

BIDV (BID)

Strong 2Q on cutting credit cost; active in bond issuance

Q2 pretax earnings up 21% YoY as cutting credit cost

— 2Q pretax earnings rose by 21% YoY to VND2,640 billion, making 1H20 pretax earnings of VND4,454 billion, down 5% YoY. Negative credit growth in 1Q has turned positive yet sluggish, up to 2Q, credit growth recorded 2.0%YTD vs 2Q19's 10.0%YTD. Credit activities still suffered from the COVID-19 impact, total credit grew slowly by only 4.7% YoY vs 2Q19's 13.5% YoY, similarly, loans to customers growth decelerated to 7.0% YoY vs 2Q19's 14.6% YoY. Deposit to customers rose 7%YoY to be VND1,131,518 billion. According to Hanoi Stock Exchange, BIDV was top bond issuer in banking industry, accounting for 35.5% total value of bond issuance in 1H20 with 27 times of issuance and the total value of successful bonds issued in 1H20 was VND16,602, making total certificates of deposits and valuable papers balance reached VND85,495 billion (+75%YoY). BIDV bonds were mostly medium and long-term bonds with average interest rate of about 7.2-8%/year.

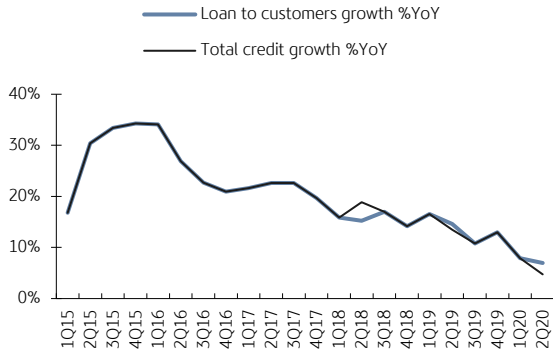
Emergence of warning signs in asset quality given weaker credit conditions

— Substandard & below non-performing loans rose to 2.00% in 2Q vs 1Q's 1.74% and 2Q19's 1.98%. Contradictory, 2Q's precautionary & below ratio dropped to 3.81% from 1Q's 4.01% as substandard loans (group 2) shrunk to only 1.81% total loans vs 1Q's 1.27%. Credit cost has been tightened to VND4,101 billion (-46%QoQ, -21%YoY) and was accounted for 0.36% of total loans vs 1Q's 0.55%. However, reserve coverage for substandard & below non-performing loans reduced to 80% vs 1Q's 86% while extended modestly for precautionary & below ratio to 42.0% from 1Q's 37.5%.

Tight credit cost offset some of the negative impact to earnings

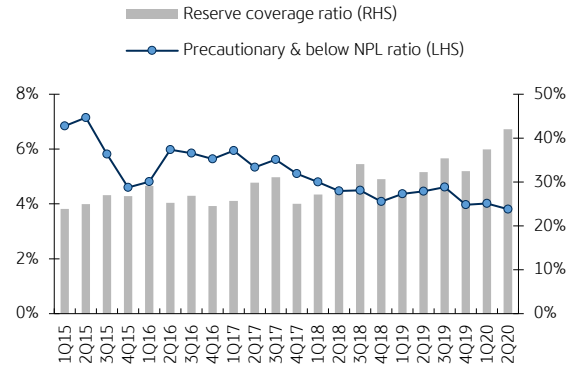
— Net interest income decreased 20% YoY or VND6,950 billion, one of the attributes for the lower estimated net profit margin (NIM) of 1.97% vs 2Q19's 2.71% as the bank offered preferential lending rates to support customers. Non-interest activities performed better when net fees & commissions rose 8% YoY or equaled VND1,179 billion; gains from trading securities and investment securities recorded five times and six times higher in comparison with 2Q19. Operating expenses were on same level, however, lower total operating income has spelled negative impacts on cost-to-income ratio (CIR), extended to 37% vs 2Q19's 35% and 1Q20's 31%. Credit cost reduced to only VND4,101 billion (-46% QoQ, -21%YoY) only occupied 48% of total operating income vs 1Q's 53%.

Fig 1. BID - Loan to customers & total credit growth, 1Q15-2Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. BID - Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q15-2Q20 (%)



Source: Company reports & KB Securities Vietnam

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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

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