KB Securities VIETNAM

FIRST TO MARKET

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Techcombank (TCB)

Strong credit growth drives 1Q

1Q earnings up 20% on aggressive bond purchases to sustain credit growth

— Strong 1Q earnings of VND2,506 billion (up 19.8% YoY) as the bank aggressively purchased bonds to sustain overall credit growth at 24.4% YoY vs 4Q's 19.7%. Given the strong volumes from previous quarters, sequential growth figures provide a better picture for TCB: overall credit growth picked up to 3.7% QoQ vs 4Q's 6.2% QoQ growth, while loan growth nearly halted to 0.5% QoQ vs 4Q's 12.4% QoQ. Management grew the bond portfolio by 26.1% QoQ vs 4Q's -15.1% QoQ to compensate for stalled loan growth by purchasing corporate bonds to support overall credit growth and government bonds to manage balance sheet liquidity. Customer deposits increased by 1.6% QoQ/13.0% YoY and the loan-to-deposit dropped modestly to 98.7% from 4Q's 99.8%. Weightings in the bond portfolio were 44% corporate bonds (vs 4Q's 46%) and 36% government bonds (vs 4Q's 30%).

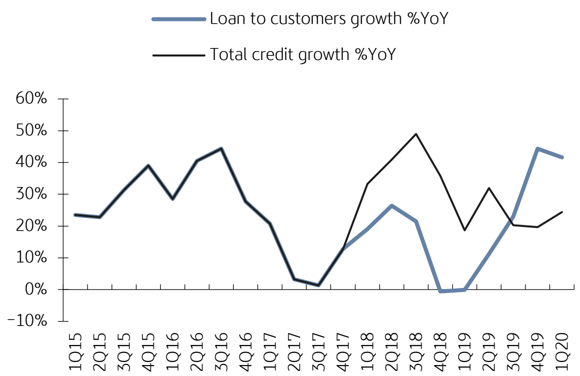
Strong credit growth enabled bank to mitigate weakening credit quality

— Strong credit growth and shift in the asset mix to bonds over loans allowed the bank to mitigate the impact from deteriorating credit conditions seen a most banks. The substandard & below non-performing loan ratio actually declined to 1.09% in 1Q vs 4Q's 1.33% and precautionary & below non-performing loan ratio was also down from 1Q's 2.11% vs 4Q's 3.95%. High levels of credit growth - and the comparatively larger size of interest-earnings assets - also allowed earnings to support a higher level of credit costs. Provisions increased by 1.5 times from the previous quarter to VND772 billion or 0.33% of loans vs 4Q's 0.14%. Credit loss reserves for substandard & below non-performing loans rose to 117.9% from 4Q's 94.8% and for precautionary & below loans increased to 61.0% from 4Q's 52.6%.

Flat fee performance due to COVID-19 relief measures and costs under control

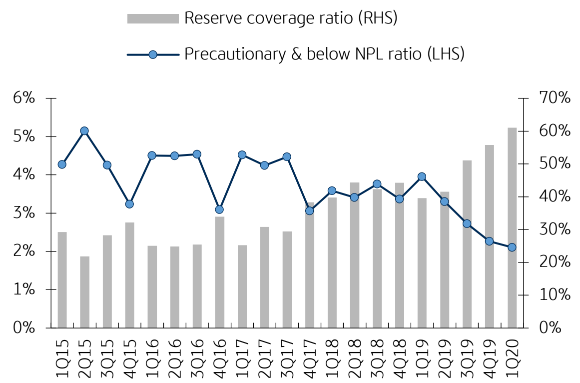
— The high asset base also kept growth in fees robust at 51.5% YoY to VND862 billion but were down 36.8% QoQ due to the waiver of fees during the COVID-19 lockdown. Higher volatility in markets also led to the fourfold rise in trading gains to VND630 billion. Costs were largely kept in check, with the cost-to-income ratio down modestly to 33.5% from 36.6% during the same period last year.

Fig 1. TCB – Loan to customers & total credit growth, 1Q15–1Q20 (% YoY)



Source: Company reports & KB Securities Vietnam

Fig 2. TCB – Precautionary& below non-performing loan ratio & reserve coverage ratio, 1Q15–1Q20 (%)



Source: Company reports & 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