

Buy

Military Commercial Joint Stock Bank (MBB)

BSC

Recommendations

Target price	26,000
Closed price	22,650
Upside	15%

Market Statistic

Floating Shares (million shares)	1.815,5
Market Cap (VND Bil.)	41,030
52-week highest price	23,450
10-day average volume (shares)	3,526,576

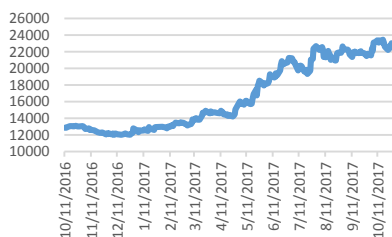
Shareholders (%)

Viettel	14.61%
SCIC	9.74%
TCT Trực thăng Việt Nam-CT TNHH	7.76%
CT TNHH MTV TCT Tân Cảng SG	7.45%
DC	7.01%
VCB	6.97%

Price movement

	1M	3M	1Y
MBB	5%	0%	73%
VN-Index	5%	7%	25%

Historical price



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Overview: MBB is one of 5 bank leaders in term of size and efficiency. At the end of 2016, MBB owns 1 headquarter, 268 transaction offices.

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Valuation

We maintain our recommendation which is **BUYING** MBB with a 12-month target price of VND 26,000 per share, 15% upside on the current price. On 03/11/2017, MBB was traded at VND 22,650 per share, equivalent to P/B and adjusted P/B respectively of 1.36x and 1.70x, which is relatively cheap compared to other listed banks.

Investment Highlights

- Credit rose strongly by 17% in 9M2017. SBV approve to open credit growth cap of MBB from 16% to 20% in 2017.
- EAT accelerated by 43% yoy to VND 3,192 billion in 9M2017 thanks to interest income and non-interest income up by 40% and 84% yoy, respectively. Comparing to listed banks, profitability is high, NIM reached 4.15%, ROA was 1.46% and ROE was 14.63%. BSC expects the business results continue to improve thanks to the expansion of its business operations, the development of Mcredit, and good asset quality.
- Good bad debt handling: Besides the good asset quality as mentioned in the previous reports, dealing and recovering bad debts are MBB's strength. Total provision for bad debts used in 9M2017 was VND 1,024 billion, while for the whole 2016 is VND 700 billion. Recovery of bad debt off-balance sheet reached VND 582 billion, while in the same period 2016 was VND 390 billion. Net value of VAMC bonds after deducting provision funds decreased sharply to VND 1,043 billion, comparing to the balance of VND 2,156 billion at the end of 2016.

Catalysts:

- Selling 49% of Mcredit Capital to Shinsei Bank
- Transferring of MBland

Investment Risks

- High competition, reducing MBB's growth prospects
- NPLs increased, especially after Mcredit went into operation

Company Update

Net profit increased 43% yoy to VND 3,192 billion, Business performance grew impressively in both of credit and non-interest income segments.

- **Loans rose by 16.92% in 9M2017.** This is the high growth rate comparing to other listed banks, only lower than VIB (20.22%) and LPB (+19% yoy). MBB has been approved by the SBV to increase credit growth from 16% to 20% in 2017.
- **Net interest income increased by 40% yoy to VND 7,973 billion.** As of the end of Q3/2017, MBB's NIM improved markedly to 4.07% from 3.57% in FY2016. This was one of the highest level among banks which announced Q3/2017 reports (lower than VPBank). NIM went up thanks to (1) the average lending rate increased to 8.71% in the third quarter of 2017, from 8.45%-8.67% in three previous quarters; (2) Average yield on investment bonds increased to 7.68% in Q3/2017 comparing to 6.49% -7.08% in three previous quarters. MBB is no longer affected by the high yield bonds that expired in 2016.
- **Service income and non-interest income up 84% yoy to VND 2,038 billion in 9M2017** thanks to boosting cross-selling products, insurances, and the expansion of customers through its affiliated network with Viettel. Separately, incomes from services segment increased by 126% to VND 1,036 billion.

High profitability. Comparing to listed banks (see appendix), MBB has a high and rising profitability ratio. NIM reached 4.15%, ROA and ROE were 1.46% and 14.63% respectively, while the CIR is low, reaching 40% of the accumulated 9M2017.

Good asset quality. Total bad debt by the end of Q3/2017 of the bank was VND 2,343 billion, up 18% yoy. MBB's bad debt ratio was 1.33%, and was 1.91% if including bad debt sold to VAMC (down from 2.71% at the end of 2016). Total doubtful assets under our estimation is VND 18,821 billion, equivalent to 66% of equity, much lower than that of listed banks. Even loan loss coverage ratio is still under bank control, the ratio deduction (from 103% in 2016 to 87% in this quarter), along with interest receivable rising (from VND 2,929 to VND 3,378 billion, equivalent to 1.92% of total booked loan) indicating that MBB should continue to pay attention to bad debt management and expand provision funds.

Actively dealing with bad debt. (1) The bank recorded VND 1,000 billion of bad debts as off balance sheet, using VND 1,024 billion from the provision funds, much higher than VND 770 billion for the whole year 2016. (2) Value of VAMC's bond after deducting provision dropped sharply from VND 3,405 billion to VND 1,971 billion (down by VND 1,434 billion); net value of VAMC bonds was VND 927 billion; Bank quickly set the provision for VAMC bonds. MBB expects that by mid-2018, MBB will completely provisioned VAMC bonds. (3) Recovering of off-balance sheet debt was VND 582 billion in 9M2017, up 49% yoy. We expect MBB's bad debt recovery will continue to accelerate in the near future, especially after Resolution 42 on bad debt settlement.

Expected business results continue to grow thanks to the improvement of each segments (credit, services, ect), and the contribution from Mcredit, especially after Shinsei join as a strategic shareholder. Mcredit is the consumer finance company, which has been operating officially since May 2017. BSC forecasts that FY2017 and FY2018 net profit will

come to VND 4,518 billion (+58% yoy) and VND 5,454 billion (+21% yoy), respectively, EPS of VND 2,394/share and VND 8,855/share (excluding bonus and welfare fund). Note, our forecast does not accounts the distribution from Mcredit, and earnings from divestments.

Appendix 01: Comparing MBB and listed bankst

3Q 2017	MBB	VCB	CTG	BID	ACB	STB	SHB	EIB	NVB	VIB	TCB	VPB
Scale												
Chartered capital (billion VND)	18,155	35,978	37,234	34,187	10,273	18,852	11,197	12,355	3,010	5,644	8,878	14,059
Equity (billion VND)	28,464	54,246	62,280	46,536	15,423	22,783	13,379	13,788	3,204	8,930	19,433	27,624
Total assets	291,943	898,484	1,062,292	1,125,909	270,265	363,488	264,300	138,343	63,807	116,574	233,502	253,847
Equity / Total Assets	9.75%	6.04%	5.86%	4.13%	5.71%	6.27%	5.06%	9.97%	5.02%	7.66%	8.32%	10.88%
Growth (ytd)												
Asset growth	13.93%	14.03%	11.97%	11.87%	15.66%	9.48%	12.97%	7.41%	-7.54%	11.54%	-0.79%	10.96%
Loan growth	16.92%	16.33%	15.28%	14.41%	12.90%	12.15%	18.08%	9.93%	12.79%	20.22%	-3.68%	15.90%
Deposit growth	8.61%	16.52%	10.68%	13.37%	13.03%	7.17%	15.97%	10.70%	7.58%	12.20%	-4.11%	3.22%
Demand deposits	26.43%	27.14%	14.34%	16.84%	14.22%	12.98%	8.72%	12.88%	7.19%	20.67%	0.00%	10.17%
Loans / deposits	83.30%	77.92%	105.26%	100.60%	78.83%	71.35%	99.25%	84.31%	63.60%	108.81%	82.59%	131.23%
Asset quality												
Bad debt ratio	1.33%	1.15%	1.21%	2.08%	1.04%	5.95%	1.92%	2.46%	2.37%	2.36%	1.93%	3.06%
Bad debt ratio includes debt sold to VAMC	2.06%	1.15%	2.05%	3.69%	1.51%	19.37%	5.19%	7.63%	21.32%	4.83%	1.93%	5.03%
Provision for bad debt/total outstanding	1.16%	1.90%	1.22%	1.75%	1.57%	1.13%	1.15%	1.02%	1.14%	1.18%	1.32%	1.51%
Loan loss coverage ratio	87%	165%	101%	84%	151%	19%	60%	41%	48%	50%	68%	50%
Interest income / interest (ytd)	97%	97%	98%	99%	100%	102%	92%	94%	112%	99%	87%	100%
Interest, fee receivable / loan	1.92%	1.26%	2.02%	1.22%	1.72%	1.93%	0.00%	1.32%	9.18%	1.43%	4.17%	2.54%
Doubtful assets	18,821	14,532	42,440	67,394	9,733	91,332	29,283	11,208	17,796	5,175	17,487	33,528
% Total Assets	6.45%	1.62%	4.00%	5.99%	3.60%	25.13%	11.08%	8.10%	27.89%	4.44%	7.49%	13.21%
% Equity	66.12%	26.79%	68.14%	144.82%	63.11%	400.87%	218.88%	81.29%	555.50%	57.95%	89.99%	121.37%
Business performance (ytd)												
% Interest income	79.64%	73.88%	83.20%	83.20%	76.07%	68.38%	40.28%	77.37%	89.74%	83.16%	61.23%	85.03%
Net profit before provision for credit loss (billion VND)	5,938	12,441	13,895	17,333	3,495	1,205	1,149	943	108	1,112	7,376	11,256
% yoy	51.62%	14.77%	21.22%	36.16%	93.45%	-1.81%	#DIV/0!	-16.18%	13.78%	17.24%	26.98%	58.41%
Provision for credit losses (VND billion)	(1,936)	(4,507)	(6,663)	(11,763)	(1,491)	(177)	(620)	(486)	(98)	(489)	(2,536)	(5,620)
% pre-provision profit	32.60%	36.22%	47.95%	67.86%	42.67%	14.65%	53.97%	51.56%	90.62%	43.95%	34.38%	49.93%
Net profit (Billion VND)	3,192	6,366	5,855	4,211	1,527	729	426	375	7	499	3,890	4,501
% yoy	41.15%	25.87%	12.97%	-8.86%	53.18%	58.83%	109.27%	135.88%	-2.81%	51.91%	69.87%	71.68%
NIM (TTM)	4.07%	2.62%	2.62%	2.93%	3.31%	1.77%	1.91%	2.16%	1.79%	2.91%	0.00%	8.76%
CIR (TTM)	24.19%	28.80%	26.02%	23.57%	36.91%	49.25%	35.42%	41.62%	57.58%	38.01%	30.13%	22.98%
ROA (TTM)	1.39%	0.98%	0.74%	0.54%	0.73%	0.20%	0.55%	0.39%	0.02%	0.66%	0.00%	2.48%
ROE (TTM)	13.78%	15.80%	12.26%	12.48%	12.59%	3.00%	10.17%	3.85%	0.40%	8.33%	0.00%	28.61%
EPS (VND/share)	2,081	2,261	2,008	1,685	1,882	380	1,253	427	44	1,303	5,713	4,207
Diluted EPS (TTM)	2,081	2,261	2,008	1,685	1,655	380	1,233	427	44	1,303	5,713	4,207
Booked value (VND/share)	15,871	15,034	16,652	12,801	13,338	12,085	13,119	11,159	10,643	15,821	21,889	19,649
Giá cp	23,300	38,500	19,950	22,400	25,800	12,700	8,100	13,000	7,900	22,600	N/A	40,300
P/E	11.20	17.03	9.93	13.30	13.71	33.46	6.46	30.44	181.38	17.35	N/A	9.58
P/B	1.47	2.56	1.20	1.75	1.93	1.05	0.62	1.16	0.74	1.43	N/A	2.05

Disclosure

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