MILLITARY COMMERCIAL JSB (HSX:MBB)

To Solve Growth Problems With Non-Traditional Banking Activities

Particular (VND B)	Q3-FY17	Q2-FY17	+/- QoQ	Q3-FY16	+/- YoY
Total operating income	3,632	3,479	4%	2,548	43%
PBT and provision	2,092	2,155	-3%	1,472	42%
Profit before tax	1,478	1,412	5%	926	60%
NPAT	1,195	1,075	11%	757	58%

Source: MBB, RongViet Research

Earnings results of 9M 2017 soared up with strong growth of income from interest and service. Total operating income was VND10,012B (+47.2% YoY), in which interest income accounted for 79.6% and service income accounted for 10.3%, compared to 83.8% and 6.8% in 2016, respectively. Non-interest and non-service incomes also grew significantly in 9M 2017.

Operating costs and provision expenses grew 41% YoY and 71% YoY, respectively. Therefore, PBT growth was 43.5% to VND4,002B, fulfilling more than 88% of the yearly target.

MBB will prioritize making provision for special bonds. In 2017, MBB's room for credit growth was lifted to 20%. However, given the strong credit growth in 9M 2017, we estimated MBB's credit growth to be 22% YoY, and deposit growth to be 9% YoY in 2017. Total operating income will be VND12,713B (+29% YoY). At the same time, as the bank has been expanding its business activities (to insurance and consumer finance fields), we expect operating expenses to grow 28% YoY with corresponding CIR of 42%. In addition, MBB could prioritize making provisions for special bonds in 2017. In the base case, we forecast MBB's provision expense will be VND2,127B (+4.8% YoY), of which about 57% will be made for special bonds.

We forecast 2017 PBT at VND5,246B (+43.7% YoY), 16% higher than the yearly target. NPAT and EPS in 2017 will be VND1,194B (+44% YoY) and VND1,121, respectively.

Valuation and recommendation

The combination of many factors, (1) good asset quality and high capital adequacy that helped credit activity accelerate in addition to the favorable environment and (2) the drastic measures to push service income growth (securities and insurance), helped MBB record impressive business results in 9M 2017.

Capital adequacy ratio (CAR) reached approximately 11% at the end of Q2 2017, relatively high compared to the requirement ratio under Circular 36. Therefore, MBB may not be under high pressure on capital raising to ensure its ratio according to Basel II. In addition, following the expansion to non-traditional banking activities as mentioned, it is likely that the growth concern for MBB has been resolved. However, MBB's launching of its new businesses poses a higher risk than its current business while the macro picture is very favorable. Therefore, we are cautious on its ability to drive faster earnings growth with the same asset quality in the long term.

We estimate that MBB's target price in the immediate term will be around VND28,700 per share, equivalent to PBR forward 2018 at 1.54x, 7.5% higher than our target price updated on November Strategy Report. It plans to pay VND500 per share cash dividends for 2017. Hence, total expected return is 21%, and we recommend BUY rating for MBB.

BUY

CMP (VND)	24,200
Target price (VND)	28,700
Cash dividend (VND)*	500

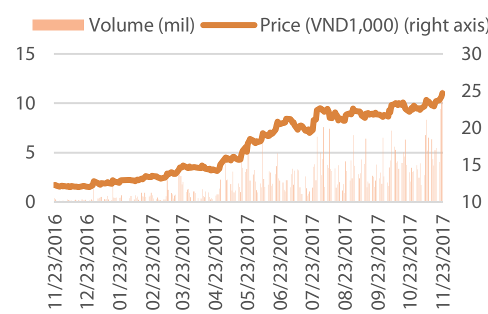
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market Cap (VND B)	43,935
Current Shares O/S	1,815,505,363
Beta	0.94
Free float (%)	55.65
52 week High	24,800
52 week Low	12,067
Avg. Daily Volume (20 sessions)	5,006,400

	FY2016	Current
EPS	1,706	2,141
EPS growth (%)	–4.5	N/a
Diluted EPS	786	N/a
P/E	7.9	11.5
P/B	0.9	1.6
Cash dividend	500	500
ROE (%)	12.1	14.1

Price performance



Major Shareholders (%)

Viettel	16.58
SCIC	11.05
Vietnam Helicopter	8.81
Saigon New Port	7.91
Foreign ownership room (%)	0.0

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Exhibit 1: Q3 2017 Results

Particular	Q3-FY17	Q2-FY17	*+/- (qoq)*	Q3-FY16	*+/- (yoy)*
Interest and similar income	5,097	4,804	6.1%	4,091	24.6%
Interest and similar expenses	-2,262	-2,072	9.2%	-2,020	12.0%
Net interest income	2,835	2,732	3.8%	2,071	36.9%
Non-interest incomes	797	747	6.7%	477	67.1%
Net fee and commission income	*375*	*428*	*-12.5%*	*180*	*108.3%*
Net gain/(loss) from foreign currency and gold dealings	*82*	*24*	*248.0%*	*14*	*477.5%*
Net gain/(loss) from trading of trading securities	*0*	*40*	*-100.0%*	*145*	*-100.0%*
Net gain/(loss) from disposal of investment securities	*43*	*0*	*N/A*	*0*	*N/A*
Net other income/expenses	297	254	16.8%	138	115.6%
Total operating income	3,632	3,479	4.4%	2,548	42.5%
Operating expenses	-1,540	-1,324	16.3%	-1,076	43.1%
Operating profit before provision	2,092	2,155	-2.9%	1,472	42.1%
Provision expenses	-614	-743	-17.3%	-546	12.6%
Profit before tax	1,478	1,412	4.6%	926	59.5%
Corporate income tax	-283	-304	-7.0%	-192	47.8%
NPAT	1,195	1,108	7.8%	735	62.6%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: MBB, rongviet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)
Growth (%)					
Customer loan	16.9	14.6	237 bps	20.0	-305 bps
Customer deposit	8.6	4.4	424 bps	2.9	573 bps
Operating income	4.4	19.9	-1548 bps	15.3	-1090 bps
Profit before tax and provision	-2.9	27.4	-3035 bps	11.3	-1422 bps
NPAT	11.2	20.8	-965 bps	-5.3	1643 bps
Total assets	13.9	7.8	613 bps	8.5	543 bps
Equity	12.3	7.7	455 bps	9.3	299 bps
Profitability (%)					
NIM	4.4	4.0	34 bps	3.6	76 bps
Interest spread	4.3	3.8	49 bps	3.4	85 bps
ROAE	14.1	12.9	119 bps	11.6	250 bps
ROAA	1.4	1.3	10 bps	1.2	21 bps
Asset quality					
NPL (%)	1.3	1.3	5 bps	1.3	-1 bps
Loan loss reserve (%)	87.0	102.9	-1595 bps	116.9	-2994 bps
Equity/Total assets (x)	9.7	9.9	-14 bps	10.3	-55 bps

Source: MBB, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	H2-FY17	+/- HoH	+/- YoY
Net interest income	5,227	2%	20%
Total operating income	6,333	-1%	13%
Profit before tax and provision	3,527	-8%	9%
NPAT	2,230	14%	66%

Source: RongViet Research

Business updates

MBB has its third consecutive year of credit growth higher than deposit growth. In the first six months of 2017, credit growth and deposit growth were 14.6% and 4.4%, respectively, in which, credit growth for SMEs was 11.8% YTD and credit growth for individuals was 16% YTD, accounting for 48.8% and 30.6% of total outstanding loans, respectively. By restructuring the loan portfolio to higher interest loans, NIM increased slightly to 3.7%. Net interest income reached VND5,139B (+42% YoY) and accounted for 81% of total operating income.

NIM of MBB improved significantly in 9M 2017 due to restructuring of loan portfolio to higher interest loans. In addition, credit growth was 16.9% YTD, nearly doubling the growth of deposits (8.6% YTD) in 9M 2017. As a result, net interest income grew approximately 40% YoY, reaching VND7,974B in 9M 2017. Service income was VND1,036B (+126% YoY) with strong growth in most segments. In particular, income from securities grew 42% YoY, payment service income grew 72% and other income grew 42% YoY. These activities contributed over 72% to the total service income of MBB. In addition, after increasing shares of MIC at the end of 2016, MBB started to record revenue from insurance services, which accounted for 26% service income.

Recovery of bad debts sold to VAMC improved. The amount of Special Bonds at the end of Q2 2017 was VND1,971B, which decreased about 42% compared to 2017. In H1 2017, the provision for Special Bonds was VND600B and the remaining amount was about VND1,044B. Under the assumption that MBB could recover bad debts of around VND1,500B and will not sell bad debts to VAMC, we forecast that MBB could buy back all the bad debts sold to VAMC in early 2018. Its debt recovery schedule looks better than expected; MBB could fulfill its obligations in 2017.

	2013	2014	2015	2016	H12017	2017E	2018F
Par value of SB	987	3,276	4,048	3,405	1,971	1,905	1,905
Provisions for SB	0	-129	-642	-1,248	-928	-1,530	-1,905
Provisions made per year	0	-129	-512	-1,001	-602	-1,204	-375

Foreign strategic partners (issuing 10% shares). MBB is still in the process of finding strategic partners and is unlikely to accomplish this within this year. It is looking for foreign strategic partners which could provide support in terms of management and technology, rather than capital pressure.

Launching of MB Shinsei Financial Limited Company on November 2nd. MB Shinsei, under the brand name MCredit, is a joint venture between MBB and Shinsei Bank (Japan), in which MBB holds 50% stake. With the advantage of the two major shareholders, MCredit is focused on developing two main groups of loans: installment loans and cash loans.

Payment of share dividends (5%) and ESOP (1% at the price of VND10,000 per share) in Q4 2017. After payment of stock dividends, total outstanding shares of MBB would be over 1.815 billion shares. In particular, 5% of shares issued to pay dividends was traded from November 10, the amount of ESOP shares has a limited time to transfer of 2 years.

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	13,538	15,552	18,644	21,927
Interest and similar expenses	-6,219	-7,574	-8,279	-9,275
Net Interest Income	**7,319**	**7,979**	**10,365**	**12,652**
Non-interest Incomes	1,453	1,876	2,348	2,357
Net fee and commission income	544	683	1,229	1,475
Net gain/(loss) from foreign currency and gold dealings	159	113	108	0
Net gain/(loss) from trading securities	0	0	123	0
Net gain/(loss) from disposal of investment securities	134	101	118	118
Net other income/expenses	616	979	770	764
Total operating income	**8,772**	**9,855**	**12,713**	**15,008**
Operating expenses	-3,449	-4,175	-5,339	-6,303
Operating profit before provision	5,323	5,681	7,373	8,705
Provision expenses	**-2,102**	**-2,030**	**-2,127**	**-1,428**
Profit before tax	**3,221**	**3,651**	**5,246**	**7,276**
Corporate income tax	-709	-767	-1,122	-1,455
NPAT	**2,512**	**2,884**	**4,124**	**5,891**
Attributable to parent	**2,496**	**2,912**	**4,194**	**5,891**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	21.7	24.2	22.0	18.0
Customer deposit	8.3	7.3	9.0	10.0
Net interest incomes	11.9	9.0	29.9	22.1
Operating income	5.6	12.4	29.0	18.1
NPAT	-0.3	16.7	44.1	40.5
Total Assets	10.3	15.9	18.2	12.4
Equity	36.4	12.2	13.8	17.3
Profitability				
NIM	4.0	3.6	4.2	
Interest spread	0.0	0.0	0.0	0.0
CIR	39.3	42.4	42.0	42.0
ROAE	12.7	12.1	15.5	18.8
ROAA	1.2	1.2	1.5	1.8
Assets Quality				
NPLs ratio	1.6	1.3	N/A	N/A
Bad debt coverage ratio	101.4	103.2	N/A	N/A
Equity-to-assets ratio	10.2	9.9	9.5	9.9
Operating Safety Ratio				
Customer loans-to-total assets	64.0	64.9	69.5	72.0
Customer loans-to-deposit ratio	80.8	80.0	80.4	83.6
CAR	12.9	12.5	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	1,236	1,520	3,165	2,500
Balances with the SBV	8,182	10,002	10,617	11,679
Loans to other CIs	28,659	26,953	29,648	32,020
Trading securities, net	3,469	926	880	880
Derivatives & financial assets	96	53	53	53
Loans and advances to customers, net	119,372	148,687	180,854	212,830
Investment securities	46,760	53,286	60,708	62,142
Investment in other entities and long term investments	1,606	842	842	1,011
Fixed assets	1,932	2,458	2,827	3,250
Investment properties	298	149	149	149
Other assets	9,431	11,381	13,088	13,743
TOTAL ASSETS	**221,042**	**256,259**	**302,832**	**340,257**
Due to Gov and borrowings from SBV	1,412	0	0	0
Deposits and borrowings from other credit institutions	7,509	24,713	49,426	59,311
Deposits from customers	181,565	194,812	212,346	233,580
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	318	258	271	298
Convertible bonds/CDs and other valuable papers issued	2,450	2,367	2,249	2,473
Other liabilities	4,605	7,520	8,272	9,099
Total liabilities	**197,859**	**229,670**	**272,563**	**304,762**
Shareholder's equity	**22,593**	**25,352**	**28,861**	**33,845**
Capital	16,719	17,956	18,983	18,983
Reserves	2,242	2,697	3,353	4,274
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained Earnings	3,633	4,699	6,525	10,588
Minority interest	590	1,237	1,408	1,651
LIABILITIES & SHAREHOLDER'S EQUITY	**221,042**	**256,259**	**302,832**	**340,257**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest Incomes	**49,005**	**62,600**	**77,808**	**90,423**
From customers	39,136	51,120	66,234	77,439
From other Cis	1,346	1,413	1,701	2,211
From fixed-income investment	7,022	8,494	9,873	10,772
From other activities	1,501	1,573	0	0
Interest Expenses	**-29,690**	**-39,166**	**-46,615**	**-56,453**
To customers	-23,845	-32,214	-41,604	-51,538
To other Cis	-92	-3,611	-3,278	-3,759
To fixed-income investment	-2,208	-3,440	-1,252	-1,510
To other activities	-27	-235	0	0
Operating expenses	**-11,087**	**-13,527**	**-15,060**	**-17,642**
Provision expenses	**-5,676**	**-9,199**	**-14,509**	**-13,992**

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	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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