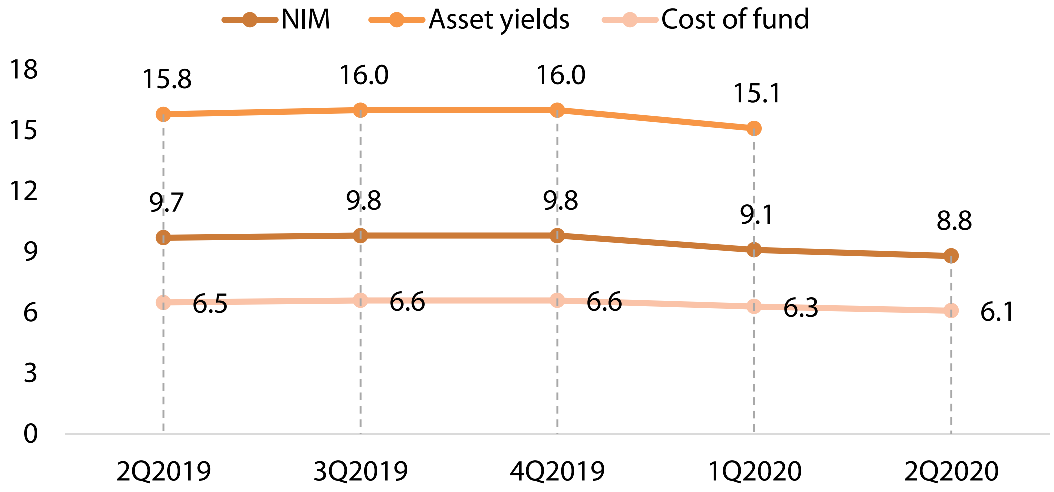


Figure 3: Consolidated NIM, IAE yields & funding cost (% TTM)



Source: VPB, Rong Viet Securities

VPB reported solid results in 1H2020 with PBT of VND 5.3Tn (USD 230mn, +51.7% YoY), of which FEC only contributed 37% (vs. 45% in 1H2019). The strong consolidated earnings growth was driven by the containment of both OPEX (-3.0% YoY) and provision charges (-0.6% YoY) while TOI rose by 12% YoY with the support of both NII and non-NII.

Tightened disbursement and forbearance measures decelerated NII (+8.8% YoY)

- Consolidated loan growth reached 5.0% YTD (+9.1% YoY), driven by respectively +7.0% and -0.5% growth in the parent bank and FC. A surge of 95.5% YTD in corporate bonds balance lifted consolidated credit growth to 9.8% YTD (+16.2% YoY).
- FEC's loan book was VND60Tn (USD 2.6bn, 20% of consolidated loans), mostly flat YTD likely upon the effort to reduce exposure to the new-to-bank segment. The regulatory direct disbursement ratio is currently 61%, well below the threshold (70%). As per VPB, the credit mix is still on track to lower this ratio to less than 30% by 2023.
- NIM moved down to 8.8% (FY2019: 9.7%) because of customer relief measures as well as the step back in unsecured lending. It seems that the policy rate cut had a meaningful impact on the cost of fund as it declined to 6.1% (-40bps YoY, -20bps QoQ).

NIM is likely to drop in 2020 as (1) Covid-19 forbearance measures and (2) the more prudent approach applied during the virus situation. This should be moderated by the parent bank's ability to maintain its sector-leading credit growth, especially upon a credit quota lift to 21.5% vs the initial one of 13%.

We expect NIM to bounce back after the outbreak. Once the virus impact is over, we believe VPB would still be able to (1) maintain a strong credit expansion owing to strong capital, and (2) have ample room to turn NIM around with a healthy liquidity (LDR at 70.8% and the ratio of ST funding for MLT loans at 26.4%).

Figure 4: Parent bank's fee income components 1H2020 (VND bn)

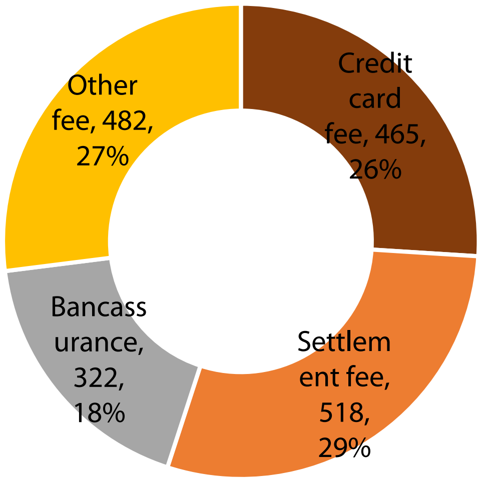
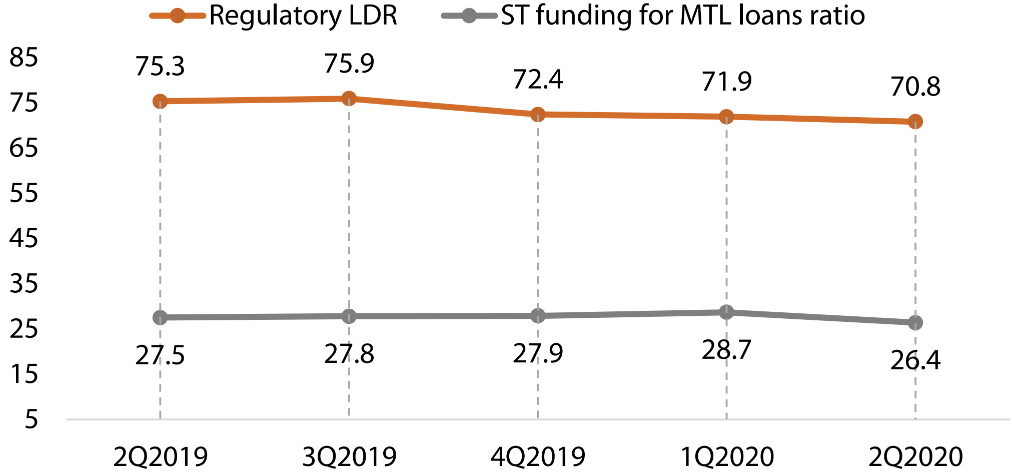


Figure 5: LDR and ST funding MLT loans ratio – parent bank (%)



Source: VPB, Rong Viet Securities

Non-NII showed resilience in most activities.

- The expansion trend in bancassurance fee was interrupted by a decline of 13.1% YoY in 1H. In particular, the drop of 20.1% YoY in FC's banca fee has outweighed the expansion of 13.9% YoY at the parent bank. This drop can be attributed to lower consumer loan disbursement at FEC by -36.3% YoY in 1H.
- Nevertheless, a substantial expansion in payment (+85.2% YoY) and other service fees (+33.2% YoY) have secured total net fees of VND 1,383bn (USD 60mn, +12.0% YoY, driven by the parent bank). We expect payment fees to grow significantly in 2020 though it would level off under transfer fee forbearance.
- Non-NII was also pushed by a surge of 156.6% YoY in securities trading gains and 36.9% YoY in recovery income.

We hold the view that service income outlook is still strong in the long term given the bank's current diverse fee structure amongst proactive digitalization exercises.

Efficiency to stay high, CIR remained as the lowest amongst our coverage.

- 1H2020 CIR was dragged to 31.0% (-4.8ppt YoY) as OPEX reduced by 3.0% YoY, with most of the cost items staying flat. Higher efficiency was achieved by both the parent bank (normalized CIR -8.7ppt YoY) and to a greater extent at FEC (CIR -1.3ppt YoY).
- VPB has a vision to become the most consumer friendly bank through technology by 2022 with a digital transformation. The ratio of digital transaction penetration has constantly climbed to 73.9%1H2020. We expect the bank's operating efficiency to benefit from both the internal leaner processes and customer behavior transition towards online channels. As such, CIR should stay at a desirable level in the sector.

Figure 6: NPL and LLR ratio (%)

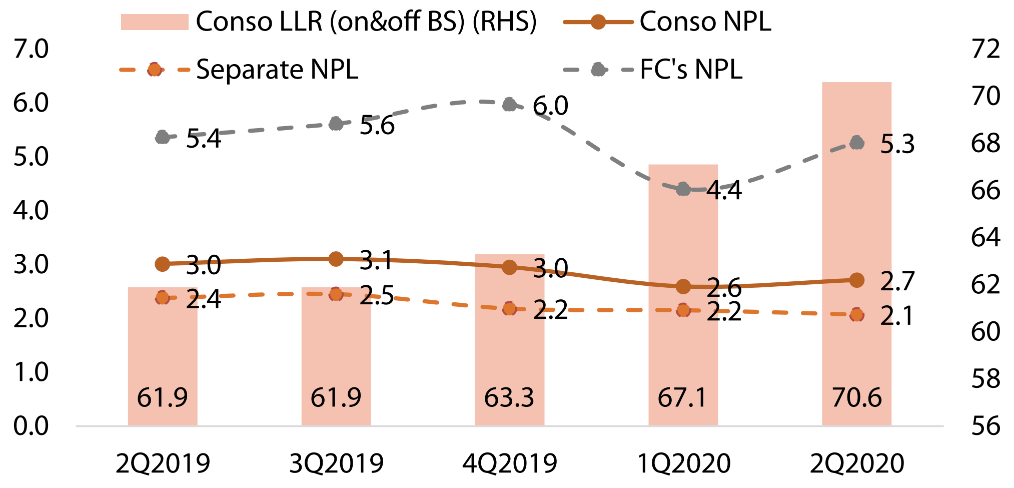
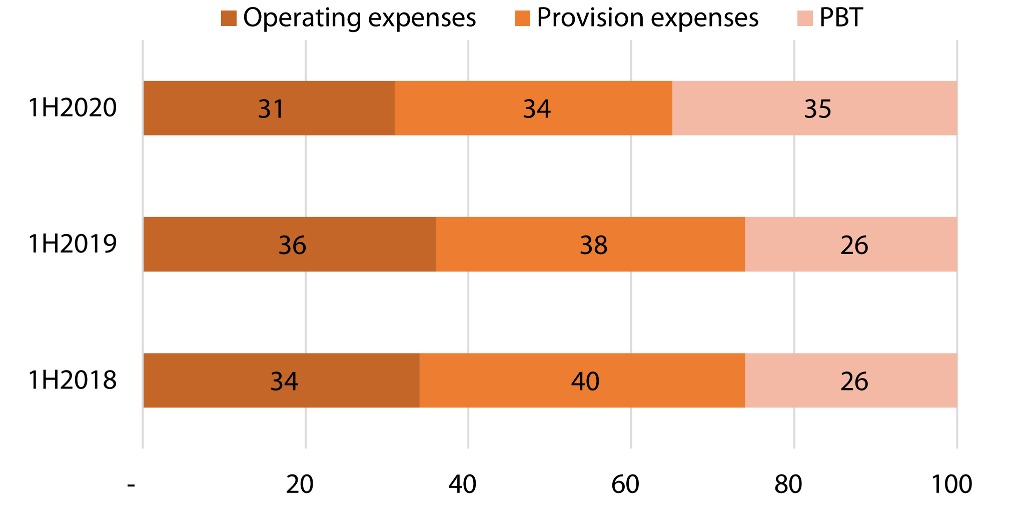


Figure 7: Consolidated TOI components (%)



Source: VPB, Rong Viet Securities

Asset quality remains stable in 1H, which reduced worries on VPB's vulnerability

- Overall, credit quality metrics were contained during 1H. Consolidated NPL dropped to 2.7% (-24bps YTD). The NPL ratio was down -11bps YTD to 2.1%. FEC's NPL ratio stayed at 5.3%, flat vs. 2Q2019 but improved from 6.0% at YE2019.
- LLR (added back write-off) stayed at 70.6%, down vs YE2019 but improved vs. 1H2019. The annualized consolidated write-off ratio was at 4.6%, unchanged vs. 1H2019 but decelerated vs. 4.9% in FY2019 and 5.5% in 1Q2020.
- 1H2020 consolidated credit costs net recovery eased to 2.71% vs. 3.0% at 1H2019 & FY2019. The pattern was similar at the parent bank.
- VPB has accumulated some more room for NPL and LLR against probable asset quality deterioration in the upcoming quarters. The only red flag was a 116-bps increase in the ratio of consolidated G2 debt/gross loans, of which, per VPB, a substantial part should be reverted to standard loans upon schedule compliance.
- We still note that as a bank with higher Covid-19 restructuring portion so far (10.4% loan book), of which only 41% is secured, VPB is still under a higher risk of severe Covid-19 impacts than peers. We expect the bank to accumulate more provision buffer till year end; however, the impact on provision cost vs. FY2019 should not be significant owing to the absence of VAMC provisions (worth VND 1Tn in 2019).

Overall, high growth outlook is still intact. The steadiness in the bank's activities, coupled with low leverage (asset leverage of 8.9x) and strong capital (CAR Basel II at 11.3%) should allow VPB to withstand the epidemic situation. Longer term, we expect that the overall growth outlook should remain positive when the pandemic impact is over, and VPB would still be able to achieve a higher growth than the sector's average.

TCB – A SOLID MODEL

INVESTMENT RATIONALE

A clear strategy and exceptional capitalization to capture growth.

- TCB implemented an inclusive ecosystem approach targeting the entire value chain in certain sectors. The bank focuses on selective partners/customer segments to drive profitability while controlling risk. It has successfully built a solid balance sheet, with a focus on lower risk segments, such as high-income group, working capital borrowers, and collateralization.
- With the highest CAR in the sector (16.9%) and healthy liquidity, TCB possesses a very strong capital base to accommodate potential growth opportunities.

The most diversified service income stream, which provides a sustainable fee growth.

- TCB has successfully build its market leader position in several areas of retail banking for years: banca premiums (13.6% market share in 2019, #1 since 2016), retail bond brokerage (80% market share) and Visa card transaction volume, which contribute to significant fee growth potential.
- Service fees contribute to more than 15% of TOI, highest amongst the industry.

Focus on enhancing digital experience.

- Thanks to the Zero fee and 1% unlimited cash back policy, CASA improved constantly to 34% since 2016 (22.7%), which supported funding cost improvement.
- This might limit net payment fee growth in the short term yet in long-term would provide benefits including (1) the shift of customers to digital banking, (2) saving on OPEX and (3) customer loyalty reinforcement.

RISK TO OUR CALL

- Downside risks included the dependency on some large clients (especially in real estate) as well as related mortgage loans.
- Upside risk includes ROE improvement thru shares buy back or cash dividends.

BUY +23%

CMP (VND)	**19,150**
Target price (VND)	**23,500**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	2,893
Current Shares O/S (mn shares)	3,500
3M Avg. Volume (K)	4,507
3M Avg. Trading Value ($ mn)	4.0
Remaining foreign room (%)	0.0
52-week range ('000 VND)	14-25.5

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**21,068**	**25,408**	**29,738**	**34,272**
Growth (%)	*14.8*	*20.6*	*17.0*	*15.2*
NPATMI (VND bn)	**10,075**	**11,905**	**14,817**	**17,350**
Growth (%)	*19.1*	*18.2*	*24.5*	*17.1*
ROA (%)	2.9	3.0	3.4	3.5
ROE (%)	17.7	17.5	18.3	17.9
EPS (VND)	2,836	3,358	4,190	4,914
Book Value (VND)	17,734	21,052	25,285	30,242
Cash dividend (VND)	0	0	0	0
P/E (x) (*)	8.3	6.3	5.0	4.3
P/B (x) (*)	1.2	1.0	0.8	0.7

(*) Share price as of Aug 7th, 2020.

Figure 1: Loan structure

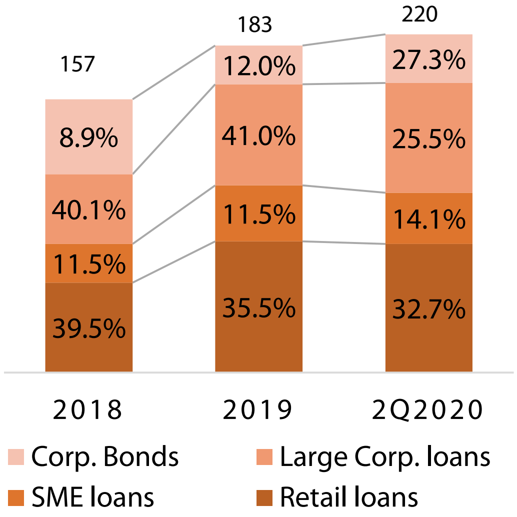


Figure 2: Retail loan structure

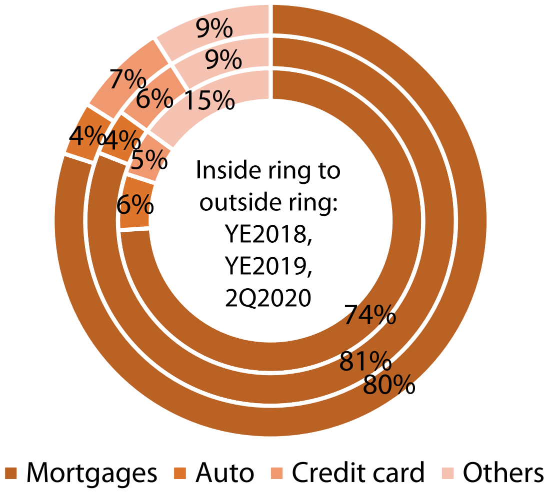
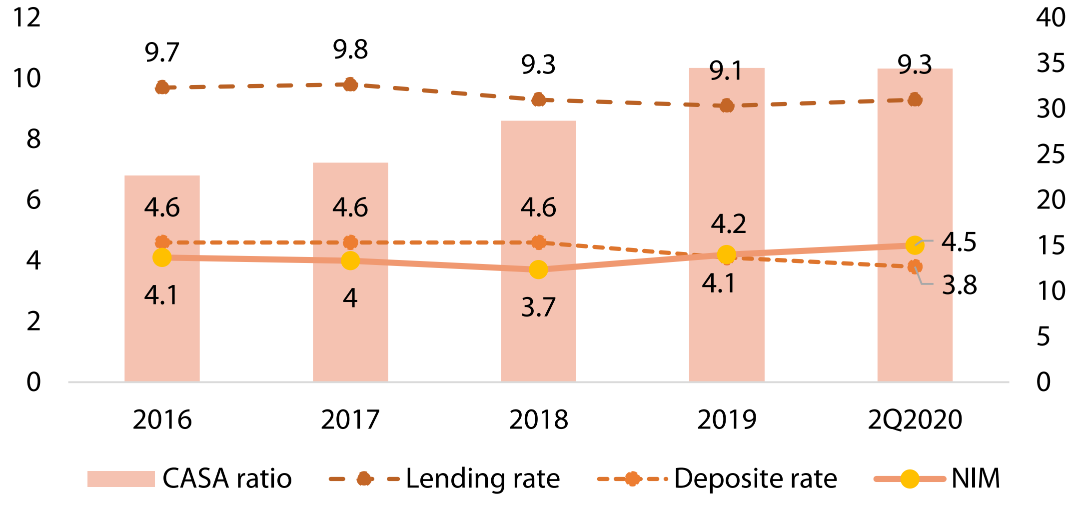


Figure 3: TCB's lending rate, deposit rate, NIM and CASA (%)



Source: TCB, Rong Viet Securities

TCB reported a solid TOI expansion of +29.7% YoY owing to a +25.7% YoY growth in NII and a +39.9% YoY in fee income. Provision expenses rose by +406.1% YoY and OPEX +20.6% YoY, leading to a +19.0% YoY growth in PBT.

NII achieved strong growth in 1H (+25.7% YoY) owing to NIM expansion from 4.2% (2019) to 4.5% (1H2020). Lending rate reached 9.3% (vs. 9.1% in FY2019), while the deposit rate was reduced to 3.8% (from 4.1% in FY2019).

- Wholesale loans grew by +3% YTD while SME loans -7.8% YTD and retail loans -1.9% YTD, mostly flattening total customer loans (+0.4% YTD). Retail loans are primarily constituted by mortgages (80%) and affluent segment (63.5%). The SME loans continues to focus on working capital (83% portion). Meanwhile, total credit growth reached 3.5% YTD due to a 25% YTD increase in corporates bonds balance.
- Total mobilization expanded by 9.9% YTD, outpacing credit, to prepare for the bank's expected credit recovery in 2H upon the resume of housing projects launches. The CASA ratio bounced back to 34.4% (same level with YE2019) after a decline to 32.2% in 1Q. Our estimates showed that TCB (along with MBB) are the only banks in our coverage that can lower funding costs in 1H2020 vs. FY2019.

NII growth to remain decent in 2020.

- TCB belongs to a group that has received the most generous credit top-up by SBV, which means the new quota should be at least 20%. This should provides more flexibility to cope with the expected credit recovery in 2H, though actual credit growth should still depend on Covid-19 containment.
- We expect NIM to improve slightly vs. FY2019 considering current liquidity advantages as lower funding costs will likely override lower lending rates.

Figure 4: Fee income & FX income components 1H2020 (VND bn)

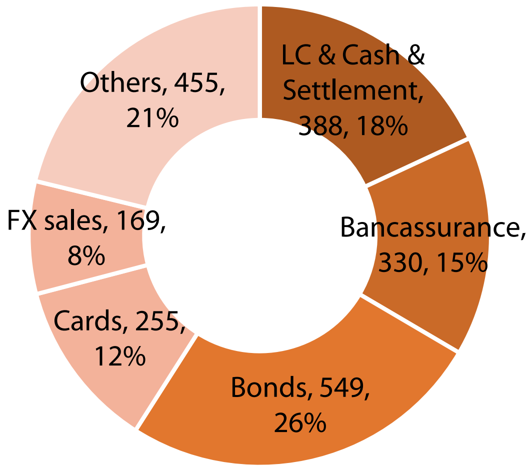
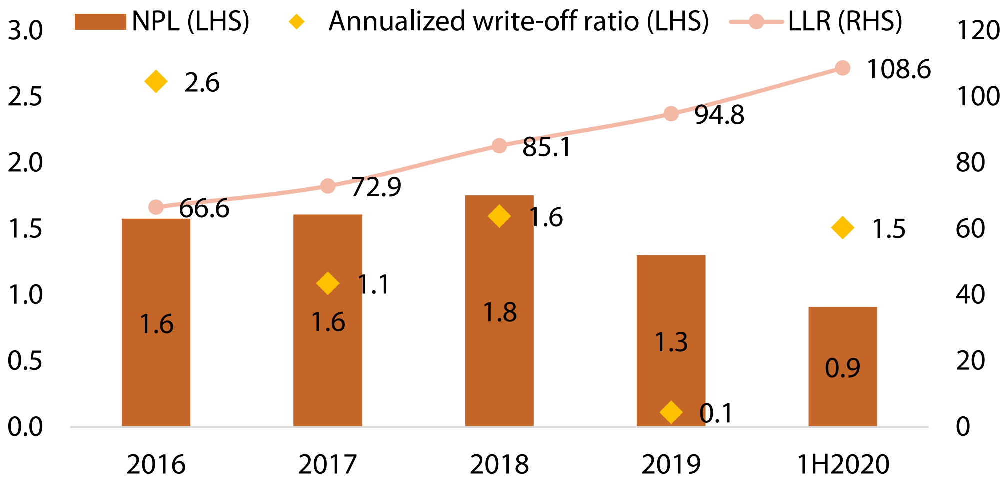


Figure 5: NPL, LLR and annualized write-off ratio 1H2020 (%)



Source: TCB, Rong Viet Securities

Net fee income (including FX income) was up 47% YoY, pushed by bond services (+146% YoY), LC & cash & settlement service (39% YoY) and other fees (+237% YoY). The underperforming items were banca and cards fees, both declining by -16% YoY. It is expected that the banca momentum would bounce back in 2H should there is no more of social-distancing measures.

TCB remains at the forefront in terms of operating efficiency. OPEX expanded at a lower space vs. TOI, at 20.6% YoY, as such, CIR reduced to 32.5% (-2.2ppt vs FY2019 and -2.5% vs. 1H2019). This CIR, along with VPB's, is the top lowest amongst our coverage. We do not anticipate further improvement in the short-term as the CIR ratio might increase for additional IT capex.

Provision expenses surged (+306.1% YoY) to accumulate some room for NPL ratio.

- LLR improved to 108.6% from 94.8% at YE2019. NPL was reduced from 1.3% at YE2019 to an all-time low level of 0.9%, while the G2 ratio remains unchanged.
- This improvement in the NPL ratio was supported by an annualized write-off ratio of 1.5%, from 0.1% in FY2019. As such, provision expenses quadrupled from a low base in 1H2019.
- TCB expects that should the pandemic is confined to central VN, the restructuring ratio should remain at 3.6%, and it should not exceed 7% even in the worst case.

For the entire year, we expect TCB to realize a strong earnings growth as TOI maintains its solid expansion to cover a surge in credit costs. The bank has accumulated more room for NPL and LLR, in precaution for probable bad debt formation. We think TCB will show a strong resilience to this crisis and be able to recover strongly upon the end of the pandemic.

MBB – HOLDING THE HORSES

INVESTMENT RATIONALE

Potential to grow NII with the expansion into retail lending, including consumer finance

- Well-controlled mobilization growth and high CASA (of >30%) helped maintain low average funding costs. The bank is facing more intense competition in CASA attraction from transaction banking oriented banks.
- The penetration in retail lending (including consumer finance) has expanded constantly during recent years, reaching ~40%. There is still ample room for MBB to continue to expand.
- Consumer finance lending growth and NIM likely to step slow down during the restructuring period, yet should be able to recover upon completion.

Asset quality will improve alongside with the restructuring process

- Asset quality was maintained with improvement in the NPL ratio, written-off ratio and provision coverage after some less positive movements in 1Q2020. The burden of provision expenses should ease upon the completion of the restructuring process.

Operating its own life-insurance company

- Service income grew strongly and contributed more to TOI, mainly pushed by income from insurance, whose proportion on service fees has expanded dramatically in the last four years to >80%.
- With the commitment to MB Ageas Life, MBB is more likely to achieve a more sustainable service income growth in the long-term rather than resorting on extraordinary income.

RISKS TO OUR CALL

- Downside risks include challenges to maintain CASA levels and increasing competition in retail lending, along with the prolonged impact of Covid-19 which is stronger than expected.
- Upside risk includes the ability to recover consumer finance and life-insurance businesses.

BUY +23%

CMP (VND)	**16,300**
Target price (VND)	**20,000**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	1,697
Current Shares O/S (mn shares)	2,411
3M Avg. Volume (K)	6,234
3M Avg. Trading Value ($ mn)	4.6
Remaining foreign room (%)	0.0
52-week range ('000 VND)	13.2-23.9

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**19,539**	**24,650**	**27,926**	**33,134**
Growth (%)	*40.9*	*26.2*	*13.3*	*18.6*
NPATMI (VND bn)	**6,148**	**7,823**	**8,322**	**10,497**
Growth (%)	*74.7*	*27.2*	*6.4*	*26.1*
ROA (%)	1.8	2.0	1.9	2.1
ROE (%)	19.3	21.1	18.8	19.4
EPS (VND)	3,003	3,329	3,265	4,118
Book Value (VND)	14,646	16,810	19,870	24,139
Cash dividend (VND)	600	600	0	0
P/E (x) (*)	-	6.5	4.9	3.8
P/B (x) (*)	-	1.2	0.8	0.7

(*) Share price as of Aug 7th, 2020.

Figure 1: Loan portfolio structure

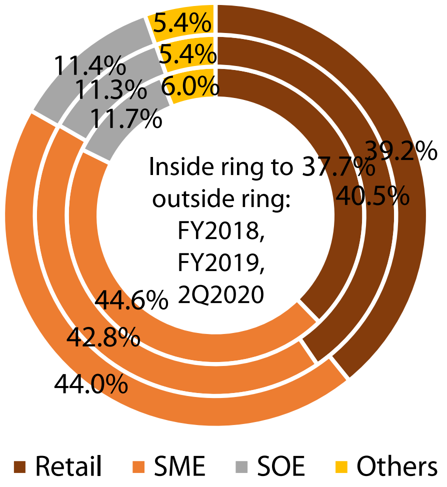


Figure 2: Banca fee portion of service income (%)

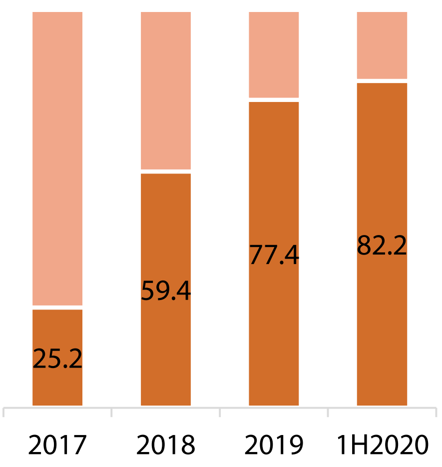
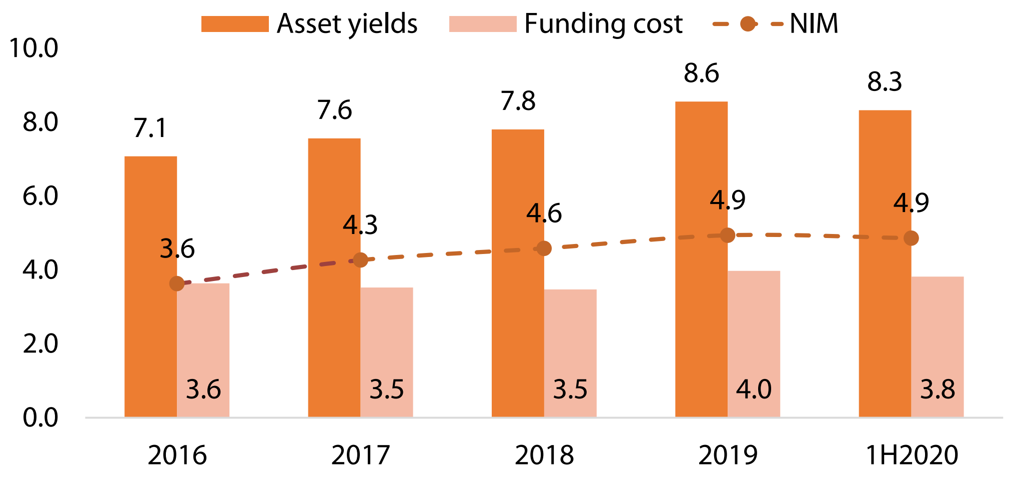


Figure 3: MBB's asset yield, funding cost and NIM (% - TTM)



Source: MBB, Rong Viet Securities

MBB showed a recovery from 1Q when achieving 1H consolidated PBT of VND4.2Tn (USD 179mn, +6.1% YoY), due to provision escalation while 1H2020 NII and TOI expanded moderately by 9.3% and 11.2% YoY.

NIM ceased to expand upon a step back in retail lending including consumer loans.

- 1H2020 consolidated credit growth was 7.5% YTD, while customer lending expanded by 4.4% YTD. The respective growth rate at the parent bank was 8.2% and 5.0%. Credit growth was pushed by a rise of 55.0% YTD in corporate bonds balance.
- The retail portion on the consolidated loan book inched down by 1.3ppt YTD to 39.2%. This was because (1) Parent bank's retail loans only expanded by 1.9% YTD, and (2) Mcredit's loan book shrank by -8% YTD to VND 7,870mn (USD 342mn).
- MBB estimates that 25-30% of its loan portfolio is impacted by Covid-19, and has reduced lending rate by 0.5-2ppt to support distressed clients. This, along with the step back in retail lending likely led to a -23bps decline in asset yields vs. FY2019, which overrides the smaller decline of -15bps in funding costs (owing to a reduction in deposit balance and rate cap). As such, NIM compressed marginally to 4.9%. The impact was stronger in 2Q than in 1Q.

The pressure on NIM is likely to persist, due to (1) fiercer rivalry in CASA attraction, and (2) the effort to restructure MCredit after an aggressive growth period, with a target to reduce cash loan mix (to 40-50%). We forecast that this will hold back consumer lending growth and NIM momentum, yet allow a closer control over credit cost.

For 2020, MBB plans 12% of credit growth, which is close to SBV's initial limit (11.75%), but much lower than in FY2019 (18.6%). The bank is seeking approval for credit limit top-up to 20%, yet actual utilization should depend on economic recovery.

Figure 4: Consolidated NPL, NPL + G2 and LLR ratio (%)

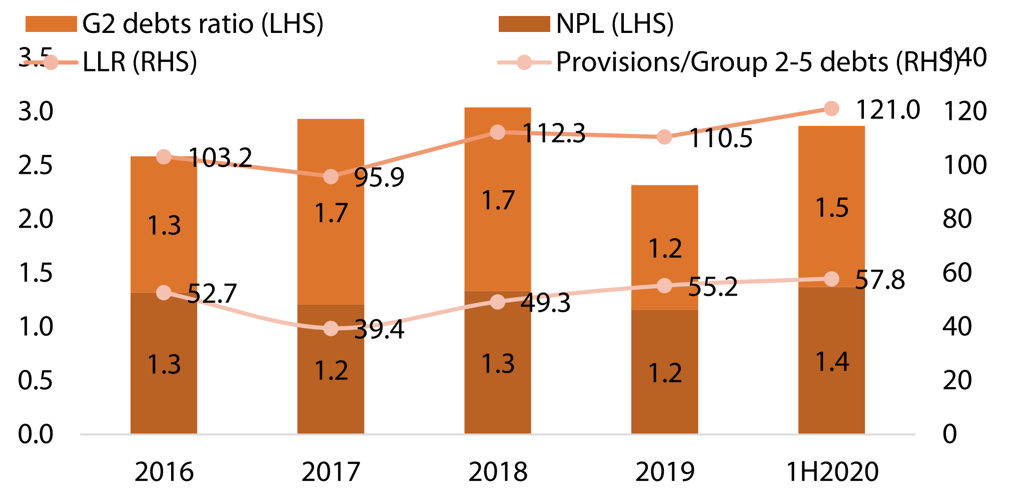
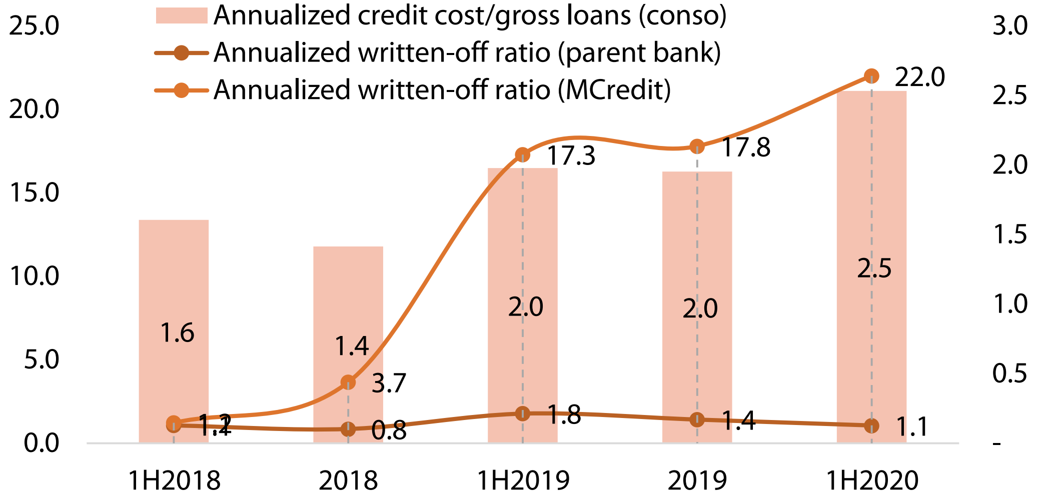


Figure 5 : Annualized write-off ratio and provision cost/gross loans (%)



Source: MBB, Rong Viet Securities

Service income was impacted more strongly than expected as 1H fees were reduced by -6.8% YoY (vs. -1.8% YoY in 1Q). The surge in expenses (of 74% YoY, with banca expenses being the main reason) is a challenge for MBB to turn around fee income growth. Gains from securities trading (+173% YoY) was the only highlight in 1H non-NII.

Provision expenses were still a burden, yet easing vs. 1Q.

- After some red flags raised in 1Q including a rise in the NPL ratio as well as the G2 ratio to their 3-year high of respectively 1.6% and 1.9%, asset quality was overall strengthened in 2Q upon a reduction in the NPL ratio to 1.4% and G2 ratio to 1.5%. LLR also climbed to its highest-ever level of 121% vs 110% in FY2019. 1H2020 annualized write-off ratio was 1.7%, easing from 1H2019 and FY2019's of 2.0%.
- Provision charges in 1H reached VND 3,310bn (USD 144mn, +40.0% YoY, accounting for 39.3% of PPOP). This is actually an easing vs. +117% YoY in 1Q upon lower NPL and write-off ratios.
- Until the end of June, the bank has restructured nearly VND7Tn (US 304mn, 2.7% of the loan book). Most of the restructured loans belongs to SMEs and retail segment.

Better control on operating expenses. MBB aims to reduce 2020 CIR to 35.5-36.5% (from 39.4% in 2019). The bank would prioritize digitalization over physical transaction network expansion. MCredit has cut 500 staffs to save on operating costs.

In our view, **MBB's short-term outlook is likely to be dampened** by the pressure of the restructuring plan for bank loans and Mcredit, which coincides with the Covid-19 situation. We only expect a modest earnings growth in 2020 and possibly early 2021. Though the current PB 2020F of 0.8x looks undemanding, we recommend to wait until more clear signs of growth bounce back are affirmed.

VIB – STRONG GROWTH OUTLOOK, CATALYST FROM EXCHANGE TRANSFER

INVESTMENT RATIONALE

The most intensive retail lender with impressive credit growth and NIM improvement

- Since 2016, VIB has consistently maintained very high credit growth, by the push of mortgage and auto loans. As one of first banks to adopt Cir. 41 and then all three tiers of Basel 2, VIB is eligible for higher credit growth than peers.
- This is the bank with the highest portion of retail lending on loan portfolio (of >80%). Along with this strong penetration, NIM expanded significantly from ~3.0% (2016-2017) to 4.0% since 2019, securing VIB's top position in terms of NII growth.

Strong service income growth momentum owing to bancassurance fee

- VIB has successfully leveraged insurance cross-selling activities based on its significant credit expansion ability. Income from insurance commission took off significantly when the bank promotes the exclusive bancassurance partnership with Prudential.
- The bank currently ranked 2nd in terms of bancassurance premium with the contribution to 75% of Prudential's insurance premiums through banca channel.

Strong operating efficiency

- VIB prioritizes to build excellent operations. While sale is pushed towards retail segment, cost is controlled closely and CIR has improved constantly towards the lower end of listed banks. VIB aims to lower CIR further to 40% in the next years by promoting digital transformation.

The bank plans to transfer to HSX, expected by late 2020, after paying 20% bonus stocks.

RISKS TO OUR CALL

- Current asset quality seems to lag behind peers with NPL of ~2% and low provision buffer, which would make credit cost more sensitive to economic conditions.
- The boosting of retail lending on the back of mortgage loans poses a risk in case the real estate sector falls into a downward cycle.

BUY +22%

CMP (VND)	**19,400**
Target price (VND)	**23,700**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	779
Current Shares O/S (mn shares)	924
3M Avg. Volume (K)	1,241
3M Avg. Trading Value ($ mn)	0.9
Remaining foreign room (%)	0.0
52-week range ('000 VND)	12.4-22

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**6,086**	**8,152**	**10,646**	**13,180**
Growth (%)	*48.8*	*34.0*	*30.6*	*23.8*
NPATMI (VND bn)	**2,194**	**3,266**	**4,020**	**5,337**
Growth (%)	*95.1*	*48.9*	*23.1*	*32.7*
ROA (%)	1.7	2.0	2.1	2.4
ROE (%)	22.6	27.1	26.0	26.8
EPS (VND)	2,409	3,533	4,348	5,772
Book Value (VND)	14,194	14,527	18,875	24,147
Cash dividend (VND)	498	567	0	500
P/E (x) (*)	-	4.9	4.2	3.2
P/B (x) (*)	-	1.2	1.0	0.8

(*) Share price as of Aug 7th, 2020.

RONGVIET SECURITIES

Figure 1: Total loan structure

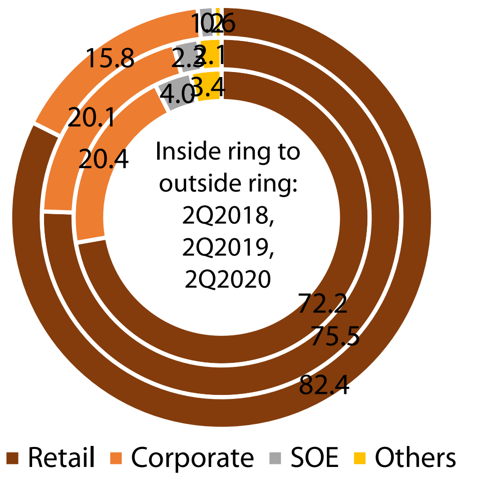


Figure 2: Retail lending structure

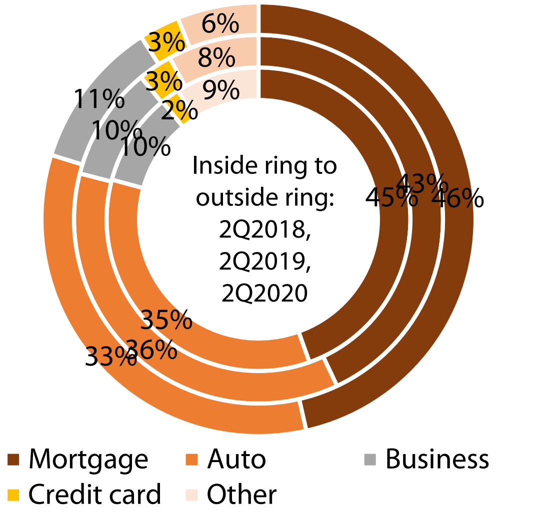
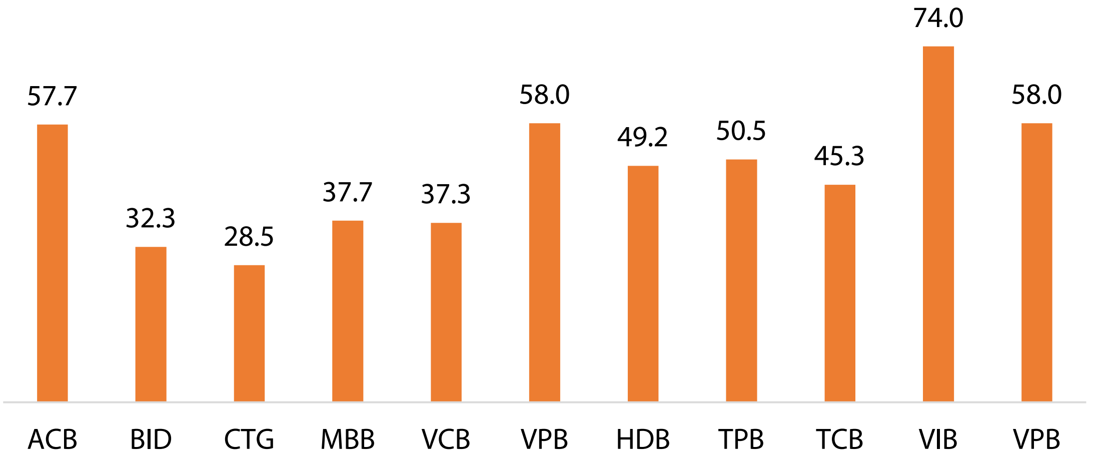
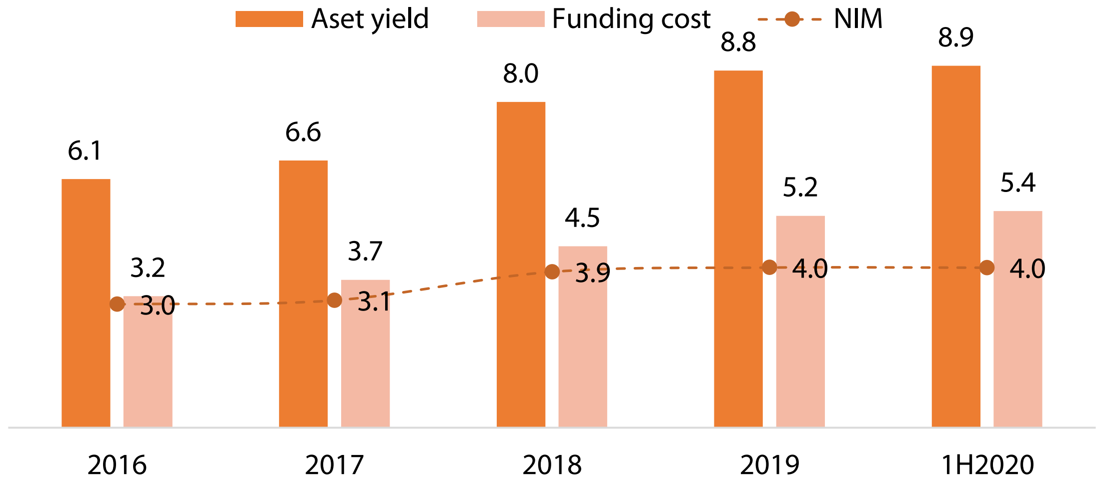


Figure 3: The proportion of retail lending at YE2019 (%)



Source: Banks' FS, Rong Viet Securities

Figure 4: VIB's asset yield, funding cost and NIM (% - TTM)



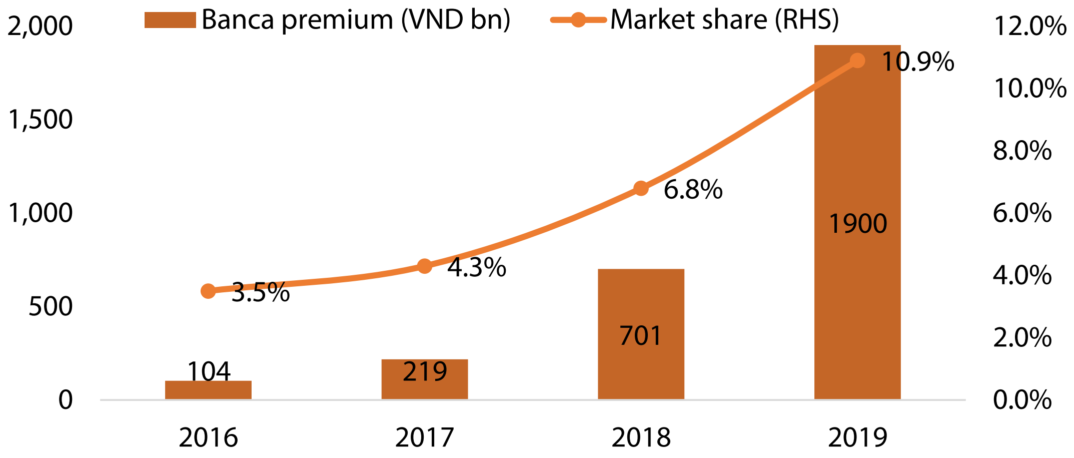
Source: VIB, Rong Viet Securities

The ability to expand NII more strongly than peers (+28.8% YoY).

- VIB has utilized 5.8% YTD credit growth in 1H2020 (higher than the industry average of 3.2% YTD). NIM inched up to 4.0%, translating to a NII growth of 36.9% YoY, much better than peers'.
- The credit growth quota given to VIB for 2020 was initially 10.5%, then lifted to >20% upon a recent credit limit top-up. For 2020, VIB set a credit growth target of 24%, aiming to expand its retail lending, especially mortgages, auto, household, secured consumer, and credit cards.
- The bank's relatively strong capital adequacy and liquidity should facilitate the utilization of this generous quota. As of 30 June, CAR was maintained at 10.0%, LDR at 74.6% and the short-term funding for medium/long term loans ratio at 34.4%.

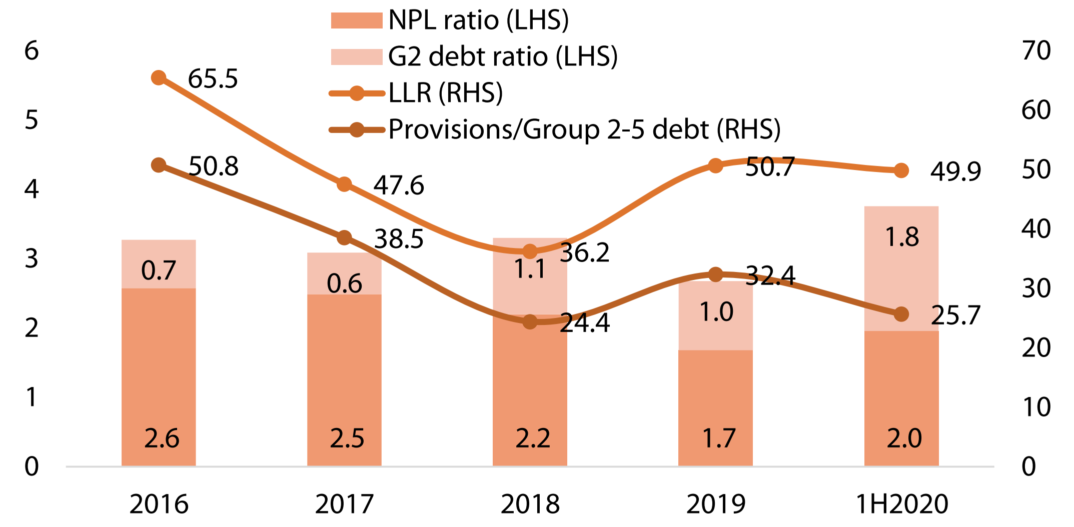
VIB – Higher growth than peers in both NII and service fee

Figure 1: VIB's banca premium and market share 2016-2019



Source: Insurance Association of Vietnam, Rong Viet Securities

Figure 2: NPL ratio, G2 debt ratio, LLR, and Provision/G2-5 debt (%)



Source: VIB, Rong Viet Securities

Bancassurance successfully maintains a remarkable expansion momentum.

- According to the Insurance Association of Vietnam, VIB has gradually climbed from 5th position in terms of life sector's bancassurance premium in 2018 to 2nd position in 2019. The bank collected total premiums of VND 1,900bn (USD 83mn), equivalent to a market share of 10.9% last year.
- With the impressive banca activities, insurance income contribution to service fee has surged from 32.7% in 2018 to 61.9% in FY2019 and 52.4% in 1H2020. This played an important role in pushing service fees' growth of 62.8% YoY in 1H.
- Though the insurance activity seems to slowdown in 1H, we expect it to recover upon improved economic conditions and continue to act as a growth driver, especially when other income sources from foreign exchange, securities trading and other activities are quite limited.

High growth trajectory should be able to moderate the impacts of Covid-19.

- Upon the epidemic, VIB has restructured VND500bn (USD 22mn, or 0.38% total bank loans) until end of June. Management estimates that VND2.6Tn (USD 113mn, or 1.9% of total bank loans) would need to be restructured.
- 1H asset quality started to be impacted by the virus situation. NPL ratio climbed from 1.7% at end-2020 to 2.0%. The ratio of Group 2 debts also moved up from 1.0% to 1.8%. We expect VIB to double its provision cost in 2020 to accumulate for potential bad debts.
- The provision escalation should be facilitated by the high growth in both NII and non-NII. We hold the view that VIB would still be able to secure a desirable PBT growth of at least 20% in 2020-2021.

HDB – LIMITED IMPACTS BY COVID-19

INVESTMENT RATIONALE

The parent bank is expanding loans while maintaining healthy asset quality,

- The diverse ecosystem of retail-oriented companies supports the parent bank to exploit a large customer base for lending expansion.
- Asset quality at the parent bank is healthy with a stable NPL ratio of 1.1% in the last three years despite near-zero write-offs. As such, separate credit costs stayed at a very low level (c. 0.2%), comparable to ACB's. HDBank fully cleared its VAMC debt as of June 2020.

Consumer finance arm is resilient.

- With an extensive distribution network of >18k POS by 1H2020, HD Saison (HDS) has persistently expanded lending even under the sector difficulties. HDS's credit cost is at a lower level vs. main players in the consumer lending sector owing to its non-cash loan dominance (>65% of loan portfolio).
- With direct disbursement ratio as defined by SBV at 25.8%, HD Saison is virtually unaffected by Circular 18/2019-TT-NHNN, yet the regulation might drive other competitors to expand into motorbike and consumer durable lending, posing a threat to HD Saison' market share and NIM.

The official approval for a merger with PGBank is still pending.

- If the merger goes through, HDB is likely to benefit from higher CASA, higher credit quota and service income growth from Petrolimex and associates. However, near-term performance of the post-merger bank should be affected by PG Bank's high NPL and VAMC special bond.

RISKS TO OUR CALL

- Downside risks include (1) Challenges to expand NIM due to increasing competition in retail lending and consumer finance, (2) asset quality deterioration upon a shift into higher-margin segments.

ACCUMULATE +19%

CMP (VND)	**26,050**
Target price (VND)	**31,000**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	1,086
Current Shares O/S (mn shares)	966
3M Avg. Volume (K)	1,134
3M Avg. Trading Value ($ mn)	1.2
Remaining foreign room (%)	9.4
52-week range ('000 VND)	16.1-30.1

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**9,440**	**11,388**	**13,208**	**15,658**
Growth (%)	*25.8*	*20.6*	*16.0*	*18.6*
NPATMI (VND bn)	**2,842**	**3,605**	**4,265**	**5,327**
Growth (%)	*62.7*	*26.8*	*18.3*	*24.9*
ROA (%)	1.4	1.6	1.8	1.9
ROE (%)	19.1	20.8	20.7	22.1
EPS (VND)	2,894	3,694	4,371	5,460
Book Value (VND)	17,154	20,902	23,957	28,154
Cash dividend (VND)	0	0	0	0
P/E (x) (*)	-	7.5	6.0	4.8
P/B (x) (*)	-	1.3	1.1	0.9

(*) Share price as of Aug 7th, 2020.

HDB – NII predominantly led growth, asset quality stayed manageable

Figure 1: Consolidated total lending structure

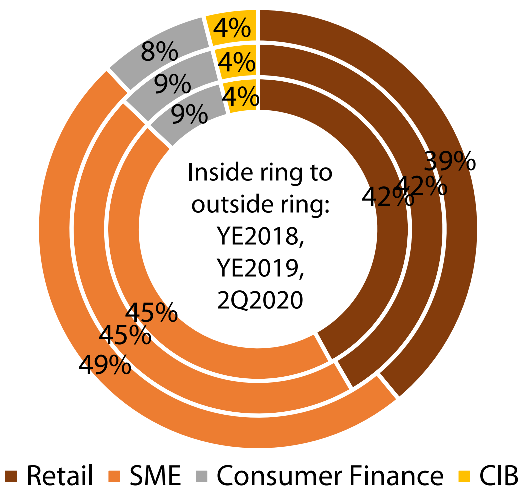


Figure 2: Parent bank's retail lending structure (2Q2020)

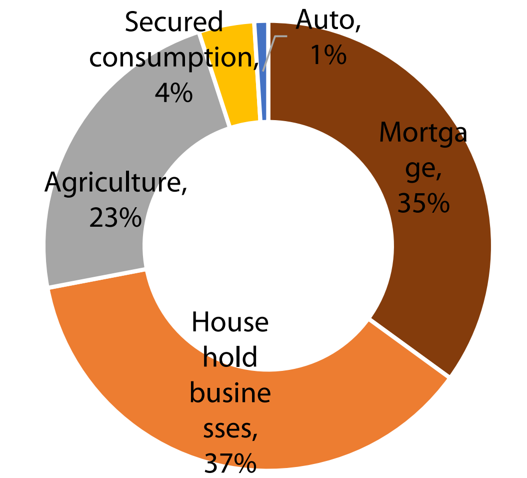
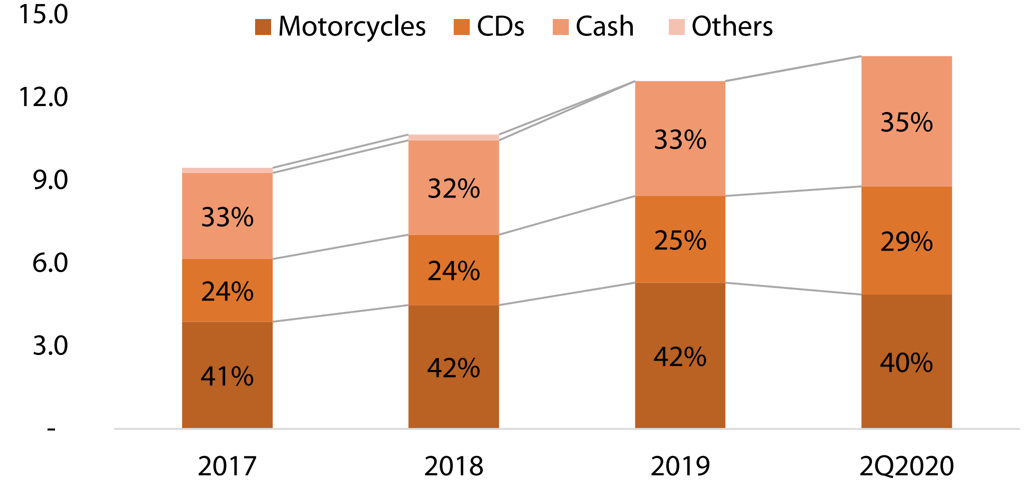


Figure 3: HD Saison's lending structure (%)



Source: HDB, Rong Viet Securities

HDB posted solid 1H2020 consolidated results with PBT of VND 2.9Tn (USD 126mn; +31.5% YoY). TOI expanded by 22.7% YoY (led by NII expansion of 30.1% YoY) while the closely control of OPEX (+12.7% YoY) enabled such a strong earnings growth.

NII achieved the highest growth in our coverage with an impressive NIM expansion.

- 1H2020 consolidated credit growth was 10.3% YTD, supported by a growth of +9.6% YTD in customer loan and +26% YTD in corporate bonds. The parent bank's credit expansion was 9.8% YTD, led by SME (+16.8% YTD, pushed by supply chain finance and green finance products). HDS's lending still grew by 7.2% YTD in 1H, with the fastest expansion in CDs (+22.8% YTD).
- Consolidated NIM climbed to 5.2% vs 4.8% at FY2019, though it cooled down from 1Q. This was mainly supported by the parent bank's NIM (up from 3.3% in FY2019 to 3.7%) while that at HDS was down from 26.6% to 26.4%.
- NIM improvement came from (1) the end of the subsidiary period for a decent portion of lending and (2) the expansion into green credit projects with longer tenure and better loan yields (which account for c.4% of total loan book).

2020 NIM is unlikely to improve further, but should be kept a higher level than 2019.

- Current credit limits given by SBV is 20% for the parent bank and 10% for HD Saison. With relatively strong capital and healthy liquidity (CAR at 11.5%, LDR at 75.1%, SML ratio at 21.0%), we believe HDB can make the most of this top tier credit quota.
- Coupled with the expanding asset yields momentum and the ability to control funding costs upon policy rate cut, we expect the current NIM trajectory to override the downside impact of Covid-19. This should be led by the parent bank, while HDS's NIM is likely to slowdown a bit vs. 2019.

Figure 4: HDB's CIR (%)

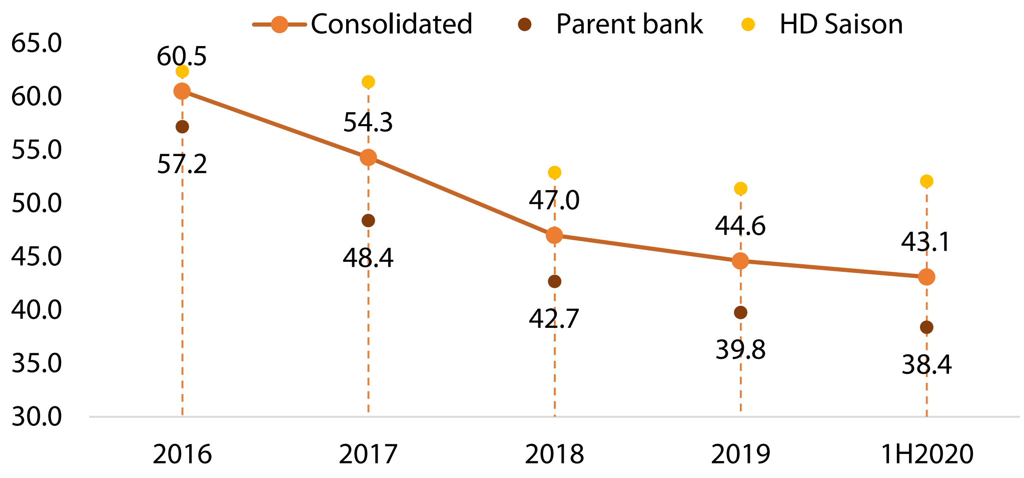
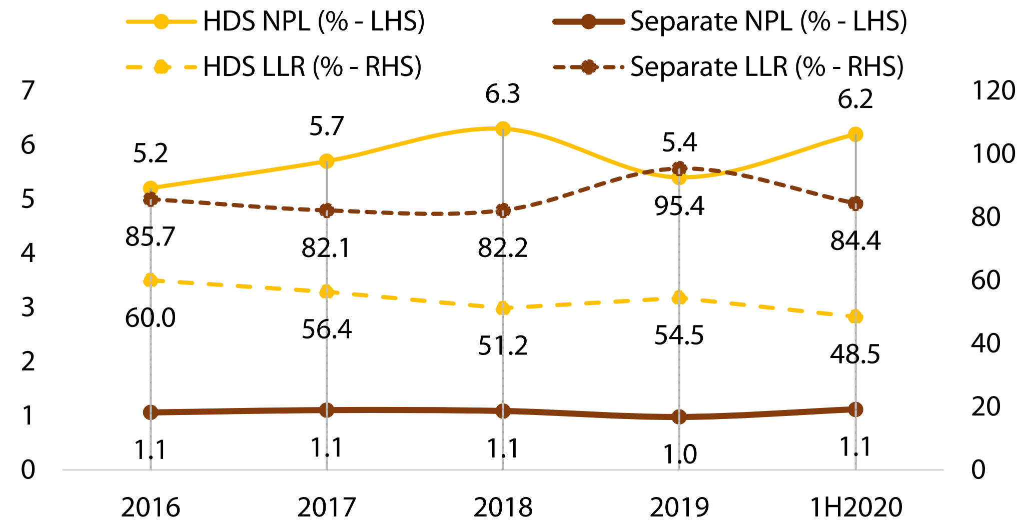


Figure 5: HDB's NPL ratio and LLR (%)



Source: HDB, Rong Viet Securities

Non-interest income remained weak, but has ample room for improvement. In 1H2020, net fee income trended up slightly by 4.9% YoY, still driven by HDS's banca as the parent bank saw a dramatic decline of -57.8% YoY, which was due to weak performance of payment, trade service and life-insurance fees. Meanwhile, FX income plummeted by -75.0% YoY, causing total non-NII contraction of -16.7% YoY.

Contained asset quality, provision cost increased reasonably from a low base.

- HDB accelerated provisions bookings in 1H2020 (+31.6% YoY), mainly at the parent bank (+71.3% YoY) to fully provision for its VAMC balance as of 2Q2020.
- There was an upward trend in NPL ratio at the parent bank (from 1.0% as of YE2019 to 1.1%), and to a greater extent, at HDS (from 5.4% to 6.2%). LLR trended down to 72.2% (-9.2ppt YTD). We see these movements as largely controllable as other metrics remained very stable, such as Group 2 ratio (stayed 1.5%) and annualized write-off ratio (0.55%, mostly flat during several recent years) upon a decline in accrued interest.
- With such a stable asset quality and desirable annualized credit cost (of c. 0.9%), we expect that the provision burden should not be too significant in 2H.
- HDB estimates that as of June, 15% of its loan book is impacted by the pandemic. The bank has restructured VND5.5Tn (3.4% of total loans). It expects overall exposure to vulnerable loans segments will be kept at under 6.8%.

For 2020, we expect net interest income growth to remain strong with the positive momentum in both credit and NIM. Service income will still be modest at least until the exclusive bancassurance agreement is finalized. We also expect that the bank will be able to handle the impact of the virus on asset quality in the subsequent quarters while maintaining a stable performance.

ACB – MORE STORIES AWAITING

INVESTMENT RATIONALE

A healthy strategic focus on retail banking with low risk appetite

- ACB's lending structure continues to shift towards retail and SME lending, which is a traditional strength of the bank. These segments consistently accounted for over 90% of total lending, with a relatively moderate portion of mortgage loans (about 20%), insignificant lending to real estate developers (at less than 3%) and no corporate bonds.
- Asset yields is likely to improve further with the plan to expand lending for mortgages, yet prudently to control CAR, liquidity ratios and average funding costs.

Maintain a strong assets quality and liquidity reserves

- ACB has successfully maintained abundant liquidity with a LDR ratio of ~80% and the ratio of short-term funding for medium/long-term loans at ~30%.
- ACB's prudence secured its top asset quality position amongst listed banks with the lowest NPL ratio (of 0.8%) and second highest provision coverage (of ~150%). Provision burden is minimal as credit costs stayed as the lowest amongst listed banks (at ~1% of gross loans).

Service income is set to grow strongly upon new bancassurance agreements

- ACB's life insurance segment has great potential and will be further promoted by the newly signed non-exclusive agreements with Manulife and FWD. This can be supported by an exclusive agreement to be finalized in late 2020-early 2021. As such, service fees are expected to act as the growth driver with a CAGR of at least 30% in the next three years.

The bank plans to transfer its listing exchange to HSX, expected by late 2020-early 2021.

RISKS TO OUR CALL

- Downside risks include challenges to maintain NIM under rising competition in the retail segment and the more prolonged impact of Covid-19 on asset quality.
- Upside risks include one-off income from an exclusive bancassurance contract, ACBS divestment, as well as the collection of G6 legacy debt, which is likely to be realized in 2021.

ACCUMULATE +16%

CMP (VND)	**23,700**
Target price (VND)	**27,500**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	1,701
Current Shares O/S (mn shares)	1,663
3M Avg. Volume (K)	4,056
3M Avg. Trading Value ($ mn)	4.1
Remaining foreign room (%)	0.0
52-week range ('000 VND)	16.1-27.1

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**14,033**	**16,097**	**17,890**	**20,869**
Growth (%)	*22.7*	*14.7*	*11.1*	*16.6*
NPATMI (VND bn)	**5,137**	**6,010**	**6,760**	**8,455**
Growth (%)	*142.5*	*17.0*	*12.5*	*25.1*
ROA (%)	1.7	1.7	1.7	1.8
ROE (%)	27.7	24.6	21.7	22.3
EPS (VND)	3,156	3,538	3,990	5,014
Book Value (VND)	12,963	16,761	20,805	24,909
Cash dividend (VND)	0	0	0	1000
P/E (x) (*)	-	6.4	5.6	4.4
P/B (x) (*)	-	1.3	1.1	0.9

(*) Share price as of Aug 7th, 2020.

ACB – Bancassurance is a highlight while more stories are awaiting

RONG VIET SECURITIES

Figure 1: Total loan structure

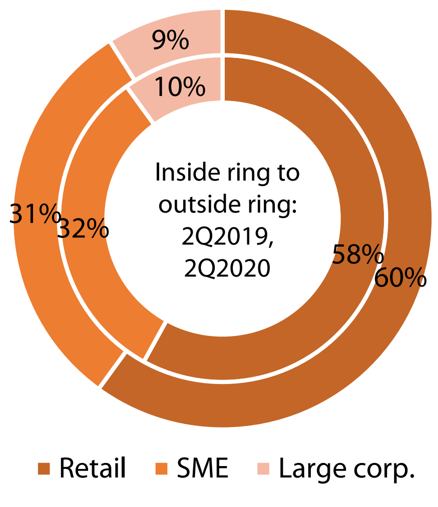


Figure 2: Retail loan structure

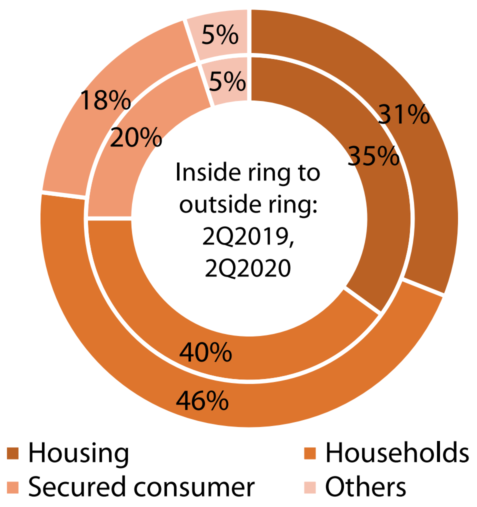
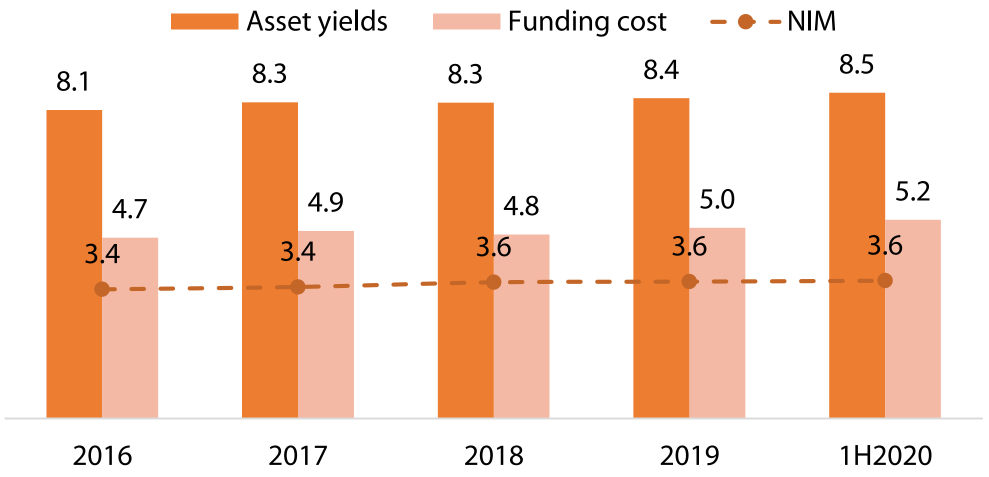


Figure 3: ACB's asset yields, funding cost and NIM (% - TTM)



Source: ACB, Rong Viet Securities

ACB maintained a stable income growth, with NII and TOI expanding by respectively 13.4% and 14% YoY in 1H2020. Meanwhile, due to provisions escalation, PBT only rose by 5% YoY to VND3,820bn (USD 166mn), fulfilling half of the year's guidance.

Credit growth slowed down in 1H, yet the bank expects a recovery in 2H

- Total credit expanded by 5.6% YTD (vs. 8.5% in 1H2019), lower than mobilization growth (7.5% YTD). ACB does not hold any corporate bonds. Retail and SME loans account for 91% of the total portfolio.
- ACB was given a 11.75% credit growth limit by SBV. The bank will ask for quota top-up by 4Q, targeting 15% growth for the whole year.

NIM 2020 is likely to see a small reduction as new loans are disbursed with an interest rate of 1ppt/year lower than previous rates. However, we expect that **upon the virus containment, NIM would stay stable or move up slightly as**:

- The bank's lending focus would shift to mortgage loans and less-impacted sectors such as those serving domestic consumption.
- CASA is to improve further (targeting 25% by 2022) with the launch of the transactional banking platform in July.
- Capital remained strong and liquidity stayed healthy. CAR Basel 2 was kept at 10.7%, LDR was at 79.5%, quite lower than the 85% threshold.

Banca fee acted as a growth driver for service income (+13% YoY), moderating the temporary impact by the virus situation

- Banca fees saw a significant jump to 100bn in June, and are targeted to reach at least 900bn (+60% YoY) in 2020. As such, we expect service fees growth to bounce back in 2H (and in 2021) with the leading role of bancassurance fees.

Figure 4: ACB's TOI structure (%)

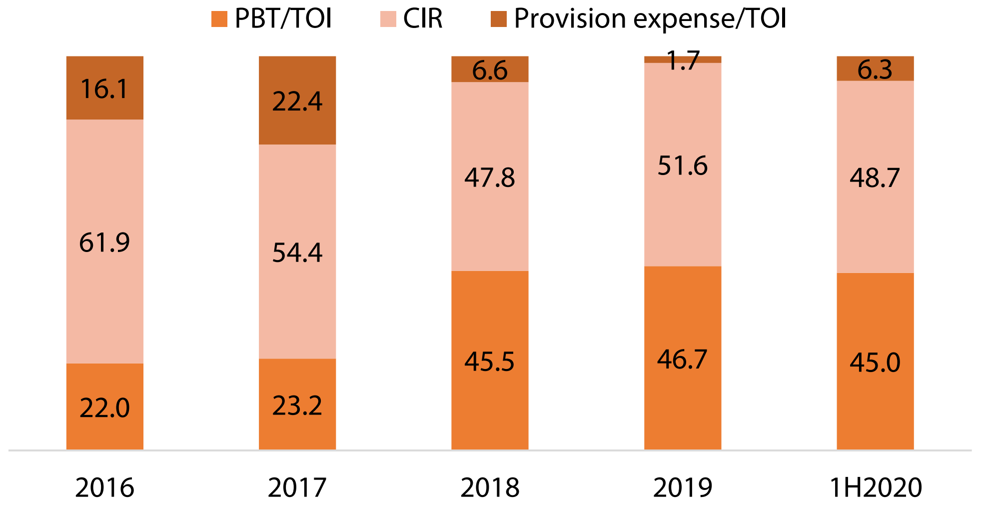
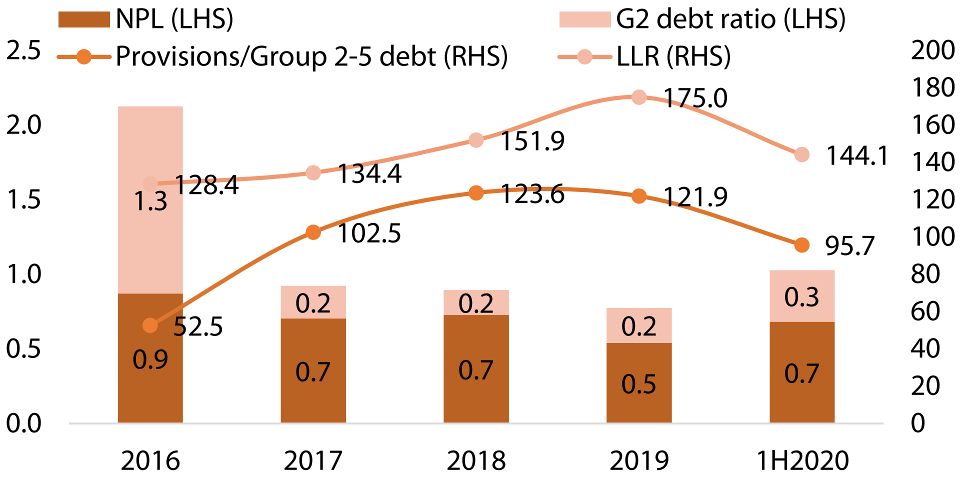


Figure 5: NPL ratio, G2 debt ratio, LLR, and Provision/G2-5 debt (%)



Source: ACB, Rong Viet Securities.

The deep decline of -83.3% YoY in income from other activities were compensated by a surge in FX income by 98.1% YoY to VND 296bn (USD 13mn) and securities trading gains from a loss to VND 662bn (USD 29mn). ACB secured a 14.0% YoY increase in 1H TOI.

CIR is unlikely to improve significantly in the medium term. Staff cost saw the strongest expansion (+35.0% YoY) as ACB booked provisions for staff bonus in advance in 1H. For the next quarters staff cost will decelerate, but the plan to accelerate investment in technology, including a new core banking system, should not allow CIR to improve significantly in the next three years. We hold the view that the 'digital transformation' could help ACB improve its efficiency and reduce CIR gradually to 45%.

Asset quality remains healthy.

- NPL was up by 14bps to 0.68%, so LLR dropped to 144%. Written-off debt was negligible. 1H provision cost surged by 457% YoY from a low base to VND 541bn (USD 24bn).
- Total restructured debt is VND 9Tn (USD 391mn, 3.2% of lending). ACB expects no more debt will need to be restructured, and is confident in its recovery ability. As such, the burden from provisions should not become significant.

Overall, we believe that the 2H outlook will be supported by (1) credit growth recovery, (2) collection of Cir. 01 restructuring debts, and especially (3) the dramatic expansion momentum of bancassurance fees, with downside risk being the impact of the second wave of Covid-19 which constraints recovery and the easing of credit costs.

Earnings growth should also be supported by income from the exclusive bancassurance agreement and the divestment in ACBS, as well as the collection of G6 legacy debt. We do not anticipate these income sources to be realized soon within 2020. The transfer to HSX expected by late 2020-early 2021 is also a short-term catalyst for the stock.

BID – CAPITAL CONSTRAINT REMAINS

INVESTMENT RATIONALE

The strategic placement is likely to improve BID's fundamentals and growth prospect, yet capital is still need to be strengthened.

- Competitive competency in retail/SME/FDI banking, digital banking and asset quality management is likely to improve with the involvement of Keb Hana (KHB).
- Upon the strategic placement to KHB, BID's capital strength is enhanced with Basel 2 CAR reaching 8.7% by YE2019. Yet this seems insufficient to allow a comfortable credit growth or relieve the bank from long-term bonds issuance. As such, NIM is still under pressure.
- BID is planning for a private placements of up to 8.5% of its capital starting in 2020 to improve capital adequacy. This has been approved at the 2020 AGM.

Provision pressure on earnings is expected to drop upon legacy bad debt clearance.

- BID is still on track to improve asset quality, especially legacy bad debt. It has set the plan to finish restructuring within 2020 as well as investing more resources on core banking and digital projects. BID fully provisioned its remaining VAMC debt by 1Q2020.
- On the other hand, we estimate that the provision burden will ease moderately in 2021, which is likely to boost earnings from next year on.

RISKS TO OUR CALL

- Challenge in expanding margins due to increasing competition in retail lending.
- The failure to raise capital from the private placement which constrains future credit growth.
- Unexpectedly high provision expenses during the epidemic or bad debt clean-up.
- A large one-off fee from an exclusive bancassurance contract/BIDV Metlife divestment

ACCUMULATE +10%

CMP (VND)	**38,100**
Target price (VND)	**42,000**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	6,615
Current Shares O/S (mn shares)	4,022
3M Avg. Volume (K)	1,221
3M Avg. Trading Value ($ mn)	2.1
Remaining foreign room (%)	12.3
52-week range ('000 VND)	29.5-55.8

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**44,483**	**48,121**	**46,037**	**52,279**
Growth (%)	*14.0*	*8.2*	*-4.3*	*13.6*
NPATMI (VND bn)	**7,358**	**8,368**	**7,805**	**10,170**
Growth (%)	*8.4*	*13.7*	*-6.7*	*30.3*
ROA (%)	0.6	0.6	0.5	0.6
ROE (%)	14.2	12.7	9.8	11.8
EPS (VND)	1,865	1,708	1,593	2,076
Book Value (VND)	15,957	19,307	20,465	22,299
Cash dividend (VND)	700	0	0	700
P/E (x) (*)	-	27.0	24.2	18.5
P/B (x) (*)	-	2.4	1.9	1.7

(*) Share price as of Aug 7th, 2020.

RONGVIET SECURITIES

Figure 1: Loan structure

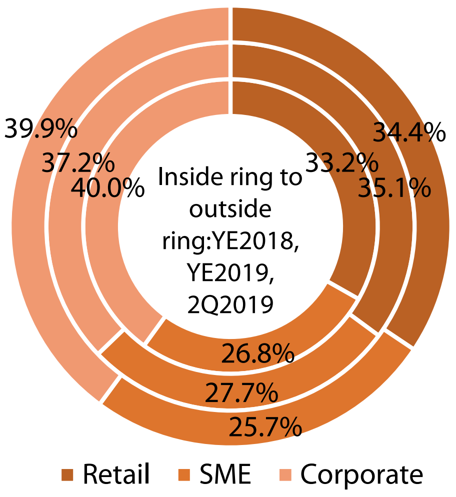


Figure 2: Retail loan structure

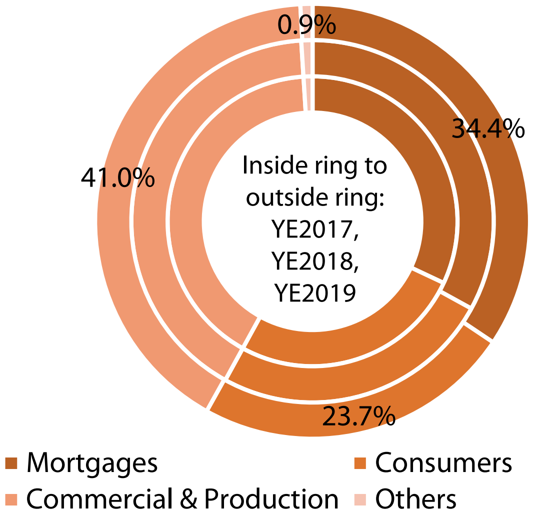
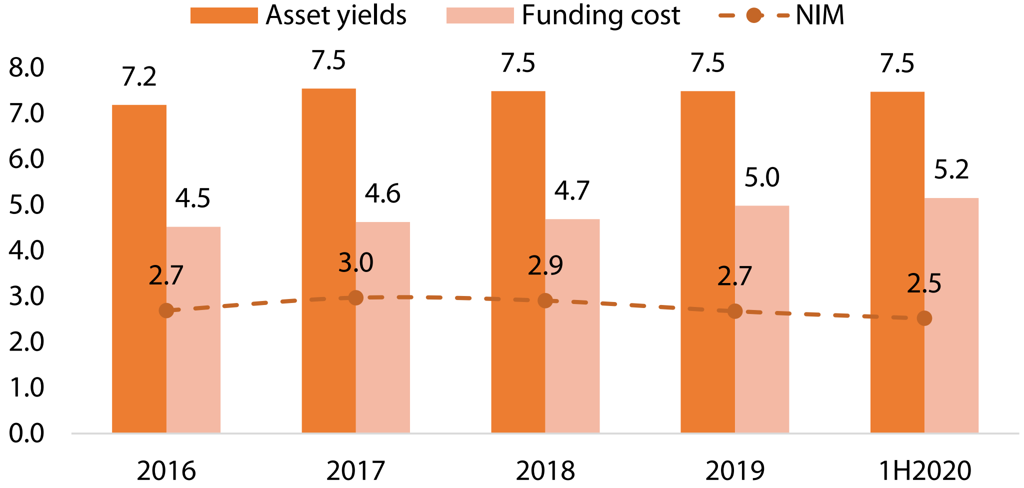


Figure 3: BID's asset yield, funding cost and NIM (% - TTM)



Source: BID, Rong Viet Securities

BID achieved the lowest-performing results under the epidemic amongst three listed state-owned banks. 1H2020 PBT of VND4,454tn (USD 194mn; -5.4% YoY), mainly due to NII contraction of -8.8% YoY despite a close control on OPEX (+3.2% YoY) and saving on provision costs (-5.6% YoY).

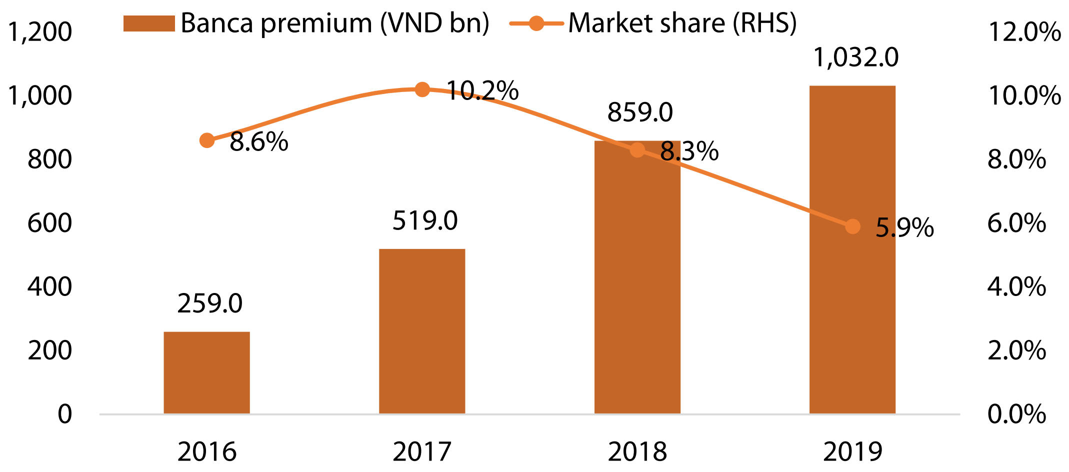
Uunsatisfactory result of NII (-8.8% YoY).

- In 2Q2020, customer loan growth recovered from -1.0 YTD in 1Q to +2.0% YTD while credit growth was a bit higher, at 2.3% YTD. We think this modest expansion was attributable to weak credit demand and capital regulatory constraints. BID reported Basel 2 CAR at 8.52% (separate) and 8.74% (consolidated) in 2019, slightly higher than required despite the recent strategic placement.
- NIM dropped from 2.7% in FY2019 to 2.5% - the lowest-ever level. This was mainly due to a 17-bp YTD increase in funding costs, caused by a 34.6% YTD rise in valuable papers to supplement Tier-2 capital, which canceled out any support from lower deposit rates during 1H.

We expect NII outlook to remain weak on the back of modest credit growth (expected to reach only 5% in 2020). NIM is very likely to go down as the pressure on funding costs could persist while asset yields are unlikely to expand upon a series of customer relief measures and the sub-optimal asset portfolio structure.

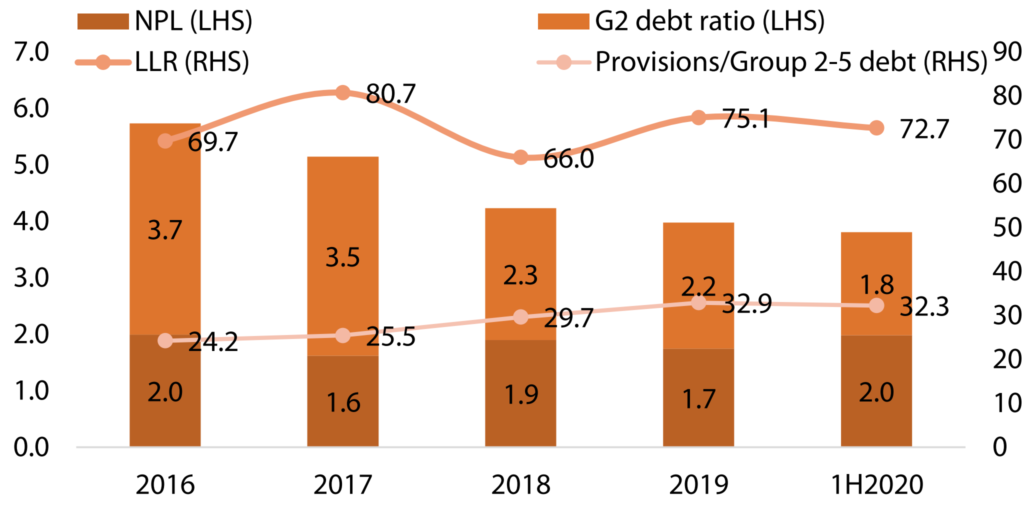
Service fees kept a moderate growth of 15.0% YoY from a low base in 1H2019. However, we hold the view that BID's fee streams are somehow lacking growth catalysts especially bancassurance income. This could improve should an exclusive bancassurance agreement is finalized and a new core banking along with digital projects are launch.

Figure 4: BID's banca premium and market share



Source: Vietnam Insurance Association, Rong Viet Securities

Figure 5: NPL ratio, G2 debt ratio, LLR, and Provision/G2-5 debt (%)



Source: BID, Rong Viet Securities

Non-NII is highlighted by securities gains. The stable YoY growth in fee income and FX income (+13.3% YoY) compensated for a -28.8% YoY decline in recovery income. A spectacular reversal in securities gains (from a loss of >VND 1Tn or USD 47mn) partly offset the NII downturn, leading to a -2.8% YoY decline in TOI.

Saving on OPEX (+3.0%) and provision costs (-5.6% YoY).

- OPEX moved up by 3.2% YoY, as such, CIR 1H2020 reached 33.8% (+2.0ppt YoY), still amongst the most efficient banks under our watch list. However, it should be noted that 1H OPEX has yet to include the cost of core banking upgrades (and possibly other digital banking projects) that the bank is planning. As such, we expect that OPEX could expand considerably in the near future to reflect this investment.
- Asset quality metrics saw some improvement, except for the NPL ratio which rose to 2.0% from 1.7% in YE2019 and 1Q2020. The G2 ratio improved significantly to 1.8% from 2.3% at YE2019. Annualized write-off/gross loans was 0.8%, easing vs. 2.9% in FY2019 and 1.3% in 1H2019. Annualized credit cost/gross loans stayed at 1.8% vs 3.6% in FY2019 and 2.0% in 1H2019. LLR thickened to 80.0% (+7.3ppt YoY). BID cleared all VAMC balance in Q1 2020.

Under Covid-19, another lackluster year should be expected. BID is still on track to improve asset quality, especially legacy bad debt. It has set the plan to finish restructuring within 2020 as well as investing more resources on core banking and digital projects. On the other hand, we estimate that the provision burden would ease moderately in 2021, which is likely to facilitate an earnings recovery from next year on. The mid-term outlook should also be supported by the involvement of the strategic partner.

VCB – POSITIVE OUTLOOK IS STILL INTACT

INVESTMENT RATIONALE

Healthy asset quality and liquidity

- VCB has successfully balanced its asset book restructuring and asset quality control. It is maintaining a low and stable NPL ratio of <1% coupled with strong LLR of >200%.
- The bank also has healthy liquidity with relatively low LDR (of <80%), well-controlled short-term capital financing and a medium/long-term loans ratio (of <30%). It has a substantial portion of government bonds as a percent of total asset (8% in 2Q2020).

NIM has room to expand further, though likely to be limited

- The strong active expansion into retail lending and financial institution bonds allowed NIM improvement. VCB targets to raise the portion of retail lending from 51% to 55% in the next 2-3 years.
- CASA ratio stayed at nearly 30%, at 3rd place within our watch list, which guarantees a lower funding cost than peers' and stronger immunity to funding pressure.

Potential for high service income growth

- VCB has a potential to emerge as a leading bancasurrance distributor owing to its reputation and huge customer base, upon the exclusive banca agreement with FWD. Service fee is likely to expand by >20%/year in the next five years.
- VCB has finished upgrading its core banking and will continue to push towards digital, which is expected to help improve efficiency and offer better services to retail clients.

The bank plans to make a private placement of up to 6.5% of its charter capital.

RISKS TO OUR CALL

- Downside risks include a prolonged impact from Covid-19 on asset quality and the failure to raise capital via a private placement which would constraint credit growth.
- Upside risks include a larger bancassurance upfront-fee than estimated and the ETFs cash flow fluctuation which affects market price.

ACCUMULATE +9%

CMP (VND)	**82,900**
Target price (VND)	**90,000**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	13,272
Current Shares O/S (mn shares)	3,709
3M Avg. Volume (K)	1,168
3M Avg. Trading Value ($ mn)	4.1
Remaining foreign room (%)	6.3
52-week range ('000 VND)	56.6-95

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**39,278**	**45,730**	**52,287**	**62,994**
Growth (%)	*33.6*	*16.4*	*14.3*	*20.5*
NPATMI (VND bn)	**14,606**	**18,511**	**20,874**	**25,758**
Growth (%)	*60.7*	*26.7*	*12.8*	*23.4*
ROA (%)	1.4	1.6	1.7	1.9
ROE (%)	25.5	25.9	22.9	22.8
EPS (VND)	3,666	4,580	5,165	6,373
Book Value (VND)	17,283	21,808	27,414	33,559
Cash dividend (VND)	800	800	0	800
P/E (x) (*)	-	19.7	14.6	11.9
P/B (x) (*)	-	4.1	2.8	2.3

(*) Share price as of Aug 7th, 2020.

VCB – Temporary earnings reduction in 1H, but outlook remains positive

Figure 1: VCB's lending structure (%)

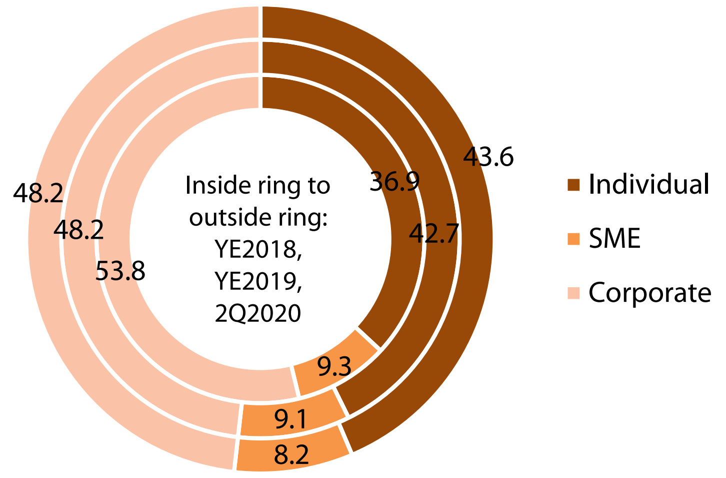
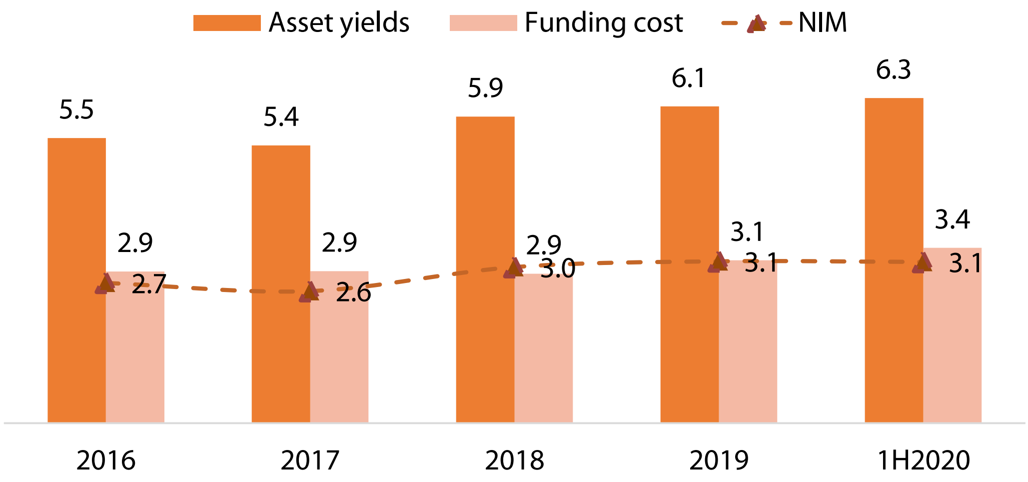


Figure 2: VCB's asset yields, funding cost and NIM (% - TTM)



Source: VCB, Rong Viet Securities

VCB achieved mostly flat income and earnings vs. 1H 2019 with 1H2020 TOI and PBT of respectively VND 23 Tn (USD 1bn) and VND 11.0 Tn (USD 478bn). The bank has not provided 2020 PBT guidance, citing macro and policy risks.

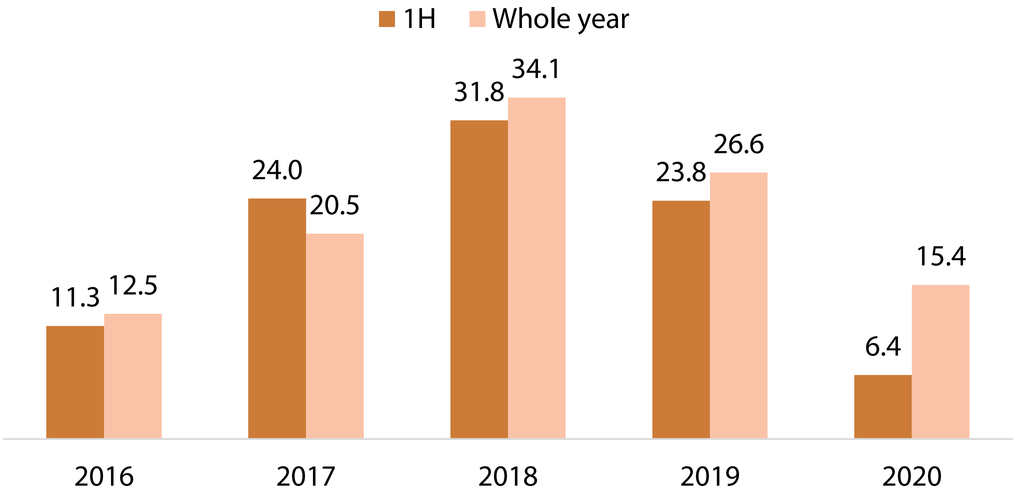
NII slowed down due to lower credit growth and NIM compression.

- Credit expanded by 4.9% YTD (vs. 9.9% in 1H2019). Despite the slowdown, lending was still positive versus a stagnation in other state-owned banks.
- Loan growth was helped by retail lending (+7.5% YTD, 43.6% of total lending), especially mortgage lending (+12% YTD, 58% of retail lending). This was sufficient to override the impact of lending rate forbearances on asset yields. However it was still outweighed by a rise in funding costs (likely due to CASA drop of 2.0ppt YTD).
- Overall, NIM decreased slightly to 3.0%, flattening NII vs. 1H2019.

We expect the bank to gain back its credit expansion momentum.

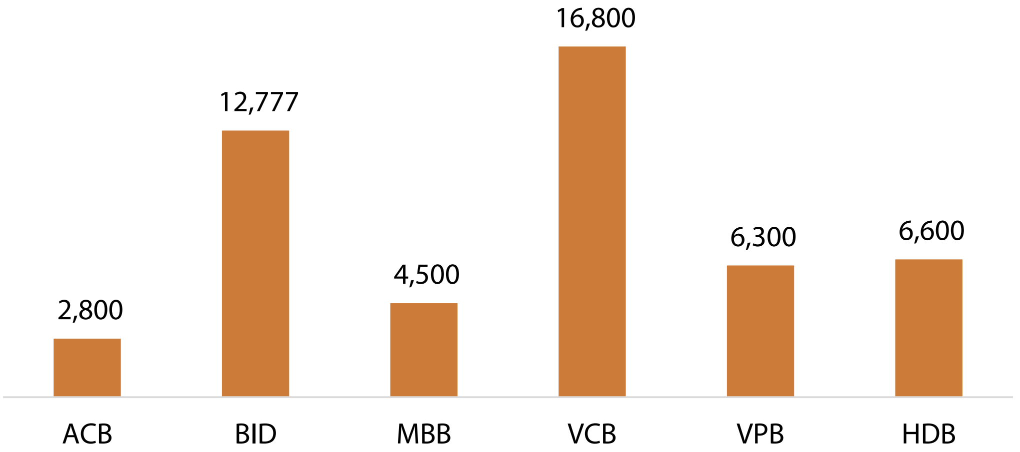
- We expect credit growth to recover in 2H, though the final growth in 2020 should be lower than that in 2019. We keep our 2020 credit growth forecast at 13% YoY (3ppt higher than current credit quota).
- As a state-owned bank, VCB should see its NIM impacted more strongly by Covid-19 than private counterparts. Yet we expect that the downside would not be significant owing to the bank's ability to expand asset yields.
- We forecast 2020 NIM to decline by 4bps. This would allow a NII growth to bounce back to 10.6% YoY (much lower than the 21.7% growth in 2019).
- In the longer term, we maintain our view that VCB still has ample room to improve NIM and expand NII based on a low-cost funding advantage, the transition towards retail banking as well as a more effective allocation of interest earning assets.

Figure 3: VCB's service income growth (% YoY)



Source: VCB, Rong Viet Securities. 2020 is a forecast number.

Figure 4: Estimated customer base at YE2019 (thousands)



Source: VCB, Rong Viet Securities

Service income appeared to be impacted temporarily by the virus situation, but long-term growth potential remains intact.

- Service income only expanded modestly by 6.4% YoY in 1H2020, against the consistent growth of at least 20% YoY in 1H over the last three years.
- The exclusive bancassurance contract with FWD was kick started in 2Q2020. In the short term, the demand for bancassurance is likely to be impacted (yet not too severe) by the less favorable economic conditions. Banca fees should be reflected more clearly in the service income from 2021 on.
- We forecast a 15.4% YoY growth in the 2020 service income on the back of flat settlement income and the pick up of bancassurance fees in 2H. This should be sufficient to lead the overall growth in the context of slowing down NII and other income whilst soaring provision expenses.
- Longer-term, we still expect VCB to emerge as a top bancassurance distributor owing to its reputation and having the largest customer base amongst listed banks. We expect service fees to grow at a CAGR of 26.5%/year and contribute ~12% to total income by 2022.

The remaining activities saw a slight reduction of -5.8% YoY in 1H2020. Income from other activities was reduced by -31.5% YoY and trading securities incurred a loss of -21bn, while dividend income doubled and FX income rose by 18.5% YoY.

We expect that in 2020, VCB will start to recognize a tranche of its upfront fees from the FWD agreement, which is likely to spread evenly over a period of several years. This will help it to secure a desirable overall earnings growth and moderate the Covid-19 impact on 2020's performance.

Figure 5: VCB's total and customer loan provision growth (% YoY)

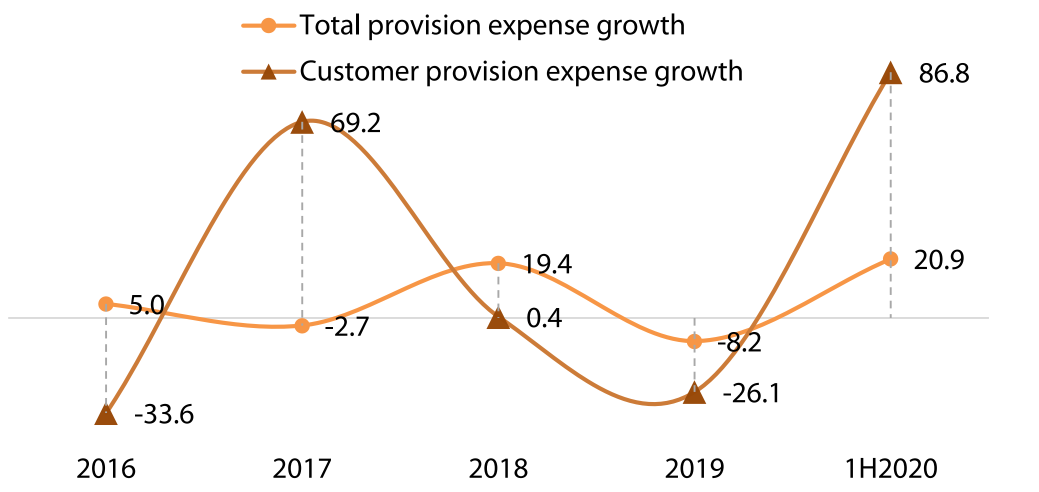
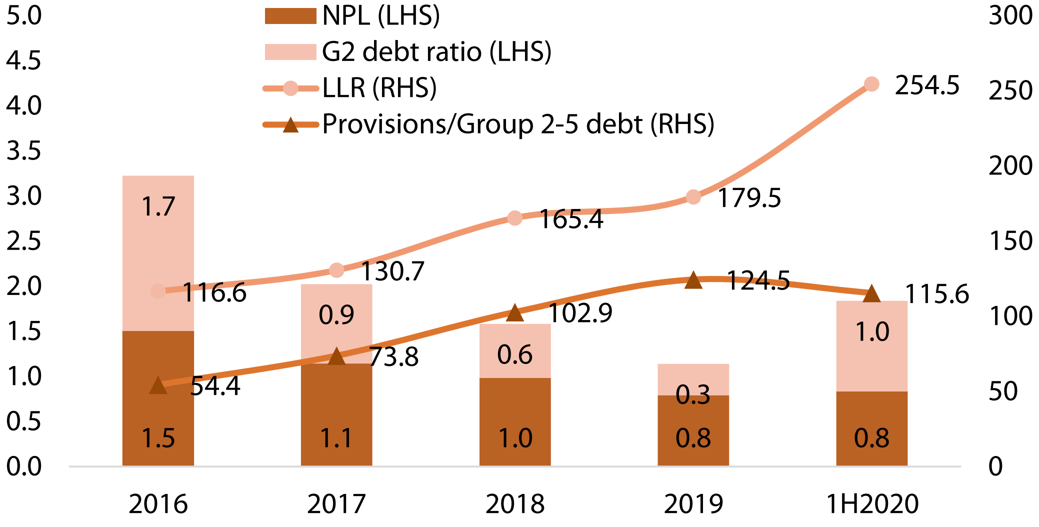


Figure 6: NPL ratio, G2 debt ratio, LLR, and Provision/G2-5 debt (%)



Source: VCB, Rong Viet Securities

CIR was normalized to 34.9% in 1H owing to the bank's efforts to control operating costs with all expense items mostly unchanged. 2020 CIR is expected to stay at 35.8% (-1.5ppt YoY).

Asset quality has already been impacted by Covid-19.

- While the bank did not write off any debts in 1H, the NPL ratio remained mostly unchanged at 0.8% and LLR improved 75.0 ppt since YE2019 to the highest ever level of >250%. By end of June, VCB estimated that the portion of the Covid-impacted debt extension requirements should be as low as 3.1% of total loans.
- The impact of Covid-19 might take some time to be reflected fully on NPLs, especially when the Group 2 ratio was on a constant uptrend (from 0.33% to 0.67% at 1Q and 1.0% at 2Q), pushing the ratio of provision/Group 2-5 debt down to 115.6% (-8.9 ppt since YE2019).

Yet we think VCB would be able to swing back from the pandemic impact.

- To prepare for probable bad debts, VCB booked nearly 5.6Tn of specific provisions in 1Q (+140% YoY). This caused a rise of 86.7% YoY in customer loan provision expenses, quite in line with the bank's traditionally prudent approach.
- Nevertheless, we expect total provision charges not to increased significantly owing to the moderation impact of VND 2 Tn provision reversal for lending to other banks.

Overall, we expect VCB's growth to recover quickly upon the virus containment due to its conservative advance booking of provisions. Longer term, we believe that VCB, with its sector-leading position, solid balance sheet and exceptional provision buffers, will be able to secure a positive earnings outlook.

CTG – SAVING COSTS TO BOOST EARNINGS GROWTH

INVESTMENT RATIONALE

Asset quality has been improving following the effort to clear VAMC bond.

- After one and a half year it sold its bad debt to VAMC, CTG bought back more than 50% (out of VND 13.4Tn VAMC outstanding bond value) and made provision for 50% of the remaining value. We believe that CTG will mostly clear all of its burden with VAMC by the end of 2020.
- The rise of the NPL ratio in 1H 2020 has reduced LLR to lower than 100% (which CTG reached by YE2019). We, however, believe that LLR would bounce back in 2021 as the bank has fully bought back VAMC bonds and pay more attention on managing the quality of on-balance sheet debt.

Credit growth to slow down in the deleveraging process.

- By end-June 2020, CTG's CAR (Basel II) is 8.5%, a little bit higher than the required ratio (8%). In the short-term, we find it difficult for the bank to raise its Tier 1 capital given that the State may not reduce its ownership in State-owned banks to 51% before 2022.
- In addition, its LDR (Circular 22) is 87%, which is higher than the limit ratio of 85%. The bank will manage to reduce the ratio to 85% by end 2021.
- Due to the limited of capital adequacy as well as liquidity ratio, there is some small room for CTG's credit growth. The bank achieved <10% credit growth in 2017/2018 and targets 4.0-8.5% in 2020. We expect CTG's customer lending growth this year will be at 5% YoY.

Attractive price-to-book multiple and ample room for foreigners. CTG is trading at a forward 2020 and 2021 PBR of 1.0x and 0.8x respectively, looking attractive compared to its peers as well as its ability to improve ROE in upcoming years.

RISK TO OUR CALL

- Given its high weight in the VN30 index, CTG could attract cash flow from the ETFs, causing market price fluctuation which is unmatched to its fundamentals.

ACCUMULATE +3%

CMP (VND)	**22,750**
Target price (VND)	**23,500**
Cash dividend in 12 months	*0*

STOCK INFO	
Sector	Banks
Market Cap ($ mn)	3,656
Current Shares O/S (mn shares)	3,723
3M Avg. Volume (K)	5,323
3M Avg. Trading Value ($ mn)	5.2
Remaining foreign room (%)	0.0
52-week range ('000 VND)	16.6-28.5

FORECAST	2018A	2019A	2020F	2021F
Revenue (VND bn)	**28,738**	**40,519**	**43,052**	**47,151**
Growth (%)	*-11.9*	*41.0*	*6.3*	*9.5*
NPATMI (VND bn)	**5,414**	**9,461**	**12,049**	**17,019**
Growth (%)	*-27.2*	*74.8*	*27.3*	*41.3*
ROA (%)	0.5	0.8	0.9	1.2
ROE (%)	8.3	13.1	14.6	17.7
EPS (VND)	1,004	2,138	2,723	3,847
Book Value (VND)	18,037	20,625	23,473	28,044
Cash dividend (VND)	0	0	0	0
P/E (x) (*)	-	19.2	8.2	5.8
P/B (x) (*)	-	1.0	1.0	0.8

(*) Share price as of Aug 7th, 2020.

CTG – Low cost drove earnings growth in 1H2020

Figure 1: CTG's lending structure (%)

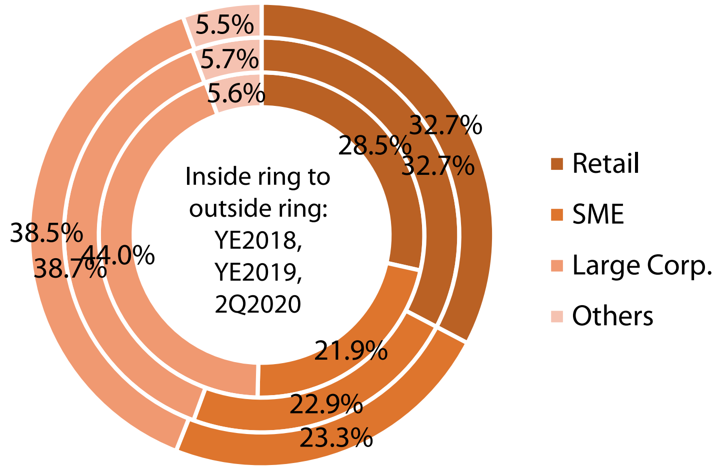
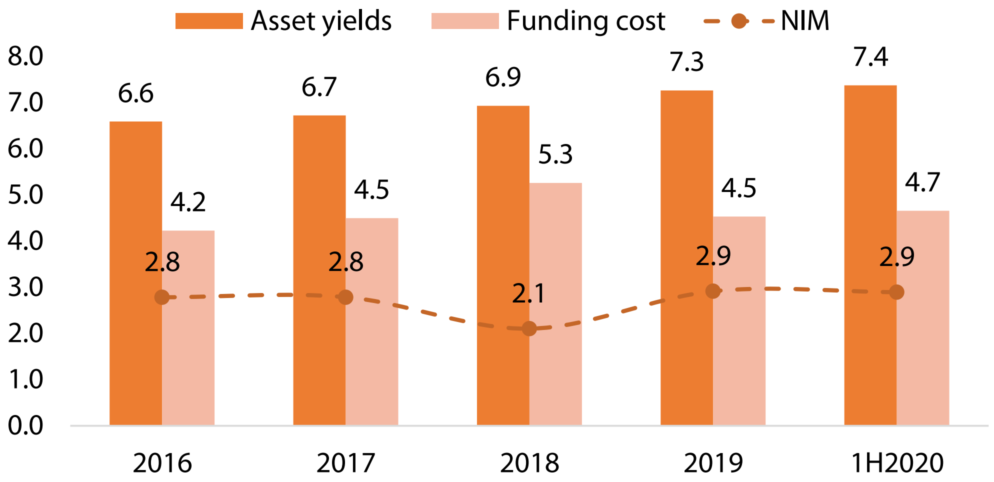


Figure 2: CTG's asset yield, funding cost and NIM (% - TTM)



Source: CTG, Rong Viet Securities

In 1H 2020, CTG reported its TOI and PBT growth respectively at 5% and 40% YoY. The high growth of PBT was mostly due to lower provision expenses (-12% YoY). CIR was also reduced to 31.9% in 1H 2020, from 35.0% in 1H2019.

Covid-19 heavily affected interest and services income growth.

Being a state-owned banks, CTG is impacted by Covid-19 much more than its private counterparts, in terms of lending interest rates as well as service fees.

- In 1H2020, though deposits grew at 2.3% YTD, mostly flat compared to the growth in 1H2019, gross loan showed a growth of only 0.7% YTD. Besides disbursement to manufacturing and priority sectors, loan growth was also driven by SME and retail, which accounted for 56% of total loan outstanding by the end of June.
- The bank expect credit to grow by 4–8% in 2020. In our point of view, we believe credit growth to recover in 2H yet the final growth in 2020 should be lower than that in 2019. As such, we estimate CTG's gross loan will increase 5% YoY for the whole year.
- Though CTG has been trying to restructure its funding structure as well as boost CASA, we think those may not be enough to keep NIM stable. For 2020, we forecast NIM to drop by 14bps to 2.8%. We see limited room for CTG to improve NIM in the upcoming years.
- For 2020, NII is likely to grow by 2% YoY and account for c. 79% of TOI, much lower than it was in 2019.
- Services income expanded by c. 11% YoY in 1H2020, against the high growth of more than 30% YoY in 1H during the last two years. Settlement fees will remain a key contributor, which accounts for c. 50% of total income. Banca fees contributed 2-3% in service income.
- We forecast a 12% YoY growth in 2020 service income on the back of settlement income and bancassurance fees recovery in 2H.

Figure 3: CTG's TOI components (% YoY)

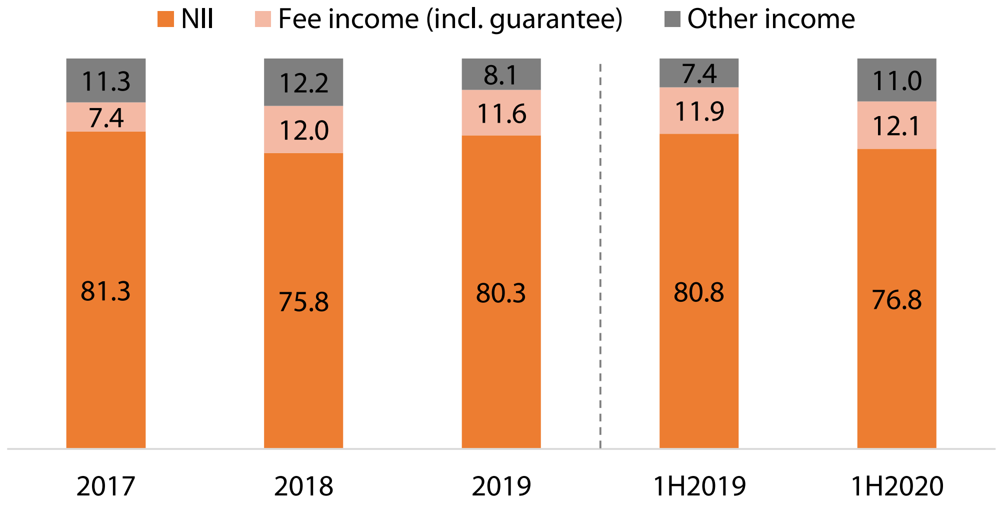
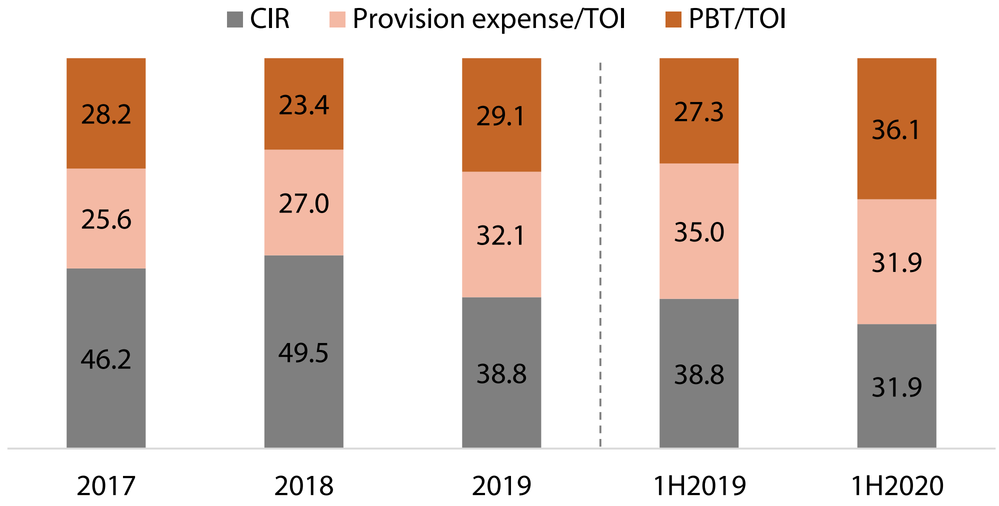


Figure 4: CTG's expense and PBT contribution to TOI (%)



Source: CTG, Rong Viet Securities

Activities excluding lending and services grew by more than 48% YoY in 1H2020.

- Favorable foreign exchange rate and decreasing government bond yields gave CTG a chance to boost FX trading income (c. +32% YoY) as well as realizing earnings from Government bonds (trading securities gains: +186% YoY). Provision reversal from corporate bonds and bad debt collection brought positive income to investment securities (1H 2019: reported loss) and a 36% YoY increase of other income.
- We believe that FX trading will continue to be a driver for these activities in the 2H 2020, with a growth of 31% YoY for the full year. Other activities, meanwhile, will grow at a lower pace than in 1H. Government bond yields may not go further from this low level by end-June, resulting in income from trading securities to grow 20% YoY for the whole year.
- Provision reversal from corporate bonds should be a one-off income, yet we do not expect income from this activity in the 2H. Income from other activities (mostly contributed by bad debt collection) usually fall in the last quarter of the year and is expect to grow 2.5% YoY (2019: -20% YoY).
- **To sum up**, we estimate 2020 TOI to grow by 6.3% YoY driven by non-NII growth.

Figure 5: CTG's outstanding VAMC balance (VND bn)

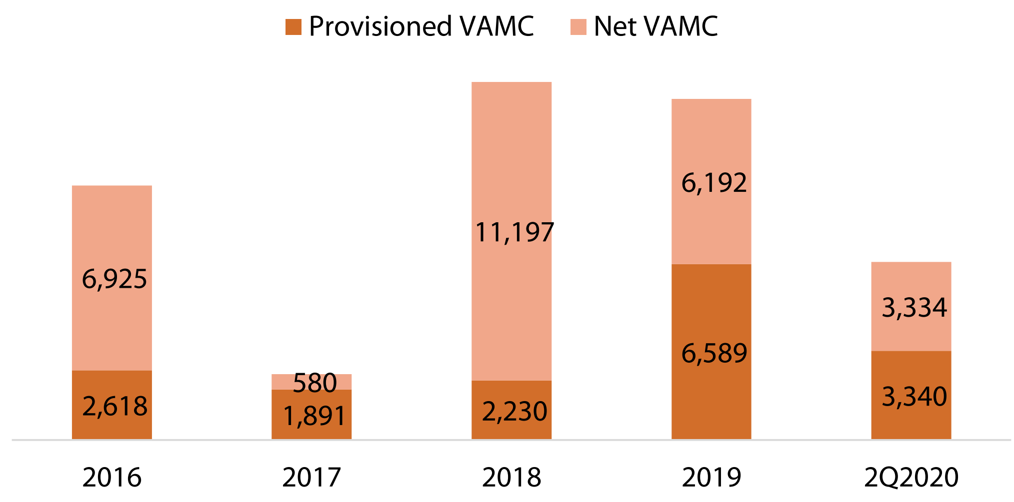
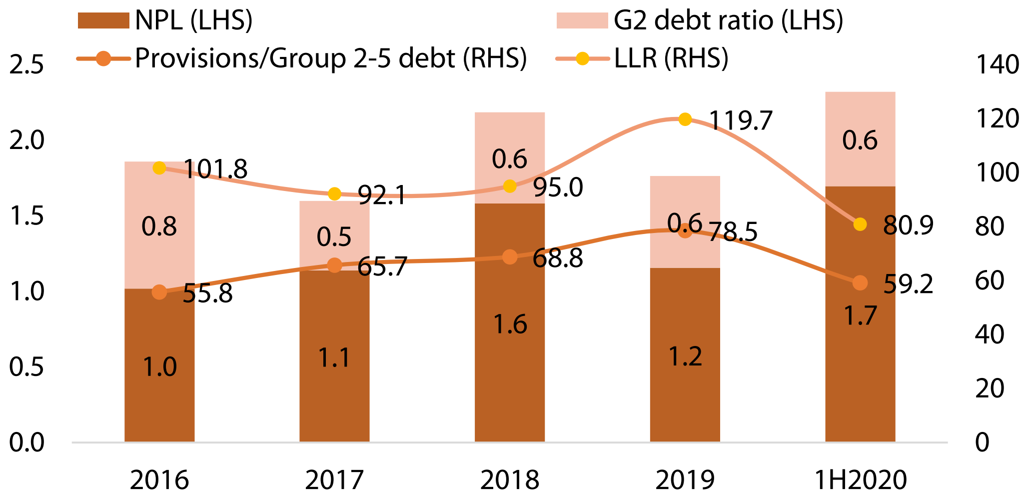


Figure 6: NPL, LLR and Provisions/Group 2-5 debt ratio (%)



Source: CTG, Rong Viet Securities

Operating expenses slightly decreased (-4% YoY) in 1H, mostly due to the decrease of staff expenses, as an effort to control costs. Yet CIR continued to improve to 32% (1H 2019: 35%) as TOI kept growing.

Aggressively focusing on clearing VAMC bond, yet should keep an eye on potential on-balance sheet bad debt.

- CTG sold VND 13.4Tn more of its bad debt to VAMC in 2018. After one and a half year, the bank bought back 50% of the total outstanding amount at that time, and made 50% provisions for the remaining amount. We expect CTG to fully clear its burden with VAMC by the end of this year. The bank will not sell more bad debt to VAMC unless its NPL ratio rises to over 3%.
- Regarding on-balance sheet bad debt, in 1H, CTG wrote off approximately VND 4 Tn of it yet the NPL ratio still rose to 1.7% and the NPL formation rate increased to 1% (1H 2019: 0.3%). Group 3 and group 4 loan rallied, 247% and 84% respectively. The bank targets to keep its NPL ratio at lower than 2% this year.
- For 2020, we believe that CTG will focus on clearing VAMC bond first. As such, its impairment charges to on-balance sheet bad debts will slightly decrease compared to last year. The LLR is expected to drop to about 89% (2019: 120%), before picking up in 2021, after CTG fully bought back VAMC bond.

Though TOI is forecasted to grow by merely 6.3% YoY, lower CIR (estimated at 35% vs c. 39% in 2019) and flat impairment charges should boost the whole year PBT growth to 27.3% YoY.

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