KB Securities VIETNAM

Vietnam Banks

A picture intertwining dark & light patches

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Neutral monitor

Recommendations	
Vietcombank (VCB)	BUY
Target price	VND 109,600
Bank for Investment & Development (BID)	BUY
Target price	VND 47,900
Vietinbank (CTG)	BUY
Taget price	VND 43,500
Asia Commercial Bank (ACB)	BUY
Target price	VND 30,000
Techcombank (TCB)	BUY
Target price	VND 39,000
Military Bank (MBB)	BUY
Target price	VND 24,000
VPBank (VPB)	BUY
Target price	VND 36,600
TPBank (TPB)	HOLD
Target price	VND 24,500
Maritime Bank (MSB)	BUY
Target price	VND 17,900

Credit growth should accelerate in 4Q23 and conclude the year at 10-11%

We maintain the view that credit growth would accelerate in 4Q23 and may reach 10-11% for 2023, backed by (1) rising consumer loan demand during year-end holidays, (2) low lending rates, which might fall further to boost lending, and (3) the recent credit limit extension by the State Bank of Vietnam (SBV), providing ample room for loan growth across banks. Entering 2024, KBSV expects economic sectors to gradually warm up and difficulties facing the real estate and corporate bond markets to be resolved. We forecast 2024F credit growth of 13-14%.

Bank liquidity remains stable thanks to abundant funding sources

Banks' capital mobilization has enjoyed positive growth in recent months, reaching 5.8% YTD by the end of September 2023. With the slow loan disbursement, banks will not face liquidity issues due to relatively abundant funding sources, particularly the savings deposit channel, driven by high deposit rates in 1H23.

The recovery pace of NIM will be slower than expected

We believe the recovery pace of NIM will be slower than expected, with some banks even undergoing further declines in 4Q23. In 2024, the impact of low interest rates will be fully reflected in the cost of funds (CoF), while the reduction in lending rates will be slow and lag behind deposit rates. Therefore, we expect a significant improvement in the net interest margin (NIM) of the banking industry in 2024, but it may not return to the high levels seen in 2022. State-owned banks (SoBs) and ACB will witness a modest improvement in NIM compared to other banks since they have a pivotal role in supporting the economy by cutting lending rates.

Asset quality should be closely followed in 2024

We believe that banks' asset quality will be temporarily under control at the current level towards the end of 2023 but should be closely followed in 2024. Risks that may cause non-performing loans (NPLs) to surge next year are (1) the expiration of Circular 02 in June 2024, resulting in the reclassification of restructured loans and (2) shrinking provision buffers across banks in 2023, reducing the capacity to handle bad debts in the following year.

Banking stock prices have retreated in response to negative factors

We maintain a neutral outlook on the banking industry for 2024. However, stock prices have already reflected negative factors, making the current price range relatively attractive. The current P/B for the banking industry is at 1.4x, close to the 2020 and 2022 lows of 1.3x.

3Q23 credit slowly recovered from 1H23's sluggish growth

10M23 credit growth was modest amid a gloomy economic context

Data released by the SBV shows that the total outstanding loans in Vietnam's economy by the end of October 2023 expanded by 6.81% YTD, with credit growth witnessing a faster pace since the end of 2Q23. Despite improvements compared to the start of the year, borrowing demand remained modest in the context that the economy has not yet shown a strong recovery.

As mentioned in the 4Q23 Strategy Report, we observe a trend of shifting from retail lending to corporate lending in some banks, especially those with a large retail lending proportion such as ACB Bank (ACB), VIB Bank (VIB), HDBank (HDB), due to (1) economic woes leading individuals to tighten their spending, (2) banks and finance companies restricting lending due to concerns about high-risk consumer loans. As shared by some banks, retail lending may slow down compared to the previous year. Outstanding consumer loans of the entire system rose by only ~1.53% YTD, the lowest in the past five years, while the demand for corporate loans is growing. However, the capital needs among businesses are primarily for maintaining working capital rather than expanding production and business activities.

Outstanding loans to the real estate sector hit VND2.74 trillion, up 6.04% YTD, accounting for 21.46% of the total outstanding loans in Vietnam's economy. This aligns with the credit growth exceeding the industry average in some banks with a significant contribution of real estate loans such as TCB, VPB, Military Bank (MBB). Real estate credit has rebounded following support policies issued to address difficulties in recent times.

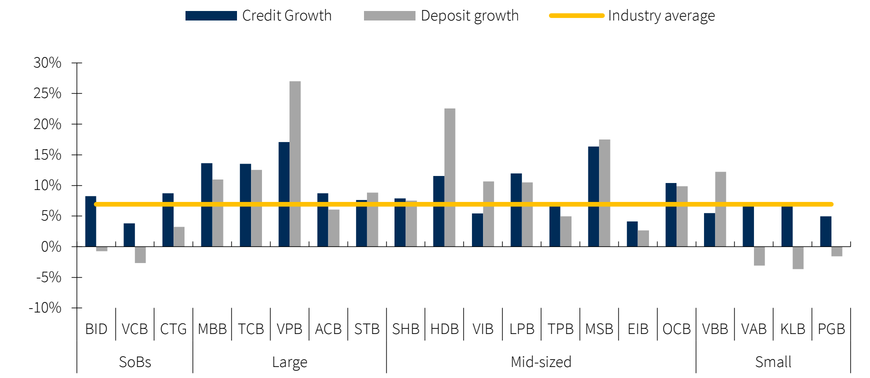
Credit growth should accelerate in 4Q23 and conclude the year at 10-11%

Outstanding loans in corporate bonds experienced a sharp decline in 9M23 due to issues associated with Tan Hoang Minh and Van Thinh Phat, negatively impacting investor confidence. The outstanding balance in corporate bonds at banks dropped sharply due to (1) limited new issuances from real estate developers and (2) companies buying back bonds before maturity. According to VBMA, as of October 2023, the total value of privately issued corporate bonds reached VND184.796 trillion, down 43.8% YoY.

We maintain the view that credit growth will accelerate in 4Q23 and may reach 10-11% for the whole year 2023, backed by (1) rising consumer loan demand during year-end holidays, (2) low lending rates, which might fall further to boost lending, and (3) the recent credit limit extension by the SBV, providing ample room for credit growth across banks. In 2024, KBSV expects economic sectors to gradually warm up and difficulties facing the real estate and corporate bond markets to be resolved. We forecast 2024F credit growth of 13-14%.

Credit growth showed differentiation among banks. Banks with a focus on lending to corporates and real estate enjoyed superior credit growth compared to other banks. State-owned banks (SoBs) with a low-risk appetite and cautious disbursement practices witnessed weaker growth.

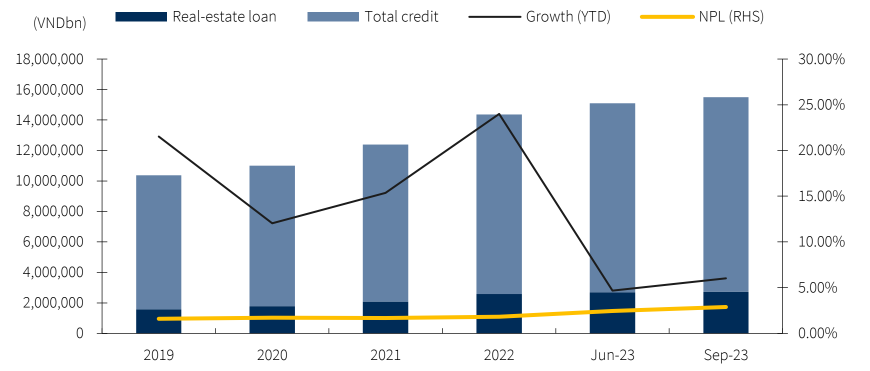
Fig 1. Vietnam – Credit & loan growth across banks (%YTD)



Source: Local banks, KB Securities Vietnam

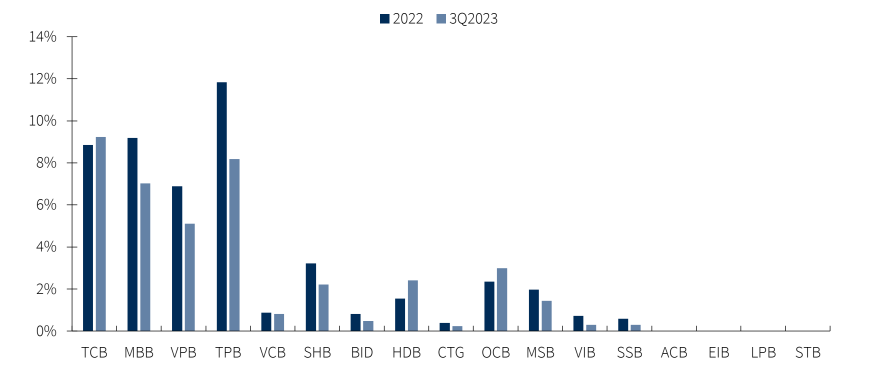
Despite unresolved legal entanglements related to the real estate market, the credit growth in this sector continued to surpass the overall growth. However, the NPL ratio within the real estate sector tended to increase rapidly, reaching 2.9% from 1.8% at the end of 2022.

Fig 2. Vietnam – Outstanding real estate loans (VNDbn)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 3. Vietnam – Outstanding loans in corporate bonds to total outstanding loans of some banks (%)



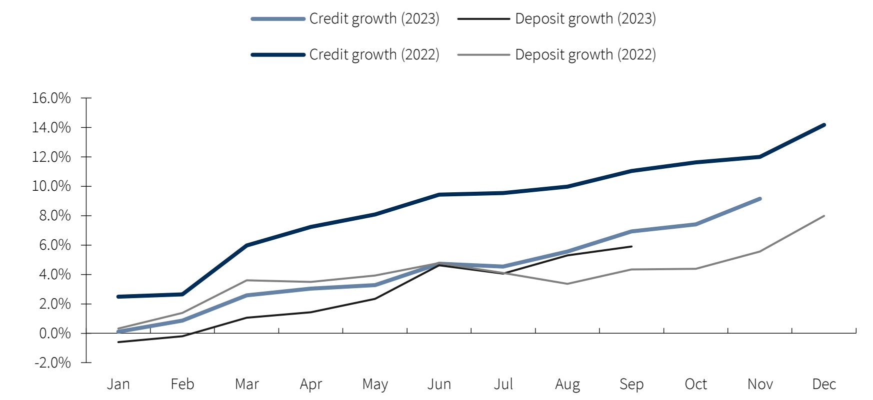
Source: Local banks, KB Securities Vietnam

Bank liquidity remains stable thanks to abundant funding sources

Banks' capital mobilization has enjoyed positive growth in recent months, reaching 5.8% YTD by the end of September 2023. This indicates that the deposit channel is still favored, though deposit interest rates are no longer as high as before, while other investment channels such as real estate, corporate bonds, and the stock market have not yet regained momentum. With the slow loan disbursement, banks will not face liquidity issues due to relatively abundant funding sources, particularly the savings deposit channel, driven by high deposit rates in the first half of 2023.

The CASA (Current Account and Savings Account) ratio is starting to show signs of improvement compared to the previous quarter in some banks. Nevertheless, the overall recovery pace still fell short of expectations. This is partly due to the prevalence of savings deposits (as mentioned above). Banks under our coverage have seen improved CASA ratios, mainly contributed by corporate customers.

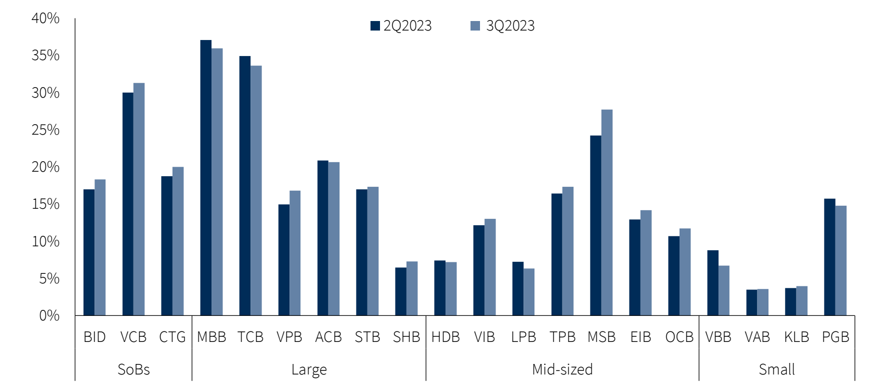
Fig 4. Vietnam – Deposit & loan growth in 2022–2023 (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Most banks have witnessed a slight increase in CASA compared to the previous quarter. We expect the recovery pace to accelerate in the coming quarters as deposit interest rates are no longer as attractive as in the previous period, while other investment channels are gradually gaining popularity.

Fig 5. Vietnam – CASA ratio across banks (%)



Source: Local banks, KB Securities Vietnam

The recovery pace of NIM will be slower than expected

NIM varied among banks

Most banks we cover continued to see a decline in NIM compared to the previous quarter (except TCB, TPB, MSB, OCB, which show slight improvement). The asynchronous trend among banks indicates the weaker-than-expected recovery of NIM. We foresee that the CoF is still under pressure as high-interest-bearing 12M deposits will mature by the end of 2023 or early 2024. Therefore, banks will need another three to six months to align the CoF with the policy interest rates. However, the current deposit interest rates have reached the post-pandemic bottom, making further reductions less likely. We also note the risk of an increase in deposit interest rates, which could impede the pace of CoF improvement. From our observation, some banks have recently raised deposit interest rates to (1) increase the proportion of long-term deposits to meet the requirement of keeping short-term funding for long-term loans under 30% under Circular 06 and (2) anticipate year-end credit growth.

Regarding the lending interest rates, we observe that yields on interest-earning assets (IEA) at banks under our coverage dropped further in 3Q23 (-17bps QoQ). In particular, SoBs and some large joint stock commercial banks (ACB, STB) slipped by 20-30 bps QoQ following the deployment of supportive policies. KBSV believes that IEA will maintain a downward trend in the coming time due to (1) banks staying competitive by offering low lending interest rates to boost credit growth and (2) restructured loans to corporate customers in some banks having lower yields than individual customers.

NIM will slowly recover with a differentiation among types of banks

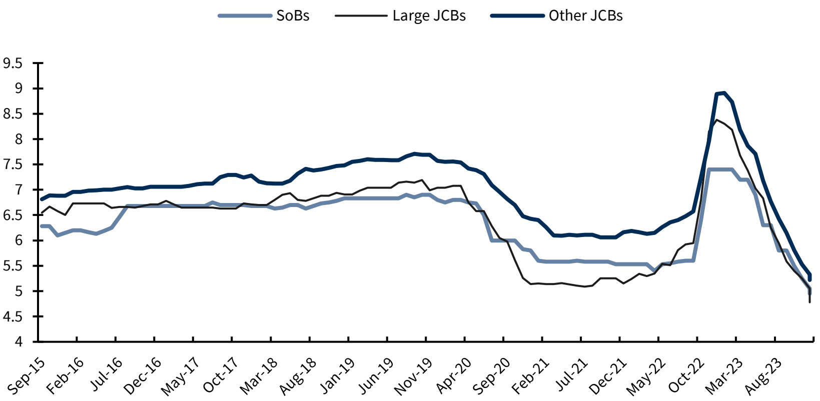
Given the discrepancy between the CoF and yields on interest-earning assets (IEA), we believe the recovery pace of NIM will be slower than expected, with some banks even undergoing further declines in 4Q23. In 2024, the impact of low interest rates will be fully reflected in the cost of funds (CoF), while the reduction in lending rates will be slow and lag behind deposit rates. Therefore, we expect a significant improvement in the NIM of the banking industry in 2024, but it may not return to the high levels seen in 2022. SoBs and ACB will witness a modest improvement in NIM compared to other banks since they have a pivotal role in supporting the economy by cutting lending rates.

Table 6. Vietnam – Changes in IEA, COF, NIM vs. the previous quarter across banks (+/-bps)

	IEA	CoF	NIM
BID	-3.8	40.9	0.0
VCB	-21.3	3.0	-15.6
CTG	-11.4	-6.5	0.2
MBB	-9.1	12.3	-5.0
TCB	-15.3	-15.3	4.1
VPB	-10.3	51.3	-20.7
ACB	-20.6	-13.3	-6.2
STB	-34.5	17.5	-29.8
SHB	-32.9	-4.2	-18.3
HDB	35.1	97.6	-5.5
VIB	-29.4	-24.4	-5.3
LPB	-8.3	25.6	-5.9
TPB	-3.2	-1.4	9.7
MSB	-20.3	-6.4	2.5
EIB	-20.2	22.7	-22.4
OCB	-7.8	-6.6	2.5
VBB	-32.7	5.5	-20.3
VAB	-13.7	52.6	-40.7
KLB	-20.1	18.0	-9.9
PGB	-42.0	-15.3	-24.8

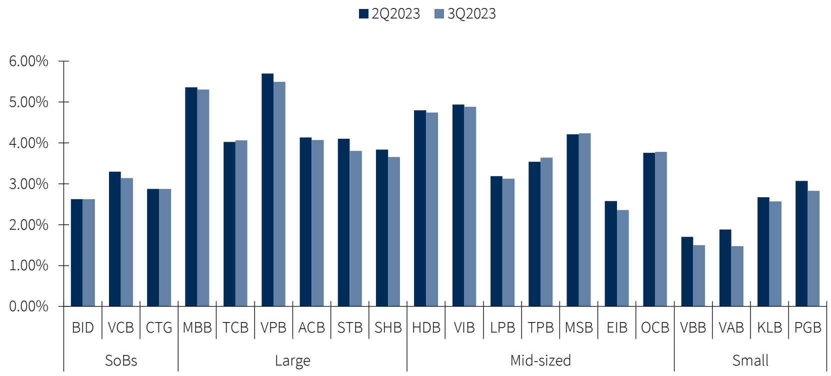
Source: Local banks, KB Securities Vietnam

Fig 7. Vietnam – 12M deposit interest rates across banks (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 8. Vietnam – NIM across banks (%)



Source: Local banks, KB Securities Vietnam

Asset quality should be closely followed in 2024

Asset quality continued to worsen in 3Q23

The overall NPL ratio has increased for the fourth consecutive quarter to 2.2% (+6.9% QoQ) following the expiration of Circular 14 on rescheduling COVID-related debts. However, the NPL formation showed signs of slowing down in the third quarter of 2023, except for the State-owned commercial banks (SOCBs) group (due to VCB recognizing a significant increase in doubtful debts). The implementation of Circular 02 has created conditions for banks to maintain their customers' debt groups, helping to restrain the increase in the NPL ratio. According to the SBV, by the end of September 2023, the total restructured debt under Circular 02 hit VND140 trillion (~ 1.09% of the total outstanding loans). Among the banks we have information on, VPB has restructured debts of VND14.9 trillion (~2.86% of the total outstanding loans), and BID has nearly VND20 trillion (~1.5% of the total outstanding loans), helping control the surge in NPLs in 4Q23. Other banks under less pressure from rising NPLs and not prioritizing the implementation of Circular 02 (due to the need for higher provisioning) have a relatively small proportion of restructured debts (VCB 0.14%, ACB 0.4%, TCB 0.27%, MSB 0.25%, HDB 0.5%).

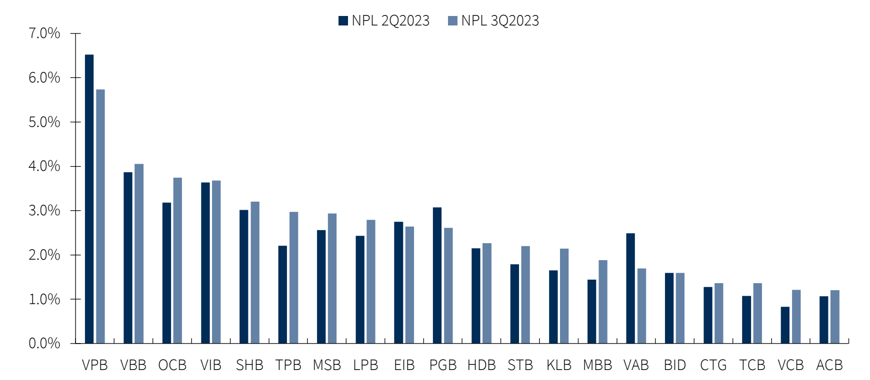
Positive points regarding the asset quality in 4Q23 are mirrored in the special mentioned loan ratio, which dropped by 7.7% QoQ, in contrast to continuous increases in previous quarters, and the NPL formation slowed down across banks. We observe that pressure on large and medium-sized commercial banks (MBB, TCB, TPB, MSB, etc.) remains due to negative impacts from the corporate bond and real estate markets and challenges associated with individual customers.

NPLs may balloon in 2024

We believe that banks' asset quality will be temporarily controlled at the current level towards the end of 2023 but should be closely followed in 2024. Risks that may cause a surge in NPLs next year may come from (1) the expiration of Circular 02 in June 2024, leading to the reclassification of previously restructured loans, (2) banks' shrinking provision buffers in 2023, impacting bad debt handling in 2024. Currently, the LLCR among banks shows a clear differentiation, with SOCBs maintaining this ratio above 200% while that in other bank groups has fallen below 100% by 3Q23. In our view, banks with diverse customer bases, high provisioning, robust provision buffers, and limited exposure to real estate and corporate bonds will better manage credit risk. Banks with low LLCRs (below 50%) will face more pressure and have less room to write off NPLs from their balance sheets.

The NPL ratio showed differentiation among banks. The group of banks with a significant proportion of consumer loans, home loans, and car loans (VPB, VIB, TPB) experienced a surge in NPLs. Meanwhile, banks pursuing cautious lending practices, such as VCB and ACB, still maintained the lowest NPL ratios across the entire industry.

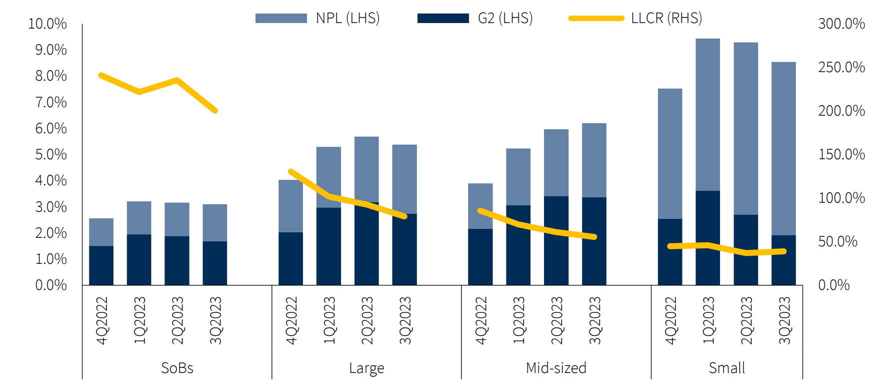
Fig 9. Vietnam – NPL ratio across banks (%)



Source: Local banks, KB Securities Vietnam

Special mentioned loans started to fall in 3Q23, and we expect this trend to continue in the coming quarters, easing the pressure of rising NPLs for banks. The provision buffer has significantly dropped compared to the previous quarter, as all sources of income have been impacted, leading banks to reduce provisions to protect earnings.

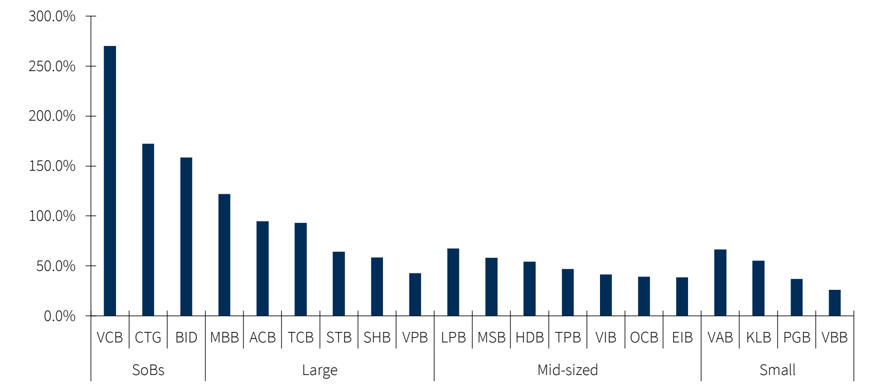
Fig 10. Vietnam – NPL ratio, special mentioned loan, LLCR across banks (%)



Source: Local banks, KB Securities Vietnam

SOCBs and MBB continued to maintain a high loan loss coverage ratio (LLCR), while the lower-tier bank groups need to be more cautious.

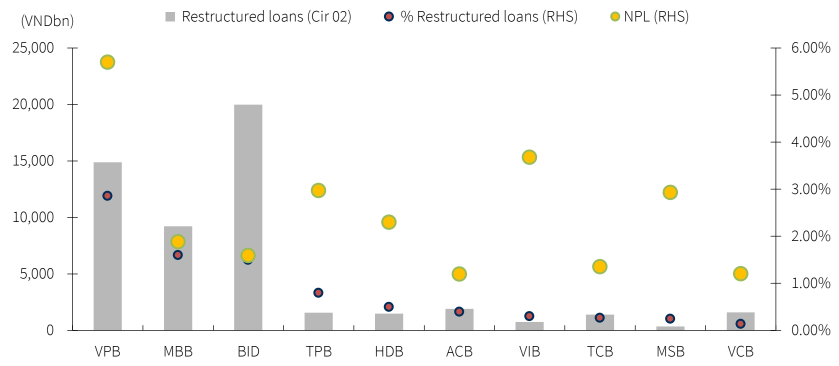
Fig 11. Vietnam – LLCR across banks (%)



Source: Local banks, KB Securities Vietnam

The implementation of Circular 02 has helped some banks curb the increase in the NPL ratio in 3Q23.

Fig 12. Vietnam – Restructured loans under Circular 02, NPL ratio of some banks (VNDbn, %)



Source: Local banks, KB Securities Vietnam

All sources of income were modest

Net interest income of the entire industry grew modestly

Net interest income (NII) of the entire banking sector has shown modest growth following a slowdown in lending activities amid an unfavorable macroeconomic environment. Most banks have recorded single-digit growth in the first nine months of 2023, down from 10-25% in 9M22. NII across SOCBs and SOBs took the lead with a growth rate of 4.82% YoY, while the large and medium-sized joint stock commercial banks group experienced lower growth of 3% YoY. Conversely, NII of the small and medium-sized joint stock commercial banks has fallen by 3.5% YoY. KBSV expects 4Q23 to witness more positive results on the acceleration of lending activities.

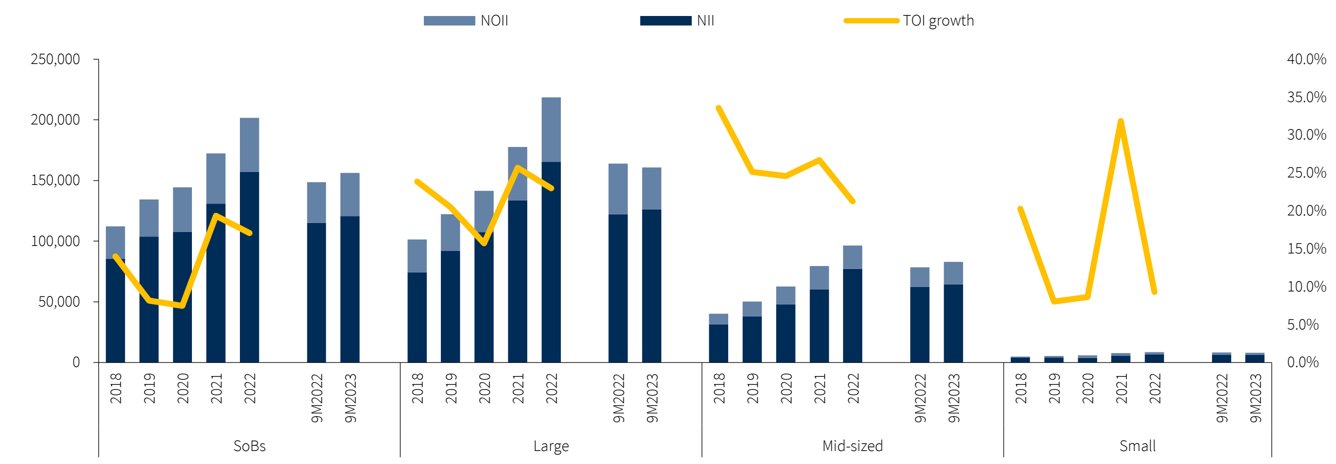
Non-interest income is offset by securities trading

Non-interest income (NOII), accounting for 20-25% of total operating income (TOI), followed a similar trend to NII due to headwinds in the corporate bond and insurance markets since the start of 2023, dampening sources of income. However, some banks capitalized on fluctuations in the government bond market in 3Q23 to earn profits (+20% QoQ), helping to restrain the overall decline in NOII. In our view, banks will need more time to bring NOII back to their growth trajectory as in previous years, mainly due to (1) investment banking operations still depending on the recovery pace of the corporate bond market and especially investor confidence, expected to recover in 2024 after hitting a low in 2023 but with slower growth compared to the boom period of 2019-2021 and (2) the gradual increase of upfront fees as banks and insurance companies improve service quality and customer protection.

PBT is forecast to expand by 10% YoY for 2024F

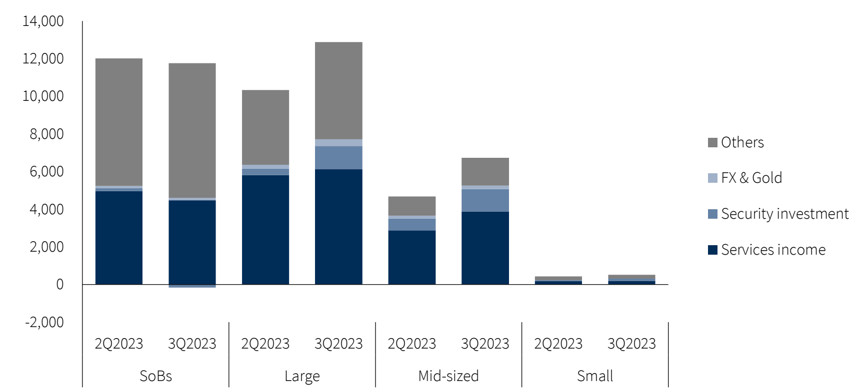
We estimate that 3Q23 PBT of the 27 banks decreased QoQ but rose 2% YoY, with differentiation among bank groups. Except for SOCBs enjoying positive YoY growth, others saw a decline compared to 3Q22. This can be attributed to (1) worse-than-expected credit growth and shrinking NIM, (2) rising provision expenses among many banks due to asset quality deterioration, (3) 9M23 operating expenses recording a YoY increase at most banks, with the industry's overall increase being 7% YoY. In the base case scenario, with credit growth expected at 13-14% for 2024F, operating expenses will continue to be held in check, but the pressure of high credit costs will dominate PBT. Overall, we project 10% growth in PBT for the banks on the watchlist for the next year.

Fig 13. Vietnam – NII, NFI, TOI growth (VNDbn, %)



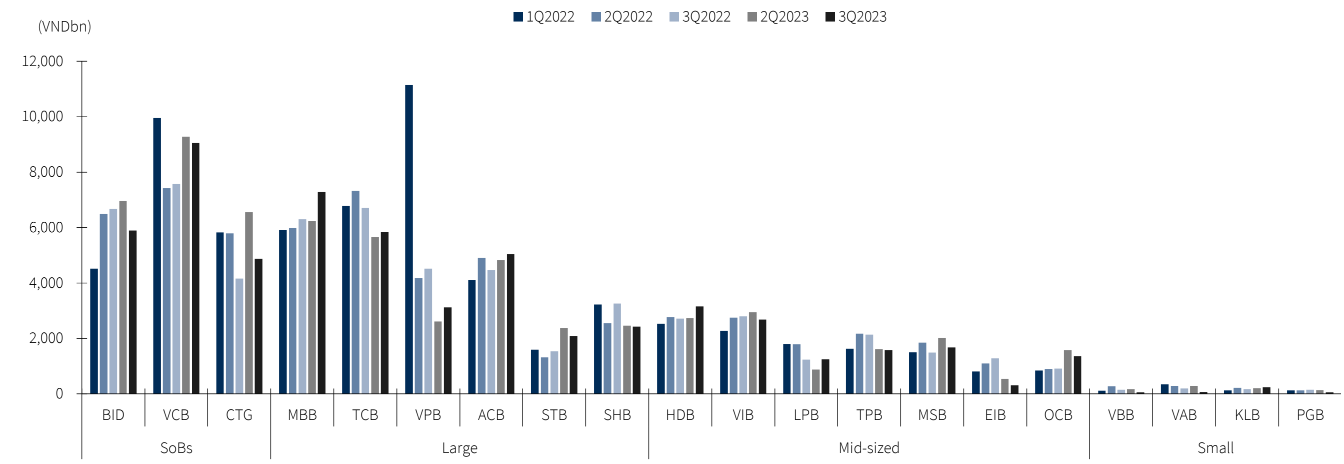
Source: Local banks, KB Securities Vietnam

Fig 14. Vietnam – NOII breakdown, NFI growth across banks (VNDbn, %)



Source: Local banks, KB Securities Vietnam

Fig 15. Vietnam – Pre-tax profit across banks (VNDbn)

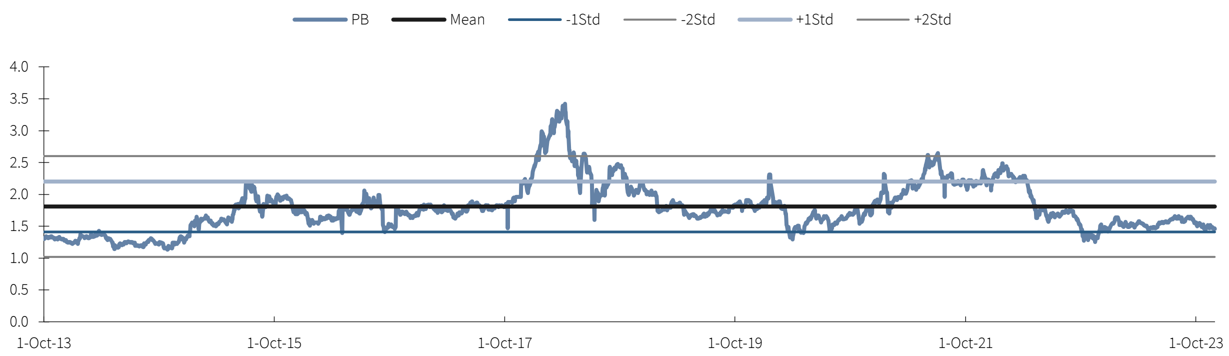


Source: Local banks, KB Securities Vietnam

Valuation looks attractive in the long term

The banking sector is now trading at a P/B of 1.4x, approximating to -1 standard deviation of the 10-year average and approaching the lows of 2020 and 2022 (1.3x). In the short term, we believe the banking sector will continue to face certain challenges, but there are still bright spots in the overall picture, as mentioned in this report. Considering the long-term prospects, we recommend investing in bank stocks of companies with solid fundamentals.

Fig 16. Vietnam – Historical P/B of the banking industry (x)



Source: Fiinpro, KB Securities Vietnam

Table 17. Updates on some banks under KBSV's coverage

No.	Ticker	9M22 PBT	9M23 PBT	+/-% (YoY)	Investment catalysts
1	VCB	24,940	29,550	18%	• Credit growth should accelerate towards the end of 2023 and increase sustainably in 2024. • NIM is expected to improve in 4Q23 thanks to reduced funding costs. • Solid provision buffer
2	BID	17,677	19,763	12%	• NIM is set to improve in 2024 based on: the maturity of term deposits bearing high interest rates, deposit interest rates remaining low, and corporate CASA recovering. • Asset quality was better controlled. Better asset quality in 3Q23 along with a high loan loss coverage ratio (LLCR) of 158.4% (the third highest in the industry) lays the foundation for BID to make a provision of VND20-21 trillion in 2023.
3	CTG	15,764	17,401	10%	• NIM should improve to 3% and low interest rates should be maintained in the first half of 2024. • CTG's loan loss coverage ratio (LLCR) ranks second in the entire system, helping the bank to be able to flexibly handle bad debt and control the NPL ratio below 1.8%. • A healthy loan portfolio in addition to the steady growth of NOII
4	ACB	13,503	15,024	11%	• Credit growth should bounce back during the year-end peak season. The bank's credit growth forecast for the whole year 2023 is at 12-13% vs. the granted quota of 14.5%. • ACB is among the banks with the best asset quality, given its investment portfolio free of corporate bonds and real estate loans coupled with well-controlled NPLs.
5	TCB	20,822	17,115	-18%	• NIM recorded an improvement in 3Q23 compared to the previous quarter thanks to a significant fall in funding costs. NIM recovered slowly due to the short-term impact of the flexible price mechanism policy. • Although the NPL ratio did not improve in 3Q23, special mentioned loans dropped and accounted for 1.3% of total outstanding loans from 2% at the end of 2Q23. TCB is expected to control the NPL ratio below 1.5% this year.
6	MBB	18,192	20,019	10%	• Credit growth outperformed the industry average thanks to corporate lending and high credit room. • NIM is set to improve following the maturity of high-interest-bearing deposits. • The loan loss coverage ratio (LLCR) should be maintained above 120% even though asset quality has declined in line with the overall trend.
7	STB	4,440	6,840	54%	• KBSV highly assess the likelihood that STB will fulfill its credit growth plan based on the SBV's moves to cut policy interest rates to pull lending interest rates down. • STB should successfully sell debt related to Phong Phu Industrial Park in 2023, thereby having enough resources to handle the remaining VAMC debt.
8	VPB	19,837	10,243	-48%	• NIM should improve well in 2024, mainly thanks to reduced funding costs. • Asset quality is tracking ahead of expectations. • Valuation looks attractive at the current P/B of 1.09x, significantly lower than VPB's average of 1.59x.
9	TPB	5,926	4,959	-16%	• TPB's credit growth should improve in 4Q23 when the bank is eligible to reduce lending interest rates on falling funding costs. • High NPL ratio along with low provision buffer will increase provisioning pressure in the second half of 2023.
10	MSB	4,824	5,223	8%	• It is expected that the SBV will grant additional credit limit as MSB has almost used up the assigned quota in 9M23. • CASA ratio improved significantly compared to the previous quarter, among the Top 5 banks with the highest CASA ratio in the system. • Asset quality deteriorated, with the NPL ratio exceeding 2% in 3Q23.

Source: KB Securities Vietnam

Appendix

No.	Ticker	Bourse	Name	Type
1	ABB	UPCOM	An Binh Commercial Bank	Small commercial joint stock bank
2	ACB	HOSE	Asia Commercial Bank	Large commercial joint stock bank
3	BID	HOSE	Bank for Investment & Development	State-owned bank
4	CTG	HOSE	VietinBank	State-owned bank
5	EIB	HOSE	Eximbank	Medium commercial joint stock bank
6	BVB	UPCOM	Viet Capital Commercial Bank	Small commercial joint stock bank
7	HDB	HOSE	HDBank	Medium commercial joint stock bank
8	KLB	UPCOM	KienlongBank	Small commercial joint stock bank
9	LPB	HOSE	Lien Viet Post Bank	Medium commercial joint stock bank
10	MBB	HOSE	Military Bank	Large commercial joint stock bank
11	MSB	HOSE	Maritime Bank	Medium commercial joint stock bank
12	NAB	UPCOM	Nam A Commercial Bank	Small commercial joint stock bank
13	BAB	HNX	Bac A Commercial Bank	Small commercial joint stock bank
14	NVB	HNX	National Citizen Bank	Small commercial joint stock bank
15	OCB	HOSE	Orient Commercial Bank	Medium commercial joint stock bank
16	PGB	UPCOM	PG Bank	Small commercial joint stock bank
17	SSB	HOSE	SeABank	Small commercial joint stock bank
18	SGB	UPCOM	Saigon Bank for Industry & Trade	Small commercial joint stock bank
19	SHB	HOSE	Saigon Hanoi Commercial Bank	Large commercial joint stock bank
20	STB	HOSE	Sacombank	Large commercial joint stock bank
21	TCB	HOSE	Techcombank	Large commercial joint stock bank
22	TPB	HOSE	TPBank	Medium commercial joint stock bank
23	VAB	UPCOM	Vietnam - Asia Commercial Bank	Small commercial joint stock bank
24	VCB	HOSE	Vietcombank	State-owned bank
25	VIB	HOSE	VIBBank	Medium commercial joint stock bank
26	VPB	HOSE	VPBank	Large commercial joint stock bank
27	VBB	UPCOM	VietBank	Small commercial joint stock bank

Source: KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market