

Sector note

18 Oct 2022

**Banks**

**Liquidity comparative analysis of listed banks**

- Recent turbulence has weighed on banking liquidity.
- We see limited risk to liquidity regarding current benign macro environment and healthier banking system.
- We analyze the liquidity comparison of some listed commercial banks to identify the difference among banks' ability to manage liquidity risks.

**Liquidity constraints due to recent turbulence**

Following the FED's rate hike, the DXY has climbed to its two-decade high, creating downward pressure on the Vietnam dong in the recent few months. Therefore, the State bank of Vietnam (SBV) has raised the policy rates by 100 bps in late-Sep and sold USD in order to stabilise the currency market. Additionally, the widespread local investigations relating to property developers and corporate bond issuance fraud has weighed on banking liquidity in short term. Interbank rates have risen sharply in recent weeks and overnight and 1-week rates peaked at 8.4%/year and 9.5%/year on Oct 5. Meanwhile, deposit rates across all tenure of commercial banks have increased strongly 100 – 120 bps ytd.

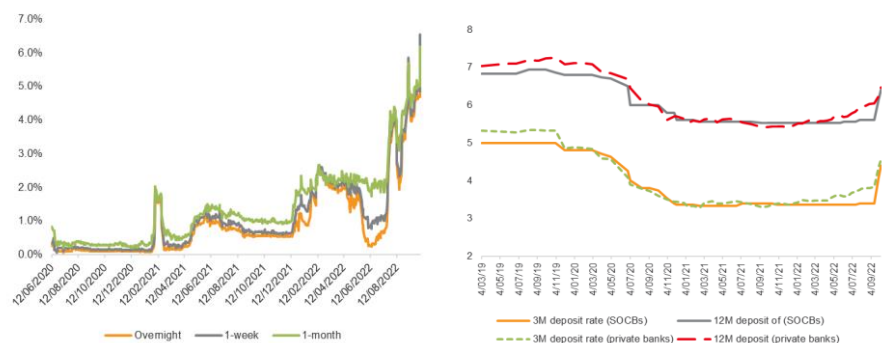
**We believe banking liquidity risk is limited**

First, we see the authorities' efforts in fighting against "dollarisation" and improving cashless payments in the recent years have brought positive results. Vietnamese people are more confident in VND and commercial banks which will secure for the system liquidity. Second, the macro environment is stable while banking system health has been improved significantly over years. Currently, about 20 commercial banks have met Basel II requirements, in which 6 of them have completed all three key pillars. Besides, the short-term deposit/long-term loans ratio for all banks has been declined to 34% on 1 Oct 2022, and will keep decreasing to 30% level from 1 Oct 2023.

**Liquidity risk management is one key pillar of Basel III reform**

Although there are currently no regulations for applying Basel III, some Vietnam banks such as TPB, OCB, HDB, VIB, VCB,... have actively pioneered the implementation of the norms, including capital adequacy, liquidity risk management and operational risk management. To recall, strengthen liquidity standards is the most important mission for banks to adapt Basel III, which provided them capabilities to overcome any possible systematic and liquidity risks in the future.

**Interbank rates have reach their all-time-high level (however they has cooled down already); deposit rate also picked up rapidly as a consequence of tightening liquidity (%)**



Source: Bloomberg, Commercial banks, VNDIRECT Research

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### Liquidity comparative analysis of listed banks

We use the liquidity parameter under the “L – liquidity” in the CAMEL model to measure some Vietnam listed banks’ ability to meet its financial obligations. We prioritise some ratios that indicate the bank’s ability to convert its liquid asset quickly into cash in order to adapt the deposits run. Our liquidity parameters include:

1. *Liquid asset/Customer deposits*: The liquid assets include cash and equivalent, balance with central bank and trading securities. For this ratio, higher is better which indicates that the bank will be able to easily convert assets to cash to fulfil its short-term payment obligations.
2. *Gross LDR*: gross loan to deposit, which lower is better for liquidity.
3. *Liquid asset/Total asset*: a high ratio allows the bank to quickly meet its short-term payment obligations.
4. *Short-term loans/Net loans ratio*: We believe higher short-term loans proportion will allow the bank to mitigate the asset-liability duration gap and ease the pressure of mobilisation of long-term funding.
5. *Demand deposit/Customer deposits (CASA ratio)*: A high ratio indicates the bank has less pressure of mobilisation long-term funding to adapt long-term loans demand.
6. *Non-individuals/Customer deposits*: The higher the better. We observe that the bank will have a decent and stable mobilisation if the bank has the larger proportion of institutional customers in its deposit mix.

Our comparative analysis has taken into account the liquidity strength of 17 listed commercial banks. We use the average data from the financial statements of each bank at the end of 31/12/2021 and 30/6/2022 to mitigate any abnormal factors. For the comparative analysis, the results have been interpreted through the rank. **Noted that, lower rank does not mean that bank will face liquidity risk, only indicates weaker liquidity strength to others.**

**Figure 1: Criteria for each bank (average numbers from the financial statement of each bank at the end of 31/12/2021 and 30/6/2022)**

No. Ratio	ABB	ACB	BID	CTG	EIB	HDB	LPB	MBB	MSB	OCB	SHB	STB	TCB	TPB	VCB	VIB	VPB
1 Liquid asset/Total deposits	24.5%	20.9%	16.7%	16.5%	21.6%	28.3%	14.1%	20.5%	27.6%	25.7%	15.6%	7.7%	22.4%	32.3%	22.0%	26.7%	24.4%
2 Gross LDR	73.5%	81.1%	84.1%	83.3%	81.0%	65.1%	81.7%	75.0%	63.1%	65.5%	80.0%	84.1%	78.9%	54.6%	79.7%	71.5%	80.6%
3 Liquid asset/Total asset	20.0%	16.7%	13.4%	12.8%	18.7%	18.5%	10.5%	13.3%	17.5%	17.0%	12.3%	6.4%	13.9%	21.1%	19.0%	18.3%	13.2%
4 Short-term loans/Net loans	58.2%	63.0%	64.8%	60.3%	63.5%	60.3%	60.3%	47.7%	47.3%	23.2%	46.7%	62.0%	32.4%	23.7%	53.6%	27.4%	37.7%
5 Demand deposit/Customer deposits	14.9%	24.6%	19.4%	19.3%	15.1%	12.4%	8.8%	43.3%	34.7%	13.4%	7.7%	22.4%	45.2%	19.4%	33.0%	14.9%	20.0%
6 Non-Individuals/Customer deposits	33.4%	19.8%	49.9%	51.5%	33.6%	45.8%	36.0%	46.3%	51.4%	48.6%	33.7%	19.7%	30.1%	55.4%	50.2%	34.5%	53.8%

Source: Commercial banks, VNDIRECT Research

**Figure 2: Liquidity strength of each bank based on each criteria**

No. Ratio	ABB	ACB	BID	CTG	EIB	HDB	LPB	MBB	MSB	OCB	SHB	STB	TCB	TPB	VCB	VIB	VPB
1 Liquid asset/Total deposits	Green	Yellow	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Green	Green	Yellow	Grey	Yellow	Green	Yellow	Green	Yellow
2 Gross LDR	Yellow	Yellow	Grey	Yellow	Yellow	Green	Yellow	Yellow	Green	Green	Yellow	Grey	Yellow	Green	Yellow	Green	Yellow
3 Liquid asset/Total asset	Green	Yellow	Yellow	Yellow	Yellow	Green	Yellow	Yellow	Green	Green	Yellow	Grey	Yellow	Green	Yellow	Green	Yellow
4 Short-term loans/Net loans	Green	Green	Green	Green	Green	Green	Green	Green	Green	Grey	Green	Green	Green	Green	Green	Green	Green
5 Demand deposit/Customer deposits	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Grey	Green	Green	Grey	Grey	Yellow	Green	Green	Green	Green	Yellow
6 Non-Individuals/Customer deposits	Yellow	Grey	Green	Green	Yellow	Yellow	Yellow	Yellow	Green	Green	Yellow	Grey	Yellow	Green	Green	Green	Green

**Note: the grading scale is for each ratio, not for overall score**

**Notes on color rating for each ratio**



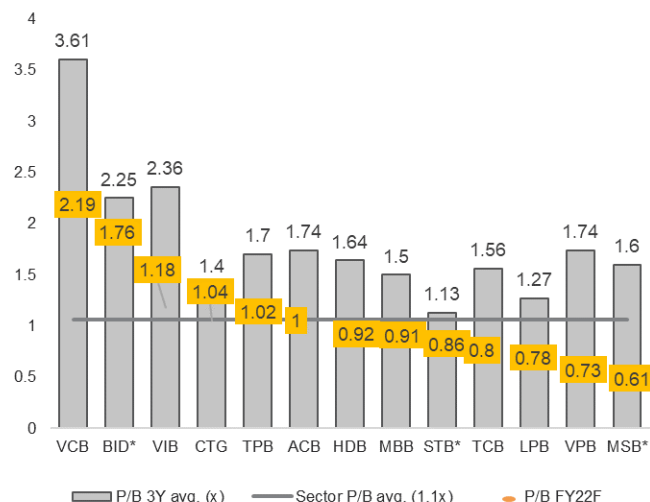
Source: VNDIRECT Research

**Figure 3: Banking sector current P/B has dropped to 1.3x – equivalent to -2SD 5Y range; and its FY22F P/B has stayed at only 1.1x**



Source: Fiipro, VNDIRECT Research

**Figure 4: Many banks FY22F P/B have fallen under their book value**  
(\* ) Based on Bloomberg consensus



Source: VNDIRECT Research

**Figure 5: Vietnam bank comparison (prices as of 14/10/2022)**

Banks	Bloomberg Code	Recommendation	Price Latest LC	Target Price LC	Market cap (US\$bn)	P/E (x)				3-yr Forward					
						P/B (x)		P/E (x)		CAGR EPS %		ROE %		ROA %	
						FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Vietcombank	VCB VN	ADD	66,500	95,600	13.1	2.2	1.9	10.9	10.0	20.8%	20.5%	20.3%	1.8%	1.9%	
Vietnam Prosperity JSB	VPB VN	ADD	16,000	29,600	4.5	0.7	0.6	3.4	3.5	24.5%	23.9%	18.7%	3.6%	2.9%	
Techcombank	TCB VN	ADD	25,300	62,300	3.7	0.8	0.6	4.0	3.4	17.9%	22.0%	21.0%	3.7%	3.7%	
Vietinbank	CTG VN	ADD	22,400	40,600	4.5	1.0	0.9	8.8	7.4	16.3%	16.7%	17.5%	1.0%	1.1%	
Military Commercial JSB	MBB VN	ADD	17,400	40,800	3.3	0.9	0.7	4.4	3.6	21.7%	24.5%	23.8%	2.5%	2.6%	
Asia Commercial JS Bank	ACB VN	ADD	19,950	33,400	2.8	1.0	0.8	4.8	4.0	17.1%	23.6%	22.4%	2.1%	2.1%	
Vietnam International Commercial JSB	VIB VN	ADD	19,700	34,400	1.7	1.2	1.1	4.8	4.7	18.2%	28.0%	25.6%	2.3%	2.2%	
HDBank	HDB VN	ADD	16,800	35,900	1.8	0.9	0.8	4.5	3.8	21.5%	23.6%	23.6%	2.0%	2.0%	
Tien Phong Commercial JSB	TPB VN	ADD	20,600	38,500	1.4	1.0	0.8	5.5	4.4	22.3%	20.5%	20.7%	1.9%	2.1%	
LienViet Post Bank	LPB VN	ADD	10,200	21,300	0.6	0.8	0.6	4.4	4.0	26.8%	19.1%	18.8%	1.1%	1.2%	
<b>Average</b>						<b>1.1</b>	<b>0.9</b>	<b>5.5</b>	<b>4.9</b>	<b>20.7%</b>	<b>22.2%</b>	<b>21.2%</b>	<b>2.2%</b>	<b>2.2%</b>	

Source: VNDIRECT Research

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#### Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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