Initiation

Vietnam: Banks **26 September 2019**

Action

HOLD – Underperform

TP upside (downside) +5.9%

Close 25 Sep 2019

Price	VND 26,450
12M Target	VND 28,016

What's new?

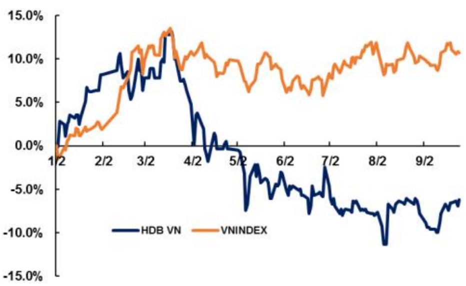
- We initiate coverage with a Hold–Underperform rating.
- HDB's acquisition of PG Bank is a short term overhang.
- HD Saison is well-positioned in consumer finance.
- Investors may get a better entry opportunity after the deal is complete, possibly in 4Q19.

Our view

- Merger effects are likely to include moderate share dilution, increased NPLs, and reduced cost efficiencies.
- PG Bank shareholders may be sellers after the deal is done – wait for this.
- However, the bank's CAR, CASA, and credit growth quota should all increase post-merger, and the tie-up with PLX offers an attractive sales channel.

Company profile: HDB is a retail & SME bank that also operates HD Saison, a top-three consumer finance business. Retail loans accounted for 49% of 2018 total consolidated loans in 2018, with SME loans at 48%. HDB plans to acquire PG Bank in a US$212m all-share deal, which we view as a marginally value-destructive short-term overhang.

Share price performance relative to VNIndex



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

Financial outlook (VND bn)

Year to Dec	2018A	2019E	2020E	2021E
NIM (%)	4.06	4.42	4.83	4.94
Fee growth (%)	123	52	51	26
CIR (%)	49.6	46.3	47.7	48.1
PPOP growth(%)	42.8	27.8	29.0	20.3
Net profit	2,842	3,292	4,332	5,312
ROAA	1.40	1.49	1.65	1.69
ROAE	18.0	18.5	20.7	21.6
PE	8.7	8.9	8.0	7.0
PB	1.5	1.7	1.6	1.4
Div. yield (%)	5.2	-	4.9	5.7
DPS (VND)	1,364	-	1,289	1,511

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

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HDBANK (HDB VN)

Wait for clarity on the PG Bank deal

The PG Bank merger is a short-term overhang and we assume that it will take place at end-2019. As with many M&A deals, EPS dilution and higher NPLs are likely to be an initial result; we also expect HDB's cost efficiency to decline post-merger. However, we forecast longer term merger benefits for NIM, including higher loan growth quotas and a marginally higher – but still weak -- CASA ratio (of 10.9%).

We expect higher-than-average credit growth driven by early Basel II compliance and the merger with PG Bank. HDB will implement Basel II from 4Q19, which should result in a higher SBV quota than the sector average of 14% in 2019E. Additionally, the PG Bank acquisition should result in a higher credit growth quota from the SBV in 2020E. We thus forecast 2020E loan growth of 17% for HDB vs 13% for the sector.

Yuanta vs consensus. Our net income forecasts are 10%-29% higher than the consensus mean for 2020E-21E. This may be because we have factored in the deal's completion at end-2019. We thus expect higher credit growth room, lower funding costs, and stronger capital solvency than the Street. Our fee income forecasts may also be on the high side given our bullish view on bancassurance sales, assuming that HDB and Dai-ichi Life successfully renegotiate their deal terms.

We initiate with HOLD-Underperform. Our VND 28,016 target price implies 1.7x FY2020E P/B which is arguably conservative given expected ROE of 20%-plus going forward. However, a conservative approach is reasonable given the short-term acquisition risks.

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

Investment thesis

Table 1: Market Valuations

Valuation Ratios	2016A	2017A	2018A	2019E	2020E	2021E
Adjusted PER (x)	28.9x	12.9x	8.7x	8.9x	8.0x	7.0x
PEG	0.7	0.1	0.2	(4.7)	0.8	0.5
Adj. ROA (%)	0.57%	1.03%	1.40%	1.49%	1.65%	1.69%
Adj. ROE (%)	7.5%	14.1%	18.0%	18.5%	20.7%	21.6%
PBR (x)	2.2x	1.6x	1.5x	1.7x	1.6x	1.4x
Dividend Yield (%)	3.8%	0.7%	5.2%	0.0%	4.9%	5.7%

Source: Company data, Yuanta Vietnam

The merger with PG Bank, which we expect to happen at yearend, is the main short-term headwind for the share price.

PG Bank acquisition is the main short-term headwind – wait for clarity on the deal. As a standalone entity, HDB is a medium-sized retail and business banking lender with a large consume finance subsidiary, HD Saison. However, formulating an investment view on the current business is complicated by HDB's plans to purchase 100% of PG Bank (unlisted), the commercial bank subsidiary of fuel distributor Petrolimex (PLX, Not rated), for approximately US$212 million in newly issued stock.

The deal, which we expect to succeed and which we have modeled as occurring at yearend, is also the main short-term headwind for the shares, in our opinion. As a general statement, our view on bank M&A – which is backed up by history – is that post-merger value creation (or in silky corporate consultant-speak, "synergies") is never an easy thing to realize and largely stems from cost efficiencies rather than increased revenue.

We believe the deal is moderately value destructive for current HDB shareholders, but this is largely in the price.

History illustrates that the bulk of such value creation accrues to the shareholders of the acquired institution rather than those of the acquirer through the deal pricing. In other words, it is better to own an acquisition target rather than an acquiring bank.

We reckon that the PG Bank acquisition is marginally value destructive for current shareholders of HD Bank. This is reflected in our expectation for 6% EPS dilution in 2020E and our marginally lower fair value (-3%) for the merged bank relative to that of HDB on a standalone basis.

Investors may get a better entry price once the deal is done given the likely share overhang from minority investors in PGB.

Our fundamental view is that the downside risks from the merger are largely priced in. But from a practical perspective, we believe that investors may get a better entry opportunity after the deal is completed. This is due to the merger execution risks discussed below, but more specifically the very likely share overhang from minority investors in PG Bank, who collectively own 60% of the acquisition target.

At least some of these investors may decide to monetize their investments once they have liquidity to do so (i.e., once they are holding HDB shares instead of PGB shares). We reckon the maximum overhang to be US$127m in HDB shares, which is equivalent to 79 days of turnover in HDB over the past six months. Of course, we are not suggesting that 100% of such shareholders will sell out immediately, but we think it wise to expect at least some pressure on HDB's shares from PG Bank's minority shareholders monetizing their investments. This could potentially set up a more attractive entry opportunity for new investors in HDB after the merger.

Thus, in the short term we believe that the merger will remain an overhang for HDB's shares, and our Hold-Underperform recommendation reflects this relatively cautious view. However, depending on the final deal terms and post-merger implementation, we can also see potential upside for the ongoing business and even some possible long-term benefits from the merger itself.

Table 2: Deal summary

Type of deal	Stock-for-stock merger
Conversion ratio	1 PG Bank' share to 0.621 HDB's share
Expected date	At the end of 2019
Number of shares to be issued	186 million shares
PG Bank's assets	13% of HD Bank's assets as at 2Q19
PG Bank's equity	22% of HD Bank's equity as at 2Q19

Source: Company data, Yuanta Vietnam

Our thoughts on the merger

Merger economics are difficult to analyze given the rather limited information about PG Bank. However, we outline our broad thoughts on the risks and opportunities from this deal below.

The acquisition might cause a reduction in cost efficiencies.

Cost efficiencies? Who needs 'em? As noted above, our fundamental principle is that the vast majority of any value creation that accrues from commercial bank consolidation happens with cost efficiencies. Acquiring banks (and their investment bankers and consultants) never tire of talking up their purported "revenue synergy", but this almost always proves ephemeral after the merger is pushed through. Mergers don't necessarily create value at all, but in cases where they do, the vast majority of synergies occur on the operational cost side. This is never an attractive process to witness or to be part of, as it often viciously disrupts the lives and livelihoods of bank employees as redundant headcount and overlapping branches are slashed.

However, cost synergies are not likely to be a feature of commercial bank consolidation in Vietnam. As such, we expect operating costs to surge due to the increased number of offices/branches/employees as well as integration-related expenses. We forecast adjusted CIR to increase by 1.4ppt from 46.3% in 2019E (pre-merger) to 47.7% in 2020E and 48.1% in 2021E (both post-merger).

HDB has received approval from the SBV for early Basel II compliance, which might result in higher loan growth quota.

We expect superior credit growth thanks to early Basel II compliance… The SBV has approved HDB to apply Basel II from Oct 2019. This should result in an increased loan growth quota similar to what other Basel II-compliant banks have received. However, achieving Basel II compliance will not remain a novel accomplishment for much longer as an increasing number of banks achieve it. Thus, investors should not expect above-average loan growth quotas for Basel II-compliant banks in the years ahead.

…and HDB's loan growth quote could remain above-average following the acquisition. Call it "regulatory synergy"; we believe that HDB will receive a higher-than-average loan growth quota from the SBV in 2020E as a reward or incentive for taking over PG Bank. We have thus factored in 17.3% YoY organic loan growth in 2020E for the merged entity.

The bank's retail franchise should expand after the merger, supporting HDB's retail- and SME-focused business model.

Retail franchise footprint expansion. The merger will allow HDB to expand its branch network and also potentially broaden its potential client base through nonbank channels, especially given PLX's nationwide retail footprint. Although monetizing PLX's vast customer base may prove tricky, at the very least the merger should support HDB's retail and SMEs focused business model.

A marginal boost to CASA. The Company expects to receive VND 6 tn in CASA deposits from PGBank. This would boost the merged bank's CASA ratio to 10.9% in our estimate vs the current CASA ratio (2Q19 of 10.2%). Although this is only a marginal change, it would still help to reduce funding costs and thus support the merged bank's NIM.

Opportunities for HDB's standalone business

Bancassurance could grow tremendously once deal terms have been renegotiated with partner Dai-ichi Life.

Bancassurance revenue to recover after renegotiation of terms with HDB's partner Dai-ichi Life. HDB has tied up with Dai-ichi Life since July 2015, but bancassurance revenue only accounted for 3% of total adjusted revenue in 2018A – clearly, a disappointing result. HDB has been in the process of renegotiating its deal terms with Dai-ichi Life, and it expects this to be complete before the end of 2019. In our view, a successfully renegotiated banca deal could create tremendous room for growth given the 20%-plus expected annual growth in broad market premium sales in the years ahead. This also presents positive momentum for ROE given the capital-lite nature of bancassurance sales for a commercial bank.

HD Saison – cautious optimism on the consumer finance subsidiary. The subsidiary accounts for 9% of pre-merger consolidated loans. HD Saison's exposure to the highest risk portfolio of consumer finance – cash loans – was 33% of its total loans (or 3% of HDB's consolidated loans on a pre-merger basis) as of 2Q19. This is well below the cash loan proportion of HD Saison's two main competitors and only 3ppt above the proposed mandatory cap of 30%.

However, the fact that the regulators have seen fit to tighten regulations on consumer finance suggests the potential for higher-than-expected risk in this segment. For example, there could be considerable concentration risk of cash loan borrowers, a phenomenon seen in Taiwan's unsecured consumer crisis of 2005. In addition, the cap on cash loans might also limit loans for two-wheeler or consumer durable purchases given that competitors are likely to become more focused on such borrowers.

Mixed expectations for post-merger performance

We expect the SBV to grant a higher-than-average credit growth quota to HDB early Basel II compliance but also due to the merger. However, HDB must also focus on consolidating PG Bank, including handling whatever NPAs it acquires in the merger. We forecast post-merger loan growth of 17.3% YoY in 2020E compared to 2019E's post-merger loan book.

We expect NIM to improve slightly on lower funding cost due to increased CASA following the merger. We forecast NIM to increase from 4.06% in 2018A to 4.42% in 2019E (pre-merger) and 4.83% in 2020E (post-merger). This is based on a pro-forma combination of the two banks' deposit books and our outlook for several new business initiatives based off the post-merger platform.

Funding cost to decline on marginally increased CASA ratio after the merger.

We estimate HDB's CASA ratio to increase from 10.2% as of the 2Q19 to a post-merger ratio of 10.9%. This should provide a modest but welcome reduction in blended funding costs.

Moreover, according to HDB, the merger agreement stipulates that all paychecks of Petrolimex's 27,000 employees are to be paid into deposit accounts at HDB, which should further boost the retail franchise (although probably not the CASA base).

Other opportunities for increased revenues include banking services to companies in Petrolimex's supply chain. HDB notes that it anticipates cooperating with Petrolimex to serve transportation companies in managing their gasoline budgets efficiently through card issuance to their drivers. In addition, HDB will manage the petro price stabilization fund. The latter might sound promising, but the fund totaled negative VND500 bn as at June 2019, so it may not mean much for a while.

HDB also plans to work with Saigon Co.op – one of the largest retailers in Vietnam with 111 retail locations and more than 10 million customers – a in launching new payment products such as an e-wallet (in which card owners are granted an additional 5-10% in spending power on top of their original deposit amount). If successful, this should also boost CASA deposits and reduce funding costs.

Fee income boost from access to Petrolimex's networks and improved bancassurance after reaching the new agreement with Dai-ichi Life. We expect post-merger fee income growth of 51% in 2020E and 26% in 2021E, accounting for 7.1% and 7.3% of the total adjusted revenue in 2020E and 2021E.

Operating costs to surge due to an increasing number of offices/branches, employees and expenses related to the merger progress. As noted above, there is no free lunch from cost synergies in Vietnam; we expect adjusted CIR to increase by 1.4ppt to reach 47.7% in 2020E and 48.1% in 2021E, compared to 46.3% in 2019E.

ROE will be under pressure, largely due to M&A related expenses and increased provisioning (HDB plans to fully provision its VAMC bonds in 2019 and must also handle acquired NPLs from PG Bank after the merger)**.** However, we believe that the positive merger effects including higher credit growth room and lower funding cost will partly help offset the negative drivers. We forecast post-merger adjusted ROAE of 20.7% in 2020E, which is 90bps lower than our estimated pre-merger adjusted ROAE of 21.6% for the same year.

Table 3: Pre-merger vs. Post-merger Financials

	Pre-merger		Post-merger	
	2020E	**2021E**	**2020E**	**2021E**
Credit growth	14.6%	14.1%	17.3%	14.4%
Deposit growth	15.8%	12.9%	20.9%	13.2%
NIM	4.69%	4.83%	4.83%	4.94%
Fee income growth	26.9%	24.7%	50.7%	26.3%
Adj. CIR	45.4%	42.8%	47.7%	48.1%
Adj. ROAA	1.78%	1.94%	1.65%	1.69%
Adj. ROAE	21.1%	22.2%	20.7%	21.6%

Source: Company data, Yuanta Vietnam

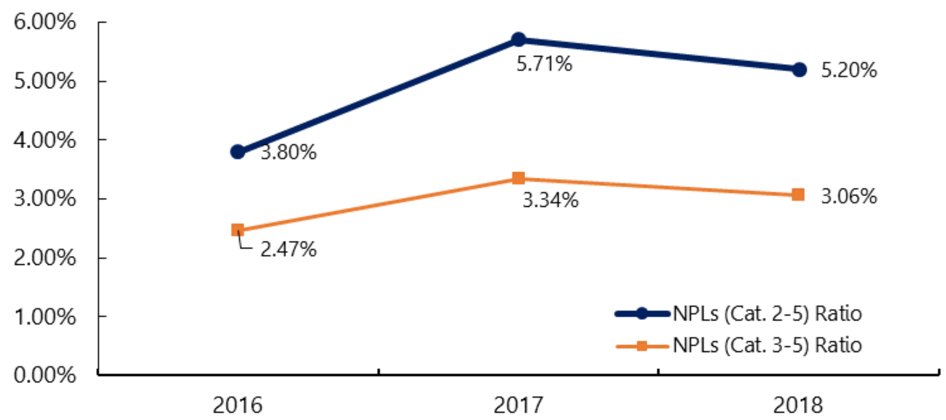
PG Bank background

We use CAMEL approach to provide an overview of PG Bank, focusing on five categories: Capital, Asset, Management, Earnings, and Liquidity. PG Bank is not listed, but it does disclose its financial statements on an annual basis.

Capital is strong… Basel I CAR was 14.5% as at 2018 (or an estimated 12.5% under Basel II). The bank's straight equity/assets ratio is 12.3%, which is relative high compared to listed banks (just behind TCB). PGB has not qualified for Basel II, but this is perhaps not surprising given that it is in the process of merging with HDB. We estimate the merger will help HDB improve its CAR by 40 bps to 12.5% under Basel I (or 10.5% under Basel II).

… but asset quality is weak. PG Bank's gross NPL (cat. 3-5) ratio was 3.06% as at 2018, and that number increases to 5.20% if we include cat. 2 loans in the numerator. PG Bank's VAMC bonds are also rather high at 5.8% of total assets (2018). Its NPL coverage ratio (LLR/gross NPLs) was extremely low at 33%, and its LLR/gross loans was very low at just 1.03%; both ratios have declined substantially since 2014. Thus, we estimate that the merger would cause HDB's NPL ratio to increase by 23 bps to reach 1.67% (based on 2Q19 data). We estimate that resolving the acquired NPLs and VAMC assets might take 3 to 5 years.

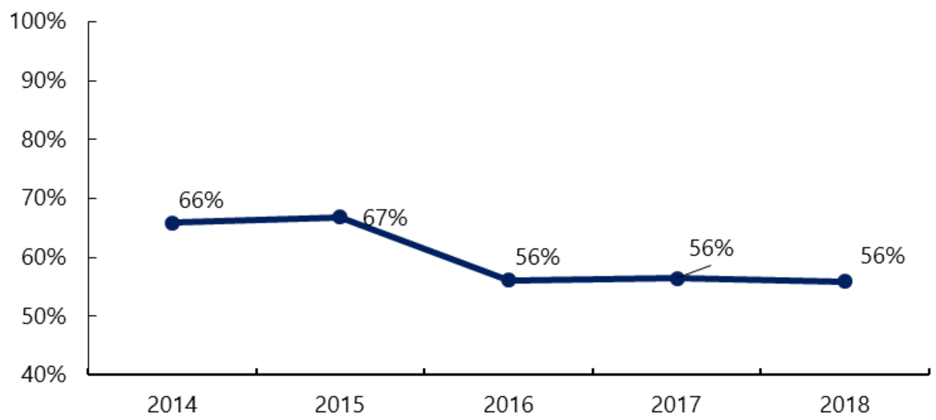
Figure 1: PG Bank's NPL ratio is relatively high



Source: FiinPro, Yuanta Vietnam

Management quality is weak among banks. Petrolimex, which holds a 40% stake in PG bank, is a major SOE and the largest gasoline retailer in Vietnam. But this doesn't give it any particular expertise in banking. Bank management strength typically comes through in solid risk management expertise and strong cost efficiencies. We have already discussed PG Bank's relatively weak asset quality n the section above. Additionally, its cost to income ratio (CIR) is relatively high at 56% (2018) compared to the listed bank average of 46%. This is likely a key reason for Petrolimex's desire to merge the bank, and we don't doubt HDB's ability to implement better management over the long run.

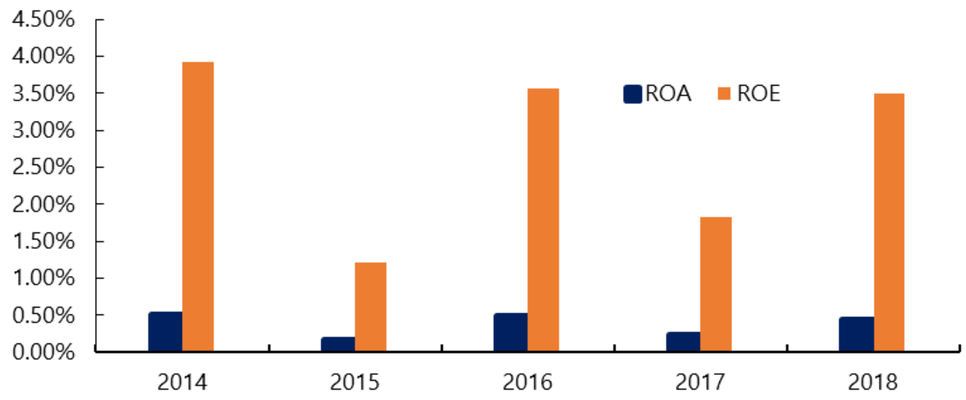
Figure 2: Adjusted CIR was high compared to listed banks' average of 46% in 2018



Source: FiinPro, Yuanta Vietnam

Earnings are very weak. ROA and ROE were extremely low at only 0.43% and 3.5% in 2018, which were far below the listed banks' average of 1.08% and 16.8%. This poor results reflect the inefficiency of non-core business investments by large SOEs, in our view.

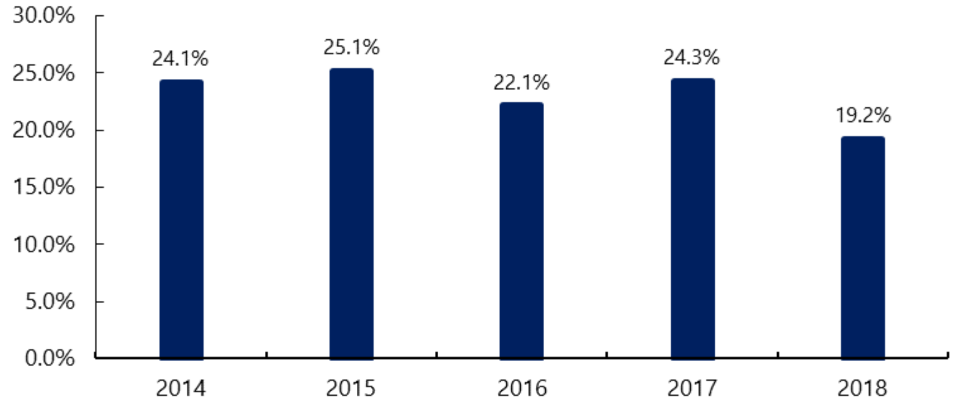
Figure 3: PG Bank's ROA and ROE were at the low-end in the sector



Source: FiinPro, Yuanta Vietnam

Liquidity is not a big concern. PG Bank appears to be less dependent on high cost time deposits than HDB itself. This also suggests that its funding costs are less sensitive to interest rate fluctuations. However, net LDR has remained above 90% for many years, which is both optically high and above the regulatory cap of 80% that is applied to non-state banks. Again, the merger should result in a marginal improvement in HDB's blended CASA ratio.

Figure 4: PG Bank's CASA ratio



Source: FiinPro, Yuanta Vietnam

Table 4- PG Bank's Financial Statements (VND bn)

PGB's Balance Sheet	2016	2017	2018
Cash and balances at SBV	775	1,557	2,176
Loans to other banks	1,192	1,070	252
Investments & others	4,275	3,923	3,885
Gross loans	17,534	21,421	22,052
Provision	(175)	(228)	(225)
Net loans	17,359	21,193	21,827
Other assets	1,224	1,555	1,760
Total Assets	**24,825**	**29,298**	**29,900**
Deposits	18,297	22,877	23,345
Due to SBV and banks	2,727	2,417	1,400
Others	305	443	1,468
Total liabilities	**21,329**	**25,738**	**26,213**
Share capital & premium	3,000	3,000	3,000
Reserves	195	214	223
Retained Earnings	300	346	463
Total Equity	**3,495**	**3,560**	**3,687**
Total Liabilities & Equity	**24,825**	**29,298**	**29,900**

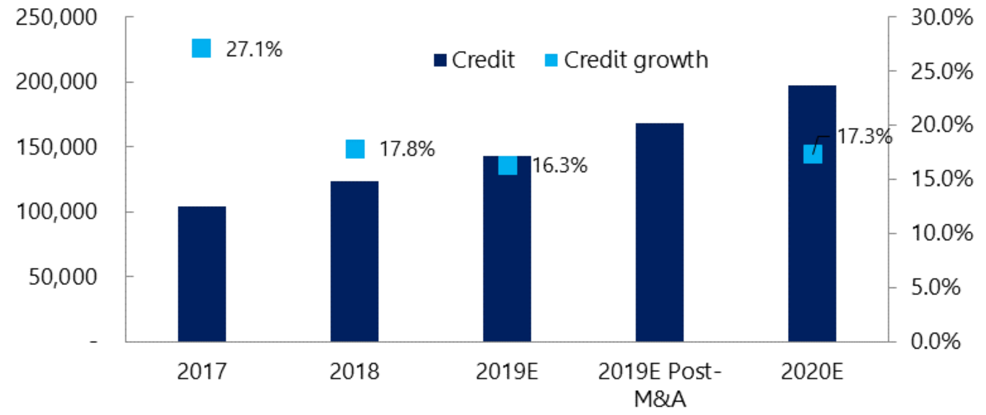
PGB's Income Statement	2016	2017	2018
Net Interest Income	695	784	848
Fee Income	17	22	33
Other Non-interest Income	34	40	49
Total Revenue	747	845	929
Non-interest expenses	(419)	(477)	(520)
PPOP	327	369	410
Gross Provisions	(203)	(461)	(519)
NPLs Recoveries	29	173	268
Net Provisions	(174)	(288)	(251)
Pre-tax Income	153	80	159
Tax	(31)	(16)	(32)
Profit after tax (PAT)	123	65	127
Minorities Interests	-	-	-
PATMI	123	65	127

Source: FiinPro, Yuanta Vietnam

Catalysts

Credit growth boost on Basel II compliance and the merger. Our balance sheet and earnings forecasts are based on the assumptions of Basel II compliance (which the SBV has approved to apply from Oct 2019) and a successful merger with PG Bank (which we expect to complete at the end of 2019). Obviously, factoring in the effects of a merger that has not been completed creates forecast risk. However, it is crucial for supporting our view that the merger with PGBank will allow HDB to receive higher credit growth room quota from the SBV, expand its retail franchise networks, strengthen its capital, and reduce its funding costs.

Figure 5: Credit growth boost on early Basel II compliance and the merger

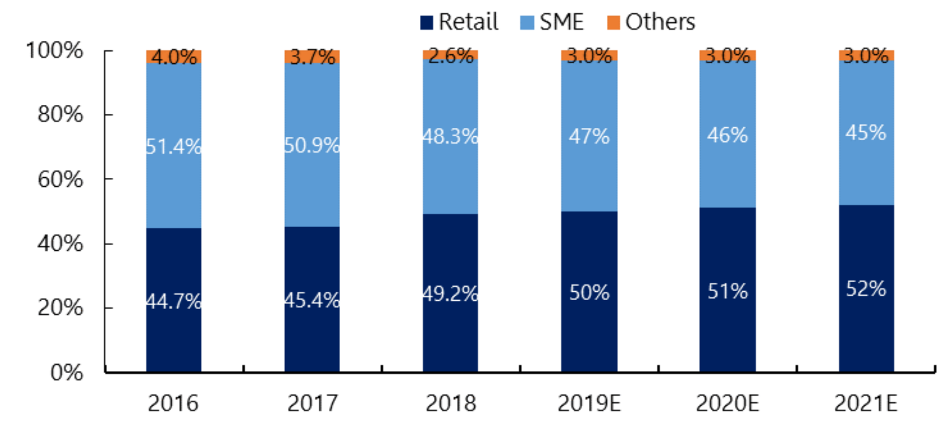


Source: Company data, Yuanta Vietnam

Loan book is highly focused on retail and SME credit.

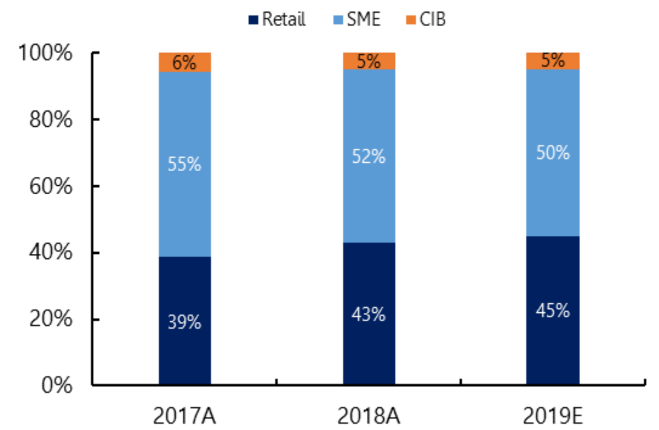
Loan structure: HDB mainly focuses on retail and SME loans, which total 97.5% of total lending as at 2018A. Of this, retail (including consumer finance loans) accounted for 49.2% and SME loans accounted for 48.3% of the total loan book. The trend for retail increased steadily from 44.7% in 2016A to 49.2% in 2018A, and we expect the retail proportion to continue to outgrow that of SME loans following the merger; this should further boost loan yields and NIMs in our view. We estimate that retail will account for 50% to 51% of the total loan in 2019E-20E.

Figure 6: Consolidated Consumer Loan Breakdown



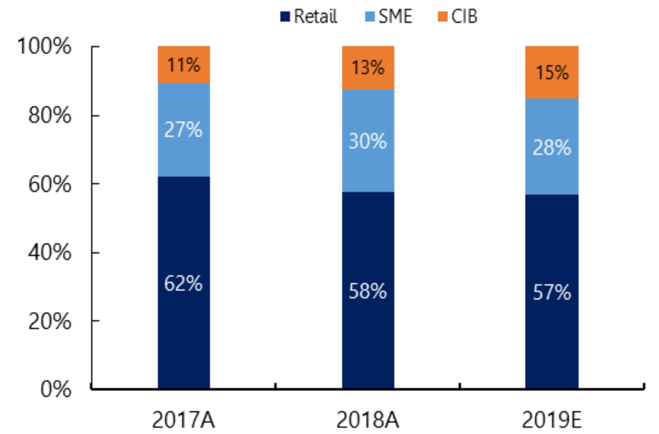
Source: Company data, Yuanta Vietnam

Figure 7: Loan Breakdown (ex. HD Saison) – Retail gaining a bigger portion



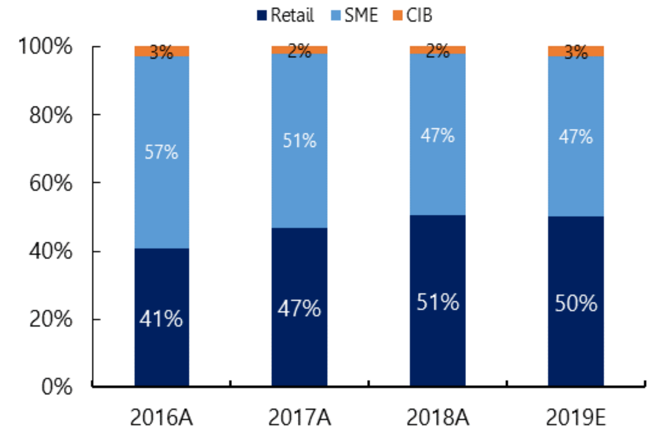
Source: Company data, Yuanta Vietnam

Figure 8: Deposit Breakdown (ex. HD Saison) – mostly from retail



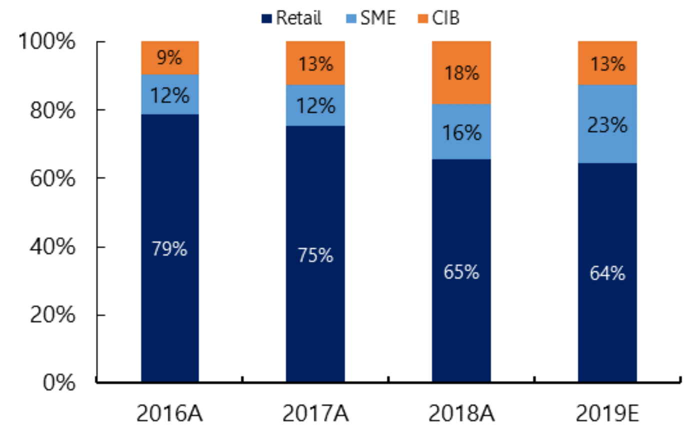
Source: Company data, Yuanta Vietnam

Figure 9: Interest Income Breakdown (ex. HD Saison) – mostly from retail and SME



Source: Company data, Yuanta Vietnam

Figure 10: Interest Expense Breakdown (ex. HD Saison) – mostly from retail



Source: Company data, Yuanta Vietnam

Retail network expansion. HDB currently has 285 bank offices/branches and 13,825 consumer finance transaction offices nationwide, with nearly 8 million clients, including 5.8 million clients at HD Saison and 2.2 million clients at HD Bank. The latter number accounts for 11% of Vietnam's total banked population. According to the SBV, only 20% of the more than 97 million Vietnam citizens hold bank accounts. Consumer finance businesses such as HD Saison largely tap the unbanked majority.

PG Bank has 79 offices/branches across 15 cities/provinces. After the merger, HDB's total network should increase to 364 offices/branches. Petrolimex, which boasts 20 million retail customers, will become a strategic shareholder in HDB with an estimated 5.3% ownership of the merged bank. Regulations limit banks (in this case, HDB) from lending to major shareholders of over 5% of their capital, which is equivalent to VND 700 bn (or 0.6% of HDB's total loans in 2018A). However, we expect HDB to boost its loan book through cross-selling to retail customers and members of Petrolimex's larger corporate ecosystem.

HDB's retail network to expand to 364 offices/branches through the acquisition. This would not be possible to achieve organically.

Inorganic branch network expansion is a selling point for the merger. Having a strong branch/customer touchpoint network is a key competitive advantage in retail banking. But opening new branches requires banks to meet certain conditions on capital adequacy, asset quality, and business performance. In addition, the number of new established branches is also limited: according to Circular 21/2013/TT-NHNN, the number of branches that each commercial bank with over 12-months in operation can establish is limited at five branches per year.

The PG Bank merger will accelerate HDB's retail footprint expansion through the acquisition of PG Bank's existing platform with no restriction from this regulation.

NIM to improve on reduced funding cost. HDB's CASA ratio was 10.2% as at 2Q19, far below the sector median of 18.4%. Management expects to receive VND

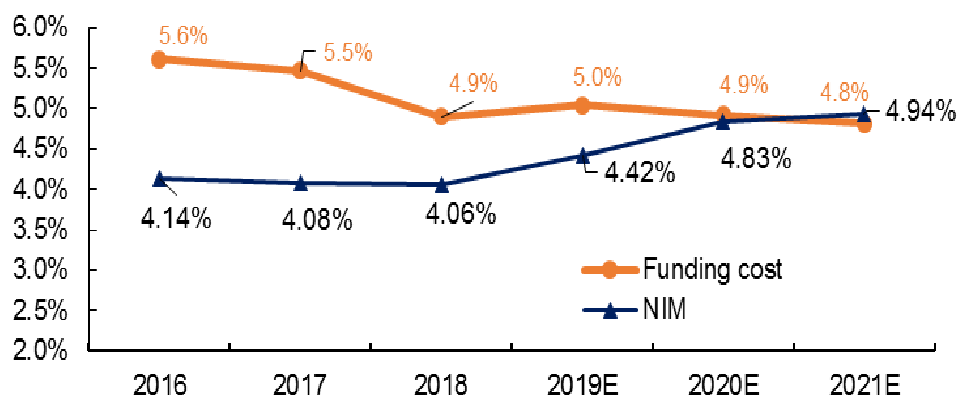
6 tn in CASA as a result of the PG Bank deal, which boosts the pro-forma merged bank's CASA ratio to 10.9% on our estimates. Although this is still an unimpressive CASA number, we believe that the merger effect will further boost the deposit franchise overall and potentially the CASA ratio too. As we mentioned above, Petrolimex will pay its employees into salary accounts at HDB, which at least should boost the overall deposit franchise; but this is not likely to do much for the CASA ratio, which is largely a corporate deposit story.

In addition, we expect HDB to provide targeted banking services to Petrolimex's corporate partners on CASA-generative transaction banking services (i.e., cash flow management services, trade finance-related services, and cash collection services for Petrolimex at over 2,100 petrol stations nationwide). If the execution of this strategy is strong, we believe it should further boost HDB's CASA franchise (largely a corporate deposit story) and reduce funding costs.

We expect HDB's funding cost to slightly decline to 4.9% in 2020E (post-merger) from 5.0% in 2019E (pre-merger). Thus, we forecast the bank's NIM to increase from 4.42% in 2019E (pre-merger) to 4.83% in 2020E (post-merger). The latter number is 14 bps higher than our 2020E pre-merger NIM estimate.

Funding cost may also be reduced by monetary policy, although we assume that the transmission effect of this policy would also require lower asset yields and thus have limited impact on bank profitability. Specifically, SBV Decision 1870/QD-NHNN in September cut four policy rates by 25bp: the refinancing rate (to 6.00%), rediscount rate (to 4.00%), overnight electronic interbank rate (to 7%), and the rate of bids on valuable papers via OMO (to 4.5%). Realistically, this policy might not have an immediate effect on the banking system but it could support liquidity and help reduce funding cost for banks.

Figure 11: NIM improve on lower funding cost



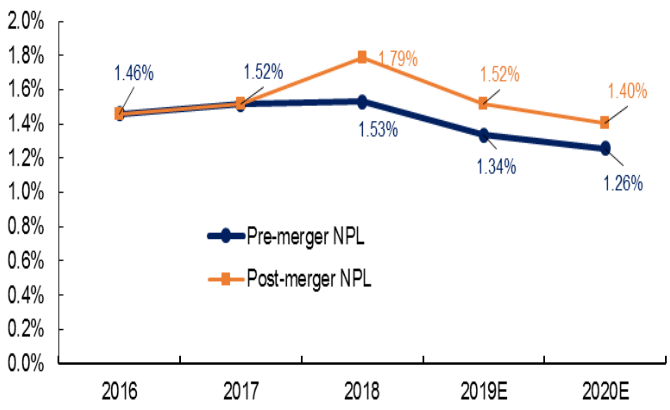
Source: Company data, Yuanta Vietnam

Bancassurance income to accelerate after deal term renegotiations. Total income from bancassurance accounted for only 3% of the total adjusted revenue in 2018A, which is relatively low vs that of peers who have also tied bancassurance partnerships. Examples include MBB (16%), VPB (8%), TPB (7%), and STB (6%). HDB explains that the reason for the lower-than-peer performance in bancassurance is because HDB and Dai-ichi Life are renegotiating their deal terms, which management expects to finish this year. We believe that bancassurance revenue should start to accelerate in 2020E after the negotiations are complete.

Summary: Long-term synergies vs short-term risks from the merger

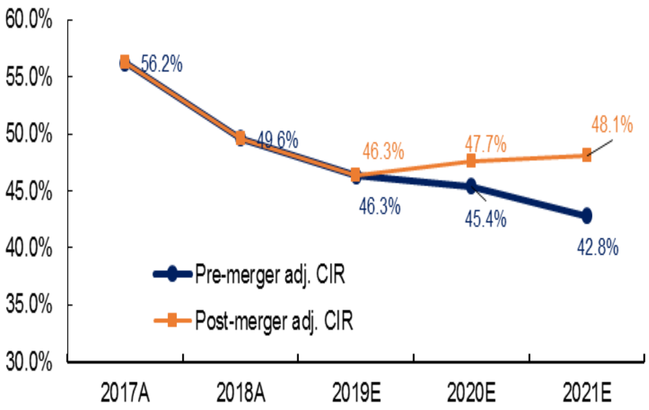
Short-term downside risks

Figure 12: Post-merger NPL increases – but still under control and below the SBV's target of 3%



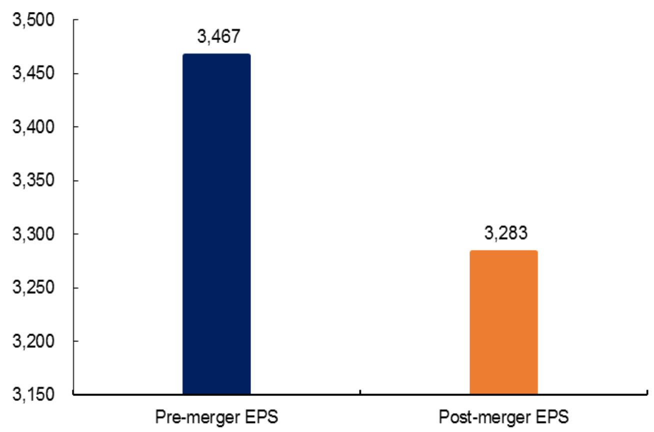
Company data, Yuanta Vietnam

Figure 13: Post-merger adjusted CIR increase



Company data, Yuanta Vietnam

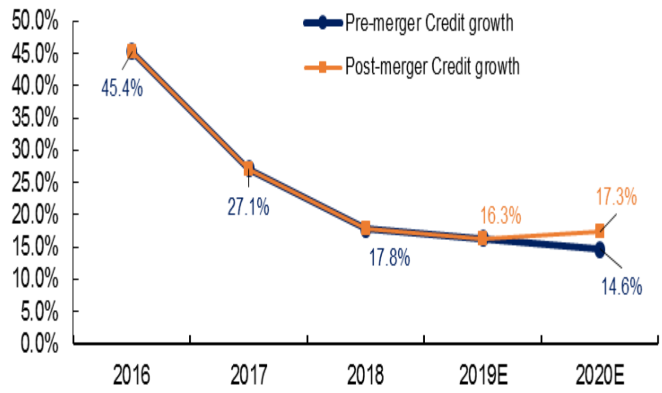
Figure 14: Post-merger EPS dilution (factoring stock dividend dilution risks)



Company data, Yuanta Vietnam

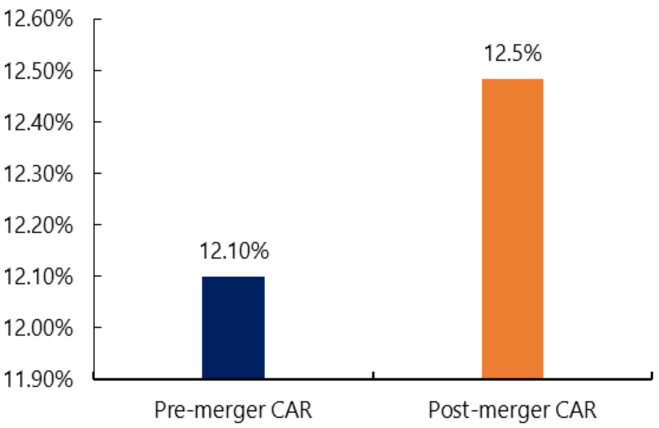
Long-term synergies

Figure 15: Post-merger credit growth boost



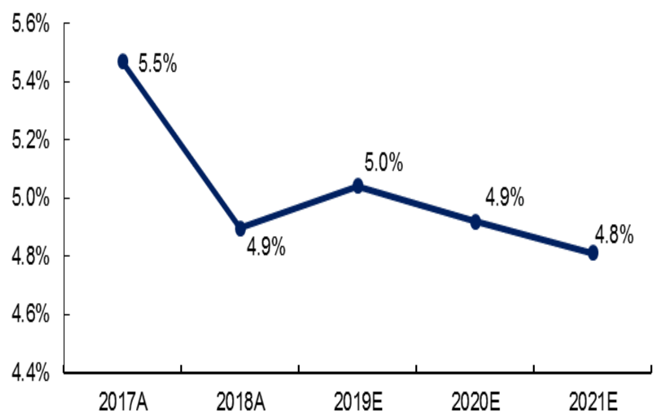
Company data, Yuanta Vietnam

Figure 16: CAR boost on the merger



Company data, Yuanta Vietnam

Figure 17: Declining funding cost on increasing CASA



Company data, Yuanta Vietnam

HD Saison: from a fast-growing to a stable and sustainable growth

Overview. HDB owns 50% of consumer finance subsidiary HD Saison. Credit Saison is the second largest shareholder, at 49%. Among Vietnamese consumer finance companies, HD Saison is the point-of-sales (PoS) leader with 13,825 points vs VPB (not rated) subsidiary FE Credit's 11,000 PoS and Home Credit's (not listed) 7,000 PoS as at 2018. HD Saison reports 5.8 million clients as at 2Q19.

Like other consumer finance firms, HD Saison's business strategy is to focus on lower-mass and unbanked clients. Some 70% of its clients are suburban and 30% are located in urban areas. The average monthly income of its clients is VND7 mn (US$300). Management reckons this demographic to comprise 43-45 million people. The overall consumer finance industry has so far acquired only 13 million clients, or just 29% of the addressable market. Thus, some 30 million untapped customers remain, presenting vast growth opportunity for the industry (and HD Saison) going forward.

We tend to agree with the view that the market is likely to grow substantially over the years despite the tighter regulatory environment. Our sense is that regulators recognized a problem in the market and nipped it in the bud, rather than waiting for a major consumer credit crisis in this not-quite-middle class demographic segment.

HD Saison is leader of the pack in motorbike loans, with 34% market share.

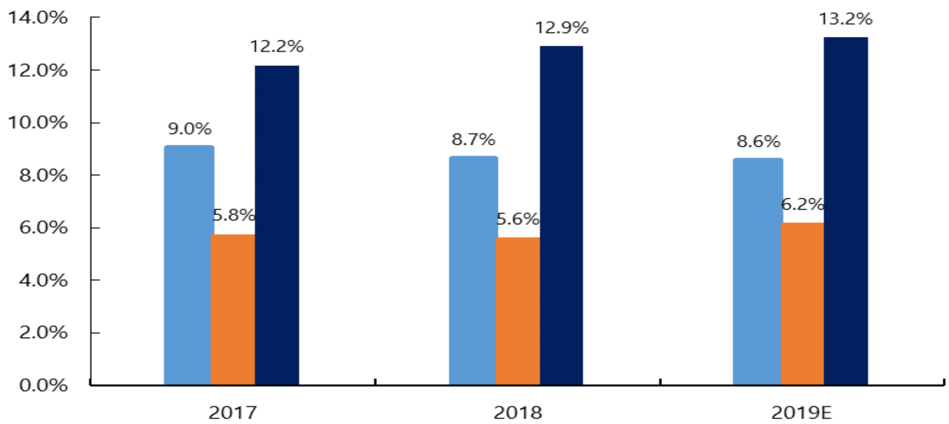
HD Saison was the market leader in providing motorbike loans with 34% market share as at 2018A, followed by FE Credit (31%), and Home Credit (16%). HD Saison's credit extension is well balanced compared to its peers, with 42% of loans accountable to purchases of two-wheelers, 24% to consumer durables, and 32% to cash loans. This relatively low exposure to cash loans is crucial because Draft Circular No. 43 appears targeted at trimming cash loans to a cap of 30% for each consumer finance company. The proportion of cash loans are far above the proposed regulatory limit at FE Credit (77%) and Home Credit (50%), HD Saison's main rivals. We also think that cash loans make up the bulk of lending by late-movers into consumer finance because penetrating two-wheeler and consumer durable finance is more difficult than engaging in cash loans.

The consumer finance subsidiary's credit portfolio is well balanced, with 42% of loans to two-wheelers, 24% to consumer durables, and 32% to cash loans.

Taken altogether, the regulatory tightening should have a minimal direct effect on HD Saison. However, it may result in a change of strategy among its competitors, which may increase the competitive environment in two-wheeler and consumer durables finance. Also, the cap is indeed likely to limit HDB's cash loan growth, especially to its existing two-wheeler or consumer durable borrowers whose repayment behavior it knows best.

HD Saison is a substantial contributor to HDB's consolidated results. The subsidiary's loans represent 8.7% of HDB's total loans (pre-merger) and 5.6% of HDB's assets as at 2018A. Additionally, HD Saison contributed 13% to the HDB's consolidated PATMI in the same year.

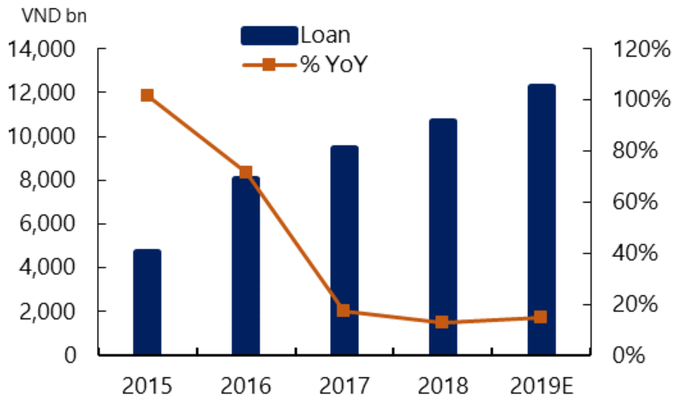
Figure 18: HDSaison's contribution to HDB's consolidated numbers



Source: Company data, Yuanta Vietnam

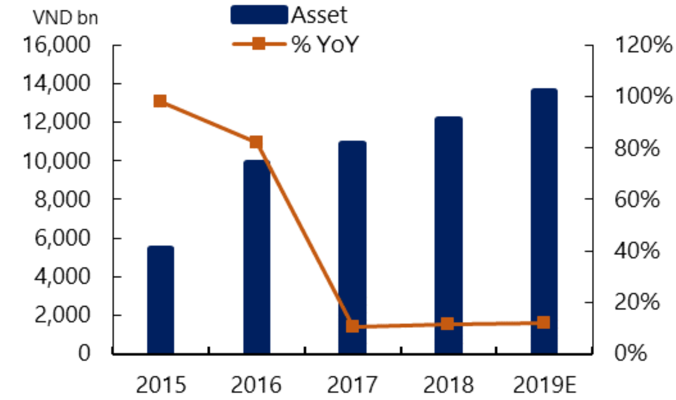
Loan growth at HD Saison has fallen from the heady days of 2015 (+102% YoY) and 2016 (+72% YoY) to just under 20% annually in 2017-2019E. The slowdown was in part a function of scale, but has also been due to increasingly stiff competition and stricter regulation on loan growth.

Figure 19: 2014-2018 Loan CAGR of 46%, but slowing



Company data, Yuanta Vietnam

Figure 20: 2014-2018 Asset CAGR of 45%, but easing



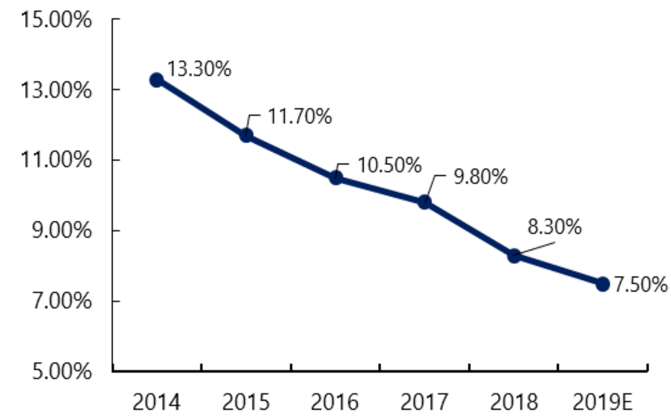
Company data, Yuanta Vietnam

Transitioning to slower and more sustainable growth

Tightening credit growth. In line with tightened SBV policy on credit institutions generally and consumer finance companies specifically, management expects HD Saison's loans to grow 13.6% YoY and deposits to grow 20.9% YoY in 2019E. Going forward, we believe that profitability – rather than asset growth – will be the focus for consumer finance firms, which will have to focus on control of operating expenses and credit costs.

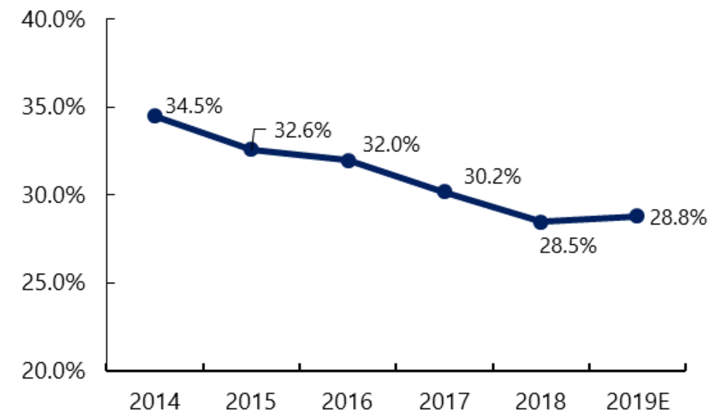
Rising competition. Like other its peers, HD Saison's liability structure mostly comprises subordinated notes. Funding costs have been gradually trending down from 13.3% in 2014 to 8.3% in 2018 and 7.8% in 2Q19. Despite this funding cost decline, NIM has also fallen from 34.5% in 2014 to 28.5% in 2018 due to the effects of competition on asset yields. HD Saison's average lending rate for consumer durables and motorbike loans is 35%, slightly higher than that of FE Credit (33%) and Home Credit (21%). We expect NIM to improve slightly to 28.8% in 2019E due to a sharper assumed decline in funding costs.

Figure 21: Funding cost declining



Company data, Yuanta Vietnam

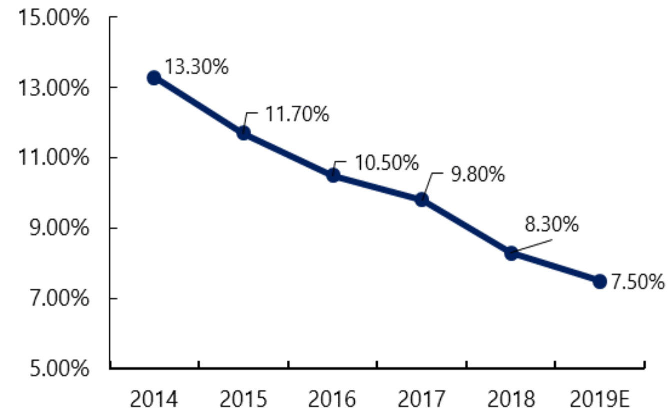
Figure 22: NIM narrowing due to stiff competition



Company data, Yuanta Vietnam

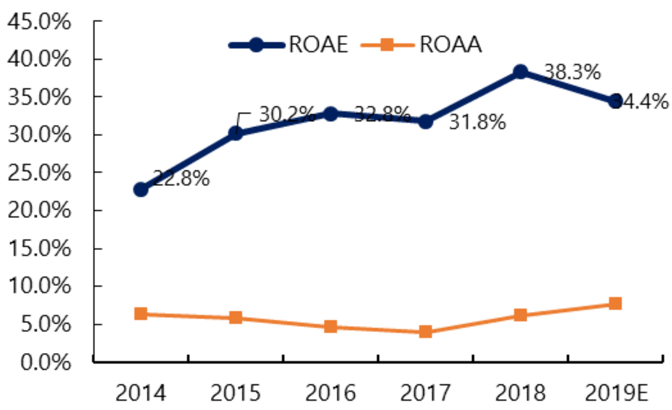
Improved efficiencies. HD Saison's cost-to-income ratio (CIR) has been relatively high due to the company's PoS expansion, but it has been declining since 2016 as this expansion cooled (see figure 18). Accordingly, ROAE improved significantly from 31.8% in 2017A to 38.3% in 2018A, with ROAA jumping from 4.0% in 2017A to 6.2% in 2018A (figure 19). We believe that CIR will continue to decline as the company focuses less on network expansion and more on profitability.

Figure 23: Cost-to-Income ratio to decline



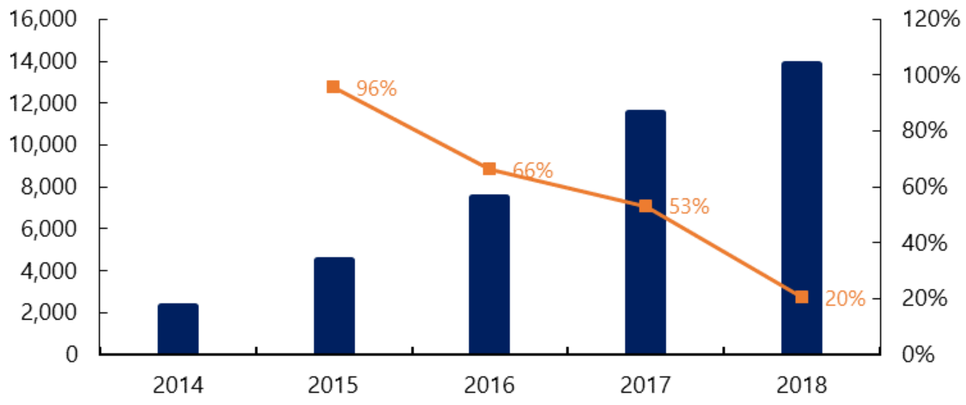
Company data, Yuanta Vietnam

Figure 24: NIM narrowing due to stiff competition



Company data, Yuanta Vietnam

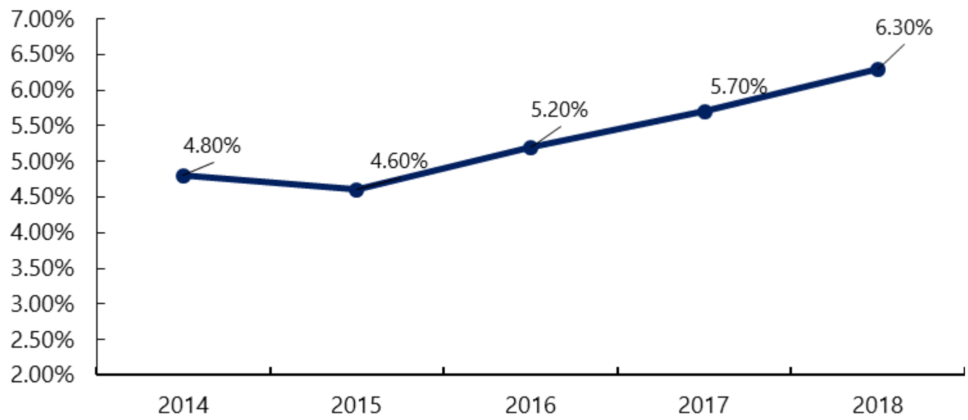
Figure 25: HD Saison's point of sales growth



Source: Company data, Yuanta Vietnam

Loan structure is less risky than that of peers. Rising NPL ratio is a key concern for consumer finance; we do not doubt that the regulatory tightening was intended to head off a much larger problem foreseen by the central bank, which obviously has far sharper visibility on the industry than we do. However, we believe that HD Saison's loan structure is less risky than its that of its peers given the relatively low concentration of cash loans. This is also exhibited in its sector-low credit costs, which were 7.3% in 1Q19 compared to 12.8% at Home Credit and 15.3% at FE Credit. Its exclusive marketing deal with Vietjet Airlines (VJC VN, Not rated) also benefits its credit risk management outcomes because all Vietjet passengers must provide verified personal information before boarding flights. This reduces the risk of clients who provide fake personal information, thus reducing its credit costs relative to other consumer finance firms.

Figure 26: Rising NPL ratio

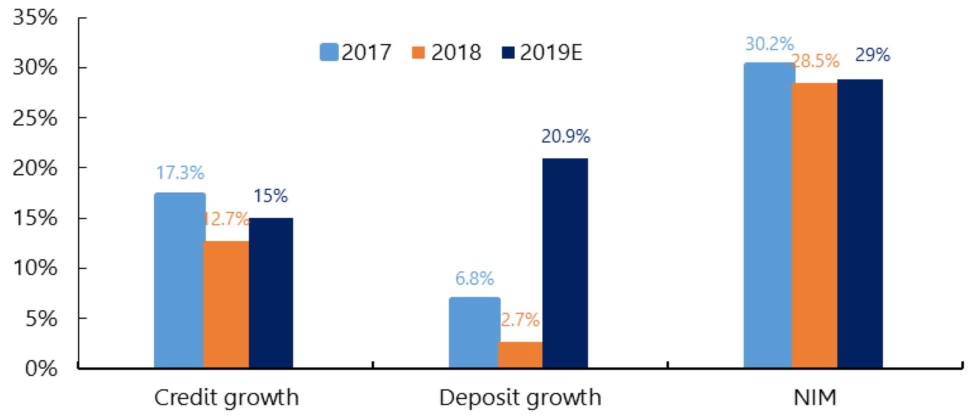


Source: Company data, Yuanta Vietnam

Prospects. We expect loan growth for HD Saison of 15.0% in 2019E, slightly above the company's target of 13.6%. Although lending rates will likely decrease due to competition, we think that funding costs should continue to fall, with HD Saison mobilizing cheap funding from major shareholder Credit Saison at an estimated rate of less than 6%. Blended funding costs were 7.8% as at 2Q19, and management guides for this to fall to 7.5% in 2019. As a result, we expect NIM to slightly improve to 28.8% in 2019E.

We forecast HD Saison's PAT to reach VND 860 bn in 2019E, with VND 439bn accruing to HDB and contributing 13.2% of our total consolidated 2019E PATMI forecast for HDB.

Figure 27: HD Saison's financials



Source: Company data, Yuanta Vietnam

Table 5- HD Saison's Financial Statements (VND bn)

Balance Sheet	2016	2017	2018
Loans	8,055	9,449	10,653
Total Assets	9,862	10,907	12,141
Deposits	7,843	8,380	8,604
Others liabilities	768	1,160	1,151
Total liabilities	8,611	9,540	9,755
Charter Capital	800	800	1,400
Total Equity	1,251	1,367	2,386
Total Liabilities & Equity	9,862	10,907	12,141

Income Statement key statistics	2016	2017	2018
NIM	32%	30%	27%
Fee Income/ Total Revenue	N/A	2%	8%
Non-II/ Total Revenue	2%	6%	16%
CIR	62%	61%	53%
Profit before tax	441	520	901
Profit after tax	353	416	719

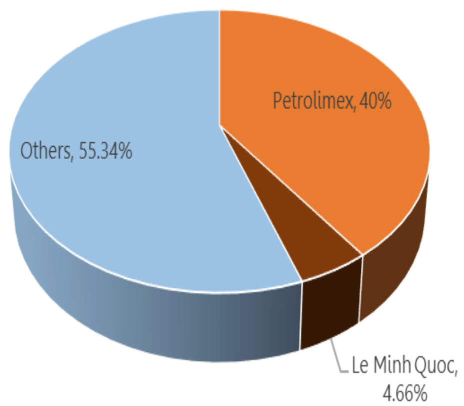
Source: Company Data

Investment risks

The merger process may drag on. Our earnings and forecasts assume that the merger with PG Bank will occur at yearend. However, this is certainly not guaranteed. If the merger is delayed, our forecasts for 2019E (and perhaps beyond) will turn out to be wrong. Although this would affect our valuation, it would do so in a positive way. Our pre-merger valuation estimate is at VND28,965 which is 3.4% higher than the post-merger price forecast. Although pinpointing an exact date is clearly impossible (and the chances of it happening at midnight on December 31 are close to zero), we do not believe that the merger will be cancelled due to the following reasons: 1) HDB and Petrolimex (PG Bank's controlling shareholder) have already signed an exclusivity agreement, 2) the SBV has already approved the merger plan, and 3) management is confident that the deal will finalize in 2019.

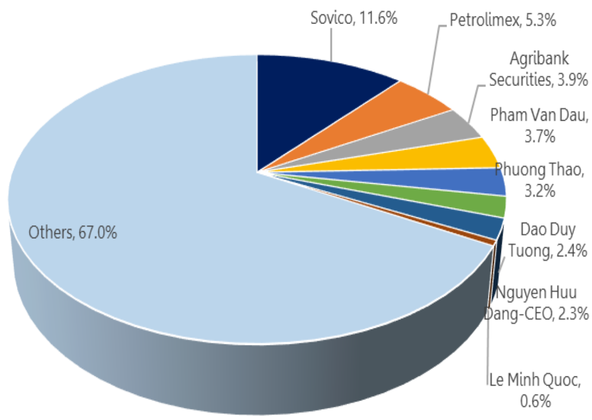
Potential overhang from PG Bank shareholders who no longer have management influence but have been waiting for liquidity. This could result in pressure on HDB's shares once such investors have the ability to monetize their investments. Again, this supports our advice to wait for the deal's consummation.

Figure 28: PGBank's pre-merger shareholder



Company data, Yuanta Vietnam

Figure 29: HDB's post-merger shareholders



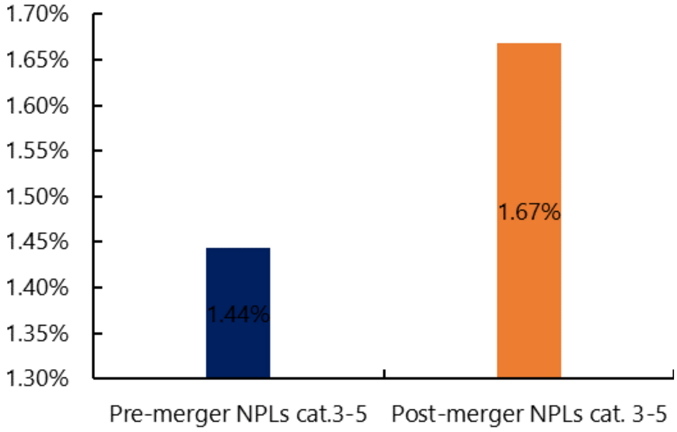
Company data, Yuanta Vietnam

Increased NPLs due to the merger. On a pro-forma basis, total post-merger NPLs (category 3-5) would increase by 23bps to reach 1.67% as at 2Q19, and total post-merger category 2-5 NPLs (i.e., including special mention loans) would rise by 27bps pre-merger to reach 3.12% in the merged entity.

In addition, PGBank also reported VND 959 bn in net VAMC bonds and VND 799 bn in accrued interest as at 2018A. As such, the post-merger **net NPAs ratio** would rise by 87 bps to reach 1.30% with a gross NPA ratio of 2.34%.

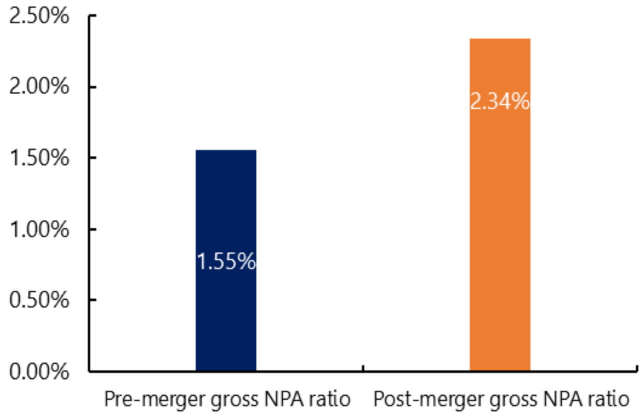
This would obviously boost provisioning in subsequent years; however, we believe that the SBV would allow HDB a grace period to provision those new NPAs, and we expect it would take 3 to 5 years to fully provision. Beyond the reported NPAs, acquisitions also pose risks that the asset quality of the acquired institution is not as rosy as advertised. But given that PLX will stay on as a shareholder and business partner in the merged bank, we are not excessively concerned about this risk.

Figure 30: NPL (cat. 3-5) ratio as at 2Q19



Company data, Yuanta Vietnam

Figure 31: Gross NPA ratio as at 2Q19



Company data, Yuanta Vietnam

EPS dilution. Based on local media reports, the merger is to be an all-share deal in which HDB will issue 0.621 new shares for each share of PG Bank. Based on our calculations, this would result in 186 million new outstanding shares worth VND 4.9 trillion (USD 212 million). This will boost total diluted shares outstanding to 1,167 million shares (a 19% increase in shares outstanding). Overall, we expect that the merger would cause an EPS dilution of 5.6% (including stock dividend dilution) based on 2020E earnings.

Valuation: Our 12-month price target is VND 28,016 per share

We apply five valuation methodologies to generate our VND 28,016 target price, which implies P/BV multiples of 2.1x for 2019E and 1.7x for 2020E and adjusted PERs of 9.4x for 2019E and 8.5x for 2020E.

Our target price is calculated on a weighted average basis. We apply a 50% weighting for residual income (the largest component) and 12.5% weightings for the other four methodologies.

We employ the following assumptions in our residual income and DDM models:

- **Cost of equity** starts at 12.9% and falls to 12.4% in Year 15 to reflect reduced risk and reduced potential returns as HDB grows.
- **ROTCE** is based on our model forecasts for Years 1-5, is set at 22.0% in Year 6, and gradually declines to 15.0% in Year 15.
- **Asset growth** is based on our model forecasts for Years 1-5, is set at 13% in Year 6, and gradually declines to 7% in Year 15.

Table 6: HDB's estimated fair value

Valuation Methods	Average Fair Value (VND/share) Estimated Price	Weight (%)	Price
Residual Income	28,663	50.0%	14,331
DDM Perpetuity	34,070	12.5%	4,259
DDM Multiple	30,146	12.5%	3,768
Regression	24,580	12.5%	3,072
Public Comps	20,680	12.5%	2,585
Estimated Fair Value			**28,016**

Source: Yuanta Vietnam

Residual Income Model

Based on the residual income approach, we estimate post-merger HDB's fair value at VND 28,663 per share (vs. pre-merger valuation of VND29,684), implying a 8.4% premium to the current share price (VND 26,450 at Sep 25, 2019) and a 2019E P/BV multiple of 2.1x.

Table 7: Pre-merger implied fair value

Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	10,009
Residual Income Terminal Value:	15,689
(+) Current Common Shareholders' Equity:	17,221
(+) PV of Residual Income Terminal Value:	2,888
(+) Sum of PV of Residual Income:	12,652
Implied Equity Value:	**32,761**
% of Implied Value from PV of TV:	*8.8%*
Implied Share Price:	**29,684**
Current Share Price:	26,450
Implied P/BV	1.9x
Premium / (Discount) to Current:	**12.2%**

Company data, Yuanta Vietnam

Table 8: Post-merger implied fair value

Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	12.423
Residual Income Terminal Value:	29,395
(+) Current Common Shareholders' Equity:	17,221
(+) PV of Residual Income Terminal Value:	5,411
(+) Sum of PV of Residual Income:	15,187
Implied Equity Value:	**37,819**
% of Implied Value from PV of TV:	*14.3%*
Implied Share Price:	**28,663**
Current Share Price:	26,450
Implied P/BV	2.2x
Premium / (Discount) to Current:	**8.4%**

Company data, Yuanta Vietnam

Table 9- Post-merger residual income fair value: sensitivities to ROE and Cost of Equity

Terminal Return on Common Equity:	Initial Cost of Equity (Declines by 0.1% Annually): 11.5%	12.0%	12.5%	13.0%	**12.9%**	13.5%	14.0%	14.5%	15.0%
18.0%	46,379	41,543	37,457	33,968	**34,755**	31,070	28,443	26,145	24,121
17.0%	43,354	38,914	35,158	31,946	**32,670**	29,275	26,851	24,727	22,855
16.5%	41,872	37,625	34,030	30,954	**31,649**	28,395	26,070	24,032	22,233
16.0%	40,409	36,354	32,918	29,976	**30,640**	27,526	25,299	23,346	21,620
15.0%	**37,541**	**33,860**	**30,736**	**28,057**	**28,663**	**25,823**	**23,788**	**22,000**	**20,418**
14.0%	34,748	31,432	28,612	26,189	**26,737**	24,164	22,316	20,689	19,247
13.0%	32,030	29,068	26,544	24,370	**24,862**	22,549	20,883	19,413	18,107
12.0%	29,384	26,767	24,531	22,599	**23,036**	20,976	19,488	18,170	16,996
11.0%	26,808	24,527	22,571	20,874	**21,259**	19,445	18,129	16,960	15,914

Source: Yuanta Vietnam

Table 10: Peer valuation comparison table

Company	Ticker	Rating	Price	Mkt Cap (US$ mn)	EPS			PER (x)			PBR (x)		
					2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
HDBank	**HDB VN**	**HOLD-OPF**	**26,450**	**1,103**	**2,983**	**3,283**	**3,761**	**8.9**	**8.0**	**7.0**	**1.7**	**1.6**	**1.4**
Local peers													
Asia Commercial Bank	ACB VN	NR	22,300	1,558	3,506	3,840	5,162	6.4	5.8	4.3	1.4	1.1	1.2
BIDV Bank	**BID VN**	**HOLD-OPF**	**41,050**	**6,046**	**1,994**	**2,465**	**2,921**	**16.9**	**13.6**	**11.5**	**1.7**	**1.6**	**1.5**
Vietinbank	CTG VN	NR	20,850	3,345	1,718	1,960	2,279	12.1	10.6	9.1	1.1	1.0	N/A
Military Bank	**MBB VN**	**BUY**	**21,900**	**2,153**	**3,717**	**4,602**	**5,521**	**6.1**	**4.9**	**4.1**	**1.2**	**1.0**	**0.8**
Sacombank	**STB VN**	**BUY**	**10,200**	**793**	**1,149**	**1,327**	**1,771**	**8.7**	**7.5**	**5.6**	**0.7**	**0.6**	**0.6**
Techcombank	TCB VN	NR	22,550	3,397	2,719	3,176	3,808	8.3	7.1	5.9	1.3	1.1	0.9
Tienphong Bank	TPB VN	NR	22,350	796	2,810	3,914	4,531	8.0	5.7	5.0	1.5	1.2	N/A
Vietcombank	**VCB VN**	**HOLD-OPF**	**81,000**	**12,942**	**4,145**	**5,002**	**6,019**	**19.5**	**16.2**	**13.5**	**3.8**	**3.2**	**2.7**
Vietnam International Bank	VIB VN	NR	17,200	685	2,996	3,905	N/A	5.7	4.4	N/A	1.2	1.0	N/A
Vietnam Prosperity Bank	VPB VN	NR	21,000	2,223	3,027	3,706	4,219	7.0	5.7	5.0	1.2	1.0	0.8
Local Average													

Source: Company data, Bloomberg, Yuanta Vietnam estimates for HDB, BID, MBB, STB, and VCB
Notes: EPS figures are denominated in VND

Table 11: Quarterly highlights (consolidated basis)

(VND bn)	1Q	2Q	3Q	4Q	FY2018A	1Q	2Q	3Q	4Q	FY2019E
Net Interest Income	1,831	1,884	1,769	2,161	**7,646**	2,030	2,324	2,344	2,424	**9,122**
Interest Income	3,935	4,082	4,190	4,742	**16,948**	4,441	4,785	4,898	5,241	**19,365**
Interest Expense	2,103	2,198	2,421	2,581	**9,303**	2,411	2,461	2,553	2,817	**10,243**
Non-Interest Income (NII)	399	389	244	271	**1,305**	394	283	454	496	**1,627**
Fee Income	111	115	115	97	**438**	142	144	170	210	**666**
Other NII	289	275	129	174	**866**	252	139	284	286	**961**
Adj. Operating Income	2,231	2,274	2,013	2,432	**8,950**	2,424	2,607	2,798	2,920	**10,750**
Total Operating Costs	1,009	1,100	1,148	1,184	**4,441**	1,137	1,293	1,399	1,151	**4,980**
Adj. Pre-Provision Profit	1,222	1,174	865	1,248	**4,509**	1,287	1,314	1,399	1,770	**5,769**
Provisions	247	248	147	352	**994**	227	306	497	521	**1,550**
Other Income	72	90	103	225	**490**	42	101	104	170	**416**
Net Provisions	175	158	44	127	**504**	185	205	393	351	**1,134**
Profit Before Tax	1,047	1,016	821	1,121	**4,005**	1,102	1,109	1,006	1,419	**4,636**
Income Tax	213	196	166	229	**803**	223	213	201	290	**927**
Net Profit	834	820	656	892	**3,202**	879	896	805	1,129	**3,709**
Minorities	77	82	88	112	**359**	80	110	110	116	**416**
PATMI	757	738	567	780	**2,842**	799	786	695	1,012	**3,292**
EPS (VND)	*810*	*790*	*607*	*834*	***3,041***	*724*	*712*	*630*	*917*	***2,983***
GROWTH ANALYSIS (% QoQ)										
Loan growth	10.9%	4%	0.5%	2%		5%	6.9%	3%	0.9%	
Deposit Growth	-2.7%	8%	2.5%	-1%		-1%	2.7%	4%	7.0%	
Net interest income	5%	3%	-6%	22%		-6%	14%	1%	3%	
Fee Income	51%	3%	1%	-16%		46%	2%	18%	23%	
Other NII	-2397%	-5%	-53%	35%		45%	-45%	104%	1%	
Operating costs	87%	109%	104%	103%		96%	114%	108%	82%	
Adj. Preprovision profit	89%	-4%	-26%	44%		3%	2%	6%	26%	
Provision	94%	100%	59%	240%		64%	135%	162%	105%	
Other Income	-40%	25%	14%	118%		-81%	142%	3%	64%	
PATMI	117%	-3%	-23%	37%		2%	-2%	-12%	46%	
NIM										
Net interest Income/Average IEAs	0.96%	0.99%	0.91%	1.04%		0.97%	1.13%	1.08%	1.07%	
LIQUIDITY										
Pure LDR	98%	94%	92%	95%		101%	105%	104%	98%	
LDR Under Cir. 36	68%	71%	68%	64%		72%	74%	71%	71%	
OPERATING EFFICIENCY										
CIR	45%	48%	57%	49%		47%	50%	50%	39%	
ASSET QUALITY										
NPL ratio	1.63%	1.43%	1.50%	1.53%		1.45%	1.44%	1.35%	1.34%	
Loan Loss Coverage ratio	64%	80%	73%	71%		74%	75%	84%	80%	

Source: Company data, Yuanta Vietnam
Note: Fully diluted weighted average EPS is based on weighted average number of shares.

KEY FINANCIAL RATIOS	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E

Balance Sheet

(VND bn)	2017A	2018A	2019E	2020E	2021E
Cash& Balance at SBV:	3,434	7,482	5,427	9,305	10,534
Loans to Banks:	21,861	32,426	26,021	32,118	31,815
Investment Securities	50,496	45,292	43,368	54,199	54,540
Invest. in Associates:	378	165	186	259	293
Derivative Instruments:	0	208	235	327	370
Gross Loans:	**104,497**	**123,132**	**143,199**	**196,922**	**225,324**
(-) Specific Provisions:	(402)	(432)	(476)	(756)	(957)
(-) General Provisions:	(759)	(908)	(1,055)	(1,451)	(1,661)
Total provisions:	(1,161)	(1,340)	(1,531)	(2,207)	(2,618)
Net Loans:	**103,336**	**121,792**	**141,668**	**194,715**	**222,706**
Fixed Tangible asset:	526	569	569	587	606
Intangible Assets:	1,000	1,046	1,046	1,046	1,046
Real estate investment	46	52	52	52	52
Accrued interests:	3,416	3,519	3,568	3,568	3,568
Deferred tax:	21	0	0	0	0
Other Assets:	4,818	3,507	3,822	2,968	2,304
Goodwill	0	0	0	1,075	1,075
Total Assets:	**189,334**	**216,057**	**225,962**	**300,218**	**328,910**
Deposits:	**120,537**	**128,060**	**144,559**	**200,737**	**227,251**
Due to SBV & Banks:	37,374	48,601	41,332	53,169	51,825
Subordinated Notes:	9,793	14,927	14,925	16,117	12,781
Invest. Trust & others:	2,998	3,046	3,542	4,477	4,672
Other Liabilities:	3,873	4,595	2,758	2,719	6,203
Total Liabilities:	**174,575**	**199,229**	**207,116**	**277,218**	**302,733**
Capital& Premium:	11,852	11,852	14,795	17,795	17,795
Reserves:	454	776	776	776	776
Treasury Shares	-	-	(1,274)	(2,752)	(2,752)
Retained Earnings:	1,770	3,007	3,356	5,988	9,165
Minorities Interest:	684	1,193	1,193	1,193	1,193
Total Equity:	**14,759**	**16,828**	**18,846**	**23,000**	**26,177**
Total L& E:	**189,334**	**216,057**	**225,962**	**300,218**	**328,910**

Profit and Loss

(VND bn)	2017A	2018A	2019E	2020E	2021E
Net II:	6,347	7,646	9,122	12,007	14,721
Net Fee Income:	196	438	666	1,003	1,267
Other Non-II:	692	873	961	1,211	1,284
Net Non-II	888	1,312	1,627	2,214	2,550
Net Operating Income:	7,236	8,957	10,749	14,221	17,271
Non-Interest Expenses:	(4,072)	(4,441)	(4,979)	(6,777)	(8,313)
PPOP:	**3,163**	**4,516**	**5,770**	**7,444**	**8,958**
Gross Provisions:	(1,017)	(994)	(1,550)	(1,839)	(2,070)
NPL Recoveries:	270	483	416	495	592
Net Provisions:	(747)	(511)	(1,134)	(1,344)	(1,478)
Pre-Tax Income:	**2,417**	**4,005**	**4,636**	**6,100**	**7,480**
(-) Income Tax	(462)	(803)	(927)	(1,220)	(1,496)
Net Income after tax:	1,954	3,202	3,709	4,880	5,984
(-) Minority Interest	(208)	(359)	(416)	(548)	(672)
(-) Bonus & Welfare:	(3)	-	-	-	-
Net Attributable Income:	**1,743**	**2,842**	**3,292**	**4,332**	**5,312**
Weighted Avg. Shares:	849	935	1,104	1,319	1,413
Adjusted Diluted EPS	**2,053**	**3,041**	**2,983**	**3,283**	**3,761**

Key Ratios

	2017A	2018A	2019E	2020E	2021E
GROWTH (% YoY)					
Loan growth (% YoY)	27%	18%	16%	37%	14%
Deposit growth (YoY %)	17%	6%	13%	39%	13%
Pre-provision profit	60%	43%	28%	29%	20%
Adjusted Net profit	137%	63%	16%	32%	23%
Assets	26%	14%	5%	33%	10%
LIQUIDITY					
Pure LDR	86%	95%	98%	97%	98%
ASSET QUALITY					
NPL ratio	1.52%	1.53%	1.52%	1.40%	1.29%
SPREAD ANALYSIS					
Int. rate on Avg. IEA	9.62%	8.93%	9.37%	9.63%	9.62%
Int. rate on Avg. IBL	5.47%	4.90%	5.04%	4.92%	4.81%
Interest rate spread	4.15%	4.03%	4.33%	4.71%	4.81%
NIM	4.08%	4.06%	4.42%	4.83%	4.94%
OPERATING EFFICIENCY					
Cost to income ratio	56%	50%	46%	48%	48%
CREDIT COSTS					
Net credit cost	0.61%	0.62%	0.68%	0.74%	0.80%

Source: Company data, Yuanta Vietnam

Key Financial Ratios	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E
GROWTH PROJECTIONS						
Net interest income	36%	21%	19%	32%	23%	14%
Fee Income	66%	123%	52%	51%	26%	23%
Other NII	52%	26%	10%	26%	6%	5%
Operating costs	24%	9%	12%	36%	23%	8%
Pre-provision profit	60%	43%	28%	29%	20%	20%
Provision	2%	-2%	56%	19%	13%	8%
Adjusted Net profit	137%	63%	16%	32%	23%	23%
Assets	26%	14%	5%	33%	10%	9%
ASSET ANALYSIS						
Earning assets to total assets	93%	93%	94%	95%	95%	95%
Average Returns on Earnings Assets	1.12%	1.51%	1.59%	1.74%	1.78%	1.99%
LOAN ANALYSIS						
Loan growth (% YoY)	27%	18%	16%	37%	14%	13%
Loans to Interest Earnings Assets	59%	61%	67%	69%	71%	74%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	17%	6%	13%	39%	13%	12%
Deposits to Interest Bearing Liabilities	69%	64%	70%	72%	75%	78%
LIQUIDITY						
Pure LDR	86%	95%	98%	97%	98%	99%
LDR under Circular 36	62%	64%	71%	72%	76%	80%
ASSET QUALITY						
NPL ratio	1.52%	1.53%	1.52%	1.40%	1.29%	1.21%
General Provisions to Gross loans	0.73%	0.74%	0.74%	0.74%	0.74%	0.74%
Provisions in a year to Gross loans	1.11%	1.09%	1.07%	1.12%	1.16%	1.15%
SPREAD ANALYSIS						
Int. rate received on Average IEA	9.62%	8.93%	9.37%	9.63%	9.62%	9.77%
Int. rate paid on Average IBL	5.47%	4.90%	5.04%	4.92%	4.81%	4.77%
Interest rate spread	4.15%	4.03%	4.33%	4.71%	4.81%	5.00%
NIM	4.08%	4.06%	4.42%	4.83%	4.94%	5.17%
OTHER INCOME						
Fee income to total income	3%	5%	6%	7%	7%	8%
Other Non-II to total Income	10%	10%	9%	9%	7%	7%
OPERATING EFFICIENCY						
Cost to income ratio	56%	50%	46%	48%	48%	46%
CREDIT COSTS						
Net credit cost	0.61%	0.62%	0.68%	0.74%	0.80%	0.82%
PROFITABILITY						
Pre provision ROA	1.67%	2.09%	2.55%	2.48%	2.72%	3.01%
Pre provision ROE	21.4%	26.8%	30.6%	32.4%	34.2%	35.7%
Adj. ROAA	1.03%	1.40%	1.49%	1.65%	1.69%	1.90%
Adj. ROAE	14.1%	18.0%	18.5%	20.7%	21.6%	23.1%
Dividend Yield	0.7%	5.2%	0.0%	4.9%	5.7%	6.8%
VALUATIONS						
PER (x)	12.9x	8.7x	8.8x	8.0x	7.0x	5.7x
PBR (x)	1.6x	1.5x	1.7x	1.6x	1.4x	1.2x

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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