Maybank Securities

Vietnam Banks

POSITIVE *[Unchanged]*

Resilience being tested

Valuations price in our 'ugly' risks; time to add more

Strong headwinds will cause a significant slowdown in profit growth for most VN banks in 2023; Yet, their ROEs remain largely attractive at 18.5% on average. Our stress test indicates : (i) Vietnam banks won't head into an NPL-type crisis like 10 years ago; and ii) they just need up to 1.5 years to clean up the potential NPLs under our 'very ugly' scenario *(Refer to our 2023 Market Strategy)*. We thus believe the robust growth and the profitability cycle of VN banks in the next 3-4 years is undisrupted. Current valuations (1.3x FY22 P/B and 1.1x FY23E P/B) have largely priced in the potential 'ugly-scenario' risks caused by property turmoil. Lessons from 2019-22 show that Buy-and-Hold quality banks (with capacity to deliver c.18-20% ROE) at distressed valuations will be very rewarding. Hence, we maintain a 'Positive' view on VN's banking sector. Our Top Picks among the universe of 17 listed VN banks are **VCB, TCB** and **MBB** (for Buy-and-Hold). For investors with a shorter horizon, we highlight **STB, BID,** and **HDB**.

Withstanding strong headwinds in 2023

In the medium term, we see local banks are faced with headwinds from slower credit demand and fee income, as well as pressure on NIM and from provisioning. For the first three drivers, we believe this is just a slowdown in a year with less favourable environment. For 3-4-year cycle, we still see substantial room for VN banks to enjoy robust growth drivers (i.e. c.14% credit growth, c.4% NIM and 20%+ fee income growth). For the asset-quality/provisioning risk, we ran a stress-test to gauge the impact of the property turmoil on VN banks. Our test indicates that even in the 'ugly' scenario (with potentially 20% of loans to developers and 10% of mortgage book becoming NPLs), Vietnam banks won't head into a crisis as in 2011-12. Stronger macro health, regulatory frameworks and loan-loss buffers today can help local banks avoid a credit-cost shock. We estimate that were the ugly scenario to occur, VN banks would need less than 1.5 years to clean up the problem via provisioning, not 5-6 years it took previously.

Robust ROE cycle remains

Based on our analysis of management's FY23E guidance and their capacity to manage earnings (to achieve ROE targets), we estimated that aggregate profit of the 17 VN-listed bank could grow c.13-15% YoY this year, vs. 32-35% in 2021-22. As such, the average ROE of listed banks could see some contraction to c.18.7% (vs. 20% in FY22). **VCB, STB, HDB, EIB** and **BID** could be the outperformers in terms of growth. Despite overall deceleration in profit growth, many VN banks could maintain above-20% ROEs, based on our estimates and Bloomberg consensus (because their ROEs rose to a very high level by FY22), including: **VCB**, **MBB**, **ACB**, **HDB**, **STB**, and **VIB**.

Valuations indicate more upside than downside risk

Even if penciling in an unrealistically bearish outlook that VN banks made ZERO profit in FY23 (i.e. banks would use all their profit to clean up the potential NPLs under the very ugly scenario) and just taking BVPS as of end-2022 as the base to calculate the P/B, we see that most of the VN banks are trading at near their 10-year bottoms. Hence, we strongly recommend investors, who can take a long-term view beyond 2023 and aim to ride on Vietnam's long-term story of sovereign-rating upgrade to 'Investment grade' and stock market upgrade to 'Emerging Market' status, accumulate VN bank stocks now.

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Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 23E	P/E (x) 24E	P/B (x) 23E	P/B (x) 24E	Div yld (%) 23E	Div yld (%) 24E
Vietcombank	VCB VN	17,790	Buy	88,300	111,400	26	13.0	10.6	2.5	2.0	0.0	0.0
VPBank	VPB VN	5,003	Buy	19,350	25,000	29	9.1	8.0	1.1	1.0	5.2	0.0
Techcombank	TCB VN	4,320	Buy	28,850	37,800	31	5.0	3.7	0.8	0.6	0.0	0.0
MBB Bank	MBB VN	3,503	Buy	18,150	28,300	56	4.0	3.3	0.9	0.7	0.0	0.0
Asia Comm Bank	ACB VN	3,487	Buy	24,250	33,600	39	5.3	4.5	1.2	0.9	4.1	0.0

1. Investment focus

Vietnam banks have generated excellent returns for Buy-and-Hold positions over the past four years. Even taking into account the poor share price performance in 2022 (which was mainly due to the retail investors' misperception about banks' asset quality and profit outlook rather than due to banks' actual results), most of the VN-listed banks have generated on average 19-50% returns per year for 'Buy-and-Hold' investors during 2019-22 (*Please refer to Fig.29 below*). This excellent return was driven by: **(i)** strong ROE recovery since 2017 after the clean-up and restructuring during 2012-16; and **(ii)** strong valuation re-rating, driven both fundamentally by banks' improved financials as well as structurally by the VN stock market's improved liquidity (which increased 5x during 2018-21). Key questions for 2023 and the next 3 years are whether Vietnam banks' ROE cycle will remain robust/un-interrupted by the turmoil in the property sector, and whether valuations (i.e. 1.3x FY22 P/BV on average) can be sustained and even re-rated further. Our short answer is "YES". We believe quality VN banks can maintain robust ROE of 18% on average for the next 4 years (as per discussion below). Solid macro fundamentals plus the stock market's continued development (including potential upgrade to 'Emerging Market' status) will result in significant upside for valuation re-rating. All in all, we expect VN banks can generate an investment return of at least c.25% p.a. on average for 2023-26. Superior returns will come from quality banks with capacity to deliver strong ROE and trading at distressed valuations due to the mass retail market's misperception.

For Buy-and-Hold positions, VN banks have generated 19-50% returns p.a. for 2019-22, and they can yield at least c.25% p.a. in the next 4 years. Quality banks trading at a discount can offer superior returns of over 30%, in our view.

We maintain a bullish view that **Vietnam banks remain in a robust ROE cycle,** driven by strong ROA and reasonable capitalisation regulations. VN banks will deliver stronger growth and profitability than regional peer banks in the next four years, thanks to two key factors: **i)** a stronger macro backdrop and moderate penetration of financial services enables VN banks to maintain steady mid-teen credit growth and robust fee income, which underpins improving ROA (i.e. to c.2% on average, higher than the 1% average ROA of most ASEAN markets and behind only Indonesian banks with about 2.6% average ROA); and **ii)** reasonable regulations on capital adequacy (i.e. Basel 2 standards) allow VN banks to maintain decent balance-sheet leverage of around 9-10x, versus 5-6x for regional peers. These two factors will enable VN banks to generate robust ROE of above 18% during 2022-25, in our view.

Vietnam banks' robust ROE profile: Improving ROA (i.e. 2% on average) * decent leverage (i.e. TA/TE of 9-10x) = above 18% ROE

A key factor dragging down the VN banking sector's valuation since 2H21 was the mass retail market's concerns about asset-quality risk due to Covid-19 and now due to turmoil in the property sector. With regards to the Covid-19 impacts, we always maintained a contrarian view versus the market's, and local banks' actual performance in 2021-22 has confirmed our view. The Covid-19 impacts turned out moderate and fully manageable. Now with regards to potential risks from the property turmoil, we agree with the concerns of the market. Regulatory bottlenecks and corporate bond rout have pushed the local property sector into a stress situation, creating considerable pressure on banks' asset quality. Yet, given recent changes in government policies, we think the property sector can avoid a meltdown. In addition, our stress test indicates that in an ugly scenario (with potentially 20% of loans to developers and 10% of mortgage book turning NPLs), Vietnam banks won't enter into a crisis like in 2011-12. Stronger macro health, regulatory frameworks and loan-loss buffers today can also help local banks avoid a credit-cost shock. We estimate were the 'ugly' scenario to occur, VN banks would need less 1.5 years to clean up the problem via provisioning, not the 5-6 years it previously took.

Our stress test indicates that Vietnam banks won't enter into a crisis as in 2011-12. We estimate if the ugly scenario was to occur, VN banks would need less 1.5 years to clean up the problem via provisioning, not 5-6 years as previously. Hence, we believe VN's strong ROE cycle continues.

We expect a temporary slowdown in VN banks' earnings growth in FY23E due to several headwinds, including: slower credit growth (around 12.5% YoY for 2023) due to weaker demand, slower fee income due to regulators' review of bonds and bancassurance businesses, NIM contraction (by c.40bps) due to pressure on lending yields, and less room for lowering provisions. We estimated that aggregate profit of the 17 VN-listed bank could grow c.13%-15% YoY only this year, vs. 32%-35% in 2021-22. Upside to our estimates may stem from stronger recovery in credit demand in 2H23 and less-than-expected NIM contraction. Accordingly, the average ROE of listed banks

VN-listed banks' earnings growth would slow down in FY23E due to temporary headwinds; Yet average ROE would remain at a robust level of c.18.7% (vs. 20.2% in FY22), in our estimate.

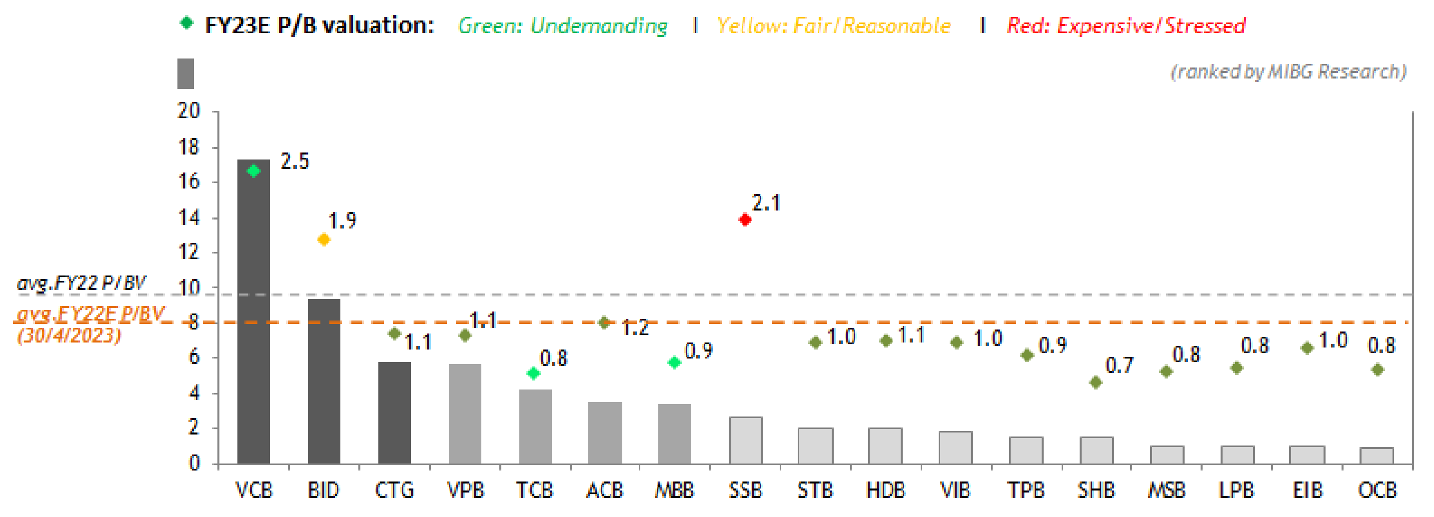
could see some contraction to about 18.7% in FY23 (vs. 20.2% in FY22). Several VN banks could still maintain over 20% ROE, based on our estimates and Bloomberg consensus, including: **VCB**, **MBB**, **ACB**, **HDB**, **STB,** and **VIB**.

Valuation has priced in the headwinds and largely our 'ugly' risks, in our view. VN's banking sector has been unduly penalized by the mass retail market's misperception about its asset quality and profitability during Covid in 2H21-1H22. Then another steep correction along with the overall market crash caused by the corporate bond rout in 4Q22 has pushed VN banks' valuations down to distressed levels near a 10-year low. VN banks are trading at 1.3x FY22 P/BV and c.1.1x FY23E P/BV on average, which is undemanding in relation to their robust ROE profiles.

We strongly recommend investors [who can take a long-term view beyond 2023 and aim to ride on Vietnam's long-term story of sovereign-rating upgrade to 'Investment Grade' and stock market upgrade to 'Emerging Market' status] accumulate VN bank stocks now.

We are also aware of the fact that given on-going mixed views and misperception of the broad market (where retail investors make up 88% of market turnover), money flows into a big sector like banking (which represents 30% of the benchmark VNIndex) won't likely recover quickly to the hay days like in 2020-1H21. Hence, it will take time for a steady and clear re-rating across the whole banking sector. But lessons from 2019-22 show that buying and holding quality banks (with capacity to deliver c.18-20% ROE) at distressed valuations will be very rewarding. We believe there is more chance for valuation re-rating than de-rating over a 4-year horizon. Hence, it is time for longer-term investors to accumulate/add more VN banks. Our Top Picks remain **TCB, VCB** and **MBB**, which we believe are still the 'champion' banks of Vietnam in the long run. These banks are trading at distressed (i.e. TCB) or very reasonable valuations (VCB and MBB) while having strong capacity to generate over 18% ROE on average over the next 4-year cycle, in our view. For medium-term investors and more active trading positions, we highlight a few banks that have exciting stories to attract the mass retail market's attention: **STB, BID** and **HDB**.

Figure 1: Vietnam listed banks – Peer comparison



	VCB	BID	CTG	VPB	TCB	ACB	MBB	SSB	STB	HDB	VIB	TPB	SHB	MSB	LPB	EIB	OCB
FY22 P/BV (x)	3.0	2.3	1.3	1.3	0.9	1.4	1.1	2.4	1.3	1.3	1.3	1.1	0.8	0.9	1.0	1.2	0.9
FY23E profit growth	20%	18%	15%	-15%	0%	14%	18%	9%	70%	20%	10%	9%	5%	7%	15%	25%	15%
FY22 profit growth	36%	70%	20%	55%	10%	43%	38%	55%	44%	27%	32%	30%	55%	14%	56%	208%	-21%
FY23E ROE (%)	21.0	16.9	15.0	14.8	16.5	23.6	23.9	15.5	20.0	22.4	25.0	19.1	17.2	17.0	19.5	16.5	14.9
FY22 ROE (%)	21.9	16.9	15.0	20.7	19.7	26.5	25.8	18.1	13.8	23.5	29.7	21.5	19.7	19.0	22.1	15.4	14.9
FY21 ROE (%)	21.1	13.2	15.9	18.0	21.7	23.9	23.6	16.1	10.8	23.3	30.3	22.6	16.7	20.7	18.5	5.6	22.5
BS leverage (x)	13.2	21.3	16.8	6.5	6.2	10.4	9.6	8.8	15.3	11.3	10.5	10.2	12.8	8.0	13.6	9.0	7.7

Source: Bloomberg, Maybank IBG Research (as of 20 April 2023)

2. A summary of key headwinds in 2023

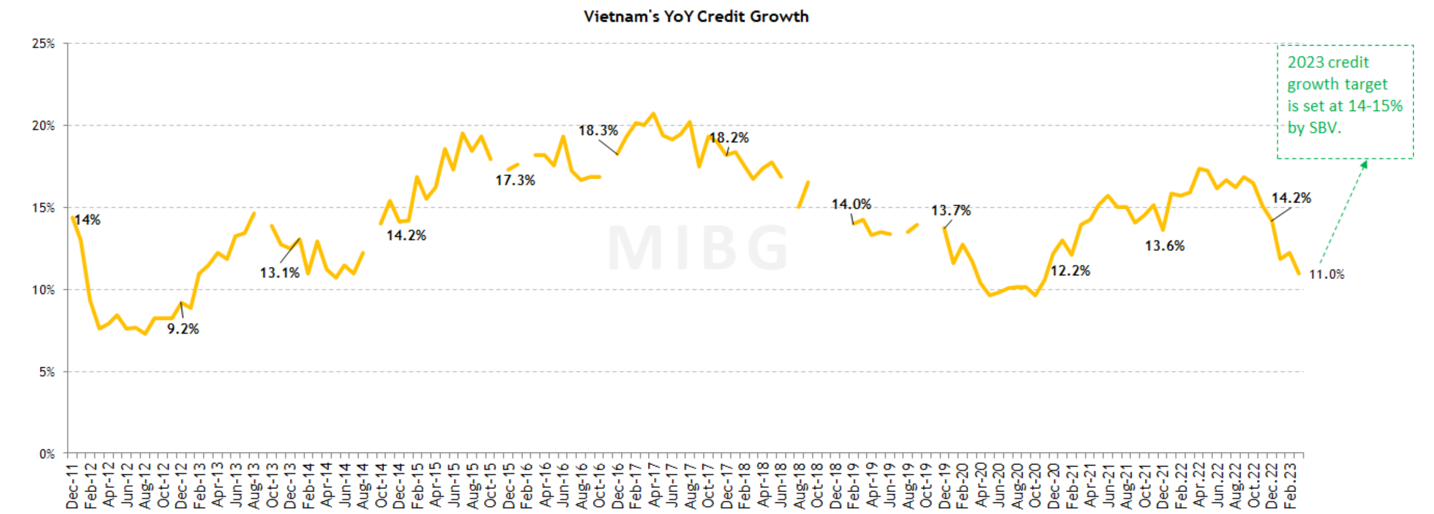
Headwind	Market worries	Our thoughts
1. Worries about contagion risk from global bank failures 	▪ Some pointed at the drop in CASA as a signal of liquidity stress, which may put some VN banks in SVB's situation. ▪ General concerns about banks' bond holdings and potential mark-to-market losses.	▪ Most VN banks have to manage liquidity strictly and report liquidity ratios daily to the SBV. We see liquidity ratios of local banks remain reasonable under normal circumstances. ▪ SBV de facto provides guarantees for all depositors, and tries to prevent bank-runs by all means (including media propaganda and other administrative tools). Even Saigon Commercial Bank (SCB), a zombie bank, received SBV's backup to avoid a bank-run in 2022. ▪ Amount of G-bonds holding is not too big, and VN banks don't have to make provisions for G-bonds based on current regulations. Corporate bonds could temporarily avoid mark-to-market loss by keeping them in 'Hold-to-Maturity' book. We think in the next two years, when the regulator establishes an official secondary market for corporate bonds, there will then be benchmarks for mark-to-market accounting of the corporate bond holdings.
2. Credit growth 	▪ Decelerating credit growth, as indicated by 1Q23 macro data. ▪ High credit/GDP level means less room for strong credit growth as in the past 5 years.	▪ We expect around 12.5% credit growth this year. Unfavourable factors (i.e. weak demand and high interest rates) are temporary and will retreat in the next 9 months. ▪ VN remains the market with the highest credit growth in ASEAN. ▪ Gross Credit/GDP ratio is relatively high; but if we break it down into two components (retail and corporate), there is clearly room for strong growth over the next 3-4 years before decelerating.
3. NIM 	▪ The mass market has worried about NIM contraction since early 2022 due to rising deposit rates.	▪ We were not worried about this in 2022. In fact, VN banks denied the market concerns in FY22 by showing 40bps NIM expansion thanks to them passing the rise in CoF to borrowers. ▪ In FY23, we think NIM will contract because of limited capacity to pass on the higher costs. Banks are likely to have to reduce lending rates faster to support their clients. Meanwhile, average Cost-of-Fund may reduce slower due to competition to retain depositors, banks' need to strengthen LDR, and SML ratios for potentially stricter regulations, and still high cost of borrowing offshore... ▪ Factors to support NIMs: further expansion in retail-loan mix and CASA mix. ▪ All in all, we don't expect an abrupt NIM contraction, but about 40bps (or 10% decline) at most in FY23E. There is upside risk to our forecast if CoF can actually decline faster. According to some banks' management, NIMs are even projected to stay largely stable.
4. Regulator's reviewing bancassurance business 	▪ Growing discussions about mis-selling of insurance products by bankers. Growing Media m headlines about mispresenting bancassurance, creating a negative public image about this business. ▪ Regulator is likely to accelerate investigations and control of bancassurance in 2023.	▪ Bancassurance has just taken off in Vietnam over the past four years. In fact, there are mis-selling practices by some bankers. That's why the policy-surrender rate in the second year is rather high in Vietnam for now, i.e. 40-60%. ▪ Like what happened to the bond market, VN regulator is likely to make interventions, introducing tighter regulations on the bancassurance business. This, together with reversed wealth effects due to bond defaults, will affect demand for insurance in the short to medium-term, thus affecting bancassurance growth. In fact, banks are shifting KPIs for their staff from banca sales to other products (i.e. new account opening and credit cards etc). ▪ Bancassurance in the long run remains a huge market for VN banks to expand fee income, in consideration of currently low life-insurance penetration rate (1.9% vs. regional average of 4.2%) and bancassuruance contribution in VN (20% of total annual premium vs. regional level of above 50%).

Headwind	Market worries	Our thoughts
5. Pressure on asset quality 	▪ The market has kept worrying about NPL risks since 2021, due to Covid-19 impact and now due to turmoil in the property sector. ▪ Worries about surging NPLs from both lending to developers and mortgages, especially due to on-going stress faced by the second-largest developer, Novaland - Vietnam's version of China Evergrande (3333.HK, Not Rated, CP HKD1.65).	▪ With regards to the Covid-19 impact, we always maintained a contrarian view versus the market, and local banks' actual performance in 2021-22 has confirmed our view. The Covid-19 impact turned out to be moderate and fully manageable. ▪ Now with regards to potential risks from the property turmoil, we agree with the concerns of the market. Regulatory bottlenecks and corporate bond rout have pushed the local property sector into a stress situation, creating considerable pressure on banks' asset quality. Yet, given recent changes in government policies, we think the property sector can avoid a meltdown. ▪ In addition, our stress test indicates that in an ugly scenario (with potentially 20% of loans to developers and 10% of mortgage book turning into NPLs), Vietnam banks won't enter into a crisis like in 2011-12. ▪ A stronger macro position, regulatory frameworks and banks' loan-loss buffer today can also help local banks avoid a credit-cost shock. We estimate that were the ugly scenario to occur, VN banks would need less than 1.5 years to clean up the problem via provisioning, NOT 5-6 years as previously.
6. Earnings growth 	▪ Due to concerns about asset quality since 2021, the mass retail market has been concerned about decelerating profit growth of the banking sector. ▪ Now with new concerns about credit growth, NIM and fee income… they think the banking sector's profit growth outlook is no longer exciting.	▪ **Look at sustainable ROE level, not just profit growth.** As debated since our 2021 VN Bank Strategy update, we opined that VN banks' earnings growth should decelerate, because they had pocketed very strong growth over the past three years, which has enabled VN banks to scale up their profit base and reached very robust ROE levels. Each bank management, after having reached a very robust ROE level (i.e. 20-28%), will proactively manage profit growth in order to sustain the ROE levels. ▪ In consideration of all key earnings drivers as discussed above, we estimated that aggregate profit of the 17 VN-listed bank could grow c.13-15% YoY this year, vs. 32-35% in 2021-22. Upside to our estimates may stem from a stronger recovery in credit demand in 2H23 and less-than-expected NIM contraction. Accordingly, the average ROE of listed banks could see some contraction to about 18.5% in FY23 (vs. 20% in FY22). Several VN banks could still maintain above 20% ROE, based on our estimates and Bloomberg consensus, including: **VCB**, **MBB**, **ACB**, **HDB**, **STB**, and **VIB**.

2.1 Credit growth heads for a temporary slowdown

By March 2023, sector-wide credit growth in Vietnam decelerated to only 11% YoY, as demand for credit has been seriously dampened by high interest rates, slowdown in manufacturing due to declining new orders, a weaker income outlook, and a frozen property market.

Figure 2: Vietnam's credit growth in 1Q23 slowed down to near-Covid level

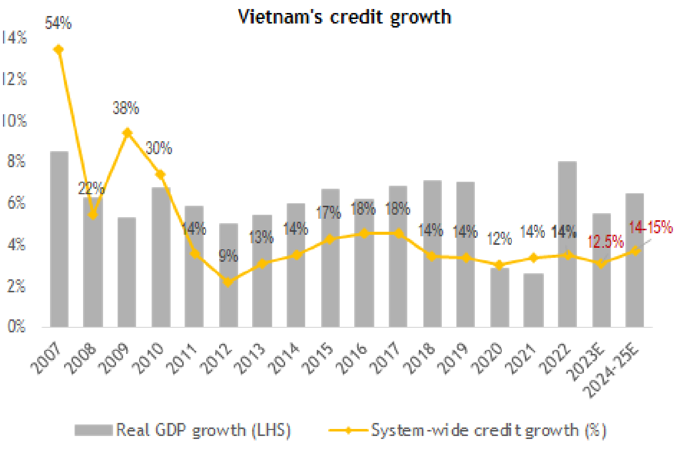


Source: GSO Vietnam, SBV

We expect that under the base case, lending rates will substantially ease from 3Q23. This, along with gradual recovery in manufacturing activities, will result in stronger credit growth in the latter part of 2023.

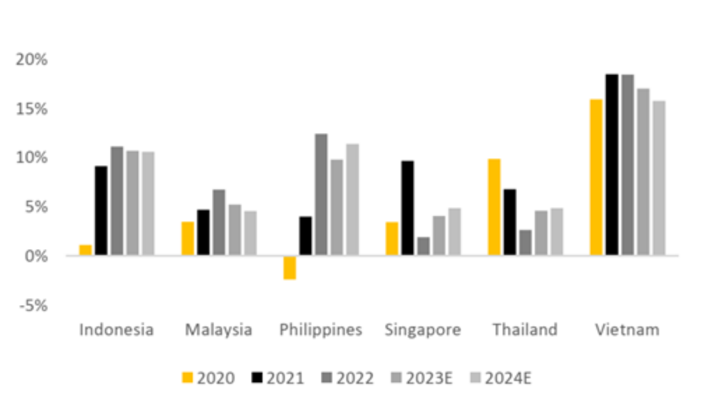
For the whole year, we project sector-wide credit growth would stay at around 12.5% before recovering to c.14-15% in 2024-25.

Figure 3: VN's credit growth should stay at around 12.5% in 2023 before recovering to 14-15% in 2024-25



Source: SBV, Maybank IBG Research estimates

Figure 4: VN banks still enjoy the strongest credit growth among regional peers

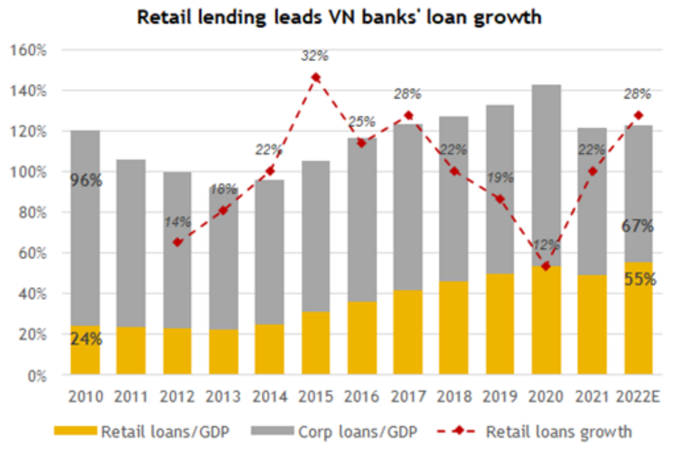


Source: Maybank IBG Research estimates

With regards to the general market's concerns that Vietnam's Credit-to-GDP ratio (122% by 2022) has reached very high levels (hence, it may limit the room for strong credit growth), our view is quite different:

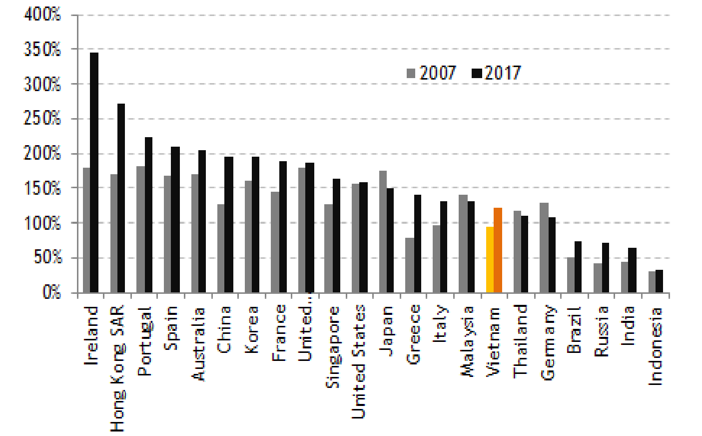
i) The Credit-to-GDP ratio is too gross and not a reliable indicator, as we observe that many other economies have been sitting on much higher ratios of above 150% for many years so far. In markets like Vietnam, where banks essentially are the only channel to fund economic growth due to a primitive capital market, the total Credit-to-GDP ratio tends to be high. The question to ask instead should be how the credit is allocated and underwritten.

Figure 5: VN's rising Credit-to-GDP ratio has been driven by retail lending



Source: GSO Vietnam, SBV, Maybank IBG Research

Figure 6: Credit-to-GDP ratios of different economies

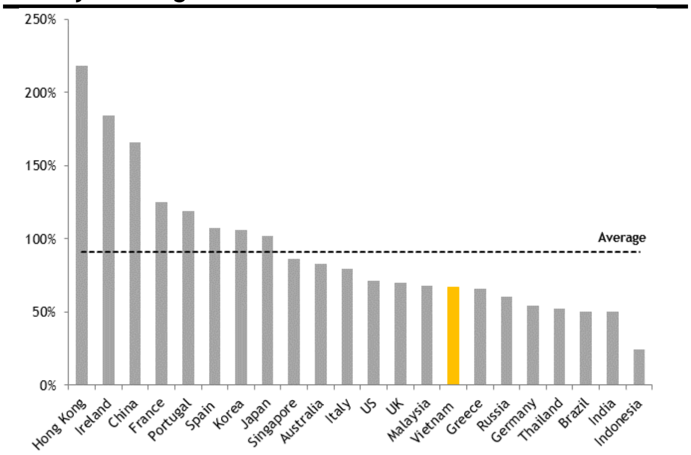


Source: CEIC, BIS

ii) Both Corporate debt/GDP and Household debt/GDP of Vietnam remain at healthy and reasonable levels. Compared to other markets, there remains substantial room for strong growth in the next 5-year cycle at least, in our view.

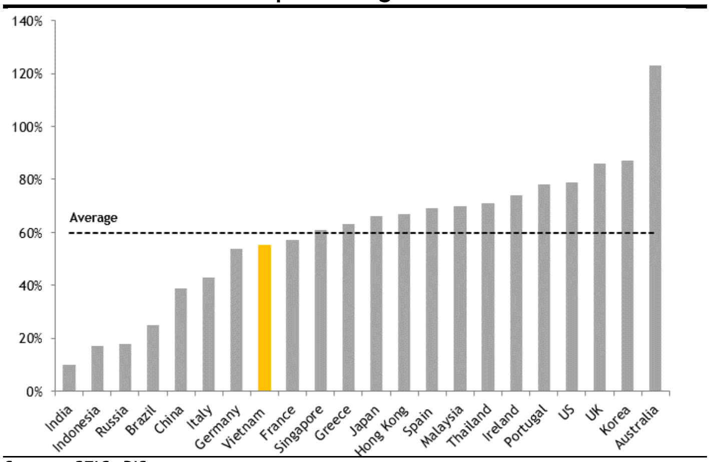
Continued rising income that organically expands room for growth of traditional retail banking (targeted at middle-income population and upper) coupled with the adoption of digital banking initiatives (that allows deeper penetration into mass population) will support continued strong growth in retail lending in Vietnam for several years to come.

Figure 7: Vietnam's Corporate Debt/GDP (est.67%) remains healthy versus global markets.



Source: CEIC, BIS

Figure 8: Vietnam's Household debt/GDP ratio (55%) also remains reasonable compared to global markets.



Source: CEIC, BIS

2.2 NIMs about to contract from 'very good' to 'good' levels

Vietnam banks enjoyed steady NIM expansion over the past four years and reached very good NIM of 4.5% on average in 2022, thanks to: i) expanding retail loan mix (resulting in lending yield improvement); and ii) higher CASA mix and falling deposit rates (causing a significant drop in their average cost of funds during 2020-21).

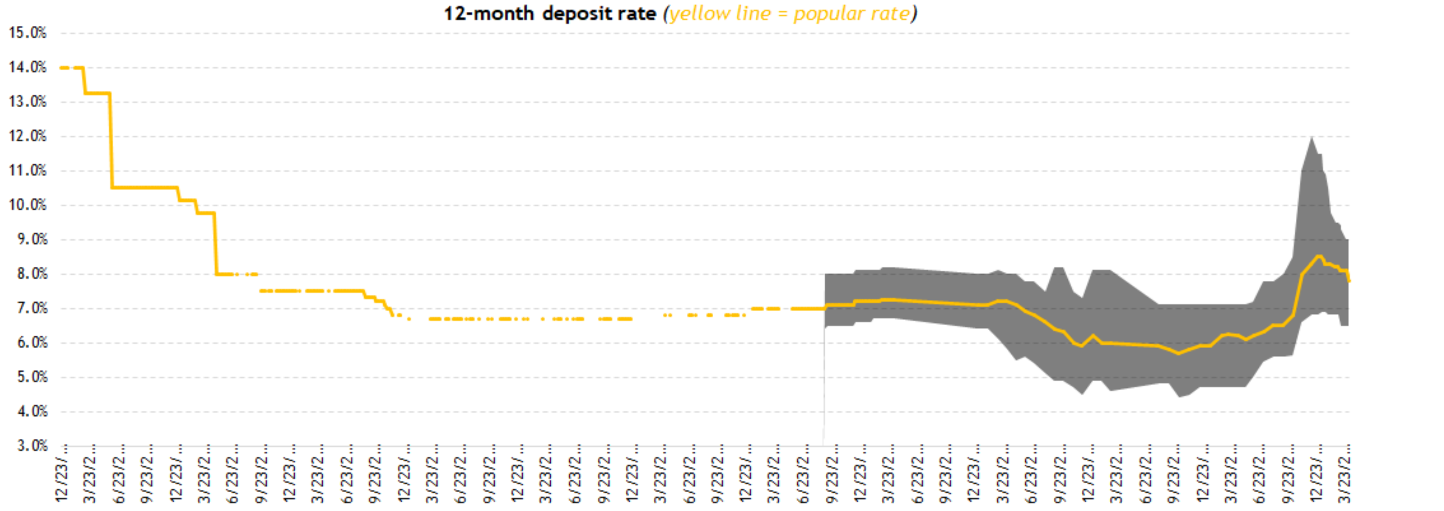
Figure 9: Vietnam banks enjoyed robust NIM, driven by better assets and funding mix coupled with falling deposit rates during 2019-21

Net interest margin (annualized)	2012	2013	2014	2015	2016	2017	2018	2019	2021	2022
Listed banks' average	**3.70%**	**3.05%**	**3.13%**	**3.38%**	**3.43%**	**3.62%**	**3.84%**	**4.14%**	**4.29%**	**4.53%**
VCB	2.94%	2.60%	2.40%	2.58%	2.67%	2.70%	2.90%	3.11%	3.25%	3.53%
BIDV	3.18%	2.90%	3.20%	2.74%	2.72%	3.00%	3.00%	2.83%	3.01%	3.07%
TCB	3.31%	3.00%	3.90%	4.37%	4.17%	3.90%	4.20%	4.46%	5.82%	5.37%
CTG	4.06%	3.60%	3.00%	2.80%	2.78%	2.80%	2.10%	2.92%	3.10%	3.03%
VPB	3.87%	4.50%	4.40%	6.31%	7.75%	8.90%	9.00%	9.61%	7.81%	7.64%
MBB	4.57%	3.76%	3.70%	3.78%	3.71%	4.30%	4.61%	5.11%	5.34%	6.03%
ACB	3.72%	2.90%	3.00%	3.35%	3.44%	3.60%	3.70%	3.69%	4.25%	4.45%
HDB	2.25%	0.60%	2.10%	3.67%	4.15%	4.10%	4.10%	4.76%	4.49%	5.21%
STB	5.33%	5.00%	4.30%	2.94%	1.57%	1.80%	2.40%	2.54%	2.66%	3.43%
TPB	3.97%	2.70%	2.50%	2.32%	2.47%	2.99%	3.80%	4.28%	4.57%	4.20%
EIB	3.13%	1.80%	1.80%	2.61%	2.73%	2.10%	2.40%	2.21%	2.31%	3.41%
VIB	4.01%	3.20%	3.30%	3.14%	3.05%	3.20%	3.90%	4.21%	4.82%	5.00%
Lending yield :							8.4%	8.9%	7.5%	8.1%
CoF							4.6%	4.8%	3.6%	3.8%
Retail loan							41%			49%
CASA mix							20%	20%	23%	20%

Source: Banks

In the medium term, as deposit rates have surged (since 4Q22, *refer to Fig. 10 below*), coupled with high borrowing cost offshore, the listed banks' average cost-of-funds is likely to remain high. Meanwhile, it is harder for banks to pass on the cost to borrowers now due to weaker credit demand. Hence, we expect VN banks' NIM is destined to contract.

Figure 10: Surge in deposit rates from 4Q22 due to liquidity crunch and unexpected direction in LDR supervision

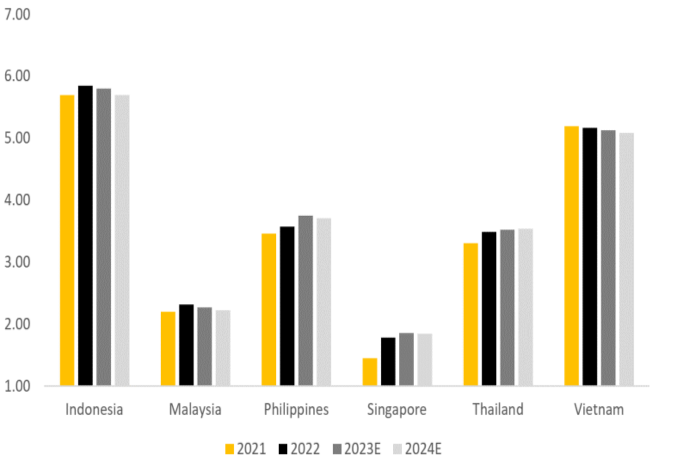


Source: GSO Vietnam, Maybank IBG Research compiled

But we don't expect an abrupt NIM contraction, because we believe VN banks have strong fundamental buffers to defend NIMs, including room for a higher retail loan mix and CASA mix. Current retail loans normally carry favourable fixed rates for the first several months (i.e. 6-12 months) before turning into floating rates based on the bank's long-term deposit rates plus a margin (i.e. 3.5-4.5%).

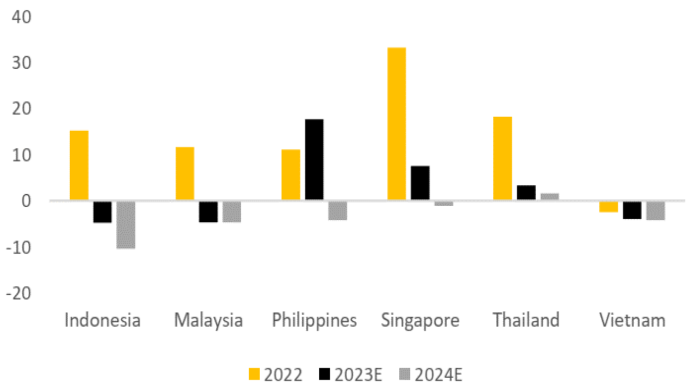
We expect average NIM of listed banks to contract by about 40bps only to stay at c.4% in FY23E. In fact, some banks guided us that their NIMs would remain stable or may contract by only 10-20bps this year. As such, VN banks' NIMs remain among the best in the region.

Figure 11: VN banks enjoyed robust NIMs, behind only Indo's



Source: Banks

Figure 12: Projection of VN banks' NIM (YoY change in bps)



Source: Maybank IBG Research

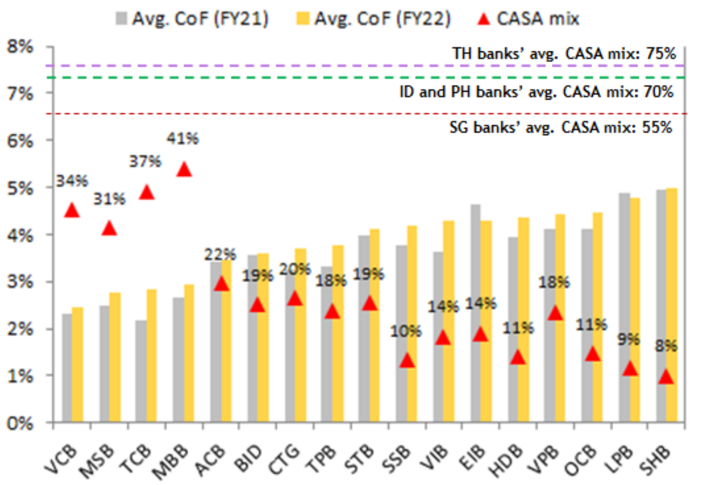
In the longer run (i.e. the next 3-4 year horizon), we believe continued improvement in the retail loan mix and CASA mix will enable VN banks to preserve good NIMs (3.8-4%) before entering a 'saturation' phase and seeing NIMs converge to regional levels of 2.2-3.0% only.

Figure 13: VN bank's improving loan mix with more shift to retail lending

	Total loans	% TA	Corp loans	Retail loans
VIB	232,048	68%	10%	90%
ACB	413,706	68%	35%	65%
VPB	439,238	70%	41%	59%
TPB	161,175	49%	42%	58%
STB	438,753	74%	42%	58%
EIB	130,506	71%	46%	54%
LPB	235,767	72%	47%	53%
TCB	420,634	60%	51%	49%
MBB	461,594	63%	52%	48%
VCB	1,145,066	63%	53%	47%
HDB	263,856	63%	54%	46%
BID	1,522,229	72%	57%	43%
OCB	119,803	62%	59%	41%
CTG	1,274,822	70%	63%	37%
MSB	120,644	57%	69%	31%
SSB	153,956	67%	76%	24%
SHB	385,633	70%	78%	22%

Source: Banks

Figure 14: VN banks' CASA mix has substantial room to expand further



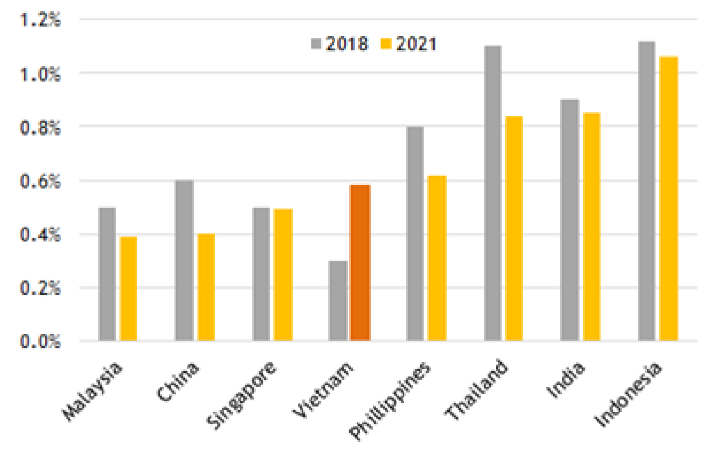
Source: Banks

2.3 Bancassurance: Encountering regulatory hiccups, but its growth outlook remains strong in view of secular growth drivers

Rising fee income has emerged as an important driver of Vietnamese banks' ROA improvement over the past four years. Compared to the Fees/Total Assets ratio of Thai and Indonesian banks, we see significant room for Vietnamese banks to improve this ratio further and thus their ROAs.

We forecast leading banks to maintain c.25% fee income growth (CAGR) in the next five years vs. c.12-14% asset growth, which would result in the increase in Fees/TA ratio from c.0.6% on average currently to about 1% in five years. Bancassurance has become a key driver of fee income growth, accounting for 25-55% of listed banks' total fee income.

Figure 15: VN banks' Fees/Total assets ratio remains low compared to regional banks



Source: Bloomberg

Figure 16: Some leading banks managed to increase fee income via bancassurance and bond-underwriting business

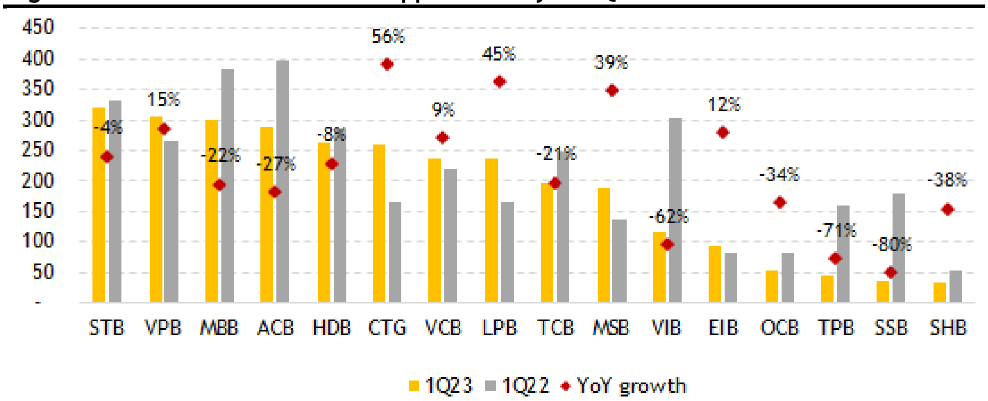
(Ranked by assets)	Total assets (VND b)	FY22 Fees (VND b)	Fees/TA (annualized)	2015-20 Fee CAGR
BID	2,120,528	5,659	0.3%	14%
VCB	1,814,188	6,839	0.4%	20%
CTG	1,809,189	6,089	0.3%	23%
MBB	728,532	4,136	0.6%	34%
TCB	699,033	8,527	1.0%	33%
VPB	631,074	6,438	1.0%	33%
ACB	607,875	3,526	0.6%	25%
STB	591,994	5,194	0.9%	24%
SHB	550,904	882	0.2%	37%
HDB	416,273	2,957	0.7%	48%
VIB	342,799	3,188	0.9%	53%
TPB	328,634	2,692	0.8%	69%
LPB	327,746	1,662	0.5%	123%
MSB	212,776	1,112	0.5%	62%
OCB	193,994	1,014	0.5%	84%

Source: Banks

In the medium term (next 12 months), we should see some tightening measures by the regulator on bancassurance business due to increasing complaints about bankers mis-selling insurance products. Like what happened to the corporate bond market, it will take some time for banks to strengthen their bancassurance in accordance with new regulations. In addition, the demand for insurance products is likely to be weaker in the medium term due to a less robust income outlook and reversed wealth effects amid the corporate bond turmoil.

We expect growth in bancassurance fees to decelerate from 35-50% p.a. to around 15% only for most banks in FY23E.

Figure 17: Bancassurance sales dropped notably in 1Q23

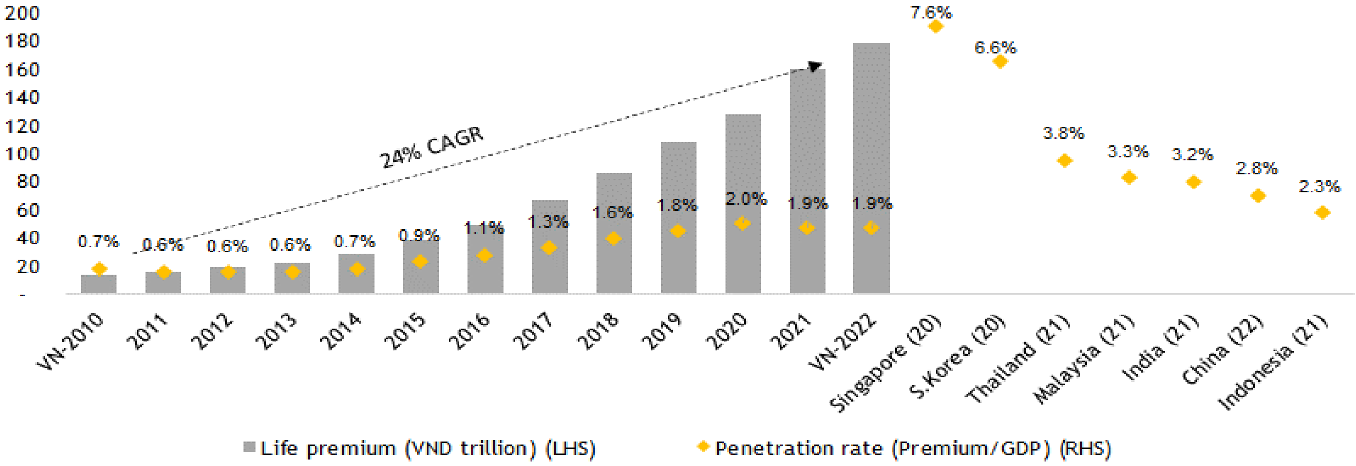


Source: Banca Homies

In the longer run (beyond 2023 and through 2025), we have no doubt that robust growth in bancassurance will resume and grow by above 20% p.a.

Industry experts forecast life insurance premiums can continue to grow at a 20% CAGR in the next five years, which would raise the country's penetration ratio to close to 2.5% by 2025, achieving the target set by Vietnam's insurance regulator (i.e. the Ministry of Finance).

Figure 18: Life insurance in Vietnam has large potential for growth given the low penetration rate



Source: GSO Vietnam, Association of Vietnam Insurers, Swiss Reinsurance

In addition, bancassurance will play an increasingly important role in driving the sector's growth. Currently, bancassurance contributes only about 20% (2022, vs. 10% in 2017) to the total sector premiums. Thanks to strengthened partnerships between banks and insurers via exclusive frameworks, we expect bancassurance contribution to surge in the next five years. In developed markets, bancassurance contributes 50-70% to total life premiums annually; or in the Thai market (as a closer reference point), bancassurance contributes about 45%.

If we conservatively forecast the life insurance penetration rate increases to 2.2% in Vietnam and bancassurance contribution rises to 30% by 2025, this would imply bancassurance sales growth of 32% CAGR in Vietnam over 2022-25, which we believe would materially underpin robust bancassurance fee growth for VN banks.

Figure 19: Significant bancassurance growth potential for VN banks

	FY22	FY25E	CAGR
Nominal GDP (VND tr) (1)	9,513	12,320	9.0%
Life penetration rate (2)	1.9%	2.2%	
Life insurance premium (VND tr) [(3) = (1) * (2)]	178	271	15.1%
Banca mix (4)	20%	30%	
Banca premium (VND tr) [= (3)*(4)]	**36**	**81**	**32%**

Source: GSO Vietnam, Maybank IBG Research

2.4 Asset quality withstands headwinds from property market turmoil; But we expect no shocks to provisioning rates.

A brief recap:

In addition to prolonged regulatory bottlenecks in project licensing since 2018, abrupt policies/actions in the corporate bond market and the surge in interest rates in 2022 have taken a serious toll on the local property market in terms of funding and demand.

Concerns about rising delinquency rate in property loans emerged notably since Nov 2022, especially during Feb-March 2023 when there were 69 bond defaults, including those by Novaland which is seen as the second largest property developer in Vietnam.

Given Novaland's wide footprint in the residential segment and its deep linkage to the banking sector and capital market (via bank loans, bonds and stocks), the market started to worry about a potential surge in NPLs from property loans (not only loans made to Novaland but to other developers too), and this escalated to NPL concerns about mortgages.

The market run away from banks which are deemed having huge exposure to corporate bonds and property lending.

Our thoughts:

We agree with market concerns that pressure from the property market turmoil could affect the outlook for the banking sector's asset quality. Key questions that we are seeking answers to now include: **(1)** how the property sector will emerge from this turmoil; **(2)** would this potential NPL pressure cause the VN banking sector to enter into a serious NPL crisis; and **(3)** how would it impact banks in terms of provisioning outlook?

(1) Frankly, we don't have a concrete answer to the first question. But we observed and believe the VN government will take action to prevent a collapse in the property sector. Borrowing from China's experience (when a mortgage boycott happened in June 2022 and the Chinese government started to take action to save the property market from Nov 2022), the Vietnamese government has also started to take action from Dec 2022 to gradually release stress in the sector (*Refer to summary of policy moves and actions below – Fig.20*).

Thanks to these early interventions, we think the possibility of an "ugly scenario" (where NPL ratios from property lending could surge like in 2012 + rising NPLs from mortgages) has been notably reduced. Yet, we see the outlook remains fluid as the key to the situation (i.e. addressing regulatory bottlenecks) remains unclear in terms of timeline and action agenda. Hence, we think concerns about potential NPLs from the property sector will remain.

Figure 20: Policy moves and actions to "save" Vietnam's corporate bond market and property sector

Date	Key policy actions	Objectives and targets
17-Nov-2022	Decision 1435/QD-TTg	Set up a task-force under the prime minister to review and address bottlenecks and obstacles for real estate projects
5-Mar-2023	Decree 08/2023/ND-CP	Amend regulations on corporate bond issuance with some relaxations/transitional terms to rebuild the corporate bond market
11-Mar-2023	Resolution 33/NQ-CP	Set out directions for healthy and sustainable development of the property market.
14-Mar-2023	SBV cut policy rates for the first time since rate hike in Sep 2022	Lower discount rate by 1ppts.
14-Mar-2023	Decision 235/QD-TTg	Set up 5 task forces to work with ministries and provincial authorities in order to facilitate and speed up the infrastructure projects/public investment.
15-Mar-2023	National Assembly started collecting opinions on the 2nd draft of the Land Law	Seek opinions from the public on 12 groups of content, including: land acquisition, compensation, resettlement policies…
27-Mar-2023	Draft amendments to Circular 16/2021/TT-NHNN	Amend conditions (i.e. slight relaxation) for banks to purchase corporate bonds
31-Mar-2023	SBV cut policy rates for the second time in a month, marking a real policy pivot	Lower the refinancing rate and the cap on below-6-month term deposit rates by 0.5ppt.
3-Apr-2023	Decision 338/QD-TTg	Approval of the project "Building at least 1 million social-housing units for low-income and workers in industrial parks by 2030".
3-Apr-2023	Decree 10/ND-CP	Amend and supplement a number of articles of Decrees guiding the implementation of the Land Law (taking effect from May 20, 2023)
17-Apr-2023	SBV gets opinions on a draft on debt moratorium to support local borrowers through challenges in 2023	Banks are allowed to reschedule the repayment of debts (principal and/or interests) for borrowers faced with external difficulties up to 12 months. This is applied to loans for production/business purposes that were disbursed before 8-Apr-2023 and have principal/interest due in the period until 31-Dec-2023.

Source: Maybank IBG Research compiled

(2) From a top-down approach, our analysis and estimates suggest Vietnam's economy and its banking sector will not head into an NPL crisis like it did 10 years ago. *(Refer to Fig.21 below)*

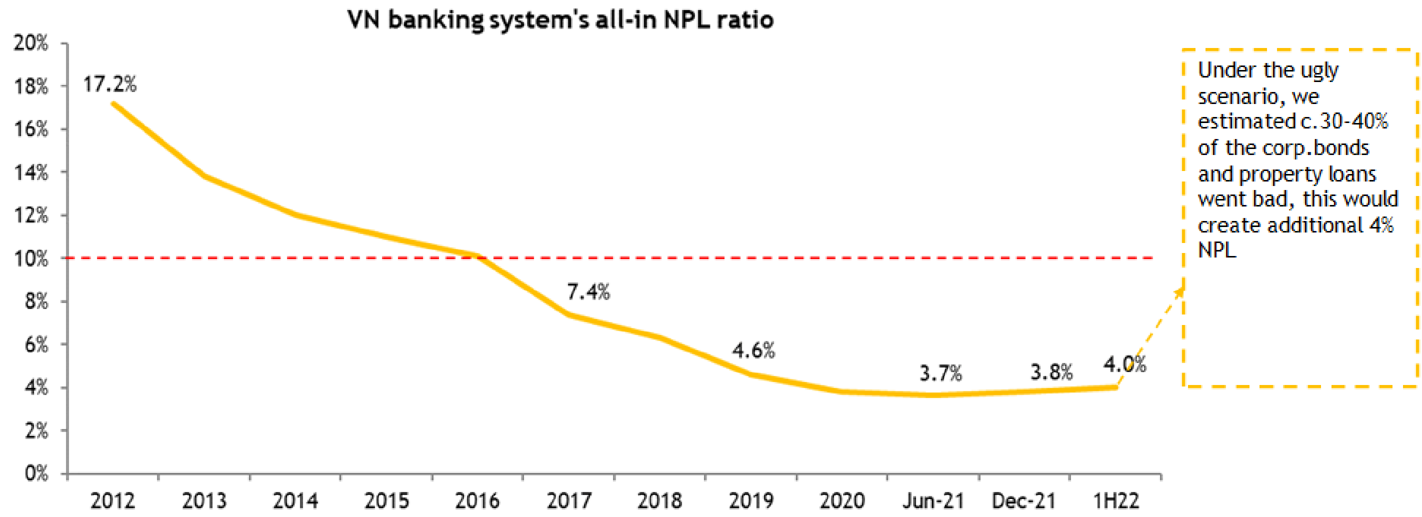
In addition, our stress test (using a potential NPL ratio of 20% for loans to developers and 10% for mortgages – which we think is stress enough to buffer market concerns about banks' other off-balance sheet exposure to corporate bonds and the property sector) also indicates that most VN banks, thanks to better loan-loss buffer and stronger collateral assets, may need less than 1.5x years to fully clean up the potential NPLs and return to a normal growth trajectory, NOT 5-6 years as the previous clean-up took. *(Refer to Fig.23 below)*.

Figure 21: Top-down approach: Vietnam's macro health today is much better than 10 years ago, which could buffer and help prevent a total meltdown of the property sector.

	2012 context	2022 context
Sovereign rating	BB- (S&P)	BB+ (2 notches higher)
Economic growth	Below 6% GDP growth during 2011-2014	8% in 2022, 6.5% in 2023, likely above 6% in 2024-25
Inflation	High inflation (18% in 2011, 7% in 2012, 6% in 2013)	2-4% inflation in 2021-23
FX pressure	From high inflation	From strengthen USD
FX reserves	$20 b	$100 b
Interest rates	13-22% lending rates Policy rates: 9-14%, due to inflation pressure	Lending rates: 8-9% Policy rates: 4-6%, due to FX pressure
Overall banking health (CAR, Liquidity, NPL, LLR)	Facing mini-NPL crisis	Resilient
NPL level	4.3% on BS I 17.2% all-in	1.7% on BS I 4% all-in
Loan loss coverage level	65%	177%
Lendings to property developers	13-14% total credit	around 7% of total credit
Property-loan NPL	16.1%	1.7%

Source: GSO Vietnam, Maybank IBG Research

Figure 22: Top-down approach: The potential "ugly scenario" (due to problems from the bond and property markets) would not create an NPL mountain as it did in 2011-12, in our view.



Source: SBV, Maybank IBG Research

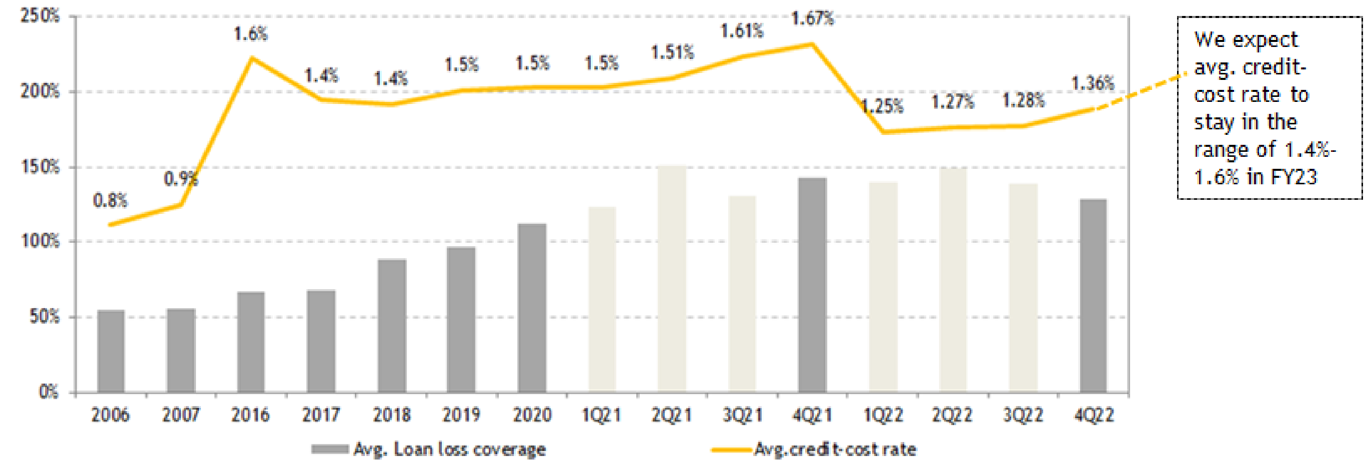
Figure 23: VN banks have good buffer to absorb the shocks and need c.1.5 years to clean up the trouble assets under the "ugly" scenario, according to our stress test

	Loans to developers	*% total loans*	Mortgage	*% total loans*	% Property-related loans at risk (Ugly scenario) 20.0%	10.0%	Total potential loss	Net potential loss (Minus collateral assets at 40% hair-cut)	Loan loss reserves (by end FY22)	Current NPLs (by end FY22)	FY23E Credit cost (minus available LLR)	Credit-cost rate (Based on FY22 loans)	Core Operating Profit/Loans	Clean-up time (# year)
TCB	108,906	*25.9%*	189,656	*45.1%*	21,781	18,966	40,747	16,299	4,792	3,817	15,324	3.6%	4.6%	0.9
VIB	3,801	*1.6%*	109,991	*47.4%*	760	10,999	11,759	4,704	3,065	5,687	4,704	2.0%	3.6%	0.7
VPB	67,594	*15.4%*	82,924	*18.9%*	13,519	8,292	21,811	8,724	13,683	25,137	8,724	2.0%	6.1%	1.8
OCB	13,059	*10.9%*	19,169	*16.0%*	2,612	1,917	4,529	1,811	1,582	2,671	1,811	1.5%	3.1%	0.7
MSB	10,399	*8.6%*	18,784	*15.6%*	2,080	1,878	3,958	1,583	1,431	2,057	1,583	1.3%	3.4%	0.4
TPB	10,170	*6.3%*	40,294	*25.0%*	2,034	4,029	6,063	2,425	1,834	1,357	1,948	1.2%	4.1%	0.4
HDB	21,109	*8.0%*	34,180	*13.0%*	4,222	3,418	7,640	3,056	3,012	4,404	3,056	1.2%	3.4%	0.6
SHB	31,495	*8.2%*	30,679	*8.0%*	6,299	3,068	9,367	3,747	7,282	9,740	3,747	1.0%	2.9%	0.7
STB	9,214	*2.1%*	76,343	*17.4%*	1,843	7,634	9,477	3,791	5,652	4,299	2,438	0.6%	2.3%	1.1
ACB	4,865	*1.2%*	82,741	*20.0%*	973	8,274	9,247	3,699	4,850	3,045	1,894	0.5%	2.8%	0.2
MBB	21,372	*4.6%*	132,939	*28.8%*	4,274	13,294	17,568	7,027	11,989	5,031	69	0.0%	4.7%	-
VCB	45,803	*4.0%*	296,572	*25.9%*	9,161	29,657	38,818	15,527	24,779	7,808	(1,444)	-0.1%	2.9%	-
CTG	63,741	*5.0%*	142,744	*11.2%*	12,748	14,274	27,023	10,809	29,764	15,796	(3,159)	-0.2%	2.5%	-
BID	36,533	*2.4%*	223,959	*14.7%*	7,307	22,396	29,703	11,881	38,198	17,622	(8,695)	-0.6%	2.2%	-

Source: Banks, Maybank IBG Research

Taking into account current NPL levels, current loan-loss coverage and supportive regulations *(i.e. draft Circular allowing debt moratorium and spreading out needed provisions for borrowers hit by difficulties in 2023)*, we believe VN banks will not experience a shock in terms of credit-cost rate / provisioning rate. We expect VN banks will maintain c.1.4-1.5% provisioning rates in FY23E.

Figure 24: Average credit-cost rate (or provisioning rate) of 17 VN-listed banks

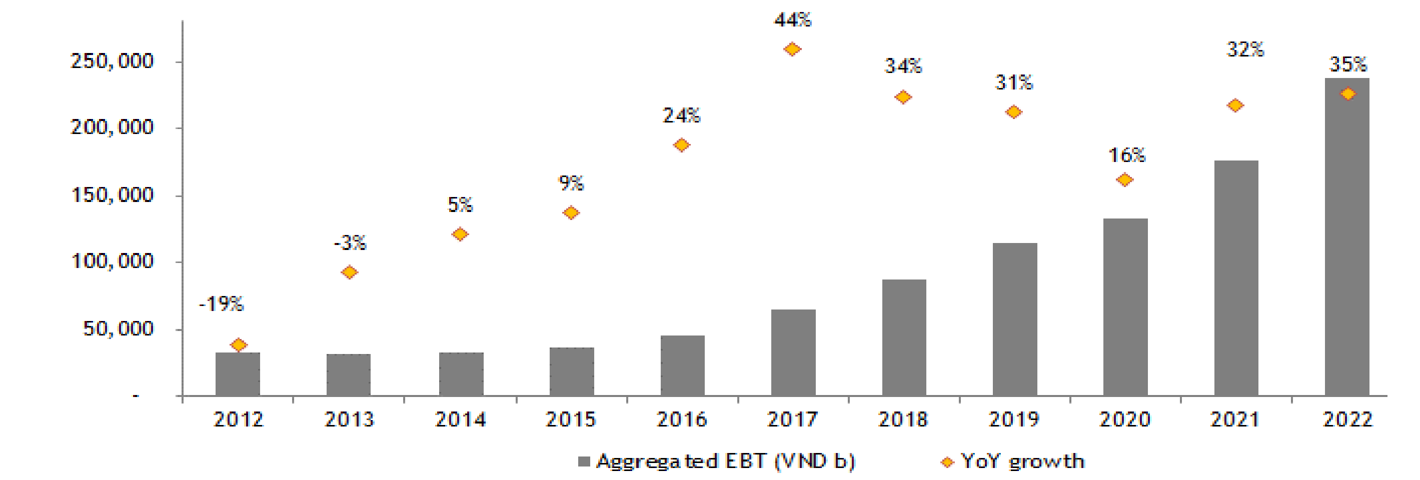


Source: Banks, Maybank IBG Research

3. Earnings growth decelerates but ROE remains robust

As illustrated in our VN Bank Strategy reports since November 2021, we opined that VN banks' earnings growth would have to decelerate, because they had pocketed very strong growth in previous years. Still, 17 listed banks on aggregate delivered more strong profit growth of 33% YoY for FY22. Strong profit growth over the past three years has enabled VN banks to scale up their profit base and reach very robust ROE levels.

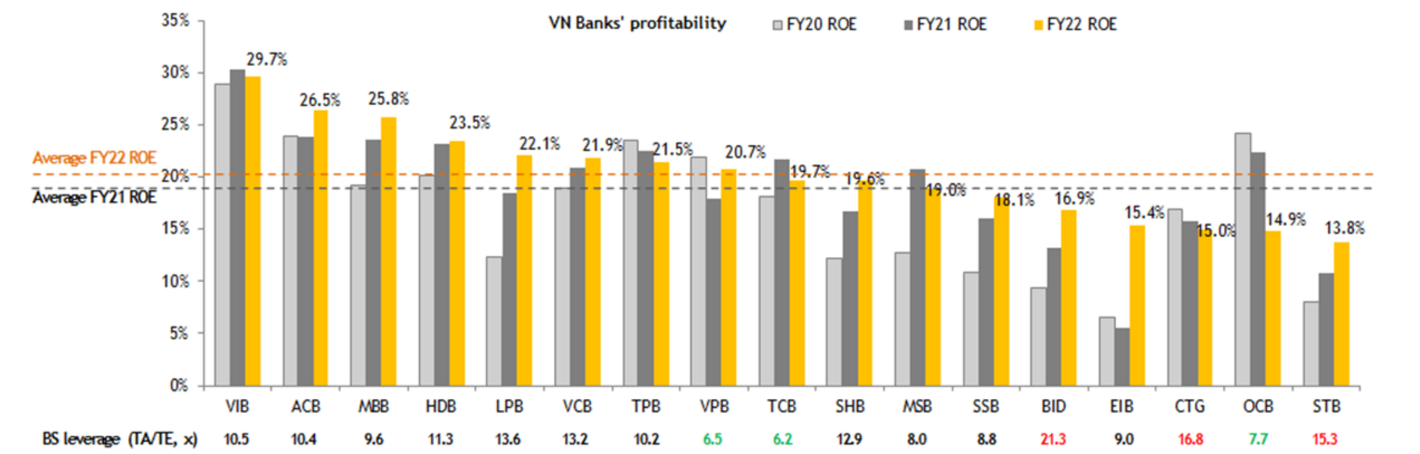
Figure 25: VN banks have delivered strong profit growth since 2017, which lifted their ROEs to very robust levels



Source: Banks

In practice, each bank's management aims to achieve certain profit growth annually to meet their ROE targets. Hence, after having reached very robust ROE levels (i.e. 20-28%. Refer to Figure 26 below), they will proactively manage profit growth in order to sustain their ROE levels. They will do that by making extra provisions to build up their buffer for unexpected credit loss in the future. Then during challenging times like in 2H22 or FY23E, we believe banks will tap their loan-loss reserves to provide a buffer against potential pressure on asset quality and manage their bottom-line earnings to achieve ROE targets.

Figure 26: VN banks have reached very robust ROE levels



Source: Banks

In consideration of all the key earnings drivers as discussed above, **we estimate the aggregate profit of the 17 VN-listed bank could grow by c.13-15% YoY this year**, vs. 32-35% in FY21-22. Upside to our estimates may stem from stronger recovery in credit demand in 2H23 and less-than-expected NIM contraction. Accordingly, the average ROE of listed banks could see contraction to about 18.5% in FY23E (vs. 20% in FY22). Several VN banks could maintain above-20% ROEs, based on our estimates and Bloomberg consensus, including: **VCB**, **MBB**, **ACB**, **HDB**, **STB**, and **VIB**.

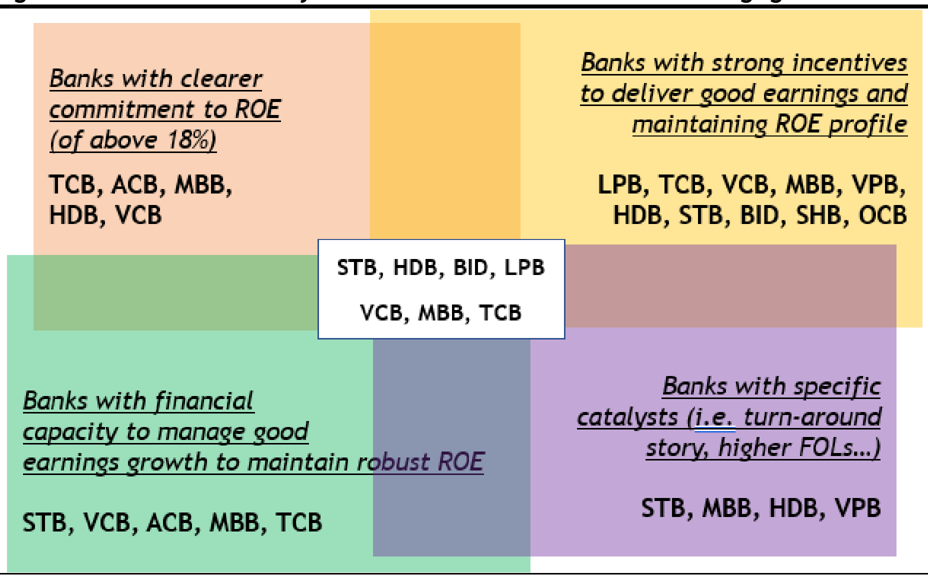
We see (with better visibility) the following banks can deliver better-than-peer growth in FY23E: **STB, VCB, MBB** and **ACB**.

Figure 27: VN banks' profit growth and ROE profile (FY16-FY23E)

	FY16-22 profit growth (CAGR)	FY23 profit growth (Mgmt targets)	FY23E profit growth (BLB and our estimates)	ROE		
				FY16-22 avg.	FY22	FY23E
(ranked by mkt cap)	**31.7%** *Aggregate (17 banks)*	**13%**	**15%**	**15.9%**	**20.2%**	**18.7%**
VCB	27.9%	min.12%	**20%**	19.4%	21.9%	**21.0%**
BID	20.0%	17%	**18%**	11.9%	16.9%	**16.9%**
CTG	16.2%	16%	**15%**	11.8%	15.0%	**15.0%**
VPB	27.5%	13%	**-15%**	23.9%	20.7%	**14.8%**
TCB	36.2%	-14%	**0%**	20.5%	19.7%	**16.5%**
ACB	47.4%	17%	**14%**	19.8%	26.5%	**23.6%**
MBB	35.6%	15%	**18%**	17.0%	25.8%	**23.9%**
SSB	80.6%	11%	**9%**	7.1%	18.1%	**15.5%**
STB	85.4%	50%	**70%**	5.3%	13.8%	**20.0%**
HDB	44.1%	29%	**20%**	16.6%	23.5%	**22.4%**
VIB	57.2%	15%	**10%**	19.4%	29.7%	**25.0%**
TPB	49.3%	11%	**9%**	19.4%	21.5%	**19.1%**
SHB	42.5%	6%	**5%**	10.9%	19.7%	**17.2%**
MSB	81.1%	9%	**7%**	5.6%	19.0%	**17.0%**
LPB	27.1%	5%	**15%**	12.6%	22.1%	**19.5%**
EIB	45.5%	35%	**25%**	5.0%	15.4%	**16.5%**
OCB	44.4%	37%	**15%**	19.3%	14.9%	**14.9%**

Source: Banks, Maybank IBG Research for VCB, TCB, VPB, ACB and MBB. For other banks not under our coverage, we use Bloomberg consensus statistics (as of 20th April, 2023)

Figure 28: Banks with catalysts/incentives to deliver better earnings growth



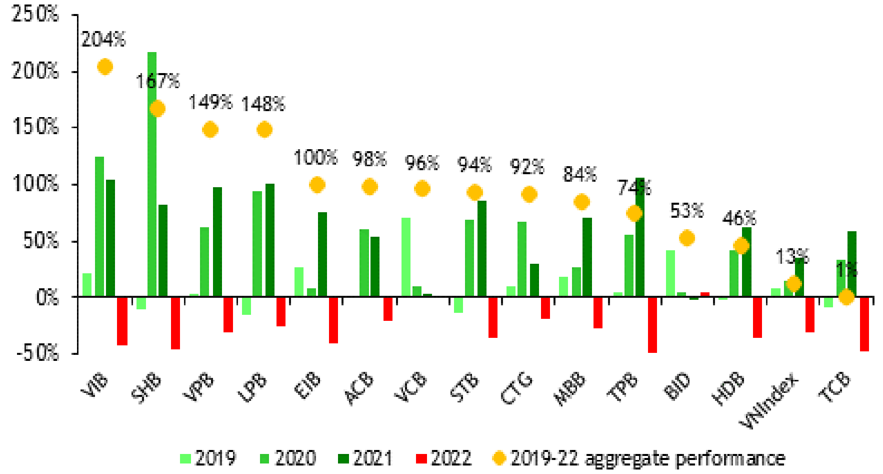
Source: Maybank IBG Research

4. Stock positioning

4.1 Attractive returns

Over the past four years (2019-22), VN banks have **generated excellent returns for "Buy-and-hold" investors.** Most of the listed banks have generated (on average) over 25% in investment return p.a. for "Buy-and-Hold" positions. Some banks (namely VIB, SHB and VPB) even generated 35-50% returns per year on average over the past four years for investors.

Figure 29: VN listed banks' share-price performance during 2019-2022

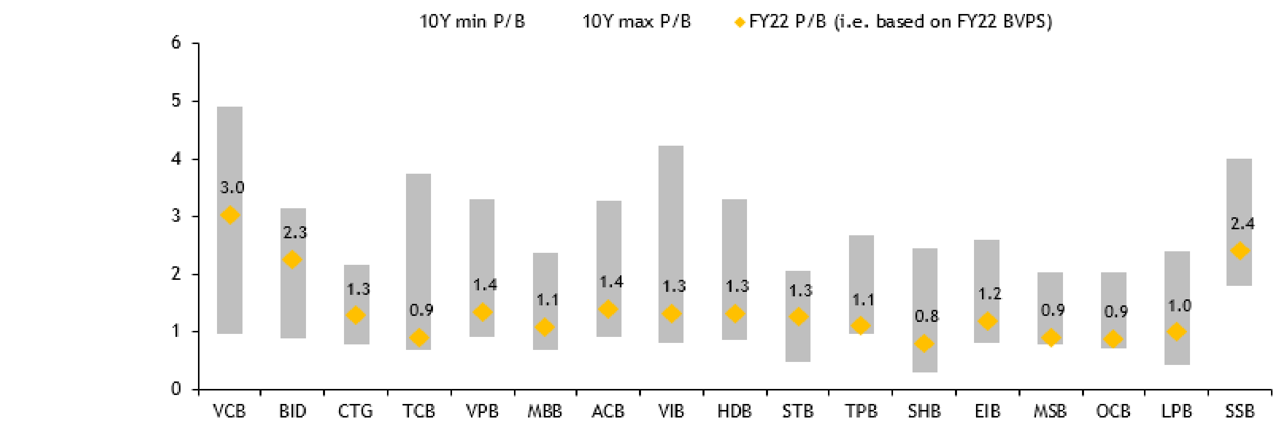


Source: Bloomberg

VN's banking sector has been unduly penalized by the mass retail market's misperception about its asset quality and profitability during Covid in 2H21-1H22. Then another steep correction along with the overall market crash caused by the corporate bond rout in 4Q22 pushed Vietnam bank valuations down to near 10-year lows. VN banks are now trading at 1.3x FY22 P/B and c.1.1x FY23E P/BV on average, which we believe is very undemanding in relation to their robust ROE profiles.

If penciling in an unrealistically bearish outlook that VN banks made ZERO profit in FY23 (i.e. banks would use all their profits to clean up the potential NPLs under the 'very ugly' scenario) and just taking BVPS as of end-2022 as the base to calculate the P/BV, we see that most VN banks are trading at near their 10-year lows. Hence, we believe current valuations have largely priced in our 'ugly'-scenario risks.

Figure 30: VN banks are trading at undemanding valuations again



	VCB	BID	CTG	TCB	VPB	MBB	ACB	VIB	HDB	STB	TPB	SHB	EIB	MSB	OCB	LPB	SSB
FY23E P/B	2.5	1.9	1.1	0.8	1.1	0.9	1.2	1.0	1.0	1.0	0.9	0.7	1.0	0.8	0.8	0.8	2.1
FY23E NP growth	20%	18%	15%	0%	-15%	18%	14%	10%	20%	70%	9%	5%	25%	7%	15%	15%	9%

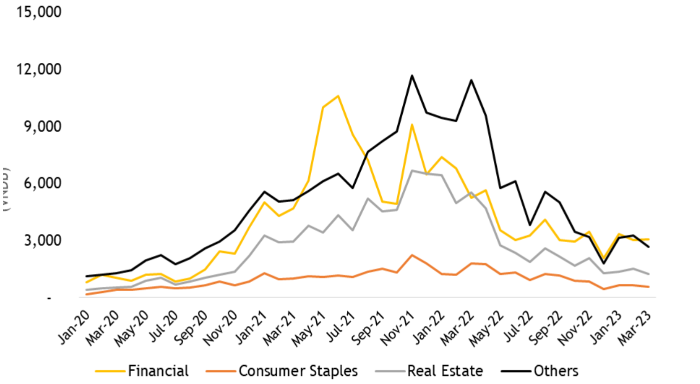
Source: Bloomberg (as of 20th April, 2023)

4.2 When will bank stocks rally again?

We are aware that given on-going mixed views and misperception of the broad market (where retail dominates 88% of stock market turnover), money flows into a big sector like banking (which represents 30% of the benchmark VNIndex) won't likely recover quickly to the 'hey days' like in 2020-1H21. Hence, it will take time for a steady and clear re-rating across the whole banking sector.

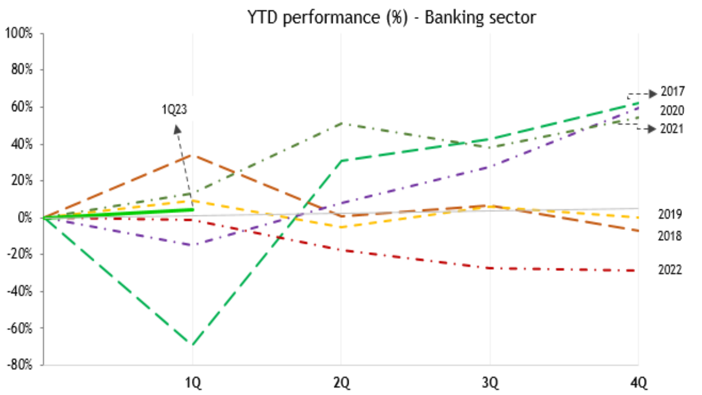
But lessons from 2019-22 showed that Buy-and-Hold quality banks (with capacity to deliver c.18-20% ROE) at distressed valuations will be very rewarding. We believe there is more chance for valuation re-rating than de-rating over a 4-year horizon. Hence, we strongly recommend investors [who can take a long-term view beyond 2023 and aim to ride on Vietnam's long-term story of sovereign-rating upgrade to 'Investment Grade' and stock market upgrade to 'Emerging Market' status] accumulate VN bank stocks now.

Figure 31: Liquidity flows to bank stocks fell sharply due to the retail market's misperception about banks' outlook



Source: Bloomberg

Figure 32: It may take another 2 quarters for the market to recognise the resilience of VN banks



Source: Bloomberg

4.3 Stock picks

We always prefer industry-leading banks with strong ownership and leadership (to steer the banks through turbulent times); clear competitive advantages (i.e. strong fund-raising capacity with high CASA mix, established business models and strong footprint in their targeted segments) underpinning robust growth and ROE for the next 4-year horizon; and a decent buffer to weather shocks (i.e. high CAR and loan-loss coverage).

Hence, our Top Picks are (in this pecking order): **Techcombank (TCB), Vietcombank (VCB)** and **MB Bank (MBB).**

- **TCB** is the 'top-banking platform at a steep discount'; Any improvement in the bond and property markets will benefit TCB the most; Current valuation presents the most upside over a 4-year horizon;
- **VCB** is a 'flight-to-quality' name; plans to raise new capital (nearly 7% stake via private placement to foreign investors) incentivises management to maintain robust results and ROE profile, and the bank has strong financial capacity to deliver this.
- **MBB** is demonstrating a sharper focus on ROE improvement as well as moving faster in developing digital banking capabilities, which will allow it to remain competitive in the long run. Its participation in restructuring a weak bank opens up a larger growth space (i.e. getting more credit growth quotas from the central bank) and potential catalysts from higher foreign ownership limit.

Figure 33: Our Top Picks ranked by preference

	Rating	Remarks	Upside catalysts	Downside risks
TCB TECHCOMBANK	BUY 12M-TP: VND37,800 (1x FY23E P/B, or 1SD below 5-Y average) 3Y-TP: VND100,000 (1.8x FY25E P/B, or 1SD above 5-Y avg.)	- The second largest among private-sector banks by market cap. - Establishing a strong customer base comprising top private-sector corporates, upper SMEs and affluent retail. - The leader in mortgage lending in terms of growth and platform. - Has the best CASA mix among private-sector banks, which sustains its robust NIM of above 5%. - Maintaining the most solid capital base with 15.2% CAR (under Basel 2). - The leader in digital transformation.	- Depressed valuation of 0.8x FY23E P/B, well below sector average of 1.4x, which, in our view, is largely priced in the potential downside risks. Even unrealistically assuming that TCB would make ZERO profit this year by allocating all its earnings for provision, it is trading at only 0.9x FY23E P/BV. These valuation levels offer huge opportunity to accumulate such a bank to ride on Vietnam's growing banking cycle in the long run; while any reforms in the corporate bond and real estate markets taking effect, in our view, will underpin its short-term upside potential. - TCB's management maintains the ambitious strategic objective of USD25b market cap by 2025. This means they need to sustain 18-20% ROE over 2023-25 in order to keep steady expansion in its book value and also to support valuation re-rating. - Potential catalyst: decision to IPO its subsidiary company, i.e. TCB Securities, which would likely command a rich valuation of c.4x P/BV, in our view, equal to that of top listed brokers, thanks to its strong platform for both IB and retail business and robust ROE of above 25%.	- SBV grants limited credit growth quotas. - Prolonged stagnation in property and bond markets could weigh down TCB's asset quality and increase credit cost.
VCB Vietcombank	BUY 12M-TP: VND111,400 (3.0x FY23E P/B, or 5-Y average) 3Y-TP: VND190,000 (3.5x FY25E P/B, or 1SD above 5-Y avg.)	- The largest listed bank by market cap + available foreign room, making it a proxy bank for Vietnam. - Strong balance sheet, with clear cost advantage. - Robust ROE, driven by improving NIM, rising fee income and lower credit cost. - Best-in class asset quality position with 0.7% NPL ratio and 317% LLCR. This all together makes VCB's earnings high quality and offering high visibility.	- The bank has clear room to deliver stronger growth by easing provisions thanks to solid asset quality (low NPL + high loan-loss coverage ratios). - Capital-raising plan (nearly 7% stake) will revitalize market attention towards the stock. Management is expected to deliver stronger results to support the capital-raising plan. VCB will begin the private placement process again from 2023 and aims to complete it in 2024. - VCB, as the proxy bank, will benefit first and foremost from return of foreign funds, especially being one of the key beneficiaries from the VN's market-upgrade story. Its P/BV valuation has chance to rise to 3.5-4.5x as it did in 2018.	- De-rating risk, as VCB's valuation is at a premium level; hence it is more exposed to market volatility
MBB MB	BUY 12M-TP: VND28,300 (1.3x FY23E P/B, or 5-Y average) 3Y-TP: VND54,400 (1.6x FY25E P/B, or 1SD above 5-Y avg.)	- A quasi-State-owned bank - The only listed bank with a full-fledged banking platform for high-growth retail/ consumer finance, asset management and life insurance. - Distinct customer base provides cost advantages. - Along with VCB and TCB, MBB will be an anchor in Vietnam's traditional banking segment, in our view. - MBB is demonstrating clearer focus on ROE improvement as well as moving faster in developing digital banking capabilities, which will keep it competitive in the long run.	- A decent bank for long-term investment with solid ROE of c.20% over the next three years. - Upbeat earnings growth, driven by robust NIM (>5%, which is the top-2 best among traditional banks), strong fee income growth (led by life insurance business and brokerage services), and room to ease provisioning thanks to solid asset quality. - Like other state-owned banks, MBB tends to pay cash dividends. This was suspended during Covid-19 upon SBV's requests to all banks (to strengthen their capital base against potential shocks). The bank plans to resume cash dividends from this year. - Potential divestment of subsidiaries, i.e. brokerage and non-life insurance.	- Full foreign-room limit and high free-float (which exposes the stock largely to local retail traders' sentiment) will continue to affect the valuation discrepancy. - Concerns about its exposure to Novaland and Trung Nam Group (which we think is a manageable risk to MBB, but the general market still has fears) may weigh on its valuation for a while.

For investors with shorter horizons (3-12 months) and active trading strategies, we also highlight below the top VN bank stocks and catalysts/stories.

Note that the ranking below is just based on our observations of banks' prospective stories in 2023, their share price performance in the past and P/BV valuation range, and general market sentiment towards the banks.

	Rating	Remarks	Key stories	Risks
STB Sacombank NGÂN HÀNG SÀI GÒN THƯƠNG TÍN	Not-rated Mkt cap: USD2.03b 3M ADTV: USD21m FY22 P/BV: 1.3x FY23E P/BV: 1.0x FY23E ROE: 20%	- Together with ACB, STB used to be a champion bank among private-sector banks in Vietnam, in terms of size, market share and strength in retail and SME banking. - The merger of Southern Bank in 2015 created a leadership crisis and significant NPL legacy (equivalent to nearly 30% of the consolidated loan book). - STB has been cleaning up the legacy assets over the past five years and plans to complete this by mid-2023. - STB's banking platform (i.e. staff, client base…) remains strong. - It has the largest branch network among private banks and top 4 in both credit balances among private listed banks and fee-income-generating ability.	- Progress in bad-debt resolution (c.87% of the legacy has been resolved) creates high expectation among local retail investors about a strong turnaround story like the case of ACB in 2017. - Management aims for at least 50% YoY profit growth in FY23E, which will bring its ROE back to nearly 18% (from below 13% in previous years). - SBV's plan to auction off c.33% stake in STB will be an event to re-rate the bank. There has been rising expectation about higher auction price given interest from potential buyers.	- The market has high expectations about STB's turnaround story. Many are expecting higher profit growth (at least 70% this year) based on guidance given last November. - Leadership – the question of "who will lead the bank in the next phase post SBV's auction of 33% stake" will define STB's long-term outlook. An unsmooth leadership change would weigh on STB.
BID BIDV	Not-rated Mkt cap: USD9.5b 3M ADTV: USD2m FY22 P/BV: 2.3x FY23E P/BV: 1.9x FY23E ROE: 16.9%	- The second largest listed bank, also a state-owned bank. - 81% owned by the State Bank of Vietnam, 15% by KEB Hana Bank, and 4% free-float.	- Given low CAR (9%), BID had plans to raise new capital in 2021. However, the plan has been delayed to 2023-24 due to extended Covid-19. It plans to issue 341.5m new shares (~8.5% stake). - This plan, along with the bank's lower NPLs (1.2%) and higher loan-loss coverage ratio (217%), is likely to incentivize management to maintain robust profit growth in FY23-24E. Bloomberg consensus estimates BID to achieve c.22% profit growth in FY23E YoY. - BID is trading at 2.3x FY22 P/B and 1.9x FY23E P/BV. Its 5-year P/BV range is 0.9-2.8x	- Delay in raising capital. - Relatively high valuation (i.e. 2.3x FY22 P/BV and 1.9x FY23E P/BV) would expose BID to more market volatility risk if management fails to implement the expected plan, and/or to maintain expected profit growth.
HDB HDBank Cam kết lợi ích cao nhất	Not-rated Mkt cap: USD2.0b 3M ADTV: USD2m FY22 P/BV: 1.3x FY23E P/BV: 1.1x FY23E ROE: 22.4%	- A medium-size lender with top-3 consumer finance subsidiary, HD Saison. - Focusing on retail and SMEs in tier-2 cities and rural areas. - Top-4 most profitable listed bank with ROE of 23.5% (FY22).	- Upbeat earnings outlook from high credit quota and bancassurance deal. HDB is one of the 4 banks participating in restructuring weak banks, which benefits it as it will receive preferential treatment from the SBV (including getting higher credit quota in return). Besides, HDB also aims to seal the bancassurance deal within FY23, which will increase its fee income in future. - Potentially higher FOL. HDB is expected to be one of the two banks with FOL room raised to 49%.	- Delay in bancassurance deal. - Lower-than-expected credit growth amid weakening credit demand

Figure 34: ACB's historical P/BV

Figure 35: BID's historical P/BV

Figure 36: CTG's historical P/BV

Figure 37: HDB's historical P/BV

Figure 38: LPB's historical P/BV

Figure 39: MBB's historical P/BV

Figure 40: MSB's historical P/BV

Source: Bloomberg

Figure 41: OCB's historical P/BV

Source: Bloomberg

Figure 42: STB's historical P/BV

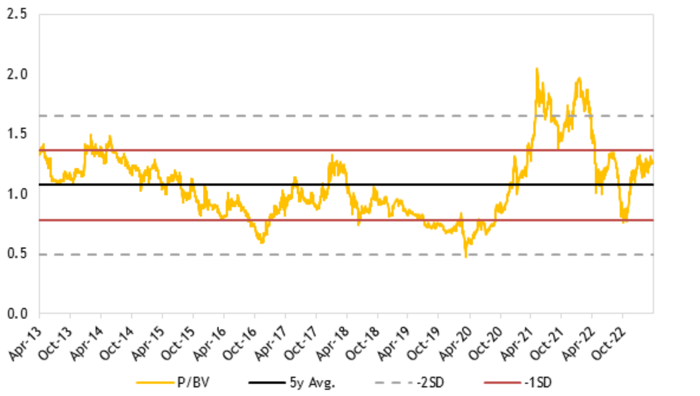
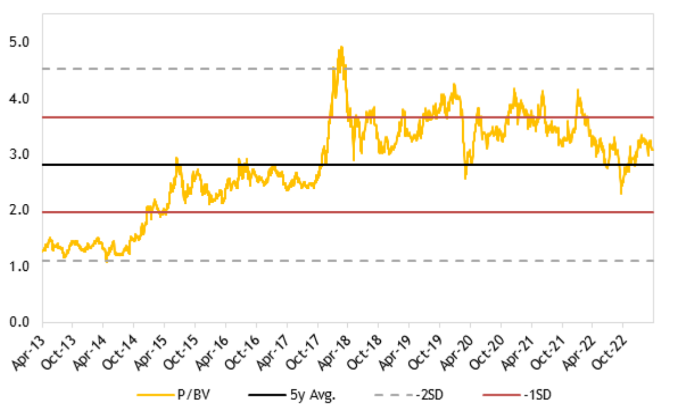


Figure 43: TCB's historical P/BV

Figure 44: VCB's historical P/BV



Source: Bloomberg

Figure 45: VPB's historical P/BV

Source: Bloomberg

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