



Company Report: Technological Commercial Joint Stock Bank (TCB)

Analyst
 Trần Thị Hồng Nhung
 Mail: nhungth@gvias.com.vn – ext 703

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Moody's downgrades Techcombank's credit rating

KEY CONTENT

Techcombank's basic credit rating has been reduced from Ba2 to Ba3, which is back to the level of some commercial banks today, and the outlook has changed from "stable" to "negative". Moody's also downgraded Techcombank's LT (FC) and local currency (LC) deposit and issuer ratings from Ba2 to Ba3. Besides, the domestic – foreign currency counterparty risk rating (LC and FC Counterparty Risk Ratings – CRR) was adjusted from Ba1 to Ba2. The LT Counterparty Risk Assessment (CR) was also lowered from Ba1 to Ba2.

This credit rating by Moody's predicts the difficult situation of the real estate industry, negatively affecting the independent credit health of Techcombank when this unit focuses heavily on this field. Moody's noted that the move was unrelated to recent risks at US and European banks.

By the end of 2022, real estate and construction loans accounted for 29% of Techcombank's total portfolio. Outstanding corporate bonds account for 6% of total assets, according to a report by Moody's.

RECOMMENDATION

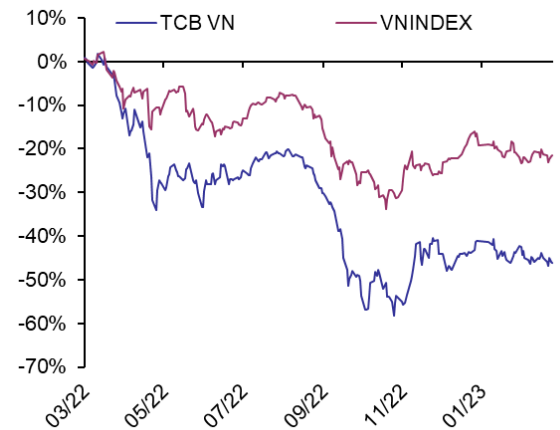
In the short term, buying and holding TCB shares will not have many advantages as the bank is still affected by the gloomy real estate market, making it difficult for the main loan book related to real estate to expand. Meanwhile, the IB services segment, which is mainly related to bond issuance, has also been greatly affected in the past 2 years. In addition, with the current credit rating, the bank would be under pressure of the higher COF - the cost of mobilization will increase in the future due to the rating downgrade, thereby affecting the bank's profit margin.

Recommendation: -
 (update)

6-18m TP: -

Current price: VND26.200

Price performance



Price change	1 M	3 M	1Y
Abs. %	-8.4%	-5.1%	-47.0%
Relative to VN index	-12.2%	-2.6%	-77.1%
Avg price (VND)	26,941	27,379	32,948

sources: Bloomberg, Guotai Junan (VN)

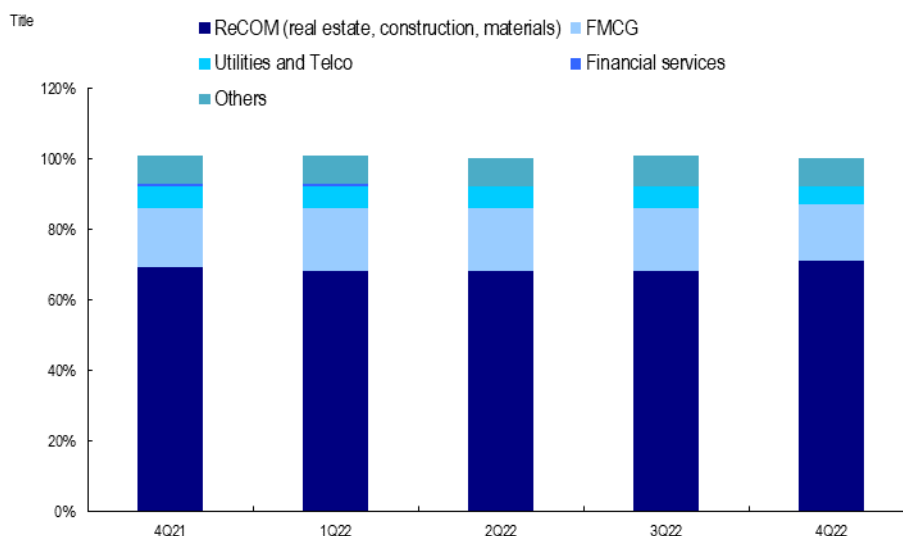
Shares in issue (m)	3,517.24	Major shareholder (%)	Masan 15%
Market cap (VND b)	94,437.85	Free float (%)	55%
3- month average vol. ('000)	3,683.75	LDR (%)	76.6
52w high/low (VND)	50600 / 19300	CAR (%)	15.2

Sources: the Company, Guotai Junan (VN).

Further analysis of the impact of the real estate loan portfolio on Techcombank's assets and valuation.

Currently, Techcombank's total loans are about VND 420 trillion. Based on the above data, 29% of outstanding loans belong to the real estate sector, equivalent to about VND 130 trillion.

Figure-1: Techcombank's corporate loan structure



Source: TCB, Guotai Junan (VN).

In the worst case scenario, we assume 50% of the loan is transferred to bad debt, with a collateral ratio of about 50% of the loan value (LTV=50%), then the provision TCB must make is about 30,000 VND billion. As the result, the bank's equity would decline to 82VND trillion, equivalent to the BVPS= 23,400VND. Therefore, the current share price (VND26,200/share) has almost reflected the most negative impacts on the bank's outlook.

Of course, we believe that the probability of this happening is very low in the case of TCB. The bank still maintained good asset quality, NPL ratio <1%. Meanwhile, business results are still quite positive with profit margin leading the industry.

RECOMMENDATION

In the short term, buying and holding TCB shares will not have many advantages as the bank is still affected by the gloomy real estate market, making it difficult for the main loan book related to real estate to expand. Meanwhile, the IB services segment, which is mainly related to bond issuance, has also been greatly affected in the past 2 years. In addition, with the current credit rating, the bank would be under pressure of the higher COF - the cost of mobilization will increase in the future due to the rating downgrade, thereby affecting the bank's profit margin.

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

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GUOTAI JUNAN VIETNAM RESEARCH & INVESTMENT STRATEGY

Trần Thị Hồng Nhung

Equity Analyst- Banking sector

nhungth@gtjas.com.vn

(024) 35.730.073 – ext:703

Võ Thế Vinh

Head of Research

vinhvt@gtjas.com.vn - ext:701

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CHỨNG KHOÁN GUOTAI JUNAN (VIỆT NAM)
GUOTAI JUNAN SECURITIES (VIETNAM)

CONTACT	Hanoi Head Office	HCMC Branch
Advising: (024) 35.730.073	R9-10, 1 st Floor, Charmvit Tower, 117 Trần Duy Hưng, Hà Nội	3 rd 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: gtja@gtjas.com.vn Website: www.gtjai.com.vn	Fax: (024) 35.730.088	Fax: (028) 38.239.696

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