Vietnam

Neutral *(previously Overweight)*

Banks

Recovery underway, but already priced in

- Vietnam banks' credit/deposit grew 3.65%/5.15% in 1H20, a faster pace from the 1.31% /1.72% in 1Q20.
- We expect banks under our coverage to show aggregate earnings growth of 17% in 2021F, thanks to a spike in loan growth and NIM improvement.
- Our stock picks are MBB and VIB, in view of their prudent asset quality, better recovery outlook, and potential upside.

Lowering our projected credit growth for 2020F

We lower our industry projected credit growth for 2020F from 11% to 9%, to reflect the slower-than-expected credit growth of 3.65% in 1H20. In our base case scenario, we maintain a credit growth forecast of 13-14% for 2021F, on the back of loosening monetary policy and robust public investment expansion.

NIM likely to bottom out in 2020F

We forecast 2020F net interest margin (NIM) of banks under our coverage to compress by 1-72 bp yoy, due to: 1) lower lending rates, and 2) reduction/waiver of interest payments. However, we expect NIM to rebound 4-28bp yoy in 2021F, thanks to rising credit demand on better economic fundamentals. We observed that the following banks — Vietcombank (VCB), Military Commercial Joint-Stock Bank (MBB), Vietnam Prosperity JSC Bank (VPB), Vietnam International Bank (VIB) — have higher chances of improving their NIMs, thanks to their ability to shift their lending mix in favour of higher-yielding segments or to lift their current account and savings account (CASA) rates.

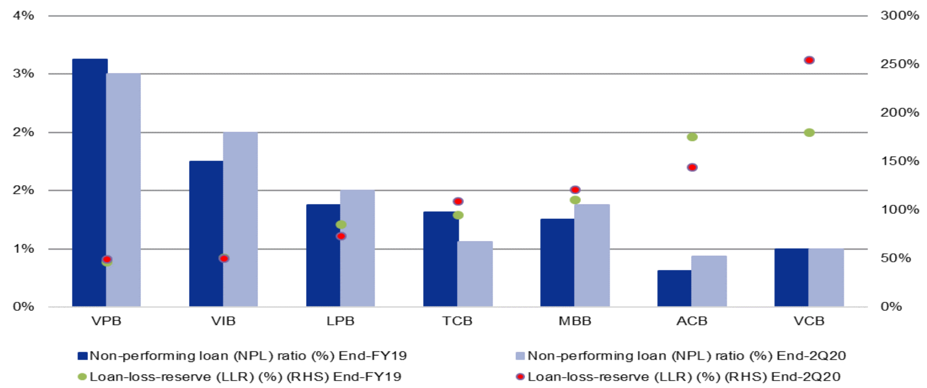
Bad debts remain the biggest concern

Banks' asset quality worsened at end-1H20, we anticipate the problem to linger through 2021F. But among the banks under our coverage, VCB, MBB and Asia Commercial Bank (ACB) have good asset quality and high provisions, hence they can better deal with bad debts. Vietnam Technological & Commercial JS Bank (TCB) reported an improved NPL ratio and LLR, thanks to its aggressive provisioning in 1H20, while VPB's NPL ratio/LLR declined/increased a little. We expect VIB and LienVietPostBank (LPB) to raise provisions and write-off rates in the coming months to lower their NPL ratio and LLR.

Downgrade sector to Neutral as recovery already priced in

We project banks' net profit to rebound in 2021F, albeit with varying recovery rates. Banks' performance have rallied 32-85% since their lowest points at end-1Q20, recovering to their respective end-2019 levels. We believe that banks' share prices are close to their fair value; hence, we downgrade the banking sector to Neutral. Our stock picks are MBB and VIB, in view of their prudent asset quality, better recovery outlook, and potential upside. Upside risks: better-than-expected asset quality, and stable net profit growth. Downside risks: worse-than-expected bad debts.

Figure 1: VCB, ACB, MBB lead in LLR, lowest NPL ratio among peers end-2019/2Q20



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

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Recovery underway, but already priced in

1H20 results review of banks under our coverage

Figure 2: 1H20 results summary

	VCB	TCB	VPB	MBB	ACB	VIB	LPB
Net interest Income (VNDbn)	**17,111**	**8,148**	**15,722**	**9,319**	**6,531**	**3,701**	**2,902**
yoy %	*0.19%*	*22.91%*	*8.80%*	*9.25%*	*13.39%*	*26.88%*	*-2.12%*
Non-interest income (VNDbn)	**5,908**	**3,636**	**3,132**	**3,593**	**1,949**	**1,114**	**310**
yoy %	*-1.4%*	*48.2%*	*31.5%*	*16.6%*	*16.1%*	*49.5%*	*106.7%*
Total operating income (VNDbn)	**23,019**	**11,784**	**18,854**	**12,912**	**8,480**	**4,815**	**3,212**
yoy %	*-0.23%*	*29.75%*	*12.01%*	*11.20%*	*13.99%*	*31.49%*	*3.11%*
Operating expense (VNDbn)	**(8,028)**	**(3,835)**	**(5,838)**	**(4,484)**	**(4,129)**	**(2,037)**	**(1,992)**
yoy %	*-5.01%*	*20.56%*	*-3.02%*	*2.56%*	*10.96%*	*33.84%*	*10.12%*
Provision expense (VNDbn)	**(4,009)**	**(1,211)**	**(6,431)**	**(3,310)**	**(532)**	**(421)**	**(216)**
yoy %	*20.9%*	*406.7%*	*-0.6%*	*40.0%*	*454.2%*	*31.6%*	*14.3%*
Pretax profit (VNDbn)	**10,982**	**6,738**	**6,585**	**5,119**	**3,820**	**2,357**	**1,004**
yoy %	*-2.84%*	*19.00%*	*51.62%*	*5.01%*	*5.47%*	*29.51%*	*-10.12%*
Net profit (VNDbn)	**8,788**	**5,273**	**5,265**	**3,975**	**3,059**	**1,885**	**806**
yoy %	*-3.09%*	*17.39%*	*51.69%*	*5.24%*	*5.52%*	*29.46%*	*-10.24%*
1H20 net profit/our full year forecast	**50.6%**	**49.2%**	**63.7%**	**45.7%**	**46.8%**	**53.5%**	**53.8%**

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Banks' key ratios as of 1H20

	VCB	TCB	VPB	MBB	ACB	VIB	LPB
Loan growth							
yoy %	*10.8%*	*24.9%*	*9.1%*	*9.4%*	*13.2%*	*20.5%*	*17.9%*
in 1H20 (ytd %)	*4.9%*	*0.4%*	*5.0%*	*4.4%*	*5.6%*	*6.7%*	*8.4%*
Deposit growth							
yoy %	*12.6%*	*13.4%*	*20.0%*	*-0.6%*	*13.5%*	*29.0%*	*10.7%*
in 1H20 (ytd %)	*5.7%*	*8.0%*	*10.7%*	*-5.6%*	*7.3%*	*4.6%*	*5.2%*
Net interest margin (NIM) (%)	**2.91%**	**4.49%**	**8.66%**	**4.71%**	**3.47%**	**3.93%**	**2.92%**
yoy change (pts)	*-0.28%*	*0.36%*	*-0.42%*	*0.01%*	*-0.08%*	*-0.02%*	*-0.48%*
In 1H20	*-0.18%*	*0.17%*	*-0.63%*	*-0.18%*	*-0.07%*	*0.00%*	*-0.44%*
Non-performing loan (NPL) ratio (%)	**0.83%**	**0.91%**	**3.19%**	**1.37%**	**0.68%**	**2.37%**	**1.65%**
yoy change (pts)	*-0.19%*	*-0.87%*	*-0.24%*	*0.11%*	*0.02%*	*0.01%*	*0.17%*
in 1H20	*0.04%*	*-0.43%*	*-0.23%*	*0.21%*	*0.14%*	*0.41%*	*0.20%*
Loan-loss-reserves (LLR) ratio (%)	**254.5%**	**108.6%**	**49.1%**	**121.0%**	**144.1%**	**49.8%**	**72.8%**
yoy change (pts)	*77.6%*	*31.5%*	*0.7%*	*23.4%*	*-17.4%*	*7.5%*	*-8.3%*
in 1H20	*75.0%*	*13.8%*	*2.7%*	*10.6%*	*-30.8%*	*-0.9%*	*-12.0%*
Annualised credit cost	**1.07%**	**1.05%**	**4.88%**	**3.21%**	**0.39%**	**0.63%**	**0.29%**
yoy change (pts)	*0.07%*	*0.76%*	*-0.63%*	*1.13%*	*0.31%*	*0.02%*	*-0.01%*
in 1H20	*0.07%*	*0.58%*	*-0.83%*	*1.11%*	*0.28%*	*0.07%*	*-0.04%*
Cost-to-Income ratio (CIR) (%)	**34.9%**	**32.5%**	**31.0%**	**34.7%**	**48.7%**	**42.3%**	**62.0%**
yoy change (pts)	*-1.8%*	*-2.5%*	*-4.8%*	*-2.9%*	*-1.3%*	*0.7%*	*3.9%*
in 1H20	*0.3%*	*-2.2%*	*-3.0%*	*-4.7%*	*-2.9%*	*0.1%*	*0.0%*

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Macro outlook

The latest outbreak casts a shadow on Vietnam's economic outlook in the near term

Vietnam has been hit by a second wave of Covid-19 outbreaks, which started on 25 Jul 2020, after 100 days without community transmission. The government has taken drastic steps to curb the virus spread, imposing strict social-distancing rules in the hardest-hit localities, such as Da Nang city and Quang Nam province. In other cities where infections have been confirmed, such as Hanoi and Ho Chi Minh City, the government requested the closure of some non-essential services.

Both the services and industrial sectors witnessed slowdowns in Aug 2020. According to the General Statistics Office of Vietnam (GSO), the total value of retail sales and services slid 2.7% mom in Aug, up slightly yoy by 1.7% (vs. +4.0% mom and +6.2% yoy in Jul). Vietnam's Aug IHS Markit Purchasing Managers' Index (PMI) slumped further to 45.7 pts (from 47.6pts in the previous month), due to slower demand for industrial products (in both domestic and foreign markets), as well as the extended disruption of the global supply chain. (PMI below 50 indicates a decline in the manufacturing sector). Also, Vietnam's Index of Industrial Production (IIP) grew only 0.6% yoy in Aug 2020, slower than the +1.1% rate in Jul and +7.2% in Jun.

Public investments and exports in the spotlight

In a bid to reverse the downtrend in GDP growth, the government has been stepping up public investments to counter the slowdown in other growth engines. According to GSO, disbursed state capital rose 30.4% yoy to VND250.5tr in 8M20 (above the 27.2% rate seen in 7M20 and 5.4% in 8M19), equivalent to 50.7% of the Parliament's revised full-year target. We expect public investment to accelerate in the coming months, as the government plans to implement three sub-projects under the North-South Expressway Project in Sep 2020.

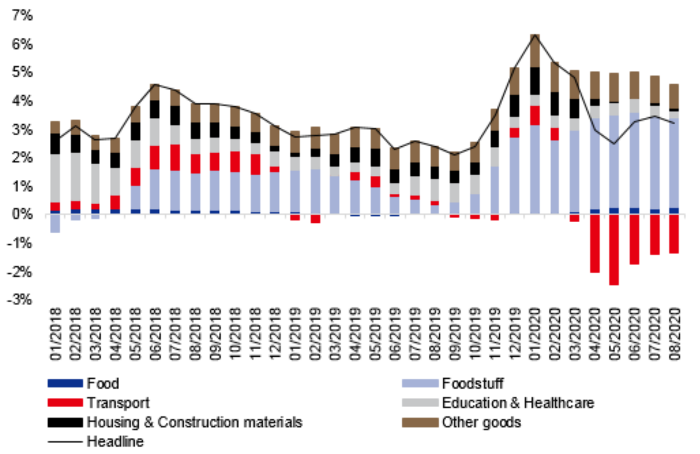
Exports have become the key growth engine going forward. According to the General Department of Vietnam Customs, Aug exports rose an estimated 6.5% mom to US$26.5bn (+2.5% yoy), establishing a new record for the monthly value. Vietnam's 8M20 exports edged up 1.5% yoy to US$174.1bn. The growth was spurred by domestic enterprises, with total export value estimated at US$60.8bn (+15.3% yoy), while that of FDI companies dropped 4.5% yoy to US$113.3bn.

As for imports, Vietnam's Aug imports value rose 8.6% mom to US$24.0bn (+7.3% yoy). Its 8M20 imports fell 1.7% yoy to US$163.2bn due to the decline in domestic demand, amid higher unemployment rates and lower workers' incomes. As a result, the trade surplus widened to US$10.9bn in 8M20, from a surplus of US$5.4bn in 8M19, and US$8.4bn in 7M20. We forecast 2020F exports to increase 1.7% yoy to US$268.6bn, and imports to drop 0.4% yoy to US$252.2bn. We thus expect the trade surplus to jump 44% yoy to US$16.4bn in 2020F. We view the widening trade surplus as supportive of the country's GDP growth, as well as the strength of the Vietnamese dong relative to other currencies.

Inflation could ease further towards year-end

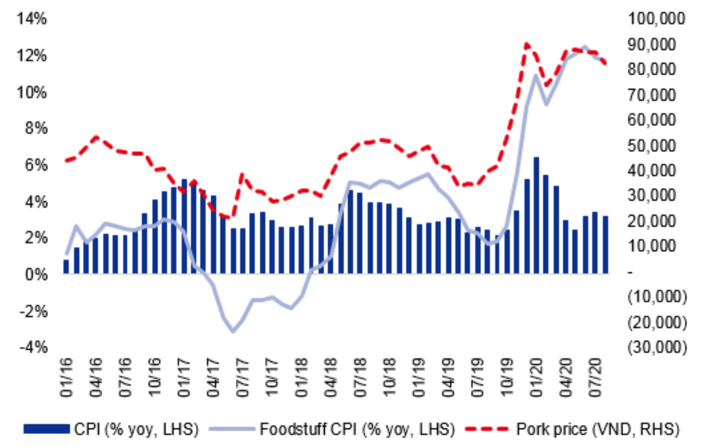
Vietnam's Aug headline inflation slowed to 3.2% yoy (vs. 3.4% yoy in Jul). On a mom basis, headline CPI inched up only 0.1%, slowing from 0.4% in Jul. We expect inflationary pressure to ease further towards year-end as the live pork prices could decline in 4Q20F, narrowing the gap vs. 4Q19 prices, as the domestic pig herd size recovers to pre-African Swine Fever levels, comparing with previous quarters. We maintain our forecast for the 2020F average headline CPI (+3.2% yoy), based on the following key assumptions for 2H20F: 1) Brent crude oil price at around US$43-45/barrel, and 2) electricity prices to be unchanged by the government.

Figure 4: Inflationary pressure eased in Aug 2020



SOURCES: VNDIRECT RESEARCH, GSO

Figure 5: Pork prices declined in Aug 2020

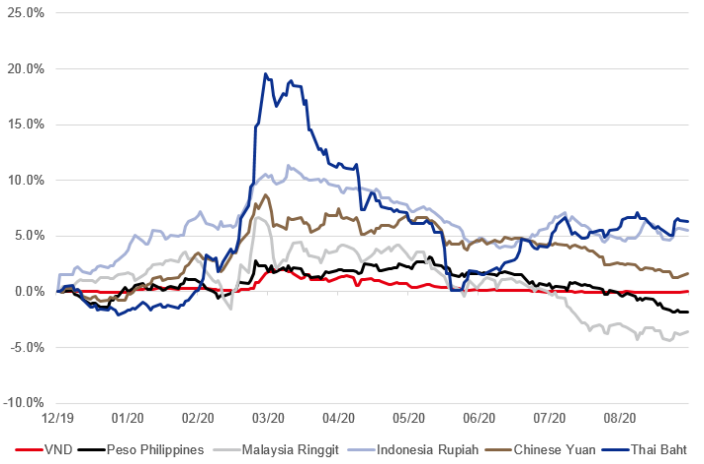


SOURCES: VNDIRECT RESEARCH, AGROMONITOR

Vietnamese dong likely to be stable towards year-end

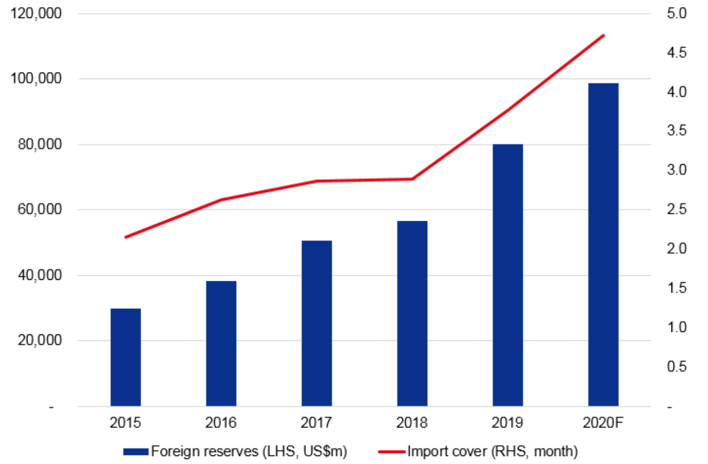
The dollar index has weakened, down 4.2% in 8M20, as the US Federal Reserve (Fed) loosened its monetary policy to maintain favourable financial conditions and strengthen the financial markets amid the Covid-19 pandemic. In that context, the Vietnamese dong has remained stable against the US dollar, backed by higher trade surplus and foreign reserves. As per data on 4 Sep, the central bank-set exchange rate for US$/VND stood at VND23,206 per dollar, widening only 0.2% YTD, while the current exchange rate on the free market was similar to the rate seen at the beginning of 2020. We expect the greenback to remain weak towards the year-end as we expect the Fed to maintain an accommodative monetary policy to support growth. We expect the VND to move within a relatively narrow range of VND23,200-23,400 per dollar towards the end of 2020F.

Figure 6: Vietnam's currency is more stable than most of its regional peers



SOURCES: VNDIRECT RESEARCH, BLOOMBERG

Figure 7: Vietnam's forex reserves and import cover (2015-20F)



SOURCES: VNDIRECT RESEAERCH, SBV, General Department of Vietnam Customs

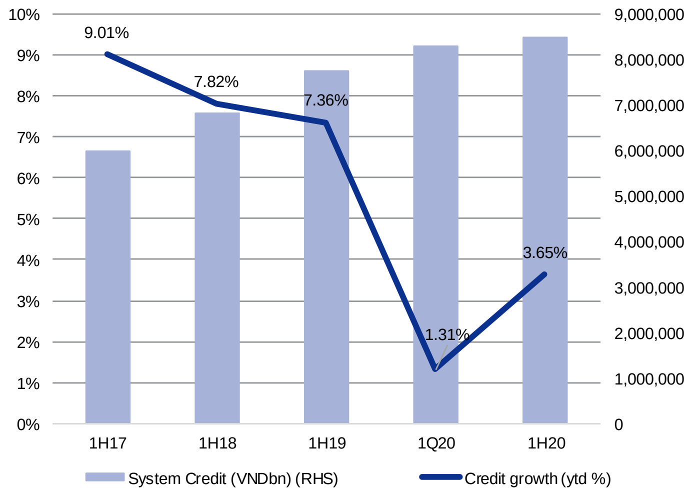
We expect industry credit growth to improve in 2H20F

Lending activities revamped in 2Q20, thanks to better containment of the Covid-19 outbreak

According to State Bank of Vietnam (SBV), industry credit grew 3.65% in 1H20, lower than the 7.36% seen in 1H19, but much higher than the 1.31% in 1Q20.

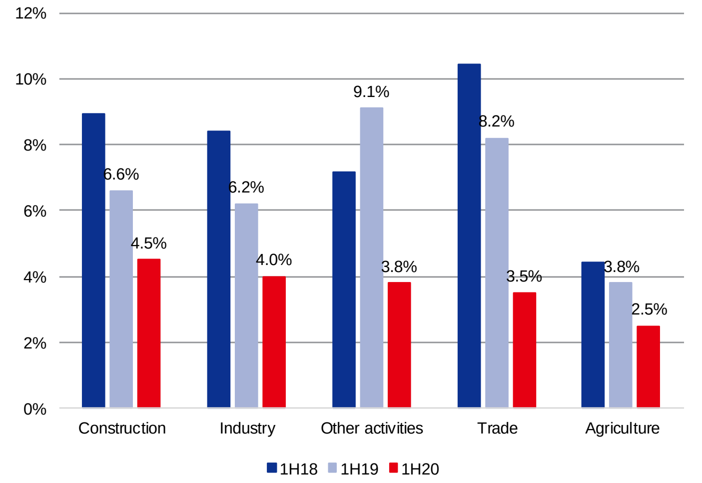
- The confidence of the business community in Vietnam's economic prospects gradually recovered as the pandemic was contained. The total number of newly-established enterprises and enterprises resuming operations rose to 46,202 in 2Q20 (+2.1% qoq); the number of newly established enterprises rose 8.8% qoq, while the number of enterprises that resumed operations decreased 10.7% qoq, due to the high rate of businesses resuming operations in Jan every year.
- The SBV cut the key policy rates twice (in Mar and May 2020), which resulted in the refinancing/discount rates lowered to 4.5%/3% from 6%/4% in Mar 2020, the current account deposit/under-6M deposit rates declined to 0.2%/4.25% from 0.8%/5% in Mar 2020, and the cap for short-term lending rates was cut by 1% pt to 5%. In addition, SBV's Circular 01 instructed banks to restructure loans with tenures of up to 12 months and waive/exempt interest rates for customers; this reduced the pressure on banks for provision expense, and on customers for interest expense.
- Banks offered stimuli packages, such as waiving/exempting interest rates and lowering lending rates, to support pandemic-hit firms. The credit stimulus package, valued at VND300tr in Apr 2020, saw lending rates cut by up to 2.5% pts, which has been effective in raising credit growth. As at 29 Jun 2020, new loans, which enjoyed 0.5-2.5% pts lower interest rates, accounted for 13% of Vietnam banking sector's loan balance.

Figure 8: Faster industry credit growth in 2Q20



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 9: Construction and industry segments delivered the strongest credit demand growth in 1H20 (%)



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

We forecast credit growth of 9% in 2020F and 13% in 2021F

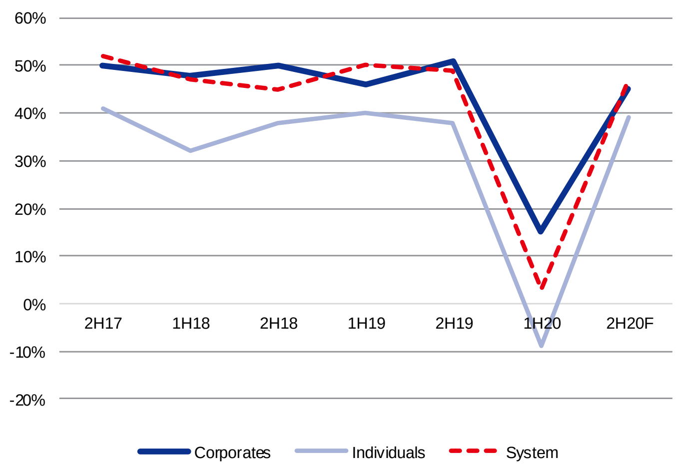
In our base case assumption, we expect the Covid-19 pandemic to be curbed by end-3Q20F locally, given both the expected success in vaccine production and efforts in not only reducing infections but also keeping business undisrupted, which should boost credit growth in 4Q20F and 2021F. We forecast credit growth of 9%/13% for 2020F/21F. Given the expectation of 2020F/21F GDP growing 3.5%/7.1%, the credit-to-GDP ratio should increase to 116%/123% in 2020F /21F (from 110% in 2019).

We believe lending activities will be encouraged by these following factors:

- Impact from the second wave of the Covid-19 outbreak was less severe than the first one. Moreover, vaccines are being tested in other countries, which, if successful, would allow governments to confidently reopen borders, boost manufacturing and business activities, improve trading and manufacturing activities, and benefit services such as tourism.
- Banks' lower funding costs, enabled by policy rate cuts, and reduced lending rates have led to companies taking on new loans to resume their business.
- The public investment boost will create jobs, thereby generating credit demand as a secondary effect. We expect the government to accelerate public investments throughout 2021F to support growth.

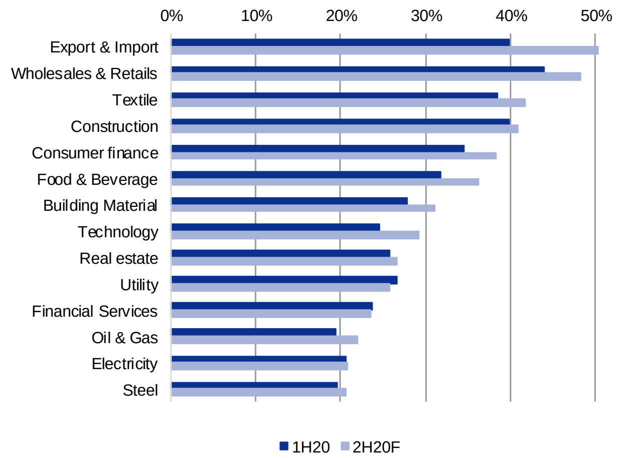
According to the latest survey of SBV, credit demand should improve significantly in 2H20F, thanks to several proactive measures taken by the government to revive the economy. Statistics also showed that exports, retail and textiles sectors will be the key drivers for credit growth.

Figure 10: Credit demand is expected to rise in 2H20F



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 11: Exports, retails, textile will be the key drivers for credit growth in 2H20F



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

NIM trend will be negative in 2020F, then improve marginally in 2021F

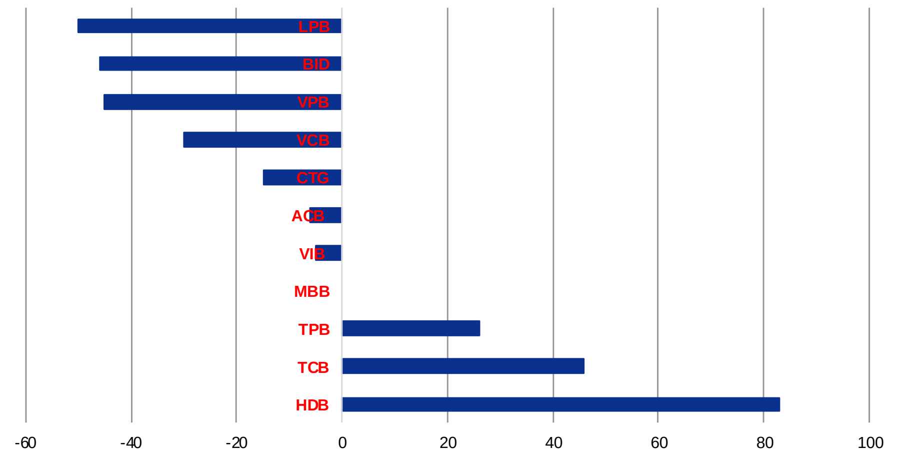
Asset yield contraction across sectors in 1H20

Banks continued to report contractions in asset yield due to recent interest rate cuts. The listed state-owned enterprise (SOE) banks recorded an average 21bp yoy drop in yield in 1H20, while the listed private banks posted an average yield rise of only 8bp yoy.

At the individual bank level, we observe that banks, with the advantages of lower funding cost on high CASA ratio or room to penetrate into retail banking, have maintained or expanded their NIM in 1H20. Particularly, HDBank (HDB, Not rated), TCB (HOSE, Add, TP: VND27,400), and TienPhong Bank (TPB, Not rated) had their NIMs increase by 83bp, 46bp, 26bp yoy, respectively, while MBB (HOSE, Add, TP: VND26,200) maintained its NIM in 1H20.

Although some banks' NIM performed positively in 1H20, we believe that banks' NIM will generally be on a downward trend in 2020F. As banks lower rates on new loans to boost lending, there is a time lag on key policy rate cuts impacting on banks' funding cost, and the reversal of interest income on restructured loans, and the reduction/exemption of interest payments have put pressure on banks' interest income, affecting banks' assets yield.

Figure 12: Banks with advantages in funding costs and individual lending had higher NIM in 1H20 (+/- bp yoy)



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

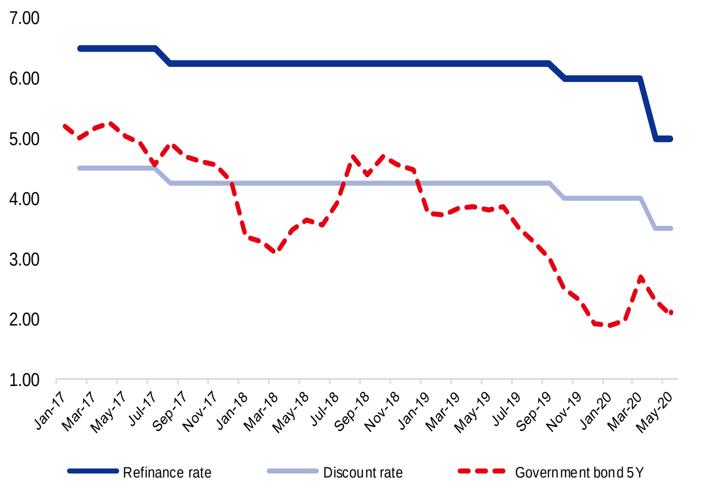
We forecast a negative NIM trend in 2020F, with a marginal improvement in 2021F

On the deposit side: We expect interest rates could fall further towards year-end. Given the lower inflationary pressure in 2H20F, we expect the SBV to further loosen monetary policy to support economic growth and reduce its key policy rates by 0.25-0.5% pts in 2H20F.

According to our calculations, the 3-month term and 12-month term deposit interest rates at commercial banks as at 12 Aug decreased by about 0.3% pts and 0.5% pts, respectively, on average, compared with end-2Q20. We expect both the deposit and lending rates offered by commercial banks to decline further by 0.25-0.5% pts towards the end of 2020F.

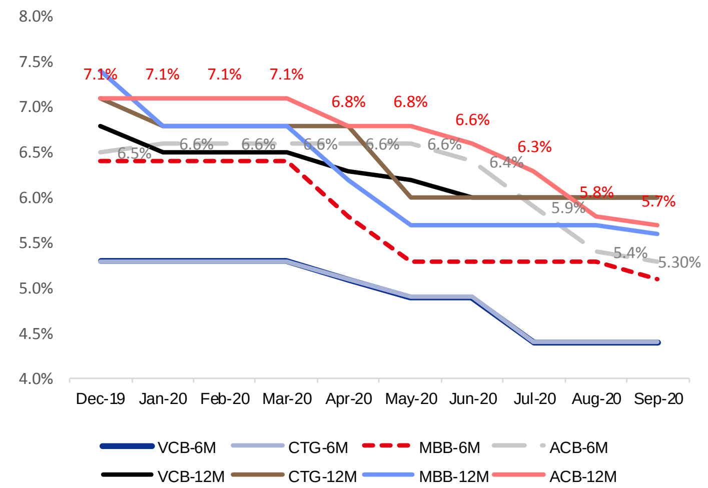
In addition, SBV has relaxed the requirements of short-term funds used for medium/long-term loans. Circular No. 08/2020, dated 11 Aug 2020, imposed a maximum ratio of 40% until end-Sep 2021F, instead of lowering to 37% as previous scheduled in Circular No. 22/2019. This should help to ease the pressure of some banks, which would have needed to increase their long-term funding to maintain adequate requirements.

Figure 13: Key policy rates (%)



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 14: Banks' 6M/over-6M deposit rates decreased 50-140bp since Mar 2020



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

On the lending side: At the start of the Covid-19 pandemic, banks offered stimulus packages with lending rates cut by up to 2.5% pts to pandemic-hit customers. As at 29 Jun 2020, 13% of the banking sector's credit was new loans with lending rates cut by up to 0.5-2.5% pts. We believe that fresh loans from now on will carry similar lending rates, which could help boost credit growth.

Due to a greater adjustment to lending rates vs. deposit rates and the reduction/exemption of interest payments for pandemic-hit customers, we expect banks' NIMs in 2020F to be lower vs. 2019. We expect Covid-19 to be under control in Vietnam by end-3Q20F, leading to the recovery of manufacturing and business activities. Hence banks should be able to recoup the interest income of restructured loans, improving their NIM in 2021F, albeit in varying degrees as in 1H20. Banks with the following advantages have more opportunities to improve their NIM:

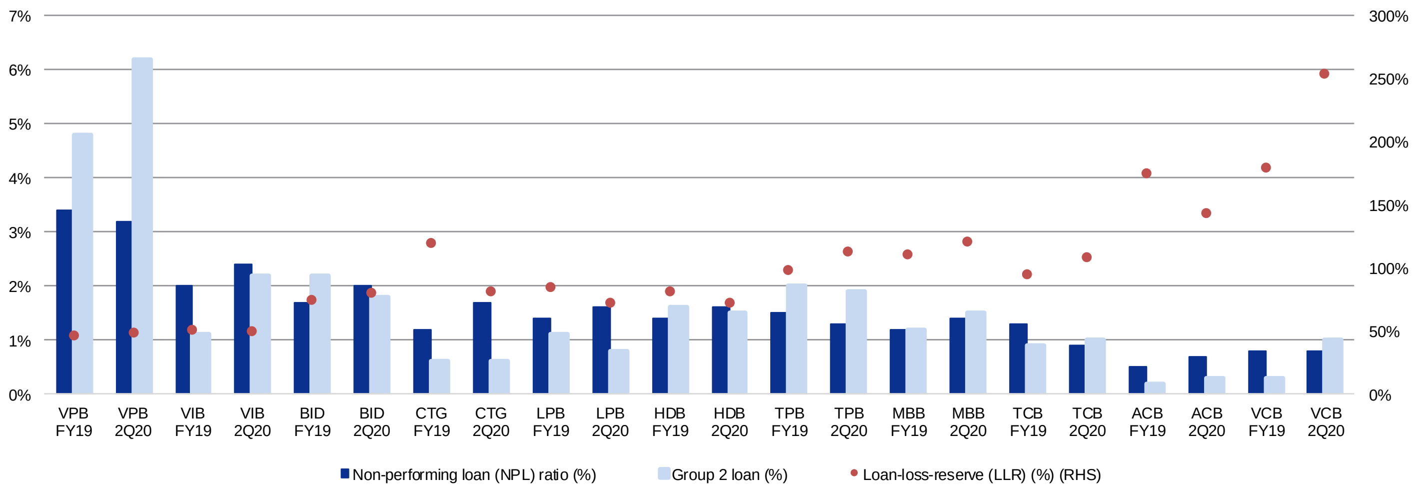
- High CASA ratio or lower loan-to-deposit ratio: can lead to lower funding costs, while facilitating lending rate reduction.
- Low penetration in retail banking: further penetration in the higher-yielding retail segment will help improve assets yield, partly offsetting the impact of the pandemic.
- Low risk appetite: slower rise in bad debt leads to less interest income reversal.

Bad debt remains the biggest concern

After the pandemic subdues, credit growth should rebound and NIM can be improved by changing the loan and deposit mix, but the impact of bad debts can only be curbed when banks are conservative in credit appraisal, loan classification and provisioning. The rate of bad debt formation depends on:

- The allocation of loans to corporate and retail segments: banks with large retail loan books, thanks to their more diversified customer base, face less asset risks than those with a high focus on corporate loans.
- Banks' risk appetite: banks with larger exposure to high-risk sectors, such as unsecured loans, would see a quick rise in bad debts.
- The degree of customer concentration: the dependence on large customers/groups of customers poses a high risk of credit loss.

Figure 15: Higher bad debts and Group 2 loans across many banks at end-2Q20 (vs. end-2019)



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Higher bad debts and Group 2 loans cast shadows on many banks at end-2Q20. We believe the problem will continue through 2H20F to 2021F, as banks can restructure loans disbursed before 23 Jan 2020 by up to 12 months, without reclassifying them into a riskier loan group, but these may reflect on the balance sheet at a later time. In our coverage, VCB (HOSE, Hold, TP: VND86,200), ACB

(HNX, Add, TP: VND22,300), and MBB have proven track records with good asset quality and high provisioning buffers. Hence, they are in better position to tackle rising bad debts. TCB had aggressively provisioned in 1H20, leading to its lowest level ever in NPL ratio and LLR. On the other side, VPB's (HOSE, Hold, TP: VND25,000) NPL ratio/LLR declined/increased a little, while we expect VIB (UPCOM, Add, TP: VND26,300) and LPB (UPCOM, Hold, TP: VND11,000) to raise provisions and write-off rates in the coming months to lower their rising NPL ratio and LLR.

Bad debts spike in the consumer finance segment seems unavoidable, as consumer finance companies provide unsecured loans and credit cards for the mass customer segment, which has low income and is most vulnerable to an economic downturn.

According to the GSO, the unemployment rate among Vietnamese of working age edged up to 2.7% in 2Q20 (vs. 2.2% in 2Q19 and 1Q20), the highest level in a decade, as the number of unemployed persons of working age rose to nearly 1.5m. Workers' incomes were also strongly affected by the pandemic, with the average monthly income of informal workers down in 2Q20, by 9.2% qoq and 4.9% yoy. Hence, we expect the pandemic to lead to a surge in bad debts at consumer finance companies. However, the rising bad debts from unsecured lending is not a sector-wide risk, in our view, as the penetration in this sector is still low — only four banks have consumer finance businesses. One such bank under our coverage is VPB. To deal with the uncertainty of the pandemic, VPB's consumer finance affiliate FE Credit has stopped lending to new-to-bank customers and is focusing on lending to existing customers instead.

Banks under our coverage should rebound in 2021F

Banks under our coverage, which are among the top banks in terms of size, network, asset quality and market share in Vietnam, should see their earnings growth recover from 2021F onwards, in our view. The recovery should be driven by a rebound in credit growth, NIM, and fee and service income growth. However, the rate of recovery will vary among banks due to differences in business strategy and risk appetite.

Figure 16: Banks' recovery rate in 2021-22F

Banks	Recovery Rate	Features
MBB	Quickest recovery	- NIM expansion on continued expansion into retail lending and unsecured lending. - Strong growth in fee income on bancassurance, card products and digital banking. - Large corporate customer base, relating to Viettel group, lifts MBB's credit, and maintain low funding cost. - High provisioning buffer curbs NPL.
VIB	Quickest recovery	- Advanced technology and largest market share in car loans. VIB's car lending can benefit from decreasing car prices and a 50% reduction in registration fee. - Solid growth in net fee income driven by payment service and commission fee on credit card issuance and bancassurance activities. - NPL ratio has risen at end-1H20 vs. end-FY19, but still slightly changed from the level at end-1H19.
VCB	Quick recovery	- NIM improvement on further penetration in retail lending. - One-off income from exclusive bancassurance deal and new income stream from insurance commission. - Large corporate customer base helps credit rebound quicker. - Conservative strategy helps contain new bad debt better.
ACB	Decent recovery	- Good asset quality, high provisioning buffer, and a lower risk profile (diversified, low exposure to high risk sectors). - A potential exclusive bancassurance deal accelerate income. - CASA improvent on expanding customer base.
TCB	Decent recovery	- NIM improvement driven by low funding cost on high CASA. - High demand on housing sector boost TCB's credit growth, especially on primary mortgage finance. - Strong growth in fee income on card products, and advisory fee.
VPB	Moderate recovery	- After the pandemic ends, VPB will resume its consumer finance business, recovering credit growth and NIM expansion. - Strong fee income growth on commision fee. - However, the burden of higher NPL will hamper earning growth.
LPB	Moderate recovery	- Assets yield improvement but low CASA ratio dampen NIM expansion - Strong growth in net income fee thanks to insurance sales. - NPLs on the rise due to restructuring towards retail lending but still under 2%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 17: Performance forecast for 2020-22F, for banks under our coverage

	VCB			MBB			ACB			TCB			VPB			VIB			LPB		
Profit & Loss Statement (yoy %)	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Net interest income	13.7%	13.5%	15.7%	118%	14.8%	17.4%	119%	15.2%	14.6%	13.7%	17.7%	15.3%	4.0%	18.0%	210%	23.8%	24.1%	23.5%	-10%	17.1%	20.3%
Non-interest income	33.6%	318%	35.0%	24.6%	213%	17.8%	12.7%	-0.8%	15.7%	19.5%	17.8%	12.7%	12.3%	27.6%	12.1%	16.7%	215%	19.5%	23.8%	22.9%	18.9%
Operating income	18.5%	18.5%	216%	15.2%	16.7%	17.5%	12.1%	112%	14.8%	15.6%	17.7%	14.4%	5.0%	19.2%	19.6%	22.1%	23.5%	22.6%	0.7%	17.6%	20.2%
Operation expense	23.3%	18.5%	216%	19.8%	16.7%	17.5%	8.6%	9.0%	14.8%	16.5%	17.7%	11.1%	8.2%	15.8%	19.6%	27.4%	23.5%	22.6%	-0.9%	17.6%	18.2%
Pre-provision profit (PPOP)	16.0%	18.5%	216%	12.3%	16.7%	17.5%	15.8%	13.5%	14.8%	15.0%	17.7%	16.2%	3.3%	21.1%	19.6%	18.2%	23.5%	22.6%	3.3%	17.6%	23.3%
Provision expenses (% PPOP)	23.7%	24.9%	27.5%	33.1%	34.3%	34.2%	9.4%	10.5%	10.2%	14.3%	15.5%	15.9%	58.4%	57.4%	57.1%	210%	24.6%	27.7%	25.4%	218%	23.4%
Pre-tax profit	14.5%	16.7%	17.4%	118%	14.5%	17.7%	8.7%	12.2%	15.1%	5.7%	16.0%	15.6%	0.1%	23.8%	20.5%	7.9%	17.8%	17.7%	-6.4%	23.2%	20.7%
Net profit	14.3%	16.7%	17.4%	113%	14.5%	17.7%	8.7%	12.2%	15.1%	6.4%	16.0%	15.3%	0.1%	23.8%	20.5%	7.9%	17.8%	17.7%	-6.4%	23.2%	20.7%
Key Financial Ratios																					
Loan growth	13.0%	14.0%	15.0%	13.0%	14.0%	14.0%	12.0%	14.0%	14.0%	12.2%	14.9%	14.8%	7.4%	17.6%	16.2%	18.0%	23.0%	22.0%	10.0%	14.0%	15.0%
Deposit growth	12.0%	13.0%	14.0%	110%	13.0%	13.5%	13.0%	14.0%	14.5%	110%	14.0%	15.0%	15.8%	18.1%	18.9%	20.0%	25.0%	25.0%	8.0%	15.0%	16.0%
Non-performing loan (NPL) ratio	10%	12%	14%	12%	16%	16%	0.6%	0.6%	0.6%	16%	17%	15%	3.4%	3.5%	3.1%	2.3%	2.5%	2.4%	16%	16%	14%
Loan-loss-reserves (LLR)	155.8%	137.8%	1417%	98.1%	814%	85.2%	154.7%	149.8%	155.0%	85.1%	815%	87.2%	512%	45.7%	59.8%	46.1%	48.8%	62.3%	83.1%	86.5%	96.3%
Credit Cost	1.1%	12%	14%	2.1%	2.2%	2.3%	0.3%	0.3%	0.3%	0.9%	10%	1.1%	5.4%	5.7%	5.8%	0.8%	10%	1.1%	0.4%	0.4%	0.5%
Loan-to-deposit ratio (LDR)	79.8%	80.5%	813%	73.3%	74.6%	75.6%	77.4%	78.3%	78.8%	76.6%	78.1%	79.1%	77.9%	78.8%	78.8%	78.1%	77.9%	77.8%	79.7%	79.8%	80.0%
Cost-to-income ratio (CIR)	36.0%	36.0%	36.0%	410%	410%	410%	50.0%	49.0%	49.0%	35.0%	35.0%	34.0%	35.0%	34.0%	34.0%	44.0%	44.0%	44.0%	610%	610%	60.0%
Capital adequacy ratio (CAR)	9.4%	10.0%	10.5%	10.8%	10.9%	112%	117%	119%	12.0%	15.2%	15.5%	15.7%	112%	118%	12.1%	9.9%	10.1%	9.9%	8.5%	8.4%	8.3%
ROA	16%	17%	18%	2.0%	2.0%	2.1%	16%	16%	16%	2.6%	2.7%	2.8%	2.1%	2.3%	2.4%	18%	17%	17%	0.7%	0.8%	0.9%
ROE	23.6%	22.7%	22.0%	20.5%	19.4%	19.3%	216%	20.4%	19.6%	16.0%	15.8%	15.6%	17.8%	18.4%	18.4%	23.6%	22.4%	214%	112%	12.2%	13.0%

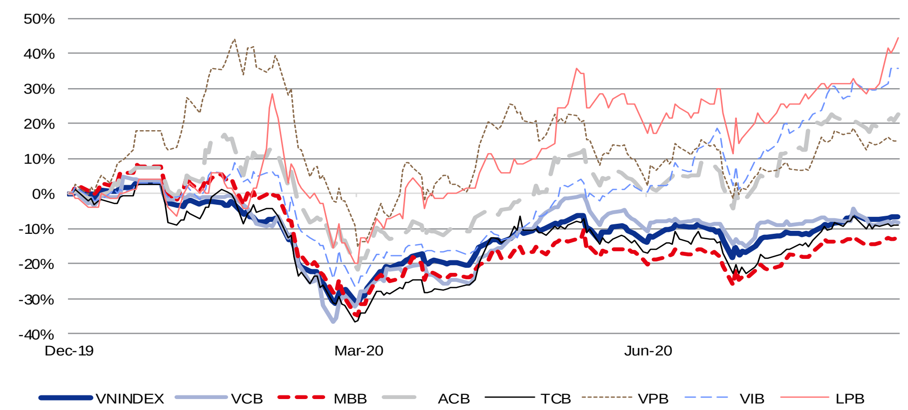
SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

We downgrade sector to Neutral, as prices are close to fair valuation

The return of the virus outbreak in late-Jul 2020 sent shudders through Vietnam's stock market, but share prices of banks stayed firm compared with Mar 2020, thanks to Vietnam's experience in controlling the outbreak. In dealing with the second wave, the government immediately imposed social-distancing restrictions on the hardest-hit locations, while allowing businesses to operate as normal in other cities. We expect the outbreak to be controlled locally by end-3Q20F. In 4Q20F/2021F, as credit growth rebounds, topline recovery and decent provisioning coverage would enable banks to address rising bad debts. We project banks' net profits to rebound in 2021F, albeit with varying recovery rates among banks.

Currently, the share prices of banks under our coverage have recovered by c.32-85% since their lowest points at end-1Q20, beating the VN-INDEX recovery of 36.1%, to reach their respective end-2019 levels. We believe banks' share prices are currently close to their fair values. Therefore, we downgrade the banking sector to Neutral.

Figure 18: Performance of the VN-INDEX and the share prices of banks under our coverage are recovering, reaching their end-2019 levels



SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 19: Regional banking sector comparison

Banks	Bloomberg Code	Recommendation	Closing Price (local curr.)	Target Price (local curr.)	Market Cap (US$m)	P/BV (x) FY20F	P/BV (x) FY21F	P/E (x) FY20F	P/E (x) FY21F	3-yr Forward CAGR EPS %	ROE (%) FY20F	ROE (%) FY21F
Agricultural Bank of China	1288 HK	ADD	2.5	3.6	159,671	0.4	0.4	3.9	3.7	3.1%	10.9%	10.7%
Bank of China	3988 HK	ADD	2.5	3.6	127,254	0.4	0.3	3.9	3.6	2.1%	9.8%	9.7%
China Merchants Bank	3968 HK	ADD	39.1	45.3	139,284	1.3	1.2	8.8	7.6	14.0%	16.1%	16.5%
Bank of Communications	3328 HK	ADD	3.9	5.4	44,613	0.3	0.3	3.6	3.4	3.5%	9.7%	9.8%
China Banks average						**0.6**	**0.6**	**5.0**	**4.6**	**5.7%**	**11.6%**	**11.7%**
ICICI Bank	ICICIBC IN	ADD	374.7	465.0	35,142	2.0	1.8	18.4	15.1	22.5%	11.1%	12.4%
Axis Bank	AXSB IN	ADD	446.0	630.0	18,560	1.4	1.2	17.9	10.6	106.6%	8.2%	12.3%
Indusind Bank	IIB IN	ADD	621.7	675.0	5,864	1.2	1.0	9.4	8.1	14.1%	12.9%	13.5%
Yes Bank	YES IN	ADD	14.3	100.0	4,859	0.1	0.1	2.1	1.0	28.3%	6.1%	11.9%
India Banks average						**1.2**	**1.0**	**11.9**	**8.7**	**42.9%**	**9.6%**	**12.5%**
Bank Central Asia	BBCA IJ	ADD	28,750	37,900	47,755	4.1	3.6	31.1	24.0	8.6%	13.0%	15.8%
Bank Rakyat Indonesia	BBRI IJ	ADD	3,260	4,000	27,091	2.1	1.9	18.1	12.2	7.1%	11.2%	16.4%
Bank Mandiri	BMRI IJ	ADD	5,650	7,100	17,764	1.4	1.3	16.8	9.6	8.8%	8.0%	14.0%
Bank Negara Indonesia	BBNI IJ	ADD	4,870	6,300	6,119	0.9	0.8	37.3	7.6	8.1%	2.2%	11.1%
Indonesia Banks average						**2.1**	**1.9**	**25.8**	**13.3**	**8.2%**	**8.6%**	**14.3%**
Malayan Banking Bhd	MAY MK	HOLD	7.5	7.0	20,399	1.1	1.1	13.3	11.3	-1.4%	8.0%	9.6%
Public Bank Bhd	PBK MK	ADD	16.7	18.9	15,686	1.4	1.3	14.8	13.2	0.4%	9.8%	10.3%
Hong Leong Bank	HLBK MK	HOLD	14.8	13.6	7,763	1.1	1.0	12.5	11.7	6.7%	9.3%	9.1%
BIMB Holdings	BIMB MK	REDUCE	3.5	3.2	1,531	1.0	0.9	10.4	10.5	-7.2%	9.8%	9.2%
Malaysia Banks average						**1.2**	**1.1**	**12.8**	**11.6**	**-0.4%**	**9.2%**	**9.6%**
Kasikornbank	KBANK TB	HOLD	79.8	94.0	6,079	0.5	0.4	9.9	8.6	-7.9%	6.1%	6.7%
Siam Commercial Bank	SCB TB	HOLD	68.5	73.0	7,483	0.6	0.6	9.4	11.7	-8.5%	7.5%	5.9%
Bangkok Bank	BBL TB	HOLD	100.0	113.0	6,141	0.4	0.4	10.8	9.9	-9.1%	5.1%	5.4%
Kiatnakin Bank	KKP TB	HOLD	38.0	41.0	1,035	0.7	0.7	8.3	7.0	-2.5%	10.7%	12.4%
Thailand Banks average						**0.5**	**0.5**	**9.6**	**9.3**	**-7.0%**	**7.4%**	**7.6%**
Vietcombank	VCB VN	HOLD	82,900	86,200	13,271	3.1	2.6	14.5	12.5	16.1%	23.6%	22.7%
Techcombank	TCB VN	ADD	21,400	27,400	3,233	1.0	0.9	7.0	6.0	12.5%	16.0%	15.8%
Vietnam Prosperity JSC Bank	VPB VN	HOLD	23,000	25,000	2,420	1.1	0.9	6.8	5.5	15.5%	17.8%	18.4%
Military Commercial Joint Stock Bank	MBB VN	ADD	18,100	26,200	1,884	0.9	0.8	5.0	4.4	13.3%	20.5%	19.4%
Asia Commercial Joint Stock Bank	ACB VN	ADD	21,200	22,300	1,978	1.1	0.9	5.4	4.8	11.6%	21.6%	20.4%
Lien Viet Post Bank	LPB VN	HOLD	10,100	11,000	420	0.7	0.6	8.5	7.2	11.2%	11.3%	11.9%
Vietnam International Bank	VIB VN	ADD	23,500	26,300	924	1.3	1.1	6.0	5.1	13.9%	23.6%	22.4%
Vietnam Banks average						**1.3**	**1.1**	**7.6**	**6.5**	**13.4%**	**19.2%**	**18.7%**
Vietnam Banks average - ex-VCB						**1.0**	**0.9**	**6.4**	**5.5**	**13.0%**	**18.5%**	**18.1%**
Regional Bank Average						**1.1**	**1.0**	**12.1**	**9.0**	**10.5%**	**10.9%**	**12.4%**

PRICE AS OF 18 SEPTEMBER 2020
SOURCES: CGS-CIMB RESEARCH, VNDIRECT RESEARCH, COMPANY REPORTS

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Add	60.1%	0.4%
Hold	25.9%	0.1%
Reduce	14.0%	0.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)
2 AGM Level 2018 from Thai Investors Association
3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:
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4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:
SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)
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