MekongSecurities

Vietinbank

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Transforming for long-term growth

Price target: VND27,000

We upgrade Vietinbank (CTG:HOSE) from HOLD to BUY based on the following factors:

CTG shares are at their all-time low due to the recent overall equity market downtrend and the market's suspicion over banks' earnings growth and asset quality in light of the Vinashin insolvency case.

In fact, CTG's performance in 1H10 is very good compared to both the overall sector and to closely comparable peer domestic banks. Total operating income in 1H10 was VND6,268bn with 83% contribution from net interest income. CTG maintained remarkably high credit growth: a rough estimation from the bank is over 20% as compared to 10.5% for the sector. With credit deals signed recently, CTG is likely to meet its annual credit growth target of 25% (our previous forecast is 23%). Incomes from fees and forex trading also grew strongly by 133% and 21% yoy respectively, and their annualized figures are higher than our previous forecasts. Other incomes are in line with our forecasts.

Vinashin insolvency doesn't have seriously negative impact on CTG as feared by outsiders. The bank tells us that its lending to Vinashin is less than 1.6% of its total loans outstanding at end of 1Q10, and 70% of the lending to Vinashin is standard loans made to Vinashin's subsidiaries which are still operating profitably.

Cost-to-income ratio (CIR) in 1H10 is 46%, much lower than 62% in FY09 - the year when the bank's operating expenses surged partly to due to spending on pre-listing procedures including roadshows. Given expenses tend to increase towards the year end due to employee bonuses, we forecast the 2010 CIR will be about 52% (averaging last five years' CIR), lower than our previous conservative forecast of 61%.

Overall, CTG is very likely to exceed its 2010 earnings plan (EBT of VND4,000bn) as 1H10 EBT (VND2,662bn) has already fulfilled 67% of the plan. We upgrade our 2010 EBT forecast by 9% to VND4,300bn and our EPS forecast by 9% to VND2,345. Our target price (VND27,000) implies a forward PE of 11.5x and PB of 2.4x, which we regard as fair for this, the fourth largest commercial bank in Vietnam. Our 2010 EPS and BPVS estimates assume that CTG will raised its chartered capital to VND16,520bn by the year end via additional share issuance (stock dividend, rights issue at par) and a 10% stake sold to IFC.

Unit (income&profit): VND bn	2008	2009	1H10	2010an	2010F
Net Interest Income	7,189	8,042	5,229	10,459	10,459
Total Operating Income	8,694	9,135	6,268	12,535	12,169
Pre-provision Op Profit	3,737	3,537	3,367	6,733	5,841
Earnings Before Tax	2,436	3,357	2,662	5,325	4,341
Net profit	1,804	2,623	2,374	4,748	3,256
Total Op Income growth (%)	30.8	7.1		37.2	33.2
Net profit growth (%)	57.0	45.4		81.0	24.1
Cost-to-income ratio (%)	57.0	62.0	46.0	46.0	52.0
ROAE (%)	15.7	20.7		28.9	20.7
EPS basic (VND)	2,355	2,766		3,419	2,345
BVPS basic (VND)	15,985	11,355		11,881	11,230
PE (x)	10.2	8.7		7.0	10.2
PB (x)	1.5	2.1		2.0	2.1
Dividend (VND)		0			1,200
Dividend yield (%)		0			4.5

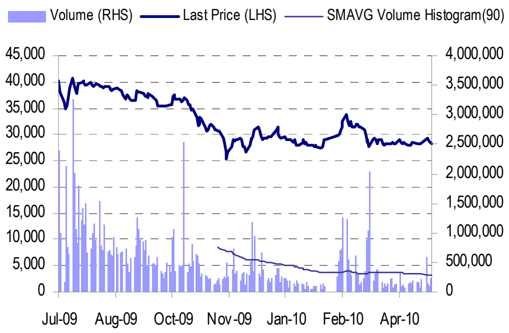
** 2010an: annualized figures based on 6 month performance*

** Dividend (in cash) for 2010-2012 is our estimate (low predictability). For 2010, CTG plans to pay dividend at 14% of par value, but hasn't confirmed ratio of cash to bonus shares. We guess that CTG will pay a cash dividend at least equal to that of its peer Vietcombank (12% par value, equalling VND1,200 per share)*

Company update

Recommendation	**BUY**
	HOSE:CTG
	Banking Industry
Price (VND)	**24,000**
Price Target (VND)	**27,000**
Expected share price return (%)	**12.5**
Expected dividend yield (%)	**5.0**
Expected total return (%)	**17.5**

Source: Bloomberg, Mekong Securities



Ownership structure

State (SCIC)	89.23%
Trade union	2.83%
Foreigners	1.06%
Others	6.88%

Stock Statistics	**05 Aug 2010**
Bloomberg code	CTG VN
Last price (VND)	24,000
52-week range (VND)	24,000 – 40,800
Shares O/S (m)	1,125
Mkt cap (VNDbn)	27,007
Mkt cap (USDm)	1,414
Est. free float (m)	74
3m avg daily vol (shrs)	136,000
VND/USD	19,100
Index: VNIndex/HNX	486 / 147

Source: Bloomberg

Please refer to important disclosures at the end of this document.

Technical view on CTG: Long-term trading with accumulating zone near VND24,000 - 25,000

Technical comments: CTG is very likely to move in a triangle pattern. A long-term bullish signal would be triggered in case the higher edge of this pattern at VND31,500 is broken out of.

In the short term, CTG is moving in a falling wedge - a bullish pattern and it is about to test the very strong support zone at VND24,000-25,000.

The trading volume near the support zone VND24,000-25,000 is very low recently, indicating that the selling pressure often turns weaker every time CTG falls to near this zone. It suggests that the zone VND24,000-25,000 is very likely to be the bottom in the long term.

Trading strategy: Clients are advised to accumulate CTG near the support zone VND24,000-25,000 with the short-term target set at VND30,000. Stop loss once CTG closes below VND24,000.

A long-term buy and hold signal would be triggered once the strong resistance at VND31,500 is broken. In this case, the stop loss should be changed to VND30,000.

Mekong Securities' Rating System

We currently use a three-tier recommendation system for the stocks in our formal coverage: BUY, HOLD, or SELL.

A **BUY** is applied when the expected total return over the next twelve months is at least 10%.
A **HOLD** is applied when the expected total return over the next twelve months ranges between -10% to 10%.
A **SELL** is applied when the expected total return over the next twelve months is -10% or worse.
These benchmarks are subject to change.

Expected Total Return (12 months) = [(Target Price - Current Price)/Current Price] + Forecast 12-month Dividend Yield.

Our Analyst's Methodology

Target price and expected total return
Initially, an analyst derives an expected 12-month target price using multiple valuation methodologies. Different valuation methods have been used, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA).

Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

Once analysts derive a risk-adjusted valuation for a company under review, its current market price is then compared with the target price to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

Disclaimer