

# Military Bank (MBB)

## Improving asset quality drew credit cost reduction

### Q2 pretax earnings up 19% YoY as cutting credit cost

— 2Q pretax earnings rose by 19% YoY to VND2,923 billion, making 1H20 pretax earnings of VND5,119 billion or 57% of 2020 guidance. Up to 2Q, credit growth was still weak at 7.5%YTD vs 2Q19's 13.8%YTD, this comes despite higher contribution from the high-growth consumer finance portfolio at the MCredit subsidiary. Credit activities still suffered from the COVID-19 impact, total credit grew slowly by only 12.2% YoY vs 2Q19's 20.7% YoY, similarly, loans to customers growth decelerated to 9.4% YoY vs 2Q19's 16.6% YoY. Flatten deposit to customers, decreased 1%YoY to be VND257,379 billion, however, current account & saving account ratio (CASA) has been better off to be 32.6% vs 1Q20's 29.9% and 2Q19's 25.7%. Bonds has been utilized also when 2Q's the balance of valuable papers was VND33,302 billion (+6% QoQ, +76% YoY), mainly coming from certificates of deposits under 12 months (about double 4Q19's).

### Improving asset quality from the sharp erosion in 1Q

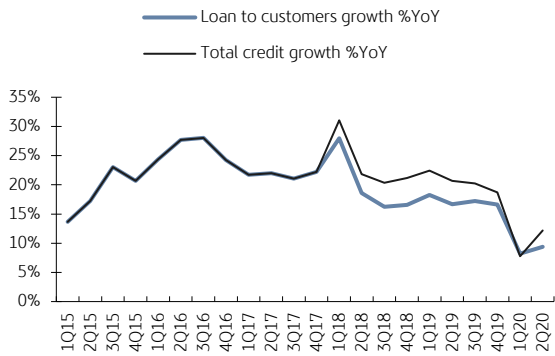
— Substandard & below non-performing loans rose to 1.37% in 2Q vs 1Q's 1.62%, as well as 2Q's precautionary & below ratio moved down to 2.86% from 1Q's 3.54%. The less proportion of troubled loans released pressure on credit cost when 2Q's credit cost has been shrunk to VND1,217 billion (-46% QoQ, -13% YoY) or accounted for 0.47% of total loans vs 1Q's 0.84%. The bank is also becoming more prudent when lifting the reserve coverage for both substandard & below non-performing loans to 121% from 1Q's 98% and precautionary & below ratio to 58% from 1Q's 45%.

### Flat net interest income and higher credit cost

— Net interest income of VND4,624 billion or 5%YoY increase and estimated net profit margin (NIM) was stable at 4.71% in 2Q vs 2Q19's. Net fees & commissions rose 27% QoQ from the dull 1Q to reach VND945 billion. Other non-interest activities also were not also forward-looking such as trading of trading securities and investment securities both saw the decline from last year, decrease 104%YoY and decrease 17% YoY respectively. Cost-to-income ratio (CIR), up to 37% vs 1Q's 32% and 1Q20's 31% in Q1. Credit cost reduced to only VND1,217 billion (-46% QoQ, -13% YoY) only held 18% of total operating income vs 1Q's 33%.

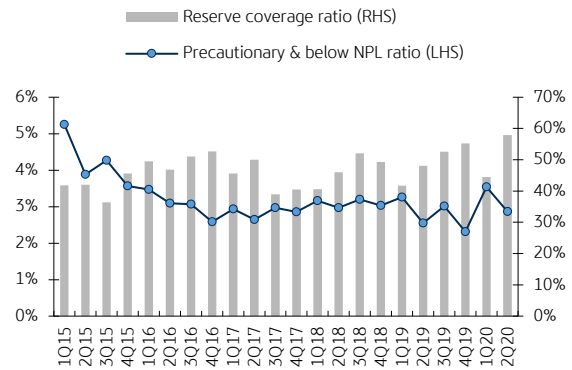


**Fig 1. MBB – Loan to customers & total credit growth, 1Q15–2Q20 (% YoY)**



Source: Company reports & KB Securities Vietnam

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



Source: Company reports & 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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