

June 3, 2021

1Q earnings hit VND6,462 billion, up 167.6% YoY

VietinBank's (CTG) 1Q earnings skyrocketed to VND6,462 billion (+167.6% YoY, +20.6% QoQ), which is the strongest performance of the company since listing. Credit balance slightly decreased versus the previous quarter (unchanged QoQ) but still improved strongly compared to the same period last year (+8.3% YoY).

NPL ratio was 0.88%, down 6 bps QoQ, and NPL coverage ratio reached 155.4%

Non-performing loan (NPL) ratio in 1Q was 0.88%, down 6 bps QoQ, mainly because group-5 debts decreased 5bps QoQ. Debts that need attention (Group 2) increased by VND1,117 billion (+10 bps QoQ). NPL coverage ratio reached 155.4% (+23.4% QoQ), the highest ratio in recent years of CTG.

CTG expects 2021E post-tax earnings to rise 2.1% YoY

CTG's 2021E earnings target is VND16,800 billion, up 2.1% YoY, given: (1) Credit growth at 7.5% YoY and adjusted under the direction of the State Bank; (2) Customer deposits up by 8-10%; and total assets up 6-10% YoY.

CTG plans to pay VND5,000 cash dividends and stock dividends for 2020 performance

Shareholders approved two dividend payment plans in 2020, including VND5,000 cash dividends and 12.7% or 17.8% stock dividend (depending on payable date).

BUY recommendation with a target price of VND52,100 per share

Based on valuation results, business outlook as well as considering possible risk factors, we recommend to BUY CTG shares. The target price is VND52,100/share, 17.8% higher than the closing price on May 11, 2021.

Buy

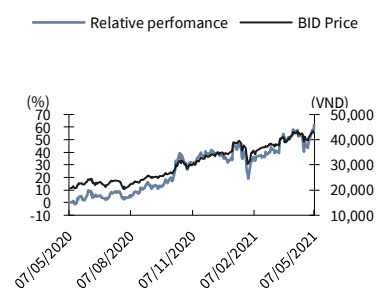
Target price	VND52,100
Upside/downside	17.8%
Current price (May 7, 2021)	VND 44,200
Target price	VND 44,900
Mrkt cap (VNDbn)	163,085

Trading data	
Free float (%)	15.81%
Avg trading value (3M)	561/24.2
Foreign ownership (%)	28.73%
Ownership structure	State Bank (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
CTG	1.9	25.5	47.1	112.6
VNIndex	0.1	11.7	34.6	52.6

Forecast earnings & valuation

Financial year-end	2019A	2020A	2021F	2022F
Net interest income (VNDbn)	33,199	35,581	38,955	44,198
Pre-provision oper. profit (VNDbn)	24,785	29,219	32,310	36,037
NPAT of the parent bank (VNDbn)	9,461	13,679	19,501	23,604
EPS (VND)	2,541	3,674	5,237	6,339
EPS growth (%)	79%	45%	43%	21%
PER (x)	17.2	11.9	8.4	6.9
Book value per share	20,775	22,935	27,534	33,373
PBR (x)	2.11	1.91	1.59	1.31
ROE (%)	13.1%	16.9%	20.9%	20.9%
Cash dividend rate (%)			1.14%	1.14%



Source: Bloomberg, KBSV

Business performance

1Q2021, NPAT reached VND 6,462 billion, up 167.6% YoY

CTG posted positive business results in 1Q21 with net interest income of VND10,642 billion (+3.4% QoQ, +26.4% YoY) and non-interest income of VND2,280 billion (-19.2% QoQ, +0.6% YoY). TOI was VND12,923 billion (-1.4% QoQ, +20.9% YoY), and provision expenses also plunged to VND1,350 billion (-69.2% YoY), helping 1Q NPAT improve to VND6,462 billion (+167.6% YoY, +20.6% QoQ). This is CTG's highest quarterly profit since being listed.

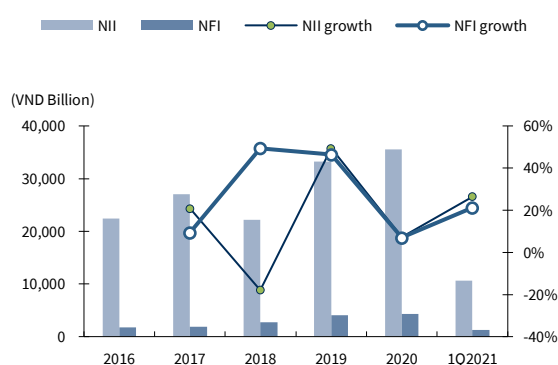
Credit growth reached 8.3% YoY and remained unchanged QoQ

Total credit somewhat slowed compared to the previous quarter (unchanged QoQ) but still improved strongly year over year (+8.3% YoY). Lending structure was almost unchanged from the previous quarter, mainly focusing on the traditional customer lending segment, however, CTG wants to raise the proportion of profitable segments rather than retailers and SMEs.

NIM 1Q2021 up 15 bps QoQ thanks to a sharp drop in average input interest rate

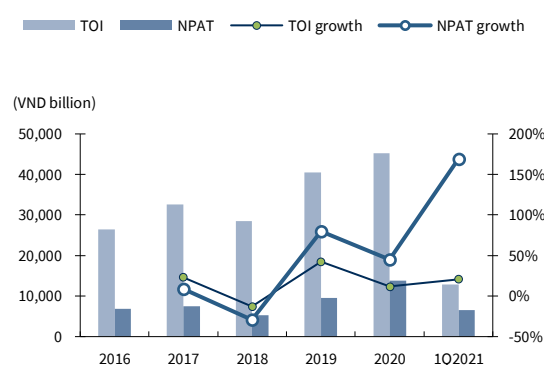
NIM improved in 1Q, reaching 3.09%, (+15 bps QoQ, +17 bps YoY), which was the main reason for the increase in NII. Although the average output interest rate decreased significantly (-54 bps YoY) due to CTG's initiative in cutting interest rates to support businesses affected by COVID-19, the average input interest rate decreased more sharply (-73 bps YoY) thanks to the State Bank's policy of cutting policy rates along with the development of e-banking services, (EFAST, eKYC and so on).

Fig 1. CTG – NII and income from services 2016–1Q21 (YoY)



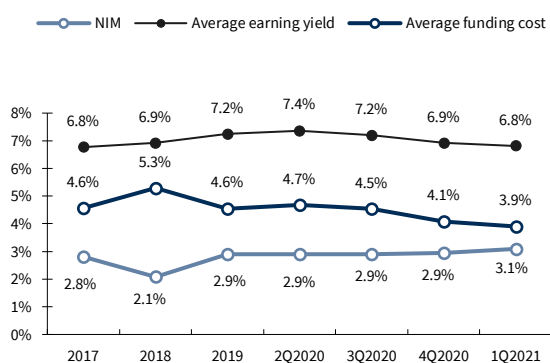
Source: VietinBank, KB Securities Vietnam

Fig 2. CTG – Operating income and NPAT 2016–1Q21 (YoY)



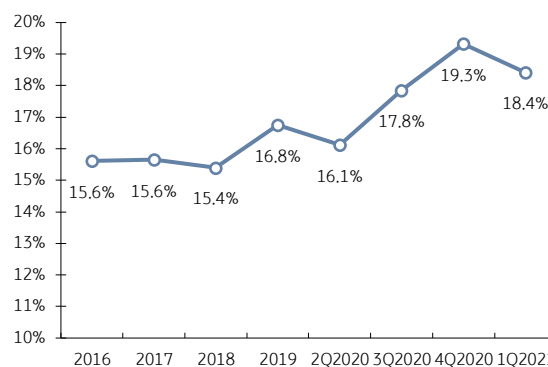
Source: VietinBank, KB Securities Vietnam

Fig 3. CTG – Interest and NIM in 2017–1Q21



Source: VietinBank, KB Securities Vietnam

Fig 4. CTG – CASA in 2016–1Q21

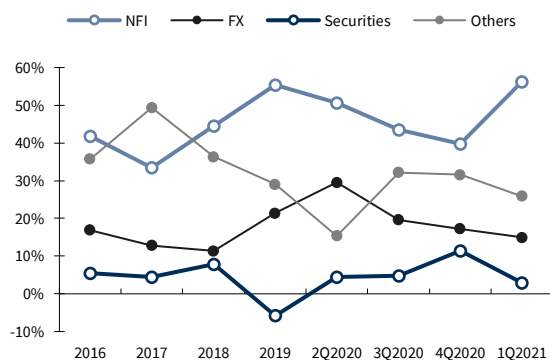


Source: VietinBank, KB Securities Vietnam

NOII 1Q2021 reached VND 2,280 billion, down 19.2% QoQ, up 0.6% YoY

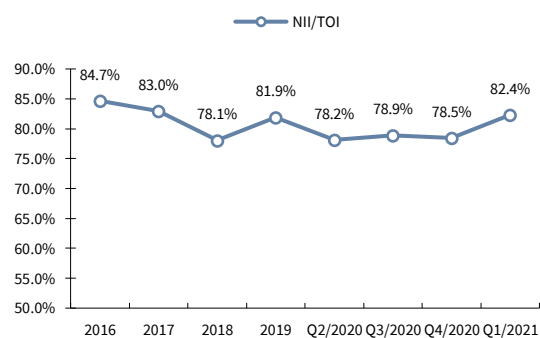
Net profit from service activities in 1Q21 hit VND10,642 billion (+14.2% QoQ, +21.1% YoY) thanks to selling strong products such as money transfer, card services and trade finance along with optimizing management cost. Profit from FX activities decreased by 13.4% YoY and profit from trading and investment securities both decreased YoY, making NOII down to VND2,280 billion (-19.2% QoQ, +0.6% YoY). The NII/TOI ratio rebounded to 82.4% (+390 bps QoQ).

Fig 5. CTG – Non-interest income in 2016–1Q21



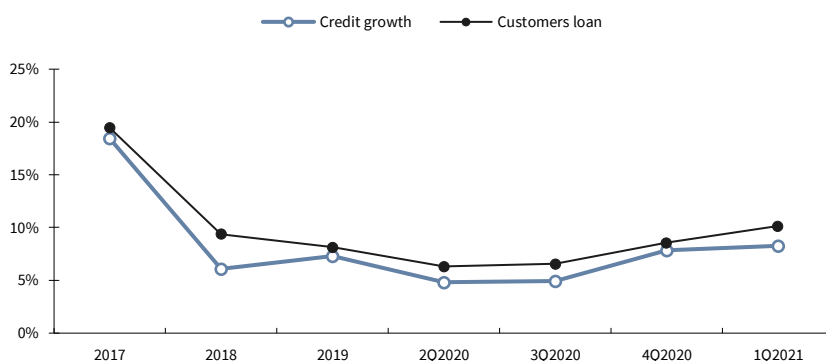
Source: VietinBank, KB Securities Vietnam

Fig 6. CTG – NII/Operating income ratio in 2016–1Q21



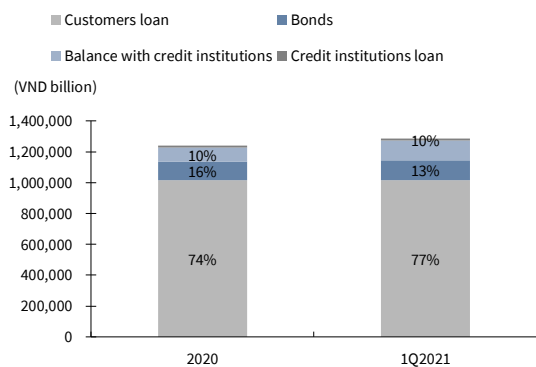
Source: VietinBank, KB Securities Vietnam

Fig 7. CTG - Credit growth in 2017-1Q21 (YoY)



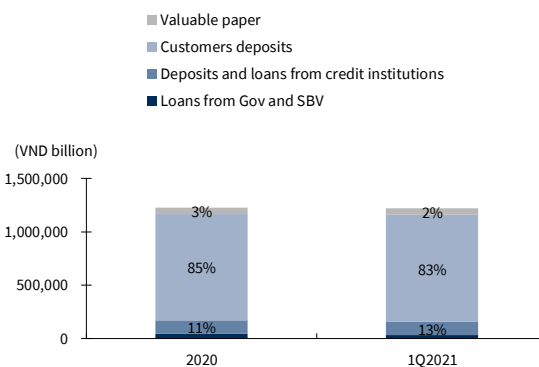
Source: VietinBank, KB Securities Vietnam

Fig 8. CTG - Profitable asset structure in 1Q21



Source: VietinBank, KB Securities Vietnam

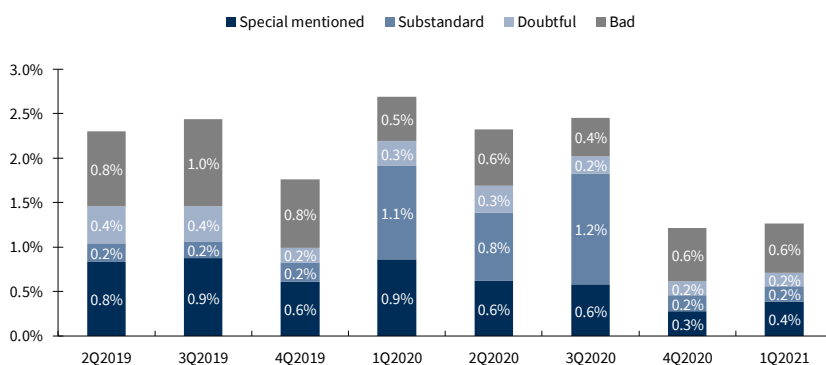
Fig 9. CTG - Mobilized capital structure in 1Q21



Source: VietinBank, KB Securities Vietnam

Fig 10. CTG - NPL & debt that needs attention in 2019-1Q21

NPL lost 6 bps QoQ thanks to lower group 5 debt while SML rose 6 bps QoQ due to group 2 debt increased

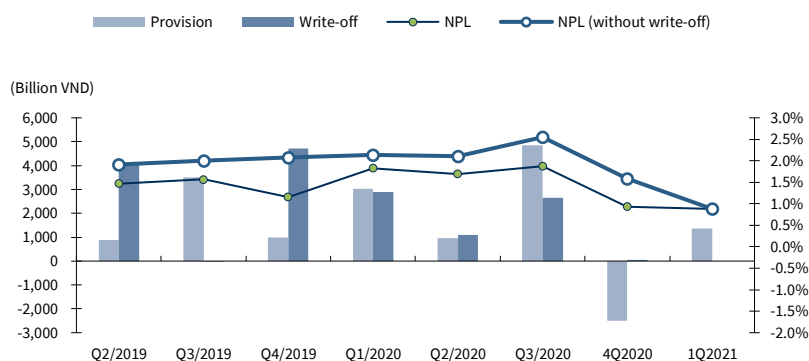


Source: VietinBank, KB Securities Vietnam

Fig 11. CTG – NPL and provisioning in 1Q19–1Q21

CTG maintained a high provision in 2020, especially in 3Q and 4Q.

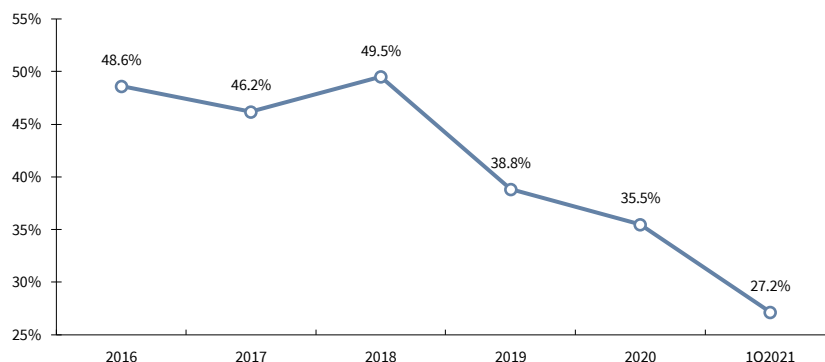
In 1Q21, CTG did not face too much pressure of provision as debt quality was good. Plus, CTG did not use provisions to deal with bad debts but still maintained a very low NPL ratio.



Source: VietinBank, KB Securities Vietnam

Fig 22. CTG – CIR in 2016–1Q21

1Q TOI increased by 20.9% YoY while operating expenses only increased by 5.8% YoY, helping CIR improve strongly, reaching 27.2% compared to 35.5% in 2020



Source: VietinBank, KB Securities Vietnam

CTG sets a target for 2021 PBT to increase by 2.1% YoY

CTG's 2021E guidance includes VND16,800 billion in earnings (up 2.1% YoY), given: (1) Credit growth at 7.5% YoY and adjusted under the direction of the State Bank; (2) Customer deposits up by 8–10%; and total assets up 6–10% YoY. With the sudden profit achieved in 1Q21, CTG has completed 48.0% of the earnings target. We expect CTG's business results in 2021 to exceed the target, based on: (1) Reduced provisioning pressure due to continuous improvement in good asset quality; (2) Improved NIM thanks to CASA improvement policies such as free payment services for individual customers, expanding the application of ERP and eFast systems while CTG leaders said that there is no sign that there is pressure of raising deposit rates.

CTG sets dividend plan for 2020

CTG's shareholders approved two options for dividend payment for 2020 as follows: (1) Option 1: paying 2020 dividends before paying dividends for the period 2017 to 2019. Cash dividend rate is 5% and dividends stock dividend rate is 17.8%. (2) Option 2: paying 2020 dividends after paying dividends for the period 2017 to 2019. Cash dividend rate is 5% and stock dividend is 12.7%.

Forecast business performance

Forecast business performance in 2021

We forecast CTG's 2021 performance will be as follows:

- Credit growth is forecast to reach 8.0% in 2021 as the bank accelerates credit to recover from the COVID-19 pandemic.
- We estimate NIM to increase by 4 bps YoY to 2.98%, revised up by 8bps compared to the previous forecast due to positive signals from NIM growth in 1Q21.
- Forecast NPL is 1.1% (down from 1.7% in the previous report) thanks to improved asset quality, reduced debt restructuring and Circular 03/2021.
- Provision expenses should be VND7,811 billion (-36% YoY), adjusted down by 40.8% vs the previous forecast thanks to the strong improvement in asset quality.
- Earnings may hit VND 19,599 billion, up 42.6% YoY.
- It should be noted that the current developments of the pandemic may affect the asset quality and business results of CTG.

Table 13. CTG – 2021–2022 business forecast

	2020	2021F	2022F	% YoY 2021	%YoY 2022
Net interest income	35,581	38,955	44,198	9%	13%
Net fee income	4,341	5,758	6,161	33%	7%
Total operating income	45,280	48,955	54,601	8%	12%
Provision for credit losses	(12,148)	(7,811)	(6,383)	-36%	-18%
Net profit after tax	13,741	19,599	23,723	42.6%	21.0%
NIM	2.94%	2.98%	3.10%	4bps	12bps
Average interest rate	6.92%	7.19%	7.28%	28bps	9bps
Average deposit rate	4.09%	4.35%	4.39%	26bps	5bps
CIR	35.5%	34.0%	34.0%	-147bps	0bps
NPL	0.94%	1.10%	1.20%	16bps	10bps
Total asset	1,341,393	1,436,530	1,546,212	7%	8%
Owner Equity	85,395	102,519	124,261	20%	21%

Source: KB Securities Vietnam

BUY recommendation with a target price of VND52,100 per share

We combine 2 pricing methods, P/B and Residual income model to find the fair price for CTG shares.

(1) P/B valuation method

With high profit growth expected in 2021, asset quality being improved strongly after VAMC debt settlement, we give CTG's target P/B in 2021 at 2.24x, equivalent to the average two-year P/B of a state-owned bank with many similarities like Bank for Investment and Development (BID).

(2) Residual income valuation (Table 14)

We use this model to reflect systematic risk and long-term outlook.

Combining the above two valuation methods with the ratio of 50-50, we found the final fair price for CTG shares is 52,100 VND/share, 17.8% higher than the price on May 11, 2021.

Table 24. CTG – Residual income model

VND billions	2021F	2022F	2023F
PAT	19,599.31	23,723.02	25,145.89
Excessed return	6,397.29	7,721.04	6,161.65
Required rate of return (r)	12.88%		
Growth (g)	5.0%		
Terminal value	57,104		
Present value(PV)	158,235		
Price	42,497		

Source: KB Securities Vietnam

Table 35. CTG – Target price based on the two methods

Method	Forecast price	Weight	Weight price
P/B	61,675	50%	30,838
RIM	42,497	50%	21,249
Target price			52,086

Source: KB Securities Vietnam

CTG – 2018A–2022F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2018	2019	2020	2021F	2022F		2018	2019	2020E	2021F	2022F
Net interest income	22,212	33,199	35,581	38,955	44,198	Loans	85,186	922,325	1,002,771	1,081,927	1,168,117
Interest income	73,870	82,743	83,682	93,918	103,875	Marketable securities	3,132	3,825	5,602	5,755	6,215
Interest expense	(51,658)	(49,544)	(48,100)	(54,963)	(59,677)	Cash (ex. Reserves)	7,028	8,283	9,930	10,080	10,887
Fees & commissions	2,771	4,055	4,341	5,758	6,161	Interest earning assets	1,103,511	1,181,210	1,238,884	1,373,358	1,479,654
Other non-interest income	1,889	1,497	1,876	1,887	1,887	Fixed assets & other assets	46,188	46,931	47,861	57,688	61,848
Total operating income	28,446	40,519	45,280	48,955	54,601	Total assets	1,164,290	1,240,711	1,341,393	1,436,530	1,546,212
SG&A expenses	(14,084)	(15,735)	(16,062)	(16,645)	(18,564)	Customer deposits	825,816	892,785	990,331	1,044,343	1,127,890
Pre-provisioning OP	14,361	24,785	29,219	32,310	36,037	Borrowings & call money/repos	52,150	62,842	62,609	71,976	77,414
Provision for credit losses	(7,803)	(13,004)	(12,148)	(7,811)	(6,383)	Interest bearing liabilities	1,046,032	1,129,938	1,223,323	1,306,113	1,410,269
Other income	2,914	2,357	2,701	2,971	2,971	Other liabilities	45,007	27,643	29,941	24,911	8,457
Other expense	(1,025)	(860)	(825)	(1,084)	(1,084)	Total liabilities	1,096,973	1,163,357	1,255,998	1,334,012	1,421,951
Pre-tax income	6,559	11,781	17,070	24,499	29,654	Charter capital	37,234	37,234	37,234	37,234	37,234
Income tax expense	(1,281)	(2,304)	(3,329)	(4,900)	(5,931)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	5,277	9,477	13,741	19,599	23,723	Retained earnings	11,837	19,833	25,985	43,624	65,367
Minority interest profit	(2)	(16)	(62)	(98)	(119)	Capital adjustments	-	-	-	-	-
Parent NP	5,275	9,461	13,679	19,501	23,604	Total shareholders' equity	67,316	77,355	85,395	102,519	124,261

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	8.1%	13.1%	16.9%	20.9%	20.9%	EPS	1417	2,541	3,674	5,237	6,339
ROA	0.5%	0.8%	1.1%	1.4%	1.6%	BVPS	18,079	20,775	22,935	27,534	33,373
Pre-provision ROE	17.6%	27.5%	28.8%	27.5%	25.4%	Tangible BVPS	16,751	19,547	21,752	26,315	32,184
Pre-provision ROA	1.0%	1.7%	1.8%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.1%	2.9%	2.9%	3.0%	3.1%	PER	30.9	17.2	119	8.4	6.9
Efficiency						PBR	2.4	2.1	19	16	13
Pure Loan to deposit ratio	104.7%	104.8%	102.5%	105.0%	105.0%	Dividend yield	0.0%	0.0%	1.1%	1.6%	2.0%
Cost-income ratio	49.5%	38.8%	35.5%	34.0%	34.0%	ROE	8.1%	13.1%	16.9%	20.9%	20.9%
Growth						Capital Adequacy					
Asset growth	6.3%	6.6%	8.1%	7.1%	7.6%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.9%	8.3%	8.7%	7.9%	8.0%	Asset Quality					
PPOP growth	-18.2%	72.6%	17.9%	10.6%	11.5%	NPL ratio (substandard)	16%	12%	0.9%	1.1%	1.2%
Parent NP growth	-29.0%	79.4%	44.6%	42.6%	21.0%	Coverage ratio (substandard)	95.3%	19.7%	132.0%	121.3%	113.8%
EPS growth	-29.0%	79.4%	44.6%	42.6%	21.0%	NPL ratio (precautionary)	2.2%	1.8%	1.2%	1.6%	1.5%
BVPS growth	5.6%	14.9%	10.4%	20.1%	21.2%	Coverage ratio (precautionary)	69.1%	78.5%	102.0%	83.4%	91.0%

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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