

Company update report

MBB – Military Commercial Joint Stock Bank

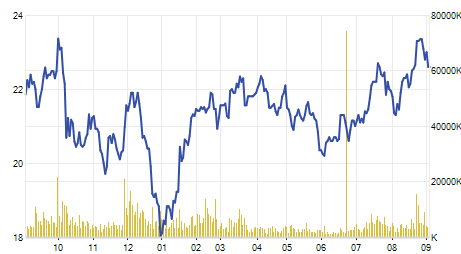
BSC

05/09/2019

EXPECTATION FROM SELLING STRATEGIC CAPITAL

Recommendation	BUY	VALUATION
Vuong Chi Tam (FA) tamvc@bsc.com.vn		We recommend BUY for MBB with a target price of VND 28,458/share, upside 25% based on P/BF = 1.5x valuation method due to (1) High profitability and well-controlled asset quality, (2) Valuation is cheap (P/BF = 1.2x), (3) The strategic capital sale to the foreign partner is expected in 2019 to help MBB stock be revalued.
Target price	28,458	
Closing price	22,750	
Upside	25%	
Le Quoc Trung (TA) trunglq@bsc.com.vn		
Target price	25,000	
Cut loss	20,000	
Market data		BUSINESS RESULTS FORECAST
Outstanding share ('000 000)	2,113	We revised MBB's TOI and PBT forecasts in 2019 to -1.4%/+3.5% with a change in our view of credit growth (from 14% to 17% for the parent bank, 37% for M Credit), the CASA rate decreased to 34.3% while CIR is kept at 45%.
Mkt Cap (bil VND)	47,762	
High of 52w	23,400	
Avg Vol 10 days (share)	6,127,180	
Foreign ownership	0%	
		CATALYST
		(1) Selling strategic capital to foreign partner, (2) Cheap valuation.
Major shareholders (%)		INVESTMENT RISKS
Viettel Group	15%	(1) M Credit is more risky, but it does not account for a large proportion in the lending structure, (2) Decreasing CASA rate raises capital cost.
SCIC	10%	
Vietnam helicopters corp.	8%	
Saigon Newport corp.	7%	
Others	60%	

Price movement for 1 year



Company overview: MBB plans to sell strategic capital to its Foreign partner in 2019.

INVESTMENT OUTLOOK (Refer to page 2 for details)

Profitability is kept high compared to the whole industry. (1) Net interest income was VND 4,395 billion (+ 25.4% yoy), (2) Non-interest income grew strongly from fee income (+ 59% yoy).

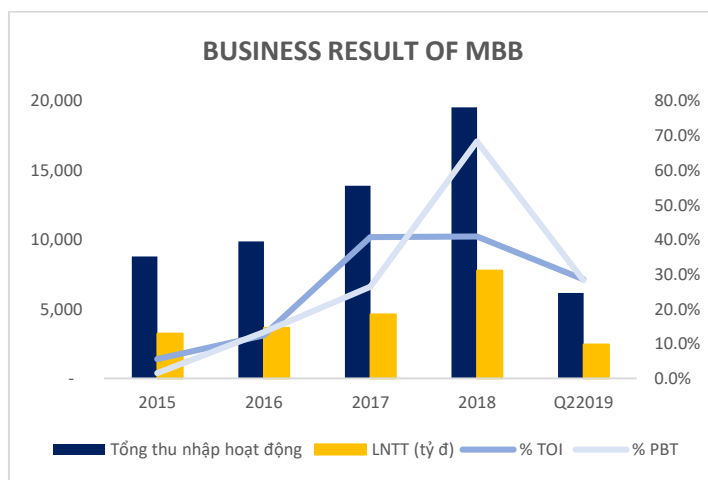
Asset quality is good, however, the credit expansion of M Credit may affect MBB's overall results. Consolidated bank NPL = 1.18%, of which parent bank = 1.08%, M Credit = 11%. Bad debt coverage ratio (LLCR) = 97.6%, higher than the industry average, helps ensure the operation of the bank. CAR Basel II = 10.5%.

Cheap valuation and expectation from strategic capital sales. P/B F 2019 = 1.2x, attractive with a growing position and asset quality. The strategic sale of capital to foreign shareholders may help revalue MBB in short term.

COMPANY UPDATE

1. Profitability is always maintained at a high level compared to the whole industry with many growth possibilities.

TOI = VND 6,158 billion (+28.5% yoy), PBT = VND 2,451 billion (+28.3% yoy). Total assets +11% ytd, loans +11.3% ytd, deposits + 7.9% ytd. In the period from 2015 - 2Q2019, MBB's TOI and PBT increased by CAGR = 24.8% and 25.7%, respectively, lower than PBT of banks with the same asset quality as ACB, TCB, VCB, ... (PBT of these banks increased at an average of 45%). However, we assess that MBB still has a lot of unexplored growth potential, ensuring an average growth rate of 20% - 25% yoy in the coming time.



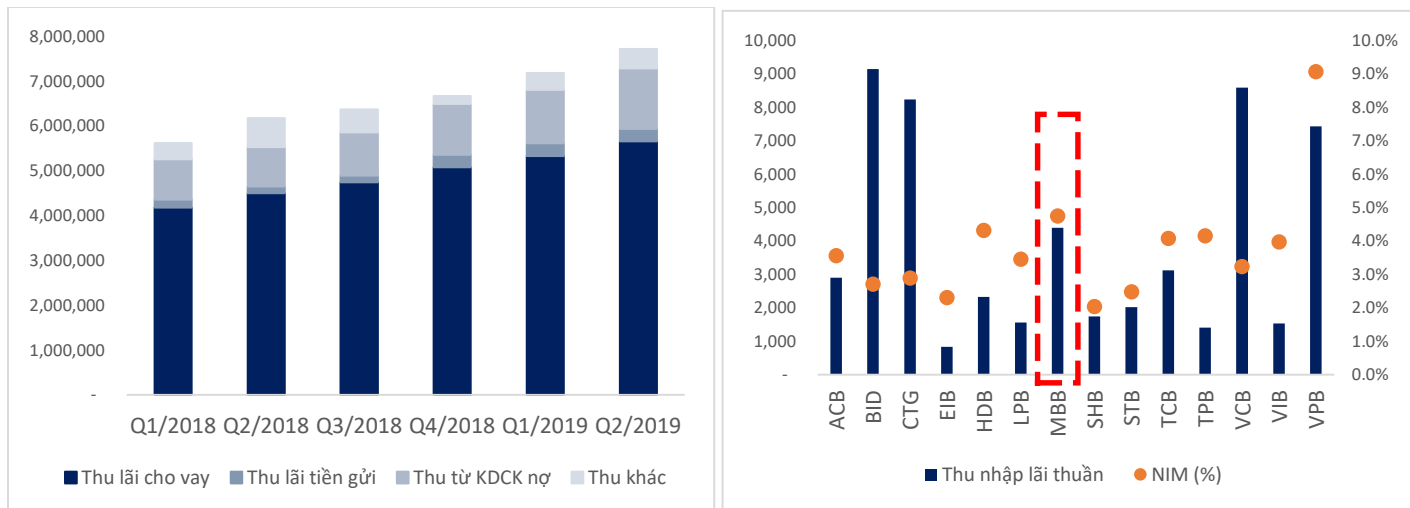
Source: Fiinpro, BSC Research

Net interest income + 25.4% yoy thanks to the restructuring of loans.

Net interest income reached VND 4,395 billion (+ 25.4% yoy) thanks to:

- Credit growth in 1H2019 reached 13.9% ytd, of which the parent bank grew by 13.2% ytd, M Credit grew by 33.4% ytd. In 2H2019, MBB asked SBV for approval to increase credit growth to 17% with the parent bank, and is now applying for more credit with M Credit.
- NIM improved to 4.74% (+11 bps compared to 2Q2018, +5 bps compared to 1Q2019) due to an increase in lending interest rates and restructuring of lending structure to retail. The average loan interest rate of MBB increased to 9.4% (+11 bps compared to 1Q2019) while deposit rates increased to 3.7% (+20 bps compared to the end of 2018) because the large deposits at MBB restructured demand deposits, leading to a fall in CASA rates, thereby increasing the average deposit rate.

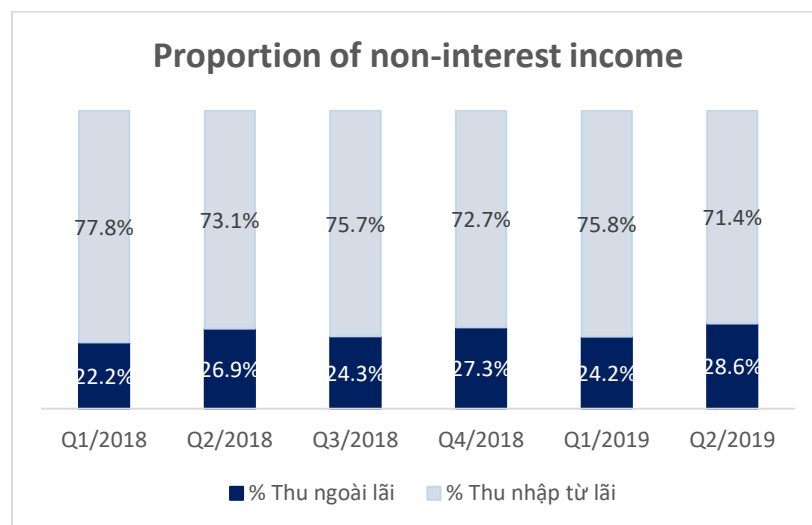
Regarding the prospect of 2H2019, BSC expects that MBB will record net interest income of VND 17,468 billion (+ 20% yoy) thanks to (1) credit growth of the consolidated bank reached 17.7%, (2) NIM was improved to 4.64% because of restructuring of loans and increasing lending rates.



Source: BSC Research, Fiinpro

Non-interest income +37% yoy, expected to grow from 30% -50% in 2019 owing to insurance and service fee collection.

In 2Q2019, service fee +59% yoy, interest from forex trading + 65% yoy. By the end of 1H2019, MB Ageas Life has collected VND 1,000 billion in insurance premiums (+ 210% yoy), profit of VND 93 billion and plenty of room for growth. In addition, service charges also have good growth potential due to large customer base and wide coverage.



Source: MBB, BSC Research

2. Asset quality is at a good level, however, the credit expansion of M Credit may affect MBB's overall results.

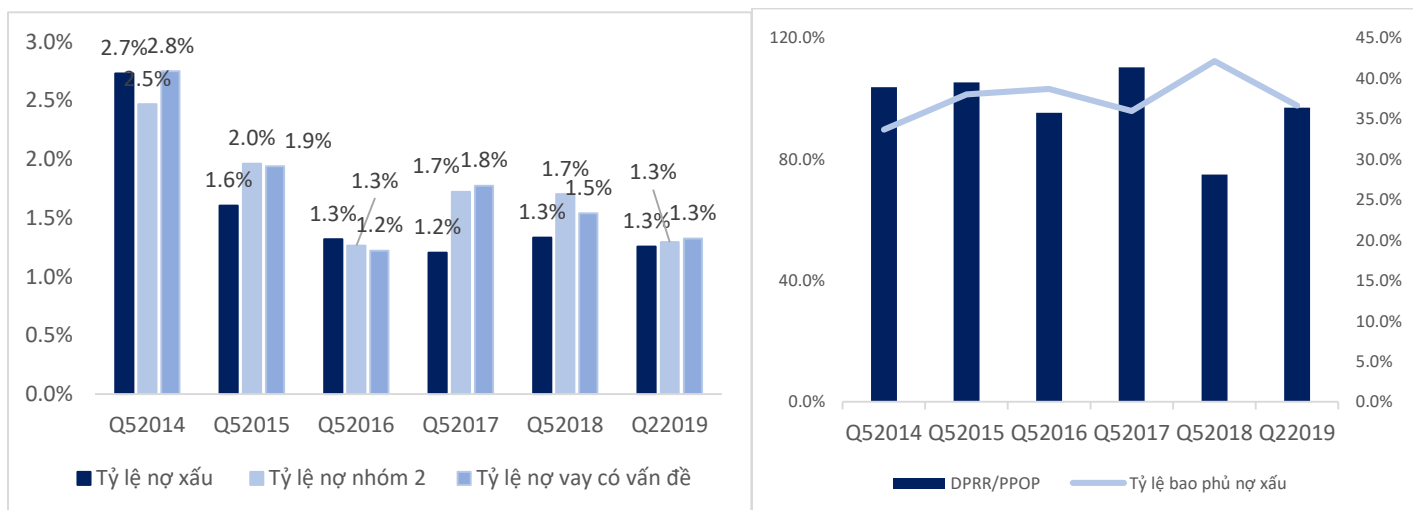
Asset quality is well controlled.

Consolidated bank NPL = 1.18%, of which parent bank = 1.08%, M Credit = 11%. Regarding the parent bank, we highly appreciate good control of asset quality. Although NPL of M Credit is currently much higher than other businesses (FE Credit = 5.1%, HD Saison about 6%), we evaluate with a small credit scale (VND 9,800 billion of loans as of end of 1H2019) has not much impact on the overall results of MBB.

Bad debt coverage ratio (LLCR) = 97.6%, higher than the industry average, helps ensure the operation of the bank. The bank's LDR ratio is kept at 73% - 74%, lower than SBV's allowed level.

The ratio of short-term capital to medium and long-term loans is 34% and is expected to fall to below 30% by increasing short-term loans and reducing medium- and long-term loans.

CAR according to Basel II = 10.5%, slightly down from 11% at the end of 2018.



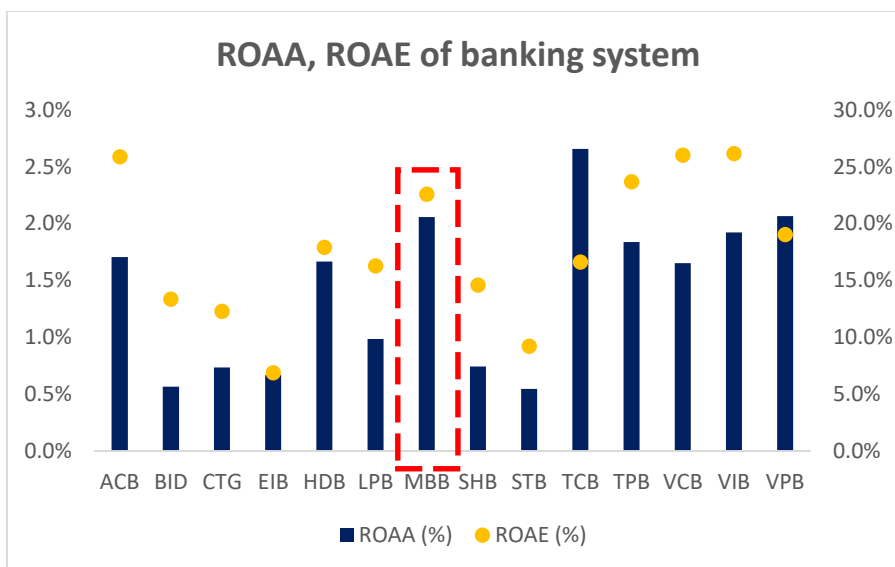
Source: MBB, BSC Research

3. Valuations are cheap, but there are many issues that affect the revaluation of stock price.

With BSC's forecast, MBB will be traded at P/B = 1.2x, attractive compared to the valuation of comparable businesses (ACB, TCB, VCB, TPB, VIB). However, as a consequence of high free float in the market (51%), the re-evaluation of MBB shares in the market become uncertain.

Regarding the update on capital sale, MBB is expected to sell 7.5% -10% of its shares to foreign partner this year or early next year, of which 2.5% from treasury shares and the rest

to issue additional shares. This helped (1) MBB reduce free float of stocks outside the market, but not much, (2) increase the bank's CAR to 12% -13% when selling capital successfully. The strategic selling of capital to foreign partners is also expected to support both in business activities as well as the revaluation of MBB's stock price in the market.



Source: BSC Research

FORECAST AND VALUATION

BUY TP 28,458 VND/cp Upside 25%		2018	2019	2020
	TOI	19,539	22,741	26,476
	PBT	7,767	9,870	11,488
	NIM	4.5%	4.5%	4.5%
	ROAA	1.8%	2.0%	1.9%
	ROAE	19.4%	19.7%	18.6%
	EPS	2,736	3,168	3,414
	BVPS	15,817	18,980	20,830
	P/E (x)	8.3	7.1	6.6
	P/B (x)	1.4	1.2	1.1

Source: BSC Research

Appendix 1: Prospects of the banking industry in 2H2019

Business environment	Stable	GDP growth is high, at 6.7% in 2019 and 6.5% in 2020, supported by investment and consumption.
		US-China trade war could reduce world economic growth and the main import-export partners of these two countries, including Vietnam.
		The major agreements (EVFTA, CPTPP) will support trade relation with major European countries, thereby reducing Vietnam's dependence on big countries.
		CPI in 8M2019 increased by 2.26% yoy and kept below 4% in 2019.
		Credit growth + 7.36% ytd in 1H2019, deposit + 5.5% ytd in 5M2019, M2 + 6.4% ytd in 5M2019. BSC's expected credit growth in 2019 is 12% -13%, lower than the SBV's target = 14%.
		Interbank interest rates and government bonds continued to remain low.
Asset quality	Improved	Stable exchange rates.
		2Q2019 NPL ratio was 1.9% < 2% as set, LLCR was 75.9%. Expected bad debt level in 2019 is lower than 2%.
		Banks accelerate the handling of bad debts + VAMC.
		Many banks have high provisioning, ensuring hedging in case of economic fluctuations (VCB, ACB, ..).
		The rapid growth in lending in recent years can affect asset quality in the long term.
		Banks reduce the proportion of loans to the risk industry (real estate, construction, ...), enhance long-term capital mobilization.
Profitability	Improved	Capital adequacy ratio has been improved year by year and many banks have successfully applied Basel II standards ahead of schedule.
		NII was improved thanks to loan restructuring.
		Non-interest income is increasingly playing a large part in the bank's income structure with a 2-digit growth rate.
		Banks focused on reducing costs, reducing the industry-wide CIR.
Valuation	Low	Provisions decreased due to improved asset quality, thereby helping to increase profit.
		Low valuation with higher profitability than VN Index.

Source: BSC Research

Appendix 2: Business result of MBB in 2Q2019

MBB	Q22019	Q22018	Change	Comment
Net interest income	4,395	3,504	25.4%	NII +25.4% yoy due to (1) Credit growth reached 13.9%, (2) NIM = 4.74%. Non-interest income + 37% yoy thanks to service fee + 59% yoy, interest from forex trading + 65% yoy. Credit growth was near the SBV's permitted level (17%).
Non-interest income	1,763	1,287	37.0%	
In which: Income from service charges	1,055	663	59.2%	
Total operating income	6,158	4,791	28.5%	
Operating costs	(2,307)	(1,927)	19.7%	NPL were stable, provisioning ratios decreased over the same period, but remained high. CIR is slightly down and expect to continue to improve. Profitability ratio is high compared to the whole industry.
Profit before provision	3,851	2,864	34.5%	
Redundancy costs	(1,400)	(953)	46.9%	
EBT	2,451	1,911	28.3%	
Credit growth (%)	9.6%	13.9%	4.3%	
NPL	1.25%	1.18%	+7 bps	
LLCR	97.6%	106.6%	-9 %	
LDR	92.2%	87.2%	+5%	
NIM	4.7%	4.5%	+11 bps	
CIR	37.7%	39.3%	-1.6%	
ROAA	2.0%	1.7%	+0.3%	
ROAE	22.5%	18.5%	+4%	

Source: MBB, BSC Research

Appendix 3: Business operation of listed banks

Q22019	ACB	BID	CTG	HDB	LPB	MBB	STB	TCB	TPB	VCB	VIB	VPB
1. SCALE												
Charter capital (VND bn)	12,886	34,187	37,234	9,810	8,881	21,605	18,852	34,966	8,566	37,089	7,835	25,300
Equity (VND bn)	23,834	57,589	72,497	18,604	11,877	35,526	25,499	56,366	11,282	77,337	11,621	38,208
Total asset (VND bn)	350,938	1,400,186	1,183,796	210,291	189,955	402,264	439,170	360,663	145,716	1,122,970	163,856	348,732
Equity/total asset	6.8%	4.1%	6.1%	8.8%	6.3%	8.8%	5.8%	15.6%	7.7%	6.9%	7.1%	11.0%
2. GROWTH												
% Asset	6.6%	6.6%	1.7%	-2.7%	8.5%	11.0%	8.2%	12.4%	7.0%	4.6%	17.7%	7.9%
% Loan	8.8%	7.7%	2.4%	11.9%	8.4%	11.3%	8.9%	15.9%	15.3%	10.1%	19.1%	11.6%
% Deposit	7.9%	7.1%	2.5%	1.6%	4.1%	7.9%	11.1%	9.4%	6.2%	8.6%	16.8%	15.5%
% TOI	23.2%	11.9%	18.1%	14.5%	70.4%	28.5%	23.7%	17.3%	31.2%	22.1%	34.5%	29.5%
% Earning before provision	2.8%	19.7%	32.6%	11.9%	169.3%	34.5%	9.8%	9.5%	37.0%	34.1%	52.1%	28.0%
% PBT	15.3%	-9.4%	-2.5%	9.2%	445.3%	28.3%	-18.8%	15.9%	49.9%	48.3%	59.8%	45.7%
3. ASSET QUALITY												
Type 2 Debt ratio	0.2%	2.5%	0.8%	1.4%	1.3%	1.3%	0.4%	1.5%	2.5%	0.6%	1.2%	5.1%
NPL	0.7%	2.0%	1.5%	1.4%	1.5%	1.3%	2.0%	1.8%	1.5%	1.0%	2.2%	3.4%
Doubtful debt ratio	-0.2%	3.0%	0.8%	1.8%	1.6%	1.3%	1.0%	1.9%	2.8%	-0.2%	2.4%	6.8%
Provision/Total debts	1.1%	1.4%	1.5%	1.1%	1.1%	1.2%	1.4%	1.4%	1.3%	1.8%	1.0%	1.7%
LLCR	160.2%	72.5%	100.1%	74.7%	77.9%	97.6%	68.5%	77.1%	83.9%	177.5%	44.0%	48.5%
Provision/Total debts type 2-5	117.4%	32.2%	63.8%	37.8%	41.3%	48.1%	57.3%	41.6%	31.2%	115.0%	28.3%	19.6%
% Interbank deposit	3.5%	3.8%	8.2%	11.2%	8.5%	14.7%	0.2%	16.8%	19.6%	5.1%	15.0%	6.2%
Interest, receivable/lending	1.0%	1.2%	0.8%	2.6%	3.2%	1.6%	7.6%	2.5%	1.6%	1.1%	1.3%	1.8%
Leverage	14.7	24.3	16.3	11.3	16.0	11.3	17.2	6.4	12.9	14.5	14.1	9.1
LDR	81.1%	94.0%	90.0%	82.1%	80.6%	80.5%	70.4%	70.5%	76.1%	81.5%	85.5%	93.6%
4. BUSINESS EFFICIENCY												
Operating profit	3,949	11,995	10,037	2,708	1,626	6,158	3,301	4,688	1,917	11,303	1,948	8,869
PPOP	2,026	7,775	6,418	1,415	661	3,851	1,016	3,117	1,122	7,236	1,174	5,826
PBT	1,915	2,251	2,182	1,109	605	2,451	400	3,045	767	5,425	1,010	2,560
Net interest incomt/TOI	73.5%	76.2%	82.0%	85.8%	96.1%	71.4%	61.3%	66.6%	73.3%	75.9%	78.6%	83.7%
CASA	17.4%	15.0%	15.2%	10.2%	13.3%	33.0%	15.6%	30.4%	18.0%	30.6%	12.1%	10.4%
Gross interest rate	8.4%	7.7%	7.3%	9.5%	9.5%	8.6%	8.1%	7.4%	9.0%	6.3%	8.9%	15.4%
Cost of fund	5.1%	5.2%	4.6%	5.2%	6.0%	3.9%	5.7%	3.8%	4.8%	3.3%	5.0%	6.4%
Net interest rate	3.4%	2.5%	2.7%	4.3%	3.5%	4.7%	2.4%	3.6%	4.2%	3.1%	3.9%	9.1%
NIM	3.6%	2.7%	2.9%	4.3%	3.5%	4.7%	2.5%	4.1%	4.2%	3.2%	4.0%	9.1%
Provisions/PPOP	5.5%	71.0%	66.0%	21.6%	8.5%	36.3%	60.6%	2.3%	31.7%	25.0%	13.9%	56.1%
CIR	50.0%	31.8%	34.9%	47.0%	56.4%	37.7%	63.4%	35.0%	44.3%	36.6%	41.6%	35.8%
ROAA (%)	1.7%	0.6%	0.7%	1.7%	1.0%	2.1%	0.5%	2.7%	1.8%	1.7%	1.9%	2.1%
ROAE (%)	25.9%	13.3%	12.3%	17.9%	16.3%	22.6%	9.2%	16.6%	23.7%	26.0%	26.1%	19.0%
5. VALUATION												
EPS (dong/share)	4,758	2,068	1,898	3,206	2,195	3,700	652	2,756	2,863	4,703	4,127	3,239
BVPS (dong/share)	18,496	16,845	19,471	18,964	13,373	16,444	13,526	16,120	13,171	20,852	14,833	15,102
PER (x)	6.8	16.7	13.9	8.8	4.8	6.8	8.6	8.3	8.4	16.7	5.7	6.5
PBR (x)	1.5	2.2	1.1	1.5	0.6	1.4	0.7	1.3	1.6	3.8	1.4	1.2

Source: BSC Research

Appendix 4: Forecasted business result of MBB

	2018	2019F	2020F
Net interest income	14,583	16,973	19,695
Net fee and commission income	2,564	3,173	3,899
Net gain from fx trading	445	598	782
Net gain from sales of investment securities	300	399	476
Net other income	1,517	1,509	1,535
Income from investment in other entities	130	89	89
Total operating income (TOI)	19,539	22,741	26,476
Operating expense (OPEX)	(8,734)	(10,234)	(11,914)
Profit before credit provisions	10,805	12,508	14,562
Credit provisions	(3,038)	(2,638)	(3,074)
Earnings before tax (PBT)	7,767	9,870	11,488
Total income tax expenses	(1,577)	(2,004)	(2,333)
Earnings after tax (EAT)	6,190	7,865	9,155
Minority interest	98	125	145
Net profit (NPATMI)	6,190	7,740	9,009

	2018	2019F	2020F
Total assets	362,361	427,106	497,126
Cash & Cash equivalent	1,737	2,037	2,392
Balances with the SBV	10,548	12,170	14,152
Deposits with OCI	45,062	52,861	62,074
Trading securities	578	578	578
Derivatives and other financial assets	36	37	37
Net loans and advances to customers	211,475	250,986	289,430
Investment securities	73,834	86,732	104,163
Long-term investments	497	497	497
Fixed assets	2,699	2,569	2,435
Other assets	15,865	18,645	21,374
Total liabilities and equity	362,361	427,106	497,126
Total liabilities	328,188	382,821	444,637
Amount due to the Government and the SBV	2,633	2,633	2,633
Deposits from OCI	60,471	71,166	81,583
Customer deposits	239,964	281,500	330,558
Derivatives and other financial liabilities	42	42	42
Other liabilities	11,158	11,158	11,158
Other liabilities	13,601	16,003	18,344
Total equity	34,173	44,285	52,490
Chartered capital	21,605	23,333	25,200
Share premium	-	-	-
Treasury shares	-	(2,376)	(2,376)
Funds and other capitals	28	28	28
Retained profits	7,124	16,684	21,624

	2018	2019F	2020F
I. SCALE			
Number of branches	300	315	330
Employees	15,233	16,956	19,740
II. ASSET QUALITY			
1. Capital adequacy index			
CAR Basel II	11%	N/A	N/A
Equity/Total asset	9.4%	10.4%	10.6%
Leverage	10.6	9.6	9.5
2. Asset quality			
Type 2 Debt ratio	1.6%	1.7%	1.7%
NPL ratio	1.3%	1.3%	1.4%
NPL ratio (Inc. VAMC)	1.3%	1.3%	1.4%
Doubtful debt ratio	1.5%	1.7%	1.8%
Bad debt coverage ratio	113.2%	105.0%	100.0%
Provision for bad debts/Total debts Type 2-5	49.3%	45.8%	43.6%
3. Liquidity ratio			
LDR	77.6%	80.0%	80.0%
Liquid property/Total asset	36.4%	36.1%	36.9%
Liquid property/Customer's deposit	54.9%	54.8%	55.5%
Interbank mobilization/Total mobilization	19.4%	19.6%	19.3%
III. PROFITABILITY			
% credit	16.9%	17.7%	14.6%
Net interest income/TOI	74.6%	74.6%	74.4%
CASA	42.1%	34.3%	36.2%
Gross yield	7.7%	7.9%	7.8%
Cost of fund	3.3%	3.6%	3.6%
Net interest rate	4.4%	4.3%	4.2%
NIM	4.5%	4.5%	4.5%
PPOP	28.1%	21.1%	21.1%
CIR	44.7%	45.0%	45.0%
ROAA	1.8%	2.0%	1.9%
ROAE	19.4%	19.7%	18.6%
IV. VALUATION			
EPS (VND/cp)	2,736	3,168	3,414
BVPS (VND/cp)	15,817	18,980	20,830
V. GROWTH			
% Asset	15.4%	17.9%	16.4%
% Loan	16.2%	18.7%	15.3%
% Deposit	9.0%	17.3%	17.4%
% PBT	37.3%	15.8%	16.4%
% NPATMI	68.3%	27.1%	16.4%

Source: BSC Research

Technical analysis

MBB_Adjustable reduction

Technical highlights:

- Current trend: Adjust for short-term decline.
- MACD trend indicator: Positive divergence.
- RSI indicator: Neutral zone, downtrend.

Outlook: MBB stock is declining after failing to surpass the resistance level of 24. The stock liquidity is tending to decrease, less than the 20-day average, showing no motivation for recovery. The RSI and the MACD are both supporting the short-term trend. It is expected that in the upcoming sessions, MBB can move to accumulate in the area of 21.5 - 22.5, before retesting at 24.

Technical chart:



Source: Amibroker, BSC

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

BSC Headquarter

BIDV Tower, 10th & 11th Floor, 35 Hang Voi,
Hoan Kiem, Ha Noi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh Office

146 Nguyen Cong Tru St, 9th Floor, District 1,
Ho Chi Minh city
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

<https://www.bsc.com.vn>
<https://www.facebook.com/BIDVSecurities>

Bloomberg: BSCV <GO>

