

Policy Rate Cut

15 Mar 2023

Yuanta Vietnam Banks Universe				
Stock code	Yuanta Rating	Current price (VND)	Target price (VND)	12-m TSR*
ACB VN	BUY	24,050	27,958	16%
BID VN	HOLD-UPF	45,050	38,860	-12%
HDB VN	BUY	18,050	23,510	30%
MBB VN	BUY	17,200	25,480	48%
STB VN	BUY	24,400	28,860	18%
VCB VN	BUY	91,000	93,230	3%
VPB VN	BUY	19,400	22,060	14%

Source: Bloomberg (pricing date: Mar 14), Yuanta Vietnam

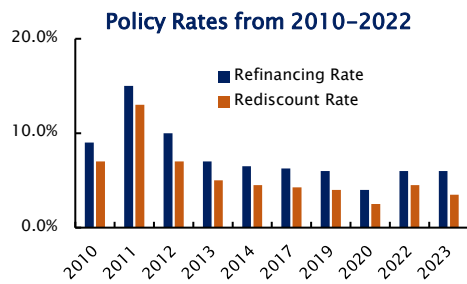
**Overview:** The SBV issued Decision 313/QĐ-NHNN to reduce the rediscount rate, and the overnight rate for interbank electronic payments and lending to compensate for capital shortages in clearing payments. The SBV also issued Decision 314/QĐ-NHNN and 1813/QĐ-NHNN on the cap for short-term lending rates in Vietnam dong.

What's new?

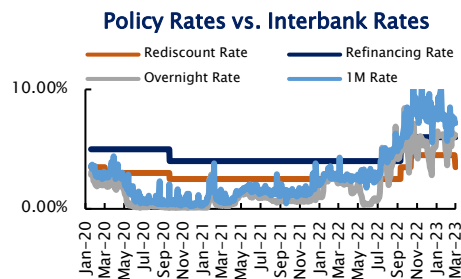
- The SBV has reduced its policy rates by 100bp, partially reversing its increases of Sep-Oct 2022.
- Rediscount rate cut by -1 ppt to 3.5%.
- Other policy rates also cut by -1 ppt: Overnight interbank electronic payment rate and lending to compensate for capital shortages in clearing payments are cut to 6.0%.

Our view

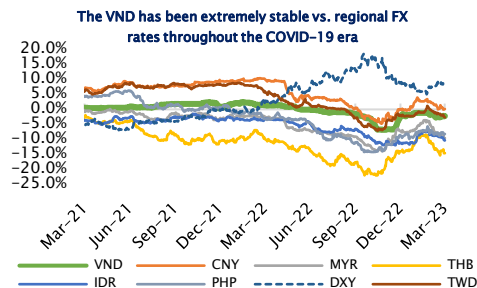
- We believe the SBV reduced rates to help lower funding costs for banks.
- But this isn't a gift to the banks. We believe that the main purpose is to facilitate reduced lending rates. Thus, we expect continued pressure on NIMs.
- VND devaluation pressure could increase given the divergent policy rates (assuming no Fed pivot).



Source: SBV



Source: SBV



Source: Bloomberg

The SBV cuts policy rates

The SBV announced a policy rate reduction effective Mar 15. We have been saying that interest rates might cool down in 2H23, so this decision came earlier than we had anticipated. The -1ppt policy rate reduction effectively reverses half of the +2ppt total increase in Sep-Oct 2022.

The SBV cut two policy rates: the 1) rediscount rate (-1 ppt to 3.5%/year), and 2) overnight rate for interbank electronic payments and lending to compensate for capital shortages in clearing payments (-1ppt to 6.0%/year). By contrast, the refinancing rate remains unchanged.

In addition, the SBV has lowered the cap on lending rates. The maximum for short-term lending rate is capped at 5.0%/year (-50bps).

Policy rate cut follows shallower deposit rate cuts by banks. In early March, the banks reduced their rates by -20bps/year to 50bps/year for 6M-12M term deposits.

Our view

Reduced bank funding costs is intended to support lower loan rates in our opinion. We believe that bank NIMs will not benefit from these combined policies.

Reduced rates should have a broadly positive impact on risk assets such as stocks. We view the SOE 12-month time deposit rate as the de-facto risk free rate for Vietnamese investors.

VND could come under depreciation pressure as a result of the divergent monetary policies (assuming no Fed pivot).

Bank valuations remain attractive. The sector trades at a median 1.0x 2023E P/B with 2023E ROE of 19% (Bloomberg consensus). Our top sector picks still focus on quality: [ACB](#), [MBB](#), and [VCB](#).

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