

Techcombank Securities (OTC:TCBS)

Rising warrior

Top 4 HSX market share in 1Q22; No. 3 margin provider

In 1Q22, TCBS has successfully overtaken 4th place in HSX market share from HCM. Market share was 5.55% in 1Q22, still in-line with upward trend that TCBS has maintained from 2021. On margin lending market, TCBS also ranked 3rd place when provided VND14.42tn (+265% yoy). In 2020, TCBS ranked number 8, just only VND4tn in margin lending balance. In order to expand their lending capacity, TCBS increased their owners' equity significantly to VND9,822bn (+50% yoy) and ranked 3rd place in size of owners' equity in securities sector.

No. 1 bond underwriter thanks to close bond with conglomerates

TCBS has not had significant competitor on bond market. From 2016-2019, over 80% bond market share on HSX was handled by TCBS. This percentage in 2020 and 2021 decreased to 68% and 39%, respectively. Although TCBS decreased their share significantly in 2021 but the company still doubled the second place, Tien Phong Securities. Over 80% of consulted bond by TCBS was for Conglomerate sector thanks to their relationship with Masteries group and Masan Group.

Pioneer in technology application

The brokerage strategy at TCBS is different than VPS which is at Top 1 on HSX market share. Instead of heavily using human resources for sales, TCBS is more into the technology offered to users. The company owns a trading platform with a modern interface, consistent connection, and various financial products that can fit either beginners (F0) or experienced traders/investors. Some features that TCBS are doing better than its peers can be listed at: 1) Comprehensive and friendly trading platform; 2) Competitive margin rate (~9%/year); 3) eKYC (first securities company applied eKYC with a simple process); 4) Copytrade/iWealth – collaborators network; 5) Synchronization and utilization of TCB's ecosystem; 6) Bond market maker.

Transformation in 2021 by aggressively leverage

Full-year 2021 revenue recorded VND5,195bn (+59% yoy) and profit was flourished with VND3,049bn (+115% yoy). 2021 was the high record in term of profit and revenue for many securities companies and TCBS is also the same. We realized a change in their asset structure. In previous period, TCBS maintained low percentage of Liability which is below 30%. However, in 2021, TCBS quickly change its strategy and liabilities now accounts for 62% of their asset. In which, short-term borrowings from local banks, international financial institutions and long-term bonds are the majority.

Major shareholders (%)	
Techcombank	88.95

Company Overview

TCBS established in 2008, a subsidiary of Techcombank specializing in securities. Company strategy focus on applying technology in business and efficiency. At end-2020, number of headcounts was 350 and more than 50% of them were tech experts. TCBS focuses on corporate bonds market and has been the leader at bond market share on HSX for 5 years.

1. Brokerage activities

In 1Q21, TCBS presented in Top 10 HSX's brokerage business with 3.6% market share. During 2021, TCBS continuously increased their market share with average growth of 14% per quarter. Notably, TCBS achieved high brokerage rate and gross profit margin ratio for brokerage activities. Gross margin ratio was over 80% and brokerage rate is around 0.15% which is impressive in term of efficiency compared to other players.

Table 1. TCBS's Brokerage business

(VND bn, %)

	1Q21	2Q21	3Q21	4Q21	%qoq	%yoy
Revenue	149	202	244	329	34.7	120.8
Expenses	23	36	44	63	43.0	170.1
Trading value of shares through TCBS	83,761	130,391	161,104	233,695	45.1	179.0
Market share on HSX (%)	3.60	4.03	4.81	5.28	9.8	46.7
Gross margin ratio (%)	84.39	82.26	82.01	80.90	(1.4)	(4.1)
Brokerage rate (bps)	17.78	15.49	15.16	14.08	(7.1)	(20.8)

Source: Company data, Korea Investment & Securities

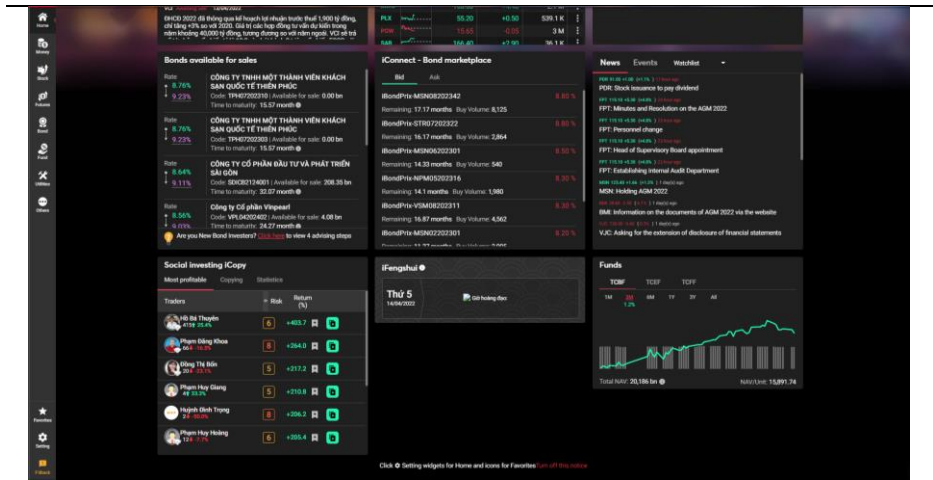
The underlying reasons that led to successful brokerage may come from modern and technology-based strategy that offers customers a new and convenient use:

- 1) Comprehensive and friendly trading platform
- 2) Competitive margin rate (~9%/year)
- 3) eKYC (first securities company applied eKYC with simple process)
- 4) Copytrade/iWealth – collaborators network
- 5) Synchronization and utilization of TCB's ecosystem

1.1. Comprehensive trading platform - TCInvest

TCInvest is TCBS trading platform that users can access from browser and mobile apps. The User Interface (UI) is easy to use and offer users a wide range of investment alternatives: Deposits, Bonds, Stock, Futures, Fund.

Figure 1. Home page of TCIInvest



Source: TCIInvest platform

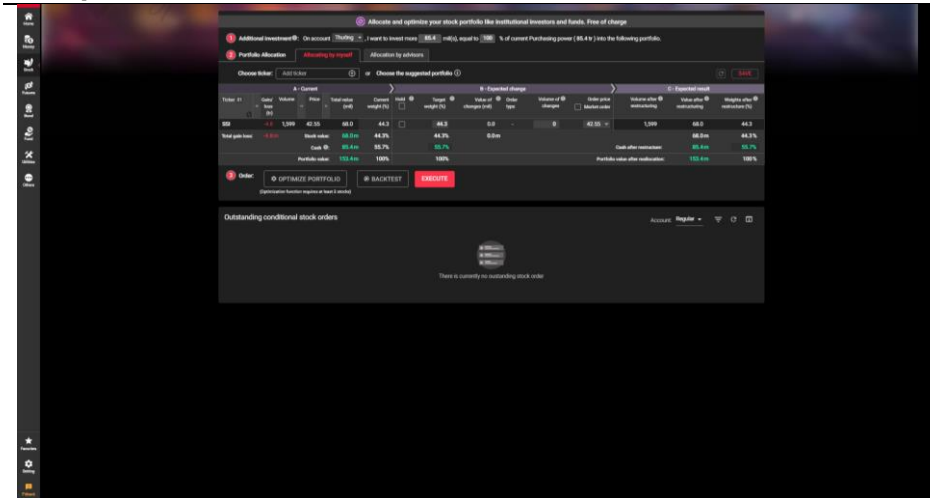
Apart of basic functions of a trading platform such as price board, placing orders, e-voting... TCBS provides customers with many tools which are ready-to-use and helpful for customers to overlook their performance and trading history. We can name some unique functions which are Investment efficiency, Portfolio allocation, Hedging-Arbitrage ...

Figure 2. Investment efficiency function which shows many aspects that a trader/investor need to review in order to improve efficiency



Source: TCIInvest platform

Figure 3. Portfolio allocation which consult customers to allocate and optimize stock portfolio like institutional investors and funds

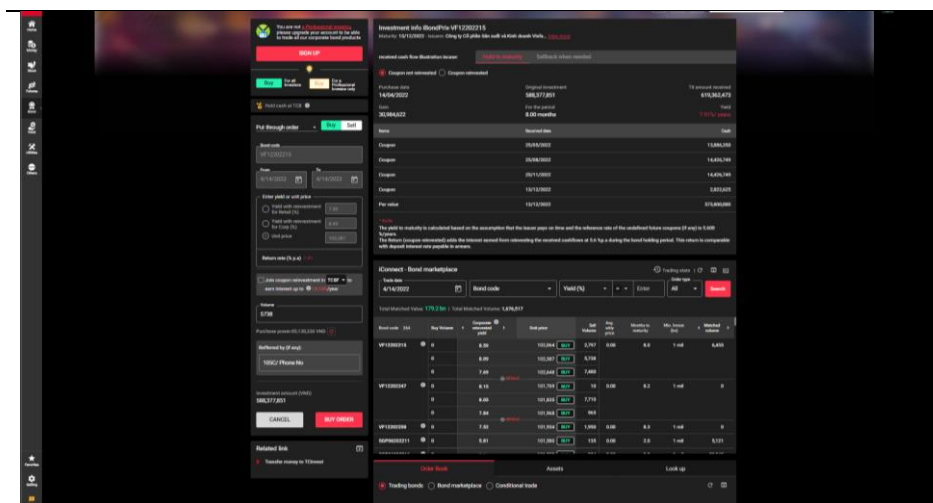


Source: TInvest platform

1.2 Trading bond marketplace

iConnect is a bond marketplace created by TCBS. Users can 1) buy or sell bonds which are distributed by TCBS and 2) place put-through orders with various investors network. Further than that, iConnect provides users with significant information to understand about the characteristics and yield of bonds.

Figure 4. iConnect – Bond marketplace from TCBS

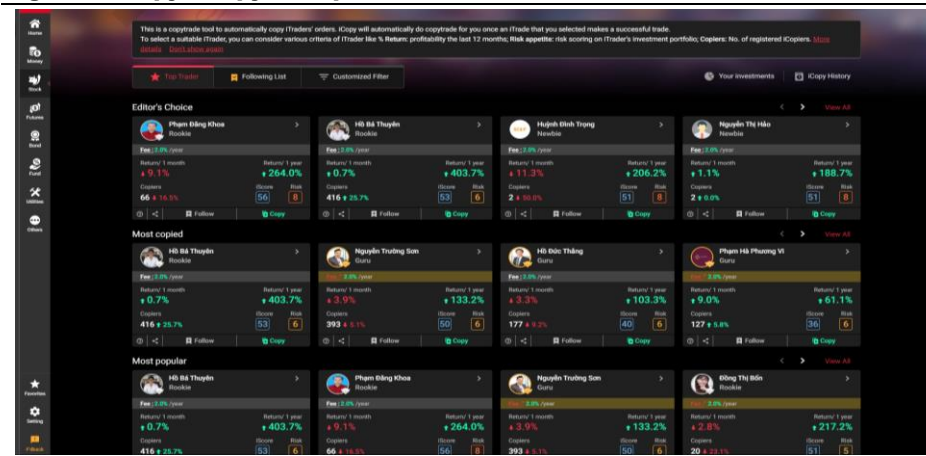


Source: TInvest platform

1.3 iCopy – Social Investing Copy

iCopy is copytrade network that TCBS also provides for their users. They will allow user to register as Trader. Requirement to become Trader is at least 3 months trading at TCBS and a minimum VND100mn NAV. After being recognized as Trader, other users can reference the Trader's portfolio performance and trading history before deciding whether to copy exactly the trading actions. Traders can work as collaborators with TCBS, they will receive around 2% of total assets copied from followers.

Figure 5. iCopy – Copytrade platform from TCBS



Source: TCIInvest platform

1.4 Other investment alternatives: Micro saving, Funds...

TCBS platform is also syndicated with Techcombank ecosystem. They offer flexible deposit options linked with TCB and fund certificates from TCBF. Thus, TCBS investors are equipped with a wide range of financial products.

2. Growing lending activities

The margin loan balance at end-Dec 2021 was VND14,678bn (+27.8% qoq, +264% ytd). TCBS increased its margin balance by 38% per quarter. Current margin loan ratio over owners' equity was 159%, it means that they still have more room to expand margin loan balance around VND3,700bn. TCBS ranked number 3 in margin loan balance and just behind MASC by VND1,000. Having to be mentioned that MASC margin ratio is 179% indicating that MASC nearly touches the ceil of margin lending. TCBS have high possibility to overtake MASC in term of margin lending size.

Income from loans was booked VND942bn (+242 yoy), a new record high, thanks to the exciting stock market. The lending rate in 2021 was 8.9% (-0.4%p yoy).

Table 1. TCBS's margin lending activities

(VND bn, %)

	4Q20	1Q21	2Q21	3Q21	4Q21	%qoq	%yoy
Loan balance	4,383	6,015.9	8,569.4	11,932.1	15,851.5	32.8	261.7
Margin loan	4,027	5,664.1	8,137.2	11,481.8	14,678.2	27.8	264.5
Advance selling from customer	356	351.8	432.2	450.3	1,173.3	160.6	229.6
Margin loan/Equity (%)	65.2	82.6	106.3	135.7	159.1	17.2	144.1
Revenue	76	118	185	264	375	42.1	391.2
Lending rate TTM (%)	9.3	8.5	8.3	8.3	8.9	6.8	(4.8)

Source: Company data, Korea Investment & Securities

3. Not impressive Hold-to-maturity (HTM) performance

In the second half of 2021, TCBS increased significantly their HTM portfolio. At end-2021, HTM balance reached VND512bn (+150 yoy). However, the profitability from HTM is not positive with moderate 4.4% return. The HTM's average income rate of SSI is about 9%.

Table 2. TCBS's HTM investments

(VND bn, %)

	4Q20	1Q21	2Q21	3Q21	4Q21	%qoq	%yoy
HTM balance	205	330	280	480	512	6.7	149.7
HTM income	3	3	5	3	6	68.2	87.5
HTM income rate TTM (%)	5.0	4.7	6.0	4.6	4.4	(4.9)	(12.7)

Source: Company data, Korea Investment & Securities

4. IB revenue is the main pillar for revenue and profit

Revenue from IB activities accounted for 34% in TCBS revenue with high profitability. In 2020, this revenue stream was pegged at VND1,717bn, equivalent to 53% of revenue. In 2021, IB revenue also recorded high at VND1,745bn (+1.6% yoy) but the weight was only 34%. The decrease in revenue proportion is because of the sharp increase of revenue from loans and brokerage. Gross profit margin ratio for IB is 97% and above. Such high profit margin is achieved by utilizing distribution channel of Techcombank. Therefore, the expense for this profession booked in TCBS was minimized.

Table 3. TCBS's IB revenue

(VND bn, %)

	4Q20	1Q21	2Q21	3Q21	4Q21	% qoq	% yoy
Revenue	333.9	419.4	446.8	500.1	378.1	(24.4)	13.3
Expenses	4.8	4.8	3.2	0.0	0.2	#DIV/0!	(95.0)
Gross profit	329.1	414.7	443.7	500.1	377.9		14.8

Source: Company data, Korea Investment & Securities

5. 90% of FVTPL balance is bond

As FVTPL comprises many items, we look at the gross profit of each kind of FVTPL class as well as realized profit and unrealized profit. Realized profit comes from the gain and disposal of FVTPL, including listed and unlisted shares, listed and unlisted bonds, derivatives, dividends, and interest received from holding financial assets. Unrealized profit is the revaluation of mentioned financial assets, updated to the end of the reporting period.

FVTPL balance of TCBS consists of 80-90% of bonds which includes both listed and unlisted bonds. At end-2021, bonds accounted for 90% of FVTPL. In which, there were VND4,500bn (68%) for unlisted bonds and VND1,400bn (22%) for listed bonds.

Profit from selling bonds is also the main driver for FVTPL profit. In 2021, profit from unlisted bonds was VND1,241bn, equivalent to 92% FVTPL profit. Other financial assets such as listed shares, unlisted shares or derivatives do not have significant contribution in FVTPL performance.

Table 4. TCBS's FVTPL realized profit

(VND bn, %)

	4Q20	1Q21	2Q21	3Q21	4Q21	%qoq	%yoy
Gain from disposal FVTPL	233.4	299.8	400.7	335.2	364.2	190.5	71.2
Listed shares	0.0	1.4	0.6	0.3	5.5	191.9	85.7
<i>Covered Warrants</i>	0.0	0.0	0.0	0.0	0.0	101.8	1,315.7
Unlisted shares & fund certificates	0.0	0.0	8.1	10.1	0.6	58,236.0	83.7
Listed bonds	0.0	27.2	15.9	8.2	9.9	49.2	(40.3)
Unlisted bonds	0.0	264.2	383.1	316.6	348.2	76.7	89.9
Derivatives	0.0	0.0	0.0	0.0	0.0	89.2	(39.5)
Loss from disposal FVTPL	24.7	18.3	19.7	11.8	38.6	140.5	186.1
Listed shares	0.0	0.1	0.1	0.0	0.4	128.6	123.5
<i>Covered Warrants</i>	0.0	0.0	0.0	0.0	0.0	322.9	2.6
Unlisted shares	0.0	0.0	0.0	0.0	0.0	n/a	n/a
Listed bonds	0.0	4.7	5.4	4.8	2.5	70.1	129.5
Unlisted bonds	0.0	13.6	14.3	7.0	35.7	1,171.3	249.6
Derivatives	0.0	0.0	0.0	0.0	0.0	70.5	271.2
Realized Profit	0.0	267.4	395.0	323.4	357.7	73.5	(30.4)
Listed shares	0.0	1.3	0.5	0.3	5.1	471.0	43.0
<i>Covered Warrants</i>	0.0	0.0	0.0	0.0	0.0	1.8	(161.4)
Unlisted shares & fund certificates	0.0	0.0	8.1	10.1	0.6	57,767.4	82.2
Listed bonds	0.0	22.6	10.5	3.4	7.4	n/a	n/a
Unlisted bonds	0.0	250.5	368.8	309.7	312.5	(27.6)	7.6
Derivatives	0.0	0.0	0.0	0.0	0.0	67.7	3,459.0
Dividend, interest from FVTPL financial assets	0.0	0.0	0.0	0.0	0.0	(7.5)	(33.3)
Dividend from AFS	0.0	0.0	0.0	0.0	32.2	n/a	n/a
Transaction cost	0.0	(7.0)	7.0	0.0	0.0	n/a	n/a

Source: Company data, Korea Investment & Securities

All-time high record year in 2021

Full-year 2021 revenue recorded VND5,195bn (+59% yoy) and profit flourished with VND3,049bn (+115% yoy). Net profit margin was 58.7% and ROE was at 39.6%. Profitability is the best among peers. Total assets increased by 180% yoy and owners' equity increased by 49% yoy.

For financing margin lending activities, TCBS focus on increasing short-term borrowings and long-term bonds. The short-term borrowing was around 7,395bn (+513% YTD). Top 3 lenders of TCBS were Taishin International Bank (VND1,893bn), VPB (VND1,350bn) and CTBC Bank (VND686bn). Besides that, TCBS actively issued long-term bonds. The long-term bonds balance was VND4,297bn at end-2021.

Table 6. Quarterly earnings

(VND bn, %)

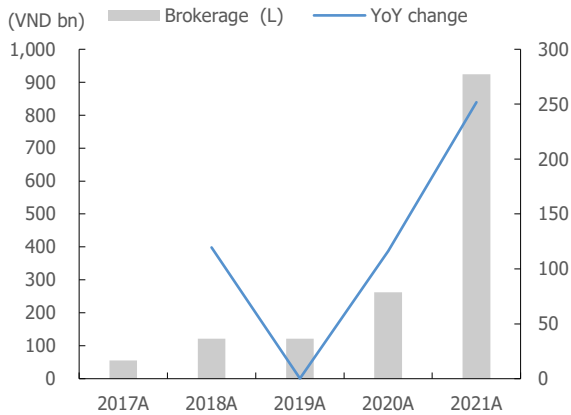
	4Q20	4Q21	YoY	2020	2021	YoY
Operating income	769.6	1,495.3	94.3	3,259.5	5,194.7	59.4
FVTPL gain	233.4	364.2	56.1	846.8	1,399.9	65.3
HTM income	3.0	5.7	87.5	10.1	17.6	74.9
AFS income	14.0	32.2	129.5	114.2	101.9	(10.8)
Loans and receivables	76.3	374.9	391.2	275.7	941.8	241.6
Brokerage	100.6	328.9	226.8	262.7	924.0	251.7
IB	333.9	378.1	13.3	1,717.0	1,744.5	1.6
Others (inc. custody services)	8.3	11.3	35.5	33.0	65.1	97.1
Operating expenses	72.1	234.5	225.4	162.4	610.5	275.9
FVTPL loss	24.7	38.6	56.4	39.3	88.5	125.3
AFS loss and revaluation	0.0	0.0	n/a	0.0	0.0	n/a
Prop trading expenses	0.0	0.0	n/a	0.0	0.0	n/a
Provision and interest expenses	0.0	0.1	n/a	0.0	0.1	n/a
Brokerage expenses	11.2	62.8	460.4	29.3	165.8	466.4
IB expenses	4.8	0.2	(95.0)	21.1	8.2	(61.3)
Others (inc. custody services)	31.4	132.7	322.6	72.8	348.0	378.2
Gross Profit	697.5	1,260.8	80.8	3,097.1	4,584.2	48.0
Financial activities	(16.0)	(169.7)	959.0	(67.5)	(401.1)	494.6
Revenue	1.3	4.5	260.4	53.7	12.4	(76.9)
Expenses	17.3	174.3	908.2	121.2	413.5	241.2
SG&A expenses	124.4	127.6	2.6	337.8	372.7	10.3
Operating profit	557.1	963.4	72.9	2,691.8	3,810.4	41.6
Other income	0.0	0.0	n/a	0.0	(0.4)	n/a
Earnings before tax	557.1	963.4	72.9	2,691.9	3,810.0	41.5
Earning after tax	444.9	772.3	73.6	2,152.3	3,049.5	41.7

Source: Company data, Korea Investment & Securities

■ Company overview

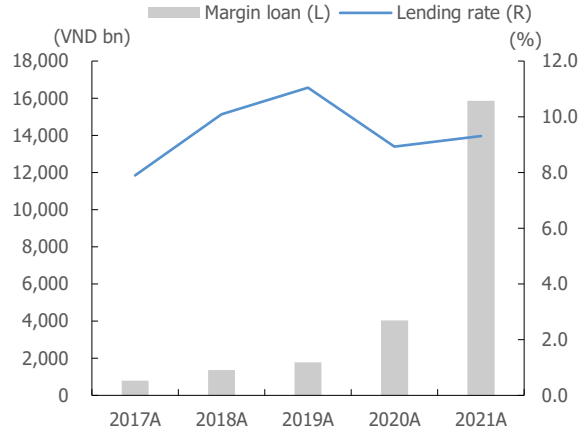
Founded in 2008, Techcombank Securities was a subsidiary of Techcombank. TCBS afford a strategy which is technology-oriented and focuses on corporate bond market. From period from 2016-2021, TCBS continuously acquires the biggest share on HSX's bond market. By closing connection with mother bank, TCBS achieve cost-effective and economic of scale.

Figure 1. Brokerage revenue and commission rate



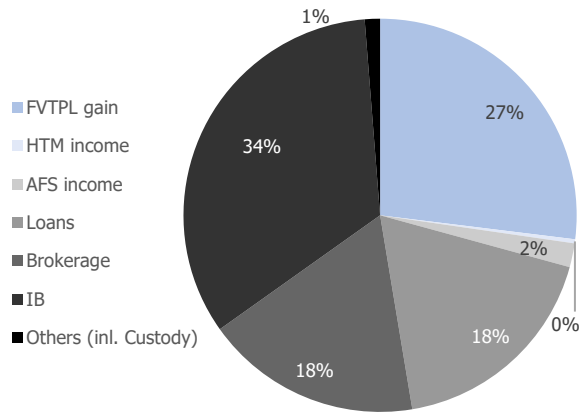
Source: Company data, Korea Investment & Securities

Figure 2. Loan balance and Lending rate



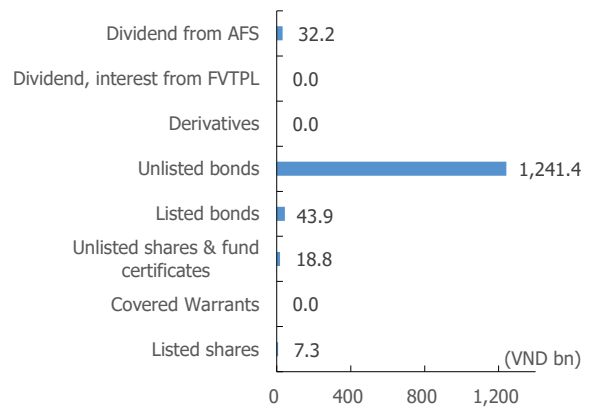
Source: Company data, Korea Investment & Securities

Figure 3. Revenue mix in 2021



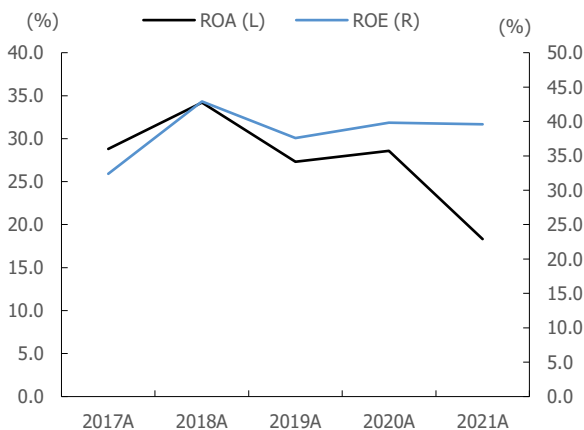
Source: Company data, Korea Investment & Securities

Figure 4. FVTPL realized profit in 2021



Source: Company data, Korea Investment & Securities

Figure 5. ROA & ROE



Source: Company data, Korea Investment & Securities

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Total assets	2,815	4,351	6,304	8,759	24,530
Cash and Cash equivalent	405	1,305	1,643	1,609	1,126
Loans	826	1,372	1,794	4,383	15,852
FVTPL (incl. provision)	0	0	0	0	0
HTM	110	100	95	205	512
AFS	1,231	1,412	2,503	2,353	6,575
Accounts receivable (incl. provision)	226	112	201	140	338
Other current assets	1	0	1	1	1
Investments in associates	0	0	0	0	0
Long-term securities investment	0	0	0	0	0
Other long-term assets	16	49	67	68	126
Total liabilities	212	1,243	1,673	2,580	15,301
Borrowings	40	297	565	1,205	7,395
Bonds	0	568	651	429	4,298
Other liabilities	0	46	111	280	551
Owners' Equity	2,603	3,108	4,631	6,179	9,229
Common shares	1,000	1,058	1,124	1,124	1,124
Capital surplus	0	0	0	0	0
Conversion options on convertible bonds	0	0	0	0	0
Treasury shares	0	0	0	0	0
Charter reserve	100	106	112	112	112
Financial reserve funds	100	106	112	112	112
Capital adjustment	2	8	11	(2)	(2)
Undistributed earnings	1,401	1,830	3,272	4,832	7,881
Minority interests	0	0	0	0	0

Key financial data

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Operating base					
No. of employees	n/a	n/a	n/a	n/a	n/a
Stock trading value (VND tn)	n/a	n/a	n/a	n/a	609
Margin loan balance (VND bn)	802	1,359	1,776	4,027	15,852
Financial Ratios (%)					
Margin loan/Equity ratio	30.8	43.7	38.4	65.2	171.8
Leverage ratio	8.1	40.0	36.1	41.8	165.8
Gross profit margin	94.4	92.9	96.4	95.0	88.2
Net profit margin	58.6	67.4	65.5	67.0	58.7
Growth (%)					
Total assets	25.2	54.6	44.9	38.9	180.0
Owners' equity	36.9	19.4	49.0	33.4	49.3
Net revenue	31.4	72.8	16.1	50.1	59.4
Net profit	51.0	67.9	18.8	47.9	41.7

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Operating income	1,083	1,870	2,172	3,260	5,195
FVTPL gain	491	354	599	847	1,400
HTM income	14	10	5	10	18
AFS income	53	26	72	114	102
Loans and receivables	42	111	175	276	942
Brokerage	55	121	121	263	924
IB	410	1,228	1,168	1,717	1,745
Others (inc. custody services)	17	20	31	33	65
Operating expenses	61	132	79	162	611
FVTPL loss	34	58	28	39	88
AFS loss and revaluation	1	0	0	0	0
Prop trading expenses	0	0	0	0	0
Provision and interest expenses	0	0	0	0	0
Brokerage expenses	11	31	11	29	166
IB expenses	0	0	1	21	8
Others (inc. custody services)	14	44	38	73	348
Gross Profit	1,022	1,738	2,093	3,097	4,584
Financial activities	1	1	(33)	(41)	(67)
Revenue	2	1	2	3	54
Expenses	0	0	35	44	121
SG&A expenses	106	171	232	338	373
Operating profit	918	1,534	1,820	2,692	3,810
Other income	(1)	(2)	(0)	0	(0)
Earning before tax	917	1,532	1,819	2,692	3,810
Earning after tax	730	1,225	1,455	2,152	3,049

Valuation

	2017A	2018A	2019A	2020A	2021P
Per-share (VND)					
BPS	9,727	10,165	10,465	10,818	82,087
EPS	1,350	1,487	1,018	1,383	2,738
DPS	n/a	n/a	n/a	n/a	n/a
Valuation (x)					
PB	n/a	n/a	n/a	n/a	n/a
PE	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Payout ratio (%)	n/a	n/a	n/a	n/a	n/a
Profitability (%)					
ROE	32.4	42.9	37.6	39.8	39.6
ROA	28.8	34.2	27.3	28.6	18.3
Commission rate (bp)	n/a	n/a	n/a	n/a	15.2
Lending ratio	7.9	10.1	11.0	8.9	9.3

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- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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