HCMC DEVELOPMENT JSC BANK (HSX: HDB)

Sustaining healthy growth

(VND bn)	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Total operating income	5,122	4,630	10.6%	4,168	22.9%
PPOP	3,197	2,973	7.5%	2,537	26.0%
PBT	2,528	1,985	27.3%	2,100	20.4%
NPAT	1,918	1,507	27.3%	1,563	22.7%

Source: HDB, Rong Viet Securities

1Q2022: Moderate earnings growth due to the base effect

- NII maintained its vital role in growth contribution with a pickup in growth momentum, landing at 20% YoY in 1Q22. Credit growth speeded up thanks to the top-tier quota and NIM widening as lending yield at HDSaison recovered. NFI surged 94% YoY from a low base but its contribution to earnings growth shrank. Other non-II growth turned negative due to weakened income from bond trading. TOI rose by 23% YoY to VND 5.1 tn (USD 223 mn).
- PPOP grew +26% YoY as OPEX increased at a slower pace (18% YoY). Despite the easing NPL formation rate, credit costs were up 53% YoY. Consequently, the PBT margin bounced back from the 4Q21 level but was still lower than that of 1Q21, resulting in 1Q22 PBT of VND 2,528 bn (USD 110 mn, 20% YoY). There was a continuous decline in growth momentum.

2022 outlook

What hindered earnings momentum in 1Q22 might drive it up in 2Q22. Particularly, we expect credit growth, NIM and credit costs to be growth engines. TOI is projected to grow 28% YoY and 7% QoQ to VND 5.5 tn (USD 240 mn) while provision expenses will be flat from that of last year (3% YoY or -26% QoQ). CIR will be supportive given the high comparison base. We expect earnings growth to accelerate to 33% YoY, equivalent to VND 2.8 tn (USD 122 mn).

For 2022, we expect a top-tier credit growth of 24%, including about VND 8 trillion from the late granted 2021 quota. 2022 NII and NFI growth are forecasted at 26% and 63% respectively. The potential of an upfront fee will be the main catalyst, which we anticipate in a year. We expect an abatement in NPL ratio as well as net NPL formation rate in 2022, coming down from the peak in the first year-half which was due to the Covid aftermath effect. Contribution from CIR improvement will be lower while the fall in credit cost margin will play a pivotal role in propelling 2022 earnings. 2022 PBT is projected at VND 10.6 trillion (USD 460 mn, +31%).

Valuation and recommendation

We maintain a neutral view on HDB's provisioning buffer and advantages on the funding front. However, HDB has an edge in the low-profile retail and SME segments due to its physical network in rural areas, which matches the authorities' desire. Given the orientation to expand through M&A or private placement and the potential of a competitive upfront fee, we have a positive view on the medium-term stock price performance to some extent. Bancassurance is projected to boost service income growth and account for a higher share thanks to the rising market, high penetration of payroll account, the increase in cross-selling activities and sales expansion in strategic rural areas where HDB dominates. Those new growth driver and catalysts will help the stock price converge towards healthy valuations and act as a counterpressure to future rate hikes.

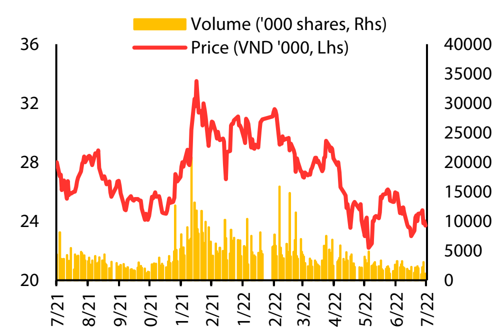
*We think that the current forward P/B is at the sustainable level considering the upcoming monetary policy normalization and NPL formation over a cycle, which the bank is more sensitive than peers. We estimate the stock fair value at **VND 32,000/share**. With no cash dividend over the next 12 months, total upside should be **36%** based on the closing price on July 12th, 2022. For the medium-term outlook, we have a **BUY** recommendation.*

BUY	+36%
Current market price (VND)	23,500
Target price (VND)	32,000
Cash dividend	-

Stock Info	
Sector	Banks
Market Cap (VND billion)	47,287
Current Shares O/S	2,007
Avg. Daily Volume (in 20 sessions)	1,796,000
Free float (%)	70
52 weeks High	33,950
52 weeks Low	21,500
Beta	1.15

	FY2021	Current
EPS	3,039	3,216
EPS Growth (%)	14%	30%
Diluted EPS	3,039	3,216
P/E	10.1	7.2
P/B	2.1	1.5
Cash dividend yield (%)	0%	0%
ROE (%)	21.8%	23.08%

Price performance



Major Shareholders (%)	
Sovico Group	14.4
Pham Van Dau	4.3
Nguyen Thi Phuong Thao	3.7
Baillie Gifford & Co	3.7
Nguyen Huu Dang	2.8
Dao Duy Tuong	2.8
PYN Fund Management	1.8
Foreign ownership room (%)	1.0

Thanh Nguyen

(084) 028- 6299 2006 – Ext 1535

thanh.nn@vdsc.com.vn

Exhibit 1: Q1-2022 Results

(VND Bn)	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Interest and Similar Income	7,181	6,774	6.0%	6,340	13.3%
Interest and Similar Expenses	-3,138	-3,021	3.9%	-2,977	5.4%
Net Interest Income	**4,043**	**3,753**	**7.7%**	**3,363**	**20.2%**
Non-interest Income	1,079	877	23.1%	805	34.0%
Net fee and commission Income	*608*	*741*	*-17.9%*	*313*	*94.3%*
Net gain/(loss) from foreign currency and gold dealings	*23*	*92*	*-75.0%*	*24*	*-4.2%*
Net gain/(loss) from trading of securities	*38*	*-9*	*-503.3%*	*20*	*91.4%*
Net gain/(loss) from disposal of investment securities	*309*	*37*	*734.6%*	*396*	*-22.1%*
Net other income/expenses	*99*	*16*	*503.8%*	*52*	*89.5%*
Income from capital contribution	*2*	*0*	*-*	*0*	*-*
Total operating income	**5,122**	**4,630**	**10.6%**	**4,168**	**22.9%**
Operating expenses	-1,926	-1,657	16.2%	-1,632	18.0%
Operating profit before provision	3,197	2,973	7.5%	2,537	26.0%
Provision expenses	-669	-988	-32.3%	-437	53.2%
Profit before tax	**2,528**	**1,985**	**27.3%**	**2,100**	**20.4%**
Corporate income tax	-507	-396	28.0%	-420	20.7%
NPAT	**2,020**	**1,589**	**27.2%**	**1,680**	**20.3%**
Attributable to parent company	**1,918**	**1,507**	**27.3%**	**1,563**	**22.7%**

Source: HDB, Rong Viet Securities

Exhibit 2: Q1-2022 Performance Analysis

Particulars	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Profitability (TTM)					
NIM	4.4	4.3	12 bps	4.7	-31 bps
CIR	37.7	38.1	-39 bps	41.9	-419 bps
ROAE	21.6	21.8	-17 bps	20.6	104 bps
ROAA	1.8	1.7	7 bps	1.8	5 bps
Asset Quality					
NPL ratio	1.6	1.7	-8 bps	1.5	6 bps
Bad debt coverage ratio	75.9	73.0	293 bps	68.6	728 bps
Equity-to-assets ratio	8.6	8.2	39 bps	8.1	50 bps
Operating Safety Ratio					
Customer loans-to-total assets ratio	71.3	68.5	282 bps	72.4	-103 bps
Customer LDR	92.2	88.4	380 bps	92.5	-36 bps
Adjusted LDR	96.2	94.4	178 bps	90.3	591 bps

Source: HDB, Rong Viet Securities

Exhibit 3: Q2-2022 Forecast

Particulars (VND Bn)	Q2-FY22	+/- (qoq)	+/- (yoy)
Net interest income	4,213	4.2%	21.4%
Total operating income	5,463	6.6%	28.4%
Profit before tax and provisions	3,278	2.5%	27.5%
NPAT	2,785	10.2%	33.1%

Source: HDB, Rong Viet Securities

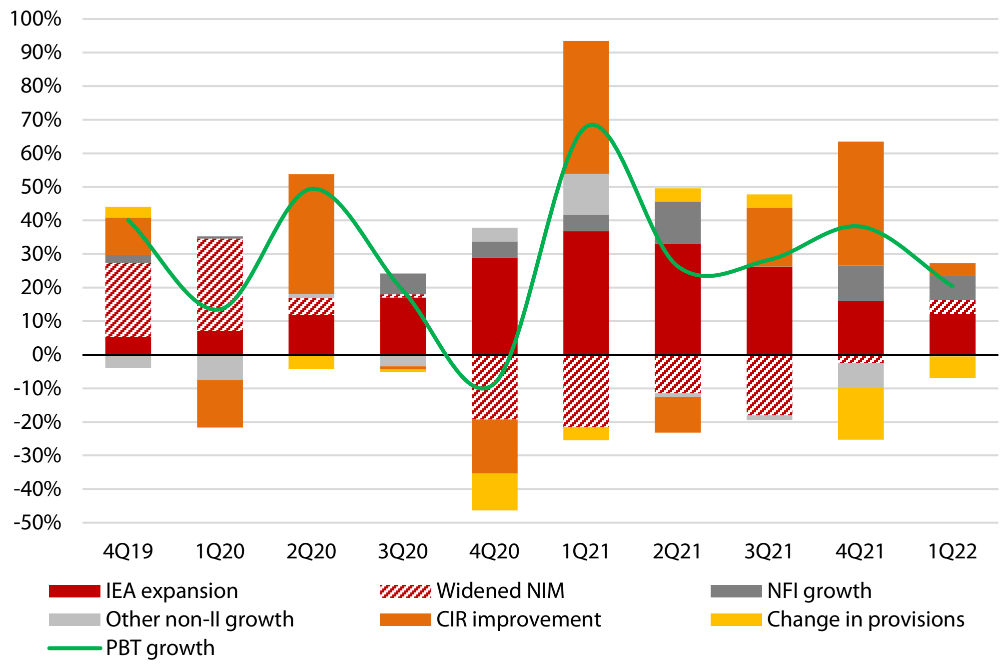
Update

Moderate 1Q22 earnings growth due to the base effect

HDB saw a decline in earnings growth (20% YoY) in 1Q22 despite strong expansion from 4Q21 (27% QoQ). The results were equaled to the industry's adjusted average (20%, excluding VPB's one-off item). However, we consider the slowdown to be relatively expected as the 1Q21 results posted a challenging comparison base. Specifically, HDB bored the impact of low credit growth quota in 2021 which hindered credit expansion in the last nine months of 2021 and affected the year-on-year credit growth in 1Q22. The CIR base has fallen to the targeted level since 1Q21, leaving less headroom for enhancement. HDB also recorded substantial profits from investment securities in 1Q21. The provisioning level in 1Q21 was among the lowest since the beginning of the pandemic.

Per our estimation, the downward momentum in earnings growth could be attributed to the slowdown in credit growth, contraction in NIM in 2021, lower contribution from CIR and the steady rise of consolidated credit cost margin driven by HDSaison.

Figure 1. Quarterly PBT growth factors (%, YoY)



Source: HDB, Rong Viet Securities

- Balance sheet expansion made PBT grow by 12% YoY in 1Q22 compared to 37% in 1Q21 when earnings growth peaked.
- NIM returned to become a positive factor with a modest PBT growth contribution (4% YoY).
- NFI growth remained elevated (94% YoY). Nonetheless, its low proportion in revenue structure hampered the PBT attribution which is 7% YoY.
- Total operating income growing at 23% YoY made PBT grow by 23% YoY.
- The shrinking PBT margin pulled down PBT growth to 20% YoY.
- The tightening was attributed to the 53% YoY growth in provision expenses, which made PBT down by 6% YoY.
- CIR contribution declined from the last two quarters to 4%.

We witnessed robust credit growth of 18.4% YoY in 1Q22 along with a relatively stable 8.9% YoY growth of deposits. Among the segments, retail deposits accounted for the largest proportion of 54% of customer deposits and implied an increase of 13% YoY. SME deposits expanded by 19% YoY to a contribution of 31% from the previous 29% share in 1Q21 while CIB deposits dropped by 17% YoY.

In 2021, credit growth was robust in 1Q21 before strongly slowing in the next two quarters due to limited credit growth quota and the impact from the Covid disruptions. Despite the rebound in credit expansion in 4Q21, the bank ended up 2021 with a low balance sheet growth, putting pressure on 1Q22's results with base effect. HDB also could not make use of the credit growth quota granted on the last day of 2021. This quota is estimated to be 4-5% of the 2021 loan book and will be rolled over to 2022. This will be supportive for 2022 earnings growth, particularly quarterly earnings in the last nine months of 2022.

Deposit growth also suffered from the high comparison base as it reached 39% YoY in 1Q21 and 33% YoY in 2Q21. The bank monitored its interest rates in 2021 to maintain the market 1 LDR and the funding structure in accordance with the slow expansion of credit in 2Q21 and 3Q21. Among the large listed private banks, HDB's quoted deposit rates were estimated to be less volatile during the recent deposit rate hikes. From 2Q22, the base effect will gradually fade out.

Those factors will lay the foundations for a rise of growth momentum in both the credit and deposit base in the next few quarters, thereby, positively contributing to net interest income growth.

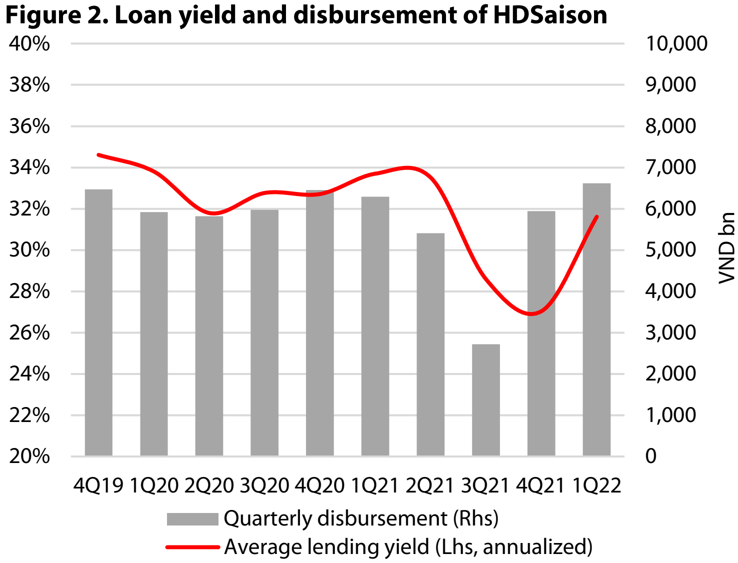
Pressure from the consumer finance segment intensified

The consolidated bank maintained a historical high provisioning level in 1Q22. Provision expenses were 53% higher than those of last year despite no socio-economic interruptions in 1Q22 and the on-track recovery. Credit costs were the major negative factor, pulling earnings down by 6% YoY in 1Q22. The intensive provisioning pressure came mostly from HDSaison as the consumer finance company experienced elevated bad debt formation in the last two quarters right after the restrictions in 2Q21 and 3Q21. We attribute this partially to the aftermath of the pandemic. We think that the challenges in asset quality will remain in the short-term but the contribution of HDSaison to the consolidated group will be relatively enhanced thanks to better revenue.

The tension came along with the recovery in quarterly disbursement which reached a historical high in 1Q22. The average lending yield bounced back strongly. Combining with its high sensitivity, NIM surged to 29.8% in 1Q22. Nevertheless, the loan book growth on a year-on-year basis was insignificant, contributing to the 1% YoY and 27% QoQ growth in NII of HDSaison.

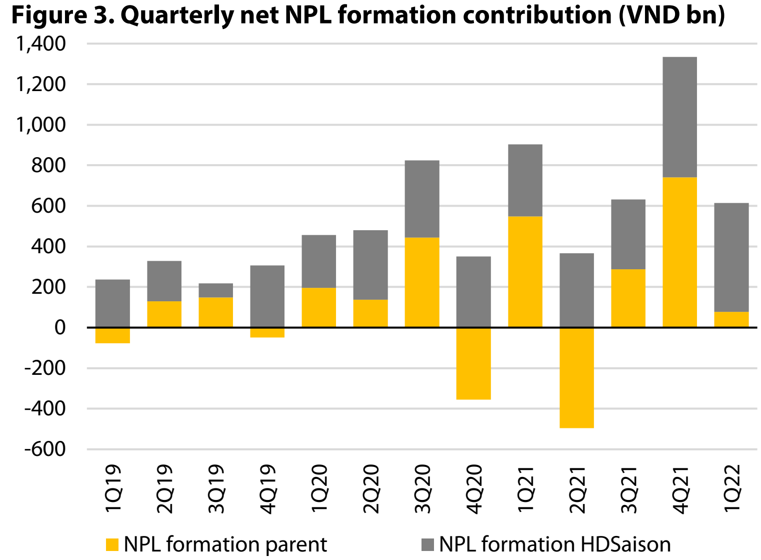
The recent proposal by the State Bank for HDSaison and its peer to issue a substantial lending package with preferential interest rate raised concerns about the fierce impact on the lending yield and NIM, thereby, pressuring earnings. The guidance came amid the concerns over the ability of blue-collar workers to recover from the impact of Covid restrictions. Interest rates are instructed to be half of the current level which will be charged on qualified customers. However, we still expect a continuing recovery in HDSaison's average loan yield in 2Q22 given limited credit room for new loans. From 3Q22, the comparison base will be supportive for its lending rate, thereby, mitigating the impact from the supportive package.

Figure 2. Loan yield and disbursement of HDSaison



Source: HDB, Rong Viet Securities

Figure 3. Quarterly net NPL formation contribution (VND bn)



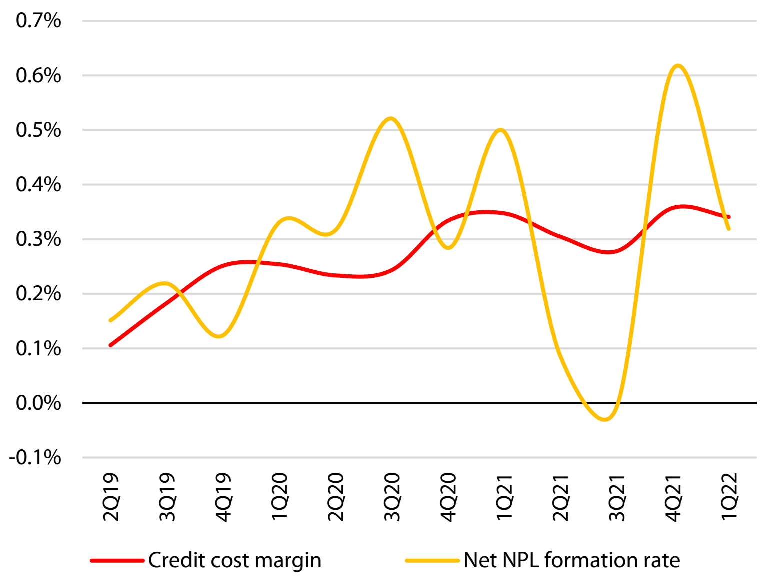
Source: HDB, Rong Viet Securities

Net NPL formation of HDSaison is estimated to pick up from over VND 300 bn (USD 13 mn) per quarter in the 2020 and 1H2021 to over 500 bn in 4Q21 and 1Q22. Combining with the surge in new bad debt of the parent bank in 4Q21, the consolidated bank wrote-off a significant amount in the last two quarters. However, the deterioration in asset quality of HDSaison in the last two quarters was less severe than that of peers in the circumstances that many workers were laid-off and salaries were cut after the social restrictions.

There was a divergence in asset quality trend at HDB parent bank and HDSaison. While NPL formation rate of the parent bank remained low during Covid, that of HDSaison was far above the pre-pandemic level. This has been weighing on the credit cost margin of HDSaison. The bank's consumer finance arm targets a 6.5% NPL ratio this year compared to 7.3% in 1Q22. This would require extensive improvement in NPL management to reduce NPL formation rate and increase the bad debt collection and aggressive write-offs. As long as the recovery is underway as expected, we think that the NPL formation rate and credit cost margin will peak within the next two quarters.

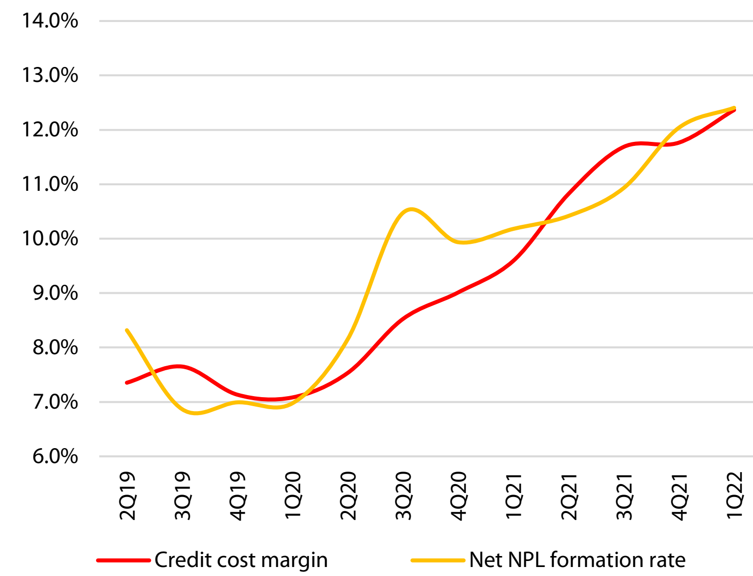
Overall, we maintain a neutral view on the consumer finance segment and HDSaison in particular. However, we are quite optimistic about its rising contribution to the consolidated bank in the next two quarters considering the positive GDP outlook, the supportive comparison base and the estimated length of the aftermath from last year's Covid restrictions.

Figure 4. NPL formation & credit cost of HDB parent (TTM)



Source: HDB, Rong Viet Securities

Figure 5. NPL formation & credit cost of HDSaison (TTM)

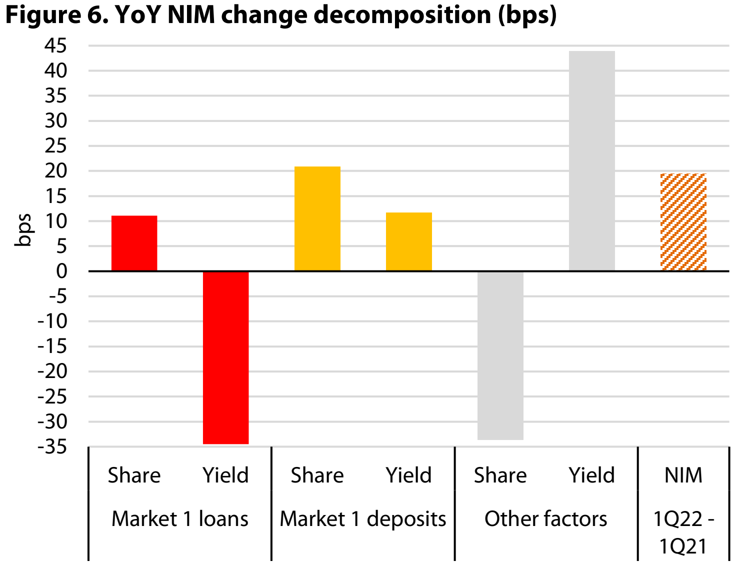


Source: HDB, Rong Viet Securities

Momentum of NIM determinants implies headroom for short-term expansion

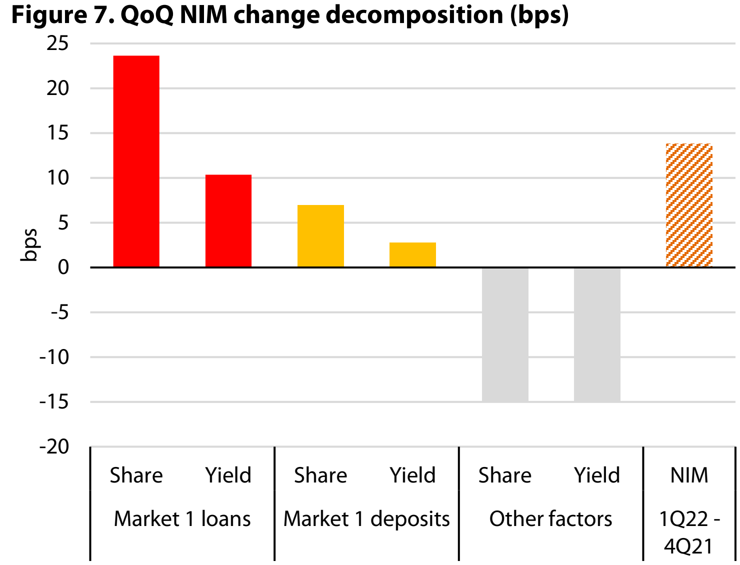
Given the high base of interest rates charged, substantial market 1 rate gap and lower-than-peers maturity mismatch, the consolidated NIM is estimated to be less sensitive to change in net interest spread than the balance sheet structure. The simple LDR or the utilization of funds and the funding mix were accounted for a majority in the year-on-year enhancement in the 2018-mid 2020 period and the decline in the recent quarters of NIM. In 1Q22, NIM widened on both YoY and QoQ basis (up 19 bps and 14 bps respectively). In which, the continuous contraction in market 1 rate gap contributed -23 bps to NIM while the further improvement in simple LDR pulled NIM up by 32 bps for the YoY NIM changes.

Figure 6. YoY NIM change decomposition (bps)



Source: HDB, Rong Viet Securities

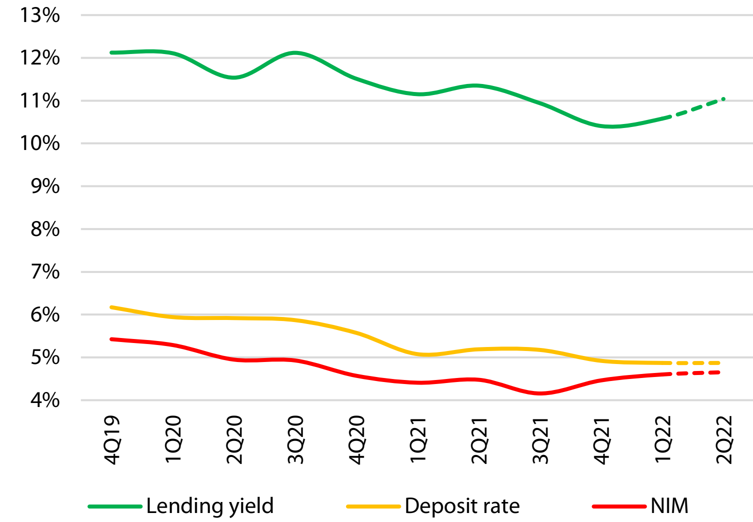
Figure 7. QoQ NIM change decomposition (bps)



Source: HDB, Rong Viet Securities

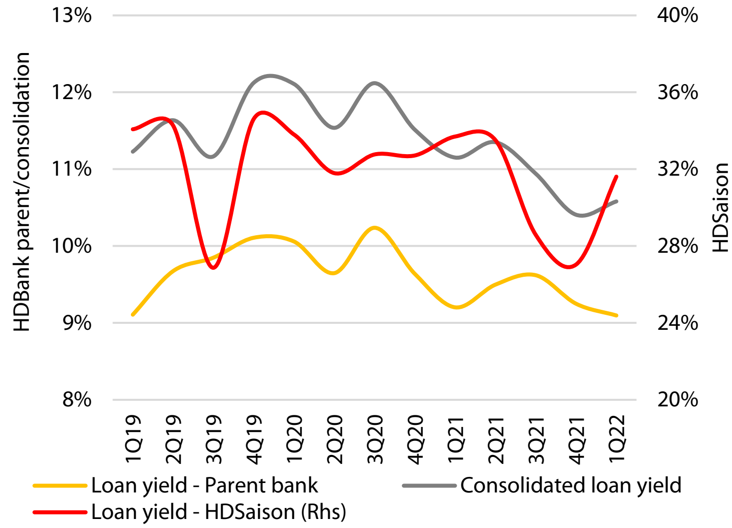
We decomposed the changes in NIM into contributions from the changes in share and in yield of NIM components on both sides of the balance sheet. From a year-on-year perspective, we found that while the contribution of deposits in terms of proportion and rate gradually declined, there was a solid expansion in the contribution of the loan book. Its share attribution turned positive in 1Q22 thanks to the top-tier credit growth quota and asset allocation towards loans. The upward momentum of lending yield also helped narrowed down the negative contribution of loan yield pressure on NIM. We expect that the market 1 rate gap will extend to 6.2% in the next quarter from the current 5.7% and become a leading NIM factor.

Figure 8. Consolidated input and output rates (annualized)



Source: HDB, Rong Viet Securities

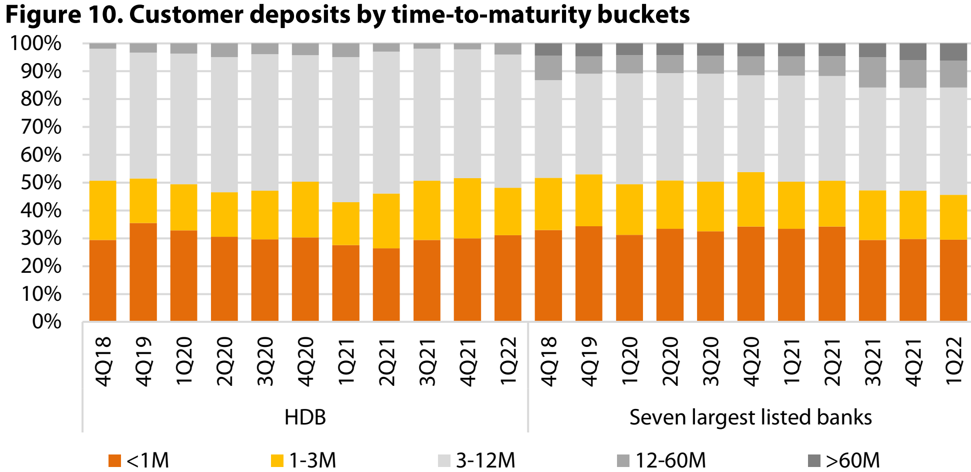
Figure 9. Loan yield breakdown (annualized)



Source: HDB, Rong Viet Securities

On the funding side, HDB has a shorter-than-average maturity profile and also impose higher quoted deposit rates in comparison to the largest listed banks. Although we do have some concerns about the risk of a potential shift in deposits from short-term buckets to longer terms implicitly encouraged by the new Circular 04/2022/TT-NHNN, the NIM composition suggests a higher correlation between NIM and balance sheet structure which would mitigate the impact from a yield-seeking behavior in the deposit base. The moderate maturity profile also helps manage the footprint of quoted deposit rate hikes occurred in 2Q22, which might have a marginal impact on the average deposit rates and funding costs.

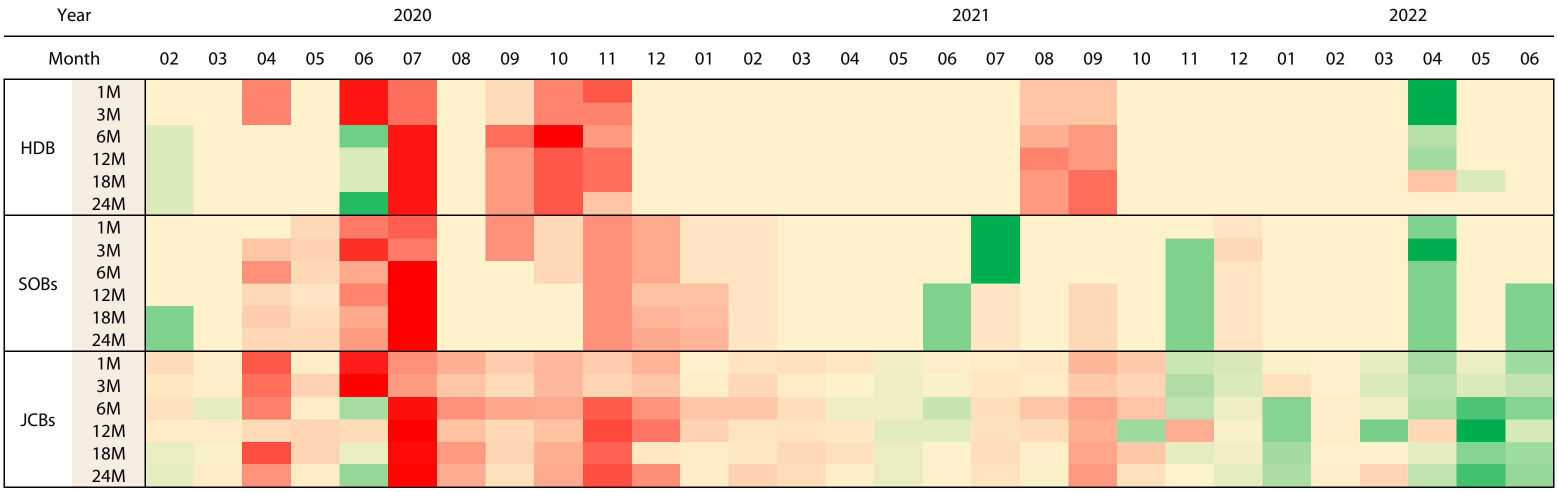
Figure 10. Customer deposits by time-to-maturity buckets



Source: HDB, Rong Viet Securities

Specifically, due to the lower-than-expected credit growth quota in 2021 which decreased the funding demand, HDB lagged private bank peers in the deposit rate hike race in the end of 2021. However, the rebound in credit demand and top-tier initial credit growth quota in 2022 did push the funding needs, leading to several rate hikes in the middle of the year. The adjustments were mostly made in short-term maturities, thereby, resulting in higher interest costs for short-term deposits from 2Q22. Assuming the stability of non-maturity deposits, we think that the impact on the average funding costs will still be neutralized partly by the potential decline in the interest rates of bonds issued this year. We expect the parent bank to increase the balance of valued papers by VND 13.3 tn (USD 0.6 bn) in 2022, consisting of nearly VND 5 tn (USD 217 mn) of bonds maturing during the year and about VND 15 tn (USD 0.7 bn) in bond issuance. Anyway, looking towards the year end, the pressure on costs of funds is inevitable. We anticipate steeper rises in funding costs in 3Q and 4Q22.

Table 1. MoM change in average quoted deposit rates (colored by scale, green: up, red: down, yellow: unchanged)



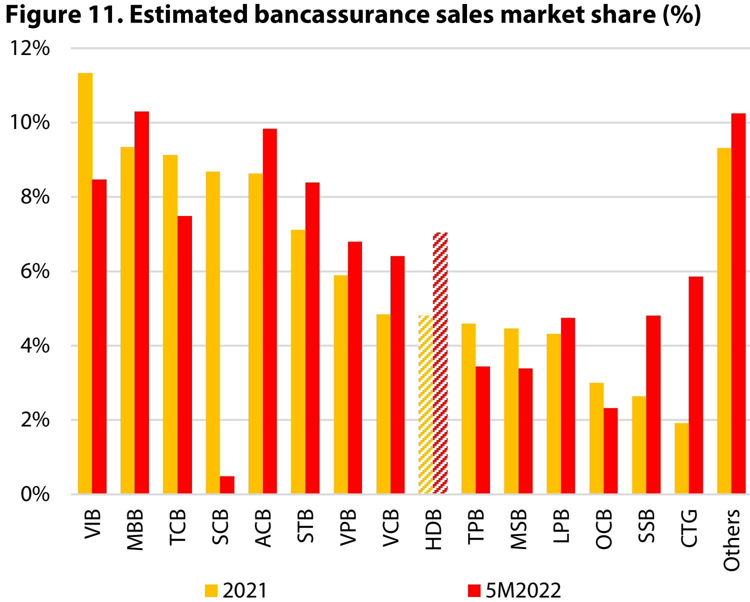
Source: HDB, Rong Viet Securities. Quoted rates are the highest possible in each maturity bucket.

Overall, we expect NIM (annualized) to continue to expand by 5 bps on a quarter-over-quarter basis in 2Q22. Looking further, we see strong headwinds coming from the supportive interest rate packages, higher average deposit rates and liquidity needs. Despite the recently announced loan package to workers, we have cautiously factored in maintained supportive lending rates in our 2022 forecasts. Therefore, we maintain our forecasts on 2022 NIM, average asset yields and funding costs (4.6%, 8.8% and 4.0% respectively). Those imply higher market 1 rate gap, better net interest spread and utilization of funds compared to 2021.

The potential bancassurance segment: growth driver and price catalyst

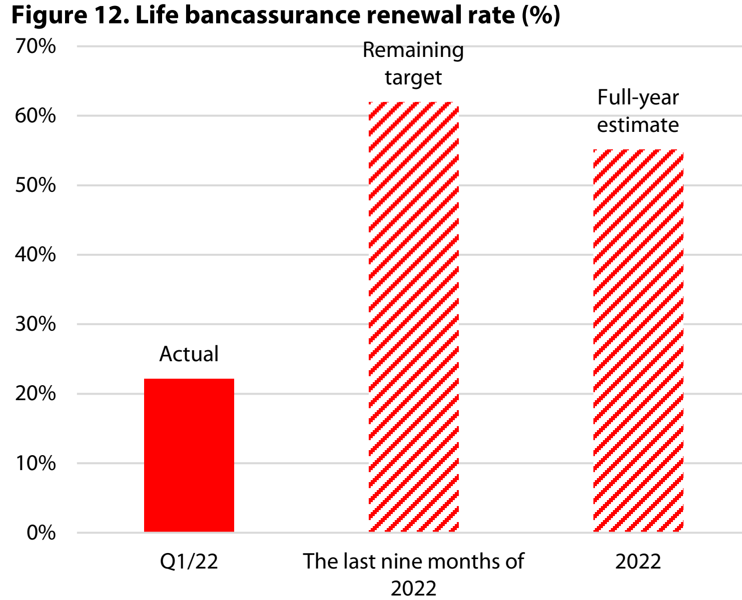
HDB was performing well on the bancassurance front, particularly on the cross-selling ability. Its new APE per month was estimated to be up 141% YoY in 5M2022. Its rank also improved to the sixth position in the first five months of 2022 from ninth in 2021. This was attributed to the utilization of the wide customer base in rural areas and the customer's supply chain at the parent bank. The bank pushed cross-selling activities and approached untapped customers within its system. After the cancellation of exclusive bancassurance deal with Daichi Life, the current APE sales equally came from Daichi Life and the new partner FWD.

Figure 11. Estimated bancassurance sales market share (%)



Source: HDB, Rong Viet Securities

Figure 12. Life bancassurance renewal rate (%)



Source: HDB, Rong Viet Securities

In the first quarter of 2022, the renewal rate was 22% only, far below the full-year target of 55%. We attribute this to the good sales of new partner's product as the new APE in 1Q21 were made exclusively with Daichi Life. Despite the substantial growth of new APE, 5M22 actual results were not up to our expectations as well as the full-year estimate. Benchmarking the 2021 monthly results, we think that goal allocation has an impact and expect better year-over-year growth in 3Q and robust month-over-month improvement in sales towards the year end. As a result, we briefly keep our 2022 forecasts for bancassurance sales and closely watch the monthly figures. Bancassurance will be a leading growth factor for the bank's NFI in the next five years.

In our previous notes, we anticipated a ramping up in bancassurance exclusive deal seeking around the year-mid which would hype stock price. However, the slower-than-expected bancassurance sales might be a cause for the delay. We think that HDB could close an exclusive deal with the value similar to that of other large private banks and state-owned banks within a year. Along with the higher-than-average prospective earnings growth, the exclusive deal story will be a major catalyst contributing to its premium over the industry's price-to-book ratio.

2Q22 forecasts: regaining momentum with the assistance of credit growth

We anticipate the key factors that will lead HDB's earnings growth in 2Q22 to be the increase in net interest income and net service income along with the reduction in provision expenses.

Specifically, net interest income will reach VND 4.2 tn (USD 183 mn), equivalent to a rise of 21% YoY and 4% QoQ. This will be mostly attributed to strong credit growth (23% YoY) and widened NIM (estimated to be up by 18 bps from last year). The extension of market 1 rate gap in the second quarter compared to that in 1Q22 is estimated to be a novel NIM driver beside the maintained loan-to-deposit gap. It also brings about the extension of net interest spread considering the decline of interbank rates in 2Q22 and stable average deposit rates.

NFI is expected to be another plus for earnings growth given the rising bancassurance income and its low comparison base. Overall, total operating income will pick up slightly 7% QoQ to VND 5.5 tn (USD 239 mn), equivalent to a 28% YoY growth. Good revenue results were due to the solid growth across the board of income sources.

HDB has aggressively digitalized its internal procedures which led to the steady decline in CIR. We think that the headroom for enhancement is quite tight and look forward to a stable CIR. Provision expenses are forecasted to decrease 26% QoQ from the high base of the previous quarter thanks to resilient asset quality. The consolidated NPL ratio will fluctuate with the contribution of improvement in HDSaison's NPL management. Flat credit cost margin (TTM) will come as a result. Marginally, the trailing credit cost margin is expected to have peaked in 1Q22.

2Q22 PBT is projected at VND 2.8 tn (USD 122 mn), up 33% YoY. Efficiency ratios are expected to remain elevated compared to peers. ROA and ROE are forecasted at 1.9% and 22.3% on a trailing basis, respectively.

2022-2023 outlook: expecting tailwinds from many fronts

In the 2022-2023 period, we expect the bank's growth momentum to be stable. With the positive effect of lending yield's upward trend throughout the last two quarters and the remained credit growth quota of 2021, net interest income is projected to reach VND 18 tn (USD 0.8 bn, 26% YoY) in 2022. High credit growth (24%) and NIM recovery (up by 34 bps) will be the major growth engines. For 2023, we anticipate tougher macro conditions, thereby, factoring in a lower credit growth limit. On a sector-wide basis, we still think HDB will be granted a top-tier quota given its support for credit funds and loan exposure to prioritized sectors. 2023 net interest income is expected to slow down to 21% YoY.

2022-2023 NFI is expected to remain elevated but cooling down from the three-figure growth in 2021. We look forward to a 63% growth in 2022 and a 57% growth in 2023, coming mostly from the bancassurance segment. In particular, HDB is expected to achieve robust sales results which accounts for more than half of the NFI, as well as closing an exclusive deal. The deal process has not been started yet given the lower-than-expected monthly sales. However, we stay positive on the bancassurance outlook based on the untapped capacity and expansion possibilities. We currently price in a booking of upfront fee in 2023. We have the 2022-2023 NFI growth forecasted at 63% and 87% respectively. Other non-interest income growth will be insignificant in terms of contribution to total revenue. NFI to total operating income ratio will extend to 21% in 2023 per our estimation.

Total operating income will expand by circa 30% this year to VND 22 tn (USD 1 bn). Its growth momentum will be flat in 2023, at 30% YoY.

Although OPEX is forecasted to be pressured by the ramping up in investment and hiring, CIR will remain at 39% in 2022. Contrary to the circumstances in 2020-2021, we expect CIR to contribute insignificantly to earnings growth in the 2022-2023 period.

The uncertain macro background will cloud the prospect of asset quality. However, we have had a quite conservative approach coming to 2022. The net NPL formation of 1Q22 equaled 21% of our full-year forecast. As mentioned, we expect bad debt formation to gradually decline towards the year-end. This will relieve the tension on credit costs. Provision expenses are forecasted to rise 14% in 2022 and 21% in 2023 to price in a flat credit cost margin (1.1%). HDB is expecting a better credit cost margin at below 0.9% for the whole year. The bank already set aside the provisions for total loans of restructured customers at the end of 2021. The bank will potentially experience provision reversals when those customers recover. Nevertheless, the impact might be minor given the low base of restructured loans and required provisions.

Overall, we project that 2022 PBT will be VND 10.6 trillion (USD 0.5 bn), up 31% from 2021, driven by a 27% growth in pre-provision profit. This earnings forecast is 8% higher than the AGM target. 2022 ROA and ROE will be improved from 2021, reaching 2.0% and 24.1% respectively. Balance sheet growth rate will be boosted to 18% from 17% in 2021. For the 2023 outlook, we have the PBT forecast at VND 14.7 tn (USD 0.6 bn, up 39% YoY).

Beside strong earnings prospect in the next two years, the bank will potentially experience tailwinds from many other fronts. We think that HDB has attractive stories as catalysts for the stock price in the medium term. The bank has persistently proposed to the AGM to participate in the restructuring program of SBV since 2017. The bank has been active in carrying out support missions to the people's credit funds which will in turn help the bank to be granted high credit growth quota. This sets the foundations for stably high earnings growth and balance sheet expansion. Given the recent incidents of the mandatory transfer of credit institutions and the authorities' expectation for a denser banking system, we also look forward to the bank expanding via M&A or private placement in the future. Furthermore, the bancassurance exclusive deal will also play a vital role in causing surprises to the consensus earnings outlook.

We maintain a neutral view on HDB's provisioning buffer and advantages on the funding front. However, HDB has an edge in the low-profile retail and SME segments due to its physical network in rural areas, which matches the authorities' desire. Given the orientation to expand through M&A and the potential of improving capital with a competitive upfront fee, we have a positive view on the medium-term stock price performance to some extent.

We think that the current forward P/B is at a sustainable level considering the upcoming monetary policy normalization and NPL formation over a cycle, which the bank is more sensitive than peers. The forward 2022 book value per share is VND 17,966, translating to a 2022 forward P/B of 1.3x. The bank's historical P/B average since inception in 2018 is 1.9x (TTM). In the 2018-2019 period (pre-pandemic), HDB traded at an average of 2.1x P/B ratio (TTM) when the interest rate level was significantly higher than currently. The ROE also did improve structurally from then. Therefore, we maintain our target price at **VND 32,000/share** despite the weak sentiment towards banks. This is equivalent to a **BUY** recommendation with an upside of **36%** from the closing price of July 12, 2022.

VND Bn

INCOME STATEMENT	FY2020A	FY2021A	FY2022E	FY2023F
Interest and Similar Income	23,137	26,176	32,198	39,864
Interest and Similar Expenses	-11,240	-12,285	-14,646	-18,630
Net Interest Income	**11,898**	**13,891**	**17,552**	**21,234**
Non-interest Income	1,882	2,867	4,177	7,066
Net fee and commission Income	950	1,927	3,151	5,885
Net gain/(loss) from foreign currency and gold dealing	168	179	113	72
Net gain/(loss) from trading of securities	105	101	113	110
Net gain/(loss) from disposal of investment securities	140	477	286	343
Net other income/expenses	519	183	514	657
Income from capital contribution	0	0	0	0
Total operating income	**13,779**	**16,758**	**21,729**	**28,300**
Operating expenses	-6,173	-6,383	-8,544	-10,477
Operating profit before provision	7,607	10,375	13,185	17,823
Provision expenses	**-1,788**	**-2,306**	**-2,626**	**-3,173**
Profit before tax	**5,818**	**8,070**	**10,560**	**14,650**
Corporate income tax	-1,171	-1,616	-2,113	-2,938
NPAT	**4,647**	**6,453**	**8,446**	**11,712**
Attributable to parent company	**4,249**	**6,054**	**8,093**	**11,365**

%

FINANCIAL RATIO	FY2020A	FY2021A	FY2022E	FY2023F
Growth				
Customer loans	21.9	13.8	25.4	19.9
Customer deposit	38.6	5.0	25.0	20.0
Net interest income	22.1	16.8	26.4	21.0
Operating income	21.0	21.6	29.7	26.0
NPAT	17.9	42.5	33.7	31.3
Total Assets	39.1	17.4	18.3	19.1
Equity	21.2	24.6	18.6	28.1
Profitability				
NIM	4.6	4.3	4.6	4.7
CIR	44.8	38.1	39.3	38.3
ROAE	18.8	21.8	24.1	25.5
ROAA	1.5	1.7	2.0	2.2
Asset Quality				
NPL ratio	1.3	1.7	1.4	1.5
Bad debt coverage ratio	82.1	73.0	67.0	66.4
Equity-to-Asset ratio	7.7	8.2	8.2	8.9
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	69.3	68.5	70.7	71.2
Customer LDR	102.1	110.9	110.9	110.9

VND Bn

BALANCE SHEET	FY2020A	FY2021A	FY2022E	FY2023F
Cash and precious metals	2,257	2,446	3,031	3,634
Balances with the SBV	7,788	11,848	10,310	12,372
Placements with and loans to other credit institutions	44,811	55,943	61,537	74,152
Trading securities, net	12,478	11,198	12,789	15,073
Derivatives and other financial assets	0	0	0	0
Loans and advances to customers, net	176,388	200,759	251,657	301,834
Investment securities	58,237	65,513	74,442	87,497
Investment in other entities and long-term investments	154	124	148	142
Fixed assets	1,059	1,366	1,773	2,114
Investment properties	21	0	22	14
Other assets	15,935	25,415	27,448	31,565
TOTAL ASSETS	**319,127**	**374,612**	**443,157**	**528,398**
Due to Gov and borrowings from SBV	143	93	94	126
Deposits and borrowings from other credit institutions	75,176	107,243	112,554	128,449
Deposits from customers	174,620	183,283	229,104	274,925
Derivatives and other financial liabilities	215	16	0	0
Funds received from Gov, international & other institutions	3,037	2,937	2,921	3,447
Convertible bonds/CDs and other valuable papers issued	34,332	42,756	51,307	61,569
Other liabilities	6,900	7,495	8,556	9,897
Total liabilities	**294,423**	**343,821**	**404,537**	**478,412**
Shareholder's equity	**24,704**	**30,790**	**36,510**	**47,528**
Capital	16,211	20,196	20,045	20,045
Reserves	1,847	2,547	3,192	4,256
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	4,939	6,290	13,273	23,228
Minority interest	1,707	1,757	2,110	2,457
LIABILITIES AND SHAREHOLDER'S EQUITY	**319,127**	**374,612**	**443,157**	**528,398**

VND Bn

FOOTNOTES	FY2020A	FY2021A	FY2022E	FY2023F
Interest Income	**24,137**	**26,176**	**32,198**	**39,864**
From customers	18,886	20,853	25,865	32,086
From other Cis	123	318	442	552
From fixed-income investment	2,787	3,048	3,564	4,338
From guarantee	0	0	0	0
From other activities	2,341	1,957	2,328	2,888
Interest Expenses	**-11,240**	**-12,285**	**-14,646**	**-18,630**
To customers	-8,739	-9,635	-10,769	-13,557
To other Cis	-547	-531	-1,087	-1,550
To fixed-income investment	-1,942	-2,075	-2,659	-3,446
To other activities	-11	-44	-131	-78
Operating expenses	**-6,173**	**-6,383**	**-8,544**	**-10,477**
Provision expenses	**-1,788**	**-2,306**	**-2,626**	**-3,173**

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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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Market Strategy
- Industrial Park

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tam Pham
Manager
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- Aviation
- Logistics
- Market Strategy

An Nguyen
Senior Analyst
an.ntn@vdsc.com.vn
+ 84 28 6299 2006 (1541)
- Food & Beverage
- Automotive & Spare parts

Anh Tran
Senior Analyst
anh.tk@vdsc.com.vn
+ 84 28 6299 2006 (1544)
- Market Strategy
- Residential RE
- Construction

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Textile
- Fishery
- F&B

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance
- Securities

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities
- Sea ports
- Logistics

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Hung Le
Analyst
hung.ltq@vdsc.com.vn
+ 84 28 6299 2006 (1546)
- Industrial RE
- Market Strategy

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Quan Cao
Analyst
quan.cn@vdsc.com.vn
+ 84 28 6299 2006 (2223)
- Technology

Trang Tran
Assistant
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

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HEAD OFFICE

141 Nguyen Du Street, Ben Thanh Ward,
District 1, Ho Chi Minh City

T +84 28 6299 2006
F +84 28 6299 7986
E info@vdsc.com.vn
W www.vdsc.com.vn

HANOI BRANCH

10th Floor, Eurowindow Building, 2 Ton That Tung,
Trung Tu Ward, Dong Da District, Hanoi

T +84 24 6288 2006
F +84 24 6288 2008
E info@vdsc.com.vn
W www.vdsc.com.vn

NHA TRANG BRANCH

7th Floor, 76 Quang Trung, Loc Tho Ward,
Nha Trang City, Khanh Hoa

T +84 258 3820 006
F +84 258 3820 008
E info@vdsc.com.vn
W www.vdsc.com.vn

CAN THO BRANCH

95-97-99 Vo Van Tan Street,
Ninh Kieu District, Can Tho City

T +84 292 381 7578
F +84 292 381 8387
E info@vdsc.com.vn
W www.vdsc.com.vn