

September 19, 2023

Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

1H23 TOI and PBT decreased by 11% YoY and 20% YoY respectively

Techcombank's (TCB) TOI dropped 14.7% YoY to VND9,325 billion in 2Q and fell 11% YoY to VND18,635 billion in 1H23. The bank's credit growth as of the end of 2Q reached 9.7% YTD vs the limit for the full year of 14.1%. Operating costs were lowered by 10.2% YoY. However, PBT in 1H23 lost 20% YoY to VND11,272 billion, equivalent to 51% of the whole year objective.

Capital costs increased slowly, and NIM is less likely to recover in the short term

TCB's CASA ratio showed signs of recovery in 2Q, increasing 8% QoQ to 34.9%. NIM is still under short-term pressure from the flexible pricing policy, which is a preferential interest rate program allowing customers to choose to pay in accordance with their financial situation.

Increased NPL puts pressure on reserve buffers

TCB continued to increase provisioning in 2Q as bad debts tended to increase. However, the bank's provision buffer decreased compared to the previous period, the loan loss coverage ratio (LLCR) fell to 116%. We believe that TCB's NPL has not yet peaked, it may increase slightly from now until the end of the year but is still well controlled.

HOLD recommendation with target price VND39,000/share

Using two valuation methods, P/B and residual income, we set the 2023 target price for TCB stock at VND39,000/share, 12% higher than the price on September 15, 2023. We recommend HOLD for TCB shares.

Hold change

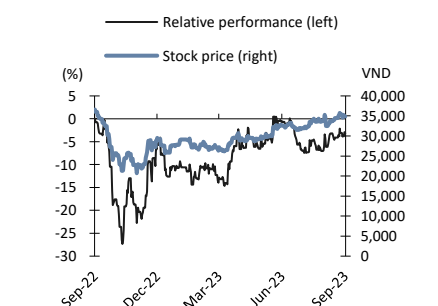
Target price	VND39,000
Upside	12%
Current price (September 15, 2023)	34,900
Market cap (VNDbn/USDmn)	122.75/5.03

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

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.5	6.9	28.3	-3.1
Relative	3.1	-2.7	11.0	-2.5

Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	26,699	30,290	27,243	31,918
Pre-provision operating profit (VNDbn)	25,905	27,504	26,376	29,825
NPAT of the parent bank (VNDbn)	18,415	20,436	18,771	22,162
EPS (VND)	5,142	5,729	5,231	6,164
EPS growth (%)	46%	11%	-9%	18%
PER (x)	8.6	7.7	8.4	7.1
Book value per share (VND)	26,501	32,248	36,800	42,364
PBR (x)	1.66	1.36	1.20	1.04
ROE (%)	22.0%	19.8%	15.5%	15.9%
Dividend yield (%)	0%	0%	0%	0%



Source: Bloomberg, KB Securities Vietnam

2Q23 performance updates

1H23 TOI and PBT decreased by 11% YoY and 20% YoY respectively

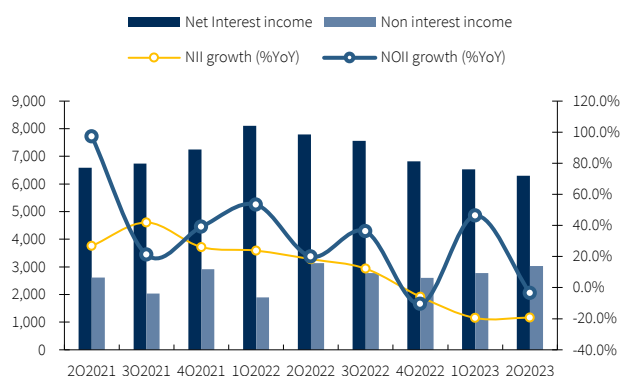
TCB's TOI dropped 14.7% YoY to VND9,325 billion in 2Q and fell 11% YoY to VND18,635 billion in 1H23. The bank's credit growth as of the end of 2Q reached 9.7% YTD vs the limit for the full year of 14.1%. Operating costs were lowered by 10.2% YoY. However, PBT in 1H23 lost 20% YoY to VND11,272 billion, equivalent to 51% of the whole year objective.

Table 1. TCB – 2Q23 business results

(VNDbn)	2Q22	2Q23	+/-% YoY	1H22	1H23	+/-% YoY	KBSV's notes
Net interest income	7,794	6,295	-19.2%	15,905	12,822	-19.4%	The market demand for borrowing is still weak while TCB continues to apply supportive interest rates for customers. Non-interest income (NOII) growth in 1H23 mainly comes from cards, LCs, and foreign exchange while the IB segment is showing signs of recovery. The bancassurance segment continues to decline with the market's headwinds, but TCB still maintains its leading position in this segment. - Card fees gained 53% YoY.
Non-interest income	3,141	3,030	-3.5%	5,036	5,803	15.2%	- Letters of credit, payments and cash rose 147% YoY (mainly contributed by corporate customers). - Income from foreign currencies increased 25% YoY. - Bancassurance and IB segments plunged 76% YoY and 55% YoY respectively. - TCB recorded extraordinary income from forward contracts of VND676 billion.
Total operating income	10,934	9,325	-14.7%	20,941	18,625	-11.1%	Operating costs improved compared to the 1Q (CIR 33.8%) because TCB continued to promote investment in technology and digitalization while optimizing administrative, human resources and marketing costs.
Operating expenses	-3,196	-2,869	-10.2%	-6,199	-6,011	-3.0%	
CIR (%)	29.2%	30.8%	+153bps			+267bps	
Credit risk provision costs	-417	-807	+93.4%	-636	-1,342	+111.1%	Non-performing loans (NPL) increased the pressure on the provision costs which were VND807 billion in 2Q.
Profit before taxes	7,321	5,649	-22.8%	14,106	11,272	-20.1%	
Profit after taxes	5,882	4,503	-23.4%	11,497	9,041	-21.4%	
Credit growth (%)	7.6%	9.7%	+214bps				By the end of June, TCB's total credit reached VND506 trillion, higher than the industry average. Credit was allocated mainly to the corporate customer group while the private customer group recorded a decline of 7% QoQ. The bank said that as there are not many investment opportunities and high interest rates, private customers tend to choose early settlement of loans to optimize costs. Personal home loans declined 10% YoY as real estate market demand has not yet recovered.
Mobilization growth (%)	8.5%	5.5%	-301bps				TCB's average deposit rate in 2Q was about 5.2% and is turning down in the coming quarters. In contrast to the previous two quarters, the adjusted deposit rate decreased, making customers less likely to switch from CASA to term deposits. Therefore, 2Q CASA posted an 8% QoQ increase. NIM continued its downward trend due to (1) TCB's implementing a flexible pricing policy that affects NIM in the short term and (2) higher loan proportion to corporate customers.
NIM (%)	5.82%	4.02%	-179bps				TCB's NPL in 2Q rose to 1.07% (+23bps QoQ) in line with the general trend.
NPL ratio (%)	0.60%	1.07%	+47bps				

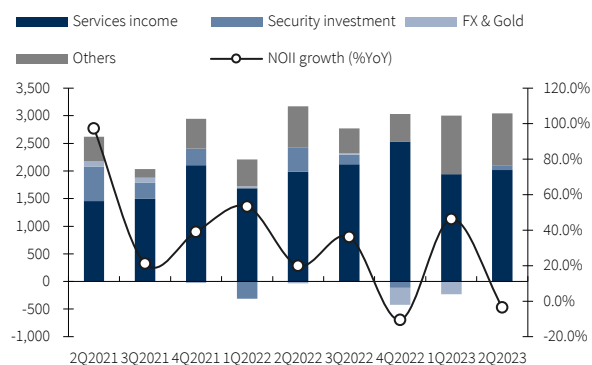
Source: Techcombank, KB Securities Vietnam

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



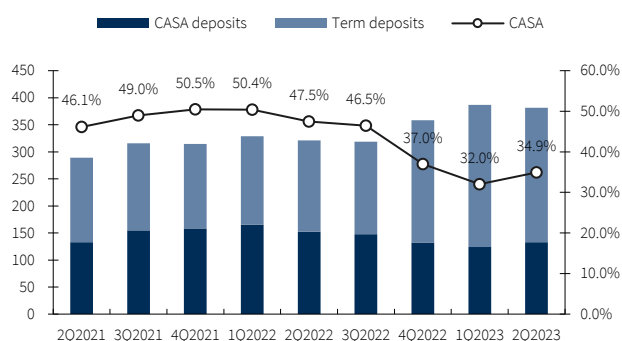
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – NFI structure



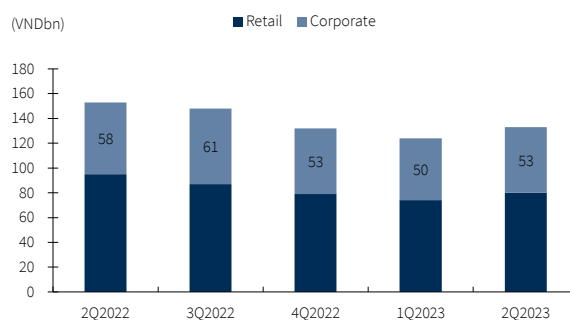
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – CASA & term deposits (VNDbn)



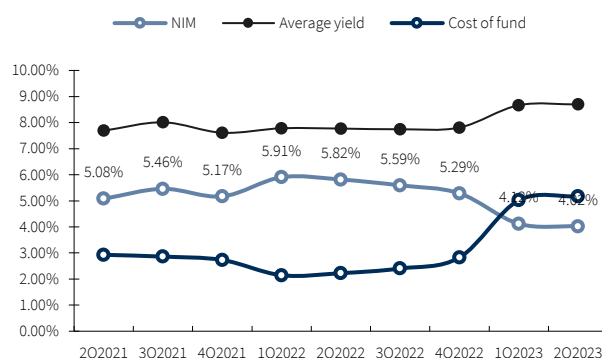
Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA from corporate & private customers (VNDbn)



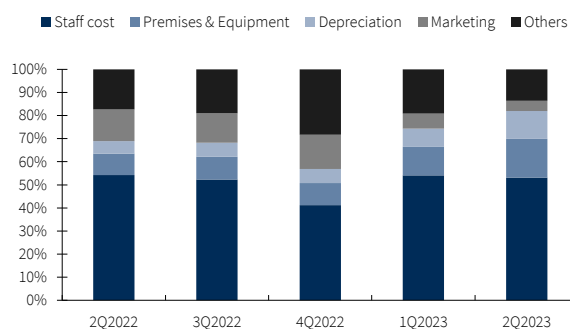
Source: Techcombank, KB Securities Vietnam

Fig 5. TCB – NIM by quarter (%)



Source: Techcombank, KB Securities Vietnam

Fig 6. TCB – Operating cost structure



Source: Techcombank, KB Securities Vietnam

Capital costs increased slowly, NIM in the short term could not recover

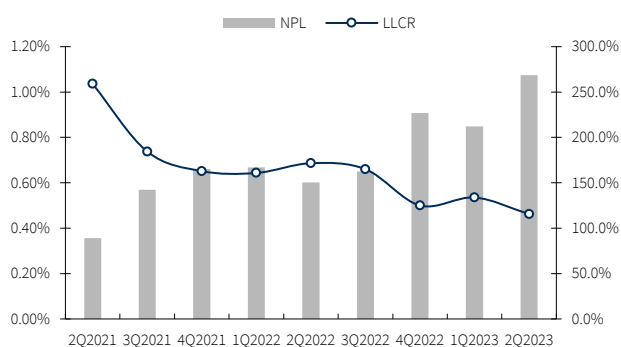
We see that TCB's CASA ratio showed signs of recovery in 2Q, increasing 8% QoQ to 34.9%. However, this year's capital costs are expected to still be higher than the same period in 2022 due to falling interest rates. In addition, other investment channels are not attractive, so customers tend to favor deposits with higher terms to optimize cash flows. KBSV forecasts that CASA will move sideways in the last two quarters of the year. NIM is still under short-term pressure from the flexible pricing policy, which is a preferential interest rate program allowing customers to choose to pay in accordance with their financial situation. The amount spent to support customers should be recovered after the customers get through the hardship. We expect the real estate market to gradually recover, helping TCB's customers (including individuals with home loans and real estate developers) improve their financial health, thereby improving NIM from 2024 while reducing credit costs for the bank.

Increased NPL puts pressure on reserve buffers

Although NPL ratio in 2Q was well controlled, it increased by 50bps YoY mainly from retail loans with NPL at 1.96% (+56bps QoQ) and SME group at 1.51% (+24bps QoQ). TCB continued to increase provisioning in 2Q as bad debts tended to increase. However, the bank's provision buffer decreased compared to the previous period, the loan loss coverage ratio (LLCR) fell to 116%.

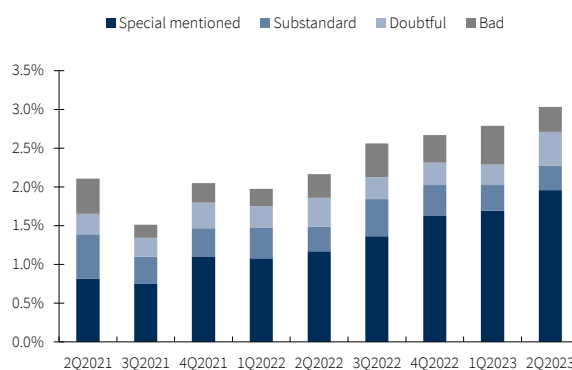
We believe that TCB's NPL has not yet peaked, it may increase slightly from now until the end of the year but is still well controlled thanks to the flexible pricing policy. Accordingly, the pressure on NPL and while the need for debt restructuring according to Circular 02 also become lower.

Fig 7. TCB – NPL ratio & LLCR (%)



Source: Techcombank, KB Securities Vietnam

Fig 8. TCB – NPL structure



Source: Techcombank, KB Securities Vietnam

Forecast & valuation

Table 2. TCB – 2023–2024F results

(VNDbn)	2022	2023F	+/-%YoY 2022	2024F	+/-%YoY 2023	KBSV's notes
Net interest income	30,290	27,243	-10.1%	31,918	+17.2%	We lowered our forecast due to lower-than-expected credit growth at the beginning of the year. We expect that the State Bank will extend credit limit for banks once from now until the end of the year. TCB's 2023F credit growth is 15%.
Net fee income	8,527	9,599	+12.6%	9,474	-1.3%	
Total operating income	40,902	39,367	-3.8%	44,383	+12.7%	
Provision costs	-1,936	-2,912	+50.4%	-2,123	-27.1%	Reduced adjustment is attributable to the flexible pricing policy.
Profit after taxes	20,436	18,771	-8.1%	22,162	+18.1%	
NIM (%)	5.29%	4.23%	-105bps	4.44%	+21bps	NIM in the short term will be affected by TCB's customer support but it will then improve when customers' financial situation becomes better.
Average earnings yield (%)	7.81%	8.39%	+58bps	8.21%	-18bps	
Average cost of fund (%)	2.83%	4.65%	+182bps	4.29%	-36bps	
CIR (%)	32.8%	33.0%	+ 24bps	32.8%	-20bps	
NPL ratio (%)	0.72%	1.15%	+43bps	0.95%	-20bps	We adjust our NPL forecast to 1.15% in the context of bad debt increasing faster than expected.
Total assets	699,033	736,806	+5.4%	851,315	+15.5%	
Owner's equity	113,425	129,436	+14.1%	149,004	+15.1%	

Source: KB Securities Vietnam

Valuation: HOLD recommendation with target price VND39,000

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

(1) P/B valuation method:

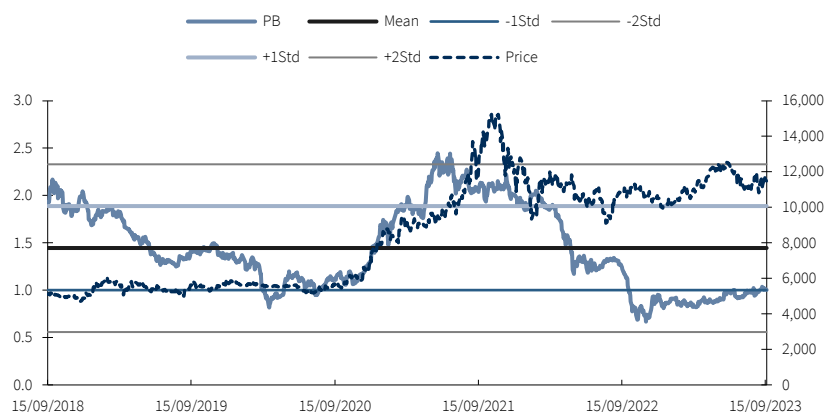
We maintain the target P/B for 2023 at 1.1x as mentioned in our previous report.

(2) Residual income method:

In addition, we use this method to reflect systemic risk and long-term expectations.

Combining the above two valuation methods with a 50–50 ratio, we adjusted the target price for TCB shares to VND39,000/share, 12% higher than the closing price on September 15, 2023.

Fig 9. TCB – P/B and stock prices (x, VND)



Source: Bloomberg, KB Securities Vietnam

Table 3. TCB – Valuation according to residual income method

(VNDbn)	2023F	2024F	2025F	2026F	2027F
PAT	18,771	22,162	25,393	28,816	33,429
Excessed return	3,477	2,070	2,246	2,179	2,712
Required rate of return (r)	13,5%				
Growth (g)	5%				
Terminal value	9,541				
Total Present value (PV)	131,621				
Price (VND)	37,422				

Source: KB Securities Vietnam

Table 4. TCB – Final valuation

Method	Forecast price	Weight	Price per weight
Residual Income	37,422	50%	18,711
P/B	40,480	50%	20,240
Target price (VND)			39,000

Source: KB Securities Vietnam

TCB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	18,751	26,699	30,290	27,243	31,918	Loans	275,310	343,606	415,752	489,237	573,210
Interest income	29,002	35,503	44,753	54,039	59,006	Marketable securities	8,348	5,071	961	1,731	2,090
Interest expense	(10,251)	(8,805)	(14,463)	(26,796)	(27,087)	Cash (ex. Reserves)	3,664	3,579	4,216	4,449	5,372
Fees & commissions	4,525	6,382	8,527	9,599	9,474	Interest earning assets	409,963	526,132	619,967	667,530	769,030
Other non-interest income	2,279	1,803	2,167	2,036	2,090	Fixed assets & other assets	28,586	43,037	79,995	72,105	84,611
Total operating income	27,379	37,076	40,902	39,367	44,383	Total assets	439,603	568,729	699,033	736,806	851,315
SG&A expenses	(8,967)	(11,173)	(13,398)	(12,991)	(14,558)	Customer deposits	277,459	314,753	358,404	384,665	464,460
Pre-provisioning OP	18,411	25,903	27,504	26,376	29,825	Borrowings & call money/repos	28,167	33,680	35,858	63,971	69,381
Provision for credit losses	(2,611)	(2,665)	(1,936)	(2,912)	(2,123)	Interest bearing liabilities	353,110	460,892	561,832	590,972	673,191
Other income	5,460	4,344	4,500	4,647	4,697	Other liabilities	11,878	14,796	23,775	16,398	29,120
Other expense	(3,181)	(2,540)	(2,333)	(2,611)	(2,607)	Total liabilities	364,988	475,687	585,608	607,370	702,311
Pre-tax income	15,800	23,238	25,568	23,464	27,703	Charter capital	35,049	35,109	35,172	35,172	35,172
Income tax expense	(3,218)	(4,823)	(5,131)	(4,693)	(5,541)	Capital surplus	477	476	476	476	476
NP	12,582	18,415	20,436	18,771	22,162	Retained earnings	31,816	47,453	64,483	80,772	100,340
Minority interest profit	(257)	(363)	(286)	(372)	(483)	Capital adjustments	-	-	-	-	-
Parent NP	12,325	18,052	20,150	18,399	21,679	Total shareholders' equity	74,615	93,041	113,425	129,436	149,004

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	18.4%	22.0%	19.8%	15.5%	15.9%	EPS	3,516	5,142	5,729	5,231	6,164
ROA	3.1%	3.7%	3.2%	2.6%	2.8%	BVPS	21,289	26,501	32,248	36,800	42,364
Pre-provision ROE	21.5%	24.5%	21.3%	17.4%	17.1%	Tangible BVPS	20,392	25,476	30,908	34,976	39,881
Pre-provision ROA	3.6%	4.1%	3.5%	2.9%	3.0%	Valuations					
Net interest margin (NIM)	4.9%	5.7%	5.3%	4.2%	4.4%	PER	12.5	8.6	7.7	8.4	7.1
Efficiency						PBR	2.1	1.7	1.4	1.2	1.0
Pure Loan to deposit ratio	100.0%	110.4%	117.3%	129.0%	125.0%	Dividend yield	0%	0%	0%	0%	0%
Cost-income ratio	32.8%	30.1%	32.8%	33.0%	32.8%	ROE	18.4%	22.0%	19.8%	15.5%	15.9%
Growth						Capital Adequacy					
Asset growth	14.6%	29.4%	22.9%	5.4%	15.5%	CAR	16.1%	15.2%	15.2%	>15%	>15%
Loan growth	20.8%	24.8%	21.0%	17.7%	17.2%	Asset Quality					
PPOP growth	33.8%	40.7%	6.2%	-4.1%	13.1%	NPL ratio (substandard)	0.5%	0.7%	0.7%	1.2%	1.0%
Parent NP growth	22.3%	46.5%	11.6%	-8.7%	17.8%	Coverage ratio (substandard)	170.9%	162.8%	157.3%	122.3%	133.5%
EPS growth	22.2%	46.2%	11.4%	-8.7%	17.8%	NPL ratio (precautionary)	1.1%	1.3%	2.8%	3.3%	2.8%
BVPS growth	20.0%	24.5%	21.7%	14.1%	15.1%	Coverage ratio (precautionary)	71.4%	84.1%	40.5%	43.3%	46.1%

Source: Techcombank, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@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 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh 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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.