

Military Bank (MBB)

Credit stayed flat in 2Q22

August 30, 2022

Analyst Nguyen Duc Huy
huynd1@kbsec.com.vn

2Q PBT rose 75.8%YoY to VND5,986 billion

Military Bank (MBB) recorded 2Q NII of VND8,969 billion (+6.9%QoQ and +36.7%YoY) and non-interest income (NOII) of VND2,252 billion (-4.7%QoQ and -30.6%YoY). Provision expenses plunged 43.4% YoY to VND1,374 billion. 2Q PBT surged 75.8%YoY to VND5,986 billion thanks to less provision expenses, while TOI rose by a mere of 25.7%YoY.

Loan yield recovered, helping NIM improve by 13bpsQoQ to 5.74%

2Q costs of fund reached 7.99%, up 19bps QoQ, mainly supported by customer loans (+23bpsQoQ). Average earning yields rose slightly 8bps QoQ thanks to higher CASA in 2Q. Net interest margin (NIM) increased 13bps QoQ to 5.74%.

Credit and deposit were flat in 2Q

2Q credit and deposit growth were flat QoQ at 14.7% and 7.9% respectively as the bank reached the maximum credit room, and LDR was 75.4%.

NPL ratio in Q2 increased by 20bps to 1.2%.

2Q NPL ratio rose 20bps QoQ to 1.2%. Although the loan loss coverage ratio (LLCR) reduced to 221.4 %, is still among the top in the industry. Restructured debt balance at the end of 2Q was VND3.3 trillion (-29.8%QoQ).

Closing the right to receive a 20% share dividend on August 23.

MBB would issue 755.6 million shares to pay dividends at the rate of 20% and chose August 23, 2022 as the record date. It plans to make a private placement for Viettel, issue ESOP shares and offer 65 million individual shares.

BUY recommendation with a target price of VND37,300/share

Using P/B and residual income valuation, we recommended BUY for MBB stocks at a target price of VND37,300, 36.4% higher than the price on August 15.

Buy maintain

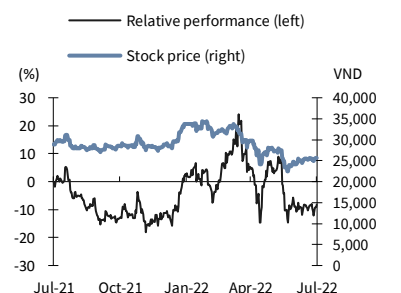
Target price	VND37,300
Upside (%)	36.4
Current price (Aug 15, 2022)	27,350
Consensus target price	39,800
Market cap (VNDbn)	101,070

Trading data	
Free float (%)	59.0%
3M avg trading value (VNDbn)	209.02
Foreign ownership (%)	23.24%
Major shareholder	Viettel (18.5%) SCIC (9.42%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0.6	6.4	-19.8	-13.3
Relative	-1.4	4.4	-2.2	-2.5

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	20,278	26,200	34,486	42,988
Pre-provision operating income (VNDbn)	16,807	24,557	29,830	37,726
NPAT attributable to parent (VNDbn)	8,263	12,697	17,796	22,238
EPS (VND)	2,993	3,362	3,768	3,924
EPS growth (%)	-16.8%	12.3%	12.1%	4.1%
P/E (x)	8.95	9.71	9.65	9.27
Book value per share	17,463	16,150	18,769	18,196
P/B (x)	1.53	2.02	1.94	2.00
ROE (%)	19.1%	23.5%	24.3%	23.7%
Dividend yield (%)	18%	35%	25%	20%



Business performance

2Q22 PBT rose 75.8%YoY to VND5,986 billion

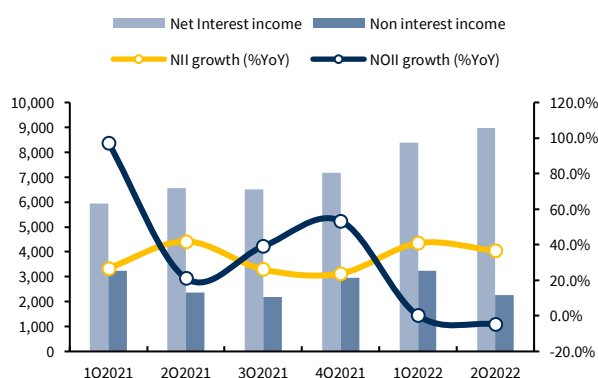
MBB recorded 2Q NII of VND8,969 billion (+6.9%QoQ and +36.7%YoY) and NOII of VND2,252 billion (-4.7%QoQ and -30.6%YoY). TOI still increased by 25.7% YoY to VND11,222 billion thanks to good growth of NII. Operating expenses also recorded a growth of 25.1%YoY. Provision expenses plunged 35.3% QoQ or 43.4% YoY to VND1,374 billion thanks to proactive provisioning in previous quarters. This is also helped PBT to spike 75.8% YoY to VND5,986 billion. 6M22 PBT reached VND11,897 billion, up 48.9% YoY.

2Q NIM increased slightly by 13bps QoQ to 5.74%

The average earnings yield showed signs of recovery in 2Q but was slow compared to the previous quarter. Specifically, 2Q average yield only increased by 19bps QoQ, lower than the increase of about 35bps in 1Q. We believe that the main reason is because the bank ran out of credit room right from 1Q, and 2Q credit was almost flat. However, the impressive credit growth in 1Q still ensures good asset yields for 2Q22. The promotion of exploiting retail customers and micro enterprises is expected to help MBB have higher profitability in the coming time.

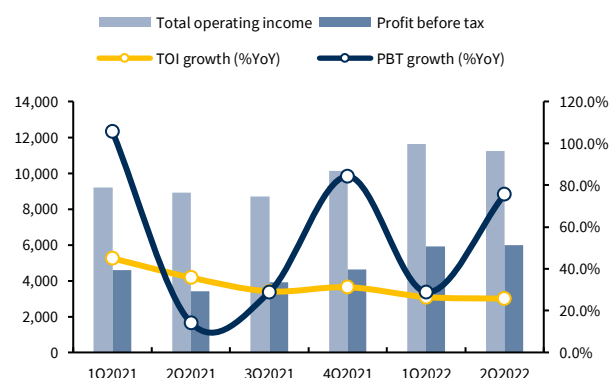
The average cost for capital mobilization gained 8bps QoQ mainly due to the increase in deposit interests. The CASA slightly improved 0.5% QoQ to 44.3%, which also had a positive impact on mobilization costs. MBB's CASA structure is still favoring corporate customers (accounting for 60%), mainly from the military ecosystem, but the growth rate is slowing down. CASA from individual customers tends to increase (+47% YTD) recently thanks to digitalization and promotions when opening bank accounts. The expansion of retail customer base will make MBB's CASA more sustainable.

Fig 1. MBB – NII & NOII growth (% YoY)



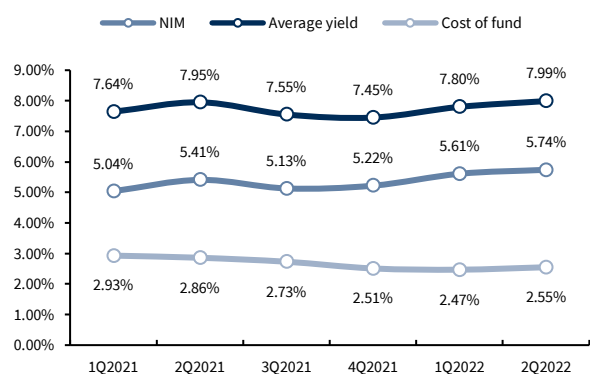
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – TOI & PBT growth (% YoY)



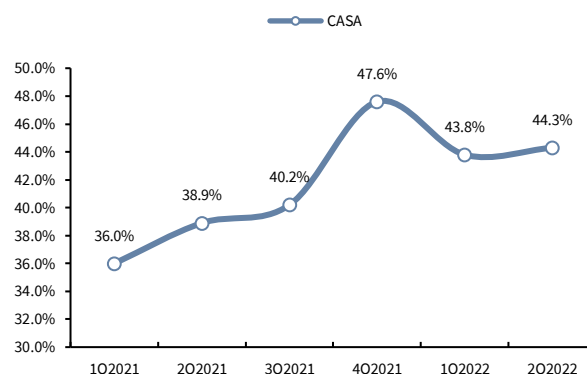
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – NIM growth by quarters (% YoY)



Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – CASA by quarters (% YoY)



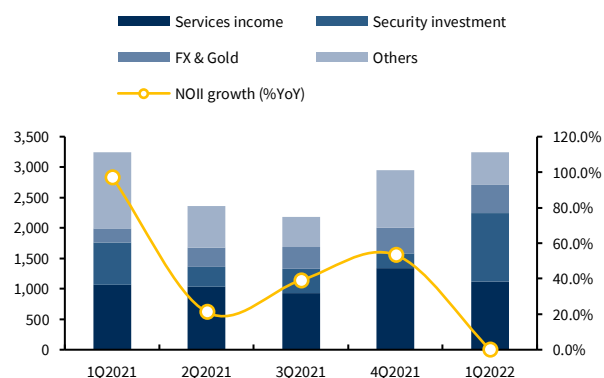
Source: Military Bank, KB Securities Vietnam

2Q NOII was down 30.6%QoQ to VND2,252 billion due to decrease in income from securities trading

The bank recorded VND1,010 billion in net fee income (NFI), down 30.6%QoQ and 4.6%YoY. The main contributors such as income from bancassurance contracts (VND1,030 billion, +11.2%YoY) and settlement activities (VND383 billion, +36.8%YoY) still maintained a good growth. However, the net income from brokerage services in 2Q dropped sharply by 78.1% YoY to only VND142 billion, so NFI did not grow as high as the same period last year. 6M22 NFI reached VND2,128 billion (+1.5%YoY).

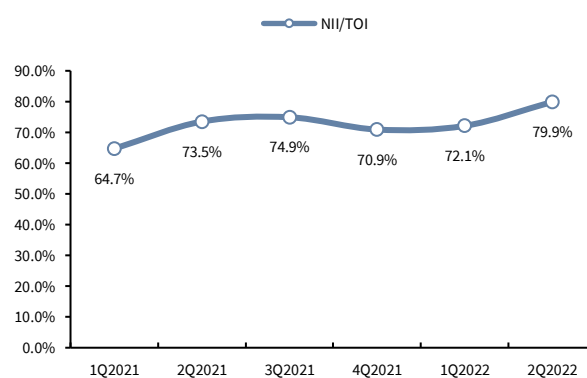
Revenue from foreign exchange and gold trading brought the bank VND472 billion (up 46.5% YoY). Net income from debt settlement decreased slightly by 4.2% YoY to VND486 billion. Revenue from capital contribution and share purchase reached VND120 billion. Meanwhile, securities trading and investment is more subdued as it brought in only VND83 billion, lower than VND329 billion in 2Q21 and much lower than VND1,124 billion in 1Q22. 1. As a result, 2Q NOII decreased by 30.6% QoQ to VND2,252 billion. The ratio of NOII to TOI fell to 20.1%, which is the lowest level in the past five quarters.

Fig 5. MBB – NOII structure (% YoY)



Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – NOII/TOI ratio (% YoY)



Source: Military Bank, KB Securities Vietnam

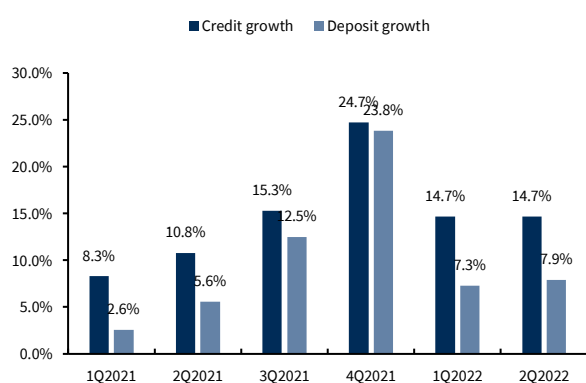
Credit growth faced difficulties when the bank ran out of credit room

MBB reached the maximum credit room right from 1Q, its lending activities in 2Q depend mainly on debts maturing in the period. The bank also actively directs credit resources towards customers with better repayment capacity and enhanced bad debt recovery. Outstanding loans to individual customers rose 1.34% YoY to VND201.6 trillion in 2Q but gained only 20.6% since the beginning of the year, raising the proportion of individual customer loans to total loans to 48.5%. The proportion of loans to corporate customers remained at 40.6% of the total outstanding loans, equal to about VND168.7 trillion (+11% YTD).

Barriers to investment in corporate bonds have made the bank's portfolio no longer grow as fast as in the past two years (+104% in 2020 and +51.8% in 2021). As of the end of 2Q this year, the bank still holds about 46 trillion corporate bonds, up 18.1% vs the beginning of the year and flat QoQ.

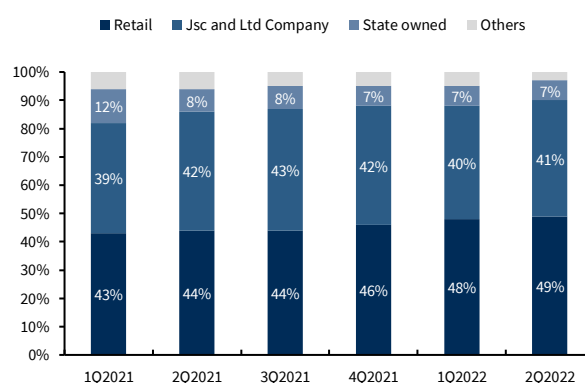
The demand for mobilized capital is also more limited due to (1) limited credit growth, (2) positive liquidity indicators (LDR is 75%, and the ratio of short-term capital for medium and long-term loans is still below regulation rate of 34% so the bank still has room to increase lending), and (3) high deposit growth in 1Q, which helped the bank secure loan capital. Total deposit by the end of 2Q was about VND551 trillion, up 7.9% from the beginning of the year and only a slight increase of 0.6% compared to 1Q. The main source of capital still came from the issuance of valuable papers (up VND19 trillion in 2Q), deposits from customers (up modestly 1.7%QoQ and 3.2%YTD), and mobilized capital from the interbank market (down 27.3%QoQ and up slightly 5.4%YTD).

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



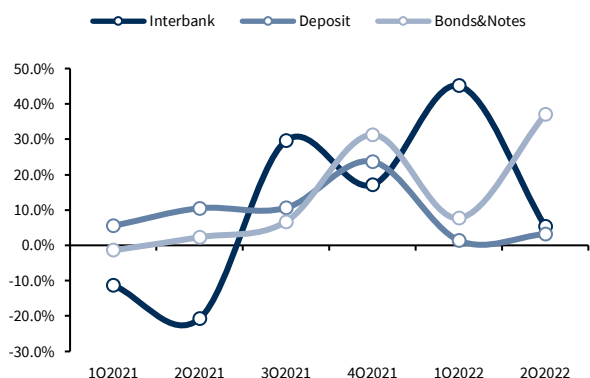
Source: Military Bank, KB Securities Vietnam

Fig 8. MBB – Credit structure (%)



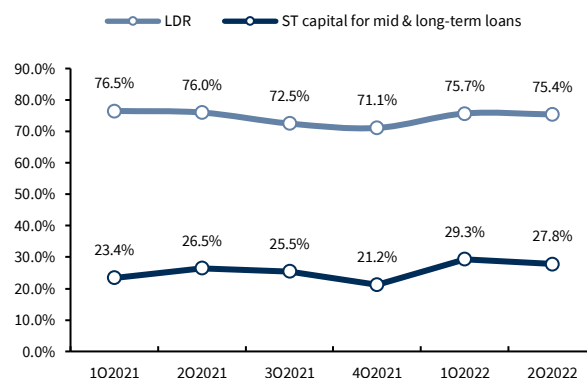
Source: Military Bank, KB Securities Vietnam

Fig 9. MBB – Funding structure (% YTD)



Source: Military Bank, KB Securities Vietnam

Fig 10. MBB – LDR and short-term capital for mid & long-term loans (%)



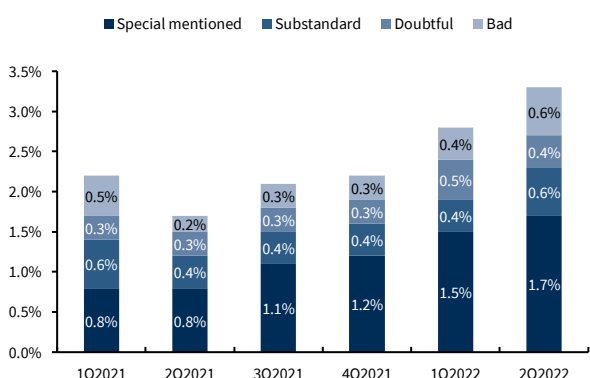
Source: Military Bank, KB Securities Vietnam

NPL ratio continued to increase to 1.2% in 2Q

NPL ratio increased by 20bps QoQ to 1.2%, of which NPLs of the parent bank accounted for 0.95% - in line with the target set out at the annual general meeting. Most debt groups increased compared to 1Q. Special mention debt rose VND809 billion QoQ (or 1.7% of total outstanding loans), while bad debt decreased VND370 billion QoQ but the decline was not large enough to compensate for the increase in substandard and doubtful debts which rose VND658 billion and VND558 billion respectively. The main factor that led to the rise in NPL is supposed to be the debt allocation. LLCR dropped from 250.1% in 1Q to 221.4% in 2Q, which is still well above the industry average of around 165%.

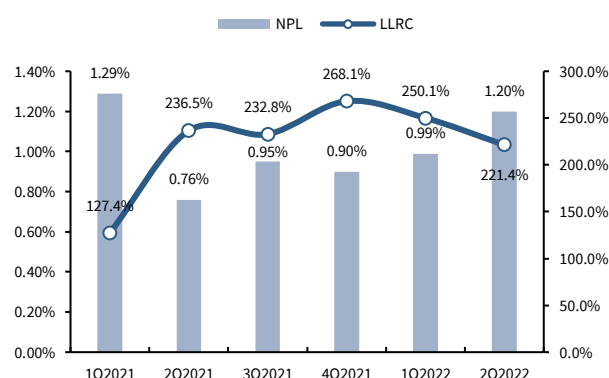
Restructured loan balance affected by the pandemic was about VND3.3 trillion by the end of 2Q, equivalent to 0.8% of total outstanding loans and down 29% QoQ.

Fig 11. MBB – NPL structure (%)



Source: Military Bank, KB Securities Vietnam

Fig 12. MBB – NPL & LLCR (%)



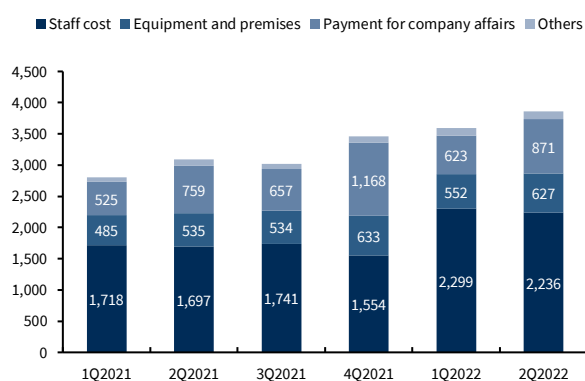
Source: Military Bank, KB Securities Vietnam

Salary costs increased sharply over the same period last year. Credit cost continue to decrease to 1.8% in 2Q

MBB recorded VND3,860 billion in operating expenses in 2Q, increasing 25.1% YoY due to higher personnel costs (+31.7%YoY). The acceleration of digitization and the improvement in the quality of human resources will make salary costs climb higher in the coming time. CIR at the end of 2Q was flat YoY at 34.4%.

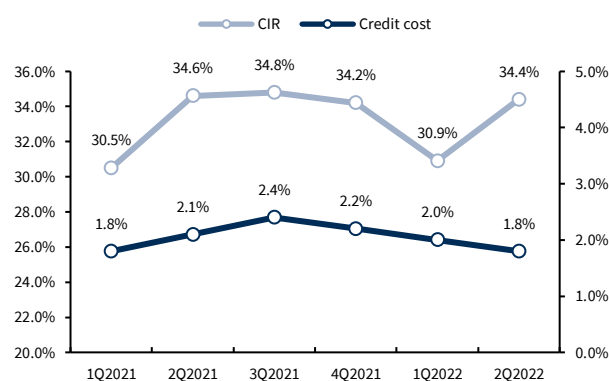
Provision expense in 2Q reached VND1,375 billion (-35.3%QoQ and -43.5%YoY), thereby easing pressure from increasing operating expenses. Credit cost tends to go down in recent quarters thanks to the bank's initiative in making provision for all restructured debt in 2021, which reduced the pressure of provision costs. Credit cost is forecast to continue to decrease in the second half of the year.

Fig 13. MBB – Operating expense structure (VNDbn)



Source: Military Bank, KB Securities Vietnam

Fig 14. MBB – CIR & credit cost (%)



Source: Military Bank, KB Securities Vietnam

MBB chose August 23 as the record date to pay stock dividends with the ratio of 20%

According to the plan approved by shareholders, MBB will issue 755.6 million shares to pay dividends at the ratio of 20% (each shareholder owning 100 shares will receive 20 new shares) and will choose August 23, 2022 as the record date. After the payment, the charter capital should rise from VND37,783 billion to more than VND45,339 billion.

The bank should also raise its charter capital to up to VND46,882 billion through (1) private placement of 70 million shares for VND18,000 per share to strategic investor Viettel (increasing the ownership rate to 20%) and issuance of 19.24 million ESOP shares to increase charter capital by VND892.4 billion as approved by shareholders in 2021 and (2) placement of 65 million shares to professional securities investors to increase charter capital by VND651 billion.

Forecast & valuation

Forecast business results in 2022

We make our forecast for MBB's 2022 performance as follows:

- We lower MBB's full-year 2022 credit growth to 22% because (1) the State Bank has not yet made any move to extend the credit room, and the extent of the extension may be only about 5%; (2) the bank would accept weak credit institutions from 2023, so it is difficult for it to receive a credit room of 30–35% this year; and (3) MBB would lower the growth rate of corporate bonds to have more room for lending (+24%YoY).
- 2022 NIM may gain 42bps YoY to 5.46% thanks to (1) a rise in average earnings yield (+44bps YoY to 7.84% after the expansion of retail customer base) and (2) a small gain in cost of funds (+7bps YoY) with the expectation of maintaining a high CASA ratio to help reduce pressure on deposit rates.
- 2022F NPL is 0.88%, slightly down 2bps compared to the end of 2021.
- Provision expenses for credit risks should be VND6,667 billion, down 17.0% YoY as the bank proactively made provision for fully restructured debt from 2021
- NPAT of the parent company in 2022 should increase 40.2% YoY to VND17,796 billion.

Table 1. MBB – 2022–2023F business performance

	2021	2022F	2023F	%YoY2022	%YoY2023
Net interest income	26,200	34,486	44,389	31.6%	28.7%
Net fee income	4,367	4,886	7,419	11.9%	51.8%
Total operating income	36,934	45,626	56,881	23.5%	24.7%
Provision expense	-8,030	-6,667	-9,406	-17.0%	41.1%
NPAT of the parent bank	12,697	17,796	22,490	40.2%	26.4%
NIM	5.04%	5.45%	5.76%		
Average earnings yield	7.40%	7.84%	8.19%		
Average cost of funds	2.66%	2.73%	2.80%		
CIR	33.5%	34.6%	32.0%		
NPL	0.90%	1.01%	0.92%		
Total assets	607,140	724,223	889,466	19.3%	22.8%
Equity	62,486	90,094	105,497	44.2%	17.1%

Source: KB Securities Vietnam

Valuation – BUY recommendation with target price of VND37,300 per share

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

(1) P/B valuation method (**Figure 15**):

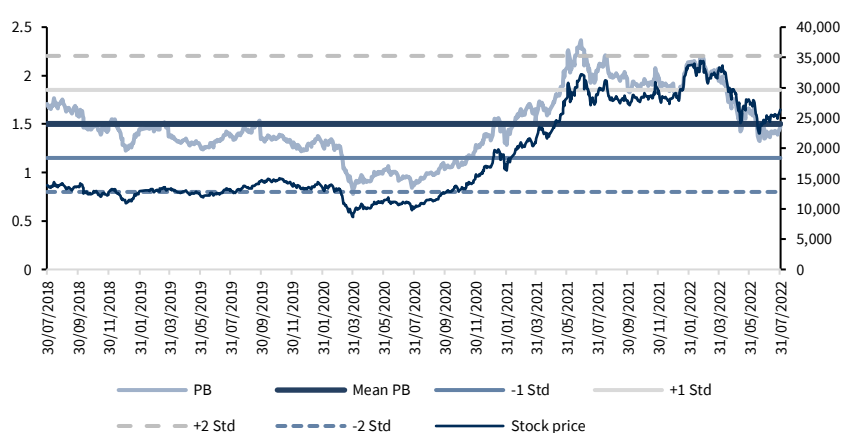
MBB owns a comprehensive financial ecosystem, has good asset quality, high operational efficiency, and records rapid growth over the years thanks to its leadership in digital transformation. The stock price has recently saw strong corrections with the general market amid investors' concerns about the tightening of real estate credit and the bond market, which will affect the profit of the bank. MBB's current P/B valuation is 1.47x – four years below the average. The bank's 1-year P/B forecast will be around 1.63x.

(2) Residual income method (Table 2):

In addition, we use method of discounting residual income to reflect systematic risks and long-term expectations.

Combining the above two valuation methods with the ratio of 50-50, we get the final fair price for MBB shares at VND37,300/share, 36.4% higher than the closing price on August 15, 2022. Some potential risks that may affect our forecast include: (1) The customer's ability to recover not good as expected, causing asset quality to decrease, (2) CASA not reaching the target due to peer competition, and (3) credit room extension lower than expected.

Fig 15. MBB – Share price & P/B (VND, x)



Source: KB Securities Vietnam

Table 3. MBB – 2022F performance according to residual income valuation

VNDbn	2022F	2023F	2024F	2025F	2026F
NPAT	18,795	25,155	29,512	35,317	41,728
Residual Incomes	5,852	9,639	9,839	10,646	11,170
Required rate of return (re)	13.5%				
Growth (g)	5%				
Terminal value	73,259				
Total present value (PV)	104,972				
Share price	43,933				

Source: KB Securities Vietnam

Table 3. MBB – Combination of two valuation methods

Valuation method	Forecast price	Weight	Weighted price
P/B	43,933	50%	21,967
Residual Income	30,685	50%	15,343
Target price			37,309

Source: KB Securities Vietnam

MBB – 2020A–2023F financials

Income Statement					Balance Sheet				
(B n VND)	2020	2021	2022F	2023F	(B n VND)	2020	2021	2022F	2023F
Interest and Similar Income	32,767	38,465	49,586	62,670	TOTAL ASSETS	494,982	607,140	724,503	877,937
Interest and Similar Expenses	(12,490)	(12,265)	(15,100)	(18,558)	Cash and precious metals	3,109	3,475	3,388	4,113
Net Interest Income	20,278	26,200	34,486	44,112	Balances with the SBV	17,297	38,051	15,487	19,142
Fees and Commission income	8,228	12,308	15,229	19,897	Placements with and loans to other credit institutio	47,889	35,983	76,821	85,425
Fees and Commission expenses	(4,653)	(7,941)	(10,343)	(12,478)	Trading securities, net	3,085	7,575	8,348	9,725
Net Fee and Commission Income	3,576	4,367	4,886	7,419	Derivatives and other financial assets	37	274	72	44
Net gain/(loss) from foreign currency and gold dea	786	1,331	1,719	1,616	Loans and advances to customers, net	293,943	354,797	438,007	550,787
Net gain/(loss) from trading of trading securities	85	221	335	259	Debts purchase	0	2	0	0
Net gain/(loss) from disposal of investment secur	866	1,446	1,569	1,334	Investment securities	99,714	128,806	138,982	160,107
Net Other income/(expenses)	1,680	3,254	2,535	1,775	Investment in other entities and LT investments	885	803	725	878
Dividends income	93	115	96	96	Fixed assets	4,311	4,678	5,072	7,463
Total operating income	27,362	36,934	45,626	56,611	Investment properties.	248	269	290	263
General and Admin expenses	(10,555)	(12,377)	(15,796)	(18,116)	Other assets	24,465	32,426	37,167	39,946
Operating Profit Before Provision for Credit Loss	16,807	24,557	29,830	38,495	LIABILITIES AND SHAREHOLDER'S EQUITY	494,982	607,140	724,503	877,937
Provision for credit losses	(6,118)	(8,030)	(6,335)	(7,050)	Total liabilities	444,883	544,654	634,144	770,388
Profit before tax	10,688	16,527	23,495	31,445	Due to Gov and Loans from SBV	15	262	0	0
Corporate income tax	(2,082)	(3,306)	(4,700)	(6,290)	Deposits and Loans from other credit institution	50,876	59,560	67,303	81,033
Net profit for the year	8,606	13,221	18,795	25,155	Deposits from customers	310,960	384,692	425,854	502,082
Minority interest	(343)	(524)	(745)	(997)	CBs/CDs and other valuable papers issued	50,924	66,887	103,675	141,620
Attributable to parent company	8,263	12,697	18,050	24,158	Other liabilities	31,900	31,254	37,312	45,653
					Shareholder's equity	50,099	62,486	90,359	107,549
					Charter capital	27,988	37,783	47,229	56,675
					Share premium	1,178	869	869	477
					Reserves	6,225	7,341	12,238	16,011
					Retained Earnings	12,956	12,915	30,023	34,386
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	2,993	3,362	3,822	4,263
					Book value per share	17,463	16,150	18,825	18,589
					Valuation ratio				
					PER	6.91	7.39	7.16	6.42
					PBR	1.18	1.54	1.45	1.47
					Dividend yield	18.0%	35.0%	24%	20%

Source: KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Utilities

Tieu Phan Thanh Quang – Analyst
quangtpt@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.