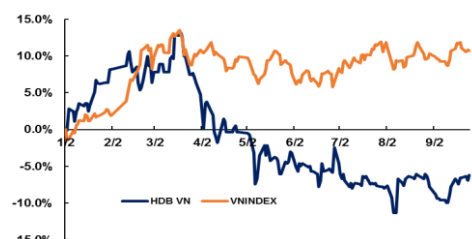


HD BANK [HDB VN] – Erratum
27 September 2019
Action
HOLD - Underperform
TP upside: 16%
Close 27.09.2019

Price	26,650
12M Target	30,970



Market cap	US\$1.1 bn
6M avg. daily turnover	US\$1.6 mn
Outstanding shares	981 mn
Free float	73%
FINI ownership	24.2%
Major shareholders	13.34%
2019E Asset/equity (x)	12.0
2019E P/E (x)	8.9
2019E P/B (x)	1.7
FOL Room	5.8%

Financial outlook (VND bn)

Year to Dec	2018A	2019E	2020E	2021E
NIM (%)	4.06	4.42	4.83	4.94
Fee growth (%)	123	52	51	26
CIR (%)	49.6	46.3	47.7	48.1
PPOP growth(%)	42.8	27.8	29.0	20.3
Net profit	2,842	3,295	4,333	5,312
ROAA	1.40	1.49	1.64	1.69
ROAE	18.0	19.4	22.5	23.2
PE	8.8	7.9	6.6	5.9
PB	1.6	1.5	1.5	1.3
Div. yield (%)	5.1	-	5.9	6.9
DPS (VND)	1,364	-	1,583	1,829

*Net profit attributable to shareholders (PATMI minus employee welfare contribution).

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[Our 26 September initiation note](#) applied the wrong share count to our valuation. This note corrects that error, and our 12-month target increases by 10.5% from the previous VND 28,016 to VND30,970.

Our Take

Because we are analyzing the post-merger HDB, we correctly factored in the additional 186 million shares that HDB will issue for the PG Bank acquisition in yesterday's report. However, we also factored in the 30% stock dividend in 2019; which was incorrect.

The share count for the post-merger HDB is 1,167 million shares and we have applied this in our corrected valuation. Our valuation changes from the original VND28,016 to VND 30,970 (offering upside of 16% based on close price on Sep 27th). This new target price implies P/BV multiples of 2.1x for 2019E and 1.7x for 2020E.

HDB's estimated fair value (using the corrected share count)

Valuation Methods	Estimated Price	Weight (%)	Price
Residual Income	32,383	50.0%	16,191
DDM Perpetuity	35,180	12.5%	4,398
DDM Multiple	32,819	12.5%	4,102
Regression	27,037	12.5%	3,380
Public Comps	23,214	12.5%	2,902
Estimated Fair Value			30,970

Source: Yuanta Vietnam

Residual Income Model

Based on the residual income approach, we estimate HDB's post-merger fair value at VND 32,383 per share (vs. the pre-merger valuation of VND33,545), implying a 21.5% premium to the current share price (VND 26,650 at Sep 27, 2019) and a 2019E P/BV multiple of 2.2x. Please see Page 2 for fair value sensitivities to ROE and cost of equity using the corrected share count number.

A better entry opportunity may emerge following the deal's consummation, and we reiterate our overall cautious short-term view on the stock. From a practical perspective, HDB's shares may be pressured after the merger given that some of PG Bank's minority shareholders are likely to monetize this asset once they have access to the liquidity of HDB's shares. As our above-consensus earnings forecast indicate, we are not particularly bearish on HDB. But we would await clarity on the acquisition before revisiting our cautious short-term view.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Residual valuation sensitivities: HDB

		Initial Cost of Equity (Declines by 0.1% Annually):							
		12.0%	12.5%	13.0%	12.9%	13.5%	14.0%	14.5%	15.0%
Terminal ROE:	18.0%	46,239	41,840	38,083	38,930	34,961	32,131	29,653	27,472
	17.0%	43,414	39,369	35,909	36,690	33,032	30,419	28,130	26,110
	16.5%	42,029	38,157	34,844	35,592	32,086	29,580	27,383	25,443
	16.0%	40,662	36,962	33,792	34,508	31,153	28,752	26,645	24,784
	15.0%	37,982	34,617	31,731	32,383	29,322	27,128	25,199	23,492
	14.0%	35,373	32,335	29,723	30,313	27,539	25,546	23,791	22,234
	13.0%	32,832	30,112	27,768	28,298	25,803	24,006	22,419	21,008
	12.0%	30,359	27,948	25,864	26,336	24,113	22,506	21,083	19,814
	11.0%	27,951	25,841	24,011	24,426	22,467	21,046	19,782	18,652

Balance Sheet

(VND bn)	2017A	2018A	2019E	2020E	2021E
Cash & Balances at SBV:	3,434	7,482	6,701	9,305	10,534
Loans to Banks:	21,861	32,426	26,021	32,118	31,815
Investment Securities:	50,496	45,292	43,368	54,199	54,540
Investment in Associates:	378	165	186	259	293
Derivative:	0	208	235	327	370
Gross Loans:	104,497	123,132	143,199	196,922	225,324
(-) Specific Provisions:	(402)	(432)	(476)	(756)	(957)
(-) General Provisions:	(759)	(908)	(1,055)	(1,451)	(1,661)
Total provisions:	(1,161)	(1,340)	(1,531)	(2,207)	(2,618)
Net Loans:	103,336	121,792	141,668	194,715	222,706
Fixed Tangible asset:	526	569	569	587	606
Intangible Assets:	1,000	1,046	1,046	1,046	1,046
Real estate investment	46	52	52	52	52
Accrued interests:	3,416	3,519	3,568	3,568	3,568
Deferred tax:	21	0	0	0	0
Other Assets:	4,818	3,507	3,822	2,968	2,304
Goodwill	0	0	0	1,075	1,075
Total Assets:	189,334	216,057	227,236	300,218	328,910
Deposits:	120,537	128,060	144,559	200,737	227,251
Due to SBV & Banks:	37,374	48,601	41,332	53,169	51,825
Subordinated Notes:	9,793	14,927	14,925	16,117	12,781
Investment Trust; Derivatives & others:	2,998	3,046	3,542	4,477	4,672
Other Liabilities:	3,873	4,595	5,698	4,384	7,869
Total Liabilities:	174,575	199,229	210,056	278,884	304,398
Share Capital & Premium:	11,852	11,852	11,852	14,852	14,852
Reserves:	454	776	776	776	776
Treasury Shares	-	-	-	(1,478)	(1,478)
Retained Earnings:	1,770	3,007	3,359	5,991	9,169
Minorities Interest:	684	1,193	1,193	1,193	1,193
Others	-	-	-	-	-
Total Equity:	14,759	16,828	17,180	21,334	24,512
Total Liabilities & Equity:	189,334	216,057	227,236	300,218	328,910

Profit and Loss

(VND bn)	2017A	2018A	2019E	2020E	2021E
Total Net II	6,347	7,646	9,122	12,007	14,721
Total Net Fee Income	196	438	666	1,003	1,267
Other Net Non-II	692	873	966	1,211	1,284
Total Net Non-II	888	1,312	1,632	2,214	2,550
Net Operating Income:	7,236	8,957	10,754	14,221	17,271
Total Expenses:	(4,072)	(4,441)	(4,982)	(6,777)	(8,313)
PPOP:	3,163	4,516	5,772	7,444	8,958
Gross Provisions:	(1,017)	(994)	(1,550)	(1,839)	(2,070)
NPL Recoveries:	270	483	417	497	592
Net Provisions:	(747)	(511)	(1,132)	(1,343)	(1,478)
Pre-Tax Income:	2,417	4,005	4,640	6,101	7,480
Tax:	(462)	(803)	(928)	(1,220)	(1,496)
Profit After tax:	1,954	3,202	3,712	4,881	5,984
(-) Minority Interest	(208)	(359)	(417)	(548)	(672)
(-) Bonus & Welfare:	(3)	-	-	-	-
Net Attributable Inc.:	1,743	2,842	3,295	4,333	5,312
Weighted Avg. Shares:	849	935	981	1,074	1,167
Adjusted Diluted EPS	2,053	3,041	3,359	4,034	4,551

Key Ratios

	2017A	2018A	2019E	2020E	2021E
GROWTH (% YoY)					
Loan growth (% YoY)	27%	18%	16%	37%	14%
Deposit growth (YoY %)	17%	6%	13%	39%	13%
Pre-provision profit	60%	43%	28%	29%	20%
Adjusted Net profit	137%	63%	16%	31%	23%
Assets	26%	14%	5%	32%	10%
LIQUIDITY					
Pure LDR	86%	95%	98%	97%	98%
LDR under Cir. 36	62%	64%	71%	72%	76%
ASSET QUALITY					
NPL ratio	1.52%	1.53%	1.34%	1.26%	1.18%

SELECTED FINANCIAL RATIOS	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E
GROWTH PROJECTIONS						
Net interest income	35.7%	20.5%	19.3%	31.6%	22.6%	14.4%
Fee Income	66.2%	123.1%	52.0%	50.7%	26.3%	23.3%
Other NII	52.0%	26.2%	10.6%	25.4%	6.0%	5.0%
Operating costs	24.3%	9.1%	12.2%	36.0%	22.7%	8.3%
Pre-provision profit	60.2%	42.8%	27.8%	29.0%	20.3%	20.0%
Provision	2.3%	-2.2%	55.9%	18.7%	12.5%	8.0%
Adjusted Net profit	136.6%	62.7%	15.9%	31.5%	22.6%	22.5%
Assets	26.0%	14.1%	5.2%	32.1%	9.6%	8.5%
ASSET ANALYSIS						
Earning assets to total assets	93%	93%	94%	95%	95%	95%
Average Returns on Earnings Assets	1.12%	1.51%	1.59%	1.74%	1.78%	1.99%
LOAN ANALYSIS						
Loan growth (% YoY)	27%	18%	16%	37%	14%	13%
Loans to Interest Earnings Assets	59%	61%	67%	69%	71%	74%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	17%	6%	13%	39%	13%	12%
Deposits to Interest Bearing Liabilities	69%	64%	69%	72%	75%	78%
LIQUIDITY						
Pure LDR	86%	95%	98%	97%	98%	99%
LDR under Cir. 36	62%	64%	71%	72%	76%	80%
ASSET QUALITY						
NPL ratio	1.52%	1.53%	1.34%	1.26%	1.18%	1.11%
General Provisions to Gross loans	0.73%	0.74%	0.74%	0.74%	0.74%	0.74%
Total provisions in a year to Gross loans	1.11%	1.09%	1.07%	1.12%	1.16%	1.15%
SPREAD ANALYSIS						
Int. rate received on Average IEA	9.62%	8.93%	9.37%	9.63%	9.62%	9.77%
Int. rate paid on Average IBL	5.47%	4.90%	5.00%	4.87%	4.79%	4.75%
Interest rate spread	4.15%	4.03%	4.37%	4.76%	4.84%	5.02%
Net interest income / average IEAs (NIM)	4.08%	4.06%	4.42%	4.83%	4.94%	5.17%
OTHER INCOME						
Fee income to total income	3%	5%	6%	7%	7%	8%
Other Non-Interest income to total Income	10%	10%	9%	9%	7%	7%
OPERATING EFFICIENCY						
Cost to income ratio	56%	50%	46%	48%	48%	46%
CREDIT COSTS						
Net credit cost	0.6%	0.6%	0.7%	0.7%	0.8%	0.8%
PROFITABILITY						
Pre provision ROA	1.67%	2.09%	2.54%	2.48%	2.72%	3.01%
Pre provision ROE	21.4%	26.8%	33.6%	34.9%	36.5%	37.8%
Adj. ROAA	1.03%	1.40%	1.49%	1.64%	1.69%	1.90%
Adj. ROAE	14.1%	18.0%	19.4%	22.5%	23.2%	24.6%
Dividend Yield	0.7%	5.1%	0.0%	5.9%	6.9%	8.2%
VALUATIONS						
PER (x)	13.0x	8.8x	7.9x	6.6x	5.9x	4.8x
PBR (x)	1.60x	1.55x	1.52x	1.46x	1.27x	1.09x

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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