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# **Vietnamese Banks’ Blowout Earnings and Capital Raising Plans are Lifting the VN-Index to New Record Highs**

The VN-Index (VNI) is up 21% YTD as of June 2ⁿᵈ and has continued to reach new record highs in recent weeks, driven by a 50% YTD increase in Vietnamese bank stock prices – which accounts for over half of the VNI’s increase. We discussed several factors pushing banks’ share prices higher in a report we published on April 1ˢᵗ titled *“Vietnam’s Bank Stocks are Leading the Market Higher”*, and as can be seen in the chart below, the increase in Vietnamese banks’ stock prices accelerated in the two months since we published that report.

### **Vietnam Bank Share Prices vs VN-Index**

*(Chart shows VN Bank Share Prices diverging sharply upward from the VN-Index starting in March, with a notable rise in April around “Stellar Q1 Earnings Announcements”)*

Earlier this year, bank stock prices were being supported by diminishing asset quality concerns, brisk lending to consumers and small businesses, and windfalls from bancassurance deals. The most recent increase is being driven by two new factors:

1. **Much higher-than-expected Q1 earnings** (banks’ earnings nearly doubled year-on-year)
2. **Expectations that a new *“capital raising cycle”* for Vietnamese banks is starting**, and will help propel the sector’s earnings growth over the next 2–3 years.

Regarding #1, the earnings of the financials sector grew 22% quarter-on-quarter (qoq) in Q1, making financials and materials the only two sectors in Vietnam’s stock market to achieve meaningful sequential earnings growth in Q1 (the earnings of materials companies grew 25% qoq). We estimate that the earnings growth of Vietnamese banks was about double the market’s consensus expectations in Q1 because Vietnam’s resilient domestic consumption growth in the first quarter of the year¹ supported retail loan growth (which expanded banks’ net interest margins) and constrained credit costs. Consequently, analysts and the management teams of the banks are currently raising their earnings estimates and guidance.

Regarding #2, the surge in Vietnamese bank share prices presents an ideal opportunity for banks to raise equity capital by issuing new shares. In addition, an interesting virtuous circle has arisen: the capital raising plans of certain banks has also helped propel bank stock prices higher, so higher stock prices are facilitating capital raising plans, and the anticipation of capital raising by banks has also become a narrative that is pushing prices higher in and of itself.

Further to that last point, retail investors, who account for nearly 90% of Vietnam’s stock market trading volume, have embraced the capital raising narrative. In addition, investors and banking analysts alike believe new capital will help drive the Vietnamese banking sector’s earnings growth for years to come, and they are not overly concerned about the possibility of EPS dilution, given that the capital banks are likely to raise this year is *not* needed to repair banks’ balance sheets. In fact, it is expected to generate *much higher* returns than the cost of the new equity capital.

¹ We estimate that the consumption of local Vietnamese consumers (i.e., excluding the impact of foreign tourists) grew by about 9% yoy in Q1.

### **Banks are Raising Capital to Fuel Growth**

Investors and analysts view the imminent capital raising cycle as a very positive development for Vietnam’s banking sector because:

* **New capital will fuel 12–13% annual loan growth** for the next 2–3 years, at which time banks will be required to do another round of capital calls. Note that Vietnamese banks **do not** currently require new capital to repair their balance sheets and over three-quarters of Vietnamese banks’ operating income is derived from net interest income, so loan growth will meaningfully propel earnings growth.
* **New capital should create significant economic value** given our expectation that Vietnam’s banks will generate 18–19% ROE going forward, versus a circa 10% cost of equity on the new shares issued in the months ahead.
* **During previous capital raising cycles** in India, Indonesia, and other emerging markets, in which banks benefitted from the two dynamics outlined above (i.e., new equity capital funded growth and was raised at a cost below the economic return generated), investors pushed up the share prices of those country’s banks **significantly higher**.

Finally, our expected 12–13% sector-wide credit growth forecast equates to a circa **1.4x “credit intensity ratio”** between nominal GDP growth and sector-wide loan growth, which is slightly below the average credit intensity ratio for Asia Pacific (pre-COVID), according to Standard & Poors. Also, we expect circa 20% average loan growth among the private sector banks – which will disproportionately benefit Vietnam’s economy – versus “11% average loan growth at the four State Owned Commercial Banks (SOCBs), which account for half of sector-wide loans.

### **Basel II Capital Adequacy Requirements (CAR)**

Nearly all Vietnamese banks implemented the Basel II Capital Adequacy standard by mid-2019. Basel II requires banks to maintain a minimum **8% Capital Adequacy Ratio (CAR)** between their total capital (i.e., Tier I plus Tier II capital) and the Risk Weighted Assets (RWA) on their balance sheet, although emerging market (EM) banks typically aim to maintain a CAR of at least **10%** to ensure they have ample capacity for prudent growth. Consequently, EM banks typically begin embarking on or planning for capital raising when their CAR falls below 10%, so it is not surprising that the three biggest Vietnamese bank candidates to raise capital in the table below have CARs below 10%:

| **Ticker** | **Market Cap** | **CAR (2020)** | **Expected Capital Raise, % Increase in Tier I Capital** |
| --- | --- | --- | --- |
| Vietcombank (VCB) | $15.9b | 9.7% | 24% |
| Vietinbank (CTG) | $8.6b | 8.5% | N/A² |
| BIDV (BID) | $8.5b | 8.6% | 20% |
| MB Bank (MBB) | $4.6b | 10.5% | 4% |
| TP Bank (TPB) | $1.7b | 13.0% | 24% |
| Lien Viet Post Bank (LPB) | $1.4b | 9.4% | 36% |

Finally, the leading candidates to raise growth capital in the table above include Vietcombank, which is widely regarded as Vietnam’s best bank and is an SOCB. Vietnam’s two other listed SOCBs are also capital raising candidates (although Vietinbank’s foreign ownership limit is currently full, which impedes the bank from easily raising new capital), as are some of the private sector’s more dynamic banks. We expect a wider range of banks to raise new equity capital following the successful issuance by the names above, which have been fairly well signaled to the market.

### **Conclusions**

² Vietinbank petitioned the Government to raise Vietnam’s 30% foreign ownership limit on listed banks so it can issue new shares to foreign investors.

**Classified: Public**