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Vietinbank (CTG)

Provisions weigh on 1Q performance

1Q earnings down 6% YoY as provisions weigh on performance

— Weak 1Q earnings of VND2,405 billion (down 5.3% YoY/9.4% QoQ) as the sharp deterioration in credit quality forces management to boost provisions for troubled loans. Despite the worsening lending environment credit growth maintained at 5.8% YoY vs 4Q's 5.7% YoY. However, loan growth slowed at a similar pace to 7.2% YoY vs 4Q's 8.1% YoY.

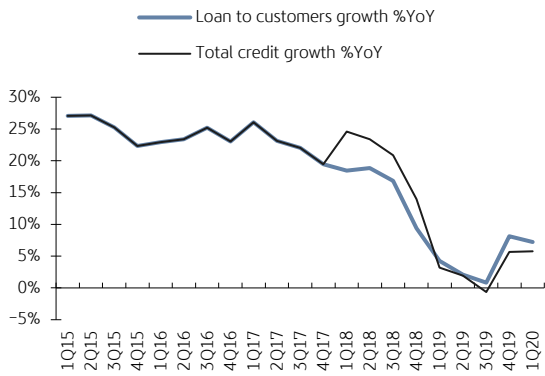
More signs of weaker credit conditions & provisions lagging the rise in troubled loans

— CTG was not immune to the sector-wide deterioration in asset quality. Substandard & below non-performing loans rose to 1.83% vs 4Q's 1.16% and precautionary & below non-performing loans also increased to 2.69% in 1Q from 4Q's 1.76%. This caused credit provisions to surge by 36% YoY to VND4,393 billion or 0.48% of loans vs 4Q's 0.38% of loans. Higher provisions failed to keep pace with the rise in non-performing loans, with reserve coverage for substandard & below loans falling sharply to 77.3% from 4Q's 119.7% and precautionary & below loans falling to 52.6% from 4Q's 78.5%.

Lower costs offset some of the negative impact to earnings

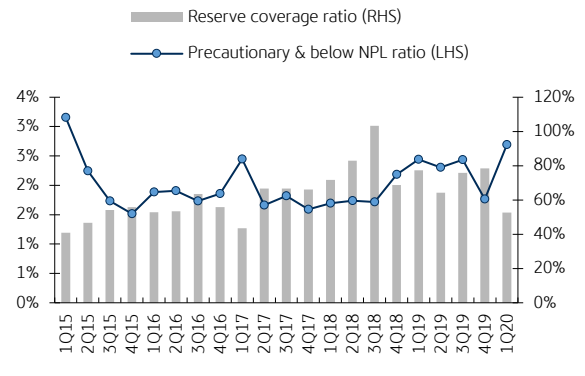
— Fee income fared better than peers at VND1,059 billion, with the bank still managing to post positive growth of 9.3% YoY due to the Avia insurance subsidiary. Gains from trading securities also rose by four times on added volatility in the markets. Lower costs were the biggest positive surprise from 1Q results, as staff cuts initiated before the coronavirus outbreak helped to lower the cost-to-income ratio to 31.5% from 33.6% during the same period last year to offset higher credit costs.

Fig 1. CTG - Loan to customers & total credit growth, 1Q15-1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. CTG - Precautionary & below non-performing loan ratio & reserve coverage ratio, 1Q15-1Q20 (%)



Source: Company reports & KB Securities Vietnam

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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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