

Sacombank (STB)

Asset quality worsened in 3Q23

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Equity Manager Nguyen Anh Tung
tungna@kbsec.com.vn

3Q23 EBT gained 36.1% YoY to VND2,085 billion

In 3Q23, Sacombank (STB) posted VND4,851 billion in NII (-15.7% QoQ, -15.8% YoY) and VND5,927 billion in TOI (-12.0% QoQ, -16.0% YoY). Provisioning costs decreased sharply QoQ to VND827 billion (-37.2% QoQ, -65.9% YoY), making EBT VND2,085 billion (-12.1% QoQ, +36.1% YoY).

NIM continues its downward trend and is expected to recover in 2024

3Q NIM dropped 28bps QoQ to 3.7%, marking the second consecutive quarter of NIM decrease as high costs of fund (CoF) and declining asset quality squeezed interest income of the bank (-6.97% QoQ). We think the NIM downtrend is temporary, and NIM will recover in 2024 thanks to better control of CoF.

3Q NPL climbed 41bps QoQ, but special mention dropped 44bps QoQ

NPL ratio reached 2.2% (+41bps QoQ) in 3Q, the fourth consecutive quarter of NPL increase. The positive point is that special mention went down 44bps QoQ to 0.71%, ranked among the banks with the lowest special mention. During the period, STB made a provision VND333 billion for customer loan risks of (-60.5% QoQ) and VND494 billion for VAMC bonds (-7.3% QoQ).

BUY recommendation with the target price VND38,900 apiece

Based on valuation results, business prospects and potential risks, we recommend BUY for STB shares. The target price for 2024 is VND38,900/share, 43.7% higher than the price on December 15, 2023.

Buy maintain

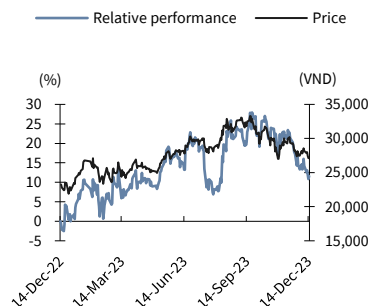
Target price	VND38,900
Upside	43.7%
Current price (Dec 15, 2023)	VND27,100
Consensus target price	VND38,599
Market cap (VNDbn/USDbn)	51,089/2.09

Trading data	
Free float	94.46
3M avg trading value (VNDbn/USDmn)	551.0/22.5
Foreign ownership	23.23
Major shareholder	PYN Fund (4.94%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-7	-15	-8	17
Relative	-7	-10	-6	12

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	11,964	17,147	21,862	25,221
PPOP (VNDbn)	7,954	15,221	14,115	17,557
NPAT (VNDbn)	3,411	5,041	7,707	10,753
EPS (VND)	1,810	2,674	4,088	5,704
EPS growth (%)	27%	48%	53%	40%
PER (x)	15.0	10.1	6.6	4.8
Book value per share (VND)	18,174	20,489	24,578	30,282
PBR (x)	1.49	1.32	1.10	0.89
ROE (%)	10.8	13.8	18.1	20.8
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

3Q23 performance updates

3Q23 EBT gained 36.1% YoY to VND2,085 billion

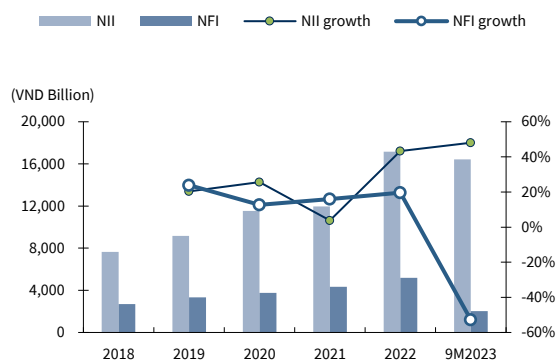
In 3Q23, STB posted VND4,851 billion in NII (-15.7% QoQ, -15.8% YoY) and VND1,076 billion in non-interest income (NOII) (+9.1% QoQ, -16.8% YoY), so TOI reached VND5,927 billion (-12.0% QoQ, -16.0% YoY). Provisioning costs decreased sharply QoQ to VND827 billion (-37.2% QoQ, -65.9% YoY), making EBT reach VND2,085 billion (-12.1% QoQ, +36.1% YoY).

Table 1. STB – 3Q23 business results

	3Q22	2Q23	3Q23	+/-%QoQ	+/-%YoY	KBSV's notes
Net interest income (NII, VNDbn)	5,762	5,751	4,851	-15.7%	-15.8%	The decrease in NII was mainly due to higher CoF from 4Q22 following the general trend of the banking industry and declining asset quality.
Net fee income (NFI, VNDbn)	1,031	654	720	10.1%	-30.2%	
Non-interest income (NOII, VNDbn)	261	332	356	7.2%	36.6%	Income from FX trading spiked 36.5% YoY to VND300 billion, contributing 84.3% of NOII. Meanwhile, income from securities trading and other activities was insignificant.
Total operating income (TOI, VNDbn)	7,054	6,737	5,927	-12.0%	-16.0%	
Operating expenses (VNDbn)	(3,097)	(3,049)	(3,015)	-1.1%	-2.7%	
Pre-provision operating profit (VNDbn)	3,957	3,688	2,912	-21.0%	-26.4%	
Provision expenses (VNDbn)	(2,425)	(1,316)	(827)	-37.2%	-65.9%	In 3Q, STB made a provision VND333 billion for customer loan risks of (-60.5% QoQ) and VND494 billion for VAMC bonds (-7.3% QoQ).
Earnings before tax (EBT, VNDbn)	1,212	1,925	1,635	-15.1%	34.9%	
Credit growth (%)	8.5%	5.0%	7.6%	2.6 ppts	-0.8 ppts	Credit growth reached 7.6% YTD, lower than the total credit growth of the top 15 banks of 9%. According to the latest update from the bank, credit growth has reached 9.4% YTD. The personal loan segment accounted for the highest proportion at 56.2%, growing 4.2% YTD. Meanwhile, the corporate loan segment is the main growth driver, gaining 12.4% YTD.
Deposit growth (%)	8.2%	5.8%	8.9%	3.1 ppts	0.7 ppts	Customer deposit growth reached 11.7% YTD, higher than the average of about 11.0% of the observed banks.
NIM (%)	2.90%	3.99%	3.70%	-28 bps	80 bps	NIM fell by 28bps QoQ due to high CoF early this year and worse asset quality. However, NIM gained 80bps YoY because in 2022 STB reversed interest receivables, causing NII to decrease sharply.
Average earnings yield (%)	6.63%	9.85%	9.52%	-33 bps	289 bps	
Average cost of funds (%)	3.93%	6.36%	6.34%	-2 bps	241 bps	
Cost to income ratio (CIR) (%)	43.9%	45.3%	50.9%	5.6 ppts	6.9 ppts	
Non-performing loan (NPL) (%)	0.90%	1.79%	2.20%	41 bps	129 bps	NPL increased with doubtful debt increasing the most (+27bps QoQ). The positive point is that special mention dropped 44bps QoQ to 0.71%.

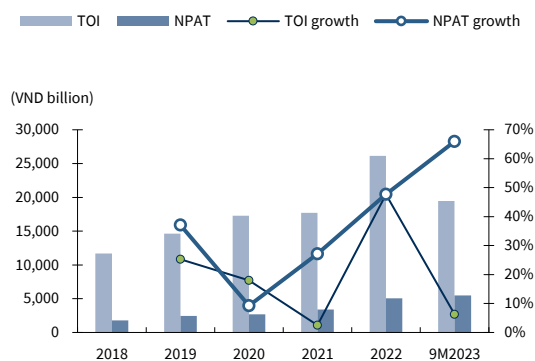
Source: Sacombank, KB Securities Vietnam

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



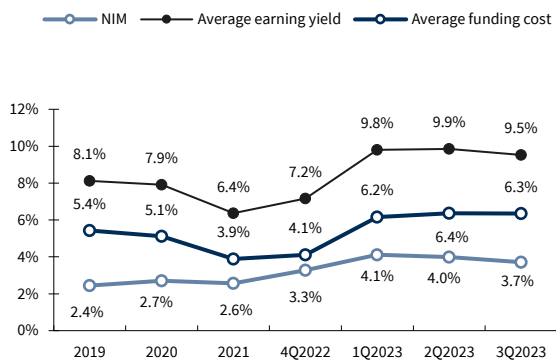
Source: Sacombank, KB Securities Vietnam

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



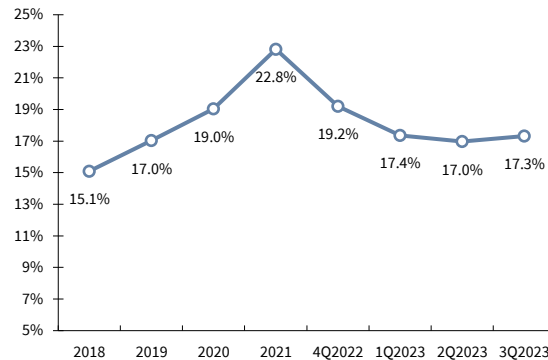
Source: Sacombank, KB Securities Vietnam

Fig 4. STB – NIM, average earnings yield & CoF (%)



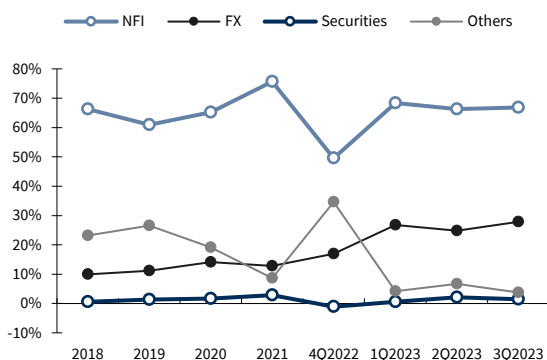
Source: Sacombank, KB Securities Vietnam

Fig 5. STB – CASA ratio (%)



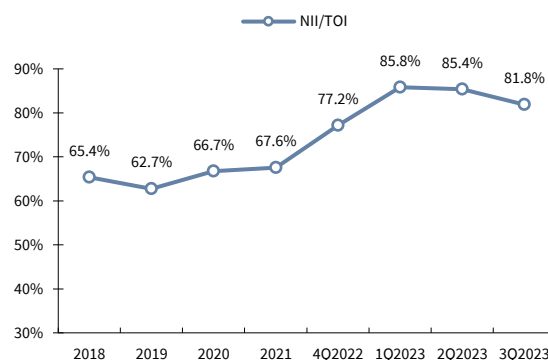
Source: Sacombank, KB Securities Vietnam

Fig 6. STB – NOI breakdown (%)



Source: Sacombank, KB Securities Vietnam

Fig 7. STB – NII/TOI ratio (%)



Source: Sacombank, KB Securities Vietnam

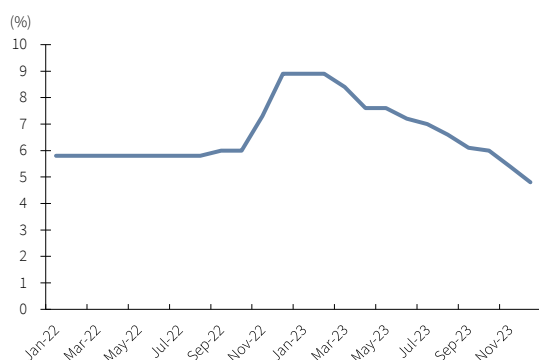
NIM continues its downward trend and is expected to recover in 2024

3Q NIM dropped 28bps QoQ to 3.7%, marking the second consecutive quarter of NIM decrease as high CoF and declining asset quality squeezed interest income of the bank (-6.97% QoQ). We think the NIM downtrend is temporary, and NIM will recover in 2024, based on:

- (1) High-interest customer deposits with 1-year term (4Q22-2Q23) will mature in 1H24. These are loans with interest rates higher than 7.5%, much higher than the average of ~5.5% in the previous period (Figure 8). This is also the period when mobilization demand of STB is high with customer deposit growth from 1Q23-2Q23 reaching 5.3% and 4.8% respectively (Figure 9).
- (2) Deposit interest rates are currently maintained low. 12M personal deposit interest rate of STB is at 5.3%, lower than that in 2022 (~5.5%) when STB had the most favorable CoF in recent years. KBSV highly appreciates the possibility that STB will continue to maintain a low deposit interest rate around ~5.5% as credit demand cannot strongly bounce back in the near future.

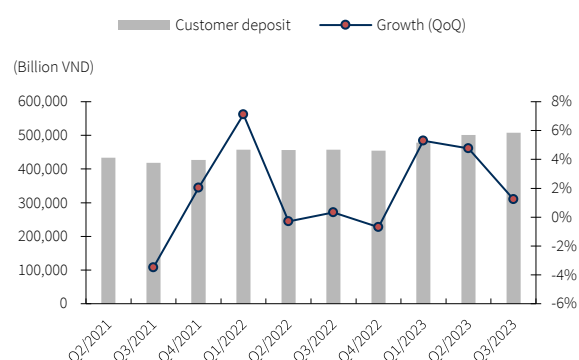
However, the recovery speed of NIM will be moderate because: (1) In 2023, STB has been lowering lending interest rates and low-interest support loan packages including loans to serve business purposes or home loans and home repairs. (2) Deteriorating asset quality affected interest income, thereby lowering NIM.

Fig 8. STB – 12M deposit interest rates in 2022–2023 (%)



Source: Sacombank, KB Securities Vietnam

Fig 9. STB – Customer deposit growth (%)

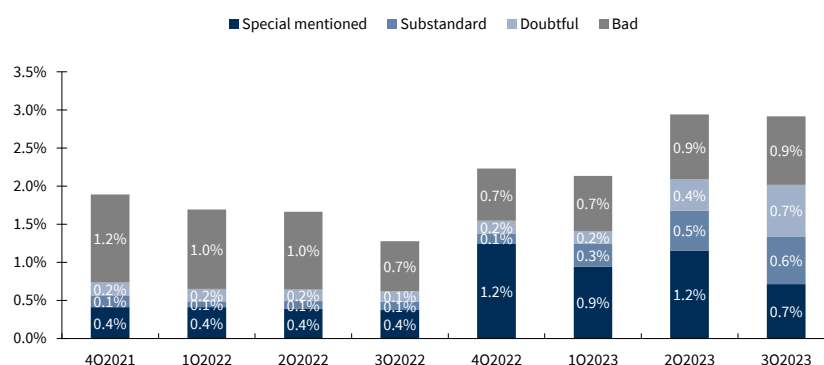


Source: Sacombank, KB Securities Vietnam

3Q NPL climbed 41bps QoQ, but special mention dropped 44bps QoQ

NPL ratio reached 2.2% (+41bps QoQ) in 3Q, the fourth consecutive quarter of NPL increase. This is not a surprising development in the context of a difficult economic situation that has increased bad debt, forcing banks to step up provisioning since the beginning of the year. The positive point is that special mention went down 44bps QoQ to 0.71%, ranked among the banks with the lowest special mention. This significantly lowered provisioning pressure in 2H23. During the period, STB made a provision VND333 billion for customer loan risks of (-60.5% QoQ) and VND494 billion for VAMC bonds (-7.3% QoQ). Restructured debt according to Circular 02/2023-NHNN reached VND1,441 billion, equivalent to 0.3% of total outstanding loan. Currently, with the remaining outstanding VAMC bonds worth VND3,888 billion, the plan to make provision for 100% of VAMC bonds this year depends on whether STB successfully sells debt related to the Phong Phu Industrial Park (there has been no official update on this auction). KBSV believes that NPL of STB will remain high in 1H24 while the economy is recovering, and STB's reserve buffer is still quite modest. However, the loan structure is relatively safe with the proportion of real estate loans at 12%/total outstanding loans. Of that, project loans are only about 1%/total outstanding loans, which will support STB in controlling its asset quality in 2024.

Fig 10. STB – Debt groups in 2021–2023



Source: Sacombank, KB Securities Vietnam

Fig 11. Vietnam banks – NPL & special mentioned loan (%)

	% 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%	0.03%	-3,739	41.4%
SHB	3.21%	0.19%	1.94%	-0.16%	-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%	-0.44%	-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%	-0.12%	-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%	-0.20%	-6,017	93.0%
VCB	1.21%	0.38%	0.64%	-0.44%	-38,872	270.1%
ACB	1.20%	0.23%	0.81%	-0.07%	-5,110	94.6%

Source: Financial statements of the banks, KB Securities Vietnam

Forecast & valuation

Table 12. STB – 2023–2024F business performance

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Net interest income (VNDbn)	17,147	21,862	27.5%	25,221	15.4%	Our forecasts are based on our unchanged assumption that credit growth will reach 12% for 2023 and 15% for 2024.
Net fee income (VNDbn)	5,194	2,886	-44.4%	4,374	51.6%	A decrease of 37.9% compared to the old forecast reflects lower efficiency from service activities than expected. Profits are expected to recover in 2024, driven by the insurance segment.
Total operating income (VNDbn)	26,141	26,140	0.0%	32,214	23.2%	
Provision expenses (VNDbn)	(8,882)	(4,482)	-49.5%	(4,116)	-8.2%	All VAMC bonds should be allocated in 2024. The LLCR is expected to reach 68% in 2023 – 2024.
NPAT (VNDbn)	5,041	7,707	52.9%	10,753	39.5%	
NIM (%)	3.29%	3.75%	46bps	3.88%	14bps	NIM is forecast to decrease by 19bps compared to the old forecast due to higher CoF than expected. 2024F NIM should improve thanks to better control of CoF.
Average earnings yield (%)	7.16%	9.53%	237bps	8.66%	-88bps	
Average cost of funds (%)	4.12%	6.33%	221bps	5.30%	-103bps	
CIR (%)	41.8%	46.0%	422bps	45.5%	-50bps	
NPL (%)	0.98%	2.23%	125bps	1.90%	-33bps	
Total assets (VNDbn)	591,908	628,935	6.3%	716,310	13.9%	
Owner equity (VNDbn)	38,627	46,334	20.0%	57,088	23.2%	

Source: Sacombank, KB Securities Vietnam

BUY recommendation – target price VND38,900

We combine two valuation methods P/B and residual income to find a reasonable price for STB.

(1) P/B valuation method:

We choose a 2024 forward P/B at 1.13x, equivalent to STB's five-year P/B average, reflecting concerns about asset quality deterioration in the rest of 2023 and 2024 after NPL increased sharply in 3Q23.

(2) Residual income discount method: (Table 14)

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

Combining the above two valuation methods with a 50–50 ratio, we concluded that reasonable price for STB shares for 2024 is VND38,900/share, 43.7% higher than the price on December 15, 2023. Some risks that may affect our valuation include: (1) Rising NPL causes provisioning to be higher than expected; and (2) the progress of settling debt related to Phong Phu Industrial Park is slower than expected.

Fig 13. STB – P/B in 2018–2023 (x)



Source: Sacombank, KB Securities Vietnam

Table 14. STB – 2024F valuation with residual income model

(VNDbn)	2023F	2024F	2025F
NPAT	7,707	10,753	13,649
Excessed return	2,030	3,944	5,260
Required rate of return (r)	14.70%		
Growth (g)	5.0%		
Terminal value	11,631		
End-2023 fair price	82,275		
Value per share	43,642		

Source: Sacombank, KB Securities Vietnam

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

Valuation method	Forecast price	Weighting	Weighted price
P/B	34,218	50%	17,109
Residual income	43,642	50%	21,821
Target price			38,900

Source: Sacombank, 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	21,862	25,221	Loans	334,855	381,012	432,998	483,764	557,766
Interest income	33,588	29,691	37,391	55,639	56,201	Marketable securities	-	-	-	2,902	3,337
Interest expense	(22,061)	(17,726)	(20,244)	(33,777)	(30,981)	Cash (ex. Reserves)	7,679	8,222	7,850	8,966	10,311
Fees & commissions	3,744	4,343	5,194	2,886	4,374	Interest earning assets	448,268	484,151	559,656	607,727	690,927
Other non-interest income	1,124	457	2,745	173	1,296	Fixed assets & other assets	46,056	41,503	44,467	37,808	42,632
Total operating income	17,271	17,704	26,141	26,140	32,214	Total assets	492,516	521,117	591,908	628,935	716,310
SG&A expenses	(10,895)	(9,750)	(10,921)	(12,024)	(14,658)	Customer deposits	427,972	427,387	454,740	491,263	564,953
Pre-provisioning OP	6,376	7,954	15,221	14,115	17,557	Borrowings & call money/repos	11,374	21,491	26,060	32,136	36,406
Provision for credit losses	(3,037)	(3,554)	(8,882)	(4,482)	(4,116)	Interest bearing liabilities	447,369	464,629	519,132	547,991	621,165
Other income	1,181	865	2,874	247	1,365	Other liabilities	16,191	22,226	34,148	34,610	38,057
Other expense	(57)	(408)	(129)	(74)	(68)	Total liabilities	463,560	486,856	553,281	582,600	659,222
Pre-tax income	3,339	4,400	6,339	9,634	13,441	Charter capital	18,852	18,852	18,852	18,852	18,852
Income tax expense	(657)	(989)	(1,298)	(1,927)	(2,688)	Capital surplus	64	1,748	1,748	1,748	1,748
NP	2,682	3,411	5,041	7,707	10,753	Retained earnings	7,304	9,907	13,972	21,679	32,432
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	2,682	3,411	5,041	7,707	10,753	Total shareholders' equity	28,956	34,261	38,627	46,334	57,088

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	9.6%	10.8%	13.8%	18.1%	20.8%	EPS	1,423	1,810	2,674	4,088	5,704
ROA	0.6%	0.7%	0.9%	1.3%	1.6%	BVPS	15,360	18,174	20,489	24,578	30,282
Pre-provision ROE	18.4%	19.8%	33.3%	26.6%	27.2%	Tangible BVPS	13,329	16,223	18,867	23,059	28,780
Pre-provision ROA	1.1%	1.2%	2.2%	1.8%	2.1%	Valuations					
Net interest margin (NIM)	2.7%	2.6%	3.3%	3.7%	3.9%	PER	19.0	15.0	10.1	6.6	4.8
Efficiency						PBR	1.8	1.5	1.3	1.1	0.9
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%	46.0%	45.5%	ROE	9.6%	10.8%	13.8%	18.1%	20.8%
Growth						Capital Adequacy					
Asset growth	8.6%	5.8%	13.6%	6.3%	13.9%	CAR	9.5%	9.9%	9.5%	>9%	>9%
Loan growth	14.7%	13.8%	13.6%	11.7%	15.3%	Asset Quality					
PPOP growth	18.7%	24.8%	91.3%	-7.3%	24.4%	NPL ratio (substandard)	17%	15%	10%	2.2%	1.9%
Parent NP growth	9.3%	27.2%	47.8%	52.9%	39.5%	Coverage ratio (substandard)	93.7%	118.6%	131.0%	68.5%	66.9%
EPS growth	9.3%	27.2%	47.8%	52.9%	39.5%	NPL ratio (precautionary)	1.9%	1.9%	2.2%	3.0%	2.7%
BVPS growth	8.3%	18.3%	12.7%	20.0%	23.2%	Coverage ratio (precautionary)	82.4%	94.7%	57.6%	50.4%	47.1%

Source: Sacombank, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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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