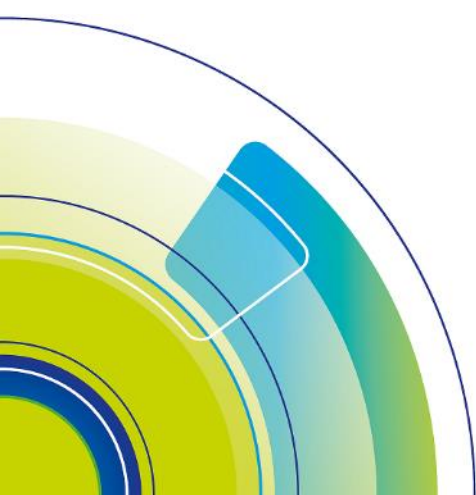




Update STB – BUY

June 14, 2023



Hung Cao, CFA

(028) 7300 7000 (ext: 1049)

hungcv@acbs.com.vn

Recommendation

BUY

HOSE:STB

Banking

Current price (VND)

27,800

Target price (VND)

45,300

Expected share price return

+62.9%

Expected dividend yield

0.0%

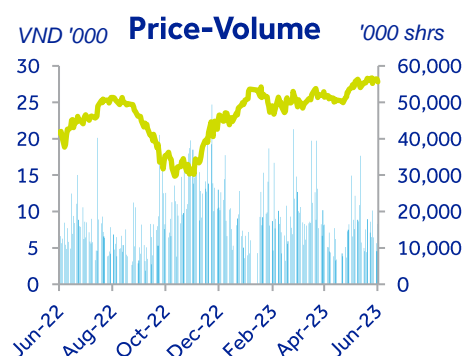
Expected total return

+62.9%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	23.6	5.2	12.8	36.9
Relative	11.9	-0.2	5.7	43.9

Source: Bloomberg



Ownership

Duong Cong Minh (Chairman) 3.32%

Stock Statistics

14-Jun-23

Bloomberg code	STB VN
52-week range (VND)	14,050-28,800
No. of shares (m)	1,885
Mkt cap (VND bn)	52,409
Mkt cap (USD m)	2,214
Foreign room left (%)	4.6
Est. free float (%)	93.6
3m avg daily vol (shs)	16,425,390
VND/USD	23,670
Index: VNIndex / HNX	1117.42/228.91

SAI GON THUONG TIN JOINT STOCK BANK (STB)

Q1/23 business results were weak

STB's Q1/23 business results were quite similar to the weakening state of the economy and the banking industry. However, thanks to no longer having to write off accrued interests and reducing provision expenses for VAMC bonds, Q1/23's PBT increased by 50% y/y. NIM reached 4.2%, down 29 basis points qoq due to rapid increase in deposit rates and decrease in CASA.

Asset quality of STB was well controlled despite the deterioration of the whole industry. As of the end of Q1/23, NPL ratio was at 1.19%, +21 bps q/q due to the overdue loans transferred from category 2. Category 2 loan ratio stood at 0.94%, -31 bps q/q.

Profit is expected to surge from 2024 after completing the restructuring plan

The progress of liquidation of collaterals has been slow due to their high value and the illiquidity situation in the economy. We expect STB will continue to use its profits from business to make provisions for the remaining VND5,800 billion of VAMC bonds from now until the end of 2023 to complete the restructuring plan.

We expect PBT in 2023 to reach VND10,612 billion, +67.4% y/y (plan: VND9,500 billion, +50% y/y). Profit in 2024 is forecasted to surge to VND20,006 billion (+88.5% y/y), equivalent to same size peers after the pressure to make provisions for the legacy assets is negligible.

Valuation and recommendation

STB is trading at a seemingly unattractive level with a trailing P/E and P/B of 10.3x and 1.3x, along with 2023's forward P/E and P/B of 6.6x and 1.1x respectively. However, further forward looking, the valuation multiples will become appealing with 2024's forward P/E and P/B of 3.4x and 0.8x when STB no longer has pressure to made provisions for the VAMC bonds.

We reiterate our **BUY** recommendation for STB with a target price of **VND45,300/share**. Our target price is equivalent to target P/E and target P/B of **6.7x** and **1.5x** respectively.

(VND bn)	2020	2021	2022	2023F	2024F	2025F
Credit growth	14.9%	14.0%	13.1%	14.0%	14.0%	14.0%
NIM	3.0%	2.8%	3.5%	4.4%	4.4%	4.4%
NFI proportion	33.3%	32.4%	34.4%	20.8%	18.8%	18.6%
TOI growth	18.0%	2.5%	47.7%	20.3%	13.4%	14.5%
CIR	63.1%	55.1%	41.8%	38.4%	37.9%	37.4%
Net credit costs	0.9%	0.9%	2.1%	1.8%	0.4%	0.4%
Profit before tax	3,339	4,400	6,339	10,612	20,006	23,104
Growth	3.8%	31.8%	44.1%	67.4%	88.5%	15.5%
Profit attributable	2,277	3,004	4,636	7,936	15,368	17,750
Adjusted EPS (VND)	1,208	1,593	2,459	4,209	8,152	9,416
BVPS (VND)	15,360	18,174	20,489	24,699	32,850	42,266
ROA	0.5%	0.6%	0.8%	1.3%	2.1%	2.2%
ROE	8.2%	9.5%	12.7%	18.6%	28.3%	25.1%
P/E (x)	23.0	17.4	11.3	6.6	3.4	3.0
P/B (x)	1.8	1.5	1.4	1.1	0.8	0.7

Q1/23 business results

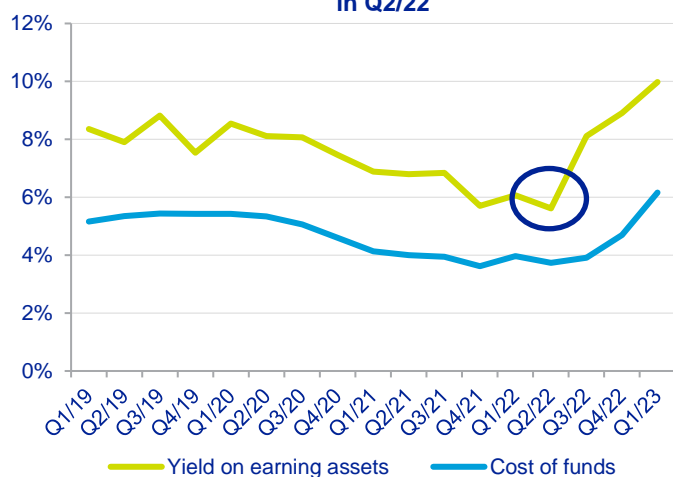
(Unit: VND bn)	Q1/22	Q1/23	+/- YoY	ACBS's note
Net interest income	2,739	5,837	113.1%	Net interest income increased strongly because in the same period last year, STB wrote off accrued interests into interest income. NIM in Q1/23 was 4.2%, -29 bps q/q due to the rapid increase in deposit rates and lower CASA. NIM may recover in the coming quarters thanks to a decreasing deposit rates. Credit growth was 2.2% YTD in Q1/23 (industry: 2.6%).
Non-interest income	2,386	964	-59.6%	Services activities and forex income declined. Collection was almost zero due to the weak economy in Q1/23.
Total income	5,125	6,800	32.7%	
Operating expenses	(2,832)	(3,416)	20.6%	High depreciation expenses and provisioning for other assets kept CIR high at 50.2%.
Profit before provisioning	2,293	3,384	47.6%	
Provision expenses	(705)	(1,002)	42.2%	For VAMC bonds.
Profit before tax	1,589	2,383	49.9%	

Source: STB, ACBS

As we mentioned in the previous report, STB completed accrued interests in Q2/22. Therefore, since Q3/22, NIM has returned to the "real" level of over 4%, equivalent to the industry's average.

In general, STB's Q1/23 business results are quite similar to the weakening state of the economy and banking industry. However, thanks to no longer having to write off accrued interest and reducing provision expenses for VAMC bonds, Q1/23 profit before tax increased by 50% y/y.

STB completed writing off accrued interests in Q2/22



NIM returned to the "real" level of over 4% since Q3/22

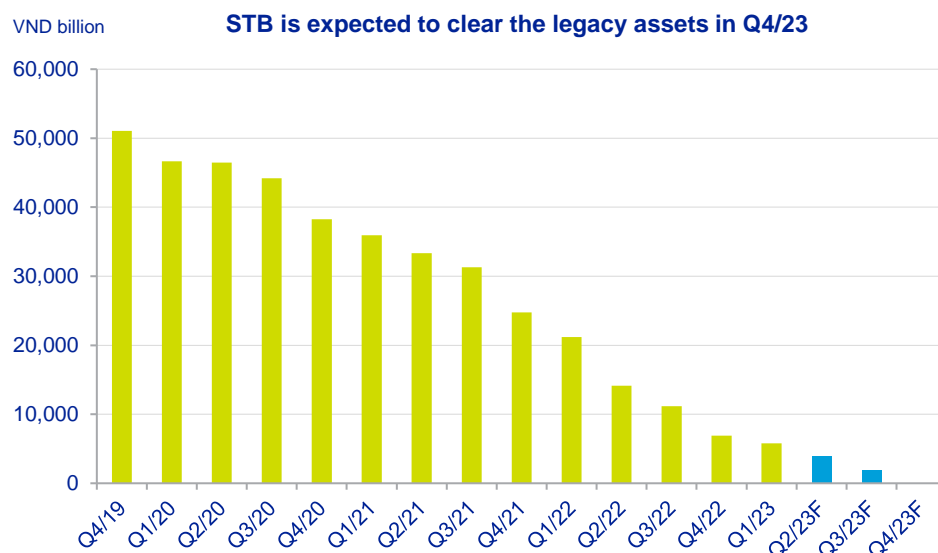


Source: STB, ACBS

In terms of asset quality, in contrast to the deteriorating situation of the whole banking sector, STB's overdue loan ratio was still under control at a fairly good level and among the lowest in the sector. As of the end of Q1/23, NPL ratio was at 1.19%, +21 bps q/q due to the loans transferred from category 2. Category 2 loan ratio stood at 0.94%, -31 bps q/q.

The restructuring plan is expected to be completed by the end of 2023

The progress of dissolving the remaining legacy assets was slow in Q1/23. The high value of these collaterals and loans and the unfavorable macro condition prevents STB from successfully liquidating the legacy assets. Therefore, we believe that STB will continue to use its profits from business to make provision for the remaining VND5,800 billion of VAMC bonds from now until the end of 2023 to complete the restructuring plan.



Source: ACBS's estimation

We estimate the value of these collaterals at around VND25,000 billion – based on market price and asking price. Thus, the value of collateral is significantly higher than the value of the remaining legacy assets at the end of Q1/23. The potential profit from the liquidation of these collaterals is estimated at VND19,000 billion.

Collateral	Value (VND bn)	ACBS's note
Phong Phu Industrial Park	7,934	STB has changed the liquidation method from collateral auction (Phong Phu Industrial Park) to loan auction since the beginning of 2022. The loan's par value is VND5,134 billion. STB has reduced the starting asking price from VND14,577 billion to VND7,934 billion and has remained the asking price since Oct 2022 until now.
32,5% STB shares	17,014	STB has submitted the auction plan for this lot of shares to the State Bank of Vietnam for submission to the Government for approval.
Others	n/a	Including other small value collateral (under VND1,000 billion).
Total value	24,948	
Legacy assets	5,800	The remaining legacy assets are mainly the value of VAMC bonds that have not been provisioned. Others are debt-claimed office buildings pending for dissolving.
Potential profits	19,148	Since the collaterals are worth much more than the problematic legacy assets, STB has the potential to realize large profits when successfully liquidating the above collaterals and recovery of NPLs.

Source: STB, ACBS's estimation

At the AGM in 2023, STB's management said that there are some investors paying interests in the loans secured by Phong Phu Industrial Park and expected to successfully liquidate in 2023. However, we see that the illiquidity situation in the economy and high lending rates are obstacles in liquidating this loans.

For the 32.5% of STB collateral shares, we expect the bank to be able to proceed the liquidation process after the balance sheet has been cleaned up by the end of 2023. The stock market at that time may become more favorable. and liquidation value is likely to be higher than current market price.

Clearing up problematic legacy assets will change STB's reputation from a bank burdened with high bad debts to a healthy clean bank, thereby helping STB to attract new strategic investors and especially facilitating the liquidation of the 32.5% STB collateral shares.

Forecasts, valuations and investment recommendations

The slow progress of liquidation of collaterals caused STB to continue to make provisions for the remaining VAMC bonds. Therefore, we expect the PBT in 2023 will reach VND10,612 billion, +67.4% y/y (AGM's plan: VND9,500 billion, +50% y/y).

After the restructuring plan is completed and there is no longer pressure to make provisions for legacy assets, we forecast that PBT in 2024 will increase to VND20,006 billion, equivalent to the same size peers. Profitability ratios will also improve strongly with ROA of 2.1% and ROE of 28.3% in 2024. STB's profit will gradually catch up with this group of banks, while its current market capitalization is only about half that of them.

In addition, NIM and off-balance sheet debt collection may increase dramatically in the coming years as STB successfully liquidates collaterals. However, due to the uncertain of the dissolving progress of these collaterals, we have not included these potential income in our projections.

Currently, STB is trading at a seemingly unattractive level with a trailing P/E and P/B of 10.3x and 1.3x, along with 2023's forward P/E and P/B of 6.6x and 1.1x respectively. However, further forward looking, the valuation multiples will become appealing with 2024's forward P/E and P/B of 3.4x and 0.8x when STB no longer has pressure to made provisions for the VAMC bonds.

We reiterate our **BUY** recommendation with a target price of STB of **VND45,300/share**. Our target price is equivalent to P/E and target P/B of **6.7x** and **1.5x** respectively.

Potential catalysts for stock price include:

- (1) Subsequent developments related to the sale of 32.5% of STB's mortgaged shares and secured debt by Phong Phu Industrial Park will be a strong catalyst for STB's share price.
- (2) Policy changes in the direction of less tightening and the recovery of the macro situation also supported the STB stock price in particular and the banking sector's stock price in general.

Downside risks include:

- (1) Weakened profits and surging NPLs made STB's restructuring process take longer than expected;
- (2) Inflation in the US returns to the high level, causing the FED to sharply hike rates and put pressure on Vietnam's monetary policy as well as the banking system.

(Unit: VND billion, unless otherwise stated)	Market price (VND):	27,800	Target price (VND):	45,300	Market cap (VND bn):	52,409	
	2019	2020	2021	2022	2023F	2024F	2025F
INCOME ITEMS							
Net interest income	9,181	11,527	11,964	17,147	24,905	28,956	33,227
Net fee & commission income	3,323	3,744	4,343	5,194	4,675	4,675	5,376
Other non-interest income	2,132	2,000	1,397	3,800	1,875	2,034	2,217
Total operating income	14,635	17,271	17,704	26,141	31,454	35,665	40,820
Growth (%)	25.3%	18.0%	2.5%	47.7%	20.3%	13.4%	14.5%
Operating expenses	(9,266)	(10,895)	(9,750)	(10,921)	(12,090)	(13,519)	(15,277)
Profit before provision & tax	5,370	6,376	7,954	15,221	19,364	22,146	25,544
Provision for credit losses	(2,153)	(3,037)	(3,554)	(8,882)	(8,752)	(2,140)	(2,440)
Profit before tax	3,217	3,339	4,400	6,339	10,612	20,006	23,104
Profit attributable to shareholders	2,091	2,277	3,004	4,636	7,936	15,368	17,750
Growth (%)	48.6%	8.9%	31.9%	54.3%	71.2%	93.7%	15.5%
Adjusted EPS (VND)	1,109	1,208	1,593	2,459	4,209	8,152	9,416
BALANCE SHEET ITEMS							
Outstanding loans & corporate bonds	296,030	340,268	387,930	438,628	500,036	570,041	649,846
Growth (%)	15.4%	14.9%	14.0%	13.1%	14.0%	14.0%	14.0%
Customer deposit	400,844	427,972	427,387	454,740	513,857	580,658	656,144
Growth (%)	14.7%	6.8%	-0.1%	6.4%	13.0%	13.0%	13.0%
Total assets	453,581	492,516	521,117	591,908	671,770	768,414	878,008
Shareholder's equity	26,742	28,956	34,261	38,627	46,563	61,930	79,681
BVPS (VND)	14,185	15,360	18,174	20,489	24,699	32,850	42,266
KEY RATIOS							
NPL (%)	1.9%	1.7%	1.5%	1.0%	1.0%	0.8%	0.8%
NPL coverage (%)	69.3%	93.7%	118.6%	131.0%	144.1%	157.3%	157.3%
NIM (%)	2.8%	3.0%	2.8%	3.5%	4.4%	4.4%	4.4%
CIR (%)	63.3%	63.1%	55.1%	41.8%	38.4%	37.9%	37.4%
Equity on assets (%)	5.9%	5.9%	6.6%	6.5%	6.9%	8.1%	9.1%
ROA (%)	0.5%	0.5%	0.6%	0.8%	1.3%	2.1%	2.2%
ROE (%)	8.1%	8.2%	9.5%	12.7%	18.6%	28.3%	25.1%
P/E (x)	25.1	23.0	17.4	11.3	6.6	3.4	3.0
P/B (x)	2.0	1.8	1.5	1.4	1.1	0.8	0.7
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

CONTACTS

Ho Chi Minh City Head Office

117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City

Tel: (+84 28) 7300 7000

Fax: (+84 28) 7300 3751

Hanoi Office

10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi

Tel: (+84 4) 3942 9395

Fax: (+84 4) 3942 9407

RESEARCH DEPARTMENT

Manager – Properties

Truc Pham

(+84 28) 7300 7000 (x1043)

trucptt@acbs.com.vn

Manager – Financials

Hung Cao

(+84 28) 7300 7000 (x1049)

hungcv@acbs.com.vn

Manager – Retail

Chi Luong

(+84 28) 7300 7000 (x1042)

chiltk@acbs.com.vn

Associate – Derivatives, Macro

Minh Trinh Viet

(+84 28) 7300 7000 (x1046)

minhtvh@acbs.com.vn

Associate – Consumer-related, Technology

Trung Tran

(+84 28) 7300 7000 (x1045)

trungtn@acbs.com.vn

Associate – Oil & Gas

Hung Phan

(+84 28) 7300 7000 (x1044)

hungpv@acbs.com.vn

Associate – Industrials

Huy Huynh

(+84 28) 7300 7000 (x1048)

huyha@acbs.com.vn

Associate – Macro

Hoa Nguyen

(+84 28) 7300 7000 (x1050)

hoant@acbs.com.vn

Associate – Energy

Toan Pham

(+84 28) 7300 7000 (x1051)

toanpd@acbs.com.vn

Associate – Technical

Phuoc Luong

(+84 28) 7300 7000 (x1047)

phuocld@acbs.com.vn

Analyst – Technical

Huu Vo

(+84 28) 7300 7000 (x1052)

huvvp@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director

Huong Chu

(+84 28) 7300 7000 (x1083)

huongctk@acbs.com.vn

Customer Support

Institutional Client

Thanh Le

(+84 28) 7300 7000 (x1089)

thanhln@acbs.com.vn

Trader

Thao Nguyen

(+84 28) 7300 7000 (x1087)

thaont@acbs.com.vn

Trader

Dung Ly

(+84 28) 7300 7000 (x1084)

dungln.hso@acbs.com.vn

Trader

Huynh Nguyen

(+84 28) 7300 7000 (x1088)

huynhntn@acbs.com.vn

DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

NEUTRAL: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

Analyst Certification(s)

We, the author(s) of this report, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures

ACBS and/or an affiliate thereof (hereby collectively called ACBS) did or may seek to do business with companies covered in this report as its routine business. ACBS's proprietary trading accounts may have a position in such companies' securities. As a result, the investor should be aware that ACBS may have a conflict of interest from time to time.

ACBS produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Disclaimer

This report is provided for information purposes only. ACBS makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this report. ACBS will not treat unauthorized recipients of this report as its clients. Prices shown (if any) are indicative and ACBS is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. **Without limiting any of the foregoing and to the extent permitted by law, in no event shall ACBS, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this report or its contents.** Other than disclosures relating to ACBS, the information contained in this report has been obtained from sources that ACBS believes to be reliable, but ACBS does not represent or warrant that it is accurate or complete. The views in this report are subject to change, and ACBS has no obligation to update its opinions or the information in this report.

Some parts of this report reflect the assumptions, views and analytical methods of the analysts who prepared them, and ACBS is not responsible for any error of their works and assumptions. ACBS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report.

The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of ACBS. This report does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the investors who receive it. The securities discussed herein may not be suitable for all investors. ACBS recommends that investors independently evaluate each issuer, securities or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This report may not be distributed to the public media or used by the public media without prior written consent of ACBS. Otherwise it will be considered as illegal. The breacher shall compensate fully to ACBS any loss or damage which arises from such breach (if any).

In the event that the distribution and/or receipt of this report is prohibited by the investor's jurisdiction, the investor shall dismiss this report immediately otherwise it will be at his/her own risks.

ACBS does not provide tax advice and nothing contained herein should be construed to be tax advice. Accordingly, the investors should seek advice based on their particular circumstances from an independent tax advisor. This report may contain links to third-party websites. ACBS is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by ACBS. Access to any third-party website is at the investor's own risks, and the investor should always review the terms and privacy policies at third-party websites before submitting any personal information to them. ACBS is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

© Copyright ACBS (2023). All rights reserved. No part of this report may be reproduced in any manner without the prior written permission of ACBS.