

May 5, 2020

Head of Equity Research (Ho Chi Minh)
Harrison Kim
harrison.kim@kbfq.com
Financials Analyst Nguyen Thi Thu Huyen
huyenntt@kbsec.com.vn

HDBank (HDB)

1Q up on accelerating credit growth

1Q earnings up 14% as credit growth accelerates

— 1Q earnings rose by 14% YoY to VND1,001 billion on the acceleration of credit growth to 19.3% YoY in 1Q vs 4Q's 18.3% and an increase of 6.0% from the end of 2019. Loans to customers also remained strong and grew by 18.2% YoY vs 4Q's 18.8% YoY and 4.2% from the end of 2019. Management continued its strategy of building strategic partnerships with corporates to sustain high credit growth despite the more cautious lending environment (1Q's strong credit growth was largely attributable to loan agreements signed with strategic partners in late 2019).

But also seeing signs of deteriorating asset quality

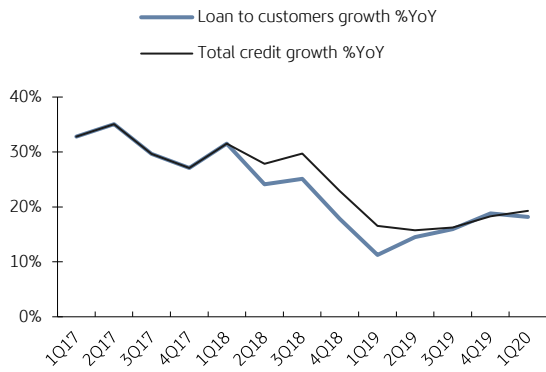
— Substandard & below non-performing loans rose to 1.47% in 1Q vs 4Q's 1.36% even as credit growth remained strong. The early signs of erosion in credit quality were more pronounced in the precautionary & below ratio, which rose to 3.08% from 4Q's 2.94%. Despite slippage in the asset quality ratios, credit costs fell to VND292 billion (+29% YoY/-28% QoQ) or 0.19% of loans vs 4Q's 0.28% of loans. This caused 1Q's reserve coverage for substandard & below non-performing loans to fall to 74.5% from 4Q's 81.4% and coverage for precautionary & below loans to fall to 35.6% vs 4Q's 37.8%.

Flat fee performance but costs prove to be more troublesome

— Net fees & commissions were mostly flat to the previous quarter (up 11.5% YoY/down 1.6% QoQ) as banks cut transaction fees during the coronavirus lockdown. Costs proved more troublesome as staff expenses rose by 64% YoY and caused the cost-to-income ratio to jump to 51.0% during the quarter from 46.1% during the same period last year.

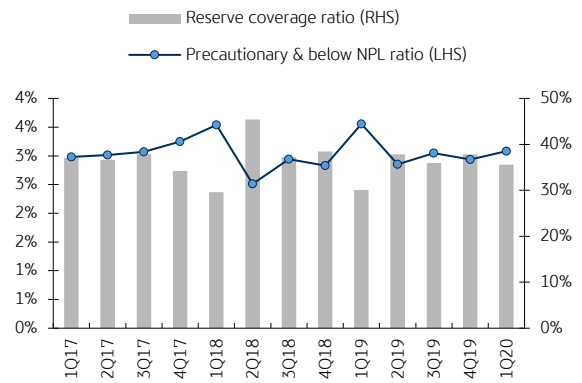


Fig 1. HDB – Loan to customers & total credit growth, 1Q17-1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. HDB – Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q17-1Q20 (%)



Source: Company reports & KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong

congl@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen

huyenntt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim

harrison.kim@kbf.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung

dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh

danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh

vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin

shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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