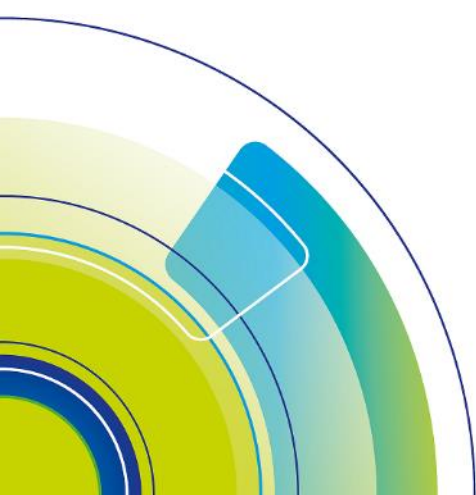




# Update MBB – BUY

December 23, 2022

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### Recommendation

**BUY**

HOSE: MBB

Banking

Current price (VND) 17,750

Target price (VND) 30,200

Expected share price return +70.1%

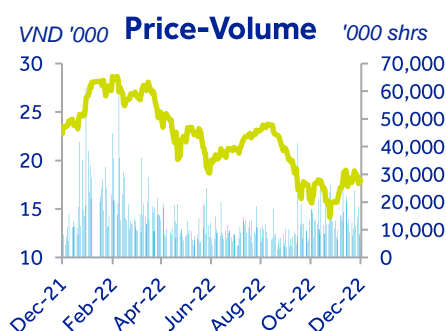
Expected dividend yield 0.0%

Expected total return +70.1%

### Stock performance (%)

	YTD	1M	3M	12M
Absolute	-25.9	13.9	-15.3	-21.9
Relative	4.7	6.2	0.1	7.9

Source: Bloomberg



### Ownership

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

### Stock Statistics

23-Dec-22

Bloomberg code MBB VN

52-week range (VND) 13,200-29,083

No. of shares (m) 4,534

Mkt cap (VND bn) 80,932

Mkt cap (USD m) 3,408

Foreign room left (%) 0.0

Est. free float (%) 58.9

3m avg daily vol (shs) 12,867,800

VND/USD 23,750

Index: VNIndex / HNX 1024.43/205.06

## MILITARY COMMERCIAL JOINT STOCK BANK (MBB)

We expect provision expenses to face pressure as the economy is facing global headwinds, the domestic corporate bond market remains stagnant and the taking over of Oceanbank. However, MBB's stock price is in an attractive level and has the potential to recover when policies and macro factors improve. We reiterate our BUY recommendation with a target price of VND30,200/share, representing an upside of 70.1%.

### Business results in 9M2022

9M2022's PBT grew by 53.1% YoY with the growth drivers coming from credit activities and decreasing provisioning pressure.

NII grew well thanks to strong credit growth and high NIM. However, NFI in 9M2022 was less positive due to the impact of the correction in the stock market, corporate bonds and real estate.

Provision expenses decreased thanks to pressures as provisioning for COVID-19 restructured loans is no longer significant. The provision buffer was thickened to cope with the risk of NPLs arising.

### Outlook for 2023

In addition to the responsibility of restructuring Oceanbank, MBB (and the banking sector in general) will face the potential of increasing NPLs arising in the context of liquidity difficulties in the economy. As a result, MBB's credit costs may have to remain at the high level of 2.0% in the coming years.

We forecast 2023's PBT will reach VND 23,692 billion, +5.1% YoY.

### Valuations and recommendations

The earnings outlook for 2023 is marginal as increases in provisioning are expected to be a drag on the bottom line, however, MBB's stock price is at an attractive level with a P/E of 4.7x and a P/B of 1.1x.

We have a target price at the end of 2023 for MBB stock at VND 30,200 per share using the discounted residual income method. Our target price equates to a forward P/E and P/B of 8.2x and 1.5x respectively.

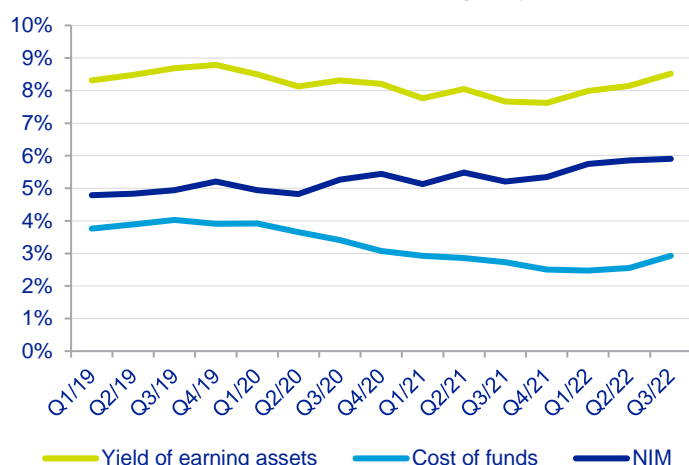
(VND bn)	2019	2020	2021	2022F	2023F	2024F
Credit growth	18.8%	21.4%	26.1%	22.4%	20.0%	20.0%
NIM	4.94%	4.77%	5.10%	5.56%	5.49%	5.43%
NFI proportion	27.0%	25.9%	29.1%	23.4%	22.5%	22.1%
TOI growth	26.2%	11.0%	35.0%	20.3%	15.7%	18.2%
CIR	39.4%	38.6%	33.5%	33.7%	32.1%	30.6%
Credit costs	-2.00%	-2.08%	-2.20%	-1.53%	-2.06%	-2.06%
Profit before tax	10,036	10,688	16,527	22,551	23,692	28,682
Growth	29.2%	6.5%	54.6%	36.4%	5.1%	21.1%
Profit attributable	7,373	7,714	11,888	16,253	17,075	20,671
Adjusted EPS (VND)	3,170	2,782	3,146	3,585	3,693	4,471
BVPS (VND)	16,338	17,275	15,768	17,075	20,439	24,910
ROA	1.9%	1.7%	2.2%	2.5%	2.2%	2.2%
ROE	20.9%	18.0%	22.1%	23.7%	19.9%	19.7%
P/E (x)	9.1	8.7	5.6	4.1	3.9	3.2
P/B (x)	1.8	1.4	1.1	0.9	0.7	0.6
DPS (VND)	600	-	-	-	-	-

### 9M2022's PBT grew by 53.1% y/y

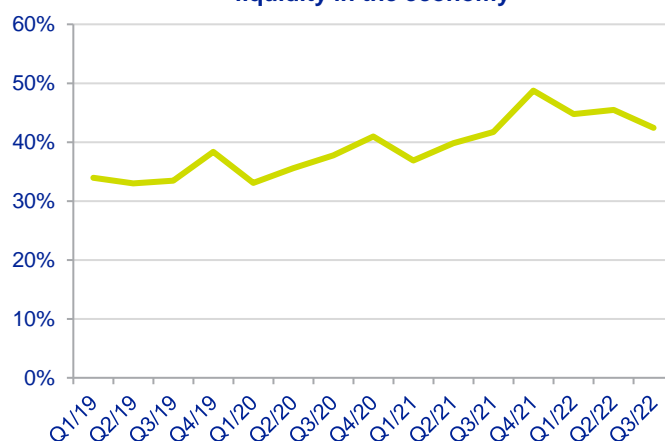
(Unit: VND bn)	9M2021	9M2022	+/- YoY	
Net interest income	19,030	26,394	38.7%	Credit growth grew by 17.1% YTD and by 26.7% YoY. NIM Q3/22 slightly improved. The high CASA ratio of 42.4% helps to reduce the impact of the increase in deposit rates.
Non-interest income	7,788	7,448	-4.4%	Service income was weak due to struggles in the subsidiaries' insurance and securities brokerage segments. In addition, Q1 2021 recorded an extraordinary income from off-balance sheet debt collection of VND 1,100 billion.
<b>Total income</b>	<b>26,818</b>	<b>33,841</b>	<b>26.2%</b>	<b>High growth in total income thanks to credit activities.</b>
Operating expenses	(8,914)	(11,187)	25.5%	Staff expenses sharply increased by 28.3% YoY. However, the CIR in 9M2022 is still quite good at 32.6% thanks to the total income growth of 26.1% YoY.
<b>Profit before provisioning</b>	<b>17,903</b>	<b>22,654</b>	<b>26.5%</b>	
Provision expenses	(6,019)	(4,462)	-25.9%	Provision expenses decreased as the pressure of provisioning for COVID-19 restructured loans was no longer significant.
<b>Profit before tax</b>	<b>11,885</b>	<b>18,192</b>	<b>53.1%</b>	

Source: MBB, ACBS

NIM improved thanks to higher yields



CASA decreased due to the constrained liquidity in the economy



Source: MBB, ACBS

The liquidity in the economy was constrained throughout the second half of 2022, causing MBB's CASA to be affected by the downtrend of the whole sector. MBB's CASA ratio dropped from 48.7% at the beginning of the year to 42.4% at the end of Q3/22.

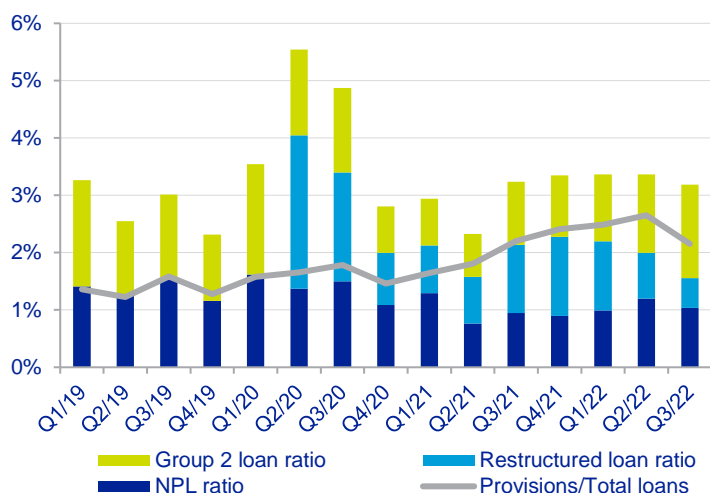
The ability to attract new customers of MBB is still impressive. The number of MBB's customers increased by 10.5 million in 2021 and increased by 3.5 million in 1H2022, bringing the size of MBB's customer base to **16.5 million**. MBB expects the number of customers to increase by 7-8 million in the whole year of 2022. The strong growth of the customer base will help MBB maintain its position as one of the best banks in the ability to mobilize CASA in the sector.

### The provision buffer was thickened to cope with rising bad debts

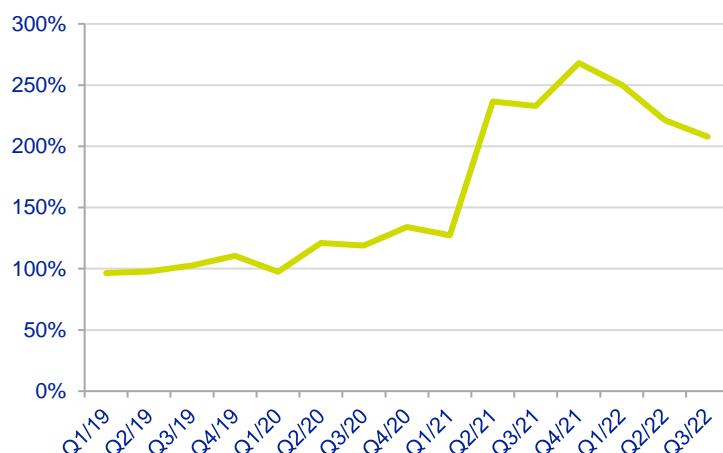
NPL ratio at the end of Q3/22 was at 1.04%, -16 bps QoQ as MBB wrote off NPLs by its provision reserve. Group 2 loan ratio continued its upward trend, +27 bps to 1.63%. COVID-19 restructured loans decreased and accounted for only 0.5% of outstanding loans.

NPL coverage ratio decreased for the third quarter in a row due to an increase in NPLs, but remained at a high level of 208% compared to the level of pre-COVID period of 100%. The provision buffer accounts for 2.2% of outstanding loans, sufficient to cover NPLs, COVID-19 restructured loans and part of group 2 loans.

Asset quality stable while provisions thicken



NPL coverage ratio decreased but remained high



Source: MBB, ACBS

### Provision expenses face pressure in the coming years

Since taking steps at the beginning of 2022 to take over and restructure a weak bank (Oceanbank), management expects MBB to be granted a credit growth quota 1.5-2 times higher than the industry average in the next 3-5 years. However, MBB may have to buy bad debts from Oceanbank and handle it on its own to speed up the restructuring process.

As of December 31, 2021, Oceanbank's total assets were VND 23,800 billion and accumulated losses of VND 18,700 billion. MBB's management estimates that it will take about 7-8 years to process all of Oceanbank's accumulated losses. The amount that MBB will invest to contribute charter capital to Oceanbank is not more than VND 5,000 billion.

In addition to the responsibility to restructure Oceanbank, MBB will face a high risk of NPLs arising in the context of liquidity difficulties in the economy, especially in real estate businesses. Outstanding credit (including corporate bonds) to Novaland is about VND 12,000 billion, accounting for 2.5% of MBB's total credit balance, as of Q3/22.

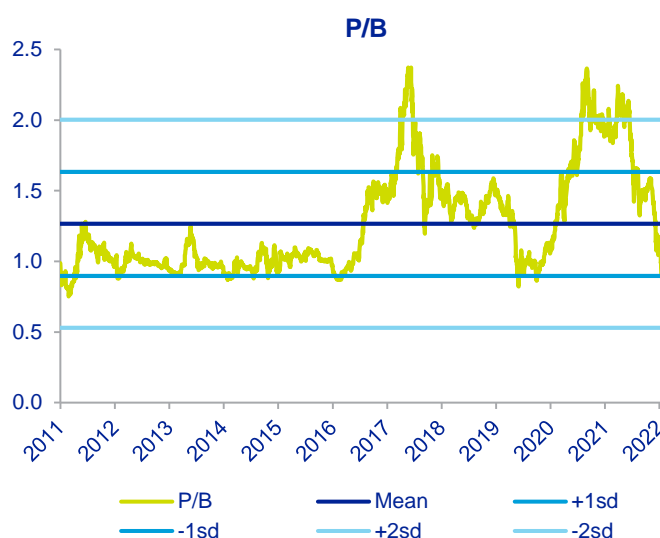
MBB is one of the banks that invest the most in corporate bonds, which accounts for 10.3% of MBB's total credit balance, compared to 2.7% of the whole sector. Apart from Novaland, other corporate bonds are not of concern at the moment.

We expect MBB's provision expensed will continue to remain high, accounting for about 2.0% of outstanding loans per year for the next 2 years.

### Valuation is at an attractive level

We forecast MBB's PBT in 2023 at VND 23,692 billion, a slight growth of 5.1% YoY due to high provisioning pressure.

Although the earnings outlook is not really impressive, however, MBB's stock price is in an attractive level. The current price equates to a P/E of 4.7x and a P/B of 1.1x, which is the same valuation range during the 2012 financial crisis.



Source: Fiinpro, ACBS

We value MBB's stock at the end of 2023 at VND **30,200**/share using the discounted residual income method. Our target price has decreased from our previous update in Aug 2022 of 36,800VND/share primarily due to our expectations of higher credit costs as the economy is facing global headwinds, the domestic corporate bond market remains stagnant and the taking over of Oceanbank. Our target price equates to a forward P/E and P/B of **8.2x** and **1.5x**, respectively.

In the short term, potential policy changes (particularly relating to the corporate bond market, Decree 65 amendment) and improvements to the macro environment could be catalysts for MBB's stock price to recover.

Stock price downside risks include:

- (1) The situation of capital flow bottleneck prolonged, causing a crisis in the real estate sector and causing MBB's NPLs to increase sharply;
- (2) Inflation in the US remained high, causing the FED to sharply increase the USD interest rate and put pressure on the liquidity of Vietnam banking system and MBB.

(Unit: VND billion, unless otherwise stated)	<b>Market price (VND):</b>	<b>17,750</b>	<b>Target price (VND):</b>	<b>30,200</b>	<b>Market cap (VND bn):</b>	<b>67,065</b>	
<b>INCOME ITEMS</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Net interest income	14,583	18,000	20,278	26,200	34,033	39,875	47,377
Net fee & commission income	2,561	3,186	3,576	4,367	4,542	5,223	6,248
Other non-interest income	2,392	3,465	3,509	6,368	5,871	6,337	7,162
<b>Total operating income</b>	<b>19,537</b>	<b>24,650</b>	<b>27,362</b>	<b>36,934</b>	<b>44,446</b>	<b>51,436</b>	<b>60,788</b>
Growth (%)	40.9%	26.2%	11.0%	35.0%	20.3%	15.7%	18.2%
Operating expenses	(8,734)	(9,724)	(10,555)	(12,377)	(14,997)	(16,498)	(18,611)
<b>Profit before provision &amp; tax</b>	<b>10,803</b>	<b>14,927</b>	<b>16,807</b>	<b>24,557</b>	<b>29,449</b>	<b>34,938</b>	<b>42,176</b>
Provision for credit losses	(3,035)	(4,891)	(6,118)	(8,030)	(6,898)	(11,245)	(13,494)
<b>Profit before tax</b>	<b>7,767</b>	<b>10,036</b>	<b>10,688</b>	<b>16,527</b>	<b>22,551</b>	<b>23,692</b>	<b>28,682</b>
<b>Profit attributable to shareholders</b>	<b>5,773</b>	<b>7,373</b>	<b>7,714</b>	<b>11,888</b>	<b>16,253</b>	<b>17,075</b>	<b>20,671</b>
Growth (%)	74.5%	27.7%	4.6%	54.1%	36.7%	5.1%	21.1%
<b>Adjusted EPS (VND)</b>	<b>2,672</b>	<b>3,170</b>	<b>2,782</b>	<b>3,146</b>	<b>3,585</b>	<b>3,693</b>	<b>4,471</b>
<b>BALANCE SHEET ITEMS</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Outstanding loans & corporate bonds	223,440	265,498	322,278	406,518	497,406	596,888	716,265
Growth (%)	17.5%	18.8%	21.4%	26.1%	22.4%	20.0%	20.0%
Customer deposits	239,964	272,710	310,960	384,692	424,692	509,692	609,692
Growth (%)	9.0%	13.6%	14.0%	23.7%	10.4%	20.0%	19.6%
<b>Total assets</b>	<b>362,325</b>	<b>411,488</b>	<b>494,982</b>	<b>607,140</b>	<b>711,530</b>	<b>855,516</b>	<b>1,025,519</b>
<b>Shareholder's equity</b>	<b>32,643</b>	<b>37,998</b>	<b>47,907</b>	<b>59,575</b>	<b>77,420</b>	<b>94,496</b>	<b>115,167</b>
BVPS (VND)	15,109	16,338	17,275	15,768	17,075	20,439	24,910
<b>KEY RATIOS</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
NPL (%)	1.3%	1.2%	1.1%	0.9%	1.0%	1.0%	1.0%
NPL coverage (%)	112%	110%	134%	268%	199%	152%	133%
NIM (%)	4.6%	4.9%	4.8%	5.1%	5.6%	5.5%	5.4%
CIR (%)	45%	39%	39%	34%	34%	32%	31%
ROA (%)	1.7%	1.9%	1.7%	2.2%	2.5%	2.2%	2.2%
ROE (%)	19.0%	20.9%	18.0%	22.1%	23.7%	19.9%	19.7%
P/E (x)	11.6	9.1	8.7	5.6	4.1	3.9	3.2
P/B (x)	2.0	1.8	1.4	1.1	0.9	0.7	0.6
Dividend yield (%)	3.4%	3.4%	0.0%	0.0%	0.0%	0.0%	0.0%



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**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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