

Banking Masterclass

Stronger earnings growth, asset quality to improve in 2024

February 2024

Duy Nguyen, PhD

Senior Manager

duy.nguyenanh@vietcap.com.vn

+8428 3914 3588 ext.123

Truc Ngo, CFA

Senior Analyst

truc.ngo@vietcap.com.vn

+8428 3914 3588 ext.116

Ngoc Huynh

Senior Analyst

ngoc.huynh@vietcap.com.vn

+8428 3914 3588 ext.138

Nga Ho

Analyst

nga.ho@vietcap.com.vn

+8428 3914 3588 ext.516

Contents

1

Banking overview

2

2023 Recap and 2024 outlook

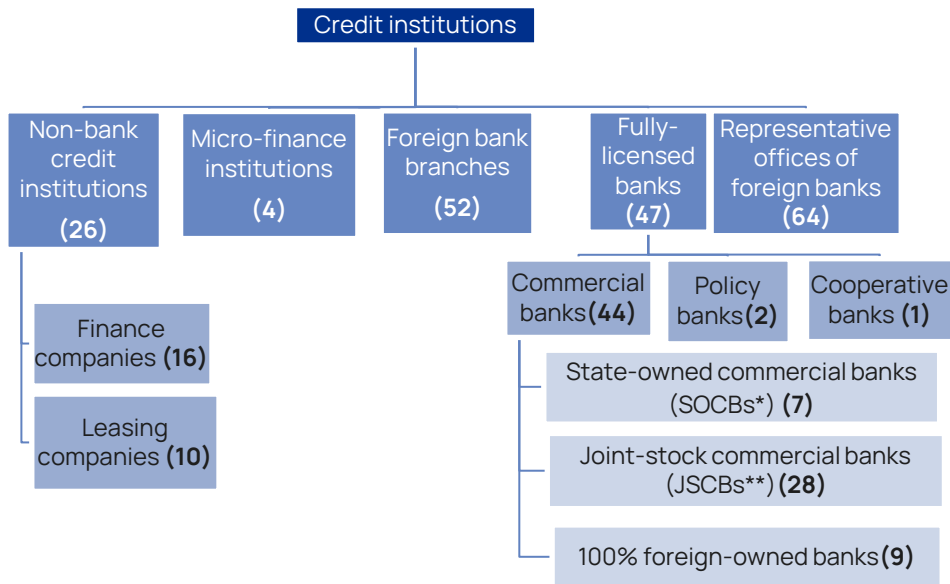
3

Recent performance and top picks

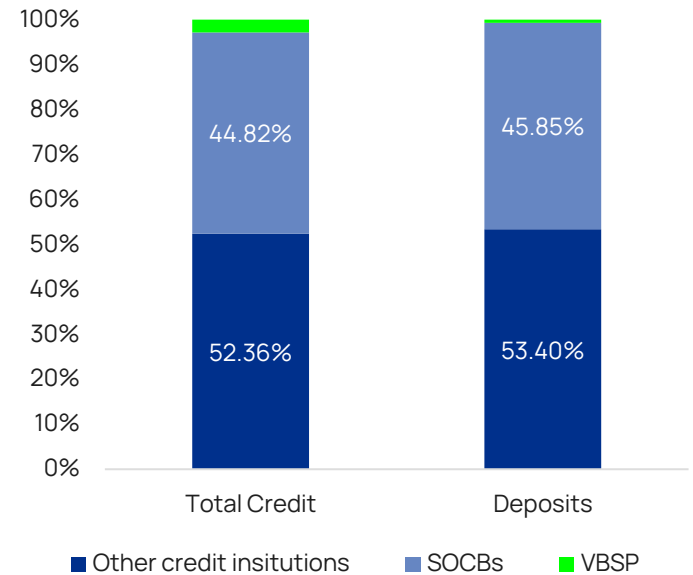
Banking overview

Snapshot of Vietnamese banking sector (1)

Credit institutions in Vietnam (FY2022)



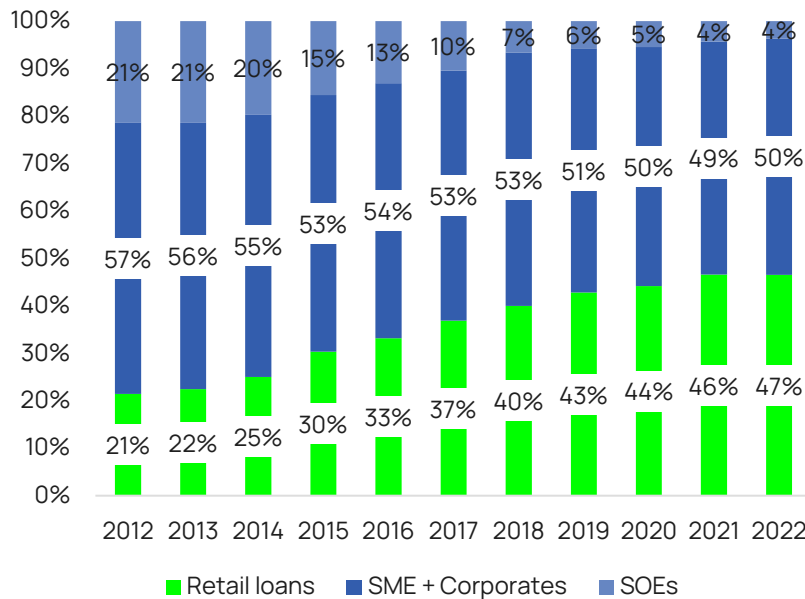
Market share of loans and deposits by type of credit institutions (FY 2022)



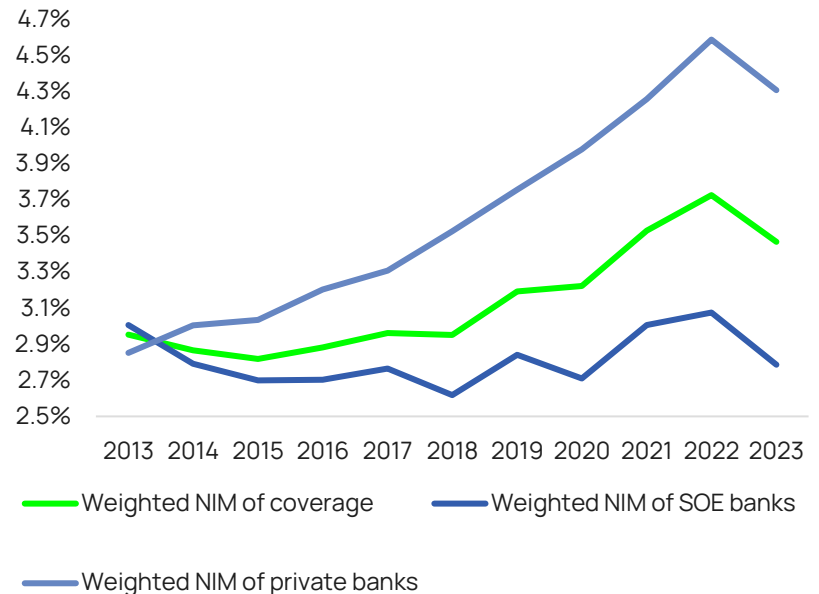
- The State Bank of Vietnam (SBV) classifies Vietnam's credit institutions into five main types: non-bank credit institutions, micro-finance institutions, foreign bank branches, representative offices of foreign banks, and fully-licensed deposit taking banks.
- Of these, bank-related categories account for 84.7% by number of registrations.
- The four biggest State-owned commercial banks (SOCBs) occupy around 45% of the market's deposits and loans.

Snapshot of Vietnamese banking sector (2)

Breakdown of gross loans by customer groups for banks under our coverage



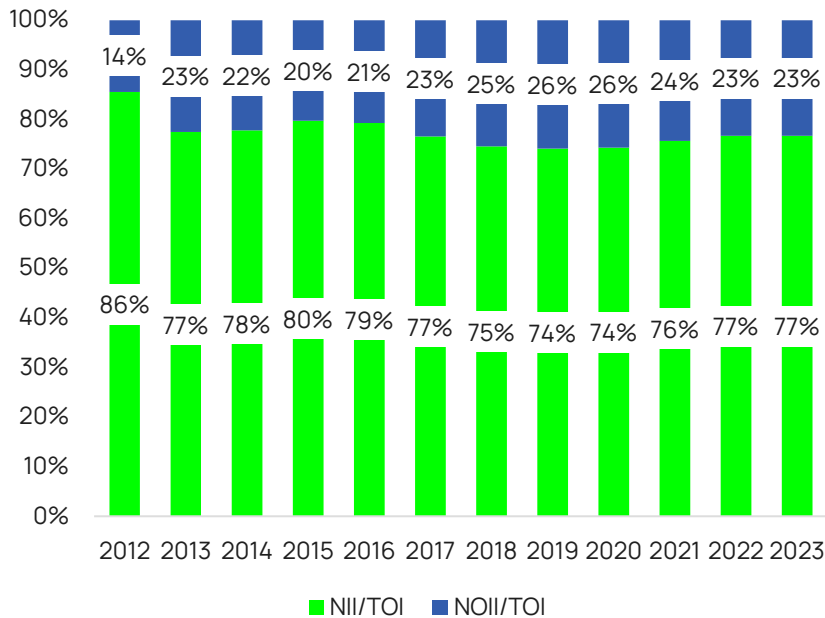
Aggregate NIM of banks in our coverage universe



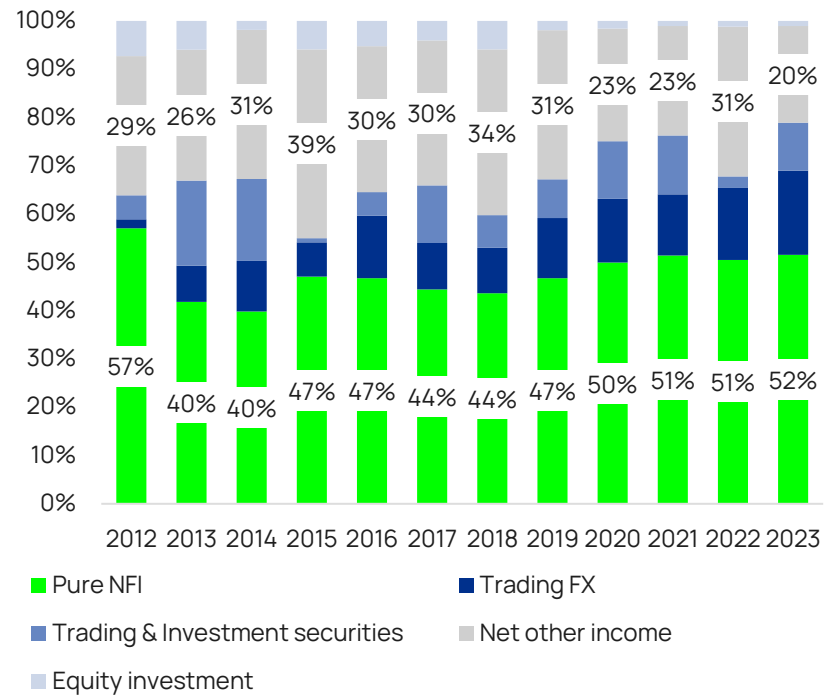
- Since 2012, banks in our coverage have shifted the structure of their loan portfolios to the retail lending segment, which is evidenced by their retail lending portions jumping from 21% in 2012 to 47% in 2022.
- The shift to retail lending with higher yields partly explains the improvement in NIM during the period. The aggregate NIM of banks in our coverage universe expanded by 83 bps from 2013 to 2022. However, the economic slowdown decreased 2023 aggregate NIM by 26 bps YoY.

Snapshot of Vietnamese banking sector (3)

Constituents of TOI of banks in our coverage universe



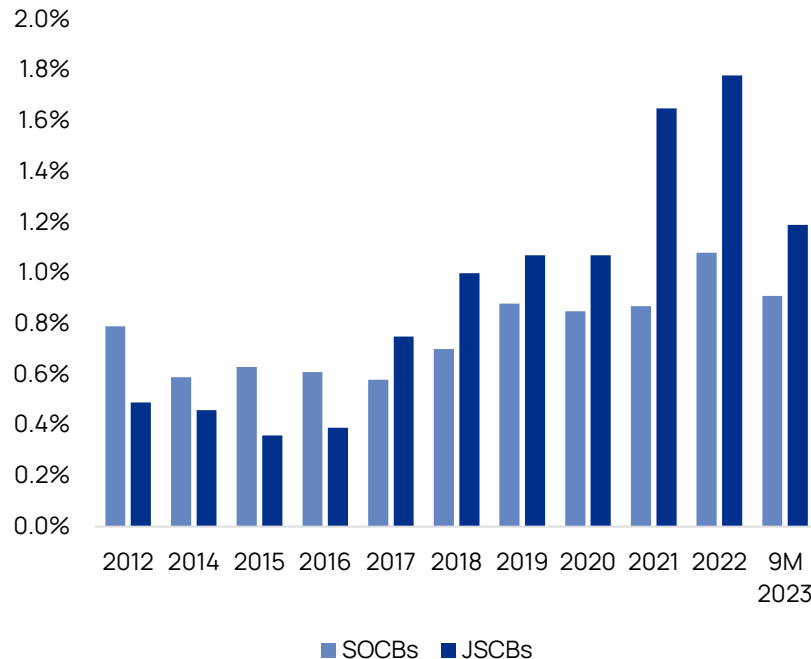
Constituents of NOI of banks in our coverage universe



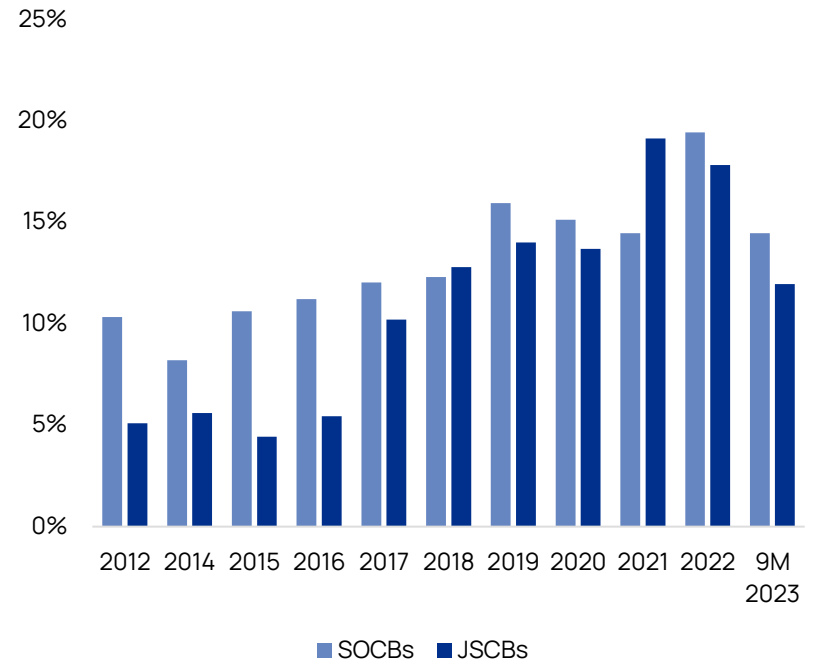
- Profits of Vietnamese banks mainly come from NII. However, NOI has increased its overall contribution since 2017, which we believe is partly due to the success of the bancassurance segment that started in 2017.
- The main contribution to Vietnamese banks' NOI was pure NFI, and this contribution has increased over the years. Meanwhile, the portion of net other income in NOI has edged down in the last four years compared to the average of 32.5% in the period from 2014 to 2017, as this latter period encompassed high recovery income from written-off debt during the aftermath of the credit cycle downturn between 2012 to 2014.

Snapshot of Vietnamese banking sector (4)

ROA of banks, 2012 – 9M 2023



ROE of banks, 2012 – 9M 2023



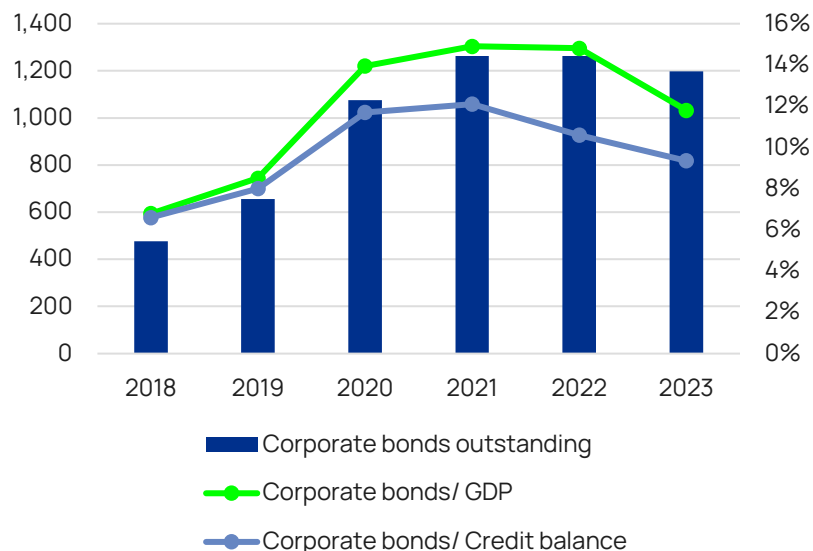
- ROEs of SOCBs and JSCBs gradually increased in 2012-2022 due to their ability to improve NIM and their improvement in fee income from a low base.
- ROAs of SOCBs were stagnant vs an increasing trend for JSCBs, which we believe was partly due to relatively lower risk exposure in the balance sheets of SOCBs.

Key domestic events 2022

Date		Event
1	Mar 29, 2022	FLC Chairman was arrested on stock manipulation charges.
2	Apr 5, 2022	Chairman of Tan Hoang Minh was arrested on fraudulent activities in corporate bond issuance.
3	Jun 6, 2022	SBV resumed T-bill issuance to tighten liquidity.
4	Sep 16, 2022	Issuance of Decree 65/2022/ND-CP, tightening the regulatory framework for corporate bond issuance.
5	Sep 22, 2022	SBV raised policy rates and deposit cap by 100 bps.
6	Oct 8, 2022	Van Thinh Phat chairwoman was arrested on charges of fraud in the issuance and trade of bonds.
7	Oct 24, 2022	SBV raised policy rates and deposit cap by another 100 bps.
8	Nov 4, 2022	The USD/VND exchange rate peaked at 24,870 – a VND depreciation of 8.2% against USD since the beginning of 2022.
9	Nov 30, 2022	The USD/VND exchange rate cooled down.

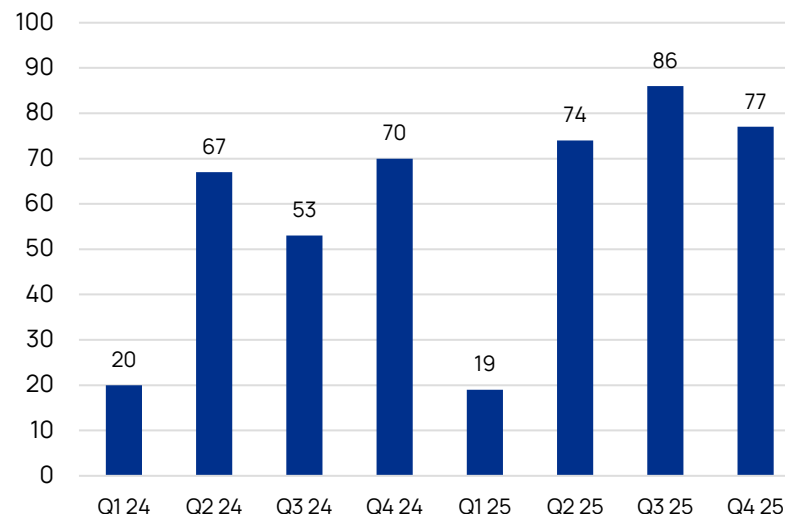
The Vietnamese corporate bond market contracted

Corporate bonds outstanding (VND tn)



Source: VBMA, GSO, SBV, Vietcap estimate

Corporate bond maturity by quarter (VND tn)



Source: HNX, Vietcap compilation

- Data from the Vietnam Bond Market Association (VBMA) suggests that the outstanding balance of corporate bonds dropped 5.2% YoY in 2023 to VND1,198tn (USD49bn), bringing the balance of corporate bonds vs GDP down to 11.8% in 2023 from 14.8% at end-2022.
- We attribute the decrease to (1) a high level of bond maturity and bonds redeemed prior to maturity outweighing (2) the value of newly issued bonds in 2023.

Key support measures from the government in 2023 -2024

	Date	Event
1	Feb 17, 2023	SOE banks agreed to offer support credit package of VND120tn for social housing and worker housing projects.
2	Mar 5, 2023	Issuance of Decree 08/2023/ND-CP , amending, supplementing, and delaying the effective date of some articles in Decree 65.
3	Mar 14, 2023	Policy rates cut for the first time in 2023.
4	Apr 3, 2023	Policy rates cut for the second time (~50 bps).
5	Apr 23, 2023	Issuance of Circular 02/2023/TT-NHNN , allowing banks to restructure repayment terms and maintain the loan group for customers facing difficulties. Issuance of Circular 03/2023/TT-NHNN , which delayed the tightening of bond trading regulations for credit institutions.
6	May 23, 2023	Policy rates cut for the third time (~50 bps).
7	June 16, 2023	Cuts for deposit cap by 25 bps, for other policy rates by 50 bps.
8	Aug 28, 2023	Issuance of Circular 10/2023/TT-NHNN that deferred the implementation of some restrictions on lending activities in Circular 06/2023/TT-NHNN to support funding for real estate developers.
9	Jan 10, 2024	Issuance of Circular 22/2023/TT-NHNN that reduces risk-weighted assets for prioritized sectors such as industrial park real estate, agriculture, and mortgage loans for social housing projects.
10	Jan 18, 2024	National Assembly approved the Amended Law on Credit Institutions to propel the medium-to-long-term sustainable growth of the banking sector.

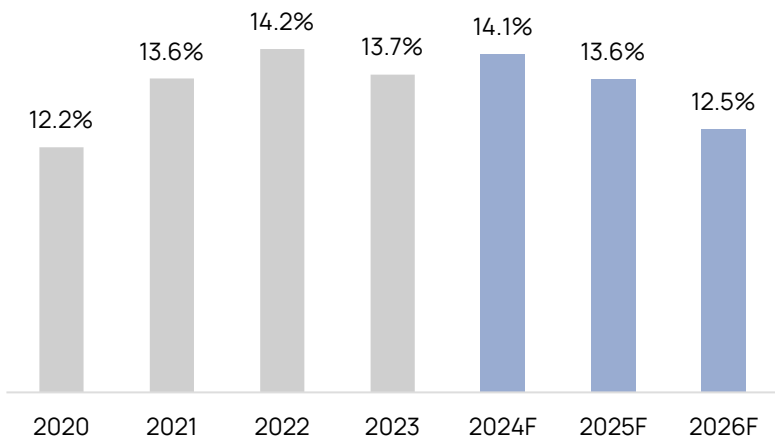
2023 Recap and 2024 Outlook

2024 outlook summary

- We forecast **2024F system-wide credit growth of 14.1%** as the Vietnamese economy recovers from a relatively slow year in 2023. We expect credit growth to be driven by the corporate sector in the first half of 2024 and retail credit demand to pick up in the second half of the year.
- We forecast **2024F system-wide deposit growth of 12.4%**. While deposit growth in 2023 was mostly driven by retail depositors, we expect more balanced growth between corporate and retail depositors in 2024.
- 2023 aggregate NIM of banks under our coverage declined YoY but showed a significant improvement QoQ at Q4 2023. We expect **this trend to continue in 2024 and forecast for a 14-bp YoY increase in NIM**.
- We maintain **our expectation for an increase in NOII** with a modest pickup in bancassurance fee income from a low base in 2023, and an improvement in recoveries from written-off bad debts across all banks. However, we still expect slow progress in handling collaterals (i.e., low recovery bad debt ratio), given the current sluggishness in the real estate sector.
- We expect **asset quality to improve in 2024** and forecast our aggregate composite asset quality metric (NPL ratio grossed up for write-offs plus group 2 loans ratio) to decline by 29-bps YoY to 4.28% in 2024F. We anticipate that most banks under our coverage will rebuild provisioning buffers in 2024F.
- We forecast **stronger aggregate NPAT growth in 2024F of 19.7% YoY** which is mainly driven by (1) a 21.7% YoY increase in aggregate NII on higher NIMs and credit growth and (2) a 13.2.% YoY increase in aggregate NOII. These are partly offset by a 25.4% YoY increase in aggregate provision expenses.
- Our top picks for 2024 are **MBB** and **STB**. These stocks offer some of the highest projected returns based on our end-2024 target prices as of February 26. We believe these banks offer robust core performance and strong growth outlooks at attractive valuations. We recommend **VCB** and **ACB** for investors seeking relatively defensive exposure to the sector.

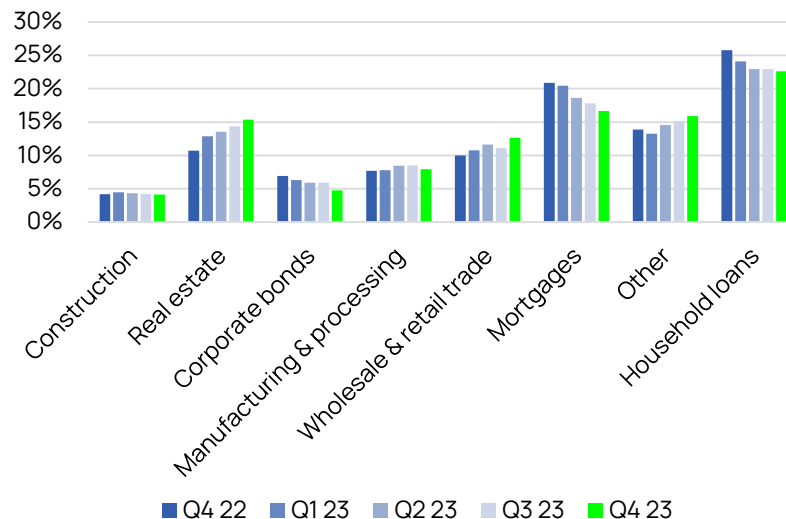
System-wide credit growth

Annual system credit growth



Source: SBV, Vietcap estimates. * 2024F - 2026F represent implied systemwide credit growth, which is calculated based on our forecast for credit growth of banks in our coverage universe less 1.7 ppts (the average difference in the last five years).

Breakdown of credit balance of private banks that provide quarterly disclosures (HDB, VPB, MBB, TCB, TPB, VIB)

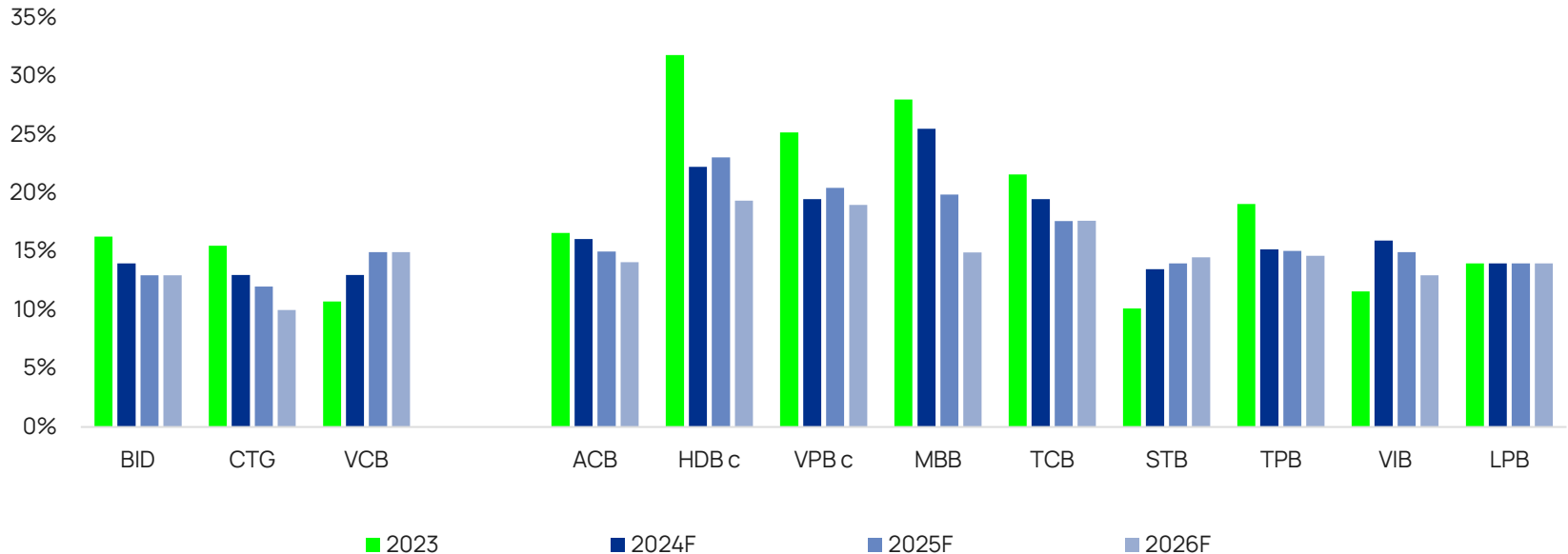


Source: company data, Vietcap

- 2023 system-wide credit growth was recorded at 13.7%, nearly half of it coming from Q4 2023. Credit growth shifted towards the corporate segment in 2023.
- Our outlook remains positive for stronger credit growth in 2024. Banks are likely to focus on corporate lending in H1 2024. We expect a stronger recovery in retail credit demand from H2 2024.
- However, we apply a more conservative approach in forecasting credit growth post 2024 as we expect for more development in other funding channels (e.g., corporate bonds).

Credit growth of banks under our coverage

Credit growth of banks under our coverage

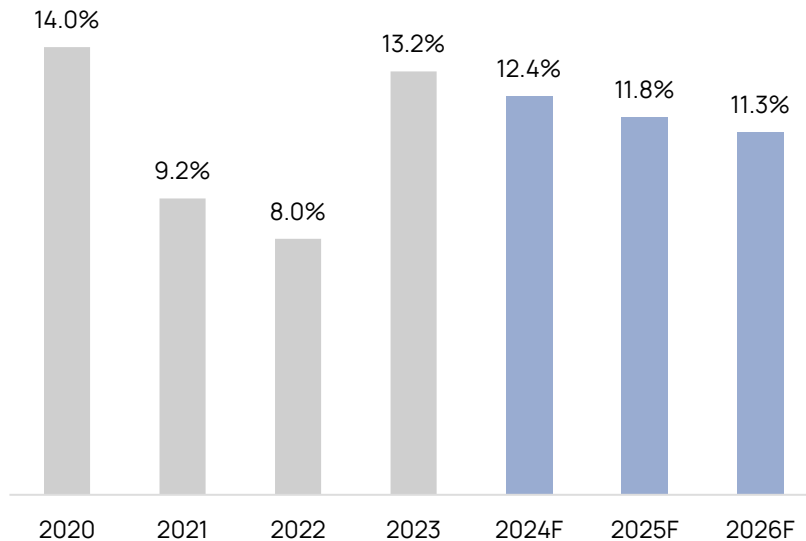


Source: Company data, Vietcap; (c denotes consolidated)

- In general, the banks under our coverage reported higher credit growth compared to the overall industry in 2023, with outstanding numbers reported at private banks such as VPB (+29.2%), HDB (+ 34.2%), MBB (+28.0%), and TCB (+21.6 %). High credit growth at these banks was partly contributed to by strong demand for credit from real estate developers.
- We expect private banks (especially those that joined the rescue of the zero-dong banks program), to continue to grow their loan books stronger than peers in the next three years.

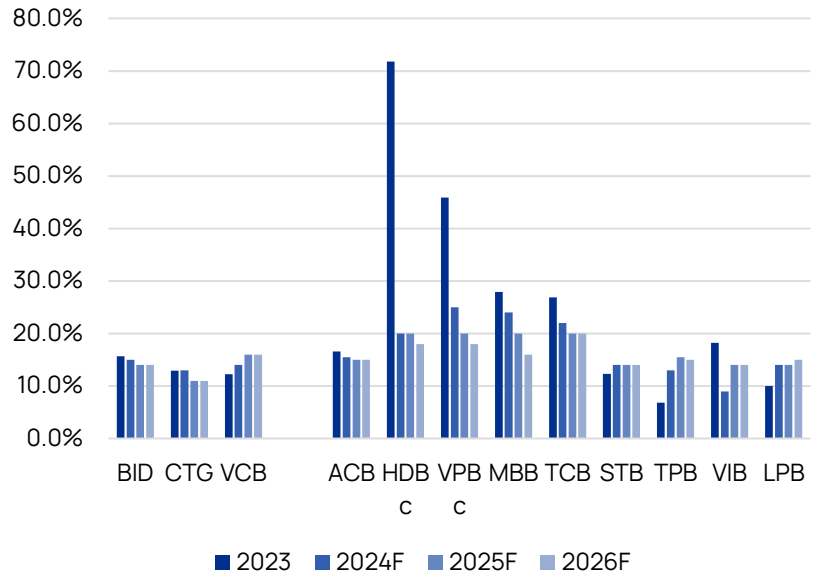
System-wide deposit growth

System-wide deposit growth (cumulative YTD)



Source: State Bank of Vietnam (SBV), Vietcap estimates. * 2024F - 2026F represent implied systemwide deposit growth, which is calculated based on our forecast for deposit growth of banks in our coverage universe less 3.6 ppts (the average difference in the last three years).

Deposit growth by banks

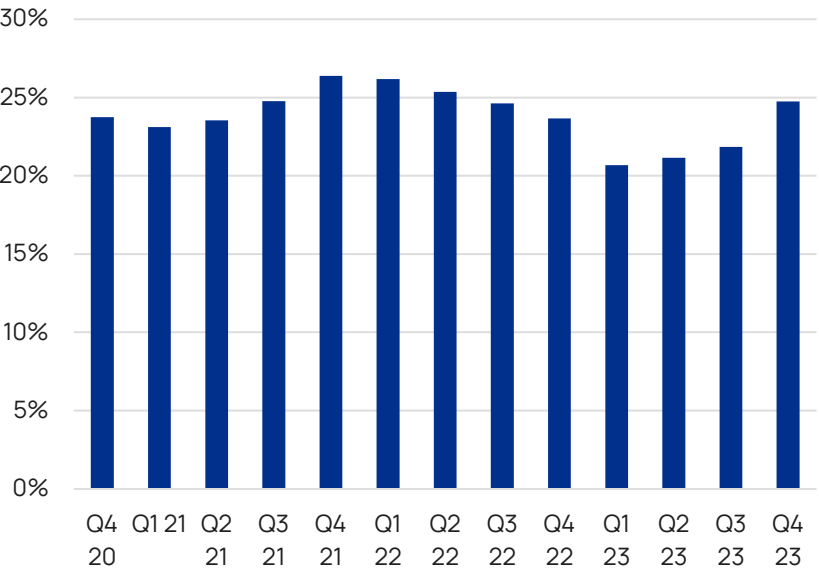


Source: Company data. Vietcap (c denotes consolidated)

- We expect deposit growth in 2024 to slow down vs 2023 given the anticipated low interest environment during most of the year. While deposit growth in 2023 was mostly driven by retail depositors, we expect more balanced growth between corporate and retail depositors in 2024.

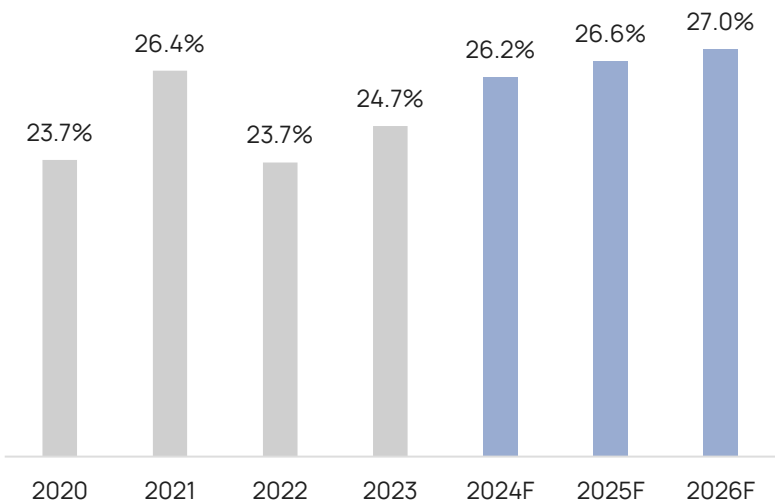
CASA ratio

Aggregate CASA ratio of banks under our coverage, quarterly



Source: Company data, Vietcap

Aggregate CASA ratio of banks under our coverage, yearly

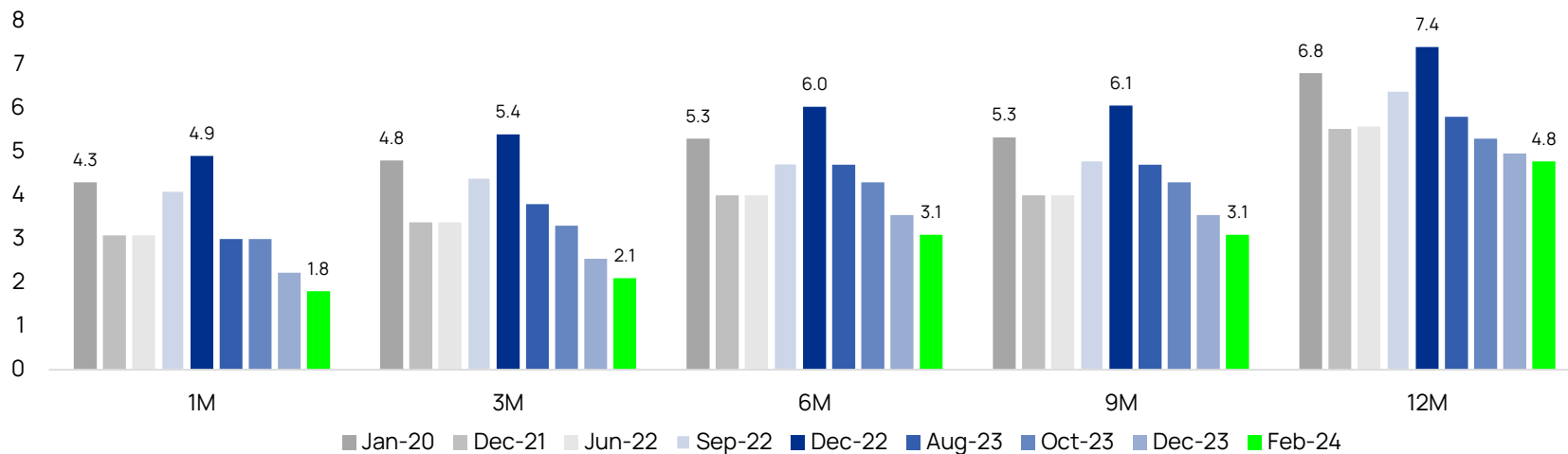


Source: Company data, Vietcap

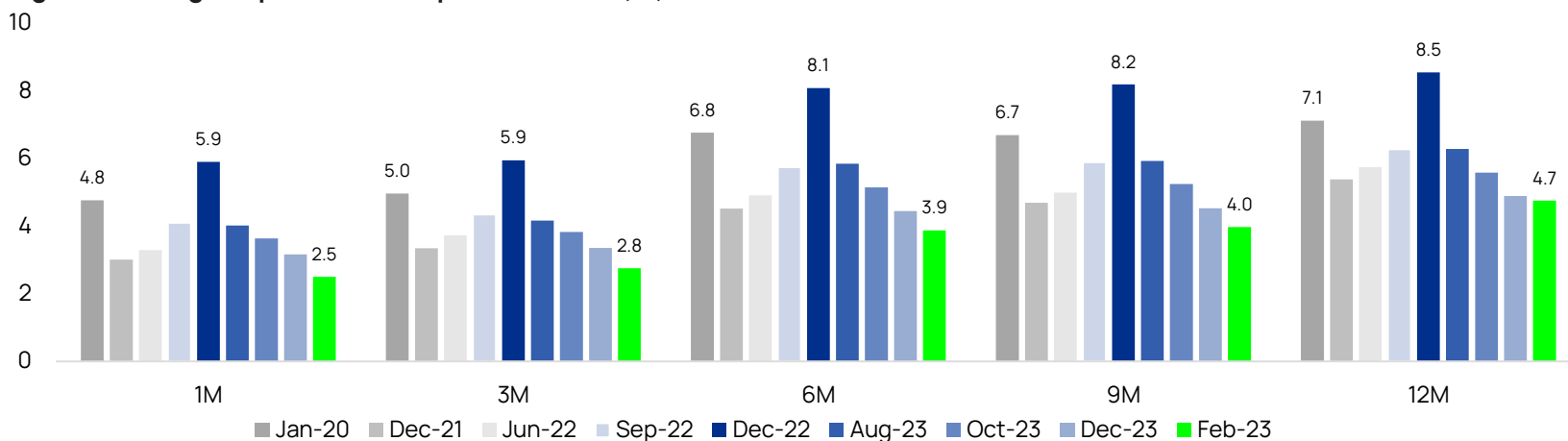
- The CASA ratio improved significantly in Q4 2023, as expected, amid a low interest rate environment. We expect this trend to continue in 2024 due to a continued low interest rate environment, which we expect SBV will maintain at this level for most of 2024 to support the economy.

Deposit rates

Weighted average deposit rates of SOE banks (%)

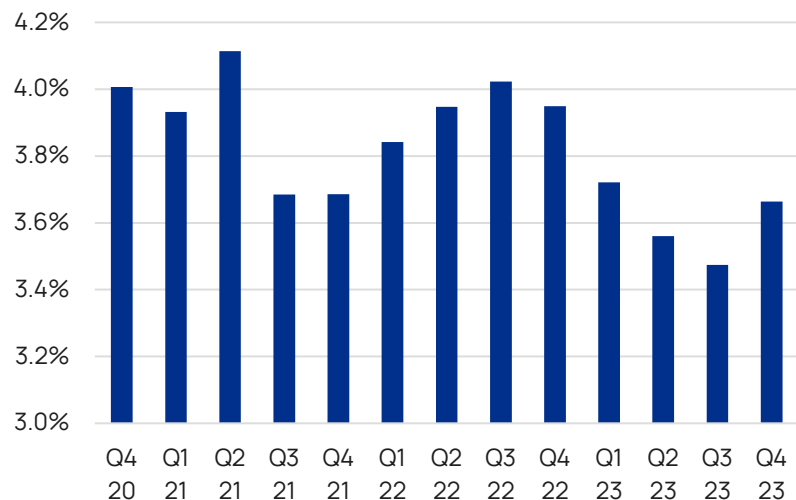


Weighted average deposit rates of private banks (%)



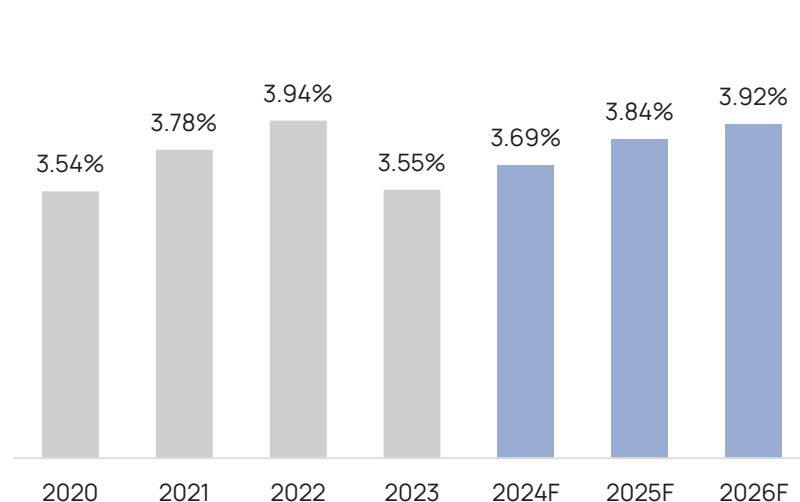
NIM (1)

Aggregate NIM, quarterly



Source: Company data, Vietcap

NIM yearly

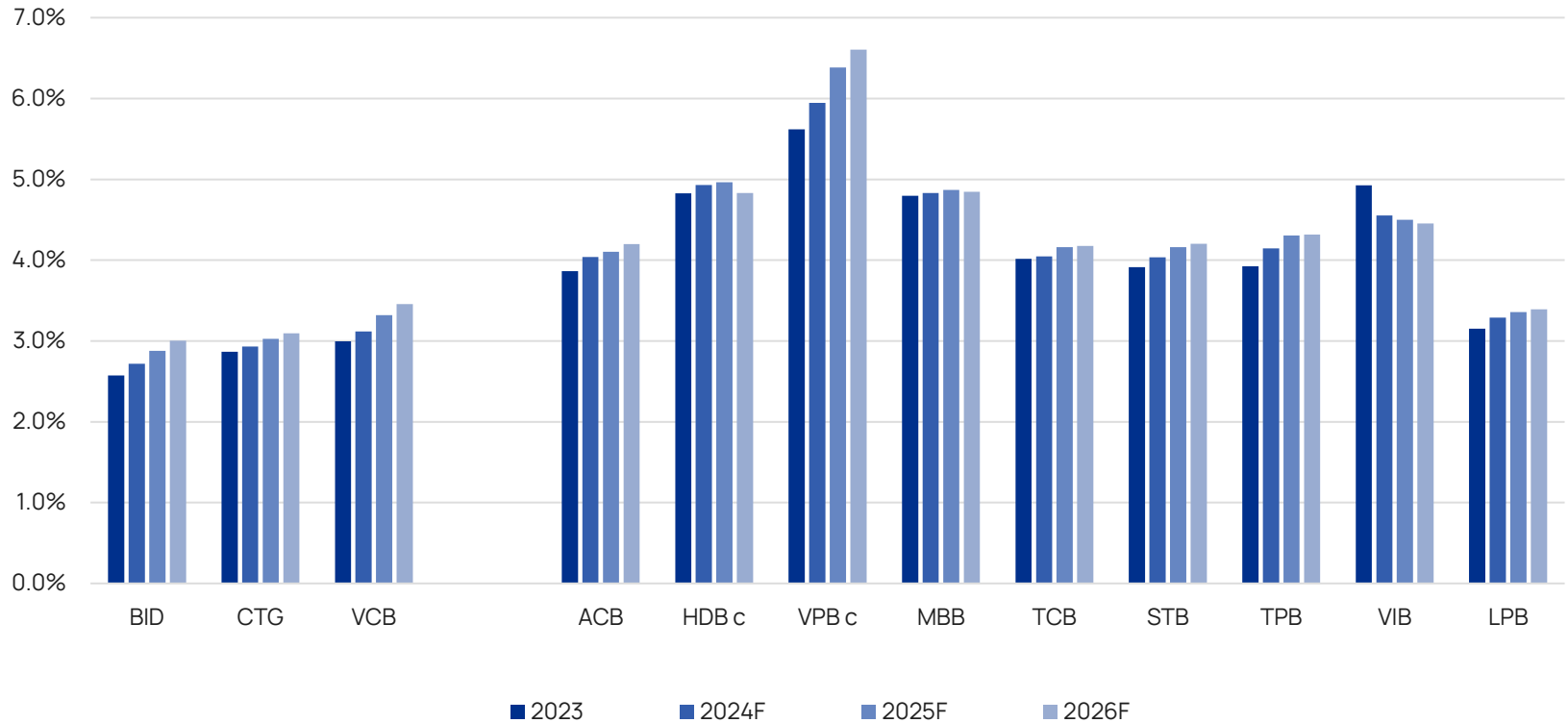


Source: Company data, Vietcap

- 2023 aggregate NIM of banks under our coverage declined YoY but showed a significant improvement QoQ. The Q4 2023 NIM improvement can be attributed to (i) a drop in COF due to lower interest rates on deposits and an improved CASA ratio, as well as (ii) stronger credit demand.
- For 2024F, we forecast a 14-bp YoY increase in aggregate NIM due to (1) a stronger credit demand from retail borrowers, (2) lower support packages for customers as the economy recovers, and (3) an improvement in asset quality.

NIM (2)

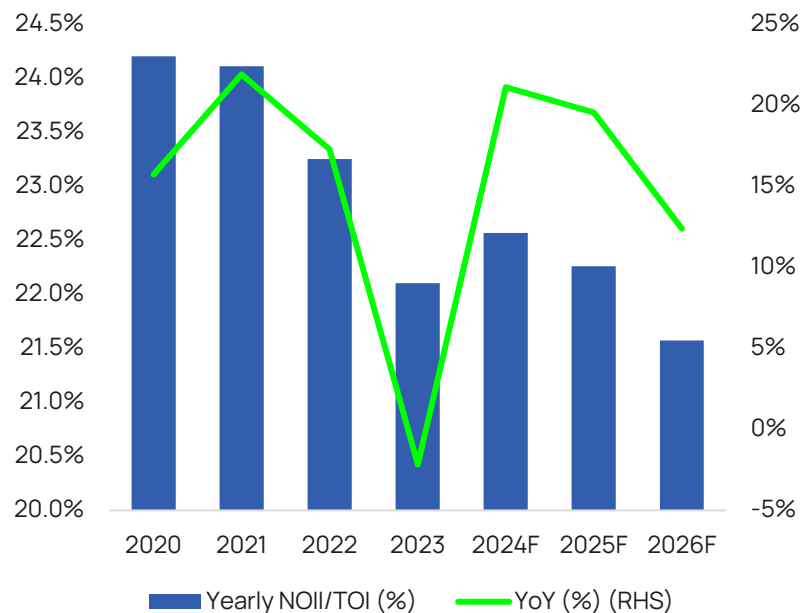
NIM by banks, yearly



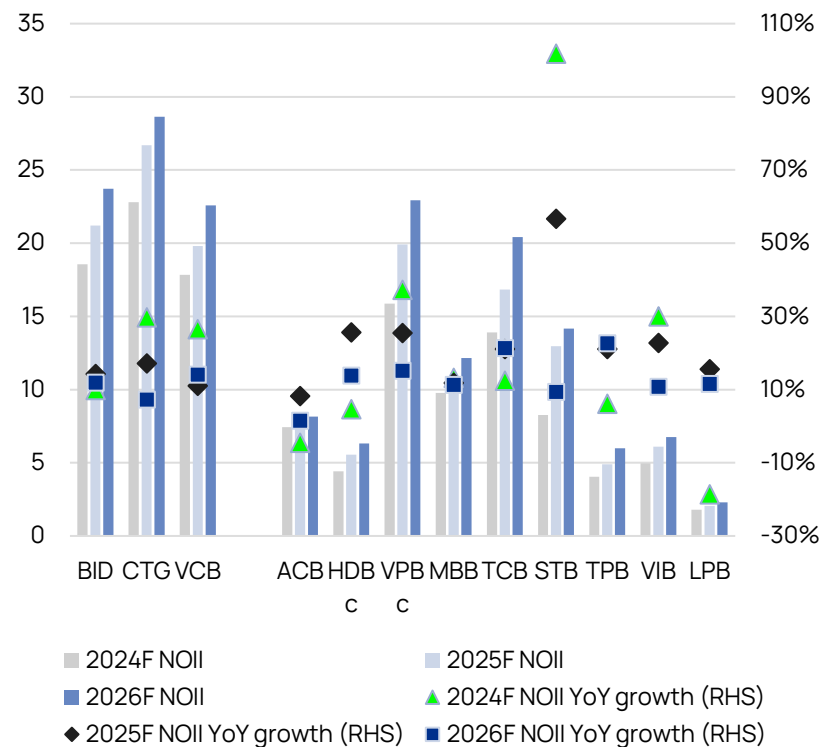
Source: Company data, Vietcap; c denotes consolidated

Non-interest income (NOII)

Aggregate NOII/TOI and NOII growth, yearly

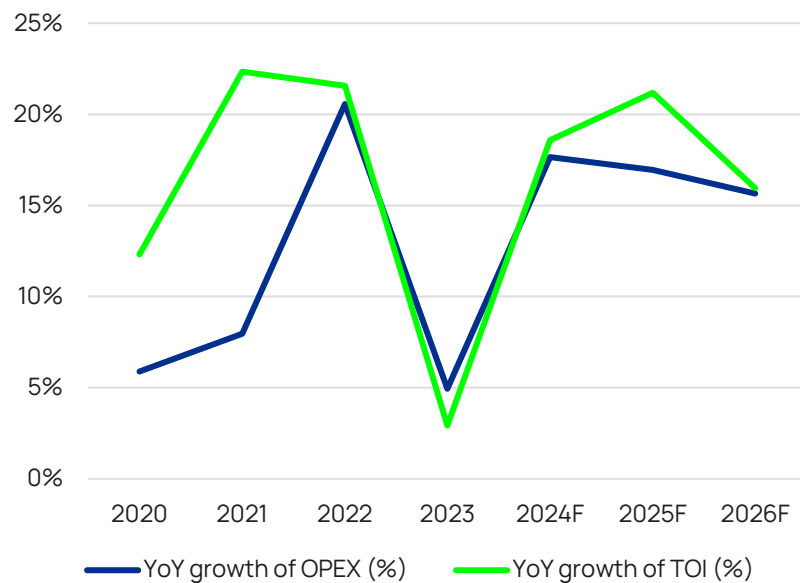


Forecast NOII by banks (VND tn)

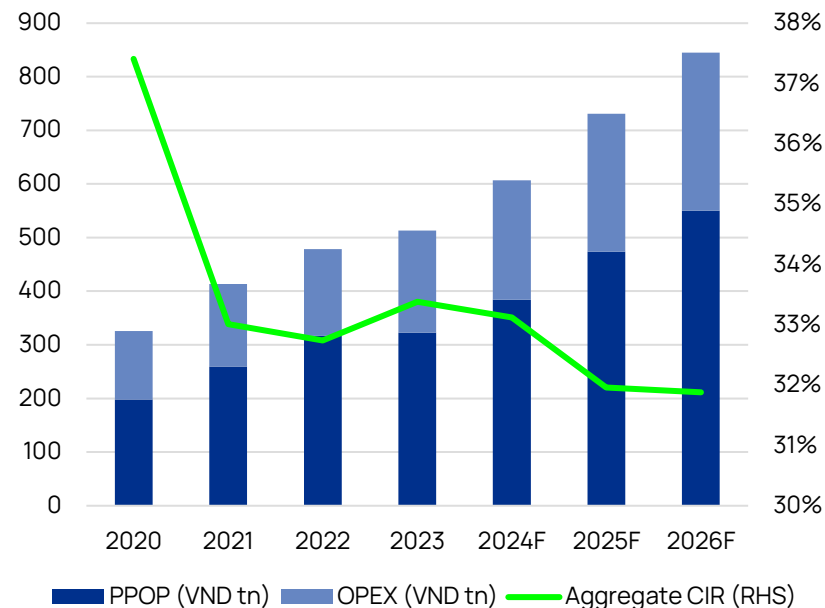


Operating costs

Aggregate TOI and OPEX growth, yearly

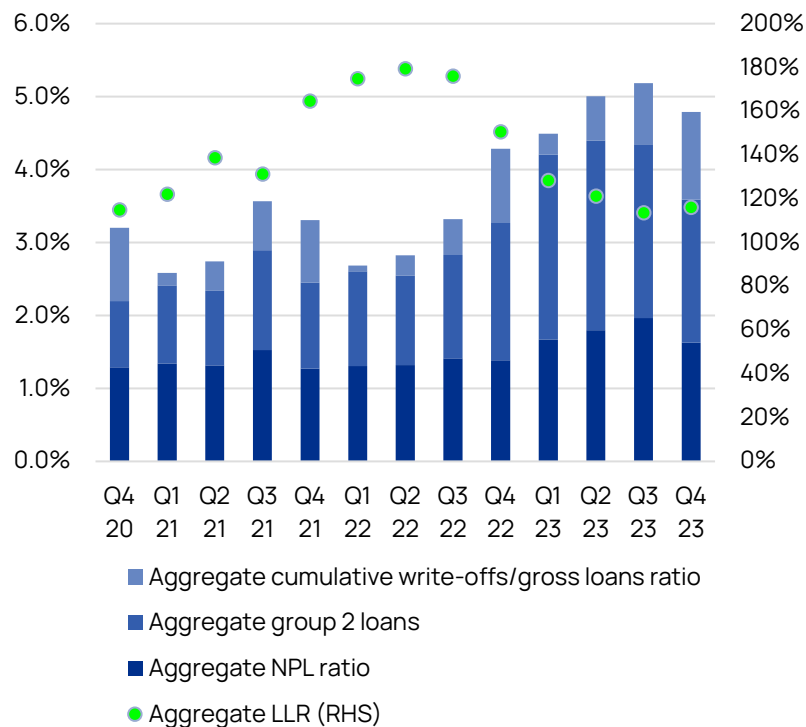


Aggregate CIR, PPOP & OPEX, yearly



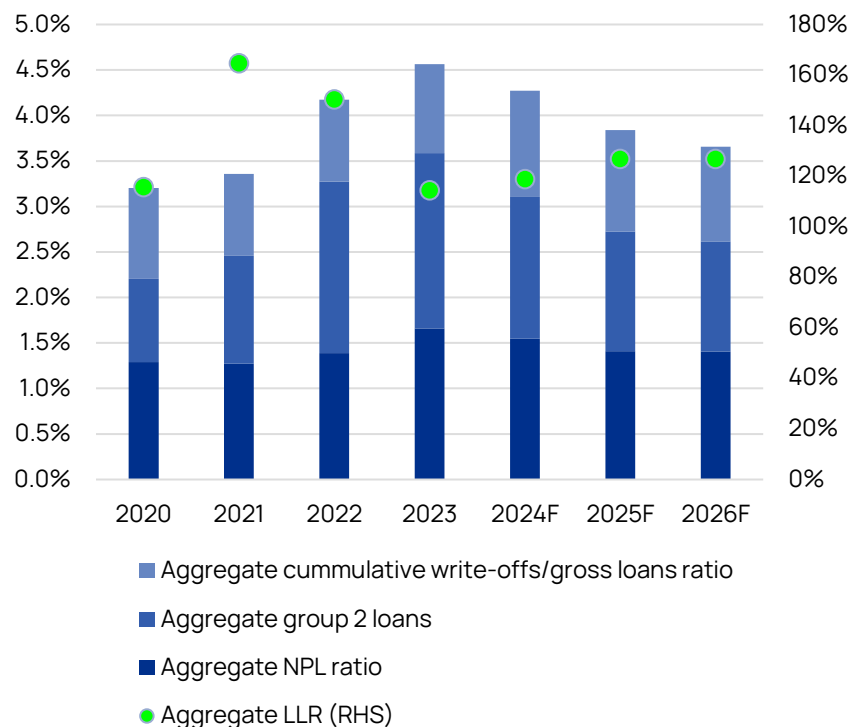
Asset quality (1)

Asset quality of Vietcap's banking coverage quarterly



Source: Company data, Vietcap

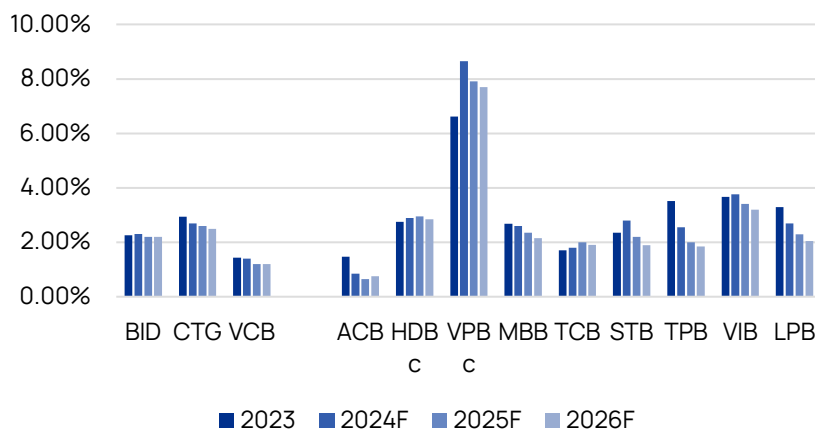
Asset quality of Vietcap's banking coverage yearly



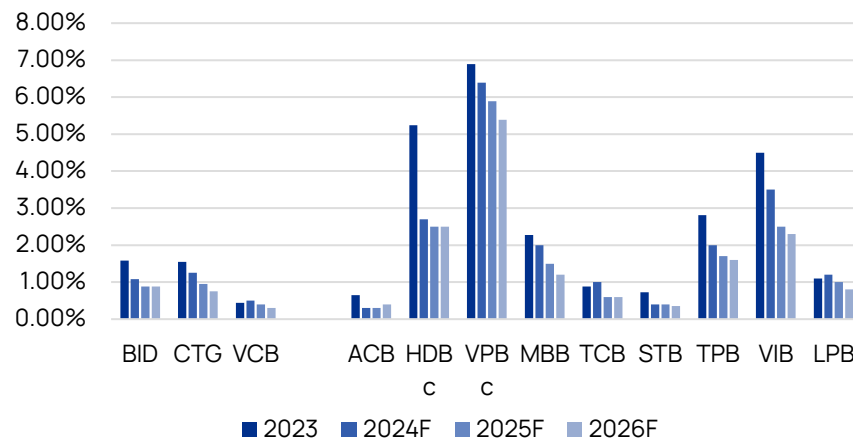
Source: Company data, Vietcap (c denotes consolidated)

Asset quality (2)

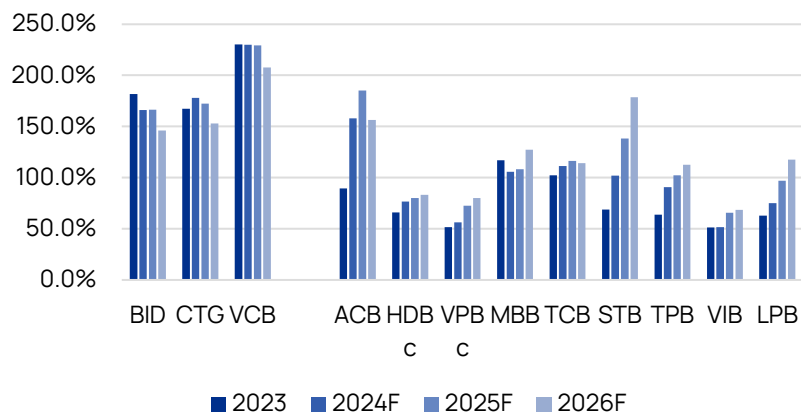
NPL ratio grossed up for write-offs



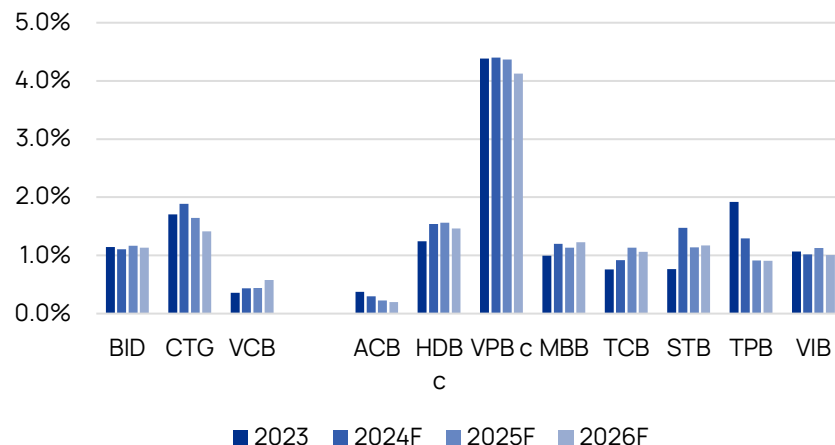
Group 2 loans



LLR by bank

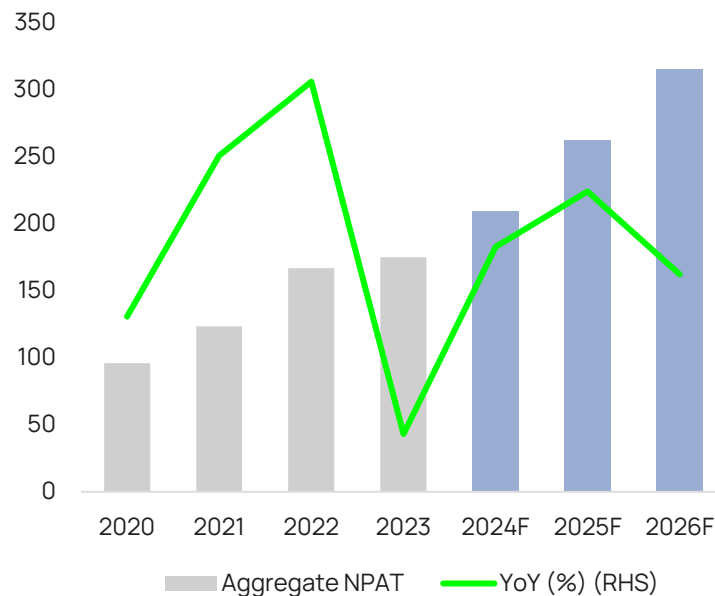


Credit costs of banks under coverage

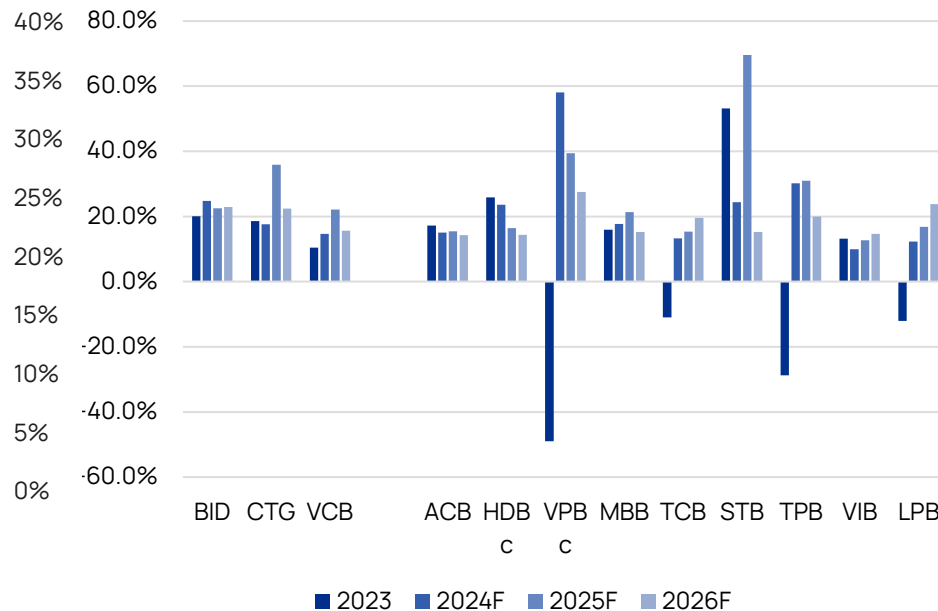


Net profits

Aggregate NPAT, yearly (VND tn)



NPAT growth yearly by banks (VND tn)

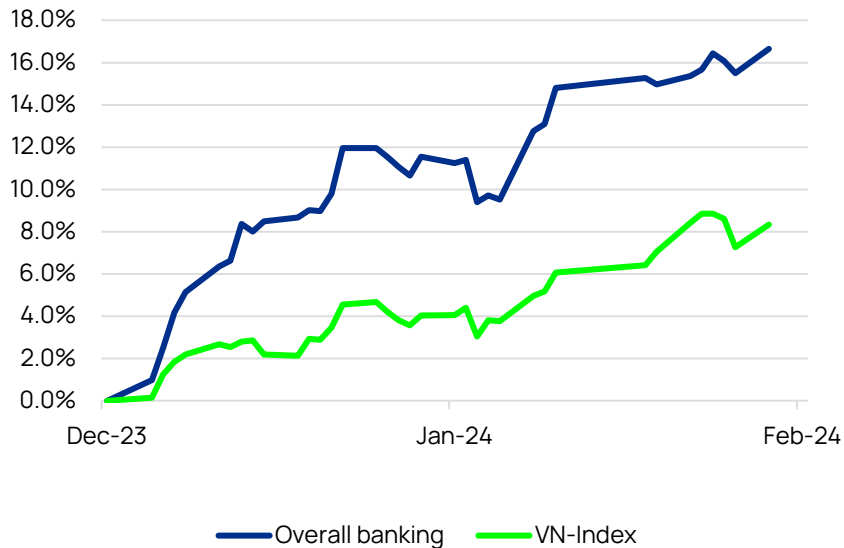


- We forecast 2024F aggregate NPAT to grow by 19.7% YoY, which is mainly driven by (1) a 21.7% YoY increase in aggregate NII on higher NIM and strong credit growth, and (2) a 13.2% YoY increase in aggregate NOII led by a gradual improvement in bancassurance fees from a low base in 2023F and higher recovery income from written off bad debts as the real estate market recovers. These factors are partly offset by our projection for credit costs to remain high as loan defaults and downgrades in the loan classification of impaired credit lag the economic cycle.

Recent performance & top picks

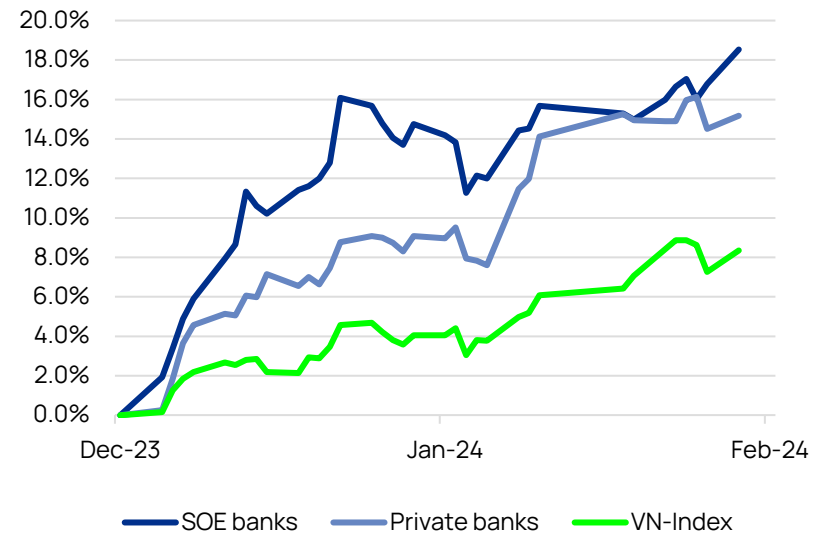
YTD banking share price performance

Share price performance, YTD (1)



Source: Vietcap, Fiinpro as of February 26, 2024 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization).

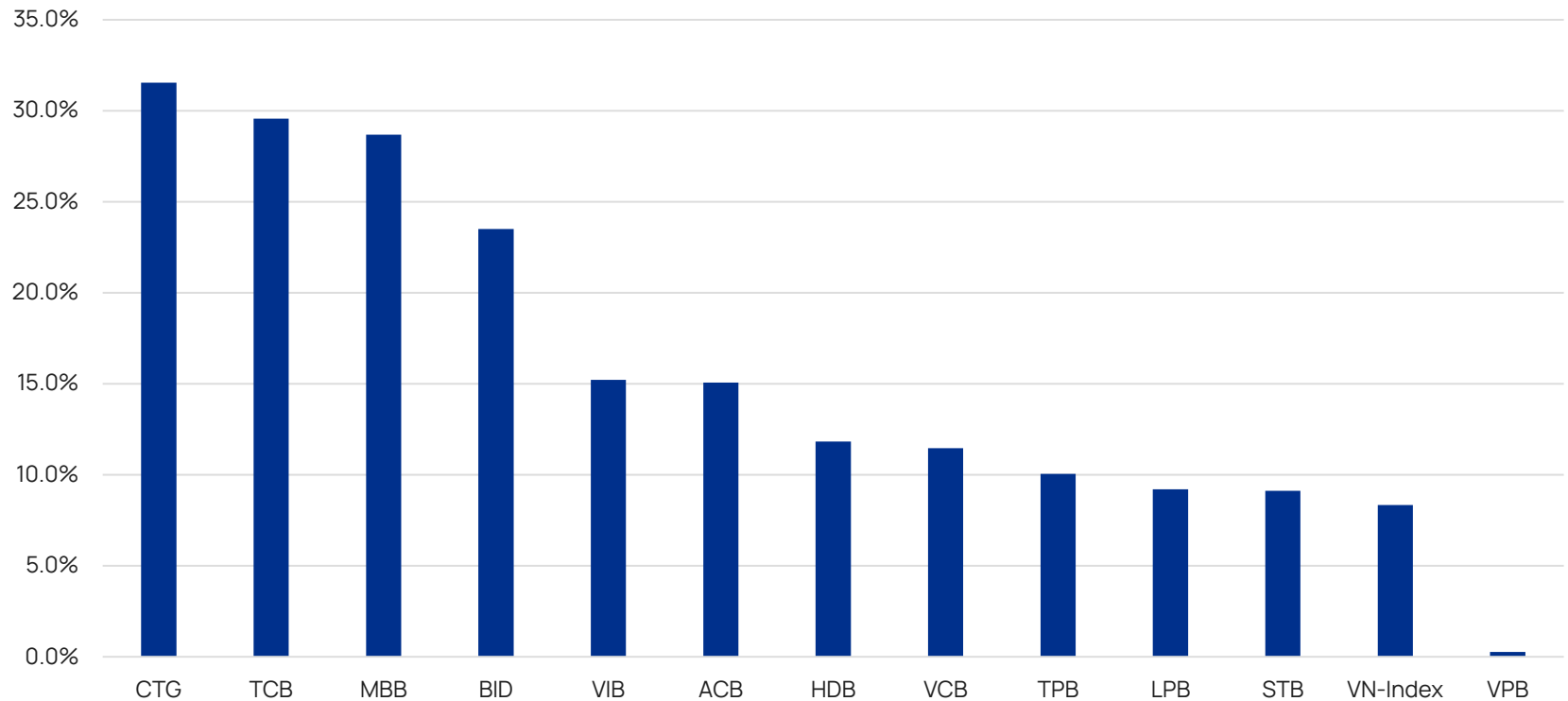
Share price performance, YTD (2)



Source: Vietcap, Fiinpro as of February 26, 2024 (Note: Overall banking represents all banking stocks under Vietcap's coverage and is weighted by market capitalization).

Banks' share price performance in 2024 YTD

Banks' share price performance YTD



Source: Vietcap, Fiinpro as of February 26, 2024.

Trailing P/B of banks under our coverage

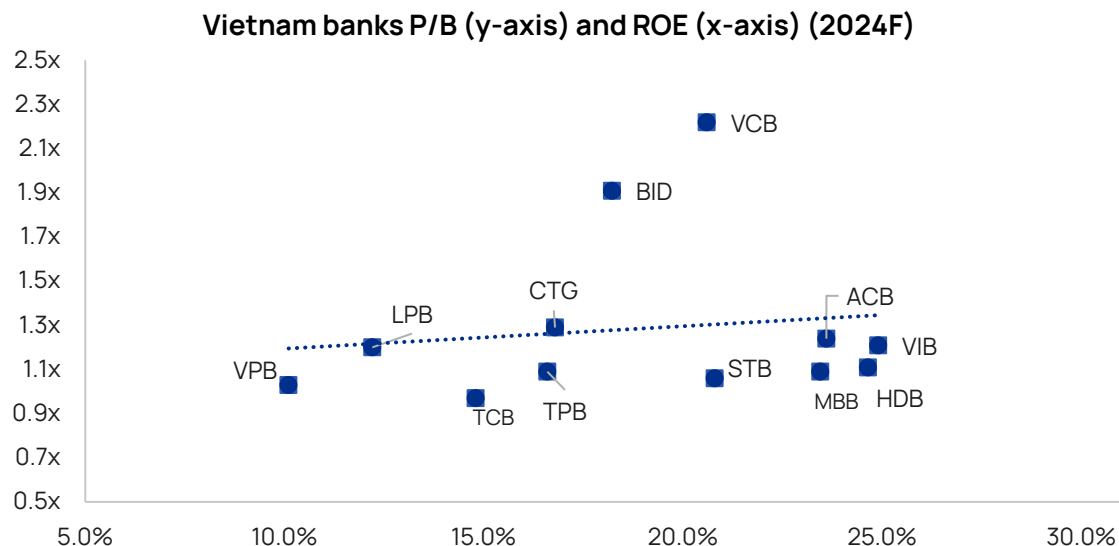
Average trailing P/B of banks under our coverage (February 2017 – February 2024)



Source: Vietcap, Fiiipro as of February 26, 2024.

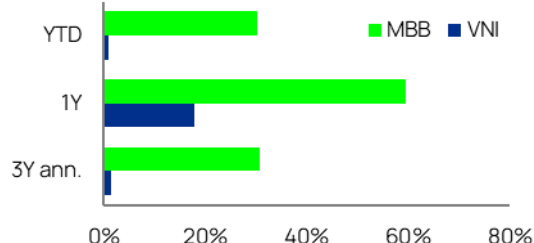
Themes for top picks

- Based on a one-year investment horizon, our top picks are **MBB** and **STB**. These stocks offer some of the highest projected returns based on our end-2024 target prices as of February 29, 2024.
- MBB** offers a high NIM adjusted for credit costs, strong credit growth backed by a diversified ecosystem, a top-tier CASA ratio with sustained CASAs from military-related parties and subsidiaries, and a strong provisioning buffer. Meanwhile, **STB** has one of the strongest private bank franchises and we expect a boost in earnings (forecast NPAT CAGR of 41.6% over the next 3 years) as the pressure from clearing legacy assets diminishes.
- For investors who prefer defensive exposure to the sector amid the current uncertainties, we recommend **VCB** and **ACB** due to their conservative lending strategies and top-tier asset quality. For **VCB**, in addition to its defensive characteristics, we also see growth drivers at VCB from potentially higher credit growth than peers due to rehabilitating a distressed credit institution (DCI) and bancassurance. Meanwhile, **ACB** has delivered impressive ROEs supported by a conservative lending strategy, competitive funding costs, and a well-established banking franchise in the southern region.



MBB - BUY, TP of VND28,500

Rating*	BUY		2023	2024F	2025F	2026F
Share Price (26 Feb)	VND24,000	PPOP (VND bn)	32,393	40,174	48,020	56,326
Target Price (TP)*	VND28,500	% YoY	5.3%	24.0%	19.5%	17.3%
		NPAT-MI (VND bn)	20,677	24,362	29,603	34,135
		% YoY	18.3%	17.8%	21.5%	15.3%
Upside to TP	+18.8%	EPS	18.3%	17.0%	20.7%	15.3%
Dividend Yield	+2.0%	NIM	4.80%	4.83%	4.87%	4.85%
TSR	+20.8%	CASA ratio	40.2%	41.4%	39.6%	38.8%
		NPLs/gross loans	1.60%	1.50%	1.30%	1.10%
Industry	Banking	Credit costs	1.00%	1.20%	1.13%	1.23%
Market Cap	USD5.1bn	CIR	31.5%	31.0%	30.5%	30.0%
Foreign Room	USD0mn	P/B	1.4x	1.1x	0.9x	0.7x
ADTV30D	USD18.7mn	P/E	6.1x	5.2x	4.3x	3.7x
State Ownership	9.4%	ROE	24.5%	23.4%	23.0%	21.6%
Outstanding Shares	5.214 bn	ROA	2.5%	2.3%	2.4%	2.3%
Fully Diluted Shares	5.287 bn	* TP and rating last updated February 19, 2024				



Company Overview

Founded in 1994, MBB is the fourth largest bank in our coverage universe as calculated by total assets as of December 31, 2022. The bank had its IPO in 2004 and has listed shares since November 2011.

MBB has the most diversified ecosystem among our coverage. MBB has six subsidiaries, including life and non-life insurers, a consumer finance company, a securities company, and fund & asset management companies, which we believe create cross-selling opportunities. In addition, MBB has demonstrated success in innovating its banking apps and attracting new customers.

We believe that MBB has a solid competitive advantage in terms of (1) funding costs, with a top-tier CASA ratio, and (2) a dynamic growth outlook from its network of subsidiaries and strategic partners. In addition, we assume MBB will receive a higher-than-average credit quota in our explicit forecast period due to its participation in the scheme to support a weak credit institution.

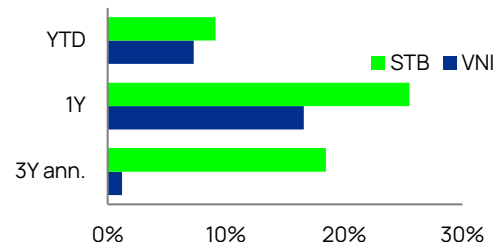
We expect strong TOI growth to counteract high credit costs in 2024F. We believe that (1) the lagged positive impact on NII from the strong credit growth generated in late 2023, (2) the strong credit growth in 2024 of 25.5%, and (3) the decreasing funding cost throughout 2024 will support 2024F NII growth. Additionally, the improvement in bad debt recovery activities and the pickup in insurance activities from a low base in 2023 will support NOI growth. We expect remaining high pressure on MBB's 2024F provision expense; however, the current strong provisioning buffer in combination with the rebound in top-line growth will help MBB to control its asset quality and support earnings growth in 2024.

MBB is currently trading at a 9% discount to the peer median 2024F P/B at 1.2x with a 2024F ROE of 23.4% vs the peer median of 18.2%, according to our forecast.

Downside risks: Higher-than-expected credit cost resulting from current difficulties in the real estate and corporate bond markets; lower-than-expected CASA ratio; supporting a distressed credit institution could hinder the bank's growth.

STB - BUY, TP of VND38,100

Rating*	BUY			2023	2024F	2025F	2026F
Share Price (Feb 26)	VND30,500	PPOP (VND bn)		13,282	19,787	27,418	31,751
Target Price (TP)*	VND38,100	% YoY		-12.7%	49.0%	38.6%	15.8%
		NPAT-MI (VND bn)		7,718	9,372	16,238	18,708
		% YoY		53.1%	21.4%	73.3%	15.2%
Upside to TP	+24.9%	EPS	% YoY	51.5%	21.4%	73.3%	15.2%
Dividend Yield	0.0%	NIM		3.91%	4.03%	4.16%	4.20%
TSR	+24.9%	CASA ratio		18.6%	20.5%	21.5%	21.5%
		NPLs/gross loans		2.28%	1.80%	1.40%	1.20%
Industry	Banking	Credit costs		0.76%	1.47%	1.14%	1.17%
Market Cap	USD2.4bn	CIR		49.3%	43.5%	39.6%	39.0%
Foreign Room	USD144mn	P/B		1.3x	1.1x	0.8x	0.7x
ADTV30D	USD24mn	P/E		8.7x	7.2x	4.1x	3.6x
State Ownership	0.0%	ROE		18.3%	18.8%	26.7%	24.7%
Outstanding Shares	1.885 bn	ROA		1.2%	1.3%	2.0%	2.0%
Fully Diluted Shares	1.885 bn	* TP and rating last updated February 26, 2024					



Company Overview

STB was founded in 1991, IPO'ed in 1996 and listed in 2006. As of 2022, STB was the fifth largest among our coverage banks by gross loans. In October 2015, STB merged with Southern Bank and the SBV took control of 51% of voting rights from a group of shareholders deemed to have breached ownership caps.

STB owns one of the strongest private bank franchises in Vietnam. As of end-2023, STB possesses 552 branches and transaction offices and was the second largest private bank in terms of brick-and-mortar network under our coverage. The bank focuses on southern Vietnam with large exposure to the retail and SME segments.

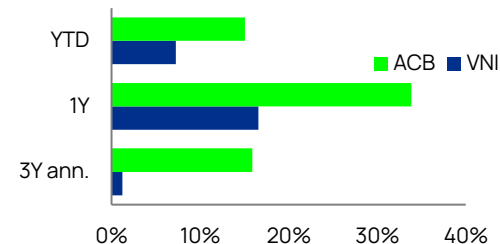
Solid core banking business is one of the criteria that contributes to the success of STB's restructuring plan, in our view. In the last seven years, its main objective has been to clear legacy assets related to its merger with Phuong Nam Southern Bank in 2015 via collateral sales and/or provisioning. We have observed positive progress in resolving legacy debts, which supports our conviction in the bank's restructuring story. We expect STB to finish clearing its VAMC balance in 2024, which will unlock further growth potential and shift its focus to enhancing its core business. In our view, one of the key criteria that contributed to the recovery of STB is its resilient core banking business. Its TOI (adding back the reversal of legacy accrued interests) grew at a CAGR of 28.1% in the last five years, per our estimation. We believe STB's earnings will soar after its restructuring period. We forecast STB's NPAT to increase at a CAGR of 34.3% in the next three years supported by our forecasts for improvement in NIM and CIR as well as high recovery income from written-off legacy assets.

STB is currently trading at a 2024F P/B of 1.1x compared to the peer median 2024F P/B at 1.2x with a 2024F ROE of 18.8% vs the peer median of 18.2%, according to our forecast.

Downside risks to our positive view: Higher-than-expected NPLs; STB fails to sell large collateral assets.

ACB - BUY, TP of VND33,800

Rating*	BUY			2023	2024F	2025F	2026F
Share Price (June 30)	VND27,500	PPOP (VND bn)		21,871	24,735	28,098	31,881
Target Price (TP)*	VND33,800	% YoY		27.3%	13.1%	13.6%	13.5%
		NPAT (VND bn)		16,044	18,452	21,308	24,345
		% YoY		17.2%	15.0%	15.5%	14.3%
Upside to TP	+22.9%	EPS	% YoY	16.9%	15.0%	15.5%	14.3%
Dividend Yield	3.6%	NIM		3.87%	4.04%	4.10%	4.20%
TSR	+26.5%	CASA ratio		22.0%	23.9%	25.3%	26.0%
		NPLs/gross loans		1.21%	0.65%	0.55%	0.60%
Industry	Banking	Credit costs		0.37%	0.30%	0.22%	0.20%
Market Cap	USD4.4bn	CIR		33.2%	34.5%	34.8%	34.9%
Foreign Room	USD0mn	P/B		1.5x	1.2x	1.0x	0.9x
ADTV30D	USD14mn	P/E		6.7x	5.9x	5.1x	4.4x
State Ownership	0.0%	ROE		24.8%	23.6%	22.6%	21.5%
Outstanding Shares	3.884 bn	ROA		2.42%	2.40%	2.43%	2.43%
Fully Diluted Shares	3.884 bn	* TP and rating last updated February 20, 2024					



Company Overview:

Founded in 1993, ACB is the seventh largest bank among our coverage banks by total assets as of December 31, 2023. ACB primarily focuses on the retail and SME segments. ACB listed shares on HNX in November 2006 and moved to HSX in December 2020.

Conservative bank with a diversified loan book that minimizes risk in unfavorable conditions. ACB is a retail-focused bank with more than 90% of its loan book from retail and SME customers. ACB had no exposure to corporate bonds and only 1.1% of its loan book was related to real estate developers in 2023. Therefore, the bank owns one of the best-quality loan books among listed Vietnamese banks.

ACB enjoyed one of the lowest costs of funds (COF) among private banks despite CASA being at the median level. We believe its (1) loyal customers and (2) large coverage footprint of physical transaction offices in the southern region have supported ACB in mobilizing relatively low-cost funding from retail customers. As of December 2023, ACB's 12-month deposit rates were the lowest in comparison to other Vietnamese banks. We believe ACB can use its low funding costs to offer competitive lending rates and acquire good-quality customers.

ACB outperformed in the bancassurance segment, despite (1) the Government's stricter regulation on selling insurance through banks and (2) cases of misselling bancassurance by some banks negatively affecting the sentiment of retail customers. In 2023, ACB ranked first in accumulated APE sales, indicating that their bancassurance activities are conducted effectively. In addition, over the last two years, ACB has consistently ranked among the top four banks in terms of new annual premium equivalent (APE).

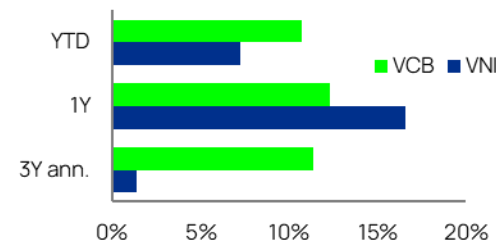
We believe ACB's valuation is attractive considering its relatively low operational risks and high ROE. ACB's forward PB is 1.24x vs peer median of 1.20x. Furthermore, we expect ACB 2024F ROE of 23.6% compared to the peer median of 18.2%.

Risks to our positive view: (1) Lower CASA ratio vs our forecasts; (2) weak performance of bancassurance; (3) higher-than-expected NPLs.

VCB - OUTPERFORM, TP of VND105,000

Rating*	OUTPERFORM		2023	2024F	2025F	2026F
Share Price (Feb 26)	VND89,500	PPOP (VND bn)	45,809	53,556	65,076	77,787
Target Price (TP)*	VND105,000	% YoY	-2.2%	16.9%	21.5%	19.5%
		NPAT-MI (VND bn)	33,033	37,862	46,227	53,448
		% YoY	10.5%	14.6%	22.1%	15.6%
Upside to TP	+17.3%	EPS	11.8%	14.6%	14.6%	15.6%
Dividend Yield	0.0%	NIM	3.00%	3.12%	3.32%	3.46%
TSR	+17.3%	CASA ratio	35.2%	36.2%	36.2%	37.2%
		NPLs/gross loans	0.98%	0.90%	0.80%	0.90%
		Credit costs	0.36%	0.43%	0.44%	0.58%
Industry	Banking	CIR	32.4%	32.0%	31.0%	30.4%
Market Cap	USD20.5bn	P/B	16.8x	14.7x	12.8x	11.1x
Foreign Room	USD1.3bn	P/E	3.0x	2.2x	1.9x	1.7x
ADTV30D	USD4.4mn	ROE	21.7%	18.6%	17.8%	17.8%
State Ownership	74.8%	ROA	1.8%	1.9%	2.0%	2.0%
Outstanding Shares	5.589 bn					
Fully Diluted Shares	5.952 bn					

* TP and rating last updated February 26, 2024



Company Overview

Founded in 1963, VCB is the second largest bank in our coverage universe as calculated by total assets as of December 31, 2023, and most profitable in terms of total net profit. The bank had its IPO in 2008 and has listed shares since June 30, 2009.

VCB is one of the best quality banks in our coverage universe due to its high-quality customer base and conservative provisioning. VCB's low deposit rate thanks to its SOE prestige, together with the third highest CASA ratio, has helped the bank to contain one of the lowest COF under our coverage. As a result, VCB could be able to offer competitive lending rate to customers, thereby controlling its asset quality. As of 2023, VCB's SML ratio grossed up NPL ratio and write-off rate of 1.87% was the lowest under our coverage. In addition, since 2015, VCB's LLR has consistently stood at the highest level across the banks that we cover. With a 2023 LLR of 230%, we believe that VCB is well-positioned to cope with economic uncertainty.

We are positive on VCB's potential growth outlook. If VCB can raise new equity through private placement in 2024, it would then unlock top-line growth potential over the next three years. Given VCB's superior network franchise, we expect to see stronger credit expansion and NIM improvement when the bank shifts its lending portion towards retail customers. The bank also has market-leading positions in FX and cards and an FDI franchise that could support the bank's fee income.

Upside catalyst: private placement to foreign investors of a 6.5% stake pre-private placement.

Risks to our positive view: (1) Capital raising does not materialize as expected; (2) lower-than-expected CASA; (3) risks arising from participation in rehabilitation of a distressed credit institution; (4) higher-than-expected support packages from VCB to support the economy.

Key data and summary valuations

Banking sector: Key data

Code	Rating	Market Cap USD mn	State O'ship %	For. Limit %	For. Avail USD mn	ADTV 30D USD mn	Share Price VND ps	Target Price VND ps	Target price updated	Upside %	Div. Yield %	TSR %
VCB	O-PF	20,501	74.8%	30.0%	1,340	4	89,500	105,000	02/26/24	17.3%	0.0%	17.3%
CTG	O-PF	7,846	64.5%	30.0%	223	15	35,650	39,300	02/26/24	10.2%	0.0%	10.2%
BID	O-PF	12,522	81.0%	30.0%	1,605	4	53,600	46,400	11/29/23	-13.4%	0.0%	-13.4%
VPB	BUY	6,259	0.0%	30.0%	119	13	19,250	24,000	11/09/23	24.7%	2.6%	27.3%
ACB	BUY	4,378	0.0%	30.0%	0	16	27,500	33,800	02/20/24	22.9%	3.6%	26.6%
STB	BUY	2,357	0.0%	30.0%	144	25	30,500	38,100	12/05/23	24.9%	0.0%	24.9%
MBB	BUY	5,129	9.4%	23.2%	0	22	24,000	28,500	02/19/24	18.8%	2.1%	20.8%
HDB	O-PF	2,691	0.0%	20.0%	7	7	22,700	26,000	02/23/24	14.5%	2.2%	16.7%
VIB	BUY	2,282	0.0%	20.5%	0	7	21,950	24,000	09/29/23	9.3%	4.6%	13.9%
TPB	O-PF	1,728	0.0%	30.0%	15	12	19,150	21,700	02/05/24	13.3%	0.0%	13.3%
TCB	O-PF	5,948	0.0%	22.5%	0	19	41,200	44,500	02/19/24	8.0%	3.6%	11.7%
LPB	U-PF	1,803	0.0%	5.0%	57	3	17,200	13,700	01/03/24	-20.4%	0.0%	-20.4%

Banking sector: Summary valuations

Code	Share Price VND ps	EPS g 2023F %	EPS g 2024F %	EPS g 2025F %	P/B 2023F x	P/B 2024F x	P/B 2025F x	P/E 2023F x	P/E 2024F x	P/E 2025F x	ROE 2024F %	Assets/equity LQ x
VCB	89,500	11.8%	14.6%	14.6%	2.97	2.24	1.90	16.8	14.7	12.8	20.6%	10.9
CTG	35,650	18.1%	17.7%	36.1%	1.51	1.31	1.10	10.8	24.6	7.8	16.8%	15.9
BID	53,600	10.4%	24.3%	9.3%	2.59	1.96	1.71	16.7	14.5	13.3	18.2%	18.7
VPB	19,250	-46.9%	32.7%	31.8%	1.01	1.02	0.92	13.3	10.0	7.6	10.1%	5.8
ACB	27,500	17.4%	14.5%	15.5%	1.51	1.25	1.04	6.7	5.9	5.1	23.6%	10.1
STB	30,500	51.4%	21.4%	73.3%	1.27	1.08	0.86	8.8	7.2	4.2	20.8%	14.7
MBB	24,000	18.3%	17.0%	20.7%	1.35	1.09	0.89	6.1	5.2	4.3	23.4%	9.8
HDB	22,700	29.2%	21.7%	15.4%	1.48	1.20	0.97	6.5	5.4	4.6	24.6%	13.0
VIB	21,950	0.7%	23.2%	12.7%	1.45	1.20	1.00	6.6	5.3	4.7	24.9%	10.8
TPB	19,150	-28.8%	30.2%	31.0%	1.29	1.09	0.91	9.5	7.3	5.6	16.6%	10.9
TCB	41,200	-10.8%	13.2%	15.4%	1.11	1.00	0.89	8.1	7.1	6.2	14.8%	6.5
LPB	17,200	-2.0%	-9.3%	4.5%	1.35	1.21	1.08	9.8	10.8	10.4	12.2%	11.2

Disclaimer

Analyst Certification of Independence

We, Duy Nguyen, Truc Ngo, and Ngoc Huynh, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

Vietcap and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Vietcap may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2024 Vietcap Securities Company "Vietcap". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. Vietcap makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of Vietcap and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of Vietcap in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of Vietcap. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by Vietcap issued by Vietcap has been prepared in accordance with Vietcap's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by Vietcap in Australia to "wholesale clients" only. Vietcap does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of Vietcap. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, Vietcap will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between Vietcap and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of Vietcap. **Singapore:** Vietcap and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by Vietcap in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. Vietcap does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of Vietcap. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by Vietcap is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if Vietcap Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and Vietcap is permitted to provide research material concerning investment to you under relevant legislation and regulations.

Contacts

Research

Duy Nguyen, PhD ,Senior Manager
+84 28 3914 3588, ext 123
duy.nguyenanh@vietcap.com.vn

Research team
+84 28 3914 3588
research@vietcap.com.vn

Alastair Macdonald, Head of Research
+84 28 3914 3588, ext 105
alastair.macdonald@vietcap.com.vn

Truc Ngo, CFA, Senior Analyst
+84 28 3914 3588, ext 116
truc.ngo@vietcap.com.vn

Ngoc Huynh, Senior Analyst
+84 28 3914 3588, ext 138
ngoc.huynh@vietcap.com.vn

Nga Ho, Analyst
+84 28 3914 3588, ext 516
nga.ho@vietcap.com.vn

Brokerage and Institutional Sales & Trading

Tuan Nhan
**Managing Director, Brokerage &
Institutional Sales & Trading**
+84 28 3914 3588, ext 107
tuan.nhan@vietcap.com.vn

Quynh Chau
Managing Director
Brokerage
+84 28 3914 3588, ext 222
quynh.chau@vietcap.com.vn

Dung Nguyen
Director
Institutional Sales & Trading
+84 28 3914 3588, ext 136
dung.nguyen@vietcap.com.vn