

Military JSCB (MBB: HOSE)



BUY – 1Y Target Price: VND 30,800

Current price: VND 21,500

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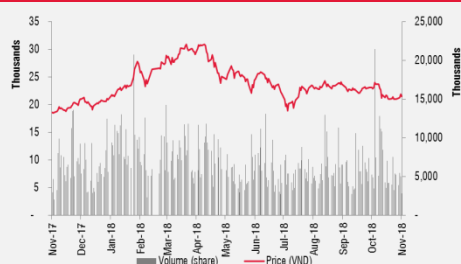
FINANCIALS - VIETNAM

Key figures

Market cap (USD mn)	2,004
Market cap (VND bn)	46,774
Outstanding shares (mn)	2,160
52W high/low (VND 1,000)	31.5/18.7
Average 3M volume (share)	6,163,974
Average 3M value (USD mn)	6.04
Average 3M value (VND bn)	141.06
Foreign ownership (%)	30
State ownership (%)	0
Management ownership (%)	N.a

Source: SSI Bloomberg

MBB Price & Trading Volume



Source: Bloomberg

Company Snapshot

MBB was set up in 1994 in order to provide financial services to military companies. After 20 years, MBB is now one of top ten commercial joint stock banks in terms of total assets (2014), providing various services to various kinds of clients. In Nov 2011, MBB went listing on HOSE.

EARNING UPDATE

Strong earnings amid slower credit growth

Highlights: 9M2018 PBT was at VND 6.014 tn (+50.3% YoY), in line with our expectations and mainly driven by strong growth in both net interest income (+30.8% YoY) and non-NII (+66.5% YoY). Operating expenses were less than expected (+35.4% YoY), and provision expenses were growing at a much lesser pace (+18.3% YoY). Credit growth was flat QoQ at 11.5% YTD, while customer deposits grew at 5.5% YTD. NIM expanded as expected, thanks to the customers' shift into more individual loans amid a lower cost of funding.

Opinion: At a market price of VND 21,500 per share, MBB is trading at 2018 and 2019 PBRs of 1.4x and 1.2x, much lower than the industry average of 1.8x and 1.5x. We saw that MBB share prices were under pressure from a potential offloading from Vietcombank's (VCB: HOSE) stakes (i.e. roughly 50 million shares, or 2.3% of total outstanding shares) onto the market, which might create an attractive entry point for long-term investors. We reiterate a BUY rating with a 1Y target price of VND 30,800 per share, equivalent to a 2019 PBR of 1.8x. This target multiple is lower than our previous forecast of 2.0x, due to an increase in floating from the Vietcombank divestment event and weaker market condition.

9M 2018 Review

	3Q18	3Q17	% YoY	2Q18	% QoQ
Balance Sheet					
Gross loans (VND bn)	204,885	176,245	16.2%	204,829	0.0%
Customer deposits (VND bn)	232,638	211,578	10.0%	234,796	-0.9%
Pure LDR (%)	85.82%	81.71%		85.03%	
NPL ratio (%)	1.57%	1.33%		1.29%	
Income Statement					
Net interest income (VND bn)	3,633	2,835	28.1%	3,504	3.7%
Non-interest income (VND bn)	1,166	797	46.4%	1,301	-10.3%
Operating expenses (VND bn)	-1,968	-1,540	27.8%	1,927	-202.1%
CIR (%)	41.0%	42.4%		40.1%	
Provision charge (VND bn)	-646	-614	5.1%	967	-166.8%
Pretax profit (VND bn)	2,185	1,195	82.9%	1,911	14.4%

Source: SSI Research

MBB posted its 9M 2018 PBT at VND 6.014 tn (+50.3% YoY), which approached roughly 88% of the originally targeted 2018 PBT guidance. This largely fulfilled annual earnings result arrived well in line with our expectations, which were mainly driven by strong growth in both net interest income (+30.8% YoY) and non-NII (+66.5% YoY). Well-controlled expenses also led towards high earnings growth, as operating expenses were less than expected (+35.4% YoY), and provision expenses were growing at a much lesser pace (+18.3% YoY).

Credit growth – adherence to SBV limits

Customer loans were VND 204.884 tn (+11.2% YTD), flat compared to the previous quarter. Our calculated total credit growth (loans and corporate bonds) was 11.5% YTD, higher than the industry average of 9.52% as of Sep 20 2018. This level of credit growth is within our expectation that MBB parent bank credit growth limit is 15%. In such a situation, the bank has to choose its customers in order to be able to maximize loan potential while minimizing credit risk. In Q3, we saw individual loans continue to climb (+28.4% YoY, +22.8% YTD, +4.6% QoQ) and made up 36% of the total loan book – its highest historical level ever.

Customer deposits grew by VND 232.638 tn (+5.5% YTD), yet less than the industry average of 9.15% as of Sep 20 2018. As customer loan growth was flat QoQ, the bank mobilized funds from its customers' deposits less than expected. Therefore, the LDR increased. Pure LDR (CD included) increased to 85.8%, a noticeable bump from 81.4% back in FY17 and 81.7% in Q3 2017.

Improved NIM thanks to customer shift and lower cost of funding

NIM increased to 4.56% from 4.19% in Q3 2017 and 4.2% by FY17, which ended up being close to our expectation of 4.55% in 2018. First, NIM expansion appears to have come from a 30bps increase in the average spread. As aforementioned, the shift to individual loans helped increase NIM as expected. Second, the proportion of term deposits to total customer deposits was reduced from 61% in 1H 2018 and 63% in Q3 2017 to 58.7% by Q3 this year, whereas the bank was able to borrow more from the interbank market (+27.3% YTD, +52.5% YoY) amid a recent increase in interbank rates. This irregular change appears to be within an acceptable range however, as the bank decreased its cost while further stretching its LDR.

Controlled expenses and asset quality

9M 2018 CIR was only 39.9%, a significant drop-off from our expectation of 46% in 2018 and 43.3% in FY17. Although the bank took an increased focus upon developing its consumer finance staff, the operating cost over income was not as high as expected. The number of staff increased to 14,551 (+19.3% YoY), while salary expenses increased by 42% YoY. Provision expenses were higher than our estimates, due to higher than expected NPL levels. As of 30 Sep 2018, NPL ratio increased by 37 bps YTD, hitting 1.57% compared to 1.2% in FY17 and 1.35% in Q3 2017. It appears that a corporate client of MBB registered a bad loan at another bank. Therefore, MBB had to adjust the loan from that client to that of bad debt status, in accordance with the CIC. We also tried to measure the NPL level from MCredit by subtracting consolidated NPLs by parent NPLs. When calculated, the increased amount of NPLs had accounted for roughly 12 bps over the total of 37 bps increase in consolidated NPLs, within an acceptable range. The provision coverage ratio increased to roughly 106%, higher than the 95.9% figure in FY17.

Outlook

Lending activities – moving toward an ecosystem approach

We are getting a signal that MBB is in the process of tying its relationship more closely with its major corporate clients, especially large and key clients such as Saigon New Port. By lending and providing a complete solution to these key clients, so called “rainmakers”, MBB hopes to acquire both SMEs and retail clients who have business relationships with these rainmakers. Then the bank is able to offer additional loans and services, while reducing its credit risk.

Expected growth from subsidiaries

As 2019 credit growth for banks in the sector is expected to be lower than that of 2018, MBB will continue to expand its business to other areas, such as consumer finance (MCredit), life insurance (MB Ageas Life) and non-life insurance (MIC). These companies were either fully established under the MBB corporate umbrella, or started to be integrated into the MBB network in early 2017. We saw strong growth in terms of income from these companies in 9M 2018. MCredit targeted VND 4.5 to 5 tn in customer loans by FY18, almost doubled that of FY17, and a PBT of VND 300 bn from next to nothing in 2017. Income from insurance business grew 47% YoY in the first 3 quarters of 2018. We see a lot of potential growth in these areas. We projected a 35% growth in fee and commission income during 2018-2019.

Capital rising

We expect MBB's parent CAR to end up at roughly 10%. To be able to fulfill Basel 2 requirements by the 1/1/2020 deadline, it is likely that MBB will execute a capital raise in 2019. The bank has a lot of options. The real challenge for the management team is to choose which plethora of options has the least cost in the long-term. MBB could issue Tier 2 subordinated bonds. Second, the bank could raise equity capital by finding foreign investors to buy 10% stakes. Other than that, the bank has VND 6 tn in accumulated profit in its shareholders' equity by FY18 as according to our estimates.

Earnings estimates

For 2018, we adjust downward our CIR estimate from 46% to 44.1%, while increasing our NPL ratio assumption from 1.4% to 1.65%. As such, 2018 PBT remains unchanged, roughly at VND 7.6 tn (+65% YoY).

For 2019, we adjust upward our NPL ratio assumption from 1.45% to 1.7% due to higher NPL formation expectation. As such, 2019 PBT arrived at VND 9.2 tn (unchanged, +20% YoY). Such unchanged PBT results from a downward revision of CIR, as well as an upward revision of NPL ratio assumptions.

Valuation and Investment view

At a market price of VND 21,500 per share, MBB is trading at 2018 and 2019 PBRs of 1.4x and 1.2x, much lower than the industry average of 1.8x. We saw that MBB share prices were under pressure from a potential offloading from Vietcombank's (VCB: HOSE) stakes (i.e. roughly 50 million shares or 2.3% of total outstanding shares) onto the market, which might create an attractive entry point for long-term investors. We reiterate a BUY rating, with a 1Y target price of VND 30,800 per share, equivalent to a 2019 PBR of 1.8x. This target multiple is lower than our previous 2.0x due to an increase in floating from Vietcombank divestment event and weaker market condition.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Million	2016	2017	2018F	2019F
Balance Sheet				
+ Cash on hand, gold, silver and gemstones	1,519,952	1,842,032	953,600	2,081,783
+ Balances with the SBV	10,002,478	6,683,682	9,875,672	12,188,282
+ Balances with and loans to other CIs	26,952,799	53,497,402	56,172,272	58,980,886
+ Trading securities	925,995	2,804,525	3,004,565	3,224,609
+ Loans and advances to customers	148,687,389	182,062,458	209,643,291	238,937,274
+ Investment securities	53,285,920	50,677,071	55,766,360	63,197,473
+ Long-term investments	842,259	984,562	984,562	1,083,018
+ Fixed assets	2,457,844	2,604,460	2,992,551	3,420,162
+ Other assets	11,381,270	12,507,261	12,632,334	13,263,950
Total Assets	256,258,500	313,877,828	352,131,816	396,499,278
+ Amounts due to the Government and the SBV	0	1,847,879	1,847,879	1,847,879
+ Deposits and borrowings from other CIs	24,712,976	46,101,157	48,406,215	50,826,526
+ Deposits from customers	194,812,397	220,176,022	249,672,659	283,378,468
+ Derivatives and other financial liabilities	0	0	0	0
+ Valuable papers issued	2,366,953	6,022,222	8,130,000	10,569,000
+ Other liabilities	7,519,558	9,832,378	10,490,992	11,199,134
Total Liabilities	229,670,054	284,276,658	318,844,744	358,118,006
+ Capital	17,955,606	18,983,251	22,432,711	22,432,711
<i>Charter capital</i>	17,127,409	18,155,054	21,604,514	21,604,514
<i>Share premium</i>	828,197	828,197	828,197	828,197
<i>Other capital</i>	0	0	0	0
+ Reserves	2,697,000	3,209,154	3,937,084	5,213,357
+ Foreign exchange differences	0	0	0	0
+ Asset revaluation differences	0	0	0	0
+ Retained earnings	4,699,337	5,977,328	5,485,839	9,303,767
Total Shareholders' Equity	25,351,943	28,169,733	31,855,634	36,949,835
Minority Interests	1,236,503	1,431,437	1,431,437	1,431,437
Total Liabilities, Shareholders' Equity & Minority Interest	256,258,500	313,877,828	352,131,816	396,499,278
Growth				
Deposit	7.2%	14.7%	14.0%	14.0%
Credit	26.1%	20.4%	14.9%	14.3%
Total assets	15.9%	22.5%	12.2%	12.6%
Shareholders' Equity	12.2%	11.1%	13.1%	16.0%
Net interest income	9.0%	40.6%	26.9%	16.1%
Fee and commission income (net)	25.5%	65.6%	91.5%	30.0%
Non-interest income	29.1%	41.1%	64.1%	16.9%
Operating income	12.4%	40.7%	34.0%	16.3%
Operating expense	21.0%	43.7%	36.6%	21.3%
Profit before tax	13.3%	26.4%	65.2%	20.2%
Profit after tax	14.8%	21.0%	74.8%	20.2%
Valuation				
PER	8.64	11.37	7.31	6.61
PBR	0.95	1.35	1.42	1.23
Dividend yield	4.29%	1.94%	2.86%	2.86%
Asset structure				
Cash and cash equivalents + Deposits at the SBV	4.5%	2.7%	3.1%	3.6%
Interbank	10.5%	17.0%	16.0%	14.9%
Equity instruments	0.8%	0.5%	0.4%	0.4%
Debt instruments	21.0%	16.6%	16.3%	16.4%
Loans to customers	58.0%	58.0%	59.5%	60.3%
Others	5.2%	5.2%	4.7%	4.5%

VND Million	2016	2017	2018	2019
Income Statement				
Interest and similar income	15,552,477	19,876,026	24,775,376	29,392,765
Interest and similar expenses	-7,573,533	-8,657,074	-10,539,338	-12,860,997
Net interest income	7,978,944	11,218,952	14,236,038	16,531,767
Fee and commission income	1,297,890	3,222,839	4,511,975	5,865,567
Fee and commission expenses	-615,250	-2,092,163	-2,346,227	-3,050,095
Net fee and commission income	682,640	1,130,676	2,165,748	2,815,472
Net gain from trading foreign currencies	113,354	201,772	232,038	255,242
Net gain/(loss) from trading securities	101,443	144,445	158,890	174,778
Net gain/(loss) from investment securities	0	0	212,752	223,390
Net other income/(expenses)	876,819	1,109,074	1,507,893	1,541,952
Net income from investments in associates and joint-ventures	102,157	62,157	67,223	69,239
TOTAL OPERATING INCOME	9,855,357	13,867,076	18,580,581	21,611,840
TOTAL OPERATING EXPENSES	-4,174,668	-5,999,239	-8,194,036	-9,941,447
Net profit before provisions and allowances for credit losses	5,680,689	7,867,837	10,386,545	11,670,394
Provisions and allowances for credit losses	-2,030,104	-3,252,111	-2,760,805	-2,506,464
PROFIT BEFORE TAX	3,650,585	4,615,726	7,625,740	9,163,930
Corporate Income Tax	-767,034	-1,125,311	-1,525,148	-1,832,786
PROFIT AFTER TAX	2,883,551	3,490,415	6,100,592	7,331,144
Income to minority interest	-28,252	-24,082	-23,103	-25,145
NET PROFIT TO PARENT'S SHAREHOLDERS	2,855,299	3,466,333	6,077,489	7,305,999
EPS (VND)	1,620	1,847	2,874	3,179
Cash dividend (VND)	600	600	600	600
Stock dividend ratio	5%	0%	0%	0%
BVPS (VND)	14,802	15,516	14,745	17,103
Capital requirement				
Capital adequacy ratio - CAR	12.5%	12.0%	11.4%	10.9%
Equity/Total assets	9.9%	9.0%	9.0%	9.3%
Assets quality				
NPL ratio	1.3%	1.2%	1.7%	1.7%
Overdue debts ratio	2.5%	2.9%	3.7%	4.2%
Provision coverage ratio	103.2%	97.3%	57.0%	71.4%
NPL/Shareholders' Equity	7.8%	7.8%	11.0%	11.1%
NPL/Charter capital	11.6%	12.0%	16.2%	19.0%
Management				
Cost to income ratio - CIR	42.4%	43.3%	44.1%	46.0%
Provision expense/Net operating profit	35.7%	41.3%	26.6%	21.5%
Net operating profit per employee	925	1,059	1,092	1,154
Profit before tax per employee	343	353	448	489
Net operating profit per branch/transaction office	36,367	48,656	61,322	67,537
Profit before tax per branch/transaction office	13,471	16,196	25,167	28,637
Earnings				
Net interest margin - NIM	3.6%	4.2%	4.6%	4.7%
Non-interest income/Net operating profit	19.0%	19.1%	23.4%	23.5%
ROA - average balance	1.2%	1.2%	1.8%	2.0%
ROE - average balance	12.0%	13.0%	20.3%	21.3%
Liquidity				
Loans to deposits ratio - LDR	77.6%	81.4%	82.1%	82.3%
Short-term loans/Current deposits	-	-	-	-
Long and medium loans/Term deposits	-	-	-	-

Source: Company, SSI forecasts

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