

HD BANK (HDB VN)

AGM Takeaways: A step closer to Basel II

NOT RATED

Current price (24/04/2019): VND 28,350

Target Price: N/A

Upside: N/A

Summary: We attended HDB's AGM on April 23. The key focus of discussion was the bank's plan to increase its charter capital. HDB's all-stock dividend is intended to support business network expansion, IT improvements, and medium- to long-term funding. With total CAR reported at 12.1%, HDB believes that Basel II approval from the SBV is imminent in 2Q19.

52-week Price Range

Market Capitalization

FY19E Dividend Yield

Remaining Foreign Room

Free-float

ADTV-3 month

VND 27,500 – 46,400

USD 1.2 bn

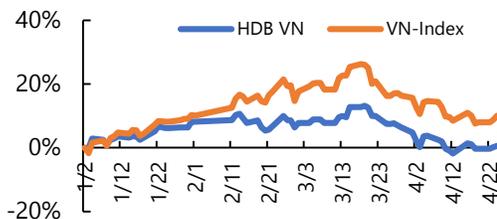
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2.9%

72.6%

USD 1.7 mn

VNIndex vs. HDB YTD performance (%)



Key takeaways

- Capital retention is intended to fund business expansion while meeting Basel II requirements.
- Management reports CAR of 12.1% at 4Q18, expects Basel II approval in 2Q19.

Risks

- M&A with PGBank might negatively impact the bank's asset quality.
- Rising competition in retail banking and non-interest income.

Tanh Tran

Bank Analyst

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Company profile: HDB primarily focuses on retail and SME banking. The bank is ranked No.8 by total loans (currently VND122 tn, or 1.6% market share) among non-state commercial banks. HDB has 285 branches and transaction offices and nearly 7 million clients as at 2018. Management expects Basel II implementation to be approved in 2Q19.

Key business results and guidance at a glance

	2018 plan	2018 actual	% YoY	2019 plan	% YoY
Loan (vnd tn) *	155	130	18%	161	24%
Deposit (vnd tn)	222	187	10%	224	20%
Asset (vnd tn)	243	216	14%	250	16%
PBT (vnd tn)	3.9	4.0	66%	5.1	27%
ROA	1.3%	1.6%		1.7%	
ROE	20.4%	20.3%		21.2%	

Source: Company data

Capital retention to fund business expansion. HDB successfully obtained shareholders' approval at the AGM to boost its charter capital by VND 2.9 trillion. The Bank will accomplish this through a 30% stock dividend, so total capital will remain unchanged.

The move is intended to support HDB's network expansion from the current 285 branches/transaction offices to 308 in 2019E, upgrade IT system to adopt Basel II, and provide additional funding for medium-to long term loans. 4Q18 short-term funding to medium- and long-term loans was about 32%, which is already well below the SBV's cap.

A step closer to Basel II. HDB's CAR of 12.1% is relatively high vs most of its peers. HDB expects the SBV to approve its Basel II implementation in the current quarter (i.e., 2Q19) given its NPL ratio of just 1.5% (1.92% if VAMC bonds are included in the numerator) and B1 credit rating from Moody's.

Retail base and M&A. HDB discussed its large client base of 7 million customers (which we estimate as 16% of Vietnam's total banked population), including customers from Vietjet, HD Saison, and potential new retail clients from among Petrolimex's 28,000 employees after the merger with PGBank. Management said they expect this deal to occur by the end of 2019.

Consumer finance was a key topic of discussion. HD Saison accounts for 8.7% of HDB's total loans as of 2018A. Management stated that the consumer finance business only grants cash loans to customers that have a solid credit history with HD Saison itself, which is in line with Draft Circular 43. Cash loans represent 35% of HD Saison's loan book as of 2018 (or 3.1% of HDB's total loans), which is slightly higher than the Draft's cap of 30%.

Our view: We don't cover HDB and have no investment view on the stock. The bank's capital ratios appear relatively strong for a Vietnamese bank, and its large retail client base is impressive. The impact of changes to consumer finance regulation is likely to be minimal.

Potential PGBank merger. However, asset quality could be negatively affected if the potential merger with PGBank occurs. PGBank's reported 2018A gross NPLs plus VAMC bonds totaled VND1,738 bn or 7.52% of adjusted loans as at 2018A. Adding this figure to HDB's balance sheet on a pro-forma basis, the post-merger NPL ratio would be 3.30% as at 2018A (vs. pre-merger of 1.92%). However, PGBank's large client base from Petrolimex could be attractive. In particular, PGBank's standalone 19% CASA ratio (vs 9.0% at HDB currently) would boost the proforma merged bank's CASA ratio to 10.5%.

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Ratings	Total expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA
 Head of Research
 Tel: +84 28 3622 6868 (ext. 3815)
matthew.smith@yuanta.com.vn

Quang Vo
 Analyst (Consumer)
 Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tanh Tran (Banks)
 Analyst
 Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Tam Nguyen
 Analyst (Property)
 Tel: +84 28 3622 6868 (ext. 3874)
tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen
 Head of Institutional sales
 Tel: +84 28 3622 6868 (3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen
 Sales Trader
 Tel: +84 28 3622 6868 (ext. 3890)
duyen.nguyen@yuanta.com.vn