

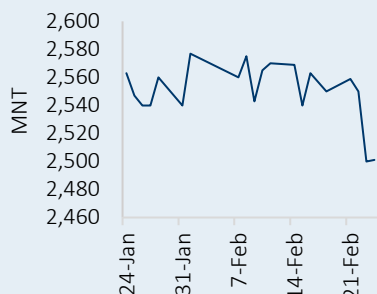


Recommendation: BUY  
 Target Price: **MNT 3,225**  
 Upside: 26%

### Overview

Ticker:	BOGD
Industry:	Banking
<b>Target Price:</b>	<b>MNT 3,206</b>
Last close:	MNT 2,560
Market Cap:	MNT 156.3 billion
52 Week Low	MNT 2,459
52 Week High	MNT 2,595
Daily Range	MNT 2,480 – 2,490
Shares Out.	62,500,000
EPS	163.95
P/E	15.47

Figure 1. Stock Price History



Source: MSE

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## *An emerging star of the Mongolian Banking industry*

### INTRODUCTION

“Bogd Bank” JSC (“Bogd Bank” or the “Bank”) is Mongolia’s youngest commercial bank established in 2014. The Bank provides commercial banking and related financial products and services for individuals, small and medium enterprises, retail and corporate customers, and financial institutions. Bogd Bank was listed on the MSE in December 2021, becoming Mongolia’s largest IPO to date, raising MNT 31.5 billion.

### INVESTMENT HIGHLIGHTS

**Growth potential** – Bogd Bank exhibited 102.82 percent of CAGR in interest income and 45.08 percent in total assets since its inception.

**Experienced management team** – Bogd Bank’s management team and board of directors consists of experienced individuals with more than 15 years working in the financial sector.

**Forerunner of banking sector** – Bogd Bank is the youngest bank to operate among commercial banks and the first one to go public in Mongolia.

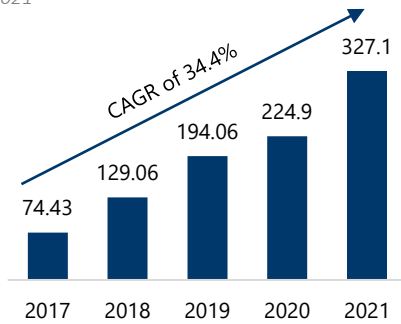
**Development plan** – The Bank is planning to use the proceeds from the IPO on technological advances of the bank’s day-to-day operations and product and service development, aiming to reduce the operating costs, increase the profitability, and attract more young-adult clients.

Table 1. Key historical financials

MNT million	2018	2019	2020	2021
<b>Income Statement</b>				
Interest income	10,132	17,640	24,497	25,889
Interest expense	4,120	7,627	11,885	10,683
Other income	4,550	3,927	4,652	9,361
Other expense	8,002	9,333	10,247	12,168
Net Profit	2,187	2,923	5,617	10,247
<b>Balance Sheet</b>				
Cash and cash equivalents	80,935	104,231	53,555	123,191
Net Loans	54,010	83,199	101,263	146,593
Total Assets	180,964	248,824	224,901	327,052
Total Liabilities	129,063	194,059	161,172	225,500
Total Equity	51,901	54,766	63,730	101,552
<b>Ratios</b>				
Earnings per Share (MNT)	43,746	58,462	89,877	163,950
ROE	4%	5%	9%	10%
NPL	0%	2.4%	5.1%	3.6%

Source: Bogd Bank

Figure 2. “Bogd Bank” JSC’s total asset 2017-2021



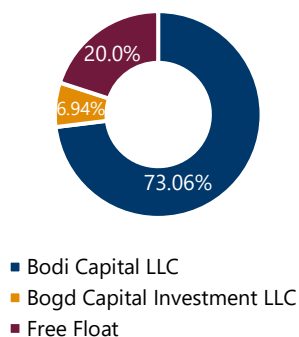
Source: Bogd Bank

Table 2. Key ratios 2021

	Bogd Bank	Average of leading banks
ROE	12.53%	57.63%
Capital Adequacy />12%/	49.58%	15.41%
Liquidity />25%/	45.19%	40.95%
Non-performing loan /<6%/	1.62%	4.57%

Source: Banks’ Website

Figure 3. “Bogd Bank” JSC ownership structure



## BANK OVERVIEW

“Bogd Bank” JSC is the youngest bank in Mongolia, established in 2014 by Bodi Capital and Bogd Capital Investment with an investment of MNT 50 billion. From the outset, the Bank branded itself as a digital bank and successfully decreased operating costs associated with back and front offices. Moreover, Bogd Bank’s services are fluid that new digital banking services and products are being developed and come online periodically.

As of 2021, the number of customers reached 54,000 and the total assets reached MNT 327.1 billion showing Compound Annual Growth Rate (CAGR) of 34.4 percent. Currently, “Bogd Bank” JSC 11 branches and 4 more will open in 2022, in Songinokhairkhan, Yarmag area, Darkhan or Umnugovi, respectively, and one will be solely dedicated to SMEs.

On December 1<sup>st</sup>, 2021, the Bank was listed on Mongolian Stock Exchange, becoming the biggest IPO in Mongolia, and raised MNT 31.5 billion. Furthermore, 40 percent of the total investment will be spent on technology improvement, 30 percent on product development and 30 percent on sales channel improvement on the horizon of three years. Going forward, the Bank has a vision of supporting SMEs, in particular women led and sustainable businesses. Bogd Bank announced it raised MNT 100 billion and launched new campaign to support local SMEs. The main goal of the campaign is to offer flexible terms, low to no collaterals and help local business recover from pandemic related financial difficulties.

In regard to profitability, Bogd Bank expects to secure low-cost funding from an international financial institution by end of 2022 and launch more programs locally. The Bank, also offers low commission fee to its customers. Coupled with low-cost funding source and digitization of services, Bogd Bank is positioned to have increased productivity, lower operational costs, more revenue and risk reduction.

### Bank’s ownership structure

Currently, 73.06 percent of the ownership is held by Bodi Capital LLC, Bogd Capital Investment LLC owning 6.94% of the Bank. The remaining 20.0 percent is owned by retail investors.

## MANAGEMENT AND GOVERNANCE

The Extraordinary General Meeting (EGM) of Shareholders of "Bogd Bank" JSC was originally scheduled for January 31, 2022, however it was postponed and re-convened to discuss:

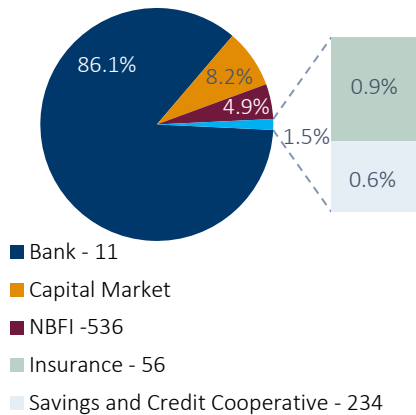
1. Increase the bank's share capital and amend the charter
2. To re-appoint the members of the Board of Directors.

Mr. Boldkhuyag Luvsanvandan, the chairman of "Bogd Bank" JSC, leads a competent management team. The Board of Directors is made up of seven members: four internal directors, two independent directors, and a board secretary, and the BoD will have two additional members in 2022.

### **Boldkhuyag Luvsanvandan** /Chairman/

- Founder of Bodi Group
- Has 25 years of experience in the financial sector
- Served as a Chairman of a systemic bank

Figure 4. Financial Sector Composition Q2 of 2021



Source: FRC

Table 3. Total assets by industry Q3 2021

2021Q3 MNT billion	Total Asset	% Change
Bank	37,600	15.7%
NBFIs	2,460	26.7%
Insurance market	444	13.8%
Saving and Credit Cooperative	289	23.5%

Source: FRC

Table 4. Market share by asset Q3 2021

Size	Bank	Market share
<b>Strategically important banks</b>	Trade and Development Bank	33.03%
	Khan Bank	23.39%
	Golomt bank	19.09%
	XacBank	9.42%
	State Bank	8.63%
	Credit Bank	2.73%
	National investment Bank of Mongolia	1.65%
<b>Other Banks</b>	Capitron Bank	0.77%
	Arig Bank	0.74%
	<b>Bogd Bank</b>	<b>0.34%</b>
	Trans Bank	0.21%
		<b>100.00%</b>

Source: Banks websites

## MARKET OVERVIEW

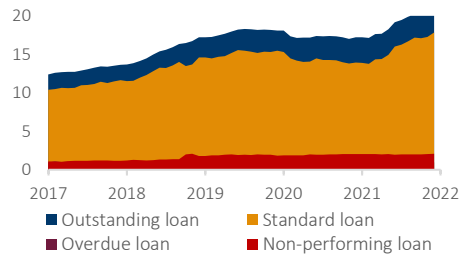
With Mongolia's transition to democracy and a free market economy, the banking sector has undergone significant changes over the past three decades. The development of financial intermediation and the financial system was determined by the state-owned banking system solely until 1991. However, after several debates, a dual banking system has emerged and developed the banking industry rapidly ever since, introducing a new banking law to embrace international standard which is the "Banking Law" of Mongolia. Today, banking system dominates Mongolian financial sector holding over 86.1 percent of the country's financial assets.

The Banking industry in Mongolia affects the financial stability of the whole economy due to scale of the operation. Therefore, in order to direct the banking operation as efficient as possible, as well as increasing transparency, boosting governance and the growth of stock market, the Government of Mongolia ("GOM") has made a decision to make 5 strategically important banks go public in January 2021. These banks include TDB, Khan Bank, Khan Bank, Golomt Bank, XacBank and State Bank, together accounting for 93.6 percent of the market share, are expected to start trading their shares by the end of the first half of 2022.

In Q4 of 2021, Bogd Bank, the youngest bank, has been the first bank to go public before these banks and successfully raised a capital of MNT 31.75 billion in 2021. As of the end of 2021, there are 11 commercial banks operating with over 1,393 branches and 15,958 employees throughout Mongolia. Of the total 11 commercial banks, 9 of them are private-owned, 1 is a state-owned and 1 is a public bank.

Financial sector is made up of many different industries including banks, capital market, non-bank financial institutes (NBFIs), insurance companies, saving and credit cooperatives (SCC), and real estate brokers. The banking sector makes up 86.1 percent of the whole financial sector and capital market was right behind by taking 8.2 percent of the market. And NBFIs, insurance and savings and credit cooperative accounts 4.9 percent and 0.9 percent respectively as of 2<sup>nd</sup> quarter of 2021 in terms of their assets. The banking industry's asset has more than tripled over the last decade reaching MNT 37.6 trillion in Q3 of 2021 as well as lending, one of the primary financial products of banking industry, increased too.

Figure 5: Outstanding loan by classification



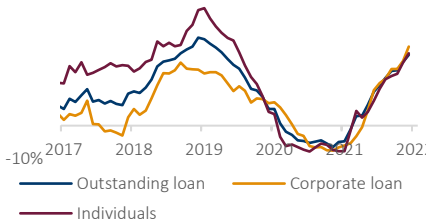
Source: NSO

Table 5. Loan and savings rate, annual, MNT

	2018	2019	2020	2021
Loan rate	18.2%	17.1%	16.2%	14.8%
Savings rate	13.8%	12.9%	10.7%	8.2%

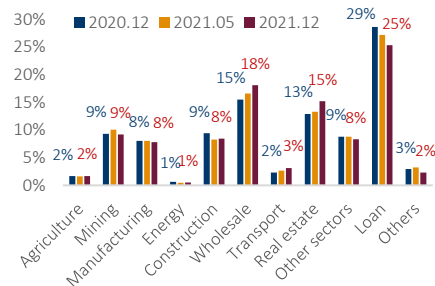
Source: BoM

Figure 6. Change in the volume of a loan, y-o-y 40%



Source: NSO

Figure 7. Change in the volume of a loan by sector



Source: BoM

Figure 8. Herfindahl-Hirschman Index

HHI	Less than 1,500	Between 1,500 – 2,500	More than 2,500
	High competition (not concentrated)	Moderate competition (moderately concentrated)	Low competition

In December 2021, total outstanding loans issued by banking sector increased by 21.3 percent y-o-y to MNT 20.9 trillion in December 2021. During the reporting period, outstanding loans increased by 4.6 percent year-on-year to MNT 17.9 trillion, overdue loans decreased by 26.1 percent to MNT 938.1 billion, and non-performing loans decreased by 1.7 percent year on year.

Standard loans accounted for 85.5 percent of total outstanding loans while non-performing loans accounted for 4.5 percent of it. Corporate loans and individual loans, respectively, made up 47.5 percent and 51.5 percent of total credit outstanding in December 2021. Savings and loan rate has been steadily falling for last four years while policy rate also fell from 10 percent to 6. The national inflation rate rose to 14.6 percent in January 2022 hitting its highest level since 2015.

Since the beginning of the pandemic, lending has declined sharply, and economic activity has slowed down. But lending slowly bounced back in the middle of the 2021 due to government's MNT 10 trillion economic recovery program. Fitch expects the economic recovery program to be the key driver of growth in the banking sector in the mid-term. The Bank of Mongolia expects lending to continue to increase in 2022 and 2023, and that credit growth will stabilize at the 2021 rate. In December 2021, loans are mostly concentrated in wholesale, real estate sector, respectively, whose share went up from 15 percent to 18 percent and 13 percent to 15 percent over the year. On the other hand, construction's share decreased from 9 percent to 8 percent during the same period.

### Covid-19 effect

The Law on Prevention, Control and Reduction of Social and Economic Impacts of the Coronavirus Plague (Covid-19) was approved by the Parliament on April 29, 2020, the law has been extended to be valid until June 30, 2022. Important banking related provisions of the law, such as reducing interest rate to zero on term deposits of commercial bank, have had a positive impact on banks' profits in 2020 and 2021 and a provision allowed the Bank of Mongolia to make a decision to postpone the repayment of mortgage loans which became the key factor for non-performing loan rate to not soar.

### Market competitiveness

**Herfindahl-Hirschman Index (HHI)** measures the competitiveness and concentration of a given market. A highly concentrated market indicates less competition among participants. In countries where the banking industry is more concentrated, tend to have lower loan provision rates. The concentration of the Bank industry in Mongolia is 2,177 as of 3<sup>rd</sup> quarter of 2021, which is between 1,500 and 2,500, meaning the banking industry in Mongolia is moderately concentrated with medium competition.

## FINANCIAL SUMMARY

In 2021, the Bank's net profit increased nearly twofold to MNT 10.2 billion, assets posted an yearly average growth of 27 percent and reached MNT 327.1 billion. Based on Net Profit 4-year CAGR (Compound Annual Growth Rate) of 39 percent, the Bank reported strong and consistent growth in their earnings over the past years.

The Bank's strong profitability and growth is mainly due to cost effectiveness and digitalization of the bank's back office. As at the end of 2021, NPL (Non-Performing Loan) stood at 3.6 percent, significantly lower than the industry average of 9.9 percent. The Bank's interest income is projected to reach MNT 46.5 billion, and net profit is projected to reach MNT 13.2 billion.

Table 6. Bogd Bank's Income Statement 2019-2022

MNT million	2019	2020	2021	2022E
<b>Income Statement</b>				
Interest income	17,640	24,497	25,889	46,585
Interest expense	7,627	11,885	10,683	21,078
Credit loss expense	1,366	806	929	2,706
Other income	3,927	4,652	9,361	8,018
Other expense	9,333	10,247	12,168	15,235
Profit before taxes	3,240	6,211	11,469	15,584
Taxes	317	594	1,222	2,296
Net Profit	2,923	5,617	10,247	13,288

Table 7. Bogd Bank's Balance Sheet 2019-2022

MNT million	2019	2020	2021	2022E
<b>Balance Sheet</b>				
Cash & cash equiv.	104,231	53,555	123,191	139,526
Investments	24,343	20,090	32,405	81,134
Net Loans	83,199	101,263	146,593	303,265
Fixed Assets	2,395	2,326	3,907	4,424
<b>Total Assets</b>	<b>248,824</b>	<b>224,901</b>	<b>327,052</b>	<b>599,637</b>
Current Accounts	59,456	19,714	26,912	33,640
Deposits	29,379	80,960	95,657	214,274
Borrowings	98,887	34,514	46,295	188,795
Other Liabilities	3,237	28,413	55,065	46,408
<b>Total Liabilities</b>	<b>194,864</b>	<b>163,601</b>	<b>223,929</b>	<b>483,117</b>
<b>Total Equity</b>	<b>54,466</b>	<b>61,301</b>	<b>103,123</b>	<b>116,520</b>

Source: Bogd Bank and MICC estimate

Table 8. Bogd Bank's Key Ratios 2019-2022

MNT million	2019	2020	2021	2022E
<b>Valuation ratios</b>				
Net Interest Margin (NIM)	4%	6%	5%	4%
Non-performing loan (NPL)	2.4%	5.1%	3.6%	3.7%
Loan to Asset	33%	45%	45%	51%
ROE	5%	9%	10%	11%
<b>Prudential ratios</b>				
Tier 1 ratio >9%	39%	46%	50%	45%
Capital adequacy >12%	39%	46%	50%	45%
Liquidity >25%	54%	59%	45%	53%
Single foreign currency open position ratio <±15%	8%	0%	6%	5%
Total foreign currency open position ratio <±30%	9%	1%	6%	5%

Key financial ratios for the Bank, are provided in Table 8.

Evaluating the Bank's ratio performance, it is outperforming all the prudential ratio requirements set by the Bank of Mongolia in the past years. Despite the fact that the NPL ratio appears to be slightly increasing over time, the NPL demonstrates a fair performance when compared to its Loan to Asset ratio.

Table 8. Valuation matrix

Valuation matrix	
Method	Share price
Implied COMPs P/E multiplier	3,410
Implied COMPs P/B multiplier	3,041
<b>Target price</b>	<b>MNT 3,225</b>

**VALUATION**

We issue a **BUY** recommendation on “Bogd Bank” (BOGD) with a target price of **MNT 3,225**, representing a 26 percent upside from the closing price of MNT 2,560 per share of March 1st, 2022. The target price is based on Comparable Companies method using P/E and P/B multiples.

**Peer companies' analysis – Relative Valuation**

As of today, “Bogd Bank” JSC is the only listed commercial bank on Mongolian Stock Exchange (MSE). Therefore, we have chosen 10 companies operating in emerging markets mostly in Asia and Pacific region that have been operating for over 20 years. The peer group consists of commercial banking public companies that conduct similar type of business as “Bogd Bank” JSC. We identified 2022E as the most appropriate multiple to compare “Bogd Bank” JSC to its peers due to the nature of its business model. According to relative valuation, the implied share price is MNT 3,225.

Table 9. Peer companies' analysis

Peer companies	Ticker	Country	P/E (LTM)	P/B (LTM)	MarketCap/ EBT (LTM)	MarketCap/ Revenue (LTM)
BRAC Bank Limited	DSE:BRACBANK	Bangladesh	13.4	1.6	9.8	15.3
BankIslami Pakistan Limited	KASE:BIPL	Pakistan	8.6	0.6	5.4	1.2
Bank Islam Malaysia Berhad	KLSE:BIMB	Malaysia	12.9	1.2	7.9	3.2
Far Eastern International Bank Ltd	TWSE:2845	Taiwan	16.6	0.8	14.5	4.1
Saigon Thuong Tin Commercial	HOSE:STB	Vietnam	20.6	1.8	14.4	4.4
Union Bank of the Philippines	PSE:UBP	Philippines	11.2	1.4	9.1	3.9
Coop Pank AS	TLSE:CPA1T	Estonia	18.3	2.2	17.8	6.8
Bandhan Bank Limited	NSEI:BANDHANBNK	India	21.3	3.0	-20.8	42.5
Banque Centrale Populaire	CBSE:BCP	Morocco	29.0	1.8	15.1	4.4
ForteBank Joint Stock Company	KAS:ASBN	Kazakhstan	8.5	1.9	7.6	4.1
<b>Mean</b>			<b>16.0</b>	<b>1.6</b>	<b>7.92</b>	<b>8.82</b>
<b>Median</b>			<b>17.4</b>	<b>1.6</b>	<b>11.76</b>	<b>4.26</b>
Bogd Bank JSC	MSE:BOGD	Mongolia	11.9	1.4	13.8	10.4

Source: Capital IQ

Peer companies	MNT million
P/E	16.0
P/B	1.6
Earnings (2022E)	13,288
Book Value (2022E)	162,520
Outstanding shares	62,500,000
<b>Price per share (MNT)</b>	<b>3,225</b>

Figure 9. GDP growth 2010 - 2025

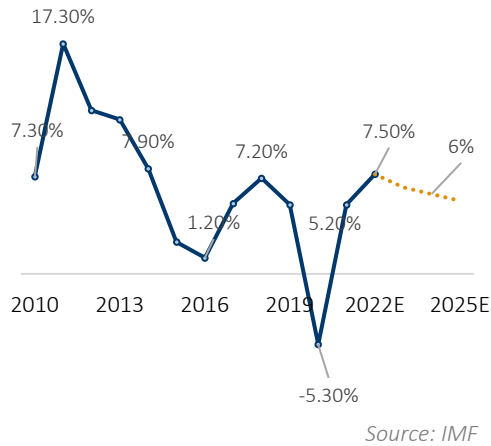
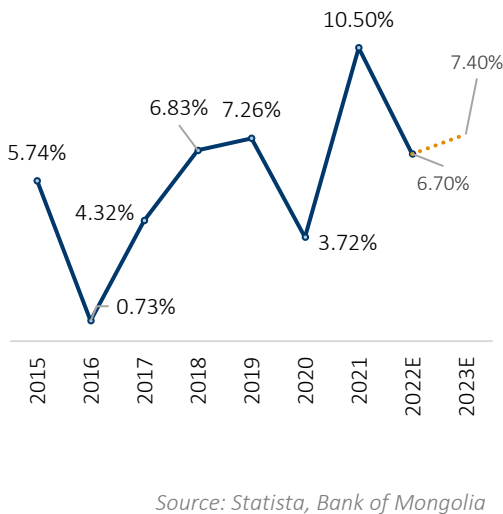


Figure 10. Inflation rate 2015 - 2023



## INVESTMENT RISKS

### Market risk

Credit risk is a major business risk for commercial banks, and it has been observed that credit risk in the Mongolian banking sector is strongly dependent on the economic cycle and business environment. Non-performing loans in the leading banks stood at 9.07 percent in 2021, up from the previous year which was 9.38 percent. Bank of Mongolia's decision to postpone the mortgage loan repayment was the key factor for NPL to not soar, but when the law expires on June 30, 2022, there is a risk that the profitability of the banking system will decline, capital adequacy will decrease, NPL to hike, and liquidity will decline.

### Macroeconomic risk

According to the International Monetary Fund ("IMF"), the Mongolian economy is still rebounding from the recession in 2009. As the economic recovery is mostly dependent on mineral export, continued economic support, and full vaccination programs, domestic economic activity remains weak due to the Covid-19 pandemic. Moreover, the economy's heavy reliance on the mining sector poses risk on financial sector as a whole from global price fluctuations in mineral commodities. The spread of new variant of the Covid-19, the emergence of new waves, rising inflation and the rapid tightening of monetary policy are the main external risks associated with the Mongolia economy. However, the economic outlook remains strong as real GDP is expected to reach 7.5 percent from the latest rate of 3.6 percent in November 2021.

Demand-pull inflation will increase gradually as economic activity intensifies, as well as cost-push inflation has picked up and exceeded expectations. In particular, short-term import and storage costs at the border and customs, transportation costs, rising meat prices due to outbreaks of infectious animal diseases, rising fuel prices, and its indirect effects are drivers of inflation. In the future, there is a risk that inflation will exceed the current level of 14.6 percent.

## CONCLUSION

Taking Mongolia's macroeconomic risks as well as economic outlook into consideration, Bogd Bank, the first bank to initiate internal reforms required by the FRC, is regarded to be a promising bank with strong and steady operational efficiency growth. Moreover, the Bank's ratio performances have been outperforming all the prudential ratio requirements in the past years. The Bank also showed strong profitability and growth mainly due to the cost-effectiveness and digitalization of the bank's back office. This equity research resulted in a final **BUY recommendation**, with a final **target price of MNT 3,225**, which represents a 26 percent upside variation.



**ABOUT MICC**

Mongolia International Capital Corporation (MICC) was established in 2005 as the first investment banking firm in Mongolia. Mongolia's rapid economic development and favorable financial environment present unique prospects for investment opportunities and growth potential for companies. In order to enable our clients and investors to take full advantage of these opportunities, MICC offers investment banking, asset management, securities underwriting, and brokerage services. In addition, we conduct periodic macroeconomic research, develop analyses of domestic industries and review equities listed on the Mongolian Stock Exchange.

MICC continues to make history in the Mongolian financial sector. We serve leading companies in the mining, manufacturing, financial, retail trade, airline, and construction sectors, and prize our close and long-standing working relationships with our clients. Our goal is to assist both local and international companies to realize their strategic goals by offering innovative and efficient financing solutions.

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