

Business update report

MBB- Military Commercial Joint Stock Bank BSC

18/02/2019

Recommendation

BUY

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Target price	28,413
Closing price	22,100
Upside	28.6%

Le Quoc Trung (TA)

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Target price	22,000
Cut loss price	19,000

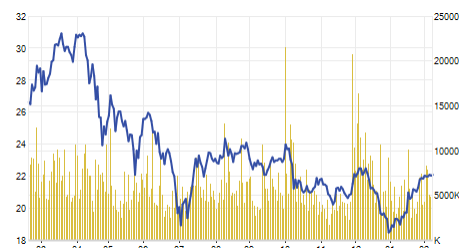
Market data

Number of shares (stock)	2,160
Capitalization (billion VND)	47,638
Highest price 52 weeks	32,300
The average trading volume of 10 sessions (shares)	5,488,811
Foreign ownership	20%

Major shareholders (%)

Viettel	12.28%
SCIC	8.19%
TCT Trực thăng VN-CT TNHH	6.52%
CT TNHH MTV TCT Tân Cảng Sài Gòn	6.26%
VCB	4.98%

Price movements



Company overview: MBB is in the top 5 Vietnamese commercial banks in terms of scale and operational efficiency.

UPDATE 2018 BUSINESS RESULT

Valuation

We recommend to BUY with MBB shares with a target price of VND 28,413 / share, upside 28.6% by valuation method $P / B = 1.5x$. MBB is our favorite stock with high NIM advantage and good asset quality.

Forecast of business results 2019.

BSC forecasts that MBB will record TOI and PBT at VND 23,057 billion (18% yoy) and VND 9,538 billion (+ 22.8% yoy) with the assumption (1) Parent bank credit growth reached 14%, MB Shinsei credit growth + 100% yoy, (2) NIM reached 4.61% yoy in 2019 due to continuing to take advantage of low-cost sources and shifting trend to retail lending, (3) NPL = 1.35%, the rate of bad debt reached 115% , (4) LDR = 80%.

Investment Risk

Bad debt increased due to disbursement pressure and operation of Mcredit.

Business update (Refer to page 2 for details)

2018 business results. In 2018, MBB recorded TOI and PBT at VND 19,539 billion (+ 40.9% yoy) and VND 7,767 billion (+ 68.3% yoy).

TOI increased strongly, + 68.3% yoy due to strong growth from (1) Net interest income + 30% yoy, (2) Non-interest income (NII) + 87% yoy and currently accounts for about 25% of TOI

Operating expenses + 45.6% yoy, CIR increased, reached 44.7% (same period 43.3%) due to (1) number of employees + 18% yoy, (2) average employee salary + 14.8% yoy.

Bad debt + 27.9% yoy, NPL reached 1.26% (1.15% in the same period of 2017), according to our assessment, due to MB Shinsei's loan expansion. (lower than bad debt of the whole industry = 1.65%).

MBB is currently buying 108 million treasury shares - 5% of the market shares (expected to use about VND 2,000 billion from undistributed EAT + other equity). This will reduce the number of shares circulating in the market, which many investors fear when investing in MBB shares.

Military Commercial Joint Stock Bank (MBB)

Business update

2018 business results. In 2018, MBB recorded TOI and PBT at VND 19,539 billion (+ 40.9% yoy) and VND 7,767 billion (+ 68.3% yoy)..

TOI increased strongly, + 68.3% yoy due to strong growth From (1) Net interest income + 30% yoy, (2) Non-interest income (NII) + 87% yoy and currently accounts for about 25% of TOI which, according to our assessment, is the growth structure sustainability of the banking system. MBB's credit growth in 2018 reached 16.92%, of which parent bank + 15.26% and MB Shinsei + 96.7%. In terms of net interest income, the lending rate is +92 bps while the deposit interest rate is only +3 bps. This is because MBB has begun to gradually shift its loans to retail loans (the proportion of retail loans currently accounts for 38%, increased sharply from 28% in 2017), continued to take advantage of the large amount of casino (accounting for 33.5% of total deposits) and continued to contribute to improve from MB Shinsei. Insurance segment grew strongly in DT, + 55% yoy and reduced losses, in 2018 VND 300 billion. MB Shinsei started to contribute VND300 billion in consolidated profit.

Operating expenses + 45.6% yoy, CIR increased, reaching 44.7% (same period 43.3%) due to (1) the number of employees + 18% yoy, (2) average employee salary + 14.8% yoy.

Bad debt + 27.9% yoy, NPL reached 1.26% (1.15% in the same period in 2017), according to our assessment, due to MB Shinsei's loan expansion. In 2018, MB Shinsei lent + 96.7% yoy, nearly reaching the ceiling of the SBV. The rate of bad debt reached 113%, according to our assessment, it is safe (Currently, the average NPL of the banking industry reaches 1.65%, the ratio of bad debt = 80%).

Plan for 2019. MBB plans to increase credit growth by + 14% -15%, equivalent to the credit growth of the SBV. In terms of subsidiaries, M Credit in 2018 reached VND 300 billion and set a target of VND 600 billion in 2019. In terms of MB Ageas life insurance, in 2018, the loss was about VND 300 billion, expected to run out in 2019. We rate, with the credit ceiling for M Credit in 2019 being 100%, the profit plan is feasible.

MBB is currently buying 108 million treasury shares - 5% of the market shares (expected to use about VND 2,000 billion from undistributed EAT + other equity). This will reduce the number of shares in the market, which many investors are worried about investing in MBB shares. However, this will also reduce the bank's CAR. According to calculations, banks' CAR will drop to about 8.9% according to Basel II and about 11% according to Circular 36, still higher than the required level.

Forecast 2019. BSC forecasts that MBB will record TOI and PBT at VND 23,057 billion (18% yoy) and VND 9,538 billion (+ 22.8% yoy) with the assumption (1) Parent bank credit growth reached 14%, MB Shinsei credit growth + 100% yoy, (2) NIM in 2019 reached 4.61% yoy due to continuing to take advantage of low cost sources and shifting trend to retail lending, (3) NPL = 1.35%, bad debt rate reached 115%, (4) LDR = 80%.

Military Commercial Joint Stock Bank (MBB)

Technical analysis

MBB_Sideway

Technical highlights:

- Current trend: Accumulation
- MACD trend indicator: Negative divergence, MACD is about to converge with the signal line.
- RSI indicator: Neutral and adjusted areas from overbought areas.
- MA lines: MA 20 cut MA50 and move to MA200.

Outlook: MBB has just reached the peak of 22 (corresponding to Fibonacci 61.8%) after the recovery from the bottom 19. The liquidity in the correction today increased strongly, showing that the struggle around this level is quite strong. The RSI indicator supports a correction and the MACD indicates a reversal. Mobilizing 3 MA lines showing short-term recovery momentum is facing a strong resistance at MA200 at 22.3. If the stock does not surpass the threshold of 22 with high liquidity, investors can buy when the stock corrects to the support zone of 20.5, equivalent to Fibonacci 38.2%. If the stock surpasses the 22 threshold with high liquidity, the stock may move to test the price threshold of 24.

Recommendations: The buying position is not clear when the stock is still in the state of competition. If successfully overcoming 22, investors can buy at 22-22.5 and take profit at the price of 24. If not, investors can open positions when the stock returns to the support level of 20.5 and Closing at 22, closing loss if the stock loses support level 19.

Technical chart of MBB



Source: Amibroker, BSC

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Appendix 01: Overview of MBB

	2014	2015	2016	2017	2018	2019
SCALE						
Charter capital (billion VND)	11,594	16,000	17,127	18,155	21,605	23,333
Equity (billion VND)	16,561	23,183	26,588	29,601	34,173	44,197
Total assets (billion VND)	200,489	221,042	256,259	313,878	362,361	424,393
Equity/Total assets	8.26%	10.49%	10.38%	9.43%	9.43%	10.41%
GROWTH (YOY)						
Asset growth	11.15%	10.25%	15.93%	22.48%	15.45%	17.12%
Lending growth	14.62%	20.66%	24.22%	22.19%	16.56%	17.80%
Deposit growth	23.16%	8.33%	7.30%	13.02%	8.99%	16.44%
CASA/mobilization	22.45%	31.14%	33.93%	30.11%	33.48%	31.63%
Loans/deposits	60.00%	66.83%	77.38%	83.65%	89.47%	90.51%
ASSET QUALITY						
NPL ratio	2.73%	1.61%	1.32%	1.20%	1.32%	1.40%
NPL ratio includes debt sold to VAMC	5.68%	4.39%	3.50%	1.20%	1.32%	1.40%
Provision for bad debts/Total outstanding loans	2.45%	1.63%	1.36%	1.15%	1.50%	1.62%
Bad debt coverage ratio/Total bad debt	89.70%	101.37%	103.18%	95.85%	113.20%	115.00%
Real interest income/Interest income (ytd)	98.79%	104.79%	99.61%	100.45%	97.96%	97.96%
Interest and fees receivable/loan	3.49%	2.36%	1.94%	1.54%	1.60%	1.59%
Doubtful property	14,656	14,917	16,775	14,728	18,706	22,086
% Total asset	7.31%	6.75%	6.55%	4.69%	5.16%	5.20%
% Equity	88.50%	64.34%	63.09%	49.75%	54.74%	49.97%
BUSINESS EFFICIENCY (YOY)						
% Net interest income	84.70%	83.43%	80.96%	80.90%	74.64%	75.02%
Net profit before credit risk provision (VND billion)	5,193	5,323	5,681	7,868	10,805	12,681
% yoy	5.67%	2.50%	6.72%	38.50%	37.33%	17.36%
Provision expenses for credit risk (VND billion)	(2,019)	(2,102)	(2,030)	(3,252)	(3,038)	(3,144)
% to pre-provision profit	38.88%	39.49%	35.74%	41.33%	28.11%	24.79%
Profit after tax (billion VND)	2,503	2,512	2,884	3,490	6,190	7,601
% yoy	9.51%	0.37%	14.78%	21.05%	77.34%	22.79%
NIM (TTM)	3.93%	3.67%	3.52%	4.14%	4.53%	4.61%
CIR (TTM)	37.49%	39.32%	42.36%	43.26%	44.70%	45.00%
ROA (TTM)	1.30%	1.18%	1.22%	1.23%	1.83%	1.90%
ROE (TTM)	15.62%	12.56%	11.70%	12.53%	19.41%	19.09%
EPS (VND/share) (TTM)	2,136	1,464	1,610	1,829	2,736	3,062
Diluted EPS (TTM)	2,136	1,464	1,610	1,829	2,736	3,062
Book value (VND/share)	14,284	14,489	15,524	16,305	15,817	18,942

Source: BSC research

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Appendix 02: Overview of listed banks 2018

	MBB	CTG	VCB	BID	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
Scale												
Charter capital (billion VND)	21,605	37,234	35,978	34,187	18,852	34,966	25,300	12,886	9,810	7,500	8,566	7,835
Equity (billion VND)	34,173	67,469	63,889	54,693	24,632	51,783	34,750	21,018	16,828	10,201	10,642	10,667
Total assets (billion VND)	362,361	1,164,318	1,072,983	1,313,038	406,041	321,049	323,308	329,333	216,107	175,095	136,179	139,000
Equity/Total assets	9.43%	5.79%	5.95%	4.17%	6.07%	16.13%	10.75%	6.38%	7.79%	5.83%	7.81%	7.67%
Growth (ytd)												
Asset growth	15.45%	6.32%	3.64%	9.21%	10.20%	19.18%	16.40%	15.83%	14.14%	7.13%	9.72%	12.86%
Lending growth	16.16%	8.89%	16.26%	14.12%	14.94%	-0.89%	21.38%	15.92%	17.86%	18.43%	21.59%	20.71%
Deposit growth	8.99%	9.68%	13.23%	15.08%	9.17%	17.84%	27.93%	11.85%	6.24%	-2.59%	8.31%	24.11%
CASA	33.48%	15.02%	28.27%	16.35%	14.85%	27.14%	13.25%	16.67%	8.35%	18.18%	18.16%	14.29%
Loans/deposits	88.13%	103.16%	77.58%	98.65%	72.48%	78.20%	127.53%	84.44%	95.11%	94.21%	100.21%	112.25%
Asset quality												
NPL ratio	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
NPL ratio includes debt sold to VAMC	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
Provision for bad debts/Total outstanding	1.52%	1.53%	1.65%	1.27%	1.39%	1.51%	1.64%	1.12%	1.10%	1.26%	1.17%	0.92%
Bad debt coverage ratio/Total bad debt	113%	96%	165%	74%	65%	85%	46%	152%	71%	88.25%	103%	36%
Interest and fees receivable/loan	1.33%	1.86%	1.40%	2.12%	2.35%	2.17%	2.42%	1.50%	2.58%	3.46%	1.76%	1.53%
Business efficiency (ytd)												
% Net interest income	74.64%	78.34%	72.31%	78.57%	65.37%	60.64%	79.46%	73.85%	80.99%	102.89%	77.80%	79.78%
Net profit before credit risk provision (VND billion)	10,805	14,490	25,679	28,366	3,839	12,507	20,452	7,321	4,999	1,831	2,780	3,362
% yoy	37.33%	-17.44%	46.40%	20.64%	66.31%	7.40%	26.78%	40.21%	45.59%	-20.02%	66.66%	91.57%
Provision expenses for credit risk (VND billion)	(3,038)	(7,748)	(7,379)	(18,894)	(1,592)	(1,846)	(11,253)	(932)	(994)	(618)	(522)	(620)
% to pre-provision profit	28.11%	53.47%	28.73%	66.61%	41.47%	14.76%	55.02%	12.74%	19.89%	33.77%	18.79%	18.46%
Profit after tax (billion VND)	6,190	5,428	14,658	7,542	1,790	8,474	7,356	5,137	3,202	960	1,805	2,193
% yoy	77.34%	-27.23%	60.89%	8.58%	51.51%	31.47%	14.20%	142.53%	63.81%	-29.83%	87.29%	95.09%
NIM (TTM)	4.56%	2.08%	2.78%	2.98%	2.34%	4.13%	8.81%	3.56%	4.05%	3.50%	3.69%	3.79%
CIR (TTM)	44.70%	49.59%	34.64%	36.24%	67.12%	31.84%	34.21%	47.83%	47.05%	62.47%	50.59%	44.45%
ROA (TTM)	1.83%	0.48%	1.39%	0.61%	0.46%	2.87%	2.45%	1.67%	1.58%	0.93%	1.39%	1.67%
ROE (TTM)	19.41%	8.27%	25.18%	14.52%	7.48%	21.53%	22.83%	27.73%	20.27%	15.92%	20.84%	22.55%
Diluted EPS (TTM)	2,865	1,456	4,070	2,152	950	2,420	2,907	3,987	2,897	1,280	2,107	2,800
Book value (VND/share)	15,109	18,040	17,739	15,109	13,066	14,790	13,735	16,311	15,938	13,601	12,424	13,615
Valuation	22,100	21,100	59,800	32,500	13,000	27,550	21,650	30,400	31,200	9,000	21,300	17,700
P/E	7.71	14.49	14.69	15.10	13.69	11.38	7.45	7.63	10.77	7.03	10.11	6.32
P/B	1.46	1.17	3.37	2.15	0.99	1.86	1.58	1.86	1.96	0.66	1.71	1.30

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