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HDBank (HDB)

Analyst Meeting Update

Consolidated business results for 3Q22 maintained positive growth YoY

- In 3Q22, interest income and other similar income was up 2.6% QoQ and 28.1% YoY to VND8,287 billion. Interest expense just advanced 7.8% QoQ to VND3,802 billion.
- Net interest income (NII) inched down 1.5% QoQ to VND 4,484 billion due to rising interest expense. However, compared to the same period last year, interest income and other similar income increased at a higher rate than that of expense, helping NII to jump by 35.6%YoY.
- Net fee and commission income was VND639 billion (-17.0% QoQ and +110.8% YoY). In terms of bancassurance, HDB is ranked sixth regarding APE (Annual Premium Equivalent), reaching VND465 billion in 9M22.
- Foreign currency and gold dealings brought in VND96.5 billion (+20.1%QoQ and 4.7x YoY).
- Trading securities continued to record a loss of VND8.8 billion.
- Investment securities lost about VND11.5 billion due to high transaction fees. Net other income posted VND140 billion (+35% QoQ and +431.1% YoY).
- Total operating income (TOI) touched VND5,394 billion (-3.4% QoQ and +45.6% YoY).
- CIR (cost income ratio) stayed at 37% in 3Q22.
- HDB set aside about VND680 billion (-11.8% QoQ and +68.8% YoY).
- 3Q22 PBT reached VND2,712 billion (-2.3% QoQ and +43.4% YoY) thanks to stable sources of revenue.
- 9M22 PBT reached VND8,016 billion (+31.7% YoY).

HDB enjoyed positive credit growth despite difficulty in capital mobilization

- By the end of the third quarter, consolidated credit growth reached 18% YTD, still within the assigned limit of 24.4%. Specifically, the outstanding value of corporate bonds shrank 46.6% YTD, while customer loans gained 28.7% YTD.
- Retail loans (individuals + SMEs) accounted for 97% of outstanding loans.
- Average earnings yield improved by 0.09 percentage points thanks to higher interbank rates and interest on securities. Lending rates are assessed to be relatively stable over time, ranging from 10.5-11.5%.
- Total capital mobilization reached VND350 trillion, up 5.07% YoY vs. an increase of 8% YoY in 3Q21 due to liquidity shortages of the entire banking system.
- Deposit structure: Individuals 59%, SMEs 28%, and WB 13%.
- The average earnings rate in the third quarter only increased by 0.24 percentage points QoQ, far below the 1-1.5% YTD interest rate band that the bank has increased in 9M22.
- NIM (net interest margin) inched down 0.15 percentage points QoQ to 5%.

Financial indicators

- NPL ratio of the parent bank was 1.1%, and consolidated NPL ratio was 1.5%.
- Consolidated credit cost was 0.28%, down slightly by 0.04 percentage points QoQ.
- LDR (loan-to-deposit ratio) in 3Q22 reached 71.4%, still lower than the 85% level assigned by the State Bank of Vietnam (SBV).
- The ratio of short-term capital for medium and long-term loans was 14%, much lower than the 30% limit for the 2022–2023 period.
- LLCR (the loan loss coverage ratio) was flat YoY and contracted by 12 percentage points QoQ to 81%.
- CAR (capital adequacy ratio) under Basel II was over 15%, and HDB is prepared to adopt Basel III standards.

Targets for the 2021–2025 period

- Annual credit growth averages 25%.
- NIM is 4.5%, and cost of funds should range from 4.5–4.6%.
- Consolidated NPL ratio is less than 2%.
- Revenue growth reaches 25%/annum.
- PBT hits VND12 trillion in 2023 and VND20 trillion by 2025.
- HDB aims to achieve 95% digital transformation for internal processes by cooperating with Boston Consulting Group.
- HDB has not signed an exclusive distribution contract with any insurance company. Therefore, if there is any agreement in the future, the bank will receive upfront fees, technology transfers, and training from partners.

HDSaison maintains its competitive position

- HDSaison currently provides consumer financial services to about 14 million consumers.
- By the end of 3Q22, the outstanding loans touched VND16,660 billion, up 35.4% YoY.
- Motorbike loans accounted for 25.7% of the outstanding loans (+29.8% YoY), electronics loans 26.4% (+35.7%YoY), and direct disbursement 47.7% (+16.6% YoY).
- HDSaison’s market share of motorbike loans represented 40%, FE Credit 25%, and Home Credit 15%.
- 9M22 TOI was VND3,466 billion (+18 YoY).
- 9M22 PBT was VND994 billion (+28% YoY).
- 9M22 NIM was 29.4%, while the cost of funds was around 5.8%.
- NPL ratio at the end of 3Q22 was 7.4% (vs. 7.3% for 2021), and the bank targets to keep this ratio well below 7%.

Q&A

- **HDB’s solution for rising deposit rates?** HDB has actively increased non-interest income (NOII) to limit the impact of rising deposit rates. The BOD believes the current trend of interest rate hikes will not dramatically affect the bank's operations.
- **Expected cost of funds and earnings yield?** The BOD expects NIM for the whole year of 2022 to be equal or above 4.8% for the following reasons: (1) The loan portfolio has a floating interest rate that moves up and down with the rest of the market and is adjusted for the deposit rate and (2) There is still room for the bank to control the cost of funds thanks to stable capital mobilization with low interest rates on short-term deposits and low LDR.

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- **Outstanding loans of real estate and NPL ratio of this group?** As of September 30, 2022, the outstanding value of real estate accounted for about 8% of the total outstanding loans, with the NPL ratio of this group being 0.03%. The Bank appraises loans based on the feasibility of the business plan in the short term and the future cash flow of property projects. In addition, HDB mainly lends to projects with high penetration, ensuring the debt repayment capacity of real estate developers.
 - **HDSaison's market share?** Motorbike loans and home appliances loans of HDSaison are mainly to existing customers with creditworthiness. HDSaison is ranked second in this segment and may ascend to the No. 1 position.
 - **Size of corporate bonds of the bank?** By the end of 3Q22, HDB held about VND5,400 billion of corporate bonds (accounting for 2.2% of total outstanding loans and 1% of total assets). Those are secured bonds, and HDB will receive interest from the issuers. The bond issuers must go through the same appraisal stages as borrowers, thus ensuring the quality of the bond portfolio.
 - **HDB's plan on selling stake to a foreign financial institution?** HDB has received much attention from major financial institutions in the world. The BOD is now considering the plan to sell stake to a foreign organization and will give updates on the final decision later. It is expected that there will be positive news about the deal in 2023.s

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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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