



Military Commercial Joint Stock Bank (MBB: HSX)



A “breath of fresh air” can make a breakthrough

FULL REPORT
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INVESTMENT HIGHLIGHT

Large customer base in the military ecosystem and the low funding cost are remarkable competitive advantages of MBB

Thanks to long-term relationships with military enterprises such as Viettel, Vinacomin, Saigon New Port, Vietnam Helicopter,... MBB has become the leading bank in terms of CASA, ranked 2nd in terms of average funding cost and among the top group of high profitability/assets with the results in 2018 of 33.5%; 3.48% and 1.83% respectively. This has been the biggest competitive advantage of MBB in the competition for credit market share and other activities.

Retail credit and Non-NII are the two main drivers for MBB operation

The growth in personal consumer loans focusing on mortgage loans and consumer unsecured loans at MCredit are two main highlights in the trend of shifting to retail credit. In addition, the boosting of Non-NII from life insurance with MB Ageas and payment activities will help the bank diversify revenue sources and minimize risks. These will be two important motivations for MBB's activities in the coming years.

The recent stronger transformation will become the new force of growth for the bank

We expect a stronger transformation of MBB as it took place in 2018 under the leadership of the first CEO in the history of the bank not coming from the military. Although the cautious view is still a top priority at MBB, we expect this change will help MBB quickly expand NIM and boost profit growth compared to previous years.

We recommend BUY based on the attractive valuation of MBB both in the short and long term

Although short and medium-term risks are coherent, we still have a positive view on MBB stocks thanks to its relatively low valuation while possessing good asset quality and potential growth higher than the industry average. We recommend to **BUY** MBB shares with a target price of VND 29,400/share, 31% higher than the market price at the time of valuation.

Buy

Target price	29,400VND
Up/Down	31%
Current price (25/02/2019)	22,450VND
Target price	29,400VND
Market cap	47,638 bil VND (2.06 bil USD)
Exchange rate on 13/02/2019: 1USD=	23,150 VND

Forecast revenue and valuation

	2018A	2019F	2020F	2021F
NII (bil VND)	14,584	18,503	20,961	23,597
Growth rate (%)	30.0%	26.9%	13.3%	12.6%
Total operating income (VND bn)	19,538.91	24,554.85	27,593.36	30,957.26
CIR (%)	44.7	45.0	46.0	45.0
Net profit (VND bn)	6,190	8,196	9,051	10,465
Growth speed (%)	77.34	32.41	10.43	15.62
EPS (VND thousand)	2,865.1	3,793.7	4,189.4	4,843.9
BVPS (VND thousand)	15,817.5	19,611.1	23,800.5	28,644.4
P/B	1.42	1.14	0.94	0.78

Trading data

Outstanding share volume	2,160,451,381
10-session average trading volume	7,568,575
% foreign ownership	20%

% of price change

(%)	1M	3M	6M	12M
MBB	4.26%	6.01%	-7.74%	-19.4%
VN-INDEX	8.6%	7.17%	-0.49%	-11.4%



Source: Fiiopro, KBSV

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OVERVIEW

History of development

MBB was founded on November 1994 with the initial purpose of building a credit institution to serve military enterprises. The current CEO of MBB is Luu Trung Thai, who was appointed in early 2017, and the one of a few leader not coming from the military



Balance sheet scale

MBB is currently ranked 6th in charter capital among listed banks with VND21,605 billion, 5th in EBT of 2018 with VND7,767 billion (up by 1 level compared to 2017). Meanwhile the total assets on December 31, 2018 reached VND362,361 billion, also ranked 5th in the whole system and 10.6 times higher than equity, lower than the industry average and a relatively safe leverage level.

Operating scale

MBB has currently operated with 285 branches and transaction offices, including 2 foreign branches in Laos and Cambodia, and 1 representative office in Russia. The two main operating areas are still Hanoi and HCM with 68 and 48 transaction locations respectively (accounting for 40%). The number of staff by the end of 2017 was 13,094, gaining 23% from the previous year.

Credit and deposit market shares (Figure 2)

Considering the listed banks, credit and deposit market shares by the end of 2018 of MBB are estimated at 4.7% and 4.2%, respectively, ranking 3rd and 2nd in private commercial banks, which showed that the bank's operating scale can be classified into the top group in the banking system.

Credit rating

In 2018, MBB's BCA credit rating was upgraded from B2 to B1 by Moody's with a "stable" outlook, equal the national rating. Furthermore, Fitch has also increased MBB's rating from B (2016) to B+ with a "stable" outlook.

Ownership structure & Operating model

Ownership structure (Figure 1)

Currently, three SOEs including Viettel, SCIC and Vietcombank hold a total of 31.32% of MBB shares. If combined with other major shareholders including

many big names such as Maritime Bank, Norges Bank, Dragon Capital..., the current holding rate is about 66%. The maximum permitted percentage of foreign investors' holding is 30%, but MBB is currently limiting foreign room at 20%, and waiting for ideal strategic investors to raise capital. By last 2018, VCB successfully reduced its ownership rate at MBB from 6.97% to 4.98% to meet the SBV's regulations. By the end of January 2019, MBB announced plans to buy back 108 million treasury shares from non-distributed NPAT, nearly equal to the remaining ownership of VCB at this bank.

Operating model (Table 1)

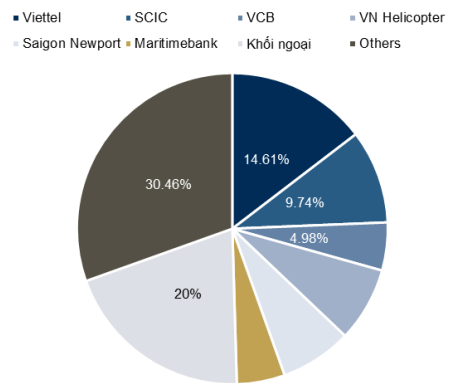
In addition to the core business field of mobilizing deposits, lending and providing traditional banking services, MBB also owns many subsidiaries providing a variety of other financial services, especially: MBS (Securities services) in the Top 5 of brokerage market share; MIC with non-life insurance; MB Ageas providing life insurance is a joint venture between MBB and Belgium's Ageas insurance group and Muang Thai Life Assurance of Thailand; Mcredit is a joint venture with Japan's Shinsei Bank, providing consumer finance products. In 2018, MBB divested from MB Land Holding operating in the real estate investment, and is no longer the holding company in this enterprise.

Table 1: MBB operating model (last 2017)

Member Company	Industry	MBB's ownership (%)	Charter Capital (VND Bil.)
MB AMC	Asset Management Company	100	1,083
Mcredit	Consumer Finance	50	500
MB Capital	Asset Management	90.77	324
MB Securities	Securities Services	79.52	1,221
MIC	Non-life Insurance	69.58	800
MB Land Holding	Real-estate Investment	65.29	654
MB Ageas Life	Life Insurance	61	1,100

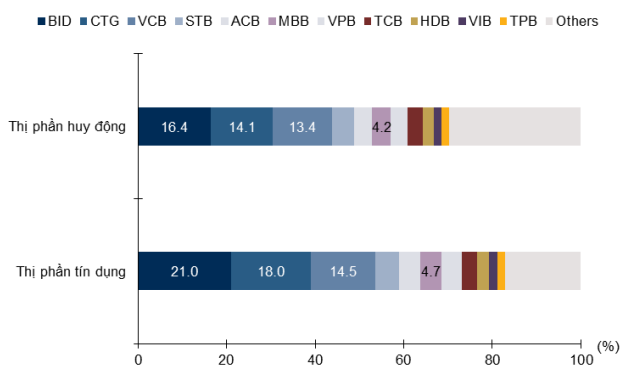
Source: MBB; KBSV Research

Figure 1: MBB ownership structure last 2018



Source: MBB; KBSV Research

Figure 2: Credit and deposit market shares



Source: SBV; Financial statements; KBSV Research

Picture 1: MBB ecosystem



Source: MBB; KBSV Research

Private enterprises lending still took a large proportion. Individual lending saw dramatic growth, while SOEs lending stayed flat

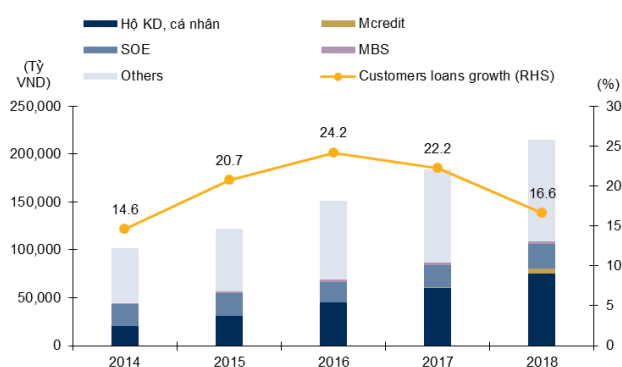
BUSINESS MODEL

Credit structure

MBB loan portfolio can be divided into three big groups: Individual lending; SOE lending and private enterprise lending, in which:

- Individual: Accounted for 37.7% total loans in 2018 (equal to VND81,011 bn, and increasing from 12.4% in 2012), and is the core segment to boost credit growth of MBB in recent years. In particular, 50% of it was mortgage loans to buy houses, 20% to buy cars, and the rest was loans to MCredit (about 7%), MBS (about 3%), credit card loans and others.
- SOEs: Due to its nature as a bank owned by the military (directly under the central government), the proportion of loans to SOEs of MBB is much higher than other private commercial banks (reaching 11.7% in 2018). Although the loan balance is still maintained annually at over VND 20,000 billion, with the rapid growth in other segments, we believe that the proportion of loans to SOEs will continue to decrease gradually as in the past years (Figure 4.)
- Private enterprises: Despite decreasing proportion and growth speed, this segment still accounts for the largest portion in the total outstanding loans (50.6% in 2018). The main industries are automobile and motorbike retails and wholesales (VND52,771 bn – 25%); Processing and manufacturing industry (VND36,304 bn – 17%); and Real estate construction & investment (VND25,678 bn in total – 12%).

Figure 3: Customer credit growth



Source: MBB; KBSV Research

Figure 4: Customer credit structure



Source: MBB; KBSV Research

MBB had positive activities in both market 1 and 2

Mobilization structure

The size and proportion of deposits on the interbank have increased continuously since 2014, after the market interest rates were stabilized. MBB is a high-ranking bank in the market 2, so the bank arbitrage activities are quite significant, especially when the Government bond yields continue to fall until mid-2018, which creates favorable conditions for this activity. However, with the interest rate in the upward trend after hitting the bottom and the tendency to allocate more capital for credit activities, it is likely that MBB's activities in the market 2 will be more difficult in 2019.

Besides, the amount mobilized from CDs has also risen for the last two years, corresponding to the increase in outstanding loans at MCredit. We believe that the proportion of deposits on this channel will continue to catch up with the consumer credit growth of MCredit.

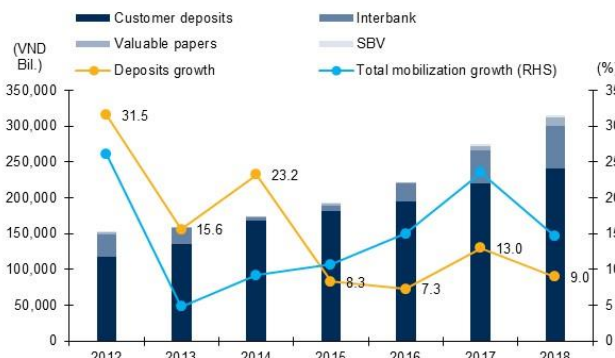
The military ecosystem remained the main advantage of MBB in attracting deposits from corporations,...

In terms of deposit customers, in general, corporate customers are still the most important source of deposits at MBB with large military customers such as Viettel, Vinacomin, and Saigon New Port. This is not a typical structure in the prevailing trend towards retail banking with the main deposit proportion coming from individual customers. However, we think that this is a special advantage of MBB that not all banks have. The focus on setting the best transaction and money management system to serve this customer group, combined with the technology support from Viettel, is enough to help MBB maintain this advantage.

... however, it seems that MBB is not very reflex in the individual customer segment which has a great potential growth

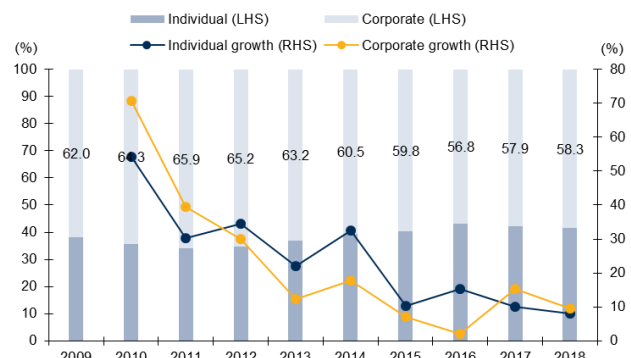
In addition, we assess that MBB skipped a segment with great potential - individual customer group as deposits from this group showed signs of a slight fall in both proportion and growth rate. In response to the needs of these customers, it will require the bank to be more dynamic and have larger understanding of customers, which we think MBB is not doing as well as other strong competitors such as TCB, VPB, and VIB.

Figure 5: Deposit structure by products



Source: MBB; KBSV Research

Figure 6: Deposit structure by customer types



Source: MBB; KBSV Research

BUSINESS STRATEGY

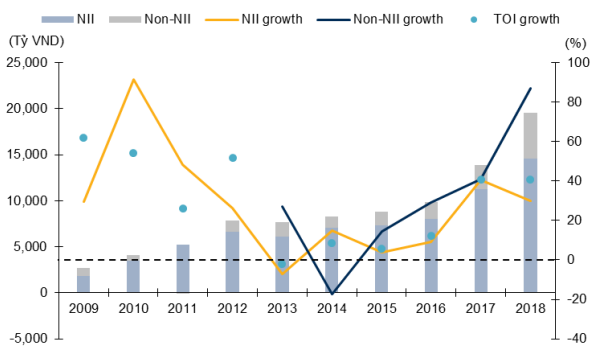
Raising risk tolerance level after prudent period

Before 2017, NII saw a comparatively low growth compared to other same-size banks (TCB, VPB, ACB) though the general market was quite potential. However, improvements were achieved in 2017, shown by a strong credit growth led by retail credit, focusing on individual customers and private enterprises, thereby enhancing NII growth. Meanwhile, Non-NII has outperformed NII since 2015 with CAGR of 40.5%, which helped Non-NII to increase strongly, especially up to 25.4% TOI in 2018.

It can be seen that MBB's business orientation before 2017 was always prudent, based on a competitive advantage of low-interest loans to take advantage of low-cost capital, but has changed more strongly for the last two years after the two sector's trends were clearly identified, including: 1) Retail credit growth with the main force of mortgage loans; 2) Diversify revenue sources from non-interest activities.

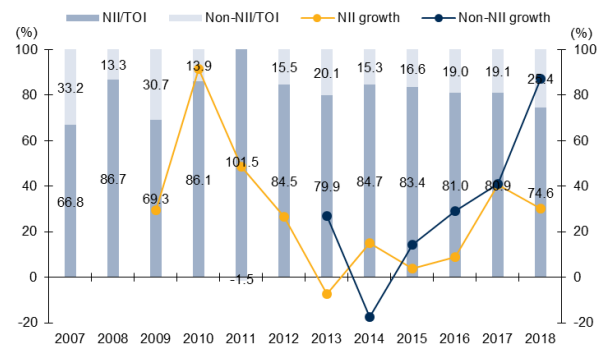
Therefore, we assess that MBB is not a bank that is prone to lead the market, but has gradually changed in a dynamic and higher risk tolerant direction since the new CEO was appointed.

Figure 7: TOI growth



Source: MBB; KBSV Research

Figure 8: TOI structure movement



Source: MBB; KBSV Research

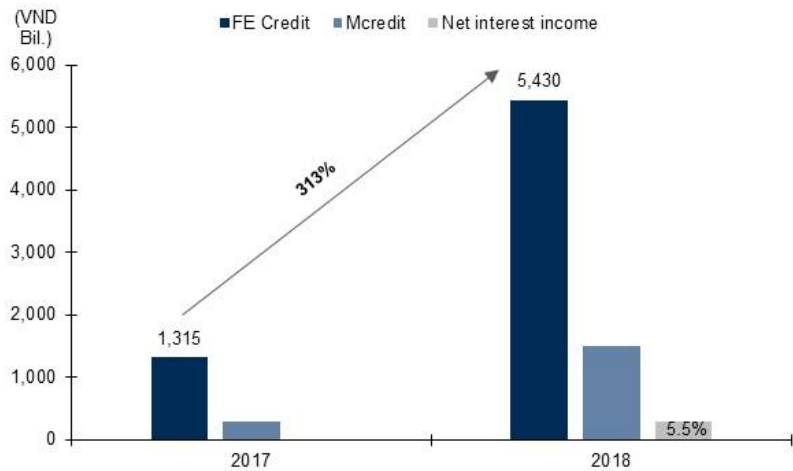
Retail credit is the leading channel in the whole strategy

Although retail credit has continuously grown in both outstanding loans and proportion since 2013, it has really surged since 2017 and is the most important driving force in the bank's growth. In particular, the largest contribution to credit growth is mortgage loans to buy residential houses, with a proportion of about 50%, followed by the purchase of cars, credit cards, and securities. Since 2017, MCredit has emerged with unsecured consumer credit. In 2019, MBB also determines to promote the credit card segment thanks to more attractive NIM than the remaining channels.

MCredit is a strategic step of MBB after the bank cooperated with Japan's Shinsei Bank at the end of 2016. In 2018, this outstanding loan was 4 times higher than that in 2017, reaching VND5,430 billion. Also in 2018, MBB intended to double the loan of this segment, but it was still a low level compared to the total outstanding loan (<5%), and to the size of other consumer finance companies such as FE Credit or HD Saigon. Although MBB has entered a business field with higher risk, based on the company's business strategy, we assess that MBB still highly values the prudence of risk control, instead of following the strategy of booming growth as FE Credit has done.

The attractive growth of the real estate market, and the consumer demand in the past two years has made the bank, which used to be prudent in lending, change is direction. This has been expressed most clearly through two indicators: Net LDR (continuously increasing from 60% in 2014 to 89.5% in 2018); and the proportion of long-term credit (continuously gaining from 21.78% in 2013 to 34.49% in 2018). We believe that this uptrend will continue to be maintained based on MBB's positive views on macro economy and market, but the risk that the bank may face will be greater, which will be analyzed further in the following section.

Figure 9: Mcredit business performance

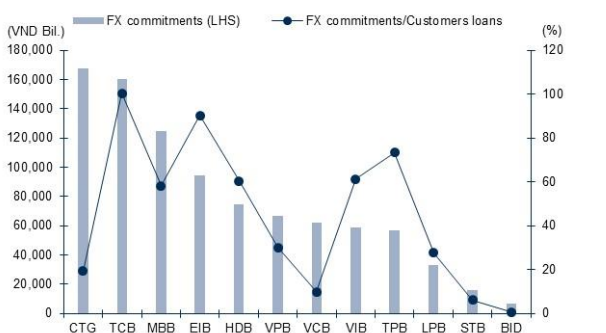


Source: MBB; KBSV Research

Wholesale credit is maintained stable, focusing on developing revenue sources from fees

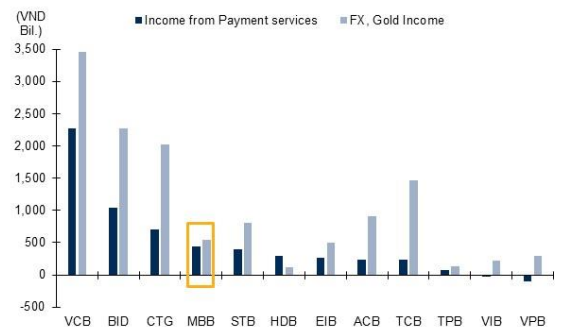
Credit for SOEs has not changed significantly since 2014, while credit for private enterprises continues to grow. We believe that this trend will be maintained in the next years, based on the orientation of promoting private economy in Vietnam, tightening credit risk control for SOEs, and providing better yields for private customer segment. In addition, despite a slowing growth in 2017 (7%) due to gradual shrinking industries such as construction, real estate investment and transport - warehousing, we believe that the private enterprise segment will likely grow positively again, with a shift to focus on industries that create more added value. In particular, the manufacturing – processing, and automobiles - motorcycles trading will be the two main segments, agriculture and fisheries will temporarily not be promoted at MBB.

Figure 10: FX commitments



Source: MBB; KBSV Research

Figure 11: Trade finance and FX activities comparison



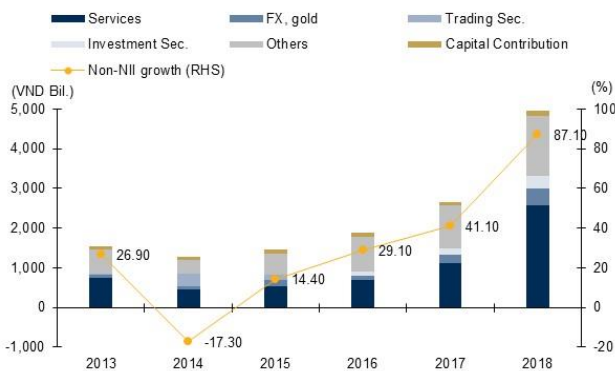
Source: MBB; KBSV Research

Boosting non-interest revenues according to the general trend of the market

Non-NII has gained since 2015 with the speed increasing year by year, especially surging in the last two years, in line with the general trend of the whole industry. The largest contribution to the dramatic growth in the last two years came from service incomes and other incomes (mainly reversals of bad debt), in addition, income from foreign exchange activities was also improved.

- **Insurance:** Given the great potential of Vietnam insurance market, since last 2016, MBB has cooperated with the insurance corporations Ageas from Belgium and Muang Thai Life Assurance from Thailand. After that, MB Ageas was established to operate in life-insurance field. The immediate strategy of MB Ageas is to develop bancassurance, make use of the big distribution system of MBB – Viettel to gain market share quickly. Starting from the 18th, but MB Ageas has currently risen to the 2nd in the market in terms of revenue from bancassurance fee. The company expects to break even in 2019, and starts to record some small interests. We think this is a feasible plan, based on MBB’s impressive performance.
- **Payment & FX:** With the strengths in state ownership, large relationship network of military enterprises, and long-year experience in trade finance business, MBB can boost sources of fee applied in other activities, such as: foreign exchange transactions, payment services, cash management for businesses and L/C related activities. Additionally, the personal customer segment still has much room to be exploited. However, we do not highly appreciate MBB’s dynamic feature in developing electronic services for personal customers, which might be a risk in the future due to the fierce competition in this segment.

Figure 12: Non-NII growth



Source: MBB; KBSV Research

Figure 13: Non-NII structure



Source: MBB; KBSV Research

INVESTMENT HIGHLIGHT

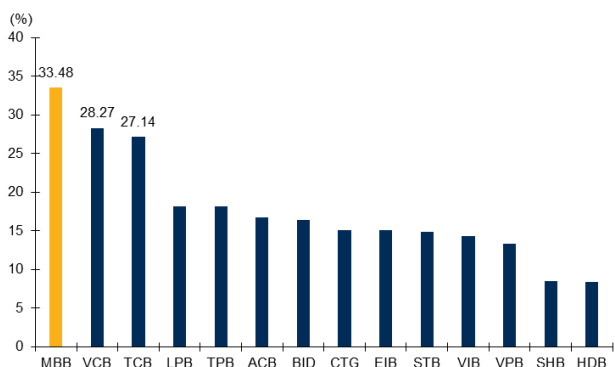
We suppose that all of the investment highlights in MBB come from the advantage of military ecosystem. Large shareholders like Viettel, Vietnam Helicopter, Saigon New Port, SCIC,... and many other involved military enterprises help to ensure the sustainability of available competitive advantages of MBB in the near future to be at least.

Low cost of capital remains the bank's biggest advantage

MBB remains its No.1 position in CASA/customer deposit in 2018, sees stable growth compared with 2017, and far exceeding competitors at lower ranks. If including margin deposit with interest rates of 2 – 4%, the capital cost is low, accounting for 40% of the total customer deposit, which is very high in the sector. MBB achieves this special advantage thanks to large customer base from military enterprises, thereby developing products to meet the demand of this group such as salary payment services for Viettel, or tax collecting services for Vietnam Customs and State. Although individual deposits have been enhanced, the volume of deposit from corporate customers is still the most important deposit source with 58 – 65%.

Therefore, the average capital cost of MBB is still maintained at the 2nd lowest position in the sector (3.48% in 2018), only higher than VCB (as VCB business scale is much larger than that of MBB). As a result, the room for NIM extending of MBB is much higher than the others, although NIM in 2018 of MBB was the highest in the banking system if VPB with high-risk business model is excluded. Although there are concerns about persistent competition may take away some of MBB's traditional customers, we still believe this advantage will be maintained in the short and medium term.

Figure 14: Comparison of CASA in different banks 2018



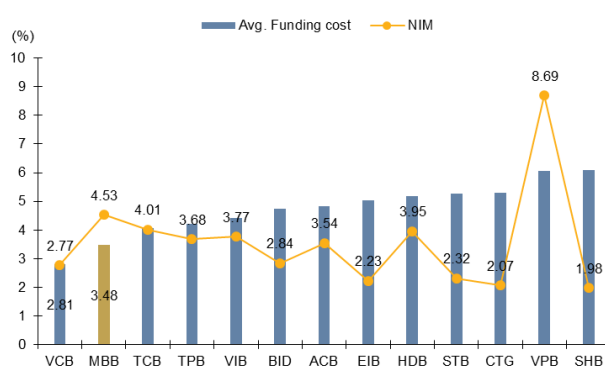
Source: Banking financial statements; KBSV Research

Higher risk tolerance is the fundamental for NIM extension and revenue growth

Despite having low input capital cost and large room for NIM extension as mentioned above, MBB only made use of this advantage to raise NIM from 2015 (Figure 16), through the gradual increase in the average lending interest rate when moving towards higher risk tolerance on some credit segments. The two segments have been and will continue to be the main contributors to NIM improvement including:

- 1) Secured consumer loans:** In which loans to buy houses made the largest proportion as mentioned above. We believe that the room for development of this segment is still abundant as the proportion of loans

Figure 15: Comparison of average deposit costs in 2018



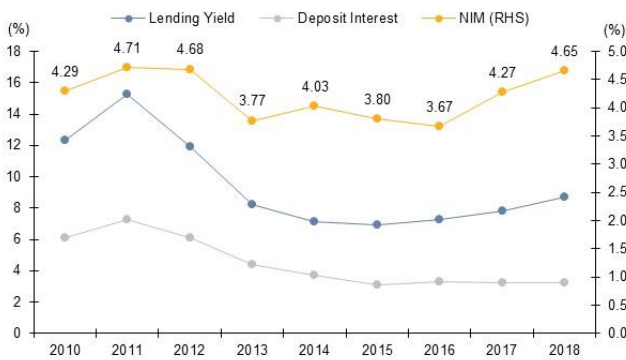
Source: Banking financial statements; KBSV Research

to buy houses at MBB is at a safe level (18%) compared to the sector average. In addition, MBB is stimulating credit card segment (currently about 10% outstanding loan), with NIM much better than that of other segments (about 20%).

2) Unsecured consumer loans: Although the proportion of this segment is quite low (about 2.5% in MCredit) and has prudent business strategy, this segment will continue to have positive impacts on NIM as in 2018 due to high NIM (about 30%) and good growth.

We suppose that the two segments still has room to expand, at least with the positive forecast of economic growth in 2019. With its "bolder" direction, MBB can take advantage of the opportunity to expand NIM.

Figure 16: NIM and average interest rate movement



Source: MBB; KBSV Research

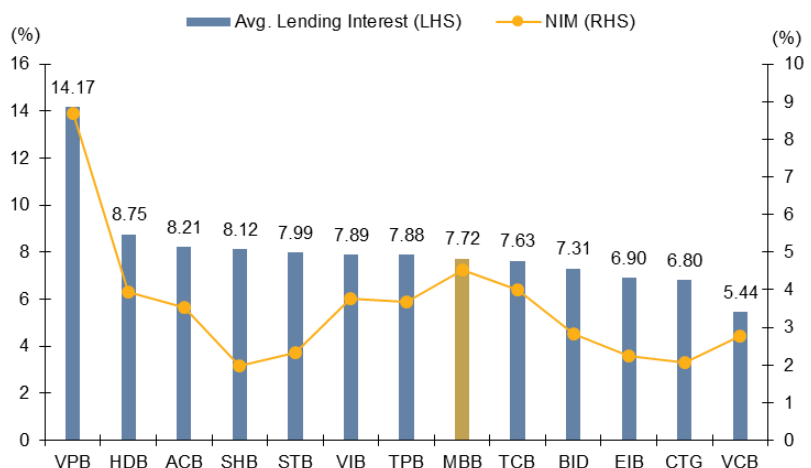
Figure 17: Credit growth by sector



Source: MBB; KBSV Research

The basis for assuming that NIM has room to expand despite being at the highest level of the sector (excluding VPB) comes from the average lending interest rate of MBB (7.72%), which is relatively lower than many banks with the same business orientation such as VIB, ACB, HDB. In particular, the average lending interest rate for retail segment is still lower than the level in some banks with strength in this segment (according to our survey). Furthermore, with the strength of sustainable low cost of capital, MBB can gradually increase its lending rates without losing its competitiveness.

Figure 18: Comparison of NIM and the average lending interest rates

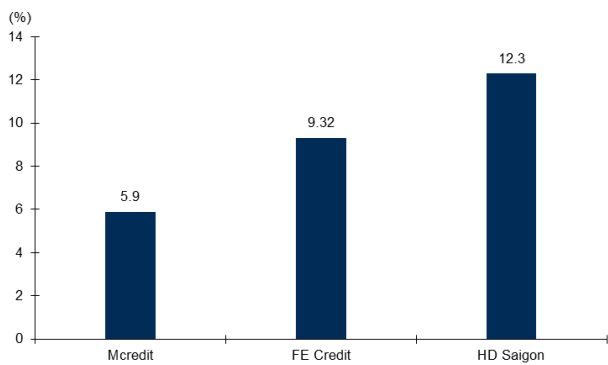


Source: MBB; KBSV Research

Non-NII revenue is expected to have a strong growth

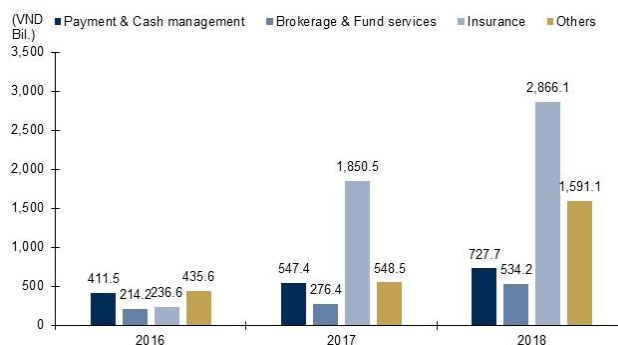
- **Insurance:** Although there has been no interests recored after two years of foudation, MB Ageas has showed an impressive competitiveness thanks to the experience of the two foreign partners combined with MBB’s strong distribution channel. The revenue from insurance fees via banking channels reached about VND2,800 bn in 2018, up by more than 50% yoy, and accounted for 80% the total APE (Annual Premium Equivalent) revenue of MB Ageas. We believe that MBB can maintain this growth, and break even in 2019, one year earlier than the plan.
- **Foreign exchange:** Revenue from foreign exchange activities of MBB witnessed an impressive growth in recent years due to making good use of corporate customers in the military ecosystem. This can be considered a sustainable revenue source of MBB as there is over 70% from arbitrage and only 20% of other trading activities with higher risks.
- **Payment services:** Payment services have not achieved a strong growth corresponding to the advantage of large customer base which is available in MBB. In the short term, the bank may maintain the stable growth momentum from the recent years, but in the long term, more time is needed for further assessment of changes in MBB strategy.

Figure 19: Average deposit cost of financial institutions



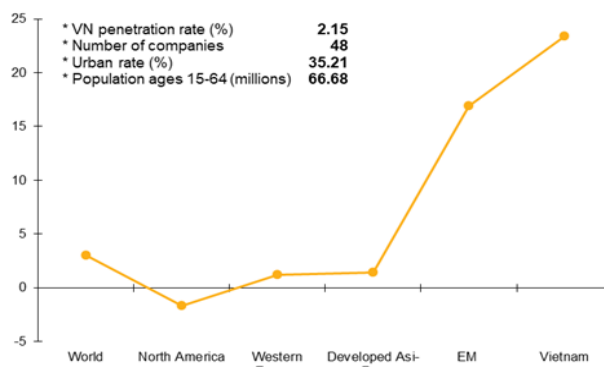
Source: MBB; VPB; HDB; KBSV Research

Figure 20: Movements in revenue from Non-NII activities



Source: MBB; KBSV Research

Figure 21: Vietnam insurance sector potential growth



Source: EY report on Global insurance trend 2018, World Bank, KBSV Research

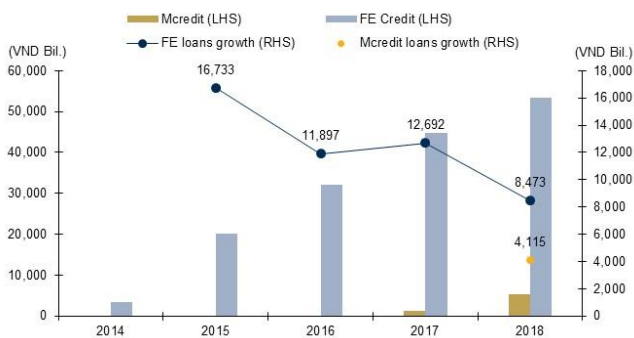
The prudent viewpoint still exists in every business decision, making

Although the bank’s strategy is somewhat bolder recently, we think that the prudent viewpoint is dominant in all MBB’s business decisions, inferred from:

MBB one of the safest banks in the system.

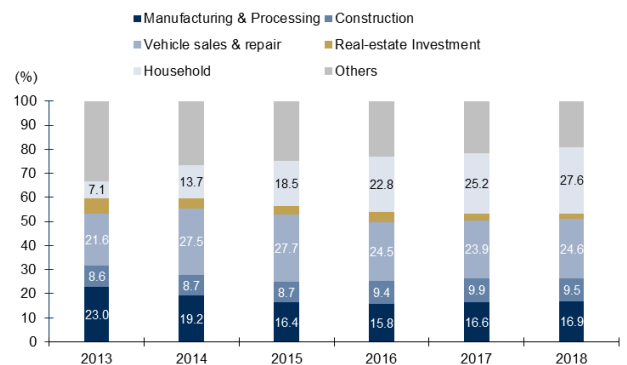
- **MCredit:** The 2019 plan is to double the outstanding loan at FE Credit, but in comparison with FE Credit, the absolute increase in scale is still quite low, especially in the first phase of market penetration. Regarding the target customer and market, while FE Credit is strongly deployed in rural areas, provinces and cities outside Hanoi and HCM, MCredit concentrates mostly only in these two regions. We believe this is a lower risk area thanks to better credit and loan control capabilities, along with MCredit's loans being focused on motorbikes and mobile phones, electronics, which is a less risky segment than unspecified cash loans. Finally, MCredit's method of approving loans is also stricter than other rivals, reducing the risk of bad debt.
- **Credit allocation:** Although lending to buy residential houses is one of the main drivers for growth, the proportion of this segment is still maintained at a safe level. In addition, the proportion of direct credit for real estate investment is also low and gradually shrinking (Figure 23), while the main allocation is still for the sectors of processing, manufacturing and automobiles and motorbikes trading, and SMEs.
- **Diversification of revenue sources:** MBB is not an exception in the MBB is not an exception in the general trend of Vietnam's banking industry which is diversifying non-interest income sources, reducing dependence on credit which is sensitive to economic movements. MBB has currently owned many sustainable non-interest income sources such as insurance, foreign exchange, payment and securities. We believe that these segments will be developed evenly in 2019, along with credit growth.

Figure 22: Comparison of outstanding balance between MCredit and FE Credit



Source: MBB; VPB; KBSV Research

Figure 23: Credit allocation by sectors



Source: MBB; KBSV Research

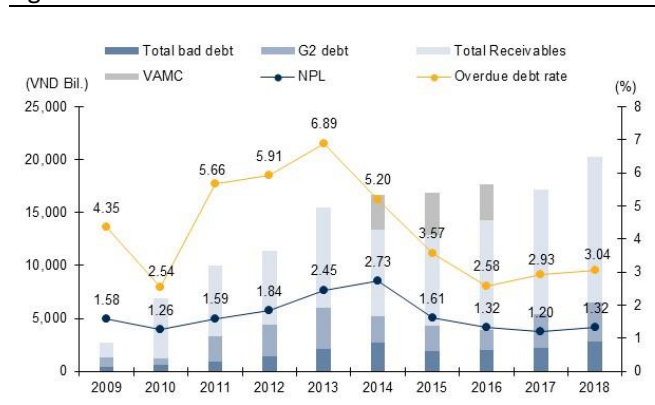
FINANCIAL ANALYSIS

Asset quality

There are not many signs of risks in MBB asset quality

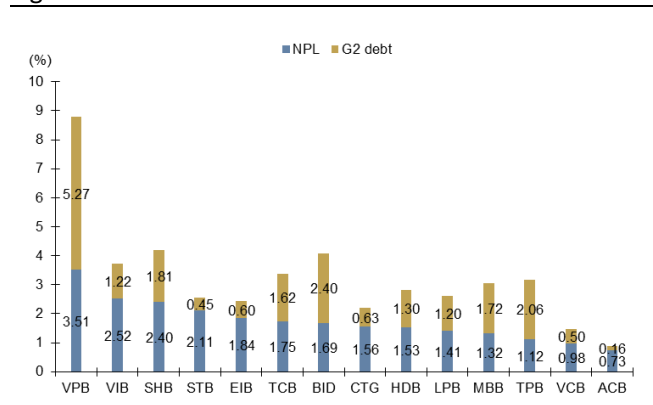
In general, although the total troubled assets/total outstanding loans ratio is only at the sector average, it shows a clear improvement trend after 2012. Specifically, despite inching up to 1.32% in 2018, NPLs of MBB have been kept at a safe level compared to the industry average. The provision of all VAMC bonds in 2017 will partly reduce the pressure on future costs, and keep the proportion of troubled assets at a moderate level. Besides, although the overdue debt/total outstanding loans ratio has gradually increased since 2016, it can be explained by the promotion of real estate loans, unsecured loans with insignificant increases.

Figure 24: Troubled assets in MBB



Source: MBB; KBSV Research

Figure 25: NPLs at different banks



Source: Banking financial statements; KBSV Research

The quality of interests and receivables is also continuously improved with the number of interest and fee collection days reducing from 52 days in 2013 to just over 20 days in 2018, this is a quite good level compared to the sector and equivalent to the term criteria of debt group 2. In addition, the ratios of these receivable to total outstanding loans (1.6%) and to net interest income (23.51%) are much lower than that in other banks. The ratios are all at relatively safe level, significantly reducing negative impacts in case of economic unfavorable conditions.

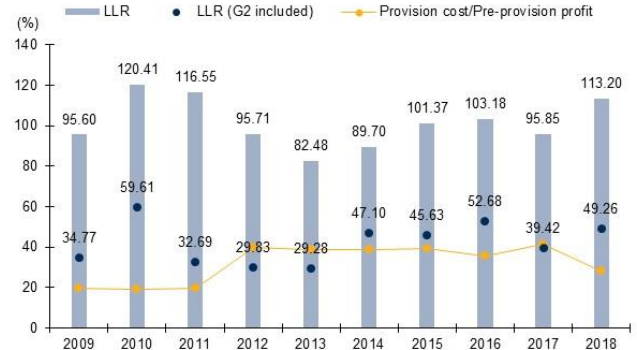
In addition, MBB also reserves a large amount of provision against NPLs annually (LLR always fluctuates around 100%), which will reduce future profit risks if the ability of reversing from bad debts of the bank is not so good compared to the industry average. We believe that with the business orientation always prioritizing safety factor, there will be no significant change in asset quality indicators, even when risk appetite is gradually improved.

Figure 26: Movement of receivables



Source: MBB; KBSV Research

Figure 27: Provision and NPL coverage rates



Source: MBB; KBSV Research

MBB does not have to face a high pressure of capital base, especially when the room for new deposits is still large

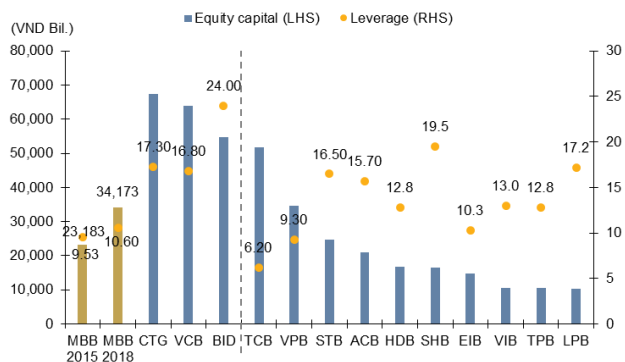
Capital adequacy

MBB is one of the few banks in Vietnam which keep a safe leverage ratio (10.6x at the end of 2018), and have high CAR despite not having to increase the equity size strongly. It can be seen from the below figures that CAR in accordance with the Circular No.36 is stable over the years, and stays high at 12%, while the added capital comes from the revenue. This is a proof of good credit management and profitability effectiveness of MBB.

The estimated CAR of the bank in 2018 was 9.6% (according to Basel II). This level is calculated in case MBB buys all of 108 million treasury stocks as planned (equal to 5% of the total outstanding shares), which showed that the bank is not under the pressure of capital raise.

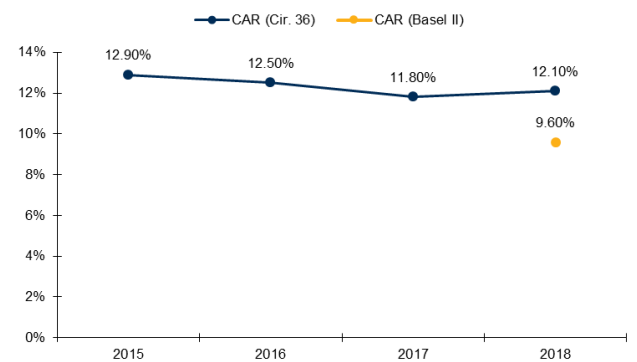
Furthermore, the current foreign ownership in MBB is temporarily locked at 20%, which is much lower than the ceiling of 30% allowed by the SBV. This will create a comprehensive backup plan for MBB when this bank has to raise its capital.

Figure 28: Comparison of equity base and leverage ratio



Source: MBB; KBSV Research

Figure 29: CAR of MBB



Source: MBB; KBSV Research

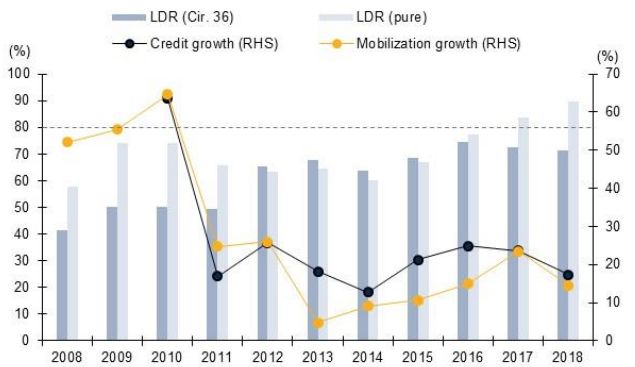
Liquidity

Despite increasing in 2017, in general, the proportion of holding assets with high liquidity and low profitability in MBB has been in a continuous downward trend for many years, and was at 33.4% last 2018. This is still a high level

compared to the sector, showing a high priority in safety of MBB, but the shift to credit and other investment channels is also being stimulated. This will be a positive signal about increasing MBB's profitability.

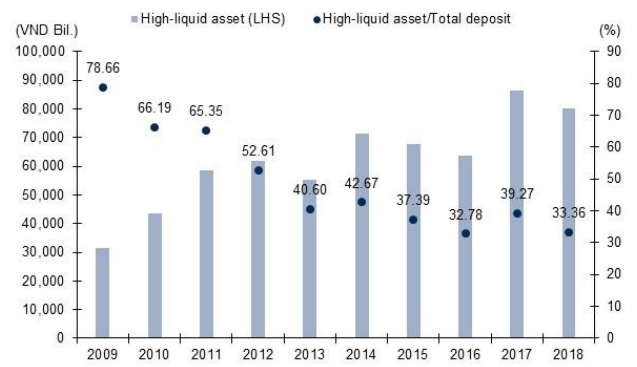
The opposite trend of LDR in the Circular No.36 and net LDR in the last three years (Figure 30) once again confirm our analysis, which is involved in MBB increasing risk tolerance, but still remaining its prudent priority.

Figure 30: LDR movement



Source: MBB; KBSV Research

Figure 31: High-liquid assets



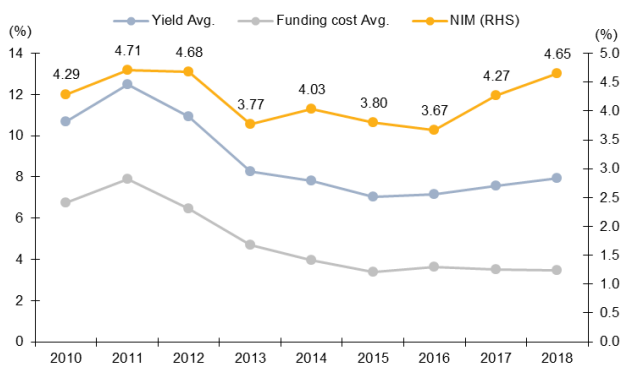
Source: MBB; KBSV Research

Profitability

NIM is one of the most powerful drivers of a bank's profitability. Therefore, MBB having a very high NIM rate in the sector thanks to good utilization of low-cost capital is an important factor showing the profitability of this bank. NIM has increased sharply in the last two years from 3.67% (2016) to 4.65% (2018). The two main factors supporting NIM are: 1) Gradually reducing the proportion of safe assets to increase credit allocation; 2) Average lending interest rate rose thanks to boosting consumer loans, targeting individual customers and SMEs.

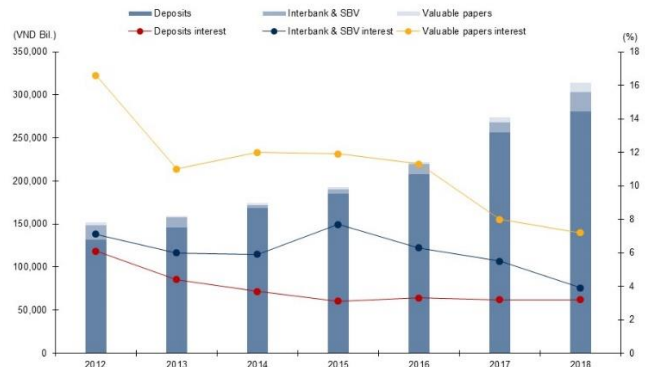
As mentioned above, we assess that NIM still has room to expand based on low and sustainable capital cost (Figure 33).

Figure 32: NIM YoY



Source: MBB; KBSV Research

Figure 33: Deposit structure and cost movements



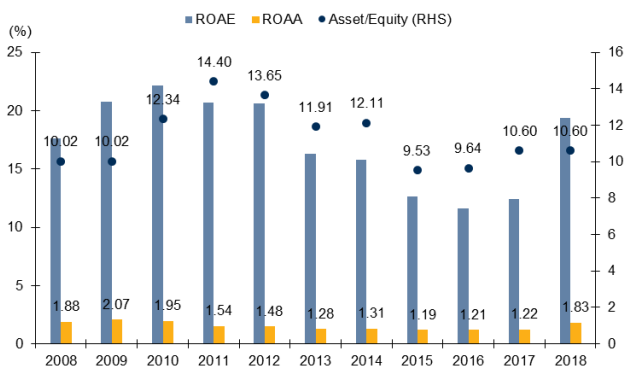
Source: MBB; KBSV Research

After hovering around 12-15% and 1.2-1.3% in many years, ROE and ROA skyrocketed in 2018 to 19.41% and 1.83% respectively, which helped MBB to

get in the top group of the sector in terms of profitability/equity capital. This was achieved thanks to two main forces: 1) NII and Non-NII surged, raising TOI to 40% on average in the last two years; 2) The impact of the plunge in provision cost in 2018 without provision pressure to VAMC bonds and the improvements in reversals from NPLs.

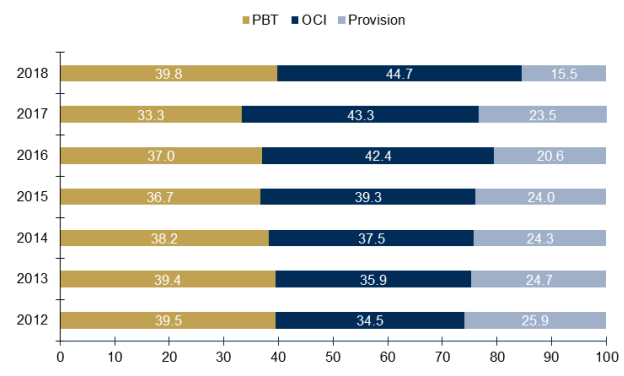
Although the operating cost continued to grow quickly, which increased CIR as MBB is in the investment period to expand Non-NII sources. We believe that a good revenue growth and decreasing provision pressure will help ROE of MBB to be improved in 2019.

Figure 34: Profitability movements



Source: MBB; KBSV Research

Figure 35: EBT structure

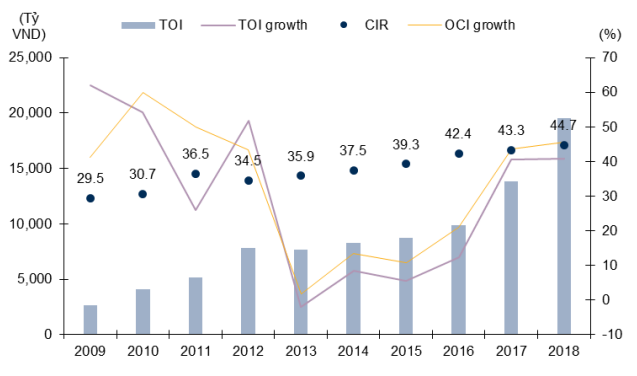


Source: MBB; KBSV Research

Business performance in 2018

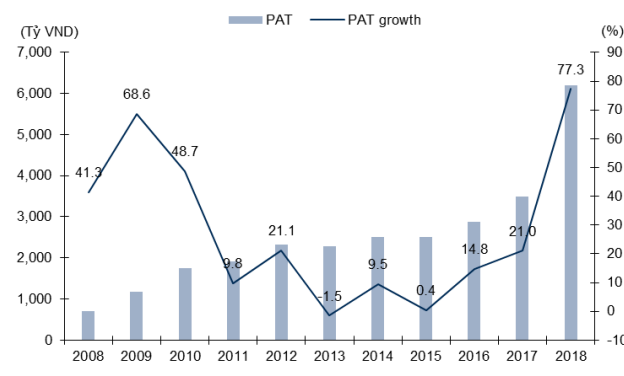
By the end of 2018, NPAT of the bank reached VND6,189.9 billion, the highest growth yoy in the last 10 years with 77.3%. MBB achieved this high thanks to: 1) TOI maintained a strong growth of 40% yoy as in 2017 with a stable growth of NII and dramatic growth in Non-NII at 87.1% yoy; 2) Provision cost did not rise (even slightly decreased by 6.6%); 3) The operating cost was well managed and did not increase strongly, although Non-NII expansion required high cost of human resources.

Figure 36: MBB operating indicators



Source: MBB; KBSV Research

Figure 37: NPAT movement

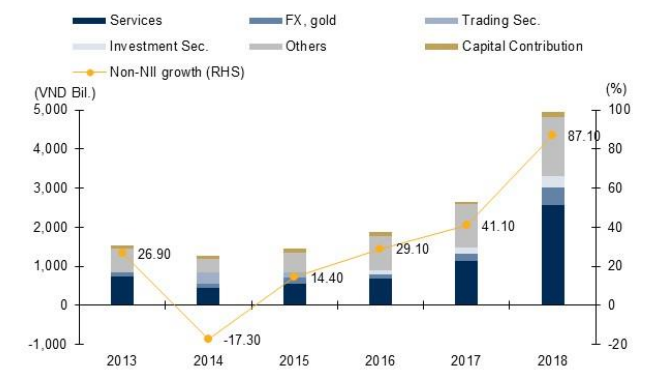


Source: MBB; KBSV Research

To be more specific:

- **NII:** Credit growth including corporate bonds reached 22.5%, NIM increased by 38 bps to 4.65% mainly due to the expansion of retail loans, so NII increased strongly by 30%. MCredit had outstanding loans tripled in 2018, reaching VND5,430 billion; NIM was about 30% and NPAT was about VND300 billion.
- **Non-NII:** Non-NII surged to 87.1% in 2018 with improvements in all segments: Service interests climbed 127% yoy; Foreign exchange services gained 120% yoy; Securities investment and trading surged 37% and 108%, respectively, of which profit from trading securities came from the settlement of profits when the yield of bonds dropped sharply in 2018; Other interests increased by 109% thanks to the improved reversal from bad debts.
- **CIR:** CIR has maintained its upward momentum in the last five years, reaching 44.7% in 2018. The main contribution to operating expenses was still the personnel expense of nearly 60%. The continuous increase in CIR due to MBB boosting its distribution system, not only for core credit operations, but also for consumer finance segment at MCredit and insurance cross-selling with MB Ageas. Although this is a reasonable explanation, in general, MBB's CIR trend is contrary to some of its main competitors. We assess that the ability to apply modern technologies and processes into operation of MBB is still weak. In the long term, this could be a disadvantage that makes the bank less attractive to its competitors whose technology strengths such as VPB, TCB or VIB.

Figure 38: Non-NII movements



Source: MBB; KBSV Research

Figure 39: Non-NII structure



Source: MBB; KBSV Research

2019 OUTLOOK & VALUATION

General outlook

Most of the improvements in the business strategy were achieved by the new CEO of the bank, Mr Luu Trung Thai, one of the few leader of MBB not coming from the military. Based on that prospect, we suppose that MBB can continue to maintain the growth momentum as high as in the last two years, thereby enhancing the effectiveness of low cost capital to expand NIM and improve ROE.

Besides, after divesting from inefficient activities such as MB Land (2018), MBB will focus on developing non-interest activities with more potential growth and advantages. In particular, our biggest expectation will be growth in life insurance segment with joint venture MB Ageas that can break even this year, and will be a big profit for the bank in the following years. In addition, although the scale is not too large, with certain advantages of capital costs and distribution channels, we believe that the contribution of MCredit to profit, and the bank's NIM expansion will gradually increase.

In the long term, we believe that the quality of assets and the advantages in large customer base are the strongest points to help MBB make a breakthrough. However, whether banks can make full use of this advantage or depends on how long the above changes last, which needs more time for further assessment. Another factor that can create a new "catalyst" for banks is an opportunity from the participation of foreign strategic investors, when foreign room for banks is still up to 10%. More stability of the stock market may create expectations about the subsequent divestments.

Forecast business performance in 2019

In terms of macro situation, we still believe that Vietnam economy will maintain a positive growth momentum in 2019, which will support credit growth, especially at banks that meet the standards for capital.

With a stable credit structure along with asset growth and profitability, MBB has not been under great pressure of Basel II capital standard, especially for real estate and securities loans with higher risk ratio. However, the bank maintains a reasonable proportion and creates growth potential for the following years.

- **Individual:** The real estate segment has currently been the main growth force of individual customer outstanding loans, and accounted for 18% of the total outstanding loans in 2018. With the estimated CAR according to Basel II at 9.6%, real estate lending risk ratio went up 200% since 2019, we believe that the real estate outstanding loan growth of 30% will ensure the capital adequacy of MBB in this year. The main customer targets are ones coming from the military ecosystem. We suppose that real estate credit continue to take for 50% individual credit structure at the parent bank, which may help the bank to achieve 30% of individual credit growth in 2019. In addition, the outstanding loans of MBS Securities company is likely

to maintain at over VND 2,000 billion (hardly makes a breakthrough as the market condition is not as active as in 2017 and early 2018); MCredit outstanding loans can be doubled to VND 11,000 billion (MCredit is planned to increase POS from 650 to 1800 in 2019, but the operating scale is limited in Hanoi and HCM, so we think that the current outstanding loan growth is reasonable and practical).

- **Corporation:** We believe that private enterprise customers will play a key role in this segment with a growth of 10 – 15%, mainly focusing on industrial manufacturing. Besides, SOEs will continue to have an insignificant growth with the current level.

To sum up, we believe that MBB can achieve a customer lending growth of 19.2% in 2019. Other assumptions:

The total customer lending growth is expected to reach 19.2%

The total customer lending growth is expected to reach 19.2% YoY with improvements in individual customer segment and banking segments with advantages.

NIM will inch up by 10 bps to 4.75%

We believe that MBB still has room to raise interest rates in comparison with the current interest rate in different banks. Combined with the increase in the customer lending rate/total earning asset ratio from 64% to 66%, NIM is projected to increase slightly by about 10 bps.

Non-NII will continue to experience a high growth, despite lower than the growth in 2018

Non-NII is forecast to grow over 22% compared to the highs in the same period in. In particular, the largest contribution to Non-NII comes from insurance, reversals from bad debts, payment, and foreign exchange.

CIR will increase slightly due to high cost of expanding distribution system

We do not appreciate MBB's ability to apply technology in operation and transaction products. Therefore, with the demand to strengthen the distribution system, the costs of employees will keep rising, pushing CIR slightly up to 45% in 2019.

The cost of provision is maintained at low level

Based on the forecast on NPLs and provision rate, we suppose that the cost of credit risk provision will only go up insignificantly in 2019, reaching VND3,261 bn.

With the above assumptions, we expect NPAT of MBB will reach VND 8,196 bn in 2019, up 32.4% yoy, ROE will be increased from 19.41% in 2018 to 21.4% in 2019.

Valuation

We combined the two valuation methods which are P/B and discounted residual income to calculate the reasonable price of MBB shares.

Combining the above provisions with the assumption that the bank does not mobilize new external capital, forecast BVPS at the end of the year is about VND 19,611/ share, equivalent to P/B leading = 1.14x. This is one of the most attractive valuations in the banking sector based on long-term investment perspective, when Vietnam's average P/B is about 1.7x and P/B in our long-

term expectation is 2x. In addition, when in comparison with other banks of the same size in other emerging markets, we find that MBB's P/B is also lower in terms of ROE and average EPS growth rate in the last five years. If adjusted based on this correlation, MBB's share price may reach a premium of about 20% compared to the current.

Although MBB belongs to the private bank group, we believe that it has particular advantages of a state-owned bank with assets quality ranking in the top group. Therefore, MBB deserves a higher valuation based on the valuation the market assessed a similar bank, VCB (P/B reached 3.67x). However, in a short term of the next year, we only expect a reasonable P/B of about 1.5x due to the risks in the market, equivalent to a reasonable price of about VND 29,400/share, 31% higher than that at the time of valuation.

Table 2: The main indices at banks whose the same business size as MBB

Ticker	Name	Mkt Cap (VND)	ROE (%)	P/B trailing	Diluted EPS (5Y Avg. growth)	P/E	P/B Forward
BNLI IJ Equity	BANK PERMATA TBK PT	47,447,040	4.10	1.3	n/a	31.73	
BEKN SW Equity	BERNER KANTONALBANK AG-REG	48,637,239	4.12	0.8	-0.38	15.14	
NBF UH Equity	NATIONAL BANK OF FUJAIHRAH	49,862,555	12.79	1.7	11.43	13.59	
BTPN IJ Equity	BANK TABUNGAN PENSIUNAN NASL	50,139,287	11.71	1.2	n/a	10.85	
ALR PW Equity	ALIOR BANK SA	46,738,044	10.15	1.2	29.77	11.20	
TLV RO Equity	BANCA TRANSILVANIA SA	50,866,124	21.75	1.2	n/a	6.17	
LLBN SW Equity	LIECHTENSTEIN LANDESBANK	46,576,708	5.19	1.1	49.39	20.78	
TUB GR Equity	HSBC TRINKAUS & BURKHARDT AG	50,303,476	5.19	0.9	n/a	17.02	
BRD RO Equity	BRD-GROUPE SOCIETE GENERALE	46,253,450	20.87	1.1	n/a	6.19	
MCBG MP Equity	MCB GROUP LTD	45,971,643	15.59	1.3	13.26	8.58	
TISCO TB Equity	TISCO FINANCIAL GROUP PCL	51,057,962	19.04	1.8	16.90	10.01	
FB IN Equity	FEDERAL BANK LTD	52,955,284	8.82	1.3	8.71	16.61	
ZENITHBA NL Equity	ZENITH BANK PLC	52,395,059	22.58	1.0	16.76	4.44	
MBB VN Equity	MILITARY COMMERCIAL JOINT	47,637,953	19.41	1.4	53.62	7.79	1.14
Vietnam banks							
VPB VN Equity	VIETNAM PROSPERITY JSC BANK	52,328,740	22.63	1.5	26.97	7.13	1.23
ACB VN Equity	ASIA COMMERCIAL BANK	38,412,686	27.73	1.8	39.59	7.48	1.43
HDB VN Equity	HDBANK	30,067,643	19.13	1.9		10.58	1.72
STB VN Equity	SAIGON THUONG TIN COMMERCIAL	23,086,764	7.48	0.9	-7.63	12.90	0.86
EIB VN Equity	VIETNAM EXPORT-IMPORT COMMER	21,515,076	4.52	1.4	25.85	32.57	1.44
TPB VN Equity	TIEN PHONG COMMERCIAL JOINT	17,862,036	21.19	1.7		9.13	1.11
VIB VN Equity	VIETNAM INTERNATIONAL JSB	14,204,136	12.83	1.7		13.32	1.39
TCB VN Equity	VIETNAM TECHNOLOGICAL & COMM	95,981,455	21.52	1.9		11.04	1.54
VCB VN Equity	JSB FOR FOREIGN TRADE VIETNAM	232,546,620	25.18	3.5		15.49	3.02
BID VN Equity	BANK FOR INVESTMENT AND DEVELOPMENT	118,800,362	14.57	2.3		16.15	1.90
CTG VN Equity	VIETNAM BANK FOR INDUSTRY AND TRADE	79,309	8.27	1.2		14.63	1.11

Source: Bloomberg; KBSV Research

For longer expectations as well as to reflect systemic risks in the near future, we use the discounted residual income method. The reasonable price is about VND28,200/share, about 25.6% higher than the market price at the time of valuation.

Table 3: Valuation results according to the discounted residual income method

VND Bil.	2019F	2020F	2021F
PAT	8,196.00	9,051.00	10,465.00
Residual income	2,721.51	2,263.51	2,227.54
Cost of Equity Capital - R	16.02%		
g	5.00%		
Terminal value	21,224.29		
Total present value (PV)	60,850.80		
MBB intrinsic value (VND/share)	28,165.8		

Source: KBSV Research

RISKS & INVESTMENT VIEWPOINT

We suppose the three biggest risks which MBB has to face in the upcoming period include:

- **Macro risks:** There are many signs showing that Vietnam's economy is in the late growth phase of the recovery cycle as reported in KBSV's 2019 economic outlook. Economic reversal can be considered the biggest risk for the banking industry in the world in general and in Vietnam in particular. However, we believe that the risk to MBB will be somewhat limited when the bank has a rather solid capital base and has built a strict credit risk management process.
- **Risks from bad debt:** The strong shift to the retail segment with loans to buy houses, cars, credit cards and especially consumer credit will increase MBB's bad debt risks. However, in general, the bank still puts the prudent factor first, so the impact from the above segments will not be too strong in the reversal of economic conditions, causing bad debts to emerge.
- **Risks from divestment:** There are many signs showing that the major shareholder, VCB, is trying to divest the remaining 5% stake in MBB. Although this does not cause too much influence on internal factors at MBB, it also creates certain negative sentiment in the short term in the market. We think that in the medium and long term, this is not a significant risk to the bank.

Of the three main risks, the one involved in macro cycle leading to a systematic risk is the biggest one to MBB. Currently, MBB's dividend yield is about 3% per year on the market price, nearly equal to the annual inflation rate in Vietnam. Considering a relatively lower valuation than many industry peers mentioned above, we think MBB is a good stock which ensures capital adequacy for investors.

From an investment viewpoint, we recommend to **BUY** MBB shares in the short and long term, based on its attractive valuation for these terms, sustainability of the bank against potential macro risks in the next 2 – 3 years, and long term healthy growth.

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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