



Company Report: Vietnam Technological & Commercial Joint Stock Bank (TCB)

Analyst
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Headwind still presents

BUSINESS UPDATE

Credit growth was 8.5%ytd in the first half of 2023. The business performance from credit continues to face many difficulties, in which the **rapidly increasing cost of capital has strongly affected the bank's interest income.**

Non-interest income sources such as IB and banca continues to face challenges.

The bank's NIM narrowed to 4.3% at the end of Q2.

NPL ratio increased to 1.07%. CASA improved slightly from the Q1 low level to 34.9%, but still far from the peak set at 50%.

Profit before tax in the first half of the year reached VND11,300 billion, down 20%yoy.

COMMENT

In general, 2023 is a relatively difficult year for the whole banking sector in general as well as for TCB in particular. The weakening economy and stagnant real estate business hit TCB's key business segments, which are real estate lending (the value chain accounts for 70% of total loans to business customers) and mortgage (which account for 80% of individual loans).

We maintain a cautious view on TCB's business results in 2023 with a projected profit before tax of about VND 23,000 billion, down 10% yoy.

Recommendation:

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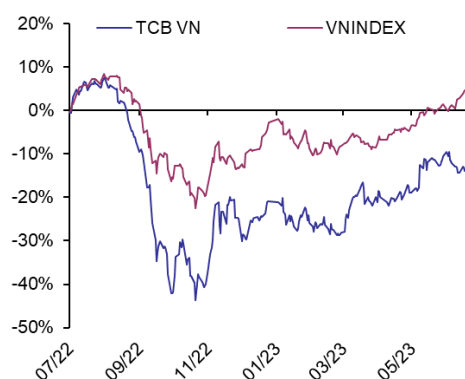
6-18m TP:

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Current price:

VND33,500

Price performance



Price change	1 M	3 M	1Y
Abs. %	1.8%	11.7%	-9.7%
Relative to VN index	7.7%	26.6%	-9.6%
Avg price (VND)	32,311	31,370	29,931

Nguồn: Sources, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2021A	37,076	18,415	5,137	46.15	26.34	-	-	5.80	-30.14	21.53
2022A	40,902	20,436	5,725	11.45	32.08	-	-	5.36	-32.76	19.52
2023F	37,774	18,263	5,136	-10.28	37.22	-	-	4.30	-33.00	14.67
2024F	53,220	27,776	7,854	52.92	45.08	-	-	4.70	-31.00	18.88
2025F	67,812	36,100	10,233	30.28	55.31	-	-	4.90	-30.00	20.18

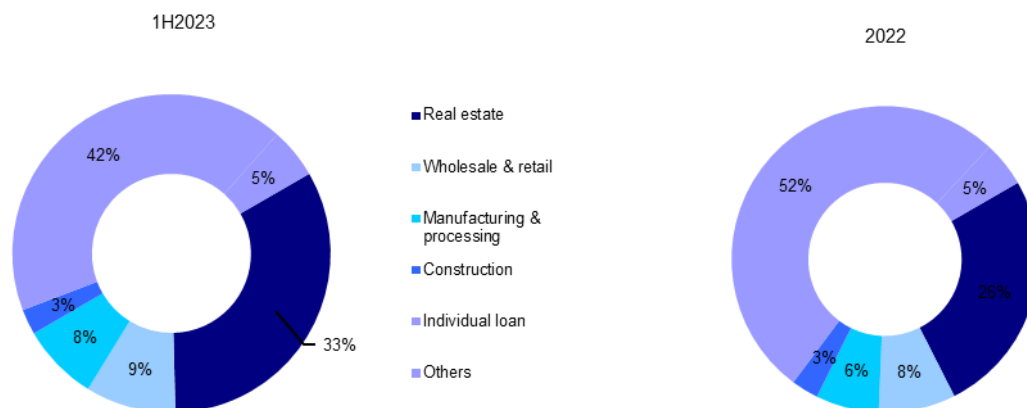
Shares in issue (m)	3,517.24	Major shareholder (%)	Masan	15%
Market cap (VND b)	117,299.90	Free float (%)		55%
3- month average vol. ('000)	4,353.39	LDR (%)		81
52w high/low (VND)	39950 / 19300	CAR (%)		15.1

Sources: the Company, Guotai Junan (VN).

KEY BUSINESS FACES CHALLENGES

There is a significant shift from retail lending to wholesale lending. From the beginning of the year, the real estate outstanding loans increased sharply from VND 108.8 trillion to VND 153.6 trillion. The proportion of those loans jumped from 25.87% to 32.9%. Meanwhile, the mortgage dropped sharply (shown in the proportion of personal loans decreasing from 51.71% to only 42.35% of total outstanding loans at the end of Q2). Individual loan fell sharply by 8%ytd, which is said to be a large contribution of mortgage customers that made prepayment in the second quarter as well as the first half of the year. Accordingly, the number of prepayment customers in the second quarter increased by 60% compared to the first quarter.

Figure-1: Change in lending book structure in the 1st haft



Source: TCB, Guotai Junan (VN).

Ending the 1st haft, TCB recorded credit growth of 8.5%ytd. Meanwhile, at the end of Q1/2023, the bank recorded credit growth of 9.3%ytd, indicating a slight decrease in the balance of loans in Q2. However, this is also a high credit growth compared to peers.

It is worth noting that the bank's business performance from credit continues to face many difficulties, in which the **rapidly increasing cost of capital has strongly affected the bank's interest income**. The interest rates hike pressured the COF of the syndicated loans due to the increase in the reference interest rate (SOFR). For local deposits, the structural change between term deposits and CASA also affected the bank's COF. The increase in interest rates also caused the bank's cost of capital (COF) to increase sharply when the proportion of CASA was sharply reduced, and deposits were pushed to term deposits to enjoy better interest rates as well as a part of idle money was withdrawn by corporate customers to finance working capital and business.

Accordingly, the bank's net interest income continued to weaken for the fifth consecutive quarter since its peak in the first quarter of 2022. NIM also slipped sharply from the peak of 5.6% to 4.3% at the end of Q2.

Income from non-interest segments such as IB and banca continues to face challenges

Accordingly, although IB's income has improved slightly compared to Q1 (+10%qoq), the overall picture is still bleak compared to the same period of previous years. Total IB income in the first 6 months accordingly decreased by 66%yoy while banca income decreased by 53%yoy due to the impact of headwinds in the insurance market.

The opposite picture takes place in card, LC and settlement services. In which, fee collection from card and payment services (LC, cash & settlement) increased by 19%qoq and 9%qoq respectively. Accumulating 6 months, total fee income for these two segments increased sharply by 53% and 147% compared to the same period last year.

Overall, the bank's fee income increased only slightly by 5% yoy in the first half of the year.

Asset quality has weakened but NPL ratio is still maintained at a good level compared to the system average

The provision expenses doubled (from VND636 billion in 1H22 to VND1,342 billion in 1H23) due to the bad debt increase. The total NPL of the bank (group 3-5) increased by about VND 1,000 billion (+33%) compared to the end of 2022. Accordingly, the bad debt ratio continued to increase from 0.72% at the end

of 2022 to 0.85 % at the end of the first quarter of 2023 and to 1.07% in the second quarter of 2023. The increase in bad debt mainly came from the retail segment (home loans and credit cards)- figure 7.

COMMENT

In general, 2023 is a relatively difficult year for the whole banking sector in general as well as for TCB in particular. The weakening economy and stagnant real estate business hit TCB's key business segments, which are real estate lending (the value chain accounts for 70% of total loans to business customers) and mortgage (which account for 80% of individual loans).

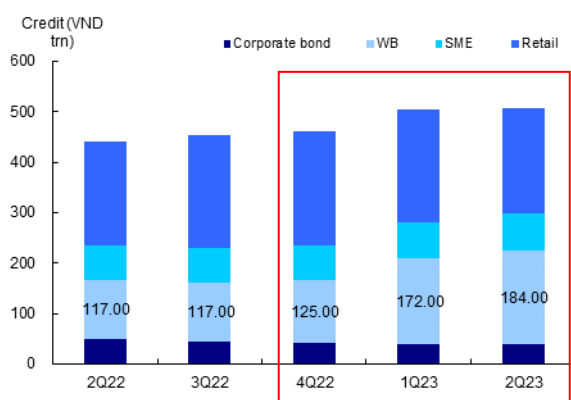
Although the CASA ratio has improved compared to Q1 and the domestic deposit rate has decreased, we believe that the bank's NIM will still face great pressure in the second half of the year due to the general difficulty in the consumer market- credit demand side, interest rate competition among banks as well as the implementation of interest rate packages to support borrowers. Accordingly, we expect the bank's NIM to be flat in the second half of the year, around 4.3%-4.5%.

In terms of bad debt, we believe that Circular 02 will have certain support for banks. Accordingly, TCB can control the NPL ratio around the current level (not exceeding 1.5%).

In terms of income, fee income from card and payment services continues to be the main drivers for non-interest income activities of the bank. We are cautiously assessing the bank's IB and banca segments with the expectation of flat income in the next 2 quarters.

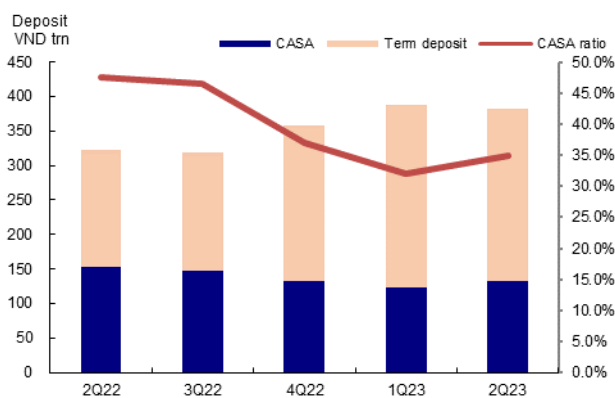
We expect TCB to reach credit growth of around 14.1% (as granted by the SBV) for the whole year of 2023. PBT will reach VND23,000 billion, down 10%yoy.

Figure-2: Credit breakdown by segment



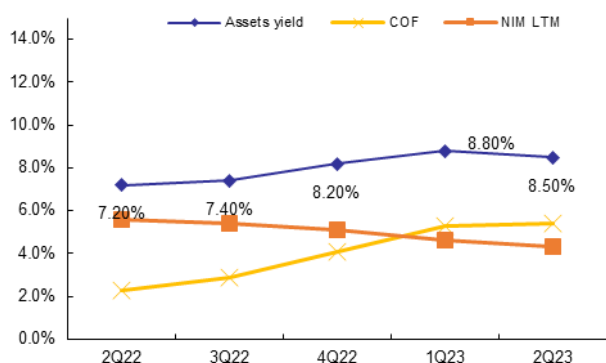
Source: TCB, Guotai Junan (VN).

Figure-3: Deposit breakdown



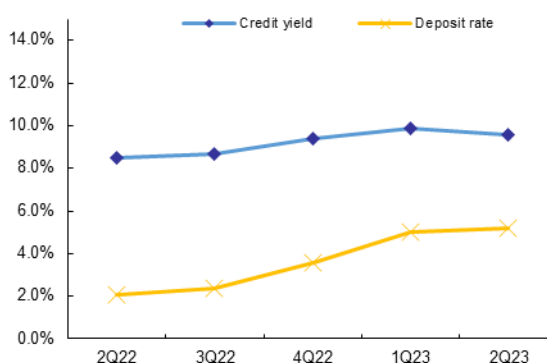
Source: TCB, Guotai Junan (VN).

Figure-4: Yield and NIM



Source: TCB, Guotai Junan (VN).

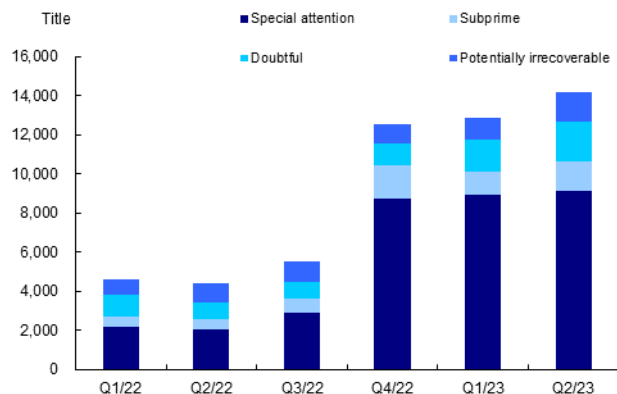
Figure-5: Credit and deposit rate



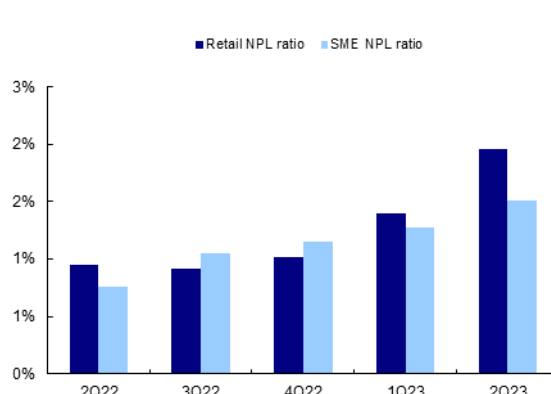
Source: TCB, Guotai Junan (VN)

Figure-6: Loan group 2-5

Figure-7: Retail & SME NPL ratio

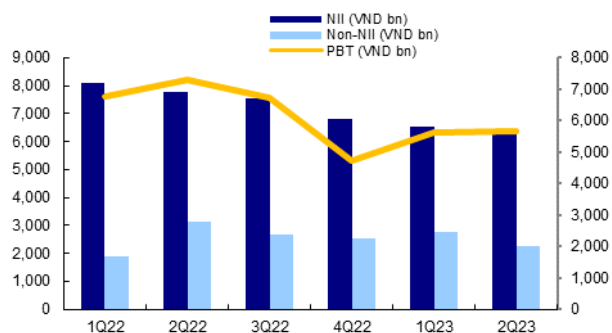


Source: TCB, Guotai Junan (VN).



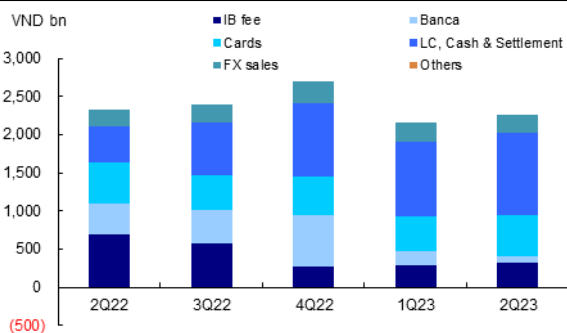
Source: TCB, Guotai Junan (VN)

Figure-8: Profit



Source: TCB, Guotai Junan (VN).

Figure-9: Fee income breakdown



Source: TCB, Guotai Junan (VN)

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% Or The Fundamental outlook of the sector is unfavorable

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Techcombank (TCB)

Company Report