

Military Commercial Bank

(MBB VN)

Strategic growth meets brighter outlook

Trading Buy
(Update)

TP: VND26,700
Upside +10.3%

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Investment highlights

Sustainability of credit growth

- At end-FY23, MBB's loan portfolio reached VND611tr (+13.9% QoQ; +33.7% YoY). The bank's conservative stance on corporate bonds was evident as its corporate bond holdings declined to VND38.4tr at end-FY23 (-5.5% QoQ; -18% YoY) from VND43.6tr at end-FY22. Total credit grew to VND649.5tr (+28% YTD), exceeding the industry's average rate of 13.5%.
- MBB, along with Vietcombank, HDBank, and VPBank, meeting SBV's operational metrics - is expected to undergo compulsory restructuring of weaker banks. In return, MB anticipates preferential support from SBV, with 1.5-2x higher credit growth room in 3-5 years. MBB's CAR ratio at end-FY23 recorded at 10.7%, exceeding the minimum requirement of 8% under Circular No. 41/2016, making it a suitable candidate.
- In FY24, we forecast 18.6% YTD credit growth and 19.1% YTD increase in loan growth.

CASA strength and low COF shield MB from NIM compression

- MBB's robust NIM is primarily attributed to its leading position in CASA. As of FY23, MBB's CASA reached VND228tr, constituting 40.2% of total deposits (+34.1% QoQ, +29.4% YTD), ranking first in the banking system followed closely by TCB and VCB. MBB's overall CoF maintains the second-lowest position in the industry, reaching 4.34% in 2023 (behind VCB: 3.4%)

NPL saw improvement in 2H23

- NPL at end-FY23 stood at 1.6%. The proportion of group 2 loans to total outstanding loans increased from 1.7% by end-FY22 to 2.3% by end-FY23 (reduced from 3% in 3Q23). We forecast MBB's LLC and provisioning expense to reach 119.2% and VND8,925bn (+46.6% YoY), respectively in FY24.

Key risks

1) Balancing credit growth and NPL with provisioning expense to weigh on profitability, and 2) the insurance sector faces an essential regulatory adjustment which has affected MIC and MB Ageas's revenue and operations.

Projection and valuation

Using two valuation methods, P/B and residual income, our 12-month target price for MBB is VND27,100 (upside 12.9%), corresponding to a fair P/B of 1.7x. ROE is projected at 21.3% for FY24.

Key data



Share price (03/04/2024, VND)	24,200	Market cap (VNDbn)	125,138
OP (24F, VNDbn)	30,209	Shares outstanding (mn)	5,214
EPS growth (24F, %)	-2.4	Free float (%)	55
Market EPS growth (24F, %)	n/a	Foreign ownership (%)	39
P/E (24F, x)	6.5	Beta (12M)	1.04
Market P/E (x)	15.9	52-week low (VND)	14,913
VN-Index	1,262	52-week high (VND)	24,400

Share performance

(%)	1M	6M	12M
Absolute	10.3	24.7	60.9
Relative	3.0	23.6	38.1

Earnings and valuation metrics

FY (Dec. 31)	FY21	FY22	FY23F	FY24F	FY25F	FY26F
Net interest inc. (VNDbn)	26,200	36,023	38,684	43,850	49,412	55,861
Net non-interest inc. (VNDbn)	10,735	9,570	8,622	9,898	12,117	13,221
Profit before tax (VND bn)	16,527	22,729	26,306	29,156	33,973	38,849
Net profit (VND bn)	13,221	18,155	21,054	23,324	27,178	31,078
EPS (VND)	3,229	3,673	3,764	3,545	3,656	3,800
P/E (x)	7.4	6.5	6.4	6.5	6.3	6.1
BVPS (VND)	15,892	16,727	17,604	18,992	20,614	22,697
P/B (x)	1.5	1.4	1.4	1.3	1.1	1.0

Source: Company data, MAS Vietnam Research estimates

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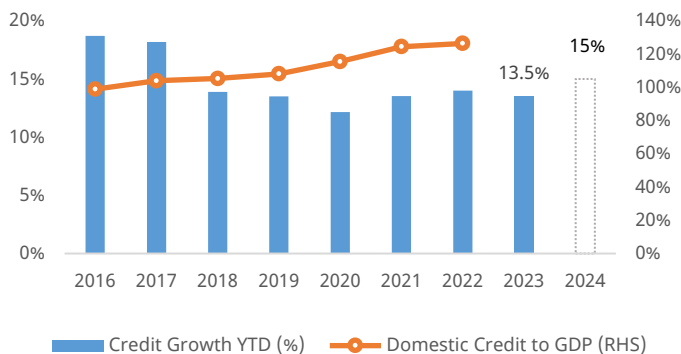
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Vietnam's banks - Resilience amid challenges

- **Sustaining high credit growth targets in 2024:** In 9M23, credit growth was significantly lower than the target set at the beginning of 2023 by the SBV, reaching only 6.92%. The second-lowest credit growth increase in a decade was offset with a sharp increase in credit expansion during 4Q23 which concluded FY23 credit growth at 13.5% for the sector. The SBV remained bullish, targeting a 15% credit growth for 2024, surpassing the historical norm of 14% YoY.
- **Expectations for consolidation in the banking and consumer finance sectors by 2025:** The mandatory transfer and restructuring initiatives, particularly targeting "zero-dollar banks" with support from the State Bank of Vietnam (SBV) and major acquisition deals targeting Vietnamese banks (e.g., KEB Hana-BIDV, SMBC-VPBank...) illustrated this trend.
- **Inflection point:** NPL ratio rose in 3Q23, primarily due to the stagnant property sector, but showed a decelerated QoQ increase. Despite the impact of NPL on provision expense and profitability, Vietnamese banks maintained robust profitability in FY23. MBB's ROE, recorded at 23.9% in FY23 remained in top ranking banks. After the deceleration, 4Q23 saw a decrease in NPL for most banks, fueling hope of an economic recovery.
- **The long-term forecast for Vietnam's banking sector is positive,** with expectations of robust growth over the next five years, underpinned by stable macroeconomic conditions and consistent GDP expansion. We project a Net Interest Margin (NIM) of 3.5-4% for conventional commercial banks and a higher range of 6-8% for banks that are diversifying into micro-SME banking and consumer finance sectors.

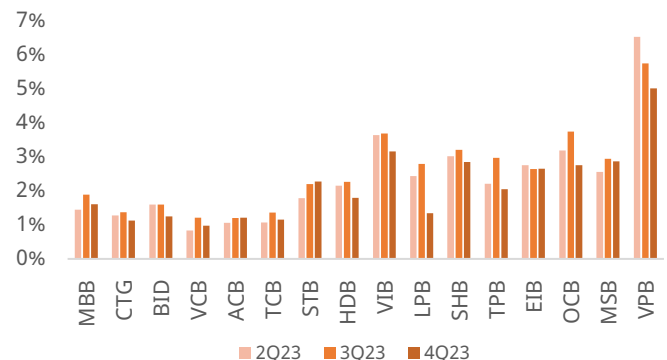
Banking industry historical overview

Figure 1. SBV set a 15% credit growth in 2024



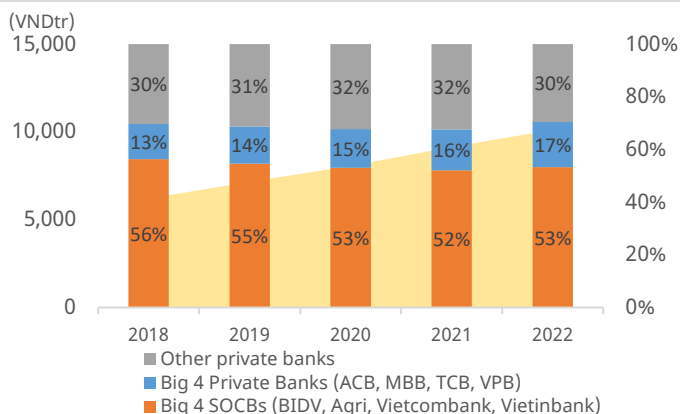
Source: CEIC, Mirae Asset Vietnam Research

Figure 2. NPL situation easing in recent quarters



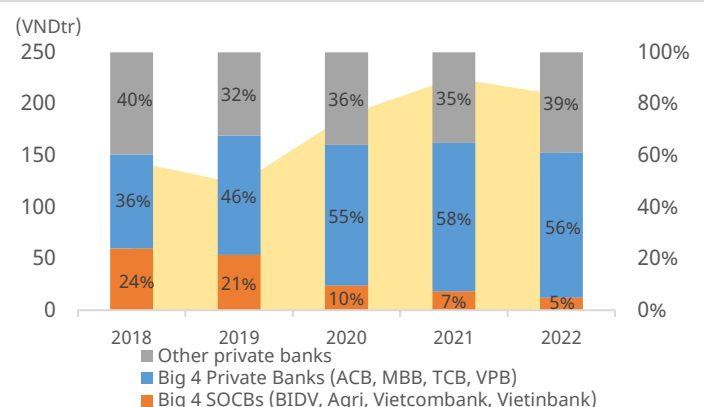
Source: SBV, World Bank, Mirae Asset Vietnam Research

Figure 3. Big 4 private banks steadily increased market share on the backdrop of a quickly expanding economy



Source: FiinPro, Mirae Asset Vietnam Research

Figure 4. Big 4 private banks shifted its asset mix into higher yield corporate bonds while SOCBs reduced share



Source: FiinPro, Mirae Asset Vietnam Research

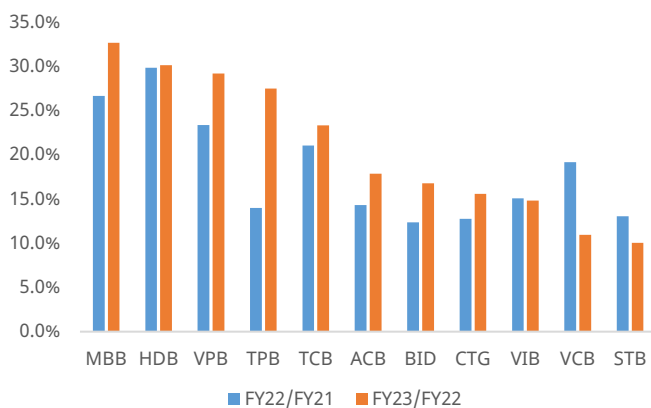
Investment Highlights

MBB's credit growth outperformance

Outpacing the industry in credit growth

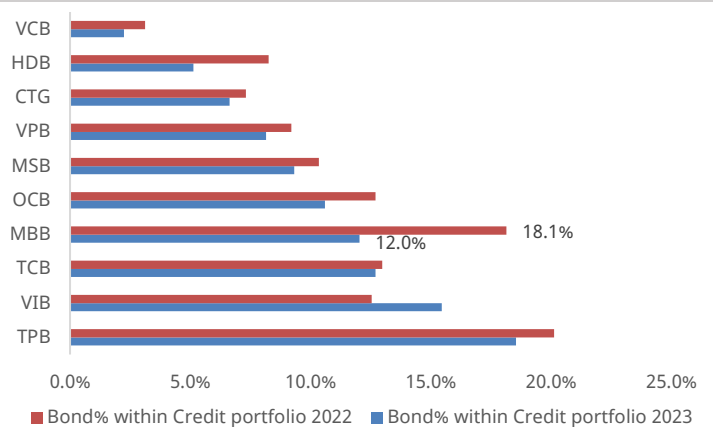
- **Loans to customers:** By end-FY23, MBB's loan portfolio reached VND611tr (+13.9% QoQ; +33.7% YoY).
- **Corporate bonds:** MBB's corporate bonds accounted for 4.1% of total assets in FY23. The bank's conservative stance on corporate bonds was evident as its corporate bond holdings declined to VND38.4tr by end-FY23 (-5.5% QoQ; -18% YoY) from VND43.6tr by end-FY22. The ratio of corporate bond holdings within the total credit portfolio dropped from 18.1% by end-FY22 to 12% by end-FY23 while only VIB, TPB increased its bond holdings positions.
- **Total credit** thus extended to VND649.5tr (+28% YoY) in FY23, exceeding the industry's average rate of 13.5%.

Figure 5. MBB secured the leading position in loan growth in FY23 (%YTD)



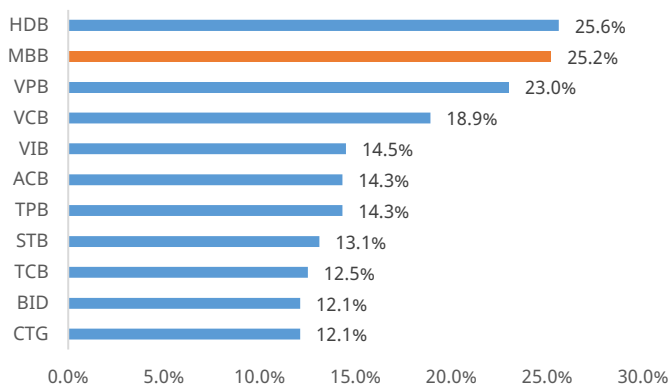
Source: FiinPro, Mirae Asset Vietnam Research

Figure 6. MBB effectively slashed corporate bond holdings in FY23



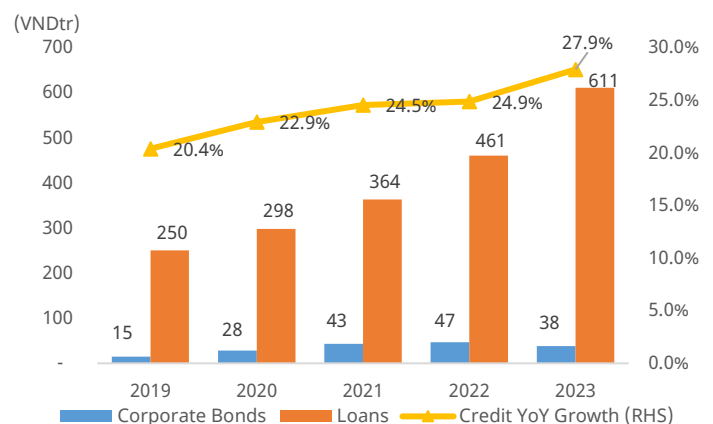
Source: FiinPro, Mirae Asset Vietnam Research

Figure 7. MBB achieved the second-highest credit growth rate for FY22



Source: Bloomberg, Mirae Asset Vietnam Research

Figure 8. MBB maintained strong credit growth over last 5 years

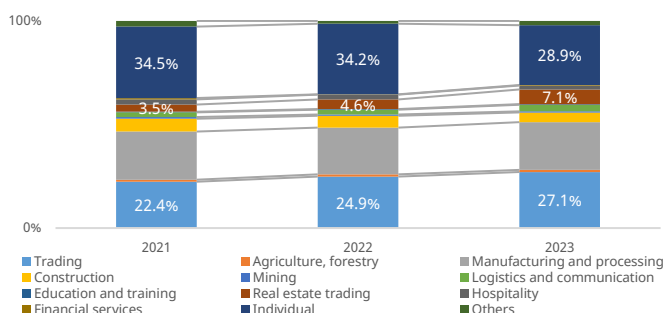


Source: Bloomberg, Mirae Asset Vietnam Research

Adopting a cautious approach in its credit allocation

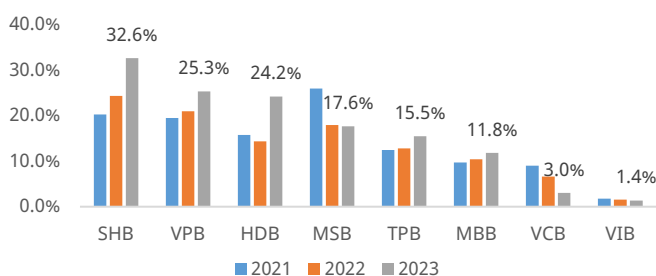
- Real estate exposure:** MBB's loan book allocated VND71.9tr to the industry, divided into 60% for real estate trading and 40% for construction. Real estate trading saw the most significant expansion in the loan book, extending from VND21.4tr in 2022 to VND43.3tr in 2023, marking a 102.6% YoY growth. The real estate sector's share of the total loan book increased from 10.4% in FY22 to 11.8% in FY23, despite a modest 8.6% growth in construction loans. Relative to its competitors, MBB's real estate exposure constitutes a modest 11.8% of its overall portfolio. This, combined with a low NPL ratio, positions MBB well for potential further credit expansion.
- Real estate major clients' concentration risk:** MBB's exposure to major clients, including Hung Thinh, Trung Nam, and Novaland, has been addressed previously by management at the 2023's MBB Investor Conference where management provided assurance that no bad debt would arise from the mentioned developers in 2023. In details: 1) **Hung Thinh:** MBB clarified that it does not engage in project financing or hold any bonds issued by Hung Thinh. The bank's lending to Hung Thinh is minimal and exclusively for construction purposes. 2) **Trung Nam:** MBB's exposure to Trung Nam involves lending approximately VND9tr, which includes both loans and bonds. This financing supports three of Trung Nam Group's renewable energy projects and represents 1.6% of MBB's total outstanding loans 3) **Novaland:** MB remains one of the four largest creditors of NVL. As of 2Q23, the total credit balance to Novaland was nearly VND7tr, a 24% decrease from VND9.3tr balance in 4Q22, equivalent to 1.2% of MB's total assets by end-2022. **2024 update - MB's Investors Conference (6th March 2024):** Mr. Luu Trung Thai (Chairman of MBB) shared that the situation with Novaland is improving as this business has been actively resolving important legal procedures at two large-scale projects, Aqua City and NovaWorld Phan Thiet. While the debt of Novaland and its subsidiaries remains classified as category 1, MB had managed to reduce nearly 50% of the corporate bonds balance of Novaland in 2023, signaling a quite promising recovery potential from the company's projects. As for the debt of SunGroup and related companies, it also falls under category 1. MB currently focuses on their strong projects, including tourism projects, which generate cash flow.
- Retail lending:** Lending to individuals and non-business entities recorded VND189tr by end-FY23 (+15.6% YoY). The segment, which has historically seen rapid growth of over 30% in the last 5 years experienced a deceleration in 2023 (+28.9% YoY) growth. This trend was not isolated from MBB; other banks also reported a similar pattern.

Figure 9. Commercial & real estate trading improved while individual lending contracted in the credit mix (comp%)



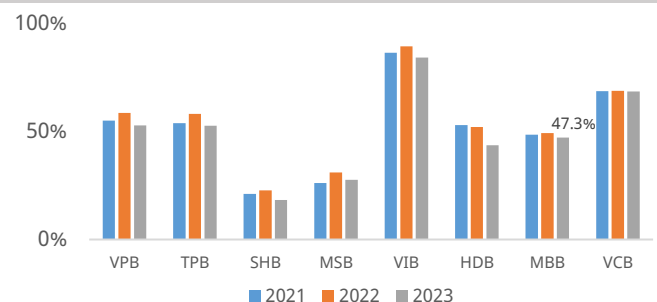
Source: FiinPro, Mirae Asset Vietnam Research

Figure 11. Real estate exposure in loan book shows divergence of attitude (comp%)



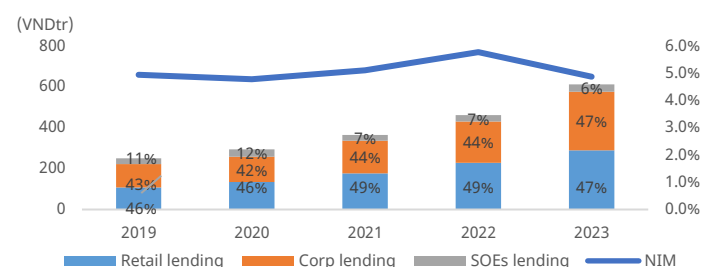
Source: FiinPro, Mirae Asset Vietnam Research

Figure 10. Retail lending decrease trend was evident in 2023 (comp%)



Source: FiinPro, Mirae Asset Vietnam Research

Figure 12. MB, which had experienced higher yields from retail lending in recent years, encountered a slowdown in 2023 (comp%)

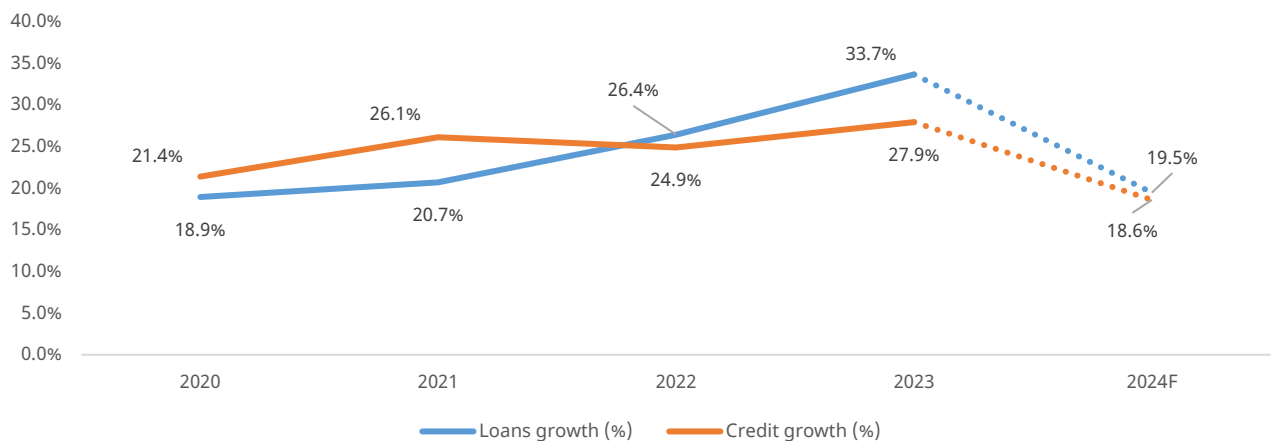


Source: FiinPro, Mirae Asset Vietnam Research

Our forecast for MBB's credit growth in FY24

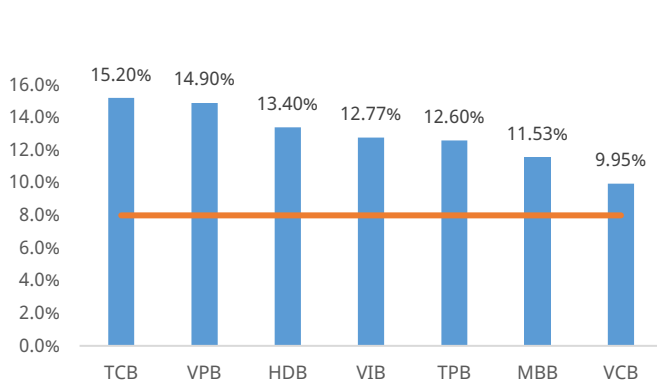
- **For FY24, we project a 18.6% YTD credit growth and a 19.1% YTD loan growth for MBB,** attributed to the rebounding property sector. This sector's recovery presents MBB with an opportunity to enhance its credit disbursement amidst the banking industry's broader challenges with credit growth. Despite the need for vigilant risk monitoring, MBB's robust position is supported by a diversified credit portfolio with a low real estate mix and exceptional operational efficiency, as demonstrated by a downward trend in the Cost to Income Ratio (CIR).
- **Mandatory restructuring:** MBB, along with Vietcombank, HDBank, and VPBank, is undergoing compulsory restructuring of weaker banks, meeting SBV's operational metrics. MBB's Capital Adequacy Ratio (CAR) ratio of 10.7% in FY23 (11.53% in 2022) exceeds the minimum requirement of 8% under Circular No. 41/2016, making it a suitable candidate. The bank anticipates preferential support from SBV, with 1.5-2x higher credit room in 3-5 years. MBB projected a 8-year timeframe to resolve accumulated losses related to Oceanbank, which it estimated to be at approximately VND20tr. MB's Capital Adequacy Ratio (CAR) of 10.7% is comprised of 10% Tier 1 Capital and 0.7% Tier 2 Capital, positioning the bank favorably for potential Tier 2 capital increases to enhance its shareholders' equity level.

Figure 13. Loan and credit growth forecast 2024



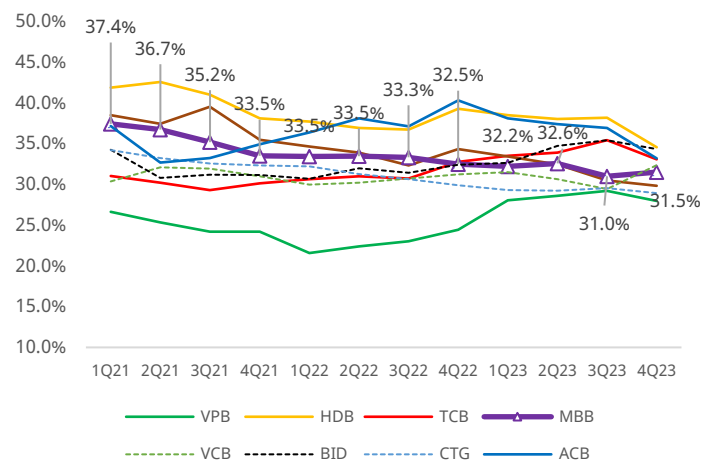
Source: FiinPro, Mirae Asset Vietnam Research

Figure 14. CAR ratio - 2012



Source: FiinPro, Mirae Asset Vietnam Research

Figure 15. Cost-to-income ratio (CIR) increased in 4Q23



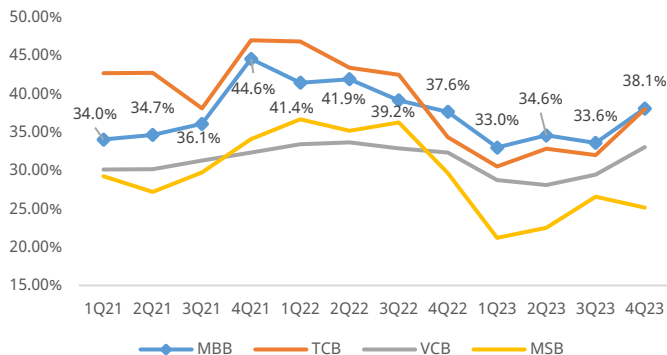
Source: FiinPro, Mirae Asset Vietnam Research

Investment Highlights

Distinctive strategy fostered a hard-to-replicate CASA competitive edge

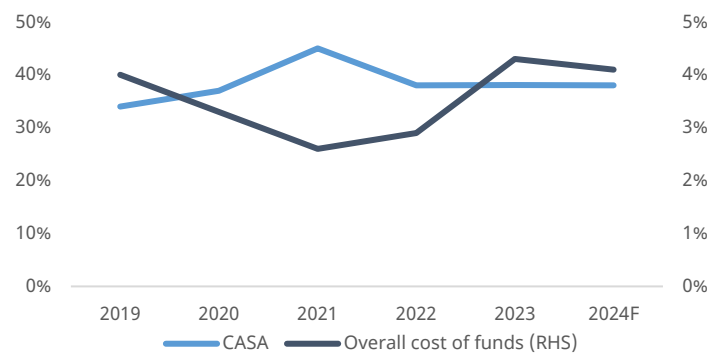
- CoF decreased in 4Q23:** CoF at 4Q23 stood at 3.7%, decreasing from 2023's high level in 3Q23 at 4.2%, fueling hopes for further decreases starting in 1Q24. MBB's robust NIM is primarily attributed to its leading position in CASA. As of FY23, MBB's CASA reached VND228tr, constituting 40.2% of total deposits (+34.1% QoQ, +29.4% YTD), ranking first in the banking system followed closely by TCB and VCB. MBB's overall CoF maintains the second-lowest position in the industry, reaching 4.34% in 2023 (behind VCB: 3.4%).
- Digital Transformation and Expansion of the Retail Customer Base solidified CASA:** MBB's strategic shift towards a retail-focused banking approach has markedly accelerated its customer acquisition efforts, with more than 7mn new customers added in 2022, elevating its total customer count to over 20mn—approximately 20% of Vietnam's total population. By November 2023, MBB had achieved its annual goal, expanding its customer base to between 25 and 27mn, largely facilitated by the widespread adoption of the MBBank app. The bank is firmly on course to increase its customer base to 30mn by 2026, with an objective that 30% of all banking transactions will be conducted through its digital platforms, including the MBBank and BIZ MBBank apps.
- Leveraging Synergistic Ecosystems:** MBB's integration within government and large enterprise ecosystems, alongside customized products for these sectors, stands as a distinctive advantage. Notably, MBB's partnership with Viettel, servicing a vast network of over 70mn paying telecom subscribers, positions it as Viettel's primary banking service provider.

Figure 19. MBB currently places 1st in CASA with TCB following closely



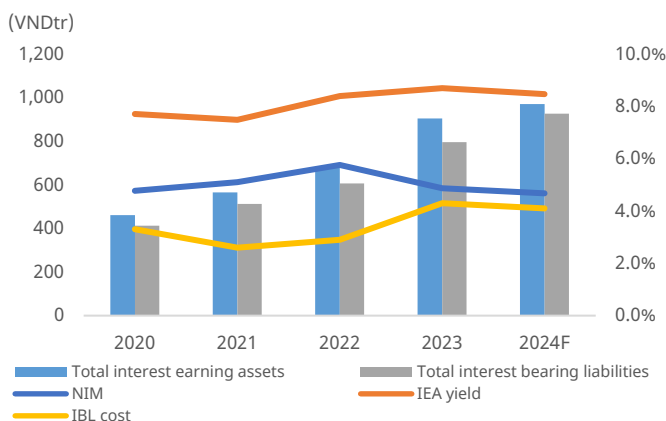
Source: FiinPro, Mirae Asset Vietnam Research

Figure 20. CASA strongly bounced back in 2023



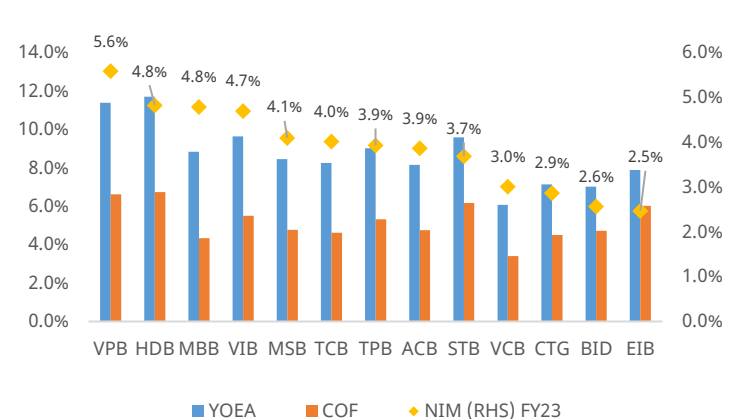
Source: FiinPro, Mirae Asset Vietnam Research

Figure 21. NIM compression was due to rising CoF



Source: FiinPro, Mirae Asset Vietnam Research

Figure 22. MBB places 3rd in NIM in 2023, after being placed 2nd in 2022



Source: FiinPro, Mirae Asset Vietnam Research

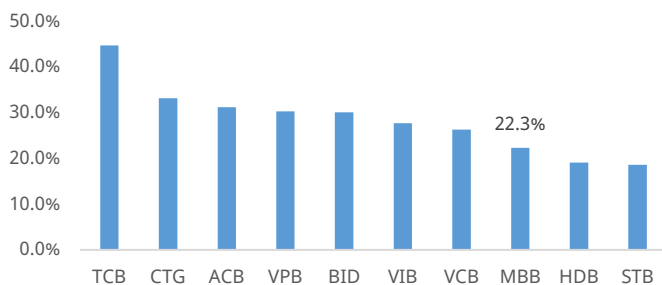
Investment Highlights

Diverse ecosystem paving the way for enhanced non-risk income

MBB's one-stop financial services strategy add to the prospect of non-interest income streams

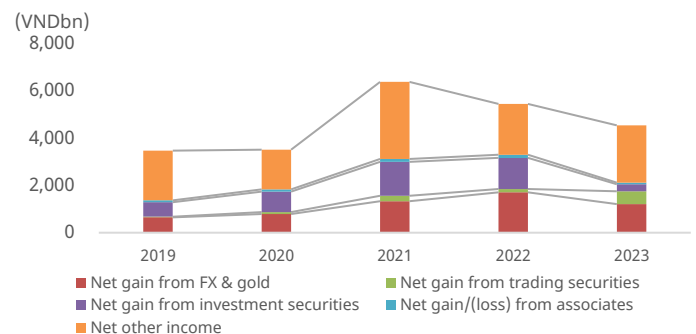
- MBB's robust ecosystem positions it as a comprehensive financial services provider, diversifying its revenue streams beyond traditional credit operations, including consumer lending, life and non-life insurance, securities brokerage, and fund management. Although non-interest income, including fees and other non-interest revenues, currently represents 22.3% of the group's total operating income in 2023—a figure that is modest compared to peers—this underscores MBB's significant untapped potential in non-traditional banking sectors. This places MBB in a unique category, with a solid foundation for growth in diversifying income streams beyond conventional credit operations.
- **Net Other Non-Interest Income:** In FY23, net gain from FX & gold generated VND1,209bn (-29% YoY) and the net gain from investment securities was VND300bn (-77.2% YoY). This was offset by net gain from trading securities which was recorded at VND542bn (+283.7% YoY). The total NOII in 2023 reached VND4,537bn (-16.5% YoY) and its ratio to total operating income in 2023 was 9.6%.

Figure 23. MBB's share of Non-Interest income to total income is still relatively low



Source: FiinPro, Mirae Asset Vietnam Research

Figure 24. MBB's NOII saw contraction in 2023 due to subdued gain in investment securities

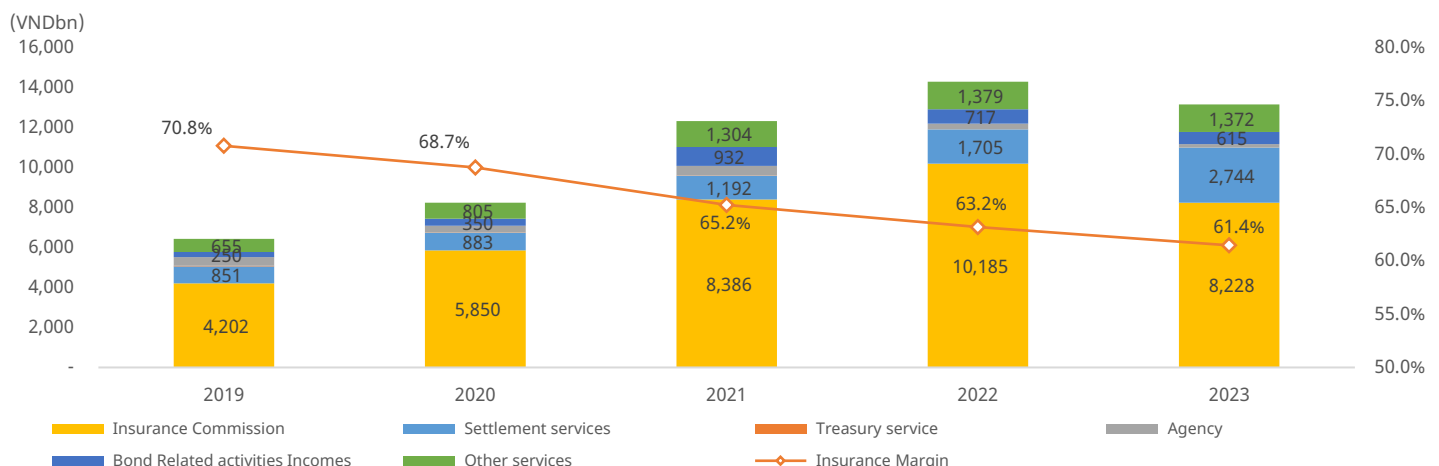


Source: FiinPro, Mirae Asset Vietnam Research

The positive outlook for fee income with recovery of the insurance sector

Fee Income for FY23: MBB's fee income was VND4,085bn (-1% YoY), with settlement fees at VND2,744bn (+61% YoY), insurance fees at VND8,228bn (-19% YoY), securities brokerage fees at VND615bn (-14% YoY), and other fees at VND1,550bn (-5% YoY). Bancassurance fees grew with a 69.8% CAGR, and settlement fees expanded at a 61.1% CAGR between 2018-2022.

Figure 25. Insurance plays a substantial in current net fee income mix (2019-2023)



Source: FiinPro, Mirae Asset Vietnam Research

Insurance: Presently, MB currently led the bancassurance ranking with substantial margin, owning two subsidiaries in the insurance sector: Military Insurance Corporation - MIC (Non-life insurance) and MB Ageas Life Insurance Company Limited (life insurance).

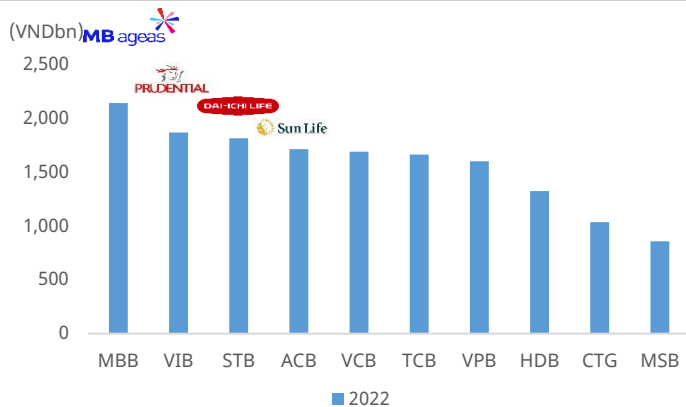
In 2023, MB witnessed a downturn in its insurance business revenue, recording VND8,228bn, a 19.2% decrease from the previous year's VND10,185bn. MB Ageas's insurance premium revenue dropped from VND3,397bn in 1H22 to VND2,357bn in 1H23. Despite the decline, insurance remained a critical component of MB's fee income, accounting for 62.6%.

Key Threats and Competitive Landscape: The insurance industry over the past three years has navigated through the following challenges:

(1) Rising Cost-to-Income Ratio: From 2019 to the end of FY23, the insurance margin decreased from 70.8% to 61.4%, underscoring the impact of rising commission expenses on profitability

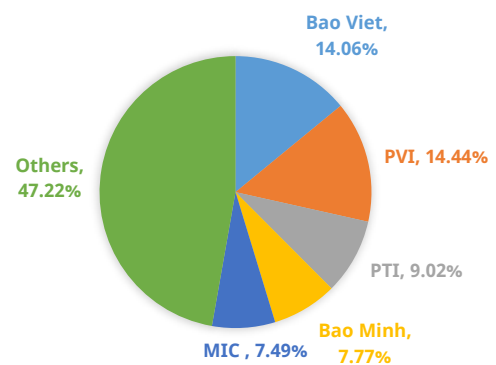
(2) Regulatory scrutiny: Following a string of controversies that affected customer trust in the insurance industry, regulatory bodies enforced stricter guidelines for bancassurance activities.

Figure 26. MBB's Life-Insurance topped life-insurance sales amid regulatory crackdown with unique business model



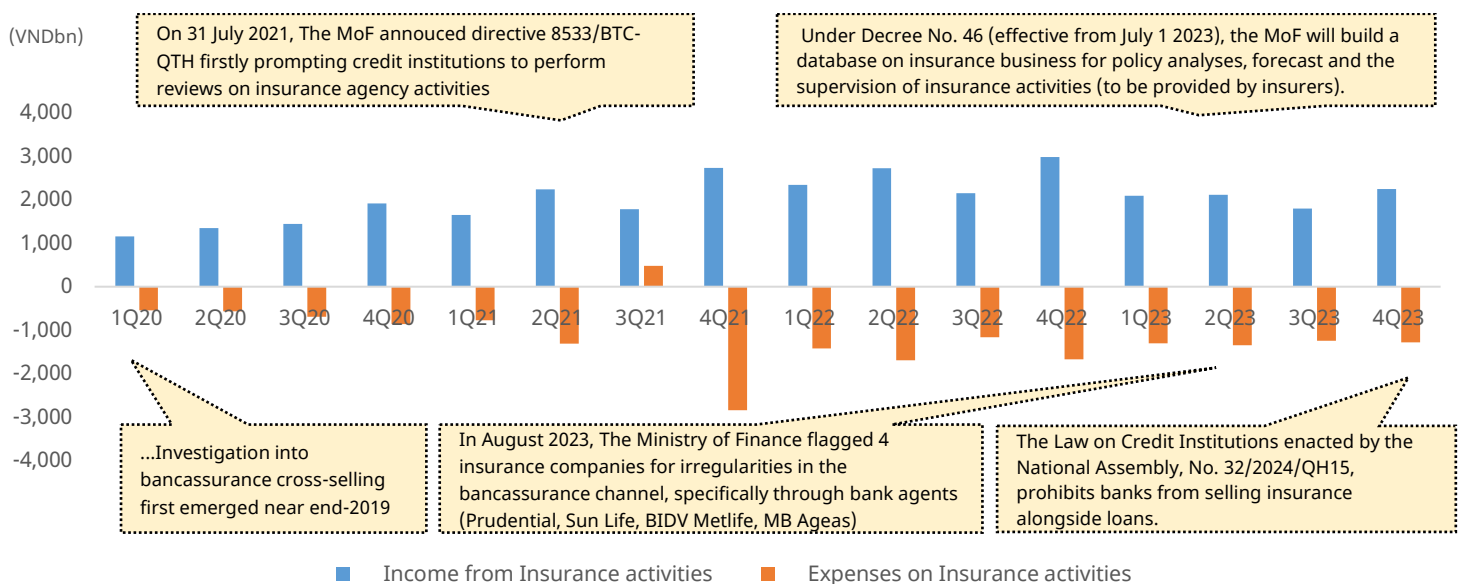
Source: FiinPro, Mirae Asset Vietnam Research

Figure 27. MBB's Non-Life-Insurance company market share in FY22



Source: MoF, Mirae Asset Vietnam Research

Figure 28. Bancassurance industry confronted pressure from multi-year investigation, but the changes are expected to improve consumers' long-term confidence



Source: MoF, FiinPro, Mirae Asset Vietnam Research

In August 2023, an audit conducted by the Ministry of Finance on the bancassurance channel revealed several discrepancies, leading to operational changes and the requirement for additional tax revenue declarations from numerous companies, including MB Ageas. Notable adjustments in taxable income were recorded for Prudential (VND700bn), Sun Life (over VND600bn), BIDV Metlife (VND174bn), and MB Ageas (VND2.5bn).

According to Law No. 32/2024/QH15, banks can continue to participate as insurance agents but are not allowed to link with the provision of bank products and services. Although banks can still operate as insurance agents, new contracts are not allowed to integrate with investment-linked insurance products. Due to the unimproved bancassurance operating environment, **we forecast a significant short-term decrease in insurance fee income, down to VND 5,760 billion (-30% YoY) in 2024 from VND 8,228 billion after recording a 19.2% decrease in 2023.**

Despite these challenges, we still believe the insurance sector in Vietnam has the chance to recover over the long-term due to several key factors:

- **Real demand given low insurance penetration level:** The National Assembly Economic Committee highlights that the life insurance market has considerable room for growth. With a life insurance penetration rate of just 2.6% and non-life insurance at 0.73% in 2022, Vietnam's figures are markedly lower than those in both emerging and developed markets. Furthermore, the average insurance expenditure per capita in Vietnam is significantly below that of other countries, underscoring the potential for expansion.
- **The optimism for the insurance sector's growth is further reinforced by the 2030 insurance market development plan outlined in Decision 07/QĐ-TTg 2023:** This strategic plan sets forth ambitious growth targets for insurance businesses, aiming for a 15% CAGR from 2021-2025 and a 10% CAGR from 2026-2030. Additionally, it seeks to increase life insurance coverage to 15% of the population by 2025 and 18% by 2030. Fitch Solutions supports this positive outlook, forecasting a 12% CAGR in total life insurance premium revenue during 2022-2025.
- **The standardization of bancassurance contract:** We think the development of a regulatory framework leading to a '**standardized**' insurance contract accompanied with consistent clauses and obligations will be pivotal to enhancing the insurance industry' long term growth while protecting customers rights. Strengthened regulations in the emerging insurance industry is a significant catalyst as these improvements align with genuine market demand, fostering a more robust and efficient insurance market.

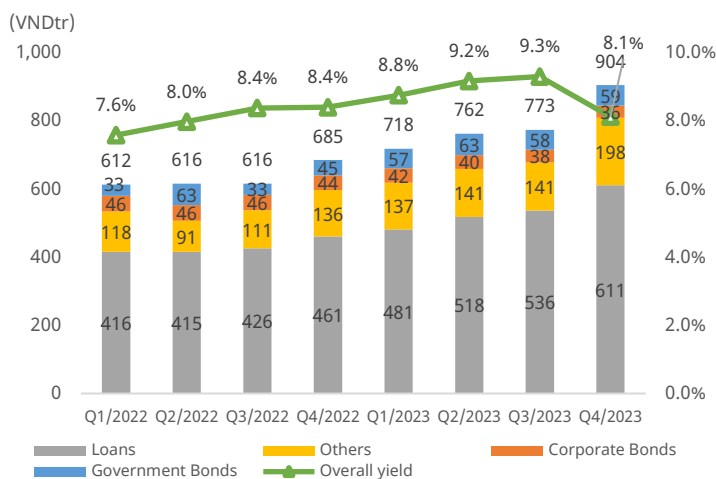
Investment Highlights

Balanced risk appetite with improving NPL prospect

Balanced risk approach seen in the bank's investment and lending activities

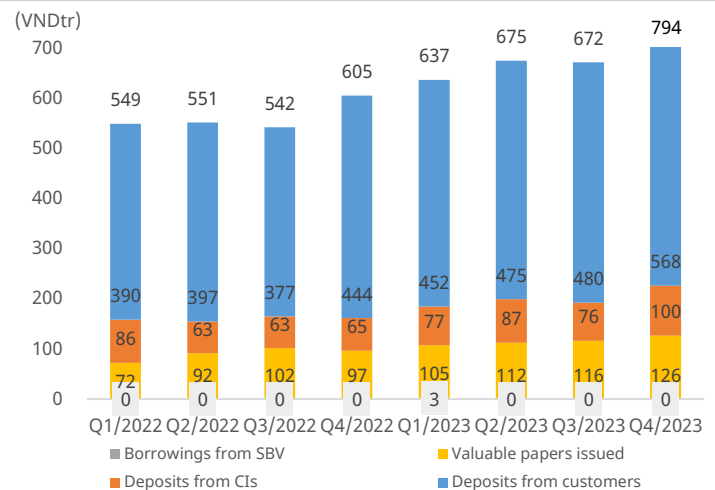
- Interest-earning assets:** Asset yield decreased in 4Q23, particularly due to yield on loans from customers decreasing to 8.8% in 4Q23 compared to the elevated level of over 10% seen in late 2022 and early 2023. However, loan growth has grown fast which mitigates the decrease in yield. Meanwhile, yield from investment securities decreased steeply to 4.1% in 4Q23 compared to 5.5% level in 3Q23. Total assets/Equity was at 9.8x – within the bank's normal parameter.
- Interest-bearing liabilities:** As of 4Q23, deposits from customers reached VND568tr (+27.9% YoY; +18.3% QoQ) and the CoF on deposits for FY23 was 3.7%. At the same time, valuable papers issued by MB also increased to VND126tr (+30.9% YoY; +9% QoQ) with the COF of 2023 on valuable papers of 6.2%.

Figure 29. Interesting-Earning Assets mix



Source: FiinPro, Mirae Asset Vietnam Research

Figure 30. Interest-bearing Liabilities mix

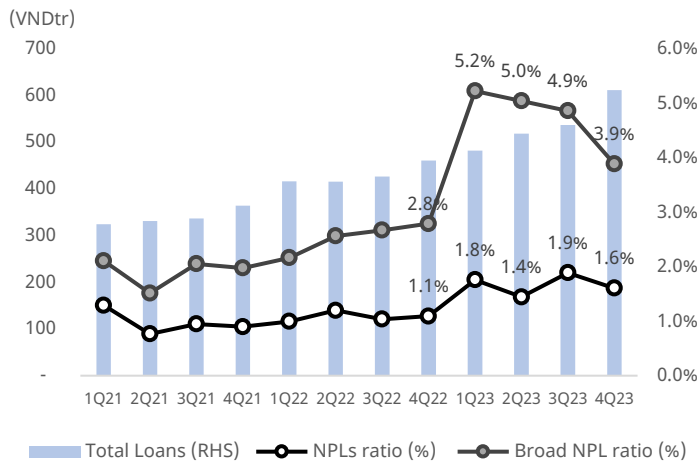


Source: FiinPro, Mirae Asset Vietnam Research

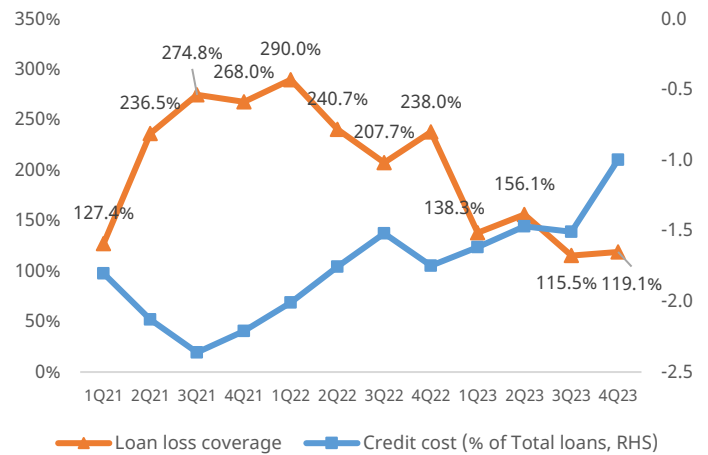
Positive outlook for NPL with inflection point in 3Q23

FY23's NPL stood at 1.6% (consolidated) increasing 0.6% from level seen in 2022. MB alone recorded 1.2% for its NPL. Gross NPL ratio at 4Q23 stood at 3.9%. The decreasing trend of NPL aided with the prospect of declining interest rates and economic recovery suggest that NPL likely peaked in NPL in 2023. Within the last year, the big surge in NPL came at end of 4Q22 and 3Q23 when Group 3-5 debt increased by over VND5tr.

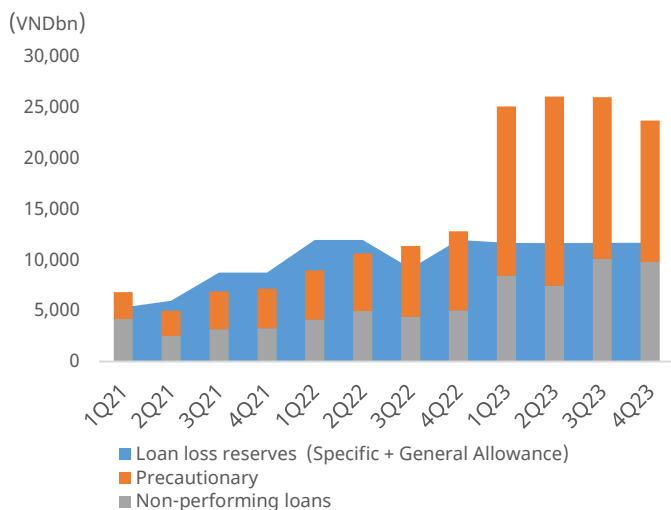
- 4Q23 Group 3-5 debt** reached VND9,805bn (-3% QoQ; +94.9% YoY). 2023 presents the first time that MBB's group 2 debt exceeded over VND10tr, as it rose from VND7,809bn by end -FY22, to VND13,918bn by end-FY23. In terms of proportion of group 2 loans to total outstanding loans, the figure surged from 1.7% in 4Q22 to 3.6% in 2Q23 but has subsequently declined to 3% in 3Q23 and then 2.4% in 4Q23.
- Circular No. 02/2023/TT-NHNN**, issued by the State Bank of Vietnam (SBV) at the end of April 2023, offers temporary relief to banks and businesses by allowing the restructuring of payment terms and maintaining same debt group. With its expiration looming on June 30, 2024, there are calls for extending the circular through the end of 2024 to alleviate pressure on the financial system and struggling businesses. However, experts advise careful consideration of such an extension. The impact of the circular, especially on real estate firms that benefit from debt restructuring if they secure legally compliant projects, will become clearer in the 2H24, revealing the true state of NPLs in the economy.
- Loan Loss Coverage and Provision Expense:** MBB's loan loss coverage (LLC) fell from a higher base to 117% in 4Q23. Despite this decrease, MBB maintains the most robust position in loan loss coverage among private banks. For FY24, we predict MBB's LLC and provisioning expense will achieve 119.2% and VND8,925bn (+46.3% YoY), respectively.

Figure 31. MBB's 4Q23 NPL ratio reinforced hope of a recovery

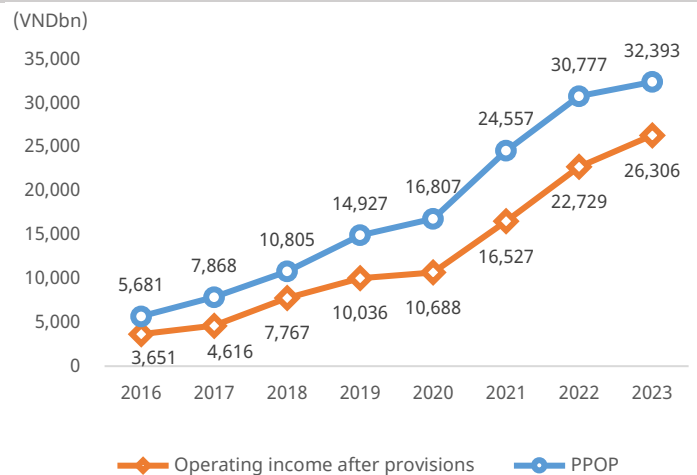
Source: FiinPro, Mirae Asset Vietnam Research

Figure 32. Credit cost and loan loss coverage both declined in 4Q23

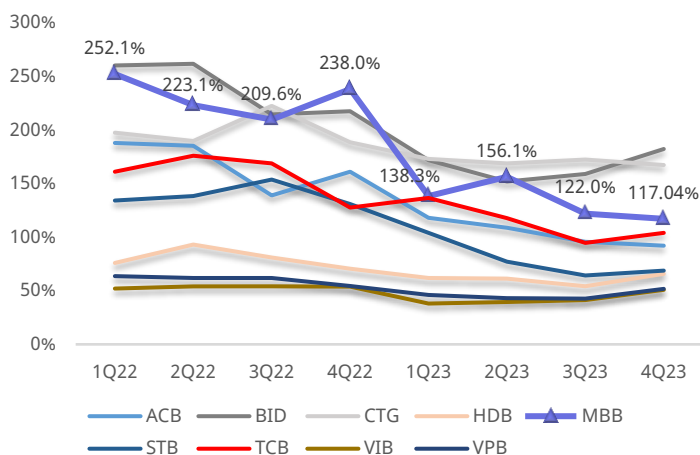
Source: FiinPro, Mirae Asset Vietnam Research

Figure 33. MBB's buffer for loan deterioration is thin compared to historical rate

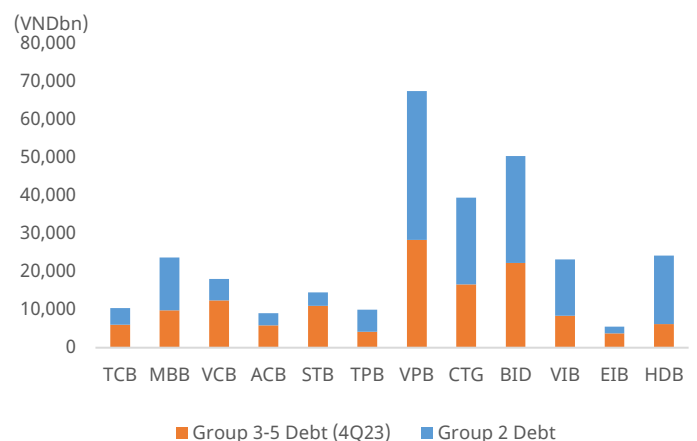
Source: FiinPro, Mirae Asset Vietnam Research

Figure 34. Provisioning expense weighs on profitability

Source: FiinPro, Mirae Asset Vietnam Research

Figure 35. Industry's loan loss coverage decreased markedly but MBB's coverage is still highest relative to private banks

Source: FiinPro, Mirae Asset Vietnam Research

Figure 36. Group 2 debt continues to be closely monitored across banks

Source: FiinPro, Mirae Asset Vietnam Research

Valuation and earnings forecast

1. Key assumptions

Our key assumptions	FY23	FY24 (forecast)	FY25 (forecast)
Total loan growth	32.7%	19.5%	16.9%
Earning asset growth	32.0%	7.3%	15.3%
Deposit from customers growth	27.9%	15.0%	15.0%
Shareholders' equity growth	21.5%	24.1%	22.7%
Net interest income growth	7.4%	13%	12.7%
Net fee income growth	-1.2%	-10.5%	9.8%
Pre-tax profit growth	15.7%	10.8%	16.5%
NPL	1.6%	1.3%	1.2%
Broad NPL ratio	3.88	4.30	3.20
NPL coverage ratio	117.0	119.2	117.8

2. Valuation

2.1 Residual income model

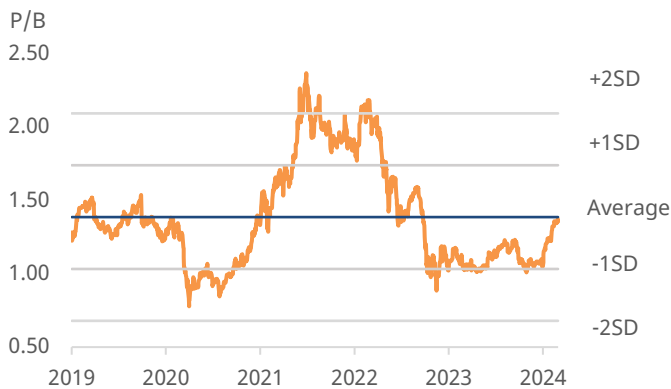
We derived a 12-month target for MBB based on 1.7x target P/B and FY24E BVPS of VND17,604.

Residual Income Valuation	2024F	2025F	2026F
Beginning Book Value Per Share	17,604	18,992	20,614
EPS	3,545	3,656	3,800
Residual income	1,949		
PV of terminal value	5,880		
Terminal growth rate	2.5%		
Cost of equity	15.3%		
Stock price	25,400		

Valuation method	Target value	Weight	Value
P/B Model	30,748	50%	15,374
Residual Income Model	25,400	50%	12,700
Weighted Average Fair Value		100%	26,700
Current Price			23,850
Upside Potential			11.9%

2.2 Historical valuation & Relative valuation:

Figure 37. MBB's P/B recently reverted to 5YR mean level



Source: Bloomberg, Mirae Asset Vietnam Research

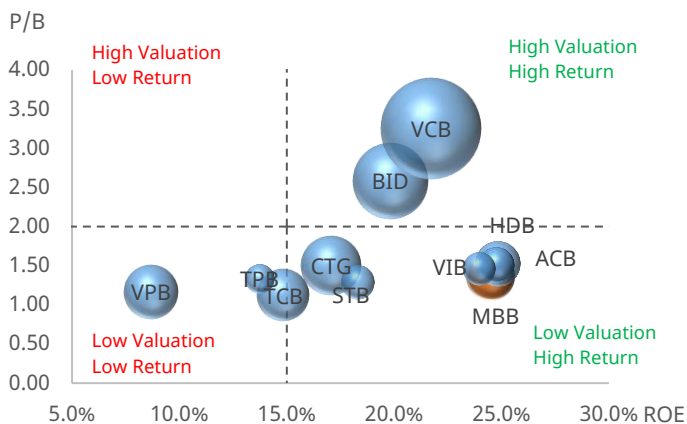
5YR Historical valuation:

- Figure 37 illustrates the five-year P/B band chart, wherein MBB is currently trading close to its 5-year average.

Relative valuation to peer group:

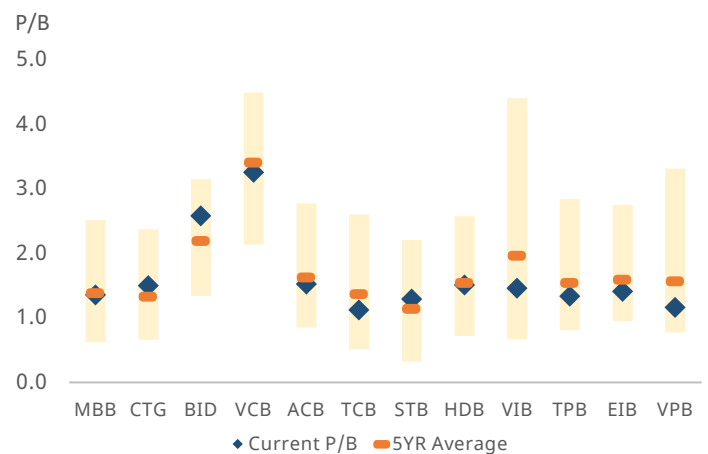
- MBB remains an attractive value stock balancing defensive quality with long-term growing potential – as showed through its high ROE and undemanding P/B.

Figure 38. P/B and ROE is attractive compared with peers



Source: Bloomberg, Mirae Asset Vietnam Research

Figure 39. Current P/B level has increased to the 5-year average, with improving ROE expectation



Source: Bloomberg, Mirae Asset Vietnam Research

Appendix

1. MBB's Company Profile

Military Commercial JS Bank (MBB VN)			
Main Shareholders	Holdings	Subsidiaries	Holdings
• Viettel Group	14.1%	• MB AMC	100%
• SCIC	9.4%	• MB Securities (MBS VN)	79.94%
• Vietnam Helicopter Corp.	8.9%	• MB Capital Management	90.77%
• Saigon New Port Corp.	7.2%	• Military Insurance Corp. (MIC VN)	68.37%
		• MB Ageas Life Insurance	61%
		• MB Shinsei Finance	50%
		• MBCambodia Public Bank Ltd	100%

- In 1994, Military Commercial Joint Stock Bank (MBB VN), also known as MB Bank, was founded as a credit institution to serve military enterprises tasked with commercial production.
- State-run conglomerate Viettel Group, which became the strategic partner of MBB in 2008, currently owns a 14% stake in MBB.
- As of end-2022, MBB has one 1 head office, 101 branches (including Military Commercial Joint Stock Bank branches in Laos and in Cambodia), 198 transaction offices (including 1 transaction office overseas), and 1 representative office in Russia.
- MBB has provided comprehensive financial services since 2016, with consumer finance (Mcredit, 2016), life insurance (MB Ageas Life, 2016), non-life insurance (MIC, 2007), asset management (MB Capital, 2006) and brokerage (MBS, 2000) services.
- **Mcredit:** Mcredit was established in 2016, with charter capital of VND500bn. In 2017, Japanese-based Shinsei Bank entered into a joint venture agreement to form MB Shinsei Finance LLC. As of end-FY2022, Mcredit stood in 3rd place in the consumer finance market with total outstanding loans of VND21.6tr (+43% YoY). Notably, the firm's PBT doubled in 2022. In 2022, Mcredit was also credit-rated by Fitch Ratings, receiving a credit rating of B with a 'positive' outlook - the highest assessment Fitch Ratings has ever assigned to a consumer finance organization in the Vietnamese market.
- **MB Ageas Life:** In 2016, MB Bank, Belgium-based Ageas Insurance Group, and Thailand-based Muang Thai Life Assurance Company formed joint venture MB Ageas Life Insurance Company Ltd, with an initial charter capital of VND1.1tr. As of end-2022, MB Ageas Life's chartered capital increased to VND1.5tr, with MB holding a 61% stake. In terms of bancassurance, MB Ageas Life cross-sells its life insurance products with MB Bank and other subsidiaries.
- **MIC:** Military Insurance Corp. (formerly Military Insurance JSC) was established in 2007. Its chartered capital is VND1.3tr, with MB Bank holding a 68.4% stake. The firm ranked fifth in the non-life insurance market in terms of premium revenue in 2022. In addition to specialized products for military units, MIC has diversified its products. MIC has expanded its network to encompass 63 affiliates nationwide.
- **MB Capital:** Founded in 2006, MB Capital Management JSC increased its charter capital from VND10bn to nearly VND323.8bn. Currently, MB Bank owns a 90.8% stake in MB Capital. MB Capital manages five open-end funds and a pension program. MB Capital also launched bond investment trusts and invested in an online fund certificate transaction system to diversify its product types.
- **MBS:** MB Securities JSC has chartered capital of VND3,806bn, with MB Bank holding an 79.7% stake. Founded in 2000, MBS was one of the first five securities companies in Vietnam. Currently, MBS retains a Top 10 position in terms of market share.
- **MB AMC:** MB Assets Management Company Ltd. is a subsidiary, of which 100% of chartered capital is owned by MB. The company operates in the fields of debt collection and appraisal consultancy, for MB Bank.

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- **MB AMC:** MB Assets Management Company Ltd. is a subsidiary, of which 100% of chartered capital is owned by MB. The company operates in the fields of debt collection and appraisal consultancy, mainly for MB Bank.

Table 5. Performance of subsidiaries

Subsidiary	MBB's ownership	Charter capital (VND bn)	PBT 2022	PBT Growth YoY
Mcredit	50.00%	1,600	1201	200%
MB Ageas Life	61.00%	1,500	102	36%
MIC	68.40%	1,645	200	71%
MB Capital	90.80%	324	157	180%
MBS	79.70%	3,806	661	90%
MB AMC	100.00%	666	413	121%
Total		9,541.00	2,734.00	

Source: Company data

2. The Ministry of Finance of Vietnam (MOF) released the draft of the strategy for developing Vietnam's insurance market by 2030 to gather opinions from relevant stakeholders ("Draft Strategy")

Deputy Prime Minister Le Minh Khai has signed [Decision No. 07/QĐ-TTg dated January 5, 2023](#), approving the Strategy for the Development of Vietnam's Insurance Market by 2030. In detail :

Decision No. 07/QĐ-TTg dated January 5, 2023	2021-2025	2026-2030
• Average growth of insurance premium	+15%/pa	+10%/pa
• Insurance market to GDP	3-3%	3-3.5%
• Average growth of insurance premium via online channels	+10%/pa	+10%/pa
• Percentage of population on life insurance	+15%/pa	+18%/pa
• Insurance premium per capita	VND3mn	VND5mn

Comprehensive Income Statement (Summarized)

(VNDbn)	2022	2023	2024F	2025F
Interest income	52,486	69,143	79,374	87,409
Interest expenses	16,463	30,459	35,523	37,997
Net Interest income	36,023	38,684	43,850	49,412
Net fees and commissions	4,136	4,085	3,655	4,012
Net other non-interest income	5,434	4,537	6,243	8,105
Total net operating income	45,593	47,306	53,748	61,529
G&A expenses	14,816	14,913	15,667	17,566
PPOP	30,777	32,393	38,081	43,963
Total provision expenses	8,048	6,087	8,925	9,990
Operating profit	22,729	26,306	29,156	33,973
Net non-operating income	0	0	0	0
Income before income taxes	22,729	26,306	29,156	33,973
Income tax expense	4,574	5,252	5,832	6,795
Net profit	18,155	21,054	23,324	27,178
Net profit (ex. minority interest)	17,483	20,677	22,399	26,100
Normalized net profit	17,483	20,677	22,399	26,100

Statement of Financial Condition (Summarized)

(VNDbn)	2022	2023F	2024F	2025F
Cash & dues	3,744	3,675	3,859	4,052
Securities	163,686	192,174	169,561	189,681
Net loans and receivables	481,536	645,923	768,190	895,153
Tangible assets	3,458	3,194	4,147	4,481
Other assets	76,109	99,987	161,090	166,877
Total assets	728,532	944,954	1,106,847	1,260,244
Deposits	443,606	567,533	652,663	750,562
Borrowings	65,149	99,819	118,968	133,000
Debentures	96,578	126,463	158,437	167,046
Other liabilities	43,587	54,428	56,790	62,470
Total liabilities	648,919	848,242	986,858	1,113,078
Capital stock	47,597	54,938	63,179	71,392
Capital surplus	869	869	869	869
Treasury share	0	0	0	0
Reserves	8,419	11,371	14,731	18,700
Retained earnings	19,064	25,560	36,312	50,229
Non-controlling interests	3,664	3,973	4,898	5,976
Total shareholders' equity	79,613	96,711	119,989	147,167

Dupont Analysis (%)	2022	2023	2024F	2025F
Interest income	7.86	8.26	7.73	7.38
Interest expense	2.47	3.64	3.46	3.21
Net interest income	5.39	4.62	4.27	4.17
Net commissions income	0.62	0.49	0.36	0.34
Net other non-interest income	0.81	0.54	0.61	0.68
Total net operating profit	6.83	5.65	5.24	5.20
G&A expenses	2.22	1.78	1.53	1.48
PPOP	4.61	3.87	3.71	3.71
Total provision expenses	1.21	0.73	0.87	0.84
Income before income taxes	3.40	3.14	2.84	2.87
Income tax expense	0.68	0.63	0.57	0.57
Net profit(non-controlling)	0.10	0.05	0.09	0.09
ROA	2.62	2.47	2.18	2.21
Leverage (x)	9.4	9.5	9.5	8.9
ROE	24.6	23.5	20.7	19.5

Asset quality (%)

NPL ratio	1.0	1.60	1.30	1.20
Broad NPL ratio	2.79	3.88	4.30	3.20
NPL coverage ratio	238.03	116.98	119.15	117.80
Reserves to Total credits	2.07	1.56	1.32	1.23
Credit cost (% of total loans)	1.75	1.00	1.23	1.18
Credit cost (% of total credit)	1.18	0.67	0.92	0.89

Per share items (VND)

EPS (reported)				
EPS (normalized)	3,673	3,764	3,545	3,656
BVPS	16,727	17,604	18,992	20,614
PPOP/ share	6,466	5,896	6,027	6,158
DPS (common share)	0	0	0	0

Source: MBB, Mirae Asset Vietnam Research estimates

Key Ratios (%)	2022	2023	2024F	2025F
Growth (YoY)				
Loan growth (Bank)	26.4	33.7	19.5	16.9
Net loans & receivables growth	21.5	36.7	12.4	16.0
Deposit growth	15.3	27.9	15.0	15.0
Shareholders' equity growth	27.4	21.5	24.9	23.3
Total assets growth	20.0	29.7	17.2	13.9
Net interest income growth	37.5	7.4	13.4	12.7
Net fee income growth	-5.3	-1.2	15.2	11.8
PPOP growth	25.3	5.3	20.8	15.5
Operating profit growth	37.5	15.7	14.8	16.6
Net profit growth	37.7	18.3	12.2	16.6
Profitability				
Net Interest Spread (Bank)	5.5	4.4	4.3	4.5
Net Interest Margin (Bank)	5.8	4.9	4.7	4.7
PPOP margin	58.6	46.8	49.3	51.7
ROA	2.6	2.5	2.3	2.3
ROE	24.6	23.5	21.3	20.1

Liquidity

LDR (excl. CDs) (Bank)	101.1	105.6	109.7	111.5
Loans to assets	61.6	63.5	64.7	66.3

Capital adequacy

Operating efficiency

Cost to income	32.5	31.5	28.6	28.0
Cost to assets	2.0	1.6	1.4	1.4

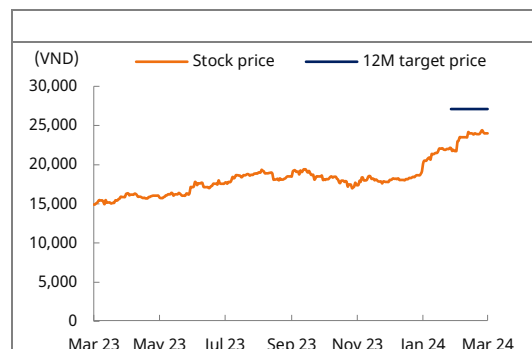
Dividend

Payout ratio	0.0	0.0	0.0	0.0
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Important Disclosures & Disclaimers

2-Year Rating and Target Price History

Company (Code)	Date	Rating	Target price
Military Commercial Bank (MBB) JSC	12/12/2023	BUY	22,500



Stock Ratings

Buy	: Relative performance of 20% or greater
Trading Buy	: Relative performance of 10% or greater, but with volatility
Hold	: Relative performance of -10% and 10%
Sell	: Relative performance of -10%

Industry Ratings

Overweight	: Fundamentals are favorable or improving
Neutral	: Fundamentals are steady without any material changes
Underweight	: Fundamentals are unfavorable or worsening

Ratings and Target Price History (Share price (—), Target price (—), Not covered (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆))

* Our investment rating is a guide to the relative return of the stock versus the market over the next 12 months.

* Although it is not part of the official ratings at Mirae Asset Co., Ltd., we may call a trading opportunity in case there is a technical or short-term material development.

* The target price was determined by the research analyst through valuation methods discussed in this report, in part based on the analyst's estimate of future earnings.

* The achievement of the target price may be affected by risks related to the subject securities and companies, as well as general market and economic conditions.

Equity Ratings Distribution & Investment Banking Services

	Buy	Trading Buy	Hold	Sell
Equity Ratings Distribution	74.13%	15.92%	9.95%	0.00%
Investment Banking Services	75.00%	11.11%	13.89%	0.00%

* Based on recommendations in the last 12-months (as of March 31, 2016)

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