

August 24, 2021

2Q NPAT reached VND2,239 billion, down 38.0% YoY

NPL ratio was 1.34%, up 46 bps QoQ due to a sharp increase in group-5 debt

CTG plans to make all provision for debt restructuring according to Circular 03/2021

The bank expects to record upfront fee from 4Q21

BUY recommendation with a target price of VND40,600/share

Buy maintain

Target price	VND40,600
Upside/downside	17.3%
Current price (Aug 17, 2021)	VND 34,600
Consensus target price	VND 44,900
Market cap (VNDbn)	168,681

Forecast earnings & valuation

Financial year-end	2019A	2020A	2021F	2022F
NII (VNDbn)	33,199	35,581	40,585	44,257
EBIT (VNDbn)	24,785	29,219	33,816	36,749
NPAT of the parent bank (VNDbn)	9,461	13,679	16,791	23,912
EPS (VND)	2,541	3,674	3,494	4,976
EPS growth (%)	79%	45%	-5%	42%
P/E (x)	17.2	11.9	12.5	8.8
BVPS (VND)	20,775	22,935	20,769	25,357
P/B (x)	2.11	1.91	2.11	1.73
ROE (%)	13.1%	16.9%	18.2%	21.7%
Dividend yield (%)			1.14%	1.14%

VietinBank's (CTG) 2Q NII was VND10,879 billion (+2.2% QoQ, +39.5% YoY), and TOI reached VND14,083 billion (+9.0% QoQ, +41.2% YoY). However, provision expenses surged to VND7,106 billion, (+221% YoY, +426% QoQ), making 2Q NPAT down to only VND2,239 billion (-65.4% QoQ, -38.0% YoY).

2Q NPL ratio was 1.34%, up 46bps QoQ mainly due to the sudden increase of 59bps QoQ in group-5 debt. CTG said this is corresponding to bad debt value of a large enterprise affected by the COVID-19, but not subject to the application of debt structure according to Circulars 01/2020 and 03/2021.

CTG expects to keep NPL ratio under 1.5% in 2H21. The current credit growth reached near the State Bank's target of 7.5%, and should be expanded in the near future. In addition, CTG intends to make all provision for restructuring debt in accordance with Circular 03/2021.

Given favorable conditions, CTG can start recording upfront fee from the exclusive bancassurance contract with Manulife from 4Q21 or 1Q22 after Manulife completes the acquisition of Aviva.

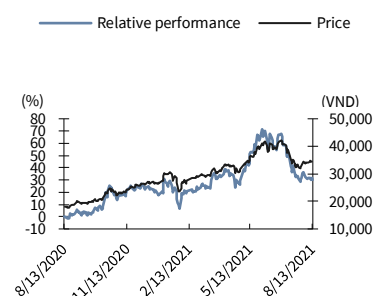
Based on valuation results, business outlook and possible risks, we recommend to BUY CTG shares with the target price of VND40,600 apiece, 17.3% higher than the price on August 17, 2021.

Trading data

Free float (%)	15.81
Avg trading value (3M) (VND bn/ USD mn)	561/24.2
Foreign ownership (%)	24.45
Major shareholder - State Bank (%)	64.46

Share price performance

(%)	1M	3M	6M	12M
CTG	6	-14	20	89
VNIndex	-3	-17	4	30



Source: Bloomberg, KB Securities Vietnam

Business operation

2Q NPAT was down 38.0% YoY to VND2,239 billion

CTG's 2Q21 NII was VND10,879 billion (+2.2% QoQ, +39.5% YoY), non-interest income was VND3,205 billion (+40.5% QoQ, +47.2% YoY), and TOI reached VND14,083 billion (+9.0% QoQ, +41.2% YoY). However, provision expense increased sharply to VND7,106 billion, (+221% YoY, +426% QoQ), lowering 2Q NPAT to VND2,239 billion (-65.4% QoQ, -38.0% YoY), which is the lowest profit recorded in the last six quarters.

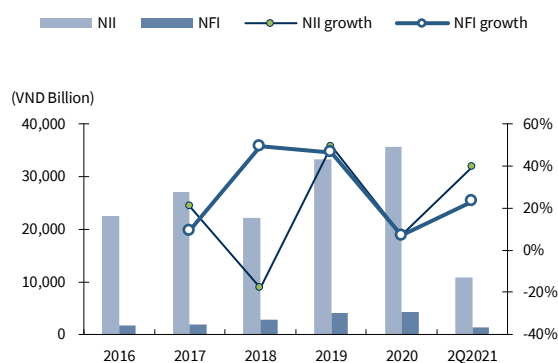
Credit growth was 5.5% QoQ and 12.6% YoY

Credit balance improved by 5.5% QoQ and 12.6% YoY, of which retail and SME loans increased strongly to 19.3% YoY and 21.4% YoY respectively. The loan structure is almost unchanged with 38% for corporate customers, 34% for individual customers and 23% for SME customers.

2Q NIM decreased 13 bps QoQ due to interest rate cuts

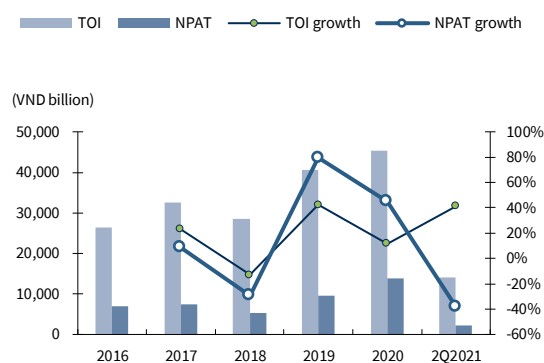
2Q NIM was 3.16% (-13 bps QoQ, +47 bps YoY), which was the main reason for the sharp increase in NII over the same period. KBSV assess that the volatility of NIM in 2Q compared to the previous quarter was attributable to the bank's drastic cut in interest rates under the request of the State Bank to support the economy. Meanwhile, the cost of capital continued to decrease by 17bps QoQ thanks to the promotion of mobilizing sources from the State Bank and the interbank market.

Fig 1. CTG – NII and interest from services growth (YoY)



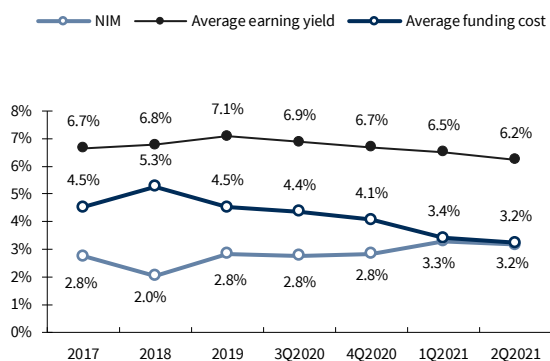
Source: Vietinbank, KB Securities Vietnam

Fig 2. CTG – Operating income and NPAT growth (YoY)



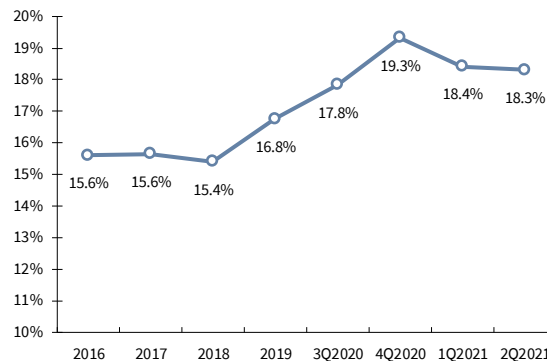
Source: Vietinbank, KB Securities Vietnam

Fig 3. CTG – NII and interest from services growth (YoY)



Source: Vietinbank, KB Securities Vietnam

Fig 4. CTG – Operating income and NPAT growth (YoY)

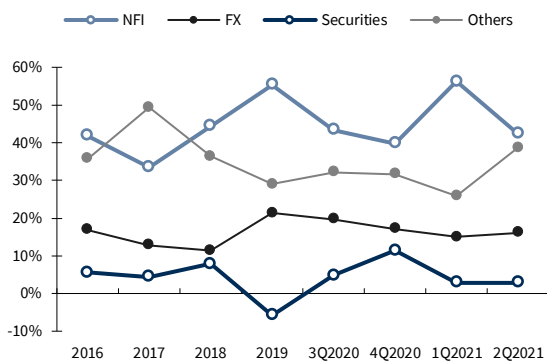


Source: Vietinbank, KB Securities Vietnam

2Q NOI was VND3,205 billion, up 40.5% QoQ, 47.2% YoY

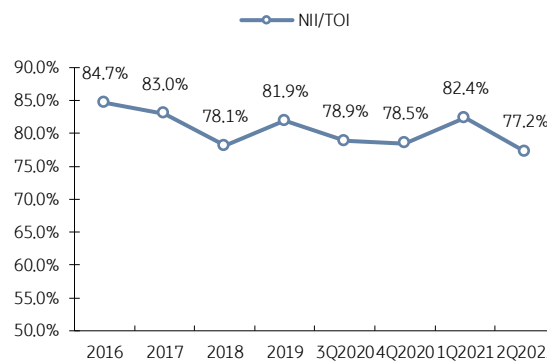
NOI reached VND1,357 billion (+5.7% QoQ, +23.1% YoY) in 2Q, mainly supported by strong products such as money transfer, card services and trade finance along with optimal management cost. Profit from FX activities decreased by 19.8% YoY and profit from trading and investment securities declined 2.8% YoY while CTG boosted bad debt recovery and settlement, helping net profit from other activities surge to VND1,134 billion. This boost 2Q non-interest income to VND3,205 billion (+40.5% QoQ, +47.2% YoY). The NII/TOI ratio was 77.2% (-520 bps QoQ).

Fig 5. CTG – Non-interest income (YoY)



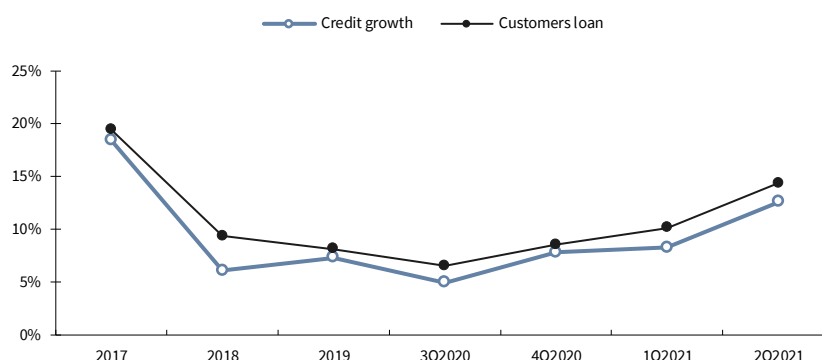
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG – NII/TOI ratio (YoY)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG – Credit growth (YoY)



Source: Vietinbank, KB Securities Vietnam

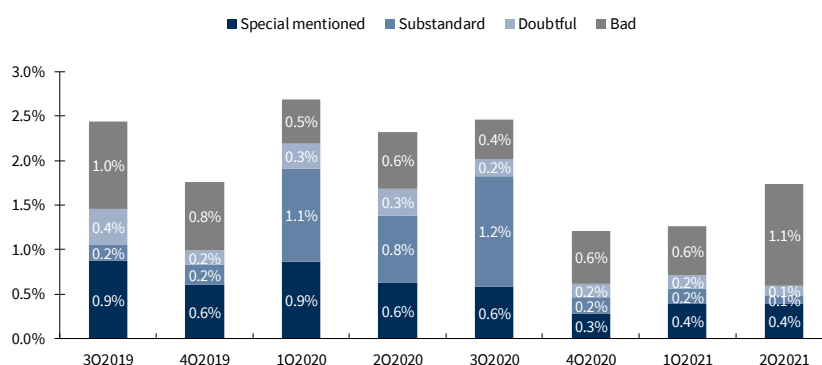
NPL ratio reached 1.34%, up 46bps QoQ due to a sharp increase in group-5 debt

2Q NPL ratio climbed 46bps QoQ to 1.34% mainly due to the sudden increase of 59bps QoQ in group-5 debt. CTG said this is corresponding to bad debt value of a large enterprise affected by the COVID-19, but not subject to the application of debt structure according to Circulars 01/2020 and 03/2021. CTG would highly appreciate the possibility changing debts to lower debt groups given commitments from the borrowers.

CTG expedited the provision of VND7,106 billion, including VND5,000 billion of restructured debts

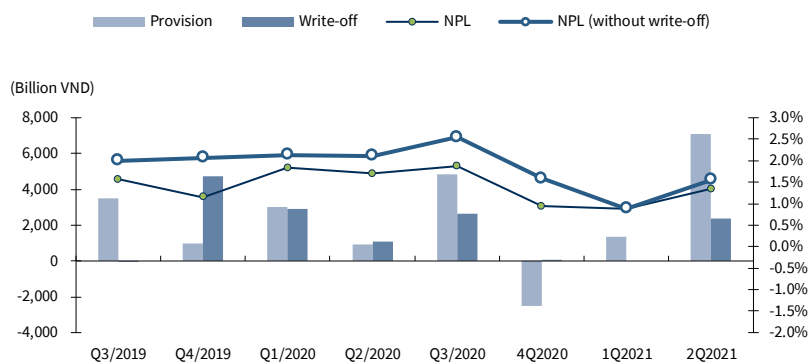
During the quarter, CTG accelerated provisioning VND7,106 billion, of which VND5,000 billion was used for debt restructuring according to Circular 03/2021 and VND3,000 billion was for the increase of group-5 debts. The bad debt coverage ratio reached 129.0%, down 26.4% QoQ, equivalent to the average of the banking system. The total outstanding loans of customers whose restructured debts are worth VND49 trillion; the restructured debt value is VND4,160 billion; and the total provision is about VND12,500 billion. The bank has made provision for 40% of the restructuring loan balance, exceeding the State Bank's target of 30% for 2021.

Fig 8. CTG – Credit growth (YoY)



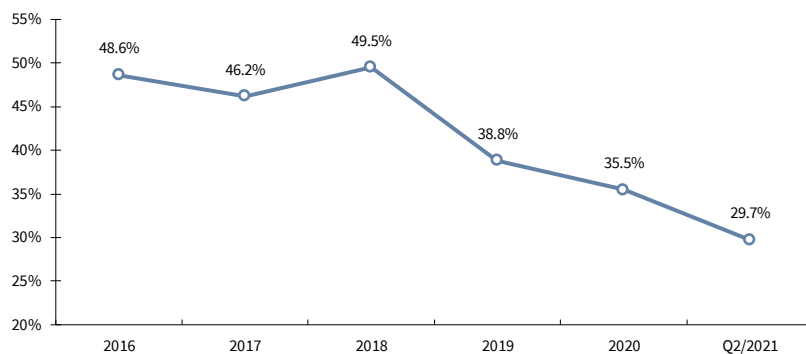
Source: Vietinbank, KB Securities Vietnam

Fig 9. CTG - Provision for bad debts (YoY)



Source: Vietinbank, KB Securities Vietnam

Fig 10. CTG - Provision for bad debts (YoY)



Source: Vietinbank, KB Securities Vietnam

CTG expects to keep NPL ratio under 1.5% and provision for all restructuring debts in this year

CTG expects to keep NPL ratio under 1.5% in 2H21. The current credit growth reached near the State Bank's target of 7.5%, and should be expanded in the near future. NIM is expected to decrease slightly due to the adjustment of output interest rates. In addition, CTG intends to make all provision for restructuring debt according to Circular 03/2021, equivalent to VND7,500 billion up to now. Although complicated developments of the pandemic adversely affect asset quality, KBSV believe that CTG can complete its business plan, based on: (1) CTG has accelerated its provisioning in 2Q21, bad debt coverage ratio is good, so the pressure on provisioning for 2H21 is somewhat reduced; (2) NIM remained at a high level thanks to CASA improvement policies such as free payment services for individual customers and expansion of application of ERP and eFast systems. In the scenario of a drastic vaccination campaign and well-insulated COVID-19 in 2022, KBSV expects CTG's business results to grow when credit demand increases and provisioning decreases sharply thanks to accelerated provisioning in 2021.

Divestment plans are underway

CTG is applying for approval from the State Bank to divest 50% of capital in Vietinbank Leasing and expect to finish the divestment at the end of 2021. Meanwhile, CTG is also looking for a strategic partner to reduce the stakes from 75.6% to 50% in Vietinbank Securities and VND950 billion to VND300 billion in Vietinbank Capital. Although the value of these divestments is insignificant compared to CTG's size, it should help focus resources and increase the efficiency of the bank's core business.

CTG expects to record upfront fee in 4Q21

The exclusive partnership for insurance distribution with Manulife of CTG has an upfront fee of USD30 million, which is expected to be paid in six years. Currently, Manulife is in the process to buy Aviva, and should start selling bancassurance program at Vietinbank after the deal. CTG hopes to start recording the upfront fee from 4Q21 or later in 1Q22.

Forecast business results

2021 forecast performance

We make a forecast for CTG in 2021 as follows:

- Credit growth may reach 8.0% as businesses borrow more to recover from the pandemic.
- NIM is estimated to rise 16 bps YoY to 3.00%, revised up 2bps compared to the previous forecast with the expectation that CTG will continue to control cost of funds well to compensate for the decrease in output interest rates due to support packages for Coronavirus-exposed customers.
- NPL should be 1.4% (up from 1.1% of the previous forecast) due to a surge in group-5 debts and pandemic-hit asset quality.
- Provision expense may hit VND12,721 billion (+5% YoY), adjusted up by 62.8% due to the impact of newly emerged group-5 debts and the expectation of setting up all the restructuring debts.
- NPAT is expected to be VND16,876 billion in 2021, up 22.8% YoY.
- 2022 NPAT should reach VND24,032 billion, up 42.4% YoY with TOI up 9% YoY and provision expense down 47% YoY.
- It should be noted that the current situation of the COVID-19 may affect the asset quality and business results of CTG, the provisioning level we offer is based on the case the pandemic is well controlled in 4Q21.

Table 11. CTG – Forecast business performance in 2021–2022

	2020	2021F	2022F	% YoY 2021	%YoY 2022
Net interest income	35,581	40,585	44,257	14%	9%
Net fee income	4,341	6,409	7,181	48%	12%
Total operating income	45,280	51,236	55,681	13%	9%
Provision for credit losses	(12,148)	(12,721)	(6,709)	5%	-47%
Net profit after tax	13,741	16,876	24,032	22.8%	42.4%
NIM	2.84%	3.00%	3.03%	16bps	3bps
Average interest rate	6.69%	6.18%	6.66%	-50bps	48bps
Average deposit rate	4.07%	3.33%	3.76%	-74bps	43bps
CIR	35.5%	34.0%	34.0%	-147bps	0bps
NPL	0.94%	1.40%	1.30%	46bps	-10bps
Total asset	1,341,393	1,456,775	1,569,042	9%	8%
Owner Equity	85,395	99,809	121,859	17%	22%

Source: KB Securities Vietnam

**Valuation – BUY recommendation,
target price of VND40,600 per
share**

We combine two valuation methods – P/B and residual income to find the fair price of a CTG share.

(1) P/B valuation:

With high profit growth expectation in 2021–2022, positive long-term outlook after VAMC debt settlement, we put CTG's target P/B in 2021 at 2.24x, equivalent to an average two-year P/B of BID, a state-owned bank with many similarities.

(2) Residual income valuation (Table 12):

In addition, we use the residual income method to reflect systematic risks and long-term expectations.

Combining the above two valuation methods with the ratio of 50–50, we get the final fair price for a CTG share at VND40,600, 15.8% higher than the price on August 16, 2021.

Table 22. CTG – Share price according to the residual income valuation

Billion VND	2021F	2022F	2023F
PAT	16,875.64	24,031.97	26,891.42
Excessed return	4,022.61	8,339.40	7,992.93
Required rate of return (r)	12.88%		
Growth (g)	5.0%		
Terminal value	74,075		
Present value (PV)	166,980		
Price	34,746		

Source: KB Securities Vietnam

Table 33. CTG – Share price according to the two valuation methods

Method	Price	Weight	Weighted Price
P/B	46,522	50%	23,261
RIM	34,746	50%	17,373
Target price			40,600

Source: KB Securities Vietnam

CTG – 2018A–2022F financials

Income Statement						Balance Sheet					
(VNDbn)	2018	2019	2020	2021F	2022F	(VNDbn)	2018	2019	2020E	2021F	2022F
Net interest income	22,212	33,199	35,581	40,585	44,257	Loans	851,866	922,325	1,002,771	1,077,017	1,165,731
Interest income	73,870	82,745	83,682	83,584	97,316	Marketable securities	3,132	3,825	5,602	1,823	1,969
Interest expense	(51,658)	(49,544)	(48,100)	(42,999)	(53,059)	Cash (ex. Reserves)	7,028	8,283	9,950	10,080	10,887
Fees & commissions	2,771	4,055	4,341	6,409	7,181	Interest earning assets	1,126,694	1,206,084	1,296,501	1,407,224	1,513,186
Other non-interest income	1,889	1,497	1,876	1,887	1,887	Fixed assets & other assets	46,188	46,931	47,861	59,366	63,901
Total operating income	28,446	40,519	45,280	51,236	55,681	Total assets	1,164,290	1,240,711	1,341,393	1,456,775	1,569,042
SG&A expenses	(14,084)	(15,735)	(16,062)	(17,420)	(18,931)	Customer deposits	825,816	892,785	990,351	1,044,343	1,127,890
Pre-provisioning OP	14,361	24,785	29,219	33,816	36,749	Borrowings & call money/repos	52,150	62,842	62,609	73,611	79,179
Provision for credit losses	(7,803)	(13,004)	(12,148)	(12,721)	(6,709)	Interest bearing liabilities	1,051,966	1,135,713	1,226,057	1,356,946	1,465,148
Other income	2,914	2,357	2,701	2,971	2,971	Other liabilities	45,007	27,643	29,941	20	(17,965)
Other expense	(1,025)	(860)	(825)	(1,084)	(1,084)	Total liabilities	1,096,973	1,163,357	1,255,998	1,356,966	1,447,183
Pre-tax income	6,559	11,781	17,070	21,095	30,040	Charter capital	37,234	37,234	37,234	48,058	48,058
Income tax expense	(1,281)	(2,304)	(3,329)	(4,219)	(6,008)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	5,277	9,477	13,741	16,876	24,032	Retained earnings	11,837	19,833	25,985	30,091	52,141
Minority interest profit	(2)	(16)	(62)	(84)	(120)	Capital adjustments	-	-	-	-	-
Parent NP	5,275	9,461	13,679	16,791	23,912	Total shareholders' equity	67,316	77,355	85,395	99,809	121,859

Financial Indicators						Valuation					
(%)	2018	2019	2020E	2021F	2022F	(VND, X, %)	2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	8.1%	13.1%	16.9%	18.2%	21.7%	EPS	1,417	2,541	3,674	3,494	4,976
ROA	0.5%	0.8%	1.1%	1.2%	1.6%	BVPS	18,079	20,775	22,935	20,769	25,357
Pre-provision ROE	17.6%	27.5%	28.8%	29.2%	26.5%	Tangible BVPS	16,751	19,547	21,752	19,817	24,428
Pre-provision ROA	1.0%	1.7%	1.8%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.0%	2.8%	2.8%	3.0%	3.0%	PER	50.9	17.2	11.9	12.5	8.8
Efficiency						PBR	2.4	2.1	1.9	2.1	1.7
Pure Loan to deposit ratio	104.7%	104.8%	102.5%	105.0%	105.0%	Dividend yield	0.0%	0.0%	1.1%	1.1%	1.5%
Cost-income ratio	49.5%	38.8%	35.5%	34.0%	34.0%	ROE	8.1%	13.1%	16.9%	18.2%	21.7%
Growth						Capital Adequacy					
Asset growth	6.3%	6.6%	8.1%	8.6%	7.7%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.9%	8.3%	8.7%	7.4%	8.2%	Asset Quality					
PPOP growth	-18.2%	72.6%	17.9%	15.7%	8.7%	NPL ratio (substandard)	1.6%	1.2%	0.9%	1.4%	1.3%
Parent NP growth	-29.0%	79.4%	44.6%	22.8%	42.4%	Coverage ratio (substandard)	95.3%	119.7%	132.0%	127.3%	120.5%
EPS growth	-29.0%	79.4%	44.6%	-4.9%	42.4%	NPL ratio (precautionary)	2.2%	1.8%	1.2%	1.8%	1.6%
BVPS growth	5.6%	14.9%	10.4%	-9.4%	22.1%	Coverage ratio (precautionary)	69.1%	78.5%	102.0%	99.0%	97.9%

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:	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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