May, 2019

HOCHIMINH DEVELOPMENT JSC BANK (HSX: HDB)

Parent bank to lead growth in the near term

Particulars (VND Bn)	1Q-FY19	4Q-FY18	+/- QoQ	1Q-FY18	+/- yoy
Total operating income	2,466	2,657	-7.2%	2,303	7.1%
PBT and provision	1,328	1,473	-9.8%	1,294	2.6%
PBT	1,102	1,121	-1.7%	1,047	5.3%
NPAT	799	780	2.4%	757	5.5%

Source: HDB, Rong Viet Securities

1Q 2019: PBT growth is slowing; asset quality is controlled

- Consolidated net interest income and credit grew 10.9% YoY and 4.5% YTD vs. 16.3% YoY and 4.8% YTD in the parent bank, respectively.
- Net income from services increased 27.9% YoY, driven by HD Saison's insurance commission.
- The reduction in income from securities trading (-35% YoY) and other activities (-42% YoY) was partly offset by the +315.8% YoY surge in income from FX and gold dealing.

Consolidated TOI grew only 7.1% YoY to VND 2,465.7 Bn. Meanwhile, CIR rose to 46.1% from 43.8% in 1Q 2018 and provision expenses declined 8.1% YoY to VND 227Bn. Overall, HDB achieved consolidated PBT of VND 1,101.7 Bn (+5.3% YoY), fulfilling 21.7% of its full year target. Asset quality is still well managed with the NPL ratio declining to 1.4% (consolidated) and 1.1% (parent).

2019 Outlook: Moderate growth expected

We forecast that HDB's total credit will increase 15.5% (16% for the parent bank and 10% for HD Saison). Consolidated NIM is expected to improve 10 bps to 4.2% and net interest income is forecasted to rise 17.9% YoY to VND 9,012 Bn. We expect service income to reach VND 594 Bn (+35.6% YoY, of which VND 399 Bn is contributed by HD Saison) and consolidated TOI to reach 11,049 Bn (+17.0% YoY). Operating expenses are forecasted to increase 14.7% YoY to VND 5,095 Bn, which translates into a consolidated CIR of 46.1%. Provision expenses are expected to rise 16.6% YoY to VND 1,156 Bn (of which, VND 167Bn is for VAMC debts). We believe consolidated PBT will reach VND 4,800 Bn (+19.8% YoY).

Valuation and recommendation:

HDB set an ambitious PBT growth target of 27% YoY based on aggressive credit expansion (+24% YoY) for which it has not obtained SBV approval yet. Given the bank's plans to open 23 more branches/TOs, maintain the largest consumer finance network, launch new digital banking products, and clear all VAMC bonds, we expect pressure on operating costs and provision expenses to persist. Therefore, the AGM PBT guidance will be challenging. The outlook also depends on SBV's final credit cap and the merger progress with PGBank.

*We reduce our target price for HDB to **VND 31,000**, equivalent to a total return of **13.6%** based on closing price as of May 31st (VND 27,300). We thereby keep an **ACCUMULATE** rating on the stock.*

ACCUMULATE +14%

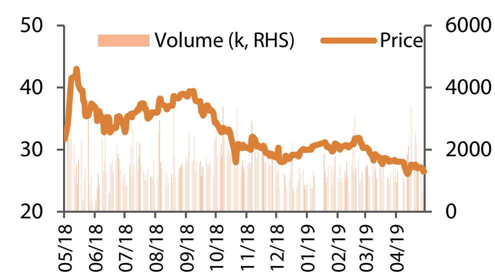
Target price (VND)	31,000
Current market price (VND)	27,300
Cash dividend (VND)*	-
*within next 12 months	

Stock Info

Sector	Banks
Market Cap (VND billion)	29,626.2
Current Shares O/S	981.0
Beta	2,485.4
Free float (%)	83.1
52 weeks High	3.0
52 weeks Low	3.1
Avg. Daily Volume (in 20 sessions)	29,626.2

	FY2018	Current
EPS	2,894	2,939
EPS Growth (%)	62.7	1.5
Diluted EPS	2,894	2,939
P/E	9.3	9.2
P/B	1.7	1.6
Cash dividend (%)	0	0
ROE (%)	20.3	17.5

Price performance



Major Shareholders (%)

Sovico Holding	13.34%
Pham Van Dau	4.30%
Nguyen Thi Phuong Thao	3.67%
Foreign ownership room left (%)	*5%*

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Exhibit 1: 1Q 2019 Results

(VND Bn)	1Q-FY19	4Q-FY18	+/-(qoq)	1Q-FY18	+/-(yoy)
Interest and Similar Income	4,441	4,742	-6.4%	3,935	12.9%
Interest and Similar Expenses	-2,411	-2,581	-6.6%	-2,103	14.6%
Net Interest Income	2,030	2,161	-6.1%	1,831	10.8%
Non-interest Incomes	446	501	-11.0%	487	-8.5%
Net Fee and Commission Income	142	97	45.8%	111	27.9%
Net gain/(loss) from foreign currency and gold dealings	94	170	-44.3%	23	315.8%
Net gain/(loss) from trading of trading securities	30	-2	-1,677.0%	83	-64.2%
Net gain/(loss) from disposal of investment securities	128	6	1,916.9%	160	-20.0%
Net Other income/expenses	52	230	-77.5%	88	-41.2%
Income from capital contribution	0	0	N/A	22	-100.0%
Total operating income	2,466	2,657	-7.2%	2,303	7.1%
Operating expenses	-1,137	-1,184	-4.0%	-1,009	12.7%
Operating Profit Before Provision	1,328	1,473	-9.8%	1,294	2.7%
Provision expenses	-227	-352	-35.7%	-247	-8.3%
Profit before tax	1,102	1,121	-1.7%	1,047	5.3%
Corporate income tax	-223	-229	-2.5%	-213	4.8%
NPAT	879	892	-1.5%	834	5.4%
Attributable to parent company	799	780	2.5%	757	5.5%

Source: HDB, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

(%)	1Q-FY19	4Q-FY18	+/-(qoq)	1Q-FY18	+/-(yoy)
Profitability (TTM)					
NIM	4.3	4.1	17 bps	4.2	10 bps
CIR	46.1	44.6	156 bps	43.8	231 bps
ROAE	17.5	17.8	-27 bps	17.3	28 bps
ROAA	1.9	1.4	47 bps	1.2	66 bps
Assets Quality			0 bps		0 bps
NPLs ratio	1.4	1.5	-8 bps	1.6	-18 bps
Bad debt coverage ratio	73.9	71.1	285 bps	64.3	959 bps
Equity-to-Assets ratio	8.7	7.8	96 bps	8.3	46 bps
Operating Safety Ratio					
Customer Loans-to-Total Assets ratio	72.6	71.4	129 bps	70.6	207 bps
Customer LDR	91.4	91.4	5 bps	84.9	658 bps
Adjusted LDR	96.2	90.7	553 bps	91.7	444 bps

Source: HDB, Rong Viet Securities

Exhibit 3: 2Q 2019 Performance Forecast

Particulars (VND Bn)	2Q-FY19	+/- (qoq)	+/- (yoy)
Net interest income	2,309	13.7%	26.1%
Total operating income	2,837	15.0%	23.2%
Profit before tax and provision	1,529	15.1%	18.1%
NPAT	942	17.9%	24.4%

Source: HDB, Rong Viet Securities

Update

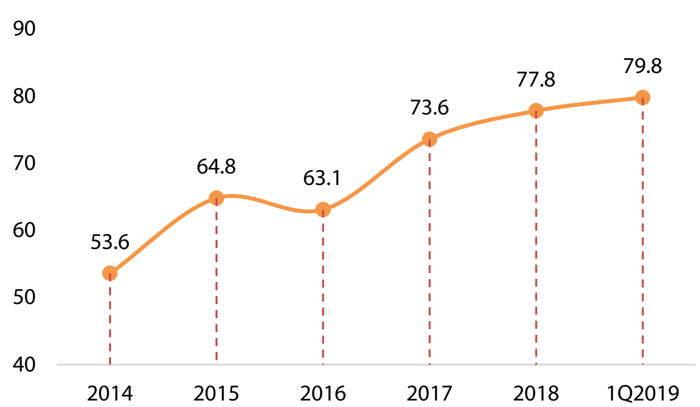
Lending growth in the parent bank is still on track

Total credit grew 4.8% YTD to VND 135,450Bn in 1Q 2019, a lower than the 5.7% YTD in 1Q 2018. The parent bank's credit expanded 4.5% YTD (versus SBV cap of 13% and the bank's target of 25% for the entire year). This high credit growth target is based on the bank's expectation the SBV will grant them a higher credit quota once the bank complies with Circular 41/41/2016/TT-NHNN. In Jan 2019, HDB has submitted registration document to the SBV. According to the bank, consolidated Basel II CAR as of March 31st is 10.1% and parent bank's CAR is 9.3%, higher than SBV's minimum requirement in accordance with Circular 41 (8%).

Total mobilization shrank 1.5% YTD with customer deposits reducing 1.1% and valuable papers reducing 5.3%. CASA improved slightly to 8.7% from 8.4% by end of 2018, but is still low compared to other banks in our coverage. NIM (trailing 4Q) slightly improved to 4.3% from 4.2% in 1Q 2018. However, NIM expansion was achieved mainly by pushing LDR rather than improving asset yields or lowering average funding costs. By 1Q 2019, HDB's consolidated regulatory LDR was 79.8%, very close to the 80% SBV threshold (Figure 01). HDB announced its plans to issue VND 5 Tn of long-term bonds (so far VND 3.4 Tn was issued). We think there is limited room for NIMs to expand in the rest of this year.

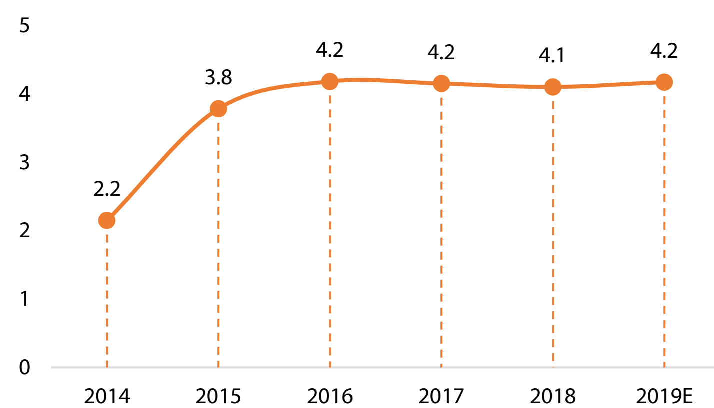
HDBank tries to boost credit growth by launching a VND 10 Tn lending package for retail customers and micro enterprises. The bank offered discount interest rates and reduced fees to specific customer groups including: (1) supermarket and convenience store suppliers, (2) Vietjet flight ticket agents, (3) Petrolimex and PV Oil suppliers, and (4) rooftop solar energy projects investors. We appreciate the bank's efforts to acquire market share by attracting certain low risk segments, which allows it to expand lending while managing asset quality closely. This approach is likely to limit NIM expansion and service income growth of the parent bank in the near term, but can create more stable growth in the long run.

Figure 01: Consolidated regulatory LDR (Circular 36) (%)



Source: HDB

Figure 02: Consolidated NIM (TTM) (%)



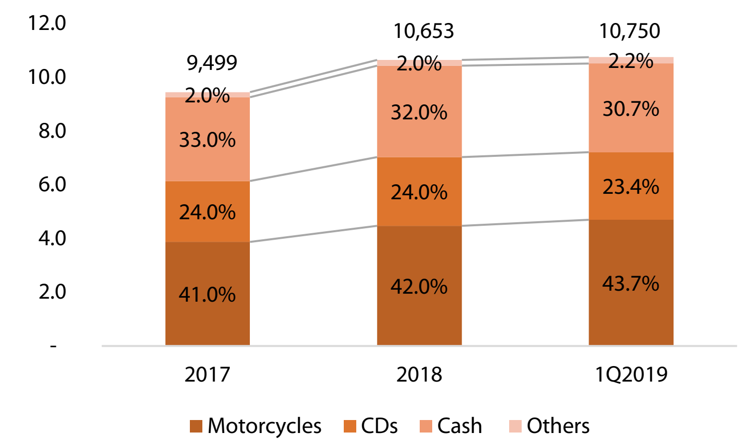
Source: HDB, Rong Viet Securities estimated

HD Saison: low lending growth and NIM compression

HD Saison was able to expand credit by only 0.9% during the first quarter while NIM contracted to 28.2% (Figure 04). Despite a bounce in Q4 2018, the difficulty in expanding loans reinforces our concerns regarding the sector and the company's outlook. These include (1) the slowdown of motorbikes and consumer durables (CDs) which account for 43.7% and 23.4% of HD Saison's 1Q 2019 lending portfolio and (2) the competition from new entrants such as Easy Credit and Lotte Finance. According to Euromonitor data, electronics and appliances saw slower volume growth in 2018 (11.0% YoY) compared to the 13.9% 5Y CAGR (Figure 06). VAMM (Vietnam Association of Motorcycle Manufacturers) also recorded much lower growth of motorbikes volume in the last two years and even a negative YoY growth in 1Q 2019 (Figure 05).

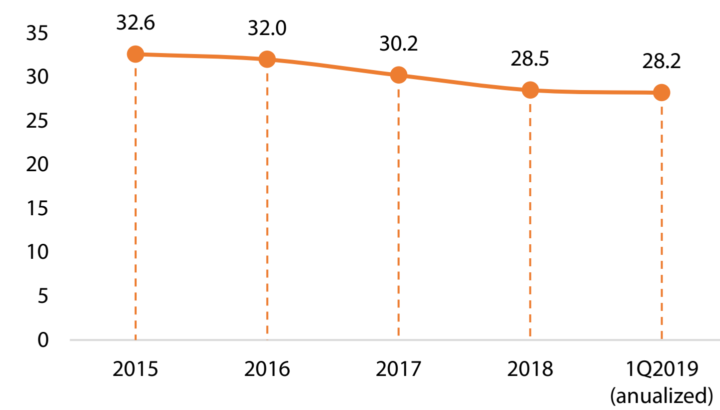
Having said that, HD Saison's focus on non-cash loans is encouraging. The company has been trying to diversify its products to expand into other categories. In April 2019, the SBV has announced a draft circular amending Circular 43/2016/TT-NHNN with an intention to control consumer finance more closely. There are two major tentative changes: (1) the maximum proportion of direct disbursement to customers is set at 30% and (2) direct disbursement is granted to existing clients with good credit record only. At the end of 1Q 2019, the proportion of cash loans in HDB's portfolio stood at 30.7%, much lower than that of its competitors. The current credit approval process in HD Saison is already in line with the draft regulation, as per management comments. As such, if the regulation is approved, the direct impact is likely to be minimal. However, we do not exclude the possibility that it might drive other competitors to expand into motorbike and consumer durables lending, posing a threat to HD Saison' market share and NIM.

Figure 03: HD Saison's loan portfolio 2017-1Q 2019 (VND Bn)



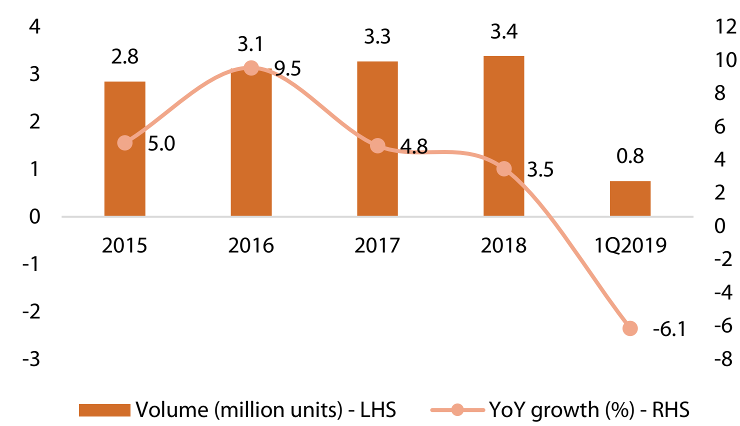
Source: HDB, Rong Viet Securities

Figure 04: HD Saison's NIM 2015-1Q 2019 (%)



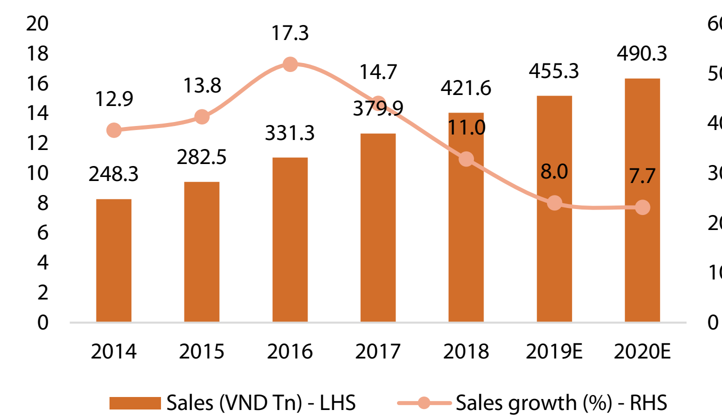
Source: HDB

Figure 05: Motorbike volume 2014-1Q2019



Source: VAMM, Rong Viet Securities

Figure 06: Electronic and appliance sales 2014-2020E



Source: Euromonitors, Rong Viet Securities

In 1Q 2019, service fee and non-interest income accounts for 5.8% and 17.7% of consolidated TOI, respectively, much lower than that in other listed banks. HD Saison achieved 343% YoY service income growth in 2018 and 27.9% YoY in 1Q 2019 despite negative growth at the parent bank and thanks to the company's effort to boost income from insurance commission fees. However, service income growth rates are unlikely to persist if solely dependent on HD Saison. We hold the view that the parent bank needs to diversify its non-lending activities.

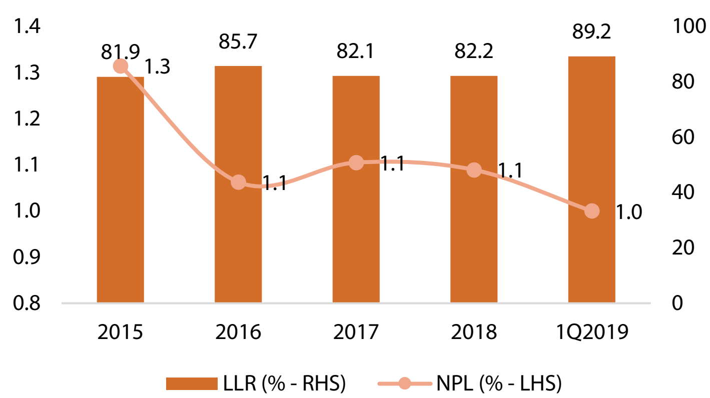
Asset quality is well-managed at the parent bank, but provision expenses pressure persists

The parent bank's NPL and NPL plus VAMC ratio improved to 1.0% from 1.1% and to 1.3% from 1.5% respectively despite the lack of write-offs in 1Q 2019. The provision coverage ratio (LLR) also increased to 89.2% from 82.2% while provision expenses fell 41.9% YoY to VND 26Bn.

HD Saison's asset quality however is seeing less positive moves. As Figure 06 shows, HD Saison's NPL ratio has gradually risen to 6.8% from 4.6% in 2015. This may lead to an increase in provision expenses for HD Saison.

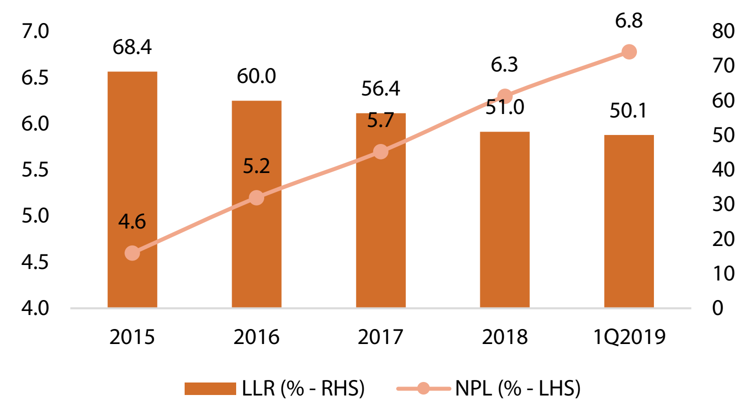
Coupled with the plan of parent bank to clear the remaining VND 444Bn VAMC debts this year (in best case), we forecast that provision expenses will increase to VND 1,156Bn (+16.3% YoY), accounting for 19.4% of the profit before provision in 2019.

Figure 07: Parent bank's NPL ratio and LLR 2015-1Q 2019



Source: HDB, Rong Viet Securities

Figure 08: HD Saison's NPL ratio and LLR 2015-1Q 2019



Source: HDB, Rong Viet Securities

Digital and physical expansion

In 1Q 2019, 45 new branches/TOs were launched, bringing the total to 285 for the parent bank. This led to an increase in the separate staff and corporate affair costs of 33.8% and 25.6% YoY respectively. As such, the parent bank's operating expenses increased 22.1% YoY, raising separate CIR to 41.1% from 36.1% since Q1 last year. Meanwhile, HD Saison's CIR improved slightly to 54.7% from 55.6% in 1Q 2018. Consolidated operating expenses rose 12.7% YoY and consolidated CIR went up to 46.1% from 43.8%.

For 2019, the parent bank plans to open another 23 branches/TO, and HD Saison aims to keep the largest POS network to maintain its leading positions in motorbikes and consumer durables. HDBank will also expand its digital banking services. On May 15th, the bank launched a new website and mobile Banking application (HDB mBanking). We assess this is an encouraging move to improve the bank's brand position and customer experience, in the effort to accommodate the digital banking transformation wave as adopted by many banks in recent years.

With these plans, we expect that CIR will only improve slightly to 46.1% from 47% of 2018.

Raising charter capital by 30% while the merger with PGBank is still on hold

In Sep 2018, the merger between HDBank and PGBank has been approved by SBV in principle. HDB continues to support PGBank in general management and handling bad debts while awaiting official approval.

HDB plans to pay 10% share dividends and 20% bonus shares to existing shareholders in 2019 to raise capital while waiting for the merger to take place.

Table 01: HDB's capital plan in 2019

	Number of shares	Charter capital (VND Bn)
Amount of issued shares at 31/12/2018	**980,999,771**	**9,810**
Outstanding shares	980,999,771	9,810
Capital plan in 2019		
Share dividends (10%)	98,099,977	
Bonus shares for existing shareholders (20%)	196,199,954	
Total shares after share dividend and bonus shares	**1,275,299,972**	**12,753**

Source: HDB, Rong Viet Securities

Unit: VNDBn

INCOME STATEMENT	FY2017A	FY2018A	FY2019E	FY2020F
Interest and Similar Income	14,634	16,797	19,191	21,671
Interest and Similar Expenses	-8,259	-9,151	-10,179	-11,578
Net Interest Income	**6,375**	**7,646**	**9,012**	**10,094**
Non-interest Incomes	1,131	1,795	2,037	2,435
Net Fee and Commission Income	196	438	594	743
Net gain/(loss) from foreign currency and gold dealings	130	298	391	469
Net gain/(loss) from trading of trading securities	6	124	71	85
Net gain/(loss) from disposal of investment securities	485	342	326	384
Net Other income/expenses	270	482	388	471
Income from capital contribution	44	109	266	282
Total operating income	**7,506**	**9,440**	**11,049**	**12,528**
Operating expenses	-4,072	-4,441	-5,095	-5,666
Operating Profit Before Provision	3,434	4,999	5,955	6,863
Provision expenses	**-1,017**	**-994**	**-1,156**	**-1,072**
Profit before tax	**2,417**	**4,005**	**4,799**	**5,790**
Corporate income tax	-462	-803	-960	-1,158
NPAT	**1,954**	**3,202**	**3,839**	**4,632**
Attributable to parent company	**1,746**	**2,842**	**3,839**	**4,632**

Unit: %

FINANCIAL RATIO	FY2017A	FY2018A	FY2019E	FY2020F
Growth				
Customer loans	27.1	17.9	15.5	15.5
Customer deposit	16.7	6.2	13.1	13.5
Net interest incomes	35.7	20.5	17.9	12.0
Operating income	38.5	25.8	17.0	13.4
NPAT	136.6	62.7	35.1	20.7
Total Assets	26.0	14.1	12.3	13.8
Equity	58.4	14.0	18.7	16.0
Profitability				
NIM	4.2	4.1	4.2	4.1
CIR	-54.3	-47.0	-46.1	-45.2
ROAE	14.5	18.0	20.9	21.5
ROAA	1.0	1.4	1.7	1.8
Assets Quality				
NPLs ratio	1.2	1.3	1.5	1.5
Bad debt coverage ratio	77.6	73.3	73.4	73.8
Equity-to-Assets ratio	7.8	7.8	7.7	7.9
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	66.1	71.4	74.0	75.8
Customer LDR	79.4	91.4	94.7	97.9
Reported CAR	12.5	13.5	N/a	N/a

Unit: VNDBn

BALANCE SHEET	FY2017A	FY2018A	FY2019E	FY2020F
Cash and precious metals	1,512	2,096	2,415	2,421
Balances with the SBV	1,922	5,386	3,696	4,184
Placements with and loans to other credit institutions	21,861	32,426	39,054	46,808
Trading securities, net	4,690	2,597	2,797	3,038
Derivatives and other financial assets	0	208	79	79
Loans and advances to customers, net	103,336	121,792	140,635	162,457
Investment securities	45,802	42,695	44,405	46,931
Investment in other entities and long term investments	378	165	165	165
Fixed assets	1,527	1,615	1,776	1,954
Investment properties	46	52	0	0
Other assets	8,256	7,026	7,704	8,120
TOTAL ASSETS	**189,334**	**216,057**	**242,726**	**276,158**
Due to Gov and borrowings from SBV	156	7,912	2,749	2,749
Deposits and borrowings from other credit institutions	37,217	40,689	44,922	49,384
Deposits from customers	120,537	128,060	144,811	164,360
Derivatives and other financial liabilities	70	0	0	0
Funds received from Gov, international & other institutions	2,928	3,046	3,046	3,046
Convertible bonds/CDs and other valuable papers issued	9,793	14,927	22,157	27,420
Other liabilities	3,873	4,645	5,427	6,388
Total liabilities	**174,575**	**199,229**	**223,111**	**253,345**
Shareholder's equity	**14,759**	**16,828**	**19,973**	**23,171**
Capital	11,852	1,.852	11,852	11,852
Reserves	454	776	1,153	1,861
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	1,770	3,007	5,775	8,265
Minority interest	684	1,193	1,193	1,193
LIABILITIES AND SHAREHOLDER'S EQUITY	**189,334**	**216,057**	**243,084**	**276,516**

Unit: VNDBn

FOOTNOTES	FY2017A	FY2018A	FY2019E	FY2020F
Interest Incomes	**14,634**	**16,797**	**19,191**	**21,671**
From customers	11264	13,293	15,711	17,887
From other Cis			422	504
From fixed-income investment	2,237	2,228	2,805	3,027
From guarantee	53	78	0	0
From other activities	806	937	253	253
Interest Expenses	**-8,259**	**-9,151**	**-10,179**	**-11,578**
To customers	-6,812	-7,332	-8,627	-9,869
To other Cis	-351	-710	-521	-520
To fixed-income investment	-1,053	-1,079	-997	-1,151
To other activities	-43	-30	-34	-38
Operating expenses	**-4,072**	**-4,441**	**-5,095**	**-5,666**
Provision expenses	**-1,017**	**-994**	**-1,156**	**-1,072**

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007. licensed to perform the complete range of securities services including brokerage. financial investment. underwriting. financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders. also our strategic partners. are reputable institutions. i.e Eximbank. Viet Dragon Fund Management. etc... Along with a team of the professional and dynamic staffs. RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially. RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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