

Military Bank (MBB)

Maintaining the market position

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1Q23 business results are positive compared to the whole industry

Military Bank's (MBB) 1Q TOI reached VND11,930 billion (+2.6% YoY). NII recorded a growth of 22% YoY, while NOII dropped sharply by 47.6% YoY. Provision expenses and operating expenses (OPEX) were lowered by 0.8% YoY and 13% YoY respectively. As a result, EBT increased by 10% YoY to VND6,512 billion, helping MBB to rank third in profit after VCB and BIDV.

Asset quality declined in 1Q

NPL ratio at the end of 1Q rose 75bps QoQ to 1.76%. Special mention and substandard loans doubled compared to the end of 2022, and bad debt also increased by 47% QoQ.

Credit growth should be positive

MBB is still a bank with a high credit limit because (1) it has the advantage of abundant mobilized capital and (2) its participation in restructuring weak credit institutions.

MBB continued to promote the advantages of leading CASA in the industry to limit the risk of NIM shrinking

The CASA ratio fell 5.1% in 1Q, reflecting the influence of the high interest rate environment. However, we assess this is only a short-term factor, so MBB should improve the CASA ratio in the coming quarters and continue to maintain its leading position in the industry thanks to the SBV's lower policy rates.

BUY recommendation – target price VND27,900 /share

Using P/B and residual income methods, we set a target price for MBB stock for 2023 at VND27,900/share, 42% higher than the price on June 15, 2023 with a BUY recommendation.

Buy maintain

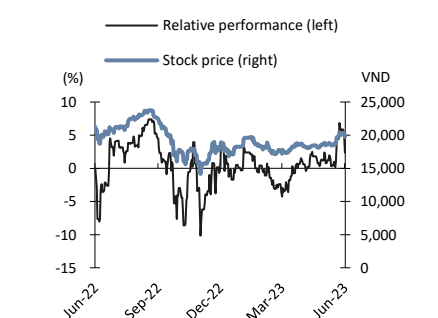
Target price	VND27,900
Upside	42%
Current price (Jun 15, 2023)	19,700
Consensus market price	26,626
Market cap (VNDbn)	89,999

Trading data	
Free float	93.3%
3M avg trading value (VNDbn)	433.42
Foreign ownership	23.24%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	5.9	14.8	8.8	-4.8
Relative	1.1	6.9	2.3	3.4

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net revenue (VNDbn)	26,200	36,023	40,496	45,589
Pre-provision operating profit (VNDbn)	24,557	30,777	34,840	39,399
NPAT of the parent bank (VNDbn)	13,221	18,155	20,029	22,048
EPS (VND)	3,361	3,856	4,254	4,683
EPS growth (%)	14%	15%	10%	10%
PER (x)	13.1	11.4	10.3	9.4
Book value per share (VND)	16,538	17,559	21,134	25,217
PBR (x)	2.66	2.51	2.08	1.74
ROE (%)	23.5%	25.6%	22.8%	21.0%
Dividend yield (%)	1.36%	1.36%	1.36%	1.36%



Source: Bloomberg, KB Securities Vietnam

1Q23 performance updates

1Q23 business results are positive compared to the whole industry

MBB's 1Q TOI reached VND11,930 billion (+2.6% YoY). NII recorded a growth of 22% YoY, while NOII dropped sharply by 47.6% YoY. Provision expenses and operating expenses (OPEX) were lowered by 0.8% YoY and 13% YoY respectively. As a result, EBT increased by 10% YoY to VND6,512 billion, helping MBB to rank third in profit after VCB and BIDV.

Table 1. MBB – 1Q23 results

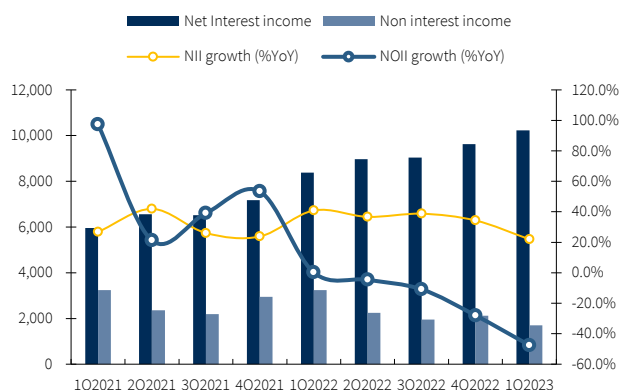
(VNDbn)	1Q22	1Q23	+/-% YoY	KBSV's notes
Net interest income	8,385	10,227	22.0%	NII grew well, accounting for 86% of TOI, thanks to (1) credit growth of 3.8% YTD – higher than the industry average and (2) more stable NIM than other banks.
Non-interest income	3,248	1,703	-47.6%	NOII dropped sharply. Net fee from service activities decreased by 38.3% YoY due to a sharp drop in insurance and securities brokerage services amid market difficulties. Income from trading securities and investment securities recorded a decrease of 62.8% YoY and 86.8% YoY respectively (while the bank recorded a sudden profit of more than VND1,000 billion from securities trading in 1Q22). This can be explained by the high interest rate environment that causes interest from bond trading to decrease.
Total operating income	11,633	11,930	2.6%	
Operating costs	(3,598)	(3,568)	-0.8%	
CIR	30.9%	29.9%	-1.0%	
Provision expenses for credit risks	(2,126)	(1,850)	-13.0%	Although bad debt increased, provision expenses were still under control and fell 13% YoY.
Profit before taxes	5,910	6,512	10.2%	MBB's 1Q PBT is the third highest in the industry, only after VCB and BIDV.
Profit after taxes	4,726	5,206	10.1%	
Credit growth	14.8%	3.8%		Credit growth is higher than the industry average (2.1%), but lower than some other commercial banks. Loans to customers (+4.5% YTD) is the main driver of credit growth, contrary to the downward trend of corporate bonds because new issuance activities are slowing down at this time.
Deposit growth	7.3%	4.8%		Like other banks, MBB's demand deposits fell 10.6% QoQ amid high interest rates, bringing 1Q CASA ratio to 35.5% from 40.6% in the previous quarter. However, MBB still maintains its leading position in terms of CASA. Personal deposits rose 10.5%, and corporate deposits dropped 8.4% YTD.
NIM	5.60%	5.73%		NIM improved by 13bps YoY and is in the top of the industry as the bank still maintains a relatively high CASA ratio and increases the proportion of retail lending.
NPL	0.99%	1.76%		NPL ratio increased to 1.76% (+75 bps QoQ). Special mention, substandard and bad debt recorded a surge. Loan loss coverage ratio (LLCR) decreased from 238% at the end of 2022 to 138%.

Source: Military Bank, KB Securities Vietnam

Asset quality became worse

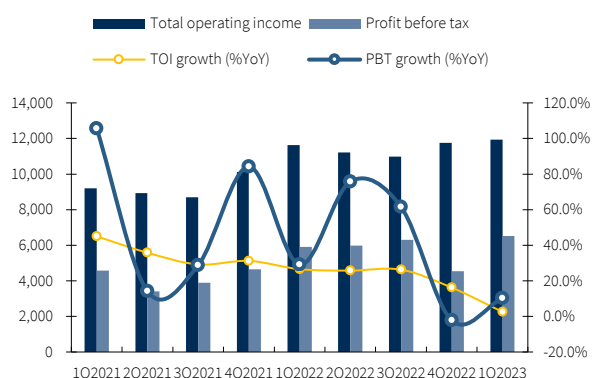
NPL ratio at the end of 1Q rose 75bps QoQ to 1.76%. Special mention and substandard loans doubled compared to the end of 2022, and bad debt also increased by 47% QoQ. Despite the sharp increase in NPA, a decrease in provision expenses in 1A caused the bank's reserve buffer to decrease from 238% at the end of 2022 to 138%.

Fig 1. MBB – NII & NII growth (VNDbn, %)



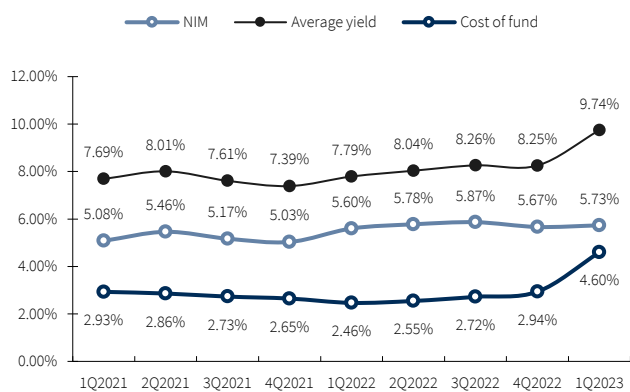
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – TOI & NPAT (VNDbn)



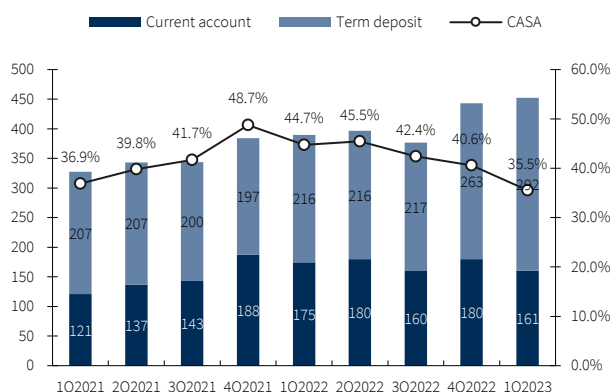
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – NIM by quarter (%)



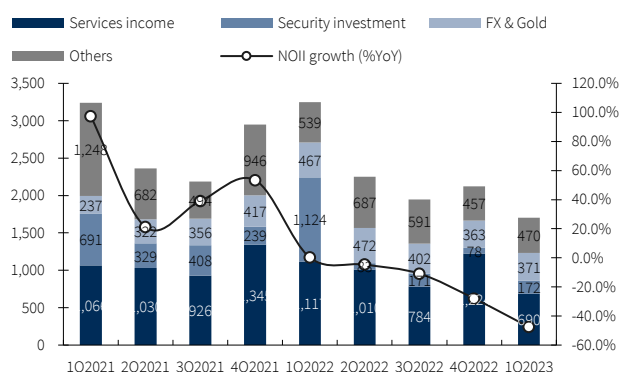
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA ratio by quarter (%)s



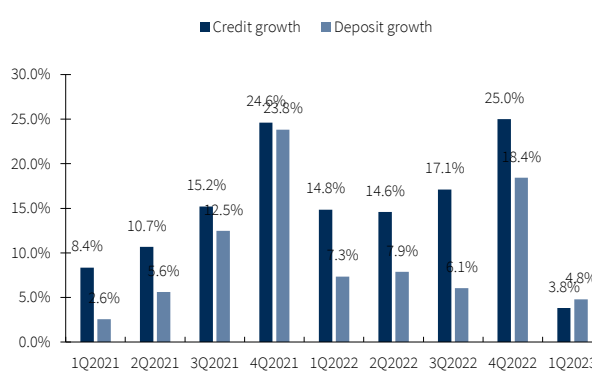
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – NFI structure



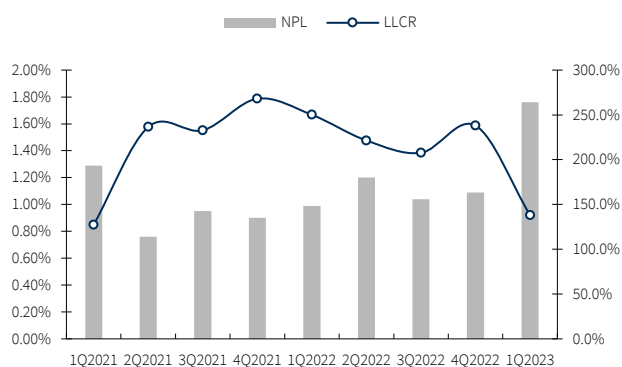
Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – Credit & deposit growth by quarter (%)



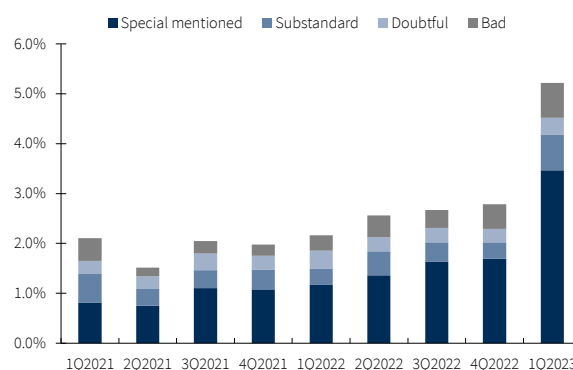
Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – NPL ratio & LLCR (%)



Source: Military Bank, KB Securities Vietnam

Fig 8. MBB – NPL structure



Source: Military Bank, KB Securities Vietnam

Credit growth is expected to be positive thanks to the advantage of abundant capital

MBB is still a bank with a high credit limit because (1) it has the advantage of abundant mobilized capital and (2) its participation in restructuring weak credit institutions. However, with the economy still facing many difficulties, credit demand will not be able to fully recover, MBB's credit growth in the coming time is forecasted to slow down (16–17% in the period of 2023– 2024) but still among the top banks with high credit growth.

MBB continued to promote the advantages of leading CASA in the industry to limit the risk of NIM shrinking

The CASA ratio fell 5.1% in 1Q, reflecting the influence of the high interest rate environment. However, we assess this is only a short-term factor, so MBB should improve the CASA ratio in the coming quarters and continue to maintain its leading position in the industry thanks to the SBV's lower policy rates. The advantage of a leading CASA also alleviates the pressure on the bank's NIM.

Loans related to real estate and corporate bonds

The total value of corporate bonds of the bank is VND45,469 billion (accounting for 8.6% of total credit balance). At the latest AGM, the management said that MBB's loan balance with Novaland Group (NVL) in 1Q decreased significantly compared to the end of 2022. NVL's projects are still being controlled. Credit and bonds with Trung Nam Group focus on renewable energy projects, and cash flow is still guaranteed. In general, with policies to support and remove difficulties for the real estate and renewable energy industry in recent years, we expect MBB will still control the quality of assets in this customer group.

The pressure from NPLs may increase towards the end of the year

1Q NPL witnessed a sudden increase, especially in special mention, substandard and bad debt groups. Special mention doubled that at the end of 2022. We see that the current difficulties of the economy will continue to affect customers' ability to repay loans, causing some special loans to be transferred to worse groups. NPL pressure on MBB is likely to increase later this year.

Forecast & valuation

Table 2. MBB – Forecast business results

(VNDbn)	2022	2023F	+/-%YoY2022	2024F	+/-%YoY2023	KBSV's notes
Net interest income	36,023	40,566	+12.6%	45,940	+13.2%	NII growth is supported by positive credit growth and stable NIM.
Net fee income	4,136	4,914	+18.8%	5,258	+7.0%	The forecast was downgraded due to weaker growth in 1Q NOI. Securities brokerage (MBS), bancassurance (MB Ageas) may modestly grow amid the difficult economy.
Total operating income	45,593	51,305	+12.5%	58,097	+13.2%	
Provision expenses	(8,048)	(9,387)	+16.6%	(12,908)	+37.5%	MBB increases provisioning, following a sharp increase in NPLs in 1Q.
Profit after taxes	18,155	20,401	+12.4%	21,325	+4.5%	
NIM	5.67%	5.47%	-19bps	5.43%	-4bps	NIM may slightly drop under the impact of high interest rates in 1H23. The COF pressure is eased after the SBV's interest rate reduction policy and the bank's leading position of CASA.
Average earnings yield	8.25%	8.53%	+28bps	8.41%	-12bps	
Average cost of fund	2.94%	3.47%	+54bps	3.35%	-13bps	
CIR	32.5%	32.0%	-50bps	31.9%	-10bps	MBB promotes investment in information technology and digital transformation.
NPL	1.09%	1.70%	+61bps	1.60%	-10bps	NPL ratio should rise because the bank's large corporate lending structure contains many risks. The debt quality also exacerbates.
Total assets	728,532	823,591	+13.0%	949,647	+15.3%	
Owner's equity	79,613	96,059	+20.7%	113,527	+18.2%	

Source: Military Bank, KB Securities Vietnam

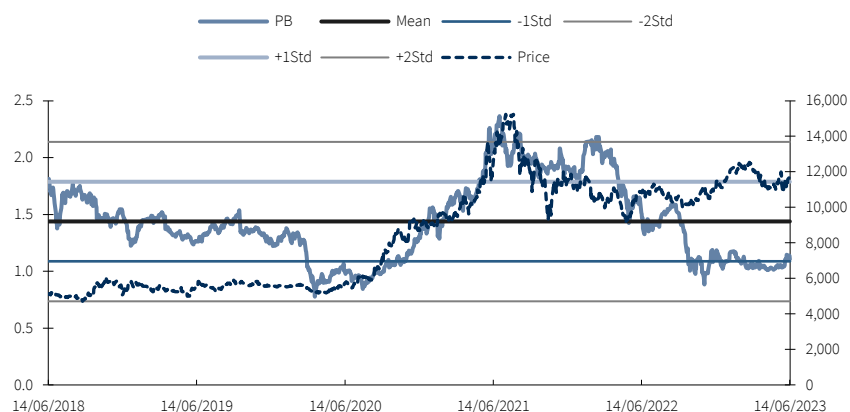
Valuation: BUY recommendation – target price VND27,900/share

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

- 1) P/B valuation method:
Currently, MBB's stocks are traded at P/B 1.1x. We maintain a target P/B in 2023 of 1.3x, equivalent to the average P/B from 2015 to present.
- 2) Residual income method:
In addition, we incorporate the residual income method to reflect systematic risks and long-term expectations.

Combining the two valuation methods above with a ratio of 50–50, we adjust and raise the target price for MBB stock to VND27,900/share, 42% higher than the closing price on June 15, 2023.

Fig 9. MBB – Stock price & P/B (VND, x)



Source: Bloomberg, KB Securities Vietnam

Table 3. MBB – Stock valuation according to residual income method

(VNDbn)	2023F	2024F	2025F	2026F	2027F
Profit after tax	20,401	21,325	23,573	26,671	31,185
Surplus profit	4,344	4,707	5,777	6,262	7,517
Cost of Capital (Re)	16.4%				
Growth (g)	3%				
Final Value	7,425				
Total Present Value (PV)	128,765				
MBB share value	28,400				

Source: KB Securities Vietnam

Table 4. MBB – Final valuation & target price (VND)

Valuation method	Forecast price	Weight	Price per weight
Residual income	28,400	50%	14,200
P/B	27,542	50%	13,771
Target price			27,900

Source: KB Securities Vietnam

MBB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	20,278	26,200	36,023	40,566	45,940	Loans	293,943	354,797	448,599	524,318	616,351
Interest income	32,767	38,465	52,486	63,259	71,096	Marketable securities	3,085	7,575	4,106	4,470	5,177
Interest expense	(12,490)	(12,265)	(16,463)	(22,692)	(25,156)	Cash (ex. Reserves)	3,109	3,475	3,744	4,527	5,244
Fees & commissions	3,576	4,367	4,136	4,914	5,258	Interest earning assets	466,734	574,482	697,256	785,552	905,362
Other non-interest income	1,680	3,254	2,142	2,145	2,429	Fixed assets & other assets	29,909	38,176	38,836	47,509	55,389
Total operating income	27,362	36,934	45,593	51,305	58,097	Total assets	494,982	607,140	728,532	823,591	949,647
SG&A expenses	(10,555)	(12,377)	(14,816)	(16,418)	(18,533)	Customer deposits	310,960	384,692	443,606	518,146	600,166
Pre-provisioning OP	16,807	24,557	30,777	34,888	39,564	Borrowings & call money/repos	51,131	68,886	98,581	123,753	144,731
Provision for credit losses	(6,118)	(8,030)	(8,048)	(9,387)	(12,908)	Interest bearing liabilities	412,983	513,400	607,335	698,936	804,959
Other income	2,809	4,211	3,026	3,095	3,352	Other liabilities	31,900	31,254	41,584	28,597	31,161
Other expense	(1,129)	(956)	(884)	(951)	(924)	Total liabilities	444,883	544,654	648,919	727,532	836,121
Pre-tax income	10,688	16,527	22,729	25,501	26,657	Charter capital	27,988	37,783	45,340	45,340	45,340
Income tax expense	(2,082)	(3,306)	(4,574)	(5,100)	(5,331)	Capital surplus	1,178	869	869	869	869
NP	8,606	13,221	18,155	20,401	21,325	Retained earnings	12,956	12,915	19,064	35,870	53,338
Minority interest profit	(343)	(524)	(672)	(874)	(1,136)	Capital adjustments	-	-	-	-	-
Parent NP	8,263	12,697	17,483	19,527	20,189	Total shareholders' equity	50,099	62,486	79,613	96,059	113,527

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	19.1%	23.5%	25.6%	23.2%	20.3%	EPS	2,952	3,361	3,856	4,307	4,453
ROA	1.9%	2.4%	2.7%	2.6%	2.4%	BVPS	17,901	16,538	17,559	21,186	25,039
Pre-provision ROE	30.0%	34.9%	34.6%	31.8%	30.2%	Tangible BVPS	17,447	16,140	17,197	20,760	24,539
Pre-provision ROA	3.0%	3.6%	3.7%	3.6%	3.6%	Valuations					
Net interest margin (NIM)	4.7%	5.0%	5.7%	5.5%	5.4%	PER	14.9	13.1	11.4	10.2	9.9
Efficiency						PBR	2.5	2.7	2.5	2.1	1.8
Pure Loan to deposit ratio	95.9%	94.5%	103.8%	104.0%	105.5%	Dividend yield	1.4%	1.4%	1.4%	1.4%	1.4%
Cost-income ratio	38.6%	33.5%	32.5%	32.0%	31.9%	ROE	19.1%	23.5%	25.6%	23.2%	20.3%
Growth						Capital Adequacy					
Asset growth	20.3%	22.7%	20.0%	13.0%	15.3%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	18.9%	20.7%	26.4%	16.9%	17.6%	Asset Quality					
PPOP growth	12.6%	46.1%	25.3%	13.4%	13.4%	NPL ratio (substandard)	1.1%	0.9%	1.1%	1.7%	1.6%
Parent NP growth	5.6%	53.7%	37.7%	11.7%	3.4%	Coverage ratio (substandard)	134.1%	268.0%	238.0%	158.9%	166.1%
EPS growth	-10.5%	13.8%	14.7%	11.7%	3.4%	NPL ratio (precautionary)	1.9%	2.0%	2.8%	3.5%	3.4%
BVPS growth	6.5%	-7.6%	6.2%	20.7%	18.2%	Coverage ratio (precautionary)	76.8%	122.0%	93.3%	77.2%	78.2%

Source: 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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