

December 11, 2023

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3Q23 PBT touched VND4,871 billion, up 17.2% YoY

In 3Q23, Vietinbank (CTG) delivered net interest income (NII) of VND13,087 billion (+2.6% QoQ, +1.3% YoY) on total operating income (TOI) of VND17,393 billion (-2.1% QoQ, +0.4% YoY). Provision expenses reached VND7,440 billion (14.8% QoQ, -10.6% YoY), causing NPAT to hit VND4,871 billion (-25.6% QoQ, +17.2% YoY). For 9M23, PBT recorded VND17,401 billion, up 10.4% YoY, with credit growth reaching 8.7% YTD.

NIM is set to improve in 2024, reaching 3.0%

KBSV expects CTG's NIM will improve in 2024, reaching 3.0%, backed by: (1) the maturity of high-interest customer deposits in the 4Q22-1Q23 period with a term of 6 to 12 months, (2) abundant liquidity, supporting low deposit rates, and (3) improved CASA.

The NPL ratio should be well controlled below 1.8%

The NPL ratio rose to 1.37% in 3Q23 amid economic hurdles. CTG set aside more than VND19.8 trillion, thus improving the loan loss coverage ratio (LLCR) (the second highest in the banking system). With a high provision buffer and low-risk loan portfolio, we assess that CTG's NPL ratio will continue to be well controlled below 1.8% in 2024.

We recommend BUY for CTG with a target price of VND40,900/share

Based on valuation results, business prospects, and possible risks, we recommend BUY for CTG. The target price for 2024F is VND40,900/share, 52.1% higher than the closing price as of December 11, 2023.

Buy maintain

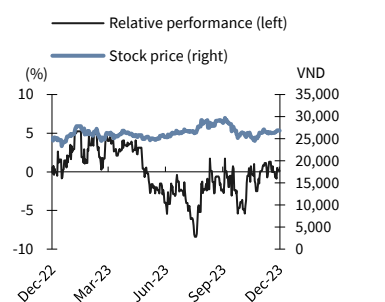
Target price	VND40,900
Upside	52.1%
Current price (Dec 11, 2023)	VND26,900
Consensus target price	VND34,000
Market cap (VNDbn/USDbn)	144,453/6.0

Trading data	
Free float	35.5%
3M avg trading value (VNDbn/USDmn)	114.18/4.72
Foreign ownership	27.8%
Major shareholder	SMBC (15.01%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.0	-5.9	5.8	9.3
Relative	0.0	2.4	4.3	0.4

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	41,788	47,792	52,489	60,991
PPOP (VNDbn)	35,971	45,109	49,882	57,038
NPAT (VNDbn)	14,215	16,835	18,480	23,182
EPS (VND)	2,932	3,491	3,441	4,317
EPS growth (%)	-20.3%	19.1%	-1.4%	25.4%
PER (x)	10.7	9.0	9.1	7.3
Book value per share (VND)	19,487	22,508	22,785	26,302
PBR (x)	1.6	1.4	1.4	1.2
ROE (%)	15.9%	16.7%	16.1%	17.6%
Dividend yield (%)	2.6%	2.6%	2.6%	2.6%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q2023, EBT reached 4,871 billion VND, up 17.2% YoY

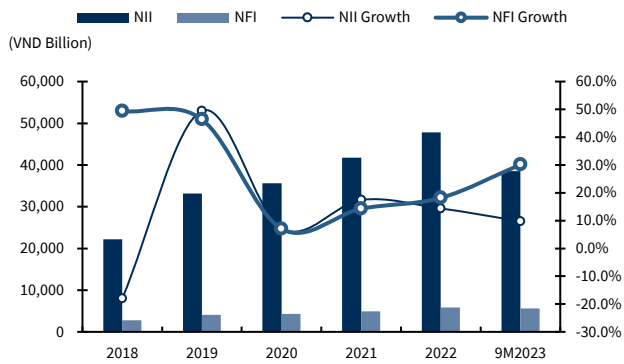
In 3Q23, CTG delivered net interest income (NII) of VND13,087 billion (+2.6% QoQ, +1.3% YoY) on total operating income (TOI) of VND17,393 billion (-2.1% QoQ, +0.4% YoY). Provision expenses reached VND7,440 billion (14.8% QoQ, -10.6% YoY), causing NPAT to hit VND4,871 billion (-25.6% QoQ, +17.2% YoY). For 9M23, PBT recorded VND17,401 billion, up 10.4% YoY, with credit growth reaching 8.7% YTD.

Table 1. CTG – 3Q22–3Q23 business results

(VNDbn)	3Q2022	2Q2023	3Q2023	+/-%QoQ	+/-%YoY	Comments
Net interest income	12,924	12,757	13,087	2.6%	1.3%	NII improved slightly due to a marginal increase in NIM (0.2bps QoQ) in the context that CTG's credit growth continued to outperform the industry median and funding costs decreased in line with falling lending interest rates.
Net fee income	1,465	1,784	1,815	1.7%	23.9%	
Other income	4,401	5,014	4,306	-14.1%	-2.2%	FX trading continued to grow strongly, reaching VND1,135 billion (34.7% YoY) as import-export activities continued to recover and CTG focused more on digital transformation in addition to taking advantage of exchange rate fluctuations. Securities trading recorded a slight loss due to reduced bond prices. Net other income plummeted by 20.7% QoQ and 37% YoY mainly due to a sharp fall in recovery income from written-off bad debts (-16.4% QoQ and -33.2% YoY) in light of general difficulties.
Total operating income	17,324	17,772	17,393	-2.1%	0.4%	
Operating expenses	(4,847)	(4,743)	(5,082)	7.1%	4.8%	
Pre-provision operating profit (PPOP)	12,477	13,029	12,311	-5.5%	-1.3%	
Provision expenses	(8,321)	(6,478)	(7,440)	14.8%	-10.6%	Provision expenses rose 14.8% QoQ due to rising NPLs, focusing on doubtful and bad debts. As a result, the loan loss coverage ratio (LLCR) increased to 172.44% (+358 bps), which is the second highest in the banking system.
NPAT	3,320	5,264	3,895	-26.0%	17.3%	
Loan growth	10.1%	6.6%	8.7%	2.1 ppts	-1.4 ppts	Credit growth reached 8.7% (-1.4 ppts YoY) with the main driver from retail and SME loans (+1.8% QoQ and +3.5% QoQ) while large corporate loan growth was slower (+0.5% QoQ).
Deposit growth	10.1%	8.8%	8.8%	0 ppts	-1.3 ppts	
NIM	2.95%	2.87%	2.88%	0 bps	-7 bps	CTG's NIM remained relatively unchanged while most other banks' decreased since CTG proactively lowered the cost of funds by cutting deposit interest rates, raising CASA, and switching to low-cost mobilized capital (raising interbank deposits and reducing issuance of valuable papers). The CASA ratio reached 20%, up 120bps QoQ and down 0.4bps YoY.
Average earnings yield	6.25%	7.56%	7.45%	-11 bps	120 bps	
Average cost of funds	3.48%	4.95%	4.84%	-11 bps	136 bps	
CIR	28.0%	26.7%	29.2%	2.5 ppts	1.2 ppts	
NPL ratio	1.42%	1.27%	1.37%	10 bps	-5 bps	NPLs in 3Q23 hit VND18,941 billion (+10bps QoQ), of which doubtful and bad debts expanded by 28bps and 11 bps respectively. CTG said it will strengthen risk management and control NPL ratio below 1.8% and maintain the loan loss coverage ratio (LLCR) at a reasonable level.

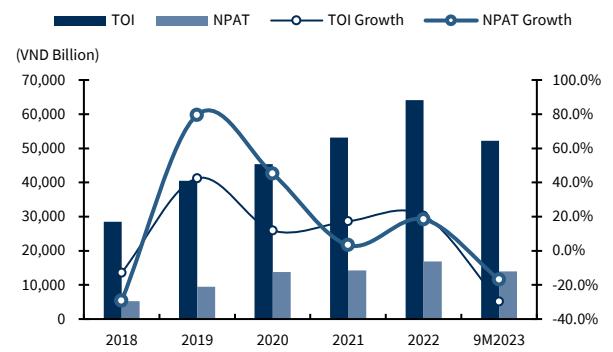
Source: Vietinbank, KB Securities Vietnam

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



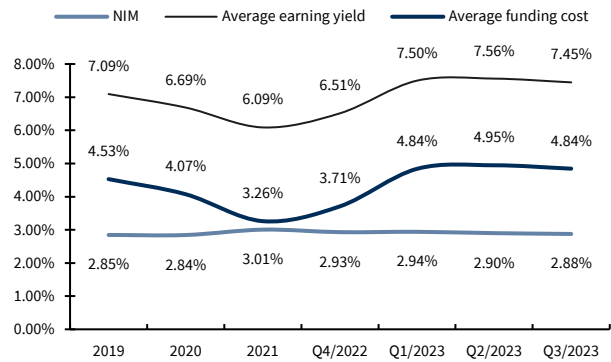
Source: Vietinbank, KB Securities Vietnam

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



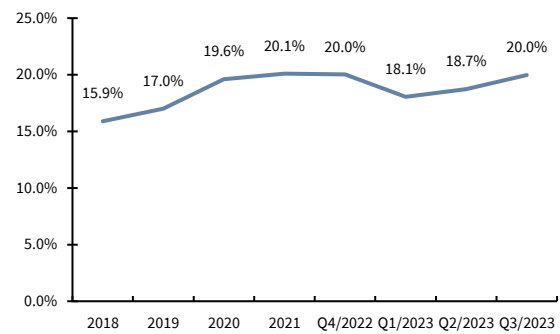
Source: Vietinbank, KB Securities Vietnam

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



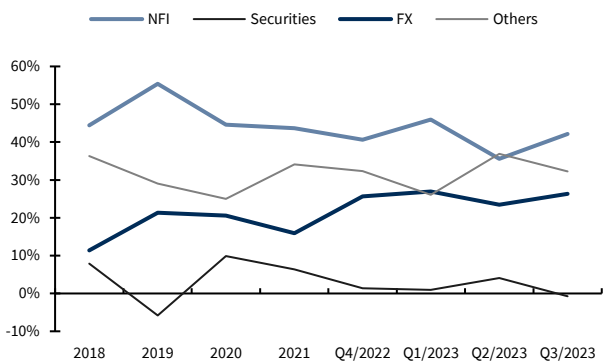
Source: Vietinbank, KB Securities Vietnam

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



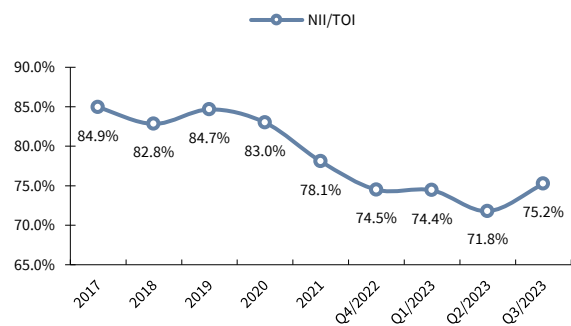
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG – NOII breakdown (%)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG – NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

NIM is set to improve in 2024, reaching 3.0%

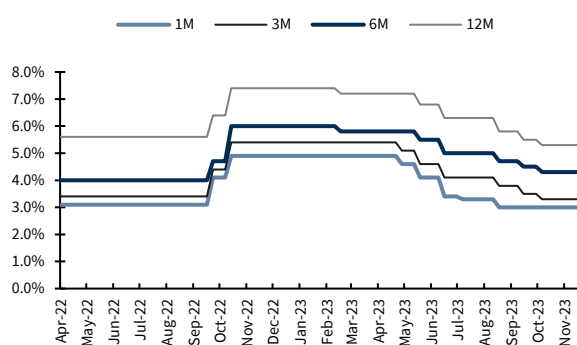
KBSV expects CTG's NIM to improve in 2024, reaching 3% for the following reasons:

(1) High-interest customer deposits in the 4Q22-1Q23 period with terms of 6 to 12 months will largely mature by the end of this year and early next year. In addition, interest rate cuts will help reduce funding costs in 2024. These are term deposits with an interest rate of ~7.4% (Fig 8), the main reason behind CTG's surging funding costs from 1Q23.

(2) Ample liquidity (Fig 9) supports lower-for-longer deposit interest rates. As a result, CTG's deposit growth has somewhat slowed down. Specifically, in 3Q23, the loan-to-deposit ratio (LDR) picked up 1.5% YoY to 82.2% but remained below 85%, the ratio of short-term capital for medium and long-term loans edged up 0.4% QoQ to 23%, far below the target cap of 30%, and the liquidity reserve ratio increased further 3% QoQ to 16.7%. KBSV expects CTG's funding costs to contract by 55bps next year on the ongoing low interest rates in the first half of 2024.

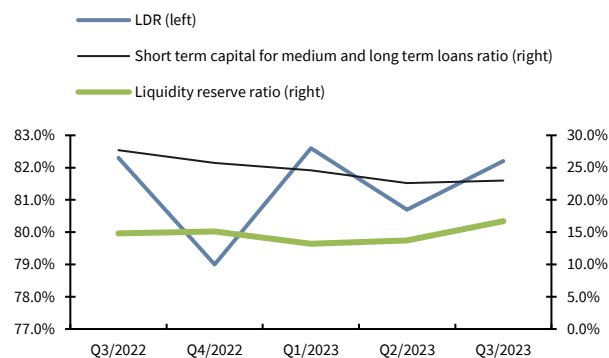
(3) CASA has improved, returning to 20% in 3Q23 due to the shift from long-term deposits to shorter-term ones following a sharp fall in deposit interest rates. Besides, CTG's deposit market share inched down 0.3% QoQ. In 2024, KBSV expects CTG to continue to perfect products and services to enhance customer experience, helping to maintain the current CASA ratio.

Fig 8. CTG – Deposit interest rates (%)



Source: Wichart, KB Securities Vietnam

Fig 9. CTG – Liquidity ratios (%)



Source: Vietinbank, KB Securities Vietnam

The NPL ratio should be well controlled below 1.8%

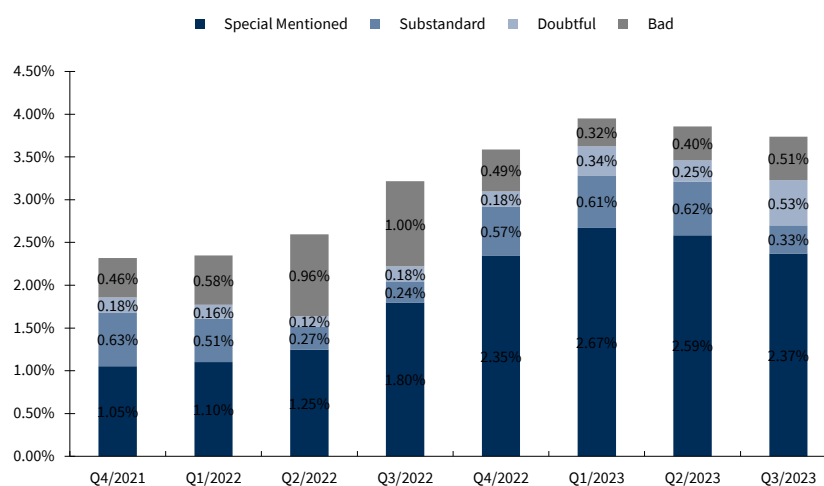
Economic headwinds have adversely affected customers' creditworthiness, causing CTG's NPL ratio to increase to 1.37% (+10bps QoQ) in 3Q23. In particular, doubtful debt rose sharply by 28bps QoQ, and bad debt expanded by 11bps QoQ, resulting in recovery income from written-off bad debts for 9M23 shrinking by 25.4% YoY to VND3.2 billion.

However, CTG set aside more than VND19.8 trillion, improving the LLCR in 3Q23 to 172.4% (+3.58 pts). With the second-highest provision buffer in the entire system, we assess that CTG will be able to flexibly manage and control the NPL ratio below 1.8% in 2024.

Besides, we can see positive changes in CTG's loan portfolio with a reduced credit balance of the real estate sector (down 1.1% to 16% of total outstanding loans in 3Q23) and an increased balance for manufacturing and processing

activities (up 57.5% to 62.2%). Moreover, CTG owns a very small portion of corporate bonds, showing its low-risk appetite and a healthy loan portfolio.

Fig 12. CTG – Debt groups in 2021–2023 (%)



Source: Vietinbank, KB Securities Vietnam

Fig 13. Vietnam – Special mentioned loan and NPL ratio across local banks (%)

	% NPL	QoQ	% Group 2 debt	QoQ	Provision (Billion VND)	LLCR
VCB	1.21%	0.38%	0.64%	-0.14%	(38,872)	270.10%
CTG	1.37%	0.09%	2.37%	-0.21%	(32,661)	172.40%
BID	1.60%	0.00%	1.86%	-0.32%	(41,809)	158.40%
MBB	1.89%	0.44%	2.97%	-0.52%	(12,333)	122.00%
ACB	1.20%	0.23%	0.81%	-0.07%	(5,110)	94.60%
TCB	1.36%	0.29%	1.26%	-0.70%	(6,017)	93.00%
EIB	2.12%	0.21%	1.46%	-0.26%	(319)	74.00%
LPB	2.79%	0.36%	1.24%	-0.44%	(4,971)	67.50%
STB	2.20%	0.41%	0.71%	-0.44%	(6,670)	64.20%
SHB	3.21%	0.19%	1.94%	-0.86%	(7,860)	58.30%
MSB	2.94%	0.38%	3.25%	-0.15%	(2,415)	58.20%
HDB	2.26%	0.11%	5.04%	0.00%	(3,580)	54.20%
TPB	2.97%	0.76%	3.77%	0.26%	(2,514)	47.00%
VPB	5.74%	1.70%	8.03%	-0.16%	(12,768)	42.70%
VIB	3.68%	0.05%	6.45%	0.13%	(3,739)	41.40%

Source: Local banks, KB Securities Vietnam

Forecast & Valuation

Table 14. CTG – 2022A–2024F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	47,792	52,489	9.8%	60,991	16.2%	Our 2.3% upward revision for 2024F NII forecast is due to CTG's improved credit growth.
Net fee income	5,862	7,244	23.6%	7,735	6.8%	
Total operating income	64,117	70,257	9.6%	80,109	14.0%	
Provision expenses	(24,163)	(26,700)	10.5%	(27,970)	4.8%	We raise our assumption for 2024F provision expenses by 11.6% compared to the old projection since NPLs rose faster than we initially expected.
NPAT	16,835	18,480	10.2%	23,182	25.4%	
NIM	2.98%	2.87%	-11bps	3.0%	14bps	We adjust up 2024F NIM due to our expectations about the ongoing low interest rates in the first half of 2024.
Average earnings yield	6.52%	7.09%	58bps	6.51%	-58bps	
Average cost of funds	3.72%	4.47%	76bps	3.77%	-71bps	
CIR	29.6%	29.0%	-6bps	28.8%	-2bps	
NPL ratio	1.24%	1.60%	36bps	1.38%	-22bps	
Total assets	1,808,430	1,982,861	9.6%	2,186,940	10.3%	
Owner's equity	108,168	122,352	13.1%	141,238	15.4%	

Source: KB Securities Vietnam

We recommend BUY for CTG with a target price of VND40,900/share

We combine two valuation methods, P/B and residual income (50:50 weighting) to find a fair price for VPB shares.

(1) P/B method

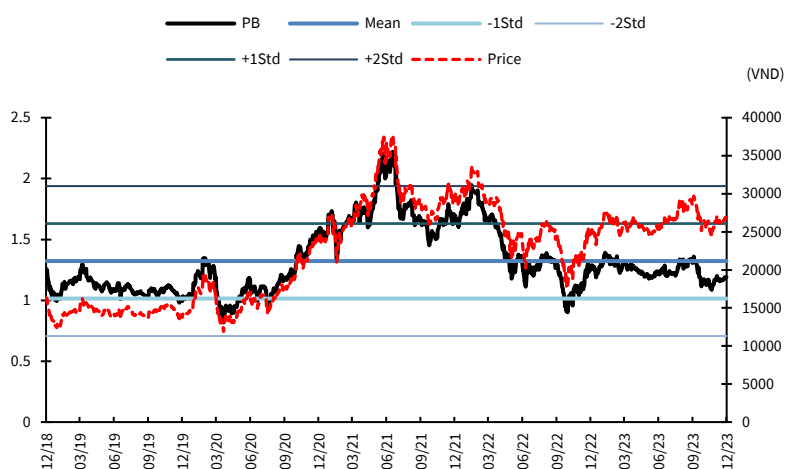
We maintain the 2023 forecast P/B at 1.32x, equivalent to CTG's 5-year average P/B line, reflecting expectations of an improving economic situation and CTG's scale advantages in 2024.

(2) Residual income method (Table 14)

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

Accordingly, we recommend BUY for CTG with a target price for 2024F of VND40,900/share, 52.1% higher than the closing price as of December 11, 2023.

Fig 15. CTG – Historical P/B, share price performance in 2018–2023 (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 16. CTG – Residual income valuation

(VNDbn)		2023F	2024F	2025F
NPAT		18,546	23,254	29,650
Excessed return		2,468	5,068	8,656
Required rate of return (r)	14.86%			
Growth (g)	5.0%			
Terminal value	50,243			
End-2024 fair value	231,228			
Value per share	43,060			

Source: KB Securities Vietnam

Table 17. CTG – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
P/B	38,794	50%	19,397
Residual income	43,060	50%	21,530
Target price			40,927

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	52,489	60,991	Loans	1,002,772	1,104,873	1,245,058	1,401,422	1,581,181
Interest income	83,678	84,628	104,665	129,895	132,262	Marketable securities	5,602	2,475	1,406	1,766	1,987
Interest expense	(48,097)	(42,840)	(56,873)	(77,407)	(71,272)	Cash (ex. Reserves)	9,930	11,331	11,067	13,015	14,642
Fees & commissions	4,341	4,961	5,862	7,244	7,735	Interest earning assets	1,296,501	1,483,561	1,728,586	1,932,699	2,128,646
Other non-interest income	1,910	3,398	6,537	5,344	5,767	Fixed assets & other assets	47,904	61,209	95,368	73,407	80,237
Total operating income	45,317	53,157	64,117	70,257	80,109	Total assets	1,341,436	1,531,587	1,808,430	1,982,861	2,186,940
SG&A expenses	(16,085)	(17,186)	(19,007)	(20,375)	(23,071)	Customer deposits	990,331	1,161,848	1,249,176	1,398,591	1,573,415
Pre-provisioning OP	29,232	35,971	45,109	49,882	57,038	Borrowings & call money/repos	62,609	67,025	93,763	94,031	105,784
Provision for credit losses	(12,147)	(18,382)	(24,163)	(26,700)	(27,970)	Interest bearing liabilities	1,226,056	1,401,001	1,657,148	1,802,660	1,980,243
Other income	2,695	4,516	7,507	6,362	6,866	Other liabilities	29,969	36,937	43,114	57,398	64,555
Other expense	(785)	(1,118)	(969)	(1,018)	(1,098)	Total liabilities	1,256,025	1,437,938	1,700,262	1,860,058	2,044,799
Pre-tax income	17,085	17,589	20,946	23,183	29,068	Charter capital	37,234	48,058	48,058	53,700	53,700
Income tax expense	(3,328)	(3,374)	(4,111)	(4,637)	(5,814)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	13,757	14,215	16,835	18,546	23,254	Retained earnings	26,001	21,488	33,364	41,907	60,793
Minority interest profit	(64)	(127)	(60)	(66)	(73)	Capital adjustments	-	-	-	-	-
Parent NP	13,694	14,089	16,775	18,480	23,182	Total shareholders' equity	85,411	93,650	108,168	122,352	141,238

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%	16.1%	17.6%	EPS	3,678	2,932	3,491	3,441	4,317
ROA	1.1%	1.0%	1.0%	1.0%	1.1%	BVPS	22,939	19,487	22,508	22,785	26,302
Pre-provision ROE	28.8%	32.3%	35.8%	34.6%	34.6%	Tangible BVPS	21,757	18,592	21,643	22,042	25,590
Pre-provision ROA	1.8%	2.0%	2.2%	2.1%	2.2%	Valuations					
Net interest margin (NIM)	2.8%	3.0%	3.0%	2.9%	3.0%	PER	8.5	10.7	9.0	9.1	7.3
Efficiency						PBR	1.4	1.6	1.4	1.4	1.2
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%	16.1%	17.6%
Growth						Capital Adequacy					
Asset growth	8.1%	14.2%	18.1%	9.6%	10.3%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	8.7%	10.2%	12.7%	12.6%	12.8%	Asset Quality					
PPOP growth	17.9%	23.1%	25.4%	10.6%	14.3%	NPL ratio (substandard)	0.9%	1.3%	1.2%	1.6%	1.4%
Parent NP growth	44.7%	2.9%	19.1%	10.2%	25.4%	Coverage ratio (substandard)	132.2%	180.3%	188.3%	169.8%	176.9%
EPS growth	44.7%	-20.3%	19.1%	-1.4%	25.4%	NPL ratio (precautionary)	1.2%	2.3%	3.6%	3.9%	3.6%
BVPS growth	10.4%	-15.0%	15.5%	1.2%	15.4%	Coverage ratio (precautionary)	102.1%	98.4%	65.0%	69.6%	68.1%

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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