**ECONOMIST’S NOTE** *October 19, 2022*

**Michael Kokalari, CFA** Chief Economist

## **COMMENTS ON SAIGON COMMERCIAL BANK (SCB) AND VAN THINH PHAT (VTP)**

On October 8th, it emerged that **Truong My Lan**, the Chairwoman of **Van Thinh Phat Group**, was arrested for what the local Vietnamese press reported as “alleged fraud related to the issuance and trading of bonds” in 2018–19, while the foreign press reported that she was arrested for “allegedly obtaining property through fraudulent means”. Following these reports, customers of **Saigon Commercial Bank (SCB)** lined up to withdraw their savings, “sparked by suspicions over the bank’s ties with real estate tycoon Truong My Lan, after she was arrested on suspicion of financial fraud” according to VN Express.

None of **VinaCapital’s** funds were invested in VTP or SCB, but we were certainly encouraged that both the **State Bank of Vietnam (SBV)** and SCB’s management took decisive actions to stabilize the situation and to stem the flow of withdrawals from the bank. Specifically, SCB raised its deposit rates for savings deposits with terms of over 9 months by 100 bps to over **8.5% for one-year deposits**, which is the highest deposit rate on offer to savers in Vietnam, and Vietnam’s central bank affirmed that the Government would protect SCB deposits and customers in all circumstances.

This past weekend, the **State Bank of Vietnam (SBV)** announced that it had put SCB under special control, which will entail the SBV selecting “experienced and qualified personnel from state-owned commercial banks including **BIDV (BID)**, **Agribank** (unlisted), **Vietinbank (CTG)**, **Vietcombank (VCB)**, and to join the SCB executive board” in order to “implement necessary solutions to ensure smooth and healthy operations”.

All of these measures have calmed the market, prompting the head of Vietnam’s central bank to opine that the operations of SCB had returned to a “**stable**” condition by late last week. It was also reported that bank customers deposited over **USD700 million** on Thursday (13th) and Friday (14th), equivalent to circa **3% of the bank’s total assets**.

*17th Floor, Sun Wah Tower, 115 Nguyen Hue, District 1, Ho Chi Minh City, Vietnam* *t: +84 28 3821 9930* *w:* [*www.vinacapital.com*](http://www.vinacapital.com)

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|  | **2Q22** | **Total Assets** | **Total asset market share** | **Credit** | **Credit market share** | **Deposits** | **Deposit market share** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| BID | 83 | 11.5 | 63 | 13.1 | 59 | 12.3 |  |
| Agribank | 74 | 10.3 | 58 | 12.2 | 67 | 13.9 |  |
| CTG | 71 | 9.9 | 53 | 11.1 | 54 | 11.2 |  |
| VCB | 67 | 9.3 | 48 | 10.0 | 54 | 11.3 |  |
| **SCB** | 32 | 4.4 | 16 | 3.4 | 25 | 5.2 |  |
| MBB | 30 | 4.2 | 21 | 4.4 | 19 | 4.0 |  |
| VPB | 28 | 3.9 | 20 | 4.1 | 13 | 2.6 |  |
| TCB | 26 | 3.6 | 19 | 3.9 | 14 | 2.8 |  |
| STB | 25 | 3.4 | 19 | 3.9 | 20 | 4.2 |  |
| ACB | 24 | 3.4 | 18 | 3.7 | 18 | 3.6 |  |
| SHB | 21 | 3.0 | 16 | 3.4 | 14 | 3.0 |  |
| HDB | 16 | 2.2 | 10 | 2.1 | 9 | 1.9 |  |
| VIB | 15 | 2.1 | 10 | 2.1 | 9 | 1.8 |  |
| LPB | 14 | 1.9 | 10 | 2.2 | 9 | 1.9 |  |
| TPB | 13 | 1.9 | 8 | 1.7 | 7 | 1.4 |  |
| MSB | 10 | 1.3 | 5 | 1.1 | 5 | 0.9 |  |
| OCB | 9 | 1.2 | 5 | 1.0 | 5 | 1.0 |  |
| **Sector** | 720 | 100.0 | 480 | 100.0 | 482 | 100.0 |  |

*Total assets, credit, and deposits are measured in billions of USD, source: FiinPro*

SCB is Vietnam’s largest private sector bank by assets, as can be seen in the table above, and investors have asked us if there are any potential system consequences from the recent events outlined above. The short answer to that question is ‘no’, as evidenced by the facts that:

1. There have not been runs at any other banks in Vietnam,
2. The interbank market has continued to function normally since the SCB news emerged, and
3. S&P’s banking team opined that the risk from this event is limited to the individual bank and that “we do not expect a material impact on our sovereign credit ratings on Vietnam”¹.

SCB’s financial condition has been well understood by the market for years, which also helped to mitigate the systemic risk of last week’s events because local commercial banks had already factored the SCB’s weak condition into consideration in their dealings with the bank; SCB’s capitalization/solvency and liquidity ratios were at bare minimum levels, and its profitability in terms of Net Interest Margin (NIM) and Return on Equity (ROE) were also very poor (SCB’s 240bp NIM is well below the 390bp sector average, and its ROE is below 6% versus the 20% sector-wide average). Given all of the above, the SBV has pledged strong liquidity support to the bank and has

¹ Source: https://www.bloomberg.com/news/articles/2022-10-14/vietnam-faces-limited-risks-from-scb-bank-run-s-p-says

**Vietnam’s Banking Sector Remains Attractive**

The net conclusion to all of the above is that SCB is not a systemic issue but rather an isolated case of a very bad bank (note that SCB was formed by a 2012 merger of three very weak banks and in 2020, the SBV approved a 10-year restructuring plan that aimed to clear up SCB’s legacy bad assets). Consequently, last week’s events do not significantly change our outlook on the banking sector.

In the short term, worries over the banking sector may come from

1. slight margin pressure, due to higher funding costs and slower adjustments in lending rates in part due to the government's call to limit the rate of increase in lending rates; and
2. perceived risk to asset quality from corporate bonds that are potentially unable to be refinanced, rolled over, or repaid amidst slightly tighter issuance requirements (and possibly shaken confidence in future bond issuances).

However, Vietnam bank share valuations are currently cheap at an average 1.3x P/B versus 19.2% ROE, and at 9.1x FY22 P/E versus expected earnings growth of at least 30% in 2022 and 20% in 2023. In the long run, the banking sector continues to hold high appeal due to its high margins, well-controlled asset quality, low penetration rate of mortgage and retail loans, and rising incomes (i.e., Vietnam is still at an early stage of economic development, so the country’s banking sector is nowhere close to a high maturity stage).

**More on Van Thinh Phat**

Van Thinh Phat and its subsidiaries are believed to own some of the most valuable land in HCMC. Disentangling the privately held group’s corporate structure and exact inventory of projects is not straightforward, but we have compiled the following table of some notable real estate projects that are widely believed to be related to Van Thinh Phat.

### **Project Table Summary**

**Categories:** Operating Assets and Residential Projects  
 It lists several projects with their addresses, land area (sqm), and gross floor area (GFA):

**Operating Assets:**

* **Union Square**: 191 Dong Khoi – Land: 8,959 sqm
* **Viva One (Saigon Spirit)**: Ben Thanh Market – Land: 8,537 sqm, GFA: 14,810 sqm
* **Viva Harbour Palace (Saigon One)**: Ton Duc Thang – Land: 6,672 sqm, GFA: 129,166 sqm
* **Saigon Prince**: Nguyen Hue – Land: 12,806 sqm, GFA: 19,500 sqm
* **289 Office**: 289 Tran Hung Dao – Land: 4,236 sqm, GFA: 59,300 sqm
* **Golden Hill Tower**: D1, HCMC – Land: 8,321 sqm, GFA: 91,679 sqm
* **SJC (SG TAX)**: Le Loi, D1 – Land: 3,791 sqm, GFA: 62,563 sqm

**Residential Projects:**

* **Global City**: D2, HCMC – Land: 1,170,000 sqm
* **Saigon Port**: Nguyen Tat Thanh, D4 – Land: 315,000 sqm
* **Saigon Peninsula**: D7 – Land: 1,178,000 sqm, GFA: 3,016,041 sqm
* **Sing Viet**: Binh Chanh – Land: 3,000,000 sqm
* **4 Tran Phu**: Hai Phong – Land: 13,500 sqm, GFA: 154,911 sqm
* **Tuan Chau Island**: Quang Ninh – Land: 6,220,000 sqm, GFA: 7,746,720 sqm

### **Conclusion**

The high-profile arrest of the Chairwoman of VTP property development group prompted depositors to line up to withdraw their savings from SCB bank even though Truong My Lan does not hold any position in the bank, according to a statement released by SCB after her arrest. The State Bank of Vietnam acted quickly and decisively to reassure the bank’s depositors, to provide liquidity to the bank, and to assume more control over its operations. We believe this is not a systemic issue and remain optimistic about the long-term prospects of Vietnam’s banking sector. Finally, we note that none of VinaCapital’s funds invested in VTP, SCB, or any of their related entities.