Sector Note

Banks

Comments on Circular 02-03/2023 and Draft to adjust Circular 41/2016

- SBV has announced Circular 02-03/2023, which allow banks to maintain debt group/reschedule principal/interest payments and buy back corporate bond.
- Draft to adjust Circular 41/2016 will recalculate the risk factor of risk-weighted assets for each kind of property loans.
- TCB, VPB, MBB... could gain better sentiment from investors thanks to Circular 02-03/2023.
- VCB, BID, CTG could be the three names taking advantage from the adjustment of Circular 41/2016 once it is officially approved.

More supportive measures to come

Following the Resolution 33/2023, the SBV has announced more supportive measures, particularly Circular 02/2023 to guide credit institutions to review and reschedule principal/interest payments or maintaining debt group for customers who are (1) facing liquidity problems to run businesses and (2) losing demand for consumer loans. Besides, the Circular also allows banks to extend the time period to allocate provisions for those aforementioned loans (figure 1). In overall, this new policy will partially solve the liquidity crunch issue, especially property developers, and support businesses with good fundamental as well.

…which are good news for banks, in our view

Until now, the stagnant property market is still a big concern for banking sector outlook. With Circular 02/2023, the pressure to build up provisions will be eased as banks can re-arrange their provisioning expenses within 2 years (2023 and 2024). We think the investor's sentiment will be improved to banks having great exposure to property/consumer finance loans in credit book like TCB, MBB, VPB… (figure 2); as these banks are having to deal with a higher-than-peers credit-cost rate due to their rising credit risk and weakening asset quality compared with other "safe" banks in the current circumstance.

Corporate bond market might be warmed up in the rest of 2023

Circular 03/0223 has postponed Article 11 Clause 4 Circular 16/2021, which means banks are still able to buy back unlisted CB sold/distributed by them with several conditions (figure 1). This is one of the ways for banks to accelerate their lending activities via buying CB in the context of weak system credit growth (+2.06% ytd at-end 1Q23) and current abundant liquidity among the banking system. In addition, this Circular will help boost CB demand and thus benefit to some active plays in CB market like TCB, VPB, MBB (figure 3). However, it also depends on each bank's risk appetite, as banks have tended to strengthen their balance sheet rather than chasing for growth, after 2H22 turbulence.

Draft to adjust Circular 41/2016 is to change the risk factor of risk-weighted assets – focusing more on favorable houses

The draft to adjust Circular 41/2016 aims to lower the risk factor of industrial property loans and loans to social housing group, in general, pointing out that lending to those segments are encouraged. This action is strictly following the guidance in Resolution 33/2023 (about the credit package of VND120tr). In our opinions, stated-owned banks (SOCBs) like VCB, CTG, BID will take their advantage if this draft is officially approved. This is also a solution to boost SOCBs' credit growth in the context of their softer NIM (when the interest rate trend shows signs of reversal, SOCBs' lending rates will likely to decline faster than the deposit rate, as SOCBs still have to obey the Government's call on lowering interest rate to support businesses).

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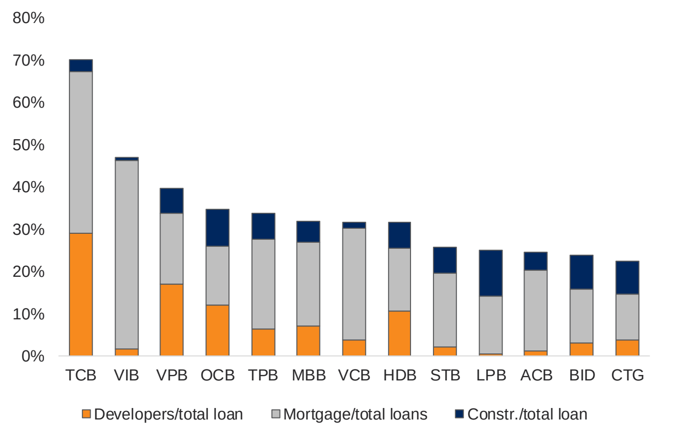
Figure 1: Circular/Draft in summary and their effects on banks

Circular/Draft	Description	Effects on banks
Circular 02/2023 To guide credit institutions to review and reschedule principal/interest payments or maintaining debt group for customers who are (1) facing difficulties in running businesses and (2) losing demand for consumer loans	(1) The extension the restructuring program by additional 6 months (to 30 June 2024, instead of 31 Dec 2023 as presented in the draft). The structured amount should be no-more-than-10-days overdued (2) Rule for booking provisions - A: provisioning expenses as normal - B: provisioning expenses if maintaining debt group - C: Additional amount to book provision = A - B - Then C would be divided by… Until the end of 2023: at least 50% C Until the end of 2024: 100% C	- Besides business loans, banks are also allowed to restructure debt for consumer loans - a segment which has been hurt by the current high interest rate environment along with a lower disposable income. - The additional 6 months will enhance the effectives of this Circular, as it needs time for banks and corporates to get use to the new rule and execute it. - The pressure to build up provisions will be eased as banks can re-arrange their provisioning expenses within 2 years (2023 and 2024). - Investor's sentiment will be improved with banks having great exposure to property and consumer finance in credit book, like VPB, TCB, MBB…; as these banks are having to deal with a higher-than-peers credit-cost rate due to their rising credit risk and weakening asset quality, compared to other "safe" banks in the current circumstance.
Circular 03/2023 To postpone Article 11 Clause 4 Circular 16, which means banks are still be able to buy back the unlisted corporate bond sold/distributed by them with several conditions	- The Part 11 Clause 4 Circular 16/2021 will be delayed from Apr-24-2023 until the end of the year - Conditions: (1) The bonds buy back are the same bonds that banks sold before, or the same issued batch (2) Buyers of these bonds had paid in full for the bonds at the time the banks sold to them (3) Issuers of these bonds have highest credit rating (internal rating by the banks) at the time banks buy back	- It is one of the way for banks to accelerate their lending activities via buying CB in the context of weak system credit growth (+2.06% ytd in 1Q23) and abundant liquidity among banking system. - This Circular will help boost CB demand and thus benefit for some active plays in CB market like TCB, VPB, MBB... However, it also depends on each bank's risk appetite, as banks prefer strengthening their balance sheet rather than chasing after growth. - The following conditions will partially protect banks from any possible credit/asset quality risks.
Draft to adjust Circular 41/2016 is about to change the risk factor of risk-weighted assets – focusing more on "social housing" programme	- Risk factor for property developers will be unchanged at 200%; however it will be decreased to 160% if it is used for industrial property loans - For social housing group, the risk factor will be recalculate based on their LTV and DSC ratio	- The draft to adjust Circular 41/2016 aims to lower the risk factor of industrial property loans and loans to social housing, in general, pointing out that loans to those segments are encouraged. This action is strictly following the guidance in Resolution 33/2023 (about the credit packgage of VND120tr). - The stated-owned banks (SOCBs) like VCB, CTG, BID will take their advantage if this draft is officially approved. This is also a solution to boost SOCBs' credit growth in the context of their softer NIM (when the interest rate trend shows signs of reversal, SOCBs' lending rates will likely to decline faster than the deposit rate, as SOCBs still have to obey the Government's call on lowering interest rate to support businesses.

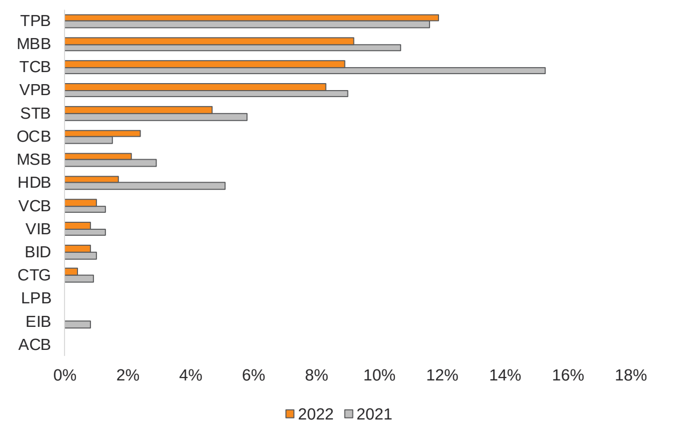
Source: VNDIRECT RESEARCH

Figure 2: Banks' exposure to property loans



Source: Commercial banks, VNDIRECT RESEARCH

Figure 3: CB per credit by each bank



Source: Commercial banks, VNDIRECT RESEARCH

DISCLAIMER

RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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