

6 Aug 2020

Military Commercial Joint Stock Bank (MBB)

Regaining

- Assets quality improves from 1Q20
- Credit skews to MBB's traditional client segment – CIB.

Facts: 2Q20 NP recuperates on better asset quality ratios

MBB's 2Q20 controlling-interest NP made a 32% qoq (18% yoy) growth to VND2.3tn, mostly thanks to the significant drop of credit provision expenses (-42% qoq and -13% yoy). The bank's credit cost (annualized) at the parent bank came back to normal level of 1.8% in 2Q20 from 3.2% in 1Q20 as the delinquency ratio and NPL decreased to 2.9% (-0.7%p qoq) and 1.4% (0.2%p qoq) respectively. Restructured COVID-19 loans made up ~2.7% of total loan book (VND~7tn). MBB's NIM narrowed by 12bps qoq to 4.81% in 2Q20, same move with its peers even though a 3%p qoq enhancing in CASA ratio to 33%.

Pros & cons: Credit skews to CIB segment

MBB posted a credit growth of 7.6% ytd as of 2Q20-end from a decrease of 1.2% ytd as of 1Q20-end. The new credit mainly came from corporate bond investment, up 60% ytd to VND24tn while loan book at parent bank grew 4.5% ytd to VND246tn, margin loan declined by 3.5% ytd to VND2.6tn and loan book at MCredit weakened by 8% ytd to VND7.9tn. The moves are in line with its recent direction of focusing on CIB (Corporate and investment banking) segment rather than retail and SMEs upon the gloomy economy following COVID-19 situation. Additionally, MBB plans to encourage cross-selling between the parent bank and its subsidiaries. Given that we expect investment banking (bond advisory and bond distribution) will be another sword besides bancassurance to accelerate NFI/TOI to 16-17% from 13% in 2019.

Action: Reiterate BUY despite of trimming TP

Thanks to improvement in assets quality in 2Q20, we adjust upward 2020F controlling-interest NP to VND7.5tn (-4% yoy) by 7.5% from our latest update. We believe MBB has determined proper approaches in the COVID-19 infected economy and exposed itself less to high credit risk segments. As such, we trim NIM from 2021 onward by 7-20bps and trim credit provision by 9-12% from latest forecast.

We cut TP by 13.3% to VND22,200 after adjusting downward 2020F P/B to 1.11x due to MBB's traditional poor market performance against the peers. However, with the upside of 37%, we maintain **BUY** recommendation on MBB.

12M rating **BUY (Maintain)**

12M TP **22,200**

Up/Downside **+35.4%** (incl 0% cash dividend)

Stock data

VNIndex (04 Aug, pt)	828
Stock price (04 Aug, VND)	16,400
Market cap (USD mn)	1,712
Shares outstanding (mn)	2,411
52-Week high/low (VND)	23,550/13,550
6M avg. daily turnover (USD mn)	4.82
Free float / Foreign ownership (%)	67.1/23.0
Major shareholders (%)	
Group of Military companies	27.7
SCIC	9.6
Dragon Capital	6.1
Vietcombank	4.6

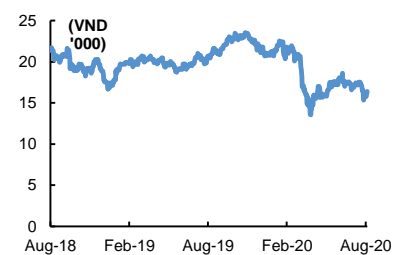
Valuation

	2019A	2020F	2021F
PB (x)	1.0	0.8	0.7
PE (x)	5.1	5.6	5.2
ROA (%)	2.1	1.8	1.7
ROE (%)	22.2	17.5	15.6
DY (%)	-	-	-
P/PPE (x)	2.5	2.4	2.2
BPS (VND,adj)	16,326	19,747	22,898
EPS (VND,adj)	3,165	2,893	3,151

Performance

	1M	6M	12M
Absolute (%)	(2.7)	(22.2)	(18.5)
Relative to VNIndex (%p)	(0.7)	(13.1)	(6.0)

Stock price



Source: Bloomberg

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Table 1. Earnings trend and outlook

(VND bn, %, %p)

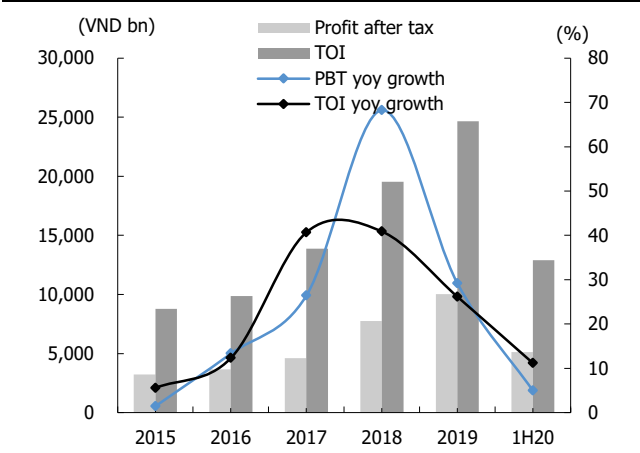
	2019				2020		2019	2020F	2Q20	
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY
Loans to customers and corporate bonds	243,071	254,534	255,852	265,602	262,516	285,788	265,602	299,278	8.9	12.3
% growth (ytd)	8.8	13.9	14.5	18.9	(1.2)	7.6	18.9	12.7	9.0	(9.9)
Loans to customers	229,168	238,925	240,211	250,331	247,980	261,385	250,331	274,080	5.4	9.4
NPL (3-5 group)	3,231	3,001	3,703	2,898	4,005	3,577	2,898	4,496	(10.7)	19.2
NPL ratio (% , %p)	1.41	1.26	1.54	1.16	1.62	1.37	1.16	1.64	(0.2)	0.2
NPL (2-5 group)	7,479	6,095	7,243	5,794	8,790	7,485	5,794	8,827	(14.8)	22.8
NPL ratio (% , %p)	3.3	2.6	3.0	2.3	3.5	2.9	2.3	3.2	(0.7)	0.3
Loan loss coverage (% , %p)	96.5	97.6	102.7	110.5	97.6	121.0	110.5	102.2	(12.9)	1.1
VAMC	-	-	-	-	-	-	-	-	-	-
Deposit from customers and bond	257,267	277,888	278,218	298,998	272,111	290,681	298,998	330,471	6.8	4.6
Deposit from customers	242,252	259,009	254,130	272,710	240,737	257,379	272,710	292,452	6.9	(0.6)
% growth (ytd)	1.0	7.9	5.9	13.6	(11.7)	(5.6)	13.6	7.2	6.1	(12.7)
CASA (%)	25.1	25.7	27.8	33.4	29.8	32.6	33.9	33.2	2.8	4.8
Total assets	383,276	402,322	397,498	411,488	406,803	421,636	411,488	459,973	3.6	4.8
Total equity	36,104	35,498	37,655	39,858	43,859	47,815	39,858	49,730	9.0	34.7
Total operating income	5,454	6,158	6,345	6,693	6,339	6,574	24,650	25,955	3.7	6.8
Net interest income	4,135	4,395	4,582	4,889	4,695	4,624	18,000	19,409	(1.5)	5.2
NIM (% , %p)	4.79	4.83	4.94	5.20	4.93	4.81	4.98	4.75	(0.1)	0.2
Non-interest income	1,319	1,763	1,764	1,804	1,644	1,950	6,650	6,546	18.6	10.6
Net commission income	879	1,218	687	1,049	904	1,126	3,833	3,767	24.5	(7.6)
Gains on investment securities	182	124	177	235	499	285	718	1,002	(42.9)	130.3
Other non-interest income	259	421	900	521	240	539	2,099	1,778	124.3	28.0
Provision for credit losses	964	1,400	1,312	1,214	2,093	1,217	4,891	7,232	(41.8)	(13.1)
Net operating revenue	4,490	4,758	5,033	5,479	4,246	5,357	19,760	18,724	26.2	12.6
SG&A	2,066	2,307	2,292	3,059	2,051	2,434	9,724	9,500	18.7	5.5
CIR (%)	37.9	37.5	36.1	45.7	32.3	37.0	39.4	36.6	4.7	(5.5)
Pre-provision earnings	3,389	3,851	4,053	3,634	4,288	4,140	14,927	16,456	(3.5)	7.5
EBT	2,424	2,451	2,741	2,420	2,196	2,923	10,036	9,224	33.1	19.2
Net profit	1,933	1,998	2,211	1,927	1,783	2,390	8,069	7,379	34.0	19.6
Controlling-int. NP	1,861	1,916	2,211	1,870	1,712	2,263	7,823	7,154	32.1	18.1

Source: Company data, KIS

■ Company overview

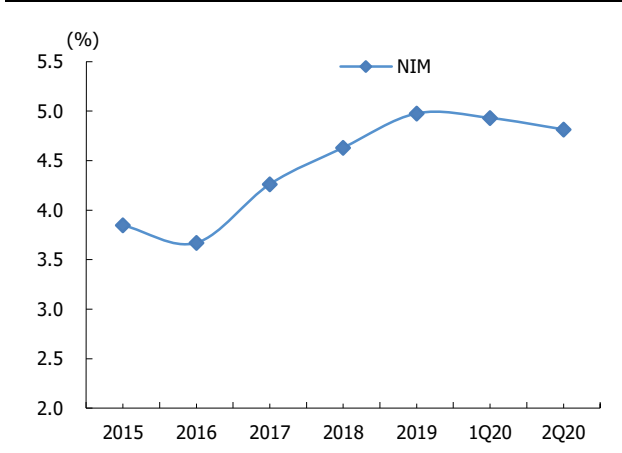
Established in 1994 under the decision of the Ministry of Defense and the State Bank of Vietnam. MBB now is one among top five largest bank in Vietnam in terms of asset. The bank's advantages come from its major shareholders (military companies) that support the bank's reputation, low funding cost resources 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.

Figure 1. 1H20 results



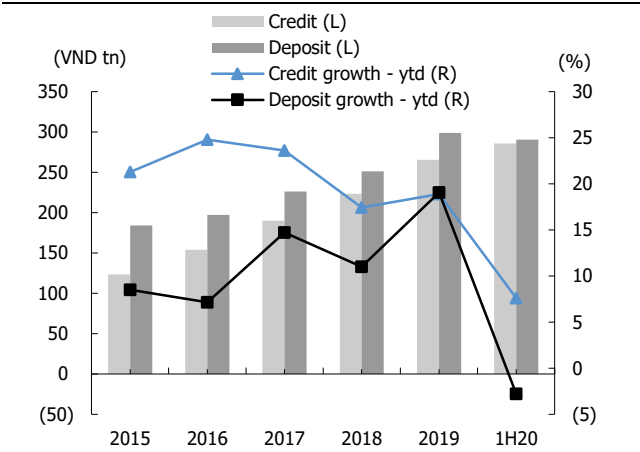
Source: Company data, KIS Vietnam

Figure 2. Annualized NIM



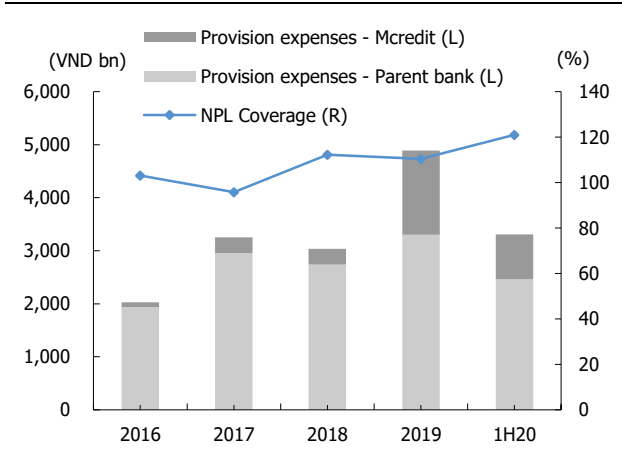
Source: Company data, KIS Vietnam

Figure 3. Credit & Deposit



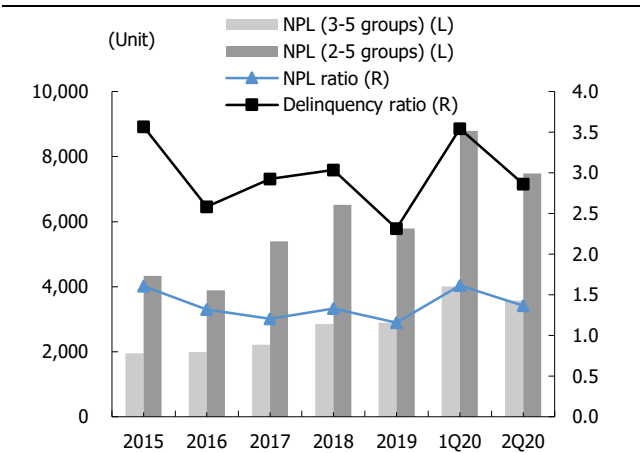
Source: Company data, KIS Vietnam

Figure 4. Provision expenses



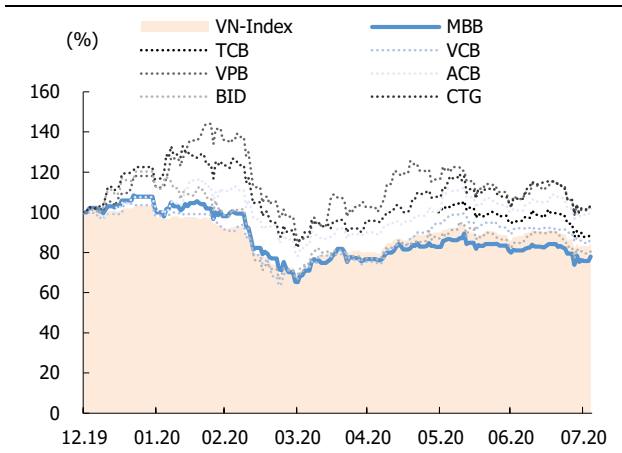
Source: Company data, KIS Vietnam

Figure 5. NPL ratios



Source: Company data, KIS Vietnam

Figure 6. Relative valuation



Source: Company data, KIS Vietnam

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	313,878	362,325	411,488	460,490	507,507
Gross IEAs	297,180	344,546	391,168	440,867	486,521
Loans and corp bonds	190,238	223,420	265,602	296,861	331,702
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	78,452	89,702
Dep't to SBV & G-bond	43,860	54,371	62,404	65,554	65,118
VAMC bond	-	-	-	-	-
NIEAs	20,470	22,055	24,462	25,180	27,187
Others	3,772	4,276	4,142	5,557	6,201
Total liabilities	284,277	328,152	371,630	410,243	449,325
Deposits	220,176	239,964	272,710	292,452	322,299
Debentures	6,022	11,158	26,289	38,019	41,899
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	24,124	26,713
Total equities	29,601	34,173	39,858	50,247	58,182
Controlling interests	28,170	32,643	37,970	48,123	55,803
Capital stock	18,155	21,605	23,727	28,026	28,026
Capital surplus	828	-	-	1,327	1,327
Other reserves	3,209	3,915	4,965	6,138	7,265
Retained earnings	5,977	7,124	9,278	12,632	19,185
OCI	-	-	-	-	-
Minority interest	1,431	1,530	1,888	2,124	2,379

Income statement

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	13,867	19,537	24,650	25,763	28,347
Net interest income	11,219	14,583	18,000	19,290	21,408
Interest income	19,876	24,824	31,197	32,725	36,703
Interest cost	8,657	10,241	13,197	13,435	15,295
Non-interest income	2,648	4,953	6,650	6,474	6,939
Net commission income	1,332	3,006	3,833	3,767	4,638
Gains on investment securities	207	430	718	1,001	292
Other non-interest income	1,109	1,517	2,099	1,706	2,009
Provision for credit losses	3,252	3,035	4,891	6,648	7,497
Net operating revenue	10,615	16,501	19,760	19,116	20,849
SG&A	5,999	8,734	9,724	9,429	10,375
Employee benefits	n.a	n.a	n.a	n.a	n.a
Pre-provision earnings	7,868	10,803	14,927	16,334	17,972
Earnings before tax	4,616	7,767	10,036	9,686	10,474
Tax	1,125	1,577	1,968	1,937	2,095
Tax rate (%)	24.4	20.3	19.6	20.0	20.0
Continuing operations profit	2,711	5,168	6,133	6,207	6,534
Reversals of written-off loans	779	1,022	1,935	1,542	1,845
Net profit	3,490	6,190	8,069	7,749	8,379
Net profit of controlling interest	3,461	6,113	7,823	7,513	8,124

Key financial data

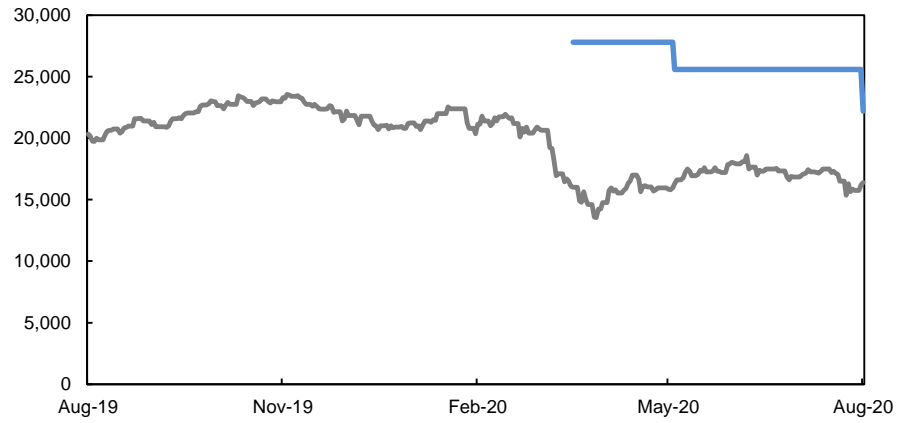
	2017A	2018A	2019A	2020F	2021F
Profitability and efficiency (%)					
ROE	12.9	20.1	22.2	17.5	15.6
ROA	1.2	1.8	2.1	1.8	1.7
NIM	4.3	4.6	5.0	4.7	4.7
Asset yield	7.6	7.9	8.6	8.0	8.1
Cost of fund	3.5	3.5	4.0	3.7	3.8
Cost-income ratio	43.3	44.7	39.4	36.6	36.6
Credit cost	1.9	1.5	2.0	2.4	2.4
Growth (%)					
Net profit of controlling interest	21.2	76.6	28.0	(4.0)	8.1
Pre-provision earnings	38.5	37.3	38.2	9.4	10.0
Credit growth	23.6	17.4	18.9	11.8	11.7
Total assets	22.5	15.4	13.6	11.9	10.2
Asset quality (%)					
NPL ratio	1.2	1.3	1.2	1.6	1.6
NPL coverage ratio	95.9	112.3	110.5	100.7	105.2
Loan to deposit	72.5	76.6	80.8	81.8	83.3
Capital adequacy (%)					
CAR ratio	12.0	11.0	10.1	11.5	11.9
CET1 ratio	n.a	n.a	n.a	n.a	n.a
Tier 1 ratio	-	-	9.0	10.1	10.6

Valuation

	2017A	2018A	2019A	2020F	2021F
Per share (VND, adj.)					
BPS	12,002	13,990	16,326	19,747	22,898
EPS	1,360	2,461	3,165	2,893	3,151
DPS	464	556	-	-	-
Valuation (x)					
PB	1.4	1.2	1.0	0.8	0.7
PE	12.0	6.6	5.1	5.6	5.2
P/PPE	4.8	3.5	2.5	2.4	2.2
Dividend yield (%)	2.9	3.4	-	-	-
Dividend payout ratio (%)	34.1	22.6	-	-	-
ROE analysis (%)					
ROE	12.9	20.1	22.2	17.5	15.6
Leverage(x)	10.6	10.6	10.3	9.2	8.7
IEAs to total assets	93.6	94.0	94.1	94.6	94.7
Net income to IEAs	1.2	1.8	2.0	1.7	1.7
Net interest income to IEAs	3.8	4.2	4.6	4.4	4.4
Non-interest income to IEAs	0.9	1.4	1.7	1.5	1.4
Credit cost to IEAs	1.1	0.9	1.3	1.5	1.5
SG&A to IEAs	2.0	2.5	2.5	2.1	2.1

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Military Commercial Joint Stock Bank (MBB)	04 Aug 20	BUY	VND22,200	-	-
	07 May 20	BUY	VND25,600		
	20 Mar 20	BUY	VND27.800		



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