

Sacombank (STB)

To complete the restructuring scheme in 1H2024

March 6, 2024

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4Q2023 PBT was up 45.1% YoY to VND2,755 billion

In 4Q2023, Sacombank (STB) achieved net interest income (NII) of VND5,633 billion (+16.1% QoQ, -6.8% YoY) and total operating income (TOI) of VND6,708 billion (-13.2% QoQ, -14.4% YoY). Provision expenses decreased significantly to VND544 billion (-34.2% QoQ, -83.5% YoY), helping PBT to touch VND2,755 billion (+32.1% QoQ, +45.1% YoY). For the whole year 2023, NII was down 6.8% YoY to VND22,072 billion while PBT was up 51.4% YoY to VND9,595 billion.

NIM slowed its rate of decline in 4Q2023 and is expected to rebound in 2024

NIM recorded 3.69% in the fourth quarter of 2023, relatively unchanged compared to the previous quarter following two consecutive quarters of sharp declines due to high funding costs and deteriorating asset quality. In our view, NIM has bottomed out and is set to recover well in 2024 based on: (1) the maturity of high-interest-bearing term deposits and (2) deposit interest rates hovering at low levels.

Asset quality was better controlled, and STB should settle the remaining VAMC balance of VND1,830 billion in 1H2024

The NPL formation rate was 0.1% in 4Q2023, significantly lower than in the previous three quarters, with the highest level of 0.6% observed in 2Q2023, showing STB's better control over asset quality. We expect STB to settle the remaining VAMC balance of VND1,830 billion in the first half of 2024.

We recommend BUY for STB with a target price of VND40,900/share

Considering the valuation results and business prospects, we recommend BUY for STB. The target price for 2024F is VND40,900/share, representing an expected 28.2% upside against the closing price on March 5, 2024.

Buy maintain

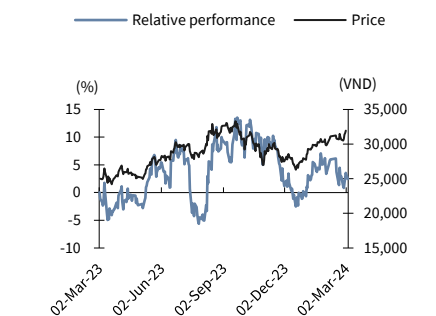
Target price	VND40,900
Upside	28.2%
Current price (Mar 5, 2024)	VND31,900
Consensus target price	VND38,700
Market cap (VNDbn/USDbn)	59,761/2.4

Trading data	
Free float	95.93
3M avg trading value (VNDbn/USDmn)	557.5/22.4
Foreign ownership	23.8
Major shareholder	Duong Cong Minh (3.32%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3	13	-4	24
Relative	-4	1	-5	2

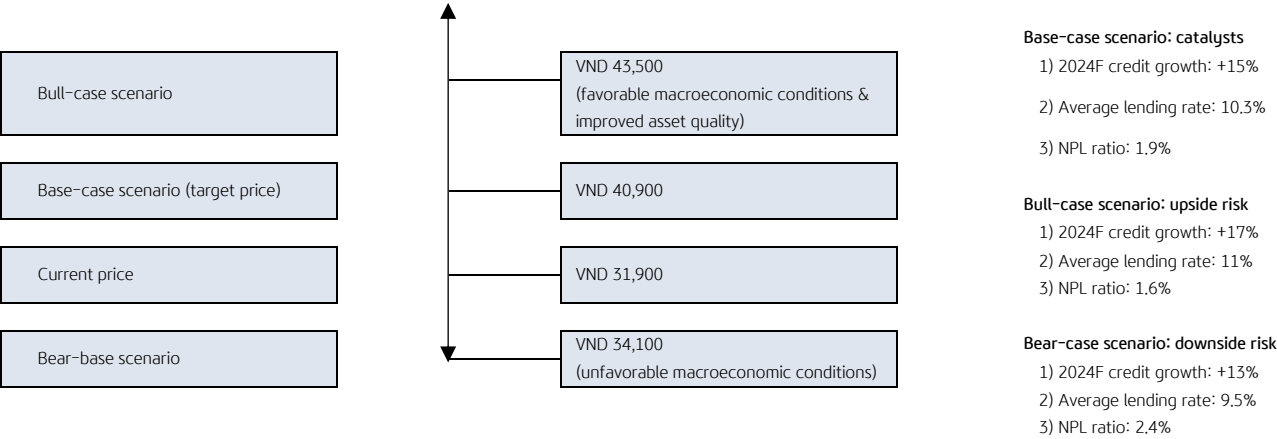
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net interest income (VNDbn)	17,147	22,072	25,538	28,253
PPOP (VNDbn)	15,221	13,283	17,157	20,914
NPAT (VNDbn)	5,041	7,719	9,762	15,477
EPS (VND)	2,674	4,094	5,178	8,210
EPS growth (%)	48%	53%	26%	59%
PER (x)	10.1	6.6	5.2	3.3
Book value per share (VND)	20,489	24,259	29,438	37,647
PBR (x)	1.32	1.12	0.92	0.72
ROE (%)	13.8	18.3	19.3	24.5
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

Business performance

4Q2023 PBT was up 45.1% YoY to VND2,755 billion

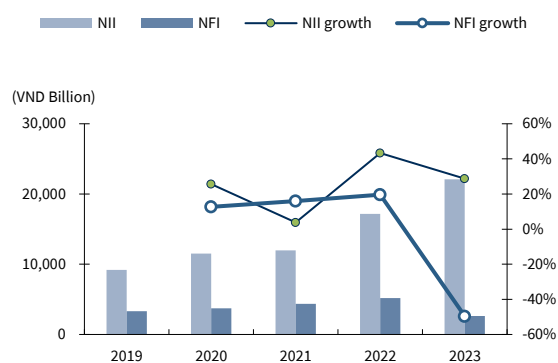
In 4Q2023, Sacombank (STB) achieved net interest income (NII) of VND5,633 billion (+16.1% QoQ, -6.8% YoY) and total operating income (TOI) of VND6,708 billion (-13.2% QoQ, -14.4% YoY). Provision expenses decreased significantly to VND544 billion (-34.2% QoQ, -83.5% YoY), helping PBT to touch VND2,755 billion (+32.1% QoQ, +45.1% YoY). For the whole year 2023, NII was down 6.8% YoY to VND22,072 billion while PBT was up 51.4% YoY to VND9,595 billion.

Table 1. STB – 4Q22–4Q23 business results

(VNDbn)	4Q2022	3Q2023	4Q2023	+/-%QoQ	+/-%YoY	KBSV's comments
Net interest income	6,043	4,851	5,633	16.1%	-6.8%	Net interest income in 4Q2023 improved well compared to the previous quarter thanks to good credit growth and reduced funding costs. However, it still dropped by 6.8% YoY in the context of funding costs remaining high in relation to the corresponding period a year earlier, caused by rising deposit interest rates in 4Q2022 and 1H2023 across the entire industry.
Net fee and commission income	886	720	586	-18.5%	-33.9%	Net gains from foreign exchange continued to remain high, reaching VND297 billion, contributing 60.7% of other income. Meanwhile, securities investment and trading did not contribute much. Other activities generated VND201 billion, equivalent to 61.5% of other income for the whole year 2023.
Other income	903	356	489	37.3%	-45.8%	
Total operating income	7,833	5,927	6,708	13.2%	-14.4%	
Operating expenses	(2,646)	(3,015)	(3,410)	13.1%	28.9%	
Pre-provision operating profit	5,187	2,912	3,299	13.3%	-36.4%	
Provision expenses	(3,288)	(827)	(544)	-34.2%	-83.5%	During the period, STB stepped up provisioning for customer loans of VND1,168 billion (+250.5% QoQ).
NPAT	1,751	1,635	2,259	38.2%	29.0%	
Credit growth	13.1%	7.6%	10.1%	2.4 ppts	-3 ppts	Credit growth reached 10.1% YTD, lower than the average of 17.9% YTD of 15 banks under our coverage. Retail lending contributed the highest proportion, accounting for 56% of the total outstanding loans, real estate outstanding balance made up 10%, largely mortgage loans.
Deposit growth	11.7%	8.9%	11.4%	2.4 ppts	-0.3 ppts	
NIM	3.29%	3.70%	3.69%	0 bps	40 bps	NIM was almost flat QoQ after two consecutive quarters of decline following lower deposit interest rates as well as the maturity of high-interest-bearing term deposits.
Average earnings yield	7.16%	9.52%	9.36%	-15 bps	219 bps	
Average cost of funds	4.12%	6.34%	6.17%	-17 bps	205 bps	
CIR	33.8%	50.9%	50.8%	0 ppts	17 ppts	
NPL ratio	0.98%	2.20%	2.28%	7 bps	129 bps	Doubtful and bad debt increased by 27bps QoQ and 12bps QoQ, respectively, while special mentioned loan only inched up 1bps QoQ.

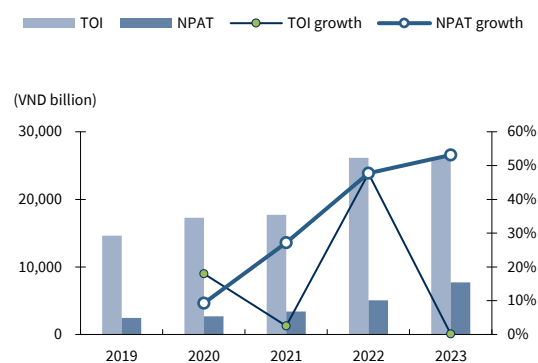
Source: Sacombank, KB Securities Vietnam

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



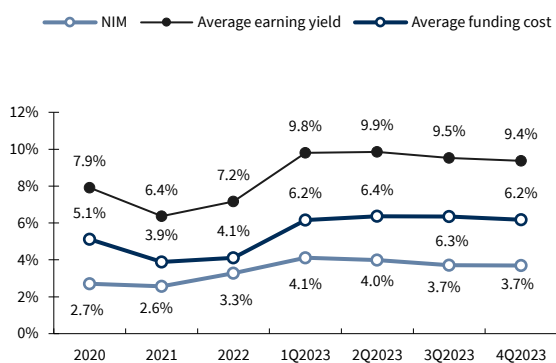
Source: Sacombank, KB Securities Vietnam

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



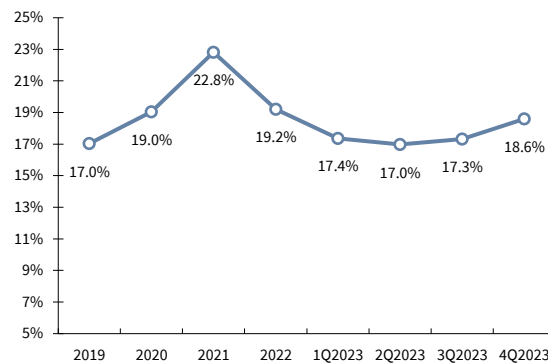
Source: Sacombank, KB Securities Vietnam

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



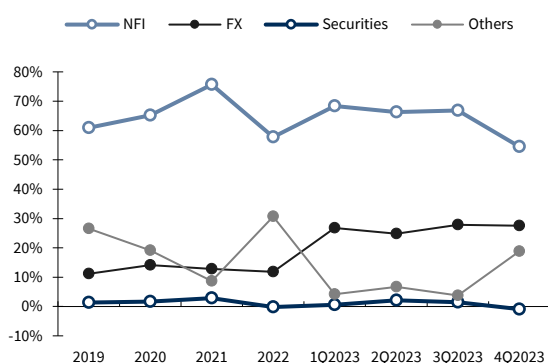
Source: Sacombank, KB Securities Vietnam

Fig 5. STB – CASA ratio in 2019–2023 (%)



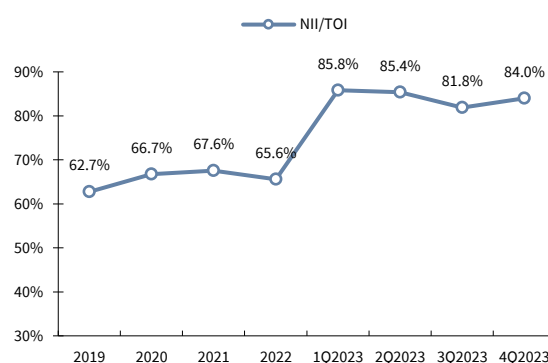
Source: Sacombank, KB Securities Vietnam

Fig 6. STB – NOI breakdown (%)



Source: Sacombank, KB Securities Vietnam

Fig 7. STB – NII/TOI (%)



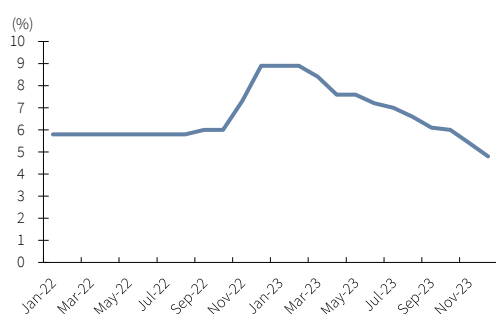
Source: Sacombank, KB Securities Vietnam

NIM slowed its rate of decline in 4Q2023 and is expected to rebound in 2024

NIM recorded 3.69% in the fourth quarter of 2023, relatively unchanged compared to the previous quarter following two consecutive quarters of sharp declines due to high funding costs and deteriorating asset quality. In our view, NIM has bottomed out and is set to recover well in 2024 based on:

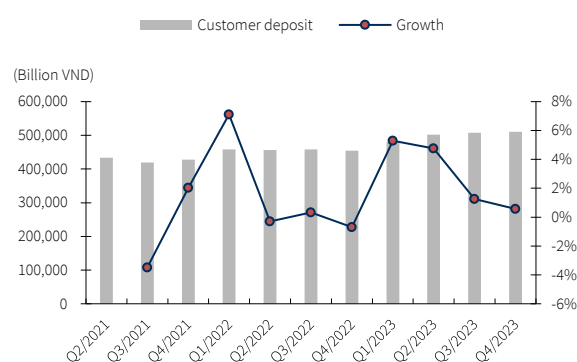
- (1) High-interest-bearing 12M term deposits recorded in 4Q2022–2Q2023 will mature in 1H2024. These are deposits with interest rates above 7.5%, much higher than the average of ~5.5% in the previous period (Fig 8).
- (2) Deposit interest rates are being maintained at low levels. Up to now, STB's 12M deposit interest rate is at 4.8% against ~5.5% in 2022 (2022 recorded the lowest cost of capital over recent years). KBSV believes that STB will continue to maintain a low deposit interest rate of ~5% in the context that borrowing demand cannot recover strongly in the foreseeable future while STB is maintaining the net loan-to-deposit ratio (LDR) at 95%, lower than the industry average of 105%.
- (3) Lending interest rates will follow the overall decline of the entire industry but experience a lag against the decrease in deposit interest rates when the bank needs to maintain lending interest rates high enough in anticipation of the possible decline in asset quality.

Fig 8. STB – 12M term deposit interest rate (%)



Source: Sacombank, KB Securities Vietnam

Fig 9. STB – Customer deposit growth (VNDbn, %QoQ)



Source: Sacombank, KB Securities Vietnam

Asset quality was better controlled

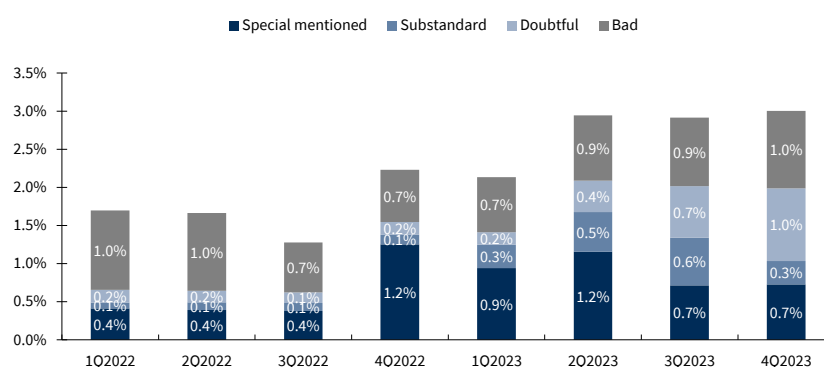
The NPL ratio was 2.28% (+7bps QoQ) in 4Q2023, marking the fifth consecutive quarter of increase. The NPL formation rate was 0.1% in the period, significantly lower than in the previous three quarters, with the highest level of 0.6% observed in 2Q2023, showing STB's better control over asset quality. Notably, special mentioned loan stood at 0.73%, placing STB among the banks with the lowest special mentioned loan ratio, thus easing provisioning pressure in the near term. Outstanding restructured loans under Circular No. 02/2023–NHNN reached VND1,873 billion, equaling 0.4% of the total outstanding loans.

STB should settle the remaining VAMC balance of VND1,830 billion in 1H2024

STB made a provision for credit losses of ~VND1,168 billion (+250.5% QoQ) and estimated a reversal of ~VND624 billion for the VAMC balance. In 4Q2023, STB booked VND4,145 billion for VAMC. We expect STB to clear the remaining VAMC balance of VND1,830 billion in the first half of 2024.

We assess that STB's NPL ratio will likely remain elevated in the first half of 2024, given the ongoing economic recovery and STB's relatively low loan loss coverage ratio (LLCR). However, the lending structure seems relatively secure, with real estate outstanding balance accounting for 10% of total outstanding loans, including real estate investment project loans making up only ~1%. This provides a foundation for STB to manage asset quality effectively in 2024. STB plans to focus on directing capital towards production and business, living needs, and consumer credit with reasonable interest rates, ensuring the efficiency and stability of the capital and avoiding a strong emphasis on real estate lending in 2024.

Fig 10. STB – Lending structure in 2021–2023 (%)



Source: Sacombank, 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	5.01%	-0.73%	6.89%	-1.14%	51.7%
VIB	3.14%	-0.54%	5.57%	-0.88%	51.0%
SHB	2.85%	-0.36%	1.27%	-0.67%	77.7%
TPB	2.05%	-0.93%	2.81%	-0.96%	63.7%
MSB	2.87%	-0.07%	1.77%	-1.47%	55.2%
LPB	1.34%	-1.46%	1.13%	-0.11%	93.8%
HDB	1.79%	-0.47%	5.24%	0.20%	65.8%
STB	2.28%	0.07%	0.73%	0.01%	68.8%
EIB	2.64%	-0.11%	1.05%	-0.42%	42.7%
MBB	1.60%	-0.28%	2.28%	-0.69%	117.0%
BID	1.25%	-0.35%	1.58%	-0.28%	181.8%
CTG	1.13%	-0.24%	1.55%	-0.82%	167.2%
TCB	1.16%	-0.20%	0.86%	-0.40%	102.1%
VCB	0.98%	-0.23%	0.44%	-0.21%	230.3%
ACB	1.21%	0.14%	0.65%	-0.22%	91.2%

Source: Vietnamese banks, KB Securities Vietnam

Forecast & Valuation

Table 12. STB – 2023A–2024F business results

(VNDbn)	2023A	2024F	%YoY 2023	2025F	%YoY 2024	KBSV's comments
Net interest income	22,072	25,538	15.7%	28,253	10.6%	Our projection is based on the assumption that credit growth will reach 15% in 2024F and 2025F.
Net fee and commission income	2,618	4,185	59.9%	4,604	10.0%	
Total operating income	26,173	31,772	21.4%	38,374	20.8%	
Provision expenses	(3,688)	(4,955)	34.3%	(1,568)	-68.4%	We expect that STB will clear the remaining balance of VND1,830 billion at VAMC in the first half of 2024. The loan loss coverage ratio (LLCR) is expected at 67% in 2024–25F.
NPAT	7,719	9,762	26.5%	15,477	58.5%	
NIM	3.69%	3.86%	17bps	3.85%	-2bps	
Average earnings yield	9.36%	8.67%	-69bps	8.07%	-60bps	NIM should remain at ~3.8% in 2024–25F, an improvement compared to 2023 thanks to lower funding costs.
Average cost of funds	6.17%	5.33%	-84bps	4.75%	-58bps	
CIR	49.2%	46.0%	-325bps	45.5%	-50bps	
NPL ratio	2.28%	1.90%	-38bps	1.90%	0bps	
Total assets	674,390	725,109	7.5%	829,492	14.4%	
Owner's equity	45,734	55,496	21.3%	70,973	27.9%	

Source: KB Securities Vietnam

We recommend BUY for STB with a target price of VND40,900/share

We utilized two valuation methods, P/B and residual income, with an equal combination to determine a reasonable price for STB stocks.

(1) P/B method:

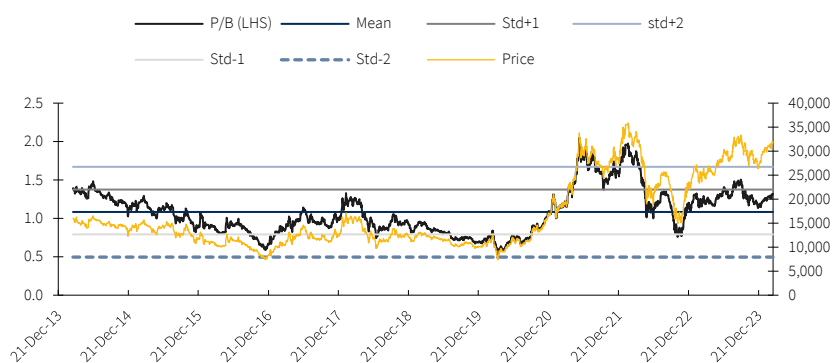
We raise our projection for STB's P/B in 2024F to 1.38x, equivalent to the standard deviation +1 of STB's 10-year average P/B ratio, due to expectations of improved NIM, the completion of the restructuring scheme, and better control over asset quality.

(2) Residual income method (Table 14):

Additionally, we incorporate the DCF method to reflect systemic risks and long-term expectations.

Accordingly, we arrive at a final reasonable price for STB stocks in 2024F of VND40,900 per share, representing an expected 28.2% upside against the closing price on March 5, 2023. Some downside risks that could derail our valuation are: (1) a significant increase in NPLs, leading to higher-than-expected provision expenses; (2) delays in the progress of stake sales related to the Phong Phu Industrial Park pledged as collateral to VAMC; and (3) unfavorable macroeconomic developments, negatively affecting loan growth and NIM of the bank.

Fig 13. STB – Historical P/B & share price performance in 2018–2023 (x, VND/share)



Source: Fiinpro, KB Securities Vietnam

Table 14. STB – Residual income valuation

(VNDbn)		2024F	2025F	2026F
NPAT		9,762	15,477	13,144
Excessed return		3,236	7,558	3,017
Required rate of return (r)	14.27%			
Growth (g)	5.0%			
Terminal value	8,628			
End-2024 fair value	77,566			
Value per share	41,144			

Source: KB Securities Vietnam

Table 15. STB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
P/B	40,624	50%	20,312
Residual income	41,144	50%	20,572
Target price			40,900

Source: KB Securities Vietnam

STB – 2021A–2025F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Net interest income	11,964	17,147	22,072	25,538	28,253	Loans	381,012	432,998	475,169	548,079	630,291
Interest income	29,691	37,391	55,927	57,300	59,290	Marketable securities	-	-	-	-	-
Interest expense	(17,726)	(20,244)	(33,855)	(31,763)	(31,037)	Cash (ex. Reserves)	8,222	7,850	7,545	8,892	10,226
Fees & commissions	4,343	5,194	2,613	4,185	4,604	Interest earning assets	484,151	559,656	635,164	686,352	783,186
Other non-interest income	457	2,745	327	799	4,162	Fixed assets & other assets	41,503	44,467	53,858	53,366	60,640
Total operating income	17,704	26,141	26,173	31,772	38,374	Total assets	521,117	591,908	674,390	725,109	829,492
SG&A expenses	(9,750)	(10,921)	(12,890)	(14,615)	(17,460)	Customer deposits	427,387	454,740	510,744	555,141	638,412
Pre-provisioning OP	7,954	15,221	13,283	17,167	20,914	Borrowings & call money/repos	21,491	26,060	29,407	37,471	42,528
Provision for credit losses	(3,554)	(8,882)	(3,688)	(4,955)	(15,668)	Interest bearing liabilities	464,629	519,132	578,121	613,463	693,946
Other income	865	2,874	445	1,141	4,381	Other liabilities	22,226	34,148	50,535	56,150	64,572
Other expense	(408)	(129)	(119)	(342)	(219)	Total liabilities	486,856	553,281	628,656	669,613	758,518
Pre-tax income	4,400	6,339	9,595	12,202	19,346	Charter capital	18,852	18,852	18,852	18,852	18,852
Income tax expense	(989)	(12,988)	(1,876)	(2,440)	(3,869)	Capital surplus	1,748	1,748	1,748	1,748	1,748
NP	3,411	5,041	7,719	9,762	15,477	Retained earnings	9,907	13,972	20,387	30,149	45,626
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	3,411	5,041	7,719	9,762	15,477	Total shareholders' equity	34,261	38,627	45,734	55,496	70,973

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	10.8%	13.8%	18.3%	19.3%	24.5%	EPS	1810	2,674	4,094	5,178	8,210
ROA	0.7%	0.9%	1.2%	1.4%	2.0%	BVPS	18,174	20,489	24,259	29,438	37,647
Pre-provision ROE	19.8%	33.3%	25.3%	27.1%	26.5%	Tangible BVPS	16,223	18,867	22,675	27,823	36,055
Pre-provision ROA	1.2%	2.2%	1.7%	2.0%	2.2%	Valuations					
Net interest margin (NIM)	2.6%	3.3%	3.7%	3.9%	3.8%	PER	15.0	10.1	6.6	5.2	3.3
Efficiency						PBR	15	13	11	0.9	0.7
Pure Loan to deposit ratio	90.8%	96.5%	94.5%	100.0%	100.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cost-income ratio	55.1%	41.8%	49.2%	46.0%	45.5%	ROE	10.8%	13.8%	18.3%	19.3%	24.5%
Growth						Capital Adequacy					
Asset growth	5.8%	13.6%	13.9%	7.5%	14.4%	CAR	9.9%	9.5%	>9%	>9%	>9%
Loan growth	13.8%	13.6%	9.7%	15.3%	15.0%	Asset Quality					
PPOP growth	24.8%	91.3%	-12.7%	29.2%	21.9%	NPL ratio (substandard)	15%	10%	2.3%	1.9%	1.9%
Parent NP growth	27.2%	47.8%	53.1%	26.5%	58.5%	Coverage ratio (substandard)	118.6%	131.0%	68.8%	66.9%	66.9%
EPS growth	27.2%	47.8%	53.1%	26.5%	58.5%	NPL ratio (precautionary)	1.9%	2.2%	3.0%	2.7%	2.7%
BVPS growth	18.3%	12.7%	18.4%	21.3%	27.9%	Coverage ratio (precautionary)	94.7%	57.6%	52.2%	47.1%	47.1%

Source: Sacombank, 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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