

Vietnam

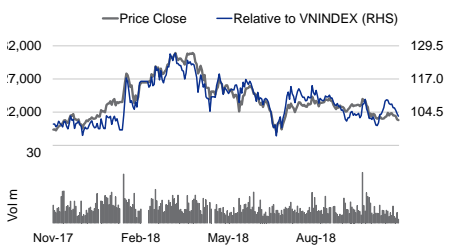
ADD (no change)

Consensus ratings*: Buy 8 Hold 0 Sell 0

Current price:	VND20,800
Target price:	VND31,100
Previous target:	VND33,400
Up/downside:	49.5%
CGS-CIMB / Consensus:	-2.1%
Reuters:	MBB.HM
Bloomberg:	MBB VN
Market cap:	US\$1,929m
	VND44,937,388m
Average daily turnover:	US\$5.82m
	VND135,718m
Current shares o/s:	2,160m
Free float:	20.0%
*Source: Bloomberg	

Key changes in this note

- FY18/19/20F EPS increased by 5.7%/5.5%/ 6.0% respectively.
- COE revised up from 13.1% to 13.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.6	-10.5	5.1
Relative (%)	0.8	-5.3	-0.6

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

Robust growth will be sustained through 2018

- 9M18 pre-tax profit reached VND6,015bn (+50.3% yoy), fulfilling 88% of the bank's full-year target and 78% of our full year forecast.
- MBB currently trades at a FY18F P/BV of 1.4x, a 33.9% discount to regional peer average despite a higher ROE and better earnings growth outlook.
- We reiterate Add rating but lower our TP by 6.9% due to a higher COE.

Strong growth across all major income streams in 9M18

Net Interest Income (NII) grew 30.8% yoy as net interest margin increased 43bp yoy to 4.5% on strong individual loan growth (+28.1% yoy vs. +16.2% yoy for the overall loan book) which generates higher yields than corporate loans. Net Fee Income (NFI) grew 62.9% yoy, driven by payment and cash services (+36.3% yoy) and bancassurance commissions (+220.6% yoy). Other non-interest income grew 70.1% yoy, driven by FX trading (+121.5% yoy), bad debt recovery (+51.7% yoy), and income from securities (+69.8% yoy) thanks to low bond yields in 1Q18.

Loan growth stalled in 3Q18 but credit room still available for 4Q18

The State Bank of Vietnam (SBV) started tightening credit growth to control inflation. As such, MBB's qoq loan growth flat-lined in 3Q18. The 9M18 loan book grew 16.2% yoy, lower than the 21.1% yoy growth in 9M17. In 9M18, credit growth reached 11.5%, lower than the 15% quota assigned by the SBV. Therefore, MBB still has some room for credit growth in 4Q18. We expect full year loan growth to come in at 15%.

Non-performing loan (NPL) ratio rose but provision buffer improved

NPL ratio increased from 1.3% at end-9M17 to 1.6% at end-9M18 as bad debt balance rose 37.3% yoy while loan book growth trailed at 16.2% yoy. Besides that, a lower write-off rate of 0.5% of the average loan book in 3Q18 vs. 0.6% in 3Q17 also contributed to a higher NPL ratio. Although NPLs increased, MBB ramped up provisioning, leading to an improvement in its Loan-Loss-Reserves from 87% at end-9M17 to 106% at end-9M18.

Maintain Add but lower TP due to higher cost of equity (COE)

We lower our TP by 6.9% to VND31,100 as we increase COE from 13.1% to 13.8%, while FY18/19/20F EPS is increased by 5.7%/5.5%/6.0% respectively, due to higher projected Non-Il and lower projected operating expenses versus previous forecasts. Our TP is based on residual income valuation (COE: 13.8%, LTG: 3.0%, 70% weighting) and P/BV multiple (30% weighting) using a target P/BV of 1.9x for FY19F.

Re-rating catalysts and downside risks

Re-rating catalysts include divestment from MBLand Holdings and Military Insurance Joint Stock Company. Downside risks are increased NPLs due to the higher risks inherent in retail lending and an imminent rise in interest rates.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income (VNDb)	7,979	11,219	14,165	16,388	19,157
Total Non-Interest Income (VNDb)	1,876	2,648	4,309	4,987	5,850
Operating Revenue (VNDb)	9,855	13,867	18,475	21,375	25,007
Total Provision Charges (VNDb)	(2,030)	(3,252)	(3,004)	(3,212)	(3,619)
Net Profit (VNDb)	2,912	3,520	5,995	6,882	8,141
Core EPS (VND)	1,293	1,517	2,572	2,952	3,492
Core EPS Growth	0.9%	17.3%	69.5%	14.8%	18.3%
FD Core P/E (x)	16.09	13.71	8.09	7.05	5.96
DPS (VND)	600.0	600.0	600.0	600.0	600.0
Dividend Yield	2.88%	2.88%	2.88%	2.88%	2.88%
BVPS (VND)	11,846	13,039	15,338	17,924	21,092
P/BV (x)	1.76	1.60	1.36	1.16	0.99
ROE	11.4%	12.2%	18.1%	17.8%	17.9%
% Change In Core EPS Estimates			5.68%	5.55%	5.99%
CIMB/consensus EPS (x)			1.10	1.05	1.09

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Robust growth will be sustained through 2018

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

Income statement	3Q18	3Q17	yoy%	2Q18	qoq%	9M18	9M17	yoy%	VND FY18F	% of VND	Comment
Net interest income	3,633	2,835	28%	3,504	4%	10,430	7,974	31%	14,364	73%	In line with our forecasts.
Non-interest income	1,166	797	46%	1,287	-9%	3,394	2,038	66%	3,555	95%	Outperformed our forecasts thanks to strong growth in bancassurance, high income from securities and better bad debt recovery.
Operating revenue	4,799	3,632	32%	4,791	0%	13,823	10,012	38%	17,919	77%	In line with our forecasts. In 9M18, MBB recorded big gains from securities investment thanks to low bond yields in 1Q18, but we expect income from this business will drop in 4Q18.
Operating expenses	(1,968)	(1,540)	28%	(1,927)	2%	(5,518)	(4,074)	35%	(7,705)	72%	Below our forecasts but we expect opex will increase towards year-end.
Pre-provision profit	2,831	2,092	35%	2,864	-1%	8,306	5,938	40%	10,214	81%	Above our forecasts.
Provision expenses	(646)	(614)	5%	(953)	-32%	(2,291)	(1,936)	18%	(2,538)	90%	Above our forecasts due to rising NPLs.
Pre-tax profit	2,185	1,478	48%	1,911	14%	6,015	4,002	50%	7,676	78%	In line with our forecasts.
After-tax profit	1,761	1,195	47%	1,449	22%	4,801	3,192	50%	5,673	85%	Above our forecasts due to tax expenses tracking lower than our projection.

SOURCES: VND RESEARCH, COMPANY REPORTS

9M18 net interest income grew 30.8% yoy on higher NIM. NIM increased 43bp yoy to 4.5% on strong individual loan growth. The higher-yield individual loan book grew 28.1% yoy, outpacing total loan book growth (+16.2% yoy). As such, the contribution of individual loan book to total loans increased from 33.0% at end-9M17 to 36.4% 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 brokerage commission revenue (+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 recovery increased 51.7% yoy, and income from securities increased 69.8% yoy thanks to low bond yields in 1Q18.

Rising NPLs fuelled a hike in provision expenses. NPL ratio increased from 1.3% at end-9M17 to 1.6% at end-9M18, leading to 18.3% yoy growth in 9M18 provision expenses. However, the hike in provision expenses trailed the growth of pre-provision profit (+39.9% yoy). As such, pre-tax profit achieved impressive growth of 50.3% yoy to reach VND6,015bn.

MBB is on track to meet our FY18F pre-tax forecast. 9M18 pre-tax profit fulfilled 78% of our forecast. In 9M18, MBB saw strong growth in non-interest income. Notably, income from securities posted 69.8% yoy growth as the bank took profit on its bond portfolio amid a low bond yield environment. With increasing interest rates, we expect income from securities will reduce substantially towards year-end. 9M18 operating expenses trailed our forecast at 72% of the full-year projection, but we expect operating expenses to accelerate in the last few months, pushing the cost-to-income ratio from 41.0% in 9M18 to 41.5% by end-FY18F.

Figure 2: MBB's key ratios by quarter

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
NII/Total Operating Income (TOI)	82.9%	78.5%	78.1%	84.2%	77.8%	73.1%	75.7%
Non-II/TOI	17.1%	21.5%	21.9%	15.8%	22.2%	26.9%	24.3%
NIM (12 months trailing)	3.7%	4.0%	4.1%	4.3%	4.4%	4.5%	4.5%
Loan-to-deposit ratio	73.4%	75.3%	75.8%	73.2%	77.8%	76.6%	73.6%
NPL	1.3%	1.3%	1.3%	1.2%	1.4%	1.3%	1.6%
Loan-Loss-Reserves (LLR)	100.5%	102.9%	87.0%	95.9%	91.0%	106.2%	106.0%
Credit cost (annualised)	1.5%	1.6%	1.6%	1.9%	1.5%	1.7%	1.6%
ROAA (annualised)	1.4%	1.5%	1.5%	1.2%	2.0%	1.9%	1.9%
ROAE (annualised)	14.1%	15.3%	16.0%	13.1%	20.4%	20.2%	20.8%

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision

	Old forecasts			New forecasts			Change			Comments
	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	FY18F	FY19F	FY20F	
<i>(VND bn, otherwise noted)</i>										
Net Interest Income	14,364	16,989	20,200	14,165	16,388	19,157	-1.4%	-3.5%	-5.2%	Lower NII forecasts due to lower loan growth assumptions as the SBV is tightening credit growth. Loan growth assumptions for FY18/19/20F were reduced from 20%/19%/17% to 15%. We also lower deposit growth forecasts in accordance to a slowdown in loan growth.
Non-Interest Income	3,555	4,175	4,890	4,309	4,987	5,850	21.2%	19.4%	19.6%	We revise up non-II forecasts due to higher-than-expected income from insurance services, bad debt recovery and investment securities.
Operating revenue	17,919	21,164	25,090	18,475	21,375	25,007	3.1%	1.0%	-0.3%	
Operating expenses	(7,705)	(9,524)	(11,291)	(7,667)	(9,191)	(10,753)	-0.5%	-3.5%	-4.8%	
Pre-provision profit	10,214	11,640	13,800	10,808	12,184	14,254	5.8%	4.7%	3.3%	
Provision expenses	(2,538)	(2,805)	(3,370)	(3,004)	(3,212)	(3,619)	18.4%	14.5%	7.4%	We increase our forecasts for provision expenses as NPL is rising faster than expected.
Pre-tax profit	7,676	8,836	10,430	7,803	8,972	10,635	1.7%	1.5%	2.0%	
Tax expense	(1,842)	(2,121)	(2,503)	(1,639)	(1,884)	(2,233)	-11.0%	-11.2%	-10.8%	We lower tax rate assumptions from 24% to 21% as the effective tax rate in 9M18 was only 21%. In FY17, MBB had VND615bn extraordinary income from the divestment from Mcredit, which was taxable but the gain was not booked in the consolidated profit & loss statement, as such tax rate was pushed to 24%. There is no such one-off income in FY18F.
Net profit	5,673	6,521	7,681	5,995	6,882	8,141	5.7%	5.5%	6.0%	
No. of shares outstanding (m)	2,160	2,160	2,160	2,160	2,160	2,160	0.0%	0.0%	0.0%	
EPS (VND/share)	2,434	2,797	3,295	2,572	2,952	3,492	5.7%	5.5%	6.0%	

SOURCES: VND RESEARCH, COMPANY REPORTS

VALUATION

We maintain Add rating but lower TP by 6.9% to VND31,100

We lower our TP from VND33,400 to VND31,100 due to higher COE assumption in the residual income valuation. Our COE is adjusted upwards from 13.1% previously to 13.8% as we now apply a higher risk premium than the previous update which reflects our concerns over the higher volatility in the stock market in the near term. We use a combination of residual income valuation (70% weighting) and P/BV multiple approach (30% weighting) to arrive at a TP of 31,100. For the P/BV multiple valuation, we use a target P/BV of 1.9x on FY19F book value per share, 7.1% higher than the regional peer average as MBB has a higher ROE and stronger earnings growth outlook than peers. At our target price, FY18F and FY19F P/BV would be 2.0x and 1.7x, respectively. The potential upside is 49.5%.

Figure 4: Target price calculation, based on our estimates

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	70%	29,844	20,891
P/BV multiple (at 1.9x FY19F BVPS)	30%	34,055	10,216
Target price (VND/share)			31,108
Target price (VND/share, rounded)			31,100

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 5: 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	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
RI	2,108	2,309	2,797	3,362	3,933	2,884
PV of Residual income	1,852	1,783	1,898	2,005	2,061	26,709
Opening shareholder's equity	28,170					
PV of RI (5 years)	9,599					
PV of terminal value	26,709					
Implied EV	64,477					
No. of outstanding shares (m shares)	2,160					
Implied value per share (VND/share)	29,844					

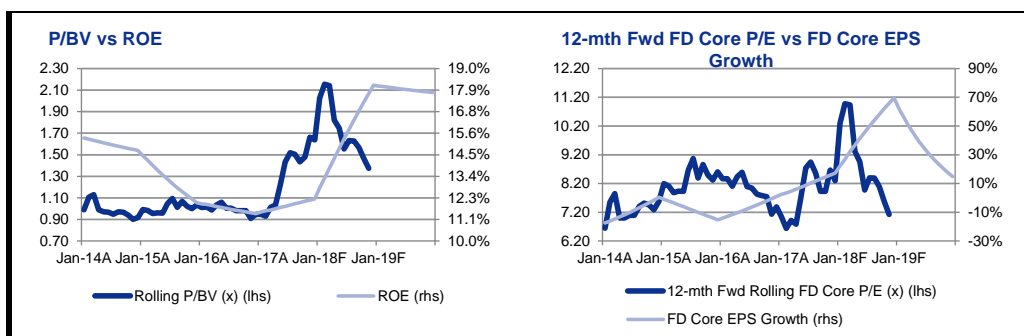
SOURCES: VND RESEARCH, COMPANY REPORTS

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	32	41	103,314	1.4	1.2	8.4	6.8	23.3%	18.0%	19.4%
Indusind Bank	IIB IN	ADD	1,492	2,200	12,314	3.4	2.8	20.1	15.9	27.1%	18.1%	19.3%
BDO Unibank Inc	BDO PM	ADD	116	150	9,534	1.5	1.4	15.5	12.3	18.3%	10.5%	11.9%
Vietcombank	VCB VN	ADD	54,600	79,500	8,432	3.1	2.7	17.2	14.7	20.7%	15.5%	15.6%
Yes Bank	YES IN	HOLD	223	215	7,072	1.8	1.5	11.3	8.6	24.4%	17.0%	19.2%
TMB Bank	TMB TB	HOLD	2	2	3,072	1.1	1.0	11.7	10.9	8.8%	9.3%	9.4%
Average regional peers						2.1	1.8	14.0	11.5	20.4%	14.7%	15.8%
Military Commercial Joint Stock Bank	MBB VN	ADD	20,800	31,100	1,929	1.4	1.2	7.5	6.5	32.0%	18.1%	17.8%

PRICE AS OF 12 NOV 2018
SOURCES: CGS-CIMB RESEARCH, VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income	7,979	11,219	14,165	16,388	19,157
Total Non-Interest Income	1,876	2,648	4,309	4,987	5,850
Operating Revenue	9,855	13,867	18,475	21,375	25,007
Total Non-Interest Expenses	(4,175)	(5,999)	(7,667)	(9,191)	(10,753)
Pre-provision Operating Profit	5,681	7,868	10,808	12,184	14,254
Total Provision Charges	(2,030)	(3,252)	(3,004)	(3,212)	(3,619)
Operating Profit After Provisions	3,651	4,616	7,803	8,972	10,635
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Operating EBIT (incl Associates)	3,651	4,616	7,803	8,972	10,635
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	3,651	4,616	7,803	8,972	10,635
Exceptional Items					
Pre-tax Profit	3,651	4,616	7,803	8,972	10,635
Taxation	(767)	(1,125)	(1,639)	(1,884)	(2,233)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	2,884	3,490	6,165	7,088	8,402
Minority Interests	28	29	(170)	(206)	(260)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	2,912	3,520	5,995	6,882	8,141
Recurring Net Profit	2,740	3,262	5,556	6,378	7,545

Balance Sheet Employment

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Loans/Cust Deposits	77.4%	83.7%	88.3%	90.6%	91.4%
Avg Loans/Avg Deposits	72.3%	80.7%	86.1%	89.5%	91.0%
Avg Liquid Assets/Avg Assets	38.5%	36.9%	35.6%	33.5%	32.1%
Avg Liquid Assets/Avg IEAs	40.5%	38.8%	37.4%	35.0%	33.5%
Net Cust Loans/Assets	57.4%	57.9%	60.5%	62.4%	63.6%
Net Cust Loans/Broad Deposits	66.3%	66.7%	69.9%	72.4%	73.9%
Equity & Provs/Gross Cust Loans	18.2%	16.4%	17.3%	17.8%	18.4%
Asset Risk Weighting	94%	98%	100%	101%	102%
Provision Charge/Avg Cust Loans	1.49%	1.94%	1.52%	1.41%	1.38%
Provision Charge/Avg Assets	0.85%	1.14%	0.91%	0.88%	0.89%
Total Write Offs/Average Assets	0.85%	1.14%	0.91%	0.88%	0.89%

SOURCES: VND RESEARCH, 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	266,384	300,885	343,152
Liquid Assets & Invst. (Current)	55,833	53,841	54,918	58,213	62,870
Other Int. Earning Assets	10,056	6,805	6,941	7,358	7,946
Total Gross Int. Earning Assets	243,579	298,332	328,243	366,456	413,969
Total Provisions/Loan Loss Reserve	(3,671)	(2,486)	(3,830)	(4,927)	(6,256)
Total Net Interest Earning Assets	239,908	295,847	324,414	361,529	407,714
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	343,887	382,560	430,428
Customer Interest-Bearing Liabilities	197,179	226,198	246,315	275,430	313,725
Bank Deposits	24,713	46,101	51,172	54,243	56,955
Interest Bearing Liabilities: Others	258	2,145	2,182	2,220	2,258
Total Interest-Bearing Liabilities	222,151	274,444	299,669	331,893	372,938
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	7,520	9,832	9,480	10,138	9,855
Total Liabilities	229,670	284,277	309,149	342,031	382,792
Shareholders' Equity	25,352	28,170	33,137	38,723	45,568
Minority Interests	1,236	1,431	1,601	1,807	2,067
Total Equity	26,588	29,601	34,738	40,530	47,635

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Income Growth	12.4%	40.7%	33.2%	15.7%	17.0%
Operating Profit Growth	6.7%	38.5%	37.4%	12.7%	17.0%
Pretax Profit Growth	13.3%	26.4%	69.1%	15.0%	18.5%
Net Interest To Total Income	81.0%	80.9%	76.7%	76.7%	76.6%
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%	6.16%	6.44%	6.66%
Net Interest Margin (Avg RWA)	3.51%	4.09%	4.35%	4.49%	4.64%
Provisions to Pre Prov. Operating Profit	35.7%	41.3%	27.8%	26.4%	25.4%
Interest Return On Average Assets	3.34%	3.94%	4.31%	4.51%	4.71%
Effective Tax Rate	21.0%	24.4%	21.0%	21.0%	21.0%
Net Dividend Payout Ratio	35.3%	30.9%	21.6%	18.8%	15.9%
Return On Average Assets	1.22%	1.23%	1.82%	1.89%	2.00%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Loan Growth (%)	24.2%	22.2%	15.0%	15.0%	15.0%
Net Interest Margin (%)	3.5%	4.1%	4.5%	4.7%	4.9%
Non Interest Income Growth (%)	29.1%	41.1%	62.7%	15.7%	17.3%
Cost-income Ratio (%)	42.4%	43.3%	41.5%	43.0%	43.0%
Net NPL Ratio (%)	0.7%	0.8%	0.7%	0.7%	0.8%
Loan Loss Reserve (%)	103.2%	95.9%	103.5%	103.4%	102.0%
GP Ratio (%)	0.7%	0.7%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	11.1%	9.6%	10.1%	10.5%	10.8%
Total CAR (%)	12.5%	12.0%	12.3%	12.6%	12.7%
Deposit Growth (%)	7.3%	13.0%	9.0%	12.0%	14.0%
Loan-deposit Ratio (%)	75.5%	82.5%	86.7%	88.8%	89.4%
Gross NPL Ratio (%)	1.3%	1.2%	1.6%	1.8%	2.0%
Fee Income Growth (%)	25.5%	65.6%	85.0%	25.0%	25.0%

SOURCES: VND RESEARCH, COMPANY REPORTS

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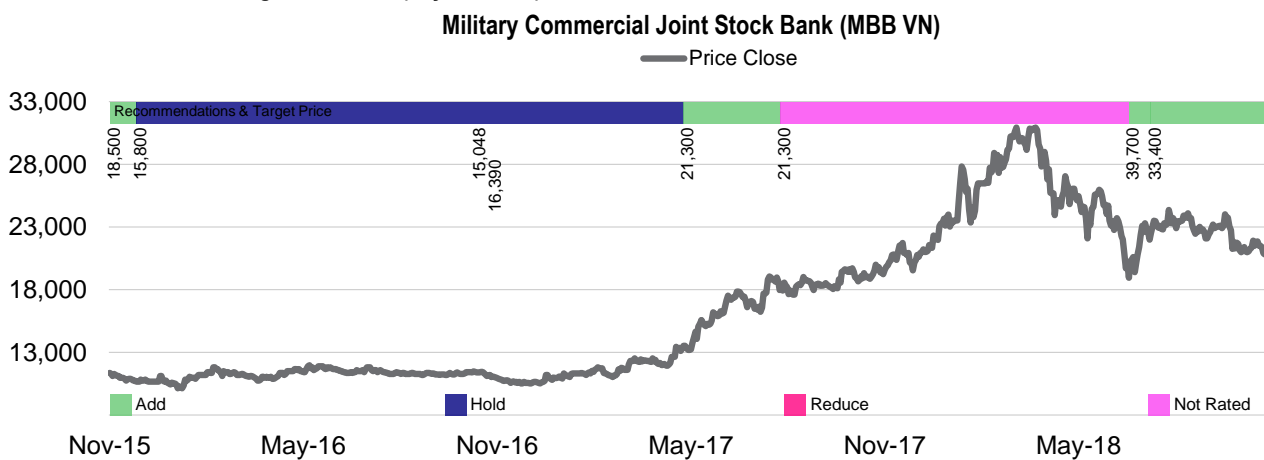
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	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Spitzer Chart for stock being researched (2 year data)



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