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# Techcombank (TCB)

## Full COVID-19 impact in the coming quarters

### Strong 1Q20 results despite COVID-19

— Recorded strong 1Q earnings of VND2,506 billion (up 19.8% YoY) on aggressive bond purchases to sustain overall credit growth at 27.6% YoY but still maintained sound operational safety ratios (Table 1), Techcombank was one of few banks in the industry showing positive performance in the first quarter of 2020. Relief packages to customers related to COVID-19 reached VND 30 trillion or 0.2% of total loans. Key elements of relief were: 1) up to 12 months of debt restructuring; 2) up to 200 bps of interest rate deduction; and 3) waiver of 0.2% early redemption fee. Loans restructured under Circular 01/2020/TT-NHNN were 0.4% of wholesale loans, 0.2% of SME loan and only a modest portion of the retail loan book. As of May 15, management estimates approximately 7% of the total loan book could qualify for potential restructuring.

### Prioritizing liquidity and shoring up regulatory capital

— The three-year unsecured USD500 million syndicated loan facility was successfully completed on April 17 at 150 bps above LIBOR and Vietnam's largest for any financial institution. Strong demand upsized the deal from the original USD300 million and opens up another source of funding. Management did not give any specific details on where these funds will be used but will likely focus on onshore activities. The capital adequacy ratio also improved to 16.5% in 1Q from 15.5% at the end of 2019, with the Tier 1 ratio at 16.3% and Tier 2 at 0.4%. The loan-to-deposit ratio based on Circular 22 guidelines was 76.8% and well below the 85% ceiling, while ratio of short-term funding to medium- to long-term loans also improved to 30.7% from 2019's 38.4%.

### Upcoming quarters likely to have larger impact from COVID-19

— Formal guidance will be released at the annual general shareholders' meeting planned for next month (no date set yet) and management warned that the upcoming quarters should reflect a larger impact from COVID-19. Soft guidance for 2020 included: 1) a decrease in overall credit growth from 2019's 18.8%; 2) steady net interest margin at 4.2%; 3) slower growth non-interest income than 2019's 12.3%; 4) pick up in the cost-to-income ratio from 2019's 34.7%; 5) higher non-performing loans vs 2019's 1.3%; and 6) an increase in credit costs from 2019's 0.5% of loans. Management will continue the bank's selective strategy for credit activities to ensure strict risk management, focusing on mortgages (80% of the retail loan book in 1Q) for the top rated housing developers and affluent customers. Non-performing loan for mortgages climbed to 0.8% in 1Q vs 2019's 0.6%.



**Table 1. Techcombank – Soft guidance, 2020 (%)**

Consolidated	FY19 Actual	1Q20 Actual	FY20 Trend	Trends
Credit growth (YoY)	18.8%	2.9%	Decrease	Measured growth focusing on supporting customers
Net interest margin (NIM)	4.2%	4.7%	Same	Lower funding costs to offset lower loans yields from relief loans
Non net interest income <sup>1</sup> growth (YoY)	12.3%	89.1%	Decrease	Non-financial income affected by lockdown and social distancing
Cost to income ratio (CIR)	34.7%	35.4%	Increase	Additional IT investments to accelerate digitalization & slower than expected business recovery
Non-performing loans (Circular 02/2013/TT-NHNN)	1.3%	1.1% (target < 2%)	Increase	- Proactive provisioning to write-off bad debts - Impact of Circular 01/2020/TT-NHNN on debt restructuring
Credit costs <sup>2</sup>	0.5%	0.3%	Increase	Expect higher credit costs but should depend on situation

Source: Company reports & KB Securities Vietnam

Notes:

1.Excluding one-off items

2.Excluding benefit from recoveries

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## Investment ratings & definitions

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### 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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