RONG VIET SECURITIES

# BANKING INDUSTRY: A More Sustainable Growth Underpins Stable Outlook

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# Credit and earnings growth slowed down

**Figure 1: Sector credit and mobilization growth (%)**

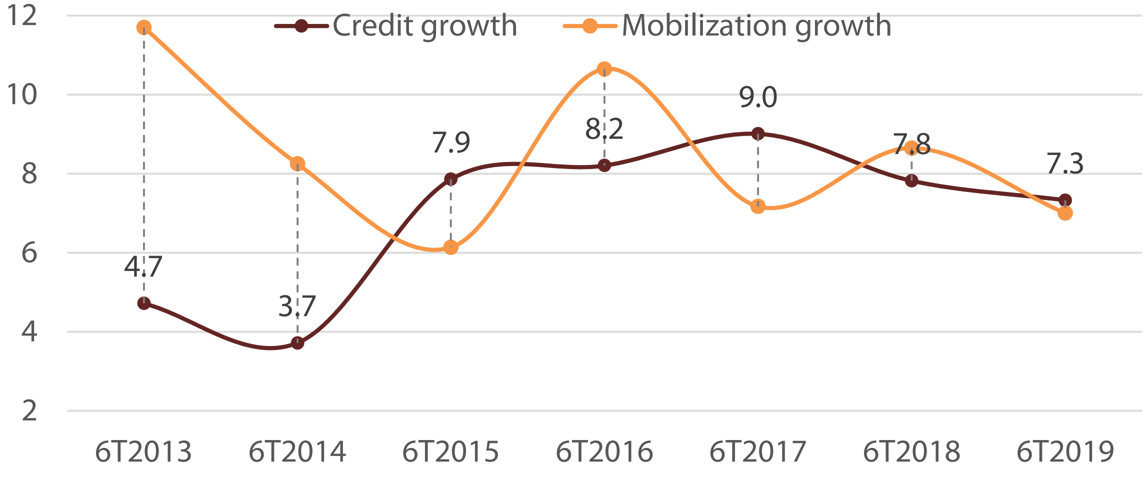



**Figure 2: Credit growth in some listed banks (% YTD)**

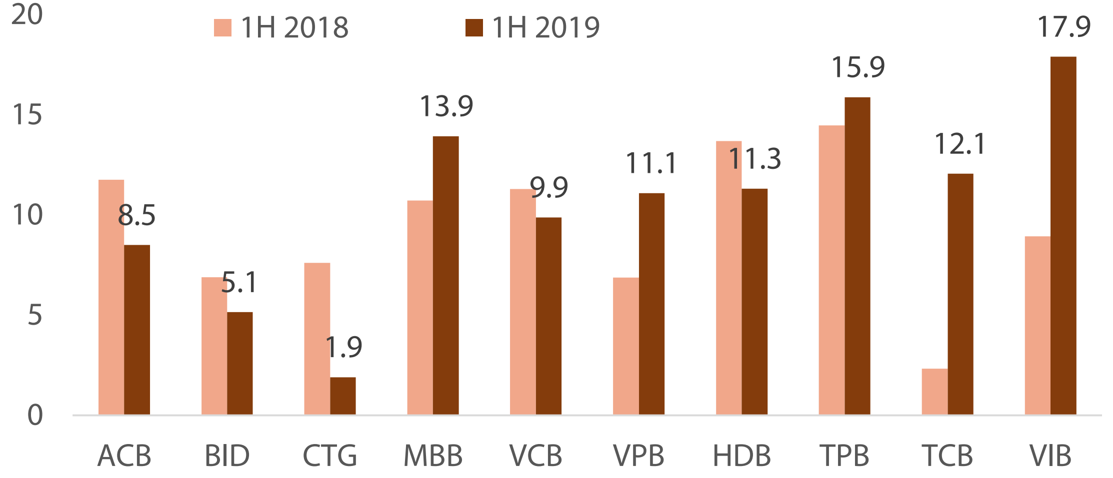
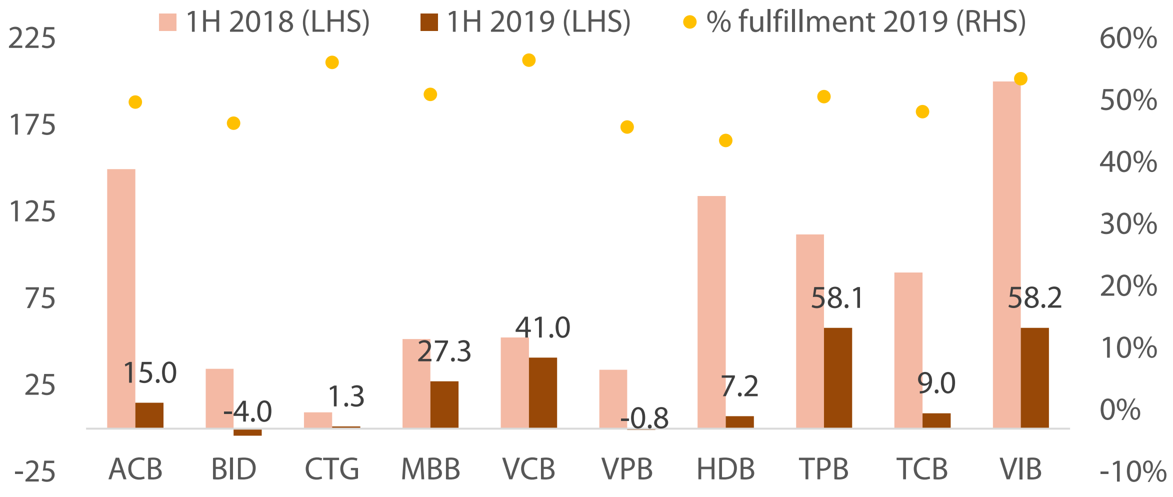



**Figure 3: YoY PBT growth of some listed banks (%)**




*Source: Banks' FS, Rong Viet Securities*

- Sector credit growth in 1H 2019 reached 7.33%, slightly lower than that in the same period last year (7.8%)
- Banks approved to comply with Circular 41 are assigned higher credit limits (commonly at 15-17%), while unapproved banks have lower credit growth limits
- YoY earnings growth cooled down but is still largely in line with most banks' expectation

## Net interest margin movements to diverge

**Room to expand NIM becomes limited due to:** Pressure on mid/long term fund mobilization; High proportion of retail lending on lending portfolio and increasing competition in this segment; High LDR which is close to threshold at most banks; Challenges in consumer finance sector.

**NIM movements are likely to diverge between banks as lending/mobilization situation and liquidity pressure differs:**

- Continue to increase positively in banks such as VCB, MBB, ACB, VIB, TPB (those pushing towards retail loans). In particular, MBB, VCB and TCB (with high CASA ratio) would be better immune to rising mobilization pressure
- Move sideway or down slightly in HDB and VPB (due to the impact of the consumer finance segment)
- Move down to a higher extent at BID due to current funding pressure and slow expansion into retail lending
- In a special case, CTG's NIM is forecast to increase as the bank expects no more credit costs to be booked under net interest income

**Figure 4: NIM of some listed banks (%)**

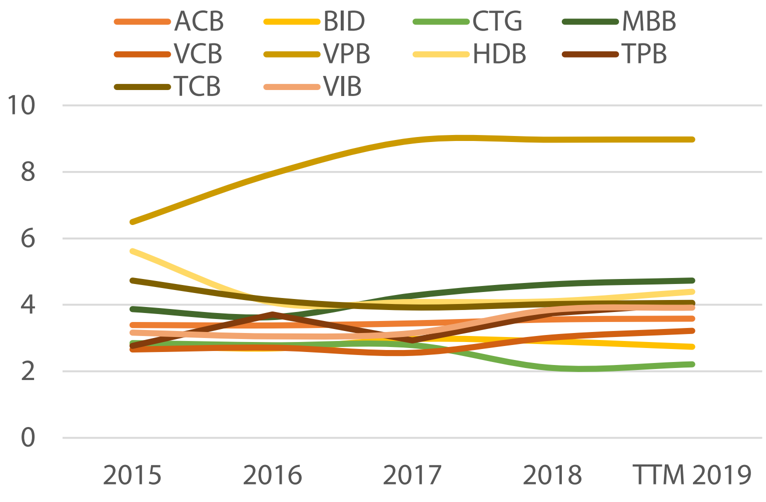



**Figure 5: LDR of some listed banks (%)**

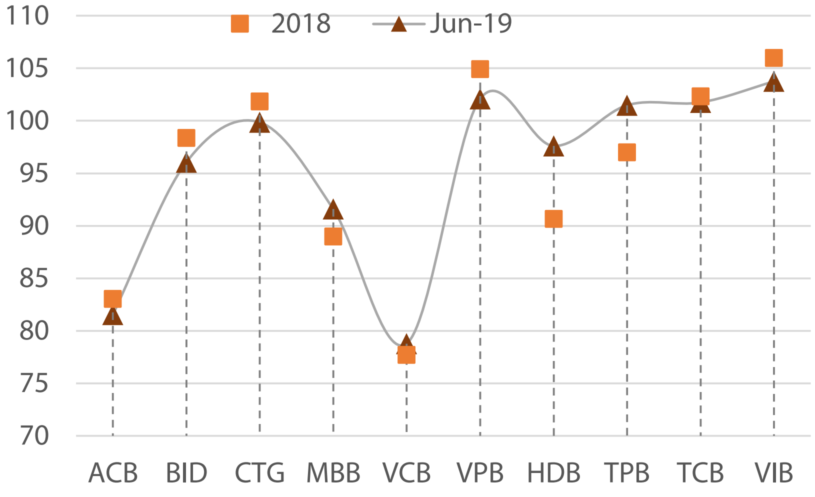
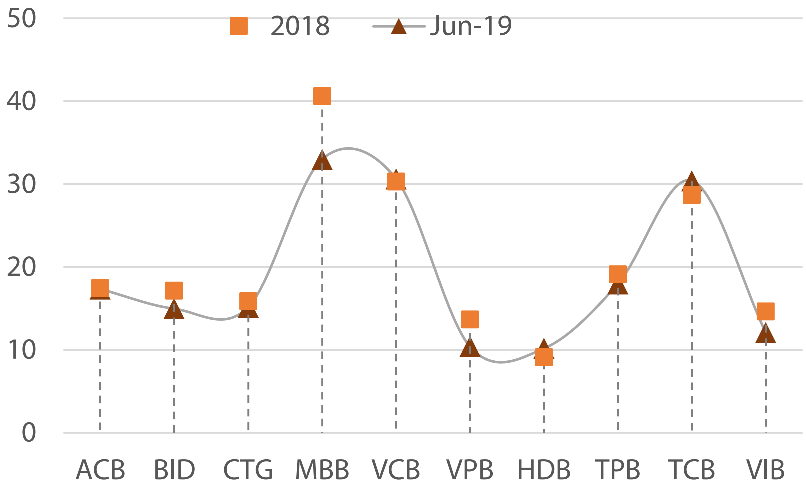



**Figure 6: CASA ratio of some listed banks (%)**




*Source: Banks' FS, Rong Viet Securities.*

## Growth is led by both net interest income and service fee

**A more diverse and sustainable income structure**

- In 1H 2019, total operating income of 10 banks under our watch list reached VND 123Tn (+14.8% YoY).
- The proportion of both interest income and service income continued to expand. In which, interest income increased by 17.3% YoY and contributed ~78% of operating income (1H 2018: 76.2%) while service income increased by 47.2% YoY and contributed 10.7% of operating income (1H 2018: 8.3%).
- Income structure becomes more sustainable when banks boost service activities including card, insurance, payment, guarantee and bond services. For these 10 banks, settlement income and insurance income constitute major parts of service income in 2018 (38.4% and 25.2%, respectively).

**Figure 7: Interest income growth (% YoY)**

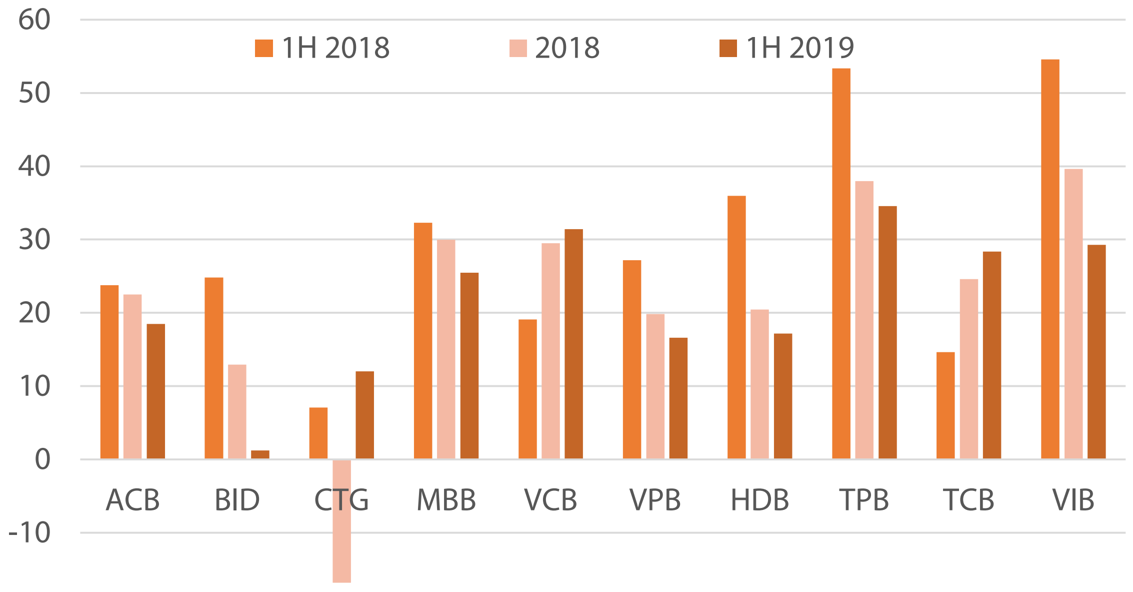
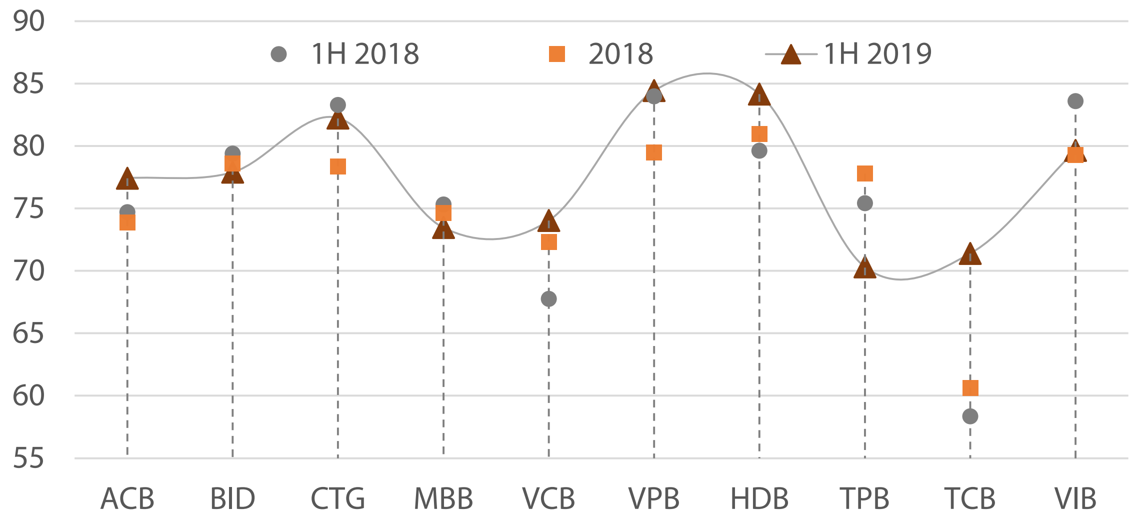
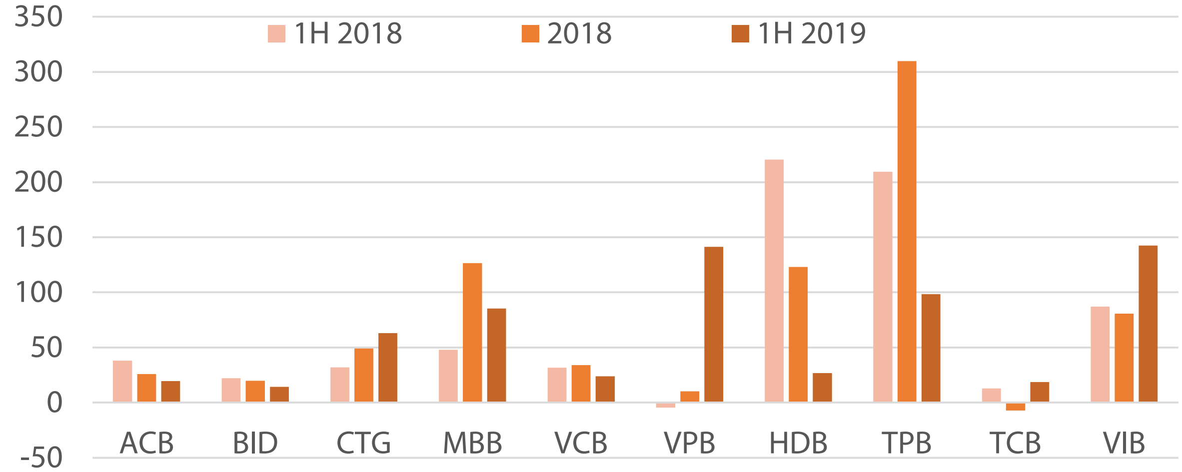


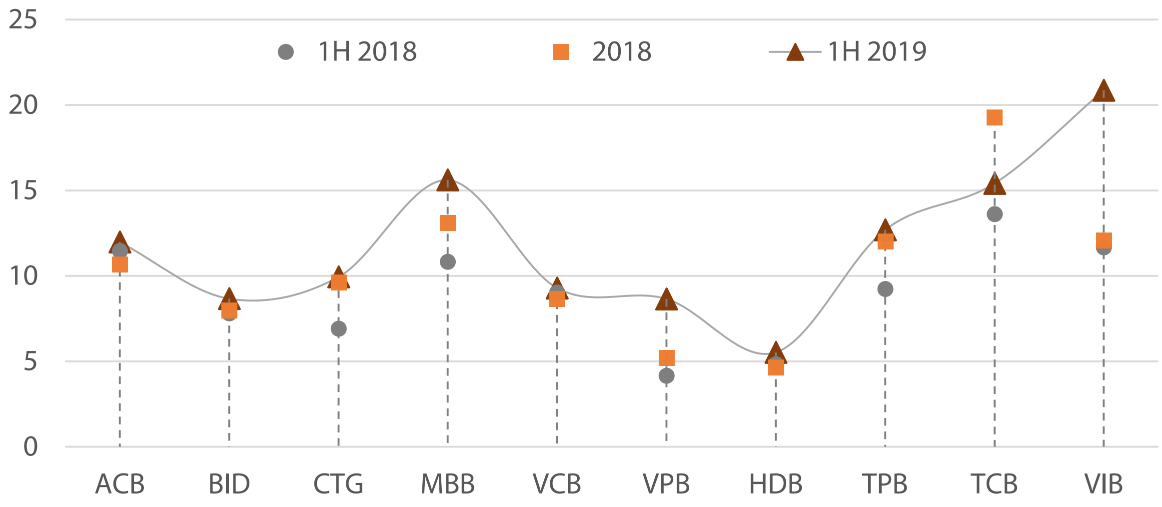

**Figure 8: Interest income contribution to TOI (%)**




*Source: Banks' FS, Rong Viet Securities.*

## Growth is led by both net interest income and service fee




*Source: Banks' FS, Rong Viet Securities.*

**Large potential for service income growth**

- Settlement income is expected to grow strongly as banks focus on retail segment and invest on digital transformation
- Bancassurance will continue to serve as the main growth driver of service income:
    - o In 2018, the new insurance premium via bancassurance channel accounted for 20% of total new premium in Vietnam, a lower rate than peers'
    - o MBB, VPB, TPB and VIB are expected to boast highest growth of insurance commission income
    - o Banks available for an exclusive insurance partnership (VCB, BID and ACB) are able to earn high one-off fee for such agreements
- The proportion of card service fee and bond service fee are expected to gain more significant contribution under the retail banking strategy and the escalation of corporate bond market

# Provision pressure is significant at banks with VAMC debts and high new NPL formation

**Asset quality seemed to improve in certain banks**

- NPL ratio and provision coverage bettered off or unchanged at most banks. Sector-wide NPL ratio is estimated at 1.9% by June 2019 (same with that by end of 2018), in line with SBV's target to keep it at under 2%.
- In 1H 2019, more than VND 38Tn of debts has been handled by VAMC. Thus, the accumulated debts handled reached 190Tn, equivalent to 56% of the total VAMC debts sold by banks so far.

**The provisioning burden is likely to differ between banks**

- Banks with good asset quality (ACB, VCB, TCB) would see lower provision expense growth and less significant erosion effect on earnings
- Provision expense is expected to increase rapidly in banks with (1) outstanding balance of VAMC (BID, CTG, VPB, TPB, HDB) or (2) an increasing trend of NPL formation such as TPB (NPL ratio up from 1.1% in 2018 to 1.5%) and MBB (ratio of write-off debts up from 1.1% in 2018 to 1.8% TTM 2019)

**Figure 11: NPL ratio and provision coverage (%)**

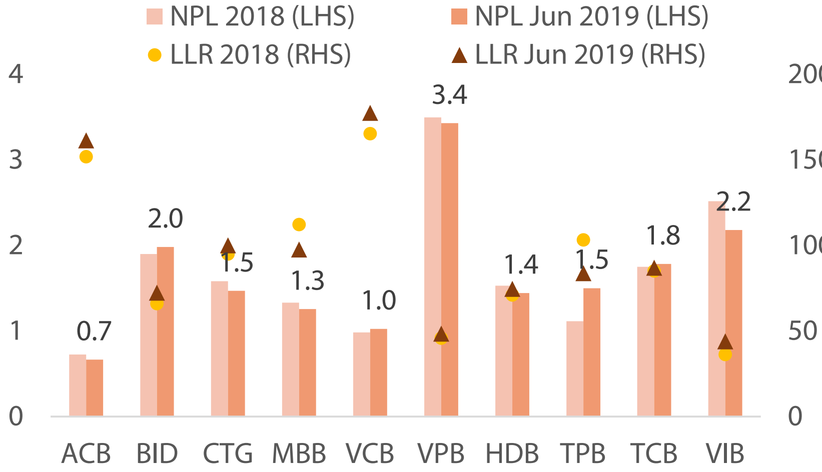



**Figure 12: VAMC handling progress (VNDBn)**

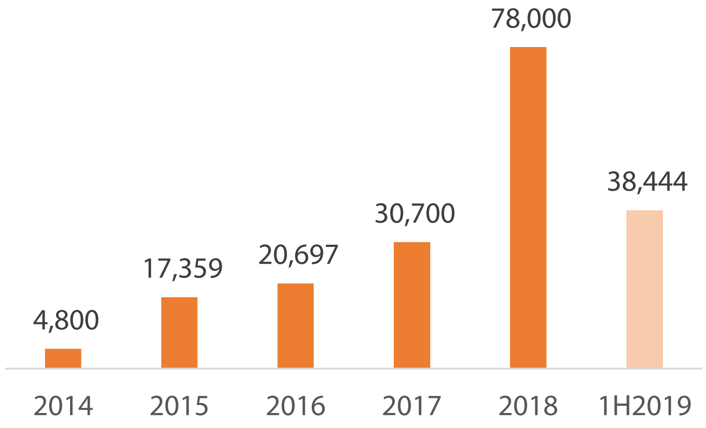
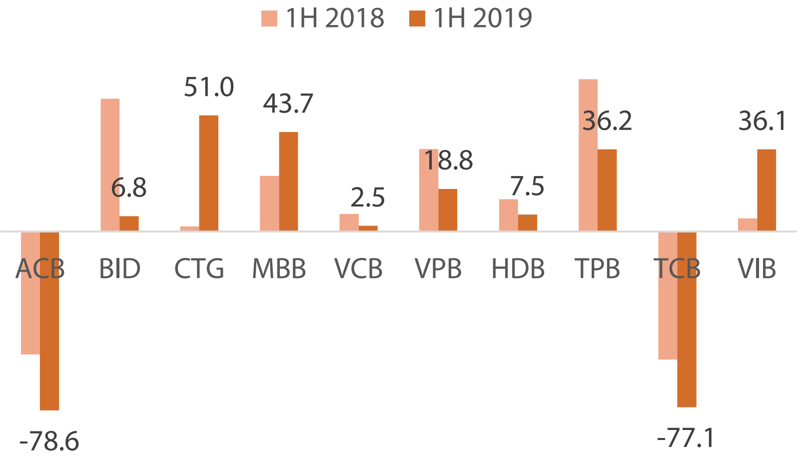


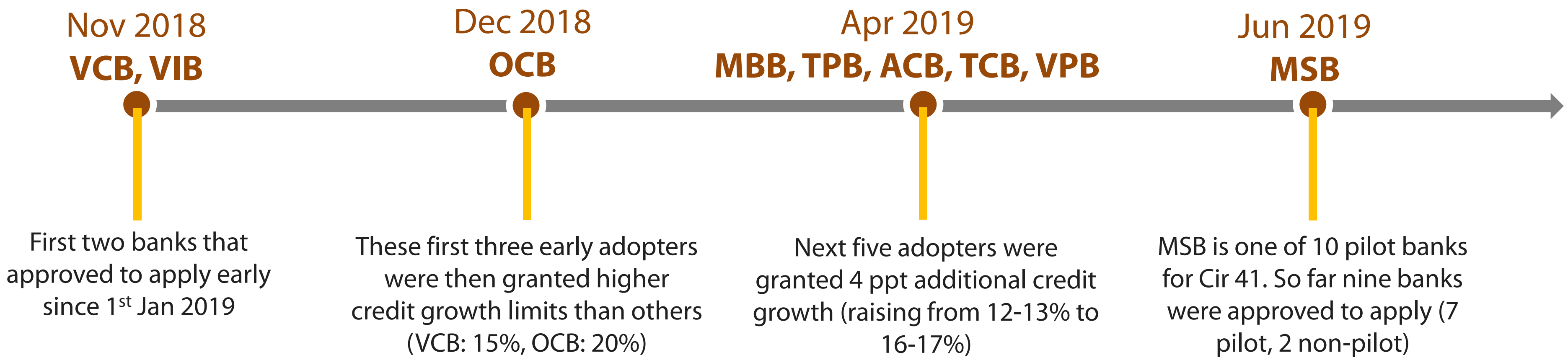

**Figure 13: YoY growth of provision expense (%)**




*Source: Banks' FS, Rong Viet Securities.*

## Basel 2 compliance progress and capital raising/listing plan

**Figure 14: Circular 41 (Basel 2 capital requirement) compliance progress**




- **Basel 2 compliance and capital raising plan:**
  - BID has announced the strategic placement of 17.6% to KEB Hana Bank (price of VND 33,600 - expected to be done in Q4 2019), thereby likely to be eligible for Circular 41 compliance in 2020
  - MBB has a plan to make a 7.5% private placement to foreign investors within this year
  - Most of other banks also have capital raising plan from bonus share/stock dividend
  - Due to certain bindings and difficulties, CTG is unlikely to raise sufficient capital and adopt Circular 41 before deadline

- **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
  - Banks who have announced listing/transfer plan: VIB, LPB, OCB, An Binh, Maritime, and Nam A Bank
  - Agribank is in the list of enterprises to be equitized by 2020

## Summary: Stable outlook underpinned by a more sustainable growth

**Earnings growth to go back to a lower but more stable level**

- Interest income to slow down. NIM to improve selectively in some banks.
- One-off earnings (from exclusive bancassurance agreement, divestments ...) is less common. Income structure to become more sustainable.
- Banks to spend more on digital push.
- Provisioning burden to rise in certain banks, especially those with outstanding VAMC debts or has high NPL formation.
- Overall, earnings growth to diverge. Those exposed to capital raising pressure and sector policy risks (eg. consumer finance) are forecast to have lower growth than peers. Growth will remain positive in banks focusing on core business activities and good asset quality.

**Risk:**

- A closer control over credit growth, as well as strict regulations on capital (ratio of short-term capital funding medium/long-term loans, Basel 2 capital requirement) might affect net interest margin and interest income growth more than expected.
- Housing loans constitute largest part among retail lending in most banks, posing a threat of the real estate sector falls into downward cycle.
- Difficulties in the consumer finance sector: the saturation in motorbike and CDs market demand that makes loan growth become difficult, more intensive competition due to many new entrants, and tightening regulations on lending procedure and cash loan.

**Some draft regulations that are planned for issuance:**

- The draft amendments to Circular 36 reducing the maximum ratio of short-term capital financing mid/long-term loans to 30% with a three-phase roadmap to 2022
- The draft amendments to Circular 36 stipulating an increase in the risk weighted factor applied for mortgage loans (original value of over 3Bn: 150%, from 1.5 to 3Bn: 100%).
- The draft regulations on consumer credit and maximum proportion of cash loans in consumer finance companies (30%).

## Industry comparables (1H 2019)

| Ticker | TOI Growth (% YoY) | Net interest Income Growth (% YoY) | Net Interest Margin (TTM - %) | Service Income Growth (% YoY) | CIR (%) | Provision Expense Growth (% YoY) | NPL ratio (%) | PBT growth (% YoY) | Return on Assets (TTM – %) | Return on Equity (TTM - %) |
|---|---|---|---|---|---|---|---|---|---|---|
| **ACB** | 14.3 | 18.5 | 3.6 | 19.4 | 50.0 | -78.6 | 0.7 | 15.0 | 25.7 | 1.7 |
| **BID** | 3.2 | 1.2 | 2.7 | 14.4 | 31.8 | 6.8 | 2.0 | -4.0 | 12.9 | 0.5 |
| **CTG** | 13.5 | 12.0 | 2.2 | 63.0 | 34.9 | 51.0 | 1.5 | 1.3 | 7.8 | 0.5 |
| **MBB** | 28.7 | 25.5 | 4.7 | 85.4 | 37.7 | 43.7 | 1.3 | 27.3 | 20.4 | 1.9 |
| **VCB** | 20.3 | 31.4 | 3.2 | 23.8 | 36.6 | 2.5 | 1.0 | 41.0 | 25.1 | 1.6 |
| **VPB** | 16.0 | 16.6 | 9.0 | 141.2 | 35.8 | 18.8 | 3.4 | -0.8 | 20.8 | 2.3 |
| **HDB** | 10.8 | 17.2 | 4.4 | 26.9 | 47.0 | 7.5 | 1.4 | 7.2 | 17.0 | 1.4 |
| **TPB** | 44.3 | 34.6 | 4.0 | 98.5 | 44.3 | 36.2 | 1.5 | 58.1 | 21.0 | 1.7 |
| **TCB** | 4.9 | 28.4 | 4.1 | 18.7 | 35.0 | -77.1 | 1.8 | 9.0 | 16.7 | 2.7 |
| **VIB** | 35.7 | 29.3 | 3.9 | 142.6 | 41.6 | 36.1 | 2.2 | 58.2 | 25.0 | 1.8 |

*Source: Banks' FS, Rong Viet Securities.*

# MBB – BOASTING A SOLID EARNINGS GROWTH

## INVESTMENT RATIONALES

- **Strong growing NIM with the expansion into retail lending (including consumer finance)**
  - Well-controlled mobilization growth and high CASA (33.0% by 1H2019) help maintain a low average funding cost.
  - Since 2Q2018, the percentage in loan portfolio of retail lending has expanded from 34.4% to 39.2% (consumer finance from 1.3% to 3.0%).
- **Service income growing at a faster rate than other banks**
  - Service income grew strongly and contributed more to TOI mainly due to a surge in income from insurance.
  - With the commitment to MB Ageas Life, MBB is more likely to achieve a sustainable service income growth in the long-term rather than resorting on extraordinary income.
- **Healthy asset quality amongst commercial banks**
  - MBB's asset quality is well-controlled, with a stable low NPL ratio at 1.3% and provisions coverage kept at around 100%.
  - A strong growth of TOI enables MBB to make high provision, write off bad debts and maintain a healthy asset book.
- **The plan to make 7.5% private placement to overseas investors within 2019**
  - If successful, the bank is likely to acquire at least 4Tn and will get sufficient capital buffers for comfortable growth in several years. This is also a catalyst for the stock price in short-term.

## RISKS TO OUR CALLS

- Downside risks include (1) challenges to maintain CASA level, increasing competition on retail banking and tighten control on consumer finance that limits NIM to a lower level than our expectation
- (2) Higher risk appetite with the boost in retail lending, consumer finance, corporate bonds and securities brokerage.

## BUY +39%

| | |
|---|---|
| CMP (VND) | **22,400** |
| Target price (VND) | **30,500** |
| *Cash dividend in 12 months* | *600* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 2,032 |
| Current Shares O/S (mn shares) | 2,113 |
| 3M Avg. Volume (K) | 4,110 |
| 3M Avg. Trading Value (VND Bn) | 90.1 |
| Foreign Ownership (%) | 20.0 |
| State Ownership (%) | 27.0 |

| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 13,867 | 19,537 | 23,975 | 29,278 |
| *Growth (%)* | *40.7* | *40.9* | *22.7* | *22.1* |
| **NPATMI** | 3,520 | 6,113 | 7,453 | 8,977 |
| *Growth (%)* | *20.9* | *73.7* | *21.9* | *20.4* |
| ROA (%) | 1.2 | 1.8 | 1.9 | 2.0 |
| ROE (%) | 12.4 | 19.4 | 20.4 | 21.1 |
| EPS (VND) | 1,797 | -211 | 3,294 | 3,967 |
| Book Value (VND) | 15,516 | 15,109 | 17,959 | 21,515 |
| Cash dividend (VND) | 600 | 600 | 600 | 500 |
| P/E (x) | 12.4 | 8.3 | 9.3 | 7.7 |
| P/B (x) | 1.4 | 1.5 | 1.7 | 1.4 |

# MBB – Strong growth in both traditional and non-traditional banking activities

**Figure 1: Loan portfolio structure and service income structure**

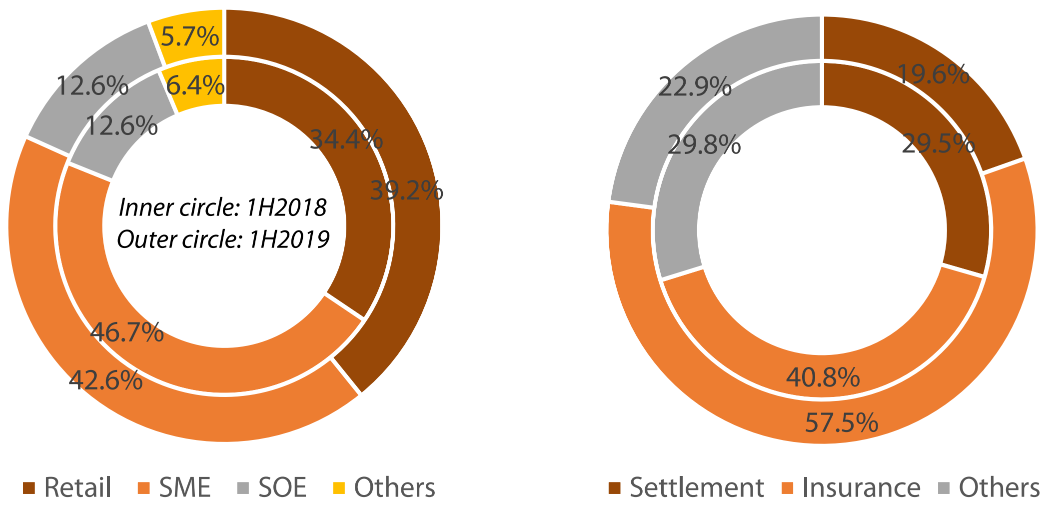
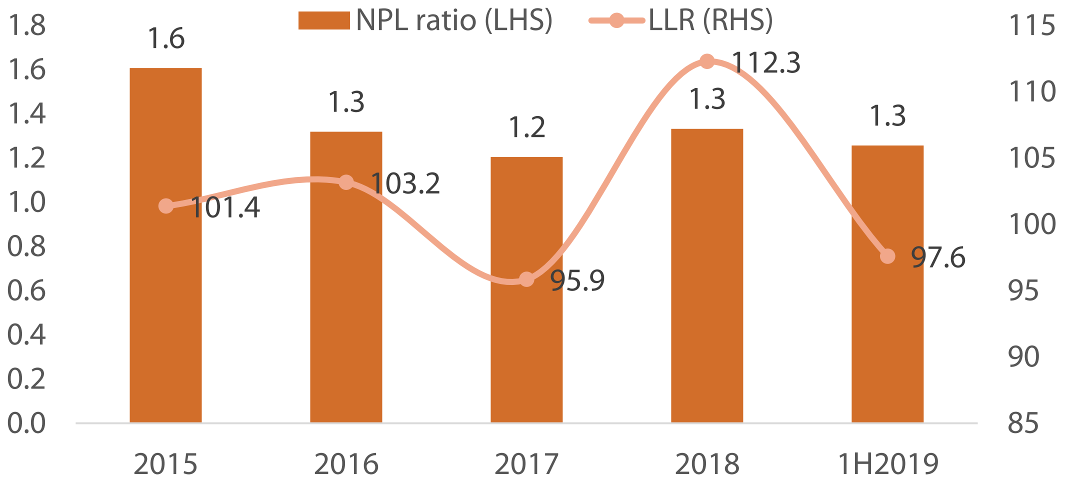



**Figure 2: Consolidated NPL and LLR ratio (%)**




*Source: MBB, Rong Viet Securities*

**MBB's 1H 2019 PBT reached 4,875bn (+27.3% YoY), fulfilling 51.3% of the full year guidance. TOI reached 9,024bn (+28.7% YoY).** The growth was driven by both service and net interest income, and is higher at the associates.

**Net interest income (+25.5% YoY) was driven by strong credit expansion and NIM improvement.**

- So far, credit growth limit given to parent bank was 17% and MCredit was 37%. Actual credit growth in 1H was +13.3% YTD and +31.8% YTD, respectively.
- Retail lending saw a stronger expansion than overall portfolio (+15.6% YTD versus 11.3% YTD). Corporate bonds also surged by +78.7% YTD.
- NIM (TTM) rose 21bps to 4.7%, despite a 6 ppts decline in CASA since 1H 2018.

**Service income (+85.4% YoY) accounted for 15.6% of TOI (vs 10.8% in 1H 2018).**

- Insurance income (contributed by MIC and MB Ageas Life) increased by 161.6% YoY and accounts for 60.5% of total service income.
- Settlement fee (contributed by parent bank) increased by 24.1% YoY and accounts for 19.8% of total service income.

**For 2H, we expect the bank will continue to achieve strong growth in both traditional and non-traditional activities.** At the same time, provision pressure is expected to increase considering the trend of impaired loan formation (the ratio of written-off bad debts on gross loans was 1.8% TTM2019 vs 1.1% in 2018).

# ACB – KEEPING LASER FOCUSED ON TRADITIONAL STRENGTHS

## INVESTMENT RATIONALES

- **Stay focus on retail banking**
  - While taking care of its old legacy issues, ACB has put its resources into the retail and small business segments and achieve consecutive NIM expansion from 2013 until now.
  - By 1H2019, the bank's loans portfolio comprises of a substantial portion of lending to households (~23%) while mortgage lending is kept at ~20%, lower than other banks'.
  - ACB prioritizes investments, including three pillars: (1) technology, branding, and HR, (2) digitalization, and (3) big data. We expect these investments will keep ACB competitive in the retail segment where the competition has become more fierce in recently years.
- **Maintain a strong assets quality and liquidity reserves**
  - By the end of 2018, ACB's consolidated CAR was 12.8% and the ratio of short-term funds to finance mid- and long-term loans were at 32.6%. Strong liquidity is also supported a large portion of g-bonds (~50 Tn, 14% of total assets).
  - Despite high growth in retail loans, the prudent approach ensure top asset quality amongst listed banks with lowest NPL (0.7%) and 2nd highest LLR (161.5%) by 1H 2018.
- **Potential for high service income growth**
  - ACB has boosted its service income by pushing many activities such as transaction, payment, insurance, guarantee, securities brokerage and others.
  - The bank is also amongst few remaining banks that have potential to earn high one-off fee upon an exclusive bancassurance agreement.

## RISKS TO OUR CALLS

- Downside risks include challenges to maintain NIM under rising competition in retail segment
- Upside risks include a large one-off fee from an exclusive bancassurance contract

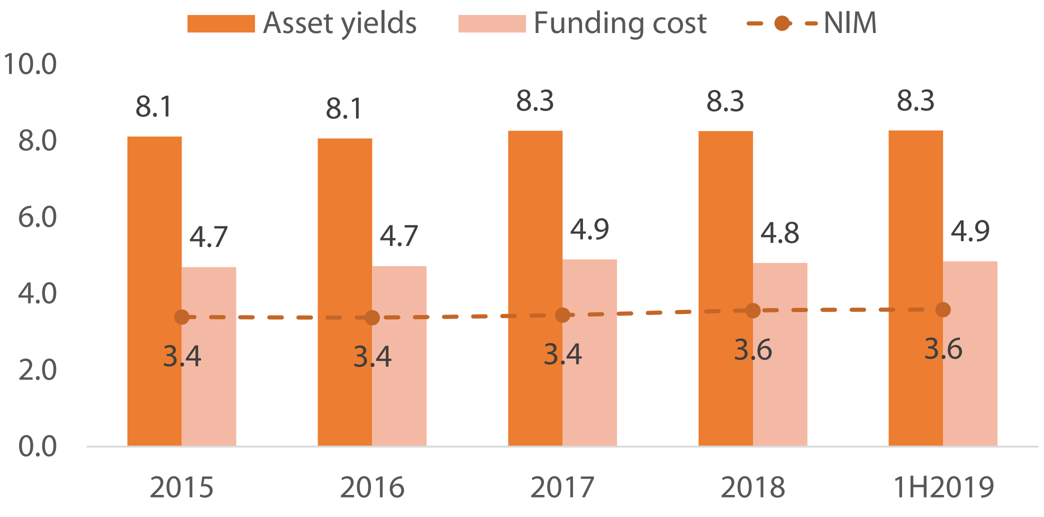
## BUY +28%

| | |
|---|---|
| CMP (VND) | **21,900** |
| Target price (VND) | **27,000** |
| *Cash dividend in 12 months* | *1,000* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 1,524 |
| Current Shares O/S (mn shares) | 1,621 |
| 3M Avg. Volume (K) | 1,203 |
| 3M Avg. Trading Value (VND Bn) | 33.1 |
| Foreign Ownership (%) | 30.0 |
| State Ownership (%) | 0.0 |

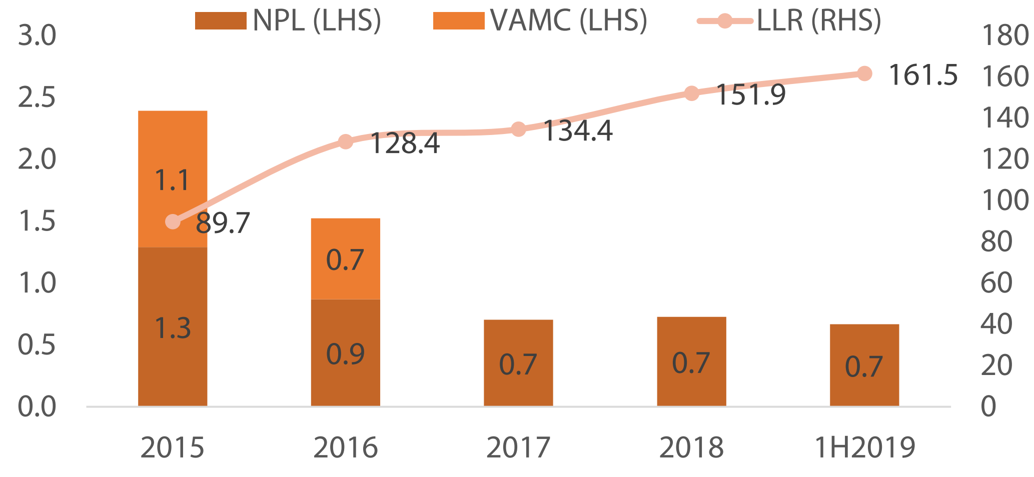
| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 11,439 | 14,033 | 15,843 | 17,809 |
| *Growth (%)* | *51.3* | *22.7* | *12.9* | *12.4* |
| **NPATMI** | 2,118 | 5,137 | 6,038 | 7,082 |
| *Growth (%)* | *59.8* | *142.5* | *17.5* | *17.3* |
| ROA (%) | 0.8 | 1.7 | 1.7 | 1.7 |
| ROE (%) | 14.1 | 27.7 | 25.2 | 24.0 |
| EPS (VND) | 2,013 | 2,376 | 3,631 | 4,275 |
| Book Value (VND) | 15,604 | 16,311 | 16,588 | 19,800 |
| Cash dividend (VND) | 0 | 0 | 1,000 | 1,000 |
| P/E (x) | 10.8 | 5.4 | 7.4 | 6.3 |
| P/B (x) | 1.4 | 1.3 | 1.6 | 1.4 |

**Figure 17: ACB's asset yields, funding cost and NIM (% - TTM)**




*Source: ACB, Rong Viet Securities.*

**Figure 18: NPL plus VAMC and LLR ratio (% - TTM)**




*Source: ACB, Rong Viet Securities*

**ACB's TOI and PBT growth moderately in 1H2019 (both of around 15% YoY). The bank has fulfilled 49.8% of the year guidance.**

**NIM continued to move up a little but still lag behind our expectations**

- Unlike many other banks, ACB did not invest in corporate bonds but focuses to expand credit by pushing customer lending, thereby keeping a lower 1H credit growth than most other banks in our watch list.
- Total credit expanded 8.5% YTD, lower than mobilization growth (10.5% YTD), keeping regulatory LDR at 78%. The deposit rate rise and doubled bond issuance YTD caused a slight increase in average funding cost, which off-set average asset yields improvement and led to a minor NIM expansion only.

**Both net interest income and service income grew by ~19% YoY,** while a 12.5% decrease in other incomes dragged TOI's growth to 14.3%.

**CIR rose to 50% as operating expense grew faster than TOI's** (27.8% vs 14.3%). This is due to a write-back of provision for long-term investment & doubtful debt in 1H 2018.

**Provisioning burden eased with only 95Bn booked in 1H (-78.6% YoY)** thanks to healthy asset quality, securing a 15% growth YoY in PBT.

**For 2H, we expect the bank will be able to achieve stronger NIM expansion** by leveraging LDR and serving peak season in the last quarter.

We hold the view that ACB will need more drivers to maintain the boost of core income and earnings afterwards. At least, the low provisioning burden and recovery income are likely to serve as advantages to secure the bank's bottom line growth.

# HDB – PARENT BANK TO LEAD GROWTH IN NEAR TERM

## INVESTMENT RATIONALES

- **A large retail and SME customer ecosystem**
  - Diverse ecosystem of retail-oriented companies which serves a huge customer base
  - Extensive distribution network (285 TOs of HDBank, 14,869 POS of HD Saison by 1H2019)
  - This allows HDB to expand lending while managing asset quality closely, especially in the parent bank
- **HD Saison: challenges in expanding credit and NIM**
  - HD Saison saw challenges to expand lending and NIM due to (1) the increasing competition in consumer finance, (2) the stagnation of motorbikes and CDs consumptions, which constitute major parts of its lending
  - The company's focus on non-cash loans is encouraging in the context of SBV's intention to tighten control on cash loans.
- **The merger with PGBank is still on hold**
  - If the merger go through, HDB can be benefited from (1) network and customer base expansion that support the bank's retail lending strategy, (2) the close relationship with Petrolimex, subsidiaries and associates, and (3) improved CASA and funding cost.

## RISKS TO OUR CALLS

- Downside risks include (1) Challenges to expand NIM due to increasing competition in retail lending and consumer finance, as well as tightening regulations on funding
- (2) the continuous stagnation of consumer finance which leads to very low or negative growth rate of HD Saison's lending.

## ACCUMULATE +10%

| | |
|---|---|
| CMP (VND) | **26,400** |
| Target price (VND) | **29,000** |
| *Cash dividend in 12 months* | *0* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 1,112 |
| Current Shares O/S (mn shares) | 981 |
| 3M Avg. Volume (K) | 1,528 |
| 3M Avg. Trading Value (VND Bn) | 40.2 |
| Foreign Ownership (%) | 24.4 |
| State Ownership (%) | 3.1 |

| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 7,506 | 9,440 | 10,828 | 12,304 |
| *Growth (%)* | *38.5* | *25.8* | *14.7* | *13.6* |
| **NPATMI** | 1,746 | 2,842 | 3,340 | 3,966 |
| *Growth (%)* | *136.6* | *62.7* | *17.5* | *18.7* |
| ROA (%) | 1.2 | 1.6 | 1.6 | 1.6 |
| ROE (%) | 16.2 | 20.3 | 18.2 | 18.5 |
| EPS (VND) | 1,777 | 4,945 | 3,402 | 4,040 |
| Book Value (VND) | 14,348 | 15,938 | 20,282 | 23,386 |
| Cash dividend (VND) | 1,300 | 0 | 0 | 0 |
| P/E (x) | 14.8 | 9.1 | 8.2 | 6.9 |
| P/B (x) | 1.8 | 1.7 | 1.4 | 1.2 |

**Figure 1: Loan structure of HDB**

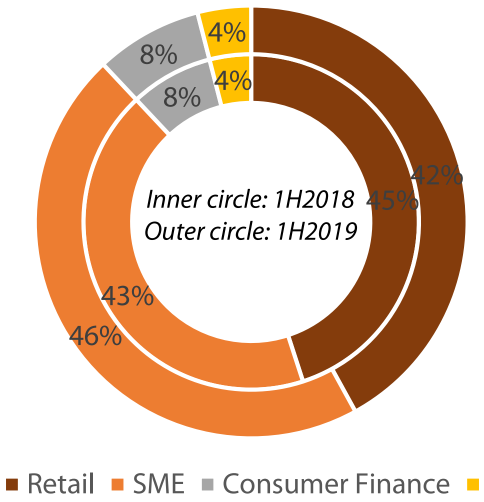



**Figure 2: Loan structure of HD Saison 1H2019**

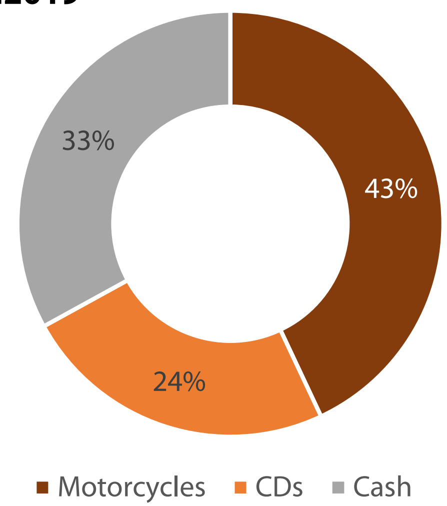
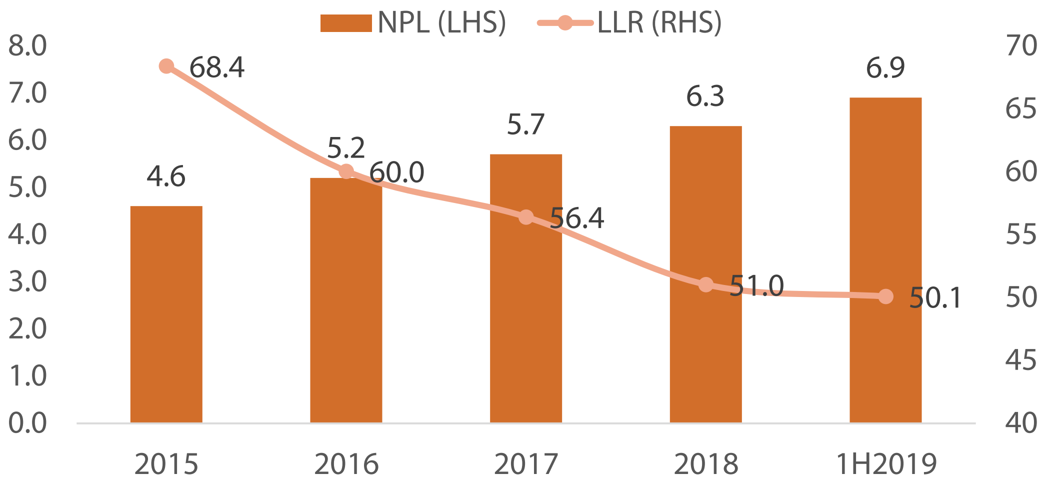



**Figure 3: HD Saison's NPL and LLR ratio (%)**




*Source: HDB, Rong Viet Securities*

**HDB's 1H 2019 PBT reached 2,211bn (+7.2% YoY), while TOI reached 5,173bn (+10.8% YoY).** The bank is lagging behind this year's guidance with 43.5% fulfillment.

**Interest income (+17.2% YoY) was driven by the parent bank**

- Credit growth 1H 2019 was 12.4% YTD in the parent bank (versus recently given SBV cap of nearly 16%). NIM (TTM) stayed at 4.4%, with both asset yields and funding cost rising at the same pace.

- HD Saison saw a negative credit growth of -1.2% YTD (versus SBV cap of 15%) while NIM slightly improved to 28.9% from 28.5% in 2018.

**Service income growth (+26.9% YoY) depends virtually on HD Saison.** Service fee and non-interest income accounted for 5.5% and 10.3% of consolidated TOI, respectively, much lower than the respective ratios in other listed banks.

**Asset quality is well-managed at the parent bank with stable NPL and LLR despite zero write-off.** However, provision expenses pressure persists as HD Saison's asset quality is seeing less positive moves with NPL ratio rising to nearly 7.0% and LLR declining to 50%. Despite of that, the company's focus on non-cash loan is encouraging.

**The target of 27% growth YoY for 2019 is aggressive.** For 2H, we still see challenges to maintain current NIM level, considering at-threshold LDR, deposit rate rise, and consumer finance stagnation. The moderate growth of TOI is likely to constraint the bank's network expansion and VAMC clearance progress in this year.

# BID – BOTTLENECK FINALLY REMOVED

## INVESTMENT RATIONALES

- **The strategic placement to KEB Hana Bank has been finalized.** Upon the deal, BID will be able to collect VND 20.3Tn and earn long-term support in management, which will help:
  - Improve BID's capital buffer, so the bank is more likely to satisfy Circular 41 (Basel 2)
  - Facilitate higher credit growth and relieve funding pressure, which will have positive impact on interest income growth
  - Strengthen BID's competitive advantages in retail, SME and FDI segments. KEB Hana is a leading Korean bank in terms of assets, reputation and has advantages regarding innovative banking services.
- **Provision pressure on earnings is expected to reduce after VAMC clearance**
  - BID is prioritizing the cleaning of its asset book, both on-balance sheet and VAMC debts, resulting in low earnings growth.
  - The remaining net VAMC debts currently accounts for 0.5% of gross loans (from 0.6% by end of 2018). Given the plan to clear all VAMC bonds within this year, we expect a lower provisioning burden and earnings growth acceleration since 2020.

## RISKS TO OUR CALLS

- Downside risks include the challenged to maintain NIM due to increasing competition in retail lending, and the increase in provision burden from legacy bad debts which might erode earnings more than our expectations
- Upside risks include a large one-off fee from an exclusive bancassurance contract/BIDV Metlife divestment, and the possibility to draw cash flow from the ETFs given the bank's presence in VN30, causing unprecedented stock rise which is not driven by its fundamentals.

## ACCUMULATE +5%

| | |
|---|---|
| CMP (VND) | **36,000** |
| Target price (VND) | **37,000** |
| *Cash dividend in 12 months* | *700* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 5,282 |
| Current Shares O/S (mn shares) | 3,419 |
| 3M Avg. Volume (K) | 1,151 |
| 3M Avg. Trading Value (VND Bn) | 38.9 |
| Foreign Ownership (%) | 3.2 |
| State Ownership (%) | 95.3 |

| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 39,017 | 44,483 | 47,543 | 54,284 |
| *Growth (%)* | *28.2* | *14.0* | *6.9* | *14.2* |
| **NPATMI** | 6,787 | 7,358 | 7,540 | 10,052 |
| *Growth (%)* | *10.6* | *8.4* | *2.5* | *33.3* |
| ROA (%) | 0.6 | 0.6 | 0.5 | 0.7 |
| ROE (%) | 14.9 | 14.6 | 13.6 | 16.6 |
| EPS (VND) | 1,463 | 988 | 1,756 | 2,341 |
| Book Value (VND) | 13,444 | 15,068 | 16,537 | 18,792 |
| Cash dividend (VND) | 0 | 0 | 700 | 700 |
| P/E (x) | 24.0 | 21.4 | 19.9 | 14.9 |
| P/B (x) | 2.6 | 2.3 | 2.1 | 1.9 |

# BID – 2019 will still be a difficult year before fundamentals can actually improve

**Figure 1: Loan structure of BID in 2017 and 2018**

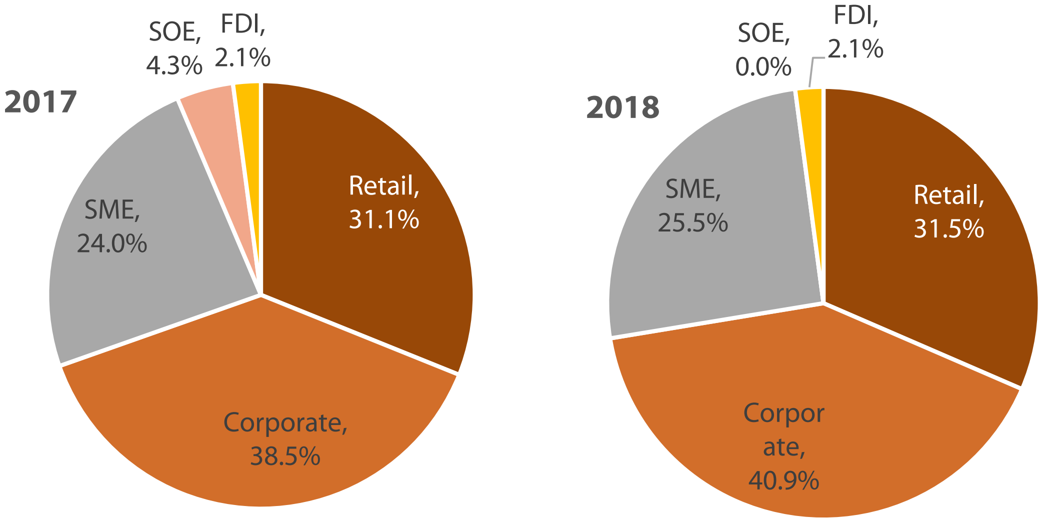
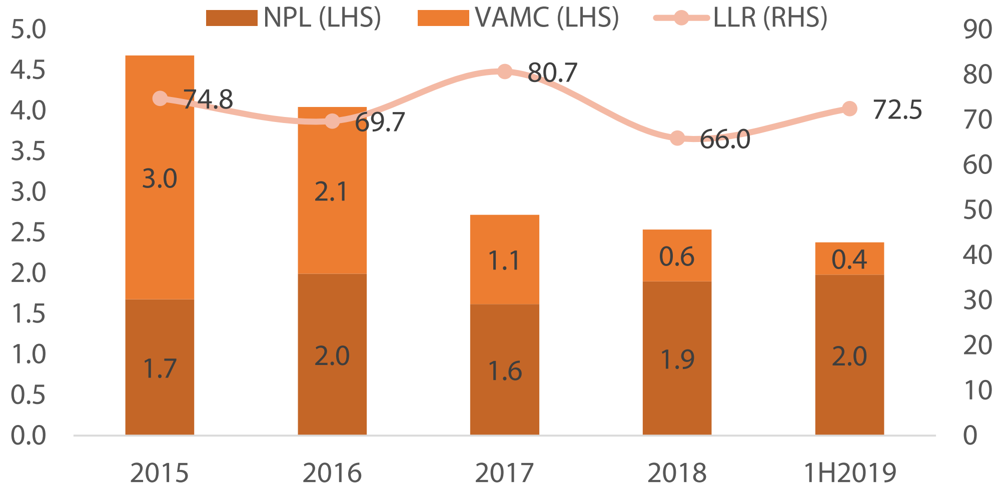



**Figure 2: NPL plus VAMC and LLR ratio (%)**




*Source: BID, Rong Viet Securities*

**While BID's TOI rose modestly by 3.2% YoY in 1H 2019, PBT saw a slight reduction of 4.0% YoY, fulfilling 46.3% of the year guidance.**

**NIM compression limited net interest income growth to 1.2% YoY.** Lending to customers grow 7.7% YTD while total mobilization grew 7.1% YTD. Our estimate is that NIM (TTM) squeezed to 2.74% in 2Q 2019 from 2.90% in 2018, due to a modest decrease in asset yields coupled with a slight increase in funding costs. Funding cost was under pressure due to very high LDR and declining CASA.

**Operating expense mostly unchanged, and CIR was kept at as low as 31.8%.** Note this yet to include the expenses associated with the core banking, digital banking and Basel 2 projects.

**Asset quality remains big concern** with on-balance sheet NPL staying at 2.0% and LLR at 72.5% (vs 1.5% and 85% in 1H 2018). The remaining net VAMC debts worth nearly VND 5Tn (reducing from 6.5 Tn by end of 2018).

**We expect that BID will only be able to achieve a modest growth in 2019.** We believe the bank will find it hard to maintain current NIM due to continuing pressure on both asset yields and funding costs. Therefore, net interest income growth is forecast to be modest while we see few non-interest income growth drivers. Meanwhile, operating and provisioning burden are likely to persist.

**As per BID, the placement deal should be done in late 2019.** As such, we expect it will have positive impact to improve the bank's fundamentals starting next year.

# CTG – CONCERNING ON CREDIT CHARGES

## INVESTMENT RATIONALES

- **The advantage of high lending market share.** CTG's lending segment accounts for more than 10% of the entire industry's total lending amount. Hence, despite credit grew 2.4% YTD (1H2018: 9.7% YTD), not only net interest income but also services income drove the TOI's growth. These two business lines increased 12% YoY and 63% YoY respectively in 1H 2019. We expect services income's CAGR growth will reach 30% over the next three years due to higher fees from services, bankcards, insurance, transaction and securities.
- **Provision expenses unlikely to decrease**
  - NPL decreased by 0.5% YTD by Jun 2019 mostly due to a large amount of group 5 loans were write-off.
  - The NPL ratio and new bad debt formation rate stood at 1.5% and 0.4% respectively, the high ratio compared to they were in 2017 and before. Adding un-provisioned VAMC bond, the NPL ratio actually approached 2.3%.
- **Growth to slow down in the deleveraging process**
  - CTG's restructure plan will take place in 2018-2020. During this period, we expect CTG will boost clearing bad assets and limit its lending growth as well.
  - Decision 986 in August 2018, approving the development strategy of the Vietnamese banking sector, mentions that the Government's plan to reduce its ownership in state-owned banks to 51%. Though we think that this will not happen until 2020 or later.

## RISKS TO OUR CALLS

- The bank may not meet its 2019 business plan due to unexpected high credit cost
- Given its high weighted in the VN30 index, CTG could draw cash flow from the ETF making its market price goes unparalleled with its fundamentals.

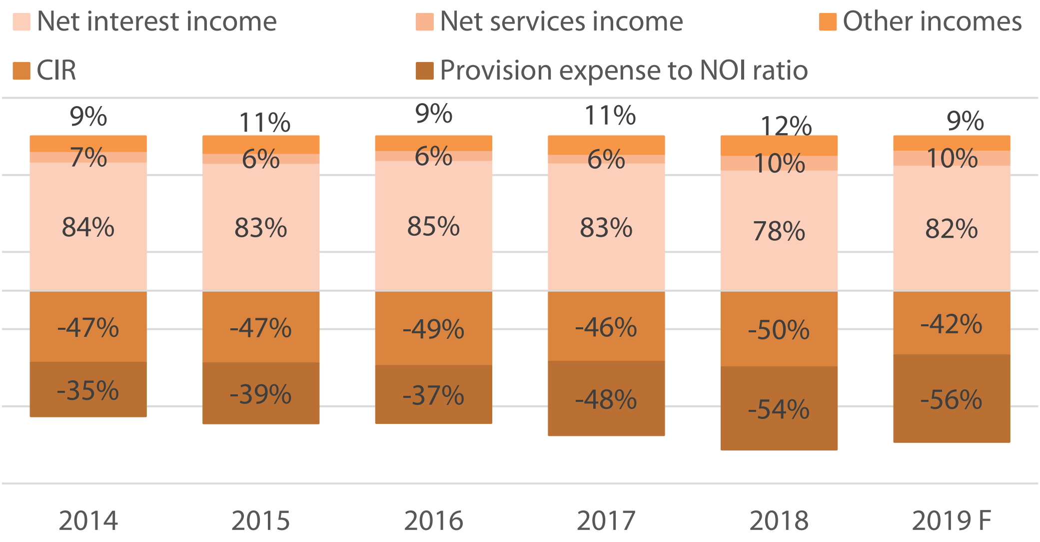
## NEUTRAL +4%

| | |
|---|---:|
| CMP (VND) | **20,500** |
| Target price (VND) | **21,300** |
| *Cash dividend in 12 months* | *0* |

| STOCK INFO | |
|---|---:|
| Sector | Banks |
| Market Cap ($ mn) | 3,276 |
| Current Shares O/S (mn shares) | 3,723 |
| 3M Avg. Volume (K) | 2,969 |
| 3M Avg. Trading Value (VND Bn) | 62.3 |
| Foreign Ownership (%) | 30.0 |
| State Ownership (%) | 64.5 |

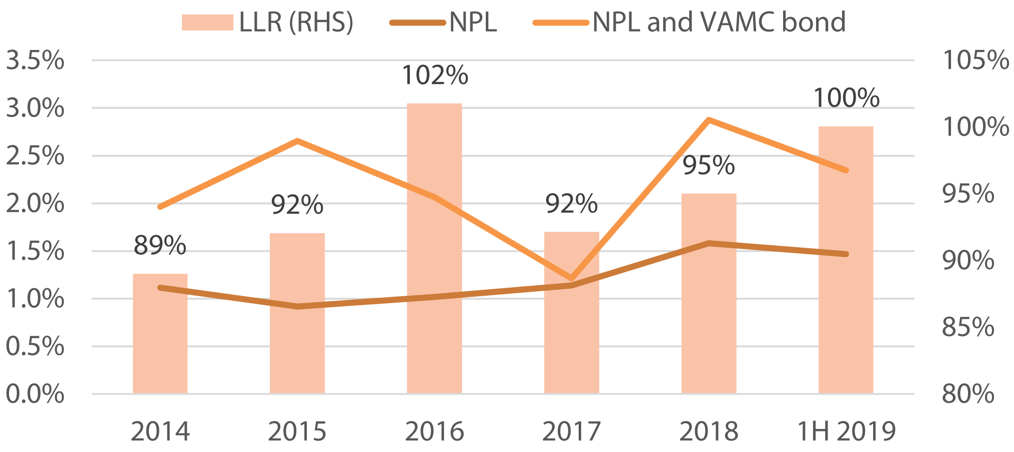
| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---:|---:|---:|---:|
| **Revenue** | 32,620 | 28,738 | 39,269 | 41,744 |
| *Growth (%)* | *23.3* | *-11.9* | *36.6* | *6.3* |
| **NPATMI** | 7,432 | 5,414 | 8,002 | 8,819 |
| *Growth (%)* | *8.7* | *-27.2* | *47.8* | *10.2* |
| ROA (%) | 0.7 | 0.5 | 0.7 | 0.7 |
| ROE (%) | 12.0 | 8.3 | 11.3 | 11.2 |
| EPS (VND) | 1,546 | 3,017 | 1,554 | 1,713 |
| Book Value (VND) | 17,046 | 18,037 | 20,000 | 22,369 |
| Cash dividend (VND) | 0 | 0 | 0 | 0 |
| P/E (x) | 13.2 | 19.0 | 13.7 | 12.4 |
| P/B (x) | 1.2 | 1.1 | 1.1 | 1.0 |

**Figure 1: Income and cost structure of CTG**




*Source: CTG, Rong Viet Securities*

**Figure 2: NPL plus VAMC and LLR ratio (%)**




*Source: CTG, Rong Viet Securities*

**Net income from interest and services drove TOI growth.** In 1H2019, customer loan and deposit grew 2.4% and 2.5% YTD respectively. CTG's lending market share slightly decreased to 11%, still among top 3 banks with the highest market share in banking industry. Net income from interest and services grew 12% YoY and 63% YoY and TOI grew 13% YoY at the same time.

**High provision expense making CTG's PBT to slow down.** While operating expense was controlled to decrease, impairment charge increased 51% YoY mostly due to VAMC bond provision. Particularly, we estimated that expenses for VAMC bond accounted for 45%, fifth times higher than 1H2018, while provision for on-balance sheet bad debt flatted. Therefore, CTG's PBT grew merely 1.3% YoY.

**Scenario of fulfilling its 2019 business guidance depends on clearing bad assets processing.** In the 4Q2018, CTG surprisingly sold more than VND 13 Tn bad debt to VAMC and written-off accrued interest through P&L. Hence, its accrued interest decreased by more than a half and accounted for 0.6% of its total assets (2014: 1.9%, 2017: 1.32%). Due to we lack of evidence that the bank will continue to do that in the 2H 2019, we assume such one-off expense will not recur.

Given its weak capital adequacy (shortfall under Basel II criteria) and thin liquidity, we expect CTG's lending growth will experience a slow pace, at 7% YoY. NIM will expand to 2.8%, results NII to grow 42% YoY (from low base in 2018). Its TOI will grow 37% YoY.

CIR will be controlled at around 42% and provision expense is expected to significant increase. Therefore, CTG's 2019 PBT will increase 49% YoY, 5% higher than its guidance for 2019.

# VCB – STAYING FIRMLY ON TOP POSITION

## INVESTMENT RATIONALES

- **Healthy asset quality and liquidity**
  - Being a State-owned commercial bank, VCB has always maintains good asset and earning quality: (1) Low NPL ratio with high provision coverage (respectively 1.0% and 177.5% by Jun 2019); (2) High liquidity with relatively low LDR and well-controlled short-term capital financing mid/long-term loans; (3) The first bank qualified for Circular 41.
- **NIM has room to expand further**
  - VCB possesses the second highest CASA ratio within our watch list, which can translate to better immunity to rising funding pressure and deposit rate than peers.
  - Also, the strong constant expansion into retail lending coupled with a low LDR implies that VCB still has more room to improve current NIM.
- **Potential for high service income growth**
  - VCB has finished upgrading its core banking and will continue to push towards digital, which expects to help it improve efficiency and offer better services to retail clients.
  - VCB is seeking a partner for an exclusive bancassurance agreement. Upon the deal is finalized, VCB can earn a huge extraordinary income as well as strong annual commission growth. This is likely to contribute significantly to the bank's bottom line.

## RISKS TO OUR CALLS

- Downside risks include limited room for NIM expansion due to increasing competition in retail lending, and the failure to fully increase its charter capital by 10% via a private placement, which would weigh heavily on the bank's potential growth.
- Upside risks include a large one-off fee from an exclusive bancassurance contract, and the possibility to draw cash flow from the ETFs given the bank's hight weight in VN30, causing market price rise which is not matched with its fundamentals.

## NEUTRAL -3%

| | |
|---|---|
| CMP (VND) | **77,900** |
| Target price (VND) | **75,000** |
| *Cash dividend in 12 months* | *800* |

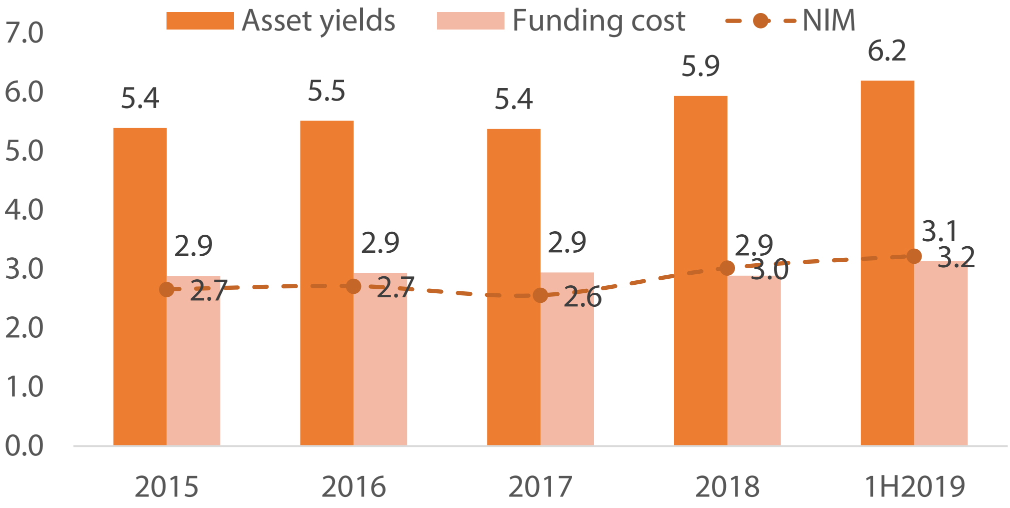
| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 12,400 |
| Current Shares O/S (mn shares) | 3,709 |
| 3M Avg. Volume (K) | 935 |
| 3M Avg. Trading Value (VND Bn) | 68.0 |
| Foreign Ownership (%) | 23.9 |
| State Ownership (%) | 74.8 |

| FORECAST | 2017A | 2018A | 2019F | 2020F |
|---|---|---|---|---|
| **Revenue** | 29,406 | 39,278 | 45,855 | 52,226 |
| *Growth (%)* | *18.2* | *33.6* | *16.7* | *13.9* |
| **NPATMI** | 9,091 | 14,606 | 18,051 | 20,848 |
| *Growth (%)* | *32.2* | *60.7* | *23.6* | *15.5* |
| ROA (%) | 1.0 | 1.4 | 1.6 | 1.7 |
| ROE (%) | 18.1 | 25.5 | 24.8 | 22.6 |
| EPS (VND) | 2,001 | 1,154 | 4,359 | 5,035 |
| Book Value (VND) | 14,584 | 17,264 | 22,484 | 27,305 |
| Cash dividend (VND) | 800 | 800 | 800 | 800 |
| P/E (x) | 39.5 | 23.7 | 17.2 | 14.9 |
| P/B (x) | 5.4 | 4.6 | 3.3 | 2.7 |

# VCB – Interest income is driving growth but service income also has great potential to jump

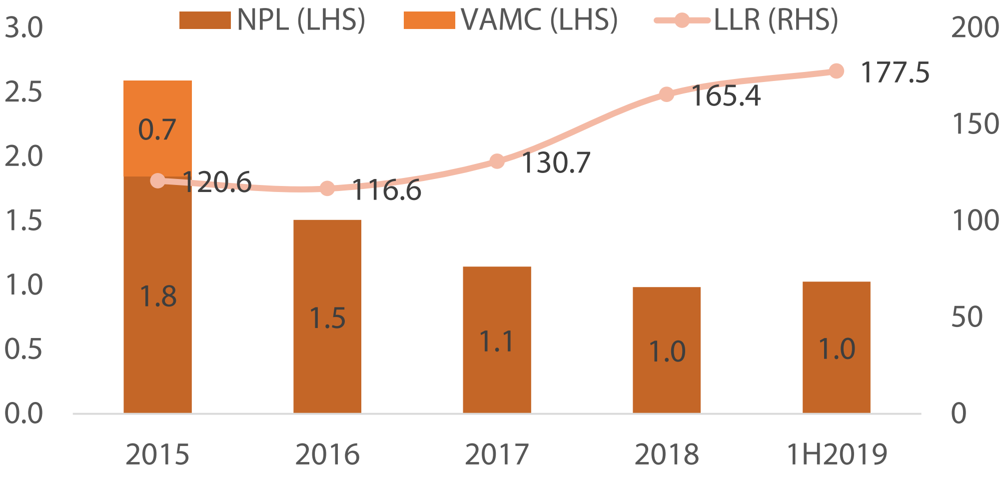
RONGVIET SECURITIES

**Figure 1: VCB's asset yields, funding cost and NIM (% - TTM)**




*Source: VCB, Rong Viet Securities.*

**Figure 2: NPL plus VAMC and LLR ratio (%)**




*Source: TCB, Rong Viet Securities*

**With 11.3Tn PBT (+41% YoY) in 1H 2019, VCB fulfilled 58% of this year's guidance, ahead of all other banks in our watch list.**

**NIM expanded even more strongly than expected. 1H earning growth was driven by net interest income (+31.4% YoY).**

- With decent credit growth quota given by SBV (15%), this year VCB's lending is likely to continue a positive expansion.
- At the same time, VCB continued to restructure its loan book towards higher margin segment, by shifting towards retail segment. As such, NIM stepped up to 3.2%.

**Service income also grew positively by 23.8% YoY,** but a 13.6% decrease in other incomes dragged TOI's growth to 20.3%.

**CIR kept at a highly efficient level of 36.6%** (vs 41.3% in 1H 2018). We see a close control on all cost items, including staff cost, facilitated a modest growth in operating costs (+6.6% YoY).

**Write-offs in 1H stayed at only VND 823bn (0.1% of gross loan),** while NPL ratio unchanged and LLR improved 12 ppts since end of 2018. As such, provision charges only rose insignificantly YoY, and the entire growth in pre-provision earnings translated into PBT improvement (+41% YoY).

**For 2H, we expect NIM to expand further to 3.3%.** PBT is most likely to expand much faster than TOI thanks to easing operating and provisioning burden. Despite the absence of extraordinary income this year, we expect VCB can attain 23% growth in bottom line, exceeding guidance by 15%.

# TCB – TAKING A DIFFERENT PATH FROM OTHERS

## OPPORTUNITIES/STRENGTHS

- **A clear strategy with ecosystem approach**
  - TCB implements 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. As a result, TCB builds a strong affluent customer base, and its efficiency is amongst the highest in the industry.
- **A diversified service income stream**
  - TCB declared its market leader position in several areas of retail banking: insurance premiums (21% market share), retail bond brokerage (81% of market share) and Visa card transaction volume, which contribute to significant growth potential.
- **The focus on enhancing digital experience**
  - Thanks to the Zero fee and 1% unlimited cash back policy, CASA improved constantly to 30.4% since 2016 (22.7%), which supported funding cost improvement.
  - Long-term benefits includes (1) the shift of customers to digital banking (2) saving on operating costs and (3) customer loyalty reinforcement.
- **Advanced management practices**
  - TCB employs many advanced initiatives in branding, customer relation, employee management, etc. which are in line with their overall organizational strategy and set the bank apart from peers.

## RISKS

- Dependency on some large clients (especially in real estate) as well as related mortgage loans.
- The over-capitalization that dilutes ROE to a lower level than the sustainable ratio communicated by TCB (20%).

## 2019 Guidance

| | |
|---|---|
| NPAT growth | **+10%** |
| NPAT growth (exclude one-off) | **+20%** |
| CMP (VND) | *21,900* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 3,286 |
| Current Shares O/S (mn shares) | 3,497 |
| 3M Avg. Volume (K) | 3,624 |
| 3M Avg. Trading Value (VND Bn) | 76.8 |
| Foreign Ownership (%) | 22.5 |
| State Ownership (%) | 0.0 |

| FORECAST | 2015A | 2016A | 2017A | 2018A |
|---|---|---|---|---|
| **Revenue** | 9,344 | 11,919 | 16,458 | 18,350 |
| *Growth (%)* | *33.3* | *27.6* | *38.1* | *11.5* |
| **NPATMI** | 1,529 | 3,149 | 6,446 | 8,463 |
| *Growth (%)* | *41.3* | *105.9* | *104.7* | *31.3* |
| ROA (%) | 0.8 | 1.5 | 2.6 | 2.9 |
| ROE (%) | 9.7 | 17.5 | 27.7 | 21.5 |
| EPS (VND) | 1,722 | 3,525 | 5,530 | 3,182 |
| Book Value (VND) | 18,537 | 22,062 | 23,106 | 14,790 |
| Cash dividend (VND) | - | - | - | - |
| P/E (x) | 12.2 | 6.0 | 3.8 | 8.7 |
| P/B (x) | 1.1 | 1.0 | 0.9 | 1.4 |

**Figure 1: TCB's customer lending structure 2Q 2019 (VND Tn)**

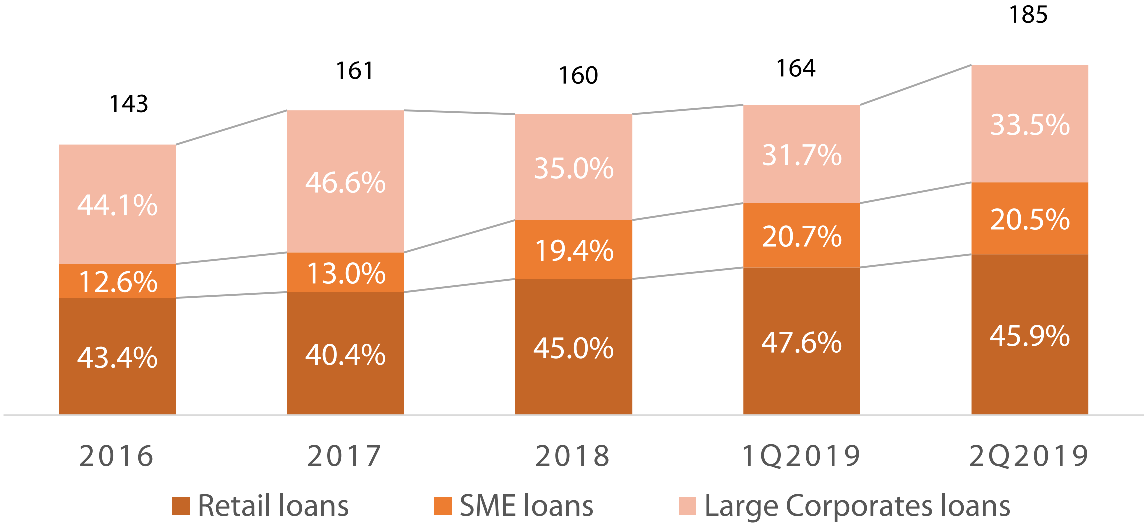



**Figure 2: TCB's customer deposit structure 2Q 2019 (VND Tn)**

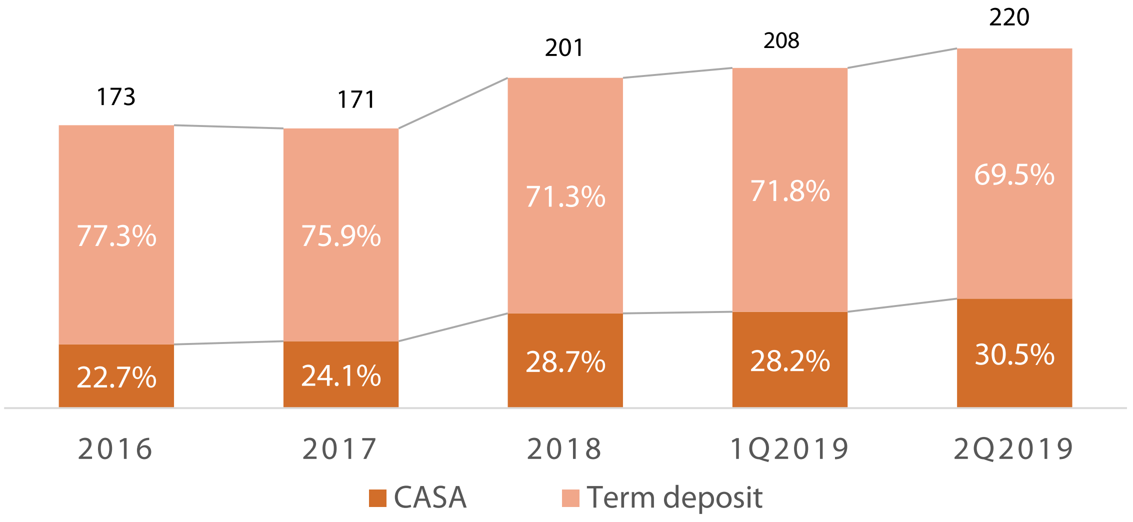



**Figure 3: TCB's TOI structure 1H 2019 (VND Bn)**

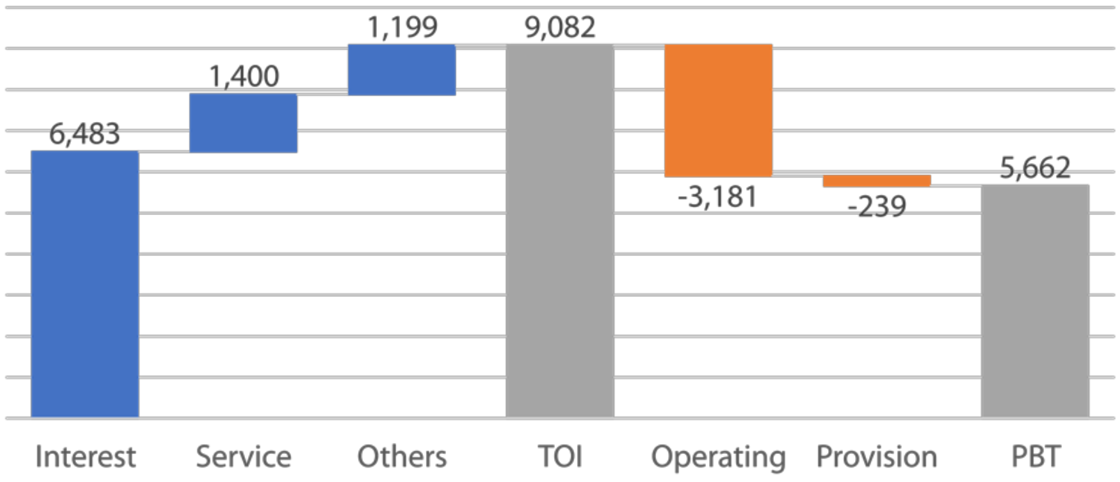
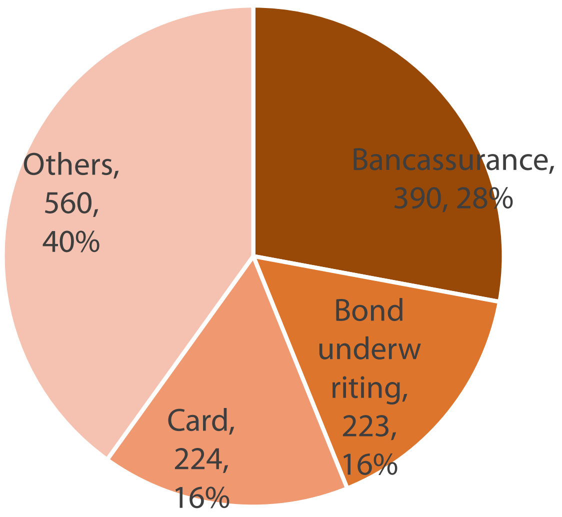



**Figure 4: TCB's service income 1H 2019 (VND Bn)**




*Source: VCB, Rong Viet Securities*

# VIB – RETAIL BANKING AT THE HEART

## OPPORTUNITIES/STRENGTHS

- **The most intensive retail lender in our watch list with an impressive NIM improvement**
  - Since 2016, VIB has consistently maintained very high credit growth, by the push of auto and mortgage loans. As one of first banks to adopt Circular 41, VIB is eligible for higher credit growth than peers. In 1H 2019, actual credit growth was 17.9%, and the portion of retail loans jumped to 75.5% (1H 2019), both highest amongst our watch list.
  - Along with the jump in retail lending proportion, NIM expanded significantly from 3.1% (2017) to 3.9% in 2018 and 1H 2019, making VIB at the forefront of earnings growth.
- **Strong operating efficiency**
  - VIB prioritizes to build excellent operations. While sale is pushed towards retail segment, cost is controlled closely and only expanded 15% in 2018 and 1H2019. As such, CIR has improved constantly to 41.6%. In the next 5 years, VIB aims to lower CIR further by expanding network carefully and promoting digital banking through website and app.
- **High bancassurance fee growth potential**
  - Income from insurance commission took off significantly when the bank promotes the exclusive bancassurance partnership with Prudential.
  - As per VIB, the bank is currently among the top three banks in terms of bancassurance sales and is also the leading bank in bancassuance sales efficiency per branch.

## RISKS

- Current asset quality lags behind peers with NPL of higher than 2% and LLR of less than 50%. The bank will needs to spare more resources to improve its current book.
- 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.

## 2019 Guidance

| | |
|---|---|
| NPAT growth | **+24%** |
| NPAT growth (exclude one-off) | **+44%** |
| CMP (VND) | *18,400* |

| **STOCK INFO** | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 729 |
| Current Shares O/S (mn shares) | 924 |
| 3M Avg. Volume (K) | 648 |
| 3M Avg. Trading Value (VND Bn) | 11.6 |
| Foreign Ownership (%) | 20.5 |
| State Ownership (%) | 0.0 |

| **FORECAST** | **2015A** | **2016A** | **2017A** | **2018A** |
|---|---|---|---|---|
| **Revenue** | 2,929 | 3,401 | 4,089 | 6,086 |
| *Growth (%)* | *-15.6* | *16.1* | *20.2* | *48.8* |
| **NPATMI** | 521 | 562 | 1,124 | 2,194 |
| *Growth (%)* | *-0.3* | *7.8* | *100.1* | *95.1* |
| ROA (%) | 0.6 | 0.6 | 1.0 | 1.7 |
| ROE (%) | 6.1 | 6.5 | 12.8 | 22.6 |
| EPS (VND) | 1,039 | 961 | 1,912 | 2,687 |
| Book Value (VND) | 17,773 | 15,489 | 15,568 | 13,616 |
| Cash dividend (VND) | 850 | 500 | 498 | 567 |
| P/E (x) | 16.8 | 18.2 | 9.1 | 6.2 |
| P/B (x) | 1.0 | 1.1 | 1.1 | 1.3 |

# VIB – Retail banking at the heart

**Figure 1: VIB's lending structure (%)**

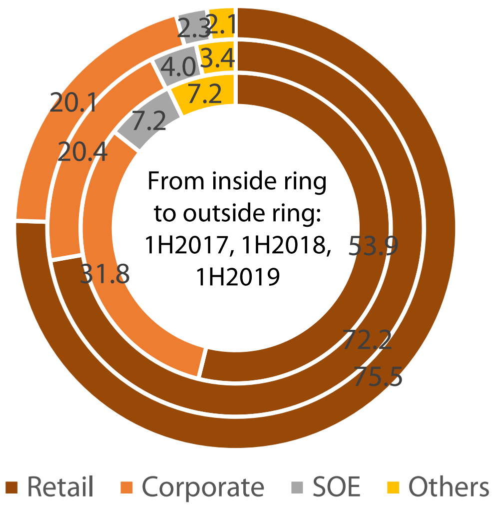



**Figure 33: Retail lending structure 1H 2019 (%)**

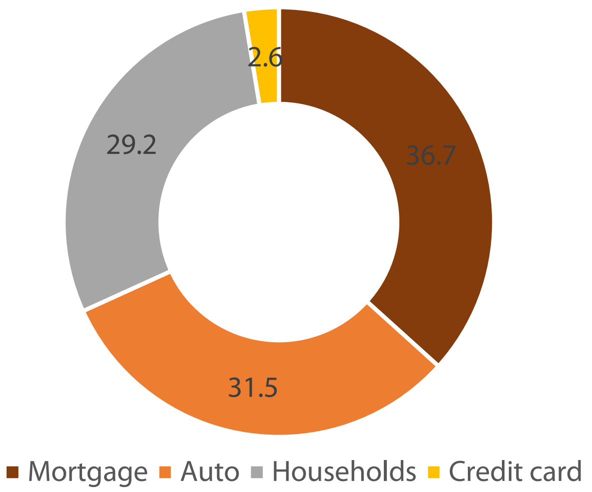



**Figure 2: The proportion of retail lending at some listed banks 2018 (%)**

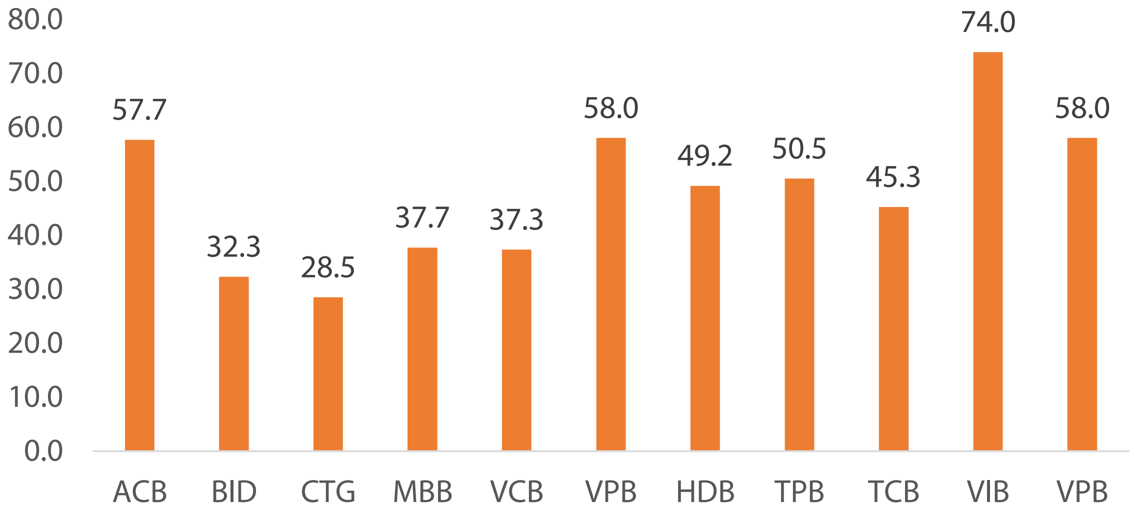



**Figure 3: VIB's asset yield, funding cost and NIM 2015 – 1H2019 (% - TTM)**

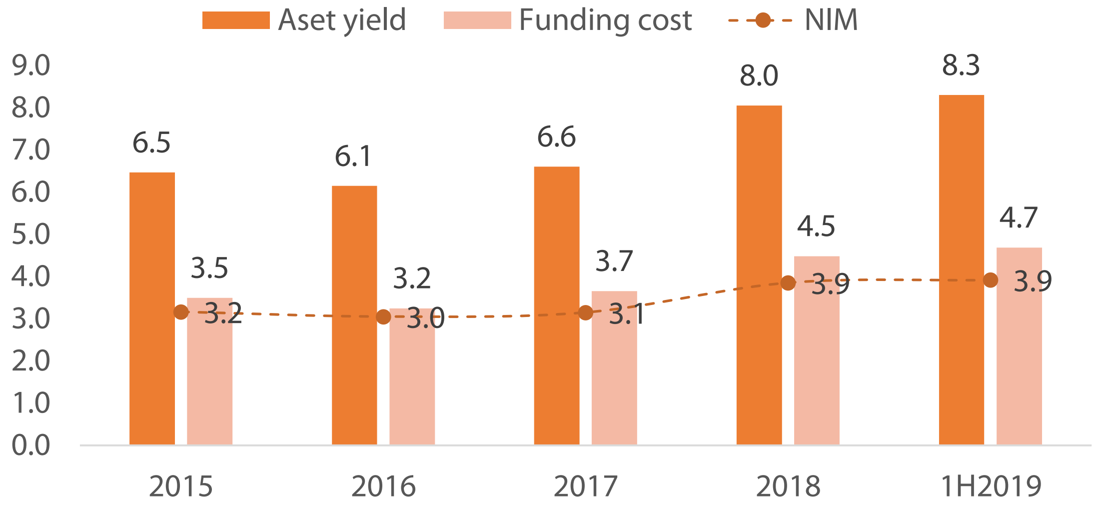
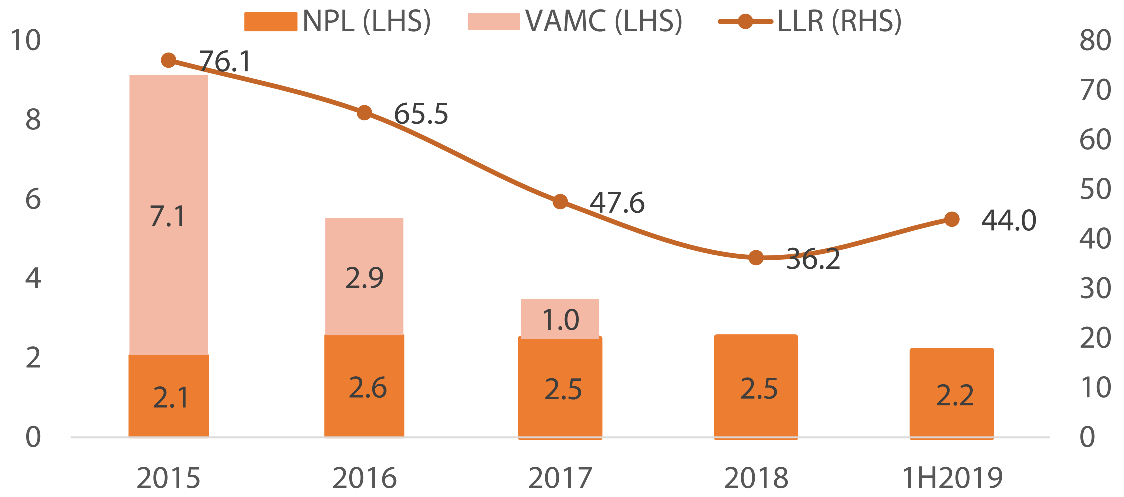



**Figure 4: VIB's NPL, VAMC and LLR ratio 2015 - 1H 2019 (%)**




*Source: Banks' FS, Rong Viet Securities*

# TPB – NEED MORE TO PLAY THE LONG GAME

## OPPORTUNITIES/STRENGTHS

- **A small bank with strong growth trajectory in both net interest and service income**
  - TPB's earnings growth is leading in our watch list (87% in 2018 and 58% in 1H 2019), driven by a focus on mortgage and auto loans as well as bancassurance activities.
  - The contribution of retail lending rose from 40.7% in 2017 to 50.5% in 2018 while NIM jumped from 2.9% to 3.7%. The margin improvement trend continued in 1H 2019 with NIM reaching 4.0%.
- **Well-positioned as a digitally-focused bank**
  - In the digital era, the trend of undertaking digital journey to meet more complex and diverse customer needs is inevitable.
  - TPB has successfully positioned itself as a digitally-focused bank that uses advanced technology and automation in serving customers. Advantages may not be obvious in short-term but are expected to benefit in long-term.

## RISKS

- Asset quality saw less desirable moves with NPL up to 1.5% and LLR down to 84% in 1H 2019.
- 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.
- The plan to launch a consumer finance business could support NIM growth but at the same time put more pressure on both operating and provision expenses.
- Although LiveBank achieved certain recognition as the first of its kind, other digital products of TPB such as online banking apps, QR code payment and electronic wallets are facing intensive competition from other banks as well as fin-tech. In order to retain its leading position in digital banking, TPB will likely need to spend more going forward.

## 2019 Guidance

| | |
|---|---|
| NPAT growth | **+42%** |
| Credit growth | **+20%** |
| CMP (VND) | *18,400* |

| STOCK INFO | |
|---|---|
| Sector | Banks |
| Market Cap ($ mn) | 796 |
| Current Shares O/S (mn shares) | 827 |
| 3M Avg. Volume (K) | 1,416 |
| 3M Avg. Trading Value (VND Bn) | 33.5 |
| Foreign Ownership (%) | 30.0 |
| State Ownership (%) | 4.2 |

| FORECAST | 2015A | 2016A | 2017A | 2018A |
|---|---|---|---|---|
| **Revenue** | 1,555 | 2,309 | 3,610 | 5,627 |
| *Growth (%)* | *35.1* | *48.5* | *56.3* | *55.9* |
| **NPATMI** | 562 | 565 | 964 | 1,805 |
| *Growth (%)* | *4.9* | *0.5* | *70.5* | *87.3* |
| ROA (%) | 0.9 | 0.6 | 0.8 | 1.4 |
| ROE (%) | 12.4 | 10.8 | 15.6 | 20.9 |
| EPS (VND) | 1,013 | 967 | 1,649 | 2,107 |
| Book Value (VND) | 8,646 | 9,725 | 11,429 | 12,400 |
| Cash dividend (VND) | - | - | - | - |
| P/E (x) | 22.1 | 23.2 | 13.6 | 10.6 |
| P/B (x) | 2.6 | 2.3 | 2.0 | 1.8 |

**Figure 1: TPB's lending structure (%)**

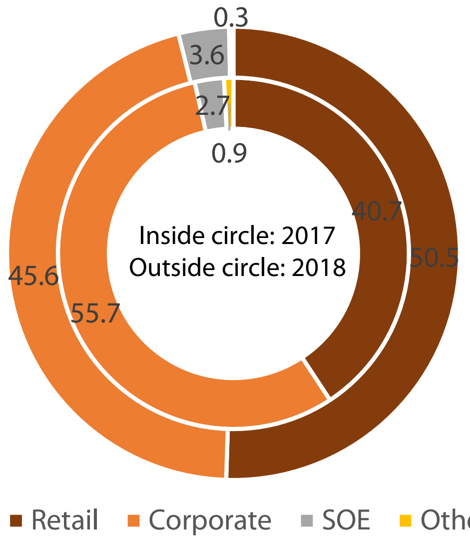
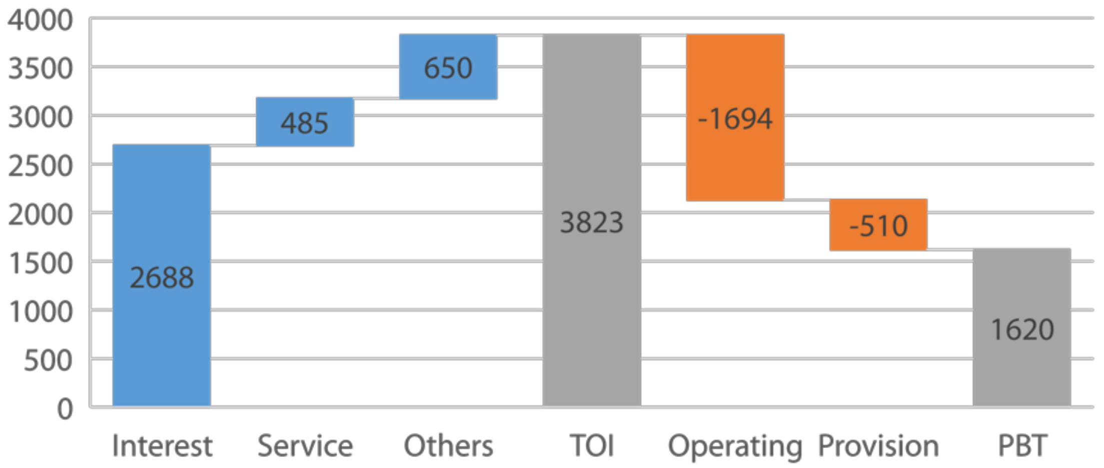



**Figure 2: TPB's TOI structure 1H 2019 (VND Bn)**

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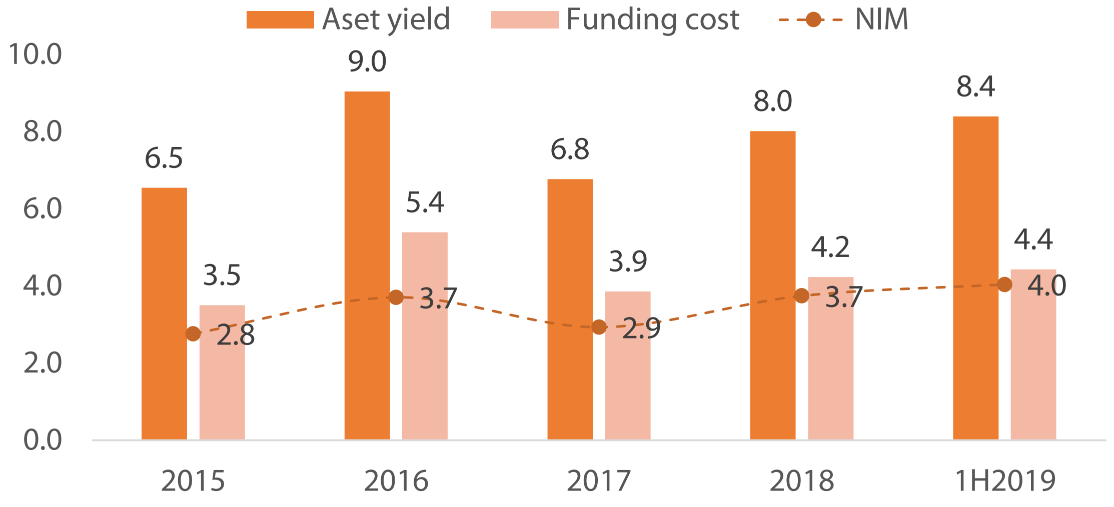
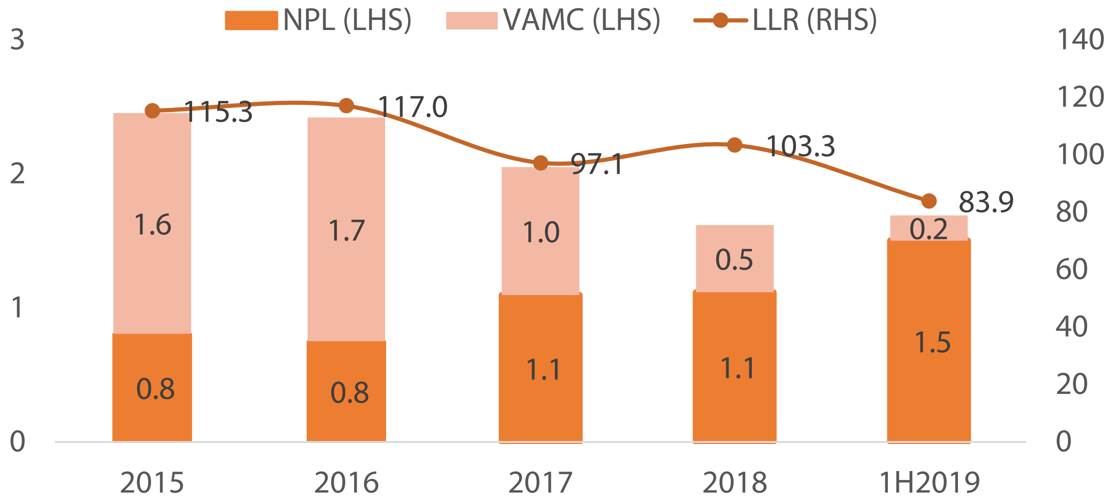



**Figure 4: TPB's NPL, VAMC and LLR ratio 2015 - 1H 2019 (%)**




*Source: TPB, Rong Viet Securities*

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