

BID Bank (BID)

High provision buffer

May 31, 2023

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1Q23 PBT gained 53.3% YoY to VND6,920 billion

In 1Q23, Bank for Investment & Development of Vietnam (BID) recorded VND13,936 billion in NII (+8.7% YoY) and VND17,278 billion in TOI (+6.5% YoY). Provision expenses were VND5,527 billion (-25.2% YoY), making PBT rise to VND6,920 billion (+53.3% YoY).

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

KBSV expects credit growth to reach 11–12%, based on (1) the State Bank's (SBV) moves to reduce policy interest rates to lower lending rates, thereby improving credit demand; and (2) SBV's net injection through OMO to ensure liquidity amid low deposit growth.

Expect NIM to improve slightly in 2H2023

KBSV expects BID's NIM to have a slight improvement in 2H23 as the SBV's move to reduce policy rates would help reduce average costs of fund (COF) while it may take longer to affect earnings yield, and interest rates should be adjusted in accordance with the risk level of each loan.

Large provision buffer is the basis for reducing provisioning in 2023

BID's management set a plan to make a provision of VND20–21 trillion, down 13% YoY. This is a big challenge, but BID would be supported by high provision buffer accumulated in previous years and the third highest loan loss coverage ratio (LLCR) in the industry (171.3%).

HOLD recommendation – target price VND46,300/share

Based on valuation results, business outlook and possible risks, we recommend HOLD for BID stocks. The target price for 2023 is VND46,300/share, 5.2% higher than the price on May 31, 2023.

Hold maintain

Target price VND46,300

Downside	5.2%
Current price (May 31, 2023)	VND44,000
Consensus target price	VND44,600
Market cap (VNDbn)	222,575

Trading data

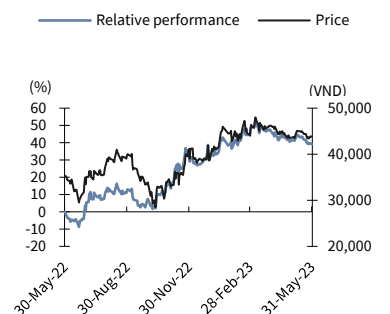
Free float	4.01%
3M avg trading value (VNDbn/USDmn)	34.8/1.5
Foreign ownership	17.24%
Major shareholder	State Bank of Vietnam (80.99%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	0	-9	6	22
Relative	-3	-11	4	39

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (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 updates

1Q23 PBT gained 53.3% YoY to VND6,920 billion

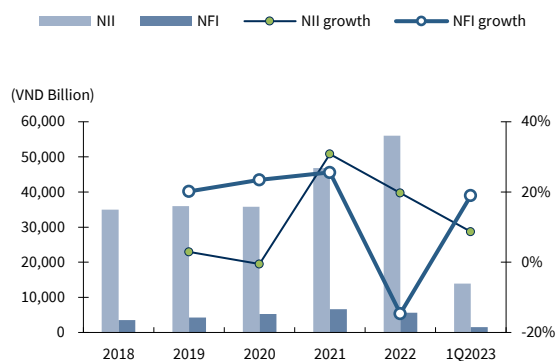
In 1Q23, BID recorded VND13,936 billion in NII (-4.1% QoQ, +8.7% YoY) and VND3,342 billion in non-interest income (NOII) (+6.2% QoQ, -1.7% YoY), making TOI reach VND17,278 billion (-2.3% QoQ, +6.5% YoY). Provision expenses were VND5,527 billion (+17.1% QoQ, -25.2% YoY), making PBT rise to VND6,920 billion (+28.6% QoQ, +53.3% YoY).

Table 1. BID – 1Q23 business results

	1Q22	1Q23	+/-%YoY	KBSV's notes
Net interest income	12,826	13,936	8.7%	
Net fee income	1,275	1,517	19.0%	BID recorded a good NFI growth after four consecutive quarters of loss, underpinned by trade finance activities.
Non-interest income	2,126	1,825	-14.2%	Net profit from other activities decreased by 33% YoY, which was partially offset by profit from FX activities, reaching VND673 billion (+15.1% YoY). The contribution from investment/proprietary securities was still quite limited.
Total operating income	16,227	17,278	6.5%	
Operating costs	(4,322)	(4,832)	11.8%	
Pre-provision profit	11,905	12,447	4.6%	
Provision expenses	(7,391)	(5,527)	-25.2%	Asset quality was affected by the general development of the economy, but provisioning decreased as BID maintained a high provision buffer in 2022, and LLCR as of 1Q23 reached 171.3%.
Profit after taxes	3,638	5,559	52.8%	
Credit growth	4.6%	4.9%	0.2 ppts	Large corporate customers (+8.0% YTD) were the driving force, while individuals grew 3.7% YTD and SMEs grew 2.5% YTD. BID's credit growth was the best among state-owned banks with CTG (+4.5% YTD) and VCB (+2.5% YTD).
Deposit growth	4.8%	-1.2%	-6 ppts	Deposit growth dropped sharply since businesses used mobilized money to support production and business activities amid difficulties in accessing good-priced capital. CASA reached 16.2%, down 2.7 ppts QoQ as customers switched from demand deposit to term to enjoy high interest rates.
NIM	2.87%	2.67%	-19 bps	NIM decreased by 25bps QoQ mainly due to high deposit interest rate in 3Q-4Q22, reflected in 1Q COF while the average earnings yield of BID gained 91bps QoQ (only higher than that of VCB, TCB and VPB).
Average earnings yield	6.03%	7.23%	119 bps	
Average COF	3.36%	4.85%	148 bps	
CIR	26.6%	28.0%	1.3 ppts	The increase in CIR comes from the 1ppts YoY increase in public administration expenses/TOI.
NPL	0.97%	1.55%	57 bps	NPLs increased, mainly due to substandard and doubtful debts (+24bps QoQ and +10bps QoQ respectively) while special mention increased 64bps QoQ.

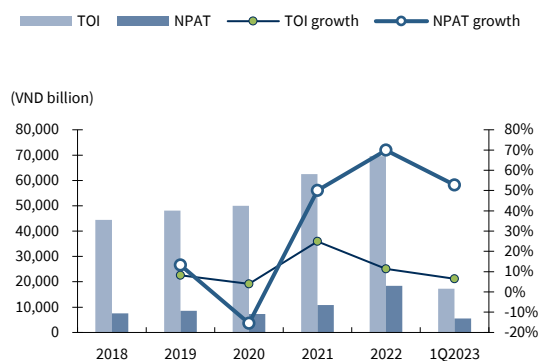
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 2. BID – NII & NFI growth (%)



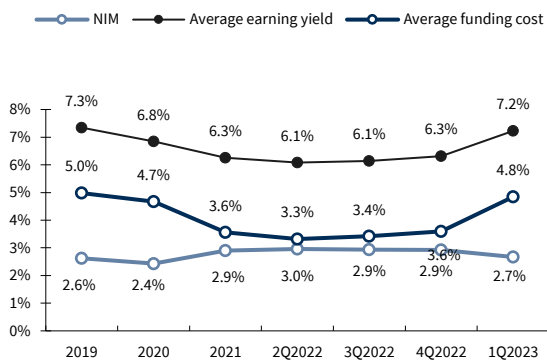
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 3. BID – TOI & NPAT growth (%)



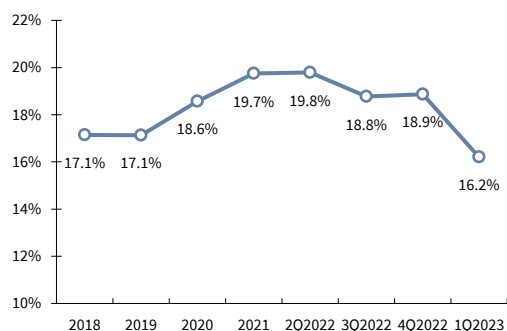
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 4. BID – Interest rates & NIM (%)



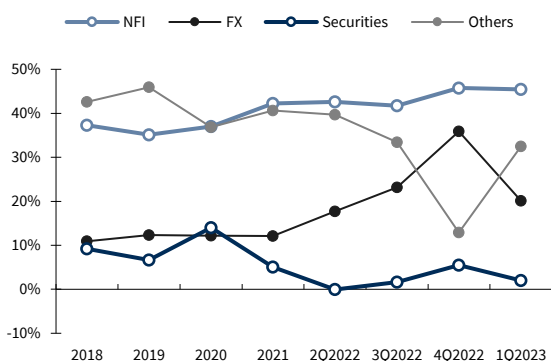
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 5. BID – CASA ratio (%)



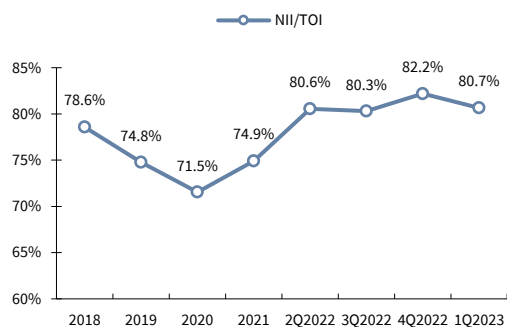
Source: Bank for Investment & Development, KB Securities Vietnam

Fig 6. BID – NOII structure



Source: Bank for Investment & Development, KB Securities Vietnam

Fig 7. BID – NII/TOI ratio (%)



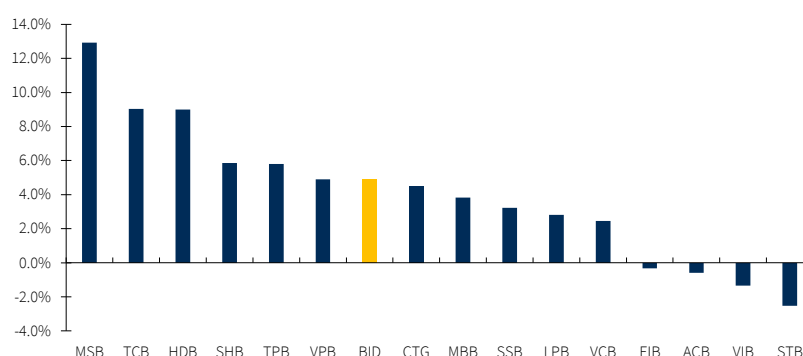
Source: Bank for Investment & Development, KB Securities Vietnam

Investment catalysts

A credit growth of 11–12% is feasible for 2023

BID's credit growth reached 4.6% (higher than the industry average of 2.06%), up 0.3 ppts YoY in 1Q, making BID the only state-owned bank with an improvement in credit growth over the same period. For the rest of the year, KBSV expects BID to achieve credit growth of 11–12%, based on ((1) the State Bank's (SBV) moves to reduce policy interest rates to lower lending rates, thereby improving credit demand (on May 23, the SBV reduced the policy rates with overnight interest rates and refinancing interest rates down by 0.5% while the ceiling interest rates for 1–6 month term deposit declined from 5.5% to 5.0%); and (2) SBV's net injection through OMO to ensure liquidity amid low deposit growth.

Fig 8. Vietnamese banks – Credit growth in 1Q23 (%)

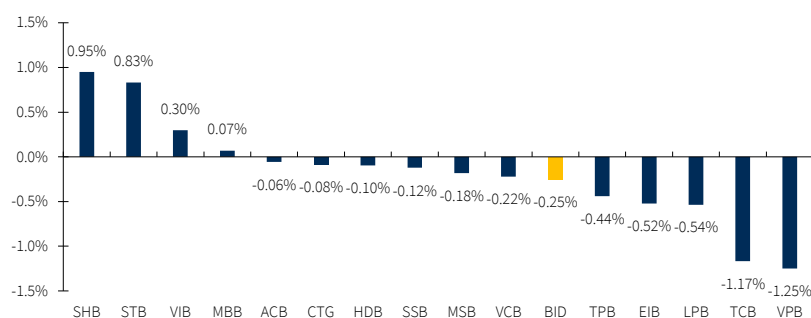


Source: Banks' financial statements, KB Securities Vietnam

NIM should be improved in 2H23

BID's 1Q NIM declined 25bps QoQ to 2.62% in the context of a sharp drop in NIM of the whole industry under the impact of high COF. KBSV expects BID's NIM to have a slight improvement in 2H23 as the SBV's move to reduce policy rates would help reduce average costs of fund (COF) while it may take longer to affect earnings yield, and interest rates should be adjusted in accordance with the risk level of each loan. However, we still maintain a cautious view on BID's NIM because as a leading bank, BID will actively reduce lending rates to support the economy.

Fig 9. Vietnamese banks – NIM in 1Q23 (%)

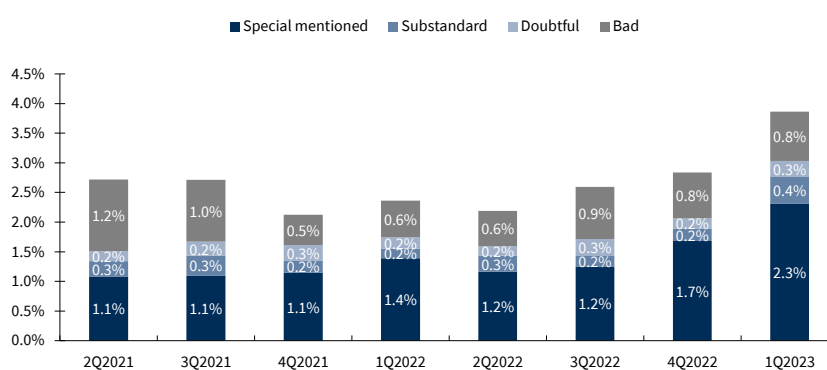


Source: Banks' financial statements, KB Securities Vietnam

Large provision buffer is the basis for reducing provisioning in 2023

BID's 1Q NPL ratio was 1.55% (+39bps QoQ), which is a higher increase compared to the two other state-owned banks, VCB and CTG. We maintain a cautious view on asset quality and provisioning pressure on BID for the rest of the year as special mention climbed 64bps QoQ to 2.32%. At the 2023 Annual General Meeting of Shareholders, BID's management proposed a provisioning plan of about VND20–21 trillion, down 13% YoY. This is a big challenge, but BID would be supported by high provision buffer accumulated in previous years and the third highest loan loss coverage ratio (LLCR) in the industry (171.3%), only after VCB (320.8%) and CTG (173.0%).

Fig 10. Vietnamese banks – NPL structure (%)



Source: Banks' financial statements, KB Securities Vietnam

Fig 11. Vietnamese banks – Correlation between bad debt and special mention

	% NPL	QoQ % Special Mentioned	QoQ	LLCR
VIB	3.64%	1.19%	5.43%	38.0%
MBB	1.76%	0.66%	3.46%	138.3%
TPB	1.45%	0.60%	4.02%	83.9%
VPB	6.24%	0.51%	8.22%	46.0%
BID	1.55%	0.39%	2.32%	171.3%
MSB	2.02%	0.32%	3.17%	65.2%
SHB	2.83%	0.31%	1.98%	72.7%
ACB	0.97%	0.24%	0.88%	116.6%
STB	1.19%	0.21%	0.94%	103.8%
HDB	1.85%	0.18%	3.21%	61.8%
VCB	0.85%	0.16%	0.64%	320.8%
CTG	1.28%	0.04%	2.67%	173.0%
LPB	1.45%	0.00%	1.99%	111.1%
TCB	0.85%	-0.06%	1.92%	133.8%
EIB	2.12%	-0.21%	1.46%	74.0%

Source: Banks' financial statements, KB Securities Vietnam

Forecast & valuation

Table 12. BID – 2022A–2024F results

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Net interest income	56,070	61,532	9.7%	67,935	10.4%	We maintain the forecast for credit growth at 11.5% and lower NIM forecast.
Net fee income	5,648	6,309	11.7%	6,751	7.0%	
Total operating income	69,582	75,975	9.2%	83,541	10.0%	Forecast income decreased 27.9% compared to the previous forecast, reflecting the ability to recover debt in 1Q23 is worse than expected.
Provision expenses	(24,015)	(26,174)	9.0%	(26,650)	1.8%	We maintain our provisioning expense forecast at a high level, reflecting concerns about new NPLs in the rest of 2023 amid a sharp increase in special mention in 1Q23.
Profit after taxes	18,420	20,392	10.7%	24,194	18.6%	
NIM	2.92%	2.82%	-11bps	2.84%	2bps	We lowered our NIM forecast by 3bps from our previous forecast, reflecting a lower-than-expected 1Q23 NIM. However, NIM is expected to rebound in 3Q and 4Q this year.
Average earnings yield	6.31%	6.79%	47bps	6.55%	-24bps	
Average cost of fund	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	2,298,667	8.4%	2,543,852	10.7%	
Owner equity	104,190	120,247	15.4%	140,078	16.5%	

Source: Bank for Investment & Development, KB Securities Vietnam

Valuation: HOLD recommendation with the target price of VND46,300 per share

We combine two pricing methods, P/B and residual income to find a fair price for BID stocks.

(1) P/B method:

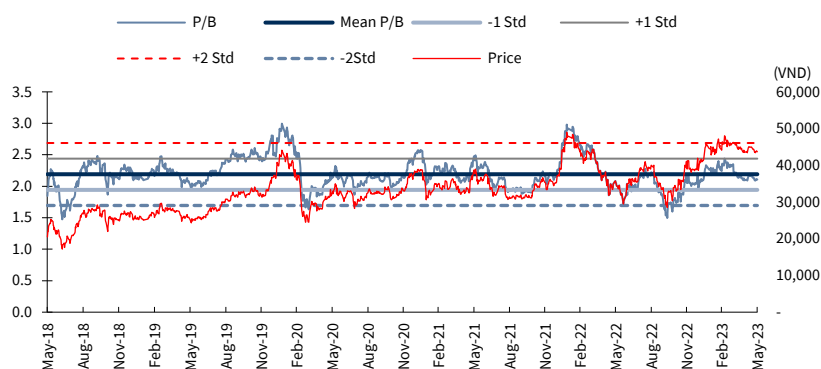
We maintain a forward P/B of 2023 at 2.2x, equivalent to BID's five-year average P/B.

(2) Residual income method (Table 14):

In addition, we incorporate a residual method of discounting to reflect systematic risk and long-term expectations.

Combining the above two valuation methods with a ratio of 50–50, we found the final fair price for BID shares for 2023 at VND46,300/share, 5.2% higher than the price on May 31, 2023.

Fig 13. BID – P/B in 2018–2023 (x)



Source: Fiiipro, KB Securities Vietnam

Table 14. BID – Valuation according to residual income method

	2023F	2024F	2025F
NPAT (VNDbn)	20,611	24,811	30,209
Excessed return (VNDbn)	6,141	8,081	10,638
Required rate of return (%)	13.89%		
Growth (%)	5.0%		
Terminal value (VNDbn)	43,019		
Present value ((VNDbn)	203,417		
Price (VND)	40,213		

Source: KB Securities Vietnam

Table 15. BID – Final valuation & target price (VND)

Method	Estimated price (VND)	Weight	Price per weight (VND)
P/B	52,297	50%	26,196
RIM	40,213	50%	20,106
Target Price (VND)			46,300

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	61,935	69,068	Loans	1,195,240	1,325,529	1,483,996	1,649,868	1,844,221
Interest income	100,688	101,008	121,111	148,214	156,857	Marketable securities	10,170	6,069	1,701	1,786	1,972
Interest expense	(64,891)	(54,185)	(65,041)	(86,279)	(87,789)	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	2,273,954	2,512,645
Other non-interest income	5,093	6,179	4,210	4,083	4,450	Fixed assets & other assets	38,919	35,365	51,896	55,143	59,705
Total operating income	50,037	62,494	69,582	76,379	84,674	Total assets	151,686	176,169	2,120,609	2,297,681	2,541,675
SG&A expenses	(17,693)	(19,465)	(22,557)	(24,441)	(27,011)	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	51,938	57,663	Borrowings & call money/repos	76,090	138,032	170,289	199,169	221,647
Provision for credit losses	(23,318)	(29,481)	(24,015)	(26,174)	(26,650)	Interest bearing liabilities	1,402,248	1,641,777	1,973,861	2,136,720	2,351,403
Other income	7,993	8,957	6,526	4,803	5,235	Other liabilities	34,792	33,590	42,558	40,494	49,357
Other expense	(2,900)	(2,779)	(2,316)	(720)	(785)	Total liabilities	1,437,039	1,675,367	2,016,419	2,177,214	2,400,760
Pre-tax income	9,026	13,548	23,009	25,764	31,014	Charter capital	40,220	50,585	50,585	50,585	50,585
Income tax expense	(1,803)	(2,706)	(4,589)	(5,153)	(6,203)	Capital surplus	14,292	14,292	15,351	15,351	15,351
NP	7,224	10,841	18,420	20,611	24,811	Retained earnings	13,517	8,673	21,576	37,853	58,301
Minority interest profit	(227)	(301)	(262)	(288)	(316)	Capital adjustments	-	-	-	-	-
Parent NP	6,997	10,540	18,159	20,324	24,495	Total shareholders' equity	79,647	86,329	104,190	120,467	140,915

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%	18.3%	19.0%	EPS	1,740	2,084	3,590	4,018	4,842
ROA	0.5%	0.7%	0.9%	0.9%	1.0%	BVPS	19,803	17,066	20,597	23,815	27,857
Pre-provision ROE	32.9%	41.5%	39.5%	37.0%	35.3%	Tangible BVPS	18,744	16,196	19,720	22,931	26,984
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	11.0	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%	18.3%	19.0%
Growth						Capital Adequacy					
Asset growth	1.8%	16.2%	20.4%	8.4%	10.6%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	8.4%	10.9%	12.0%	11.2%	11.8%	Asset Quality					
PPOP growth	4.8%	33.0%	9.3%	10.4%	11.0%	NPL ratio (substandard)	1.8%	1.0%	1.2%	1.6%	1.5%
Parent NP growth	-16.4%	50.6%	72.3%	11.9%	20.5%	Coverage ratio (substandard)	89.2%	214.8%	216.8%	174.6%	169.9%
EPS growth	-16.4%	19.8%	72.3%	11.9%	20.5%	NPL ratio (precautionary)	2.9%	2.1%	2.8%	3.6%	3.5%
BVPS growth	2.6%	-13.8%	20.7%	15.6%	17.0%	Coverage ratio (precautionary)	54.4%	101.1%	88.4%	77.6%	72.8%

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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