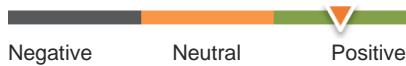


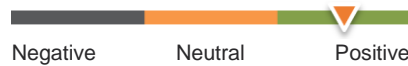
MILITARY COMMERCIAL JSB (MBB) – EARNINGS UPDATE

Market Price VND29,900	Target Price VND38,600	Dividend Yield 2.01%	Rating ADD	Sector FINANCIALS
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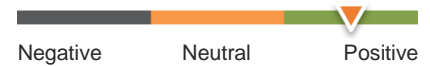
Outlook – Short term



Outlook – Long term



Valuation



2 May 2018

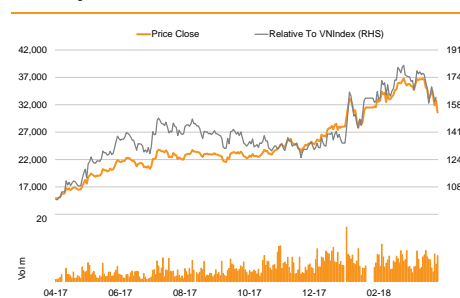
Thuy Le Minh

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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)	15,291
3m Avg daily volume (shares)	6.3m
3m Avg daily value (VNDmn)	212,183
Market cap (VNDbn)	54,284
Outstanding shares (m)	1,816
Free float (%)	20
TTM P/E	13.0x
Current P/B	1.8x

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

MBB announced consolidated 1Q18 financial results showing impressive profit growth, as we had expected. At the current price, MBB is trading at a current P/B of 1.8x, which is attractive compared with the industry average P/B of 2.3x. We maintain our ADD rating.

1Q18 profit soared on solid core growth and a cut in VAMC provisioning. Net interest income grew 36.8% YoY, net fee income grew 35.5% YoY, and other income jumped by 2.4 times. Pre-provision profit posted strong growth of 54.4% but provision expense only increased by 19.5%. As a result, pre-tax profit surged by 72.5% YoY to touch VND1,918bn and after-tax profit surged by 74.1% YoY to touch VND1,549bn. In the first three months, MBB has achieved 28.2% of the bank's FY18 pre-tax profit target and 26.6% of our pre-tax profit projection for the year.

Strong loan growth and improved NIM boosted net interest income (+36.8% YoY). The YTD loan book growth was strong at 5.2% compared to just 0.4% in the same period last year, and also outpaced the YTD deposit book growth rate of 3.1%. NIM also increased from 3.9% in 1Q17 to 4.4% in 1Q18, thanks to higher asset yields and lower funding costs as well as due to the rise in the LDR (from 73.2% by FY17-end to 77.8% by 1Q18-end). Higher asset yields were driven by the expansion of retail lending, within which the individual loan book grew 36% YoY and 8.1% YTD. On the fund mobilization side, the CASA ratio improved from 38.4% in 1Q17 to 42.2% in 1Q18 and, as a result, funding cost fell by 35bps YoY.

Non-interest income surged 54.2% YoY on the back of solid fee income growth, higher bad debt recoveries and an impressive growth in income from securities. Fee income increased by 36.8% YoY with the main drivers being payment services and securities services. Bad debt recoveries increased by 24.1% and income from securities was more than triple that in the same period last year thanks to a strong show at the bank's subsidiary, MB Securities which saw its core operating income rise by 3.5 times from 1Q17 levels, helped by a buoyant stock market and surging liquidity.

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	3,520	5,454	6,549
Net profit growth	16.7%	20.9%	55.0%	20.1%
Adjusted EPS	1,535	1,805	2,554	3,066
BVPS	14,097	15,516	17,954	20,962
ROAE	12.1%	13.2%	18.0%	18.5%

Source: VNDIRECT

MBB ramped up on-balance sheet provisioning but the absence of VAMC provisioning boosted profit. Provision expense increased by 19.5% YoY, in which new provisions booked for on-balance sheet loans surged by 5 times versus 1Q17. In 1Q17, MBB booked VND466bn of provision for VAMC bonds, and the bank completed VAMC provisioning last year, thus it did not need to book VAMC provision beyond 2017. MBB seems to have taken this opportunity to ramp up provisioning for on-balance sheet loans. Although MBB increased provisioning, its loan-loss-coverage ratio (LLR) fell from 95.9% as of FY17-end to 91.0% in 1Q18, as NPL ratio increased to 1.4% from 1.2% as at FY17-end. In addition, loan write-offs in the quarter were triple that of 1Q17. A higher NPL ratio despite higher write-offs are lead-indicators of rising bad debt, and we will watch the indicators for asset quality for another quarter before making adjustments to our credit cost projections.

Figure 1: 1Q18 business results and financial metrics

	1Q17	1Q18	Growth %
Net interest income	2,407	3,293	36.8% YoY
Net fee income	233	315	35.5% YoY
Net other income	262	625	138.1% YoY
Pre-provision profit	1,691	2,611	54.4% YoY
Provision expenses	(579)	(692)	19.5% YoY
Pre-tax profit	1,112	1,918	72.5% YoY
Net profit after tax	890	1,549	74.1% YoY
Loan growth	0.4% YTD	5.2% YTD	
Deposit growth	-6.4% YTD	3.1% YTD	
Net interest margin (NIM)	3.93%	4.41%	
NPL	1.33%	1.41%	

Source: Company, VNDIRECT

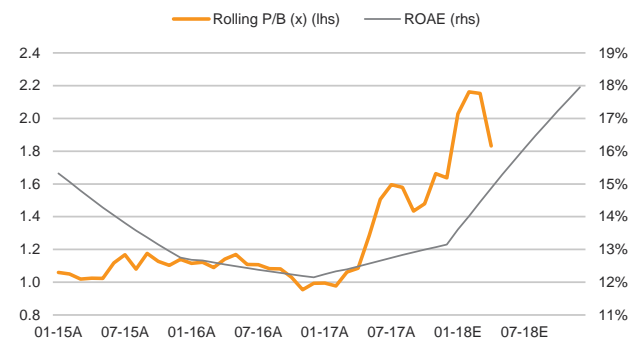
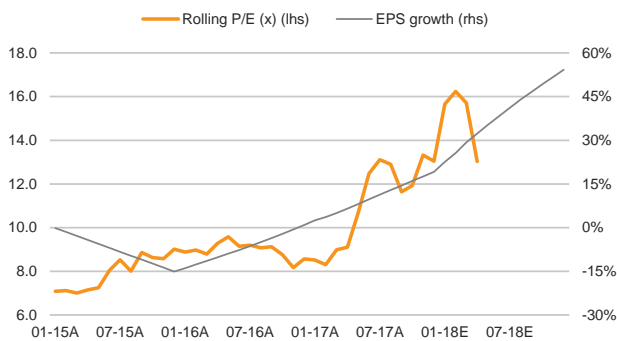
Maintain ADD rating. The recent plunge in banking sector share prices due to strong profit-taking activities has brought MBB down to an attractive valuation. MBB's valuation fell from a recent peak of nearly 2.2x P/B to 1.7x of FY18 P/B. Based on its solid earnings growth and best-in-class asset quality, we maintain our ADD rating on MBB with a target price of VND38,600 (upside 29.1%). Our target price is based on a combination of a target P/B multiple-based approach and a Residual Income approach.

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
Target price			38,597

Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net interest income	11,219	13,566	15,598
Non interest income	2,648	3,176	3,731
Total operating income	13,867	16,742	19,329
Total operating costs	(5,999)	(7,534)	(8,698)
Pre-provision operating profit	7,868	9,208	10,631
Total provision charges	(3,252)	(2,004)	(2,002)
Income from associates & JVs			
Net other income			
Pre-tax profit	4,616	7,204	8,629
Taxation	(1,125)	(1,756)	(2,104)
Profit after tax	3,490	5,448	6,525
Minority interests	29	6	24
Net profit	3,520	5,454	6,549

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Gross loans to customers	184,188	217,342	256,464
Loans to banks			
Total gross loans	184,188	217,342	256,464
Securities - total	53,841	54,380	56,555
Other interest earning assets	60,303	60,906	63,342
Total gross IEAs	298,332	332,628	376,361
Total provisions	(2,486)	(3,005)	(3,277)
Net loans to customers	182,062	214,700	253,564
Total net IEAs	295,847	329,622	373,083
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
Total non-IEAs	18,031	19,293	20,644
Total assets	313,878	348,916	393,727
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
Total IBLs	274,444	303,097	342,937
Deferred tax liability			
Other non-interest bearing liabilities	9,832	11,791	11,302
Total non-IBLs	9,832	11,791	11,302
Total liabilities	284,277	314,888	354,240
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
Shareholders' equity	28,170	32,596	38,056
Minority interests	1,431	1,431	1,431
Total equity	29,601	34,028	39,487
Total liabilities & equity	313,878	348,916	393,727

	12-17A	12-18E	12-19E
Growth rate (yoy)			
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	20.9%	55.0%	20.1%
Growth in IEAs	23.3%	11.4%	13.2%
Share value			
Basic EPS (VND)	1,948	3,004	3,607
BVPS (VND)	15,516	17,954	20,962
DPS (VND)	600	600	600
EPS growth	19.2%	54.2%	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%
Margins and spreads			
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	13.2%	18.0%	18.5%

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	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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