

BIDV (BID)

NIM should improve in 2024

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3Q23 PBT reached VND5,893 billion, down 2.2% YoY

For 3Q23, Bank for Investment & Development (BID) achieved net interest income (NII) of VND13,783 billion (-0.9% QoQ, -2.2% YoY) and non-interest income (NOII) of VND4,104 billion (+10.6% QoQ, +10.6% YoY), taking total operating income (TOI) to VND17,887 billion (+3.6% QoQ, +1.9% YoY). Provision expenses were VND5,950 billion (+51.3% QoQ, +9.6% YoY), making PBT down to VND5,893 billion (-15.2% QoQ, -11.7% YoY). For 9M23, PBT hit VND19,763 billion, up 11.8% YoY.

NIM is expected to rebound in 2024

KBSV expects BID's NIM to improve in 2024 as (1) 12M customer deposits with high interest rates in the 4Q22-1Q23 period will mature in the first half of 2024; (2) deposit interest rates are hovering at low levels; and (3) CASA should increase when businesses stabilize production and operations.

Asset quality was better controlled in 3Q23

BID's 3Q23 NPL ratio reached 1.60%, up 1bps QoQ. BID was among the banks with the lowest NPL formation rate in the entire banking system in the third quarter, only higher than VPBank (VPB) and Eximbank (EIB). Better asset quality coupled with the loan loss coverage ratio (LLCR) ranked third in the industry (158.4%) lay the foundation for BID to reach the target of setting aside VND20-21 trillion for 2023F.

We recommend BUY for BID with a target price VND47,900/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for BID. The target price for 2024F is VND47,900/share, 23.1% higher than the closing price as of December 4, 2023.

Buy update

Target price	VND47,900
Upside	23.1%
Current price (Dec 4, 2023)	VND38,900
Consensus target price	VND45,098
Market cap (VNDbn)	226,878

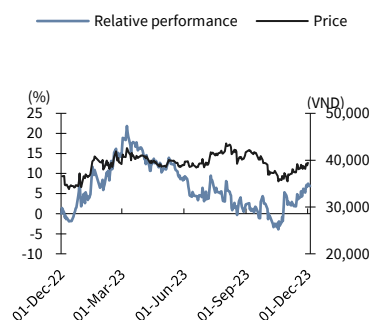
Trading data	
Free float	4.01%
3M avg trading value	41.9/1.71
Foreign ownership	17.22%
Major shareholder	State Bank (SBV) (80.99%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	7	-4	2	15
Relative	4	4	2	7

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	46,823	56,070	57,323	66,783
PPOP (VNDbn)	43,028	47,025	47,972	55,373
NAPT (VNDbn)	10,841	18,420	20,751	24,795
EPS (VND)	2,084	3,590	3,586	4,294
EPS growth (%)	20%	72%	0%	20%
PER (X)	18.7	10.8	10.8	9.1
Book value per share (VND)	17,066	20,597	21,864	26,158
PBR (x)	2.28	1.89	1.78	1.49
ROE (%)	13.1%	19.3%	18.1%	18.1%
Dividend yield (%)	0.51%	0.00%	0.00%	0.00%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q2023, EBT reached 5,893 billion VND, down 2.2% YoY

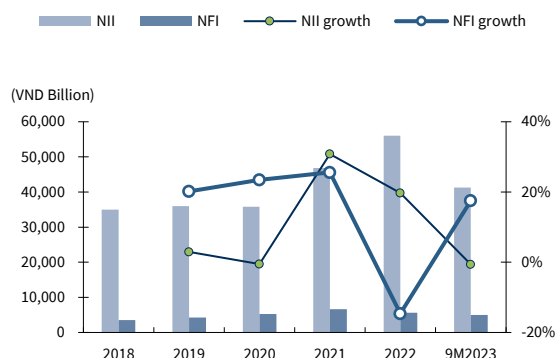
For 3Q23, BID achieved net interest income (NII) of VND13,783 billion (-0.9% QoQ, -2.2% YoY) and non-interest income (NOII) of VND4,104 billion (+10.6% QoQ, +10.6% YoY), taking total operating income (TOI) to VND17,887 billion (+3.6% QoQ, +1.9% YoY). Provision expenses were VND5,950 billion (+51.3% QoQ, +9.6% YoY), making PBT down to VND5,893 billion (-15.2% QoQ, -11.7% YoY). For 9M23, PBT hit VND19,763 billion, up 11.8% YoY.

Table 1. BID – 3Q22–3Q23 business results

(VNDbn)	3Q2022	2Q2023	3Q2023	%QoQ	%YoY	Comments
Net interest income	14,098	13,547	13,783	1.7%	-2.2%	NII diminished YoY due to slowing growth in interest-earning assets and shrinking NIM.
Net fee income	1,441	1,674	1,764	5.4%	22.4%	
Other income	2,015	2,036	2,340	14.9%	16.1%	FX gains jumped by 114.5% YoY while securities investment and trading lost VND180 billion. Net other income was VND741 billion (-28.4% QoQ, -29.9% YoY).
Total operating income	17,555	17,257	17,887	3.6%	1.9%	
Operating expenses	(5,452)	(6,374)	(6,044)	-5.2%	10.9%	
Pre-provision operating profit (PPOP)	12,102	10,884	11,842	8.8%	-2.1%	
Provision expenses	(5,429)	(3,933)	(5,950)	51.3%	9.6%	BID stepped up provisioning in 3Q23 as restructured loans under Circular 02 surpassed VND20,000 billion while the loan loss coverage ratio (LLCR) maintained around 158.4%, the third highest in the industry.
NPAT	5,354	5,550	4,728	-14.8%	-11.7%	
Loan growth	10.1%	6.7%	8.3%	1.5 ppts	-1.8 ppts	Retail lending was the growth driver in 3Q23 with outstanding loans up 3.9% QoQ while those of large corporate loans contracted by 1.4% QoQ. By the end of November 2023, loan growth exceeded 9% YTD.
Deposit growth	16.2%	-0.9%	-0.8%	0 ppts	-16.9 ppts	Deposit growth decreased primarily due to a sharp fall in government and SBV deposits (-91.3% YTD) while customer deposits grew 7.5% YTD. CASA reached 18.3%, up 133 bps QoQ, the second consecutive quarter of improvement. Still, it was not as good as the 2020–2022 period.
NIM	2.93%	2.62%	2.62%	0 bps	-31 bps	3Q23 NIM was flat QoQ, remaining low due to a sharp rise in funding costs caused by customer deposits with high interest rates in the 4Q22 period.
Average earnings yield	6.14%	7.36%	7.32%	-3 bps	117 bps	
Average cost of funds	3.42%	5.05%	5.01%	-3 bps	159 bps	
CIR	31.1%	36.9%	33.8%	-3.1 ppts	2.7 ppts	CIR improved QoQ but still increased YoY, mainly due to a 16.5% increase in staff costs following pay rises.
NPL ratio	1.35%	1.59%	1.60%	0 bps	25 bps	Substandard debt dropped by 20bps QoQ while doubtful debt expanded by 23bps QoQ. The positive signal was that special mentioned loan decreased by 32bps QoQ.

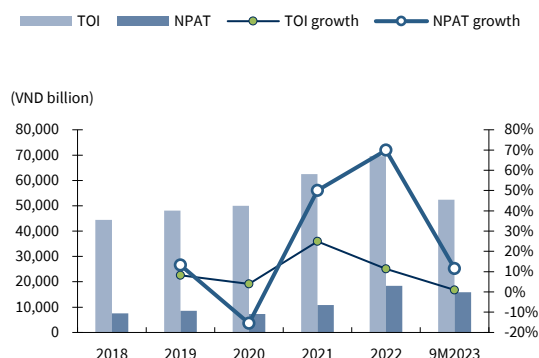
Source: Bank for Investment & Development, KB Securities Vietnam

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



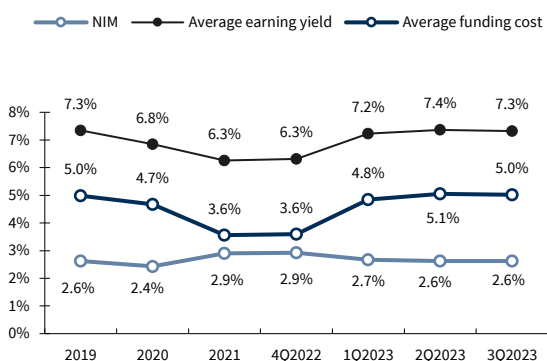
Source: Bank for Investment & Development, KB Securities Vietnam

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



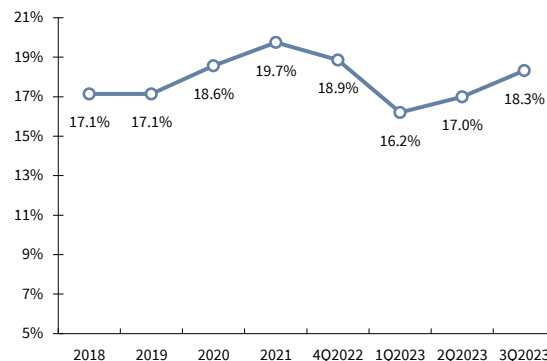
Source: Bank for Investment & Development, KB Securities Vietnam

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



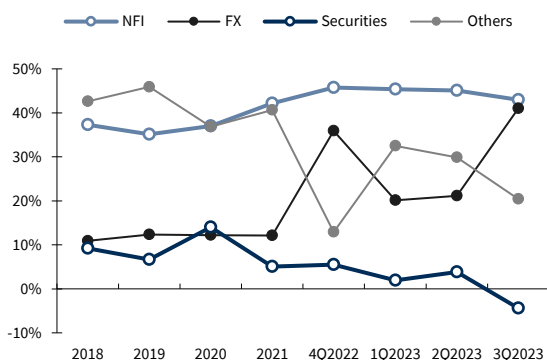
Source: Bank for Investment & Development, KB Securities Vietnam

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



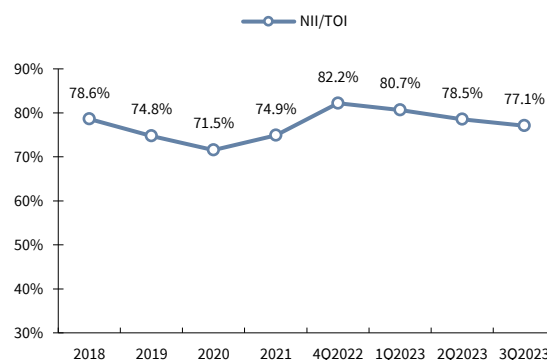
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 6. BID – NOII breakdown in 2018-2023 (%)



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 7. BID – NII/TOI (%)



Source: Bank for Investment & Development, KB Securities Vietnam

NIM is expected to rebound in 2024

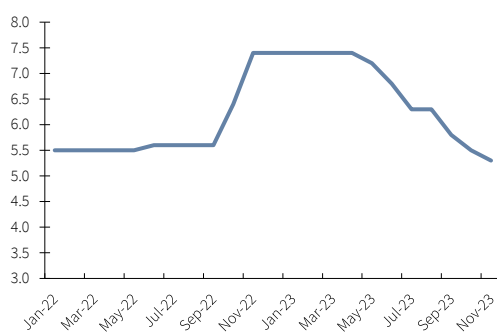
KBSV expects BID's NIM to improve in 2024 as:

- (1) 12M customer deposits with high interest rates in the 4Q22-1Q23 period (>7%, much higher than the 5.5% average of the same period a year earlier (Fig 8)) will mature in the first half of 2024. BID's deposits grew well in 4Q22 and 1Q23, up 4.2% and 1.6% respectively (Fig 9).
- (2) Deposit interest rates are hovering at low levels. Up to now, BID's 12-month

term deposit interest rate is at 5.3% (versus ~5.5% in 2022 when BID's funding costs were lowest in recent years). KBSV assesses that BID will very likely keep a low deposit interest rate of ~5.5% since borrowing demand cannot recover strongly in the foreseeable future.

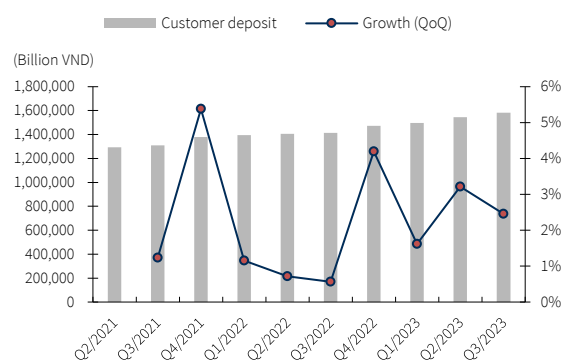
(3) CASA should recover when businesses stabilize production and operations. BID's CASA ratio reached 18.3% in 3Q23, the second consecutive quarter of improvement after hitting bottom in 1Q23 (16.2%). With large corporate loans accounting for about 56% of total outstanding loans as of the end of 3Q23, we believe BID's CASA ratio will return to ~19% in 2024 when businesses gradually restore production and business activities, contributing to improving BID's funding costs.

Fig 8. BID – 12M term deposit interest rate in 2022–2023 (%)



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 9. BID – Customer deposit growth in 2021–2023 (%)

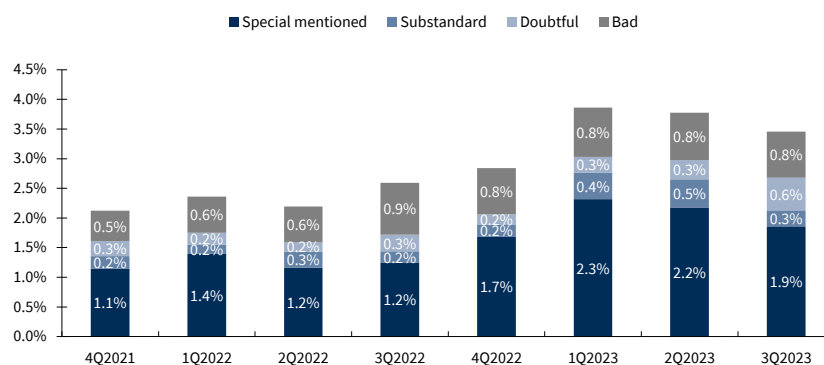


Source: Bank for Investment & Development, KB Securities Vietnam

Asset quality was better controlled in 3Q23

BID's 3Q23 NPL ratio reached 1.60%, up 1bps QoQ. BID was among the banks with the lowest NPL formation rate in the entire banking system in the third quarter, only higher than VPB and EIB. Apart from that, special mentioned loan reached 1.86%, down 32bps QoQ, the second successive quarter of decline after a sharp rise in 1Q23. Furthermore, BID was able to better control asset quality compared to others. Per our estimate, BID's NPL ratio was up 0.2% QoQ, lower than the average increase of 0.38% of banks under our coverage. In addition, per BID, restructured loans under Circular 02/NHNN as of end-3Q23 surpassed VND20,000 billion (equivalent to ~1.2% of total outstanding loans), with the majority recorded in 2Q23. Outstanding loans to real estate currently account for ~2% of total outstanding loans, while mortgage loans make up ~15% with an NPL ratio below 1%. Better asset quality coupled with the LLCR ranked third in the industry (158.4%) lay the foundation for BID to reach the target of setting aside VND20–21 trillion for 2023F.

Fig 10. BID – Debt groups in 2021–2023



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 11. Vietnam – Special mentioned loan and NPL ratio across local banks (%)

	% NPL	QoQ	% Group 2	QoQ	Provision (Billion VND)	LLCR
VPB	5.74%	-1.70%	8.03%	-0.16%	-12,768	42.7%
VIB	3.68%	0.05%	6.45%	0.08%	-3,739	41.4%
SHB	3.21%	0.19%	1.94%	-0.86%	-7,860	58.3%
TPB	2.97%	0.76%	3.77%	0.26%	-2,514	47.0%
MSB	2.94%	0.38%	3.25%	-0.15%	-2,415	58.2%
LPB	2.79%	0.36%	1.24%	-0.24%	-4,971	67.5%
HDB	2.26%	0.11%	5.04%	0.00%	-3,580	54.2%
STB	2.20%	0.41%	0.71%	-0.44%	-6,670	64.2%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
MBB	1.89%	0.44%	2.97%	-0.22%	-12,333	122.0%
BID	1.60%	0.00%	1.86%	-0.32%	-41,809	158.4%
CTG	1.37%	0.09%	2.37%	-0.21%	-32,661	172.4%
TCB	1.36%	0.29%	1.26%	-0.70%	-6,017	93.0%
VCB	1.21%	0.38%	0.64%	-0.04%	-38,872	270.1%
ACB	1.20%	0.23%	0.81%	-0.07%	-5,110	94.6%

Source: Local banks, KB Securities Vietnam

The charter capital was raised to VND57,005 billion due to stock dividend payment

BID recently approved a plan to use retained earnings in 2021 to issue shares for dividend payment, with an execution ratio of 100:12.69. Accordingly, the number of shares expected to be issued is 641,926 million. The ex-right date is November 28, 2023. After issuance, BID's charter capital increased to VND57,005 billion. Regarding BID's private placement for a strategic partner, BID will look for the partner itself and through a third party. There are now some potential partners, and BID is expected to get this done in 2024 or 2025. Some difficulties related to the deal include: (1) various options for partners to choose, given investment opportunities in other markets such as Singapore or Hong Kong now having attractive discounts and (2) the difference in operating policies as well as the large ownership ratio of the State Bank of Vietnam (SBV) at BID, so partners need time to evaluate.

Forecast & Valuation

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

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	56,070	57,323	2.2%	66,783	16.5%	Our forecast is based on the assumption that credit growth will reach 11.5% for 2023F.
Net fee income	5,648	6,309	11.7%	6,751	7.0%	
Total operating income	69,582	70,965	2.0%	81,311	14.6%	
Provision expenses	(24,015)	(22,058)	-8.1%	(24,379)	10.5%	Our 9.5% downward revision for provision expense forecast is due to better asset quality in 3Q 23.
NPAT	18,420	20,731	12.5%	24,795	19.6%	
NIM	2.92%	2.64%	-28bps	2.82%	18bps	2023F NIM forecast is adjusted down 19bps compared to the old forecast because the average cost of funds did not decrease as initially expected.
Average earnings yield	6.31%	6.80%	49bps	6.35%	-45bps	
Average cost of funds	3.60%	4.42%	82bps	3.76%	-66bps	
CIR	32.4%	32.4%	-2bps	31.9%	-50bps	
NPL	1.16%	1.60%	44bps	1.70%	10bps	
Total assets	2,120,609	2,278,678	7.5%	2,531,213	11.1%	
Equity	104,190	124,633	19.6%	149,112	19.6%	

Source: KB Securities Vietnam

We recommend BUY for BID with a target price VND47,900/share

We combine two valuation methods P/B and residual income (50:50 weighting) to find a fair price for BID.

(1) P/B method

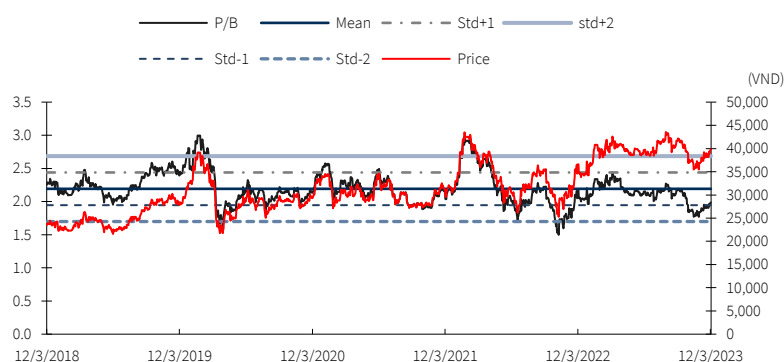
We maintain our forecast for 2023F P/B at 2.2x, equivalent to BID's 5-year average P/B.

(2) Residual income method (Table 14)

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

Accordingly, we upgrade our rating for BID from HOLD to BUY with a target price for 2024F of VND47,900/share, 23.0% higher than the closing price as of December 4, 2023.

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



Source: Fiinpro, KB Securities Vietnam

Table 14. BID – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	20,731	24,795	27,553
Excessed return	6,330	7,568	6,943
Required rate of return (r)	13.82%		
Growth (g)	5.0%		
Terminal value	36,471		
2023-end fair value	217,535		
Value per share	38,161		

Source: KB Securities Vietnam

Table 15. BID – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
P/B	57,548	50%	28,774
Residual income	38,161	50%	19,081
Target price			47,900

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	57,323	66,783	Loans	1,195,240	1,325,529	1,483,996	1,654,839	1,856,893
Interest income	100,688	101,008	121,111	147,725	150,442	Marketable securities	10,170	6,069	1,701	5,714	6,365
Interest expense	(64,891)	(54,185)	(65,041)	(90,402)	(83,659)	Cash (ex. Reserves)	12,294	12,661	13,745	15,110	16,831
Fees & commissions	5,266	6,614	5,648	6,309	6,751	Interest earning assets	1,485,093	1,743,024	2,092,669	2,249,782	2,489,215
Other non-interest income	5,093	6,179	4,210	3,469	3,186	Fixed assets & other assets	38,919	35,365	51,896	55,638	60,184
Total operating income	50,037	62,494	69,582	70,965	81,311	Total assets	15,16,686	1,761,696	2,120,609	2,278,678	2,531,213
SG&A expenses	(17,693)	(19,465)	(22,557)	(22,993)	(25,938)	Customer deposits	1,226,674	1,380,398	1,473,598	1,633,568	1,819,677
Pre-provisioning OP	32,344	43,028	47,025	47,972	55,373	Borrowings & call money/repos	76,090	138,032	170,289	205,231	228,407
Provision for credit losses	(23,318)	(29,481)	(24,015)	(22,058)	(24,379)	Interest bearing liabilities	1,402,248	1,641,777	1,973,861	2,114,393	2,335,166
Other income	7,993	8,957	6,526	5,337	4,902	Other liabilities	34,792	33,590	42,558	39,651	46,934
Other expense	(2,900)	(2,779)	(2,316)	(1,868)	(1,716)	Total liabilities	1,437,039	1,675,367	2,016,419	2,154,044	2,382,100
Pre-tax income	9,026	13,548	23,009	25,914	30,994	Charter capital	40,220	50,585	50,585	57,005	57,005
Income tax expense	(1,803)	(2,706)	(4,589)	(5,183)	(6,199)	Capital surplus	14,292	14,292	15,351	15,351	15,351
NP	7,224	10,841	18,420	20,731	24,795	Retained earnings	13,517	8,673	21,576	35,600	60,079
Minority interest profit	(227)	(301)	(262)	(288)	(316)	Capital adjustments	-	-	-	-	-
Parent NP	6,997	10,540	18,159	20,443	24,479	Total shareholders' equity	79,647	86,329	104,190	124,633	149,112

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%	18.1%	18.1%	EPS	1,740	2,084	3,590	3,586	4,294
ROA	0.5%	0.7%	0.9%	0.9%	1.0%	BVPS	19,803	17,066	20,597	21,864	26,158
Pre-provision ROE	32.9%	41.5%	39.5%	33.5%	32.4%	Tangible BVPS	18,744	16,196	19,720	21,061	25,364
Pre-provision ROA	1.7%	2.1%	1.9%	1.7%	1.8%	Valuations					
Net interest margin (NIM)	2.4%	2.9%	2.9%	2.6%	2.8%	PER	22.4	18.7	10.8	10.8	9.1
Efficiency						PBR	2.0	2.3	1.9	1.8	1.5
Pure Loan to deposit ratio	99.0%	98.1%	103.3%	103.9%	104.0%	Dividend yield	2.1%	0.5%	0.0%	0.0%	0.0%
Cost-income ratio	35.4%	31.1%	32.4%	32.4%	31.9%	ROE	9.2%	13.1%	19.3%	18.1%	18.1%
Growth						Capital Adequacy					
Asset growth	18%	16.2%	20.4%	7.5%	11.1%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	8.4%	10.9%	12.0%	11.5%	12.2%	Asset Quality					
PPOP growth	4.8%	33.0%	9.3%	2.0%	15.4%	NPL ratio (substandard)	18%	10%	12%	16%	17%
Parent NP growth	-16.4%	50.6%	72.3%	12.6%	19.7%	Coverage ratio (substandard)	89.2%	214.8%	216.8%	156.3%	110.6%
EPS growth	-16.4%	19.8%	72.3%	-0.1%	19.7%	NPL ratio (precautionary)	2.9%	2.1%	2.8%	3.6%	3.7%
BVPS growth	2.6%	-13.8%	20.7%	6.2%	19.6%	Coverage ratio (precautionary)	54.4%	101.1%	88.4%	69.5%	50.8%

Source: Bank for Investment & Development, KB Securities Vietnam

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Investment ratings & definitions

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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