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Military Bank (MBB)

Spike in bad loans stalls credit growth

1Q earnings down 9% YoY as credit growth nearly stalls

— Weak 1Q pretax earnings of VND1,783 billion were down 7.7% YoY/7.5% QoQ on the sharp slowdown in credit/loan growth and near doubling of credit costs amid the spike up in non-performing loans. Credit growth nearly stalled at 7.8% YoY vs 4Q's 18.7% YoY and actually fell 1.2% on a sequential QoQ basis. Loan growth was also sluggish at 8.2% YoY vs 4Q's 16.5% and down 0.9% QoQ. This comes despite higher contribution from the high-growth consumer finance portfolio at the *MCredit* subsidiary.

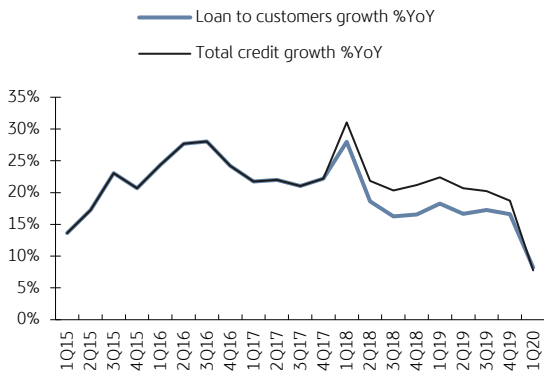
Asset quality witnesses sharp erosion due to larger exposure to the subprime market

— Substandard & below non-performing loans surged to 1.62% vs 4Q's 1.16% and precautionary & below bad loans spiked to 3.54% from 4Q's 2.31%, largely due to MBB's higher exposure to the subprime market via *MCredit*. The more pronounced slowdown in credit growth also likely pressured the asset quality ratios. Provisions more than doubled from the same period last year to VND2,093 billion (+117% YoY/+72% QoQ) to 0.84% of loans vs 4Q's 0.49% of loans and 0.42% of loans in 1Q last year. Management minimized damage from the sharp rise in provisions by sacrificing loan loss reserve coverage ratios, which fell to 97.6% for substandard & below loans from 4Q's 110.5% and precautionary & below loans to 44.5% from 4Q's 55.3%.

Tight cost controls manage to save earnings

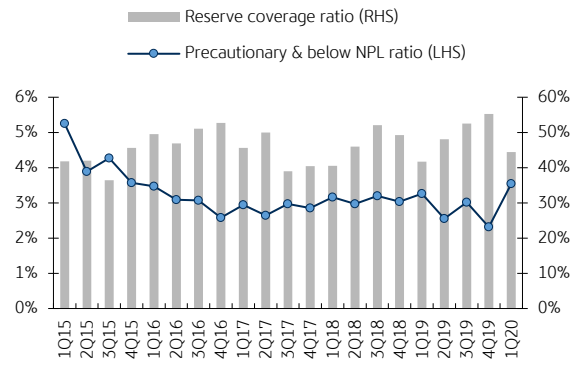
— Performance for fees was flat for the quarter at VND745 billion (-2% YoY, -15% QoQ). Even insurance fees lagged and decreased by 14% QoQ for the quarter despite being up 32% YoY. Costs were the one bright spot as management successfully kept costs flat to allow the revenue stream from the larger asset base to lower 1Q's cost-to-income ratio to 32.4% from 37.9% during the same period last year.

Fig 1. MBB – Loan to customers & total credit growth, 1Q15–1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. MBB – Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q15–1Q20 (%)



Source: Company reports & 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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