

MILITARY COMMERCIAL JOINT STOCK BANK (HSX: MBB)
Constructive medium term outlook; undemanding valuation

Particulars (VND Bn)	4Q-FY19	3Q-FY19	+/- qoq	4Q-FY18	+/- yoy
Total operating income	6,693	6,345	5.5%	5,715	17.1%
PBT and provision	3,634	4,053	-10.3%	2,500	45.4%
PBT	2,420	2,741	-11.7%	1,752	38.1%
NPAT	1,870	2,211	-15.4%	1,389	34.7%

Source: MBB, Rong Viet Securities

2019: Desirable earnings growth; but more headwinds

- Operating income grew 26.2% YoY owing to positive growth in virtually all activities. The 23.4% YoY growth in NII was contributed by NIM expansion of 34bps (to 4.9%) and an 18.8% YoY growth in consolidated credit (17.8% for parent bank and 57.5% for MCredit). Corporate bonds expanded more strongly and accounts for 5.7% of total credit (from 3.9% end 2018).
- Service income increased by 24.4% YoY, driven by insurance income (+33.9% YoY). Income from other activities saw the strongest expansion with a growth of 44.9% YoY, boosted by a quadruple in income from investment securities trading.
- In contrast to the moderate growth of 11.3% YoY in operating expenses, provision expenses soared by 61.0% YoY, eventually leading to a consolidated PBT growth of 29.2% YoY. This was only similar to the parent bank's growth, implying that the earnings trajectory of subsidiaries were leveling off quickly.

2020 Outlook: A more prudent view due to the Covid-19 epidemic

- The evolving situation of the virus epidemic demands for a revision of our 2020 forecasts. We cut our consolidated credit growth forecast to 14.3% (14% at the parent bank and 25% at MCredit). We also expect that consolidated NIM will only be able to rise slightly by 10bps, to 5.0%, which is lower than our previous forecast, due to the impact on both the parent's bank and MCredit's lending rates.
- Services income is forecasted to grow by 24.6% YoY, accounting for 13.3% of 2020 TOI, mainly driven by the life insurance subsidiary.
- We forecast that consolidated CIR will drop slightly to 38.0%. Provision expenses are forecasted to rise considerably by 36.0% to cope with the situation.
- We reduce the consolidated NPAT growth forecast by 8ppt to 17.5% YoY.

Valuation and recommendation

The bank is facing some potential headwinds including the impact by the epidemic on credit growth, NIM and asset quality, along with the difficulty to maintain high growth of service fee income and control provision charges amid increasing risk appetite. However, some tailwinds are still intact, including the continuous expansion of retail lending (especially consumer finance), efficiency improvement, and a stronger capital base upon private placement earlier this year. We consider the current PB 2020f of 0.7x attractive on the expectation that earnings growth outlook is still constructive in medium term.

With base case assumption that the virus would be contained by 2Q this year, we revise MBB's target price to **VND21,200**, which is 20% lower than the latest at our 2020 Strategy report (VND27,000). Coupled with an expected cash dividend of VND600, the total upside is **60%** from the closing price of 30th Mar 2020. We thereby reiterate our **BUY** recommendation.

BUY +60%

Target price (VND)	21,200
Current market price (VND)	13,600

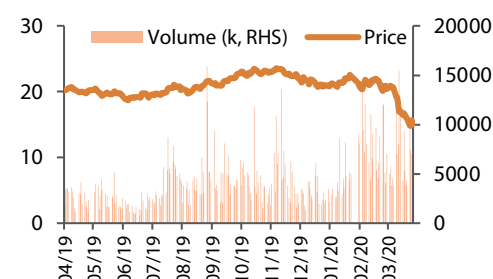
Cash dividend (VND)* 600

*within next 12 months

Stock Info

Sector	Banks
Market Cap (VND bn)	47,097.8
Current Shares O/S (mn)	2,160.5
3M Avg. Volume (K)	6,492.2
3M Avg. Trading Value (VND bn)	143.7
Remaining Foreign Room (%)	0.0
52 weeks High (VND)	23,550
52 weeks Low (VND)	13,600

	FY2019	Current
EPS	3,329	3,329
EPS Growth (%)	10.8	10.8
Diluted EPS	3,180	3,180
P/E	6.5	4.3
P/B	1.2	0.8
Cash dividend (%)	2.9	4.4
ROE (%)	21.1	21.1

Price performance

Major Shareholders (%)

Viettel	14.63%
SCIC	9.76%
Vietnam Helicopter Co. Ltd.	7.78%
Saigon New Port Co. Ltd.	7.46%
Foreign ownership room left (%)	0%

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Exhibit 1: 4Q 2019 Results

(VND Bn)	4Q-FY19	3Q-FY19	+/- (qoq)	4Q-FY18	+/- (yoy)
Interest and Similar Income	8,252	8,048	2.5%	6,669	23.7%
Interest and Similar Expenses	-3,364	-3,467	-3.0%	-2,516	33.7%
Net Interest Income	4,889	4,582	6.7%	4,154	17.7%
Non-interest Incomes	1,804	1,764	2.3%	1,562	15.5%
Net Fee and Commission Income	873	499	74.8%	876	-0.3%
Net gain/(loss) from foreign currency and gold dealings	176	188	-6.5%	143	23.0%
Net gain/(loss) from trading of trading securities	215	0	-	0	-
Net gain/(loss) from disposal of investment securities	0	162	-100.0%	19	-100.0%
Net Other income/expenses	521	900	-42.1%	438	19.0%
Income from capital contribution	20	15	31.6%	87	-77.4%
Total operating income	6,693	6,345	5.5%	5,715	17.1%
Operating expenses	-3,059	-2,292	33.5%	-3,216	-4.9%
Operating Profit Before Provision	3,634	4,053	-10.3%	2,500	45.4%
Provision expenses	-1,214	-1,312	-7.5%	-747	62.5%
Profit before tax	2,420	2,741	-11.7%	1,752	38.1%
Corporate income tax	-493	-530	-6.9%	-364	35.5%
NPAT	1,927	2,211	-12.9%	1,389	38.7%
Attributable to parent company	1,870	2,211	-15.4%	1,389	34.7%

Source: MBB, Rong Viet Securities

Exhibit 2: 4Q 2019 Performance Analysis

(%)	4Q-FY19	3Q-FY19	+/- (qoq)	4Q-FY18	+/- (yoy)
Profitability (TTM)					
NIM	4.9	5.0	-6 bps	4.7	21 bps
CIR	39.4	41.7	-229 bps	44.7	-525 bps
ROAE (Excluding minority interests)	21.2	20.8	41 bps	19.3	194 bps
ROAA (Excluding minority interests)	1.9	1.9	5 bps	1.7	21 bps
Assets Quality					
NPLs ratio	1.2	1.5	-38 bps	1.3	-16 bps
NPLs + VAMC ratio	1.2	1.5	-38 bps	1.3	-16 bps
Bad debt coverage ratio	110.5	102.7	773 bps	113.2	-274 bps
Equity-to-Assets ratio	9.7	9.5	21 bps	9.4	26 bps
Operating Safety Ratio					
Loans to customers & other CIs to total assets ratio	69.7	71.4	-172 bps	70.8	-109 bps
Customer LDR (Customer loans/Customer deposit)	88.8	90.8	-204 bps	85.4	340 bps
Adjusted LDR ((Customer loans + Corporate bonds) / (Customer deposit + Valuable papers))	88.8	92.0	-316 bps	88.9	-5 bps

Source: MBB, Rong Viet Securities

Exhibit 3: 1Q 2020 Performance Forecast

Particulars (VND Bn)	1Q-FY20	+/- (qoq)	+/- (yoy)	Comment
Net interest income	4,542	-7.1%	9.8%	We expect MBB's 1Q credit growth to be a bit higher than the sector's and can reach 2% YTD. We also expect NIM to drop a bit from 4Q2019. Provision and operating cost should be unlikely to be impacted much yet. As such, we forecast a slight reduction of -2.1% QoQ in 1Q2020 earnings.
Total operating income	6,512	-2.7%	19.4%	
Profit before tax and provision	3,573	-1.7%	5.4%	
NPAT	1,887	-2.1%	-2.4%	

Source: MBB, Rong Viet Securities

Update

NIM expansion led by strong growth in the consumer finance business

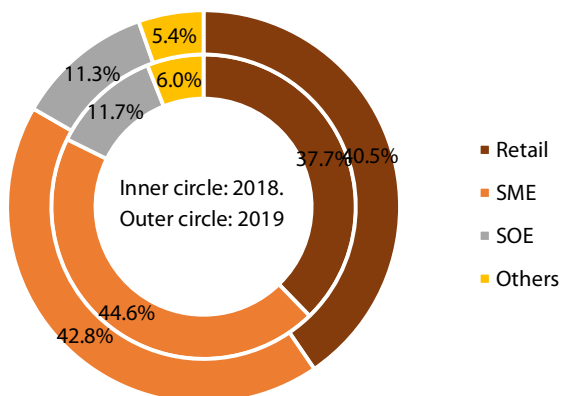
The parent bank reported a 15.5% growth in customer loans in 2019, while that of MCredit was estimated to reach approximately 57%. Corporate bonds surged by 73.7% to more than VND15Tn (USD 659mn) and raised consolidated credit growth to 18.8%. The consolidated loan mix continued to shift into retail lending with this segment growing by 32.8% YoY. As of the end 2019, retail lending's proportion reached 40.5% (+2.7 ppt YoY), SME lending 42.8% (-1.7 ppt), and corporate lending 11.3% (-0.4 ppt) (Figure 1). We hold the view that overall loan expansion was driven by mortgage lending and consumer lending. The proportion of consumer loans has gradually climbed from 2.5% to 3.4% of total lending in 2019.

The contribution of retail lending on the parent bank's customer loans expanded considerably from 35.2% in 2018 to 37.0%. Despite of this shift, the parent bank's NIM remained mostly flat (Figure 2), as the increase in asset yields was offset by the rise in deposit rates as well as bonds' interest expenses. We believe the rising deposit rates was partly caused by CASA reduction from 40.5% at end 2018 to 38.4%, though showing a significant recovery after a fall to 33.4% in 3Q2019. This CASA was maintained as the highest amongst all banks; however, the gap to others – especially TCB – is shortening (Figure 3). We think that more banks will take aggressive action against competitors for demand deposit, especially from the retail and SME segments, which might pose a threat to MBB's current top position from its CASA ratio.

Consolidated NIM saw a significant improvement of 34bps from 4.6% in 2018 to 4.9% (Figure 2). This was contributed by the consumer credit growth in MCredit (of approximately 57%), which raised consolidated customer lending growth to 16.6% YoY versus 14.5% YoY at the parent bank. We hold the view that consumer lending has expanded to a decent portion to sustain an expansion in consolidated margin. However, upon the official ratification of Circular 18/2019/TT-NHNN which aims to lower this ratio at consumer companies, MCredit has a plan to gradually restructure its loan mix towards non-cash loans (which accounts for less than 30% of total lending at MCredit). With this plan, motorbike and consumer durables loans would be pushed further, along with the launch of credit card expected in 2020. We think the restructuring effort to limit lending and NIM expansion of MCredit in the long run can support the bank to monitor provision better from 2020 on.

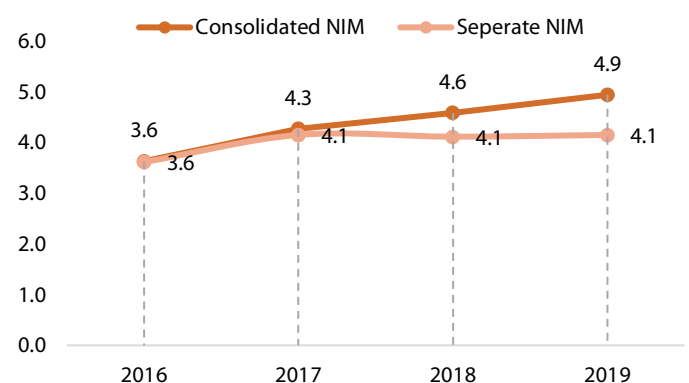
The evolving situation of the virus epidemic demands for a revision of our 2020 forecasts. Our base case is that the epidemic will be contained by 2Q of the year and businesses can recover from 3Q. Accordingly, we reduce our credit growth expectations at the parent bank by 2ppt to 14% and at MCredit by 5ppt to 25%, translating to a new forecast of consolidated credit growth of 14.3%. We also expect NIM 2020 to reach 5.0%, in other words, to expand slightly by 11bps instead of 34bps as previously forecasted. Overall, we still expect a 15.3% NII growth from these credit and NIM expansion forecasts.

Figure 1: MBB's consolidated customer lending structure

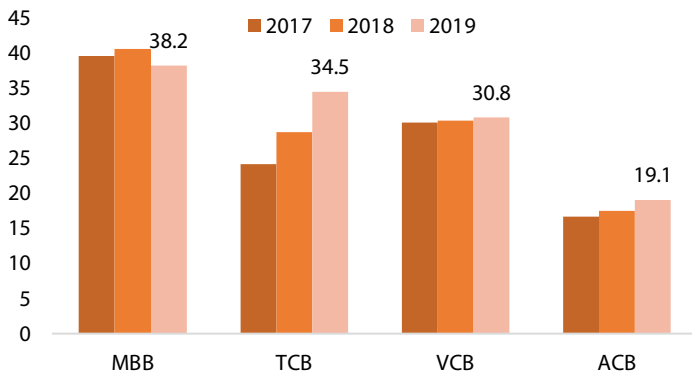


Source: MBB, Rong Viet Securities

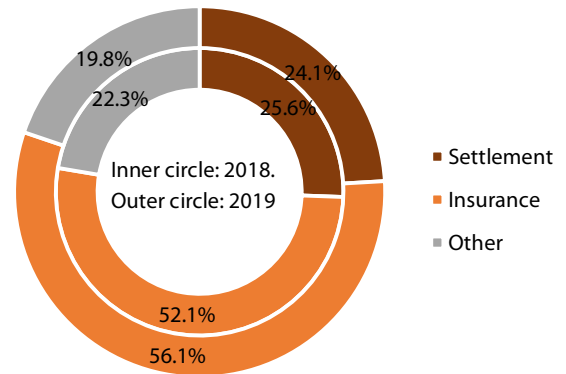
Figure 2: MBB's consolidated and separate NIM (%)



Source: MBB, Rong Viet Securities

Figure 3: CASA of some leading listed banks (%)


Source: MBB, Rong Viet Securities

Figure 4: MBB's service income structure


Source: MBB, Rong Viet Securities

Service fee growth has been slowing down

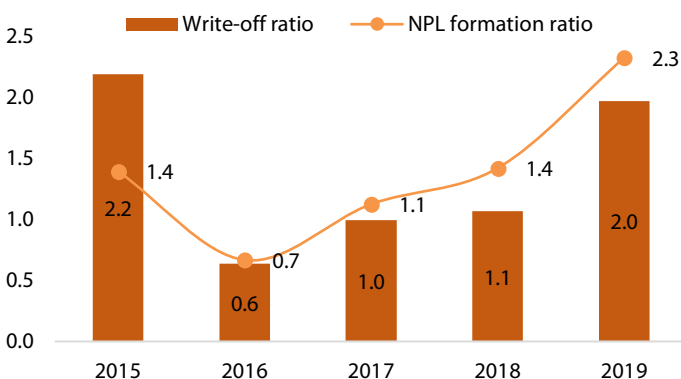
Service income growth has been slowing down during every quarter of 2019, eventually down to 24.3% YoY, much lower than the bank's expectation of 50% at the beginning of the year. After surging 368% YoY in 2018, net income from insurance only rose by 33.9% YoY in 2019, reaching VND 1,788bn, equivalent to 56.1% of service income (Figure 4).

We expect that it would be difficult to recover a higher growth of bancassurance activities considering that: (1) a high likelihood of credit growth reduction in 2020 while bancassurance is usually a cross-selling activities of lending, and (2) increasing competition in bancassurance due to the boost in other banks such as VCB and ACB. Apart from the bancassurance channel, MB Ageas Life can expand into agent channel to seek growth, but this strategy might lead to operating expenses increase.

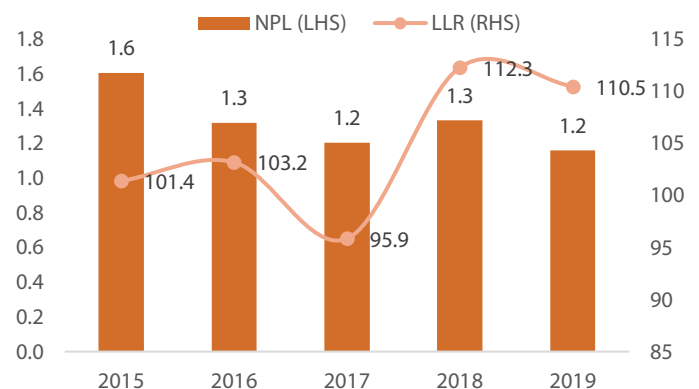
Service income shows that other service fee streams are somehow limited, while the portion of settlement and treasury fee is at 24.1%, upon a YoY growth of 17% only. We expect the growth rate of settlement and insurance income to drop to respectively 15% and 30% YoY in 2020.

Operating burden persists

With an increase of only 11% YoY in operating expense, MBB improved its CIR from 44.7% in 2018 to 39.4%, yet this was mainly thanks to the absence of other operating expenses (which amounted to 1.3Tn in 2018). In fact, most of the operating expenses lines have increased considerably, especially staff cost (+22% YoY) while the number of employees only expanded by 3% YoY. As such, we expect that consolidated CIR can only be improved slightly in 2020, to 38%.

Figure 5: MBB's NPL formation ratio and written-off ratio (%)


Source: MBB, Rong Viet Securities

Figure 6: MBB's asset quality (%)


Source: MBB, Rong Viet Securities

A less risky approach in consumer finance

In 2019, consolidated provision grew strongly by 61.0% YoY versus 20% only in the parent bank. We see that the rise in provision charges was primarily pushed by MCredit, with an NPL ratio of roughly 7% and outstanding loans of 3.9% of total lending. There was a surge in written-off debts (+151.2% YoY to VND 4,9Tn versus 1.9Tn in 2018), which facilitated the normalization of consolidated NPL ratio to 1.2% at end 2019. This ratio of the parent bank reached an all time low level of 1.0% (-23.5 bps), which is better than our expectations. Despite this improvement, the ratio of written-off bad debts in 2019 was at nearly 2.0%, much higher than the corresponding ratio of 0.9% in 2018, implying an increasing trend of NPL formation due to higher risk appetite. However, back to the upcoming plan of MCredit to control credit more closely as well as focus more on non-cash lending from 2020 on, we expect an ease on provision burden from the consumer finance business in medium-term.

For the impacts of the epidemic on provision in 2020, we expect the bank to set aside some provision for loans to clients hit by the epidemic, though these loans could temporarily be kept at performing category as per SBV's guidance. As a result, we raise our forecast for provision growth to 36.0% YoY, which should allow MBB to lift provision coverage to 125% by end 2020, or to write off further 0.4ppt of NPL ratio while keeping the coverage at 90%. Again, this is based on our assumption that the epidemic will be contained by 2Q of the year and the bank would be able to recover lending on 2H based on government's supporting policies.

Private placement plan completed partly, contributing to reinforce the capital base

MBB has finished part of its private placement plan by selling 21.4 million treasury shares and issued 64.3 million shares to a number of foreign investors (totaling 3.7% of charter capital). We estimate that the bank collected 2.3Tn from the deal and expect that its stronger capital base upon this placement could further support the bank's growth in the medium term.

Unit: VND Bn

INCOME STATEMENT	FY2018A	FY2019A	FY2020E	FY2021F
Interest and Similar Income	24,824	31,197	34,353	39,675
Interest and Similar Expenses	-10,241	-13,197	-13,590	-15,556
Net Interest Income	14,584	18,000	20,763	24,120
Non-interest Incomes	4,954	6,650	9,005	11,580
<i>Net Fee and Commission Income</i>	<i>2,564</i>	<i>3,186</i>	<i>3,968</i>	<i>5,055</i>
<i>Net gain/(loss) from foreign currency and gold dealings</i>	<i>445</i>	<i>647</i>	<i>777</i>	<i>932</i>
<i>Net gain/(loss) from trading of trading securities</i>	<i>98</i>	<i>27</i>	<i>33</i>	<i>40</i>
<i>Net gain/(loss) from disposal of investment securities</i>	<i>201</i>	<i>612</i>	<i>734</i>	<i>881</i>
<i>Net Other income/expenses</i>	<i>1,517</i>	<i>2,099</i>	<i>3,406</i>	<i>4,577</i>
<i>Income from capital contribution</i>	<i>130</i>	<i>78</i>	<i>86</i>	<i>95</i>
Total operating income	19,539	24,650	29,768	35,699
Operating expenses	-8,734	-9,724	-11,326	-13,404
Operating Profit Before Provision	10,805	14,927	18,442	22,296
Provision expenses	-3,038	-4,891	-6,649	-7,640
Profit before tax	7,767	10,036	11,793	14,656
Corporate income tax	-1,577	-1,968	-2,359	-2,931
NPAT	6,190	8,069	9,434	11,725
Attributable to parent company	6,148	7,823	9,189	11,479

Unit: %

FINANCIAL RATIO	FY2018A	FY2019A	FY2020E	FY2021F
Growth				
Customer loans	16.2	16.9	14.6	17.0
Customer deposit	9.0	13.6	7.3	12.8
Net interest incomes	30.0	23.4	15.3	16.2
Operating income	40.9	26.2	20.8	19.9
NPAT	74.7	27.2	17.5	24.9
Total Assets	15.4	13.6	12.8	14.0
Equity	15.4	16.7	21.1	20.7
Profitability (TTM)				
NIM	4.6	4.9	5.0	5.2
CIR	44.7	39.4	38.0	37.5
ROAE	19.3	21.1	20.8	21.5
ROAA	1.8	2.0	2.1	2.3
Assets Quality				
NPLs ratio	1.3	1.2	1.2	1.2
NPLs + VAMC ratio	1.3	1.2	1.2	1.2
Bad debt coverage ratio	113.2	110.5	90.1	93.4
Equity-to-Assets ratio	9.4	9.7	10.4	11.0
Operating Safety Ratio				
Loans to customers & other CIs to total assets ratio	70.8	69.7	70.9	72.1
Customer LDR	89.5	91.8	97.9	101.7
Adjusted LDR	88.9	88.8	91.5	93.1

Unit: VND Bn

BALANCE SHEET	FY2018A	FY2019A	FY2020E	FY2021F
Cash and precious metals	1,737	2,344	1,914	1,849
Balances with the SBV	10,548	14,347	14,624	14,840
Placements with and loans to other credit institutions	45,062	39,691	45,645	50,210
Trading securities, net	578	1,168	1,244	1,296
Derivatives and other financial assets	36	15	0	0
Loans and advances to customers, net	211,475	247,130	283,321	331,611
Investment securities	73,834	85,629	92,378	99,771
Investment in other entities and long-term investments	497	887	1,020	1,173
Fixed assets	2,699	2,798	3,078	3,386
Investment properties	31	31	31	31
Other assets	15,865	17,447	20,937	25,124
TOTAL ASSETS	362,361	411,488	464,191	529,289
Due to Gov and borrowings from SBV	2,633	17	19	20
Deposits and borrowings from other credit institutions	60,471	50,314	52,830	55,471
Deposits from customers	239,964	272,710	292,481	329,772
Derivatives and other financial liabilities	42	0	0	0
Funds received from Gov, international & other institutions	320	302	289	289
Convertible bonds/CDs and other valuable papers issued	11,158	26,289	39,433	51,263
Other liabilities				
Total liabilities	328,188	371,602	413,613	468,234
Shareholder's equity	34,173	39,886	48,292	58,296
Capital	21,632	22,718	25,248	25,248
Reserves	3,887	4,937	6,170	7,710
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	7,124	10,342	16,874	25,338
Minority interest	0	1,888	2,286	2,759
LIABILITIES AND SHAREHOLDER'S EQUITY	362,361	411,488	464,191	529,289

Unit: VND Bn

FOOTNOTES	FY2018A	FY2019A	FY2020E	FY2021F
Interest Income	24,818	31,197	34,353	39,675
From customers	18,488	23,255	25,765	30,440
From other CIs	753	971	987	1,109
From fixed-income investment	3,877	5,246	5,876	6,402
From guarantee	1,200	0	0	0
From other activities	0	0	0	0
Interest Expenses	-10,241	-13,197	-13,590	-15,556
To customers	-8,708	-10,950	-12,072	-13,556
To other CIs	-671	-751	-191	-200
To fixed-income investment	-617	-1,357	-1,169	-1,613
To other activities	-245	-139	-159	-186
Operating expenses	-8,734	-9,724	-11,326	-13,404
Provision expenses	-3,038	-4,891	-6,649	-7,640

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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