

MBB – BUY

STOCK INFORMATION

(June 28th, 2022)

Stock exchange	HOSE
Market price (VND)	24,700
10-day average trading volume	15,590,400
Market capital (VND bn)	93,325
Outstanding shares	3,778,321,777
Share held by foreign investors	23.24%

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

MBB – OPPORTUNITY FOR RAPID GROWTH

- (1) Growth in credit and scale outperform the industry:** With the mandatory transfer, MBB will be prioritized to increase credit growth by 5-10% in 2022 and the coming years, and MBB's credit can increase by about 30%/year while still maintaining CAR ratio at 10-11%.
- (2) Restructuring earning assets to improve NIM and increase income in the long term:** The expansion of retail lending, consumer finance and micro-SME lending helps MBB achieve higher yields. In addition, cost of fund will continue to remain low as CASA grows thanks to customer attraction programs and development of digital channel.
- (3) Expansion of the ecosystem through strategic partners:** MBB will increase the level of cooperation with Viettel by raising Viettel's ownership to 20%. The bank is expected to offer private placements at the rate of 1-2% of charter capital each year to partners operating in finance, fintech, telecommunications platforms, chain businesses, etc.

Recommendations: We estimate a fair value for MBB stock at **VND 31,964/share** using 2 valuation methods P/B Multiple and Residual Income with a valuation of 1.5x. We maintain our **BUY** recommendation for MBB stock.

Unit: VND billion	2018	2019	2020	2021	2022F
Net interest income	14,583	18,000	20,278	26,200	32,603
Non-interest income	4,953	6,650	7,084	10,735	12,450
Total operating income	19,537	24,650	27,362	36,934	45,053
Operating expenses	8,734	9,724	10,555	12,377	13,516
Provisions	3,035	4,891	6,118	8,030	10,059
Profit before tax	7,767	10,036	10,688	16,527	21,479
NIM	4.6%	4.9%	4.8%	5.1%	5.2%
VAMC balance	0	0	0	0	0
ROE	20.4%	22.8%	20.0%	24.6%	26.0%
CIR	44.7%	39.4%	38.6%	33.5%	30.0%
CAR	10.9%	10.1%	10.4%	11.2%	na
NPL	1.3%	1.2%	1.1%	0.9%	0.9%
LLCR	112.3%	110.5%	134.1%	268.0%	323.0%
CASA	32.0%	33.9%	37.0%	44.6%	44.9%

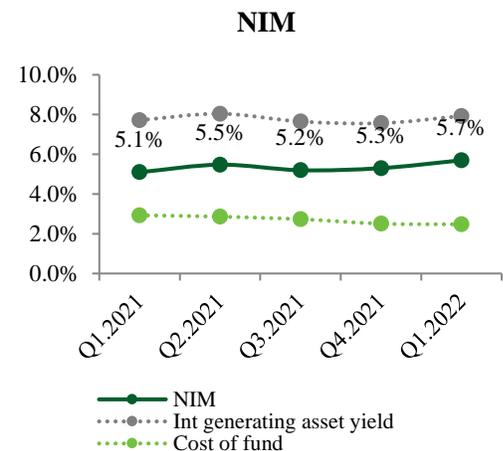
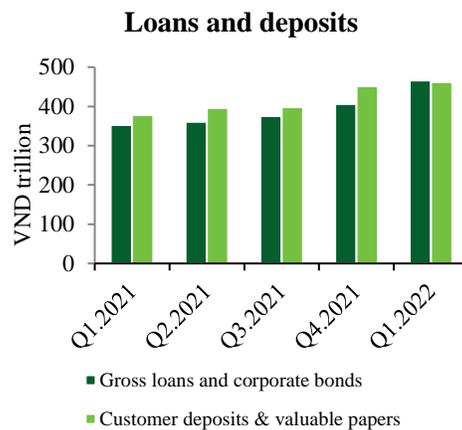
Source: MBB, VCBS Research

Profits were positive in Q1.2022 thanks to fast credit growth and continued expansion of NIM

In Q1.2022, MBB recorded EBT of VND 5,910 billion (+29% yoy). In which, high growth rate was recorded in net interest income and investment securities trading.

MBB's credit scale reached VND 466,170 billion with credit growth reaching 14.8%, nearly touching the credit limit initially granted by SBV and the highest growth in the system, thanks to the booming credit demand for consumption and businesses after the pandemic. In which, customer loans reached VND 415,549 billion (+14.3% ytd) and outstanding corporate bonds reached VND 50,621 billion (+19.5% ytd). Real estate and construction accounted for 12.9% of total outstanding loans, of which real estate corporate bonds accounted for 3.98%. These loans are secured by assets and cash flows are strictly managed to collect debts as soon as they arise.

Deposits and valuable papers reached VND 462 trillion (+2.4% ytd). Deposit growth slower than credit growth started putting pressure on liquidity and net LDR increased to 106.5%. Demand deposits (CASA) was nearly VND 162 trillion (-5.7% ytd), CASA ratio decreased to 41.4% accordingly.



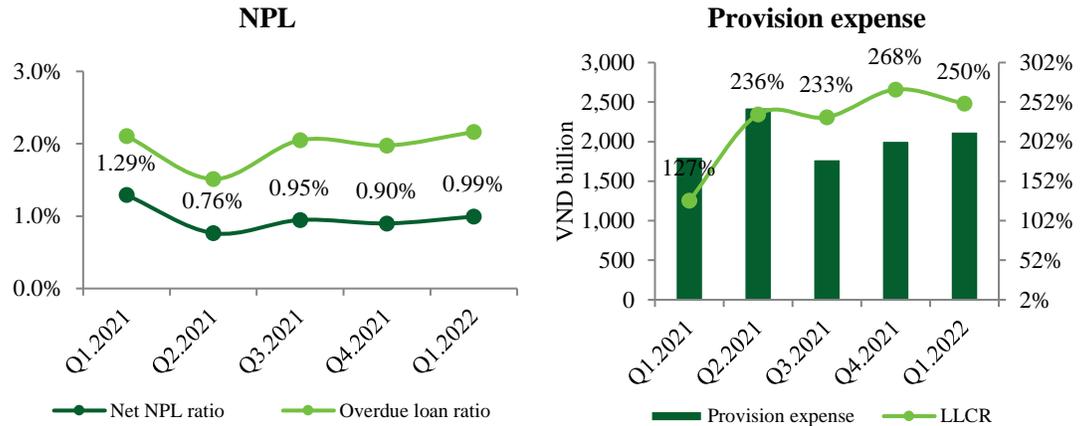
Source: MBB, VCBS Research

Total operating income reached VND 11,633 billion (+26.5% yoy), in which:

- (1) Net interest income was recorded at VND 8,385 billion (+40.9% yoy). MBB's cost of fund decreased slightly thanks to CASA advantage and increased funding from the interbank market. Profitability increased to 7.9% thanks to the promotion of lending to individual customers and consumer loans. As a result, NIM continued to expand reaching 5.7%.
- (2) Non-interest income reached VND 3,248 billion (+0.2% yoy). Service fee income only increased by 4.8% yoy due to increased costs to expand market share and customer size. Investment securities trading increased sharply by 48.8% yoy, while income from recovery of bad debt written off decreased by 55.8% yoy.

Operating expenses reached VND 3,598 billion (+28.3% yoy), MBB's CIR remained low at 30.9%.

Provision expense was recorded at VND 2,126 billion (+17.5%), on balance sheet NPL stayed under 1%. Restructured loans accounted for about 1.2% of total outstanding loans, 100% of restructured debts have been fully provisioned. Loan loss coverage ratio (LLCR) decreased slightly to 250%.



Source: MBB, VCBS Research

5M.2022 Business results update

By the end of May 2022, credit grew by 15% ytd, of which loans to individual customers accounted for 42%, loans to SME accounted for 29%, loans to large enterprises accounted for 18%, and corporate bonds accounted for 11% of total credit. Deposit increased by 4% ytd, CASA ratio increased to 44%. Interest income increased by 36% yoy. NPL ratio remained below 1%, restructured debt ratio continued to decrease to 0.9%, provision expense increased slightly by 1% yoy. EBT 6M.2022 is expected to be around VND 11,000 billion.

Acceptance of mandatory transfer of a credit institution

At the 2022 AGM, MBB's management shared information about accepting the mandatory restructuring plan of a credit institution whose total assets is less than 10% of MB's and accumulated losses not exceeding VND 20,000 billion. Thereby, MBB will receive a number of significant benefits, including: (1) Credit growth 1.5-2 times faster than the industry average over a period of about 5 years; (2) Increased network size by more than 100 transaction points and branches; (2) Low-cost capital with a 0% interest rate discount loan. MBB representative shared that, while waiting for the government's approval of the transfer plan, the bank recently proactively implemented the plan early by signing a comprehensive cooperation contract with Oceanbank.

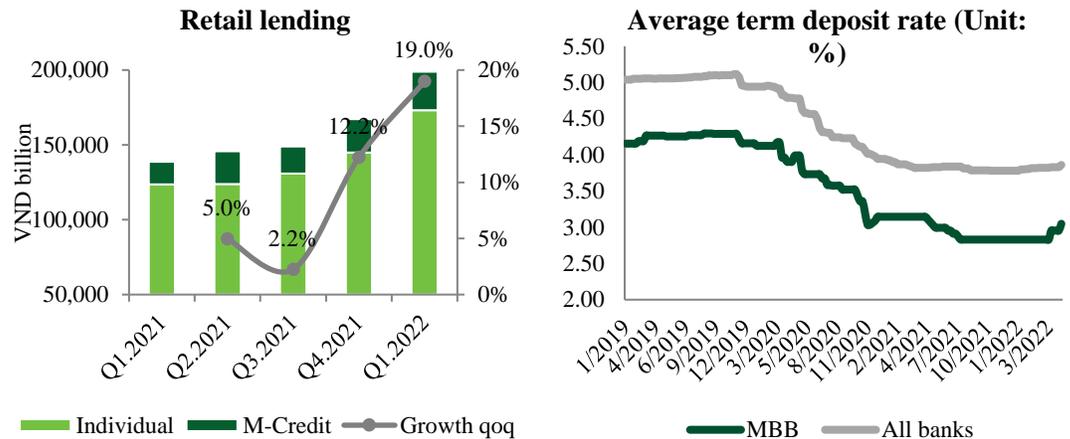
We believe that with abundant resources available and various supports received when joining the mandatory transfer project, MBB is likely to successfully carry out the restructuring of the transferred credit institution after 7-8 years, there are opportunities for strong growth in customer base, scale and profits at the same time.

Outlook

Growth in credit and scale outperform the industry: Credit demand is expected to continue to increase when the pandemic is under control and the economy reopens. With the mandatory transfer, MBB will be prioritized to increase credit growth by 5-10% in 2022 and the coming years, and MBB's credit can increase by about 30%/year while still maintaining CAR ratio at 10-11%. MBB's equity is guaranteed thanks to abundant retained earnings. The bank plans to increase its charter capital to VND 46,882 billion in 2022 through 3 sources: stock dividends at the rate of 20%, private placement to strategic partners, and ESOP.

Restructuring earning assets to improve NIM and increase income in the long term: The expansion of retail lending, consumer finance and micro-SME lending helps MBB achieve higher yields. MB aims to reach 15 million retail customers in 2022 and reach 20-30 million customers after 5

years. Especially, the bank also focuses on developing Private and Priority services, with the goal of reaching 2.8 million affluent customers by 2026, contributing 60% of total income from individual customers. In addition, cost of fund will continue to remain low as CASA grows thanks to customer attraction programs and development of digital channel.



Source: MBB, VCBS Research

Expansion of the ecosystem through strategic partners: MBB takes advantage of the ecosystem cooperating with many strategic partners by providing payment infrastructure services on digital platforms, and approaching their customer network to cross-sell products. MBB will increase the level of cooperation with Viettel with the private offering of 70 million shares expected to be implemented in Q3.2022, raising Viettel's ownership to 20%. The bank keeps the foreign room at 23.2% and is expected to offer private placements at the rate of 1-2% of charter capital each year to partners operating in finance, fintech, telecommunications platforms, chain businesses, etc. MBB is also actively looking for strategic investors for 3 subsidiaries: MIC, MBS and MB Capital.

Strong asset quality: With effective credit management and a large provision buffer in which restructured loans have been fully provisioned, MBB's asset quality is guaranteed even after Circular 01 expires on June 30th, 2022. Provision expense in the coming years is forecasted to decrease gradually while NPL remaining lower than 1%.

Risk

Liquidity risk: The strong increase in credit demand, along with the slow growth of deposits in general and long-term deposits in particular, have put pressure on MBB's LDR and short-term capital for medium and long-term loans, creating pressure on medium-term deposit rates from the beginning of 2022. In addition, the liquidity of VND in the system is also under pressure when foreign currency supply is difficult and SBV uses 3-month forward contract purchasing USD to support USD liquidity in the market.

Recommendation: BUY We forecast MBB's EBT in 2022 to reach VND 21,479 billion (+30% yoy), equivalent to EPS of VND 4,409/share and BVPS of VND 19,285/share.

We estimate a fair value for MBB stock at VND 31,964/share using 2 valuation methods P/B Multiple and Residual Income with a valuation of 1.5x. We maintain our **BUY** recommendation for MBB stock.

DISCLAIMER

This report is designed to provide updated information on the fixed-income, including bonds, interest rates, some other related. The VCBS analysts exert their best efforts to obtain the most accurate and timely information available from various sources, including information pertaining to market prices, yields and rates. All information stated in the report has been collected and assessed as carefully as possible.

It must be stressed that all opinions, judgments, estimations and projections in this report represent independent views of the analyst at the date of publication. Therefore, this report should be best considered a reference and indicative only. It is not an offer or advice to buy or sell or any actions related to any assets. VCBS and/or Departments of VCBS as well as any affiliate of VCBS or affiliate that VCBS belongs to or is related to (thereafter, VCBS), provide no warranty or undertaking of any kind in respect to the information and materials found on, or linked to the report and no obligation to update the information after the report was released. VCBS does not bear any responsibility for the accuracy of the material posted or the information contained therein, or for any consequences arising from its use, and does not invite or accept reliance being placed on any materials or information so provided.

This report may not be copied, reproduced, published or redistributed for any purpose without the written permission of an authorized representative of VCBS. Please cite sources when quoting. Copyright 2021 Vietcombank Securities Company. All rights reserved.

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>