

# Sacombank (STB)

## Strong growth in 2022 after handling accrued interest

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### 4Q PBT still lost 85.7%YoY despite boosting provisioning for VAMC

In 4Q22, Sacombank's (STB) 4Q22 NII reached VND6,043 billion (+4.8%QoQ or +142.2%YoY). Non-interest income (NOII) in 4Q dropped 15.7% YoY to VND1,788 billion due to lower service fees. Provision expenses spiked 155%YoY as the bank continued to accelerate provisioning for VAMC bonds. PBT surged 85.7% YoY in 4Q and gained 44.1%YoY to VND6,339 billion.

### 4Q NIM slightly decreased under capital cost pressure

After STB's handling accrued interest at the end of 2Q22, the asset yield rebounded to 8.53% in 3Q22 and 9.38% in 4Q22. The average costs of fund (CoF) increased 0.82ppts QoQ due to deposit rate pressure from both customer and interbank channels. 4QNIM gained slightly by 0.09ppts QoQ to 4.71%.

### Capital growth closely followed credit disbursement activities

Credit growth for the whole year of 2022 reached 13.1%, which is in line with the assigned credit room and the bank's orientation. Deposit growth reached 9.8%YoY so LDR increased to 83.4%, relatively close to regulations. The ratio of short-term capital for medium and long-term loans still closely followed the regulations of the State Bank (SBV), reaching 23.7%.

### Valuation – BUY recommendation, target price VND31,200

Using two methods of valuation P/B and residual income, we set a one-year target price of STB stock at VND31,200/share, 22.4% higher than the price on March 27, 2023.

**Buy** maintain

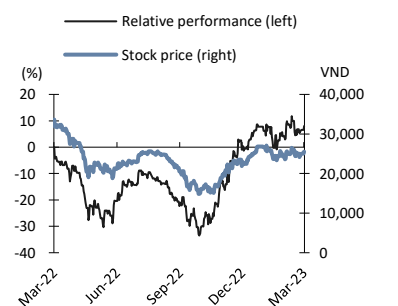
<b>Target price</b>	<b>VND31,200</b>
Upside/Downside	22.4%
Current price (Mar 27, 2023)	25,500
Consensus target price	32,600
Market cap (VNDbn)	47,103

<b>Trading data</b>	
Free float	93.3%
3M avg trading value (VNDbn)	433.42
Foreign ownership	28.35
Major shareholder	Dragon Capital (5.87%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	8.1	13.3	24.4	-19.9
<b>Relative</b>	5.0	8.3	38.1	13.0

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	11,964	17,147	24,181	27,880
Pre-provision operating profit (VNDbn)	7,954	15,177	19,283	22,718
NPAT of parent bank (VNDbn)	3,411	5,041	10,909	15,549
EPS (VND)	1,630	2,459	5,787	8,248
EPS growth (%)	30.6%	50.9%	135.3%	42.5%
PER (x)	9.71	12.70	5.40	3.79
Book value per share (VND)	16,223	18,867	25,047	33,221
PBR (x)	0.98	1.66	1.25	0.94
ROE (%)	10.8%	13.8%	24.5%	26.7%
Dividend yield (%)	0	0	0	0



Source: Bloomberg, KB Securities Vietnam

## Business performance updates

### 4Q PBT gained 85.7%YoY despite boosting provisioning for VAMC

Completing the deduction of interest receivables helps STB's interest income more accurately reflect the interest rate of the top loan portfolio in the industry. 4Q NII reached VND6,043 billion, rising 4.8%QoQ or 142.2%YoY. NOII decreased by 15.7% YoY to VND1,788 billion due to lower service fees. Given the strong growth of NII, 4Q TOI gained 69.8% YoY to VND7,833 billion. Operating expenses (OPEX) were still well controlled as they grew by a mere of 10.3% YoY. Provision expenses surged 155%YoY as STB continued to accelerate provisioning for VAMC bonds. However, the positive impact of net interest income is very large, so 4Q PBT increased strongly by 85.7% YoY. The accumulated PBT in 2022 rose 44.1%YoY to VND6,339 billion.

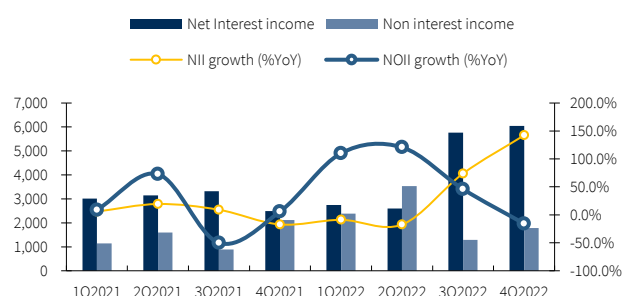
### 4Q NIM decreased slightly under the pressure from capital cost

From 4Q21 to 2Q22, STB's asset yield plunged due to the promotion of accrual interest deduction, but in fact, it is still recovering in line with the momentum of the economy. After STB's handling accrued interest at the end of 2Q22, the asset yield rebounded to 8.53% in 3Q22 and 9.38% in 4Q22 (Table 3).

The average CoF increased 0.82ppts QoQ due to deposit rate pressure from both customer and interbank channels. (1) The average deposit cost increased by 0.61ppts QoQ due to a spike in interest rates at the end of the year after the SBV's raising policy rates. (2) Liquidity pressure caused STB to supplement capital through interbank channel with the peak interest rate, so the deposit cost of other credit institutions also surged to 4.11%, which is close to the cost of mobilizing from customers. However, thanks to a higher increase in asset yields, 4Q NIM still inched up 0.09ppts QoQ to 4.71%. NIM for the whole year 2022 increased by 0.49%YoY to 7.31%.

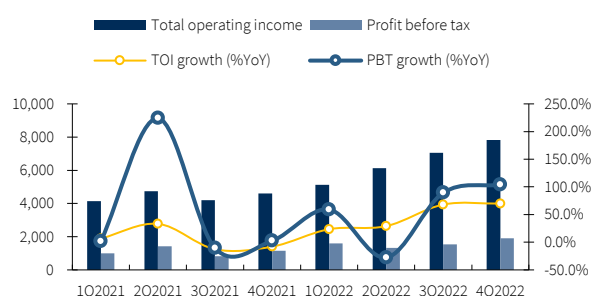
CASA decreased by 11.2%YoY while term deposits increased by 11.2%YoY, completely consistent with the general trend of the whole industry when deposit rates increased sharply. CASA ratio has since fell to 19%, lower than 22.6% in the same period last year.

Fig 1. STB – NII & NOII (VNDbn)



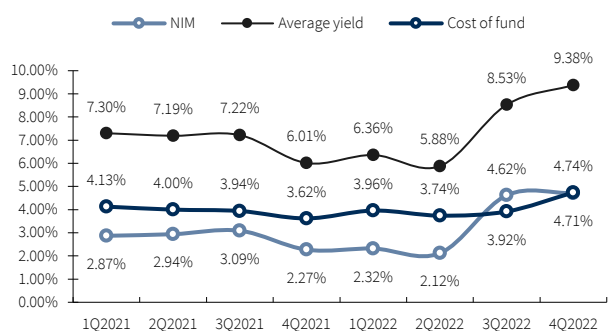
Source: Sacombank, KB Securities Vietnam

Fig 2. STB – TOI & PBT by quarter (VNDbn)



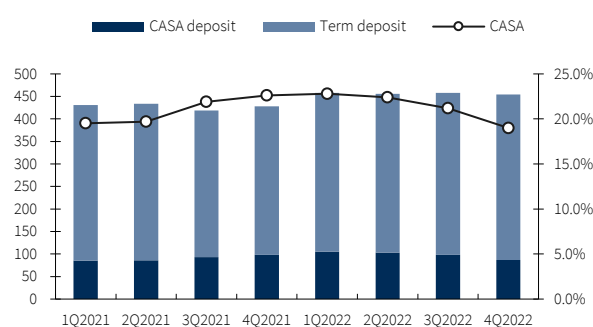
Source: Sacombank, KB Securities Vietnam

Fig 3. STB – NIM by quarter in 2021–2022 (%)



Source: Sacombank, KB Securities Vietnam

Fig 4. STB – Deposit structure & CASA ratio by quarter (%)

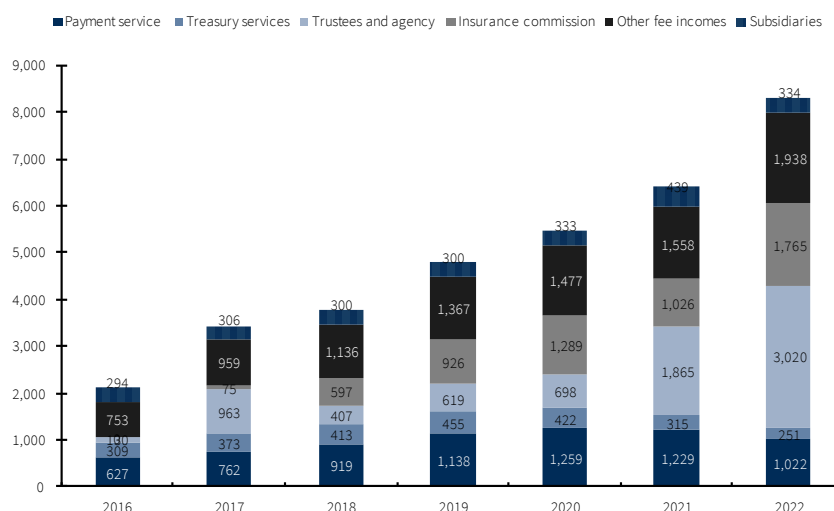


Source: Sacombank, KB Securities Vietnam

**Income from trust and agency services sharply rose thanks to support packages from Dai-chi Life**

Total income from service fees of the parent bank was nearly VND8 trillion, and subsidiaries contributed VND334 billion in 2022. Income from payment services of the parent bank declined 16.8%YoY to VND1,022 billion. Income from treasury services continued to record a contraction of 20.3% this year to about VND254 billion. Insurance premium in 2022 hit VND1,765 billion. However, STB will re-account the Support Package from Dai-chi Life with a value of VND1,000 billion from insurance commissions to trusts and agents, hence narrowing insurance premium to VND1,026 billion and raising agency trust to VND1,865 billion for 2021. Therefore, insurance premium in 2022 increased sharply by 72% YoY instead of losing 12.9% according to the old way of recording. STB recorded up to VND3,020 billion (+61.9%YoY) from trust and agency services in 2022, of which (1) the network building support package from Dai-ichi Life is about VND1,500 billion; and (2) STB continued to affirm its leading position in the payment card segment in Vietnam, boosting revenue from discount fees with card agents and other card services. Other service fees were up 24.6% YoY to VND1,938 billion.

Fig 5. STB – Income structure of the parent bank and its subsidiaries (VNDbn)



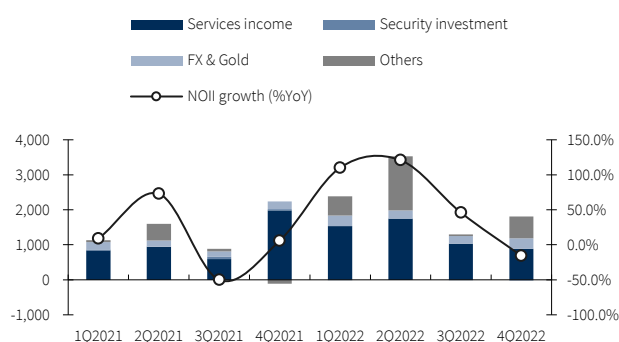
Source: Sacombank, KB Securities Vietnam

### Other non-interest income sources remained stable

Income from forex and gold trading reached VND303 billion (+37.7%QoQ or +42.8%YoY). Income from investment securities continued to lose about VND20 billion in 4Q and -VND20 billion for the whole year. High interest rates forced the bank to restructure its government bond portfolio, which was the main reason why not only STB but also many other banks recorded losses from securities trading. Net income from other activities reached VND619 billion, which is a strong improvement compared to 3Q of only VND14 billion or a loss of VND114 billion in 4Q21. With NII returning to normal, the NOII to TOI ratio fell sharply to 18.3% in 3Q and 22.8% in 4Q22.

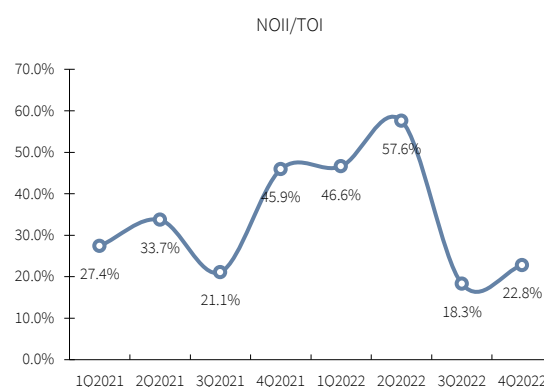
We assess that STB's NOII is still too dependent on service fees, foreign exchange, and gold trading, which is stable and can continue to grow as STB strengthens its international payment system. The government bond portfolio has the main purpose of enjoying dividends, so trading and trading in securities do not bring large NOII for the bank. Income from other activities is expected to surge in the coming years thanks to the sale of collateral and recovery of bad debts that have been handled with successful provision.

Fig 6. STB – NOII structure by quarter (VNDbn)



Source: Sacombank, KB Securities Vietnam

Fig 7. STB – NOII/TOI ratio by quarter (%)



Source: Sacombank, KB Securities Vietnam

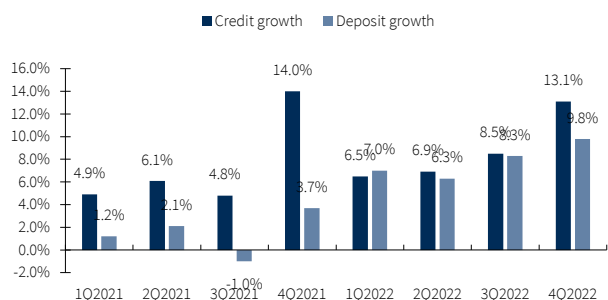
### Capital growth closely followed credit disbursement activities

STB also accelerated loan disbursement in the last months of the year after the State Bank's decision to loosen the credit room. Credit growth for the whole year 2022 is estimated at 13.1% – equivalent to the assigned credit room. In terms of loan structure by customer group, loans to individual customers were estimated at VND252,651 billion (+11% YTD), accounting for 57.8% of total loans to customers. Outstanding loans to corporate customers recorded a faster growth rate than individual customers, reaching 15.2%. The proportion of corporate customers has since also increased to 42.2% from 39.1% in 2021.

The bank actively mobilized capital because last year's low growth rate and credit demand increased in line with the recovery of the economy. The growth of mobilized capital for the whole year reached 9.8%YoY, driven by customer deposits (accounting for nearly 90% of total capital). Customer deposit balance reached VND454,740 billion, up 6.4%YoY, ranked fifth in Vietnam bank industry, after State-owned commercial banks. Funds mobilized from the interbank market and valuable papers gained 86.7% and 22.3% YTD respectively.

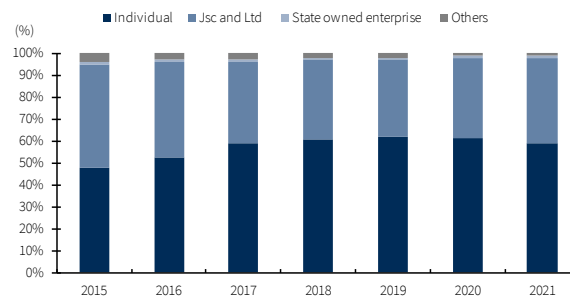
Deposit growth is only one third of credit growth in 2021, which is the main reason why the LDR in 2022 continuously increased to 83.4%, approaching the rate allowed by the State Bank of 85%. The bank still ensures that the ratio of short-term capital for medium and long-term loans is at a safe level of 23.72%.

Fig 8. STB – Credit & deposit growth (%YoY)



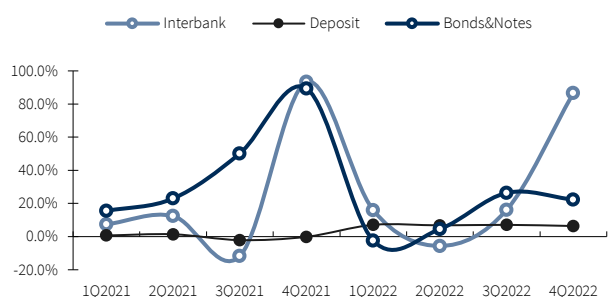
Source: Sacombank, KB Securities Vietnam

Fig 9. STB – Loan structure by customer group (%)



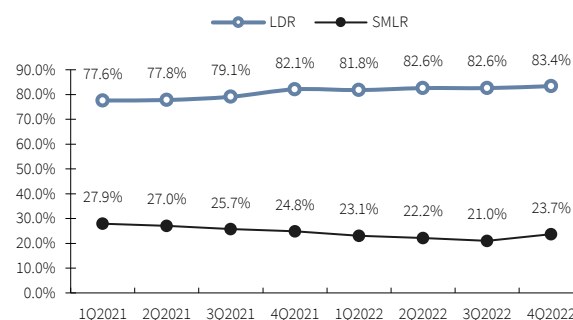
Source: Sacombank, KB Securities Vietnam

Fig 10. STB – Growth of deposit sources (%)



Source: Sacombank, KB Securities Vietnam

Fig 11. STB – LDR and ratio of short-term capital for medium and long-term loans (%)



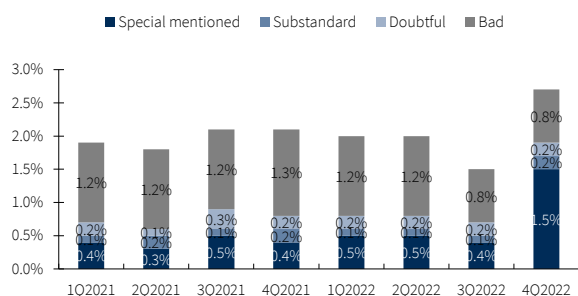
Source: Sacombank, KB Securities Vietnam

### Special-mentioned loans increased sharply in the last months of 2022

With enormous efforts, STB eliminated bad debts from Southern Bank from the balance sheet in 3Q22 of this year (VND1,500 billion). As a result, the proportion of bad debt minimized to about 0.8% and the consolidated non-performing loans (NPL) declined to less than 1% for the first time after five years of implementing the scheme. However, special mention surged at the end of the year (2.5 times higher than in 3Q22 and 4Q21). The bank explained that the increase was only temporary and resulted from the update according to credit data at CIC. STB is positive that the debt situation will return to normal levels in January and February 2023. Loan loss coverage ratio (LLCR) at the end of 2022 reached 131%, equal to the industry average.

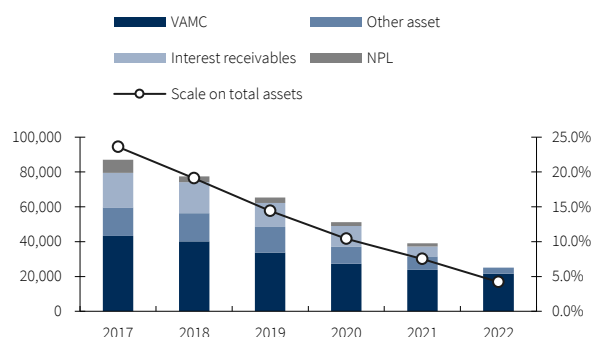
The value of accrued assets by the end of 2022 was VND25 trillion, of which there is VND21.5 trillion in VAMC bonds and 3.5 trillion in other assets. The scale of accrued assets to total assets has since shrunk to about 4.2%. Although the outstanding balance of VAMC is about VND21.5 trillion, STB has made a provision of VND14.5 trillion for this bond portfolio, so the bank only had to make provision of VND7 trillion to eliminate VAMC off the balance sheet. It is known that the bank plans to make provision of VND7 trillion in 2023 and 2024 instead of just focusing on 2023.

Fig 12. STB – NPL structure by quarter (%)



Source: Sacombank, KB Securities Vietnam

Fig 13. STB – Accrued assets vs total assets



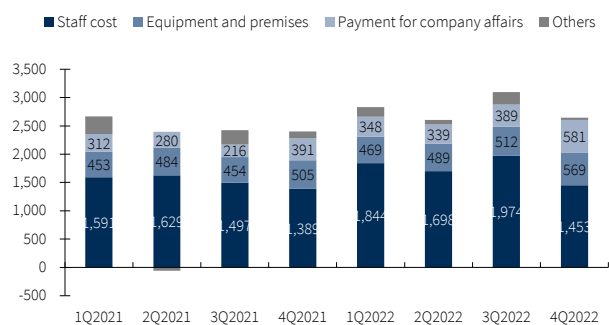
Source: Sacombank, KB Securities Vietnam

### Credit costs increase due to accelerated provision for VAMC

4Q OPEX were about VND2,646 billion (-14.5%QoQ and +10.3%YoY). Of that, the largest increase in expenditures of general admin activities was about 48.6%YoY, mainly from investment in digital transformation activities. Total operating income grew strongly by 69.8%YoY, so the CIR in 4Q fell to 33.8%. For the whole year of 2022, the CIR reached 41.9%, down 13.2ppts YoY. With the bank's revenue returning to normal, the bank will have room to invest in digital transformation and continue to reduce OPEX in the following years.

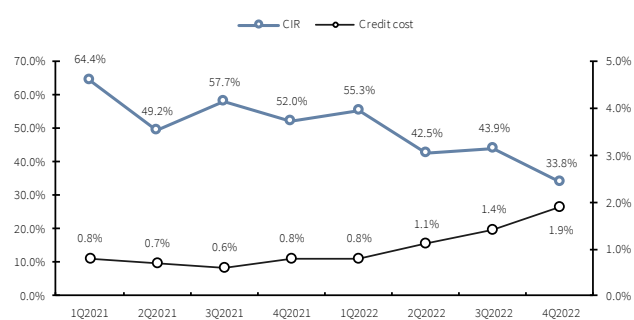
Provision expenses reached VND3,288 billion in 4Q (+35.6%QoQ and 209%YoY) and VND8,838 billion (+148.6%YoY) for the whole year, the highest ever. Provision expenses this year are mainly for VAMC bonds, which accounted for VND8,581 billion. Strongly making provision for VAMC bonds shows the bank's determination to handle all accrued assets.

Fig 14. STB – OPEX structure (VNDbn)



Source: Sacombank, KB Securities Vietnam

Fig 15. STB – CIR & credit expenses by quarter



Source: Sacombank, KB Securities Vietnam

## Forecast & valuation

### 2023F results

We give forecasts for STB performance in 2023 as follows:

- We assume STB's 2023 credit growth at a conservative rate of 13%, equivalent to the same period last year and in line with the bank's target.
- Deposit growth will be higher at 15.5% as the bank also plans to boost capital mobilization to compensate for the slow growth in recent years.
- 2023 NIM is forecast to increase by 0.76ppts YoY to 4.11% due to the completion of the settlement of interest receivables, helping the bank's interest income return to a level suitable for the industry's top lending scale. Average earnings yield should gain 1.92ppts YoY and COF increases by 0.91ppts YoY.
- NPL is forecast to decrease slightly by 0.1ppts to 0.89%. The bank's loan portfolio is well diversified in risks and the repayment capacity of customers is recovering better than expected when the bank begins to record provision reversals. LLCR may rise to 154.2% as maintaining a good reserve buffer is necessary.
- 2023F provision expenses are VND5,565 billion, assuming that STB will accelerate provisioning expenses of about VND3,227 billion for VAMC.
- PBT of the parent bank may reach VND10,909 billion, up 116.4% YoY and beating the bank's target by 16%.

**Table 1. STB – 2023F business results**

	2021	2022	2023F	%YoY2022	%YoY2023
Net interest income	11,964	17,147	24,181	43.5%	41.0%
Net fee interest	4,343	5,194	6,035	19.6%	16.2%
Total operating income	17,704	26,141	32,138	47.7%	22.9%
Provision expenses	-3,554	-8,838	-5,565	148.7%	-37.0%
NPAT of the parent bank	3,411	5,041	10,909	47.8%	116.4%
NIM	2.60%	3.35%	4.11%		
Average earnings yield	6.82%	7.31%	9.01%		
Average COF	3.89%	4.16%	4.92%		
CIR	55.1%	41.9%	40.0%		
NPL	1.50%	0.99%	0.89%		
Total assets	521,117	591,994	684,258	13.6%	15.6%
Equity	34,261	38,627	50,502	12.7%	30.7%

Source: KB Securities Vietnam



## Valuation – BUY recommendation with the target price of VND31,200

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

### 1) P/B valuation method (Figure 16)

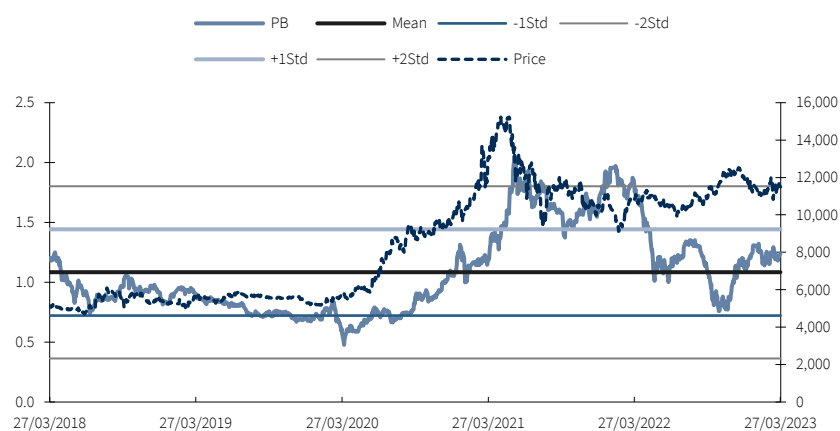
STB is going to the final stage of the bad debt from Southern Bank settlement project, which should help STB record better business results and gradually regain its position in the industry. MBB's current PB valuation trades at 1.2x, which we consider to be quite appropriate. We maintain our forecast that the bank's target P/B will trade around 1.3x, which is close to +1 standard position of the five-year average P/B.

### 2) Residual income (Table 2)

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 get the final fair price for STB stock at VND31,200/share, 22.4% higher than the closing price of March 27, 2023 (Table 3). We raise the new target price by 9.0% from the target price in the bank's initial report as it has accelerated handling provisions for 2022 higher than our old assumption, hence larger room for profit growth in the coming years.

Fig 16. STB – P/B valuation & stock price from 2018 to now (x, VND)



Source: Sacombank, KB Securities Vietnam

Table 2. STB – Valuation according to residual income method

(VNDbn)	2023F	2024F	2025F	2026F	2027F
NPAT	10,909	15,549	19,438	22,466	25,125
Surplus profit	2,374	4,386	4,990	4,222	2,634
Cost of capital	16.9%				
Growth	3%				
Final value	8,940				
Total present value	20,773				
<b>MBB share value</b>	<b>29,886</b>				

Source: KB Securities Vietnam

**Table 3. STB – Target price & final valuation**

Valuation method	Forecast price	Weight	Price per weight
Residual income	29,886	50%	14,943
P/B	32,561	50%	16,281
<b>Target price</b>			<b>31,224</b>

Source: KB Securities Vietnam

Table 4. #KBChart&amp;TableTitle

Income Statement					Balance Sheet				
(Bn VND)	2020	2021	2022F	2023F	(Bn VND)	2020	2021	2022F	2023F
Interest and Similar Income	33,588	29,691	37,391	51,185	TOTAL ASSETS	492,516	521,117	591,994	684,258
Interest and Similar Expenses	(22,061)	(17,726)	(20,244)	(27,004)	Cash and precious metals	7,679	8,222	7,850	8,808
Net Interest Income	11,527	11,964	17,147	24,181	Balances with the SBV	10,053	12,170	12,286	15,972
Fees and Commission income	5,477	6,431	8,330	9,580	Placements with and loans to other credit institutions	18,397	8,354	25,294	39,560
Fees and Commission expenses	(1,733)	(2,088)	(3,136)	(3,545)	Trading securities, net	0	0	0	0
Net Fee and Commission Income	3,744	4,343	5,194	6,035	Derivatives and other financial assets	20	0	110	34
Net gain/(loss) from foreign currency and gold dealings	810	737	1,062	998	Loans and advances to customers, net	334,855	381,012	432,998	488,825
Net gain/(loss) from trading of trading securities	0	0	0	0	Debts purchase	302	189	103	106
Net gain/(loss) from disposal of investment securities	94	164	(20)	80	Investment securities	75,156	69,667	68,844	81,211
Net Other income/(expenses)	1,124	457	2,745	824	Investment in other entities and LT investments	125	89	89	0
Dividends income	(27)	39	12	20	Fixed assets	8,575	8,195	7,548	8,074
Total operating income	17,271	17,704	26,141	32,138	Investment properties.	0	0	0	0
General and Admin expenses	(10,895)	(9,750)	(10,964)	(12,855)	Other assets	37,356	33,219	36,874	41,740
Operating Profit Before Provision for Credit Losses	6,376	7,954	15,177	19,283	LIABILITIES AND SHAREHOLDER'S EQUITY	492,516	521,117	591,994	684,258
Provision for credit losses	(3,037)	(3,554)	(8,838)	(5,565)	Total liabilities	463,560	486,856	553,367	633,756
Profit before tax	3,339	4,400	6,339	13,718	Due to Gov and Loans from SBV	144	523	9,901	1,584
Corporate income tax	(657)	(989)	(1,298)	(2,809)	Deposits and Loans from other credit institutions	7,880	15,229	28,430	47,279
Net profit for the year	2,682	3,411	5,041	10,909	Deposits from customers	427,972	427,387	454,740	500,214
Minority interest	0	0	0	0	CBs/CDs and other valuable papers issued	11,144	21,104	25,820	40,202
Attributable to parent company	2,682	3,411	5,041	10,909	Other liabilities	16,191	22,226	34,235	44,477
					Shareholder's equity	28,956	34,261	38,627	50,502
					Charter capital	18,852	18,852	18,852	18,852
					Share premium	64	1,748	1,748	1,748
					Reserves	3,337	3,715	4,223	5,314
					Retained Earnings	7,304	9,907	13,972	24,588
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	1,248	1,630	2,459	5,787
					Book value per share	13,329	16,223	18,867	25,047
					Valuation ratio				
					PER	6.91	7.39	10.37	4.41
					PBR	0.65	0.74	1.35	1.02
					Dividend yield	0.0%	0.0%	0%	0%

Source: Sacombank, KB Securities Vietnam

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## Investment ratings & definitions

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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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