



Company Report: Vietnam Maritime Commercial Joint Bank (MSB)

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Expectation from retail banking shifting

INVESTMENT THESIS

- Bank is heading to the booming period: 5-Y CAGR of credit and PBT is 22.5%/y and 98%/y, respectively. Credit was over 20%/y in the last 5 years. Notably, in the first haft of 2021, the bank recorded PBT of 3,100 VND bil, equal to 95% 2021 target thanks to its high credit growth, lower COF and non-current income from bancas upfront fee.
- High and stable treasury income. The bank ranks No.1 in terms of government bond trading in 2020 and 1H2021 with the trading market share of 10.69%.
- Expectation from non-current income given the bank's plan to divest from FCCOM as well as upfront fee collection from exclusive bancas contract with Prudential.
- Long-term momentum from SME and retail acceleration.
- High liquidity funding while asset quality is in safety.

RISKS

Bad impact of 4th Covid wave on 2nd haft credit growth and asset quality. Nevertheless, banks are still well supported by SBV given that they are considering the amendment of Cir.03/2021 relating relieving provision set up roadmap.

RECOMMENDATION

MSB share is in good liquidity as it is selected to large index basket (VNFinlead and VNDiamond). MSB is trading at a reasonable P/B relative to the peers. P/B is at 1.78, slightly lower than the top JSCBs reflecting the bank's position relative to them in terms of earnings as well as business advantages and prospects.

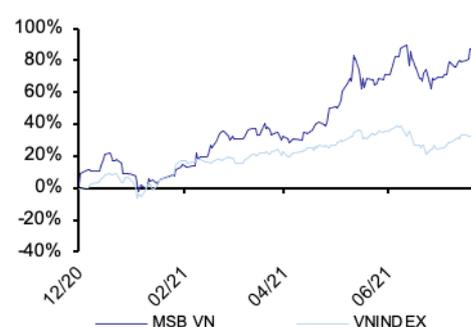
We highly appreciate the bank's business outlook that has been mostly reflected in the share price. Therefore, we recommend **"Neutral"** for MSB shares with a target price of **33,600VND/share**.

 Recommendation: **Neutral**
 (Initial)

 6-18m TP: **VND33,600**

Current price: VND30,100

Price performance



Price change	1 M	3 M	From listed 23/12/20
Abs. %	14.7	23.9	85.7
Relative to VN index	24.2	30.4	111.8
Avg price (VND)	29,550	28,693	23,659

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	4,715	1,044	3,264	11.1	12.85	-	0	2.51	-53.06	7.28
2020A	7,183	2,012	3,226	-1.16	14.58	-	0	3.41	-49.92	12.68
2021F	10,829	4,364	3,772	16.92	13.48	-	0	3.75	-35	22.29
2022F	13,226	4,952	4,280	13.48	23.54	-	0	3.91	-40	20.01
2023F	15,707	5,877	5,080	18.67	28.62	-	0	3.77	-40	19.48

Shares in issue (m)	1,175.00	Major shareholders (%)	VNPT	6.09
Market cap (VND b)	35,367.50	Free float (%)		93.9
3- month average vol. ('000)	10,004.77	LDR (%)		66.4
52w high/low (VND)	31900 / 15100	CAR (%)		11.64

Source: the Company, Guotai Junan (VN).

PROSPECT

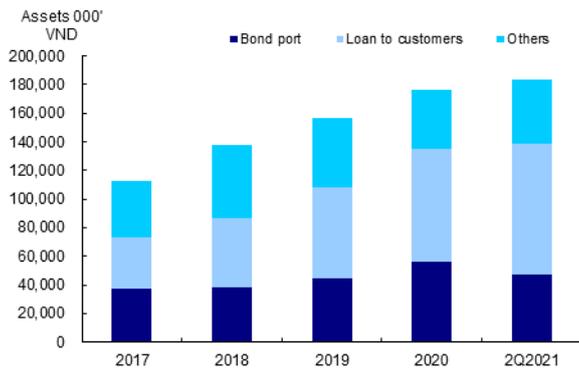
- 1) **Heading to the booming period:** 5-Y CAGR of credit and PBT is 22.5%/y and 98%/y respectively. Credit was over 20%/y in the last 5 years. Notably, in the first half of 2021, the bank recorded the PBT of 3,100 VND bil, equal to 95% target for 2021 thanks to its high credit growth, improvement in non-interest income and non-current income from bancas upfront fee. The bank targeted to grow 30%/y in terms of Asset and PBT from now to 2025.
- 2) **Increasing retail & SME credit portion,** that is in line with the sector trend. Digital bank platform-TNEX was launched at the end of 2020 which targets young & mass clients. TNEX has over 52.000 clients, 136.000 transactions/month in average, average transaction value of 71.000VND. With the support of TNEX, MSB targets to expand the customer base to 3 million in the 3 coming years (+25%).
- 3) **Improvement in service income.** March 2021, MSB signed the exclusive bancassurance contract with Prudential, which is expected to improve the bank non-interest income through high upfront fee from the contract as well as rapid bancas income expansion. In the 1st half of 2021, service income of the bank skyrocketed to VND2,200 bil from VND325 bil the same period last year thanks to upfront fee recognition (estimated to be over VND1,000 bil). The remained upfront fee portion and bancas income would be the main growing drivers for the bank in coming time.
- 4) **High and stable income from treasury activities:** MSB ranks 1st position in terms of government bond trading in 2020 and 1H2021 with the trading market share of 10.69%. For many years, investment portfolio accounts for 30% of total assets on average and interest income from bond investment accounts for roughly 30% total NII as well. The sensitive actions in interbank and bond market on the other hand also help the bank to balance the funding sources as well as take advantage of short-term opportunities.
- 5) **NIM expansion expectation thanks to improving CASA.** The bank ranks No.4 in terms of CASA ratio given its stable large corporate deposits and improving CASA ratio in individuals segment which now is the largest CASA portion of the bank.
- 6) **Non-current income from 100% divestment of FCCOM.** MSB has negotiated with some foreign investors about the transfer of a 100% stake in FCCOM. In early 2020, MSB successfully negotiated the transfer of 50% of FCCOM to Hyundai Card. However due to the impact of the Covid epidemic and a change in partner strategy, the deal failed. We expect MSB to complete the process of selecting new partner soon and close this deal by the end of 2021-early 2022. As of December 31, 2020, FCCOM's total assets reached more than VND 621 billion, equity was VND 606.8 billion. The company's credit balance reached VND 322 billion, profit was VND 2.3 billion, down 64% compared to 2019. With the average P/B of recent M&A deals, we expect MSB to make at least VND500 billion in profit from the sale of 100% FCCOM, thereby adding resources to the bank's business.
- 7) **The quality of assets and funding sources is still guaranteed.** MSB keeps active in interbank market. According to the explanation from the bank, this source of market mobilization 2 is always maintained at a high level for purpose to finance market 2 investment- bond investment. Meanwhile, there is the abundant capital in market 1 that is enough to meet the bank's lending needs. CAR was over 11% to help MSB receive high credit growth limit from SBV-16% for the whole of 2021 (raised from 10.5%). In the short term, MSB still plans to raise capital through the issuance of dividend-paying shares to help maintain sufficient resources for business operations. Therefore, the bank has no plans for private placement to strategic investors.

Table 1: M&A deals of consumer finance companies in Vietnam

Public date	Companies	Acquirer	Seller	% transfer	Value (USDm)	P/B	P/E	Share/Outstanding loan
28/4/2021	FE Credit	SMBC	VPBank	49%	1,371.4	3.5	21.9	0.93
25/1/2018	Prudential Finance	Shinhan Card	Holdings	100%	150	2.61	15.84	0.62
29/9/2017	Techcombank Finance	Lotte Card	Techcombank	100%	75.6	2.3	100.17	-
21/11/2016	MCredit	Shinsei Bank	MBBank	49%	37.3	2.27	-15.76	2.28
25/12/2014	HD Finance	Credit Saison	HDBank	49%	39.1	2.57	7.62	0.36
Average						2.65	25.95	1.05

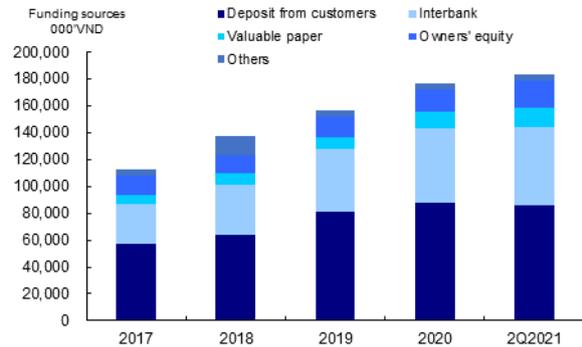
Source: Fiinpro

Figure-1: Asset breakdown



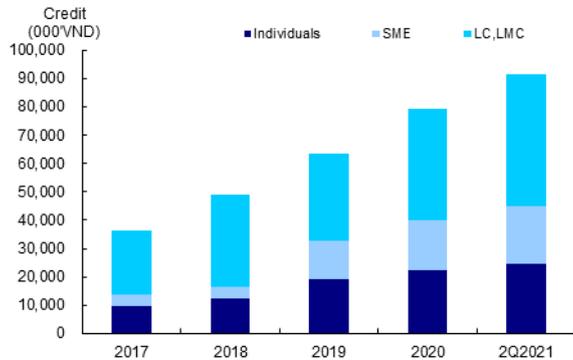
Source: MSB, Guotai Junan (VN).

Figure-2: Funding breakdown



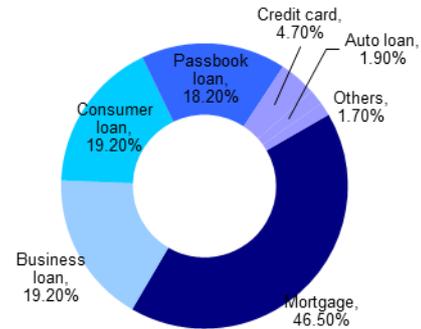
Source: MSB, Guotai Junan (VN).

Figure-3: Lending breakdown



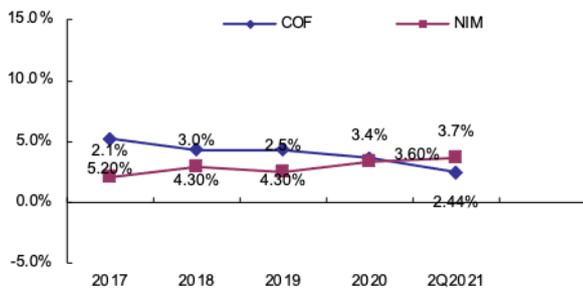
Source: MSB, Guotai Junan (VN).

Figure-4: Lending to individual breakdown



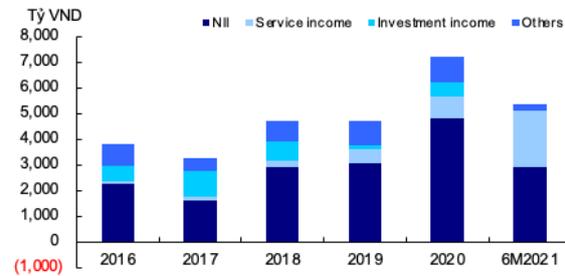
Source: MSB, Guotai Junan (VN).

Figure-5: COF and NIM



Source: MSB, Guotai Junan (VN).

Figure-6: TOI breakdown



Source: MSB, Guotai Junan (VN).

COMMENTS

We suppose that MSB is short-term benefiting from many factors, most notably a sharp drop in funding costs that help NII bounce back. However, excluding the benefit of interest rate policy, we observed COF of the bank has followed the downward trend for five consecutive years, reflecting the well funding sources handling. The sharp decline in COF from 2020 also shows the advantages and experience in bond trading give banks more flexibility in balancing capital. Therefore, we believe that MSB can still optimize earnings even in the context of interest rates increasing in the following years. On the other hand, service income growth may slow in the second half due to less upfront fees.

In the first half of the year, MSB recorded an unusual loss from its investment activities due to the default of VND500 bil investment bond from 1 corporate client. This item was reclassified to group 5 loan. debt of a \$500 billion bond investment from the company and set up provisions for the entire portfolio. Collaterals were collected and expected to be sold in 2nd haft with the higher amount than principal. Therefore, we expect income from securities investment will recover in 2H2021.

Completely clearance VAMC bond in 3Q2020. However, the provision expenses is increasing due to the impact of Covid. The total restructuring loan to date is more than VND700 billion (including principal and related debt). However, due to the current Covid outbreak, the bank estimates that the total restructuring loan could increase to VND1.7 trillion by the end of the year. With the business results achieved in the first half of the year, MSB is planning to use a portion of profits to handle bad debts in the second half, bringing the bank's asset quality to a better level.

By the end of July, MSB's credit growth had reached 12%-13%. We expect the bank to achieve a credit growth rate of 24% for the whole year which would be supported by real estate, energy, business loan (from corporate clients) as well as personal consuming loan. Covid-affected customer support packages may cause NIM to drop by about 0.1%-0.2%. However, the low COF still helps the bank maintain its NII growth. Meanwhile, bad debts handling, rising risks and prudent assessment may make bank's provision expenses to reach VND 1.5 trillion in 2021. Thereby, we estimate PBT to reach VND5,455 billion for the whole year, +116%yoy.

In the long term, by bringing the proportion of SMEs and individuals loan from 50% to 60%-70% – the common level of prominent retail banks, we expect that will help to take the most of CASA advantages, so as expand NIM to 4% to 2025 as well as increase service income (settlements, insurance) and maintain credit growth rate of over 20% per year.

VALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk- free rate of 3.79%, a cost of capital 15.28%.

<i>Unit: VND Bil</i>	2020A	2021F	2022F	2023F
Beginning Owners' equity	14,864	16,875	21,551	26,503
PAT	2,012	4,364	4,952	5,877
Residual income		1,785	1,706	1,874
Total PV of residual income				22,103
Outstanding shares (mil)				1,157
12-month targeted price				33,600
Current price				30,100
Expected return				11.6%

RECOMMENDATION

MSB share is in good liquidity as it is selected to large index basket (VNFinlead and VNDiamond). The bank stock is quite fair compared to peers. MSB is trading at a reasonable P/B relative to the peers. P/B is at 1.78, slightly lower than the top JSCBs reflecting the bank's position relative to them in terms of earnings as well as business advantages and prospects.

We highly appreciate the bank's business outlook that has been mostly reflected in the share price. Therefore, we recommend "**Neutral**" for MSB shares with a target price of **33,600VND/ share**.

Financial Statements and Ratios

BS					P&L				
Year end Dec (VND ' bil)	2018	2019	2020	2021F	Year end Dec (VND ' bil)	2018	2019	2020	2021F
TOTAL ASSETS					Interest and Similar Income				
Cash and precious metal	2,338	2,495	2,205	3,309	Interest and Similar Expenses	7,511	8,595	10,020	11,282
Loans and advances to customers, net	47,768	62,708	78,498	97,535	Net Interest Income	-4,609	-5,533	-5,197	-4,774
Investment securities	40,696	45,636	55,677	71,896	TOI	2,902	3,062	4,823	6,508
Fixed assets	331	331	309	-404	Total operating expenses	4,716	4,715	7,183	10,829
Investment property	1,088	1,060	1,033	-	Operating Profit Before Provision for Credit Losses	-2,924	-2,502	-3,586	-3,790
Other assets	20,365	20,024	20,105	25,018	Provision for credit losses	1,792	2,213	3,597	7,039
LIABILITIES & SHAREHOLDERS' EQUITY					PBT				
TOTAL LIABILITIES	137,769	156,978	176,698	226,289	PAT	1,052	1,288	2,524	5,455
Due to Gov and Loans from SBV	9,708	24	21	26	Minority interest	868	1,044	2,012	4,364
Deposits & Loans from other credit institutions	37,671	47,018	56,026	69,716	Attributable to parent company	-	-	-	-
Deposits from customers	63,529	80,873	87,510	108,601	EPS	868	1,044	2,012	4,364
Funds received from Gov, international and other institutions	162	7	52	65	Financial ratio				
Valuable papers	8,415	8,973	11,711	20,000		2018	2019	2020	2021F
Other liabilities	4,463	5,220	4,503	5,603	NIM (Net Interest Margin)	2.84%	2.51%	3.41%	3.75%
SHAREHOLDERS' EQUITY	13,820	14,864	16,875	22,279	Output average interest rate	7.34%	7.05%	7.09%	6.50%
Capital and fund	13,820	14,864	16,875	22,279	Input average interest rate	-4.29%	-4.32%	-3.56%	-2.70%
Retained earnings	2,007	2,919	4,775	8,813	Earnings Spread	3.05%	2.73%	3.53%	3.80%
Minority interest	-	-	-	-	Interest expense/Interest income	-61.36%	-64.37%	-51.87%	-42.31%
LIABILITIES & SHAREHOLDERS' EQUITY	137,769	156,978	176,698	226,289	Net Serving Fee Margin (NSFM)	0.27%	0.43%	0.58%	1.50%
					Servicing fee expense/Servicing fee income	-41.25%	-34.79%	-28.01%	-31.40%
					NNIM (Net Non-Interest Margin)	1.77%	1.36%	1.67%	2.49%
					EBT to Interest Income ratio	14.01%	14.99%	25.19%	48.35%
					CIR (Cost-to-Income) ratio	-62.00%	-53.06%	-49.92%	-35.00%
					Asset Management				
					LDR (Loan-to-Deposit) ratio Market 1	76.76%	78.64%	90.66%	90.91%
					LDR (Loan-to-Deposit) ratio Market 2	49.98%	45.41%	42.81%	35.63%
					ROA	0.70%	0.71%	1.21%	2.17%
					ROE	6.30%	7.28%	12.68%	22.29%

Source: the Company, Guotai Junan (VN).

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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