

Military Joint Stock Commercial Bank (MBB: HOSE)



BUY

1Y TP 19,200 VND

Phat Cao

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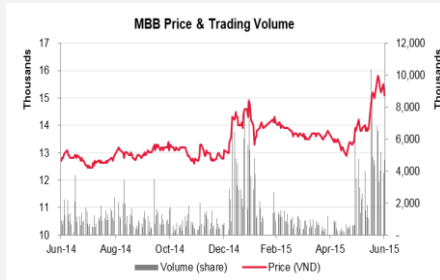
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Current price (VND)	15,100
Target Price (12M)	19,200
Recommendation (12M)	BUY
Short-term Rating (<3M)	BUY
Sector Rating	Underweight
Date of Report	30-Jun-15

Key figures

Market cap (USD mn)	802.70
Market cap (VND bn)	17,506.85
Outstanding shares (mn)	1,159.39
52-week high/low (VND 1,000)	16.1/12.5
Average 3M volume (share)	1,904,927
Average 3M value (USD mn)	1.27
Average 3M value (VND bn)	27.74
Foreign ownership (%)	10
State ownership (%)	N.a
Management ownership (%)	N.a

Stock performance



Source: Bloomberg

Company Snapshot

MBB was set up in 1994 in order to provide financial services to military companies. After 20 years, MBB is now one of top ten commercial joint stock banks in terms of total assets (2014), providing various services to various kinds of clients. In Nov 2011, MBB went listing on HOSE.

MONEY IN THE BANK

1Q15 Earnings Results

MBB's pretax profit was down 1.5% YoY to VND 797bn in 1Q15 on the back of sharp increase in provision charge (+49% YoY in 1Q15 vs. 31% YoY in 1Q14) despite robust growth in net interest income (+29% YoY in 1Q15 vs. -1% YoY in 1Q14). Yet, the bank still accomplished 25% of its 2015 target pretax profit of VND 3,250bn (+2.4% YoY).

MBB aims to be one of the top five commercial joint stock banks in Vietnam. We favor MBB following its aggressive provisioning (i.e. high credit cost of ~2.3% and provision coverage ratio of 90% against other peers (VCB: 94%, CTG: 72%, BID: 73%)) and profitability (i.e. ROAE of ~15.8% against industry average of ~6.4%). On the flip side, given the bank's ambition to become one of the top five commercial banks in Vietnam within the next five years, we estimate that MBB might have to double its current charter capital, thus exerting dilution risk to MBB shares in the coming time.

Net interest income: The MBB's net interest income enjoyed robust growth rate of 29.4% YoY and settled at VND 2,001bn in 1Q15. This success might be predicated on the bank's stronger NIM of 4.3% in 1Q15 compared to 3.7% over the same period last year, thus outweighing 0.6% YTD contraction of outstanding loans.

In particular, expansion of NIM might stem from the bank's further penetration into retail banking with proportion of individual loans ticking up to ~21% of loan books at end of 1Q15 compared to ~20% at end-FY14 and ~15% over the same period last year. MBB's individual loans are primarily comprised of (i) car loans, (ii) house repair loans, and (iii) household loans. The bank attempts to increase proportion of individual loans to 25 – 28% of outstanding loans in the next 3-5 years.

On the other hand, MBB's deposit growth fell into negative territory and finished at -3.0% YTD in 1Q15. Of note, deposits from economic entities were up 0.1% YTD; meanwhile, deposits from individuals dropped ~8% YTD partially due to low interest rate environment. As such, MBB's pure loan-to-deposit ratio increased moderately to ~62% at the end of 1Q15 compared to 60% at end-FY14, but remained low against industry average of ~84%. In fact, the bank planned to increase this ratio to ~70% in the coming time.

Financials (VND bn)	2012	2013	2014	1Q15	2015E	2016E
Total Asset	175,610	180,381	200,489	197,161	235,580	273,113
Gross Loan	73,912	87,278	99,578	100,020	115,332	136,449
Customer Deposit	117,747	136,089	167,609	162,488	194,426	229,423
Shareholders' Equity	12,864	15,148	16,561	17,140	23,386	24,095
Provision expense	2,027	1,892	2,019	763	2,542	2,744
Pretax Profit	3,090	3,022	3,174	797	3,275	4,068
Net Profit	2,320	2,286	2,503	620	2,555	3,254
NPL (%)	1.9%	2.5%	2.8%	2.6%	2.5%	2.3%
DPS (VND)	1,200	800	1,000	N.a	1,000	1,000
BVPS (VND)	12,864	13,458	14,284	14,783	14,616	15,059
Avg. ROA (%)	1.5%	1.3%	1.3%	1.3%	1.2%	1.3%
Avg. ROE (%)	20.6%	16.3%	15.8%	14.7%	12.3%	13.7%

Source: MBB's FS, and SSI Research (2015)

Non-interest Income: MBB's non-interest income edged down 2.1% YoY to ~VND 280bn primarily due to significant decrease in income from investment securities (-80% YoY in 1Q15 vs. +137% YoY over the same period). In fact, weakened income from investment securities might stem from the absence of ~VND 54bn reversal of provision for investment securities. On the other hand, net fee and commission income maintained firm growth rate of ~19.2% YoY.

Asset quality: MBB's NPL ratio decelerated to 2.6% in 1Q15 compared to 2.8% at end-FY14, and the bank already complied with credit information center (CIC)'s classification. MBB maintained aggressive provisioning as provision charge climbed by 49% YoY to VND 763bn, and the bank used ~0.8% of gross loans to write off impaired assets. Looking ahead, we expect the bank to make ~VND 2,542bn worth of provision charge in this year, and the bank was expected to write off ~2.0% of total loan books.

2015 & 2016 Estimate

We estimate that MBB's pretax profit at VND 3,275bn (+3.2% YoY) and VND 4,068bn (+24.2% YoY) in FY15 and FY16 respectively. We expect the bank's provision expense to increase ~26% YoY to VND 2,542bn or ~2.4% of gross loans in FY15 following full implementation of Cir 02/09. Moreover, our 2015 forecast is based on the following assumptions:

- Credit growth is expected to settle at ~16% YoY in FY15 compared to 14% YoY in the previous year thanks to the recovery of the whole economy as well as the bank's strategy to penetrate further into retail banking. On the other hand, growth in deposits from customers is predicted to soften to ~15.8% YoY in this year against 22.8% YoY in FY14 due to (i) low interest rate environment, and (ii) the bank's abundant liquidity (i.e. LDR at ~59%).

- We conservatively project MBB's NIM at 3.7% in this year before inching up to 3.8% in FY16 thanks to higher proportion of retail loans.
- We expect the bank's non-interest income to maintain firm growth rate of ~12% YoY in FY15 and FY16 with robust increase in fee and commission income (+16% YoY in FY15 and +20% YoY in FY16) following expansion of customer base.
- Provision expense is projected at VND 2,542bn in FY15 (+26% YoY), and the bank is expected to write off ~2% of outstanding loans. As such, we expect the bank's NPL ratio to trend lower to 2.5% and 2.3% in FY15 and FY16 respectively.

Investment view

At the current price of VND 15,100 per share, MBB is being traded at 2015 PB of ~1.1x (compared to the average PB of listed banks at 1.4x) and 2016 PB of 1.0x. The bank shares have increased significantly within recent trading sessions, which might be predicated on the rerating of MBB's valuation as compared to the whole sector's recent strong performance (although MBB has been always traded at a discount to the whole sector's valuation) and potential increase in available room for foreign investors following the bank's plan of charter capital increase and possible change in FOL for banks.

MBB planned to raise charter capital to VND 16,000bn in FY15, up 38% YoY from VND 11,594bn in FY14 through (i) VND 348bn stock dividend (3% of charter capital in FY14), (ii) VND 152bn ESOP (1.3% of charter capital in FY14), and (iii) VND 3,906bn issuance to local/foreign strategic partners (33.7% of charter capital in FY14). As such, we estimate there might be ~40.6 million shares available for foreign investors assuming that the entire 390.6 million shares will be purchased by domestic investors. In fact, the bank missed its plan to increase its charter capital to VND 15,500bn from VND 11,256bn in the previous year.

However, there are minor risks for MBB shares including (i) potential selling pressure on MBB stocks due to Circular 36 (i.e. banks cannot own more than 5% of another bank and Vietcombank and Maritime Bank hold 9.59% and 9.95% of MBB's shares at end-FY14), and (ii) dilution risk following ambitious plan of charter capital increase, thus likely scaling down the bank's ROAE in short-term. Indeed, taking into consideration both upside and downside factors, we recommend to BUY the stock at 1Y target price of VND 19,200/share (upside ~27%).

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2013	2014	2015E	2016E
Income Statement				
Interest and similar income	13,456,303	13,148,604	14,741,166	17,789,201
Interest and similar expenses	-7,331,932	-6,608,529	-7,337,206	-8,990,679
Net interest income	6,124,371	6,540,075	7,403,960	8,798,523
Fee and commission income	973,963	1,408,192	1,689,830	2,027,796
Fee and commission expenses	-235,203	-457,790	-591,441	-709,729
Net fee and commission income	738,760	950,402	1,098,390	1,318,068
Net gain from trading foreign currencies	99,314	89,835	98,819	108,700
Net gain/(loss) from trading/investment securities	10,616	306,297	321,612	337,692
Net other income/(expenses)	614,893	341,761	381,116	381,116
Net income from investments in associates and joint-ventures	72,531	78,524	78,524	78,524
TOTAL OPERATING INCOME	7,660,485	8,306,894	9,382,420	11,022,623
TOTAL OPERATING EXPENSES	-2,746,474	-3,114,201	-3,565,320	-4,210,642
Net profit before provisions and allowances for credit losses	4,914,012	5,192,693	5,817,100	6,811,981
Provisions and allowances for credit losses	-1,892,379	-2,018,690	-2,541,757	-2,744,291
PROFIT BEFORE TAX	3,021,633	3,174,003	3,275,344	4,067,690
Corporate Income Tax	-735,917	-671,015	-720,576	-813,538
PROFIT AFTER TAX	2,285,716	2,502,988	2,554,768	3,254,152
Income to minority interest	-9,750	-27,018	-16,975	-17,914
NET PROFIT TO PARENT'S SHAREHOLDERS	2,275,966	2,475,971	2,537,793	3,236,238
EPS (VND)	2,145	2,136	1,729	1,901
Dividend (VND)	800	1,000	1,000	1,000
BVPS (VND)	13,458	14,284	14,616	15,059
Capital requirement				
Capital adequacy ratio - CAR	11.0%	10.0%	14.3%	12.7%
Equity/Total assets	8.4%	8.3%	9.9%	8.8%
Assets quality				
NPL ratio	2.5%	2.8%	2.5%	2.3%
Overdue debts ratio	6.9%	5.3%	5.0%	4.8%
Provision coverage ratio	82.5%	89.7%	80.4%	84.0%
NPL/Shareholders' Equity	14.2%	16.6%	12.3%	13.0%
NPL/Charter capital	19.1%	23.7%	18.0%	19.6%
Management				
Cost to income ratio - CIR	35.9%	37.5%	38.0%	38.2%
Provision expense/Net operating profit	38.5%	38.9%	43.7%	40.3%
Net operating profit per employee	1,250	1,342	1,288	1,441
Profit before tax per employee	493	457	450	532
Net operating profit per branch/transaction office	37,187	37,251	39,422	44,446
Profit before tax per branch/transaction office	14,668	14,233	13,762	16,402

VND Billion	2013	2014	2015E	2016E
Balance Sheet				
+ Cash on hand, gold, silver and gemstones	1,034,666	1,233,231	12,853,219	16,235,994
+ Balances with the SBV	3,615,773	6,067,482	7,012,498	8,134,497
+ Balances with and loans to other CIs	26,787,251	21,415,257	24,803,428	29,840,870
+ Trading securities	3,862,486	10,456,489	11,451,332	13,639,987
+ Derivatives and other financial assets	0	5,387	0	0
+ Loans and advances to customers	85,972,767	98,106,265	113,013,545	133,811,742
+ Investment securities	46,012,345	50,781,095	53,673,989	58,211,197
+ Long-term investments	1,616,738	1,459,650	1,459,650	1,459,650
+ Fixed assets	1,837,348	1,927,332	2,232,261	2,640,975
+ Other assets	9,463,098	8,764,322	8,764,322	8,764,322
Total Assets	180,381,064	200,489,173	235,580,048	273,112,861
+ Amounts due to the Government and the SBV	0	0	0	0
+ Deposits and borrowings from other CIs	21,423,003	4,604,175	5,340,843	6,302,194
+ Deposits from customers	136,088,812	167,608,507	194,425,868	229,422,524
+ Derivatives and other financial liabilities	17,615	0	0	0
+ Valuable papers issued	2,000,058	2,000,058	2,000,058	2,000,058
+ Other liabilities	4,966,703	8,903,434	9,615,709	10,481,123
Total Liabilities	164,673,998	183,340,962	211,607,266	248,430,688
+ Capital	11,594,671	11,932,358	17,663,190	17,663,190
<i>Chapter capital</i>	11,256,250	11,593,938	16,000,000	16,000,000
<i>Share premium</i>	338,421	338,421	1,663,190	1,663,190
<i>Other capital</i>	0	0	0	0
+ Reserves	1,424,275	1,839,735	2,359,689	2,892,625
+ Foreign exchange differences	0	0	0	0
+ Asset revaluation differences	0	0	0	0
+ Retained earnings	2,129,236	2,788,992	3,362,777	3,539,232
Total Shareholders' Equity	15,148,182	16,561,085	23,385,656	24,095,047
Minority Interests	558,884	587,126	587,126	587,126
Total Liabilities, Shareholders' Equity & Minority Interest	180,381,064	200,489,173	235,580,048	273,112,861
Growth				
Deposit	14.0%	22.8%	15.8%	17.8%
Credit	18.1%	14.1%	16.0%	18.3%
Total assets	2.7%	11.1%	17.5%	15.9%
Shareholders' Equity	17.8%	9.3%	41.2%	3.0%
Net interest income	-7.2%	6.8%	13.2%	18.8%
Fee and commission income (net)	0.8%	28.6%	15.6%	20.0%
Non-interest income	51.5%	15.0%	12.0%	12.4%
Operating income	0.6%	8.4%	12.9%	17.5%
Operating expense	9.9%	13.4%	14.5%	18.1%
Profit before tax	-2.2%	5.0%	3.2%	24.2%
Profit after tax	-1.5%	9.5%	2.1%	27.4%
Valuation				
PER	5.9	6.1	9.1	8.3
PBR	0.9	0.9	1.1	1.0
Dividend yield	6.3%	7.6%	6.3%	6.3%

Source: MBB, SSI Research

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- ❖ Underweight: The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

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