

March 15, 2022

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4Q21 PBT reached VND3,678 billion, down 45.2% YoY

In 4Q21, Vietinbank (CTG) posted NII of VND10,396 billion (+5.3% QoQ, +1.1% YoY) and TOI of VND13,887 billion (+13.3% QoQ, +5.9% YoY). Provision expenses were down sharply to VND4,377 billion (-21.1% QoQ), helping PBT reach VND3,678 billion (+20.2% QoQ, -45.2% YoY).

NPL ratio was 1.26%, down 40bps QoQ thanks to a sharp decrease in doubtful debts

Asset quality improved in the fourth quarter with NPL ratio of 1.26%, down 40bps QoQ thanks to a sharp fall in doubtful debts. The loan loss coverage ratio (LLCR) hit 180.4%, the fifth highest in the banking system. Restructured debts in 4Q21 were VND10.3 trillion vs. VND7.8 trillion in 3Q21.

CTG and Manulife reached an exclusive bancassurance agreement

On January 24, 2022, CTG and Manulife reached an exclusive cooperation agreement lasting 16 years with an upfront fee of about USD30 million, expected to be paid in six years. CTG may record USD5 million of upfront fee in 1Q22.

Customers using Vietinbank iPay are exempt from transaction fees

Customers using Vietinbank iPay will be exempt from transfer fees and some related fees from January 1, 2022, which will cause service fees to decrease, but improve CASA and increase CTG's competitiveness in the coming time.

We recommend BUYING CTG shares with a target price of VND43,100

Based on valuation results, business outlook, and possible risks, we recommend BUYING CTG shares. The target price is VND43,100/share, 34.9% higher than the closing price on March 15, 2022.

Buy maintain

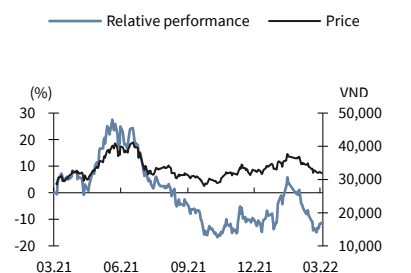
Target price	VND43,100
Upside/Downside	34.9%
Current price (Mar 15, 2022)	VND32,950
Consensus target price	VND38,587
Market cap (VNDbn)	153,543

Trading data	
Free float	15.81%
3M avg trading value (VNDbn/USDmn)	377/16.5
Foreign ownership	25.69%
Major shareholder	State Bank (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-8	-2	3	11
Relative	-5	0	-4	-12

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net revenue (VNDbn)	35,581	41,788	46,046	50,662
Pre-provision net operating income (VNDbn)	29,232	35,970	40,330	42,934
NPAT of the parent bank (VNDbn)	13,694	14,092	21,068	28,228
EPS (VND)	3,678	2,932	4,384	5,874
EPS growth (%)	45%	-20%	49%	34%
PER (x)	11.9	14.9	10.0	7.5
Book value per share (VND)	22,939	19,488	23,264	28,638
PBR (x)	1.91	2.25	1.88	1.53
ROE (%)	16.9%	15.9%	20.6%	22.7%
Dividend yield (%)			1.14%	1.14%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

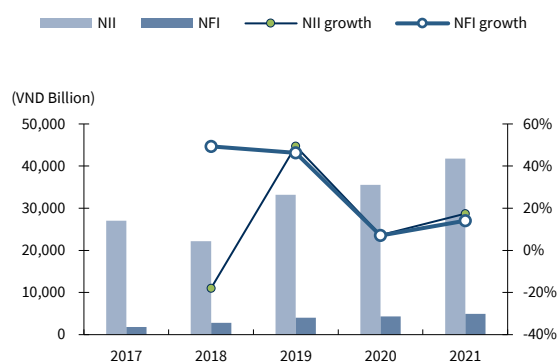
4Q21 PBT was VND3,678 billion, down 45.2% YoY

In the fourth quarter of 2021, CTG recorded net interest income (NII) of VND10,396 billion (+5.3% QoQ, +1.1% YoY), non-interest income (NOII) of VND3,491 billion (+46.5% QoQ, +23.7% YoY), and total operating income (TOI) of VND13,887 billion (+13.3% QoQ, +5.9% YoY). Provision expenses dropped significantly to VND4,377 billion (-21.1% QoQ), causing PBT achieve VND3,678 billion (+20.2% QoQ, -45.2% YoY). Credit growth reached 11.1% YTD and 4.5% QoQ.

4Q21 NIM dropped by 10 bps QoQ, putting reducing NIM under pressure

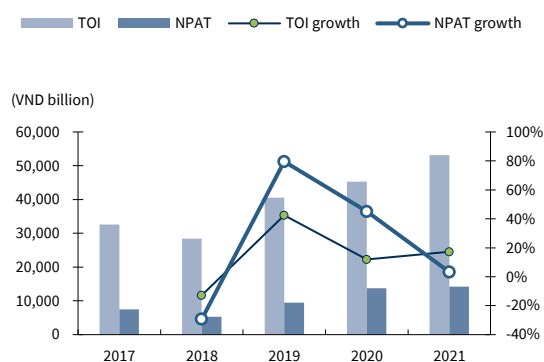
Average earnings yield in 4Q21 was 6.09%, down 15bps QoQ while average cost of funds was 3.26%, down 6bps QoQ due to higher loan from the government and the State Bank, making NIM hit 3.01% (-10bps QoQ, + 26bps YoY). In our view, the pressure to reduce NIM will increase in 2022 due to the liquidity and inflationary pressures of the banking system. NIM can be supported by: (1) increased proportion of SME and retail customers with higher interest rates; and (2) improved CASA.

Fig 1. CTG – NII and NFI (VNDbn, %)



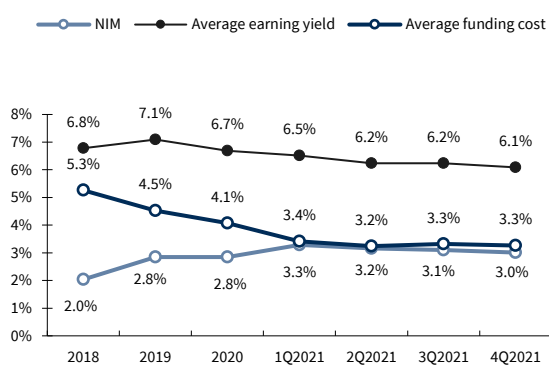
Source: Vietinbank, KB Securities Vietnam

Fig 2. CTG – TOI and NPAT (VNDbn, %)



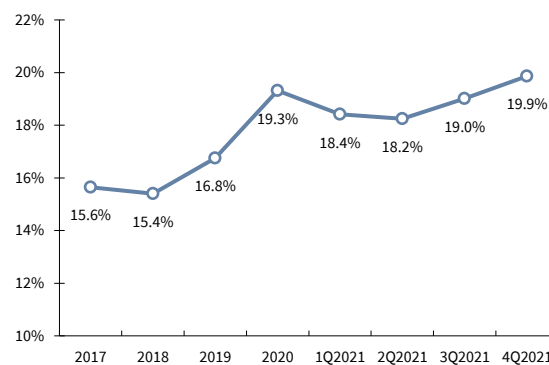
Source: Vietinbank, KB Securities Vietnam

Fig 3. CTG – NIM, interest rates (%)



Source: Vietinbank, KB Securities Vietnam

Fig 4. CTG – CASA (%)

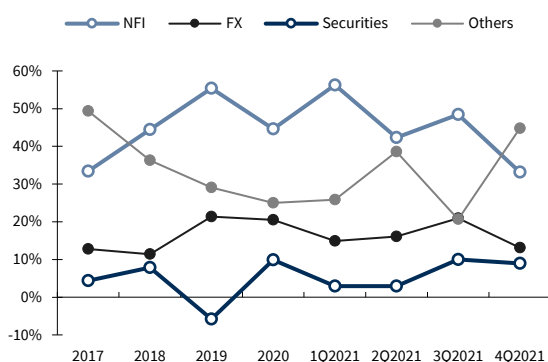


Source: Vietinbank, KB Securities Vietnam

4Q21 NOII reached VND3,491 billion, up 46.5% QoQ thanks to accelerated debt recovery

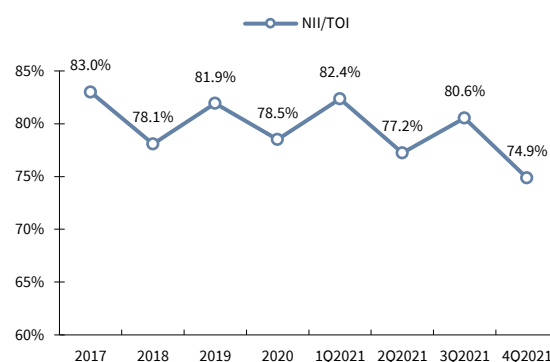
In 4Q21, service fees hit VND1,158 billion, up 3.1% YoY. Profit from foreign currency trading decreased by 5.8% YoY, earnings from securities trading and investment declined by 3.4% YoY while debt recovery surged YoY and QoQ, helping net other income record VND1,469 billion (+302.8% QoQ, +103.1% YoY). NOII was VND3,491 billion (+46.5% QoQ, +23.7% YoY); NII/TOI ratio reached 74.9%, lower than recent quarters' average.

Fig 5. CTG – NOII (%)



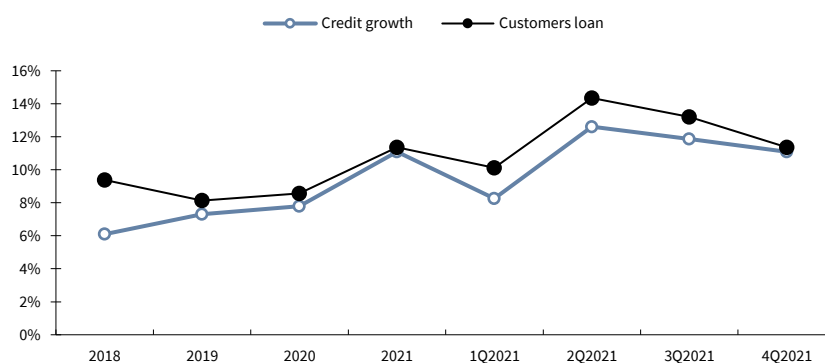
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG – NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG – Credit growth & customer loans (%YoY)



Source: Vietinbank, KB Securities Vietnam

NPL ratio was 1.26%, down 40bps QoQ thanks to a sharp fall in doubtful debts

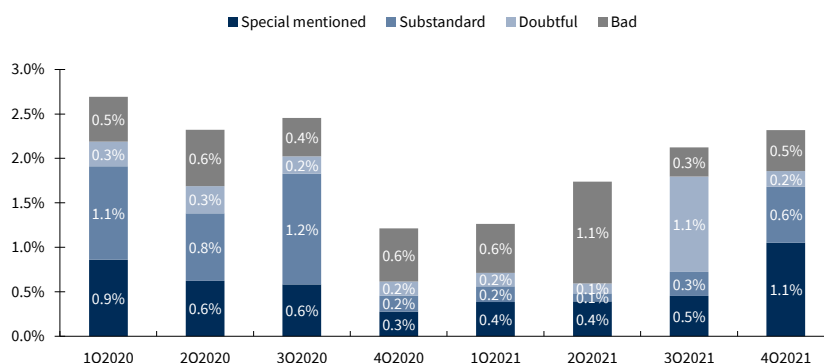
Asset quality improved in 4Q21 with NPL ratio down 40bps QoQ to 1.26% thanks to doubtful debts dropping sharply from 1.07% in 3Q21 to 0.18% in 4Q21. In contrast, special mention, substandard, and bad debts increased. In particular, special mention loans were up +60bps QoQ. Given economic recovery from the pandemic and decreased special mention loans of banks under our coverage from 1.4% to 1.14%, the rise in special mention loans of CTG should be closely followed.

CTG boosted provisioning to VND4,377 billion, the LLCR reached 180.4%

During the period, CTG boosted provisioning to VND4,377 billion (-21.9% QoQ, +14.2% YoY); the LLCR was 180.4%, the fifth highest in the banking system. Restructured debts increased to VND10.3 trillion from VND7.8 trillion in 3Q21. CTG has made 90% of the required provision for restructured debts instead of spreading it over three years, easing the provisioning pressure in 2022.

CTG is the only bank with rising special mention loans among 15 banks under our coverage.

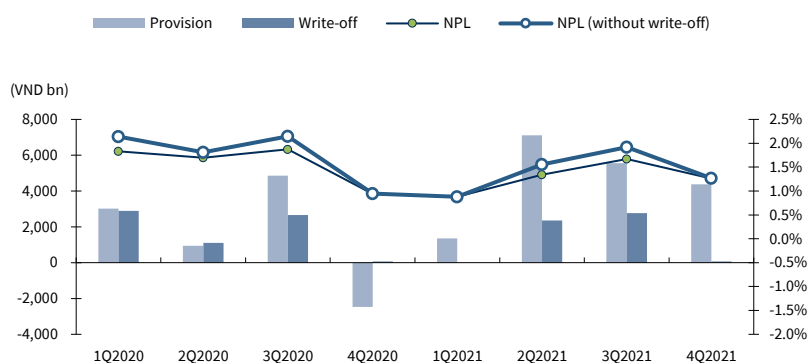
Fig 10. CTG – Special mention, substandard, doubtful, bad debts (%)



Source: Vietinbank, KB Securities Vietnam

In 4Q21, CTG hardly used provision for writing off debts, but the NPL ratio still decreased considerably, showing the improvement of the bad debts following the better control of the pandemic.

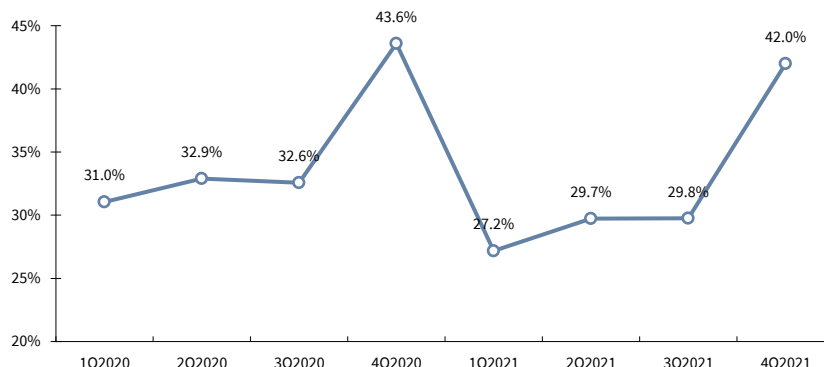
Fig 11. CTG – Provision (VNDbn, %)



Source: Vietinbank, KB Securities Vietnam

4Q21 CIR reached 42.0%, up 12.2% QoQ since CTG increased payments related to staff cost in the last quarter of the year.

Fig 12. CTG – CIR (%)



Source: Vietinbank, KB Securities Vietnam

CTG and Manulife reached an exclusive bancassurance agreement

On January 24, 2022, CTG and Manulife launched their joint operations under an exclusive cooperation agreement lasting 16 years with an upfront fee of about USD30 million, expected to be paid in six years. KBSV expects that the exclusive cooperation with Manulife, one of the leading insurance companies in the market with more than 1 million customers, 60,000 consultants, and 87 offices across the country, will boost CTG's service fees in the long run. Besides, CTG may record around USD5 million of the upfront fee in 1Q22.

Customers using Vietinbank iPay are exempt from transfer fees and some related fees

Customers using VietinBank iPay will be exempt from transfer fees, the management fee for one account, monthly maintenance fee, and credit card/debit card issuing fees. This policy applies to all customers, with no minimum balance requirements, which will cause service fees to decrease in 2022, but help improve CASA with a lot of room left.

Forecast business performance

2022F business performance

We make a forecast for CTG in 2022 as follows:

- Credit growth is 11.2% in 2022 as businesses will step up borrowing to recover from the COVID-19 pandemic, and the SBV may expand the credit caps for CTG.
- We estimate NIM to fall by 11 bps YoY to 2.89% on the expectation that improved CASA will offset the pressure to increase the cost of funds resulting from liquidity and inflationary pressures.
- NPL should be 1.40%, up 14bps YoY due to debt rescheduling as per Circular 14/2021/TT-NHNN.
- Provision expenses may hit VND13,863 billion, down 24.6% YoY due to accelerated provisioning for restructured debt in 2021.
- We forecast NPAT in 2022 to reach VND21,174 billion, up 48.9% YoY.

Table 12. CTG – 2021A–2023E business results

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net revenue	41,788	46,046	50,662	10%	10%
Service fees	4,952	6,460	6,720	30%	4%
TOI	53,149	59,748	63,607	12%	6%
Provision expenses	(18,382)	(13,863)	(7,472)	-24.6%	-46.1%
NPAT	14,219	21,174	28,370	48.9%	34.0%
NIM	3.01%	2.89%	2.86%	-11bps	-3bps
Average earnings yield	6.09%	6.41%	6.48%	32bps	6bps
Average cost of funds	3.26%	3.84%	4.07%	58bps	23bps
CIR	32.3%	32.5%	32.5%	18bps	0bps
NPL	1.26%	1.40%	1.30%	14bps	-10bps
Total assets	1,531,468	1,749,085	1,892,156	14%	8%
Equity	93,653	111,802	137,627	19%	23%

Source: KB Securities Vietnam

We recommend BUYING CTG shares with a target price of VND43,100 apiece

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

(1) P/B valuation method

With high expectations for earnings growth, a positive outlook after CTG clears all bad debts at the Vietnam Asset Management Company (VAMC), 90% of the required amount for restructured debts provisioned, bancassurance, and improved CIR, we give CTG a target P/B of 1.72x, equivalent to +1Std of CTG's three-year average P/B.

(2) Residual income valuation method (Table 14)

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

Combining the above two valuation methods with a ratio of 50-50, we find the final fair price for CTG shares at VND43,100/share, 34.9% higher than the closing price on March 15, 2022. Some downside risks include (1) Asset quality that may fall short of expectation due to the unpredictable developments of the pandemic; (2) lower-than-expected NIM because of changes in policy interest rates of the State Bank.

Table 14. CTG – Share price according to residual income method (VND)

VNDbn	2021F	2022F	2023F
NPAT	21,173.80	28,369.83	29,565.21
Excessed return	6,776.27	10,646.64	8,363.17
Required rate of return (r)	12.88%		
Growth (g)	5.0%		
Terminal value	87,487.64		
Present value (PV)	222,287		
Share price (VND)	46,254		

Source:

Table 15. CTG – Share price according to P/B and residual income (VND)

Valuation method	Forecast price (VND)	Weight	Weighted price (VND)
P/B	40,015	50%	20,007
Residual income	46,254	50%	23,127
Target price			43,100

Source: KB Securities Vietnam

CTG - 2018A-2022E 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	46,046	50,662	Loans	922,325	1,002,772	1,104,873	1,223,272	1,335,829
Interest income	82,743	83,678	84,632	102,113	114,596	Marketable securities	3,825	5,602	2,475	4,550	4,865
Interest expense	(49,544)	(48,097)	(42,843)	(56,067)	(63,934)	Cash (ex. Reserves)	8,283	9,930	11,331	12,051	12,885
Fees & commissions	4,055	4,341	4,952	6,460	6,720	Interest earning assets	1,206,084	1,296,501	1,483,510	1,700,769	1,838,238
Other non-interest income	1,497	1,910	3,407	4,136	3,119	Fixed assets & other assets	46,931	47,904	61,141	67,593	72,810
Total operating income	40,519	45,317	53,149	59,748	63,607	Total assets	1,240,711	1,341,436	1,531,468	1,749,085	1,892,156
SG&A expenses	(15,735)	(16,085)	(17,178)	(19,418)	(20,672)	Customer deposits	892,785	990,331	1,161,797	1,218,487	1,302,852
Pre-provisioning OP	24,785	29,232	35,970	40,330	42,934	Borrowings & call money/repos	62,842	62,609	67,025	78,803	85,533
Provision for credit losses	(13,004)	(12,147)	(18,382)	(18,863)	(7,472)	Interest bearing liabilities	1,135,713	1,226,056	1,400,950	1,517,386	1,624,480
Other income	2,357	2,695	4,525	5,514	4,159	Other liabilities	27,643	29,969	36,865	119,897	130,048
Other expense	(860)	(785)	(1,118)	(1,379)	(1,040)	Total liabilities	1,163,357	1,256,025	1,437,815	1,637,283	1,754,528
Pre-tax income	11,781	17,085	17,589	26,467	35,462	Charter capital	37,234	37,234	48,058	48,058	48,058
Income tax expense	(2,304)	(3,328)	(3,370)	(5,293)	(7,092)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	9,477	13,757	14,219	21,174	28,370	Retained earnings	19,833	26,001	21,494	40,159	65,984
Minority interest profit	(16)	(64)	(127)	(106)	(142)	Capital adjustments	-	-	-	-	-
Parent NP	9,461	13,694	14,092	21,068	28,228	Total shareholders' equity	77,355	85,411	93,653	111,802	137,627

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%	20.6%	22.7%	EPS	2,541	3,678	2,932	4,384	5,874
ROA	0.8%	1%	10%	13%	16%	BVPS	20,775	22,939	19,488	23,264	28,638
Pre-provision ROE	27.5%	28.8%	32.3%	31.4%	27.5%	Tangible BVPS	19,547	21,757	18,592	22,263	27,660
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	17.2	11.9	14.9	10.0	7.5
Efficiency						PBR	2.1	1.9	2.2	1.9	1.5
Pure Loan to deposit ratio	104.8%	102.5%	97.3%	103.0%	105.0%	Dividend yield	0.0%	0.0%	1.1%	1.7%	2.3%
Cost-income ratio	38.8%	35.5%	32.3%	32.5%	32.5%	ROE	13.1%	16.9%	15.9%	20.6%	22.7%
Growth						Capital Adequacy					
Asset growth	6.6%	8.1%	14.2%	14.2%	8.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.3%	8.7%	10.2%	10.7%	9.2%	Asset Quality					
PPOP growth	72.6%	17.9%	23.1%	12.1%	6.5%	NPL ratio (substandard)	12%	0.9%	13%	14%	13%
Parent NP growth	79.4%	44.7%	2.9%	49.5%	34.0%	Coverage ratio (substandard)	119.7%	132.2%	180.4%	180.8%	180.9%
EPS growth	79.4%	44.7%	-20.3%	49.5%	34.0%	NPL ratio (precautionary)	1.8%	1.2%	2.3%	2.2%	1.9%
BVPS growth	14.9%	10.4%	-15.0%	19.4%	23.1%	Coverage ratio (precautionary)	78.5%	102.1%	98.4%	115.1%	123.8%

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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