



Company Report: Vietnam Technological Joint Stock Bank (TCB)

 Analyst Team
 Research@gtjas.com.vn

05 Aug 2021

Solid profitability

- 1H2021 business result were relatively outstanding compared to peers with a comprehensive improvement in all business activities. It is worth to note that impressive profit growth comes from income improvement rather than cutting costs. In details: (i) PBT in 1H2021 reached VND 11,500 billion, + 71.2%yoy, (ii) Total credit reached VND 252,700 billion, +11.2%ytd (+16%ytd in individuals and +11%ytd in corporates loan). Real estate loans is the key driver, especially from Vinhomes projects. (iii) The bank's NIM continued to improve to 5.6%-record high. Interest income rose 56%, service revenues +31.5%, while other activities (securities investments, guarantees) +18.4%yoy. Operating costs and provision expenses recorded an increase of 29.6% and 19.6% yoy (iv) CASA is still at a sector-highest level of 46.1% and we expect CASA ratio to remain high thanks to TCB's digital and technological advantages. (v) Asset quality improved with NPL ratio down to 0.36% at the end of Q2 and it is recorded a steadily decrease in all loan groups 3-5. The bad debt coverage rate is at the sector-second high, behind VCB (259%).

- The plan to open 1,800 transaction points integrating in Winmart chain this year will pose some cost pressure for the bank. Meanwhile, the roadmap would be slowdown due to the impact of the epidemic in the short term. However, we believe the potential of this strategy which once succeed will make a milestone for TCB as bringing a huge customer base and certain benefits in the long term.

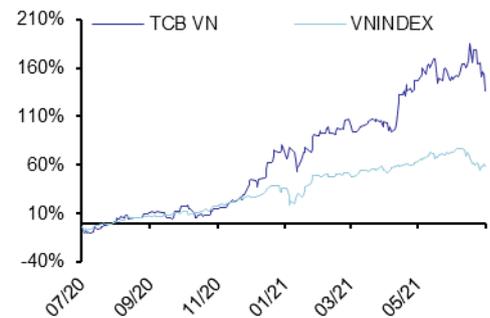
RECOMMENDATIONS

- We evaluate TCB shares at 50,400VND/share and recommend "Neutral" for this stock.

Rating: Neutral
6-18m TP: VND50,400

Share price: VND52,500

Stock performance



Change in Share Price	1 M	3 M	1 Y
Abs. %	(3.1)	22.2	141.5
Rel. % to VN index	(1.5)	35.5	188.8
Avg. share price (VND)	50,592	44,298	34,264

Source: Bloomberg, Guotai Junan (VN)

Year End	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
12/31										
2019A	21,068	10,226	2,878	19.32	17.65	-	0	4.42	-34.71	17.74
2020A	27,043	12,582	3,515	22.13	21.18	-	0	4.97	-31.92	18.06
2021F	34,028	17,307	4,871	38.58	26.05	-	0	5.29	-31.92	20.47
2022F	42,679	21,847	6,168	26.63	32.22	-	0	5.1	-31.92	20.99
2023F	51,315	27,004	7,642	23.88	39.86	-	0	4.89	-30	21.02

Shares in issue (m)	3,504.9	Major shareholder (%)	Masan Corp. 15
Market cap. (VND b)	173,492.8	Free float (%)	62.3
3 month average vol. ('000)	22,278.5	LDR (%)	108.3
52 Weeks high/low (VND)	58,600 / 17,500	CAR (%)	15.2

Source: the Company, Guotai Junan (VN).

1H RESULTS

Fruitful result thanks to solid ecosystem. PBT in 1H reach VND11,500 bil, +71.2%yoy. Total credit up 11.2%ytd. In which individual customers contributed the most with the growth of 16%ytd while credit to SMEs and large corporate customers also increased by 11%ytd.

Customer deposits rose only 4.3%ytd, moving in line with peers given the context of low interest rates that are difficult to attract customers deposits.

Along with cost advantages from escalating mobilization in the interbank market and the large-scale syndicated loan (500\$ mil signed last year), high CASA ratio contributed to low funding costs, so as NIM improved to 5.6% (5 consecutive quarters increase), and interest income rose 56%yoy.

Meanwhile, income from service and other activities (securities investment, guarantee) maintained positive momentum with increases of 31.5% and 18.4% y-o-y, respectively.

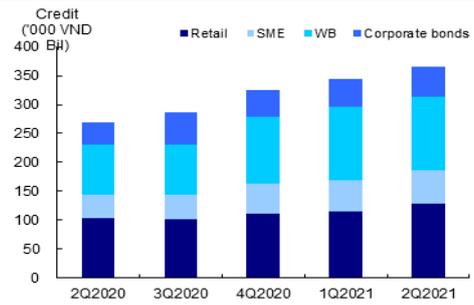
On the other hand, operating costs and provision expenses increased 29.6% and 19.6%yoy, slower than income growth.

CASA ratio remained impressive high, the highest in the sector at 46.1%. High CASA is a very remarkable result of TCB after 4 years of promoting digital banking campaigns. In addition, the decline in term deposits in the context of low interest rates environment is also the reason for CASA ratio increases at TCB and peers as well.

Improved asset quality. NPL ratio continued to fall to just 0.36% at the end of the second quarter, which recorded a consistent decrease in loan groups 3-5. Meanwhile, the bank's bad debt coverage rate also rose to a record high of 259%, ranking second in the industry after VCB.

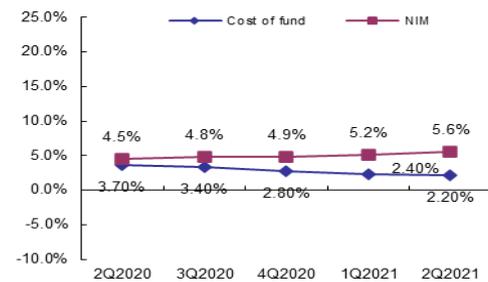
The bank's restructuring loan under Cir01 is reduced to only VND 2,700 billion (from VND8,700 bil), equivalent to 0.8% of total loan. Notably, about 67% of customers in this program have repaid part/all of their restructured loans by the end of June 2021, somewhat showing that the bank's strategy of focusing on the affluent customer segment is effective.

Figure-1: Credit Breakdown by segment



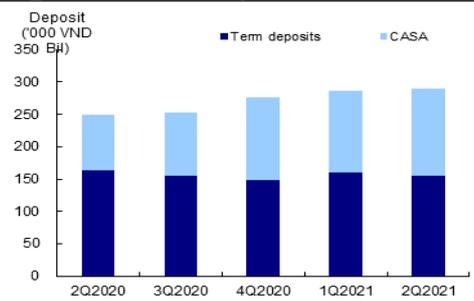
Source: TCB, GTJAS (VN).

Figure-2: Cost of fund and NIM



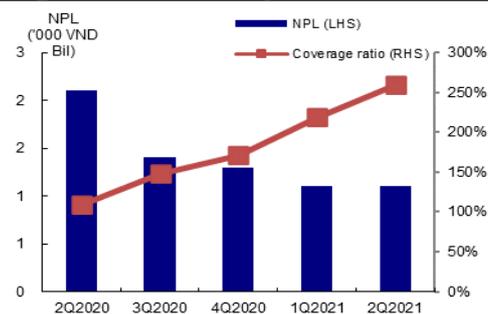
Source: TCB, GTJAS (VN).

Figure-3: 1H2021 Deposit Breakdown



Source: TCB, GTJAS (VN).

Figure-4: Asset Quality

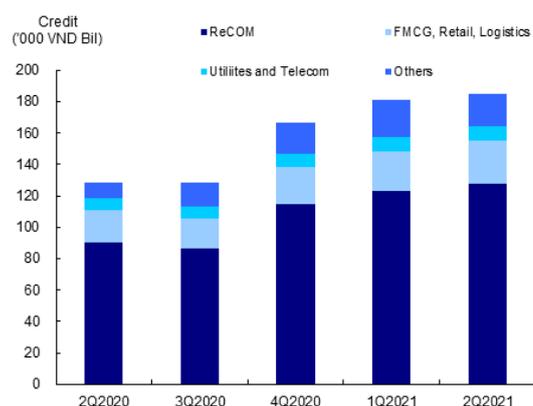


Source: TCB, Guotai Junan (VN).

Real estate loan and Mortgage remain the key growth drivers. TCB's current business model focuses on real estate value chain lending (project development, construction, raw materials, RE distribution and mortgage). This value chain accounts for about 70% of the bank's total credit. Notably, with the close relationship with Vingroup's projects, the high-end and mid-end segment is the focus of the bank which have been developed during the past 5 years. This makes it possible for the bank on the one hand to expand its lending books with a variety of large-scale projects, on the other hands a somewhat risk is mitigated as the collateral can keep value even in bad market conditions.

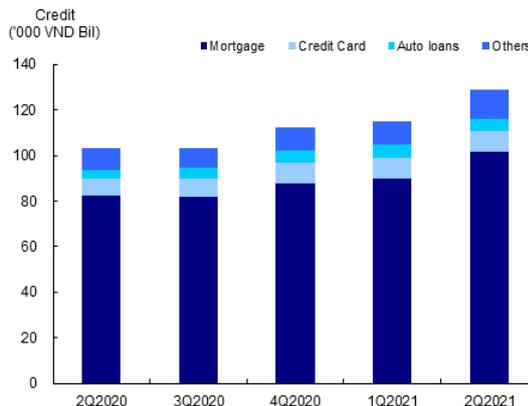
Talking about the growth motivation in 2H2021, the seasonal factor given the higher demand at the end of the year and Vinhomes' projects launching in the third and fourth quarters of this year expectation will boost the bank's mortgage, so far contribute to the total credit growth of over 20% this year. The long-term growth momentum is also positive given that Vinhomes continues developing a series of large-scale projects in the North and the South over the next 10 years.

Figure-5: Corporate loans by sector



Source: TCB, Guotai Junan (VN).

Figure-6: Retail loan by products



Source: TCB, Guotai Junan (VN).

Table-1: Vinhomes projects launched 2H2021

	Vinhomes Dream City	Vinhomes Wonder Park	Vinhomes Cổ Loa
Location	Hưng Yên, near Ocean Park	Đan Phượng, Hà Nội	Đông Anh, Hà Nội
Areas	460 ha	133 ha	385 ha
Total NSA	7,853,000	976,000	5,000,000
Timeline	2021-2023	2021-2023	2021-2023
Products	Apartment/ Villas/ Shophouses/ School / Hospital/ Shoppingmall (44,000 units)	Apartment/ Villas/ Townhouses / School/Shoppingmall/Eco-parks/Swimming Complex (2,350 low rise, 2 block high rise)	Apartment/ Villas/ Shophouses/ School/ Shoppingmall

Source: Vinhomes, Guotai Junan (VN).

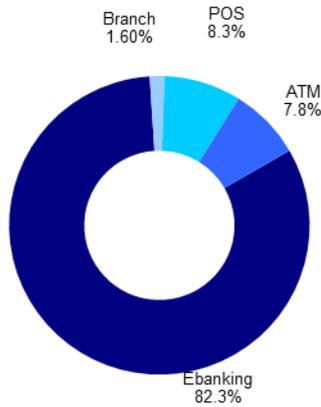
Network expanding potential thanks to integrating banking model in Winmart chain strategy. Since the beginning of June 2021, Techcombank and Masan have started to launch an integrated service model at Winmart, Winmart+ (CVLife), where accordingly, the Masan's shopping customers can open TCB's banking account and make financial transactions at Winmart, Winmart+ chain. With Masan's network of about 3,000 supermarkets/minimarts in more than 50 provinces and cities, it is expected that TCB will get a large number of new customers shopping in those marts, and especially customers in suburb, class-2 urban and rural areas. According to TCB and Masan, by 2025, the bank can attract \$2 billion in non-term deposits coming from 50 million customers if it succeeds in making this mini-supermarket system a financial transaction point.

TCB's goal this year is to deploy the service in 1,800 stores, but the relatively complex covid epidemic may slow down the roadmap. In the long term, though, we appreciate the prospects for customer expansion as well as the positive impact of this model on reducing management cost as TCB can save more compared to open new branch network as before.

The digital platform continues to help maintain high CASA, maximizing profitability. The bank's CASA ratio has improved significantly from 30% in the period 2018-2019 to 46.1% in 1H2021-the bank's

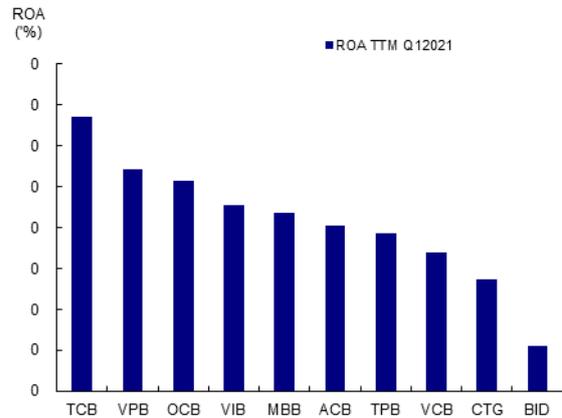
record high level and the highest in the sector. With the strategy of continuing to invest in digitalization and inheriting the development achievements of the last 4 years, the bank's CASA ratio is expected to reach 55% in the vision to 2025.

Figure-7: Share of retail transaction by channel



Source: TCB, Guotai Junan (VN).

Figure-8: ROA of TCB and sector peers



Source: Fiiipro, Guotai Junan (VN).

RECOMMENDATION:

- 1) With the plan to boost investment and marketing in the second half of the year, the bank's CIR ratio will likely pick up and above 30% in the second half of this year as well as the period 2021-2023. Techcombank's digital investment has been extremely effective compared to the whole industry in terms of digital platforms and especially attracts an impressive amount of non-term deposits.
- 2) Credit growth in the third quarter will face certain difficulties in the general context of the Covid epidemic. However, the seasonal factor in the fourth quarter will help the bank maintain a credit growth rate of over 20% for the whole of 2021.
- 3) On the income side, rising mobilization costs are what we are seeing in the past 1 month, but this is not the main obstacle for TCB as the bank still maintains abundant CASA resources, combined with low funding cost in market 2. Besides, TCB also does not plan to increase deposit interest rates like most banks in the block. On the other hand, Covid supporting packages will cause the bank's income to suffer. Therefore, it is possible that the bank's NIM upward trend of 5 consecutive quarters will stop and reach 5% for the whole of 2021.
- 4) In the long term, the solid digital foundation, strong ecosystem with Vingroup and Masan will support the bank's growth. Credit growth in the period of 2021-2023 is forecasted to above 20%/ year.
- 5) We value TCB shares at 50,400VND per share and recommend "Neutral" with this stock.

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

DISCLAIMER

We, the authors, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking. Guotai Junan (Vietnam) and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Guotai Junan (Vietnam) may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. This report has been prepared on the basis of information believed to be reliable at the time of publication. Guotai Junan (Vietnam) makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of Guotai Junan (Vietnam) and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of Guotai Junan (Vietnam) in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of Guotai Junan (Vietnam). Please cite sources when quoting.

GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

Member	Position	In charge of	Email	Ext.
Võ Thế Vinh	Head of the Department	Research and investment strategy	vinhvt@gtjas.com.vn	704
Đỗ Trung Nguyên	Deputy head of the Department	Investment strategy	nguyendt@gtjas.com.vn	703
Trần Thị Hồng Nhung	Equity Analyst	Banking	nhungtth@gtjas.com.vn	706
Đinh Quang Đạt	Senior Equity Analyst	Consumer	datdq@gtjas.com.vn	
Phí Công Linh	Senior Equity Analyst	Real Estate	linhpc@gtjas.com.vn	709



CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 st Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	4 th Floor, No. 2 BIS, Công Trường Quốc Tế, P. 6, Q.3, Tp.HCM
Stock ordering: (024) 35.779.999	Tel: (024) 35.730.073	Tel: (028) 38.239.966
Email: ivs@gtjas.com.vn Website: www.ivs.com.vn	Fax: (024) 35.730.088	Fax: (028) 38.239.696