VIETNAM JSCB FOR INDUSTRY AND TRADE (HSX:CTG)

Service Activities Not to Yield Satisfactory Results

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– QoQ*	Q3–FY16	*+/– YoY*
Total operating income	7,607	8,608	–12%	7,227	5%
Profit before tax and provision	4,238	5,048	–16%	4,181	1%
Profit before tax	2,419	2,270	7%	2,212	9%
NPAT	1,950	1,873	4%	1,775	10%

Source: CTD, RongViet Research

Contribution from interest income was still high. Total operating income in 9M 2017 was VND23,928B (+18.7% YoY), in which, interest income increased by 15.8% YoY and accounted for 83% of total income. Meanwhile, service income increased merely 7% YoY to VND1,283B. Compared to its peers, the growth and contribution of CTG's service activities were rather modest and disappointing as CTG has shifted its operating model and upgraded its IT system in order to pursue retail banking model quite soon.

In 9M 2017, CTG recorded some extraordinary earnings, thanks to its divestment from Aviva Assurance and large reversal of provisions. Provision expenses sharply increased approximately 44% to VND6,663B. We estimated that more than 50% of provision expenses were made for special bonds. Resulting 9M 2017 PBT was VND7,232B (+11.5%), fulfilling 82% the year target.

CTG may prioritize to make provisions for special bonds in 2017. Its room for credit growth in 2017 is revised up to 18%. However, given its fast loans growth in 9M 2017, we forecast its full–year growth at 19%. Deposits from the State Treasury increased sharply in 2017 and partly eased the pressure on customer deposits. Hence, we estimated that its customer deposits growth will be around 14%. As NIM is still in the downtrend, we forecast its interest income to be VND27,212B (+21.5% YoY), contributing 85% to its TOI. Net operating income (before provisions) will be at VND17,134B (+26.4% YoY).

In addition, as CTG may prioritize making provisions for special bonds in 2017, provision expenses will increase over 45% to VND7,288B. Forecasted PBT is VND9,846B (+15.4% YoY), higher than the yearly target.

Valuation and recommendation

CTG's 9M 2017 earnings grew modestly compared to that of the same period in 2016. The positive point was that its liquidity ratios improved significantly over the same period in 2016, LDR and short–term capital financing mid– and long–term loan ratios are brought back to safety ratios. In addition, the bank also actively made provisions, especially for special bonds. Meanwhile, increasing Tier 1 capital is its the most urgent issue. As the time to apply Basel II is coming, we expect that the bank will soon have a solution for capital raising in 2018. If state-owned banks are allowed to pay stock dividends, it could help CTG partially solve the problem.

CTG's reorganizing plan in operation model has not delivered positive results yet. In addition, due to the lack of information discussing with the bank's BOD, investors have been quite conservative with CTG. Thus, we discounted 25% of the listed banks' average PBR (excluding VCB) to apply for CTG. We estimate that CTG's target price in the immediate–term will be around VND27.000 per share, equivalent to PBR forward 2018 at 1.3x, 27% higher than our target price updated on November Strategy Report. CTG plans to pay VND700 per share cash dividend for 2017. Hence, total expected return is 22%, and we recommend BUY rating for CTG.

BUY

CMP (VND)	22,650
Target Price (VND)	27,000
Cash Dividend (VND)*	700

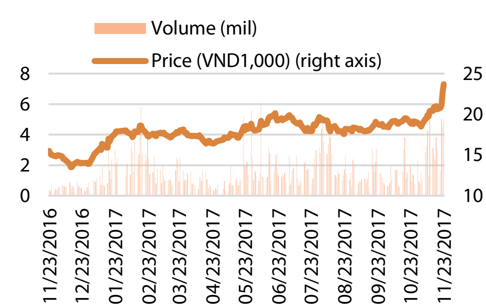
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market Cap (VND B)	84,335
Current Shares O/S	3,723,404,556
Beta	0.96
Free float (%)	10.42
52 week High	23,800
52 week Low	13,541
Avg. Daily Volume (20 sessions)	2,530,068

	FY2016	Current
EPS	1,457	2,008
EPS growth	19.0	N/a
Diluted EPS	1,457	N/a
P/E	11.7	11.9
P/B	1.0	1.4
Cash dividend	700	700
ROE	11.5	12.3

Price performance



Major Shareholders (%)

State Bank of Vietnam	64.46
The Bank of Tokyo–Mitsubishi UFJ	19.73
IFC L.P	5.39
International Finance Corporation	2.63
Foreign ownership room (%)	3.2*

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Exhibit 1: Q3 2017 results

Particular (VND B)	Q3-FY17	Q2-FY17	*+/- (QoQ)*	Q3-FY16	*+/- (YoY)*
Interest and similar income	16,218	16,682	-2.8%	13,940	16.3%
Interest and similar expenses	-9,786	-9,363	4.5%	-8,001	22.3%
Net interest income	6,432	7,319	-12.1%	5,939	8.3%
Non-interest incomes	1,175	1,289	-8.9%	1,288	-8.8%
Net fee and commission income	*374*	*397*	*-5.8%*	*394*	*-5.0%*
Net gain/(loss) from foreign currency and gold dealings	*164*	*86*	*91.7%*	*131*	*25.3%*
Net gain/(loss) from trading of trading securities	*138*	*65*	*112.7%*	*41*	*237.4%*
Net gain/(loss) from disposal of investment securities	*-152*	*71*	*-312.1%*	*-1*	*10801.4%*
Net other income/expenses	650	670	-3.0%	724	-10.2%
Total operating income	7,607	8,608	-11.6%	7,227	5.3%
Operating expenses	-3,369	-3,560	-5.4%	-3,047	10.6%
Operating profit before provision	4,238	5,048	-16.0%	4,181	1.4%
Provision expenses	-1,820	-2,779	-34.5%	-1,968	-7.6%
Profit before tax	2,419	2,270	6.6%	2,212	9.3%
Corporate income tax	-467	-388	20.4%	-433	7.8%
NPAT	1,952	1,882	3.7%	1,779	9.7%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: CTG, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)
Growth (%)					
Customer loan	15.3	10.3	500 bps	16.2	-95 bps
Customer deposit	10.8	5.9	491 bps	26.9	-1609 bps
Operating income	-11.6	11.5	-2309 bps	12.1	-2372 bps
Profit before tax and provision	-16.0	9.5	-2559 bps	21.7	-3772 bps
NPAT	4.1	-7.8	1196 bps	19.3	-1512 bps
Total assets	12.0	9.2	281 bps	15.6	-358 bps
Equity	-0.7	-3.8	313 bps	9.3	-996 bps
Profitability (%)					
NIM	2.7	2.8	-7 bps	2.9	-23 bps
Interest spread	2.1	2.2	-8 bps	2.6	-50 bps
ROAE	12.3	12.1	23 bps	11.0	128 bps
ROAA	0.7	0.8	-1 bps	0.8	-3 bps
Asset quality					
NPL (%)	1.2	1.2	4 bps	0.9	35 bps
Loan loss reserve (%)	100.7	94.9	580 bps	128.2	-2748 bps
Equity/total assets (x)	5.9	5.8	4 bps	6.8	-91 bps

Source: CTG, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	H2-FY17	+/- HoH	+/- YoY
Net interest income	13,728	2%	23%
Total operating income	15,695	-4%	16%
Profit before tax and provision	7,477	-23%	19%
NPAT	3,140	-20%	-8%

Source: RongViet Research

Information update

NIM is still in a downtrend. Customer credit and deposit growth rates were 15.3% and 10.8% YTD in 9M 2017, respectively. Compared to customer deposits growth of 26.9% YTD in 9M 2016, the growth in 2017 has slowed down sharply. This is explained by two reasons: (1) LDR was brought back below the 90% threshold under Circular 36 requirement and (2) slower growth of customer deposits is offset by deposits from the State Treasury (+5.4x YTD) and borrowing from other CIs (+33% YTD). Nonetheless, the cost of capital continued to increase while asset yield dropped slightly, causing NIM to decrease by 20bps to 2.7%.

Provisions were aggressively made for special bonds. Provision expenses in 9M 2017 was VND6,663B (+34% YoY), in which, we estimated that the provisions made for special bonds accounted for 50%. In addition, for the first two quarters, we estimated that CTG would have collected more than VND700B bad debt sold to VAMC. Thus, assuming that CTG makes VND1,000B provision for special bonds and collects about VND600B in H2 2017, we think that CTG would have nearly fulfilled its obligation of making provisions for special bonds. We expect that the bank could fulfill its obligation with special bonds in the first half of 2018.

Singapore listed bonds have matured and are scheduled to issue new bonds. After the maturity of its international bond listed in Singapore exchange in May 2017, CTG has announced to issue VND4,200B domestic bonds. The bond term is 10 years and the bank is entitled to repurchase it after 5 years.

	Volume	Par value (VND1M/bond)	Total value (VND B)
Session 1: 09–10 2017	200,000	10	2,000
Session 2: 11 2017	220,000	10	2,200

Exhibit 4: Plan on the use of mobilized capital from issuance of bonds

	Session 1		Session 2
Electricity	500	Water	370
Coffee	210	Cement	100
Rubber	46	Wood	32
Textile	30	Sugar cane	20
Steel	773	Steel	572
Animal feed	40	Medical	59
Transportation and storage	105	Transportation	1,047
Building materials	171		
Chemical production	25		
Food	100		
Total	**2,000**	**Total**	**2,200**

Source: Bond issue prospectus

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and Similar Income	42,472	52,991	63,787	72,422
Interest and Similar Expenses	-23,633	-30,586	-36,574	-41,965
Net Interest Income	**18,839**	**22,405**	**27,212**	**30,457**
Non-interest Incomes	3,905	4,049	4,814	4,748
Net fee and commission income	1,460	1,687	1,822	2,096
Net gain/(loss) from foreign currency and gold dealings	20	685	696	691
Net gain/(loss) from trading securities	129	184	316	205
Net gain/(loss) from disposal of investment securities	53	41	-98	-1
Net Other income/expenses	2,243	1,451	2,078	1,757
Total operating income	**22,744**	**26,454**	**32,026**	**35,205**
Operating expenses	-10,719	-12,902	-14,892	-16,370
Operating profit before provision	12,024	13,552	17,134	18,835
Provision expenses	**-4,679**	**-5,022**	**-8,140**	**-6,597**
Profit before tax	**7,345**	**8,530**	**8,994**	**12,238**
Corporate income tax	-1,629	-1,705	-1,911	-2,448
NPAT	**5,717**	**6,825**	**7,084**	**9,750**
Attributable to parent	**5,698**	**6,805**	**7,044**	**9,750**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	22.5	23.0	19.0	15.0
Customer deposit	16.2	32.8	14.0	15.0
Net interest incomes	7.2	18.9	21.5	11.9
Operating income	8.1	16.3	21.1	9.9
NPAT	-0.5	19.4	3.5	38.4
Total Assets	17.9	21.7	17.7	13.4
Equity	1.1	12.3	7.1	10.6
Profitability				
NIM	2.9	2.9	2.8	
Interest spread	0.0	0.0	0.0	0.0
CIR	47.1	48.8	46.5	46.5
ROAE	10.3	11.5	10.8	13.8
ROAA	0.8	0.8	0.7	0.8
Assets Quality				
NPLs ratio	0.9	1.0	N/A	N/A
Bad debt coverage ratio	92.1	101.8	N/A	N/A
Equity-to-Assets ratio	7.2	6.6	6.0	5.9
Operating Safety Ratio				
Customer loans-to-total assets	64.0	64.9	79.7	80.5
Customer loans-to-deposit ratio	80.8	101.4	101.9	102.1
CAR	10.6	10.4	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	5,091	5,187	7,150	12,191
Balances with the SBV	11,893	13,503	17,999	20,699
Loans to other CIs	66,019	94,469	113,363	130,368
Trading securities, net	3,346	1,895	9,416	10,318
Derivatives & financial assets	0	683	412	412
Loans and advances to customers, net	533,530	655,126	776,827	889,394
Investment securities	120,024	134,227	140,584	146,119
Investment in other entities and long term investments	3,892	3,204	3,204	3,204
Fixed assets	8,666	10,615	12,208	14,039
Investment properties	0	0	0	0
Other assets	27,022	29,791	35,750	39,325
TOTAL ASSETS	**779,483**	**948,699**	**1,116,912**	**1,266,066**
Due to Gov and borrowings from SBV	13,227	4,808	26,446	13,223
Deposits and borrowings from other credit institutions	99,169	85,152	127,728	140,501
Deposits from customers	492,960	654,423	746,042	857,948
Derivatives and other financial liabilities	118	0	0	0
Funds received from Gov, international and other institutions	54,237	6,713	6,713	8,727
Convertible bonds/CDs and other valuable papers issued	20,861	23,849	26,234	31,481
Other liabilities	42,802	110,782	116,321	139,585
Total liabilities	**723,373**	**885,727**	**1,049,484**	**1,191,465**
Shareholder's equity	**55,868**	**62,712**	**67,149**	**74,293**
Capital	46,209	46,209	46,209	46,209
Reserves	5,275	6,362	7,487	9,043
Foreign currency difference reserve	442	479	479	479
Difference upon assets revaluation	0	0	0	0
Retained Earnings	3,942	9,663	12,975	18,562
Minority interest	242	260	279	308
LIABILITIES & SHAREHOLDER'S EQUITY	**850,670**	**1,006,404**	**1,159,174**	**1,335,463**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest Incomes	**42,472**	**52,991**	**63,787**	**72,422**
From customers	31,702	41,574	49,185	56,190
From other Cis	1,518	1,362	2,561	3,004
From fixed-income investment	8,524	8,958	12,041	13,228
From other activities	728	1,097	0	0
Interest Expenses	**-23,633**	**-30,586**	**-36,574**	**-41,965**
To customers	-20,125	-26,395	-34,232	-39,608
To other Cis	-92	-92	-2,610	-2,675
To fixed-income investment	-774	-1,406	-193	-306
To other activities	-124	-110	0	0
Operating expenses	**-10,719**	**-12,902**	**-14,892**	**-16,370**
Provision expenses	**-4,679**	**-5,022**	**-8,140**	**-6,597**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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