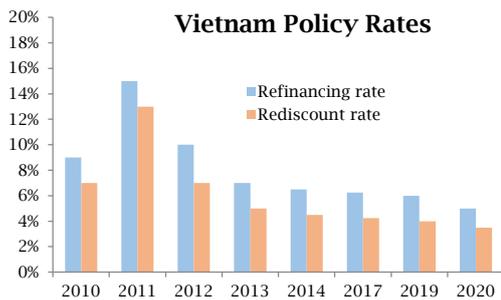


Banks Sector — Overweight

Yuanta VN Banks Universe

Stock Code	Rating	Current price (VND)	Target price (VND)	12-m TSR*
BID VN	SELL	32,800	37,300	16%
HDB VN	HOLD-U/P	21,700	30,970	43%
MBB VN	BUY	16,450	28,694	78%
STB VN	BUY	9,990	14,049	41%
VCB VN	HOLD-O/P	67,100	92,035	38%
VPB VN	BUY	20,950	25,530	22%

Source: Bloomberg, Yuanta Vietnam



Source: SBV

The SBV follows the Fed to slash rates

On Mar 16, the State Bank of Vietnam (SBV) announced to cut rates effective from Mar 17. The decision came amid a broad range of global Central Bank easing, including the US Fed's Mar 15 cut in the Federal Funds target range to the zero bound.

Specifically, SBV Decision 418/QD-NHNN reduces 1) the refinancing rate (-1ppt to 5.0%), 2) rediscount rate (-50bps to 3.5%), 3) overnight rate for interbank electronic payments and lending to compensate for capital shortages in clearing payments (-1ppt to 6.0%), and 4) offering rate for valuable papers in the SBV's open market operations (-50bps to 3.5%).

In addition, SBV issued Decision 419 and 420/QD-NHNN to reduce deposit and loan rates. Demand deposits and term deposits of less than 1 month are capped at 0.50% (-30bps), term deposits of 1-6 months are capped at 4.75% (-25bps), and short term loans are capped at 5.5%/year (-50bps).

Our Take

Addressing financial system liquidity. Banks were previously told to cut or delay loan repayments (please see [here](#) for details) so the key objective here appears to be shoring up financial system liquidity while reducing the pressure from deposit competition. The cuts range from 50-100bp, which is far greater than the 25bp cut in Sep 2019. This significant easing should clearly boost financial system liquidity, while reducing short-term lending rates will ease the pressure on borrowers. The net effect on banks' NIMs is likely to be negative, but only slightly so given that funding costs are also reduced.

Policy lag. Although the rate cut announcement should help support the real economy, an immediate rebound appears to be very unlikely given the exogenous impacts of COVID-19.

Weak capital absorption. The lending rate cut is not likely to provide much near-term support for real-economy credit growth, as the economy's ability to absorb capital in 1Q20 is weak. Credit growth in the first 2 months of 2020 was only 0.10% YoY, compared to 0.85% in the same period last year, according to the SBV.

Investor psychology is the key share price driver. Bank stocks have been among the worst performers during the pandemic panic since Jan 30 (i.e., [BID_SELL](#): -40%, [VCB_HOLD_O/P](#): -27%, [HDB_HOLD_U/P](#): -24%, [MBB_BUY](#): -25%, [STB_BUY](#): -8%, [VPB_BUY](#): -9%). The SBV's action should help to support confidence in the banking system because (in our opinion) it underlines the SBV's focus on maintaining financial system stability. However, we believe that stock prices will largely be driven on how the pandemic develops, both at home and globally.

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ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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HOLD–Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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