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3Q22 PBT expanded by 35.8% YoY to VND4,157 billion

Vietinbank (CTG) revealed its 3Q22 net interest income (NII) of VND12,924 billion (+7.6% QoQ, +30.9% YoY), non-interest income (NOII) of VND4,401 billion (+12.0% QoQ, +84.6% YoY), and profit before tax (PBT) of VND4,157 billion (-28.2% QoQ, +35.8% YoY). Between January and September, PBT hit VND15,764 billion (+13.3% YoY) with credit growth of 10.2% YTD.

3Q22 NIM edged up 11 bps QoQ thanks to rising retail & SME loans and improved CASA

The average earnings yield in 3Q22 was 6.25%, up 19bps QoQ, mainly thanks to rising retail and SME loans with higher profit margins. Meanwhile, despite higher interbank rate, the average cost of funds only edged up 9bps QoQ on improved CASA ratio (+55bps QoQ), making NIM 3Q2022 touch 2.95% (+11bps QoQ).

NPL ratio was up 7bps QoQ to 1.42%, and special mentioned loans rose sharply

The NPL ratio in the third quarter picked up 7bps QoQ to 1.42%. At the same time, special mentioned loan ratio rose sharply by 55bps QoQ to 1.80% due to the reclassification of restructured loans.

Mobilized capital should improve thanks to higher deposit rates

CTG's deposit growth is expected to improve in the last three months of 2022 when the bank boosted deposit rates throughout October and November, thereby ensuring liquidity and promoting credit growth.

We recommend BUY for CTG with a target price of VND31,000/share

Based on valuation results, business outlook and possible risks, we reiterate our BUY recommendation for CTG stocks. The target price for FY23 is VND31,000/share, 20.2% higher than the closing price on November 25, 2022.

Buy maintain

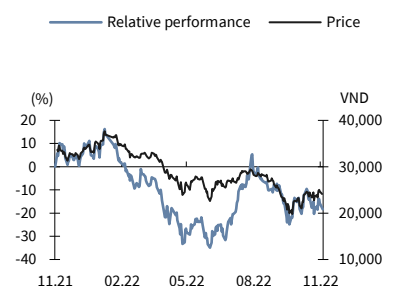
| | |
|------------------------------|------------------|
| Target price | VND31,000 |
| Upside/Downside | 20.2% |
| Current price (Nov 25, 2022) | VND25,800 |
| Consensus target price | VND31,561 |
| Market cap (VNDbn) | 117,260 |

| | |
|------------------------------------|---------------------|
| Trading data | |
| Free float | 15.81% |
| 3M avg trading value (VNDbn/USDmn) | 136/5.5 |
| Foreign ownership | 27.24% |
| Major shareholder | State Bank (64.46%) |

| | | | | |
|--------------------------------|-----------|-----------|-----------|------------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 7 | -15 | -14 | -25 |
| Relative | 0 | -14 | 1 | -18 |

Forecast earnings & valuation

| FY-end | 2020A | 2021A | 2022F | 2023F |
|--|--------|--------|--------|--------|
| Net interest income (VNDbn) | 35,580 | 41,789 | 47,485 | 48,617 |
| Pre-provision operating profit (VNDbn) | 29,288 | 35,971 | 43,146 | 45,774 |
| NPAT of the parent bank (VNDbn) | 13,720 | 14,089 | 16,060 | 18,216 |
| EPS (VND) | 3,685 | 2,932 | 3,342 | 3,790 |
| EPS growth (%) | 45% | -20% | 14% | 13% |
| PER (x) | 7.9 | 9.9 | 8.7 | 7.7 |
| Book value per share (VND) | 22,939 | 19,487 | 22,221 | 25,512 |
| PBR (x) | 1.27 | 1.49 | 1.31 | 1.14 |
| ROE (x) | 16.9% | 15.9% | 16.1% | 16.0% |
| Dividend yield (%) | | | 1.14% | 1.14% |



Source: Bloomberg, KB Securities Vietnam

Business performance

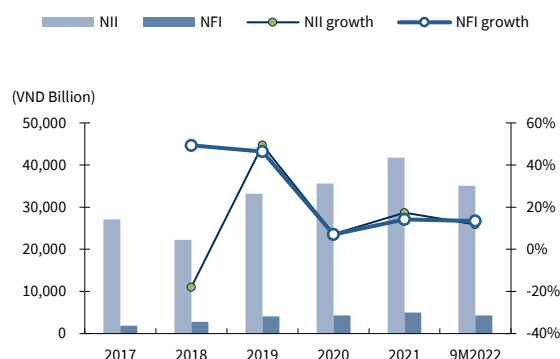
3Q22 PBT expanded by 35.8% YoY to VND4,157 billion

CTG posted its 3Q22 NII of VND12,924 billion (+7.6% QoQ, +30.9% YoY and NOI of VND4,401 billion (+12.0% QoQ, +84.6% YoY), driving total operating income (TOI) to VND17,324 billion (+8.7% QoQ, +41.4% YoY). Provision expense hit VND8,321 billion (+41.4% QoQ, +50.0% YoY), making 3Q22 PBT reach VND4,157 billion (-28.2% QoQ, +35.8% YoY). For 9M22, PBT was up 13.3% YoY to VND15,764 billion, with credit growth of 10.2% YTD.

3Q22 NIM edged up 11 bps QoQ thanks to rising retail & SME loans and improved CASA

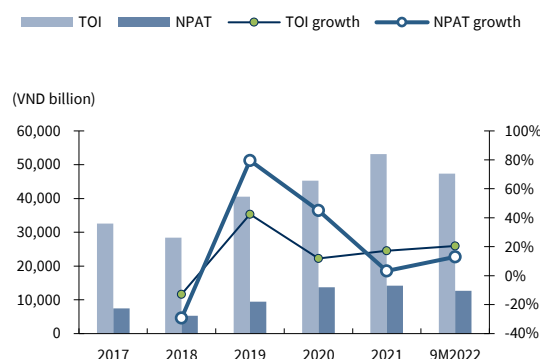
The average earnings yield in the third quarter was 6.25%, up 19bps QoQ, mainly thanks to rising retail & SME loans with higher profit margins. The retail segment during the period accounted for 37.0% of outstanding loans, up 453bps YTD as CTG actively disbursed loans to production and business operations (60.2%) and home buyers (30.6%). Meanwhile, despite surging interbank rates in the 2Q and 3Q22, the average cost of funds only inched up 9bps QoQ since CASA improved by 55bps QoQ to 20.5%, taking NIM to 2.95%, up 11bps QoQ. In our view, the impact of rising deposit rates will be more obvious in FY23.

Fig 1. CTG – NII, NFI growth (VNDbn, %)



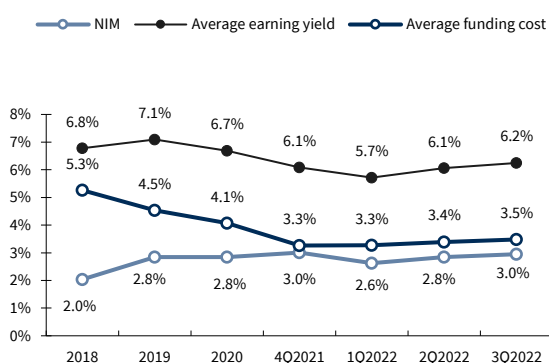
Source: Vietinbank, KB Securities Vietnam

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



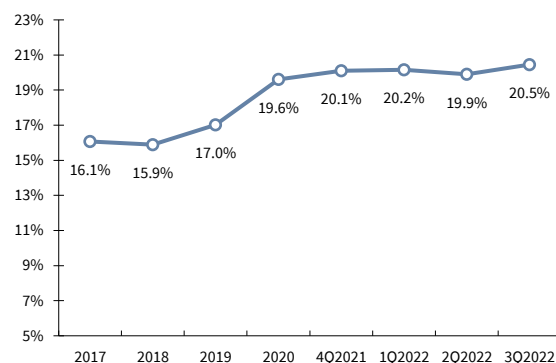
Source: Vietinbank, KB Securities Vietnam

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



Source: Vietinbank, KB Securities Vietnam

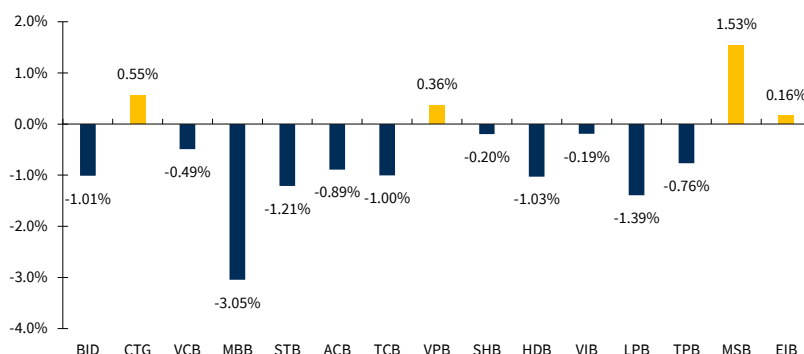
Fig 4. CTG – CASA ratio (%)



Source: Vietinbank, KB Securities Vietnam

CTG is among a few banks with improved CASA ratio in the third quarter, reaching 20.5% (up 55bps QoQ). The increase in CASA ratio of CTG is the second highest among banks under our coverage in the context that most banks eyed shrinking CASA.

Fig 5. Vietnam – CASA ratio of banks (%)

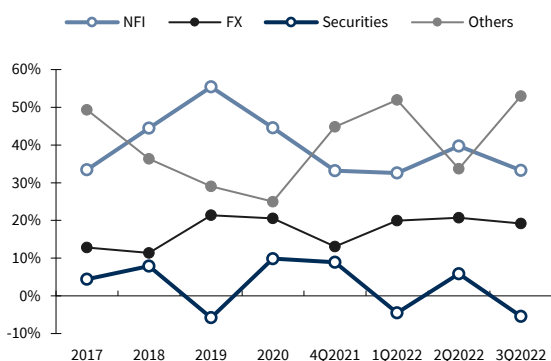


Source: Vietinbank, KB Securities Vietnam

3Q22 NOII jumped by 84.6% YoY to VND4,401 billion

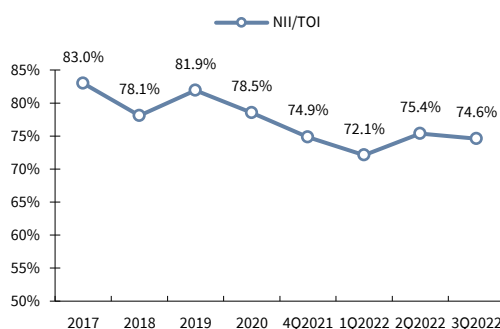
Net fee income (NFI) in the third quarter was VND1,465 billion (-6.1% QoQ, +26.9% YoY). Foreign exchange profit was VND843 billion (+69.1% YoY). In contrast, investment securities lost VND241 billion due to: (1) CTG actively restructured its portfolio to manage risks and reduce the impact of rate hikes in the bond market and (2) investment securities of CTS went down in line with the general downtrend of the local stock market. Net other income climbed to VND2,238 billion (+513.7% YoY), underpinned by bad debt recovery of about VND2,200 billion, making 3Q22 NOII touch VND4,401 billion, up 84.6% YoY. The NII/TOI ratio was 74.6%, the 4th consecutive quarter the figure standing around 75%, suggesting that NOII is increasingly contributing to CTG's business results.

Fig 6. CTG – NOII breakdown (%)



Source: Vietinbank, KB Securities Vietnam

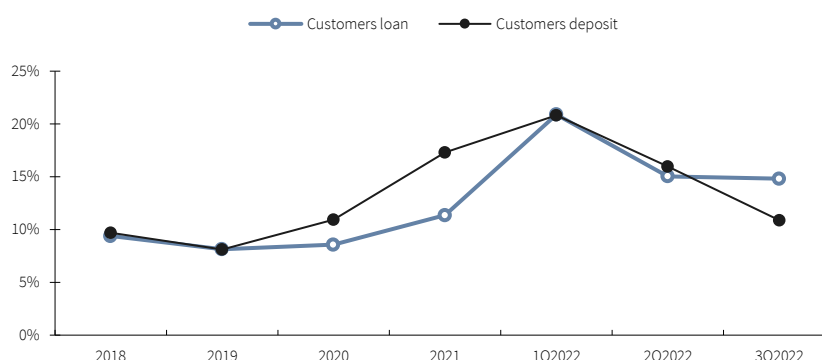
Fig 7. CTG – NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

Credit continued to grow strongly over the same period last year, reaching 10.2% YTD by the end of September. The main driving force came from customer loans.

Fig 8. CTG – Loan and deposit growth (%)



Source: Vietinbank, KB Securities Vietnam

NPL ratio was up 7bps QoQ to 1.42%, and special mentioned loans rose sharply

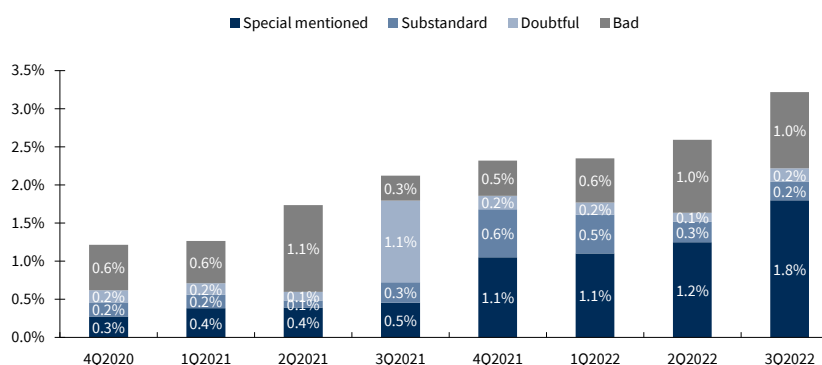
The NPL ratio reached 1.42% (+7bps QoQ) in 3Q22, with doubtful and bad debt up 6bps QoQ and 4bps QoQ respectively. Meanwhile, special mentioned loan ratio was 1.80% (a sharp rise of 55bps QoQ, only after VPBank (VPB)), with a majority of loans from customers enjoying debt rescheduling reclassified as special mentioned loans. From our observation, a weakening property market will put enormous pressure on NPL and the asset quality of various banks in FY23.

CTG set aside VND8,321 billion, LLCR reached 222.4%

CTG continued to boost provisioning in the third quarter of 2022, reaching VND8,321 billion (+41.4% QoQ, +50.0% YoY) in the context of complicated market movements, the highest in recent years, and the NPL ratio grew by 15bps YTD. The loan loss coverage ratio (LLCR) hit 222.4%, the third highest in the industry, only after Vietcombank (VCB) and Bank for Investment & Development (BID). Restructured debt under Circular 01 and amending Circulars by the end of September was about VND3,000 billion, down 70% YTD.

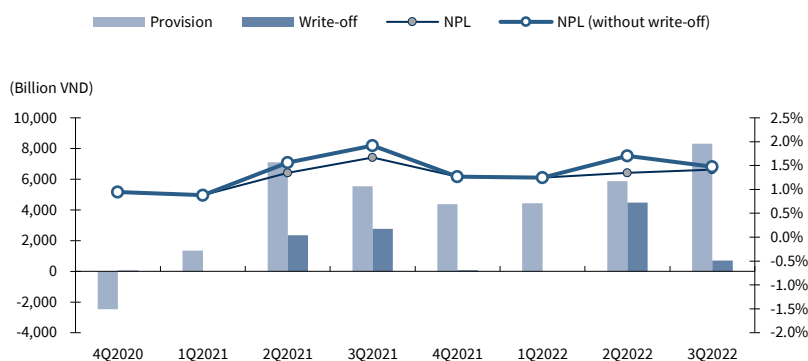
The NPL ratio and special mentioned loan ratio stayed high in recent quarters due to slow recovery of large customers enjoying debt rescheduling.

Fig 9. CTG – Groups of debt (%)



Source: Vietinbank, KB Securities Vietnam

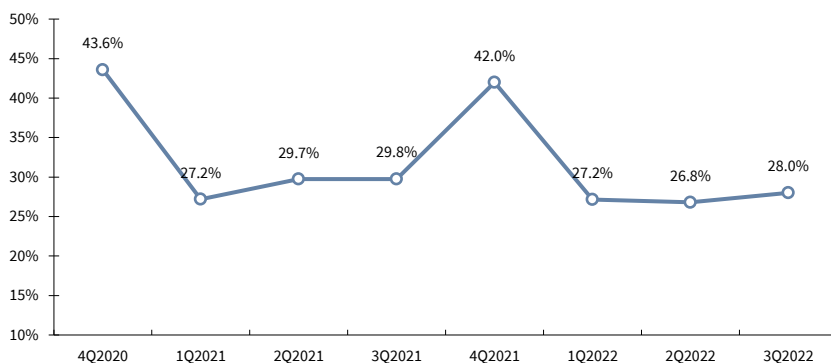
Fig 10. CTG – Provision, write-off, NPL (VNDbn, %)



Source: Vietinbank, KB Securities Vietnam

Fig 11. CTG – CIR (%)

3Q22 CIR was 28.0%, down 178bps YoY on CTG's efforts to reduce cost and effective digital transformation.



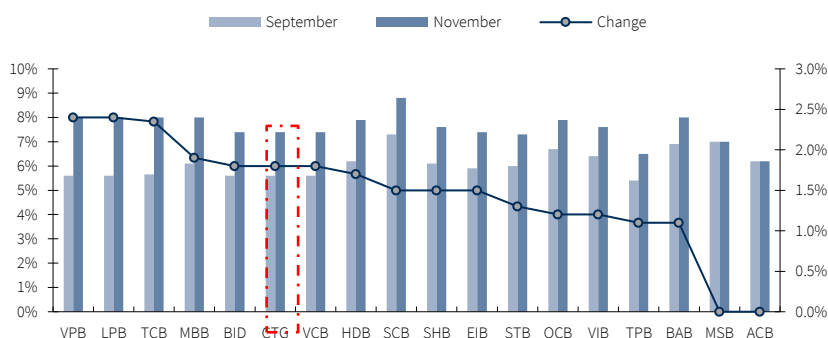
Source: Vietinbank, KB Securities Vietnam

Mobilized capital should improve thanks to higher deposit rates

As of the end of 3Q22, CTG's customer deposits grew by 2.4% YTD. However, CTG's loan-to-deposit ratio (LDR) under Circular 22 stood around 82.3% (-6bps QoQ) as CTG boosted capital mobilization from other sources. In our view, CTG's deposit growth will improve during the year-end period as the bank raised deposit rates in October and November, thereby ensuring liquidity and credit growth for CTG.

CTG's 12-month term deposit rates improved by 1.8%. CTG is among banks with the sharpest increase in deposit rates between September and November.

Fig 12. Vietnam – 12-month term deposit rates among banks (%)



Source: Vietnambiz

Forecast & Valuation

2022F business results

We make our forecast for CTG's 2022F business results as follows:

- Credit growth should reach 10.7%, which is the ceiling growth assigned by the State Bank of Vietnam (SBV).
- We estimate NIM to decrease by 3 bps YoY to 2.98%, 9bps higher than the previous projection, reflecting better-than-expected average earnings yield on CTG's shift to retail & SME lending and that the increase in the average cost of funds has not yet affected NIM.
- The NPL ratio is expected at 1.50%, up 24bps YoY due to debt rescheduling in accordance with Circular 14/2021/TT-NHNN.
- Provision expense is VND22,971 billion, up 25.0% YoY and 27% higher than the previous forecast, reflecting CTG's accelerating provisioning and handling bad debt in 2022.
- The parent bank's NPAT may reach VND16,060 billion, up 14.0% YoY and down 10.5% from the previous forecast.

2023F business results

We make our forecast for CTG's 2023F business results as follows:

- Credit growth should reach 10.0% as the bank emphasizes risk management in light of economic headwinds.
- NIM may narrow by 25bps YoY due to rate increases to bring down inflation and stabilize exchange rate.
- Provision expense is expected to remain at the same high level as in 2022, reaching VND22,890 billion, reflecting risks related to the real estate bond market.
- The parent bank's NPAT is VND18,216 billion, up 13.1% YoY.

Table 13. CTG – 2022–23F business results

| VND bn | 2021A | 2022F | 2023F | % YoY 2022 | %YoY 2023 |
|-------------------------|-----------|-----------|-----------|------------|-----------|
| Net interest income | 41,789 | 47,485 | 48,617 | 14% | 2% |
| Net fee income | 4,961 | 5,998 | 6,621 | 21% | 10% |
| Total operating income | 53,157 | 62,531 | 66,339 | 18% | 6% |
| Provision expense | (18,382) | (22,971) | (22,890) | 25.0% | -0.4% |
| NPAT of the parent bank | 14,089 | 16,060 | 18,216 | 14.0% | 13.4% |
| NIM | 3.01% | 2.98% | 2.73% | -3bps | -25bps |
| Average earnings yield | 6.09% | 6.33% | 6.41% | 24bps | 8bps |
| Average cost of funds | 3.26% | 3.57% | 3.97% | 31bps | 40bps |
| CIR | 32.3% | 31.0% | 31.0% | -133bps | 0bps |
| NPL | 1.26% | 1.50% | 1.90% | 24bps | 40bps |
| Total assets | 1,531,587 | 1,765,544 | 1,927,747 | 15% | 9% |
| Equity | 93,650 | 106,790 | 122,603 | 14% | 15% |

Source: KB Securities Vietnam

We recommend BUY for CTG stocks with a target price of VND31,000/share

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

(1) P/B valuation

We revise our 2022F forward P/B to 1.09x or -1std of CTG's 5-year P/B average due to concerns of the banking system over the negative impact of the real estate bond market and economic risks.

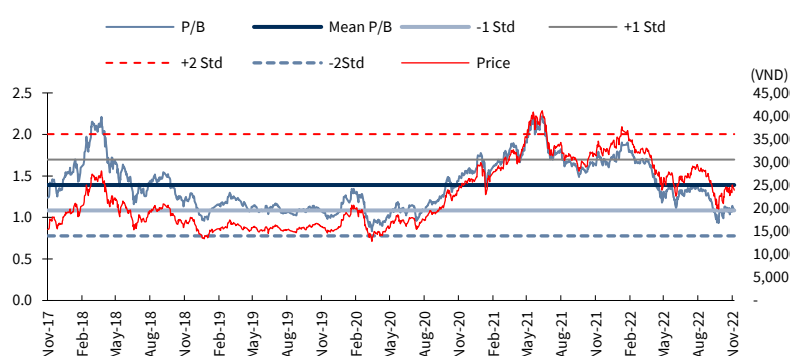
(2) Residual income valuation (Table 14)

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

Based on the equal combination of the above two valuation methods, we maintain our BUY recommendation for CTG stocks with a target price for FY23 of VND31,000/share, 20.2% higher than the closing price on November 25, 2022. Some downside risks include: (1) Higher-than-expected NPL ratio due to macroeconomic instability and (2) lower-than-expected NIM given changes in policy rates.

Although CTG stocks' current market price is relatively attractive, factors supporting the banking industry in general and CTG in particular remain unclear. Investors need effective risk management over short and mid-term trading activities, only disbursing during market corrections with a long-term vision.

Fig 14. CTG - P/B (x)



Source: Fiiipro, KB Securities Vietnam

Table 15. CTG - Residual income valuation

| VND bn | 2021A | 2022F | 2025F |
|-----------------------------|---------------|-------|-------|
| Profit after tax | 1,818 | 1,818 | 1,818 |
| Excessed return | 1,818 | 1,818 | 1,818 |
| Required rate of return (r) | 12.8% | | |
| Growth (g) | 5.0% | | |
| Terminal value | 25,327 | | |
| Present value (PV) | 164,497 | | |
| Share price | 34,229 | | |

Source: KB Securities Vietnam

Table 16. CTG - P/B & residual income valuation

| Valuation method | Forecast price | Weight | Weighted price |
|---------------------|----------------|--------|----------------|
| P/B | 27,808 | 50% | 13,904 |
| Residual income | 34,229 | 50% | 17,115 |
| Target price | | | 31,000 |

Source: KB Securities Vietnam

CTG – 2019A–2023F financials

| Income Statement (VNDbn) | | | | | | Balance Sheet (VNDbn) | | | | | |
|-----------------------------|----------|----------|----------|----------|----------|-------------------------------|-----------|-----------|-----------|-----------|-----------|
| | 2019 | 2020 | 2021 | 2022F | 2023F | | 2019 | 2019 | 2020E | 2021F | 2022F |
| Net interest income | 33,199 | 35,580 | 41,789 | 47,485 | 48,617 | Loans | 922,325 | 1,002,772 | 1,104,873 | 1,214,194 | 1,333,406 |
| Interest income | 82,743 | 83,678 | 84,628 | 100,835 | 114,199 | Marketable securities | 3,825 | 5,602 | 2,475 | 1,179 | 1,272 |
| Interest expense | (49,544) | (48,097) | (42,840) | (53,350) | (65,582) | Cash (ex. Reserves) | 8,283 | 9,930 | 11,331 | 12,018 | 12,968 |
| Fees & commissions | 4,055 | 4,341 | 4,961 | 5,998 | 6,621 | Interest earning assets | 1,206,084 | 1,296,501 | 1,483,561 | 1,702,131 | 1,860,975 |
| Other non-interest income | 1,497 | 1,910 | 3,398 | 5,770 | 6,975 | Fixed assets & other assets | 46,931 | 47,904 | 61,209 | 88,342 | 96,757 |
| Total operating income | 40,519 | 45,317 | 53,157 | 62,531 | 66,339 | Total assets | 1,240,711 | 1,341,436 | 1,531,587 | 1,765,544 | 1,927,747 |
| SG&A expenses | (15,735) | (16,085) | (17,186) | (19,384) | (20,565) | Customer deposits | 892,785 | 990,331 | 1,161,848 | 1,215,193 | 1,311,252 |
| Pre-provisioning OP | 24,785 | 29,288 | 35,971 | 43,146 | 45,774 | Borrowings & call money/repos | 62,842 | 62,609 | 67,025 | 88,538 | 96,981 |
| Provision for credit losses | (13,004) | (12,147) | (18,382) | (22,971) | (22,890) | Interest bearing liabilities | 1,135,713 | 1,226,056 | 1,401,001 | 1,586,142 | 1,715,011 |
| Other income | 2,357 | 2,695 | 4,516 | 7,694 | 9,300 | Other liabilities | 27,643 | 29,969 | 36,937 | 72,612 | 90,133 |
| Other expense | (860) | (785) | (1,118) | (1,923) | (2,325) | Total liabilities | 1,163,357 | 1,256,025 | 1,437,938 | 1,658,754 | 1,805,145 |
| Pre-tax income | 11,781 | 17,085 | 17,589 | 20,175 | 22,884 | Charter capital | 37,234 | 37,234 | 48,058 | 48,058 | 48,058 |
| Income tax expense | (2,304) | (3,328) | (3,374) | (4,035) | (4,577) | Capital surplus | 8,975 | 8,975 | 8,975 | 8,975 | 8,975 |
| NP | 9,477 | 13,757 | 14,215 | 16,140 | 18,307 | Retained earnings | 19,833 | 26,001 | 21,488 | 35,145 | 50,957 |
| Minority interest profit | (16) | (64) | (127) | (81) | (92) | Capital adjustments | - | - | - | - | - |
| Parent NP | 9,461 | 13,720 | 14,089 | 16,060 | 18,216 | Total shareholders' equity | 77,355 | 85,411 | 93,650 | 106,790 | 122,603 |

| Financial Indicators (%) | | | | | | Valuation (VND, X, %) | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|--------------------------------|--------|--------|--------|--------|--------|
| | 2018 | 2019 | 2020E | 2021F | 2022F | | 2018 | 2019 | 2020E | 2021F | 2022F |
| Profitability | | | | | | Share Price Indicators | | | | | |
| ROE | 13.1% | 16.9% | 15.9% | 16.1% | 16.0% | EPS | 2,541 | 3,685 | 2,932 | 3,342 | 3,790 |
| ROA | 0.8% | 1.1% | 1.0% | 1.0% | 1.0% | BVPS | 20,775 | 22,939 | 19,487 | 22,221 | 25,512 |
| Pre-provision ROE | 27.5% | 28.8% | 32.3% | 34.4% | 31.9% | Tangible BVPS | 19,547 | 21,757 | 18,592 | 21,222 | 24,536 |
| Pre-provision ROA | 1.7% | 1.8% | 2.0% | 2.1% | 2.0% | Valuations | | | | | |
| Net interest margin (NIM) | 2.8% | 2.8% | 3.0% | 3.0% | 2.7% | PER | 115 | 7.9 | 9.9 | 8.7 | 7.7 |
| 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% | 2.0% | 2.2% |
| Cost-income ratio | 38.8% | 35.5% | 32.3% | 31.0% | 31.0% | ROE | 13.1% | 16.9% | 15.9% | 16.1% | 16.0% |
| Growth | | | | | | Capital Adequacy | | | | | |
| Asset growth | 6.6% | 8.1% | 14.2% | 15.3% | 9.2% | CAR | 10.0% | 9.3% | 10.0% | >8% | >8% |
| Loan growth | 8.3% | 8.7% | 10.2% | 9.9% | 9.8% | Asset Quality | | | | | |
| PPOP growth | 72.6% | 18.2% | 22.8% | 19.9% | 6.1% | NPL ratio (substandard) | 12% | 0.9% | 1.3% | 1.5% | 1.9% |
| Parent NP growth | 79.4% | 45.0% | 2.7% | 14.0% | 13.4% | Coverage ratio (substandard) | 119.7% | 132.2% | 180.4% | 199.5% | 165.9% |
| EPS growth | 79.4% | 45.0% | -20.4% | 14.0% | 13.4% | NPL ratio (precautionary) | 1.8% | 1.2% | 2.3% | 3.1% | 3.5% |
| BVPS growth | 14.9% | 10.4% | -15.0% | 14.0% | 14.8% | Coverage ratio (precautionary) | 78.5% | 102.1% | 98.4% | 96.5% | 90.1% |

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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