Better Capital Management Is Crucial For The Credit Profiles Of Vietnam's Banks

Primary Credit Analyst:
Amit Pandey, Singapore (65) 6239-6344; amit.pandey@spglobal.com

Secondary Contact:
Ivan Tan, Singapore (65) 6239-6335; ivan.tan@spglobal.com

SINGAPORE (S&P Global Ratings) Feb. 2, 2017--Replenishing capital and improving capital management is crucial for Vietnam's banks to maintain their credit profiles. That's according to a report, titled "After Rapid Growth, It's Time For A Capital Check For Vietnam's Banks A Capital Check For Vietnam's Banks," that S&P Global Ratings published today.

The capitalization of Vietnam's banks is deteriorating, the report notes. We attribute the decline to four factors: rapid growth in loans; modest profitability, especially on a risk-adjusted basis; high dividend payouts in some cases; and limited access to external capital.

"Foreign interest in Vietnamese banks has revived in the past year. We believe foreign ownership, if allowed in a big way, could help improve the capitalization of the country's banks," said S&P Global Ratings credit analyst Amit Pandey.

The report notes that Vietnam's banking system is likely to have stable profitability. We expect profits of the rated banks in Vietnam to rise in line with credit growth of 16%-18% in 2017. Banks' increasing share of retail loans should support their net interest margins.

We expect the reported credit cost of Vietnam's banks to remain elevated because banks continue to make provisions for their on-balance sheet nonperforming loans (NPLs) or NPLs that have been sold to the Vietnam Asset

Management Company.

"We see rising leverage in Vietnam as a key risk to the country's banks," said Mr. Pandey. The higher leverage partly contributed to the Vietnam economy clocking enviable growth in recent years in spite of anemic external demand.

Only a rating committee may determine a rating action and this report does not constitute a rating action.