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Senior Analyst Nguyen Anh Tung
tungna@kbsec.com.vn

2Q22 PBT reached VND5,785 billion, up 107.3% YoY

In 2Q22, Vietinbank (CTG) achieved net interest income (NII) of VND11,972 billion (+18.0% QoQ, +10.1% YoY) and non-interest income (NOII) of VND3,968 billion (+1.1% QoQ, +23.8% YoY), taking total operating income (TOI) to VND15,941 billion (+13.3% QoQ, +13.2% YoY). PBT was VND5,785 billion (-0.6% QoQ, +107.3% YoY), and credit growth reached 9.6% YTD.

NIM picked up 22bps QoQ thanks to increased proportion of retail loans

The average earnings yield in 2Q22 was 6.05%, up 34bps QoQ thanks to robust credit growth in 1H22 and a higher proportion of retail lending. Increased loans to SMEs with high lending rates made NIM up 22bps QoQ to 2.84%.

NPL ratio was 1.35%, up 10bps QoQ as bad debts kept riding high

NPL ratio in the second quarter hit 1.35%, up 10bps QoQ, with bad debts increasing sharply by 38bps QoQ to 0.96%. Besides, special mention loans touched 1.25% (+15bps QoQ), the highest recorded over the past quarters. The loan loss coverage ratio (LLCR) was 189.7%, ranking fourth in the banking system.

Boosted retail lending is the key to improving NIM in the medium and long term

In 1H22, CTG reported robust credit growth at 9.6%YTD, led by retail segment (+22.4%YTD) and SME segment (+11.7%YTD). Retail loans in 2Q22 contributed 36.1% of the outstanding loans, up 362bps YTD. The rise in the proportion of retail loans with higher interest rates will be the key to improving future NIM of the bank.

We recommend BUY for CTG stocks with a target price of VND38,900

Based on valuation results, business outlook, and possible risks, we recommend BUY for CTG stocks. The target price is VND38,900/share, 33.7% higher than the price on August 17, 2022.

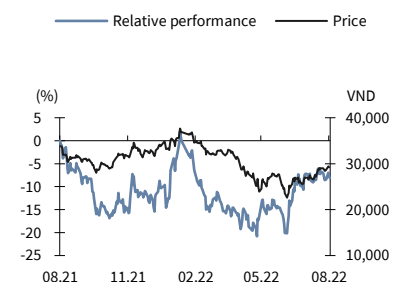
Buy maintain

Target price	VND38,900
Upside/Downside	33.7%
Current price (Aug 17, 2022)	VND29,100
Consensus target price	VND38,587
Market cap (VNDbn)	139,847

Trading data	
Free float	15.81%
3M avg trading value (VNDbn/USDmn)	115/4.9
Foreign ownership	26.85%
Major shareholder	State Bank (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	6	7	-14	-15
Relative	-1	8	1	-8

Forecast earnings & valuation				
FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	35,581	41,788	46,185	52,019
Pre-provision operating profit (VNDbn)	29,232	35,971	40,646	44,647
NPAT of the parent bank (VNDbn)	13,694	14,089	17,953	24,394
EPS (VND)	3,678	2,932	3,736	5,076
EPS growth (%)	45%	-20%	27%	36%
PER (x)	7.9	9.9	7.8	5.7
Book value per share (VND)	22,939	19,487	22,615	27,191
PBR (x)	1.27	1.49	1.29	1.07
ROE (%)	16.9%	15.9%	17.8%	20.5%
Dividend yield (%)			1.14%	1.14%



Source: Bloomberg, KB Securities Vietnam

Business performance

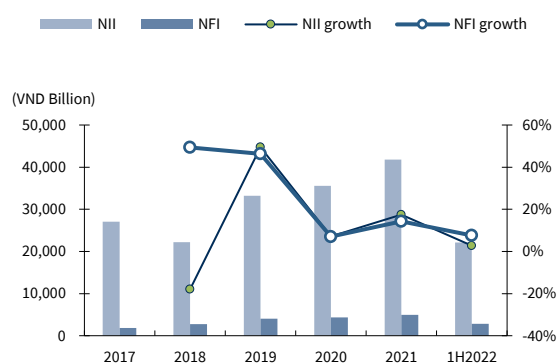
2Q22 PBT reached VND5,785 billion, up 107.3% YoY

In 2Q22, CTG recorded NII of VND11,972 billion (+18.0% QoQ, +10.1% YoY) and NOI of VND3,968 billion (+1.1% QoQ, +23.8% YoY), taking TOI to VND15,941 billion (+13.3% QoQ, +13.2% YoY). Provision expenses rose substantially over the previous quarter to 5,883 billion (+32.9% QoQ, -17.2% YoY), making PBT go down slightly QoQ to VND5,785 billion (-0.6% QoQ, +107.3% YoY). In 1H22, PBT reached VND11,608 billion (+7.0% YoY), with credit growth of 9.6% YTD.

NIM picked up 22bps QoQ thanks to increased proportion of retail loans

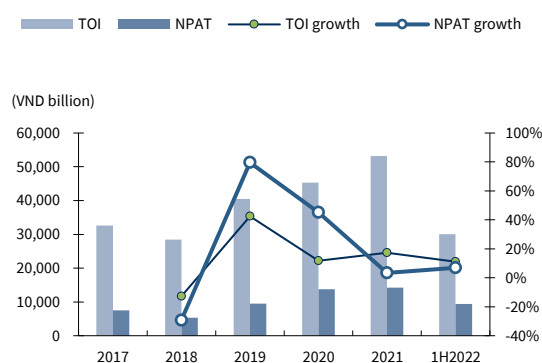
Over the second quarter, the average earnings yield improved by 34bps QoQ to 6.05% thanks to robust credit growth and a higher proportion of retail lending. Meanwhile, the average cost of funds increased slightly by 12bps QoQ. Thus, NIM hit 2.84%, up 22bps QoQ. In our view, liquidity and inflation pressures would hamper NIM in the coming quarters. Factors expected to support NIM include: (1) rising proportion of SME and retail loans with higher interest rates and (2) improved CASA.

Fig 1. CTG – Business results



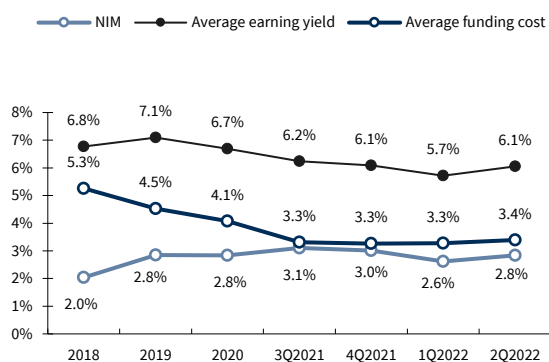
Source: Vietinbank, KB Securities Vietnam

Fig 2. CTG – TOI, NPAT growth (VNDbn, %YoY)



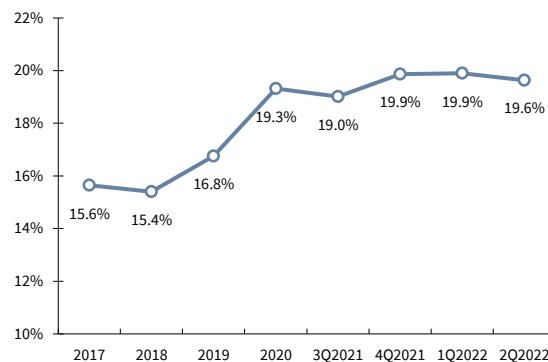
Source: Vietinbank, KB Securities Vietnam

Fig 3. CTG – NIM, average earnings yield & cost of funds (%)



Source: Vietinbank, KB Securities Vietnam

Fig 4. CTG – CASA ratio (%)

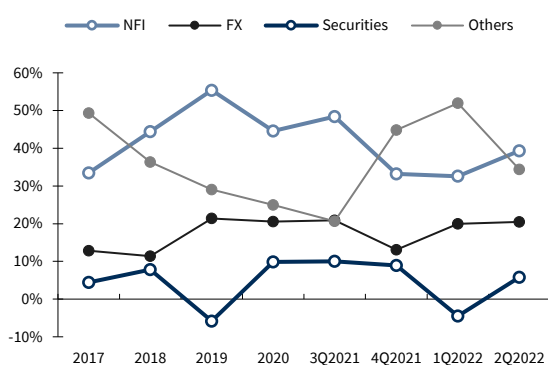


Source: Vietinbank, KB Securities Vietnam

2Q22 NOII reached VND3,968 billion, up 23.8% YoY

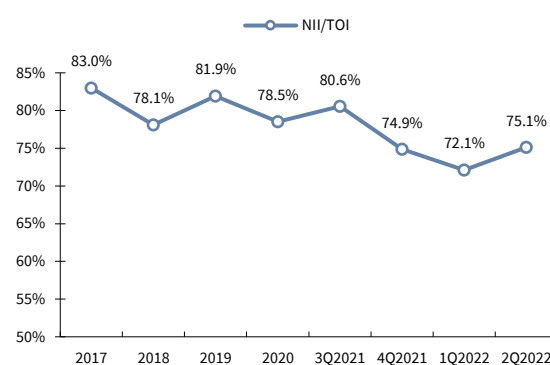
Net fee income (NFI) in 2Q22 was VND1,560 billion (+15.0% YoY). Foreign exchange brought in VND814 billion (+57.7% YoY). Securities trading lost VND7 billion since CTG sold all government bonds, reducing the outstanding balance of the portfolio to VND1,255 billion (-49.3% YTD). Meanwhile, investment securities gained VND239 billion. Net other income was VND1,111 billion (-40.8% QoQ, -2.0% YoY), making 2Q22 NOII hit only VND3,968 billion (+1.1% QoQ, +23.8% YoY). NII/TOI ratio 75.1%, the third quarter in a row it is around 75%, showing increasing contribution of NOII to CTG's business results.

Fig 5. CTG - NOII breakdown (%)



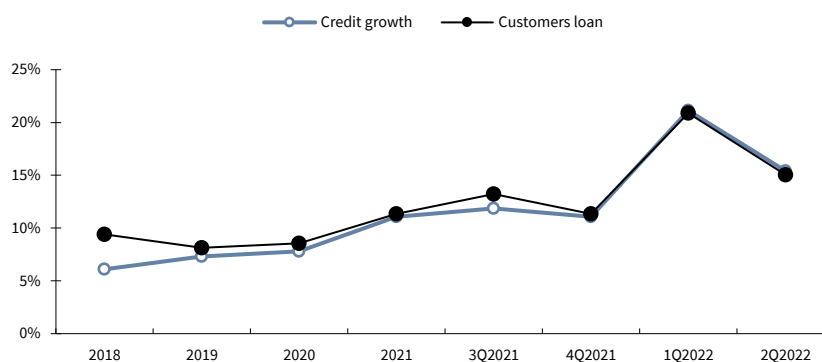
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG - NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG - Credit and loan growth (%YoY)



Source: Vietinbank, KB Securities Vietnam

NPL ratio was 1.35%, up 10bps QoQ as bad debts kept riding high

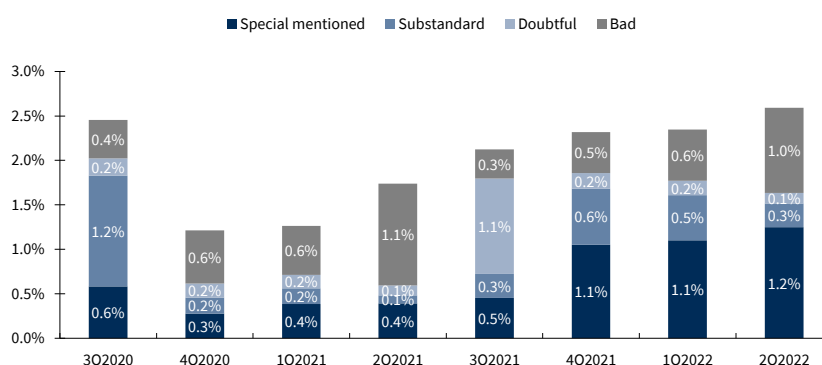
NPL ratio in 2Q22 was up 10bps QoQ to 1.35%, focusing on the construction, processing and manufacturing industries. Bad debts increased sharply 38bps QoQ to 0.96%. Besides, special mention loans picked up 15bps QoQ to 1.25%, the highest over the past quarters. In the context of high inflation affecting the economic recovery, CTG's asset quality may deteriorate in the coming period.

Accelerated provisioning for VND5,883 billion, bad debt coverage ratio reached 189.7%

During the period, CTG boosted provisioning and set aside VND5,883 billion (+32.9% QoQ, -17.2% YoY), helping LLCR reach 189.7%, the fourth highest in the banking system. As shared by CTG, restructured debts as of the end of June were about VND6,500 billion, down 37% compared to the end of 2021, showing enhanced financial health of customers after the pandemic is under control.

Bad debts and special mention loans have stayed at their highest levels over the past quarters.

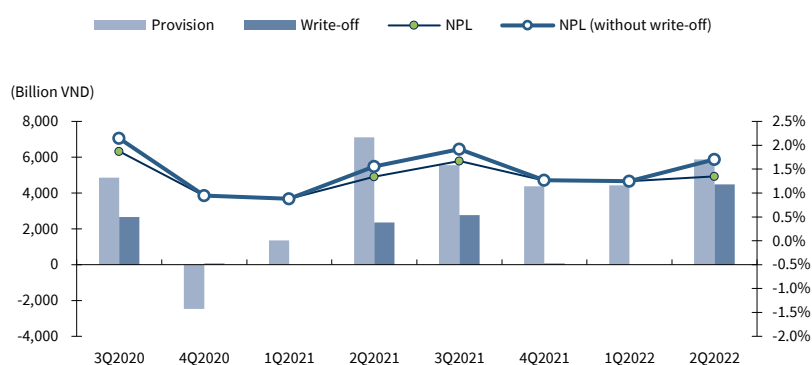
Fig 8. CTG – Groups of debt (%)



Source: Vietinbank, KB Securities Vietnam

In 2Q22, CTG’s provision expenses were VND4,484 billion. For now, the LLCR remains high, helping CTG maintain the NPL ratio below 1.8% as planned.

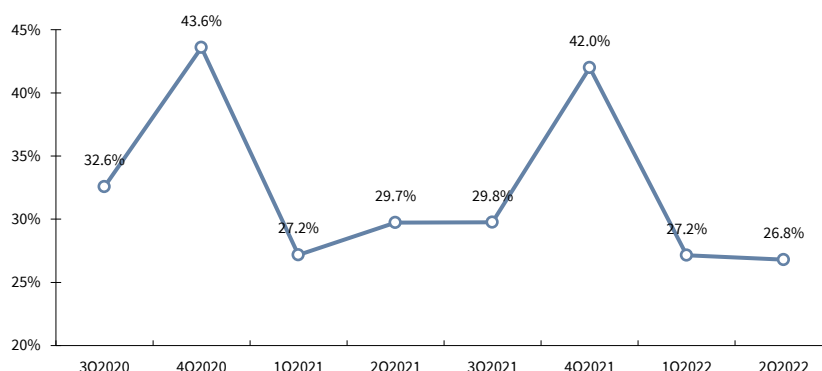
Fig 9. CTG – NPL, provision expenses (VNDbn, %)



Source: Vietinbank, KB Securities Vietnam

2Q22 CIR reached 26.8%, down 293bps YoY, reflecting effective cost control of CTG compared to the same period a year ago.

Fig 10. CTG – CIR (%)

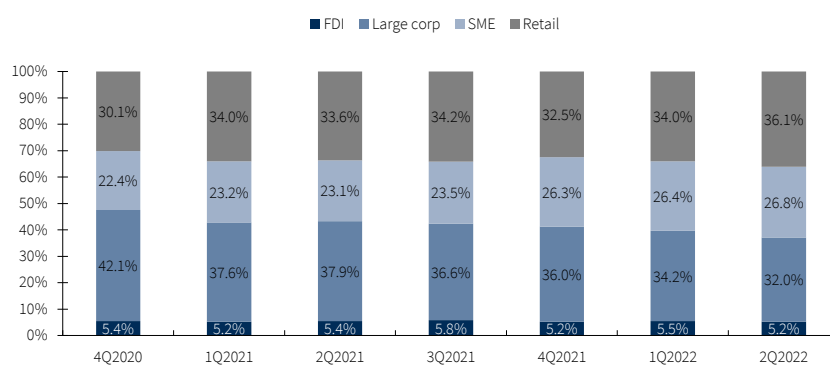


Source: Vietinbank, KB Securities Vietnam

Boosted retail lending is the key to improving NIM in the medium and long term

CTG has been shifting its focus to retail and SME segments, especially retail lending. In 1H2022, retail and SME loans rose by 22.4%YTD and 11.7%YTD, higher than the overall credit growth of 9.6%YTD. Retail lending in 2Q22 contributed 36.1% of the outstanding loans, up 362bps YTD. CTG expects the proportion of retail lending to reach 38–40% by the end of 2022 and 50% over the next few years, with an average increase of 2–3% per annum. The rise in the proportion of retail loans with higher interest rates will be the key to improving the future NIM of the bank.

Fig 11. CTG – Outstanding loans to groups of customers (%)



Source: Vietinbank, KB Securities Vietnam

Forecast & Valuation

2022F business results

Our forecast for CTG's business results in 2022F is as follows:

- Credit growth should reach 12.1% in 2022 on boosted borrowing to recover from COVID-19 of businesses and the expectation that the SBV will expand the credit growth ceiling for CTG.
- We estimate NIM to decrease by 12 bps YoY to 2.89%, 14bps higher than the previous forecast, reflecting better-than-expected earnings yield when CTG is shifting its focus to retail lending.
- NPL ratio is up 24bps YoY to 1.50% due to debt rescheduling under Circular 14/2021/TT-NHNN.
- Provision expenses may be down 1.6% YoY to VND18,093 billion, 21% higher than the previous forecast, reflecting CTG's more cautious stance on asset quality in 2022.
- We expect NPAT of the parent bank to be VND17,953 billion, up 27.4% YoY.

Table 1. CTG – 2022F–2023F business results

	2021A	2022F	2023F	% YoY 2022	%YoY 2023
Net interest income	41,788	46,185	52,019	11%	13%
Net fee income	4,961	6,469	6,729	30%	4%
Total operating income	53,157	60,217	66,144	13%	10%
Provision expenses	(18,382)	(18,093)	(14,002)	-1.6%	-22.6%
NPAT of the parent bank	14,089	17,953	24,394	27.4%	35.9%
NIM	3.01%	2.89%	2.90%	-12bps	2bps
Average earnings yield	6.09%	6.30%	6.53%	21bps	23bps
Average cost of funds	3.26%	3.70%	4.03%	44bps	33bps
CIR	32.3%	32.5%	32.5%	17bps	0bps
NPL	1.26%	1.50%	1.50%	24bps	0bps
Total assets	1,531,587	1,769,298	1,925,997	16%	9%
Equity	93,650	108,684	130,674	16%	20%

Source: KB Securities Vietnam

We recommend BUY for CTG stocks with a target price of VND38,900/share

We combine two valuation methods, P/B and residual income, to find a fair price for CTG stocks.

(1) P/B method

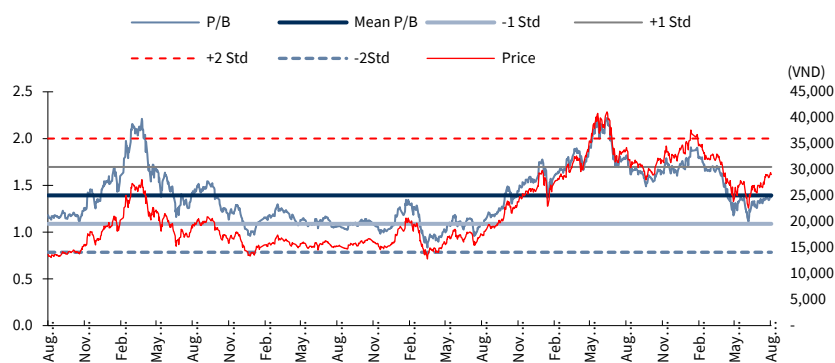
We adjust our end-2022 forward P/B to 1.4x, equivalent to CTG's 5-year average P/B.

(2) Residual income method (Table 2)

In addition, we incorporate the residual income method to reflect systematic risk and long-term expectations.

Based on the above two valuation methods with the ratio of 50-50, we recommend BUY for CTG stocks with a target price of VND38,900/share, 33.7% higher than the closing price on August 17, 2022. Some downside risks include (1) deterioration of asset quality due to the stagnating economy and (2) lower-than-expected NIM due to the changes in policy rates.

Fig 12. CTG - P/B (x)



Source: Fiiipro, KB Securities Vietnam

Table 2. CTG - Target price according to residual income method (VND/share)

VND bn	2021A	2022F	2023F
NPAT	18,043	24,516	30,122
Excessed return	4,047	7,688	9,744
Required rate of return (r)	13.0%		
Growth (g)	5.0%		
Terminal value	97,684		
Present value (PV)	221,254		
Target price	46,039		

Source: KB Securities Vietnam

Table 3. CTG - Target price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted price
P/B	31,661	50%	15,831
Residual income	46,039	50%	23,020
Target price			38,900

Source: KB Securities Vietnam

CTG – 2019A–2023E financials

Income Statement						Balance Sheet					
(VNDbn)	2019	2020	2021	2022F	2023F	(VNDbn)	2019	2019	2020E	2021F	2022F
Net interest income	33,199	35,581	41,788	46,185	52,019	Loans	922,325	1,002,772	1,104,873	1,231,066	1,353,244
Interest income	82,743	83,678	84,628	100,806	117,000	Marketable securities	3,825	5,602	2,475	4,836	5,218
Interest expense	(49,544)	(48,097)	(42,840)	(54,621)	(64,982)	Cash (ex. Reserves)	8,283	9,930	11,331	12,159	13,120
Fees & commissions	4,055	4,341	4,961	6,469	6,729	Interest earning assets	1,206,084	1,296,501	1,483,561	1,715,138	1,868,278
Other non-interest income	1,497	1,910	3,398	4,136	4,071	Fixed assets & other assets	46,931	47,904	61,209	76,835	83,942
Total operating income	40,519	45,317	53,517	60,217	66,144	Total assets	1,240,711	1,341,436	1,531,587	1,769,298	1,925,997
SG&A expenses	(15,735)	(16,085)	(17,186)	(19,570)	(21,497)	Customer deposits	892,785	990,331	1,161,848	1,229,464	1,326,650
Pre-provisioning OP	24,785	29,232	35,971	40,646	44,647	Borrowings & call money/repos	62,842	62,609	67,025	74,104	81,111
Provision for credit losses	(13,004)	(12,147)	(18,382)	(18,093)	(14,002)	Interest bearing liabilities	1,135,713	1,226,056	1,401,001	1,549,403	1,674,283
Other income	2,357	2,695	4,516	5,514	5,428	Other liabilities	27,643	29,969	36,937	107,301	118,403
Other expense	(860)	(785)	(1,118)	(1,379)	(1,357)	Total liabilities	1,163,357	1,256,025	1,437,938	1,656,703	1,792,686
Pre-tax income	11,781	17,085	17,589	22,554	30,645	Charter capital	37,234	37,234	48,058	48,058	48,058
Income tax expense	(2,304)	(3,328)	(3,374)	(4,511)	(6,129)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	9,477	13,757	14,215	18,043	24,516	Retained earnings	19,833	26,001	21,488	37,038	59,029
Minority interest profit	(16)	(64)	(127)	(90)	(123)	Capital adjustments	-	-	-	-	-
Parent NP	9,461	13,694	14,089	17,953	24,394	Total shareholders' equity	77,355	85,411	93,650	108,684	130,674

Financial Indicators						Valuation					
(%)	2018	2019	2020E	2021F	2022F	(VND, X, %)	2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	13.1%	16.9%	15.9%	17.8%	20.5%	EPS	2,541	3,678	2,932	3,736	5,076
ROA	0.8%	1%	10%	1%	1.3%	BVPS	20,775	22,939	19,487	22,615	27,191
Pre-provision ROE	27.5%	28.8%	32.3%	32.1%	29.8%	Tangible BVPS	19,547	21,757	18,592	21,617	26,217
Pre-provision ROA	1.7%	1.8%	2.0%	2.0%	1.9%	Valuations					
Net interest margin (NIM)	2.8%	2.8%	3.0%	2.9%	2.9%	PER	115	7.9	9.9	7.8	5.7
Efficiency						PBR	14	13	15	13	11
Pure Loan to deposit ratio	104.8%	102.5%	97.3%	103.0%	105.0%	Dividend yield	0.0%	0.0%	1.7%	2.2%	3.0%
Cost-income ratio	38.8%	35.5%	32.3%	32.5%	32.5%	ROE	13.1%	16.9%	15.9%	17.8%	20.5%
Growth						Capital Adequacy					
Asset growth	6.6%	8.1%	14.2%	15.5%	8.9%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.3%	8.7%	10.2%	11.4%	9.9%	Asset Quality					
PPOP growth	72.6%	17.9%	23.1%	13.0%	9.8%	NPL ratio (substandard)	12%	0.9%	1.3%	1.5%	1.5%
Parent NP growth	79.4%	44.7%	2.9%	27.4%	35.9%	Coverage ratio (substandard)	119.7%	132.2%	180.4%	185.7%	190.2%
EPS growth	79.4%	44.7%	-20.3%	27.4%	35.9%	NPL ratio (precautionary)	1.8%	1.2%	2.3%	2.6%	2.6%
BVPS growth	14.9%	10.4%	-15.0%	16.1%	20.2%	Coverage ratio (precautionary)	78.5%	102.1%	98.4%	107.2%	109.7%

Source: Vietinbank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Utilities

Tieu Phan Thanh Quang – Analyst
quangtpt@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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