

Vietnam

ADD (no change)

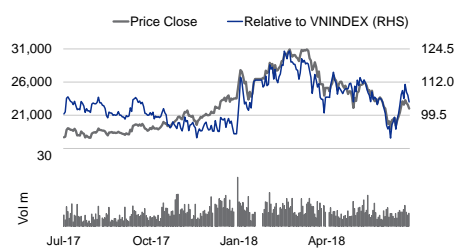
Consensus ratings*: Buy 6 Hold 0 Sell 0

Current price: VND22,000
 Target price: VND33,400
 Previous target: VND39,700
 Up/downside: 51.8%
 CGS-CIMB / Consensus: -5.4%

Reuters: MBB.HM
 Bloomberg: MBB.VN
 Market cap: US\$2,050m
 VND47,529,932m
 Average daily turnover: US\$5.74m
 VND131,274m
 Current shares o/s: 2,160m
 Free float: 20.0%
 *Source: Bloomberg

Key changes in this note

➤ FY18-20F EPS cut by 16%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-7.2	-14.3	24.4
Relative (%)	-0.8	-0.1	3.5

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

1H18: Robust earnings growth across all segments

- MBB's 1H18 pretax profit grew 51.7% yoy to reach VND3,829bn, fulfilling 56% of the bank's FY18F target and 50% of our FY18F forecast.
- 1H18 net profit is in line with our expectations, at 53% of our FY18F estimate.
- Our target price is adjusted down to VND33,400 and FY18-20F EPS lowered by 16% in response to the 1-for-0.19 stock dividends and bonus shares paid in Jul 2018.
- MBB's stellar earnings performance in 1H18 reaffirms our Add rating.

Net interest income (NII) rose 32.3% yoy due to NIM expansion

MBB's net interest income (NII) touched 4.5% in 1H18, up by an impressive 50bp yoy. The NIM expansion in 1H18 was underpinned by: 1) strong loan growth of 18.6% yoy, outpacing deposit growth of 15.5% yoy; 2) 13bp yoy reduction in funding costs due to improvement in current account and saving account (CASA) ratio from 37% at end-1H17 to 39% at end-1H18; 3) expansion of the individual loan book by 36.7% yoy. Individual loan book growth outperformed the overall loan book growth, raising the contribution of the individual loan book to the total loan book from 32.6% at end-FY17 to 34.9% at end-1H18.

NFI soared thanks to payment & cash services and bancassurance

In 1H18, net fee income (NFI) rose by 50.0% yoy thanks to higher net income from payment and cash services (+67.3% yoy), as well as higher net income from insurance sales (+120.4% yoy). The high insurance income growth in 1H18 is in line with our expectations, as we expect insurance income to achieve robust growth in FY18F, given the low base (MBB only started distributing life insurance products in FY17).

Other non-interest income doubled

Bad debt recoveries showed strong improvement, with recoveries income rising 85.3% yoy in 1H18. 1H18 income from securities jumped by 2.5x yoy, thanks to a strong showing by the bank's subsidiary, MB Securities (MBS, Not Rated). MBS's 1H18 pretax profit increased by 10.6x yoy in 1H18 due to the stellar performance of its brokerage and investment businesses. As of end-1H18, MBS ranked fifth in terms of stock brokerage market share for both the Ho Chi Minh Stock Exchange and Hanoi Stock Exchange, and ranked 4th in term of futures contract brokerage market share.

Strong earnings growth enabled more diligent provisioning

1H18 provision expenses increased by 25.5% yoy as MBB ramped up both general and specific provisioning. The new provisions booked for on-balance sheet loans in 1H18 was triple the amount booked during the same period last year. Higher provisioning allowed MBB to increase loan write-offs and as a result, the reported non-performing loan ratio (NPL) was cut from 1.4% at end-1Q18 to 1.3% at end-2Q18. Provision balance also increased to fully cover bad debts, with loan loss reserves (LLR) improving from 95.9% at end-FY17 to 106.2% at end-2Q18.

Our target price is adjusted down to VND33,400; reiterate Add

As 1H18 net profit was in line, at 53% of our FY18F forecast, we make no changes to our FY18-20F net profit estimates. However, we increase MBB's number of shares outstanding to reflect the recent 1-for-0.19 stock dividend and bonus shares. Hence, our FY18-20F EPS is nominally lowered by 16% and our target price adjusts down from VND39,700 to VND33,400. At the current price, we view MBB's FY18F P/BV of 1.4x as attractive compared to regional peers' average of 2.5x.

Financial Summary

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income (VNDb)	7,979	11,219	14,364	16,989	20,200
Total Non-Interest Income (VNDb)	1,876	2,648	3,555	4,175	4,890
Operating Revenue (VNDb)	9,855	13,867	17,919	21,164	25,090
Total Provision Charges (VNDb)	(2,030)	(3,252)	(2,538)	(2,805)	(3,370)
Net Profit (VNDb)	2,912	3,520	5,673	6,521	7,681
Core EPS (VND)	1,293	1,517	2,434	2,797	3,295
Core EPS Growth	0.9%	17.3%	60.4%	14.9%	17.8%
FD Core P/E (x)	17.02	14.50	9.04	7.87	6.68
DPS (VND)	600.0	600.0	600.0	600.0	600.0
Dividend Yield	2.73%	2.73%	2.73%	2.73%	2.73%
BVPS (VND)	11,846	13,039	15,189	17,703	20,658
P/BV (x)	1.86	1.69	1.45	1.24	1.06
ROE	11.4%	12.2%	17.2%	17.0%	17.2%
% Change In Core EPS Estimates			(15.9%)	(15.9%)	(15.9%)
CIMB/consensus EPS (x)			1.06	0.97	1.08

SOURCES: VND RESEARCH, COMPANY REPORTS

1H18: Robust earnings growth across all segments

Figure 1: Results comparison (VND bn unless otherwise noted)

Income statement	2Q18	2Q17	yoy%	1Q18	qoq%	1H18	1H17	yoy%	VND FY18F	% of VND	Comment
Net interest income	3,504	2,732	28%	3,293	6%	6,797	5,139	32%	14,619	46%	Below our forecast. We revise down our NII forecast by 1.7% for FY18F
Non-interest income	1,301	747	74%	940	38%	2,241	1,242	80%	3,263	69%	Outdid our forecast. We revise up our Non-II forecast by 9.0% for FY18F.
Operating revenue	4,805	3,479	38%	4,234	13%	9,038	6,380	42%	17,882	51%	In line with our forecast.
Operating expenses	(1,927)	(1,324)	46%	(1,623)	19%	(3,550)	(2,534)	40%	(7,689)	46%	Below our forecast but we expect operating costs to increase toward the year end due to salary and fixed assets expenses.
Pre-provision profit	2,878	2,155	34%	2,611	10%	5,488	3,846	43%	10,193	54%	Outdid our forecast as operating expense is lower than our forecast.
Provision expenses	(967)	(743)	30%	(692)	40%	(1,659)	(1,322)	26%	(2,538)	65%	Outdid our forecast. In 1H18, MBB ramped up provisioning to write-off more loans and increase LLR. As NPL reduced to 1.3% and LLR sharply increased to 106.2%, we expect provisioning will slow down in 2H18.
Pretax profit	1,911	1,412	35%	1,918	0%	3,829	2,524	52%	7,654	50%	In line with our forecast.
After tax profit	1,491	1,108	35%	1,549	-4%	3,040	1,998	52%	5,788	53%	In line with our forecast.

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 2: MBB's key ratios by quarter

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
NII/Total operating income (TOI)	82.9%	78.5%	78.1%	84.2%	77.8%	72.9%
NOII/TOI	17.1%	21.5%	21.9%	15.8%	22.2%	27.1%
NIM	3.7%	4.0%	4.1%	4.3%	4.4%	4.5%
Loan-to-deposit ratio	73.4%	75.3%	75.8%	73.2%	77.8%	76.6%
NPL	1.3%	1.3%	1.3%	1.2%	1.4%	1.3%
LLR	100.5%	102.9%	87.0%	95.9%	91.0%	106.2%
Credit cost (annualized)	1.5%	1.6%	1.6%	1.9%	1.5%	1.7%
ROAA (annualized)	1.3%	1.4%	1.5%	1.1%	1.8%	1.8%
ROAE (annualized)	12.9%	14.3%	15.0%	11.9%	18.5%	18.1%

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 3: Changes in our forecasts (VND bn unless otherwise noted)

	Old forecasts			New forecasts			Change		
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F
Net interest income	14,619	17,228	20,404	14,364	16,989	20,200	-1.7%	-1.4%	-1.0%
Non-interest income	3,263	3,865	4,565	3,555	4,175	4,890	9.0%	8.0%	7.1%
Operating revenue	17,882	21,093	24,969	17,919	21,164	25,090	0.2%	0.3%	0.5%
Operating expenses	7,689	9,492	11,236	7,705	9,524	11,291	0.2%	0.3%	0.5%
Pre-provision profit	10,193	11,601	13,733	10,214	11,640	13,800	0.2%	0.3%	0.5%
Provision expenses	2,538	2,805	3,369	2,538	2,805	3,370	0.0%	0.0%	0.0%
Pretax profit	7,654	8,796	10,364	7,676	8,836	10,430	0.3%	0.4%	0.6%
Tax expense	1,866	2,145	2,527	1,842	2,121	2,503	-1.3%	-1.1%	-0.9%
Net profit	5,671	6,517	7,679	5,673	6,521	7,681	0.0%	0.0%	0.0%
Number of shares outstanding (million shares)	1,816	1,816	1,816	2,160	2,160	2,160	19.0%	19.0%	19.0%
EPS (VND/share)	2,895	3,327	3,920	2,434	2,797	3,295	-15.9%	-15.9%	-15.9%

SOURCES: VND RESEARCH, COMPANY REPORTS

VALUATION AND RECOMMENDATION

Our target price adjusts down to VND33,400; potential upside of 51.8% ➤

Figure 4: Key assumptions of residual income valuation, based on our estimates

Assumptions	2018F	2019F	2020F	2021F	2022F	Terminal year
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Beta	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
RI	1,989	2,228	2,678	3,416	4,386	3,420
PV of Residual income	1,759	1,743	1,852	2,089	2,372	33,937
Opening shareholder's equity	28,170					
PV of RI (5 years)	9,815					
PV of terminal value	33,937					
Implied EV	71,921					
No. of outstanding shares (mn shares)	2,160					
Implied value per share (VND/share)						33,290

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 5: Our target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	70%	33,290	23,303
P/BV multiple (at 1.9x FY19F BVPS)	30%	33,636	10,091
Target price (VND/share)			33,394
Target price (VND/share, rounded)			33,400

SOURCES: VND RESEARCH, COMPANY REPORTS

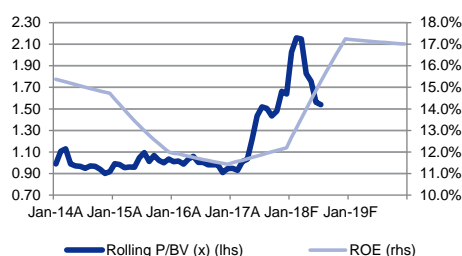
Figure 6: Regional sector comparison

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	31	41	103,951	1.3	1.1	7.9	6.4	23.3%	18.0%	19.4%
Indusind Bank	IIB IN	ADD	1,947	2,200	16,961	4.4	3.7	26.2	20.8	27.1%	18.1%	19.3%
Yes Bank	YES IN	ADD	384	450	12,853	3.0	2.6	17.2	13.8	24.6%	19.1%	20.2%
BDO Unibank Inc	BDO PM	ADD	135	154	11,050	1.8	1.6	16.4	13.3	20.4%	11.5%	12.6%
TMB Bank	TMB TB	ADD	2	4	2,944	1.0	0.9	8.8	7.1	22.4%	14.6%	16.5%
Vietcombank	VCB VN	ADD	55,300	79,500	8,562	3.2	2.7	21.0	17.9	20.7%	16.3%	16.4%
Average regional peers						2.5	2.1	16.3	13.2	23.1%	16.2%	17.4%
Military Commercial Joint Stock Bank	MBB VN	ADD	22,000	33,400	2,045	1.4	1.2	8.4	7.3	29.5%	17.2%	17.0%

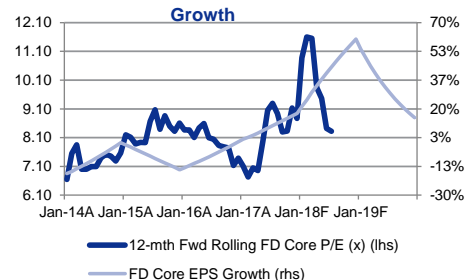
NOTE: AS OF 25 JUL 2018
 SOURCES: VND RESEARCH, CGS-CIMB RESEARCH, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income	7,979	11,219	14,364	16,989	20,200
Total Non-Interest Income	1,876	2,648	3,555	4,175	4,890
Operating Revenue	9,855	13,867	17,919	21,164	25,090
Total Non-Interest Expenses	(4,175)	(5,999)	(7,705)	(9,524)	(11,291)
Pre-provision Operating Profit	5,681	7,868	10,214	11,640	13,800
Total Provision Charges	(2,030)	(3,252)	(2,538)	(2,805)	(3,370)
Operating Profit After Provisions	3,651	4,616	7,676	8,836	10,430
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Operating EBIT (incl Associates)	3,651	4,616	7,676	8,836	10,430
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	3,651	4,616	7,676	8,836	10,430
Exceptional Items					
Pre-tax Profit	3,651	4,616	7,676	8,836	10,430
Taxation	(767)	(1,125)	(1,842)	(2,121)	(2,503)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	2,884	3,490	5,834	6,715	7,927
Minority Interests	28	29	(160)	(195)	(246)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	2,912	3,520	5,673	6,521	7,681
Recurring Net Profit	2,740	3,262	5,258	6,043	7,119

Balance Sheet Employment

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Loans/Cust Deposits	77.4%	83.7%	87.3%	89.5%	89.5%
Avg Loans/Avg Deposits	72.3%	80.7%	85.6%	88.5%	89.5%
Avg Liquid Assets/Avg Assets	38.5%	36.9%	35.2%	32.2%	30.5%
Avg Liquid Assets/Avg IEAs	40.5%	38.8%	36.9%	33.7%	31.8%
Net Cust Loans/Assets	57.4%	57.9%	61.5%	64.3%	65.5%
Net Cust Loans/Broad Deposits	66.3%	66.7%	70.7%	73.8%	75.0%
Equity & Provs/Gross Cust Loans	18.2%	16.4%	16.2%	16.0%	16.0%
Asset Risk Weighting	94%	98%	100%	101%	102%
Provision Charge/Avg Cust Loans	1.49%	1.94%	1.25%	1.16%	1.18%
Provision Charge/Avg Assets	0.85%	1.14%	0.76%	0.74%	0.78%
Total Write Offs/Average Assets	0.85%	1.14%	0.76%	0.74%	0.78%

SOURCES: VND, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Gross Loans	177,691	237,686	275,593	320,316	370,759
Liquid Assets & Invst. (Current)	55,833	53,841	55,457	58,230	65,217
Other Int. Earning Assets	10,056	6,805	7,009	7,360	8,243
Total Gross Int. Earning Assets	243,579	298,332	338,059	385,906	444,220
Total Provisions/Loan Loss Reserve	(3,671)	(2,486)	(3,330)	(4,129)	(5,023)
Total Net Interest Earning Assets	239,908	295,847	334,729	381,777	439,197
Intangible Assets	944	1,018	1,099	1,187	1,282
Other Non-Interest Earning Assets	13,887	15,171	16,385	17,696	19,111
Total Non-Interest Earning Assets	14,831	16,189	17,484	18,883	20,394
Cash And Marketable Securities	1,520	1,842	1,989	2,149	2,320
Long-term Investments	0	0	0	0	0
Total Assets	256,259	313,878	354,203	402,808	461,911
Customer Interest-Bearing Liabilities	197,179	226,198	259,345	300,165	350,419
Bank Deposits	24,713	46,101	48,406	50,827	53,368
Interest Bearing Liabilities: Others	258	2,145	2,182	2,220	2,258
Total Interest-Bearing Liabilities	222,151	274,444	309,933	353,211	406,044
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	7,520	9,832	9,862	9,564	9,203
Total Liabilities	229,670	284,277	319,796	362,775	415,248
Shareholders' Equity	25,352	28,170	32,815	38,246	44,631
Minority Interests	1,236	1,431	1,592	1,787	2,032
Total Equity	26,588	29,601	34,407	40,033	46,664

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Income Growth	12.4%	40.7%	29.2%	18.1%	18.6%
Operating Profit Growth	6.7%	38.5%	29.8%	14.0%	18.6%
Pretax Profit Growth	13.3%	26.4%	66.3%	15.1%	18.0%
Net Interest To Total Income	81.0%	80.9%	80.2%	80.3%	80.5%
Cost Of Funds	3.65%	3.49%	3.60%	3.61%	3.71%
Return On Interest Earning Assets	6.87%	7.34%	7.82%	8.00%	8.26%
Net Interest Spread	3.22%	3.85%	4.22%	4.39%	4.55%
Net Interest Margin (Avg Deposits)	4.24%	5.41%	6.07%	6.21%	6.34%
Net Interest Margin (Avg RWA)	3.51%	4.09%	4.34%	4.46%	4.60%
Provisions to Pre Prov. Operating Profit	35.7%	41.3%	24.9%	24.1%	24.4%
Interest Return On Average Assets	3.34%	3.94%	4.30%	4.49%	4.67%
Effective Tax Rate	21.0%	24.4%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	35.3%	30.9%	22.8%	19.9%	16.9%
Return On Average Assets	1.22%	1.23%	1.70%	1.72%	1.78%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Loan Growth (%)	24.2%	22.2%	20.0%	19.0%	17.0%
Net Interest Margin (%)	3.5%	4.1%	4.5%	4.7%	4.9%
Non Interest Income Growth (%)	29.1%	41.1%	34.3%	17.4%	17.1%
Cost-income Ratio (%)	42.4%	43.3%	43.0%	45.0%	45.0%
Net NPL Ratio (%)	0.7%	0.8%	0.7%	0.8%	0.8%
Loan Loss Reserve (%)	103.2%	95.9%	101.3%	97.1%	96.5%
GP Ratio (%)	0.7%	0.7%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	11.1%	9.6%	9.7%	9.8%	9.9%
Total CAR (%)	12.5%	12.0%	11.9%	11.8%	11.7%
Deposit Growth (%)	7.3%	13.0%	15.0%	16.0%	17.0%
Loan-deposit Ratio (%)	75.5%	82.5%	86.0%	88.1%	88.1%
Gross NPL Ratio (%)	1.3%	1.2%	1.3%	1.5%	1.5%
Fee Income Growth (%)	25.5%	65.6%	45.0%	27.0%	25.0%

SOURCES: VND, COMPANY REPORTS

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