

Yuanta Vietnam Banks Universe				
Stock code	Yuanta Rating	Current price (VND)	Target price (VND)	12-m TSR*
ACB VN	BUY	22,900	28,517	29%
BID VN	HOLD-UPF	47,500	42,786	-8%
HDB VN	BUY	17,150	23,234	41%
MBB VN	BUY	19,000	25,267	36%
STB VN	HOLD-UPF	32,900	33,575	2%
VCB VN	BUY	89,200	99,422	12%
VPB VN	BUY	22,400	25,542	19%

Source: Bloomberg (pricing date: Aug 16), Yuanta Vietnam

**What's new?**

- 2Q23 PATMI of the 27 listed banks declined by -4.7% QoQ / -0.3% YoY.
- The sector's NPL ratio rose to 2.11%, while the LLR ratio (97%) fell below 100% for the first time since 2020.
- VCB and ACB remain at the top of our CAMEL framework rankings for 2Q23.
- We downgrade STB to HOLD-UPF from BUY, mainly due to valuation.

**Our view**

- We expect the SBV to cut rates again, which should boost credit growth in 2H23. CASA deposits should improve as term deposit rates decline.
- The Cox-Ingersoll-Ross model results in an estimated c.30bp decline in interest rates over the next 12 months.
- Valuations are cheap but investors should stay focused on asset quality. We prefer banks with high LLR ratios.

**Overview:** We expect credit growth to improve in 2H23, partly due to decreased interest rates that will also marginally impact the sector's NIM. Circular 02 should reduce reported NPLs and provisioning pressure, but underlying asset quality is increasingly a concern. Prudence requires banks to be prepared for potential asset deterioration, and our preference is for banks with high LLR ratios. Despite YTD outperformance, valuations are still cheap at a sector average 0.9x 2024E PB with 2024E ROE of 20% (based on BBG consensus).

**Recovery phase? Focus on asset quality**

We think the SBV still has room for another rate cut to stimulate the economy given low CPI (average CPI was 3.12% in 7M23 versus the government's full-year target of 4.50%).

**Marginal NIM impact from policy.** Lower policy rates should reduce funding costs, and falling term deposit rates should also help to boost CASA ratios. However, the banks are also under pressure to cut lending rates. Thus, the policy response to slow 1H23 GDP growth is likely to result in marginally lower NIM for the sector in 2H23 and beyond.

**We expect fee income to improve in 2H23** along with the expected recovery of credit growth. However, bancassurance – a key fee income driver in recent years – may take longer to recover given the difficulties of rebuilding public trust after a series of mis-selling allegations. Having said that, the long-term outlook for life insurance remains attractive given low penetration and rising middle class wealth.

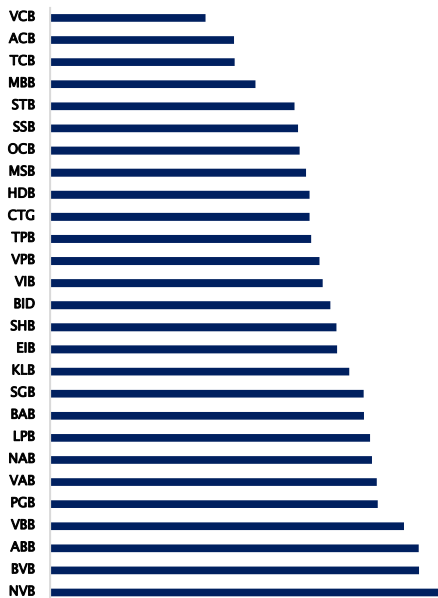
**Asset quality is under pressure** amid the real estate industry's difficulties. Sector NPLs jumped to 2.11% (+52 bps YTD), while the LLR ratio fell to 97% (-27ppt YTD) – below 100% for the first time since 2020. Circular 02/2023/TT-NHNN should help to reduce reported NPLs and provisioning pressure, but the underlying trends are still a concern.

**VCB and ACB retain the top-2 rankings** in our CAMEL framework for 2Q23, largely due to their superior asset quality metrics. Investors should focus on credit quality given the underlying negative trends.

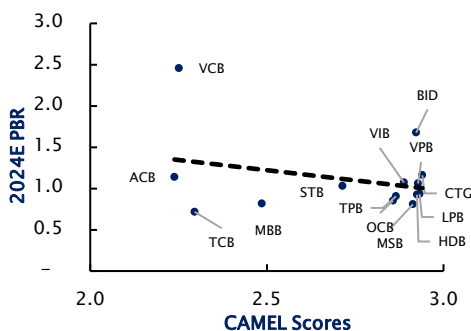
**Attractive valuations.** The listed stocks have risen by an average 26% YTD, outperforming the VNI by +8ppt. But valuations are still cheap at a median 0.9x 2024E P/B, with 2024E ROE of 20% (source: Bloomberg).

**Recommendations:** Reiterate BUY on ACB, MBB, VCB, HDB, and VPB. We downgrade STB to HOLD-Underperform with publication of this note.

Banks Ranking on CAMEL Scores



Source: FiinPro, Yuanta Vietnam



Source: Bloomberg, Yuanta Vietnam

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**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

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## Yuanta Vietnam Banks Coverage Universe

**Table 1- Yuanta Vietnam Banks Coverage Universe**

Stock code	Yuanta Rating	Market cap (USD bn)	Current price (VND)	Target price (VND)	2024E Dividend yield	12-m TSR*	2024E ROE	2024E ROA	2024E PB
ACB VN	BUY	3,778	22,900	28,517	4%	29%	24%	2.6%	1.0x
BID VN	HOLD-UDF	10,160	47,500	42,786	2%	-8%	17%	1%	1.7x
HDB VN	BUY	2,093	17,150	23,234	6%	41%	24%	2%	0.9x
MBB VN	BUY	4,169	19,000	25,267	3%	36%	23%	3%	0.9x
STB VN	HOLD-UDF	2,537	32,900	33,575	0%	2%	21%	2%	1.1x
VCB VN	BUY	20,989	89,200	99,422	1%	12%	24%	2%	2.4x
VPB VN	BUY	6,218	22,400	25,542	5%	19%	18%	2%	1.2x

\*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends. Pricing data as of close on Aug 16, 2023.

Source: Bloomberg, Yuanta Vietnam

**Table 2- Yuanta Vietnam Bank Coverage\_2024E forecast**

Yuanta Vietnam Bank Coverage Universe																			
Company	Stock code	PATMI	PATMI growth	Loan	Loan growth	Deposit	Deposit growth	NII	NII growth	Fee income	Fee growth	Opex	Opex growth	Provisioning	Provisioning growth	EPS	EPS growth	BVPS	PB
Asia Commercial Bank	ACB VN	19,361	24%	537,411	15%	521,391	13%	31,674	19%	4,903	26%	14,919	17%	1,221	-9%	4,911	24%	22,048	1.0x
BIDV	BID VN	22,115	20%	1,953,430	14%	1,861,680	13%	71,778	15%	7,381	19%	27,197	13%	28,865	10%	4,372	20%	27,891	1.7x
HD Bank	HDB VN	12,171	30%	402,195	24%	325,419	23%	26,064	30%	4,159	26%	11,460	25%	4,476	21%	4,208	30%	18,347	0.9x
MB Bank	MBB VN	25,218	26%	638,043	18%	599,734	16%	50,667	20%	6,042	30%	20,323	17%	11,149	11%	4,563	26%	21,820	0.9x
Sacombank	STB VN	12,356	64%	575,029	16%	588,086	15%	27,658	12%	4,457	18%	13,841	17%	4,902	-48%	6,554	64%	29,885	1.1x
Vietcombank	VCB VN	49,146	36%	1,499,469	15%	1,613,127	14%	74,543	20%	10,626	32%	27,569	15%	7,440	-32%	8,102	36%	36,828	2.4x
Vietnam Prosperity Bank	VPB VN	21,711	32%	693,367	26%	492,775	28%	59,656	25%	9,480	28%	17,177	14%	33,449	21%	3,220	32%	17,754	1.2x

Source: Yuanta Vietnam

## CAMEL 2Q23\_Update

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Bank sector (27-listed banks) 2Q23 earnings results summary:

Bank Sector	2Q23	% QoQ	% YoY
NII (VND bn)	107,840	-4%	2%
Net Fee Income (VND bn)	15,692	11%	1%
Adj. TOI (VND bn)	133,043	0%	0%
Opex (VND bn)	48,408	8%	8%
Provision (VND bn)	30,603	3%	4%
PATMI (VND bn)	50,343	-5%	0%
NPL (%)	2.11%	19bps	1ppt
LLR (%)	97%	-9ppt	-50ppt
CASA (%)	19%	60bps	-4ppt

Source: FiinPro, Yuanta Vietnam

**VCB and ACB retain their No. 1 & 2 rankings in our CAMEL framework for 2Q23.** Both banks have low/zero exposure to corporate bonds and real estate, which shields their asset quality. VCB stands out with a loan loss reserve (LLR) ratio of 386% (+68ppt YTD) as at 2Q23, which is the highest in the sector.

**2Q23 PATMI of the 27-listed banks was VND50 tn (-4.7% QoQ/-0.3% YoY).**

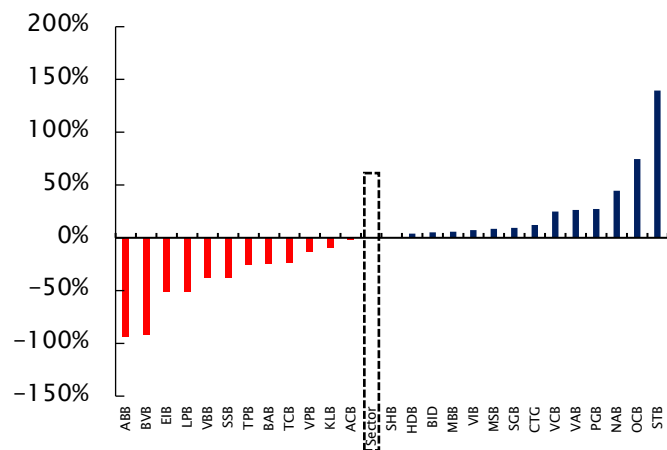
Net interest income (net-II) was VND108 tn (-3.8% QoQ/but +2.1% YoY), which reflects weak credit growth and high funding cost in 1H23.

**Banks increased provisioning costs – but not by enough, in our view.** Sector provisioning was only up +3.2% QoQ/+3.6% YoY in 2Q23, which is not impressive given the increased aggregate NPL ratio. 2Q23 NPL ratio (based on the aggregated data of the 27-listed banks) was 2.11% (+19bps QoQ/+62 bps YoY), while the LLR ratio decreased to 97% (-9ppt QoQ/-50ppt YoY).

Some banks even reduced their provisioning expenses to boost earnings in 2Q23 as illustrated in figure 6 below. Although [Circular 02/2023/TT-NHNN](#) helps to reduce *reported* NPLs and provisioning pressure, it does not actually turn a bad loan into a performing loan; that transition requires an actual upturn in the economics of the distressed borrowers. As such, our view is that banks should take a prudent approach by provisioning for potential bad debts according to reality, regardless of the accounting policies.

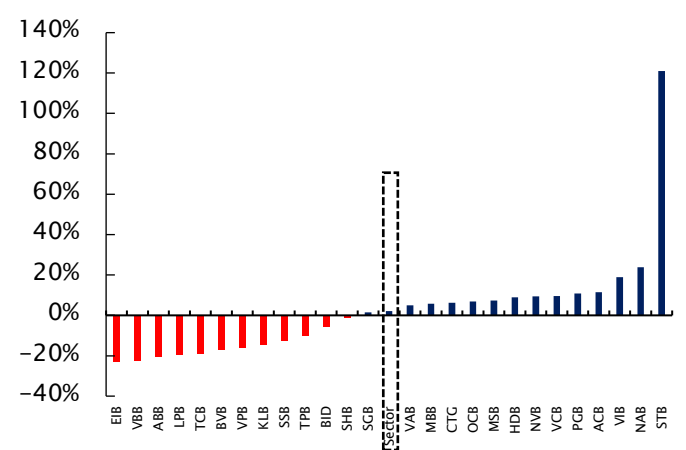
We think that banks with high loan loss reserve (LLR) ratios demonstrate strong asset quality and ability to deal with potential credit losses. In this regard, VCB is a standout, with an LLR ratio of 386%.

**Figure 1: 2Q23 PATMI growth (% YoY)**



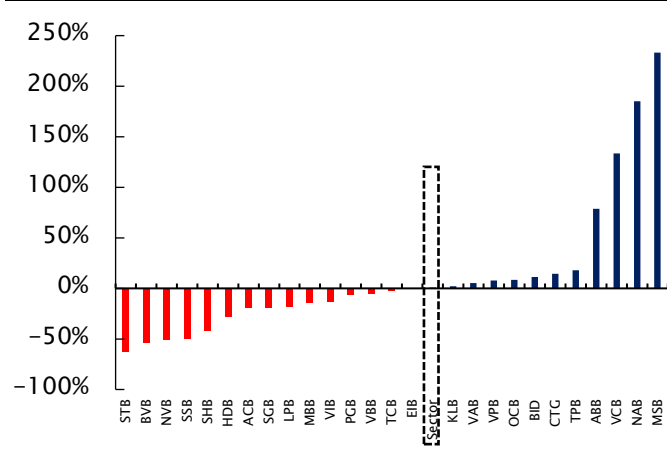
Source: FiinPro, Yuanta Vietnam

**Figure 2: 2Q23 net-interest income (% YoY)**



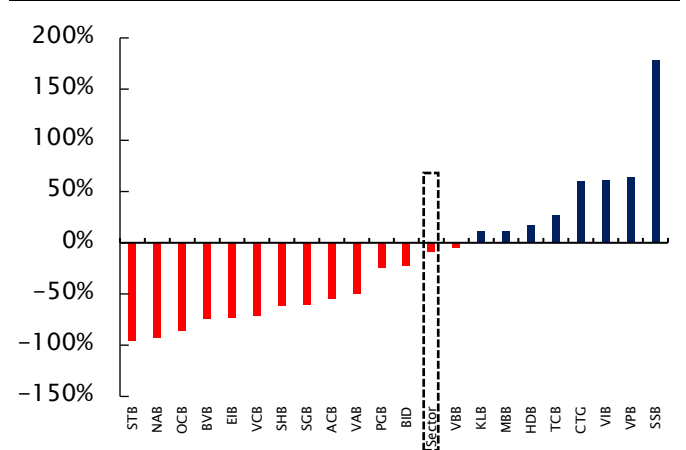
Source: FiinPro, Yuanta Vietnam

**Figure 3: 2Q23 net fee income growth (% YoY)**



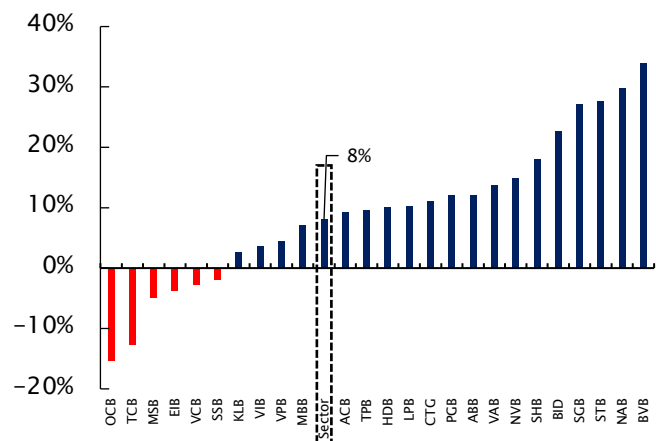
Source: FiinPro, Yuanta Vietnam

**Figure 4: 2Q23 net other income (% YoY)**



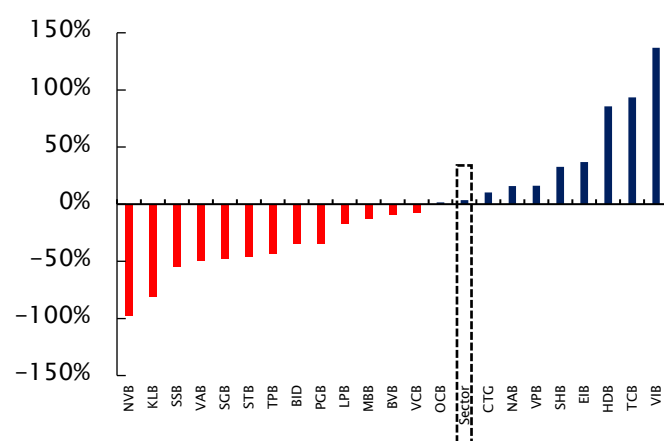
Source: FiinPro, Yuanta Vietnam

**Figure 5: 2Q23 opex growth (% YoY)**



Source: FiinPro, Yuanta Vietnam

**Figure 6: Provisioning**



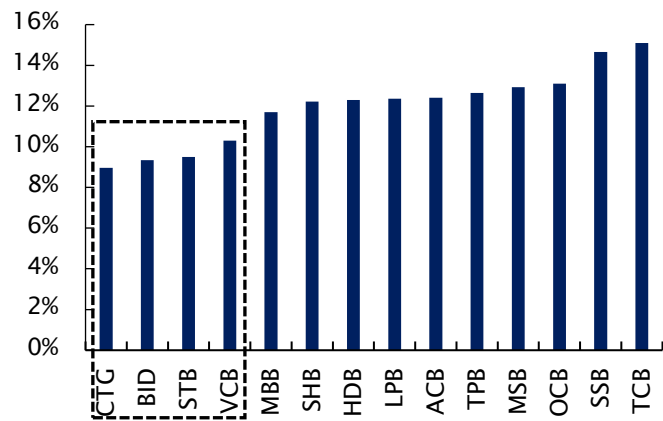
Source: FiinPro, Yuanta Vietnam

**Capital**

**Vietnam banks remain undercapitalized** by regional and global standards, with the median asset/equity ratio at 11.8x as at 2Q23. We have long argued that banks must strengthen their capital to ensure their sustainable development. We expect some banks (i.e., VCB and BID) to raise capital from foreign investors in 2024 to improve their capital adequacy.

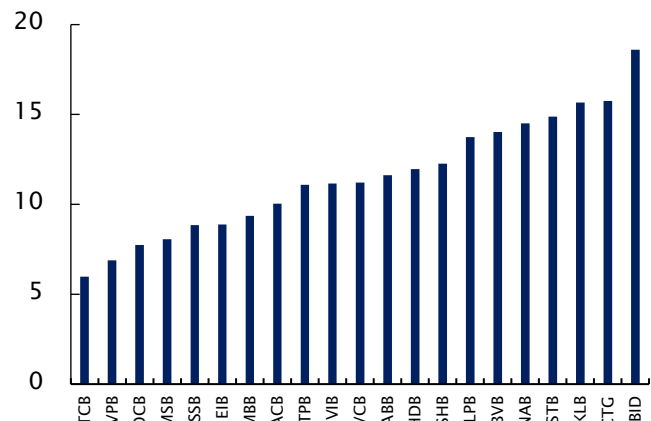
Raising substantial amounts of new equity typically requires foreign investment, which is complicated by the 30% foreign ownership limit applied to banks. Of the three listed state-owned banks, only BID and VCB still have sufficient room to raise capital from foreign investors, as shown in figure 9.

**Figure 7: CAR by Banks**



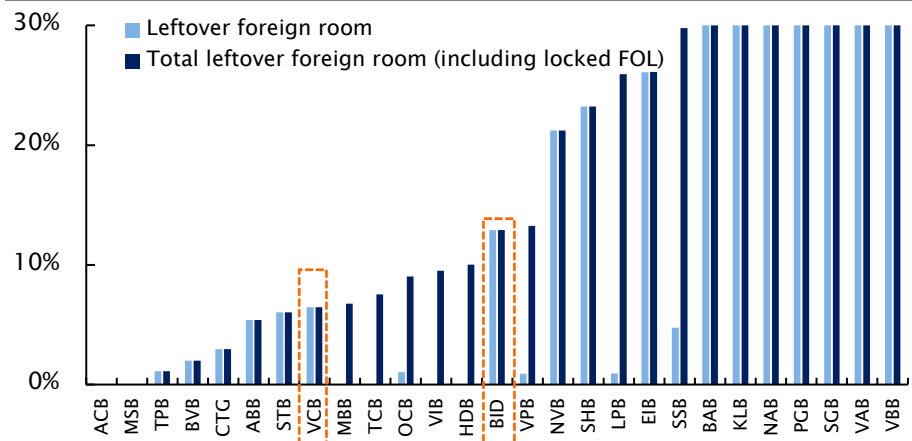
Source: Company Data

**Figure 8: Asset/Equity Leverage as at 2Q23 (x)**



Source: FiinPro, Yuanta Vietnam

**Figure 9: Foreign room at Vietnam banks**



Source: HSX, Yuanta Vietnam

### Asset quality deterioration is increasingly a concern

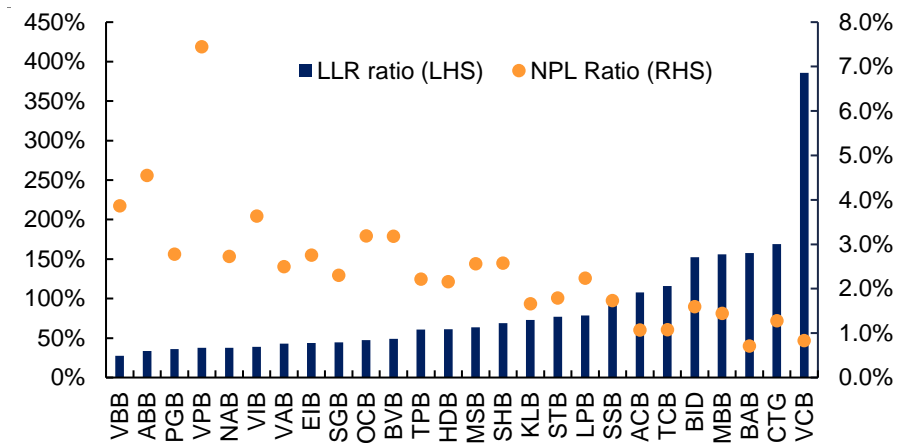
**Rising NPLs but reduced provisioning in 2Q23.** The sector’s 2Q23 NPL ratio (based on the aggregated data of 27-listed banks) was 2.11% (+52bps YTD).

However, in aggregate, the listed banks increased provisioning costs by only +3.2% QoQ/+3.6% YoY in 2Q23. This is not at all impressive given the rising NPL ratio.

Given the limited new provisioning and rising NPLs, the sector’s loan loss reserve (LLR) ratio decreased to 97% (-27ppt YTD).

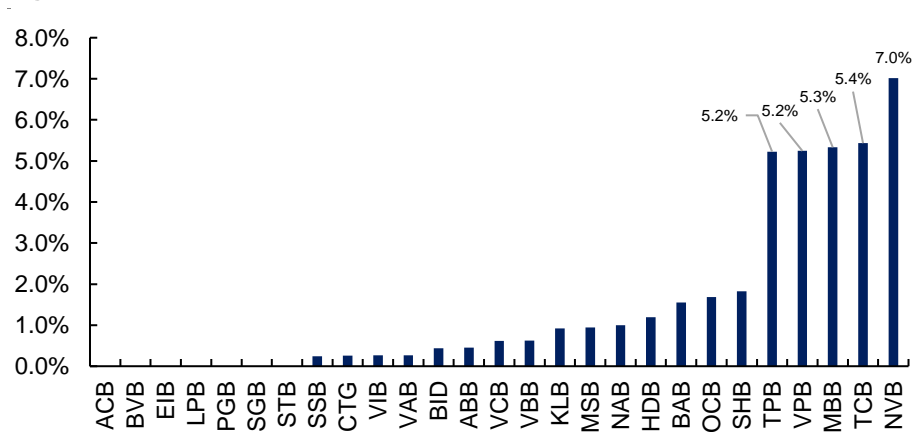
VCB stands out as an exception in the sector, with a continued increase in its LLR ratio to 386% as of 2Q23, which is the highest among all banks. This implies a wide reserve cushion that should support earnings going forward.

**Figure 10: NPL and LLR ratios among banks as at 2Q23**



Source: FiinPro, Yuanta Vietnam

**Figure 11: Corporate bonds % Total Assets as at 2Q23**



Source: FiinPro, Yuanta Vietnam

**Real estate accounts for ~21% of total system credit** and 26% of Vietnam’s GDP. Thus, the impact of the real estate crisis on the bank sector is significant. As an indicator of the depth of these difficulties, the default ratio of real estate sector corporate bonds increased to 38.5% in Jun from 24% in May (source: FiinRatings).

**Supportive policies to help relieve pressure on the real estate sector** include the following.

- 1) **Easing monetary policy** will reduce debt payment burden for borrowers and might help improve liquidity for the real estate market.

2) [Circular 03/2023/TT-NHNN](#) allows banks to repurchase bonds (mostly related to real estate) that they have sold without having to wait for the 12-month period as required by the previous Circular 16/2021/TT-NHNN.

3) [Decree 08/2023/ND-CP](#) essentially allows more time for restructuring bonds. The easing monetary policy will help banks by bringing down debt burden for borrowers, reducing NPLs pressure and provisioning for banks as a result. The policy also helps lower the cost of funds for banks.

However, the Circular 03 and Decree 08 are intended to support corporate bond market liquidity, but these is not necessarily good for banks. These policies are temporary solutions, which do not address the underlying problems. However, they offer some reliefs to banks (i.e. NVB, MBB, VPB, TCB, and TPB) that are heavily exposed to corporate bonds. These banks are likely to continue facing challenges, but at least the policies may partly help restore investors' confidence.

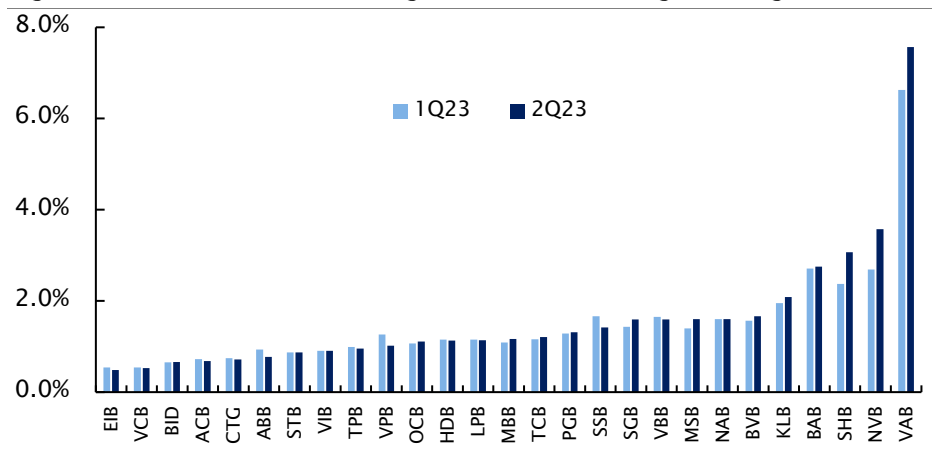
**Accrued-interest assets are another negative asset quality indicator.** The median ratio of accrued interest assets to total assets was 1.16% as at 2Q23, unchanged from the previous quarter.

However, some banks posted high and rising levels of accrued interest as a percentage of total assets in 2Q23, such as VAB (7.6%, +1 ppt QoQ), NVB (3.6%, +90bps QoQ), and SHB (3.1%, +70bps QoQ).

Investors should tread carefully among banks that report high and increased accrued interest assets, which can result in a misrepresentation of banks' sustainable earnings if they are unable to collect the cash represented by accrued assets in the future.

High-quality banks such as VCB and ACB have relatively low levels of accrued interest assets / total assets, at 0.5% (unchanged QoQ) for VCB and 0.7% (unchanged QoQ) for ACB, as at 2Q23.

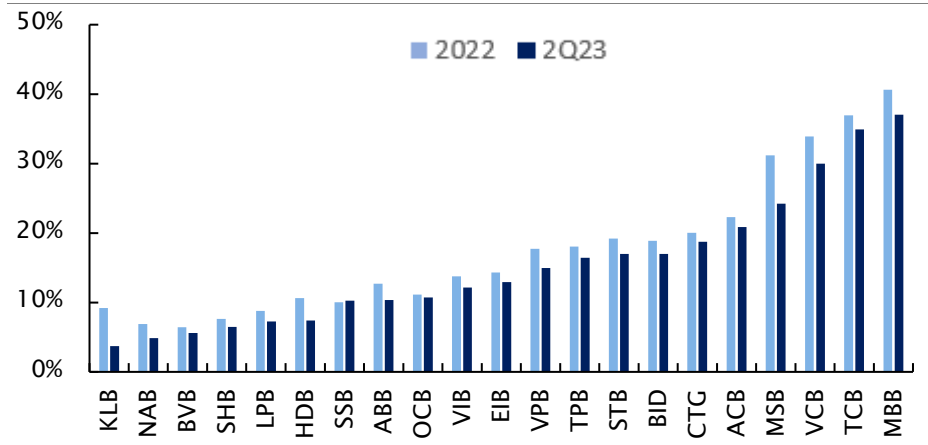
**Figure 12: Accrued interest as a %ge of total assets – High & rising is bad**



Source: FiinPro, Yuanta Vietnam

**CASA ratio** (aggregated of 27 listed banks) was 19.0% (+60bps QoQ/ but – 4ppt YoY). Expanding CASA meaningfully has been difficult amid the attractiveness of relatively high term deposit rates in 1H23. However, we expect the CASA ratio to improve in 2H23 given the decline in term deposit rates.

Figure 13: CASA ratios as at 2Q23



Source: FiinPro, Yuanta Vietnam

## Vietnam Banks: 2H23 and beyond

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**Easing monetary policy** should help boost credit growth in 2H23. The SBV cut the policy four times as of Aug 2023, and we expect a further rate cut by the end of 2023 or early 2024 to boost the economy given the under-control CPI (average CPI was 3.12% in 7M23 versus the SBV's full-year target of 4.50%).

*Please see page 11 for our estimate of the interest rate in the next one year using Cox–Ingersoll–Ross (CIR) model.*

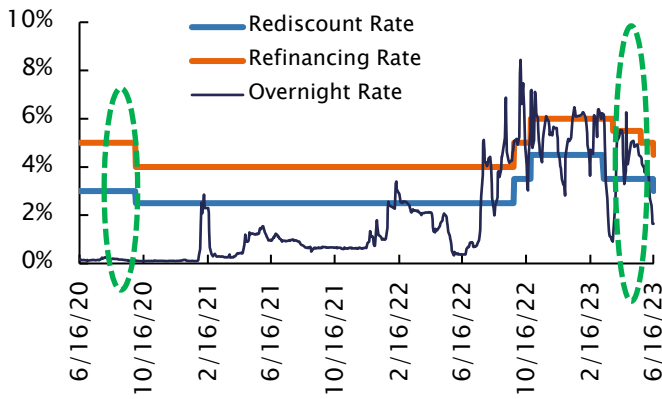
**However**, we need to watch out for the FX rate as the Fed has not signaled a rate cut, while the SBV's continued easing policy will put the VND at devaluation pressure. **In sum**, we still expect a further stimulus probably in 4Q23 or early 2024, which will help to drive credit growth and will also support risky assets (i.e., stocks).

The current policy rates have approached the lows of 2020 as illustrated in figure 14 below. Recall that the financial sector (including banks) jumped by approximately 70% from Oct 2020 to Apr 2022 (as shown in figure 16) following the SBV's policy rates cut in 2020.

We also observed a surge of +6.4% QoQ in deposit growth in 4Q22, following the rate hikes implemented by the SBV in Oct 2022. Data from the SBV indicates that the majority of deposits during this period were term deposits spanning 6 to 12 months.

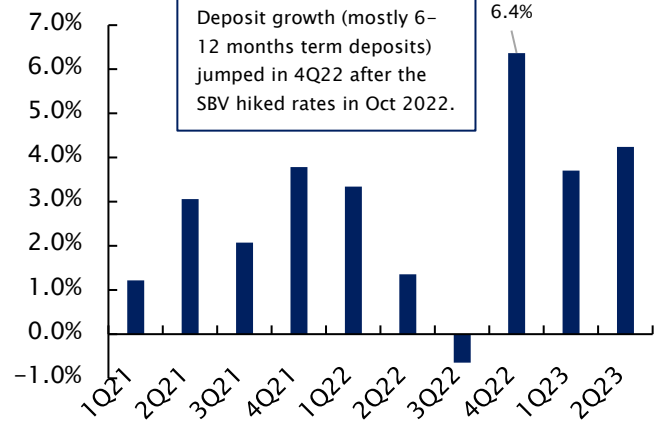
Thus, these deposits, which is about VND496 tn, will mature from Jun to Dec 2023, potentially leading to higher flows into stocks during 2H23. We do not think that all of the maturing deposits will be directed towards the stock market; however, let's assume that 10% of those deposits will go into the stock market, amounting to VND49 tn (or equivalent to the trading value of two days).

**Figure 14: The SBV cut policy rates four times in 2023**



Source: SBV

**Figure 15: Deposit QoQ growth from 2021-2023**



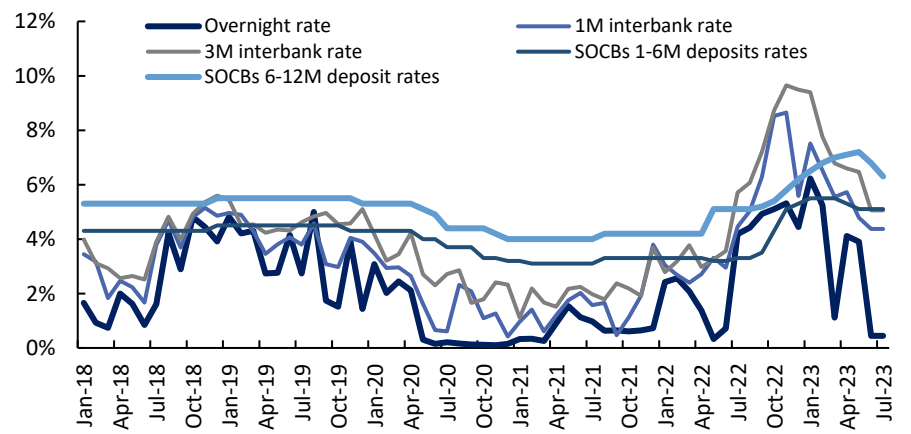
Source: FiinPro, Yuanta Vietnam

**Figure 16: Stocks recovered significantly following the SBV's rate cut in 2020**



Source: Tradingview

**Figure 17: Interbank rates and Term deposit rates at SOCBs**



Source: FiinPro

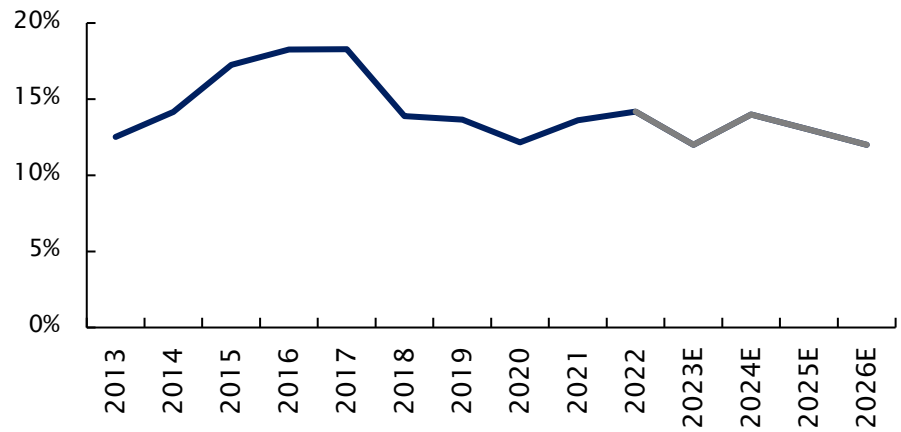
**Credit growth**

Credit growth was sluggish at 4.7% YTD in 1H23 due to a weak economy and high interest rates. However, deposit rates have decreased since June, as depicted in figure 17 above. We expect to see lower borrowing costs starting from 3Q23 onwards, which should help to boost asset growth.

We expect credit to increase by 12-13% YoY in 2023E given lower lending rates and the expected moderate economic recovery.



**Figure 18: System credit growth**



Source: SBV, Yuanta Vietnam

**Positive signs of economic recovery in 2H23**

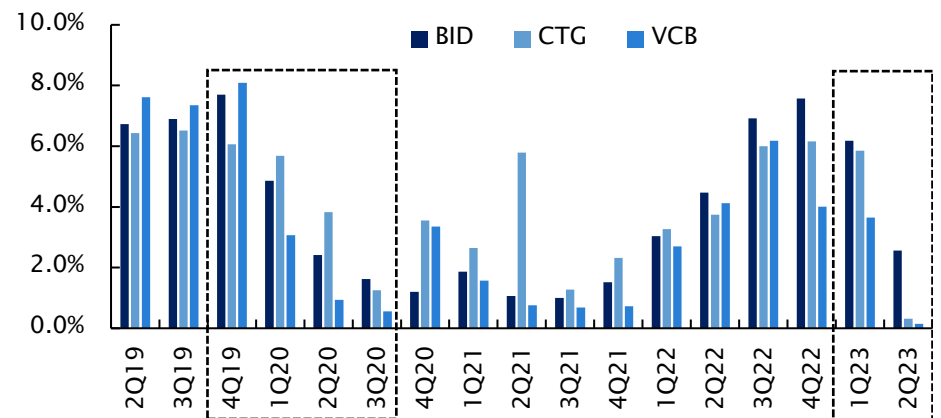
**1. Bank balance sheets reflect increased public investment disbursement**

A significant decline in government (govt.) deposits at state-owned banks has occurred in 1H23. For example, BID’s government deposit/total liabilities decreased from 6.2% in 1Q23 to 2.6% in 2Q23.

Other state-owned banks like VCB and CTG also experienced a substantial reduction in govt. deposits. VCB’s govt. deposits/total liabilities declined from 3.7% in 1Q23 to only 0.1% in 2Q23, and CTG’s govt. deposits/total liabilities dropped from 5.8% to only 0.3% during the same period.

This might indicate an increased public investment disbursement, which is positive for economic growth. The situation brings to mind the COVID period, when the government pumped money into the market to support the economy and we saw a similar rapid drop in government deposits at state-owned banks. Once again, we think the decline in government deposits reflects the authorities’ use of those funds to invest in public infrastructure projects.

**Figure 19: Government deposits/Total liabilities (%)**

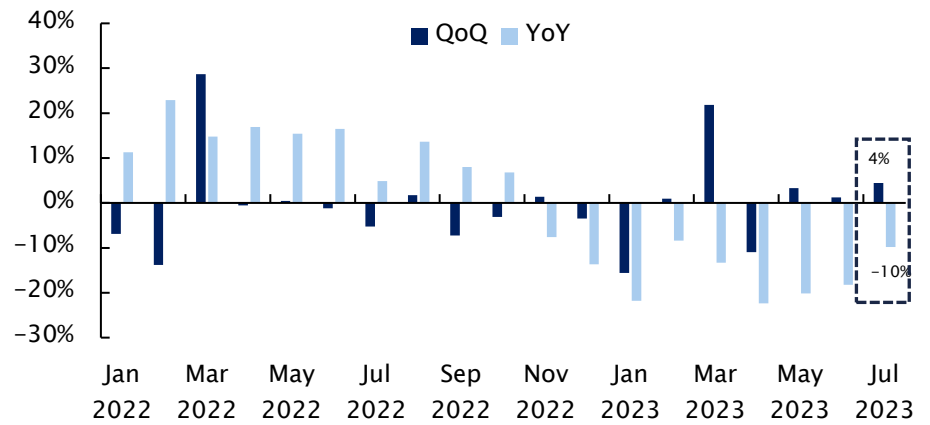


Source: Company Data, Yuanta Vietnam

**2. Imports have started to improve**

Imports were weak in 1H23 due to weak economic activity both domestic and international. However, we observe that imports improved in Jul 2023, where it increased by +4% QoQ, and the YoY decrease narrowed to only -10% compared to an average decline of -20% in the previous three months. These data show that the economy has shown sign of recovery and enterprises may preparing materials for subsequent manufacturing.

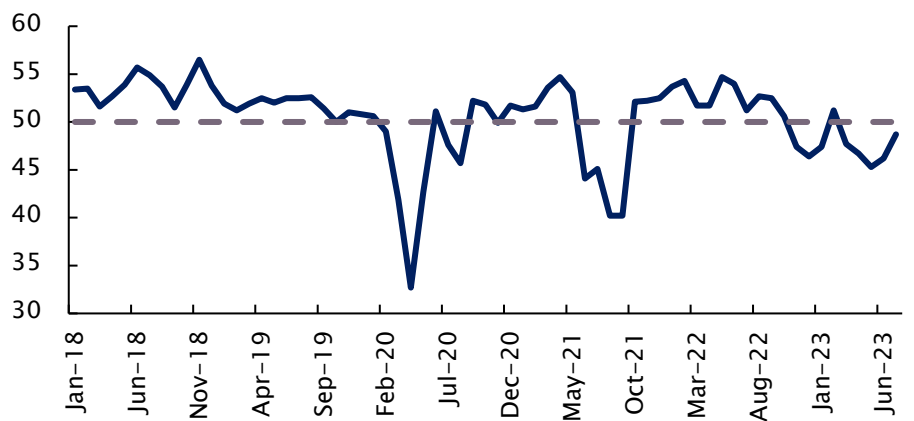
**Figure 20: Improved import demand signals an economic recovery.**



Source: GSO, Yuanta Vietnam

**3. PMI is still below 50 but it has improved since Feb 23.** A PMI reading of below 50 indicates a contraction in industrial output, but the monthly PMI improved to 48.7 in July. This is the highest number since Feb 2023, suggesting that the pace of contraction is slowing.

**Figure 21: Vietnam’s PMI**



Source: S&P Global

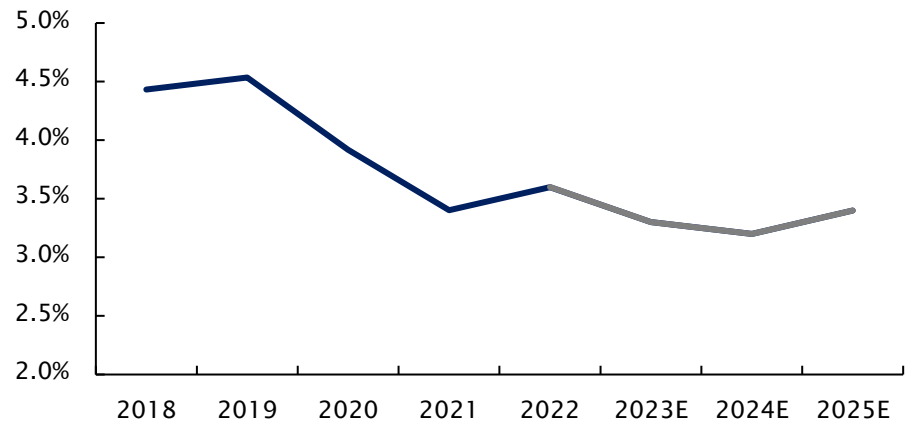
**Policy rate cuts and NIM impact**

We expect banks’ funding costs to fall from 3Q23 onwards following the SBV’s four policy rate cuts in 2023. However, those rates cuts should also result in lower loan yields. As a result, we expect a minimal negative impact on NIMs for the bank sector overall.

We expect CASA deposits to increase as lower deposit rates make term deposits less attractive. Higher CASA ratios (i.e., MBB at 37%, and VCB at 30% of total deposits) help to reduce banks’ cost of funds, which will have a positive/or at least reduce the negative impact on NIM in 2H23.

We also anticipate a further rate cut at the end of 2023 or early 2024, which will help lower COF in 2024. *Please see page 11 for our estimate of the interest rate in the next one year using Cox–Ingersoll–Ross (CIR) model.*

**Figure 22: Banks' Funding Costs**



Source: FiinPro, Yuanta Vietnam

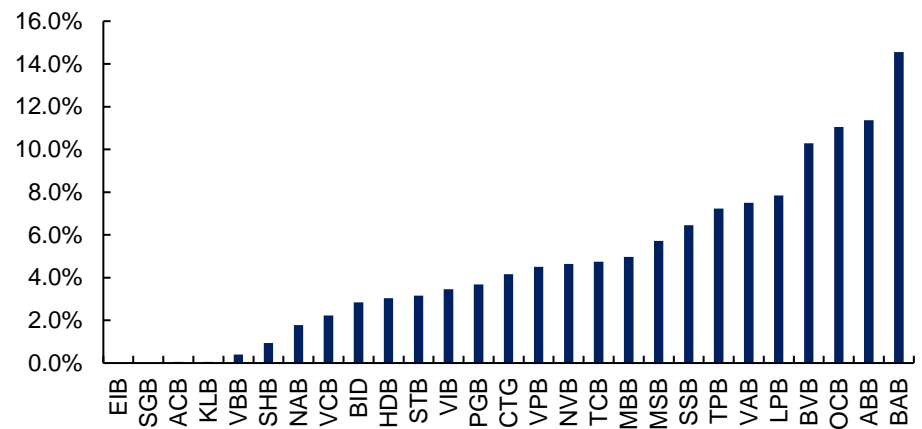
\* Note: We calculate funding costs (Interest and similar expenses / Total liabilities) based on the aggregate data of 27 listed banks from FiinPro.

**Lower rates to boost trading gains and AFS valuations in 2H23**

Due to the inverse relationship between yield and price, bond prices increase when interest rates decrease. Thus, banks that have high exposure to government bonds in the trading and available for sales (AFS) securities should record realized/unrealized gains in 2H23.

Under our coverage, MBB and VPB have the highest proportion of government bonds in their trading & AFS portfolios, with MBB at 5.0% of total assets and VPB at 4.5% as at 2Q23.

**Figure 23: Trading & AFS Securities per total assets at 2Q23**



Source: FiinPro, Yuanta Vietnam

**Cox-Ingersoll-Ross (CIR) model.** We use the CIR model to estimate the variation of the interest rate over the next year. Below is the CIR model formula:

$$dr_t = a(b - r_t) dt + \sigma\sqrt{r_t} dW_t$$

where:

$r_t$  = Instantaneous interest rate at time  $t$

$a$  = Rate of mean reversion

$b$  = Mean of the interest rate

$W_t$  = Wiener process (random variable modeling the market risk factor)

$\sigma$  = Standard deviation of the interest rate (measure of volatility)

The data we analyze in this calculation is the monthly historical 6–12m term deposit rates at the state-owned banks from 2008–2023 (source: FiinPro).

Based on the historical data, we calculate the average interest rate (b) is 0.0738 (or 7.38%), the rate of mean reversion (a) is 0.0234, the volatility (sigma) is 0.02, and the current rate (rt) is 0.063 (or 6.3% – which is the 12-month term deposits rates at state-owned banks). We then ran a Monte Carlo simulation of 50,000 times to estimate the interest rate in the next 12 months. The results are as follows:

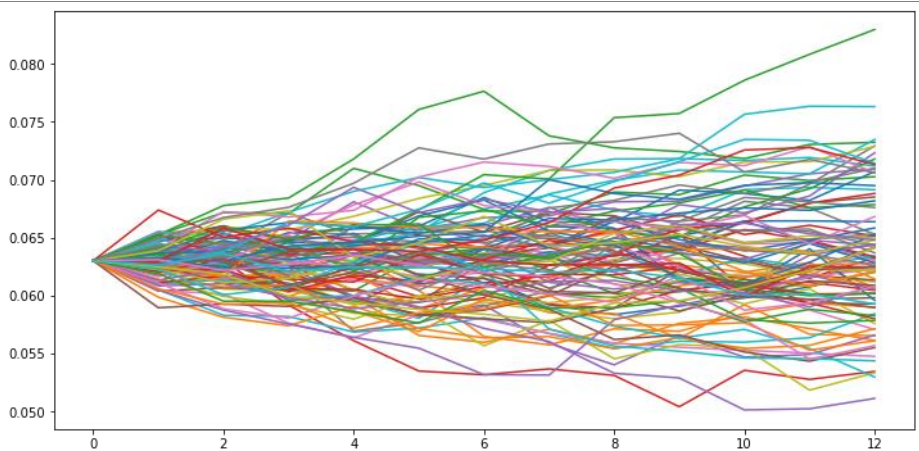
**The expected interest rate over the next one year is 6.029%**, with the standard error of the sample mean of 0.0006%. The lower bound of the 95% confidence interval is 6.028% and the upper bound of the 95% confidence interval is 6.031%.

**We think that this result is reasonable** and in line with our anticipation that the SBV might continue to further reduce policy rates by another –50bps at the end of 2023E or early 2024E. The current 12-month term deposit rate at the four state-owned banks is 6.3%.

Thus, if the SBV enacts a –50bps policy rate reduction, we expect the big four banks will adjust their 12-month term deposit rates to 6.0%/year or lower. This rate adjustment aligns closely with the estimation outcome derived from the Cox–Ingersoll–Ross model discussed above.

**The chart below shows the different scenarios of interest rates in the next year.** We ran a Monte Carlo simulation 50,000 times, but we only display 100 scenarios in the chart for better visibility.

**Figure 24: CIR model to estimate interest rate in the next one year**



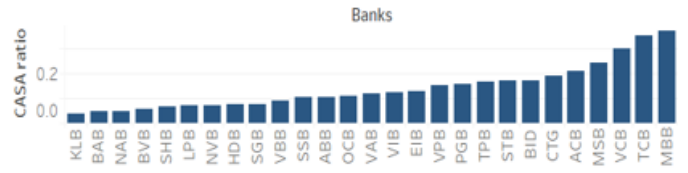
Source: FiinPro, Yuanta Vietnam

**Key ratios**

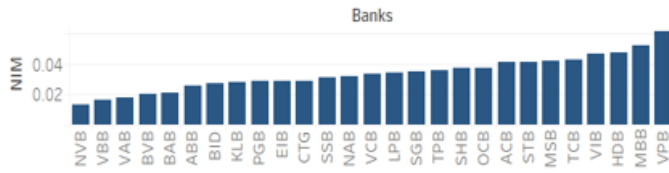
A/E Leverage



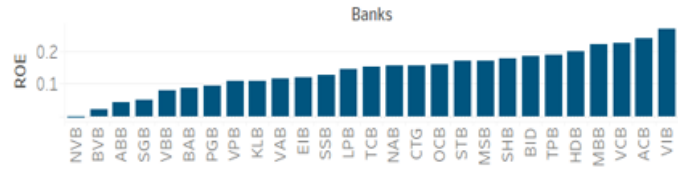
CASA Ratio



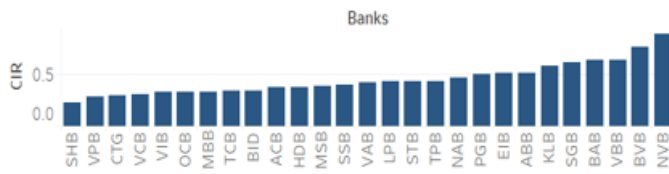
NIM



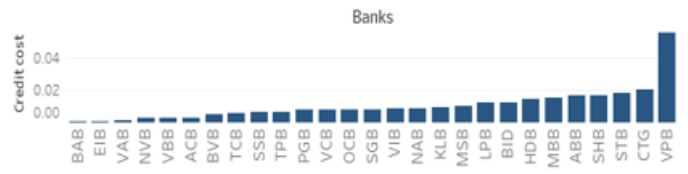
ROE ROA



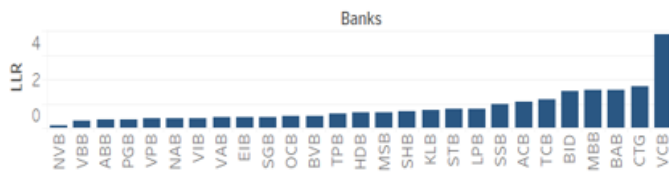
CIR



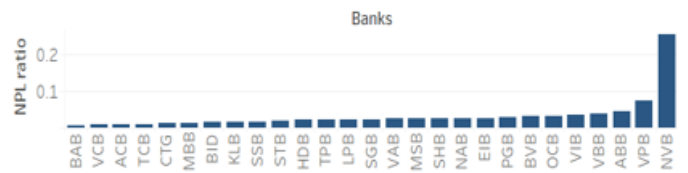
Credit cost



LLR



NPL



Source: FiinPro, Yuanta Vietnam

\* Data are as at 2Q23

**Asset market share:**

BID 16.00%	MBB 6.07%	VPB 5.57%	TCB 5.51%	ACB 4.75%		
CTG 14.00%	STB 4.68%	VIB 2.85%	LPB 2.64%	TPB 2.59%	SSB 1.85%	
VCB 12.83%	SHB 4.40%	MSB 1.79%	EIB 1.43%	VBB 0.87%	VAB 0.79%	
	HDB 3.64%	OCB 1.59%	ABB 1.16%	KLB 0.65%	NVB 0.64%	
		NAB 1.51%	BAB 1.02%	BVB 0.62%		

**Loan market share:**

BID 17.91%	MBB 5.70%	VPB 5.37%	TCB 5.13%	STB 5.06%					
CTG 14.94%	ACB 4.77%		LPB 2.79%	VIB 2.58%	TPB 1.95%	SSB 1.78%			
	SHB 4.48%		MSB 1.50%	OCB 1.40%		VBB 0.75%	VAB 0.73%		
VCB 12.95%	HDB 3.16%		EIB 1.45%	BAB 1.06%		BVB 0.59%	NVB		
			NAB 1.42%	ABB 0.92%		KLB 0.53%			

**Deposit market share:**

BID 17.25%	STB 5.60%	MBB 5.30%	ACB 4.83%	SHB 4.57%					
VCB 14.81%	VPB 4.33%		LPB 2.50%	VIB 2.29%	TPB 2.22%	EIB 1.72%			
	TCB 4.26%		NAB 1.62%	OCB 1.23%	BAB 1.18%	ABB 0.98%			
CTG 14.62%	HDB 3.46%		MSB 1.41%	VAB 0.94%		NVB 0.79%	BVB 0.56%		
			SSB 1.38%	VBB 0.90%		KLB 0.68%			

Source: FiinPro, Yuanta Vietnam

*\* Note: These data are as at 2Q23 and based on the 27 listed banks (which do not include sizeable unlisted banks like Agribank or SCB).*

## Bank stock prices: Key statistics

Bank stock prices have recovered since the beginning of 2023, especially after the SBV's policy rate cuts in [Mar](#), [Apr](#), [May](#), and [Jun](#).

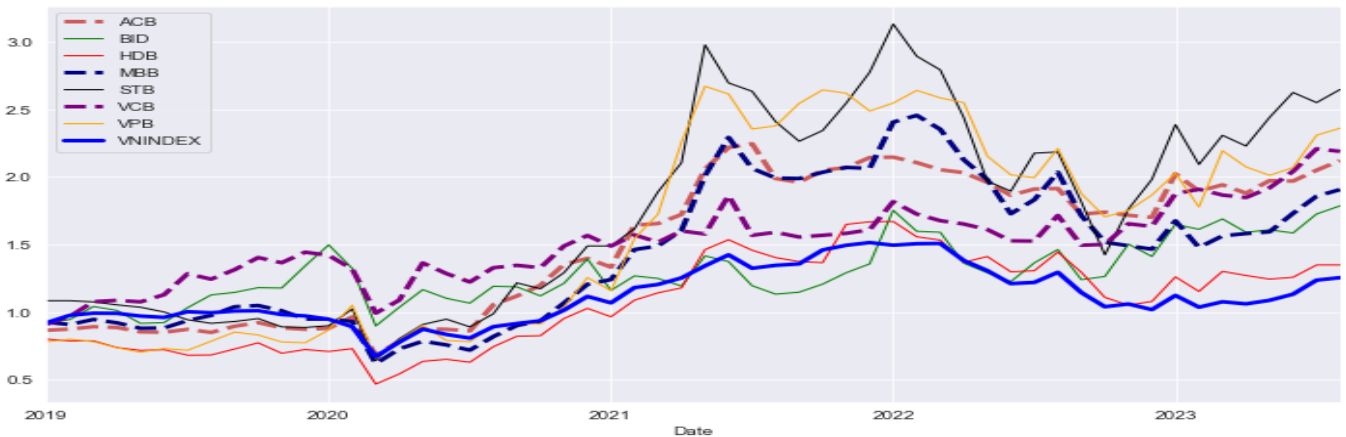
Figure 25: Banks stock prices performance since 2021



Source: Bloomberg, Yuanta Vietnam

Most bank stocks in our coverage have higher cumulative return than the VNINDEX over the period Jan 2019 to Jul 2023.

Figure 26: Yuanta Coverage\_Cummulative Return vs. VNINDEX from 01.2019 to 08.2023



Source: Bloomberg, Yuanta Vietnam

ACB (purple) and VCB (green) experienced lower drawdowns compared to the VNINDEX (dotted blue) and other bank stocks during the volatile period like 2020 or 2022.

Figure 27: Yuanta Coverage\_Monthly Drawdown vs. VNINDEX from 01.2019 to 08.2023



Source: Bloomberg, Yuanta Vietnam

### Sector valuations

Bank stock prices trade below the mean historical levels of 2013–2023 on both PE and PB. Thus, we believe that plenty of potential upside remains for bank stocks in the next 6–12 months despite the YTD outperformance.

Figure 28: Bank Sector's PE



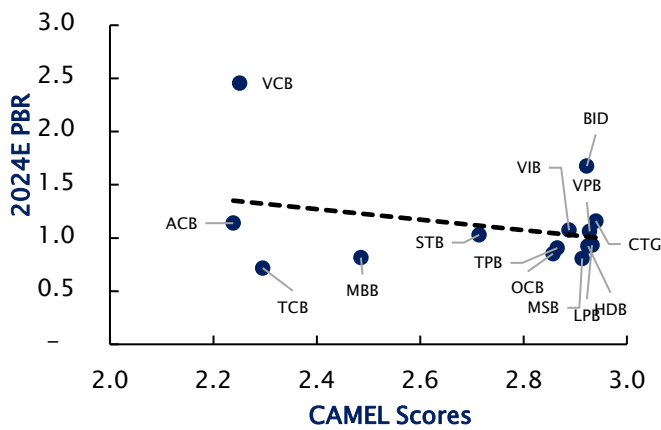
Source: Bloomberg, Yuanta Vietnam

Figure 29: Bank Sector's PB



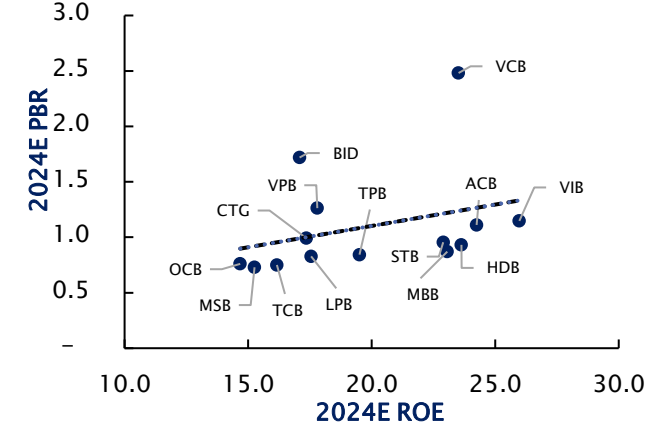
Source: Bloomberg, Yuanta Vietnam

Figure 30: 2024E PB vs. CAMEL Scores



Source: Bloomberg, Yuanta Vietnam

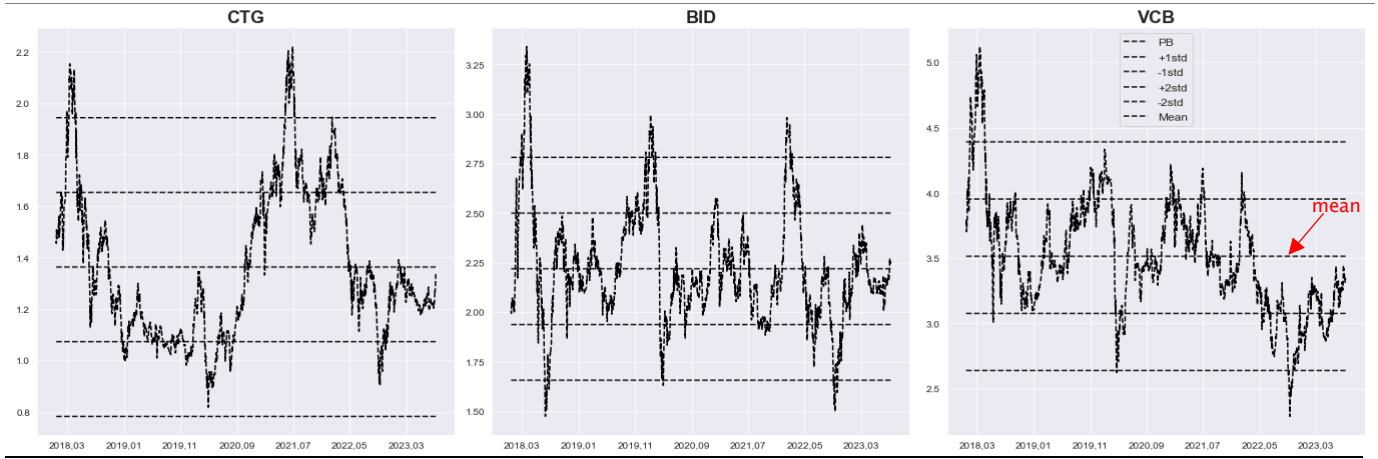
Figure 31: 2024E PB vs. ROE



Source: Bloomberg, Yuanta Vietnam



Figure 32: SOCBs Historical PB valuations



Source: Bloomberg, Yuanta Vietnam

Figure 33: JOCBs Historical PB valuations



Source: Bloomberg, Yuanta Vietnam

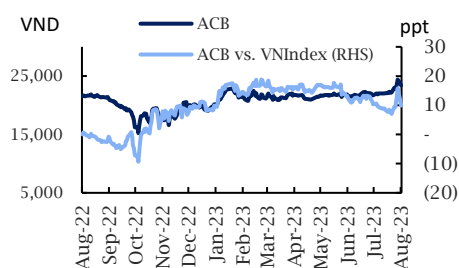
**BUY****TP upside** +24%**Close 16 Aug 2023****Current Price** VND 22,900**12M Target** VND 28,510**Previous Target** VND 23,440**% Change** +22%*(\*) Previous Target is adjusted for dividend.***What's new?**

- ▶ We increase our TP by +22% after rolling forward our valuation basis to 2024E.
- ▶ We increase our loan growth assumption by +1ppt vs. our previous forecast for 2024E.
- ▶ We cut our earnings by -3% for 2023E but raise by +3% for 2024E.

**Our view**

- ▶ **Reiterate BUY.** The stock trades at 1.0x 2024E P/B, just slightly above the sector median of 0.9x.
- ▶ We believe ACB deserves a valuation premium over its peers, and our new target price implies 2024E P/B of 1.3x.
- ▶ **Solid balance sheet** with no/low corporate bonds/real estate exposure.

**Company profile:** ACB ranks among Vietnam's most fundamentally solid banks, with strong capital ratios and asset quality; ACB reported zero exposure to corporate bonds. The bank regularly achieves high scores in our CAMEL framework rankings. ACB is primarily a retail-focused bank, with 93% of its loans book in the retail segment and 82% of deposits from consumers as at 2Q23. Capital level is strong, with both Tier 1 and total CAR of 12.8% as at 2Q23.

**Share price performance relative to VNIndex**

<b>Market cap</b>	<b>US\$3.8 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$8.9 mn</b>
<b>Outstanding shares</b>	<b>3,884 mn</b>
<b>Free float</b>	<b>85.0%</b>
<b>FINI ownership</b>	<b>30.0%</b>
<b>Major shareholders</b>	<b>28.1%</b>
<b>2024E Asset/equity (x)</b>	<b>9.1x</b>
<b>2024E P/E (x)</b>	<b>4.7x</b>
<b>2024E P/B (x)</b>	<b>1.0x</b>
<b>FOL remaining room</b>	<b>0.0%</b>
<b>2024E dividend yield (%)</b>	<b>4.0%</b>

Source: Bloomberg, Yuanta Vietnam

Year to Dec	2022A	2023E	2024E	2025E
NIM (%)	4.26%	4.20%	4.43%	4.55%
Fee growth (%)	22%	11%	26%	19%
Adj. CIR (%)	42%	39%	38%	37%
PPOP growth (%)	7%	21%	22%	18%
Net income (VND bn)	13,688	15,611	19,361	22,852
ROAA (%)	2.41%	2.40%	2.64%	2.76%
Adj. ROAE (%)	26.2%	23.9%	24.4%	23.7%
PE (x)	5.7	5.8	4.7	4.0
PB (x)	1.3	1.3	1.0	0.9
Div. yield (%)	0.0%	4.4%	4.4%	4.4%

Source: Company Data, Yuanta Vietnam,

**Research Analyst:****Tanh Tran**

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[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)**Bloomberg code: YUTA****Asia Commercial Bank [ACB VN]** [Back to top](#)**Solid bank with prudent risk management**

We reduce our credit growth forecast to 13% from 14% for 2023E. Credit growth was tepid in 1H23 due to a weak economy and high interest rates, but we expect credit growth to recover in 2H23 and 2024E (+15% YoY) thanks to easing monetary policy and the expected economic recovery.

We forecast provisioning to reach VND1.3 tn (+19x YoY) for 2023E and VND1.2 tn (-7% YoY) for 2024E given rising NPLs. Overall, asset quality risk is relatively low for ACB given its lack of exposure to corporate bonds, low NPL ratio, and its prudent approach (98% of loans are secured with LTV of only 54%). However, we still factor in higher provisioning to account for the potential indirect impact from the real estate sector on ACB's loan portfolio.

Our PATMI forecasts are VND15.6 tn (+14% YoY) in 2023E and VND19.0 tn (+24% YoY) in 2024E.

**Yuanta vs. the Street.** Our earnings forecast is now 11% above the consensus for 2024E, probably due to our higher-than-consensus credit growth forecast and lower cost-of-funding assumption.

**Solid asset quality.** ACB's NPL ratio is relatively low at 1.06% with LLR ratio of 108% as at 2Q23. Notably, ACB has zero exposure to corporate bonds.

We believe that ACB deserves a premium over peers given its strong operational results and solid asset quality. We expect 2024E ROE to reach 24% compared to the sector median of 20%.

**Reiterate BUY.** ACB trades at 1.2x/1.0x 2023E/24E P/B, slightly above the sector median of 1.1x/0.9x. We increase our target price by +22% to VND28,510 based mostly on the reduced discount rate (i.e., the 12-m SOE bank deposit rate, which has decreased by -1.2ppt since our last model update. Our new target price implies 2024E P/B of 1.3x and 12-month total shareholder returns of 28%.

**Risks:** higher NPLs and lower credit growth are the key downside possibilities. Upside risks include higher loan growth and lower provisioning expenses than we are currently forecasting. Another upside share price risk is a further reduction in the discount rate, which should apply to all stocks.

## ACB VN\_Company Update

### Valuation Ratios

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	6.5	6.5	5.7	5.8	4.7	4.0
PEG	(0.4)	(12.8)	0.1	(4.8)	0.2	0.2
ROAA (%)	1.86%	1.98%	2.41%	2.40%	2.64%	2.76%
Adj. ROAE (%)	24.0%	23.5%	26.2%	23.9%	24.4%	23.7%
PBR (x)	1.4	1.4	1.3	1.3	1.0	0.9
Dividend Yield (%)	0.0%	0.0%	0.0%	4.4%	4.4%	4.4%

Source: FiinPro, Yuanta Vietnam

### ACB's 2Q23 Results Summary [\(link\)](#)

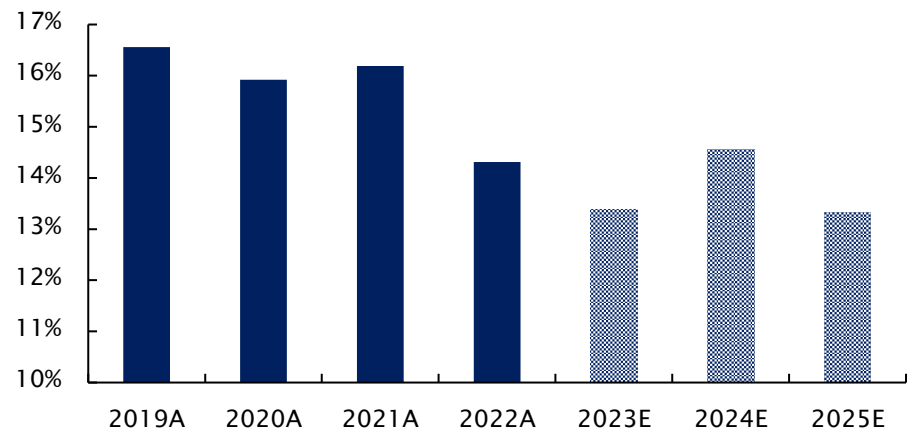
ACB	2Q23	% QoQ	% YoY
NII (VND bn)	6,246	0%	11%
Net Fee Income (VND bn)	804	28%	-19%
Adj. TOI (VND bn)	7,861	7%	20%
Opex (VND bn)	2,485	-1%	9%
Provision (VND bn)	706	176%	-364%
PATMI (VND bn)	3,866	-7%	-2%
NPL (%)	1.06%	9bps	31bps
LLR (%)	108%	-9ppt	-77ppt
CASA (%)	20.9%	70bps	-4.2ppt

Source: FiinPro, Yuanta Vietnam

**We reduce our loan growth forecast slightly** to 13% from 14% for 2023E. Credit growth was sluggish at 4.9% YTD due to a weak economy and high interest rates in 1H23, but we expect credit growth to recover in 2H23 and 2024 thanks to easing monetary policy and the expectation of economic recovery.

Overall, we forecast ACB's loan growth to reach 13% in 2023E and 14% in 2024E. However, ACB's credit growth might be higher given its solid asset quality and low LDR of 79% as at 2Q23, which might constitute an upside risk to our forecast.

Figure 1: ACB's loan growth



Source: FiinPro, Yuanta Vietnam

*Below is the sensitivity analysis of the impact of loan growth to net income*

Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	12%	13%	14%	15%	16%	17%	18%
2024E adj. Net Income	18,780	18,879	18,977	19,076	19,174	19,273	19,371
(+/-) % vs. Base Case	-1.5%	-1.0%	-0.5%		0.5%	1.0%	1.5%

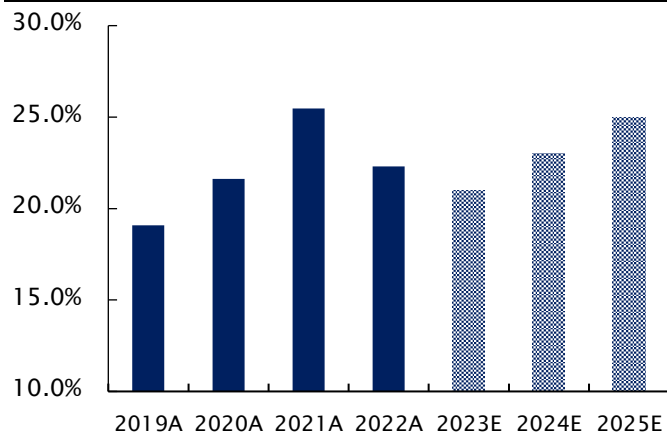
Source: Yuanta Vietnam

**We expect NIM** to reach 4.20% in 2023E (-5bp YoY) and 4.43% in 2024E (+23bps YoY). We believe the recent policy rate cuts will have a marginal negative

impact on the bank sector's NIM as banks (including ACB) will have to follow the SBV's direction to cut their lending rates to support borrowers and the economy in 2H23 and onwards. However, we think ACB's NIM will sustain at a high level given its retail focus, with 94% of total loans attributable to retail clients.

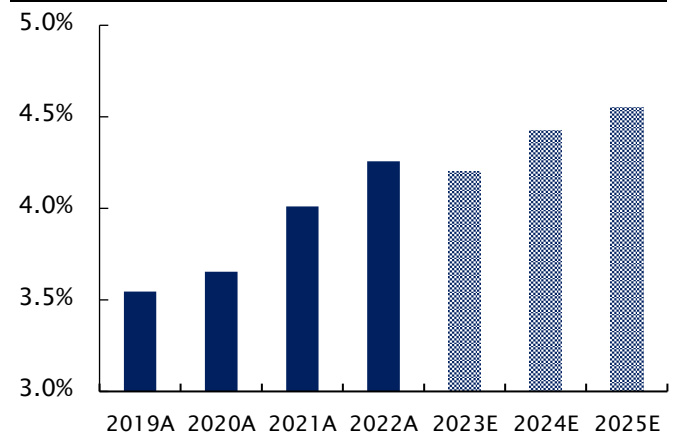
We also expect the bank's CASA ratio to recover in 2H23–2024, which will help reduce its funding cost. ACB's CASA ratio was 20.9% (+70bps QoQ/–4.2ppt YoY) as at 2Q23. We expect ACB's CASA ratio to reach 21% in 2023E and 23% in 2024E.

**Figure 2: ACB's CASA ratio**



Source: FiinPro, Yuanta Vietnam

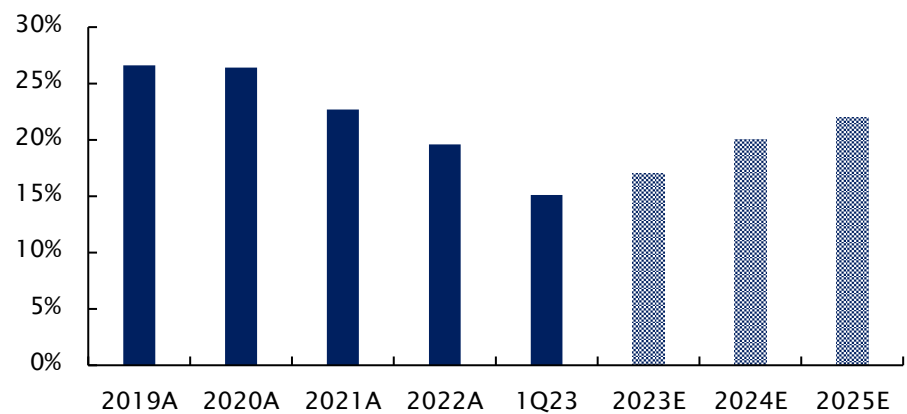
**Figure 3: ACB's NIM**



Source: FiinPro, Yuanta Vietnam

ACB also has room to improve its NIM by increasing the ratio of short-term funding used for medium- and long-term loans, if they choose to do so. This ratio has been on a declining trend since 2019 and was only 19.2% as at 2Q23, well below the SBV's requirement of 34.0%, which reflects ACB's prudent approach to risk management.

**Figure 4: ACB's short-term funding for medium- and long-term loans**



Source: Company Data, Yuanta Vietnam

**We expect provisioning to increase by 19x YoY for 2023** off the extremely low base of 2022. We think that the bank should increase provisioning in 2023 to weather against asset quality deterioration due to the potential indirect impact from the real estate market. For 2024, we estimate provisioning cost at VND1.2 tn (–9% YoY).

*Below is our sensitivity analysis of the impact of provisioning to net income*

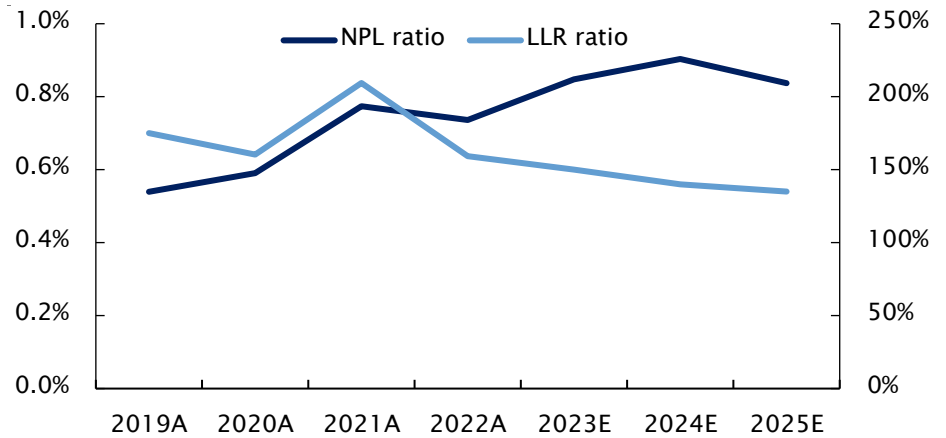
Sensitivity analysis	–30%	–20%	–10%	Base	+10%	+20%	+30%
2024E Provisioning	(1,587)	(1,465)	(1,343)	(1,221)	(1,098)	(976)	(854)
2024E Adj. Net Income	18,787	18,883	18,980	19,076	19,172	19,268	19,364
(+/-) % vs. Base Case	–1.5%	–1.0%	–0.5%		0.5%	1.0%	1.5%

Source: Yuanta Vietnam

### Asset quality

ACB's asset quality is among the best in Vietnam. The bank's NPL ratio is relatively low at 1.06% with LLR ratio of 108% as at 2Q23. Specifically, ACB has no exposure to corporate bonds, which limits direct impact to corporate default risk. Moreover, 98% of ACB's loans are secured with LTV of only 54%, which provides an additional layer of protection against asset quality deterioration.

Figure 5: ACB's NPL and LLR ratios



Source: FiinPro, Yuanta Vietnam

### ACB's Operating Return on Asset (OROA) analysis

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	3.55%	3.55%	3.65%	4.01%	4.26%	4.20%	4.43%	4.55%
Net interest income to adj. TOI	84.8%	83.0%	81.5%	80.9%	84.7%	81.8%	81.2%	81.2%
Cost to income	54.9%	56.9%	42.6%	35.1%	41.7%	39.4%	38.3%	37.4%
PPOP/Assets	1.79%	1.76%	2.48%	3.13%	2.85%	3.03%	3.28%	3.43%
Provisions to Assets	0.30%	0.08%	0.23%	0.69%	0.01%	0.21%	0.17%	0.16%
<b>Operating Return on Assets (OROA)</b>	<b>1.58%</b>	<b>1.76%</b>	<b>2.34%</b>	<b>2.53%</b>	<b>2.92%</b>	<b>2.90%</b>	<b>3.20%</b>	<b>3.35%</b>
Leverage (x)	15.7	13.8	12.5	11.8	10.4	9.8	9.1	8.4
<b>Operating Return on Equity (OROE)</b>	<b>24.8%</b>	<b>24.4%</b>	<b>29.4%</b>	<b>29.7%</b>	<b>30.3%</b>	<b>28.5%</b>	<b>29.0%</b>	<b>28.2%</b>

Source: FiinPro, Yuanta Vietnam

### Valuation

ACB trades at 1.0x 2024E P/BV, slightly above the sector median. We believe that ACB deserves a premium over most of its peers given its strong operational results and solid asset quality as discussed above. We expect ROE to reach 24% for 2024E, well above the sector median ROE of 20% for 2024E (source: Bloomberg consensus).

ACB's historical PB is at -1std below the mean, which is appealing for long-term investors.

Figure 6: ACB trades at -1std below the mean level



Source: Bloomberg, Yuanta Vietnam

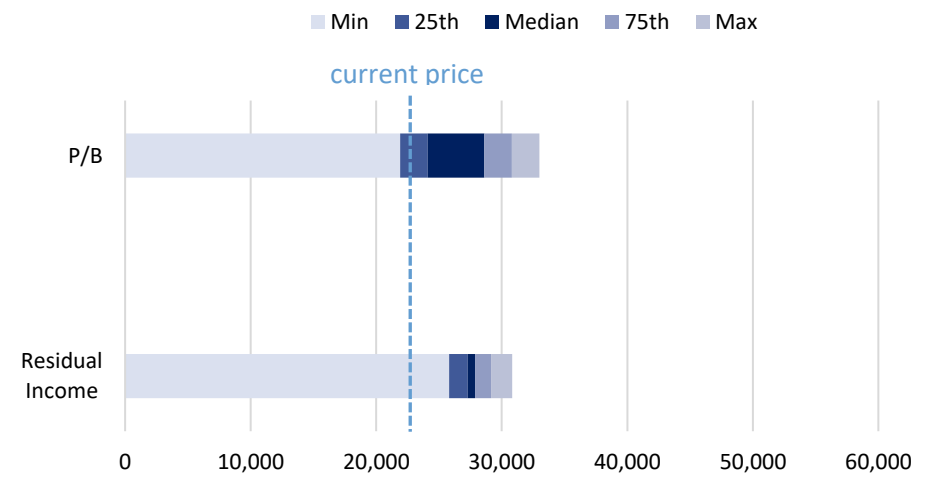
We increase our target price for ACB by +22% to VND28,510 from our previous estimate of VND23,440 (after adjusting for dividends) to reflect a lower discount rate and increased earnings forecast for 2024E. The SBV cut the policy rates by a total of -1.5ppt as of Jul 2023 compared to Oct 2022. The 12-month SOE bank deposit rate, which we use as our risk-free rate, decreased by -1.2ppt compared to our previous model.

Our new target price implies 2024E P/BV of 1.3x and a 12-month TSR of 28%, which we think is reasonable given the bank's strong fundamentals.

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	28,422	75.0%	21,317
Comparable P/B	28,801	25.0%	7,200
<b>Estimated Fair Value</b>			<b>28,517</b>

Source: Yuanta Vietnam

Figure 7: ACB's Valuation Graph



Source: Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs. Cost of equity

Terminal Return on Common Equity:	Cost of Equity:						
	14.0%	14.5%	15.0%	15.4%	15.7%	16.2%	16.7%
16.0%	42,486	38,391	34,838	32,100	30,395	27,822	25,541
15.5%	41,169	37,230	33,811	31,175	29,532	27,052	24,853
15.0%	39,857	36,074	32,789	30,253	28,673	26,286	24,167
14.5%	38,550	34,923	31,770	29,336	27,817	25,523	23,484
14.0%	37,250	33,777	30,756	28,422	26,966	24,763	22,804
13.5%	35,954	32,636	29,747	27,513	26,117	24,006	22,127
13.0%	34,665	31,500	28,742	26,607	25,273	23,252	21,453
12.5%	33,381	30,368	27,741	25,705	24,432	22,502	20,781
12.0%	32,102	29,242	26,744	24,807	23,594	21,755	20,113

Source: Yuanta Vietnam

### Yuanta vs. Consensus

Net income (VND bn)	2023E	2024E
Consensus mean	14,986	17,144
<b>Yuanta forecast</b>	<b>15,381</b>	<b>19,076</b>
%ge difference	2.6%	11.3%
Consensus high	16,068	18,759
Consensus low	12,670	13,523
EPS (VND)		
Consensus mean	3,882	4,463
<b>Yuanta forecast (adjusted)</b>	<b>3,960</b>	<b>4,911</b>
%ge difference	2.0%	10.0%
Consensus high	4,465	5,074
Consensus low	3,225	3,440

\*We believe that BBG consensus does not factor in employee welfare fund contributions.

Source: Bloomberg, Yuanta Vietnam

## ACB's Financial statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash & Balances at SBV	22,118	23,179	26,295	29,839
Loans to banks	85,971	102,348	105,678	119,922
Investment securities	76,666	87,420	99,171	112,538
Invest. Associates	247	274	311	353
<b>Gross Loans:</b>	<b>413,706</b>	<b>469,105</b>	<b>537,411</b>	<b>609,017</b>
(-) Specific Provisions:	(1,779)	(2,502)	(2,834)	(2,391)
(-) General Provisions:	(3,071)	(3,459)	(3,963)	(4,491)
<b>Total provisions:</b>	<b>(4,850)</b>	<b>(5,961)</b>	<b>(6,797)</b>	<b>(6,882)</b>
<b>Net Loans:</b>	<b>408,857</b>	<b>463,143</b>	<b>530,614</b>	<b>602,135</b>
Fixed Tangible asset:	2,850	3,024	3,210	3,407
Intangible Assets:	1,132	1,132	1,132	1,132
Real estate investment	177	177	177	177
Accrued interests:	4,090	4,090	4,090	4,090
Deferred tax:	64	64	64	64
Other Assets:	5,704	5,704	5,704	5,704
<b>Total Assets:</b>	<b>607,875</b>	<b>690,555</b>	<b>776,445</b>	<b>879,360</b>
Deposits:	413,953	459,609	521,391	591,669
Due to SBV:	506	574	657	745
Due to Banks:	67,841	62,852	72,004	81,598
Subordinated notes	44,304	57,596	57,596	57,596
Other Liabilities:	22,833	39,482	39,163	43,488
<b>Total Liabilities:</b>	<b>549,437</b>	<b>620,113</b>	<b>690,812</b>	<b>775,096</b>
Capital & Premium:	34,046	39,112	39,112	39,112
Reserves:	9,220	9,220	9,220	9,220
Treasury Shares	-	-	-	-
Retained Earnings:	15,172	22,110	37,301	55,932
Minorities Interest:	-	-	-	-
Asset Revaluation:	-	-	-	-
FX Effect:	-	-	-	-
<b>Total Equity:</b>	<b>58,438</b>	<b>70,442</b>	<b>85,634</b>	<b>104,265</b>
<b>Total Liabilities &amp; Equity:</b>	<b>607,875</b>	<b>690,555</b>	<b>776,445</b>	<b>879,360</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Net Interest income	23,534	26,528	31,674	36,830
Net Fee Income	3,526	3,903	4,903	5,814
Other Non-It	741	2,006	2,410	2,730
Total Non-It	4,267	5,909	7,313	8,544
<b>TOI</b>	<b>27,800</b>	<b>32,437</b>	<b>38,987</b>	<b>45,373</b>
Total expenses	(11,605)	(12,780)	(14,919)	(16,988)
<b>PPOP:</b>	<b>16,195</b>	<b>19,657</b>	<b>24,069</b>	<b>28,385</b>
Gross Provisions:	(71)	(1,347)	(1,221)	(1,353)
NPL Recoveries:	990	1,204	1,353	1,533
Net Provisions:	919	(143)	133	180
<b>Pre-Tax Income:</b>	<b>17,114</b>	<b>19,514</b>	<b>24,202</b>	<b>28,565</b>
(-) Income Tax:	(3,426)	(3,903)	(4,840)	(5,713)
<b>Net Income</b>	<b>13,688</b>	<b>15,611</b>	<b>19,361</b>	<b>22,852</b>
(-) Minority Interest	-	-	-	-
(-) Others	(150)	(230)	(286)	(337)
<b>Adj. Net Income</b>	<b>13,538</b>	<b>15,381</b>	<b>19,076</b>	<b>22,515</b>
Diluted EPS		3,960	4,911	5,797

## ACB's Key ratios

Financial Ratios	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
<b>GROWTH PROJECTIONS</b>							
Net interest income	30%	24%	13%	19%	16%	15%	15%
Fee Income	71%	22%	11%	26%	19%	17%	17%
Other NII	-1%	-53%	171%	20%	13%	13%	12%
Operating costs	8%	41%	10%	17%	14%	13%	13%
Gross Provision	254%	-98%	1802%	-9%	11%	10%	9%
Preprovision profit	48%	7%	21%	22%	18%	17%	16%
Adjusted Net profit	25%	43%	14%	24%	18%	17%	16%
Assets	19%	15%	14%	12%	13%	13%	12%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	98%	97%	97%	98%	98%	98%	98%
Average Returns on Earnings Assets	2.00%	2.45%	2.44%	2.67%	2.78%	2.88%	2.97%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	16%	14%	13%	15%	13%	13%	12%
Net Loans to Interest Earnings Assets	69%	69%	69%	70%	70%	70%	70%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	8%	9%	11%	13%	13%	13%	12%
Deposits to Interest Bearing Liabilities	82%	79%	79%	80%	81%	82%	82%
<b>LIQUIDITY</b>							
Pure LDR	94%	99%	101%	102%	102%	102%	102%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	2,799	3,045	3,974	4,855	5,098	5,482	6,154
NPL ratio	0.77%	0.74%	0.85%	0.90%	0.84%	0.80%	0.80%
General Provisions to Gross loans	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
Loan loss coverage ratio	209%	159%	150%	140%	135%	130%	130%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	7.14%	7.36%	7.34%	7.09%	7.31%	7.48%	7.65%
Int. rate paid on Average IBL	3.42%	3.46%	3.59%	3.09%	3.22%	3.34%	3.45%
Interest rate spread	3.72%	3.90%	3.76%	4.00%	4.09%	4.14%	4.19%
NIM	4.01%	4.26%	4.20%	4.43%	4.55%	4.65%	4.75%
<b>OTHER INCOME</b>							
Fee income to total income	12%	13%	12%	13%	12.8%	13.0%	13.2%
Other Non Interest income to total Income	7%	3%	6%	6%	6.0%	5.9%	5.7%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	35%	40%	38%	37%	36%	36%	35%
Adj. Cost to income ratio	35%	42%	39%	38%	37%	37%	36%
<b>CREDIT COSTS</b>							
Provisioning / avg. loans	0.99%	0.02%	0.31%	0.24%	0.24%	0.23%	0.22%
<b>PROFITABILITY</b>							
Pre provision ROA	3.13%	2.85%	3.03%	3.28%	3.43%	3.55%	3.66%
Pre provision ROE	37.8%	31.3%	30.5%	30.8%	29.9%	28.8%	27.8%
ROAA	1.98%	2.41%	2.40%	2.64%	2.76%	2.86%	2.95%
Adj. ROAE	23.5%	26.2%	23.9%	24.4%	23.7%	22.9%	22.0%
Dividend payout ratio	0%	0%	25%	25%	20%	21%	22%
Dividend Yield	0.0%	0.0%	4.4%	4.4%	4.4%	5.2%	6.6%
<b>VALUATIONS</b>							
PER (x)	8.2x	5.7x	5.8x	4.7x	4.0x	3.4x	2.9x
PBR (x)	1.4x	1.3x	1.3x	1.0x	0.9x	0.7x	0.6x

Source: FiinPro, Yuanta Vietnam

MBBank [MBB VN]

20 August 2023

**BUY****TP upside +33%****Close 16 Aug 2023**

Current Price VND 19,000

**12M Target VND 25,260**

Previous Target (\*) VND 21,722

% Change +16%

(\*) Previous Target is adjusted for dividend.

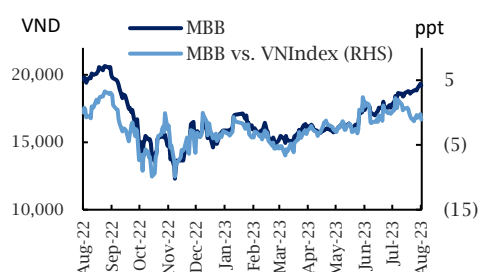
**What's new?**

- ▶ We increase our TP by +16% on reduced discount rate and valuation basis roll-forward to 2024E.
- ▶ We reduce our credit growth forecast by -1ppt to 18% for 2023E.
- ▶ We increase provisioning forecasts by +31%/24% for 2023E/24E.
- ▶ Our revised earnings forecasts are -5% for 2023E. but +1% for 2024E.

**Our view**

- ▶ **Maintain BUY.** Valuation is cheap. MBB trades at 1.1x/0.9x 2023/24E P/BV, in line with the sector median.
- ▶ **MBB's strong CASA franchise** should help sustain high NIM.
- ▶ **Risk:** High corporate bond exposure. But this could be an upside catalyst if any positive progress is made on corporate bonds and real estate.

**Company profile:** MBB has one of the strongest deposit franchises in the Vietnamese banking sector with a 37% CASA ratio as at 2Q23, far ahead of the 12% sector median. Retail loans (47% of MBB's total loans as at 2Q23) and private-sector corporate loans (47% of the total as at 2Q23) are the key loan growth drivers. Corporate bonds accounted for 5.3% of the total assets as at 2Q23.

**Share price performance relative to VNIndex**

Market cap	US\$4.2 bn
6M avg. daily turnover	US\$8.3 mn
Outstanding shares	5,214 mn
Free float	55%
FINI ownership	23.2%
Major shareholders	61.6%
2024E Asset/Equity (x)	8.2x
2024E P/E (x)	4.1x
2024E P/B (x)	0.9x
FOL Remaining Room	0.0%
2024E Dividend yield (%)	2.7%

Source: FiinPro, (\*) Yuanta Vietnam

Year to Dec	2022A	2023E	2024E	2025E
NIM (%)	5.66%	5.60%	5.74%	5.67%
Fee growth (%)	-5%	12%	30%	30%
CIR	32%	33%	32%	31%
PPOP growth (%)	34%	18%	22%	17%
Net income (VND bn)	16,482	18,896	23,793	27,733
ROAA	2.72%	2.65%	2.87%	2.90%
Adj. ROAE	24.3%	22.4%	23.1%	22.0%
PE (x)	5.2	5.2	4.1	3.5
PB (x)	1.1	1.1	0.9	0.7
Div. yield (%)	0.0%	2.7%	2.7%	3.8%

Source: FiinPro, Yuanta Vietnam

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[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)**Bloomberg code: YUTA****MBBank [MBB VN]**[Back to top](#)**Cheap valuation is due to corporate bonds**

We reduce our loan growth forecast for MBB slightly by -1ppt to 18% YoY for 2023E. We also forecast loan growth to reach 18% in 2024E given the expectation of an economic recovery and a reward for MBB's involvement in restructuring a weak bank. We forecast NIM to reach 5.60% (-6bp YoY) in 2023E and 5.74% in 2024E (+14bps YoY).

**Strong deposit franchise**, with the highest CASA ratio in the sector of 37.1%, should help MBB sustain high NIM. We expect CASA ratio to improve to 38% in 2024 as term deposits become less attractive due to reduced deposit rates. We forecast MBB's COF to decrease to 2.3% (-50bp YoY) in 2024E.

**We increase our provisioning forecast** by +31%/+24% for 2023E/24E given MBB's increased NPL ratio (1.44%, -31bp QoQ / +25bp YoY) and Category 2 special mention loan ratio (3.59% +13bp QoQ / +2.2ppt YoY) in 2Q23.

**Heavy exposure to corporate bonds (5.3% of total assets, -90bps QoQ)** is still the third highest in the sector in 2Q23, which is the key reason for the low P/BV valuation. Specifically, MBB's exposure to Novaland (NVL VN) represents 0.9% of total assets: Please see page 27 for sensitivities.

**But the negative impact of corporate bonds on MBB's stock price seems to be diminished.** MBB's price has recovery sharply by approximately 60% since Nov 2022. We believe that any positive progress that might be made toward resolving the problems of the corporate bond and real estate markets would constitute an upside risk to our valuation forecast.

**Net-net, we reduce our PATMI forecasts by -5% for 2023E, but +1% for 2024E**, implying earnings growth of +15% YoY/+26% YoY for 2023E/24E.

**Yuanta versus the consensus.** Our PATMI forecast is +5% higher than the consensus mean for 2024E, which may be due to our relatively low cost-of-funds assumption.

**Maintain BUY.** MBB trades at 0.9x 2024E P/B, which is in line with the sector median despite 2024E ROE of 23%, which is higher than the sector median of 20% (Bloomberg consensus).

**We raise our target price by +16% to VND25,260**, implying 1.2x 2024E P/BV and 12-month TSR of 36%. We reiterate our BUY recommendation.



## MBB VN\_Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	6.8	6.0	5.2	5.2	4.1	3.5
PEG	10.5	0.5	0.3	(17.0)	0.2	0.2
ROAA (%)	1.90%	2.40%	2.72%	2.65%	2.87%	2.90%
ROAE (%)	17.8%	22.0%	24.3%	22.4%	23.1%	22.0%
PBR (x)	1.1	1.2	1.1	1.1	0.9	0.7
Dividend Yield (%)	0.0%	0.0%	0.0%	2.7%	2.7%	3.8%

Source: FiinPro, Yuanta Vietnam

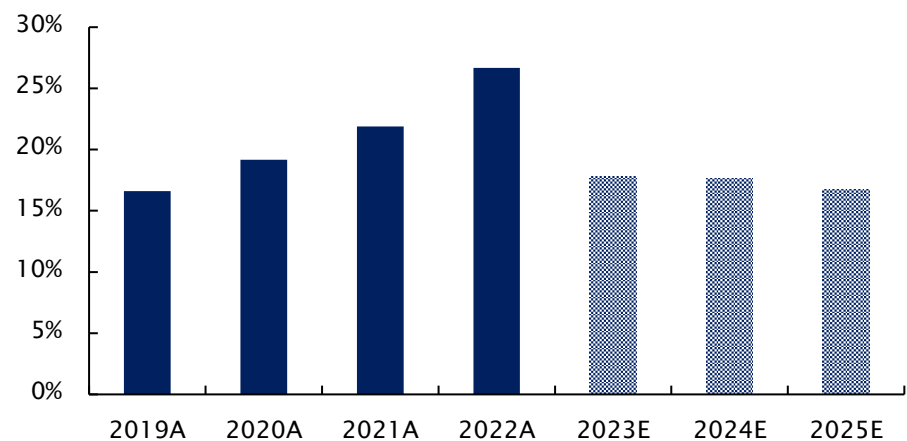
### MBB's 2Q23 results summary [\(link\)](#)

MBB	2Q23	% QoQ	% YoY
NII (VND bn)	9,481	-7%	6%
Net Fee Income (VND bn)	861	25%	-15%
Adj. TOI (VND bn)	10,932	-5%	3%
Opex (VND bn)	4,135	16%	7%
Provision (VND bn)	1,203	-35%	-13%
PATMI (VND bn)	4,893	-3%	6%
NPL (%)	1.44%	-31bps	25bps
LLR (%)	156%	18ppt	-65ppt
CASA (%)	37.1%	1.5ppt	-8.4ppt

Source: FiinPro, Yuanta Vietnam

**We reduce our loan growth forecast** for MBB by -1 ppt to 18% YoY for 2023E. We forecast credit growth to remain at 18% YoY in 2024E given the expected economic recovery and a higher-than-sector credit quota as a reward for MBB's participation in restructuring a weak bank. We anticipate NIM to reach 5.60% (-6bp YoY) in 2023E and 5.74% in 2024E (+14bp YoY).

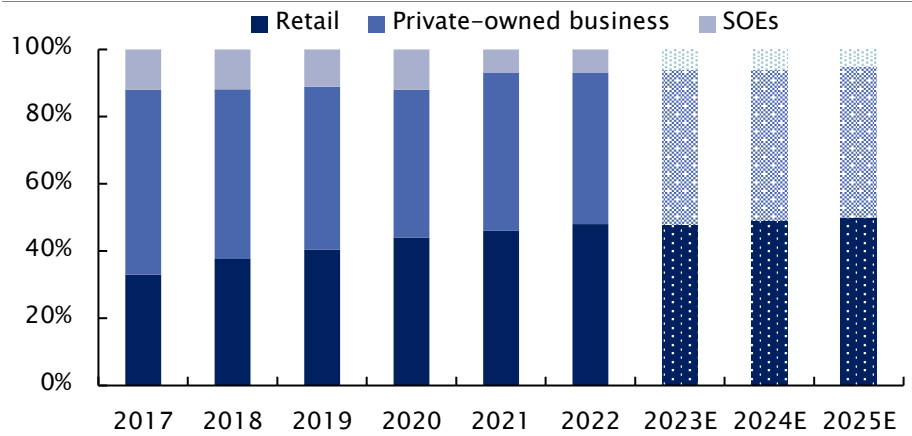
Figure 1: MBB's loan growth



Source: FiinPro, Yuanta Vietnam

Retail loans accounted for 47% of the total loans as at 2Q23. MBB can further improve its NIM by shifting focus more on retail loans. We expect retail loans to gradually increase and to reach 50% of MBB's total loans in 2025E.

**Figure 2: MBB's loan breakdown**



Source: FiinPro, Yuanta Vietnam

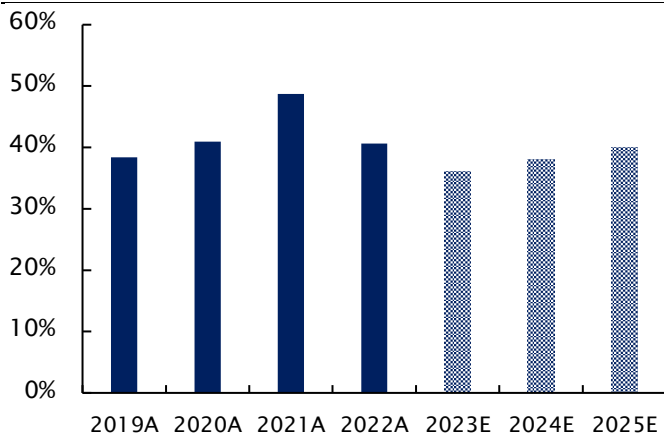
*Below is our sensitivity analysis of the impact of loan growth to net income.*

Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	15%	16%	17%	<b>18%</b>	19%	20%	21%
2024E Adj. Net Income	24,887	24,997	25,108	<b>25,218</b>	25,328	25,438	25,548
(+/-) % vs. Base Case	-1.3%	-0.9%	-0.4%		0.4%	0.9%	1.3%

Source: Yuanta Vietnam

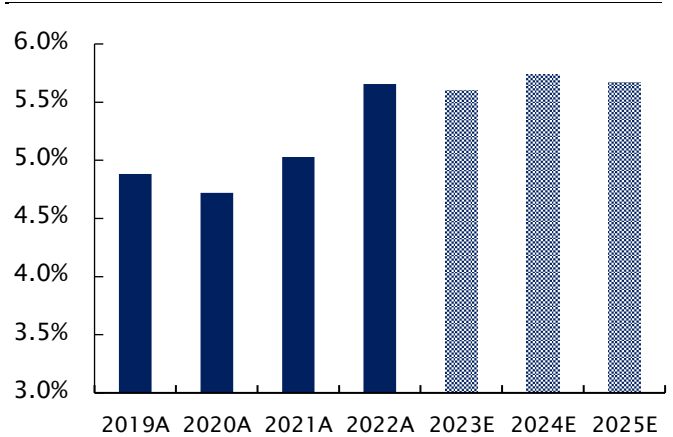
**Strong deposit franchise.** MBB's CASA ratio is the highest in the sector at 37.1% as at 2Q23. We expect CASA to improve in 2H23 and 2024 as the attractiveness of term deposits falls along with deposit rates. We expect CASA ratio to increase to 38% in 2024E and 40% in 2025E. This high CASA ratio helps MBB to sustain its relatively high NIM.

**Figure 3: MBB's CASA ratio**



Source: FiinPro, Yuanta Vietnam

**Figure 4: MBB's NIM**



Source: FiinPro, Yuanta Vietnam

**We increase our provisioning forecast** by +31% for 2023E and +24% for 2024E as we assume the bank acts prudently to weather possible asset quality deterioration. MBB's NPL ratio increased to 1.44% (+35bp YTD) and Category 2 loans ratio jumped to 3.59% (+1.9ppt YTD) in 2Q23.

*Below is the sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(14,493)	(13,378)	(12,263)	<b>(11,149)</b>	(10,034)	(8,919)	(7,804)
2024E Adj. Net Income	22,641	23,500	24,359	<b>25,218</b>	26,077	26,936	27,794
(+/-) % vs. Base Case	-10.2%	-6.8%	-3.4%		3.4%	6.8%	10.2%

Source: Yuanta Vietnam

**High exposure to corporate bonds at 5.3% of total assets (-90bps QoQ)** is the third highest in the sector in 2Q23, which is the key reason for the low P/BV valuation in our view. Specifically, MBB's exposure to Novaland (NVL VN) represents 0.9% of total assets.

**Sensitivities of provisioning/earnings to MBB's exposure to Novaland**

The following sensitivities analysis for provisioning is prudent given that we believe that MBB is one of the largest domestic creditors to NVL. According to NVL's financial statements, MBB's total exposure to Novaland was VND7.3 tn (0.9% of MBB's total assets) as at 2Q23. VND5.6tn of this was corporate bonds (0.7% of MBB's assets) and the remainder was other credit.

In an absolute extreme worst-case scenario (which we think to be extremely unlikely), the loss of 100% of MBB's credit to NVL in 2023E would result in full-year provisioning coming in +73% above our forecast and PATMI coming in -28% below our forecast, with ROE falling from 22.4% in our base case to 16.6%. Our conclusion is that although such an outcome would clearly be extremely painful, it would not be a structural event for MBB.

Total exposure to NVL as at 2Q23 (VND bn)	<b>7,336</b>				
Assumption on % default out of total exposure to NVL	20%	40%	60%	80%	100%
<b>Provisioning (base case) (VND bn)</b>	(10,022)	(10,022)	(10,022)	(10,022)	(10,022)
Additional provisioning related to NVL (VND bn)	(1,467)	(2,934)	(4,401)	(5,868)	(7,336)
<b>Total provisioning (downside case) (VND bn)</b>	<b>(11,489)</b>	<b>(12,956)</b>	<b>(14,424)</b>	<b>(15,891)</b>	<b>(17,358)</b>

**Impact on MBB's earnings**

<b>2023E Net income (base case) (VND bn)</b>	<b>20,028</b>				
2023E Net income (downside case) (VND bn)	18,898	17,767	16,637	15,507	14,377
<i>vs. base case</i>	-6%	-11%	-17%	-23%	-28%

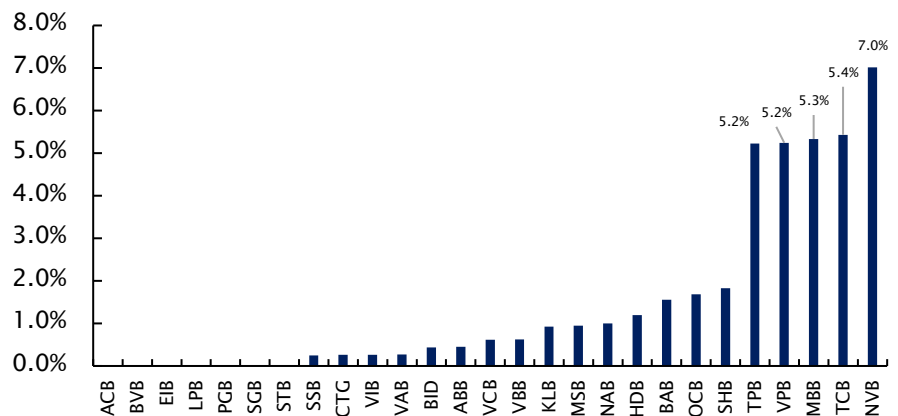
**Impact on MBB's ROE**

<b>ROE (base case) (%)</b>	<b>22.4%</b>				
ROE (downside case) (%)	21.3%	20.1%	19.0%	17.8%	16.6%
<i>vs. base case</i>	-1.1ppt	-2.3ppt	-3.4ppt	-4.6ppt	-5.8ppt

Source: Novaland's 2Q23 financial statements, Yuanta Vietnam

**The impact of corporate bond issues on MBB's stock price seems to have been diminished**, as MBB's price has recovery sharply by 60% since Nov 2022. If there is any positive progress on corporate bonds and the recovery of the real estate market -- which we realistically do not expect in 2H23 -- then asset quality concerns should ease. If so, provisioning expenses might be lower than our forecast, which constitutes an upside risk to our forecasts.

**Figure 5: Banks' exposure to corporate bonds as at 2Q23**



Source: FiinPro, Yuanta Vietnam

### MBB's Operating Return on Asset (OROA) Analysis

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	4.53%	4.88%	4.72%	5.03%	5.66%	5.60%	5.74%	5.67%
Net interest income to adj. TOI	80.9%	79.8%	79.0%	77.8%	82.9%	82.8%	82.3%	81.3%
Cost to income	49.1%	43.1%	41.1%	36.7%	34.1%	34.0%	33.0%	32.5%
PPOP/Assets	2.71%	3.32%	3.34%	3.87%	4.29%	4.29%	4.52%	4.58%
Provisions to Assets	0.90%	1.26%	1.35%	1.46%	1.21%	1.28%	1.22%	1.24%
<b>Operating Return on Assets (OROA)</b>	<b>1.95%</b>	<b>2.22%</b>	<b>2.17%</b>	<b>2.63%</b>	<b>3.29%</b>	<b>3.19%</b>	<b>3.44%</b>	<b>3.47%</b>
Leverage (x)	10.6x	10.3x	9.9x	9.7x	9.2x	8.7x	8.2x	7.8x
<b>Operating Return on Equity (ROE)</b>	<b>20.7%</b>	<b>22.9%</b>	<b>21.4%</b>	<b>25.6%</b>	<b>30.1%</b>	<b>27.8%</b>	<b>28.4%</b>	<b>27.0%</b>

Source: FiinPro, Yuanta Vietnam

**Valuation is still attractive.** MBB trades at 0.9x 2024E P/B, in line with the sector median. Given its superior operational results with 2024E ROE of 23% versus the sector median of 20%, we believe that MBB deserves a premium over its peers.

MBB's historical PB is -1std below the mean, which we think is attractive for long-term investment.

Figure 6: MBB trades at -1std below its mean level



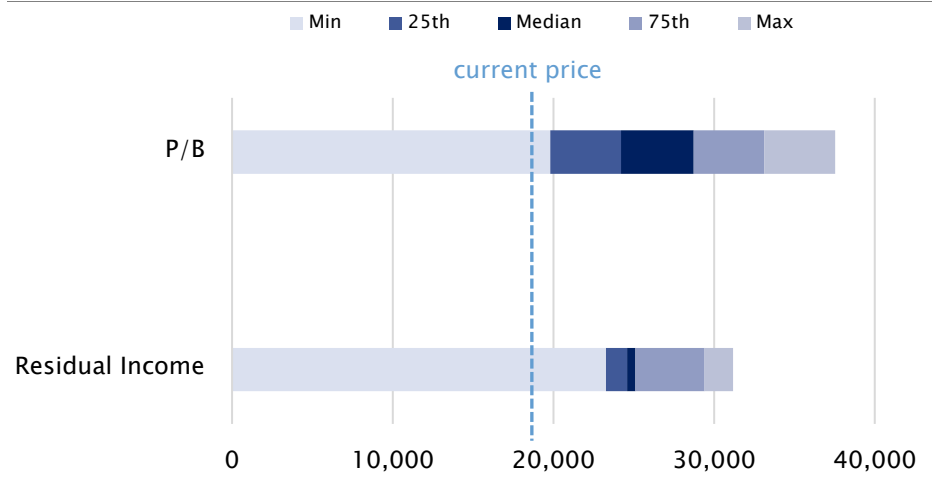
Source: Bloomberg, Yuanta Vietnam

We increase our target price by +16% versus our previous target after adjusting for cash and stock dividends in 2023. This is due to the reduced discount rate, as the SOE banks' 12-month deposit rate has decreased by -1.2ppt since our last update. Our new target price implies a 2024E PB of 1.2x and 12-month total shareholder returns of 36%.

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	24,188	75.0%	18,141
Comparable P/B	28,504	25.0%	7,126
<b>Estimated Fair Value</b>			<b>25,267</b>

Source: Yuanta Vietnam

Figure 7: MBB's Valuation Graph



Source: Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs. Cost of equity

	Terminal Return on Common Equity:	Cost of Equity:						
		14.0%	14.5%	15.0%	16.1%	16.4%	16.9%	17.4%
16.0%		40,553	36,618	33,202	27,219	25,816	23,686	21,784
15.5%		39,295	35,509	32,221	26,457	25,103	23,048	21,212
15.0%		38,042	34,405	31,244	25,697	24,393	22,412	20,641
14.5%		36,794	33,306	30,272	24,941	23,687	21,780	20,073
14.0%		35,552	32,212	29,303	24,188	22,983	21,150	19,507
13.5%		34,315	31,122	28,339	23,438	22,282	20,522	18,944
13.0%		33,084	30,037	27,379	22,692	21,584	19,897	18,383
12.5%		31,857	28,956	26,423	21,948	20,890	19,275	17,825
12.0%		30,637	27,881	25,472	21,208	20,198	18,656	17,269

Source: Yuanta Vietnam

Yuanta vs. Consensus

Net income (VND bn)	2023E	2024E
Consensus mean	18,785	22,747
<b>Yuanta forecast</b>	<b>18,896</b>	<b>23,793</b>
<i>%ge difference</i>	0.6%	4.6%
Consensus high	20,000	23,633
Consensus low	17,104	21,509
EPS (VND)		
Consensus mean	4,227	4,800
<b>Yuanta forecast (adjusted)</b>	<b>3,624</b>	<b>4,563</b>
<i>%ge difference</i>	-14.3%	-4.9%
Consensus high	4,246	4,855
Consensus low	4,208	4,744

\*We believe that BBG consensus does not factor in employee welfare fund contributions.

Source: Bloomberg, Yuanta Vietnam

## MBB's Financial statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash & Balances at SBV	43,399	50,011	58,073	67,901
Loans to banks	32,937	40,930	47,528	55,572
Investment securities	163,686	182,209	211,582	226,352
Invest. Associates	1,702	1,981	2,300	2,690
<b>Gross Loans:</b>	<b>460,574</b>	<b>542,531</b>	<b>638,043</b>	<b>744,671</b>
(-) Specific Provisions:	(8,575)	(11,212)	(12,018)	(12,712)
(-) General Provisions:	(3,401)	(3,866)	(4,547)	(5,307)
<b>Total provisions:</b>	<b>(11,976)</b>	<b>(15,078)</b>	<b>(16,565)</b>	<b>(18,019)</b>
<b>Net Loans:</b>	<b>448,599</b>	<b>527,452</b>	<b>621,478</b>	<b>726,652</b>
Fixed Tangible asset:	3,458	3,720	4,002	4,305
Intangible Assets:	1,616	1,616	1,616	1,616
Real estate investment	236	236	236	236
Accrued interests:	6,786	8,822	8,822	8,822
Deferred tax:	11	11	11	11
Other Assets:	26,104	26,104	26,104	26,104
<b>Total Assets:</b>	<b>728,532</b>	<b>843,092</b>	<b>981,753</b>	<b>1,120,261</b>
Deposits:	443,606	516,475	599,734	701,229
Due to SBV:	32	37	44	51
Due to Banks:	65,117	76,704	90,208	105,283
Subordinated notes	96,578	101,407	106,477	111,801
Other Liabilities:	43,587	51,693	66,231	57,908
<b>Total Liabilities:</b>	<b>648,919</b>	<b>746,316</b>	<b>862,694</b>	<b>976,272</b>
Capital & Premium:	47,597	54,398	54,398	54,398
Reserves:	9,289	9,289	9,289	9,289
Treasury Shares	-	-	-	-
Retained Earnings:	19,064	28,892	50,086	74,142
Minorities Interest:	3,664	4,198	5,286	6,161
Asset Revaluation:	-	-	-	-
FX Effect:	-	-	-	-
<b>Total Equity:</b>	<b>79,613</b>	<b>96,776</b>	<b>119,058</b>	<b>143,989</b>
<b>Total Liabilities &amp; Equity:</b>	<b>728,532</b>	<b>843,092</b>	<b>981,753</b>	<b>1,120,261</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Net Interest income	36,023	42,358	50,667	57,927
Net Fee Income	4,136	4,632	6,042	7,837
Other Non-It	3,292	4,156	4,840	5,523
Total Non-It	7,428	8,789	10,882	13,360
<b>TOI</b>	<b>43,451</b>	<b>51,147</b>	<b>61,549</b>	<b>71,287</b>
Total expenses	(14,816)	(17,409)	(20,323)	(23,153)
<b>PPOP:</b>	<b>28,635</b>	<b>33,738</b>	<b>41,226</b>	<b>48,134</b>
Gross Provisions:	(8,048)	(10,022)	(11,149)	(13,012)
NPL Recoveries:	2,142	2,282	2,657	3,032
Net Provisions:	(5,906)	(7,740)	(8,491)	(9,979)
<b>Pre-Tax Income:</b>	<b>22,729</b>	<b>25,998</b>	<b>32,735</b>	<b>38,155</b>
(-) Income Tax:	(4,575)	(5,200)	(6,547)	(7,631)
<b>Net Income</b>	<b>18,154</b>	<b>20,798</b>	<b>26,188</b>	<b>30,524</b>
(-) Minority Interest	(672)	(770)	(970)	(1,131)
(-) Others	(1,000)	(1,131)	(1,425)	(1,661)
<b>PATMI</b>	<b>16,482</b>	<b>18,896</b>	<b>23,793</b>	<b>27,733</b>
Adjusted Diluted EPS		3,624	4,563	5,319

## MBB's Key ratios

Financial Ratios	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
<b>GROWTH PROJECTIONS</b>							
Net interest income	29%	37%	18%	20%	14%	15%	15%
Fee Income	22%	-5%	12%	30%	30%	31%	29%
Other NII	70%	6%	26%	16%	14%	16%	15%
Operating costs	17%	20%	18%	17%	14%	15%	15%
Gross Provision	31%	0%	25%	11%	17%	17%	16%
Preprovision profit	41%	34%	18%	22%	17%	17%	17%
Adjusted Net profit	54%	38%	15%	26%	17%	17%	18%
Assets	23%	20%	16%	16%	14%	16%	15%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	95%	96%	97%	97%	97%	98%	98%
Average Returns on Earnings Assets	2.27%	2.59%	2.50%	2.69%	2.71%	2.75%	2.79%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	22%	27%	18%	18%	17%	17%	16%
Net Loans to Interest Earnings Assets	62%	64%	65%	65%	67%	67%	67%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	24%	15%	16%	16%	17%	17%	16%
Deposits to Interest Bearing Liabilities	75%	73%	69%	70%	72%	73%	73%
<b>LIQUIDITY</b>							
Pure LDR	92%	101%	102%	104%	104%	104%	104%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	3,268	5,031	7,539	9,203	10,010	10,783	11,485
NPL ratio	0.90%	1.09%	1.39%	1.44%	1.34%	1.24%	1.14%
General Provisions to Gross loans	0.71%	0.74%	0.71%	0.71%	0.71%	0.71%	0.71%
Loan loss coverage ratio	268%	238%	200%	180%	180%	180%	180%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	7.38%	8.24%	8.09%	7.86%	8.00%	8.09%	8.17%
Int. rate paid on Average IBL	2.65%	2.95%	2.79%	2.34%	2.59%	2.79%	2.98%
Interest rate spread	4.73%	5.29%	5.31%	5.53%	5.40%	5.30%	5.20%
NIM	5.03%	5.66%	5.60%	5.74%	5.67%	5.61%	5.54%
<b>OTHER INCOME</b>							
Fee income to total income	13%	10%	9%	10%	11.0%	12.4%	13.7%
Other Non-It to total Income	9%	8%	8%	8%	7.7%	7.7%	7.7%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	34%	32%	33%	32%	31%	31%	30%
Adj. Cost to income ratio	37%	34%	34%	33%	32.5%	32.0%	31.6%
<b>CREDIT COSTS</b>							
Provisioning / Avg. Loans	2.43%	1.95%	2.00%	1.89%	1.88%	1.88%	1.87%
<b>PROFITABILITY</b>							
Pre provision ROA	3.87%	4.29%	4.29%	4.52%	4.58%	4.66%	4.73%
Pre provision ROE	37.8%	40.3%	38.3%	38.2%	36.6%	35.7%	35.2%
ROAA	2.40%	2.72%	2.65%	2.87%	2.90%	2.96%	3.01%
Adj. ROAE	22.0%	24.3%	22.4%	23.1%	22.0%	21.5%	21.3%
Dividend payout ratio	0%	0%	14%	14%	15%	19%	23%
Dividend Yield	0.0%	0.0%	2.7%	2.7%	3.8%	5.4%	7.8%
<b>VALUATIONS</b>							
PER (x)	6.0x	5.2x	5.2x	4.1x	3.5x	3.0x	2.5x
PBR (x)	1.2x	1.1x	1.1x	0.9x	0.7x	0.6x	0.5x

Source: FiinPro, Yuanta Vietnam

## Vietcombank [VCB VN]

20 August 2023

## BUY

TP upside +12%

Close 16 Aug 2023

Current Price VND 89,200

12M Target VND 99,420

Previous Target (\*) VND 78,940

% Change +26%

(\*) Previous Target is adjusted for dividend.

## What's new?

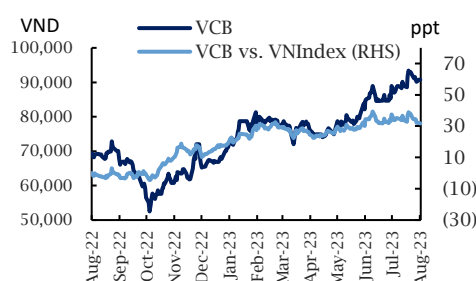
- ▶ We increase our TP by +26% on lower discount rate and valuation basis rollover to 2024E.
- ▶ We maintain our credit growth forecast for 2024E at 16%.
- ▶ We expect provisioning to rise by +9% / fall by -34% for 2023E/24E.
- ▶ Our new earnings forecasts are down -9% for 2023E.

## Our view

- ▶ **Maintain BUY.** We continue to view VCB as Vietnam's highest quality bank, with low NPL ratio and the highest LLR in the sector.
- ▶ **High LLR** should allow VCB the flexibility to reduce provisioning.
- ▶ **Risks:** higher-than-expected NPL and higher-than-expected provisioning.

**Company profile:** VCB is Vietnam's premier bank, in our view. Its strong CASA deposit franchise and broad national footprint are core advantages in the increasingly competitive retail banking race. VCB's CAR was 9.95% in 2022, implying that solvency capital is not a strength, but the bank plans to increase its capital by selling a 6.5% stake to a strategic investor via private placement.

## Share price performance relative to VNIndex



Market cap	US\$21 bn
6M avg. daily turnover	US\$4.1 mn
Outstanding shares	5,589 mn
Free float	11%
FINI ownership	23.5%
Major shareholders	92.7%
2024E Asset/Equity (x)	11x
2024E P/E (x)	11x
2024E P/B (x)	2.4x
FOL Remaining Room	6.5%
2024E Dividend yield (%)	0.9%

Source: FiinPro, Yuanta Vietnam

Year to Dec	2022A	2023A	2024A	2025A
NIM (%)	3.52%	3.52%	3.68%	3.82%
Fee growth (%)	-8%	18%	32%	22%
CIR	32%	31%	30%	29%
PPOP growth (%)	22%	20%	22%	19%
Net income (VND bn)	27,550	33,204	45,284	54,338
ROAA	1.85%	1.89%	2.29%	2.43%
Adj. ROAE	22.5%	22.1%	24.4%	23.6%
PE (x)	15.2	14.9	10.9	9.1
PB (x)	3.1	3.0	2.4	1.9
Div. yield (%)	0.8%	0.9%	0.9%	1.2%

Source: FiinPro, Yuanta Vietnam

## Research Analyst:

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## Vietcombank [VCB VN]

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## Vietnam's highest quality bank

We reduce our credit growth assumption by -4ppt to 13% in 2023E due to weak credit growth in 1H23. VCB's credit growth was only 2.6% YTD as at 2Q23. However, we maintain our credit growth forecast for 2024E at 16% YoY, given the expectation of an economic recovery, VCB's strong asset quality, and as a reward for restructuring a weak bank.

We reduce our 2024E net interest income forecast by -7% on reduced asset yields, as we believe that VCB will continue to follow the SBV's direction to reduce lending rates to support troubled borrowers.

But we also expect funding cost to decrease following the SBV's easing monetary policy and given VCB's high CASA ratio of 30% as at 2Q23. We forecast funding cost to decline from 2.5% in 2022 to 2.1% in 2023E and 2.0% in 2024E; thus, we expect NIM to reach 3.68% in 2024E (+16bp YoY).

**Reduced provisioning assumption for 2024E.** Reported NPLs remain low at 0.83%, and VCB's LLR ratio of 386% is the highest in the sector. Thus, VCB should have the flexibility to lower its provisioning in 2024E to boost its earnings; as such, we cut our gross provisioning forecast by -34% for 2024E to VND7.4tn (-32% YoY).

We reduce our PATMI forecasts by -9% for 2023E/ but increase our 2024E forecast by +2%. Our revised PATMI forecast is 14% above the consensus for 2024E, which we think is attributable to our lower provisioning estimate.

**VCB merits a valuation premium.** VCB has the cheapest funding cost in the sector, backed by its strong deposit franchise. This is a competitive advantage vs. peers. VCB now trades at 2.4x 2024E P/BV. Our new target price implies 12-month TSR of 13%, and we maintain BUY.

**Key risks:** A key downside risk to our forecast is that VCB chooses not to reduce provisioning in 2024E as we assume. On the other hand, a possible successful private placement would increase the bank's capital and spur higher asset growth. If VCB can complete a 6.5% stake sale in 2024, it would likely constitute an upside risk to our valuation.

## VCB VN\_Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	26.0	21.7	15.5	15.2	11.1	9.3
PEG	(6.7)	1.1	0.4	7.4	0.3	0.5
ROAA (%)	1.45%	1.61%	1.85%	1.89%	2.29%	2.43%
ROAE (%)	18.3%	19.4%	22.5%	22.1%	24.4%	23.6%
PBR (x)	4.4	3.9	3.1	3.1	2.4	2.0
Dividend Yield (%)	0.7%	0.5%	0.8%	0.9%	0.9%	1.2%

Source: FiinPro, Yuanta Vietnam

### VCB's 2Q23 results summary [\(link\)](#)

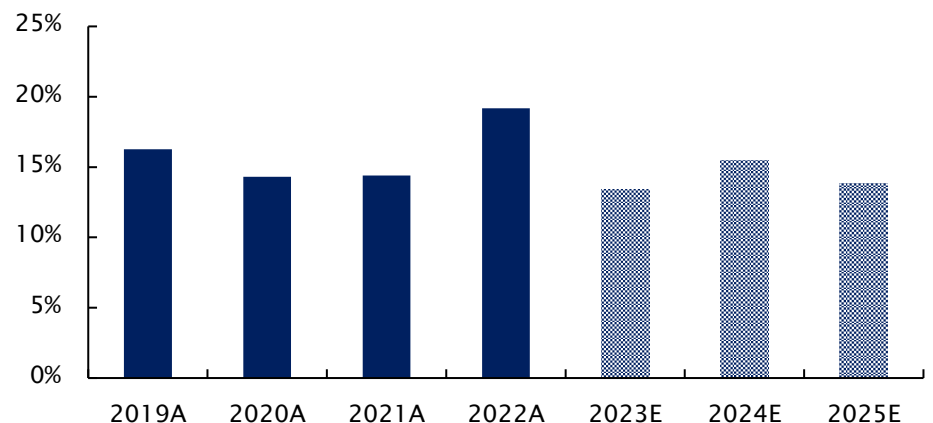
VCB	2Q23	% QoQ	% YoY
NII (VND bn)	14,021	-1%	10%
Net Fee Income (VND bn)	1,622	11%	134%
Adj. TOI (VND bn)	17,212	-1%	14%
Opex (VND bn)	5,656	7%	-3%
Provision (VND bn)	2,536	25%	-7%
PATMI (VND bn)	7,423	-17%	25%
NPL (%)	0.83%	-2bps	22bps
LLR (%)	386%	65ppt	-120ppt
CASA (%)	30.0%	-40bps	-5.4ppt

Source: FiinPro, Yuanta Vietnam

**We reduce our loan growth forecast** for VCB by -4ppt to 13% YoY in 2023E. We maintain our credit growth forecast at 16% YoY in 2024E given the expectation of an economic recovery, VCB's strong asset quality, and as a reward from the SBV for restructuring a weak bank.

VCB has the cheapest funding cost among all banks in Vietnam, backed by its strong deposit franchise. We anticipate its funding cost to decrease from 2.5% in 2022 to 2.0% in 2024E. This drives our NIM forecast of 3.68% (+16bp YoY) in 2024E.

Figure 1: VCB's loan growth



Source: FiinPro, Yuanta Vietnam

Below is the sensitivity analysis of the impact of loan growth to net income.

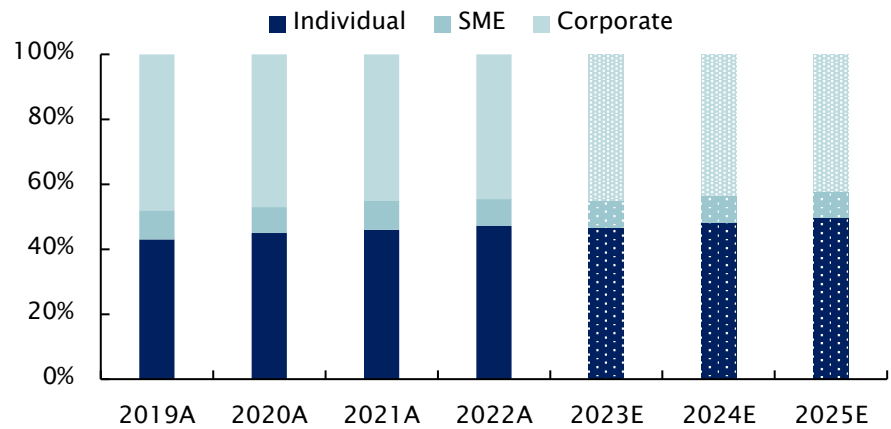
Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	12%	13%	14%	15%	16%	17%	18%
2024E Adj. Net Income	44,599	44,827	45,056	45,284	45,513	45,741	45,970
(+/-) % vs. Base Case	-1.5%	-1.0%	-0.5%		0.5%	1.0%	1.5%

Source: Yuanta Vietnam



**VCB has been shifting its focus to retail**, which should help improve NIM going forward. The yield gap between individual and corporate clients is around 200–250 bps, by our estimates. We anticipate loans to individuals to account for 50% of total loans by 2025E.

**Figure 2: VCB's loan breakdown**



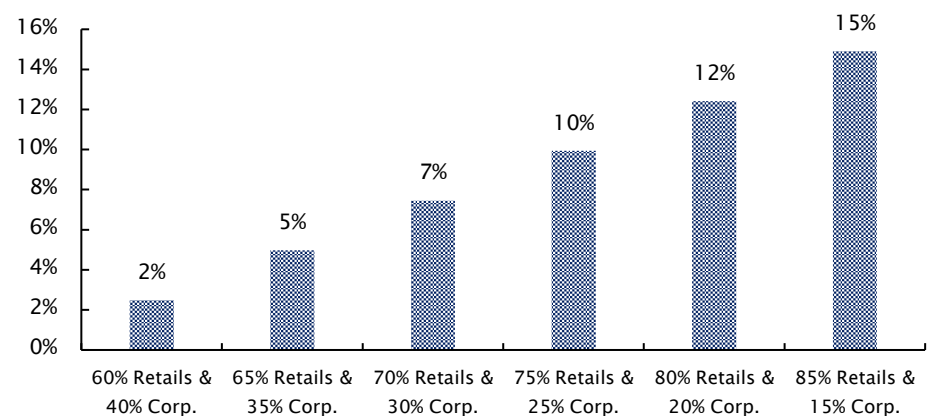
Source: FiinPro, Yuanta Vietnam

**Below is our sensitivity analysis on the impact of different combinations of retails loans and corporate loans on PATMI** (based on 2024E earnings).

Our base case is that retail loans (including individuals and SMEs) account for 55% and corporate loans account for 45% of the total loans. We also assume that the loan yield gap between retail and corporate loans is 200bps.

**Ceteris paribus, a +5ppt increase in retail loans would lead to a corresponding rise in PATMI ranging from +2% to +3%.** If we assume that retail loans account for 65% of the total and corporate loans represent the remaining 35% of the loan book, then PATMI would increase by +5% compared to our base case loan mix of 55% retail and 45% corporate.

**Figure 3: Sensitivity – Estimated PATMI change on increasing retail loans**

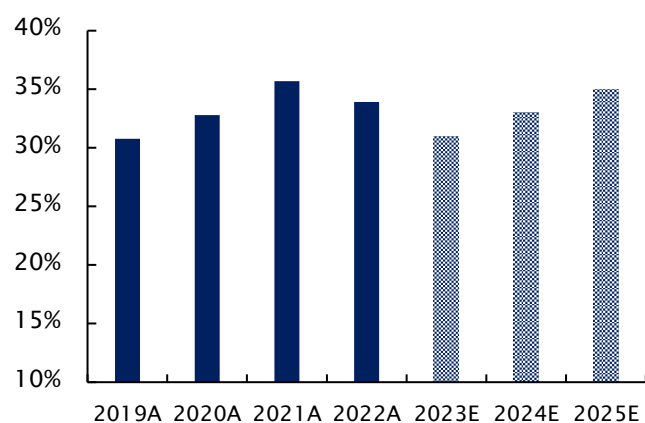


Source: Yuanta Vietnam

**VCB has the highest aggregate CASA deposits of all Vietnamese banks**, representing 23% of CASA market share of the 27 listed banks as at 2Q23.

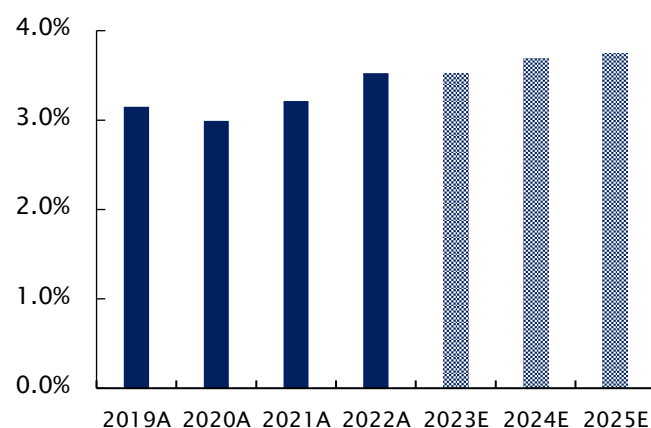
In terms of CASA ratio (CASA deposits/Total customer deposits), VCB's CASA ratio was the third highest in the sector at 30% in 2Q23. We believe that the CASA ratio will improve in 2H23 and 2024E, as term deposits are less attractive due to lower deposit rates. As a result, we anticipate VCB's CASA to increase to 33% in 2024E and further rise to 35% in 2025E. VCB's attractive CASA franchise should help to reduce funding costs and support NIM.

Figure 4: VCB's CASA ratio



Source: FiinPro, Yuanta Vietnam

Figure 5: VCB's NIM



Source: FiinPro, Yuanta Vietnam

**Provisioning – a key driver of our 2024 forecast.** We think that VCB will stick with its prudent approach by maintaining high provisioning levels to weather against any possible asset quality deterioration in 2023. Thus, we forecast credit costs to increase by +9% in 2023E.

However, our expectation is that the economy will recover in 2024 and the customers' debt burden will be eased. Thus, we assume that VCB with low NPL of 0.83% ratio and the sector high LLR ratio of 386% as at 2Q23 will be able to reduce its provisioning expenses in 2024E.

We thus forecast the bank's credit costs to decline by –34% YoY in 2024E, which is a key driver of our 2024E earnings forecast. As such, a key risk to our earnings is whether VCB actually decides to reduce its provisioning as we have assumed it will.

*Below is the sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(9,672)	(8,928)	(8,184)	<b>(7,440)</b>	(6,696)	(5,952)	(5,208)
2024E Adj. Net Income	43,640	44,188	44,736	<b>45,284</b>	45,832	46,380	46,928
(+/-) % vs. Base Case	-3.6%	-2.4%	-1.2%		1.2%	2.4%	3.6%

Source: Yuanta Vietnam

### Asset quality is the best among Vietnam banks

We continue to view VCB as the highest quality bank in Vietnam. VCB's NPL ratio is very low at 0.83%, and its loan loss reserve (LLR) ratio is the highest in the sector at 386% as at 2Q23.

VCB has low exposure to corporate bonds with 0.6% of assets as at 2Q23.

Solid asset quality allows VCB the flexibility to lower its provisioning and thus boost earnings in 2024E. Again, this is one of our key earnings drivers for 2024E, but it is also a key risk to our earnings forecast if the bank chooses not to do so.

### VCB's Operating Return on Asset (OROA) Analysis

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	2.90%	3.15%	2.99%	3.21%	3.52%	3.52%	3.68%	3.82%
Net interest income to adj. TOI	78.8%	81.0%	76.8%	77.9%	80.6%	80.6%	80.0%	80.1%
Cost to income	37.8%	37.2%	33.9%	32.6%	32.2%	30.9%	29.6%	29.1%
PPOP/Assets	2.13%	2.33%	2.45%	2.67%	2.77%	2.80%	3.06%	3.21%
Provisions to Assets	0.70%	0.58%	0.78%	0.84%	0.59%	0.58%	0.35%	0.34%
<b>Operating Return on Assets (OROA)</b>	<b>1.59%</b>	<b>1.86%</b>	<b>1.79%</b>	<b>1.94%</b>	<b>2.38%</b>	<b>2.45%</b>	<b>2.89%</b>	<b>3.04%</b>
Leverage (x)	17.3	15.1	14.1	13.0	13.4	12.1	11.1	10.1
<b>Operating Return on Equity (OROE)</b>	<b>27.5%</b>	<b>28.2%</b>	<b>25.3%</b>	<b>25.2%</b>	<b>31.8%</b>	<b>29.7%</b>	<b>32.1%</b>	<b>30.9%</b>

Source: FiinPro, Yuanta Vietnam

### Valuation

We reduce our discount rate by -1.1ppt to 14.4%, primarily due to the reduced risk-free rate in line with falling SOE 12-month term deposit rates. We also roll forward our valuation basis to 2024E. As a result, our target price increases by +26% to VND99,420, implying 12-month TSR of 13% and a 2024E P/BV of 2.7x. VCB trades at 2024E P/BV at 2.4x, which is far above the sector median. However, VCB's P/BV is still below its historical mean level, as illustrated in the figure below.

We believe that VCB merits a premium over its peers given its dominant market position, with the highest asset quality and the cheapest funding cost among all the banks.

Figure 6: VCB still trades below its historical mean

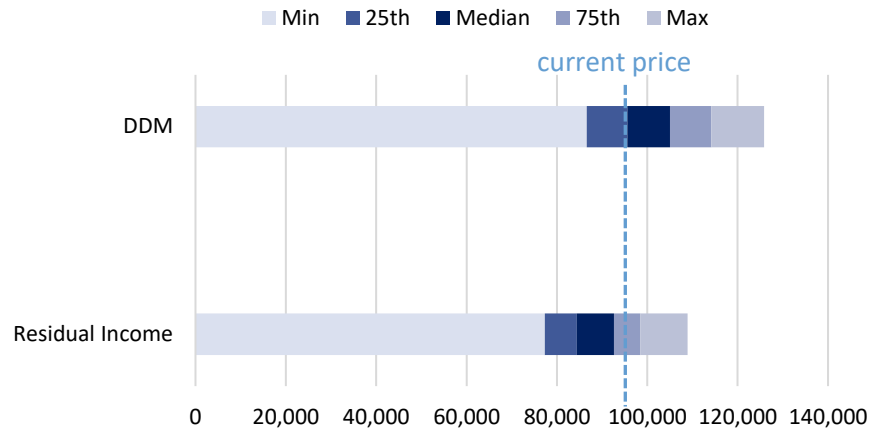


Source: Bloomberg, Yuanta Vietnam

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	94,044	50.0%	47,022
Dividend Discount Model	104,799	50.0%	52,400
<b>Estimated Fair Value</b>			<b>99,422</b>

Source: Yuanta Vietnam

Figure 7: VCB's Valuation Graph



Source: Yuanta Vietnam

**Sensitivity table of Residual Income Approach: ROE vs. Cost of equity**

	Cost of Equity:						
	13.0%	13.5%	14.0%	14.4%	14.9%	15.4%	15.9%
Terminal Return on Common Equity: 16.0%	167,092	142,431	122,791	110,546	96,778	85,317	75,665
15.5%	160,556	136,940	118,127	106,394	93,198	82,208	72,950
15.0%	154,048	131,473	113,483	102,260	89,633	79,113	70,247
14.5%	147,568	126,029	108,859	98,143	86,083	76,031	67,555
14.0%	141,116	120,609	104,255	<b>94,044</b>	82,548	72,962	64,875
13.5%	134,692	115,212	99,670	89,963	79,029	69,906	62,206
13.0%	128,296	109,839	95,106	85,900	75,525	66,864	59,549
12.5%	121,928	104,489	90,562	81,854	72,036	63,835	56,903
12.0%	115,588	99,163	86,037	77,826	68,562	60,819	54,269

Source: Yuanta Vietnam

**Yuanta vs. Consensus**

Net income (VND bn)	2023E	2024E
Consensus mean	35,772	39,691
<b>Yuanta forecast</b>	<b>33,204</b>	<b>45,284</b>
<i>%ge difference</i>	-7.2%	14.1%
Consensus high	36,297	44,599
Consensus low	34,704	30,543
EPS (VND)		
Consensus mean	7,012	7,881
<b>Yuanta forecast (adjusted)</b>	<b>5,941</b>	<b>8,102</b>
<i>%ge difference</i>	-15.3%	2.8%
Consensus high	7,650	8,928
Consensus low	6,227	6,454

\*We believe that BBG consensus does not factor in employee welfare fund contributions, and stock dividends.

Source: Bloomberg, Yuanta Vietnam

## VCB's Financial Statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash & Balances at SBV	110,906	83,502	79,352	89,412
Loans to banks	313,637	355,823	406,876	458,460
Investment securities	197,671	224,258	256,434	288,946
Invest. Associates	2,350	2,666	3,049	3,435
<b>Gross Loans:</b>	<b>1,145,066</b>	<b>1,298,399</b>	<b>1,499,469</b>	<b>1,706,754</b>
(-) Specific Provisions:	(16,311)	(19,150)	(20,434)	(21,899)
(-) General Provisions:	(8,469)	(9,603)	(11,090)	(12,623)
<b>Total provisions:</b>	<b>(24,779)</b>	<b>(28,752)</b>	<b>(31,524)</b>	<b>(34,522)</b>
<b>Net Loans:</b>	<b>1,120,287</b>	<b>1,269,647</b>	<b>1,467,945</b>	<b>1,672,232</b>
Fixed Tangible asset:	5,170	5,064	5,212	5,366
Intangible Assets:	2,815	2,815	2,815	2,815
Real estate investment	0	0	0	0
Accrued interests:	9,209	10,130	10,130	10,130
Deferred tax:	958	958	958	958
Other Assets:	50,811	50,811	50,811	50,811
<b>Total Assets:</b>	<b>1,813,815</b>	<b>2,005,674</b>	<b>2,283,582</b>	<b>2,582,566</b>
Deposits:	1,243,468	1,410,719	1,613,127	1,817,644
Due to SBV:	67,315	76,329	88,149	100,335
Due to Banks:	232,511	263,646	259,490	244,159
Subordinated notes	25,338	22,804	22,804	22,804
Other Liabilities:	109,537	66,917	94,029	143,136
<b>Total Liabilities:</b>	<b>1,678,169</b>	<b>1,840,414</b>	<b>2,077,599</b>	<b>2,328,077</b>
Capital & Premium:	53,130	61,696	61,696	61,696
Reserves:	22,557	22,557	22,557	22,557
Treasury Shares	-	-	-	-
Retained Earnings:	60,733	80,900	121,585	170,061
Minorities Interest:	88	107	145	174
Asset Revaluation:	-	-	-	-
FX Effect:	(863)	-	-	-
<b>Total Equity:</b>	<b>135,646</b>	<b>165,260</b>	<b>205,984</b>	<b>254,489</b>
<b>Total Liabilities &amp; Equity:</b>	<b>1,813,815</b>	<b>2,005,674</b>	<b>2,283,582</b>	<b>2,582,566</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Net Interest income	53,246	62,372	74,543	88,235
<i>Net Fee Income</i>	<i>6,839</i>	<i>8,058</i>	<i>10,626</i>	<i>12,978</i>
<i>Other Non-It</i>	<i>5,943</i>	<i>6,984</i>	<i>7,952</i>	<i>8,993</i>
Total Non-It	12,782	15,042	18,578	21,971
<b>TOI</b>	<b>66,029</b>	<b>77,414</b>	<b>93,120</b>	<b>110,206</b>
Total expenses	(21,251)	(23,895)	(27,569)	(32,056)
<b>PPOP:</b>	<b>44,778</b>	<b>53,519</b>	<b>65,551</b>	<b>78,150</b>
Gross Provisions:	(9,464)	(10,997)	(7,440)	(8,189)
NPL Recoveries:	2,054	2,552	3,362	3,802
Net Provisions:	(7,410)	(8,445)	(4,078)	(4,386)
<b>Pre-Tax Income:</b>	<b>37,368</b>	<b>45,074</b>	<b>61,473</b>	<b>73,764</b>
(-) Income Tax:	(7,449)	(9,015)	(12,295)	(14,753)
<b>Net Income</b>	<b>29,919</b>	<b>36,059</b>	<b>49,178</b>	<b>59,011</b>
(-) Minority Interest	(20)	(24)	(33)	(40)
(-) Others	(2,349)	(2,831)	(3,861)	(4,633)
<b>Adj. Net Income</b>	<b>27,550</b>	<b>33,204</b>	<b>45,284</b>	<b>54,338</b>
Adjusted Diluted EPS		5,941	8,102	9,722

### VCB's Key ratios

Financial Ratios	FY21	FY22	FY23	FY24	FY25	FY26	FY27
<b>GROWTH PROJECTIONS</b>							
Net interest income	16%	26%	17%	20%	18%	16%	15%
Fee Income	12%	-8%	18%	32%	22%	20%	19%
Other NII	4%	30%	18%	14%	13%	12%	12%
Operating costs	10%	20%	12%	15%	16%	15%	14%
Gross Provision	15%	-18%	16%	-32%	10%	10%	10%
Preprovision profit	17%	22%	20%	22%	19%	17%	16%
Adjusted Net profit	19%	36%	21%	36%	20%	18%	17%
Assets	7%	28%	11%	14%	13%	12%	12%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	96%	91%	94%	95%	95%	95%	96%
Average Returns on Earnings A	1.50%	1.82%	1.88%	2.24%	2.35%	2.44%	2.54%
<b>LOAN ANALYSIS</b>							
Net Loan growth (% YoY)	14%	20%	13%	16%	14%	13%	13%
Net Loans to Interest Earnings	69%	68%	67%	68%	68%	68%	69%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	10%	10%	13%	14%	13%	12%	11%
Deposits to Interest Bearing Li	89%	79%	80%	81%	83%	85%	87%
<b>LIQUIDITY</b>							
Pure LDR	82%	90%	90%	91%	92%	93%	94%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	6,121	7,820	9,589	11,682	14,393	16,987	20,044
NPL ratio	0.64%	0.68%	0.74%	0.78%	0.84%	0.88%	0.92%
General Provisions to Gross Io:	0.73%	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
LLR	421%	317%	300%	270%	240%	220%	200%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average I	5.37%	5.83%	5.55%	5.54%	5.81%	6.11%	6.41%
Int. rate paid on Average IBL	2.30%	2.45%	2.14%	2.00%	2.21%	2.50%	2.81%
Interest rate spread	3.07%	3.38%	3.40%	3.54%	3.60%	3.61%	3.60%
NIM	3.21%	3.52%	3.52%	3.68%	3.82%	3.92%	4.02%
<b>OTHER INCOME</b>							
Fee income to total income	14%	10%	10%	11%	11.8%	12.2%	12.6%
Other Non Interest income to	8%	9%	9%	9%	8.2%	7.9%	7.6%
<b>OPERATING EFFICIENCY</b>							
CIR	31%	31%	30%	29%	28%	28%	27%
Adj. CIR	33%	32%	31%	30%	29%	29%	28%
<b>CREDIT COSTS</b>							
Provision/avg. assets	0.84%	0.59%	0.58%	0.35%	0.34%	0.33%	0.32%
<b>PROFITABILITY</b>							
Pre provision ROA	2.67%	2.77%	2.80%	3.06%	3.21%	3.33%	3.46%
Pre provision ROE	36.0%	36.6%	35.6%	35.3%	34.0%	32.4%	30.9%
ROAA	1.61%	1.85%	1.89%	2.29%	2.43%	2.53%	2.63%
Adj. ROAE	19.4%	22.5%	22.1%	24.4%	23.6%	22.6%	21.7%
Dividend payout ratio	12%	17%	16%	14%	13%	13%	14%
Dividend Yield	0.5%	0.8%	0.9%	0.9%	1.2%	1.4%	1.8%
<b>VALUATIONS</b>							
PER (x)	21.7x	15.5x	15.2x	11.1x	9.3x	7.9x	6.8x
PBR (x)	3.9x	3.1x	3.1x	2.4x	2.0x	1.6x	1.3x

Source: FiinPro, Yuanta Vietnam

HDBank [HDB VN]

20 August 2023

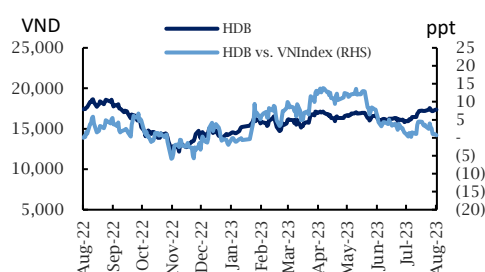
**BUY****TP upside +30%****Close 16 Aug 2023****Current Price VND 17,150****12M Target VND 22,390****Previous Target (\*) VND 20,440****% Change +10%***(\*) Previous Target is adjusted for dividend.***What's new?**

- ▶ We increase our TP by +10% on lower discount rate and valuation basis rollover to 2024E.
- ▶ Our revised credit growth forecast is 23% YoY (+2ppt) for 2023E and 24% (+4ppt) for 2024E.
- ▶ Our new earnings forecast is down by -4% for 2023E but up by +2% for 2024E.

**Our view**

- ▶ Reiterate BUY. Valuation is cheap. HDB trades at 0.9x 2024E P/BV, in line with the sector median despite its superior operational results.
- ▶ Strong capital level with CAR of 12.3%.
- ▶ Catalyst: potential banca exclusivity deal by end-2023 or early 2024.
- ▶ Risks: higher-than-expected NPLs.

**Company profile:** HDB is a retail and SME bank that also owns 50% of HD Saison, a top-three consumer finance business. Retail loans account for 43.2% of total consolidated loans, SMEs loans are 48.6%, HD Saison accounts for 5.4%, and Corporate and Institutional Banking (CIB) loans are just 2.8% as at 2Q23. Capital level is strong, with CAR of 12.3% as at 2Q23.

**Share price performance relative to VNIndex**

Market cap	US\$2.1 bn
6M avg. daily turnover	US\$4.4 mn
Outstanding shares	2,893 mn
Free float	70%
FINI ownership	20%
Major shareholders	16.6%
2024E Asset/equity (x)	10.9x
2024E P/E (x)	4.1x
2024E P/B (x)	0.9x
FOL room	0.0%
2024E Dividend yield (%)	5.9%

Source: FiinPro, Yuanta Vietnam

Year to Dec	2022A	2023A	2024A	2025A
NIM (%)	5.15%	4.96%	5.25%	5.22%
Fee growth (%)	53%	12%	26%	23%
CIR	39%	36%	36%	35%
PPOP growth (%)	26%	20%	29%	22%
Net income (VND bn)	7,750	9,354	12,171	14,852
ROAA	2.08%	2.16%	2.34%	2.37%
Adj. ROAE	22.2%	22.0%	23.8%	23.9%
PE (x)	5.6	5.3	4.1	3.3
PB (x)	1.2	1.1	0.9	0.8
Div. yield (%)	0.0%	5.8%	5.8%	7.0%

Source: FiinPro, Yuanta Vietnam

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[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)**Bloomberg code: YUTA****HDBank [HDB VN]**[Back to top](#)**Valuation is cheap**

We increase our 2023E loan growth forecast to 23% YoY (+2ppt versus our previous forecast) and raise our 2024E forecast by +4ppt to 24% YoY. We believe that HDB has room to expand credit growth given: 1) HDB's low LDR of 67.8% versus the SBV's cap of 85.0%, 2) its participation in restructuring a troubled bank, which should earn it a higher SBV quota in the next few years, and 3) the expectation of an economic recovery in 2H23 and 2024E.

We expect HDB's funding cost to increase to 5.1% in 2023E but then decrease to 4.2% (-90bps YoY) in 2024E. Our revised NIM forecast is 4.96% (-19bps YoY) for 2023E and 5.25% (+29bps YoY) for 2024E.

Our provisioning forecast remains nearly unchanged for 2023E and 2024E. We forecast provisioning costs to reach VND3.7 tn (+21% YoY) in 2023E and VND4.5 tn (+21% YoY) in 2024E. HDB's 2Q23 loan loss reserve ratio of 61% is relatively low in our view given rising NPLs, which justifies our projection for high provisioning growth in both 2023E and 2024E.

Our PATMI forecast decreases slightly by -4% for 2023E but increases by +2% for 2024E, implying PATMI growth of +21% YoY in 2023E and +30% YoY in 2024E.

**Yuanta vs. the consensus.** Our earnings forecasts are 16% above the consensus for 2024E, probably due to our high credit growth forecast.

**Valuation is still cheap.** HDB trades at 0.9x 2024E P/B, which is in line with the sector median despite its stronger operational results. We forecast HDB's 2024E ROE to reach 24% versus the Bloomberg consensus of 20%.

**Reiterate BUY.** Our new target price implies 2024E P/B of 1.2x and 12-month TSR of 36%, and we reiterate BUY.

**Catalyst:** We see a near-term upside catalyst for HDB's earnings and share price in 2024 from the potential new bancassurance exclusivity fee. This has been under discussion for years, but management expects to complete the deal by the end of 2023 or early 2024.

**Risks:** Higher-than-expected NPLs and lower-than-expected credit growth.

## HDB VN Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	4.0	7.2	5.6	5.3	4.1	3.3
PEG	0.3	(0.2)	0.2	1.1	0.1	0.2
ROAA (%)	1.69%	1.86%	2.08%	2.16%	2.34%	2.37%
ROAE (%)	18.8%	21.8%	22.2%	22.0%	23.8%	23.9%
PBR (x)	1.2	1.5	1.2	1.1	0.9	0.8
Dividend Yield (%)	0.0%	0.0%	0.0%	5.8%	5.8%	7.0%

Source: FiinPro, Yuanta Vietnam

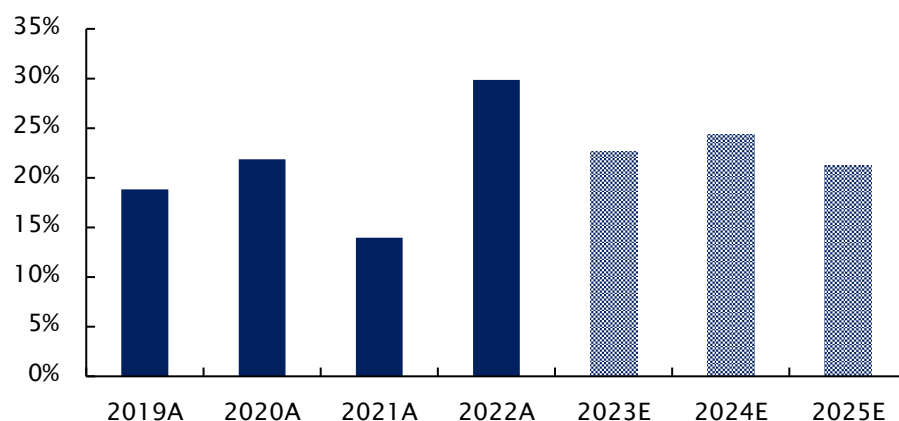
### HDB's 2Q23 results summary [\(link\)](#)

HDB	2Q23	% QoQ	% YoY
NII (VND bn)	4,955	2%	9%
Net Fee Income (VND bn)	601	-11%	-28%
Adj. TOI (VND bn)	6,292	14%	15%
Opex (VND bn)	2,239	14%	10%
Provision (VND bn)	1,433	50%	86%
PATMI (VND bn)	2,159	3%	4%
NPL (%)	2.15%	30bps	82bps
LLR (%)	61%	-40bps	-32ppt
CASA (%)	7.4%	-30bps	-4.9ppt

Source: FiinPro, Yuanta Vietnam

**We revise our loan growth forecast** for HDB by +2ppt to 23% YoY in 2023E and by +4ppt to 24% YoY in 2024E. We believe that HDB has room to expand credit growth given: 1) its low LDR of 67.8% versus the SBV's cap of 85%, 2) higher-than average loan growth quota from the SBV as a reward for its participation in restructuring a troubled bank, and 3) the expectation of an economic recovery in 2H23 and 2024E.

Figure 1: HDB's loan growth



Source: FiinPro, Yuanta Vietnam

Below is the sensitivity analysis of the impact of loan growth to net income.

Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	21%	22%	23%	24%	25%	26%	27%
2024E Adj. Net Income	12,015	12,067	12,119	12,171	12,223	12,275	12,327
(+/-) % vs. Base Case	-1.3%	-0.9%	-0.4%		0.4%	0.9%	1.3%

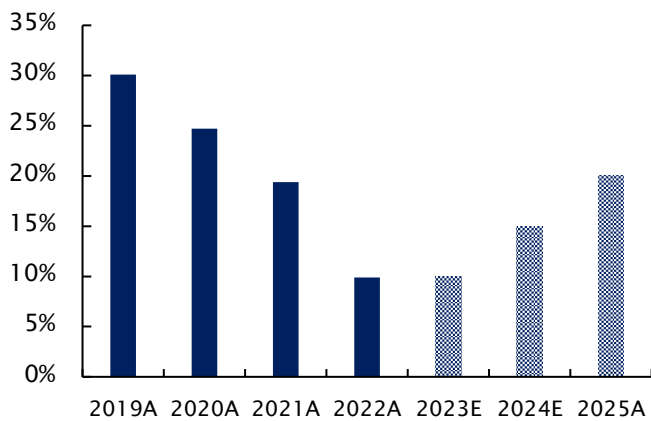
Source: Yuanta Vietnam

We forecast NIM to be flat in 2023E but to improve in 2024E to reach 5.25% (+29bp YoY) on lower funding cost. We assume HDB's COF to be 4.2% (-90bp YoY) in 2024E.

HDB also has room to improve its NIM by increasing the ratio of short-term funds used for medium-long term loans if they choose to do so. Currently, the ST funds for MLT loans at HDB was only 7.4% as at 1Q23, far below the SBV's cap of 34%. The SBV plans to reduce the cap of this ratio to 30% from Oct 2023. However, this change will not affect HDB given its low ratio. Instead, HDB can increase this ratio while others are under pressure to decrease it, which should help to support its NIM.

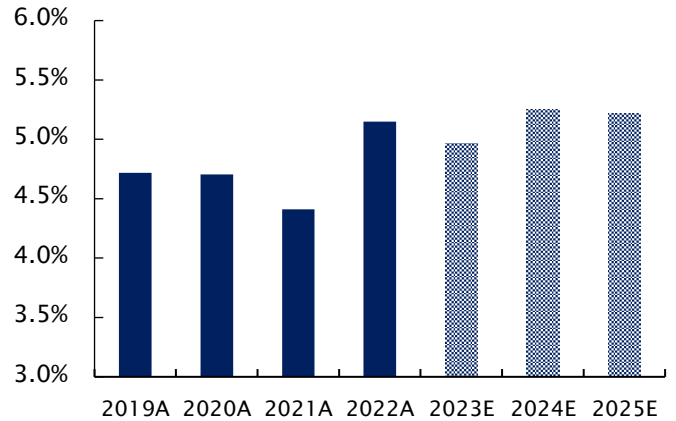
We forecast HDB's ST funds for MLT loans ratio to increase to 15% in 2024E as shown in the figure below.

**Figure 2: HDB's ST funds used for MLT loans**



Source: Company Data, Yuanta Vietnam

**Figure 3: HDB's NIM**



Source: FiinPro, Yuanta Vietnam

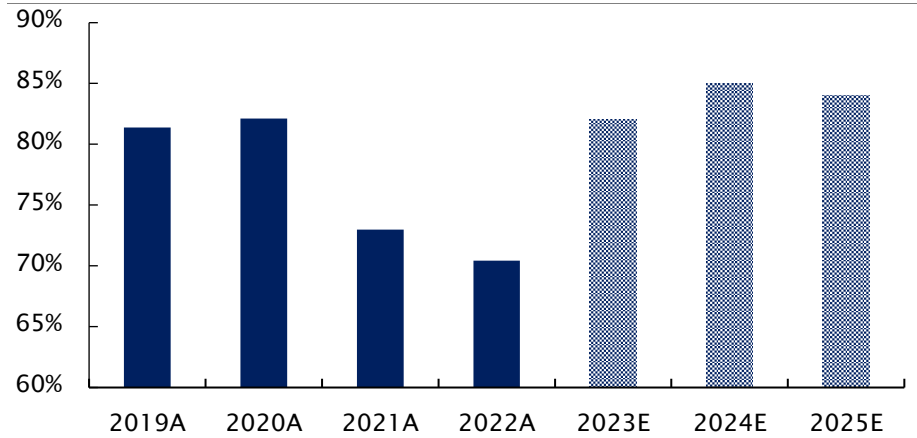
**A potential exclusivity bancassurance deal**, which management expects to be finalized by the end of 2023 or early 2024, should provide support for fee income in 2024E. We have not factored this into our model.

However, based on the recent deals in the bancassurance industry of similar banks (i.e., ACB and Sunlife, or VPB and AIA), we expect the upfront fee from the exclusivity bancassurance deal between HDB and its new partner to fall within an approximate range of VND6-8tn.

**We assume credit cost to increase by +21% for both 2023E and 2024E** against potential asset quality deterioration. HDB's 2Q23 LLR ratio was only 61%, which is low compared to the top-tier banks such as ACB (108%), or VCB (386%); it is also substantially lower than HDB's own 5-year historical average LLR ratio of 75%. We expect HDB to increase LLR ratio to ensure asset quality given rising NPLs, and this is baked into our forecasts.



**Figure 4: HDB's LLR ratio**



Source: FiinPro, Yuanta Vietnam

*Below is the sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(5,819)	(5,371)	(4,924)	<b>(4,476)</b>	(4,028)	(3,581)	(3,133)
2024E Adj. Net Income	11,168	11,502	11,837	<b>12,171</b>	12,506	12,840	13,175
(+/-) % vs. Base Case	-8.2%	-5.5%	-2.7%		2.7%	5.5%	8.2%

Source: Yuanta Vietnam

**HDB's Operating Return on Asset (OROA) Analysis**

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	4.54%	4.72%	4.70%	4.41%	5.15%	4.96%	5.25%	5.22%
Net interest income to adj. TOI	85.4%	89.0%	89.7%	83.8%	84.0%	81.6%	83.0%	82.8%
Cost to income	49.6%	46.4%	46.6%	38.5%	40.3%	37.3%	36.5%	36.1%
PPOP/Assets	2.47%	2.63%	2.58%	2.94%	3.24%	3.35%	3.58%	3.62%
Provisions to Assets	0.54%	0.58%	0.65%	0.66%	0.78%	0.80%	0.80%	0.80%
<b>Operating Return on Assets (OROA)</b>	<b>2.14%</b>	<b>2.26%</b>	<b>2.15%</b>	<b>2.57%</b>	<b>2.89%</b>	<b>3.01%</b>	<b>3.22%</b>	<b>3.23%</b>
Leverage (x)	12.8	11.3	12.9	12.2	10.7	10.9	10.9	10.7
<b>Operating Return on Equity (OROE)</b>	<b>27.4%</b>	<b>25.5%</b>	<b>27.8%</b>	<b>31.3%</b>	<b>30.8%</b>	<b>32.7%</b>	<b>35.0%</b>	<b>34.5%</b>

Source: FiinPro, Yuanta Vietnam

**Valuation**

We reduce our discount rate by -90bps to 15.9%, primarily due to a lowered risk-free rate. We also roll forward our valuation basis to 2024E. This results in a 10% increase in our target price to VND22,390, implying 12-month TSR of 36% and 2024E P/BV of 1.2x.

HDB trades at 2024E P/BV at 0.9x, in line with the sector median despite its superior operational results versus peers.

**Figure 5: HDB trades at -1std below the mean level.**

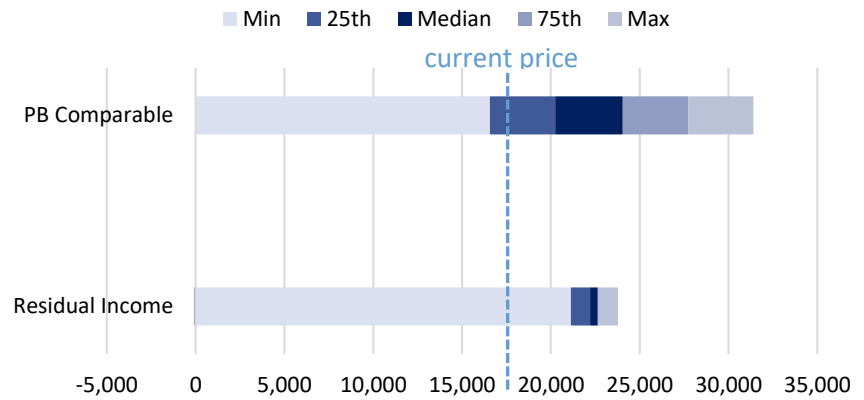


Source: Bloomberg, Yuanta Vietnam

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	21,872	75.0%	16,404
Dividend Discount Model	23,968	25.0%	5,992
<b>Estimated Fair Value</b>			<b>22,396</b>

Source: Yuanta Vietnam

Figure 6: HDB's Valuation Graph



Source: Yuanta Vietnam

**Sensitivity table of Residual Income Approach: ROE vs. Cost of equity**

	Terminal Return on Common Equity:	Cost of Equity:						
		14.5%	15.0%	15.5%	15.9%	16.0%	16.5%	17.0%
16.0%		30,487	27,952	25,715	24,252	23,132	21,423	19,889
15.5%		29,667	27,223	25,065	23,653	22,571	20,920	19,437
15.0%		28,850	26,497	24,418	23,057	22,013	20,419	18,987
14.5%		28,036	25,774	23,773	22,463	21,457	19,921	18,538
14.0%		27,226	25,054	23,132	<b>21,872</b>	20,904	19,424	18,092
13.5%		26,419	24,338	22,493	21,283	20,352	18,930	17,647
13.0%		25,616	23,624	21,857	20,696	19,804	18,437	17,204
12.5%		24,817	22,913	21,223	20,112	19,257	17,947	16,763
12.0%		24,020	22,206	20,592	19,531	18,713	17,459	16,324

Source: Yuanta Vietnam

**Yuanta vs. Consensus**

Net income (VND bn)	2023E	2024E
Consensus mean	9,490	10,506
<b>Yuanta forecast</b>	<b>9,354</b>	<b>12,171</b>
<i>%ge difference</i>	<i>-1.4%</i>	<i>15.9%</i>
Consensus high	12,568	11,018
Consensus low	8,528	9,794
EPS (VND)		
Consensus mean	3,701	3,898
<b>Yuanta forecast (adjusted)</b>	<b>3,234</b>	<b>4,208</b>
<i>%ge difference</i>	<i>-12.6%</i>	<i>7.9%</i>
Consensus high	4,997	4,357
Consensus low	2,828	2,754

\*We believe that BBG consensus does not factor in employee welfare fund contributions, and stock dividends.

Source: Bloomberg, Yuanta Vietnam

## HDB's Financial Statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash & Balances at SBV	14,211	16,974	21,017	25,358
Loans to banks	49,132	54,834	64,328	73,446
Investment securities	50,587	66,510	80,347	96,622
Invest. Associates	144	176	217	261
<b>Gross Loans:</b>	<b>263,856</b>	<b>323,527</b>	<b>402,195</b>	<b>487,492</b>
(-) Specific Provisions:	(1,131)	(2,072)	(2,723)	(3,158)
(-) General Provisions:	(1,970)	(2,416)	(3,003)	(3,640)
<b>Total provisions:</b>	<b>(3,102)</b>	<b>(4,488)</b>	<b>(5,727)</b>	<b>(6,798)</b>
<b>Net Loans:</b>	<b>260,755</b>	<b>319,039</b>	<b>396,468</b>	<b>480,694</b>
Fixed Tangible asset:	632	604	578	554
Intangible Assets:	683	683	683	683
Real estate investment	0	0	0	0
Accrued interests:	4,404	4,624	4,855	5,098
Deferred tax:	33	33	33	33
Other Assets:	35,692	39,261	43,188	47,506
<b>Total Assets:</b>	<b>416,273</b>	<b>502,739</b>	<b>611,714</b>	<b>730,255</b>
Deposits:	215,797	264,032	325,419	391,338
Due to SBV:	10,821	4,558	4,460	3,944
Due to Banks:	92,653	113,606	141,231	171,183
Subordinated notes	44,162	46,370	48,688	51,123
Other Liabilities:	13,845	28,015	35,736	44,421
<b>Total Liabilities:</b>	<b>377,278</b>	<b>456,581</b>	<b>555,534</b>	<b>662,008</b>
Capital & Premium:	25,839	29,612	29,612	29,612
Reserves:	3,528	3,528	3,528	3,528
Treasury Shares	(413)	(413)	(413)	(413)
Retained Earnings:	8,000	11,066	20,344	31,725
Minorities Interest:	2,041	2,365	3,110	3,795
Asset Revaluation:	-	-	-	-
FX Effect:	-	-	-	-
<b>Total Equity:</b>	<b>38,995</b>	<b>46,158</b>	<b>56,181</b>	<b>68,246</b>
<b>Total Liabilities &amp; Equity:</b>	<b>416,273</b>	<b>502,739</b>	<b>611,714</b>	<b>730,255</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Net Interest Income	18,012	20,067	26,064	31,453
Net Fee Income	2,957	3,307	4,159	5,098
Other Non-II	471	1,225	1,185	1,415
Total Non-II	3,427	4,533	5,344	6,513
<b>TOI</b>	<b>21,439</b>	<b>24,599</b>	<b>31,408</b>	<b>37,966</b>
Total expenses	(8,631)	(9,187)	(11,460)	(13,688)
<b>PPOP:</b>	<b>12,808</b>	<b>15,412</b>	<b>19,948</b>	<b>24,278</b>
Gross Provisions:	(3,068)	(3,698)	(4,476)	(5,376)
NPL Recoveries:	528	671	817	975
Net Provisions:	(2,540)	(3,026)	(3,659)	(4,401)
<b>Pre-Tax Income:</b>	<b>10,268</b>	<b>12,386</b>	<b>16,289</b>	<b>19,877</b>
(-) Income Tax:	(2,059)	(2,477)	(3,258)	(3,975)
<b>Net Income</b>	<b>8,209</b>	<b>9,909</b>	<b>13,031</b>	<b>15,902</b>
(-) Minority Interest	(460)	(555)	(860)	(1,049)
(-) Others	-	-	-	-
<b>PATMI</b>	<b>7,750</b>	<b>9,354</b>	<b>12,171</b>	<b>14,852</b>
Adjusted Diluted EPS		3,234	4,208	5,135

## HDB's Key ratios

Financial Ratios	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
<b>GROWTH PROJECTIONS</b>							
Net interest income	17%	30%	11%	30%	21%	18%	17%
Fee Income	103%	53%	12%	26%	23%	20%	19%
Other NII	83%	-38%	160%	-3%	19%	18%	17%
Operating costs	3%	35%	6%	25%	19%	17%	16%
Gross Provision	29%	33%	21%	21%	20%	19%	18%
Preprovision profit	44%	26%	20%	29%	22%	19%	18%
Adjusted Net profit	42%	28%	21%	30%	22%	19%	18%
Assets	17%	11%	21%	22%	19%	18%	17%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	90%	87%	89%	89%	90%	91%	91%
Average Returns on Earnings Assets	1.92%	2.22%	2.31%	2.45%	2.47%	2.46%	2.45%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	14%	30%	23%	24%	21%	20%	19%
Net Loans to Interest Earnings Assets	60%	72%	72%	72%	73%	74%	74%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	5%	18%	22%	23%	20%	19%	18%
Deposits to Interest Bearing Liabilities	55%	59%	62%	63%	63%	64%	65%
<b>LIQUIDITY</b>							
Pure LDR	110%	121%	121%	122%	123%	124%	125%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	3,360	4,404	5,473	6,737	8,093	9,545	11,127
NPL ratio	1.65%	1.67%	1.69%	1.68%	1.66%	1.63%	1.60%
General Provisions to Gross loans	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Loan loss coverage ratio	73%	70%	82%	85%	84%	83%	82%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	8.31%	9.52%	9.96%	9.29%	9.39%	9.51%	9.64%
Int. rate paid on Average IBL	3.98%	4.39%	5.10%	4.22%	4.42%	4.65%	4.90%
Interest rate spread	4.33%	5.13%	4.86%	5.07%	4.97%	4.86%	4.74%
NIM	4.41%	5.15%	4.96%	5.25%	5.22%	5.17%	5.10%
<b>OTHER INCOME</b>							
Fee income to total income	12%	14%	13%	13%	13.4%	13.6%	13.9%
Other Non Interest income to total Income	5%	2%	5%	4%	3.7%	3.7%	3.7%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	38%	39%	36%	36%	35%	35%	34%
Adj. Cost to income ratio	39%	40%	37%	36%	36%	36%	35%
<b>CREDIT COSTS</b>							
Provisioning /Avg. Loans	1.21%	1.31%	1.26%	1.23%	1.21%	1.19%	1.18%
<b>PROFITABILITY</b>							
Pre provision ROA	2.94%	3.24%	3.35%	3.58%	3.62%	3.63%	3.63%
Pre provision ROE	36.7%	36.7%	36.2%	39.0%	39.0%	38.5%	37.7%
ROAA	1.86%	2.08%	2.16%	2.34%	2.37%	2.38%	2.38%
Adj. ROAE	21.8%	22.2%	22.0%	23.8%	23.9%	23.5%	23.1%
Dividend payout ratio	0%	0%	32%	31%	29%	29%	33%
Dividend Yield	0.0%	0.0%	5.8%	5.8%	7.0%	8.7%	11.6%
<b>VALUATIONS</b>							
PER (x)	7.2x	5.6x	5.3x	4.1x	3.3x	2.8x	2.4x
PBR (x)	1.5x	1.2x	1.1x	0.9x	0.8x	0.6x	0.5x

Source: FiinPro, Yuanta Vietnam

VPBank [VPB VN]

20 August 2023

**BUY****TP upside +14%****Close 16 Aug 2023**

Current Price VND 22,400

**12M Target VND 25,540**

Previous Target VND 22,060

% Change +16%

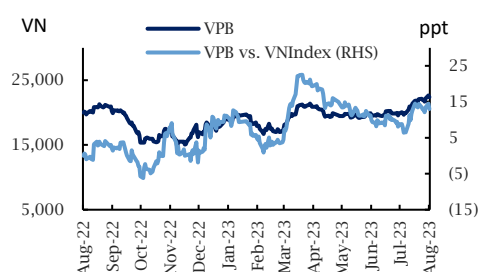
**What's new?**

- ▶ We increased our TP by +16% on lower discount rate and valuation basis roll-forward to 2024E.
- ▶ Our revised credit growth forecast is 26% (+8ppt) and we increase our provisioning by +17% for 2024E.
- ▶ Our revised earnings forecast is down by -4% for 2024E.

**Our view**

- ▶ **Maintain BUY.** Sector-high CAR of 19% (post private placement) should allow for a high credit quota.
- ▶ However, high capital may put pressure on ROE in 2023E-24E.
- ▶ VPB trades at 1.2x 2024E P/B, higher than the sector median of 0.9x.
- ▶ **Risks:** High corporate bond exposure.

**Company profile:** VPB is a solid bank with strong capital and a capable management team. In Apr 2021, VPB sold 49% of FE Credit, its unsecured consumer finance subsidiary, to Sumitomo Mitsui. In 2022, VPB bought 97.4% of VPBank Securities. VPB sold 15% of its charter capital to Sumitomo Mitsui via private placement in 2023. CAR (post private placement) is estimated at ~19%.

**Share price performance relative to VNIndex**

Market cap	US\$6.2 bn
6M avg. daily turnover	US\$15 mn
Outstanding shares	6,743 mn
Free float	70%
FINI ownership	16.6%
Major shareholders	15.8%
2024E Asset/equity (x)	7.2x
2024E P/E (x)	6.8x
2024E P/B (x)	1.2x
FOL remaining room	1.0%
2024E Dividend yield (%)	4.5%

Source: FiinPro, Yuanta Vietnam

Year to Dec	2022A	2023A	2024A	2025A
NIM (%)	7.63%	7.32%	7.49%	7.64%
Fee growth (%)	59%	15%	28%	25%
CIR	26%	27%	25%	25%
PPOP growth (%)	32%	3%	28%	24%
Net income (VND bn)	18,168	16,438	21,711	27,656
ROAA	2.87%	2.11%	2.38%	2.54%
Adj. ROAE	19.1%	15.3%	18.1%	19.9%
PE (x)	8.1	9.0	6.8	5.4
PB (x)	1.5	1.4	1.2	1.1
Div. yield (%)	0.0%	4.5%	4.5%	4.5%

Source: FiinPro, Yuanta Vietnam

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[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)**Bloomberg code: YUTA****VPBank [VPB VN]**[Back to top](#)**Focusing on asset quality**

We increase our 2023E loan growth forecast by +5ppt to 25% YoY and we raise our 2024E forecast by +8ppt to 26% YoY. We believe that VPB's strong solvency capital and its participation in restructuring a troubled bank will result in high credit quotas going forward.

We reduce our NIM forecast to 7.32% (-31 bp YoY) for 2023E, but we expect NIM to improve to 7.49% (+17bp YoY) in 2024E on reduced funding costs.

We now forecast provisioning to increase by +17% in 2024E to reflect rising NPLs due to the impact of the real estate market. Corporate bonds account for a relatively high 5.2% (-90bps QoQ) of VPB's total assets as at 2Q23.

We cut our 2024E PATMI forecast by -4% to VND21.8 tn, which implies solid PATMI growth of +32% next year.

**Yuanta vs. the consensus.** Our earnings forecast is 5% above the consensus for 2024E, which may be attributable to our high credit growth assumption.

**Capital level is perhaps the highest among banks in Vietnam,** after selling 49% of FE Credit in 2021 and 15% of VPB's charter capital in 2023 to Sumitomo Mitsui. The bank expects CAR to increase to about 19% post the private placement to Sumitomo Mitsui Banking Corporation (SMBC), which is set to take place in 2H23.

**We reiterate BUY.** Our new target price implies 2024E P/B of 1.4x and TSR of 19%. VPB trades at 1.2x 2024E P/B, which is higher than the sector median of 0.9x. Strong capital should support business expansion and absorb any potential unexpected credit losses. However, the effectiveness of capital utilization will be a key factor, as the high solvency capital levels may make it difficult to maintain high ROEs in 2023-24E.

**Risks:** Slower-than-expected recovery for FE Credit could mean both higher-than-expected NPLs and lower-than-expected credit growth. Upside risks include stronger asset quality / lower credit cost and a rapid improvement in operating conditions for corporate bond issuers.

## VPB VN\_Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	5.2	12.5	8.1	9.0	6.8	5.4
PEG	0.2	(0.2)	0.1	(0.9)	0.2	0.2
ROAA (%)	2.62%	2.38%	2.87%	2.11%	2.38%	2.54%
ROAE (%)	21.9%	16.9%	19.1%	15.3%	18.1%	19.9%
PBR (x)	1.0	1.9	1.5	1.4	1.2	1.1
Dividend Yield (%)	0.0%	0.0%	0.0%	4.5%	4.5%	4.5%

Source: FiinPro, Yuanta Vietnam

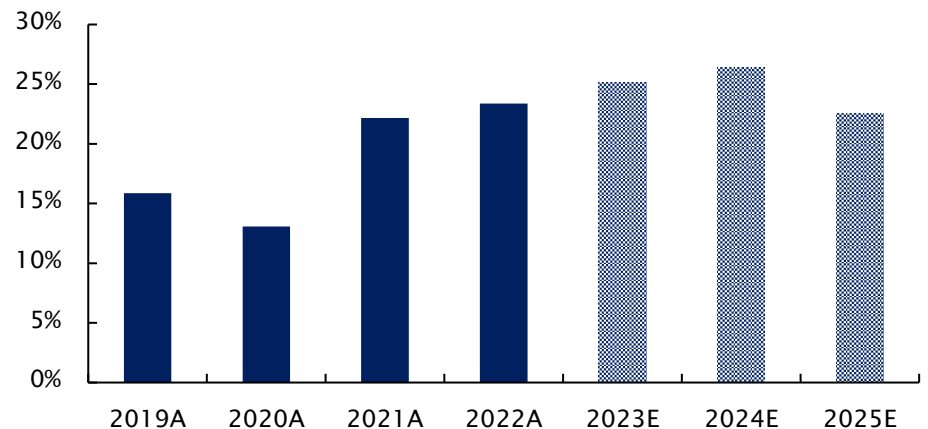
### VPB's 2Q23 results summary [\(link\)](#)

VPB	2Q23	% QoQ	% YoY
NII (VND bn)	8,762	-8%	-16%
Net Fee Income (VND bn)	1,657	-1%	8%
Adj. TOI (VND bn)	10,610	-3%	-11%
Opex (VND bn)	3,679	7%	4%
Provision (VND bn)	6,490	2%	16%
PATMI (VND bn)	3,062	21%	-13%
NPL (Circular 11) (%)	4.98%	-1 bp	+1 ppt
LLR (%)	38%	-8 ppt	-24 ppt
CASA (%)	15.0%	80bps	-4 ppt

Source: FiinPro, Yuanta Vietnam

**We revise our loan growth forecast** for VPB by +5ppt to 25% YoY in 2023E and by +8ppt to 26% YoY in 2024E. We believe that VPB's credit growth will outperform peers given its sector-high capital level (CAR of ~19% post private placement) and its involvement in restructuring a weak bank.

Figure 1: VPB's loan growth



Source: FiinPro, Yuanta Vietnam

*Below is the sensitivity analysis of the impact of loan growth to net income.*

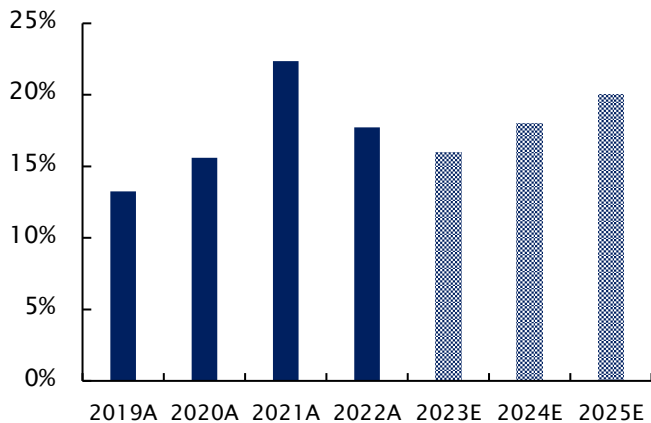
Sensitivity analysis	-3ppt	-2ppt	-1 ppt	Base	+1 ppt	+2ppt	+3ppt
2024E Loan growth	23%	24%	25%	<b>26%</b>	27%	28%	29%
2024E Adj. Net Income	21,583	21,625	21,668	<b>21,711</b>	21,753	21,796	21,838
(+/-) % vs. Base Case	-0.6%	-0.4%	-0.2%		0.2%	0.4%	0.6%

Source: Yuanta Vietnam

**NIM is likely to be constrained for 2023–24E** due to rising funding costs in 1H23 and the slowdown at FE Credit. VPB's CASA ratio has been mostly trending down recently and stood at just 15% (+80bps QoQ/but -4ppt YoY) as at 2Q23.

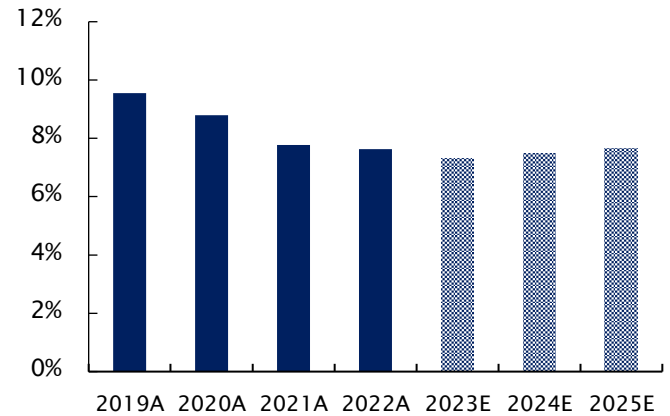
However, low LDR (70.6% versus the SBV's cap of 85.0%) and short-term funding for medium-long term loans ratio (25.9% versus the SBV's cap of 34.0%) should allow VPB some flexibility to sustain NIM.

**Figure 2: VPB's CASA ratios**



Source: FiinPro, Yuanta Vietnam

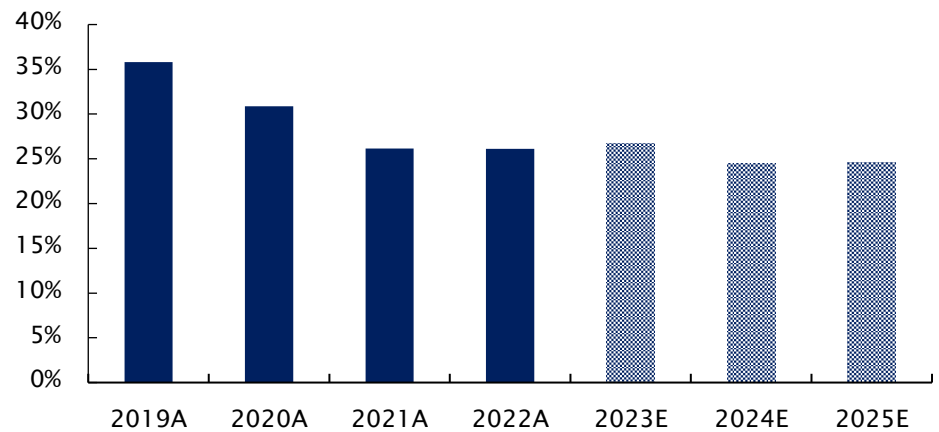
**Figure 3: VPB's NIM**



Source: FiinPro, Yuanta Vietnam

**CIR is among the lowest in the sector**, proving its cost efficiency management. CIR has been on a declining trend since 2019A as illustrated on the figure below. We expect VPB's CIR to continue improve going forward given its digitization. Almost every bank in Vietnam have been focused on digitization, which should help improve cost efficiency overall. However, we think that VPB is ahead of the game, as demonstrated by its low and decreasing CIR over the years.

**Figure 4: VPB's CIR**



Source: FiinPro, Yuanta Vietnam

**Focusing on asset quality.** VPB's LLR coverage was very low at just 38% (-8ppt QoQ/-24 ppt YoY) as at 2Q23. The bank reported its NPL ratio (under Circular 11) at 4.98% (-1bp QoQ/+1.0ppt YoY) in 2Q23.

High NPLs are normal given VPB's large unsecured consumer finance business, which offsets higher credit costs by providing higher NIM, and thus should be profitable through the cycle. The NPL ratio at FE Credit jumped to 28% (+6ppt QoQ/+13ppt YoY) as at 2Q23, in our estimate based on VPB's financial statements of both consolidated and parent bank financial.

The NPL ratio (under Circular 11 as reported by the bank) at the parent bank, which does not consolidate FE Credit, was also high at 2.81% (+15bps QoQ/+84bps YoY). This is among the highest reported NPL ratios in the sector.

Our view is that the bank should increase provisions to weather probable asset quality deterioration, especially amid the troubles of the real estate industry.

**Thus, we increase our 2024E provisioning assumption by +17%** compared to our previous forecast to VND33 tn (+21% YoY) in 2024E. Even if the bank ultimately chooses not to follow this policy, we believe it is prudent to build in increased provisioning assumptions when determining a valuation for VPB.

*Below is the sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(43,484)	(40,139)	(36,794)	<b>(33,449)</b>	(30,104)	(26,759)	(23,414)
2024E Adj. Net Income	13,085	15,960	18,835	<b>21,711</b>	24,586	27,461	30,336
(+/-) % vs. Base Case	-40%	-26%	-13%		13%	26%	40%

Source: Yuanta Vietnam

**Moreover, VPB's exposure to corporate bonds (5.2% of total assets, -90bps QoQ) was the fourth highest in the sector** in 2Q23. However, investors may be comforted to know that VPB's exposure to Novaland (NVL VN) dropped by -71% QoQ. According to NVL's 2Q23 financial statements, VPB's total exposure to NVL was VND2.4 tn (-71% QoQ), representing just 0.3% of VPB's total assets as at 2Q23.

#### **Sensitivities of provisioning/earnings to VPB's exposure to Novaland**

In an extreme worst-case scenario (which we do not think will occur), the loss of 100% of VPB's credit to NVL in 2023E would result in full-year provisioning coming in +9% above our forecast and PATMI coming in -13% below our forecast, with ROE falling from 15.3% in our base case to 13.5%. Such an event would be painful – but not catastrophic – for VPB.

Total exposure to NVL as at 2Q23 (VND bn)	2,383				
Assumption on % default out of total exposure to NVL	20%	40%	60%	80%	100%
<b>Provisioning (base case) (VND bn)</b>	(27,553)	(27,553)	(27,553)	(27,553)	(27,553)
Additional provisioning related to NVL (VND bn)	(477)	(953)	(1,430)	(1,906)	(2,383)
<b>Total provisioning (downside case) (VND bn)</b>	<b>(28,030)</b>	<b>(28,506)</b>	<b>(28,983)</b>	<b>(29,459)</b>	<b>(29,936)</b>

#### **Impact on VPB's earnings**

<b>2023E Net income (base case) (VND bn)</b>	<b>16,438</b>				
2023E Net income (downside case) (VND bn)	16,017	15,596	15,175	14,754	14,333
<i>vs. base case</i>	-3%	-5%	-8%	-10%	-13%

#### **Impact on VPB's ROE**

<b>ROE (base case) (%)</b>	<b>15.3%</b>				
ROE (downside case) (%)	14.9%	14.6%	14.2%	13.9%	13.5%
<i>vs. base case</i>	-40bps	-70bps	-1.1ppt	-1.4ppt	-1.8ppt

Source: Novaland's 2Q23 financial statements, Yuanta Vietnam

#### **VPB's Operating Return on Asset (OROA) Analysis**

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	8.98%	9.55%	8.79%	7.77%	7.63%	7.32%	7.49%	7.64%
Net interest income to adj. TOI	85.2%	88.9%	87.6%	83.8%	75.9%	84.8%	85.2%	85.1%
Cost to income	36.7%	35.8%	30.9%	26.1%	26.1%	26.7%	24.5%	24.6%
PPOP/Assets	6.11%	6.32%	6.41%	6.27%	6.78%	5.85%	6.22%	6.40%
Provisions to Assets	3.74%	3.91%	3.67%	3.98%	3.81%	3.91%	3.94%	3.92%
<b>Operating Return on Assets (OROA)</b>	<b>2.93%</b>	<b>2.98%</b>	<b>3.26%</b>	<b>2.87%</b>	<b>3.62%</b>	<b>2.41%</b>	<b>2.70%</b>	<b>2.85%</b>
Leverage (x)	9.30	8.94	7.94	6.34	6.10	6.95	7.22	7.51
<b>Operating Return on Equity (OROE)</b>	<b>27.3%</b>	<b>26.7%</b>	<b>25.9%</b>	<b>18.2%</b>	<b>22.1%</b>	<b>16.8%</b>	<b>19.5%</b>	<b>21.4%</b>

Source: FiinPro, Yuanta Vietnam

## Valuation

We reduce our discount rate by -1.1 ppt to 15.2%, primarily due to lowered risk-free rate in line with 12-month time deposits at the SOE banks. We also roll forward our valuation basis to 2024E. Thus, our target price increases by +16% to VND25,540, implying 12-month TSR of 19% and 2024E P/BV of 1.4x.

VPB currently trades at 1.2x 2024E P/BV, which is below its mean historical valuation. Notably, VPB has reached an agreement to sell a 15% stake via private placement to strategic investor Sumitomo Mitsui Banking Corporation (SMBC) at a price of VND30,159 per share, which is a 35% premium compared to the current stock price (VND22,400 on Aug 16, 2023).

Figure 5: VPB still trades below its 5-year historical mean valuation

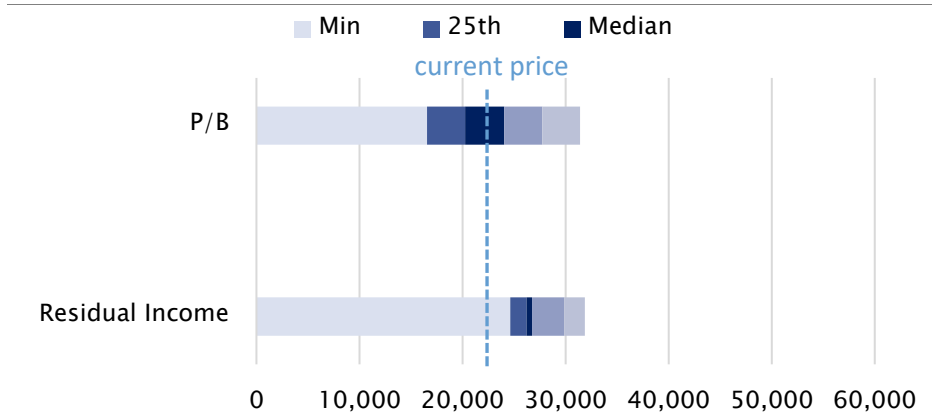


Source: Bloomberg, Yuanta Vietnam

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	26,325	75.0%	19,743
Dividend Discount Model	23,193	25.0%	5,798
<b>Estimated Fair Value</b>			<b>25,542</b>

Source: Yuanta Vietnam

Figure 6: VPB's Valuation Graph



Source: Yuanta Vietnam



**Sensitivity table of Residual Income Approach: ROE vs. Cost of equity**

Terminal Return on Common Equity:	Cost of Equity:							
	13.5%	14.0%	14.5%	15.2%	15.5%	16.0%	16.5%	
16.0%	44,438	39,650	35,543	30,556	28,768	26,089	23,732	
15.5%	42,797	38,208	34,272	29,489	27,774	25,202	22,940	
15.0%	41,165	36,775	33,008	28,428	26,785	24,321	22,152	
14.5%	39,542	35,350	31,751	27,373	25,802	23,445	21,368	
14.0%	37,929	33,933	30,502	<b>26,325</b>	24,825	22,573	20,590	
13.5%	36,325	32,525	29,259	25,282	23,853	21,707	19,815	
13.0%	34,731	31,125	28,025	24,246	22,887	20,846	19,045	
12.5%	33,147	29,733	26,797	23,216	21,927	19,990	18,280	
12.0%	31,571	28,350	25,577	22,192	20,973	19,139	17,520	

Source: Yuanta Vietnam

**Yuanta vs. Consensus**

Net income (VND bn)	2023E	2024E
Consensus mean	14,909	20,654
<b>Yuanta forecast</b>	<b>16,438</b>	<b>21,711</b>
<i>%ge difference</i>	<i>10.3%</i>	<i>5.1%</i>
Consensus high	19,494	27,624
Consensus low	9,120	13,203
EPS (VND)		
Consensus mean	2,059	2,865
<b>Yuanta forecast (adjusted)</b>	<b>2,448</b>	<b>3,220</b>
<i>%ge difference</i>	<i>18.9%</i>	<i>12.4%</i>
Consensus high	2,703	4,096
Consensus low	1,155	1,672

\*We believe that BBG consensus does not factor in employee welfare fund contributions, and stock dividends.

Source: Bloomberg, Yuanta Vietnam

## VPB's Financial Statements

### Balance Sheet

(VND bn)	FY22	FY23	FY24	FY25
Cash	2,658	3,368	4,321	5,381
Loans and Advances to Banks:	47,965	60,766	49,387	61,496
Investment Securities:	90,869	115,119	123,070	153,244
Others:	1,082	1,371	1,759	2,191
<b>Gross Loans:</b>	<b>438,338</b>	<b>548,415</b>	<b>693,367</b>	<b>849,882</b>
(-) Specific Provisions:	(10,442)	(14,006)	(17,601)	(20,805)
(-) General Provisions:	(3,234)	(4,101)	(5,185)	(6,355)
<b>Total provisions:</b>	<b>(13,676)</b>	<b>(18,106)</b>	<b>(22,786)</b>	<b>(27,160)</b>
Net Loans:	424,662	530,309	670,581	822,722
Property, Plant and Equipment (PP&E):	1,219	1,219	1,219	1,219
Intangible Assets:	639	639	639	639
Real estate investment	0	0	0	0
Accrued interests:	7,879	5,121	4,609	4,148
Deferred tax:	567	567	567	567
Other Assets:	43,535	46,389	49,430	52,671
<b>Total Assets:</b>	<b>631,013</b>	<b>777,456</b>	<b>921,734</b>	<b>1,124,388</b>
Deposits:	303,151	384,052	492,775	613,593
Due to SBV: & Banks	142,178	142,178	142,178	142,178
Subordinated Notes:	63,700	63,700	63,700	63,700
Other Liabilities:	18,419	75,635	95,295	155,110
<b>Total Liabilities:</b>	<b>527,511</b>	<b>665,643</b>	<b>794,047</b>	<b>974,702</b>
Share Capital & Share Premium:	67,434	67,736	67,736	67,736
Reserves:	13,535	13,535	13,535	13,535
Treasury Shares	(883)	(581)	(581)	(581)
Retained Earnings:	16,752	25,256	39,033	58,755
Asset Revaluation:	-	-	-	-
FX Effect:	-	-	-	-
Minorities Interest:	6,664	5,866	7,964	10,240
<b>Total Equity</b>	<b>103,502</b>	<b>111,813</b>	<b>127,687</b>	<b>149,685</b>
<b>Total Liabilities &amp; Equity:</b>	<b>631,013</b>	<b>777,456</b>	<b>921,734</b>	<b>1,124,388</b>

### Profit and Loss

(VND bn)	FY22	FY23	FY24	FY25
Total Net Interest Income:	41,021	47,702	59,656	73,890
Net Fee Income	6,438	7,396	9,480	11,863
Other non-IL	6,592	1,137	887	1,082
Total non-IL	13,030	8,533	10,367	12,945
<b>Adj. TOI</b>	<b>54,051</b>	<b>56,234</b>	<b>70,023</b>	<b>86,835</b>
Total expenses	(14,116)	(15,020)	(17,177)	(21,357)
<b>Adj. PPOP</b>	<b>39,935</b>	<b>41,215</b>	<b>52,846</b>	<b>65,478</b>
Gross Provisions:	(22,461)	(27,553)	(33,449)	(40,150)
Net other Incomes:	3,746	4,943	5,860	7,149
Net Provisions:	(18,715)	(22,610)	(27,589)	(33,001)
<b>Pre-Tax Income:</b>	<b>21,220</b>	<b>18,605</b>	<b>25,258</b>	<b>32,477</b>
(-) Income Taxes:	(4,311)	(3,721)	(5,052)	(6,495)
<b>Net Income</b>	<b>16,909</b>	<b>14,884</b>	<b>20,206</b>	<b>25,981</b>
(-) Minorities Interest:	1,259	1,555	1,505	1,675
(-) Others:	-	-	-	-
<b>PATMI</b>	<b>18,168</b>	<b>16,438</b>	<b>21,711</b>	<b>27,656</b>
Adjusted EPS		2,448	3,220	4,101

## VPB's Key Ratios

Financial Ratios	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
<b>GROWTH PROJECTIONS</b>							
Net interest income	6%	19%	16%	25%	24%	24%	22%
Fee Income	21%	59%	15%	28%	25%	22%	21%
Adjusted. Other NII	117%	153%	-83%	-22%	22%	21%	20%
Operating costs	-6%	32%	6%	14%	24%	26%	23%
Provision	31%	17%	23%	21%	20%	18%	17%
Preprovision profit	19%	32%	3%	28%	24%	23%	21%
Adjusted Net profit	13%	55%	-10%	32%	27%	27%	24%
Assets	31%	15%	23%	19%	22%	21%	20%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	91%	92%	93%	94%	95%	95%	96%
Average Returns on Earnings Assets	2.65%	3.38%	2.52%	2.73%	2.86%	2.97%	3.05%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	22%	23%	25%	26%	23%	21%	20%
Net Loans to Interest Earnings Assets	70%	73%	73%	77%	77%	77%	77%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	4%	25%	27%	28%	25%	23%	22%
Deposits to Interest Bearing Liabilities	54%	60%	65%	71%	75%	79%	82%
<b>LIQUIDITY</b>							
LDR	143%	140%	138%	136%	134%	132%	130%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	16,244	25,137	32,921	37,977	45,267	52,755	60,623
NPL ratio	4.57%	5.73%	6.00%	5.48%	5.33%	5.13%	4.93%
General Provisions to Gross loans	0.75%	0.74%	0.75%	0.75%	0.75%	0.75%	0.75%
LLR	61%	54%	55%	60%	60%	60%	60%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	11.50%	11.58%	11.50%	11.04%	11.27%	11.32%	11.37%
Int. rate paid on Average IBL	4.12%	4.43%	4.96%	4.39%	4.62%	4.75%	4.87%
Interest rate spread	7.37%	7.14%	6.54%	6.65%	6.64%	6.57%	6.51%
NIM	7.77%	7.63%	7.32%	7.49%	7.64%	7.74%	7.82%
<b>OTHER INCOME</b>							
Fee income to total income	10%	12%	13%	14%	13.7%	13.5%	13.5%
Other Non Interest income to total Inc	6%	12%	2%	1%	1.2%	1.2%	1.2%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	24%	24%	25%	23%	23%	23%	23%
Adj. Cost to income ratio	26%	26%	27%	25%	25%	25%	25%
<b>CREDIT COSTS</b>							
Provision/Avg. loans	5.95%	5.66%	5.58%	5.39%	5.20%	5.06%	4.93%
<b>PROFITABILITY</b>							
Pre provision ROAA	6.27%	6.78%	5.85%	6.22%	6.40%	6.48%	6.54%
Pre provision ROAE	43.6%	42.1%	38.3%	44.1%	47.2%	49.1%	49.8%
ROAA	2.38%	2.87%	2.11%	2.38%	2.54%	2.68%	2.80%
ROAE	16.9%	19.1%	15.3%	18.1%	19.9%	21.4%	22.3%
Dividend payout ratio	0%	0%	44%	48%	37%	34%	34%
Dividend Yield	0.0%	0.0%	4.5%	4.5%	4.5%	5.5%	6.8%
<b>VALUATIONS</b>							
PER (x)	12.5x	8.1x	9.0x	6.8x	5.4x	4.2x	3.4x
PBR (x)	1.9x	1.5x	1.4x	1.2x	1.1x	0.9x	0.8x

Source: FiinPro, Yuanta Vietnam

Sacombank [STB VN]

20 August 2023

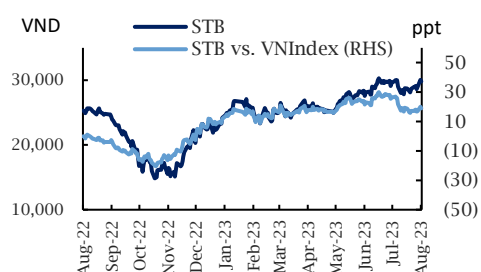
**HOLD-Underperform****TP upside** +2%**Close 16 Aug 2023****Current Price** VND 32,900**12M Target** VND 33,575**Previous Target** VND 28,860**% Change** +16%**What's new?**

- ▶ We increase our TP by +16% after rolling forward our valuation basis year to 2024E.
- ▶ We expect 16% loan growth in 2024.
- ▶ STB should fully provision its legacy assets in 2023E, with zero in 2024E.
- ▶ As such, we forecast to increase by +22% for 2024E.

**Our view**

- ▶ Downgrade to HOLD-Underperform, as STB's valuation is no longer attractive.
- ▶ STB trades at 1.0x 2024E P/B, slightly above the peer median.
- ▶ Restructuring should be done by 2023
- ▶ Risks: the sale of 32.5% of STB's shares that are still held by VAMC.

**Company profile:** STB is Vietnam's 8<sup>th</sup> largest listed bank by assets with 4.7% market share as at 2Q23. It operates a primarily retail and SME focused commercial banking business. A merger with the former Southern Bank in 2015 resulted in substantial asset quality troubles that the new management has worked through over the past several years. At this point, our view is that the restructuring period has come to an end, and management deserves credit for this. However, the key question now is what comes next?

**Share price performance relative to VNIndex**

<b>Market cap</b>	<b>US\$2.5 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$22 mn</b>
<b>Outstanding shares</b>	<b>1,885mn</b>
<b>Free float</b>	<b>67.5%</b>
<b>FINI ownership</b>	<b>24.3%</b>
<b>Major shareholders</b>	<b>5.6%</b>
<b>2024E Asset/equity (x)</b>	<b>14x</b>
<b>2024E P/E (x)</b>	<b>5.5x</b>
<b>2024E P/B (x)</b>	<b>1.0x</b>
<b>FOL remaining room</b>	<b>5.7%</b>
<b>2024E Dividend yield (%)</b>	<b>0.0%</b>

Source: FiinPro, Yuanta Vietnam

Year to Dec	2022A	2023A	2024A	2025A
NIM (%)	3.35%	4.22%	4.12%	4.15%
Fee growth (%)	20%	-28%	18%	23%
CIR	47%	40%	42%	41%
PPOP growth (%)	66%	43%	9%	18%
Net income (VND bn)	5,041	6,653	10,890	14,248
ROAA	0.91%	1.19%	1.68%	1.91%
Adj. ROAE	13.8%	15.8%	21.4%	22.5%
PE (x)	10.8	8.1	5.0	3.8
PB (x)	1.4	1.2	1.0	0.8
Div. yield (%)	0.3%	0.0%	0.0%	0.0%

Source: FiinPro, Yuanta Vietnam

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[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)**Bloomberg code:** YUTA**Sacombank [STB VN]**[Back to top](#)**Valuation is no longer attractive**

We retain our 2024E loan growth forecast of 16% YoY. We expect STB to complete its restructuring in 2024, and STB's loan growth should outperform the sector average thereafter. We increase our net interest income forecast by +36% versus our previous forecast for 2024E as we now assume all capital allocated to legacy assets will be freed up and shifted into interest-earning assets by next year.

We expect the resolution of legacy assets will support NIM in 2023E despite the admittedly high funding costs of 1H23. We expect NIM to reach 4.22% (+87bps YoY) in 2023E and 4.12% (-10bps YoY) in 2024E.

**Restructuring to be complete this year.** We forecast STB to make zero provisioning for VAMC bonds in 2024 as it should fully provision for all legacy assets this year. However, we increase our provisioning by +90% vs. our previous forecast to VND4.9 tn (-48% YoY) in 2024E to weather against rising NPLs. Simply put, our previous estimate for 2024E provisioning was too low.

**We forecast 2024 net income to increase by +64% YoY** to reach VND11tn, primarily driven by net interest income and the YoY decline in provisioning.

**Yuanta vs. the Consensus.** Our earnings forecast is -12% below the consensus mean for 2024E, largely due to our high provisioning assumption.

**Downgrade to HOLD-Underperform** from BUY. This is entirely due to valuation. The turnaround story is coming to an end, but its valuation is not cheap anymore relative to the sector. STB trades at 1.0x 2024E P/B, which is slightly higher than the sector median.

**We believe that STB should trade in line with or just slightly above the sector's median level.** More specifically, we think STB merits a discount to high-quality banks such as ACB and MBB -- even after completing the restructuring -- as the market now seems to suggest. Our new target price implies 2024E P/B of 1.1x and TSR of just 2%, justifying this downgrade.

**Downside risk:** NPLs are now on the rise, and these are not legacy assets. **Upside risks** include higher-than-expected credit growth and the unknown result of the potential sale of the 32.5% stake controlled by the SBV.

## STB VN\_Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	23.0	17.6	10.8	8.1	5.0	3.8
PEG	2.2	0.6	0.2	0.3	0.1	0.1
ROAA (%)	0.57%	0.67%	0.91%	1.19%	1.68%	1.91%
ROAE (%)	8.1%	9.5%	13.8%	15.8%	21.4%	22.5%
PBR (x)	1.8	1.6	1.4	1.2	1.0	0.8
Dividend Yield (%)	0.0%	0.2%	0.3%	0.0%	0.0%	0.0%

Source: FiinPro, Yuanta Vietnam

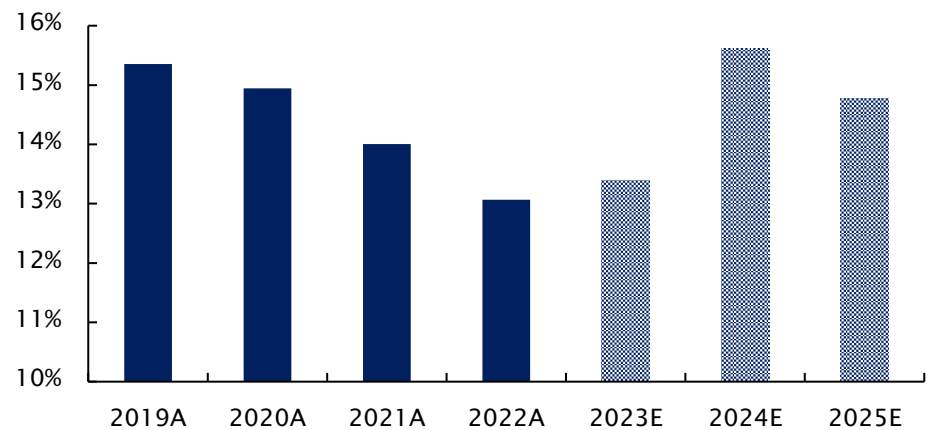
### STB's 2Q23 results summary [\(link\)](#)

STB	2Q23	% QoQ	% YoY
NII (VND bn)	5,751	-1%	121%
Net Fee Income (VND bn)	654	-1%	-62%
Adj. TOI (VND bn)	6,671	-1%	45%
Opex (VND bn)	3,049	-11%	28%
Provision (VND bn)	1,316	31%	-46%
PATMI (VND bn)	1,925	1%	139%
NPL (%)	1.79%	60bps	51bps
LLR (%)	77%	-27ppt	-61ppt
CASA (%)	17.0%	-40bps	-5.6ppt

Source: FiinPro, Yuanta Vietnam

**We maintain our loan growth forecast** for STB at 16% YoY in 2024E as we believe that the bank will complete its restructuring in 2023, and its loan growth should outperform the sector average thereafter.

Figure 1: STB's loan growth



Source: FiinPro, Yuanta Vietnam

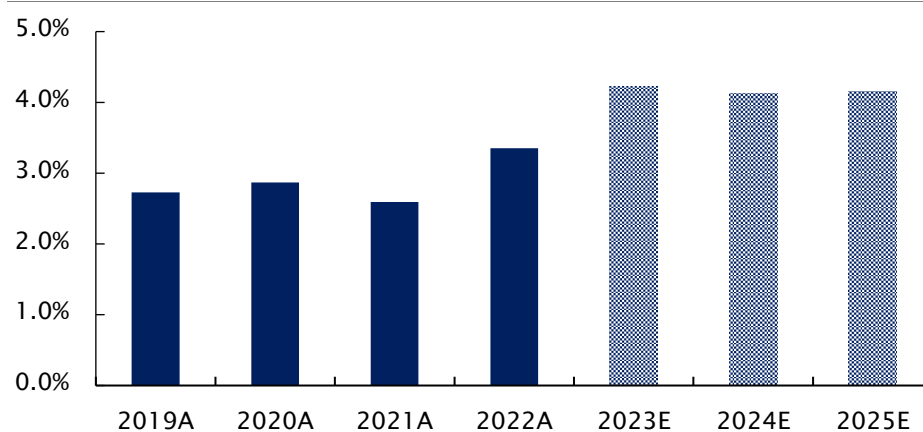
*Below is the sensitivity analysis of the impact of loan growth to net income.*

Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	13%	14%	15%	16%	17%	18%	19%
2024E Adj. Net Income	10,786	10,821	10,856	10,890	10,925	10,960	10,994
(+/-) % vs. Base Case	-1.0%	-0.6%	-0.3%		0.3%	0.6%	1.0%

Source: Yuanta Vietnam

High funding cost in 1H23 will affect NIM for all banks including STB; however, we expect the resolution of STB's remaining legacy assets to support NIM as capital is freed up and shifted into interest-earnings assets. We thus expect NIM to reach 4.22% (+87bps YoY) in 2023E. Our NIM forecast for 2024E is 4.12% (-10bps YoY) in 2024E.

**Figure 2: STB's NIM**



Source: FiinPro, Yuanta Vietnam

**Provisioning.** We assume that STB will continue to build up stronger credit loss provisions as it accelerates its restructuring progress in 2023.

We expect STB to make full provisioning for its remaining VAMC bonds in 2023E. Thus, our model assumes zero provisioning for legacy assets from 2024E onwards, which is reasonable as long as restructured legacy assets do not revert to NPA status.

Although we believe that STB will make zero provisioning for VAMC bonds in 2024, **we still increase our credit cost by +90% versus our previous forecast to VND4.9 tn (-48% YoY) in 2024E** to weather against rising NPLs. This is mostly because we think our previous estimate for provisioning in 2024E was too low considering the current weak economy.

*Below is the sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(6,373)	(5,882)	(5,392)	<b>(4,902)</b>	(4,412)	(3,922)	(3,431)
2024E Adj. Net Income	9,853	10,199	10,545	<b>10,890</b>	11,236	11,581	11,927
(+/-) % vs. Base Case	-10%	-6%	-3%		3%	6%	10%

Source: Yuanta Vietnam

### **Legacy asset restructuring is nearly done.**

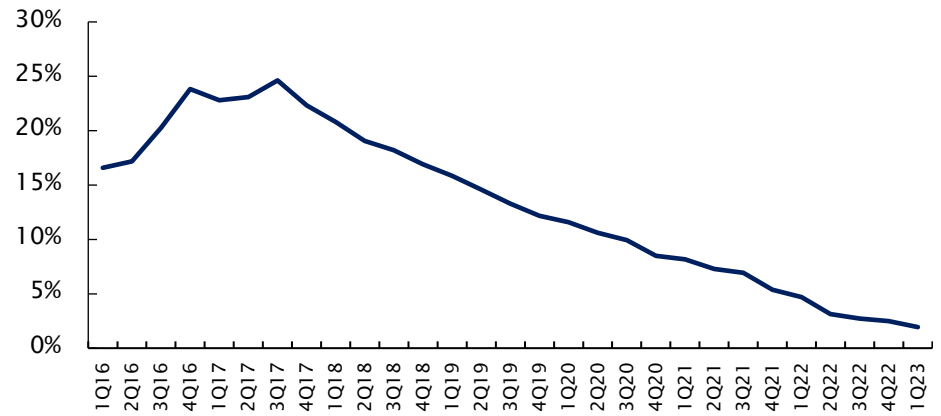
Management deserves plaudits for its successful handling of non-performing assets over the past several years. Total net NPAs (including net NPLs, net VAMC bonds, accrued interests, and receivables) have decreased from a whopping 25% in 3Q17 to just ~2.6% in 2Q23, based on our calculations.

As a result, total net NPAs have fallen from 3.93x the bank's total common equity in 3Q17 to just 0.39x of equity in 2Q23. This trend illustrates management's laudable success in restructuring the legacy bad assets and returning the bank to solvency.

As such, STB has effectively completed the strategy that we discussed in our 2019 initiation on the bank. We believe that report was the first detailed examination of the bank's restructuring plan from the sell side, and it concluded with a then anti-consensus positive BUY recommendation for a bank that was then still just starting to emerge from distress.

The legacy bad debt restructuring process is now basically complete, in our opinion. Both STB's management and the relevant regulators deserve credit for this achievement, especially considering the scale of the bank's post-merger asset quality and solvency problems.

**Figure 3: STB's NPAs/Total Assets**



Source: FiinPro, Yuanta Vietnam

**STB's Operating Return on Asset (OROA) Analysis**

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	2.56%	2.73%	2.87%	2.59%	3.35%	4.22%	4.12%	4.15%
Net interest income to adj. TOI	71.0%	69.5%	71.4%	69.4%	73.3%	83.0%	83.3%	82.5%
Cost to income	72.9%	70.1%	67.5%	56.5%	46.7%	39.9%	41.7%	40.6%
PPOP/Assets	0.75%	0.92%	1.11%	1.48%	2.24%	2.80%	2.63%	2.71%
Provisions to Assets	0.41%	0.50%	0.64%	0.70%	1.60%	1.49%	0.67%	0.46%
<b>Operating Return on Assets (OROA)</b>	<b>0.56%</b>	<b>0.67%</b>	<b>0.67%</b>	<b>0.92%</b>	<b>0.84%</b>	<b>1.57%</b>	<b>2.22%</b>	<b>2.53%</b>
Leverage (x)	16.5	17.0	17.0	15.2	15.3	15.0	14.0	12.8
<b>Operating Return on Equity (OROE)</b>	<b>9.3%</b>	<b>11.4%</b>	<b>11.3%</b>	<b>14.0%</b>	<b>12.9%</b>	<b>23.4%</b>	<b>31.2%</b>	<b>32.5%</b>

Source: FiinPro, Yuanta Vietnam

**Valuation**

STB's valuation is no longer cheap relative to its underlying profitability in our opinion. The stock is now trading at 1.0x 2024 P/B, slightly higher than the sector median, and we fail to see fundamental drivers for outsized upside from here.

More specifically, we don't think that STB should trade at the same valuations as its higher-quality peers such as ACB or MBB. This may be a contrast to the sell-side consensus view on STB. Our new target price implies 2024E P/B of 1.1x and TSR of 2%, and we downgrade to HOLD.

The stock's P/B multiple is higher than its own historical mean, while most other banks in our coverage trade below their mean levels. Thus, we think STB is not highly attractive at the current level compared to the other banks.

**Figure 4: STB's trades at +1std above the mean level**

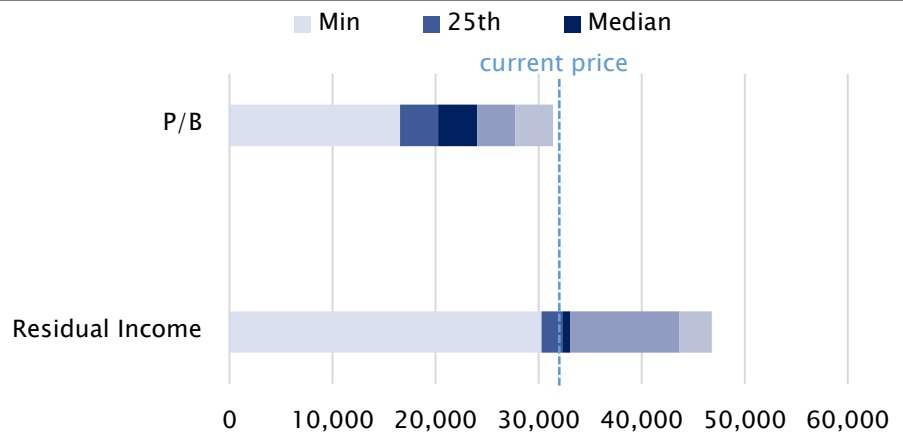


Source: Bloomberg, Yuanta Vietnam

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	33,055	75.0%	24,791
Dividend Discount Model	35,137	25.0%	8,784
<b>Estimated Fair Value</b>			<b>33,575</b>

Source: Yuanta Vietnam

Figure 5: STB's Valuation Graph



Source: Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs. Cost of equity

Terminal Return on Common Equity:		Cost of Equity:						
		12.5%	13.0%	13.5%	15.5%	16.0%	16.5%	17.0%
16.0%		66,936	59,390	52,925	38,236	35,935	32,461	29,378
15.5%		64,516	57,269	51,058	36,932	34,718	31,372	28,402
15.0%		62,105	55,158	49,199	35,634	33,506	30,288	27,429
14.5%		59,705	53,055	47,348	34,342	32,298	29,208	26,461
14.0%		57,315	50,961	45,505	33,055	31,096	28,132	25,496
13.5%		54,935	48,875	43,669	31,773	29,899	27,062	24,536
13.0%		52,565	46,799	41,841	30,496	28,707	25,995	23,579
12.5%		50,205	44,731	40,021	29,225	27,519	24,933	22,627
12.0%		47,856	42,673	38,209	27,960	26,337	23,876	21,678

Source: Yuanta Vietnam

### Yuanta vs. Consensus

Net income (VND bn)	2023E	2024E
Consensus mean	7,839	12,477
<b>Yuanta forecast</b>	<b>6,653</b>	<b>10,890</b>
%ge difference	-15.1%	-12.7%
Consensus high	8,283	14,171
Consensus low	7,342	11,050
EPS (VND)		
Consensus mean	3,746	5,994
<b>Yuanta forecast (adjusted)</b>	<b>3,529</b>	<b>5,777</b>
%ge difference	-5.8%	-3.6%
Consensus high	4,305	6,446
Consensus low	3,231	5,541

\*We believe that BBG consensus does not factor in employee welfare fund contributions, and stock dividends.

Source: Bloomberg, Yuanta Vietnam

## STB's Financial Statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash and Balances at Central Banks:	7,850	8,809	10,152	11,370
Loans and Advances to Banks:	25,294	38,589	44,472	49,809
Investment Securities:	68,801	72,101	83,095	89,773
Others:	301	338	390	436
<b>Gross Loans:</b>	<b>438,628</b>	<b>497,363</b>	<b>575,029</b>	<b>659,949</b>
(-) Specific Provisions:	(3,267)	(2,645)	(4,869)	(5,624)
(-) General Provisions:	(2,363)	(3,730)	(4,313)	(4,950)
<b>Total provisions:</b>	<b>(5,630)</b>	<b>(6,376)</b>	<b>(9,181)</b>	<b>(10,573)</b>
Net Loans:	432,998	490,988	565,848	649,375
Property, Plant and Equipment (PP&E):	4,490	4,490	4,490	4,490
Intangible Assets:	3,058	3,058	3,058	3,058
Real estate investment	0	0	0	0
Accrued interests:	5,079	4,825	3,136	2,823
Deferred tax:	243	243	243	243
Other Assets:	31,509	43,425	59,847	76,495
<b>Total Assets:</b>	<b>591,908</b>	<b>680,652</b>	<b>790,619</b>	<b>905,667</b>
Deposits:	454,740	510,283	588,086	658,656
Due to SBV:& Banks	25,130	38,332	38,332	38,332
Subordinated Notes:	25,820	25,820	25,820	25,820
Other Liabilities:	34,148	60,431	81,654	111,826
<b>Total Liabilities:</b>	<b>553,281</b>	<b>635,202</b>	<b>734,279</b>	<b>835,079</b>
Share Capital & Share Premium:	20,602	20,602	20,602	20,602
Reserves + FX diff.:	4,223	4,223	4,223	4,223
Treasury Shares	-	-	-	-
Retained Earnings:	13,972	20,625	31,515	45,763
Asset Revaluation:	-	-	-	-
FX Effect:	(169)	-	-	-
Minorities Interest	-	-	-	-
<b>Total Equity</b>	<b>38,627</b>	<b>45,450</b>	<b>56,340</b>	<b>70,588</b>
<b>Total Liabilities &amp; Equity:</b>	<b>591,908</b>	<b>680,652</b>	<b>790,619</b>	<b>905,667</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Total Net Interest Income:	17,147	24,639	27,658	31,902
Net Fee Income:	<b>5,194</b>	<b>3,764</b>	<b>4,457</b>	<b>5,486</b>
Other non-ll	1,055	1,290	1,103	1,264
Total non-ll	6,249	5,054	5,560	6,749
<b>Adj. TOI</b>	<b>23,396</b>	<b>29,693</b>	<b>33,217</b>	<b>38,651</b>
Total expenses	(10,921)	(11,858)	(13,841)	(15,693)
<b>Adj. PPOP</b>	<b>12,475</b>	<b>17,835</b>	<b>19,377</b>	<b>22,958</b>
Gross provisions	(8,882)	(9,480)	(4,902)	(3,868)
Net other incomes	2,745	1,081	971	1,118
Net Provisions:	(6,136)	(8,399)	(3,931)	(2,750)
<b>Pre-Tax Income:</b>	<b>6,339</b>	<b>9,436</b>	<b>15,445</b>	<b>20,208</b>
(-) Income taxes:	(1,298)	(1,887)	(3,089)	(4,042)
<b>Net Income</b>	<b>5,041</b>	<b>7,549</b>	<b>12,356</b>	<b>16,166</b>
Minority Interest	-	-	-	-
Bonus & Welfare	-	(896)	(1,466)	(1,918)
<b>PATMI</b>	<b>5,041</b>	<b>6,653</b>	<b>10,890</b>	<b>14,248</b>
Adjusted EPS		3,529	5,777	7,558

Source: FiinPro, Yuanta Vietnam

### STB's Key Ratios

Financial Ratios	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E
<b>GROWTH PROJECTIONS</b>							
Net interest income	4%	4.3%	4.4%	1.2%	1.5%	1.5%	1.4%
Fee Income	16%	20%	-2.8%	1.8%	2.3%	2.2%	2.0%
Adjusted. Other NII	7%	1.2%	2.2%	-1.4%	1.5%	1.5%	1.4%
Operating costs	-1.1%	1.2%	9%	1.7%	1.3%	1.2%	1.2%
Provision	1.7%	1.50%	7%	-4.8%	-2.1%	-4%	1.1%
Preprovision profit	4.3%	6.6%	4.3%	9%	1.8%	1.9%	1.7%
Adjusted Net profit	3.4%	6.8%	3.2%	6.4%	3.1%	2.3%	1.8%
Assets	6%	1.4%	1.5%	1.6%	1.5%	1.5%	1.4%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	92%	92%	91%	91%	90%	89%	88%
Average Returns on Earnings Assets	0.65%	0.98%	1.14%	1.62%	1.85%	2.00%	2.08%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	1.4%	1.3%	1.3%	1.6%	1.5%	1.4%	1.3%
Net Loans to Interest Earnings Assets	80%	79%	79%	79%	79%	80%	80%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	0%	6%	1.2%	1.5%	1.2%	1.2%	1.2%
Deposits to Interest Bearing Liabilities	88%	82%	80%	80%	79%	78%	77%
<b>LIQUIDITY</b>							
LDR	89%	95%	96%	96%	99%	100%	102%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	5,832	4,299	6,016	7,590	8,461	9,112	9,713
NPL ratio	1.50%	0.98%	1.21%	1.32%	1.28%	1.21%	1.14%
General Provisions to Gross loans	1.04%	0.54%	0.75%	0.75%	0.75%	0.75%	0.75%
LLR	1.19%	1.31%	1.06%	1.21%	1.25%	1.25%	1.25%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	6.44%	7.30%	8.98%	8.30%	8.49%	8.68%	8.86%
Int. rate paid on Average IBL	3.73%	3.89%	4.68%	4.09%	4.25%	4.38%	4.52%
Interest rate spread	2.71%	3.41%	4.30%	4.21%	4.24%	4.30%	4.34%
NIM	2.59%	3.35%	4.22%	4.12%	4.15%	4.20%	4.22%
<b>OTHER INCOME</b>							
Fee income to total income	25%	22%	1.3%	1.3%	14.2%	14.9%	15.6%
Other Non Interest income to total Ir	5%	5%	4%	3%	3.3%	3.2%	3.2%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	55%	42%	39%	40%	39%	38%	37%
Adj. Cost to income ratio	57%	47%	40%	42%	41%	39%	38%
<b>CREDIT COSTS</b>							
Provision/Avg. loans	0.98%	2.15%	2.03%	0.91%	0.63%	0.53%	0.51%
<b>PROFITABILITY</b>							
Pre provision ROAA	1.5%	2.2%	2.8%	2.6%	2.7%	2.8%	2.9%
Pre provision ROAE	23.72%	34.23%	42.43%	38.07%	36.17%	34.33%	32.39%
ROAA	0.7%	0.9%	1.2%	1.7%	1.9%	2.0%	2.1%
ROAE	10%	14%	16%	21%	22%	22%	21%
Dividend payout ratio			0.0%	0.0%	0.0%	0.0%	0.0%
<b>VALUATIONS</b>							
PER (x)	17.6x	10.8x	8.1x	5.0x	3.8x	3.1x	2.6x
PBR (x)	1.6x	1.4x	1.2x	1.0x	0.8x	0.6x	0.5x

Source: FiinPro, Yuanta Vietnam



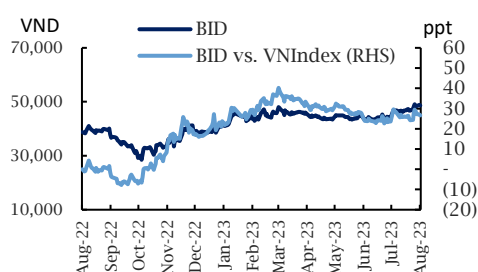
**HOLD-Underperform****TP upside** -9%**Close 16 Aug 2023****Current Price** VND 47,500**12M Target** VND 42,780**Previous Target** VND 38,860**% Change** +10%**What's new?**

- ▶ We increase our TP by +10% as we roll forward our valuation basis to 2024E.
- ▶ We forecast credit growth to reach 14% (+1ppt YoY) in 2024E.
- ▶ We raise our 2024E earnings forecast by +6% to VND22 tn implying +20% YoY growth.

**Our view**

- ▶ HOLD-Underperform.
- ▶ Valuation is unattractive at 1.7x 2024E P/B vs the sector median 0.9x despite lower 2024E ROE of 17% vs the sector median of 20%.
- ▶ SOE banks are not all the same. BID is not VCB, and it shouldn't trade at a substantial premium to the sector.

**Company profile:** BID is Vietnam's largest bank by assets. Its leading retail and SME banking franchise is supported by a broad network of 190 branches and 895 transaction offices across the nation. As of 2Q23, retail loans account for 43% of total loans, followed by corporate (35%) and SMEs (22%).

**Share price performance relative to VNIndex****BIDV [BID VN]**[Back to top](#)**Low earnings quality. Valuation fails to impress**

We kept our 2023E loan growth forecast at 13% YoY, but we increase slightly by +1ppt for 2024E. A potential capital raising would bolster credit growth in 2024E and beyond. BID plans to sell a ~9% stake (pre-money) to foreign investors, which we think to happen in 2024E.

We forecast NIM to decrease slightly by -4bps to 2.88% in 2023E given the high funding costs of 1H23. However, we think funding costs should decrease given SBV's easing monetary policy and CASA recovery. Thus, we forecast NIM to increase by +12bps to 3.00% in 2024E.

BID cut provisioning costs by -30% YoY to boost earnings in 1H23, but we still factor in a 9% YoY increase in provisioning in 2023E due to rising NPLs. We forecast provisioning costs to reach VND26 tn (+9% YoY) in 2023E and VND29 tn (+10% YoY) in 2024E.

**Yuanta vs. the consensus.** Our earnings forecast is -17% below the consensus for 2024E, probably due to our above-consensus provisioning assumption.

**BID's earnings in 2022 and 1H23 relied largely on low provisioning,** which we view as a weak-quality earnings driver. Despite BID's high LLR ratio of 153%, the cuts in provisioning are questionable given its relatively high NPL ratio of 1.59% and Category 2 loans ratio of 2.17%. We believe that BID's potential for expansion is limited unless it successfully secures additional capital to bolster its balance sheet.

**Maintain HOLD-Underperform.** The stock is overvalued by our estimates. BID trades at 1.7x 2024E P/B, which is far higher than the sector median of 0.9x. This valuation premium is not merited given 2024E ROE of 17%, which is lower than the sector median ROE of 20%.

**Some observers try to justify BID's valuation premium** by its admittedly vast scale and funding advantages as a major SOE bank. However, we don't think BID deserves a VCB-like premium given its weaker asset quality and CASA franchise. Our new TP implies 2024E P/B of 1.6x and 12-month TSR of -7%, and we maintain our HOLD-Underperform recommendation.

**Downside risks:** higher-than-expected NPLs and lower credit growth. **Upside risks:** Successful sale of another 9% stake (pre-money) to foreign investors and lower-than-expected provisioning.

<b>Market cap</b>	<b>US\$10.2 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$2.2 mn</b>
<b>Outstanding shares</b>	<b>5,059 mn</b>
<b>Free float</b>	<b>4%</b>
<b>FINI ownership</b>	<b>17.1%</b>
<b>Major shareholders</b>	<b>96.3%</b>
<b>2024 Asset/Equity</b>	<b>18x</b>
<b>2024E P/E (*)</b>	<b>10.7x</b>
<b>2024E P/B (*)</b>	<b>1.7x</b>
<b>FOL Remaining Room</b>	<b>12.9%</b>
<b>2024 Dividend yield (*)</b>	<b>2.1%</b>

Source: FiinPro, Yuanta Vietnam

Year to Dec	2022A	2023A	2024A	2025A
NIM (%)	2.92%	2.88%	3.00%	3.02%
Fee growth (%)	-15%	10%	19%	20%
CIR (%)	35%	33%	33%	32%
PPOP growth (%)	16%	13%	16%	16%
Net income (VND bn)	15,807	18,485	22,115	26,263
ROAA (%)	0.95%	0.98%	1.07%	1.11%
Adj. ROAE (%)	16.6%	16.3%	16.7%	17.3%
PE (x)	14.9	12.8	10.7	9.0
PB (x)	2.3	1.9	1.7	1.4
Div. yield (%)	0.1%	0.0%	2.1%	2.1%

Source: FiinPro, Yuanta Vietnam

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## BID VN Company Update

### Valuations

Valuation Ratios	2020A	2021A	2022A	2023E	2024E	2025E
PER (x)	40.6	27.0	14.9	12.8	10.7	9.0
PEG	(1.8)	0.5	0.2	0.8	0.5	0.5
ROAA (%)	0.48%	0.66%	0.95%	0.98%	1.07%	1.11%
ROAE (%)	7.4%	10.5%	16.6%	16.3%	16.7%	17.3%
PBR (x)	2.4	2.2	2.3	1.9	1.7	1.4
Dividend Yield (%)	1.1%	0.6%	0.1%	0.0%	2.1%	2.1%

Source: FiinPro, Yuanta Vietnam

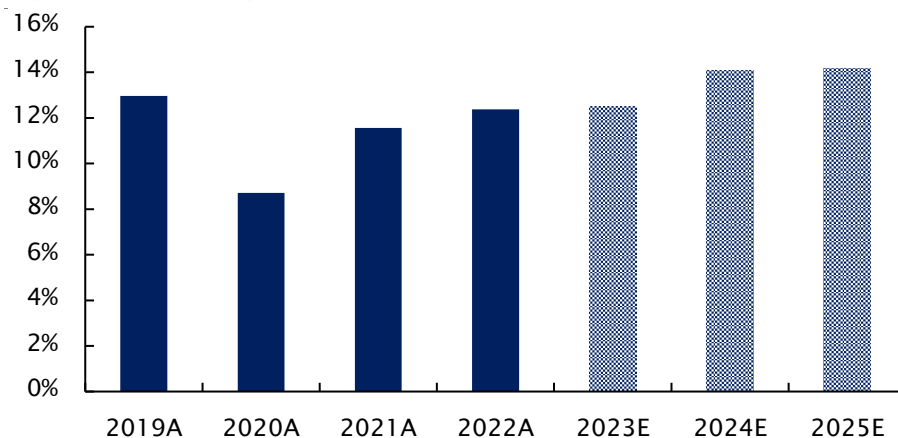
### BID's 2Q23 results summary [\(link\)](#)

BID	2Q23	% QoQ	% YoY
NII (VND bn)	13,807	-1%	-5%
Net Fee Income (VND bn)	1,671	10%	11%
Adj. TOI (VND bn)	16,470	1%	-2%
Opex (VND bn)	6,370	32%	23%
Provision (VND bn)	4,192	-24%	-35%
PATMI (VND bn)	5,426	-1%	5%
NPL (%)	1.59%	5bps	57bps
LLR (%)	153%	-19ppt	-110ppt
CASA (%)	17.0%	80bps	-2.8ppt

Source: FiinPro, Yuanta Vietnam

**We maintain our loan growth forecast** for BID at 13% YoY in 2023E and increase our assumption by +1 ppt to 14% for 2024E. The potential sale of a 9% stake to foreign investors via private placement would help bolster credit growth in 2024E and beyond.

Figure 1: BID's loan growth



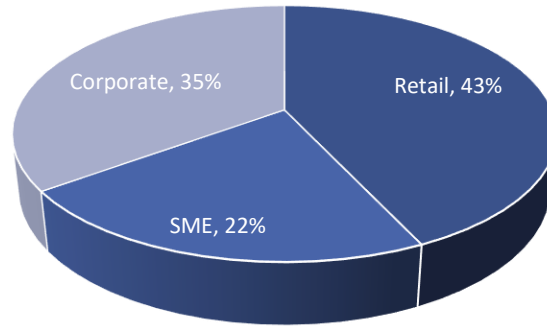
Source: FiinPro, Yuanta Vietnam

*Below is our sensitivity analysis of the impact of loan growth to net income.*

Sensitivity analysis	-3ppt	-2ppt	-1ppt	Base	+1ppt	+2ppt	+3ppt
2024E Loan growth	11%	12%	13%	14%	15%	16%	17%
2024E Adj. Net Income	21,941	21,999	22,057	22,115	22,174	22,232	22,290
(+/-) % vs. Base Case	-0.8%	-0.5%	-0.3%		0.3%	0.5%	0.8%

Source: Yuanta Vietnam

Figure 2: BID's loan breakdown by segment in 2Q23

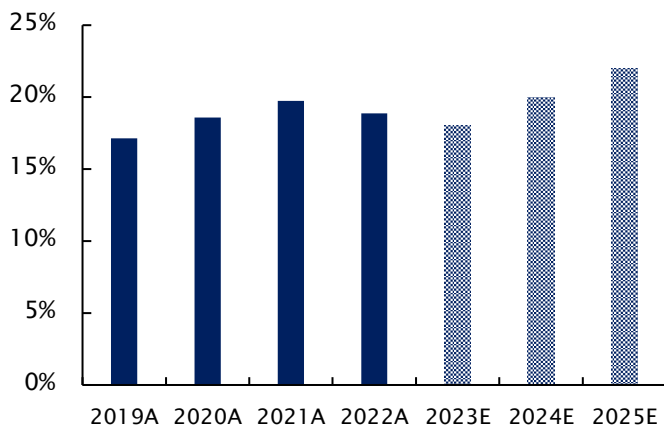


Source: Company Data

**We forecast NIM to decrease slightly by -4bps to 2.88% in 2023E** given increased funding costs in 1H23, while state-owned banks like BID will follow SBV's direction to cut lending rates to support borrowers and the economy.

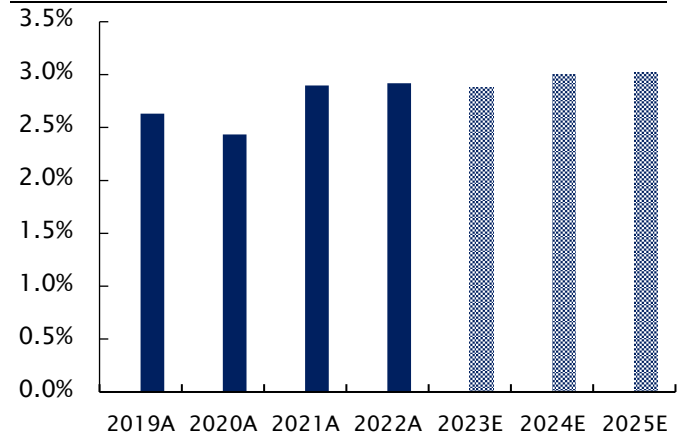
However, we think funding costs will decrease in 2H23 and 2024E given SBV's easing monetary policy and CASA recovery. BID's CASA ratio of 17% is relatively low compared to its peers such as VCB of 30% as at 2Q23. We forecast BID's NIM to increase by +12bps to 3.00% in 2024E.

Figure 3: BID's CASA ratios



Source: FiinPro, Yuanta Vietnam

Figure 4: BID's NIM



Source: FiinPro, Yuanta Vietnam

**We increase provisioning** by + 9% YoY to VND26 tn for 2023E and by +10% YoY to VND29 tn in 2024E due to rising NPLs.

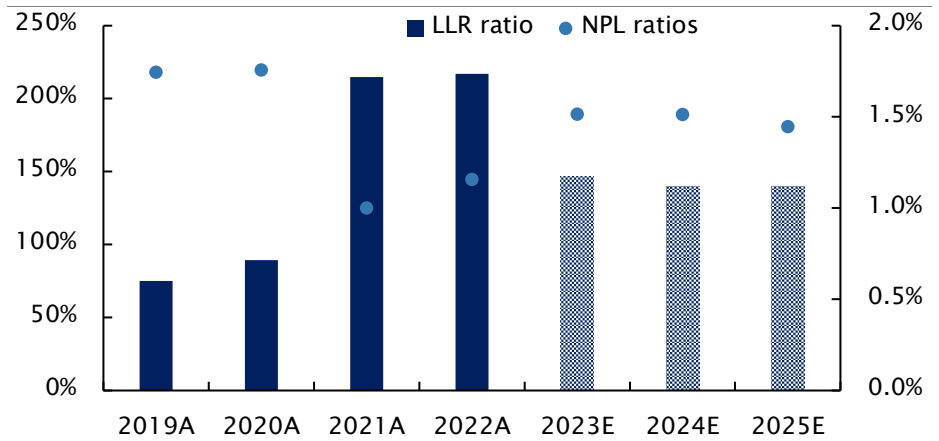
**BID's NPL ratio rose to 1.59% (+5bps QoQ/+57bps YoY)** in 2Q23, while its loan loss reserve (LLR) ratio decreased to 153% (-19ppt QoQ/-110ppt YoY). Notably, its Category 2 (special mention) loan ratio was 2.17% (-15bps QoQ/ but +1 ppt YoY) in 2Q23.

*Below is our sensitivity analysis of the impact of provisioning to net income.*

Sensitivity analysis	-30%	-20%	-10%	Base	+10%	+20%	+30%
2024E Provisioning	(37,525)	(34,638)	(31,752)	<b>(28,865)</b>	(25,979)	(23,092)	(20,206)
2024E Adj. Net Income	16,170	18,152	20,134	<b>22,115</b>	24,097	26,079	28,060
(+/-) % vs. Base Case	-27%	-18%	-9%		9%	18%	27%

Source: Yuanta Vietnam

**Figure 5: BID's NPL and LLR ratios**



Source: FiinPro, Yuanta Vietnam

**BID's Operating Return on Asset (OROA) Analysis**

Year	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
NIM	2.83%	2.63%	2.43%	2.90%	2.92%	2.88%	3.00%	3.02%
Net interest income to adj. TOI	85.9%	84.1%	79.6%	83.1%	85.8%	86.5%	86.3%	86.0%
Cost to income	39.6%	40.4%	39.4%	34.6%	34.5%	33.3%	32.7%	32.2%
PPOP/Assets	1.94%	1.82%	1.81%	2.25%	2.21%	2.20%	2.32%	2.36%
Provisions to Assets	1.50%	1.44%	1.55%	1.80%	1.24%	1.19%	1.19%	1.16%
<b>Operating Return on Assets (OROA)</b>	<b>0.49%</b>	<b>0.43%</b>	<b>0.30%</b>	<b>0.48%</b>	<b>0.99%</b>	<b>1.03%</b>	<b>1.15%</b>	<b>1.22%</b>
Leverage (x)	24.0	19.2	19.0	20.4	20.4	18.4	18.2	17.9
<b>Operating Return on Equity (OROE)</b>	<b>11.8%</b>	<b>8.2%</b>	<b>5.8%</b>	<b>9.8%</b>	<b>20.2%</b>	<b>18.9%</b>	<b>20.9%</b>	<b>21.9%</b>

Source: FiinPro, Yuanta Vietnam

**Valuation**

BID trades at 1.7x 2024E P/B, which is higher than the sector's median of 0.9x. But its profitability is lower than that of the sector median: our 2024E ROE forecast of 17% for BID is well below the sector median 20% (the latter is based on Bloomberg consensus).

**BID's earnings were largely dependent on reduced provisioning in 2022 and 1H23**, an earnings driver that we consider to be of questionable quality. Despite BID's high LLR ratio of 153%, reduced provisioning to boost earnings causes concern due to rising NPLs attributed to the sluggish economy in 2023.

Specifically, the bank's NPL ratio rose to 1.59% (+5bps QoQ/+57bps YoY), while its loan loss reserve (LLR) ratio decreased to 153% (-19ppt QoQ/-110ppt YoY) in 2Q23. Moreover, Category 2 loans were high at 2.17% (-15bps QoQ/ but +1ppt YoY) in 2Q23

We believe that BID's potential for expansion is limited unless it successfully secures additional capital to bolster its Capital Adequacy Ratio (CAR). As a result, BID's current valuation fails to impress us.

**Some observers argue that BID merits a premium over the sector** given its vast scale of assets and networks and funding advantage from being a major state-owned bank. We do not necessarily disagree with this assessment, but we do not think that BID deserves a premium as high as VCB's. This cautious view on BID's valuation in comparison to VCB's is reasonable given its lower asset quality and weaker funding franchise.

**Our new target price implies 2024E P/B of 1.6x and TSR of -7%**, and we maintain our HOLD-Underperform recommendation. This is not meant as a closeted "sell" recommendation - we just see better value in the higher quality JSC banks.

Figure 6: BID now trades slightly above the historical mean

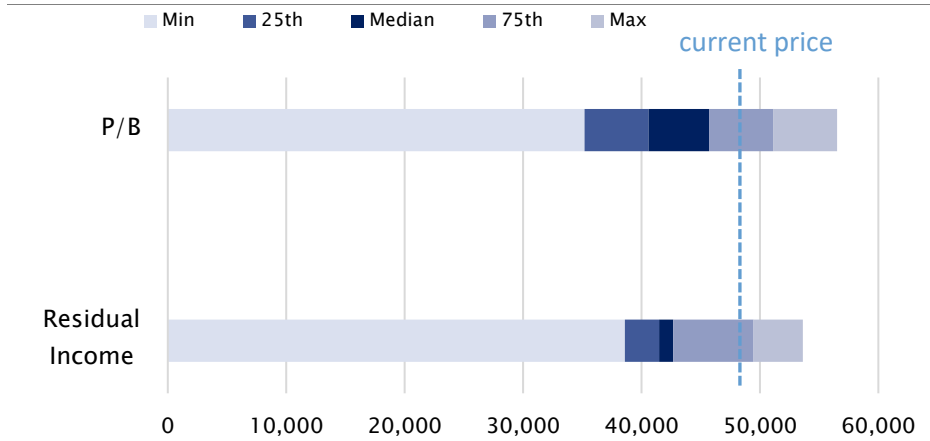


Source: Bloomberg, Yuanta Vietnam

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	41,945	75.0%	31,459
Dividend Discount Model	45,310	25.0%	11,327
<b>Estimated Fair Value</b>			<b>42,786</b>

Source: Yuanta Vietnam

Figure 7: BID's Valuation Graph



Source: Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs. Cost of equity

Terminal Return on Common Equity:	Cost of Equity:						
	13.0%	13.5%	14.0%	14.8%	15.1%	15.6%	16.1%
16.0%	77,219	67,353	59,194	48,781	45,528	40,733	36,594
15.5%	74,334	64,876	57,053	47,061	43,939	39,333	35,357
15.0%	71,461	62,410	54,920	45,349	42,356	37,940	34,125
14.5%	68,601	59,955	52,797	43,643	40,780	36,553	32,899
14.0%	65,752	57,510	50,682	41,945	39,210	35,171	31,677
13.5%	62,916	55,075	48,576	40,254	37,647	33,795	30,461
13.0%	60,092	52,651	46,480	38,571	36,091	32,425	29,250
12.5%	57,280	50,237	44,392	36,894	34,542	31,061	28,044
12.0%	54,481	47,834	42,314	35,225	32,999	29,703	26,844

Source: Yuanta Vietnam

## Yuanta vs. Consensus

Net income (VND bn)	2023E	2024E
Consensus mean	21,898	26,492
<b>Yuanta forecast</b>	<b>18,485</b>	<b>22,115</b>
<i>%ge difference</i>	<i>-15.6%</i>	<i>-16.5%</i>
Consensus high	23,100	28,800
Consensus low	20,994	24,711
EPS (VND)		
Consensus mean	3,570	4,799
<b>Yuanta forecast (adjusted)</b>	<b>3,654</b>	<b>4,372</b>
<i>%ge difference</i>	<i>2.4%</i>	<i>-8.9%</i>
Consensus high	4,562	5,694
Consensus low	2,794	3,908

\*We believe that BBG consensus does not factor in employee welfare fund contributions, and stock dividends.

Source: Bloomberg, Yuanta Vietnam

## BID's Financial Statements

### Balance Sheet

(VND bn)	2022A	2023E	2024E	2025E
Cash & Balances at SBV	125,164	139,835	158,126	178,969
Loans to banks	221,178	174,593	197,431	223,454
Investment securities	237,338	221,722	250,725	283,774
Invest. Associates	4,016	4,487	5,074	5,743
<b>Gross Loans:</b>	<b>1,522,222</b>	<b>1,712,537</b>	<b>1,953,430</b>	<b>2,230,282</b>
(-) Specific Provisions:	(26,904)	(25,363)	(26,817)	(28,506)
(-) General Provisions:	(11,322)	(12,767)	(14,562)	(16,626)
<b>Total provisions:</b>	<b>(38,226)</b>	<b>(38,130)</b>	<b>(41,380)</b>	<b>(45,132)</b>
<b>Net Loans:</b>	<b>1,483,996</b>	<b>1,674,407</b>	<b>1,912,050</b>	<b>2,185,150</b>
Fixed Tangible asset:	6,098	6,132	6,167	6,202
Intangible Assets:	4,436	4,436	4,436	4,436
Real estate investment	0	0	0	0
Accrued interests:	13,016	13,016	13,016	13,016
Deferred tax:	36	36	36	36
Other Assets:	25,332	25,332	25,332	25,332
<b>Total Assets:</b>	<b>2,120,609</b>	<b>2,263,997</b>	<b>2,572,394</b>	<b>2,926,112</b>
Deposits:	1,473,598	1,646,328	1,861,680	2,107,070
Due to SBV:	152,753	171,851	196,024	223,806
Due to Banks:	177,221	199,378	227,424	259,656
Subordinated notes	157,052	157,052	157,052	157,052
Other Liabilities:	55,796	(33,769)	(10,873)	15,240
<b>Total Liabilities:</b>	<b>2,016,419</b>	<b>2,140,839</b>	<b>2,431,307</b>	<b>2,762,823</b>
Capital & Premium:	66,204	66,204	66,204	66,204
Reserves:	12,448	12,448	12,448	12,448
Treasury Shares	-	-	-	-
Retained Earnings:	21,576	40,061	57,117	78,321
Minorities Interest:	4,722	4,445	5,318	6,315
Asset Revaluation:	-	-	-	-
FX Effect:	(760)	-	-	-
<b>Total Equity:</b>	<b>104,190</b>	<b>123,158</b>	<b>141,087</b>	<b>163,289</b>
<b>Total Liabilities &amp; Equity:</b>	<b>2,120,609</b>	<b>2,263,997</b>	<b>2,572,394</b>	<b>2,926,112</b>

### Profit and Loss

(VND bn)	2022A	2023E	2024E	2025E
Net Interest income	56,070	62,435	71,778	82,301
Net Fee Income	5,648	6,189	7,381	8,841
Other Non-IT	3,654	3,566	4,052	4,609
Total Non-IT	9,302	9,755	11,432	13,450
<b>TOI</b>	<b>65,372</b>	<b>72,189</b>	<b>83,210</b>	<b>95,751</b>
Total expenses	(22,557)	(24,014)	(27,197)	(30,831)
<b>PPOP:</b>	<b>42,815</b>	<b>48,176</b>	<b>56,013</b>	<b>64,919</b>
Gross Provisions:	(24,015)	(26,162)	(28,865)	(31,841)
NPL Recoveries:	4,210	4,911	5,065	5,176
Net Provisions:	(19,805)	(21,251)	(23,800)	(26,665)
<b>Pre-Tax Income:</b>	<b>23,009</b>	<b>26,924</b>	<b>32,213</b>	<b>38,255</b>
(-) Income Tax:	(4,589)	(5,385)	(6,443)	(7,651)
<b>Net Income</b>	<b>18,420</b>	<b>21,540</b>	<b>25,770</b>	<b>30,604</b>
(-) Minority Interest	(262)	(306)	(366)	(434)
(-) Others	(2,351)	(2,749)	(3,289)	(3,906)
<b>Adj. Net Income</b>	<b>15,807</b>	<b>18,485</b>	<b>22,115</b>	<b>26,263</b>
Adjusted Diluted EPS		3,654	4,372	5,192

## BID's Key Ratios

Financial Ratios	FY21	FY22	FY23	FY24	FY25	FY26	FY27
<b>GROWTH PROJECTIONS</b>							
Net interest income	31%	20%	11%	15%	15%	14%	13%
Fee Income	26%	-1.5%	10%	19%	20%	19%	18%
Other NII	-26%	2.7%	-2%	14%	14%	13%	12%
Operating costs	10%	1.6%	6%	13%	13%	13%	12%
Gross Provision	26%	-1.9%	9%	10%	10%	9%	8%
Preprovision profit	35%	1.6%	13%	16%	16%	15%	14%
Adjusted Net profit	50%	8.1%	17%	20%	19%	19%	17%
Assets	16%	2.0%	7%	14%	14%	13%	12%
<b>ASSET ANALYSIS</b>							
Earning assets to total assets	99%	99%	99%	99%	99%	99%	99%
Average Returns on Earnings Assets	0.54%	0.82%	0.85%	0.92%	0.96%	1.01%	1.05%
<b>LOAN ANALYSIS</b>							
Loan growth (% YoY)	12%	12%	13%	14%	14%	13%	13%
Net Loans to Interest Earnings Assets	76%	71%	75%	75%	75%	76%	76%
<b>DEPOSIT ANALYSIS</b>							
Deposit growth (YoY %)	13%	7%	12%	13%	13%	12%	12%
Deposits to Interest Bearing Liabilities	82%	73%	77%	77%	76%	76%	76%
<b>LIQUIDITY</b>							
Pure LDR	96%	101%	102%	103%	104%	105%	106%
<b>ASSET QUALITY</b>							
NPL (Category 3-5)	13,546	17,622	25,953	29,574	32,256	34,976	37,574
NPL ratio	1.00%	1.16%	1.52%	1.51%	1.45%	1.38%	1.32%
General Provisions to Gross loans	0.75%	0.74%	0.75%	0.75%	0.75%	0.75%	0.75%
Loan loss coverage ratio	215%	217%	147%	140%	140%	140%	140%
<b>SPREAD ANALYSIS</b>							
Int. rate received on Average IEA	6.25%	6.30%	6.05%	5.97%	6.10%	6.23%	6.37%
Int. rate paid on Average IBL	3.48%	3.52%	3.30%	3.11%	3.23%	3.36%	3.50%
Interest rate spread	2.77%	2.78%	2.75%	2.86%	2.87%	2.87%	2.87%
NIM	2.90%	2.92%	2.88%	3.00%	3.02%	3.04%	3.05%
<b>OTHER INCOME</b>							
Fee income to total income	12%	9%	9%	9%	9.2%	9.6%	10.0%
Other Non Interest income to total Income	5%	6%	5%	5%	4.8%	4.7%	4.7%
<b>OPERATING EFFICIENCY</b>							
Cost to income ratio	31%	32%	31%	31%	31%	30%	30%
Adj. Cost to income ratio	35%	35%	33%	33%	32%	32%	31%
<b>CREDIT COSTS</b>							
Provision/avg. loans	2.30%	1.67%	1.62%	1.57%	1.52%	1.46%	1.41%
<b>PROFITABILITY</b>							
Pre provision ROA	2.25%	2.21%	2.20%	2.32%	2.36%	2.41%	2.45%
Pre provision ROE	44.4%	44.9%	42.4%	42.4%	42.7%	42.4%	41.6%
Adj. ROAA	0.66%	0.95%	0.98%	1.07%	1.11%	1.16%	1.21%
Adj. ROAE	10.5%	16.6%	16.3%	16.7%	17.3%	17.6%	17.7%
Dividend payout ratio	23%	3%	0%	27%	23%	19%	19%
Dividend Yield	0.6%	0.1%	0.0%	2.1%	2.1%	2.1%	2.6%
<b>VALUATIONS</b>							
PER (x)	27.0x	14.9x	12.8x	10.7x	9.0x	7.6x	6.5x
PBR (x)	2.2x	2.3x	1.9x	1.7x	1.4x	1.2x	1.1x

Source: FiinPro, Yuanta Vietnam

# Appendix A: Important Disclosures

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