

# Military Bank (MBB)

## NPL ratio surged in 3Q23

December 20, 2023

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**MBB delivered 9M23 TOI of VND35,556 billion (up 5.1% YoY) thanks to positive NII growth**

In the first nine months of 2023, Military Bank (MBB) achieved total operating income (TOI) of VND35,556 billion (up 5.1% YoY), driven by net interest income (NII) growth of 12% (making up more than 80% of TOI). Meanwhile, non-interest income (NOII), despite an improvement in 3Q23, contracted by 19% YoY as many income sources were impacted by economic woes. For 9M23, PBT recorded VND20,019 billion (+10% YoY), equaling 76% of our assumption.

**NIM should maintain the current high level thanks to high CASA**

KBSV expects that MBB's NIM will maintain the current high level and improve more clearly in 2024, supported by: (1) declining funding costs and (2) the decrease pace of lending interest rates will lag behind deposit interest rates since medium- to long-term loans account for a larger proportion in the lending structure.

**The NPL ratio was still on the rise**

In 3Q23, the NPL ratio expanded by 50bps QoQ to 1.9%, of which substandard debt and doubtful debt saw the strongest increases (up 56% and up 37% QoQ, respectively). Due to rising NPL formation, MBB's boosted provisioning in 3Q23, with credit costs up 50% YoY and up 20% QoQ. The loan loss coverage ratio (LLCR) dropped to 122%, but MBB remained among the banks with the highest LLCR in the entire system.

**We recommend BUY for MBB with a target price of VND25,000/share**

Based on P/B and residual income valuation methods, we reiterate our BUY rating for MBB but adjust the target price for 2024 to VND25,000/share, 39% higher than the closing price on December 19, 2023.

**Buy** maintain

**Target price VND25,000**

Upside	39%
Consensus target price	22,300
Current price (Dec 19, 2023)	18,150
Market cap (VNDbn/USDmn)	26,626

#### Trading data

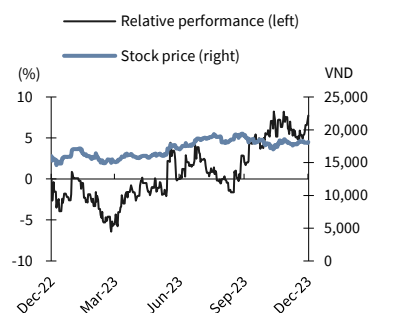
Free float	55%
3M avg trading value (VNDbn/USDmn)	226.46/9.3
Foreign ownership	23.23%
Major shareholder	14.14%

#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-0.3	-4.5	6.8	18.6
<b>Relative</b>	0.2	5.6	7.7	10.7

#### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	26,200	36,023	40,228	45,344
PPOP (VNDbn)	24,557	30,777	32,788	36,854
NPAT-MI (VNDbn)	13,221	18,155	19,423	22,069
EPS (VND)	3,361	3,856	4,091	4,617
EPS growth (%)	14%	15%	6%	13%
PER (x)	13.1	11.4	10.8	9.5
Book value per share (VND)	16,538	17,559	20,971	24,987
PBR (x)	2.66	2.51	2.10	1.76
PBR (x)	23.5%	25.6%	22.2%	21.2%
ROE (%)	2021	2022	2023F	2024F



Source: Bloomberg, KB Securities Vietnam

## Business performance

**MBB delivered 9M23 TOI of VND35,556 billion (up 5.1% YoY) thanks to positive NII growth**

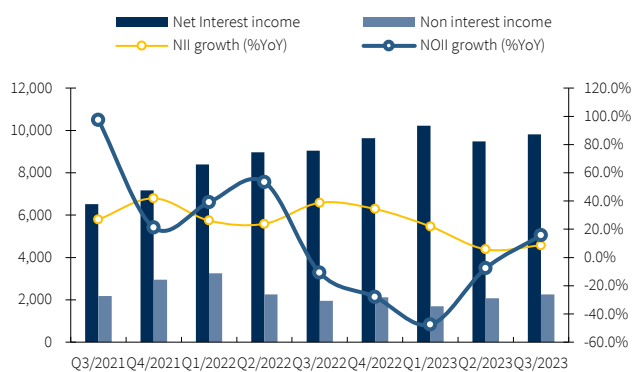
In the first nine months of 2023, MBB achieved TOI of VND35,556 billion (up 5.1% YoY), driven by NII growth of 12% (making up more than 80% of TOI). Meanwhile, NOII, despite an improvement in 3Q23, contracted by 19% YoY as many income sources were impacted by economic woes. Provision expenses in the third quarter kept rising by another 20% QoQ, while the NPL ratio rose to 1.9% from 1.44% at the end of 2Q23. For 9M23, PBT recorded VND20,019 billion (+10% YoY), equaling 76% of our assumption.

**Table 1. MBB – 9M22–9M23 business results**

(VNDbn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY	Comments
Net interest income	9,039	9,812	+8.6%	26,394	29,520	+11.8%	NII growth was supported by credit growth in the first nine months of 2023. MBB is among the top banks with the highest credit growth in the entire industry, trailing only behind HDBank (HDB) and Maritime Bank (MSB).
Non-interest income	1,948	2,253	+15.7%	7,448	6,035	-19.0%	9M23 NOII shrank by 19% YoY, primarily due to: <ul style="list-style-type: none"> <li>- Significant declines in upfront fee from bancassurance and investment banking (IB) amid challenges in the first half of 2023.</li> <li>- Declines in net gains from foreign exchange, gold, and securities trading activities compared to the same period a year ago, attributed to the absence of extraordinary gains seen in 2022.</li> </ul> In contrast, the settlement and fund management segment showed impressive growth of 65% YoY.
Total operating income	10,986	12,065	+9.8%	33,841	35,556	+5.1%	NII has increasingly contributed to TOI in recent quarters, enabling TOI to continue enjoying positive growth. This is in contrast to the majority of banks, which have experienced negative TOI growth.
Operating expenses	(3,729)	(3,334)	-10.6%	(11,187)	(11,037)	-1.3%	Operating expenses have tended to decrease in recent quarters, mainly due to reduced staff costs.
CIR	33.9%	27.6%	-6.3%	33%	31%		
Provision expenses	(962)	(1,447)	+50.5%	(4,462)	(4,500)	+0.8%	Provision expenses increased sharply along with the increase in NPLs.
PBT	6,296	7,284	+15.7%	18,192	20,019	+10.0%	
NPAT	5,035	5,821	+15.6%	14,555	16,009	+10.0%	
Credit growth	17.1%	13.7%					MBB continues to be among the top banks with the highest credit growth, hitting 13.7% YTD. Specifically, outstanding loans to corporate and individual customers rose by 20% YTD and by 13% YTD, respectively, compensating for the decline in outstanding loans in corporate bonds (-13% YTD).
Deposit growth	6.1%	11.0%					
NIM	5.87%	5.31%	-0.56%				NIM improved more slowly than our expectations because funding costs have not shown a downward trend compared to the previous quarter, which we attribute to the fact that high-interest-bearing deposits have not yet matured. However, MBB's NIM is still above the industry average.
NPL ratio	1.04%	1.89%	+0.85%				Although the proportion of special mentioned loans to total outstanding loans declined compared to the previous quarter, the NPL formation rate skyrocketed, causing the NPL ratio in the third quarter to expand by 40 bps QoQ. The loan loss coverage ratio (LLCR) fell to 122%, but MBB remained among the large commercial joint stock banks maintaining the LLCR above 100%, including MBB, Techcombank (TCB), VPBank (VPB), ACB Bank (ACB), Sacombank (STB), and SHB Bank (SHB).

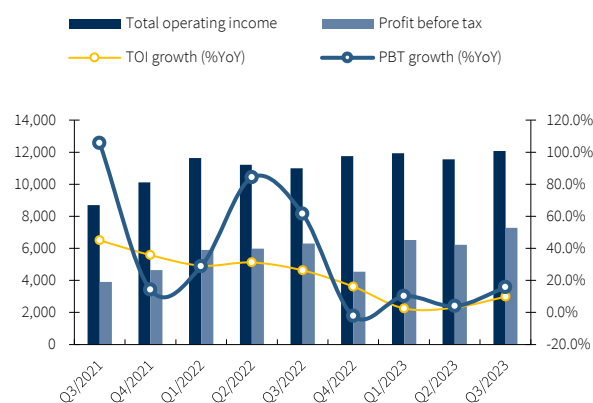
Source: Military Bank, KB Securities Vietnam

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



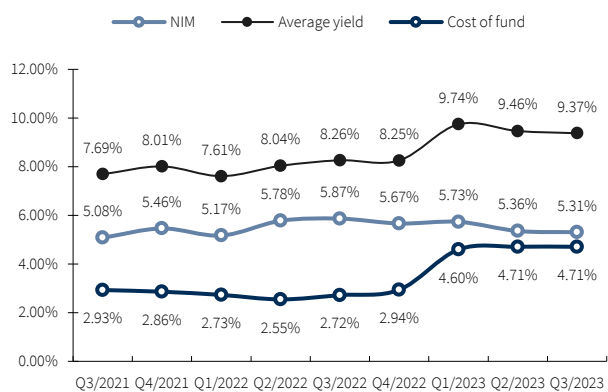
Source: Military Bank, KB Securities Vietnam

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



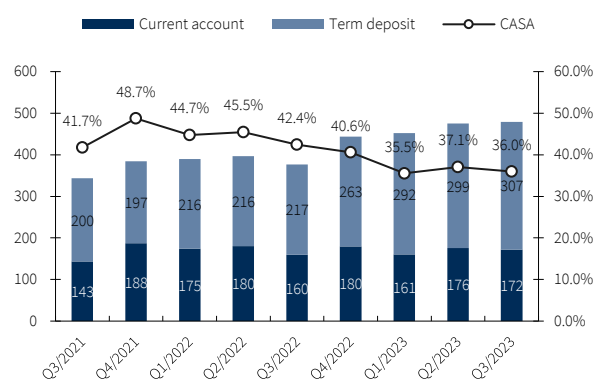
Source: Military Bank, KB Securities Vietnam

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



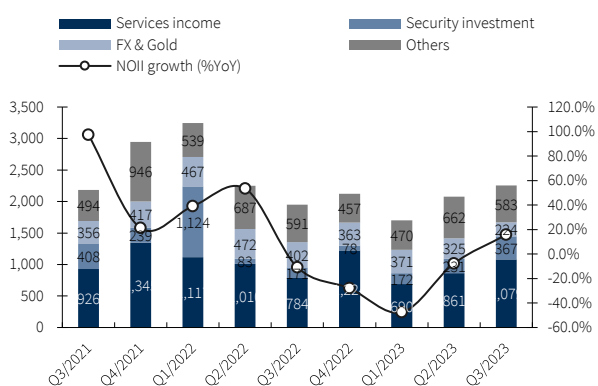
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – CASA ratio (%)



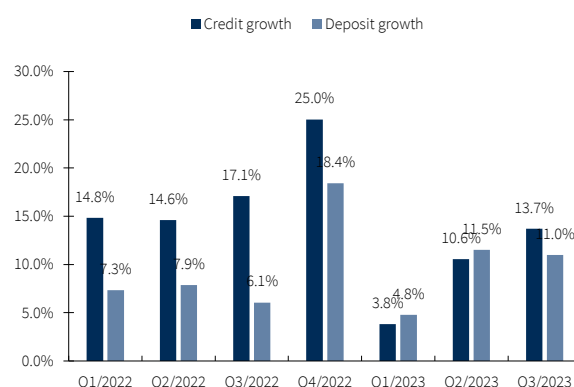
Source: Military Bank, KB Securities Vietnam

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



Source: Military Bank, KB Securities Vietnam

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



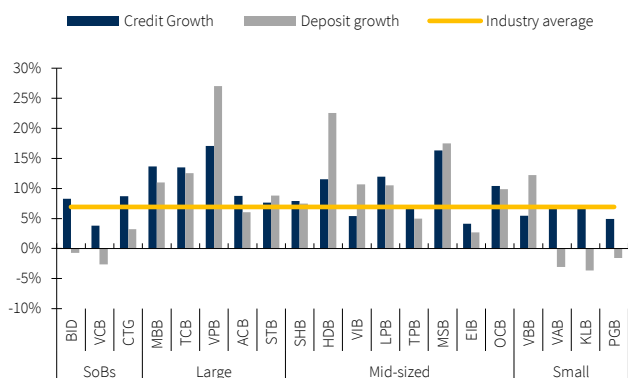
Source: Military Bank, KB Securities Vietnam

**Strong credit growth is the driving force for earnings growth**

Loan growth touched 13.7% year to date (YTD) in 9M23 from 10.6% YTD in 1H23, indicating a slowdown in disbursements in the third quarter compared to the previous one. We attribute this to falling customer loans in the face of a sluggish economy coupled with persistently subdued corporate bond lending since the start of the year. This aligns with the general trend observed in other banks, and overall, MBB's credit growth still outperforms the industry average of 6.9%. We expect loan disbursements to pick up in the year-end period, enabling MBB to achieve its full-year credit growth target of 18-20%.

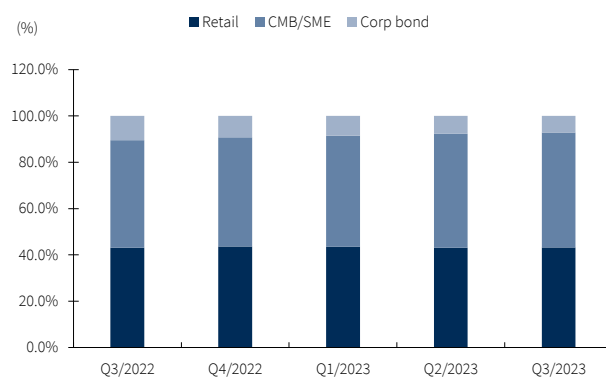
The lending structure has shifted towards corporate customers (accounting for 49.7%), focusing on real estate, wholesale and retail trade, and manufacturing. Retail loans (making up 43.2%) did not see positive growth as in previous years, partially impacting MBB's NIM, given its high interest margin.

**Fig 8. Vietnam – Credit growth across banks (%)**



Source: Military Bank, KB Securities Vietnam

**Fig 9. MBB – Loan structure (%)**



Source: Military Bank, KB Securities Vietnam

**NIM remained high thanks to high CASA**

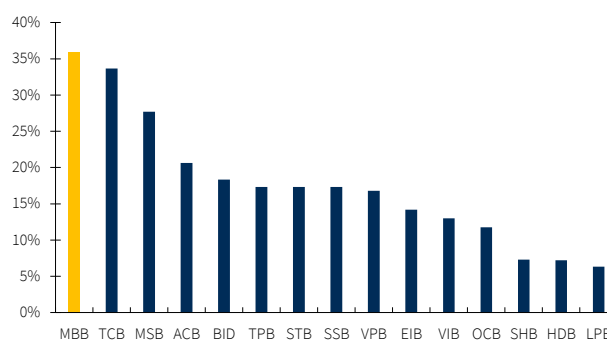
3Q23 NIM reached 5.31%, slightly down 6bps QoQ. Funding costs have not decreased much against the previous quarter even though deposit interest rates have contracted by 1-2% in most terms. This can be explained by the fact that high-interest-bearing 6 to 12-month term deposits have not yet matured. However, MBB can still control the influence of high funding costs thanks to its leading advantage in CASA. KBSV expects MBB's NIM to maintain the current high level and improve considerably in 2024 thanks to: (1) funding costs gradually reflecting interest rate cuts, CASA improving thanks to the corporate customer group and (2) the rate of decline in lending interest rates will lag behind deposit interest rates as medium and long-term loans account for a larger proportion in the lending structure.

Fig 10. Vietnam – 3Q23 NIM across banks (%)



Source: Local banks, KB Securities Vietnam

Fig 11. Vietnam – CASA ratio across banks (%)



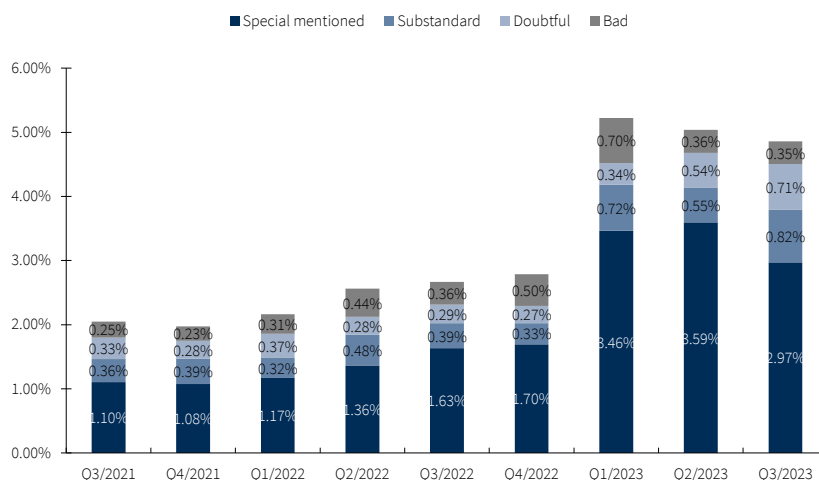
Source: Local banks, KB Securities Vietnam

**The NPL ratio was still on the rise**

Despite leading in earnings growth compared to other commercial joint stock banks, MBB’s NPL formation was also faster in 3Q23. The NPL ratio expanded by 50bps QoQ to 1.9%, in which the proportion of substandard and doubtful debts witnessed the strongest increases (up 56% and up 37% QoQ, respectively). As a result, MBB boosted provisioning in 3Q23, with credit costs up 50% YoY and 20% QoQ. LLCR dropped to 122%, but MBB remained among the banks with the highest LLCR in the entire system.

Notably, in the third quarter, the proportion of special mentioned loans to total outstanding loans contracted to 2.97% from 3.56% in the previous quarter. We expect the NPL ratio will be better controlled in the coming quarters on customers’ improved cash flow to fulfill debt obligations in light of a recovering economy.

Fig 12. MBB – Debt groups (%)



Source: Military Bank, KB Securities Vietnam

## Forecast & Valuation

**Table 13. MBB – 2022A–2024F business results**

(VNDbn)	2022A	2023F	+/-%YoY2022	2024F	+/-%YoY2023	Comments
Net interest income	36,023	40,228	+11.7%	45,344	+12.7%	Our downward revision is due to the assumption that MBB will complete 70–80% of the assigned credit limit this year.
Net fee income	4,136	3,418	-17.3%	4,444	+30.0%	Our downward revision is driven by our expectation that the corporate bond and bancassurance segments will not see significant improvements.
Total operating income	45,593	47,778	+4.8%	54,166	+13.4%	
Provision expenses	(8,048)	(7,124)	-11.5%	(8,385)	+17.7%	The current pace of provisioning is still lagging behind the accelerating rate of NPLs since the bank utilizes its existing provision buffer and prioritizes profit preservation. It is anticipated that the provisioning pressure will increase in the next year (+17.7% YoY).
NPAT	18,155	19,909	+9.7%	22,499	+13.0%	Our revision comes from a decline in NOI.
NIM	5.67%	5.29%	-37bps	5.12%	-17bps	NIM for the whole year is expected to drop by 37bps YoY but still maintains at a high level compared to other banks.
Average earnings yield	8.25%	8.33%	+7bps	8.04%	-29bps	
Average cost of funds	2.94%	3.43%	+49bps	3.27%	-17bps	
CIR	32.5%	33.0%	+50bps	32.6%	-40bps	
NPL	1.09%	1.80%	+71bps	1.60%	-20bps	We expect the NPL ratio to have peaked in the third quarter of 2023 and continue to move sideways in 4Q23. In 2024, asset quality should improve on customers' stable financial situation.
Total assets	728,532	863,113	+18.5%	998,766	+15.7%	
Equity	79,613	95,567	+20.0%	114,209	+19.5%	

Source: KB Securities Vietnam

### We recommend BUY for MBB with a target price of VND25,00/share

We combine two valuation methods, P/B and residual income, to find a fair price for MBB.

#### (1) P/B method

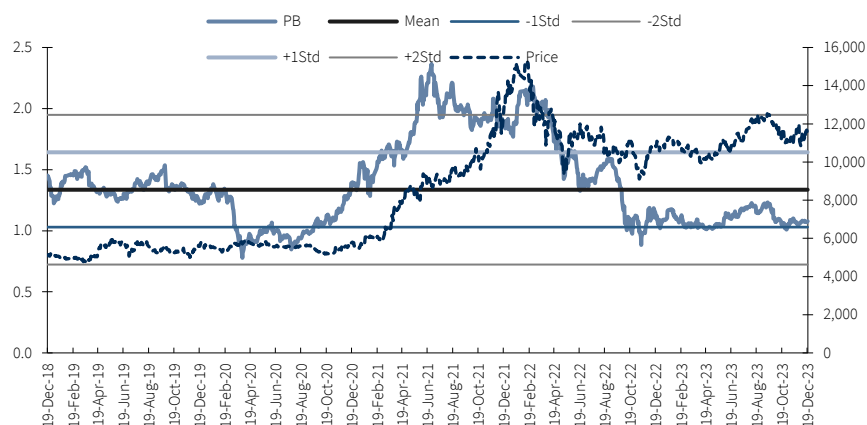
MBB is currently trading at a P/B of 1.0x, much lower than the 5-year average P/B of 1.3x. We lower the 2024F target P/B to 1.1x due to concerns about rising NPLs.

#### (2) Residual income method

We incorporate the residual income method to reflect systemic risk and long-term expectations.

Based on the equal combination of the aforementioned valuation methods, we recommend BUY for MBB with a target price of VND25,000/share.

Fig 14. MBB – Historical P/B, share price performance (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 15. MBB – Residual income valuation

(VNDbn)	2024F	2025F	2026F
NPAT	22,499	24,719	28,980
Excessed return	3,768	3,624	3,893
Required rate of return (Re)	16.4%		
Growth (g)	3%		
Terminal value	4,726		
Total present value (PV)	125,446		
<b>Value per share</b>	<b>27,668</b>		

Source: KB Securities Vietnam

Table 16. MBB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
Residual income	27,668	50%	13,800
P/B	23,186	50%	11,590
<b>Target price</b>			<b>25,000</b>

Source: KB Securities Vietnam

## MBB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020A	2021A	2022A	2023F	2024F	(VNDbn)	2020A	2021A	2022A	2023F	2024F
(VNDbn)	20,278	26,200	36,023	40,228	45,344	Loans	293,943	354,797	448,599	526,581	622,303
Net interest income	32,767	38,465	52,486	63,274	71,131	Marketable securities	3,085	7,575	4,106	39,424	45,432
Interest income	(12,490)	(12,265)	(16,463)	(23,046)	(25,786)	Cash (ex. Reserves)	3,109	3,475	3,744	4,616	5,319
Interest expense	3,576	4,367	4,136	3,418	4,444	Interest earning assets	466,734	574,482	697,256	822,562	947,858
Fees & commissions	1,680	3,254	2,142	1,857	1,765	Fixed assets & other assets	29,909	38,176	38,836	47,750	56,077
Other non-interest income	27,362	36,934	45,593	47,778	54,166	Total assets	494,982	607,140	728,532	863,113	998,766
Total operating income	(10,555)	(12,377)	(14,816)	(15,767)	(17,658)	Customer deposits	310,960	384,692	443,606	528,306	608,822
SG&A expenses	16,807	24,557	30,777	32,011	36,508	Borrowings & call money/repos	51,131	68,886	98,581	122,783	143,591
Pre-provisioning OP	(6,118)	(8,030)	(8,048)	(7,124)	(8,385)	Interest bearing liabilities	412,983	513,400	607,335	735,658	843,783
Provision for credit losses	2,809	4,211	3,026	3,095	2,544	Other liabilities	31,900	31,254	41,584	31,888	40,775
Other income	(1,129)	(956)	(884)	(1,238)	(780)	Total liabilities	444,883	544,654	648,919	767,546	884,557
Other expense	10,688	16,527	22,729	24,887	28,123	Charter capital	27,988	37,783	45,340	45,340	45,340
Pre-tax income	(2,082)	(3,306)	(4,574)	(4,977)	(5,625)	Capital surplus	1,178	869	869	869	869
Income tax expense	8,606	13,221	18,155	19,909	22,499	Retained earnings	12,956	12,915	19,064	35,379	54,020
NP	(343)	(524)	(672)	(874)	(1,136)	Capital adjustments	-	-	-	-	-
Minority interest profit	8,263	12,697	17,483	19,035	21,362	Total shareholders' equity	50,099	62,486	79,613	95,567	114,209

Financial Indicators						Valuation					
(%)	2020A	2021A	2022A	2023F	2024F	(VND, X, %)	2020A	2021A	2022A	2023F	2024F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	19.1%	23.5%	25.6%	22.7%	21.5%	EPS	2,952	3,361	3,856	4,198	4,712
ROA	1.9%	2.4%	2.7%	2.5%	2.4%	BVPS	17,901	16,538	17,559	21,078	25,190
Pre-provision ROE	30.0%	34.9%	34.6%	29.2%	27.8%	Tangible BVPS	17,447	16,140	17,197	20,652	24,690
Pre-provision ROA	3.0%	3.6%	3.7%	3.2%	3.1%	<b>Valuations</b>					
Net interest margin (NIM)	4.7%	5.0%	5.7%	5.3%	5.1%	PER	14.9	13.1	11.4	10.5	9.3
<b>Efficiency</b>						PBR	2.5	2.7	2.5	2.1	1.7
Pure Loan to deposit ratio	95.9%	94.5%	103.8%	102.0%	104.0%	Dividend yield	1.4%	1.4%	1.4%	1.4%	1.4%
Cost-income ratio	38.6%	33.5%	32.5%	33.0%	32.6%	ROE	19.1%	23.5%	25.6%	22.7%	21.5%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	20.3%	22.7%	20.0%	18.5%	15.7%	CAR	10.4%	11.3%	11.4%	>11%	>11%
Loan growth	18.9%	20.7%	26.4%	17.4%	18.2%	<b>Asset Quality</b>					
PPOP growth	12.6%	46.1%	25.3%	4.0%	14.0%	NPL ratio (substandard)	1.1%	0.9%	1.1%	1.8%	1.6%
Parent NP growth	5.6%	53.7%	37.7%	8.9%	12.2%	Coverage ratio (substandard)	134.1%	268.0%	238.0%	126.7%	107.3%
EPS growth	-10.5%	13.8%	14.7%	8.9%	12.2%	NPL ratio (precautionary)	1.9%	2.0%	2.8%	3.6%	3.4%
BVPS growth	6.5%	-7.6%	6.2%	20.0%	19.5%	Coverage ratio (precautionary)	76.8%	122.0%	93.3%	63.4%	50.5%

Source: Military Bank, KB Securities Vietnam



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## Investment ratings & definitions

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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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