

Saigon Hanoi Commercial Joint Stock Bank

(HOSE: SHB)

Transforming

Mirae Asset Securities (Vietnam) LLC.

Nguyen Nam Son, son.nn@miraeasset.com.vn

Buy
(Initiation report)

Target price:
VND35,000
(+27.3%)

Investment thesis

Soaring profit

- In 3Q21, Saigon Hanoi Commercial Joint Stock Bank (SHB) recorded solid results: pre-tax income reached VND5,055bn (+93.9% YoY), achieving 86% of the company's 2021 target, while total assets increased by 12.5% to VND464tn.
- According to SHB, after many consecutive quarters of improvement, 3Q21 ROA and ROE hit 1.5% and 25.6% respectively, approaching the levels of Vietnam's leading JS commercial banks.
- The bank's cost-to-income ratio (CIR) in 3Q21 was below 30%, an optimal level, and a sharp decrease compared with the same period in 2020 (40.4%) and 2020F (35.2%).

SHB to exceed 2021 NPBT target (~17%), thanks to unexpected income amid increasing bad debt provisioning

- In August, SHB divested 100% of the charter capital of consumer lending company SHB Finance to Krungsri, a member of Mitsubishi UFJ Financial Group (MUFG), for approximately VND3,600bn. SHB expects to book VND1,500bn in 2021 (equivalent to 50% of charter capital) and receive the remaining 50% after three years.
- SHB is also divesting SHB Laos and SHB Cambodia in 4Q21.
- At the end of 3Q21, SHB's bad debt ratio was 2.1%. The State Bank of Vietnam has also approved new credit growth of 10.5% for SHB (currently, SHB's total loan balance is up by 8.5% as of 1H21). Although SHB should earn significant unexpected income, we believe that SHB will have to make large provisioning for credit risk at the end of the year in order to maintain its bad debt ratio at around 2%, as well as a bad debt ratio including VAMC bonds of around 3%, as planned (in 1H21, SHB handled VND641.5bn/4,247bn of VAMC bonds).

Reasonable valuation; motivation coming from raising capital story

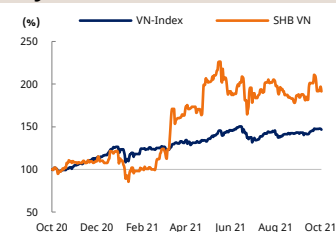
- Recently, SHB set its foreign ownership ratio at 10% to prepare for the offering of shares to foreign investors and strategic investors. According to market practice in recent years, the issue price will be around 2.5–3 times the book value for quality banks with ROE of over 30%. We expect SHB's 2021 ROE to reach 21.6% (17.0% and 14.9% for 2022 and 2023, excluding new, upcoming capital injections, 10.5% stock dividend and 28% issuance for existing shareholders); thus, the issue price will not be less than 2.3 times book value.

Valuation and recommendation

Buy and a target price of VND35,000

- We initiate SHB at Buy and a target price of VND35,000 (+27.3%) based on the PB comparison method.
- Our forecast is based on the current capital of SHB, excluding the capital increase due to the second share dividend (10.5%) and the issuance to increase capital for existing shareholders (28%).

Key data



Share performance

(%)	1M	6M	12M
Absolute	3.8	12.0	91.5
Relative	0.4	1.1	44.0

Current price (10/21/2021, VND)	27,500	Market cap (VNDbn)	52,953
TOI (21F, VNDbn)	17,005	Shares outstanding (mn)	1,926
Consensus TOI (21F, VNDbn)	N/A	Free float (%)	81.1
EPS growth (21F, %)	98.4	Foreign ownership (%)	4.0
P/E (21F, x)	9.15	Beta (12M)	1.1
Market P/E (x)	13.9	52-week low (VND)	11,545
VN-Index	1,385	52-week high (VND)	33,400

Earnings and valuation metrics (VNDbn)

Fiscal year (31/12)	12/31/2018	12/31/2019	12/31/2020	12/31/2021F	12/31/2022F	12/31/2023F
Net interest income (VNDbn)	5,556	7,830	9,933	13,315	13,988	14,950
Net fee income (VNDbn)	714	694	523	491	539	603
TOI (VNDbn)	6,742	9,389	12,207	17,005	16,717	17,554
NP (VNDbn)	1,672	2,418	2,607	5,785	5,463	5,602
EPS (VND)	1,390	1,563	1,514	3,004	2,836	2,909
ROE (%)	10.78%	13.88%	12.26%	21.63%	16.99%	14.88%
P/E (x) (@VND35,000)	5.2	3.4	11.2	11.65	12.34	12.03
P/B (x) (@VND35,000)	0.5	0.4	1.2	2.3	1.9	1.7
Book value (VND)	13,570	15,377	13,727	15,294	18,102	20,983

Source: Bloomberg, Mirae Asset Vietnam forecast

Figure 1: Size of SHB and other banks in 2020, plus other key financial ratios

Ticker	Market Cap (VND bn)	EPS LTM (VND)	Current price	LLR (%)	LDR (Pure %)	NPL (%)	CAR	NIM (%)	ROE (%)	ROA (%)	P/B	P/E	Equity (VND billion)	Total asset (VND billion)
State-owned banks														
VCB	359,761	5,534	97,000	368.0	81.4	0.6	9.56	3.00	21.12	1.65	3.43	17.53	94,095	1,326,230
BID	160,479	2,464	39,900	89.2	97.2	1.8	8.61	2.60	12.56	0.64	1.97	16.19	79,647	1,516,686
CTG	147,537	3,417	30,700	132.0	100.0	0.9	> 9.00	2.99	18.97	1.21	1.59	8.99	85,411	1,341,436
Average					92.8	1.1		2.87	17.55	1.17	2.33	14.24		
Top JS Commercial Banks														
TCB	183,972	4,613	52,400	171.0	100.0	0.5	16.08	4.97	21.50	3.59	2.21	11.36	74,615	439,603
VPB	163,817	2,807	36,850	45.3	124.6	3.4	11.71	8.80	23.01	2.91	2.71	13.13	52,794	419,027
MBB	108,060	2,764	28,600	134.1	83.8	1.1	10.42	4.91	21.50	2.21	2.03	10.35	50,099	494,982
HDB	51,200	2,643	25,700	82.1	96.6	1.3	12.10	4.70	22.40	1.84	1.96	9.72	24,704	319,127
ACB	88,084	3,589	32,600	160.3	87.6	0.6	11.10	3.79	27.23	2.23	2.18	9.08	35,448	444,530
TPB	49,679	4,199	42,400	134.2	103.5	1.2	12.95	4.71	24.68	2.02	2.24	10.10	16,744	206,315
VIB	56,224	3,753	36,200	59.1	112.8	1.7	10.12	4.51	32.14	2.47	2.67	9.65	17,974	244,676
Average					101.3	1.4		5.20	24.64	2.47	2.29	10.48		
Median											2.19	10.22		
SHB (*)	57,767	1,934	30,000	61.4	100.68	1.83	10.08	2.89	15.50	0.90	2.17	15.51	24,036	412,680
SHB (as of 12/31/2021)								3.48	21.63	1.36				

• Source: 2020 audited FS of banks, Bloomberg, Mirae Asset Vietnam Research compilation (October 13, 2021)

(*) data of Owner's Equity and Total Assets as of June 30, 2021 of SHB, as SHB has not yet issued an official 3Q21 financial report

We expect promising upside prospects for SHB shares, thanks to four key factors: 1) extraordinary income in 2021; 2) potential for increasing income, due to large asset size and improving NIM; 3) active handling of old bad debts; and 4) its plans to sell capital in 2021–2022.

With a forecast EPS 2021 of VND3,004 and book value at the end of 2021 of VND15,294 (calculated according to SHB's current charter capital of VND19,260bn - excluding the second capital increase by stock dividend of 10.5% and the issuance to existing shareholders at 28%, expected to be implemented in November and December 2021).

We initiate SHB at Buy and a target price of VND35,000 (+27.3%), equivalent to 2021 forward PE of 11.65x and 2021 forward PB of 2.29x. This is based on the expectation that SHB will issue shares to strategic investors at a valuation equivalent to 2.3 times book value, calculated according to current charter capital.

Saigon Hanoi Commercial Joint Stock Bank (SHB VN)

Income statement (summarized)

(VNDbn)	2020	2021F	2022F	2023F
Interest and similar income	31,287	33,338	37,637	42,342
Interest and similar expense	(21,354)	(20,023)	(23,648)	(27,392)
Net interest income	9,933	13,315	13,988	14,950
Fee and commission income	749	819	979	1,206
Fee and commission expenses	(226)	(328)	(441)	(603)
Net fee and commission income	523	491	539	603
Income from foreign exchange activities	125	133	150	169
Income from trading securities	-	-	-	-
Income from securities investment	1,293	1,300	1,040	832
Net other income	349	1,765	1,000	1,000
Income from capital contribution	(15)	-	-	-
Total operating income	12,207	17,005	16,717	17,554
Total operating expenses	(4,299)	(4,444)	(4,751)	(5,093)
Net operating profit before allowance expenses for credit risk	7,908	12,560	11,966	12,461
Allowance expenses for credit risk	(4,640)	(5,697)	(5,138)	(5,458)
Profit Before Tax	3,268	6,864	6,828	7,003
Income tax expenses	(661)	(1,079)	(1,366)	(1,401)
Net Profit	2,607	5,785	5,463	5,602
Minority interests				
Net Profit Attributable to Parent	2,607	5,785	5,463	5,602
EPS (VND)	1,514	3,004	2,836	2,909

Statement of Financial Position (Summarized)

(VNDbn)	2020	2021F	2022F	2023F
Cash and cash equivalents	1,620	1,338	1,484	1,659
Balances with SBV	14,806	9,544	10,585	11,835
Deposits and loans to other Cis	31,251	31,251	33,563	33,563
Net loans and advances to clients	302,199	331,972	372,735	429,956
Gross Loan	305,637	337,729	378,257	434,995
Allowances	(3,438)	(5,758)	(5,522)	(5,039)
Debt purchases	-	-	-	-
Net Investment Securities	28,640	29,900	22,845	23,810
Net Long-term Investments	133	133	133	133
Fixed Assets	4,866	6,586	6,210	5,835
Net Other Assets	29,164	29,269	42,607	42,684
Total Assets	412,680	439,992	490,162	549,477
Liabilities	388,643	410,535	455,297	509,061
Deposits & borrowings from other Cis	38,962	36,274	40,229	44,981
Customer deposits	303,582	324,832	360,564	403,832
Borrowed and entrusted funds	3,513	3,769	4,180	4,673
Valuable papers issued	31,034	34,137	37,551	41,306
Other liabilities	11,552	10,882	12,069	13,494
Shareholder's Equity	24,036	29,457	34,865	40,415
Charter Capital	17,510	19,260	19,260	19,260
Retained earnings	4,323	7,607	12,741	18,011
Share premium	102	102	102	102
Reserves	2,204	2,493	2,767	3,047
Total Liabilities and Equity	412,680	439,992	490,162	549,477

Key financial ratio

	2020	2021F	2022F	2023F
Valuation				
Average outstanding shares (mn)	1,477	1,839	1,926	1,926
Year-end outstanding shares (mn)	1,751	1,926	1,926	1,926
EPS (VND)	1,514	3,004	2,836	2,909
EPS growth	-3.13%	98.38%	-5.57%	2.55%
BVPS (VND)	13,727	15,294	18,102	20,983
PE forward (@VND35,000)		11.65	12.34	12.03
PB forward (@VND35,000)		2.29	1.93	1.67

Capital Adequacy Ratio

CAR	10.08%	N/A	N/A	N/A
Equity/Total Assets	5.8%	6.7%	7.1%	7.4%
Equity multiplier	17.2	14.9	14.1	13.6

Asset quality

Risk assets to total assets ratio	84.8%	85.2%	84.8%	85.9%
NPL ratio groups 3-5	1.83%	3.65%	1.93%	1.73%
NPL ratio groups 2-5	4.02%	6.65%	4.43%	3.73%
Loan loss coverage group 3-5 (LLR)	61.4%	46.7%	75.7%	66.8%
Loan loss coverage group 2-5	28.0%	25.6%	33.0%	31.0%
% write-off	0.97%	1.00%	1.42%	1.37%
% NPLs pre-write-off	2.81%	4.65%	3.35%	3.10%
NPLs formation	1.15%	2.99%	0.09%	1.42%
Credit cost	1.63%	1.77%	1.44%	1.34%

Source: Company financial statements, Mirae Asset Vietnam projection

	2020	2021F	2022F	2023F
Growth ratios				
Asset growth	13.0%	6.6%	11.4%	12.1%
Loan growth	15.3%	10.5%	12.0%	15.0%
Customer deposit growth	17.1%	7.0%	11.0%	12.0%
Capital growth	29.9%	22.6%	18.4%	15.9%
Pretax profit growth	8.0%	110.0%	-0.5%	2.5%
Net profit growth	7.8%	121.9%	-5.6%	2.5%
PPOP growth	45.4%	58.8%	-4.7%	4.1%

Profitability & Efficiency

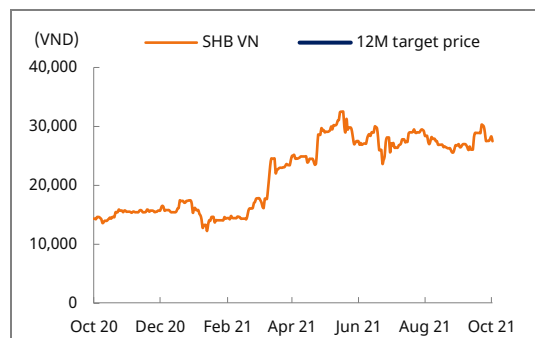
ROA	0.67%	1.4%	1.2%	1.1%
ROE	12.26%	21.6%	17.0%	14.9%
Average funding cost	5.97%	5.15%	5.61%	5.84%
Gross yield	9.10%	8.71%	9.03%	9.13%
NIM	2.89%	3.48%	3.36%	3.22%
NII/ TOI	81.4%	78.3%	83.7%	85.2%
CIR	35.2%	26.1%	28.4%	29.0%
Provision expense/ TOI	38.0%	33.5%	30.7%	31.1%

APPENDIX 1

Important Disclosures & Disclaimers

Two-Year Rating and Target Price History

Company (Code)	Date	Rating	Target Price
Saigon Hanoi Commercial Joint Stock Bank	Oct. 21, 2021	Buy	35,000



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Vietnam Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Disclosures

As of the publication date, Mirae Asset Vietnam and/or its affiliates do not have any special interest with the subject company and do not own 1% or more of the subject company's shares outstanding.

Analyst Certification

The research analysts who prepared this report (the "Analysts") are registered with the Korea Financial Investment Association and are subject to Korean securities regulations. They are neither registered as research analysts in any other jurisdiction nor subject to the laws or regulations thereof. Each Analyst responsible for the preparation of this report certifies that (i) all views expressed in this report accurately reflect the personal views of the Analyst about any and all of the issuers and securities named in this report and (ii) no part of the compensation of the Analyst was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report. Mirae Asset Vietnam Co., Ltd. ("Mirae Asset Vietnam") policy prohibits its Analysts and members of their households from owning securities of any company in the Analyst's area of coverage, and the Analysts do not serve as an officer, director or advisory board member of the subject companies. Except as otherwise specified herein, the Analysts have not received any compensation or any other benefits from the subject companies in the past 12 months and have not been promised the same in connection with this report. Like all employees of Mirae Asset Vietnam, the Analysts receive compensation that is determined by overall firm profitability, which includes revenues from, among other business units, the institutional equities, investment banking, proprietary trading and private client division. At the time of publication of this report, the Analysts do not know or have reason to know of any actual, material conflict of interest of the Analyst or Mirae Asset Vietnam except as otherwise stated herein.

Disclaimers

This report was prepared by Mirae Asset Vietnam, a broker-dealer registered in the Republic of Korea and a member of the Korea Exchange. Information and opinions contained herein have been compiled in good faith and from sources believed to be reliable, but such information has not been independently verified and Mirae Asset Vietnam makes no guarantee, representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained herein or of any translation into English from the Korean language. In case of an English translation of a report prepared in the Korean language, the original Korean language report may have been made available to investors in advance of this report.

The intended recipients of this report are sophisticated institutional investors who have substantial knowledge of the local business environment, its common practices, laws and accounting principles and no person whose receipt or use of this report would violate any laws or regulations or subject Mirae Asset Vietnam or any of its affiliates to registration or licensing requirements in any jurisdiction shall receive or make any use hereof.

This report is for general information purposes only and it is not and shall not be construed as an offer or a solicitation of an offer to effect transactions in any securities or other financial instruments. The report does not constitute investment advice to any person and such person shall not be treated as a client of Mirae Asset Vietnam by virtue of receiving this report. This report does not take into account the particular investment objectives, financial situations, or needs of individual clients. The report is not to be relied upon in substitution for the exercise of independent judgment. Information and opinions contained herein are as of the date hereof and are subject to change without notice. The price and value of the investments referred to in this report and the income from them may depreciate or appreciate, and investors may incur losses on investments. Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. Mirae Asset Vietnam, its affiliates and their directors, officers, employees and agents do not accept any liability for any loss arising out of the use hereof.

Mirae Asset Vietnam may have issued other reports that are inconsistent with, and reach different conclusions from, the opinions presented in this report. The reports may reflect different assumptions, views and analytical methods of the analysts who prepared them. Mirae Asset Vietnam may make investment decisions that are inconsistent with the opinions and views expressed in this research report. Mirae Asset Vietnam, its affiliates and their directors, officers,

employees and agents may have long or short positions in any of the subject securities at any time and may make a purchase or sale, or offer to make a purchase or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case either as principals or agents. Mirae Asset Vietnam and its affiliates may have had, or may be expecting to enter into, business relationships with the subject companies to provide investment banking, market-making or other financial services as are permitted under applicable laws and regulations.

No part of this document may be copied or reproduced in any manner or form or redistributed or published, in whole or in part, without the prior written consent of Mirae Asset Vietnam. For further information regarding company-specific information as it pertains to the representations and disclosures in this Appendix 1, please contact compliance@miraeasset.us.com or +1 (212) 407-1000

Distribution

United Kingdom: This report is being distributed by Mirae Asset Securities (UK) Ltd. in the United Kingdom only to (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), and (ii) high net worth companies and other persons to whom it may lawfully be communicated, falling within Article 49(2)(A) to (E) of the Order (all such persons together being referred to as "Relevant Persons"). This report is directed only at Relevant Persons. Any person who is not a Relevant Person should not act or rely on this report or any of its contents.

United States: Mirae Asset Vietnam is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This report is distributed in the U.S. by Mirae Asset Securities (USA) Inc., a member of FINRA/SIPC, to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6(b)(4) under the U.S. Securities Exchange Act of 1934, as amended. All U.S. persons that receive this document by their acceptance hereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Mirae Asset Vietnam or its affiliates. Any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Mirae Asset Securities (USA) Inc. Mirae Asset Securities (USA) Inc. accepts responsibility for the contents of this report in the U.S., subject to the terms hereof, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Mirae Asset Vietnam. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. persons absent registration or an applicable exemption from the registration requirements.

Hong Kong: This report is distributed in Hong Kong by Mirae Asset Securities (HK) Limited, which is regulated by the Hong Kong Securities and Futures Commission. The contents of this report have not been reviewed by any regulatory authority in Hong Kong. This report is for distribution only to professional investors within the meaning of Part I of Schedule 1 to the Securities and Futures Ordinance of Hong Kong (Cap. 571, Laws of Hong Kong) and any rules made thereunder and may not be redistributed in whole or in part in Hong Kong to any person.

All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Mirae Asset Vietnam or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Mirae Asset Vietnam and its affiliates to any registration or licensing requirement within such jurisdiction.

Mirae Asset Vietnam International Network

Mirae Asset Vietnam Co., Ltd. (Seoul) Global Equity Sales Team Mirae Asset Center 1 Building 26 Eulji-ro 5-gil, Jung-gu, Seoul 04539 Korea Tel: 82-2-3774-2124	Mirae Asset Securities (HK) Ltd. Units 8501, 8507-8508, 85/F International Commerce Centre 1 Austin Road West Kowloon Hong Kong Tel: 852-2845-6332	Mirae Asset Securities (UK) Ltd. 41st Floor, Tower 42 25 Old Broad Street, London EC2N 1HQ United Kingdom Tel: 44-20-7982-8000
Mirae Asset Securities (USA) Inc. 810 Seventh Avenue, 37th Floor New York, NY 10019 USA Tel: 1-212-407-1000	Mirae Asset Wealth Management (USA) Inc. 555 S. Flower Street, Suite 4410, Los Angeles, California 90071 USA Tel: 1-213-262-3807	Mirae Asset Wealth Management (Brazil) CCTVM Rua Funchal, 418, 18th Floor, E-Tower Building Vila Olimpia Sao Paulo - SP 04551-060 Brasil Tel: 55-11-2789-2100
PT. Mirae Asset Sekuritas Indonesia Equity Tower Building Lt. 50 Sudirman Central Business District Jl. Jend. Sudirman, Kav. 52-53 Jakarta Selatan 12190 Indonesia Tel: 62-21-515-3281	Mirae Asset Securities (Singapore) Pte. Ltd. 6 Battery Road, #11-01 Singapore 049909 Republic of Singapore Tel: 65-6671-9845	Mirae Asset Securities (Vietnam) LLC 7F, Saigon Royal Building 91 Pasteur St. District 1, Ben Nghe Ward, Ho Chi Minh City Vietnam Tel: 84-8-3911-0633 (ext.110)
Mirae Asset Securities Mongolia UTsK LLC #406, Blue Sky Tower, Peace Avenue 17 1 Khoroo, Sukhbaatar District Ulaanbaatar 14240 Mongolia Tel: 976-7011-0806	Mirae Asset Investment Advisory (Beijing) Co., Ltd 2401B, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699	Beijing Representative Office 2401A, 24th Floor, East Tower, Twin Towers B12 Jianguomenwai Avenue, Chaoyang District Beijing 100022 China Tel: 86-10-6567-9699 (ext. 3300)
Shanghai Representative Office 38T31, 38F, Shanghai World Financial Center 100 Century Avenue, Pudong New Area Shanghai 200120 China Tel: 86-21-5013-6392	Ho Chi Minh Representative Office 7F, Saigon Royal Building 91 Pasteur St. District 1, Ben Nghe Ward, Ho Chi Minh City Vietnam Tel: 84-8-3910-7715	