

Vietnam: Banking

26 November 2021

BUY

TP upside +27%

Close 25 Nov 2021

Price	VND 30,900
12M Target	VND 39,350
Previous Target	VND 25,358
% Change	+55%

What's new?

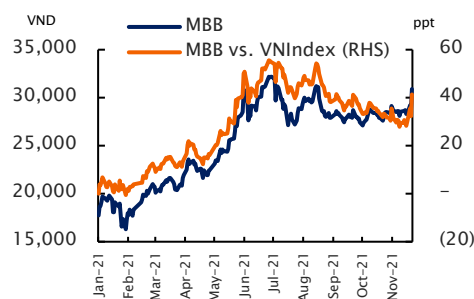
- ▶ We increase our target price by 55% on increased earnings forecasts.
- ▶ Earnings forecasts raised by 17% for 2022E on higher loan growth forecast.
- ▶ Loan growth assumption raised by 2ppt to 17% for 2022E.

Our view

- ▶ Reiterate BUY. MBB trades at 1.5x 2022E P/BV vs. sector median of 1.7x.
- ▶ MBB's strong CASA franchise should continue to support NIM.
- ▶ High LLR ratio gives MBB the flexibility to reduce provisioning and boost earnings.
- ▶ Digitization improves cost efficiency.

Company profile: MBB has one of the strongest deposit franchises in the Vietnamese banking sector with a 42% CASA ratio as at 3Q21, far ahead of the 13% peer median. Retail loans (44% of the total as at 3Q21) and private-sector corporate loans (46% of the total as at 3Q21) are the key credit growth drivers.

Share price performance relative to VNIndex



Market cap	US\$5.1 bn
6M avg. daily turnover	US\$21 mn
Outstanding shares	3,778 mn
Free float	55%
FINI ownership	23.2%
Major shareholders	62.2%
2022E Asset/Equity (*)	8.3x
2022E P/E (*)	7.5x
2022E P/B (*)	1.5x
FOL Remaining Room	0.0%
2022E Dividend yield (*)	0.0%

Source: FiinPro, Yuanta Vietnam

Year to Dec	2020A	2021E	2022E
NIM (%)	4.72%	5.12%	5.29%
Fee growth (%)	12%	23%	24%
CIR	39%	36%	34%
PPOP growth	18%	36%	22%
Net profit	8,263	12,216	15,566
ROAA	1.90%	2.37%	2.65%
ROAE	18.4%	21.4%	21.5%
PE	10.3	8.3	7.5
PB	1.8	1.9	1.5
Div. yield (%)	0.0%	0.0%	0.0%

Source: FiinPro, Yuanta Vietnam

Military Bank (MBB VN)

Cheap valuation for a high quality bank

Increased loan growth assumption. We raise our 2022E loan growth forecast for MBB by 2ppt to 17% YoY versus our previous forecast of 15% YoY. **Net interest income forecast increased** by 11% for 2022E to reach VND31 tn (+18% YoY).

NIM forecast increased by 26bps versus our previous forecast to reach 5.29% (+17bps YoY) for 2022E on increasing retail lending contribution and high CASA ratio.

Fee income forecast raised 5% vs. our previous forecast to reach VND5.5 tn (+24% YoY) in 2022E.

Cost efficiency to improve driven by digitization. We expect adj. CIR (exclude NPL recoveries) to reach 37% in 2022E (-2ppt YoY).

2022E provisioning forecast increased by 28% versus previous forecast due to the 3Q21 Covid impact to reach VND7.8 tn (+6% YoY). However, **MBB's high LLR ratio** gives it more flexibility than most banks to reduce provisioning and boost future earnings.

Net-net, we raise our PATMI forecasts by +17% for 2022E, implying PATMI growth of 27% YoY.

Yuanta versus the consensus. Our PATMI forecasts are now above the consensus mean by 10% for 2022E.

Reiterate BUY. MBB trades at 1.5x 2022E P/B versus the sector median of 1.7x its 2022E ROE forecast of 22%, which is higher than the sector median of 20% under our assumptions.

We raise our target price to VND39,350, implying 1.8x 2022E P/BV and 12-month TSR of 27%. We reiterate our BUY recommendation and maintain MBB as among our top picks in the bank sector.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Valuations

Valuation Ratios	2019A	2020A	2021E	2022E	2023E	2024E
Adjusted PER (x)	11.2	10.3	8.3	7.5	6.1	4.9
PEG	0.8	1.2	0.3	0.7	0.3	0.2
Adj. ROA (%)	2.09%	1.90%	2.37%	2.65%	2.89%	3.08%
Adj. ROE (%)	19.8%	18.4%	21.4%	21.5%	21.6%	22.2%
PBR (x)	1.9	1.8	1.9	1.5	1.3	1.1
Dividend Yield (%)	1.6%	0.0%	0.0%	0.0%	3.3%	5.1%

Source: Company data, Yuanta Vietnam

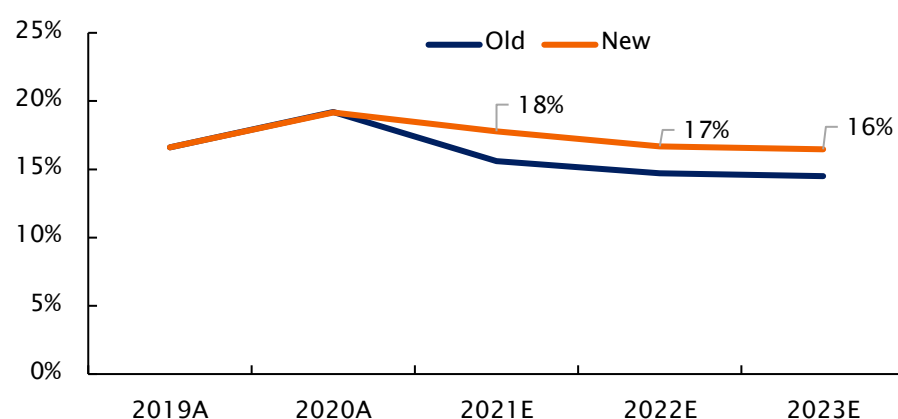
Company Update

Increased loan growth forecast for 2022E

We increase our loan growth forecast by 2ppt to 17% in 2022E as we believe capital demand will be strong during the economic recovery in 2022E.

We think that the SBV will grant higher credit growth quota for banks with strong asset quality and capital adequacy. We believe that MBB qualifies as a member of this group and that it deserves to receive a higher credit growth quota. Thus, we forecast loans growth of 17% in 2022E.

Figure 1: Loan growth (%)



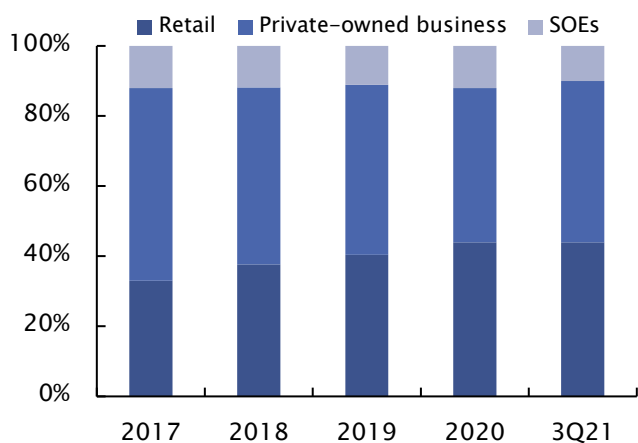
Source: Company data, Yuanta Vietnam.

Low funding cost and retail focus to boost NIM

Low funding cost is a key support factor for MBB's NIM. The bank's low funding cost reflects MBB's high CASA ratio (42% as at 3Q21). MBB's funding cost is among the lowest in the sector (see figure 4). Many banks have been investing in digitalization to attract more CASA deposits; however, this process will take time to achieve. We believe that banks with already-high CASA ratios (i.e. MBB, [VCB \(BUY\)](#), TCB, and MSB) should be able to support NIM more effectively than those with low CASA ratios.

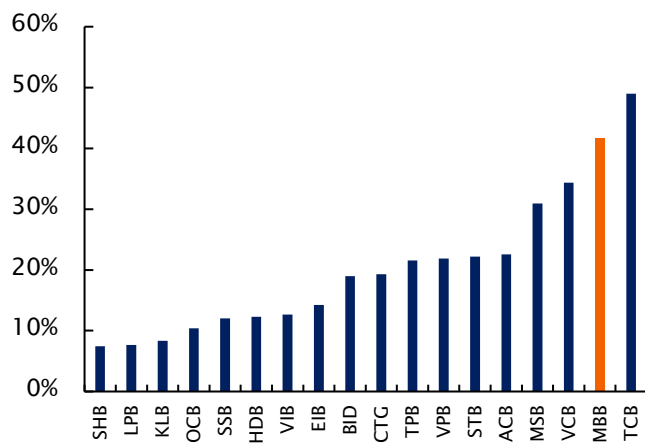
The increased trend toward retail lending (see figure 2) should also favor yields and therefore NIM. Thus, we expect 2022E NIM to reach 5.29% (+17bps YoY).

Figure 2: Loans breakdown by segment



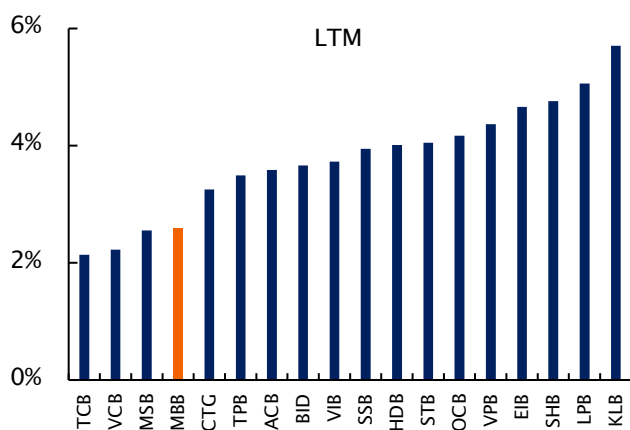
Source: Company Data

Figure 3: MBB's CASA ratio is the 2nd highest in the sector



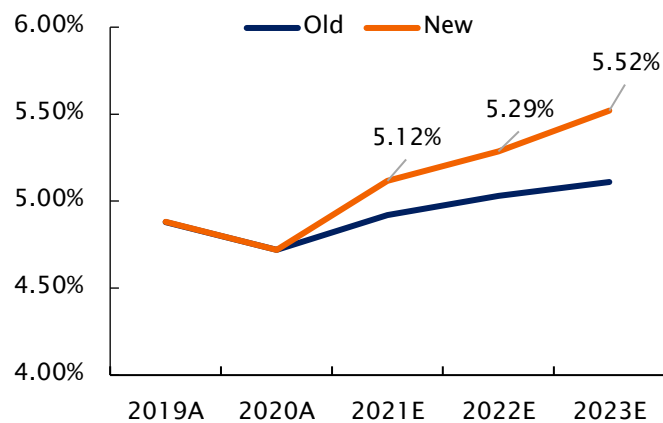
Source: FiinPro, Yuanta Vietnam

Figure 4: MBB's funding cost is among the lowest



Source: FiinPro, Yuanta Vietnam

Figure 5: MBB's NIM should continue to improve

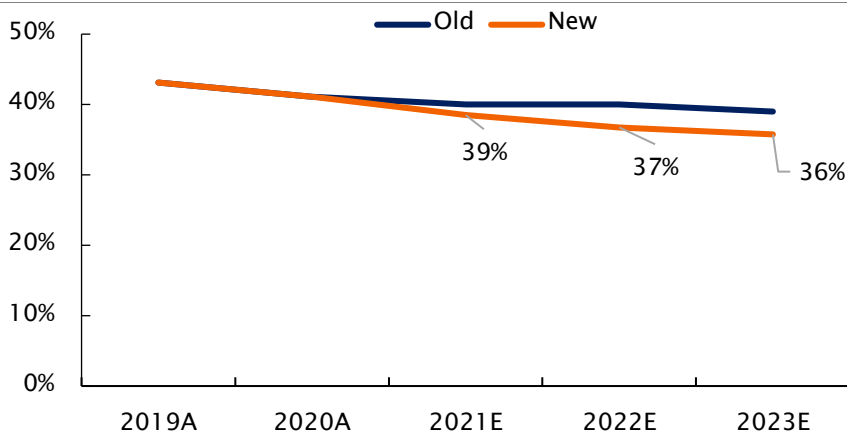


Source: FiinPro, Yuanta Vietnam

Improved cost efficiency

Digitization helps lower operating costs. We expect cost efficiency to continue improve going forward, and we estimate CIR to reach 34% (-2ppt YoY) and adjusted CIR (excluding NPL recoveries) to reach 37% in 2022E (-2ppt YoY).

Figure 6: Adjusted CIR (excluding NPL recoveries)

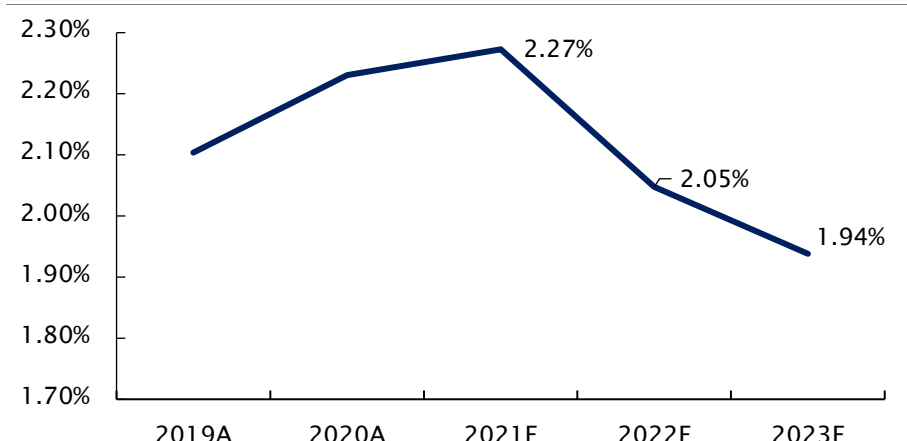


Source: Company data, Yuanta Vietnam.

We increase our provisioning forecast by +28% versus our previous forecast to reach VND7.4tn in 2021E (+21% YoY) and VND7.8 tn in 2022E (+6% YoY) due to the impact of wave 4 Covid in 3Q21. **However**, high LLR ratio of

233% allows MBB the flexibility to reduce provisioning and boost earnings. We expect the credit cost ratio (provisioning/average loans) to reach 2.05% (-22bps YoY) in 2022E.

Figure 7: Credit cost (%) (Provision/average loans)

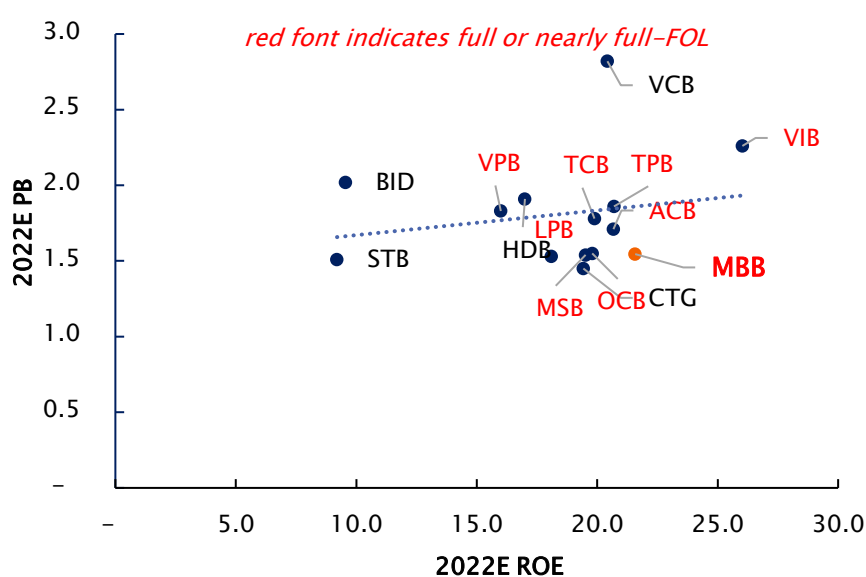


Source: Company data, Yuanta Vietnam

Valuation is attractive

MBB trades at a 1.5x 2021E versus the sector median of 1.7x. We believe that MBB deserves a premium over most of its peers given its strong operational results and solid asset quality. We expect 2022E ROE to reach 22% compared to the sector median of 20%.

Figure 8: Scatter Plot between banks' 2022E ROE and PB



Source: Bloomberg, Yuanta Vietnam

We raise our target price for MBB by 55% to VND39,350 from our [previous estimate](#) of VND25,358 (after adjusting for stock dividend in 2021). This is primarily due to our increased earnings expectations as discussed above. We also roll forward our valuation basis to end-2022E. Our new target price implies a 2022E P/BV of 1.8x versus the sector median of 1.7x, which we think is reasonable given MBB's better operational results than peers.

Valuation Methods	Estimated Price	Weight (%)	Price
Residual Income	39,914	50.0%	19,957
PB	37,275	25.0%	9,319
PE	40,314	25.0%	10,078
Estimated Fair Value			39,354

Source: Yuanta Vietnam

Figure 9: Valuation Graph



Source: Bloomberg, Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs Cost of equity

Terminal Return on Common Equity:	Cost of Equity:						
	11.0%	11.5%	12.0%	14.2%	14.5%	15.0%	15.5%
15.5%	118,953	99,112	84,010	46,420	43,286	38,697	34,765
15.0%	114,167	95,204	80,763	44,783	41,779	37,379	33,605
14.5%	109,402	91,313	77,531	43,153	40,279	36,065	32,450
14.0%	104,658	87,438	74,313	41,530	38,784	34,757	31,300
13.5%	99,934	83,580	71,109	39,914	37,296	33,455	30,155
13.0%	95,231	79,739	67,919	38,305	35,815	32,159	29,015
12.5%	90,549	75,915	64,742	36,703	34,340	30,868	27,880
12.0%	85,887	72,108	61,580	35,108	32,871	29,583	26,749
11.5%	81,246	68,318	58,432	33,520	31,409	28,303	25,624

Source: Yuanta Vietnam

Yuanta vs Consensus

Net income (VND bn)	2021E	2022E
Consensus mean	11,871	14,146
Yuanta forecast	12,216	15,566
<i>%ge difference</i>	2.9%	10.0%
Consensus high	12,937	14,746
Consensus low	11,159	12,549
EPS (VND)		
Consensus mean	3,185	3,855
Yuanta forecast (adj.)	3,715	4,120
<i>%ge difference</i>	16.6%	6.9%
Consensus high	3,672	4,578
Consensus low	2,953	3,321

Source: Bloomberg, Yuanta Vietnam

Key financial data (Old vs New)

Balance Sheet (VND bn)	Old		New		% difference (New vs. Old)	
	2021E	2022E	2021E	2022E	2021E	2022E
Gross Loans:	344,915	395,764	351,368	410,000	2%	4%
Total Assets:	566,230	654,729	579,718	641,881	2%	-2%
Deposits:	358,645	416,471	360,721	417,110	1%	0%
Total Liabilities:	506,789	584,619	515,534	561,171	2%	-4%
Total Equity:	59,441	70,110	64,184	80,710	8%	15%
Total Liabilities & Equity:	566,230	654,729	579,718	641,881	2%	-2%

Income Statement (VND bn)	Old		New		% difference (New vs Old)	
	2021E	2022E	2021E	2022E	2021E	2022E
Net interest income:	23,697	27,750	26,109	30,895	10%	11%
Net Fee income	4,353	5,198	4,396	5,457	1%	5%
Other adj. non-II	2,262	2,601	2,924	3,237	29%	24%
TOI:	30,312	35,549	33,430	39,589	10%	11%
Total Expenses:	(12,196)	(14,052)	(12,871)	(14,549)	6%	4%
PPOP:	18,117	21,497	20,559	25,041	13%	16%
Gross Provisioning	(5,785)	(6,103)	(7,383)	(7,795)	28%	28%
NPL recoveries	1,977	1,969	2,728	3,020	38%	53%
Net Provisions:	(3,808)	(4,134)	(4,655)	(4,774)	22%	15%
Pre-Tax Income:	14,308	17,363	15,904	20,267	11%	17%
(-) Tax:	(2,862)	(3,473)	(3,181)	(4,053)	11%	17%
Net Income	11,447	13,890	12,724	16,213	11%	17%
(-) Minority Interest	(457)	(554)	(508)	(647)	11%	17%
PATMI	10,990	13,336	12,216	15,566	11%	17%

Source: Yuanta Vietnam

Financial Statement (Revised)

Balance Sheet

(VND bn)	2020A	2021E	2022E	2023E
Cash & Balances at SBV	20,406	21,405	24,751	28,558
Loans to banks	47,889	55,552	66,322	76,521
Investment securities	102,799	127,125	116,641	134,578
Invest. Associates	922	1,119	1,294	1,493
Gross Loans:	298,297	351,368	410,000	477,506
(-) Specific Provisions:	(2,206)	(4,250)	(4,422)	(4,714)
(-) General Provisions:	(2,148)	(2,530)	(2,953)	(3,439)
Total provisions:	(4,354)	(6,780)	(7,375)	(8,153)
Net Loans:	293,943	344,588	402,625	469,353
Fixed Tangible asset:	3,089	3,025	3,344	3,696
Intangible Assets:	1,222	1,222	1,222	1,222
Real estate investment	248	248	248	248
Accrued interests:	3,782	4,751	4,751	4,751
Deferred tax:	3	3	3	3
Other Assets:	20,679	20,679	20,679	20,679
Total Assets:	494,982	579,718	641,881	741,101
Deposits:	310,960	360,721	417,110	481,252
Due to SBV:	15	18	21	25
Due to Banks:	50,876	59,928	69,928	81,442
Subordinated notes	50,924	54,317	54,317	54,317
Other Liabilities:	32,107	40,549	19,794	26,989
Total Liabilities:	444,883	515,534	561,171	644,025
Capital & Premium:	29,290	39,086	39,086	39,086
Reserves:	6,225	6,225	6,225	6,225
Treasury Shares	(564)	-	-	-
Retained Earnings:	12,956	15,377	30,943	46,279
Minorities Interest:	2,193	3,497	4,456	5,487
Total Equity:	50,099	64,184	80,710	97,076
Total Liabilities & Equity:	494,982	579,718	641,881	741,101

Source: Company data, Yuanta Vietnam.

Income Statement

(VND bn)	2020A	2021E	2022E	2023E
Net Interest income	20,278	26,109	30,895	36,708
<i>Net Fee Income</i>	<i>3,576</i>	<i>4,396</i>	<i>5,457</i>	<i>6,938</i>
<i>Other Non-II</i>	<i>1,829</i>	<i>2,924</i>	<i>3,237</i>	<i>3,738</i>
Total Non-II	5,405	7,320	8,694	10,676
TOI	25,683	33,430	39,589	47,383
Total expenses	(10,555)	(12,871)	(14,549)	(16,942)
PPOP:	15,127	20,559	25,041	30,441
Gross Provisions:	(6,118)	(7,383)	(7,795)	(8,600)
NPL Recoveries:	1,680	2,728	3,020	3,117
Net Provisions:	(4,439)	(4,655)	(4,774)	(5,484)
Pre-Tax Income:	10,688	15,904	20,267	24,957
(-) Income Tax:	(2,082)	(3,181)	(4,053)	(4,991)
Net Income	8,606	12,724	16,213	19,966
(-) Minority Interest	(343)	(508)	(647)	(797)
(-) Others	-	-	-	-
PATMI	8,263	12,216	15,566	19,169
Adjusted Diluted EPS	2,993	3,715	4,120	5,073

SELECTED FINANCIAL RATIOS	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GROWTH PROJECTIONS						
Net interest income	30%	23%	13%	29%	18%	19%
Fee Income	127%	24%	12%	23%	24%	27%
Other NII	114%	56%	34%	60%	11%	15%
Operating costs	46%	11%	9%	22%	13%	16%
Provision	-7%	61%	25%	21%	6%	10%
Pre-provision profit	37%	38%	18%	36%	22%	22%
Adjusted Net profit	74%	28%	6%	48%	27%	23%
Assets	15%	14%	20%	17%	11%	15%
ASSET ANALYSIS						
Earning assets to total assets	95%	95%	94%	95%	96%	96%
Avg. returns on Earnings Assets	1.78%	1.99%	1.92%	2.39%	2.66%	2.88%
LOAN ANALYSIS						
Loan growth (% YoY)	16%	17%	19%	17%	17%	17%
Loans to IEAs	61%	63%	63%	62%	65%	66%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	9%	14%	14%	16%	16%	15%
Deposits to IBLs	76%	78%	75%	76%	77%	78%
LIQUIDITY						
Pure LDR	88%	91%	95%	96%	97%	98%
ASSET QUALITY						
NPL (Category 3-5)	2,860	2,898	3,248	3,390	3,882	4,796
NPL ratio	1.33%	1.16%	1.09%	0.96%	0.95%	1.00%
General Provisions to loans	0.73%	0.72%	0.72%	0.72%	0.72%	0.72%
Loan loss coverage ratio	112%	110%	134%	200%	190%	170%
SPREAD ANALYSIS						
Int. rate received on Avg. IEAs	7.71%	8.46%	7.63%	7.58%	7.87%	8.15%
Int. rate paid on Avg. IBLs	3.48%	3.98%	3.28%	2.84%	2.97%	3.01%
Interest rate spread	4.22%	4.48%	4.35%	4.75%	4.90%	5.13%
NIM	4.53%	4.88%	4.72%	5.12%	5.29%	5.52%
OTHER INCOME						
Fee income to total income	14%	14%	14%	13%	14%	15%
Other Non-II to total Income	5%	6%	7%	9%	8%	8%
OPERATING EFFICIENCY						
Cost to income ratio	45%	39%	39%	36%	34%	34%
Adj. cost to income ratio	48%	43%	41%	39%	37%	36%
CREDIT COSTS						
Provision/avg. loans	1.52%	2.10%	2.23%	2.27%	2.05%	1.94%
PROFITABILITY						
Pre provision ROA	2.75%	3.32%	3.34%	3.83%	4.10%	4.40%
Pre provision ROE	29.1%	34.6%	33.6%	36.0%	34.6%	34.2%
ROA	1.83%	2.09%	1.90%	2.37%	2.65%	2.89%
ROE	18.0%	19.8%	18.4%	21.4%	21.5%	21.6%
Dividend payout ratio	19%	18%	0%	0%	0%	20%
Dividend Yield	1.5%	1.6%	0.0%	0.0%	0.0%	3.3%
VALUATIONS						
PER (x)	12.8x	11.2x	10.3x	8.3x	7.5x	6.1x
PBR (x)	2.0x	1.9x	1.8x	1.9x	1.5x	1.3x

Source: Company data, Yuanta Vietnam.

Appendix A: Important Disclosures

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HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

HOLD–Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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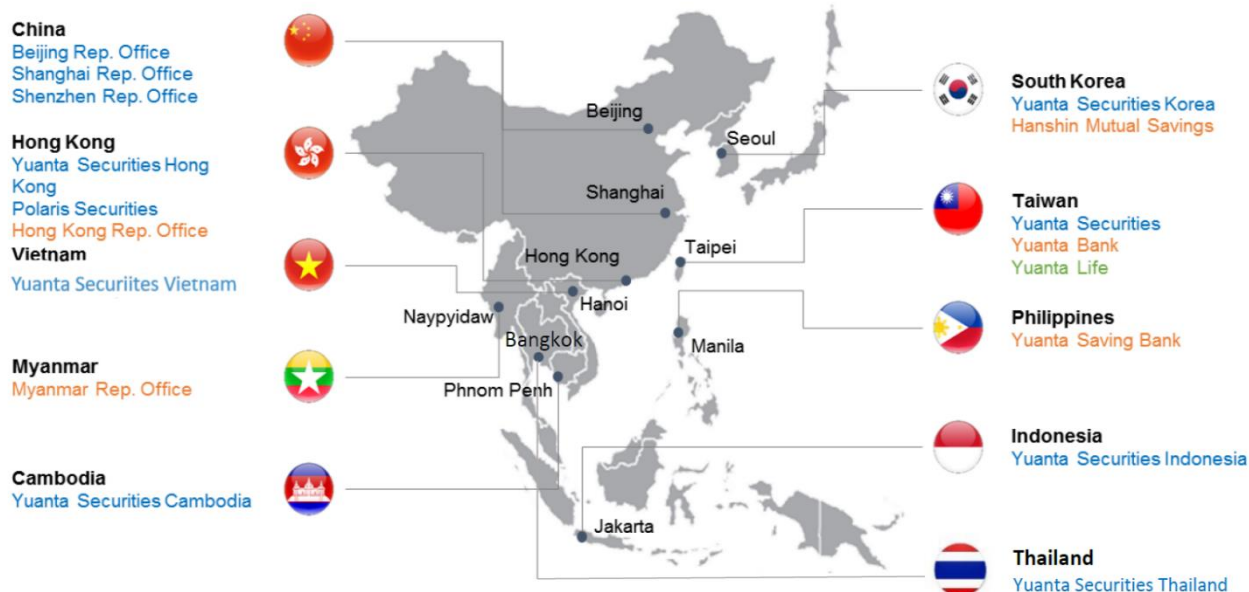
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