

Saigon Hanoi Commercial Joint Stock Bank

(HOSE: SHB)

Transforming

Mirae Asset Securities (Vietnam) LLC.
 Nguyen Nam Son, son.nn@miraeeasset.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

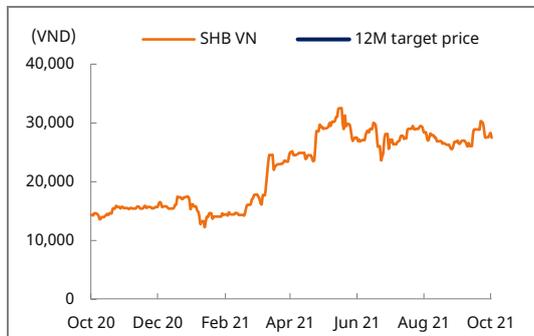
	2020	2021F	2022F	2023F
Growth ratios				
Asset growth	13.0%	6.6%	11.4%	12.1%
Loan growth	15.3%	10.5%	12.0%	15.0%
Customer deposit growth	17.1%	7.0%	11.0%	12.0%
Capital growth	29.9%	22.6%	18.4%	15.9%
Pretax profit growth	8.0%	110.0%	-0.5%	2.5%
Net profit growth	7.8%	121.9%	-5.6%	2.5%
PPOP growth	45.4%	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%
NI/ 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 (◆))
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 * 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.
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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 (USA) Inc.

810 Seventh Avenue, 37th Floor
New York, NY 10019
USA

Tel: 1-212-407-1000

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 Mongolia UTsK LLC

#406, Blue Sky Tower, Peace Avenue 17
1 Khoroo, Sukhbaatar District
Ulaanbaatar 14240
Mongolia

Tel: 976-7011-0806

Shanghai Representative Office

38T31, 38F, Shanghai World Financial Center
100 Century Avenue, Pudong New Area Shanghai
200120
China

Tel: 86-21-5013-6392

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 Wealth Management (USA) Inc.

555 S. Flower Street, Suite 4410,
Los Angeles, California 90071
USA

Tel: 1-213-262-3807

Mirae Asset Securities (Singapore) Pte. Ltd.

6 Battery Road, #11-01
Singapore 049909
Republic of Singapore

Tel: 65-6671-9845

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

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

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 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

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)

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)