

7 May 2020

Military Commercial Joint Stock Bank (MBB)

Admit short-term pain

- 1Q20 NP was down 8% yoy on the rise of credit provision upon higher late payment ratio.
- Credit growth trimmed by 1.47% ytd while weak CASA dragged deposit to plummet by 11% ytd
- Credit cost is expected to contain since 4Q20

Facts: 1Q20 NP down 8% yoy

1Q20 NP decreased by 8% yoy to VND1.7tn as MBB lifted credit provision to VND2.1tn (+117% yoy) upon cloudy economy picture. NII grew 14% yoy but was down 4% qoq. Non-interest income showed a growth of 25% yoy thanks to securities investments and bancassurance but dropped by 9% against 4Q19 given weak NFI and recovery of written-off debts.

Pros & cons: Scale down risky businesses and emphasize non-interest income sources

Total credit tapered by 1.47% qoq to VND262tn. Overdue ratio escalated to 3.5%, up 1.2 %p qoq and NPL ratio mounted to 1.6%, up 0.5 %p qoq. Both parent bank and MCredit faced shrinking credit and buoyant late payment. MBB said that COVID-19 restructured debts were insignificant, which provides a transparent assets quality in 1Q20 and obvious outlook for coming quarters. We expect MBB to contain NPL ratio at 1.5% at parent bank and 10.5% at MCredit with a credit cost of 2.8% in 2020.

Customer deposit dipped 12% qoq to VND241tn, driving customer loan to customer deposit ratio peaked at 103%. Main dragger was 22% qoq plummet in CASA since enterprises must spent for working capital amid declining revenue condition. We expect the CASA stream to return since 2Q20 following lockdown removal decision on 23 April but may be still below the 4Q19 level. Given that, we raise 2020F valuable papers mobilization to reached VND43.3tn, up VND17tn from end-2019 level.

Action: Reiterate BUY

Despite trimming TP to VND25,600, we reiterate BUY. 2020F NP is expected at VND7.2tn, down 11% yoy given slimmer NIM and higher credit cost. Lending and mobilization are forecasted to increase healthily since 3Q20. CASA ratio may rally to 32% from 1Q20 level of 30%, preserving top three highest CASA position vs. peers. Since MBB straightly admitted high overdue ratio right in the first quarter, we believe the credit cost may be well contained since 4Q20.

12M rating **BUY (Maintain)**

12M TP **25,600**

Up/Downside **+64%** (incl 3.8% cash dividend)

Stock data

VNIndex (06 May, pt)	783
Stock price (06 May, VND)	15,950
Market cap (USD mn)	1,642
Shares outstanding (mn)	2,411
52-Week high/low (VND)	23,550/13,550
6M avg. daily turnover (USD mn)	4.81
Free float / Foreign ownership (%)	74.6/23.0
Major shareholders (%)	
Group of military companies	27.7
SCIC	9.6
Dragon Capital Funds	6.1
VCB	4.6

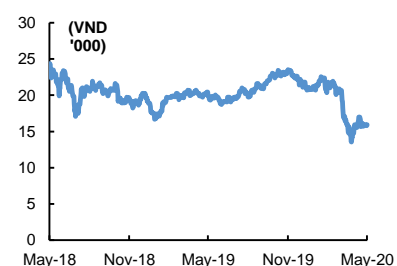
Valuation

	2019A	2020F	2021F
PB (x)	1.0	0.9	0.7
PE (x)	5.1	6.1	4.9
ROA (%)	2.1	1.7	1.8
ROE (%)	22.2	16.7	17.3
DY (%)	3.8	3.8	3.8
P/PPE (x)	2.5	2.3	2.1
BPS (VND,adj)	16,326	18,721	21,375
EPS (VND,adj)	3,121	2,616	3,253

Performance

	1M	6M	12M
Absolute (%)	(23.3)	1.3	(32.3)
Relative to VNIndex (%p)	(5.0)	(5.0)	(9.2)

Stock price



Source: Bloomberg

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Table 1. Earnings trend and outlook

(VND bn, %, %p)

	2019				2020	2019	2020F	1Q20		
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY Consensus	
Loans to customers and corporate bonds	243,071	254,534	255,852	265,602	261,705	265,602	297,676	(1.5)	7.7	
% growth (ytd)	8.8	13.9	14.5	18.9	(1.5)	18.9	12.1	-	(10.3)	
Loans to customers	229,168	238,925	240,211	250,331	247,980	250,331	280,114	(0.9)	8.2	
NPL (3-5 group)	3,231	3,001	3,703	2,898	4,005	2,898	5,041	38.2	24.0	
NPL ratio (%)	1.41	1.26	1.54	1.16	1.62	1.16	1.80	0.46	0.2	
NPL (2-5 group)	7,479	6,095	7,243	5,794	8,790	5,794	9,743	51.7	17.5	
NPL ratio (%)	3.3	2.6	3.0	2.3	3.5	2.3	3.5	1.2	0.3	
Loan loss coverage (%)	96.5	97.6	102.7	110.5	97.6	110.5	92.8	(12.9)	1.1	
VAMC	-	-	-	-	-	-	-	-	-	
Deposit from customers and bond	257,267	277,888	278,218	298,998	272,111	298,998	332,603	(9.0)	5.8	
Deposit from customers	242,252	259,009	254,130	272,710	240,737	272,710	289,220	(11.7)	(0.6)	
% growth (ytd)	1.0	7.9	5.9	13.6	(11.7)	13.6	6.1	-	(12.7)	
CASA (%)	25.1	25.7	27.8	33.9	29.8	33.9	32.4	(4.0)	4.8	
Total assets	383,276	402,322	397,498	411,488	406,803	411,488	460,253	(1.1)	6.1	
Total equity	36,104	35,498	37,655	39,858	43,859	39,858	47,724	10.0	21.5	
Total operating income	5,454	6,158	6,345	6,693	6,339	24,650	26,349	(5.3)	16.2	N.A
Net interest income	4,135	4,395	4,582	4,889	4,695	18,000	19,376	(4.0)	13.6	
NIM (%)	4.69	4.74	4.85	5.11	4.84	4.98	4.75	(0.26)	0.15	
Non-interest income	1,319	1,763	1,764	1,804	1,644	6,650	6,973	(8.9)	24.6	
Net commission income	879	1,218	687	1,049	904	3,833	4,138	(13.8)	2.9	
Gains on investment securities	182	124	177	235	499	718	804	112.4	174.6	
Other non-interest income	259	421	900	521	240	2,099	2,031	(53.9)	(7.2)	
Provision for credit losses	964	1,400	1,312	1,214	2,093	4,891	7,768	72.3	117.0	
Net operating revenue	4,490	4,758	5,033	5,479	4,246	19,760	18,581	(22.5)	(5.4)	
SG&A	2,066	2,307	2,292	3,059	2,051	9,724	9,651	(33.0)	(0.7)	
CIR (%)	37.9	37.5	36.1	45.7	32.3	39.4	36.6	(13.36)	(5.52)	
Pre-provision earnings	3,389	3,851	4,053	3,634	4,288	14,927	16,699	18.0	26.5	N.A
EBT	2,424	2,451	2,741	2,420	2,196	10,036	8,930	(9.3)	(9.4)	
Net profit	1,933	1,998	2,211	1,927	1,783	8,069	7,198	(7.5)	(7.7)	
Controlling-int. NP	1,933	1,845	2,211	1,870	1,712	7,823	6,986	(8.4)	(11.4)	N.A

Source: Company data, KIS

■ Company overview

Established in 1994 under the decision of the Ministry of Defense and the State Bank of Vietnam, MBB now is one among top five largest bank in Vietnam in terms of asset. The bank's advantages come from its major shareholders (military companies) that support the bank's reputation, low funding cost resources and large customer base. MBB has controlling stakes at six subsidiaries who are relatively strong in their businesses including MB Securities, MB Capital Management, MCredit, Military Insurance and MB Ageas Life.

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	313,878	362,325	411,488	460,253	499,872
Gross IEAs	297,180	344,546	391,168	440,574	478,241
Loans and corp bonds	190,238	223,420	265,602	297,676	333,737
Household	60,107	81,011	101,304	-	-
Corporate	130,131	142,409	164,299	-	-
Dep't and loans to FIs	63,082	66,755	63,162	77,486	79,494
Dep't to SBV & G-bond	43,860	54,371	62,404	65,412	65,010
VAMC bond	-	-	-	-	-
NIEAs	20,470	22,055	24,462	25,339	27,380
Others	3,772	4,276	4,142	5,661	5,749
Total liabilities	284,277	328,152	371,630	412,529	445,417
Deposits	220,176	239,964	272,710	289,220	318,743
Debentures	6,022	11,158	26,289	43,383	41,437
Dep't and loans from FIs	46,398	60,791	50,616	55,648	58,415
Loans from Gov't & SBV	1,848	2,633	17	-	-
Other liabilities	9,832	13,607	21,998	24,279	26,822
Total equities	29,601	34,173	39,858	47,724	54,455
Controlling interests	28,170	32,643	37,970	45,625	52,091
Capital stock	18,155	21,605	23,727	24,370	24,370
Capital surplus	828	-	-	1,327	1,327
Other reserves	3,209	3,915	4,965	6,138	7,146
Retained earnings	5,977	7,124	9,278	13,789	19,247
OCI	-	-	-	-	-
Minority interest	1,431	1,530	1,888	2,099	2,365

Income statement

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	13,867	19,537	24,650	26,349	29,177
Net interest income	11,219	14,583	18,000	19,376	21,428
Interest income	19,876	24,824	31,197	34,070	38,265
Interest cost	8,657	10,241	13,197	14,694	16,837
Non-interest income	2,648	4,953	6,650	6,973	7,749
Net commission income	1,332	3,006	3,833	4,138	4,976
Gains on investment securities	207	430	718	804	291
Other non-interest income	1,109	1,517	2,099	2,031	2,482
Provision for credit losses	3,252	3,035	4,891	7,768	7,484
Net operating revenue	10,615	16,501	19,760	18,581	21,693
SG&A	5,999	8,734	9,724	9,651	10,796
Employee benefits	-	-	-	-	-
Pre-provision earnings	7,868	10,803	14,927	16,699	18,382
Earnings before tax	4,616	7,767	10,036	8,930	10,897
Tax	1,125	1,577	1,968	1,733	2,179
Tax rate (%)	24.4	20.3	19.6	19.4	20.0
Continuing operations profit	2,711	5,168	6,133	5,460	6,587
Reversals of written-off loans	779	1,022	1,935	1,737	2,131
Net profit	3,490	6,190	8,069	7,198	8,718
Net profit of controlling interest	3,461	6,113	7,823	6,986	8,452

Key financial data

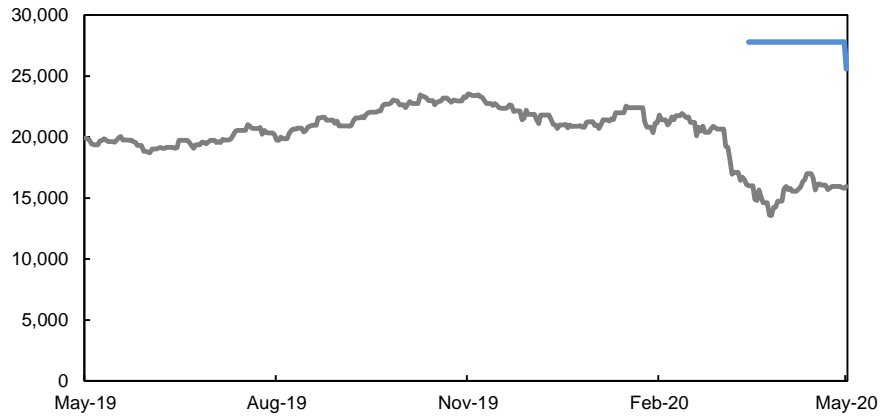
	2017A	2018A	2019A	2020F	2021F
Profitability and efficiency (%)					
ROE	12.9	20.1	22.2	16.7	17.3
ROA	1.2	1.8	2.1	1.7	1.8
NIM	4.3	4.6	5.0	4.7	4.8
Asset yield	7.6	7.9	8.6	8.3	8.5
Cost of fund	3.5	3.5	4.0	4.0	4.2
Cost-income ratio	43.3	44.7	39.4	36.6	37.0
Credit cost	1.9	1.5	2.0	2.8	2.4
Growth (%)					
Net profit of controlling interest	21.2	76.6	28.0	(10.7)	21.0
Pre-provision earnings	38.5	37.3	38.2	11.9	10.1
Credit growth	23.6	17.4	18.9	12.1	12.1
Total assets	22.5	15.4	13.6	11.9	8.6
Asset quality (%)					
NPL ratio	1.2	1.3	1.2	1.8	1.6
NPL coverage ratio	95.9	112.3	110.5	92.8	93.2
Loan to deposit	72.5	76.6	80.8	81.5	84.6
Capital adequacy (%)					
CAR ratio	12.0	11.0	10.1	11.3	11.7
CET1 ratio	n.a	n.a	n.a	n.a	n.a
Tier 1 ratio	n.a	n.a	n.a	n.a	n.a

Valuation

	2017A	2018A	2019A	2020F	2021F
Per share (VND, adj.)					
BPS	12,002	13,990	16,326	18,721	21,375
EPS	1,360	2,461	3,121	2,616	3,253
DPS	464	556	600	600	600
Valuation (x)					
PB	1.3	1.1	1.0	0.9	0.7
PE	11.7	6.5	5.1	6.1	4.9
P/PPE	4.8	3.4	2.5	2.3	2.1
Dividend yield (%)	2.9	3.5	3.8	3.8	3.8
Dividend payout ratio (%)	34.1	22.6	19.2	22.9	18.4
ROE analysis (%)					
ROE	12.9	20.1	22.2	16.7	17.3
Leverage(x)	10.6	10.6	10.3	9.6	9.2
IEAs to total assets	93.6	94.0	94.1	94.6	94.6
Net income to IEAs	1.2	1.8	2.0	1.6	1.8
Net interest income to IEAs	3.8	4.2	4.6	4.4	4.5
Non-interest income to IEAs	0.9	1.4	1.7	1.6	1.6
Credit cost to IEAs	1.1	0.9	1.3	1.8	1.6
SG&A to IEAs	2.0	2.5	2.5	2.2	2.3

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Military Commercial Joint Stock Bank (MBB)	07 May 20	BUY	VND25,600	-	-
	20 Mar 20	BUY	VND27,800		



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