Michael Kokalari, CFA
Chief Economist

Comments on Saigon Commercial Bank (SCB) and Van Thinh Phat

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[1], while the foreign press reported that she was arrested for "*allegedly obtaining property through fraudulent means*".[2] 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.[3]

None of VinaCapital's funds were invested in Van Thinh Phat 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[4], 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.

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"[5].

[1] https://e.vnexpress.net/news/companies/property-developer-van-thinh-phats-chairwoman-arrested-for-bond-fraud-4520740.html
[2] https://www.bloomberg.com/news/articles/2022-10-10/vietnam-property-bank-stocks-fall-as-tycoon-s-arrest-riles-mood
[3] https://e.vnexpress.net/news/companies/saigon-commercial-bank-tries-to-stem-deposit-run-with-highest-12-month-rate-4521127.html
[4] https://e.vnexpress.net/news/economy/vietnams-central-bank-puts-scb-under-special-control-4523897.html
[5] https://www.bloomberg.com/news/articles/2022-10-14/vietnam-faces-limited-risks-from-scb-bank-run-s-p-says

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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 arranged for Vietnam's four State-Owned Commercial Banks (SOCBs) and five of the country's large private sector banks to provide liquidity to SCB, if needed.

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 Type	Project	Address	Land (sqm)	GFA (sqm)
Operating Assets	Union Square	191 Dong Khoi	8,959	-
	Viva One (Saigon Spirit)	Ben Thanh market	8,537	14,810
	Viva Habour Palace (Saigon one)	Ton Duc Thang	6,672	129,166
	Saigon Prince	Nguyen Hue (Khu Tu Giac)	12,806	19,500
	289 Office (Alpha King tower)	289 Tran Hung Dao	4,236	59,300
	Golden hill tower	D1, HCMC	8,321	91,679
	SJC (SG TAX trade centre)	Le Loi, D1, HCMC	3,791	62,563
Residential Projects	Global City	D2, HCMC	1,170,000	-
	Saigon Port	Nguyen Tat Thanh, D4	315,000	-
	Saigon Peninsula	Dao Tri, D7	1,178,000	3,016,041
	Sing Viet	Binh Chanh	3,000,000	-
	4 Tran Phu	Hai Phong	13,500	154,911
	Tuan Chau Island	Quang Ninh	6,220,000	7,746,720

Finally, note that Viva Land (Viva One and Viva Harbour Palace projects in the table above), which is widely understood to be connected to Van Thinh Phat, essentially emerged in mid-2019 when it began acquiring several high-profile sites in HCMC.

Conclusions

The high-profile arrest of the Chairwoman of Van Thinh Phat 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 Van Thinh Phat, SCB, or any of their related entities.

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