July, 2021

MILITARY COMMERCIAL JOINT STOCK BANK (HSX: MBB)

Accelerated digitization initially proved effective

(VND Bn)	1Q-FY21	4Q-FY20	+/- QoQ	1Q-FY20	+/- YoY
Total operating income	9,193	7,714	19.2%	6,339	45.0%
PBT and provision	6,389	4,479	42.6%	4,288	49.0%
NPAT	3,553	1,931	84.0%	1,712	107.5%
CIR (%)	37.4	38.6	-115bps	38.0	-59bps

Source: MBB, Rong Viet Securities

1Q 2021: Profit doubled due to high credit growth, written-off debt recovery and reduced provision

- NII increased 26.8% YoY as the loan portfolio expanded faster than deposit, while NIM was flat compared to 1Q2020. Non-interest income rocketed 97.2% YoY with a surge of VND 1,107 bn in written-off debt collection, in addition to strong growth of over 40% YoY in FX trading and service income. TOI increased 45% YoY.
- PPOP rose 49% YoY as operating expenses increased at a lower pace (+36.7% YoY) than TOI. Provision expense fell 13.6% YoY supporting PBT to jump 109% YoY to VND 4,580 bn, completing 35% of the year target.

2021 – Large investment in IT keeps CIR flat but reduced provision will support a positive increase in PBT

Credit growth is weak in 2Q due to little credit quota approved in the beginning of the year. NIM is equivalent to 1Q because of low mobilization pressure. 2Q TOI will grow 16.2% YoY, with NII up 21.4% YoY and service income rising 47.3% YoY. Spending on digitization and depreciation of the new office building will cause OPEX to increase 15.4% YoY and CIR to reach 37.3%. NPLs will be strictly controlled, causing provision expense to decrease 16.2% YoY. 2Q PBT will increase 30.5% YoY to VND3,814 bn.

For the whole year, we expect credit growth at 21% in the base scenario. NIM reaches 5.01%. Accordingly, NII grow 25% YoY to VND 25,344 bn. Net services income climbs by 46.5% driven by insurance business and recovery in payments.

In terms of expenses, CIR will be flat at 38.6%. Restructured debt and bad debt formation ratio are falling rapidly, causing 2021 NPL ratio to be flat at 1.09% and provision expense to decrease 15.1%.

Thereby, TOI and PBT rise 26.7% YoY and 50.6% YoY to VND 34,659 bn and VND16,095 bn, respectively.

Valuation and recommendation

The military ecosystem and MBB's ability to stand apart from peers in building customer experience will help the bank maintain its competitive edges in profitability, especially in the race to increase CASA ratio. The process of cleaning up the consumer finance segment will have to come at the expense of slowing growth and narrowing NIM in this segment in the short term. Large investments in long-term competitiveness may also cause profit margins to shrink temporarily in the period 2022-2023, per our estimate. However, good asset quality together with thick capital buffer will continue to ensure MBB's safety against major shocks.

*We estimate the fair value of the stock at **VND48,800/share**. If there is no cash dividend in the next 12 months, the total return will be 16% based on the closing price of July 8th, 2021. We recommend **ACCUMULATE** MBB stock.*

ACCUMULATE +16%

Target price (VND)	48,800
Current market price (VND)	42,100
Cash dividend (VND)*	-

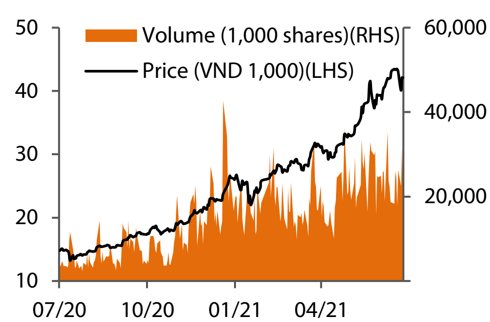
**Expected in the next 12 months*

Stock Info

Sector	Bank
Market Cap (VND bn)	117,547
Current Shares O/S (mn)	2,799
Beta	1.2
Free float (%)	65.8
52 weeks High	42,000
52 weeks Low	13,226
Avg. Daily Volume (in 20 sessions)	24,914,885

	FY2020	Current
EPS	2,993	3,635
EPS Growth (%)	15.3	44.3
Diluted EPS	2,952	3,635
P/E	15.7	11.9
P/B	2.5	2.4
Cash dividend (%)	0.0	0.0
ROE (%)	19.1	20.4

Price performance



Major Shareholders (%)

Viettel Corp.	14.1
SCIC	9.3
Vietnam Helicopter Corp.	7.4
Cat Lai Port JSC.	7.1
Foreign ownership room left (%)	*1.8*

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Exhibit 1: 1Q 2021 Results

(VND Bn)	1Q-FY21	4Q-FY20	+/-(QoQ)	1Q-FY20	+/-(YoY)
Interest and Similar Income	9,013	8,736	3.2%	8,080	11.5%
Interest and Similar Expenses	-3,061	-2,942	4.1%	-3,385	-9.6%
Net Interest Income	**5,952**	**5,794**	**2.7%**	**4,695**	**26.8%**
Non-interest Income	3,241	1,920	68.8%	1,644	97.2%
Net fee and commission Income	1,066	1,090	-2.2%	745	43.1%
Net gain/(loss) from foreign currency and gold dealings	237	268	-11.6%	159	48.4%
Net gain/(loss) from trading of securities	0	0	-	-15	-100.0%
Net gain/(loss) from disposal of investment securities	691	81	756.2%	513	34.7%
Net other income/expenses	1,217	475	156.0%	240	406.7%
Income from capital contribution	31	7	357.4%	1	2427.1%
Total operating income	**9,193**	**7,714**	**19.2%**	**6,339**	**45.0%**
Operating expenses	-2,804	-3,235	-13.3%	-2,051	36.7%
Operating profit before provision	6,389	4,479	42.6%	4,288	49.0%
Provision expenses	-1,809	-1,925	-6.0%	-2,093	-13.6%
Profit before tax	**4,580**	**2,554**	**79.3%**	**2,196**	**108.6%**
Corporate income tax	-914	-544	67.9%	-413	121.3%
NPAT	**3,666**	**2,010**	**82.4%**	**1,783**	**105.6%**
Attributable to parent company	**3,553**	**1,931**	**84.0%**	**1,712**	**107.5%**

Source: MBB, Rong Viet Securities

Exhibit 2: 1Q 2021 Performance Analysis

(%)	1Q-FY21	4Q-FY20	+/-(QoQ)	1Q-FY20	+/-(YoY)
Profitability (TTM)					
NIM	5.0	4.8	27bps	5.0	1bps
CIR	37.4	38.6	-115bps	38.0	-59bps
ROAE	20.7	18.4	232bps	19.1	161bps
ROAA	2.2	1.8	38bps	1.9	27bps
Asset Quality					
NPLs ratio	1.3	1.1	20bps	1.6	-32bps
Bad debt coverage ratio	40.2	39.5	74bps	40.5	-23bps
Equity-to-assets ratio	10.5	10.1	39bps	10.8	-30bps
Operating Safety Ratio					
Customer loans-to-total assets ratio	71.0	69.1	198bps	71.7	-71bps
Customer LDR	97.3	94.5	282bps	94.0	329bps
Adjusted LDR	93.3	90.2	314bps	96.2	-284bps

Source: MBB, Rong Viet Securities

Exhibit 3: 2Q 2021 Performance Forecast

Particulars (VND Bn)	2Q-FY21	+/- (QoQ)	+/- (YoY)
Net interest income	5,615	-5.7%	21.4%
Total operating income	7,641	-16.9%	16.2%
Profit before tax and provision	4,833	-24.3%	16.8%
NPAT	3,118	-15.0%	30.5%

Source: Rong Viet Securities

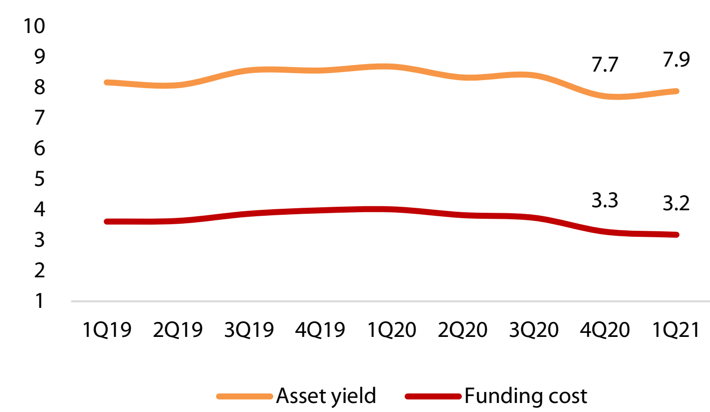
Update

MBB recorded Q1/2021 pre-tax profit at VND 4,580 bn, a jump of 109% YoY. Growth drivers come from loan growth, written-off debt recovery and reduced provision for credit risks. With Q1 results, the bank has completed 35% of the year plan in terms of profit.

Net interest income surged due to high credit demand

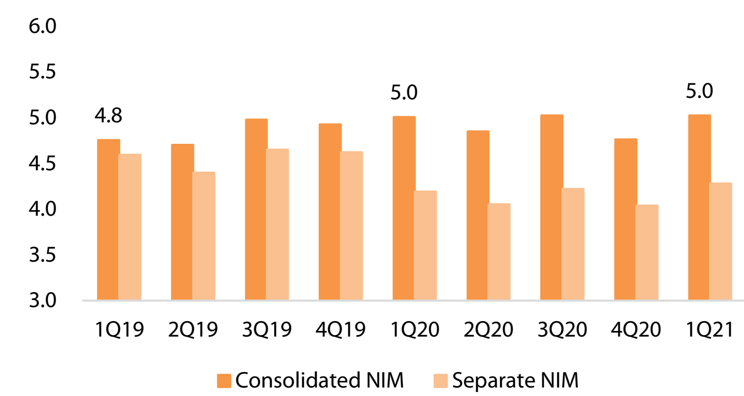
Consolidated credit growth in the first 3 months reached 8.1% Ytd, of which customer loans increased by 8.6% Ytd and corporate bonds rose by 2.9% Ytd. Credit of the parent bank increased 8.5% Ytd while consumer lending (via MCredit) inched up 1.2% Ytd, accounting for 3.1% (2020: 3,4%) of the consolidated credit portfolio. MCredit's decelerating credit growth is part of the strategy to restructure the consumer lending segment starting in 2020, with the goal of gradually increasing the proportion of non-cash loans (motorcycles, mobile phones, electronics and credit cards) in order to improve the quality of loans. According to the bank, the proportion of non-cash loans at the end of Q1/2021 reached 28.5%, a significant increase from 15% in 2019.

Figure 1: Asset yeild and funding cost (%, TTM)



Source: MBB, Rong Viet Securities

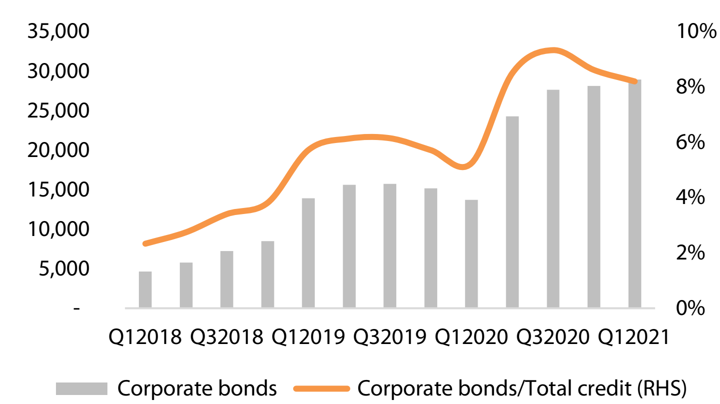
Figure 2: Consolidated NIM and separate NIM (%, TTM)



Source: MBB, Rong Viet Securities

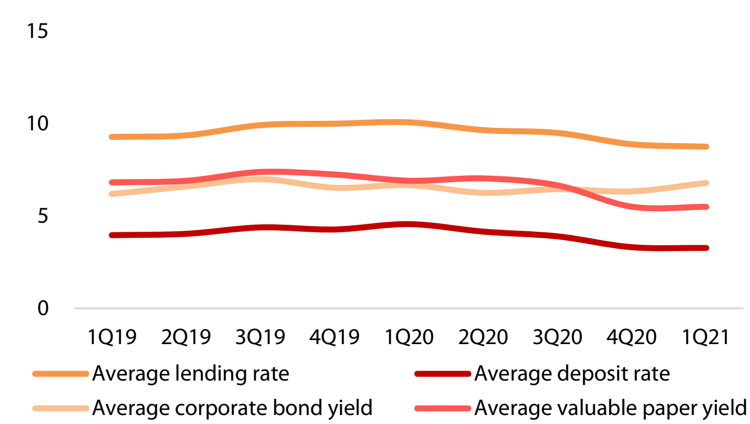
Compared to the previous quarter, consolidated NIM expanded significantly by 27 bps (from 4.76% to 5.02%) as a result of a 17 bps increase in asset yields and a 10 bps decrease in funding costs. On the year-on-year basis, consolidated NIM was flat compared to Q1/2020 (5.02% vs 5.01% in Q1/2020) as the decline in asset yields was approximately the same as the decrease in funding costs. NIM was flat but deposit growth was significantly lower than lending growth (+4.5% Ytd vs +8.1% Ytd) causing net interest income to increase sharply by 27% YoY.

Figure 3: Corporate bonds (VND bn) and growth (RHS)



Source: MBB, Rong Viet Securities

Figure 4: Interest rates (%, TTM)

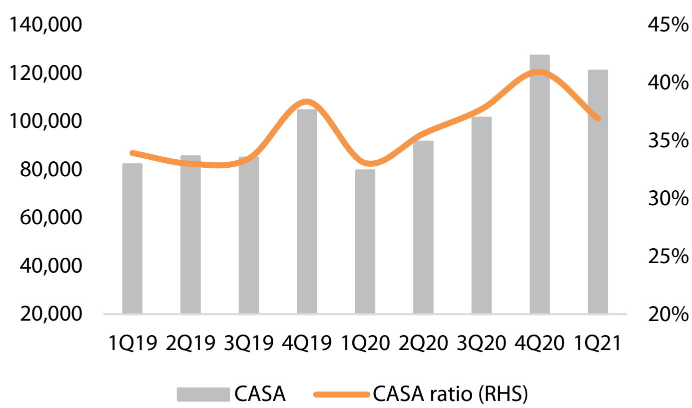


Source: MBB, Rong Viet Securities

The average lending rate continued to decrease to support customers. Nevertheless, the yeilds of debt securities rose sharply by 46 bps and was the main factor of increasing average asset yield. This is the result of MBB's continuous increasing investment in corporate bonds since

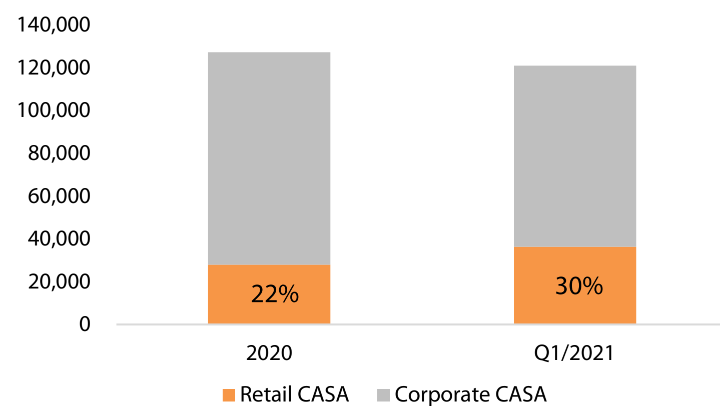
2018 with the balance of corporate bonds going up from VND 8,500 bn at the end of 2018 to VND 28,900 bn at the end of Q1/2021, accounting for 8.6% of total consolidated outstanding loans, compared to 5.2% in Q1/2020. The corporate bond portfolio centered in leading corporations in the real estate and power generation industries. On the input side, average interbank lending decreased by 20 bps QoQ, helping to improve funding costs, while deposit rates and yields of valuable papers were mostly flat after falling continuously from Q2/2020. The average deposit interest rate did not decrease much partly because CASA fell in both absolute number (-5% QoQ) and proportion (37% compared to 41% at the end of 2020), which we believe the result of seasonal factors and will rise again in the following quarters.

Figure 5: CASA (VND bn) and CASA ratio (RHS)



Source: MBB, Rong Viet Securities

Figure 6: Corporate CASA and retail CASA (VND bn)



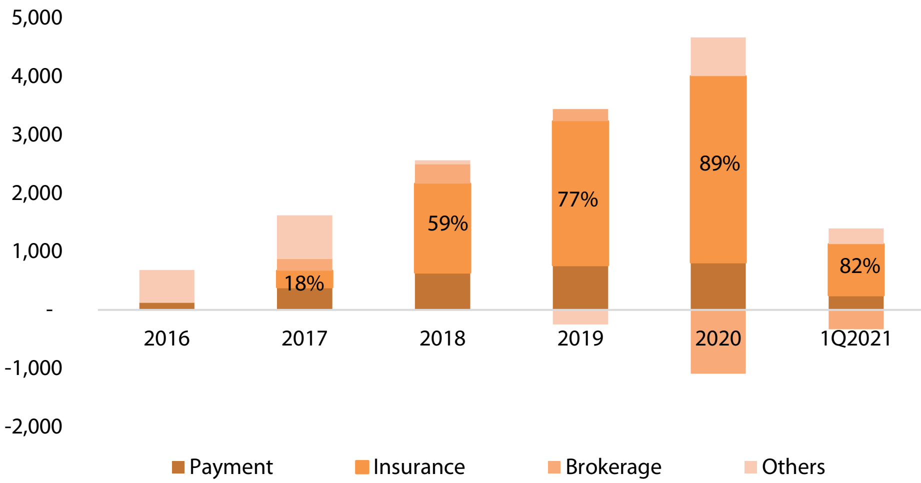
Source: MBB, Rong Viet Securities

MBB has launched many programs to improve customer experience from the beginning of 2020 (self-created account mumbers, corporate bonds buying on MBBank app, remote accounts opening via eKYC, account numbers to be the same as mobile phone numbers, self-created VietQR code for payments, online international remittance), helping the rate of CASA increase steadily over the last quarters. Despite the decline due to the seasonality of corporate CASA, Q1/2021 CASA ratio is still significantly higher than the same period (37% vs 33%) and retail CASA has surged by more than 30% QoQ, accounting for approximately 30% of total CASA. The number of new retail customers in Q1/2021 of the MBBank app is one million, equal to 60% of the new customers of the whole 2020. The pioneering and distinctiveness nature of customer experience development on digital channels is the competitive advantages that we believe will help MBB accelerate the attraction of retail CASA more sustainably in the coming time. Accordingly, we forecast the CASA ratio this year to reach about 43.2% and gradually increase to 47.2% in 2025.

Non-interest income nearly doubled with the main contribution of writen-off debt recovery

Because they are often cross-sold with loans, service incomes also recovered following the credit growth since Q3/2020 and increased 43.1% YoY in Q1/2021, from the low base of Q1/2020. The main driver is still insurance with net profit from insurance activities up 43.7% YoY and accounting for 82% of total service income. The proportion of income from insurance in total service income has continuously increased since 2017, when MB Ageas started to record revenue from life insurance. The insurance segment will maintain its leading role in service income growth at least in the medium term based on the following factors: (1) Vietnam's insurance market still has huge growth potential with penertration rate (insurance premiums/GDP) is only 2.24% compared to more than 10% in developed countries (in 2019) and (2) the life insurance segment (MB Ageas) has made profit from insurance and normally life insurance is more profitable than non-life insurance and (3) large customer base from the military ecosystem.

Figure 7: Net fee income components (VND bn)



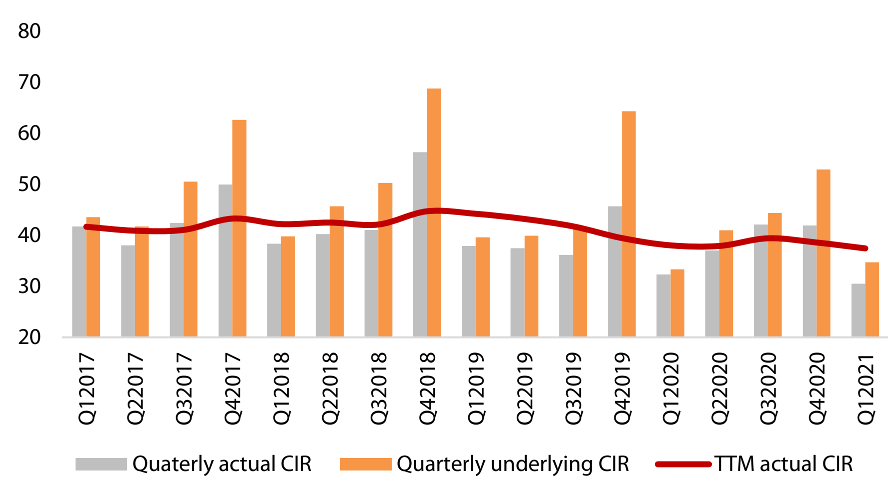
Source: MBB, Rong Viet Securities

The bank recorded an extraordinary income of VND 1,107 bn from writen-off debt recovery, bringing profit from other activities up five times compared to the same period last year. This is also the main component contributing to the growth of 97% YoY of total non-interest income. Earnings from written-off debt collection could be significant positive surprises in the coming years, based on the company's increased write-offs in 2019 and 2020, averaging VND4,900 bn/year, three times higher than the average of previous years.

CIR falls on extraordinary earnings but could rise in the medium term due to strong investments

Operating expenses increased by 36.7% YoY while total operating income increased by 45% YoY, causing the TTM CIR ratio to decrease to 37.4% from 38.6% in 2020. Excluding the income from written-off debt collection, the CIR is flat compared to last year. While the number of employees was almost unchanged year-on-year, spending for employees increased sharply by 36.6% YoY and average employee income increased by 23.6% YoY due to IT personnel recruitment for a project in cooperation with IBM to build IT systems and train IT experts. The new office in Hanoi, which came into operation from November 2020, also caused asset spending to increase by 51% YoY, of which depreciation expense doubled. Therefore, it is likely that the full year CIR will be flat compared to 2020.

Figure 8: Quarterly underlying CIR, quarterly actual CIR and TTM actual CIR (%)



Source: MBB, Rong Viet Securities

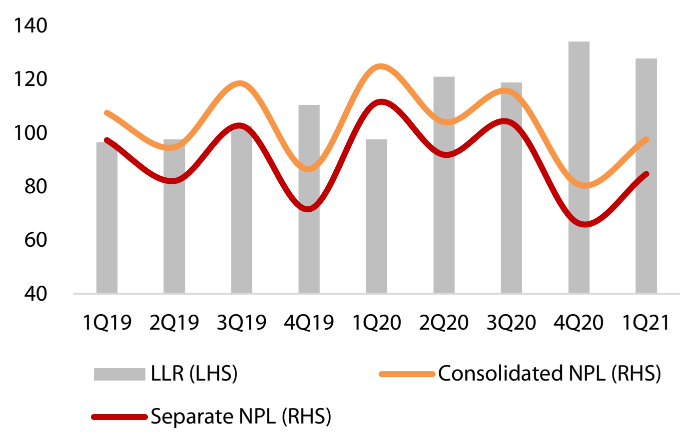
Large investment needs to improve business efficiency and scale up may cause CIR to increase in the medium term, before improving in the long term. Specifically, MBB's digital banking acceleration strategy aims to increase the proportion of IT staff in total employees from the current 10% to 25% by 2024. At the same time, in 2021, the bank also has plans to start building a new headquarters in Ho Chi Minh City with the maximum investment cost of 20% of charter capital (about VND 5,600 bn based on chartered capital at the end of Q1/2021). We assume the HCMC headquarters will come into operation from mid-2023, causing CIR to peak at 44.8% due to amortization and a large staff recruitment.

Good credit quality maintained

Consolidated provision expenses fell by 13.6% YoY, leading to an improvement in credit cost ratio to 2.0%, the lowest since Q1/2020. Bad debt coverage ratio (LLR) to drop slightly to 127.8% from an all-time high of 134.1% at the end of 2020. Still, balance sheet quality maintained because of the bank's strong debt writen-off and provisioning in the last quarter of 2020, mainly at the parent bank, in order to prepare for possible bad debt surprises in 2021.

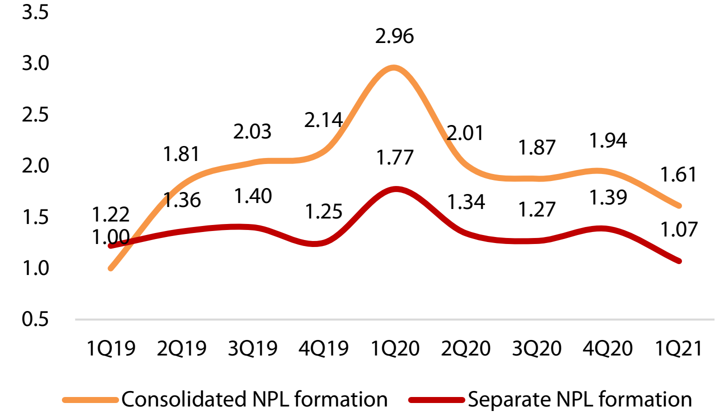
Consolidated bad debt in Q1/2021 increased by 28.8% compared to the end of 2020, pulling the TTM consolidated bad debt ratio to 1.29% from 1.09% at the end of 2020, on the low base of Q4 2020. Because of its low exposure to industries affected by the pandemic and prudent lending management, the restructuring loan balance under Circular 03 is low and rapidly decreased from VND 7,800 bn at the end of Q2/2020 (3% of total outstanding loans) to VND 2,000 bn at the end of Q1/2021 (0.6% of total outstanding loans). The consolidate bad debt formation ratio in the last 12 months dropped to 1.61%, the lowest level since the pandemic began. Credit quality of MCredit also continuously improved with bad debt ratio, debt write-off rate and consolidated bad debt formation ratio falling faster than that of the parent bank, since Q2/2020.

Figure 9: Consolidated NPL, separate NPL and LLR (%, TTM)



Source: MBB, Rong Viet Securities

Figure 10: Consolidated and separate NPL formation (%, TTM)



Source: MBB, Rong Viet Securities

2021 outlook

The bank has used most of the credit line assigned since the beginning of the year in Q1 (8.1% Ytd vs 10.5% Ytd) and has only been granted a new limit since mid-June. This together with the severe pandemic outbreak in June will make credit growth in Q2 not as strong as in Q1. With MBB's credit balance growth in the first five months of the year reaching 10.5% Ytd, we forecast the first half credit balance growth to reach 11.3% Ytd. Slowing loan growth put less pressure on deposits, indirectly helping NIM maintain the same level of Q1. Total income will grow 16.2% YoY to VND 7,641 bn in Q2, driven by interest income up 21.4% YoY and service income up 47.3% YoY with the main contribution of the insurance segment, which has maintained high growth rates in recent years. Spending on digitization and depreciation allocation of the new headquarter will cause operating costs to increase by 15.4% YoY, leading to a TTM CIR ratio that is flat compared to Q1/2021 at 37.3%, assuming no large debt collection or reversal of provisions. NPLs were strictly controlled, causing provision expense to decrease slightly by 16.2% YoY, bringing PBT up 30.5% YoY to VND3,814 bn.

For the whole year 2021, we forecast MBB's PBT to reach VND16,095 bn (+50.6% YoY) based on the following assumptions:

Credit and deposit growth reached 21% and 18% respectively. The average lending rate will decrease by 18 bps, stronger than the decrease of 13 bps in Q1, in order to support customers amid the severe pandemic situation. The average deposit rate fell more sharply (26 basis points) because of low mobilzation pressure (LDR 72% at the end of 2020), the increase in CASA ratio (reaching 43.2% compared to 40.9% in 2020) and the recent mildly strained interbank liquidity situation will ease owing to USD forward contracts and a large amount of government bonds coming to maturity. This, coupled with an expanded investment portfolio into high-yield corporate bonds and low-yield valuable papers issued in recent quarters, should support NIM to rise 24 bps to 5.01%. Net interest income NII, accordingly, increased 25% YoY to VND25,344 bn.

Net profit from NFI services reached VND5,237 bn, up 46.5% YoY, led by insurance income. Strong growth in net interest income and service income brought TOI up significantly by 26.7% YoY to VND34,659 bn. The need for large investment in IT infrastructure and personnel and the depreciation of the new office will make the CIR in 2021 flat compared to 2020 and peak in 2023. Operating costs in 2021, therefore, grow at the same rate as TOI to VND 13,370 bn.

The new pandemic outbreak is complicated, but with good credit quality, reducing restructured debt and the rapid decline of bad debt formation rate, we expect the bank to be able to maintain the bad debt ratio at 1,09%, equivalent to 2020. Due to the advance preparation of provisions in 2020, the pressure of provision this year will be reduced, leading to a decrease in provision expenses by 15.1% YoY to VND 5,193 bn. LLR fell to 129.4% from its peak of 134.1% in 2020 but it is still higher than it was in 2019 and earlier.

Unit: VND Bn

INCOME STATEMENT	FY2019A	FY2020A	FY2021E	FY2022F
Interest and Similar Income	31,197	32,767	39,306	49,067
Interest and Similar Expenses	-13,197	-12,490	-13,962	-18,326
Net Interest Income	**18,000**	**20,278**	**25,344**	**30,741**
Non-interest Income	6,650	7,084	9,314	10,764
Net fee and commission Income	3,186	3,576	5,237	6,713
Net gain/(loss) from foreign currency and gold dealing	647	786	923	1,233
Net gain/(loss) from trading of securities	27	85	56	56
Net gain/(loss) from disposal of investment securities	612	866	739	591
Net other income/expenses	2,099	1,680	2,259	2,080
Income from capital contribution	78	93	100	90
Total operating income	**24,650**	**27,362**	**34,659**	**41,505**
Operating expenses	-9,724	-10,555	-13,370	-17,068
Operating profit before provision	14,927	16,807	21,288	24,437
Provision expenses	**-4,891**	**-6,118**	**-5,193**	**-5,980**
Profit before tax	**10,036**	**10,688**	**16,095**	**18,457**
Corporate income tax	-1,968	-2,082	-3,187	-3,623
NPAT	**8,069**	**8,606**	**12,909**	**14,834**
Attributable to parent company	**7,823**	**8,263**	**12,565**	**14,491**

Unit: %

FINANCIAL RATIO	FY2019A	FY2020A	FY2021E	FY2022F
Growth				
Customer loans	16.9	18.9	21.1	19.8
Customer deposit	13.6	14.0	18.0	17.0
Net interest income	23.4	12.7	25.0	21.3
Operating income	26.2	11.0	26.7	19.8
NPAT	28.0	5.6	52.1	15.3
Total Assets	13.6	20.3	19.0	18.4
Equity	16.7	25.6	20.2	24.1
Profitability				
NIM	4.9	4.8	5.0	5.1
CIR	39.4	38.6	38.6	41.1
ROAE	21.1	18.4	22.8	21.5
ROAA	2.0	1.8	2.3	2.3
Asset Quality				
NPL ratio	1.2	1.1	1.1	1.1
Bad debt coverage ratio	110.5	134.1	129.4	141.7
Equity-to-Assets ratio	9.7	10.1	10.2	10.7
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	69.7	69.1	69.8	70.2
Customer LDR	91.8	95.9	98.4	100.9

Unit: VND Bn

BALANCE SHEET	FY2019A	FY2020A	FY2021E	FY2022F
Cash and precious metals	2,344	3,109	3,425	4,969
Balances with the SBV	14,347	17,297	17,164	19,690
Placements with and loans to other credit institutions	39,691	47,889	55,072	63,333
Trading securities, net	1,168	3,085	3,588	4,102
Derivatives and other financial assets	15	37	37	37
Loans and advances to customers, net	247,130	293,943	355,842	426,417
Investment securities	85,629	99,714	118,904	137,400
Investment in other entities and long-term investments	887	885	885	885
Fixed assets	2,798	4,311	5,302	6,973
Investment properties	31	248	248	248
Other assets	17,447	24,465	28,624	33,204
TOTAL ASSETS	**411,488**	**494,982**	**589,092**	**697,259**
Due to Gov and borrowings from SBV	17	15	16	18
Deposits and borrowings from other credit institutions	50,314	50,876	55,964	61,561
Deposits from customers	272,710	310,960	366,933	429,312
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international & other institutions	302	207	684	684
Convertible bonds/CDs and other valuable papers issued	26,289	50,924	60,090	69,704
Other liabilities	3,873	4,645	5,427	6,388
Total liabilities	**371,602**	**444,883**	**526,683**	**620,359**
Shareholder's equity	**39,886**	**50,099**	**60,216**	**74,707**
Capital	22,718	28,726	28,726	28,726
Reserves	4,937	6,225	7,795	9,605
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	10,342	12,956	23,696	36,377
Minority interest	1,888	2,193	2,193	2,193
LIABILITIES AND SHAREHOLDER'S EQUITY	**411,488**	**494,982**	**589,092**	**697,259**

Unit: VND Bn

FOOTNOTES	FY2019A	FY2020A	FY2021E	FY2022F
Interest Income	**31,197**	**32,767**	**39,306**	**49,067**
From customers	23,255	24,384	28,714	36,316
From other Cis	971	411	436	641
From fixed-income investment	5,246	6,005	7,859	9,205
From guarantee	0	0	0	0
From other activities	1,724	1,967	2,297	2,905
Interest Expenses	**-13,197**	**-12,490**	**-13,962**	**-18,326**
To customers	-10,950	-9,662	-10,324	-13,096
To other Cis	-751	-508	-456	-652
To fixed-income investment	-1,357	-2,125	-2,933	-4,286
To other activities	-139	-195	-250	-291
Operating expenses	**-9,724**	**-10,555**	**-13,370**	**-17,068**
Provision expenses	**-4,891**	**-6,118**	**-5,193**	**-5,980**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. We strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. Investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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