

# Hochiminh Development JSCB

(HDB VN)

## Another good year

**BUY**  
(Upgrade)

**TP: VND36,400**  
Upside: 23.8%

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### 9M21 review

#### Stagnant balance sheet growth, surging profit

- The credit growth of Hochiminh Development JSCB (HDB) faced pressures in 2Q and 3Q of 2021, due to COVID-19. By the end of 3Q21, its credit book had grown moderately to VND200.5tr (US\$8.5bn), up by 7.6% YTD, or more than 16.1% YoY.
- The bank's loan book quality weakened slightly in 9M21. Total loans classified as group 3 or under had risen to VND2.7tr (US\$114mn), up by 13.7% YTD, but down by 11% YTD. The non-performing loan (NPL) ratio inched up in 9M21 to 1.4% (+0.1%p YTD), while provisioning coverage decreased to 80.9% (-1.2%p YTD). 9M21 pre-tax profit reached VND6.1tr (US\$259mn, +38.9% YoY), equivalent to 84.5% of its annual plan.
- COVID-19 put significant pressures on both the asset growth and earnings of local consumer credit companies, particularly HDSaison (HDS). Consequently, loan balance fell by 13.5% YTD, reducing the contribution of HDS in terms of consolidated net interest margin (NIM).

### Investment points

#### Ready to speed up

- Credit growth is expected to rebound in 4Q21 and 2022. In 9M21, credit growth of HDB was low, at about 7.6% YTD, compared with 15% YTD in 9M20. The reopening of key economic regions in Southern Vietnam and availability of sufficient capital will boost credit growth in the short- to medium term.
- We expect the bank's NIM to be normalized in 2022, based on the following assumptions: 1) recovery of both the loan growth and lending income of its consumer finance company; 2) lower financial leverage; 3) the end of interest rate incentive packages; and 4) using hybrid debt funding to reduce borrowing cost, while mitigating the impact of dilution.

#### Provisioning to peak in 2022

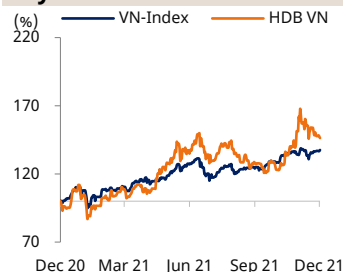
- At the end of 3Q21, loans to SME and personal loans (including consumer credit) accounted for 92.4% of HDB's credit. Based on the high concentration of retail banking in HDB's credit portfolio, we expect the credit cost of the bank to reach a peak in 2022.

### Valuation

#### Upgrade to Buy; raise TP to VND36,400

- We raise our target price for HDB to VND36,400 (from VND24,200), equivalent to forward P/B of 2.5x. The forward P/B would be in line with our new target trading multiples of top tier banks. Accordingly, we upgrade our rating to Buy (from Trading Buy).

#### Key data



#### Share performance

| (%)      | 1M    | 6M   | 12M  |
|----------|-------|------|------|
| Absolute | -9.6  | 3.4  | 48.4 |
| Relative | -12.4 | -3.6 | 11.1 |

|                                 |         |                         |        |
|---------------------------------|---------|-------------------------|--------|
| Current price (12/21/2021, VND) | 29,400  | Market cap (VND tr)     | 58,173 |
| Exchange                        | 1,478.7 | Shares outstanding (mn) | 1,992  |
| EPS growth (21F, %)             | 14.8    | Free float (%)          | 70.0   |
| P/E (21F, x)                    | 10.5    | 52-week low (VND)       | 16,160 |
| Market P/E (21F, x)             | 17.5    | 52-week high (VND)      | 33,950 |

#### Earnings and valuation metrics

| FY (Dec.)                      | 2018   | 2019   | 2020   | 2021F  | 2022F  | 2023F  |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| Net interest inc. (VND bn)     | 7,646  | 9,747  | 11,898 | 14,536 | 17,377 | 20,164 |
| Net non-interest inc. (VND bn) | 1,795  | 1,641  | 1,882  | 2,919  | 3,021  | 3,421  |
| Profit before tax (VND bn)     | 4,005  | 5,018  | 5,818  | 8,135  | 9,290  | 12,014 |
| Net profit (VND bn)            | 2,842  | 3,605  | 4,249  | 6,107  | 6,900  | 8,924  |
| EPS (VND)                      | 2,897  | 3,697  | 2,691  | 3,089  | 3,490  | 4,514  |
| P/E (x)                        | 8.1    | 13.6   | 11.8   | 10.5   | 8.1    | 7.2    |
| BVPS (VND)                     | 17,154 | 20,902 | 14,567 | 14,721 | 18,211 | 22,724 |
| P/B (x)                        | 1.4    | 2.5    | 2.5    | 2.0    | 1.6    | 1.3    |

Source: Company data, Mirae Asset Research estimates

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## 1) Forecasts and outlook

|                              | 2020A | 2021F | 2022F | Comments   |
|------------------------------|-------|-------|-------|--|
| <b>Balance sheet (YoY %)</b> |       |       |       |  |
| Assets                       | 39.1  | 15.5  | 15.0  | In contrast to most of the banks in our coverage, the credit growth of HDB in 9M21 was low, at 7.6% YTD, versus that of its peers. The main cause of the stagnant growth was the high concentration in terms of customer type and geographic distribution of HDB's credit book. Due to the impact of COVID-19, credit demand of key customer segments was low in 9M21. In addition, southern Vietnam was the key region for HDB, accounting for up to 74% of the bank's assets allocation as of 2020. The region was the most affected by COVID-19, in terms of infection cases and economic impact. |
| Loan                         | 23.2  | 16.8  | 17.8  |  |
| Credit                       | 23.1  | 16.7  | 17.2  | Credit growth is expected to accelerate in the last quarter of the year, on easing of social distancing measures. Thanks to economic recovery in the southern region, there will be a strong rebound in credit demand for business operations and the shopping/investing needs of personal customers. Meanwhile, a number of top-tier banks used up most of their credit room in 9M21, and HDB requested additional credit growth room from SBV. Thus, credit growth should strongly rebound in 4Q21, which would boost profit growth.   |
| IEA                          | 40.6  | 16.1  | 15.7  | 9M21 interest bearing liabilities (IBL) grew by 8% YTD, reaching VND306.9tr (US\$13.1bn). Key drivers of borrowing growth included customer deposits and interbank borrowing, increasing by 11.3% YTD and 28.2% YTD, respectively. Based on our expectation for credit to grow at a more sustainable growth level, IBL will grow in proportion to credit.  |
| IBL                          | 44.1  | 15.0  | 14.5  |  |
| CASA (%)                     | 12.4  | 13.1  | 13.4  | CASA is expected to improve. During 9M21, CASA of the bank was flat at 12.3%, due to the bank's weakness in attracting daily transactions (i.e., lack of promotional policies, such as zero fees, cashback, etc.) and low contribution of retail deposits within the IBL mix of 50.5%. According to the new focus on prioritizing the promotion of digital banking and expanding retail customer coverage, CASA should gradually advance in the future.  |
| <b>Loans quality (%)</b>     |       |       |       |  |
| NPL                          | 1.3   | 1.5   | 1.4   | Due to the nature HDB's credit book, including high retail concentration and substantial southern area distribution, we expect the NPL and gross NPL (including group 2 loans) of the bank to peak in 2021 and 2022.   |
| Gross NPL                    | 2.6   | 3.5   | 3.2   |  |
| NPL coverage                 | 82.1  | 72.6  | 83.8  | Cir.14 allows banks to restructure affected loans without changing loan classifications. In addition, the circular allows banks to book specific provisioning for restructured loans under a 3-year phase-in plan; thus, we assume that credit cost will remain at the same level.   |
| Credit cost                  | 0.59  | 0.57  | 0.64  |  |
| <b>Margin (%)</b>            |       |       |       |  |
| IEA Yield                    | 9.0   | 8.5   | 9.1   | The conclusion of social distancing measures will lead to improved yield for HDB's IEA. Expectations on the recovery of consumer credit growth could also support the bank's consolidated IEA yield and NIM in 2022.   |
| IBL Cost                     | 4.0   | 4.0   | 4.5   |  |
| NIM                          | 4.6   | 4.5   | 4.6   | Yield should inch up on the assumption of a funding rate increase, which would partially offset yield rebound.   |
| <b>Incomes (YoY %)</b>       |       |       |       |  |
| NII                          | 22.1  | 22.2  | 19.5  | Net income from lending activities is expected to be the key income driver for HDB in 2022. High credit growth will sustain net interest income momentum in the medium term. Net service income growth should slow in 2022, due to a high base. Meanwhile, the contribution to net other income of significant capital gains from bond trading is expected to decline in 2022, as a large proportion of high-yield bonds have been sold.   |
| NSI                          | 59.4  | 58.2  | 13.0  |  |
| NOI                          | -10.9 | 52.0  | -6.6  |  |
| CIR                          | 44.8  | 42.0  | 41.8  |  |
| PPOP                         | 20.6  | 33.1  | 17.3  | Net profit will see some pressure from increasing credit cost and stagnant growth of non-core incomes.   |
| PBT                          | 15.9  | 39.8  | 14.2  |  |

## 2) HD Saison highlights

Figure 1. Loan balance of HDS (VNDtr)

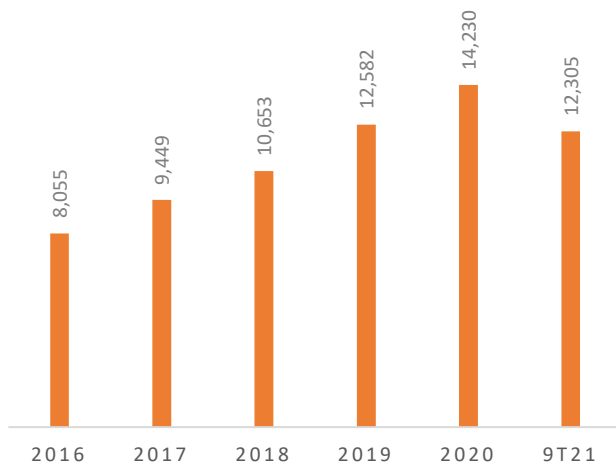
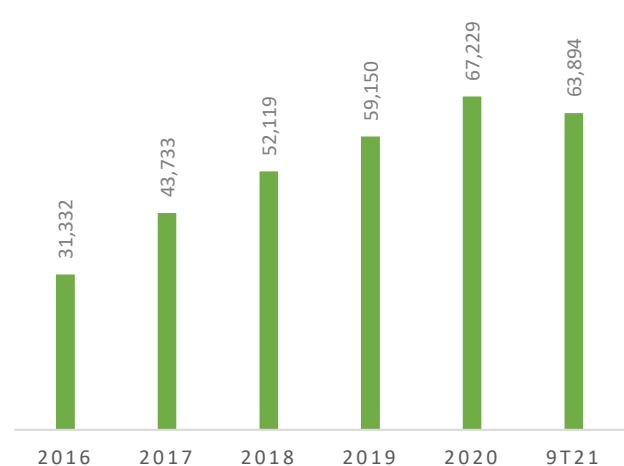


Figure 2. Loan balance of FEC (VNDtr)



Source: Company data, Mirae Asset Research

Tailwind pressure of the pandemic on loan growth of credit consumer companies is expected to soon end. Regardless of COVID-19 waves in 2020, consumer credit market quickly recovered in 2H20, recording year on year growth of more than 13% by market leaders HD Saison (HDS) and FE Credit (FEC). The two have different market focuses (HDS: two-wheel loans; FEC: cash loans and credit cards). We expect most of the consumer credit sub-segment to rebound alongside local economic recoveries in late-2021 and 2022.

Figure 3. HDS' NPL

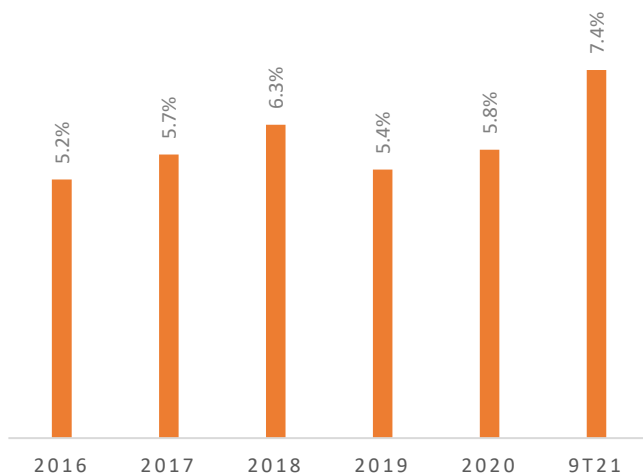
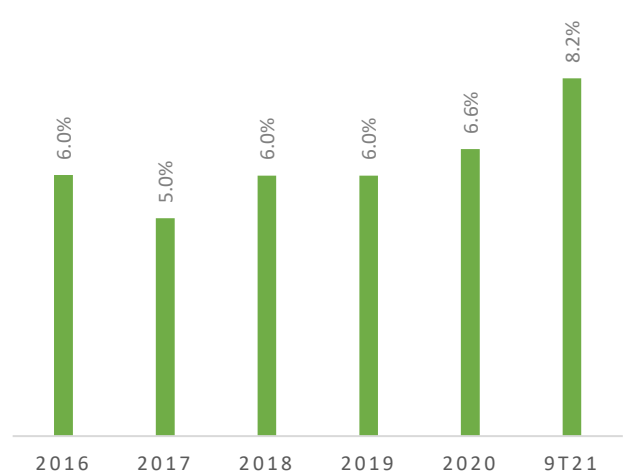


Figure 4. FEC's NPL



Source: Company data, Mirae Asset Research

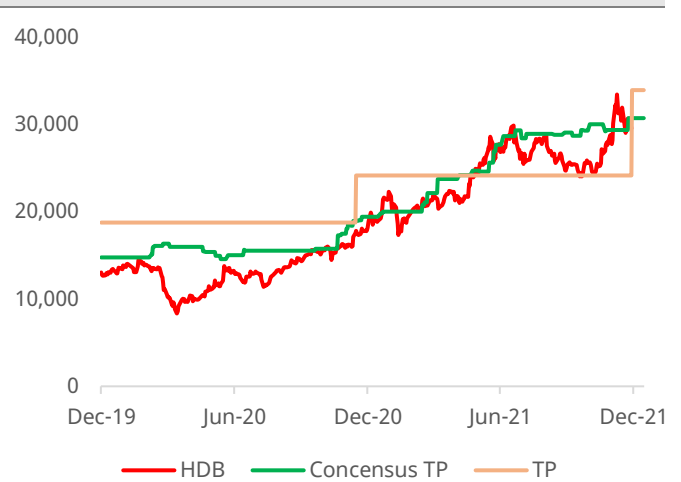
We believe that NPL reached a peak in 3Q21. According to banks, affected loans can only be restructured if the lender believes that the borrower is capable of fulfilling debt obligations based on their internal rating systems. Social distancing approaches applied in 3Q21 immediately hit personal income; thus, most NPL were recorded during the period. In addition, renewed loan growth would depress NPL.

### 3) Valuation

Figure 5. Trailing P/B



Figure 6. Target price



Source: Bloomberg, Mirae Asset Research

Thanks to robust earnings in 9M21, the remainder of HDB's annual profit target should easily be completed. During the period, HDB accomplished 84.5% of its PBT target, leaving the bank room to balance between provisioning coverage and profit momentum.

Using hybrid funding instruments supports both fundamental and market price perception. Convertible price has been appreciated by the sentiment. In the most recent correction of HDB, the stock price quickly rebounded, partly thanks to convertible price and proximity to maturity. As we have mentioned in previous reports, the funding cost of valuable paper of HDB was high compared with that of its peers; thus, hybrid instruments will ease funding cost of the bank to some extent. In addition, convertible bonds should also improve the bank's capital adequacy ratio.

Being one of the candidates whose foreign owned limit (FOL) can be extended up to 49% to comply with EVFTA will be a significant catalyst for HDB. If HDB is chosen for FOL relaxation, the stock could attract long-term investors. Meanwhile, the probability of FOL relaxation could also be a short-term pitch for the stock.

We raise our target price for HDB to VND36,400 (from VND24,200), equivalent to forward P/B of 2.5x. The forward P/B is in line with our new target trading multiples for the top-tier banks. Accordingly, we upgrade our rating to Buy (from Trading Buy).

## Hochiminh Development JSCB (HDB VN EQUITY)

## Income statement (summarized)

| (VND bn)                                  | FY20          | FY21F         | FY22F         | FY23F         |
|---|---------------|---------------|---------------|---------------|
| Interest income                           | 23,137        | 27,769        | 34,245        | 40,731        |
| Interest expenses                         | 11,240        | 13,233        | 16,868        | 20,567        |
| <b>Net interest income</b>                | <b>11,898</b> | <b>14,536</b> | <b>17,377</b> | <b>20,164</b> |
| Net fees and commissions                  | 950           | 1,503         | 1,698         | 1,901         |
| Net other non-interest income             | 932           | 1,416         | 1,323         | 1,520         |
| <b>Total net operating income</b>         | <b>13,779</b> | <b>17,455</b> | <b>20,398</b> | <b>23,585</b> |
| Total operating expenses                  | 6,173         | 7,331         | 8,526         | 9,812         |
| PPOP                                      | 7,607         | 10,124        | 11,872        | 13,774        |
| Total provision expenses                  | 1,788         | 1,989         | 2,582         | 1,760         |
| <b>Profit before tax</b>                  | <b>5,818</b>  | <b>8,135</b>  | <b>9,290</b>  | <b>12,014</b> |
| Tax expense                               | 1,171         | 1,637         | 1,870         | 2,418         |
| <b>Net profit</b>                         | <b>4,647</b>  | <b>6,497</b>  | <b>7,420</b>  | <b>9,596</b>  |
| <b>Net profit (ex. minority interest)</b> | <b>4,249</b>  | <b>6,107</b>  | <b>6,900</b>  | <b>8,924</b>  |

## DuPont analysis (%)

|                                   | FY20         | FY21F        | FY22F        | FY23F        |
|-----------------------------------|--------------|--------------|--------------|--------------|
| Interest income                   | 8.43         | 8.08         | 8.64         | 9.01         |
| Interest expenses                 | 4.10         | 3.85         | 4.26         | 4.55         |
| <b>Net interest income</b>        | <b>4.34</b>  | <b>4.23</b>  | <b>4.39</b>  | <b>4.46</b>  |
| Net commissions income            | 0.35         | 0.44         | 0.43         | 0.42         |
| Net other non-interest income     | 0.34         | 0.41         | 0.33         | 0.34         |
| <b>Total net operating profit</b> | <b>5.02</b>  | <b>5.08</b>  | <b>5.15</b>  | <b>5.22</b>  |
| Total operating expenses          | 2.25         | 2.13         | 2.15         | 2.17         |
| <b>PPOP</b>                       | <b>2.77</b>  | <b>2.94</b>  | <b>3.00</b>  | <b>3.05</b>  |
| Total provision expenses          | 0.65         | 0.58         | 0.65         | 0.39         |
| <b>Profit before tax</b>          | <b>2.12</b>  | <b>2.37</b>  | <b>2.34</b>  | <b>2.66</b>  |
| Tax expenses                      | 0.43         | 0.48         | 0.47         | 0.53         |
| Net profit (non-controlling)      | <b>0.15</b>  | <b>0.11</b>  | <b>0.13</b>  | <b>0.15</b>  |
| <b>ROA</b>                        | <b>1.55</b>  | <b>1.78</b>  | <b>1.74</b>  | <b>1.97</b>  |
| <b>Leverage (x)</b>               | <b>12.2</b>  | <b>12.3</b>  | <b>11.4</b>  | <b>10.4</b>  |
| <b>ROE</b>                        | <b>18.85</b> | <b>21.85</b> | <b>19.77</b> | <b>20.55</b> |
| Asset quality (%)                 |              |              |              |              |
| NPL ratio                         | 1.32         | 1.50         | 1.40         | 1.40         |
| Broad NPL ratio                   | 2.59         | 3.50         | 3.20         | 2.90         |
| NPL coverage ratio                | 82.10        | 72.57        | 83.85        | 81.98        |
| Reserves to total credits         | 0.59         | 0.61         | 0.68         | 0.68         |
| Credit cost (% of total loans)    | 1.00         | 0.95         | 1.05         | 0.62         |
| Credit cost (% of total credit)   | 0.59         | 0.57         | 0.64         | 0.38         |
| <b>Per share items (VND)</b>      |              |              |              |              |
| EPS (reported)                    | 2,691        |              |              |              |
| EPS (normalized)                  | 2,691        | 3,089        | 3,490        | 4,514        |
| BVPS                              | 14,567       | 14,721       | 18,211       | 22,724       |
| PPOP/ share                       | 4,773        | 5,082        | 5,959        | 6,914        |

Source: Company data, Mirae Asset Research estimates

## Balance sheet (summarized)

| (VND bn)                          | FY20           | FY21F          | FY22F          | FY23F          |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Cash & dues                       | <b>2,257</b>   | <b>2,596</b>   | <b>2,855</b>   | <b>3,141</b>   |
| Securities                        | 70,715         | 80,387         | 89,172         | 98,013         |
| Net loans and receivables         | 221,199        | 261,157        | 305,827        | 350,104        |
| Tangible assets                   | 601            | 686            | 712            | 769            |
| Other assets                      | 24,355         | 23,760         | 25,379         | 28,255         |
| <b>Total assets</b>               | <b>319,127</b> | <b>368,585</b> | <b>423,945</b> | <b>480,282</b> |
| Deposits                          | 174,620        | 209,138        | 241,275        | 271,143        |
| Borrowings                        | 78,356         | 88,653         | 101,732        | 114,719        |
| Debentures                        | 34,332         | 32,349         | 34,709         | 38,215         |
| Other liabilities                 | 7,115          | 7,245          | 7,607          | 7,988          |
| <b>Total liabilities</b>          | <b>294,423</b> | <b>337,384</b> | <b>385,324</b> | <b>432,065</b> |
| Capital stock                     | 16,088         | 20,073         | 20,073         | 20,073         |
| Capital surplus                   | 536            | 536            | 536            | 536            |
| <b>Retained earnings</b>          | <b>4,939</b>   | <b>6,765</b>   | <b>13,319</b>  | <b>21,840</b>  |
| Reserve funds                     | 1,434          | 1,731          | 2,077          | 2,481          |
| Non-controlling interests         | 1,707          | 2,097          | 2,616          | 3,288          |
| <b>Total shareholders' equity</b> | <b>24,704</b>  | <b>31,201</b>  | <b>38,621</b>  | <b>48,217</b>  |

## Key valuation metrics/ratios

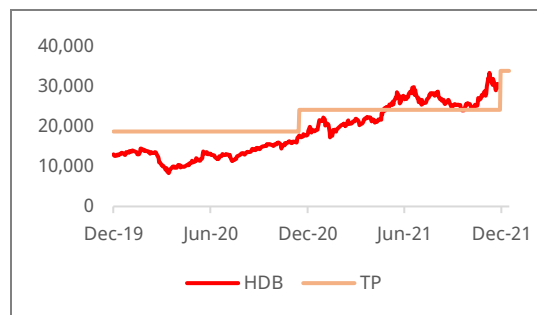
|                                    | FY20  | FY21F | FY22F | FY23F |
|------------------------------------|-------|-------|-------|-------|
| <b>Growth (YoY)</b>                |       |       |       |       |
| Loan growth                        | 21.9  | 16.8  | 17.7  | 14.9  |
| Net loans & receivables growth     | 30.6  | 18.1  | 17.1  | 14.5  |
| Deposit growth                     | 38.6  | 19.8  | 15.4  | 12.4  |
| Shareholders' equity growth        | 21.2  | 26.3  | 23.8  | 24.8  |
| Total assets growth                | 39.1  | 15.5  | 15.0  | 13.3  |
| Net interest income growth         | 22.1  | 22.2  | 19.5  | 16.0  |
| Net fee income growth              | 59.4  | 58.2  | 13.0  | 12.0  |
| PPOP growth                        | 20.6  | 33.1  | 17.3  | 16.0  |
| Operating profit growth            | 15.9  | 39.8  | 14.2  | 29.3  |
| Net profit growth                  | 17.9  | 43.7  | 13.0  | 29.3  |
| <b>Profitability</b>               |       |       |       |       |
| Net interest spread                | 5.01  | 4.47  | 4.56  | 4.53  |
| Net interest margin                | 4.61  | 4.46  | 4.60  | 4.66  |
| PPOP margin                        | 32.9  | 36.5  | 34.7  | 33.8  |
| ROA                                | 1.55  | 1.78  | 1.7   | 2.0   |
| ROE                                | 18.8  | 21.8  | 19.8  | 20.6  |
| <b>Liquidity</b>                   |       |       |       |       |
| LDR (exclude CDs)                  | 101.0 | 98.5  | 100.5 | 102.7 |
| Loans to assets                    | 55.3  | 55.9  | 57.2  | 58.0  |
| <b>Capital adequacy (Reported)</b> |       |       |       |       |
| Total CAR                          |       |       |       |       |
| Tier 1 CAR                         |       |       |       |       |
| Tier 2 CAR                         |       |       |       |       |
| <b>Operating efficiency</b>        |       |       |       |       |
| Cost to income                     | 44.8  | 42.0  | 41.8  | 41.6  |
| Cost to assets                     | 1.9   | 2.0   | 2.0   | 2.0   |

# Appendix 1

## Important disclosures and disclaimers

### Two-year rating and TP history

| Company                             | Date       | Rating      | TP (VND) |
|-------------------------------------|------------|-------------|----------|
| Hochiminh Development JSCB (HDB VN) | 02/17/2020 | Hold        | 18,800   |
| Hochiminh Development JSCB (HDB VN) | 12/04/2020 | Trading Buy | 24,200   |
| Hochiminh Development JSCB (HDB VN) | 12/21/2021 | Buy         | 36,400   |



### Stock ratings

|             |  |
|-------------|--|
| Buy         | Expected 12-month performance: +20% or greater |
| Trading Buy | Expected 12-month performance: +10% to +20%    |
| Hold        | Expected 12-month performance: -10% to +10%    |
| Sell        | Expected 12-month performance: -10% or worse   |

### Sector ratings

|             |  |
|-------------|--|
| Overweight  | Expected to outperform the market over 12 months           |
| Neutral     | Expected to perform in line with the market over 12 months |
| Underweight | Expected to underperform the market over 12 months         |

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

\* Our investment rating is a guide to the expected return of the stock over the next 12 months.

\* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

\* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

\* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

### Ratings distribution and investment banking services

|                             | Buy | Trading Buy | Hold | Sell |
|-----------------------------|-----|-------------|------|------|
| Ratings distribution        |     |             |      |      |
| Investment banking services |     |             |      |      |

\* Based on recommendations over the 12 months through

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