



Banking sector

“Became more resilient to weather the crisis”

Our recommendations

- Coronavirus pandemic impacted Vietnamese banking sector at a certain magnitude. Non-performing-loans (NPLs) provision expense would be increased in 1st and 2nd quarter 2020, particularly banks that expose considerably to tourism, aviation, outsourced-manufacturing. Nonetheless, we see the banks as capital providers would be less damaged than other sectors. In addition, the banking system was much healthier versus in 2008, capable to weather this crisis.
- Many listed banks – more conservative and profitable creditors versus sector - uncovered attractive investment opportunities at a much less costly valuation. We highly appreciate banks that possesses affluent and diverse customer base varying from large corporations to SMEs and individual clients. They would be more defensive amid macro economic contraction and afterwards capable to reclaim their earnings growth.
- **VCB** is the leading bank in Vietnam in terms of net profit, quality of clients base and package for employees. The bank that originally provided capital for trade-to-globe businesses of Vietnam has built up a virtually faultless ecosystem of the most affluent clients in the economy. The lowest yield spread underpinned by inherently big brand-name, unqualified customers base, top CASA, and abundant liquidity prove a good stock to buy given an appropriate price.
- **MBB** is a dynamic bank with diverse income sources and strong customer base. From a creditor serving specially Vietnam Defense Ministry’s enterprises, MBB developed a diversified customer base towards SMEs and retail customers. MBB implied a good buying opportunity based on (i) Pushing up NIM via launching consumer finance entity, (ii) boosting insurance products cross selling, and (iii) premium valuation in private placement.

Equity Ratings and Price Targets

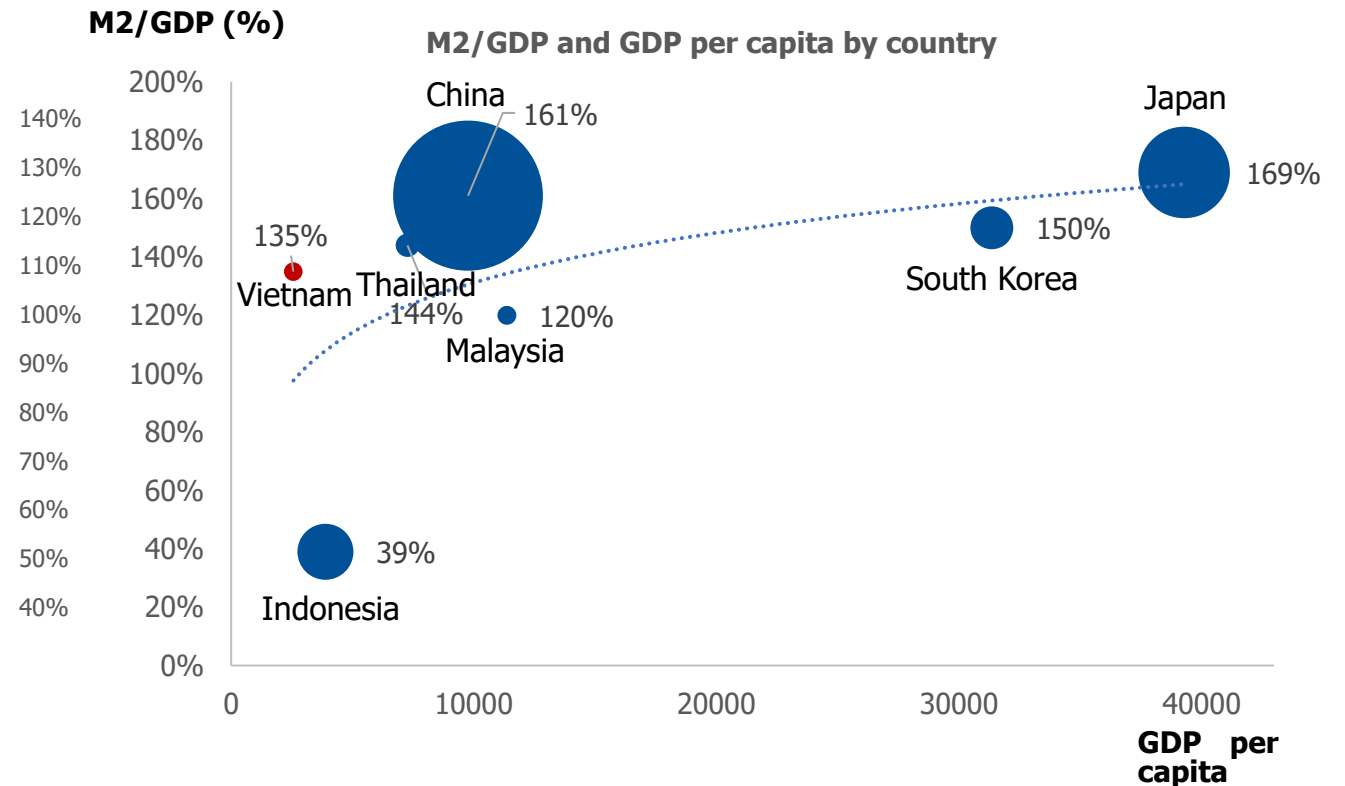
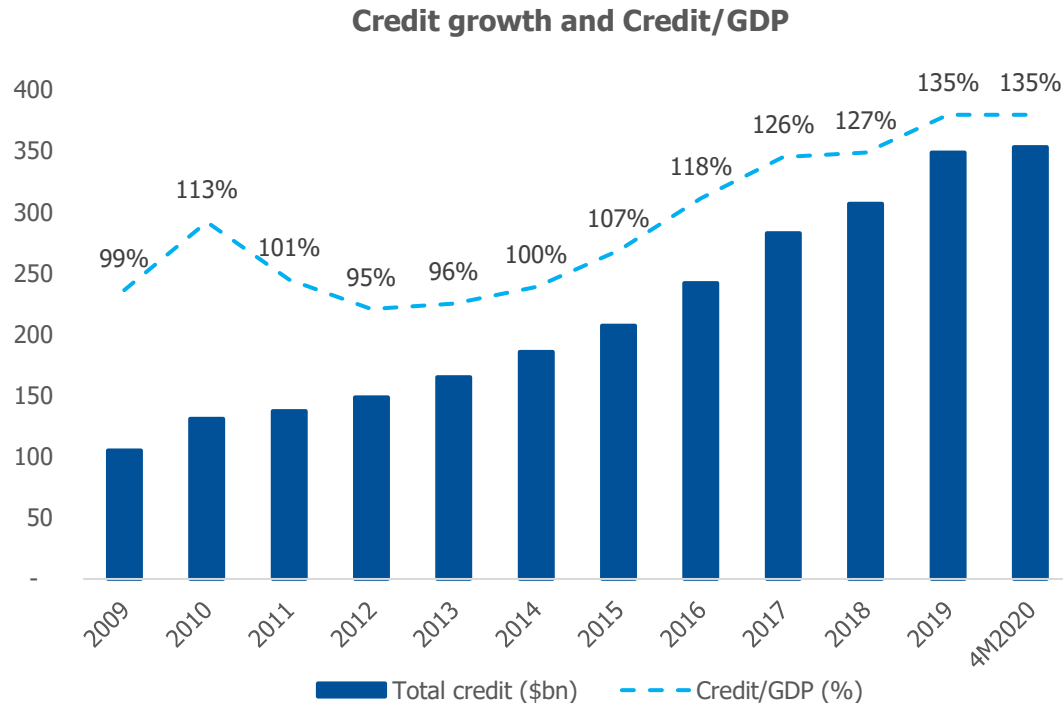
Company	Ticker	Mkt Cap (VND billion)	Price (VND)	Rating		Price Target	
				Current	Previous	Current	Previous
Bank for Foreign Trade of Vietnam	VCB	271,861	75,600	HOLD	HOLD	81,300	85,900
Military Commercial Joint Stock Bank	MBB	38,583	17,200	BUY	BUY	23,300	27,500

Vietnam Banks

A snapshot amid Coronavirus pandemic outbreak (1)

Vietnam banking sector oriented a monetary expansionary policy since 2009. Despite relatively high leverage, potential to increase Vietnamese banking sector's asset amount remains large underpinned by solid economic growth, booming of middle class, and big infrastructure and real estate development demand in this country.

- Credit-on-GDP ratio increased from 99% in 2009 to 135% in 4M2020. Credit growth has been flat in early 2020 due to coronavirus impact on the economy, but it could recover in late 2020 and 2021 thanks to deployment demand for infrastructure investment.
- Vietnamese banks' magnitude and position compared to other countries in Asia remained modest, given Credit/GDP ratio of 135%, much lower than Japan (169%), China (161%), South Korea (163%), and Thailand (144%). We expect total national credit in the long run would be magnified via (i) enhancing GDP per capita and (ii) pushing up Credit/GDP further.



Vietnam Banks

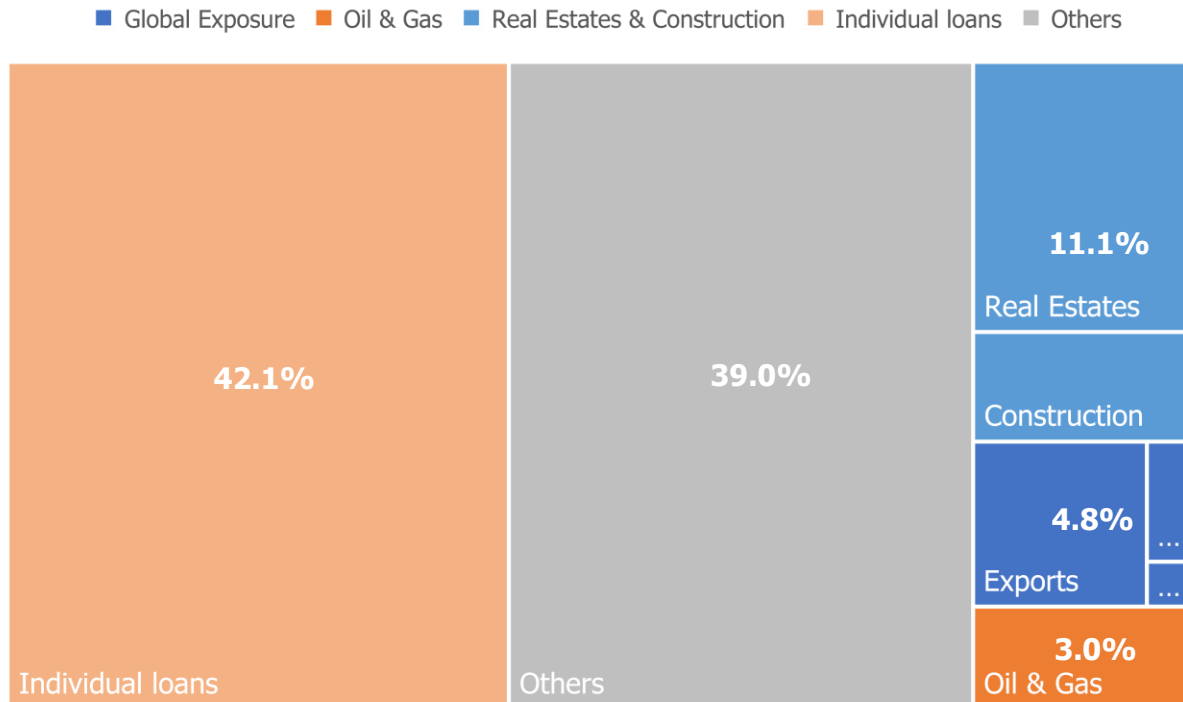
A snapshot amid Coronavirus pandemic outbreak (2)

The pandemic influence on global economy and oil price absolutely impacted negatively a considerable loan magnitude in Vietnamese banks:

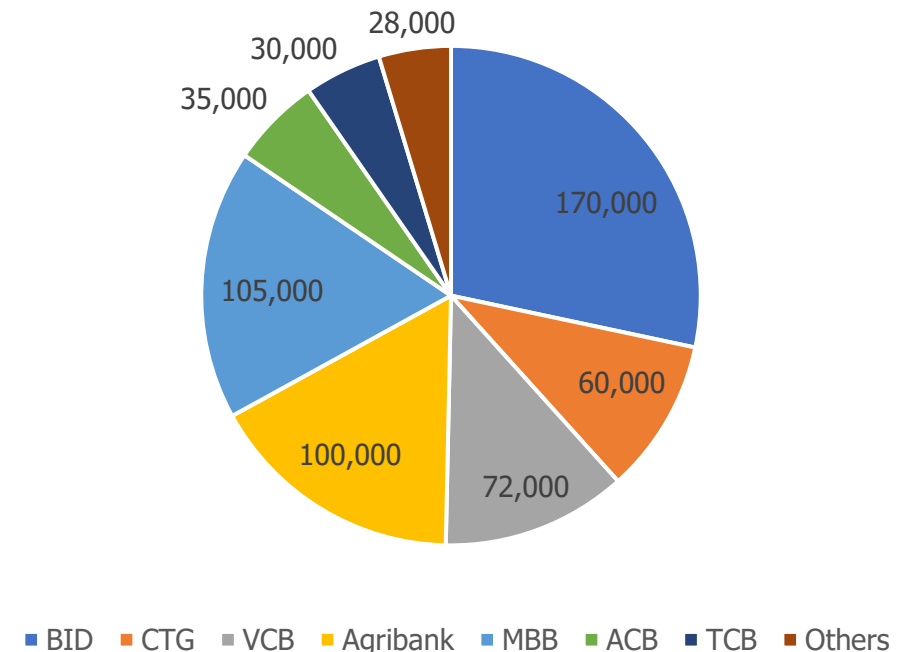
- According to our compilation, directly impacted domain accounted for 19% of banks' portfolio (versus 17% of consensus and 23% of SBV), including (i) export products manufacturing: garments, footwear, fishery, furniture, etc, (ii) Oil & Gas, and (iii) Real estates and Construction. Aviation - the most severely impacted sector – made up only 0.3%.
- Individual loans, the indirectly suffered domain through increasing unemployment, accounted for 42% of banking portfolio. Although this segment (mainly as Mortgages, Auto loans, and Consumer loans) is riskier than corporate segment, the damage would be partly mitigated thanks to Vietnamese citizens' cash savings tendency.

In Apr 2020, the largest Vietnamese banks implemented a VND 600,000 bn (USD 27bn, equivalent to 10% of GDP in 2019) lending package to support the economy via (i) easing loan repayment deadlines and (ii) reducing lending rates (by roughly 1%-1.5%, in line with refinancing rate cutting of SBV). 4 State-owned Commercial Banks (SOCBs) committed to deployed 400,000bn in total.

Impacted loans book by pandemic outbreak



Preferential lending package by bank (VND bn)



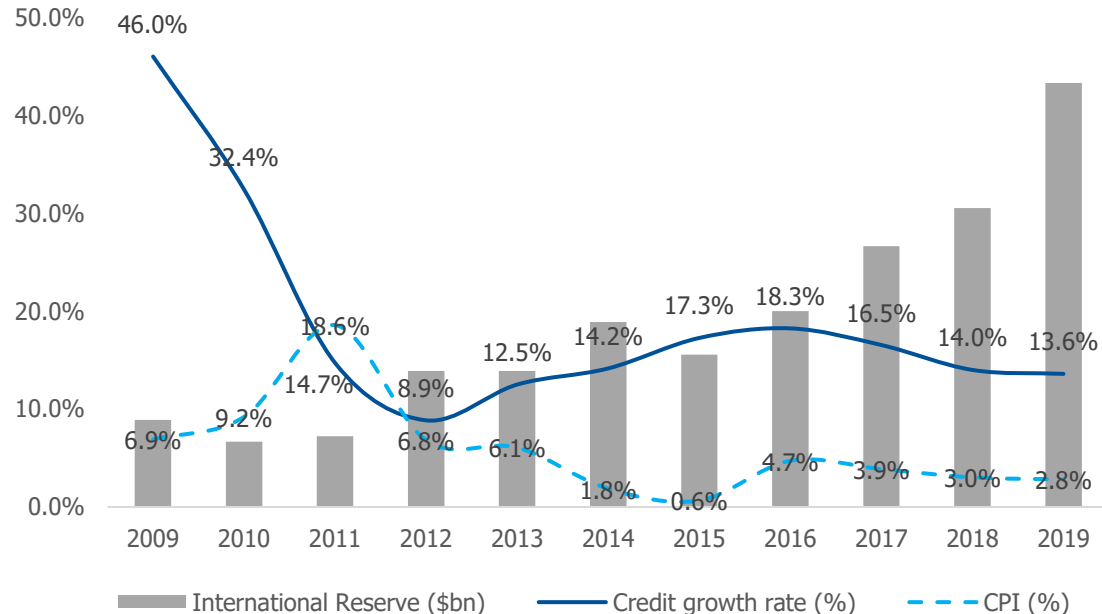
Vietnam Banks

Vietnamese banking system difference in 2020 Crisis

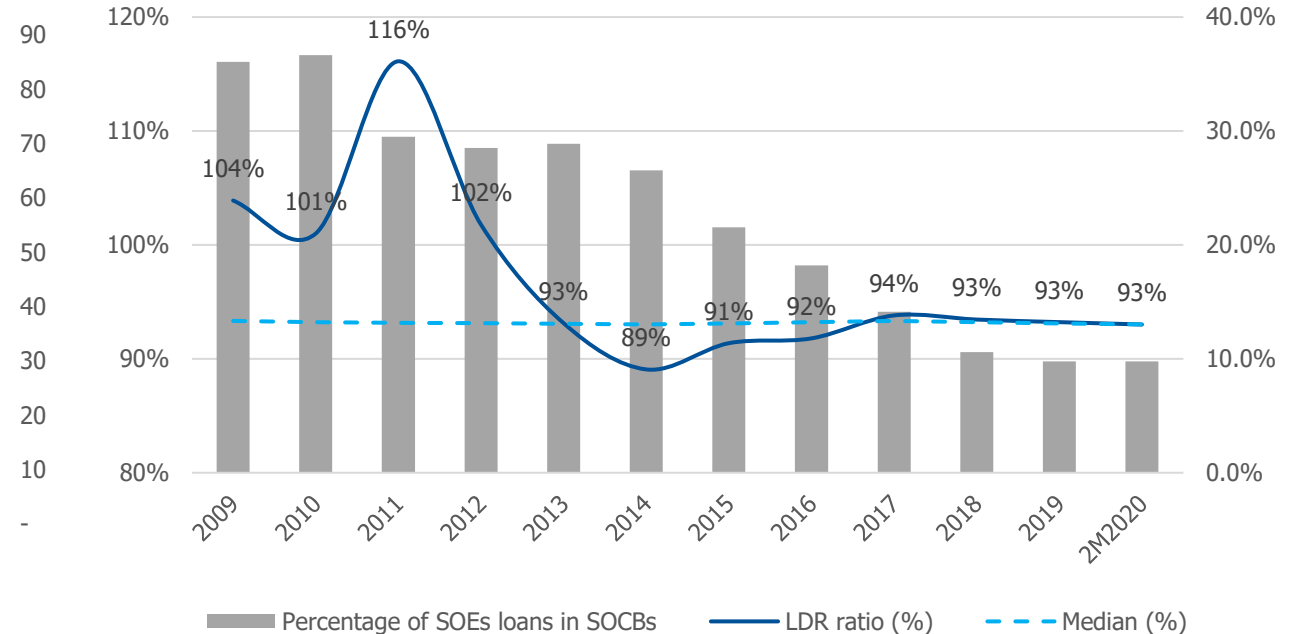
The pandemic outbreak unavoidably impacted negatively Vietnamese economy and banking system as well. Nonetheless, the system's position are currently much more resilient to weather this panic compared to in Financial Crisis 2008:

- Vietnam's monetary expansionary has been much more conservative than 2008 with stable credit growth, curbing inflation. The economic growth has been underpinned by sustainable FDI flows, strength of inland private corporations, and strong purchasing power from middle class. In addition, SBV accumulated a large international reserve as a decent buffer to protect exchange rate and inflation in negative scenarios.
- Vietnamese banks also built up a stronger and more stable balance sheet. First and foremost, their Loans-to-Deposits (LDR) ratio was reduced from over-100% in 2009-2012 period (peaking at 116% in 2011) to 93% in 2M2020. Second, the banks outweighed their lending portfolio towards SMEs and individual customers, and underweight loans in state-owned enterprises that are considered less effective capital management.

Stable credit growth & good inflation controlling



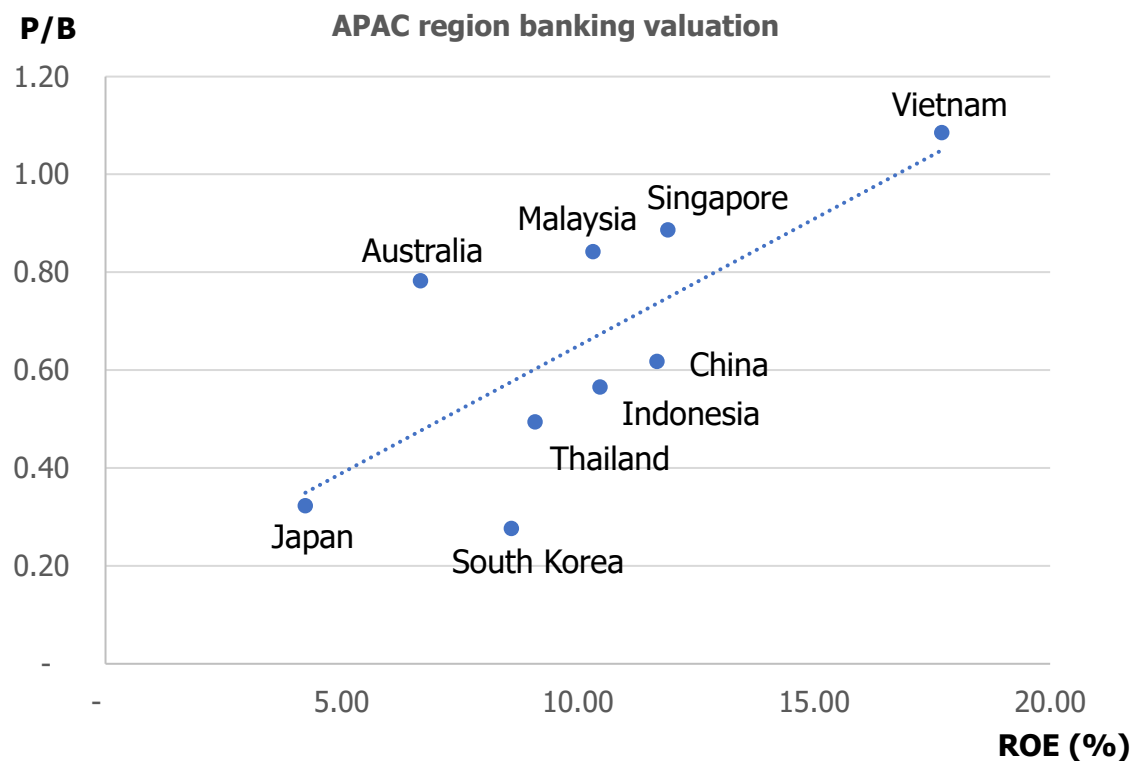
Safer Loans-to-Deposits Level in Banking sector



Vietnam Banks

Premium valuation thanks to solid growth

- Profitability of Vietnamese banks is superior compared to their Asia Pacific region peers' in a long period, proving high growth potential forward meanwhile banking players in other countries must invest offshore or pay dividends to shareholders due to mature inland market. It justified premium Vietnamese banks' P/B valuation compared to the peers.
- Given macro tailwinds and booming of financial demand in citizens, Vietnamese banks' prosperity in the future will be sustainable.



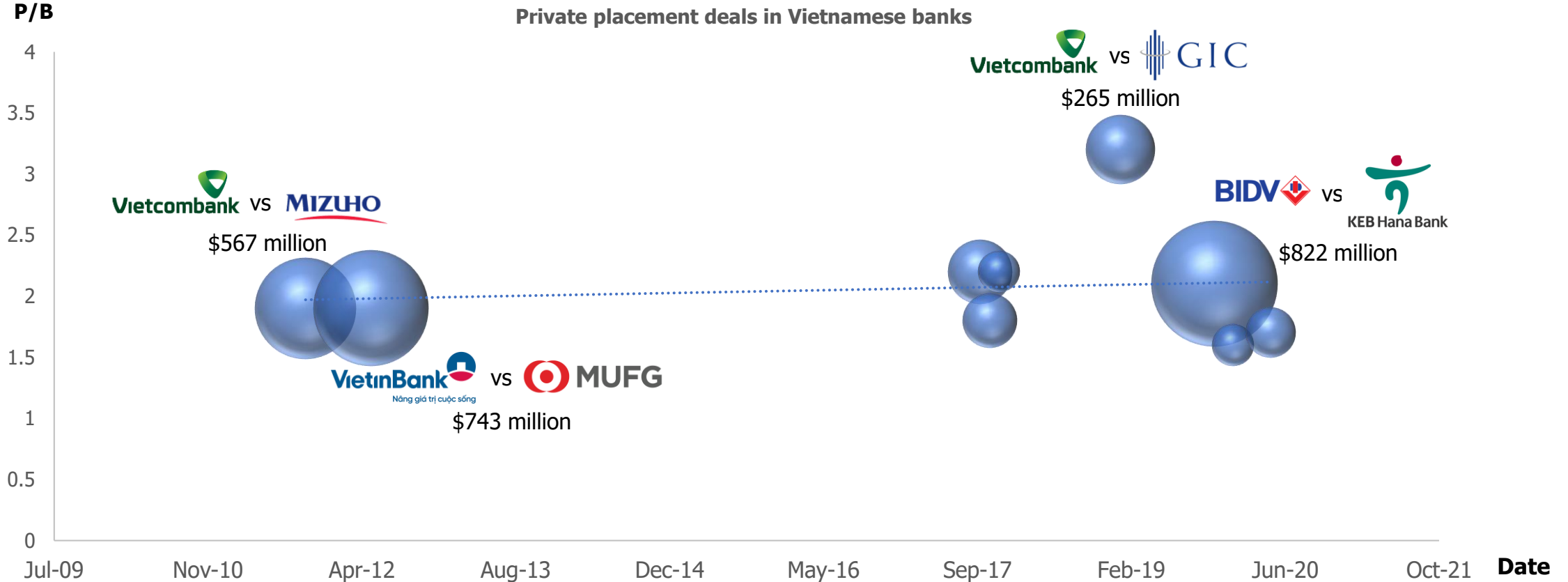
APAC region listed bank's ratio

	Asset amount 2019 (\$ bn)	5-yr Asset CAGR	Dividend yield	EPS growth 2020	FY1-FY2 ROE (%)	Median P/B
Australia	2,618	0%	10.2%	-29.6%	7.7%	0.78
China	27,620	7%	5.1%	7.2%	11.5%	0.62
Indonesia	435	11%	5.9%	8.0%	14.6%	0.57
Japan	11,139	6%	4.7%	-3.0%	4.4%	0.32
Malaysia	350	-11%	5.8%	-7.0%	9.4%	0.84
Singapore	1,097	8%	6.0%	-21.5%	9.4%	0.89
South Korea	2,034	9%	7.9%	-16.0%	7.1%	0.28
Thailand	567	9%	7.2%	-25.7%	7.8%	0.49
Average	-	6%	6.1%	-9.4%	10.0%	0.65
Vietnam	317	15%	1.9%	2.6%	18.2%	1.09

Vietnam Banks

Vietnam exposure of global financial institutions through strategic investments

- Since 2012, Vietnamese banks received roughly \$3.2 billion of strategic investment from foreign partners, in which 3 state-owned banks lured \$2.4 billion deployed by the largest financial holding companies in Japan, South Korea and Singapore. Private banks also attracted long-term capital source from many offshore mutual funds.
- P/B valuation in these private placement deals has been within 1.8-2.2x range. Particularly, VCB, given the most profitable bank in the industry, was traded at 3.2x of P/B in early 2019. Premium dealt P/B versus consensus of regional peers implied a high expectation of investors about thriving potential of Vietnamese banks.



Vietnam Banks

Vietnamese bank stocks ratings and picks

- **Credit Ratings:** According to Moody's assessment, Vietnamese banks' credit rating is mainly in range of Ba3-B1, except SHB and STB due to bad capital management. We appreciate banks at Ba3, including SOCBs (BID, CTG, and VCB), MBB, ACB and TCB.
- **Financial evaluation:** Yield spreads between deposits rate and Vietnam 5-yr bond yield (2.2%) of VCB, MBB and TCB are the lowest levels thanks to long-life affluent ecosystem. Although BID and CTG are large SOCBs, they are still in restructuring period to solve bad assets in previous cycle; they get a higher yield spread. ACB is a retail bank serving mainly SMEs and individual clients that are riskier than big companies, implying a high yield spread.
- **Diverse portfolio:** TCB have a strong customer base of Vietnamese mega-corporations Vingroup and Masan, but it raised a concentration risk while TCB's customers' financial leverage is relatively high. VCB and MBB own inherently diverse and affluent customer base.
- **Valuation:** VCB with leading position is traded at the highest valuation (P/B at 3.1x). The median of the sector is at 1.1x. MBB's P/B is 0.95x. VCB and MBB, given strong profitability, relatively low LDR and NPL, and diverse customer base, are good stocks versus peers.

	ASSET MAGNITUDE		MOODY'S RATINGS		FINANCIAL POSITION					VALUATION
	Total Assets (\$ bn)	Market share (%)	Baseline Credit Assessment	Long-term Deposit Rating / Outlook	Yield Spread vs Vietnam 5-yr bond yield	NIM (%)	LDR (%)	NPL (%)	ROE (%)	P/B ratio
BID VN Equity	64294	12.0%	b2	Ba3/NEG	2.50%	2.7%	88.0%	1.74%	12.0%	2.00
CTG VN Equity	53539	10.0%	b1	Ba3/NEG	2.33%	2.3%	89.4%	1.83%	12.6%	0.99
VCB VN Equity	52763	10.0%	ba3	Ba3/NEG	0.95%	3.1%	72.4%	0.82%	22.8%	3.12
MBB VN Equity	17756	3.3%	ba3	Ba3/NEG	1.77%	4.7%	75.8%	1.62%	20.1%	0.95
TCB VN Equity	16557	3.1%	ba3	Ba3/NEG	1.59%	3.8%	84.2%	1.10%	17.7%	1.00
ACB VN Equity	16549	3.1%	ba3	Ba3/NEG	2.78%	3.5%	77.1%	0.65%	23.9%	1.21
VPB VN Equity	16277	3.0%	b1	B1/STA	4.19%	8.7%	84.1%	3.03%	22.7%	1.19
TPB VN Equity	7096	1.3%	b1	B1/STA	2.37%	4.0%	70.0%	1.87%	25.6%	1.09
VIB VN Equity	7963	1.5%	b1	B1/STA	3.04%	3.9%	79.0%	2.19%	26.6%	1.00
HDB VN Equity	9902	1.9%	b2	B1/NEG	2.80%	4.5%	75.9%	1.08%	20.8%	1.11
LPB VN Equity	8719	1.6%	b2	B1/NEG	3.90%	3.3%	88.0%	1.08%	12.1%	0.56
SHB VN Equity	15761	3.0%	b3	B2/STA	4.19%	2.4%	83.6%	2.17%	13.4%	1.19
STB VN Equity	19573	3.7%	caa2	Caa1/STA	3.27%	2.5%	72.7%	1.97%	9.0%	0.62

HOLD; Target Price: 81,300 VND (+8%)

Our takeaways

VCB is the most profitable bank in Vietnam with the largest and most affluent customer base, competitive cost of fund and potential from bancassurance agreement. The bank will create solid earnings growth in the long run. After VCB's stock price has been decreased enormously by market reaction against pandemic outbreak, the stock is much more attractive so that overweighting should be considered.

What's new

Coronavirus could narrow NIM. We forecast 14% yoy credit growth in 2020, but interest rate would be reduced due to weaker borrowing demand in individual amid Coronavirus outbreak. Net interest margin is forecasted to decrease slightly by 10 bpts.

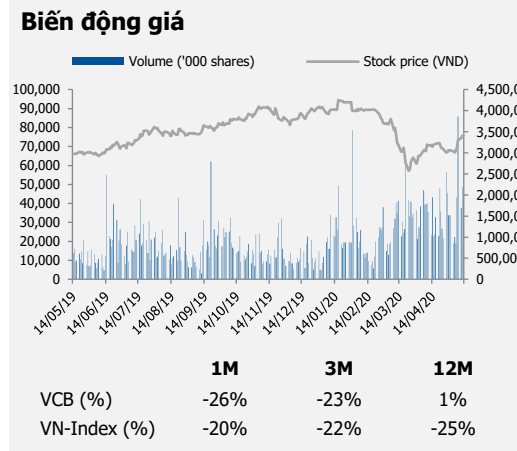
OPEX deceleration help PBT growth. In 2020, OPEX is expected to go up 10% versus 11% growth in TOI. It is because the bank would use part of its resources to compensate debtors as committed in preferential credit package.

Bancassurance agreement with FWD. VCB established an exclusive 15 year bancassurance deal with FWD. Under the agreement, FWD will acquire insurance company Vietcombank Cardif, a joint venture between VCB and BNP Paribas SA. On the other hand, Vietcombank agrees to distribute FWD's life insurance products. This is expected to be the largest bancassurance agreement in the banking system.

NPL raise , but LLR still keep high. Export, tourism and aviation companies borrowing VCB would be targets to increase recognizing provision due to pandemic outbreak. We forecast NPL in 2020 to keep at 1.0%, provision expense would increase by 36% yoy. LLR decreased to 169%.

Valuation

We value VCB with a HOLD recommendation and target price of VND81,300 (+8% upside) by using P/B multiples and RI methods. Implied P/B at 3.5x justified the outstanding customer base and competitive cost of fund.



Report date	13/05/2020
Current price	VND 75,600
Target price	VND 81,300
Upside	8%
Bloomberg	VCB VN Equity
Market cap	VND 315,625bn USD 13,430mn
52 weeks movement	VND52,700 VND92,000
Average daily value	VND 58bn USD 2mn
FOL	30.00%
Current FO	23.57%

Unit: VND billion	2018	2019	2020F	2021F
Operating income	39,278	45,733	50,801	59,077
Profit before provision & tax	25,667	29,913	33,377	39,887
Growth y-o-y		17%	12%	20%
Credit provision expenses	7,398	6,790	9,230	9,981
Growth y-o-y		-8%	36%	8%
Profit before tax	18,269	23,123	24,147	29,907
Growth y-o-y		27%	4%	24%
Net profit	14,622	18,528	19,318	23,925
Growth y-o-y		27%	4%	24%
EPS (basic) (VND)	4,057	4,992	5,209	6,451
BVPS (VND)	17,254	23,099	27,773	33,223
ROAA	1.4%	1.6%	1.5%	1.6%
ROEA	25.5%	25.1%	20.5%	21.2%
P/E		15.1	14.5	11.7
P/B		3.3	2.7	2.3

Source: MBS Research

BUY; Target Price: 23,300 VND (+36%)

Our takeaways

We strongly value MBB for its diverse income sources, which vary from consumer lending to Bancassurance joint venture, asset management and other brokerage service from its subsidiaries. Moreover, the bank has been consistently performed well in credit growth, profitability and asset quality in the past downturn. We forecast a more robust growth for MBB in 2019 and 2020 of over 20% in ROE based on conservative risk management strategy.

What's new

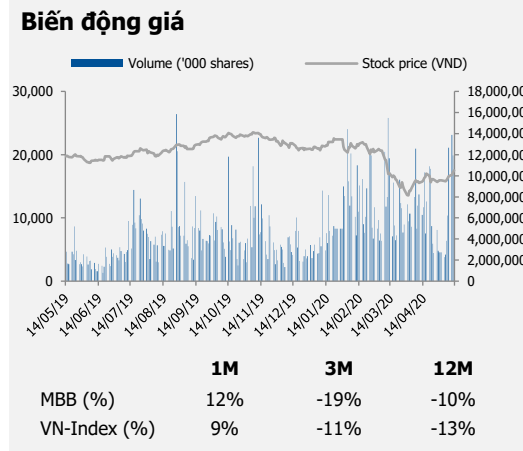
NIM reduction due to lower lending rate: Lending rate would be shaved partly because the bank committed to use a large capital to support customers. NIM is expected to decrease to 4.79% in 2020. Yet, in the long run after 2020, we kept a modest rise in NIM thanks to expansion of consumer finance segment, and inherently low deposits expense given high CASA.

NPL is forecast to rise, yet actively high provisioning is applied. We forecast NPL to increase to 1.4% in 2020 versus 1.2% in 2019, given impact of virus outbreak on customers, especially clients of consumer finance entity M-Credit. LLR would be maintained at 108% in 2020.

15% of Non-NII growth in 2020 thanks to potential in insurance market, MBB is currently the largest and most motivated player in insurance cross selling. Decent customer base enables the bank to raise their bancassurance income further. In transaction banking alone, we strongly value active Fintech application and partnerships of the banks with multiple vendors in order to provide financial products in ecosystem (e.g. MBAgeas Life, MBS, etc).

Valuation

We value MBB with a BUY recommendation at target price of VND23,300 (+36% upside) by using P/B multiples and RI methods. Average P/B is 1.1x.



Report date	13/05/2020
Current price	VND 17,200
Target price	VND 23,300
Upside	36%
Bloomberg	MBB VN Equity
Market cap	VND 52,095bn USD 1,989mn
52 weeks movement	VND16,700 VND23,600
Average daily value	VND 152bn USD 7mn
FOL	23.00%
Current FO	23.00%

Unit: VND billion	2018	2019	2020F	2021F
Operating income	19,537	24,650	27,672	31,946
Profit before provision & tax	10,803	14,927	17,443	20,849
Growth y-o-y		38%	17%	20%
Credit provision expenses	3,035	4,891	6,221	7,064
Growth y-o-y		61%	27%	14%
Profit before tax	7,767	10,036	11,222	13,785
Growth y-o-y		29%	12%	23%
Net profit	6,113	7,823	8,704	10,692
Growth y-o-y		28%	11%	23%
EPS (basic) (VND)	2,826	3,297	3,564	4,379
BVPS (VND)	15,090	16,014	19,616	23,495
ROAA	1.8%	2.0%	2.0%	2.1%
ROEA	20.1%	22.1%	20.3%	20.3%
P/E		5.2	4.8	3.9
P/B		1.1	0.9	0.7