

Military Bank (MBB)

Strong earnings growth in 1Q22

May 25, 2022

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1Q22 PBT was VND5,910 billion (+29% YoY)

In 1Q22, net interest income (NII) rose by 40%YoY to VND8,385 billion thanks to credit growth of 14.8%YTD. Non-interest income (NOII) was VND3,248 billion (+10.2%QoQ, +0.2%YoY). Provision expense reached VND2,126 billion (+5.7%QoQ, +17.5%YoY). As a result, 1Q22 PBT hit VND5,910 billion (+27.3%QoQ, +29%YoY).

1Q22 NIM rose to 5.61% (+39bps QoQ)

Average earnings yield was up 35bps QoQ thanks to improved IEA yield. Despite a 150-200bps increase in term deposit rates, MBB's average deposit rate rose by 5bps as the CASA ratio hit 43.8%. NIM thus advanced by 39bps QoQ to 5.61%.

MBB maintained good asset quality despite a slight increase in the NPL ratio

The consolidated NPL ratio was up 9bps QoQ to 0.99% as doubtful and bad debts rose sharply by 52%QoQ and 55%QoQ. LLCR shrank to 250%, ranked second in the industry. Restructured debt hit VND6,200 billion or 1.68% of outstanding loans.

MBB announced its business plan and dividend payment plan in 2022

MBB targets FY22 PBT of VND20.3 trillion (+23%YoY), assuming positive macro factors & credit growth of 16%YoY. MBB would issue 70 million shares to Viettel & 19.24 million ESOP shares and pay stock dividends in 2022 at 20%.

Taking over a weak bank will bring many benefits to MBB

Acquiring a weak bank helps MBB: (1) increase growth rates of assets, credit, & branch networks by 1.5-2x; (2) expand credit room & receive preferential loans. After restructuring, MBB can consolidate the weak bank, sell it or divest it.

We recommend BUYING MBB shares with a target price of VND36,500

Based on valuation results & business outlook, we recommend BUYING MBB shares with a target price of VND36,500, 38.9% higher than the price on May 17, 2022.

Buy maintain

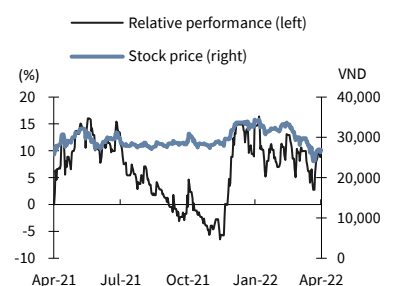
Target price	VND36,500
Upside/Downside	38.9%
Current price (May 17, 2022)	VND26,300
Consensus target price	VND40,850
Market cap (VNDbn)	92,946

Trading data	
Free float (%)	59.0%
3M avg trading value (VNDbn)	456.47
Foreign ownership	23.24%
Major shareholder	Viettel (18.5%) SCIC (9.42%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.0	-23.6	-12.8	-18.1
Relative	0.0	-2.5	10.1	-3.7

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	20,278	26,200	34,240	41,828
Pre-provision operating income (VNDbn)	16,807	24,557	31,970	36,970
NPAT of the parent bank (VNDbn)	8,263	12,697	18,707	22,863
EPS (VND)	2,993	3,362	4,075	4,150
EPS growth (%)	-16.8%	12.3%	21.2%	1.8%
PER (x)	8.95	9.71	8.96	8.80
Book value per share (VND)	17,463	16,150	18,758	21,636
PBR (x)	1.53	2.02	1.95	1.69
ROE (%)	19.1%	23.5%	26.0%	22.8%
Dividend yield (%)	18%	35%	22%	20%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

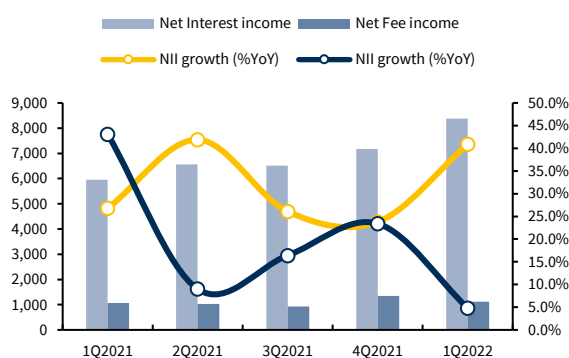
1Q22 PBT was VND5,900 billion (+29% YoY)

In 1Q22, MBB's NII recorded VND8,385 billion (+40%YoY, +17%QoQ); NOI hit VND3,248 billion (+10.2%QoQ, +0.2%YoY). As a result, the total operating income (TOI) was VND11,633 billion (+15%QoQ, +26.5%YoY). G&A expenses only increased slightly by 3.9% QoQ to VND 3,598 billion. Provision expense rose by 5.7%QoQ and +17.5%YoY, showing MBB's conservativeness in handling bad debts. Effective control of input costs helped 1Q22 PBT increase by 27.3%QoQ to VND5.9 trillion. The extraordinary credit growth in the first three months of the year contributed significantly to the sharp increase in NII.

1Q22 NIM rose to 5.61% (+39bps QoQ) thanks to improved IEA yield

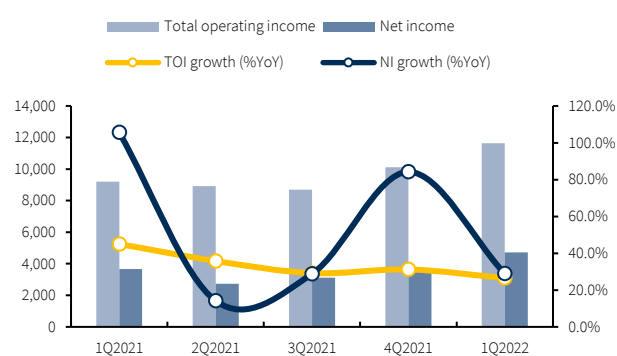
1Q22 NIM continued to improve by 38bps after a sharp fall in 3Q21, reaching 5.61% for the following reasons: (1) Average earnings yield was up 35bps QoQ thanks to retail customers, especially home loans through cooperation agreements with Novaland (NVL) (early 2021) and Hung Thinh Land (early 2022); (2) average cost of funds slightly decreased by 3bps QoQ as the CASA ratio remained high at 43.8%, though down from a record 47.6% in 2021.

Fig 1. MBB – NII, service fees (VNDbn, %YoY)



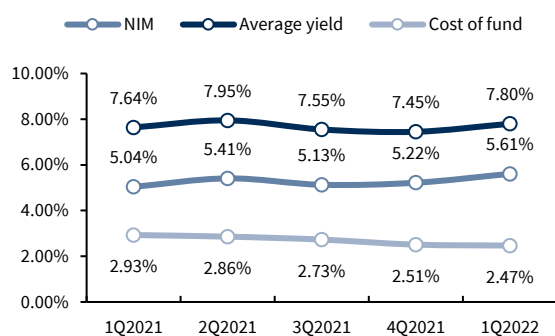
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – TOI, NPAT (VNDbn, %YoY)



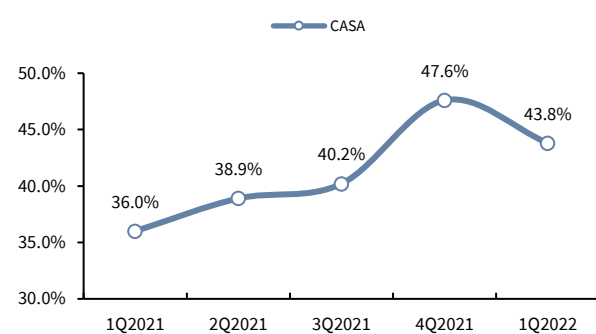
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – NIM (%)



Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA ratio (%)



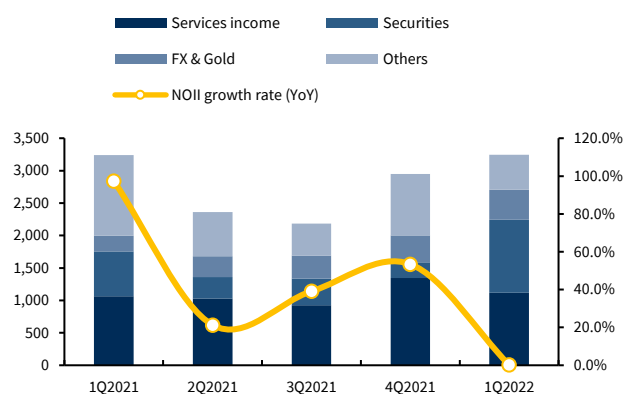
Source: Military Bank, KB Securities Vietnam

1Q22 NOII reached VND3,247 billion (+10%QoQ, +0.2%YoY)

1Q22 NOII reached VND3,247 billion (+10%QoQ, +0.2%YoY), with the growth momentum coming from service fees and investment securities. Specifically, the bank recorded VND1,117 billion in service fees (-17%QoQ, +4.8%YoY), of which payment services brought in VND349 billion (+39%YoY) and bancassurance contributed VND920 billion (+5.26%YoY).

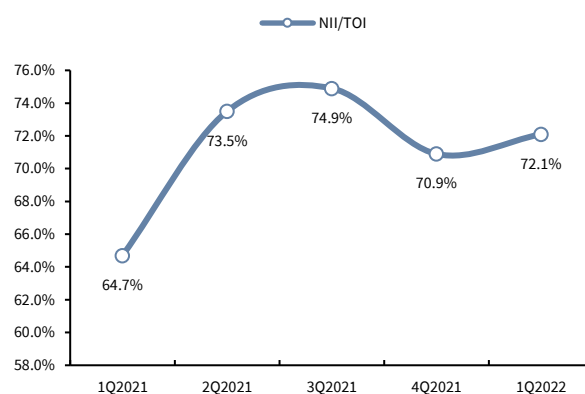
Remarkably, investment securities brought in VND1,124 billion (+62.8% YoY); foreign currency and gold trading also recorded positive results with VND467 billion (+12.1%QoQ, +97.4%YoY); net other income was VND538 billion, down 55.7%YoY since the bank reversed VND1,107 billion of provisions in 1Q21. NII/TOI ratio was 72% vs. 70.9% in 2021 due to a steep rise in NII.

Fig 6. MBB – NOII breakdown (VNDbn, %)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – NII/TOI (%)



Source: Military Bank, KB Securities Vietnam

Credit growth hit 14.8% YTD while deposit growth reached 7.3%YTD in 1Q22

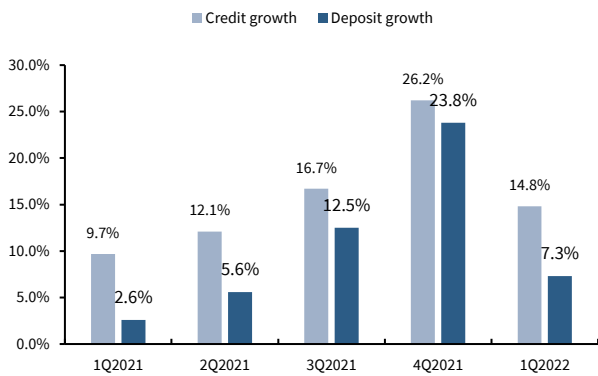
MBB recorded an impressive credit growth of 14.8%YTD in the first three months of the year, tripling the industry standard. In particular, outstanding loans as of the end of March were VND415 trillion, up 14.3% YTD. Personal loans reached VND199 trillion (+19% YTD), corporate loans hit VND167 trillion (+10% YTD). MBB will continue to promote the exploitation of retail customers, including individuals and micro-sized enterprises (accounting for 54% of total outstanding loans currently). Through cooperation agreements with NVL (early 2021) and Hung Thinh Land (early 2022), MBB targets the proportion of home loans of more than 50% of outstanding personal loans.

Regarding the loan structure, home loans still accounted for the highest proportion of about 33.2% of the total outstanding loans, followed by car and motorcycle loans (22.7%) and manufacturing loans (15.4%). Notably, the bank actively controlled the proportion of loans to the real estate and construction at 8±2% of the total outstanding loans (it was 10% by the end of 1Q22), with the bad debt ratio of this segment being about 0.14%.

The outstanding value of corporate bonds by the end of 1Q22 was VND50.6 trillion (+19.3%YTD). MBB mainly holds real estate and clean renewable energy bonds, of which total credit loans of the real estate sector were VND5,100 billion. The management shared that the bonds held by MBB are attached to projects with high profitability. Also, MBB has strictly controlled the allocation of proceeds from corporate bonds.

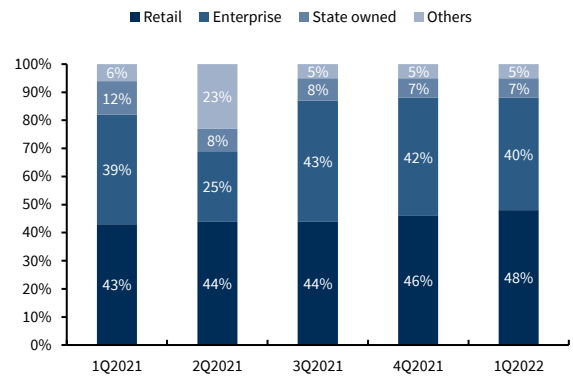
Total deposits reached VND4548 trillion (+7.33% YTD) in 1Q22, of which interbank deposits recorded the most significant increase, up 45.1% YTD; customer deposits and valuable papers issuance increased slightly by 1.4%YTD and 7.7%YTD, respectively. The LDR increased by 6.3 ppts to 75.4%, which is still lower than the target of 85% set by the SBV. Therefore, there is still room left for credit growth.

Fig 8. MBB – Credit and deposit growth (%YTD)



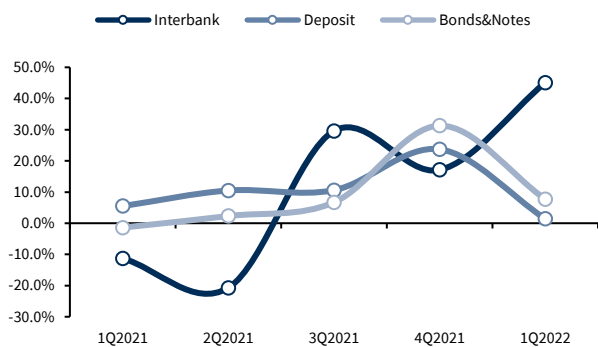
Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – Loan structure (%)



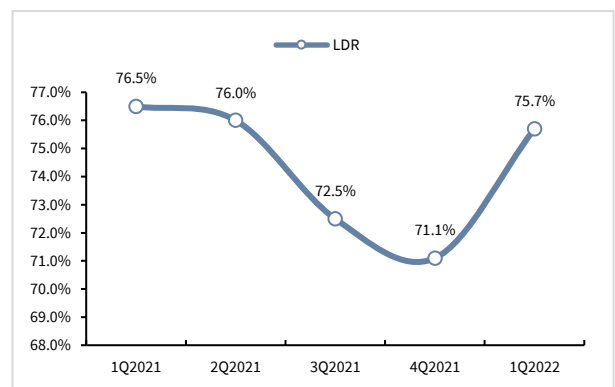
Source: Military Bank, KB Securities Vietnam

Fig 10. MBB – Deposit growth (%YTD)



Source: Military Bank, KB Securities Vietnam

Fig 11. MBB – LDR (%)

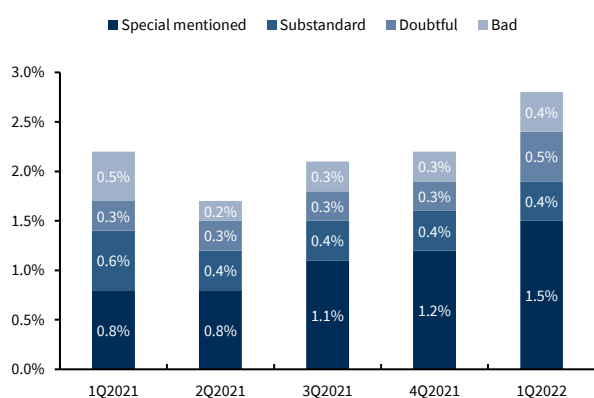


Source: Military Bank, KB Securities Vietnam

The bad debt ratio increased slightly to 0.99%

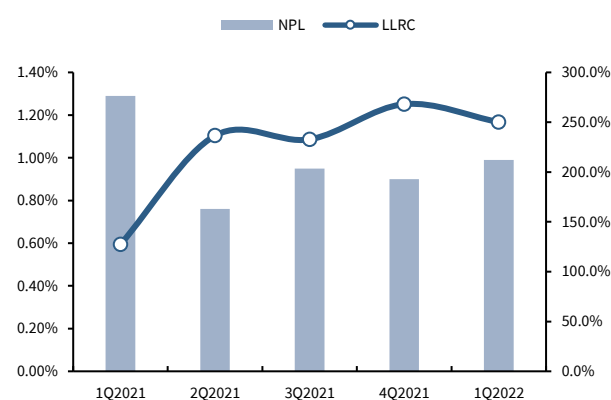
The consolidated NPL ratio increased by 9bps QoQ to 0.99% as doubtful and bad debts increased sharply by 52%QoQ and 55%QoQ, respectively. Special mention loans also improved by 24%QoQ to VND4,859 billion, inducing the risk of debt reclassification in the coming periods. The loan loss coverage ratio (LLCR) reached 250%, down slightly from the record high of 268% in 2021, the second-highest in the industry. Restructured loans in 1Q22 climbed to VND6,200 trillion or 1.68% of outstanding loans, mainly focusing on sectors that may recover well this year, namely accommodation and transportation services. MBB has set aside all required provisions for restructured debts in 2021, thereby boosting earnings growth in 2022.

Fig 12. MBB – Groups of debt (%)



Source: Military Bank, KB Securities Vietnam

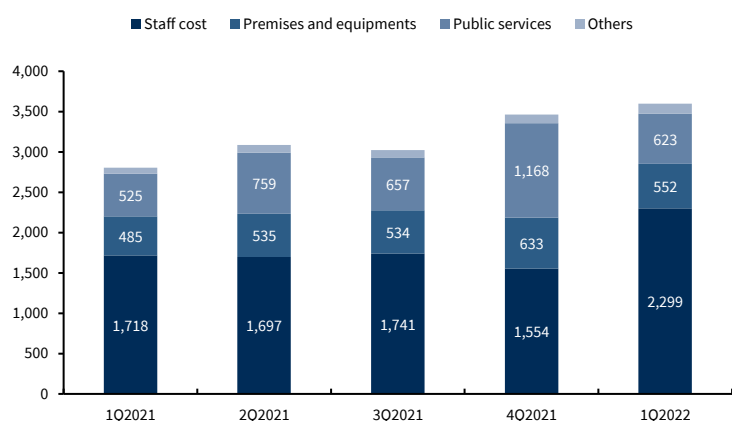
Fig 13. MBB – NPL, LLCR (%)



Source: Military Bank, KB Securities Vietnam

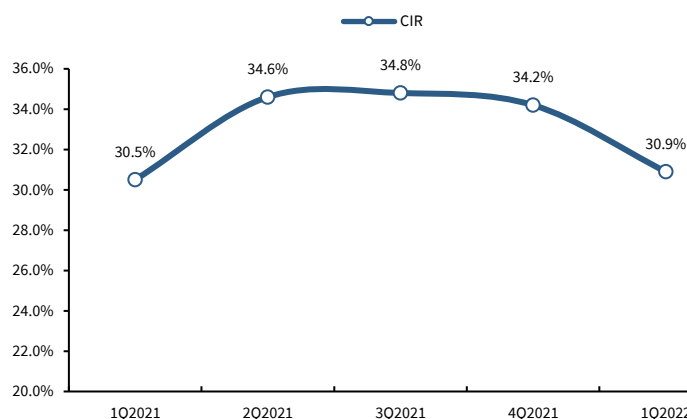
Operating expenses in the first quarter were VND3,598 billion, up 3.9%QoQ, of which the main contribution was staff cost of VND 2,299 billion (+47.9%QoQ, +33.8%YoY); public services expenditure dropped sharply by 46.7%QoQ, offsetting the salary increase. As a result, the CIR decreased by 5.1 ppts QoQ to 30.9%.

Fig 14. MBB – Operating expenses (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 15. MBB – CIR (%)



Source: Military Bank, KB Securities Vietnam

MBB announced its business plan and dividend payment plan in 2022

- For 2022, MBB targets VND700,000 billion in total assets (+15% YoY) and VND46,882 billion (+24% YoY) in charter capital. Outstanding credit should reach VND472.6 trillion (+16% YoY), which is within the credit cap set by the State Bank. The consolidated bad debt ratio should be below 1.5%.
- Assuming the credit growth of 16%, PBT should be VND20,300 billion (+23% YoY). In case of negative macroeconomic factors, with GDP < 5%, CPI > 5%, PBT should be VND19 trillion (+15% YoY).
- At the FY21 AGM, the BOD approved the plan to raise the charter capital by VND892.4 billion. Accordingly, the bank will issue 70 million individual shares to Viettel and 19.24 million ESOP shares.
- The bank also plans to issue 755.6 million shares or 20% of outstanding shares to pay dividends, thereby raising the charter capital by VND7,556 billion.
- The bank would offer 65 million individual shares in 2022–2023 at the issue price lower than the book value in the latest audited financial statements. MBB's charter capital will thus increase by about VND9,099 billion this year.

Taking over a weak bank will bring many benefits to MBB

- At the FY22 AGM, the BOD shared about taking over the weak bank under the restructuring scheme of the State Bank. It may take 7–8 years for MBB to restructure the weak bank, then MBB can consolidate it, sell it to another credit institution or divest it via an IPO. MBB will benefit from this deal:
- It enables increased growth rates of assets, credit, and branch networks by 1.5–2x, thereby improving competitiveness.
 - MBB's distribution network will increase with about 401 branches nationwide, helping to save time and investment costs, and improve customer experience according to MBB's retail and digital transformation strategies.
 - The SBV may allow MBB to expand its credit limit (~30–35%) and offer preferential loans.
 - MBB will not have to consolidate this troubled institution into its financial statements, helping to maintain asset quality.

MBB possesses a comprehensive financial ecosystem, core banking technology, human resource risk management, and comprehensive risk management. We believe MBB can capitalize on those numerous advantages to restructure the weak bank.

MBB aims towards becoming the leading digital bank in Vietnam

2021 was a successful year for MBB in terms of digital transformation as MBB continued to keep its leading position on the market. Specifically, digital banking platforms, including MBBank App (individuals) and Biz MBBank (enterprises), drove MBB a lot: (1) Those platforms have attracted 6.3 million new customers right in 2021 (+3.3x YoY), equivalent to the accumulated number of customers over the previous 26 years; (2) the number of customers using digital channels hit 92.3%, +8 ppts YoY; (3) the number of transactions on the digital platforms reached 391 million, +4.3x YoY (leading position in Vietnam in December 2021); and (4) those platforms recorded VND3 trillion (+2.5x YoY) in revenue. Besides, MBB has built 40 MB Smartbank, attracting more than 19,000 new customers with ~1.4 million transactions.

Regarding business management, MBB applies digital automation to internal operations, of which 35% of identity records to individual customer accounts were created automatically. In the subsequent years, MBB targets the automation of personal loans (30–50%) and micro-sized enterprises (20–30%).

During 2022–2026, the bank plans to invest about USD800 million per year in digital transformation with an aim to: (1) improve the two primary platforms, MBBank App and Biz MBBank, to enhance the customer experience; (2) consolidate data, thereby speeding up the loan approval process; and (3) invest in IT infrastructure to serve 30 million customers by 2026.

Forecast business performance

2022F business results

We make our forecast for MBB in 2022 as follows:

- We adjust 2Q22 credit growth to 16.2% as MBB has used up most of its credit room in 1Q22. Credit growth should reach 26.8% in FY22, driven by: (1) the expansion of credit room at the end-2022, given sound financial health and the acquisition of a weak bank; (2) leading position in digital transformation.
- NIM should rise by 38bps YoY thanks to: (1) average earnings yield up 39bps YoY to 7.79% on high credit growth; (2) capital costs up 6bps YoY with the expectation of a high CASA ratio.
- The NPL ratio is 0.83%, down 7bps YoY, as MBB's restructured debts account for about 1.68% of outstanding loans.
- Provision expense is VND7,620 billion, down 5.1% YoY since MBB set aside all required provisions for restructured debts in 2021.
- NPAT is expected to be VND19,479 billion, up 47.3% YoY.

Table 1. MBB – 2022E–2023E business results

VNDbn	2021	2022F	2023F	%YoY2022	%YoY2023
Net interest income	26,200	34,240	41,828	30.7%	22.2%
Service fees	4,367	6,017	7,208	37.8%	19.8%
Total operating income	36,934	46,835	54,367	26.8%	16.1%
Provision expense	-8,030	-7,620	-7,211	-5.1%	-5.4%
NPAT of the parent bank	12,697	18,707	22,863	47.3%	22.2%
NIM	5.04%	5.42%	5.43%		
Average earnings yield	7.40%	7.79%	7.92%		
Average cost of funds	2.66%	2.70%	2.91%		
CIR	33.5%	31.7%	32.0%		
NPL	0.90%	0.58%	0.63%		
Total assets	607,140	723,421	891,127	19.2%	23.2%
Equity	62,486	87,557	121,416	40.1%	38.7%

Source: KB Securities Vietnam

We recommend BUYING MBB shares with a target price of VND36,500 apiece

We combine two valuation methods, P/B and residual income, with a weight of 50–50 to find a fair price for MBB shares.

(1) P/B method (Figure 16)

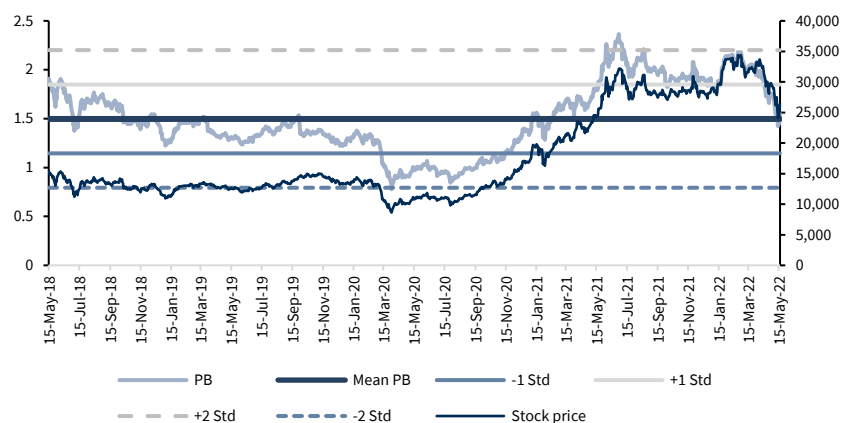
MBB possesses a comprehensive financial ecosystem, with good asset quality, high operational efficiency, and rapid growth driven by digital transformation. The stock price has recently witnessed corrections, reflecting concerns over real estate credit and corporate bonds tightening towards the earnings growth. We give MBB a target P/B of 1.8x, equivalent to a three-year average P/B of +1Std for MBB, given its P/B of 1.55x currently.

(2) Residual income method (Table 2)

In addition, we use the residual income method to reflect systematic risk and long-term expectations.

Thus, we recommend BUYING MBB shares with a target price of VND36,500 (an upside of 38.9%). Downside risks include: (1) the deterioration of asset quality; (2) lower-than-expected CASA ratio due to competition in the banking industry; and (3) home loans affected by decreased supply.

Fig 15. MBB – CIR (%)



Source: Military Bank, KB Securities Vietnam

Table 2. MBB – Share price and P/B (VND/share, x)

VNDbn	2022F	2023F	2024F	2025F
NPAT	19,479	23,806	28,343	35,351
Excessed return	9,847	12,231	14,462	19,278
Required rate of return (re)	19.3%			
Growth (g)	5%			
Terminal value	66,725			
Present value (PV)	110,696			
Share price	39,298			

Source: Fiiipro, KB Securities Vietnam

Table 3. MBB – Target price according to valuation methods

Valuation method	Forecast price	Weight	Weighted price
P/B	39,298	50%	19,649
Residual income	33,764	50%	16,882
Target price			36,531

Source: Fiiipro, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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