

VietinBank (CTG)

Expecting a 15% credit growth

August 29, 2024

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2Q24 PBT gained 17.4% YoY to VND6,750 billion

In 2Q24, VietinBank's (CTG) NII and TOI were VND15,339 billion (+1.1% QoQ, +20.2% YoY) and VND19,640 billion (+3.0% QoQ, +10.5% YoY) respectively. Provisions were still high, reaching VND7,817 billion (-2.9% QoQ, +20.7% YoY), leading to a PBT of VND6,750 billion (+8.7% QoQ, +3.0% YoY). Accumulated in 1H24, PBT of the bank rose 3.4% YoY to VND12,960 billion.

CTG expects a credit growth of 15% for 2024, driven by retail segment

Credit growth in 1H24 reached 6.6% YTD, led by retail customers and large enterprises with 6.3% and 6.2%, respectively. CTG will focus on boosting lending to the retail and SME customers, expecting a whole-year credit growth of 15%.

NIM should continue to recover in the rest of 2024

KBSV expects CTG's NIM to recover in the rest of 2024 thanks to both deposit and credit channels. CoF should improve, based on: (1) CASA improvement and (2) low deposit interest rates (below 5.5%/year). The trend of lowering average yield on earning assets (IEA) will gradually slow down due to higher credit demand in the second half of the year.

Asset quality has not improved much

Asset quality has not improved as the new NPL ratio in 2Q is estimated at 0.9%. KBSV believes that the provisioning pressure for CTG will remain high in 2H24 but lower than in 1H24 thanks to the economic recovery.

Valuation: NEUTRAL rating – Target price VND39,000 apiece

Based on the valuation results, business prospects and potential risks, we recommend NEUTRAL for CTG shares. The target price for 2024 is VND39,000, 11.4% higher than the price on August 29, 2024.

Neutral change

Target price VND39,000

Upside	11.4%
Current price (Aug 29, 2024)	VND35,000
Consensus target price	VND38,500
Market cap (VNDtn/USDbn)	188.2/7.6

Trading data

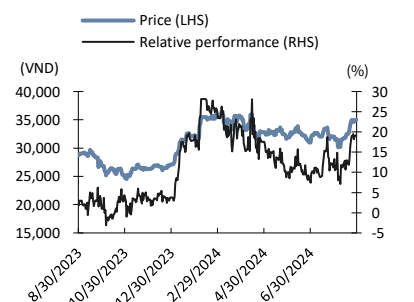
Free float	35.5%
3M avg trading value (VNDbn/USDmn)	250.7/9.9
Foreign ownership	26.5%
Major shareholder	State Bank of Vietnam (64.46%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	9.4	10.1	-1.5	21.8
Relative	6.5	8.9	-3.8	16.2

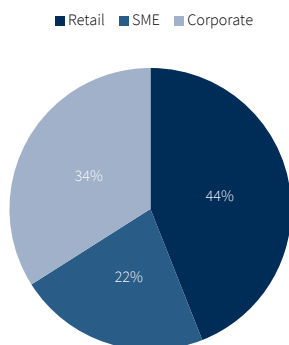
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	47,792	52,957	62,288	70,410
PPOP (VNDbn)	44,922	50,105	57,253	62,739
NPAT-MI (VNDbn)	16,924	19,904	23,223	25,291
EPS (VND)	3,522	3,706	4,325	4,710
EPS growth (%)	20.1	5.3	16.7	8.9
PER (x)	9.9	9.4	8.1	7.4
BVPS	22,539	23,440	27,764	32,474
PBR (x)	1.55	1.49	1.26	1.08
ROE (%)	16.8	17.1	17.0	15.7
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: VietinBank, KB Securities Vietnam

Business operation

Vietnam Joint Stock Commercial Bank for Industry and Trade (CTG) is a state-owned commercial joint stock bank with asset value of VND2,032 trillion as of the end of 2023, ranking third in the industry. The retail and large corporate lending segments contribute the largest proportion to CTG's credit structure, reaching 37% and 33%, respectively.

Investment Catalysts

NIM is expected to improve well in the rest of 2024 and 2025. The driving force comes from low base interest rates and recovering credit demand.

Asset quality has not improved significantly.

Credit growth is expected to reach 15%, fulfilling the full-year target. The driving force comes from increased credit demand in the second half of the year, especially among retail customers.

Notes

Please find more details [here](#)

Please see more details below

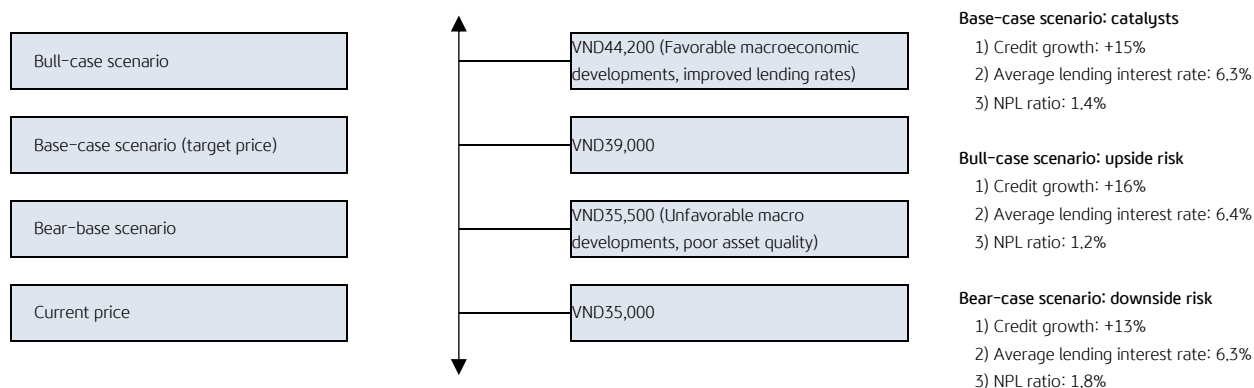
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	62,288	70,410	0%	0%	-	-	-	-
EBIT	57,253	62,739	3%	1%	-	-	-	-
NP after MI	23,223	25,291	0%	-7%	23,195	30,355	0%	-17%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q24 PBT gained 17.4% YoY to VND6,750 billion

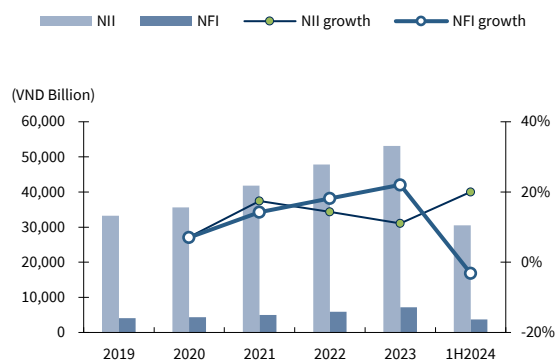
In 2Q24, VietinBank's (CTG) NII and NOII were VND15,339 billion (+1.1% QoQ, +20.2% YoY) and VND4,302 billion (+10.5% QoQ, -14.2% YoY) respectively, making TOI reach VND19,640 billion (+3.0% QoQ, +10.5% YoY). Provisions were high at VND7,817 billion (-2.9% QoQ, +20.7% YoY), leading to a PBT of VND6,750 billion (+8.7% QoQ, +3.0% YoY). Accumulated in 1H24, PBT of the bank rose 3.4% YoY to VND12,960 billion.

Table 1. CTG – 2Q24 business results

(VNDbn, %)	2Q23	1Q24	2Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	12,757	15,174	15,339	1.1%	20.2%	
Net fee income (NFI)	1,784	1,779	1,886	6.0%	5.7%	Income from LC segment dropped 19% QoQ while payment and bancassurance segments gained 8% QoQ and 9% QoQ respectively.
Other non-interest income (NOII)	3,230	2,114	2,415	14.3%	-25.2%	Income from FX activities slightly declined compared to the previous quarter but continued to maintain high, reaching VND1,186 billion (-11.8% QoQ, +0.8% YoY) while income from securities trading & investment was minus VND8.9 billion. Net income from other activities hit VND 1,087 billion (+39.7% QoQ, -38.9% YoY).
Total operating income (TOI)	17,772	19,067	19,640	3.0%	10.5%	
Operating expenses	(4,743)	(4,807)	(5,074)	5.5%	7.0%	
Pre-provision operating profit (PPOP)	13,029	14,259	14,567	2.2%	11.8%	
Provisions	(6,478)	(8,049)	(7,817)	-2.9%	20.7%	CTG maintained large provisions in the context of new NPLs staying high and LLCR falling to 114%.
Profit before taxes (PBT)	6,550	6,210	6,750	8.7%	3.0%	
Net profit after minority interest (NPAT-MI)	5,203	4,959	5,365	8.2%	3.1%	
Credit growth	6.6%	2.7%	6.6%	3.8 ppts	0 ppts	Credit slightly recovered in 2Q after a quiet 1Q. Of that, the retail customer group grew the strongest, reaching 6.3% QoQ and the SME group increased by 2.3% QoQ.
Deposit growth	2.2%	2.6%	6.7%	4.1 ppts	4.5 ppts	The growth momentum came from the SME segment, increasing by 4.6% QoQ, and the corporate customer segment gained 4.5% QoQ while the retail segment rose 2.2% QoQ.
NIM	2.98%	2.93%	2.97%	3 bps	-1 bps	NIM had a slight recovery of 4bps QoQ as CoF decreased more strongly, and credit grew stronger than deposit.
Average earnings yield (IEA)	7.23%	6.88%	6.45%	-42 bps	-77 bps	
Average costs of fund (CoF)	4.51%	4.20%	3.72%	-48 bps	-78 bps	
CIR	26.7%	25.2%	25.8%	0.6 ppts	-0.8 ppts	
NPL	1.27%	1.35%	1.57%	22 bps	29 bps	Although CTG accelerated the handling of VND10,552 billion in 2Q, NPL continued to climb to 1.57%. Of that, doubtful debt surged to 0.86% (+49bps QoQ) while special mention and bad debt saw a modest decrease.

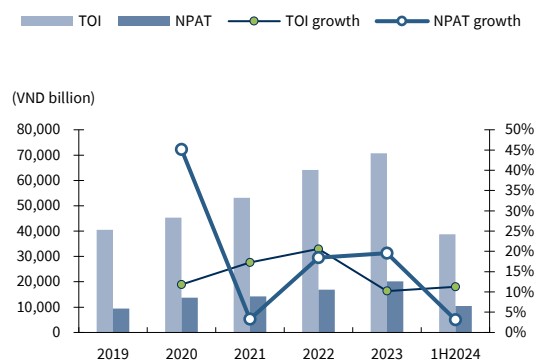
Source: VietinBank, KB Securities Vietnam

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



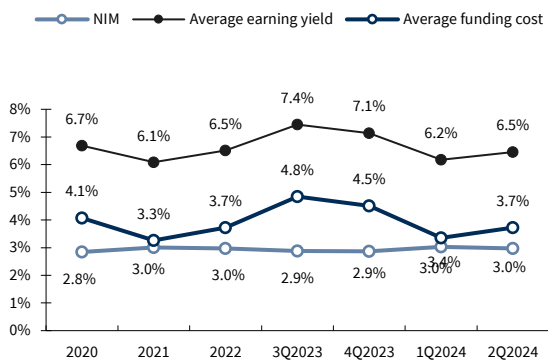
Source: VietinBank, KB Securities Vietnam

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



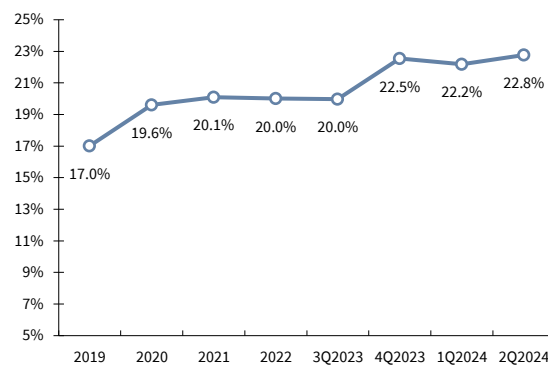
Source: VietinBank, KB Securities Vietnam

Fig 4. CTG – NIM, average IEA & CoF (%)



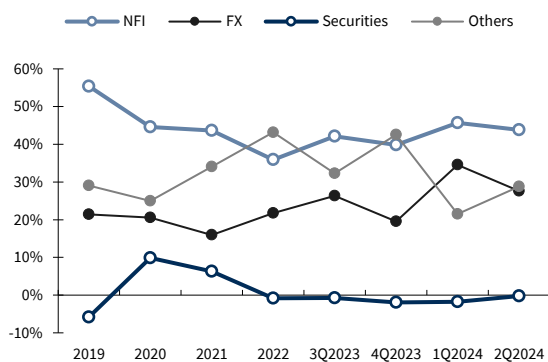
Source: VietinBank, KB Securities Vietnam

Fig 5. CTG – CASA ratio (%)



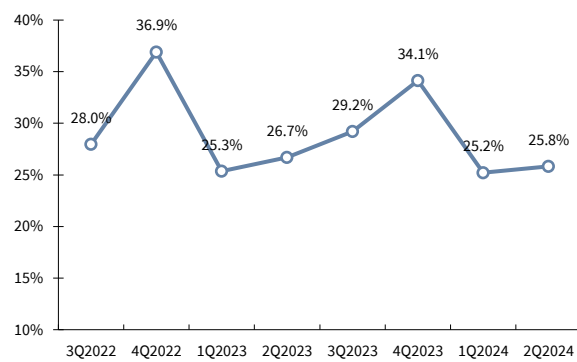
Source: VietinBank, KB Securities Vietnam

Fig 6. CTG – NOII breakdown (%)



Source: VietinBank, KB Securities Vietnam

Fig 7. CTG – CIR (%)



Source: VietinBank, KB Securities Vietnam

Credit growth should reach 15% with momentum from retail segment

Credit growth of CTG in 1H24 hit 6.6% YTD, led by retail (+6.3%) and large corporate (+6.2%) segments. According to CTG, in 2H24, CTG will focus on promoting lending to the retail and SME groups, taking advantage of the economic recovery and the cyclical nature of lending activities. KBSV maintains the view that CTG will achieve a credit growth rate of 15% in 2024 when system-wide credit tends to raise disbursement in the second half of the year, focusing on the retail segment.

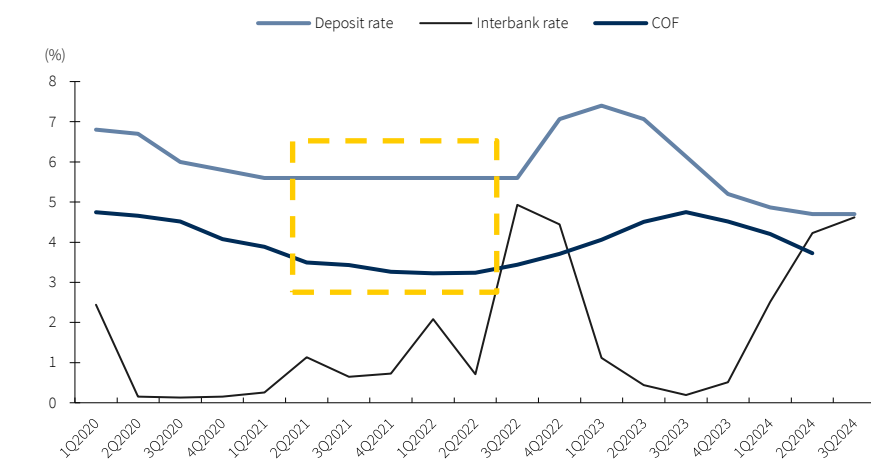
NIM expected to recover in the remainder of 2024

KBSV expects NIM of the bank to recover in the remaining months of 2024 thanks to both mobilization and lending. CoF may continue its improvement, based on: (1) CASA improved to 22.8% compared to 18.7% in the same period in 2023; (2) deposit interest rates are maintained at a low level in the context of slightly reduced exchange rate pressure. Up to now, CTG's 12M deposit interest rate is at 4.7%, lower than that in 2022 (~5.5%) when CTG has the best CoF in recent years (Figure 8).

On the contrary, the downward trend in earnings yield (IEA) will gradually slow down since: (1) Credit demand will increase in the second half of the year; and (2) the bank will focus more on individual and SME customers with higher loan interest rates. However, KBSV does not expect the average IEA to have an impressive recovery when the demand for loans to expand production and business activities or the demand for real estate credit is still low, causing the proportion of short-term credit with low interest rates to remain high.

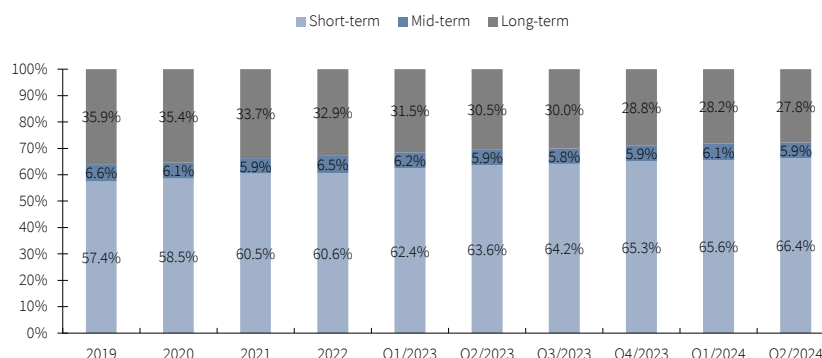
Average CoF is expected to decrease as in the 2021–2022 period when deposit interest rates increase again but remain at a low base level compared to the past.

Fig 8. CTG – CoF, deposit & interbank interest rates (%)



Source: VietinBank, KB Securities Vietnam

Fig 9. CTG – Credit composition by term (%)



Source: VietinBank, KB Securities Vietnam

Asset quality has not improved with NPL increasing by 22bps QoQ

Asset quality has not shown signs of improvement as the new NPL ratio in 2Q24 is estimated at 0.9%. According to CTG, in 2Q, a large customer was transferred to doubtful group but later repaid on time and was returned to standard group in 3Q. The positive point is that special mention dropped by 15bps QoQ, which somewhat lowered the provisioning pressure in 2H24. During the period, CTG accelerated the handling of VND10,552 billion (+57% YoY). Credit costs reached VND7,817 billion (+20.7% YoY), causing the LLCR to remain at 113.8%, the third highest in the industry. KBSV still believes that the provisioning pressure for CTG will remain high in 2H24 but lower than in 1H24 thanks to the economic recovery. Provisions set by CTG may reach VND24,000 billion for the whole year of 2024.

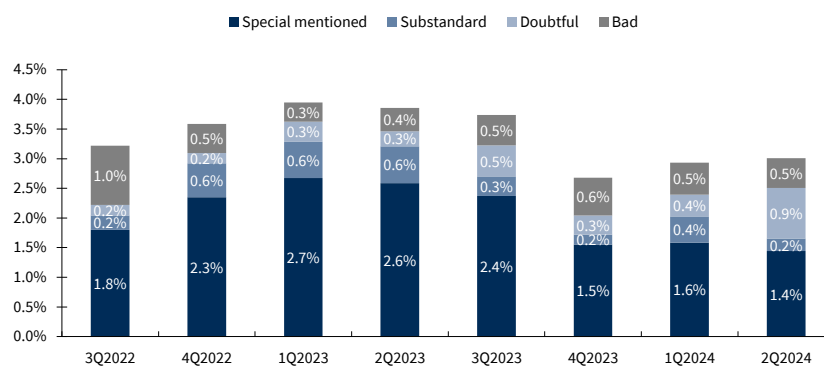
Fig 10. CTG – NPL in 2022–2024 (%)

	% NPL	QoQ	% Group 2	QoQ	Provision (Billion VND)	LLCR
VPB	5.08%	0.24%	7.83%	-0.48%	-15,247	48.1%
VIB	3.66%	0.06%	4.46%	-1.19%	-4,910	48.1%
OCB	3.12%	0.25%	2.42%	-0.20%	-2,601	54.6%
MSB	3.08%	0.09%	2.11%	0.36%	-3,007	58.6%
EIB	2.64%	0.21%	1.04%	-0.16%	-1,599	40.0%
STB	2.43%	0.15%	0.70%	-0.15%	-8,752	69.7%
HDB	2.10%	0.14%	4.50%	-0.22%	-4,767	58.8%
TPB	2.06%	0.17%	2.61%	-0.07%	-2,902	66.0%
LPB	1.73%	0.34%	1.14%	0.34%	-4,228	77.1%
MBB	1.64%	0.85%	1.84%	-0.46%	-11,215	101.7%
CTG	1.57%	0.22%	1.44%	-0.15%	-28,040	113.8%
BID	1.52%	0.02%	1.59%	-0.46%	-37,929	132.2%
ACB	1.48%	0.27%	0.53%	-0.12%	-6,319	77.8%
TCB	1.23%	0.10%	0.82%	-0.27%	-7,370	101.1%
VCB	1.20%	0.02%	0.36%	-0.20%	-34,884	212.1%

Source: VietinBank, KB Securities Vietnam

CTG's reserve buffer is the third highest in the industry, but it has decreased significantly compared to the period before 2024 (always maintaining above 130%). This has reduced the flexibility in provisioning and handling bad debt of the bank.

Fig 12. Vietnam banks – NPLs & special mention (%)



Source: VietinBank, KB Securities Vietnam

Forecast & valuation

Table 12. CTG – 2024-2025F

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
NII	52,957	62,288	17.6%	70,410	13.0%	The forecast is unchanged compared to the 1Q24 update report. NII growth is attributable to improved NIM and expected credit growth of 15% YoY.
NFI	7,114	7,554	6.2%	8,082	7.0%	
TOI	70,548	80,638	14.3%	88,240	9.4%	The forecast for other incomes was raised according to changes in CTG's expectation of debt recovery which should reach VND7,000 billion in 2024.
Provisions	(25,115)	(26,892)	7.1%	(29,671)	10.3%	Projected provisions were 1.2% higher than the old forecast, and the LLCR forecast to lowered to 132%.
NP after MI	19,904	23,223	16.7%	25,291	8.9%	
NIM	2.86%	2.96%	10bps	2.97%	1bps	We maintained 2024 NIM forecast, reflecting expectations of a 10-60 bps increase in deposit rate for the rest of the year.
Average IEA	7.16%	6.35%	-81bps	6.75%	41bps	
Average CoF	4.54%	3.62%	-92bps	4.05%	43bps	
CIR	29.0%	29.0%	2bps	28.9%	-10bps	
NPL	1.13%	1.40%	27bps	1.20%	-20bps	
Total assets	2,032,614	2,295,685	12.9%	2,586,754	12.7%	
Owner's equity	125,872	149,095	18.4%	174,386	17.0%	

Source: VietinBank, KB Securities Vietnam

Valuation: NEUTRAL rating, price target VND39,000/share

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

(1) P/B valuation method:

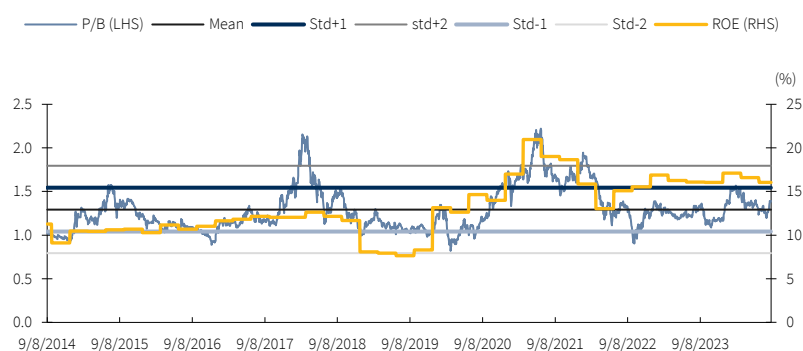
We maintain the forecast for CTG's 2024 P/B at 1.35x, equivalent to its five-year average P/B, assuming that NIM and credit would be better, but asset quality does not make significant improvement.

(2) Residual income (Table 14):

In addition, we combine the use of a residual income model to reflect systematic risks and long-term expectations.

Combining the two valuation methods above at a 50-50 ratio, we found the final fair price for CTG shares in 2024 was VND39,000/share, 11.4% higher than the price on August 29, 2024.

Fig 12. CTG – P/B in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

Table 13. CTG – Valuation according to residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	23,378	25,462	35,726
Excessed return	6,561	5,543	12,428
Required rate of return (r)	13.36%		
Growth (g)	3.0%		
Terminal value	34,613		
2023-end fair value	217,632		
Value per share	40,527		

Source: KB Securities Vietnam

Table 13. CTG – Valuation according to residual income method

Valuation method	Forecast price	Weighting	Weighted price
P/B	37,482	50%	18,741
Residual income	40,527	50%	20,264
Target price			39,000

Source: KB Securities Vietnam

CTG - 2022A-2025F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Net interest income	41,788	47,792	52,957	62,288	70,410	Loans	1,104,873	1,245,430	1,445,572	1,662,939	1,901,345
Interest income	84,628	104,665	132,672	133,687	160,318	Marketable securities	2,475	1,406	2,488	3,012	3,272
Interest expense	(42,840)	(56,873)	(79,714)	(71,400)	(89,909)	Cash (ex. Reserves)	11,331	11,067	9,760	11,269	12,909
Fees & commissions	4,961	5,862	7,114	7,554	8,082	Interest earning assets	1,483,561	1,729,008	1,977,920	2,234,629	2,513,559
Other non-interest income	3,398	6,538	5,803	6,095	4,660	Fixed assets & other assets	61,209	95,377	73,145	81,667	91,001
Total operating income	53,157	64,117	70,548	80,638	88,240	Total assets	1,531,587	1,808,811	2,032,614	2,295,685	2,586,754
SG&A expenses	(17,186)	(19,195)	(20,443)	(23,385)	(25,501)	Customer deposits	1,161,848	1,249,176	1,410,899	1,629,179	1,866,236
Pre-provisioning OP	35,971	44,922	50,105	57,253	62,739	Borrowings & call money/repos	67,025	93,763	18,169	139,489	181,007
Provision for credit losses	(18,382)	(23,791)	(25,115)	(26,892)	(29,671)	Interest bearing liabilities	1,401,001	1,657,148	1,855,204	2,088,698	2,346,394
Other income	4,516	7,507	7,080	9,376	7,170	Other liabilities	36,937	43,347	51,537	57,892	65,973
Other expense	(1,118)	(969)	(1,277)	(3,282)	(2,509)	Total liabilities	1,437,938	1,700,495	1,906,742	2,146,591	2,412,368
Pre-tax income	17,589	21,132	24,990	30,361	33,067	Charter capital	48,058	48,058	53,700	53,700	53,700
Income tax expense	(3,374)	(4,148)	(4,945)	(6,983)	(7,605)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	14,215	16,984	20,045	23,378	25,462	Retained earnings	21,488	33,513	42,369	65,592	90,884
Minority interest profit	(127)	(60)	(141)	(155)	(171)	Capital adjustments	-	-	-	-	-
Parent NP	14,089	16,924	19,904	23,223	25,291	Total shareholders' equity	93,650	108,316	125,872	149,095	174,386

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	15.9%	16.8%	17.1%	17.0%	15.7%	EPS	2,932	3,522	3,706	4,325	4,710
ROA	10%	10%	10%	11%	10%	BVPS	19,487	22,539	23,440	27,764	32,474
Pre-provision ROE	32.3%	35.7%	34.3%	32.7%	30.4%	Tangible BVPS	18,592	21,674	22,696	27,039	31,767
Pre-provision ROA	2.0%	2.2%	2.1%	2.1%	2.0%	Valuations					
Net interest margin (NIM)	3.0%	3.0%	2.9%	3.0%	3.0%	PER	119	99	94	81	74
Efficiency						PBR	18	16	15	13	11
Pure Loan to deposit ratio	97.3%	102.1%	104.4%	104.0%	103.5%	Dividend yield	0.5%	0.0%	0.0%	0.0%	0.0%
Cost-income ratio	32.3%	29.9%	29.0%	29.0%	28.9%	ROE	15.9%	16.8%	17.1%	17.0%	15.7%
Growth						Capital Adequacy					
Asset growth	14.2%	18.1%	12.4%	12.9%	12.7%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	10.2%	12.7%	16.1%	15.0%	14.3%	Asset Quality					
PPOP growth	22.8%	24.9%	11.5%	14.3%	9.6%	NPL ratio (substandard)	13%	12%	11%	14%	12%
Parent NP growth	2.7%	20.1%	17.6%	16.7%	8.9%	Coverage ratio (substandard)	180.4%	188.1%	167.2%	132.4%	130.3%
EPS growth	-20.4%	20.1%	5.3%	16.7%	8.9%	NPL ratio (precautionary)	2.3%	3.6%	2.7%	3.0%	2.9%
BVPS growth	-15.1%	15.7%	4.0%	18.4%	17.0%	Coverage ratio (precautionary)	98.4%	65.0%	70.4%	61.8%	53.9%

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:	Neutral:	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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