

TECHCOMBANK (TCB: HSX)



Overarching customer approach makes a marked difference

FULL REPORT
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INVESTMENT HIGHLIGHT

Business operation is inherently engaged in the ecosystem of three giants: Vingroup – Masan – Vietnam Airlines

TCB is a bank with medium asset size and credit market share among private commercial joint stock bank, but its operating effectiveness has been continuously improved, which helped the bank to be ranked at the top group in 2018. TCB achieved this success thanks to the strategic value chain of Vingroup - Masan - Vietnam Airlines ecosystem combined with the economic growth oriented by export, consumption and real estate investment.

Market share ranking No.1 in mortgage loans, bond advisory, bancassurance and transaction banking

We noted TCB has developed a coherent strategy to approach customers, which can create high-quality products suitable for each customers segment. The bank is currently the pioneer in some core business segments: Market share ranking No.1 in mortgage loans; advisory and brokerage involved in corporate bonds; bancassurance fee; ranking at the top in transaction banking growth. Effective operating model and dynamic BOM are the premise for the current result.

The potential growth in 2019 and in a long term is positive. However, the main risks may come from the business model that concentrate on a group of large customers

Strong capital base, guaranteed asset quality and the viable strategy are the foundation for TCB to keep its growth momentum in 2019. The main risks may come from the business model that concentrate on a group of large customers; and signs of a slowdown in the economic growth. However, in the long term, we still believe in the success of TCB based on the sustainable business advantages that have been built over the years.

Short-term investing opportunities still available as the market is more stable, but investors should be more prudent when investing in a longer term (from 3 to 4 years)

From an investment viewpoint, we believe that short-term opportunities are still available because Vietnam economy still maintains positive growth, and business results have been gradually improved. However, due to unpredictable moves of the economic cycle and the market, we are more prudent in the viewpoint related to investment into TCB, which should last in a medium term from 3-4 years.

Buy

| | |
|----------------------------|----------------------------------|
| Target price | 35,700VND |
| Up/Down | 29% |
| Current price (13/02/2019) | 27,550VND |
| Target price | 35,700VND |
| Market capitalization | 96,331 bil VND (4.16 bil USD) |

Exchange rate on February 13, 2019: 1USD= 23,150 VND

Forecast revenue and exchange rate

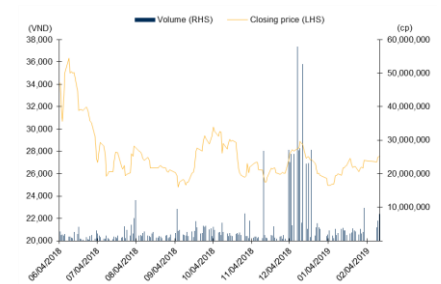
| | 2018A | 2019F | 2020F | 2021F |
|---------------------------------|-----------|-----------|-----------|-----------|
| NII (VND bn) | 11,127 | 16,045 | 19,682 | 22,634 |
| Growth speed (%) | 24.6% | 44.2% | 22.7% | 15.0% |
| Total operating income (VND bn) | 18,349.77 | 23,078.29 | 27,129.05 | 30,909.55 |
| CIR (%) | 31.8% | 32% | 32% | 32% |
| Net profit (VND bn) | 8,474 | 10,671 | 12,544 | 14,293 |
| Growth speed (%) | 31.5% | 25.9% | 17.6% | 13.9% |
| EPS (VND thousand) | 2,423.5 | 3,051.8 | 3,587.5 | 4,087.7 |
| BVPS (VND thousand) | 14,809.5 | 17,861.3 | 21,448.8 | 25,536.5 |
| P/B | 1.86 | 1.54 | 1.28 | 1.08 |

Trading data

| | |
|---------------------------------------|---------------|
| Volume of outstanding share | 3,496,592,160 |
| Average trading volume in 10 sessions | 4,379,691 |
| % foreign ownership | 22.5% |

% of price changed

| (%) | 1M | 3M | 6M | 8M |
|----------|--------|-------|--------|--------|
| TCB | -6.17% | 6.99% | 0.36% | -19.3% |
| VN-INDEX | -4.6% | 4.1% | -3.35% | -6.76% |



Source: Fiiopro, KBSV

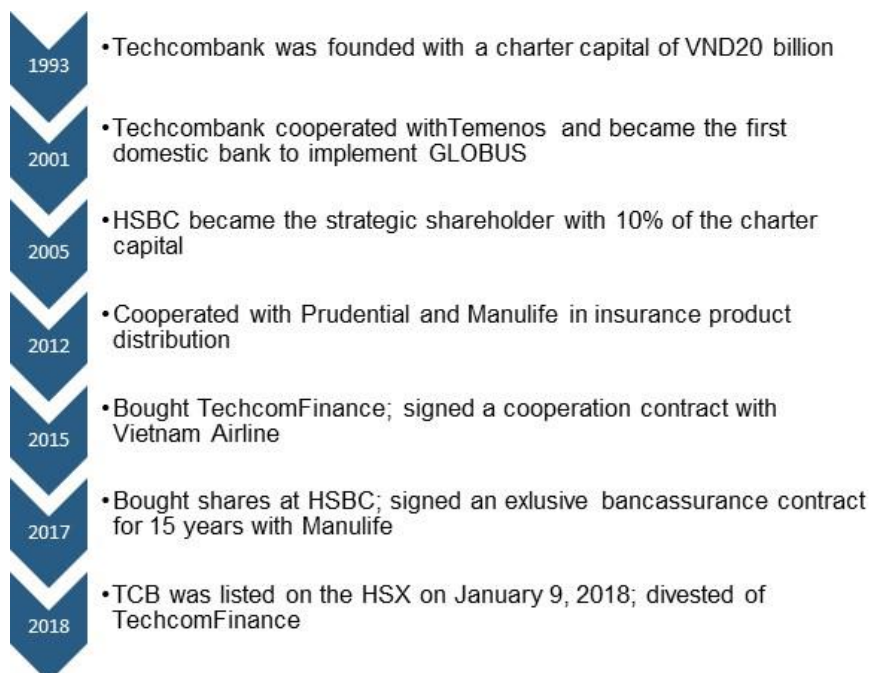
Content

| | |
|---|-----------|
| TECHCOMBANK (TCB: HSX) | 1 |
| OVERVIEW | 3 |
| History of development | 3 |
| Ownership structure & Operating model | 3 |
| BUSINESS MODEL | 5 |
| Credit structure | 5 |
| Deposit structure | 5 |
| BUSINESS STRATEGY | 6 |
| INVESTMENT HIGHLIGHT | 9 |
| FINANCIAL ANALYSIS | 12 |
| Asset quality | 12 |
| Capital adequacy | 13 |
| Liquidity | 13 |
| Profitability | 14 |
| UPDATED BUSINESS PERFORMANCE IN 2018 | 15 |
| OUTLOOK & FORECAST BUSINESS PERFORMANCE 2019 | 16 |
| VALUATION & INVESTMENT VIEWPOINT | 19 |
| APPENDIX | 21 |

Techcombank (TCB) was founded in September 1993 with a charter capital of VND20 bn. Currently, the company's three strategic business segments are mortgage loans, insurance distribution, and bond issuance advisory, with the market shares of each segments ranking No.1 among commercial joint stock banks in Vietnam.

OVERVIEW

History of development



Balance sheet scale

TCB currently ranks 3rd in charter capital with VND34,966 bn (after VCB and CTG), ranks 2nd in 2018 EBT with VND10,661 bn (after VCB). Meanwhile, the total assets on December 31, 2018 was VND321,050 bn, ranking 10th in the banking system, and was 6.2 times as much as its equity, with the lowest leverage ratio in the whole industry.

Operating system

TCB operating network includes 315 branches and transaction offices, 1,117 ATMs (accounting for 6.4% of the total number of ATMs in Vietnam). By the end of 2018, TCB had 9,757 staff, up by 17% compared to that in 2017.

Credit and deposit market share

At the end of 2018, TCB market share was not very large, which took for 3.5% deposit market share and 3.6% credit market share in the system, with 8th ranking. Considering the group of private commercial banks, TCB just ranked 5th.

Credit rating

In 2018, TCB's BCA by Moody's was upgraded from B2 to B1 with "sustainable" outlook, equal to the sovereign rating. In addition, counterparty risk rating (CRR) was also raised to Ba3, equal to the level of MBB, VCB, ACB – the best ranking in Vietnam banking system.

Listing status

After buying all of shares from the strategic partner HSBC in 2017, since January 9, 2018, TCB has been listed on the HSX with 1,165,530,720 shares.

Ownership structure & Operating model

Ownership structure (Figure 1)

Vietnam Airlines used to be the strategic shareholder of TCB, but it divested capital due to investment regulations for corporations outside the industry.

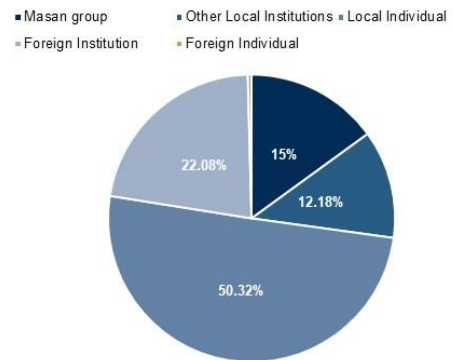
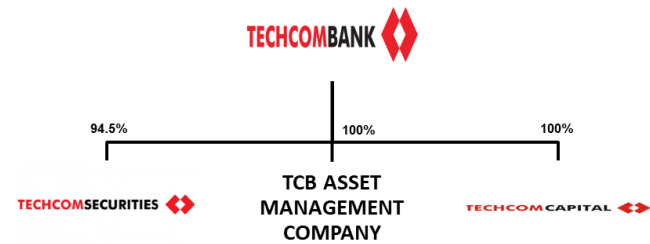
After TCB bought all shares from the strategic partner HSBC, Masan Group is the only big shareholder with 15% of shares in this bank. This is an important partner in TCB’s value chain, which will be clarified in the next section. Meanwhile, Chairman Ho Hung Anh and associates have currently hold 17% charter capital of the bank.

Operating model (Figure 1)

In addition to the core filed of commercial banking, TCB owns 3 subsidiaries specialized in three fields which are Securities Services; Asset Management Company and Fund management with the charter capitals of VND1,000 bn; VND410 bn and VND40 bn respectively. In particular, securities services segment with Techcomsecurities ranking No.1 in DCM investment banking services accounts for 80% corporate bond brokerage market share in Vietnam.

Hình 1: TCB operating model

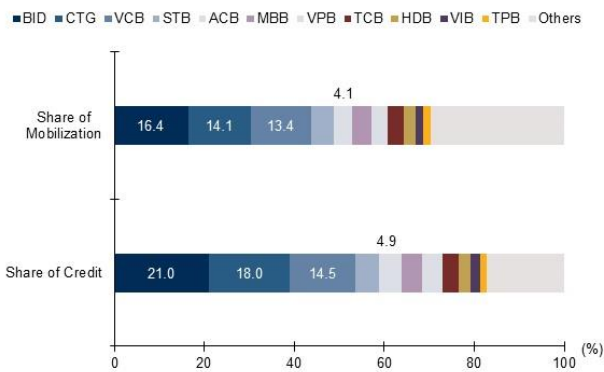
Figure 1: TCB ownership structure



Source: TCB; KBSV Research

Source: TCB; KBSV Research

Figure 2: Credit and deposit market share



Source: SBV; Banking financial statements; KBSV Research

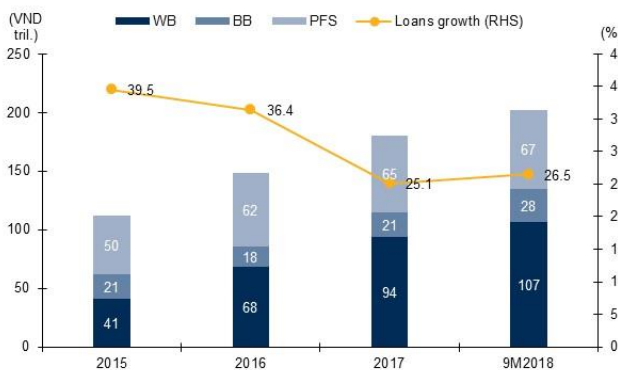
BUSINESS MODEL

Credit structure

Three target segments include Wholesale Banking (WB); Business Bank (BB); Banking and Personal Finance Services (PFS) with the proportion in 9M2018 of 53%; 13.9% and 33.2% respectively.

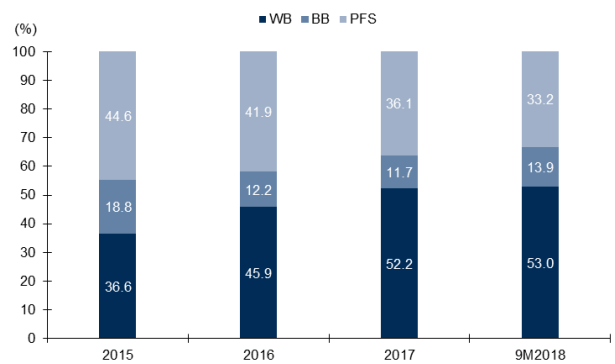
- **WB group:** Including enterprises with annual revenue > VND 600 bn. This group can be considered a "anchor" in the value chain of TCB, which creates a relationship with a large group of customers and becomes a background for the bank to develop further in other customer groups. Outstanding balance and proportion of this group have seen the strongest increase all segments since 2015 (currently accounting for over 53%), which clearly proves the strategic role of this group (Figure 4).
- **BB group:** Including enterprises with annual revenue < VND 600 billion, belonging to SME segment. Although the proportion of this group is the lowest (14%), TCB set a strategy to enhance this segment with outstanding balance rising by nearly 50% YoY in 2018.
- **PFS Group:** Focusing on individual customers with loan products, deposits, and services gaining added value such as baccassurance, bond distribution, electronic banking services and digital banking. Mortgage loans to buy residential houses accounted for 67% total outstanding loans of PFS, followed by credit card loans and loans to buy cars with low proportion hovering around 10%.

Figure 3: Customer lending growth (including bonds)



Source: TCB; KBSV Research

Figure 4: Customer lending structure



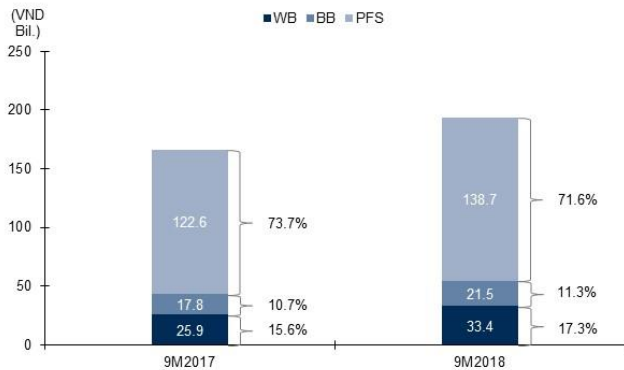
Source: TCB; KBSV Research

Deposit structure

TCB is no longer under pressure to raise deposits from CDs as it sold consumer finance division at TechcomFinance. Meanwhile, all three groups of WB, BB, and PFS have achieved stable growth, and PFS is still the most important group with VND138.7 trillion (71.6% of customer deposits).

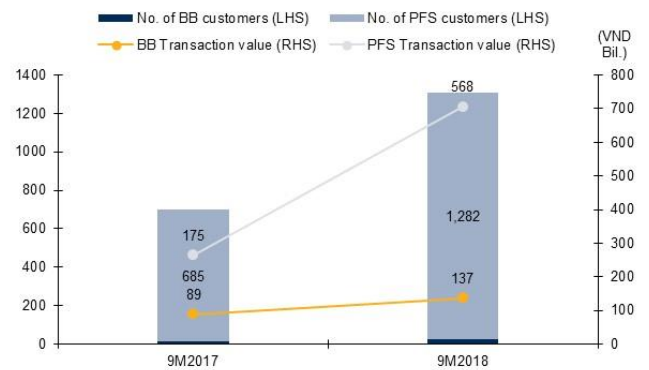
By the end of 3Q/2018, TCB's number of active individual customers was more than 1.3 million, nearly doubled the number in the same period last year with the total trading value of tripling to VND568,000 bn. The number of transactions per customer also surged from 23 to 33 transactions (43%). This impressive growth indicated the banking development strategy of transaction banking which utilizes TCB's online shopping trend was on the right track and achieved an initial success.

Figure 5: Customer deposits structure and growth



Source: TCB; KBSV Research

Figure 6: The value and volume of customer transactions



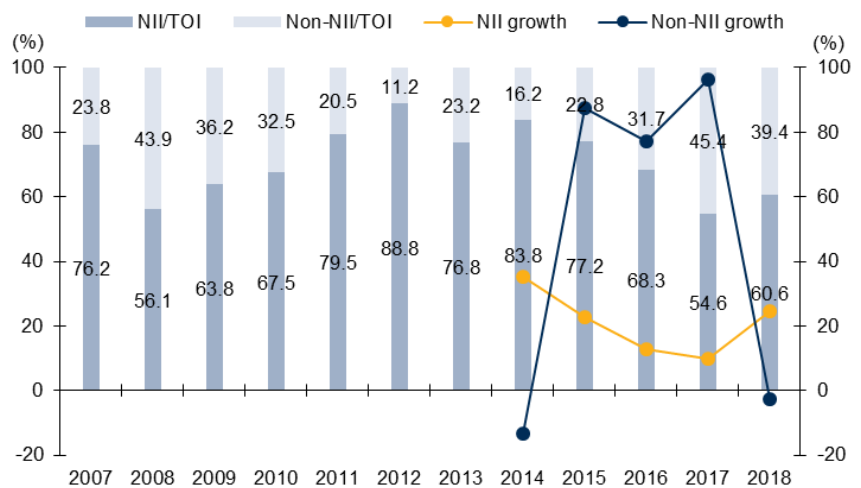
Source: TCB; KBSV Research

Focus on the strategy of diversifying revenue sources, reducing credit risks

BUSINESS STRATEGY

TCB’s TOI structure showed an obvious shift since 2014 with Non-NII proportion continuously surging. The proportion of NII reduced but still increased in value, which means TCB's strategy of diversifying revenue sources through non-interest activities is prioritized, and has achieved impressive results. By the end of 2018, the proportion of Non-NII reached 39.4%, the highest in the banking system.

Figure 7: TOI structure



Source: TCB; KBSV Research

In general, most of TCB revenue is created in the value chain demonstrated in the Figure 2. In which the “anchor” enterprises (usually large and leading corporates – classified in WB group) are the most important fundamental for the bank business operation.

Remarkable strategies come from the way they approach customers according to the value chain model, based on the relationship with large core partners

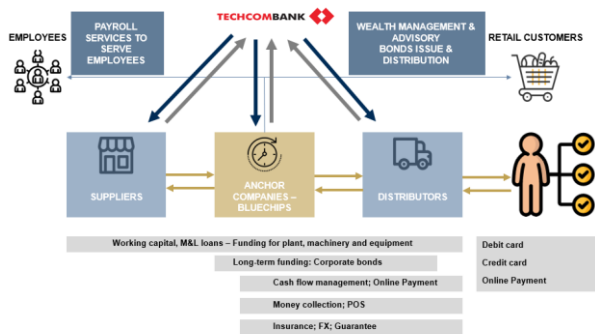
Step 1: “Anchor” corporates that TCB approached belong to one in six business fields including: Real estate; Automobile; Financial Services; Tourism and Entertainment; Retails (FMCG); Utilities and Telecom (Figure 3). These fields were chosen by banks, based on three criterion: 1) Proportion in

GDP; 2) Growth speed; 3) FDI trend. We highly appreciate this approach method of TCB as it helps the bank to approach the trend of Vietnam economy and make use of foreign investment flow’s long experience.

Step 2: Using this firm background, TCB expanded to BB and PFS segments in the value chain of “anchor” enterprises. Besides relationship with large partners, TCB approach was focusing on forming a specialized staff source for each of six above fields, thereby supporting the bank in providing products which can create highest added value in the value chain. This will gain a considerable revenue from NII and Non-NII.

We assess that the above approach to customers brings the two most important advantages for TCB: 1) Unshakeable engagement of customers and 2) Utilization of huge money source, with low cost of mobilizing and non-stop flowing within the system.

Figure 2: TCB approach to customers



Source: TCB; KBSV Research

Figure 3: Strategic segments

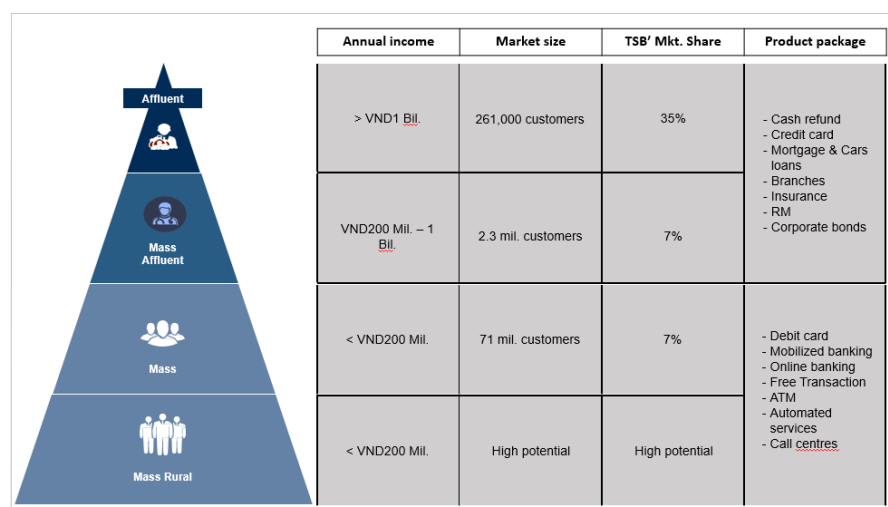
| | | 6 key economic sectors | | | | | | |
|------------------------------|----|------------------------|--------|--------------------|------------------|--------------|---------------------|---------|
| | | Real-estate | Car | Financial services | Travel & Leisure | Retail/ FMCG | Utilities & Telecom | Total |
| Contribution to GDP (%) | | 14% | 5% | 7% | 8% | 13% | 1% | 48% |
| Revenue growth 2012-2016 (%) | | 14% | 16% | 20% | 10% | 15% | 10% | 14% |
| No. of corporation | WB | 458 | 138 | 82 | 137 | 232 | 66 | 1,113 |
| | BB | 79,337 | 25,079 | 6,397 | 42,110 | 28,258 | 3,443 | 184,624 |
| | | Long-term needs | | | Short-term needs | | | |

Source: TCB; KBSV Research

Focus on individual customer groups that play a leading role in Vietnam's economic development

In individual customers segment, although TCB develops vertically all income groups, we believe that the bank has currently focused on the middle and high income groups (with an income of over VND200 million/year). We think this is the right approach, because these groups will lead almost all development trends in Vietnam in the near future, ranging from saving and spending habits to increasingly developed needs of protection and investment. Middle and high income segment contributed nearly 80% of the total PFS group deposit, 70% more than the PFS group TOI, and are the most loyal customers to the bank (over 50% of the customers has transactions for over 5 years).

Figure 4: Individual customer segments



Source: TCB; KBSV Research

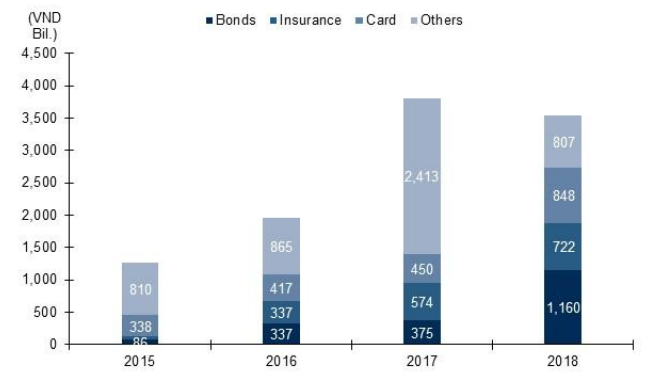
Retail banking development is not only based on credit, TCB is very responsive in major industry trends, which strongly supports Non-NII.

In addition to the core business field in credit, TCB also utilizes the value chain to boost Non-NII:

- **Bond advisory and issuance:** TCB has currently owned 39% market share in (primary) corporate bond issuance. In the past three years, the bank is switching from an interest-earning credit institution to an intermediary to buy and distribute corporate bonds that charge. This is another form of credit that can eliminate the risk if TCB successfully distributes all of bonds purchased. TCBS (currently holding more than 80% of the bond brokerage market share) will be the focal point for distributing this number of bonds. We assess that this model is quite successful when the value of corporate bonds distributed by TCBS is much larger than the recorded value of corporate bonds held by TCB. We believe that TCB will continue to maintain this strategy given that credit growth is gradually under tight control, but may have to face considerable risks from big customers.
- **Payment activities, card:** Currently, about a third of TCB's cash payment service revenue comes from individual customers, while payment services and sponsorships for corporate customers are maintained annually to make use of existing ecosystems. We highly appreciate the payment service for individual customers, both in terms of business strategy and performance. TCB strategy focuses on technology development, system expansion to facilitate transactions, along with eliminating the types of costs that customers are uncomfortable to pay (such as costs of money transfer and ATM,...). This is an indispensable trend of the banking system in the world and led by TCB in Vietnam, which has helped to increase customer base and triple the number of transactions since last 2016, thereby creating more effective and sustainable receivables.
- **Bancassurance:** TCB is quite responsive in catching the development trend of insurance industry in Vietnam as it signed a 15-year exclusive bancassurance contract with Manulife in 2017, which made insurance

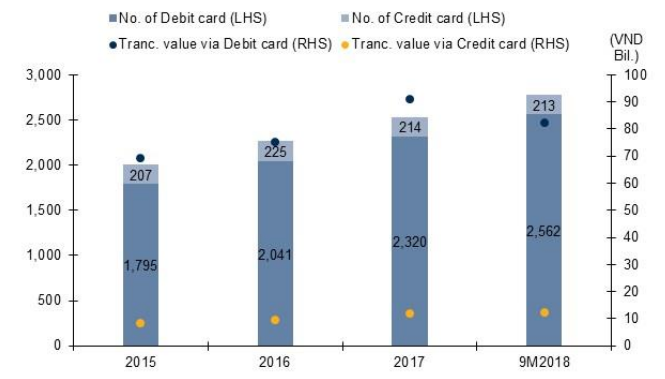
commission fee revenue to triple in 2018. A strong network of individual customers in the ecosystem combined with sustainable growth of insurance industry will ensure TCB income in this segment.

Figure 8: Revenue structure from service fees



Source: TCB; KBSV Research

Figure 9: Card transaction status in TCB



Source: TCB; KBSV Research

INVESTMENT HIGHLIGHT

We highly appreciate TCB operating model, ranging from the initial approach to the establishment of system of resources and personel to implement the company strategy. The ecosystem, including important relationships with large customers like Vingroup, Masan, Vietnam Airlines, and Thaco in real estate, retails, automobile, Logistics, Toursim & Entertainment, helps TCB build its position and competitive advantage.

Market share ranking no.1 in mortgage loans to buy residential houses

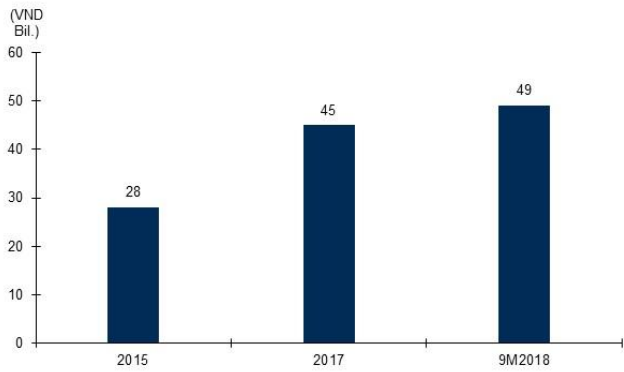
TCB owns 31% market share of mortgage lending to buy high-end residential houses in Hanoi and HCMC, which is the biggest market share in the market, even bigger than that of SOEs. The close-knit relationship with large developers helped the bank to achieve this result. In particular, Vingroup solely with over 11,000 customers added 85% of TCB mortgage loans to buy house.

Leading transaction banking position

In 2018, TCB rose to No.1 in terms of Visa and debit card transactions, and becomes one of the most current popular payment cards in Vietnam.

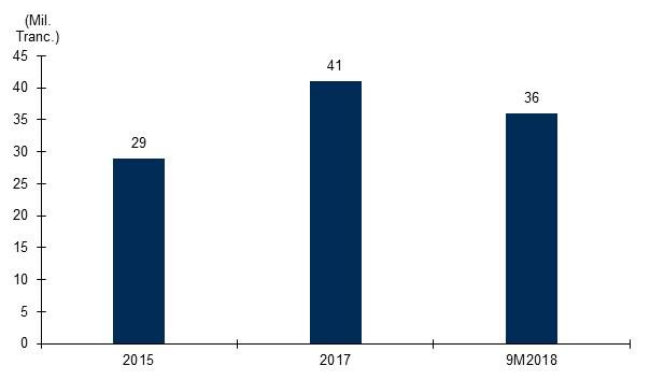
Besides, TCB remains its leading position in partnerships with Vietnam Airlines and Masan to approach large individual customers, ranging from mid to high-end. Currently, Vietnam Airlines gained TCB 37,000 customers using co-branded credit and debit cards (accounting for 13% of mid-high end customers), and contributed 15% of TCB mortgage loans to buy houses.

Figure 10: Mortgage loans to buy houses



Source: TCB; KBSV Research

Figure 11: The number of card transactions at TCB



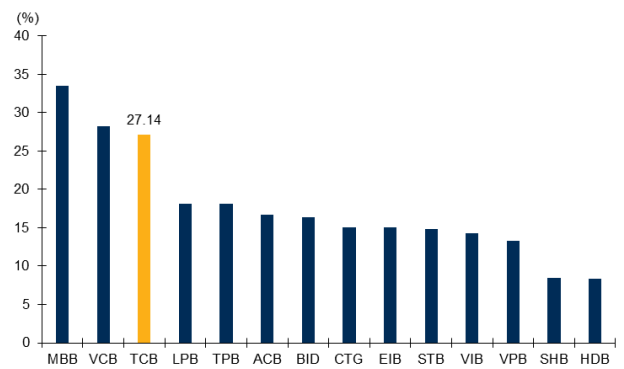
Source: TCB; KBSV Research

TCB saw the most positive CASA growth in the industry, and ranked among 3 banks with highest CASA, which is much higher than the figures of other banks.

The success of the above business model helps TCB to accumulate a great amount of CASA with low expenses, which is a fundamental for the bank to create a competitive advantage of lending interest rates when expanding BB and PFS segments. By the end of 2018, TCB’s CASA was 27.14%, despite lower than the relevant levels at MBB and VCB, still stayed high compared to the whole sector, and showed the most impressive growth.

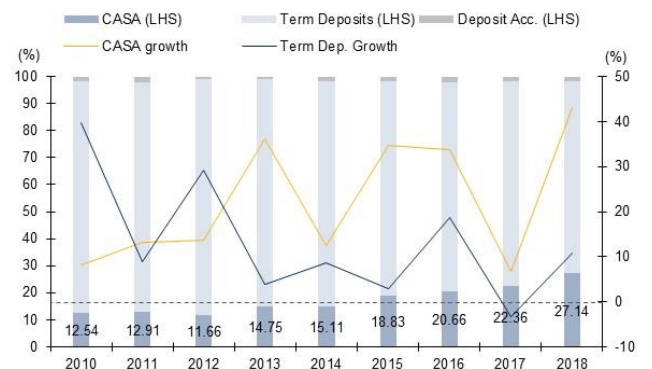
TCB managed to attract high and stable CASA thanks to the source of deposit from large enterprises such as Masan, Vietnam Airlines, and Vingroup. Additionally, the above-analyzed value chain model brings a significant number of individual customers with sustainable cash flow in TCB. This can be considered an advantage which is difficult to be achieved.

Figure 12: Comparison of CASA at different banks



Source: TCB; KBSV Research

Figure 13: Deposit structure by term



Source: TCB; KBSV Research

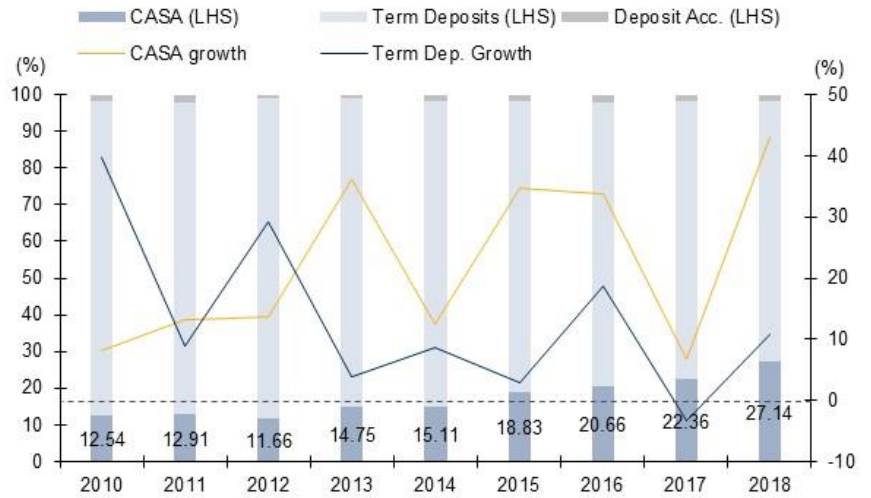
Ranking No.1 in terms of corporate bond advisory and issuance

The results demonstrated TCB's position include: More than 80% of the brokerage market share of issuing bonds; over 13,000 accounts, nearly 39,000 transactions; about VND27,000 billion of iBonds were distributed.

The current size of the corporate bonds market in Vietnam is still quite small and focuses on some large enterprises, many of which have been customers of TCB for many years. TCB has been making the most of its relationship with Vingroup and Masan to increase revenue from bond issuance and brokerage consultancy. We believe that this will be a very good experience and technical foundation for TCB to maintain its leading position as the corporate

bond market continues to expand.

Figure 14: TCB bond consultancy and issuance



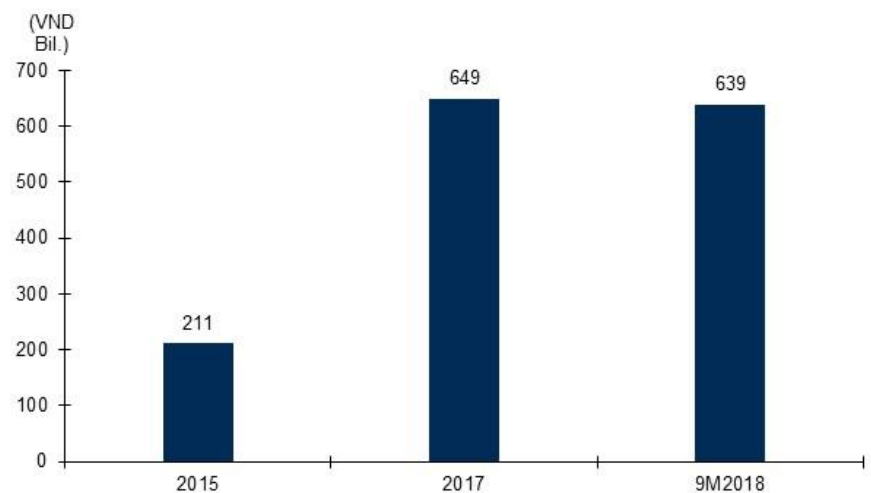
Source: TCB; KBSV Research

Ranking No.1 in terms of bancassurance market share

TCB has currently owned 21% of bancassurance market share, which is much more than that of other banks. Additionally, being exclusive partner of Manulife in a long term, TCB has owned 15% newly developed life insurance fees market share in Vietnam, which ensured a promising potential growth in this segment.

Bancassurance is a potential segment which has become a main development trend in Vietnam. Techcombank is more responsive than other banks as it has built a relationship with Manulife from an early stage. After that, the bank has utilized its customer base to help its partner increase revenue and market share quickly, which brings TCB more commission revenue benefits compared to its competitors.

Figure 15: Commission revenue from insurance YoY



Source: TCB; KBSV Research

FINANCIAL ANALYSIS

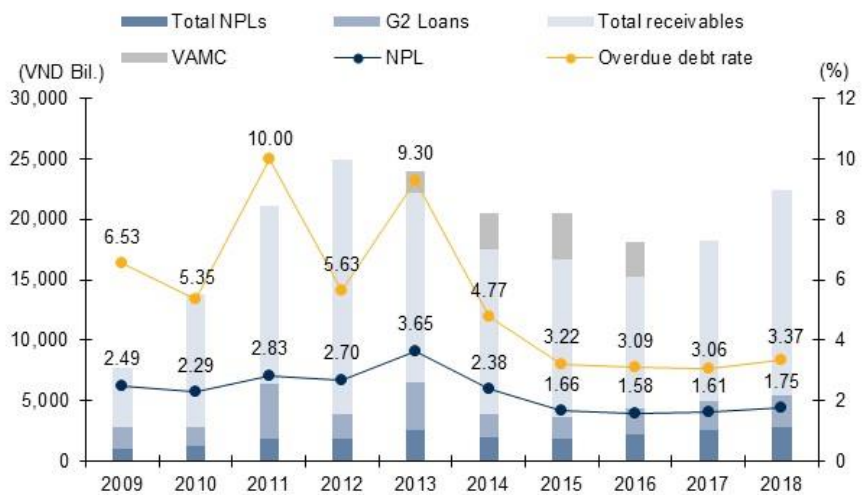
Asset quality

The biggest risk remains in receivables which are not explained clearly

Overall, the quality of TCB assets has shown many improvements since 2013, with the total bad assets/total loan ratio falling from 35.2% to 15.8%, which is comparatively high compared to the benchmark level of Moody’s (8%) and in some other banks. NPL also declined from 3.65% to 1.75%, overdue loan rate dropped from 9.3% to 3.37%, all of VAMC bonds were provisioned in 2017, which considerably reduced the pressure of provision in the next years.

However, there are still some hidden risks, especially in receivables. If the decrease in NPL and the small increase in overdue loan rate can be explained by the strategy to boost individual customer lending, in which we see not many risks; the risks of rebounding receivables need to be concerned. The interest and receivables gained 48% yoy to VND5,738 bn, equal to 3.59% of the total loan; other receivables rose by 20% yoy to VND11,323 bn, equal to 7.08% total loan. This increase is mainly associated with an increase in off-balance sheet commitments and guarantees, which makes us stay concerned about the quality of these sections. In particular, prolonged days of receivables to 4 months (equivalent to Group 3 loans) may adversely affect credit cost in the next year.

Figure 16: Doubtful assets in TCB



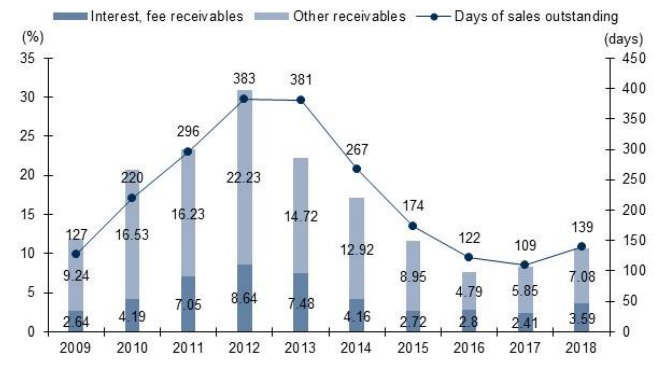
Source: TCB; KBSV Research

The ability of loan management showed improvements

LLR ratio has been in an upward trend since 2013, and currently stayed at a quite safe level of 85.1%, and LLR ratio in overdue debt also increased, following the uptrend of Group 2 loans.

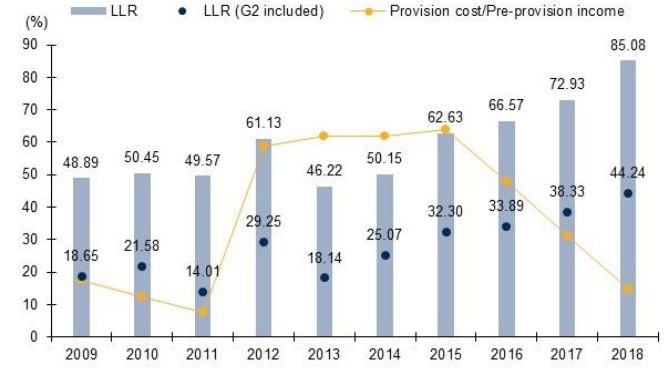
After VAMC bonds were provisioned in 2017, and the reversal of bad debts showed positive results in recent years, the (cost of provision for credit losses)/(profit before provision) continuously tumbled, which partly proved the improvements in TCB’s loan management.

Figure 17: Receivables movement



Source: TCB; KBSV Research

Figure 18: LLR ratio



Source: TCB; KBSV Research

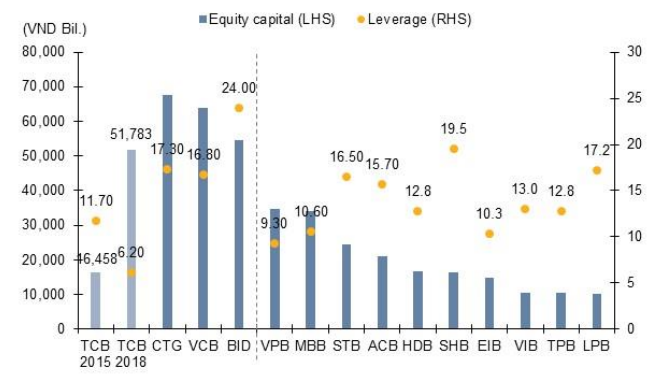
Capital adequacy

Strongest capital background among Vietnam banks

TCB equity has tripled from VND16,458 bn in 2015 to VND51,783 bn in 2018. Successful capital raise in 2018 supports TCB equity in exceeding private banks. At the moment, this equity level is just lower than three state banks. CAR according to Basel II was also raised to the safe level (12.44%), the highest in Vietnam banking system which serves as a firm background for the bank's future credit growth.

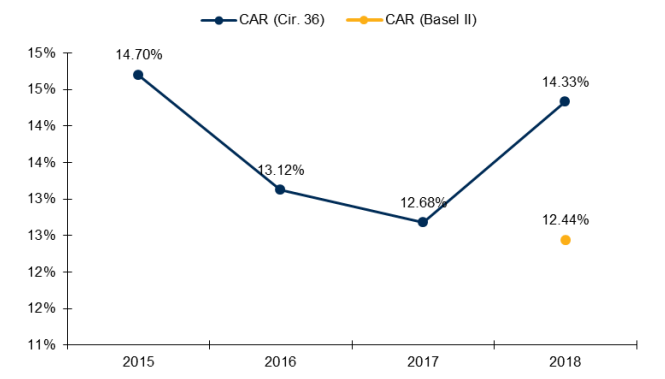
In addition, TCB leverage ratio after the capital raise is only 6.2x, which is the lowest in the industry, and safe level according to Moody's standards. This very low leverage ratio opens the opportunity of development and ROE expansion for the bank in the future.

Figure 19: Comparison of equity and leverage ratio



Source: TCB; KBSV Research

Figure 20: TCB's CAR



Source: TCB; KBSV Research

Liquidity

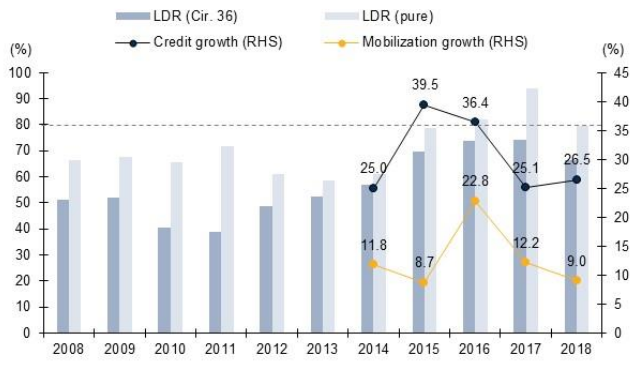
Liquidity is still ensured, however, there will be certain pressure to comply with the SBV's regulations

The ratio of TCB's total good quality assets with high liquidity/total outstanding loan is still in a downward trend when credit is expanded, but the bank still kept this ratio at a safe level of 23.6% in 2018, quite good compared to Moody's scale.

Promoting credit growth in the past few years while the deposit rate not increasing correspondingly has currently raised the LDR ratio to a relatively high (>80%). Deposit growth slowed mainly because TCB limits mobilizing from secondary sources such as interbank or CDs. With the demand for

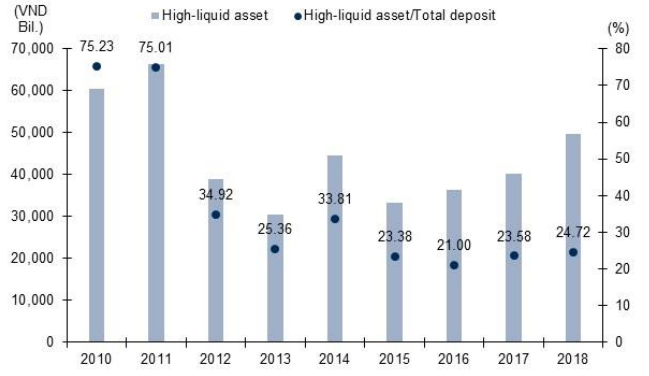
liquidity without affecting the credit growth, we believe that TCB will have to increase more mobilization channels other than customers in 2019, thereby putting pressure on the average cost of funding.

Figure 21: LDR ratio movement



Source: TCB; KBSV Research

Figure 22: High-liquid asset ratio



Source: TCB; KBSV Research

Profitability

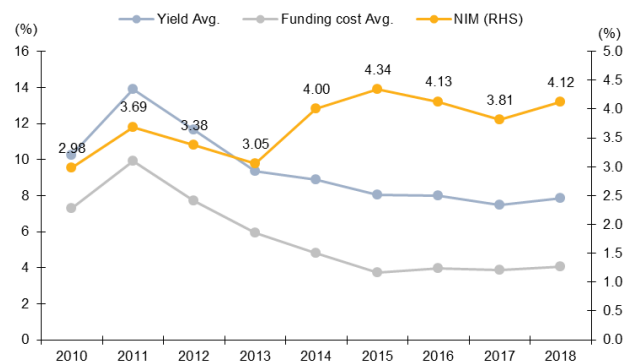
After a non-stop fall from 2015 to 2017, NIM strongly rebounded by 0.31% in 2018 to 4.12% because after TCB stimulated disbursement in the 4Q/2017, NII outsped outstanding loans in 2018. Excluding VPB with high-risk business model, the current NIM of TCB ranks 2nd in the banking sector, only after MBB.

Nevertheless, due to technical adjustments on credit outstanding of each period that may affect NIM, we calculate the 5-year average NIM to reflect objectively the profitability of credit activities of the bank. As a result, the 5-year average NIM has continuously rose from 3.36% in 2013 to 4.08% in 2018, a sustainable gain and still a very high level in the industry.

There is still room for TCB to develop NIM thanks to the strong advantage of low deposit cost

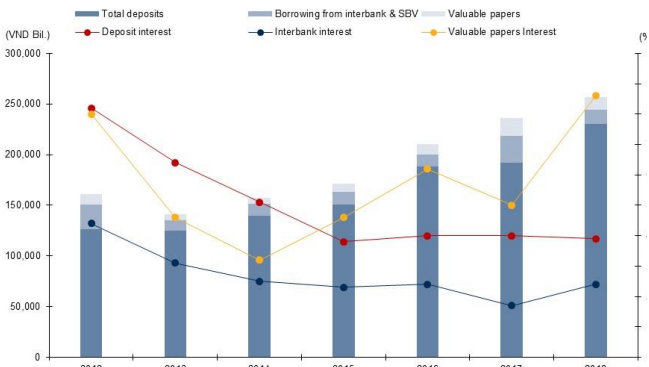
Like MBB, TCB has built a large and firm customer base on large corporate partners, thereby making full use of high and increasing CASA. The sustainability of low deposit cost is demonstrated in the Figure 23, while the average deposit cost remained flat despite rising deposit volume since 2015. Based on strong equity and low deposit cost, TCB can continue to develop NIM with the retail banking strategy heading towards private customers and SMEs.

Figure 23: NIM movement



Source: TCB; KBSV Research

Figure 24: Deposit structure and cost movement



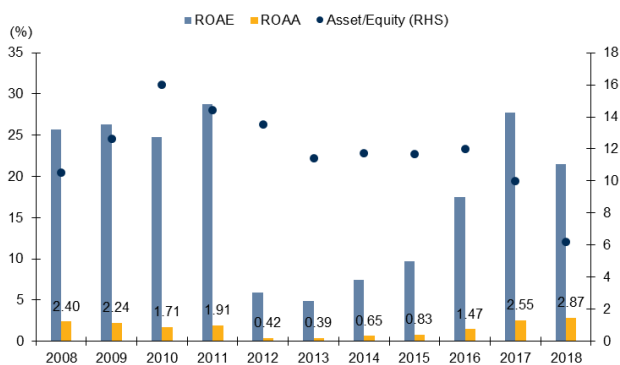
Source: TCB; KBSV Research

After ROE had surged to 27.7% in 2017 (ranking No.1 in the industry), it declined to 21.5% in 2018 (ranking No.5 in the industry). However, this improvement did not come from the downward operating effectiveness but from the TCB capital raise in the year. The current ROA of TCB is 2.87%, the best level in the banking sector, and the leverage ratio is very low at 6.2x. Therefore, TCB can absolutely bring ROE to the 1st ranking in the sector in 2019.

Continuous improvements in ROA over the last few years were achieved thanks to many factors:

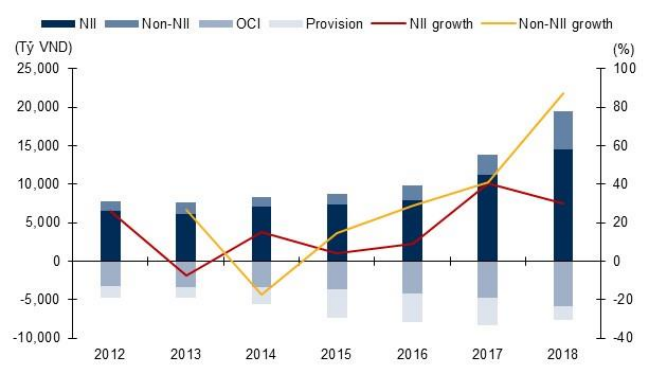
- NII saw a sustainable growth while Non-NII continuously made strong breakthroughs
- The operating cost is well managed, CIR is always the lowest of the sector (about 30%) due to the effective application of technology in trading activities and the bank operation.
- Provision for risks/profit before the provision kept falling due to: 1) All of VAMC bonds were provisioned in 2017; 2) The loan structure was improved in the way of risk elimination; 3) The ability to reverse bad debts is gradually improved.

Figure 25: Profitability YoY



Source: TCB; KBSV Research

Figure 26: EBT structure



Source: TCB; KBSV Research

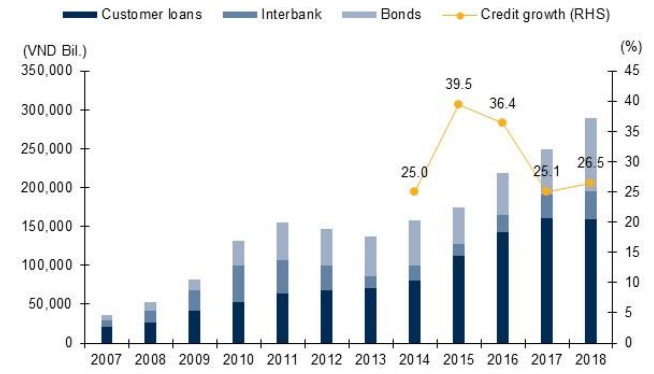
UPDATED BUSINESS PERFORMANCE IN 2018

Customers lending was almost unchanged compared to 2017, but the total credit still increased by 26.5% yoy to VND230.988 billion and mostly came from a sharp increase in corporate bonds in 2018. As analyzed above, TCB is taking advantage of its strength in bonds to redistribute this amount of corporate bonds, enjoy interest rate spread instead of gaining interests like traditional credit. In addition, this is also an effective way for the bank to shift to loan credit growth when necessary.

Regarding non-interest activities, although the bank no longer records a dramatic one-off item from insurance as in 2017, TCB still maintains a relatively high Non-NII level: 1) Insurance commission increased more than 25% yoy; 2) Advisory bond issuance revenue tripled; 3) Bad debt reversal

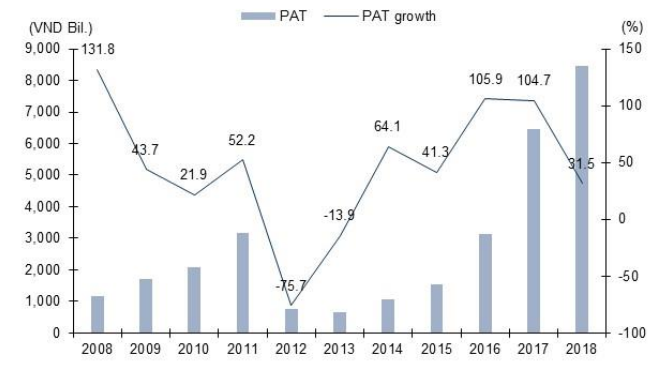
activities stayed positive.

Figure 27: Earning asset state



Source: TCB; KBSV Research

Figure 28: NPAT movement



Source: TCB; KBSV Research

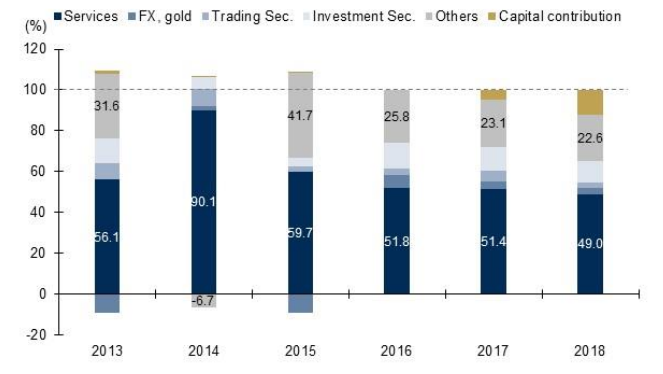
As there is no dramatic gain from Non-NII, TOI 2018 just climbed 12.3% yoy, much lower than 37.1% in 2017. However, due to CIR remarkable management at the lowest level of the sector (31.8%) and risk provision expense decrease by 50% without VAMC provision, and the improvement in bad debt reversal, TCB's EBT still saw a strong growth 2018 (32.7% yoy)

Figure 29: Non-NII YoY



Source: TCB; KBSV Research

Figure 30: Non-NII structure



Source: TCB; KBSV Research

OUTLOOK & FORECAST BUSINESS PERFORMANCE 2019

In terms of macro situation, we still suppose that Vietnam economy will keep a good growth momentum in 2019, which is the premise to believe that credit growth will be maintained, especially at banks that meet the capital standards.

TCB has been allowed to extend its credit room by the SBV, which is very high compared to the general growth rate in the whole system in 2018 (26% compared to 14%) thanks to the best capital base in the industry and guaranteed progress of setting management standards, risk measurement according to Basel II. We believe that this will be the most important background for TCB to ensure good credit growth in 2019. These are specific prospects for each segment:

- **WB:** Although there is not details, we estimate that a half of this group's outstanding loan is for three most important partners Vingroup, Masan, and Vietnam Airlines, with Vingroup holds the largest proportion. With the estimate about a stable economic growth but the real estate market losing strong growth momentum as in three years ago, we believe that the credit growth in WB will dip compared to that in 2018, reaching 15%.
- **BB:** After the BB staff were restructured in 2017, BB's outstanding balance surged by nearly 50% in 2018. Despite BB's moderate proportion (14%), with the general trend moving towards retail credit and private business development, we suppose this group's growth will remain high at 30% in 2019.
- **PFS:** The contribution and growth force of this group still depends heavily on mortgage loans to buy houses from mid to high-end segments in Hanoi, HCM and a large number of Vingroup projects. Vingroup's market supply in 2019 will be higher than that in the previous year thanks to 3 Vincy projects (Hanoi and HCM) and 3 Vinhomes projects (Hanoi, Hai Phong and Thanh Hoa). We appreciate the absorption rate of these projects based on the sale results from November 2018 until now as well as the large demand in the target segment. Considering the whole market, as TCB cooperation projects all come from reputable investors (Novaland, Sungroup, Thao Dien,...), we still keep a positive view on absorption rate for mortgage loans. In addition, although the proportion is quite small, we assess the ability of credit increase via credit cards and car buying will be improved. To sum up, we forecast the credit growth of PFS will reach about 20% in 2019.

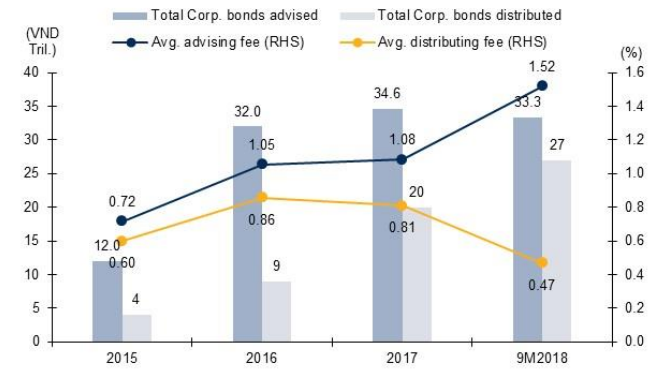
As a result, we expect the total credit growth to reach 18.7% in 2019.

In terms of Non-NII, we will make forecasts for 3 segments:

- **Bonds:** The two partners bring the main revenue source for TCB, Vingroup and Masan, with the solid foundation of the parent bank capital, advisory experience and strong distribution capacity, will help TCB maintain the revenue from fees this segment. It is likely that TCB will continue to maintain credit growth strategy through bond channel and with long-term relationship with its partners, we believe that consulting fee will continue to increase as in the past three years. In the distribution segment, the growing interest of investors in the TP channel, and the No. 1 position with more than 80% market share will help TCB quickly raise revenue from this channel.
- **Bancassurance:** With the assumption that Manulife's new exploitation fee will continue to grow at 30% per year and the company's banca proportion continues to increase to over 20%, we estimate that TCB's revenue from banca will reach average growth of 30% per year for at least 2 years.
- **Cards, payment:** With the strong growth of individual customer base and the promotion of trade sponsor activities in BB group, we forecast

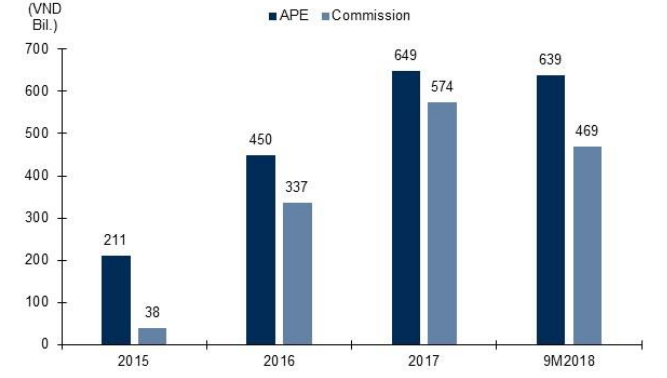
the possibility of 20% for revenue growth in this segment in 2019.

Figure 31: Bond activities



Source: TCB; KBSV Research

Figure 32: Bancassurance activities



Source: TCB; KBSV Research

VALUATION & INVESTMENT VIEWPOINT

We combine two valuation methods of P/B and DCF to find a reasonable price range for TCB shares.

Our main assumptions for 2019 business results include:

The total credit will gain 18.7%

We project that total credit including corporate bonds can achieve a growth rate of about 18.7% yoy with improvements coming from all segments.

NIM will gain by 38bps to 4.5%

We use a 5-year average to forecast the NIM trend. Combined with the advantage of low cost of capital and the ability to raise average output interest rates, KBSV believes that NIM can improve at least in the next two years.

Non-NII will hardly grow strongly because there is no longer recorded dramatic profit, but still stay high

Non-NII will hardly grow strongly because there is no longer recorded dramatic profit from divestment in subsidiaries. However, with the main force from service fees, we believe that Non-NII will stay high in 2018.

CIR will be well managed and stay at 32%

Although the expansion of retail banking will require more cost for operation, we believe that CIR will still be well controlled as TCB has proven its ability to utilize the technological advantages.

Cost of provision is low

Good asset quality is the basis for TCB to achieve a low level of provision, from 2018, we believe that the bank can maintain the current provision rate.

With these assumptions, TCB's NPAT will climb about 26% in 2019. As the bank is not under pressure to raise capital, the year-end BVPS is about VND 17,861/share, equivalent to P/B forward = 1.54x. ROE may fell to about 19% since TCB's current capital base is quite large. However, this is still a relatively high level, combined with the strongest capital base in the banking sector and a large growth base compared to other regional banks, we suppose the reasonable P/B for TCB shares is 2x, equivalent to the target price for 2019 of VND35,700/share, 29% higher than the current price.

However, for a longer expectation and to reflect systemic risks in the medium term, we also use the DCF method. The reasonable price is about VND 31,000/share, about 12.5% higher than the current market price.

Table 1: Assumptions according to DCF

| VND Bil. | 2019F | 2020F | 2021F |
|-----------------------------------|-----------------|-----------|-----------|
| PAT | 10,671.00 | 12,544.00 | 14,293.00 |
| Residual income | 3,545.70 | 3,950.37 | 3,973.32 |
| Cost of Equity Capital - R | 13.76% | | |
| g | 5.00% | | |
| Terminal value | 47,625.41 | | |
| Total present value (PV) | 108,276.35 | | |
| TCB fair value (VND/share) | 30,966.3 | | |

Source: KBSV Research

We suppose the main risks for TCB include:

- 1) Heavy dependence on Vingroup and Masan's business operations. It is worth noting that more than 85% of Techcombank's mortgage loans come from Vingroup's projects with over 11,000 customers, the average value of each loan is VND2.5 billion. Focusing on a certain group of customers has created a big advantage for TCB, but also contains potential risks from the lack of diversification.
- 2) Partner involved risks comes from Vingroup's large holdings of bonds. As we have estimated, TCB has currently bought about VND 35,000 billion Vingroup bonds. This amount of bonds will be used flexibly for investment purposes at TCBS, or used for capital turnover to other sectors by redistribution to major investors. Thus, if the total credit for mortgage loans; the investment of Vingroup bonds; and credit for other developers were included, TCB's real estate loans accounted for 48% of total outstanding loans, much higher than the industry average. Although Vingroup is a leading enterprise whose good business operation, it still belongs to the real estate sector, which is sensitive to the economic cycle.
- 3) Risks from the economic cycle and the real estate cycle will not only affect the overall operation of the bank, but also have a strong impact on important corporates in the ecosystem of TCB which are highly sensitive to the economic cycle. We think this will be the biggest risk in TCB's operation in the medium term. However, with the focus on mid-high and high-end customers with a good income, along with strong capital base, this risk will be partly limited.

Therefore, in terms of investment, we have a **POSITIVE** view on TCB shares with a target price of VND35,700 in the next 1-2 years, as the economy is still in the upswing phase. However, with a medium-term vision of 3-4 years, investors should be more cautious with the movements of the economic cycle in Vietnam and in the world, which may adversely impact the bank's performance.

Investment portfolio recommendations

Buy: +15% or more

Take profit: between +15% and -15%

Sell: -15% or less

DISCLAIMER

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