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Senior Analyst Nguyen Anh Tung
tungna@kbsec.com.vn

1Q22 PBT reached VND5,822 billion, up 58.3% QoQ

In the first quarter of 2022, Vietinbank (CTG) achieved net interest income (NII) of VND10,146 billion (-2.4% QoQ, -4.7% YoY); PBT of VND5,822 billion (+58.3% QoQ, -27.8% YoY). Credit growth expanded by 9.1% YTD.

NPL ratio reached 1.25%, down 1bps QoQ, with special mention and bad debts spiking

The NPL ratio remained unchanged, reaching 1.25%, down 1bps QoQ. However, bad debt increased sharply from 0.46% to 0.58%. During the period, CTG made provisions of VND4,426.7 billion (+1.1% QoQ, +227.9% YoY), making the loan loss coverage ratio (LLCR) reach 197.3%, the fourth-highest in the banking system.

2022F NPAT should be up 15% YoY

CTG announced its FY22 business plan with PBT up 15.0% YoY and total assets up 5-10% YoY. Credit growth should reach 10-12%, depending on the target cap set by the State Bank. Deposit growth is expected at 8-10%; NPL ratio should be below 1.8%; provisions should reach VND12-15 trillion.

CTG would pay stock dividends at 11,8488%

At the FY22 AGM, CTG's management approved the plan to pay stock dividends from NPAT to raise the charter capital. Accordingly, CTG would issue a maximum of 569,423,778 shares, equivalent to 11,8488% of outstanding shares.

We recommend BUYING CTG shares with a target price of VND38,400

Based on valuation results, business outlook, and possible risk factors, we recommend BUYING CTG shares. The target price is VND38,400/share, 60.7% higher than the closing price on May 13, 2022.

Rating change

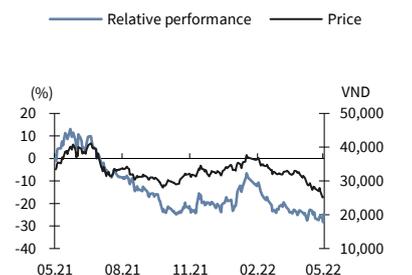
Target price	VND38,400
Upside/Downside	60.7%
Current price (May 13, 2022)	VND23,900
Consensus target price	VND38,587
Market cap	129,755

Trading data	
Free float	15.81%
3M avg trading value (VNDbn/USDmn)	214/9.3
Foreign ownership	25.82%
Major shareholder	State Bank (64.46%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-14	-23	-16	-21
Relative	-3	-10	-5	-25

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	35,581	41,788	43,794	50,924
Pre-provision operating income (VNDbn)	29,232	35,971	38,183	43,298
NPAT of the parent bank (VNDbn)	13,694	14,089	18,457	27,234
EPS (VND)	3,678	2,932	3,841	5,667
EPS growth (%)	45%	-20%	31%	48%
PER (x)	11.9	14.9	11.4	7.7
Book value per share (VND)	22,939	19,487	22,720	27,887
PBR (x)	1.91	2.25	1.93	1.57
ROE (%)	16.9%	15.9%	18.3%	22.5%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

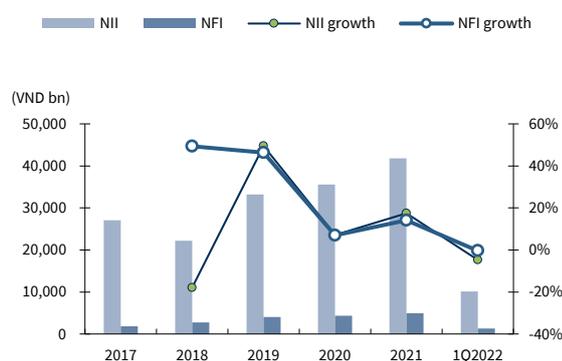
1Q22 PBT reached VND5,822 billion, up 58.3% QoQ

Over the last quarter, CTG achieved NII of VND10,146 billion (-2.4% QoQ, -4.7% YoY); non-interest income (NOII) of VND3,924 billion (+12.4% QoQ, +72.1% YoY) helping TOI reach VND14,070 billion (+1.3% QoQ, +8.9% YoY). Provision expense was VND4,427 billion (+1.1% QoQ, +227.9% YoY), helping PBT record VND5,822 billion (+58.3% QoQ, -27.8% YoY). Credit growth expanded by 9.1% YTD over the last quarter.

1Q22 NIM was down 39 bps QoQ, intensifying pressures to reduce NIM in the foreseeable future

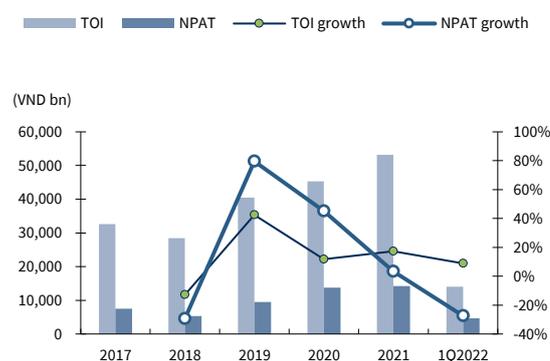
In 1Q22, the average earnings yield reached 5.72%, down 37bps QoQ, due to rapid credit growth and unearned interest of new loans. Meanwhile, the average cost of funds was flat QoQ (+1bps QoQ), causing NIM to be only 2.62%, down 39bps QoQ. In our view, the pressure to reduce NIM will intensify in the coming quarters, given the liquidity and inflation pressures of the banking system. Factors expected to support NIM are: (1) increased proportion of SMEs and retail customers with higher interest rates; (2) improved CASA.

Fig 1. CTG – TOI, service fees (VNDbn, %YoY)



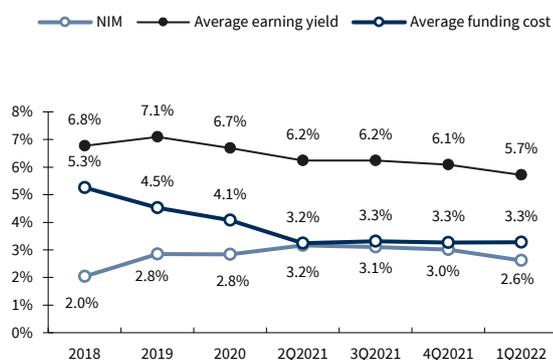
Source: Vietinbank, KB Securities Vietnam

Fig 2. CTG – TOI, NPAT (VNDbn, %YoY)



Source: Vietinbank, KB Securities Vietnam

Fig 3. CTG – Interest rates, NIM (%)



Source: Vietinbank, KB Securities Vietnam

Fig 4. CTG – CASA (%)

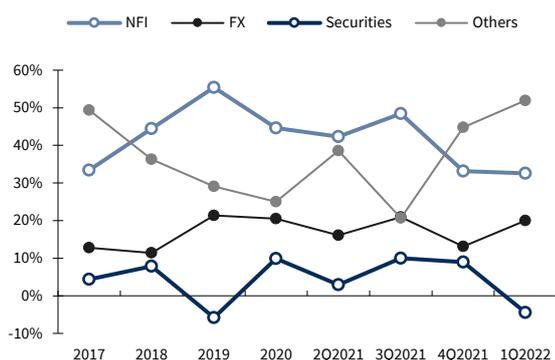


Source: Vietinbank, KB Securities Vietnam

1Q22 NOI reached VND3,924 billion, up 12.4% QoQ, thanks to the recovery of bad debts

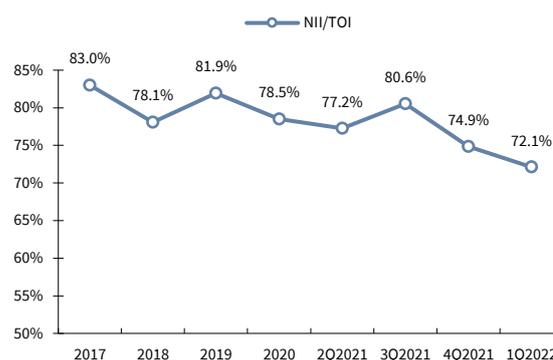
In the first three months of 2022, service fees hit VND1,278 billion, down 0.4% YoY. Gaining from FX activities jumped by 130.2% YoY while investment securities lost VND176 billion. Meanwhile, bad debt recovery surged YoY and QoQ, helping net other income reach VND1,878 billion (+27.8% QoQ, +328.1% YoY). 1Q22 NOI reached VND3,924 billion (+12.4% QoQ, +72.1% YoY). The NII/TOI ratio was 72.1%, lower than the average in recent quarters.

Fig 5. CTG – Service fees (%)



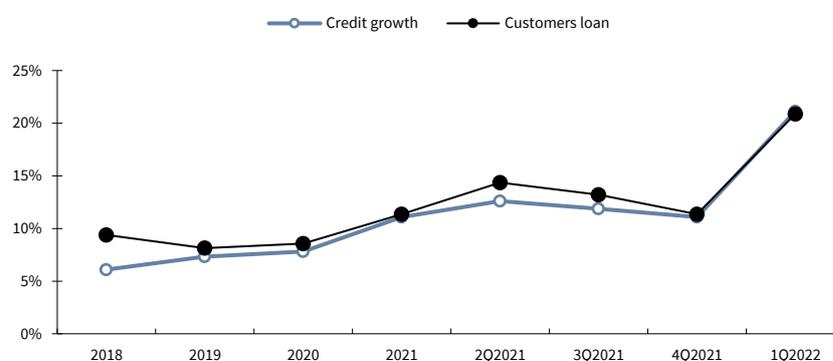
Source: Vietinbank, KB Securities Vietnam

Fig 6. CTG – NII/TOI (%)



Source: Vietinbank, KB Securities Vietnam

Fig 7. CTG – Credit growth (%YoY)



Source: Vietinbank, KB Securities Vietnam

NPL ratio reached 1.25%, down 1bps QoQ, with special mention and bad debts spiking

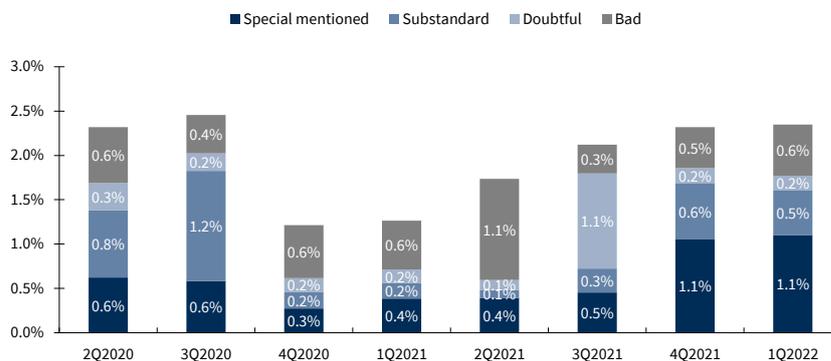
The NPL ratio remained unchanged at 1.25%, down 1bps QoQ. However, increases in bad debts (from 0.46% to 0.58%) and special mention loans (reaching 1.1%, up 5bps QoQ) should be followed in the wake of the post-pandemic recovery of the economy.

CTG made provisions of VND4,426 billion, helping LLCR hit 197.3%

During the period, CTG made provisions of VND4,426.7 billion (+1.1% QoQ, +227.9% YoY), making LLCR reach 197.3%, the fourth-highest in the banking system. As shared by the BOD at the FY22 AGM, the restructured debts were about VND10 trillion vs. VND7.8 trillion in 3Q21. The bank has made 90% of the required provision for restructured debts instead of spreading it over three years, thereby significantly mitigating provisioning pressures in 2022.

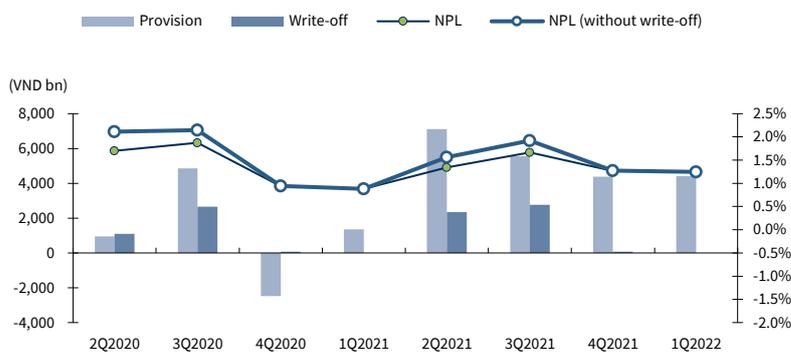
Special mention loans continued to stay high while bad debts increased sharply, contrary to the decrease in subprime debts

Fig 10. CTG – Groups of debt (%)



Source: Vietinbank, KB Securities Vietnam

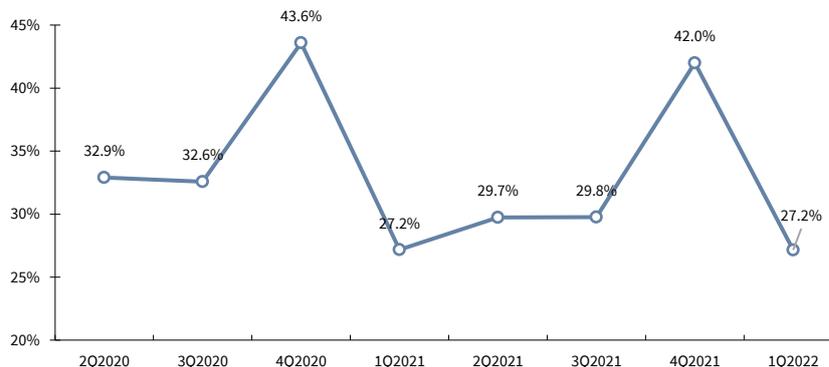
Fig 11. CTG – Provisions (VNDbn)



Source: Vietinbank, KB Securities Vietnam

1Q22 CIR reached 27.2%, flat YoY

Fig 12. CTG – CIR (%)



Source: Vietinbank, KB Securities Vietnam

2022F PBT should increase by 15% YoY

At the FY22 AGM, CTG announced the business plan for 2022 with PBT up 15.0% YoY and total assets up 5–10% YoY. Credit growth should reach 10–12%, depending on the target cap set by the State Bank. Deposit growth should hit 8–10%; NPL ratio should be below 1.8%; provisions should reach VND12–15 trillion. In our view, CTG’s plan for PBT is conservative since CTG is fully capable of achieving better results, supported by: (1) NOI growth from CTG’s deal with Manulife; (2) a sharp fall in provisions compared to 2021 due to improved asset quality and high LLCR.

CTG approved the plan to pay stock dividends in 2020 at a rate of 11,8488%

At the FY22 AGM, CTG’s management approved the plan to use VND5,694.2 billion from NPAT to pay stock dividends to raise the charter capital. Accordingly, CTG would issue a maximum of 569,423,778 shares, equivalent to 11,8488% of the outstanding shares. In addition, CTG would use the remaining NPAT after deducting operating expenses to pay stock dividends, equaling VND9,624.4 billion.

Forecast business performance

2022F business results

We make a forecast for CTG in 2022 as follows:

- Credit growth should reach 11.2% in 2021 as businesses step up borrowing to recover from the Covid-19 pandemic, and the SBV may expand the credit cap for CTG.
- We estimate NIM to decrease by 25 bps YoY to 2.75% with the expectation that improved CASA will partially offset the pressure of increasing cost of funds under liquidity and inflation pressures.
- NPL ratio should be at 1.40%, up 14bps YoY, given debt rescheduling as per Circular 14/2021/TT-NHNN.
- Provision expense is VND14,996 billion, down 18.4% YoY and higher than the previous forecast of 8.2%, reflecting CTG's conservativeness on asset quality in 2022.
- We forecast NPAT to be VND18,550 billion, up 30.5% YoY.

Table 12. CTG – 2022E–2023E business results

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net revenue	41,788	43,794	50,924	5%	16%
Service fees	4,961	6,469	6,729	30%	4%
Total operating income	53,157	56,568	64,145	6%	13%
Provision expense	(18,382)	(14,996)	(9,085)	-18.4%	-39.4%
NPAT of the parent bank	14,089	18,457	27,234	31.0%	47.6%
NIM	3.01%	2.75%	2.88%	-25bps	13bps
Average earnings yield	6.09%	6.28%	6.51%	19bps	23bps
Average cost of funds	3.26%	3.82%	4.03%	56bps	21bps
CIR	32.3%	32.5%	32.5%	17bps	0bps
NPL	1.26%	1.40%	1.30%	14bps	-10bps
Total assets	1,531,587	1,746,686	1,890,498	14%	8%
Equity	93,650	109,188	134,018	17%	23%

Source: KB Securities Vietnam

We recommend BUYING CTG shares with a target price of VND38,400 apiece

We combine two valuation methods, P/B and residual income, to find a fair price for CTG shares.

(1) P/B method

We revise our forecast for end-2022 forward P/B to 1.4x, equivalent to CTG's three-year P/B average, down from 1.72x in the previous report, reflecting concerns over rising inflation and economic recession.

(2) Residual income method (Table 14)

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

Based on the above two valuation methods with a weight of 50-50, we recommend BUYING CTG shares with a target price of VND38,400/share, 60.7% higher than the closing price on May 13, 2022. Some downside risks include (1) unpredictable developments of the pandemic; (2) lower-than-expected NIM due to changes in the interest rate policy of the State Bank.

Table 14. CTG – Share price according to residual income method (VND/share)

VNDbn	2021F	2022F	2023F
NPAT	18,550	27,370	28,727
Excessed return	4,489	10,112	8,097
Required rate of return (r)	12.88%		
Growth (g)	5.0%		
Terminal value	84,700		
Present value (PV)	215,808		
Share price	44,906		

Source: KB Securities Vietnam

Table 15. CTG – Target price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted price
P/B	31,808	50%	15,904
Residual income	44,906	50%	22,453
Target price			38,400

Source: KB Securities Vietnam

CTG - 2019A-2023E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F		2019	2019	2020E	202 F	2022F
Net interest income	33,199	35,581	41,788	43,794	50,924	Loans	922,325	1,002,772	1,104,873	1,222,854	1,335,555
Interest income	82,743	83,678	84,628	99,858	114,854	Marketable securities	3,825	5,602	2,475	4,772	5,102
Interest expense	(49,544)	(48,097)	(42,840)	(56,064)	(63,931)	Cash (ex. Reserves)	8,283	9,930	11,331	12,050	12,885
Fees & commissions	4,055	4,341	4,961	6,469	6,729	Interest earning assets	1,206,084	1,296,501	1,483,561	1,696,522	1,834,007
Other non-interest income	1,497	1,910	3,398	4,136	3,374	Fixed assets & other assets	46,931	47,904	61,209	69,873	75,671
Total operating income	40,519	45,317	53,157	56,568	64,145	Total assets	1,240,711	1,341,436	1,531,587	1,746,686	1,890,498
SG&A expenses	(15,735)	(16,085)	(17,186)	(18,385)	(20,847)	Customer deposits	892,785	990,331	1,161,848	1,218,487	1,302,852
Pre-provisioning OP	24,785	29,232	35,971	38,183	43,298	Borrowings & call money/repos	62,842	62,609	67,025	76,492	83,015
Provision for credit losses	(13,004)	(12,147)	(18,382)	(14,996)	(9,085)	Interest bearing liabilities	1,135,713	1,226,056	1,401,001	1,530,576	1,638,852
Other income	2,357	2,695	4,516	5,514	4,499	Other liabilities	27,643	29,969	36,937	106,921	117,628
Other expense	(860)	(785)	(1,118)	(1,379)	(1,125)	Total liabilities	1,163,357	1,256,025	1,437,938	1,637,498	1,756,480
Pre-tax income	11,781	17,085	17,589	23,187	34,213	Charter capital	37,234	37,234	48,058	48,058	48,058
Income tax expense	(2,304)	(3,328)	(3,374)	(4,637)	(6,843)	Capital surplus	8,975	8,975	8,975	8,975	8,975
NP	9,477	13,757	14,215	18,550	27,370	Retained earnings	19,833	26,001	21,488	37,542	62,373
Minority interest profit	(6)	(64)	(127)	(93)	(137)	Capital adjustments	-	-	-	-	-
Parent NP	9,461	13,694	14,089	18,457	27,234	Total shareholders' equity	77,355	85,411	93,650	109,188	134,018

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	202 F	2022F
Profitability						Share Price Indicators					
ROE	13.1%	16.9%	15.9%	18.3%	22.5%	EPS	2,541	3,678	2,932	3,841	5,667
ROA	0.8%	1.1%	1.0%	1.1%	1.5%	BVPS	20,775	22,939	19,487	22,720	27,887
Pre-provision ROE	27.5%	28.8%	32.3%	30.1%	28.5%	Tangible BVPS	19,547	21,757	18,592	21,720	26,910
Pre-provision ROA	1.7%	1.8%	2.0%	1.9%	1.9%	Valuations					
Net interest margin (NIM)	2.8%	2.8%	3.0%	2.8%	2.9%	PER	17.2	11.9	14.9	11.4	7.7
Efficiency						PBR	2.1	1.9	2.2	1.9	1.6
Pure Loan to deposit ratio	104.8%	102.5%	97.3%	103.0%	105.0%	Dividend yield	0.0%	0.0%	1.1%	1.5%	2.2%
Cost-income ratio	38.8%	35.5%	32.3%	32.5%	32.5%	ROE	13.1%	16.9%	15.9%	18.3%	22.5%
Growth						Capital Adequacy					
Asset growth	6.6%	8.1%	14.2%	14.0%	8.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	8.3%	8.7%	10.2%	10.7%	9.2%	Asset Quality					
PPOP growth	72.6%	17.9%	23.1%	6.2%	13.4%	NPL ratio (substandard)	12%	0.9%	1.3%	1.4%	1.3%
Parent NP growth	79.4%	44.7%	2.9%	31.0%	47.6%	Coverage ratio (substandard)	119.7%	132.2%	180.4%	183.2%	182.4%
EPS growth	79.4%	44.7%	-20.3%	31.0%	47.6%	NPL ratio (precautionary)	18%	12%	2.3%	2.5%	2.1%
BVPS growth	14.9%	10.4%	-15.0%	16.6%	22.7%	Coverage ratio (precautionary)	78.5%	102.1%	98.4%	102.6%	112.9%

Source: Vietinbank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information Technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Real Estate, Construction & Materials
ngaphb@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Retails & Consumers
dunglnt@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Oil & Gas, Utilities
quangtpt@kbsec.com.vn

Nguyen Duc Huy
Analyst – Banks, Insurance & Securities
huynd1@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy, Chemicals
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy, Fishery & Textiles
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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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