HOCHIMINH DEVELOPMENT JSC BANK (HSX: HDB)

Pressured by the Covid-19 yet outlook remains constructive

Particulars (VND Bn)	1Q-FY20	4Q-FY19	+/-(qoq)	1Q-FY19	+/-(yoy)
Total operating income	3,151	3,344	-5.8%	2,466	27.8%
PBT and provision	1,543	1,977	-22.0%	1,328	16.2%
PBT	1,251	1,570	-20.4%	1,102	13.5%
NPAT	889	1,121	-20.7%	799	11.2%

Source: HDB, Rong Viet Securities

1Q2020: NII led growth, provision increased strongly from a low base

- The parent bank's 1Q2020 PBT increased by 7.1% YoY to VND 964 Bn (USD 41.9 Mn), while HD Saison's PBT was up by 36% YoY to VND 282 Bn (USD 12.3 Mn).
- The parent bank's credit expanded by 6.0% YTD (+19.4% YoY) while HD Saison's by 4.9% YTD (22.8% YoY). Consolidated NIM improved from 4.3% to 5.4% thanks to both the parent bank (from 2.8 to 3.8%) and HD Saison (from 26.6 to 27.4%). Overall, consolidated NII rose by 42.1% YoY, leading total income growth.
- Service income increased by 11.5% YoY, still driven by HD Saison's insurance commissions. Income from other activities dropped by 63.0% YoY mainly due to provision surge for investment securities, most of which are government bonds.
- TOI rose by 27.8% YoY. CIR increased to 51% from 46% in 1Q2019 due to the advance booking of staff costs. Asset quality remained stable due to a 29.0% YoY increase in provision expenses. PBT growth reached 13.5% YoY.

2020 Outlook: Pressured by the Covid-19 impact yet remains constructive

- We forecast a 15% consolidated credit growth (equal at the parent bank and HD Saison) along with a 20bps improvement in consolidated NIM to 5.0%, which translates to a 16.8% YoY growth in 2020E NII.
- We keep our forecast that services income will grow by 33.2% YoY, accounting for 6.2% of TOI, due to the boost of bancassurance and card fees.
- We forecast that consolidated CIR will stay at 44.6%, and raise our provision expenses growth forecast to 23.7% YoY.
- PBT is expected to increase by 16.7% YoY to VND 5,858 Bn (USD 254.7Mn), which is a bit lower than our latest forecast to reflect a marginally higher operating and provision expenses.

Valuation and recommendation

Currently HDB's income growth is still primarily driven by net interest income, while other income streams remains limited, especially under unfavorable economic conditions. For 2020, net interest income is expected to stay strong, but service income is likely to pick up only until the exclusive bancassurance agreement is finalized (expected by 2H2020). Regarding expense, in 1Q the bank has accumulated some reserves for trading & investment securities, operating and provision expenses just in case of a worsening virus situation. We expect that this relatively prudent provisioning will be able to moderate the virus impact on the bottom line in the next quarters.

*Considering the bank's solid financials and resilience towards epidemic impact, we raise HDB's target price to **VND 31,000**, equivalent to a potential upside of **14%** versus the current market price. We recommend to **ACCUMULATE** the stock.*

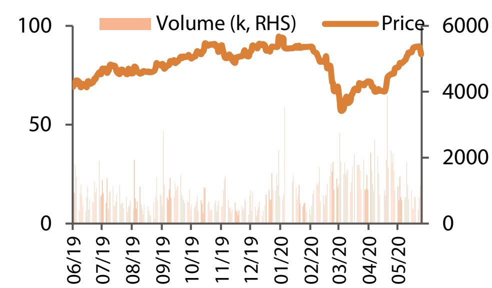
ACCUMULATE +14%

Target price (VND)	31,000
Current market price (VND)	27,300
Cash dividend (VND)*	-
*within next 12 months	

Stock Info	
Sector	Banks
Market Cap (VND bn)	26,273
Current Shares O/S (mn)	966
3M Avg. Volume (K)	1,521.0
3M Avg. Trading Value (VND bn)	33.2
Remaining Foreign Room (%)	8.9
52 weeks High (VND)	30,100
52 weeks Low (VND)	16,100

	FY2019	Current
EPS	3,675	3,782
EPS Growth (%)	27.1	28.7
Diluted EPS	3,675	3,782
P/E	7.5	7.2
P/B	1.3	1.3
Cash dividend (%)	0	0
ROE (%)	20.8	20.5

Price performance



Major Shareholders (%)	
Sovico Holding	14.1%
Pham Van Dau	4.30%
Nguyen Thi Phuong Thao	3.67%
Foreign ownership room left (%)	*8.9%*

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Exhibit 1: 1Q 2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Interest and Similar Income	5,452	5,419	0.6%	4,441	22.8%
Interest and Similar Expenses	-2,569	-2,531	1.5%	-2,411	6.5%
Net Interest Income	2,884	2,888	-0.2%	2,030	42.1%
Non-interest Incomes	267	456	-41.3%	436	-38.7%
Net Fee and Commission Income	158	161	-1.6%	142	11.5%
Net gain/(loss) from foreign currency and gold dealings	25	55	-54.5%	94	-73.6%
Net gain/(loss) from trading of trading securities	64	39	62.4%	30	113.7%
Net gain/(loss) from disposal of investment securities	-32	3	-1,231.6%	128	-125.2%
Net Other income/expenses	53	198	-73.4%	42	26.4%
Income from capital contribution	0	0	-	0	-
Total operating income	3,151	3,344	-5.8%	2,466	27.8%
Operating expenses	-1,608	-1,366	17.7%	-1,137	41.4%
Operating Profit Before Provision	1,543	1,977	-22.0%	1,328	16.2%
Provision expenses	-292	-407	-28.2%	-227	29.0%
Profit before tax	1,251	1,570	-20.4%	1,102	13.5%
Corporate income tax	-249	-314	-20.6%	-223	11.8%
NPAT	1,001	1,256	-20.3%	879	13.9%
Attributable to parent company	889	1,121	-20.7%	799	11.2%

Source: HDB, Rong Viet Securities

Exhibit 2: 1Q 2020 Performance Analysis

(%)	1Q-FY20	4Q-FY19	+/- qoq	1Q-FY19	+/- yoy
Profitability (TTM)					
NIM	5.4	4.8	58 bps	4.3	92 bps
CIR	46.0	44.6	136 bps	47.6	-161 bps
ROAE (Excluding minority interests)	20.5	20.8	-31 bps	17.9	256 bps
ROAA (Excluding minority interests)	1.7	1.6	9 bps	1.5	24 bps
Assets Quality					
NPLs ratio	1.5	1.4	11 bps	1.4	2 bps
NPLs + VAMC ratio	1.5	1.5	8 bps	1.8	-26 bps
Bad debt coverage ratio	74.5	81.4	-686 bps	73.9	58 bps
Equity-to-Assets ratio	9.2	8.9	35 bps	8.7	48 bps
Operating Safety Ratio					
Loans to customers & other CIs to total assets ratio	73.2	73.8	-61 bps	72.6	55 bps
Customer LDR (Customer loans/Customer deposit)	114.7	116.1	-137 bps	101.8	1,297 bps
Adjusted LDR ((Customer loans + Corporate bonds) /(Customer deposit + Valuable papers))	102.6	101.3	127 bps	96.2	639 bps

Source: HDB, Rong Viet Securities

Exhibit 3: 2Q 2020 Performance Forecast

Particulars (VND Bn)	2Q-FY20	+/- (qoq)	+/- (yoy)	Comments
Net interest income	2,449	-15.1%	5.4%	We expect that the negative impact of Covid-19 will be reflected more clearly in the 2Q business results, especially in NII and provision expenses, while non-NII income and operating expenses should be less impacted. Overall, we forecast a minor decline QoQ in 2Q earnings.
Total operating income	2,888	-8.3%	6.7%	
Profit before tax and provision	1,601	3.8%	13.2%	
NPAT	993	-0.8%	10.8%	

Source: HDB, Rong Viet Securities

Update

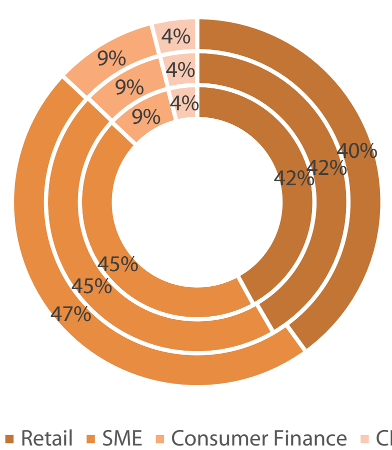
Unlike 2019 when the parent bank was the overall earnings growth driver of HDB's consolidated performance, 1Q2020 saw HD Saison gaining back its importance as the performance has not been impacted much by the epidemic. The parent bank's 1Q2020 PBT increased by 7.1% YoY to VND 964 Bn (USD 41.9 Mn), while HD Saison's PBT was up by 39.1% YoY to VND 282 Bn (USD 12.3 Mn). Overall, HDB achieved a moderate consolidated earnings growth in 1Q (+13.5% YoY), mainly driven by the impressive expansion of net interest income, while other income streams were somehow limited under unfavorable economic conditions. We also note that in 1Q the bank has escalated some reserves for trading & investment securities, operating and provision expenses.

NIM expansion momentum is likely to override the epidemic downside impact

The parent bank's growth in 1Q was driven by NII (+54.9% YoY), due to the expansion in both credit and NIM. Customer lending expanded by 4.1% YTD and separate credit expanded by 6.0% YTD (+19.4% YoY). Meanwhile, NIM saw a significant rise from 2.8% in 1Q2019 to 3.8% in 1Q2020 (our estimates). This was mainly due to the expansion in asset yields by 89.3 bps coupled with a -8.6 bps reduction in funding cost since 1Q2019. We hold the view that the improvement in asset yields was achieved owing to (1) the end of the subsidiary period for a decent portion of lending and (2) the expansion into green credit projects with longer tenure and better loan yields (which accounts for c.29% of total loan book).

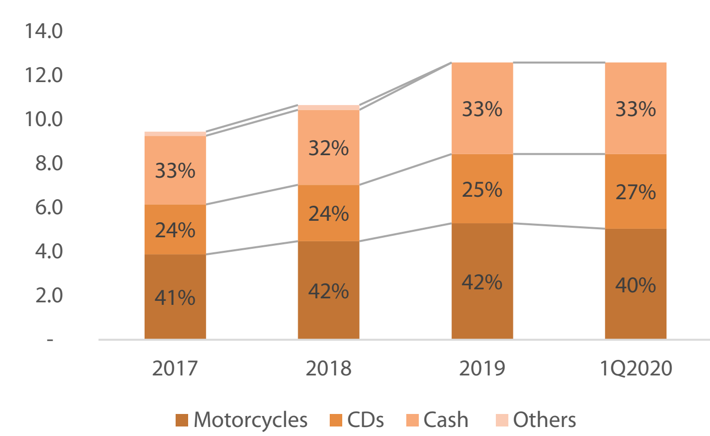
The epidemic seems yet to impact HD Saison's lending in 1Q, when the company's loan book still grew by 4.9% YTD (+22.8% YoY), reaching VND13,198 Bn (USD 573.8 Mn), with the fastest expansion in CDs (Figure 2). HD Saison's NIM improved a bit to 27.4% from 26.6% in 2019, in the context of stable funding cost at 7.8% (Figure 4). This is in line with our expectations as HD Saison's NIM compression in 2019 was mostly due to the surge in its lending on the last quarter of the year (+14.6% QoQ). Overall, the company's NII growth in 1Q escalated to 20.5% YoY. We maintain our view that HD Saison's NIM would stay the same in 2020, though lending growth might slowdown a bit versus 2019 due to the impact of the epidemic.

Figure 1: Lending structure 2018, 2019, 1Q2020 (%)



Source: HDB, Rong Viet Securities. Note: From inside to outside ring: 2018, 2019, 1Q2020

Figure 2: HD Saison's lending structure 2017-2019 (%)

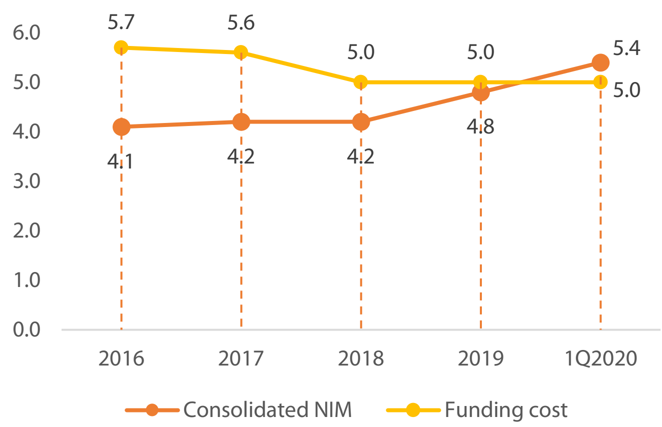


Source: HDB, Rong Viet Securities. Note: other loans are reclassified as either cash loans or CDs loans since 2019.

Overall, consolidated NIM increased from 4.3% in 1Q2019 and to 4.8% in 2019 to 5.4% in 1Q2020 (Figure 3). This continues to be the most impressive NIM improvement in 1Q amongst our watch list. With relatively strong capital and healthy liquidity, we believe HDB would be able to reduce funding cost further in 2020 owing to the SBV's lower policy rates and short-term deposit rate ceiling (applied to 17.4% of the bank's current deposit). Coupled with the expanding asset yields momentum, we maintain our view that the current NIM trajectory should be sufficient to override the downside impact of Covid-19. We forecast that HDB will likely be amongst the few banks that would be able to expand NIM further in 2020.

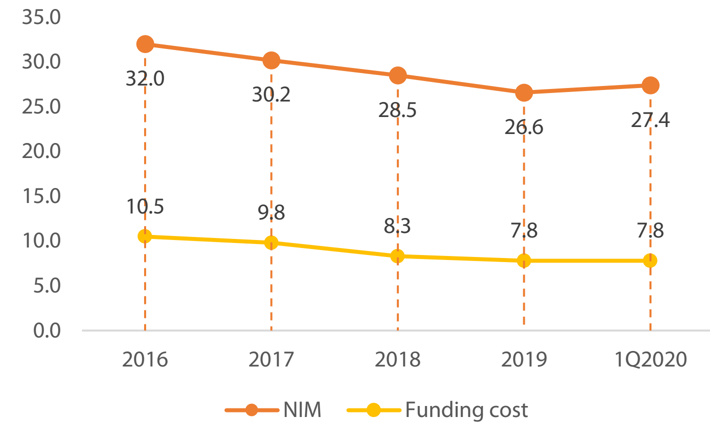
For 2020, HDB targets 16% growth in lending (in both parent bank and HD Saison), which is still subject to SBV approval. Current limits given by SBV is 11% for the parent bank and 10% for HD Saison. The bank is also considering the diversification of lower-cost funding methods including Euro Medium Term Note within the next 5 years, and convertible bonds in 2020/2021.

Figure 3: Consolidated NIM and funding cost (%)



Source: HDB, Rong Viet Securities

Figure 4: HD Saison's NIM and funding cost (%)



Source: HDB, Rong Viet Securities

Non-interest income remained weak, but has ample room for improvement

While NII saw a strong growth in 1Q, service income leveled off with a modest growth of 11.5% YoY. HD Saison was still able to drive consolidated service income expansion with a strong growth of around 30% YoY, which can be accredited to its lending policies. However, the parent bank saw its service income declining significantly by 30.3% YoY, which was due to relatively quiet payment and life-insurance fees. The proportion of service income on TOI remained at the lowest level amongst banks under our watch list (5.0%), even more unsatisfactory at the parent bank (1.4% only).

Other income (non-interest and non-fees) were down by -63% YoY due to a sharp drop in foreign exchange income (-73.6% YoY) and trading and investment securities gains (-80.1% YoY) while others only grew modestly. As a result, non-interest income's proportion on TOI contracted to 8.5%. This dragged consolidated TOI growth to 27.8% YoY.

The bank's management expects it would realize provision reversals for investment securities in the coming quarters as market's recent volatility caused by Covid-19 outbreak settles. The momentum of insurance commissions should also improve in the following quarters, but the obvious escalation should only be seen upon the finalization of the exclusive bancassurance agreement.

We maintain our forecast that consolidated bank's service income will expand with a CAGR of 25% in the next three years, raising the service income contribution to TOI to 7.9% by 2022.

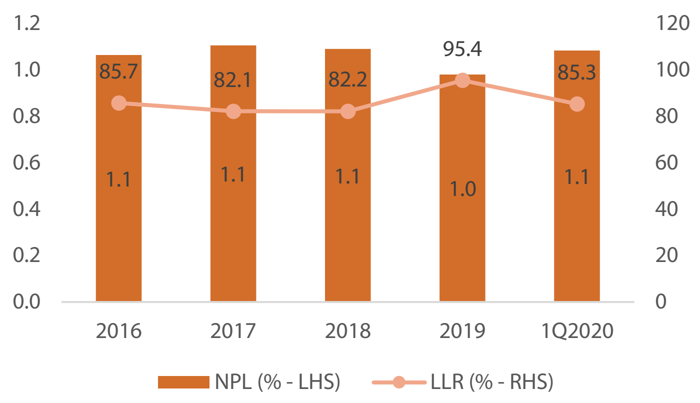
Efficiency improvement should be less significant in 2020

In 1Q2020, operating expenses increased by 41.4% YoY, thereby raising the CIR to 51% from 46.1% in 1Q2019 from 44.6% in the entire 2019. Such a significant growth was due to HDB's advance booking of staff costs, which increased by more than 60% YoY in 1Q. It should be noted that to improve the parent bank's CIR would be challenging as it plans to open 22 new branches/TOs within the 1H of this year. Overall, we expect consolidated CIR to stay the same in 2020 (at 44.6%).

Asset quality is expected to remain stable

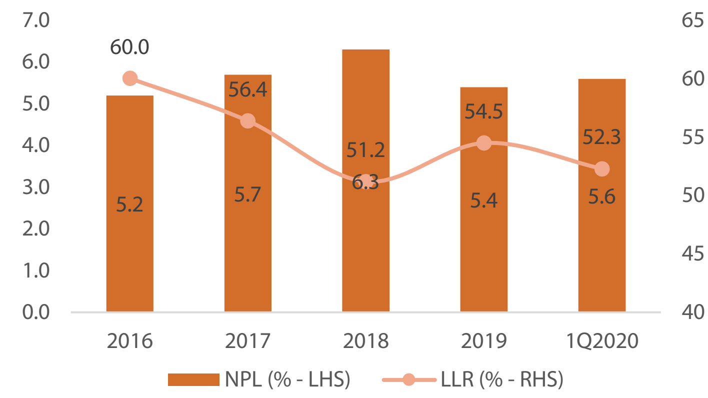
In 1Q, asset quality at the parent bank remained healthy with the NPL ratio mostly unchanged at 1.1% despite no write-offs, though the LLR ratio was down slightly to 85.3% (Figure 5). The remaining VAMC balance was at only around VND 80 Bn by the end of March. At the same time, HD Saison's NPL ratio was up slightly by 20bps to 5.6% (Figure 6) with a stable write-off ratio of 1.6% consumer finance gross loan. HDB accelerated provisions bookings in 1Q2020 (+29.0% YoY), mainly at the parent bank (+177.8% YoY). However, as the escalation was from a low base and the virus impact is yet to be fully reflected in 1Q results, we think that the bank would need to accumulate more provisions buffer in 2Q, though the burden should not be too significant. As a result, we forecast a 23.7% YoY growth in total provision expenses to VND 1.6Tn (USD 69.3Mn), raising consolidated LLR to more than 80%.

Figure 5: Parent bank's LLR and NPL ratio (%)



Source: HDB, Rong Viet Securities

Figure 6: HD Saison's LLR and NPL ratio (%)



Source: HDB, Rong Viet Securities

2020 plans

In 2019, HDB planned to pay a 10% share dividend and 20% bonus shares (30% in total) to raise capital, which has not been finished yet. This year, the bank plans to pay 50% share dividend and 15% bonus shares (65% in total, to be paid for FY2018-2019). The payment would be made in two tranches, of respectively 30% and 35%, expected to start in 4Q2020. The plan, if completed, would raise charter capital to more than 16Tn.

HDB targets earnings growth of 13% YoY in 2020, which can be considered a desirable growth amongst banks under the virus situation.

Table 1: 2020 business targets

	2019 A (VND Bn)	2019 vs 2018 (Growth - %)	% 2019 P	2020 P (VND Bn)	2020 P vs 2019 A (Growth - %)
PBT	5,018	25.3%	98.8%	5,661	13%
Total Asset	229,447	6.2%	91.8%	305,372	33%
Total Credit	153,004	18%	95.1%	177,970	16%
Total mobilization	203,869	9.2%	90.9%	275,246	35%

Source: HDB, Rong Viet Securities. Mobilization includes customer deposit, deposit from other CIs, bonds and CDs, funds received from Gov, international & other institutions. Total credit is subject to SBV approval.

Unit: VND Bn

INCOME STATEMENT	FY2018A	FY2019A	FY2020E	FY2021F
Interest and Similar Income	16,948	19,618	20,905	24,091
Interest and Similar Expenses	-9,303	-9,872	-9,522	-10,686
Net Interest Income	**7,646**	**9,747**	**11,383**	**13,405**
Non-interest Incomes	1,795	1,641	2,067	2,501
Net Fee and Commission Income	438	626	834	1,147
Net gain/(loss) from foreign currency and gold dealings	298	230	196	216
Net gain/(loss) from trading of trading securities	124	80	70	77
Net gain/(loss) from disposal of investment securities	342	240	178	253
Net Other income/expenses	483	438	538	541
Income from capital contribution	109	27	251	267
Total operating income	**9,440**	**11,388**	**13,451**	**15,906**
Operating expenses	-4,441	-5,080	-5,998	-6,973
Operating Profit Before Provision	4,999	6,307	7,452	8,933
Provision expenses	**-994**	**-1,289**	**-1,594**	**-1,637**
Profit before tax	**4,005**	**5,018**	**5,858**	**7,296**
Corporate income tax	-803	-998	-1,172	-1,459
NPAT	**3,202**	**4,020**	**4,686**	**5,837**
Attributable to parent company	**2,842**	**3,605**	**4,201**	**5,233**

Unit: %

FINANCIAL RATIO	FY2018A	FY2019A	FY2020E	FY2021F
Growth				
Customer loans	17.9	18.8	14.7	16.4
Customer deposit	6.2	-1.6	5.6	11.3
Net interest incomes	20.5	27.5	16.8	17.8
Operating income	25.8	20.6	18.1	18.3
NPAT	62.7	26.8	16.6	24.5
Total Assets	14.1	6.2	9.0	14.0
Equity	14.0	21.1	14.0	17.0
Profitability (TTM)				
NIM	4.2	4.8	4.9	4.9
CIR	47.0	44.6	44.6	43.8
ROAE (Exclude minority interests)	19.1	20.8	20.5	21.9
ROAA (Exclude minority interests)	1.4	1.6	1.8	2.0
Assets Quality				
NPLs ratio	1.5	1.4	1.7	1.6
NPLs + VAMC ratio	1.9	1.5	1.7	1.6
Bad debt coverage ratio	71.1	81.4	82.3	81.9
Equity-to-Assets ratio	7.8	8.9	8.7	9.1
Operating Safety Ratio				
Loans to customers & other CIs to total assets ratio	71.4	73.8	74.3	75.0
Customer LDR	96.2	116.1	126.4	132.2
Adjusted LDR	90.7	101.3	106.5	106.1

Unit: VND Bn

BALANCE SHEET	FY2018A	FY2019A	FY2020E	FY2021F
Cash and precious metals	2,096	2,005	2,417	2,497
Balances with the SBV	5,386	4,504	4,694	5,143
Placements with and loans to other credit institutions	32,426	24,665	19,802	20,593
Trading securities, net	2,597	4,643	5,370	5,692
Derivatives and other financial assets	208	0	91	91
Loans and advances to customers, net	121,792	144,700	165,912	193,170
Investment securities	42,695	36,042	35,924	39,096
Investment in other entities and long-term investments	165	167	167	167
Fixed assets	1,615	904	993	1,092
Investment properties	52	44	0	0
Other assets	7,025	11,805	14,714	17,499
TOTAL ASSETS	**216,057**	**229,477**	**250,083**	**285,038**
Due to Gov and borrowings from SBV	7,912	209	2,759	2,759
Deposits and borrowings from other credit institutions	40,689	49,794	51,600	54,453
Deposits from customers	128,060	126,019	133,095	148,069
Derivatives and other financial liabilities	0	14	14	14
Funds received from Gov, international & other institutions	3,046	3,043	3,043	3,043
Convertible bonds/CDs and other valuable papers issued	14,927	25,013	31,310	43,942
Other liabilities	4,595	8,820	9,702	10,672
Total liabilities	**199,229**	**209,096**	**227,326**	**258,335**
Shareholder's equity	**16,828**	**20,381**	**23,231**	**27,177**
Capital	11,852	11,693	11,693	11,693
Reserves	776	1,248	1,208	2,012
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	3,007	6,131	9,021	12,163
Minority interest	1,193	1,309	1,309	1,309
LIABILITIES AND SHAREHOLDER'S EQUITY	**216, 057**	**229,477**	**250,557**	**285,512**

Unit: VND Bn

FOOTNOTES	FY2018A	FY2019A	FY2020E	FY2021F
Interest Income	**16,948**	**19,618**	**20,905**	**24,091**
From customers	13,444	15,825	18,005	21,131
From other Cis	223	240	188	171
From fixed-income investment	2,266	2,447	2,380	2,456
From guarantee	78	0	0	0
From other activities	937	1,106	333	333
Interest Expenses	**-9,302**	**-9,872**	**-9,522**	**-10,686**
To customers	-7,332	-7,703	-7,867	-8,703
To other Cis	-710	-821	-712	-649
To fixed-income investment	-1,079	-1,310	-900	-1,283
To other activities	-180	-37	-43	-50
Operating expenses	**-4,441**	**-5,080**	**-5,998**	**-6,973**
Provision expenses	**-994**	**-1,289**	**-1,594**	**-1,637**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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