

Military Bank (MBB)

Outperformed the industry average

March 20, 2024

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4Q23 performance updates

Military Bank (MBB) maintained strong growth in 2023 thanks to good cost control. CIR and provision costs decreased by 100bps YoY and 24.4% YoY respectively. Accordingly, EBT of the bank reached VND26,306 billion, growing 15.7% YoY and completing 101% of the year's plan.

The process of receiving the transfer of weak credit institutions is expected to be completed in 2024, giving MBB an advantage in credit limits

MBB said that it has completed procedures to submit to the Government the plan to receive the transfer of Oceanbank, which is expected to be completed in 2H24. Taking over Oceanbank will continue to help MBB have an advantage in terms of granted credit limits (28% in 2023, the second highest in the industry). KBSV expects credit growth of MBB to be in the range of 20–25% in 2024, given that the economy will recover more clearly in 2H23, and MBB currently owns a large corporate customer base, concentrated in the key industries of the economy.

NPL was well controlled thanks to the prudent lending strategy

The most difficult period for the banking industry has temporarily passed, so asset quality will soon improve. MBB aims to keep its NPL ratio (before CIC) below 1.5% in 2024. However, we believe that reducing provisioning and strengthening bad debt handling will increase profit growth in 2023 and put pressure on credit costs in 2024.

BUY recommendation with target price VND28,100/share

We raised the target price from VND25,000/share to VND28,100/share with a BUY rating and a potential return of 20% compared to closing price on March 19, 2024.

Buy maintain

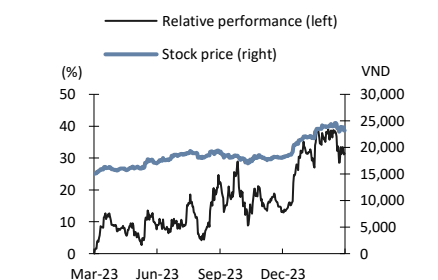
Target price	VND28,100
Upside	20%
Consensus target price	VND25,700
Current price (Mar 19, 2024)	VND23,100
Market cap (VNDbn/USDmn)	96,460/3.87

Trading data	
Free float	55%
3M avg trading value (VNDbn/USDmn)	226.46/9.3
Foreign ownership	23.23%
Major shareholder	14.14%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.1	28	22	54
Relative	-4.5	13	19	27

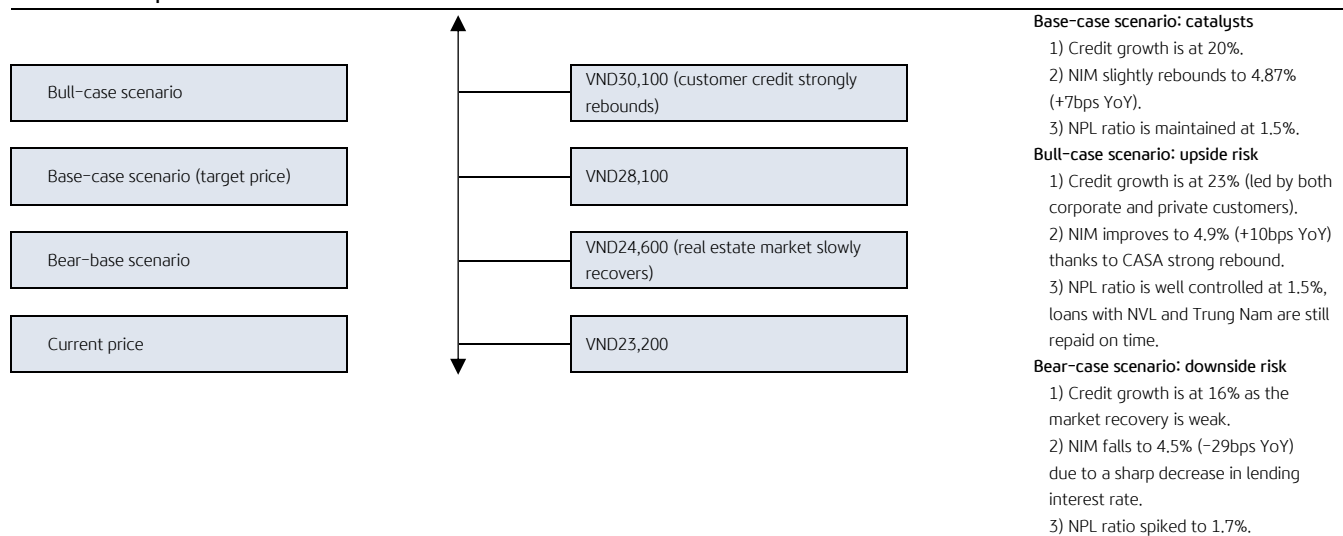
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	36,023	38,684	45,094	60,064
PPOP (VNDbn)	30,777	32,393	36,790	48,436
NPAT-MI (VNDbn)	18,155	21,054	21,243	30,004
EPS (VND)	3,856	3,966	3,980	5,632
EPS growth (%)	15%	3%	0%	42%
PER (x)	11.4	11.1	11.1	7.8
Book value per share (VND)	17,559	18,548	21,876	26,909
PBR (x)	2.51	2.37	2.01	1.64
ROE (%)	25.6%	23.9%	20.2%	23.6%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

4Q23 performance updates

4Q23 results were quite positive

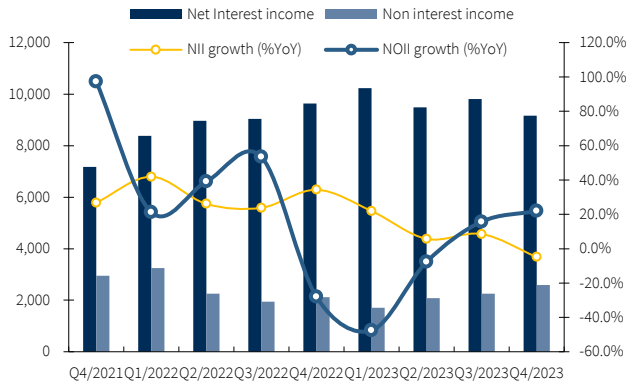
TOI of MBB was flat YoY in 4Q23 and inched up 3.8% YoY despite strong credit growth but concentrated in the last month of the year so it was not reflected in interest income. MBB maintained strong growth in 2023 as it controlled cost components well: CIR decreased by 100bps YoY, and credit risk provision costs lost 24.4% YoY. Thanks to that, PBT of the bank reached VND26,306 billion – growing 15.7% YoY and completing 101% of the year's plan.

Table 1. MBB – 4Q23 results

	4Q22	4Q23	+/- % YoY	2022	2023	+/- % YoY	Notes
Net interest income (VNDbn)	9,630	9,163	-4.8%	36,023	38,684	+7.4%	Although credit expanded strongly in the last month of the year, it did not reflect on interest income, so 4Q23 NII decreased slightly.
Non-interest income (VNDbn)	2,122	2,587	+21.9%	9,570	8,622	-9.9%	Cumulative NOI for the whole year dropped 9.9% YoY with 4Q growing 22%, driven by fee income and securities trading. 2023 NFI fell slightly 1% YoY as the insurance and IB segments (accounting for more than 60% of NFI) were hit by the market context. But in return, fee income from payment and cash services positively grew 61% YoY. Securities trading segment rose 284% YoY, which is contrast to the decrease of more than 77% in securities investment.
Total operating income (VNDbn)	11,751	11,750	0.0%	45,593	47,306	+3.8%	
Operating expenses (VNDbn)	(3,628)	(3,876)	+6.8%	(14,816)	(14,913)	+0.7%	MBB controlled costs well, maintaining CIR at 32%. Personnel costs modestly declined compared to 2022 because performance bonuses for employees were used less due to general market difficulties.
CIR (%)	30.9%	33.0%	+2.1%	32%	32%		
Provision expenses (VNDbn)	(3,585)	(1,587)	-55.7%	(8,048)	(6,087)	-24.4%	A solid provision buffer thanks to promoting provisioning in the 2021-2022 period has eased pressure on the bank in 2023. Credit provision fell 24% YoY despite declining asset quality, loan loss coverage ratio (LLCR) was over 100%, and credit costs decreased to 1.3% compared to 1.7% in 4Q22.
PBT (VNDbn)	4,538	6,287	+38.6%	22,729	26,306	+15.7%	
NPAT (VNDbn)	3,600	5,045	+40.1%	18,155	21,054	+16.0%	
Credit growth (% YTD)	25.0%	28.0%					Completing the assigned credit limit, in 4Q alone, credit grew by 14%, increasing sharply in both the corporate (+40% YoY) and private customers (+25% YoY), while corporate bonds saw a decline of 19% YoY.
Deposit growth (% YTD)	18.4%	31.1%					
NIM (%)	5.67%	4.79%	-87bps				NIM fell 51bps QoQ and 87bps YoY due to (1) IEA decreasing more strongly than CoF as MBB supported loan interest for customers and (2) the proportion of science and technology loans in the credit structure shrinking from 48% to 45%, causing the bank's lending yields to fall.
NPL ratio (%)	1.09%	1.60%	+51bps				Debt quality is getting better as NPL this quarter dropped 28bps QoQ, and there was an improvement in the proportion of substandard, special mention and doubtful debts. However, bad debt still rose 12bps.

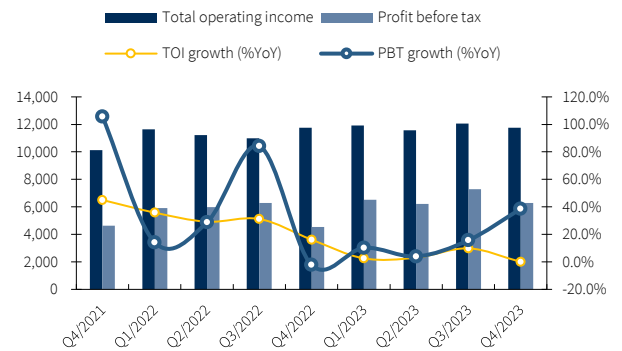
Source: Military Bank, KB Securities Vietnam

Fig 2. MBB – NII & NOI by quarter (VNDbn)



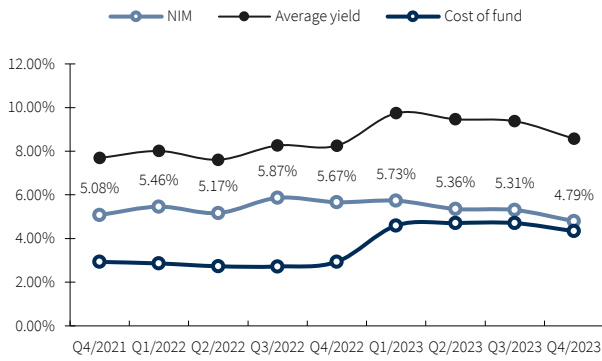
Source: Military Bank, KB Securities Vietnam

Fig 3. MBB – TOI & PBT (VNDbn)



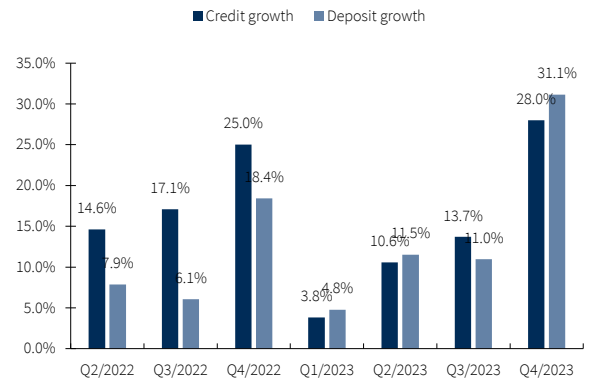
Source: Military Bank, KB Securities Vietnam

Fig 4. MBB – NIM by quarter (%)



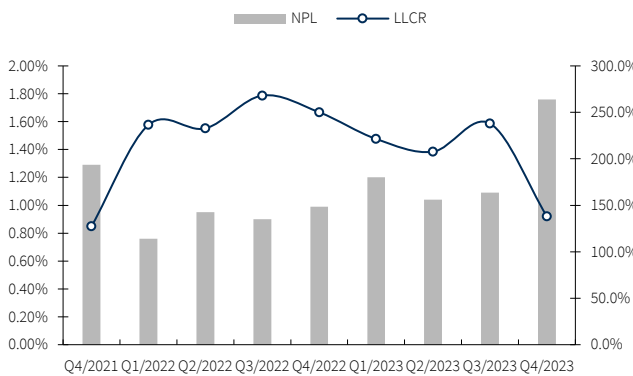
Source: Military Bank, KB Securities Vietnam

Fig 5. MBB – Credit & deposit growth (%)



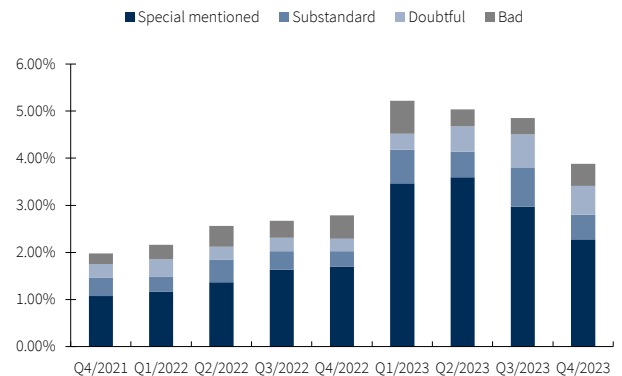
Source: Military Bank, KB Securities Vietnam

Fig 6. MBB – NPL ratio & LLCR (%)



Source: Military Bank, KB Securities Vietnam

Fig 7. MBB – Debt breakdown

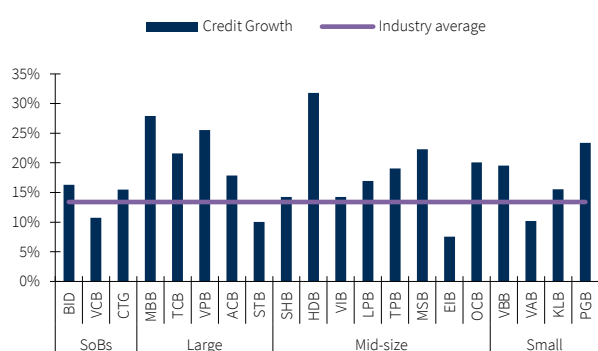


Source: Military Bank, KB Securities Vietnam

The process of taking over weak credit institutions is expected to be completed in 2024 and give MBB an advantage in credit limit extension

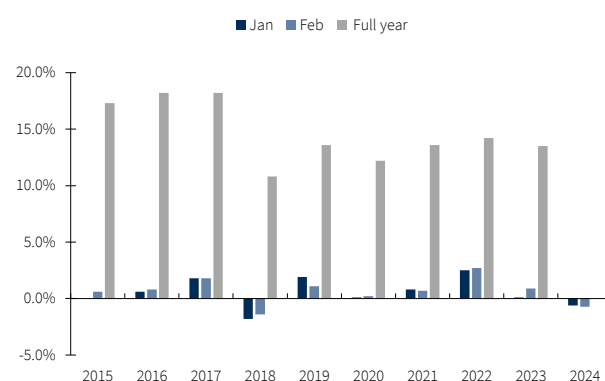
MBB said that it has completed procedures to submit to the Government the plan to receive the transfer of Oceanbank, which is expected to be completed in 2H24. Taking over Oceanbank will continue to help MBB have an advantage in terms of granted credit limits (28% in 2023, the second highest in the industry). In 2M24, MBB also recorded negative credit growth like other banks, but this is normal because (1) banks' promoting short-term loans at the end of the year to have more room for 2024 has put pressure on credit in the first months of the year; and (2) credit usually increases modestly at the beginning of the year and strongly rises at the end of the year. KBSV expects credit growth of MBB to be in the range of 20–25% in 2024, given that the economy will recover more clearly in 2H23, and MBB currently owns a large corporate customer base, concentrated in the key industries of the economy.

Fig 8. Vietnamese banks – Credit growth in 2023 (%)



Source: Financial statements of the banks, KB Securities Vietnam

Fig 9. Vietnamese banks – Credit growth in 2M24 (%)



Source: Financial statements of the banks, KB Securities Vietnam

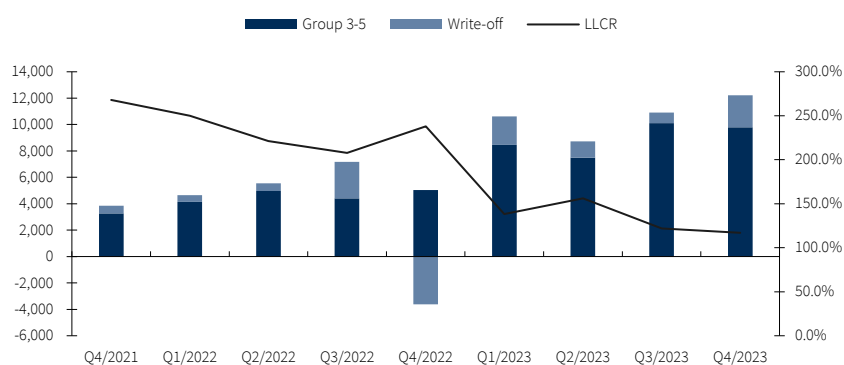
NPL is expected to be kept below 1.5%, but there will be pressure on provision expenses

The NPL ratio in 2023 rose 51bps compared to the end of 2022, but there was a significant improvement compared to 3Q23 (down 28bps), confirming that NPL has peaked. Special mention and substandard debt plunged 13% and 27% QoQ respectively in 4Q, while doubtful debt almost went flat (-3.2%) and bad debt significantly increased (+53.5%). The increase in bad debt partly comes from Covid-related restructuring debts that have not recovered as expected, but this amount has been 100% provisioned so there is no longer any potential risk. In addition, the CIC assessment factor (adjusting the quality of customer loans at other banks) contributed 22% of the increase in bad debt in the quarter. We believe that the most difficult period of the industry has temporarily passed, so asset quality will improve in the near future. MBB aims to control NPL (before CIC) below 1.5% in 2024. Currently, outstanding debt is restructured according to Circular 02. The proportion of MBB is relatively small, at only 0.44% of the total credit scale (0.66% according to Circular 11).

We believe that reducing provisioning and increasing bad debt handling in return for profit growth in 2023 will put pressure on credit costs in 2024. Credit provision expenses rose 58% YoY when MBB has to strengthen its backup buffer even though the LLCR is still above 100% but has dropped sharply from 238% at the end of 2022.

Loans related to Novaland (NVL) and Trung Nam: Currently, NVL's outstanding debt at MBB has decreased by 50% compared to the original outstanding balance. NVL is actively handling the procedures for the two projects Aqua City and Novaworld. The loan situation is improving, and loans are still being paid on schedule. For Trung Nam, MBB participated in three projects, all of which have a steady cash flow to repay debt. MBB added that outstanding loans with these two large customers are currently still standard debts.

Fig 10. MBB - NPL and provisions used for debt handling in 4Q (VNDbn)



Source: Military Bank, KB Securities Vietnam

Forecast & valuation

Table 11. MBB – 2024–2025F results

(VNDbn, %)	2023	2024F	% Yoy 2023	2025F	%YoY 2024	Notes
NII	38,684	49,883	29.0%	61,515	23.3%	We raised NIM forecast compared to the old forecast as total loan increased sharply at the end of 2023 and started to be reflected in interest income. 2024 credit growth should reach 20% YoY.
NOII	8,622	9,008	4.5%	10,608	17.8%	NOII slightly increased thanks to the recovery of fee collection activities, compensating for the temporary slowdown of the bancassurance segment.
TOI	47,306	58,891	24.5%	72,124	22.5%	
Pre-provision operating profit (PPOP)	32,393	40,046	23.6%	49,333	23.2%	
Provision expenses	(6,087)	(9,724)	59.8%	(10,913)	12.2%	Provision for credit risks increase because (1) NPLs may increase when the economic recovery does not meet expectations; and (2) the reserve buffer strengthens after the bank uses large resources to write off debts in the previous year.
PBT	26,306	30,322	15.3%	38,420	26.7%	
NIM	4.79%	4.87%	7bps	4.95%	8bps	We lowered NIM forecast because the downward trend continues in 4Q, the recovery speed is slower than expected due to a plunge in IEA at MBB.
Average IEA	8.57%	7.93%	-64bps	7.68%	-25bps	
Average CoF	4.34%	3.47%	-87bps	3.06%	-41bps	
CIR	31.5%	32.0%	48bps	31.6%	-40bps	The forecast was based on the bank's target of controlling CIR in the range of 30–35%.
NPL	1.60%	1.50%	-10bps	1.30%	-20bps	Asset quality is more positive as the real estate and corporate bond markets should slowly recover in 2024.
Total assets	944,954	1,170,971	23.9%	1,395,152	19.1%	
Equity	96,711	117,080	21.1%	144,051	23.0%	

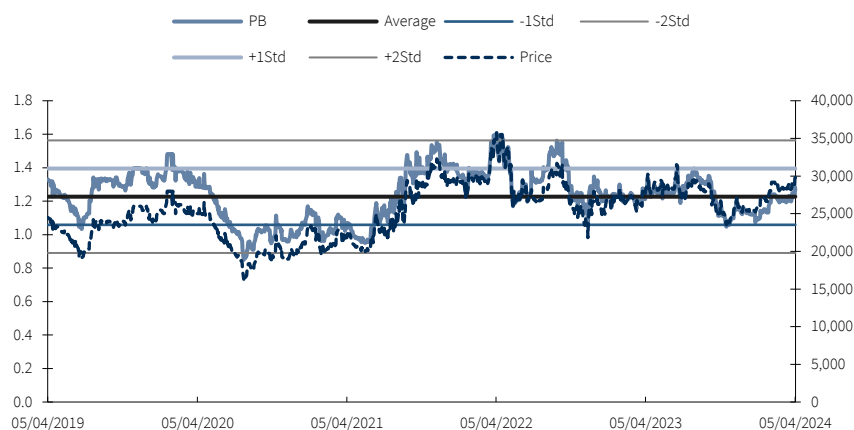
Source: KB Securities Vietnam

Valuation – BUY rating with a target price of VND28,100/share

We maintain a positive rating for MBB shares and raise the target price from VND25,000 to VND28,100/share with two valuation methods: P/B comparison and residual income discount (weighing 50–50 for each method). With the P/B comparison, we adjust the target P/B to 1.2x (vs 1.0x in the old target) because we are positive about MBB's growth rate in the coming time as the bank has many competitive advantages in both lending and mobilization activities. Not to mention that the business activities of its subsidiaries are improving.

We give a BUY rating to MBB shares with potential return of 20% compared to closing price on March 19, 2023.

Fig 22. MBB – Stock price & P/B (VND, x)



Source: Bloomberg, KB Securities Vietnam

Table 13. MBB – 2024 valuation according to residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	24,258	30,736	36,748
Excessed return	9,500	8,754	9,762
Required rate of return (re)	14,87%		
Growth (g)	3%		
Terminal value	27,462		
Total present value (PV)	154,365		
Value per share	30,026		

Source: KB Securities Vietnam

Table 24. MBB – Final valuation and target price (VND)

Valuation method	Forecast price	Weighting	Price per weight
Residual income	30,026	50%	15,013
P/B	26,252	50%	13,126
Target price			28,100

Source: KB Securities Vietnam

Table 4. MBB –

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	26,200	36,023	38,684	49,883	61,515	Loans	354,797	448,599	599,579	721,751	845,604
Interest income	38,465	52,486	69,143	81,245	95,391	Marketable securities	7,575	4,106	44,251	57,146	68,928
Interest expense	(12,265)	(16,463)	(30,459)	(31,361)	(33,876)	Cash (ex. Reserves)	3,475	3,744	3,675	5,469	6,596
Fees & commissions	4,367	4,136	4,085	4,835	4,895	Interest earning assets	574,482	697,256	916,370	1,133,817	1,351,385
Other non-interest income	3,254	2,142	2,428	1,405	2,672	Fixed assets & other assets	38,176	38,836	34,928	41,899	48,384
Total operating income	36,934	45,593	47,306	58,891	72,124	Total assets	607,140	728,532	944,954	1,170,971	1,395,152
SG&A expenses	(12,377)	(14,816)	(14,913)	(18,845)	(22,791)	Customer deposits	384,692	443,606	567,533	733,259	884,446
Pre-provisioning OP	24,557	30,777	32,393	40,046	49,333	Borrowings & call money/repos	68,886	98,581	129,263	159,003	185,397
Provision for credit losses	(8,030)	(8,048)	(6,087)	(9,724)	(10,913)	Interest bearing liabilities	513,400	607,335	796,615	1,009,594	1,202,523
Other income	4,211	3,026	2,428	2,341	3,473	Other liabilities	31,254	41,584	51,628	44,297	48,578
Other expense	(956)	(884)	-	(936)	(801)	Total liabilities	544,654	648,919	848,242	1,053,891	1,251,102
Pre-tax income	16,527	22,729	26,306	30,322	38,420	Charter capital	37,783	45,340	52,141	52,141	52,141
Income tax expense	(3,306)	(4,574)	(5,252)	(6,064)	(7,684)	Capital surplus	869	869	869	869	869
NP	13,221	18,155	21,054	24,258	30,736	Retained earnings	12,915	19,064	25,560	46,199	73,170
Minority interest profit	(524)	(672)	(377)	(490)	(637)	Capital adjustments	-	-	-	-	-
Parent NP	12,697	17,483	20,677	23,768	30,099	Total shareholders' equity	62,486	79,613	96,711	117,080	144,051
						(VNDbn)					
Financial Indicators						Valuation					
(%)	2021	2022	2023	2024F	2025F	(VND, X, %)	2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	23.5%	25.6%	23.9%	22.7%	23.5%	EPS	3,361	3,856	3,966	4,558	5,773
ROA	2.4%	2.7%	2.5%	2.3%	2.4%	BVPS	16,538	17,559	18,548	22,455	27,627
Pre-provision ROE	34.9%	34.6%	29.4%	30.0%	30.2%	Tangible BVPS	16,140	17,197	18,226	22,095	27,227
Pre-provision ROA	3.6%	3.7%	3.1%	3.0%	3.1%	Valuations					
Net interest margin (NIM)	5.0%	5.7%	4.8%	4.9%	5.0%	PER	13.1	11.4	11.1	9.7	7.6
Efficiency						PBR	2.7	2.5	2.4	2.0	1.6
Pure Loan to deposit ratio	94.5%	103.8%	107.7%	100.0%	97.0%	ROE	23.5%	25.6%	23.9%	22.7%	23.5%
Cost-income ratio	33.5%	32.5%	31.5%	32.0%	31.6%	Capital Adequacy					
Growth						CAR	10.4%	11.3%	11.4%	>11%	>11%
Asset growth	22.7%	20.0%	29.7%	23.9%	19.1%	Asset Quality					
Loan growth	20.7%	26.4%	33.7%	20.4%	17.2%	NPL ratio (substandard)	0.9%	1.1%	1.6%	1.5%	1.3%
PPOP growth	46.1%	25.3%	5.3%	23.6%	23.2%	Coverage ratio (substandard)	268.0%	238.0%	117.0%	104.6%	110.4%
Parent NP growth	53.7%	37.7%	18.3%	14.9%	26.6%	NPL ratio (precautionary)	2.0%	2.8%	3.9%	3.3%	3.1%
EPS growth	13.8%	14.7%	2.8%	14.9%	26.6%	Coverage ratio (precautionary)	122.0%	93.3%	48.3%	47.6%	46.3%
BVPS growth	-7.6%	6.2%	5.6%	21.1%	23.0%						

Source: Military Bank, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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