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3Q23 PBT reached VND4,959 billion, down 16.3% YoY

In 3Q23, Tien Phong Bank (TPB) delivered net interest income (NII) of VND2,963 billion (+8.6% QoQ, +8.1% YoY) and non-interest income (NOII) of VND1,251 billion (+5.3% QoQ, +22.2% YoY), taking total operating income (TOI) to VND4,214 billion (+7.6% QoQ, +11.9% YoY). Provision expenses surged to VND1,293 billion (2.5x QoQ, 2.9x YoY), causing PBT to contract by 2.6% QoQ and 26.2% YoY to VND1,576 billion. 9M23 PBT hit VND4,959 billion, down 16.3% YoY.

Loan growth reached 40% of the target

By end-3Q23, TPB's credit growth reached 7.2% YTD, equaling ~40% of the target. We expect the figure to reach 12.6% for 2023 as a whole, implying a 5.4% increase in 4Q23 thanks to the bank's efforts to boost lending in the year-end period.

NIM is supported by lower funding costs but will be under pressure as lending rates are expected to fall

NIM is supported by lower funding costs following the maturity of 12M deposits with a high interest rate and rising CASA ratio. However, NIM will be under rising pressure when lending rates are expected to fall sharply in the near term.

The NPL ratio rose while the provision buffer weakened

TPB's NPL ratio was 2.97% (+76bps QoQ) in 3Q23, primarily due to retail lending. Therefore, although TPB has boosted provisions, the loan loss coverage ratio (LLCR) still slumped to 47%.

We recommend BUY for TPB with a target price of VND22,000/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for TPB. The target price for 2024 is VND22,000/share, 30.2% higher than the closing price on December 21, 2023.

Buy change

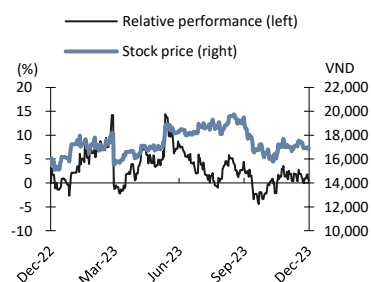
Target price	VND22,000
Upside	30.2%
Current price (Dec 21, 2023)	VND16,900
Consensus target price	VND19,200
Market cap (VNDbn/USDbn)	36,887/1.52

Trading data	
Free float	53.6
3M avg trading value (USDbn/USDmn)	88.65/3.7
Foreign ownership	29.85
Major shareholder	FPT Corporation (6.77%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.9	-11.3	-8.2	5.2
Relative	-0.2	-2.4	-6.8	-2.4

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	9,946	11,387	11,411	13,060
Pre-provision operating income (VNDbn)	8,947	9,672	9,799	11,542
NPAT of parent bank (VNDbn)	4,829	6,261	5,284	5,838
EPS (VND)	3,055	3,958	2,257	2,494
EPS growth (%)	-7%	30%	-43%	10%
PER (x)	5.5	4.3	7.5	6.8
Book value per share (VND)	16,429	20,382	13,989	16,483
PBR (x)	1.03	0.83	1.21	1.03
ROE (%)	22.6%	21.5%	16.3%	16.4%
Dividend yield (%)	0.00%	0.00%	14.79%	0.00%



Source: Bloomberg, KB Securities Vietnam

3Q23 performance updates

3Q23 PBT reached VND4,959 billion, down 16.3% YoY

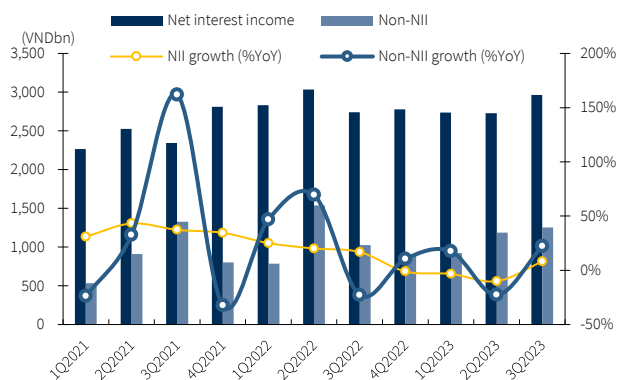
In 3Q23, TPB delivered net interest income (NII) of VND2,963 billion (+8.6% QoQ, +8.1% YoY) and non-interest income (NOII) of VND1,251 billion (+5.3% QoQ, +22.2% YoY), taking total operating income (TOI) to VND4,214 billion (+7.6% QoQ, +11.9% YoY). Provision expenses surged to VND1,293 billion (2.5x QoQ, 2.9x YoY), causing PBT to contract by 2.6% QoQ and 26.2% YoY to VND1,576 billion. 9M23 PBT hit VND4,959 billion, down 16.3% YoY.

Table 1. TPB – 3Q23 business results

	3Q22	2Q23	3Q23	+/-% QoQ	+/-% YoY	KBSV's notes
Net interest income (VNDbn)	2,741	2,729	2,963	8.6%	8.1%	In the context of slowing credit growth, NII still increased compared to the previous quarter thanks to a 10bp increase in NIM.
Net service income (VNDbn)	684	804	666	-17.1%	-2.6%	Net fee income decreased YoY due to negative growth in the payment segment, while insurance premium continued to fall 60.3% due to poor demand. The positive point is that other services (accounting for 40% of NFI) still rose 85% YoY.
Other non-interest income (VNDbn)	341	385	586	52.3%	72.0%	Profits from securities trading increased sharply by 77.4 times from the low bases in 3Q22. Meanwhile, ineffective debt collection activities caused income from other activities to go down.
Total operating income (VNDbn)	3,765	3,917	4,214	7.6%	11.9%	
Operating expenses (VNDbn)	(1,299)	(1,931)	(1,346)	-30.3%	3.6%	
CIR (%)	34.5%	49.3%	31.9%	-17.4ppts	-2.6ppts	CIR decreased sharply compared to the previous quarter thanks to a 38% QOQ decrease in employee costs.
Provision costs (VNDbn)	(328)	(368)	(1,293)	251.2%	293.6%	The bank had to increase provisioning by 2.5 times compared to the previous quarter due to increased NPL, but the LLCR still plunged to 47% (-88 ppts YTD).
Profit before taxes (VNDbn)	2,138	1,618	1,576	-2.6%	-26.3%	
Profit after taxes (VNDbn)	1,712	1,293	1,263	-2.3%	-26.2%	
Credit growth (%)	11.7%	6.8%	7.2%	+0.4ppts	-4.5ppts	Credit balance only increased by 0.4 ppts QoQ – a low increase compared to the industry average of 2.23 ppts mainly because the corporate bond segment continued to decline, while customer loans slowly grew.
Deposit growth (%)	16.6%	2.1%	-0.6%	-2.8ppts	-17.2ppts	Deposits have maintained a downward trend since the beginning of the year due to a sharp decrease in TPB's deposit interest rates. Therefore, the bank had to increase mobilization from other sources, causing interbank deposits to increase by 10% QoQ. The positive point is that the CASA ratio rose 0.9% in 3Q.
NIM (%)	4.10%	3.54%	3.64%	+10bps	-47bps	NIM decreased sharply over the same period, following the general trend, but there was an improvement in 3Q23 thanks to a stronger decrease in costs of funds (CoF) compared to earnings yields (-11ps and -3bps QoQ, respectively). In addition to improve CASA, TPB's deposit structure also became more optimal as customer deposits decreased while interbank loans (with low deposit interest rates) increased sharply, supporting the decline of CoF.
NPL (%)	0.91%	2.21%	2.97%	+76bps	+206bps	Asset quality deteriorated as NPL increased by 76bps QoQ and 206bps YoY. Although the bank has increased provisioning, the LLCR fell to 47% compared to 142% in 3Q22. Besides, special mention also increased by 26bps QoQ.

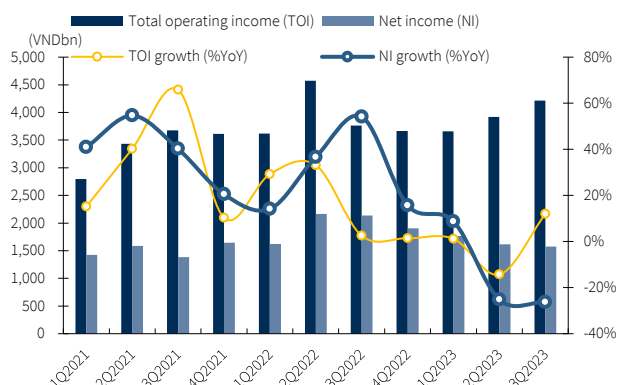
Source: Tien Phong Bank, KB Securities Vietnam

Fig 2. TPB – NII & NOII growth (% YoY)



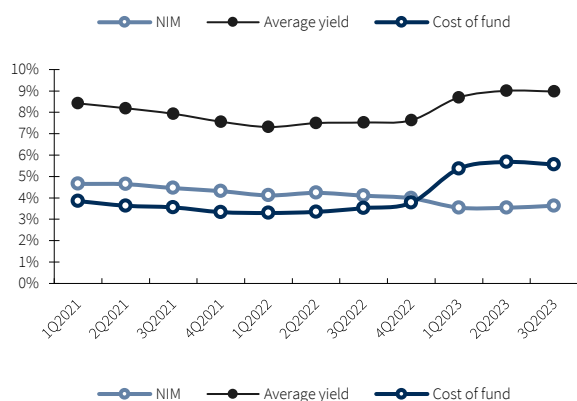
Source: Tien Phong Bank, KB Securities Vietnam

Fig 3. TPB – TOI & NPAT growth (% YoY)



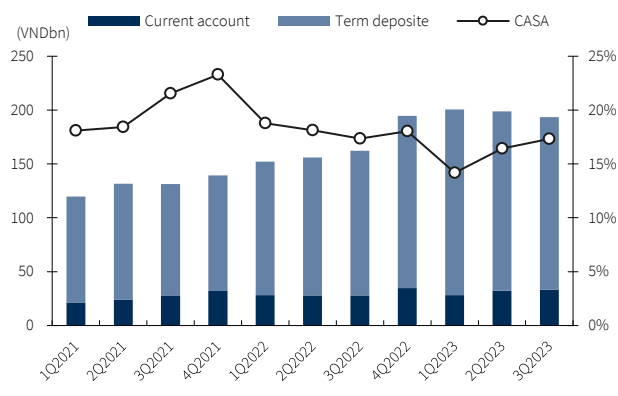
Source: Tien Phong Bank, KB Securities Vietnam

Fig 4. TPB – Interest rates & NIM (%)



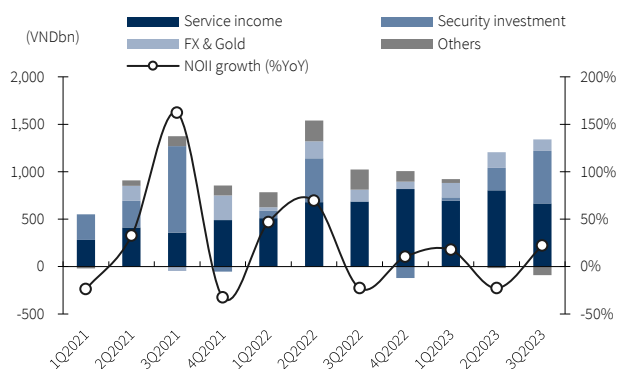
Source: Tien Phong Bank, KB Securities Vietnam

Fig 5. TPB – CASA ratio (%)



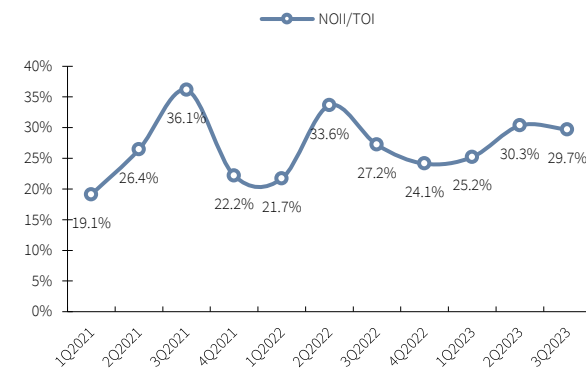
Source: Tien Phong Bank, KB Securities Vietnam

Fig 6. TPB – NOII structure



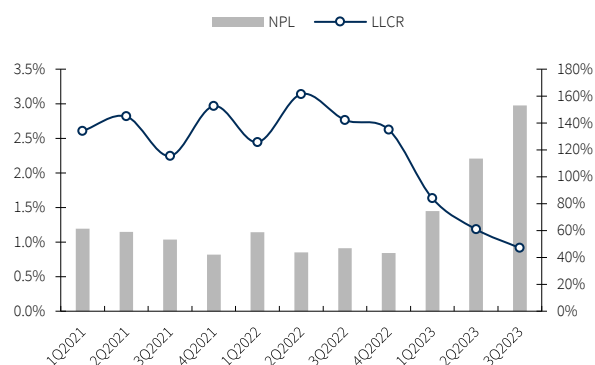
Source: Tien Phong Bank, KB Securities Vietnam

Fig 7. TPB – NII/TOI ratio (%)



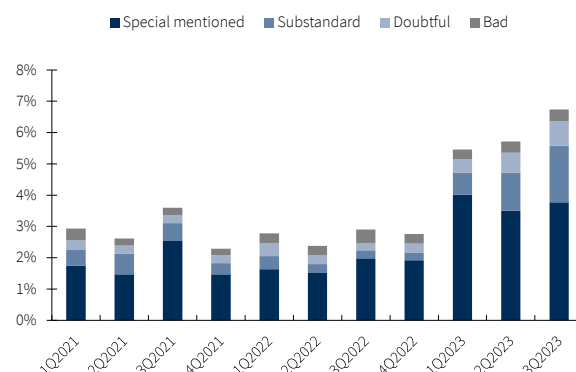
Source: Tien Phong Bank, KB Securities Vietnam

Fig 8. TPB – NPR & LLCR (%)



Source: Tien Phong Bank, KB Securities Vietnam

Fig 9. TPB – NPL structure

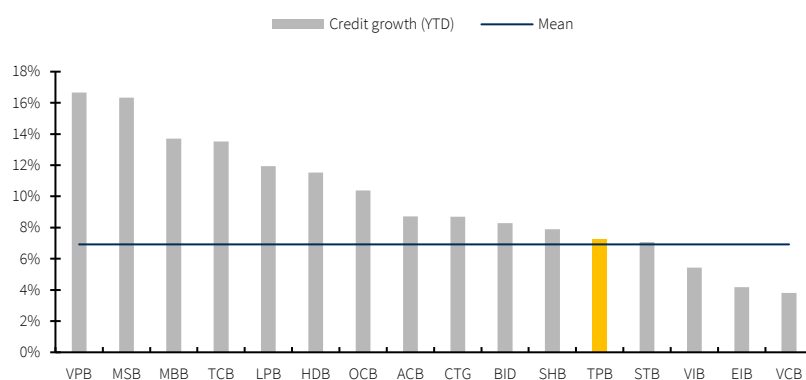


Source: Tien Phong Bank, KB Securities Vietnam

Credit growth completed 40% of the plan

At the 2023 AGM, TPB set a credit growth target at 18%. At the end of 3Q23, credit growth of the bank only reached 7.2% YTD, equivalent to 40% of the plan due to the impact of low credit demand and the gloom of the corporate bond market. In KBSV's opinion, completing the proposed plan will be a big challenge for TPB, but thanks to efforts to boost lending activities in the year-end period, we think that credit growth in 2023 can reach 12.6%. This means that the credit growth should increase by 5.4% in the last quarter of the year. For 2024, we believe that the corporate bond market has not yet recovered, but a positive macroeconomic outlook will be a factor supporting credit demand for banks. Besides, TPB still has room to reduce lending interest rates as CoF improved thanks to much lower deposit interest rates.

Fig 10. Vietnamese banks – Credit growth in 3Q23 (% YTD)



Source: Tien Phong Bank, KB Securities Vietnam

NIM is supported by input costs, but the pressure to lower lending rates increases

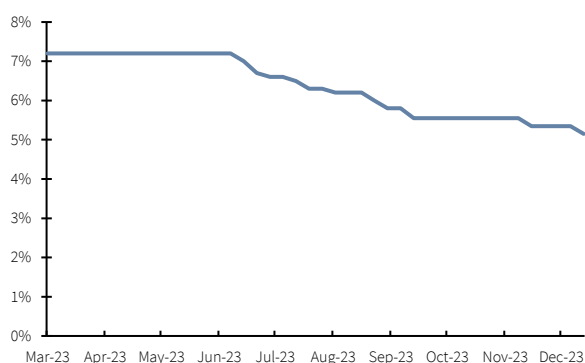
TPB's NIM in the coming time will be supported by input costs as 12M high-interest rate deposits mature and CASA ratio improves. However, we see that the pressure on TPB and the joint stock commercial banking group in general is not small as the state-owned banks with the advantage of capital costs is reducing lending interest rates to attract customers from other banks after Circular 06/2023-NHNN was applied, causing joint stock commercial banks to reduce interest rates to retain customers. The decline in lending interest rates will be reflected more clearly in 2024 when business support policies are strengthened. Therefore, TPB's NIM is forecast to only improve slightly to 3.86% in 2024, lower than the average for the 2019-2022 period of 4.22%.

The NPL ratio increased and the reserve buffer was quite modest

TPB's NPL ratio in 3Q23 was 2.97% (+76bps QoQ). Accordingly, although the bank has increased provisioning, the LLCR dropped sharply to 47%. TPB continued to be in the group of banks with the lowest LLCR in the system. According to TPB, bad debt and special mention in 3Q surged due to individual customers. Bad debt from private customers was 2.87%, of which on-balance sheet bad debt is 1.84%, and the rest is due to CIC. Meanwhile, special mention from private customers was quite high at 5.85% (compared to the general level of 3.77%), showing the risk of bad debt formation in this group in the near future. Outstanding debt restructured under Circular 02 at the end of 3Q23 was VND1,466 billion, equivalent to 0.8% of total outstanding debt and mainly restructured in the quarter.

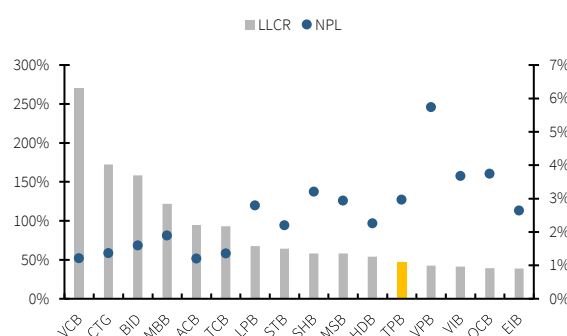
For 2024, the bank said it will make efforts to keep NPL under 3% limit of the SBV (the NPL ratio according to Circular 11 is 2.49%). We believe that the provisioning pressure on TPB cannot cool down in 1H24, especially when Circular 02 expires and the bank's reserve buffer is quite modest. However, the positive economic outlook along with domestic demand expected to recover by the end of 2024 means that TPB, whose loan portfolio structure is largely made up of the private customer group, should be able to well control asset quality in 2024.

Fig 11. TPB – 12M deposit interest rates (%)



Source: WiChart, KB Securities Vietnam

Fig 12. Vietnam – NPL & LLCR at banks (%)



Source: Tien Phong Bank, KB Securities Vietnam

Forecast & valuation

Table 13. TPB – 2023–2024F results

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Net interest income (VNDbn)	11,387	11,411	0.2%	13,060	14.5%	NII forecast is unchanged compared to the previous forecast although credit growth slowed down thanks to NIM improving more than expected.
Net fee income (VNDbn)	2,692	2,967	10.2%	3,264	10.0%	
Total operating income (VNDbn)	15,617	16,197	3.7%	18,617	14.9%	
Provision costs (VNDbn)	(1,844)	(3,194)	73.2%	(4,245)	32.9%	We upgraded the forecast for provisioning costs to ~14% because NPL increased more strongly than expected. Special mention rose again, showing that provisioning pressure will still be large in the near future.
Profit after taxes (VNDbn)	6,261	5,284	-15.6%	5,838	10.5%	
NIM (%)	3.98%	3.70%	-29bps	3.86%	+16bps	NIM forecast increases by 14bps compared to the old forecast thanks to improved CoF while average earnings yield decreased more slowly than expected.
Average earning yield (%)	7.63%	8.99%	+136bps	8.18%	-80bps	
Average CoF (%)	3.77%	5.48%	+170bps	4.46%	-102bps	
CIR (%)	38.1%	39.5%	+1.4ppts	38.00%	-1.5ppts	
NPL ratio (%)	0.84%	3.00%	+216bps	2.40%	-60bps	
Total assets (VNDbn)	328,634	347,030	5.6%	397,160	14.4%	
Equity (VNDbn)	32,239	32,748	1.6%	38,586	17.8%	

Source: KB Securities Vietnam

Valuation – BUY recommendation with target price VND22,000

We combine two valuation methods: P/B and residual income balance to find a reasonable price for TPB shares.

(1) P/B valuation method:

We maintain the 2024 forward P/B at 1.1x, equivalent to -1 SD of TPB's three-year average P/B to reflect concerns about asset quality and provisioning pressure on the bank in the coming time.

(2) Residual income method (Table 15):

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

Combining the above two valuation methods with a 50–50 ratio, we get the final reasonable price for TPB shares for 2024 at VND22,000/share, 30.2% higher than the price on December 21, 2023. Some influential risks that may affect our valuation include: (1) Earnings yields not being as expected; (2) asset quality deteriorating further; and (3) credit growth not reaching the target due to the general impact of the economy.

Fig 24. TPB – P/B in 2020–2023 (x)



Source: FiiPro, KB Securities Vietnam

Table 15. TPB – 2024F valuation according to residual income model

(VNDbn)	2024F	2025F	2026F
NPAT	5,838	7,783	9,696
Excessed return	1,078	2,174	2,956
Required rate of return (Re)	14.54%		
Growth (g)	5.00%		
Terminal value	11,211		
Total present value (PV)	60,351		
TPB's share price	25,780		

Source: KB Securities Vietnam

Table 26. TPB – Final valuation

Valuation method	Forecast price	Weight	Weighted price
Residual income	18,131	50%	9,065
P/B	25,780	50%	12,890
Target price			22,000

Source: KB Securities Vietnam

TPB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	7,619	9,946	11,387	11,411	13,060	Loans	118,085	139,463	159,160	184,445	211,348
Interest income	14,828	17,427	21,811	27,732	27,707	Marketable securities	-	-	-	-	-
Interest expense	(7,209)	(7,481)	(10,424)	(16,321)	(14,647)	Cash (ex. Reserves)	2,214	2,553	2,427	3,134	3,588
Fees & commissions	937	1,542	2,692	2,967	3,264	Interest earning assets	190,040	270,801	300,912	316,534	360,907
Other non-interest income	694	246	702	329	727	Fixed assets & other assets	14,993	20,653	26,933	30,493	35,901
Total operating income	10,369	13,517	15,617	16,197	18,617	Total assets	206,315	292,827	328,634	347,030	397,160
SG&A expenses	(4,197)	(4,571)	(5,945)	(6,398)	(7,074)	Customer deposits	115,904	139,562	194,960	203,866	233,427
Pre-provisioning OP	6,172	8,947	9,672	9,799	11,542	Borrowings & call money/repos	28,127	35,885	20,595	27,678	31,159
Provision for credit losses	(1,783)	(2,908)	(1,844)	(3,194)	(4,245)	Interest bearing liabilities	185,609	263,027	289,484	306,355	350,225
Other income	1,097	496	1,325	645	1,427	Other liabilities	3,961	3,813	6,911	7,927	8,349
Other expense	(402)	(250)	(623)	(317)	(700)	Total liabilities	189,570	266,840	296,395	314,283	358,574
Pre-tax income	4,389	6,038	7,828	6,605	7,297	Charter capital	10,717	15,818	15,818	23,410	23,410
Income tax expense	(878)	(1,209)	(1,568)	(1,321)	(1,459)	Capital surplus	51	2,561	2,561	-	-
NP	3,510	4,829	6,261	5,284	5,838	Retained earnings	6,023	6,220	11,747	6,285	12,123
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	3,510	4,829	6,261	5,284	5,838	Total shareholders' equity	16,744	25,987	32,239	32,748	38,586

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.1%	21.6%	24.4%	22.5%	20.0%	EPS	4,975	5,910	6,318	6,003	6,564
ROA	1.4%	1.6%	1.9%	1.8%	1.9%	BVPS	25,370	29,421	28,663	29,031	38,503
Pre-provision ROE	30.2%	30.9%	30.6%	27.4%	24.0%	Tangible BVPS	24,527	28,592	28,068	28,527	38,029
Pre-provision ROA	2.1%	2.3%	2.3%	2.2%	2.3%	Valuations					
Net interest margin (NIM)	2.9%	3.2%	3.4%	3.1%	3.3%	PER	17.2	14.5	13.5	14.2	13.0
Efficiency						PBR	3.4	2.9	3.0	2.9	2.2
Pure Loan to deposit ratio	81.4%	84.6%	92.1%	88.0%	89.0%	Dividend yield	0.7%	1.4%	0.0%	1.4%	1.4%
Cost-income ratio	32.7%	31.0%	31.2%	31.5%	32.0%	ROE	21.1%	21.6%	24.4%	22.5%	20.0%
Growth						Capital Adequacy					
Asset growth	8.5%	6.7%	28.2%	5.5%	15.2%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	13.3%	13.9%	19.8%	8.3%	14.0%	Asset Quality					
PPOP growth	10.4%	18.5%	19.6%	8.8%	15.3%	NPL ratio (substandard)	0.6%	0.6%	0.7%	1.2%	1.2%
Parent NP growth	-0.3%	18.8%	36.4%	12.2%	16.4%	Coverage ratio (substandard)	368.0%	420.5%	309.3%	198.1%	204.0%
EPS growth	-0.3%	18.8%	6.9%	-5.0%	9.3%	NPL ratio (precautionary)	1.0%	1.0%	1.0%	1.8%	1.8%
BVPS growth	16.3%	16.0%	-2.6%	1.3%	32.6%	Coverage ratio (precautionary)	239.8%	267.6%	203.2%	132.2%	134.0%

Source: 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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