



Company Report: Saigon Thuong Tin Commercial Joint Stock Bank (STB)

Analyst

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End of the restructuring journey

INVESTMENT THESIS

Expectations to complete the restructuring project:

Reducing the pressure of provision costs, releasing earning assets, and the revenue from sales of collateral for outstanding bad debts are 3 factors that help improve future income of STB.

Consistent business strategy helps increase income sharply. The bank's PBT is expected to increase by 56% in 2023 thanks to (1) net interest income continuing to improve by 15% (2) service income increasing by 17% and (3) falling provision expenses due to reduced provisioning pressure on restructuring debt.

RECOMMENDATION

With the expectation that STB will successfully restructure and complete VAMC bad debt settlement in 2023, business performance will improve in both credit and service aspects, we value STB at **VND 40,000/share** and recommend "**Buy**" STB with an expected 1-year return of 53% compared to the closing price on February 3, 2023. The recommended price does not include expectations related to the proceeds from the sale of collateral for VAMC bonds.

Although a successful restructuring is the main expectation, we believe that it is prudent to consider the new governance factor in considering the bank's prospects. The successful transfer of 32.5% shares is still a mystery and represents a major turning point for the bank's business over the long-term.

Recommendation:

Buy
(Initial)

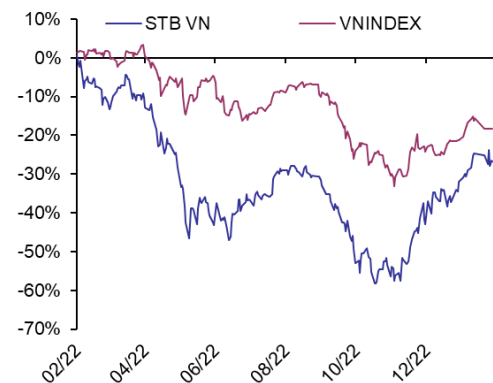
6-18m TP:

40,000

Current price:

VND26,050

Price performance



Price change	1 M	3 M	1Y
Abs. %	10.9%	56.9%	-26.4%
Relative to VN index	14.0%	65.0%	-53.2%
Avg price (VND)	25,747	21,684	24,129

Sources: Bloomberg, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2021A	17,704	3,411	1,630	30.61	18.17	-	-	2.63	-55.07	10.79
2022A	26,141	5,041	2,459	50.86	20.49	-	-	3.36	-41.94	13.83
2023F	28,867	7,950	4,217	71.49	24.71	-	-	3.41	-41.94	18.66
2024F	32,459	10,945	5,806	37.67	30.51	-	-	3.41	-41.94	21.03
2025F	36,835	12,718	6,746	16.20	37.26	-	-	3.43	-41.94	19.91

Shares in issue (m)	1,885.22	Major shareholders (%)	Dragon Capital	5.87%
Market cap (VND b)	49,204.13	Free float (%)		65%
3- month average vol. ('000)	22,975.78	LDR (%)		96
52w high/low (VND)	36700 / 14050	CAR (%)		9.87

Sources: the Company, Guotai Junan (VN).

BANK OVERVIEW

Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank hereinafter) was established in 1991. The bank used to be one of the leading banks in the system in terms of position, lending size and profit.

The major change in Sacombank's shareholder structure occurred in 2011 and resulted in the merger of Southern Commercial Joint Stock Bank into Sacombank in 2015. At that time, Southern Bank had a bad debt ratio of 55% on a loan scale of about VND 43,000 billion.

Sacombank's business activities have been affected since then, including a sharp increase in NPL ratio, decline in profits and interest-earning assets.

By 2017, Sacombank started implementing the restructuring plan approved by the State Bank. The scheme allows STB to delineate the recognized accrued interest (at the end of 2015) and allocate it within 10 years. The outstanding bad debts were resold to VAMC with the amount of 22,530 billion VND, instead, STB holds the VAMC special bond of equivalent size and makes provision for it within 10 years.

Key person

Chairman of the Board

Mr. Duong Cong Minh (born 1960 in Bac Ninh, Bachelor of Economics - National Economics University) was elected as Chairman of the Board of Directors of STB at the June 2017 general meeting, when the bank started the restructuring plan.

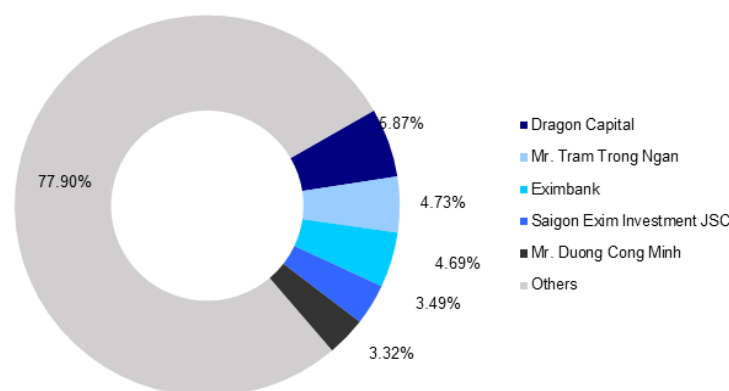
Before joining Sacombank's Board of Directors, Mr. Duong Cong Minh served as Chairman of the Board of Directors of LienVietPostBank for many years, and held leadership positions in a number of businesses such as Him Lam Real Estate, Lien Viet Securities...

CEO

Ms. Nguyen Duc Thach Diem has been the General Director of STB since 2017, the same term of office as Mr. Duong Cong Minh.

Besides the drastic handling of bad debts, all aspects of Sacombank's business activities were improving during the first 5 years of her term. Currently, Ms. Nguyen Duc Thach Diem continues to run STB after being re-elected for a new 5-year term of office from June last year.

Figure-1: Ownership structure



Source: STB, Guotai Junan (VN)

EXPECTATION

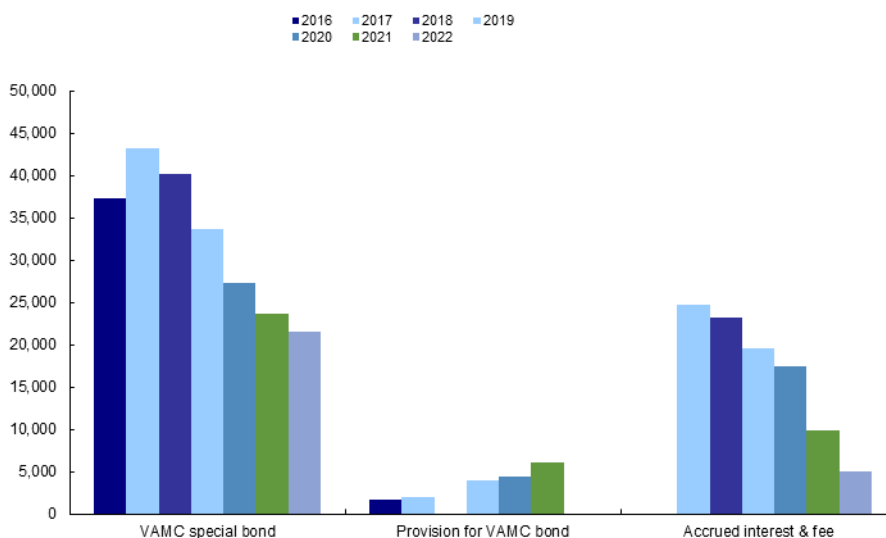
1/ Completing VAMC bad debt handling

Reducing the provision expenses pressure, releasing earning assets, and the sales of collateral for outstanding VAMC bad debts are three factors that will help improve STB's income in the future.

The restructuring project allowed Sacombank to restructure within 10 years, however, after just over 5 years, STB has handled most of its bad debts. From 2017 to this year, the bank recovered and handled about VND 76,000 billion of bad debts, bringing the NPL ratio down to 0.98% by the end of 2022. According to the bank's management, by the middle of 2023, Sacombank can announce an end of the restructuring plan.

The end of restructuring ahead of schedule helps STB quickly release earning assets (the ratio of earning assets to total assets increased sharply from 71% in 2017 to 90% at present), reducing the pressure of provisions in the future, hinting the comprehensive profit growth.

Figure-2: Handling VAMC bad debts



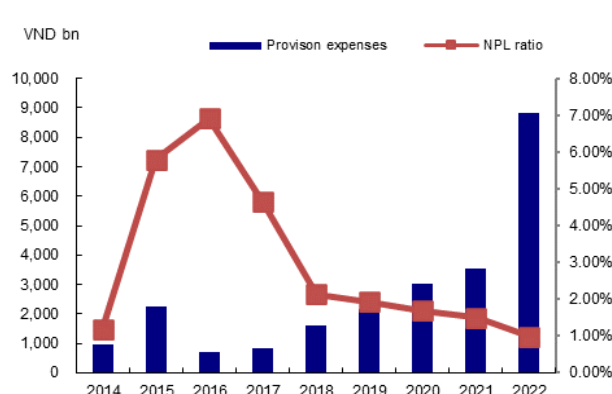
Source: STB, Guotai Junan (VN)

Figure-3: PBT and earning assets



Source: STB, Guotai Junan (VN)

Figure-4: Asset quality



Source: STB, Guotai Junan (VN)

Expected income from sales of collateral for VAMC special bond:

- **Real estate collateral, the largest of which is Phong Phu Industrial Park.** Phong Phu Industrial Park is currently being offered for sale at VND 7,934 billion by STB (the relevant principal balance is VND 16,200 billion, of which the principal balance is VND 5,134 billion, outstanding interest is VND 11,061 billion). This price has dropped very deeply compared to the starting price in April 2022 with the price of VND 14,577 billion. However, this price has not decreased compared to the price release at the last December auction. Therefore, we can expect that STB would not sell this asset at a lower price than VND 8,000 billion.
- **612 million shares of STB (32.5% shares),** currently under the jurisdiction of the State Bank. The specific handling plan for the above STB shares has not been finalized yet. According to the Chairman of Sacombank, the sale of shares must be approved by the Government and the representative of these shares is Vietnam Asset Management Company (VAMC). According to the restructuring plan, the bank must consult the Prime Minister before it can implement the plan to auction these shares. Mr. Duong Cong Minh said that the bank was applying for a mechanism to buy back bad debts at VAMC and then auction the above-mentioned shares. The auction price will be about 33,000 - 34,000 VND/share to collect enough principal, interest, and penalty interest.

With the current BVPS at VND20,489/share, we believe that in the most conservative scenario, the bank can earn about VND18,000 billion from selling out the above-mentioned shares, equivalent to a price of about VND30,000. /cp.

From the above expectation, in the most conservative scenario, Sacombank can collect 26,000 billion VND from the sale of collateral related to old bad debts.

2/ Breakthrough income with consistent business strategy and stable management

Following the industry trend, Sacombank is making efforts in digital transformation and promoting the retail segment. Sacombank currently owns 10 million customers with 9.8 million individual customers and 200,000 corporate customers. The payment transactions via digital channels accounts for 86% of the bank's payment transaction turnover. Meanwhile, the nationwide network of 566 branches/transaction offices is a great advantage to help STB go far in the coming time.

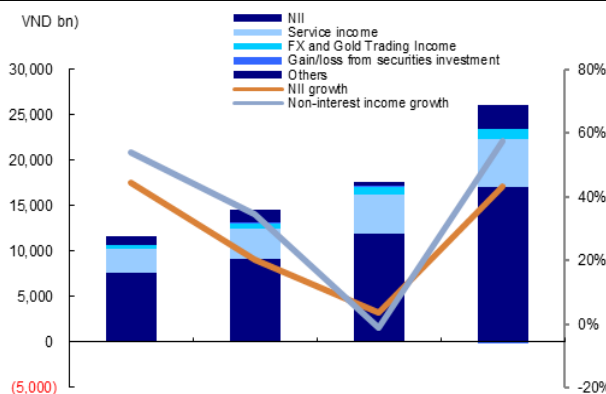
It should be noted that the ratio of non-interest income/interest income of banks is among the top highest in banking sector is partly because STB's lending activities are not optimized due to the influence of the restructuring period, leading to net interest income as well as net interest margin are still low compared to the bank's asset size as well as the lending efficiency of other banks. Although promoting the proportion of service income has been the focus of the banking industry in recent years, the ratio of net interest income to total operating income of STB has been flat in the past 5 years at 65%, much lower than the industry average at 85%. Therefore, this ratio would change so much in the coming period as the bank continues to improve its service segment while net interest income is expected to improve more strongly in the long term.

Figure-5: Net income breakdown by segment



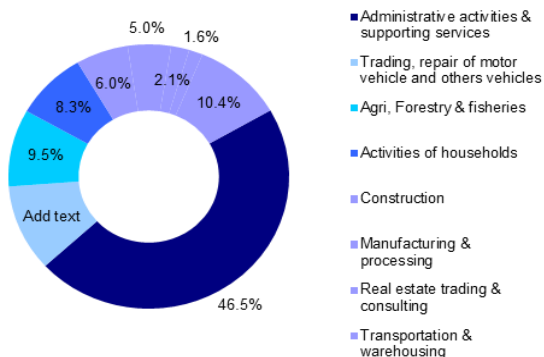
Source: STB, Guotai Junan (VN).

Figure-6: TOI breakdown



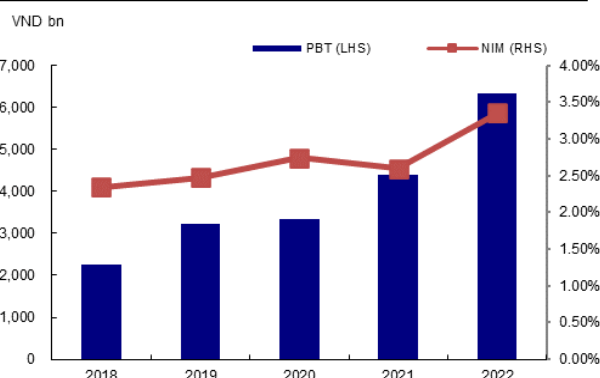
Source: Fiiipro, Guotai Junan (VN)

Figure-7: Lending breakdown by sector



Source: STB' FS, Guotai Junan (VN).

Figure-8: PBT and NIM



Source: Fiiipro, Guotai Junan (VN)

In 2022, STB recorded a 13.6% yoy increase in customer loans. Pre-tax profit reached VND6,339 billion, up 44%yoy thanks to the strong improvement in net interest income (+43%) as well as strong growth in other non-interest businesses.

Limited lending risk to the most sensitive sectors. The bank has no exposure to corporate bonds.

Regarding the real estate sector, real estate loans accounted for 22% of the bank's total credit balance, of which 65% were real estate consumer loans (individuals). Loans to business and real estate projects accounted for 35%, most of which were loans to industrial parks, export processing zones and factories (7% of outstanding loans).

Table 1: Business performance in the latest 5 years

	Unit	2018	2019	2020	2021	2022
Asset quality						
Loan to customers	VND bn	253,100	292,059	334,855	381,012	432,998
NPL ratio	%	2.13%	1.94%	1.70%	1.50%	0.98%
Provision/NPL	%	-64.49%	-69.26%	-93.66%	-118.61%	-130.97%
Provision/credit	%	1.37%	1.34%	1.59%	1.78%	1.28%
Provision expenses/loan to customers	%	-0.66%	-0.78%	-0.95%	-0.98%	-2.14%
Equity/Loan to customers	%	9.60%	9.03%	8.51%	8.83%	8.81%
Equity/Total assets	%	6.07%	5.90%	5.88%	6.57%	6.52%
Loan to deposit ratio	%	73.45%	73.85%	79.51%	90.77%	96.46%
Profit and Efficiency						
ROE %	%	7.48%	9.56%	9.63%	10.79%	13.83%
ROA before provision %	%	0.99%	1.25%	1.35%	1.57%	2.73%
ROA %	%	0.46%	0.57%	0.57%	0.67%	0.91%
Non NII/ NII	%	52.93%	59.10%	50.07%	47.64%	52.38%
CIR ratio	%	-67.12%	-63.31%	-63.08%	-55.07%	-41.94%
Net income/employee	VND mn	97.40	133.56	145.92	185.61	274.25

Sources: Fiiipro

Table 2: STB and peers

	Total assets (VND bn)	Loan to customers (VND bn)	NII (VND bn)	PBT (VND bn)	NIM	ROE	ROA	Non-NII / NII	CIR ratio	NPL Ratio	P/B	Market cap (VND bn)
BID	2,120,528	1,522,229	56,064	23,058	2.93%	19.10%	0.94%	23.61%	-32.40%	1.16%	2.19	218,275
VCB	1,814,188	1,145,066	53,246	37,359	3.41%	24.19%	1.85%	27.47%	-31.23%	0.68%	3.11	428,766
CTG	1,809,189	1,274,822	47,930	21,113	2.99%	16.74%	1.01%	33.67%	-29.89%	1.24%	1.30	140,328
MBB	728,532	460,574	36,023	22,729	5.72%	24.61%	2.62%	26.20%	-32.50%	1.09%	1.13	85,919
TCB	699,033	420,524	30,290	25,568	5.32%	19.52%	3.18%	35.01%	-32.76%	0.91%	0.88	98,483
VPB	631,074	438,338	41,021	21,220	7.61%	19.15%	3.08%	40.87%	-24.42%	5.73%	1.28	123,523
ACB	607,875	413,706	23,534	17,114	4.31%	26.49%	2.41%	22.08%	-40.31%	0.74%	1.44	84,436
STB	591,994	438,628	17,147	6,339	3.35%	13.83%	0.91%	52.38%	-41.94%	0.98%	1.28	49,298
SHB	551,351	385,633	17,529	9,659	3.64%	19.69%	1.46%	10.48%	-22.63%	2.53%	0.75	32,049
HDB	416,273	263,856	18,012	10,268	5.08%	22.21%	1.96%	21.92%	-39.29%	1.67%	1.25	46,155
VIB	343,069	231,944	14,963	10,581	4.73%	29.75%	2.60%	20.67%	-34.32%	2.45%	1.52	49,741
TPB	328,634	160,993	11,387	7,828	3.99%	21.51%	2.01%	37.15%	-38.07%	0.84%	1.17	37,804



LPB	327,746	235,507	11,900	5,690	3.97%	22.08%	1.46%	18.63%	-37.45%	1.46%	0.98	23,602
SSB	231,423	153,956	7,006	5,069	3.42%	18.05%	1.83%	37.59%	-35.28%	1.60%	2.60	68,248
MSB	213,394	120,644	8,322	5,787	4.36%	18.96%	2.21%	28.49%	-41.41%	1.70%	0.97	25,800
OCB	193,994	119,803	6,948	4,389	3.96%	14.91%	1.85%	22.83%	-36.06%	2.23%	1.02	25,754
EIB	185,045	130,506	5,592	3,709	3.32%	15.40%	1.68%	29.25%	-47.29%	1.80%	1.52	31,105
BAB	128,827	94,121	2,518	1,073	2.21%	9.11%	0.69%	13.80%	-59.75%	0.53%	1.14	11,225
NVB	89,847	47,722	932	1	1.42%	0.00%	0.00%	43.49%	-76.87%	17.93%	1.93	11,136
Median	416,273	263,856	17,147	9,659	3.96%	19.15%	1.85%	27.47%	-36.06%	1.46%	1.28	49,298

Sources: Fiiipro

VALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk-free rate of 4.3%, cost of capital 14.2%.

Unit: VND Bn	2022A	2023F	2024F	2025F
Beginning Owners' equity	34,261	38,627	46,577	57,522
PAT	5,041	7,950	10,945	12,718
Residual income		2,457	4,322	4,538
Total PV of residual income				52,835
Outstanding shares (mn)				1,885
12-month targeted price				40,000
Current price				26,050
Expected return				53.0%

Expectation of business results

With a cautious view on the credit outlook of the whole market this year, we believe that the bank will achieve a loan growth rate of 13% this year, flat compared to the previous period. Profit will be strongly supported by (1) net interest income continues to improve by 15% (2) service income will increase by 17% and (3) provision expenses will decrease due to reduction in provisioning pressure on old restructuring debt.

With the above assumptions, we expect the bank's pre-tax profit to grow by 56% in 2023.

In the long term, we believe that the bank's NIM will improve strongly and approach 4%. In terms of cost management, the large branch system puts a heavy burden on the bank's management costs. However, the trend of digitization will help the bank optimize costs and help lower the CIR ratio in the long term.

RECOMMENDATION

With the expectation that STB will successfully restructure and complete VAMC bad debt settlement in 2023, business performance will improve in both credit and service aspects, we value STB at **VND 40,000/share** and recommend "Buy" STB with an expected 1-year return of 53% compared to the closing price on February 3, 2023. The recommended price does not include expectations related to the proceeds from the sale of collateral for VAMC bonds.

Although a successful restructuring is the main expectation, we believe that it is prudent to consider the new governance factor in considering the bank's prospects. The successful transfer of 32.5% shares is still a mystery and represents a major turning point for the bank's business over the long-term.

Financial Statements and Ratios

Financial Statement					Income Statement				
Year end Dec (VND ' bil)	2020	2021	2022	2023F	Year end Dec (VND ' bil)	2020	2021	2022	2023F
TOTAL ASSETS					Interest and Similar Income				
Cash and precious metal	7,679	8,222	7,850	9,688		33,588	29,691	37,391	42,907
Loans and advances to customers, net	334,855	381,012	432,998	489,287	Interest and Similar Expenses	(22,061)	(17,726)	(20,244)	(23,150)
Investment securities	75,156	69,667	68,844	82,289	Net Interest Income	11,527	11,964	17,147	19,757
Fixed assets	8,575	8,195	7,548	6,835	TOI	17,271	17,704	26,141	28,867
Investment property	-	-	-	-	Total operating expenses	(10,895)	(9,750)	(10,964)	(12,108)
Other assets	37,356	33,219	36,874	41,667	Operating Profit Before Provision for Credit Losses	6,376	7,954	15,177	16,759
LIABILITIES & SHAREHOLDERS' EQUITY					Provision for credit losses				
	492,516	521,117	591,994	668,488		(3,037)	(3,554)	(8,838)	(6,822)
TOTAL LIABILITIES					PBT				
Due to Gov and Loans from SBV	144	523	9,901	11,188		3,339	4,400	6,339	9,937
Deposits & Loans from other credit institutions	7,880	15,229	28,430	32,126	PAT				
Deposits from customers	427,972	427,387	454,740	513,857		2,682	3,411	5,041	7,950
Funds received from Gov, international and other institutions	229	279	240	271	Minority interest				
Valuable papers	11,144	21,104	25,820	25,820		-	-	-	-
Other liabilities	16,191	22,226	34,235	38,650	Attributable to parent company				
SHAREHOLDERS' EQUITY						2,682	3,411	5,041	7,950
Capital and fund	28,956	34,261	38,627	46,576	EPS				
Retained earnings	7,304	9,907	13,972	20,992		1,248	1,630	2,459	4,217
Minority interest	-	-	-	-	Financial Ratio				
LIABILITIES & SHAREHOLDERS' EQUITY						2018	2019	2020	2021F
	492,516	521,117	591,994	668,488	NIM (Net Interest Margin)	2.63%	3.36%	3.41%	3.41%
					Output average interest rate	6.52%	7.33%	7.40%	7.40%
					Input average interest rate	-3.89%	-4.12%	-4.20%	-4.20%
					Earnings Spread	2.63%	3.22%	3.20%	3.20%
					Interest expense/Interest income	-59.70%	-54.14%	-53.95%	-53.94%
					Net Serving Fee Margin (NSFM)	0.95%	1.02%	1.05%	1.05%
					Servicing fee expense/Servicing fee income	-32.47%	-37.65%	-37.65%	-37.65%
					NNIM (Net Non-Interest Margin)	1.26%	1.76%	1.57%	1.57%
					EBT to Interest Income ratio	14.82%	16.95%	23.16%	28.36%
					CIR (Cost-to-Income) ratio	-55.07%	-41.94%	-41.94%	-41.94%
					Asset Management	0.00%	0.00%	0.00%	0.00%
					LDR (Loan-to-Deposit) ratio Market 1	90.77%	96.46%	96.46%	96.46%
					LDR (Loan-to-Deposit) ratio Market 2	149.81%	100.98%	73.45%	74.53%
					ROA	0.67%	0.91%	1.26%	1.54%
					ROE	10.79%	13.83%	18.66%	21.03%

Source: the Company, Guotai Junan (VN).

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% Or The Fundamental outlook of the sector is unfavorable

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03 Feb 2023



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Sacombank (STB)

Company Report