

6 Aug 2020

## Vietnam Technological and Commercial JSB (TCB)

### Investment banking still strong

- 2Q20 NP reached 15% qoq to VND2.8tn.
- Restructured loans made up ~3.6% of total.
- Lending was standstill but IB business still strong.

#### Facts: lowering costs saves the bottom line

TCB's NP of controlling interest grew 15% qoq to VND2.8tn in 2Q20 despite of 5% decline in TOI. Significant drops in CIR and credit cost (annualized) from 35% and 1.2% in 1Q20 respectively to 30% and 0.6% in 2Q20 would explain for the contracted move above. However, according to the bank's managers in the meeting yesterday, CIR and credit cost may inch up in 2H20 given further amortization and provision expenses. We expect an CIR of 32% and credit cost of 1.2% for 2020F.

The bank reported a healthier assets quality as compared to 1Q20 with delinquency ratio of 1.9% (-0.2%p qoq) and NPL ratio of 0.9% (-0.2%p qoq). The NPL of BB segment was up 0.2%p to 0.5% while that of other segments gone down. Restructured COVID-19 loans was VND8.3tn, equaling to 3.6% of total loan book, which seem better than initial estimated size of maximum 7% loan book. Of which, VND5.3tn came from WB clients, VND1.5tn from BB (SMEs), and VND1.5tn from PFS (retails).

#### Pros & cons: lending standstill but IB business still strong

Credit was flat at VND271tn from 1Q20-end. As such, TCB achieved a credit growth of just 3.5% ytd in June 2020, quite close to industry average of 3.26%. We think there is a pause in lending to BB and retail in 2Q20 since both banks and clients was hesitated in providing and receiving debt obligations after a short time ending social distance. Also, delivery of Vinhomes's projects was behind schedule may impact TCB's mortgage. Meanwhile, capital demand of WB segment was satisfied by huge volume of bond advisory (VND35tn; +82% yoy; 21% market share) and bond distribution to retail (VND33tn; +36% yoy) in 1H20. The business produced VND549tn of bond fee in 1H20, up 146% yoy. Even though government promulgated stricter regulations (New enterprise Law, New securities Law, Decree 81) on bond issuance and investment, bond is still TCB's strength thanks to its high-end customer base.

#### Action: Reiterate BUY

We maintain BUY on TCB with a TP of VND24,400bn, up 3% from latest update due to better 2020 outlook. Amid drastic competitiveness banking market, TCB is outstanding with respectable outcomes from its distinctive strategy through various tailored financial products besides lending.

12M rating **BUY (Maintain)**

12M TP **24,400**

Up/Downside **+27%** (incl 0% cash dividend)

#### Stock data

VNIndex (06 Aug, pt)	840
Stock price (06 Aug, VND)	19,200
Market cap (USD mn)	2,900
Shares outstanding (mn)	3,500
52-Week high/low (VND)	25,150/14,900
6M avg. daily turnover (USD mn)	1.97
Free float / Foreign ownership (%)	70.0/22.5
Major shareholders (%)	
Masan & affiliates	20.0
Mr Ho Hung Anh (Chairman) & family	17.0

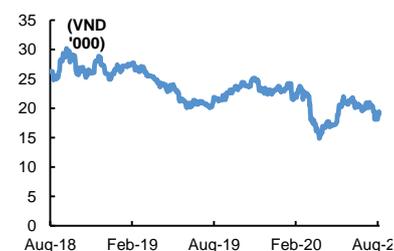
#### Valuation

	2019A	2020F	2021F
PB (x)	1.1	0.9	0.8
PE (x)	6.7	6.5	6.3
ROA (%)	2.9	2.6	2.4
ROE (%)	17.8	15.6	14.0
DY (%)	-	-	-
P/PE (x)	4.9	4.2	3.8
BPS (VND,adj)	17,568	20,513	23,581
EPS (VND,adj)	2,872	2,944	3,069

#### Performance

	1M	6M	12M
Absolute (%)	(5.2)	(14.1)	(5.2)
Relative to VNIndex (%p)	(3.2)	(4.4)	6.0

#### Stock price



Source: Bloomberg

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**Table 1. Earnings trend and outlook**

(VND bn, %, %p)

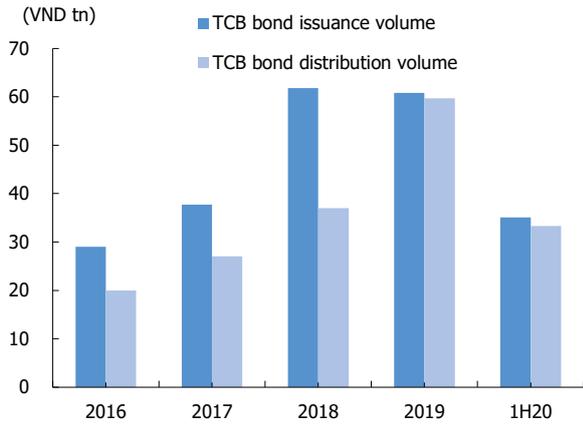
	2019				2020		2019	2020F	2Q20	
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY
Loans to customers and corporate bonds	218,985	246,095	246,798	261,400	271,021	270,536	261,400	305,174	(0.2)	9.9
% growth (ytd)	(0.3)	12.1	12.4	19.0	3.7	3.5	19.0	16.7	-	(8.6)
Loans to customers	163,835	185,432	205,317	230,802	232,021	231,666	230,802	260,806	(0.2)	24.9
NPL (3-5 group)	2,924	3,302	3,704	3,078	2,530	2,100	3,078	4,014	(17.0)	(36.4)
NPL ratio (% , %p)	1.78	1.78	1.80	1.33	1.09	0.91	1.33	1.54	(0.2)	(0.9)
NPL (2-5 group)	6,474	6,121	5,592	5,201	4,889	4,435	5,201	6,413	(9.3)	(27.5)
NPL ratio (% , %p)	4.0	3.3	2.7	2.3	2.1	1.9	2.3	2.5	(0.2)	(1.4)
Loan loss coverage (% , %p)	87.7	77.1	77.1	94.8	117.9	108.6	94.8	88.4	(9.4)	31.5
VAMC	-	-	-	-	-	-	-	-	-	-
Deposit from customers and bond	220,844	232,905	233,143	248,757	252,571	273,262	248,757	276,104	8.2	17.3
Deposit from customers	207,978	220,263	218,655	231,297	235,099	249,857	231,297	256,724	6.3	13.4
% growth (ytd)	3.3	9.4	8.6	14.8	1.6	8.0	14.8	11.0	6.4	(1.3)
CASA (%)	26.7	29.0	28.7	32.9	30.7	32.6	34.5	36.8	1.9	3.6
<b>Total assets</b>	<b>326,112</b>	<b>360,662</b>	<b>367,538</b>	<b>383,699</b>	<b>391,808</b>	<b>395,861</b>	<b>383,699</b>	<b>433,921</b>	<b>1.0</b>	<b>9.8</b>
<b>Total equity</b>	<b>53,796</b>	<b>56,193</b>	<b>58,740</b>	<b>61,782</b>	<b>64,250</b>	<b>67,054</b>	<b>61,782</b>	<b>72,087</b>	<b>4.4</b>	<b>19.3</b>
Total operating income	4,392	4,691	5,359	6,627	6,030	5,753	21,068	23,922	(4.6)	22.7
Net interest income	3,430	3,053	3,622	3,904	4,212	3,935	14,258	16,693	(6.6)	28.9
NIM (% , %p)	4.60	3.83	4.30	4.52	4.74	4.38	4.40	4.45	(0.4)	0.5
Non-interest income	961	1,637	1,737	2,723	1,818	1,818	6,810	7,229	(0.0)	11.0
Net commission income	507	1,013	756	1,330	834	1,082	3,358	3,890	29.8	6.9
Gains on investment securities	149	156	561	780	631	328	1,646	1,875	(48.0)	110.4
Other non-interest income	306	469	419	613	354	408	1,807	1,463	15.2	(13.1)
Provision for credit losses	167	72	366	312	772	439	917	2,891	(43.1)	509.9
Net operating revenue	4,224	4,619	4,993	6,315	5,258	5,314	20,151	21,031	1.1	15.1
SG&A	1,607	1,574	1,794	2,337	2,138	1,697	7,313	7,809	(20.6)	7.9
CIR (%)	36.6	33.6	33.5	35.3	35.4	29.5	34.7	32.6	(6.0)	(4.0)
<b>Pre-provision earnings</b>	<b>2,784</b>	<b>3,117</b>	<b>3,564</b>	<b>4,290</b>	<b>3,893</b>	<b>4,056</b>	<b>13,756</b>	<b>16,112</b>	<b>4.2</b>	<b>30.1</b>
EBT	2,617	3,045	3,199	3,978	3,121	3,617	12,838	13,222	15.9	18.8
Net profit	2,092	2,433	2,583	3,119	2,506	2,889	10,226	10,577	15.3	18.8
<b>Controlling-int. NP</b>	<b>2,083</b>	<b>2,409</b>	<b>2,554</b>	<b>3,029</b>	<b>2,456</b>	<b>2,817</b>	<b>10,075</b>	<b>10,366</b>	<b>14.7</b>	<b>16.9</b>

Source: Company data, KIS

### ■ Company overview

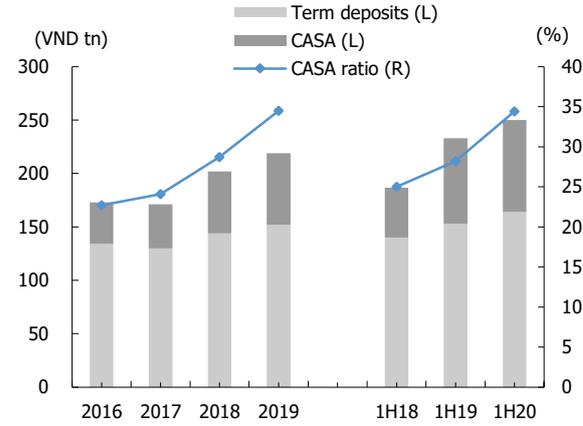
TCB is one of top largest commercial banks in Vietnam in term of total assets. The bank employs a unique strategy, leveraging through value chains of its wholesale banking clients, which helps TCB save time and cost for acquiring new customers and maximize revenue per customer given better KYC process and customized products. TCB's prominent subsidiaries/businesses include Techcom Securities, the leading domestic corporate bond house in Vietnam for both primary and secondary market; Techcom Capital, who an AUM of VND15.5tn in 2019 thanks to an outstanding domestic bond open-ended fund.

**Figure 1. TCB Bond segment**



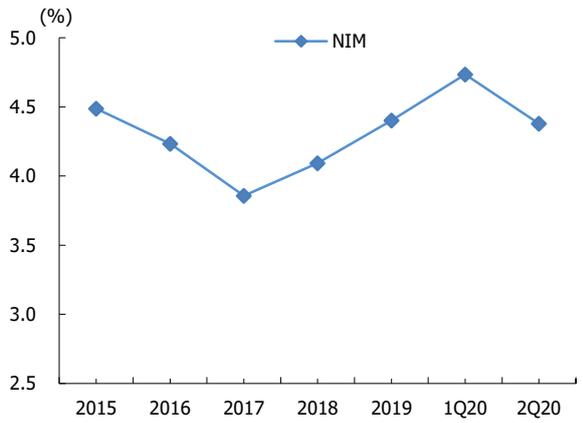
Source: Company data, KIS Vietnam

**Figure 2. CASA**



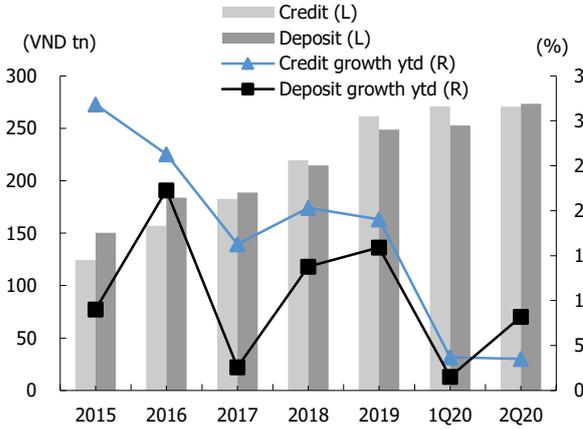
Source: Company data, KIS Vietnam

**Figure 3. NIM**



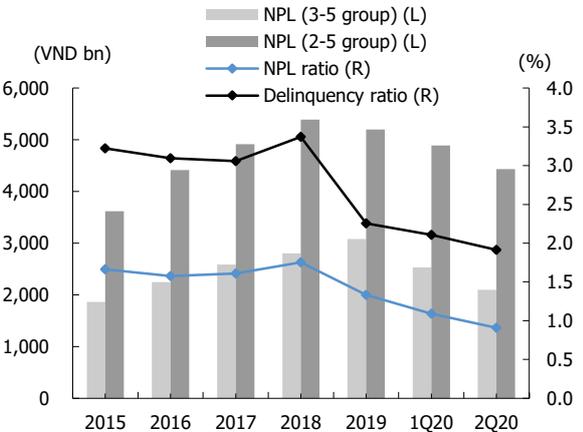
Source: Company data, KIS Vietnam

**Figure 4. Credit and Deposit**



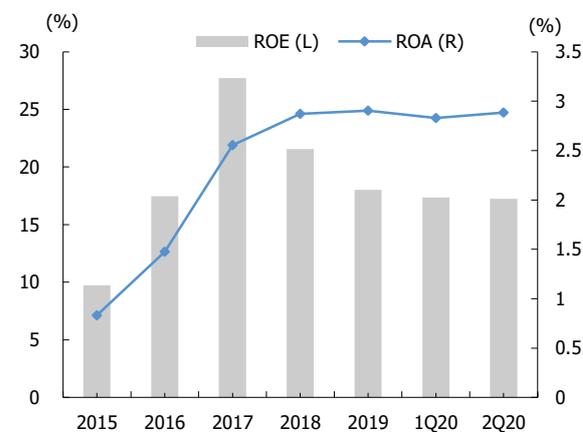
Source: Company data, KIS Vietnam

**Figure 5. NPL ratios**



Source: Company data, KIS Vietnam

**Figure 6. T12M profitability**



Source: Company data, KIS Vietnam

**Balance sheet**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	269,392	320,989	383,699	433,921	494,505
Gross IEAs	253,573	300,498	357,743	403,804	457,640
Loans and corp bonds	182,541	219,595	261,400	305,174	350,560
Household	64,777	72,384	105,247	-	-
Corporate	117,764	147,211	156,153	-	-
Dep't and loans to FIs	36,706	44,975	59,154	54,292	56,188
Dep't to SBV & G-bond	34,326	35,928	37,188	44,338	50,892
VAMC bond	-	-	-	-	-
NIEAs	19,228	23,314	29,422	34,307	41,746
Others	3,409	2,823	3,466	4,190	4,880
Total liabilities	242,462	269,276	321,917	361,834	411,677
Deposits	170,971	201,415	231,297	256,724	288,203
Debentures	17,640	13,178	17,461	19,380	28,820
Dep't and loans from FIs	46,324	36,426	61,267	72,767	80,043
Loans from Gov't & SBV	1,000	6,025	-	-	-
Other liabilities	6,527	12,232	11,893	12,963	14,611
Total equities	26,931	51,713	61,782	72,087	82,828
Controlling interests	26,931	51,644	61,491	71,797	82,538
Capital stock	11,655	34,966	35,001	35,001	35,001
Capital surplus	2,165	477	477	477	477
Other reserves	6,157	3,868	5,173	6,684	8,239
Retained earnings	6,953	12,334	20,841	29,635	38,821
OCI	-	-	-	-	-
Minority interest	-	69	291	291	291

**Income statement**

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	16,344	18,351	21,068	23,922	26,849
Net interest income	8,930	11,127	14,258	16,693	19,916
Interest income	17,595	21,151	25,016	27,974	33,050
Interest cost	8,664	10,024	10,758	11,281	13,134
Non-interest income	7,413	7,223	6,810	7,229	6,933
Net commission income	4,090	3,770	3,358	3,890	4,486
Gains on investment securities	1,608	1,820	1,646	1,875	846
Other non-interest income	1,715	1,634	1,807	1,463	1,601
Provision for credit losses	3,609	1,846	917	2,891	4,136
Net operating revenue	12,735	16,504	20,151	21,031	22,713
SG&A	4,698	5,843	7,313	7,809	8,934
Employee benefits	2,595	3,240	4,262	n.a	n.a
Pre-provision earnings	11,646	12,508	13,756	16,112	17,915
Earnings before tax	8,036	10,662	12,838	13,222	13,779
Tax	1,591	2,187	2,612	2,644	2,756
Tax rate (%)	19.8	20.5	20.3	20.0	20.0
Continuing operations profit	4,905	7,052	9,146	9,809	10,118
Reversals of written-off loans	1,541	1,423	1,080	768	906
Net profit	6,446	8,475	10,226	10,577	11,024
Net profit of controlling interest	6,446	8,464	10,075	10,366	10,803

**Key financial data**

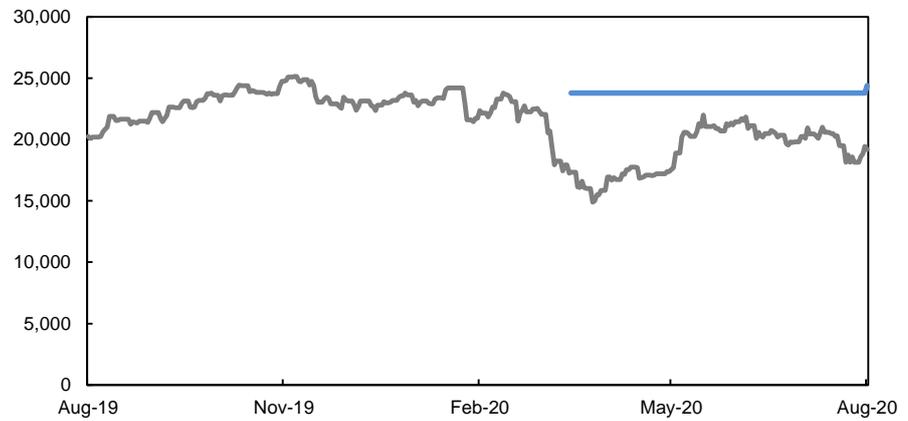
	2017A	2018A	2019A	2020F	2021F
<b>Profitability and efficiency (%)</b>					
ROE	27.7	21.5	17.8	15.6	14.0
ROA	2.6	2.9	2.9	2.6	2.4
NIM	3.86	4.09	4.40	4.45	4.70
Asset yield	7.60	7.78	7.73	7.46	7.80
Cost of fund	3.88	4.07	3.79	3.42	3.52
Cost-income ratio	28.7	31.8	34.7	32.6	33.3
Credit cost	1.57	0.92	0.38	1.02	1.26
<b>Growth (%)</b>					
Net profit of controlling interest	104.7	31.3	19.0	2.9	4.2
Pre-provision earnings	52.1	7.4	10.0	17.1	11.2
Credit growth	16.3	20.3	19.0	16.7	14.9
Total assets	14.5	19.2	19.5	13.1	14.0
<b>Asset quality (%)</b>					
NPL ratio	1.6	1.8	1.3	1.5	1.5
NPL coverage ratio	72.9	85.1	94.8	88.4	93.3
Loan to deposit	77.8	66.5	81.3	80.2	83.7
<b>Capital adequacy (%)</b>					
CAR ratio	12.7	14.3	15.6	15.7	15.8
CET1 ratio	n.a	n.a	n.a	n.a	n.a
Tier 1 ratio	n.a	n.a	15.2	15.4	15.4

**Valuation**

	2017A	2018A	2019A	2020F	2021F
<b>Per share (VND, adj.)</b>					
BPS	9,039	14,770	17,568	20,513	23,581
EPS	2,157	2,409	2,872	2,944	3,069
DPS	-	-	-	-	-
<b>Valuation (x)</b>					
PB	2.1	1.3	1.1	0.9	0.8
PE	8.9	8.0	6.7	6.5	6.3
P/PPE	4.9	5.4	4.9	4.2	3.8
Dividend yield (%)	-	-	-	-	-
Dividend payout ratio (%)	-	-	-	-	-
<b>ROE analysis (%)</b>					
ROE	27.7	21.5	17.8	15.6	14.0
Leverage(x)	10.0	6.2	6.2	6.0	6.0
IEAs to total assets	93.0	92.8	92.4	92.2	91.6
Net income to IEAs	2.5	2.8	2.8	2.6	2.4
Net interest income to IEAs	3.5	3.7	4.0	4.1	4.4
Non-interest income to IEAs	2.9	2.4	1.9	1.8	1.5
Credit cost to IEAs	1.4	0.6	0.3	0.7	0.9
SG&A to IEAs	1.9	1.9	2.0	1.9	2.0

**Changes to recommendation and price target**

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Vietnam Technological and Commercial JSB (TCB)	06 Aug 20	BUY	VND24,400	-	-
	12 May 20	BUY	VND23,800		
	20 Mar 20	BUY	VND23,800		



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Prepared by: Yen Tran

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