

June 22, 2023

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**1Q23 EBT reached VND2,383 billion, up 49.9% YoY**

In 1Q23, Sacombank (STB) recorded VND5,837 billion (-3.4% QoQ, +113.1% YoY) in NII and VND964 billion (-46.1% QoQ, -59.6% YoY) in NOII, making TOI VND6,800 billion (-13.2% QoQ, +32.7% YoY). Provision expense remained moderate, reaching VND1,002 billion (-69.5% QoQ, +42.2% YoY). 1Q EBT hit VND2,383 billion (+25.5% QoQ, +49.9% YoY).

**Credit growth planned for 2023 is 12.1%**

STB's credit growth in 1Q23 reached 2.1%, completing 17.3% of the plan set out at the AGM of 12.1% for the whole year of 2023. KBSV assessed that STB could complete the plan, based on (1) actions to reduce policy interest rates and (2) liquidity improvement thanks to high customer deposit growth in 1Q23.

**Provisioning 100% of VAMC bond value in 2023 is a feasible plan**

At the 2023 AGM, STB said it would try to make provision for 100% of the value of VAMC bonds this year. Asset quality is better controlled than the market average, and the reserve pressure is moderate, allowing STB to have enough balance to allocate profits to make provision for VAMC bonds as planned.

**BUY recommendation – target price VND35,300/share**

Based on valuation results, business outlook as well as considering possible risk factors, we recommend BUY for STB stock. The target price for 2023 is VND35,300/share, 17.8% higher than the price on June 22, 2023.

**Buy** maintain

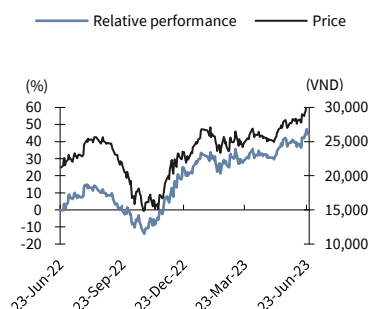
<b>Target price</b>	<b>VND35,300</b>
Upside	17.8%
Current price (Jun 26, 2023)	VND30,000
Consensus target price	VND36,152
Market cap (VNDbn)	56,556

<b>Trading data</b>	
Free float	93.37
3M avg trading value (VNDbn)	470.8
Foreign ownership	26.02
Major shareholder	Dragon Capital Fund (6.0%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	7	11	35	39
<b>Relative</b>	2	6	20	44

#### Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	11,964	17,147	22,984	24,105
Pre-provision operating profit (VNDbn)	7,954	15,221	18,314	19,559
NPAT of parent bank (VNDbn)	3,411	5,041	7,129	12,425
EPS (VND)	1,810	2,674	3,782	6,591
EPS growth (%)	27%	48%	41%	74%
PER (x)	16.6	11.2	7.9	4.6
Book value per share (VND)	18,174	20,489	24,271	30,863
PBR (x)	1.65	1.46	1.24	0.97
ROE (%)	10.8%	13.8%	16.9%	23.9%
Dividend yield (%)	0.00%	0.00%	0.00%	0.00%



Source: Bloomberg, KB Securities Vietnam

## 1Q23 performance updates

### 1Q23 EBT reached VND2,383 billion, up 49.9% YoY

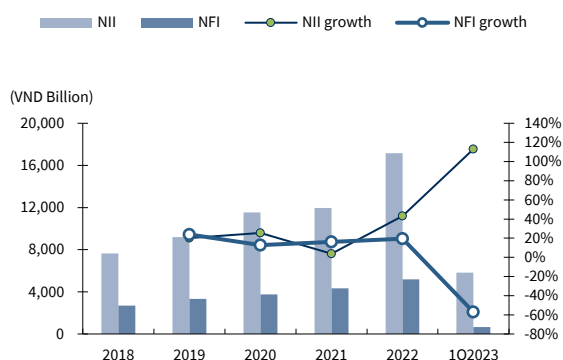
In 1Q23, Sacombank (STB) recorded VND5,837 billion (-3.4% QoQ, +113.1% YoY) in NII and VND964 billion (-46.1% QoQ, -59.6% YoY) in NOI, making TOI VND6,800 billion (-13.2% QoQ, +32.7% YoY). Provision expense remained moderate, reaching VND1,002 billion (-69.5% QoQ, +42.2% YoY). 1Q EBT hit VND2,383 billion (+25.5% QoQ, +49.9% YoY).

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

(VNDbn)	1Q22	4Q22	1Q23	+/-%QoQ	+/-%YoY	KBSV's notes
Net interest income	2,739	6,043	5,837	-3.4%	113.1%	Net interest income increased strongly thanks to a low base in 1Q22 due to low NIM during this period.
Net fee income	1,536	886	658	-25.7%	-57.1%	The decrease in net profit from service activities came from the decline in premium income and the absence of upfront fees as in 1Q22.
Non-interest income	850	903	305	-66.2%	-64.1%	Net profit from other activities decreased by 94.6% YoY due to the slow speed of bad debt recovery and no liquidation of fixed assets. Along with that, FX income reached VND258 billion, down 13.3% YoY.
Total operating income	5,125	7,833	6,800	-13.2%	32.7%	
Operating costs	(2,832)	(2,646)	(3,416)	29.1%	20.6%	
Pre-provisioning income	2,293	5,187	3,384	-34.8%	47.6%	
Provision expenses for credit risk	(705)	(3,288)	(1,002)	-69.5%	42.2%	During the period, STB's provision for VAMC bonds was estimated at VND1,076 billion while the net provision for current credit balance was minus VND61 billion.
Profit after taxes	1,274	1,751	1,900	8.5%	49.1%	
Credit growth	0.3%	3.9%	2.1%	-6.4 ppts	-2.8 ppts	Loan growth to customers reached 2.2% QoQ with motivation from SME group while outstanding corporate bonds remained unchanged.
Deposit growth	6.8%	11.7%	2.0%	-9.7 ppts	-4.8 ppts	Customer deposit growth increased by 5.3% YoY, about 3.7% higher than the industry average. Meanwhile, interbank deposits had a downward adjustment.
NIM	2.19%	3.29%	4.12%	83 bps	193 bps	NIM increased by 83bps QoQ, being the bank with the second best NIM growth in the system after SHB (+95bps QoQ), mainly thanks to a stronger increase in average lending interest rate compared to input interest rates.
Average earnings yields	5.98%	7.16%	9.81%	264 bps	382 bps	
Average cost of fund	3.96%	4.12%	6.16%	204 bps	219 bps	
CIR	55.3%	33.8%	50.2%	16.4 ppts	-5 ppts	
NPL	1.28%	0.98%	1.19%	21 bps	-9 bps	NPL increased mainly from substandard debt (+18bps QoQ). STB is a rare bank with special mention debt decreasing in 1Q23 (-31bps QoQ) thanks to its low real estate loan balance (10% for personal loans and 3% for project loans).

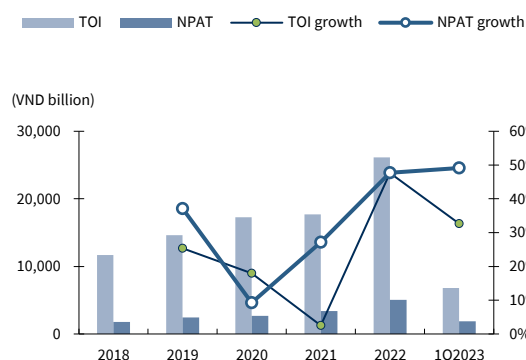
Source: Sacombank, KB Securities Vietnam

Fig 2. STB – NII & NFI growth in 2018–2023 (% YoY)



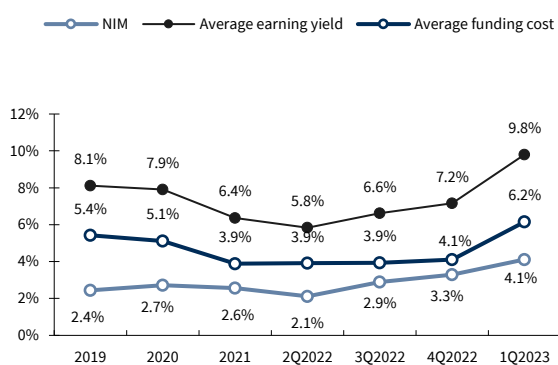
Source: Sacombank, KB Securities Vietnam

Fig 3. STB – Operating income and NPAT growth in 2018–2023 (% YoY)



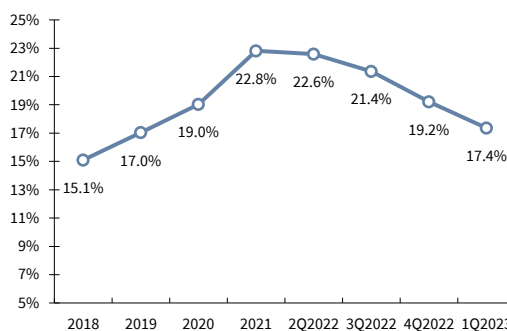
Source: Sacombank, KB Securities Vietnam

Fig 4. STB – Interest rate & NIM (%)



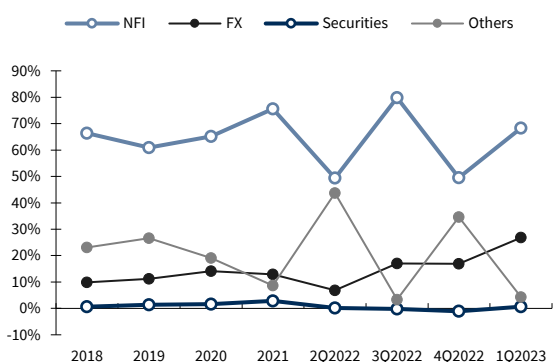
Source: Sacombank, KB Securities Vietnam

Fig 5. STB – CASA ratio (%)



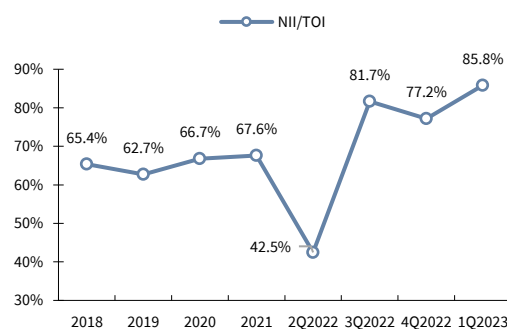
Source: Sacombank, KB Securities Vietnam

Fig 6. STB – NOI structure



Source: Sacombank, KB Securities Vietnam

Fig 7. STB – NII/operating income ratio (%)

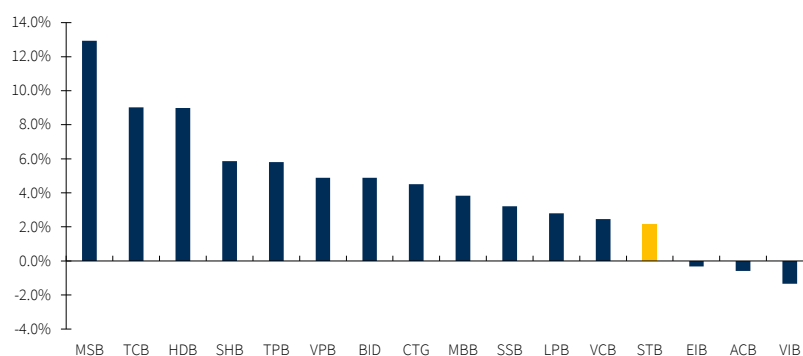


Source: Sacombank, KB Securities Vietnam

Credit growth planned for 2023 is 12.1%

STB's credit growth in 1Q23 reached 2.1%, completing 17.3% of the plan set out at the AGM of 12.1% for the whole year of 2023. KBSV assessed that STB could complete the plan, based on (1) actions to reduce policy interest rates and (2) liquidity improvement thanks to high customer deposit growth in 1Q23. STB is currently in the group of banks with a low LDR ratio in customer deposit market, reaching 90%, only higher than Vietcombank (VCB) and Eximbank (EIB).

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

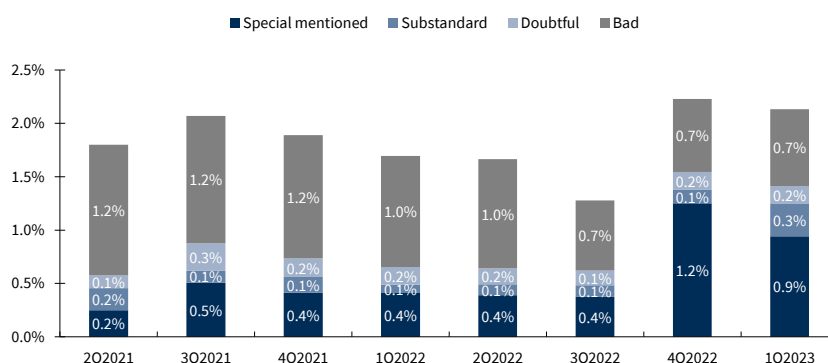


Source: Banks' statements, KB Securities Vietnam

Provisioning 100% of the value of VAMC bonds in 2023 is a feasible plan

STB's NPL ratio in 1Q23 reached 1.19% (+21 bps QoQ), one of the lowest in the banking industry, only higher than Asia Commercial Bank (ACB), Techcombank (TCB) and VCB. Besides, STB is a rare bank whose special mention debt decreased to 0.94% (-31bps QoQ) in 1Q23, thereby significantly reducing the pressure of provisioning bad debts in the rest of the year. At the 2023 AGM, STB said it would try to make provision for 100% of the value of VAMC bonds this year. Asset quality is better controlled than the market average, and the reserve pressure is moderate, allowing STB to have enough balance to allocate profits to make provision for VAMC bonds as planned.

Fig 9. STB – NPL structure in 2021-2023



Source: Sacombank, KB Securities Vietnam

Fig 10. Vietnamese banks – Special mention &amp; NPLs

	% NPL	QoQ	% Group 2 Debt	QoQ	Provision (Billion VND)	LLCR
VPB	6.24%	0.51%	8.22%	2.78%	-13,323	46.0%
VIB	3.64%	1.19%	5.43%	1.05%	-3,173	38.0%
SHB	2.83%	0.31%	1.98%	1.01%	-8,409	72.7%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
MSB	2.02%	0.32%	3.17%	1.81%	-1,805	65.2%
HDB	1.85%	0.18%	3.21%	0.41%	-3,290	61.8%
MBB	1.76%	0.66%	3.46%	1.77%	-11,687	138.3%
BID	1.55%	0.39%	2.32%	0.64%	-42,359	171.3%
LPB	1.45%	0.00%	1.99%	0.48%	-3,911	111.1%
TPB	1.45%	0.60%	4.02%	2.10%	-2,094	83.9%
CTG	1.28%	0.04%	2.67%	0.32%	-29,470	173.0%
STB	1.19%	0.21%	0.94%	-0.31%	-5,547	103.8%
ACB	0.97%	0.24%	0.88%	0.31%	-4,668	116.6%
TCB	0.85%	-0.06%	1.92%	-0.15%	-5,280	133.8%
VCB	0.85%	0.16%	0.64%	0.29%	-31,894	320.8%

Source: Banks' statements, KB Securities Vietnam

## Forecast & valuation

**Table 11. STB – 2023–2024F business results**

(VNDbn)	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Net interest income	17,147	22,984	34.0%	24,105	4.9%	The forecast is based on the assumption that credit growth in 2023 will reach 12%.
Net fee income	5,194	5,165	-0.6%	5,956	15.3%	It is expected that NFI will improve in 2H23 along with the recovery of credit growth.
Total operating income	26,141	30,522	16.8%	32,599	6.8%	
Provision expenses	(8,882)	(9,402)	5.9%	(4,028)	-57.2%	Assuming that STB makes full provision for the remaining VAMC bonds, asset quality will be partly affected by the overall negative movements of the economy.
Profit after taxes	5,041	7,129	41.4%	12,425	74.3%	
NIM	3.29%	3.96%	67bps	3.74%	-22bps	NIM should remain high compared to 2022 but slightly lower than 1Q23 due to lower lending rates to boost credit growth.
Average earnings yield	7.16%	9.28%	212bps	8.54%	-74bps	
Average cost of fund	4.12%	5.80%	168bps	5.29%	-51bps	
CIR	41.8%	40.0%	-178bps	40.0%	0bps	
NPL	0.98%	1.10%	12bps	1.10%	0bps	
Total assets	591,908	618,832	4.5%	707,821	14.4%	
Owner's equity	38,627	45,757	18.5%	58,183	27.2%	

Source: Sacombank, KB Securities Vietnam

### Valuation – BUY recommendation, price 35,300 VND/share

We combine two valuation methods, P/B and residual income to find a fair price for STB stock:

(1) P/B valuation method:

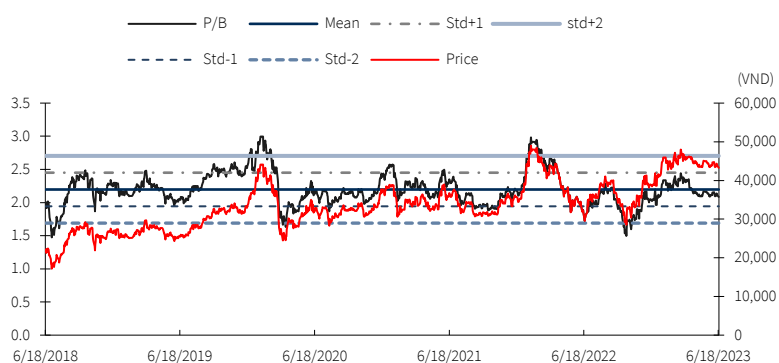
We maintain a forward P/B of 2023 at 1.1x, equivalent to STB's 5-year average P/B

(2) Residual income method (Table 14):

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

Combining the above two valuation methods with the ratio of 50–50, we find the final fair price for STB shares for 2023 at VND35,300/share, 17.8% higher than the price on June 22, 2023. Some risks that could affect our valuation include (1) high NPLs, making provisioning higher than expected and (2) credit growth not reaching the target due to the general difficulties in the economy.

Fig 22. STB – P/B in 2018–2023 (x)



Source: Fiiipro, KB Securities Vietnam

Table 13. STB – Stock valuation according to residual income method

(VNDbn)	2023F	2024F	2025F
Profit after taxes	7,129	12,425	14,534
Excessed return	1.453	5.701	5.983
Cost of capital	14.7%		
Growth	5.0%		
Final value	17,571		
Fair value at the end of 2023	82,960		
<b>Value of STB stock (VND)</b>	<b>44,005</b>		

Source: KB Securities Vietnam

Table 24. STB – Final valuation &amp; target price

Valuation method	Forecast price	Weight	Price per weight
P/B	26,699	50%	13,349
Residual income	44,005	50%	22,003
<b>Target price (VND)</b>			<b>35,300</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	22,984	24,105	Loans	334,855	381,012	432,998	485,661	557,889
Interest income	33,588	29,691	37,391	53,928	55,123	Marketable securities	-	-	-	-	-
Interest expense	(22,061)	(17,726)	(20,244)	(30,944)	(31,018)	Cash (ex. Reserves)	7,679	8,222	7,850	8,966	10,311
Fees & commissions	3,744	4,343	5,194	5,165	5,956	Interest earning assets	448,268	484,151	559,656	602,570	687,660
Other non-interest income	1,124	457	2,745	1,231	1,303	Fixed assets & other assets	46,056	41,503	44,467	34,285	38,303
Total operating income	17,271	17,704	26,141	30,522	32,599	Total assets	492,516	521,117	591,908	618,832	707,821
SG&A expenses	(10,895)	(9,750)	(10,921)	(12,209)	(13,040)	Customer deposits	427,972	427,387	454,740	491,263	564,953
Pre-provisioning OP	6,376	7,954	15,221	18,314	19,559	Borrowings & call money/repos	11,374	21,491	26,060	32,260	36,549
Provision for credit losses	(3,037)	(3,554)	(8,882)	(9,402)	(4,028)	Interest bearing liabilities	447,369	464,629	519,132	548,123	624,142
Other income	1,181	865	2,874	1,776	1,880	Other liabilities	16,141	22,226	34,148	24,952	25,496
Other expense	(57)	(408)	(129)	(546)	(578)	Total liabilities	463,560	486,856	553,281	573,076	649,638
Pre-tax income	3,339	4,400	6,339	8,912	15,531	Charter capital	18,852	18,852	18,852	18,852	18,852
Income tax expense	(657)	(989)	(1,298)	(1,782)	(3,106)	Capital surplus	64	1,748	1,748	1,748	1,748
NP	2,682	3,411	5,041	7,129	12,425	Retained earnings	7,304	9,907	13,972	21,101	33,527
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	2,682	3,411	5,041	7,130	12,426	Total shareholders' equity	28,956	34,261	38,627	45,757	58,183

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%	16.9%	23.9%	EPS	1,423	1,810	2,674	3,782	6,591
ROA	0.6%	0.7%	0.9%	1.2%	1.9%	BVPS	15,360	18,174	20,489	24,271	30,863
Pre-provision ROE	18.4%	19.8%	33.3%	34.7%	30.1%	Tangible BVPS	13,329	16,223	18,867	22,865	29,472
Pre-provision ROA	1.1%	1.2%	2.2%	2.4%	2.4%	<b>Valuations</b>					
Net interest margin (NIM)	2.7%	2.6%	3.3%	4.0%	3.7%	PER	2.11	16.6	11.2	7.9	4.6
<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%	16.9%	23.9%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	8.6%	5.8%	13.6%	4.5%	14.4%	CAR	9.5%	9.9%	9.5%	>9%	>9%
Loan growth	14.7%	13.8%	13.6%	12.2%	14.9%	<b>Asset Quality</b>					
PPOP growth	18.7%	24.8%	91.3%	20.3%	6.8%	NPL ratio (substandard)	17%	15%	10%	1%	1%
Parent NP growth	9.3%	27.2%	47.8%	41.4%	74.3%	Coverage ratio (substandard)	93.7%	118.6%	131.0%	103.7%	113.7%
EPS growth	9.3%	27.2%	47.8%	41.4%	74.3%	NPL ratio (precautionary)	1.9%	1.9%	2.2%	2.5%	2.5%
BVPS growth	8.3%	18.3%	12.7%	18.5%	27.2%	Coverage ratio (precautionary)	82.4%	94.7%	57.6%	45.6%	50.0%

Source: Sacombank, KB Securities Vietnam



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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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