

# Sacombank (STB)

## Asset quality deteriorated in 2Q23

September 19, 2023

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**2Q23 PBT touched VND2,373 billion, up 79.9% YoY**

In 2Q23, Sacombank (STB) generated net interest income (NII) of VND5,751 billion (-1.5% QoQ, +121.0% YoY) and non-interest income (NOII) of VND332 billion (+8.8% QoQ, -81.4% YoY), taking total operating income (TOI) to VND6,737 billion (-0.9% QoQ, +9.9% YoY). Provisioning expense remained at a moderate level, reaching VND1,316 billion (+31.3% QoQ, -45.6% YoY), making PBT hit VND2,373 billion (-0.4% QoQ, +79.9% YoY).

**Loan growth accomplished 41% of STB's full-year target**

By the end of June, STB's loan growth reached 5.0%, accomplishing 41.3% of the full-year objective set out at the 2023 annual shareholder meeting. KBSV believes the target of ~12.1% is perfectly possible, given the State Bank of Vietnam (SBV) cutting policy interest rates to pull lending interest rates down.

**The auction for debts related to Phong Phu Industrial Park has a starting price of VND7,934 billion**

On July 28, 2023, STB and Global Partnership Auction Group issued a notice of auctioning all 18 debts secured by Phong Phu Industrial Park. The starting price of the auctioned asset is VND7,934 billion. The deadline for the first payment (20%) is no later than December 21, 2023, and the remaining 80% shall be paid in two years 2024-2025. KBSV expects STB to successfully sell all debts related to Phong Phu IP this year, thus strengthening its financial position to make provision for the remaining VAMC bonds.

**We recommend BUY for STB with a target price of VND36,600/share**

Based on valuation results, business prospects, and possible risks, we recommend BUY for STB. The target price for 2023F is VND36,600/share, 17.7% higher than the closing price on September 18, 2023.

**Buy** maintain

**Target price VND36,600**

Upside	17.7%
Current price (Sep 18, 2023)	VND31,100
Consensus target price	VND36,152
Market cap (VNDbn/USDbn)	61,458/2.51

#### Trading data

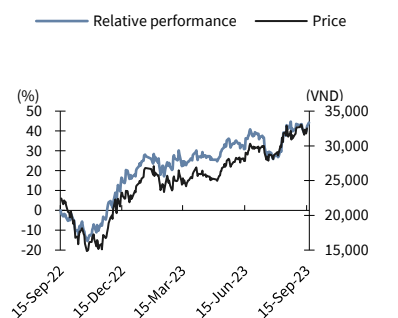
Free float	94.46
3M avg trading value (VNDbn/USDmn)	716.6/29.5
Foreign ownership	23.03
Major shareholder	PYN Elite Fund (4.94%)

#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	4	10	30	41
<b>Relative</b>	1	3	14	44

#### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	11,964	17,147	22,894	23,951
PPOP (VNDbn)	7,954	15,221	22,224	19,628
NPAT (VNDbn)	3,411	5,041	8,657	10,602
EPS (VND)	1,810	2,674	4,593	5,624
EPS growth (%)	27%	48%	72%	22%
PER (x)	17.2	11.6	6.8	5.5
Book value per share (VND)	18,174	20,489	25,082	30,706
PBR (x)	1.71	1.52	1.24	1.01
ROE (%)	10.8	13.8	20.2	20.2
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## Business performance

**2Q23 PBT touched VND2,373 billion, up 79.9% YoY**

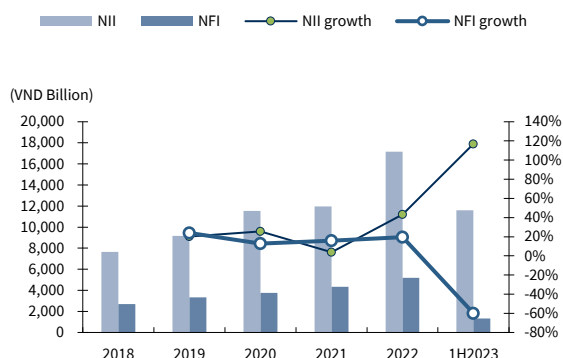
In 2Q23, STB generated NII of VND5,751 billion (-1.5% QoQ, +121.0% YoY) and NOI of VND332 billion (+8.8% QoQ, -81.4% YoY), TOI to VND6,737 billion (-0.9% QoQ, +9.9% YoY). Provisioning expense remained at a moderate level, reaching VND1,316 billion (+31.3% QoQ, -45.6% YoY), making PBT hit VND2,373 billion (-0.4% QoQ, +79.9% YoY).

**Table 1. STB – 2Q22–2Q23 business results**

(VND bn)	2Q2022	1Q2023	2Q2023	+/-%QoQ	+/-%YoY	Comments
Net interest income	2,602	5,837	5,751	-1.5%	121.0%	NII surged YoY due to 2Q22's low base and the reversal of all legacy accrued interest in 2Q22.
Net fee income	1,741	658	654	-0.7%	-62.4%	NFI decreased YoY due to a high base in 2Q22 when STB recorded an upfront fee after STB and Dai-ichi Life Vietnam upgraded the level of exclusive insurance agency contract.
Other income	1,786	305	332	8.8%	-81.4%	Net other income fell by 95.7% YoY due to STB's liquidation of fixed assets and recovery of loans previously written-off in 1H22. FX income reached VND245 billion (+1.4% YoY) while net gains from securities investment and trading segment were insignificant.
Total operating income	6,129	6,800	6,737	-0.9%	9.9%	
Operating expense	(2,390)	(3,416)	(3,049)	-10.7%	27.6%	
Pre-provision operating profit (PPOP)	3,740	3,384	3,688	9.0%	-1.4%	
Provision expense	(2,420)	(1,002)	(1,316)	31.3%	-45.6%	Provision expense reached VND782 billion in 2Q23, with VND533 billion set aside for VAMC bonds.
Profit before tax (PBT)	804	1,900	1,925	1.3%	139.5%	
Loan growth	6.9%	2.2%	5.0%	2.7 ppts	-1.8 ppts	Customer loan growth reached 2.7% QoQ, a humble increase compared to other banks in the system.
Deposit growth	6.1%	2.0%	5.8%	3.7 ppts	-0.3 ppts	Customer deposit growth increased by 10.3% YTD, higher than the average of 8.0% of banks under our coverage.
NIM	2.12%	4.12%	3.99%	-12 bps	187 bps	NIM slightly decreased by 12bps QoQ due to increased funding costs following the general trend of the banking system during this period. However, NIM increased by 187bps YoY since STB reversed accounts receivable in 2022, causing NII to decrease sharply.
Average earnings yield	5.84%	9.81%	9.85%	4 bps	401 bps	
Average cost of funds	3.92%	6.16%	6.36%	20 bps	244 bps	
CIR	39.0%	50.2%	45.3%	-4.9 ppts	6.2 ppts	
NPL	1.27%	1.19%	1.79%	59 bps	51 bps	NPL ratio picked up, with doubtful debt witnessing the highest increase (+24bps QoQ). Special mentioned loan expanded by 21bps after its good performance in 1Q23.

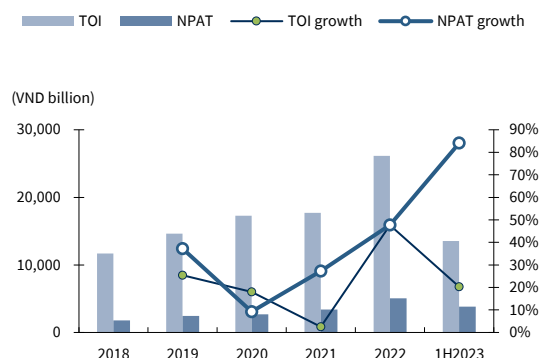
Source: Sacombank, KB Securities Vietnam

Fig 2. STB – NII & NFI growth (VNDbn, %)



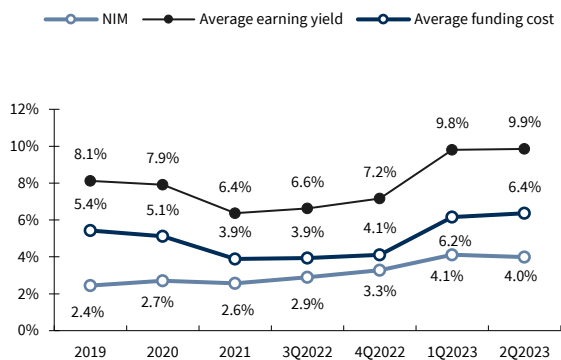
Source: Sacombank, KB Securities Vietnam

Fig 3. STB – TOI & NPAT growth (VNDbn, %)



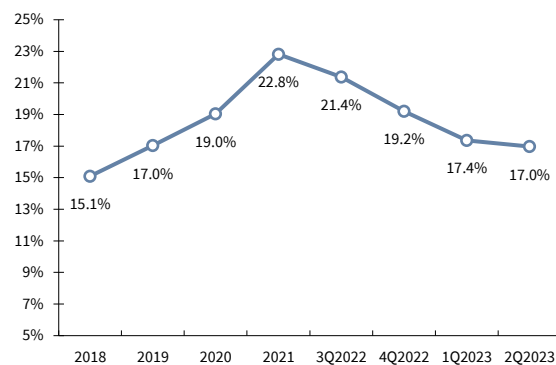
Source: Sacombank, KB Securities Vietnam

Fig 4. STB – NIM, average earnings yield & cost of funds (%)



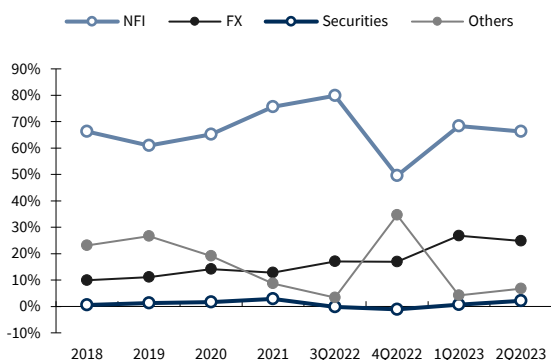
Source: Sacombank, KB Securities Vietnam

Fig 5. STB – CASA ratio (%)



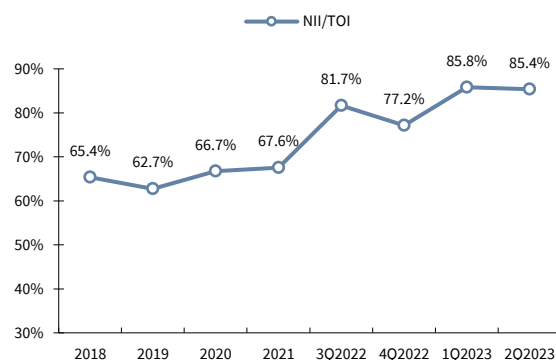
Source: Sacombank, KB Securities Vietnam

Fig 6. STB – NOII breakdown (%)



Source: Sacombank, KB Securities Vietnam

Fig 7. STB – NII/TOI (%)

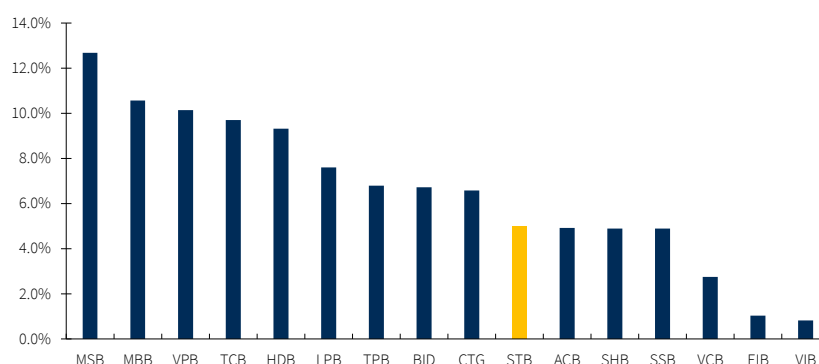


Source: Sacombank, KB Securities Vietnam

### Loan growth accomplished 41% of STB's full-year target

In the second quarter of 2023, STB's loan growth hit 5.0%, completing 41.3% of the full-year objective set at its 2023 shareholders' meeting. KBSV believes the target of ~12.1% is perfectly possible due to rising credit demand following lending interest rate cuts: (1) Funding costs should decrease in 2H23. Since the start of 2023, the central bank has cut policy interest rates four times, thus encouraging local banks to lower deposit interest rates in interbank and deposit markets. Along with that, 6 to 12-month term deposits enjoying high interest rates in 4Q22 will start maturing from 3Q23, easing pressure on funding costs and (2) the fact that borrowers can seek loans from different banks to prepay their existing loans as prescribed by Circular 06/2023 will increase competitive pressure and prompt credit institutions to reduce loan interest rates, thereby boosting credit demand in the second half of 2023.

Fig 8. Local banks - Loan growth in 1H23 (%YTD)



Source: Local banks, KB Securities Vietnam

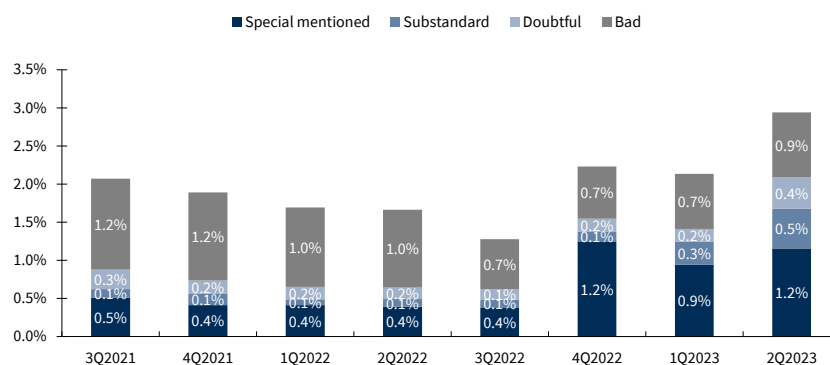
### Setting aside for 100% of VAMC bond value in 2023 is a feasible plan

STB's 2Q23 NPL ratio was 1.79% (+60bps QoQ), which is predictable in the context of economic difficulties that have caused NPLs to surge, forcing banks to step up provisioning since early 2023. Meanwhile, STB posted a specially mentioned loan of 1.16% (+21 bps QoQ), one of the lowest figures recorded across the banking system, easing provisioning pressure in 2H23. At the 2023 annual shareholder meeting, STB said it would try to set aside 100% of VAMC bond value this year. With about VND4,400 billion in VAMC-held debt balance needing provisioning and a relatively low loan loss coverage ratio of 77.1%, we believe STB will at least have to make an additional provision of over VND5,000 billion in the second half of 2023 to fulfill its target.

### The auction for debts related to Phong Phu Industrial Park has a starting price of VND7,934 billion

On July 28, 2023, STB and Global Partnership Auction Group issued a notice of auctioning all 18 debts secured by Phong Phu Industrial Park, located in Phong Phu Commune, Binh Chanh District, Ho Chi Minh City. The starting price of the auctioned asset is VND7,934 billion. The deadline for the first payment (20%) is no later than December 21, 2023, and the remaining 80% shall be paid in two years 2024-2025. KBSV expects STB to successfully sell all debts related to Phong Phu IP this year, thus strengthening its financial position to make provision for the remaining VAMC bonds.

Fig 9. STB – Debt groups in 2021–2023 (%)



Source: Sacombank, KB Securities Vietnam

Fig 10. Local banks – Correlation between special mentioned loan and NPL ratio

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

Source: Local banks, KB Securities Vietnam

## Forecast & Valuation

**Table 11. STB – 2022A–2024F business results**

(VND bn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	17,147	22,894	33.5%	23,951	4.6%	Our forecasts are based on our unchanged assumption that credit growth will reach 12% for the whole year.
Net fee income	5,194	4,648	-10.5%	5,360	15.3%	We expect NFI will improve in 2H23, similar to the recovery of loan growth.
Total operating income	26,141	37,039	41.7%	32,714	-11.7%	Our upward revision (21.4% higher than the previous projection) is due to STB booking revenue from selling debt related to Phong Phu Industrial Park.
Provision expense	(8,882)	(11,403)	28.4%	(6,376)	-44.1%	We assume STB makes full provision for the remaining VAMC bonds, increases provision expenses for 2H23 due to asset quality deterioration amid economic headwinds, and maintains the loan loss coverage ratio (LLCR) at 80%.
NPAT	5,041	8,657	71.7%	10,602	22.5%	
NIM	3.29%	3.94%	65bps	3.71%	-23bps	NIM is expected to remain high compared to 2022 but decrease slightly compared to 1H23 due to lower lending interest rates to boost loan growth.
Average earnings yield	7.16%	9.28%	211bps	8.54%	-74bps	
Average cost of funds	4.12%	5.80%	169bps	5.31%	-50bps	
CIR	41.8%	40.0%	-178bps	40.0%	0bps	
NPL	0.98%	1.70%	72bps	1.50%	-20bps	
Total assets	591,908	621,753	5.0%	712,699	14.6%	
Equity	38,627	47,285	22.4%	57,887	22.4%	

Source: KB Securities Vietnam

### We recommend BUY for STB with a target price of VND36,600/share

We combine P/B and residual income valuation methods equally to value STB.

#### (1) P/B valuation

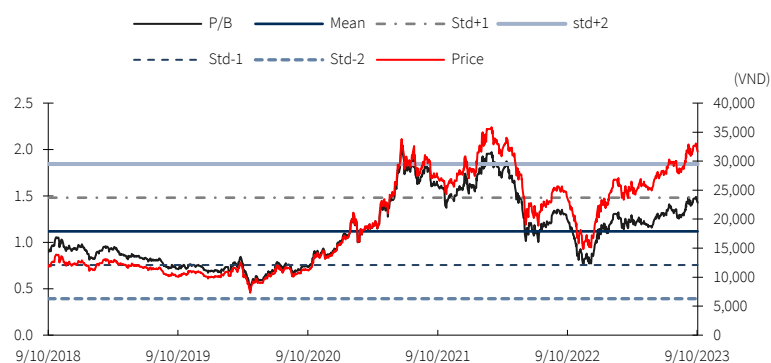
We raise the 2023 forward P/B for STB to 1.5x, equivalent to Std+1 of STB's 5-year average P/B, on expectations of high earnings growth, successful debt sale related to Phong Phu Industrial Park as well as expected divestment of the 32.5% stake in STB pledged as collateral for VAMC-held debt in the medium term.

#### (2) Residual income valuation (Table 14)

In addition, we use the residual income method to reflect systemic risk and long-term expectations.

Based on the above two valuation approaches, we recommend BUY for STB with a target price of VND36,600/share, 17.7% higher than the closing price on September 18, 2023. Some downside risks to our valuation include (1) rising provision expenses due to the higher-than-expected NPL ratio and (2) slower-than-expected progress of debt sale related to Phong Phu Industrial Park.

Fig 12. STB – Historical P/B in 2018–2023 (x)



Source: Fiiipro, KB Securities Vietnam

Table 13. STB – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	8,657	10,602	11,375
Excessed return	2,981	3,653	2,868
Required rate of return (r)	14.7%		
Growth (g)	5.0%		
Terminal value	8,867		
End-2023 fair price	67,048		
<b>Value per share</b>	<b>35,565</b>		

Source: KB Securities Vietnam

Table 14. STB – Valuation result

Valuation method	Forecast price	Weighting	Weighted price
P/B	37,623	50%	18,811
Residual income	35,565	50%	17,782
<b>Target price</b>			<b>36,600</b>

Source: KB Securities Vietnam

## STB – 2020A–2024F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Net interest income	11,527	11,964	17,147	22,894	23,951	Loans	334,855	381,012	432,998	484,548	558,049
Interest income	33,588	29,691	37,391	53,932	55,128	Marketable securities	-	-	-	-	-
Interest expense	(22,061)	(17,726)	(20,244)	(31,038)	(31,177)	Cash (ex. Reserves)	7,679	8,222	7,850	8,966	10,311
Fees & commissions	3,744	4,343	5,194	4,648	5,360	Interest earning assets	448,268	484,151	559,656	602,933	688,077
Other non-interest income	1,124	457	2,745	8,352	2,167	Fixed assets & other assets	46,056	41,503	44,467	37,956	42,603
Total operating income	17,271	17,704	26,141	37,039	32,714	Total assets	492,516	521,117	591,908	621,753	712,699
SG&A expenses	(10,895)	(9,750)	(10,921)	(14,816)	(13,086)	Customer deposits	427,972	427,387	454,740	491,263	564,953
Pre-provisioning OP	6,376	7,954	15,221	22,224	19,628	Borrowings & call money/repos	11,374	21,491	26,060	34,946	39,638
Provision for credit losses	(3,037)	(3,554)	(8,882)	(11,403)	(6,376)	Interest bearing liabilities	447,369	464,629	519,132	550,803	624,399
Other income	1,181	865	2,874	8,611	2,281	Other liabilities	16,191	22,226	34,148	23,666	30,413
Other expense	(57)	(408)	(129)	(258)	(114)	Total liabilities	463,560	486,856	553,281	574,468	654,812
Pre-tax income	3,339	4,400	6,339	10,822	13,252	Charter capital	18,852	18,852	18,852	18,852	18,852
Income tax expense	(657)	(989)	(1,298)	(2,164)	(2,650)	Capital surplus	64	1,748	1,748	1,748	1,748
NP	2,682	3,411	5,041	8,657	10,602	Retained earnings	7,304	9,907	13,972	22,630	33,232
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	2,682	3,411	5,041	8,658	10,602	Total shareholders' equity	28,956	34,261	38,627	47,285	57,887

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	9.6%	10.8%	13.8%	20.2%	20.2%	EPS	1,423	1,810	2,674	4,593	5,624
ROA	0.6%	0.7%	0.9%	1.4%	1.6%	BVPS	15,360	18,174	20,489	25,082	30,706
Pre-provision ROE	18.4%	19.8%	33.3%	41.4%	29.9%	Tangible BVPS	13,329	16,223	18,867	23,566	29,206
Pre-provision ROA	1.1%	1.2%	2.2%	2.9%	2.4%	<b>Valuations</b>					
Net interest margin (NIM)	2.7%	2.6%	3.3%	3.9%	3.7%	PER	219	17.2	116	6.8	5.5
<b>Efficiency</b>						PBR	2.0	1.7	1.5	1.2	1.0
Pure Loan to deposit ratio	79.5%	90.8%	96.5%	100.0%	100.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cost-income ratio	63.1%	55.1%	41.8%	40.0%	40.0%	ROE	9.6%	10.8%	13.8%	20.2%	20.2%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	8.6%	5.8%	13.6%	5.0%	14.6%	CAR	9.5%	9.9%	9.5%	>9%	>9%
Loan growth	14.7%	13.8%	13.6%	11.9%	15.2%	<b>Asset Quality</b>					
PPOP growth	18.7%	24.8%	91.3%	46.0%	-11.7%	NPL ratio (substandard)	17%	15%	10%	17%	15%
Parent NP growth	9.3%	27.2%	47.8%	71.8%	22.5%	Coverage ratio (substandard)	93.7%	118.6%	131.0%	80.4%	81.5%
EPS growth	9.3%	27.2%	47.8%	71.8%	22.5%	NPL ratio (precautionary)	1.9%	1.9%	2.2%	3.1%	2.9%
BVPS growth	8.3%	18.3%	12.7%	22.4%	22.4%	Coverage ratio (precautionary)	82.4%	94.7%	57.6%	44.1%	42.1%

Source: Sacombank, KB Securities Vietnam



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## Investment ratings & definitions

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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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