

# Vietinbank (CTG)

## Double pretax earnings on curtailing credit cost

### Doubled 2Q pretax earnings due to contraction in credit cost

- 2Q pretax earnings in of VND4,486 billion (+51%QoQ, +106% YoY), making 1H20 pretax reached VND7,460 billion (+40%YoY). Credit still recorded a negative YTD growth in 1Q20 has showed forward-looking signals as at the end of 2Q20, credit increased by 1.1%YTD vs 2Q19's 1.9%YTD. Up to 2Q20, total credit decreased by 4.8% YoY vs 1Q20's 5.8% YoY, aligned with customer loan growth of 6.3% YoY vs 1Q20's 7.2% YoY.
- Deposit of customer reached VND913,320 billion (+2% YoY, +8% YoY) was still the pivot of banks' capital mobilization resources. Besides, current account & saving account ratio (CASA) improved in 2Q to reach 15.7% vs 1Q20's 14.3% and 2Q19's 14.4%.

### Improving asset quality lessens pressure on credit costs

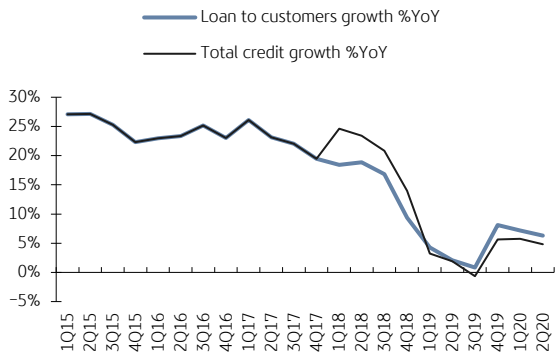
- Substandard & below non-performing loan ratio has been falling to 1.70% from 1Q20's 1.83%, besides, precautionary & below non-performing loan ratio also got better at 2.32% vs 1Q20's 2.69% and 2.31% in the same period. In comparison to 2Q19, all debt groups decreased except for the counter direction of third group (substandard loans) which increased three times in value, however, regarding 1Q20, the fourth (doubtful loans) and fifth group (bad loans) increased by 10.2% QoQ and 28.9% QoQ respectively, while second (special mentioned loans) and third group decreased by about 26%QoQ. Under less pressure from non-performing loan, 2Q20's credit costs dropped to blanket only 0.23% of total loans vs 1Q20's 0.48%, also lower reserve coverage witnessed for both substandard & below non-performing loan ratio to 80.9% from 4Q19's 119.7% and precautionary & below non-performing loan ratio to 59.2% from 4Q19's 78.5%.

### Blooming non-interest activities despite flat net interest income

- Net interest income reached VND7,798 billion (-7% QoQ, -5% YoY) and estimated net interest margin (NIM) down to 2.61% from 2Q19's 2.92% as the bank offered preferential loans to support customers. A crucial contribution to the bottom line was fee and commission income, reaching VND1,102 billion (+4% QoQ, +12% YoY) as well as other non-interest activities such as forex trading, reaching VND 644 billion (1.6 times higher than 1Q20 and 1.7 times than 2Q19). In addition, minimizing credit cost to only half of 1Q20 to be VND2,207 billion and supported Vietinbank's 2Q sound results. Operating expenses slightly moved up, leading to marginally higher cost-to-income ratio (CIR) to 32.9% vs 1Q's 31.1% and lower than 2Q19's 36.4%.

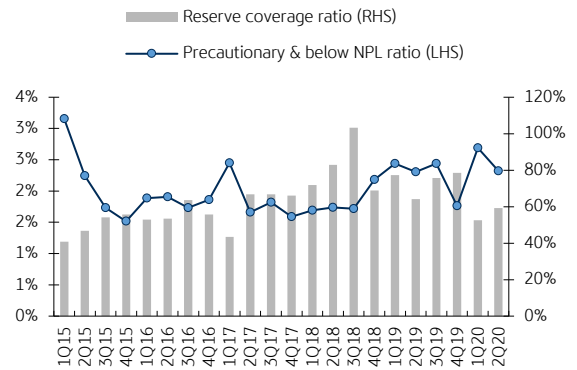


**Fig 1. CTG - Loan to customers & total credit growth, 1Q15-2Q20 (% YoY)**



Source: Company reports & KB Securities Vietnam

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



Source: Company reports & KB Securities Vietnam

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(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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