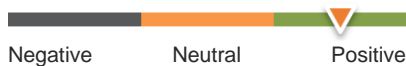


## MILITARY COMMERCIAL JSB (MBB) – EARNINGS UPDATE

<b>Market Price</b> VND29,200	<b>Target Price</b> VND27,700	<b>Dividend Yield</b> 2.05%	<b>Rating</b> HOLD	<b>Sector</b> FINANCIALS
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### Outlook – Short term



### Outlook – Long term



### Valuation



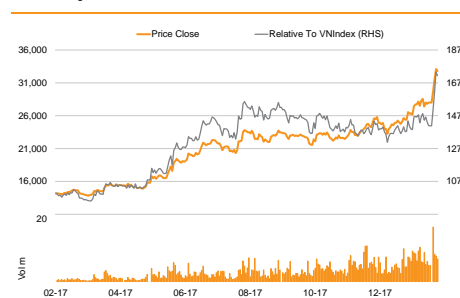
7 February 2018

Thuy Le Minh

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**FY17 earnings were lower than our expectations, as MBB ramped up provisioning in 4Q. We are positive on MBB's medium-term outlook because the bank completed provisioning for VAMC bonds one year earlier than planned, which might help its FY18 profit exceed our previous forecast. We will revisit our projections and update our target price in the coming weeks.**

### Price performance



Source: VNDIRECT

**FY17 bottom line fell below our forecasts despite the strong core growth, as there was a sharp rise in provision expenses and a higher cost to income ratio (CIR).** Strong growth were posted across major business segments: net interest income increased by 40.6% yoy, net fee income jumped by 65.6% yoy and other non-interest income grew by 27.1% yoy. Provision expenses surged by 60.2% yoy, as MBB looked to speed up bad debt clearing. CIR increased from 42.4% in FY16 to 43.3% in FY17 due to 41.6% jump in salary expenses. FY17 PBT and net profit reached VND4,616bn and VND3,490bn, translating to 26.4% and 19.9% growth, respectively. MBB fulfilled 107% of its PBT target, but still fell 9% below our forecast due to higher provisioning expenses than we had anticipated.

### Key statistics

52w high (VND)	33,100
52w low (VND)	12,519
3m Avg daily volume (shares)	6.5mn
3m Avg daily value (VNDmn)	166,930
Market cap (VNDbn)	53,013
Outstanding shares (m)	1,816
Free float (%)	20
TTM P/E	17.8x
Current P/B	1.9x

**Rising NIM fueled net interest income growth.** The robust growth in MBB's individual loan book (+33.3% yoy) lifted blended asset yields by 45bps, matched only by a 15 bps increase in its cost of funds. The contained rise in funding costs could be attributed to a hike in the CASA ratio (current deposit) from 39.2% in FY16 to 39.7% in FY17. Consequently, MBB's NIM rose from 3.5% in FY16 to 4.2% in FY17.

**The bank's fee income growth was driven by income from payment services and the consolidation of the insurance business.** Income from payment services increased by 51.4% yoy, while income from insurance jumped 2.8 times versus FY16. Insurance income came from Military Insurance Company (MIC), which became a subsidiary of MBB in 4Q16 after MBB increased its stake in MIC from 49.8% to 69.6%. Therefore, income from MIC was consolidated into the bank's financial statements starting 4Q16. On a pro-forma basis (assuming consolidation of MIC results for the entire year of 2016), net fee income growth was still healthy at 18.4% yoy.

### Ownership

Viettel	14.75%
SCIC	9.83%
Vietnam Helicopter Corporation	7.84%
Tan Cang Saigon	7.52%
Vietcombank	6.97%
Others	53.09%

Source: VNDIRECT

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net interest income (bn)	7,319	7,979	11,219	12,440
Net interest margin	3.7%	3.5%	4.1%	4.1%
Total operating income (bn)	8,772	9,855	13,867	15,516
Total provision charges (bn)	(2,102)	(2,030)	(3,252)	(2,450)
Net profit (bn)	2,496	2,912	3,490	5,140
Net profit growth	0.8%	16.7%	19.9%	47.3%
Adjusted EPS	1,395	1,390	1,642	2,406
BVPS	12,808	14,097	15,516	17,921
ROAE	12.7%	12.1%	13.0%	16.9%

Source: VNDIRECT

**The surge in provision expenses was due to higher VAMC provisioning and due to a bid to accelerate write-offs.** General provisions booked in FY17 were nearly equal to FY16, but specific provisions booked were more than double the amount of FY16, as MBB wrote-off more bad debt. Due to the large amount of write-offs, NPL ratio fell from 1.3% in FY16-end to 1.2% in FY17-end. We estimate that MBB booked VND1,600bn worth of provisions for VAMC bonds in 2017, compared with VND1,000bn in 2016, as the bank sped up bad debt clearing. By the end of 2017, MBB had fully provisioned for VAMC bonds, one year earlier than the plan set in its 2017 AGM. MBB is the third bank in the system to have fully provisioned for VAMC bonds. Although provision expenses increased sharply, we view this as a positive for MBB since the bank has now completed the current provisioning cycle.

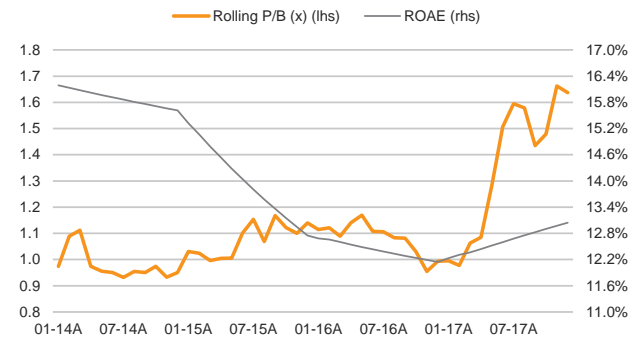
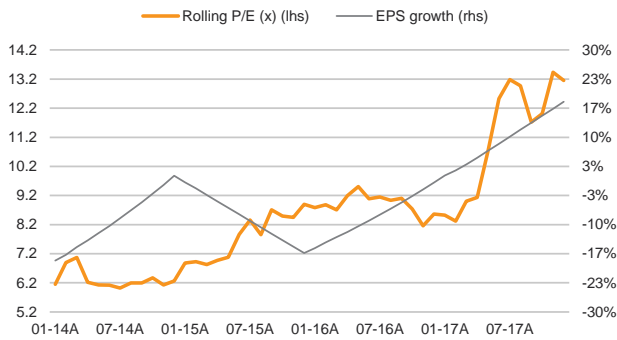
**Figure 1: FY17 results and performance metrics (VNDbn)**

	2016	2017	YoY growth
Net interest income	7,979	11,219	40.6%
Non-interest income	1,876	2,648	41.1%
Pre-provision profit	5,681	7,868	38.5%
Provision expenses	-2,030	-3,252	60.2%
Earnings before tax	3,651	4,616	26.4%
Earnings after tax	2,884	3,490	21.0%
Loan growth (YTD)	24.2%	22.2%	
Deposit growth (YTD)	7.3%	13.0%	
NPL	1.3%	1.2%	
NIM	3.5%	4.2%	

Source: VNDIRECT, Company

We are positive on MBB's medium-term outlook because the bank completed provisioning for VAMC bonds one year earlier than planned, which might help FY18 profit growth exceed our previous forecasts. We will revisit our projections and issue an update report in the coming weeks.

**Valuation**



**Income statement**

(VNDbn)	12-16A	12-17A	12-18E
<b>Net interest income</b>	<b>7,979</b>	<b>11,219</b>	<b>12,440</b>
<b>Non interest income</b>	<b>1,876</b>	<b>2,648</b>	<b>3,076</b>
<b>Total operating income</b>	<b>9,855</b>	<b>13,867</b>	<b>15,516</b>
Total operating costs	(4,175)	(5,999)	(6,517)
<b>Pre-provision operating profit</b>	<b>5,681</b>	<b>7,868</b>	<b>8,999</b>
<b>Total provision charges</b>	<b>(2,030)</b>	<b>(3,252)</b>	<b>(2,450)</b>
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>3,651</b>	<b>4,616</b>	<b>6,549</b>
Taxation	(767)	(1,125)	(1,376)
<b>Profit after tax</b>	<b>2,884</b>	<b>3,490</b>	<b>5,173</b>
Minority interests	28	0	(33)
<b>Net profit</b>	<b>2,912</b>	<b>3,490</b>	<b>5,140</b>

**Balance sheet**

(VNDbn)	12-16A	12-17A	12-18E
Gross loans to customers	150,738	184,188	213,445
Loans to banks			
<b>Total gross loans</b>	<b>150,738</b>	<b>184,188</b>	<b>213,445</b>
Securities - total	55,833	53,841	56,673
Other interest earning assets	37,009	60,303	37,566
<b>Total gross IEAs</b>	<b>243,579</b>	<b>298,332</b>	<b>307,683</b>
<b>Total provisions</b>	<b>(3,671)</b>	<b>(2,486)</b>	<b>(4,540)</b>
<b>Net loans to customers</b>	<b>148,687</b>	<b>182,062</b>	<b>210,550</b>
<b>Total net IEAs</b>	<b>239,908</b>	<b>295,847</b>	<b>303,144</b>
Cash and deposits	1,520	1,842	1,740
Total investments	991	1,077	1,135
Other assets	13,839	15,112	15,843
<b>Total non-IEAs</b>	<b>16,351</b>	<b>18,031</b>	<b>18,718</b>
<b>Total assets</b>	<b>256,259</b>	<b>313,878</b>	<b>321,862</b>
Customer deposits	194,812	220,176	248,756
Cds outstanding	2,367	6,022	6,367
Customer interest-bearing liabilities	197,179	226,198	255,123
Bank deposits	0	1,848	0
Broad deposits	197,179	228,046	255,123
Other interest-bearing liabilities	24,971	46,398	24,982
<b>Total IBLs</b>	<b>222,151</b>	<b>274,444</b>	<b>280,104</b>
Deferred tax liability			
Other non-interest bearing liabilities	7,520	9,832	7,911
<b>Total non-IBLs</b>	<b>7,520</b>	<b>9,832</b>	<b>7,911</b>
<b>Total liabilities</b>	<b>229,670</b>	<b>284,277</b>	<b>288,015</b>
Share capital	17,127	18,155	18,155
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	4,699	5,977	10,855
Other reserves	3,525	4,037	3,525
<b>Shareholders' equity</b>	<b>25,352</b>	<b>28,170</b>	<b>32,536</b>
Minority interests	1,236	1,431	1,311
<b>Total equity</b>	<b>26,588</b>	<b>29,601</b>	<b>33,846</b>
<b>Total liabilities &amp; equity</b>	<b>256,259</b>	<b>313,878</b>	<b>321,862</b>

	12-16A	12-17A	12-18E
<b>Growth rate (yoy)</b>			
Cust deposit growth	7.3%	13.0%	13.0%
Gross cust loan growth	24.2%	22.2%	15.9%
Net interest income growth	9.0%	40.6%	10.9%
Pre provision operating profit growth	6.7%	38.5%	14.4%
Net profit growth	16.7%	19.9%	47.3%
Growth in IEAs	16.2%	23.3%	2.5%
<b>Share value</b>			
Basic EPS (VND)	1,635	1,932	2,831
BVPS (VND)	14,097	15,516	17,921
DPS (VND)	600	600	600
EPS growth	(0.4%)	18.2%	46.6%

**Key ratios**

	12-16A	12-17A	12-18E
Net interest margin	3.5%	4.1%	4.1%
Cost-income ratio	(42.4%)	(43.3%)	(42.0%)
Reported NPLs / gross cust loans	1.3%	1.2%	1.1%
Reported NPLs / net cust loans	1.3%	1.2%	1.1%
GP charge / average cust loans	1.5%	1.9%	1.2%
Total CAR	12.5%	11.3%	11.2%
Loan deposit ratio	76.4%	81.4%	83.7%
<b>Margins and spreads</b>			
Return on IEAs	6.9%	7.3%	7.4%
Cost of funds	3.6%	3.5%	3.5%
Interest return on average assets	3.3%	3.9%	3.9%
ROAE	12.1%	13.0%	16.9%

Source: VNDIRECT

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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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