

VietinBank (CTG)

Credit growth should improve in 2H23

May 25, 2023

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1Q23 PBT rose 2.7% YoY to VND5,980 billion

In 1Q23, VietinBank (CTG) recorded VND12,666 billion in NII (-1.4% QoQ, +24.8% YoY). Provision expenses were high as asset quality was affected by the general movements of the economy, so PBT only grew to VND5,980 billion (+11.8% QoQ, +2.7% YoY).

Credit growth is expected to improve in 2H23

KBSV expects credit growth to improve in 2H23, based on (1) the State Bank's (SBV) moves to cut policy rates to lower lending interest rates, thereby improving credit demand; and (2) SBV's net injection through OMOs to cushion liquidity against low customer deposit growth.

NIM should improve slightly in 2H23

KBSV expects CTG's NIM to improve slightly in 2H23 as the SBV's move to reduce policy rates would help reduce average costs of fund (COF) while it may take longer to affect earnings yield, and interest rates should be adjusted in accordance with the risk level of each loan.

The provisioning pressure may increase in 2H23

The provisioning pressure may remain high given unpredictable economic fluctuations. However, CTG's provisioning level will be lower than other banks thanks to its good reserve buffer.

BUY recommendation with target price of VND32,500/share

Based on valuation results, business outlook, and possible risks, we recommend BUY for CTG stock. The target price for 2023 is VND32,500/share, 10.1% higher than the price on May 25, 2023.

Buy change

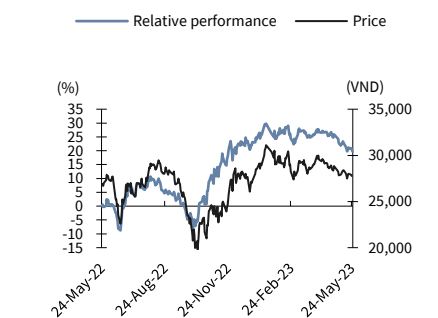
Target price	VND32,500
Upside	17.8%
Current price (May 25, 2023)	VND27,600
Consensus target price	VND33,385
Market cap (VNDbn)	132,639

Trading data	
Free float	15.81%
3M avg trading value (VNDbn/USDmn)	76/3.2
Foreign ownership	27.55%
Major shareholder	SBV (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3	-1	12	6
Relative	-6	-3	0	20

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	41,788	47,792	51,721	57,576
Pre-provision operating profit (VNDbn)	35,971	45,109	48,433	54,202
NPAT of the parent bank (VNDbn)	14,215	16,835	17,272	20,047
EPS (VND)	2,932	3,491	3,582	4,159
EPS growth (%)	-20%	19%	3%	16%
PER (x)	5.9	5.0	4.8	4.2
Book value per share (VND)	19,487	22,508	25,290	28,649
PBR (x)	0.89	0.77	0.68	0.60
ROE (%)	15.9%	16.7%	15.0%	15.5%



Source: Bloomberg, KB Securities Vietnam

Business performance updates

1Q23 PBT rose 2.7% YoY to VND5,980 billion

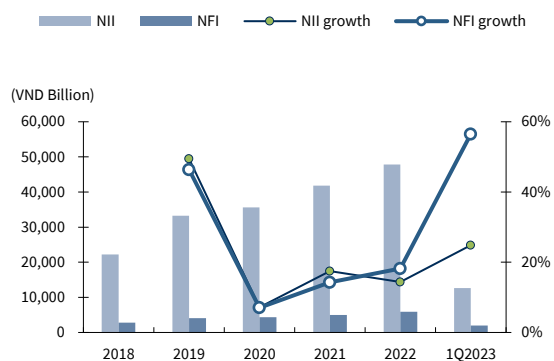
CTG's 1Q23 NII reached VND12,666 billion (-1.4% QoQ, +24.8% YoY), and non-interest income (NOII) hit VND4,352 billion (-1.0% QoQ, +10.9% YoY). TOI was VND17,018 billion (-1.3% QoQ, +21.0% YoY). Provision expenses were high as asset quality was affected by the general movements of the economy, so PBT only grew to VND5,980 billion (+11.8% QoQ, +2.7% YoY).

Table 1. CTG - 1Q23 business results

	1Q22	1Q23	+/-%YoY	KBSV's notes
Net interest income	10,146	12,666	24.8%	
Net fee income	1,278	2,001	56.5%	
Non-interest income	2,646	2,351	-11.1%	Net fee income from other activities decreased 45.7% YoY, which was offset by profit from FX activities (VND1,173 billion, +49.6% YoY). The growth in FX trading income was attributable to the promotion of exploiting the international customer base, while income from investment securities/proprietary trading is still quite limited.
Total operating income	14,070	17,018	21.0%	
Operating costs	(3,821)	(4,314)	12.9%	
Pre-provision profit	10,249	12,704	24.0%	
Provision expenses	(4,427)	(6,724)	51.9%	Provisions increased in line with lower asset quality due to general difficulties of the economy, while CTG still maintained a high provision buffer with a loan loss coverage ratio (LLCR) of 173%.
Profit after taxes	4,698	4,831	2.8%	
Credit growth	9.1%	4.5%	-4.5ppts	Large corporate customers (+5.7% YTD) were the driving force, while individuals increased 3.1% YTD and SMEs grew 1.3% YTD. Credit growth was lower than in 1Q22 and in line with the general trend of the whole banking system because (1) high interest rates and the emphasis on risk management made credit demand low; and (2) the low absorptive capacity of the market makes businesses not have the need to expand production and business.
Deposit growth	9.2%	0.3%	-8.8ppts	Deposits from corporate customers plunged since businesses used mobilized money to support production and business activities amid difficulties accessing low-cost capital. CASA reached 18.1%, down 1.9 ppts QoQ as customers switched from demand deposit to term deposit to enjoy high interest rates.
NIM	2.62%	2.90%	27bps	NIM has improved compared to 1Q22 but decreased by 8bps QoQ mainly due to high deposit rates in 3Q-4Q22, reflected in 1Q COF.
Average earnings yield	5.72%	7.50%	178bps	
Average COF	3.27%	4.84%	156bps	
CIR	27.2%	25.3%	-1.8ppts	
NPL	1.25%	1.28%	3bps	

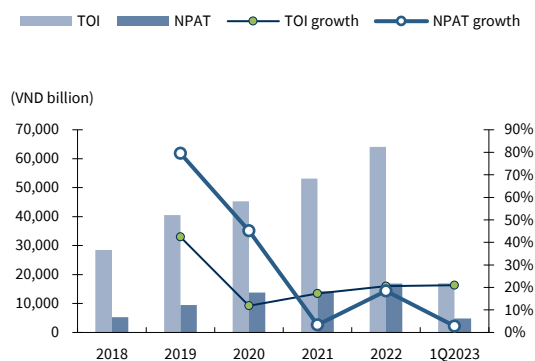
Source: VietinBank, KB Securities Vietnam

Fig 2. CTG – NII & NFI growth (%)



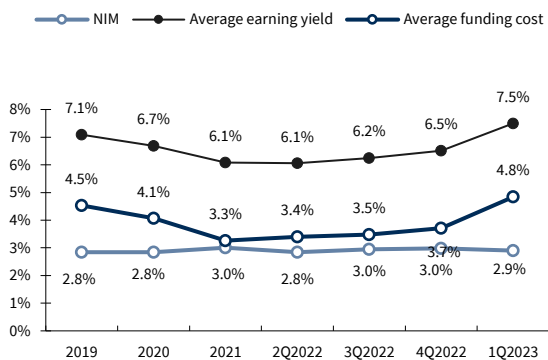
Source: VietinBank, KB Securities Vietnam

Fig 3. CTG – TOI & NPAT growth (%)



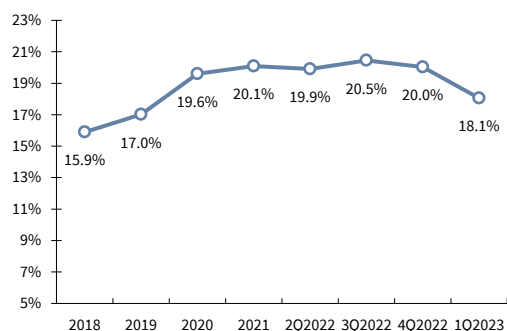
Source: VietinBank, KB Securities Vietnam

Fig 4. CTG – Interest rates & NIM (%)



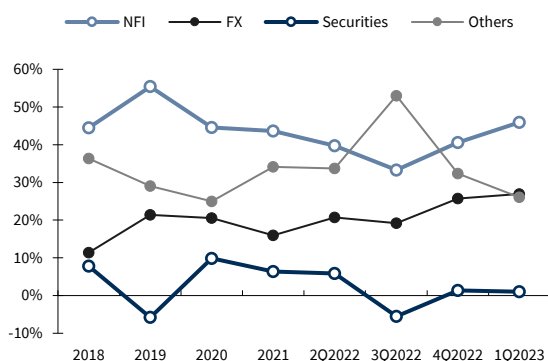
Source: VietinBank, KB Securities Vietnam

Fig 5. CTG – CASA ratio (%)



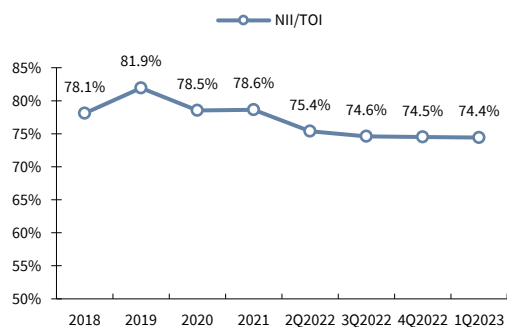
Source: VietinBank, KB Securities Vietnam

Fig 6. CTG – NOII structure



Source: VietinBank, KB Securities Vietnam

Fig 7. CTG – NII/TOI ratio (%)



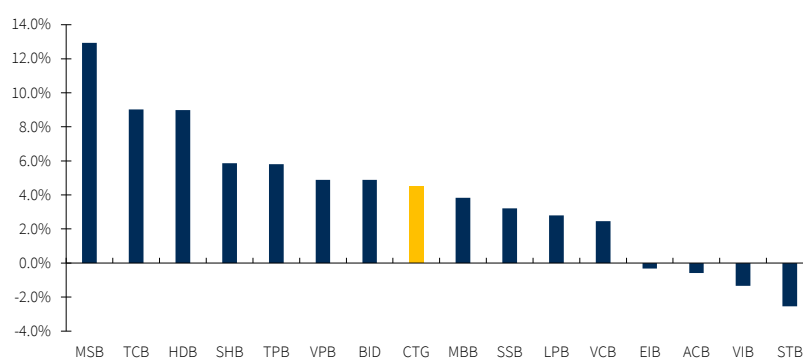
Source: VietinBank, KB Securities Vietnam

Investment catalysts

Credit growth is expected to improve in the rest of the year

CTG's credit growth was 4.5% in 1Q, down 4.5ppts YoY. For the rest of the year, KBSV expects CTG to complete its credit growth plan of 10–12%, based on (1) SBV's moves to cut policy rates, thereby lowering interest rates and improving credit demand (on May 23, the SBV reduced the policy rates with overnight interest rates and refinancing interest rates down by 0.5% while the ceiling interest rates for 1–6 month term deposit declined from 5.5% to 5.0%); and (2) SBV's net injection through OMOs to cushion liquidity against low customer deposit growth.

Fig 8. Vietnamese banks – Credit growth in 1Q23 (%)

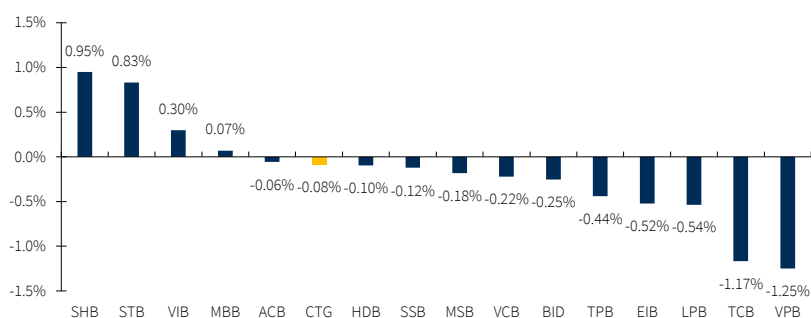


Source: VietinBank, KB Securities Vietnam

KBSV expects CTG's NIM to improve slightly in 2H23

CTG's 1Q23 NIM reached 2.90% (-8bps QoQ), one of the banks with best NIM control in the recent period while the whole banking industry is experiencing a sharp decrease in NIM triggered by high COF. KBSV expects CTG's NIM to improve slightly in 2H23 as the SBV's move to reduce policy rates would help reduce average costs of fund (COF) while it may take longer to affect earnings yield, and interest rates should be adjusted in accordance with the risk level of each loan. However, we still maintain a cautious view on CTG's NIM because as the leading bank, CTG will actively reduce lending rates to support the economy.

Fig 1. Vietnamese banks – NIM in 1Q23 (%)

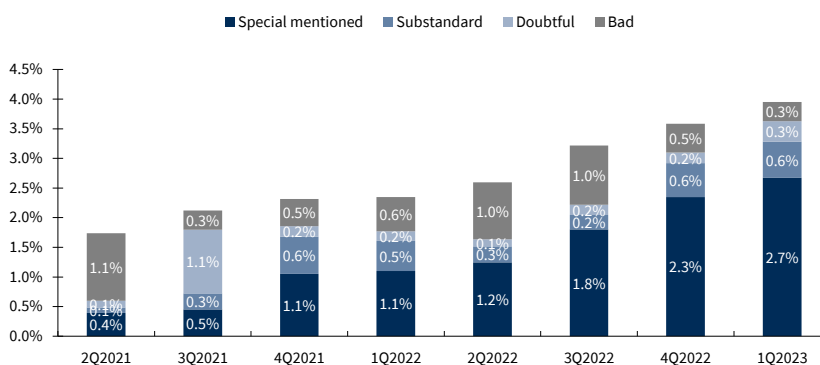


Source: VietinBank, KB Securities Vietnam

The provisioning pressure may increase in 2H23, but provision expenses are still lower than other banks

CTG's non-performing loan (NPL) in 1Q reached 1.28% (+4bps QoQ), making CTG one of the banks with the best NPL control in 1Q23. We maintain a cautious view on the bank's asset quality and provisioning pressure for the rest of the year as the special mention rose 32bps QoQ to 2.67%. However, CTG's provisioning expenses should be lower compared to other banks thanks to its good provision buffer with a LLCR of 173% (ranked 2nd in the group of banks observed on the market, only after Vietcombank-VCB).

Fig 20. CTG – NPL structure in 2021–2023



Source: VietinBank, KB Securities Vietnam

Fig 31. Vietnamese banks – NPL status

	% NPL	QoQ	% Special Mentioned	QoQ	LLCR
VIB	3.64%	1.19%	5.43%	1.05%	38.0%
MBB	1.76%	0.66%	3.46%	1.77%	138.3%
TPB	1.45%	0.60%	4.02%	2.10%	83.9%
VPB	6.24%	0.51%	8.22%	2.78%	46.0%
BID	1.55%	0.39%	2.32%	0.64%	171.3%
MSB	2.02%	0.32%	3.17%	1.81%	65.2%
SHB	2.83%	0.31%	1.98%	1.01%	72.7%
ACB	0.97%	0.24%	0.88%	0.31%	116.6%
STB	1.19%	0.21%	0.94%	-0.31%	103.8%
HDB	1.85%	0.18%	3.21%	0.41%	61.8%
VCB	0.85%	0.16%	0.64%	0.29%	320.8%
CTG	1.28%	0.04%	2.67%	0.32%	173.0%
LPB	1.45%	0.00%	1.99%	0.48%	111.1%
TCB	0.85%	-0.06%	1.92%	-0.15%	133.8%
EIB	2.12%	-0.21%	1.46%	-0.26%	74.0%

Source: Banks' statements, KB Securities Vietnam

Forecast & valuation

Table 12. CTG – 2023–2024F business results

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Net interest income	47,792	51,721	8.2%	60,475	16.9%	The forecast is based on the assumption that credit growth will reach 11% in 2023.
Net fee income	5,862	6,906	17.8%	8,288	20.0%	
Total operating income	64,117	68,216	6.4%	79,240	16.2%	The revised forecast for other incomes is down 25% from the previous forecast, reflecting poorer-than-expected debt collection in 1Q23.
Provision expenses	(24,163)	(26,843)	11.1%	(29,143)	8.6%	We maintain our forecast that provision expenses may be high, reflecting concerns about new NPLs in the rest of 2023 after a surge in 1Q special mention.
Profit after taxes	16,835	17,273	2.6%	21,694	25.6%	
NIM	2.98%	2.86%	-12bps	3.04%	18bps	We maintain our NIM forecast, expecting that NIM will decrease slightly in 2Q23 and recover in 2H23, reflecting changes in policy rates.
Average earnings yield	6.52%	7.04%	52bps	6.59%	-45bps	
Average cost of fund	3.72%	4.39%	67bps	3.77%	-63bps	
CIR	29.6%	29.0%	-65bps	29.0%	0bps	We lowered CIR forecast by 1ppts from the old forecast, reflecting improvement in OPEX management 1Q23 over the same period in 2022.
NPL	1.24%	1.60%	36bps	1.60%	0bps	
Total assets	1,808,430	1,948,556	7.7%	2,148,838	10.3%	
Owner equity	108,168	121,536	12.4%	139,325	14.6%	

Source: KB Securities Vietnam

Valuation – BUY recommendation with the target price of VND32,500

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

(1) P/B valuation method:

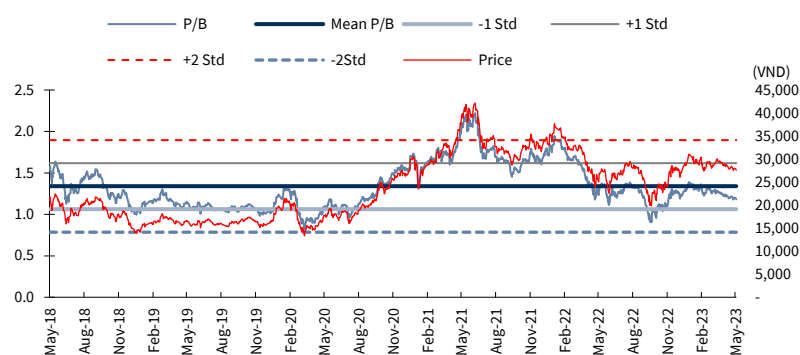
We cautiously maintain a forward P/B of 2023 at 1.09x or -1std of CTG's five-year P/B average, reflecting the general concerns over negative impacts from the real estate market, bonds and the economy in general on banks.

(2) Residual income method (Table 14):

In addition, we incorporate a residual income model to reflect systematic risk and long-term expectations.

Combining the two valuation methods above with a ratio of 50–50, we found the final fair price for CTG shares in 2023 is VND32,500/share, 17.8% higher than the price on May 25, 2023.

Fig 43. CTG – P/B in 2018–2023



Source: Fiiipro, KB Securities Vietnam

Table 14. CTG – Valuation according to residual income method

	2023F	2024F	2025F
NPAT (VNDbn)	17,272	20,047	25,883
Excessed return (VNDbn)	394	926	3,710
Required rate of return (%)	13.89%		
Growth (%)	5.0%		
Terminal value (VNDbn)	27,223		
Present value ((VNDbn)	180,306		
Price (VND)	37,519		

Source: KB Securities Vietnam

Table 25. CTG – Final valuation & target price (VND)

Method	Estimated price (VND)	Weight	Price per weight (VND)
P/B	27,566	50%	13,782
RIM	37,519	50%	18,759
Target Price (VND)			32,500

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	47,792	51,721	57,576	Loans	1,002,772	1,104,873	1,245,058	1,376,618	1,528,046
Interest income	83,678	84,628	104,665	127,382	131,040	Marketable securities	5,602	2,475	1,406	1,389	1,542
Interest expense	(48,097)	(42,840)	(56,873)	(75,662)	(73,464)	Cash (ex. Reserves)	9,930	11,331	11,067	12,785	14,191
Fees & commissions	4,341	4,961	5,862	6,906	8,288	Interest earning assets	1,296,501	1,483,561	1,728,986	1,891,504	2,088,052
Other non-interest income	190	3,398	6,537	5,135	5,704	Fixed assets & other assets	47,904	61,209	95,368	79,851	86,425
Total operating income	45,317	53,157	64,117	68,216	76,341	Total assets	1,341,436	1,531,587	1,808,430	1,948,556	2,148,838
SG&A expenses	(16,085)	(17,186)	(19,007)	(19,783)	(22,139)	Customer deposits	990,331	1,161,848	1,249,176	1,373,837	1,524,959
Pre-provisioning OP	29,232	35,971	45,109	48,433	54,202	Borrowings & call money/repos	62,609	67,025	93,763	121,117	134,440
Provision for credit losses	(12,147)	(18,382)	(24,163)	(26,843)	(29,143)	Interest bearing liabilities	1,226,056	1,401,001	1,657,148	1,787,039	1,960,725
Other income	2,695	4,516	7,507	6,041	6,711	Other liabilities	29,969	36,937	43,114	41,261	50,701
Other expense	(785)	(1,118)	(969)	(906)	(1,007)	Total liabilities	1,256,025	1,437,938	1,700,262	1,828,300	2,011,426
Pre-tax income	17,085	17,589	20,946	21,590	25,059	Charter capital	37,234	48,058	48,058	48,058	48,058
Income tax expense	(3,328)	(3,374)	(4,111)	(4,318)	(5,012)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	13,757	14,215	16,835	17,272	20,047	Retained earnings	26,001	21,488	33,364	46,732	62,875
Minority interest profit	(64)	(127)	(60)	(60)	(60)	Capital adjustments	-	-	-	-	-
Parent NP	13,694	14,089	16,775	17,212	19,987	Total shareholders' equity	85,411	93,650	108,168	121,536	137,678

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	16.9%	15.9%	16.7%	15.0%	15.5%	EPS	3,678	2,932	3,491	3,582	4,159
ROA	1%	10%	10%	0.9%	10%	BVPS	22,939	19,487	22,508	25,290	28,649
Pre-provision ROE	28.8%	32.3%	35.8%	33.7%	33.5%	Tangible BVPS	21,757	18,592	21,643	24,434	27,805
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	5.0	4.8	4.2
Efficiency						PBR	0.8	0.9	0.8	0.7	0.6
Pure Loan to deposit ratio	102.5%	97.3%	102.1%	103.0%	103.0%	Dividend yield	0.0%	4.6%	4.6%	4.6%	4.6%
Cost-income ratio	35.5%	32.3%	29.6%	29.0%	29.0%	ROE	16.9%	15.9%	16.7%	15.0%	15.5%
Growth						Capital Adequacy					
Asset growth	8.1%	14.2%	18.1%	7.7%	10.3%	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%	25.4%	7.4%	11.9%	NPL ratio (substandard)	0.9%	1.3%	1.2%	1.6%	1.6%
Parent NP growth	44.7%	2.9%	19.1%	2.6%	16.1%	Coverage ratio (substandard)	132.2%	180.4%	188.4%	169.8%	169.8%
EPS growth	44.7%	-20.3%	19.1%	2.6%	16.1%	NPL ratio (precautionary)	1.2%	2.3%	3.6%	3.9%	3.9%
BVPS growth	10.4%	-15.0%	15.5%	12.4%	13.3%	Coverage ratio (precautionary)	102.1%	98.4%	65.0%	69.6%	69.6%

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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