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1Q23 TOI decreased 8% to VND9,300 billion

Techcombank's (TCB) 1Q TOI reached VND9,300 billion (-8% YoY), and credit growth hit 9%, which is outstandingly high compared to other banks. Operating expenses (OPEX) inched 1% YoY to VND3,124 billion. In 1Q, the bank also increased provisioning due to a sharp increase in credit balance. By the end of the quarter, PBT was VND5,623 billion (-17.1% YoY), completing 26% of the 2023 plan.

NPL ratio is still kept below 1%

Asset quality has slightly declined but is still controlled by the bank. TCB's NPL ratio in 1Q remained at 0.85% (vs 0.91% at the end of 2022). Wholesale banking was almost zero, which undermined the effects of lower asset quality resulting from the retail and SME segments. The loan loss coverage ratio (LLCR) gradually decreased to 134% in 1Q but was still in the top high in the industry.

Business results are expected to recover in 2H23

The decrease in deposit rates and the recovery of the economy will help CASA ratio to improve after this rate has plunged in the last two quarters. In general, we expect TCB's cost of funds to decrease significantly while lending rates fall more slowly due to policy lag, thereby creating a basis for NIM to rebound in the coming quarters.

BUY recommendation – target price VND37,700/share

Using two methods of valuation P/B and residual income, we set a target price for TCB stock for 2023 at VND37,700, 17% higher than the price on June 2, 2023. We recommend BUY for TCB stocks.

Buy maintain

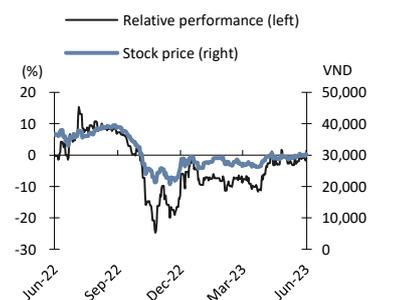
Target price	VND37,700
Upside	17%
Current price (June 2, 2023)	32,200
Market cap (VNDbn)	106,572

Trading data	
Free float	93.3%
3M avg trading value (VNDbn)	433.42
Foreign ownership	22.5%
Major shareholder	Masan Group (MSN, 14.96%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.7	11.0	10.6	-16.8
Relative	-0.1	7.1	6.3	-0.5

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	26,699	30,290	33,251	38,350
Pre-provision operating profit (VNDbn)	25,905	27,504	29,256	34,362
NPAT of the parent bank (VNDbn)	18,052	20,150	21,208	25,619
EPS (VND)	5,137	5,725	6,018	7,255
EPS growth (%)	46.1%	11.4%	5.1%	20.6%
PER (x)	9.71	6.26	5.95	4.94
Book value per share (VND)	25,476	30,908	37,258	44,583
PBR (x)	1.96	1.16	0.96	0.80
ROE (%)	22.0%	19.8%	17.4%	17.5%
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%



Source: Bloomberg, KB Securities Vietnam

Business performance updates

1Q results clearly reflected current difficulties

TCB's 1Q TOI reached VND9,300 billion (-8% YoY), and credit growth hit 9%, which is outstandingly high compared to other banks. OPEX inched 1% YoY to VND3,124 billion. In 1Q, the bank also increased provisioning due to a sharp increase in credit balance. By the end of the quarter, PBT was VND5,623 billion (-17.1% YoY), completing 26% of the 2023 plan.

Table 1. TCB – 1Q business results

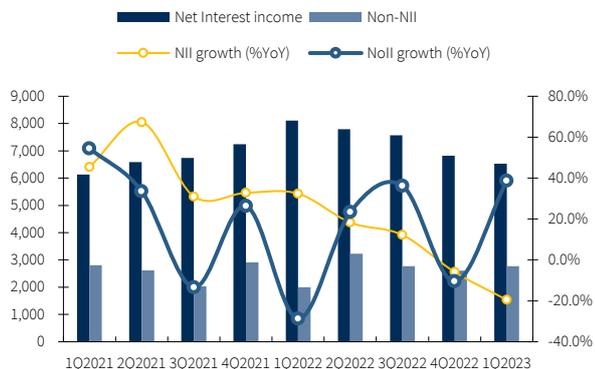
(VNDbn)	1Q22	1Q23	+/-% YoY	KBSV's notes
Net interest income	8,111	6,527	-19.5%	Although credit growth in 1Q reached 9%, approaching the limit, NII tended to decrease for two consecutive quarters as TCB focused on supporting corporate customers to balance cash flow.
Non-interest income	2,001	2,773	38.6%	NFI posted stable growth of 14.2% YoY, but the structure has changed. While bancassurance activities slowed down and investment banking fees were also affected by the adverse corporate bond market, international payment activities and letter of credit tended to go up (+177% YoY). During the period, TCB also recorded a profit of VND730 billion from the sale of the old office building.
Total operating income	10,112	9,300	-8.0%	
Operating expenses	-3,108	-3,142	1.1%	OPEX increased slightly as TCB continued to invest in digitalization. Many platforms have been completed and put into use from the end of 2022 to the beginning of 2023, making depreciation expenses rise 47% QoQ.
CIR	30.7%	33.8%	+310bps	
Provision expenses	-218	-535	145.5%	Provision expenses strongly increased due to (1) the increase in outstanding loans; (2) the increase in provision for special mention, substandard, and doubtful debts; and (3) the absence of provision reversal from debts deferred under Covid policy.
Profit before taxes	6,785	5,623	-17.1%	
Profit after taxes	5,615	4,537	-19.2%	
Credit growth	9.3%	9%		Contrary to the gloomy situation of the whole industry, credit growth of TCB in 1Q hit 9% YTD, mainly from corporate customers (mostly real estate enterprises which account for 26% of TCB's total credit). Retail lending was flat due to (1) high interest rates and (2) difficulties in the real estate market, which made the demand for home loans in 1Q not high.
Deposit growth	8.4%	11%		Mobilization from customers rose 8% QoQ, and valuable papers gained 37% QoQ. Demand deposits continued to experience a sharp decline, leading to a decrease in CASA ratio to 32% from 37% at the end of 4Q22.
NIM	5.92%	4.12%		NIM fell due to (1) high interest rates in 1Q, pushing COF higher; (2) lower CASA, following the general trend of the market when customers switched to more term deposits; and (3) the limit of corporate bond activities recently.
ROAA	3.8%	2.6%		
ROEA	23.4%	15.7%		

Source: Techcombank, KB Securities Vietnam

NPL ratio was kept below 1%

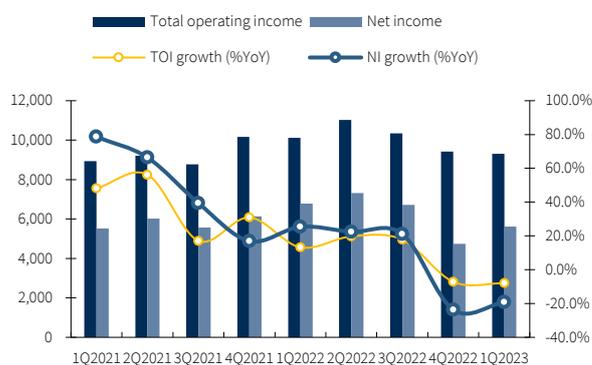
Asset quality has slightly declined but is still controlled by the bank. TCB's NPL ratio in 1Q remained at 0.85% (vs 0.91% at the end of 2022). NPLs are mainly from the retail portfolio related to card loans, while the loan portfolio to corporate customers maintained good quality. Wholesale banking was almost zero, which undermined the effects of lower asset quality resulting from the retail and SME segments. The LLCR gradually decreased to 134% in 1Q but was still in the top high in the industry.

Fig 1. TCB – NII & NFI growth by quarter (%)



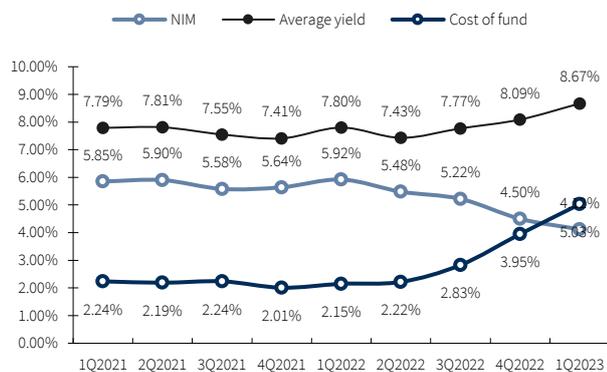
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – TOI & PBT growth by quarter (%)



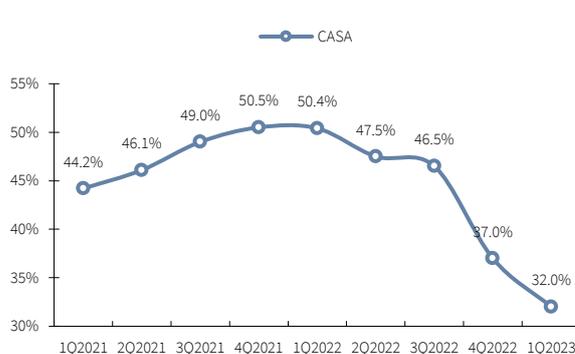
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – NIM by quarter (%)



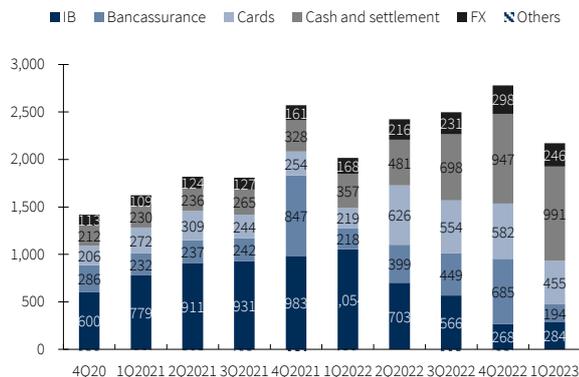
Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA ratio by quarter (%)



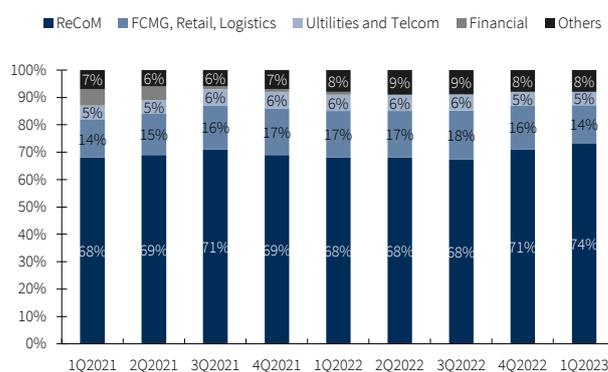
Source: Techcombank, KB Securities Vietnam

Fig 5. TCB – NFI structure by quarter (VNDbn)



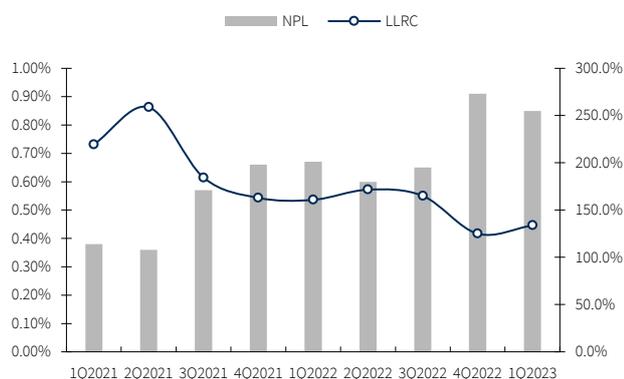
Source: Techcombank, KB Securities Vietnam

Fig 6. TCB – Corporate loan structure by scope of business



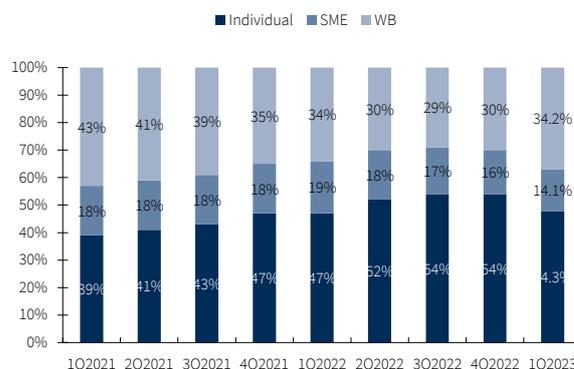
Source: Techcombank, KB Securities Vietnam

Fig 7. TCB – NPL & LLCR (%)



Source: Techcombank, KB Securities Vietnam

Fig 8. TCB – Loan structure by customer type



Source: Techcombank, KB Securities Vietnam

Current business results are reflecting the consequences of the financial market at the end of 2022. We expect TCB business results to rebound in 2H23

It can be seen from 1Q business results that the sharp increase in interest and similar expenses (+180% YoY) are the main reason for profit write-downs. We believe that this is a consequence of the financial market volatility at the end of 2022 with the issues related to investors' confidence in deposits, corporate bonds, real estate, and liquidity pressure. The sharp increase in COF had a negative impact on the business performance of the whole industry in general. We assume the negative business results are temporary and these unfavorable factors have also been reflected in the stock price.

The SBV recently lowered the operating policy rate, showing a reversal in monetary policy. This, when combined with other supportive policies of the Government, should make the outlook of TCB's 2H23 results brighter. The decrease in deposit rates and the recovery of the economy will help CASA ratio to improve after this rate has plunged in the last two quarters. In general, we expect TCB's cost of funds to decrease significantly by 15bps while lending rates fall more slowly due to policy lag, thereby creating a basis for NIM to rebound in the coming quarters.

Table 2. Vietnamese banks – The rate of deposit rate changes (%)

Month	Term	ACB	MBB	TCB	VPB	TPB (Super Savvy)	VIB	HDB	MSB (online)
Jan-23	1M	0.5%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
	3M	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	6M	0.5%	0.0%	0.5%	0.0%	0.0%	0.5%	0.0%	-0.4%
	9M	0.5%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	-0.4%
	12M	0.5%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.4%
	24M	0.5%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.4%
Feb-23	1M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	6M	0.0%	0.0%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
	9M	0.0%	0.0%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
	12M	0.0%	0.0%	-0.3%	0.0%	0.1%	0.0%	0.0%	0.0%
	24M	0.0%	0.0%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Mar-23	1M	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
	3M	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
	6M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.5%
	9M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.5%
	12M	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	-0.5%
	24M	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.5%
Apr-23	1M	-0.6%	-0.6%	-0.6%	0.0%	0.0%	-0.5%	-0.5%	-0.5%
	3M	-0.6%	-0.7%	-0.6%	0.0%	-0.6%	-0.5%	-0.5%	-0.5%
	6M	-0.3%	-0.6%	-1.2%	-0.6%	0.0%	-1.0%	-0.5%	-0.5%
	9M	-0.3%	-0.6%	-1.2%	-0.6%	-0.1%	-1.0%	-0.5%	-0.5%
	12M	-0.3%	-0.6%	-1.4%	-0.7%	-0.1%	-0.4%	-0.5%	-0.3%
	24M	-0.6%	-0.8%	-1.4%	-2.0%	-0.5%	-0.8%	0.0%	0.0%

Source: KB Securities Vietnam

Assessment about TCB's corporate bonds

TCB business focuses on real estate and corporate bonds, so stock prices have been significantly affected by recent difficulties in these areas. By the end of 1Q, TCB's corporate bond was about VND38,000 billion (of which ReCom accounted for 60%). The bank assessed the quality of corporate bonds was still good and there were no corporates having difficulties in paying principals & interests as TCB has 1) strict risk management policy and (2) TCB and TCBS's choice of customers who have the top-quality bonds. We believe that Government support through the issuance of TT-02, TT-03 and ND-08, TCB would partly help the real estate and corporate bond markets to recover.

Table 3. TCB – 2023–2024F business results

	2022	2023F	+/-%YoY 2022	2024F	+/-%YoY 2023	KBSV's notes
Net interest income	30,290	33,251	+9.8%	38,350	+15.3%	NII growth may slow down due to higher COF but it does not affect customers thanks to the bank's good support policies.
Net fee income	8,527	8,772	+2.9%	10,090	+15.0%	The banca and IB segments are not expected to recover in the current difficult context, but other services should help to undermine the negative effects from the two segments.
Total operating income	40,902	43,994	+7.6%	50,532	+14.9%	
Provision expenses	-1,936	-2,181	+12.7%	-1,656	-24.1%	TCB increases provisioning for bad debt risks that may suddenly increase in 2023.
Profit after taxes	20,150	21,208	+5.3%	25,619	+20.8%	
NIM	5.29%	5.08%	-21bps	5.23%	+15bp	NIM decreases due to (1) high COF in 1H23 and (2) TCB's customer support policies.
Average COF	7.82%	7.48%	-34bps	7.65%	+17bps	
Average earnings yield	2.83%	2.69%	-15bps	2.77%	+8bps	
CIR	32.8%	33.5%		32.00%		CIR should modestly rose as the bank continues to invest in digitalization and IT.
NPL	0.72%	0.80%	+8bps	0.90%	+10bps	NPL may slightly increase but is still under 1%.
Total assets	699,033	762,648	+9.1%	852,762	+11.8%	
Equity	113,425	135,882	+19.8%	162,547	+19.6%	

Source: KB Securities Vietnam

Forecast & valuation

2023F business performance

We give a forecast for TCB's 2023 business results as follows:

- We keep our prudent view that TCB's 2023 credit growth would be at 13% due to (1) the relatively low absorption capacity of the market in 2023 and (2) TCB's position as the top lender to real estate business and corporate bonds.
- NIM is expected to decrease by 21bps YoY due to high COF in 1H23 but improve gradually in the last six months of the year.
- TCB will have to increase provisioning because of potential risks of bad debts from corporate bonds and real estate businesses. Provision expenses in 2023 should rise 12.7% YoY.
- NPAT may hit VND21,208 billion (+5.3% YoY).

Valuation: BUY recommendation with the target price of VND37,700

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

1) P/B valuation method:

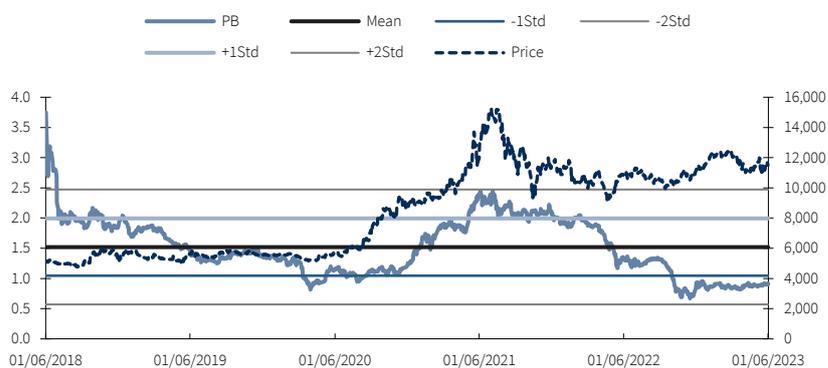
Recently, TCB stock has been heavily discounted when the market was concerned about the risks related to the bank's real estate lending and investment in corporate bonds. Currently, TCB's P/B is at a low level of 0.9x. We believe that when interest rate pressure decreases and policies are introduced to remove market difficulties, TCB's stock price will return to gaining momentum. Our forecast for TCB's 2023 target P/B is 1.1x.

2) Residual income method:

In addition, we incorporate a residual method of discounting to reflect systematic risks and long-term expectations.

Combining the above two valuation methods with a ratio of 50-50, we raised the target price for TCB stock to VND37,700/share, 17% higher than the closing price on June 2, 2023. Some risks that may reduce our forecasts as mentioned in the previous report include (1) a rapid increase in bad debts from real estate; (2) potential risks associated with holding bonds; and (3) the effectiveness of the policies not meeting expectations.

Fig 9. TCB – Stock price & P/B (VND, x)



Source: Bloomberg, KB Securities Vietnam

Table 4. TCB – Valuation according to residual income method

(VNDbn)	2023F	2024F	2025F	2026F	2027F
PAT	21,641	26,142	30,189	35,482	42,171
Excessed return	1,505	2,050	1,551	1,490	1,809
Required rate of return (r)	14.5%				
Growth (g)	3%				
Terminal value	7,189				
Total Present value (PV)	12,165				
Price (VND)	34,373				

Source: KB Securities Vietnam

Table 5. TCB – Final valuation & target price (VND)

Method	Forecast price	Weight	Price per weight
Residual Income	34,373	50%	17,187
P/B	40,984	50%	20,492
Target price (VND)			37,700

Source: 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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