

Vietinbank (CTG)

Loan growth as a driving force in 2H23

September 25, 2023

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2Q23 PBT picked up 13.2% YoY to VND5,980 billion

In the second quarter of 2023, Vietinbank (CTG) posted net interest income (NII) of VND12,757 billion (+0.7% QoQ, +6.2% YoY) on total operating income (TOI) of VND17,772 billion (+4.4% QoQ, +11.5% YoY). Provision expenses were VND6,478 billion (-3.7% QoQ, +10.1% YoY), resulting in PBT of VND5980 billion (+9.5% QoQ, +13.2% YoY). Halfway through the year, PBT achieved VND12,531 billion (+8.0% YoY).

Loan growth is expected to achieve 12% for the whole year of 2023

KBSV believes CTG can achieve its guided credit growth of 12% for 2023 after the 6.6% growth rate recorded in 1H23, much higher than the industry median. In 2H23, the improved economic situation, reduced funding costs, and an extensive distribution network will push CTG to achieve the credit growth assigned by the State Bank of Vietnam (SBV).

CTG may be under provisioning pressure in 2H23 but it should be softened by low credit risk

We reiterate our belief that provision expenses will remain high in the context of economic headwinds and insignificant improvements in CTG's asset quality. As a result, we assess that CTG will continue maintaining low credit risk at the expense of profits.

We recommend BUY for CTG with a target price of VND36,000/share

Based on valuation results, business outlook, and possible risks, we recommend BUY for CTG. The target price for 2023F is VND36,000/share, 21% higher than the closing price on September 25, 2023.

Buy maintain

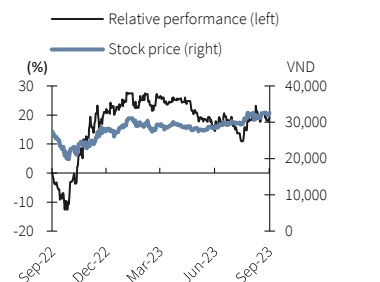
Target price	VND36,000
Upside	21%
Current price (Sep 25, 2023)	VND29,800
Consensus target price	VND 35,800
Market cap (VNDbn)	149939

Trading data	
Free float	35.5%
3M avg trading value (VNDbn/USDmn)	205.70
Foreign ownership	27.20%
Major shareholder	State Bank (SBV) (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	1.4	15.0	11.1	20.6
Relative	0.9	4.3	-5.6	20.8

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	41,788	47,792	52,747	59,605
PPOP (VNDbn)	35,971	45,109	49,198	55,677
NPAT (VNDbn)	14,089	16,775	17,635	24,498
EPS (VND)	2,932	3,491	3,656	5,083
EPS growth (%)	-20.3%	19.1%	4.7%	39.0%
PER (x)	10.7	9.0	8.6	6.2
Book value per share (VND)	19,487	22,508	25,364	29,646
PBR (x)	1.6	1.4	1.2	1.1
ROE (%)	15.9%	16.7%	15.3%	18.5%



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q23 PBT picked up 13.2% YoY to VND5,980 billion

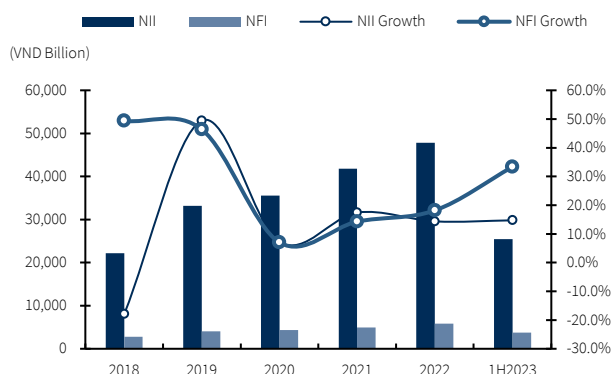
In 2Q23, CTG posted Nil of VND12,757 billion (+0.7% QoQ, +6.2% YoY) on TOI of VND17,772 billion (+4.4% QoQ, +11.5% YoY). Provision expenses were VND6,478 billion (-3.7% QoQ, +10.1% YoY), resulting in PBT of VND5,980 billion (+9.5% QoQ, +13.2% YoY). Halfway through the year, PBT achieved VND12,531 billion (+8.0% YoY).

Table 1. CTG - 1H22-1H23 business results

(VNDbn)	2Q2022	2Q2023	%YoY	1H2022	1H2023	%YoY	Comments
Net interest income	12,013	12,757	6.2%	22,159	25,424	14.7%	Because CTG's loan growth was stronger than the industry median and NIM enjoyed a slight improvement.
Net fee income	1,560	1,784	14.4%	2,838	3,785	33.3%	
Other income	3,928	5,014	27.7%	7,852	9,366	19.3%	Gains from FX activities maintained an increase of 44.6% YoY while net other income jumped by 23.2% YoY.
Total operating income	15,941	17,772	11.5%	30,011	34,790	15.9%	
Operating expense	(4,272)	(4,743)	11.0%	(8,093)	(9,057)	11.9%	
Pre-provision operating income (PPOP)	11,668	13,029	11.7%	21,918	25,733	17.4%	
Provision expense	(5,883)	(6,478)	10.1%	(10,310)	(13,202)	28.1%	Asset quality was hit by challenging economic conditions, causing CTG's provision expenses to grow by 10.1% YoY. However, CTG maintained a high provision buffer in 2022, making the loan loss coverage ratio (LLCR) as of 2Q23 reach 168.8%.
NPAT	4,681	5,264	12.5%	9,379	10,095	7.6%	
Loan growth	9.7%	6.6%	-3.1ppts				Loans to FDI customers surged (+25.2% YTD), while loans to large corporates (+6% YTD) and loans to individuals (+6.3% YTD) were the drivers. SME loans increased 3.3% YTD.
Deposit growth	10.6%	2.2%	-8.4ppts				Deposit growth dropped sharply as businesses utilized bank deposits to support production and business activities. Along with that, low credit demand also restrained deposit growth. CASA ratio reached 18.7%, up 60 bps QoQ.
NIM	2.85%	2.87%					NIM slightly improved by 2bps QoQ but remained low due to surging funding costs in 4Q22.
Average earnings yield	6.06%	7.56%	150 bps				
Average cost of funds	3.39%	4.95%	155 bps				
CIR	-26.8%	-26.7%	-0.1 ppts	-27.0%	-26.0%	-1 ppts	CIR inched down 0.1 ppts due to staff costs/TOI down 0.9 ppts YoY.
NPL	1.35%	1.27%	-0.08 bps				Substandard debt increased by 1bps QoQ while special mentioned and doubtful debt both contracted by 9bps QoQ.

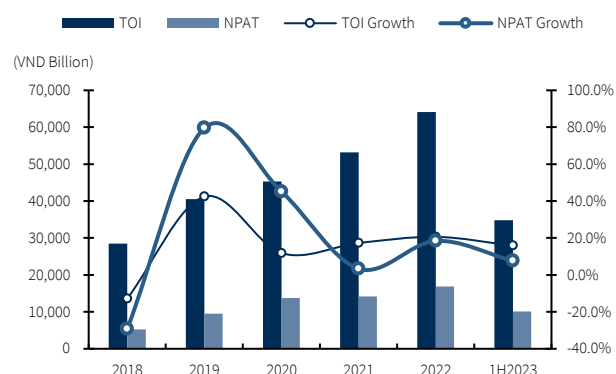
Source: Vietinbank, KB Securities Vietnam

Fig 2. CTG – NII & NFI growth (VNDbn, %)



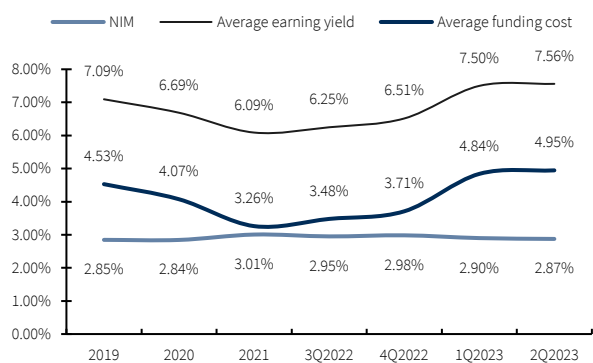
Source: Vietinbank, KB Securities Vietnam

Fig 3. CTG – TOI & NPAT growth (VNDbn, %)



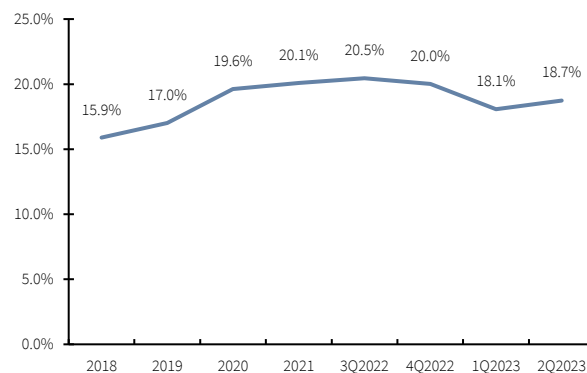
Source: Vietinbank, KB Securities Vietnam

Fig 4. CTG – NIM, average earnings yield & cost of funds (%)



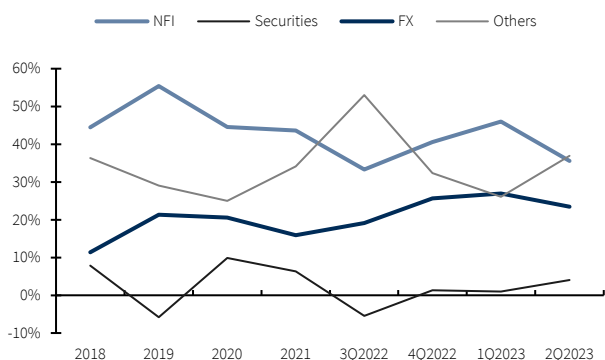
Source: Vietinbank, KB Securities Vietnam

Fig 5. CTG – CASA ratio in 2018–2023 (%)



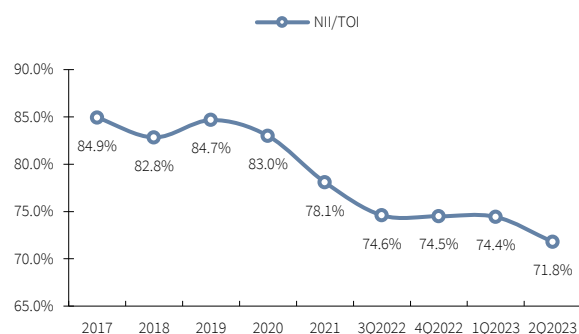
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG – NOII breakdown (%)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG – NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

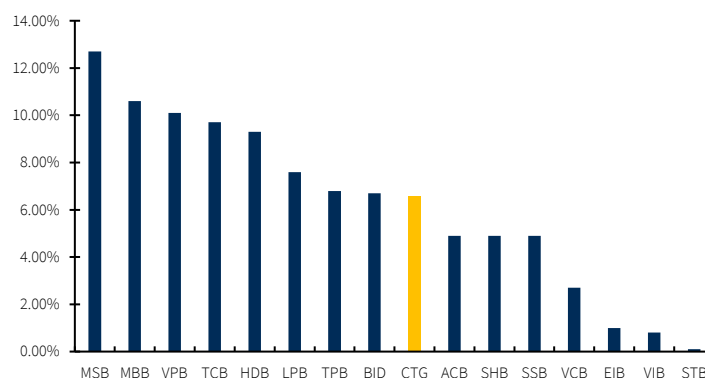
Investment catalysts

Loan growth is expected to achieve 12% for the whole year of 2023

CTG's loan growth in 1H23 reached 6.6% (-3.1 ppts YoY), higher than the industry median of 4.7%. As of August 31, 2023, CTG's total outstanding loans increased more than 8% YTD against 5.33% YTD of the entire system. For the rest of the year, we reiterate our belief that CTG can achieve its guided credit growth of ~12%, underpinned by decreasing funding costs from 3Q23 thanks to the maturity of 4Q22 6-month term deposits offering high interest rates combined with reduced deposit rates in the interbank and deposit markets.

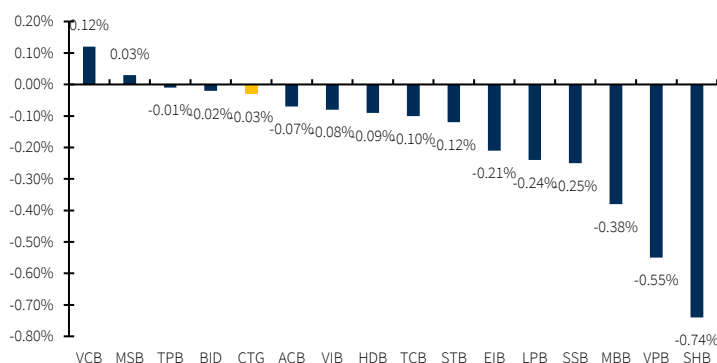
To date, corporate loans' interest rate is 8.9% for 9- to 12-month terms. In addition, CTG quickly implemented a loan refinancing program after Circular 06/2023 became effective on September 1, 2023. Accordingly, banks can lend to customers to prepay their outstanding debts at other credit institutions, and this debt does not necessarily serve business operations as prescribed in Circular 39/2016. Specifically, CTG offered customer loans of as much as 100% of the remaining principal balance at other banks with lending interest rates of 5.6%/year or higher (for business production) and 7.5%/year (for consumer loans). In addition to reduced funding costs, we expect this program will create conditions for CTG to cut lending interest rates, thereby promoting credit growth in 2023's second half.

Fig 8. Local banks - Loan growth in 2Q23 (%)



Source: Local banks, KB Securities Vietnam

Fig 9. Local banks – NIM in 2Q23 (%)

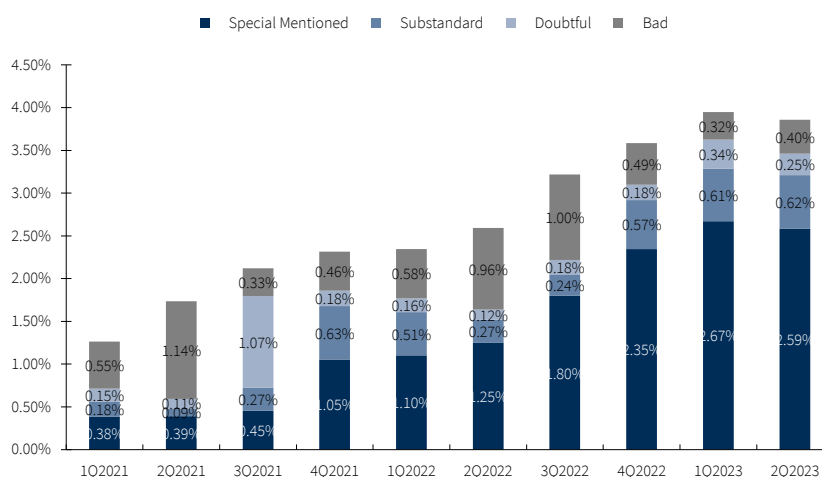


Source: Local banks, KB Securities Vietnam

CTG may be under provisioning pressure in 2H23 but it should be softened by low credit risk

CTG's 2Q23 NPL ratio was 1.27% (-0.1bps QoQ), one of the lowest figures recorded across the banking system. We remain conservative on asset quality and provisioning pressure towards the end of the year when special mentioned debt remains high at 2.59% (-9bps QoQ). However, with a high loan loss coverage ratio (LLCR) of 168% (second-highest in the industry), CTG can flexibly adjust provisions and handle NPLs in 2023's second half.

Fig 10. Local banks – Debt groups in 2021–2023 (%)



Source: Local banks, KB Securities Vietnam

Fig 11. Local banks – Correlation between special mentioned and NPL ratio

	% NPL	QoQ	% Group 2 debt	QoQ	Provision (Billion VND)	LLCR	
VCB	0.83%		-0.02%	0.69%	0.04%	(37,747)	385.80%
CTG	1.27%		0.00%	2.59%	-0.09%	(29,228)	168.90%
MBB	1.44%		-0.31%	3.59%	0.13%	(11,676)	156.10%
BID	1.59%		0.05%	2.17%	-0.15%	(39,619)	152.60%
TCB	1.07%		0.22%	1.96%	0.04%	(5,793)	115.80%
ACB	1.06%		0.33%	0.87%	0.30%	(4,974)	107.60%
LPB	2.23%		0.78%	1.27%	-0.73%	(4,438)	78.50%
STB	1.79%		0.60%	1.16%	0.21%	(6,342)	77.10%
EIB	2.12%		-0.21%	1.46%	-0.26%	(319)	74.00%
SHB	2.57%		-0.26%	2.21%	0.23%	(7,224)	68.90%
MSB	2.56%		0.54%	3.39%	0.22%	(2,230)	63.80%
HDB	2.15%		0.30%	5.04%	1.84%	(3,790)	61.30%
TPB	2.21%		0.76%	3.51%	-0.51%	(2,383)	60.90%
VIB	3.63%		-0.01%	6.42%	0.99%	(3,331)	39.10%
VPB	7.44%		1.20%	8.19%	-0.03%	(13,704)	37.70%
Total	1.74%			2.51%			122.20%

Source: Local banks, KB Securities Vietnam

Forecast

Table 12. CTG – 2022A–2024F business results

VNDbn	2022A	2023F	%YoY	2024F	%YoY	Comments
Net interest income	47,792	52,747	10.4%	59,605	13.0%	Our projection is based on the assumption that credit growth will reach 12% for the whole year of 2023.
Net fee income	5,862	6,906	17.8%	7,942	15.0%	
Total operating income	64,117	69,293	8.1%	78,199	12.9%	
Provision expense	(24,163)	(27,155)	12.4%	(25,055)	-7.7%	We raise provision expense forecast by 1.2% compared to the old forecast due to rising NPL concern in the second half of 2023.
NPAT	16,835	17,635	4.7%	24,498	38.9%	
NIM	2.98%	2.87%	-10 bps	2.93%	6 bps	We adjusted NIM up 1bps compared to the old forecast, reflecting a better-than-expected reduction in funding costs.
Average earnings yield	6.52%	6.76%	24 bps	6.47%	-29 bps	We adjust the average earnings yield down 0.29 ppts against the old assumption with the expectation that lending interest rates at CTG will fall further to support the economy and interest rates at CTG remain higher than BIDV (BID) and Vietcombank (VCB).
Average cost of funds	3.72%	4.11%	39 bps	3.79%	-32 bps	
CIR	29.6%	29.0%	-6 bps	28.9	-2 bps	
NPL	1.24%	1.60%	36 bps	1.38%	-22 bps	
Total assets	1,808,430	1,992,063	10.2%	2,178,955	9.4%	
Equity	108,168	121,892	12.7%	142,473	16.9%	

Source: KB Securities Vietnam

We recommend BUY for CTG with a target price of VND36,000/share

We combine two valuation methods P/B and residual income to value CTG.

(1) P/B method

We adjust 2023F P/B to 1.33x, equivalent to CTG's 5-year average P/B, reflecting the impact of the improved economic situation and CTG's extensive distribution network as a competitive edge to attract new customers.

(2) Residual income method (Table 14)

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

Combining the above two approaches with a 50-50 ratio, we recommend BUY for CTG with a target price of VND36,000/share, 21% higher than the closing price on September 25, 2023.

Fig 13. CTG – Historical P/B in 2018–2023 (x)



Source: Fiiipro, KB Securities Vietnam

Table 14. CTG – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	17,655	24,498	29,256
Excessed return	519	4,492	5,693
Required rate of return (r)	14.04%		
Growth (g)	5.0%		
Terminal value	22,180		
End-2023 fair value	184,356		
Value per share	38,362		

Source: KB Securities Vietnam

Table 15. CTG – Valuation result

Valuation method	Forecast price	Weighting	Weighted price
P/B	33,734	50%	16,867
Residual income	38,362	50%	19,181
Target price			36,048

Source: KB Securities Vietnam

CTG – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	35,581	41,788	47,792	52,747	59,605	Loans	1,002,772	1,104,873	1,245,058	1,389,020	1,551,865
Interest income	83,678	84,628	104,665	124,022	131,393	Marketable securities	5,602	2,475	1,406	1,605	1,788
Interest expense	(48,097)	(42,840)	(56,873)	(71,276)	(71,788)	Cash (ex. Reserves)	9,930	11,331	11,067	12,900	14,370
Fees & commissions	4,341	4,961	5,862	6,906	7,942	Interest earning assets	1,296,501	1,483,561	1,728,986	1,942,322	2,121,615
Other non-interest income	1,910	3,398	6,537	5,135	5,770	Fixed assets & other assets	47,904	61,209	95,368	72,755	78,820
Total operating income	45,317	53,157	64,117	69,293	78,199	Total assets	1,341,436	1,531,587	1,808,430	1,992,063	2,178,955
SG&A expenses	(16,085)	(17,186)	(19,007)	(20,095)	(22,521)	Customer deposits	990,331	1,161,848	1,249,176	1,386,214	1,544,242
Pre-provisioning OP	29,232	35,971	45,109	49,198	55,677	Borrowings & call money/repos	62,609	67,025	93,763	120,978	134,769
Provision for credit losses	(12,147)	(18,382)	(24,163)	(27,155)	(25,055)	Interest bearing liabilities	1,226,056	1,401,001	1,657,148	1,814,512	1,974,495
Other income	2,695	4,516	7,507	6,041	6,789	Other liabilities	29,969	36,937	43,114	55,660	61,987
Other expense	(785)	(1,118)	(969)	(906)	(1,018)	Total liabilities	1,256,025	1,437,938	1,700,262	1,870,171	2,036,482
Pre-tax income	17,085	17,589	20,946	22,043	30,622	Charter capital	37,234	48,058	48,058	48,058	48,058
Income tax expense	(3,328)	(3,374)	(4,111)	(4,409)	(6,124)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	13,757	14,215	16,835	17,635	24,498	Retained earnings	26,001	21,488	33,364	47,088	67,669
Minority interest profit	(64)	(127)	(60)	(66)	(73)	Capital adjustments	-	-	-	-	-
Parent NP	13,694	14,089	16,775	17,569	24,426	Total shareholders' equity	85,411	93,650	108,168	121,892	142,473

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	16.9%	15.9%	16.7%	15.3%	18.5%	EPS	3,678	2,932	3,491	3,656	5,083
ROA	1.1%	1.0%	1.0%	0.9%	1.2%	BVPS	22,939	19,487	22,508	25,364	29,646
Pre-provision ROE	28.8%	32.3%	35.8%	34.2%	33.7%	Tangible BVPS	21,757	18,592	21,643	24,535	28,852
Pre-provision ROA	1.8%	2.0%	2.2%	2.1%	2.1%	Valuations					
Net interest margin (NIM)	2.8%	3.0%	3.0%	2.9%	2.9%	PER	8.5	10.7	9.0	8.6	6.2
Efficiency						PBR	1.4	1.6	1.4	1.2	1.1
Pure Loan to deposit ratio	102.5%	97.3%	102.1%	103.0%	103.0%	Dividend yield	2.6%	2.6%	2.6%	2.6%	2.6%
Cost-income ratio	35.5%	32.3%	29.6%	29.0%	28.8%	ROE	16.9%	15.9%	16.7%	15.3%	18.5%
Growth						Capital Adequacy					
Asset growth	8.1%	14.2%	18.1%	10.2%	9.4%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	8.7%	10.2%	12.7%	11.6%	11.7%	Asset Quality					
PPOP growth	17.9%	23.1%	25.4%	9.1%	13.2%	NPL ratio (substandard)	0.9%	1.3%	1.2%	1.6%	1.4%
Parent NP growth	44.7%	2.9%	19.1%	4.7%	39.0%	Coverage ratio (substandard)	132.2%	180.3%	188.3%	169.8%	176.9%
EPS growth	44.7%	-20.3%	19.1%	4.7%	39.0%	NPL ratio (precautionary)	1.2%	2.3%	3.6%	3.9%	3.6%
BVPS growth	10.4%	-15.0%	15.5%	12.7%	16.9%	Coverage ratio (precautionary)	102.1%	98.4%	65.0%	69.6%	68.1%

Source: Vietinbank, KB Securities Vietnam

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(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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