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Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

TCB recorded good business results in 1Q21

Techcombank (TCB) TOI and PBT increased to VND8.93 trillion (+46.2% YoY) and VND5.53 trillion (+76.8% YoY) in 1Q21.

TCB has strongly improved asset quality with the lowest NPL ratio in the industry

TCB focuses on improving asset quality and system safety. With drastic handling of high-risk loans, erasing uncollectible loans and controlling loan quality, TCB's non-performing loan (NPL) ratio fell to 0.38% in 1Q, the lowest in the whole industry. The bank also expedited provisioning, raising the bad debt coverage ratio to 219% – reinforcing the ability to hedge against market volatility risks.

TCB continues to focus on CASA growth

In the coming time, we believe that TCB can still maintain the advantage of leading CASA thanks to (1) good technology foundation; and (2) competitive customer attraction strategies.

BUY recommendation with a target price of VND58,000/share

KBSV expects TCB's credit growth in 2021 to reach 25%. Based on valuation results, business outlook and possible risks, we recommend to BUY TCB shares. The target price is VND58,000/share, 20.8% higher than the price on May 13, 2021.

Buy maintain

Target price	VND 58,000
Upside/downside	20.8%
Current price (May 13, 2021)	VND 48,000
Target price	VND 50,600
Mrkt cap (VNDbn)	168,200

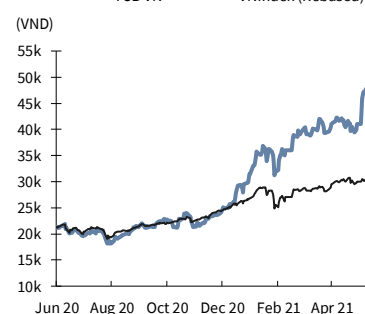
Trading data	
Free float (%)	69.9%
Avg trading value (3M)	562.6/24.4
Foreign ownership (%)	0.0%
Ownership structure	Masan (14.96%)

Share price performance				
(%)	1M	3M	6M	12M
CTG	1.9	25.5	47.1	112.6
VNIndex	0.1	11.7	34.6	52.6

Forecast earnings & valuation

Financial year-end	2019	2020	2021E	2022E
Net interest income (VNDbn)	14,258	18,751	22,615	27,755
Pre-provision oper. profit (VNDbn)	21,068	27,042	32,313	39,315
NPAT of the parent bank (VNDbn)	12,838	15,800	20,456	25,704
EPS (VND)	2,878	3,516	4,574	5,767
EPS growth (%)	17,651	21,151	26,021	32,417
PER (x)	8.2x	9.0x	10.8x	9.3x
Book value per share	1.3x	1.5x	1.9x	1.6x
PBR (x)	2.9%	3.0%	3.2%	3.3%
ROE (%)	17.8%	18.1%	19.4%	19.7%
Cash dividend rate (%)	0.0%	0.0%	0.0%	0.0%

TCB VN VNIndex (Rebased)



Source: Bloomberg, KB Securities Vietnam

Business performance

TCB records impressive profit growth in 1Q2021

In Q121, the bank's TOI and PBT increased to VND8.93 trillion (+46.2% YoY) and VND5.53 trillion (+76.8% YoY) respectively.

Table 1. TCB – Business data

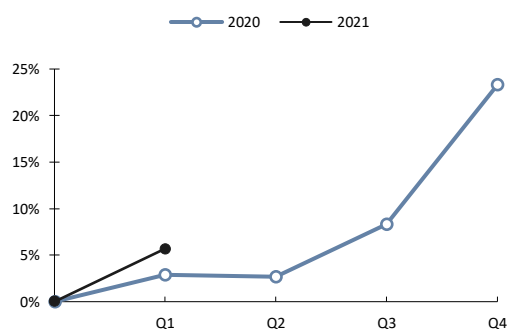
(Thousand Billion VND)	1Q2021	1Q2020	% YoY
Net interest income	6.12	4.21	45.5%
Non-interest income	2.81	1.90	47.9%
TOI	8.93	6.11	46.2%
Operating Expense	(2.56)	(2.22)	15.7%
Provision Expense	(0.85)	(0.77)	10.2%
PBT	5.53	3.12	76.8%

Source: Techcombank, KB Securities Vietnam

Net interest income in 1Q21 increased strongly by 45.5% YoY:

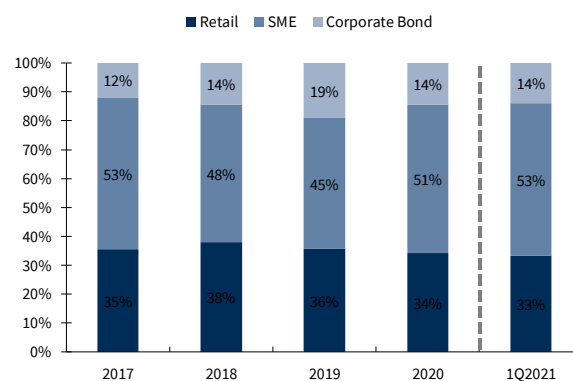
– Credit growth in 1Q21 was high at 5.7% YTD, with the main contribution coming from corporate lending (+9% YTD) and corporate bonds (+3% YTD). We raise TCB's credit growth expectation in 2021 to 25% due to: (1) good credit demand, especially real estate lending amid economic recovery and currently low interest rates; (2) high credit room thanks to high CAR and low NPL; and (3) low LDR, which creates more room for growth.

Fig 1. TCB – Credit growth in 2020–2021 (%)



Source: Techcombank, KB Securities Vietnam

Fig 2. TCB – Credit structure (%)

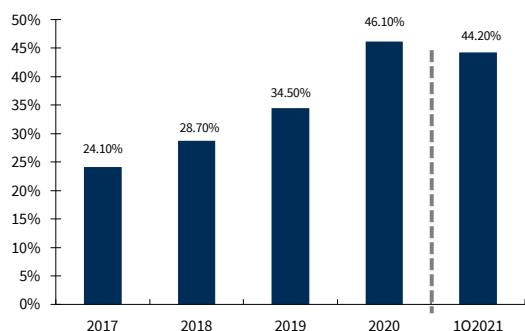


Source: Techcombank, KB Securities Vietnam

– NIM continued to improve to 5.2% (+30 bps) thanks to (1) a sharp drop in deposit interest rates (from 2.7% in 4Q20 to 2.3% in 1Q21) amid stable interest rates for customer loans; and (2) high proportion of CASA at 44.2%.

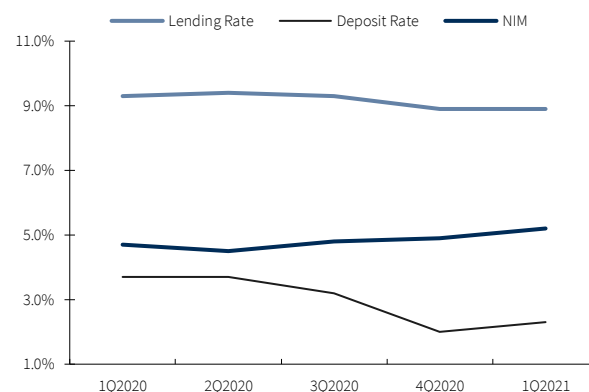
– We believe that TCB's CASA is likely to remain at the high level of 2020, estimated at 46% thanks to (1) good technology foundation; (2) competitive customer attraction strategy (free transaction, 1% cashback of total transaction) and (3) digitization trend which raised customer's E-banking transactions during and after the COVID-19 pandemic. However, competition for CASA in the market is increasing gradually (especially from VCB), making the risk of not maintaining the CASA ratio will be one of the concerns for TCB.

Fig 3. TCB – CASA (%)



Source: Techcombank, KB Securities Vietnam

Fig 4. TCB – NIM, lending rate & deposit interest rate (%)



Source: Techcombank, KB Securities Vietnam

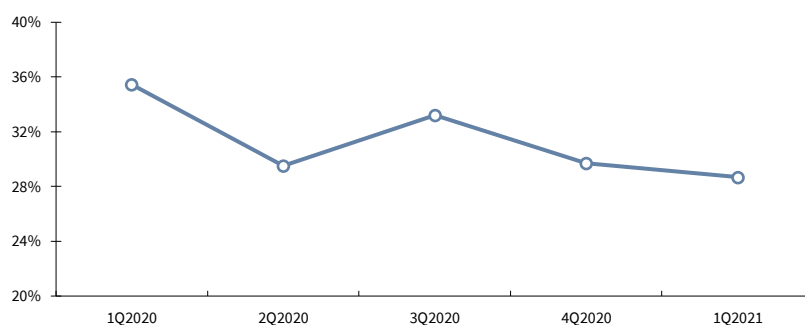
Non-interest income rose 48% YoY in 1Q thanks to:

- Service fees picked up 48% YoY, sales of bancassurance (+76% YoY), investment banking (+57.3% YoY) and cards (+11.2% YoY). In addition, L/C and payment services also went up (+92% YoY), foreign currency trading revenue up (+23% YoY), and bad debt collection up (+225% YoY).
- We believe that bancassurance will be a big contribution to non-interest income after drastic changes to its insurance model, including the launch of the iTCBlife platform in 1Q21. TCB representatives said this model helped to increase 10x customer conversion rates, adding 81% YoY to the bank's APE.

CIR continues to improve

The cost-to-income ratio (CIR) was 28.7%, the lowest in recent quarters due to the OPEX cost reduction strategy and the promotion of technology application to optimize operating costs of TCB. We believe that this downward trend in expense ratio will continue in the coming quarters.

Fig 5. TCB – CIR (%)



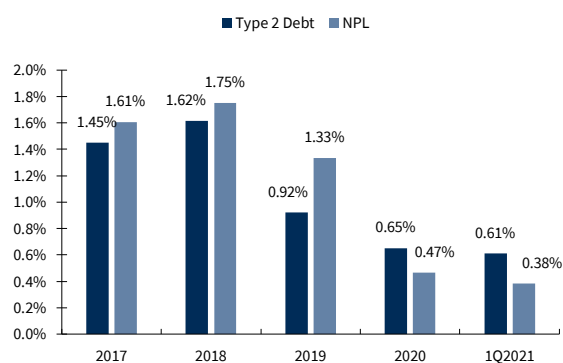
Source: Techcombank, KB Securities Vietnam

TCB has improved asset quality and made strong provision in 1Q21

Group 2 debt ratio and bad debt ratio continued to decrease to 0.61% and 0.38%, respectively, which are the lowest levels of bad debt in the history of TCB and among the banks studied by KBSV. The high provisioning and the decrease in bad debt ratio helped TCB's bad debt coverage ratio rise to 219%, ranked second in the industry.

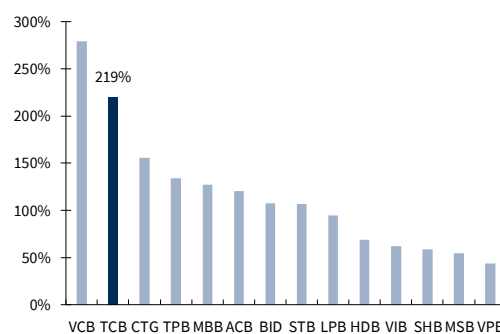
Despite boosting provisioning, TCB's PBT still recorded a good growth rate of 76.8% YoY. ROA and ROE (LTM) hit 3.5% and 20.1% respectively.

Fig 6. TCB – Group 2 debt & bad debt ratio (%)



Source: Techcombank, KB Securities Vietnam

Fig 7. Banks – Bad debt coverage ratio in 1Q21 (%)



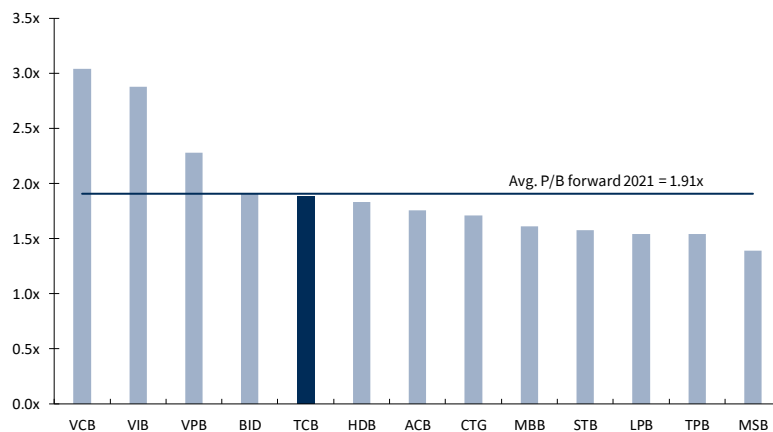
Source: Techcombank, KB Securities Vietnam

TCB's debt restructuring was positive as it decreased by 15.2% compared to the end of 2020 to VND6.7 trillion, equivalent to 2.3% of total outstanding loans. As the Circular 03 allows the extension of the time limit for setting up restructuring debts for three years, we believe that the provision of restructuring debts this year will not bring much significant impact on the bank's profit.

Reasonable P/B compared with the industry average

TCB is currently trading at a forward P/B of 1.88x, close to the industry average (1.91x) (equal to that of commercial banks with almost the same capitalization size and much lower than VCB's) (Figure 8). Given TCB's high profit growth, promising performance, and well-controlled NPL, we think TCB's 2021 P/B deserves a higher level at 2.2x (higher than the industry average at 1.91x).

Fig 8. Banks - 2021 forward P/B (x, %)



Source: Bloomberg, KB Securities Vietnam

Forecast and valuation

Forecast business results in 2021

KBSV forecast TCB would book TOI and PBT at VND32,313 billion (+19.5 % YoY) and 20,456 (+29.5 % YoY), respectively, corresponding to a BVPS of VND26,021 in 2021, based on the following assumptions:

- Consolidated credit growth is about 25%, among the highest in the industry.
- NIM is 5.2% (+20 bps). Lending interest rates may remain at the current level while deposit rates decreases slightly and CASA rate stays at 46%.
- Service fee income rises 24% YoY, expecting a bigger contribution from the bancassurance fees.
- CIR reduces to 30.0% thanks to effective cost optimization.
- NPL ratio is flat at 0.5%. Provisioning for 2021 should be lower at VND2,168 billion (-17.2% YoY), thereby reducing credit costs to 0.7% (-30 bps).

BUY recommendation, target price at VND58,000

Considering TCB's position on the market, growth potential, and good asset quality, we give TCB a target P/B for 2021 of 2.2x. Based on the results of P/B valuation, we recommend to BUY for TCB shares with a target price of VND58,000 apiece, 20.8% higher than the price on May 13, 2021. We think TCB is a good investment choice in in the medium and long term.

TCB – 2019A – 2022E financials & forecast

Income Statement					Balance Sheet				
(VNDbn)	2019A	2020A	2021P	2022P	(VNDbn)	2019A	2020A	2021P	2022P
Interest Income	25,016	29,002	34,237	41,017	Total assets	383,699	439,603	560,154	659,314
Interest Expense	(10,758)	(10,251)	(11,622)	(14,244)	Cash & gold	4,821	3,664	5,180	6,306
Net interest income	14,258	18,751	22,615	26,773	Balances with the SBV	3,192	10,253	10,939	13,716
Fees & commissions	3,253	4,189	5,194	6,493	Balances with credit Institutions	47,990	28,995	30,280	31,622
Trading foreign currencies	105	1	0	0	Marketable securities	76,096	92,795	102,074	110,240
Securities held for trading	398	321	312	324	Loans to customers	227,885	275,310	344,743	413,880
Investment securities	1,244	1,497	1,452	1,510	Fixed assets	3,208	4,613	6,831	10,113
Other activities	4,425	5,460	6,552	7,731	Other assets	20,507	23,972	60,109	73,436
Total operating income	21,068	27,042	32,313	38,333	Total liabilities	321,627	364,988	468,242	554,480
SG&A expenses	(7,313)	(8,631)	(9,694)	(10,925)	Due from the SBV	-	-	-	-
Pre-provisioning OP	13,756	18,411	22,619	27,408	Deposits from credit institutions	61,267	47,485	77,282	91,812
Provision for credit losses	(917)	(2,611)	(2,163)	(2,407)	Deposits from customers	231,297	277,459	341,329	405,765
Pre-tax income	12,838	15,800	20,456	25,002	Valuable papers issued	17,461	27,900	30,062	36,090
Income tax expense	(2,612)	(3,218)	(4,166)	(5,092)	Other liabilities	11,603	12,145	19,569	20,812
NP	10,226	12,582	16,290	19,910	Shareholder's equity	62,073	74,615	91,912	114,070
Minority interest profit	(151)	(258)	(258)	(258)	Share capital	35,001	35,049	35,049	35,049
Parent NP	10,075	12,325	16,032	19,652	Capital surplus	477	477	477	477
EPS	2,878	3,516	4,574	5,607	Treasury shares	-	-	-	-
DPS	-	-	-	-	Capital adjustments	5,173	6,790	8,827	11,033
Shares outstanding	3,500	3,505	3,505	3,505	Retained earnings	21,131	31,816	46,848	66,500
Financial Indicators					Valuation				
(%)	2019A	2020A	2021P	2022P	(VND, X, %)	2019A	2020A	2021P	2022P
Profitability					Share Price Indicators				
ROE	17.8%	18.1%	19.4%	19.2%	EPS	2,878	3,516	4,574	5,607
ROA	2.9%	3.0%	3.2%	3.2%	BVPS	17,651	21,151	26,021	32,257
NIM	4.5%	5.0%	5.2%	5.2%	Valuations				
CIR	34.7%	31.9%	30.0%	28.5%	PE	8.2x	9.0x	10.8x	9.3x
CASA	34.5%	46.1%	46.0%	46.0%	PB	1.3x	1.5x	1.9x	1.6x
Cost of fund	3.8%	3.1%	2.9%	2.9%	Dividend yield	0.0%	0.0%	0.0%	0.0%
Asset yield	7.9%	7.8%	7.8%	7.9%	Capital Adequacy				
Liquidity					Ti lệ an toàn vốn (CAR)	14.6%	16.1%	15.6%	15.3%
LDR	76.3%	78.1%	79.0%	80.5%	Leverage ratio	6.2x	5.9x	6.1x	5.8x
ST funding to MLT loans	38.4%	33.9%	32.2%	31.3%	Asset Quality				
Growth					Special mention debts ratio	0.9%	0.7%	0.6%	0.5%
Asset growth	19.5%	14.6%	27.4%	17.7%	NPL ratio	1.3%	0.5%	0.5%	0.4%
Loan growth	44.6%	20.8%	25.2%	20.1%	NPL + VAMC	1.3%	0.5%	0.5%	0.4%
Deposit growth	14.8%	20.0%	23.0%	18.9%	External receivables / Loans	2.4%	1.9%	1.6%	1.4%
TOI growth	14.8%	28.4%	19.5%	18.6%	Credit cost ratio	0.5%	1.0%	0.7%	0.6%
PBT growth	20.4%	23.1%	29.5%	22.2%	LLCR	94.8%	171.0%	134.1%	146.4%

Source: Techcombank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh

binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh

anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh

trinhhtt@kbsec.com.vn

Market Strategist – Le Anh Tung

tungla@kbsec.com.vn

Equity analyst – Tran Thi Phuong Anh

anhhttp@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu

hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung

tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga

ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Nguyen Ngoc Hieu

hieunn@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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

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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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