

VietinBank (CTG)

Provisioning boosted in 4Q21

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3Q21 NPAT reached VND2,466 billion, up 5.3% YoY

In 3Q21, VietinBank (CTG) recorded net interest income (NII) of VND9,872 billion (-9.3% QoQ, +8.7% YoY) on total operating income (TOI) of VND12,255 billion (-13% QoQ, +6.6% YoY). However, provision expenses stayed high at VND5,548 billion (-21.9% QoQ, +14.2% QoQ), making 3Q21 NPAT reach VND2,466 billion (+7.4% QoQ, +5.3% YoY).

NPL ratio reached 1.67%, up 33 bps QoQ due to a sharp increase in doubtful debt

NPL ratio in 3Q21 was 1.67% (+33bps QoQ, the second consecutive quarter of increase due to COVID-19), of which doubtful debt increased sharply 96bps QoQ while bad debt fell 81bps QoQ thanks to bad debt recovery of 2Q21.

Upfront fees are expected in 1Q22

The exclusive partnership with Manulife for insurance distribution of CTG brought in upfront fees of about USD30 million that should be paid in 6 years. The management of CTG hopes to receive those upfront fees in 1Q22 instead of 4Q21 as shown in the previous report.

CTG sets a target for 2021 PBT of VND16,800 billion, driven by credit growth

Credit growth reached 9.5%, which is the credit cap granted by the State Bank to CTG. CTG submitted to expand the limit to 10-12%. CTG expects 2021 PBT to reach VND16,800 billion, equivalent to 4Q21 PBT of VND2,889 billion.

We recommend BUYING CTG shares, target price is VND45,900/share

Based on valuation results, business outlook as well as potential risks, we recommend BUYING CTG shares with a target price of VND45,900/share for 2022, 29.7% higher than the closing price on November 24, 2021.

Buy

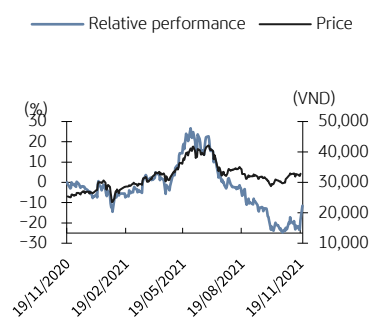
Target price	VND45,900
Upside/Downside	29.7%
Current price (Nov 24, 2021)	VND35,400
Consensus target price	VND40,979
Market cap (VNDbn)	165,798

Trading data	
Free float	15.81%
3M avg trading value (VNDbn/USDmn)	364/16.1
Foreign ownership	24.97%
Major shareholder	State Bank (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	15	8	-14	36
Relative	11	0	-22	-12

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net income (VNDbn)	33,199	35,581	42,823	45,254
Pre-provision operating profit (VNDbn)	24,785	29,219	34,793	37,745
NPAT of parent bank (VNDbn)	9,461	13,679	14,181	20,525
EPS (VND)	2,541	3,674	2,951	4,271
EPS growth (%)	79	45	-20	45
PER (x)	17.2	11.9	14.8	10.3
Book value per share (VMD)	20,775	22,935	20,226	24,109
PBR (x)	2.11	1.91	2.17	1.82
ROE (%)	13.1%	16.9%	15.6%	19.4%
Dividend yield (%)			1.14%	1.14%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q21 NPAT reached VND2,466 billion, up 5.3% YoY

CTG posted 3Q21 NII of VND9,872 billion (-9.3% QoQ, +8.7% YoY), non-interest income (NFI) of VND2,384 billion (-25.6% QoQ, -2% YoY) and TOI of VND12,255 billion (-13.0% QoQ, +6.6% YoY). Provision expenses decreased compared to 2Q21 but remained high at VND5,548 billion, (-21.9% QoQ, +14.2% QoQ), making 3Q21 NPAT reach VND2,466 billion (+7.4% QoQ, + 5.3% YoY).

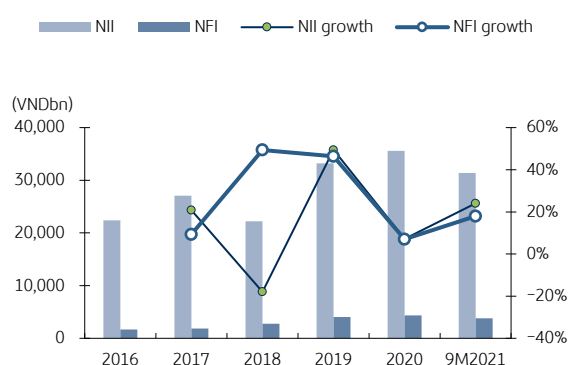
Credit growth grew 0.8% QoQ and 6.3% YTD

Credit growth slowed down due to the impact of prolonged social distancing, growing 0.8% QoQ and 6.3% YTD, of which outstanding loans of large corporates dropped 3.4% QoQ, SME improved 1.6% QoQ and retail sector expanded 1.7% QoQ. The loan structure did not change much with 36.6% of corporate customers, 34.2% of individual customers and 23.5% of SME customers.

3Q21 NIM decreased 5 bps QoQ, pressure to reduce NIM may increase in the near future

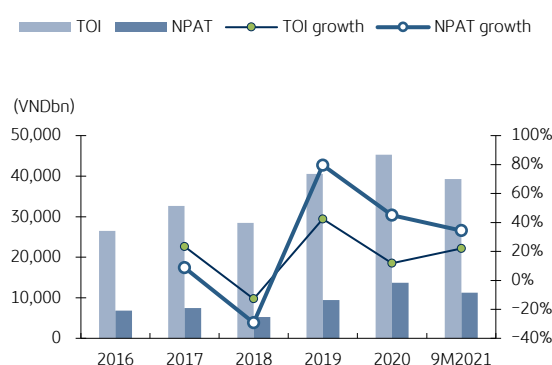
Average earnings yield in 3Q21 was 6.24%, unchanged compared to 2Q21, while capital input costs increased slightly 8bps QoQ to 3.2% due to lower capital borrowed from the government and State Bank, making 3Q21 NIM reach 3.11% (-5bps QoQ, +33bps YoY). In our view, the pressure to reduce NIM may increase in 4Q21 and 2022 when cost of funds will less likely improve to support businesses and recover the economy while capital input costs will not potentially further decline. NIM can be spurred by: (1) increased proportion of SME and retail customers with higher interest rates; (2) improved CASA.

Fig 1. CTG – NII & TOI (VNDbn, %YoY)



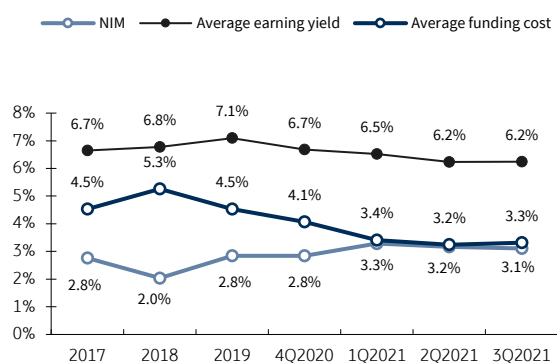
Source: VietinBank, KB Securities Vietnam

Fig 2. CTG – Service fees & NPAT (VNDbn, %YoY)



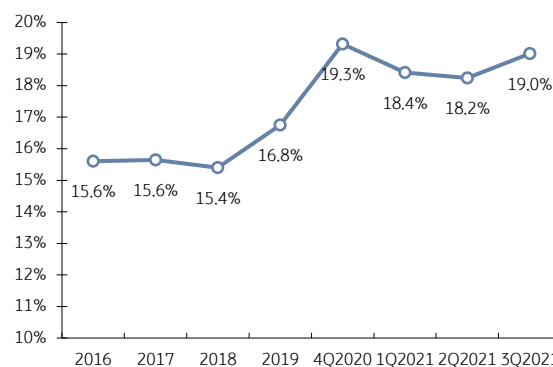
Source: VietinBank, KB Securities Vietnam

Fig 3. CTG – Interest rates & NIM (%)



Source: VietinBank, KB Securities Vietnam

Fig 4. CTG – CASA (%)

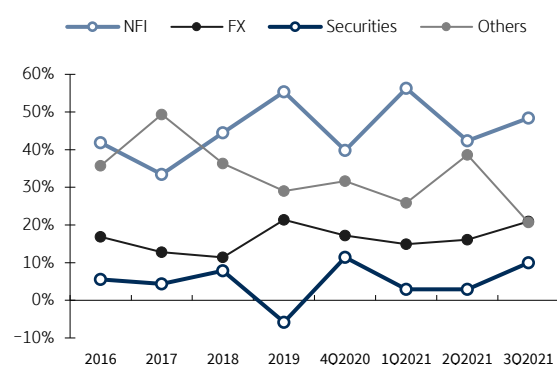


Source: VietinBank, KB Securities Vietnam

NOII in 2Q21 reached VND3,205 billion, up 40.5% QoQ, 47.2% YoY

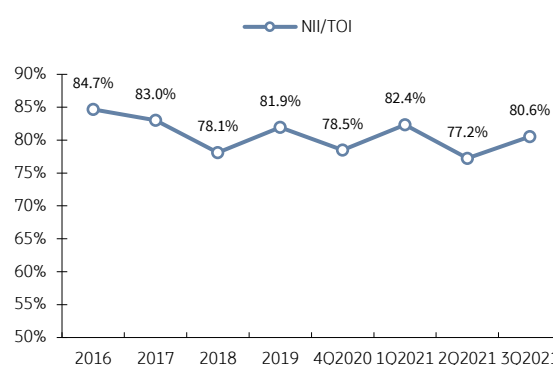
Service fees in 3Q21 reached VND1,154 billion (+9.3% YoY) thanks to boosted sales of key products such as money transfer, card services, commercial finance along with administration cost optimization. Profit from foreign currency trading increased 4.4% YoY and net gain from securities trading and investment jumped 106.6% YoY while bad debt recovery and settlement dropped sharply over the same period last year as well as 2Q21, making profit from other services reach only VND365 billion (-67.8% QoQ, -46.5% YoY). 3Q21 NOII hit VND2,384 billion (-25.6% QoQ, -2.0% YoY); NII/TOI ratio is 80.6%, the same as the average of recent quarters.

Fig 5. CTG – Structure of non-interest income (%)



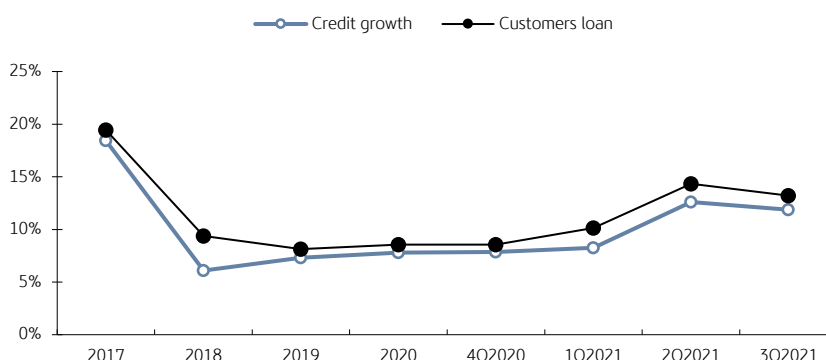
Source: VietinBank, KB Securities Vietnam

Fig 6. CTG – NOI/TOI (%)



Source: VietinBank, KB Securities Vietnam

Fig 7. CTG – Credit growth (%)



Source: VietinBank, KB Securities Vietnam

3Q21 NPL ratio reached 1.67%, up 33bps QoQ due to rising doubtful debt

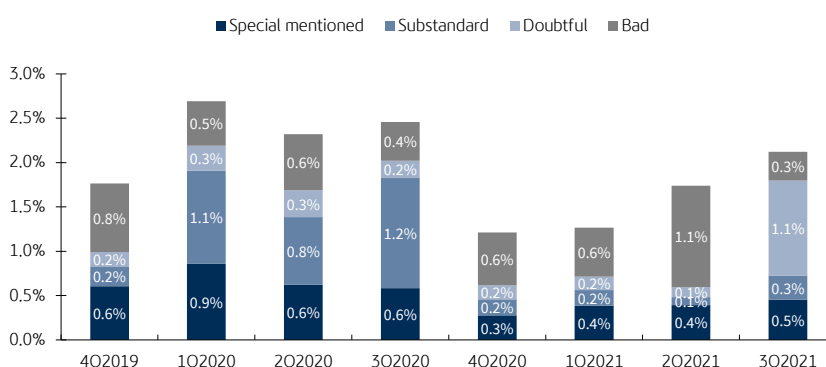
NPL ratio in 3Q21 was up 33bps QoQ to 1.67%, the second consecutive quarter of increase due to the impact of the pandemic. NPLs increased in all groups of debt, of which doubtful debt surged 96bps QoQ while bad debt was down 81bps QoQ thanks to the recovery of bad debts incurred in 2Q21 of large enterprises. CTG expects 75–80% of doubtful debt can be transferred to special mention or substandard debt in 4Q21 and the remaining 20–25% can be recovered in 1Q22.

Loan loss coverage ratio should reach 118.6% with a provision of VND5,548 billion

During the period, CTG made a provision of VND5,548 billion (-21.9% QoQ, +14.2% YoY); loan loss coverage ratio was down 10.4% QoQ to 118.6%, equivalent to the average of the banking system. As of October 2021, the restructured debt was VND10.7 trillion vs. VND4,160 billion in 2Q21. CTG expects the restructured loan balance to reach VND11 trillion, the total provision expenses should be VND17,000 billion with loan loss coverage ratio of over 150% by the end of 2021.

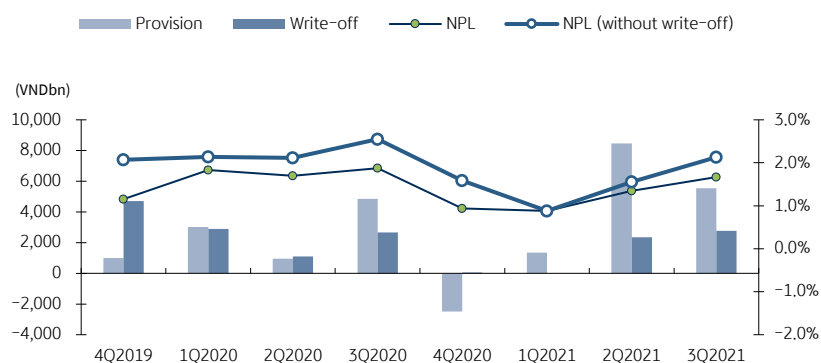
Bad debts are on the rise again during the last two quarters due to the impact of the pandemic

Fig 8. CTG – Special mention, substandard, doubtful, bad debt (%)



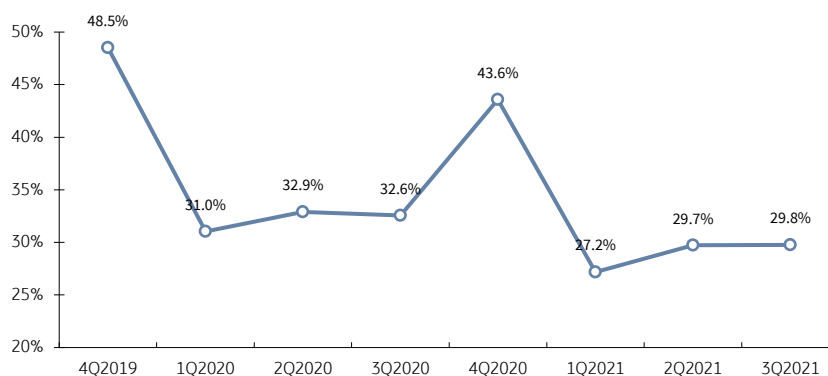
Source: VietinBank, KB Securities Vietnam

Fig 9. CTG – Provisions and their allocation (VNDbn, %)



Source: VietinBank, KB Securities Vietnam

Fig 10. CTG – CIR in 2016–3Q21 (%)



Source: VietinBank, KB Securities Vietnam

3Q21 CIR inched up 10bps QoQ to 29.8%, of which labor cost accounted for 63.8%, up slightly by 2.6% QoQ

CTG expects to record upfront fees in 1Q22

The bancassurance contract with Manulife has an upfront fee of USD30 million, which is expected to be paid in six years. Currently, Manulife is in the process of negotiation to buy Aviva, and it will start the bancassurance program at CTG after the deal. CTG Management expects the bank would record upfront fees in 1Q22 instead of 4Q21 as we predicted in the previous report.

CTG sets a target of PBT 2021 to reach VND16,800 billion with the motivation from credit growth

After CTG reopened after the social distancing protocols were removed, its credit balance grew positively. Up to now, credit growth has reached 9.5%, which is the credit ceiling granted by the State Bank. CTG is asking the State Bank to raise the credit cap to 12–13%. 2021 pre-tax profit should be VND16,800 billion, which means the bank should earn VND2,889 billion in 4Q21 pre-tax profit. Given the credit growth driver in 4Q and the provision of VND17,000 billion (VND3,000 billion in 4Q alone), KBSV expects CTG's pre-tax earnings to exceed the plan for the whole year of 2021.

Forecast business performance

KBSV forecasts CTG's 2021 results

We make our forecast for CTG in 2021 as follows:

- Credit growth is forecast at 11.1% as the bank borrows more capital to support business activities hit by the COVID-19 pandemic, given the expectation that the State Bank will loosen the credit ceiling for CTG.
- We estimate NIM to increase by 22bps YoY to 3.06%, revised up by 3bps compared to the previous forecast with the expectation that CTG will continue to control input costs well to compensate for the decrease in earnings yield.
- Estimated NPL is unchanged from the old forecast (at 1.4%) as doubtful debts should be paid in 4Q and moved to better debt groups.
- Provision expenses may reach VND16,977 billion (+39.8% YoY), adjusted up by 33.5% compared to the old forecast due to the impact of the fifth wave of Coronavirus.
- We forecast 2021's PBT to reach VND17,816 billion, up 4.3% YoY but down 15.5% versus the old forecast due to the impact of the pandemic on asset quality and the absence of upfront fee recorded in 2021.
- We expect NPAT in 2022 to reach VND25,785 billion, up 44.7% YoY with TOI up 8% YoY and provision expense down 30% YoY.

Table 1. CTG – Projected business performance in 2021–2022

VNDbn	2020	2021F	2022F	%YoY 2021	%YoY 2022
Net interest income	35,581	42,823	45,254	20%	6%
Net fee and commission income	4,341	5,209	7,250	20%	39%
TOI	45,280	52,717	57,190	16%	8%
Provision expenses	(12,148)	(16,977)	(11,960)	40%	-30%
NPAT	13,741	14,253	20,628	3.7%	44.7%
NIM	2.84%	3.06%	2.90%	22bps	-16bps
Average earnings yield	6.69%	6.28%	6.39%	-41bps	11bps
Average costs of fund	4.07%	3.48%	3.87%	-59bps	39bps
CIR	35.5%	34.0%	34.0%	-147bps	0bps
NPL	0.94%	1.40%	1.10%	46bps	-30bps
Total assets	1,341,393	1,554,326	1,681,587	16%	8%
Equity	85,395	97,199	115,862	14%	19%

Source: KB Securities Vietnam

KBSV recommends BUYING CTG shares with the target price of VND45,900 apiece

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

(1) P/B valuation method:

With high profit growth expectations in 2022, positive long-term outlook after VAMC debt settlement, profit contribution from bancassurance contracts and improvement of CIR, we believe CTG's target P/B for 2022 is at 2.24x, equivalent to the two-year average P/B of state-owned banks with many similarities to CTG (Bank for Investment & Development – BID).

(2) Residual income valuation (Table 2):

We use this method to reflect systematic risk and long-term expectations.

Combining the above two valuation methods with the ratio of 50–50, we find the final fair price for CTG at VND45,900 per share, 29.7% higher than the price on November 24, 2021. The risks might be: (1) Unforeseen effects of the pandemic, causing asset quality to be worse than expected; and (2) lower-than-expected NIM due to changes in interest rate policy of the State Bank.

Table 2. CTG – 2022F valuation according to the residual income method

VNDbn	2021F	2022F	2023F
NPAT	14,252.68	20,628.18	24,579.14
Excessed return	1,735.74	5,707.84	6,749.15
Required rate of return (r)	12.88%		
Growth (g)	5.0%		
Terminal value	70,603		
Present value (PV)	181,628		
Share price	37,794		

Source: KB Securities Vietnam

Table 3. CTG – Combination of the two valuation methods

Valuation method	Estimated price (VND)	Weight (%)	Weighted price (VND)
P/B	54,004	50	27,002
RIM	37,794	50	18,897
Target price			45,900

Source: KB Securities Vietnam

CTG – 2018A–2022F financial data

Income Statement (VNDbn)					Balance Sheet (VNDbn)						
	2018	2019	2020	2021F	2022F		2018	2019	2020E	2021F	2022F
Net interest income	22,212	33,199	35,581	42,823	45,254	Loans	85,186	922,325	1,002,771	1,112,338	1,213,396
Interest income	73,870	82,743	83,682	87,874	99,837	Marketable securities	3,132	3,825	5,602	3,512	3,755
Interest expense	(51,658)	(49,544)	(48,100)	(45,052)	(54,583)	Cash (ex. Reserves)	7,028	8,283	9,930	10,609	11,344
Fees & commissions	2,771	4,055	4,341	5,209	7,250	Interest earning assets	1,126,694	1,206,084	1,296,501	1,501,198	1,623,210
Other non-interest income	1,889	1,497	1,876	2,058	2,058	Fixed assets & other assets	46,188	46,931	47,861	62,960	68,349
Total operating income	28,446	40,519	45,280	52,717	57,190	Total assets	1,164,290	1,240,711	1,341,393	1,554,326	1,681,587
SG&A expenses	(14,084)	(15,735)	(16,062)	(17,924)	(19,445)	Customer deposits	825,816	892,785	990,331	1,099,123	1,175,224
Pre-provisioning OP	14,361	24,785	29,219	34,793	37,745	Borrowings & call money/repos	52,150	62,842	62,609	80,610	87,507
Provision for credit losses	(7,803)	(13,004)	(12,148)	(16,977)	(11,960)	Interest bearing liabilities	1,051,966	1,135,713	1,226,057	1,362,798	1,458,842
Other income	2,914	2,357	2,701	3,241	3,241	Other liabilities	45,007	27,643	29,941	94,330	106,883
Other expense	(1,025)	(860)	(825)	(1,182)	(1,182)	Total liabilities	1,096,973	1,163,357	1,255,998	1,457,128	1,565,725
Pre-tax income	6,559	11,781	17,070	17,816	25,785	Charter capital	37,234	37,234	37,234	48,058	48,058
Income tax expense	(1,281)	(2,304)	(3,329)	(3,563)	(5,157)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	5,277	9,477	13,741	14,253	20,628	Retained earnings	11,837	19,833	25,985	27,481	46,144
Minority interest profit	(2)	(16)	(62)	(71)	(103)	Capital adjustments	-	-	-	-	-
Parent NP	5,275	9,461	13,679	14,181	20,525	Total shareholders' equity	67,316	77,355	85,395	97,199	115,862

Financial Indicators (%)					Valuation (VND, X, %)						
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability					Share Price Indicators						
ROE	8.1%	13.1%	16.9%	15.6%	19.4%	EPS	14.17	2,541	3,674	2,951	4,271
ROA	0.5%	0.8%	1.1%	1.0%	1.3%	BVPS	18,079	20,775	22,935	20,226	24,109
Pre-provision ROE	17.6%	27.5%	28.8%	30.5%	28.3%	Tangible BVPS	16,751	19,547	21,752	19,272	23,178
Pre-provision ROA	1.0%	1.7%	1.8%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.0%	2.8%	2.8%	3.1%	2.9%	PER	30.9	17.2	11.9	14.8	10.3
Efficiency					Capital Adequacy						
Pure Loan to deposit ratio	104.7%	104.8%	102.5%	103.0%	105.0%	PBR	2.4	2.1	1.9	2.2	1.8
Cost-income ratio	49.5%	38.8%	35.5%	34.0%	34.0%	Dividend yield	0.0%	0.0%	1.1%	0.9%	1.3%
Growth					ROE						
Asset growth	6.3%	6.6%	8.1%	15.9%	8.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.9%	8.3%	8.7%	10.9%	9.1%	Asset Quality					
PPOP growth	-18.2%	72.6%	17.9%	19.1%	8.5%	NPL ratio (substandard)	16%	12%	0.9%	14%	1%
Parent NP growth	-29.0%	79.4%	44.6%	3.7%	44.7%	Coverage ratio (substandard)	95.3%	119.7%	132.0%	124.7%	151.7%
EPS growth	-29.0%	79.4%	44.6%	-19.7%	44.7%	NPL ratio (precautionary)	2.2%	1.8%	1.2%	1.8%	1.4%
BVPS growth	5.6%	14.9%	10.4%	-11.8%	19.2%	Coverage ratio (precautionary)	69.1%	78.5%	102.0%	97.0%	119.2%

Source: Vietinbank, KB Securities Vietnam

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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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