

December 12, 2023

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### 3Q TOI was flat while EBT decreased

3Q TOI of Techcombank (TCB) was flat YoY as the small decrease of 3.9% YoY in NII was offset by 13.5% growth in NFI. Credit costs spiked in 3Q due to increased credit scale and worse asset quality. In the quarter, TCB recorded EBT of VND5,843 billion (-13% YoY), making 9M23 EBT VND17,115 billion (-18% YoY) or 73.3% of our forecast.

### Positive credit growth thanks to newly granted limits

TCB is also one of the banks granted credit extension in this round. 9M29 credit growth was 13.5% on the 14% limit granted since July, TCB has almost disbursed the full limit. KBSV expects that with the new credit limit, credit growth of the bank this year can reach 15-17%.

### COF significantly improved in 3Q, restraining the decline in NIM

3Q cost of funds (COF) hit 4.7%, the lowest in the last three quarters given a big decline in deposit interest rates. The slight decrease in asset yields compared to the COF contributed to this quarter's NIM improving by 4bps compared to the previous quarter. Although 12M trailing NIM of TCB is still trending downward, we expect it will reverse next year.

### BUY recommendation – target price VND41,000/share

Using two valuation methods, P/B and residual income, we give the target price for TCB stock at VND41,000/share for 2024, 32% higher than the price on December 11, 2023, with a BUY recommendation.

## Buy change

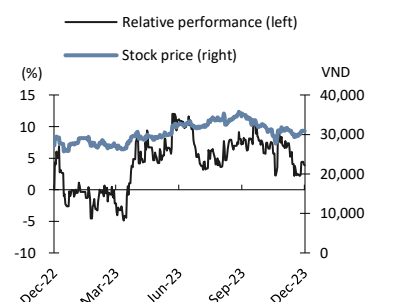
<b>Target price</b>	<b>VND41,000</b>
Upside	32%
Target consensus price	VND40,250
Current price (Dec 11, 2023)	VND30,850
Market cap (VNDbn/USDmn)	122.75/5.03

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

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-0.6	-12.6	-5.7	7.1
<b>Relative</b>	-2.9	-3.4	-6.6	-0.4

### Forecast earnings & valuation

FY-end	2021	2022	2023F	2024F
Net interest income (VNDbn)	26,699	30,290	27,091	31,767
Pre-provision operating profit (VNDbn)	25,905	27,504	26,405	29,544
NPAT of the parent bank (VNDbn)	18,415	20,436	18,659	21,498
EPS (VND)	5,142	5,729	5,199	5,975
EPS growth (%)	46%	11%	-9%	15%
PER (x)	8.6	7.7	8.5	7.4
Book value per share (VND)	26,501	32,248	36,769	42,143
PBR (x)	1.66	1.36	1.20	1.04
ROE (%)	22.0%	19.8%	15.4%	15.5%



Source: Bloomberg, KB Securities Vietnam

## 3Q23 performance updates

### Updated 3Q2023 business results

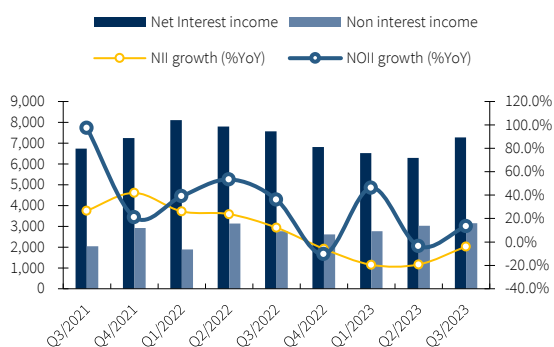
3Q TOI of TCB was flat YoY as the small decrease of 3.9% YoY in NII was offset by 13.5% growth in NFI. Credit costs spiked in 3Q due to increased credit scale and worse asset quality. In the quarter, TCB recorded EBT of VND5,843 billion (-13% YoY), making 9M23 EBT VND17,115 billion (-18% YoY) or 73.3% of our forecast.

**Table 1. TCB – 3Q23 business results**

(VNDbn)	3Q22	3Q23	YoY	9M22	9M23	YoY	KBSV's notes
Net interest income	7,565	7,272	-3.9%	23,470	20,094	-14.4%	9M23 NII lost 14.4% YoY due to (1) high COF in 1H23 and (2) TCB's flexible pricing policies to support customers. The decline in slowed down in 3Q (-3.9% YoY).
Non-interest income (NOII)	2,773	3,146	13.5%	7,809	8,950	14.6%	NOII recovered positively because: <ul style="list-style-type: none"> <li>- The IB segment contributed VND607 billion in 3Q, doubling QoQ and gaining 64% YoY when consulting and bond issuance activities increased again.</li> <li>- Income from L/C, payment, and cash (accounting for 45% of NFI) is the main growth driver, which surged 109% compared to 9M22.</li> <li>- Meanwhile, the bancassurance segment recovered compared to 2Q but has not returned to the high base in 9M22.</li> <li>- Income from FX trading reached VND124 billion compared to the loss in 2Q. Securities investment earned VND635 billion (+659% QoQ).</li> </ul>
<b>Total operating income</b>	<b>10,338</b>	<b>10,418</b>	<b>0.8%</b>	<b>31,279</b>	<b>29,044</b>	<b>-7.1%</b>	
Operating expenses	(3,014)	(3,631)	20.5%	(9,213)	(9,642)	4.7%	Higher operating costs mainly raised depreciation costs (+69% YoY) as the bank continued to invest in digitalization activities. The investment in infrastructure equipment and marketing costs also increased YoY.
CIR (%)	29.2%	34.8%	+569bps	29%	33%	+374bps	
Credit risk provision costs	(609)	(945)	55.1%	(1,245)	(2,287)	83.7%	Credit costs increased sharply along with the general decline in asset quality of the entire industry.
<b>Profit before taxes</b>	<b>6,715</b>	<b>5,843</b>	<b>-13.0%</b>	<b>20,822</b>	<b>17,115</b>	<b>-17.8%</b>	
Profit after taxes	5,368	4,669	-13.0%	16,864	13,709	-18.7%	
Credit growth (%)	10.7%	13.5%	+280bps				Credit growth is led by corporate customers (+63% YoY), of which real estate lending still accounted for a large proportion of the credit portfolio (more than 70%). Credit through the corporate bond channel in 3Q surged 21.4% QoQ.
Mobilization growth (%)	17.4%	12.5%	-483bps				Deposit growth reached 14.1% YTD when interest rates were sharply cut. Mobilization through valuable papers has a strong increase in price of more than 80% YTD, a source of long-term mobilization with lower costs that helps the bank bring the SFL ratio to 30.5% by the end of September 2023.
NIM (%)	5.59%	4.06%	-153bps				Quarterly NIM has begun to improve thanks to a 0.7% decrease in COF this period compared to the previous quarter. However, the 12M trailing NIM continued its downward trend due to the impact of high deposit costs from the end of 2022.
NPL ratio (%)	0.65%	1.4%	+75bps				NPL increased to 1.4% from 1.07% in the previous quarter. The increase mainly came from the customer service and SME groups, while the large business customer group did not record any NPL in such a long term.

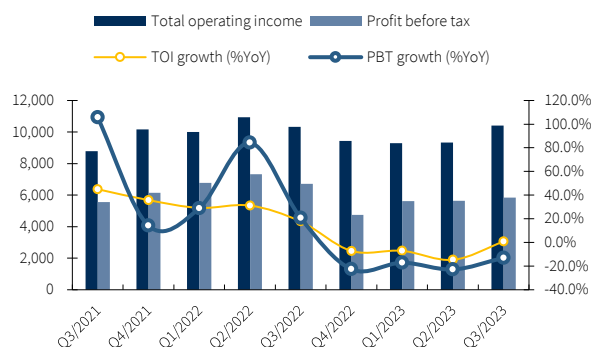
Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – NII & NFI growth by quarter (VNDbn, %)



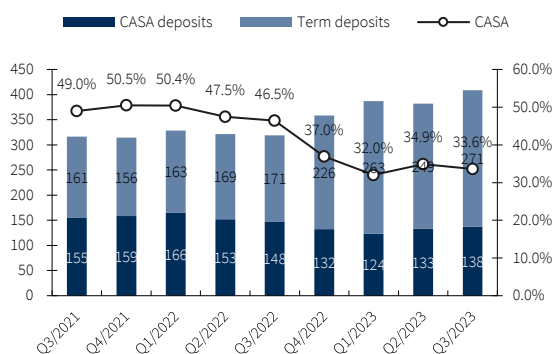
Source: Techcombank, KB Securities Vietnam

Fig 3. TCB – TOI & EBT growth (VNDbn, %)



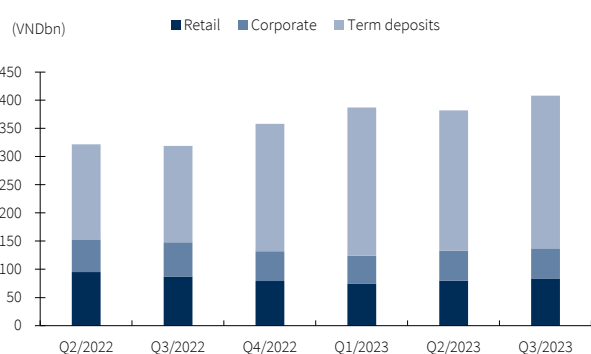
Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – CASA & term deposits (VNDbn)



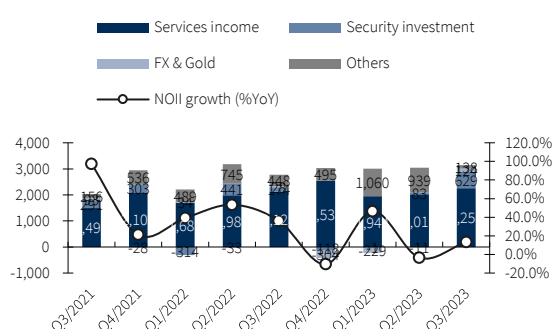
Source: Techcombank, KB Securities Vietnam

Fig 5. TCB – Deposit structure



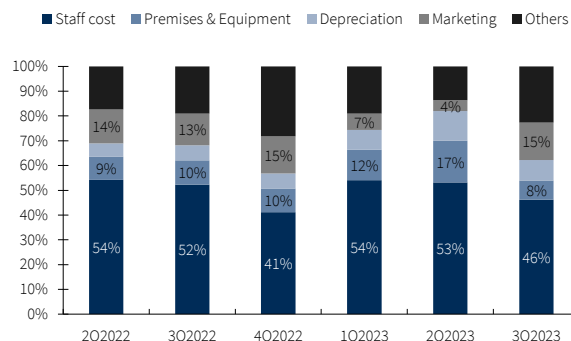
Source: Techcombank, KB Securities Vietnam

Fig 6. TCB – NFI structure (VNDbn)



Source: Techcombank, KB Securities Vietnam

Fig 7. TCB – Operating cost structure



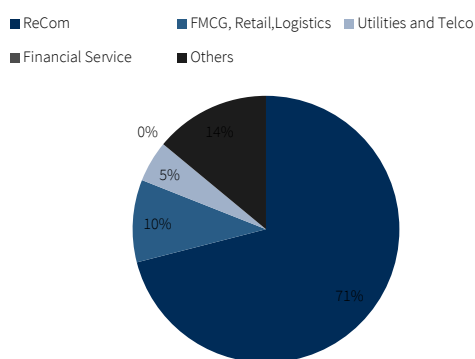
Source: Techcombank, KB Securities Vietnam

**TCB recorded positive credit growth thanks to newly granted credit limits**

Credit growth in 9M23 recorded robust growth compared to the industry average, mainly driven by loans to real estate. Outstanding debt of the ReCom segment (real estate, construction and construction materials) as of the end of 3Q gained 26.5% YTD, contributing 71% of the credit structure of the corporate customer group. In contrast, credit granted to the private customer group recorded a decrease of 6.5% YTD, mainly coming from a decrease of 13% YTD in home loans due to weak demand. TCB said that its home loans are gradually stabilizing with new secondary projects launched for sale in recent months.

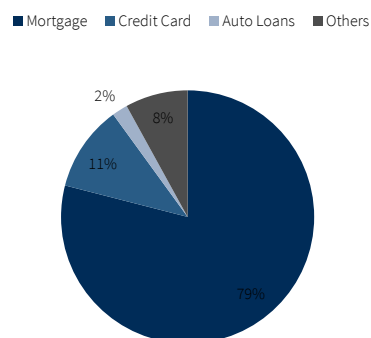
We maintain a positive view on credit growth of TCB this year and next year. In November, the State Bank of Vietnam (SBV) directed to grant additional credit limits to banks that meet certain requirements. TCB is also one of the banks granted credit extension in this round. 9M29 credit growth was 13.5% on the 14% limit granted since July, TCB has almost disbursed the full limit. KBSV expects that with the new credit limit, credit growth of the bank this year can reach 15-17%.

**Fig 8. TCB – Corporate loans by business sector**



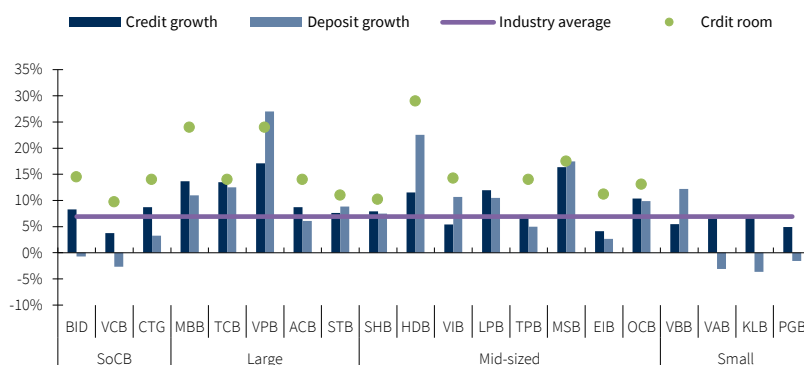
Source: Techcombank, KB Securities Vietnam

**Fig 9. TCB – Private loans by purpose**



Source: Techcombank, KB Securities Vietnam

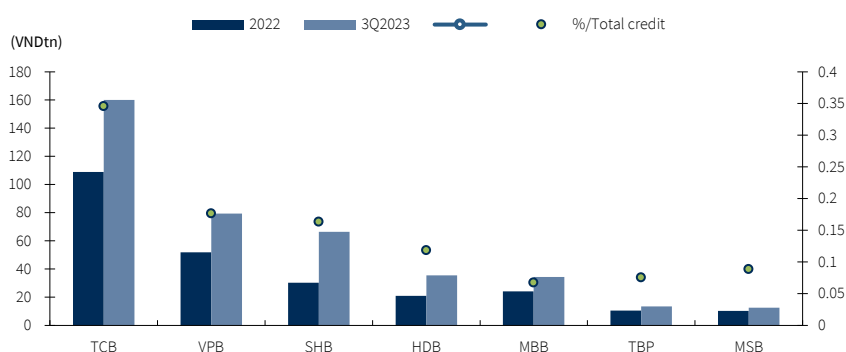
**Fig 10. Vietnam banks – Credit & deposit growth (% YTD)**



Source: Financial statements of banks, KB Securities Vietnam

**Fig 21. Vietnam banks – Outstanding loan to real estate (excluding corporate bonds) (VNDtn)**

Among the banks with the highest outstanding loans in the industry, TCB recorded the fastest YTD growth. TCB's current real estate debt balance (excluding corporate bonds) is VND160 trillion, equal to 35% of outstanding debt



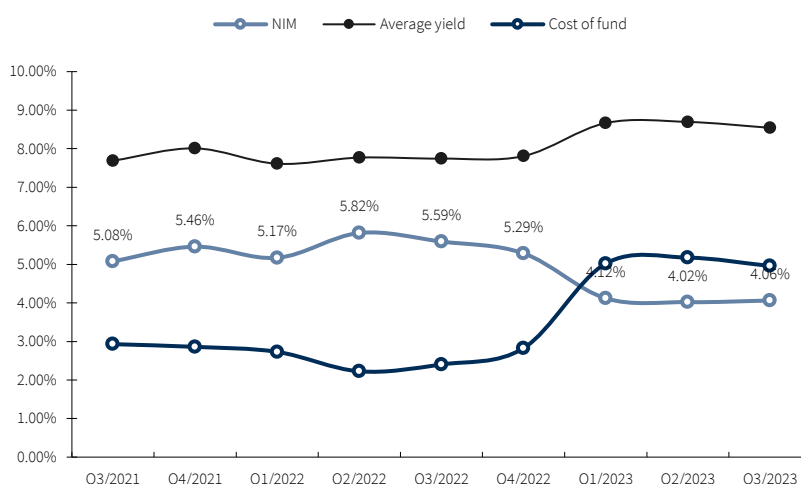
Source: Financial statements of banks, KB Securities Vietnam

**COF significantly improved in 3Q, limiting the decline in NIM**

3Q cost of funds (COF) hit 4.7%, the lowest in the last three quarters given a big decline in deposit interest rates. The slight decrease in asset yields compared to the COF contributed to this quarter's NIM improving by 4bps compared to the previous quarter. Although 12M NIM of TCB is still trending downward, we expect it will reverse next year thanks to:

- COF continued to decrease thanks to (1) existing high-interest-rate deposits to be matured at the end of 2023 and early 2024 and (2) the bank optimizing its capital structure with certificate of deposit products with long deposit terms (averaging about three years) and lower costs compared to long-term deposits or bonds. This is also one of the sources prioritized by TCB in the roadmap to bring SFL to the 30% limit set by SBV.
- The yield on earning assets (IEA) will also decrease because TCB still implements a flexible pricing policy to support customers through this difficult period. However, the decline in IEA tends to be slower than the COF.

**Fig 32. TCB – NIM growth (% YTD)**



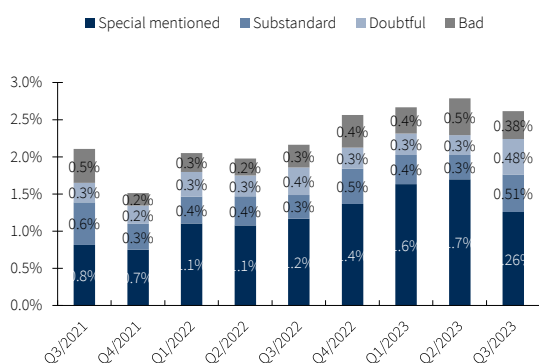
Source: Techcombank, KB Securities Vietnam

**Asset quality shows positive changes but still needs further observation**

NPL ratio increased from 1.1% in 2Q to 1.4%. NPL from retail customers climbed from 1.96% to 2.47% this quarter. Particularly the home loan segment reported the strongest increase due to a decline in the customers’ income, affecting their ability to repay debt (NPL mortgage ~1.5%). NPL from SMEs also recorded a big gain from 1.51% to 2.16% while the large customer group (WB) did not incur NPL. Although NPL did not record an improvement this quarter, special mention fell to 1.3% of total outstanding debt, compared to 2% at the end of the previous quarter. We see that asset quality has not really shown an improvement trend as TCB increased provisioning in 3Q (+83.7% YoY), and loan loss coverage ratio (LLCR) decreased to 93% from 116% in 2Q.

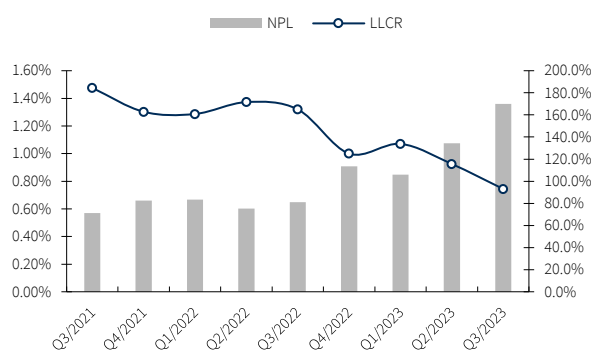
In addition, as TCB's loan portfolio is mainly related to the real estate sector, asset quality will need further observation, depending on the level of recovery of this market in the near future. This is also considered one of the risks when investing in TCB shares. However, as far as we know, the customers granted credit by TCB are all investors and large businesses in the industry whose lending cycle and collateral are carefully monitored by the bank. Therefore, the bank has never recorded bad debts incurred from this group.

**Fig 13. TCB – NPL structure**



Source: Techcombank, KB Securities Vietnam

**Fig 14. TCB – NPL & LLCR (%)**



Source: Techcombank, KB Securities Vietnam

## Forecast & valuation

**Table 15. TCB – 2023–2024F business results**

(VNDbn)	2022	2023F	+/-%YoY 2022	2024F	+/-%YoY 2023	KBSV's notes
Net interest income	30,290	27,091	-10.6%	31,767	17.3%	With the new credit limit granted lately, we adjust TCB's 2023 credit growth to 15–17%. In 2024, the target growth is 18–20%.
Net fee income	8,527	9,015	+5.7%	8,898	-1.3%	
Total operating income	40,902	39,411	-3.6%	43,964	+11.6%	
Provision costs	(1,936)	(3,081)	+59.1%	(2,671)	-13.3%	TCB is expected to increase provisioning this year and next year as NPL has not tended to decrease in the ReCom and SME segments.
Profit after taxes	20,436	18,659	-8.7%	21,498	+15.2%	
NIM (%)	5.29%	4.00%	-129bps	4.40%	+40bps	NIM is expected to improve in 2024 because CoF has decreased significantly since 3Q23, while IEA decreases at a slower rate and have a lag with deposit interest rates.
Average earnings yield (%)	7.81%	8.37%	+56bps	8.18%	-20bps	
Average cost of fund (%)	2.83%	4.65%	+ 182bps	4.29%	-36bps	
CIR (%)	32.8%	33.0%	+24bps	32.8%	-20bps	CIR should be controlled in the range of 30–35%.
NPL ratio (%)	0.72%	1.40%	+ 68bps	1.20%	-20bps	We adjust our NPL forecast to 1.4% in the context of NPLs increasing faster than expected.
<b>Total assets</b>	699,033	740,587	+5.9%	854,959	+15.4%	
Owner's equity	113,425	129,324	+14.0%	148,229	+14.6%	

Source: Techcombank, KB Securities Vietnam

### Valuation: BUY recommendation, with target price VND41,000/share

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

(1) P/B valuation method:

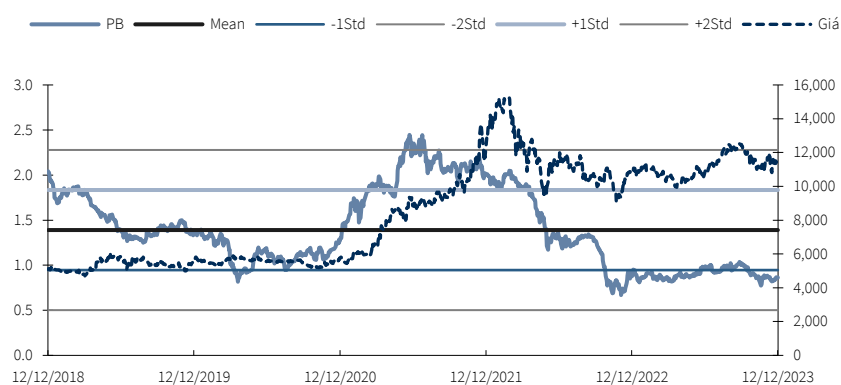
Currently, TCB shares are trading at P/B 0.9x, we think this price has been reflecting the difficulties in the past year. KBSV expects a conservative target P/B at 1.1x for 2024, corresponding to the bank's prospects and potential risks in the near future.

(2) Residual income method:

We incorporated the residual income method to reflect systemic risks and long-term expectations of the bank.

KBSV highly appreciates the long-term growth potential of the real estate sector and the Government's efforts to remove legal difficulties to this market. TCB, with special competitive advantages in (1) digital technology, (2) potential ecosystem, and (3) pioneering position in the field of real estate lending, should be revalued at a more reasonable level. Combining the above two valuation methods with a 50-50 ratio, we adjusted the target price for TCB shares to VND41,000/share, 32% higher than the closing price on December 11, 2023.

Fig 46. TCB – P/B and stock prices (x, VND)



Source: Bloomberg, KB Securities Vietnam

Table 17. TCB – Valuation according to residual income method

(VNDbn)	2024F	2025F	2026F	2027F
NPAT	21,498	25,430	28,536	33,091
Excessed return	1,448	2,348	2,436	2,622
Required rate of return (re)	15.5%			
Growth (g)	5%			
Terminal value	6,912			
Total present value (PV)	145,493			
<b>Value per share</b>	<b>41,366</b>			

Source: KB Securities Vietnam

Table 28. TCB – Final valuation

Valuation method	Forecast price	Weighing	Weighted price
Residual income	41,366	50%	20,223
P/B	40,446	50%	20,683
<b>Target price</b>			<b>41,000</b>

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	27,091	31,767	Loans	275,310	343,606	415,752	489,079	572,847
Interest income	29,002	35,503	44,753	54,039	59,006	Marketable securities	8,348	5,071	961	4,821	5,822
Interest expense	(10,251)	(8,805)	(14,463)	(26,948)	(27,238)	Cash (ex. Reserves)	3,664	3,579	4,216	4,449	5,372
Fees & commissions	4,525	6,382	8,527	9,015	8,898	Interest earning assets	409,963	526,132	619,967	670,622	772,764
Other non-interest income	2,279	1,803	2,167	2,545	2,211	Fixed assets & other assets	28,586	43,037	79,995	72,953	84,886
Total operating income	27,379	37,076	40,902	39,411	43,964	Total assets	439,603	568,729	699,033	740,587	854,959
SG&A expenses	(8,967)	(11,173)	(13,398)	(13,006)	(14,420)	Customer deposits	277,459	314,753	358,404	384,665	464,460
Pre-provisioning OP	18,411	25,903	27,504	26,405	29,544	Borrowings & call money/repos	28,167	33,680	35,858	70,023	69,381
Provision for credit losses	(2,611)	(2,665)	(1,936)	(3,081)	(2,671)	Interest bearing liabilities	353,110	460,892	561,832	597,024	673,191
Other income	5,460	4,344	4,500	5,809	4,970	Other liabilities	11,878	14,796	23,775	14,239	33,540
Other expense	(3,181)	(2,540)	(2,333)	(3,264)	(2,758)	Total liabilities	364,988	475,687	585,608	611,263	706,730
Pre-tax income	15,800	23,238	25,568	23,324	26,873	Charter capital	35,049	35,109	35,172	35,172	35,172
Income tax expense	(3,218)	(4,823)	(5,131)	(4,665)	(5,375)	Capital surplus	477	476	476	476	476
NP	12,582	18,415	20,436	18,659	21,498	Retained earnings	31,816	47,453	64,483	80,660	99,564
Minority interest profit	(257)	(363)	(286)	(372)	(483)	Capital adjustments	-	-	-	-	-
Parent NP	12,325	18,052	20,150	18,287	21,015	Total shareholders' equity	74,615	93,041	113,425	129,324	148,229

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
<b>Profitability</b>						<b>Share Price Indicators</b>					
ROE	18.4%	22.0%	19.8%	15.4%	15.5%	EPS	3,516	5,142	5,729	5,199	5,975
ROA	3.1%	3.7%	3.2%	2.6%	2.7%	BVPS	21,289	26,501	32,248	36,769	42,143
Pre-provision ROE	21.5%	24.5%	21.3%	17.4%	17.0%	Tangible BVPS	20,392	25,476	30,908	34,984	39,768
Pre-provision ROA	3.6%	4.1%	3.5%	2.9%	3.0%	<b>Valuations</b>					
Net interest margin (NIM)	4.9%	5.7%	5.3%	4.2%	4.4%	PER	12.5	8.6	7.7	8.5	7.4
<b>Efficiency</b>						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					
Cost-income ratio	32.8%	30.1%	32.8%	33.0%	32.8%	ROE	18.4%	22.0%	19.8%	15.4%	15.5%
<b>Growth</b>						<b>Capital Adequacy</b>					
Asset growth	14.6%	29.4%	22.9%	5.9%	15.4%	CAR	15.6%	15.0%	15.2%	15.0%	>15%
Loan growth	20.8%	24.8%	21.0%	17.6%	17.1%	<b>Asset Quality</b>					
PPOP growth	33.8%	40.7%	6.2%	-4.0%	11.9%	NPL ratio (substandard)	0.5%	0.7%	0.7%	1.4%	1.2%
Parent NP growth	22.3%	46.5%	11.6%	-9.2%	14.9%	Coverage ratio (substandard)	170.9%	162.8%	157.3%	102.8%	110.9%
EPS growth	22.2%	46.2%	11.4%	-9.2%	14.9%	NPL ratio (precautionary)	1.1%	1.3%	2.8%	2.6%	2.6%
BVPS growth	20.0%	24.5%	21.7%	14.0%	14.6%	Coverage ratio (precautionary)	71.4%	84.1%	40.5%	55.3%	51.2%

Source: Techcombank, KB Securities Vietnam

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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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