

Techcombank (TCB)

Anticipating recovery

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TCB saw stronger credit growth after weathering challenges coupled with a more dynamic property market

In 2024, Techcombank (TCB) is granted a credit quota of 16%. We believe the bank will continue to enjoy positive growth this year, given its efforts to achieve 19% growth in 2023. In the bull-case scenario, KBSV expects loan growth of 21% YoY (5% higher than the assigned limit, implying that the State Bank of Vietnam (SBV) will extend credit room for TCB).

NIM is expected to improve slightly in 2024F before accelerating in 2025F

We take a cautious stance on TCB's NIM in 2024, expecting a slight recovery of +6bps YoY. However, NIM may witness significant improvement in 2025 on the improved cost of funds (CoF), while the yield on interest-earning assets (IEA) will likely shrink, albeit at a slower pace. 2025F NIM is forecasted to increase dramatically when the Flexible Pricing policy expires.

A more stable macroeconomic environment will alleviate pressures on asset quality

For 2024, we expect the NPL ratio of retail and SME loans to fall further following the downtrend in 4Q2023, while that of wholesale banking should maintain at 0%. Consequently, the bank's NPL ratio is projected to contract by 16 bps to 1% in 2024F (in the base-case scenario).

We recommend HOLD for TCB with a target price of VND45,200/share

Based on the recovery prospects, we raised the target price for TCB in 2024F from VND41,000 to VND45,200/share, 10% higher than the closing price on March 12, 2024. However, given the strong increase in the share price over the past few months in response to a positive outlook, we downgraded our rating for TCB from BUY to HOLD.

Hold change

Target price	VND45,200
Upside	10%
Current price (Mar 12, 2024)	VND41,200
Consensus target price	VND40,250
Market cap (VNDbn/USDmn)	122.75/5.03

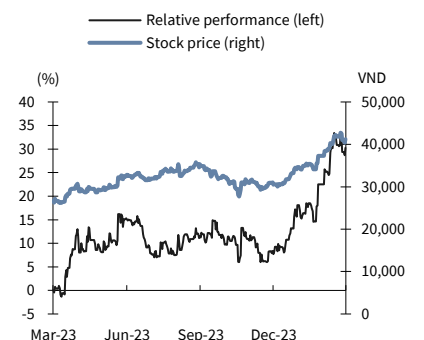
Trading data	
Free float	65%
3M avg trading value (VNDbn/USDmn)	295.6/12.1
Foreign ownership	22.5%
Major shareholder	Masan Group (MSN, 14.96%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	10.5	32.7	16.7	54.0
Relative	6.3	20.2	16.8	30.2

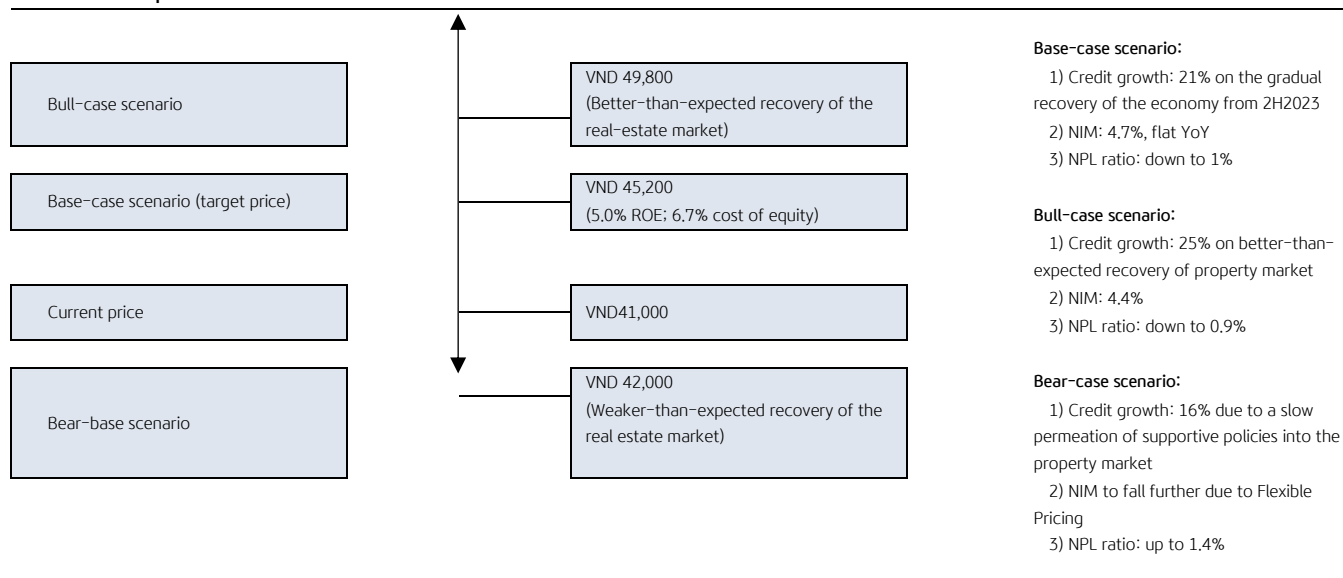
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net interest income (VNDbn)	30,290	27,691	32,101	39,509
PPOP (VNDbn)	27,504	26,809	29,715	35,188
NPAT-MI (VNDbn)	20,436	18,191	20,859	26,018
EPS (VND)	5,729	5,111	5,853	7,296
EPS growth (%)	11%	-11%	15%	25%
PER (x)	7.7	8.6	7.5	6.0
Book value per share (VND)	32,248	37,368	42,620	49,317
PBR (x)	1.36	1.18	1.03	0.89
ROE (%)	19.8%	14.8%	14.8%	16.1%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

TCB concluded a tough 2023 ...

4Q2023 business results

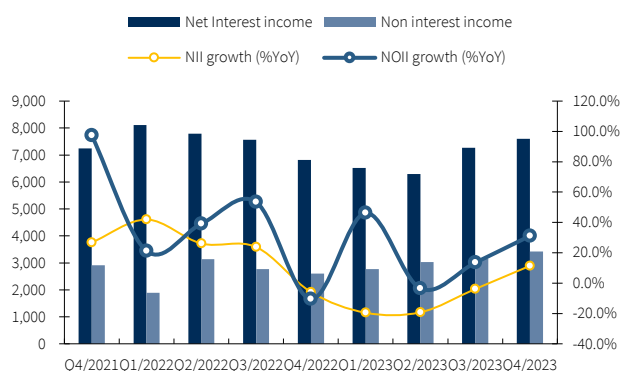
By the end of 2023, TCB recorded credit growth of 21.6% YoY. In 4Q2023, TCB reported total operating income (TOI) of VND11,017 billion (+16.9% YoY). The impressive growth in the fourth quarter helped to mitigate the YoY decrease. Provision expenses jumped by 136% YoY during this period due to loan growth and efforts to strengthen asset quality. Meanwhile, operating expenses were well controlled, with the cost-to-income ratio (CIR) down to 33%. Therefore, the bank delivered a net profit of VND5,773 billion (+21.6% YoY) in 4Q2023 and VND22,888 billion for the whole year (-10.5% YoY).

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

(VNDbn)	4Q2022	4Q2023	+/-%YoY	2022A	2023A	+/-%YoY	KBSV's comments
Net interest income	6,819	7,597	11.4%	30,290	27,691	-8.6%	4Q2023 NII recorded positive growth again (+11.4% YoY) after three consecutive quarters of YoY decline due to boosted lending activities in the year-end period.
Non-interest income	2,608	3,420	31.1%	10,417	12,370	18.8%	NOII enjoyed positive growth of 31.1% YoY in 4Q2023 and 18.8% YoY for the whole year thanks to: - Net fee and commission income rose QoQ, driven by card, letter of credit (LC), settlement, and cash management services. Meanwhile, upfront fees from bancassurance still saw a decline of 69% YoY. - Foreign exchange & gold trading and securities investment & trading were profitable, while losses were recorded in 4Q2022.
Total operating income	9,427	11,017	16.9%	40,706	40,061	-1.6%	
Operating expenses	(3,990)	(3,610)	-9.5%	(13,202)	(13,252)	0.4%	
CIR	42.3%	32.8%	-955bps	32%	33%	+64bps	Operating expenses improved in 4Q2023 and increased slightly for the whole year, so CIR was still kept below 35%.
Provision expenses	(691)	(1,634)	136.4%	(1,936)	(3,921)	102.5%	A sharp increase in provision expenses caused TCB's credit costs to increase to 0.8% from 0.3% at the start of 2023. In 2023, TCB had to spend more than VND3 trillion handling bad debt.
PBT	4,746	5,773	21.6%	25,568	22,888	-10.5%	
NPAT	3,572	4,482	25.5%	20,436	18,191	-11.0%	
Credit growth (YTD)	12.5%	21.6%	+905bps				Credit growth was boosted by lending activities (+23.3% YTD) while corporate bond investments only rose by 3.6%. SME loans played a leading role with a growth rate of 45% YoY in 2023, focusing on the fields of manufacturing (+42.4% YoY), trade (31.4% YoY), ReCom (Real Estate, Construction, Materials) (+39% YoY). Meanwhile, retail loans dropped by 5.8% YoY.
Deposit growth (YTD)	21.5%	23.7%	217bps				
NIM	5.29%	4.01%	-127bps				4Q2023 NIM fell slightly 5 bps QoQ and 127 bps YoY mainly due to the Flexible Pricing policy (as mentioned in previous reports) and TCB's lending interest rate cuts to stay competitive.
NPL ratio	0.91%	1.16%	+24bps				4Q2023 NPL ratio increased by 24bps YoY but dropped by 20bps QoQ, with special mentioned, substandard, and bad debts all experiencing declines.

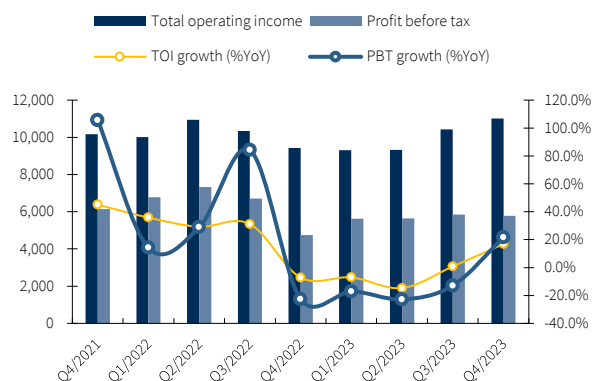
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – NII, NOII growth (VNDbn, %)



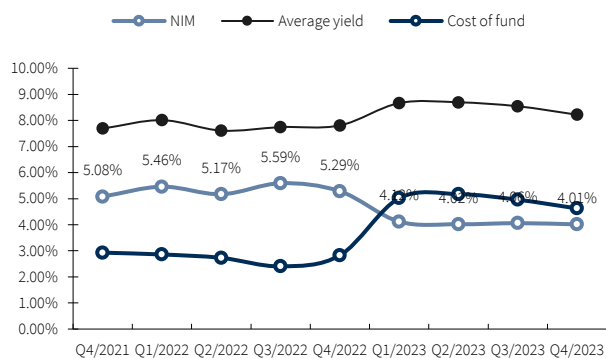
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – TOI, NPAT growth (VNDbn, %)



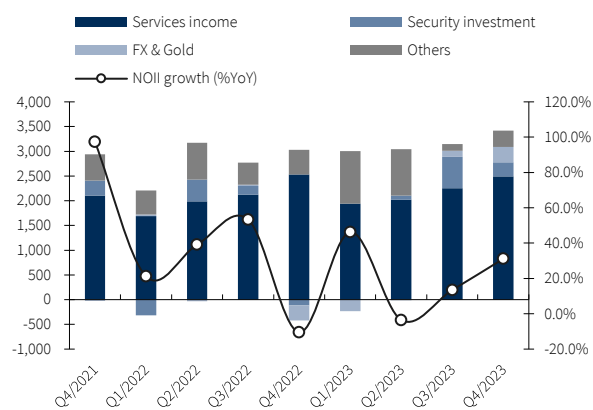
Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – NIM, average earnings yield & cost of funds (%)



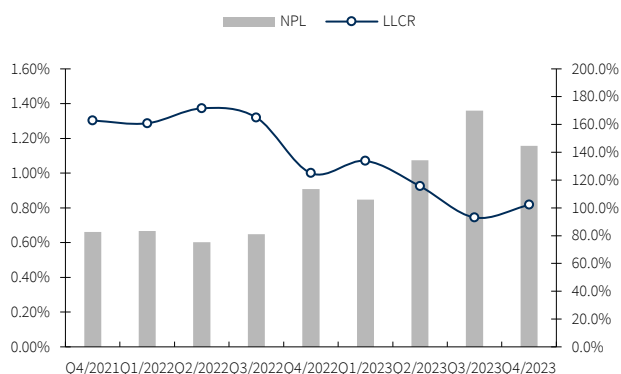
Source: Techcombank, KB Securities Vietnam

Fig 5. TCB – NOII breakdown (VNDbn, %)



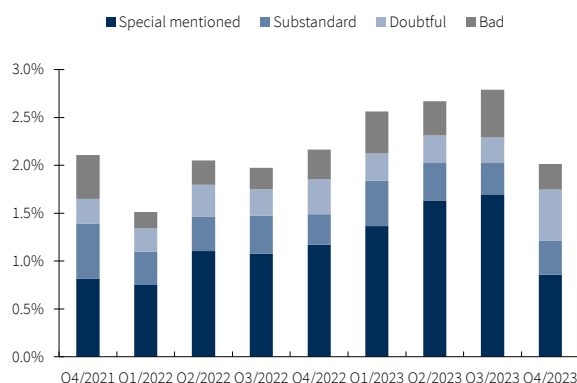
Source: Techcombank, KB Securities Vietnam

Fig 6. TCB – NPL ratio, loan loss coverage ratio (%)



Source: Techcombank, KB Securities Vietnam

Fig 7. TCB – Debt groups (%)



Source: Techcombank, KB Securities Vietnam

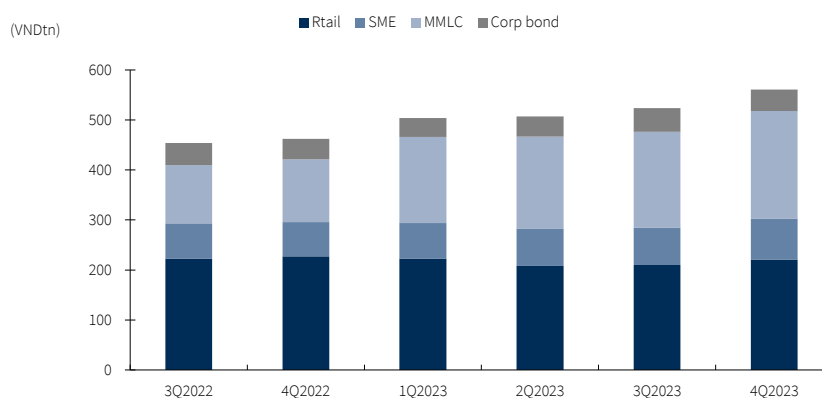
... to anticipate a rebound in 2024

TCB saw stronger credit growth after weathering challenges coupled with a more dynamic property market

In 2024, TCB is granted a credit quota of 16%. We believe the bank will continue to enjoy positive growth this year, given its efforts to achieve 19% growth in 2023. In the bull-case scenario, KBSV expects loan growth of 21% YoY (5% higher than the assigned limit, implying that the State Bank of Vietnam (SBV) will extend credit room for TCB). Specifically:

- Credit growth will be driven by SME lending (largely real estate), with project finance lending expected to recover after two tough years thanks to the government's supportive policies to remove bottlenecks of the real estate market and a low interest rate environment.
- Mortgage loans, which account for 77% of retail loans, should rebound following a sluggish performance in the previous year as the market is gradually warming up. According to CBRE, housing supply significantly improved in the second half of 2023 (+60% in Hanoi and 11% in Ho Chi Minh City compared to the first half of 2023). Liquidity also improved in both cities in the latter half of the year, up by more than 60% in Hanoi and doubling in Ho Chi Minh City.

Fig 8. TCB – Lending structure (VNDtn)



Source: Techcombank, KB Securities Vietnam

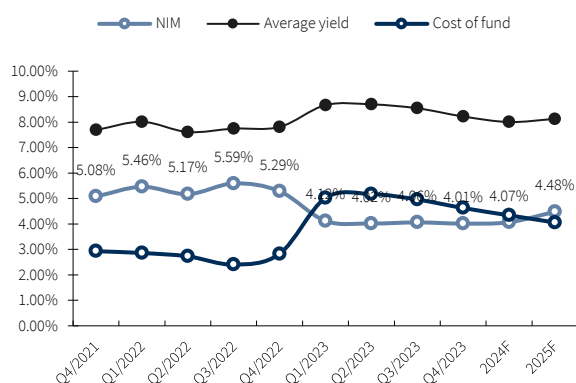
NIM is expected to improve slightly in 2024F before accelerating in 2025F

We hold a cautious view on TCB's NIM in 2024, expecting a slight recovery of +6bps YoY, nearly flat compared to 2023, but significant improvement is anticipated in 2025 because:

- The IEA yield is expected to fall further due to (1) TCB cutting lending interest rates to stay competitive and at the SBV's request to accelerate economic recovery and (2) the continued implementation of the Flexible Pricing policy. Under this policy, TCB will support interest rates for loans associated with new real estate projects during this period and will be allowed to increase interest rates after the policy ends (expected not to extend beyond 2025). This is the basis for KBSV's expectation of a stronger NIM recovery in 2025F when this policy expires, and customers must settle the supported amount before.

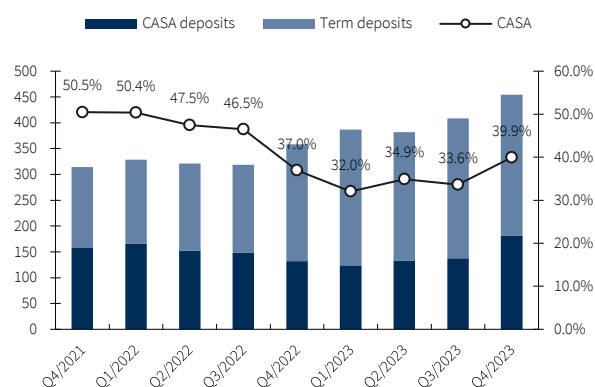
- Meanwhile, the CoF is expected to keep declining as (1) funding costs improved thanks to low lending interest rates and (2) TCB's CASA ratio increased in 4Q2023 and may maintain this high ratio in the coming year, helping the bank to leverage its competitive advantage in a cheaper source of funds as before.

Fig 9. TCB – 2021A–2025F NIM, average earnings yield & cost of funds (%)



Source: Techcombank, KB Securities Vietnam

Fig 10. TCB – CASA ratio (%)



Source: Techcombank, KB Securities Vietnam

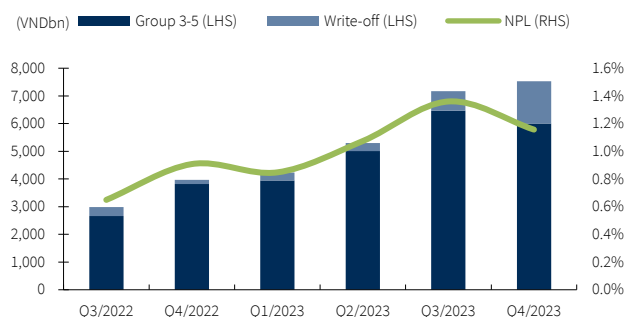
A more stable macroeconomic environment will alleviate pressures on asset quality

In 4Q2023, there was a significant decrease in the NPL ratio compared to the immediate previous quarter (-20bps QoQ) due to (1) a substantial increase in the total outstanding loans in 4Q2023 and (2) around VND1,500 billion spent on handling bad debts in the period. For 2024, we expect the NPL ratio of retail and SME loans to continue decreasing following the downtrend in 4Q2023, while that of wholesale banking should maintain at 0%. Accordingly, TCB's NPL ratio is projected to contract by 16 bps to 1% in 2024 (in the base-case scenario).

In 4Q2023, TCB recorded a sharp increase in provision expenses (+22% YoY), mainly due to one-off provisions, provisions for restructured debts (100% of restructured debts under Circular 02, additional provisions for the portion used to handle bad debts, ...). Although TCB boosted provisioning in 2023, KBSV anticipates that provision expenses in 2024 will only slightly decrease compared to the previous year, as we remain cautious about the risk of asset quality potentially deteriorating due to slow economic recovery and the bank needs to bolster provisions to compensate for the portion used to handle bad debts in 2023.

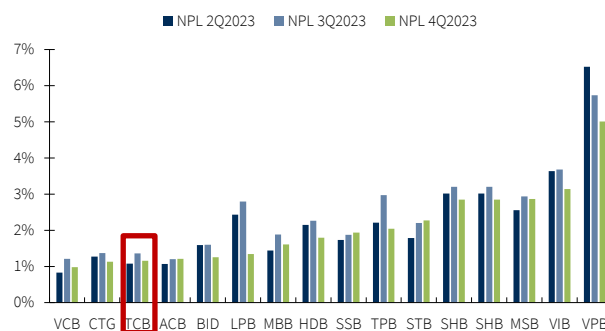
TCB's restructured debts under Circular 02 as of December 2023 amounted to VND1,800 billion, accounting for an insignificant proportion of the total outstanding loans, and has been fully provisioned (as per regulations requiring a minimum of 50% provisioning in 2023). Therefore, if Circular 02 expires in June 2024 without further extension, it will not significantly impact TCB's asset quality.

Fig 11. TCB – Bad debt, bad debt handling, NPL ratio (VNDbn, %)



Source: Techcombank, KB Securities Vietnam

Fig 12. Vietnam – NPL ratio of banks (%)



Source: Techcombank, KB Securities Vietnam

TCB revealed its plan on dividend payment

At a recent analyst meeting, TCB’s Board of Directors stated that the bank is presenting to the General Meeting of Shareholders a plan to distribute cash dividends (estimated at around VND1,500 per share), at least 20% of after-tax profits – equivalent to 4–5% of the bank’s equity at the start of the year.

Forecast & Valuation

Table 13. TCB – 2023A–2025F business results

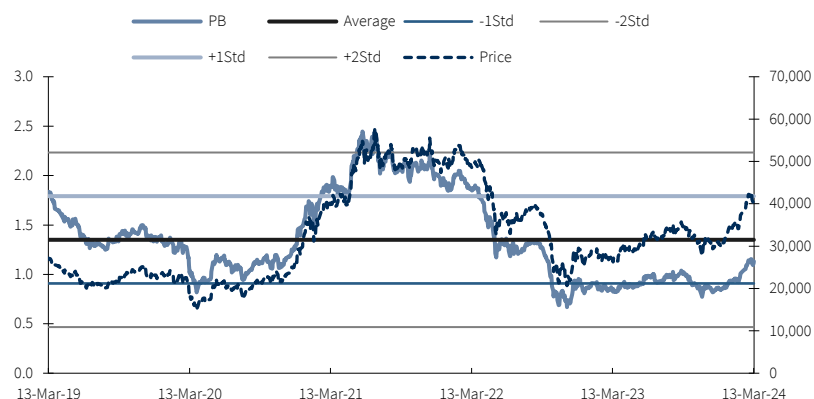
(VNDbn)	2023A	2024F	%YoY 2023	2025F	%YoY 2024	KBSV's comments
Net interest income (NII)	27,691	32,101	15.9%	39,509	23.1%	
Non-interest income (NOII)	12,370	12,921	4.5%	13,645	5.6%	In 2024, NOII is forecast to increase slightly YoY as we assess that bancassurance activities and the corporate bond market still need more time to recover, while TCB will no longer record extraordinary income (from selling the old headquarters) as in 2023.
Total operating income (TOI)	40,061	45,022	12.4%	53,154	18.1%	
Pre-provision operating profit (PPOP)	26,809	29,715	10.8%	35,188	18.4%	
Provision expenses	(3,921)	(3,641)	-7.1%	(2,665)	-26.8%	Our upward revision for provision expenses is due to the fact that TCB must strengthen its provision buffer to compensate for the portion used to handle bad debts in 2023.
PBT	22,888	26,073	13.9%	32,523	24.7%	
NIM	4.01%	4.07%	5bps	4.48%	41bps	In 2024, NIM will likely remain unchanged against 2023, lower than our previous assumption since we adjusted the application period of the Flexible Pricing policy to be longer than expected, affecting the recovery pace of NIM.
Average earnings yield	8.22%	8.00%	-22bps	8.13%	12bps	
Average cost of funds	4.63%	4.34%	-29bps	4.06%	-28bps	
CIR	33.1%	34.0%	92bps	33.8%	-20bps	CIR should range from 33-35%.
NPL ratio	1.16%	1.00%	-16bps	0.90%	-10bps	The NPL ratio should decrease when customers' financial situation improves.
Total assets	849,482	914,525	7.7%	1,057,246	15.6%	
Owner's equity	131,628	150,130	14.1%	173,719	15.7%	

Source: KB Securities Vietnam

We recommend HOLD for TCB with a target price of VND45,200/share

TCB concluded a 2023 with countless difficulties and challenges, laying the groundwork for growth in 2024. Loan growth is expected to remain positive, NIM should gradually improve, and asset quality will no longer be a major concern. We continue to combine two valuation methods, P/B and residual income, to determine a fair price for TCB. Accordingly, we raised the target price for TCB in 2024F from VND41,000 to VND45,200/share, 10% higher than the closing price on March 12, 2024. However, given the strong increase in the share price over the past few months in response to a positive outlook, we downgraded our rating for TCB from BUY to HOLD.

Fig 14. TCB – Historical P/B and share price performance (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 15. TCB – Residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	20,859	26,018	30,350
Excessed return	1,451	2,742	3,417
Required rate of return (re)	15.50%		
Growth (g)	3.0%		
Terminal value	18,818		
Total present value (PV)	161,044		
Value per share	45,719		

Source:

Table 16. TCB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
Residual income	45,719	50%	22,859
P/B	44,751	50%	22,376
Target price			45,235

Source: KB Securities Vietnam

TCB – 2021A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	26,699	30,290	27,691	32,101	39,509	Loans	343,606	415,752	512,514	593,987	695,568
Interest income	35,503	44,753	56,708	63,164	71,658	Marketable securities	5,071	961	4,433	5,012	5,864
Interest expense	(8,805)					Cash (ex. Reserves)	3,579	4,216	3,621	5,072	5,934
Fees & commissions	6,382	(14,463)	(29,017)	(31,063)	(32,150)	Interest earning assets	526,132	619,967	759,745	818,681	945,168
Other non-interest income	1,803	8,527	8,715	9,159	10,075	Fixed assets & other assets	43,037	79,995	92,482	98,626	114,742
Total operating income	37,076	40,902	40,061	45,022	53,154	Total assets	568,729	699,033	849,482	914,525	1,057,246
SG&A expenses						Customer deposits	314,753	358,404	454,661	514,209	601,624
Pre-provisioning OP	(11,173)	(13,398)	(13,252)	(15,307)	(17,966)	Borrowings & call money/repos	33,680	35,858	84,703	101,922	81,096
Provision for credit losses	25,903	27,504	26,809	29,715	35,188	Interest bearing liabilities	460,892	561,832	692,537	739,541	845,159
Other income	(2,665)	(1,936)	(3,921)	(3,641)	(2,665)	Other liabilities	14,796	23,775	25,317	24,853	38,369
Other expense	4,344	4,500	6,460	6,404	5,873	Total liabilities	475,687	585,608	717,854	764,395	883,527
Pre-tax income	(2,540)	(2,333)	(4,026)	(4,163)	(3,507)	Charter capital	35,109	35,172	35,225	35,225	35,225
Income tax expense	23,238	25,568	22,888	26,073	32,523	Capital surplus	476	476	476	476	476
NP	(4,823)	(5,131)	(4,697)	(5,215)	(6,505)	Retained earnings	47,453	64,483	49,025	67,527	91,116
Minority interest profit	18,415	20,436	18,191	20,859	26,018	Capital adjustments	-	-	-	-	-
Parent NP	(363)	(286)	(187)	(243)	(316)	Total shareholders' equity	93,041	113,425	131,628	150,130	173,719
Parent NP	18,052	20,150	18,004	20,616	25,702						

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	22.0%	19.8%	14.8%	14.8%	16.1%	EPS	5,142	5,729	5,111	5,853	7,296
ROA	3.7%	3.2%	2.3%	2.4%	2.6%	BVPS	26,501	32,248	37,368	42,620	49,317
Pre-provision ROE	24.5%	21.3%	17.4%	16.9%	17.4%	Tangible BVPS	25,476	30,908	35,845	40,816	47,181
Pre-provision ROA	4.1%	3.5%	2.8%	2.7%	2.9%	Valuations					
Net interest margin (NIM)	5.7%	5.3%	4.0%	4.1%	4.5%	PER	8.6	7.7	8.6	7.5	6.0
Efficiency						PBR	1.7	1.4	1.2	1.0	0.9
Pure Loan to deposit ratio	110.4%	117.3%	114.1%	117.0%	117.0%	ROE	22.0%	19.8%	14.8%	14.8%	16.1%
Cost-income ratio	30.1%	32.8%	33.1%	34.0%	33.8%	Capital Adequacy					
Growth						CAR	14.5%	15.2%	14.4%	>14%	>14%
Asset growth	29.4%	22.9%	21.5%	7.7%	15.6%	Asset Quality					
Loan growth	24.8%	21.0%	23.3%	15.9%	17.1%	NPL ratio (substandard)	0.7%	0.7%	1.2%	1.0%	0.9%
PPOP growth	40.7%	6.2%	-2.5%	10.8%	18.4%	Coverage ratio (substandard)	162.8%	157.3%	107.0%	126.9%	131.5%
Parent NP growth	46.5%	11.6%	-10.7%	14.5%	24.7%	NPL ratio (precautionary)	1.3%	2.8%	2.0%	1.8%	1.6%
EPS growth	46.2%	11.4%	-10.8%	14.5%	24.7%	Coverage ratio (precautionary)	84.1%	40.5%	61.5%	70.5%	74.0%
BVPS growth	24.5%	21.7%	15.9%	14.1%	15.7%						

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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