



## Some Problems with Bank Shares and Stock Market

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In a past few years, shares issued by banks have sold like hot cakes on the OTC market. The demand doesn't seem to wane although their prices rise steadily. Though the SBV gave the green light to the listing of shares from commercial banks in mid 2004, only one bank has been licensed to have its shares listed and traded on the HCMC Stock Trading Center as from July 12, 2006. The presence of Sacombank – the commercial bank with the biggest legal capital – the total shares listed in the HCMC Stock Trading Center will triple in comparison with late 2005. And Sacombank will take the place of Vinamilk as the leading share (30.6%) in the basket of listed shares. I want to discuss here effects of bank shares on the development of the stock market in Vietnam.

2 EDR

### 1. Scope of effects of bank shares on the stock market in the future

Vietnam is still in its first stage of market economy and only a few companies have conditions for participation in the stock market (big scale, long experience of doing business, transparent management, operating as joint stock companies, etc.). On the other hand, joint stock and state-owned commercial banks have all of these conditions from the very first and they are the most ideal concerns for the stock market at present and in the future as well. According to a rough estimate by ISC, the value of the stock market by 2010 will vary between VND60 to 120 thousand billion increasing by 5 to 10 times compared with the present value, and four equitized commercial banks will control some 50 thousand billion and joint stock banks 20

thousand billion. In other words, bank shares will account for 60% of the value of the stock market.

### 2. Are fast increases in capital of joint stock banks reasonable?

In the past two years, all banks decided to increase their legal capital. Sacombank for example increased its legal capital by 3.7 times in months between December 2003 and March 2006. The fast increase comes from the following factors:

- Requirements set by the SBV force banks to increase the capital when opening new branches in order to ensure safety for their operation and customers.

- All banks want to open more branches in preparation for the WTO membership and keener competition.

- Encouraging development of the stock market makes it favorable

to issue more shares and options.

In short, the fast increase in bank capital is either a proactive move or a reaction. This increase will make financial indicators of banks lower temporarily but interests of shareholders will rise instead of falling because most investors have high expectations in the future of banking business but they don't have ability to analyze current financial indicators with the result that they refuse to buy shares at high prices - 10 times higher than the face value for example. So the increase in capital will make the price of share reduce to an acceptable level while existing shareholders will enjoy some benefits because they can acquire shares at favorable prices or for free.

### **3. Is the increase in prices of bank shares too high?**

Increases in the prices of bank shares come from the following reasons:

- An upward tendency of all shares since the beginning of the year.

- High profits in most banks in the past few years and their bright prospects in the coming years.

- Most banks are familiar to the public. They are of large scales and maintain a high degree of safety in comparison with other companies because they are under strict supervision by the SBV.

- The SBV is setting for regulations that discourage formation of new banks with the result that individuals and organizations that want to engage in banking services have to put their money in existing banks, even ones with poor performance.

- Continuous increases in capital and issue of preferred shares and stock options make shareholders' interest more attractive.

- Prospect of further development and integration into the

world market also spurs the demand for bank shares.

When comparing prices of local bank shares with those issued by Asian and international banks, many people thought the prices in Vietnam are too high. Income for bank in Vietnam, however, comes from two sources: high profit from supply of banking services; and lower one from financial investments. In foreign countries, the profit from banking services is hard to grow because of keen competition while the income from financial investment is usually much higher. The best part of profit for Vietnamese banks is from the supply of banking services and this source of profit seems to keep increasing in the coming years.

At present, most investors have high expectations in the future of the banking business but only a handful of them can analyze and estimate the business performance and financial statement of banks. They have to wait for several years before they can be sure about their expectations. If the banks can maintain their current growth rate they could meet investors' expectations and their shares could stay at existing level and rise to a certain extent.

### **4. The listing of Vietnamese bank shares in foreign stock markets**

Besides the news about the equitization of state-owned commercial banks, there is a fact that these banks are making preparation for listing their shares in foreign stock markets and the Singaporean one is the market that many local banks, such as Vietcombank and BIDV are aiming at. They plan to do so in order to enhance their public images and prestige, and improve their ability to mobilize idle money and solvency.

It's necessary to look straight

to the fact that all Vietnamese banks are of medium size in comparison with their counterparts in the region. Moreover, these banks are very small in comparison with companies listed in the Singaporean stock exchange that is attracting more and more multinationals. In the integration process, the Government is trying its best to develop the stock market in Vietnam and it starts to attract investors from all over the world. Mobilization of capital in Vietnamese stock market is rather easy and not much costly compared with regional stock exchanges. In addition, the supply of commodities to the stock market from commercial banks will reduce remarkably in the coming years when they sell shares to foreign markets. This will hinder the development of the stock market in Vietnam.

Regarding the common interest of the economy as a whole, to list a large quantity of shares in foreign stock exchanges means transferring income from fees for transactions, listing, deposit, or custody to foreign brokers. Local investors who want to buy these shares have to pay higher prices because the supply reduces or they have to buy them from abroad.

The listing of shares in foreign stock exchanges seems attractive at first, but thinking through it is not an effective plan and good enough for the local economy. This matter must be considered carefully by banks and relevant authorities, especially in current conditions of the market.

In short, the Vietnamese stock market is still in its first stage of development and has full potentials for great leaps forward. Under such conditions, the banking business always has effects on the development of the stock market. That is why concerted efforts are much needed for a sustainable and stable growth of the whole economy ■