

July 29, 2022

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PBT increased by 21.6% YoY to VND7,321 billion in 2Q22

In 2Q22, Techcombank (TCB) achieved NII of VND7,794 billion (-3.9% QoQ, +18.3% YoY), NOII of VND3,241 billion (+62.5% QoQ, +23.8% YoY). Provision expense was VND417 billion (+2x QoQ, -30% YoY, helping PBT touch VND7,321 billion (+21.6% YoY, +7.9% QoQ). In 1H22, PBT was VND14,106 billion (+22.3%YoY), delivering 52% of the whole year plan.

2Q22 NIM hit 7.43%, down 44bps QoQ

The IEA yield further dropped 37bps QoQ due to slowing loan growth and a 1.21 ppts decrease in return on investment securities. The average cost of funds edged up 7bps QoQ to 2.22%, and NIM contracted by 44bps QoQ to 7.43%.

Credit and deposits hardly increased in 2Q22

Customer loans gained 12.8%YTD & outstanding corporate bonds fell 21.2%YTD, making credit growth reach 7.6%YTD. Interbank deposits jumped by 25.6%YTD, customer deposits were up 2.2%YTD, and valuable papers were up 10.2%YTD.

TCB leads the industry in asset quality

NPL ratio in 2Q22 shrank 7bps QoQ to only 0.6%. The loan loss coverage ratio (LLCR) expanded by 10ppts QoQ to 172%. Restructured debts were only about VND500 billion (or 0.13% of outstanding loans) by the end-2Q22.

TCB successfully raised a syndicated loan of up to USD1 billion

In June 2022, TCB successfully concluded its largest offshore syndicated loan of USD1 billion to supplement its capital, meeting the need for loans from customers.

We recommend BUY for TCB stock with a target price of VND53,300

Based on P/B and residual income methods, we reiterate our BUY recommendation for TCB shares with a target price of VND53,300/share (45.6% upside).

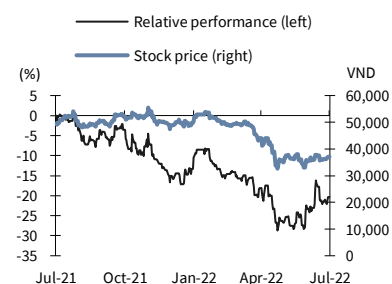
Buy maintain

Target price	VND53,300
Upside/Downside	45.6%
Current price (Jul 26, 2022)	VND36,600
Consensus target price	VND66,750
Market cap (VNDbn)	125,690

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	4.5	-15.9	-26.2	-25.1
Relative	3.7	-2.9	-11.1	-20.4

Forecast earnings & valuation				
FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	18,751	26,699	32,523	38,134
Pre-provision operating profit (VNDbn)	18,411	25,903	30,200	37,456
NPAT of the parent bank (VNDbn)	12,325	18,052	22,352	27,415
EPS (VND)	3,515	5,137	6,354	7,778
EPS growth (%)	22.4%	46.1%	23.7%	22.4%
PER (x)	8.95	9.71	8.39	6.85
Book value per share (VND)	20,392	25,476	31,966	39,679
PBR (x)	1.54	1.96	1.67	1.34
ROE (%)	18.4%	22.0%	21.7%	21.3%



Source: Bloomberg, KB Securities Vietnam

Business performance

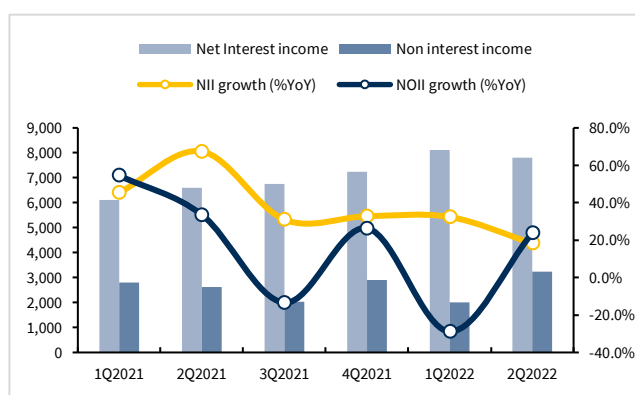
2Q22 PBT increased by 20%YoY to VND7,321 billion

In 2Q22, TCB announced net interest income (NII) of VND7,794 billion (-3.9% QoQ and +18.3% YoY) and non-interest income (NOII) of VND3,241 billion (+62% QoQ) thanks to improved net fee income (NFI) and net gains from investment securities. As a result, total operating income (TOI) rose 20%YoY and 9.1%QoQ to VND11,036 billion. Although provision expenses climbed 90% QoQ, TCB's PBT rose 7.89%QoQ and 21.6%YoY thanks to high TOI. In 6M22, PBT achieved VND14,106 billion (+22.3% YoY).

2Q22 NIM reached 5.48%, down 44bps QoQ

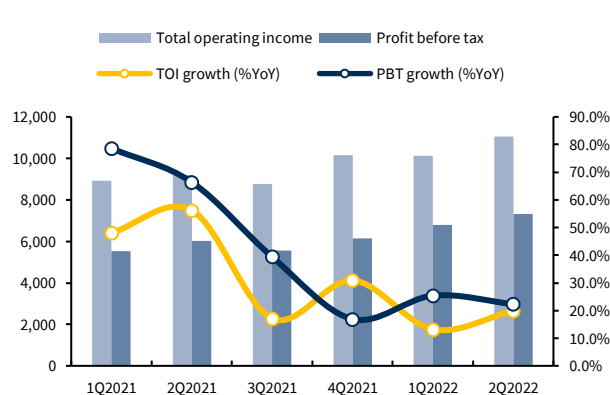
Over the second quarter of 2022, the average earnings yield decreased by 37bps QoQ to 7.43% due to the IEA yield down 27bps QoQ and return on investment securities down 1.21 ppts. The CASA ratio fell 3ppts from the record achieved in 1Q22 to 47.4%. The BOD expects the CASA ratio to bounce back in 2H22, with the full-year target of 50%. The bank raised deposit rates by 0.2-0.7% YTD in the context of a high CASA ratio and shrinking deposit growth, making the average cost of funds inch up 7bpsQoQ. Thus, NIM in 2Q22 was down 44bps QoQ to 5.48%.

Fig 1. TCB - NII, NOII (VNDbn, %YoY)



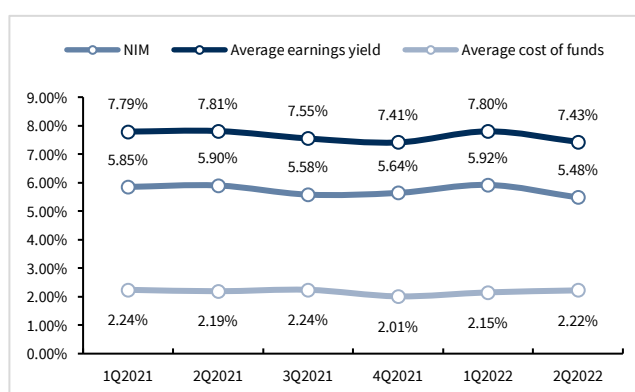
Source: Techcombank, KB Securities Vietnam

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



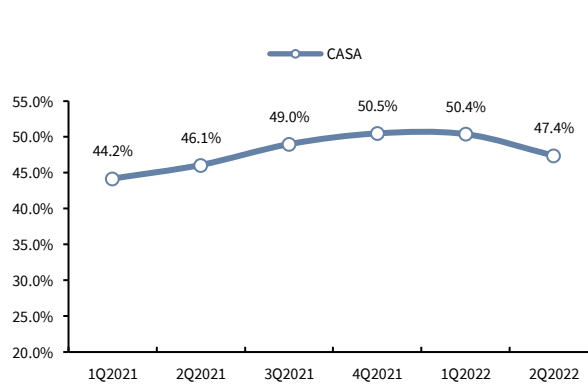
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB - NIM (%)



Source: Techcombank, KB Securities Vietnam

Fig 4. TCB - CASA ratio (%)

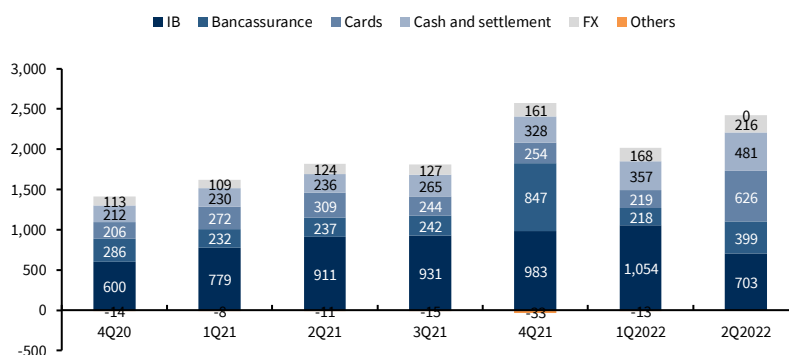


Source: Techcombank, KB Securities Vietnam

2Q22 NFI reached VND2,387 billion, up 24.6%YoY

Net fee income reached VND2,387 billion (+24.6% YoY). In particular, bancassurance brought in VND399 billion (+68%YoY, +83%QoQ) thanks to the better control of the pandemic, boosting customers to transaction offices for advice. Card services fees enjoyed impressive growth of 2.8x QoQ thanks to the introduction of instant approval for credit cards. Also, payment services contributed VND481 billion (+35%QoQ, +104%YoY). Meanwhile, IB services slowed down, hitting only VND703 billion (-33%QoQ, -23%YoY). The main reason came from the tight control of the bond market, making businesses more conservative in bond issuances. However, it is necessary to ensure the stability of the bond market in the medium and long term. Besides, given the strong demand for investing in bonds, earnings from IB services will progressively recover.

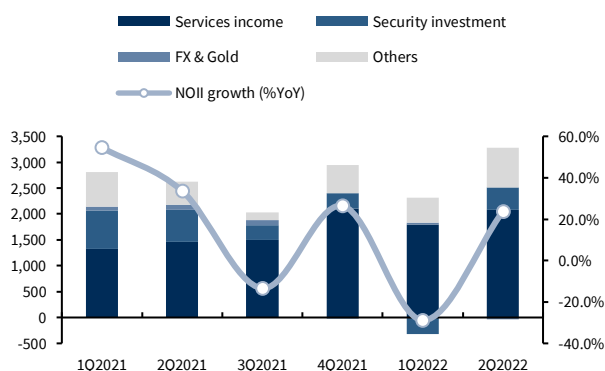
Fig 5. TCB - Net fee income (VNDbn)



Source: Techcombank, KB Securities Vietnam

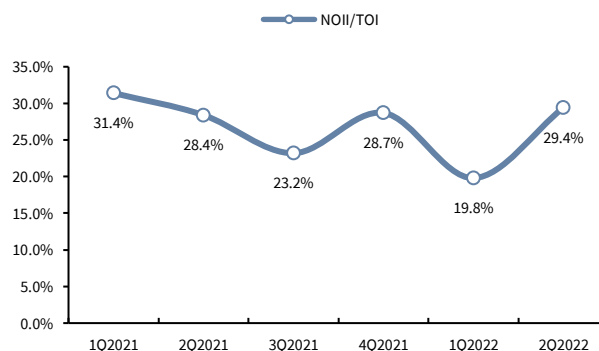
Foreign currency trading & gold investment and disposal of investment securities experienced a loss of VND33 billion and VND153 billion, respectively. Investment securities brought in VND594 billion (+7%YoY, up from a loss of VND219 billion in 1Q22). Net other income improved to VND754 billion (+54.5%QoQ, +69.8%YoY) mainly from debt recovery. NOI/TOI ratio reached 29.4%, up 9.6 pts QoQ.

Fig 6. TCB - NOI breakdown (VNDbn, %)



Source: Techcombank, KB Securities Vietnam

Fig 7. TCB - NOI/TOI (%)

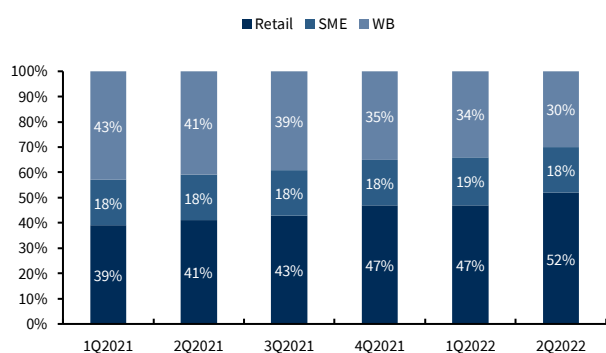


Source: Techcombank, KB Securities Vietnam

Credit and deposits hardly increased in 2Q22

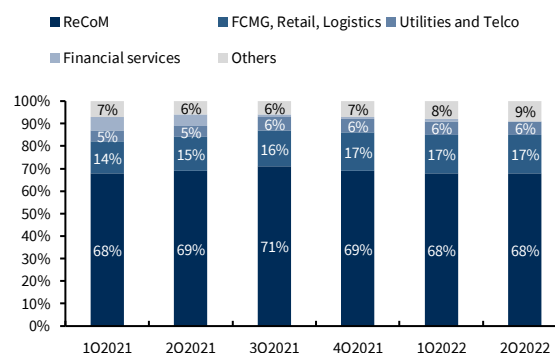
By the end-2Q22, total outstanding loans reached VND392 trillion (+12.8%YTD vs. 13%YTD in 2Q21). Retail lending continued to be the main driving force, with loans to individual customers of VND205 billion (+27% YTD) and loans to SMEs of VND69 billion (+8% YoY). The promotion of retail lending caused wholesale lending to decrease by 4.1%YTD to VND117 billion. Although bringing lower yields, the shift to retail customers will help reduce risks and diversify TCB's credit portfolio. Regarding personal loans, mortgage loans represent 82%, with outstanding loans up 31.2%YTD to VND167 trillion. The proportion of loans to sectors remained unchanged, with VND266 trillion (+11.1 % YTD) or 68% of total outstanding loans being loans to real estate, construction, and building materials, 17% to FCMG, retail, and logistics, and 6% to telecommunications.

Fig 8. TCB – Customer loans (%)



Source: Techcombank, KB Securities Vietnam

Fig 9. TCB – Loans across sectors (%)



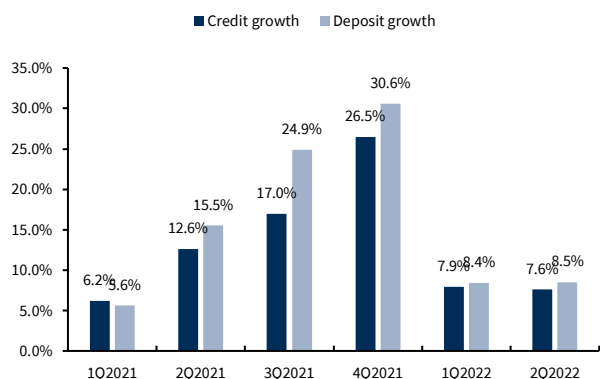
Source: Techcombank, KB Securities Vietnam

The outstanding value of investment securities diminished 0.3% YTD and 19.2% QoQ. Specifically, outstanding loans to government bonds and bonds from other credit institutions still increased by 13.5%QoQ and 3.7%QoQ while the outstanding value of corporate bonds dropped by 35.6%QoQ and 21.2%YTD. The issuance of corporate bonds leveled off in 1H22, which explained why the bond portfolio was less diversified than in the previous period. Given little credit room left & that the State Bank of Vietnam (SBV) has not yet approved credit room extension, TCB would shrink its corporate bond portfolio in the upcoming time to make room for loan growth.

Deposit growth slowed down in 2Q22, up 8.5%YTD. In particular, interbank borrowing and lending only increased by 3ppts QoQ; customer deposits were VND321.633 billion (-2.3ppts QoQ and +2.2% YTD); the issuance of valuable papers improved 10.2% YTD to VND37 trillion.

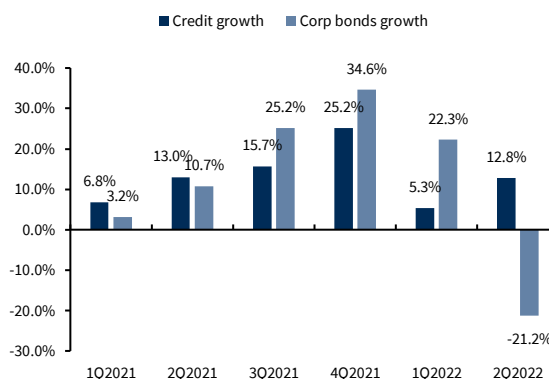
LDR ratio in 2Q22 rose 5.2 ppts to 78.4% due to shrinking deposit growth. The ratio of short-term capital for medium and long-term loans fell to 32%, still comfortably below the regulatory limit of 37% for 2021-2022 as per Circular 22/2019. This ratio will be down to 34% for 2022-2023 and 30% for 2023-2024, so the bank needs to promote medium and long-term capital.

Fig 10. TCB – Credit and deposit growth (%YTD)



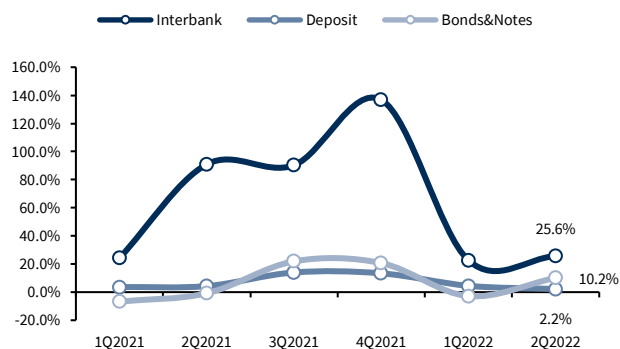
Source: Techcombank, KB Securities Vietnam

Fig 11. TCB – Corporate debt & bonds growth (%YTD)



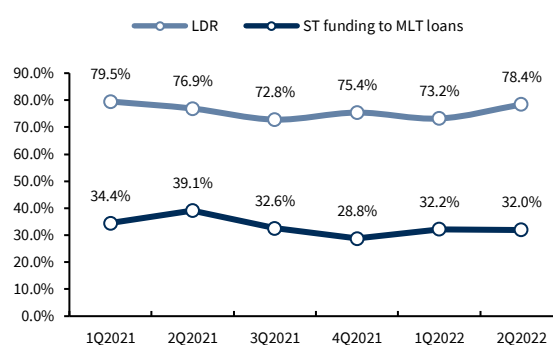
Source: Techcombank, KB Securities Vietnam

Fig 12. TCB – Mobilized capital growth (%YTD)



Source: Techcombank, KB Securities Vietnam

Fig 13. LDR and capital for medium and long-term loans (%)

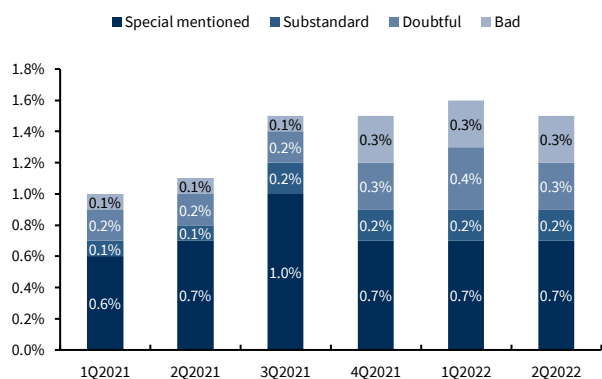


Source: Techcombank, KB Securities Vietnam

TCB kept the lowest NPL ratio in the banking industry (0.6%)

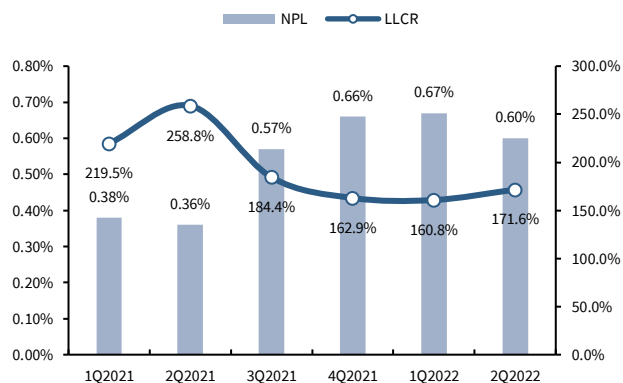
The bank's 2Q asset quality improved as the NPL ratio reduced 6bps QoQ to 0.6%. Substandard loans plunged 20.5% QoQ, while bad debts rose 18.3 %QoQ. TCB's LLCR reached 171.6%, which was among the highest in the system. Restructured debt outstanding fell 68.7%QoQ to VND500 billion or 0.1% of total outstanding loans. Although the Circular 14 has expired, the repayment capacity of customers with restructured loans improved so TCB's NPL and provision expenses should not increase too strongly in 2H22.

Fig 14. TCB – NPL structure (%)



Source: Techcombank, KB Securities Vietnam

Fig 15. TCB – NPL & LLCR (%)

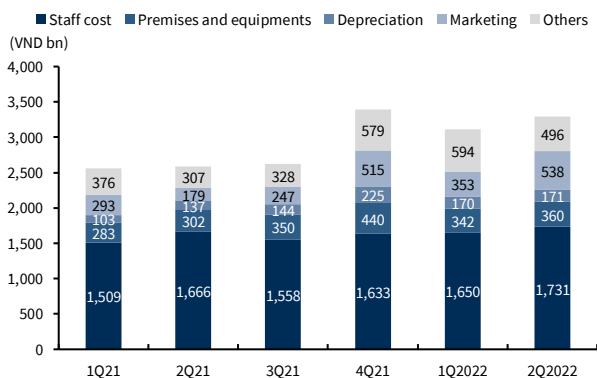


Source: Techcombank, KB Securities Vietnam

Operating costs are well controlled with a CIR of 30%

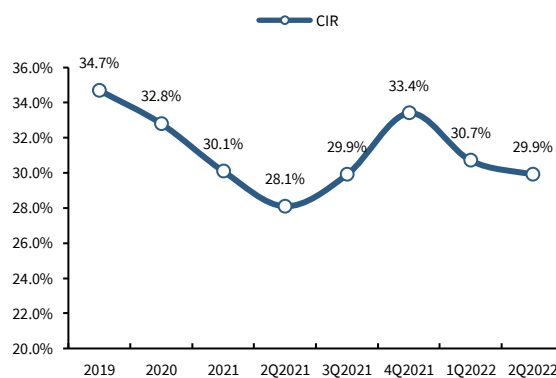
The bank’s operating expenses reached VND3,297 billion in 2Q, up slightly by 6%QoQ and 27%YoY. Employee expenses still accounted for the highest proportion with VND1,731 billion (+5%QoQ and +4%YoY). Marketing budget tripled the figure in the same period last year to hit VND538 billion as the bank cut the budget during the Covid-19 lockdowns. People’s activities are gradually returning to normal, so TCB will continue to promote marketing activities for new products. The CIR decreased slightly compared to the previous month to 30%, showing that the bank still keeps good control of costs.

Fig 16. TCB – Operating expenses by quarter (VNDbn)



Source: Techcombank, KB Securities Vietnam

Fig 15. CIR in 1919 – June 2022 (%)



Source: Techcombank, KB Securities Vietnam

TCB successfully mobilized a syndicated loan of up to USD 1 billion

After receiving foreign syndicated loans worth USD500 million in 2020 and USD800 million in 2021, TCB successfully mobilized a syndicated loan valued at USD1 billion on June 26, 2022. This is the largest medium and long-term loan that a Vietnamese financial institution has borrowed from the international capital market.

This deposit will supplement TCB's business capital and help the bank better meet customers' needs for medium and long-term loans as the economy is recovering from the pandemic. TCB also promoted the use of derivatives to manage exchange rate and interest rate risks for these syndicated loans.

TCB always provides digital transformation solutions to customers

TCB launched a mobile app called Techcombank Mobile by the end of 2021 with outstanding features such as instant credit card approval and immediate use for existing customers. TCB is the first bank in Vietnam to provide this feature via a mobile app.

In April, TCB introduced iDO – a new digital platform for branches. In particular, the Account Bundle feature allows employees to open accounts for customers on tablets, which is completely paperless and reduces the application processing time to only three to five minutes.

In May 2022, TCB officially launched a new digital banking platform for corporate customers to meet the transaction needs of businesses on computers or phones.

Forecast & Valuation

Forecast business results in 2022

We make our forecast for TCB in 2022 as follows:

- We adjust our 2022F credit growth forecast down from 22.6% to 17.4% as the bank will reduce investment in corporate bonds to focus on lending (+24%YoY). This reflects the concern that the new credit room will not be too high due to the SBV's inflationary control.
- Net profit margin in 2022 may increase slightly by 2bps YoY, assuming (1) average earnings yield will inch up by 8bps YoY as tightening credit into real estate makes disbursement more difficult, and the bond portfolio with higher yield may become smaller; and (2) cost of funds also modestly gains 8bps thanks to stably high CASA and syndicated loans with foreign partners.
- NPL forecast is 0.6%, down 6bps YoY thanks to healthy financial capacity and low restructuring loan outstanding (only VND500 billion so the bank can easily handle).
- Provision expenses may reach VND1,418 billion, down 46.8% YoY due to accelerated provisioning for restructuring debt in 2021.
- The parent company's NPAT forecast in 2022 is VND22,352 billion (+23.8%YoY).

Table 1. TCB – 2022 – 2023F performance

VND bn	2021	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	26,699	32,523	38,134	21.8%	17.3%
Net fee income	6,382	8,448	11,462	32.4%	35.7%
Total operating income	37,076	45,074	54,284	21.6%	20.4%
Provision expenses	-2,665	-1,418	-2,155	-46.8%	52.0%
NPAT of the parent bank	18,052	22,352	27,415	23.8%	22.7%
NIM	5.71%	5.73%	5.71%		
Average earnings yield	7.59%	7.67%	7.83%		
Average cost of funds	2.16%	2.24%	2.49%		
CIR	30.1%	33.0%	31.0%		
NPL	0.66%	0.58%	0.63%		
Total assets	568,729	659,573	777,817	16.0%	17.9%
Equity	93,041	117,070	145,176	25.8%	24.0%

Source: KB Securities Vietnam

We recommend BUY for TCB stock with a target price of VND53,300/share

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

(1) P/B valuation method (Figure 18)

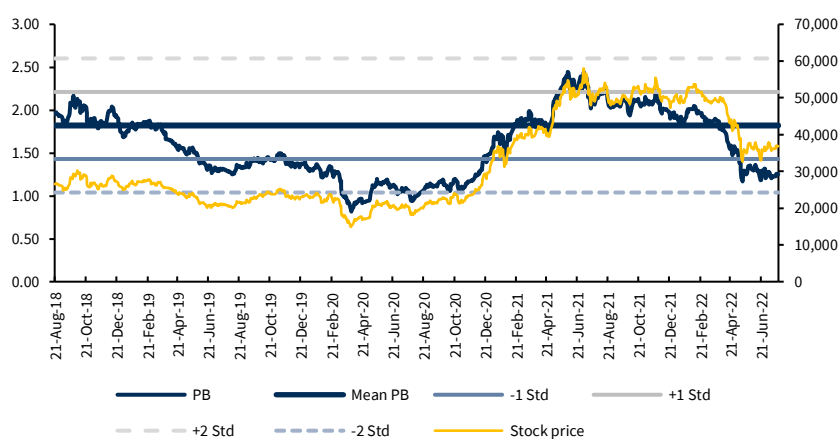
We still highly appreciate TCB because the bank's asset quality and its revenue sources still maintain a good growth. TCB's PB valuation is currently trading below -1Std – a relatively attractive price range. Therefore, we set a target P/B valuation in 2022 of 1.6x, trading around the four-year average and -1Std, respectively.

(2) Residual income valuation (Table 2)

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

Combining the above two valuation methods with a ratio of 50–50 (Table 3), we get the final fair price for TCB shares of VND53,300/share, 45.6% higher than the closing price on July 26, 2022. Some of the risks that may undermine our forecast include: (1) CASA ratio not meeting target due to competition in the banking industry, (2) TCB given new lower-than-expected credit room, and (3) the falling demand for housing affected by high inflation.

Fig 18. TCB – Stock price & P/B in 2018 – 2022



Source: Techcombank

Table 2. TCB – Stock price according to residual income valuation (VND)

VND bn	2022F	2023F	2024F	2025F	2026F
NPAT	22,808	27,974	33,201	36,853	43,944
Excessed return	7,484	8,978	9,799	8,604	9,860
Cost of capital (re%)	12.7%				
Required rate of return (g%)	5%				
Terminal value	73,953				
Present value (PV)	105,265				
Share price	55,458				

Source: KB Securities Vietnam

Table 3. TCB – Stock price according to the results of the two methods (VND)

Valuation method	Forecast price	Weight	Weighted price
Residual income	55,458	50%	27,729
P/B	51,146	50%	25,573
Target price			53,302

Source: KB Securities Vietnam

TCB – 2022–2023F performance

Income Statement					Balance Sheet				
(Bn VND)	2020A	2021A	2022F	2023F	(Bn VND)	2020A	2021A	2022F	2023F
Interest and Similar Income	29,002	35,503	43,547	52,342	TOTAL ASSETS	439,603	568,729	659,573	777,817
Interest and Similar Expenses	(10,251)	(8,805)	(11,024)	(14,208)	Cash and precious metals	3,664	3,579	4,080	4,925
Net Interest Income	18,751	26,699	32,523	38,134	Balances with the SBV	10,253	4,909	4,654	4,189
Fees and Commission income	6,048	8,239	10,630	13,183	Placements with and loans to other credit institutions	28,995	70,515	80,426	107,771
Fees and Commission expenses	(1,524)	(1,857)	(2,182)	(1,721)	Trading securities, net	8,348	5,071	3,043	3,889
Net Fee and Commission Income	4,525	6,382	8,448	11,462	Derivatives and other financial assets	0	294	330	156
Net gain/(loss) from foreign currency and gold dealings	1	231	243	255	Loans and advances to customers, net	275,310	343,606	426,040	502,486
Net gain/(loss) from trading of trading securities	321	152	96	124	Debt purchase	0	133	66	0
Net gain/(loss) from disposal of investment securities	1,497	1,804	2,174	2,620	Investment securities	84,447	97,586	91,731	101,821
Net Other income/(expenses)	2,279	1,803	1,586	1,685	Investment in other entities and LT investments	12	13	13	16
Dividend income	4	4	4	4	Fixed assets	4,613	7,224	8,574	10,256
Total operating income	27,379	37,076	45,074	54,284	Investment properties.	1,125	1,089	1,055	1,245
General and Admin expenses	(8,967)	(11,173)	(14,874)	(16,828)	Other assets	22,836	34,711	39,574	47,489
Operating Profit Before Provision for Credit Losses	18,411	25,903	30,200	37,456	LIABILITIES AND SHAREHOLDER'S EQUITY	439,603	568,729	659,573	777,817
Provision for credit losses	(2,611)	(2,665)	(1,418)	(2,155)	Total liabilities	364,988	475,687	542,503	632,640
Profit before tax	15,800	23,238	28,782	35,301	Due to Gov and Loans from SBV	0	1	0	0
Corporate income tax	(3,218)	(4,823)	(5,974)	(7,327)	Deposits and Loans from other credit institutions	47,485	112,459	145,072	188,594
Net profit for the year	12,582	18,415	22,808	27,974	Deposits from customers	277,459	314,753	339,933	373,926
Minority interest	(257)	(363)	(456)	(559)	CBs/CDs and other valuable papers issued	27,900	33,680	40,349	52,454
Attributable to parent company	12,325	18,052	22,352	27,415	Other liabilities	11,878	14,796	17,149	17,666
					Shareholder's equity	74,615	93,041	117,070	145,176
					Charter capital	35,049	35,109	35,179	35,249
					Share premium	477	476	476	477
					Reserves	6,790	9,156	12,447	16,084
					Retained Earnings	31,816	47,453	67,905	91,745
					Valuation				
					(VND, x, %)	2020A	2021A	2022F	2023F
					Pricing ratio				
					Basic EPS	3,515	5,137	6,354	7,778
					Book value per share	20,392	25,476	31,966	39,679
					Valuation ratio				
					PER	6.91	7.39	5.76	4.71
					PBR	1.19	1.49	1.14	0.92
					Dividend yield	0.0%	0.0%	0.0%	0.0%

Source: Techcombank, 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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