



## Company Report: Technological Commercial Joint Stock Bank (TCB)

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### Q3 Result Update: Intact growth

#### INVESTMENT THESIS

- Maintain impressive growth in profitability. TCB maintained high credit growth at 14.1%ytd to the end of Q3/2021. Net interest income and PBT witnessed an upward trend compared to first 2 quarters. NIM was stable at 5.6% while CASA continued to climb to 49%, at sector-highest level.
- The syndicated loan scaled USD800 million contributes to strengthen bank's capital buffer and low COF. Therefore, bank's NIM and profitability trend will be supported well in short-medium term.
- The bank has made efforts to bring its NPL ratio below 1%, becoming one of best banks in terms of asset quality. The bank's NPL ratio at the end of Q3/2021 is 0.6%.

#### INVESTMENT RISKS

- Although having known to focus on mass affluent and affluent customers who are less suffered by Covid, we concern that the restructured loan balance may not fully reflect the impact of the 4th Covid wave on bank's asset quality. In addition, despite climbing NPL and restructuring loans, the bank's provision expenses were only flat compared to the second quarter. Thereby, the total provision balance by the end of the third quarter was VND3,373 billion, that makes bank's loan loss coverage ratio (LLCR) to down to 184% from the peak of 259% recorded in the second quarter.

#### RECOMMENDATION

We maintained the "HOLD" recommendation for TCB, but raised the long-term target price (6-18 month investment term) to **55,000VND/share, +9.1% compared to last target price at VND50,400VND/cp** due to the adjustment to increase the profit growth expectations for the period of 2021-2023 as the bank still maintains low COF, especially after successfully mobilizing a \$800 million syndicated loan announced in mid-October.

Recommendation:

**Hold**  
(Updated)

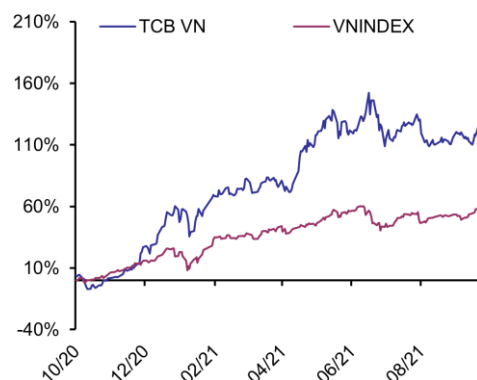
6-18m TP:

**VND55,000**  
(Revised from 50,400)

Current price:

VND52,300

#### Price performance



Price change	1 M	3 M	1Y
Abs. %	4.3%	6.9%	130.0%
Relative to VN index	6.9%	16.0%	176.7%
Avg price (VND)	51,067	50,628	41,734

Source: Bloomberg, Guotai Junan (VN)

	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	-	1	4.97	-31.92	18.06
2021F	35,590	17,619	4,960	41.12	26.14	-	2	5.47	-31	20.81
2022F	44,103	22,946	6,483	30.69	32.62	-	3	5.3	-31	21.88
2023F	52,966	27,928	7,906	21.96	40.53	-	4	5.07	-30	21.43

Shares in issue (m)	3,510.92	Major shareholders (%)	Masan	15.00
Market cap (VND b)	186,078.48	Free float (%)		77.1
3- month average vol. ('000)	13,327.19	LDR (%)		76.7
52w high/low (VND)	58600 / 21350	CAR (%)		15.2

Source: the Company, Guotai Junan (VN).

## **BUSINESS PERFORMANCE IN FIRST 9 MONTHS**

### **Credit and profit growth is well maintained**

At the end of the third quarter, the bank achieved the loan to customers growth rate of 15.9%ytd, and an increase of more than 7% compared to the end of the second quarter that is mainly led by a 24.3% growth in individuals loans. Total bank's credit growth (including corporate bond) reached 14.1%ytd (Q2 reached 11.2%ytd).

Net interest income for the third quarter rose 31.3%yoy. Notably, TCB still recorded growth in interest income, net interest income compared to the first and second quarters. NIM was maintained at 5.6%. Meanwhile, service income moved sideways compared to the first two quarters of the year. The bank's operating expenses slightly went up compared to the second quarter and the same period last year.

Provision expenses decreased slightly compared to the second quarter and decreased by 43%yoy. This is also one of the main reasons for TCB to maintain a PBT growth rate of 39.4%yoy. Compared to the second quarter, the bank's PBT decreased, that was driven by lower profits in investment and other activities rather than key earning sources (net interest income and services income).

Accumulated 9 months, TCB recorded PBT of VND 17.1 trillion, +70%yoy, continuing to rank 2nd in the system in terms of profit size, following VCB.

### **However, higher concern on assets quality**

The bank's NPL ratio was up to 0.59% from 0.36% recorded in Q2. There is recorded climbing non-qualified debts of which group 3-5 debts increased VND711 billion while Group 2 loan increased by VND860 billion. Besides, restructured loan was VND2,800 billion at the end of Q3, up by VND100 billion.

Although having known to focus on mass affluent and affluent customers who are less suffered by Covid, we concern that the restructured loan balance may not fully reflect the impact of the 4th Covid wave on bank's asset quality. In addition, despite climbing NPL and restructuring loans, the bank's provision expenses were only flat compared to the second quarter. Thereby, the total provision balance by the end of the third quarter was VND3,373 billion, that makes bank's loan loss coverage ratio (LLCR) to down to 184% from the peak of 259% recorded in the second quarter.

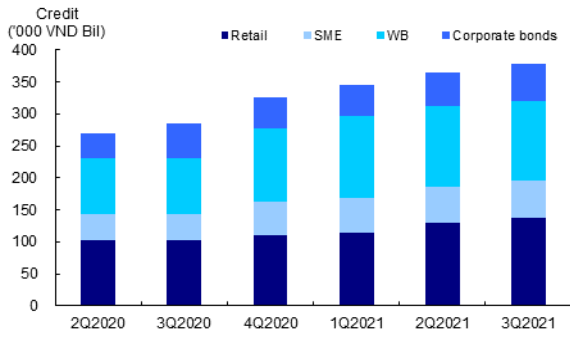
### **Strengthened capital buffer thanks to VND800 billion syndicated loans mobilized on Oct**

In mid- October, the bank has successfully concluded its largest ever offshore syndicated loan facility at USD 800 million (the "Facility"), and a record size and landmark structure amongst Vietnamese banks. This is bank's second approach to the offshore loan syndication markets after its maiden accomplishment last year, which also set a record.

The fully underwritten syndication was launched in June this year at an original deal size of USD 500 million with a pre-funding option. The facility amount was upsized to USD 800 million to accommodate the strong market response. The dual tranche senior unsecured facility comprises a USD 600 million 3-year tranche and a USD 200 million 5-year tranche. The facility offers an interest margin of 135 basis points per annum on the 3-year tranche and 162 basis points per annum on the 5-year tranche, over USD London Inter-Bank Offered Rate ("LIBOR").

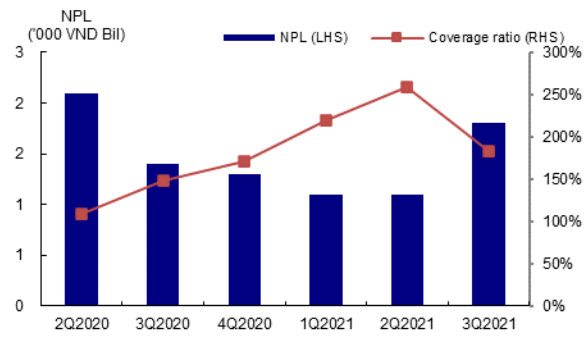
The new low COF loan size will significantly contribute to the bank's profitability in short-medium terms. That may temporarily offset the impact of support loan packages and higher deposit rate on NIM.

**Figure-1: Credit breakdown by customers**



Source: TCB, Guotai Junan (VN).

**Figure-2: Asset quality**



Source: TCB, Guotai Junan (VN).

**RECOMMENDATION**

With the business results achieved so far, we maintain our forecast of the bank’s lending growth rate in 2021 at 23.1%. However, we adjusted our expectations for higher bank profit growth in the period 2021-2023 thanks to intact NIM along with the positive impact of \$800 million syndicated loan on reduced COF. Accordingly, we forecast PBT growth of 39.2%yoy in 2021, corresponding to PBT reaching VND 22,000 billion.

We maintained the "HOLD" recommendation for TCB, but raised the long-term target price (6-18 month investment term) to 55,000VND/share after considering above adjudgment.

**Financial Statements and Ratios**

BS					P&L				
Year end Dec (VND ' bil)	2018	2019	2020	2021F	Year end Dec (VND ' bil)	2018	2019	2020	2021F
<b>TOTAL ASSETS</b>					<b>Interest and Similar Income</b>	21,150	25,016	29,002	34,132
Cash and precious metal	2,606	4,821	3,664	5,824	Interest and Similar Expenses	(10,024)	(10,758)	(10,251)	(9,251)
Loans and advances to customers, net	157,554	227,885	275,310	338,736	Net Interest Income	11,127	14,258	18,751	24,881
Investment securities	86,512	66,055	84,447	102,290	TOI	18,350	21,068	27,043	35,590
Fixed assets	1,719	3,208	4,613	3,900	Total operating expenses	(5,843)	(7,313)	(8,631)	(11,033)
Investment property	1,238	1,196	1,196	-	Operating Profit Before Provision for Credit Losses	12,507	13,756	18,411	24,557
Other assets	17,702	19,334	22,836	28,132	Provision for credit losses	(1,846)	(917)	(2,611)	(2,534)
					PBT	10,661	12,838	15,800	22,023
<b>LIABILITIES &amp; SHAREHOLDERS'EQUITY</b>	320,920	383,477	439,603	558,416	PAT	8,474	10,226	12,582	17,619
<b>TOTAL LIABILITIES</b>	269,206	321,627	364,988	466,183	Minority interest	(11)	(151)	(257)	(257)
Due to Gov and Loans from SBV	6,025	-	-	-	Attributable to parent company	8,463	10,075	12,325	17,361
Deposits & Loans from other credit institutions	36,426	61,267	47,485	92,927	EPS	2,412	2,878	3,515	4,960
Deposits from customers	201,415	231,297	277,459	324,630	Interest and Similar Income				
Funds received from Gov, international and other institutions	-	-	-	-	<b>Financial ratio</b>				
Valuable papers	13,178	17,461	27,900	34,000		2018	2019	2020	2021F
Other liabilities	11,853	11,169	11,878	14,625	NIM (Net Interest Margin)	4.42%	4.97%	5.47%	5.30%
<b>SHAREHOLDERS'EQUITY</b>	51,713	61,850	74,615	92,233	Output average interest rate	7.75%	7.68%	7.50%	7.65%
Capital and fund	51,713	61,781	74,131	91,492	Input average interest rate	-3.79%	-3.09%	-2.30%	-2.60%
Retained earnings	12,403	21,130	31,816	46,899	Earnings Spread	3.96%	4.59%	5.20%	5.05%
Minority interest	-	69	484	741	Interest expense/Interest income	-43.01%	-35.34%	-27.10%	-30.63%
<b>LIABILITIES &amp; SHAREHOLDERS'EQUITY</b>	320,920	383,477	439,603	558,416	Net Serving Fee Margin (NSFM)	1.01%	1.11%	1.20%	1.17%
					Servicing fee expense/Servicing fee income	-33.39%	-30.75%	-32.07%	-31.41%
					NNIM (Net Non-Interest Margin)	2.11%	2.20%	2.26%	2.34%
					EBT to Interest Income ratio	51.32%	54.48%	62.71%	65.03%
					CIR (Cost-to-Income) ratio	-34.71%	-31.92%	-31.92%	-31.00%
					<b>Asset Management</b>				0.00%
					LDR (Loan-to-Deposit) ratio Market 1	99.79%	100.02%	105.26%	90.91%
					LDR (Loan-to-Deposit) ratio Market 2	78.95%	77.52%	64.64%	67.32%
					ROA	2.86%	2.99%	3.38%	3.54%
					ROE	17.74%	18.06%	20.28%	21.88%

Source: the Company, Guotai Junan (VN).

**COMPANY RATING DEFINITION**

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

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

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