October 24th, 2023

Shinhan Securities



Vietnam Technological and Commercial Joint Stock Bank

[Vietnam / Banking]

Bloomberg Code (TCB VN) | Reuters Code (TCB.HM)

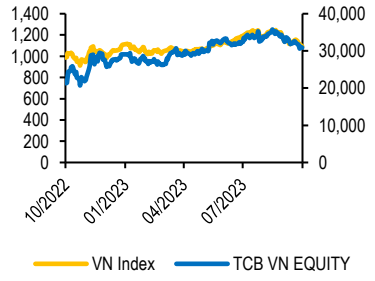
BUY

Update report

Target price (2024)	**VND 50,050**
Current price (23/10/23)	VND 30,900
Upside/downside	62.0%

VNINDEX	1,094
P/E thị trường (23F, x)	11.4
Market Cap (bn VND)	108,683
Outstanding shares (mn)	3,517
Free-Floating (mn)	2,632
Free floating (%)	74.8
52-Wk High/Low (VND)	19,300/36,150
90-day avg. trading volume (mn)	5.0
90-day avg. turnover (bn VND)	180
Foreign ownership (%)	1.3
Major shareholders (%)	Masan 14.91

Performance	3T	6T	12T
Absolute (%)	-4.3	7.7	34.9
Relative to VN-Index (%)	3.8	2.7	24.0



Source: Bloomberg

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Interest income starts to recover

Updated with BUY recommendation, target price VND 50,050

Techcombank is one of the largest joint stock banks in Vietnam with remarkable successes. TCB always focuses on developing technology to lead the digitalization journey of the financial industry. TCB focuses on developing the real estate development and home loan segments. We assess that in the future this is a segment with a lot of development potential. With the residual income (RI) method and comparison method based on the P/B index, we update the target price for TCB for the whole year 2024 at 50,050 VND, with potential upside at 62.0 %.

Business results in the first half of 2023

TCB's credit balance in the first 9 months of 2023 increased by 13.5% compared to the end of 2022, and customer deposit balance increased by 14.1%. TCB's Non-performing loan continued to face pressure and increased to 1.4% at the end of Q3/2023. However, the positive point in this report is that TCB's group 2 debt has decreased by nearly 35% compared to the previous quarter, ending a series of 5 consecutive increasing quarters. Net interest income in the third quarter increased by more than 15% qoq thanks to a significant reduction in cost of capital (COF). COF (annualize) in the third quarter decreased to 4.91%, from 5.41% in Q2/2023. TCB's annualized NIM also improved from 4.28% in Q2/2023 to 4.77% in Q3/2023. Non-interest income grew well thanks to the fee segment and recording profits from investment securities trading activities. TCB's provision costs this quarter increased sharply due to the rise of non-performing loan, TCB recorded more than VND944 billion provision expense in Q3 (+17% qoq). Cumulative 9 months of 2023, TCB's EBT reached VND17,115 billion (-17.8% yoy), processing nearly 78% of the year's profit plan.

Outlook for the rest of 2023-2024

With the decline in deposit interest rates compared to the end of 2022 and the recovery of TCB's CASA, we expect COF will continue to decline for the rest of the year and 2024. Therefore, NIM will have more positive changes for Q4/2023-2024. With Group 2 debt balance started to decrease at the end of Q3/2023, we expect Non-performing loan to deal with less pressure and begin to trend down in the first half of 2024. TCB's 2023 EBT is forecasted to reach VND 22,524 billion, reaching the year profit target. In 2024, with the low base of the previous year, we expect TCB's EBT to grow by 28%, reaching VND 29,013 billion for the whole year.

Risk: (1) Real estate market recovers more slowly than expected; (2) Lending rates fell faster than cost of capital, causing NIM to continue to shrink. (3) Strong increase in NPL

Year	2020	2021	2022	2023F	2024F
Interest income (VNDbn)	18,751	26,699	30,290	28,614	34,350
Non-interest income (VNDbn)	8,627	10,378	10,612	11,454	14,357
Total operating income (VNDbn)	**27,379**	**37,076**	**40,902**	**40,069**	**48,707**
Provision and other expenses (VNDbn)	(11,578)	(13,838)	(15,334)	(17,575)	(19,694)
Profit before tax (VNDbn)	**15,800**	**23,238**	**25,568**	**22,524**	**29,013**
Credit growth (%)	24.04%	26.49%	12.53%	15.5%	17.00%
NIM (%)	4.89%	5.71%	5.29%	4.27%	4.66%
ROE (%)	**18.03%**	**21.53%**	**19.52%**	**14.5%**	**16.03%**

Source: Fiinpro, Company data, Shinhan Securities Vietnam

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Outlook for 2023-2024

Year	9M2023	% yoy	2023F	% yoy	2024F	%yoy	Notes
Net Interest Income (VNDbn)	20,094	*-14.4%*	28,614	-5.5%	34,350	20.0%	We continue to adjust NIM in 2023 down to 4.27% because capital costs do not decrease as quickly as expected. NIM in 2024 will improve to 4.43% and credit growth at 17%. With that main expectation, TCB's net interest income in 2024 could grow at 20%. Non-interest income grew well thanks to the low base level. IB and Bancasurance activities recovered better along with the non-cash payment trend, helping payment fee income continue to grow.
Non-interest Income (VNDbn)	8,950	*13.3%*	11,454	7.9%	14,357	25.3%	
Total Operating Income (VNDbn)	29,044	*-7.4%*	40,069	-2.0%	48,707	21.6%	
Profit Before Tax (VNDbn)	17,115	*-17.8%*	22,524	-11.9%	29,013	28.8%	We expect that provision costs will experience less upward pressure in 2024. Along with well-controlled operating costs, helping TCB's profit before tax grow by about 28.8% for 2024.
Net Income (VNDbn)	13,709	*-18.7%*	18,019	-11.8%	23,211	28.8%	
Tỷ Lệ Nợ Xấu-NPL (%)	1.40%		1.5%		1.30%		TCB's bad debt by the end of 2023 could reach 1.5% before falling to 1.3% when the economy recovers.
Loan Loss Coverage Ratio – LLR (%)	93%		94%		101%		We assume the loan loss coverage ratio is around 100%.
Total Credit Growth – Ytd (%)	*13.5%*		*15.5%*		*17.0%*		TCB's credit growth in 2024 is forecast to reach 17.0%, thanks to improved economic activities.
Customer Deposit Growth – Ytd (%)	*14.1%*		*16.0%*		*15.0%*		
Net Interest Margin – NIM (TTM %)	*4.11%*		*4.27%*		*4.43%*		

Valuations and recommendations

Valuation

We use the residual income (RI) method and the P/B valuation method with the proportions at 60%-40%, respectively.

The target price for the stock for 2024 is 50,050 VND.

1) In the short term, we cautiously use the P/B index at 1.0x (below the 5-year trading average) to value TCB shares due to cautious investor sentiment. With BVPS forecast for 2024 at 43,875 VND, the target price for 2024 of TCB is expected to be 43,875 VND.

2) For the residual income method, the stock price for the next 12 months falls at 54,167 VND.

Cost of Equity (%)	
Cost of Equity (%)	**15.2**
Risk-free rate (%)	3.0
Equity risk premium (%)	9.57
Beta	1.26

RI Method

(Unit: VNDbn)	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Cost of equity	15.2%	15.2%	15.2%	15.2%	15.2%
Cost of equity after 2026					15.2%
Net income	18,019	23,211	33,013	38,467	46,729
Residual income (RI)	-612	1,466	7,015	7,057	8,864
PV of RI	**-612**	**1,272**	**5,283**	**4,613**	**5,028**

Terminal value of RI (VNDbn)	**77,217**
Terminal growth (%)	2.00%

PV of terminal value (VNDbn	43,802
PV of RI (bn VND))	15,585
Beginning equity (bn VND)	131,280
Total value (bn VND)	190,667
Total outstanding shares (bn)	3.52
Target price (VND)	**54,167**

Valuation Summary

Method	**Weight**	**Price target (VND)**
Residual income	60%	54,167
P/B target (1.0x)	40%	43,875
Target price (VND)	**50,050**	

Source: Shinhan Securities Vietnam

Business overview

Business history

1993 – Established with charter capital of 20 VNDbn

2005 – HSBC bought 10% of equity

2007-2008
- HSBC increased the ownership to 15%
- Launched the Techcombank Visa credit card

2009
- Increase the charter capital to VND 5,400 billion
- Partner with leading global strategic consultant McKinsey

2014-2015
- Signed a cooperation agreement with Vietnam Airlines
- Acquired Vietnam Chemical Finance JSC and changed its name to TechcomFinance

2017
- TCB ranked first in credit rating equivalent to "national credit rating ceiling" announced by S&P
- Led in Bancassurance products, strategic cooperated with Manulife
- Repurchased shares from HSBC

2018
- Listed on Ho Chi Minh City Stock Exchange – ticker TCB, with capitalisation of USD 6.5 billion
- Tripled charter capital to VND 34,966 billion
- TCB divested from TechcomFinance

2019 – Officially complied with Basel II

2020
- Strengthened capacity in digitization and data
- Implemented Agile working method
- Established Data & Analytics Department

2021 – Focused on building a banking platform on three core pillars of Talent, Digital, and Data

2022
- Raised $1 billion worth of syndicated loans
- Leader in new card issuance and payment volume

Organizational structure

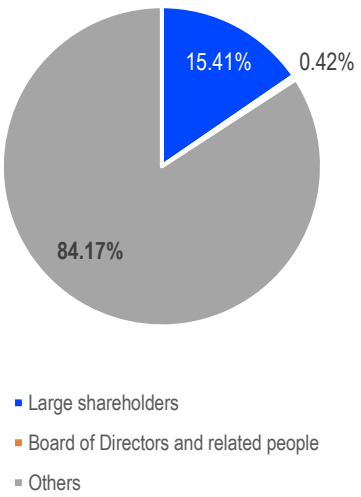
TECHCOMBANK

Techcom Securites Joint Stock Company
(Techcom Securities- TCBS)
Charter capital: 2,177 VNDbn
% owned by TCB: 94.17%

Techcom Capital Joint Stock Company (Techcom Capital – TCC)
Charter capital: 670 VNDbn
% owned by TCB: 90%

Vietnam Technological and Commercial Joint Stock Bank – Asset Management Company Limited (AMC)
Charter capital: 410 VNDbn
% owned by TCB: 100%

Shareholder ownership structure (end of Q2/2023)

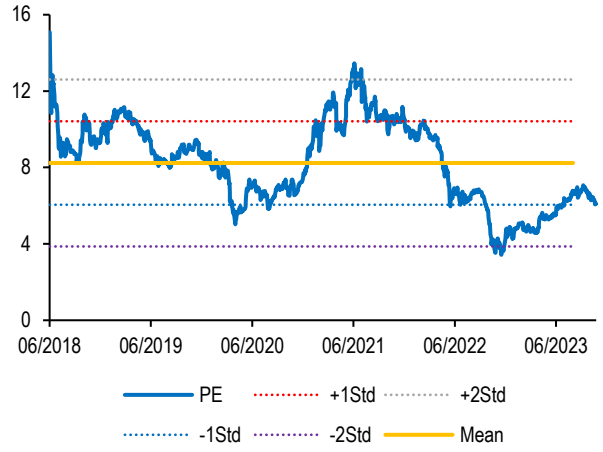


Strategy for the period 2021-2025

1. **CASA ratio** 55%
2. **ROE** 20%
3. **Market cap** 20 USDbn
4. **Net Fee Income/TOI** >30%

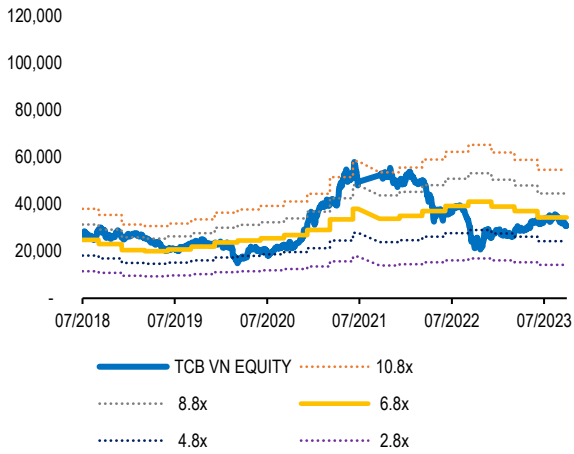
Source: Company data, Shinhan Securities Vietnam

PER of TCB



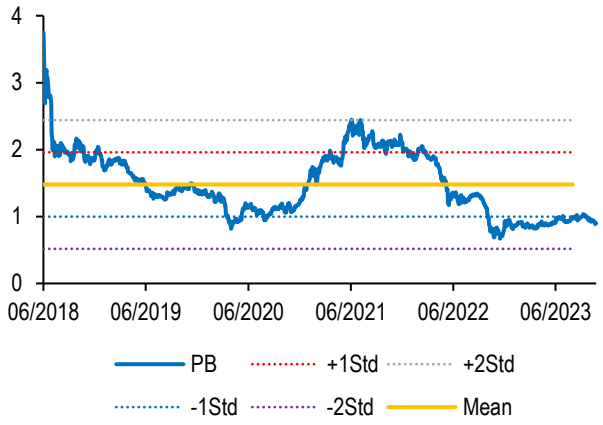
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of TCB



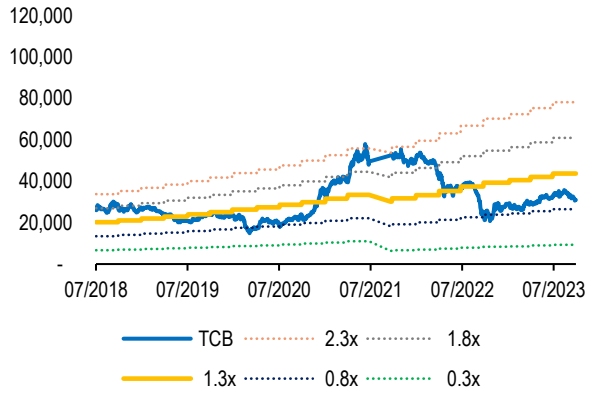
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of TCB



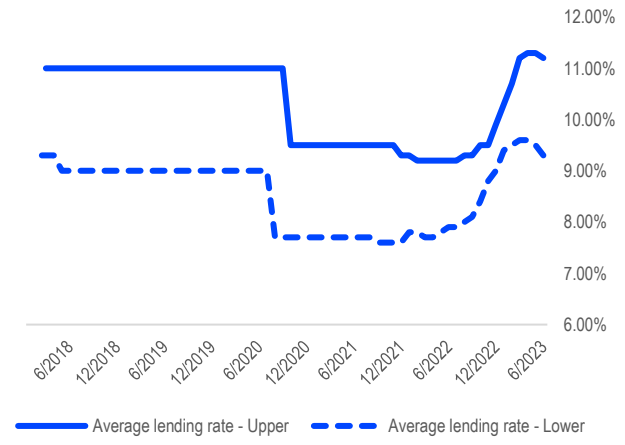
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PBR band of TCB



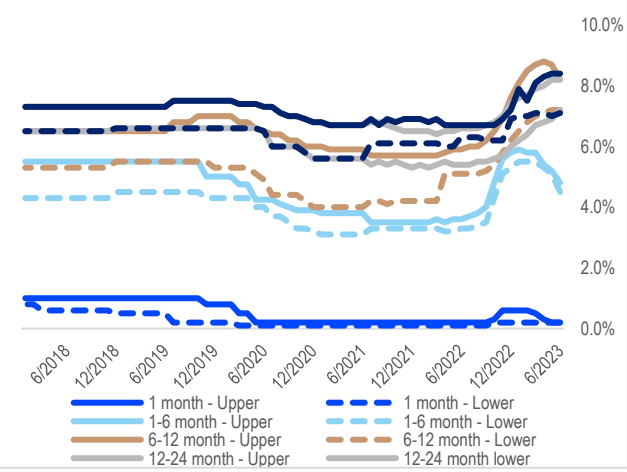
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average loan interest rate in Vietnam



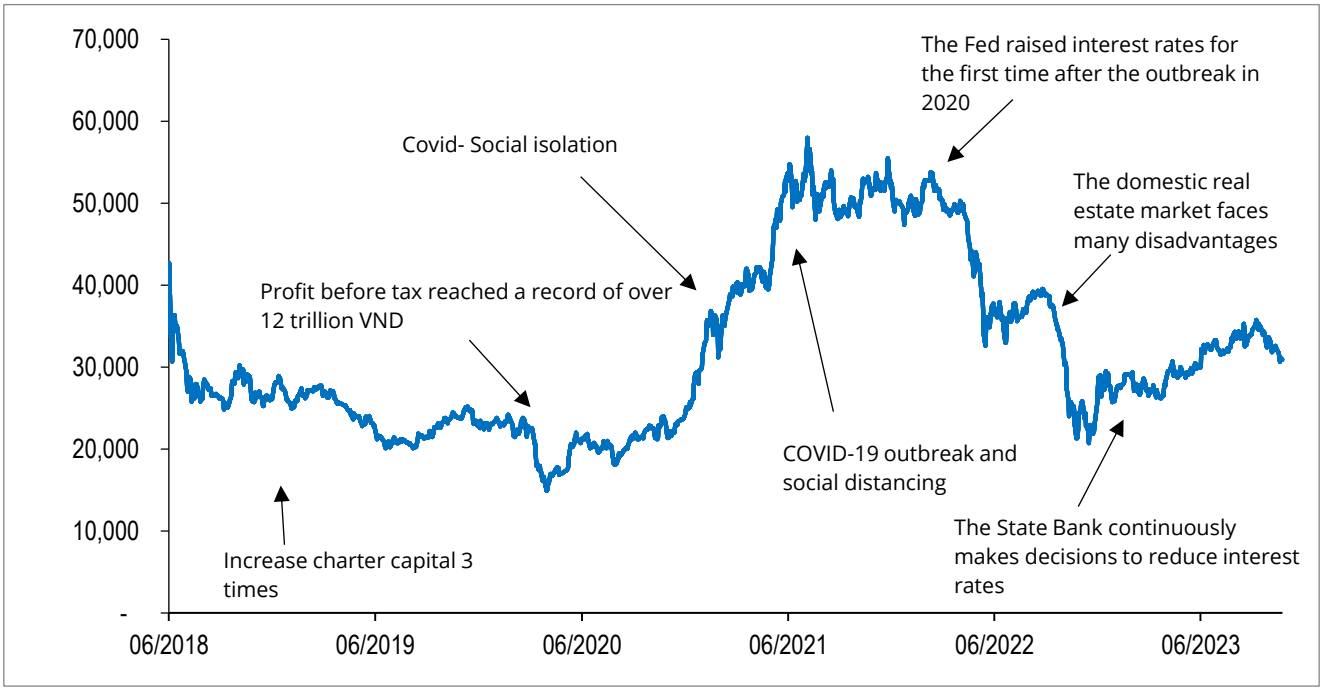
Source: SBV, Company Data, Shinhan Securities Vietnam

Average deposit interest rate in Vietnam



Source: SBV, Company Data, Shinhan Securities Vietnam

TCB important events



Source: Bloomberg, Company Data, Shinhan Securities Vietnam

Appendix: Financial statements

Balance sheet

Year (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**439,603**	**568,729**	**699,033**	**806,748**	**926,287**
Cash and precious metals	3,664	3,579	4,216	6,301	5,699
Balances with the SBV	10,253	4,909	11,476	21,732	17,742
Placements with and loans to	28,995	70,515	82,874	92,476	102,517
Trading securities	8,348	5,071	961	1,249	1,624
Derivatives and other financial assets	-	294	-	-	-
Loans and advances to	275,310	343,606	415,752	478,880	560,809
Debts purchase	-	133	108	108	108
Investment securities	84,447	97,586	103,652	118,779	139,423
Long-term investments	12	13	13	14	14
Fixed assets	4,613	7,224	8,411	9,077	9,794
Investment properties	1,125	1,089	1,053	1,053	1,053
Other assets	22,836	34,711	70,517	77,080	87,505
Total liabilities	**364,988**	**475,687**	**585,608**	**675,468**	**771,968**
Due to Gov and Loans from	-	1	8	9	11
Deposits and Loans from other	47,485	112,459	167,563	181,255	208,443
Deposits from customers	277,459	314,753	358,404	415,748	478,111
Derivatives and other financial liabilities	267	-	1,851	1,851	1,851
Funds received from Gov, international and other	-	-	-	-	-
Convertible bonds/CDs and	27,900	33,680	34,007	57,811	69,374
Other liabilities	11,878	14,796	23,775	18,793	14,179
Shareholder's equity	**74,615**	**93,041**	**113,425**	**131,280**	**154,318**
Capital	35,526	35,586	36,205	36,761	37,317
Reserves	6,790	9,156	11,609	13,626	16,422
Retained earnings	31,816	47,453	64,483	79,513	98,873
Minority interest	484	847	1,129	1,381	1,706
Total liabilities and equity	**439,603**	**568,729**	**699,033**	**806,748**	**926,287**

Income statement

Year (bn)	2020	2021	2022	2023F	2024F
Interest and Similar Income	29,002	35,503	44,753	52,956	58,917
Interest and Similar Expenses	(10,251)	(8,805)	(14,463)	(24,342)	(24,567)
Net Interest Income	**18,751**	**26,699**	**30,290**	**28,614**	**34,350**
Net Fee and Commission Income	4,525	6,382	8,527	9,611	12,037
From foreign currency and gold	1	231	(275)	(358)	(465)
From trading of trading securities	321	152	(242)	354	424
From disposal of investment	1,497	1,804	426	426	426
Net Fee and Commission Income	2,279	1,803	2,167	1,413	1,927
Dividends income	4	4	9	9	9
Total non-interest income	**8,627**	**10,378**	**10,612**	**11,454**	**14,357**
Total operating income	**27,379**	**37,076**	**40,902**	**40,069**	**48,707**
General and Admin expenses	(8,967)	(11,173)	(13,398)	(14,619)	(16,154)
Operating Profit Before Provision (PPOP)	18,411	25,903	27,504	25,449	32,554
Provision for credit losses	(2,611)	(2,665)	(1,936)	(2,925)	(3,540)
Profit before tax	**15,800**	**23,238**	**25,568**	**22,524**	**29,013**
Corporate income tax	(3,218)	(4,823)	(5,131)	(4,505)	(5,803)
Net profit after tax	**12,582**	**18,415**	**20,436**	**18,019**	**23,211**
Attributable to parent company	12,325	18,052	20,150	17,767	22,886

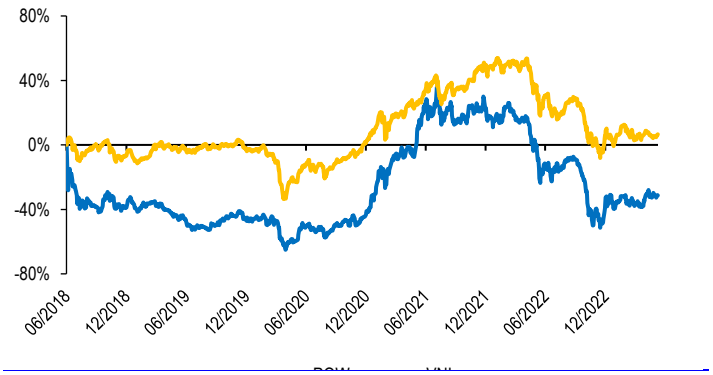
Financial indicators

Year	2020	2021	2022	2023F	2024F
Growth (% YoY)					
Loans to customers	24.04	26.49	12.53	15.50	17.00
Deposits from customers	19.96	13.44	13.87	16.00	15.00
Shareholders' equity	20.21	24.70	21.91	15.74	17.55
Total assets	14.57	29.37	22.91	15.41	14.82
Net interest income	31.52	42.38	13.45	-5.53	20.05
Net non-interest income	26.68	20.29	2.26	7.93	25.35
PPOP	33.85	40.69	6.18	-7.47	27.92
Net profit before tax	23.07	47.08	10.02	-11.91	28.81
Net profit after tax	23.04	46.36	10.97	-11.83	28.81
Profitability (%)					
NIM	4.89	5.71	5.29	4.27	4.43
ROA	2.99	3.58	3.18	2.36	2.64
ROE	18.03	21.53	19.52	14.52	16.03
Liquidity (%)					
Pure LDR	100.0	110.4	117.3	116.8	118.9
Asset quality					
Leverage (x)	5.89	6.11	6.16	6.15	6.00
NPL ratio (%)	0.47	0.66	0.91	1.50	1.30
LLR ratio (%)	171.0	162.9	125.0	93.7	101.1
Reverse/total credit (%)	0.80	1.08	1.13	1.41	1.31
Credit costs/total loans (%)	0.94	0.77	0.46	0.60	0.62
Credit costs/total credit (%)	0.81	0.65	0.42	0.55	0.57
Per share items (VND)					
EPS	3,590	5,245	5,810	5,123	6,599
BPS	21,151	26,259	31,927	36,932	43,390
PPOP/Share	5,253	7,378	7,820	7,236	9,256

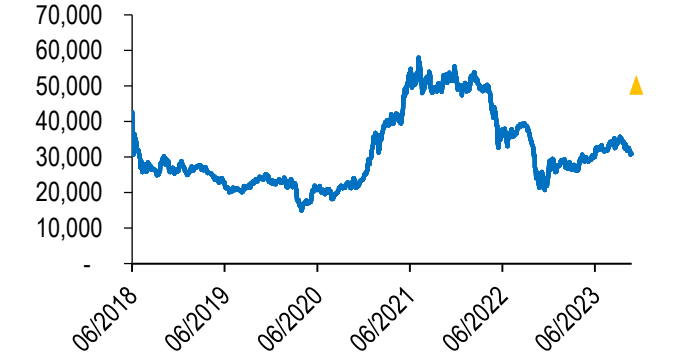
Source: Company data, Shinhan Securities Vietnam

Vietnam Technological and Commercial Joint Stock Bank (TCB VN)

Price performance



Target price (VND)



Date	Recommendation	Target price (VND)	Range of price (%) Average	Max/Min
09/09/2022 (Initial)	BUY	58,700	127.5	47/208
07/03/2023 (Update)	BUY	43,700	67.9	9/164
07/08/2023 (Update)	BUY	43,700	53.6	0.1/107.3
23/10/2023 (Update)	BUY	50,050	27.8	138/259

Note: Calculation of target price gap based on the past 12 months

Shinhan Securities Vietnam

Stock	Industry
◆ **BUY:** Upside potential in 12 months more than 15% ◆ **HOLD:** Upside potential in 12 months from -15% to 15% ◆ **SELL:** Upside potential in 12 months more than -15%	◆ **POSITIVE:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **NEGATIVE:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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