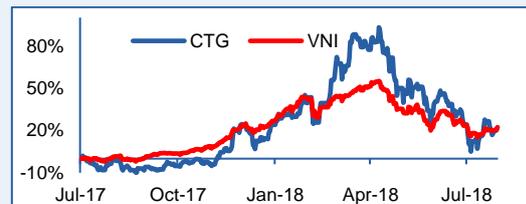


Industry:	Banking		2017	H1/18	2018F
Report Date:	July 31, 2018	PPOP y/y	29.5%	5.8%	12.1%
Current Price:	VND23,600	NPAT y/y	9.3%	8.5%	47.1%
Last Target Price:	VND34,400	NIMs	2.8%	2.7%	2.9%
		NPL	1.1%	1.3%	1.2%
		CIR	46.2%	41.1%	48.0%
		Div/Sh (VND)	700	N/A	700
		P/B	1.4x	1.2x	1.1x



			CTG	Peers	VNI
Market Cap:	\$3.9bn	P/E (ttm)	11.2x	11.3x	17.0x
Foreign Room	\$0mn	P/B (curr)	1.3x	1.9x	2.6x
ADTV30D	\$5.6mn	ROE	11.8%	16.4%	15.2%
State Ownership	64.5%	ROA	0.7%	1.2%	2.4%
Outstanding Shares	3,723 mn				
Fully Diluted Shares	3,723 mn				

Company Overview

Founded in 1988, CTG is the second largest bank among our nine coverage banks as calculated by total assets as of December 31, 2017. CTG is among the largest three banks by network. The bank had its IPO in 2008 and has listed shares since July 16, 2009.

Nghia Dien

Analyst
nghia.dien@vcsc.com.vn
+84 28 3914 3588 ext. 138

Long Ngo

Associate Director
long.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 123

Reliance on costly funding sources compressed NIM

CTG released results for H1 2018 with a consolidated bottom line at VND4.2tn (USD184mn, +8.5% Y-o-Y) with annualized ROAA and ROAE at 0.8% and 12.7%, respectively. We will revise downward our rating in the next update because of the bank's heavy reliance on relatively expensive valuable papers while still being heavily obligated to carry out policy lending. H1 results were driven by:

- NII increased 7.1% Y-o-Y with H1 2018 NIM at 2.66% (vs FY2017 at 2.78%).
- NFI grew 32% Y-o-Y, contributing 7% to TOI.
- Despite stronger NFI growth Y-o-Y compared to NII growth, total Noll grew 2% Y-o-Y because of one-off gains from selling an Aviva stake in Q2 2017. H1 2018's Noll to TOI was 17%.
- Net gains from trading and investment securities increased 20% and 143% Y-o-Y, respectively, due to reversals of allowances, contributing 2% to TOI.
- Q2 2018 CIR was 43% (+4 ppts Q-o-Q and +2 ppts Y-o-Y), in line with our forecasts as CTG's CIR will increase toward year-end due to high staff costs.
- The H1 2018 write-off run-rate of 1.07% compares with a FY2017 figure of 1.03%.

Valuable papers surged 38% YTD, placing downward pressure on NIM. H1 2018 deposit growth was 13% as the CASA ratio dropped to 14% (vs 16% at the beginning of 2018). Valuable papers increased 38% YTD. Therefore, although interest-earning asset yields inched up due to a slight shift into retail lending, the surge in costly funding sources will translate into higher funding costs in coming quarters. Loan growth in H1 2018 was 9.7% YTD. Given the bank has managed its regulated LDR at 89% over the last two years, if there is no strong improvement in CASA volume, NIM expansion to above 3% is tough to achieve, in our view. Related to the rise in valuable paper issuance, CTG is in the toughest spot among the three listed SOCBs as a lack of FOL room means it is virtually impossible to complete an equity raising of size under the present FOL regime.

Fee income outlook remains positive, but lifting Noll portion is challenging. NFI growth was 32% Y-o-Y, and while there was no breakdown in unaudited financial statements, we believe it was from improvements in transaction banking and insurance services. However, a 1% decrease Y-o-Y in net other income and a 62% Y-o-Y decrease in income from equity investment (due to one-off gains in 2017) led to overall Noll growth of 2% Y-o-Y. As mentioned in our previous update, given a large asset base, it is challenging to lift the Noll portion to 20% in 2018. Taking out reversals from allowances for trading and investment securities, H1 2018's Noll to TOI was 15%, in line with our forecasts.

Although NPL ratio inched up 4 bps to 1.29% in Q2 2018, CTG proactively built its provision buffer to 111% NPL coverage. CTG rebuilt its LLR to 111% of its NPL coverage. Its annualized provision expenses to gross loans stood at 1.14% as of H1 2018 (vs 1.06% in FY2017). Given high LLR and resolved VAMC issues, we continue to believe CTG will bring down this level in H2 2018, saving for the earnings portion.

Figure: CTG's Q2 2018 results

VND bn	Q2 2018	Q1 2017	Q-o-Q	Q2 2017	Y-o-Y
NIM	2.66%	2.72%	-6 bps	3.01%	-35 bps
Interest-earning asset yields	6.83%	6.63%	20 bps	6.87%	-4 bps
Cost of funds	4.75%	4.54%	21 bps	4.56%	19 bps
CASA ratio	14.1%	15.3%	-1 ppts	15.2%	-1 ppts
NII	7,207	7,234	-0.4%	7,319	-1.5%
Noll	1,295	1,601	-19.1%	1,289	0.5%
Provision expenses	-2,601	-2,351	10.6%	-2,779	-6.4%
PPOP	4,839	5,379	-10.0%	5,048	-4.2%
Net profit	1,812	2,441	-25.7%	1,882	-3.7%
CIR	43.1%	39.1%	4 ppts	41.4%	2 ppts
NPL	1.29%	1.25%	4 bps	1.17%	12 bps
Loan growth (Q-o-Q)	5.00%	4.51%	49 bps	4.63%	37 bps
Deposit growth (Q-o-Q)	8.00%	4.90%	310 bps	3.99%	401 bps

Source: CTG, VCSC

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Consumer and Pharma

Phap Dang, Senior Manager, ext 143

- Dao Nguyen, Senior Analyst, ext 185
- Nghia Le, Analyst, ext 181

Industrials and Transportation

Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst ext 149

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

Institutional Sales and Brokerage

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Barry Weisblatt, Head of Research, ext 105 Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Banks, Securities, Insurance

Long Ngo, Associate Director, ext 123

- Cameron Joyce, Manager, ext 163
- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn