

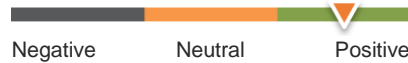
## MILITARY COMMERCIAL JSB (MBB) – AGM NOTE

<b>Market Price</b> VND34,700	<b>Target Price</b> VND38,600	<b>Dividend Yield</b> 1.73%	<b>Rating</b> ADD	<b>Sector</b> FINANCIALS
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### Outlook – Short term



### Outlook – Long term



### Valuation



30 March 2018

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### Key changes in the report

➤ N/A

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	36,800
52w low (VND)	14,900
3m Avg daily volume (shares)	6.3
3m Avg daily value (VNDmn)	197,160
Market cap (VNDbn)	64,450
Outstanding shares (m)	1,800
Free float (%)	20.0
TTM P/E	17.9
Current P/B	2.2

### Ownership

Viettel	17.8%
SCIC	9.8%
Vietnam Helicopter Corp.	7.8%
Tan Cang Saigon	7.5%
Vietcombank	7.0%
Others	50.1%

Source: VNDIRECT

## 2018 Annual General Shareholders Meeting Key Takeaways

### Aiming higher

At its AGM held on 29 Mar 2018, MBB's management outlined an ambitious plan to achieve 47% yoy growth in its FY18 consolidated pretax profit, which will be driven by improvement across all business lines. The bank, itself plans for pre-tax profit to reach VND6,500bn rising by 21% yoy, while other subsidiaries (MB Ageas Life, MCredit) have a pre-tax earnings target of around VND300bn (from a negative result last year).

Figure 1: Management's FY 18 targets

Item (in VNDbn)	FY18 target	% yoy
Total asset	347,600	11%
Charter capital	21,605	19%
Customer loan	212,500	15%
NPL ratio (%)	<1.5%	
Pre-tax profit (consolidation)	6,800	47%
Pre-tax profit (the bank)	6,500	21%

Source: VNDIRECT

**MB Ageas Life, a JV between MBB (61% stake), Belgium's Ageas Group (29%) and Muang Thai Life (10%), was officially launched** in Jan 2017. MB Life recorded VND300bn of net revenue and its gross written premiums reached VND250bn in FY17. The company is targeting around VND1,100-VND1,200 bn in net revenue and a VND200bn pre-provision profit in FY18. MB Life aspires to be one of the top 5 domestic life insurers by 2020. Management also emphasized that bancassurance fees from the exclusive partnership with MB Life will be the major driver of fee income growth, and contribute 10% to the bank's non-net interest income going forward.

**MCredit targets VND300bn in pre-tax profit and a VND5,900bn loan book balance, up 280% yoy.** Mcredit also aims to be the fastest-growing consumer finance company in the market. We observed that Mcredit has aggressively expanded its network in early 2018, increasing its POS to nearly 400 across 36 provinces and cities.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net interest income (bn)	7,979	11,219	13,566	15,598
Net interest margin	3.5%	4.1%	4.3%	4.4%
Total operating income (bn)	9,855	13,867	16,742	19,329
Total provision charges (bn)	(2,030)	(3,252)	(2,004)	(2,002)
Net profit (bn)	2,912	3,490	5,454	6,549
Net profit growth	16.7%	19.9%	56.3%	20.1%
Adjusted EPS	1,390	1,642	2,554	3,066
BVPS	14,097	15,516	17,954	20,962
ROAE	12.1%	13.0%	18.0%	18.5%

Source: VNDIRECT

Note: FY18-19 forecasts do not include the share issuance announced in its AGM 2018 as these are non-dilutive in nature

**A good start to the year, and divestment might bring additional income.** In its AGM, MBB's CEO revealed that its prelim 1QFY18 consolidated pre-tax profit reached VND1,600 bn, up 35% yoy, fulfilling 23.5% of its annual guidance. In the beginning of 2018, the bank was also granted licenses to establish an additional 5 branches and 12 transaction offices, bringing its network to 96 branches and 188 transaction offices throughout the country.

**The bank plans to fully divest from MB Land and to reduce its stake in non-life insurance subsidiary, MIC.** MBB currently holds a 65.4% and 69.4% stake of MB Land and MIC, respectively.

**Bonus and dividend shares to be issued in 2019 in a 19% ratio.** In 2Q this year, the bank will issue 344.9 mn bonus and dividend shares for existing shareholders, raising its charter capital from VND18.2tn to VND21.6tn.

**Reiterate ADD rating.** Though management's FY18 pre-tax profit target is 5.9% lower than our forecast, we believe MBB could outperform their guidance since: (1) In the past, the bank's management has been relatively prudent in planning annual targets. In FY17, the bank, itself, fulfilled 125% of its pre-tax profit target while consolidated results arrived 2% higher than target. (2) We currently forecast MBB's earnings growth based on an expansion in NIM to 4.3% in FY18 from 4.1% in FY17 as the bank switches their focus to higher yield segments, such as SME, individual and consumer finance. We will closely follow MBB's quarterly earnings update to track NIM trends and fine-tune our forecasts, accordingly.

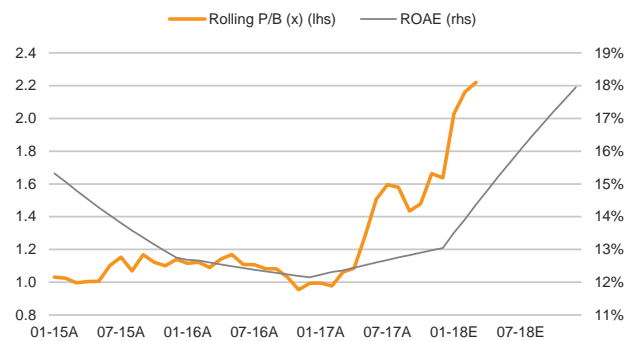
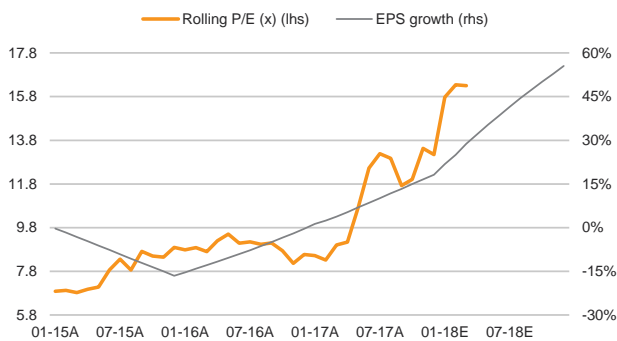
We reiterate our ADD recommendation on MBB with a target price of VND38,600, equivalent to 2.1x of FY18 P/B. Our target price is based on residual income and a target P/B multiple approach with the weighting of each approach being 70% and 30%, respectively.

Figure 2: Valuation

Approach	Weight	Fair value	Contribution
Residual income	70%	39,750	27,825
P/B multiple (at 2.0x)	30%	35,909	10,773
<b>Target price</b>			<b>38,597</b>

Source: VNDIRECT

## Valuation



### Income statement

(VNDbn)	12-17A	12-18E	12-19E
<b>Net interest income</b>	<b>11,219</b>	<b>13,566</b>	<b>15,598</b>
<b>Non interest income</b>	<b>2,648</b>	<b>3,176</b>	<b>3,731</b>
<b>Total operating income</b>	<b>13,867</b>	<b>16,742</b>	<b>19,329</b>
Total operating costs	(5,999)	(7,534)	(8,698)
<b>Pre-provision operating profit</b>	<b>7,868</b>	<b>9,208</b>	<b>10,631</b>
<b>Total provision charges</b>	<b>(3,252)</b>	<b>(2,004)</b>	<b>(2,002)</b>
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>4,616</b>	<b>7,204</b>	<b>8,629</b>
Taxation	(1,125)	(1,756)	(2,104)
<b>Profit after tax</b>	<b>3,490</b>	<b>5,448</b>	<b>6,525</b>
Minority interests	0	6	24
<b>Net profit</b>	<b>3,490</b>	<b>5,454</b>	<b>6,549</b>

### Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Gross loans to customers	184,188	217,342	256,464
Loans to banks			
<b>Total gross loans</b>	<b>184,188</b>	<b>217,342</b>	<b>256,464</b>
Securities - total	53,841	54,380	56,555
Other interest earning assets	60,303	60,906	63,342
<b>Total gross IEAs</b>	<b>298,332</b>	<b>332,628</b>	<b>376,361</b>
<b>Total provisions</b>	<b>(2,486)</b>	<b>(3,005)</b>	<b>(3,277)</b>
<b>Net loans to customers</b>	<b>182,062</b>	<b>214,700</b>	<b>253,564</b>
<b>Total net IEAs</b>	<b>295,847</b>	<b>329,622</b>	<b>373,083</b>
Cash and deposits	1,842	1,971	2,109
Total investments	1,077	1,153	1,233
Other assets	15,112	16,170	17,301
<b>Total non-IEAs</b>	<b>18,031</b>	<b>19,293</b>	<b>20,644</b>
<b>Total assets</b>	<b>313,878</b>	<b>348,916</b>	<b>393,727</b>
Customer deposits	220,176	248,799	288,607
Cds outstanding	6,022	6,022	6,022
Customer interest-bearing liabilities	226,198	254,821	294,629
Bank deposits	1,848	1,848	1,848
Broad deposits	228,046	256,669	296,477
Other interest-bearing liabilities	46,398	46,428	46,461
<b>Total IBLs</b>	<b>274,444</b>	<b>303,097</b>	<b>342,937</b>
Deferred tax liability			
Other non-interest bearing liabilities	9,832	11,791	11,302
<b>Total non-IBLs</b>	<b>9,832</b>	<b>11,791</b>	<b>11,302</b>
<b>Total liabilities</b>	<b>284,277</b>	<b>314,888</b>	<b>354,240</b>
Share capital	18,155	18,155	18,155
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	5,977	10,404	15,864
Other reserves	4,037	4,037	4,037
<b>Shareholders' equity</b>	<b>28,170</b>	<b>32,596</b>	<b>38,056</b>
Minority interests	1,431	1,431	1,431
<b>Total equity</b>	<b>29,601</b>	<b>34,028</b>	<b>39,487</b>
<b>Total liabilities &amp; equity</b>	<b>313,878</b>	<b>348,916</b>	<b>393,727</b>

	12-17A	12-18E	12-19E
<b>Growth rate (yoy)</b>			
Cust deposit growth	13.0%	13.0%	16.0%
Gross cust loan growth	22.2%	18.0%	18.0%
Net interest income growth	40.6%	20.9%	15.0%
Pre provision operating profit growth	38.5%	17.0%	15.5%
Net profit growth	19.9%	56.3%	20.1%
Growth in IEAs	23.3%	11.4%	13.2%
<b>Share value</b>			
Basic EPS (VND)	1,932	3,004	3,607
BVPS (VND)	15,516	17,954	20,962
DPS (VND)	600	600	600
EPS growth	18.2%	55.5%	20.1%

### Key ratios

	12-17A	12-18E	12-19E
Net interest margin	4.1%	4.3%	4.4%
Cost-income ratio	(43.3%)	(45.0%)	(45.0%)
Reported NPLs / gross cust loans	1.2%	1.0%	0.8%
Reported NPLs / net cust loans	1.2%	1.0%	0.9%
GP charge / average cust loans	1.9%	1.0%	0.8%
Total CAR	12.0%	12.2%	12.3%
Loan deposit ratio	81.4%	85.3%	87.0%
<b>Margins and spreads</b>			
Return on IEAs	7.3%	7.5%	7.7%
Cost of funds	3.5%	3.5%	3.6%
Interest return on average assets	3.9%	4.1%	4.2%
ROAE	13.0%	18.0%	18.5%

Source: VNDIRECT

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<b>Description:</b>	Excellent	Very Good	Good	N/A	

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#### Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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