

Saigon Hanoi Commercial Joint Stock Bank (HNX – SHB)

April 24, 2015

AGM NOTE



On April 24, 2015, Saigon Hanoi Commercial Joint Stock Bank (HNX-SHB) held its annual general meeting in Ha Noi.

2014's Business Results

The bank has successfully exceeded most of its 2014 targets except for its earnings growth target and capital raising plan, which was canceled during the year. This plan was revised to be implemented in 2015. The details of operating results are listed below:

VND billion	2014	% Completed	2014 y-o-y growth	Key ratio	2014 Targets	2014
Total assets	169,036	100.62%	17.7%	CAR	10-12%	11.33%
Total Credits	104,096	102.80%	36.1%	NPL	<3%	2.02%
Total Mobilization	127,353	102.53%	17.8%	Dividend	9%	7%
Charter Capital	8,866	100%	0%			
Total operating income	3,257		37.5%			
Profit before tax	1,012	99.25%	1.23%			
Net Interest Income	2,726		29.6%			
Net Non-Interest income	531	264	101.1%			
EPS (VND)	892		-7%			

Credit and mobilization activities

- Credit grew by 36.1 percent y-o-y, reaching VND104,096 billion (USD4.85 billion). The bank's growth surpassed its annual target of 22.8 percent and industry result average of 14.6 percent by end of 2014. Capital mobilization surged by 17.8 percent y-o-y, lower than the industry average deposit growth of 19.37 percent.
- SHB focused on providing loans to low risk and prioritized industries such as agriculture, manufacturing and export. SHB also participated in prioritized credit packages of the SBV such as the VND30,000 billion housing credit package, credit package that links four parties (real-estate developers, constructors, suppliers, banks), rice storing lending package, high-tech agriculture lending, and disbursed capital for various key government projects in construction, infrastructure, oil and gas and energy.

Earnings Results

- For 2014, profit before provision expenses reached VND1,633 billion (USD76.1 million), more than triple y-o-y with net interest income 29.6 percent and non-interest income increased by two fold, while operating expenses decreased by 12.7 percent. Contrary to last year, when SHB had no provision expenses but provision reversal of VND493 billion (USD23 million), this year provision expenses reached VND620.6 billion (USD29 million). Consequently, SHB's profit before tax reached VND1,012 billion (USD47.2 million) slightly inching up by 1.23 percent and barely reaching the full year target. 2014 EPS reached VND892 versus 2013's EPS of VND959, decreasing seven percent.
- SHB Asset Management Company (SHBAMC) and SHB Securities (SHBS) have outperformed this year in comparison to FY2013. SHBAMC's PBT reached VND13.23 billion (USD0.6 million), recovered from last year net loss, while SHBS's PBT increased six fold over FY2013's result.

Asset Quality

- In 2014, SHB sold VND2,100 billion (USD97.9 million) of NPLs to VAMC, including VND1,200 billion (USD57.1 million) of Vinashin loans, recovered VND1,900 billion (USD88.5 million) through sales of collaterals, used VND1,101 billion (USD51.3 million) to write-off NPLs and set in addition of over VND2,612 billion (USD121.7 million) as provisions. As a result, total NPLs, the NPL ratio, and LLR all improved. By the end of 2014, the bank's NPL ratio was only 2.02 percent in comparison to last year's 4.06 percent.

2014's profit sharing plan

- During the AGM, SHB's BOD also sought shareholders' approval regarding its 2014's profit sharing plan. SHB plans to take VND15 billion (USD0.7 million) from the VND791 billion (USD36.9 million) net profit as bonus and welfare funds for SHB's employees. Consequently, the net profit for shareholders will be VND776 billion (USD36.2 million). Of the remaining profit, five percent will be allocated to capital the enhancement fund in Vietnam, 10 percent to the financial reserve fund, 10 percent for SHB Laos branch fund, VND4.7 billion for income tax at SHB Cambodia, VND20 billion for development and research fund, seven percent stock dividend and the remaining of VND22.4 billion (USD1 million) will be added to retained earnings.
- The fact that SHB paid a seven percent dividend rather than nine percent as announced in the 2014 AGM caused great disappointment among shareholders. To explain this, Mr. Nguyen Van Le, SHB's CEO, indicated that this was due to SHB's failure to raise 11 percent capital in 2014. Mr Nguyen Quang Hien added that with earnings results in 2014, SHB was able to pay shareholders an 8.5 percent cash dividend, however, the bank decided to retained earnings to strengthen its financial health.

FY2015 Business Targets

- **Credit growth** target for 2015 is initially set at 11 percent. However, at the AGM, shareholders challenged the BOD for setting such a conservative credit growth target in comparison to the bank's expected high deposit growth of 19.4%. Consequently, Mr. Nguyen Quang Hien, SHB's Chairman sought shareholders' approval promptly at the AGM and will later seek the SBV's approval for a minimum credit growth rate of 15 percent.
- **NPL ratio:** In order to keep NPLs below three percent as targeted, SHB will set aside an additional VND880 billion (USD41 million) of provisions. Regarding its plan to sell NPLs to VAMC, SHB did not disclose the total registered number, but did specify that the bank will continue to sell VND15.1 billion (USD0.7 million) of Vinashin loans to VAMC in 2015.
- **PBT:** For 2015, the bank targets pre-tax profit of VND1,120 billion (USD52.2 million), up 10.6 percent y-o-y.
- **Network:** SHB plans to open eight new branches and 35 points of transaction in 2015 to develop its retail banking.

VND billion	2015 Target	2015 Growth	Key ratios	2015 Target
Total assets	200,000	18.3%	CAR	>9%
Total credits	115,546	11%	NPL ratio	<3%
Total mobilizations	152,000	19.4%	ROE	1-1.2%
Charter Capital	10,486	18%	ROA	10-12%
Profit before tax	1,120	10.6%	Dividend	7.5%

- **Capital raising plan:** SHB revised its 2014 capital raising plan and set out the following plan for 2015. In total, SHB will increase charter capital by VND1,620.3 billion (USD70.9 million) to reach VND10,486 billion (USD466.6 million) in 2015 as follows:
 - o Issue VND620.3 billion (USD28.9 million), equivalent to a seven percent stock dividend to existing shareholders in Q2/2015.
 - o Issue VND1,000 billion (USD46.6 million) to carry out the stock swap to merge Vinaconex-Viettel (VVF). Stock swap ratio: 1:1, meaning for each VVF share, the shareholder will receive one SHB share. In total, SHB will issue an additional 100 million shares to existing shareholders at par value of VND10,000 per share then swapped for 100 million VVF shares.
- **Capital Allocation:** the additional capital raised will be used for the following activities:

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- VND110 billion (USD5.1 million) will be invested in fixed assets such as building new branches, and invested in technology, equipment, etc.
 - VND510 billion (USD23.8 million) to expand credit activities.
 - VND1,000 billion (USD46.6 million) to invest in SHB Consumer finance company.
- **Q1/2015 Business result:** By end of first quarter, credit growth reached 7.5 percent. According to the Chairman, by end of Q2/2015, SHB will accomplish its initial credit growth target of 11 percent. PBT reached VND219 billion (USD10.2 million).
 - **Foreign strategic shareholder:** SHB insisted the bank cannot rush in issuing to a foreign strategic shareholder as they are no silver bullet and that SHB can only do so once it finds the perfect match. Therefore, we do not expect this to be realized in 2015.

Vinaconex-Viettel (VVF) to be merged with SHB

- A number of shareholders questioned the financial health of VVF and the benefits of the merger as VVF had a decent legacy of non-performing assets. Mr. Nguyen Quang Hien, however, insisted that VVF was among the best finance companies in the market at the moment. Earlier, Viettel has clear the company bad debt before it divested from VVF in order to earn higher net gain. In addition, Mr Hien also announced that many partners are interested in and fond of this new “daughter in law” of SHB. Hence, to calm shareholders’ concern, he confirmed that VVF is absolutely a profitable investment.

Today, the stock price did not change, closing at VND8,600, trading at P/E of 9.64x, P/B of 0.71x.

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