

Military Bank (MBB VN) – King of CASA

High margin growth engine and attractive valuation

BUY

Current price (06-26-2019): VND 20,850

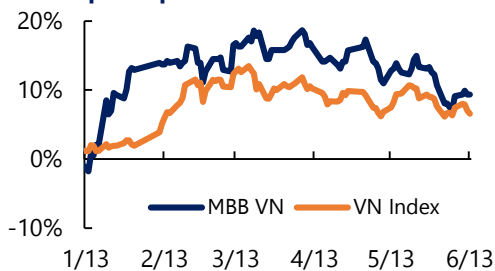
Target price: VND 29,880

Upside: 43%

MBB's sector-high CASA deposit ratio is a structural advantage over its peers that allows it to post high NIMs without taking on undue credit risk. A potential stake sale to foreign investors in 2H19E should further boost solvency and reduce wholesale funding costs. We also expect higher loan growth than the sector average given MBB's early Basel II compliance. Even factoring in an FOL premium, we think the valuation is attractive. The stock currently trades 1.1x 2019E P/BV with 21% expected ROE vs. the sector median of 1.3x P/BV and 18% ROE. We thus initiate with a Buy rating.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV 3-month
VND 18,050-26,386	USD 1.9 bn	3.4%	0%	55.2%	USD2.1 mn

YTD price performance vs. VNIndex



Event catalysts

- High CASA ratio (34% as of 1Q19 vs. peers' median of 14%) = structurally high NIM.
- Higher credit growth vs. peers due to early Basel II compliance.
- Banca subsidiary to provide a potential earnings boost.
- Attractive valuation: 1.1x 2019E P/BV on 21% ROE.

Risks to our call

- Full-FOL ironically constrains the share price upside.
- Our expectation for additional loan quota may not be fulfilled.
- Capital issue timing and price are unknown.
- Circular 43 could slow consumer finance growth.

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Company profile: MBB has the highest CASA ratio in the Vietnamese banking sector at 34% as at 1Q19 (vs the peer median of 14%). It is Vietnam's fifth biggest listed bank with 6.1% market share of assets, where retail loans (38% of the total) and private corporate loans (50%) are the key growth drivers.

Key Financials	2018A	2019E	2020E
NIM	4.65%	5.02%	5.11%
Fee growth	127%	45%	26%
Adj. CIR	48.5%	49.4%	48.2%
Adj. PPOP growth	37.4%	24.1%	20.4%
Adj. PPOP/Asset	2.75%	2.97%	3.13%
Adj. ROA	1.81%	2.05%	2.19%
Adj. ROE	19.2%	21.2%	21.6%
PER (x)	7.4x	5.6x	4.5x
PBR (x)	1.3x	1.1x	0.9x
Dividend yield	2.5%	3.4%	4.6%
Loan growth	16.6%	16.3%	14.5%
Deposit growth	9.0%	13.8%	14.5%
NPL	1.33%	1.44%	1.40%
Loan loss coverage	112%	110%	115%

CASA franchise is the key competitive advantage. MBB boasts the sector's highest CASA ratio at 34% vs. the peer median 14%. This drives its low funding costs of 3.48% vs. the sector median 5.15% in 2018A. We expect NIM to increase 37bps YoY to reach 5.02% in 2019E as the lending focus shifts to retail and SMEs.

Higher credit quota, maybe, due to early Basel II compliance. We expect the SBV to allocate a higher credit growth quota to MBB than the sector average of 14%, at least for 2019. We expect this favorable treatment to apply only to the first few banks that comply with Basel II, but once (if?) Basel II becomes more commonplace among banks any such advantage is not likely to persist. We forecast loan growth of 16.3% in 2019E and 14.5% in 2020E.

Valuation is dragged by full FOL. In other markets, commercial banks with superior funding franchises typically generate higher ROEs than peers and tend to trade at a premium to peers. However, MBB trades at a discount despite generating higher profitability than the sector. We view this anomaly as largely due to the stock's full-FOL status which reduces its attractiveness for domestic investors. Our target price implies 1.6x 2019E P/BV – a reasonable level given its superior growth/profitability outlook, and one that offers upside even after accounting for the 20%-25% FOL premium.

Source: Company Data, Yuanta Vietnam

Table 1- Market Valuations

Market Valuation	2016A	2017A	2018A	2019E	2020E	2021E
Adjusted PER (x)	11.1x	12.7x	7.4x	5.6x	4.5x	3.8x
PEG	(1.9)	(1.0)	0.1	0.2	0.2	0.2
Adj. ROA (%)	1.22%	1.14%	1.81%	2.04%	2.16%	2.25%
Adj. ROE (%)	11.7%	11.6%	19.2%	21.1%	21.4%	21.4%
PBR (x)	1.4x	1.5x	1.3x	1.1x	0.9x	0.8x
Dividend Yield (%)	0.1%	2.6%	2.5%	3.4%	4.6%	6.1%

Source: Company Data, Bloomberg, Yuanta Vietnam

INVESTMENT THESIS

MBB offers 1) a sector-high CASA ratio, 2) a strong capital outlook, and 3) above-sector-average credit growth, improved NIM, and increased fees going forward, based on our forecasts. We tend to be cautious of recommending full-FOL stocks, but in our opinion MBB's valuation is compelling even factoring in an FOL premium of 20-25%.

Deposit franchise is the key driver of a commercial bank's profitability. Our positive view on MBB rests largely on its high CASA ratio. With its sector-high ratio of current account and saving accounts (CASA) deposits to total deposits, MBB is better positioned than other banks to sustain and improve its net interest margin without taking on undue credit risk. MBB's CASA ratio is 34%, far above the median of 14% among listed peers as at 1Q19. Given the SBV's gradual adoption of tightening credit policy, a strategy of pumping up credit growth to boost NIMs and earnings is clearly a non-starter for any Vietnamese bank. But MBB's NIMs are supported by its CASA franchise, which results in among the lowest funding costs in the sector (i.e., 3.48% in 2018, well below the sector's median cost of funds of 5.15%). This is also the second lowest cost of funds among all listed peers, behind only [Vietcombank \(VCB, BUY\)](#) – which is one of our top picks in the sector.

We expect higher loan quota due to MBB's early Basel II compliance. Admittedly, the growth story for the Vietnamese banks going forward will be largely one of non-interest income and especially fees, rather than capital-intensive asset growth. The SBV appears to have adopted a more cautious tack in regulating the bank-centric financial system, with loan growth quotas likely to continue declining gradually in the years ahead. In our view, this policy is the right approach to ensuring macroeconomic stability. Slowing credit growth also eases the pressure on bank system capital – which is clearly a major concern given the still-high leverage of many banks.

Thus, we think the days of outsized credit growth in Vietnam are history. However, banks that have already complied with Basel II such as MBB could be the relative winners in this environment if they are allowed to outgrow the system as a whole. We believe this is likely to occur and have factored in 16.3% YoY loan growth for MBB in 2019, higher than the overall sector's 14% growth this year.

Capital increase in 2H19? MBB plans to sell at least some proportion (or all?) of the 10% remaining FOL room that it has not yet listed by the end of 2019. The chatter surrounding this story is rife, but the details (e.g., on price and targeted investor type) are extremely unclear and we have not factored this into our valuation or forecasts.

However, such a deal would likely be done at a considerable premium to the market price (we think around 28-32K, or 1.8-2.0x PB) which would be accretive for existing shareholders given the higher solvency ratios and implied room for higher-than-average credit growth. Equity is also a source of funding that is "free" from the very narrow perspective of P&L accounting, which is good for NIM, and the probable high premium would reduce the dilution impact on existing shareholders. Moreover, the

MBB offers:

- 1) The highest CASA ratio of any Vietnamese bank,
 - 2) Strong capital outlook,
 - 3) Superior credit growth.
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Strong deposit franchise results in among the lowest funding costs in the sector (3.48% for MBB vs. 5.15% for the sector)

We expect superior loan growth of 16.3% in 2019E thanks to MBB's early Basel II compliance.

MBB plans to unlock some proportion (or all) of the 10% remaining FOL by the end of 2019.

A successful capital issuance would reduce wholesale funding cost, which would further support NIM.

Bancassurance is highly attractive and a key earnings catalyst.

Valuation is cheap, even with a FOL premium. This is due to the full-FOL status, in our view.

Our net income forecasts are 5%-16% higher than the consensus due to higher expected credit growth and potential from bancassurance business.

CASA ratio of 34% is highest among the banks.

stronger balance sheet should support lower wholesale funding costs given the implied reduction in credit risk for debt investors (i.e., an improved credit rating).

Fee income the next earnings catalyst. We have a positive view on fee income growth at MBB, including revenue from settlements, cards, and especially bancassurance. Room for growth of insurance field is still enormous in our opinion. Vietnam's insurance industry is underpenetrated despite 21%-23% growth in premium sales in recent years (2016-2018), and premiums-to-GDP are still only 3%. Currently, only 2% of MBB's clients have purchased insurance policies from MB Ageas Life, and management targets increasing this to 10% over the next 3-5 years.

MBB management also hopes to broaden the subsidiary's sales channels to include other banks, but we think this will prove to be a tall order. Regardless, we believe the bancassurance business is highly attractive and a key component of the overall investment thesis on MBB.

Valuation: Cheap! Cheap! Cheap! In other markets, commercial banks with superior funding franchises and strong credit risk management typically trade at a premium valuation over industry peers. From a purely fundamental perspective, this obviously makes sense; in an efficient market, above average profitability should allow such a bank (e.g., MBB) to trade at a premium to peers. However, MBB current trades at 1.1x 2019E P/BV vs. the listed banks' median of 1.3x, despite expected ROE (21.2% in 2019E) that is roughly 2ppt higher than the sector. Our view is that this is due purely to technical factors – specifically, the stock's full-FOL status.

Yuanta vs consensus. Our net income forecasts are (5%-16%) higher than the consensus mean estimate for 2019E-21E. The low cost of funds from the CASA deposit franchise is probably baked into Street expectations, but we believe our expectation for additional credit quota in 2019E is what differentiates us from consensus. Our fee income forecasts may also be higher than those of most analysts, which is largely due to our highly positive view on the bancassurance business.

Table 2- Yuanta Vietnam vs. Consensus

Net income (VND bn)	2019E	2020E	2021E
Consensus mean	7,561	8,747	10,011
Yuanta forecast	7,942	9,725	11,669
%ge difference	5.0%	11.2%	16.6%
Consensus high	8,581	9,534	10,841
Consensus low	6,378	7,545	9,326
EPS (VND)	2019E	2020E	2021E
Consensus mean	3,491	4,018	4,415
Yuanta forecast (adj.)	3,717	4,602	5,521
%ge difference	6.5%	14.5%	25.1%
Consensus high	4,003	4,739	5,018
Consensus low	3,209	3,337	3,767

Source: Bloomberg, Yuanta Vietnam

CATALYSTS

Low funding cost is the backbone of margin improvement

With a significant contribution from state-own corporations like Viettel (which happens to be the owner of a 14.6% stake in MBB), Saigon New Port (7.5%), and Vietnam Helicopter (7.8%), MBB has the highest CASA deposit ratio (34%) among all listed Vietnamese banks (sector median: 14%) as at 1Q19. MBB ranks fourth in CASA market share at 9%, just behind the three much larger state-owned banks: VCB (22% CASA market share), BID (15%), and CTG (12%).

Figure 1- CASA Ratios among Banks in 1Q19

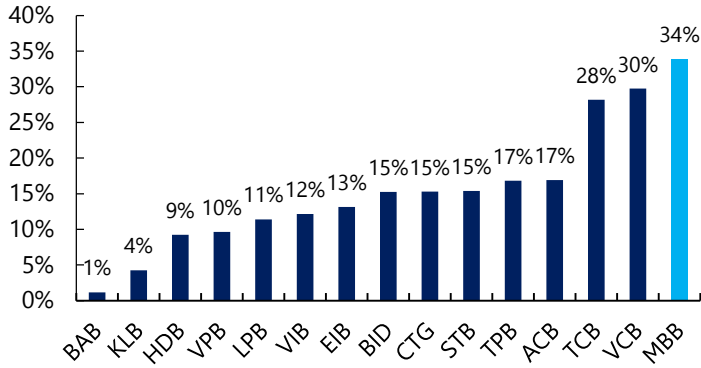
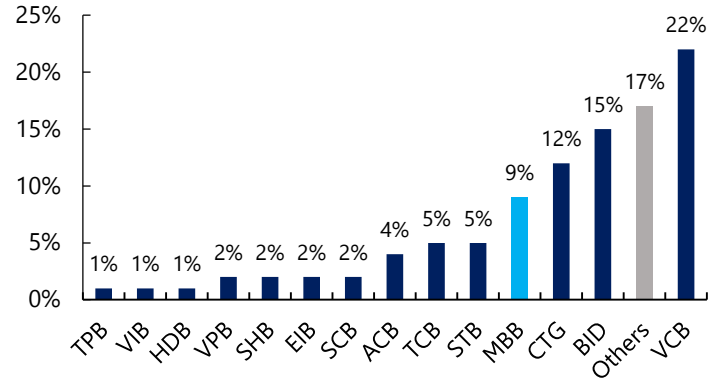


Figure 2- CASA market share in 2018



Source: Company Data, FiinPro, Yuanta Vietnam

Because of this solid CASA franchise, MBB enjoys the second lowest funding costs in the sector, at 3.48% in 2018A compared to the 16-listed bank median of 5.15%. This is well below the median among listed JOCBs (5.27%) and even SOCBs (4.70%), although not quite as low as bank sector champion VCB (2.81%).

Figure 3- Cost of Fund Among Banks in 2018

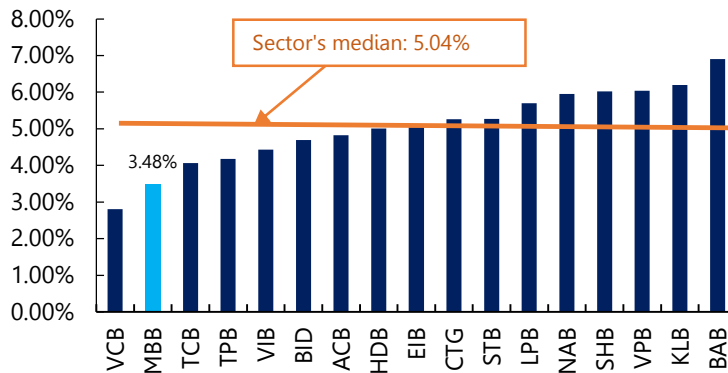
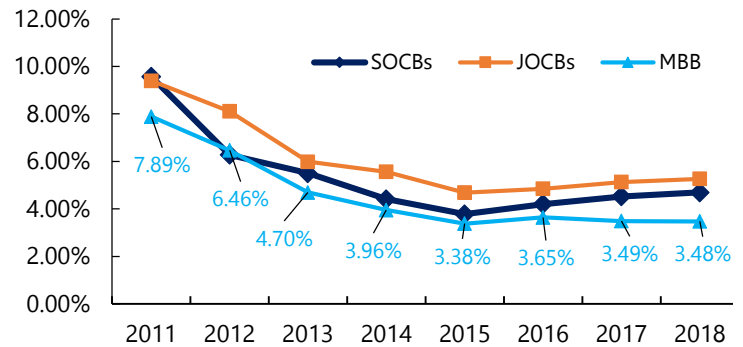


Figure 4- Median Funding Cost



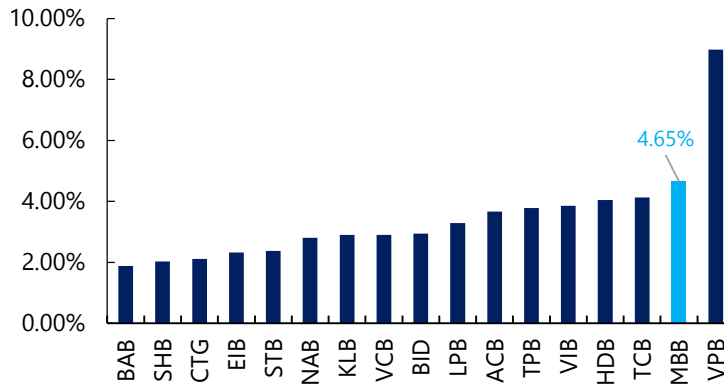
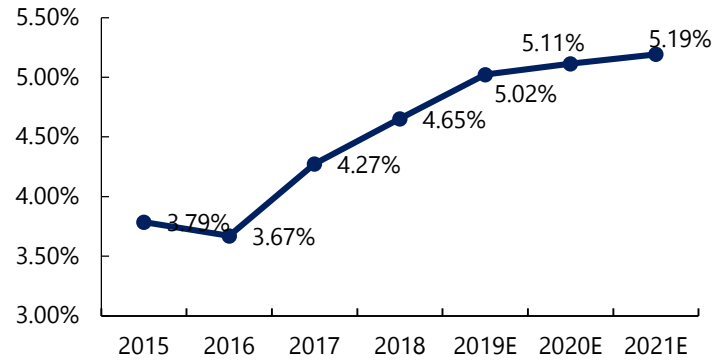
Source: Company Data, FiinPro, Yuanta Vietnam

MBB has the second highest NIM among banks.

We expect NIM to increase to 5.11% on average in 2019E-21E

Low funding cost, not high-risk lending, is the key driver of MBB's strong NIM.

MBB posted the second-highest NIM of all listed Vietnam banks in 2018, at 4.65%. Only Vietnam Prosperity Bank (VPB VN, Not rated) boasts higher NIM, but this is mainly driven by high-risk loans from its consumer finance subsidiary, FE Credit, which accounts for 23% of VPB's consolidated loans in 2018A. To be fair, MBB's NIM is also supported by high-yield consumer loans issued by subsidiary MCredit, but these assets represent a small proportion of MBB's total loans at just 2.6% as at 2018A. We forecast 2019E-21E NIM to remain at a high average level of 5.11% backed by the sector's highest CASA ratio and a gradually increased focus on higher yield clients.

Figure 5- NIM by bank (2018A)

Figure 6- MBB's NIM (2015-2021E)


Source: Company Data, Yuanta Vietnam

We see room for NIM improvement from increased focus on retail and SME loans.

MCredit provides incremental NIM support.

We see further room for NIM improvement from a shifting mix of assets. Most (64%) of MBB's interest-earning assets are comprised of customer loans (*figure 7*). Within the customer loan segment, increased proportions were allocated to retail (38%) and SMEs (50%) in 2018A (*figure 8*). Thus, retail loans, which typically have higher yields than corporate loans, have moved from 15% of the loan book in 2013 to 38% in 2018. We believe this trend will continue and expect retail loans to reach 40% of total loans in 2019E and 42% in 2019E.

In addition, growth at MCredit should also provide incremental NIM support. MCredit accounted for a 5% share of the consumer finance market as at 2018A, well behind FE Credit's 48% market share, Home Credit's 16%, and HD Saison's 9%. MCredit had 743,000 clients and accounted for 2.6% of MBB's consolidated loans in 2018A. We expect MCredit's contribution to total loans to increase to nearly 10% in 2021E, in line with management's expectation of achieving 5 million clients by 2021E. See *table 3 below*.

Table 3 - MCredit loans as a proportion of MBB's total loans

MCredit	2017A	2018A	2019E	2020E	2021E
Total loans	1,549	5,480	10,412	18,742	31,861
Total loan growth		254%	90%	80.0%	70.0%
% of MBB's consolidated loans		2.6%	4.2%	6.6%	9.7%
No. of clients		743,000			5,000,000

Source: Company Data, Yuanta Vietnam

In 2019, MCredit targets pretax profit of VND 660 bn, which would contribute 6.6% to our consolidated PBT estimate, compared to VND320 bn and 4.1% in 2018A.

As implied by our bullish expectations for growth at MCredit, we believe the future of the consumer finance market in Vietnam is very bright. However, we acknowledge the major market development risks, which are probably linked to each other: 1) competition has risen sharply, and 2) regulators have tightened their prudential oversight of the consumer finance business both as a means of maintaining financial system sustainability but also as a form of consumer protection.

Competition is indeed heating up, with many players entering the arena. These include FE Credit, Home Credit, HD Saison, Lottte Card, Prudential, ZACCS, and Toyota Financial Services, among others. We believe that the focus of new entrants has largely been on cash loans rather than areas such as automotive and consumer goods

The future of consumer finance market is bright, but the competition is heating up and regulation is tightening.

finance, where the risks are easier to control but building up market share is perhaps more difficult.

As a result of the build-up of competition in cash lending, the regulators have moved – preemptively, we believe – to tighten control on cash lending. Draft Circular 43, announced in March 2019 but not yet promulgated, would strictly control cash loans at 30% of a consumer finance business’s loans. If enforced, this should hamper the growth of consumer finance companies including MCredit. Discussions with consumer finance-focused banks indicate that a possible reactive strategy will be to move from straight cash loans to cash cards, which the banks appear to hope will be treated differently by the regulator. We recognize that consumer finance lending is clearly preferable to “traditional” money lending but we not convinced that a surface-level adjustment that does not address the underlying economics will be sufficient for the regulators. However, it is early days and the consumer finance subsidiaries will likely have time to make adjustments to their business models.

In any case, we believe that a slowdown in consumer finance industry growth – especially for the major players – is likely in the medium term, given these reasonable regulatory concerns. However, we still believe that MCredit will outgrow the consumer finance sector for two reasons. 1) MCredit has a 2021 target of 5 million clients, which we think is achievable. MCredit should be able to accrue clients from MBB, especially military personnel, of which there are a total of 5.5 million people in 64 provinces. Under its pilot program, MCredit only served military personnel in 5 provinces in 2018, but it eventually targets expanding this program to 51 provinces. 2) MCredit’s LDR is relatively low at only 96% as at 2018 compared to the sector’s nearly 280%. This reflects ample liquidity for asset expansion relative to the overall consumer finance sector.

Figure 7- Interest-Earning Assets

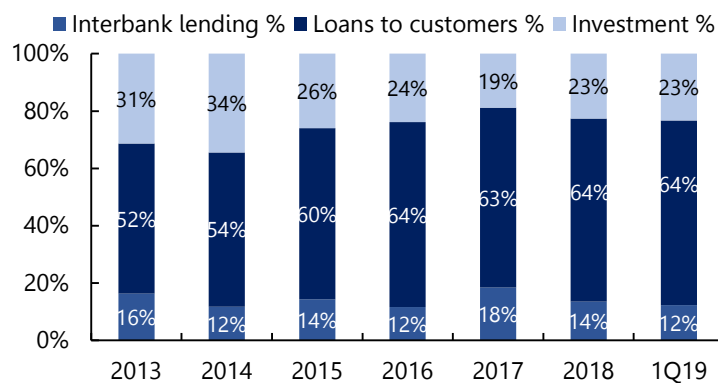
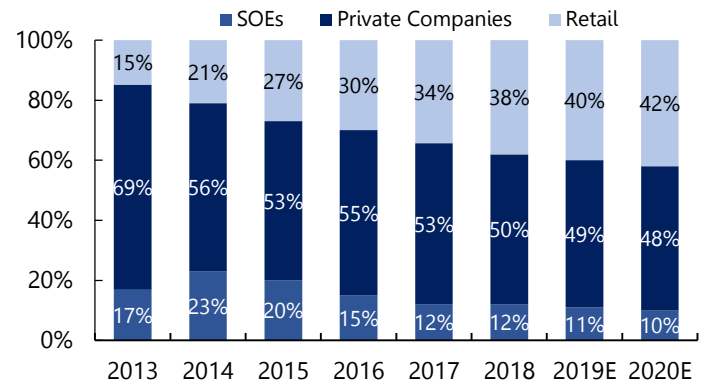


Figure 8- Loan Breakdown



Source: Company Data, FiinPro, Yuanta Vietnam

Asset yields are below those of comparable banks, suggesting room for upside.

Current lending rates are below peers. MBB’s average yield is 0.4 ppt lower than that of the JOCB median level of 9.7%, as at 2018A. This suggests that MBB has room to increase yields while still remaining competitive. In addition, the bank’s deposit rate has been low at an average 3.5% in 2015-18A, and we believe that its funding costs will remain at a relatively low average of 4.0% in 2019E-21E. Thus, we still see further room for NIM improvement despite the comparatively high levels vs peers.

In our model, we estimate the bank’s 2019E lending rate to increase to 9.7% in line with the JOCB median, and we forecast credit growth of 16.3%, which is higher than the sector’s average growth of 14%. We assume the deposit rate to remain at a low level of 3.9%. As a result, we forecast NIM to further improve to 5.02% in 2019E and 5.11% in 2020E.

Figure 9- Average Lending Rate (2018A)

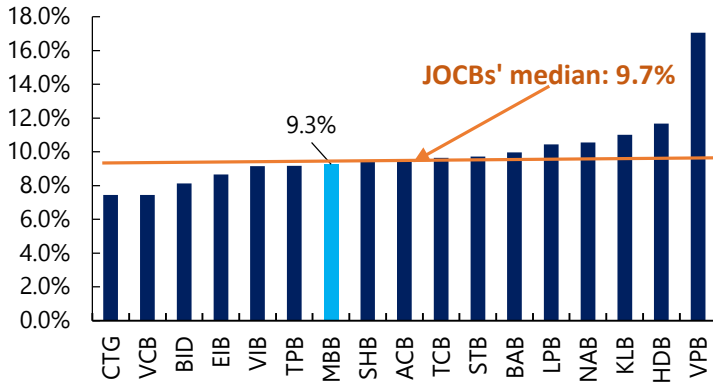
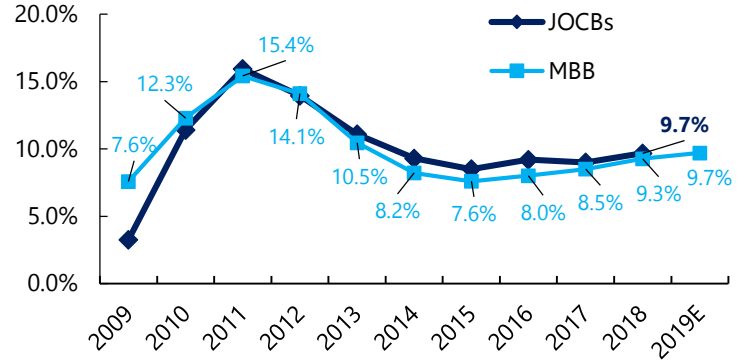


Figure 10- NIM to improve as lending rate moves up to JOCB median level in 2019-21E



Source: Company Data, FiinPro, Yuanta Vietnam

We expect superior credit growth of 16.3% vs. the sector's average of 14%.

Higher-than-sector credit growth thanks to Basel II compliance

We expect the SBV to grant higher credit growth for MBB than for the sector in 2019E. Management targets loan growth of 20% in 2019E. This is largely to be driven by 37% growth at MCredit, but also 15% at MBB the parent bank (vs. its initial quota of 13%). We are less bullish, and we project consolidated credit growth of 16% in 2019E. Seven banks (including MBB) have obtained Basel II approval from the SBV, and each is hoping for a higher credit growth quota than the sector average. However, the SBV's policy is likely to remain toward tightening as it seeks to maintain bank solvency and also to reduce the bank-centricity of Vietnam's financial system, where bank loans to nominal GDP reached 135% in 2018.

In addition, management expects 14% deposit growth for 2019E but MBB's balance sheet LDR is currently at 88%. This is well above the 80% limit for JOCBs, but MBB states that its LDR strictly complies with the SBV's regulations. The seeming disconnect here could be due to a portion of loans possibly being excluded from the LDR calculation based on SBV policy. That said, we do not believe that the LDR has room to expand. Thus, our estimate of 16% credit growth is more conservative than management's 20% guidance.

A higher credit growth quota is not really the main the story for MBB, but the real implication of this potential treatment (based on Basel II compliance) serves to prove the bank's superior capital adequacy and efficient risk management. We believe that it will also support MBB's credit rating and reduce long-term funding costs.

Figure 11- Loan growth

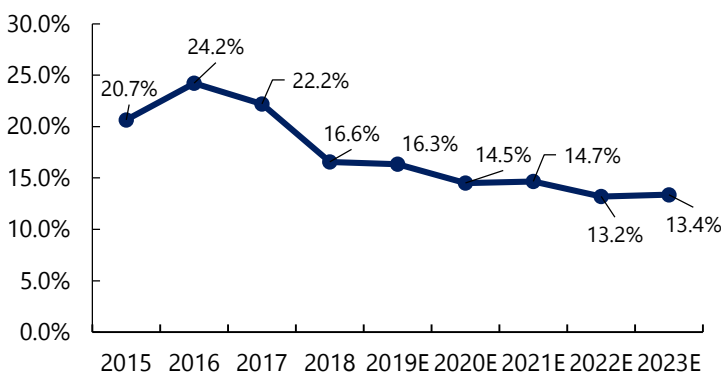
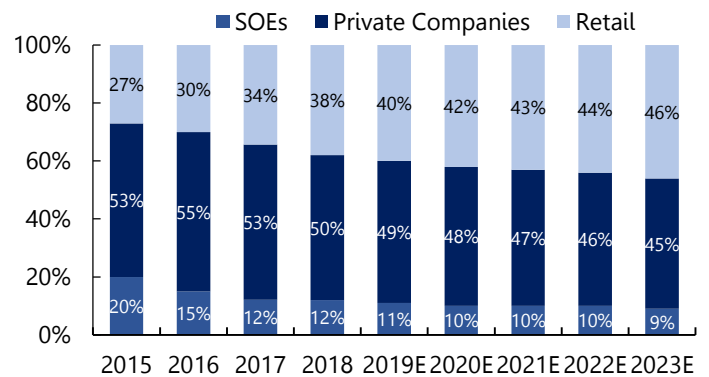


Figure 12- Loan breakdown



Source: Company Data, FiinPro, Yuanta Vietnam

Banks are seeking alternative income from services to compensate for the policy of tightening credit growth.

Focus on fees to improve earnings and ROE

Given the top-down policy of tightening credit growth, Vietnam’s commercial banks are seeking alternative income from services. We see this as a key trend in the bank sector going forward. With 8% market share of net fee income, MBB has positioned itself as a leading player. Notably, MBB added market share of 3.8ppt during 2017A-18A, based on management’s calculations.

Non-interest income contributed 19% of revenues in 2018A, up from 11% in 2016A, with fee income the largest component of non-interest income at 14% of total revenues. We expect that net fee income will continue growing to contribute 17.6% on average to total adjusted revenue in 2019E-21E. *Note that our adjusted revenue does not include “other income” given the distorting influence of loan loss recoveries, which we consider to be a provisioning-related item rather than a source of above-the-line stable revenues.*

Figure 13- Market share of net fee income (2018)

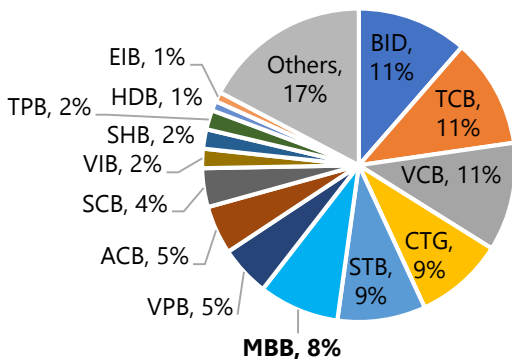
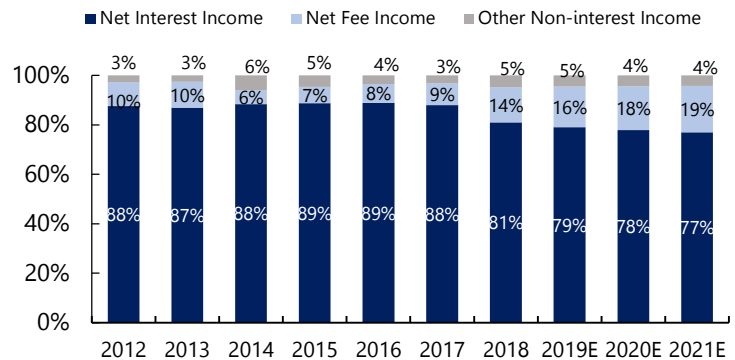


Figure 14- MBB's adjusted revenue breakdown



Source: Company Data, FiinPro, Yuanta Vietnam

We see further potential for MBB to increase net fees from bancassurance given MBB’s 61% stake in insurance subsidiary MB Ageas Life, a cooperative effort with Ageas of Belgium and Muang Thai Life Assurance of Thailand since 2016. MBB’s revenue from bancassurance in 2017 reached 57% of that year’s total gross fees, 50% in 2018A, and 63% in 1Q19.

Figure 15- Gross fee breakdown

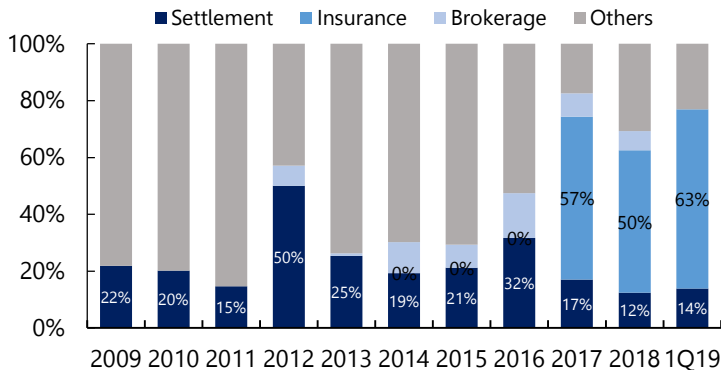
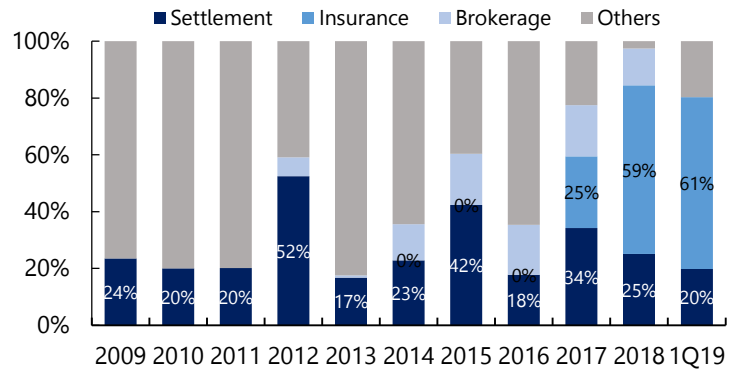


Figure 16- Net fee breakdown



Source: Company Data, FiinPro

MBB's ownership of MB Ageas Life is a differentiating factor from most other banks.

However, the downside risk from investing in insurance companies is a deduction from Tier 1 (and total) capital.

The potential for life insurance in Vietnam is huge given low penetration, increasing middle class, and retirement planning needs.

MBB's ownership of a bancassurance subsidiary is a differentiating factor with most banks. We believe this is a solid strategy given booming bancassurance sales, in which the bank receives a huge "upfront fee" and ongoing commissions from the insurance company while also benefitting from the long-term underwriting and investment profits at the subsidiary level.

However, the downside risk from commercial banks investing in insurance firms is the high capital cost of doing so. Vietnam regulation is in line with Basel norms here, as Circular 41/2016/TT-NHNN mandates that commercial bank investments in insurance subsidiaries / JVs is a deduction from Tier 1 (and total) capital.

Despite MB Ageas Life's newcomer status, it is No.6 in the market with 4.5% of market share in new premium sales in 1Q19. In terms of total premium sales, MB Ageas Life stands at No.9 with 1.9% market share (source: mof.gov.vn). The subsidiary targets to break even in 2019 after only 3 years of operations, which is impressive compared to the industry average of 5 years.

With only 8% life insurance penetration of Vietnam's population (vs., for example, 40% in Malaysia), the market here clearly has huge potential to develop. According to the local media, the government targets 11% penetration by population by 2020 and 15% by 2025. With increasing GDP per capita and slowing overall population growth, the middle class in Vietnam is expanding much faster than the region (see figure 17 & 18), and on the current pace the middle class should account for 40% of the total population by 2025E (vs. approximately 13% at end-2018).

Figure 17- Fast growing middle income class

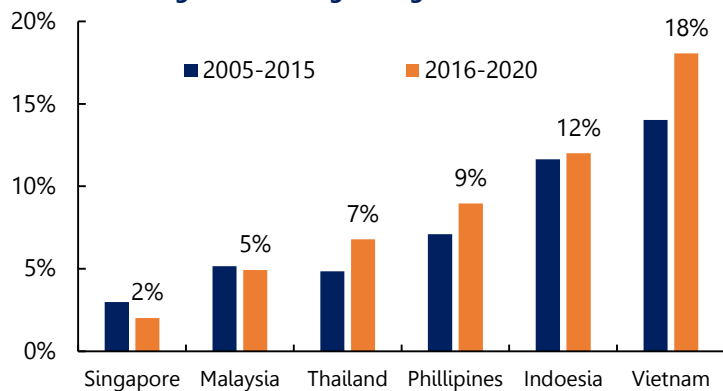
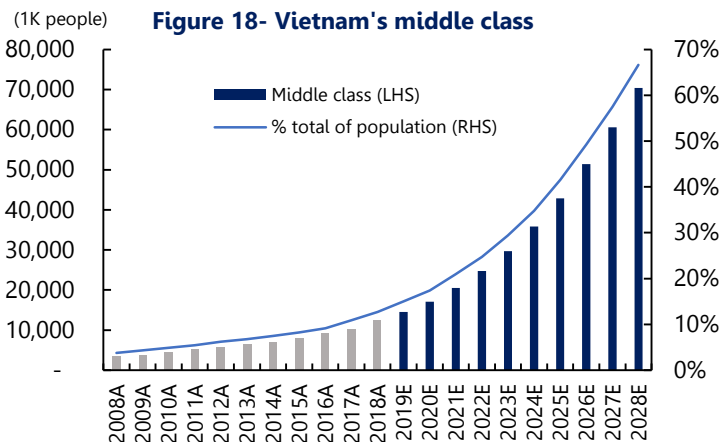


Figure 18- Vietnam's middle class



Source: Brookings Institute, World Bank, Boston Consulting Group, Yuanta Vietnam

MBB's share price is trading at a discount to peers. Unlocking the remaining FOL could provide a short-term catalyst for the shares.

Capital raising a potential short-term catalyst: Unlocking the remaining FOL

Despite MBB's very solid outlook for growth and profitability, shares are trading at 1.1x 2019E P/BV, a discount to the peer median of 1.3x. Given the substantial premium for FOL share transactions, we attribute the market price to the stock's full-FOL status and resulting effect on domestic investor sentiment. Basically, the perceived lack of net foreign buyers means that local investors find the shares uninteresting despite positive fundamental factors. MBB's unlocked FOL room of 20% has been fully taken up by foreign shareholders. However, MBB intends to unlock at least some of the remaining FOL room by the end of 2019. Although this may not increase the liquidity post the event (because the shares will likely be fully acquired), such a deal is not likely to occur without a substantial premium over the market price. This could provide a short-term catalyst for the shares, in our view.

VALUATION: Our 12-month price target is VND29,880

We apply five valuation methodologies to generate our VND 29,880 target price, which implies P/BV multiples of 1.6x for 2019E and 1.3x for 2020E and adjusted PERs of 8.0x for 2019E and 6.5x for 2020E.

Our target price is calculated on a weighted average basis that weights residual income (the largest component) at 50% of the total valuation and 12.5% weightings for the other four methodologies.

We employ the following assumptions in our residual income and DDM models:

- **Cost of equity** starts at 14% and falls to 12% in Year 15 to reflect reduced risk and reduced potential returns as MBB grows.
- **ROTCE** is based on our model forecasts for Years 1-5, is set at 20.0% in Year 6, and gradually declines to 12.5% in Year 15.
- **Asset growth** is based on our model forecasts for Years 1-5, is set at 14% in Year 6, and gradually declines to 7% in Year 15.

Table 4- MBB's estimate Fair Value

Valuation Methods	Average Fair Value (VND/share)		
	Estimated Price	Weight (%)	Price
Residual Income	29,831	50.0%	14,916
DDM Perpetuity	32,019	12.5%	4,002
DDM Multiple	33,120	12.5%	4,140
Regression	29,767	12.5%	3,721
Public Comps	24,853	12.5%	3,107
Estimated Fair Value			29,880

Residual Income Methodology

Based on the residual income approach, we estimate MBB's fair value at VND 29,831 per share, implying a 45% premium to the current share price (VND 20,850 at Jun 26, 2019) and a 2019E P/BV multiple of 1.6x.

Table 5- Implied fair value from residual income approach

Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	21,091
Residual Income Terminal Value:	11,730
(+) Current Common Shareholders' Equity:	34,173
(+) PV of Residual Income Terminal Value:	2,264
(+) Sum of PV of Residual Income:	27,310
Implied Equity Value:	63,748
% of Implied Value from PV of TV:	3.6%
Implied Share Price:	29,831
Current Share Price (Jun 26 th , 2019)	20,850
Implied P/BV	1.6x
Premium / (Discount) to Current:	43%

Source: Yuanta Vietnam

Table 6 - Residual income fair value: Sensitivities to ROE and COE

	Initial Cost of Equity (Declines by 0.20% Annually):										
	11.0%	11.5%	12.0%	12.5%	13.0%	14.0%	14.5%	15.0%	15.5%	16.0%	16.5%
14.5%	72,846	62,888	55,012	48,645	43,403	35,230	32,069	29,337	26,956	24,866	23,019
14.0%	69,403	60,006	52,569	46,551	41,594	33,855	30,858	28,266	26,005	24,017	22,259
13.5%	66,003	57,159	50,155	44,484	39,807	32,497	29,662	27,207	25,064	23,178	21,508
13.0%	62,645	54,348	47,772	42,442	38,043	31,156	28,481	26,162	24,135	22,349	20,766
12.5%	59,330	51,573	45,418	40,425	36,300	29,831	27,314	25,129	23,217	21,531	20,033
12.0%	56,057	48,832	43,094	38,434	34,579	28,523	26,162	24,109	22,311	20,722	19,309
11.5%	52,826	46,126	40,799	36,468	32,880	27,231	25,023	23,102	21,415	19,923	18,594
11.0%	49,636	43,455	38,534	34,526	31,202	25,955	23,899	22,107	20,531	19,134	17,888
10.5%	46,488	40,819	36,298	32,610	29,545	24,696	22,790	21,124	19,657	18,355	17,190

Source: Yuanta Vietnam

Dividend Discount Model (DDM)

We forecast MBB's dividend payout ratio to increase slowly in the first five years in our model, after which we assume the payout stabilizes at 50% of earnings in subsequent years.

To calculate terminal value, we use both the perpetuity growth method and a multiples method (terminal P/TBV multiple sourced from Bloomberg consensus with a 10% discount). We arrive at fair values of VND32,019 using the perpetual growth rate method and VND33,120 using the multiples method, both of which imply 1.7x 2019E P/BV.

Table 7- Implied fair value from DDM models

Terminal Value - Perpetuity Growth Rate Method:		Terminal Value - Multiples Method:	
Terminal P / TBV Multiple by ROTCE:	1.08 x	Baseline Terminal P / TBV Multiple:	1.09 x
Terminal Value:	179,512	Terminal Value:	192,419
(+) PV of Terminal Value:	32,741	(+) PV of Terminal Value:	35,095
(+) Sum of PV of Dividends:	35,680	(+) Sum of PV of Dividends:	35,680
Implied Equity Value:	68,421	Implied Equity Value:	70,775
% of Implied Value from PV of TV:	47.9%	% of Implied Value from PV of TV:	49.6%
Implied Share Price:	32,019	Implied Share Price:	33,120
Current Share Price (Jun 26 th):	20,850	Current Share Price (Jun 26 th):	20,850
Implied P/BV	1.7x	Implied P/TBV	1.7x
Premium / (Discount) to Current:	54%	Premium / (Discount) to Current:	59%

Source: Bloomberg, Yuanta Vietnam

Relative Valuation

MBB currently trades at 1.1x 2019E P/BV, below the listed peers' median of 1.3x (using our model estimates for STB, BID, and VCB and Bloomberg consensus for the other listed banks that we don't cover). We believe this valuation discount is unwarranted given its much higher 2019E ROE of 21.2% than the sector's median of 18.2%. We attribute MBB's unreasonably low P/BV multiple vs peer valuations to the lack of foreign investor participation due to the full of FOL room. MBB could unlock as much as all of the remaining 10% FOL room to foreign investors by the end of this year, which might create stronger liquidity and could be a catalyst for a re-rating.

Average fair value using relative valuation works out to VND 24,853 per share, implying 2019E **P/BV** of 1.3x. However, as stated previously, we believe the bank deserves a premium to peers rather than a discount, given its leading CASA franchise, greater potential to increase credit growth thanks to Basel II compliance, and earnings boost from fee income via subsidiary MB Ageas Life.

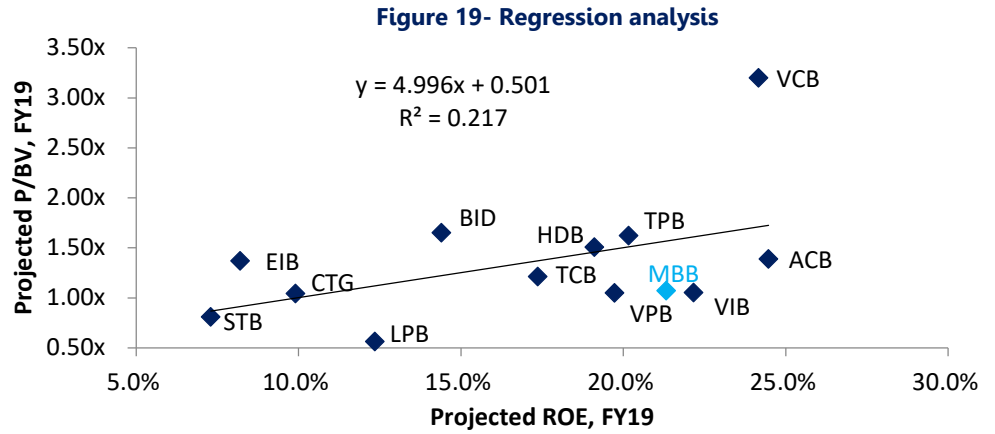
Table 8- Implied fair value from listed comps approach

Company	Ticker	2019E PBR	% Upside
Vietnam Listed Banks			
Median		1.3x	
Average		1.4x	
MBB			
PBR implied by current price		1.1x	
PBR implied by VND29,880 PT		1.6x	43%
Estimated Fair Value of MBB			
Using Listed Banks Multiple		24,853	19%

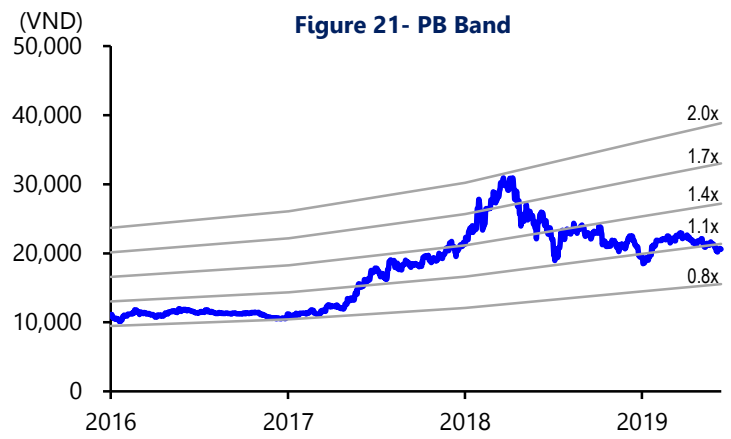
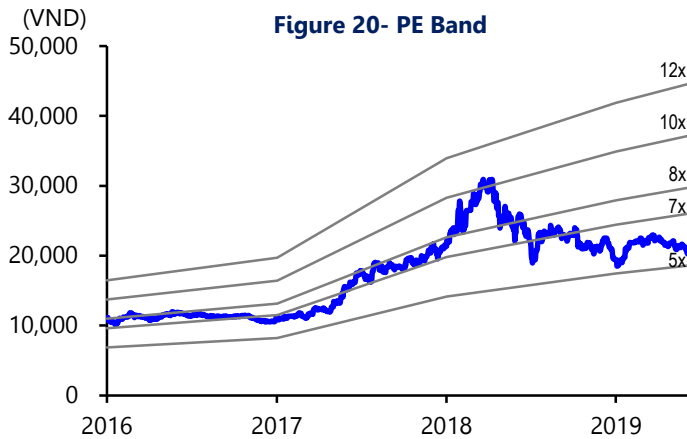
Source: Bloomberg Consensus, Yuanta Vietnam for STB, BID, and VCB

Regression Analysis

Our regression plot of MBB against its peer group derives a fair value of VND 29,767, implying 1.6x 2019E P/BV.



Source: Bloomberg Consensus, Yuanta Vietnam for STB, BID, and VCB



Source: Company Data, Bloomberg, Yuanta Vietnam

INVESTMENT RISKS

1) Consumer finance business (MCredit) could be substantially and negatively impacted by Draft Circular 43, in our view. If the regulation is implemented as it has been announced, cash loans – the main component of MCredit’s lending – will be strictly controlled and limited to 30% of total loans. However, we believe that the impact on MBB as a whole is not likely to be significant given MCredit’s small (2.6%) contribution to consolidated total loans as at 2018A. Additionally, the consumer finance lenders are very likely to be given adequate time to implement the new regulations and to determine credit solutions that supplement cash loans while maintaining financial stability and consumer protection, in our view.

2) Share price upside potential is constrained by full-FOL. We reckon that few investors will deny that the bank’s business looks attractive given the bank’s sector-high CASA ratio, relatively strong solvency position, and fee income story. However, the full-FOL issue has impaired the stock’s performance, in our view.

Corporate action could play a vital role in alleviating this problem. MBB plans to unlock more FOL shares (we think about 7%, but it could be as much as the remaining 10%) by the end of 2019. Such a move would bring about several positive developments, in our view: it would 1) enhance MBB’s capital (current CAR is about 11% as in 2018A under Basel I and about 9.5% under Basel II, on our estimates), 2) allow for higher credit growth, and 3) create a short-term upside catalyst for the stock. However, if this plan is delayed or fails to occur, the foreign shareholder liquidity issue could continue to impede the share’s upside potential and could also pose a risk to our credit growth assumptions.

FINANCIAL STATEMENTS

Income Statement (quarterly)	1Q.18	2Q.18	3Q.18	4Q.18	1Q.19E	2Q.19E	3Q.19E	4Q.19E
Net Interest Income	3,293	3,504	3,633	4,154	4,135	4,597	4,796	4,373
Interest Income	5,617	6,174	6,364	6,669	7,179	7,378	7,602	7,910
Interest Expense	2,324	2,670	2,731	2,516	3,045	2,781	2,806	3,537
Non-Interest Income (NII)	676	828	810	1,124	1,061	975	991	1,729
Fee Income	315	663	710	876	759	850	790	1,317
Other NII	361	165	100	249	302	125	201	412
Adj. Operating Income	3,969	4,332	4,443	5,278	5,196	5,572	5,787	6,102
Total Operating Costs	1,623	1,927	1,968	3,216	2,066	2,387	2,599	3,781
Adj. Pre-Provision Profit	2,347	2,405	2,475	2,062	3,130	3,185	3,188	2,321
Provisions	692	953	646	747	964	729	741	857
Other Income	264	459	356	438	259	381	347	753
Net Provisions	428	494	290	309	706	348	394	104
Profit Before Tax	1,918	1,911	2,185	1,752	2,424	2,837	2,795	2,217
Income Tax	370	420	424	364	492	583	552	426
Net Profit	1,549	1,491	1,761	1,389	1,933	2,254	2,243	1,790
Minorities	0	42	0	0	0	0	0	35
Attributable Profit to parent	1,549	1,449	1,761	1,389	1,933	2,254	2,243	1,755
Balance Sheet (quarterly)								
	1Q.18	2Q.18	3Q.18	4Q.18	1Q.19E	2Q.19E	3Q.19E	4Q.19E
Cash & balance at SBV:	6,875	8,813	10,908	12,285	9,686	8,142	12,163	12,948
Loans to Banks:	37,658	48,794	44,647	45,062	43,249	42,623	44,150	46,690
ST & LT Investments:	54,748	56,017	65,431	74,411	81,022	68,154	71,139	84,580
Others:	1,385	1,202	766	533	887	1,503	1,687	829
Gross Loans:	193,746	204,829	204,885	214,686	229,168	242,918	246,933	249,766
(-) Specific Provisions:	1,124	1,326	1,919	1,648	1,483	1,653	1,817	2,031
(-) General Provisions:	1,359	1,476	1,491	1,563	1,635	1,698	1,795	1,917
Total provisions:	2,484	2,802	3,410	3,211	3,118	3,351	3,612	3,948
Net Loans:	191,262	202,027	201,475	211,475	226,051	239,567	243,322	245,818
Fixed Assets:	1,552	1,519	1,583	1,586	1,549	1,549	1,549	1,549
Intangible Assets:	1,019	1,019	1,033	1,113	1,112	1,112	1,112	1,112
Investment Properties:	92	89	88	31	31	31	31	31
Accrued interests:	2,616	2,883	3,538	3,429	3,508	3,508	3,508	3,508
Deferred tax:	13	16	12	16	9	9	9	9
Other Assets:	19,125	10,825	14,368	12,420	16,115	16,115	16,115	16,115
Total Assets:	316,345	333,203	343,850	362,361	383,219	382,314	394,785	413,189
Deposits:	227,018	234,796	232,638	239,964	242,252	258,424	265,520	273,131
Due to SBV:	4,436	2,982	2,078	2,633	3,159	1,853	905	1,856
Due to Banks:	36,415	46,108	58,695	60,471	72,809	60,730	66,672	73,073
Subordinated Notes:	6,124	6,088	6,094	11,158	15,015	14,575	14,816	14,925
Investment Trust & others:	266	276	297	362	289	289	289	379
Other Liabilities:	11,057	11,623	10,840	13,601	13,564	12,031	12,284	8,974
Total Liabilities:	285,316	301,872	310,643	328,188	347,088	347,902	360,486	372,338
Capital & Share Premium:	18,983	18,983	21,605	21,632	21,632	21,632	21,632	21,632
Reserves:	4,163	4,087	4,047	3,887	4,977	4,977	4,977	4,977
Retained Earnings:	6,311	6,672	5,792	7,124	8,956	7,237	7,124	13,676
Treasury:	0	0	0	0	-1,037	-1,037	-1,037	-1,037
Asset Revaluation:	0	0	0	0	0	0	0	0
FX diff:	0	0	0	0	0	0	0	0
Total Equity:	29,458	29,742	31,444	32,643	34,529	32,809	32,697	39,249
Minority Interests:	1,572	1,589	1,764	1,530	1,602	1,602	1,602	1,602
Total Liabilities & Equity:	316,345	333,203	343,850	362,361	383,219	382,314	394,785	413,189

Source: Company data, Yuanta Vietnam

Unit: VND bn

INCOME STATEMENT	Units:	Historical		Projected		
		FY17A	FY18A	FY19E	FY20E	FY21E
(+) Interest Income:	VND bn	19,876	24,824	30,068	34,898	40,375
(-) Interest Expense:	VND bn	(8,657)	(10,241)	(12,071)	(13,955)	(16,009)
Total Net Interest Income:	VND bn	11,219	14,583	17,998	20,942	24,366
(+) Services Income:	VND bn	3,223	5,719	7,663	9,367	11,358
(-) Services expenses:	VND bn	(2,092)	(3,158)	(3,948)	(4,688)	(5,525)
Total Net Income from Services:	VND bn	1,131	2,561	3,716	4,688	5,832
(+) Net income from FX:	VND bn	202	445	543	624	717
(+) Net income from stock:	VND bn	144	300	367	422	485
(+) Net income from investment in associates:	VND bn	62	130	130	130	130
Total other Net Non-interest incomes:	VND bn	408	875	1,040	1,176	1,331
Total Net Non-Interest Income:	VND bn	1,539	3,436	4,756	5,864	7,164
Revenue (Net Operating Income):	VND bn	12,758	18,019	22,754	26,806	31,530
Total Non-Interest Expenses:	VND bn	(5,999)	(8,734)	(11,231)	(12,929)	(14,935)
Pre-provisioning Operating Income (PPOP):	VND bn	6,759	9,286	11,523	13,878	16,595
Gross Provisions:	VND bn	(3,252)	(3,035)	(3,291)	(3,660)	(4,233)
NPL Recoveries:	VND bn	1,109	1,517	1,740	1,992	2,289
Net Provisions:	VND bn	(2,143)	(1,518)	(1,551)	(1,668)	(1,944)
Pre-Tax Income:	VND bn	4,616	7,767	9,971	12,210	14,651
(-) Income Tax Expense / (+) Tax Benefit:	VND bn	(1,125)	(1,577)	(1,994)	(2,442)	(2,930)
Reported Net Income after tax:	VND bn	3,490	6,190	7,977	9,768	11,720
(-) Minority Interest	VND bn	29	(77)	(35)	(43)	(52)
Report Net Income to Common:	VND bn	3,520	6,113	7,942	9,725	11,669
(-) Bonus & Welfare:	VND bn	(271)	-	-	-	-
Net Attributable Net Income to Common:	VND bn	3,249	6,113	7,942	9,725	11,669
Weighted Average Shares:	M Shares	1,976	2,160	2,137	2,113	2,113
Ending Common Shares:	M Shares	2,160	2,160	2,113	2,113	2,113
Reported Earnings Per Share (EPS):	VND / Share	1,504	2,829	3,733	4,622	5,546
Adjusted Diluted EPS	VND / Share	1,644	2,829	3,717	4,602	5,521
DPS	VND / Share	534	506	706	966	1,270

BALANCE SHEET	Units:	Historical		Projected		
		FY17A	FY18A	FY19E	FY20E	FY21E
Cash and Balances at Central Banks:	VND bn	8,526	12,285	12,948	16,006	18,350
Loans and Advances to Banks:	VND bn	53,497	45,062	46,690	53,449	61,274
Investment Securities - Available for Sale:	VND bn	53,482	74,309	84,580	96,822	110,997
Investment in Associates:	VND bn	985	728	829	949	1,087
Derivative Financial Instruments:	VND bn	122	0	0	0	0
Gross Loans:	VND bn	184,188	214,686	249,766	286,006	327,937
(-) Specific Provisions:	VND bn	(806)	(1,563)	(2,031)	(2,413)	(2,824)
(-) General Provisions:	VND bn	(1,320)	(1,648)	(1,917)	(2,195)	(2,517)
Total provisions:	VND bn	(2,126)	(3,211)	(3,948)	(4,608)	(5,341)
Net Loans:	VND bn	182,062	211,475	245,818	281,398	322,596
Fixed Tangible asset:	VND bn	1,587	1,586	1,549	1,580	1,612
Intangible Assets:	VND bn	1,018	1,113	1,113	1,113	1,113
Real estate investment	VND bn	93	31	31	31	31
Accrued interests:	VND bn	2,841	3,429	3,508	3,508	3,508
Deferred tax:	VND bn	1	16	9	9	9
Other Assets:	VND bn	9,665	12,291	16,115	19,958	24,717
Total Assets:	VND bn	313,878	362,325	413,190	474,822	545,293
Deposits:	VND bn	220,176	239,964	273,131	312,664	358,440
Due to SBV & Banks:	VND bn	47,949	63,104	74,930	85,802	98,381
Subordinated Notes:	VND bn	6,022	11,158	14,925	14,925	14,925
Investment Trust; Derivatives & others:	VND bn	297	326	379	434	497
Other Liabilities:	VND bn	9,832	13,601	9,164	11,619	14,687
Total Liabilities:	VND bn	284,277	328,152	372,528	425,444	486,930
Share Capital & Share Premium:	VND bn	18,983	21,632	21,632	21,632	21,632
Reserves:	VND bn	3,209	3,887	4,977	4,977	4,977
Treasury Shares	VND bn	-	-	(1,035)	-	-
Retained Earnings:	VND bn	5,977	7,124	13,557	21,239	30,224
Minorities Interest:	VND bn	1,431	1,530	1,530	1,530	1,530
Total Equity:	VND bn	29,601	34,173	40,661	49,378	58,363
Total Liabilities & Equity:	VND bn	313,878	362,325	413,190	474,822	545,293

SELECTED FINANCIAL RATIOS	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E
GROWTH PROJECTIONS						
Net interest income	40.6%	30.0%	23.4%	16.4%	16.3%	15.5%
Fee Income	65.6%	126.5%	45.1%	26.2%	24.4%	22.9%
Other NII	28.8%	114.2%	18.9%	13.1%	13.2%	12.2%
Operating costs	43.7%	45.6%	28.6%	15.1%	15.5%	15.0%
Provision	60.2%	-6.7%	8.4%	11.2%	15.7%	15.0%
Preprovision profit	40.7%	37.4%	24.1%	20.4%	19.6%	18.2%
Adjusted Net profit	20.9%	73.7%	29.9%	22.4%	20.0%	18.5%
Assets	22.5%	15.4%	14.0%	14.9%	14.8%	13.5%
ASSET ANALYSIS						
Earning assets to total assets	93%	92%	92%	92%	92%	92%
Average Returns on Earnings Assets	1.24%	1.95%	2.22%	2.37%	2.49%	2.59%
LOAN ANALYSIS						
Loan growth (% YoY)	22%	16%	16%	14%	15%	13%
Loans to Interest Earnings Assets	62%	63%	64%	64%	64%	64%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	13%	9%	14%	14%	15%	13%
Deposits to Interest Bearing Liabilities	101%	96%	96%	96%	96%	97%
LIQUIDITY						
LDR	83%	88%	90%	90%	90%	90%
ASSET QUALITY						
NPL (Category 3-5)	2,218	2,219	2,220	2,221	2,222	2,223
NPL ratio	1.20%	1.33%	1.44%	1.40%	1.36%	1.33%
General Provisions to Gross loans	0.72%	0.77%	0.77%	0.77%	0.77%	0.77%
Total provisions in a year to Gross loans	1.15%	1.50%	1.58%	1.61%	1.63%	1.66%
SPREAD ANALYSIS						
Int. rate received on Average IEA	7.57%	7.92%	8.39%	8.52%	8.60%	8.69%
Int. rate paid on Average IBL	4.54%	4.36%	4.50%	4.57%	4.59%	4.62%
Interest rate spread	3.03%	3.55%	3.89%	3.95%	4.01%	4.07%
Net interest income / average IEAs (NIM)	4.27%	4.65%	5.02%	5.11%	5.19%	5.26%
OTHER INCOME						
Fee income to total income	9%	14%	16%	17%	18%	19%
Other Non-Interest income to total Income	3%	5%	5%	4%	4%	4%
OPERATING EFFICIENCY						
Cost to income ratio	47%	48%	49%	48%	47%	47%
CREDIT COSTS						
Provision/avg. assets	0.7%	0.9%	1.0%	1.0%	1.0%	1.0%
PROFITABILITY						
Pre provision ROA	2.15%	2.56%	2.79%	2.92%	3.04%	3.17%
Pre provision ROE	22.8%	27.2%	28.3%	28.1%	28.4%	28.5%
ROA	1.22%	1.83%	2.06%	2.20%	2.30%	2.39%
ROE	12.4%	19.4%	21.3%	21.7%	21.8%	21.9%
Dividend payout ratio	32%	18%	19%	21%	23%	25%
Dividend Yield	2.6%	2.5%	3.4%	4.7%	6.2%	7.9%
VALUATIONS						
PER (x)	13.70x	7.28x	5.52x	4.46x	3.71x	3.13x
PBR (x)	1.50x	1.30x	1.07x	0.88x	0.75x	0.63x

OROA Analysis (Annualized)	1Q.18	2Q.18	3Q.18	4Q.18	1Q.19E	2Q.19E	3Q.19E	4Q.19E
Net Interest Income to Average Asset	4.18%	4.32%	4.29%	4.71%	4.44%	4.80%	4.94%	4.33%
Fees / adjusted revenues	7.9%	15.3%	16.0%	16.6%	14.6%	15.3%	13.7%	21.6%
Trading / adjusted revenues	9.1%	3.8%	2.3%	4.7%	5.8%	2.2%	3.5%	6.8%
Total adj non-int inc / adj revenues	17.0%	19.1%	18.2%	21.3%	20.4%	17.5%	17.1%	28.3%
Cost / adjusted revenues	40.9%	44.5%	44.3%	60.9%	39.8%	42.8%	44.9%	62.0%
Adjusted PPOP / Assets	2.98%	2.96%	2.92%	2.34%	3.36%	3.33%	3.28%	2.30%
Reported provisioning / Assets	0.88%	1.17%	0.76%	0.85%	1.03%	0.76%	0.76%	0.85%
"Other income" / Assets	0.34%	0.57%	0.42%	0.50%	0.28%	0.40%	0.36%	0.75%
Net adjusted credit costs / assets	0.54%	0.61%	0.34%	0.35%	0.76%	0.36%	0.41%	0.10%
OROA	2.44%	2.35%	2.58%	1.99%	2.60%	2.96%	2.88%	2.19%
Leverage (x)	10.9	11.0	11.1	11.0	11.1	11.4	11.9	11.2
OROE	26.6%	25.8%	28.6%	21.9%	28.9%	33.7%	34.1%	24.6%

Source: Company Data, Yuanta Vietnam

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Ratings	Total expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

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

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

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

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

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