

Sacombank (HSX: STB)

Unclear growing potential due to delayed restructure accomplishment

- We anticipate that STB will achieve the full year's plan in FY2024.
- NPL and group 2 ratios at the end of 2024 are expected to remain similar to 3Q2024, slightly down compared to last year.
- We recommend **HOLD** for STB with 12-month target price of **33,400 VND/share**.

Net profit in 9M2024 is in line with the full year's plan

Total operating income was VND 21,267 bn in 9M2024 (+9.3% YoY) thanks to substained recovery of NII by 12.1% while Noll slightly decreased by 6.3% YoY. NIM in 9M2024 was 3.8%, equivalent YoY. Credit growth by the end of 3Q2024 was 8.9% YTD, little higher than the banking system (7.78% YTD) but relatively lower than the average of listed banks (11.2% YTD). Provision expense reached VND 2,342 bn (-25.5% YoY) and CIR stayed at 23.7% which resulted net profit reaching VND 6,489 bn (+18.9% YoY).

In the last quarter of 2024, we expect that provision expenses will be similar to 3Q2024 along with NIM little down to 3.6-3.7% getting net profit for FY2024 to VND 8.5 tn, +9.6% YoY, completing 100% plan. For FY2025, we expect net profit to grow by 11.4% assuming remained NIM and credit growth whereas higher Noll will be offset with higher provision expenses.

Provisioning pressure is surged in 2025

NPL and group 2 debt ratios were 2.47% and 0.72% by the end of 3Q2024, slightly up QoQ and by the end of FY2023 which were 2.28% and 0.73% respectively. We forecast that NPL by the end of 2024 will be flat versus end of 3Q2024 due to remaining provisions the same pace as 9M2024 combined with higher credit growth. However, we anticipate that surging NPL pressure in 2025 will be maintained high encouraging STB to accelerate provisioning for restructuring accomplishment and dragging down NPL to under 2%.

Recommend HOLD with target price of 33,400 VND/share

We recommend HOLD for STB with the 12-month target price of 33,400VND/shares based on (i) CAGR for next 5 years will reach 17.4%, little down compared to last 5 years (ii) less provisioning burden thanks to ending provision for VAMC bonds. However, we revise down P/B to 1.1x, lower than current P/B to reflect unclear growing potential due to delayed restructuring.

Figure 1: Financial metrics (Unit: VND bn)

Unit: VND bn, %	31/12/23	31/12/24	31/12/25	31/12/26
Total operating income	26,173	28,305	31,577	35,800
Net interest income	22,072	23,965	26,376	29,835
NIM	3.8%	3.7%	3.7%	3.7%
Provision expenses	3,688	3,516	3,942	3,505
Net profit	7,719	8,458	9,420	12,016
Growth (%)	53.1%	9.6%	11.4%	27.6%
Credit growth (%)	10.0%	13.7%	14.9%	14.9%
Funds growth (%)	13.5%	9.4%	11.4%	14.4%
ROAE	4,094	4,486	4,997	6,374
P/B	1.3x	1.1x	1.0x	0.8x

Source: STB, MBS Research

HOLD

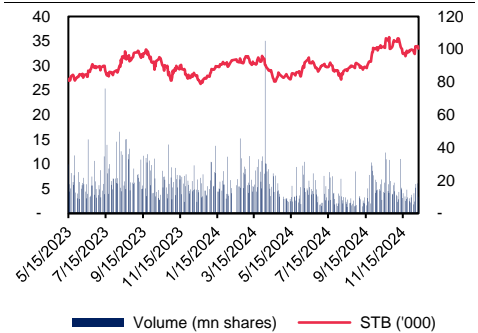
Target price 33,400 VND/share

Upside 0%

Key changes in the report

N/A

Information



Source: FiinProX, MBS Research

Market price (VND)	33,500
Highest in 52w (VND)	35,800
Lowest in 52w (VND)	26,300
Market cap (VND bn)	63,154
P/E (TTM)	7.0x
P/B (TTM)	1.2x
Dividend yield (%)	0%
Foreign ownership ratio (%)	23.34%

Source: FiinproX, VSD

Ownership Structure (30/06/2024)

PYN Elite Fund	5.21%
Mr. Duong Cong Minh	3.32%
CTBC Vietnam Equity Fund	2.28%
Norges Bank	1.34%
DC Developing Markets Strategies Public Limited Company	0.70%

Source: FiinProX, MBS Research

Analyst



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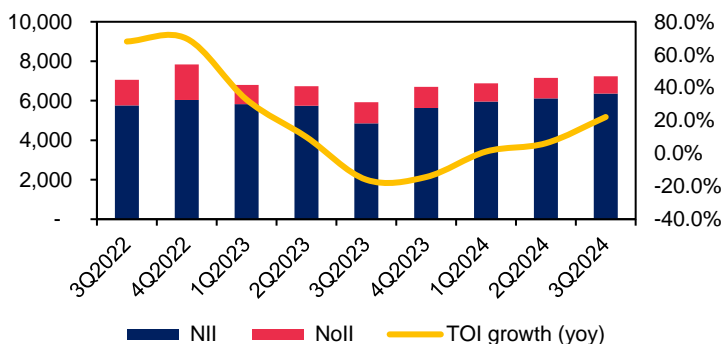
Earnings growth in 9M2024 was in line with our expectation

Figure 2: 3Q2024 and 9M2024 business performance update (Unit: VND bn, %)

Unit: VND bn, %	3Q2024	% yoy	9M2024	% yoy	% last forecast	Comment
Total operating income	7,238	22.1%	21,267	9.3%	79.8%	
Net interest income	6,365	31.2%	18,433	12.1%	83.3%	Credit growth was higher than the previous year thanks to high
Non-interest income	873	-18.9%	2,835	-6.3%	62.8%	
Provision expenses	1,199	45.0%	2,342	-25.5%	85.3%	Accelerated provisioning in the 3Q2024 by 45.0% due to slow improvement of asset quality. However, provision expenses in 9M2024 decreased yoy due to high base last year.
Net profit	2,201	34.7%	6,489	18.9%	76.8%	Net profit was in line with our expectation and FY2024's plan.
NIM	3.7%	47 bps	3.8%	-2 bps		
CIR	45.4%	-545 bps	50.9%	223 bps		CIR was still much higher than the avg of sector and peers such as MBB, TCB, ACB,...
ROE	18.4%	54 bps				
Credit growth (YTD)	8.9%	123 bps				Credit growth was lower than the average of listed banks at the end of 3Q2024 (11.2% YTD).
Funds growth (YTD)	9.7%	-131 bps				
CASA	17.4%	40 bps				
NPL	2.5%	27 bps				Asset quality has been down seriously since 4Q2022 following the deceleration of provisioning.
LLR	75.0%	1083 bps				

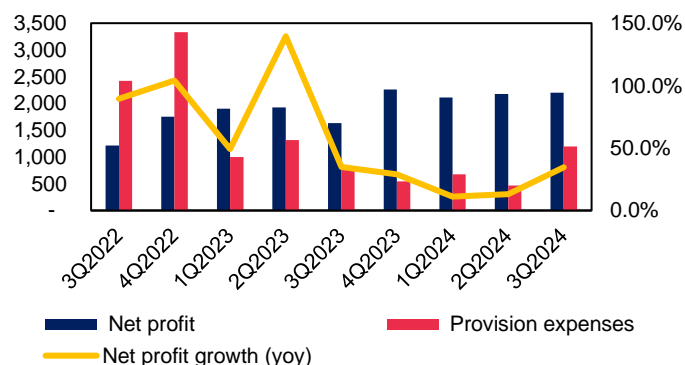
Source: STB, MBS Research.

Figure 3: Quarterly business performance of STB (VND bn, %)



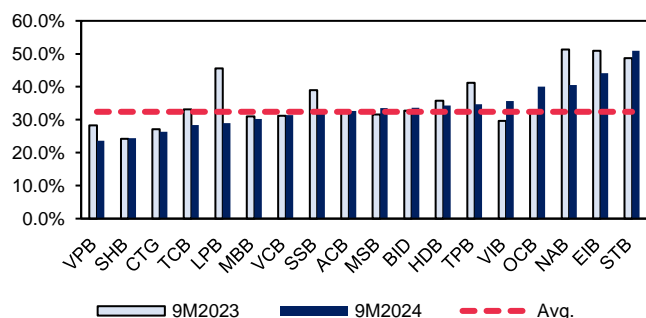
Source: STB, MBS Research

Figure 4: Net profit and provision expenses by quarter (% , VND bn)



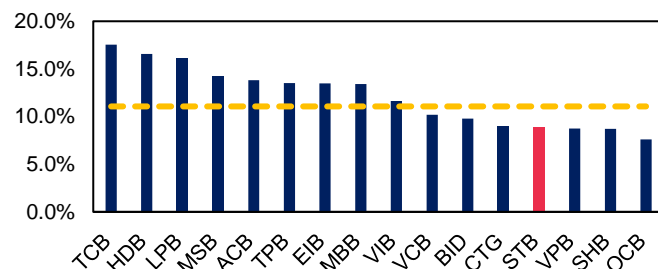
Source: STB, MBS Research

Figure 5: CIR of listed banks in 9M2024 (%)



Source: STB, MBS Research

Figure 6: Credit growth of listed bank end of 3Q2024 (YTD, %)



Source: STB, MBS Research

Limited growth in 2025 caused by delayed restructure complete

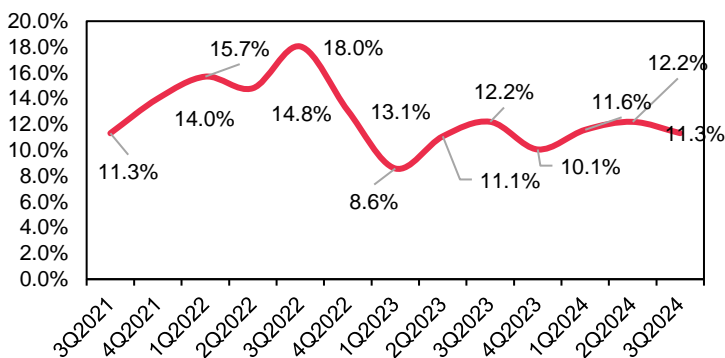
Credit growth in 2024 and 2025 are expected to be controlled under 15% due to uncertainty of successful auction of shares owned by VAMC

By the end of 3Q2024, STB's credit grew by 8.9% YTD, little higher than the banking system (7.78% YTD) but relatively lower than the average of listed banks (11.2% YTD). This was equivalent to 63.6% credit quota provided.

STB has successfully auctioned debts related to Phong Phu IP which was estimated to value VND 7,900 bn. 20% of total value was paid in 1Q2024 whereas the remaining value will be paid in the next 2 year by 40% each year. This is the big step in restructuring progress of STB lasting since 2015. Assuming that STB can successfully auction 32.5% of shares owned by VAMC in 2025, it can get much higher credit quota.

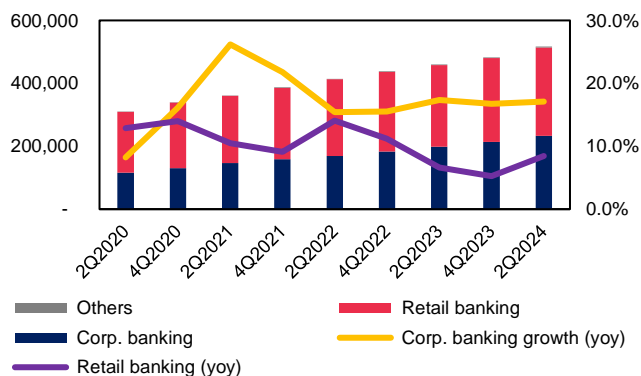
In 2024, we still believe that STB can use fully its credit quota by 14% thanks to faster recovery of credit demand in the last quarter. However, based on the current situation, we anticipate that in 2025, STB will only be provided the same credit quota as in 2024 due to uncertainty of successful auction of shares owned by VAMC (final step to accomplish successfully restructure). Similar to the tendency of banking sector, credit growth of STB will still be lead by corp. banking concentrating on constructions and manufacturings while demand of retail banking is still doubtedly recovered.

Figure 7: Quarterly credit growth of STB (YoY, %)



Source: STB, MBS Research

Figure 8: Credit growth by customers YoY (VND and %)



Source: STB, MBS Research

NIM in 2025 will be maintained at 3.7%, similar to FY2024

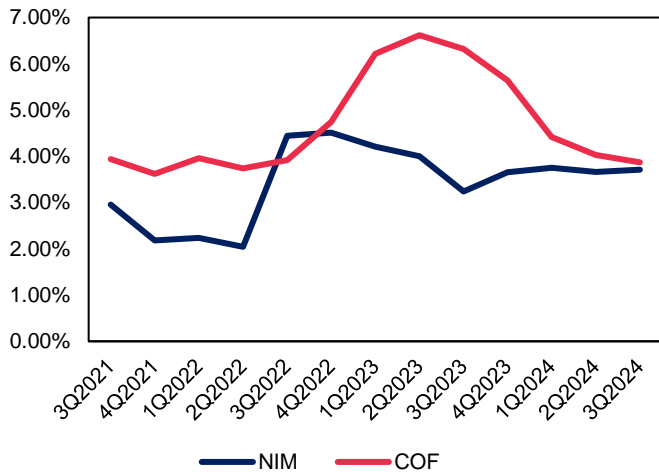
STB recorded NIM of 3.7% in 3Q2024, -5 bps QoQ and +47 bps YoY. In 9M2024, NIM remained at 3.8%, flat YoY. From 3Q2022 to the end of FY2023, net interest income growing was supported by accelerated collecting receivables during the progress of restructuring that majorly resulted in NIM uptrend. Year to date, our estimates showed that NIM was maintained at 3.7% thanks to COF getting the same pace of decreasing as asset yield.

We assess that NIM is less likely to reach the same level as in FY2023 due to being without supported by receivables collecting, but it is still much higher than it was before 2023 being around of 2.8-3.0%. Besides, we anticipate that deposit interest rates will trend slightly upward in 4Q2024 following the sector movement. Meanwhile, average lending rate is more likely to seriously get down due to low credit growth in 9M2024 to use full credit quota. Consequently, we believe NIM

of STB in the last quarter this year will decrease compared to the previous quarter reaching around 3.6-3.7%. It implies that NIM in 2024 will effortly be at 3.7%, -7 bps YoY assuming

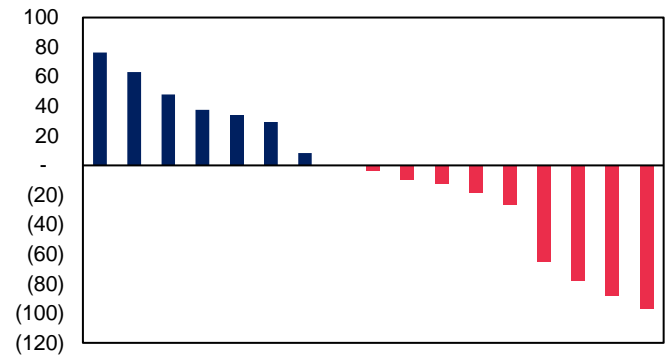
In 2025, we assume that faster retail lending growth combined with strengthening corp banking partly offsetting the rising of COF resulted by higher deposit rates. Hence, we expect that NIM of STB might stay at 3.7% next year.

Figure 9: NIM and COF of STB (%)



Source: STB, MBS Research

Figure 10: NIM change of listed banks in 9M2024 (bps)



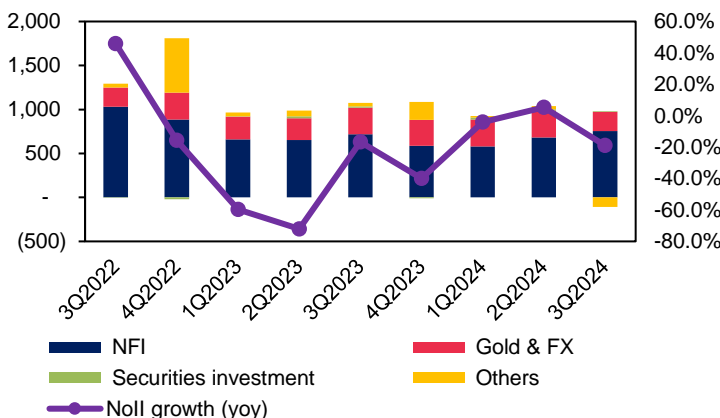
Source: Listed banks, MBS Research

Challenged NFI growing due to limited alternative drivers

Noll of STB in 9M2024 was VND 2,835 bn, -6.3% YoY compared to very low base last year. We assess that the crisis of bancassurance business caused by low demand and law restrictions for the whole banking sector will negatively impact the NFI of STB in upcoming quarters, at least 6-12 months as our estimates. Besides, payment fee income has still slowly recovered due to weak retail banking demand that will be another headwind of Noll of STB in 2025.

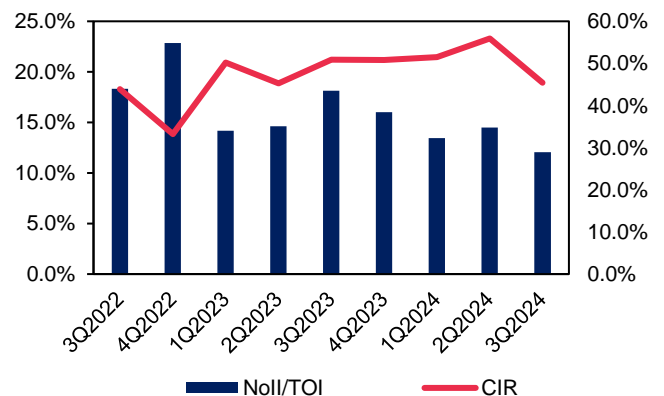
For long term, we anticipate that non-life insurance fee and cross-sale products based on comprehensive eco system are most likely to be the main drivers of Noll of listed banks. In our opinions, STB does not have much advantages in terms of digitalization to compete with peers such as MBB, TCB, ACB,... proven by much higher CIR.

Figure 11: Noll's structure by quarter (VND bn)



Source: STB, MBS Research

Figure 12: % Noll in TOI's structure by quarter (VND bn)



Source: STB, MBS Research

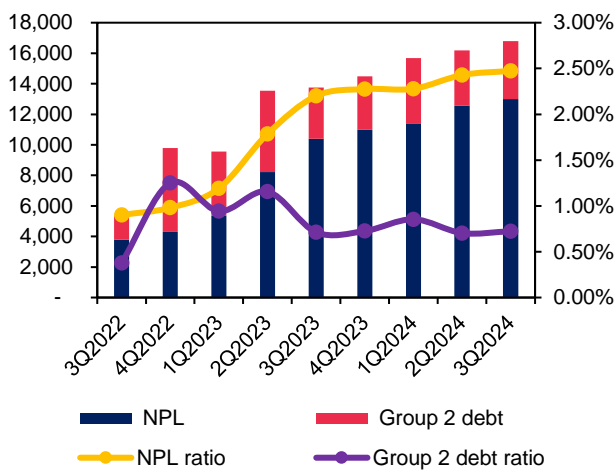
Upward pressure of provisioning in FY2025

Since 1Q2023, asset quality has been continuously down. NPL and group 2 debt ratios were 2.47% and 0.72% by the end of 3Q2024, slightly up compared to last quarter and by the end of FY2023 which were 2.28% and 0.73% respectively.

In 3Q2024, STB recorded provisioning expenses of VND 1,199 bn, +45.0% YoY and +157.6% QoQ due to low base last quarter. Cumulatively, for 9M2024, provisioning expenses amounted to VND 2,342 bn, -25.5% YoY. The provision/total credit ratio in 9M2024 was 0.45%, approximate doubling YoY (0.24% in 9M2023). Using provision ratio was relatively low reaching 7.8% in 9M2024 (9M2023: 9.4%) leading LLR at the end of 3Q2024 to improve to 75.0%.

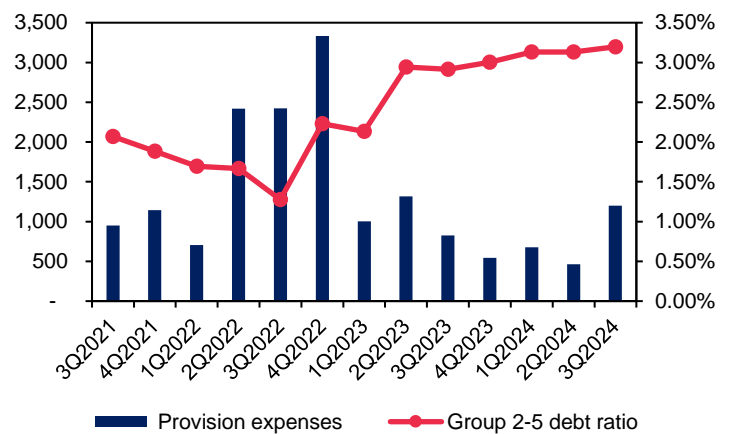
We forecast that NPL by the end of 2024 will be flat versus end of 3Q2024 due to remaining provisions the same pace as 9M2024 combined with higher credit growth. However, we anticipate that surging NPL pressure in 2025 will be maintained high encouraging STB to accelerate provisioning for restructuring accomplishment and dragging down NPL to under 2%.

Figure 13: Asset quality of STB by quarter (%)



Source: STB, MBS Research

Figure 14: Provision expenses and group 2-5 debt (% , VND bn)



Source: STB, MBS Research

Business performance forecast

Figure 15: Business results forecast of 2024-2025

Unit: VND bn, %	2023	2024F	% yoy	2025F	% yoy	Comment
Total operating income	28,305	31,577	11.6%	35,800	13.4%	
Net interest income	23,965	26,376	10.1%	29,835	13.1%	Persistent downward NIM pressure and limited credit growth are not likely to accelerate net interest income in 2025 faster than in 2024.
Non-interest income	4,340	5,200	19.8%	5,965	14.7%	
Provision expenses	3,688	3,516	-4.7%	3,942	12.1%	Remained strengthen provisioning is essential to drag NPL ratio under 2% target.
Net profit	8,458	9,420	11.4%	12,016	27.6%	
NIM	3.8%	3.7%	-7 bps	3.7%	-1 bps	
CIR	49.2%	50.0%	75 bps	50.0%	0 bps	Still much higher than peers and than avg of the sector.
ROE	18.3%	17.0%	-131 bps	16.1%	-85 bps	
Credit growth	10.0%	13.7%	372 bps	14.9%	115 bps	
Funds growth	13.5%	9.4%	-410 bps	11.4%	194 bps	
CASA	18.3%	17.0%	-135 bps	16.7%	-25 bps	
NPL	2.3%	2.4%	17 bps	2.2%	-22 bps	The main cause of NPL surging is expected from retail banking.
LLR	68.8%	70.4%	153 bps	76.5%	610 bps	

Source: STB, MBS Research

Investment Thesis

We recommend **HOLD** for STB with the 12-month target price of **33,400VND/shares** based on:

- Despite earnings growth in the next 2 years is expected to slow down slightly compared to the last 2 years, CAGR for next 5 years will still reach 17.4%.
- Growing potential is currently restricted by delayed restructure progress, but it might pump up in long-term when things are done.
- Less provisioning burden thanks to ending provision for VAMC bonds.

Summary of Assumptions in the Valuation Method

We value STB's stock using a combination of 2 valuation methods: Residual income (RI) and P/B

- P/B: We use a targeted P/B ratio of 1.1x to apply for STB's avg BVPS by 25%/75% in 2024-2025. This P/B is relatively low compared to current P/B and also lower than comparable commercial banks such as ACB, MBB, TCB....to reflect challenges regarding to growing restrictions.
- Regarding residual income method, the proportion of book value in the valuation component is 75.7% implying the sustainable effort of restructuring accumulated for years.

Investment risk

- Mortgage lending is challenged by low recovery of real estate market, especially the primary market. This may slower retail lending of banking sector.
- Still no signs of asset quality improvements.

Valuation

Figure 16: Valuation summary of residual income valuation method

Assumptions	2024	2025	2026	2027	2028
Risk free rate	3.3%	3.3%	3.3%	3.3%	3.3%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%
Beta	1.36	1.36	1.36	1.36	1.36
Cost of equity	15.5%	15.5%	15.5%	15.5%	15.5%
Long-term growth rate	3.0%	0.03	0.03	0.03	0.03
<i>(in VND bn, otherwise noted)</i>					
RI	730	360	1,359	2,372	2,158
PV of Residual income	632	312	1,177	2,054	1,868
Opening shareholder's equity	45,734				
PV of RI (5 years)	6,042				
PV of terminal value	8,630				
Implied EV	60,407				
No. of outstanding shares (mn shares)	1,885				
Implied value per share (VND/share)	32,050				

Source: MBS Research

Figure 17: Peers comparison (closing price at 10/12/2024)

	Mkt price (VND/share)	Mkt cap (VND bn)	P/E		P/B		ROE		ROA	
			TTM	2024	TTM	2024	TTM	2024	TTM	2024
BID	46,750	270,201	11.5x	10.6x	2.0x	1.8x	18.5%	18.3%	1.0%	1.0%
VCB	94,500	517,550	15.0x	15.2x	2.7x	2.6x	19.4%	15.9%	1.9%	1.0%
CTG	36,350	188,218	8.7x	8.7x	1.3x	1.3x	16.3%	20.8%	1.0%	1.8%
MBB	24,250	129,740	6.0x	6.2x	1.2x	1.1x	21.6%	22.0%	2.2%	2.4%
VPB	19,250	156,298	11.8x	10.5x	1.1x	1.1x	9.7%	22.0%	1.6%	2.4%
TCB	24,050	165,206	7.3x	7.0x	1.2x	1.1x	16.5%	14.9%	2.5%	2.4%
ACB	25,350	110,550	6.8x	6.1x	1.4x	1.4x	21.7%	22.6%	2.2%	2.4%
STB	33,500	65,700	7.5x	7.4x	1.3x	1.1x	18.0%	18.5%	1.3%	1.3%
HDB	23,350	75,872	5.8x	6.2x	1.5x	1.4x	26.8%	18.5%	2.1%	1.9%
LPB	34,050	82,867	8.4x	10.5x	2.0x	2.1x	25.9%	18.5%	2.3%	1.9%
VIB	19,300	55,114	7.6x	6.4x	1.4x	1.2x	18.6%	18.5%	1.7%	1.9%
OCB	11,200	26,384	8.6x	4.7x	0.9x	0.7x	10.3%	27.8%	1.3%	2.7%
TPB	16,350	43,724	9.0x	6.7x	1.2x	1.0x	14.0%	22.7%	1.3%	1.7%
Avg. (excluding SOE banks)		91,145	7.9x	7.2x	1.3x	1.2x	18.3%	20.6%	1.8%	2.1%
<i>Avg.</i>		<i>145,186</i>	<i>8.8x</i>	<i>8.2x</i>	<i>1.5x</i>	<i>1.4x</i>	<i>18.3%</i>	<i>20.1%</i>	<i>1.7%</i>	<i>1.9%</i>

Source: Fiinpro, MBS Research

Figure 18: Valuation summary

Valuation methods	Forecast price	%	Contribution
RI	32,050	50%	16,025
P/B (Target P/B = 1.1x)	34,600	50%	17,300
Target price			33,400

Source: MBS Research

FINANCIAL STATEMENTS

Income Statement (VND billion)	2023A	2024F	2025F	2026F	Key ratio	2023A	2024F	2025F	2026F
Net interest income	22,072	23,965	26,376	29,835	Growth				
Net income from services	2,618	3,026	3,894	4,833	Asset growth	13.9%	6.4%	11.8%	13.8%
Net income from gold and forex	1,100	1,108	1,077	878	Loan & Investments growth	9.6%	14.1%	12.9%	14.3%
Gain/(loss) from trading securities	-	-	-	-	Customers deposit	12.3%	11.2%	14.7%	13.7%
Gain/(loss) from investment securities	34	37	44	49	Valuable certificates	12.3%	-5.3%	14.9%	14.9%
Other net income	327	169	186	205	PBT growth	51.4%	10.9%	11.4%	27.6%
TOTAL OPERATING INCOME	26,173	28,305	31,577	35,800					
OPERATING EXPENSES	12,890	14,152	15,788	17,184	Capital Adequacy				
Profit before provision & tax	13,283	14,152	15,788	18,616	CAR	9.5%	9.5%	N/A	N/A
Credit provision expenses	3,688	3,516	3,942	3,505	Total Equity/Total Assets	6.7%	7.2%	7.7%	8.0%
Profit Before Tax	9,595	10,637	11,846	15,111	Total Assets/Total Equity	15.01	13.98	13.02	12.49
Total income tax expenses	1,876	2,179	2,426	3,095					
Profit After Tax	7,719	8,458	9,420	12,016	Asset Quality				
Minority interest	-	-	-	-	NPL ratio	2.3%	2.4%	2.2%	1.8%
Net profit for bank's shareholders	7,719	8,458	9,420	12,016	Loan group 2 ratio	0.7%	0.8%	0.6%	0.9%
					LLR ratio	68.8%	70.4%	76.5%	99.6%
Balance Sheet	2023A	2024F	2025F	2026F					
Cash & cash equivalents	7,545	8,208	8,462	7,930	Liquidity				
Balances with the SBV	12,848	14,952	16,658	19,050	Loan-to-Deposit ratio (LDR)	84.1%	87.8%	90.4%	90.8%
Balances with and loans to other Cis	50,333	34,794	36,645	41,814	Liquid asset/Total Assets	21.6%	20.3%	18.7%	18.2%
Net Trading securities	-	-	-	-	Liquid asset/Customer deposit	26.5%	24.0%	22.2%	21.6%
Loans purchase	-	-	-	-					
Loans and advances to customers	482,731	549,108	630,917	724,995	Profitability				
Loan provision	(7,562)	(9,450)	(10,731)	(13,205)	ROE	18.3%	17.0%	16.1%	17.5%
Net Investment securities	74,636	87,842	88,310	97,854	ROA	1.2%	1.2%	1.2%	1.4%
Long-term investments	83	66	70	76	NIM	3.8%	3.7%	3.7%	3.7%
Fixed assets	7,269	7,646	8,056	8,503	NII/TOI	84.3%	84.7%	83.5%	83.3%
Investment properties	-	-	-	-	CIR ratio	49.2%	50.0%	50.0%	48.0%
Other assets	46,506	24,475	23,962	26,255					
TOTAL ASSET	674,390	717,641	802,350	913,272	Valuation				
LIABILITIES	628,656	663,787	739,453	838,840	Basic EPS (VND)	4,094	4,486	4,997	6,374
Deposits of Government and the SBV	19	3,232	4,169	3,814	BVPS (VND)	24,259	28,566	33,363	39,482
Deposits and borrowings from other Cis	37,950	36,814	21,451	29,000	P/E	8.0x	7.3x	6.5x	5.1x
Customer deposits	510,744	567,866	651,176	740,253	P/B	1.3x	1.1x	1.0x	0.8x
Derivatives and other financial liabilities	91	91	91	91					
Agent capital of Cis	323	368	215	290					
Valuable certificates issued	28,992	27,455	31,546	36,250					
Other liabilities	50,535	27,959	30,805	29,142					
EQUITY	45,734	53,854	62,897	74,432					
Common shares	18,852	18,852	18,852	18,852					
Common shares surplus	1,748	1,748	1,748	1,748					
Treasury shares	-	-	-	-					
Other capital	2	2	2	2					
Funds of bank	4,971	5,817	6,759	7,961					
FX differences	(225)	(564)	(941)	(1,421)					
Retained earnings	20,387	27,999	36,477	47,291					
Minorities interest	-	-	-	-					
TOTAL LIABILITIES AND EQUITY	674,390	717,641	802,350	913,272					

Source: STB Financial Statements, MBS Research

DISCLAIMER

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MBS RECOMMENDATION FRAMEWORK

Stock Ratings

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Add	The stock's total return is expected to reach 15% or higher over the next 12 months
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

Segment Ratings

Positive	Stocks in the segment have, on a market cap-weighted basis, a positive absolute recommendation
Neutral	Stocks in the segment have, on a market cap-weighted basis, a neutral absolute recommendation.
Negative	Stocks in the segment have, on a market cap-weighted basis, a negative absolute recommendation.

ABOUT MBS

Founded in May 2000 by the Military Commercial Joint Stock Bank (MB), MB Securities Joint Stock Company (MBS) is one of the first six securities companies in Vietnam. After years of development, MBS has grown into one of the premier brokerage houses in the country. In two consecutive years between 2009 and 2010, MBS leads the brokerage house in terms of market share on both Hanoi Stock Exchange (HNX) and HCMC Stock Exchange (HOSE) and continuously ranked among the Top 5 of market share at both stock exchanges.

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