

HD Bank [HDB VN]
21 April 2021
BUY
TP upside (downside) +16%
Close 20 Apr 2021

Price	VND 27,200
12M Target	VND 31,656
Previous Target (*)	VND 23,710
% change	+34%

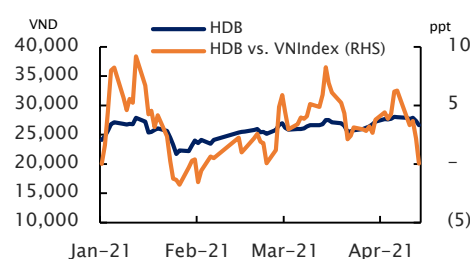
What's new?

- ▶ We raise our target price by 34% on increased earnings forecasts and reduced discount rate.
- ▶ We increase our loan growth assumption to 22% in 2021E.
- ▶ 2021E PATMI forecast increased by 4% to VND5.3tn (+25% YoY).

Our view

- ▶ **Maintain BUY.** The stock trades at 1.5x 2021E P/B with 2021E ROE of 19%.
- ▶ **Solid asset quality and capital adequacy** will help boost credit growth.
- ▶ **100% of HDB'VAMC exposure has been cleared in 2020**, which should result in reduced provisioning going forward.
- ▶ **Banca deal** is a short-term catalyst.

Company profile: HDB is a retail and SME bank that also operates HD Saison, a top-three consumer finance business. SME loans accounted for 51% of total consolidated loans as at 4Q20, with retail loans at 38%. Asset quality at both the bank and the consumer finance subsidiary remain strong despite the impact of Covid-19.

Share price performance relative to VNIndex


Market cap	US\$1.8 bn
6M avg. daily turnover	US\$5.9 mn
Outstanding shares	1,594 mn
Free float	70%
FINI ownership	16.9%
Major shareholders	18.9%
2021E Asset/equity (x)	12.8x
2021E P/E (x)	7.8x
2021E P/B (x)	1.5x
FOL Room	4.6%

Financial outlook (VND bn)

Year to Dec	2020A	2021E	2022E	2023E
NIM (%)	4.70%	4.68%	4.80%	4.92%
Fee growth	5.2%	4.9%	3.0%	2.9%
Adj. CIR	4.7%	4.5%	4.5%	4.4%
PPOP growth	21%	30%	19%	20%
Net profit	4,249	5,301	6,375	7,636
ROAA	1.55%	1.55%	1.64%	1.71%
ROAF	18.8%	19.2%	19.0%	19.2%
PE	10.3	8.2	6.8	5.7
PB	1.9	1.5	1.3	1.1
Div. yield (%)	0.0%	0.0%	1.5%	3.5%

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

Source: FiinPro, Yuanta Vietnam

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HD BANK (HDB VN)

Solid bank with short-term catalysts

We increase our 2021E loan growth forecast on the assumptions of economic recovery and persistent SBV monetary easing. As such, we now forecast HDB's loan growth to reach 22% in 2021E.

Our NIM forecast is slightly decreased by -7bps to 4.68% for 2021E (-2bps YoY) on slightly lower yields and increased interest-earning assets.

We tweak up our net fee income forecast by 4% to VND1.4 tn for 2021E (+49% YoY). The potential renegotiation of HDB's bancassurance exclusivity deal with Dai-ichi Life could help to boost fees even further.

Operating expenses forecast is increased by 13% to VND7.5 tn for 2021 (+22% YoY). Our adj. CIR forecast for 2021E is 44.9% (-1.6ppt YoY).

We raise provisioning forecast by 14% to VND2.4 tn for 2021 (+35% YoY).

Net-net, our PATMI forecast increases by 4% for 2021E and 8% for 2022E, implying PATMI growth of 25% YoY in 2021E and 20% in 2022E.

PG Bank acquisition is off the table. As discussed in our previous [company update](#), the PG Bank acquisition is unlikely to occur. The removal of this overhang leaves us with a more positive outlook on HDB.

Yuanta vs. the consensus. Our earnings forecasts are in line with the consensus, but we believe that our provisioning forecasts for 2021E-23E are higher than the Street after factoring in restructured debt.

Maintain BUY. HDB trades at 1.5x 2021E P/B versus the sector median of 1.6x. We expect HDB's 2021E adjusted ROE to reach 19% compared to the sector median of 18% (source: Bloomberg). Near-term catalysts include loan growth outperformance and a potentially renegotiated bancassurance exclusivity fee. We raise our target price to VND31,656, implying 1.7x 2021E P/B and a 12-month TSR of 16%. As such, we maintain our BUY rating.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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HDB: Solid bank with short-term catalysts

Table 1: Valuations

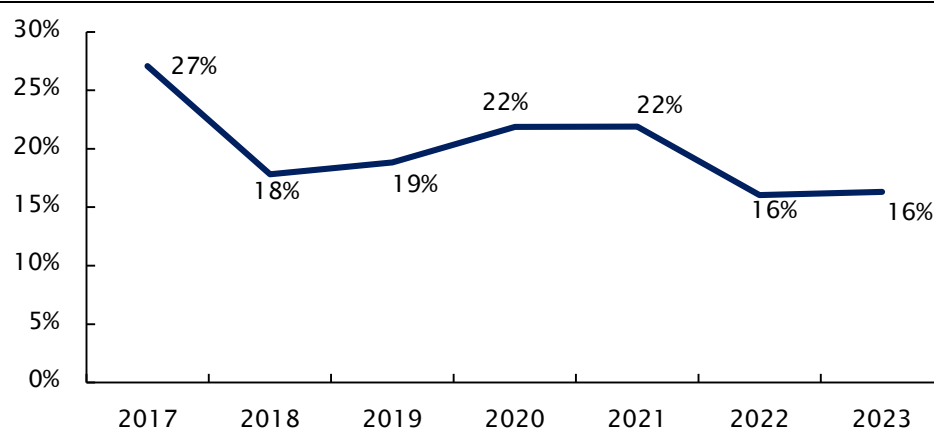
Valuation Ratios	2018A	2019A	2020A	2021E	2022E	2023E
Adjusted PER (x)	9.0	12.2	10.3	8.2	6.8	5.7
PEG	0.2	(0.5)	0.5	0.3	0.3	0.3
Adj. ROA (%)	1.40%	1.61%	1.55%	1.55%	1.64%	1.71%
Adj. ROE (%)	18.0%	19.3%	18.8%	19.2%	19.0%	19.2%
PBR (x)	1.7	1.4	1.9	1.5	1.3	1.1
Dividend Yield (%)	5.0%	0.4%	0.0%	0.0%	1.5%	3.5%

Source: Company data, Yuanta Vietnam

Economic recoveries will drive higher loan growth

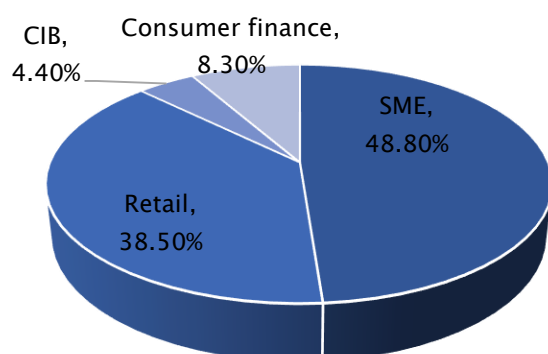
We expect HDB's loan growth to reach 22% in 2021E as we expect the economy to recover in 2021 and the financial system liquidity to remain strong backed by loose SBV monetary policy. This assumption might appear aggressive relative to our system loan growth forecasting of 14% (vs the SBV's target 12%). However, HDB's credit growth was 5.2% YTD in the first three months of the year, which is well above the sector's credit growth of about 2.9%.

Figure 1: HDB's loans to customer growth from 2018A – 2023E



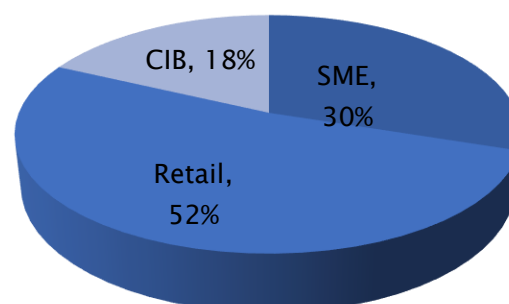
Source: Company Data, Yuanta Vietnam

Figure 2: HDB's loan breakdown as at 4Q20



Source: Company Data, Yuanta Vietnam

Figure 3: HDB's deposit breakdown as at 4Q20

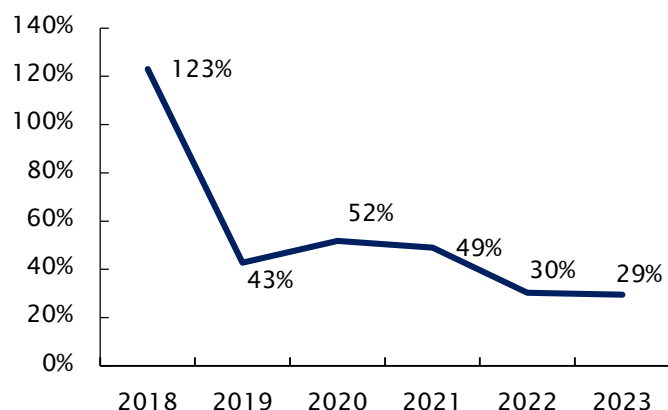


Source: Company Data, Yuanta Vietnam

Fee income boost from bancassurance sales

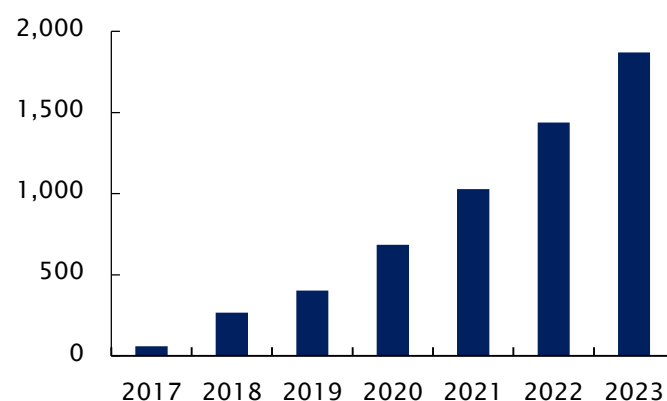
HDB tied up with Dai-ichi Life in July 2015 in a 10-year agreement, but management has indicated the potential to renegotiate this deal. A successful renegotiation of the bancassurance partnership, if it occurs, would be a key driver of fee income growth outperforming our expectations. We forecast fee income to reach VND1.4 tn in 2021E (+49% YoY) and VND1.8tn in 2022E (+30% YoY).

Figure 4: HDB's fee income growth from 2018A - 2023E



Source: Company Data, Yuanta Vietnam

Figure 5: HDB's bancassurance net sales estimates



Source: Company Data, Yuanta Vietnam

If HDB is able to sign a new bancassurance exclusivity deal, we would expect the bank to receive about VND6-7 tn in upfront fees. This estimate is based on a comparable deal between ACB (BUY) and Sun Life in 2020.

Table 2: Estimated upfront fees from recent bancassurance exclusivity deals*

Banks	No. of clients at the time of signing the deal (mn)	No. of branches/offices	Network (cities)	Year (signed the deal)	Term (years)	Partner	Estimated upfront fee (VND bn)
VCB	10	552	53	Nov-19	15	FWD	9,000
TCB	5	315	45	Sep-17	15	Manulife	1,500
VPB	5	216	51	Oct-17	15	AIA	1,800
ACB	5	371	47	2020	15	Sun Life	8,500
CTG	14	1,150	63	2020	16	Manulife	N/A
HDB*	10	308		2021?	15	???	7,000

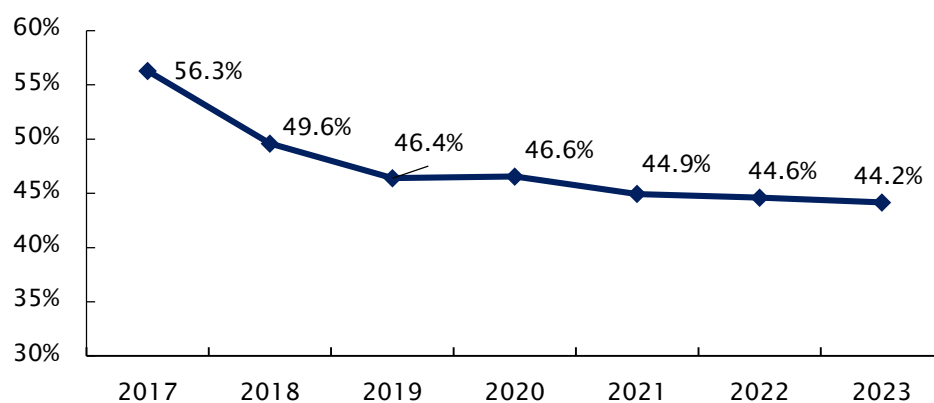
Source: Company data, tapchitaichinh.vn, Yuanta Vietnam

* Note: All data for ACB, VCB, TCB, and VPB are estimated numbers at the time of contract signing. Yuanta Vietnam estimate for HDB. No. of clients for HDB includes HDBank and HDSaigon.

Operating expenses revised up as a corollary to higher revenues

We revised up our operating expense forecast by 13% for 2021E and 18% for 2022E. Opex was higher than we had expected in 2020, and our higher revenue forecasts for 2021E and 2022E also imply increased compensation costs. However, our adj. CIR forecast for 2021E is 44.9% (-1.6ppt YoY), and we model in this ratio to decline every year during 2022E-2025E.

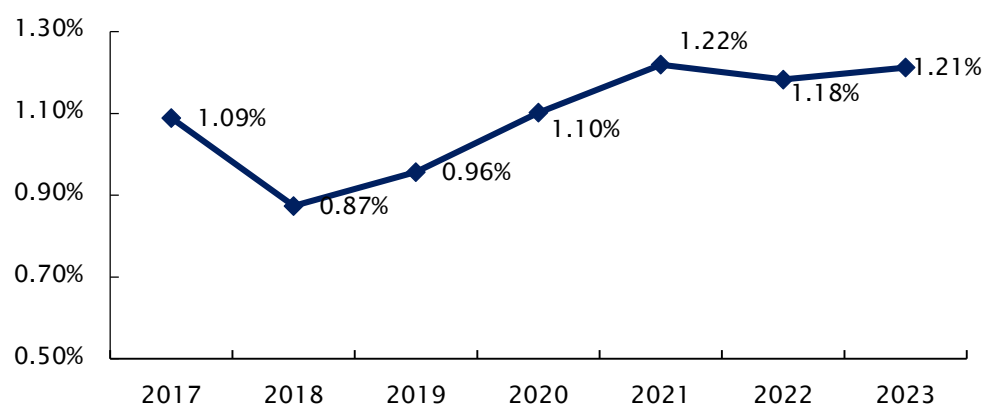
Figure 6: HDB's adj. CIR from 2017A–2023E



Source: Company Data, Yuanta Vietnam

We increase our provisioning forecast by 14% to reach VND2.4 tn in 2021E (+35% YoY), and we expect credit cost ratio (provisioning/average loans) to increase slightly to 1.22% (+12bps YoY).

Figure 7: HDB's credit cost from 2017A–2023E



Source: Company Data, Yuanta Vietnam

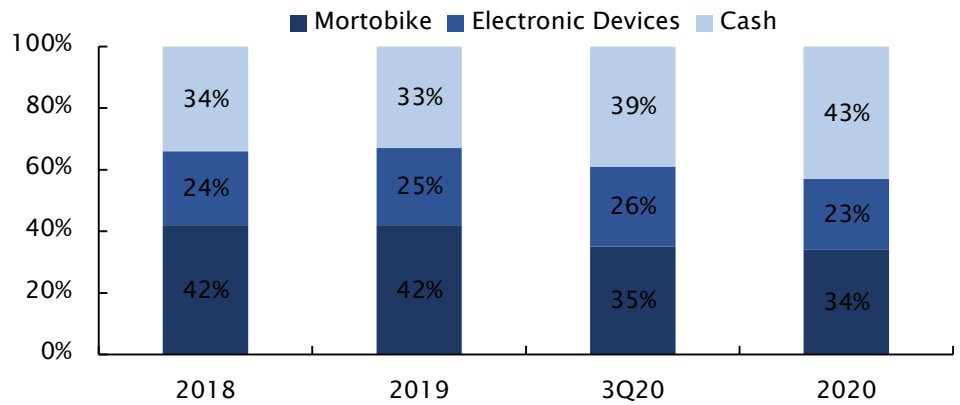
HD Saison – Cautious optimism on the consumer finance subsidiary

Covid-19 has clearly had a substantial impact on unsecured consumer finance companies such as HD Saison because consumer finance borrowers typically have relatively low incomes and are under heavy financial pressure. We believe that the impact is likely to persist in 2021E.

However, HD Saison's asset quality has held up surprising well. As of 4Q20, HD Saison's NPL ratio increased to 5.8% (+40bps YoY), which is well below the subsidiary's 2020 NPL ratio target of sub-7%.

But keep a wary eye on cash loans. Cash loans as a percentage of HD Saison' total loans increased by 10ppt YoY in 2020 to reach 43.0% (or 33.5% according to the SBV's cash loan definition). This was mainly due to the impact of the Covid-19, which led to declining demand for motorbikes and electronic devices. Thus, HD Saison shifted gears toward cash loans to compensate for the decline in 2020. However, given its prudent approach, we do not expect HD Saison to continue to increase the cash loan ratio going forward. Economic recovery should boost the demand for motorbike and electronic devices, and we thus expect HD Saison's cash loan ratio to fall to below the 40% level in 2021E.

Figure 8: HD Saison's loan breakdown 2018–2020

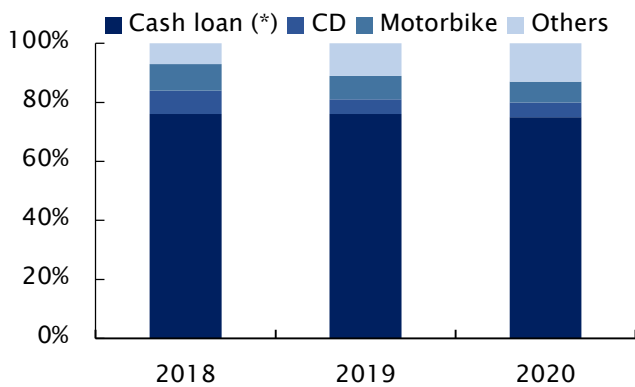


Source: Company Data

Key comparison ratios between HD Saison and FE Credit

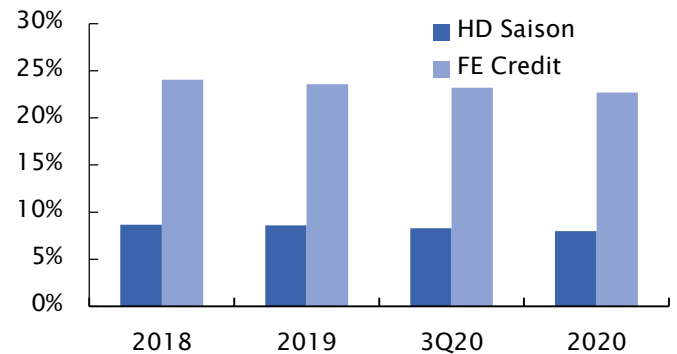
The figures below present details of the differences of HDB's consumer finance subsidiary (HD Saison) with that of VPB (FE Credit). The charts present graphic evidence of why we see VPB (HOLD–Underperform) as being more exposed to downside risk from unsecured consumer finance than HDB is.

Figure 9: Loans breakdown of FE Credit



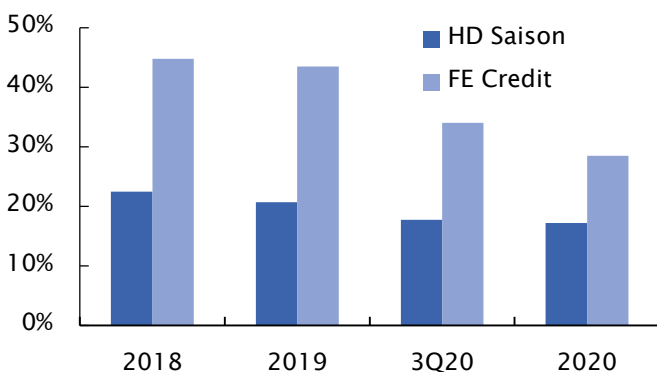
Source: Company Data, Yuanta Vietnam

Figure 10: % of Group consolidated loans



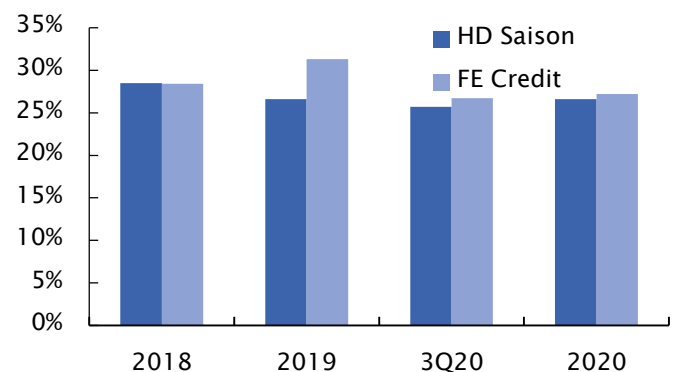
Source: Company Data, Yuanta Vietnam

Figure 11: % of Group consolidated PBT



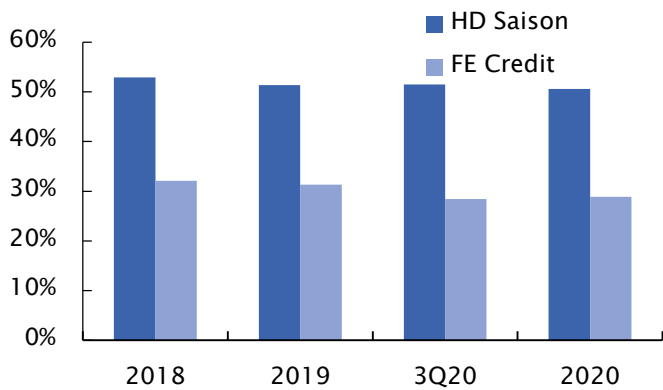
Source: Company Data, Yuanta Vietnam

Figure 12: NIM



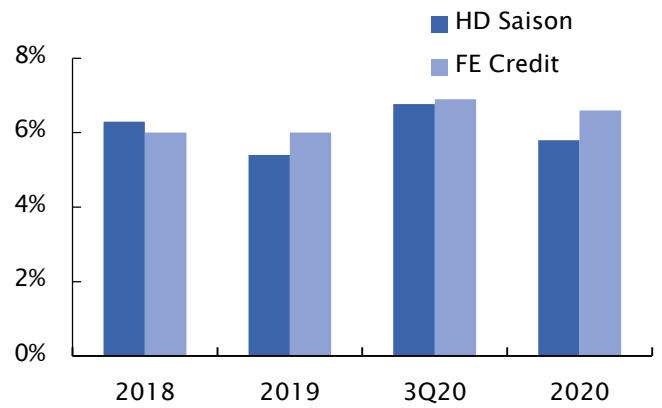
Source: Company Data, Yuanta Vietnam

Figure 13: CIR



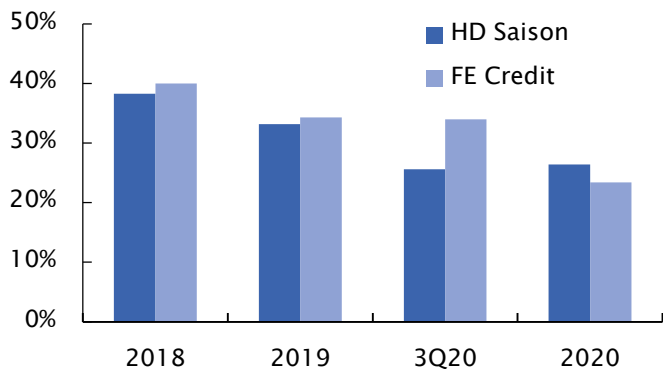
Source: Company Data, Yuanta Vietnam

Figure 14: NPL ratios



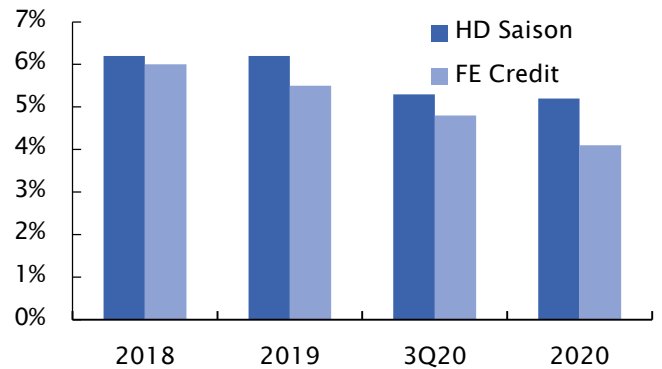
Source: Company Data, Yuanta Vietnam

Figure 15: ROE



Source: Company Data, Yuanta Vietnam

Figure 16: ROA



Source: Company Data, Yuanta Vietnam

HDB's capital and liquidity are strong

The bank's 4Q20 total CAR (Basel II) was 12.1%, well above the minimum requirement of 8.0%, after the additional Tier 2 capital from the bond issuance. In addition, its 4Q20 Tier 1 ratio was 9.2%. Liquidity is solid, as demonstrated by its ratio of short-term liabilities to medium- and long-term loans of only 24.8%, far below the regulatory cap of 40.0%.

Asset quality remains solid

The bank's LLR ratio was 82% (+18ppt QoQ/+1 ppt YoY) in 4Q20. HDB's NPL ratio was 1.32% as at 4Q20.

Circular 03/2021/TT-NHNN, which replaces Circular 01/2020/TT-NHNN, requires banks to provide provision for restructured loans. However, Circular 03 allows banks up to three years to do so, which will help banks spread out the pain of increased provisioning expenses.

HDB's total restructured loans reached VND7.9 tn or 4.4% of 4Q20 total loans. Our base case assumption is that 100% of these loans will be classified in Category 3, in which case HDB must set aside 20% specific provisions against new NPL formation (according to the Decision 493/2005/QĐ-NHNN), or VND1.6 tn over three years. This would bring HDB's total specific provisioning to about VND3.0 tn (HDB's specific provisions were VND1.5 tn in 2020).

Thus, we assume that HDB must provide additional provisioning of VND1.5 tn (0.84% of 2020 total loans) over three years starting from 2021. We thus assume additional

provisioning from restructured loans under Circular 3 of about VND450 bn (30% of VND1.5 tn) in 2021, another VND450 bn in 2022, and VND600 bn in 2023.

The actual result is extremely likely to differ from our base case assumption that 100% of the restructured loans must be classified as Cat. 3 NPLs. For example, some restructured debt will not require classification at all; other restructured loans will be classified under Cat. 4 (doubtful, which requires 50% specific provisions) and Cat. 5 (loss, which requires 100% specific provisions).

We also have not factored in collateralization / recoveries which would obviously mitigate provisioning, especially for the extreme worst-case outcome presented below, which assumes 100% write-offs of restructured debt over three years and results in a target price of VND26,599 (-16% below our base case-derived fair value and target price for HDB).

Below are our estimates for additional provisioning that HDB needs to provide for VND7.9 tn in restructured loans based on different loan categories:

Table 3– Assumptions on additional specific provision

Assumptions on category of the VND7.9 tn restructured loans	% Specific provision required by law	Required specific provision for restructured loans (VND bn) (1)	Total required specific provision (2)	HDB's specific provision as at 4Q20 (VND bn) (3)	Additional required provision (VND bn) in three years based on Cir. 03 (4) = (2) - (3)
Category 2	5%	395	1,812	1,498	313
Category 3	20%	1,580	2,997	1,498	1,498
Category 4	50%	3,950	5,367	1,498	3,868
Category 5	100%	7,900	9,317	1,498	7,818

Source: Company Data, Yuanta Vietnam

We also ran a sensitivity analysis to see the impact of different provision expenses assumptions on HDB's earnings and valuation.

Upside case: Assuming that all restructured loans are in category 2

Category 2	2021E	2022E	2023E
Provision expenses (VND bn)	(2,057)	(2,422)	(2,832)
PATMI (VND bn)	5,556	6,630	7,976
Adj. ROE	20.0%	19.5%	19.6%
Target Price (VND)	32,612		

Base case: Assuming that all restructured loans are in category 3

Category 3	2021E	2022E	2023E
Provision expenses (VND bn)	(2,412)	(2,777)	(3,306)
PATMI (VND bn)	5,301	6,375	7,636
Adj. ROE	19.2%	19.0%	19.2%
Target Price (VND)	31,656		

Downside case: Assuming that all restructured loans are in category 4

Category 4	2021E	2022E	2023E
Provision expenses (VND bn)	(3,123)	(3,488)	(4,254)
PATMI (VND bn)	4,791	5,865	6,956
Adj. ROE	17.6%	18.0%	18.1%
Target Price (VND)	29,751		

Worst case: Assuming that all restructured loans are in category 5

Category 5	2021E	2022E	2023E
Provision expenses (VND bn)	(4,308)	(4,673)	(5,834)
PATMI (VND bn)	3,941	5,014	5,822
Adj. ROE	14.8%	16.2%	16.2%
Target Price (VND)	26,599		

Source: Yuanta Vietnam

Valuation

Table 4 – Valuation

Valuation Methods	Average Fair Value (VND/share)		
	Estimated Price	Weight (%)	Price
Residual Income	29,906	50.0%	14,953
DDM Perpetuity	33,130	12.5%	4,141
DDM Multiple	35,367	12.5%	4,421
Regression	34,233	12.5%	4,279
Public Comps	30,897	12.5%	3,862
Estimated Fair Value			31,656

Source: Yuanta Vietnam

Table 5– Residual Income Valuation

Terminal Net Income Growth Rate:	4.0%
Projected Net Income 1 Year After Period:	15,035
Residual Income Terminal Value:	21,420
(+) Current Common Shareholders' Equity:	24,704
(+) PV of Residual Income Terminal Value:	4,872
(+) Sum of PV of Residual Income:	18,087
Implied Equity Value:	47,663
% of Implied Value from PV of TV:	10.2%
Implied Share Price:	29,906
Current Share Price:	27,300
Implied P/BV	1.6x
Premium / (Discount) to Current:	10%

Source: Yuanta Vietnam

Terminal Return on Common Equity	Initial Cost of Equity						
	12.0%	12.5%	13.0%	13.1%	13.6%	14.1%	14.6%
15.0%	44,381	39,696	35,688	35,002	31,631	28,693	26,112
14.5%	42,674	38,199	34,368	33,712	30,488	27,675	25,202
14.0%	40,981	36,714	33,059	32,433	29,354	26,665	24,300
13.5%	39,303	35,242	31,761	31,164	28,229	25,663	23,405
13.0%	37,638	33,782	30,473	29,906	27,113	24,670	22,518
12.5%	35,988	32,335	29,197	28,658	26,007	23,685	21,637
12.0%	34,352	30,899	27,931	27,421	24,910	22,708	20,765
11.5%	32,729	29,476	26,676	26,194	23,822	21,740	19,899
11.0%	31,120	28,065	25,431	24,978	22,743	20,779	19,041

Source: Yuanta Vietnam

Yuanta vs. Consensus

Table 6 – Yuanta vs. Consensus

	2021E	2022E
Net income (VND bn)		
Consensus mean	5,327	6,534
Yuanta forecast (*)	5,301	6,375
%ge difference	-0.5%	-2.4%
Consensus high	5,580	6,900
Consensus low	5,149	6,167
EPS (VND)		
Consensus mean	3,448	4,098
Yuanta forecast (*)	3,326	4,000
%ge difference	-3.5%	-2.4%
Consensus high	3,610	4,327
Consensus low	3,231	3,869

(*) EPS was calculated based on average shares outstanding. Our net income forecast exclude minority interest income and bonus & welfare.

Source: Bloomberg, Yuanta Vietnam

APPENDIX

Balance Sheet

(VND bn)	FY20A	FY21E	FY22E	FY23E
Cash and Balances at SBV	10,045	12,249	14,068	16,202
Loans & Advances to Banks:	44,811	45,430	52,177	60,089
Investment Securities:	70,715	75,127	81,393	93,736
Others:	154	187	215	248
Gross Loans:	178,323	217,360	252,199	293,313
(-) Specific Provisions:	(653)	(761)	(981)	(1,178)
(-) General Provisions:	(1,282)	(1,598)	(1,854)	(2,156)
Total provisions:	(1,935)	(2,359)	(2,835)	(3,334)
Net Loans:	176,388	215,001	249,364	289,979
Fixed Tangible asset:	601	680	768	868
Intangible Assets:	458	458	458	458
Real estate investment	21	21	21	21
Accrued interests:	3,091	3,091	3,091	3,091
Deferred tax:	-	-	-	-
Other Assets:	12,844	12,844	12,844	12,844
Total Assets:	319,128	365,035	414,334	477,451
Deposits:	174,620	212,846	244,445	281,499
Due to Banks & SBV:	75,318	79,316	92,029	107,032
Valuable papers:	34,332	34,332	34,332	34,332
Other Liabilities:	10,153	8,144	6,969	11,421
Total Liabilities:	294,423	334,638	377,774	434,284
Share Capital & Premium:	16,624	16,624	16,624	16,624
Reserves:	1,847	1,847	1,847	1,847
Treasury Shares	(413)	(413)	(413)	(413)
Retained Earnings:	4,939	10,241	15,978	22,087
Minorities Interest:	1,707	2,099	2,524	3,023
Total Equity:	24,704	30,397	36,559	43,168
Total Liabilities & Equity:	319,128	365,035	414,334	477,451

Source: Company Data, Yuanta Vietnam

Profit and Loss

(VND bn)	FY20A	FY21E	FY22E	FY23E
Net Interest Income:	11,898	14,778	17,390	20,507
Net Fee Income:	950	1,415	1,844	2,387
Other Non-II:	413	549	624	719
Total Non-II:	1,363	1,965	2,467	3,106
Total Adj. TOI:	13,261	16,742	19,857	23,613
Total Expenses:	(6,173)	(7,524)	(8,857)	(10,427)
PPOP:	7,088	9,218	11,001	13,187
Gross Provisions:	(1,788)	(2,412)	(2,777)	(3,306)
NPL Recoveries:	519	581	659	760
Net Provisions:	(1,270)	(1,831)	(2,118)	(2,546)
Pre-Tax Income:	5,818	7,387	8,883	10,640
(-) Income Tax:	(1,171)	(1,477)	(1,777)	(2,128)
Net Income after tax:	4,647	5,910	7,106	8,512
(-) Minority Interest	(398)	(594)	(714)	(855)
(-) Bonus & Welfare:	-	(15)	(18)	(21)
PATMI:	4,249	5,301	6,375	7,636

Key financial ratios

Selected Calculated Ratios	FY17	FY18	FY19	FY20	FY21	FY22	FY23
GROWTH PROJECTIONS							
Net interest income	36%	20%	27%	22%	24%	18%	18%
Fee Income	66%	123%	43%	52%	49%	30%	29%
Other NII	52%	26%	-34%	-28%	33%	14%	15%
Operating costs	24%	9%	14%	22%	22%	18%	18%
Gross Provision	2%	-2%	30%	39%	35%	15%	19%
Pre-provision profit	60%	43%	30%	21%	30%	19%	20%
Adjusted Net profit	137%	63%	27%	18%	25%	20%	20%
Assets	26%	14%	6%	39%	14%	14%	15%
ASSET ANALYSIS							
Earning assets to total assets	94%	93%	92%	92%	93%	93%	94%
Avg. Returns on Earnings Assets	1.11%	1.50%	1.74%	1.68%	1.68%	1.76%	1.83%
LOAN ANALYSIS							
Net Loan growth (% YoY)	27.1%	17.8%	18.8%	21.9%	21.9%	16.0%	16.3%
DEPOSIT ANALYSIS							
Deposit growth (YoY %)	16.7%	6.2%	-1.6%	38.6%	21.9%	14.8%	15.2%
LIQUIDITY							
Pure LDR	86%	95%	115%	101%	101%	102%	103%
ASSET QUALITY							
NPL ratio	1.52%	1.53%	1.36%	1.32%	1.34%	1.40%	1.44%
Loan loss coverage ratio	73%	71%	81%	82%	81%	80%	79%
SPREAD ANALYSIS							
Int. rate received on Average IEA	9.56%	8.88%	9.50%	9.15%	8.88%	9.21%	9.42%
Int. rate paid on Average IBL	5.47%	4.90%	4.84%	4.46%	4.22%	4.48%	4.61%
Interest rate spread	4.09%	3.98%	4.66%	4.68%	4.66%	4.73%	4.81%
NIM	4.05%	4.04%	4.72%	4.70%	4.68%	4.80%	4.92%
OTHER INCOME							
Fee income to total income	2.7%	4.9%	5.7%	7.2%	8.5%	9.3%	10.1%
Other Non-II to total Income	9.6%	9.8%	5.3%	3.1%	3.3%	3.1%	3.0%
OPERATING EFFICIENCY							
Cost to income ratio	56%	50%	46%	47%	45%	45%	44%
CREDIT COSTS							
Provision/avg. loans	1.09%	0.87%	0.96%	1.10%	1.22%	1.18%	1.21%
PROFITABILITY							
Pre provision ROA	1.86%	2.23%	2.63%	2.58%	2.69%	2.82%	2.96%
Pre provision ROE	25.6%	28.6%	31.5%	31.4%	33.5%	32.9%	33.1%
Adj. ROAA	1.03%	1.40%	1.61%	1.55%	1.55%	1.64%	1.71%
Adj. ROAE	14.1%	18.0%	19.3%	18.8%	19.2%	19.0%	19.2%
Dividend Yield	0.6%	5.0%	0.4%	0.0%	0.0%	1.5%	3.5%
VALUATIONS							
PER (x)	13.3x	9.0x	12.2x	10.3x	8.2x	6.8x	5.7x
PBR (x)	1.7x	1.7x	1.4x	1.9x	1.5x	1.3x	1.1x

Source: FiinPro, Yuanta Vietnam

Appendix A: Important Disclosures

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