

Techcombank (TCB)

Maintain positive growth in 1Q22

May 12, 2022

Analyst Nguyen Duc Huy
huynd1@kbsec.com.vn

1Q22 PBT increased by 22.9%YoY, reaching VND6,785 billion

Techcombank (TCB) recorded net interest income (NII) of VND8,111 billion (+11.9%QoQ, +32.4%YoY), non-interest income (NOII) of VND2,000 billion (-31.4%QoQ, -28.8%YoY). Provision expense was only VND218 billion (-74%YoY). As a result, 1Q22 PBT reached VND6,785 billion (+22.9%YoY and +10.5%QoQ).

1Q22 NIM reached 5.9%, up 26bps QoQ and unchanged from 1Q21

In 1Q22, the average earnings yield was 7.65% (+36bps QoQ), thanks to higher profit from investment securities (+82bps QoQ). The IEA yield declined 5bps QoQ as banks tightened real estate credit to limit risks. The average cost of funds hit 2.15% (+14bps QoQ), net profit margin continued to improve 26bps QoQ to 5.9%.

Credit and deposit growth reached 9.3%YTD and 8.4%YTD, respectively

Deposit growth reached 5.3%YTD while investment securities hit 23.7% YTD. Credit growth expanded by 9.3%YTD. Interbank deposits climbed 22.7% YTD and customer deposits and valuable papers were up 4.5%YTD and 2.8%YTD.

1Q22 asset quality remains positive

The NPL ratio in 1Q22 was 0.67% (flat YoY). The LLCR was down 2 ppts to 160.8%, which is still relatively high in relation to the industry standard. Restructured debts decreased by VND300 billion to VND1,600 billion or 0.5% of outstanding loans.

Launched projects of Vinhomes and Masterise will promote home loans

TCB will continue to limit real estate lending in 2Q22 and accelerate disbursement for home loans in 2H22, given the launched projects of Vinhomes & Masterise.

We recommend BUYING TCB shares with a target price of VND65,600

Based on valuation results & business outlook, we recommend BUYING TCB shares. The target price is VND65,000, 56.6% higher than the closing price on May 5, 2022

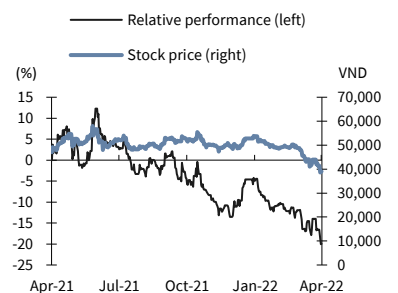
Buy maintain

Target price	VND65,000
Upside/Downside	56.6%
Current price (May 5, 2022)	VND42,000
Consensus target price	VND67,800
Market cap. (VNDbn)	148,160

Trading data	
Free float	84.54%
3M avg trading value (VNDbn)	390/0.18
Foreign ownership	22.47%
Major shareholder	Masan Group (MSN) (14.96%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-4.8	-16.8	-24.3	-18.6
Relative	-2.6	-7.8	-16.5	-21.0

Forecast earnings & valuation				
FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	18,751	26,699	34,290	40,463
Pre-provision operating income (VNDbn)	18,411	25,903	31,399	38,247
NPAT of parent company (VNDbn)	12,325	18,052	22,817	26,247
EPS (VND)	3,515	5,137	6,466	7,402
EPS growth (%)	22.4%	46.1%	25.9%	14.5%
PER (x)	8.95	9.71	10.06	8.79
Book value per share (VND)	20,392	25,476	32,185	39,334
PBR (x)	1.54	1.96	2.02	1.65
ROE (%)	18.4%	22.0%	22.0%	20.3%



Source: Bloomberg, KB Securities Vietnam

Updated business performance

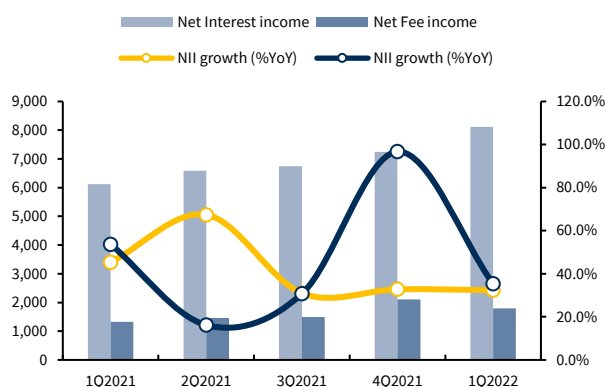
In 1Q22, PBT increased by 23%YoY to VND6,785 billion

TCB recorded 1Q22 NII of VND8,111 billion (+12.0% QoQ and +32.4% YoY), NOII of VND2,000 billion (-31.3% QoQ and -28.8% YoY). A sharp drop in NOII made total operating income (TOI) record only VND10,112 billion (+13.2% YoY, -0.5% QoQ). Provision expense in 1Q22 shrank to VND218 billion (-74.4% YoY). PBT reached VND6,785 billion (+23.0% YoY). Credit growth reached 9.3% YTD in 1Q22 vs. 5.6% YTD in 1Q21.

In 1Q22, NIM reached 5.9%, up 26bps QoQ, flat YoY

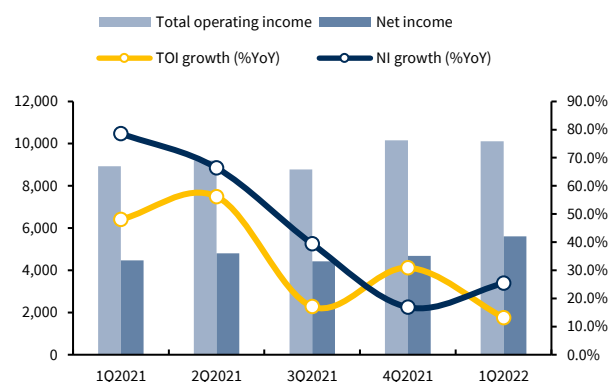
In 1Q22, the average earnings yield showed signs of recovery with an increase of +36bps QoQ to 7.77%. It was attributable to the improvement in profit from investment securities (+82bps QoQ). Meanwhile, the IEA yield decreased by 5bps QoQ as banks tightened real estate credit to limit risks. 1Q22 CASA ratio was 50.5%, with the main driving force coming from the deposit growth rate of individual customers (+8%QoQ and 25%YoY). Therefore, although TCB's deposit rates increased by 150-200bps, the average cost of funds only grew by 14bps QoQ to 2.15%. Net profit margin in 1Q22 continued to improve by 26bps QoQ to 5.9%.

Fig 1. TCB – NII, Service fees (VNDbn, %YoY)



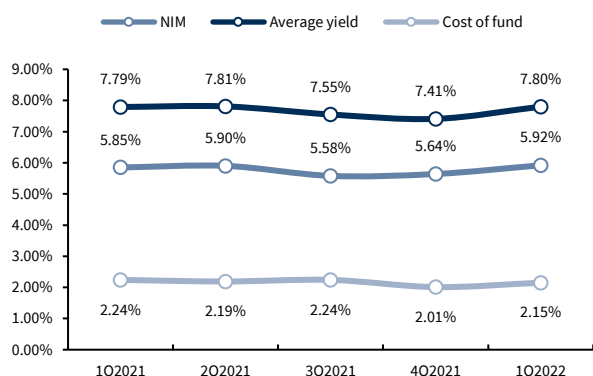
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – TOI, NPAT (VNDbn, %YoY)



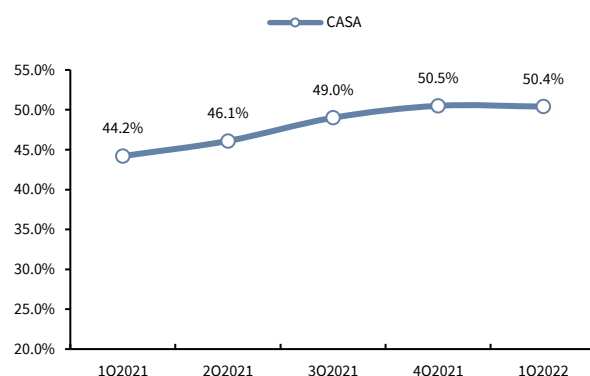
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – NIM by quarter (%)



Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA ratio by quarter (%)

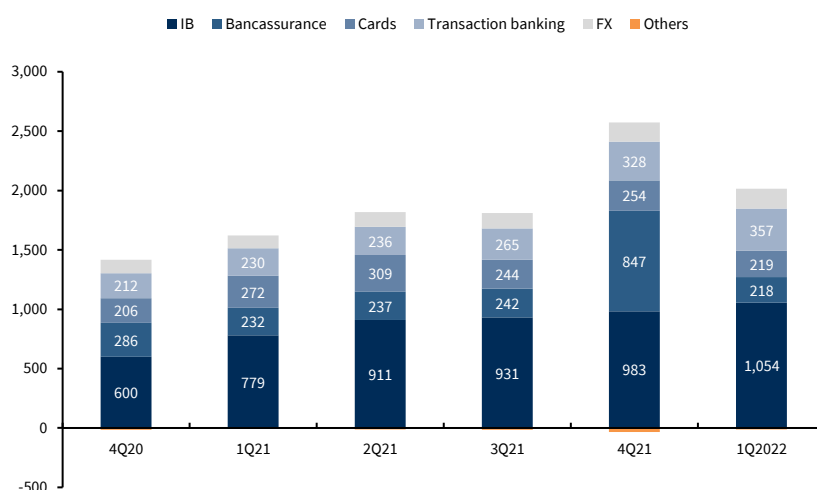


Source: Techcombank, KB Securities Vietnam

1Q22 NOII reached VND2,000 billion, down 28.8%YoY

In 1Q22, service fees rose by 35.3% YoY. Specifically, bancassurance faced headwinds as customers were afraid to go to branches for advice and brought in only VND218 billion (-12.8% YoY). Investment banking (IB) recorded a growth of 81.7% YoY to VND618 billion, and payment services contributed VND1,109 billion (+34.9% YoY).

Fig 5. TCB – Revenue breakdown (VNDbn)

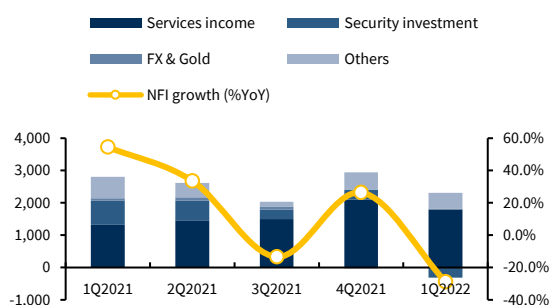


Source: Techcombank, KB Securities Vietnam

Foreign currency trading posted VND34 billion; investment securities saw a loss of VND315 billion vs. a gain of VND747 billion in 1Q21. Additionally, net other income was VND488 billion (-27.2% YoY) as returns on derivatives decreased 41.2% YoY. NII/TOI ratio reached 80.2% (+8.9 pts QoQ) as the NOII growth rate was lower than that of NII.

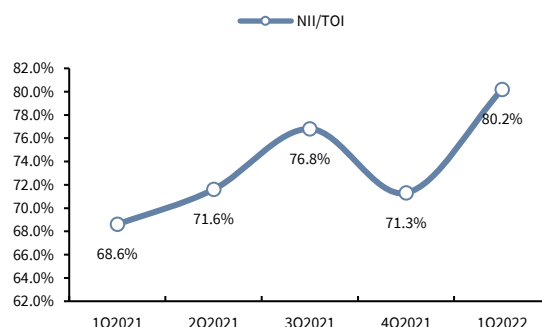
The main reason for the bank's loss of -VND315 billion in the disposal of investment securities is that the government bond interest rate has continuously increased since late 2021 (+1.387% for five-year term, +1.027% for 10-year term, and +0.877% for 15-year term), affecting the value of the bank's bond portfolio. It prompted the bank to re-evaluate its government bond portfolio and make provisions of VND450 billion for devaluation.

Fig 6. TCB – NOII breakdown (VNDbn)



Source: Techcombank, KB Securities Vietnam

Fig 7. TCB – NII/TOI (%)



Source: Techcombank, KB Securities Vietnam

Credit and deposit growth reached 9.3% YTD and 8.4% YTD, respectively

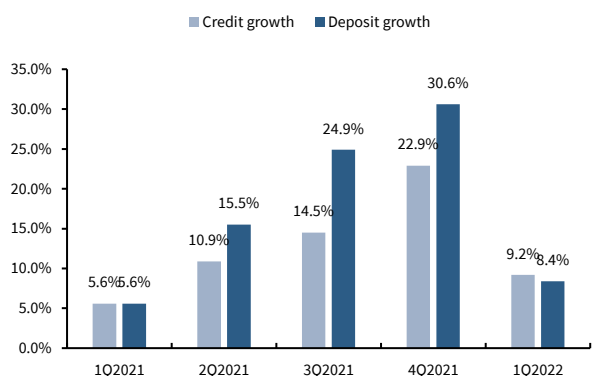
In 1Q22, lending to retail customers (+6.2%YTD) and SMEs (+7.8%YTD) further drove TCB's credit growth. Meanwhile, wholesale banking was up slightly 2.5% YTD. Outstanding loans for real estate and construction were VND249 trillion (+3%QoQ and +6%YoY) or 68% of total outstanding loans. Outstanding loans for fast-moving consumer goods (FMCGs) were VND62 trillion (+4%QoQ and +27%YoY) or 17% of total outstanding loans. Mortgage loans hit VND134 trillion (+7%QoQ, +49%YoY); credit card's outstanding loans were VND12 trillion (+10%QoQ and 39%YoY).

Investment securities continued to grow by 23.7% YTD with the dominance of corporate bonds at VND76.6 trillion (+12.5%QoQ, +22.5%YoY). The BOD did not reveal the identity of the bond issuer and is confident that investment securities are almost risk-free since the bank always takes the precaution of assessing the profitability of projects.

The bank's deposits remained positive, with interbank deposits up 22.7%YTD; customer deposits up 4.5% YTD to VND329 trillion. The delivery of valuable papers was down by 2.8%YTD.

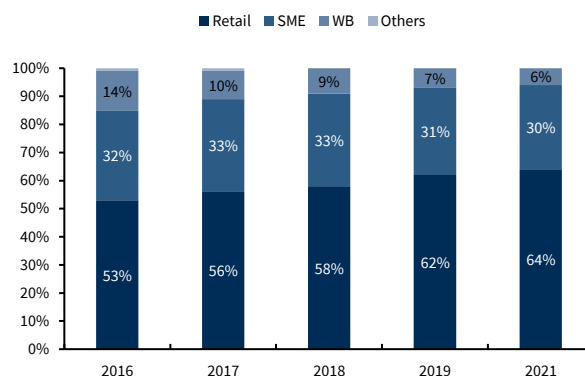
LDR in 1Q22 was down 2.2 ppts to 73.2% as deposit growth recorded a higher rate than credit growth. The ratio of short-term capital for medium and long-term loans rose from 28.8% in late 2021 to 32.2%. Still, it is within the target of 37% for 2021-2022 as per Circular 22/2019.

Fig 8. TCB - Credit & deposit growth (%)



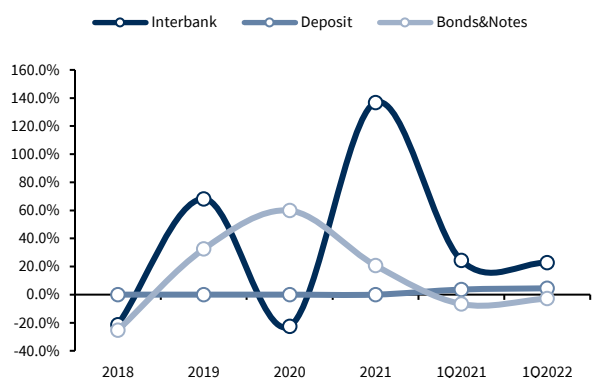
Source: Techcombank, KB Securities Vietnam

Fig 9. TCB - Lending to customers (%)



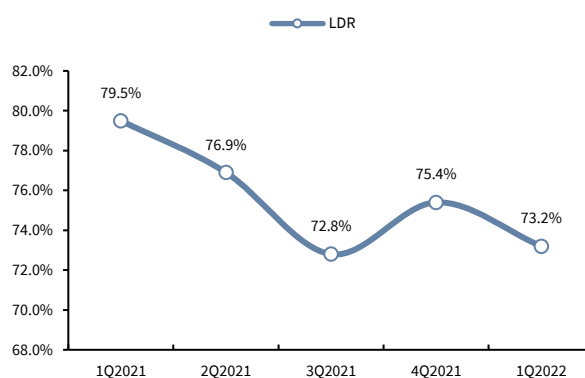
Source: Techcombank, KB Securities Vietnam

Fig 10. TCB - Deposit growth (%)



Source: Techcombank, KB Securities Vietnam

Fig 11. TCB - LDR (%)

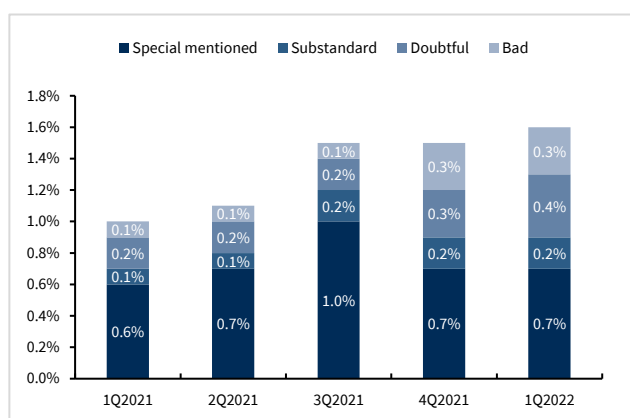


Source: Techcombank, KB Securities Vietnam

1Q22 asset quality remains positive

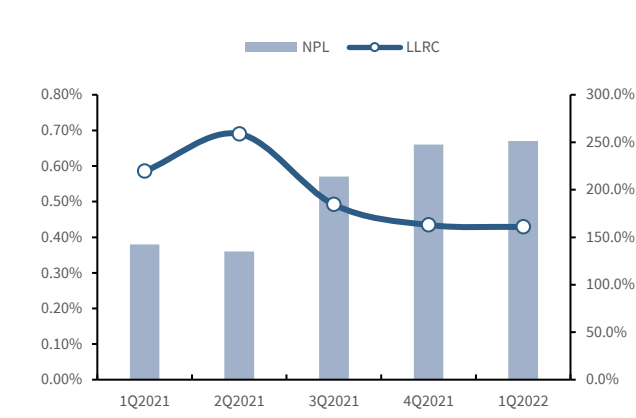
TCB’s NPL ratio was only 0.67% (flat YoY). Subprime debts decreased by 25%QoQ due to debt classifications. Specifically, doubtful debts rose 30.3%QoQ, and bad debts were up 7.4%QoQ. Therefore, subprime debts to outstanding loans edged up to 0.3%. The loan loss coverage ratio (LLCR) remains over 160%. Provision expense for 1Q22 was about VND218 billion (-65%QoQ, -74.4%YoY). Restructured debts shrank by 15.8%QoQ to VND1,600 billion or 0.5% of total outstanding loans by the end of 1Q22. The bank said that the repayment capacity of its customers increased as businesses recovered from the pandemic.

Fig 12. TCB – Groups of debt (%)



Source: Techcombank, KB Securities Vietnam

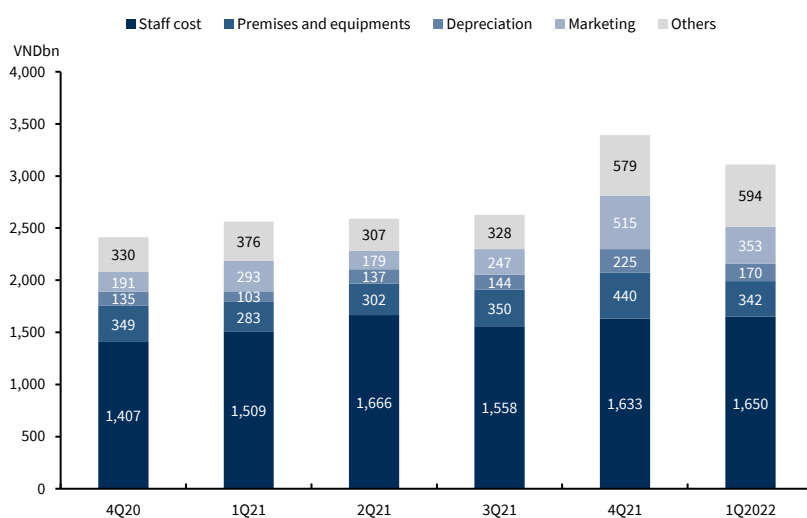
Fig 13. TCB – NPL, LLCR (%)



Source: Techcombank, KB Securities Vietnam

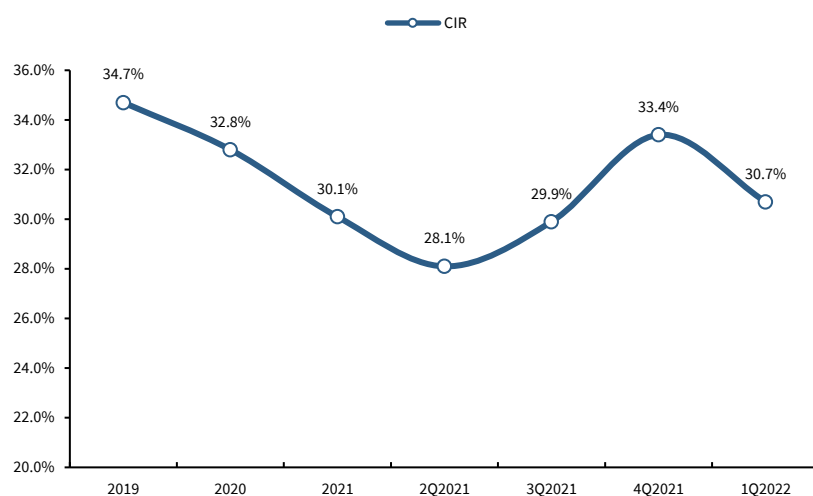
CIR in 1Q22 decreased 2ppts QoQ to 31.0% due to the bank’s reduction in marketing activities. Marketing costs have declined by 31.4%QoQ as a result. Management said the bank would strengthen its marketing activities in the second half of 2022. Therefore, CIR is forecast at 33% for the whole of 2022.

Fig 14. TCB – Operating expenses (VNDbn)



Source: Techcombank, KB Securities Vietnam

Fig 15. TCB – CIR (%)



Source: Techcombank, KB Securities Vietnam

Launched projects of Vinhomes and Masterise will promote home loans in 2022

TCB is now among the banks with the highest proportion of outstanding loans for the real estate sector in the industry. As a result, tight control of real estate credit will affect the bank's financial lending activities. In particular, TCB's real estate lending will be under pressure as outstanding loans grew by only 2.35% YTD in 1Q22 (vs. 4.98% YTD in 1Q21). Home loans are less affected, reaching 6.2% YTD (vs. 2.3% YTD in 1Q21).

TCB disclosed to limit disbursement to the real estate sector in 2Q22.

Therefore, we expect TCB's home loans to improve in the second half of 2022 when: (1) the State Bank loosens real estate credit control; (2) various key projects of Vinhomes and Masterise have been opened for sale in 2Q22: The Empire Vinhomes Ocean Park (458 ha, VND38 trillion in total investment capital) with 50,000 apartments and 2,300 villas, shophouses; SP3 in Sakura Vinhomes Smart City with 1,100 apartments; or Masterise's The Rivus Elie Saab with 118 villas (by the end-4Q22). At the same time, in 2022, Vinhomes will boost sales at Vinhomes Ocean Park (~3,900 available-for-sale apartments), Vinhomes Smart City (~5,800 available-for-sale apartments), and Vinhomes Grand Park (~5,300 available-for-sale apartments).

Renegotiation of new upfront fees is unnecessary given TCB's strong financial position

At the AGM on April 23, 2022, the BOD shared that the bank has been renegotiating with Manulife for higher upfront fees. Given a relatively high discount rate and strong financial position (CAR hit 15% in 2021, the highest in the industry), TCB would prefer to receive bonuses every year when reaching KPI. It is also in line with the long-term development orientation of the bank. For instance, TCB received nearly VND600 billion in bonuses from Manulife. Management said they would change their mind and receive all upfront fees in case of a lower discount rate (about 1-2%).

Forecast business performance

2022F business results

We make our forecast for TCB in 2022 as follows:

- We revise TCB's 2Q22 credit growth up and expect FY22 credit growth of 22.6%YoY, as the bank will boost lending in 2H22.
- Net profit margin should increase slightly by 17bps YoY, assuming: (1) average earnings yield will increase slightly by 20bps YoY due to restrictions on real estate lending in 1H22; (2) capital cost will inch up by 3bps thanks to high CASA and offshore syndicated loan worth USD800 million.
- NPL ratio is estimated at 0.58%, down 8bps YoY thanks to the recovery of bad debts as businesses gradually recover from the pandemic. At the same time, special mention loans increased at a reasonable pace in the previous quarters, mitigating the risk of debt classifications.
- Provision expense was VND2,022 billion, down 24.1% YoY due to accelerated provisioning for restructuring debt in 2021.
- We expect NPAT to reach VND23,290 billion, up 26.5% YoY.

Table 1. TCB – 2022E–2023E business results

	2021A	2022F	2023F	%YoY2022	%YoY2023
Net interest income	26,699	34,290	40,463	28.4%	18.0%
Service fees	6,382	8,355	11,493	30.9%	37.6%
Operating income	37,076	46,864	54,638	26.4%	16.6%
Provision expense	-2,665	-2,018	-4,449	-24.3%	120.5%
NPAT	18,415	23,283	26,783	26.4%	15.0%
NIM	5.71%	5.89%	5.88%		
Average earnings yield	7.59%	7.80%	7.92%		
Average cost of funds	2.16%	2.19%	2.37%		
CIR	30.1%	33.0%	30.0%		
NPL	0.66%	0.58%	0.63%		
Total assets	568,729	689,095	796,758	21.2%	15.6%
Equity	93,041	118,390	145,029	27.2%	22.5%

Source: KB Securities Vietnam

We recommend BUYING TCB shares with a target price VND65,500 apiece

We combine two valuation methods, P/B and residual income, to find a fair price for TCB shares.

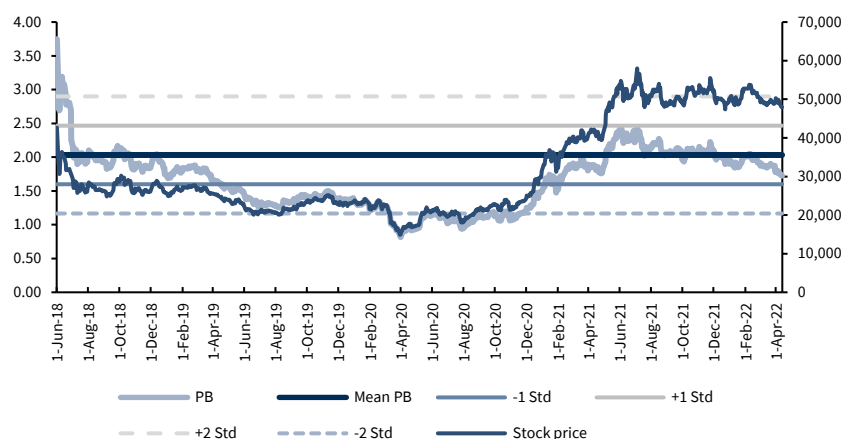
(1) P/B valuation method (Figure 16)

We like TCB given its good asset quality & diversified income sources. Banking stocks have witnessed corrections on fears that tightening real estate credit and the bond market will adversely affect banks. We give TCB's end-2022 target P/B of 2.0x (vs. ~1.52x recently), equivalent to TCB's 3-year average P/B. (2) Residual income method (Table 2)

We also use the residual income method to reflect systematic risk and long-term expectations.

Based on the above two valuation methods with the weight of 50-50, we recommend BUYING TCB shares with a target price of VND65,000, 56.6% higher than the closing price on May 5, 2022. Some downside risks include: (1) unpredictable developments of the pandemic, worsening asset quality; (2) competitiveness among banks that may cause CASA ratio to fall short of expectations; and (3) lower-than-expected home loans due to dwindling housing demand.

Fig 16. TCB – P/B and share performance (x, VND/share)



Source: Techcombank, KB Securities Vietnam

Table 2. TCB – Share price according to residual income method (VND/share)

VNDbn	2022F	2023F	2024F
NPAT	23,283	26,783	31,389
Excessed return	16,325	19,722	24,204
Required rate of return (re)	18.4%		
Growth (g)	5%		
Terminal value	122,657		
Present value (PV)	195,666		
Share price	65,731		

Source: KB Securities Vietnam

Table 3. TCB – Target price according to valuation methods (VND/share)

Valuation method	Forecast price (VND)	Weight	Weighted price (VND)
P/B	65,731	50%	32,866
Residual income	64,370	50%	32,185
Target price			65,051

Source: KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information Technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Real Estate, Construction & Materials
ngaphb@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Retails & Consumers
dunglnt@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Oil & Gas, Utilities
quangtpt@kbsec.com.vn

Nguyen Duc Huy
Analyst – Banks, Insurance & Securities
huynd1@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy, Chemicals
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy, Fishery & Textiles
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.