

## SAIGON HANOI COMMERCIAL JOINT STOCK BANK (SHB)

**Tran Thi Thanh Thao**  
Email: [Thao.TranThiThanh@tls.vn](mailto:Thao.TranThiThanh@tls.vn)

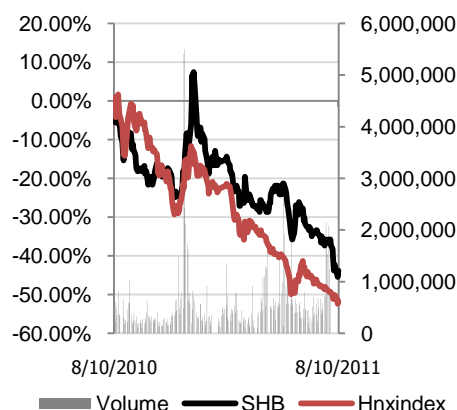
Ticker: **SHB** - Exchange: **HNX**  
Recommend: **HOLD**  
Target price 2011: **7,000 – 8,000 VND**

### STATISTICS

Price on 16/08/2011	6,800VND
Industry: Finance & Banking	
Listed since	04/02/2009
Outstanding shares	481,083,400
Floating shares	245,111,992
Market cap (billion VND)	3,367
52 week high (VND)	15,100
52 week low (VND)	6,600
10 day average volume	1,176,840
% price change 1 month	-14.63
% price change 3 month	-30.69
% price change 6 month	-38.05
% price change 12 month	-51.05
% foreign ownership	0%
% foreign ownership limit	30%
Beta (6M)	0.86

Source: TLS

### Accumulated return of SHB & HNXIndex in 12 months



Source: TLS

### FINANCIAL STATISTIC (BIL VND)

	2010	2011E	2012E
Assets	51,033	67,039	84,659
Equity	4,183	5,408	5,408
NII	1,216	1,640	2,063
EAT	494.3	612.4	782.7
EPS (VND)	1,377	1,272	1,626
P/E (x)	6.3	6.0	5.3
P/B (x)	0.8	0.7	0.8
NPL ratio	1.4%	2.0%	2.0%
Loans/Assets	48%	44%	45%
Earn.assets/total assets	88.4%	87.4%	87.7%
Dep. Growth	75%	36%	34%
Loan Growth	90%	20%	31%
NIM	3.5%	3.2%	3.1%
ROA	1.26%	1.04%	1.03%
ROE	17.55%	14.57%	16.26%

Source: SHB, TLS

Saigon - Hanoi Commercial Bank originated from a regional bank, servicing loans for agriculture. Since 2006, SHB was changed to an urban joint stock commercial bank. In 2010, EBT reached VND 656.7 billion, increased by 58.2% over 2009 and exceeded 1% of the plan. EPS stood at VND 1,377. With conservative assumptions, we forecast that SHB's EAT will reach 612 billion in 2011. SHB's chartered capital rose to 4,815 billion, EPS may reach VND 1,272. Combining two methods of valuation P/E and P/B at ratio 50:50, we forecast SHB stock price in 2011 would be about VND 7,000 - 8,000, higher than the current price at VND 7,000. Therefore, we recommend investors to **HOLD** this stock.

### BUSINESS PROFILE

After being an urban banking, SHB kept developing rapidly and experienced high profit growth. SHB's main services include mobilization, lending, joint ventures, payment services, foreign currency trading, underwriting and card services. At the end of 2010, SHB achieved 494.4 billion in EAT and 1,486 billion in total operating income. Interest income accounted for 81% of total earnings. In the end of Q2 2011, SHB's chartered capital reached 4,815 billion. EAT stood at 410.8 billion, which accounted for 39% of target.

### UPDATE

- **Business results in 2010 and H1 2011:** In 2010, SHB's EBT reached VND 656.7 billion, in which net interest income (NII) accounted for 81.8% of total operating income. In Q2 2011, SHB performed well with 309.7 billion in EAT, completing nearly 40% of the target. NII in H1 2011 increased by 74% on yoy basis, staying at 799.5 billion. In the end of Q2, loans to customer achieved 26,596 billion, climbing 46% over the same period last year and 9% compared to the end of 2010. NII accounted for 88% of total income. Others accounted for less than 1% of SHB's earnings.
- **Increasing chartered capital in June 2011:** SHB's convertible bonds issued in 2010 were used to raise chartered capital from 3,590 billion to 4,815 billion on 10/04/2011. Shares were listed in June.
- **The SBV allowed SHB to establish a branch in Cambodia on 25 May 2011.**
- **SHB and Northern EVN signed an agreement to involve in each other's services.**

### INVESTMENT HIGHLIGHT

- **Strategic shareholders include large industrial and financial groups:** Vinacomin, Vietnam Rubber Group and T&T are long term partners, bringing SHB largely stable customer sources and huge investment opportunities.
- **Sharp growth rate of total assets year by year:** From 2006 to 2010, total assets of SHB achieved outstanding growth at 60% on average.
- **Effective use of equity, high ROE and safe CAR:** With rapid assets growth, ROE remained relatively high and stable, climbing from 9.7% in 2008 to 15.8% in 2009 and reached 17.6% in 2010. CAR exceeded required level of SBV and international standards.
- **Expanding network:** in 2010, SHB had 116 offices across the country. In 2011, SHB tends to raise the total number of offices up to 219 points with 15 new branches in big cities, a new branch in Cambodia and 88 new offices.

### VALUATION

Based on forecast of SHB business result in 2011 and performance of the bank in 2010, we used PE PB model and forecast that the stock price SHB in the end 2011 would be about VND 7,000 - 8,000. Comparing to current price at 6,800 VND per share, we recommend investors to **HOLD** this stock.

### RISKS

- **Risk of macroeconomic policies:** the tightened monetary policy from SBV will restrain net interest income for commercial banks including SHB.
- **Fierce competition among commercial banks: is proven by** breaking cap of deposit interest rates among banks since the beginning of 2011.
- **Liquidity risk:** unpredictable interest rates results in imbalance of deposits from customers in terms of maturity. The gap between short and long term mobilized funds may pose liquidity risk to medium-sized and small banks.
- **Credit risk:** NPL ratio of SHB in 2009 was 2.79%, the highest among listed banks. NPL in 2010 stood at 1.4%, being high in compared with other commercial banks.

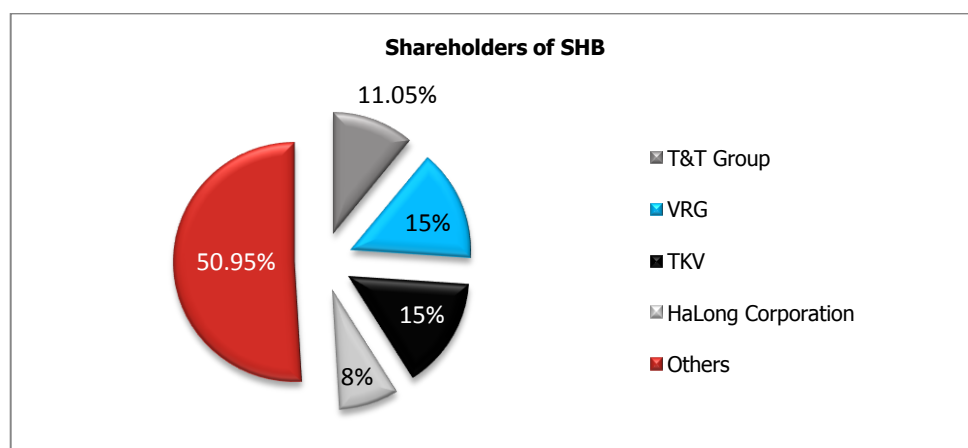
## FINANCIAL HIGHLIGHT

Unit: Billion VND

BALANCE SHEET	2010	2011E	2012E	2013E		INCOME STATEMENT	2010	2011E	2012E	2013E
Cash & equivalents	202	501	452	433		Interest income	3736.8	4882.1	6160.6	7684.0
Balance with SBV	505	872	934	1,093		Interest expenses	(2520.7)	(3242.3)	(4097.8)	(5194.3)
Deposit of Banks	11,637	16,425	19,472	23,802		NII	1216.2	1639.8	2062.8	2489.7
Trading Security	99	141	192	250		Service fee income	126.6	177.3	248.2	347.5
Derivatives	-	1,354	3,488	3,745		Service charge	(20.2)	(22.6)	(25.3)	(28.4)
Loans to customers	24,376	29,284	38,306	48,583		Net Service Inc	106.5	154.7	222.9	319.2
Provision for credit losses	(273)	(351)	(460)	(583)		Net FX gain	53.1	55.8	58.6	61.5
Inv securities & Cap contribution	8,768	12,238	15,779	19,432		Net gain securities	9.5	10.0	10.5	11.0
Property and equipment	333	413	496	595		Investment income	56.7	62.4	81.1	105.4
Other long-term assets	1,526	2,111	2,730	3,530		Other income	52.0	104.1	208.1	416.2
Real estate	-	-	-	-		Income from JV	7.1	7.3	7.5	7.7
Other assets	3,860	5,404	6,755	8,646		Admin & GE	(679.6)	(1019.4)	(1325.2)	(1722.7)
Total Assets	51,033	67,039	84,659	105,787		Profit (pre-provision)	806.6	992.2	1292.6	1637.6
Liabilities and payable to SBV	904	922	940	959		Provision	(149.8)	(175.7)	(249.0)	(291.5)
Deposits to banks	13,272	17,651	22,064	27,580		Profit before taxes	656.7	816.5	1043.7	1346.1
Customer deposits	25,634	34,862	46,715	60,729		Income tax expense	(162.4)	(204.1)	(260.9)	(336.5)
Derivatives	3	-	-	-		Profit after taxes	494.3	612.4	782.7	1009.6
Trust	380	495	643	836		Minority Profit	0.0	0.0	0.0	0.0
Debt securities issued	5,745	6,607	7,598	8,738		Net profit	494.3	612.4	782.7	1009.6
Other liabilities	912	1,095	1,292	1,537		Basic EPS	1,377	1,272	1,626	2,097
Total Liabilities	46,850	61,631	79,252	100,379		Dividend	12.5%	10%	14%	14%
Stockholders' equity	4,183	5,408	5,408	5,408		<b>Chỉ số</b>				
Chartered capital	3,590	4,815	4,815	4,815		CAR	13.81%	15%	15%	15%
Other Capital	-	-	-	-		NPL ratio	1.4%	2.0%	2.0%	2.0%
Reserves	169	169	169	169		Prov./loan	1.12%	1.20%	1.20%	1.20%
Retained earning	424	424	424	424		LLR/NPL	79.9%	60.0%	60.0%	60.0%
Minority interest	-	-	-	-		NPL/Equity	8%	11%	14%	18%
Total liabilities & equity	51,033	67,039	84,659	105,787		LDR	95%	84%	82%	80%
<b>Growth (%)</b>						Loan to Asset	47.8%	43.7%	45.2%	45.9%
Groth of Deposit	75%	36%	34%	30%		Inv securities/Assets	17.2%	18.3%	18.6%	18.4%
Growth of Loan	90%	20%	31%	27%		Deposit to total funding	55.8%	57.6%	59.9%	61.4%
Grth. Owners' equity	73.1%	29.3%	0.0%	0.0%		Deposit of banks/ Deposit to banks	87.68%	93.05%	88.25%	86.30%
Grth. Total assets	85.8%	31.4%	26.3%	25.0%		Equity/total asset	8.2%	8.1%	6.4%	5.1%
Grth of Interest income	124.8%	30.6%	26.2%	24.7%		Earning asset/total asset	88.4%	87.4%	87.7%	87.5%
Grth of Service inc	62%	40%	40%	40%		NIM	3.5%	3.2%	3.1%	3.0%
Grth of GE	99.8%	50.0%	30.0%	30.0%		NII/Total income	81.02%	80.62%	77.80%	73.00%
Grth of net income	55.3%	23.9%	27.8%	29.0%		GE to total Income ratio	-45%	-50%	-50%	-51%
Branch	116	151	196	255		Provision charge/loan	-1%	-1%	-1%	-1%
Staff	2038	2548	3184	3980		Net PM	13%	12%	12%	12%
<b>Valuation</b>						ROAA	1.26%	1.04%	1.03%	1.06%
PE	6.3	6.0	5.3	4.7		ROEA	17.55%	14.57%	16.26%	20.97%

## INVESTMENT HIGHLIGHT

### STRATEGIC SHAREHOLDERS



Source: SHB

SHB has been supported strongly by strategic partners including large industrial & financial groups in Vietnam. Vinacomin and Vietnam Rubber Group (VRG) are the two largest shareholders of SHB, owning 15% each. TKV includes a parent company, 20 dependent units, 68 subsidiaries and 12 joint venture companies.

TKV and VRG co-operated with SHB since 2007. From that, TKV's and VRG's transactions, payment and funds were carried out via SHB system. VRG and TKV prioritized SHB's products and services, helping the bank to attract a stable and extensive customer network. SHB acts as an important party to support VRG and TKV with financial resources both domestically and internationally. SHB and those groups also co-financed major projects, established joint stock companies such as securities companies, insurance companies, fund management companies, financial leasing companies. In addition, SHB is entitled to buy preference shares of VRG, TKV to obtain long-term benefits. SHB also has long-term partnership with T & T Group. The long-term cooperation built a solid base to support and promote the development of each party.

SHB has funded two major projects in Middle Vietnam with total value of over VND 1,500 billion such as the project "500 KW line-Hiep Hoa Quang Ninh" valued VND 830 billion, Indoor Stadium in Da Nang City worth VND 500 billion. Moreover, SHB provided \$ 15 million for golf project of Vinacapital in Danang. Thanks to the these partners, SHB attracted a large number of customers who contributed to SHB's income growth over the years, while continuing to promote SHB's image on the market

Last but not least, SHB also provides products and services to staffs of TKV and VRG especially cards service to companies paying salaries via personal bank accounts.

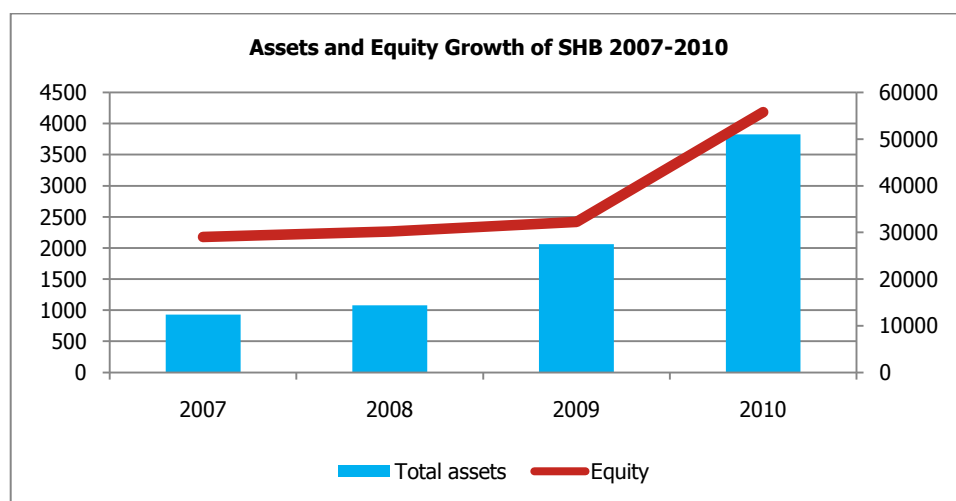
### SHARP GROWTH RATE OF TOTAL ASSETS

SHB originated from a small-scale rural bank in Can Tho with initial chartered capital of 400 million. Since 2006, after turning to an urban bank, SHB had a chance to expand business network and to increase competition ability.

From 2006 to 2010, SHB total assets experienced an outstanding growth rate. In 2007, total assets surged by 8.36 times compared to 2006 from VND1,322 billion to VND12,367

billion. In the following years, the asset growth was 16.3% in 2008, 91% in 2009 and 85.8% in 2010. From 2007 to 2010, average asset size rose by 60% times. This is because SHB dramatically boosted customer deposits (up to 75% in 2010) and deposits of credit institutions (33.5% in 2010). This suggests that SHB applied a flexible interest rate policy to attract customers as well as promoted successfully bank's image and reputation.

SHB's equity also enlarged comparatively, especially in 2007 when chartered capital enhanced from 500 billion to 2,000 billion via public offering. The bank increased its chartered capital to 3,500 billion in 2010 to satisfy SBV requirement but it still has targets of 5,000 billion and 10,000 billion for the coming years. In May 2011, SHB converted 88% bonds issued in 2010 into shares successfully. Thus, the present capital of SHB was lifted from 3497.52 billion to 4815.8 billion, up 37.69% respectively.



Source: SHB

SHB (bil VND)	2007	YOY	2008	YOY	2009	YOY	2010	YOY	Average
<b>Total assets</b>	12,367	836%	14,381	16%	27,469	91%	51,033	85.78%	60%
<b>Equity</b>	2,178	326%	2,267	4%	2,417	7%	4,183	73%	24.3%

Source: SHB

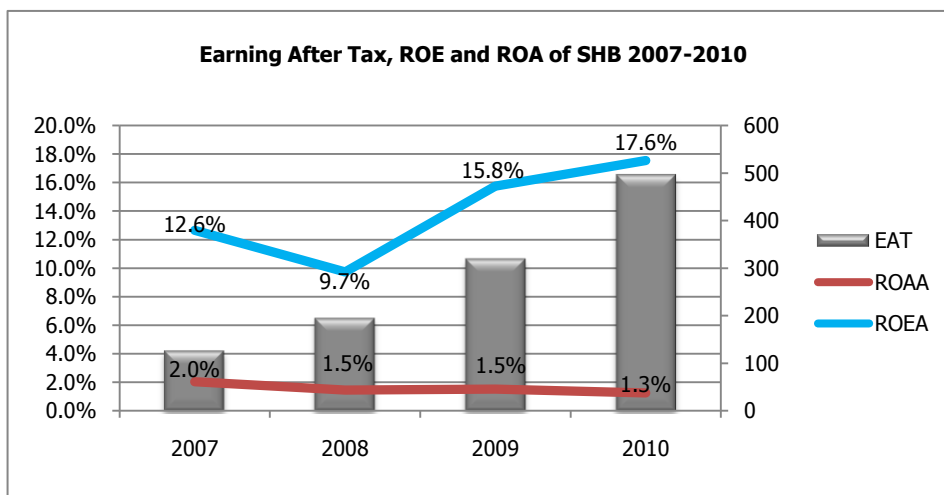
### EFFICIENT USE OF EQUITY WITH HIGH ROE AND SAFE CAR

Although SHB attained rapid assets and equity growth, business results also rose year over year, breaking the financial targets. Earning after tax in 2010 reached VND494 billion, increased by 55.3% compared to the same figure in 2009. Net income growth rate in 2009, 2008 compared to previous years were high, respectively reached 63.5% and 53.5%. In comparison with similar size banks, SHB profit growth rate was much higher than Habubank's (profit growth about 15-16%) in the past four years. ROE remained high and stable for a long period. ROE kept going up from 9.7% in 2008 to 15.8% in 2009 and reached 17.6% in 2010. Chartered capital grew relatively rapidly from 500 billion in 2006 to 3,590 billion in 2010 while ROE stood high suggests the efficiency in using capital.

Besides, CAR of SHB was far above the requirement (over 10% annually). Particularly in 2010, CAR achieved 13.81%, higher than the minimum level of SBV at 9%. This ratio also exceeded Basel II standard (12%) and the average CAR of Asia-Pacific commercial banks

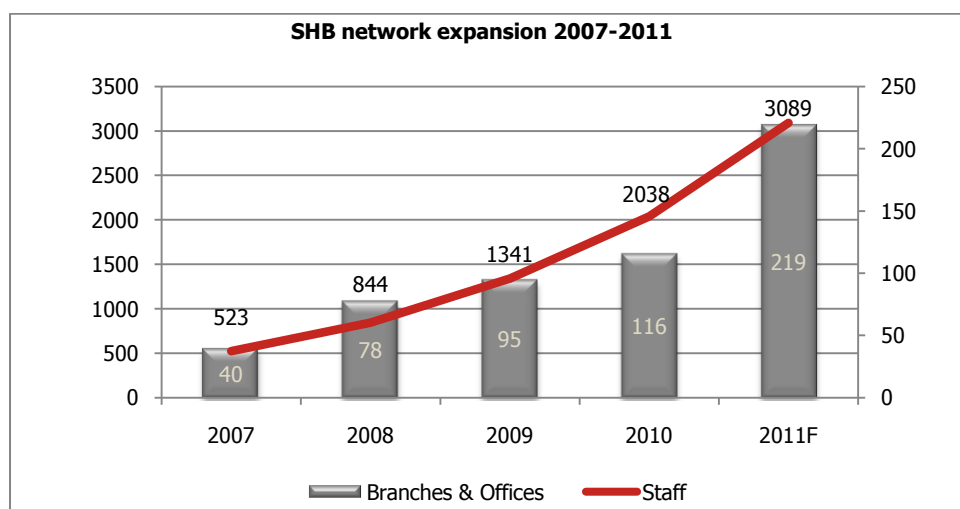
at 13.1%. This suggested that SHB's capital base is good enough to face with credit risk, market risk and operational risk. SHB actively maximized capital to create more profit for banks, while ensuring a reasonable CAR level.

However, the ROA decreased slightly from 2% in 2007 to 1.5% in 2008, 2009 and fell to 1.3% in 2010 meaning profit growth was slower than asset growth because of rapid credit expansion. Another reason was the increasing number of branches and transaction offices in areas where SHB's strategic partners are located.

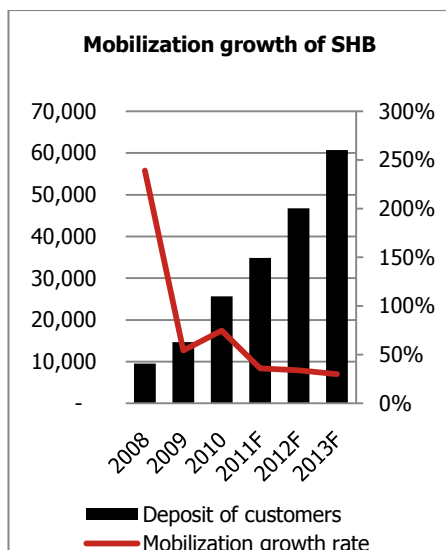


## EXPENDING NETWORK

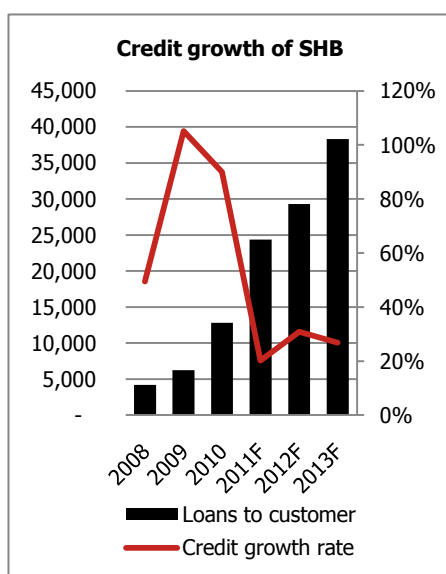
In order to become a financial and banking group with target in the retail market, SHB planned to expand business operations, purchased head office in Hanoi (2008), set up additional branches and offices in major cities based on selected criteria. Initially, branches and offices were located in developed cities like Hanoi, Ho Chi Minh City, Danang, Haiphong and Can Tho. Later, SHB deployed additional areas such as Da Lac, Dac Nong, Uong Bi, Lam Dong, Hon Gai and Cam Pha. These places were close to corporates and enterprises of Vinacomin, VRG, Ha Long group which are three main partners of SHB.



Source: SHB



Source: SHB



Source: SHB

On 31 Dec 2010, SHB possesses a head office, 18 branches and 97 offices in 16 cities and provinces across the country, increased by 21 points over last year. The bank plans to widen their network to 219 points which added 15 branches in major cities, one in Cambodia and other 88 offices. Staff is expected to reach 3089, increasing by 697 persons compared to previous years. SHB will gradually expand the scope of business activities outside Vietnam, to provide competitive products, banking services in the ASEAN market.

## VALUATION

SHB is considered as a rapid growth bank, increasing 60% in assets in four-year time, 50-60% per year in EAT on average. However, under tightened monetary policy, it is difficult to reach 47% in asset growth and 60% in EAT this year.

To value SHB, we predicted SHB's potential price assuming that credit, foreign exchange and gold market will be tightened. However, we still expect that macro environment will be more stable thanks to regulations and therefore banks' growth may be improved. We assume some financial criteria will increase by 20%. In subsequent years, the average growth rate will vary from 20% to 30%.

## KEY ASSUMPTIONS IN VALUATION MODEL

### Mobilizing growth

SHB mobilization from customers was relatively steady. In 2008, 2009, 2010, clients' deposits growth remained high at 239%, 54% and 75%, much higher than 27% of banking industry last year. This showed that SHB was successful in expanding network to enhance the mobilization from the population and economic organizations. In 2011, based on the assumptions of limiting money supply and other inflation control regulations, SHB's mobilization growth is assumed at 36% in 2011 and about 30 % in subsequent years.

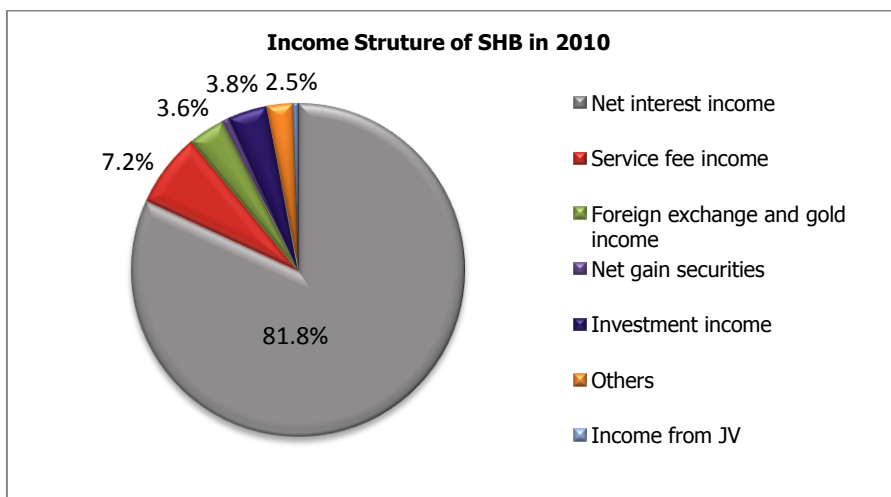
### Credit growth assumptions

According to resolution No. 11/NQ-CP on 24 Feb 2011, banking sector must reduce credit growth to below 20%, declined M2 to 15-16% (instead of 21-24% as State Bank announced late last year) to curve inflation. The banks will have to adjust credit target to ensure its conformity with the SBV regulations. Furthermore, in 2010, credit growth rate of SHB was 95%, nearly 2.5 times higher than the listed banks' average (38.1%). Therefore, based on previous data and the banks' plan, we assume that annual credit growth will be 20%.

### Service fee income growth

Service activities accounted for a low proportion in SHB total operating income in the last 3 years (7%). In 2010, non credit earnings reached 106.5 billion, going up by 77% over 2009. SHB services focused primarily on domestic and overseas settlement since being an urban bank. Service income played a minor role in SHB income. Considering the domestic economy and unstable global finance, the payment services, money transfer, bank guarantee, etc. may be affected. Thus, we believe that services income growth in 2011 will be lower than the previous year, assuming at 40%.





Source: SHB

### Securities investment forecast

In the last two years, SHB gained high profits from securities investment activities. Net income from investment securities reached 43.3 billion in 2009 and 56.6 billion last year, boosting 31% over previous year. This activity accounted for a small percentage of 3.8% in SHB total earnings, being affected by macroeconomic factors plus the volatility of the market and difficult to forecast. Therefore, we expect that this segment will increase slightly about 10% based on probability that macroeconomic situation will gradually become more stable.

### FOREX activities

Income from Forex only accounted for a small proportion (3%) of total earnings during 2007-2010. In 2010, forex profit was quite high at 51.3 billion. This is a great effort while there exist a big gap between black market and official exchange rate, so the bank met difficulties to attract foreign currency to sell to businesses. However, we expect that efficient regulations on foreign exchange market will keep forex rate stable and encourage SHB's forex income. Therefore, we cautiously forecast a 5% increase in this area.

### Business results

With the above assumptions, we forecast that SHB may reach 816 billion EBT (equal to 86% of the bank's target at 1,050 billion) and therefore EAT may reach 612 billion.

### EPS forecast

SHB already raised chartered capital from 3590 billion to 4,815 billion in May 2011 using convertible bonds issued to existing shareholders in 2010. Thus, adjusted EPS is approximately VND 1,272 and BVPS at the end of the year is determined at 10,879 dong.

We assess SHB stock price based on P/E and P/B methods with average data in the last four quarters. P/E of banking sector last year stood at 8.93. Because P/E of SHB is always lower than the industrial figures, we use P/E at 5.5 to estimate SHB stock price this year. With forecasted EPS at VND 1,272 per share, the price based on P/E method is nearly VND 7,000.

SHB's book value per share calculated in 2011 will be around 10,879 VND. P/B of SHB in last fourth quarter was 0.71 (lower than the banking sector's average at 1.52), so we apply the P/B at 0.75 this year to assess SHB price with an assumption that Vietnamese economy and the stocks market in general will be improved. Therefore, the SHB value based on P/B approach would be about VND 8,000.

### Valuation

Ticker	Outstanding Share	BVPS	PE	PB
VCB	1,758,754,000	12,063	11.92	2.60
CTG	1,517,229,000	11,508	10.29	2.18
EIB	1,056,007,000	13,998	7.97	1.04
ACB	937,669,500	12,137	8.45	1.86
STB	917,923,000	15,233	6.32	0.91
NVB	330,373,500	6,275	11.28	1.31
HBB	300,000,000	12,360	6.31	0.80
Average			<b>8.93</b>	<b>1.52</b>

### Source: TLS

Combining two methods of valuation, we predict that the stock price of SHB in 2011 may vary from **VND 7,000 to VND 8,000**. With the current price at VND 7,000, we recommend investors to HOLD the stock SHB.

## INVESTMENT RISKS

### MACROECONOMIC RISKS

To control CPI, SBV implemented a set of policies to tighten monetary and credit supply and restrained activities related to gold or foreign currencies. Therefore, most commercial banks, especially small and medium scale one encountered many difficulties in business operations. Resolution No. 11/NQ emphasized credit growth below 20%, means of payment about 15-16%. In particular, the commercial banks should focus credit on manufacturing sectors and restrict lending to non-productive areas such as securities, real estate. According to SBV schedule, by 30/06/2011, commercial banks must reduced lending for non-productive field to 22% of outstanding debt, or otherwise they will be fine by doubling required reserve ratio. Small banks with large proportion of loans in non-productive area are under high pressure because banks can not breaking 20% credit limit to reduce non-productive loan ratio. In March 2011, non productive loan ratio of SHB was 23% and until June, this rate was under 22%.

Besides, the SBV has adjusted key interest rates including the refinancing rate, rediscount rate and OMO rate up to 13-14 %. From 3 March, the SBV implemented a cap mobilization interest rate at 14% per annum. Any bank which breaks the rate will be fined. The regulation caused difficulties for banks in increasing deposit rates to attract capital from the population and economic organizations. Most banks try to break the rate to attract deposits and to keep their customers. Because borrowing interest rates were pushed higher unofficially to 19% per year, lending interest rates also increased to 24% or higher so enterprises must reduce borrowing. This not only affects net interest income but also increased the credit risk for banks.

More importantly, the provisions of Circular 13, 19 about safety rates will have tighter impacts on the operation of credit institutions in coming time. Therefore, banks are under pressure to meet the regulation and to ensure profit growth target set.



## FIERCE COMPETITION AMONG BANKS

The banking system grew up strongly both in scale and quantity. Since 1991, the number of banks went up from 9 to 43 banks (38 commercial joint stock banks, five commercial banks), two policy banks, 22 finance companies and five joint venture banks. The competition became fiercer while central bank is tightening monetary policy, restricting credit outstanding, raising the basic interest rates. As a result, commercial banks have many obstacles to reach their targets. A concrete example is the competition among banks to raise mobilization interest rates in Q1 2011.

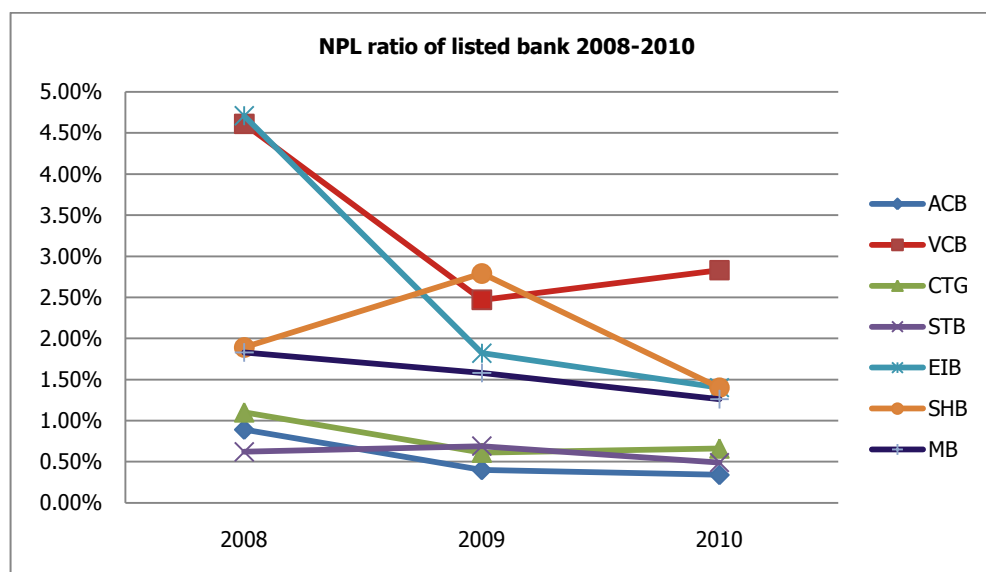
Besides, in global integration trend, Vietnam has made commitments to gradually open banking services, creates a fair competition environment. Competition becomes fiercer when the government aims to clear barriers to foreign commercial banks and removes the protection for domestic banks.

## LIQUIDITY RISK

Because of few differences among financial products, banks should primarily use the interest rate flexibility to raise capital to compete. Since late 2010, commercial banks consistently pushed up the interest rates as high as 17% per year. After being warned by SBV, this situation persisted till now despite the provisions of the ceiling 14%. Volatile and unpredicted rates resulted in high proportion in short-term capital in the total deposits of banks (80-90%). In 2010, SHB's deposit of customer reached VND25.633 trillion, in which short term fund accounted for 97.3% and long term fund accounted for 2.7%. Whereas, middle & long term credit accounted for 26% of total loans. Thus, SHB used most of short term fund allowed to finance long term loans. The gap between short and long term funds can pose liquidity risk to commercial banks, especially medium-sized banks and small ones. Suppose that deposit interest rate decreased, customers withdraw money at the same time and cause liquidity problem for banks. Further, as stipulated by the SBV, only a certain proportion of short term sources can be used to finance long term assets. But if it exceeds safe levels, it will lead to an imbalance in daily operations. Thus, short-term mobilization will limit long-term lending by banks and increase liquidity risk for banks.

## HIGH NPL RATIO

Although more diversified products have been offered to increase service fee income, in general credit is still the leading source of banks' income, especially the medium and small scale banks. Because SHB was transferred from rural to urban commercial banks five years ago, it was allowed to fulfill the business since 2008, mainly international settlement and foreign currency trading. Thus, in 2010 the credit accounted for 81.8% of total income, and 74.8% in 2009. SHB still depends heavily on income from credit. Loan to deposit ratio was 95%, higher than the industry average at 90%. This suggests that SHB has used most of raising funds for lending. At the same time, although the NPL ratio of SHB was improved, it was higher than other banks' (NPL in 2009 was 2.79%, the highest among listed banks). In 2010, NPL of the bank was 1.4% higher than Vietinbank (0.66%), ACB (0.34%), STB (0.49%). On one hand, this can be explained by large credit growth rate of SHB in recent years (up to 105% in 2009 and 90% 2010). On the other hand, the bank's loans are mainly based on collateral assets, while real estate market and commodity market were underdeveloped and volatile, so borrowers may have difficulties in paying debt and make bad loans for banks. Thus, SHB credit risks are pretty large so reserves go up and reduce profit of SHB.



Source: TLS

## BUSINESS MODEL

SHB was originally Nhon Ai bank, established in 1993 with registered capital of VND400 million. Initially, SHB network had only one office in Can Tho province with simple activities. Target clients were mainly farmers with loans for the purpose of agricultural production. Since 2006, SHB shifted from rural bank to an urban commercial joint stock banks which created favorable conditions for SHB to reach a new stage of development. Since then, SHB expanded operations, provided various products and diversified services to customers. After 4 years of conversion, SHB chartered capital achieved VND 3,500 billion with 116 branches and offices nationwide. In 2011, SHB chartered capital is expected to increase by nearly 4,815 billion due to convertible bond issued last year. In the next two years, SHB has no plans to raise capital to ensure effective use of new capital increased in 2011.

SHB's important target is to become a retail bank in top ten modern banks in Vietnam and to be a financial conglomerate providing diverse products and services such as financing, loans, joint venture capital, payment services, foreign currency trading, underwriting and card services.

In 2010, SHB continued to implement risk management policies and ensure acceptable CAR ratio. Currently, main activities of SHB still depend primarily on credit. However, SHB will restructure the income from mainly based on credit to non-credit sources in the future. By the end of 2010, total assets reached VND 51,032 billion, growing 85.78% over 2009 and reached 113.4% compared to the plan. Net profit before tax and after provision reached 656.7 billion. Income structure has begun to change to non-credit activities. Non-income ratio increased from 6.99% in 2009 to 7.16% in 2010. ROE (after tax) ratio reached 17.55%.

## MOBILIZATION

Market interest rates in 2010 fluctuated strongly and affected the mobilization of the banks. Particularly, high interest rates fell sharply in Q2 and Q3 and then increased sharply in Q4. Market witnessed a race of banks in mobilization. Competition among banks was

drastic based on customer services, competitive interest rates and the promotion or discount campaign. Many banks faced with mobilizing problem and therefore liquidity was reduced, but SHB with flexible interest rate policy still performed effectively.

SHB deposits of customers kept increasing because the bank expanded its branch network rapidly. The total mobilized fund on 31 Dec 210 reached 45,030 billion, climbing 82.7% over last year and being 111.2% higher than plan. SHB focused on market I to raise deposits. Savings products both in local currency and foreign currency are tailored to meet customer needs in each period. Diverse products and services for businesses were offered to satisfy needs of each industry. In 2010, deposit of organizations increased by 33.5% and customer deposits went up by 75% compared to this figure in 2009. Mobilization from population which was higher than sector's average at 27% reflects that the bank focused on promoting trade name and network expansion to attract customers.

Mobilization structure of SHB 2007-2010	2007	2008	2009	2010
Liabilities and payable to SBV	0.00%	0.0%	0.0%	2%
Deposits to banks	69.59%	18.4%	39.7%	28%
Customer deposits	27.52%	78.5%	58.6%	55%
Trust	0.51%	0.2%	0.1%	1%
Debt securities issued	0.00%	0.0%	0.0%	12%
Others	2.36%	2.9%	1.6%	2%

**Source: SHB**

SHB's deposit structure changed dynamically. In 2007, capital raised from local banks accounted for 71.28% in total liabilities while Deposits of customers took only 27.52%. Thus, great dependence on interbank market was not safe for the bank's operation. By 2008, funds from interbank market were controlled, accounted for only 18.4% of total liabilities. Deposits from individuals and economic organizations increased sharply to 78.5%. Customer deposits remained relatively high in 2009 and 2010 at 58.65% and 55%, twice as the capital raised from the interbank market. The adjustment of capital structure ensured that SHB has a stable source of fund for business development for current and coming years.

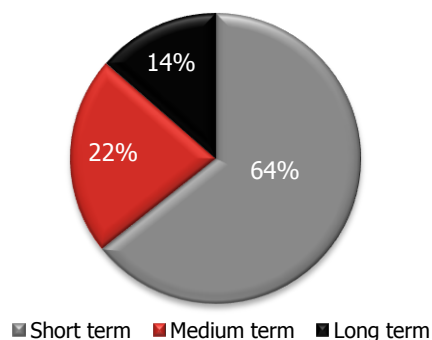
## CREDIT ACTIVITIES

Thanks to negotiated interest rate policy of the State Bank, SHB was proactive and flexible in both input and output interest rates so their credit was highly efficient. With strong ability to raise capital at reasonable rates, SHB developed a number of new borrowers, including state owned corporations and large private enterprises with high business results. Outstanding loans to customers and local economic organizations in 2010 reached 24,375 billion, accounted for 95% compared to 2009 (the highest among listed banks). SHB has maintained a very high credit growth in recent years, particularly in 2009 at 105%. Loans to customers accounted for 47.7% in total assets and brought basic source of income for banks. Credit activities in the period 2007-2010 growth were boosted after SHB signed a strategic partnership agreement with TKV and VRG in 2006. From that, SHB financed the short, medium and long term funds for companies and projects of these groups.

SHB's target customers are enterprises in stable production industry with high export volume such as: coal, rubber, construction, seafood, rice, agricultural products, steel, and automobiles. The bank gradually limits the lending business of real estate, securities under the requirement of SBV. SHB focuses on small and medium enterprises which

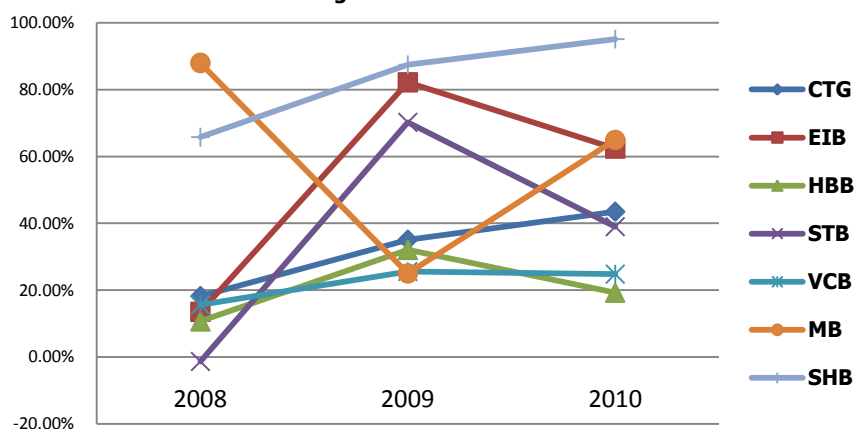
engaged in production and export to widen import-export loans, to get additional foreign currency and to promote international payments. Moreover, SHB also provides services to individual customers to become a successful modern retail bank.

Loans structure of SHB in 2010



Source: SHB

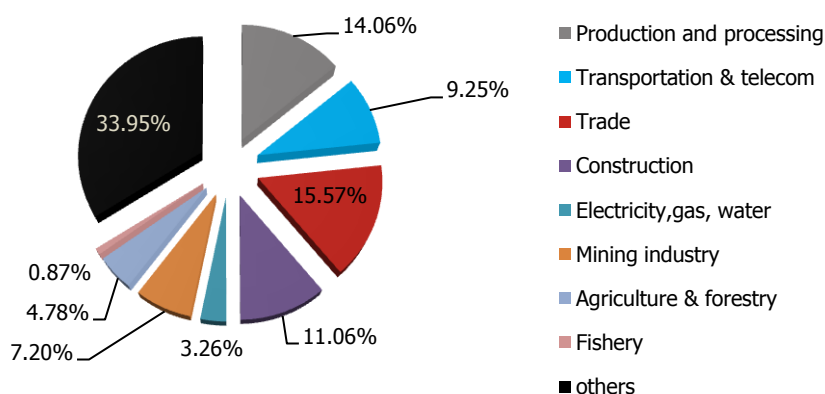
Credit growth rate of listed bank



Source: SHB, TLS

At SHB, short-term loans accounted for the largest proportion in total credit because the bank mobilized mostly short-term capital. In 2009, the proportion of short-term loans accounted for 58.9%, medium and long term ones accounted for 41.1%. The proportion of short-term debt tends to increase, particularly in 2010, it accounted for 64% of SHB, medium and long term loans accounted for 36%. In terms of economic sector, banks actively diversified loans in different industries to disperse and minimize credit risk. In 2010, loans were distributed mostly in commerc (15.57%), production and processing (14.06%), construction (11.06%), transport and telecommunications (9.25 %).

SHB loan structure in terms of industry in 2010



Source: SHB

## INVESTMENT ACTIVITIES

Investment played a significant role in SHB. Since 2008, SHB set up the Investment Division, focusing on areas such as: share trading, real estate projects, mineral projects, construction, etc. In the end of 2010, total amount of trading financial instruments worth 9,214.3 billion, increased by 4,051 billion (78.4%) compared to last year. In which, stock investment reached 8,767 billion (mainly in government debt securities, financial

institutions and other economic organizations bonds). Long-term joint venture capital valued at 333.4 billion. Therefore, securities investment earning reached 56.7 billion, over 31% compared to it was in 2009. Income from shares investment gained 7.1 billion, down 58% compared to 2009.

### FOREIGN CURRENCY TRADING ACTIVITIES

Since July 2008, the State Bank allowed SHB to provide more services including international settlement and dealing on global foreign exchange. SHB created diverse products and foreign exchange services including spot, forward, options, and swaps. Foreign currency trading activities primarily aimed at supporting international payments activities for domestic and foreign customers (usually importers and exporters). Forex trading concentrated on strong currencies such as: USD, EUR, JPY, GBP, AUD, etc. In 2010, forex trading revenue reached U.S. \$ 4.126 billion, equivalent to VND 78,114.3 billion. Net income from this activity in 2010 was 53.1 billion, increased by 1.2% over 2009 and accounted for 3.6% of total operating income. This is an attempt in 2010 because of the persistent difference between interest officials and unofficial forex rates so many commercial banks got loss in foreign currency.

### OTHER SERVICE ACTIVITIES

Total service fee income in 2010 reached 106.4 billion, going up by 77% over 2009 and accounted for 7.1% of total net income of SHB. The bank mainly provides payment services, guarantee and card services.

For domestic payment services, SHB performed 140,060 total transactions (increased by 124.2% from 2009), containing VND520,354 billion (increased by 243.7% compared to the same figure in 2009), USD 3243 million (up 124.2% from 2009) and EUR 93.5 billion.

International payment services grew very rapidly thanks to quick business process, accuracy via an international network of Interbank telecommunications. Total transactions in 2010 reached 4,040, especially international payments with USD 740.1 million, enhanced by 366.7 million compared to it was in 2009.

About card services, in 2010, SHB issued new debit card for the existing cardholders with new BIN to comply with requirement of SBV and New Core System. The number of cards issued until 31/12/2010 achieved 28,004 cards.

### JOINT VENTURE COMPANIES

No.	Company	% ownership
1	JSC Investment rubber development in Nghe An	0.4
2	Saigon-Hanoi Fund	10.4
3	Saigon-Hanoi securities	8.22
4	Phuoc Hoa Rubber JSC	0.62
5	An Viet Development JSC	2
6	SHB Vinacomin Insurance JSC	10
7	Lilama-SHB Investment & Construction JSC	11
8	SHB Danang Sport JSC	11
9	Gentraco Corporation	9.9
10	Nam Viet Finance Investment Company	1.25
11	An Thinh Real Estate JSC	10
12	Saigon Hanoi Asset Management Company	100
13	Gentraco Real estate investment Company	5

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Conflicts of interest might exist as ThangLong Securities ("TLS") and its clients might have stakes in the target firm through investments and/or advisory services in the past, at present or in the future.

## PRODUCT

This product covers the latest developments on the target firm. Details on the firm can be obtained by contacting our analyst(s) or the sales persons named above. We thank clients for comments and feedbacks on our product. TLS publishes this product, but all errors if any are the authors'.

Analyst's opinion: BUY – expected to gain more than 15% compared to the price on report issue date; SELL – expected to drop more than 15% compared to the price on report issue date; HOLD – expected to change between -15% to 15% compared to the price on report issue date.

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- A trusted provider of investment banking services for corporate clients.

## OFFICES

**Headquarter:** Level 6, Toserco Tower, 273 Kim Ma, Ba Dinh District, Hanoi. Phone: +84 4 37262600.

**HCMC Office:** Level 2, Petro Vietnam Tower, 1-5 Le Duan, District 1, Ho Chi Minh City. Phone: +84 8 39106411.

**Research Office:** Level 4, Vinaconex Tower, 34 Lang Ha, Dong Da District, Hanoi. Phone: +84 4 44568668. E: [research@tls.vn](mailto:research@tls.vn)

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