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TCB leads commercial banks in terms of profit growth and asset quality

Techcombank (TCB) continued to record impressive performance in 2Q21 with profit after tax (PAT) reaching VND4,807 billion (+7.4% QoQ, +66.4% YoY). Credit balance outperformed in 2Q21 (+6% QoQ, +35% YoY). TCB maintained its leading position among commercial banks with high profit growth and good asset quality.

2Q21 NIM reached 5.8%, down 4 bps QoQ

2Q21 NIM remained high at 5.8% (-4bps QoQ, +130 bps YoY) thanks to high earnings yield as TCB's main customer base of lending segment is active in the real estate sector which is not hard hit by the pandemic.

2Q21 NPL ratio was 0.36%, loan loss coverage ratio was 258.9 %

2Q21 NPL ratio did not change much compared to 1Q, kept at 0.36% (-2bps QoQ), the lowest in the banking system. During the period, TCB made a provision of VND598 billion (-9.0% YoY), thereby raising the loan loss coverage ratio to 258.9%, the second highest in the industry, only after Vietcombank (VCB).

The plan to cut lending rates would not greatly affect TCB

TCB announced an interest rate reduction of up to 1.5% to aid pandemic-affected customers. TCB's average interest income would be still positive since its main customer base was not much affected by COVID-19.

We recommend BUYING TCB shares, target price is VND63,700/share

We recommend BUYING TCB shares. The target price is VND63,700/share, 31.6% higher than the closing price on September 15, 2021.

Buy

Upside/Downside	31.6%
Current price (Sep 9, 2021)	VND48,400
Target price	VND61,900
Market cap (VNDbn)	172,291

Forecast earnings & valuation

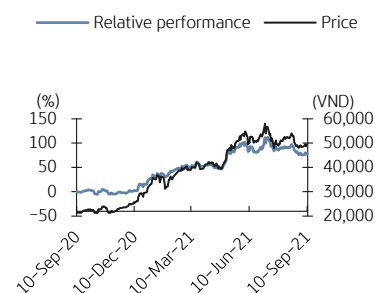
Financial year-end	2019A	2020A	2021F	2022F
NII (VNDbn)	14,258	18,751	25,282	28,891
Pre-provision operating profit (VNDbn)	15,756	18,411	24,723	28,060
NPAT of the parent bank (VNDbn)	10,075	12,325	16,534	20,041
EPS (VND)	2,878	3,516	4,717	5,718
EPS growth (%)	19%	22%	34%	21%
PER (x)	15.0	12.3	9.2	7.6
Book value per share	17,734	21,289	25,206	30,124
PBR (x)	2.44	2.03	1.72	1.44
ROE (%)	18.0%	18.4%	20.4%	20.8%

Trading data

Free float (%)	84.54%
Avg trading value 3M (VNDbn/USDmn)	1,061/45.7
Foreign ownership (%)	22.49%
Shareholder	MSN (14.96%)

Share price performance

(%)	1M	3M	6M	12M
TCB	-5	-2	18	130
VNIndex	-5	0	5	78



Source: Bloomberg, KB Securities Vietnam

Business operations

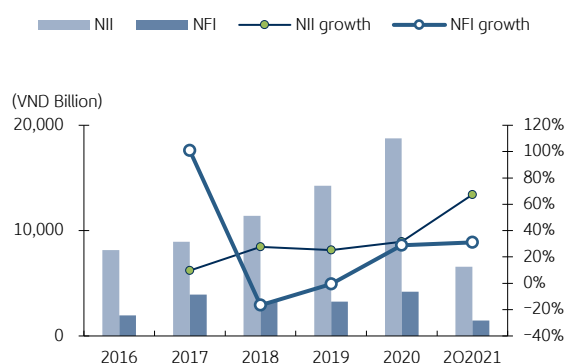
2Q21 PAT reached VND4,807 billion, up 66.4% YoY

TCB continued to maintain impressive performance with net interest income of VND6,588 billion (+7.6% QoQ, +67.4% YoY); Non-interest income of VND2,618 billion (-6.8% QoQ, +33.6% YoY) helped TOI reach VND9,206 billion (+3.1% QoQ, +56.2% YoY). CIR continued to rise to 28.1% (-56bps QoQ) while the provision/pre-provision net profit was only 9%, helping PBT to hit VND4,807 billion (+7.4% QoQ, +66.4% YoY). Credit balance outperformed in 2Q (+6% QoQ, +35% YoY).

2Q21 NIM reached 5.8%, down 4 bps QoQ

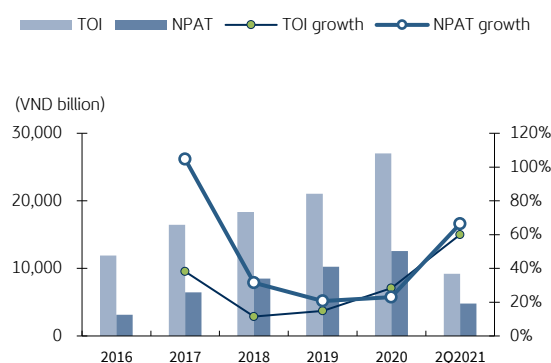
2Q21 NIM remained high at 5.8% (-4bps QoQ, +130 bps YoY) thanks to high earnings yield as TCB's main client base of lending segment was barely affected by the pandemic. The improvement in NIM compared to last year may be attributable to the sharp drop in cost of funds following the downtrend of the banking system.

Fig 1. TCB - NII & service profit (VNDbn, %)



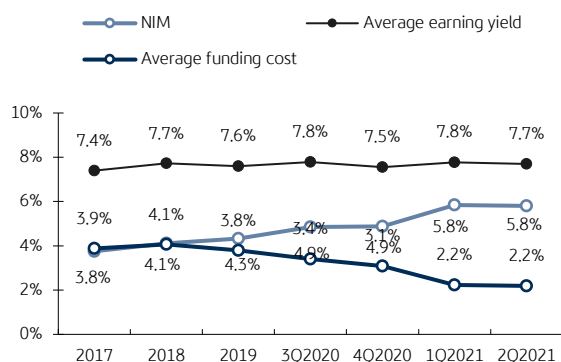
Source: KB Securities Vietnam

Fig 2. TCB - TOI & NPAT (VNDbn, %)



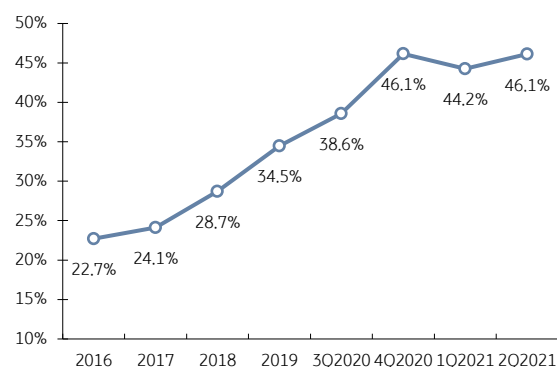
Source: KB Securities Vietnam

Fig 3. TCB - NIM, lending rate, deposit rate (%)



Source: KB Securities Vietnam

Fig 4. TCB - CASA ratio (%)

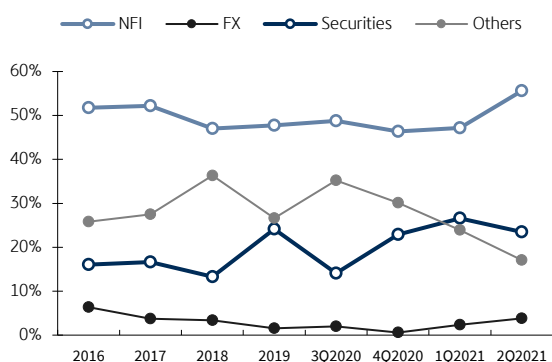


Source: KB Securities Vietnam

2Q21 NOII reached VND2,618 billion, up 33.6% YoY

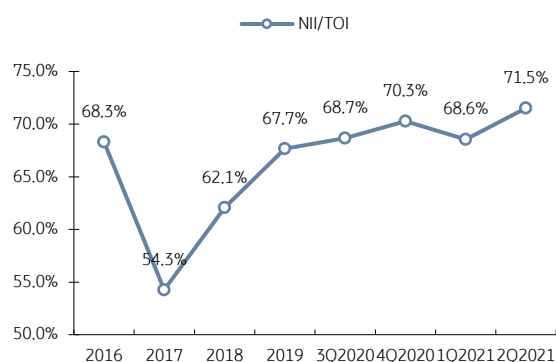
Net profit from services climbed 16.2% YoY, mainly driven by income from payment processing fees (+83% YoY) and bancassurance (+17% YoY); earnings from Forex trading reached VND100 billion (up strongly from the loss of VND30 billion over the same period); profit from securities investment and trading activities was VND616.4 billion (+88% YoY), helping NOII to hit VND2,618 billion (+33.6% YoY). NII/TOI was 71.5% (+290 bps QoQ).

Fig 5. TCB – Non-interest income structure (%)



Source: KB Securities Vietnam

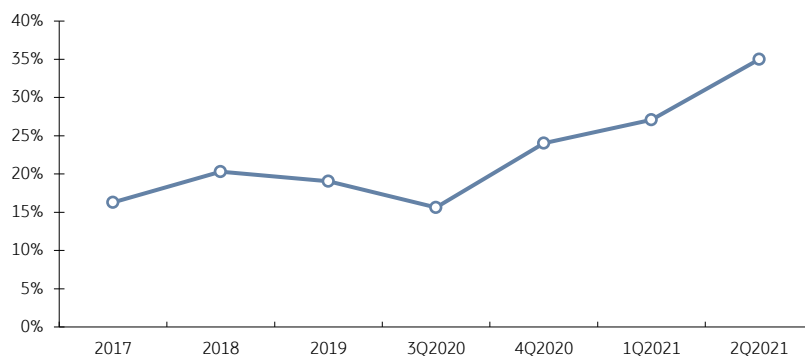
Fig 6. TCB – NII/TOI (%)



Source: KB Securities Vietnam

TCB's credit growth continued to peak in 2Q21 with outstanding loans reaching VND365.2 trillion (+35.0% YoY, +6% QoQ).

Fig 7. TCB – Credit growth (%)

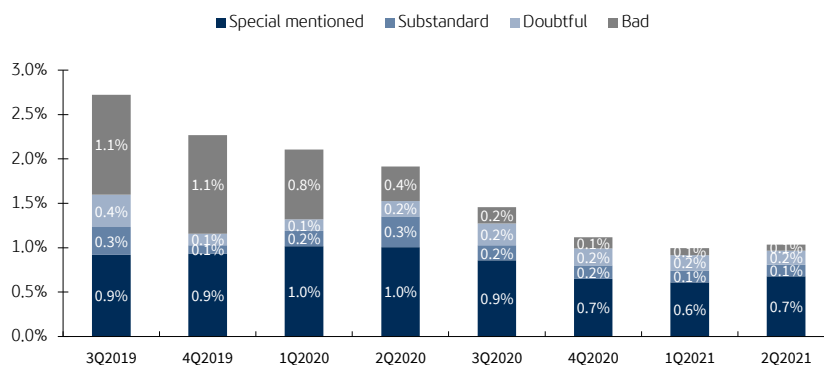


Source: KB Securities Vietnam

NPL ratio was 0.36%, down 13 bps QoQ, restructured loan balance accounted for 0.8% of total outstanding loans

NPL ratio did not change much compared to 1Q, reaching 0.36% (-2bps QoQ), the lowest in the whole system. During the period, TCB made a provision of VND598 billion (-9.0% YoY), thereby raising loan loss coverage ratio to 258.9%, the second highest in the industry, only after VCB. By the end of 2Q21, TCB's restructured debt balance as per Circular 03/2021 reached VND2,700 billion (-59.7% QoQ), equivalent to 0.8% of total outstanding loans. TCB believes this figure would double in the coming time at 1.6% due to the impact of the fourth wave of COVID-19 in Vietnam.

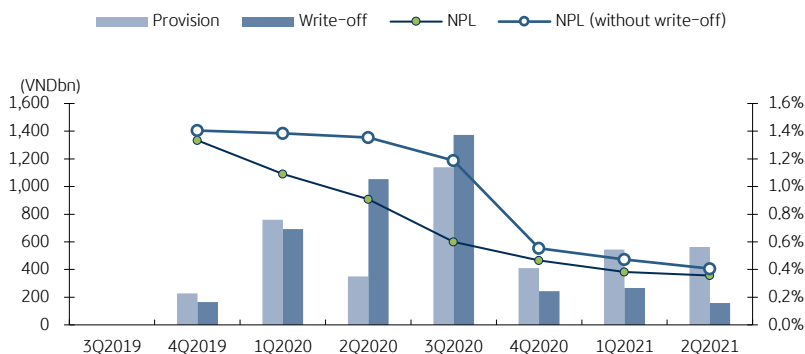
Fig 10. TCB – Special mention, substandard, doubtful, bad debts (%)



Source: KB Securities Vietnam

TCB's asset quality is at a very good level with a low NPL ratio and not much of provision spent on bad debt settlement.

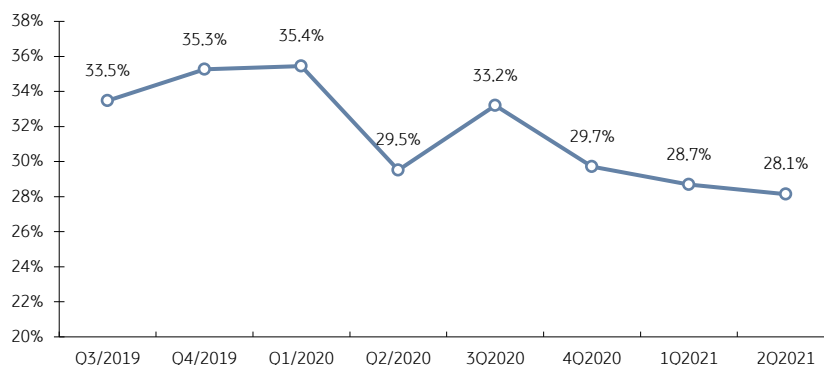
Fig 21. TCB – Provision (VNDbn, %)



Source: KB Securities Vietnam

2Q21 CIR was 28.1% (-140bps YoY), helping pre-provision net profit grow 63.1% YoY. CIR is likely to increase in 2H21 but remain low compared to 2020.

Fig 32. TCB – CIR (%)



Source: KB Securities Vietnam

The plan to reduce lending rates to support the economy will not greatly affect TCB's earnings yield

TCB announced a plan to cut lending rates to support customers hard hit by the pandemic as follows: (1) Reduce interest rates up to 1.5% for corporate customers and household businesses in pandemic-hit sectors such as tourism, hotels, transportation, aviation and individual customers with unsecured loans and incomes affected by the pandemic; (2) Discount up to 1% for new loans for all corporate customers along with individual and household customers hard hit by the pandemic.

In our view, TCB's average earnings yield will not be greatly affected because: (1) Regarding the corporate sector, TCB's proportion of outstanding loans of affected sectors is very low, namely tourism (accounting for 1%), food & retail & transportation (accounting for 15% of the total outstanding loans of the corporate sector); (2) Regarding the retail banking sector, as of 2Q21, 83% of outstanding loans came from buying apartments and cars with collateral, not the subject to enjoy lending rate reduction.

Forecast business performance

We make our forecast for TCB business results in 2021 as follows:

- Credit growth should reach 18.9% YoY.
- We estimate 2021 NIM at 5.58% (+70 bps YoY, lower than that of 1H21), reflecting reduced earnings yield to stimulate the economy.
- NPL ratio should be kept at 0.62% (up 15 bps YoY and up 26 bps compared to 2Q21), reflecting the negative impacts of COVID-19 on asset quality.
- Provision expense is expected at VND3,952 billion, up 51.4% YoY so as to better react to adverse impacts of the pandemic.
- We forecast 2021 PBT at VND20,771 billion, up 31.5% YoY and 4.9% higher than the target set for 2021.
- We expect 2022 PBT at VND25,177 billion (up 21.2% YoY), driven by the strong credit demand for economic recovery.

Table 12. TCB – Projected business performance

	2020	2021F	2022F	%YoY 2021	%YoY 2022
Net interest income	18,751	25,332	28,971	35%	14%
Net profit from services	4,189	5,498	6,092	31%	11%
Total operating income	27,043	35,369	39,602	31%	12%
Provision expense	(2,611)	(3,952)	(2,883)	51%	-27%
PAT	12,582	16,645	20,187	32.3%	21.3%
NIM	4.88%	5.58%	5.47%	70bps	-11bps
Avg earnings yield	7.55%	7.70%	7.81%	15bps	11bps
Avg cost of funds	3.09%	2.57%	2.88%	-52bps	30bps
CIR	31.9%	30.0%	29.0%	-192bps	-100bps
NPL	0.47%	0.62%	0.70%	16bps	8bps
Total assets	439,603	537,627	607,384	22%	13%
Equity	74,615	88,373	105,655	18%	20%

Source: KB Securities Vietnam

We recommend BUYING TCB shares, target price is VND63,700/share

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

(1) P/B method

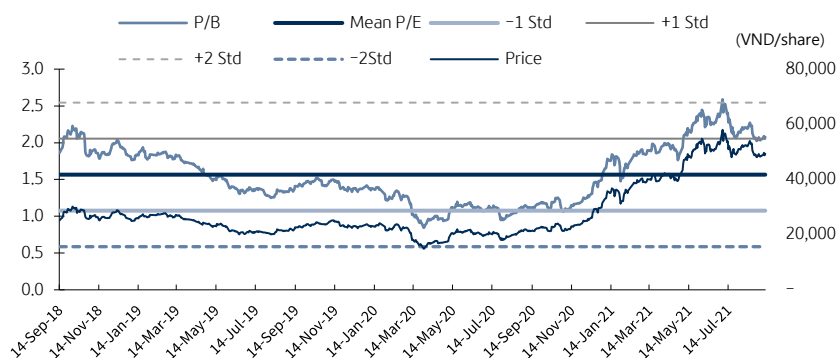
As a leading commercial bank with good asset quality and customer base less affected by COVID-19, we give TCB a target P/B of 2.5x, equivalent to Std+2 of three-year P/B average.

(2) Residual income method (Table 14)

In addition, we include the residual income method to reflect systematic risk and long-term expectations.

By combining the above two valuation methods with the ratio of 50-50, we find the final fair price for TCB shares at VND63,700/share, 31.6% higher than the closing price on September 15, 2021.

Fig 43. TCB – Movement of share price and P/B (VND, x)



Source: Fiiopro, KB Securities Vietnam

Fig 54. TCB – Share price according to residual income method (VND)

VNDbn	2021F	2022F	2023F
PAT	16,617.19	20,141.66	22,438.68
Residual income	7,409.97	9,184.78	9,404.89
Cost of capital (r)	11.30%		
Growth (g)	7.0%		
Final price	169,740		
Total present value	225,485		
Share price	64,334		

Source: KB Securities Vietnam

Fig 65. TCB – Target price according to P/B & residual income methods (VND)

Method of valuation	Estimated price (VND)	Weight	Weighted price (VND)
P/B	63,015	50%	31,508
Residual income	64,334	50%	32,167
Target price			63,700

Source: KB Securities Vietnam

TCB – 2018A–2022E financials

Income Statement						Balance Sheet					
(VNDbn)	2018	2019	2020	2021F	2022F	(VNDbn)	2018	2019	2020E	2021F	2022F
Net interest income	11,390	14,258	18,751	25,282	28,891	Loans	157,554	227,885	275,310	329,356	388,344
Interest income	21,414	25,016	29,002	34,897	41,238	Marketable securities	7,572	10,042	8,348	8,724	10,294
Interest expense	(10,024)	(10,758)	(10,251)	(9,614)	(12,347)	Cash (ex. Reserves)	2,606	4,821	3,664	5,669	6,690
Fees & commissions	3,273	3,253	4,189	5,498	6,092	Interest earning assets	500,499	358,398	409,963	487,624	550,916
Other non-interest income	1,634	1,807	2,279	2,566	2,566	Fixed assets & other assets	20,629	23,715	28,586	38,482	44,898
Total operating income	18,350	21,068	27,043	35,319	39,522	Total assets	520,989	583,699	439,603	527,627	597,384
SG&A expenses	(5,845)	(7,313)	(8,631)	(10,596)	(11,461)	Customer deposits	201,415	251,297	277,459	335,030	392,975
Pre-provisioning OP	12,507	13,756	18,411	24,723	28,060	Borrowings & call money/repos	13,488	17,895	28,167	37,985	43,371
Provision for credit losses	(1,846)	(917)	(2,611)	(3,952)	(2,883)	Interest bearing liabilities	257,353	310,458	353,110	394,327	463,855
Other income	3,147	4,425	5,460	5,460	5,460	Other liabilities	11,853	11,169	11,878	44,955	27,948
Other expense	(1,513)	(2,618)	(3,181)	(2,894)	(2,894)	Total liabilities	269,206	321,627	364,988	439,282	491,803
Pre-tax income	10,661	12,838	15,800	20,771	25,177	Charter capital	34,966	35,001	35,049	35,049	35,049
Income tax expense	(2,187)	(2,612)	(3,218)	(4,154)	(5,035)	Capital surplus	477	477	477	477	477
NP	8,474	10,226	12,582	16,617	20,142	Retained earnings	12,403	21,131	31,816	45,546	62,783
Minority interest profit	(11)	(151)	(257)	(83)	(101)	Capital adjustments	-	-	-	-	-
Parent NP	8,463	10,075	12,325	16,534	20,041	Total shareholders' equity	51,783	62,073	74,615	88,345	105,582

Financial Indicators						Valuation					
(%)	2018	2019	2020E	2021F	2022F	(VND, X, %)	2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	21.5%	18.0%	18.4%	20.4%	20.8%	EPS	2,420	2,878	3,516	4,717	5,718
ROA	2.9%	2.9%	3.1%	3.4%	3.6%	BVPS	14,809	17,734	21,289	25,206	30,124
Pre-provision ROE	25.3%	19.3%	21.5%	24.3%	25.2%	Tangible BVPS	14,543	17,045	20,392	24,188	29,113
Pre-provision ROA	3.4%	3.1%	3.6%	4.1%	4.0%	Valuations					
Net interest margin (NIM)	4.1%	4.3%	4.9%	5.6%	5.6%	PER	17.9	15.0	12.3	9.2	7.6
Efficiency						PBR	2.9	2.4	2.0	1.7	1.4
Pure Loan to deposit ratio	79.4%	99.8%	100.0%	100.0%	100.0%	Dividend yield	0.0%	1.8%	1.8%	1.8%	1.8%
Cost-income ratio	31.8%	34.7%	31.9%	30.0%	29.0%	ROE	21.5%	18.0%	18.4%	20.4%	20.8%
Growth						Capital Adequacy					
Asset growth	19.2%	19.5%	14.6%	20.0%	13.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	-0.9%	44.6%	20.8%	19.6%	17.9%	Asset Quality					
PPOP growth	7.4%	10.0%	33.8%	34.3%	13.5%	NPL ratio (substandard)	1.8%	1.3%	0.5%	0.6%	0.7%
Parent NP growth	31.3%	19.1%	22.3%	34.2%	21.2%	Coverage ratio (substandard)	85.1%	94.8%	171.1%	176.8%	168.4%
EPS growth	-56.2%	18.9%	22.2%	34.2%	21.2%	NPL ratio (precautionary)	3.4%	2.3%	1.1%	1.7%	1.8%
BVPS growth	-35.9%	19.8%	20.0%	18.4%	19.5%	Coverage ratio (precautionary)	44.3%	56.1%	71.4%	64.0%	65.5%

Source: KB Securities Vietnam

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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

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