

Military Bank (MBB)

Loan growth should touch the assigned quota

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In 1H23, MBB recorded PBT of VND12,735 billion and TOI of VND23,491 billion (+2.8% YoY)

Halfway through the year, Military Bank (MBB) obtained a total operating income (TOI) of VND23,491 billion (+ 2.8% YoY). Credit growth began to recover in the second quarter, reaching 10.6% YTD against the granted limit of 24.5%. Provision expenses decreased by 12.5% YoY thanks to a solid provision buffer. MBB recorded 1H23 PBT of VND12,735 billion, completing 49% of the full-year target.

Credit growth should achieve the assigned limit in 2H23

The new credit quota granted by the State Bank of Vietnam (SBV) to MBB in July was 24.5% – a high level compared to others in the whole system on competitive edges mentioned in the 1Q23 update report. MBB shared that it would promote lending in the near term with a focus on retail lending, internal cross-selling, and digital channels. We expect MBB to accomplish the assigned credit quota this year.

NIM is expected to recover from the current level thanks to reduced funding costs

We expect MBB's funding costs to improve from 3Q23 due to a 3 to 6-month lag response in applying new interest rates, depending on different terms. At the same time, MBB maintains its advantage in terms of CASA. We forecast NIM for 2023F at 5.39%.

We recommend BUY for MBB with a target price of VND24,000/share

Using two valuation methods, P/B and residual income, we recommend BUY for MBB with a new target price of VND24,000/share for 2023F, 30% higher than the closing price on January 29.

Buy maintain

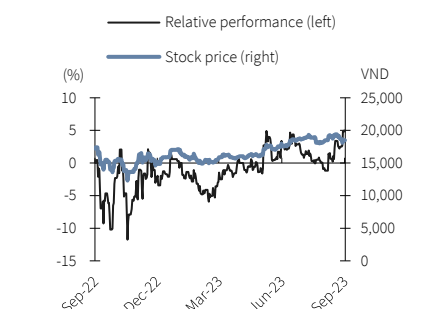
Target price	VND24,000
Upside	30%
Current price (Sep 29, 2023)	VND18,500
Consensus target price	VND26,626
Market cap (VNDbn/USDmn)	96,460/3.87

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	226.46/9.3
Foreign ownership	23.23%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	1.4	4.8	16.3	6.4
Relative	5.8	2.2	6.4	4.3

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	26,200	36,023	41,741	51,088
PPOP (VNDbn)	24,557	30,777	33,535	40,583
NPAT of the parent bank (VNDbn)	13,221	18,155	19,349	24,397
EPS (VND)	3,361	3,856	4,075	5,130
EPS growth (%)	14%	15%	6%	26%
PER (x)	5.5	4.8	4.5	3.6
Book value per share (VND)	16,538	17,559	19,042	22,242
PBR (x)	1.1	1.1	1.0	0.8
ROE (%)	23.5%	25.6%	23.3%	26.1%



Source: Bloomberg, KB Securities Vietnam

Business performance

In 1H23, MBB recorded PBT of VND12,735 billion and TOI of VND23,491 billion (+2.8% YoY)

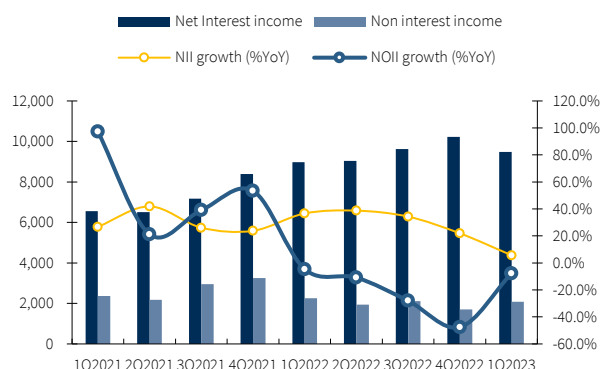
Halfway through the year, MBB obtained TOI of VND23,491 billion (+ 2.8% YoY). In 2Q23 alone, net interest income (NII) expanded by 5.7% YoY while non-interest income (NOII) dropped by 7.7% YoY due to the negative impact from insurance cross-selling. Credit growth began to recover in the second quarter, reaching 10.6% YTD against the granted limit of 24.5%. Provision expenses decreased by 12.5% YoY thanks to a solid provision buffer. MBB recorded 1H23 PBT of VND12,735 billion, completing 49% of the full-year target.

Table 1. MBB – 1H22–1H23 business results

(VNDbn)	2Q2022	2Q2023	+/-% YoY	1H2022	1H2023	+/-% YoY	Comments
Net interest income (NII)	8,969	9,481	5.7%	17,355	19,709	13.6%	Credit growth reached 10.6% YTD by the end of June 2023, up 20.6% YoY.
Non-interest income (NOII)	2,252	2,079	-7.7%	5,500	3,782	-31.2%	Service income contracted by 14.8% YoY due to decreased contribution from bancassurance (similar to other banks). Net gains from gold and FX trading fell by 31% YoY. The decline in these segments was offset by the securities trading and investment securities, up 255% and 123% YoY, respectively.
Total operating income (TOI)	11,222	11,561	3.0%	22,855	23,491	2.8%	
Operating expense	(3,861)	(4,135)	7.1%	(7,458)	(7,703)	3.3%	
CIR	34.4%	35.8%	1.4%	33%	33%		
Provision expenses	(1,375)	(1,203)	-12.5%	(3,500)	(3,052)	-12.8%	A solid provision buffer helps MBB reduce provisioning pressure.
PBT	5,987	6,223	3.9%	11,896	12,735	7.1%	
NPAT	4,794	4,982	3.9%	9,520	10,188	7.0%	
Loan growth	14.6%	10.6%					With credit growth of 10.6% YTD by the end of June 2023, total outstanding loan reached VND561 trillion. MBB is one of the banks with the strongest loan growth in 1H23. Loan growth was driven by all three customer groups: individuals, large corporates, and small and medium enterprises (SMEs). Deposit growth reached 7.9% YTD by the end of June 2023, of which the CASA ratio improved to 37.1%. MBB upheld its leading position in the industry.
Deposit growth	7.9%	11.5%					
NIM	5.78%	5.36%	-0.42%				NIM decreased due to surging funding costs caused by high deposit interest rates at the beginning of the year. However, MBB is still one of the banks with the highest NIM in the industry.
NPL ratio	1.20%	1.44%	0.24%				Special mentioned loan increased sharply in the second quarter and accounted for 3.6% of total outstanding loan. According to MBB, about 30% of special mentioned loan will likely be reclassified as non-performing loan in the future.

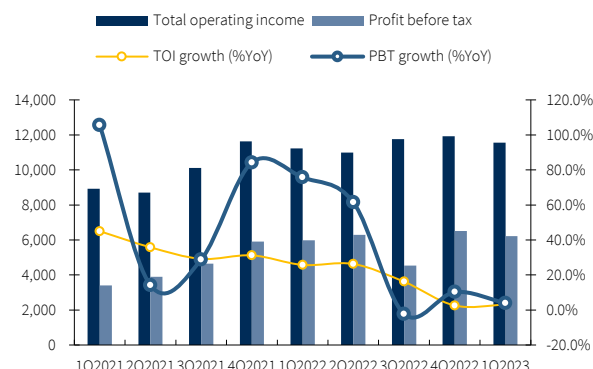
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – NII & NOII growth (VNDbn, %)



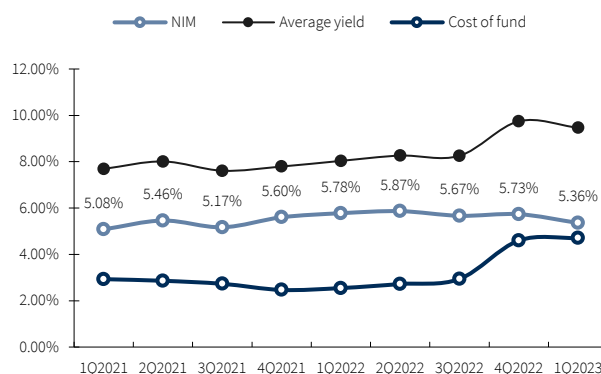
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – TOI & NPAT growth (VNDbn, %)



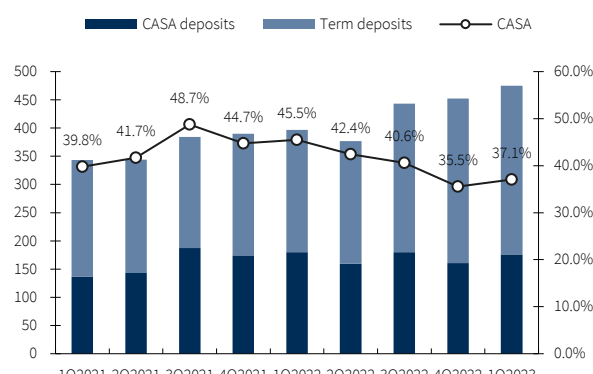
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – NIM, average earnings yield & cost of funds (%)



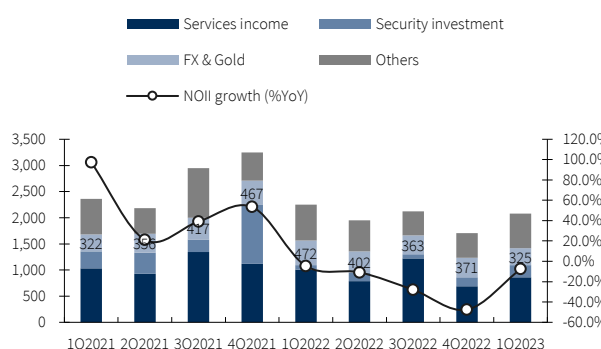
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – CASA & CASA ratio by quarter (VNDbn, %)



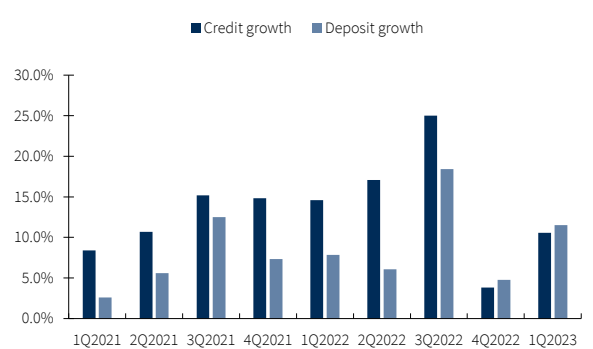
Source: Military Bank, KB Securities Vietnam

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



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – Credit & deposit growth (%)



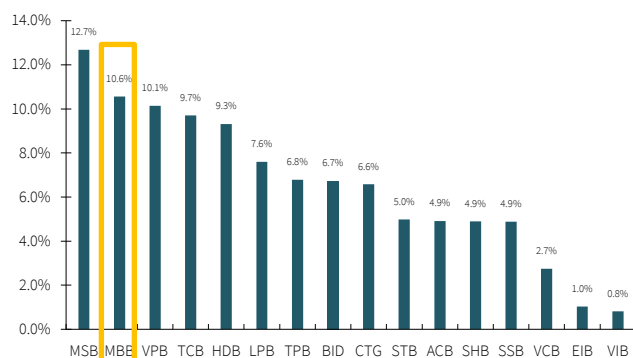
Source: Military Bank, KB Securities Vietnam

Credit growth should achieve the assigned limit in 2H23

The new credit quota granted by the SBV to MBB in July was 24.5% – a high level compared to others in the MBB in the whole system on competitive edges mentioned in the 1Q23 update report. Loan grew by 10.6% YTD for 1H23 and 3.8% YTD for 1Q23, reflecting that MBB stepped up lending in the second quarter. Credit growth was mainly driven by corporate loans (up from 47.9% in 1Q23 to 49.2% in 2Q23), while corporate bonds shrank by 14% YoY and only accounted for

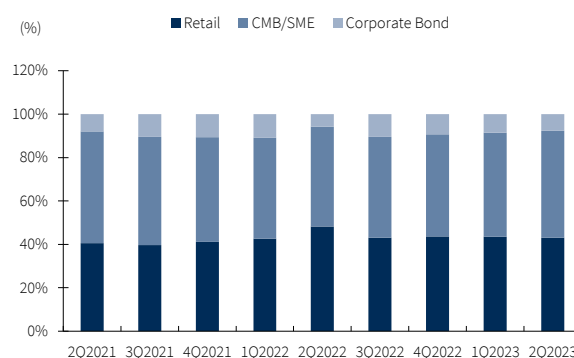
7.7% of the loan portfolio. We expect MBB's credit growth to be more positive from 3Q23 onwards, pushed by interest rate cuts. MBB shared that it would promote lending in the near term with a focus on retail lending, internal cross-selling, and digital channels. We expect MBB to accomplish the assigned credit quota this year.

Fig 8. Local banks – Loan growth in 1H23 (%)



Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – Outstanding loan breakdown (%)



Source: Military Bank, KB Securities Vietnam

NIM is expected to recover from the current level thanks to reduced funding costs

NIM started to decrease significantly from the second quarter of 2023, possibly due to (1) high funding costs in the first quarter and (2) a shift from individual loans and corporate bonds to corporate loans. A positive signal came from CASA when the CASA ratio improved in the second quarter to 37%, the highest in the industry. We expect MBB's funding costs to improve from 3Q23 due to a 3 to 6-month lag response in applying new interest rates, depending on different terms. At the same time, MBB maintains its advantage in terms of CASA. We forecast NIM for 2023F at 5.39%.

Loans to Trungham Group and Novaland and may not become non-performing loans

Currently, MBB is lending about VND9,000 billion (including loans and bonds, accounting for 1.6% of MBB's total outstanding loans) to three renewable energy projects of Trung Nam Group. By the end of 2Q23, Novaland Investment Group's (NVL) outstanding debt (including loans and corporate bonds) at MBB was VND7,000 billion (about 1.2% of MBB's total outstanding loans). MBB said that all NVL's projects to which the bank disbursed have good growth potential. Recently, NVL added additional collateral for the medium and long-term loan worth VND1,500 billion by MBB. The bank assesses that NVL and Trungham Group have enough cash flow to fulfill payment obligations with MBB, so loans to these groups may not become non-performing loans.

Forecast & Valuation

Table 10. MBB – 2022A–2023F business results

(VNDbn)	2022A	2023F	%YoY 2022	2024F	%YoY 2023	Comments
Net interest income (NII)	36,023	41,741	15.9%	51,088	22.4%	Our upward revision is based on the assumption that MBB will achieve the assigned credit growth quota this year.
Net fee income (NFI)	4,136	3,632	-12.2%	3,886	7.0%	Our downward revision is due to decreased service income.
Total operating income (TOI)	45,593	51,198	12.3%	61,864	20.8%	
Provision expenses	(8,048)	(9,348)	16.2%	(10,087)	7.9%	A solid provision buffer helps MBB to ease provisioning pressure in 2024.
NPAT	18,155	19,349	6.6%	24,397	26.1%	
NIM	5.67%	5.39%	-28bps	5.52%	13bps	NIM is expected to recover thanks to a significant improvement in funding costs. However, NIM will less likely reach the high level in 2022.
Average earnings yield	8.25%	8.47%	22bps	8.39%	-9bps	
Average cost of funds	2.94%	3.47%	53bps	3.17%	-30bps	
CIR	32.5%	34.5%	200bps	34.4%	-10bps	
NPL ratio	1.09%	1.60%	51bps	1.50%	-10bps	Our 10bps downward revision compared to the old assumption is due to improvements in 2Q23.
Total assets	728,532	893,172	22.6%	1,051,351	17.7%	
Equity	79,613	86,338	8.4%	100,843	16.8%	

Source: KB Securities Vietnam

We recommend BUY for MBB with a target price of VND24,000/share

We combine two valuation methods, P/B and residual income, to find a fair price for MBB shares. Regarding the P/B method, we maintain the target P/B for 2023F at 1.3x. Although loan growth is the driving force for earnings growth, we believe MBB's NIM will still be affected by high funding costs in the first half of the year. Our new forecast is for NPAT in 2023/2024F to grow by 6.6%/26.1%, lower than the old assumptions. We recommend BUY for MBB with a target price of VND24,000/share, 30% higher than the closing price on September 29, 2023.

Fig 11. MBB – Historical P/B and price performance in 2018–2023 (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 12. MBB – Residual income valuation

VNDbn	2023F	2024F	2025F
NPAT	19,349	24,397	24,827
Excessed return	6,293	6,859	7,260
Required rate of return (Re)	16.4%		
Growth (g)	3%		
Terminal value	6,059		
Present value (PV)	105,697		
Value per share	23,312		

Source: KB Securities Vietnam

Table 13. MBB – Valuation result

Valuation method	Forecast price	Weighting	Weighted price
Residual income	23,312	50%	11,656
P/B	24,755	50%	12,378
Target price			24,000

Source: KB Securities Vietnam

MBB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020A	2021A	2022A	2023F	2024F	(VNDbn)	2020A	2021A	2022A	2023F	2024F
Net interest income	20,278	26,200	36,023	41,741	51,088	Loans	293,943	354,797	448,599	561,211	676,971
Interest income	32,767	38,465	52,486	65,634	77,612	Marketable securities	3,085	7,575	4,106	27,658	32,539
Interest expense	(12,49)	(12,26)	(16,46)	(23,89)	(26,52)	Cash (ex. Reserves)	3,109	3,475	3,744	5,030	5,918
Fees & commissions	0	5)	3)	3)	4)	Interest earning assets	466,734	574,482	697,256	852,098	998,851
Other non-interest income	3,576	4,367	4,136	3,632	3,886	Fixed assets & other assets	29,909	38,176	38,836	50,047	60,058
Total operating income	1,680	3,254	2,142	2,145	2,419	Total assets	494,982	607,140	728,532	893,172	1,051,351
SG&A expenses	(10,55)	(12,37)	(14,81)	(17,66)	(21,28)	Customer deposits	510,960	384,692	443,606	575,718	677,515
Pre-provisioning OP	5)	7)	6)	3)	1)	Borrowings & call money/repos	51,131	68,886	98,581	131,295	156,778
Provision for credit losses	16,807	24,557	30,777	33,535	40,583	Interest bearing liabilities	412,983	513,400	607,335	770,385	901,876
Other income	(6,118)	(8,030)	(8,048)	(9,348)	(10,087)	Other liabilities	31,900	31,254	41,584	36,449	48,652
Other expense	2,809	4,211	3,026	3,095	3,339	Total liabilities	444,883	544,654	648,919	806,833	950,508
Pre-tax income	(1,129)	10,688	16,527	22,729	24,187	Charter capital	27,988	37,783	45,340	45,340	45,340
Income tax expense	8,606	13,221	18,155	19,349	24,397	Capital surplus	1,178	869	869	869	869
Minority interest profit	(343)	(524)	(672)	(874)	(1,136)	Retained earnings	12,956	12,915	19,064	26,150	40,654
Parent NP	8,263	12,697	17,483	18,475	23,261	Capital adjustments	-	-	-	-	-
						Total shareholders' equity	50,099	62,486	79,613	86,338	100,843
Financial Indicators (%)	2020A	2021A	2022A	2023F	2024F	Valuation (VND, X, %)	2020A	2021A	2022A	2023F	2024F
Profitability						Share Price Indicators					
ROE	19.1%	23.5%	25.6%	23.3%	26.1%	EPS	2,952	3,361	3,856	4,075	5,130
ROA	1.9%	2.4%	2.7%	2.4%	2.5%	BVPS	17,901	16,538	17,559	19,042	22,242
Pre-provision ROE	30.0%	34.9%	34.6%	32.3%	34.7%	Tangible BVPS	17,447	16,140	17,197	18,608	21,722
Pre-provision ROA	3.0%	3.6%	3.7%	3.3%	3.3%	Valuations					
Net interest margin (NIM)	4.7%	5.0%	5.7%	5.4%	5.5%	PER	6.3	5.5	4.8	4.5	3.6
Efficiency						PBR	1.0	1.1	1.1	1.0	0.8
Pure Loan to deposit ratio	95.9%	94.5%	103.8%	100%	102%	Dividend yield	3.2%	3.2%	3.2%	3.2%	3.2%
Cost-income ratio	38.6%	33.5%	32.5%	34.5%	34.4%	ROE	19.1%	23.5%	25.6%	23.3%	26.1%
Growth						Capital Adequacy					
Asset growth	20.3%	22.7%	20.0%	22.6%	17.7%	CAR	10.4%	11.3%	11.4%	>11%	>11%
Loan growth	18.9%	20.7%	26.4%	25.1%	20.6%	Asset Quality					
PPOP growth	12.6%	46.1%	25.3%	9.0%	21.0%	NPL ratio (substandard)	1.1%	0.9%	1.1%	1.6%	1.5%
Parent NP growth	5.6%	53.7%	37.7%	5.7%	25.9%	Coverage ratio (substandard)	134.1%	268.0%	238.0%	157.5%	134.0%
EPS growth	(10.5%)	15.8%	14.7%	5.7%	25.9%	NPL ratio (precautionary)	1.9%	2.0%	2.8%	3.4%	3.3%
BVPS growth	6.5%	-7.6%	6.2%	8.4%	16.8%	Coverage ratio (precautionary)	76.8%	122.0%	93.3%	74.1%	60.9%

Source: Military Bank, KB Securities Vietnam

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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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