Oct 23, 2024

Shinhan Securities



Vietnam Technological and Commercial Joint Stock Bank

[Vietnam / Banking]

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

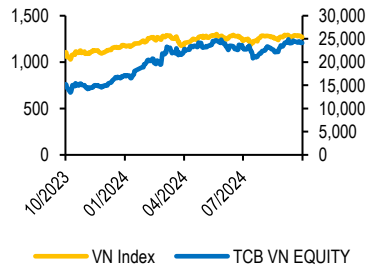
BUY

Update report

Target price (2025)	**VND 29,500**
Current price (23/10/24)	VND 24,200
Upside/downside	21.9%

VNINDEX		1,270
P/E thị trường (23F, x)		12.0
Market Cap (bn VND)		169,785
Outstanding shares (mn)		7,045
Free-Floating (mn)		4,806
Free floating (%)		68.2
52-Wk High/Low (VND)		25,250/13,600
90-day avg. trading volume (mn)		15.05
90-day avg. turnover (bn VND)		358
Foreign ownership (%)		21.9
Major shareholders (%)	Masan	14.88

Performance	3T	6T	12T
Absolute (%)	4.6	4.3	56.0
Relative to VN-Index (%)	1.5	-3.5	39.8



Source: Bloomberg

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Record large expense in Q4/2024

Updated with BUY recommendation, target price VND 29,500

Techcombank is one of the largest joint stock banks in Vietnam with remarkable successes. TCB always focuses on developing technology to lead the financial industry's digitalization journey, helping to enhance the experience and attract new customers.. TCB loan book concentrates on real estate developers and mortgage products. We assess that real estate in the future would still be potential. Using the residual income (RI) method and the P/B ratio method, we update our target price for TCB at VND29,500 (Moving the valuation base to 2025).

Business results in Q3/2024

TCB reported a remarkable 17.4% year-to-date (YTD) credit growth in 9M/2024, surpassing the industry average of 9%. The retail segment witnessed a nearly 11% YTD growth in Q3/2024, mortgage loan had healthy growth, while auto loans faced some challenges. The corporate segment exhibited a 26% YTD growth, with a particular focus on the manufacturing and processing industry. Meanwhile, real estate lending experienced a slowdown and a decreased proportion in TCB's loan portfolio.

Amidst the pressure to lower asset yields to stimulate credit growth, TCB's Net Interest Margin (NIM) slightly declined to around 4.37%. Net interest income in Q3/2024 increased 22.8% YoY but slightly decreased by 5.8% QoQ. NPL ratio remained stable at 1.3% at the end of Q3/2024. Fee income continued to headwind in Q3/2024. Declining demand for UPAS/LC and a shrinking Bancassurance business were the primary factors contributing to a 7% YoY decrease in TCB's fee income in Q3/2024. During this period, TCB also announced the termination of its exclusive insurance distribution agreement with Manulife, resulting in a compensation cost of approximately VND 1,800 billion. Additionally, in October 2024, TCB participated in the establishment of Techcom Non-Life Insurance Company (TCGIns).

TCB's profit before tax (PBT) in Q3/2024 reached VND 7,214 billion (+23.5% YoY), slowing down compared to the first two quarters but still exceeding 84% of its 2024 profit target.

Outlook for 2024-2025

Key assumptions for 2024 include Consolidated credit growth of over 22%, NIM recovering to 4.38%, NPL controlled at around 1.3%, Credit risk cost/total credit below 1.0%, CIR 31%. TCB's pre-tax profit in 2024 is forecast to reach VND 26,940 billion (+17.7% YoY), revised down from the latest report due to costs arising from the termination of exclusive distribution of Manulife. In 2025, we expect TCB's credit growth to reach around 18%, NIM stable at 4-4.5%, NPL ratio around 1-1.5%, CIR ratio falling below 30% thanks to technological advantages, we forecast PBT in 2025 to reach VND 34,734 billion (+28.9% YoY).

Risk: (1) Real estate market recovers slower than expected; (2) Bancasurance sector takes a long time to find new partners; (3) Bad debt continues to face increasing pressure

Year	2020	2021	2022	2023	2024F	2025F
Interest income (VNDbn)	18,751	26,699	30,290	27,691	36,228	42,945
Non-interest income (VNDbn)	8,627	10,378	10,612	12,370	11,063	15,118
Total operating income (VNDbn)	**27,379**	**37,076**	**40,902**	**40,061**	**47,291**	**58,063**
Provision and other expenses (VNDbn)	(11,578)	(13,838)	(15,334)	(17,173)	(20,351)	(22,329)
Profit before tax (VNDbn)	**15,800**	**23,238**	**25,568**	**22,888**	**26,940**	**34,734**
Credit growth (%)	24.04%	26.49%	12.53%	21.58%	22.02%	18.01%
NIM (%)	4.9%	5.5%	5.2%	3.9%	4.4%	4.4%
ROE	**18.03%**	**21.53%**	**19.52%**	**14.85%**	**15.37%**	**17.71%**

Source: Fiinpro, Company data, Shinhan Securities Vietnam

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Forecast for 2024-2025

Year (consolidated)	9M2024	% yoy	2024F (new)	% yoy	2025F	% yoy	Note
Net interest income (VNDbn)	26,906	33.9%	36,228	30.8%	42,945	18.5%	The Board has outlined a strategy to expand the bank footprint in the Southern market and further diversify the loan book by increasing lending to retail customers. Projected credit growth of around 20% in 2024-2025, coupled with a stable Net Interest Margin (NIM) above 4%, is expected to drive significant growth in TCB's net interest income We've adjusted our forecast for non-interest income downward due to TCB ending its exclusive insurance partnership with Manulife. This will lead to a one-time cost of VND 1,800 billion in the fourth quarter. TCB plans to further involve to the insurance business and is searching for new insurance partners.
Non-interest income (VNDbn)	10,530	17.7%	11,598	-10.6%	15,118	36.6%	
Total operating income (VNDbn)	37,436	28.9%	47,291	18.1%	58,063	22.8%	
Profit before tax (VND bn)	22,842	33.5%	26,940	17.7%	34,734	28.9%	TCB has successfully maintained credit costs at a steady 1%. By leveraging technology and cloud solutions, TCB also managed to keep employee costs under control. Our latest forecast for TCB's net profit has been revised downward due to costs associated with ending our exclusive insurance partnership with Manulife.
Profit after tax (VND bn)	18,340	33.8%	21,552	18.5%	27,787	22.2%	
NPL ratio (%)	1.3%		1.3%		1.2%		TCB non-performing loan (NPL) ratio aligns closely with our initial year-end forecast. Compared to Q2 2024, the NPL ratio for the retail mortgage segment in Q3 2024 has slightly decreased from 2.19% to 1.99%. Meanwhile, the NPL ratio for the corporate segment has slightly increased from 0.32% to 0.48%.
Credit cost/Total credit (%)	0.9%		0.9%		0.8%		
Loan loss coverage ratio (%)	103%		128%		139%		We maintain our forecast for Loan loss coverage ratio (LLR) at

				over 100% for TCB in the 2024-2025 period.
Credit growth – Ytd (%)	*17.4%*	22.0%	18.0%	
Customer deposit growth – Ytd (%)	*8.9%*	14.0%	15.0%	Deposit interest rates have decreased significantly compared to 2023, resulting in a substantial slowdown in customer deposit growth. However, to keep Loan-to-Deposit Ratio (LDR) (appr. 82.2% end of Q3/2024) in line with regulatory requirements (below 85%), TCB will need to make efforts to attract more customer deposits to support future credit growth.
Net profit margin- NIM TTM (%)	*4.37%*	4.38%	4.37%	We assume a CASA ratio of 40-42%. According to TCB's, nearly 60% of TCB's loan portfolio enjoys an interest rate below 8% (compared to 38% at the end of 2023). With the downward pressure on lending rates expected to continue in the near future, we expect TCB's NIM to stabilize around 4-4.5% in the 2024-2025 period.

Valuations and recommendations

Valuation

We use the residual income (RI) method and the P/B valuation method with a proportion of 60%-40% respectively.

The target price for the stock for 2024 is 29,500 VND. We update the risk-free interest rate at 2.9% and the equity risk premium at 9% for this report.

1) In the short term, we cautiously use the P/B index at 1.3x - (below the 5-year trading average) to value TCB shares. With BVPS forecast for 2025 at 24,285 VND, the target price for 2025 of TCB is expected to be 31,570 VND.

2) For the residual income method, the stock price is estimated at 28,056 VND. We apply a 20% discount to valuation using this method to reflect the risk coming from real estate and construction loans.

Cost of Equity (%)	
Cost of Equity (%)	**14.1**
Risk-free rate (%)	2.9
Equity risk premium (%)	9.00
Beta	1.24

RI Method

(Unit: VNDbn)	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
Cost of equity	14.1%	14.1%	14.1%	14.1%	14.1%
Cost of equity after 2028					14.1%
Net income	21,552	27,787	35,750	41,369	49,227
Residual income (RI)	1,835	5,295	9,684	10,967	13,729
PV of RI	**1,775**	**4,492**	**7,203**	**7,152**	**7,849**

Terminal value of RI (VNDbn)	**129,843**
Terminal growth (%)	2.00%

PV of terminal value (VNDbn	74,234
PV of RI (bn VND))	28,471
Beginning equity (bn VND)	144,368
Discount (%)	20%
Total value (bn VND)	197,658
Total outstanding shares (bn)	7.05
Target price (VND)	**28,056**

Valuation Summary

Method	**Weight**	**Price target (VND)**
Residual income	60%	28,056
P/B target (1.3x)	40%	31,570
Target price (VND)	**26,186**	

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

2023 – Credit rating A+, stable outlook by FiinRating

Organizational structure

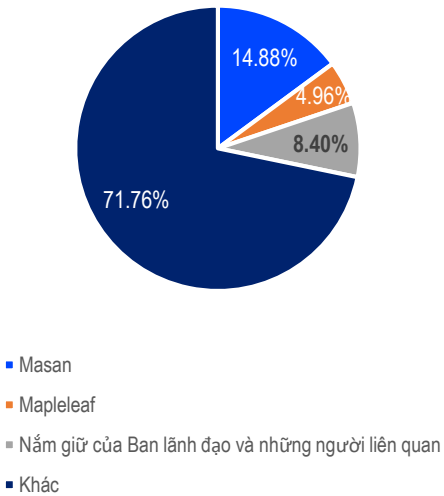
TECHCOMBANK

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 Q3/2024)

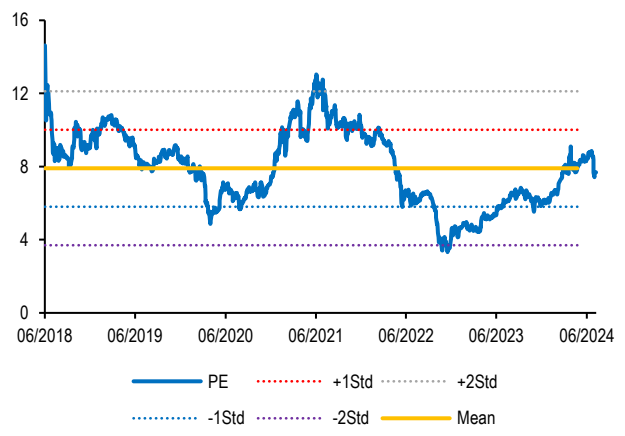


Strategy for the period 2021-2025

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

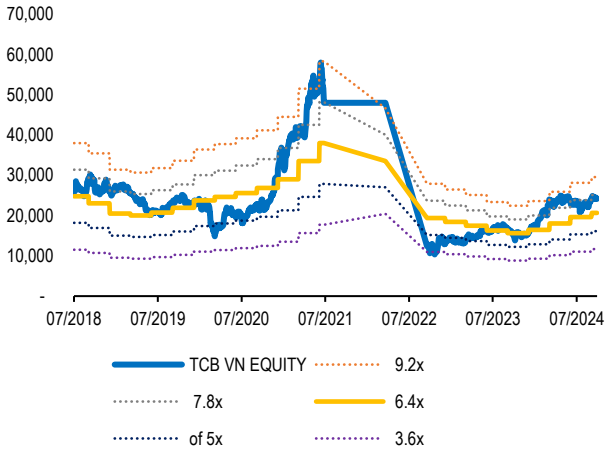
Source: Company data, Shinhan Securities Vietnam

PER of TCB



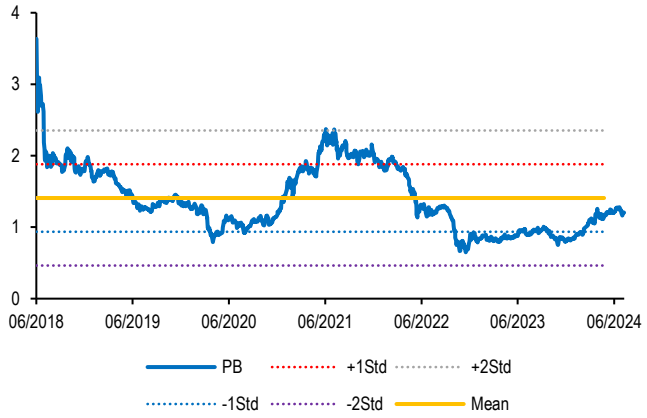
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band of TCB



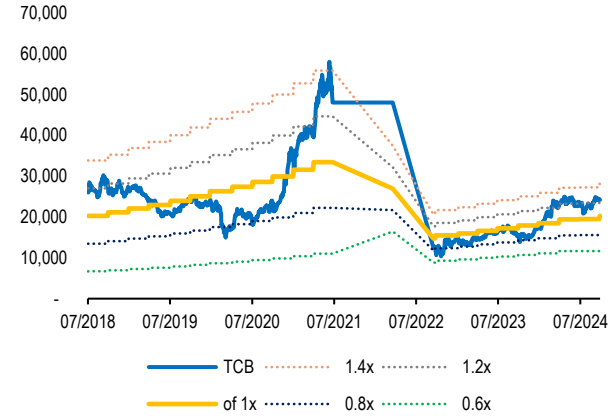
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of TCB



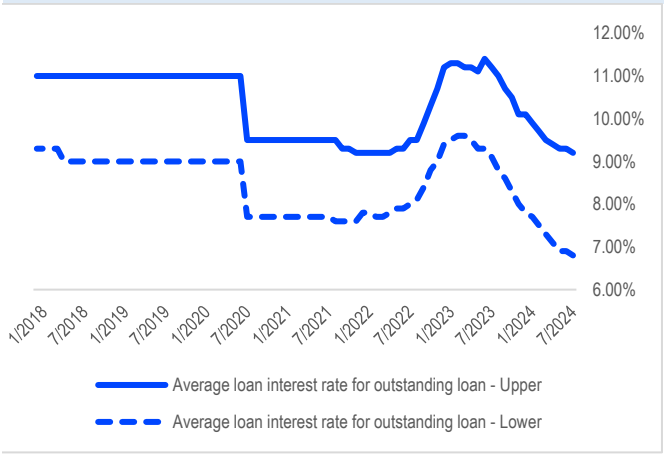
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band of TCB



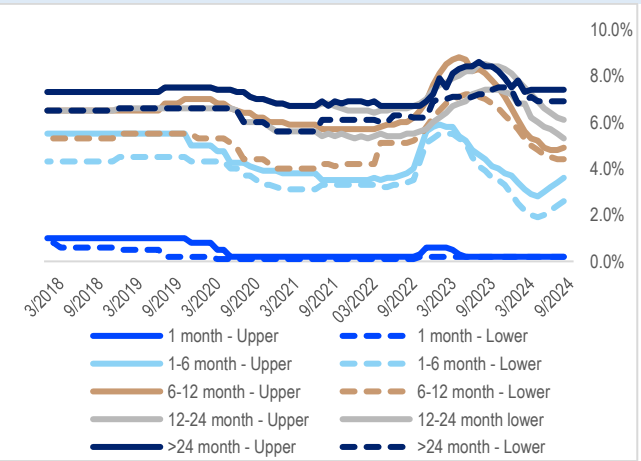
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Average loan interest rate in Vietnam



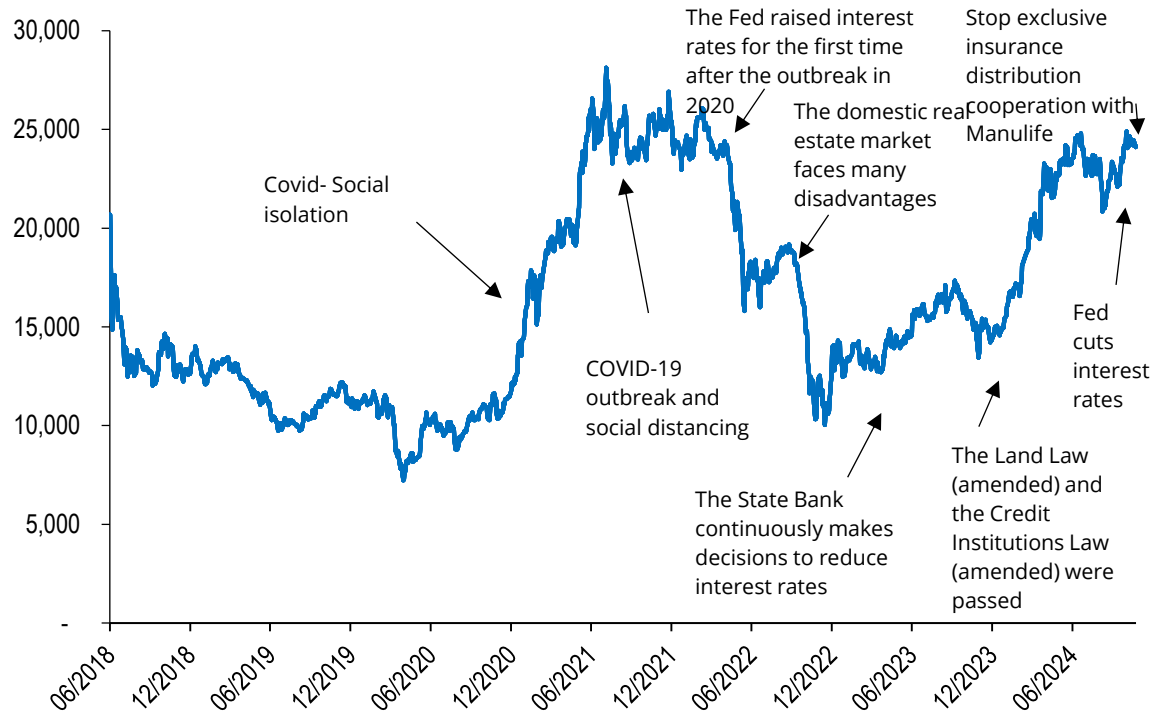
Source: SBV, Company Data, Shinhan Securities Vietnam

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)	2021	2022	2023	2024F	2025F
Total assets	**568,729**	**699,033**	**849,482**	**1,002,720**	**1,199,174**
Cash and precious metals	3,579	4,216	3,621	4,147	4,768
Balances with the SBV	4,909	11,476	27,141	20,733	23,842
Placements with and loans to	70,515	82,874	104,072	122,342	167,234
Trading securities	5,071	961	4,433	4,433	4,433
Derivatives and other financial assets	294	-	144	144	144
Loans and advances to	343,606	415,752	512,514	629,107	743,295
Debts purchase	133	108	82	82	82
Investment securities	97,586	103,652	104,994	110,561	121,540
Long-term investments	13	13	3,046	3,046	3,046
Fixed assets	7,224	8,411	8,893	11,475	14,806
Investment properties	1,089	1,053	-	-	-
Other assets	34,711	70,517	80,543	96,652	115,983
Total liabilities	**475,687**	**585,608**	**717,866**	**853,862**	**1,028,086**
Due to Gov and Loans from	1	8	0	0	0
Deposits and Loans from other	112,459	167,563	153,173	195,800	254,205
Deposits from customers	314,753	358,404	454,661	518,313	596,060
Derivatives, Funds received from Gov, international and	-	1,851	-	-	-
Convertible bonds/CDs and	33,680	34,007	84,703	110,114	143,149
Other liabilities	14,796	23,775	25,329	29,635	34,673
Shareholder's equity	**93,041**	**113,425**	**131,616**	**148,858**	**171,087**
Capital	35,586	36,205	36,257	70,450	136,889
Reserves	9,156	11,609	45,029	48,903	52,999
Retained earnings	47,453	64,483	49,013	27,816	(20,967)
Minority interest	847	1,129	1,317	1,688	2,167
Total liabilities and equity	**568,729**	**699,033**	**849,482**	**1,002,720**	**1,199,174**

Income statement

Year (bn)	2021	2022	2023	2024F	2025F
Interest and Similar Income	35,503	44,753	56,708	63,135	75,918
Interest and Similar Expenses	(8,805)	(14,463)	(29,017)	(26,907)	(32,973)
Net Interest Income	**26,699**	**30,290**	**27,691**	**36,228**	**42,945**
Net Fee and Commission Income	6,382	8,527	8,715	8,031	11,821
From foreign currency and gold	231	(275)	196	231	278
From trading of trading securities	152	(242)	65	-	-
From disposal of investment	1,804	426	926	539	580
Net Fee and Commission Income	1,803	2,167	2,434	2,232	2,409
Dividends income	4	9	35	30	30
Total non-interest income	**10,378**	**10,612**	**12,370**	**11,063**	**15,118**
Total operating income	**37,076**	**40,902**	**40,061**	**47,291**	**58,063**
General and Admin expenses	(11,173)	(13,398)	(13,252)	(14,577)	(16,913)
Operating Profit Before Provision (PPOP)	25,903	27,504	26,809	32,714	41,150
Provision for credit losses	(2,665)	(1,936)	(3,921)	(5,774)	(6,416)
Profit before tax	**23,238**	**25,568**	**22,888**	**26,940**	**34,734**
Corporate income tax	(4,823)	(5,131)	(4,697)	(5,388)	(6,947)
Net profit after tax	**18,415**	**20,436**	**18,191**	**21,552**	**27,787**
Attributable to parent company	18,052	20,150	18,004	21,181	27,308

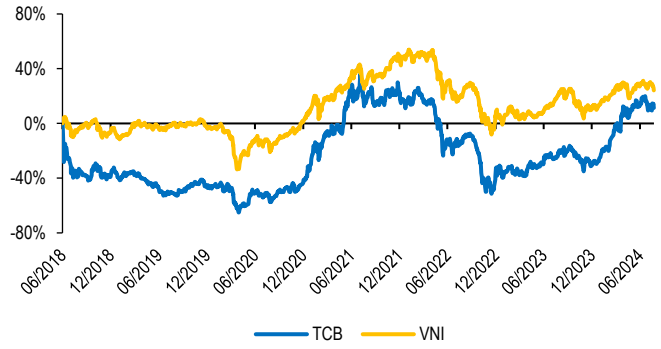
Financial indicators

Year	2021	2022	2023	2024F	2025F
Growth (% YoY)					
Loans to customers	25.16	21.07	23.33	23.00	18.00
Deposits from customers	13.44	13.87	26.86	14.00	15.00
Shareholders' equity	24.70	21.91	16.04	13.10	14.93
Total assets	29.37	22.91	21.52	18.04	19.59
Net interest income	42.38	13.45	(8.58)	30.83	18.54
Net non-interest income	20.29	2.26	16.56	(10.57)	36.66
PPOP	40.69	6.18	(2.53)	22.03	25.79
Net profit before tax	47.08	10.02	(10.48)	17.70	28.93
Net profit after tax	46.36	10.97	(10.99)	18.48	28.93
Profitability (%)					
NIM	5.71	5.29	4.02	4.38	4.37
ROA	3.7	3.2	2.3	2.3	2.5
ROE	22.0	19.8	14.8	15.4	17.4
Liquidity (%)					
Pure LDR	110.35	117.33	114.07	123.08	126.29
Asset quality					
Leverage (x)	6.11	6.16	6.45	6.74	7.01
NPL ratio (%)	0.66	0.72	1.16	1.30	1.30
LLR ratio (%)	162.85	157.34	102.15	128.46	116.32
Reverse/total credit (%)	0.91	1.03	1.09	1.29	1.18
Credit costs/total loans (%)	0.85	0.50	0.84	1.00	0.92
Credit costs/total credit (%)	0.73	0.44	0.77	0.93	0.86
Per share items (VND)					
EPS	5,245	5,810	5,164	3,059	3,944
BPS	26,501	32,248	37,364	21,129	24,285
PPOP/Share	7,378	7,820	7,611	4,644	5,841

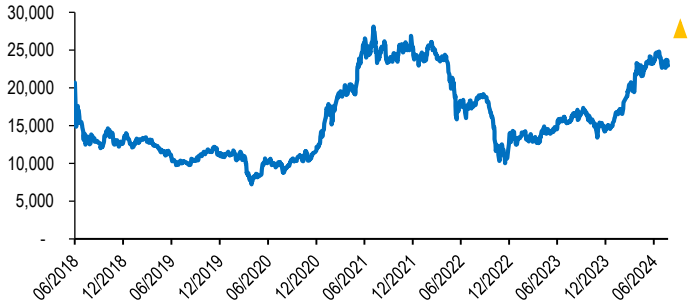
Source: Company data, Shinhan Securities Vietnam

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	29,350	127.5	47/208
07/03/2023 (Update)	BUY	21,850	67.9	9/164
07/08/2023 (Update)	BUY	22,000	53.6	0.1/107.3
23/10/2023 (Update)	BUY	25,025	82.0	38/159
24/01/2024 (Update)	BUY	25,170	62.0	39/95
24/04/2024 (Update)	HOLD	25,050	33.24	4.4/84.2
23/10/2024 (Update)	BUY	29,500	51.9	16.8/116.9

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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