

March 9, 2023

Senior Analyst Nguyen Anh Tung
tungna@kbsec.com.vn

4Q22 EBT reached VND5,349 billion, up 45.4% YoY

In 4Q22, VietinBank (CTG) recorded NII of VND12,848 billion (-0.6% QoQ, +23.6% YoY). EBT reached VND5,349 billion (+28.7% QoQ, +45.4% YoY). 2022 EBT rose 19.4% YoY to VND19,972 billion with a credit growth of 12.1%.

2022 NIM was down 3bps YoY to 2.98%

Average cost of funds (COF) was 3.71% (+23bps QoQ, +65bps YoY) in 2022, mainly because customer and interbank deposit rates surged in 2H22. This was offset by good earnings yields, helping NIM reach 2.98%, only dropping 3bps YoY.

NPL ratio declined 18bps QoQ to 1.24% but substandard loans jumped 55bps QoQ

4Q NPL ratio was down by 18bps QoQ to 1.24% thanks to the bank's promotion of bad debt settlement (VND15,018 billion in 4Q). Meanwhile, substandard loans gained 55bps QoQ, reflecting initial impacts of negative macro developments on CTG's asset quality.

Positive 2023E guidance with credit growth of 10-12%

For 2023, CTG expects the total assets to increase 5-10%. Credit growth is expected at 10-12% while NIM may be flat, assuming cost of capital will decrease. NPL ratio should be under 1.8%, and provision value may reach VND12,000-15,000 billion.

HOLD recommendation with target price of VND32,600/share

Based on valuation results, business outlook, and possible risks, we recommend HOLD for CTG stocks. The target price for 2023 is VND32,600/share, 10.1% higher than the price on March 9, 2023.

Hold update

Target price	VND32,600
Upside/Downside	10.1%
Current price (Mar 9, 2023)	VND29,400
Consensus target price	VND34,067
Market cap (VNDbn)	141,289

Forecast earnings & valuation

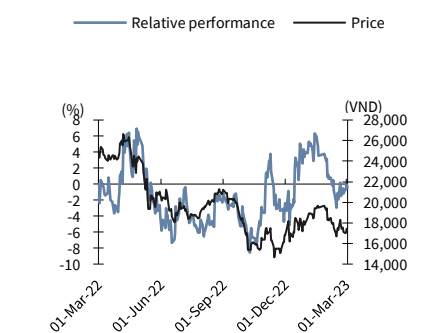
FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	41,788	47,930	52,094	57,410
Pre-provision operating profit (VNDbn)	35,971	45,277	49,283	54,757
NPAT of the parent bank (VNDbn)	14,215	16,972	17,892	20,475
EPS (VND)	2,932	3,518	3,710	4,247
EPS growth (%)	-20%	20%	5%	14%
PER (x)	10.0	8.4	7.9	6.9
Book value per share (VND)	19,487	22,536	25,446	28,893
PBR (x)	1.51	1.30	1.16	1.02
ROE (x)	15.9%	16.8%	15.5%	15.7%

Trading data

Free float	15.81%
3M avg trading value (VNDbn/USDmn)	96/4.0
Foreign ownership	28.09%
Major shareholder	SBV (64.46%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	1	7	7	-8
Relative	1	5	22	20



Source: Bloomberg, KB Securities Vietnam

Business operation

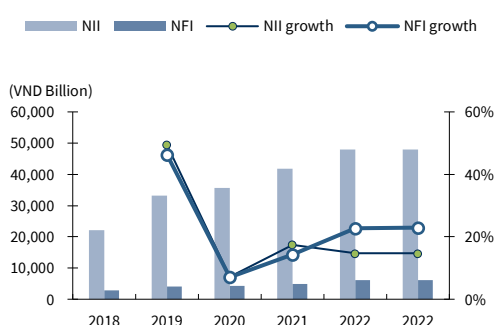
4Q22 PBT reached VND5,349 billion, up 45.4% YoY

CTG's 4Q NII reached VND12,848 billion (-0.6% QoQ, +23.6% YoY), and non-interest income (NII) hit VND4,398 billion (-0.1% QoQ, +26% YoY), helping TOI reach VND17,245 billion (-0.5% QoQ, +24.2% YoY). Provision expense remained at an average level after being strongly accelerated in 3Q22. As a result, PBT was VND5,349 billion (+28.7% QoQ, +45.4% YoY). For the whole year of 2022, PBT gained 19.4% YoY to VND19,972 billion with a credit growth of 12.1%.

2022 NIM was down 3bps YoY to 2.98%

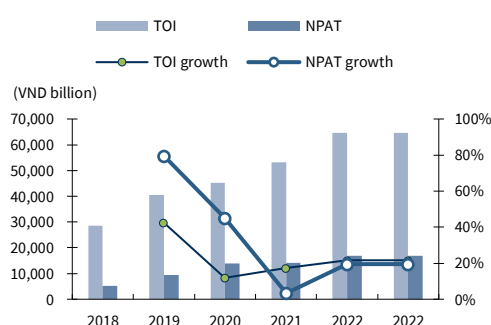
Average COF was 3.71% (+23bps QoQ, +65bps YoY) in 2022, mainly because customer and interbank deposit rates surged in 2H22. However, average earnings yield considerably increased to 6.51% (+23bps QoQ, +43bps YoY) thanks to larger proportion of retail - SME lending, which has a higher profit margin. NIM went down 3bps YoY to 2.98%. KBSV believes that the impact of the deposit rate hike will be more clearly reflected in NIM in 1H23.

Fig 1. CTG – NII & NFI growth (%YoY)



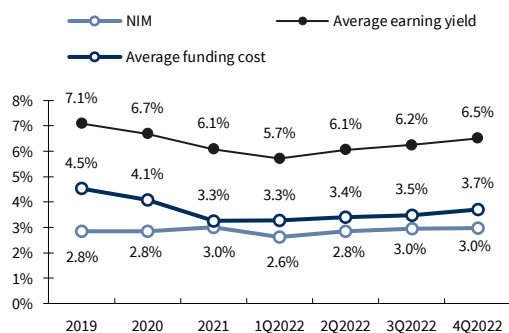
Source: VietinBank, KB Securities Vietnam

Fig 2. CTG – TOI & NPAT growth (%YoY)



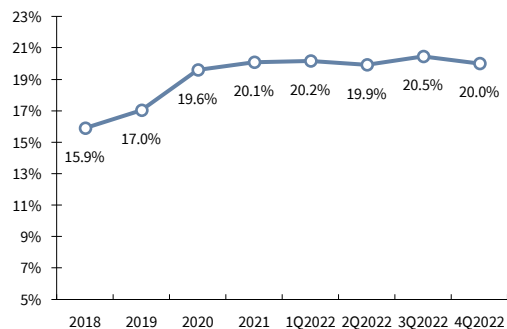
Source: VietinBank, KB Securities Vietnam

Fig 3. CTG – Interest rate & NIM (%)



Source: VietinBank, KB Securities Vietnam

Fig 4. CTG – CASA ratio (%)

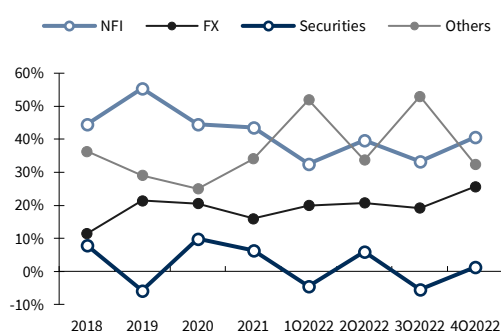


Source: VietinBank, KB Securities Vietnam

4Q22 NOII gained 26.0% YoY to VND4,398 billion

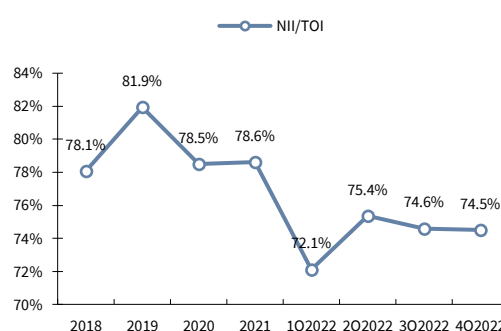
Net interest from service activities was VND1,786 billion in 4Q (+21.8% QoQ, +54.2% YoY), of which interest from insurance segment gained 35.4% YoY, and interest from other activities rose 47.2% YoY. Interest from foreign exchange activities reached VND1,130 billion, increasing 147.0% YoY with FX market share in interbank and customer channel respectively reaching 13% and 14%. Interest from other activities reached VND1,377 billion, decreasing 6.3% YoY as the written-off bad debt started to increase from 4Q22, causing NOII to climb 26.0% YoY to VND4,398 billion. Accumulated in 2022, NOII reached VND16,650 billion, up 46.5% YoY thanks to high growth in NFI, FX and other incomes.

Fig 5. CTG – NOII structure



Source: VietinBank, KB Securities Vietnam

Fig 6. CTG – NII to TOI ratio (%)



Source: VietinBank, KB Securities Vietnam

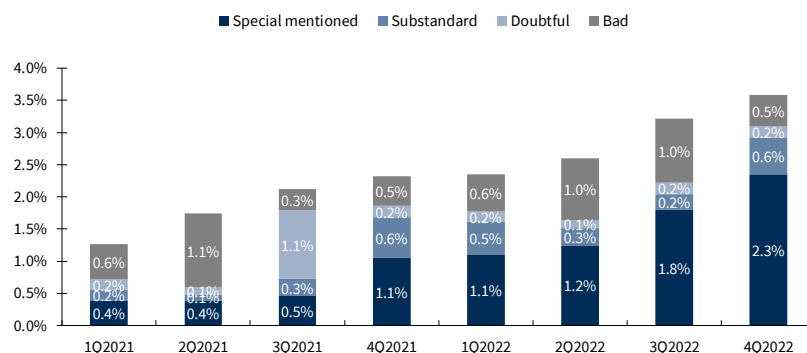
NPL ratio decreased 18bps QoQ to 1.24% but substandard loans surged 55bps QoQ

4Q NPL ratio lowered by 18bps QoQ to 1.24%, of which bad debt decreased 51bps QoQ and special mention increased 33bps QoQ. The improvement in NPL was mainly attributable to the promotion of bad debt settlement, reaching VND15,018 billion in the quarter. Meanwhile, substandard loans went up 55bps QoQ, showing that pressures from negative macro developments started to affect CTG's asset quality. We believe that bad debt pressure will increase in 2023 when the real estate market shows more signs of weakness in both prices and liquidity, affecting the asset quality of banks. Up to now, project loan balance accounts for 5% of credit balance, home loan balance accounts for 12% of credit balance, and NPL ratio is less than 1%.

Provision was average at VND5,533 billion, and LLCR reached 188.4%

CTG maintained an average provision amount of VND5,533 billion (-33.5% QoQ, +26.4% YoY) after accelerating provisioning in 3Q23. The loan loss coverage ratio (LLCR) reached 188.4%, the fourth highest in the banking system, after VCB, MBB and BID. The high LLCR will help CTG to be more flexible in provisioning and handling bad debts in 2023.

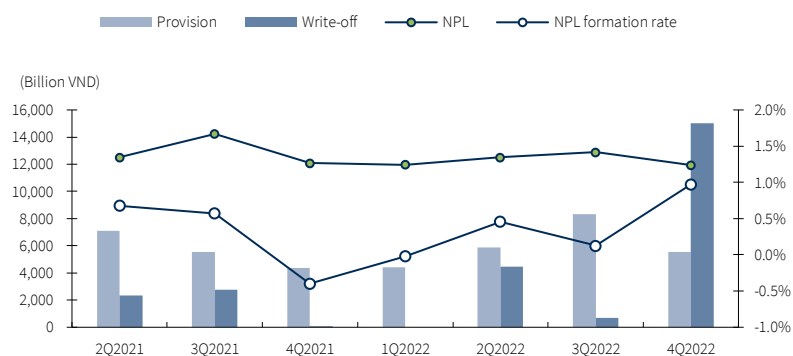
Fig 7. CTG – NPL structure



Source: VietinBank, KB Securities Vietnam

Fig 8. CTG – NPL & provision (%QoQ, VNDbn)

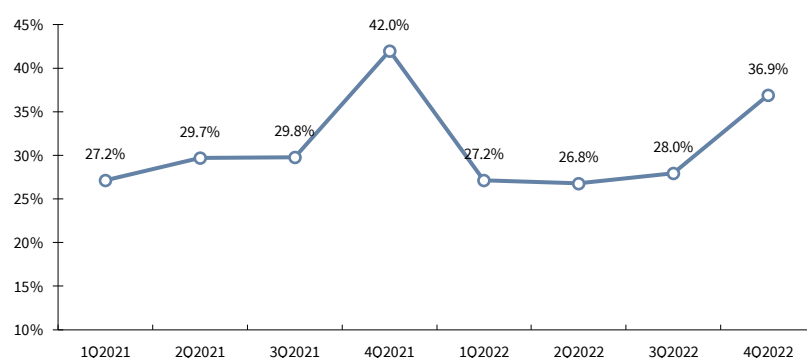
The high rate of newly incurred NPLs in 4Q shows potential risks that may hurt asset quality in the near future



Source: VietinBank, KB Securities Vietnam

Fig 9. CTG – CIR (%)

4Q CIR decreased 5.1ppts YoY to 36.9%, reflecting CTG's efforts to reduce cost and the efficiency of digital transformation



Source: VietinBank, KB Securities Vietnam

Positive 2023E guidance includes a credit growth of 10–12% and flat NIM

At the recent meeting with analysts, CTG announced its 2023E guidance, including an increase of 5–10% in total assets. Credit growth should reach 10–12%, depending on the credit limit granted by the SBV. NIM may be flat, assuming cost of capital will decrease by 0.2 – 0.5pp in 2023. The bank would focus on the income from guarantee fees, trade finance, card fees, and premium while FX segment should grow well at 30–50% YoY. NPL ratio should be under 1.8%, and provision value may reach VND12,000–15,000 billion.

Forecast & valuation

2023F performance

We made forecasts for CTG's performance in 2023 as follows:

- Credit growth may reach 11.0%.
- NIM is estimated to decrease by 11bps YoY to 2.88% due to the impact of high interest rates in 2H22 reflected in the cost of capital in 1H23.
- NPL ratio is at 1.60%, up 36bps YoY with newly incurred bad debt ratio rising 9bps YoY to 1.61%, reflecting a cautious view on asset quality amid subdued macroeconomic developments.
- Provision expenses may increase 11.4% YoY to VND26,918 billion.
- We forecast 2023 NPAT may reach VND17,892 billion, up 5.4% YoY

Table 10. CTG – 2022A–2024F business results

	2022	2023F	2024F	% YoY 2023	%YoY 2024
Net interest income	47,930	52,094	57,410	8.7%	10.2%
Net fee income	6,089	7,041	8,449	15.6%	20.0%
Total operating income	64,580	70,405	78,224	9.0%	11.1%
Provision for credit losses	(24,163)	(26,918)	(29,164)	11.4%	8.3%
Net profit after tax	16,972	17,892	20,475	5.4%	14.4%
NIM	2.98%	2.87%	2.88%	-11bps	1bps
Average interest rate	6.51%	6.47%	6.43%	-5bps	-3bps
Average deposit rate	3.71%	3.76%	3.73%	5bps	-3bps
CIR	29.9%	30.0%	30.0%	11bps	0bps
NPL	1.24%	1.60%	1.60%	36bps	0bps
Total asset	1,809,189	1,977,464	2,176,729	9.3%	10.1%
Owner Equity	108,305	122,288	138,854	12.9%	13.5%

Source: KB Securities Vietnam

Valuation – HOLD recommendation with the target price of VND32,600/share

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

(1) P/B valuation method:

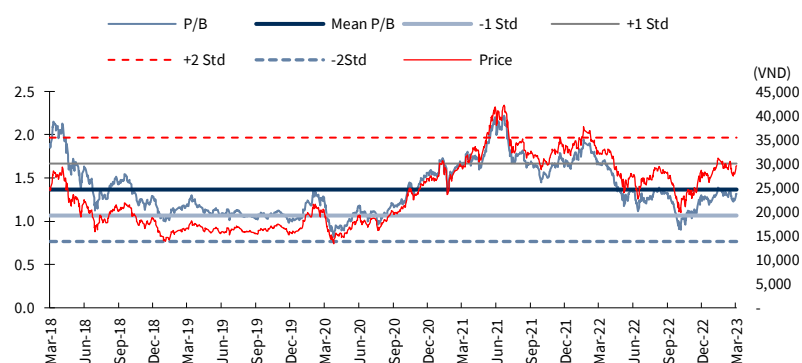
We cautiously adjust our 2023 forward P/B to 1.09x or -1std of CTG's five-year P/B average, reflecting the common concerns of the banking industry over the impacts from real estate & bond market and the economy in general.

(2) Residual income (Table 13):

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

Combining the two valuation methods above with a ratio of 50-50, we find the final fair price for CTG shares in 2023 at VND32,600/share, 10.5% higher than the price on March 9, 2023.

Fig 11. CTG – P/B from March 2018 to March 2023 (x)



Source: FinnPro, KB Securities Vietnam

Table 22. CTG – 2023F valuation according to residual income method

VNDbn	2023F	2024F	2025F
NPAT	17,892	20,475	26,652
Excessed return	909	1,191	4,192
Required rate of return (r)	13.89%		
Growth (g)	5.0%		
Terminal value	26,203		
Present value (PV)	180,657		
Price	37,592		

Source: KB Securities Vietnam

Table 33. CTG – Final valuation results & target price (VND)

Method	Estimated price	Weight	Price per weight
P/B	27,736	50%	13,868
RIM	37,592	50%	18,796
Target Price			32,600

Source: KB Securities Vietnam

CTG - 2020A-2024F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Net interest income	35,581	41,788	47,930	52,094	57,410	Loans	1,002,772	1,104,873	1,245,058	1,376,618	1,528,046
Interest income	83,678	84,628	104,651	117,240	128,173	Marketable securities	5,602	2,475	1,420	1,711	1,899
Interest expense	(48,097)	(42,840)	(56,721)	(65,146)	(70,763)	Cash (ex. Reserves)	9,930	11,331	11,067	13,038	14,472
Fees & commissions	4,341	4,961	6,089	7,041	8,449	Interest earning assets	1,296,501	1,483,561	1,729,653	1,895,871	2,088,264
Other non-interest income	190	3,398	6,605	6,846	7,627	Fixed assets & other assets	47,904	61,209	95,427	104,215	113,921
Total operating income	45,317	53,157	64,580	70,405	78,224	Total assets	1,341,436	1,531,587	1,809,189	1,977,464	2,176,729
SG&A expenses	(16,085)	(17,186)	(19,304)	(21,121)	(23,467)	Customer deposits	990,331	1,161,848	1,249,181	1,401,042	1,555,166
Pre-provisioning OP	29,232	35,971	45,277	49,283	54,757	Borrowings & call money/repos	62,609	67,025	93,763	107,754	119,203
Provision for credit losses	(12,147)	(18,382)	(24,163)	(26,918)	(29,164)	Interest bearing liabilities	1,226,056	1,401,001	1,657,883	1,810,495	1,987,482
Other income	2,695	4,516	7,588	8,054	8,973	Other liabilities	29,969	36,937	43,001	44,681	50,393
Other expense	(785)	(1,118)	(984)	(1,208)	(1,346)	Total liabilities	1,256,025	1,437,938	1,700,884	1,855,176	2,037,875
Pre-tax income	17,085	17,589	21,113	22,365	25,593	Charter capital	37,234	48,058	48,058	48,058	48,058
Income tax expense	(3,328)	(3,374)	(4,141)	(4,473)	(5,119)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	13,757	14,215	16,972	17,892	20,475	Retained earnings	26,001	21,488	33,487	47,471	64,037
Minority interest profit	(64)	(127)	(64)	(64)	(64)	Capital adjustments	-	-	-	-	-
Parent NP	13,694	14,089	16,908	17,828	20,411	Total shareholders' equity	85,411	93,650	108,305	122,288	138,854

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	16.9%	15.9%	16.8%	15.5%	15.7%	EPS	3,678	2,932	3,518	3,710	4,247
ROA	1%	10%	10%	0.9%	10%	BVPS	22,939	19,487	22,536	25,446	28,893
Pre-provision ROE	28.8%	32.3%	36.0%	34.2%	33.5%	Tangible BVPS	21,757	18,592	21,672	24,591	28,050
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	4.7	5.9	4.9	4.7	4.1
Efficiency						PBR	0.8	0.9	0.8	0.7	0.6
Pure Loan to deposit ratio	102.5%	97.3%	102.1%	101.0%	101.0%	Dividend yield	0.0%	4.6%	4.6%	4.6%	4.6%
Cost-income ratio	35.5%	32.3%	29.9%	30.0%	30.0%	ROE	16.9%	15.9%	16.8%	15.5%	15.7%
Growth						Capital Adequacy					
Asset growth	8.1%	14.2%	18.1%	9.3%	10.1%	CAR	10.0%	9.3%	8.9%	>8%	>8%
Loan growth	8.7%	10.2%	12.7%	10.6%	11.0%	Asset Quality					
PPOP growth	17.9%	23.1%	25.9%	8.8%	11.1%	NPL ratio (substandard)	0.9%	1.3%	1.2%	1.6%	1.6%
Parent NP growth	44.7%	2.9%	20.0%	5.4%	14.5%	Coverage ratio (substandard)	132.2%	180.4%	188.4%	169.8%	169.8%
EPS growth	44.7%	-20.3%	20.0%	5.4%	14.5%	NPL ratio (precautionary)	1.2%	2.3%	3.6%	3.9%	3.9%
BVPS growth	10.4%	-15.0%	15.6%	12.9%	13.5%	Coverage ratio (precautionary)	102.1%	98.4%	65.1%	69.6%	69.6%

Source: VietinBank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Oil & Gas, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.