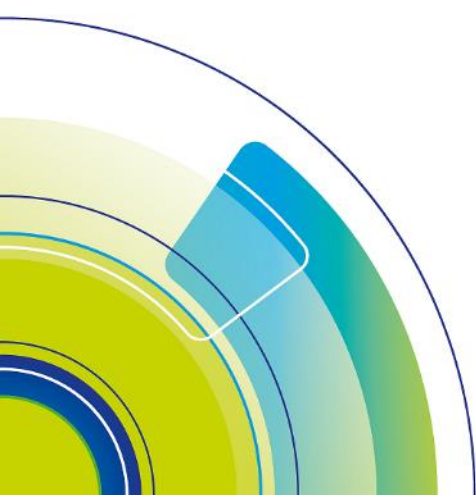




Update MBB – BUY

August 3, 2022



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Recommendation

BUY

HOSE: MBB

Banking

Current price (VND) **26,700**

Target price (VND) **44,200**

Expected share price return +65.5%

Expected dividend yield 0.0%

Expected total return +65.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-8.0	10.3	-10.4	-7.3
Relative	8.2	6.4	-2.0	-3.2

Source: Bloomberg



Ownership

Viettel	14.0%
SCIC	9.3%
Vietnam Helicopter	7.4%
Saigon New Port	7.1%

Stock Statistics

02-Aug-22

Bloomberg code **MBB VN**

52-week range (VND) 21,850-34,900

No. of shares (m) 3,778

Mkt cap (VND bn) 100,503

Mkt cap (USD m) 4,277

Foreign room left (%) 0.0

Est. free float (%) 59.0

3m avg daily vol (shs) 8,169,076

VND/USD 23,500

Index: VNIndex / HNX 1244.09/296.49

MILITARY COMMERCIAL JOINT STOCK BANK (MBB)

We reiterate our **BUY** recommendation with a target price of VND44,200/share. The taking over of Oceanbank can cause MBB's provision expenses remain high. The recent strong correction made MBB's stock price attractive, on the back of the sustainable growth of business results.

1H2022 profit grew by 49.0% y/y with strong growth from credit activity and reducing provisioning pressure.

(Unit: VND bn)	1H2021	1H2022	+/-YoY
Net interest income	12,515	17,355	38.7%
Non-interest income	5,603	5,500	-1.8%
Total income	18,117	22,855	26.1%
Operating expenses	(5,891)	(7,458)	26.6%
Profit before provisioning	12,227	15,397	25.9%
Provision expenses	(4,240)	(3,500)	-17.5%
Profit before tax	7,986	11,896	49.0%

Source: MBB

We forecast MBB's PBT in 2022 to reach VND22,607 billion, up 36.8% y/y and 11.2% higher than management's target.

Although the taking over of Oceanbank will help MBB be granted a higher credit quota than peers, MBB's provision expenses may have to remain high, accounting for about 1.6% of outstanding credit each year during the restructuring period.

MBB's share price has corrected by 25% from VND34,000 per share to VND26,000 per share since the beginning of April 2022. The sharp correction makes MBB's stock price attractive with a 2022 forward P/E and 2022 forward P/B of only **6.2x** and **1.3x**, respectively.

We reiterate our **BUY** recommendation with a 1-year target price of VND44,200 per share using a discounted residual income method. Our target price is equivalent to 1-year forward P/E and P/B of **9.5x** and **1.93x**, respectively.

(VND bn)	2018	2019	2020	2021	2022F	2023F
Credit growth	17.5%	18.8%	21.4%	26.1%	22.0%	20.0%
NIM	4.59%	4.94%	4.77%	5.10%	5.29%	5.24%
NFI proportion	25.0%	27.0%	25.9%	29.1%	23.9%	23.8%
TOI growth	40.9%	26.2%	11.0%	35.0%	18.6%	19.6%
CIR	44.7%	39.4%	38.6%	33.5%	32.8%	31.8%
Net credit costs	-0.97%	-1.21%	-1.54%	-1.47%	-1.08%	-1.17%
Profit before tax	7,767	10,036	10,688	16,527	22,607	26,740
Growth	68.3%	29.2%	6.5%	54.6%	36.8%	18.3%
Profit attributable	5,773	7,373	7,714	11,888	16,295	19,273
Adjusted EPS (VND)	2,672	3,170	2,782	3,146	4,213	4,983
BVPS (VND)	15,109	16,338	17,275	15,768	20,029	25,012
ROA	1.7%	1.9%	1.7%	2.2%	2.4%	2.4%
ROE	19.0%	20.9%	18.0%	22.1%	23.8%	22.1%
P/E (x)	17.5	13.7	13.1	8.5	6.2	5.2
P/B (x)	3.1	2.7	2.1	1.7	1.3	1.0
DPS (VND)	600	600	-	-	-	-
Dividend yield	2.3%	2.3%	0.0%	0.0%	0.0%	0.0%

1H2022's PBT grew by 49% y/y

MBB's credit balance (including corporate bonds) grew by 14.6% compared to the beginning of the year and by 29% over the same period. Thus, MBB has almost used up the credit growth limit granted by the State Bank (15%) and is waiting for approval of a new credit limit. Credit demand in 1H2022 grew strongly due to the recovery of the economy after the pandemic and low lending interest rates.

NIM in 1H2022 increased due to the reduction of COVID-19 loan interest support packages. The high CASA ratio of 45.5% helped to reduce the impact of the increase in deposit rates.

Non-interest income in 1H2022 decreased slightly by 1.8% y/y because there was an extraordinary income from off-balance sheet debt collection of VND1,614 billion in the same period last year, while this income in 1H2022 was VND834 billions.

1H2022 operating expenses increased by 26.6% y/y due to MBB's sharp increase in employee expenses (+32.8% y/y due to employee bonus payment in 1H2022). However, CIR in Q1/22 was still held at a good level of 32.5% due to strong growth in total operating income.

Provision expenses in 1H2022 decreased by 17.5% y/y as the pressure to make provision for COVID-19 restructured loans was negligible. MBB has made 100% provision for COVID-19 restructured loans by the end of 2021.

In summary, the strong growth in net interest income and the decrease in provisioning pressure helped MBB's 1H2022 PBT to grow by 49% y/y.

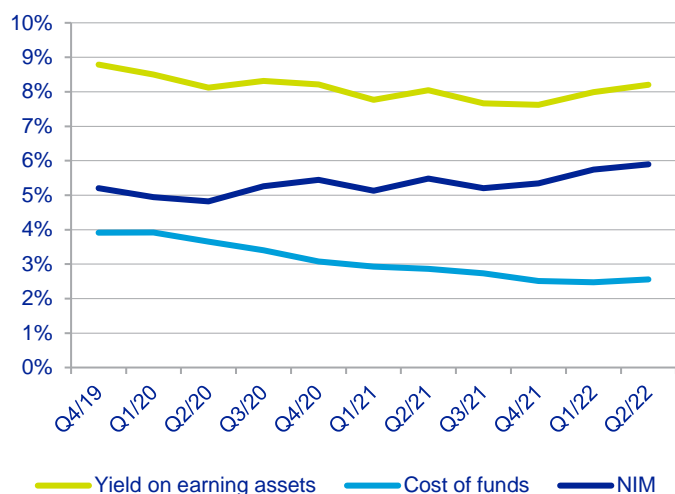
(Unit: VND bn)	1H2021	1H2022	+/- YoY
Net interest income	12,515	17,355	38.7%
Non-interest income	5,603	5,500	-1.8%
Total income	18,117	22,855	26.1%
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Source: MBB

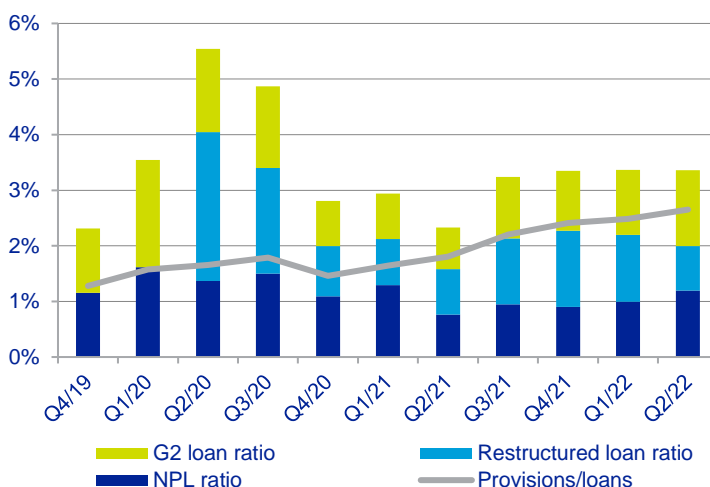
Asset quality was stable. NPL ratio at the end of Q2/22 was at 1.2%, an increase of 20 bps q/q, group 2 loan ratio also increased by 19 bps q/q to 1.36%. However, the COVID-19 restructured loans decreased q/q and accounted for only 0.8% of outstanding loans.

NPL coverage ratio decreased q/q but remained at a high level of 221%.

NIM improved thanks to higher yields



Asset quality was stable on the back of a thicker provision buffer



Source: MBB, ACBS

Net interest income is forecasted to grow 27.3% in 2022

With MBB taking over Oceanbank, we expect MBB to be granted a higher than the industry average credit growth quota by SBV.

MBB's management expects that the taking over of Oceanbank will help MBB be granted a credit growth quota 1.5-2x higher than the industry average in the next 3-5 years. We expect MBB's credit growth to be at 20-25%/year to balance between high credit growth and a reasonable level of CAR ratio (currently at ~10%).

For the whole year of 2022, we forecast MBB's credit growth to reach 22%, higher than SBV's target of 14% credit growth for the whole industry.

Although deposit rates of private banks have increased by 0.3-1% since the beginning of the year, we expect MBB's 2022 NIM to increase by 19 bps and reach 5.29%, thanks to:

- Lending interest rates are also expected to increase in line with the increase of deposit rates. Limited credit quota allows banks to select loans with better interest rates in the context of high credit demand.
- Trend of increasing CASA ratio will continue thanks to (1) MBB's impressive ability to attract millennial customers with 1.6 million new customers in Q1/22 alone, bringing MBB's customer base to 13 million and (2) the trend of increasing transactions through digital banking channels in Vietnam. We expect MBB's CASA ratio to improve from 48.7% at the end of 2021 to 50% at the end of 2022.
- CASA accounting for nearly half of MBB's customer deposits will reduce the impact of raising deposit rates on MBB's cost of funds.

We expect MBB's net interest income grow 27.3% y/y in 2022.

Non-interest income is expected to face difficulties in 2022

We expect MBB's non-interest income in 2022 to decrease slightly by 2.4% y/y due to:

- Securities investment activities is expected to be less positive due to increasing government bond yields.
- Off-balance sheet debt collection declined due to low liquidity in the real estate market. Therefore, the process of liquidating collateral assets (mainly real estate) to collect debts is expected to slow down in the coming time.

Overall, we expect total income of MBB to grow by 18.6% y/y in 2022.

Provision pressure will decrease in 2022

We expect MBB's provision expenses in 2022 to decrease by 14.7% y/y. Provisioning pressure will ease in 2022 thanks to the following factors:

- MBB has provisioned for all of the VND5,000 billion of COVID-19 restructured loans, therefore, the pressure to make provision for the restructured loans was negligible.
- Credit risk of MBB's consumer finance company (MCredit) has been better controlled since 2020, when the company changed its credit policy towards stricter lending policies. With the economy reopening after the pandemic, we expect MCredit's asset quality and provision expenses to remain stable in the coming years.
- The Government's actions to control credit may cause capital inflows to real estate businesses to stagnate in the short term. However, the financial capacity of real estate businesses in Vietnam is generally good and the demand for housing is still very high, we expect NPLs in real estate sector of MBB to remained stable.

... but credit costs is expected to remain high in the coming years due to the taking over of Oceanbank

2021 AGM taking place in April 2022 has approved the plan of taking over Oceanbank. Key highlights and our expectation of the impact on MBB's asset quality are as follows:

- MBB will not have to consolidate Oceanbank in its financial statement. This will prevent MBB's consolidated balance sheet financials from being affected immediately.
- However, MBB will support in terms of operating, training, technology and especially buying and selling assets with Oceanbank. We expect that MBB will have to sell good loans to Oceanbank and receive low quality loans to dissolve by its own, thereby speeding up the restructuring process.
- As of December 31, 2021, Oceanbank's total assets are VND23,800 billion and accumulated losses of VND18,700 billion. MBB's management estimated that it can take 7-8 years to dissolve all of Oceanbank's accumulated losses. The amount of capital that MBB will invest to contributing to Oceanbank's charter capital will be not more than VND5,000 billion.

We expect the taking over of Oceanbank will cause MBB's provision expenses to continue to remain high, accounting for about 1.6% of outstanding loans annually during the restructuring period.

Reiterate our BUY recommendation with target price of VND44,200 per share

We forecast MBB's 2022 PBT to reach VND22,607 billion, +36.8% y/y. Our 1-year target price for MBB is **VND44,200** per share using a discounted residual income method. Our target price is equivalent to 1-year forward P/E and P/B of **9.5x** and **1.93x** respectively.

MBB's share price has decreased by 25% from VND34,000 per share to VND26,000 per share since the beginning of April 2022. The current price is equivalent forward P/E and P/B by the end of 2022 are **6.2x** and **1.3x**. This correction makes MBB's share price attractive to long-term investors, although macro fluctuations and the Government's credit control actions can still put pressure on stock price in the short-term.

(Unit: VND billion, unless otherwise stated)	Market price (VND):	26,700	Target price (VND):	44,200	Market cap (VND bn):	100,881	
INCOME ITEMS	2018	2019	2020	2021	2022F	2023F	2024F
Net interest income	14,583	18,000	20,278	26,200	33,339	39,959	47,569
Net fee & commission income	2,561	3,186	3,576	4,367	4,542	5,381	6,304
Other non-interest income	2,392	3,465	3,509	6,368	5,933	7,078	7,707
Total operating income	19,537	24,650	27,362	36,934	43,814	52,418	61,580
Growth (%)	40.9%	26.2%	11.0%	35.0%	18.6%	19.6%	17.5%
Operating expenses	(8,734)	(9,724)	(10,555)	(12,377)	(14,355)	(16,655)	(19,322)
Profit before provision & tax	10,803	14,927	16,807	24,557	29,459	35,763	42,258
Provision for credit losses	(3,035)	(4,891)	(6,118)	(8,030)	(6,852)	(9,024)	(10,829)
Profit before tax	7,767	10,036	10,688	16,527	22,607	26,740	31,429
Profit attributable to shareholders	5,773	7,373	7,714	11,888	16,295	19,273	22,654
Growth (%)	74.5%	27.7%	4.6%	54.1%	37.1%	18.3%	17.5%
Adjusted EPS (VND)	2,672	3,170	2,782	3,146	4,213	4,983	5,857
Core earnings (before tax)	9,100	12,248	14,278	19,712	25,616	31,161	37,452
Growth (%)	34.4%	34.6%	16.6%	38.1%	30.0%	21.6%	20.2%
BALANCE SHEET ITEMS	2018	2019	2020	2021	2022F	2023F	2024F
Outstanding loans & corporate bonds	223,440	265,498	322,278	406,518	495,952	595,142	714,170
Growth (%)	17.5%	18.8%	21.4%	26.1%	22.0%	20.0%	20.0%
Customer deposit	239,964	272,710	310,960	384,692	454,692	538,692	631,092
Growth (%)	9.0%	13.6%	14.0%	23.7%	18.2%	18.5%	17.2%
Total assets	362,325	411,488	494,982	607,140	746,089	890,558	1,052,995
Shareholder's equity	32,643	37,998	47,907	59,575	77,462	96,735	119,389
BVPS (VND)	15,109	16,338	17,275	15,768	20,029	25,012	30,869
KEY RATIOS	2018	2019	2020	2021	2022F	2023F	2024F
NPL (%)	1.3%	1.2%	1.1%	0.9%	1.0%	1.0%	1.0%
NPL coverage (%)	112%	110%	134%	268%	201%	152%	133%
NIM (%)	4.6%	4.9%	4.8%	5.1%	5.3%	5.2%	5.3%
CIR (%)	45%	39%	39%	34%	33%	32%	31%
ROA (%)	1.7%	1.9%	1.7%	2.2%	2.4%	2.4%	2.3%
ROE (%)	19.0%	20.9%	18.0%	22.1%	23.8%	22.1%	21.0%
P/E (x)	17.5	13.7	13.1	8.5	6.2	5.2	4.5
P/B (x)	3.1	2.7	2.1	1.7	1.3	1.0	0.8
Dividend yield (%)	2.3%	2.3%	0.0%	0.0%	0.0%	0.0%	0.0%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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