

Military Bank (MBB)

Well-controlled asset quality

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MBB's 3Q business results are positive despite the fourth wave of COVID-19

MBB announced 3Q21 results with PBT of VND3,898 billion (+14.4 % QoQ, +29.3% YoY) on total operating income (TOI) of VND8,700 billion (-2.5% QoQ, 29.2% YoY). In the first nine months of 2021, MBB's PBT was VND11,884 billion (+46.1% YoY) on TOI of VND26,817 billion (+36.5% YoY).

MBB's asset quality declined slightly but was still well controlled

NPL ratio inched up to 0.9% in 3Q from 0.8% in 2Q. Along with that, special mention loans also increased to 1.1% in the context that businesses were hard hit by social distancing measures. MBB made a provision of VND1,778 billion (-26.9% QoQ, +101% YoY), helping MBB maintain its loan loss coverage ratio (LLCR) above 200%, which is the second highest in the industry, only after Vietcombank (VCB).

The pandemic caused restructured loan balance to resurge

Restructured loans surged to VND3 trillion (+11% QoQ), equivalent to 0.9% of total outstanding loans and are likely to continue to grow in 4Q.

We recommend to BUY MBB shares with a target price of VND34,000

KBSV expects MBB's credit growth in 2021 to reach 20%. Basing on valuation results, business outlook as well as possible risks, we maintain our BUY recommendation for MBB shares. The target price is VND34,000 apiece, 19.3% higher than the closing price on December 15, 2021.

Buy maintain

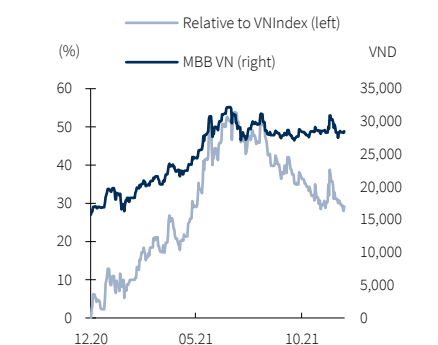
Target price	VND34,000
Upside/Downside	19.3%
Current price (Dec 12, 2021)	VND28,500
Consensus target price	VND35,600
Market cap (USDmn)	4,681

Trading data	
Free float	56.9%
3M avg trading value (USDmn)	14.1
Foreign room available	0.0%
Major shareholder	Viettel (14.14%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.3	3.8	-2.1	74.5
Relative	-0.3	-5.3	-9.3	26.2

Forecast earnings & valuation

FY-end	2020A	2021E	2022E	2023E
Net interest income (VNDmn)	20,277,795	25,122,065	29,111,253	32,827,954
Total operating income (VNDmn)	27,362,173	34,402,151	39,476,546	44,371,401
Profit before tax (VNDmn)	10,688,276	15,485,660	18,189,625	21,534,593
EPS (VND)	2,187	3,036	3,567	4,222
Book value per share (VMD)	12,679	17,287	19,853	23,198
P/E (x)	7.7	8.1	9.5	8.8
P/B (x)	1.3	1.4	1.7	1.6
ROAA (%)	1.8%	2.2%	2.2%	2.3%
ROAE (%)	19.2%	21.1%	20.0%	20.5%



Source: Bloomberg, kB Securities Vietnam

Business performance

MBB announced 3Q21 results with PBT of VND3,898 billion (+14.4 % QoQ, +29.3% YoY) on total operating income (TOI) of VND8,700 billion (-2.5% QoQ, 29.2% YoY). In the first nine months of 2021, MBB's PBT was VND11,884 billion (+46.1% YoY) on TOI of VND26,817 billion (+36.5% YoY).

Table 1. MBB – Business results

(VNDmn)	3Q 2021	3Q 2020	% YoY
Net interest income	6,515,194	5,164,677	26.1%
Non-interest income	2,184,983	1,570,761	39.1%
Total operating income	8,700,177	6,735,438	29.2%
Operating expense	(3,023,716)	(2,836,321)	6.6%
Provision expense	(1,778,158)	(883,677)	101.2%
Profit before tax	3,898,303	3,015,440	29.3%

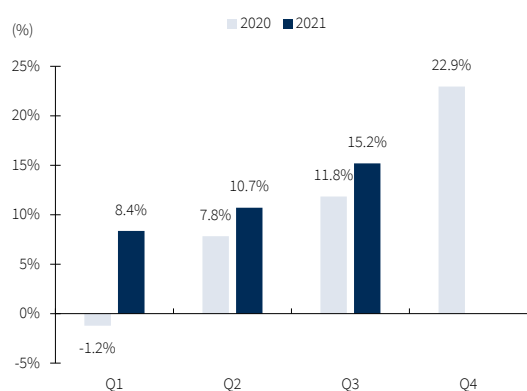
Source: Military Bank, KB Securities Vietnam

3Q21 net interest income picked up 26.1% YoY, supported by the following reasons:

Credit growth was positive, reaching 15.2% YTD with main contribution from corporate bonds (+35% YoY) and personal loans (+33% YoY).

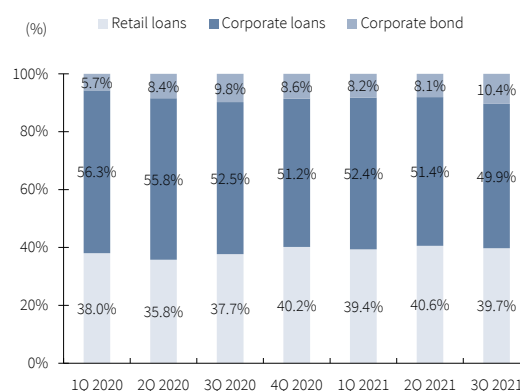
We expect MBB to boost credit activities in 4Q, with full-year credit growth estimated at 20% thanks to: (1) credit demand in 4Q expected to recover as Vietnam eases lockdown restrictions; and (2) huge demand for credit from renewable energy and real estate sector.

Fig 1. MBB – Credit growth (%)



Source: Military Bank, KB Securities Vietnam

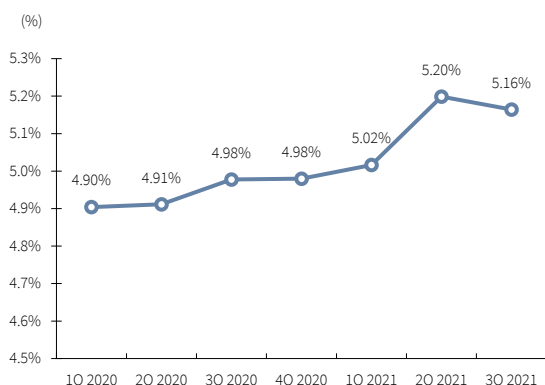
Fig 2. MBB – Credit structure (%)



Source: Military Bank, KB Securities Vietnam

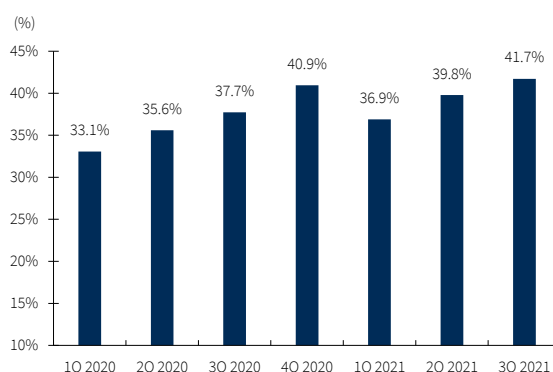
NIM decreased slightly due to a downward trend in lending rates, but was offset by lower cost of capital in 3Q21, helped by (1) low deposit interest rates; and (2) increased CASA ratio.

Fig 3. MBB – NIM (%)



Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA (%)

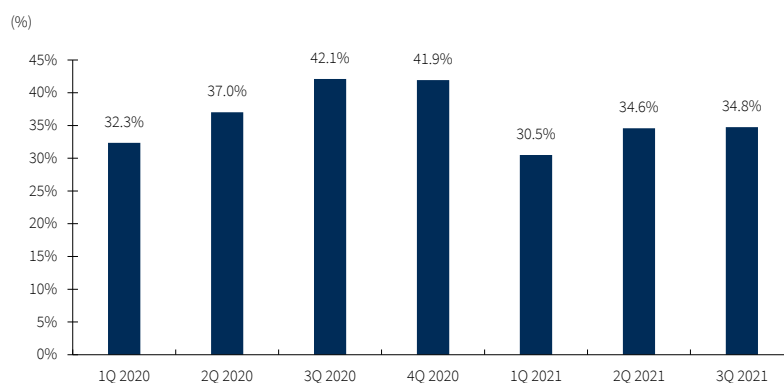


Source: Military Bank, KB Securities Vietnam

3Q non-interest income expanded 39.1%, of which net fee income increased by 22% YoY from payment and bancassurance services (+44% YoY).

Operating expenses in 3Q grew 6.6% YoY, and cost-income ratio (CIR) edged up to 34.8% from 34.6% in 2Q. However, 9M21 average CIR of 33.3% is still much lower than that of 9M20 at 37.2%, showing MBB's efforts to reduce costs.

Fig 5. MBB – CIR (%)

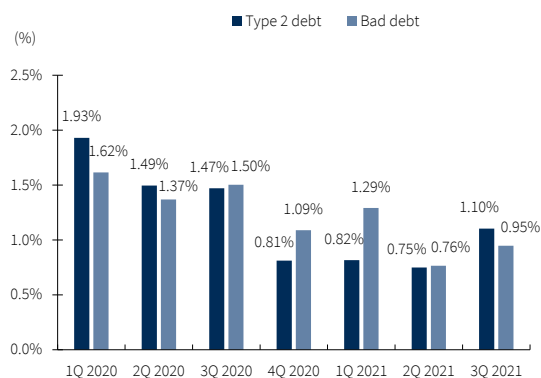


Source: Military Bank, KB Securities Vietnam

NPL ratio inched up to 0.9% in the third quarter from 0.8% in the previous quarter. Along with that, special mention loans were up to 1.1% in the context that businesses were strongly affected by social distancing measures. MBB made a provision of VND 1,778 billion (-26.9% QoQ, +101% YoY), helping MBB maintain its LLCR at above 200%, which is the second highest in the industry (only after VCB).

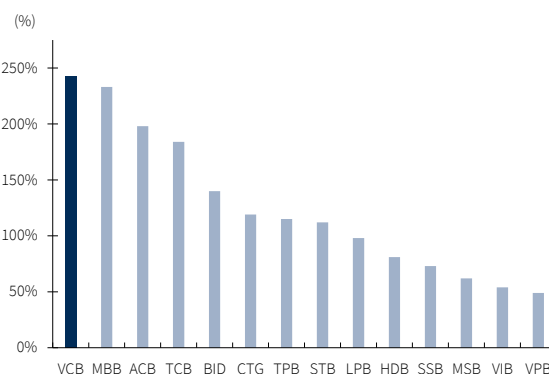
Restructured loans increased to VND3 trillion (+11% QoQ), equivalent to 0.9% of total outstanding loans and are likely to continue to grow in 4Q.

Fig 6. MBB – Special mention and NPL ratio (%)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – Loan loss coverage ratio (%)



Source: Finpro, Military Bank, KB Securities Vietnam

MBB is currently trading at a 12-month forward P/B of 1.4x, higher than the 3-year average of 0.99x.

Fig 8. MBB – 12-month forward P/B (x)



Source: Bloomberg, KB Securities Vietnam

Forecast business performance

In 2021, we expect MBB to record PBT of VND15,485 billion (+44.9% YoY) on TOI of VND34,402 billion (+25.7% YoY).

- Consolidated credit growth is supposed to be 20%.
- NIM should be 5.0%. Lower lending rates were offset by low deposit rates, high CASA ratio (42%) and high loan to deposit ratio (LDR).
- NPL ratio may increase to 1%.

MBB is currently trading at a 2022 forward P/B of 1.4x, which is lower than the industry average. With asset quality under control while MBB has actively provisioned, we believe that MBB's 2022 P/B can remain higher than the industry average. We expect Vietnam's post-pandemic economic recovery will help MBB's restructured debts and provision expenses to fall in the future.

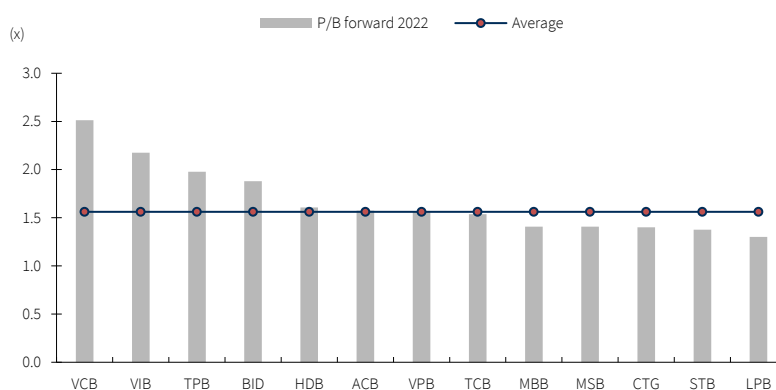
Basing on P/B valuation method, we maintain our BUY recommendation for MBB shares with a target price of VND34,000/share, 19.3% higher than the closing price on December 15, 2021. We assess MBB is a good share to invest in in the medium and long term.

Table 2. MBB – 2021E – 2023E business results

	2021E	2022E	2023E
Net interest income (VNDmn)	25,122,065	29,111,253	32,827,954
TOI (VNDmn)	34,402,151	39,476,546	44,371,401
PBT (VNDmn)	15,485,660	18,189,625	21,534,593
ROAA (%)	2.2%	2.2%	2.3%
ROAE (%)	21.1%	20.0%	20.5%
CIR (%)	34.0%	36.0%	36.0%
CASA (%)	41.9%	42.0%	42.5%

Source: KB Securities Vietnam

Fig 9. Banks – 2022 forward P/B (x)



Source: Bloomberg, KB Securities Vietnam

MBB – 2020A–2023E financials

Income Statement					Balance Sheet				
(VNDmm)	2020A	2021E	2022E	2023E	(VNDmm)	2020A	2021E	2022E	2023E
Interest Income	32,767,393	38,812,597	46,072,177	53,247,928	Total assets	494,982,162	599,720,228	691,030,743	781,383,472
Interest Expense	(12,489,598)	(13,690,532)	(16,960,924)	(20,419,974)	Cash & gold	3,109,230	3,917,126	4,671,161	4,861,602
Net interest income	20,277,795	25,122,065	29,111,253	32,827,954	Balances with the SBV	17,296,506	21,085,807	25,144,759	26,169,898
Fees & commissions	3,575,553	5,005,774	5,806,698	6,677,703	Balances with credit Institutions	47,888,802	58,340,177	69,570,480	72,406,833
Trading foreign currencies	785,809	1,092,275	1,201,502	1,321,652	Marketable securities	102,798,873	118,311,261	136,167,167	156,721,118
Securities held for trading	85,086	106,358	127,629	153,155	Loans to customers	293,942,764	361,770,022	414,226,675	474,289,543
Investment securities	865,869	995,749	1,045,537	1,097,814	Fixed assets	4,558,817	4,700,539	5,000,640	5,335,267
Other activities	1,772,061	2,079,931	2,183,927	2,293,124	Other assets	25,387,170	31,595,295	36,249,861	41,599,211
Total operating income	27,362,173	34,402,151	39,476,546	44,371,401	Total liabilities	444,882,667	531,750,537	612,820,944	689,881,118
SG&A expenses	(10,555,457)	(11,696,731)	(14,211,557)	(15,973,704)	Due from the SBV	15,383	80,795	92,511	105,925
Pre-provisioning OP	16,806,716	22,705,420	25,264,989	28,397,696	Deposits from credit institutions	50,876,472	65,118,604	74,560,802	85,372,118
Provision for credit losses	(6,118,440)	(7,219,759)	(7,075,364)	(6,863,103)	Deposits from customers	310,960,354	376,843,773	436,028,079	499,252,150
Pre-tax income	10,688,276	15,485,660	18,189,625	21,534,593	Valuable papers issued	50,923,563	57,883,203	66,276,268	75,886,327
Income tax expense	(2,082,237)	(3,016,840)	(3,543,613)	(4,195,263)	Other liabilities	32,106,895	31,824,161	35,863,285	29,264,598
NP	8,606,039	12,468,821	14,646,013	17,339,330	Shareholder's equity	50,099,495	67,969,691	78,209,799	91,502,355
Minority interest profit	(343,380)	(497,505)	(584,374)	(691,837)	Share capital	27,987,569	37,783,218	37,783,218	37,783,218
Parent NP	8,262,659	11,971,316	14,061,638	16,647,493	Capital surplus	1,177,563	869,327	869,327	869,327
EPS	2,187	3,036	3,567	4,222	Treasury shares	(564,397)	-	-	-
DPS	-	-	-	-	Capital adjustments	8,542,772	10,537,756	12,951,227	15,939,024
Shares outstanding (mm shares)	2,799	3,778	3,778	3,778	Retained earnings	12,955,988	18,779,390	26,606,027	36,910,786

Financial Indicators					Valuation				
(%)	2020A	2021E	2022E	2023E	(VND, X, %)	2020A	2021E	2022E	2023E
Profitability					Share Price Indicators				
ROE	19.2%	21.1%	20.0%	20.5%	EPS	2,187	3,036	3,567	4,222
ROA	1.8%	2.2%	2.2%	2.3%	BVPS	12,679	17,287	19,853	23,198
NIM	4.8%	5.0%	4.9%	4.8%	Valuations				
CIR	38.6%	34.0%	36.0%	36.0%	PE	7.7x	8.1x	9.5x	8.8x
CASA	40.9%	41.9%	42.0%	42.5%	PB	1.3x	1.4x	1.7x	1.6x
Cost of fund	3.3%	3.0%	3.2%	3.3%	Dividend yield	0.0%	0.0%	0.0%	0.0%
Asset yield	7.7%	7.7%	7.7%	7.8%	Capital Adequacy				
Liquidity					CAR	10.4%	11.0%	11.0%	11.0%
LDR	n.a	82.0%	83.0%	83.5%	Leverage ratio	9.9x	8.8x	8.8x	8.5x
Loan to Total Asset	63.3%	65.1%	66.4%	67.4%	Asset Quality				
Growth					Special mention debts ratio	0.8%	1.2%	1.1%	1.0%
Asset growth	20.3%	21.2%	15.2%	13.1%	NPL ratio	1.1%	1.0%	1.0%	1.0%
Loan growth	18.9%	23.1%	14.5%	14.5%	NPL + VAMC	1.1%	1.0%	1.0%	1.0%
Deposit growth	14.0%	21.2%	15.7%	14.5%	External receivables / Loans	1.3%	1.5%	1.6%	1.5%
TOI growth	11.0%	25.7%	14.8%	12.4%	Credit cost ratio	2.3%	2.2%	1.8%	1.5%
PBT growth	6.5%	44.9%	17.5%	18.4%	LLCR	134.1%	216.6%	198.7%	182.2%

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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