

BSC RESEARCH

Equity analyst

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We maintain BUY recommendation on MBB at target price of VND 16,600 per share (upside 9.2%). On July 6th 2016, MBB is traded VND 15,100 per share, equal to a P/E FW of 9,7x and P/B of 1,06x, which is relatively attractive compared to other banks (median of P/E and P/B are 15,13x and 1,09x, respectively). MBB is one of 2 banks which profit are expected to soar thanks to lower provision expenses and high growth credit. MBB is a favorite stock of foreign investor.

Credit is expected to rise in 2016 due to (1) low LDR of 66.83%; (2) strong CAR of 12.85% at the end of 2015; (3) promoting loans to private and SMEs.

Business result is expected to improve thanks to (1) lending promotion; (2) larger proportion of demand deposit which brings lower mobilizing interest; (3) provision expenses for credit losses is predicted to decrease from 2017. We note that NIM of MBB might lower because bonds with high interest rate have been gradually expiring.

Merger SDFC into MBB might increase provision expenses. Because credit size of SDFC is much smaller than of MBB and many debts of SDFC was sold to DATC, VAMC, charged adequate provision, this merger have insignificant impact on business result of MBB.

	2012	2013	2014	2015	2016
Size					
Charter capital (VND. Bil.)	10,000	11,595	11,594	16,000	17,127
Total assets (VND. Bil.)	175,61	180,38	200,48	221,042	240,509
Equity/ total assets	12,864	15,148	16,561	22,593	24,046
Growth (ytd)					
Asset growth	26.49%	2.72%	11.15%	10.25%	8.82%
Loan growth	26.14%	17.81%	14.62%	20.66%	20.00%
Customer deposit growth	31.49%	15.58%	23.16%	8.33%	8.38%
Loan/ customer deposit	63.25%	64.47%	60.00%	66.83%	74.00%
Asset quality					
NPL ratio	1.84%	2.45%	2.73%	1.61%	1.71%
NPL ratio (including NPL sold to VAMC)*	1.84%	2.45%	5.80%	4.78%	4.64%
Provision for credit of losses of loans/	1.76%	2.02%	2.45%	1.63%	1.91%
Provision for credit of losses of loans / NPLs	95.71%	82.48%	89.70%	101.37%	112.00%
Interest and fee received/ interest income	92.11%	97.43%	98.74%	104.79%	100%
Interest and fee receivable / /total loans	4.03%	3.78%	3.49%	2.36%	1.97%
Performance					
Operating income before provision	5,117	4,914	5,193	5,323	5,791
% yoy	56.64%	-3.96%	5.67%	2.50%	8.80%
Provision expenses (VND Bil.)	2,027	1,892	2,019	2,102	2,262
% Operating income before provision	39.62%	38.51%	38.88%	39.49%	39.06%
Net profit (VND Bil.)	2,306	2,276	2,476	2,496	2,823
% yoy	8.42%	-1.30%	8.79%	0.81%	13.10%
NIM (TTM)	4.78%	3.73%	3.83%	3.81%	3.75%
ROA (TTM)	1.47%	1.28%	1.30%	1.18%	1.22%
ROE (TTM)	20.49%	16.25%	15.62%	12.75%	12.10%
EPS (VND/share) (TTM)	-	-	2,073	1,902	1,561
Book value (VND/share)	12,864	13,065	14,284	14,121	14,057

Source: BSC research

1Q2016 business result improved because provision for credit losses expenses fell sharply, although its operating income decrease. Outstanding loans balance increased by 2.48% ytd, however, net interest income down 12% yoy to VND 1,768 billion. NIM fell sharply from 3.81% at the end of 2015 to 3.64% in accumulated 12 months to 1Q2016 because some high interest rate bonds have expired. 1Q2016 provision expenses was VND 239 billion (-69% yoy), only accounting for 21.34% of pre-provision operating income. Therefore, net income go up by 13.75% to VND 705 billion.

Expected credit growth. In 2015, lending increased by 21% to VND 121 trillion. MBB plans to get 2016 credit growth of 20%. This growth is expected to be high in 2016. (1) The lending to deposit rate (LDR) is low (of 68.49 % at the end of 1Q2016), much lower than the maximum ceiling set by the State Bank of Vietnam (80%). While, CTG, BIDV, SHB and EIB have exceeded the ceiling. Therefore, banks have room to boost loans. (2) High CAR of 12.85% at the end of 2015 ensure financial resource for the bank's operations and is a prerequisite for MBB to expand loans. (3) Promoting loans for potential customers as private and SMEs. Two segments accounted for 27.23% total loans of MBB, rise by 52% yoy and 8.3% ytd. We note that the numbers of MBB's branches (83 branches, 169 transaction offices, 1 representative office abroad) is lower than other commercial banks. This would be a disadvantages if bank want to accelerate in the retail banking sector.

Capital Adequacy Ratio (CAR) and Lending to deposit ratio (LDR) of listed banks

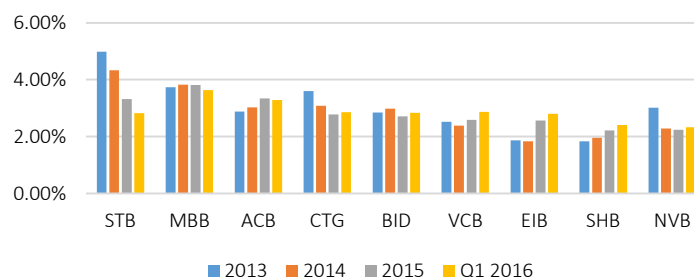
	MBB	VCB	CTG	BID	ACB	STB	SHB	EIB	NVB
CAR (2015)	12.85%	10.70%	10.60%	9.81%	12.80%	9.87*	11.40%	16.52%	11.08%
LDR (1Q2016)	68%	80%	110%	102%	80%	70%	89%	82%	56%

Source: VCB, CTG, BID, MBB ACB, STB, EIB, NVB

*: figures of 2014

NIM may reduce. From 2013, NIM of MBB is stronger than other listed banks. Large proportion of demand deposit to total deposit (about 31%) and some high interest bonds (at 7.95%-13.2%) which invested from 2012, maintain high NIIM for MBB. We note that NIM of MBB has started to decline from 2015 due to (1) these bonds are expiring; (2) mobilizing rate increase pressure while hardly increase in lending rate. BSC forecast that 2016 of MBB will drop to 3.75%. Thank to the high expected credit growth go along with soar in private and SMEs loans, which often bear higher interest rate, we expect net interest income of MBB go up by 11% in 2016 to VND 8,101 billion.

NIM of the list banks from 2013 to 1Q2016



Source: Financial Report of Banks, BSC research

Provision expenses is forecasted to decrease from 2017. As we have analyzed in [MBB reports](#), besides VCB, MBB is one of two banks have charged adequate provision.

(1) High ratio of interest received to interest income (110% in 1Q2016) shows the relative good quality of current loans. Loan portfolio concentrate in the retail and wholesale sectors (27.28%), the operation employed in households, producing material products, consumer service (19.58%), the processing and manufacturing sectors (15.87%). Loan proportion of real estate business and construction are less than other banks (13%). Investors should pay attention to changes in loan classification and credit loss provision of MBB in the next time because the category of medium and long-term loans up by 54%, accounting for 48% of the loan structure; and private and SME loans increase rapidly.

(2) Tight provision is proved by high ratio of provision for loans losses to NPLs of 108%. However, 2016 provision expenses may increase due to merger SDFC into MBB. This expense is expected to reach VND 2,262 billion (+8% yoy). Then, the expense is forecasted to decline to VND 1,900 billion in 2017.

Loans proportion of real estate business and construction of listed banks

Bank	Real estate	Construction	Growth in loan of real estate and construction sector (yoy)
NVB		38%	109%
SHB	7%	15%	23%
CTG	8%	11%	56%
BID	7%	11%	5%
STB*	13%	N/A	16%
MBB	9%	4%	17%
EIB	N/A	6%	-30%
ACB	2%	4%	22%
VCB	N/A	6%	30%

Source: BSC research

Merger SDFC into MBB. Till December 31st 2015, the total bad debts of SDFC is VND 25 billion, accounting for 24% of total loans. Total outstanding bonds held to maturity is VND 566 billion, including VND 120 billion of investment bonds which issued by Song Da Thang Long Joint Stock Company charged full provision, VND 431 billion of special bonds and VND 15 billion of DATC bonds. Receivable, interest and fee receivable of SDFC was VND 234 billion at the end of 2015, as twice as total loan outstanding balances and accounted for 30% of the total assets of SDFC. Relating to bad debts of SDFC, at 2015 extraordinary general meeting, which approved the merger SDFC into MBB, MBB submitted to SBV that (1) SDFC have to classify and charged full provisions for loans, bonds before the merger; (2) All bad debt of loans, bonds and receivables of SDFC will be monitored separately, not added to the bad debt of the MBB within 3 years from the merger. The merger were executed in February 2016, however MBB did not provide any information of the result of these recommendations. If SBV approved, the quality of loans and provision expenses of MBB will not be affected, at least in the first 3 years. If not, provision expenses of MBB will increase because (1) MBB have to charge provision for receivable, interest and fee receivable of SDFC at maximum of VND 234 billion; (2) charge provision of 20% per par value of special bonds, equivalent to provision expenses of VND 86 billion per year; (3) charge provision for loan losses. Because credit size of SDFC is much smaller than of MBB, this merge have insignificant impact on the business result of MBB. After the merger, MBB plans to establish consumer financial company owned 100% by MBB, then search for a strategic partners with the maximum percentage owned 49%.

2016 forecasted of business results. Loan outstanding balance are forecasted to grow 20% to VND 146 trillion, deposit from customer increase by 8% to VND 197 trillion, equal to LDR by 74%. Profit after tax is

forecasted to reach VND 2,823 billion, equivalent to 2016 EPS of VND 1,561 per share. In particular, we predict that net interest income will be VND 8101 billion, net interest income from operation will be VND 9572 billion (+ 9%), operating expenses will be VND 3.780 billion (equivalent CIR by 40%), increasing due to the merger. Provision expense is forecasted to be VND 2,262 billion.

Valuation. We use residual income method and the comparison method of P/E, P/B to evaluate MBB stock price.

- **Residual income:**

Cost of equity. Risk-Free Interest Rate is the bidding rate of 5- year government bonds (7.2%). The market rate is 11.75% according to DamonDaran. The five-year beta c Bloomberg is 0,88x. According to the CAPM method, expected cost of equity is 11.2%.

Cost of equity	
Beta	0.88
Risk-Free Interest Rate	7.20%
Market Interest Rate	11.75%
Cost of equity	11.20%

Source: BSC research

Firm value is VND 29 trillion.

The number of current outstanding shares is 1.6 million shares.

MBB price under this method is VND 18,057 per share.

- **P/E method.** We discount 20% from median P/E of 9 listed banks due to low liquidity of MBB.

Compared P/E is 12,1x

2016 EPS is VND 1,561 per share

MBB price under this method is VND 18 890 per share

- **P/B method.** We discount 20% from median P/B of 9 listed banks due to low liquidity of MBB.

Compared P/B is 0,87x

Book value is 14,350 VND/share

MBB price under this method is VND 12,531 per share

Combining 3 methods on the proportion of the residual income, P/E and P/B methods 50%, 20% and 30%, respectively, fair value for MBB is VND 16,600 per share.

Method	Price of share	Proportion
RI	18,057	50%
P/E	18,890	20%
P/B	12,531	30%
Valid price	16,566	

Source: BSC research

We maintain BUY recommendation on MBB at target price of VND 16,600 per share. MBB stock are currently traded at a P/E FW of 9,7x and P/B of 1,06x, relatively attractive compared to other banks (median of P/E and P/B are 15,13x and 1,09x, respectively). MBB is one of 2 banks which profit are expected to soar thanks to lower provision expenses and high growth credit. MBB is a favorite stock of foreign investor.

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