KB Securities VIETNAM

Updates on policy rate cut

Deposit rates dip but may rise again

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Banks move quicker to lower mid- long-term deposit rates after this SBV cut

Medium- and long-term deposits rates have fallen faster than in the past after the most recent cut in the policy rates by the State Bank of Vietnam. This can largely be attributed to banks protecting net interest margins with the higher proportion of lower-rate relief loans to support customers during the coronavirus. That said, the pace of falling deposits rates still lags lending rates despite efforts by the central bank to maintain abundant liquidity in the banking system.

Prudential measures will likely see rates rise again on longer-term deposits

Deposit rates should rise again in the second half – especially for terms six-months and longer – as prudential measures to reduce short-term funding at the banks come into effect from October. The State Bank of Vietnam will lower the cap on the proportion of short-term funding for medium- and long-term loans to 37% of the outstanding balance from 40% now. This will likely see continued shift in the deposit mix to products with terms that are six-months or longer.

Net interest margins at the banks to suffer from deposit competition

Competition for deposits remains intense as mid-size and weaker-positioned banks use aggressive deposit pricing to attract customers. This prevents the state-owned banks and larger joint-stock banks from lowering deposit rates as even the large deposit-takers are wary of losing customers. Although we expect post-COVID-19 recovery to reduce preferential lending and allow loan yields to improve in the coming quarters, net interest margins could contract by 10-25 basis points from the 3.3%-3.4% levels on customer loans seen in 2019 as sticky deposit rates fail to offset lower lending rates.

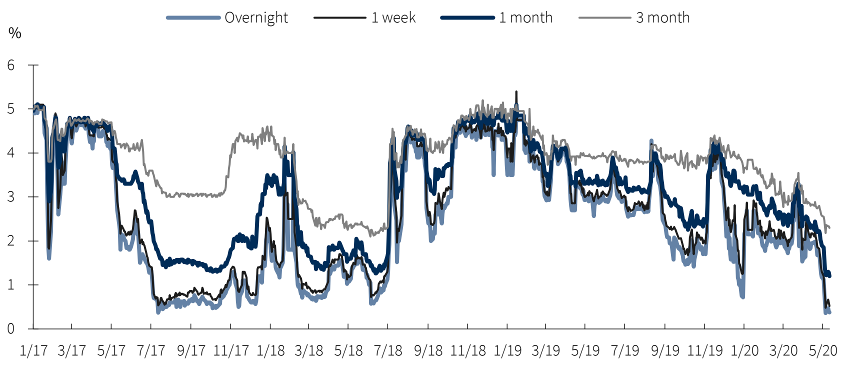
Deposit rates to rise again

The SBV has kept liquidity in the banking system at abundant levels

Interbank rates have plummeted to the lowest level in three years after the State Bank of Vietnam (SBV) cut policy rates on May 12 and reduced reverse repo operations to provide ample levels of liquidity in the banking system. Excess liquidity in the system has mostly been the result of: 1) maturity of nearly VND120 trillion in 91-day SBV bills; and 2) extremely low levels of credit growth at only 1.32% from the start of the year to May 15.

Interbank rates are at the lowest level in three years

Fig 1. Vietnam – Interbank rates, Jan 17–May 20 (%)

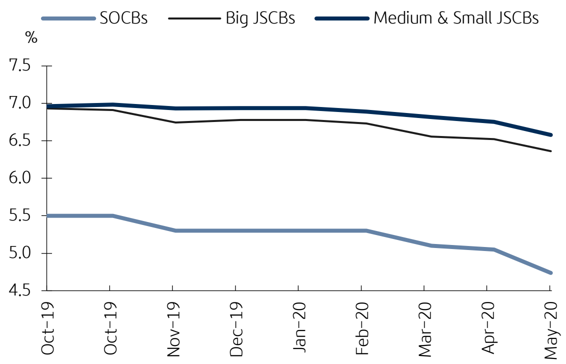


Source: Bloomberg, KB Securities Vietnam

Medium- and long-term deposits have fallen more sharply than usual after the most recent rate cut

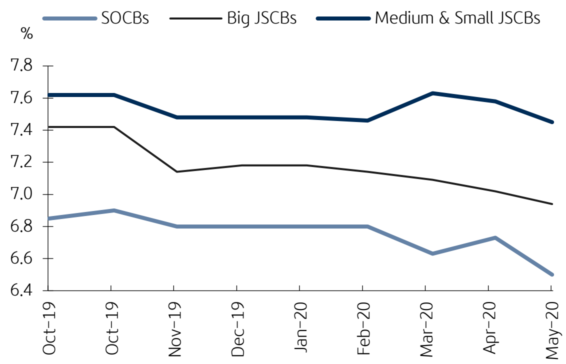
Efforts by the banks to offset pressure from lower rates on relief loans due to the coronavirus have seen rates on mid- to long-term deposits fall faster than the previous two rate cuts by the central bank. Deposit rates on six- to twelve-month deposits are down by 20bps at most commercial banks but differ by banks for term deposits over twelve months. The four state-owned banks – Agribank (Unlisted), Vietinbank (CTG), Bank for Investment & Development (BID) and Vietcombank (VCB) – cut term deposits over twelve months by 20bps, whereas the joint-stock banks only lowered similar rates by 10bps. This comes despite the State Bank of Vietnam providing ample liquidity for the banking system and pricing pressure on the loan book coming from relief loans, implying that competition for deposits remains intense and may put net interest margins in jeopardy when deposit rates rise again.

Fig 2. Vietnam – Rates on 6-month term deposits, Oct 19-May 20 (%)



Source: KB Securities Vietnam

Fig 3. Vietnam – Rates on 12-month deposits, Oct 19-May 20 (%)



Source: KB Securities Vietnam

Tighter prudential measures on short-term funding instruments will likely see deposit rates trend higher

Tighter regulations on short-term funding scheduled for October may launch the banks into another round of competition for deposits and pressure net interest margins by 10-25 basis points this year. The State Bank of Vietnam will lower ratio of short-term funding for medium- and long-term loans to 37% from 40% in October and should renew competition for longer-term deposit funding. This should keep the demand for longer-term deposits high and cause deposit rates to reverse their downward trend and move higher as we progress to second half. The term premium for term deposits over twelve months could also widen against deposits with terms below twelve months. Banks with high short-term funding ratios may feel the most pressure to offer attractive pricing terms for longer-term deposit and include Techcombank (TCB), HDBank (HDB) and Lienviet Post Bank (LPB).

Table 1. Vietnam banks – Ratio of short-term funding for medium- and long-term loans, 2017-3Q2019 (%)

Banks	2017	2018	3Q2019
ARGB	31.90%	30.30%	na
BID	44.00%	39.50%	28.60%
CTG	35.62%	32.99%	na
VCB	na	na	28.00%
MBB	44.11%	33.45%	33.70%
ACB	23.97%	32.63%	32.00%
TCB	42.98%	31.50%	36.10%
VPB	30.00%	33.60%	27.80%
TPB	<50%	33.00%	na
VIB	na	36.50%	29.00%
STB	39.44%	37.41%	32.00%
HDB	na	40.00%	35.80%
KLB	35.60%	33.31%	na
LPB	na	na	35.00%
SHB	na	29.30%	na
EIB	32.19%	33.89%	na

Source: KB Securities Vietnam

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Investment Ratings for Stocks
(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors
(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market