

MSB – BUY

STOCK INFORMATION

(September 14th 2021)

| | |
|---------------------------------|---------------|
| Stock exchange | HOSE |
| Market price (VND) | 28,400 |
| 10-day average trading volume | 4,093,000 |
| Market capital (VND bn) | 33,370 |
| Outstanding shares | 1,175,000,000 |
| Share held by foreign investors | 30% |

EQUITY ANALYST

Nguyen Hanh Linh
nhlinh1@vcbs.com.vn
+84-4 3936 6990 ext 7163

VCBS's Research

www.vcbs.com.vn/vn/Services/AnalysisResearch

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**HIGH GROWTH FROM BANCASSURANCE
CONTRACT AND PROMOTION OF RETAIL
BANKING**

- (1) Growth drivers coming from individual and SME segments;
- (2) Rapid growth in credit market share;
- (3) NIM is expected to improve by optimizing LDR, penetrating higher yielding segments, and maintaining low cost of fund advantage from CASA;
- (4) Service income increases strongly thanks to bancassurance contract;
- (5) Extraordinary income from divestment of subsidiaries;
- (6) Focusing on investing in technology infrastructure and digitization to attract new customers and improve operational efficiency.

Recommendation: MSB is a dynamic private bank with a high growth rate, low cost of fund advantage, and profits from deals such as bancassurance contract and divestment of subsidiaries are expected to help the bank raise capital to promote retail banking and core business activities in the long term. We maintain our **BUY** recommendation for investment opportunity in MSB stock with a fair value of **VND 37,590/share**.

| Unit: VND billion | 2017 | 2018 | 2019 | 2020 | 2021F |
|------------------------|-------|-------|-------|-------|--------|
| Net interest income | 1,602 | 2,902 | 3,062 | 4,822 | 5,844 |
| Non-interest income | 1,646 | 1,814 | 1,653 | 2,360 | 4,721 |
| Total operating income | 3,248 | 4,716 | 4,715 | 7,182 | 10,566 |
| Operating expenses | 2,066 | 2,924 | 2,502 | 3,586 | 4,218 |
| Provisions | 1,017 | 740 | 925 | 1,073 | 1,310 |
| Profit before tax | 164 | 1,053 | 1,288 | 2,523 | 5,037 |
| NIM | 1.9% | 2.8% | 2.5% | 3.4% | 3.4% |
| VAMC balance | 8,056 | 2,431 | 1,200 | 0 | 0 |
| ROE | 0.9% | 6.3% | 7.3% | 12.7% | 20.4% |
| CIR | 63.6% | 62.0% | 53.1% | 49.9% | 39.9% |
| CAR | 19.5% | 12.2% | 10.3% | 10.8% | na |
| NPL | 2.2% | 3.0% | 2.0% | 2.0% | 1.9% |
| LLCR | 53.2% | 67.8% | 68.1% | 54.1% | 59.1% |
| CASA | 20.2% | 20.9% | 19.7% | 26.7% | 27.7% |

Source: MSB, VCBS Research

BUSINESS RESULTS 1H.2020

Profits grew strongly in the first half of 2021 thanks to impressive growth in interest income and service fees.

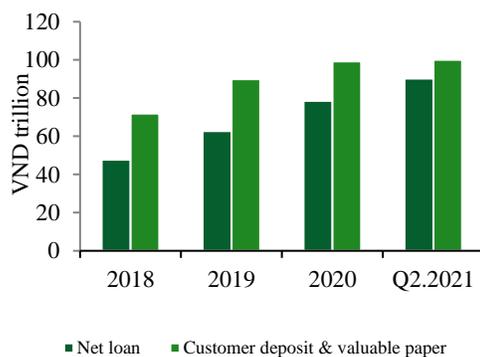
In 1H.2021, MSB recorded operating income and pre-tax profit of VND 5,359 billion (+77.6% yoy) and VND 3,119 billion (+220.2% yoy) respectively, completing 95% of the plan for 2021. Interest income and non-interest income both increased, helping MSB's profit achieve outstanding growth.

Net interest income reached VND 2,897 billion (+46.5% yoy), driven by good credit growth and a high net interest margin (NIM) of 3.7% at the end of Q2.2021.

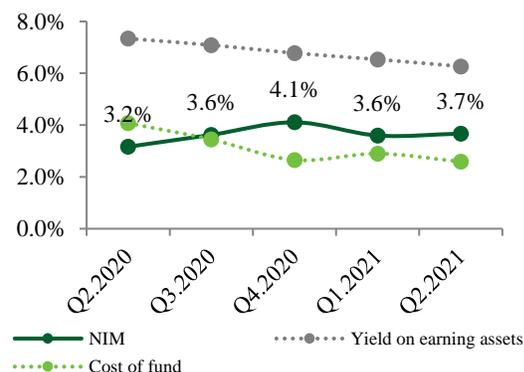
Credit grew by 10%, with a credit scale of VND 93,430 billion. In which, customer loans increased by +15.2% ytd and MSB actively reduced the proportion of corporate bonds by -63.5% ytd to meet the credit limit granted by SBV. Segments with strong growth included: SME (+17.5% ytd, accounting for 22.6% of outstanding loans) and large enterprises (+17.2% ytd, accounting for 50.7%). Retail segment recorded a more modest growth of +9.8% ytd, accounting for 26.7% of outstanding loans. In terms of industries, Real Estate and Construction sectors recorded the strongest growth, accounting for 33.1% of outstanding loans.

Customer deposits and valuable papers reached VND 100 trillion (+0.8% ytd). In addition, MSB has a high proportion of interbank funds, currently accounts for 35.6% of total liabilities, which helps the bank reduce its cost of fund (interbank interest rates are very low). As a result, MSB maintained ample liquidity in the first half of the year with a loan-to-deposit ratio (LDR) of 66.5%, much lower than the maximum ceiling allowed by SBV. Demand deposits (CASA) reached VND 23,410 billion (+1.3% ytd), CASA ratio remained high at 27.2%. Benefiting from low interest rates, cost of fund (COF) continued to drop to 2.6% and NIM expanded to 3.7%.

Loans and deposit



NIM



Source: MSB, VCBS Research

Non-interest income reached VND 2,462 billion (+135.8% yoy), in which income from service activities contributed the largest with growth rate of 575%, reaching VND 2,198 billion, thanks to the recognition of about VND 1,600 billion in Upfront fee from the bancassurance contract with Prudential. We anticipate that MSB will continue to book a part of the Upfront fee to boost profit growth in the second half of the year.

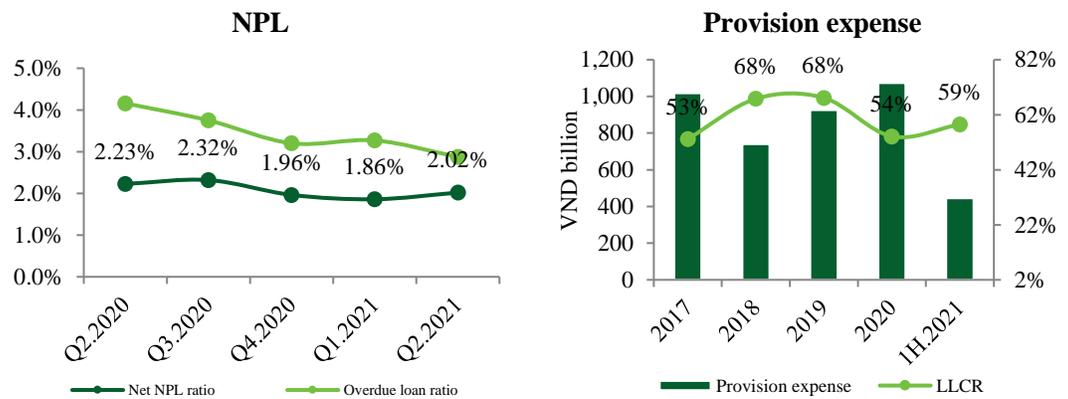
Foreign exchange activities, which has been MSB's strength for many years, also saw good growth with a profit of VND 200 billion (+97.7% yoy). In contrast, investment securities recorded an unusual loss of more than VND 8 billion, as MSB made full provision of nearly VND 500 billion for an investment in corporate bonds. The bank expects to collect the principal amount from the auction of collateral already

recovered from customer. Therefore, income from investment securities will improve in the second half of the year.

MSB's cost-to-income ratio (CIR) plummeted to 33.5%, a record low for the bank, thanks to high total operating income and efforts to optimize resources through the application of technology.

Asset quality continued to be well controlled.

NPL ratio reached 2.02%, up slightly from 1.86% in Q1.2021. Provision expense in 1H.2021 reached VND 445 billion (-8.8% yoy) and loan loss coverage ratio (LLCR) reached 58.5%, up from previous quarters but still lower than industry average. Restructured loans according to Circulars 01 and 03 was at a low level of VND 241 billion, accounting for 0.3% of total outstanding loans, and the outstanding loans of restructured customers was about VND 800 billion. MSB is expected to make provision for 30% of restructured loans in 2021, which amounts to VND 170 billion.



Source: MSB, VCBS Research

BUSINESS OUTLOOK

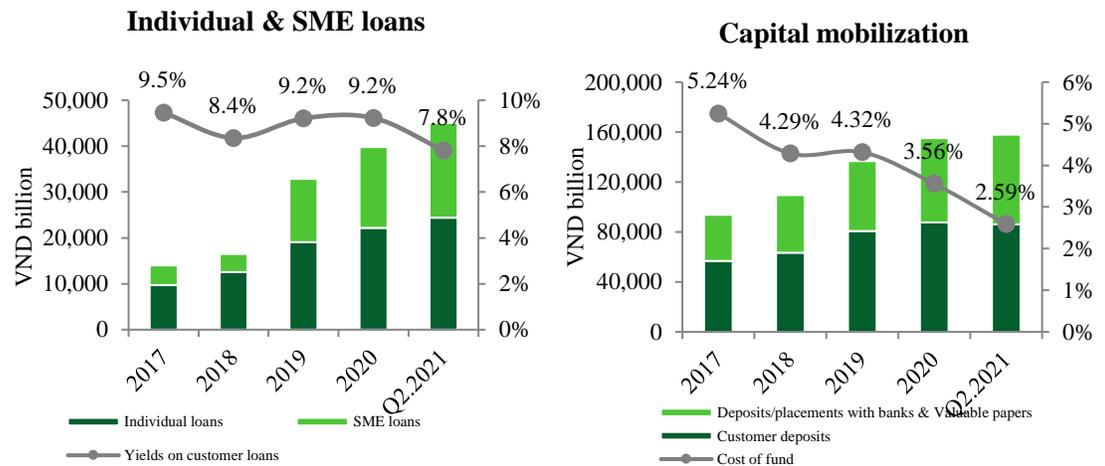
Outlook

Growth drivers coming from individual and SME segments: MSB takes advantage of its strength in large corporate lending along with digitalization to create supply-chain solutions that reach its two strategic segments in the long run. Bringing the proportion of individual and SME loans up to 60-70%, the common ground for outstanding retail banks, will help MSB maintain a high loan growth, expand NIM, as well as increasing service income (digital banking, payments, bancassurance).

Rapid growth in credit market share: As a dynamic private bank of medium size, MSB has plenty of room to expand its credit market share, thereby achieving rapid growth in both assets and profits. Over the past 5 years, MSB's customer loan balance has grown at a CAGR of 23%, one of the highest rates in the industry. Thanks to supporting SBV's projects, meeting the requirements of SBV on reducing lending rates to support customers, and meeting standards on capital adequacy and asset quality, MSB has recently been given a high credit room of 16%. Up until now, credit growth has reached 15.7% and MSB is asking SBV to grant more credit room for Q4. Credit growth plan for 2021 is more than 20%, focusing on essential industries such as healthcare, education, renewable energy, and reducing the proportion of real estate loans.

NIM is expected to improve: Although yields on customer loans are affected by the reduction in lending rates to support customers, MSB can still improve NIM in the near future thanks to the following factors: (1) Optimizing LDR, which is currently at a low level of 66.5%; (2) Deeper penetration into

individual and SME segments with higher yields (such as mortgage lending, as the ratio of short-term capital for medium and long-term loans is currently low at 21.8%) ; and (3) Maintaining its low cost of fund advantage thanks to the 4th highest CASA in the industry and interbank funds in the current low interest rate and abundant liquidity environment. The bank owns longtime large corporate customers, which helps CASA from corporate customers remain stable and CASA from individuals grow rapidly, accounting for about 50% of total demand deposits. In addition, the advantage and experience in money market and interbank market make the bank more flexible in balancing capital sources and optimizing income in the face of changes in monetary policy and interest rates.



Source: MSB, VCBS Research

Service income increases strongly thanks to bancassurance contract: Insurance income comes from 2 sources: (1) Upfront fee received from exclusive bancassurance contract with Prudential, likely be recognized in 2021 and 2022, and (2) Insurance revenue has always remained in the top 10 banks, with an average growth rate of 94% in the past 3 years, and is expected to continue to increase 30-40%/year in the next 5 years.

Extraordinary income from divestment of subsidiaries: MSB is conducting an auction of all capital contribution value in MSB AMC and is expected to record VND 224 billion in profit from this deal. The bank is also in the process of negotiating with a foreign partner on the transfer of 100% shares in its consumer finance company FCCOM and we expect this deal will be completed in 2022. FCCOM currently has owner’s equity of over VND 600 billion; in case it is sold at a P/B of 2.5-3x, similar to the divestments of other finance companies, MSB can earn about VND 900-1,200 billion in profit, thereby adding capital to promote the bank's business activities.

Focusing on investing in technology infrastructure and digitization to attract new customers and improve operational efficiency: Digital transformation projects to be implemented in 2021 include: replacing Core Banking system, bringing Digital Factory into operation, completing the SME banking ecosystem with Supply Chain Financing system and Merchant App, developing Digital Bank TNEX to target young customers (middle income and student segments). Following the trend of the banking industry, the promotion of digitization is expected to continue to help MSB strengthen its competitiveness in attracting customers and deposits, and at the same time, improve its CIR ratio.

Risks

Risks to MSB include:

- (1) **Risk of bad debt:** SBV's decision to extend the debt restructuring period by 6 months according to the amendment of Circular 01 will partly help the bank record less bad debts and reduce the pressure on provisioning this year. However, if the pandemic prolongs, MSB's profit will be negatively affected as credit growth slows and restructuring debts increase rapidly, putting pressure on provisioning in the following years.
- (2) **Concentration risk:** With a strategy concentrating around the ecosystem of a large customer (about 50% of outstanding loans are real estate business loans and mortgage loans of TNG group), MSB may face difficulties in credit growth and asset quality if there is an interruption in the operations of that large customer.

VALUATION

Forecast 2021

Our projections are based on the following key assumptions:

- (1) Customer loan growth reaches 22,6%.
- (2) Yield on earning assets is at 6,8%.
- (3) Cost of fund reduces to 3,3%.
- (4) NPL ratio is at 1,9% and LLCR is at 59%.
- (5) CIR drops to 39,9%.
- (6) MSB recognizes a profit of around VND 2,000 billion in 2021 from the sale of MSB AMC and Upfront fee of the exclusive bancassurance.

Thus, we estimate that MSB will reach **EBT of VND 5,037 billion in 2021** (+99.6% yoy), equivalent to EPS of VND 3,429/share and BVPS of VND 19,256/share.

Some specific targets are as follows:

| Unit: VND billion | 2019 | 2020 | Growth | 2021F | Growth |
|------------------------|-------|--------|--------|--------|--------|
| Net interest income | 3,062 | 4,822 | 57.49% | 5,844 | 21.19% |
| Total operating income | 4,715 | 7,182 | 52.33% | 10,566 | 47.10% |
| Provisions | -925 | -1,073 | 16.01% | -1,310 | 22.08% |
| Profit before tax | 1,288 | 2,523 | 95.94% | 5,037 | 99.62% |
| ROE | 7.28% | 12.67% | | 20.40% | |

Source: VCBS forecast

Combining valuation

method: fair value at VND 37,590/share

Combining two valuation methods P/B and residual income RI with equal weights, we determine the fair price for MSB to be VND 37,590/share:

| Method | Price (VND/share) | Weight |
|----------------------|-------------------|--------|
| P/B Multiple | 36,908 | 50% |
| Residual Income (RI) | 38,272 | 50% |
| Target price | 37,590 | |

INVESTMENT VIEW

Recommendation: BUY

MSB is a dynamic private bank with a high growth rate, low cost of fund advantage, and profits from deals such as bancassurance contract and divestment of subsidiaries are expected to help the bank raise capital to promote retail banking and core business activities in the long term. We maintain our **BUY** recommendation for investment opportunity in MSB stock with a fair value of **VND 37,590/share**.

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CONTACT INFORMATION

Tran Minh Hoang

Head of Research

tmhoang@vcbs.com.vn

Mac Dinh Tuan

Head of Equity team

mdtuan@vcbs.com.vn

Nguyen Hanh Linh

Equity Analyst

nhlinh1@vcbs.com.vn

VIETCOMBANK SECURITIES COMPANY

<http://www.vcbs.com.vn>