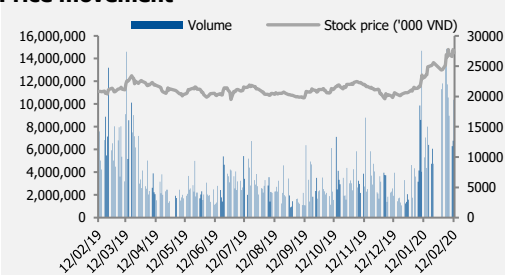


**HOLD** (Reinitiation)**Vietnam Bank for Industry and Trade (HOSE: CTG)**

Report date	Feb. 10, 2020
Current price	VND 26,600
Target price	27,800
Upside	5%
Bloomberg	CTG VN
Market cap	VND 100,159bn
	USD 4,277mn
52 weeks movement	VND18,200
	VND26,700
Average daily value	VND 80bn
	USD 3.4mn
FOL	30.00%
Current FO	29.60%

**Price movement**

Source: Bloomberg

Stock performance	1M	3M	12M
CTG (%)	15%	24%	31%
VNIndex (%)	-3%	-7%	0%

Source: Bloomberg

**Major Shareholders**

State Bank of Vietnam	64.46%
MUFG	19.73%

**Return of a big player in banking sector****What's new**

- CTG's 4Q2019 financial statement appeared to show several positive signals in its business. PBT of the bank in 2019 reached 11,500bn, underpinned by surging of Non-Interest Income (28% yoy) and aggressive CIR reduction (decreasing from 49% in 2018 to 37% in 2019) via cutting employee salary. NPL was 1.2% and LLR reach 120% versus 93% in 2018.
- Planned PBT in 2020 would increase 10% yoy, equivalent to total assets and credit growth. CTG's plan is relatively conservative because it has to restructure their loan portfolio and to deploy more resources in interbank lending due to higher-than-85% LDR. In the long term, the bank would diversify its portfolio towards retail lending whose proportion is expected to increase further forward.
- Half of VAMC bonds, generated from Congthanh Cement, was cleared in 2019. We expect the write-off to be completed in 2020.
- Foreign investment funds have absorbed virtually divested stock magnitude by IFC, stating expectation that CTG could restructure successfully to reclaim its leading bank position. This stock transfer has also implied foreign investors' desire to access substantially Vietnamese banking sector that usually remains little room for them.

**Our takeaway**

**Strong labor cost cutting and non-performing-asset clearing** in 2018-2019 period are aggressive efforts of the management in improving the bank's CTG earnings that is favored by the investors. Although expected earnings in 2020 is relatively modest, we believe the outlook of this bank is less gloomy.

**Diversifying loan portfolio of CTG towards retailing lending is appropriate** while CTG could utilize its brand-name and ecosystem of SOE firms to penetrate individual segment that has been playing an increasingly significant role in economic development and in banking system's credit. This strategy will face the intense competition that CTG needs to invest sufficient resources to implement.

**We keep an eye on CTG's loans in 12 distressed projects of MOIT** that CTG didn't disclose in detailed. According to financial statements of 12 managing entities, CTG's exposure in these projects is roughly 7,000-8,000 billion. The bank would cooperate with the ministry to restructure them. We expect that this loan is within Loan type-2 or type-3 of the bank.

**Dearth of Tier 1 capital would require profit of CTG from 2019 onwards to be retained.** CTG must keep profit in some following years to improve its core capital. Thus, possibility of receiving cash dividends from CTG in mid-term is vanishingly unlikely.

**Valuation**

We recommend HOLD about CTG stock based on RI model and relative valuation with the target price of VND27,800 per share. CTG is trading at 1.3x trailing P/B versus 1.5x of median of the sector.

Unit: VND billion	FY18	FY19	FY20F	FY21F
<b>Operating income</b>	<b>28,738</b>	<b>40,522</b>	<b>44,460</b>	<b>48,808</b>
<b>Pre-provision profit</b>	<b>14,482</b>	<b>24,782</b>	<b>28,286</b>	<b>30,993</b>
Growth y-o-y		71%	14%	10%
<b>Provision expenses</b>	<b>7,751</b>	<b>13,002</b>	<b>15,018</b>	<b>14,352</b>
Growth y-o-y		68%	16%	-4%
<b>Profit before tax</b>	<b>6,730</b>	<b>11,780</b>	<b>13,268</b>	<b>16,641</b>
Growth y-o-y		75%	13%	25%
<b>Net profit</b>	<b>5,416</b>	<b>9,478</b>	<b>10,614</b>	<b>13,313</b>
Growth y-o-y		75%	12%	25%
EPS (basic) (VND)	<b>1,454</b>	<b>2,541</b>	<b>2,851</b>	<b>3,575</b>
BVPS (VND)	<b>18,037</b>	<b>20,624</b>	<b>23,475</b>	<b>27,051</b>
<b>ROAA</b>	<b>0.5%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>0.9%</b>
<b>ROEA</b>	<b>8.3%</b>	<b>13.1%</b>	<b>12.9%</b>	<b>14.2%</b>
<b>P/E</b>		<b>10.5</b>	<b>9.3</b>	<b>7.4</b>
<b>P/B</b>		<b>1.3</b>	<b>1.1</b>	<b>1.0</b>

Source: MBS Research

Analyst:

**Le Khanh Tung**

0335 699 989

Tung.lekhanh@mbs.com.vn

## Earnings Model & Valuation

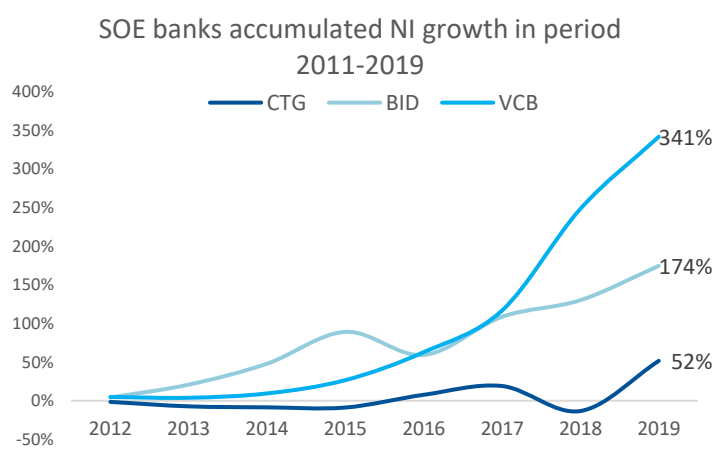
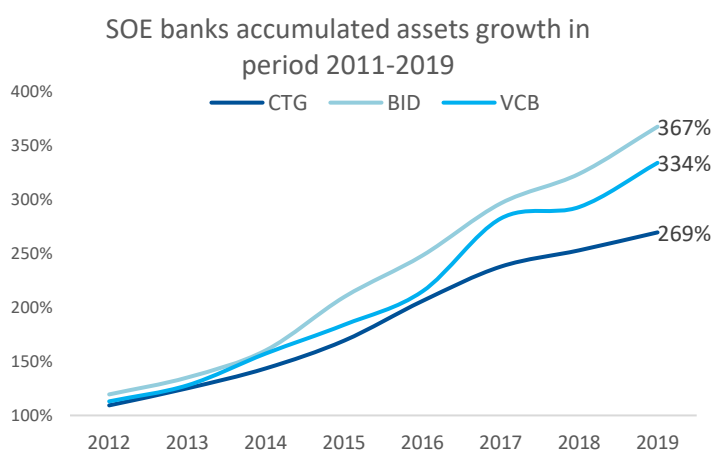
### Relative valuation re-rating based on first meaningful earnings growth in 2019

Relative P/B table of banking sector since 2016 are following:

Stock	Mkt Cap (VND bn)	ROE (%)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Current
<b>CTG</b>	<b>99,043</b>	<b>8.5</b>	<b>1.06</b>	<b>1.06</b>	<b>1.03</b>	<b>0.93</b>	<b>1.16</b>	<b>1.26</b>	<b>1.11</b>	<b>1.42</b>	<b>1.96</b>	<b>1.33</b>	<b>1.47</b>	<b>1.07</b>	<b>1.20</b>	<b>1.01</b>	<b>1.06</b>	<b>1.33</b>
VCB	329,719	27.1	2.32	2.60	2.91	2.66	2.65	2.67	2.50	3.72	4.53	3.57	3.69	3.10	3.42	3.43	3.74	4.05
BID	197,481	13.5	1.35	1.39	1.31	1.14	1.36	1.54	1.53	1.90	3.10	1.77	2.38	2.28	2.29	1.99	2.39	2.98
MBB	48,839	21.8	1.00	1.01	0.98	0.95	1.05	1.47	1.44	1.64	2.14	1.60	1.59	1.29	1.37	1.31	1.34	1.24
TCB	76,478	17.2										2.25	2.06	1.75	1.66	1.27	1.39	1.30
ACB	39,094	25.9	1.25	1.27	1.20	1.23	1.66	1.72	1.96	2.27	2.95	2.11	2.18	1.76	1.69	1.51	1.50	1.51
VPB	59,969	22.7							2.03	2.07	3.05	2.23	2.06	1.41	1.37	1.22	1.34	1.49
HDB	28,398	19.1									3.03	2.48	2.56	1.90	1.79	1.57	1.50	1.85
VIB	15,716	22.1																1.46
TPB	17,275	22.1										1.90	1.71	1.60	1.59	1.67	1.55	1.45
<b>Median peers</b>			<b>1.25</b>	<b>1.27</b>	<b>1.20</b>	<b>1.14</b>	<b>1.36</b>	<b>1.54</b>	<b>1.74</b>	<b>1.98</b>	<b>3.03</b>	<b>2.11</b>	<b>2.06</b>	<b>1.75</b>	<b>1.66</b>	<b>1.51</b>	<b>1.50</b>	<b>1.48</b>
<b>Prem/(Disc) vs peers Median</b>			<b>-16%</b>	<b>-17%</b>	<b>-13%</b>	<b>-18%</b>	<b>-15%</b>	<b>-19%</b>	<b>-36%</b>	<b>-28%</b>	<b>-35%</b>	<b>-37%</b>	<b>-28%</b>	<b>-39%</b>	<b>-28%</b>	<b>-33%</b>	<b>-29%</b>	<b>-10%</b>

CTG stock has been trading deeply below median of sector for a long period regardless of its at-the-top asset and profit magnitude. It was ascribed to its non-performing-loans in several state-owned firms, which includes 12 projects operators of Ministry of Investment & Trade and Congthanh Cement, dragging return growth versus its asset growth. Hence, CTG's profit per annum hasn't virtually gone up from 2011 to 2018 though its total asset has increased over threefold. At the same time, other SOE banks have witnessed a sustainable earnings growth, completely outperforming CTG.

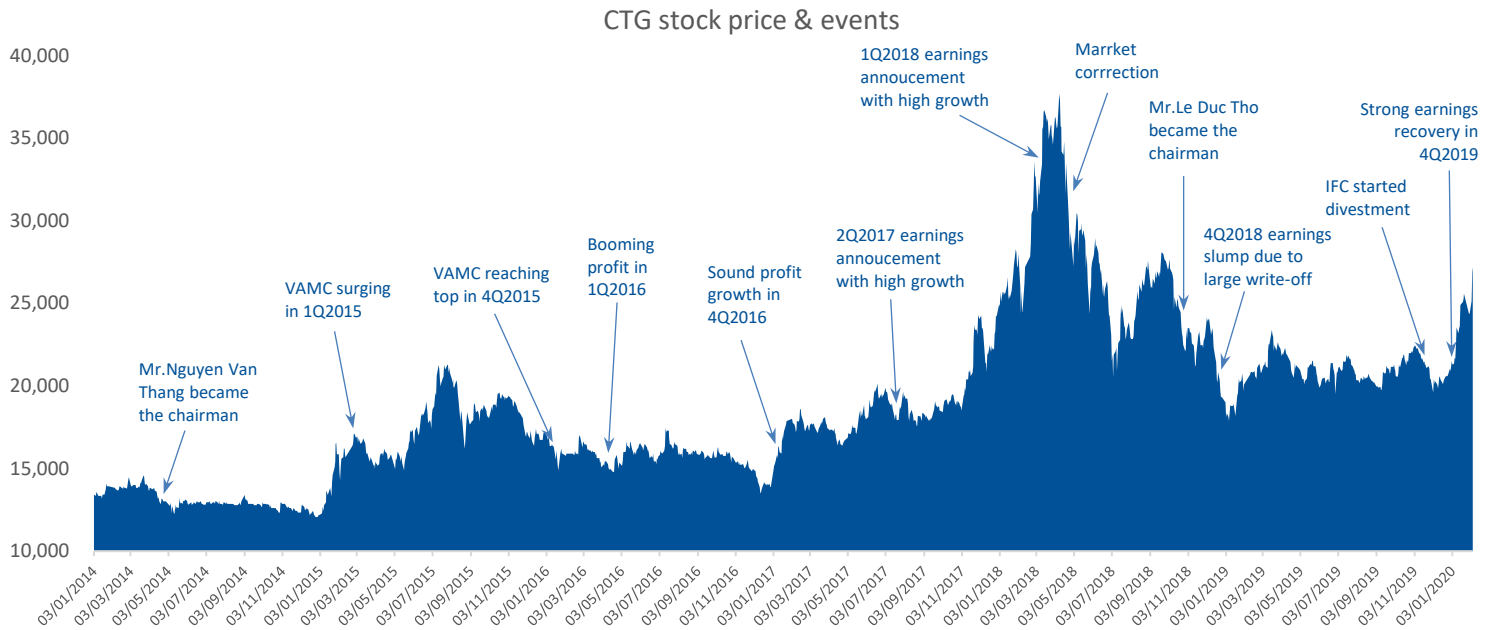
2019 saw the remarkable earnings growth after CTG recognized a write-off for several bad assets, which includes exposure in Congthanh Cement. Cleaner balance sheet and more solid restructuring efforts of new governance were the main catalysts for CTG's stock valuation re-rate in early 2020.



Source: Vietnam Maritime Administration, MBS Research

### IFC divestment made a room for activist foreign investors

Since strategic partner IFC started to divest its investment in CTG in lately 2019, it has sold 5% stake in CTG. It is noteworthy that sold stocks magnitude was virtually absorbed by other foreign investors, who created a positive market sentiment for CTG stock price in early 2020. This quick shareholder replacement implied that foreign investors found CTG's attractiveness despite currently modest performance. Besides, it also stated foreign investors' desire to access substantially Vietnamese banking sector whose almost stocks remain little room for them.



## Earnings Model & Valuation

We initiate CTG at VND27,800 (5% upside) based on RI model and relative valuation.

In RI method, we propose the target of VND25,400 per share, given cost of equity of 12% and terminal growth rate of 3%. 2 burdens of CTG's earnings growth would be dearth of Tier-1 capital, and restricted leverage due to high LDR. We expect net profit to increase modestly at 14.3% CAGR in 2020-2024 period, in which earnings in 2021 could be superior after write-off was completed in 2020.

In P/B method, we forecast P/B forward for 2020 of CTG to be 1.47, equivalent to median of the sector. CTG's profitability would be enhanced thanks to sector growth based on bright macro backdrop, and its big position in the sector.

Figure 1: Valuation Summary

Method	Residual income	P/B
Result	25,400	30,300
Weight	50%	50%
<b>Target value per share (VND)</b>	<b>27,800</b>	

Figure 3: P/B Relative Valuation

Stock	Mkt Cap (VND bn)	ROE (%)	P/B
VCB	329,719	27.1	4.05
<b>CTG</b>	<b>99,043</b>	<b>8.5</b>	<b>1.33</b>
BID	197,481	13.5	2.98
MBB	48,839	21.8	1.25
TCB	76,478	17.2	1.29
ACB	39,094	25.9	1.47
VPB	59,969	22.7	1.47
HDB	28,398	19.1	1.78
VIB	15,716	22.1	1.48
TPB	17,275	22.1	1.46
Median P/B of sector			1.47
<b>Justified P/B</b>			<b>1.47</b>
<b>Target value per share (VND)</b>	<b>30,300</b>		

Figure 2: Residual Income Model

VND bn	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Year
Net Interest Income	35,157	38,311	43,643	50,413	54,827	
Non-Interest Income	9,302	10,496	11,586	12,815	14,023	
Total Operating Income	44,459	48,807	55,230	63,228	68,850	
Operating Expense	16,173	17,814	19,621	21,017	22,525	
P-T,P-P Income	28,285	30,993	35,608	42,210	46,324	
Provision Expense	15,018	14,351	16,262	21,050	22,525	
Profit Before Tax	13,267	16,641	19,346	21,160	23,121	
Net Profit	10,580	12,964	14,716	16,586	18,170	
Residual Income	698	1,664	1,749	1,847	1,674	19,084
<i>Ke (%)</i>	12.0%					
PV of Residual Income	623	1,326	1,244	1,172	949	10,809
	<b>16,123</b>					
Book value of stock	76,792					<b>G:</b> 3.0%
Enterprise Value	<b>92,916</b>					
<b>Target value per share (VND)</b>	<b>25,400</b>					

Source: Vietnam Maritime Administration, Company data, MBS Research

## Investment Highlights

### From its fallen, CTG has been standing up thanks to governance restructure

#### CTG was damaged by its related-to-SOEs double-edge advantage

CTG is one of the biggest banks in Vietnam, accounting for roughly 10% of national total credit source. Besides, as a longstanding state-owned bank, it has kept a deep relationship with large state enterprises which made up near 40% of its loan portfolio in 2010. Nonetheless, CTG's related-to-SOEs advantage has showed negative consequences related to concentration risk since many partners of CTG, namely 12 projects' operators of Ministry of Investment & Trade and Congthanh Cement group, fell into financial distress. These entities' debt funded by CTG was roughly 20,000bn in 2018, accounting for a considerable proportion of CTG's portfolio.

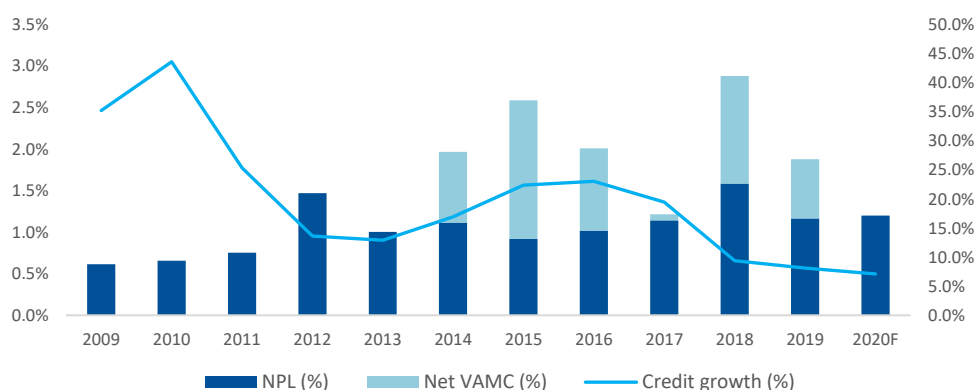
Figure 4: Distressed projects funded by CTG	Operating date	Total debt in 2018	CTG's exposure in 2018 (bn)
Ha Bac Fertilizer – Phase 2	2015	7,705	4,000
DAP Vinachem 2	2015	3,129	1,100
TISCO – Phase 2	2013	3,031	1,900
Ninh Binh Fertilizer	2012	1,047	330
Other projects		5,587	-
<b>12 projects of MOIT</b>		<b>20,499</b>	<b>7,330</b>
Congthanh Cement (*)	2009	13,700	13,300
<b>Total</b>			<b>20,630</b>

(\*) include both debt outstanding and unpaid interest expense (in payable expenses)

Source: State Bank of Vietnam, Company data, MBS Research

Even worse, banking system's health, including CTG, was damaged severely in 2012 by the real estate's market freezing after a super-hot credit growth policy in the period of 2008-2011. Spreading non-performing-assets in the banks made them desperately need help from the government. Afterwards, SBV established VAMC in 2013 in order to purchase non-performing-loans in the banks. Particularly, CTG has been one of the largest NPL seller to VAMC.

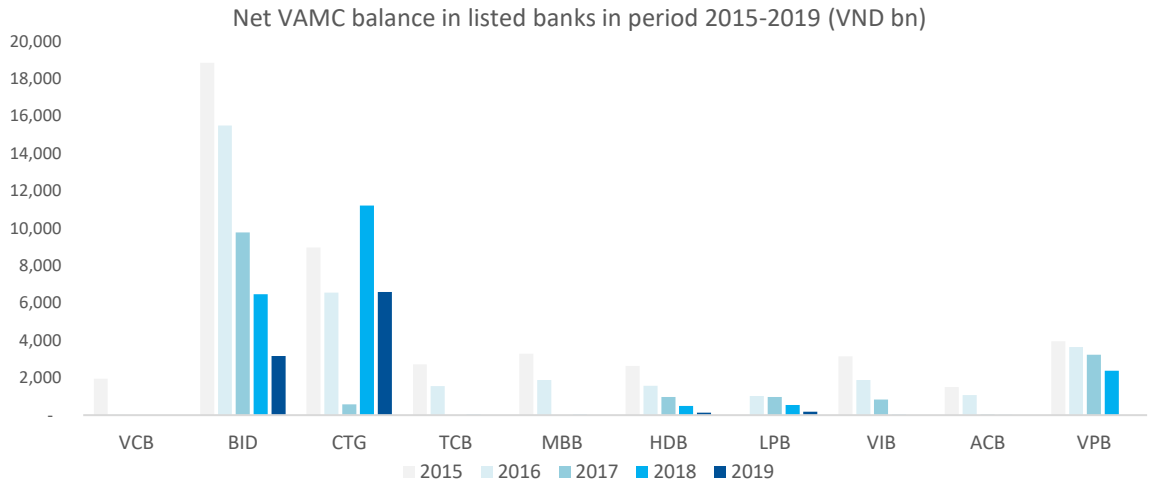
Credit growth and NPL ratio of CTG in 2009-2019 period



Source: State Bank of Vietnam, Company data, MBS Research

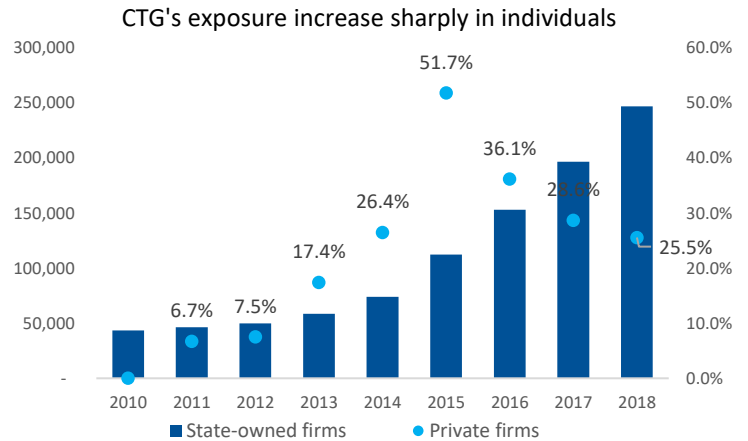
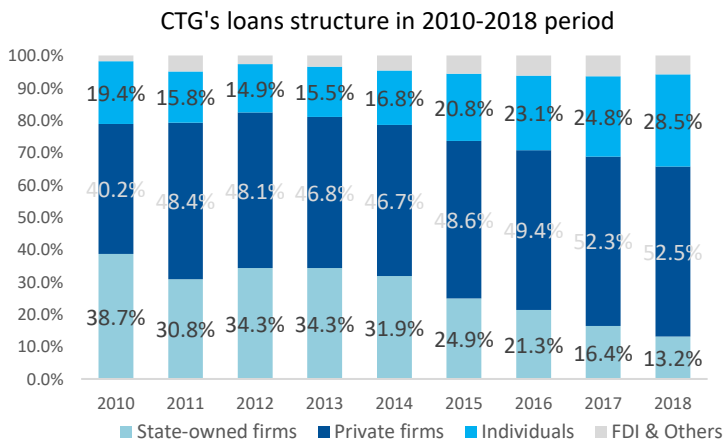
#### Aggressive efforts of new governance in solving NPLs

Since becoming new chairman of CTG in 2018, Mr. Le Duc Tho cleaned partly the bank's balance sheet via selling over 11,000bn of NPLs to VAMC in which sold NPLs in Congthanh Cement was roughly 5,000bn; by 2019, net VAMC balance was reduced to 6,500bn. Although CTG is the slowest VAMC solver in listed banks, we highly appreciate the effort of new governance. We expect VAMC in CTG to be cleaned in 2020.



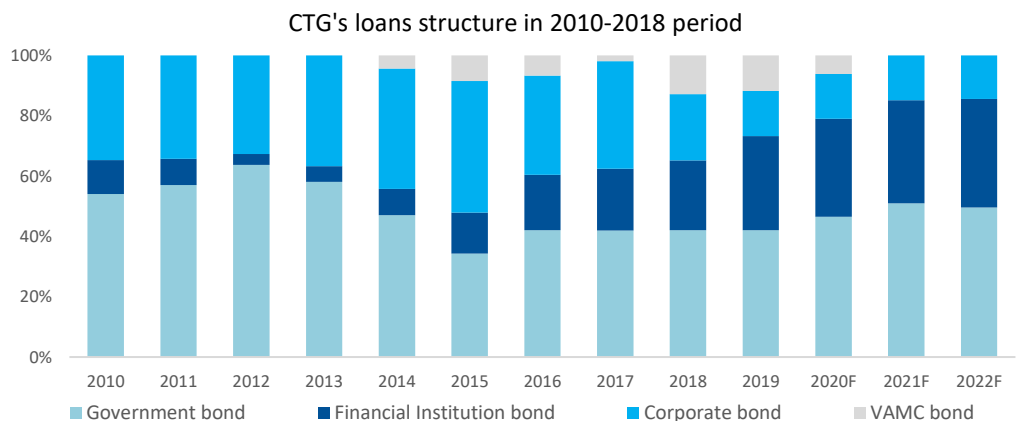
### Essential restructure in assets portfolio but there are obstacles

Based on banking foundation which is specialized in serving SOE firms, CTG has expanded its customer base towards private companies and individuals. In detailed, percentage of SOE firms in loan portfolio in 2018 has been one third versus 2010, leaving the room for private firms and individual segments. Especially, CTG's individual lending has increased fivefold since 2010. Retail clients would be the main lending segment of CTG in the future underpinned by strong economic growth and surging of middle class.



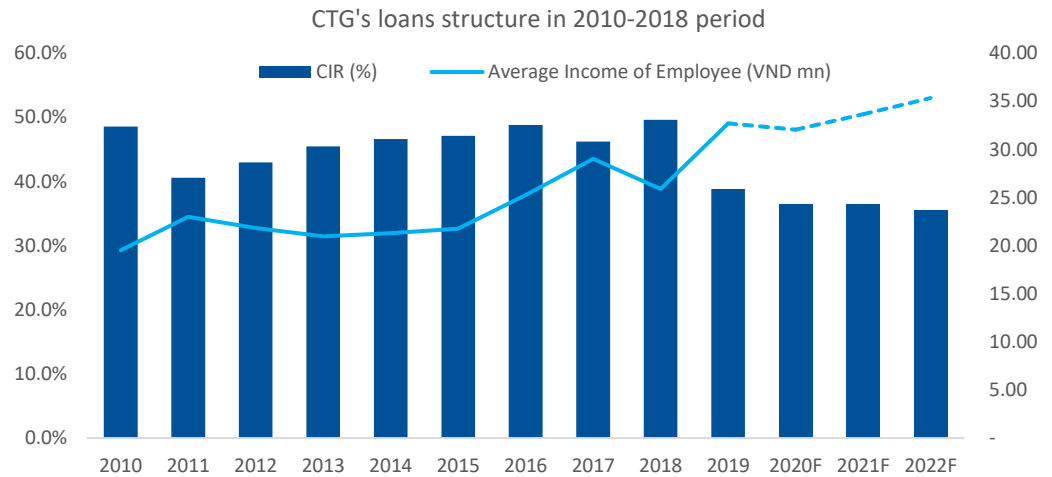
### Decreasing corporate bond exposure

CTG's portfolio has been more conservative while its corporate bond balance has decreased since 2015 meanwhile financial institution bond has surged strongly. This trend would be maintained in coming years by virtue of risk aversion strategy and pressure from lofty LDR that requires the bank to invest in liquid assets. We appreciate this move amid more restrictive policies from SBV imposed on bond market.



### Cutting operating expense

CTG implemented several OPEX cutting policies, including salary and other expense shaving, in 2018 and 2019 according to restructure. We forecast average income of employee to increase slightly in next years, along with recovery of total income, hence CIR could keep going down.

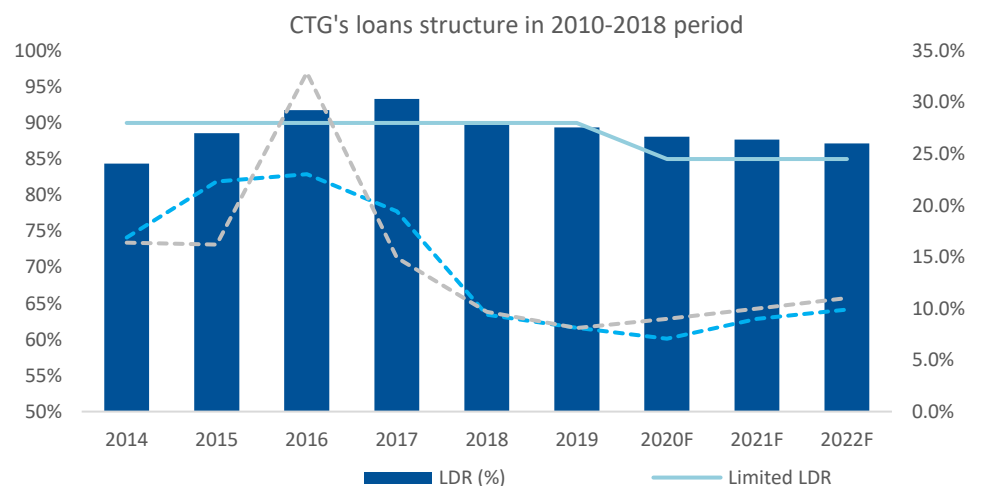


### Strains on CTG's earnings growth

Lack of capital and high LDR are two main obstacles for CTG's credit growth in mid-term. Thus, we just forecast a low double-digits PAT growth in 2020-2024 period.

CTG management stated that CTG's CAR ratio would be 8.24% if they increased Tier-1 Capital from retain earnings, implying not to pay cash dividends in mid-term. Applying Basel II would be deferred to late 2020 after capital enhancement.

According to Circular No.22 of SBV, new LDR imposed for every bank since 2020 will be 85%, which had been 90% for SOE banks and 80% for private banks earlier, outnumbered by CTG. Thus, the bank would have to increase their savings balance and invest partly in interbank assets to. Total credit is expected to increase at humble single-digit growth rate, reducing its LDR gradually in next years.







**CONTACT: Equity Research**

**STOCK RATING:** The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi  
 Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600  
 Website: [www.mbs.com.vn](http://www.mbs.com.vn)

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