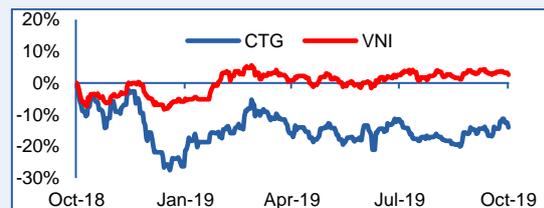


Industry:	Banking		2018	9M 19	2019F
Report Date:	October 29, 2019	PPOP y/y	-17.4%	21.4%	55.7%
Current Price:	VND22,050	NPAT y/y	-27.2%	11.4%	40.4%
Current Target Price:	VND21,700	NIM	2.09%	2.85%	2.75%
Upside:	-1.6%	NPL	1.56%	1.56%	1.50%
Dividend yield:	0.0%	CIR	49.6%	35.4%	42.0%
TSR:	-1.6%	Div/Sh (VND)	0	N/A	0
Rating:	MARKET PERFORM	P/B	1.2x	1.1x	1.1x



		CTG	Peers	VNI
Market Cap:	USD3.5bn	13.4x	8.7x	16.6x
Foreign Room:	USD0	P/B (curr)	1.1x	1.5x
ADTV30D:	USD2.7mn	ROE (ttm)	8.5%	19.7%
State Ownership:	64.5%	ROA (ttm)	0.5%	1.7%
Outstanding Shares:	3.723 bn			2.5%
Fully Diluted Shares:	3.723 bn			

Company overview

Founded in 1988, CTG is the second-largest bank among our ten coverage banks as calculated by total assets as of December 31, 2018. CTG is also among the three largest banks by network. The bank had its IPO in 2008 and has listed shares since July 16, 2009.

Progress in pivot to retail offsets low loan growth

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CTG released improved consolidated results for 9M 2019 with the bottom line totalling VND6.8tn (USD293mn, +11.4% YoY), which achieved 90% our FY2019 forecast. Annualized 9M 2019 ROE and ROA stood at 12.8% and 0.8%, respectively. Though the 9M 2019 bottom line signals a strong chance of surpassing our earnings forecast, CTG did not provision for its VAMC balance in Q3 and its full-year bottom line could be pared back as we believe CTG will push to clear the legacy its VAMC balance. Therefore, we do not anticipate any material changes to our earnings forecasts and/or target price, pending a fuller review.

- 9M 2019 loan growth was 3.9% YTD and 9M 2019 credit growth was 3.2% YTD against its 2019 AGM guidance of 6-7%. Regulated LDR was managed at 89% as of the quarter-end against a cap of 90%.
- As there was low loan growth due to capital constraints, we believe the bank made positive progress in its pivot to retail lending, lifting 9M 2019 loan yields to 7.79% vs 7.12% in FY2018. 9M 2019 NIM stood at 2.85% (+18 bps YoY) with NII growth at 11.7% YoY against loan growth at 0.8% YoY.
- Net fee income (NFI) continued to post strong growth rates with NFI growth, including FX, standing at 67.7% YoY and pure NFI of 53.4% YoY in 9M 2019. However, total NOI growth was 16.3% YoY; the main dragging factors for this were (1) trading and investment securities and (2) net other income due to a high base of income from the recovery of written-off debts in 2018.
- 9M 2019 CIR was 35.4% against our 2019F at 42.0%. We believe CIR will increase toward year-end due to staff costs and bonuses.

CTG has headroom to continue lifting its retail lending portion and improve interest-earning asset (IEA) yields, but a NIM breakthrough remains challenging, in our view. As discussed in our previous update report entitled [CTG prepares final push to clear legacy of VAMC](#) dated August 28, 2019, we maintain our view that capital constraints and a heavy reliance on costly Tier II capital will continue to weigh on the bank's NIM outlook. Valuable papers increased 34% YoY in 9M 2019 with cost of funds rising 12 bps YoY to 4.82%.

Q3 2019 provision charges were mainly used to build up CTG's loan loss reserve ratio to 118% vs 100% as of H1 2019 and 96% as of YE2018, after strong efforts in VAMC provisioning and write-offs in H1 2019. CTG neither wrote off nor provisioned for VAMC in Q3 after a strong push in H1 2019. 9M 2019 NPL ratio stood at 1.56% (unchanged YTD and up nine bps QoQ). Net VAMC balance stood at VND7.96tn/USD342mn (unchanged QoQ and down 29% YTD). We expect the bank will continue to make strong efforts in Q4 to clear its VAMC balance.

CTG's consolidated Q3 2019 results

VND bn	9M 2019	9M 2018	Growth	Q3 2019	Q2 2019	Growth
NIM	2.85%	2.68%	18 bps	2.89%	2.92%	-3 bps
Interest-earning asset yields	7.08%	6.75%	33 bps	7.24%	7.21%	3 bps
Cost of funds	4.82%	4.70%	12 bps	4.95%	4.87%	8 bps
CASA ratio*	15.5%	14.5%	1.0 ppts	15.5%	15.2%	0.3 ppts
CASA ratio plus term deposits in FX	18.7%	17.8%	0.9 ppts	18.7%	18.5%	0.2 ppts
NII	24,507	21,948	11.7%	8,330	8,227	1.2%
NOII	5,442	4,678	16.3%	1,949	1,810	7.7%
Provision expenses	-10,882	-8,330	30.6%	-3,405	-4,236	-19.6%
PPOP	19,339	15,926	21.4%	6,526	6,418	1.7%
Net profit	6,825	6,126	11.4%	2,517	1,768	42.4%
CIR	35.4%	40.2%	-4.8 ppts	36.5%	36.1%	0.4 ppts
NPL	1.56%	1.36%	20 bps	1.56%	1.47%	9 bps
Loan growth	3.9%	12.8%	-8.9 ppts	1.5%	2.8%	-1.3 ppts
Deposit growth	4.8%	9.8%	-5.0 ppts	2.2%	2.7%	-0.5 ppts

Source: CTG, VCSC – *CASA volume included demand deposits and margin deposits.

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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