Sector Note

Banks

1Q23 results: difficulties emerge

- Aggregated PBT of 25 listed banks only increased 6% yoy in 1Q23 (1Q22 of +30% yoy).
- System credit grew 2.1% ytd at end-1Q23 – much lower than the same previous quarters of 5-6%.
- Banks' asset quality deteriorated; system NPL ratio rose to 2.9% at end-1Q23 (from 2% at end-2022).

Corporate lending takes the lead

At end-1Q23, system credit growth only increased 2.1% ytd – much lower than previous quarters of 5-6%. Banks having exposure to corporate loans (TCB, HDB, VPB, TPB, MSB…) recorded better-than-average credit growth. Meanwhile, retail banks' credit book slowed down/decreased sharply ytd (ACB, VIB, STB...). Weakening economy has dampened consumer spending and the ability to fulfil debt obligations, diminishing loan demand and banks will be more conservative to lend this group. For corporates, especially property developers (with their on-going liquidity issue) have been craving for funds to refinance/fund their businesses (credit to developers increased 6.5% ytd – higher than system credit growth).

A divergence in deposit structure

Besides of cutting spending, individuals will tend to "save money" in the context of higher interest rate environment and weak economic growth (individual deposits has continued its growth momentum until Feb-2023). However, corporates deposits kept reducing strongly (figure 6). Although liquidity has improved in the interbank market, customer deposits still play an important role in banks' funding. Therefore, this trend will benefit for the liquidity of banks owning (1) a large proportion of individuals deposits and (2) high LDR ratio like STB, ACB…

Which banks can minimize NIM compression risk?

Aggregated NIM of 25 listed banks shrinked 18bps in 1Q23, as they have to sacrifice profits to support clients during this tough time. NIM of TCB, TPB, VPB, MBB… have compressed significantly as corporate bonds (CB) and consumer finance (2 segments carrying higher yields than normal loans) have been hit hard. We believe the increase in corporate lending and individual deposit flows will maintain until the interest rate shows clearer signs of reverses and the economy starts recovering (at least in 3Q23 onward). Hence, during 2023, banks with a large amount of (1) corporate loans and CB in credit mix and (2) customer deposits in funding mix… will deliver softer NIM compared to the sector average. On the other hand, retail names with a diversified funding mix (borrowing from interbank, ample CASA…) like VIB, HDB, MBB… can mitigate NIM compression risk. With STB, its NIM will expand strongly in 2023 given no more pressure from accrual interest expense.

Asset quality still needs to watch out

According to the SBV, sector NPL has climbed to 2.9% at end-1Q23 (from 2% at end-2022). Most of the banks posted higher NPL ratio and lower LLR compared to the last quarter (figure 13 & 14). Difficulties from property market is still a big concern to banks' asset quality, as this sector made up a huge contribution to total system credit (~21% at end-2022). Thus banks with chunky provisions and benign credit mix like VCB, ACB… will be able to minimize this risk. However, we expect that the pressure to build up provisions as well as bad debt risks of TCB, MBB, VPB… could be eased, once property developers can improve their liquidity situation thanks to many supportive policies (figure 19) and some projects have been tackled the bottleneck recently.

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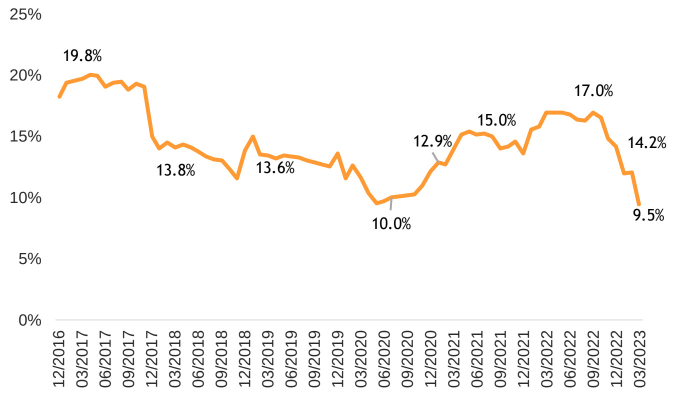
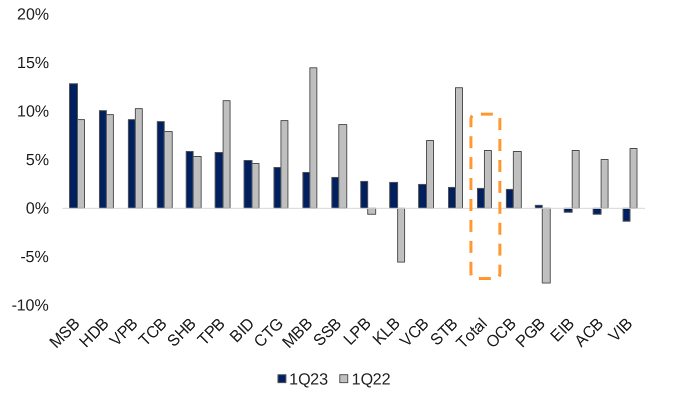
1Q23 RESULTS: DIFFICULTIES EMERGE

Figure 1: System credit growth kept slowing down



Source: SBV, VNDIRECT RESEARCH

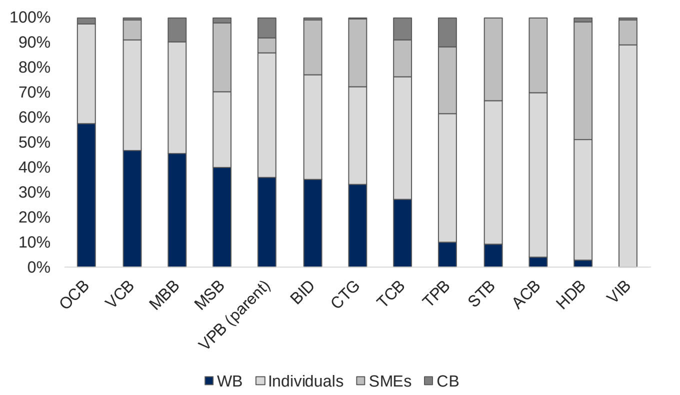
Figure 2: Credit growth by each bank vs. sector in 1Q23 (ytd growth)



Source: Banks, VNDIRECT RESEARCH

Figure 3: Credit mix by customers type of each bank at end-2022

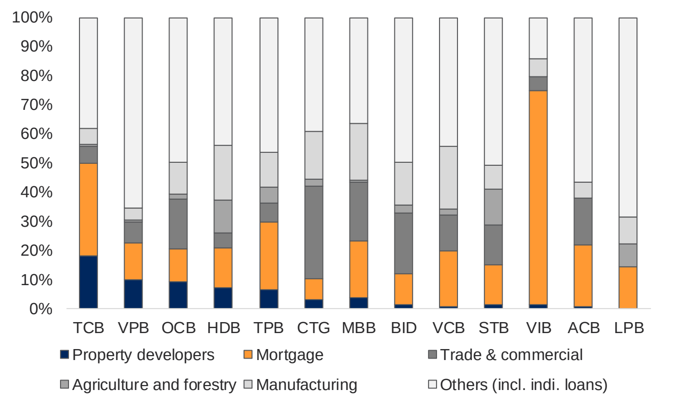
Banks having exposure to corporate loans recorded better-than-average credit growth. Retail banks' credit slowed down/decreased shaprly ytd



Source: Banks, VNDIRECT RESEARCH

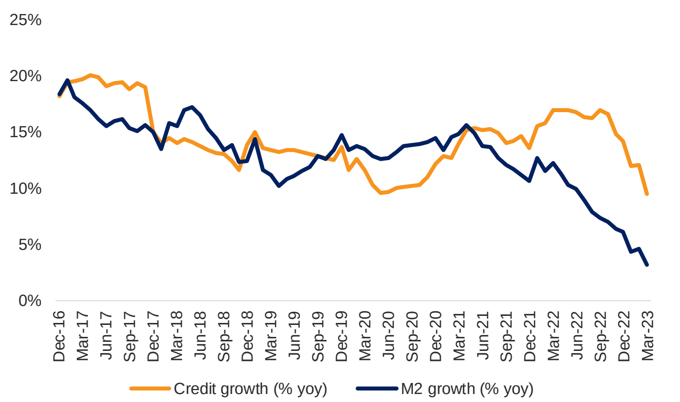
Figure 4: Credit mix by sector of each bank at end-2022

Banks with high exposure to property developers recorded steady credit growth in 1Q23



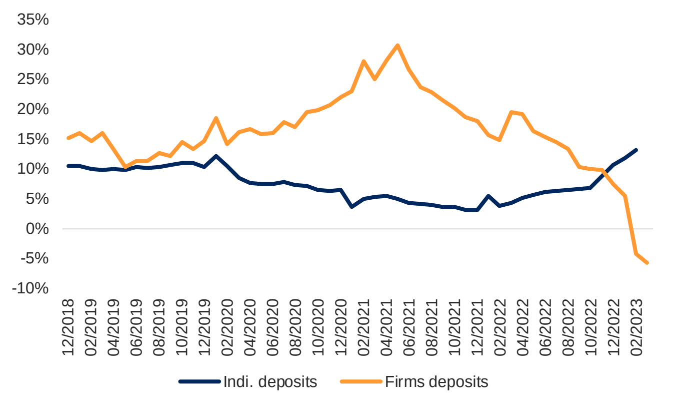
Source: Banks, VNDIRECT RESEARCH

Figure 5: M2 kept decreasing strongly yoy



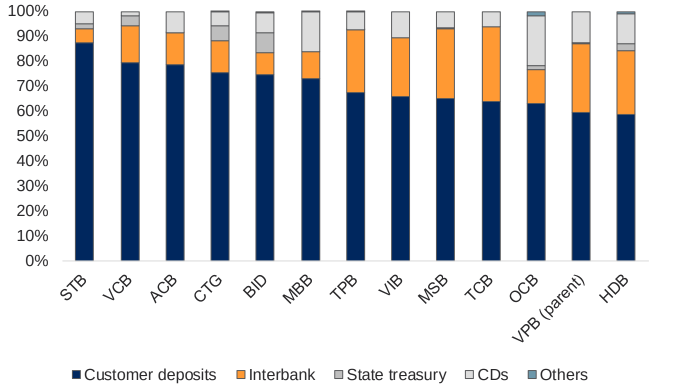
Source: SBV, VNDIRECT RESEARCH

Figure 6: … due to firms' deposit (~40% total M2), whereas inidividuals' deposit rebounded



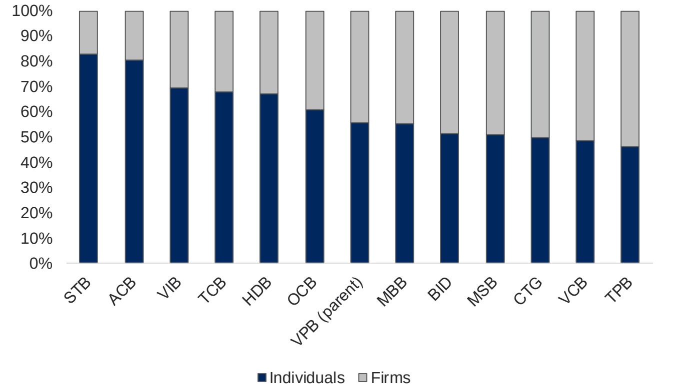
Source: SBV, VNDIRECT RESEARCH

Figure 7: … this trend will benefit for the liquidity of banks having a large proportion of individuals deposits



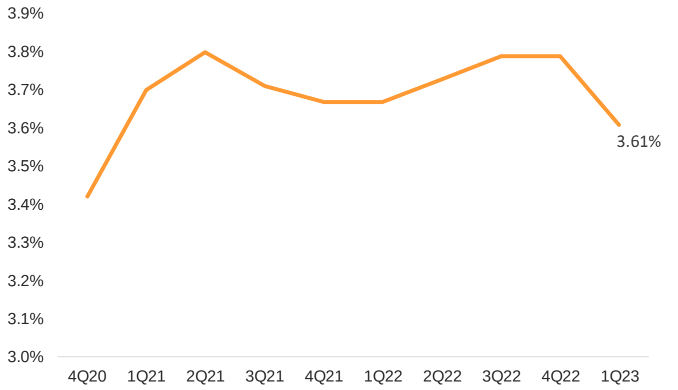
Source: Banks, VNDIRECT RESEARCH

Figure 8: …like STB, ACB. However, banks with diversified funding mix will be able to mitigate NIM compression risk



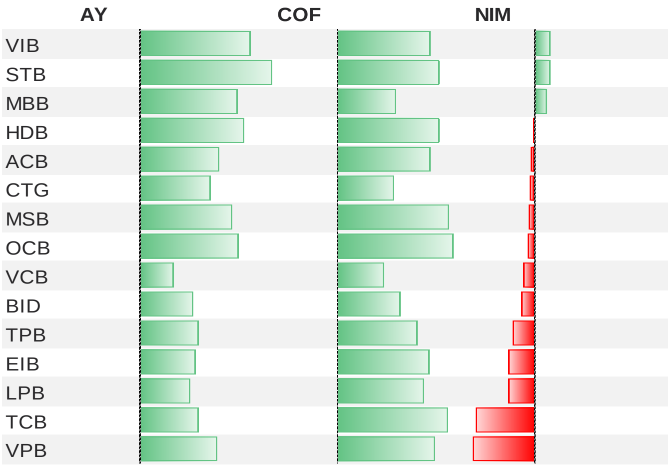
Source: Banks, VNDIRECT RESEARCH

Figure 9: Aggregated NIM of 25 listed banks shrinked 18bps



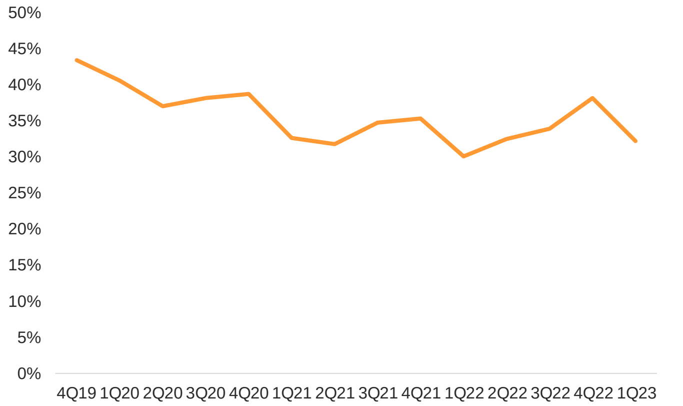
Source: Banks, VNDIRECT RESEARCH

Figure 10: AY, COF and NIM performance among banks in 1Q23



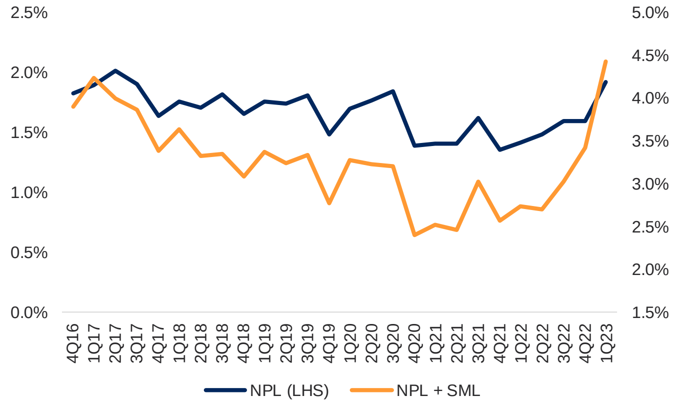
Source: Banks, VNDIRECT RESEARCH

Figure 11: Aggregated CIR of 25 listed banks



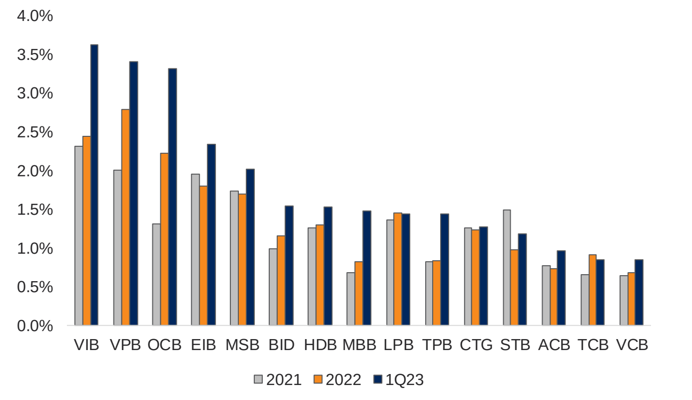
Source: Banks, VNDIRECT RESEARCH

Figure 12: Aggregated NPL + SML ratio spiked at end-1Q23



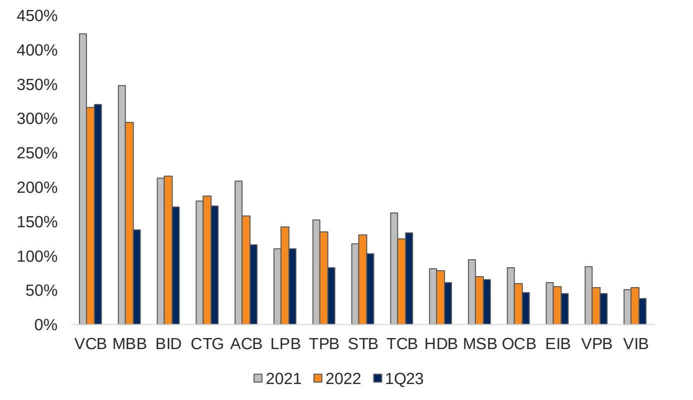
Source: Banks, VNDIRECT RESEARCH

Figure 13: Each bank's NPL ratio inched up…



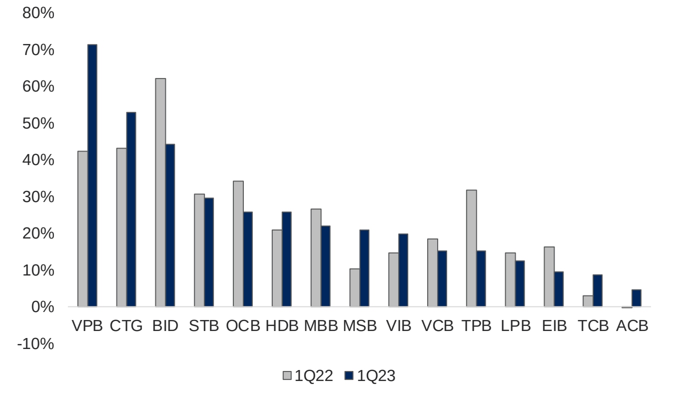
Source: Banks, VNDIRECT RESEARCH

Figure 14: …but LLR went down at end-1Q23



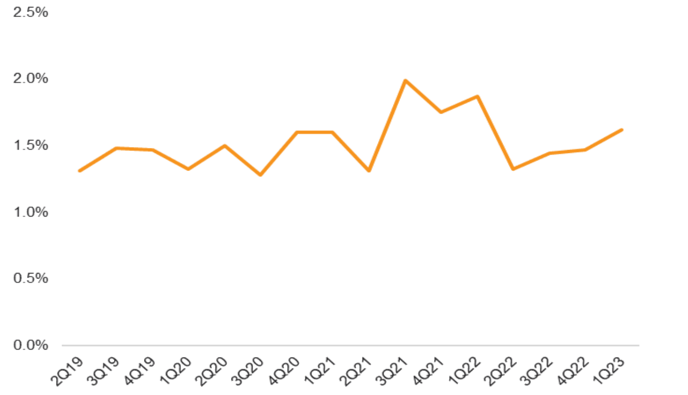
Source: Banks, VNDIRECT RESEARCH

Figure 15: Provisions/PPOP of each bank



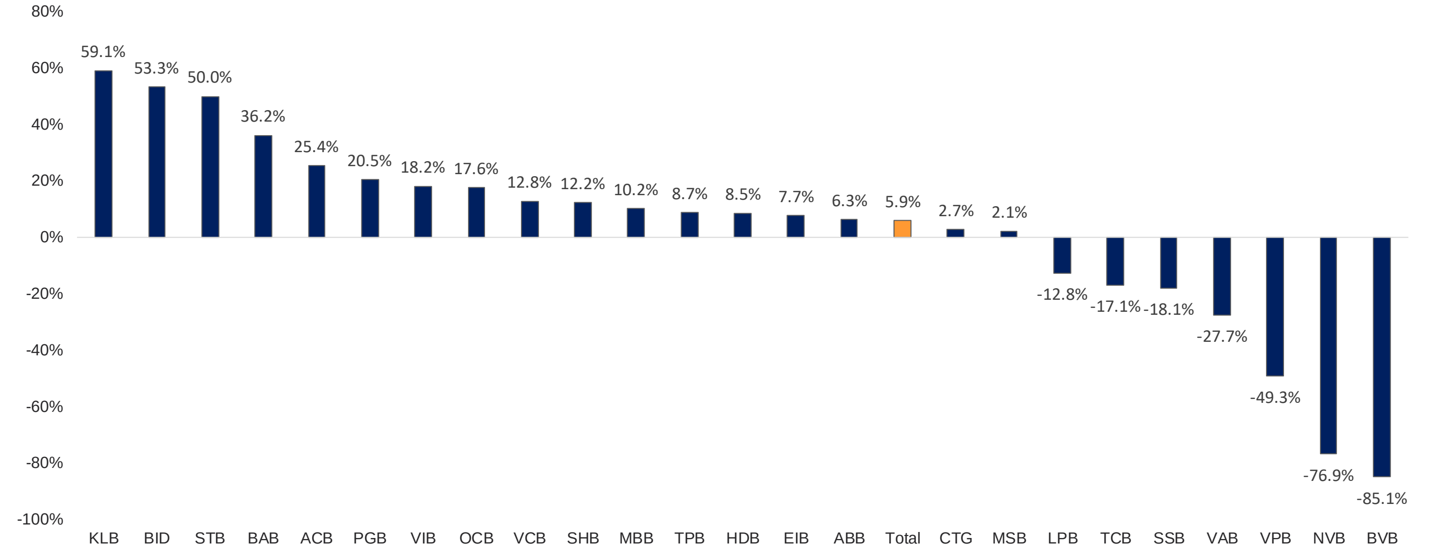
Source: Banks, VNDIRECT RESEARCH

Figure 16: Aggregated credit-cost rate has started to rise again since 4Q22



Source: Banks, VNDIRECT RESEARCH

Figure 17: 1Q23 PBT growth of each bank



Source: Banks, VNDIRECT RESEARCH

Figure 18: Circular/Draft in summary and their effects on banks

Circular/Draft	Description	Effects on banks
Circular 02/2023 To guide credit institutions to review and reschedule principal/interest payments or maintaining debt group for customers who are (1) facing difficulties in running businesses and (2) losing demand for consumer loans	(1) The extension the restructuring program by additional 6 months (to 30 June 2024, instead of 31 Dec 2023 as presented in the draft). The structured amount should be no-more-than-10-days overdued (2) Rule for booking provisions - A: provisioning expenses as normal - B: provisioning expenses if maintaining debt group - C: Additional amount to book provision = A - B - Then C would be divided by… Until the end of 2023: at least 50% C Until the end of 2024: 100% C	- Besides business loans, banks are also allowed to restructure debt for consumer loans - a segment which has been hurt by the current high interest rate environment along with a lower disposable income. - The additional 6 months will enhance the effectives of this Circular, as it needs time for banks and corporates to get use to the new rule and execute it. - The pressure to build up provisions will be eased as banks can re-arrange their provisioning expenses within 2 years (2023 and 2024). - Investor's sentiment will be improved with banks having great exposure to property and consumer finance in credit book, like VPB, TCB, MBB…; as these banks are having to deal with a higher-than-peers credit-cost rate due to their rising credit risk and weakening asset quality, compared to other "safe" banks in the current circumstance.
Circular 03/2023 To postpone Article 11 Clause 4 Circular 16, which means banks are still be able to buy back the unlisted corporate bond sold/distributed by them with several conditions	- The Part 11 Clause 4 Circular 16/2021 will be delayed from Apr-24-2023 until the end of the year - Conditions: (1) The bonds buy back are the same bonds that banks sold before, or the same issued batch (2) Buyers of these bonds had paid in full for the bonds at the time the banks sold to them (3) Issuers of these bonds have highest credit rating (internal rating by the banks) at the time banks buy back	- It is one of the way for banks to accelerate their lending activities via buying CB in the context of weak system credit growth (+2.06% ytd in 1Q23) and abundant liquidity among banking system. - This Circular will help boost CB demand and thus benefit for some active plays in CB market like TCB, VPB, MBB... However, it also depends on each bank's risk appetite, as banks prefer strengthening their balance sheet rather than chasing after growth. - The following conditions will partially protect banks from any possible credit/asset quality risks.
Draft to adjust Circular 41/2016 is about to change the risk factor of risk-weighted assets – focusing more on "social housing" programme	- Risk factor for property developers will be unchanged at 200%; however it will be decreased to 160% if it is used for industrial property loans - For social housing group, the risk factor will be recalculate based on their LTV and DSC ratio	- The draft to adjust Circular 41/2016 aims to lower the risk factor of industrial property loans and loans to social housing, in general, pointing out that loans to those segments are encouraged. This action is strictly following the guidance in Resolution 33/2023 (about the credit packgage of VND120tr). - The stated-owned banks (SOCBs) like VCB, CTG, BID will take their advantage if this draft is officially approved. This is also a solution to boost SOCBs' credit growth in the context of their softer NIM (when the interest rate trend shows signs of reversal, SOCBs' lending rates will likely to decline faster than the deposit rate, as SOCBs still have to obey the Government's call on lowering interest rate to support businesses.

Source: VNDIRECT RESEARCH

DISCLAIMER

RECOMMENDATION FRAMEWORK

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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