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Senior Analyst Nguyen Anh Tung
tungna@kbsec.com.vn

TCB's 3Q EBT went up 40.0% YoY

Techcombank (TCB) disclosed strong 3Q21 performance with EBT of VND5,562 billion (-7.6% QoQ, +40.0% YoY) and high credit growth of 33.0% YoY/17.0% QoQ.

NIM 3Q2021 reached 5.69%, down 11 bps QoQ

3Q NIM decreased slightly but remained high at 5.69% (-11bps QoQ, +84bps YoY) thanks to low cost of funds and a small decrease in earnings yield since the main customer group was not affected much by the pandemic.

3Q NPL ratio was 0.57% and LLCR reached 184.4%

Non-performing loan (NPL) ratio reached 0.57% in 3Q, up 27bps QoQ, the lowest in the banking system. During the period, TCB made a provision of VND589 billion (-43% YoY), making the loan loss coverage ratio (LLCR) down 74.5% QoQ to 184.4%, but TCB is still one of the banks with the highest LLCR in Vietnam.

TCB successfully mobilized a USD800 million syndicated loan

In 3Q21, TCB successfully mobilized a foreign syndicated loan worth USD800 million. This unsecured loan consists of two amounts: USD600 million with a term of three years and USD200 million with a term of five years. This bond source significantly complements TCB's medium and long-term capital, ensuring the bank's liquidity in the coming period.

BUY recommendation with a target price of VND65,600 apiece

We recommend BUYING TCB shares. The target price is VND65,600 per share, 26.2% higher than the closing price on November 15, 2021.

Buy maintain

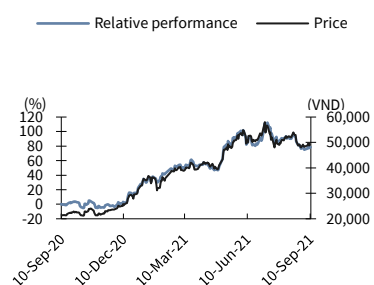
Target price	VND65,600
Upside/downside (%)	26.2%
Current price (July 9, 2021)	VND52,000
Consensus target price	VND61,900
Market cap (VNDtn/USDmn)	186,160

Trading data	
Free float (%)	84.54
3M avg trading value (VNDbn/USDmn)	762/33.7
Foreign ownership (%)	22.47
Major shareholder	Masan (MSN, 14.96%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1	6	-2	133
Relative	-7	-8	-14	79

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net income (VNDbn)	14,258	18,751	25,384	29,515
Pre-provision operating profit (VNDbn)	13,756	18,411	24,795	28,503
Profit attributable to parent (VNDbn)	10,075	12,325	16,909	19,979
EPS (VND)	2,878	3,516	4,824	5,700
EPS growth (%)	19%	22%	37%	18%
P/E (x)	15.0	12.3	9.0	7.6
Book value per share (VND)	17,734	21,289	25,313	30,213
PBR (x)	2.44	2.03	1.71	1.43
ROE (%)	18.0%	18.4%	20.8%	20.6%



Source: Bloomberg, KB Securities Vietnam

Business activities

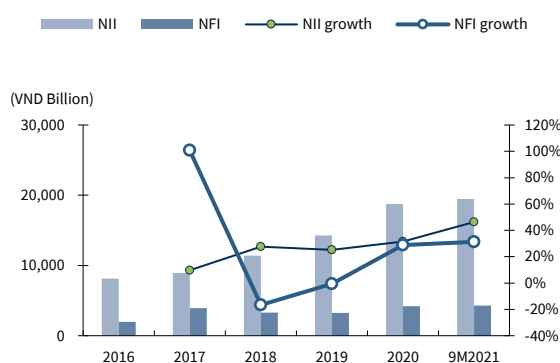
3Q21 EBT rose 40.0% YoY to VND5,562 billion

TCB maintained a good performance in 3Q with NII of VND6,742 billion (+2.3% QoQ, +31.0% YoY) and non-interest income of VND2,037 billion (-22.2% QoQ, -13.3% YoY), which caused TOI reach VND8,779 billion (-4.6% QoQ and +17.1% YoY). CIR rose 179bps QoQ to 29.9% (-327bps YoY). Meanwhile, Provision / Pre-provision Operating profit was low at 9.6%, causing EBT to reach VND5,562 billion (-7.6% QoQ, +40.0% YoY). 9M21 EBT was VND17,098 billion (-59.6% YoY) and credit growth was high at 33.0% YoY.

3Q NIM was down 11bps QoQ to 5.69%

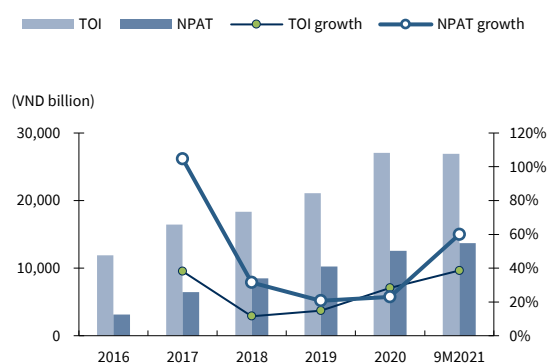
3Q NIM dipped but stayed high at 5.69% (-11bps QoQ, +84bps YoY) thanks to the low cost of funds at 2.2%. CASA maintained its upward momentum to hit 49%, underpinned by CASA of corporate customers. Meanwhile, the average earnings yield was down slightly to 7.60% (-10bps QoQ) as TCB's main customer segments are not hit hard by the pandemic, so they are not entitled to preferential lending rates.

Fig 1. TCB – NII & Interest from services in 2016–3Q21 (YoY)



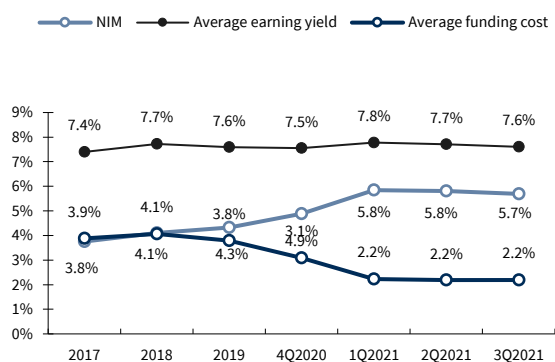
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – TOI & NPAT growth in 2016–3Q21 (YoY)



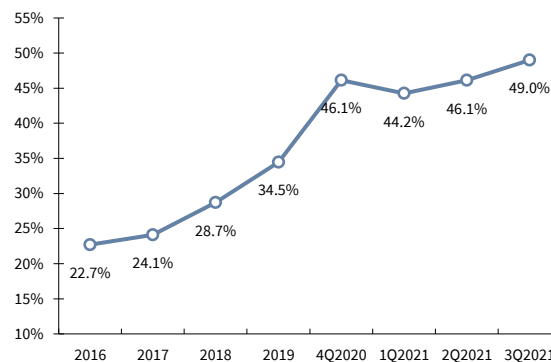
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – Interest rates & NIM in 2017–3Q21 (%)



Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA in 2016–3Q21 (%)

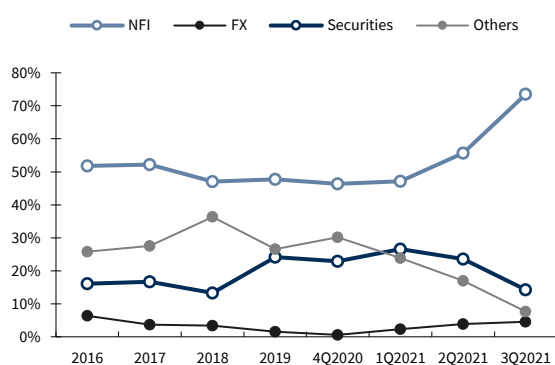


Source: Techcombank, KB Securities Vietnam

3Q21 NOII reached VND2,036 billion, down 13.3% YoY

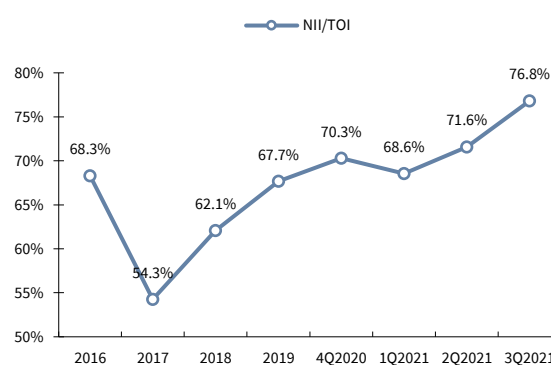
Service fees grew 30.7% YoY, driven by higher income from payment services (+101% YoY) and brokerage services (+209% YoY); foreign currency trading brought in VND93 billion (+103.7% YoY); net gain from securities investment & trading was VND291 billion (-12.3% YoY). Meanwhile, other net incomes were only VND156 billion (-81.2% YoY) due to the following reasons: (1) profit from derivative activities decreased by 35.4% YoY; (2) Recoveries of loans previously written off were only VND146 billion (-74.6% YoY), making NOII reach only VND2,036 billion (-13.3% YoY). NII/TOI hit 76.8%, up 520 bps QoQ.

Fig 5. TCB - Structure of non-interest income (%)



Source: Techcombank, KB Securities Vietnam

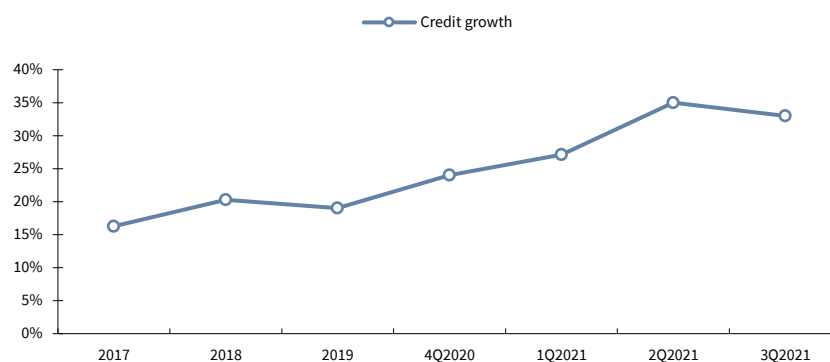
Fig 6. TCB - NII/TOI (%)



Source: Techcombank, KB Securities Vietnam

3Q21 credit growth was led by lending to individual customers (+7% QoQ) and corporate bonds (+13% QoQ) although lending to corporate customers dropped 1% QoQ

Fig 7. TCB - Credit growth (%YoY)

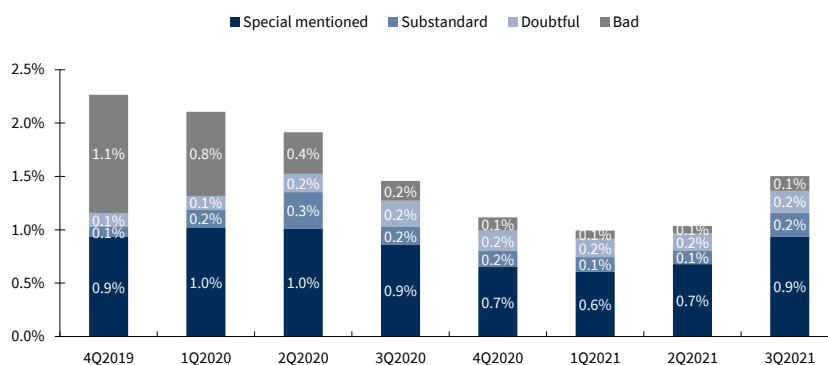


Source: Techcombank, KB Securities Vietnam

NPL ratio was 0.57%, up 27 bps QoQ and restructured loan balance accounted for 0.8% of total outstanding loans

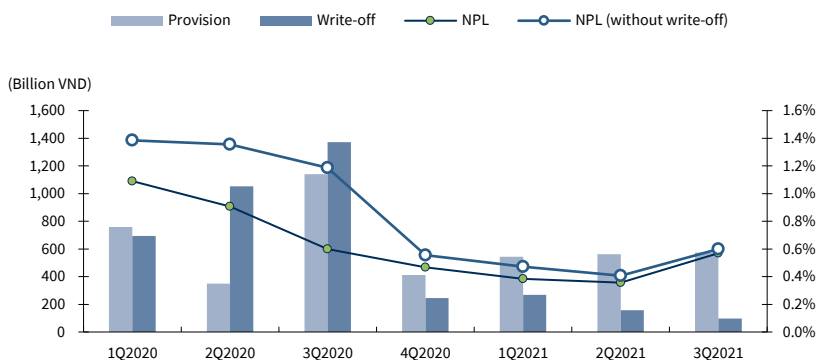
Bad debt ratio in 3Q21 was 0.57%, up 27bps QoQ, the lowest in the banking system. During the period, TCB made a provision of VND589 billion (-43% YoY), making the loan loss coverage ratio reach 184.4%, down 74.5% QoQ but TCB is still among banks with the highest coverage ratio. By the end of 3Q, TCB's restructured loan balance as per Circular 14/2021 reached VND2,800 billion, up 3.7% QoQ, equivalent to 0.8% of total outstanding loans which is lower than what TCB expected in 2Q at 1.6% of total outstanding loans due to the impact of the fourth wave of COVID-19.

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



Source: Techcombank, KB Securities Vietnam

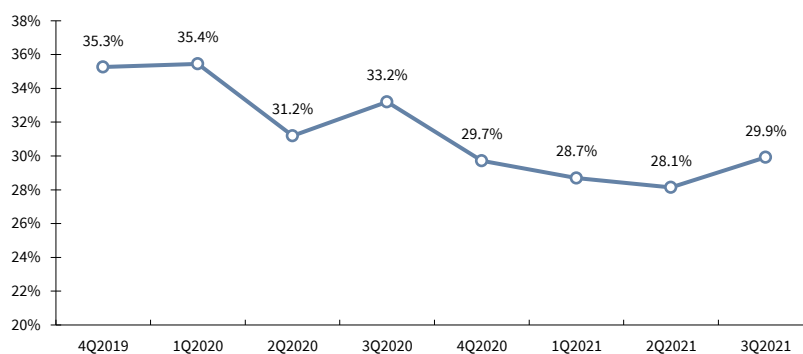
Fig 21. TCB – NPL and provisions (VNDbn, %)



Source: Techcombank, KB Securities Vietnam

CIR was 29.9% (+180bps QoQ, -330bps YoY) in 3Q, which is higher than 2Q's but remains low compared to 2020. 9M21 CIR reached 29.1%, lower than the industry average at 33.8%.

Fig 32. TCB – CIR (%)



Source: Techcombank, KB Securities Vietnam

E-Banking outperformed in 9M21

TCB's e-banking has made great performance in 9M21 thanks to improved IT infrastructure and enhanced customer support during the lockdown. Total customers registering for E-Banking service in 3Q reached 4.8 million (+35.5% YoY). E-Banking's contribution to total retail transactions increased from 76.8% (256 million transactions) in 9M20 to 83.4% (455.8 million transactions) in 9M21; retail transaction value via E-banking in 9M21 reached VND6,310 trillion (+91% YoY). E-Banking promotion will be an important driving force for TCB and contribute to improving CIR in the time to come.

TCB raised a syndicated loan worth up to USD800 million

In 3Q21, TCB successfully raised the largest ever offshore foreign syndicated loan facility worth up to USD800 million for a Vietnamese financial institution. This unsecured loan offers an interest margin equal to the LIBOR +1.35% per annum for the USD600 million 3-year tranche and LIBOR +1.62% per annum for the USD200 million 5-year tranche. This source of bonds would help TCB to meet the growing demand for both foreign and local currencies of its customer in the medium and long term, ensuring the bank's liquidity to accelerate credit growth and support the economic recovery in the upcoming time.

Forecast business performance

We make our forecast for TCB in 2021 as follows:

- Credit growth should be at 22.2% YoY in 2021, revised up 330 bps compared to the previous forecast.
- We expect NIM to reach 5.61%, up 73 bps YoY, lower than that of 1H2021, reflecting the plan to reduce earnings yield to support the economy.
- NPL ratio is supposed to be 0.62%, up 15 bps YoY and up 5 bps compared to 3Q21, reflecting the adverse impacts of the pandemic on asset quality.
- Provision expenses should reach VND3,552 billion, up 36% YoY to ensure the provisioning buffer and better react to the negative impacts of the pandemic, but down 10.1% compared to the previous forecast thanks to TCB's good asset quality.
- We forecast pre-tax earnings at VND21,242 billion (up 34.4% YoY) for 2021, exceeding the full-year target by 7.3%.
- We forecast pre-tax earnings at VND 25,099 billion (up 18.2% YoY) for 2022, helped by strong credit demand to boost economic recovery.

Table 12. TCB – Forecast business performance, 2021–2022

	2020	2021F	2022F	%YoY 2021	%YoY 2022
Net interest income	18,751	25,384	29,515	35%	16%
Fees and commission income	4,189	5,498	6,092	31%	11%
TOI	27,043	35,421	40,145	31%	13%
Provision expense	(2,611)	(3,552)	(3,404)	36%	-4%
NPAT	12,582	16,994	20,079	35.1%	18.2%
NIM	4.88%	5.61%	5.54%	73bps	-7bps
Average earnings yield	7.55%	7.86%	8.03%	31bps	17bps
Average cost of funds	3.09%	2.67%	2.96%	-42bps	29bps
CIR	31.9%	30.0%	29.0%	-192bps	-100bps
NPL	0.47%	0.62%	0.80%	15bps	18bps
Total assets	439,603	537,179	620,755	22%	16%
Equity	74,615	88,720	105,895	19%	19%

Source: KB Securities Vietnam

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

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

(1) P/B method

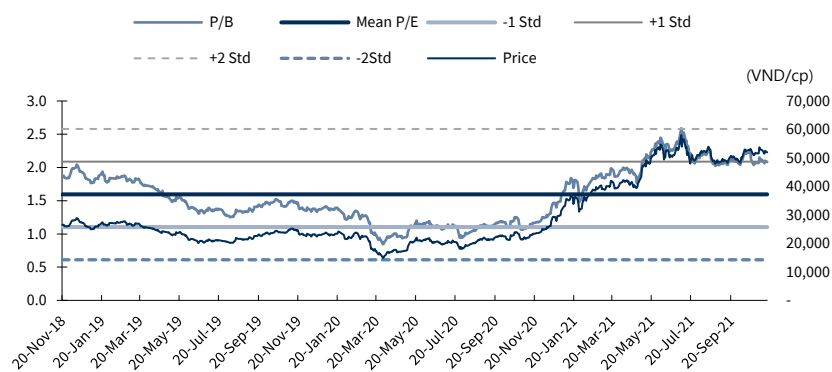
As a leading joint stock commercial bank with good asset quality, and customer base less affected by the COVID-19 pandemic, we give TCB a target P/B of 2.58x, equivalent to Std+2 of 3-year P/B average.

(2) Residual income method (Table 14)

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

By combining the two abovementioned methods with the ratio of 50-50, we find the final fair price for TCB shares at VND65,600/share, 26.2% higher than the closing price on November 15, 2021.

Fig 43. TCB – Share price and P/B (VND, x)



Source: Fiiipro, KB Securities Vietnam

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

VNDbn	2021F	2022F	2023F
NPAT	16,994	20,079	22,849
Excessed return	7,765	9,083	9,757
Required rate of return (r)	11.30%		
Growth (g)	7.0%		
Terminal value	176,087		
Present value (PV)	230,768		
Price	65,841		

Source: KB Securities Vietnam

Table 15. TCB – Target price according to P/B and residual income methods

Valuation method	Estimated price	Weight	Weighted price
P/B	65,308	50%	32,654
RIM	65,841	50%	32,921
Target price			65,600

Source: KB Securities Vietnam

TCB – 2018A–2022E Financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Net interest income	11,390	14,258	18,751	25,384	29,515	Loans	157,554	227,885	275,310	335,221	401,537
Interest income	21,444	25,016	29,002	35,560	42,804	Marketable securities	7,572	10,042	8,348	6,507	7,809
Interest expense	(10,024)	(10,758)	(10,251)	(10,176)	(13,289)	Cash (ex. Reserves)	2,606	4,821	3,664	5,764	6,916
Fees & commissions	3,273	3,253	4,189	5,498	6,092	Interest earning assets	300,499	358,398	409,963	494,994	571,308
Other non-interest income	1,634	1,807	2,279	2,566	2,566	Fixed assets & other assets	20,629	23,715	28,586	40,403	47,859
Total operating income	18,350	21,068	27,043	35,421	40,145	Total assets	320,989	383,699	439,603	537,179	620,755
SG&A expenses	(5,843)	(7,313)	(8,631)	(10,626)	(11,642)	Customer deposits	201,415	231,297	277,459	338,580	406,296
Pre-provisioning OP	12,507	13,756	18,411	24,795	28,503	Borrowings & call money/repos	13,488	17,895	28,167	45,921	53,562
Provision for credit losses	(1,846)	(917)	(2,611)	(3,552)	(3,404)	Interest bearing liabilities	257,353	310,458	353,110	408,221	488,321
Other income	3,147	4,425	5,460	5,460	5,460	Other liabilities	11,853	11,169	11,878	40,238	26,540
Other expense	(1,513)	(2,618)	(3,181)	(2,894)	(2,894)	Total liabilities	269,206	321,627	364,988	448,459	514,861
Pre-tax income	10,661	12,838	15,800	21,242	25,099	Charter capital	34,966	35,001	35,049	35,049	35,049
Income tax expense	(2,187)	(2,612)	(3,218)	(4,248)	(5,020)	Capital surplus	477	477	477	477	477
NP	8,474	10,226	12,582	16,994	20,079	Retained earnings	12,403	21,131	31,816	45,921	63,095
Minority interest profit	(1)	(15)	(257)	(85)	(100)	Capital adjustments	-	-	-	-	-
Parent NP	8,463	10,075	12,325	16,909	19,979	Total shareholders' equity	51,783	62,073	74,615	88,720	105,895

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	21.5%	18.0%	18.4%	20.8%	20.6%	EPS	2,420	2,878	3,516	4,824	5,700
ROA	2.9%	2.9%	3.1%	3.5%	3.5%	BVPS	14,809	17,734	21,289	25,313	30,213
Pre-provision ROE	25.3%	19.3%	21.5%	24.3%	23.4%	Tangible BVPS	14,543	17,045	20,392	24,298	29,205
Pre-provision ROA	3.4%	3.1%	3.6%	4.1%	3.9%	Valuations					
Net interest margin (NIM)	4.1%	4.3%	4.9%	5.6%	5.5%	PER	17.9	15.0	12.3	9.0	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%	20.8%	20.6%
Growth						Capital Adequacy					
Asset growth	19.2%	19.5%	14.6%	22.2%	15.6%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	-0.9%	44.6%	20.8%	21.8%	19.8%	Asset Quality					
PPOP growth	7.4%	10.0%	33.8%	34.7%	15.0%	NPL ratio (substandard)	1.8%	1.3%	0.5%	0.6%	0.8%
Parent NP growth	31.3%	19.1%	22.3%	37.2%	18.2%	Coverage ratio (substandard)	85.1%	94.8%	171.1%	160.0%	146.4%
EPS growth	-56.2%	18.9%	22.2%	37.2%	18.2%	NPL ratio (precautionary)	3.4%	2.3%	1.1%	1.7%	1.9%
BVPS growth	-35.9%	19.8%	20.0%	18.9%	19.4%	Coverage ratio (precautionary)	44.3%	56.1%	71.4%	57.7%	61.6%

Source: Techcombank, 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 – Property
ngaphb@kbsec.com.vn

Le Anh Tung
Senior Analyst – Oil & Gas & Banks
tungla@kbsec.com.vn

Nguyen Ngoc Hieu
Analyst – Power & Construction Materials
hieunn@kbsec.com.vn

Pham Nhat Anh
Analyst – Industrial Real Estate & Logistics
anhpn@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Consumers & Retailing
dunglnt@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 & Mid cap Stocks
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy & Mid cap Stocks
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

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