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Military Bank (MBB)

10% fall in 2020E guidance; Mcredit role increasing

Shareholders approve 10% drop in 2020E guidance; 1H tracking better than guidance

— Shareholders approved 2020E guidance for a 10% YoY drop in pretax earnings to VND9,000 billion and credit growth of 12% YoY. That said, pretax earnings are tracking better than the annual target at VND3,964 billion for the first five months of the year and management estimates 1H results should only be down 2%–3% YoY vs the 10% fall expected for full-year results. The State Bank of Vietnam estimated loans impacted by the pandemic at about 23% of total outstanding loans for the sector but management said impacted loans at MBB are about 25%–30% of total loans. Restructured loans under *Circular 01* were about VND7,000 billion or 3,000 corporate customers. This has kept loan growth for individual and SME lending flat so far this year, with most growth in the corporate loan book focusing on large corporates. Management will continue to restructure loans for customer groups impacted by the pandemic until the end of the year, which may impact about 10% of interest income after reducing annual lending rates by 50–200 bps. The bank plans to offset some of this negative impact by cutting costs to lower the cost-to-income ratio to 35.5%–36.5% vs 2019's 39%.

Only stock dividend plans to boost capital after February's private placement

— January's private placement of 21 million treasury shares and February's 64 million new common shares at VND27,000 raised VND1,842 billion in fresh capital and boosted shareholders' equity by 4.6%. Eight institutional investors participated in the deal. Management also received approval from shareholders to issue a 15% stock dividend in lieu of a cash dividend for 2019 performance that should be completed in 4Q. Management will continue its plan to distribute its remaining 25.6 million treasury shares (0.92% of outstanding shares) to existing shareholders sometime in 4Q or 1Q in 2021E. Management failed to mention any further plans to boost capital further.

Q&A session: Mcredit becoming a bigger strategic focus for the bank

— Management highlighted the importance of Mcredit as an important profit center for the bank and plans to upgrade the infrastructure and operations to better align the subsidiary with the bank's risk appetite. Non-performing loans should be contained to 6.5% and pretax profit may reach VND1,200 billion in 1H. Mcredit will reweight the loan book to a 40–40–20 weighting for low-, medium- and high-risk groups, as well as reducing the portion of cash loans and increasing installment loans to 40%–45% of total credit. Management announced a cooperation agreement with VNPost to add additional nationwide customer touch points for Mcredit. Recent cost cuts included the reduction of 500 staffs. Moreover, management indicated that performance at MB Ageas – the life insurance subsidiary – was similar to 2019.

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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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