Takeaways from 2019 Vietnam Economic Conference

Baby steps toward a diversified credit market

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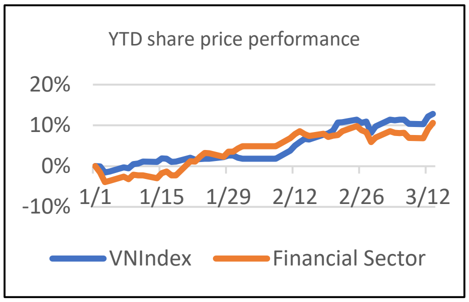
Event: We attended the 2019 Vietnam Economic Conference, an annual event held by the *Vietnam Economic Times*, on March 12. Conference speakers included key economic decision makers in the government and financial industry. This note presents the key takeaways for the banking sector.

Banks vs. VNIndex

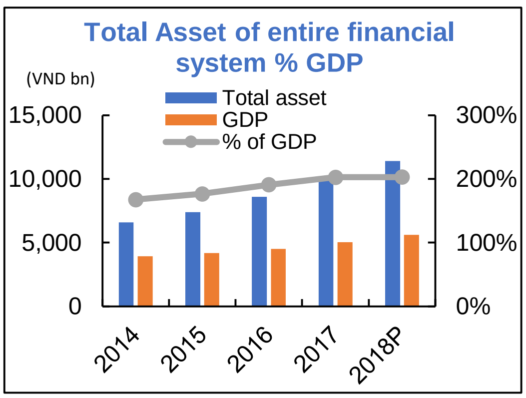


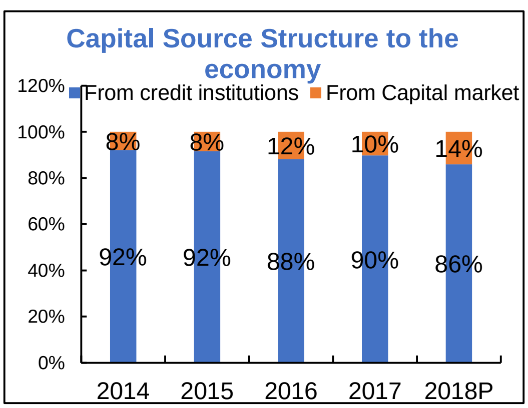
Themes and catalysts

- 2019 policy confirmed as c.14% credit growth, reduction of banks' exposure to real estate developers.
- Policymakers recognize the need to develop bond market, and the related hurdles.
- Banks to focus more on non-interest income, less on loan growth.

Risks

- Loans / GDP is high and rising (134%, +4.6ppt YoY).
- Obstacles to corporate bond market: quality of corporate financial disclosures, costs of obtaining credit ratings.
- Data and other IT risks are very much on bankers' minds.





Source: GSO, NFSC

Bank Coverage

Code	Rating	ADT USDm	Current price (VND)	Target (VND)
BID VN	Buy	1.8	35,600	38,713
STB VN	Buy	2.1	12,900	14,049

Suorce: Yuanta Vietnam

Policymakers: Financial system remains overly bank centric. with system loans to GDP at 134% at 2018 (+4.6% YoY). This implies the need for a more developed corporate bond market. Currently, outstanding corporate bonds to GDP is only 7%, far below the ASEAN region at 21%. Corporate bond issuance will also help enterprises reduce their dependence on bank loans, while banks (and bank subsidiaries) engaging in corporate bond issuance boost their non-interest income from doing so.

Obstacles to the development of corporate bond market were a key focus of the discussions. Many corporates are reluctant to issue bonds due to investor demands for compliance with international accounting standards (i.e., IFRS), which the corporates may be unable to apply, or unwilling to do so given the increased transparency. Lack of reliable credit ratings is another barrier as the expense of international credit agencies cause corporates to balk, while domestic agencies lack credibility with investors.

No surprises on the macro outlook. Policymakers target 2019 credit growth of 14% focused on priority sectors such as manufacturing and agriculture and a reduction in credit exposure to property. Interest rates are likely to remain stable this year under subdued domestic inflation and the assumption of no external shocks.

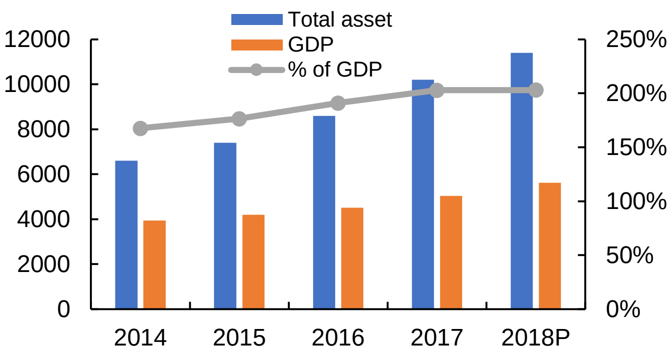
Bankers: Non-interest income is the key going forward. Bank leaders discussed transaction banking and bancassurance as key areas of focus. Risk management was also a main discussion point, with bankers highlighting the need to protect customer data privacy and other IT requirements.

Our view: The corporate bond market is only in its nascence and its development will take years. Although this represents bank disintermediation, we still see it as a long-term positive because 1) financial diversification strengthens the overall system, 2) financial diversification also increases investment options, and 3) banks that are able to capture the flows will benefit on the non-interest income line.

We reiterate our Buy ratings on STB and VID. With bank balance sheets highly leveraged and loans / GDP already high, we agree that banks must focus on generating non-interest income as a means of generating profitability. Those with large customer-based, wide range of branches and networks, good customer service, and modern IT system will take the lead. We reiterate our Buy recommendations on Sacombank (STB VN, 11% 12-m TSR) and BIDV (BID VN, 9% 12-m TSR).

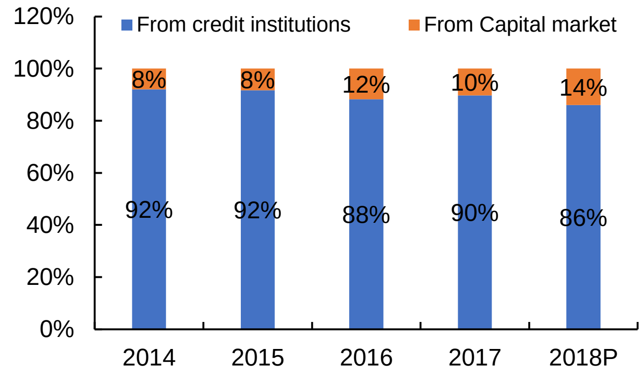
Economic indicators: 2018

Total Asset of entire financial system % GDP



Source: GSO, NFSC

Capital Source Structure to the economy



Source: GSO, NFSC

Business performance

	Net profit	ROA	ROE
2017 (+% YoY)	52%	0.73%	11.2%
2018 (+% YoY)	40%	0.90%	13.6%

Source: NFSC

Loan, Deposit & NPL

	Loan growth	Deposit growth	LDR	On-balance sheet NPL ratio
2017	18%	15%	87.8%	1.99%
2018	14%	14%	87.5%	1.89%

Source: NFSC

Average deposit/lending interest rate

	Average deposit rate	Average lending rate	Central Exchange rate
2017	5.11%	8.86%	
2018	5.25%	8.91%	+1.74%

Source: NFSC

Total Loan/GDP & M2/GDP

	Total loans/GDP	M2/GDP
2018	134%	170%
% YoY	4.6%	12.5%

Source: NFSC

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Ratings	Expected return within the next 12 months – excluding dividend
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

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HOLD-Underperform: In our view, the stock’s fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile.
SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.
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