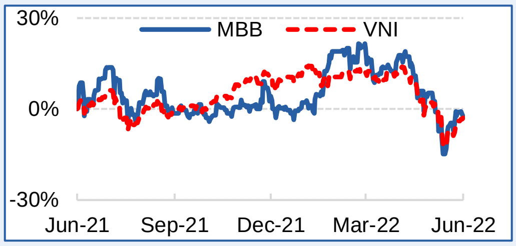
VIET CAPITAL SECURITIES

Military Bank (MBB) [BUY +58.3%]

Update Report

Industry:	**Banking**		2021	2022F	2023F	2024F
Report Date:	**June 1, 2022**	PPOP y/y	46.1%	22.9%	16.4%	14.3%
Current Price:	VND27,600	NPAT y/y	53.6%	39.1%	19.2%	12.9%
Current Target Price:	VND43,700	EPS y/y	52.9%	37.8%	17.5%	13.0%
Previous Target Price:	VND37,900	NIM	5.04%	5.19%	5.34%	5.35%
		NPLs/loans	0.90%	0.90%	0.80%	0.80%
Upside to TP:	58.3%	CIR	33.5%	33.0%	34.0%	35.0%
Dividend Yield:	0.0%	P/E	8.4x	5.8x	4.8x	4.3x
TSR:	58.3%	P/B	1.7x	1.3x	1.0x	0.8x



Market Cap:	USD4.5bn		MBB	Peers	VNI
Foreign Room:	USD0mn	P/E (ttm)	7.3x	8.3x	14.0x
ADTV30D:	USD11.1mn	P/B (curr)	1.6x	1.7x	2.2x
State Ownership:	0%	ROE	24.8%	21.7%	15.9%
Outstanding Shares:	3.778 bn	ROA	2.5%	1.8%	2.6%
Fully Diluted Shares*:	3.913 bn	*Based on our assumption for capital raising			

Company Overview

Founded in 1994, MBB is the fourth largest bank in our coverage universe as calculated by total assets as of December 31, 2021. The bank had its IPO in 2004 and has listed shares since November 2011.

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Zero-dong bank rescue not modeled due to lack of details

- We increase our target price (TP) by 15.3% to VND43,700/share and upgrade our rating for MBB from OUTPERFORM to BUY as its share price has decreased ~13.8% over the last three months.
- Our higher TP is mainly due to a higher valuation produced by the residual income method thanks to (1) an 8.2% aggregate increase in our 2022-2026F NPAT-MI and (2) the positive impact of rolling our TP to mid 2023F.
- We increase our 2022F net income by 6.4% to VND18.4tn (USD800mn; +39.1% YoY) vs our previous forecast because of a 2.3% rise in net interest income and a 4.2% decrease in OPEX.
- We assume a capital raising in 2022F via (1) a private placement of 70 million shares (1.8% of current outstanding shares) to Viettel and (2) private placement of 65 million shares (1.7% of current outstanding shares) to corporate investors (exclusive of Viettel Group).
- MBB's restructured loans decreased from VND5.0tn in Q4 2021 to VND4.7tn in Q1 2022. Provision for restructured loans was fully made in 2021.
- Downside risks: CASA ratio downside risk; lower-than-expected credit growth and execution risk in MCredit's development.

We forecast MBB to achieve credit growth of 25% in 2022F — similar to 2021 growth — but have not modeled for the significant growth potentially available for supporting a distressed credit institution (DCI). Per our discussion with management, MBB expects some preferential treatment such as a higher credit growth quota of 30%-35% for participating in the DCI scheme. However, it is unclear how much of the extra quota will be used to originate loans for the DCI and then transferred off-balance sheet to the DCI. Therefore, we take a conservative approach to forecasting credit growth despite seeing 14.7% QoQ growth in Q1 2022 — close to MBB's initial credit quota of 15%. If MBB helps to revive its designated DCI and in doing so maintains its NIM trajectory and is granted an extraordinary credit growth quota, then this outcome would be upside to our valuation. While our initial reaction to news of MBB supporting a DCI was negative, we later learned there is a cap on accumulated losses at the DCI. We also discovered that VCB has an ability to borrow at low cost from the Deposit Insurance of Vietnam (MBB has not explicitly disclosed if it has access to this facility as MBB's disclosure is not as detailed as VCB's), which increases our comfort that this scheme is more likely to be positive than negative for MBB.

Our analysis of MBB's disclosure on lending to the real estate sector ranks it about average for a private listed bank in Vietnam. According to MBB, real estate corporate bonds accounted for 3.98% of its total credit exposure (equivalent to 38.1% of the corporate bond book as of YE2021). While the latter figure is not low, it does roughly accord with the makeup of real estate corporate bonds relative to total corporate bond issuance in 2021. The bank further elaborated that loans to real estate developers accounted for around 8% (+/-2% band of variance). Both MBB's corporate bond exposure and loan exposure to developers accord with what we believe is the average for a listed private bank in Vietnam.

VIET CAPITAL SECURITIES

Q1 2022 Recap: Surge in NII driven by abnormally high credit growth

Figure 1: MBB's consolidated Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	% of 2022F Old	VCSC comments
Net interest income	5,952	8,385	40.9%	26%	* Q1 2022 NII increased 41% YoY — achieving 26% our previous FY2022 forecast — with consolidated NIM at 5.60% (+38 bps QoQ and +56 bps YoY) vs our previous 2022F NIM at 5.08%.
Net fee income*	1,303	1,584	21.6%	23%	* Q1 2022 pure NFI was VND1.1tn (+4.8% YoY), in which insurance fee income — which came from joint-venture MB Ageas Life and Military Insurance Company — was VND2.3tn (+42.4% YoY). Insurance fee expenses were VND1.4tn (+85% YoY) with net insurance income increasing 5.3% YoY.
Total NOII	3,241	3,248	0.2%	26%	* Q1 2022 NOII was relatively flat YoY given a high base in Q1 2021. In Q1 2021, MBB recorded recovery income from written-off debts of VND1.1tn (+494% YoY), which was mainly from the corporate segment. We believe this was an extraordinary gain as the process had "taken a long time," according to MBB's management. * Recovery from written-off debts in Q1 2022 was VND348bn (-69% YoY).
TOI	9,193	11,633	26.5%	26%	
OPEX	(2,804)	(3,598)	28.3%	23%	* Q1 2022 consolidated CIR inched up 0.4 ppts YoY to 30.9% mainly due to a 28.3% YoY increase in OPEX that was driven by a 33.9% YoY jump in employee expenses.
PPOP	6,389	8,035	25.8%	28%	
Provision expenses	(1,809)	(2,126)	17.5%	30%	
Net profit	3,666	4,726	28.9%	27%	
NIM	5.04%	5.60%	56 bps		* In Q1 2022, MBB experienced a 38-bp QoQ (56-bp YoY) expansion in NIM due to (1) a 3-bp QoQ (46-bp YoY) decrease in COF and (2) 35-bp QoQ (16-bp YoY) increase in IEA yield.
IEA yield	7.62%	7.79%	16 bps		
Cost of funds	2.93%	2.47%	-46 bps		* Funding costs continued to track down QoQ as (1) a 45% QoQ increase in interbank balances outweighed (2) a 5.7% QoQ decrease in CASA and (3) 9.3% QoQ increase in term deposits.
CASA ratio**	36.9%	44.7%	7.8 ppts		
Term deposits in FX (%)	1.4%	1.1%	-0.2 ppts		
CIR	30.5%	30.9%	0.4 ppts		
NPL ratio	1.29%	0.99%	-30 bps		* The Q1 2022 consolidated NPL ratio was 0.99% (+9 bps QoQ and -30 bps YoY). Group 2/gross loans also looked relatively contained at 1.17% (+9 bps QoQ and +35 bps YoY). As of Q1 2022, the LLR ratio remained high at 250% relative to 268% as of YE2021; however, MBB's NPL ratio increased +9 bps QoQ.
Loan growth (QoQ)	8.6%	14.3%	5.7 ppts		* Q1 2022 consolidated credit growth was 14.8% QoQ, which was derived from (1) loan growth of 14.3% QoQ and (2) 19.5% QoQ growth in corporate bond balances. * The parent bank's Q1 2022 loan growth was 14.2% QoQ. The retail portion in the parent bank's loan book increased 19% QoQ in Q1 2022, contributing 46.4% to the parent's loan book vs 44.6% as of YE2021.
Deposit growth (QoQ)	5.5%	1.4%	-4.0 ppts		

Source: MBB, VCSC. Units are in VND bn unless otherwise stated — *Net fee income includes FX income; **CASA volume includes demand and margin deposits.

2022F Outlook: Improvement in CIR, NIM expansion

Figure 2: VCSC's 2022 forecasts for MBB

VND bn	2021	2022F old	2022F new	2022F new vs 2021	VCSC comments
Net interest income	26,200	31,833	32,551	24.2%	* We increase our 2022F NII by 2.3%, which is mainly driven by our upward revision in NIM.
Net fee income*	5,699	6,986	6,986	22.6%	* We maintain our projection for 2022F NFI (including FX) growth at 22.6% YoY because Q1 2022 results were in line with our forecast (completing 23%).
Total NOII	10,735	12,483	12,483	16.3%	
TOI	36,934	44,316	45,034	21.9%	
OPEX	(12,377)	(15,516)	(14,861)	20.1%	
PPOP	24,557	28,800	30,173	22.9%	
Provision expenses	(8,030)	(7,186)	(7,186)	-10.5%	* Though Q1 2022 provision expenses tracked ahead of our forecast, we expect the pressure on provision expenses will ease in the near future as (1) we assume the NPL ratio will be controlled below 1% and (2) potential provisioning reversal amid decreasing restructured loans.
Net profit	13,221	17,291	18,389	39.1%	
NIM	5.04%	5.08%	5.19%	16 bps	*We increase our 2022F NIM by 11 bps as (1) a 13-bp increase in our IEA yield outweighs (2) 3-bp increase in funding cost.
IEA yield	7.40%	7.55%	7.68%	29 bps	* We increase our IEA yield forecast as MBB had the highest Q1 2022 loan growth in our coverage (14.3%), which was mainly driven by the higher yielding retail segment.
Cost of funds	2.65%	2.77%	2.80%	15 bps	* We edge up our funding cost assumption due to Q1 2022 deposit growth of 1.4% vs the peer median of 4.4%. We think that deposit growth will accelerate in future quarters and the rising deposit rate environment will create upward pressure on funding costs.
CASA ratio**	48.7%	49.2%	43.2%	-5.6 ppts	
CIR	33.5%	35.0%	33.0%	-0.5 ppts	* Impressive CIR performance in Q1 2022 prompts us to cut our full-year 2022 forecast for CIR from 35.0% to 33.0%; however, this full-year figure is higher than Q1 2022 on the expectation that CIR will trend up in future quarters. Nevertheless, management remains more upbeat on CIR as it targets a level below 32%.
NPL ratio	0.90%	0.90%	0.90%	0 bps	
Gross loans	363,555	454,443	454,443	25.0%	
Customer deposits	384,692	465,478	453,937	18.0%	
Valuable papers	66,887	73,576	76,920	15.0%	
Total assets	607,140	716,452	715,613	17.9%	
Total equity	59,575	77,395	81,774	37.3%	* We assume a capital raising in 2022 via (1) a private placement of 70 million shares (1.8% of current outstanding shares) to Viettel and (2) a private placement of 65 million shares (1.7% of current outstanding shares) to corporate investors (exclusive of Viettel Group) at VND32,500/share after a 20% stock dividend. * We expect MBB will not pay a cash dividend in the forecast period.
ROE	23.6%	24.4%	25.2%	1.6 ppts	
ROA	2.3%	2.5%	2.7%	0.4 ppts	
Regulated LDR	73.1%	77.5%	78.1%	5.0 ppts	

Source: VCSC. Units are in VND bn unless otherwise stated — *Net fee income includes FX income; **CASA volume includes demand and margin deposits.

Valuation impact from participating in the support of a distressed credit institution still remains unclear. At MBB's AGM in April 2022, the bank proposed to participate in the mandatory absorption of a distressed credit institution (DCI) placed under special control following the guidance of the Government and State Bank of Vietnam (SBV) in order to restructure the weak banks in Vietnam (referred to as "restructuring plan" hereafter). Shareholders expressed concerns about the potential negative impact on MBB but approved the plan.

According to management, MBB is one of seven banks currently evaluating the restructuring plan. Up to now, MBB, VCB, HDB and VPB are four banks in our coverage that officially submitted a proposal to shareholders to participate in supporting DCIs. While HDB and VPB refused to disclose further information about the restructuring plan until their plans are finalized, VCB and MBB's disclosures had more detail (VCB's disclosure remains the most detailed to date). The table below summarizes the support schemes of both banks.

Figure 3: Summary of MBB and VCB's restructuring plans

	MBB	VCB
Supporting scheme	- MBB will acquire 100% charter capital (the acquiree will not have a charter capital exceeding VND5tn) of a designated credit institution at no cost. - The designated credit institution will be operated as a single shareholder limited liability bank, which will remain an independent entity from the acquiror. - At the time of acquisition, total assets and total equity of the designated credit institution will not exceed 10% of MBB's total assets and total equity. The accumulated loss of the designated credit institution will not exceed VND20tn (+/-10%). According to management, the current NPL ratio of its targeted DCI is 47%. - MBB will provide supporting resources such as information system and technology consulting and transfer some good debts to the DCI to create growth momentum. - The DCI receives good loans transferred from MBB to supplement new loans originated by itself using low-cost funding sources from the Government.	-The DCI will be operated in the form of a single-shareholder limited company fully owned by VCB, which is an independent legal entity. - VCB mobilizes low-cost funding from the Deposit Insurance of Vietnam (DIV) through bond issuance to the DIV and uses the proceeds to originate new loans. - VCB then "sells" these good loans to the DCI. We use quotation marks because it is unclear at this stage whether VCB is allowed to charge a profit margin on what it originates, but what is clear is that VCB is allowed to pass on all costs incurred. - The DCI receives good loans disbursed by VCB to supplement new loans originated by itself using low-cost funding sources from the Government. - VCB pays the coupon on bonds issued to the DIV using payment received from the DCI.
Rights and benefits of the acquiror	- MBB is exempt from consolidating the financial statements of the DCI. - MBB can exclude the DCI when calculating consolidated CAR. - MBB is not required to make provision for the capital contributed to the designated credit institution and can exclude the designated credit institution when calculating regulatory ratios designed to limit how much a bank may invest in other enterprises and subsidiaries. - MBB expects to have 401 branches and transaction offices after acquisition. - Dividend policies, earnings distribution and reserve policies will not be impacted by the DCI as long as MBB does not consolidate the DCI's financial statements. -Through supporting the DCI, MBB expects that its business growth will be 1.5-2x higher than the average growth of the market in the next three to five years. MBB expects some preferential treatment such as a higher credit growth quota of 30%-35%. Apart from a higher-than-usual credit quota, no further incentive was disclosed by management - MBB has the right to (1) sell this credit institution, (2) perform an IPO or (3) consolidate the DCI.	- VCB is exempt from consolidating the financial statements of the DCI. - VCB does not have to contribute capital to the DCI during the time the DCI continues to accumulate losses. - VCB is not responsible for payment obligations of the DCI during the implementation of the restructuring plan. - VCB has the right to exceed existing lending caps to a single borrower/consolidated group of 15%/25% of bank's charter capital. - No caps on credit growth as long as VCB meets the minimum CAR requirement. - VCB can open branches in an area at least as much as other SOE banks have in that area. - Relieved of paying cash dividends. - Similar to MBB, the limits placed on investment in subsidiaries does not apply to the newly acquired DCI. - VCB has the right to sell/transfer, merge or continue to maintain the DCI as VCB's subsidiary during and after completing the restructuring plan.

Rights and benefits of the DCI	- SBV to provide the DCI with interest-free loans during the restructuring period (amounting up to half of the accumulated loss).	- The SBV will offer loans to the DCI with preferential interest rates to as low as 0% during the implementation of the plan. - The DCI does not have to apply operational safety ratios during the implementation of the plan. - The DCI is regranted an operating license by the SBV, ensuring that the DCI is allowed to operate in all areas that VCB is operating and will be licensed to operate without meeting the regulatory conditions required by the SBV. - The DCI can grow in excess of its annual credit growth plan as long as it is in accordance with the goals of the restructuring plan. - The DCI is allowed by the SBV to not make general provision for outstanding loans purchased from VCB (if any) under the restructuring plan. - DIV purchases bonds that the DCI issues with interest rates equivalent to the interest rates of State Treasury bonds for the same term.
Timeline	7-9 years	8-10 years

Source: Company data, VCSC. For further details on VCB's plan, please refer to our Update Report, VCB [BUY +49.7%] - Faster growth beckons, but many uncertainties remain.on May 20, 2022.

Overall, the restructuring plan of VCB provides more details compared to MBB in terms of rights and benefits of the DCI and the acquiror. The key difference between the two plans is that VCB and its DCI are allowed to issue bonds to a State-owned organization to source cheap funding, which is a critical mechanism, in our view. According to our discussion with MBB, the restructuring plan may vary depending on each bank and has not been finalized, but we think issuing bonds at a preferential yield is also a potential — though yet unconfirmed — mechanism.

From recent discussions, it seems increasingly likely MBB will be asked to absorb Ocean Bank. According to the State Audit of Vietnam, as of 2017, Ocean Bank's loan book was VND14.2tn with an NPL ratio of 72.3%. There is no official updated data since 2017. According to local media reports, Ocean Bank's accumulated loss was around VND20tn and loan book was VND20tn as of 2020, which means it had grown 12% p.a. on average. In addition, at MBB's recent AGM, the CEO said the NPL ratio of the targeted DCI was 47% (we think this could be the 2021 figure). Ocean Bank currently has 101 branches and transaction offices vs MBB's 300 branches and transaction offices. The acquisition of these branches should create more cross-selling opportunities for MBB and enhance fee income, in our view. However, the brand name of Ocean Bank is not currently reputable, so we believe the upside impact on fee income should be limited in the short term.

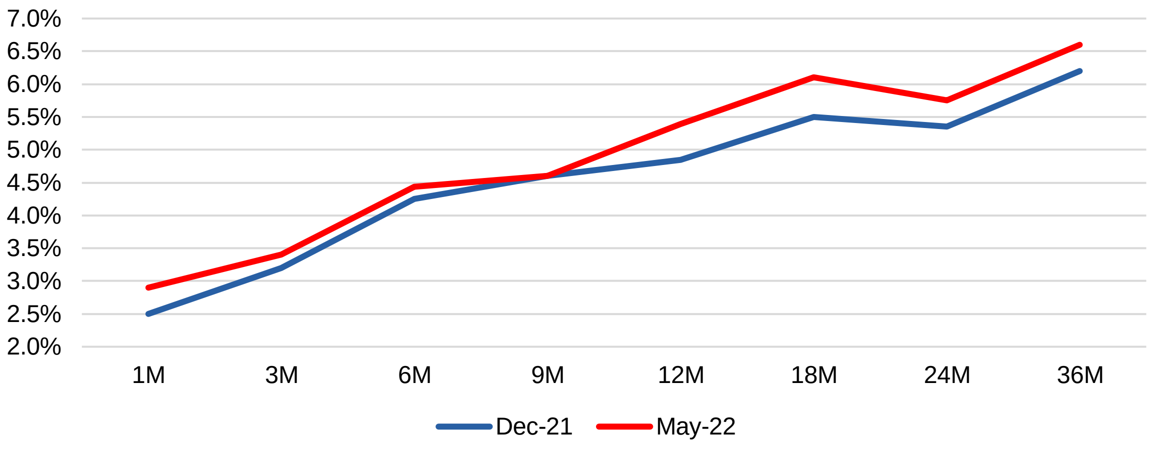
Overall, given that the target is still yet to be officially announced and the exact rescue mechanism is yet to be fully fleshed out, we currently do not model for the absorption of a DCI.

Shareholders approved a private placement of 65 million shares to corporate investors (exclusive of the Viettel Group). Accordingly, MBB plans to issue a maximum of 65 million shares to corporate investors with sufficient capacity and technology to cooperate with MBB to enhance its business. Large corporate investors with good brand names and understanding about MBB's business model and culture are prioritized. The expected schedule is in 2022 or 2023. The selling price was not disclosed at the AGM; however, the BOD stated that the selling price will not be lower than the book value of the last quarter before issuance.

Restructured loans decreased in Q1 2022 — in line with our expectation. According to the bank's disclosure, MBB's restructured loans as of Q1 2022 was VND4.7tn (equivalent to 1.2% parent loan book) vs VND5.0tn in Q4 2021. The decrease in restructured loans mainly came from the repayment of customers rather than turning to NPLs. In addition, all additional provision expenses for restructured loans were made in 2021 instead of allocating them over three years following Circular 14. We believe restructured loans will decrease in future quarters and that the provisioning pressure from restructured loans has passed.

Recent rises in deposit rates could be a possible explanation for downward pressure on MBB's CASA. In Q1 2022, MBB's CASA ratio decreased by 4 ppts QoQ to 44.7% due to (1) a 5.7% QoQ decrease in CASA and (3) 9.3% QoQ increase in term deposits. Furthermore, MBB's term deposit rates increased around 19-60 bps across most tenors from December 2021 - May 2022. In particular, the one-month term deposit rate increased around 40 bps in these five months. All SOE banks and two private banks increased their CASA ratio in Q1 2022 on a QoQ basis, so the casual link between CASA and term deposit rates is not strong at present. Nevertheless, we revise down our forecast for MBB's 2022F CASA ratio from 49.2% to 43.2% in this Update Report.

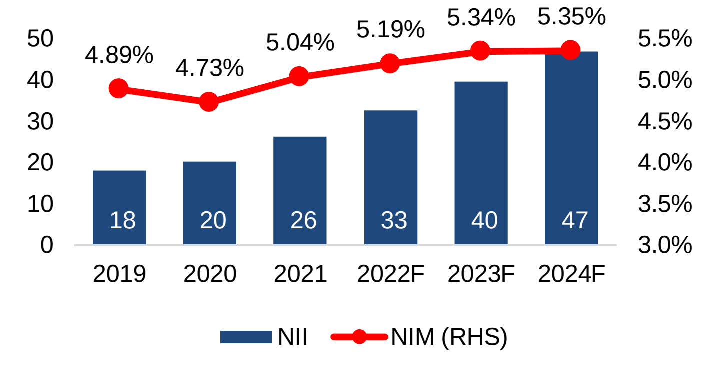
Figure 4: MBB's term deposit rates



Source: MBB, VCSC

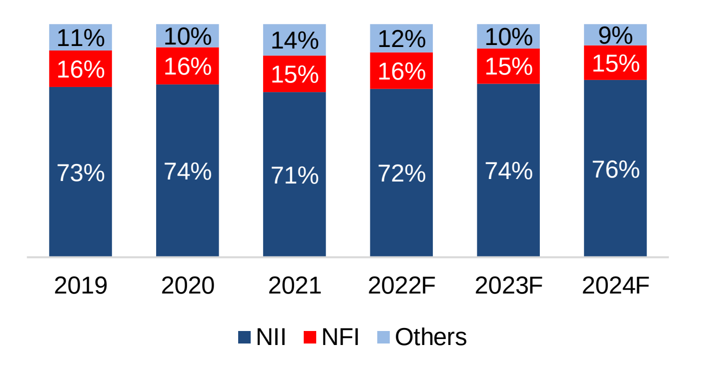
Key figures of MBB

Figure 5: NIM (%) and NII (VND tn) (2019-2024F)



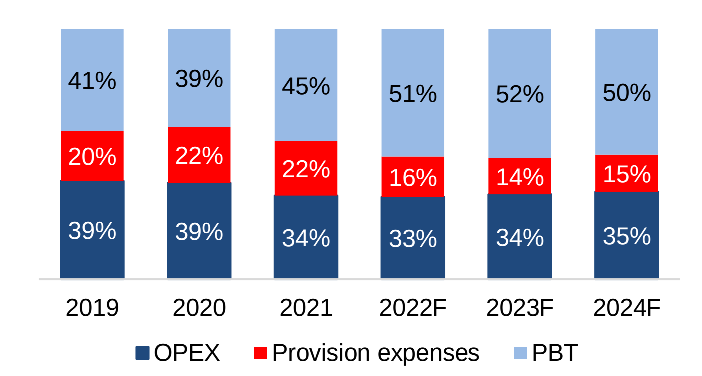
Source: MBB, VCSC

Figure 6: TOI components (2019-2024F)



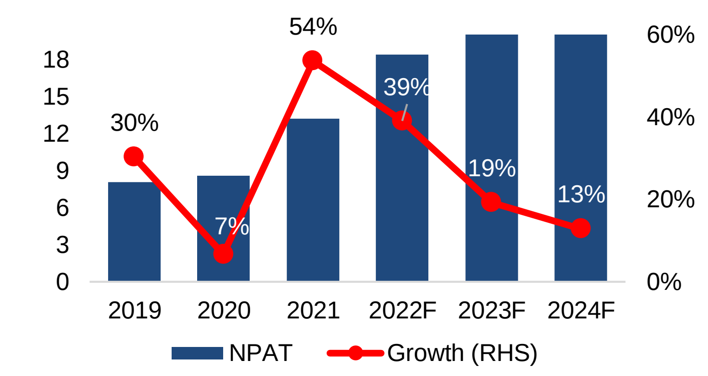
Source: MBB, VCSC

Figure 7: OPEX, provision expenses and PBT as % of TOI (2019-2024F)



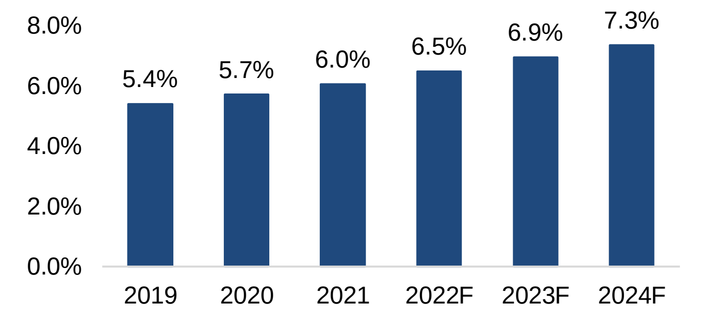
Source: MBB, VCSC

Figure 8: NPAT (VND tn) and NPAT growth (%) (2019-2024F)



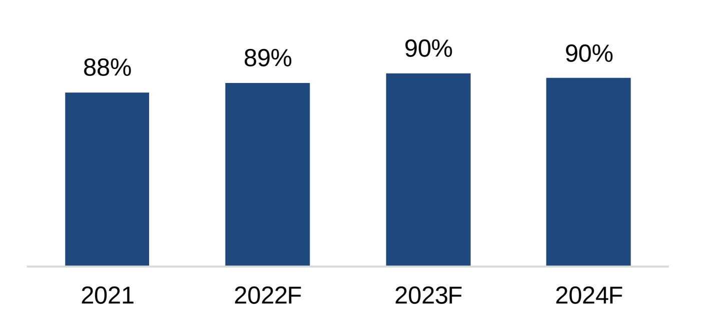
Source: MBB, VCSC

Figure 9: Lending market share in our coverage universe (2019-2024F)



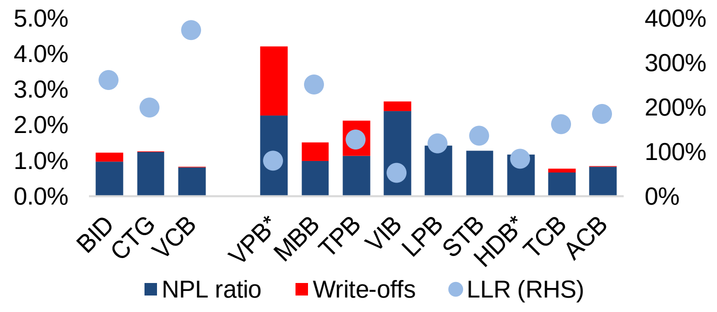
Source: Company data, VCSC

Figure 10: RWAs as % of total assets (2021-2024F)



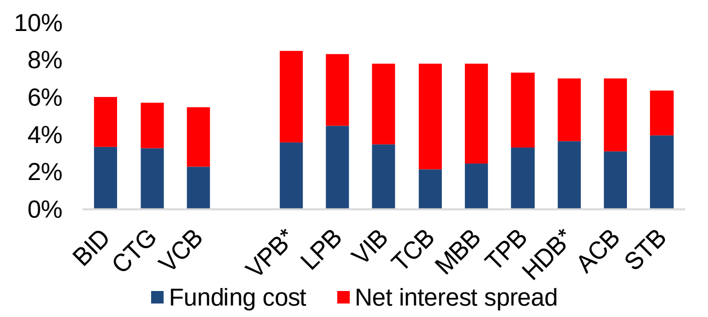
Source: MBB, VCSC

Figure 11: NPL ratio, annualized write-offs over gross loans and LLR of banks under coverage (Q1 2022)**



Source: Company data, VCSC — * standalone bank only; ** LLR is percentage of total provision balance over NPLs

Figure 12: Interest-earning asset yields of banks under coverage (Q1 2022)



Source: Company data, VCSC — * standalone bank only

Valuation

We utilize two valuation methodologies in estimating our target price, assigning equal weighting for the residual income method and target P/B multiple. Our target price (TP) is VND44,100/share.

Figure 13: Cost of equity

Cost of equity	
Risk free rate	5.5%
Beta	1.0
Market risk premium	7.0%
Cost of equity	**12.5%**

Source: VCSC

Figure 14: Valuation summary

(VND bn)	Fair value	Weighting	Contribution
Residual income	168,015 (USD7.31bn)	50%	84,008
Target P/B @ 1.8x	161,967 (USD7.04bn)	50%	80,984
Composite valuation			**164,992 (USD7.17bn)**
Number of shares outstanding (billion)			3.778
Target price (VND)			**43,700**
Current price			**27,600**
Upside			58.3%
Dividend yield			0.0%
TSR			58.3%
2022F P/B at TP			2.02x
RATING			**BUY**

Source: VCSC (units are in VND bn unless otherwise stated)

Figure 15: Residual income model

(VND bn)	2022F	2023F	2024F	2025F	2026F
ROE (Beginning period equity)	30.9%	26.8%	24.0%	21.8%	18.5%
COE	12.5%	12.5%	12.5%	12.5%	12.5%
Economic Margin	18.4%	14.3%	11.5%	9.3%	6.0%
Equity value (Beginning period)	59,575	81,774	103,064	127,117	154,078
Residual income (RI)	5,471	11,703	11,867	11,839	9,281
PV of residual income	5,158	9,808	8,840	7,840	5,463
Sum PV of RI			37,108		
PV of terminal value (4.0% intermediate growth rate for 10 years and 3.0% perpetual growth)			60,232		
Beginning EV (average of 2021/2022F)			70,675		
Fair equity value			**168,015**		
Number of outstanding shares (billion)			3.778		
Fair value per outstanding share (VND)			**44,468**		
Number of diluted shares (billion)			3.913		
Fair value per diluted share (VND)			42,934		

Source: VCSC (units are in VND bn unless otherwise stated)

We maintain our assumption for an intermediate growth rate at 4.0% for 10 years after the explicit forecast period and maintain our assumption for the perpetuity growth rate at 3.0%.

At its AGM in April 2022, MBB obtained shareholder approval for the capital raising plan that includes (1) a private placement to Viettel (maximum 70 million shares — 1.8% of current outstanding shares) and (2) private placement of 65 million shares (1.7% of current outstanding shares) to corporate investors (exclusive of Viettel Group). We estimate the selling price at VND32,500/share (roughly 1.8x book value per share at the end of 2022F after a 20% stock dividend) and assume total proceeds of VND4.4tn. Our residual income model also includes our assumed proceeds of VND4.4n from these private placements after the stock dividend issuance. However, the share issuance only accounts for 3.5% of the post-money outstanding shares, which results in an immaterial impact in our residual income model. We use the fair value per outstanding shares from residual income method for our target price estimation.

Comparable peers and target P/B valuation

Figure 16: Target P/B

	VND bn
Target P/B (x)	1.8
Mid-2023F equity value (VND bn)	92,419
Target market value of equity posting issuing (VND bn)	166,355
Issuing value (VND bn)	4,388
Pre-issuing value (VND bn)	**161,967**
Number of outstanding share (billion)	3.778
Fair value per share (VND)	**42,867**

Source: VCSC

MBB's share price has decreased 13.8% over the last three months. Furthermore, MBB is currently trading at a 2.0% discount to the peer median 2022F P/B at 1.43x (**Figure 18**).

MBB has traded at an average discount of 14% to ACB's trailing P/B over the past three years (**Figure 17**) with an average ROE in 2018-2021 of 21.5% vs 25.1% at ACB — with both banks having a similar loan book sizes and IEA yields. As of May 30, 2022, MBB was trading at a 7% discount to ACB's trailing P/B.

While we trim target P/B for most banks in our coverage, we maintain MBB's target P/B at 1.8x given the prospect of extraordinary credit growth because of its participation in reviving a DCI. However, due to Government policies to stamp out speculation in the stock market and real estate market, we think stocks with high-quality lending exposure and low exposure to real estate should be given a slightly higher premium; as such, we choose a target P/B of 1.8x for MBB vs ACB's target P/B of 1.9x.

Figure 17: Historical trailing P/B of MBB and ACB over the last three years

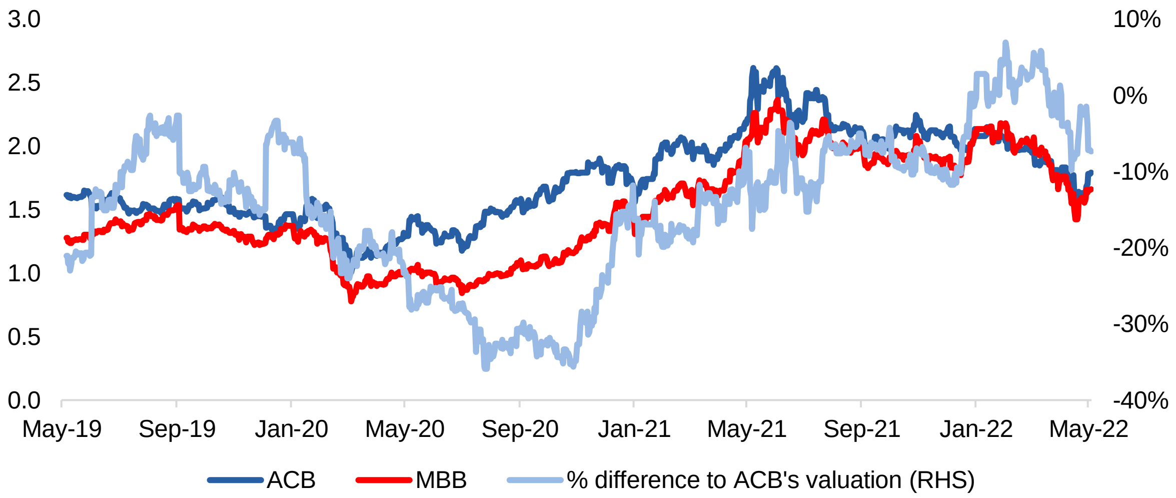


Figure 18: Bloomberg consensus forecasts for Vietnamese banks

Bloomberg Ticker	Market Cap. (USD bn)	P/E			P/B			ROE			ROA	Equity Multip.	NPL ratio
		2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F	TTM	2021	2021
ACB VN	3.7	8.3	7.0	5.8	1.79	1.50	1.23	24.2%	25.3%	23.2%	2.13%	11.8	0.77%
BID VN	7.8	15.8	13.2	8.5	2.09	1.95	1.53	13.8%	15.7%	18.4%	0.67%	20.4	0.98%
CTG VN	5.7	10.7	6.3	5.2	1.34	1.23	1.05	13.0%	20.8%	21.8%	0.82%	16.4	1.26%
VCB VN	15.9	16.1	14.2	11.6	3.16	2.70	2.25	21.1%	21.1%	21.7%	1.68%	12.7	0.64%
VPB VN	6.1	8.2	7.2	6.9	1.61	1.38	1.14	24.0%	21.4%	17.6%	3.44%	6.3	4.47%
STB VN	1.9	10.9	9.9	5.8	1.21	1.12	0.95	11.9%	12.9%	18.3%	0.74%	15.2	1.47%
HDB VN	2.2	8.0	7.0	6.1	1.66	1.43	1.21	23.1%	22.2%	20.6%	1.81%	12.2	1.65%
TCB VN	5.7	6.9	6.2	5.2	1.36	1.17	0.96	21.7%	20.4%	19.4%	3.55%	6.1	0.66%
TPB VN	2.3	10.0	8.1	6.5	1.91	1.64	1.31	22.0%	22.4%	22.5%	1.92%	11.3	0.82%
VIB VN	2.5	8.5	7.7	6.1	2.19	1.94	1.48	29.5%	28.1%	26.5%	2.29%	12.7	2.32%
LPB VN	1.0	6.9	5.4	5.1	1.21	0.95	0.80	18.5%	21.5%	19.0%	1.08%	17.2	1.33%
Median		**8.5**	**7.2**	**6.1**	**1.66**	**1.43**	**1.21**	**21.7%**	**21.4%**	**20.6%**	**1.81%**	**12.7**	**1.26%**
MBB VN	**4.6**	**7.8**	**7.1**	**5.4**	**1.66**	**1.40**	**1.11**	**23.7%**	**24.4%**	**23.7%**	**2.36%**	**9.7**	**0.90%**

Source: Bloomberg as of May 30, 2022, VCSC

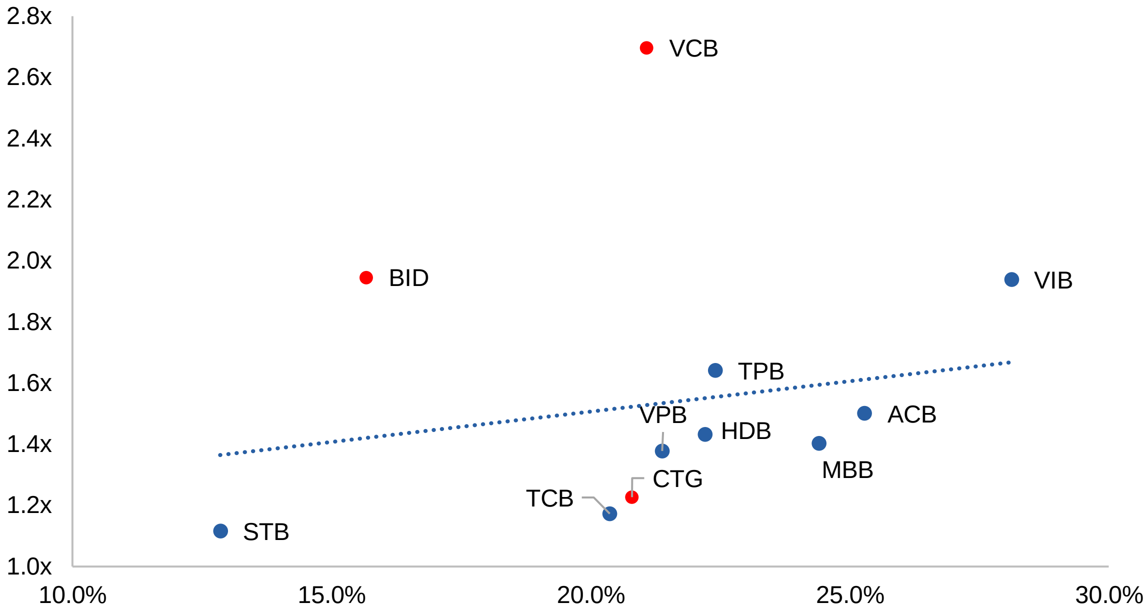
Figure 19: Sensitivity analysis of our 2022F P/B for MBB in relation to ROE derived from the Gordon Growth Model and terminal growth rate, ceteris paribus

		Average ROE in 2016-2026F				
		15.5%	**17.5%**	**19.5%**	**21.5%**	**23.5%**
Terminal growth (g)	**2.0%**	1.29	1.48	1.67	1.86	2.05
	2.5%	1.30	1.50	1.70	1.90	2.10
	3.0%	1.32	1.53	1.74	1.95	2.16
	3.5%	1.34	1.56	1.78	2.00	2.23
	4.0%	1.36	1.59	1.83	2.06	2.30
	4.5%	1.38	1.63	1.88	2.13	2.38

Source: VCSC

The above sensitivity matrix illustrates a fair value P/B multiple for MBB at 1.74x using the Gordon Growth Model (GGM) with our average ROE in 2016-2026F at 19.5%, cost of equity at 12.5% (**Figure 13**) and a terminal growth assumption of 3.0%. MBB is penalized by its low equity multiplier of 9.7x relative to the peer median of 12.7x (**Figure 18**); therefore, for the reasons we set out in the comparable peers section as well as the lower leverage at MBB, we adopt a higher target P/B of 1.8x.

Figure 20: Vietnamese banks P/B (y-axis) and ROE (x-axis) (2022F)

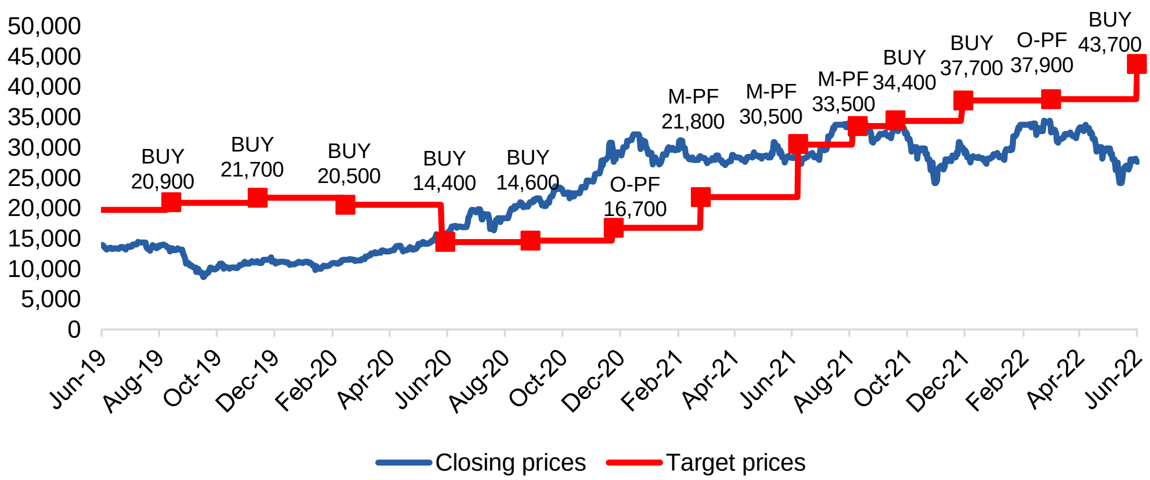


Source: Bloomberg, VCSC; red dots signify SOCBs (priced on May 30, 2022)

Potential downside risks: MBB may fail to maintain its high CASA ratio and/or execute on its high-yield business model (MCredit) due to a failure in risk management and growth strategies, which could lead to a spike in funding cost and/or credit cost.

History of Recommendations

Figure 21: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Interest inc.	38,465	48,134	59,933	72,837
Interest exp.	(12,265)	(15,583)	(20,322)	(25,898)
Net interest inc.	**26,200**	**32,551**	**39,611**	**46,939**
Fee & commission inc.	4,367	5,389	6,231	7,204
Other non-interest inc.	6,368	7,094	7,369	7,603
Total non-interest inc.	10,735	12,483	13,600	14,808
Total operating inc.	**36,934**	**45,034**	**53,211**	**61,746**
Non-interest exp.	(12,377)	(14,861)	(18,092)	(21,611)
Other G&A exp.	0	0	0	0
Total operating exp.	(12,377)	(14,861)	(18,092)	(21,611)
PPOP	**24,557**	**30,173**	**35,119**	**40,135**
Provision exp.	(8,030)	(7,186)	(7,713)	(9,197)
Other inc./exp.	0	0	0	0
Pre-tax profit	**16,527**	**22,986**	**27,407**	**30,939**
Taxes	(3,306)	(4,598)	(5,482)	(6,188)
Net profit	**13,221**	**18,389**	**21,925**	**24,750**
Minorities/pref divs	(524)	(577)	(634)	(698)
Attributable net profit	**12,697**	**17,812**	**21,290**	**24,052**
Wt avg shares (mn)*	3,778	3,846	3,913	3,913
EPS (VND)	3,361	4,631	5,440	6,146
DPS (VND)	0	0	0	0

BS (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	3,475	4,091	4,896	5,861
Balances with SBV	38,051	29,473	23,281	20,829
Due from FIs	35,983	32,676	30,472	29,303
ST investments	131,704	157,489	180,386	206,675
Net customer loans	354,797	444,407	553,086	676,799
HTM	4,677	5,145	5,659	6,225
Long term investments	803	824	848	874
Property & equipment	4,947	5,152	5,366	5,590
Other assets	32,702	36,355	45,081	54,999
Total assets	**607,140**	**715,613**	**849,076**	**1,007,154**
Borrowings from SBV	262	289	317	349
IB deposits & borrowings	59,560	67,801	78,784	91,623
Other borrowed funds	1,999	1,999	1,999	1,999
Customer deposits	384,692	453,937	544,724	653,669
Other financial int.	0	0	0	0
Valuable papers	66,887	76,920	88,458	101,727
Other liabilities	31,254	29,691	28,207	26,796
Shareholders' equity*	59,575	81,774	103,064	127,117
MI	2,911	3,202	3,523	3,875
Liabilities & equity	**607,140**	**715,613**	**849,076**	**1,007,154**

RATIOS (%)	2021	2022F	2023F	2024F
Growth				
Loan growth	21.9	25.0	24.0	22.0
Deposit growth	23.7	18.0	20.0	20.0
TOI growth	35.0	21.9	18.2	16.0
PPOP growth	46.1	22.9	16.4	14.3
NPAT growth	53.6	39.1	19.2	12.9
Asset quality				
Group 2 / loans	1.08	1.08	1.08	1.08
NPL ratio	0.90	0.90	0.80	0.80
LLR	268.0	245.4	231.2	194.2
Provision exp. / loans	2.21	1.58	1.37	1.34
Liquidity				
CAR under Basel II	11.2	13.8	15.4	15.8
Regulated LDR	73.1	78.1	81.3	83.3

RATIOS (%)	2021	2022F	2023F	2024F
Profitability				
NIM	5.04	5.19	5.34	5.35
Int-earning asset yields	7.40	7.68	8.09	8.31
Funding costs	2.65	2.80	3.09	3.31
CIR	33.5	33.0	34.0	35.0
ROE decomposition (as % of avg total assets)				
NII	4.75	4.92	5.06	5.06
Provisions	-1.46	-1.09	-0.99	-0.99
Post-provision NII	3.30	3.84	4.08	4.07
Non-Interest inc.	1.95	1.89	1.74	1.60
Operating exp.	-2.25	-2.25	-2.31	-2.33
Taxes & MI	-0.70	-0.78	-0.79	-0.76
ROAA	2.30	2.69	2.75	2.66
Equity Mult. (x)	10.3	9.4	8.4	7.9
ROAE	23.6	25.2	23.1	21.0

Source: Company data, VCSC. * We assume a capital raising in 2022 via (1) a private placement of 70 million shares (1.8% of current outstanding shares) to Viettel and (2) a private placement of 65 million shares (1.7% of current outstanding shares) to corporate investors (exclusive of Viettel Group) at VND32,500/share after 20% stock dividend.

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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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