

HDBank (HDB)

Robust 2Q results on cutting cost

2Q pretax earnings up 47% YoY as cutting operating costs

- 2Q pretax earnings rose by 49% YoY to VND1,657 billion, making 1H20 pretax earnings of VND2,908 billion or 51% of 2020 guidance on the lowering of operating cost. Up to 2Q, credit growth recorded 10.3%YTD vs 2Q19's 11.3%YTD, equivalent to an increase of 2.7% in comparison to Q1. Total credit maintained strong and grew by 17.6% YoY vs 2Q19's 15.7% YoY & loans to customers growth of 16.4% YoY vs 2Q19's 14.5% YoY.
- Sound deposit to customers of VND149,805 billion (+13% QoQ, + 15% YoY) with constant current account & saving account ratio (CASA) of 1Q's 11.8%, slightly up from 2Q19's 9.8%. Employing bond as a part of capital raising plan declared in Annual General Meeting of Shareholders 2020, HDB has executed 9 issuances with total value of about VND10,000 billion up to 1H20, equals 15%YTD increase from 4Q19 and 62% YoY increase within one year. Bonds issued are primarily in term range of 2–3 years, the highest is 5 years and 1 day.

Higher provisions to protect against the deterioration in credit quality

- Substandard & below non-performing loans rose to 1.55% in 2Q vs 1Q's 1.47% and 2Q19's 1.44% even as credit growth was performing strong. The broader asset quality measure witnessed the unbroken line 2Q's precautionary & below ratio from 1Q's 3.08%, an up from 2Q19's 2.85%. In reaction of the weaker asset quality, credit cost has been built up to VND408 billion (+40% YoY) to pick up with the formation rate of bad loans, accounted for 0.25% of total loans vs 1Q's 0.19%. However, reserve coverage for substandard & below non-performing loans reduced to 72.2% vs 4Q19's 81.4% while extended modestly for precautionary & below ratio to 36.5% from 4Q19's 35.6%.

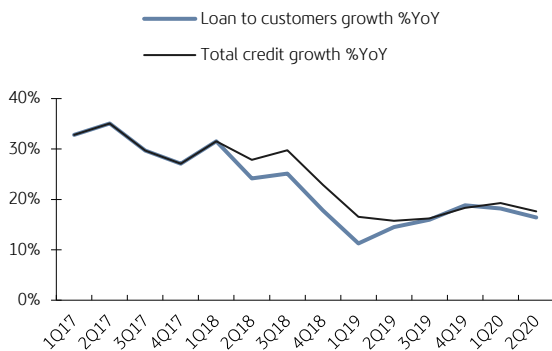
Cutting operating costs to make up room for credit costs

- Net interest income was VND2,780 billion (–4% QoQ, +20% YoY) and estimated net profit margin (NIM) was hit by the impact of COVID-19 to fall to 4.95% vs 4Q19's 5.29% as the bank lowered lending rates to support customers. Net fees & commissions slowed down and reached VND142 billion (–10% QoQ, –1% YoY). Other non-interest activities, except for trading of investment securities, also faced same position – downward vs 1Q. Operating expenses were thoroughly cut, improving immensely cost-to-income ratio (CIR), down to 35.6% vs 2Q19's 47.8% and 1Q20's 51.0%, making 2Q's bottom line above 1Q's despite almost same level of total operating income (TOI) of around VND3,195 billion. Number of employees only decreased by 428 people from 1Q's or down 3% QoQ but staff costs decreased by 47% QoQ. This cost-cutting action mainly from wage and allowance cuts did create room to boost credit costs given the risk of accelerating bad debts post COVID-19, to VND408 billion (+ 40% YoY).

HD Saison – confronting profitability concerns

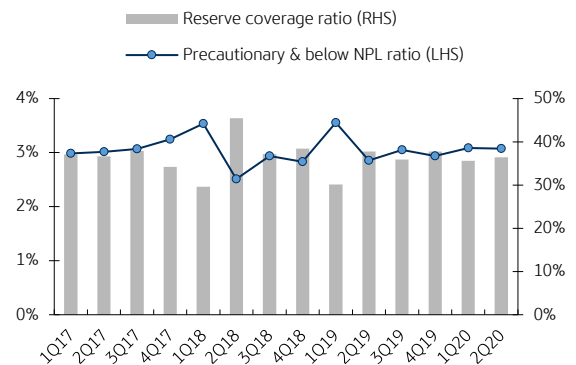
— HD Saison's 2Q pretax profit of VND559 billion or up 17.7% YoY. COVID-19's casted impact on consumer finance sector and pushed HD Saison's substandard & below non-performing loans ratio to 6.2% from 4Q19's 5.4%. However, net profit margin (NIM) still maintained to move sideways from the end of 2019, 26.4%. Return on assets (ROA) and return on equity (ROE) have been going down from 2018 and ended to 5.9% and 28.4% in Q2, respectively (vs 4Q19's 6.2% and 32.2%, respectively). By the end of June 2020, HD Saison had 18,025 points of sales (vs 17,101 points at the end of 2019).

Fig 1. HDB – Loan to customers & total credit growth, 1Q15-2Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. HDB – Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q15-2Q20 (%)



Source: Company reports & KB Securities Vietnam

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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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