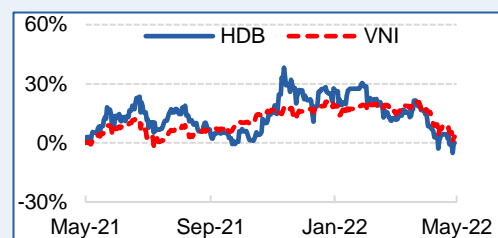




# HDBank (HDB) [BUY +58.7%]

## Update Report

<b>Industry:</b>	<b>Banking</b>		<u>2021</u>	<u>2022F</u>	<u>2023F</u>	<u>2024F</u>
<b>Report Date:</b>	<b>May 16, 2022</b>					
Current Price:	VND22,500	PPOP y/y	36.4%	22.1%	18.6%	14.5%
Target Price:	VND35,700	NPAT y/y	38.9%	23.6%	19.1%	14.4%
Previous Target Price:	VND32,200	EPS y/y	42.5%	22.9%	18.3%	14.4%
		NIM	4.28%	4.46%	4.66%	4.72%
		NPLs/loans	1.65%	1.57%	1.51%	1.45%
Upside to TP:	+58.7%	CIR	38.1%	38.5%	39.0%	39.5%
Dividend Yield:	0.0%	P/B	1.5x	1.2x	1.0x	0.8x
TSR:	+58.7%	P/E	6.9x	6.1x	5.1x	4.5x



Market Cap:	USD2.0bn		<u>HDB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room:	USD165mn	P/E (ttm)	7.0x	8.0x	12.8x
ADTV30D:	USD4.1mn	P/B (curr)	1.5x	1.5x	2.0x
State Ownership:	0%	ROE (ttm)	23.1%	21.7%	15.8%
Outstanding Shares:	1.992 bn	ROA (ttm)	1.8%	1.9%	2.6%
Fully Diluted Shares:	2.007 bn				

### Company Overview

Founded in 1989, HDBank was one of the first joint stock commercial banks in Vietnam. The bank was affirmed with a b2 BCA rating by Moody's in 2018. HDBank also has 51% of voting rights in Vietnam's third largest consumer finance company, HD Saison (HDS).

## Positive outlook on NIM with potential cheap funding flows

- We increase our target price (TP) by 11% to VND35,700/share and upgrade our rating for HDB from OUTPERFORM to BUY. HDB's share price has plunged 21% over the last three months. Our higher TP is due to (1) increasing 2022-2026F NPAT-MI by an aggregate of 4% and (2) the positive effect of rolling over our TP to mid-2023.
- Our mid-2023F target P/B of 1.60x is a 9.5% discount to our peer median of 1.70x because though we model for an NIM improvement at the parent bank, its current NIM is the lowest outside of STB. Our TP implies a 2022F P/B at 1.67x.
- We increase our 2022F NPAT-MI by 6.6% to VND7.4tn (USD323mn) vs our previous forecast due to (1) a 1.3% increase in our NII assumption and (2) 5.7% increase in NOI, which outweigh (2) a 3.1% increase in our provision charge assumption.
- Our 2022F consolidated credit growth is 21.3% YoY. In addition, we project HDS's loan book to grow 25.0% YoY in 2022F from a low base in 2021.
- Upside risks: Higher-than-forecast NIM improvement at the parent bank and HDS; better-than-expected credit quality; upfront fee from an exclusive banca deal.
- Downside risks: Failure to contain credit costs; lower-than-expected NFI performance; supporting a distressed credit institution hindering the bank's growth.

**We expect NIM will continue to improve at the parent bank.** Q1 2022 loan growth at the parent bank was 10.8% QoQ — more than double Q1 2021 loan growth of 5.2% QoQ — and driven by both the retail (+11.7% QoQ) and corporate segments (+10.7% QoQ). Given this strong result, we believe bank's guidance for 20% credit growth in 2022 is achievable. In addition, Q1 2022 COF of the parent bank was 3.67% vs 3.90% in 2021. Q1 2022 deposit growth was 9.9% amid recent rises in deposit rates; however, we think that deposit growth will decelerate in the next few quarters. We expect system term deposit rates to increase in the vicinity of 50 bps in 2022 but see more offshore financing — especially from the likes of HDB's new strategic partner the International Finance Corporation (IFC) — counteracting the impact of rising deposit rates and supporting NIM expansion at the parent bank.

**HDB lowered its FOL to prepare for a potential private placement with a foreign investor.** According to the bank, an FOL of 21.5% was no longer appropriate with HDB's business strategy as well as the investment demand of foreign investors. Therefore, management proposed to change the FOL to 18.5%. As of end-2021, the largest shareholder was Sovico Group with 14.48% ownership. If HDB can secure a strategic foreign investor, this will provide the bank with a competitive advantage in funding costs, in our view. In addition, the new chairman of HDB is Mr. Kim Byoungcho — senior advisor of the IFC, which is one of the institutions that HDB has issued USD325mn of convertible bonds to. We expect the new chairman's experience will be useful for potential M&A and arranging offshore financing for HDB moving forward.

## Q1 2022 Recap: Strong fee income, credit growth support bottom line

Figure 1: HDB's consolidated Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	% of 2022F Old	VCSC comments
Net interest income	3,363	4,043	20.2%	24%	* Q1 2022 NII was in line with our forecast as it was driven by Q1 2022 NIM that tracked ahead of our forecast by 16 bps, which was counteracted by faster-than-expected deposit growth.
Net fee income*	338	631	86.9%	23%	
Total NOII	806	1,079	33.9%	30%	* The 33.9% YoY increase in Q1 2022 NOII was mainly driven by a 94% YoY surge in pure NFI. While there was no breakdown of fee income in the Q1 2022 unaudited financial statements, management shared that pure NFI growth was mainly driven by a 132% YoY increase in bancassurance fees.
TOI	4,168	5,122	22.9%	25%	
OPEX	(1,632)	(1,926)	18.0%	24%	
PPOP	2,537	3,197	26.0%	26%	
Provision expenses	(437)	(669)	53.3%	26%	* Consolidated provision expenses surged 53% YoY, which was mainly driven by HDS and completed 26% of our full-year forecast. While we do not expect any burden from provisioning for restructured loans in 2022, we believe the high level of Group 2 loans over the last three quarters could create pressure on HDB's credit costs. Restructured loans edged down from VND310bn in Q4 2021 to VND296bn in Q1 2022.
Net profit	1,563	1,918	22.7%	27%	
NIM	4.41%	4.60%	19 bps		* HDB reported consolidated Q1 2022 NIM of 4.60% (+14 bps QoQ) thanks to (1) a 12-bp QoQ increase in IEA yield, (2) 3-bp QoQ decrease in COF and (3) 5.5-ppt QoQ expansion in simple LDR to 69.2% in Q1 2022. * We believe strong credit growth at both the parent bank and HDS supported NIM expansion in Q1 2022.
IEA yield	8.31%	8.17%	-14 bps		
Cost of funds	4.11%	3.71%	-40 bps		
CASA ratio**	11.0%	12.6%	1.6 ppts		* CASA ratio inched up by 1.6 ppts YoY but remained at the low-end in our coverage universe.
Term deposits in FX (%)	1.2%	1.0%	-0.2 ppts		
CIR	39.1%	37.6%	-1.5 ppts		* Q1 2022 CIR dropped 1.5 ppts YoY to 37.6% due to a surge in non-interest income (NOII). Meanwhile, Q1 2022 OPEX increased 18% YoY due to a 34% YoY increase in employee expenses.
NPL ratio	1.51%	1.57%	6 bps		* The NPL ratios of the parent bank and HDS were 1.17% (+2 bps YoY and -9 bps QoQ) and 7.25% (+151 bps YoY and -4 bps QoQ), respectively. * Q1 2022 consolidated LLR was 75.9% (+7.3 ppts YoY and +2.9 ppts QoQ), in which LLR of the parent bank was 83.2% (+6.1 ppts YoY and +1.5 ppts QoQ). In addition, consolidated Group 2 loans/gross loans surged 121 bps YoY (-9 bps QoQ).
Loan growth (QoQ)	5.0%	10.8%	5.8 ppts		* Q1 2022 consolidated credit growth was 9.7% QoQ and derived from (1) 10.8% QoQ consolidated loan growth and (2) a 10.2% QoQ decrease in corporate bond balances. In addition, the parent bank's Q1 2022 loan growth was 10.8% QoQ. * HDS's Q1 2022 loan growth was 11% QoQ and amounted to VND14.9tn (USD646mn) with its loan book contributing ~6.6% to the consolidated loan book.
Deposit growth (QoQ)	5.9%	9.9%	4.0 ppts		

Source: HDB, VCSC. Units are in VND bn unless otherwise stated — \*Net fee income includes FX income;

\*\*CASA volume includes demand and margin deposits.

## 2022 Outlook: Optimizing funding costs supports NIM

Figure 2: VCSC's 2022 forecasts

VND bn	2021	2022F old	2022F new	2022F new vs 2021	VCSC comments
Net interest income	13,891	16,583	16,794	20.9%	* We forecast a 20.9% YoY increase in 2022F NII as we assume an 18-bp YoY expansion in 2022F NIM and 2022F consolidated credit growth of 21.3% vs 19.5% in our previous forecast.
Net fee income*	2,107	2,711	2,847	35.1%	
Total NOII	2,867	3,596	3,802	32.6%	* Our forecast for NOII increases by 5.7% as we increase net gains from trading & investment securities in 2022F by 6.4% vs our previous forecast as HDB made significant gains from selling Government bonds in Q1 2022, which tracked ahead of our previous forecast. In addition, we maintain our expectation that HDB still has headroom to grow its NFI from its high retail and SME exposure.
TOI	16,758	20,179	20,596	22.9%	
OPEX	(6,383)	(7,870)	(7,930)	24.2%	* We decrease our forecast for OPEX by 0.8% vs our previous forecast as we cut CIR to 38.5% vs 39% in our previous forecast.
PPOP	10,375	12,309	12,667	22.1%	
Provision expenses	(2,306)	(2,613)	(2,695)	16.9%	* Our higher provision expense forecast is mainly driven by our increased 2022F credit growth assumption. We assume consolidated write-offs at 0.8% of gross loans in 2022F.
Net profit	6,054	6,981	7,441	22.9%	
NIM	4.28%	4.44%	4.46%	18 bps	* We assume an 18-bp YoY expansion in 2022F NIM thanks to (1) a 27-bp increase in IEA yield that outweighs (2) a 9-bp increase in COF.
IEA yield	8.06%	8.28%	8.33%	27 bps	
Cost of funds	3.94%	4.00%	4.03%	9 bps	* We believe USD700mn of offshore financing from several international institutions in 2021 and potential new flows of cheap funding could support a more competitive COF at HDB and counteract the impact of the increasing interest rate environment. Therefore, we project a 9-bp YoY increase in 2022F COF. * We expect a higher COF at 4.03% as we increase 2022F deposit growth to 18% vs 15% in our previous forecast.
CASA ratio**	13.61%	14.61%	14.61%	1.0 ppts	
CIR	38.1%	39.0%	38.5%	0.4 ppts	
NPL ratio	1.65%	1.57%	1.57%	-8 bps	* We believe HDB's NPL ratio reached its peak in 2021 and will gradually improve from 2022F onward. However, we are not ready to lower our NPL ratio forecast due to high Group 2 loans level of more than 2.5% in the last three quarters. * As of Q1 2022, HDS's NPL ratio was 7.25%; management expects the NPL ratio will improve to 6.3%-6.5% by end-2022F.
Gross loans	203,211	243,890	247,836	22.0%	* Our 2022F consolidated credit growth is 21.3% YoY, which is derived from our 2022F loan/corporate bond growth assumption of 22.0%/8.7%. * 3M 2022 credit growth of HDS was 11%. According to management, HDS has nearly used up the initial credit quota provided by the SBV. We project HDS's loan book to grow 25.0% YoY in 2022F vs a low base in 2021.
Customer deposits	183,283	210,776	216,274	18.0%	
Valuable papers	42,756	49,170	49,170	15.0%	
Total assets	374,612	429,370	435,330	16.2%	
Total equity	29,033	37,776	38,236	31.7%	* We expect HDB will not pay a cash dividend during the forecast period.
ROAE	23.3%	20.9%	22.1%	-1.1 ppts	
ROAA	1.7%	1.7%	1.8%	0.1 ppts	
Regulated LDR	66.7%	70.6%	70.8%	4.1 ppts	

Source: VCSC. VCSC. Units are in VND bn unless otherwise stated — \*Net fee income includes FX income;

\*\*CASA volume includes demand and margin deposits.

**HDB's bancassurance outlook remains strong.** At HDB's recent analyst meeting, management shared that Q1 2022 life bancassurance was VND301bn (+132% YoY); in addition, management expects 2022F total life bancassurance revenue of VND2.1tn (+174% YoY). According to the bank's disclosure, HDB's new annual premium equivalent (APE) ranked fifth in the marketplace in March 2022. HDB currently has two nonexclusive partnerships with Dai-ichi Life and FWD. With high exposure to the retail and SME segments, the bank targets to be in the top four this year. If the partnership between FWD and HDB evolves into an exclusive arrangement moving forward, we believe this would then provide upside to our current forecast. However, HDB is currently does not consider signing an exclusive bancassurance deal with a life insurer as essential.

**HDB and the IFC became strategic partners.** On May 12, HDBank and the IFC signed a memorandum of understanding (MoU) in Washington, D.C. to become strategic partners, supporting small and medium enterprises (SMEs) to scale up their finance and participate in global supply chains, including financing the high-tech agricultural supply chain. Notably, Vietnam's Prime Minister Pham Minh Chinh attended the signing ceremony.

This cooperation is expected to help HDBank to build its supply chain finance (SCF) portfolio to USD1bn in the next three years. Currently, HDB's agriculture SCF portfolio is more than USD600mn. The IFC will assist HDBank in designing an SCF strategy for the agriculture sector and broaden its SCF products — especially supplier and distributor financing.

As of Q1 2022, agriculture loans accounted for 26.9% of the retail loan book. These loans are generally small ticket loans (around VND400mn-500mn) disbursed to farmers participating in a production chain that HDB has some sort of visibility to (e.g., supplying to CP Food, Loc Troi Group). Nevertheless, HDB said the NPL ratio for the agriculture segment is 0.7% — the lowest level among all of its loan book segments.

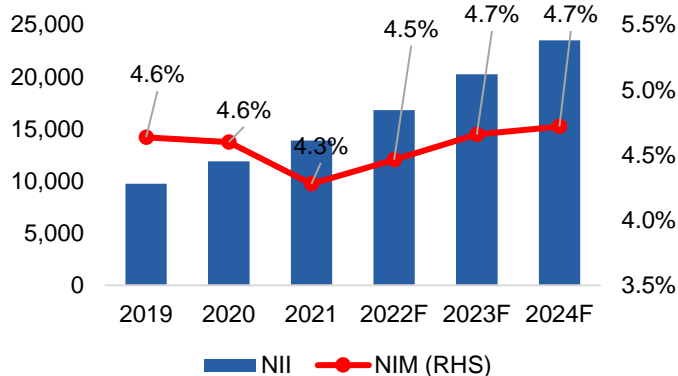
In 2021, the IFC provided a long-term loan of USD70mn to HDBank to support renewable energy businesses. HDB also issued USD95mn of international convertible bonds to the IFC to support increased lending to micro, small and medium enterprises. Currently, the total value of commitments and cooperation between the IFC and HDBank is more than USD200 million. In addition, the new chairman of HDB is a senior advisor with the IFC. In our view, the partnership between the IFC and HDB has been upgraded to a new level with this MoU, and we believe potential cheap funding flows from the IFC will assist HDB to attain more competitive funding costs in the future.

**The parent bank recorded a specific provisioning reversal of VND56bn thanks to the repayment of restructured loans.** In Q1 2022 restructured loans edged down to VND296bn (accounting for 0.13% of the consolidated loan book) from VND310bn in Q4 2021 (accounting for 0.15% of the consolidated loan book). Management also disclosed the total credit exposure of customers who had their loans restructured was VND1.9tn as of Q1 2022 vs VND2.1tn as of Q4 2021. We believe that there will be no pressure on HDB's credit costs from restructured loans in 2022F as (1) the restructured loan balance will decrease amid the recovery of the economy and (2) because HDB fully provisioned for restructured loans instead of allocating it over three years (similar to ACB, MBB, BID and VCB).

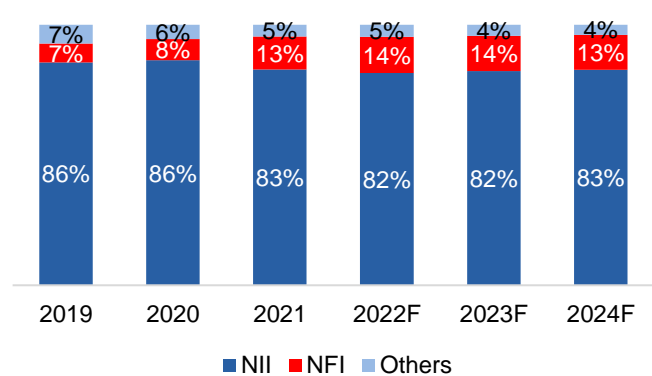
**HDB proposed to participate in supporting a distressed credit institution at its recent AGM.** According to the proposal presented at the AGM, the BOD will work with authorities on the plan to restructure a yet-to-be identified distressed credit institution. Management refused to disclose further information as it is still evaluating the plan — similar to VPB. Up to now, apart from VCB and MBB, HDB and VPB are two private banks that officially submitted a proposal to shareholders to participate in supporting distressed credit institutions. We think that these banks will receive preferential treatments from State Bank of Vietnam (SBV) such as higher-than-usual credit quota — similar to VCB. However, further information that could impact on our valuation remains vague at the moment. Therefore, we have not modeled this event into our valuation.

## Key figures of HDB

**Figure 3: NIM (%) and NII (VND bn) (2019-2024F)**



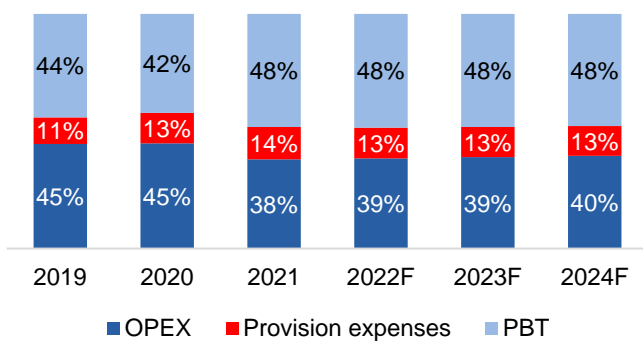
**Figure 4: TOI components (2019-2024F)**



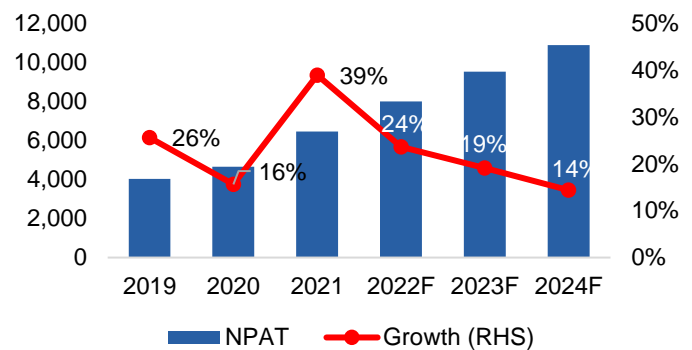
Source: HDB, VCSC

Source: HDB, VCSC

**Figure 5: OPEX, provision expenses and PBT as % of TOI (2019-2024F)**



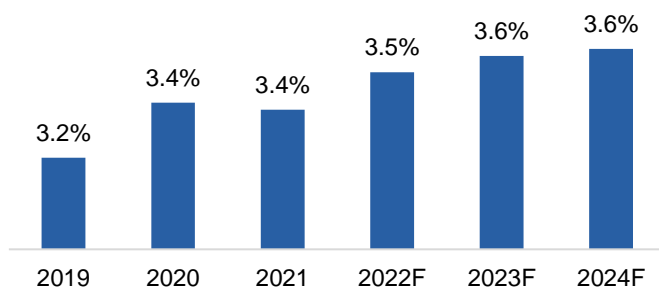
**Figure 6: NPAT (VND bn) and NPAT growth (%) (2019-2024F)**



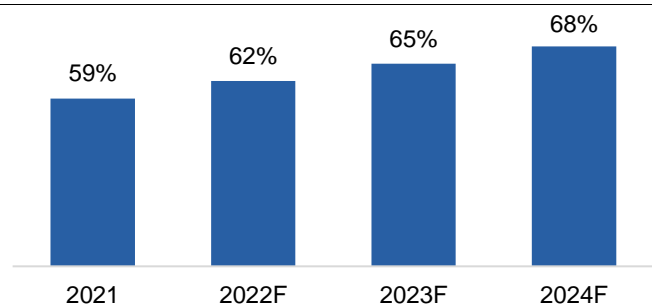
Source: HDB, VCSC

Source: HDB, VCSC

**Figure 7: Lending market share in our coverage universe (2019-2024F)**



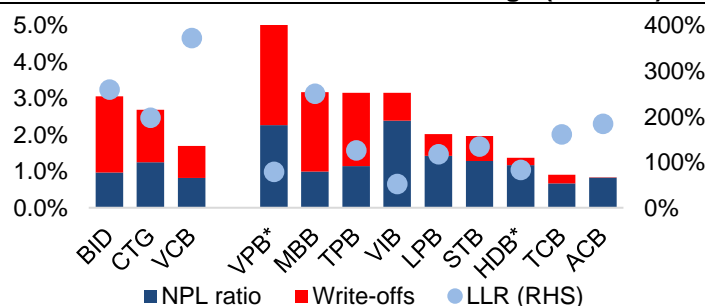
**Figure 8: RWAs as % of total assets (2021-2024F)**



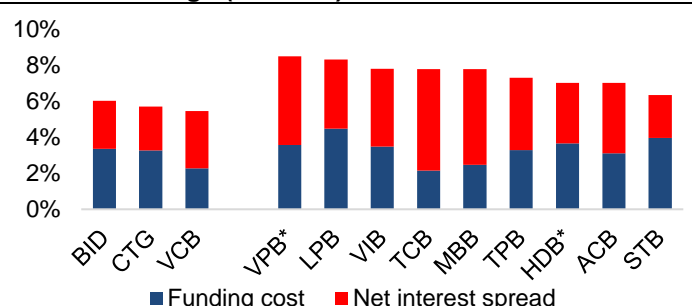
Source: Company data, VCSC

Source: HDB, VCSC

**Figure 9: NPL ratio, annualized write-offs over gross loans and LLR\*\* of banks under coverage (Q1 2022)**



**Figure 10: Interest-earning asset yield of banks under VCSC's coverage (Q1 2022)**



Source: Company data, VCSC — \* standalone bank only; \*\* LLR is percentage of total provision balance over NPLs

Source: Company data, VCSC — \* standalone bank only

## Valuation

We utilize two valuation methodologies in estimating our target price, assigning equal weighting for the residual income method and target P/B multiple approach.

In this Update Report, we increase our target price (TP) by 11% to VND35,700/share due to (1) increasing 2022-2026F NPAT-MI by an aggregate of 4% and (2) the positive effect of rolling over our TP to mid-2023. The increase in our aggregate bottom-line forecast during the explicit forecast period is mostly driven by (1) a 6% increase in pure NFI and (2) 4% increase in NII, which are partly offset by (3) a 3% increase in provision expenses and (4) 9% increase in OPEX.

**Figure 11: Cost of equity**

Cost of equity	
Risk free rate	5.5%
Beta	1.0
Market risk premium	7.0%
<b>Cost of equity</b>	<b>12.5%</b>

Source: VCSC

**Figure 12: Valuation summary**

VND bn	Fair value	Weighting	Contribution
Residual income	73,928 (USD3.2bn)	50%	36,964
Target P/B @ 1.60x mid-2023F	68,218 (USD3.0bn)	50%	34,109
<b>Composite valuation (bn)</b>			<b>71,073 (USD3.1bn)</b>
Number of shares outstanding (bn)			1.992
<b>Target price (VND)</b>			<b>35,700</b>
<b>Current price</b>			<b>22,200</b>
Upside			58.7%
Dividend yield			0.0%
TSR			58.7%
Mid-2023F P/B at TP			1.67x
<b>RATING</b>			<b>BUY</b>

Source: VCSC; units are in VND bn unless otherwise stated.

**Figure 13: Residual income model**

VND bn	2022F	2023F	2024F	2025F	2026F
ROE (over beginning period equity)	25.6%	23.0%	21.4%	20.1%	18.5%
COE	12.5%	12.5%	12.5%	12.5%	12.5%
Economic Margin	13.1%	10.5%	8.9%	7.6%	6.0%
Equity value (Beginning period)	29,033	38,236	47,036	57,100	68,552
Residual income (RI)	1,906	4,021	4,184	4,315	4,081
PV of residual income	1,797	3,369	3,117	2,857	2,402
Sum PV of RI			13,542		
PV of terminal value (4% intermediate growth rate for 10 years and 3% perpetual growth)			26,751		
Beginning EV (mid-2022F)			33,635		
<b>Fair equity value</b>			<b>73,928</b>		
Number of shares outstanding (bn)			1.992		
<b>Fair value per share (VND)</b>			<b>37,109</b>		

Source: VCSC; units are in VND bn unless otherwise stated.

## Comparable Peers

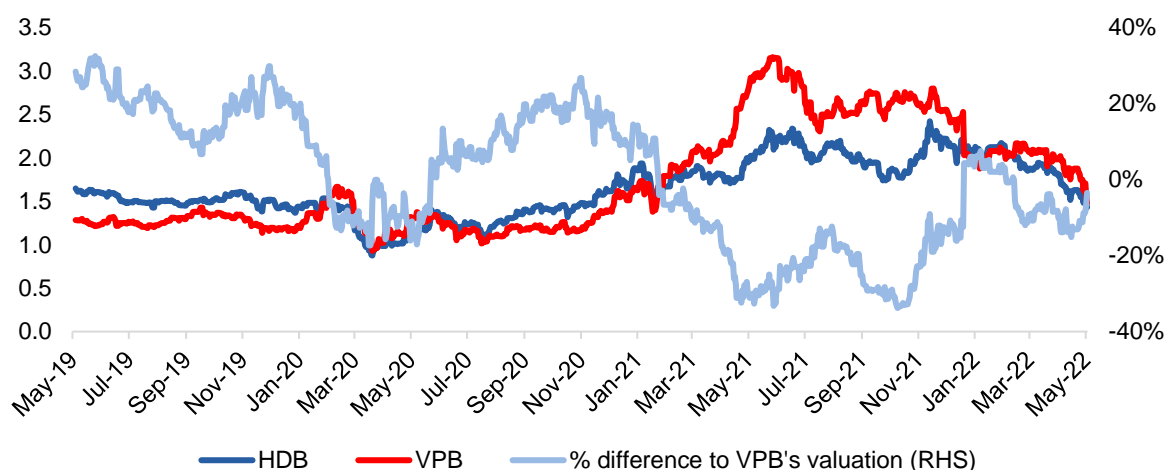
As of May 13, 2022, HDB's share price has decreased 21% over the last three months. HDB is currently trading at a 7% discount to the peer median 2022F P/B at 1.30x (**Figure 15**). Our observation suggests that HDB traded at an average discount of 2.9% to the peer median trailing P/B in the past 12 months.

Given the similarity of its retail-focused approach with sizable exposure to the consumer finance industry, we compare HDB with VPB. On average, HDB traded on par with VPB's trailing P/B over the last three years (**Figure 14**) with an average ROE of 20.7% in 2018-2021 vs 20.8% at VPB. However, HDB was trading at a 4% discount to VPB's trailing P/B as of May 13, 2022.

Until the end of 2019, the parent bank had delivered significant NIM improvement from a low base (at one stage below the SOCB level of ~2.6% in 2018), amounting to 3.94% in Q4 2019 and only lagging VPB parent by 80 bps in that quarter. However, HDB's parent bank NIM has slid from that level in subsequent quarters; additionally, HDB's NIM in 2021 was still among the low-end in our coverage universe. In Q1 2022, we saw 28-bp improvement in NIM at the parent bank vs 2021 NIM thanks to (1) a strong rebound in credit growth and (2) 19-bp decrease in funding costs. Given that (1) the new chairman of HDB is a representative for an international credit institution with extensive M&A experience, (2) HDB is interested in securing a foreign strategic shareholder and (3) the partnership between the IFC and HDB has been upgraded to a new level, we believe potential cheap funding flows will support HDB's funding costs in the future and in turn improve NIM.

Taken together, we set our mid-2023F target P/B for HDB at 1.6x, which is one of the few banks in our coverage not to have their target multiples cut in this current round of updates.

**Figure 14: Historical trailing P/B of HDB and VPB over the last three years**



Source: Bloomberg, VCSC

**Figure 15: Bloomberg consensus forecasts for Vietnamese banks**

Bloomberg Ticker	Market Cap. (USD bn)	P/E			P/B			ROE			ROA	Equity Multiplier	NPLs/loans
		2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	TTM	2021	2021
<b>ACB VN</b>	3.2	7.1	5.7	4.9	1.54	1.30	1.04	24.2%	24.6%	23.2%	2.13%	11.8	0.77%
<b>BID VN</b>	7.0	14.0	11.6	8.5	1.86	1.69	1.36	13.8%	17.4%	20.1%	0.67%	20.4	0.98%
<b>CTG VN</b>	5.0	9.3	5.8	4.9	1.18	1.04	0.90	13.0%	20.1%	20.9%	0.82%	16.4	1.26%
<b>MBB VN</b>	3.9	6.7	5.9	4.8	1.42	1.20	0.98	23.7%	24.1%	23.4%	2.36%	9.7	0.90%
<b>VCB VN</b>	15.0	15.0	13.3	10.8	2.95	2.55	2.09	21.1%	20.9%	21.7%	1.68%	12.7	0.64%
<b>VPB VN</b>	5.6	7.5	8.3	7.0	1.48	1.33	1.11	24.0%	17.3%	17.1%	3.44%	6.3	4.47%
<b>STB VN</b>	1.7	9.8	8.9	5.2	1.09	1.00	0.85	11.9%	13.9%	17.8%	0.74%	15.2	1.47%
<b>TCB VN</b>	5.1	6.2	5.5	4.5	1.21	1.05	0.85	21.7%	21.0%	20.6%	3.55%	6.1	0.66%
<b>TPB VN</b>	2.1	9.1	7.1	5.7	1.73	1.47	1.20	22.0%	23.0%	22.6%	1.92%	11.3	0.82%
<b>VIB VN</b>	2.3	7.9	6.8	5.2	2.04	1.72	1.28	29.5%	28.1%	27.4%	2.29%	12.7	2.32%
<b>LPB VN</b>	0.8	5.9	4.6	4.3	1.03	0.87	0.72	18.5%	18.1%	19.6%	1.08%	17.2	1.33%
<b>Median</b>		<b>7.9</b>	<b>6.8</b>	<b>5.2</b>	<b>1.48</b>	<b>1.30</b>	<b>1.04</b>	<b>21.7%</b>	<b>20.9%</b>	<b>20.9%</b>	<b>1.92%</b>	<b>12.7</b>	<b>0.98%</b>
<b>HDB VN</b>	<b>1.9</b>	<b>6.9</b>	<b>6.2</b>	<b>5.1</b>	<b>1.43</b>	<b>1.21</b>	<b>0.98</b>	<b>23.1%</b>	<b>22.4%</b>	<b>21.9%</b>	<b>1.81%</b>	<b>12.2</b>	<b>1.65%</b>

Source: Bloomberg as of May 13, 2022, VCSC

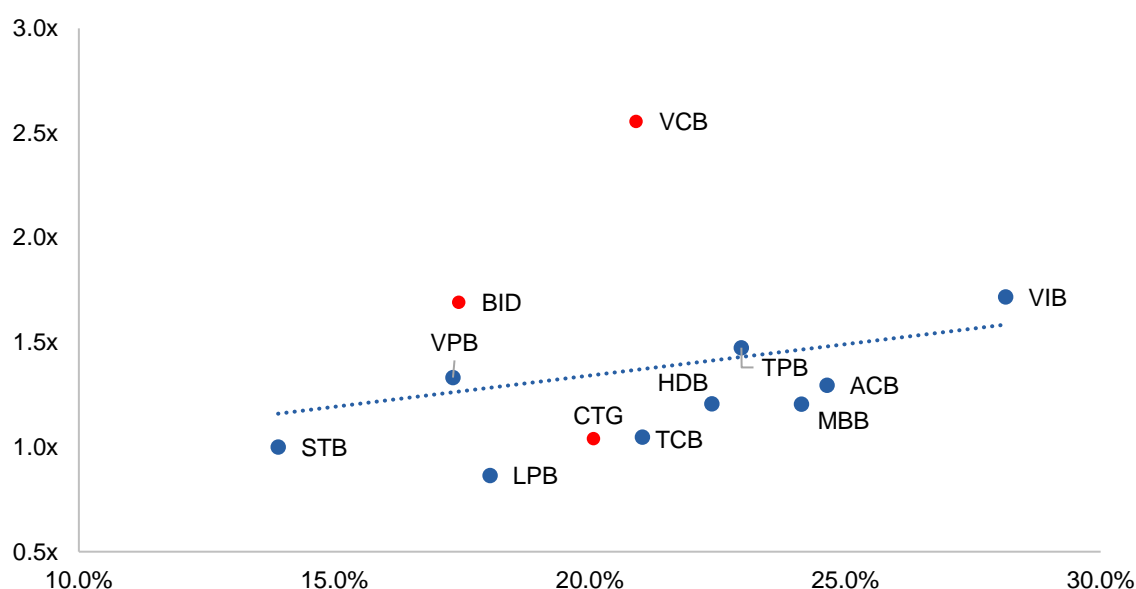
**Figure 16: Sensitivity analysis of our 2022F P/B for HDB in relation to ROE derived from the Gordon Growth Model and terminal growth rate, ceteris paribus**

Terminal growth (g)	Average ROE during 2016-2026F					
		14.5%	16.5%	18.5%	20.5%	22.5%
	1.5%	1.18	1.36	1.54	1.73	1.91
	2.0%	1.19	1.38	1.57	1.76	1.95
	2.5%	1.20	1.40	1.60	1.80	2.00
	3.0%	1.21	1.42	1.63	1.84	2.05
	3.5%	1.22	1.44	1.67	1.89	2.11
	4.0%	1.23	1.47	1.71	1.94	2.18

Source: VCSC

The above sensitivity analysis illustrates a fair value P/B multiple for HDB at 1.63x using the Gordon Growth Model (GGM) with our average ROE during 2016-2026F of 18.5%, cost of equity at 12.5% (**Figure 11**) and a terminal growth assumption of 3.0%.

**Figure 17: Vietnam banks P/B (y-axis) and ROE (x-axis), 2022F**



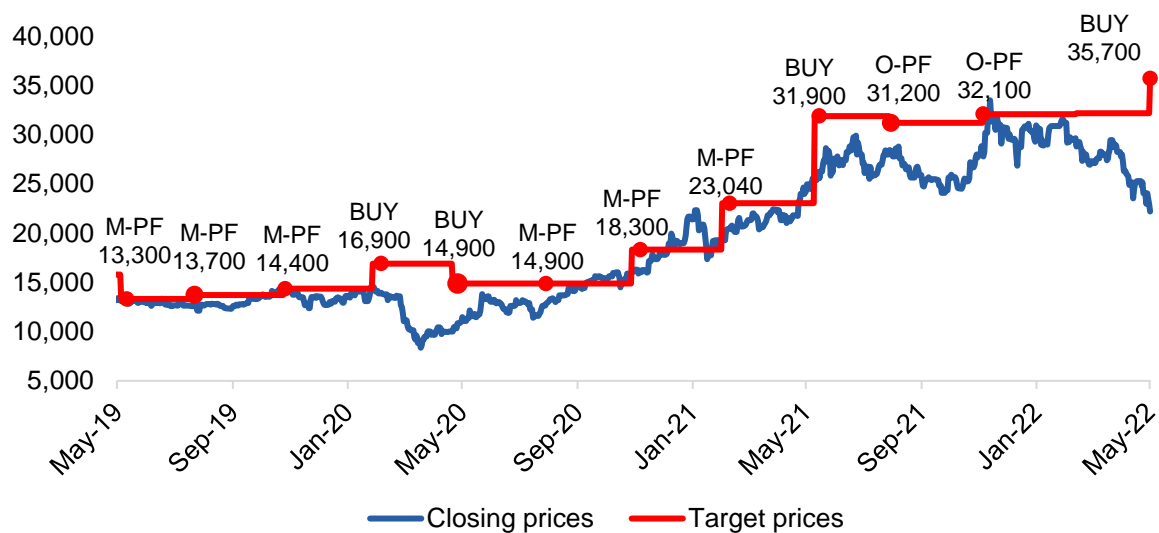
Source: Bloomberg, VCSC. Red dots signify SOCBs; priced on May 13, 2022.

**Potential upside risks:** Higher-than-expected loan growth and net fee income; better-than-expected performance of credit quality control may require less provision charges.

**Potential downside risks:** HDB may fail to meet our NPL ratio and earnings expectations either due to its failure to execute on its business model regarding high-yield businesses and/or failure to continue growing its retail franchise/digital banking; lower-than-expected loan growth at both the parent bank and HDS.

## History of Recommendations

Figure 18: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC



## Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Interest inc.	26,176	31,345	37,654	44,075
Interest exp.	(12,285)	(14,551)	(17,401)	(20,571)
<b>Net interest inc.</b>	<b>13,891</b>	<b>16,794</b>	<b>20,253</b>	<b>23,503</b>
Net fee income	1,927	2,649	3,119	3,587
Other NOII	940	1,152	1,251	1,341
Total NOII	2,867	3,802	4,371	4,928
<b>Total operating inc.</b>	<b>16,758</b>	<b>20,596</b>	<b>24,624</b>	<b>28,431</b>
Non-interest exp.	(6,383)	(7,930)	(9,603)	(11,230)
Other G&A exp.	0	0	0	0
Total operating exp.	(6,383)	(7,930)	(9,603)	(11,230)
<b>PPOP</b>	<b>10,375</b>	<b>12,667</b>	<b>15,021</b>	<b>17,201</b>
Provision exp.	(2,306)	(2,695)	(3,145)	(3,619)
Other inc./exp.	0	0	0	0
<b>Pre-tax profit</b>	<b>8,070</b>	<b>9,971</b>	<b>11,876</b>	<b>13,582</b>
Taxes	(1,616)	(1,994)	(2,375)	(2,716)
<b>Net profit</b>	<b>6,453</b>	<b>7,977</b>	<b>9,501</b>	<b>10,865</b>
Minorities/pref divs	(400)	(536)	(701)	(801)
<b>Attributable profit</b>	<b>6,054</b>	<b>7,441</b>	<b>8,800</b>	<b>10,064</b>
Wt avg shares (mn)	1,992	1,992	1,992	1,992
EPS (VND)	3,040	3,736	4,419	5,053
DPS (VND)	0	0	0	0

RATIOS (%)	2021	2022F	2023F	2024F
<b>Growth</b>				
Loan growth	14.0	22.0	17.8	15.8
Deposit growth	5.0	18.0	16.0	15.0
TOI growth	21.6	22.9	19.6	15.5
PPOP growth	36.4	22.1	18.6	14.5
NPAT growth	38.9	23.6	19.1	14.4
<b>Asset quality</b>				
Group 2 ratio	2.63	1.50	1.50	1.50
NPL ratio	1.65	1.57	1.51	1.45
LLR	73.0	81.3	90.2	99.7
Provision exp./ loans	1.13	1.09	1.08	1.07
<b>Liquidity</b>				
CAR under BASEL II	14.3	14.7	14.5	14.4
Regulated LDR	66.7	70.8	72.9	74.3

BS (VND bn)	2021	2022F	2023F	2024F
Cash & equiv.	2,446	2,838	3,252	3,703
Bal. with SBV	11,848	13,387	15,603	18,003
Due from FIs	55,943	64,518	74,303	87,544
ST investments	54,756	56,107	58,983	62,251
Net cust. loans	200,759	244,671	287,941	333,220
HTM securities	21,956	23,024	24,175	25,384
LT investments	124	124	124	124
Fixed assets	1,366	1,435	1,506	1,582
Other assets	25,415	29,227	33,611	38,653
<b>Total assets</b>	<b>374,612</b>	<b>435,330</b>	<b>499,499</b>	<b>570,462</b>
Bal. from SBV	93	108	123	140
Bal. from FIs	107,243	117,967	129,764	142,740
Other funds	2,937	3,025	3,116	3,209
Cust. deposits	183,283	216,274	250,878	288,510
Other fin. int.	16	0	0	0
Valuable papers	42,756	49,170	56,545	65,027
Other liabilities	7,495	8,619	9,912	11,398
Total equity	29,033	38,236	47,036	57,100
MI	1,757	1,932	2,126	2,338
<b>Liabilities &amp; SE</b>	<b>374,612</b>	<b>435,330</b>	<b>499,499</b>	<b>570,462</b>

RATIOS (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
NIM	4.28	4.46	4.66	4.72
IEA yield	8.06	8.33	8.66	8.85
Funding costs	3.94	4.03	4.21	4.38
CIR	38.1	38.5	39.0	39.5
<b>ROE decomposition (as % avg total assets)</b>				
NII	4.00	4.15	4.33	4.39
Provisions	-0.66	-0.67	-0.67	-0.68
Post-prov. NII	3.34	3.48	3.66	3.72
Non-Interest inc.	0.83	0.94	0.94	0.92
Operating exp.	-1.84	-1.96	-2.05	-2.10
Taxes & MI	-0.58	-0.62	-0.66	-0.66
ROAA	1.75	1.84	1.88	1.88
Equity Mult. (x)	13.3	12.0	11.0	10.3
ROAE	23.3	22.1	20.6	19.3

Source: Company data, VCSC

## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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