

August 17, 2023

Manager Nguyen Anh Tung
tungna@kbsec.com.vn

2Q23 PBT reached VND6,943 billion, up 7.0% YoY

In the second quarter of 2023, Bank for Investment & Development (BID) obtained net interest income (NII) of VND13,807 billion (-5.5% YoY) and non-interest income (NOII) of VND3,698 billion (+10.7% QoQ, +4.9% YoY), taking total operating income (TOI) to VND17,505 billion (+1.3% QoQ, -3.5% YoY). Provision expense was VND4,192 billion (-24.2% QoQ, -35.0% YoY), helping PBT hit VND6,943 billion (+0.3% QoQ, +7.0% YoY). For 1H23, PBT reached VND13,862 billion, up 26.0% YoY.

Credit growth is expected to reach 11-12% in 2023

KBSV assesses that BID can achieve credit growth of 11-12%, with the main driver from slowing cost of funds expected in the third quarter thanks to the upcoming maturity of 4Q22 6-month term deposits and cooling deposit rates in 2Q23.

Good asset quality coupled with a solid provision buffer enable BID to lower provision expense in 2023

BID's 2Q23 NPL ratio was up 5bps QoQ to 1.59% while the special mentioned loan ratio contracted by 15bps QoQ to 2.17% after surging in 1Q23. Better asset quality in the second quarter and the loan loss coverage ratio (LLCR) of 152.6%, the fourth highest across all lenders, make the target of recording provision expenses of VND20-21 trillion for the whole year of 2023 perfectly possible.

We recommend HOLD for BID with a target price of VND46,200/share

Based on valuation results, business outlook, and possible risks, we reiterate our HOLD recommendation for BID. The target price for 2023F should be VND46,200/share, 2.7% lower than the closing price on August 16, 2023.

Hold maintain

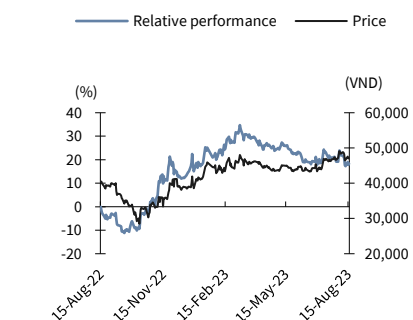
Target price	VND46,200
Downside	-2.7%
Current price (Aug 16, 2023)	VND47,500
Consensus target price	VND43,781
Market cap (VNDbn)	240,279

Trading data	
Free float	4.01%
3M avg trading value (VNDbn/USDmn)	73.8/3.1
Foreign ownership	17.24%
Major shareholder	State Bank (80.99%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3	8	4	16
Relative	-3	-7	-14	18

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	46,823	56,070	61,935	69,068
Pre-provision operating profit (VNDbn)	43,028	47,025	51,938	57,663
NPAT (VNDbn)	10,841	18,420	20,611	24,811
EPS (VND)	2,084	3,590	4,018	4,842
EPS growth (%)	20%	72%	12%	21%
PER (x)	21.1	12.3	11.0	9.1
Book value per share (VND)	17,066	20,597	23,815	27,857
PBR (x)	2.58	2.14	1.85	1.58
ROE (%)	13.1%	19.3%	18.3%	19.0%



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q23 PBT reached VND6,943 billion, up 7.0% YoY

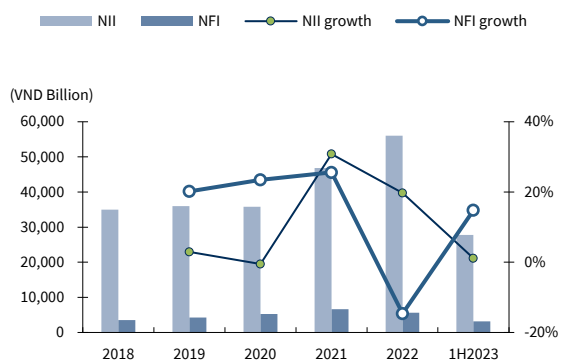
In the second quarter of 2023, BID recorded NII of VND13,807 billion (-5.5% YoY) and NOII of VND3,698 billion (+10.7% QoQ, +4.9% YoY), taking TOI to VND17,505 billion (+1.3% QoQ, -3.5% YoY). Provision expense was VND4,192 billion (-24.2% QoQ, -35.0% YoY), helping EBT hit VND6,943 billion (+0.3% QoQ, +7.0% YoY). For 1H23, PBT reached VND13,862 billion, up 26.0% YoY.

Table 1. BID – 1H22–1H23 business results

(VND bn)	2Q2022	2Q2023	%YoY	1H2022	1H2023	%YoY	Comments
Net interest income	14,607	13,807	-5.5%	27,433	27,743	1.1%	Net interest income declined due to slowing credit growth combined with shrinking NIM.
Net fee income	1,502	1,671	11.3%	2,777	3,189	14.8%	
Other income	2,023	2,027	0.2%	4,148	3,852	-7.2%	Gain from FX trading maintained 25.5% YoY growth while net other income dropped by 22.5% YoY.
Total operating income	18,131	17,505	-3.5%	34,358	34,784	1.2%	
Operating expense	(5,196)	(6,370)	22.6%	(9,518)	(11,202)	17.7%	
Pre-provision operating profit	12,936	11,135	-13.9%	24,841	23,582	-5.1%	
Provision expense	(6,446)	(4,192)	-35.0%	(13,837)	(9,719)	-29.8%	Asset quality was hit amid economic headwinds. However, provision expense was reduced as BID maintained a high provision buffer throughout 2022, making LLCR as of 2023 touch 152.6%.
NPAT	5,200	5,557	6.9%	8,837	11,116	25.8%	
Credit growth	9.3%	6.7%	-2.6 pts				Wholesale banking (+8.3% YTD) was the main driving force. Meanwhile, loans to individuals and SMEs grew 6.0% and 7.0% YTD, respectively. BID's credit growth was the strongest among state-owned banks, namely Vietinbank (CTG, +6.6% YTD) and Vietcombank (VCB, +2.7% YTD).
Deposit growth	12.5%	-0.9%	-13.4 pts				Deposit growth slumped since businesses utilized their bank deposits to support production and business activities along with low credit demand. CASA ratio hit 17.0%, up 80 bps QoQ.
NIM	2.96%	2.65%	-31 bps				NIM dropped 2bps QoQ and remained low due to surging cost of funds in 4Q22.
Average earnings yield	6.08%	7.39%	130 bps				
Average cost of funds	3.32%	5.05%	173 bps				
CIR	28.7%	36.4%	7.7 pts	32.2%	27.7%	-4.5 pts	CIR was driven by staff cost/TOI (up 4.8 pts YoY).
NPL	1.03%	1.59%	56 bps				Substandard and doubtful debt inched down 2bps QoQ and 5bps QoQ respectively, while special mentioned loan decreased by 15bps QoQ.

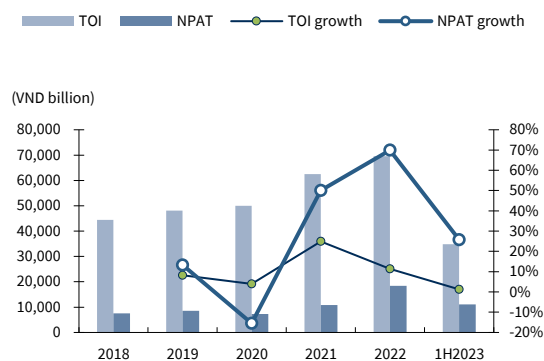
Source: BIDV, KB Securities Vietnam

Fig 2. BID - NII & NFI growth (VNDbn, %)



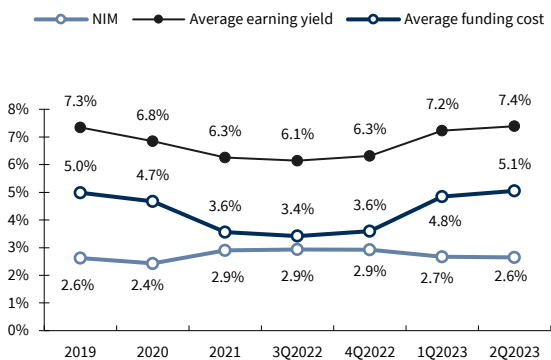
Source: BIDV, KB Securities Vietnam

Fig 3. BID - TOI & NPAT growth (VNDbn, %)



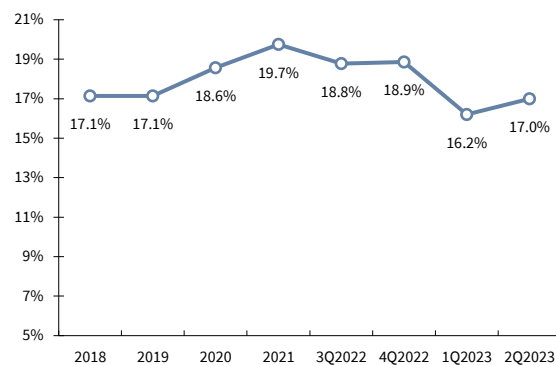
Source: BIDV, KB Securities Vietnam

Fig 4. BID - NIM, average earnings yield & cost of funds (%)



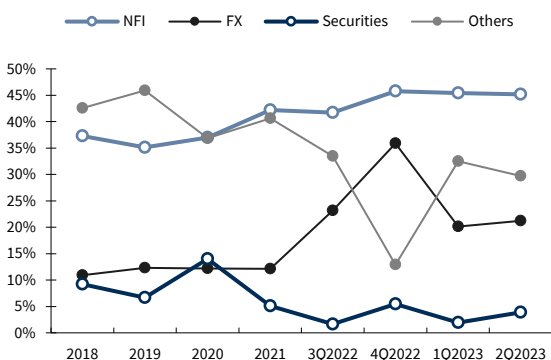
Source: BIDV, KB Securities Vietnam

Fig 5. BID - CASA ratio in 2018-2023 (%)



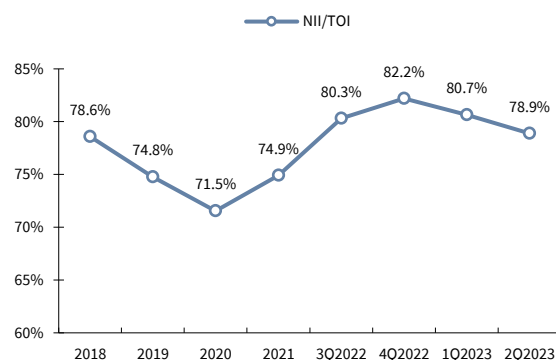
Source: BIDV, KB Securities Vietnam

Fig 6. BID - NOII breakdown (%)



Source: BIDV, KB Securities Vietnam

Fig 7. BID - NII/TOI (%)

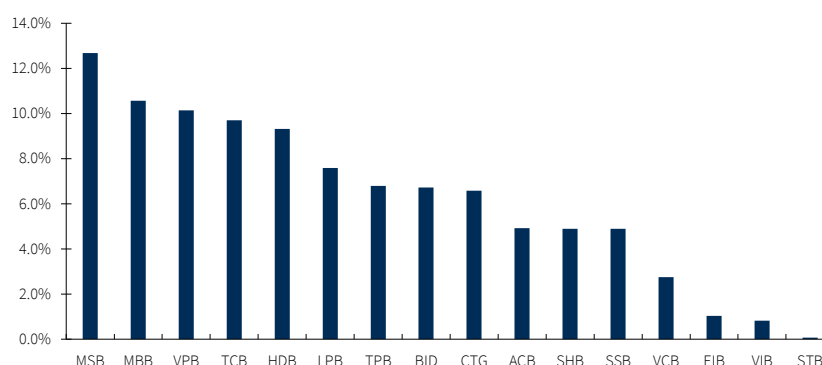


Source: BIDV, KB Securities Vietnam

Credit growth is expected to reach 11–12% in 2023

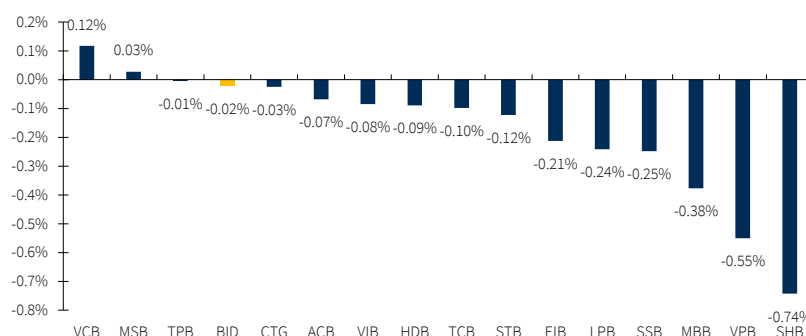
BID's credit growth in 1H23 was down 2.6 ppts YoY to 6.7%, still higher than the industry median of 6.2%. For the rest of the year, KBSV assesses that BID can achieve credit growth of 11–12% with the main driver from slowing cost of funds expected in 3Q23 thanks to the upcoming maturity of 4Q22 6-month term deposits coupled with cooling deposit rates in 2Q23. Lower cost of funds facilitated BID's reduction in lending rates, thereby boosting credit growth in the second half of the year. Up to now, lending rates of credit packages for corporates with a term of 9–12 months range between 7.7–8.2%, almost equal to the pre-Covid levels. In addition, Circular 06/2023, expected to take effect on September 1, 2023, stipulates that banks are allowed to lend to customers for early repayment at other financial institutions, and this amount does not necessarily support business operations as prescribed in Circular 39/2016. This would boost BID's credit growth, especially in the context of its lending rates lower than other banks and resilient customer base.

Fig 8. Local banks – Credit growth (%)



Source: Vietnamese banks, KB Securities Vietnam

Fig 9. Local banks – 2Q23 NIM (%)

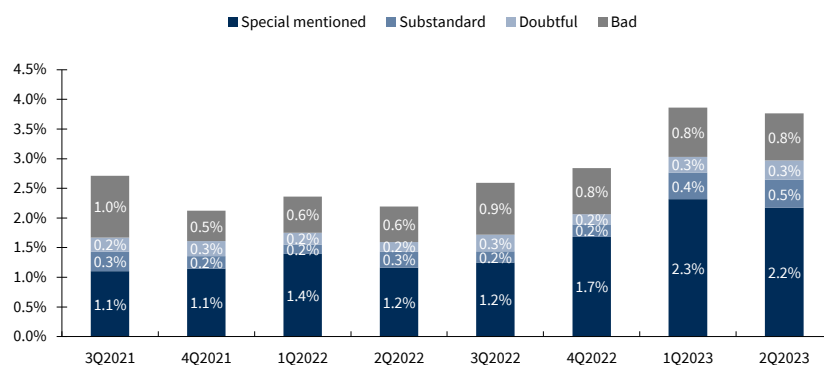


Source: BIDV, KB Securities Vietnam

Good asset quality coupled with a solid provision buffer enable BID to lower provision expense in 2023

In 2Q23, BID was among lenders with the lowest NPL ratio, posting 1.59% (+5bps QoQ). Besides, BID's special mentioned loan ratio contracted by 15bps QoQ to 2.17% after surging in 1Q23. Better asset quality coupled with a high LLCR of 152.6% will enable BID to record provision expenses of VND20–21 trillion for 2023.

Fig 10. BID – Debt groups (%)



Source: BIDV, KB Securities Vietnam

Fig 11. Local banks – Correlation between NPL ratio & special mentioned loan ratio

	% NPL	QoQ % Group 2 debt	QoQ	Provision (Billion VND)	LLCR	
VPB	7.44%	1.20%	8.19%	-0.03%	-13,704	37.7%
LPB	2.23%	0.78%	1.27%	-0.73%	-4,438	78.5%
TPB	2.21%	0.76%	3.51%	-0.51%	-2,383	60.9%
STB	1.79%	0.60%	1.16%	0.21%	-6,342	77.1%
MSB	2.56%	0.54%	3.39%	0.22%	-2,230	63.8%
ACB	1.06%	0.33%	0.87%	0.30%	-4,974	107.6%
HDB	2.15%	0.30%	5.04%	1.84%	-3,790	61.3%
TCB	1.07%	0.22%	1.96%	0.04%	-5,793	115.8%
BID	1.59%	0.05%	2.17%	-0.15%	-39,619	152.6%
CTG	1.27%	0.00%	2.59%	-0.09%	-29,228	168.9%
VIB	3.63%	-0.01%	6.42%	0.99%	-3,331	39.1%
VCB	0.83%	-0.02%	0.69%	0.04%	-37,747	385.8%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
SHB	2.57%	-0.26%	2.21%	0.23%	-7,224	68.9%
MBB	1.44%	-0.31%	3.59%	0.13%	-11,676	156.1%

Source: Vietnamese banks, KB Securities Vietnam

Forecast & Valuation

Table 12. BID – 2022A–2024F business results

(VND bn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	56,070	61,771	10.2%	68,710	11.2%	Our forecast is based on the assumption that credit growth for 2023 will approach 11.5%.
Net fee income	5,648	6,309	11.7%	6,751	7.0%	
Total operating income	69,582	76,215	9.5%	84,011	10.2%	
Provision expense	(24,015)	(24,378)	1.5%	(26,093)	7.0%	We revise down provision expense forecast by 6.9% against the previous projection as special mentioned loan ratio decreased in 2Q23.
NPAT	18,420	21,959	19.2%	24,895	13.4%	
NIM	2.92%	2.83%	-10bps	2.87%	4bps	We keep our NIM forecast unchanged as we expect NIM improvements in the second half of the year in the context of falling cost of funds.
Average earnings yield	6.31%	6.79%	47bps	6.55%	-24bps	
Average cost of funds	3.60%	4.20%	60bps	3.91%	-29bps	
CIR	32.4%	32.0%	-42bps	31.9%	-10bps	
NPL	1.16%	1.60%	44bps	1.50%	-10bps	
Total assets	2,120,609	2,302,326	8.6%	2,547,050	10.6%	
Total equity	104,190	121,814	16.9%	142,346	16.9%	

Source: KB Securities Vietnam

We recommend HOLD for BID with a target price of VND46,200/share

We combine P/B and residual income valuation approaches with a ratio of 50-50 to find a fair price for BID stocks.

(1) P/B method

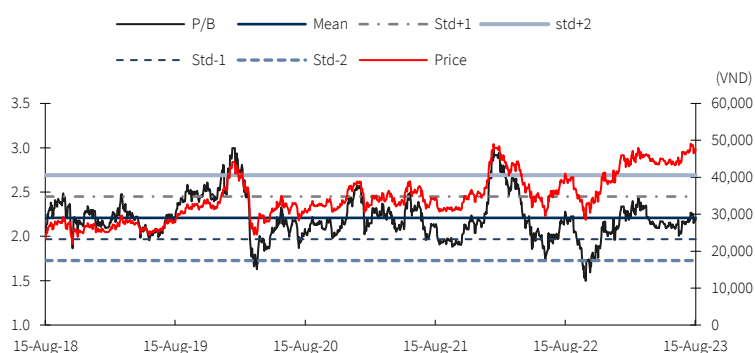
We keep 2023 forward P/B of 2.2x, equivalent to BID's 5-year average P/B.

(2) Residual income method (Table 14)

In addition, we incorporate a residual income method to reflect systemic risks and long-term expectations.

Based on the abovementioned methods, we reiterate our HOLD recommendation for BID with a target price forecast of VND46,200/share, 2.7% lower than the closing price on August 16, 2023.

Fig 13. BID – Historical P/B in 2018–2023



Source: Fiiipro, KB Securities Vietnam

Table 14. BID – Residual income method

VNDbn	2023F	2024F	2025F
NPAT	21,959	24,895	27,495
Excessed return	7,328	7,790	7,507
Required rate of return (r)	14.04%		
Growth (g)	5.0%		
Terminal value	40,506		
End-2023 fair value	199,246		
Share price	39,388		

Source: KB Securities Vietnam

Table 15. BID – Valuation results

Valuation method	Forecast price	Weight	Weighted price
P/B	52,978	50%	26,489
Residual income	39,388	50%	19,694
Target price			46,200

Source: KB Securities Vietnam

BID – 2020A–2024F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Net interest income	35,797	46,823	56,070	61,771	68,710	Loans	1,195,240	1,325,529	1,483,996	1,652,544	1,847,454
Interest income	100,688	101,008	121,111	148,240	156,912	Marketable securities	10,170	6,069	1,701	3,696	4,081
Interest expense	(64,891)	(54,185)	(65,041)	(86,469)	(88,201)	Cash (ex. Reserves)	12,294	12,661	13,745	15,391	16,995
Fees & commissions	5,266	6,614	5,648	6,309	6,751	Interest earning assets	1,485,093	1,743,024	2,092,669	2,276,705	2,516,682
Other non-interest income	5,093	6,179	4,210	4,083	4,144	Fixed assets & other assets	38,919	35,365	51,896	54,382	58,832
Total operating income	50,037	62,494	69,582	76,215	84,011	Total assets	1,516,686	1,761,696	2,120,609	2,302,326	2,547,050
SG&A expenses	(17,693)	(19,465)	(22,557)	(24,389)	(26,800)	Customer deposits	1,226,674	1,380,398	1,473,598	1,663,997	1,837,344
Pre-provisioning OP	32,344	43,028	47,025	51,826	57,212	Borrowings & call money/repos	76,090	138,032	170,289	205,237	228,412
Provision for credit losses	(23,318)	(29,481)	(24,015)	(24,378)	(26,093)	Interest bearing liabilities	1,402,248	1,641,777	1,973,861	2,147,463	2,363,380
Other income	7,993	8,957	6,526	4,803	4,876	Other liabilities	34,792	33,590	42,558	33,048	41,324
Other expense	(2,900)	(2,779)	(2,316)	(720)	(731)	Total liabilities	1,437,039	1,675,367	2,016,419	2,180,512	2,404,704
Pre-tax income	9,026	13,548	23,009	27,448	31,119	Charter capital	40,220	50,585	50,585	50,585	50,585
Income tax expense	(1,803)	(2,706)	(4,589)	(5,490)	(6,224)	Capital surplus	14,292	14,292	15,351	15,351	15,351
NP	7,224	10,841	18,420	21,959	24,895	Retained earnings	13,517	8,673	21,576	39,200	59,732
Minority interest profit	(227)	(301)	(262)	(288)	(316)	Capital adjustments	-	-	-	-	-
Parent NP	6,997	10,540	18,159	21,671	24,579	Total shareholders' equity	79,647	86,329	104,190	121,814	142,346

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	9.2%	13.1%	19.3%	19.4%	18.8%	EPS	1,740	2,084	3,590	4,284	4,859
ROA	0.5%	0.7%	0.9%	1.0%	1.0%	BVPS	19,803	17,066	20,597	24,081	28,140
Pre-provision ROE	32.9%	41.5%	39.5%	36.7%	34.7%	Tangible BVPS	18,744	16,196	19,720	23,171	27,241
Pre-provision ROA	1.7%	2.1%	1.9%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.4%	2.9%	2.9%	2.8%	2.9%	PER	25.3	21.1	12.3	10.3	9.1
Efficiency						PBR	2.2	2.6	2.1	1.8	1.6
Pure Loan to deposit ratio	99.0%	98.1%	103.3%	102.0%	103.0%	Dividend yield	1.8%	1.8%	1.8%	1.8%	1.8%
Cost-income ratio	35.4%	31.1%	32.4%	32.0%	31.9%	ROE	9.2%	13.1%	19.3%	19.4%	18.8%
Growth						Capital Adequacy					
Asset growth	1.8%	16.2%	20.4%	8.6%	10.6%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	8.4%	10.9%	12.0%	11.4%	11.8%	Asset Quality					
PPOP growth	4.8%	33.0%	9.3%	10.2%	10.4%	NPL ratio (substandard)	1.8%	1.0%	1.2%	1.6%	1.5%
Parent NP growth	-16.4%	50.6%	72.3%	19.3%	13.4%	Coverage ratio (substandard)	89.2%	214.8%	216.8%	164.7%	158.6%
EPS growth	-16.4%	19.8%	72.3%	19.3%	13.4%	NPL ratio (precautionary)	2.9%	2.1%	2.8%	3.6%	3.5%
BVPS growth	2.6%	-13.8%	20.7%	16.9%	16.9%	Coverage ratio (precautionary)	54.4%	101.1%	88.4%	73.2%	68.0%

Source: BIDV, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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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

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