Maybank Kim Eng

Banks

Vietnam

Vietnam Banks

NEUTRAL *[Downgrade]*

Hoping for the best but keep an eye out for the worst

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Downgrade sector to Neutral

Unprecedented uncertainties caused by the Covid-19 pandemic force us to downgrade our 12-month view on the VN banking sector from Positive to Neutral. If the pandemic is contained by end-June, our long term view is unchanged and still positive as we believe VN banks will see strong growth and profitability over the next five years as the VN market matures. In the worst case scenario where the pandemic prolongs, we see earnings declining 10-29% among listed banks in FY20E on rising credit costs. We believe a sensible strategy now is to wait for the sky to get clearer to enter/add bank stocks, OR to buy in when their valuations reach distressed levels, i.e. 10-year lows. Our top two picks are: VCB and ACB.

Covid impact - two scenarios

Our base case is that the pandemic is contained by end-June, and the worst case is that it prolongs beyond this. Under the base case, we expect: VN's 2020 GDP growth decelerates to c.5%; sector credit grows 10%; NPLs controlled below 3% and earnings growth of 10-15%. In the worst case, GDP could drop to below 3%, sector-wide credit growth falls to an unprecedented low of 5%; banks' earnings decline by 10-29% as NPLs rise back to 2012-13 levels of c.16%, and we estimate it would take VN banks about 4 years to resolve the NPL issue.

Valuation at 5-year lows

Share prices of the 11 largest listed VN banks dropped 18% YTD on average, sending their P/BV valuations down to 5-year lows. We think the current valuation has overly priced in Covid impacts under our base case given their stronger banking platforms and higher ROEs than five years ago. Were the base case to pan out, we believe revived confidence will help rerate VN banks, representing c.26% upside on average. Under the worst case, fear and concerns about asset quality risks, and falling earnings growth could depress banks' valuations further; we estimate there could be an additional 17-40% downside risk for stocks under our coverage.

When to buy?

Investors should wait for the outlook on the pandemic containment to become clearer before making new investments/re-entering. If valuations fall to distressed levels of about 0.8x P/B on average (during 2012-13), we believe it would be an opportune time to accumulate shares, especially those banks with full foreign room.

Stock	Bloomberg code	Mkt Cap (USD m)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 19A	20E	21E	P/B (x) 19A	20E	21E	ROE (%) 19A	20E	21E
Vietcombank	VCB VN	14,358	BUY	70,600	85,600	21.2%	15.8	14.2	12.2	3.2	2.7	2.3	23.2	20.7	20.3
VP Bank	VPB VN	2,092	BUY	18,650	25,300	35.7%	5.5	4.9	4.4	1.1	0.9	0.7	21.5	19.6	18.3
MB Bank	MBB VN	2,076	BUY	15,550	19,500	25.4%	4.3	4.3	3.7	1.0	0.8	0.7	22.1	20.6	19.7
Asia Commercial Bank	ACB VN	1,621	BUY	19,800	29,200	47.5%	5.5	4.9	4.7	1.2	0.9	0.8	24.2	21.5	18.8

SEE PAGE 16 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

1. Summary of Covid pandemic's impacts on VN banks under our coverage

	Base case		Worst case
	Covid pandemic controlled by end-June GDP growth: 5% Credit growth: 10% NIM declines by 20-30bps Fee incomes growth: 10-15% Credit-cost rate stable/slightly increases by 10bps		Covid pandemic prolongs beyond June GDP growth: 3% Credit growth: 5% NIM declines by 50-70bps Fee income stays flat or drops by c.20% Credit-cost rate reaches previous crisis-time level
	FY20E	**FY21E**	**FY20E**
Impacts on Vietcombank (VCB) earnings			
Est. Profit after tax (VND b)	20,427	23,789	16,673
YoY growth	10.8%	16.5%	-10.0%
Deviation from our previous forecast	-13%	-15%	-29%
Est. BVPS (VND)	25,938	30,906	25,028
Est. ROE	20.7%	20.3%	17.3%
Target P/B (x)	3.3	3.3	1.7
Target price (VND)	**85,595**	**101,990**	**42,548**
Upside/downside risk	*21.2%*	*44.5%*	*-39.7%*
Impacts on VPB earnings			
Est. Profit after tax (VND b)	9,188	10,341	5,850
YoY growth	11.2%	12.6%	-29.0%
Deviation from our previous forecast	-7%	-10%	-41%
Est. BVPS (VND)	21,084	25,326	19,714
Est. ROE	19.6%	18.3%	13.0%
Target P/B (x)	1.2	1.2	0.7
Target price (VND)	**25,301**	**30,391**	**13,800**
Upside/downside risk	*35.7%*	*63.0%*	*-26.0%*
Impacts on MBB earnings			
Est. Profit after tax (VND b)	9,018	10,398	6,614
YoY growth	11.8%	15.3%	-18.0%
Deviation from our previous forecast	-11%	-13%	-35%
Est. BVPS (VND)	19,452	23,026	18,486
Est. ROE	20.6%	19.7%	15.5%
Target P/B (x)	1.0	1.0	0.7
Target price (VND)	**19,452**	**23,026**	**12,940**
Upside/downside risk	*25.1%*	*48.1%*	*-16.8%*
Impacts on ACB earnings			
Est. Profit after tax (VND b)	6,803	7,116	5,108
YoY growth	13.2%	4.6%	-15.0%
Deviation from our previous forecast	-6%	-8%	-29%
Est. BVPS (VND)	20,861	24,153	19,837
Est. ROE	21.8%	19.1%	16.8%
Target P/B (x)	1.4	1.4	0.8
Target price (VND)	**29,205**	**33,814**	**15,870**
Upside/downside risk	*47.5%*	*70.8%*	*-19.9%*

Source: MBKE estimates

2. Two scenarios of Covid pandemic

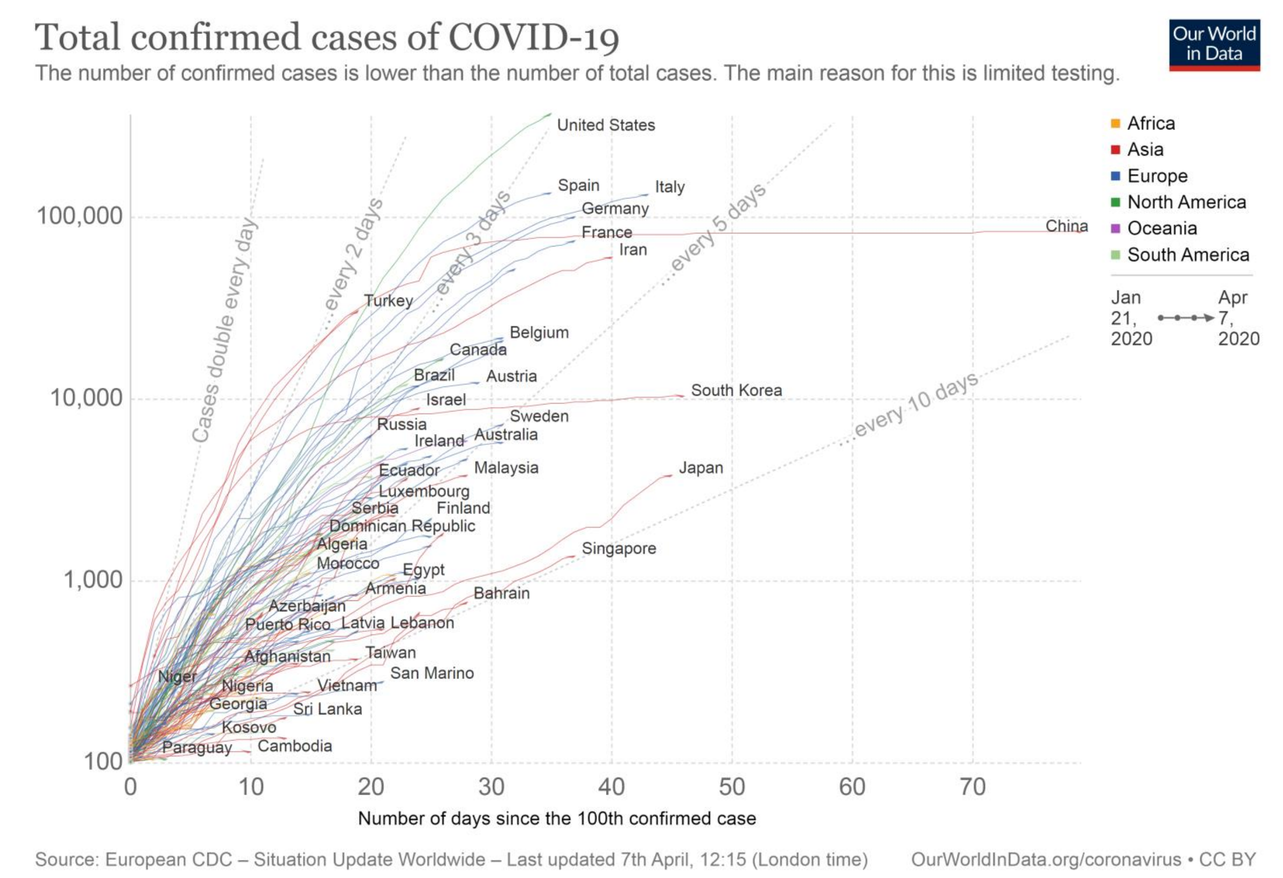
2.1. Contemplating unsettling outlook

Covid-19 has caused unprecedented disruptions to social and economic activities. Travel restrictions, quarantines and social-distancing measures will inevitably result in slower economic growth and considerable downside risks to corporate earnings.

Most of us had underestimated the Covid-19 virus until March 2020. We had expected that the virus could be contained by end-April, and that the global economy would recover quickly in remaining months of 2020. However, we now see that this optimistic scenario is unlikely to happen given the current situation. We now adopt a base-case scenario where we see the pandemic being controlled by end-June.

According to our observations and talks with bankers in Vietnam, this appears to be similar to their assumptions for their revised 2020 business targets.

Figure 1: Covid-19 evolution in the world



Source: European CDC

Yet, we are aware there remains a risk that the pandemic may prolong; it may last through 3Q20 or even through 1H21, and we must prepare for such a worse case.

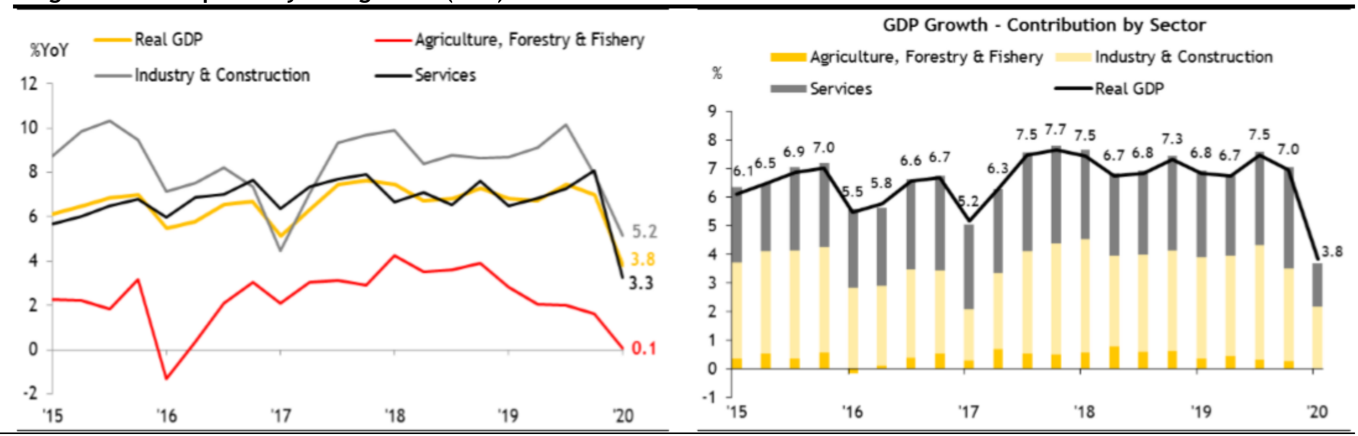
The reality maybe takes its form somewhere between June 2020-June 2021. But, from a bank-analytics perspective (particularly in consideration of asset quality), we simplistically assume two scenarios only: the base-case (disease to be controlled by June 2020), or the worst case (disease prolongs beyond June).

2.2. Impact on Vietnam's economy

The pandemic has and will negatively impact Vietnam's economic growth via a slowdown in domestic retail consumption (C), private and FDI investment (I), and export-import (NX).

Vietnam's 1Q20 GDP growth decelerated to 3.8% YoY, the lowest reading since June 2009.

Figure 2: VN's quarterly GDP growth (YoY)



Source: GSO Vietnam

- Within the retail consumption component ("C" which accounts for 65% of GDP), tourism and hospitality services have seen the greatest hit from the pandemic, with sales dropping of 62% and 27% YoY, respectively. Other domestic consumption components still help up fairly well, which underpinned 4.7% YoY nominal growth and 1.6% YoY real growth in retail sales in 1Q20.

- Regarding the Government spending ("G"), we just looked at the government investment aspect and observed that government investment sped up in 1Q20 by +5.8% YoY, and buffered the slowdown in private and FDI investment ("I"). Given the healthier position of its public debt (~55% of GDP vs. 65% limit) and fiscal deficit (-3.5% vs. -5% limit), the government has enough room to boost government spending and public investment (i.e. infrastructure projects) to stimulate the economy in the following months in order to mitigate impacts of the Covid pandemic on other segments.

- Private-sector investment decelerated to only 4.2% YoY (vs. mid-teens level in 2017-18) and FDI-sector investment declined 5.4% YoY. Note that the committed FDI figure still increased 29% YoY. In our view, we don't think this pandemic changes the fundamental grounds for FDI-inflow into Vietnam. Thanks to its geographical location, labour competitiveness, and active engagement in free trade agreements, Vietnam will continue to benefit from "China+1 strategy" of multinational corporations (MNCs).

- NX (net exports) in 1Q20 was actually 67% higher than 1Q19 as imports decelerated (-2% YoY) faster than exports (+0.4% YoY). Export restrictions in major markets like the US and EU will show up in 2Q20 statistics. But we are not too concerned about the drop in NX (partly because we think that a positive balance will be maintained as import growth tends to be linked to exports, particularly in the case of Vietnam). Instead, we are more concerned about the impact on domestic jobs/income growth if the slowdown in exports prolongs.

1Q20 macro statistics demonstrated how the Covid-19 pandemic would hurt Vietnam's economy. We think the pattern will continue in 2Q20 macro readings.

The longer the pandemic prolongs, the more severe the impacts would exert on the economy. Extended travel restrictions/social distancing would result in rising business closures, rising unemployment and higher sense of job insecurity, which would then dampen domestic consumption. This is the worst-case scenario that we hope does not occur.

Combining the projections by various regional and local economists, we contemplated two scenarios for Vietnam's economic growth as below:

Base case	Worst case
• Pandemic contained by June-2020 • Normal business resumed in 3Q20 (Government spending + Revenged consumption took the lead) • Full recovery in 4Q20 (including investment, FDI, exports) • **GDP growth of 4.8-5%**	• Pandemic prolongs beyond June-2020 • (Government spending + core domestic consumption support growth) • **GDP growth of 2.8-3%**

3. Impacts on banking sector

First and foremost, in response to investors' initial concerns, we strongly believe that neither liquidity nor FX risk represents a concern for VN banks during the Covid-19 pandemic time – there will be no bank failures for the following reasons:

- Compared to ten years ago, Vietnam's banking system today stands on a much stronger footing, including a stronger regulatory framework. Stricter regulations (including regular reporting of operational ratios, i.e. asset-labilities duration match and LDR being maintained below 80%) and stronger risk management capacity of local banks ensure that VN banks are now much less likely to face liquidity or FX risks in the case of an event-driven crisis like the Covid pandemic.

- Vietnam's central bank always stands ready to support local banks' liquidity. The central bank's stance so far is to avoid any bank failures in order to prevent social panic / bank runs.

- Regarding FX risk, Vietnam banks rely mainly on local funding (i.e. customer deposits and bonds). Just a handful of private-sector banks started borrowing offshore in the last three years. These are fast-growing banks, which need to supplement their funding base while developing their local deposit franchise, including: VPB, VIB, TPB and OCB. Total USD borrowings of the most active bank (VPB) accounted for less than 3.5% of its total liabilities (as of end-2019). These offshore USD borrowings are strictly monitored by the central bank, and all have so far been hedged against FX risk via currency swaps.

Clearly, the pandemic will impact VN banks' earnings growth and profitability due to slower growth in credit, lower NIMs, and higher credit costs due to rising NPLs.

Magnitude of the pandemic's impacts on banks depends on how long it will last; with the key risk stemming from a surge in NPLs (were the pandemic to prolong through September 2020).

Impacts on key earnings growth drivers

i) Credit growth

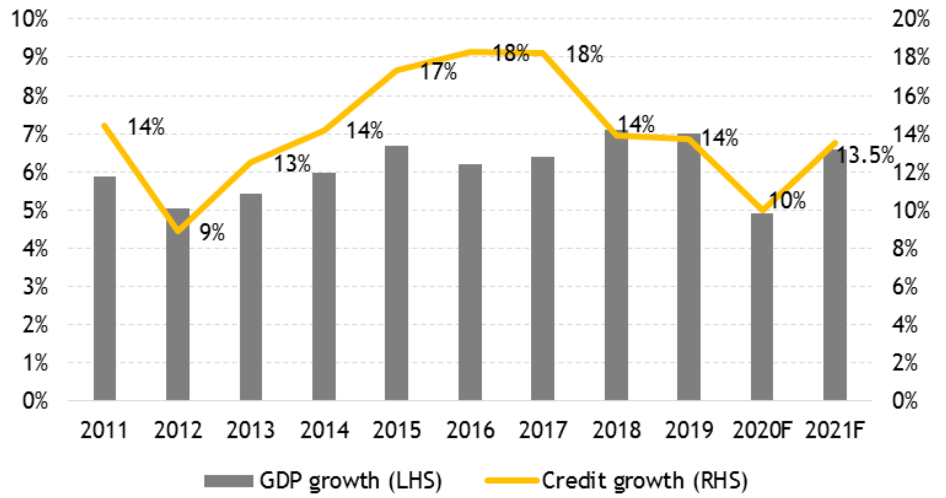
- Credit growth slowdown is inevitable due to depressed demand. Credit growth decelerated to 12.1% YoY in March 2020, from 13.6% in March 2019 and 13.7% in December 2019.

- Under our base case, we project FY20E credit growth would decelerate to around 10% YoY (from 13% previously), driven by construction (+15% YoY), manufacturing (8% YoY) and retail lending (including consumer finance at c.12%).

- Under the worst case, we project FY20E credit growth would drop to around 5%, supported by c.10% growth in construction credit, 5% in manufacturing and 7% in retail lending.

  We expect the government would speed up infrastructure projects to stimulate domestic demand.

Figure 3: Vietnam's credit growth will decelerate in 2020 due to depressed demand (base-case projections)



Source: GSO, MBKE estimates

ii) Net interest margin (NIM)

- NIM would contract because banks have cut lending rates to support local businesses hit by the Covid pandemic.

- Note that lending-rate cut decisions are made by banks themselves, not by policy mandate. The VN central bank has been encouraging and supporting local banks to reduce lending rates by its policy moves controlling and reducing customer deposit rates and offering cheaper funding via Open Market Operations (OMO). Hence, local banks decide the magnitude of lending-rate cut based on their cost-of-fund management.

- Under the base case, we project VN banks' NIM would contract by 20-30bps, assuming that all new loans and existing loans hit by the pandemic (c.25% of a bank's total loans, typically) would enjoy a c.1%-lower lending rate on average.

- Under the worst case, besides the impact from lower lending rates, NIM would be depressed by potential writedown of interest income; we project VN banks' NIM could shrink by 50-90bps.

Currently, VN banks allow debt moratorium for the pandemic-hit loans without reclassifying them to lower loan groups (i.e. NPLs). So, for the period from Jan-June (likely till Sep 2020), banks would still book interest income from these loans (no real cash flows, just accounting). Should things go well as expected, these loans would remain performing assets and banks would get due principal and interest payments (real cash flows) in the following quarters.

However, in the worst case where the pandemic prolongs and many borrowers become insolvent, these loans become real NPLs. As such, banks would have to write down the interest income (that they booked in earlier quarters), which would depress NIM in 4Q20 and potentially through 2021 (as some banks may decide to spread out the writedown). This practice also happened in 2012-14 when VN banks faced their first NPL crisis where sector NPL ratio peaked at 17.2% in 2012.

Figure 4: Average NIM of VN listed banks (2020E base case)

	2012	2013	2014	2015	2016	2017	2018	2019	2020E
Average of listed banks	**3.7%**	**2.9%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.4%**	**3.7%**	**3.4%**
VCB	3.0%	2.6%	2.4%	2.6%	2.7%	2.6%	2.9%	3.2%	3.0%
VPB	3.7%	4.4%	4.3%	6.4%	7.7%	8.8%	9.0%	9.6%	9.2%
MBB	4.6%	3.7%	3.8%	3.8%	3.6%	4.2%	4.6%	4.9%	4.7%
ACB	3.7%	2.9%	3.0%	3.3%	3.4%	3.5%	3.6%	3.6%	3.3%

Source: Company, MBKE estimates

iii) Credit costs

- According to the central bank's statistics as of early March 2020, about USD40b or 11.3% of sector-wide loans are being affected by Covid. This includes loans made to various sectors: agri-fisheries, export-import, tourism, hospitality/restaurant, beverage, transport/ logistics, textiles & garments, electronics, education, oil & gas.

- In mid-March, the central bank issued a regulation (Cir.01/2020) on debt moratorium. Accordingly, local banks will delay/reschedule loan principal & interest payment for borrowers hit by the pandemic. Banks are allowed to reschedule those loans without downgrading them to lower loan classification. This is applicable to the [principal/interest/fee] payments due in the period from 23 Jan until 90 days post the date when Vietnam (will) declare pandemic-end.

- This is a needed policy action to support both banks and companies hit by the pandemic. Other countries like Singapore have also enforced this measure to help banks avoid a sudden jump in credit costs in the mid-term.

- Under our base case, we expect the pandemic to be contained by end-June and that affected businesses recover in 2H20. As such, NPLs would remain under control; and along with the debt-moratorium regulation, the banks can manage their credit-cost rates at about 10-20bps higher than 2019 levels and remain relatively stable for those banks that have high loan loss coverage e.g. VCB.

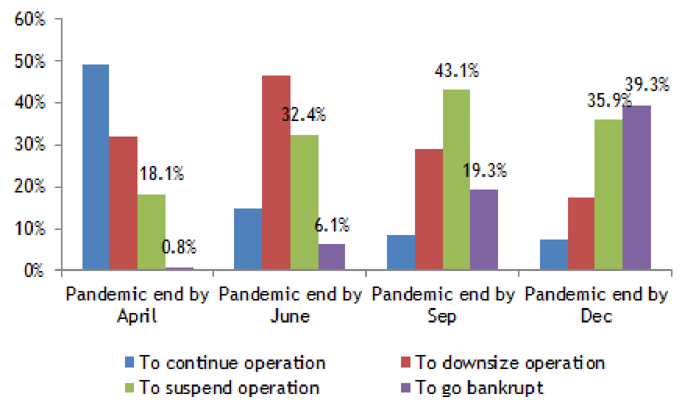
Figure 5: Average credit-cost rates of VN listed banks

	2012	2013	2014	2015	2016	2017	2018	2019	2020E
Average of listed banks	**1.7%**	**1.5%**	**1.6%**	**1.9%**	**1.9%**	**1.5%**	**1.4%**	**1.4%**	**1.5%**
VCB	1.5%	1.4%	1.5%	1.7%	1.5%	1.2%	1.3%	1.0%	1.0%
VPB	1.2%	2.3%	1.5%	3.4%	4.1%	4.9%	5.6%	5.7%	5.7%
MBB	3.0%	2.3%	2.1%	1.9%	1.5%	1.9%	1.5%	2.1%	1.9%
ACB	0.5%	0.8%	0.9%	0.7%	0.8%	1.4%	0.4%	0.1%	0.2%

Source: Company, MBKE estimates

- Under the worst case scenario, the amount of the affected loans really going bad would increase because borrowers go bankrupt. A reference from a recent survey by Hanoi National University of Economics showed that c.75% of companies may stop operating if the pandemic lasts through 3Q20 (Fig 6). In the worst case, all the affected loans mentioned above (c.11.3% of total sector loans) go bad, Vietnam's banking system would likely repeat the 2012 NPL story (Fig 7).

Figure 6: Corporate responses to Covid-19 pandemic scenario (survey sample size: 1,200 companies in Vietnam)



Source: National University of Economics - Hanoi

Figure 7: VN system-wide NPLs

	2012	2016	2017	2018	2019
Sector-wide					
All-in NPLs (VND tr)	505	527	476	444	368
Growth (yoy %)			*-9.73%*	*-6.73%*	*-17.2%*
All-in NPL ratio	**17.2%**	**10.1%**	**7.7%**	**6.3%**	**4.6%**
Reported NPLs (VND b)	126	129	124	133	151
Growth (yoy %)			*-3.90%*	*7.70%*	*13.6%*
Reported NPL ratio	**4.30%**	**2.46%**	**2.0%**	**1.89%**	**1.89%**

Source: SBV, Company

In the last NPL downcycle, it took VN banks nearly 7 years to clean up the mess. This time, as banks' strategy and platforms and with the Vietnam Asset Management Company (VAMC) in place, we think it would take about 3-4 years to resolve, in our view.

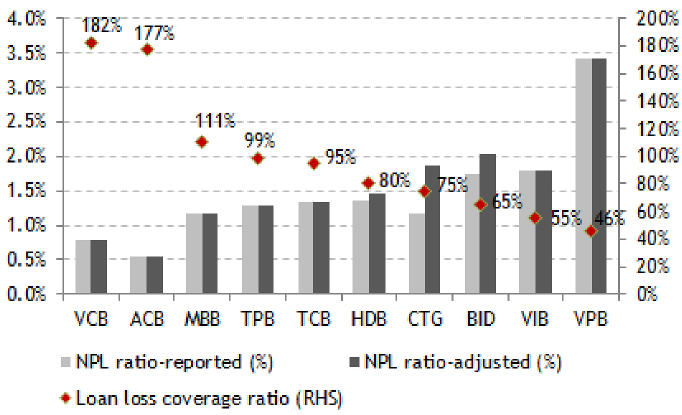
Banks that will be most affected under the worst case are those with higher exposure to downstream customer segments (i.e. MSMEs and unsecured lending, i.e. consumer finance) and/or have a lower buffer against asset quality shock (i.e. low loan loss coverage) namely: BID, VIB, HDB, and VPB.

Figure 8: VN listed banks' loan mix

(ranked by Mkt Cap)	Whole-sale	SME	Retail	Unsecured retail loans (Consumer finance)
VCB	48%	9%	41%	2%
BID	37%	28%	35%	
CTG	45%	26%	29%	
TCB	43%	17%	40%	
VPB	28%	14%	35%	24%
MBB	24%	36%	36%	5%
ACB	6%	33%	60%	
HDB	5%	46%	41%	9%

Source: SBV

Figure 9: VN listed banks' current asset quality position



Source: National University of Economics

4. Earnings outlook

In our VN Banking Strategy report dated 03 Jan, 2020, we projected the aggregate profit of 12 of the largest listed VN banks would grow by c.21% in FY20E (vs. 29% YoY growth in FY19), driven by 13-14% credit growth, c.20% fee income growth, stable NIM and credit-cost rates. We upheld these forecasts until mid-March as we initially expected that the Covid virus could be contained by end-April, 2020. However, we now see that it is challenging for this scenario to materialize.

We therefore revisited FY20E earnings forecasts for the banks under our coverage (including VCB, VPB, MBB and ACB) in view of the two scenarios above.

- Under the base case scenario, we forecast FY20E sector earnings growth to decelerate to c.11-13% YoY (from 20-26% YoY previously), largely due to lower credit growth, lower NIM and slightly higher credit-cost rates than previous forecasts.

- Under the worst case scenario, we applied the highest credit-cost rates experienced by each bank during FY2008-2019 and slashed credit growth to c.5-6% for each bank. We also lowered NIM forecasts by 50-70bps and cut non-NII growth to negative (up to -20% YoY, simply based on historical growth trends). On the other hand, we also expect banks would try to reign in opex under such a circumstance to cope with pressure on other earnings drivers.

  As such, FY20E earnings of the four banks under our coverage could drop between 10-29% YoY, with VPB being hit the most due to its high exposure to consumer finance, followed by MBB, ACB, and VCB. This ranking also demonstrates the fact that VCB and ACB are the banks that currently have higher buffers, i.e the highest loan loss coverage (c.180% each), followed by MBB (110%) and VPB (50%).

Figure 10: Earnings forecasts for VCB, ACB, MBB and VPB

	Base case		Worst case
	Covid pandemic controlled by end-June GDP growth: 5% Credit growth: 10% NIM declines by 20-30bps Fee incomes growth: 10-15% Credit-cost rate stable/slightly increases by 10bps		Covid pandemic prolongs beyond June GDP growth: 3% Credit growth: 5% NIM declines by 50-70bps Fee income stays flat or drops by c.20% Credit-cost rate reaches previous crisis-time level
	FY20E	**FY21E**	**FY20E**
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Deviation from our previous forecast	-6%	-8%	-29%
Est. BVPS (VND)	20,861	24,153	19,837
Est. ROE	21.8%	19.1%	16.8%

Source: MBKE estimates

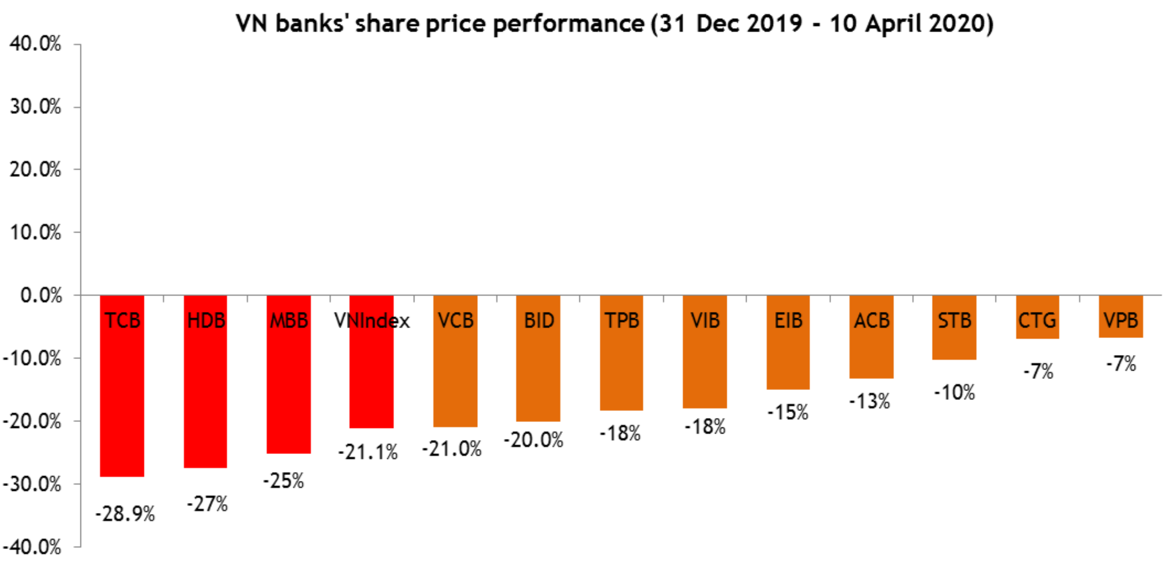
5. Valuation and recommendation

5.1. Steep fall in valuation is factoring worse than our base case assumptions

Share prices of the 11 largest listed VN banks dropped 18% YTD on average, due to uncertainties and fear about the spread of Covid-19.

Banks with relatively higher premium valuations (e.g. VCB and BID) and those with exposure to more sensitive segments, i.e. consumer finance, Vingroup-related, and those that were traded on high-leverage (or margin) by local retail investors faced the most severe sell-off (TCB, HDB, MBB and VPB). Note that VPB fell only 7% YTD but 38% from its peak on 21st Feb, 2020.

Figure 11: VN listed banks' share price performance YTD



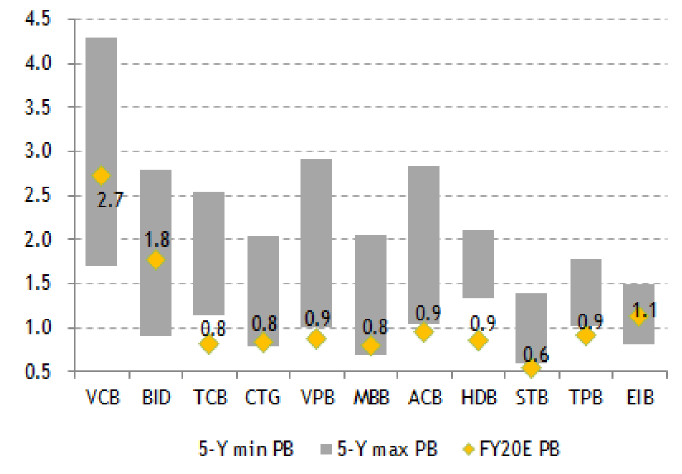
Source: Bloomberg

In our view, the current valuation has overly priced in the potential impacts of the Covid-19 pandemic on VN banks under the base case scenario.

- Under the base case scenario, VN banks would maintain decent FY20E earnings growth of 11-13% and still strong ROEs of 16-20% (for the leading banks such as VCB, ACB, MBB, TCB and VPB), according to our estimates. Most of the VN banks are trading at 5-year P/B lows, while their banking platforms and profitability (ROE) have improved significantly as compared to five years ago.

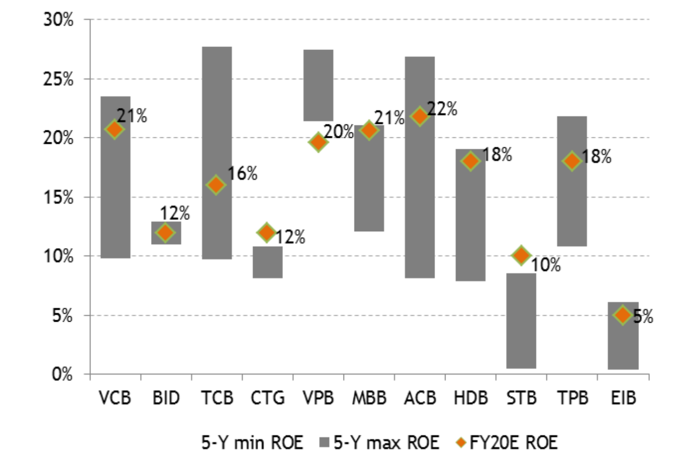
- Were the base case scenario to happen, we believe confidence would return to VN bank stocks. We estimate there would be c.26% upside on average for VN banks as average FY20E P/BV valuation could be re-rated from an average 1.1x P/BV currently to nearly 1.4x P/BV as it was at the start of 2020.

Figure 12: VN bank's 12-m forward P/B range (last 5 years)



Source: Company, Bloomberg consensus, MBKE estimates (for VCB, VPB, MBB and ACB) (as of 10 April 2020)

Figure 13: VN banks' ROE (FY20E vs. 5-year range)



Source: Company, Bloomberg consensus, MBKE estimates (for VCB, VPB, MBB and ACB) (as of 10 April 2020)

In our worst case scenario where the pandemic prolongs, we estimate there would possibly be an additional c.23% downside risk on average for the 11 VN listed banks, which would be driven by both lower earnings growth and further derating risks.

- In the estimation below, we projected the worst-case financials for VCB, VPB, MBB and ACB, and pencilled in other banks' crisis-time (2012-13) ROEs to estimate their FY20E BVPS for the worst case scenario. We assumed a -2SD below 5-year average or a historically low P/BV multiple to estimate a 12-month target price and potential downside risks for each of the VN listed banks.

Figure 14: VN banks' downside risk in the worst case

Listed banks	Current price (VND)	Mkt Cap (USD m)	FY19 BVPS	FY20E ROE	FY20E BVPS	Target P/BV	Target price	Downside risk
VCB	70,600	11,238	23,099	17.3%	25,028	1.7	42,548	-40%
BID	36,900	6,370	18,560	8.0%	20,045	1.2	24,054	-35%
CTG	16,750	3,108	17,651	13.0%	19,946	0.7	13,962	-17%
TCB	19,450	2,516	20,624	8.0%	22,274	0.8	17,819	-8%
VPB	18,650	1,951	17,318	13.0%	19,714	0.7	13,800	-26%
MBB	15,550	1,612	16,338	15.5%	18,486	0.7	12,940	-17%
ACB	19,800	1,408	16,754	16.8%	19,837	0.8	15,870	-20%
HDB	20,000	837	19,560	13.0%	22,103	0.7	15,472	-23%
EIB	9,010	799	14,826	0.5%	14,901	0.5	7,450	-17%
STB	17,200	697	15,818	13.0%	17,874	0.8	14,300	-17%
TPB	15,150	610	12,810	0.5%	12,874	0.8	10,299	-32%
AVERAGE		2,832		10.8%		0.9		-23%

Source: Bloomberg, MBKE estimates for VCB, VPB, MBB and ACB.

5.2. When to buy VN banks?

First and foremost, we hope investors do not lose sight of the long-term growth story of the Vietnamese market and banks. For a 5-to-7-year investment horizon, we uphold a strong conviction that VN banks represent the most-rewarding opportunities, because their ROEs over this horizon will remain the most attractive in the region (at 18-20% for leading banks) underpinned by improving ROAs (i.e. to about 1.8-2% driven by rising fee incomes) and balanced regulations (that allows VN banks to maintain reasonable balance-sheet gearing of around 10x). Moreover, we believe the economy and the stock market will continue on its path towards development.

Whilst we expect the base case scenario to happen, we understand that it is critical to also prepare for the worst case outlook. Uncertainties and fear could give rise to extreme volatility in the stock prices.

Hence, we believe a sensible strategy is to wait for the sky to become clearer (i.e. the base-case to materialize) OR to wait for distressed valuations (to factor in worst case downside risks) before buying/adding bank stocks.

We prefer leading banks with strong ownership and leadership (to support and steer the banks through this turbulent time); clear competitive advantages (i.e. strong fund-raising capacity, established business models and strong footprint in their targeted segments); and a decent buffer to weather a mid-term shock (i.e. high loan loss coverage and CAR). These banks will likely recover faster when the pandemic is contained and confidence returns to the market.

Our picks in terms of preference: **Vietcombank (VCB), Asia Commercial Bank (ACB), MB Bank (MBB) and VPBank (VPB).**

For VPB, we would recommend waiting for uncertainties around the pandemic to retreat before entering/adding the stock in order to benefit from the strategic sale of its consumer finance subsidiary (FE Credit) which is currently valued (implied by current VPB share price) at ~0.5x its FY19 P/BV while the market-transaction-based valuation suggests FE Credit could command a 3-3.5x P/BV.

Figure 15: Target price for VCB, VPB, MBB and ACB – Upside vs. downside risks

	Base case		Worst case
	FY20E	FY21E	FY20E
Impacts on Vietcombank (VCB) earnings			
Est. Profit after tax (VND b)	20,427	23,789	16,673
YoY growth	10.8%	16.5%	-10.0%
Est. BVPS (VND)	25,938	30,906	25,028
Est. ROE	20.7%	20.3%	17.3%
Target P/B (x)	3.3	3.3	1.7
Target price (VND)	**85,595**	**101,990**	**42,548**
Upside/downside risk	*21.2%*	*44.5%*	*-39.7%*
Impacts on VPB earnings			
Est. Profit after tax (VND b)	9,188	10,341	5,850
YoY growth	11.2%	12.6%	-29.0%
Est. BVPS (VND)	21,084	25,326	19,714
Est. ROE	19.6%	18.3%	13.0%
Target P/B (x)	1.2	1.2	0.7
Target price (VND)	**25,301**	**30,391**	**13,800**
Upside/downside risk	*35.7%*	*63.0%*	*-26.0%*
Impacts on MBB earnings			
Est. Profit after tax (VND b)	9,018	10,398	6,614
YoY growth	11.8%	15.3%	-18.0%
Est. BVPS (VND)	19,452	23,026	18,486
Est. ROE	20.6%	19.7%	15.5%
Target P/B (x)	1.0	1.0	0.7
Target price (VND)	**19,452**	**23,026**	**12,940**
Upside/downside risk	*25.1%*	*48.1%*	*-16.8%*
Impacts on ACB earnings			
Est. Profit after tax (VND b)	6,803	7,116	5,108
YoY growth	13.2%	4.6%	-15.0%
Est. BVPS (VND)	20,861	24,153	19,837
Est. ROE	21.8%	19.1%	16.8%
Target P/B (x)	1.4	1.4	0.8
Target price (VND)	**29,205**	**33,814**	**15,870**
Upside/downside risk	*47.5%*	*70.8%*	*-19.9%*

Source: MBKE estimates.

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SELL	Return is expected to be below 0% in the next 12 months (including dividends)

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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