

Techcombank (TCB)

Under the pressure from higher interest rates

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3Q22 EBT rose 20.7%YoY to VND6,715 billion

Techcombank (TCB) recorded 3Q net interest income (NII) of VND7,565 billion (-2.9%QoQ and +12.2%YoY), non-interest income (NOII) of VND2,773 billion (-14.1%QoQ and +36.2%YoY). 9M22, EBT reached VND20,821 billion (+21.7%YoY), completing 77% of the year plan.

NIM fell further to 5.22%

The average earnings yield improved by 0.3% QoQ thanks to the promotion of retail lending and the recovery in repayment capacity of restructured customers. However, the average cost of funds rose 0.61 pts QoQ due to the high increase in deposit rates from customer deposit and interbank channel. 3Q NIM dropped 0.26% to 5.22%

Credit grew while deposit struggled

Given limited credit room, the bank sold off its corporate bond portfolio to have room to boost core lending. Corporate bonds declined 30.5% YTD while loans gained to 18.2%. Deposits posted a modest gain of 1.3% YTD.

TCB has the lowest NPL ratio in the industry

NPL ratio gained 5bps QoQ to 0.65%. LLCR dropped 6.6% QoQ to 165%. The bank's restructured debts were valued at VND400 billion, which have not had too much impact on NPL.

BUY recommendation with a target price of VND34,200 apiece

Using two methods of valuation P/B and DCF, we adjust the target price for TCB for 2022 down to VND34,200/share, 39% higher than the price on October 31, 2022. We recommend BUY for TCB stocks.

Buy maintain

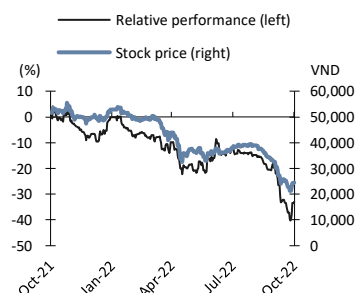
Target price	VND34,200
Upside/Downside	39.0%
Current price (Oct 29, 2022)	24,400
Consensus target price	52,500
Market cap (VNDbn)	125,690

Trading data	
Free float	77.2%
3M avg trading value (VNDbn)	156.76
Foreign ownership	22.5%
Major shareholder	Masan Group (MSN, 14.96%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-24.5	-35.2	-44.2	-52.4
Relative	-16.5	-23.7	-25.5	-33.2

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	18,751	26,699	31,251	36,492
Pre-provision operating profit (VNDbn)	18,411	25,903	30,625	36,302
NPAT of the parent bank (VNDbn)	12,325	18,052	22,468	26,314
EPS (VND)	3,515	5,137	6,375	7,452
EPS growth (%)	22.4%	46.1%	24.1%	16.9%
PER (x)	8.95	9.71	5.36	4.59
Book value per share (VND)	20,392	25,476	31,508	39,171
PBR (x)	1.54	1.96	1.08	0.87
ROE (%)	18.4%	22.0%	22.0%	20.7%



Business performance

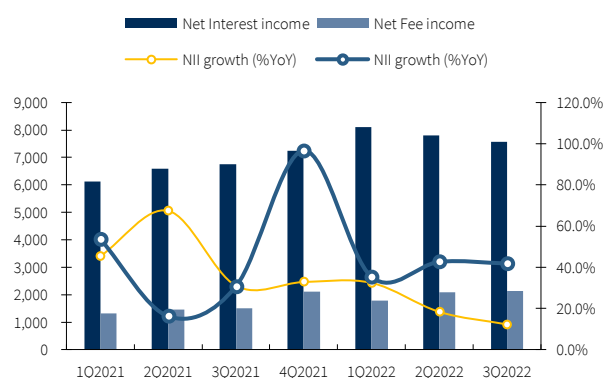
3Q EBT gained 20.7% YoY to VND6,715 billion 3Q

Difficulties in interest income and increasing pressure on interest expenses made TCB continue to record a downward trend in NII. 3Q NII decreased slightly by 2.9%QoQ to VND7,565 billion (still up 12.3% YoY). NOII was VND2,773 billion, down 14.1% QoQ due to lower income from securities investment. As a result, total operating income (TOI) in 3Q dropped 6.2% QoQ to VND10,338 billion (still up 17.7% YoY). The bank made provision of VND609 billion in 3Q (+46%QoQ and +3.4%YoY). Operating expenses decreased slightly by 8.3%QoQ and increased by 14.7%YoY, reaching VND3,014 billion. In summary, TCB recorded 3Q pre-tax earnings of VND6,715 billion, down 8.3%QoQ but still up 20.7%YoY thanks to positive income sources compared to the same period last year. In 9M22, the bank's pre-tax profit reached VND20,821 billion, up 21.7% YoY and completing 77% of the year's guidance.

NIM decreased 26bps QoQ or 36bpsYoY to 5.22%

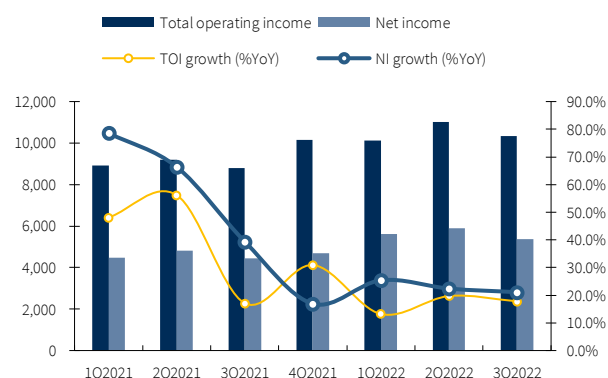
Average costs of fund in 3Q2 gained 0.34% QoQ to 7.77% thanks to TCB's acceleration to increase the proportion of retail customers and the improvement in interbank interest rates. CASA declined 1.5% to 46.5% but still maintained the leading position in the banking industry. We assess that the slow growth rate of CASA is completely consistent with the context of idle cash flow into the savings channel as interest rates continuously increase. Like other banks, TCB also raised interest rates by 1-1.25%, depending on the term. Average interest expense increased 0.43 percentage points to 2.3%. Deposits from the interbank market and from valuable papers also became more expensive given a lack of cash in the whole system. The average cost of mobilized capital in 3Q was 2.83% (up 0.61% QoQ and 0.59% YoY). Therefore, 3Q NIM continued to shrink to 5.22% (down 0.26 % QoQ). The pressure from costs of fund will remain until 4Q or the beginning of 2023 as the State Bank raised the policy rate by 1%.

Fig 1. TCB – NII, NOII (VNDbn, %YoY)



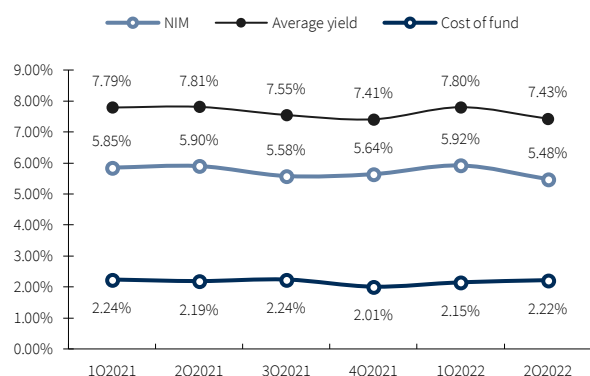
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – TOI & PBT (VNDbn, %YoY)



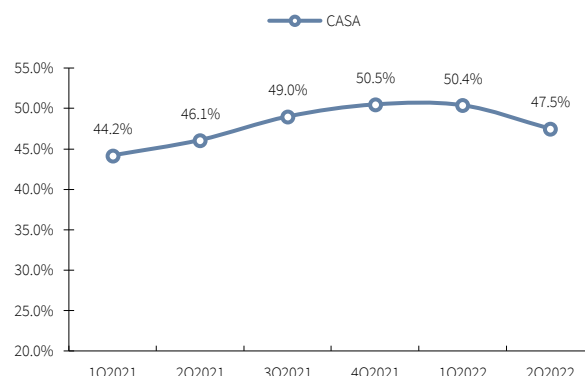
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – NIM (%)



Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA ratio (%)



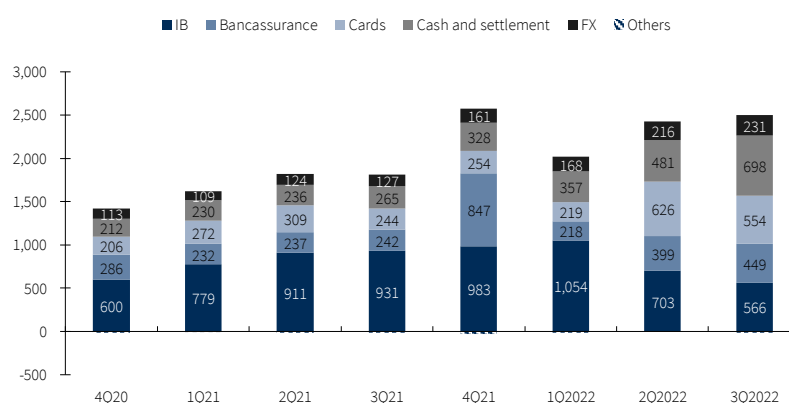
Source: Techcombank, KB Securities Vietnam

3Q NFI surged 41.8% to VND2,123 billion

TCB directly benefits from the bond issuance of Vingroup (VIC) and Masan Group (MSN), providing a stable source of income from investment banking (IB) (including consulting and bond underwriting). The proportion of income from IB usually accounts for about 53% of the bank's total service income. The bond market has become quieter, causing this income proportion to be smaller from 2Q. The bank only recorded about VND 554 billion in income from IB services, down 19%QoQ and 39% YoY. Stricter regulations are needed for the development of the bond market in the long term. Given existing advantages, Techcombank Securities (TCBS) will seize the opportunity and continue to attribute income from IB to the parent bank.

The promotion of credit card segment is highly effective and added VND554 billion to total income in 3Q (down 12%QoQ and up 127%YoY). Income from bancassurance maintained the same high growth momentum as in 2Q, it rose 86% to VND449 billion. Income from settlement activities added VND698 billion to service income, up 45% QoQ and +2.5 times YoY. Fees from foreign currency transaction reached VND231 billion (+7%QoQ and +82%YoY). Income from other services recorded a high growth, which offset the decline in IB income and help net fee income (NFI) go up 41.8% YoY to VND2,709 billion.

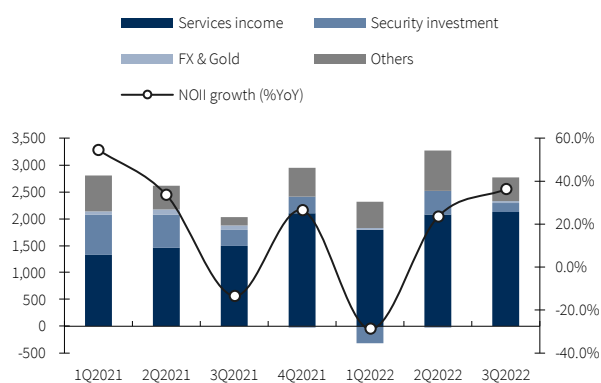
Fig 5. TCB – NFI structure by quarter in 2021-2022 (%)



Source: Techcombank, KB Securities Vietnam

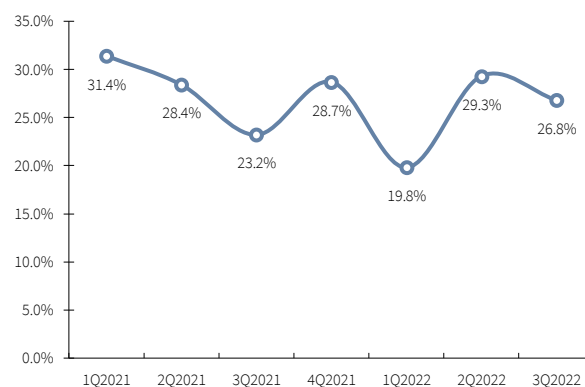
Income from foreign exchange and gold trading saw improvements with earnings of VND28 billion. Securities trading for the first time became profitable again after four consecutive quarters of loss, reaching VND18 billion. We believe that the early settlement of the portfolio of government bonds and bonds from credit institutions comes partly from TCB's need for capital to lend. In addition, after the settlement, the bank can expand the portfolio again to benefit from the rising interest rate trend. Securities investment slowed down and only earned VND157 billion in 3Q (down 73.5%QoQ and 48.7%YoY). Net income from other activities was VND441 billion, 2.8 times higher than the same period last year. NOII growth also slowed down, making the NOII/TOI ratio only reach 26.8% in 3Q, down 2.5 percentage points from the previous quarter.

Fig 6. TCB – NOII structure by quarter (%)



Source: Techcombank, KB Securities Vietnam

Fig 7. TCB – NOII/TOI ratio by quarter (%)

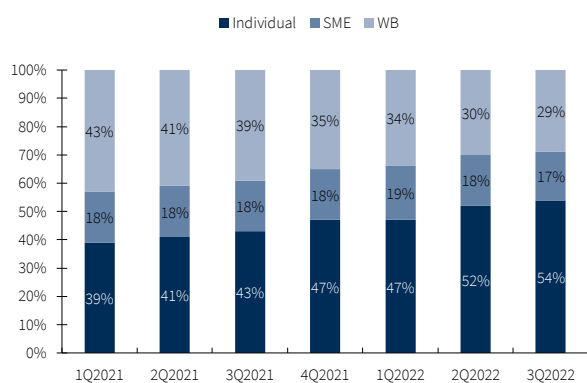


Source: Techcombank, KB Securities Vietnam

TCB reducing bond portfolio to serve lending activities

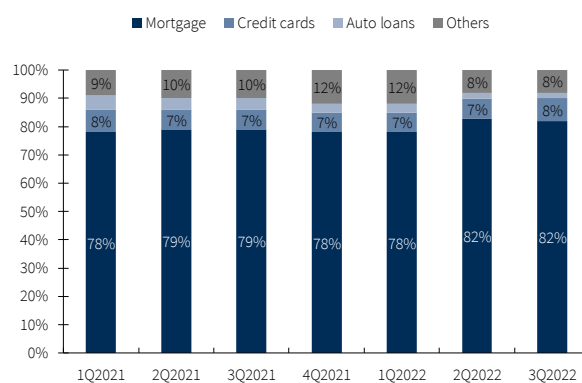
By the end of 3Q, total loans to customers reached VND410.5 trillion, rising to 18.2% YTD (while only 15.7% in the same period). TCB continues its strategy of expanding the retail lending segment, gradually reducing its dependence on wholesale banking. Outstanding loans to individual customers gained 8.3% QoQ or 60.9%YoY to VND222 trillion. Loan value to SMEs was VND71 billion (+2.9%QoQ and +22.4%YoY). Outstanding loans to the wholesale sector decreased slightly by 6.4% YoY to VND117 trillion (Figure 8). With a weight of up to 82%, home loans are the main growth driver for personal loans. 3Q outstanding home loans reached VND182 billion, up 8.8%QoQ and +42.8%YoY. Credit cards accounted for only 8% of the personal loan structure but contributed significantly to the total loan and gained 55.2% YTD to VND17.7 trillion. The proportion of personal loans to buy cars gradually decreased to about 2% at the end of 3Q.

Fig 8. TCB – Credit structure by quarter (%)



Source: Techcombank, KB Securities Vietnam

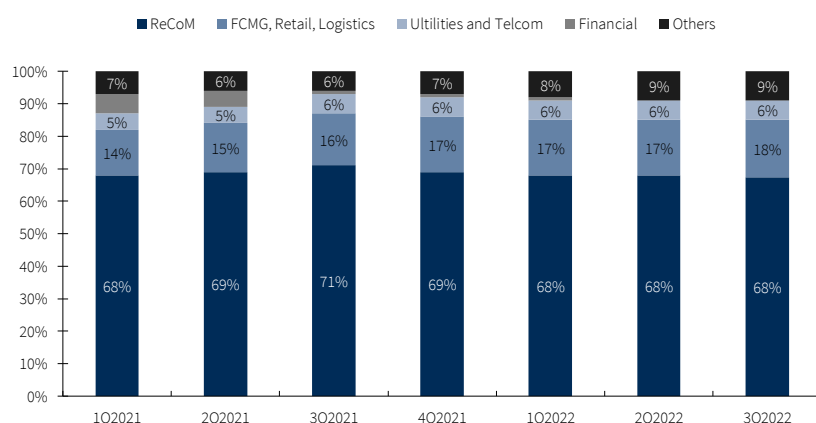
Fig 9. TCB – Retail loans structure by quarter (%)



Source: Techcombank, KB Securities Vietnam

TCB's lending structure by industry has not changed as in the previous quarters when lending to real estate, construction and construction materials still accounted for 68% of total outstanding loans, reaching VND 279 trillion (+ 4.8%QoQ and 16.5%YTD). The bank continues to diversify its business strategy, accelerating development in the fields of FCMG, retail and logistics. The proportion of this segment increased by 18%, the loan balance reached ~74 trillion VND (+10.9%QoQ and +25.1%YTD). Loans to utilities and telecommunications were recorded at VND 24.6 trillion (+4.8%QoQ and +18.2%YTD). TCB actively reduces lending for financial activities and public services, now this segment only accounts for a very small part while in the past it usually accounted for 5–6%.

Fig 10. TCB – Loan structure by industries (%)



Source: Techcombank, KB Securities Vietnam

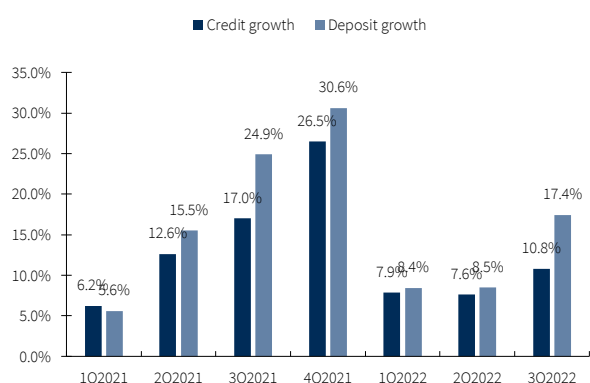
After the SBV's September room extension, TCB's full-year credit room is about 11.7%, which is quite low compared to previous years such as 22.1% in 2021 and 23% in 2020. The main reason is that TCB's lending structure focuses on real estate and promotes investment in corporate bonds, while the SBV wants to narrow the cash flow for these two sectors. Therefore, proactively lowering corporate bond portfolio is necessary to ensure room for loan growth.

Corporate bond decreased by 30.5% YTD to VND43.5 trillion while customer loan growth of 18.2%YTD was higher than that of the same period of 15.7%YTD (Figure 12). It can be noted that the bank's loan disbursement is still going as planned. Management shared that the bank noted that homebuyers have not changed their decision, so the loan portfolio is not affected by bad news in the market.

The scale of mobilized capital at the end of 3Q reached VND332 trillion (+17.4% YTD). Deposit growth was mainly supported by customer deposit (+59.3%YTD) and the issuance of valuable papers (+27.3%YTD), while mobilized capital from deposits grew by a mere of 1.3%YTD to VND319 trillion due to the industry's general difficulties (Figure 13). CASA fell by 1% QoQ to 46.5% but still ranked top in the industry.

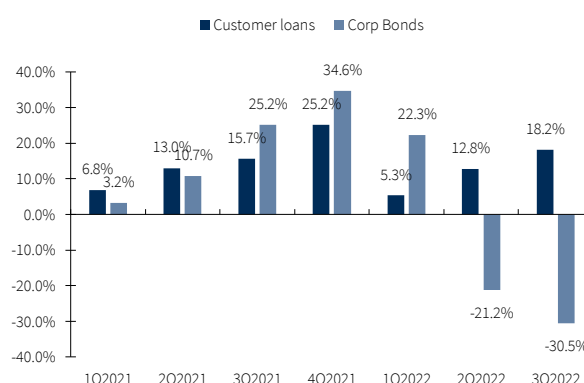
3Q LDR dropped 2.5% to 78.9%. The ratio of short-term funding for medium and long-term loans (SMLR) extended its downward trend to 24.4% thanks to the shift to retail lending with shorter terms, which met the SBV's limit of 34%.

Fig 11. TCB – Credit & deposit growth (% YTD)



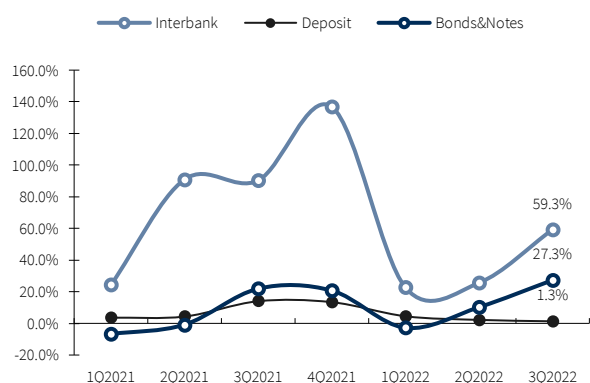
Source: Techcombank, KB Securities Vietnam

Fig 12. TCB – Credit & corporate bonds (% YTD)



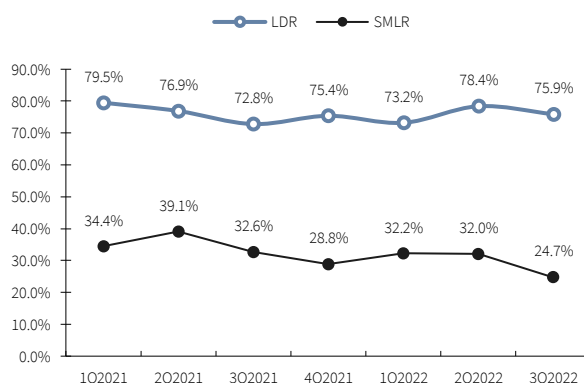
Source: Techcombank, KB Securities Vietnam

Fig 13. TCB – Deposit growth by type (% YTD)



Source: Techcombank, KB Securities Vietnam

Fig 14. TCB – LDR & SMLR (%)

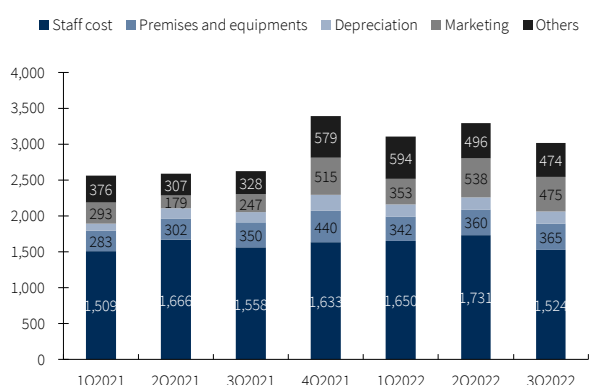


Source: Techcombank, KB Securities Vietnam

The change in lending structure (increasing proportion of loans for retail customers) causes a slight increase in 3Q NPL

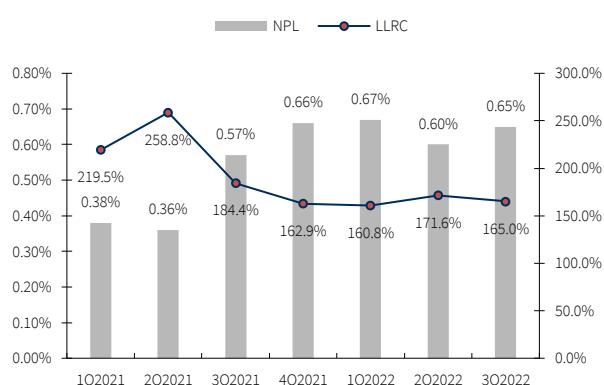
NPL ratio inched up 0.05% QoQ 0.65%, of which substandard debt and bad debt increased 41.6% and 15.4%QoQ respectively. Notably, special mentioned loans also gained 39.8% QoQ. Bad debt and special mentioned loans started rising in 3Q, hence higher proportion of loans to individuals and SMEs and higher bad debt for SMEs (up from 0.7% to 1% in 3Q). It is known that the bank's restructuring debt in 3Q is about VND400 billion, and the expiration of Circular No. 14 does not have too much impact on the NPL ratio as customers have recovered and can fulfill their payment obligations. LLCR dropped 6.6% QoQ to 165% – still among the highest in the industry.

Fig 15. TCB – NPL structure (% YTD)



Source: Techcombank, KB Securities Vietnam

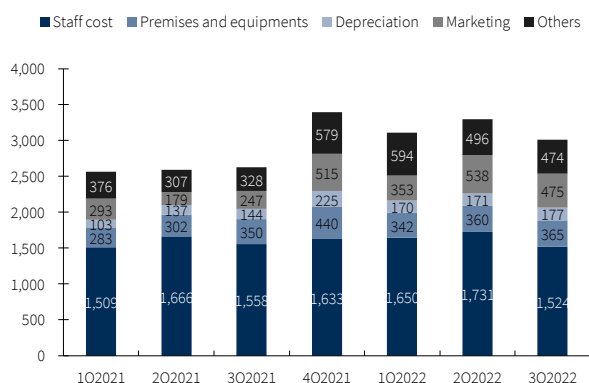
Fig 16. TCB – NPL & LLCR (%)



Source: Techcombank, KB Securities Vietnam

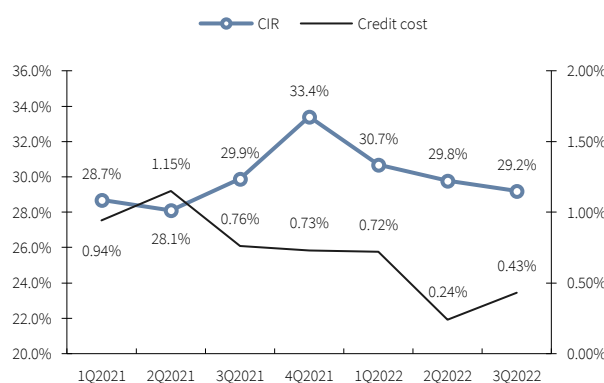
Operating expenses in 3Q were about VND3 trillion, down 8.3 and up 14.7%YoY. Of that, salary and bonus expenses for employees declined 12%QoQ to VND1,524 billion due to the wave of layoffs in 2Q, giving TCB a chance to reverse the provision for salary and bonus expenses. The bank continued to spend heavily on marketing activities as expenses for this segment doubled in the same period last year, reaching VND475 billion. However, thanks to the decrease in staff costs, CIR continued to decrease to 29.2% – among the lowest in the industry, showing the effectiveness in cost control and bank digitization. Credit costs tended to increase again in the last two quarters, reaching 0.59% in 3Q.

Fig 17. TCB – Operating expenses (VNDbn)



Source: Techcombank, KB Securities Vietnam

Fig 18. TCB – CIR (%)



Source: Techcombank, KB Securities Vietnam

Forecast & valuation

2022–2023F business performance

We make our forecast for TCB in 2022 as follows:

- Due to the relatively low credit room allocated for the whole year, we continue to reduce our credit growth assumption for the whole year by 5 percentage points compared to the former assumption to 12.1%. Of that, customer loans may rise 22.1%YoY and corporate bonds may decline 43%YoY. The credit outlook is expected to be brighter in 2023, assuming an increase of 18.4%YoY.
- Mobilized capital growth for the whole year should be 19.5%, driven by customer deposit and valuable papers. Deposit growth should reach 2.7% for 2022.
- The pressure from the cost of funds may be higher in the last quarter after the SBV's second move to raise the policy rate. Meanwhile, it is difficult for the CASA to rebound as people choose to save money. As a result, the full-year NIM is expected to go down 0.24% YoY to 5.47%. 2023F NIM lose 0.13% to 5.34%.
- NPL may increase slightly to about 0.68%, the Management of TCB also shared the same information and said it was because of loan restructuring.
- Provision expenses should hit VND1,693 billion, down 36.7% YoY due to accelerated provisioning for restructuring debt in 2021.
- The parent company's NPAT in 2022 and 2023 is forecast to reach VND22,468 billion (+24.5%YoY) and VND26,314 billion (+17.1%YoY) respectively.

Table 1. TCB – 2022–2023F business results

VNDbn	2021	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	26,699	31,231	36,492	17.0%	16.8%
Net fee income	6,382	8,268	10,692	29.6%	29.3%
Total operating income	37,076	43,589	51,860	17.6%	19.0%
Provision for credit losses	-2,665	-1,693	-2,418	-36.5%	42.8%
Net income	18,052	22,468	26,314	24.5%	17.1%
NIM	5.71%	5.47%	5.34%		
Average yield	7.59%	7.75%	8.12%		
Cost of fund	2.16%	2.58%	3.14%		
CIR	30.1%	29.7%	30.0%		
NPL	0.66%	0.68%	0.63%		
Total asset	568,729	687,829	827,724	20.9%	20.3%
Total equity	93,041	115,859	143,860	24.5%	24.2%

Source: KB Securities Vietnam

Valuation – BUY recommendation with target price of VND53,300 apiece

We combine two valuation methods which are P/B and DCF to find a fair price for TCB stocks:

(1) P/B valuation method (Figure 19)

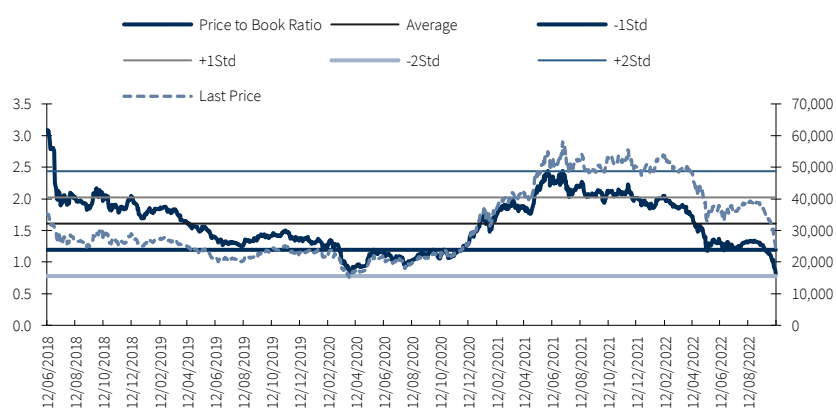
We still appreciate TCB thanks to its solid foundation and progressive steps in digital transformation. TCB's current PB valuation is below 5-year low of around 0.74x. As a result, we have a 2022 target P/B valuation of 1.2x, representing an average of -1 Std.

(2) DCF valuation method (Table 2)

In addition, we also use the DCF method to reflect systematic risks and long-term expectations. We adjust the risk-free rate (Rf) to 5% and raise the equity risk premium (ERP) by 3% to reflect the risks on bonds and real estate (Table 3).

Combining the above two valuation methods with a ratio of 50-50 (Table 4), we get the final fair price for TCB shares of VND34,200/share, 39.0% higher than the closing price on October 31, 2022. Some potential risks are (1) rapid increase in NPL and (2) risks involved in holding bonds.

Fig 29. TCB – Price movements & P/B in 2018–2022



Source: Techcombank, KB Securities Vietnam

Table 2. TCB – Stock price according to RIM

VNDbn	2022F	2023F	2024F	2025F	2026F
Net Income	22,927	26,851	33,750	41,190	49,972
Residual Income	2,656	1,714	2,588	2,695	2,586
Re	17.1%				
Growth rate	5%				
Terminal value	10,190				
Present value	17,928				
TCB's stock price	30,582				

Source: KB Securities Vietnam

Table 3. TCB – Rf & ERP analysis

	30,508	Equity Risk Premium				
		7.8%	8.8%	9.8%	10.8%	11.8%
Rf	3%	82,143	64,216	52,160	42,868	35,521
	4%	66,800	53,124	43,621	36,125	30,084
	5%	55,128	44,394	36,741	30,582	25,544
	6%	45,986	37,366	31,092	25,963	21,709
	7%	38,659	31,609	26,389	22,066	18,438

Source: KB Securities Vietnam

Table 4. TCB – Combination of two valuation methods

Method	Target price	Weight	Weighted target price
Residual Income	30,582	50%	15,291
P/B	37,810	50%	18,905
Target price			34,196

Source: KB Securities Vietnam

TCB – 2020A–2023F financials

Income Statement					Balance Sheet				
(B n VND)	2020	2021	2022F	2023F	(B n VND)	2020	2021	2022F	2023F
Interest and Similar Income	3,675	3,782	3,223	3,168	TOTAL ASSETS	179,733	175,863	171,394	165,879
Interest and Similar Expenses	-2,724	-2,492	-2,302	-2,150	Cash and precious metals	4,529	3,669	2,999	2,421
Net Interest Income	951	1,290	921	1,018	Balances with the SBV	5,577	3,753	5,447	3,770
Fees and Commission income	256	234	320	286	Placements with and loans to other credit institutio	31,256	25,109	25,681	27,104
Fees and Commission expenses	-217	-111	-76	-135	Trading securities, net	769	1,454	1,461	997
Net Fee and Commission Income	39	122	244	151	Derivatives and other financial assets	41	107	114	0
Net gain/(loss) from foreign currency and gold dea	-81	18	-61	-118	Loans and advances to customers, net	67,134	66,989	68,593	68,406
Net gain/(loss) from trading of trading securities	19	37	164	13	Debts purchase	0	0	0	0
Net gain/(loss) from disposal of investment secur	-23	22	-22	83	Investment securities	46,654	47,467	43,897	42,954
Net Other income/(expenses)	266	132	125	121	Investment in other entities and LT investments	93	93	93	129
Dividends income	5	6	8	14	Fixed assets	1,146	1,125	1,033	1,069
Total operating income	1,175	1,627	1,379	1,283	Investment properties.	1,329	1,321	1,313	1,309
General and Admin expenses	-1,263	-912	-771	-873	Other assets	2,1204	24,776	20,764	17,719
Operating Profit Before Provision for Credit Loss	-88	714	608	410	LIABILITIES AND SHAREHOLDER'S EQUITY	179,733	175,863	171,394	165,879
Provision for credit losses	-1,128	-317	-353	-313	Total liabilities	166,443	162,188	157,611	152,031
Profit before tax	-1216	397	255	97	Due to Gov and Loans from SBV	0	0	0	0
Corporate income tax	0	0	-160	-44	Deposits and Loans from other credit institution	39,170	34,203	33,990	24,686
Net profit for the year	-1216	397	95	53	Deposits from customers	111,462	114,096	111,591	117,236
Minority interest	0	0	0	0	CBs/CDs and other valuable papers issued	10,451	7,646	6,670	4,536
Attributable to parent company	-1216	397	95	53	Other liabilities	5,232	6,131	5,264	5,487
					Shareholder's equity	13,290	13,675	13,783	13,848
					Charter capital	8,848	8,848	8,848	8,848
					Share premium	0	0	0	0
					Reserves	3,475	3,476	4,279	4,279
					Retained Earnings	966	1,355	627	716
					Valuation				
					(VND, x, %)	2020	2021	2022F	2023F
					Pricing ratio				
					Basic EPS	0	436	-137	-758
					Book value per share	14,651	15,079	15,208	15,266
					Valuation ratio				
					PER	6.91	7.39	-179.56	-32.45
					PBR	0.00	0.21	1.62	1.61
					Dividend yield	118.0%	71.0%	35%	4%

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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