

COMPANY: Tien Phong Commercial Joint Stock Bank (TPB)

*Analyst\_Banking sector*  
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### TPB- GAIN MARKET SHARE THROUGH DIGITALIZATION

#### TPBank

Sector: Banking

Date of report: 25/02/2021

Recommendation: BUY

Current price: VND 27,350

Targeted price: VND 34,500

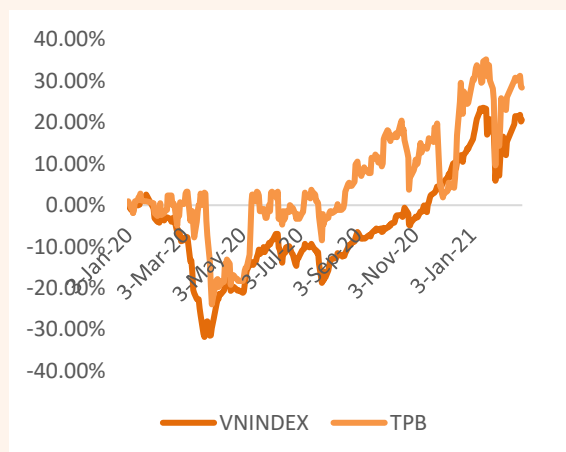
#### Company background

Established in 2008 by a group of technology companies. TPB focuses on developing retail banking which is underpinned by digitalization. Currently, the bank has a chartered capital of VND10,716 bil.

#### Key figures

Market cap (VND billion)	28,164
Outstanding shares (million)	1,031
Average 1M volume (shares)	3,938,123
Foreign ownership	30.00%
State ownership	0%

#### Stock performance



#### Change in Share price:

	YTD	3M	1Y
Absolute (%)	-0.4%	37.3%	57.4%
Relative to benchmark (%)	3.8%	58.7%	75.1%
Average share price	20,880	23,419	18,935

Indicators	2019A	2020A	2021F	2022F
Loans to customer	95,644	112,069	141,437	167,890
PBT	3,094	3,583	4,848	6,675
EPS	3,691	3,344	4,524	6,229
ROA	2.1%	2.0%	2.2%	2.5%
ROE	26.1%	23.6%	25.9%	29.9%
Dvd rate	21.8%	20%	20%	20%

#### Investment thesis:

##### Catalysts:

- Retail banking and strong demand from customers operating in the real estate, energy segments support the bank's growth.
- Insurance cooperation income is expected to grow by 90%yoy in 2021 that is the momentum for fee income growth of the bank.
- TPB is the pioneer in the sector regarding digitalization by launching the "Livebank" model which is expected to enhance the bank's position in the segment as well as its customer base.
- Improving profitability: NIM reached 4.2% by the end of 2020.
- The plan to boost the consumer finance through the acquisition of a consumer finance company is expected to spur the bank's growth and NIM.
- TPB has just been selected in the VN30 index (effective from February 1, 2021), increasing the attractiveness of the bank stock to institutional investors and and passive investment cash flow through index funds.

##### Risks:

- Even accounting for a small proportion in the credit structure, consumer loans negatively affect the bank's asset quality. Additionally, there a risk of interest rate change that affects the deposit cost and NIM.

##### Recommendation:

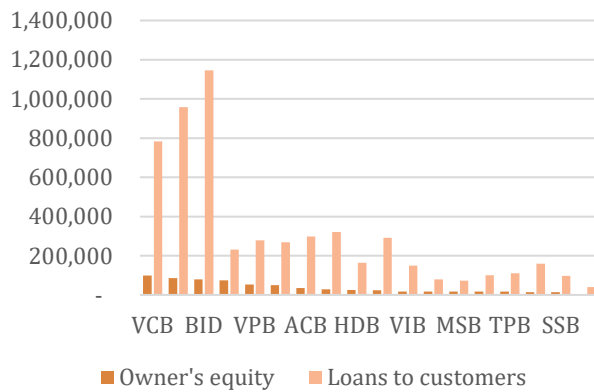
IVS recommends "BUY" for TPB shares at a target price of 34,500VND/share, equivalent to upside 26.1% compared to the price of VND27,350/share on Feb 25, 2021; P/E forward at the end of 2021 at 7.67x. TPB is currently trading at P/E that is 26% lower than peers.

### OPERATION OVERVIEW AND POSITION

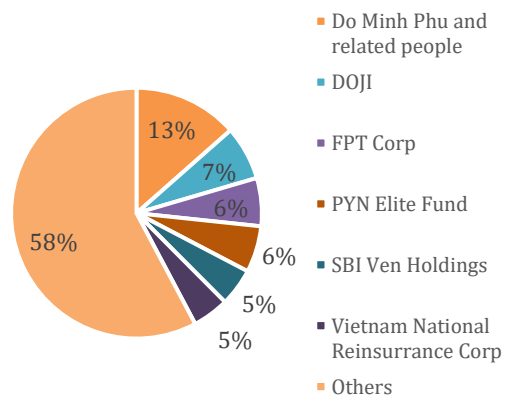
TPB is currently a small-scale retail bank with the main strengths of home and car loans. The size of the bank's credit is now quite modest compared to other banks in the sector. Notably, the bank's operating model focuses solely on the banking sector and does not own multidisciplinary subsidiaries like other banks in the sector.

**Stable ownership structure:** In which, Mr. Do Minh Phu (Chairman of TPB, founder of Doji) and related people currently own about 13.5% of the bank's total shares. In addition, Doji and FPT each also holds more than 6% of the shares. The stable ownership structure helps the bank maintain its long-term strategy. Especially, it receives supports in implementing the digital transformation strategy as the major shareholder -FPT is the largest technology group in Vietnam.

Scale of banks in the sector (VND bil)



TPB's ownership



### Fast-growing bank

The bank recorded an impressive growth in the 2016-2020 at 27% per annum CAGR.

	Growth	2018	2019	2020
<p>In 2020, the bank recorded the industry-leading lending growth rate (25%). In addition, the corporates bond portfolio expanded twice compared to the previous year, creating a motivation for the total net interest income of the bank to grow by 29% compared to 2019.</p> <p>Non-interest income rises slowly but are expected to recover thanks to bancas income improvement. Profit was supported by the efficiency of digitalization.</p> <p>After the restructuring period of 2012-2014, TPB recorded a PBT</p>	Total Assets	9.72%	20.75%	25.47%
	Loans to customers	21.70%	23.91%	25.46%
	Deposit from customers	8.31%	21.41%	25.38%
	Owners' equity	59.09%	23.09%	28.07%
	Chartered capital	46.62%	0.00%	25.11%
	Net interest income	37.99%	28.68%	29.39%
	Non-interest income	185.62%	127.07%	8.61%
	TOI	55.88%	50.52%	22.43%
	Operating cost	46.62%	16.04%	27.06%
	Provision expenses	12.96%	148.49%	37.40%
	PBT	87.26%	71.33%	13.45%

<p>growth rate in the period of 2014-2019 of 42% per year. TOI increased by 22.4% yoy, reaching VND 10,368 billion. Impressive credit growth in both loans to customer and corporates bond channels.</p>	<b>Efficiency</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
	ROA	1.39%	2.06%	1.89%
	ROE	20.87%	26.11%	23.54%
	CIR	-50.59%	-39.00%	-40.48%
	Non-interest income/interest income ratio	28.53%	50.35%	42.26%
	NIM	3.69%	4.12%	4.28%
	LDR	101.38%	103.47%	103.53%
	NPL	1.12%	1.29%	1.18%
	NPL coverage ratio	-103.32%	-97.84%	-134.21%

### Assets quality is under control

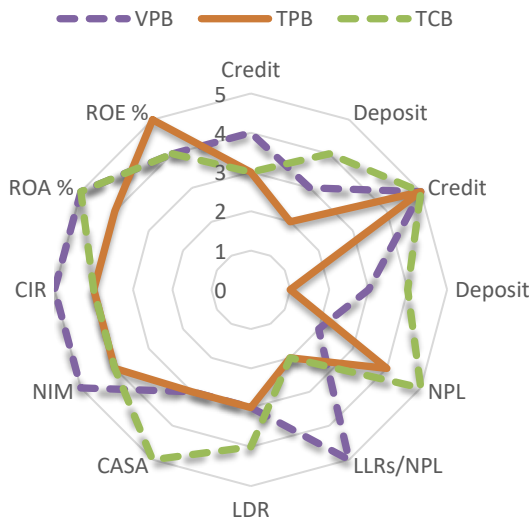
<p>The current standard loan ratio increased while the scale and ratio of special mentioned loans largely declined. The NPL ratio is down to 1.19%, compared to 1.29% at year end 2019 as doubtful and bad loans ratio were lower while substandard loan ratio was slightly up from 0.5% to 0.55%. The restructuring loan according to Circular 01/2020 scaled at VND8,000 billion possesses pressure to the bank.</p>		<b>Change yoy</b>	<b>2019</b>	<b>2020</b>
	Current	26.46%	96.69%	97.46%
	Special Mentioned	-15.84%	2.02%	1.35%
	Substandard	37.48%	0.50%	0.55%
	Doubtful	8.29%	0.32%	0.28%
	Bad	-4.50%	0.47%	0.36%
	NPL ratio	-	1.29%	1.19%
	Loan group 2-5 ratio	-	3.31%	2.54%

### Operating efficiency

Improved NIM underpinned by: (1) current deposits grew 48%yoy, CASA ratio up to 18% from 15%, (2) the corporates bond portfolio was double in size along with more attractive return compared to loans, (3) the action to focus on mobilizing from credit institutions in conditions of low interest rates help to reduce mobilization costs.

ROE decreased as a result of dividend-paying by shares in 2020, making the bank's charter capital increase by 20%.

### Bank scoring

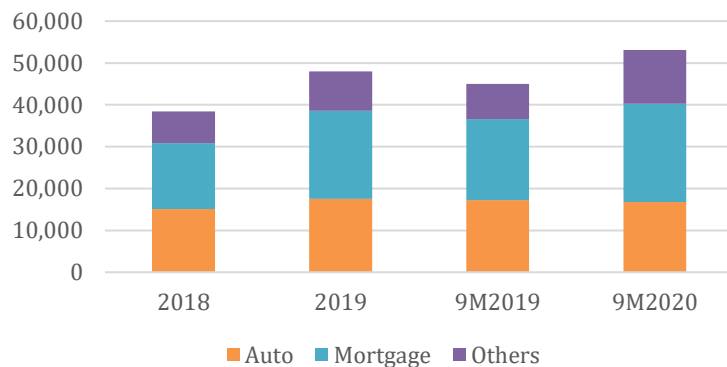


Appreciated for the fast-growing business model and digital focus, asset quality and efficiency of TPB still distance from TCB and VPB. However, the bank received the third highest ROE in the sector (after VIB and ACB) which is higher than the 2 mentioned banks is a remarkable point in terms of capital efficiency.

### PROSPECT IN 2021

**Credit growth** in 2021 continues to be supported by corporates bond expansion. In addition, the retail portfolio continues to expand with the motivation from mortgage and car lending (expected to grow by 20%-25%/year to 2025) is the leverage that helps TPB to achieve the **credit growth of up to 26% in 2021**.

Loan structure of Individuals



Fee income are supported from (i) the number of new accounts and cards opened through the Livebank system quadrupled in 2019; Livebank machines handled more than 7 million transactions, an increase of 130% yoy, (ii) Potential for growth in non-interest income thanks to upfront fees from exclusive insurance cooperation contracts with Sunlife Vietnam. In 2020, TPB's premium revenue is affected (-16%yoy) due to partner switching and consulting methods change. It is expected that income from this segment will gradually recover in the period of 2021-2022 to create growth leverage for the bank.

CASA is expected to improve more strongly by digitalization to help widen the bank's net interest income margin to 4.5% in 2022.

Moreover, digitalization will improve the bank's cost/income ratio over the long term. Accordingly, CIR can be reduced to 36%-38% in the period 2021-2023.

### Asset quality

**Cautious lending view for corporate customers:** The strategy to focus on the SME, upper SME group, with lower risk than the microSME helping TPB maintain its SME's bad debt ratio around 1%. Additionally, there is no concentrated risk to the bank as the ratio of outstanding loan to large corporate group (mainly real estate and energy groups: Hung Think, Novaland, ENV, Masan) on total loan book is less than 10%.

Despite this, consumer loan balances still put pressure on the overall NPL ratio of the whole bank.

Restructuring balances under Circular 01 tend to decrease in line with the new information on amendments to Circular 01 to help relieve pressure on banks. In addition, the cautious view in provision setting contributes to the bank's bad debt coverage ratio at a high level.

### VALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk-free rate of 3.79%, a cost of capital 13%.

<i>Unit: VND bil</i>	2020A	2021F	2022F	2023F	
<i>Beginning Owners' equity</i>	13,075	16,744	20,120	24,874	
<i>PAT</i>	3,510	5,520	6,898	9,016	
<i>Residual income</i>		3,277	4,204	5,685	
<i>Total PV of residual income</i>					20,188
<i>Outstanding shares (mil)</i>					1,072
<i>12-month targeted price</i>					34,500
<i>Current price</i>					<b>27,700</b>
<i>Expected return</i>					<b>24.5%</b>

### RECOMMENDATION FOR TPB

Based on the expectations of impressive credit growth in the 2021-2022 period underpinned by retail banking strategy (car loans and mortgage loans) and digitalization helping to improve the CIR ratio to 36%-38% compared to the current 40%, NIM expand to 4.5%, we recommend "BUY" for TPB shares at a target price of **34,500VND**, equivalent to an expected return of 24.5% compared to the price on February 25, 2021.

This price corresponds to P/E forward at the end of 2021 at 7.67x. TPB shares are currently trading at P/E which is 26% lower than peers, which are banks with comparable equity and loan book in the group of Emerging Asia-Pacific countries (detailed list in appendix).

The main risk to stock price comes from revert policy interest rates, causing the low-cost mobilization advantage from the interbank market to decrease, thereby shrinking NIM. In addition, TPB is still under great pressure in terms of provision setting and asset quality that may erode the bottom line.



**APPENDIX 1: PEERS**

Ticker	Name	P/B	P/E	BEst P/E BF12M	BEst P/B BF12M	Total Loans LF (VND tril)	Tot CE LF (VND tril)
	Investable Universe (15)	1.16	11.48	10.29	0.99	56.39	6.70
<b>VIB VN Equity</b>	VIETNAM INTERNATIONAL JSB	2.69	10.42	7.91	1.99	169.52	17.97
<b>CUBK IN Equity</b>	CITY UNION BANK LTD	2.43	26.97	17.30	2.01	0.35	0.05
<b>HDB VN Equity</b>	HDBANK	1.85	10.01			178.32	23.00
<b>TPB VN Equity</b>	TIEN PHONG COMMERCIAL JOINT	1.83	8.48	8.19	1.50	119.99	16.74
<b>BJBR IJ Equity</b>	BPD JAWA BARAT DAN BANTEN TB	1.39	9.52	8.41	1.21	95.29	11.12
<b>EIB VN Equity</b>	VIETNAM EXPORT-IMPORT COMMER	1.37	21.60	38.54	1.36	100.77	16.82
<b>LPB VN Equity</b>	LIEN VIET POST JOINT STOCK C	1.22	9.29	8.63	1.06	176.62	14.23
<b>1983 HK Equity</b>	LUZHOU BANK CO LTD-H	0.96	9.98			0.03	0.01
<b>KVB IN Equity</b>	KARUR VYSYA BANK LTD	0.72	20.29	9.42	0.64	0.48	0.07
<b>COMB SL Equity</b>	COMMERCIAL BANK OF CEYLON PL	0.63	5.45	4.89	0.58	0.99	0.14
<b>SAMP SL Equity</b>	SAMPATH BANK PLC	0.52	7.00	5.22	0.48	1.07	0.11
<b>KBL IN Equity</b>	KARNATAKA BANK LTD	0.47	4.91	4.66	0.32	0.58	0.04
<b>NBL BD Equity</b>	NATIONAL BANK LTD	0.47	5.60			0.39	0.05
<b>HNB SL Equity</b>	HATTON NATIONAL BANK PLC	0.43	5.08	4.30	0.39	0.85	0.15
<b>SIB IN Equity</b>	SOUTH INDIAN BANK LTD	0.34	17.59	5.97	0.36	0.64	0.05

Source: Bloomberg



**APPENDIX 2: FINANCIAL STATEMENT**

BALANCE SHEET	2018	2019	2020	2021F
<b>TOTAL ASSETS</b>				
Cash and precious metal	1,332	1,655	1,936	2,445
Loans and advances to customers, net	76,295	94,435	110,658	139,716
Investment securities	24,900	26,075	42,665	53,535
Fixed assets	300	571	-142	-853
Investment property	-	-	-	-
Other assets	11,054	11,863	13,901	17,543
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	136,179	164,439	199,797	249,721
<b>TOTAL LIABILITIES</b>	125,558	151,364	182,449	229,669
Due to Gov and Loans from SBV	4,752	828	970	1,224
Deposits & Loans from other credit institutions	33,491	40,214	47,120	59,468
Deposits from customers	76,138	92,439	110,032	138,865
Derivatives and other financial liabilities	109	-	-	-
Funds received from Gov, international and other institutions	247	706	827	1,044
Valuable papers	8,715	14,426	20,277	25,000
Other liabilities	2,105	2,750	3,223	4,067
<b>SHAREHOLDERS' EQUITY</b>	10,622	13,075	17,348	20,053
Capital and fund	10,622	13,075	17,348	20,053
Retained earnings	1,806	4,616	6,056	8,760
Minority interest	-	-	-	-
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	136,179	164,439	199,797	249,721

INCOME STATEMENT	2018	2019	2020	2021F
Interest and Similar Income	7,325	9,374	11,851	14,347
Interest and Similar Expenses	-4,152	-4,996	-6,217	-7,212
Net Interest Income	3,172	4,378	5,633	7,135
TOI	3,610	5,627	8,469	10,131
Total operating expenses	-1,942	-2,847	-3,303	-4,053
Operating Profit Before Provision for Credit Losses	1,668	2,780	5,166	6,079
Provision for credit losses	-462	-522	-1,298	-1,600
PBT	1,206	2,258	3,868	4,479
PAT	964	1,805	3,094	3,583
Minority interest	-	-	-	-
<b>Attributable to parent company</b>	<b>964</b>	<b>1,805</b>	<b>3,094</b>	<b>3,583</b>
<b>EPS</b>	<b>1,717</b>	<b>2,911</b>	<b>3,691</b>	<b>3,344</b>

FINANCIAL RATIO	2018	2019	2020	2021F
<b>Key Profitability Ratios</b>				
NIM (Net Interest Margin)	3.79%	4.30%	4.43%	4.32%
Output average interest rate	8.12%	9.05%	8.90%	8.69%
Input average interest rate	-4.18%	-4.57%	-4.40%	-4.38%
Earnings Spread	3.94%	4.48%	4.50%	4.31%
Interest expense/Interest income	-53.30%	-52.46%	-50.27%	-50.28%
Net Serving Fee Margin (NSFM)	0.59%	0.90%	0.74%	0.74%
Servicing fee expense/Servicing fee income	-21.80%	-19.98%	-19.98%	-45.00%
NNIM (Net Non-Interest Margin)	1.08%	2.17%	1.86%	1.89%
EBT to Interest Income ratio	24.09%	32.64%	31.22%	34.34%
CIR (Cost-to-Income) ratio	-50.59%	-39.00%	-40.00%	-40.00%
<b>Asset Management</b>				
LDR (Loan-to-Deposit) ratio Market 1	101.38%	103.47%	101.85%	101.85%
LDR (Loan-to-Deposit) ratio Market 2	54.30%	52.38%	51.31%	52.28%
ROA	1.39%	2.06%	1.97%	2.16%
ROE	20.87%	26.11%	23.56%	25.93%

### 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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