



Company Report: Vietnam Commercial Bank for Industry and Trade (CTG)

 Analyst Team
 Research@gijas.com.vn

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Fruitful result in medium-long term

INVESTMENT THESIS

Business result 1H2021: CTG recorded credit growth of 6%ytd. Customer deposit growth is also at a good level compared to the whole industry, +5%ytd. In the first 6 months of the year, the bank's TOI reached VND 27,000 billion, +30.7% yoy. Meanwhile, operating expenses rose more slowly at +16.7%yoy, causing CIR ratio to fall from 31.9% to 28.5%. The bank's 6-month accumulated pre-tax profit reached VND 10,850 billion (ranked 3rd in the industry), up 45.4%yoy.

The post-restructuring phase of CTG will explode thanks to retail activity, through which we expect new SME and individual disbursement to lead the bank's credit growth to 9.65% in 2021. NII improved thanks to more advantaged cost of funds; service income increased by 50%yoy and the improved CIR rate will help PBT grow by 31.74% yoy, reaching VND 22,507 billion in 2021. In addition, the resonated advantage from capital increase creates a strong capital buffer for the bank to grow strongly in the medium and long term.

RISKS

In the short term, the bank's profits are affected by the epidemic. Supporting packages and new bad debts leading to increased provision expenses, will lower the bank's profit

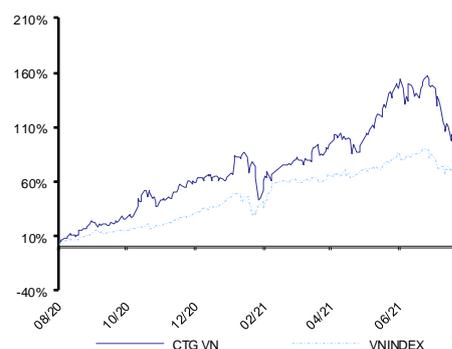
RECOMMENDATION

CTG shares have had a sharp increase of more than 100% in the past 1 year. Currently, the P/B of the bank is relatively high compared to the peers, which are banks with the same size of equity and outstanding loan in Pacific- Asia countries. Despite this, CTG's P/B is currently 1.74, lower than the P/B of the SOBs group and the industry-leading private commercial group such as TCB, MBB. Therefore, resonating with positive business prospects, we recommend "BUY" CTG shares with a target price of 39,200VND/share, equivalent to upside 16.1%.

Rating: **BUY**
 (Initial)

6-18m TP: **VND39,200**
Share price: VND33,750

Stock performance



Change in Share Price	1 M	3 M	1 Y
Abs. %	(17.3)	1.3	104.0
Rel. % to VN index	(24.8)	7.1	168.1
Avg. share price (VND)	34,766	37,436	28,668

Sources: Bloomberg, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2019A	40,519	9,477	2,044	44.25	15.98	0	0	2.90	-38.83	13.08
2020A	45,317	13,757	3,678	79.94	17.65	500	5	2.93	-35.49	16.83
2021F	49,678	18,006	3,733	1.51	20.88	500	5	2.84	-32.00	19.25
2022F	60,670	23,893	4,959	32.81	25.34	500	5	3.04	-33.00	21.32
2023F	73,021	31,051	6,448	30.04	31.29	500	5	3.07	-33.00	22.65

Shares in issue (m)	4,805.7	Major shareholder (%)	87.54
Market cap. (VND b)	162,194.1	Free float (%)	
3 month average vol. ('000)	21,840.6	LDR (%)	
52 Weeks high/low (VND)	42,500 / 16,300	CAR (%)	

Sources: the Company, Guotai Junan (VN).

OVERVIEW

As one of the 4 state-owned commercial banks, CTG owns a large customer base and strong brand (more than 14 million customers). The bank ranks 2nd in credit size and in the top 3 largest income banks.

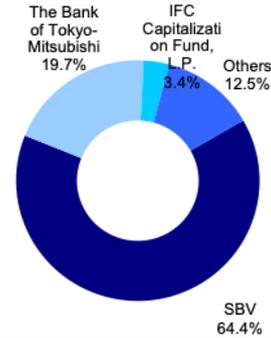
There has gradually shown a strong shift to retail banking. Individual and SME lending has accounted for 66% of outstanding debt (from 54% last year), exceeding the 60-62% target set by 2023.

Compared to other SOBs, CTG's proportion of SME and individual customers has improved significantly and thus led this group (VCB 52%, BIDV 64%). The focus on retail banking will contribute to supporting CTG in diversifying income, improving NIM and non-interest income.

Service income also improved significantly thanks to customer restructuring. At the end of 2020, CTG successfully renewed and re-signed an exclusive insurance cooperation contract with Manulife, which is expected to bring a non-current revenue to the bank (VND 8,000 billion upfront fee), while creating a more sustainable non-interest income sources.

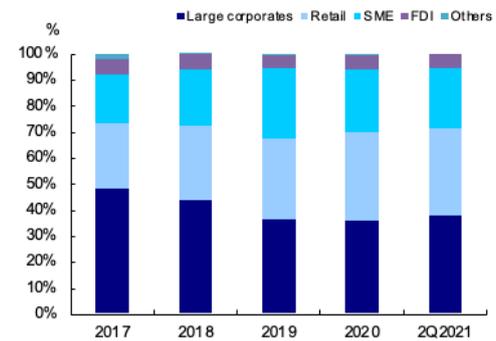
Large provision burden has been relieved as the bank completed setting up provision for all VAMC bond in 2020. Therefore, there is more reasons for the profit of CTG to boom from this year. Despite this, what took place in Q2/2021 still shows the burden of provision on bank's profit given declined asset quality due to the current Covid outbreak.

Figure-1: Ownership structure



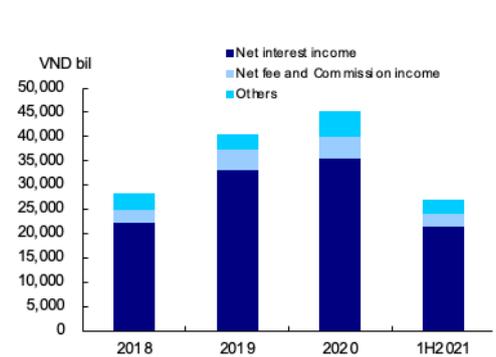
Source: CTG, GTJAS (VN).

Figure-2: Lending breakdown by segment



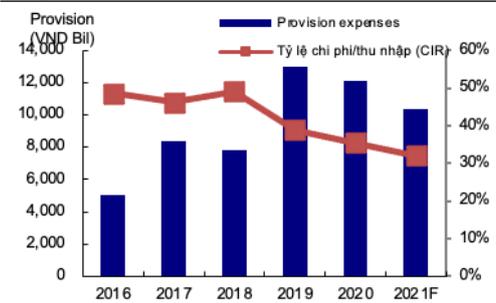
Source: CTG, GTJAS (VN).

Figure-3: TOI Breakdown



Source: CTG, GTJAS (VN).

Figure-4: Cost control

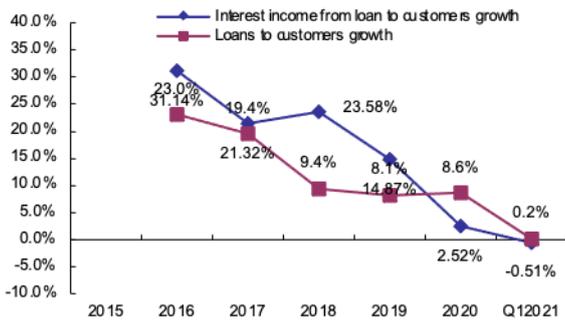


Source: TCB, Guotai Junan (VN).

PROSPECT

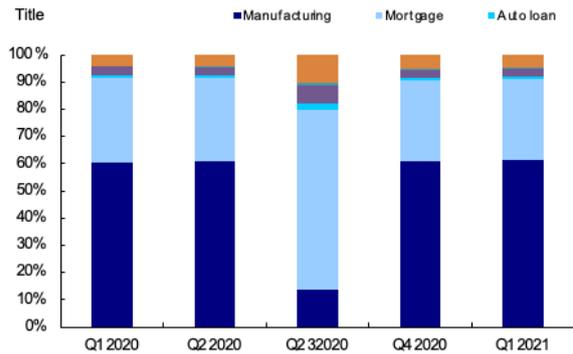
We believe that CTG still has growth motivated in the coming quarters when it has not yet recorded upfront fees from cooperation with Manulife, and provisions for VAMC items is no longer available. The post-restructuring phase of CTG will explode thanks to retail activity, through which we expect new SME and individual disbursement to lead the bank's credit growth to 9.65% in 2021. NII improved thanks to more advantaged cost of funds; service income increased by 50%yoy and the improved CIR rate will help PBT grow by 31.74% yoy, reaching VND 22,507 billion in 2021. In addition, the resonated advantage from capital increase creates a strong capital buffer for the bank to grow strongly in the medium and long term.

Figure-5: Lending and interest income growth



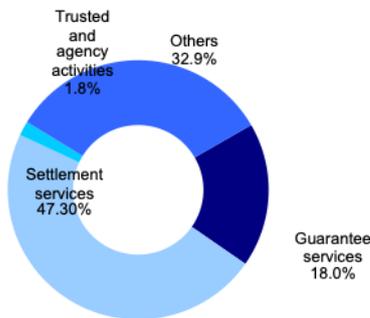
Source: CTG, Guotai Junan (VN).

Figure-6: Lending breakdown by products



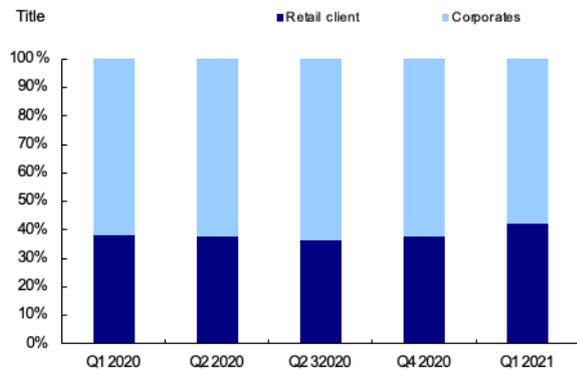
Source: CTG, Guotai Junan (VN).

Figure-7: Service income breakdown



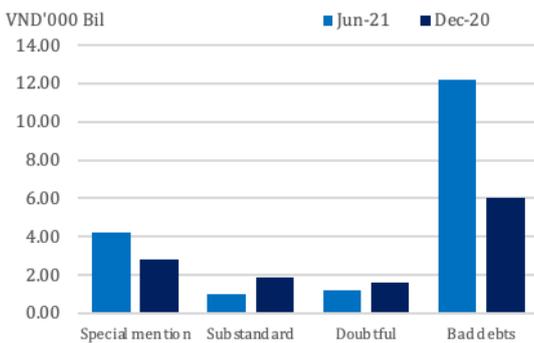
Source: CTG, Guotai Junan (VN).

Figure-8: CASA breakdown



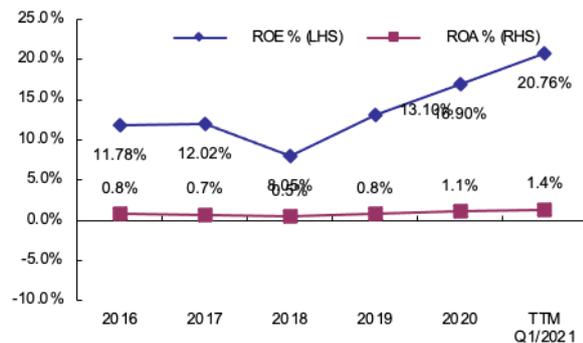
Source: CTG, Guotai Junan (VN).

Figure-9: Loan classification, end of June 2021



Source: CTG, Guotai Junan (VN).

Figure-10: ROA and ROE



Source: CTG, Guotai Junan (VN).

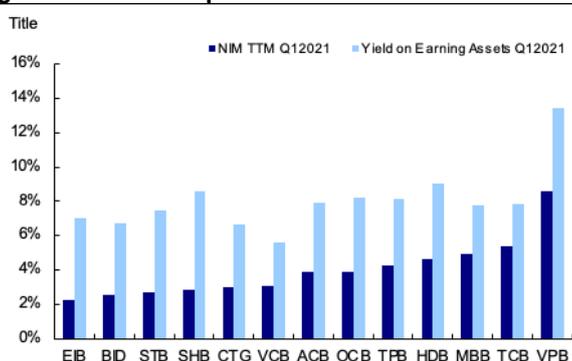
Improved profitability thanks to cost optimization

Despite ranking top in credit size, the profitability of the state banks including CTG, BID and VCB proved to be less competitive than private banks owning services and non-interest income advantages like (TCB, VPB). However, in particular, CTG has made significant improvements in ROE, ROA, NIM in recent years, especially 2020 and 1H2021.

The advantages of high brand awareness and networks throughout the country help Vietinbank maintain a large amount of deposits. In addition, there is an improvement in CASA of the bank which reached 18% in Q2/2021 and strongly supported NIM widening.

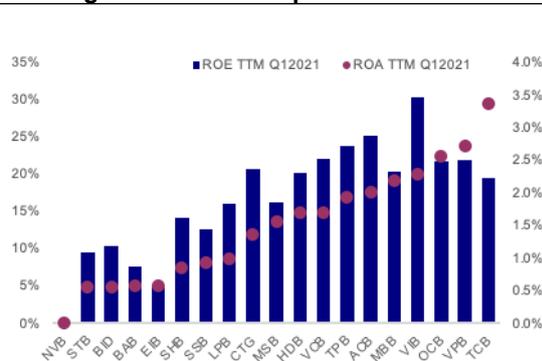
In addition, the resonated advantage from capital increase creates a strong capital buffer for the bank to grow strongly in the medium and long term. In July 2021, CTG completed paying dividend by issuing shares (ratio 28.8%) through which the bank's charter capital increased from VND 37,234 billion to VND 48,057 billion. At the same time, mobilization in market 2 are being promoted (since the beginning of the year, 1,500 billion bonds have been issued with an 8-year term). This shows the potential for improving the bank's capital buffer as well as the opportunity to receive greater credit growth from the SBV in the coming phases.

Figure-11: CTG and peers



Source: CTG, Guotai Junan (VN).

Figure-12: CTG and peers



Source: CTG, Guotai Junan (VN).

Risks

Regarding the quality of assets, the total restructured balance of nearly VND 5,000 billion, accounting for 0.5% of the loan balance, does not put too much pressure on CTG's profits. However, this is clearly reflected in the second quarter of 2021, the bank's group 5 loan-bad debts doubled from VND 6,000 billion to more than VND 12,000 billion, causing CTG to sharply increase its provision expenses to VND7,106 billion after recording a sharp decrease in the first quarter, causing the bank's second-quarter profit to increase only slightly. The NPL ratio accordingly climbed to 1.34% and the loan loss coverage ratio was down from 155% to only 128%.

In addition, CTG is under pressure from the Government to actively support customers, causing NIM to be affected. Since the beginning of the year, the bank has supported new loans of about VND 590 trillion, lowering the interest rate for nearly 7,500 customers affected by the epidemic, VND 260 trillion outstanding balance is exempt from/reduced interest rate, about VND 4,000 billion of total real interest amount lowered for customers. With the 4th wave of covid, Vietinbank launched a program to reduce lending interest rates up to 1% per year for customers affected by Covid 19, and also implement preferential credit programs for some strongly affected sectors. *It is expected that the total interest and fees Vietinbank supports customers in the last 6 months of the year is more than VND 2,000 billion and totally more than VND 6,000 billion profit would be reduced for the whole of 2021.*

EVALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk-free rate of 3.79%, a cost of capital 13.34%.

<i>Unit: VND Bil</i>	2020A	2021F	2022F	2023F
Beginning Owners' equity	77,355	85,411	101,014	122,505
PAT	13,757	18,006	23,893	31,051
Residual income		6,612	10,418	14,710
Total PV of residual income				103,373
Outstanding shares (mil)				4,806
12-month targeted price				39,200
Current price				33,750
Expected return				16.1%

RECOMMENDATION

Despite being behind in retail banking and non-interest income, this is also an opportunity to help CTG to boom from current ground if it exploits the available customer base, thereby helping to improve CASA, fee income as well as income from insurance activities. Besides, the success in restructuring and dealing with bad debts helps banks better rebound in the next phase.

CTG shares have had a sharp increase of more than 100% in the past 1 year. Currently, the P/B of the bank is relatively high compared to the peers, which are banks with the same size of equity and outstanding loan in Pacific- Asia countries. Despite this, CTG's P/B is currently 1.74, lower than the P/B of the SOBs group and the industry-leading private commercial group such as TCB, MBB.

Therefore, resonating with positive business prospects, we recommend "BUY" CTG shares with a target price of 39,200VND/share, equivalent to upside 16.1%.

Financial Statements and Ratios

BS					P&L				
Year end Dec (VND ' bil)	2018	2019	2020	2021F	Year end Dec (VND ' bil)	2018	2019	2020	2021F
TOTAL ASSETS					Interest and Similar Income				
Cash and precious metal	7,028	8,283	9,930	10,374		73,870	82,743	83,678	88,997
Loans and advances to customers, net	851,866	922,325	1,002,772	1,099,375	Interest and Similar Expenses				
Investment securities	102,100	104,615	114,942	122,260		(51,658)	(49,544)	(48,097)	(51,487)
Fixed assets	11,140	10,997	10,811	10,098	Net Interest Income				
Investment property	-	-	-	-		22,212	33,199	35,581	37,510
Other assets	31,731	32,651	33,757	37,017	TOI				
LIABILITIES & SHAREHOLDERS' EQUITY	1,164,290	1,240,711	1,341,436	1,481,318		28,446	40,519	45,317	49,678
	-	-	-	-	Total operating expenses				
TOTAL LIABILITIES	1,096,973	1,163,357	1,256,025	1,380,304		(14,084)	(15,735)	(16,085)	(15,897)
Due to Gov and Loans from SBV	62,600	70,603	44,597	48,903	Operating Profit Before Provision for Credit Losses				
Deposits & Loans from other credit institutions	111,400	109,483	128,519	140,927		14,361	24,785	29,232	33,781
Deposits from customers	825,816	892,785	990,331	1,085,943	Provision for credit losses				
Funds received from Gov, international and other institutions	5,934	5,776	2,733	2,997		(7,803)	(13,004)	(12,147)	(11,274)
Valuable papers	46,216	57,066	59,876	69,519	PBT				
Other liabilities	45,007	27,643	29,969	32,014		6,559	11,781	17,085	22,507
SHAREHOLDERS' EQUITY	67,316	77,355	85,411	101,014	PAT				
Capital and fund	67,020	76,793	84,813	100,352		5,277	9,477	13,757	18,006
Retained earnings	11,837	19,833	26,001	38,973	Minority interest				
Minority interest	296	561	599	662		(2)	(16)	(64)	(64)
LIABILITIES & SHAREHOLDERS' EQUITY	1,164,290	1,240,711	1,341,436	1,481,318	Attributable to parent company				
						5,275	9,461	13,694	17,942
					EPS				
						1,417	2,044	3,678	3,733
					Financial ratio				
					2018	2019	2020	2021F	
					NIM (Net Interest Margin)				
					2.90%	2.93%	2.84%	3.04%	
					Output average interest rate				
					7.22%	6.89%	6.75%	7.00%	
					Input average interest rate				
					-4.53%	-4.07%	-4.00%	-4.10%	
					Earnings Spread				
					2.69%	2.82%	2.75%	2.90%	
					Interest expense/Interest income				
					-59.88%	-57.48%	-57.85%	-56.52%	
					Net Serving Fee Margin (NSFM)				
					0.35%	0.36%	0.50%	0.60%	
					Servicing fee expense/Servicing fee income				
					-48.59%	-47.97%	-47.00%	-45.00%	
					NNIM (Net Non-Interest Margin)				
					0.64%	0.80%	0.92%	1.00%	
					EBT to Interest Income ratio				
					14.24%	20.42%	25.29%	28.46%	
					CIR (Cost-to-Income) ratio				
					-38.83%	-35.49%	-32.00%	-33.00%	
					Asset Management				
					LDR (Loan-to-Deposit) ratio Market 1				
					104.76%	102.52%	102.52%	102.52%	
					LDR (Loan-to-Deposit) ratio Market 2				
					109.34%	103.73%	99.42%	95.92%	
					ROA				
					0.79%	1.06%	1.27%	1.50%	
					ROE				
					13.08%	16.83%	19.25%	21.32%	

Source: the Company, Guotai Junan (VN).

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

Member	Position	In charge of	Email	Ext.
Võ Thế Vinh	Head of the Department	Research and investment strategy	vinhvt@gtjas.com.vn	704
Đỗ Trung Nguyên	Deputy head of the Department	Investment strategy	nguyendt@gtjas.com.vn	703
Trần Thị Hồng Nhung	Equity Analyst	Banking	nhungtth@gtjas.com.vn	706
Đình Quang Đạt	Senior Equity Analyst	Consumer	datdq@gtjas.com.vn	
Phí Công Linh	Senior Equity Analyst	Real Estate	linhpc@gtjas.com.vn	709



CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 st Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	4 th Floor, No. 2 BIS, Công Trường Quốc Tế, P. 6, Q.3, Tp.HCM
Stock ordering: (024) 35.779.999	Tel: (024) 35.730.073	Tel: (028) 38.239.966
Email: ivs@gtjas.com.vn Website: www.ivs.com.vn	Fax: (024) 35.730.088	Fax: (028) 38.239.696