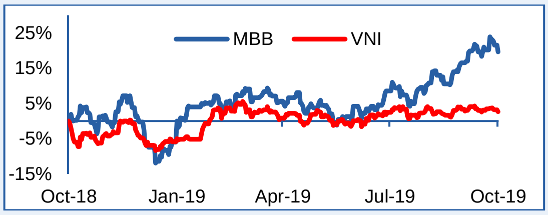
Military Commercial Joint Stock Bank (MBB)

Earnings Flash

			2018	9M 19	2019F
Industry:	**Banking**				
Report Date:	**October 23, 2019**	PPOP y/y	37.3%	36.0%	23.8%
Current Price:	VND22,900	NPAT y/y	77.3%	27.9%	23.9%
Current Target Price*:	VND32,700	NIMs	4.54%	4.84%	4.65%
Upside:	42.8%	NPL	1.32%	1.54%	1.40%
Dividend yield:	2.4%	CIR	44.7%	37.1%	42.7%
TSR:	45.2%	Div/Sh (VND)	600	N/A	620
Rating:	BUY	P/B**	1.6x	1.4x	1.2x



			MBB	Peers	VNI
Market Cap:	USD2.2bn				
Foreign Room:	USD0	P/E (ttm)	6.9x	8.7x	16.6x
ADTV30D:	USD4.7mn	P/B (curr)	1.4x	1.5x	2.4x
State Ownership:	0%	ROE (ttm)	21.2%	19.7%	14.7%
Outstanding Shares:	2.282 bn	ROA (ttm)	2.0%	1.7%	2.5%
Fully Diluted Shares:	2.584 bn				

** Adjusted to an 8% stock dividend*

*** Factored in a capital raising plan in H2 2019*

Company overview

Founded in 1994, MBB is the sixth largest bank among our ten coverage banks as calculated by total assets as of December 31, 2018. The bank had its IPO in 2004 and has listed shares since November 2011.

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Strong growth delivered off high 2018 base

MBB continued to deliver strong consolidated results for 9M 2019 with the bottom line totalling VND6.1tn (USD264mn, +27.9% YoY), which achieved 80% our FY2019 forecast. Annualized 9M 2019 ROE and ROA stood at 22.8% and 2.2%, respectively. We do not anticipate any material changes to our earnings forecasts and/or target price, pending a fuller review.

- Consolidated 9M 2019 loan growth was 11.9% YTD and 9M 2019 credit growth was 14.3% YTD against its 2019 credit growth quota of 17%. Our estimate of MCredit's (consumer finance arm) loan book at quarter-end is VND7.5tn/USD322mn (+38.2% YTD), which contributed 3.1% to the consolidated loan book vs 3.0% as of H1 2019 and 2.5% as of YE2018.
- The retail lending portion continued to rise to 40.2% as of the end of Q3, up from 37.7% at the beginning of 2019 and 39.2% as of H1 2019, positively contributing to interest-earning assets (IEA) yields. 9M 2019 NIM stood at 4.84% (+38 bps YoY) with NII growth at 25.7% YoY. 9M 2019 NII contributed 73% to TOI.
- Annualized 9M 2019 write-offs to gross loans of the parent/consolidated bank stood at 1.18%/1.72% vs 9M 2018 at 0.65%/0.66%. 9M 2019 consolidated NPL ratio stood at 1.54% (-3 bps YoY).
- 9M 2019 net fee income (including FX) growth remained strong at 39.9% YoY.

Increase in IEA yields offset rising funding costs for NIM expansion. MBB continued to focus on retail lending along with the development of MCredit, which lifted its IEA yields and narrowed the IEA yield gap with the mostly retail focused ACB and STB. On the funding cost side, while the bank's CASA ratio remained at the high-end in our coverage universe, MBB also saw a 43-bps YoY and 14-bps QoQ rise in funding costs. While funding costs maintained at the ~4% level as of 9M 2019, we believe that they will continue to rise in coming quarters as MBB plans to issue subordinated debts in Q4 2019. However, MBB still has room to continue to pivot toward retail lending in order to maintain its current level of NIM, in our view.

MCredit growth is key driver for NIM expansion, though elevated credit costs force measured loan growth. As discussed in our previous update report titled MCredit to start pushing up consolidated yields dated August 9, 2019, and also reinforced by the still contained write-off rates of the consolidated bank, we believe MCredit can comfortably operate at this level of credit costs. We that see loan growth at MCredit slowed in Q3 to 4.9% QoQ, which was in line with our expectation.

Loan loss reserve ratio built back to 100% levels. Consolidated 9M 2019 provision expenses to gross loans stood at 2.04% (vs 1.49% in 9M 2018) with the loan loss reserve ratio standing at 103%

(vs 106% in 9M 2018 and 96% in Q1 2019). Income from recovery of bad debts recorded 65% YoY growth in 9M 2019 to VND1.4tn/USD62mn with annualized recovery level to gross loans standing at 0.81%.

Fee income stream continued to post strong growth rates. Net fees from banking services recorded 20% YoY growth, which contributed 24% to pure NFI. Insurance services growth remained strong (up 46% YoY) and delivered a 54% contribution to pure NFI. Net fees from securities services recorded a jump of 724% YoY and contributed 13% to pure NFI.

MBB's consolidated Q3 2019 results

VND bn	9M 2019	9M 2018	Growth	Q3 2019	Q2 2019	Growth
NIM	4.84%	4.46%	38 bps	4.83%	4.72%	11 bps
Interest-earning asset yields	8.48%	7.76%	72 bps	8.49%	8.29%	20 bps
Cost of funds	4.04%	3.61%	43 bps	4.06%	3.92%	14 bps
CASA ratio*	33.5%	41.3%	-7.8 ppts	33.5%	33.0%	0.5 ppts
CASA ratio plus term deposits in FX	35.5%	43.1%	-7.6 ppts	35.5%	35.0%	0.5 ppts
NII	13,111	10,430	25.7%	4,582	4,395	4.2%
NOII	4,846	3,394	42.8%	1,764	1,763	0.1%
Provision expenses	-3,676	-2,291	60.5%	-1,312	-1,400	-6.3%
PPOP	11,293	8,306	36.0%	4,053	3,851	5.3%
Net profit	6,142	4,801	27.9%	2,211	1,998	10.6%
CIR	37.1%	39.9%	-2.8 ppts	36.1%	37.5%	-1.4 ppts
NPL	1.54%	1.57%	-3 bps	1.54%	1.26%	28 bps
Loan growth	11.9%	11.2%	0.7 ppts	0.5%	4.3%	-3.7 ppts
Deposit growth	5.9%	5.7%	0.2 ppts	-1.9%	6.9%	-8.8 ppts

Source: MBB, VCSC – *CASA volume included demand deposits and margin deposits.

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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

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BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
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