

**Vietnam**

October 24, 2018 - 4:42 PM

**ADD** (no change)

Consensus ratings\*: Buy 8 Hold 0 Sell 0

Current price:	VND21,400
Target price:	VND33,400
Previous target:	VND33,400
Up/downside:	56.1%
CGS-CIMB / Consensus:	4.4%
Reuters:	MBB.HM
Bloomberg:	MBB VN
Market cap:	US\$1,980m
	VND46,233,660m
Average daily turnover:	US\$6.09m
	VND141,893m
Current shares o/s	2,160m
Free float:	20.0%

\*Source: Bloomberg

**Key financial forecasts**

	Dec-18F	Dec-19F	Dec-20F
Net Profit (VNDb)	5,673	6,521	7,681
Core EPS (VND)	2,434	2,797	3,295
Core EPS Growth	60.4%	14.9%	17.8%
FD Core P/E (x)	8.79	7.65	6.49
Recurring ROE	17.2%	17.0%	17.2%
P/BV (x)	1.41	1.21	1.04
DPS (VND)	600.0	600.0	600.0
Dividend Yield	2.80%	2.80%	2.80%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.8	-6.4	14.7
Relative (%)	-0.5	-6.7	0.1

Major shareholders	% held
Viettel Group	14.6
SCIC	9.7
Vietnam Helicopter Corporation	7.8

**Analyst(s)**

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# Military Commercial Joint Stock Bank

## 3Q18 results: Another strong quarter

- MBB sustained strong growth momentum with 3Q18 pretax profit rising 47.9% yoy and 14.4% qoq.
- 9M18 pretax profit reached VND6,015bn, up 50.3% yoy, fulfilling 88% of the bank's full-year target and was in line at 78% of our full-year projection.
- Our Add rating and target price of VND33,400 are intact.

### Loan growth halted in 3Q18 but NIM still improved

- 3Q18 operating revenue grew 32.1% yoy, driven by 28.1% yoy growth in net interest income, 89.5% yoy growth in net fee income and 8.1% yoy growth in other income.
- Although loan growth slowed in 3Q18 with the loan book staying flat compared to 2Q18 due to lending limits being reached, the shift to retail loans still helped net interest margin (NIM) to improve 8bp qoq.
- Operating expenses and provision expenses grew 27.8% and 5.1% yoy, trailing the growth of operating revenue. As such, 3Q18 pretax profit surged 47.9% yoy.

### 9M18 net interest income grew 30.8% yoy on higher NIM

- NIM increased 43bp yoy to 4.5% on strong individual loan growth. Individual loan/total loan book increased from 33.0% at end-9M17 to 36.4% at end-9M18.
- 9M18 loan book yoy growth reached 16.2%, lower than 21.1% in 9M17 as the State Bank of Vietnam is tightening credit growth. Deposit growth also slowed down in accordance with loan growth, with 9M18 deposit book growing 10.0% yoy, compared to 13.3% yoy growth in the same period last year. The pure loan-to-deposit ratio increased from 83.3% at end-9M17 to 88.1% at end-9M18.

### 9M18 non-interest income surged 66.5% yoy

- 62.9% yoy growth in net fee income was driven by payment and cash service (+36.3% yoy) and insurance service (+220.6% yoy). MBB's subsidiary - MB Ageas Life Insurance just started operations in 2017, thus income from this business was still small in FY17.
- Other non-interest income grew 70.1% yoy, in which income from foreign currency trading increased 121.5% yoy, bad debt recoveries increased 51.7% yoy, and income from securities increased 69.8% yoy thanks to low bond yields and a buoyant stock market in 1Q18.

### Non-performing loans increased but provision buffer improved

- Non-performing loan (NPL) ratio increased from 1.3% at end-9M17 to 1.6% at end-9M18 as bad debts rose 37.3% yoy while loan book growth slowed to 16.2% yoy. Besides, the write-off rate also reduced from 0.6% of the average loan book in 3Q17 to 0.5% in 3Q18.
- An encouraging sign is that although NPL increased, MBB ramped up provisioning to improve its loan-loss-reserves from 87.0% at end-9M17 to 106.0% at end-9M18.
- 9M18 provision expenses grew 18.3% yoy, trailing the 39.9% yoy growth of pre-provision profit. Therefore, pretax profit achieved impressive growth of 50.3% yoy.

### We maintain our Add rating and TP of VND33,400

- We maintain our Add call on MBB with a target price of VND33,400 based on residual income (COE: 13.1%; LTG: 3.0%; 70% weighting) and 1.9x FY19F P/BV (30% weighting), implying 56.1% upside.
- Potential re-rating catalysts include the divestment of MB Real Estate Stock Company (MBLand, Unlisted) and Military Insurance Joint Stock Company (MIG VN, Not rated).
- Downside risks come from increasing NPLs due to higher risks inherent in retail lending and acceleration in inflation which could hurt loan growth.

**Figure 1: Regional sector comparison**

Company	Bloomberg Ticker	Recommendation	Closing Price	Target Price	Market cap	P/BV (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(local curr.)	(local curr.)	(US\$m)	FY18F	FY19F	FY18F	FY19F	%	FY18F	FY19F
China Merchants Bank	3968 HK	ADD	30	41	103,840	1.3	1.1	7.8	6.3	23.3%	18.0%	19.4%
Indusind Bank	IIB IN	ADD	1,449	2,200	11,850	3.3	2.7	19.5	15.5	27.1%	18.1%	19.3%
Yes Bank	YES IN	HOLD	212	325	6,639	1.7	1.4	9.5	7.6	26.2%	19.0%	20.1%
BDO Unibank Inc	BDO PM	ADD	123	150	9,980	1.6	1.5	16.4	13.0	18.3%	10.5%	11.9%
TMB Bank	TMB TB	HOLD	2	2	3,051	1.0	1.0	11.5	10.7	8.8%	11.4%	11.5%
Vietcombank	VCB VN	ADD	55,800	79,500	8,599	3.2	2.7	21.2	18.1	20.7%	16.3%	16.4%
<b>Average regional peers</b>						<b>2.0</b>	<b>1.7</b>	<b>14.3</b>	<b>11.8</b>	<b>20.7%</b>	<b>15.5%</b>	<b>16.4%</b>
Military Commercial Joint Stock Bank	MBB VN	ADD	21,400	33,400	1,980	1.4	1.2	8.1	7.1	29.5%	17.2%	17.0%

NOTE: PRICE AS OF 24 OCT 2018

SOURCES: CGS-CIMB RESEARCH, VND, BLOOMBERG

## BY THE NUMBERS

### Profit & Loss

(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income	11,219	14,364	16,989	20,200
Total Non-Interest Income	2,648	3,555	4,175	4,890
<b>Operating Revenue</b>	<b>13,867</b>	<b>17,919</b>	<b>21,164</b>	<b>25,090</b>
Total Non-Interest Expenses	(5,999)	(7,705)	(9,524)	(11,291)
<b>Pre-provision Operating Profit</b>	<b>7,868</b>	<b>10,214</b>	<b>11,640</b>	<b>13,800</b>
Total Provision Charges	(3,252)	(2,538)	(2,805)	(3,370)
<b>Operating Profit After Provisions</b>	<b>4,616</b>	<b>7,676</b>	<b>8,836</b>	<b>10,430</b>
Pretax Income/(Loss) from Assoc.	0	0	0	0
<b>Operating EBIT (incl Associates)</b>	<b>4,616</b>	<b>7,676</b>	<b>8,836</b>	<b>10,430</b>
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>4,616</b>	<b>7,676</b>	<b>8,836</b>	<b>10,430</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>4,616</b>	<b>7,676</b>	<b>8,836</b>	<b>10,430</b>
Taxation	(1,125)	(1,842)	(2,121)	(2,503)
Consolidation Adjustments & Others				
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>3,490</b>	<b>5,834</b>	<b>6,715</b>	<b>7,927</b>
Minority Interests	29	(160)	(195)	(246)
Pref. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
<b>Net Profit</b>	<b>3,520</b>	<b>5,673</b>	<b>6,521</b>	<b>7,681</b>
Recurring Net Profit	3,262	5,258	6,043	7,119

### Balance Sheet

(VNDb)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Gross Loans	237,686	275,593	320,316	370,759
Liquid Assets & Invst. (Current)	53,841	55,457	58,230	65,217
Other Int. Earning Assets	6,805	7,009	7,360	8,243
<b>Total Gross Int. Earning Assets</b>	<b>298,332</b>	<b>338,059</b>	<b>385,906</b>	<b>444,220</b>
Total Provisions/Loan Loss Reserve	(2,486)	(3,330)	(4,129)	(5,023)
<b>Total Net Interest Earning Assets</b>	<b>295,847</b>	<b>334,729</b>	<b>381,777</b>	<b>439,197</b>
Intangible Assets	1,018	1,099	1,187	1,282
Other Non-Interest Earning Assets	15,171	16,385	17,696	19,111
<b>Total Non-Interest Earning Assets</b>	<b>16,189</b>	<b>17,484</b>	<b>18,883</b>	<b>20,394</b>
<b>Cash And Marketable Securities</b>	<b>1,842</b>	<b>1,989</b>	<b>2,149</b>	<b>2,320</b>
Long-term Investments	0	0	0	0
<b>Total Assets</b>	<b>313,878</b>	<b>354,203</b>	<b>402,808</b>	<b>461,911</b>
Customer Interest-Bearing Liabilities	226,198	259,345	300,165	350,419
Bank Deposits	46,101	48,406	50,827	53,368
Interest Bearing Liabilities: Others	2,145	2,182	2,220	2,258
<b>Total Interest-Bearing Liabilities</b>	<b>274,444</b>	<b>309,933</b>	<b>353,211</b>	<b>406,044</b>
Bank's Liabilities Under Acceptances				
Total Non-Interest Bearing Liabilities	9,832	9,862	9,564	9,203
<b>Total Liabilities</b>	<b>284,277</b>	<b>319,796</b>	<b>362,775</b>	<b>415,248</b>
<b>Shareholders' Equity</b>	<b>28,170</b>	<b>32,815</b>	<b>38,246</b>	<b>44,631</b>
Minority Interests	1,431	1,592	1,787	2,032
<b>Total Equity</b>	<b>29,601</b>	<b>34,407</b>	<b>40,033</b>	<b>46,664</b>

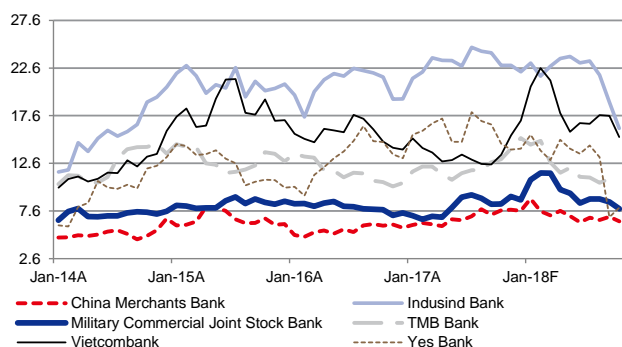
### Balance Sheet Employment

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Loans/Cust Deposits	83.7%	87.3%	89.5%	89.5%
Avg Loans/Avg Deposits	80.7%	85.6%	88.5%	89.5%
Avg Liquid Assets/Avg Assets	36.9%	35.2%	32.2%	30.5%
Avg Liquid Assets/Avg IEAs	38.8%	36.9%	33.7%	31.8%
Net Cust Loans/Assets	57.9%	61.5%	64.3%	65.5%
Net Cust Loans/Broad Deposits	66.7%	70.7%	73.8%	75.0%
Equity & Provsns/Gross Cust Loans	16.4%	16.2%	16.0%	16.0%
Asset Risk Weighting	98%	100%	101%	102%
Provision Charge/Avg Cust Loans	1.94%	1.25%	1.16%	1.18%
Provision Charge/Avg Assets	1.14%	0.76%	0.74%	0.78%
Total Write Offs/Average Assets	1.14%	0.76%	0.74%	0.78%

### Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Income Growth	40.7%	29.2%	18.1%	18.6%
Operating Profit Growth	38.5%	29.8%	14.0%	18.6%
Pretax Profit Growth	26.4%	66.3%	15.1%	18.0%
Net Interest To Total Income	80.9%	80.2%	80.3%	80.5%
Cost Of Funds	3.49%	3.60%	3.61%	3.71%
Return On Interest Earning Assets	7.34%	7.82%	8.00%	8.26%
Net Interest Spread	3.85%	4.22%	4.39%	4.55%
Net Interest Margin (Avg Deposits)	5.41%	6.07%	6.21%	6.34%
Net Interest Margin (Avg RWA)	4.09%	4.34%	4.46%	4.60%
Provisions to Pre Prov. Operating Profit	41.3%	24.9%	24.1%	24.4%
Interest Return On Average Assets	3.94%	4.30%	4.49%	4.67%
Effective Tax Rate	24.4%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	30.9%	22.8%	19.9%	16.9%
Return On Average Assets	1.23%	1.70%	1.72%	1.78%

### 12-mth Fwd FD P/E (x)



### Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Loan Growth (%)	22.2%	20.0%	19.0%	17.0%
Net Interest Margin (%)	4.1%	4.5%	4.7%	4.9%
Non Interest Income Growth (%)	41.1%	34.3%	17.4%	17.1%
Cost-income Ratio (%)	43.3%	43.0%	45.0%	45.0%
Net NPL Ratio (%)	0.8%	0.7%	0.8%	0.8%
Loan Loss Reserve (%)	95.9%	101.3%	97.1%	96.5%
GP Ratio (%)	0.7%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	9.6%	9.7%	9.8%	9.9%
Total CAR (%)	12.0%	11.9%	11.8%	11.7%
Deposit Growth (%)	13.0%	15.0%	16.0%	17.0%
Loan-deposit Ratio (%)	82.5%	86.0%	88.1%	88.1%
Gross NPL Ratio (%)	1.2%	1.3%	1.5%	1.5%
Fee Income Growth (%)	65.6%	45.0%	27.0%	25.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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#### 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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