



Company Report: Vietnam Military Commercial Joint Stock Bank (MBB)

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Well balancing between risk and profitability

INVESTMENT THESIS

- Sustainable growth is maintained, underpinned by the ecosystem of member companies operating in the financial sector. In the first 6 months of 2021, MBB still recorded a high credit growth of 11%ytd, which was among the strongest growth banks in 1H2021, higher than the industry-wide average of 7% while PBT grew by 50% yoy thanks to the improvements in NII and NFI.
- Accelerating digital transformation is expected to expand customer base, so as improve NIM and non-interest income. Bank's number of customers and online transactions has increased rapidly from 2020 thanks to new app and attractive digital programs. The CASA ratio was at 38.6%, the second highest in the sector.
- Efforts in bad debts handling help to improve assets quality. NPL ratio decreased to 0.8% at the end 2Q2021 while the provision coverage ratio climbed to over 230%.

RISKS

The assets quality of parent bank and consumer finance company -Mcredit would suffer due to the 4th Covid outbreak in Vietnam. However, there is not too much of concern thanks to current low NPL ratio and strong provision buffer.

RECOMMENDATION

We evaluate MBB as one of the best banks in the sector regarding its outstanding position in terms of growth rate, asset quality as well as business prospects thanks to digitization, effective operating ecosystem, and visionary management.

GTJA (VN) recommend "BUY" MBB shares with a long-term target price (6-8 month) of **33,200VND/share, corresponding to an expected return of 17.7%**.

Recommendation:

Buy
 (Updated)

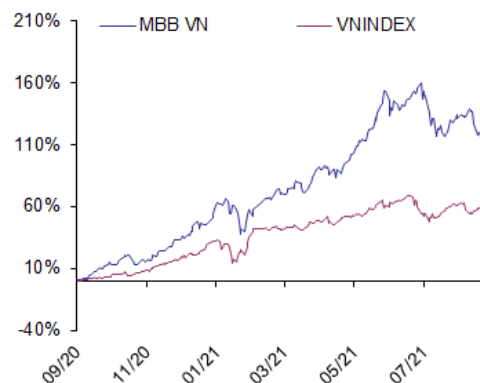
6-18m TP:

VND33,200

Current price:

VND28,200

Price performance



Price change	1 M	3 M	1Y
Abs. %	-5.0	-2.7	151.4
Relative to VN index	-6.2	-3.3	202.7
Avg price (VND)	29,093	29,525	21,312

Source: Bloomberg, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2019A	28,265	11,684	3,596	27.11	10.06	-	0	5.04	-34.4	31.34
2020A	32,067	13,311	2,993	-16.77	12.68	-	0	4.89	-32.92	29.04
2021F	37,566	14,120	3,672	22.69	16.5	-	0	5.11	-33	24.15
2022F	45,760	17,542	4,578	24.67	20.08	-	0	5.05	-33	24.13
2023F	59,708	22,890	5,993	30.92	25.07	-	0	5.38	-33	25.7

Shares in issue (m)	3,778.32	Major shareholders (%)	Viettel	14.01
Market cap (VND b)	106,548.67	Free float (%)		65.8
3- month average vol. ('000)	23,004.04	LDR (%)		91.1
52w high/low (VND)	32926 / 11265	CAR (%)		10.3

Source: the Company, Guotai Junan (VN).

1H2021 BUSINESS PERFORMANCE

Intact growth in the first haft

- **Credit grew by 10.5%ytd** to VND 340,000 billion thanks to **boosting personal and energy projects lending**. In addition, the bank's market share of newly issued international credit cards continued to grow to 17%, reaching the top 1 market share. As updated, the bank received 15% credit growth room for 2021.
- **PBT was up 50%**. Earnings in all categories grew well: (i) NII increased by more than 30% mainly due to decreasing COF, the deposit advantage from **military related companies and long-term customers** helped CASA continue to be high, thereby maintaining high NIM; (ii) service income improved by 20%yoy, of which insurance income increased sharply by 50%. Notably, MBB did not make as much cost cuts as other banks as operating costs remained up 30 percent. However, other operating income doubled from \$1.087 billion to \$2.369 billion, giving the bank's PBT a 50% growth.
- **The CASA ratio remained high, reaching 38.6% (top 2 market)**. There is recorded a doubled CASA from individual customers compared to 2019.
- **Significant improvement in assets quality** thanks to the active bad debts handling, increased provision expenses including increased provision for restructuring loans under Cir03. The bad debt ratio plummeted to a record low of 0.8% mainly due to a sharp reduction in group 4 and group 5 debt after using provisions to clear debt. The provision to bad debt ratio reached 236%, double the number at the end of 2020. Restructuring loans was of VND 2,700 billion by the end of the second quarter of 2021. The bank has set up 70% provision for restructuring loans and expects to **set up the rest in the second half of 2021** (about VND500 billion). Currently, the bank's provision balance has covered all bad debts of group 3-5 and the entire restructuring loans as well.

BUSINESS PROSPECT

The member company ecosystem is diverse and efficient, supporting operational efficiency and profitability. As a result, MBB is one of the highest profitability banks in the system.

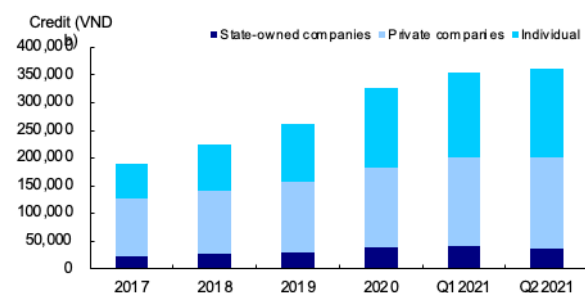
MBB owns a product chain in the financial sector from banking -MBBank to Consumer Finance (MCredit - top 4 market share), Securities (MBS - top 6 HOSE brokerage market share), Insurance (MIC - top 5 non-life insurance market share, MB Ageas - top 7 life insurance market share) and Asset Management (MB Investment Fund Management Company). In the period of 2015-2020 in general as well as the first half of 2021, the business activities of the MBB member group was very positive.

Table 1: Business performance of member companies in 6T2021

Name	Sector	Holding proportions	PBT 6M (VNDbil)	PBT growth yoy
MCredit	Consumer finance	50%	346	188%
MB Securities	Securities	81.94%	290	115.45%
MIC	Insurance	68.37%	145	44.3%
MB Ageas	Insurance	61%	-	-
MB Capital	Asset management	90.77%	59	126%

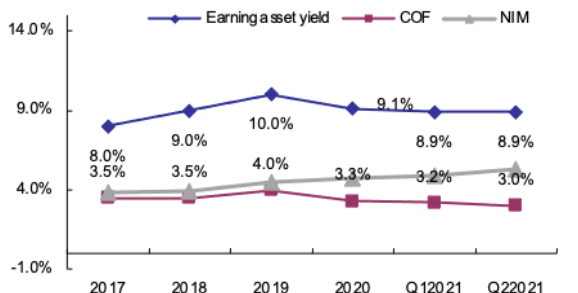
Source: the company, Guotai Junan (VN)

Figure-1: Lending breakdown by customer



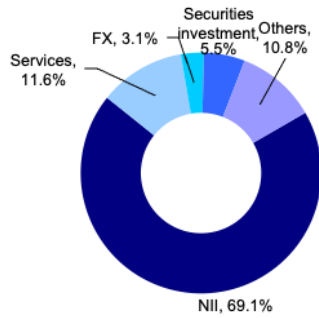
Source: MBB, Guotai Junan (VN).

Figure-2: Lending profitability



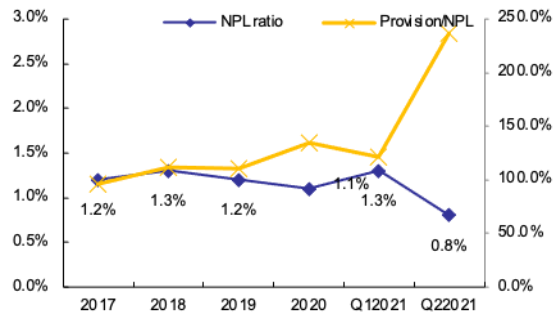
Source: MBB, Guotai Junan (VN).

Figure-3: TOI Breakdown 6T2021



Source: MBB, Guotai Junan (VN).

Figure-4: Asset quality

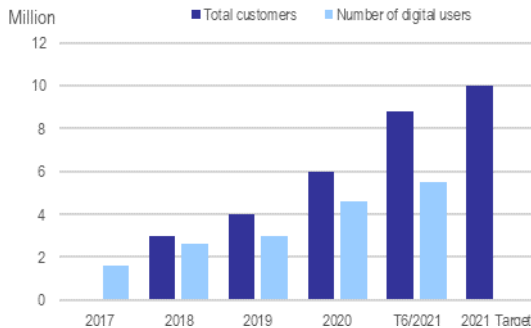


Source: MBB, Guotai Junan (VN).

The digitalization strategy has been stepped up since 2017, but until 2020 it began showing impressive results and stronger transformations. The ecosystem related to Viettel is also a lever to help MBB quickly expand its customer base.

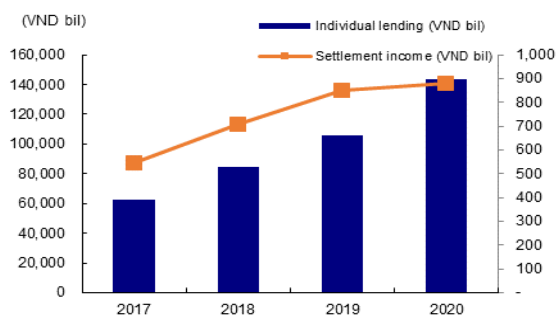
From 2020, MBB's digital banking and card opening programs have been stepped up. New products such as MB Smartbank, opening bank account with the same number with phone number programs, etc... help the bank attract 1.86 million new app users (expected to reach 5 million user apps by the end of 2021), reach 90 million transactions in 2020, triple 2019 figure and rank 3rd in the sector. The growth rate of digital transactions is faster than sector-wide (only double in 2020). In addition, MBB pioneered the implementation of online international money transfer services via MBBank App (officially launched in March 2021) and Biz MBBank (piloted by MBB from the beginning of 2020, officially applied to all customers from July 2020).

Figure-5: Number of customers



Source: MBB, Guotai Junan (VN).

Figure-6: Individual lending and settlement income



Source: MBB, Guotai Junan (VN).

In addition to non-term deposits from loyal customers advantage, we expect the bank to also attract new non-term deposits from new customers, especially from users on the bank's app. Moreover, the digital transformation process also helps the bank optimize business efficiency.

Covid impact on asset quality and business results is under control

The 4th wave of Covid caused major cities such as Ho Chi Minh City and Hanoi to implement social distancing for more than 2 months, significantly hitting the middle-income class. However, according to our assessment, the bank's key customer group is from military sector (individual customers who are employees of defense enterprises accessed through payroll) and therefore are less suffered.

Profit continues to grow despite the interest rate support programs. In addition, the proactive implementation of customer support policies as well as improving asset quality can become a plus point for MBB to receive higher credit growth room from SBV in the rest time of the year. In the last 5 months of 2021, the bank expects to reduce interest rates by VND1,000 billion for customers affected by Covid. In particular, the bank reduced VND 700 billion interest rates for customers affected by Covid and plans to reduce another VND300 billion in the remaining months of 2021. In terms of interest rates, MBB

decreases from 0.5%-1.5%/year.

Meanwhile, unlike most other financial companies in the sector that are recording negative growth, MCredit still recorded positive business results in the first half of 2021. Revenue in the first half of the year reached VND 2,168 billion, up 16% yoy, PBT reached VND 346 billion, up 188% yoy. MBB's management expects Mcredit's outstanding debt to grow by 20% in 2021 while profits are expected to double thanks to cooperation with ViettelPay and sales through the parent bank's digital channel.

Risks related to Mcredit

In the period of newly establishment 2017-2019, Mcredit's strategy focused on low- and middle-income customers segment to quickly expand its customer base and loan. However, the tightened policy has been implemented since the beginning of 2020 and it no longer focuses on credit growth as fast as in the previous period to control quality. In addition, NPL ratio of about 7% on the credit scale of about VND 10,000 billion of Mcredit will not put too much pressure on asset quality of MBB parent bank compared to FE Credit- VPB.

EVALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk- free rate of 3.79%, cost of capital 13.9%.

<i>Unit: VND Bil</i>	2020A	2021F	2022F	2023F
Beginning Owners' equity	39,886	50,099	64,219	77,983
PAT	13,311	14,120	17,542	22,890
Residual income		7,173	8,637	12,076
Total PV of residual income				75,333
Outstanding shares (mil)				3,778
12-month targeted price				33,200
Current price				28,200
Expected return				17.7%

RECOMMENDATION

We evaluate MBB as one of the best banks in the sector regarding its outstanding position in terms of growth rate, asset quality as well as business prospects thanks to digitization, effective operating ecosystem, and visionary management. Therefore, we believe MBB can maintain the credit growth of 20%/year and PBT growth of 30%/year in 2022-2023.

GTJA (VN) recommend "BUY" MBB shares with a long-term target price (6-8 month) of **33,200VND/share**, corresponding to an expected return of 17.7%.

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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