Banks told to cut or delay loan repayments

25 February 2020

Banks Sector — Overweight

Yuanta VN Banks Universe				
Stock code	Rating	Current price (VND)	Target price (VND)	12-m TSR*
BID VN	SELL	48,800	37,300	-22%
HDB VN	HOLD-U/P	28,000	30,970	11%
MBB VN	BUY	20,800	28,694	41%
STB VN	BUY	11,150	14,049	26%
VCB VN	HOLD-O/P	86,200	92,035	8%
VPB VN	BUY	28,300	25,530	-10%

Source: Bloomberg, Yuanta Vietnam

Banks	2020E EPS growth
ACB*	8.8%
BID	32.2%
CTG*	29.4%
EIB*	20.8%
HDB	33.8%
MBB	28.4%
STB	9.2%
TCB*	15.9%
TPB*	7.0%
VCB	29.3%
VIB*	0.8%
VPB	48.2%

Note: Forecasts for the banks marked with an asterisk are taken from Bloomberg consensus. We use our own forecasts for the banks within our coverage.

Source: Bloomberg. Yuanta Vietnam

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COVID-19 forces forebearance on borrowers

- The SBV has ordered commercial banks to reduce or delay loan repayments to enterprises hit by the Covid-19 outbreak.
- Specifically, banks have been told to reschedule loan payments, exempt or reduce interest payments, and maintain the asset quality category of related loans (i.e., related loans currently classified as "performing" must retain this classification).
- These instructions apply for relevant outstanding payments due in the period beween January 23 to Mar 30.
- The SBV promulgated these instructions on Feb 24 (Document No. 117/NHNN-TD).

Our Take on What This Means for the Banks –

NIMs to fall in 1Q20. The magnitude of this impact depends on the duration of the outbreak and subsequent SBV actions to support enterprises and relieve pressure on the economy. We aren't able to assess how long the outbreak and its economic effects will continue, but clearly 1Q20 NIM is set to decrease across the sector given the reduced yields for payments due Jan 23 to Mar 30.

Nuanced effect on reported asset quality metrics. On the surface, rescheduling loan payments while maintaining debt categorizations should help to constrain any rise in reported NPLs. However, we expect the banks to set aside higher provisions anyway, despite the lack of any change in reported NPLs. Doing so would clearly be prudent, but increased provisioning would obviously dent earnings.

This is not really a surprise... Strictly applying credit standards is typically appropriate when specific borrowers have trouble, but not in periods such as the present, when a disruptive economic shock occurs across a very wide swath of industries. We noted this expectation as among the reasons for our downgrade of BID (to SELL) on Feb 14 (see BID VN -- Enough is enough for details).

...But earnings forecast cuts are likely going forward given the outlook for lower NIMs and higher provisions, even if the headwinds lift by 2Q20—which for many enterprises may prove to be an optimistic assumption. The consensus is currently forecasting 19% weighted average sector earnings growth in 2020.

What's next? Achieving the 6.8% 2020 GDP growth target may require increased credit after the outbreak has peaked and economic activity has bottomed. The SBV may thus raise the banks aggregate loan growth quota by 1ppt to 15% YoY for 2020. Doing so would support enterprises and the economy, and it also may be a medium-term catalyst for bank stocks—after the current headwinds have lifted.

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