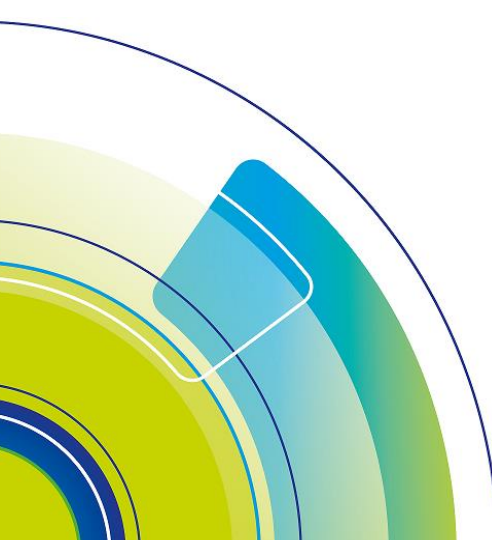




TCB Coverage - BUY

Monday, November 04, 2019



Ms. Yen Tran

(+84 28) 3823 4159 - Ext: 326
yentran@acbs.com.vn

Company Coverage

Recommendation

BUY
HOSE: TCB
Bank

Current price (VND) 24,350

Target price (VND) 31,800

Expected share price return 30.6%

Expected dividend yield 0.0%

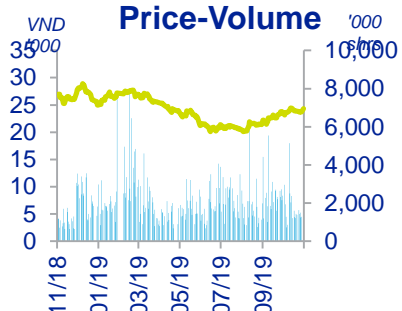
Expected total return 30.6%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-5.8	0.0	14.7	-9.0
Relative	-22.1	-1.6	12.3	-22.8

Source: Bloomberg

Price-Volume



Ownership

Masan Group & related*	21.5%
Mr Ho Hung Anh – Chairman & related	17.2%
Foreigners	22.5%

*Economic interest

Stock Statistics

4-Nov-19

Bloomberg code	TCB VN
52-week range (VND)	19,900–29,150
Shares O/S (m)	3,500
Mkt cap (VND bn)	85,228
Mkt cap (USD m)	3,674
Foreign room left (%)	0.0
Est. free float (m)	79.7
3m avg daily vol (shrs)	2,030,223
VND/USD	23,200
Index: VNIndex / HNX	1020.4/106.6

Techcombank JSB (TCB VN)

Development story engages with ecosystem of wholesale banking clients

Differentiation is occurring in the banking industry in Vietnam as some banks have broken out with outstanding profit growth (thanks to decrease of provision expenses and/or huge one-off income from recoveries of written-off debt and exclusive banca deal), growing and strengthening balance sheets, while others continue to struggle with legacy non-performing assets and messy operations and management.

TCB is one among top tier banks which has solved their historical debt issues and are ready for next cycle. We give a **BUY** recommendation on TCB with a target price of VND31,800/share due to following reasons:

- TCB is well-prepared for tighter capital requirements in compliance with Basel II. Its CAR reached 15.6% in 1H2019, outpacing all local peers.
- It has built up and followed a specific roadmap to become one among top banks in Vietnam. The strategy takes advantage from the value chain of its wholesale clients who have significant positions in the selected sectors i.e. Vingroup (HSX:VIC), Masan (HSX:MSN), Vietnam Airlines (HSX:HVN) etc. This helps TCB to expand customer base faster and at a lower cost than its peers and restructure the bank's income structure toward non-interest income (20% in 2018; excluding one-offs) thanks to numerous tailored products for customers. Its huge technology investment (USD300mn for 2016-2021) is not only aimed for cost savings but also know your customers (KYC) improvements to better serve its customers.

• TCB has footprint in investment banking and wealth management services. TechcomSecurities (TCBS) is the leader in both primary and secondary corporate bond market with ~28% (including bank bonds) and 82% market share (2018) respectively. TechcomCapital manages 4 funds of which TCBF is the largest and most profitable local bond fund in Vietnam.

• TCB is strong in cost management. It is among the lowest CIR (32% in 2018; 35% in 1H2019) and labor expenses/TOI (18% in 2018); meanwhile the bank's employees are productive with outstanding PPOP/employee (VND1.38bn in 2018).

- It is undervalued at forward P/B of 1.2x for 2020;

Risk and concerns: (1) The above development strategy has delivered good outcomes but also carries concentration risks since TCB's business performance and risks are linked tightly to few entities called anchor corporates and few sectors, particularly real estate, which is considered to be high-risk sector; (2) Provision coverage ratio is below top tier banks and has shown signs of retreat in 9M2019; (3) Drop in forward ROE to around 15%-16% in forecast period due to significant additional capital after its IPO may put pressure on stock price.

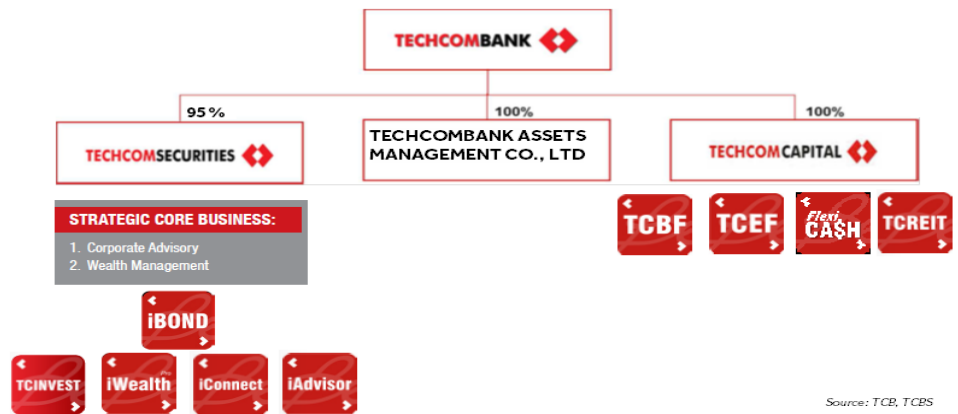
(VND bn except where stated)	2016	2017	2018	2019E	2020E
TOI	11,833	16,344	18,350	19,860	23,072
TOI growth (%)	26.6%	38.1%	12.3%	8.2%	16.2%
%NII	68.81%	54.64%	60.64%	70.46%	71.95%
%NFI	16.5%	23.3%	19.3%	17.5%	18.1%
%other non-NII	14.66%	22.04%	20.09%	12.05%	9.99%
Operating expenses	4,175	4,698	5,843	6,951	8,075
CIR (%)	35.3%	28.7%	31.8%	35.0%	35.0%
PPOP	7,658	11,646	12,507	12,909	14,997
PAT	3,997	8,036	10,661	11,736	12,380
EPS-adjusted (VND)	1,176	1,838	2,415	2,671	2,817
Total assets	235,363	269,392	320,989	366,316	414,858
NPL (%)	1.6%	1.6%	1.8%	1.8%	1.8%
NIM (%)	4.24%	3.92%	4.16%	4.53%	4.76%
ROA (%)	1.5%	2.6%	2.9%	2.7%	2.5%
ROE (%)	17.5%	27.7%	21.5%	16.7%	15.0%
P/B (x)	1.1	0.9	1.1	1.4	1.2
P/E (x)	20.7	13.2	10.1	9.1	8.6

COMPANY OVERVIEW

Establishment

Vietnam Technological and Commercial JSB (HSX: TCB) was established in 1993 with chartered capital of VND20bn and is headquartered in Ha Noi, Vietnam. TCB has three subsidiaries, of which Techcom Securities and Techcom Capital are important to its long-term strategy.

Figure 1: Techcombank structure

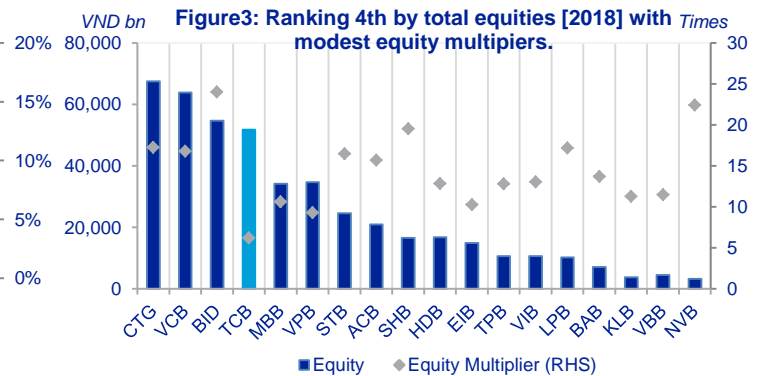
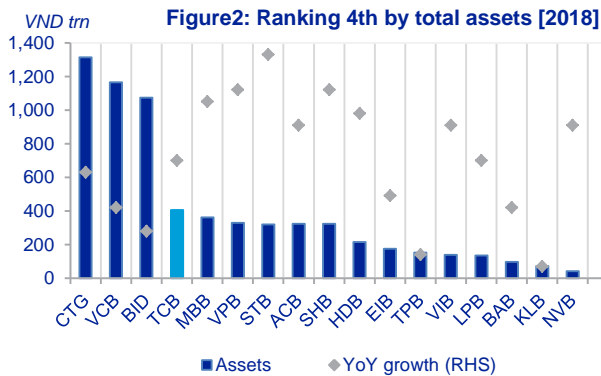


Source: TCB, TCBS

- In 2001, TCB was considered as pioneer in banking technology when generously spending for Temenos core banking system;
- 2005, collaborated with Visa issuing debit card; HSBC became strategic partner with a 10% stake;
- 2006, collaborated with Bao Viet Holding (HSX: BVH) for cross-selling insurance;
- 2007, launching internet banking platform;
- 2009, Masan (HSX: MSN) officially became the largest shareholder at TCB with 20% ownership and Mr. Ho Hung Anh, MSN's ex-vice chairman, has taken the chairman position.
- 2014, launched mobile banking platform;
- 2016, the bank defined a new strategy for 2016-2020 period with vision to be No.1 private bank in Vietnam, having market cap of USD10bn by 2020; achieving annual revenue (TOI) growth of 30% in average and driving up non-interest income to 30% of TOI; launching zero-fee campaign for personal banking services (9/2016).
- 2017, HSBC divestment; started to re-design wholesale banking (WB), business banking (BB) and personal banking (PFS); officially signed 15-year exclusive insurance partnership agreement with Manulife; launching zero-fee for business banking segment;
- 2018, raised chartered capital via private placement with enterprise valuation of USD6.5bn;

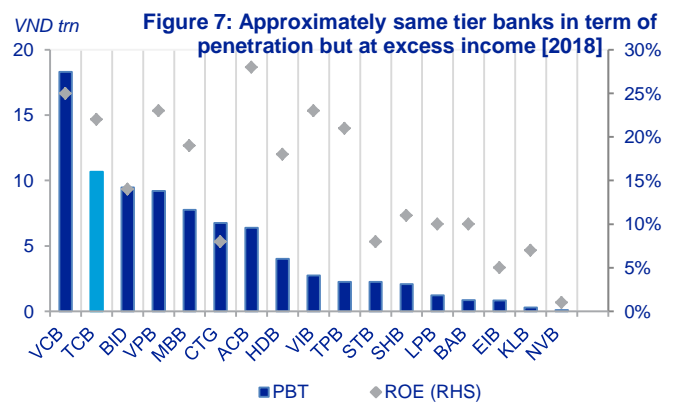
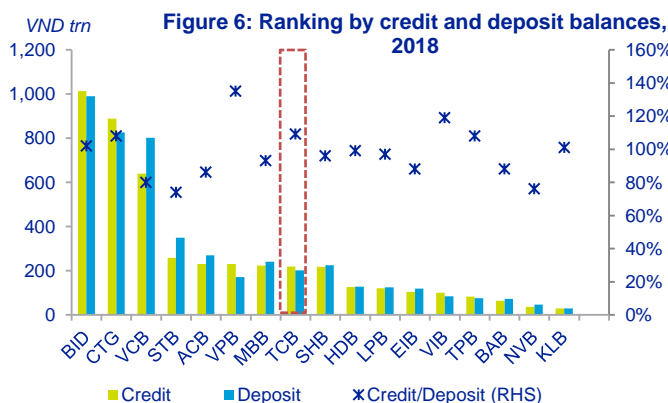
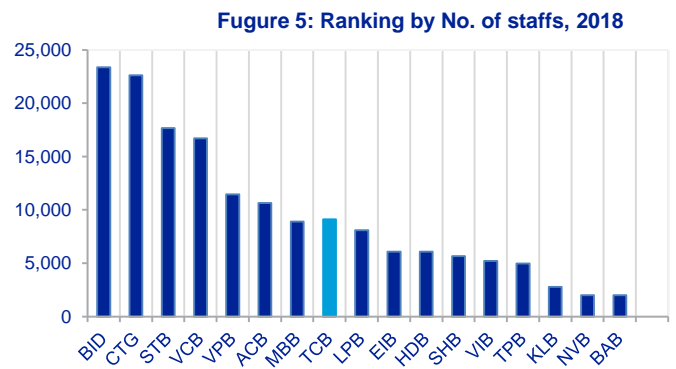
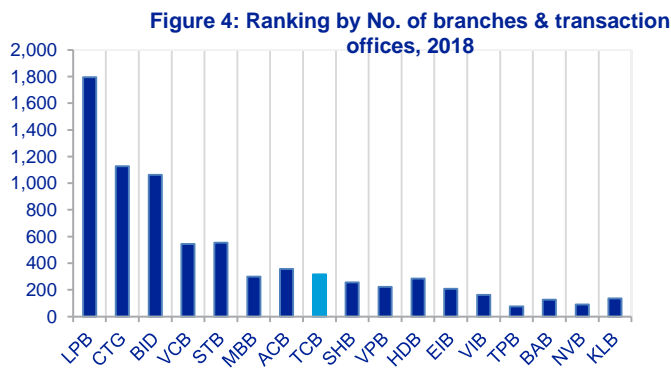
Current position

TCB listed on the HSX in 2Q2018 and currently has a market cap of USD3.6bn (10/2019), short of the company's stated goal of USD10bn by 2020. While short of their lofty goal, TCB ranks as the largest of the private banks, and is in top three (~CTG) among 17 listed banks (HSX, HNX, UPCOM) in terms of market cap, just right after two state-owned giants VCB (USD14.1bn) and BID (USD6.0bn).



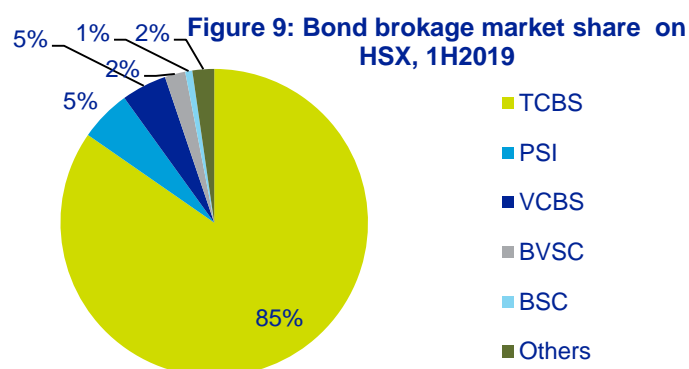
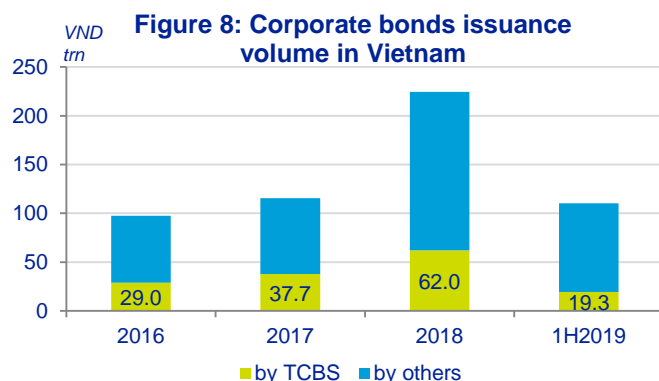
Source: Bank financial statements

Among the group of listed banks above, TCB accounts for 3.6% of total loans (4.8% including corporate bond balance, 2018) and has a 4.2% deposit market share [Figure 6 & 7]. The bank is present in 45/63 provinces nationally with 317 branches and transaction offices, and 9,120 employees [9,757 staff if including subsidiaries), similar to that of MBB and ACB [Figure 4&5].



Source: Bank financial statements

TCB is the leading player on Vietnamese corporate bonds market with sizable market share on both primary and secondary markets. In 1H2019, TCB's market share on the primary bond market was down to 17.5%, as most of the bank bonds (VND39trn) were underwritten by their subsidiaries, while TCB's bond market share on HSX (HSX accounts for 31/32 listed bond tickers) maintained above 80%.



Sources: VBMA, HSX, TCB, TCBS

TCB also ranks in the top 10 banks in term of financial cards numbers (2.6 mn cards in 2017¹) and banca activity (17% market share in 1H2019²)

Clear strategy for the long-run

TCB communicates a comprehensive message about its development strategy to its employees, customers and investors. The bank's business model relies on a value-chain approach within six sectors including housing, automobile, financial services, travel & leisure, retail/FMCG, and utilities & telecom. TCB eyes attractive growth backed by solid GDP growth, rapid urbanization rate and a golden demographic age for consumers.

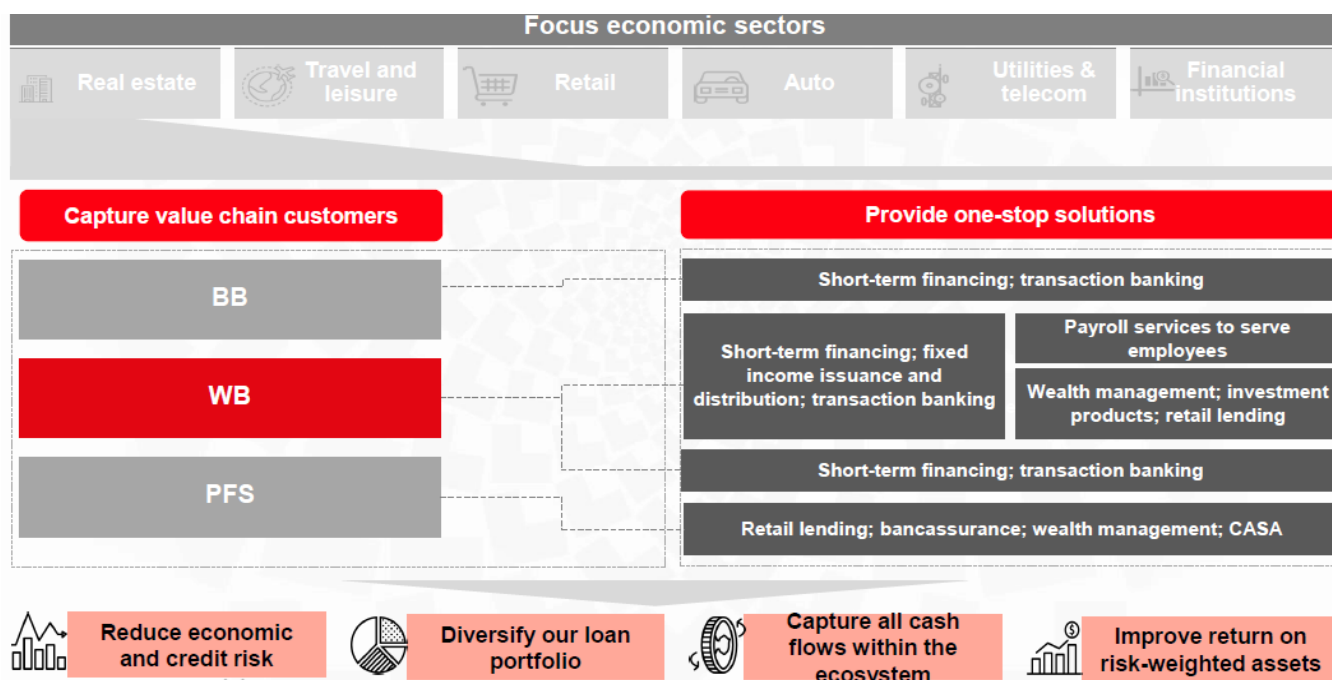
TCB is pushing retail banking via penetrating upstream or downstream in the supply chain of their original wholesale (WB: corporates with annual revenue above VND600bn) clients for expanding business banking (BB: SME) and personal banking (PFS) segments, and ultimately creating an "ecosystem" with diversified customer portfolio and diversified tailor-made products provided. These wholesale banking clients called anchor corporates.

The bank aims to provide full-financial solutions to clients to earn significant interest income and fees. As results, TCB emphasizes not only loan products but also transaction banking, investment banking and wealth management. The value chain approach with existing customers within the "ecosystem" will leverage to TCB to expand customer base faster and at a smaller cost than the peers; and restructure the bank's income structure toward non-interest income.

¹ Euromonitor International Nov 2018, Financial Cards & Payments in Vietnam

² TCB 1H2019 Analyst Meeting June 2019

Figure 10: TCB's value chain approaches



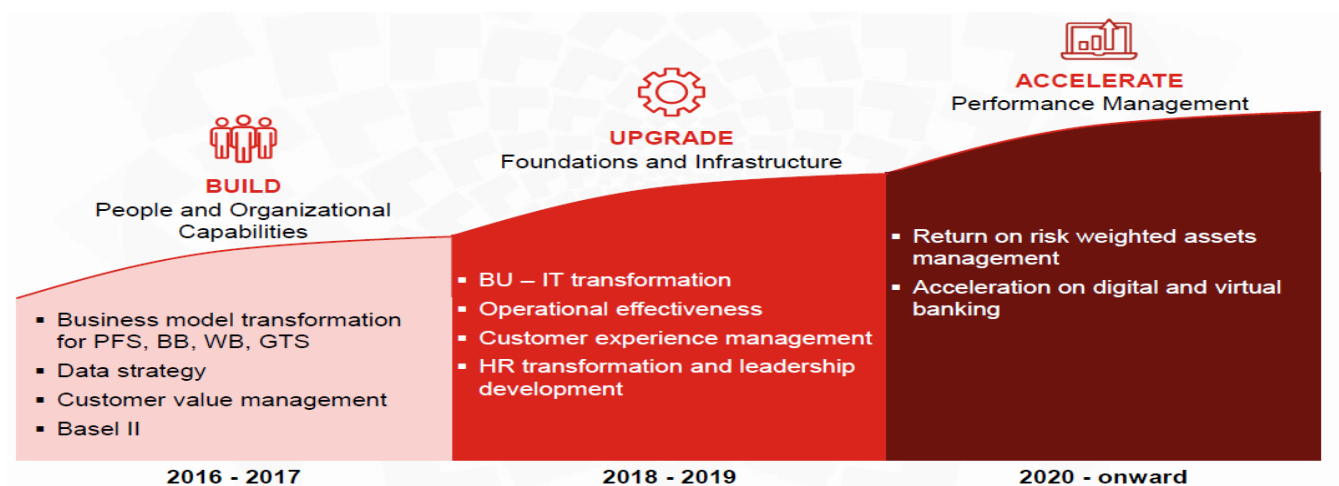
Source: TCB

Many local banks have claimed to increase non-interest income amid limited credit growth quota conditions. Of which, TCB is the most aggressive with well-prepared technology and human resources to promote the bank's cross-selling/up-selling capabilities. Investment banking products of TCBS and TechcomCapital are attached into TCB's website, internet banking and mobile banking platform.

Leverage from technological adoption is considered as a key point in TCB's development plan with total budget of USD300mn until 2021. TCB plans to disburse ~USD90mn (accumulated USD114mn) in 2019.

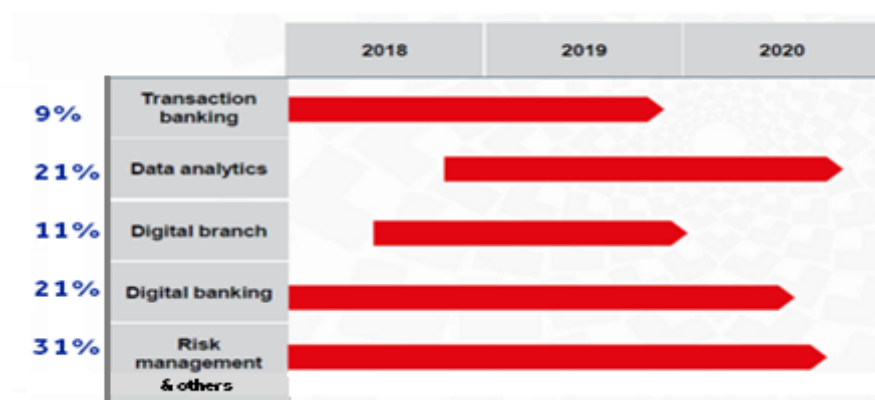
Generally, we respect the bank's market leading preparation in technology implementation, risk management, human resource and capitalization.

Figure 11: TCB's development & investment timeline



Source: TCB

ALLOCATION OF USD300mn FOR TECHNOLOGY INVESTMENT

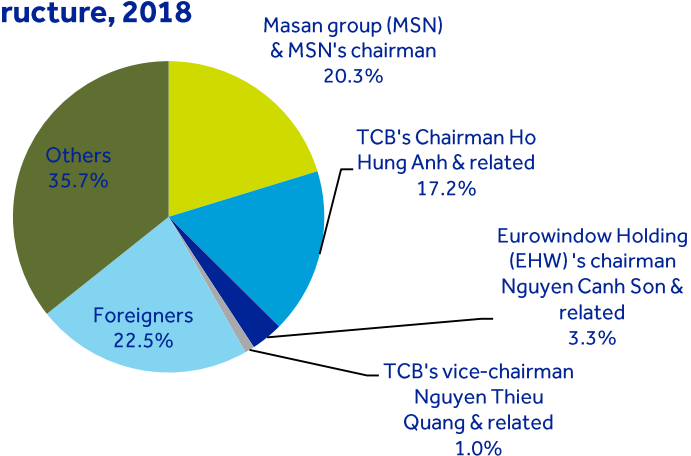


Source: TCB

Holding structure & corporate governance

TCB has a condensed shareholding structure with MSN & related, including Masan group, MSN's chairman - Nguyen Dang Quang, TCB's chairman - Mr Ho Hung Anh (also MSN's major owner) and related, holding about 37% stake. MSN also holds additionally 1.5% TCB's stake under REPO contracts that is not accounted in shareholders list officially. Following the last year IPO, foreign shareholders hold 22.5% of the bank ownership. The remaining potential 7.5% foreign room has been blocked.

Figure 13: Ownership structure, 2018



Source: Bloomberg

The bank's BOD for 2019-2024 period is comprised of 8 members, of which 3 have close relationship with MSN, 1 representative for Eurowindow, 1 representative for Warburg Pincus (2.7% stake). TCB's BOM includes 18 members who have rich experience in finance and banking sector in Vietnam and globally.

We notice that the bank's existing business and development plans are tightly aligned to sectors in which its major shareholders and large wholesale banking clients are involved. These include VIC & related (real estate, travel & leisure, auto, retail), NVL (real estate), Masan (retail), HVN (travel & leisure), Eurowindow (real estate), Sungroup (real estate) and EVN (utilities & telecom).

BUSINESS ANALYSIS

Strong equity base after IPO

In the last five years, TCB expanded its balance sheet at the same pace with other leading private banks such as ACB, MBB, but has outpaced its equity growth. The bank's equity increased 3.7 times to VND52trn thank to 2018 IPO, driving its equity multiplier [on balance sheet] down to 6.2x [Table 1].

Its CAR has risen to an all-time high at 15.6% in 1H2019 (14.3% in 2018), outpacing all peers. Apart from its role as capital buffer, the surplus capital shall enable TCB to make meaningful disbursement for innovation and to win higher credit growth than the industry average, especially if the SBV allows banks to manage their own credits growth as is expected in the coming years.

Given its strong capital position, there is minimal pressure put on the lender to fiercely compete in the current interest rate race for long-term deposits as well as the race for seeking tier 2 capital from international and local bond markets. We believe this will assist TCB's NIM in coming years.

Table 1: Equity multiplier of some banks

	2013			2018			2018-2013 growth		
	Assets (VND bn)	Equity (VND bn)	A/E (x)	Assets (VND bn)	Equity (VND bn)	A/E (x)	CAR (%)	Assets (x)	Equity (x)
VCB	468,999	42,386	11.1	1,074,026	62,179	17.3	12.1	2.3	1.5
CTG	576,368	54,074	10.7	1,164,434	67,455	17.3	8*	2.0	1.2
BID	548,386	32,039	17.1	1,313,037	54,551	24.1	9.0	2.4	1.7
MBB	180,432	15,141	11.9	362,325	34,172	10.6	10.9	2.0	2.3
ACB	166,598	12,504	13.3	329,333	21,017	15.7	12.8	2.0	1.7
TCB	158,897	13,920	11.4	321,050	51,714	6.2	14.3	2.0	3.7
VPB	121,264	7,726	15.7	323,291	34,750	9.3	12.3	2.7	4.5
3-SOBs	1,593,753	128,499	12.4	3,551,497	184,185	19.3		2.2	1.4
4-JSBs	627,191	49,291	12.7	1,335,999	141,653	9.4		2.1	2.9
All	2,220,944	177,790	12.5	4,887,496	325,838	15.0		2.2	1.8

Source: Bank financial statements

Figure 14: Equity multiplier of some banks

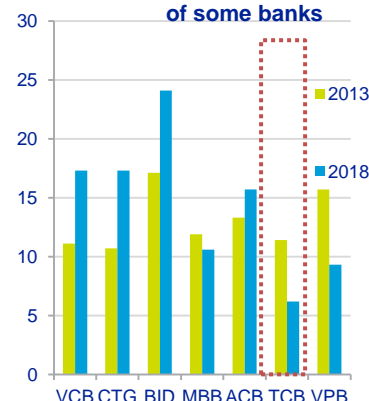


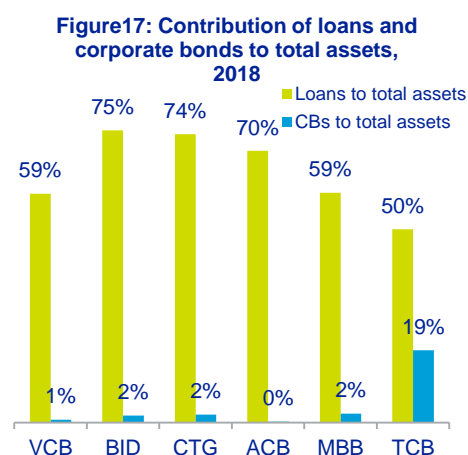
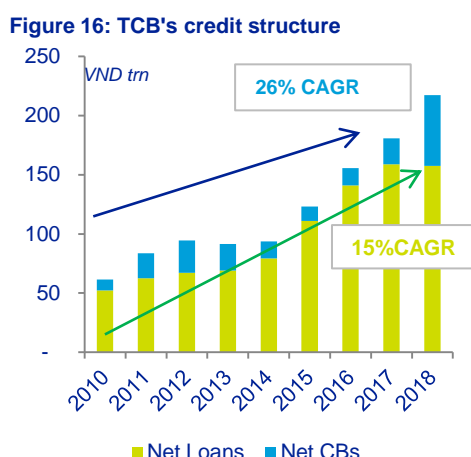
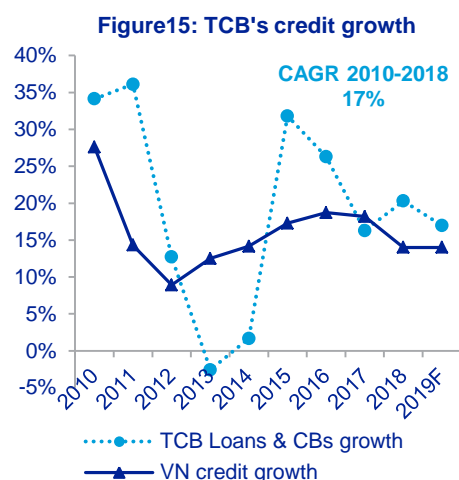
Table 2: Regulated short-term funds for medium & long-term loans ratio of commercial banks

Circular	Effective day	Ratio
36/2014/TT-NHNN	1-Jul-16	60%
	1-Jan-17	50%
	1-Jan-18	45%
	1-Jan-19	40%
Draft amending Circular 36/2014/TT-NHNN: Option 1	1-Jul-20	35%
Option 2	1-Jul-21	30%
	1-Jul-20	37%
	1-Jul-21	34%
	1-Jul-22	30%

Corporate bonds highlight 2018 credit growth

The bank's net loans and corporate bonds balance experienced a CAGR of 17% in 2010-2018 [Figure15]; of which corporate bonds had a CAGR of 26% to VND60trn as of 2018, accounting for ~19% total assets and outpacing all peers in both absolutely and relatively [Figure 16, Figure17].

Indeed, TCB aggressively accelerated its investment banking business in 1H2018 to satisfy medium and long-term (MLT) capital demands of its wholesale banking clients before the SBV reduces short-term funds for medium and long-term loans ratio to 40%. While other banks push MLT mobilization via traditional channels such as certificates of deposits (CDs) and bank bonds, TCB differentiates itself from the peers in solving MLT capital demands by encouraging bond advisory activities. Last year, value of bond underwritten by TCBS, an investment banking division of TCB, reached VND62trn (~USD2.7bn), up 64% YoY, outpacing the lender's credit growth.



Source: TCB & other banks financial statements

TCB's corporate bonds investment balance increased from around VND12-20trn in previous years to VND39trn as of Sep 2018 and VND60trn as of 2018YE. Given its seemingly excessive corporate bonds holding [Figure17], we believe TCB will push bond distribution further in 2019 to lift credit room for business banking and personal banking segments, especially as the Vincom group has significant new project launches planned. We believe TCBS and TechcomCapital, with two product categories iBond and iFund, will be key forces assisting TCB to do that.

iBond is group of corporate bonds standardized for retail clients while iFund is group of open-end funds managed by TechcomCapital, including Techcom Bond Fund (TCBF), Techcom Equity Fund (TCEF), and Techcom FlexiCash (TCFF).

Sales of iBond may face challenges since the government is tending to manage bond distribution via private placement. At first, Decree 163/2018/ND-CP, which came into effect in Feb 2019, limits the number of investors (excluding professional securities investors) purchasing bonds via private placement to below 100 during the first year. Moreover, in the recent draft bill of the Law on Securities, bonds issued by public companies via private placement will be traded between professional securities investors only. These developments have caused TCB to accelerate iFund (considered as professional securities investors), drive iBond sales to enterprises/organizations, and advise issuers choosing public placement (e.g VIC122020).

TCBF's NAV is targeted to reach VND20trn by 2019YE, triple that of 2018YE. Moreover, in early 2019 TCBS and TechcomCapital launched TCB FlexiCash – Techcombank flexi bond fund- eyeing short-term enterprises idle money with target asset under management (AUM) of VND5trn by 2019 [Figure 19].

In 9M2019, value of corporate bond distribution reached VND39.5trn, up 46.3% yoy while NAV of TCBF increased from VND6.6trn to VND15.3trn. TCB's corporate bond balance reduced to VND41.5trn, equaling to 11.3% of total assets.

Though many securities companies have joined the debt capital market, we believe TCB will remain dominant in the market thanks to its rich client base (including corporates and individuals for both primary and secondary market), helpful and well-connected trading platforms, diversified products and wide distribution channels with good cross-sell/up-sell ability.

Figure 18: Volume of corporate bond underwritten by TCBS

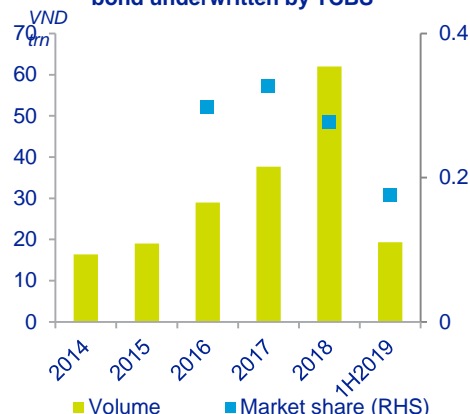
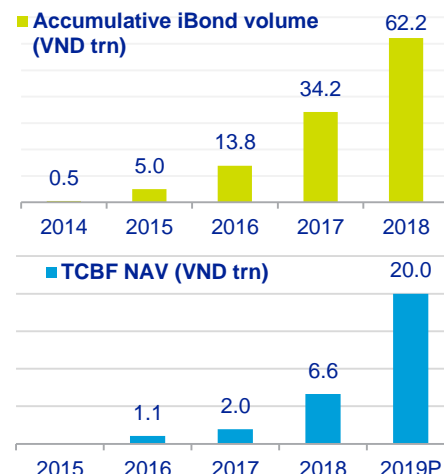
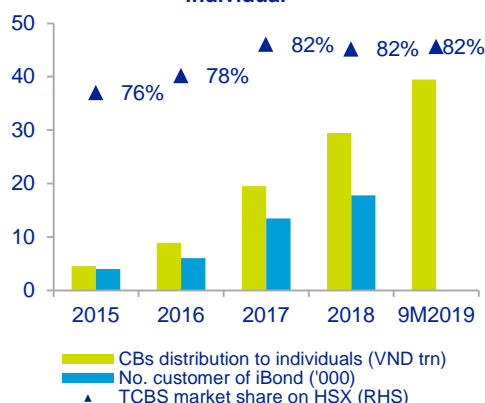


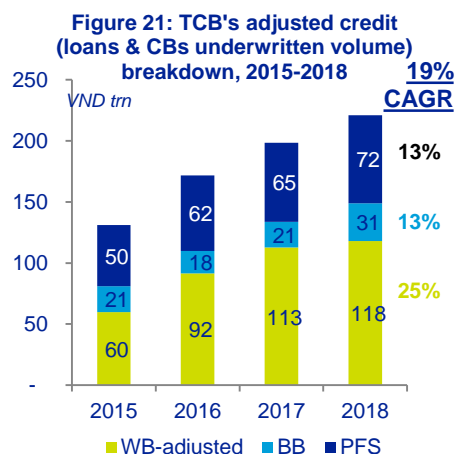
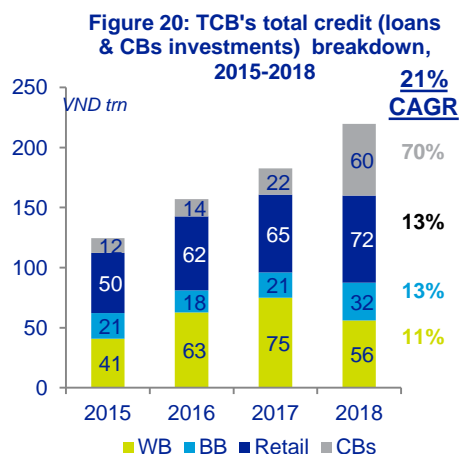
Figure 19: Volume of corporate bonds distributed by TCBS to individual



Wholesale Banking is still important

Business banking (BB) and personal banking (PFS) loans posted a CAGR of 13% in 2015-2018, better than 11% of wholesale banking (WB), which is fitting with the bank's strategic direction [Figure 20]. However, if taking corporate bonds-underwritten volume via TCBS into account as special products satisfying corporate's MLT capital demand, it is clear that WB is still very important to TCB.

Total adjusted credit amount (customer loans + corporate bonds underwritten volume) increased at a CAGR of 19% from VND131trn in 2015 to VND221trn in 2018. Of which, WB (adjusted) contributed 64% to the growth, while PFS and BB made up 25% and 11% respectively.[Figure 21&22]



Source: TCB, TCBS and ABCS estimated

Business banking focused on 3 of 6 targeted sectors

When looking at additional sectors to penetrate in accordance with its value chain approach, TCB will typically approach sectors aligned with its anchor clients i.e. Vingroup and Masan Group. TCB has exploited deeply into two sub-segments including real estate and food & beverage, which started since 2016 and 2018 respectively. This year, the bank has started to work into automobile value chain.

The transformation results have paid off since last year with a 50% YoY increase in business banking loans in 2018 and 23%ytd in 6M2019. The maturity structure follows TCB's orientation with 81% of short-term loans in 2018 compared to 54% in 2015 [Figure 23].

Figure 23: BB loans structure by tenors

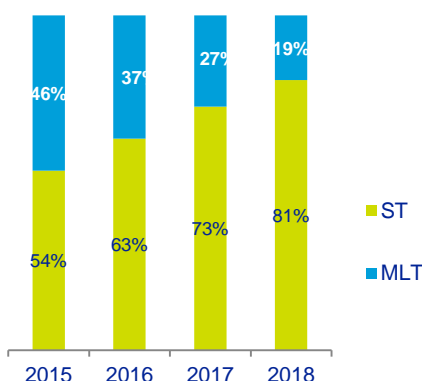
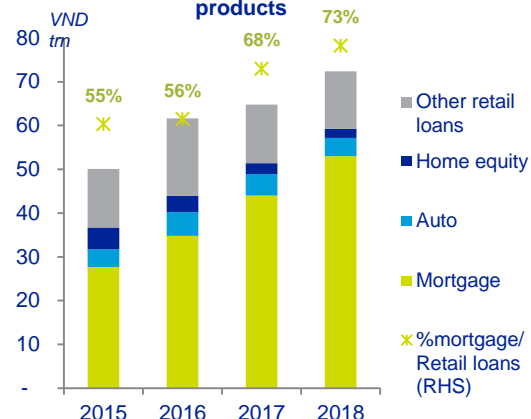


Figure 24: PFS loans structure by products



Source: TCB

Mortgage lending is the back bone of personal banking but auto loans will increase

Mortgage lending is the back bone of the personal banking segment, accounting for 73% of retail loans and 33% of the total customer loans in 2018, a big jump from 55% and 25% respectively three years ago, driving TCB to be the largest primary mortgage lender in HCMC and Ha Noi at present [Figure 24]. As the bank targets affluent and mass affluent clients, it eyes grade A and B projects, particularly those developed by its "anchor corporates", such as the Vingroup, with competitive privileges such as long tenor (maximum 35 years); fixed preferential interest rate in the first 12 months; shortened disbursement process and transferability of the mortgages. Since Vingroup has developed more mid-end and affordable projects, we believe the bank will emphasize on mass customer segment in the future.

This business may face constraints since (1) government tends to control credit to risky sectors, including real estate; (2) Vingroup plans to wholesales or find sub-developers for its projects, then will remove the exclusive financing role of TCB at all Vingroup's projects; (3) The expansion of mass segment following Vingroup master plan may lift TCB's credit cost from current low level. However, we believe that strong capitalization will enable TCB to continue emphasize on mortgage lending.

Auto loans accounted ~5% of TCB's outstanding loans (~VND5trn) with estimated market share of ~3.6%, quite small compared to the mortgage category. Currently, Vietnam's auto finance market is fierce and fragmented, but very promising. According to Ken Research [Jan 2019], in Vietnam, total auto loan disbursements registered a CAGR of 25% in 2012-2018 and is expected to remain on the same trajectory to reach VND352trn by 2023. Given the launch of Vinfast, we expect TCB may take advantage from automotive value chain to enlarge its auto loans portfolio.

Lending to drive future credit growth

Leveraging on its strong capital buffer, TCB has been allowed by the State Bank of Vietnam to increase its 2019 credit growth quota to 17% from 13% set earlier in 2019. In 9M2019,

the bank achieved credit growth of 12.3% ytd, mainly driven from customer loans, while corporate bonds outstanding went down. The increase in credit quota is necessary for TCB given unused credit limit of VND141trn (~58% current credit outstanding) as of Sep 2019.

However, despite of higher CAR TCB's credit growth limit for 2019 is the same with other same tier banks. As such, we forecast the bank to achieve an annual credit growth of around 14-15% during the forecast period.

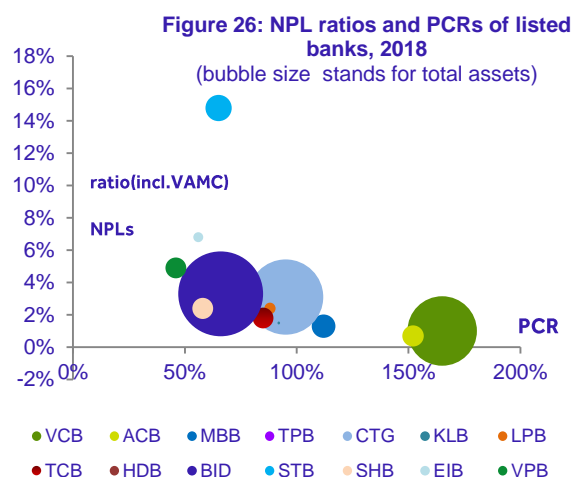
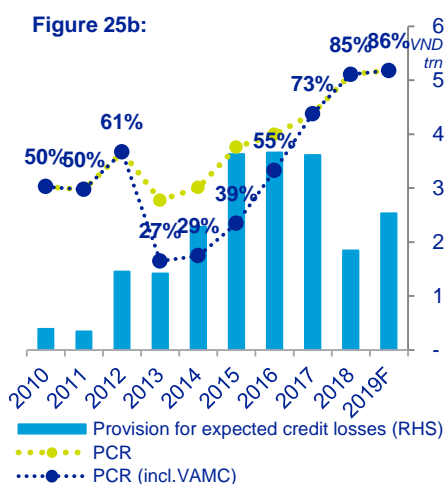
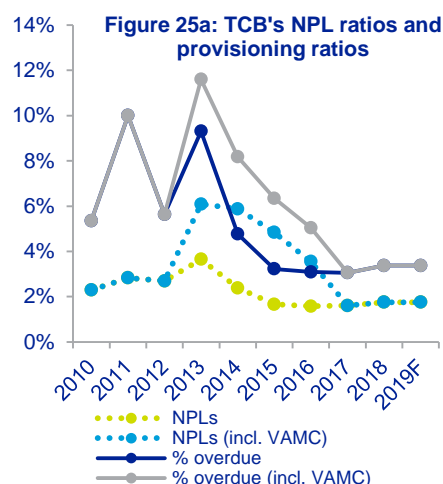
Given a limited credit growth quota and TCB aims to be an intermediate entity on debt capital market, we don't expect the bank to expand its corporate bonds portfolio, but rather focus on lending. Ecosystem from value chain of three sectors including real estate, FMCG and automotive will promote the bank's business banking and personal banking loans in forecast period.

Risk management and asset quality

Decrease in provision coverage ratio

Risk management is an important focus of TCB, as is reflected in its prioritized spending, accounting ~31% of technology investment budget. The bank's risk management process is standardized and specialized by customer segments in order to improve its customer understanding and early warning systems. Credit risk management following IFRS 9 was adopted since early 2018.

The bank's assets quality is improving. It cleared VAMC bonds and brought the NPL ratio to below 2% in 2H2017. Receivables related to legacy debts that had been sold to debt purchasing companies were fully collected in 3Q2018 (except for ~VND500bn reappear in 3Q2019). The provision coverage ratio (PCR= Allowance for credit losses/non-performing loans) enhanced from around 50% in 2010-2011 to 85% by 2018 and 88% by 1Q2019. [Figure 25].



Source: Bank financial statements, ACBS estimated

The PCR, NPL ratio and credit cost of TCB are better than most of listed banks except for VCB, MBB and ACB [Figure 26], whose assets qualities and provisioning practices usually outpaces the peers. Even though TCB's credit cost decreased in 9M2019, driving PCR down to 77%, we believe reinforcing provision is necessary for TCB, particularly when it penetrates into mass customer segment. With that we forecast the bank's credit cost (as percentage of total loan, corporate bonds and VAMC) to inch up gradually to 1.2% by 2022, then lifting the PCR back to 85% by 2022.

Figure 27: NPL ratios and credit cost

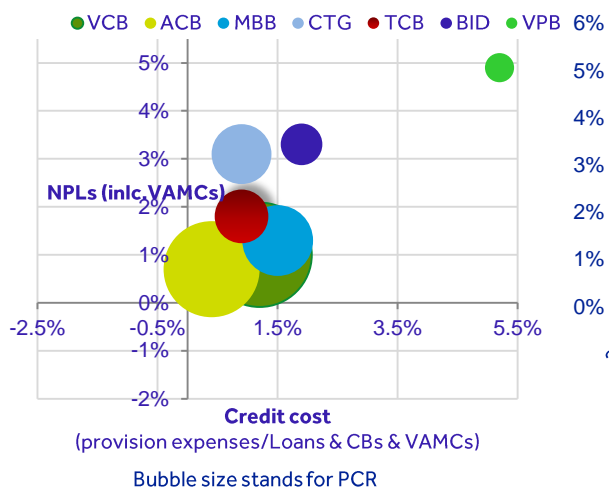


Figure 28: TCB's credit cost vs. non-performing asset ratio

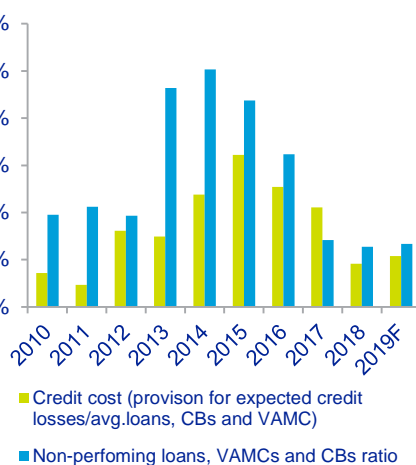
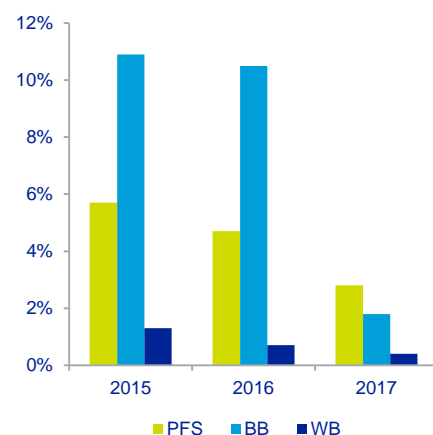


Figure 29: NPL (incl.VAMC) ratio by customer segments



Source: Bank financial statements, ACBS estimated

De-risking Business Banking and Personal banking

According to TCB's historical data, the business banking segment suffered the highest impairment ratio, peaking at 10.9% in 2015 while wholesale banking performed the best with 1.3% [Figure 29]. As results, during the 2016-2017 period, we saw TCB re-shape the segment by re-selecting target industries and anchoring its business banking segment tightly with its wholesale banking division with expectation attaching credit worthiness of Business banking to that of wholesale banking. In operations, TCB is de-risking via centralizing risk management, with the establishment of business banking centers (BBCs) and improving KYC with appointment of specialized sub-sector relationship managers (RMs). For Personal banking, TCB de-risks via value-chain approach and data analysis, which targets to high credit people (affluent and mass affluent) and low/non-credit cost products (mortgage & fees).

Concentration risk

The bank's development strategy has delivered good outcomes, but concerns on concentration risks have emerged since TCB's business performance and risks are linked tightly to few entities, called anchor corporates, and a few sectors, particularly real estate which is considered to be a high-risk sector.

According to our estimation, the real estate ecosystem is significant to TCB, contributing 51% of loan balance (1H2019). Wholesale segment accounted for 53% of the bank's total credit (2018) [Figure 22]. Vingroup is estimated to account for 30% of TCBS's advisory bond volume (2018) on the primary market. Vingroup is not only the largest real estate developer in the country but also penetrates multiple sectors. Of which, some TCB is heading to such as retail (Vincommerce), auto (Vinfast), telecom (Vinsmart), travel & leisure (Vinpearl air) etc.

TCB announced its concentration risk is under control and within the legal requirements; the WB clients have diversified businesses with good credit ratings; and clients within value chains are in diversified sectors and diversified customer segments. However, as mentioned above, credit worthiness of business banking division and liquidity of collaterals are closely connected to Wholesale Banking's credit worthiness and behavior, we assess TCB's concentration risk is noticeable.

Liquidity position

The bank's liquidity reserves, comprising cash & dues from the SBV, dues from other banks & FIs less than 3M-tenor, and VGBs, is equivalent to ~25% of customer deposit and 16% of total assets, right after VCB, MBB and ACB [Figure 30, Figure 31, Figure 32]. TCB ensures good liquidity thanks to its healthy equity, contributing for 16% of total source of funding (2018). TCB reported a loan to deposit ratio (LTD ratio) of 66% and short-term funds for long-term loans ratio of 37.6% in 1H2019, both are below regulated ratios of 80% and 40%. However, since the bank is promoting CASA for a higher NIM, the bank's liquidity is needs to observed.

TCB plans to issue VND10trn of bank bonds in 2H2019 to enhance long-term mobilization due to the SBV's direction for further reducing regulated short-term funds for long-term loans ratios. However, we don't expect the bank's cost of funding to inch up as recent issuance of same tier banks receive better interest rate than long-term deposit interest rate.

Figure 30: Funding structure

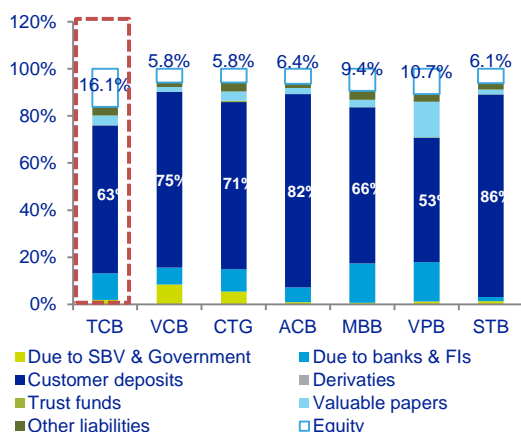


Figure 31: % Liquidity reserves ratios, 2018

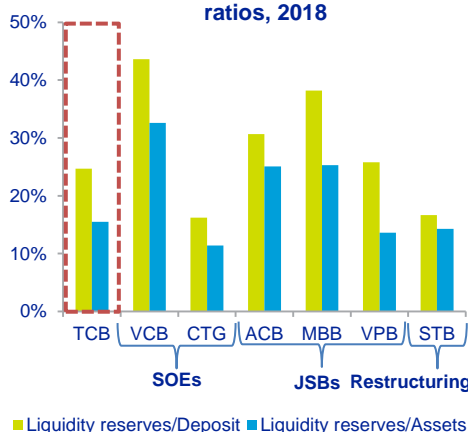
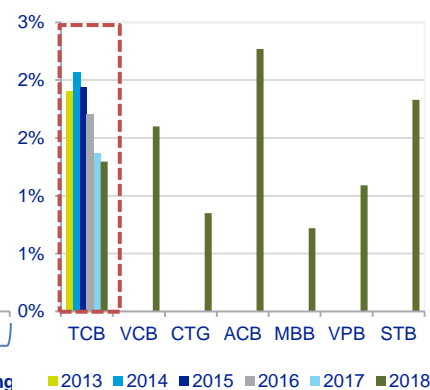


Figure 32: Cash/Deposit



Source: Bank financial statements, ACBS estimated

Earnings performance & forecast

One-off income and less provisioning excite the bottom line

The bank's profitability has regained steadily from the destructive period in 2012-2013 with ROE of 21.5% and net profit of VND8.5trn (31% YoY; 77% 3y CAGR) on total operating income (TOI) of VND18.3trn (+12% YoY; 25% 3y CAGR) in 2018. While net interest income (NII), net fee income (NFI) and gains from securities investment grew healthily with 3y CAGR of 16%, 41% and 105% respectively, considerable one-off earnings together with trending down of provision expenses were extra spices [Figure 33 & 34].

In 2017, TCB recorded VND1.8trn of extraordinary earnings with great upfront banca fees from Manulife (VND1.4trn) and gain from divestment of HVN shares (VND0.4trn). In 2018, the one-off was VND0.9trn from divestment of TCB Finance, the bank's consumer finance subsidiary.

For 9M2019, TCB posted a PBT growth of 14% yoy to VND8.9trn (up 29% yoy if excluding one-off from Techcom Finance in 8M2018) which was mainly thanks to strong reduction of provision expenses for credit losses from VND1,787bn in 8M2018 to VND605bn.

Besides, recoveries of written-off debts & VAMCs were noticeable in the last two years thanks to resilience of the economy, peaking at VND1.4-1.5trn in 2017-2018. Given the

recoveries ratio of bad debts accumulated during 2012-2018 reached 29%, nearly approaching that of VAMCs (30%; finish in 2017) we believe this line will decrease in coming years. [Figure 35]

Figure 33: TCB's profitability ratios

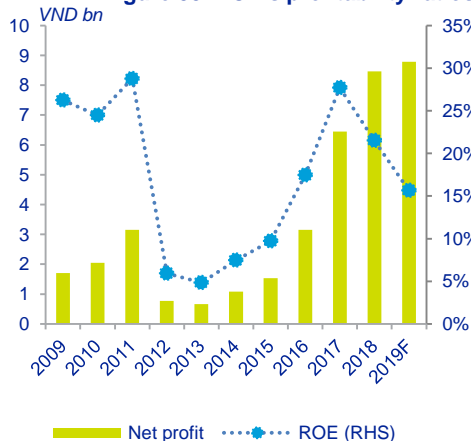


Figure 34: TCB's TOI components

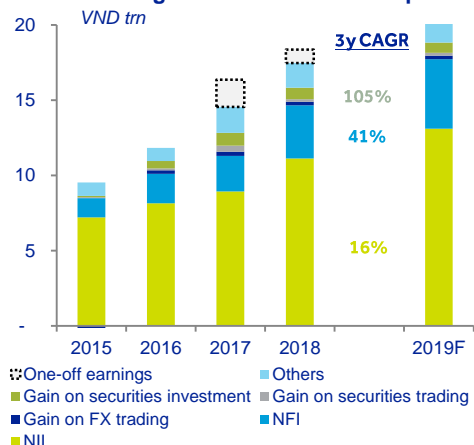
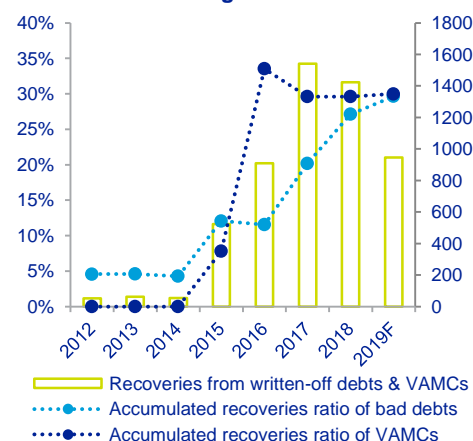


Figure 35



* Accumulated recoveries ratio = accumulated income from recoveries of written-off bad debts (VAMCs) since 2012 / accumulated written-off bad debts (VAMCs)
Source: TCB, ACBS estimated

Non-interest incomes are key focuses

TCB has been successful at expanding its non-NII sources, which reached a value of VND4.7trn in 2018, behind only VCB and BID. Relatively, it outperformed all peers in terms of non-NII to assets ratio peaking at 1.6% and non-NII to credit at 2.1%. TCB also led the industry in terms of delivering non-NII per staff with VND515mn in 2018 thanks to its explicit strategy and well-trained employees with excellent cross-selling and upselling abilities. [Figure 36 & 37].

TCB draws a clear roadmap to encourage fee incomes including: (1) To expand the customer base via deeply exploiting value chain of targeted sectors and notable marketing campaign (e.g. big zero fee, cash back promotion etc.) and (2) To gain more fees with diversified and tailored products via KYC. Income from bond advisory, bond brokerage, bancassurance, cards and cash & settlement services are the bank's main's non-NII streams.

Figure 36: Non-NII of listed banks, 2018

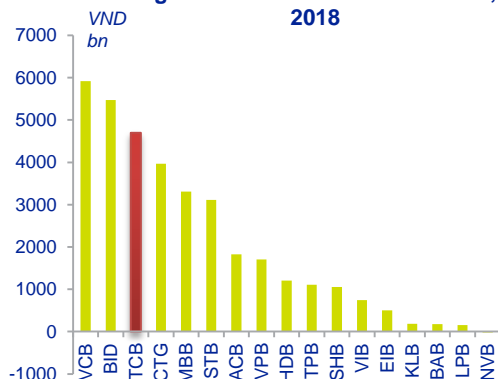


Figure 37: Capability to deliver Non-NII, 2018

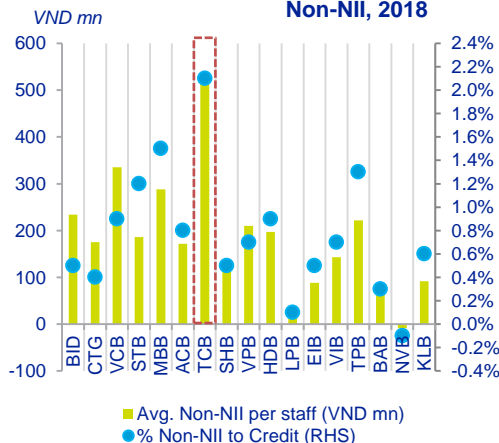
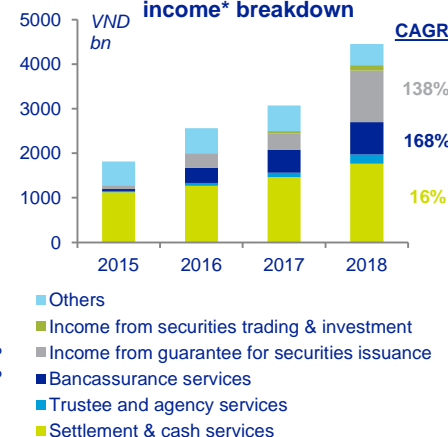


Figure 38: TCB's total fee income* breakdown



*excluding one-off income from exclusive banca deal in 2017
Sources: Bank financial statements, ACBS estimated

Net fee income (NFI) of TCB was quite disappointed in 9M2019 given strongly-increased cost in cash & settlement services; and slowdowns in bancassurance and bond advisory activities. However, we believe TCB will be able to regain growth pace of around 20% for NFI since 2020.

- Vietnam's corporate bond market is promising with 95% yoy increase in issuance volume and 53% yoy increase in outstanding amount in 2018. With a dominant position on both the primary and secondary corporate markets, particularly given its prolonged cooperation with conglomerates Vingroup and Masan, the leading corporate bond issuers in the country, we believe TCB is well positioned to take advantage of the growing market. The bond advisory business was outstanding in 2018 with underwriting fees of VND1.1trn on issuance volume of VND62trn. For this year, we expect TCB to accelerate earnings from bond brokerage activity and TCBF.
- Banca is another focus of TCB, especially after the 15-year exclusive distribution deals with Manulife to cash in on the high growth segment. The bank announced to hold 17% of banca market in Vietnam in 2018³. This activity posted a yoy growth of 26% in 9M2019 and we expect it to keep this business to grow around 20-30% per annum in forecast period.
- Cards contributed 11% (VND497bn) to its NFI in 2018 and increased to 16% in 1H2019. The bank is among top 10 in terms of financial card numbers. A strong customer base in the affluent and mass affluent segments will be advantageous for TCB to develop this category.
- TCB invests heavily on its transaction banking platform including internet banking, mobile banking, wealth management system and securities trading etc. to increase customer experience. Also the "zero fee campaign", "1% cashback cards" and value-chain approach have helped TCB to attract CASA accounts and encourage customers to use TCB as their main bank. Income from settlement & cash services grew steadily at CAGR of 16% in 2015-2018. We expect an annual growth rate of 30% in the forecast period thanks to its technology investment and promotion. However, heavy spending for the activity may narrow gross margin of the service segment.

Elevating NII on expected better NIM

TCB's NIM improved from 3.92% in 2017 to 4.16% in 2018 and 4.33% in 9M2019, higher than the median of listed banks [Figure 39 & 40]. TCB's outstanding NIM is the result of the good trend in the CASA ratio, growing gradually from 13% in 2012 to 29% in 2018 and 30% in 9M2019, far above most of peers except for MBB and VCB [Figure 41 & 42].

It is making use from cash within ecosystem of targeted sectors, launches big promotion campaign e.g "zero fees" for individual and enterprises, "cashback" on card payment etc., and invests heavily to transaction platform. These methods help TCB to attract new customers as well as increase the customer engagement, driving it to become their main bank. As such we believe that the bank's CASA ratio keep growing in forecast period, reaching 36% by 2021. NIM is expected to increase by 60 bps in total to reach 4.98% in the next three years.

³ Based on gross written premium

Figure 39: TCB's NIM

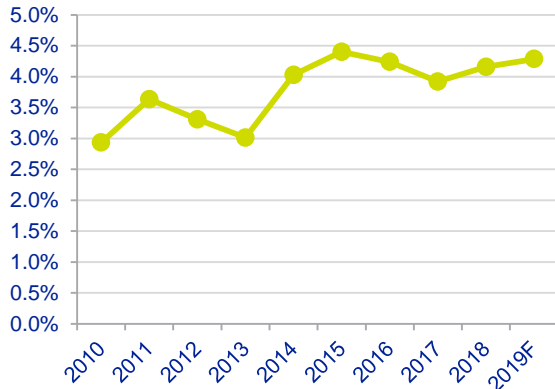


Figure 40: NIM of listed banks

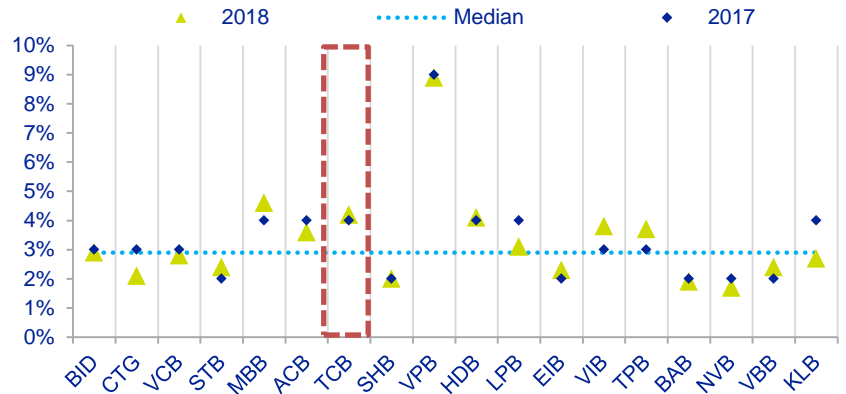


Figure 41: TCB's CASA ratio

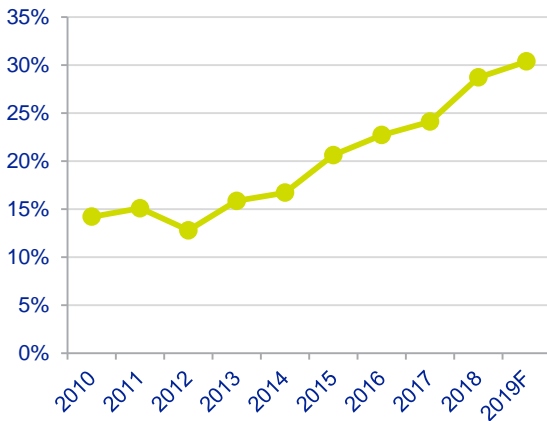
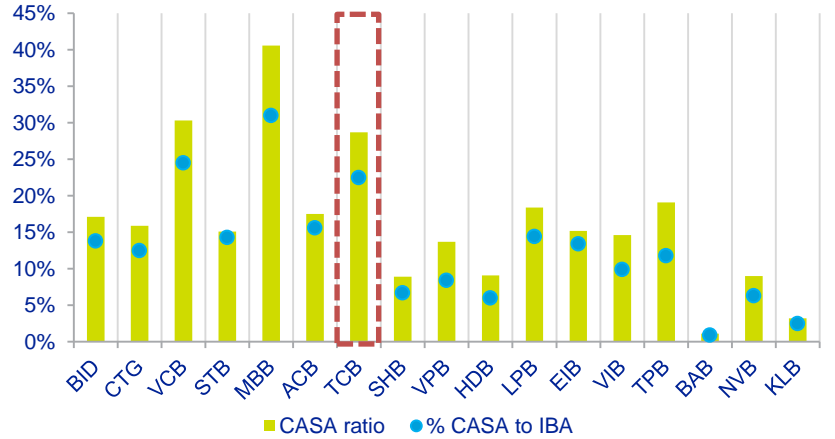


Figure 42: CASA of listed banks, 2018



Sources: Bank financial statements, ACBS estimated

Low CIR and expected to maintain in forecast period

TCB is good at cost management with the lowest CIR of 32% in 2018 thanks to its modest labor cost to TOI ratio (18% in 2018) while its non-labor cost to TOI was similar to VPB, VCB and BID at around 14-15% [Figure 43 & 44]. We believe this is the result of the bank's technology disbursement and effective staff. The ability to deliver revenue (TOI) and profit per TCB's employee are improving and follows right behind VCB, with a fair distance between the trailing rivals [Figure 45 & 46]. The bank's CIR inched up to 35% in 9M2019 and we expect TCB to manage it around that level during forecast period given increase of technology spending (USD90mn in 2019).

Figure 43: TCB's CIR

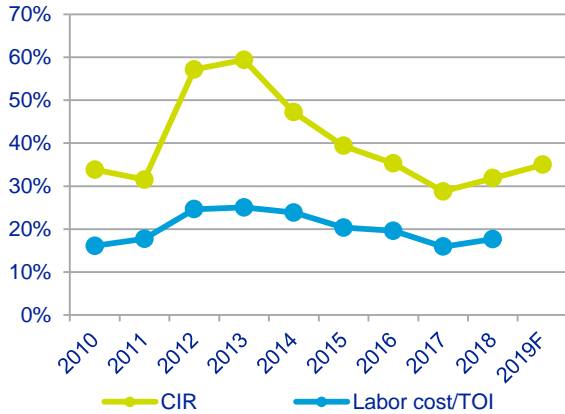


Figure 44: CIR of listed banks, 2018

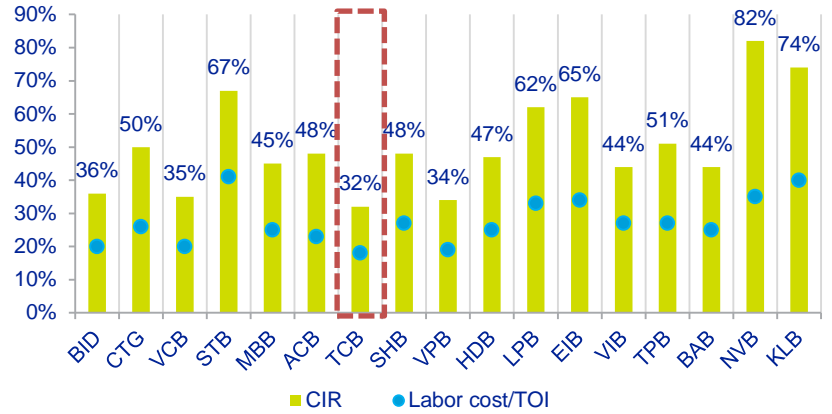


Figure 45: Efficiency of TCB's employees

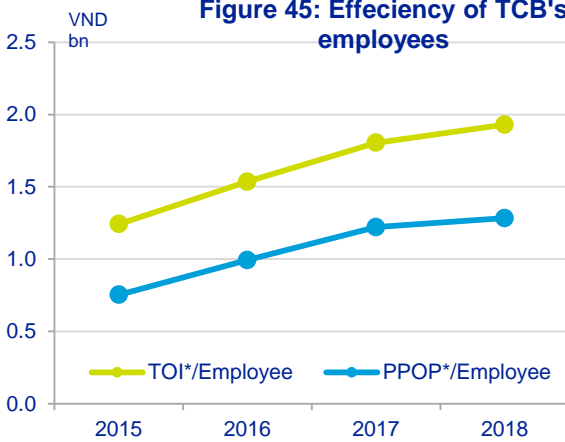
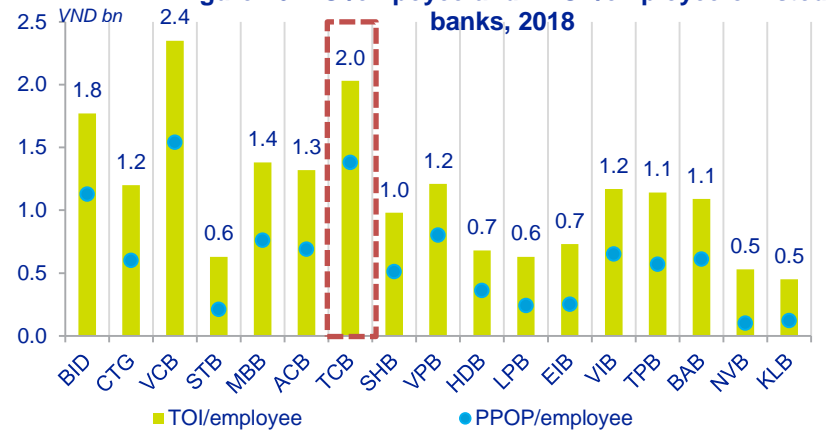


Figure 46: TOI/employee and PPOP/employee of listed banks, 2018



*excluding one-off

VALUATION & RECOMMENDATION

Using residual income and multiple methods (P/B ratio) we evaluate TCB share at VND31,800/shr as of 2020YE, meaning 30% upside from current market price.

Residual income approach

(VND bn except where stated)	2020F	2021F	2022F	2023F
Bonus and welfare funds	56	60	68	80
Income belongs to shareholders	9,861	11,260	13,193	15,373
Required return on equity	13.1%	13.1%	13.1%	13.1%
Residual income	1,849	1,955	2,411	2,862
PV of Residual income	1,849	1,728	1,885	1,978
PV of Terminal value of RI	31,851			
Equity value as of 2019	110,253			
Number of shares (m)	3,500			
Share value as of 2019	31,497			

Multiple approaches

	2020YE
Trailing P/B benchmark	1.58
BVPS (adjusted)	20,273
Target price (VND)	32,031

TCB FINANCIALS MODEL		Price (VND):	24,350	Target (VND):	31,800	Mkt cap (VND bn):	85,228
(VND bn except where stated)	2016	2017	2018	2019E	2020E	2021E	2022E
Net interest income	8,142	8,930	11,127	13,994	16,601	19,578	22,836
Net fee & commission income	1,956	3,812	3,536	3,472	4,167	5,000	6,000
Other non-interest income	1,735	3,601	3,687	2,394	2,304	2,782	3,168
Total operating income	11,833	16,344	18,350	19,860	23,072	27,361	32,004
Growth %	26.6%	38.1%	12.3%	8.2%	16.2%	18.6%	17.0%
Operating expenses	-4,175	-4,698	-5,843	-6,951	-8,075	-9,576	-11,201
PPOP	7,658	11,646	12,507	12,909	14,997	17,784	20,803
Growth %	35.2%	52.1%	7.4%	3.2%	16.2%	18.6%	17.0%
Provision for credit losses	-3,661	-3,609	-1,846	-1,173	-2,616	-3,654	-4,249
PBT	3,997	8,036	10,661	11,736	12,380	14,130	16,554
PAT	3,149	6,446	8,474	9,389	9,904	11,304	13,243
EPS (VND)	3,529	5,514	2,415	2,671	2,817	3,217	3,769
Bonus factor	0.3	0.3	1.0	1.0	1.0	1.0	1.0
EPS (VND)- bonus adjusted	1,176	1,838	2,415	2,671	2,817	3,217	3,769
EPS Growth %	108.1%	56.2%	31.4%	10.6%	5.5%	14.2%	17.2%

KEY CASHFLOW AND BS ITEMS	2016	2017	2018	2019E	2020E	2021E	2022E
Loans & CBs outstanding	156,991	182,541	219,595	256,861	293,344	336,576	383,653
Growth %	26.3%	16.3%	20.3%	17.0%	14.2%	14.7%	14.0%
Customer deposit	173,449	170,971	201,415	221,213	246,714	275,826	309,152
Growth %	21.9%	-1.4%	17.8%	9.8%	11.5%	11.8%	12.1%
Total assets	235,363	269,392	320,989	366,316	414,858	468,034	532,485
Growth %	22.6%	14.5%	19.2%	14.1%	13.3%	12.8%	13.8%
Shareholder equity	19,586	26,931	51,713	61,102	70,963	82,222	95,415
Growth %	19.0%	37.5%	92.0%	18.2%	16.1%	15.9%	16.0%
BVPS (VND)	22,062	26,231	22,184	17,465	20,273	23,489	27,258

KEY RETURN AND VALUATION RATIOS	2016	2017	2018	2019E	2020E	2021E	2022E
NPL (%)	3.6%	1.6%	1.8%	1.8%	1.8%	1.8%	1.8%
PCR (%)	55.4%	72.9%	85.1%	80.2%	81.2%	83.3%	85.5%
NIM (%)	4.2%	3.9%	4.2%	4.5%	4.8%	5.0%	5.1%
CIR (%)	35.3%	28.7%	31.8%	35.0%	35.0%	35.0%	35.0%
ROA (%)	1.5%	2.6%	2.9%	2.7%	2.5%	2.6%	2.6%
ROE (%)	17.5%	27.7%	21.5%	16.7%	15.0%	14.8%	14.9%
PER (x)	20.7	13.2	10.1	9.1	8.6	7.6	6.5
PBR (x)	1.1	0.9	1.1	1.4	1.2	1.0	0.9
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Moody's Rating – on review for downgrade

Outlook	STABLE
LC Curr Issuer Rating	Ba3
FC Curr Issuer Rating	Ba3
Foreign LT Bank Deposits	B1
Local LT Bank Deposits	Ba3
Bank Financial Strength	WR
Foreign Currency ST Debt	NP
Local Currency ST Debt	NP
LT Counterparty Risk Assessment	Ba2(cr)
ST Counterparty Risk Assessment	NP(cr)
Baseline Credit Assessment	ba3
Adj Baseline Credit Assessment	ba3
LT Counterparty Risk Rating (Forei	Ba2
LT Counterparty Risk Rating (Dome	Ba2
ST Counterparty Risk Rating (Forei	NP
ST Counterparty Risk Rating (Dome	NP

Standard & Poor's

Outlook	STABLE
LT Foreign Issuer Credit	BB-
LT Local Issuer Credit	BB-
ST Foreign Issuer Credit	B
ST Local Issuer Credit	B

CONTACTS

Ho Chi Minh City Head Office

41, Mac Dinh Chi, Dist. 1, Ho Chi Minh City

Tel: (+84 28) 3823 4159

Fax: (+84 28) 3823 5060

Hanoi Office

10 Phan Chu Trinh, HoanKiem Dist., Ha Noi

Tel: (+84 4) 3942 9395

Fax: (+84 4) 3942 9407

RESEARCH DEPARTMENT

Associate Director – Fundamental Analysis

Giao Nguyen

(+84 28) 3823 4159 (x250)

giaonbt@acbs.com.vn

Associate – Consumer-related, Technology

Chi Luong

(+84 28) 3823 4159 (x327)

chiltk@acbs.com.vn

Associate – Consumer-related, Media

Trung Tran

(+84 28) 3823 4159 (x351)

trungtn@acbs.com.vn

Analyst – Derivatives

Minh Trinh Viet

(+84 28) 3823 4159 (x352)

minhtvh@acbs.com.vn

Associate – Financials

Yen Tran

(+84 28) 3823 4159 (x326)

yentran@acbs.com.vn

Associate – Oil & Gas

Hung Phan

(+84 28) 3823 4159 (x354)

hungpv@acbs.com.vn

Analyst – Technical

Phuoc Luong

(+84 28) 3823 4159 (x250)

phuocld@acbs.com.vn

Associate – Property

Truc Pham

(+84 28) 3823 4159 (x303)

trucptt@acbs.com.vn

Analyst – Industrials

Phuc Tran

(+84 28) 3823 4159 (x325)

phuctta@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director - Head of Institutional Client

Tyler Cheung

(+84 28) 54 043 070

tyler@acbs.com.vn

Corporate Sales Institutional Client

Nhu Le Mai

(+84 28) 3823 4159 (x307)

nhultm@acbs.com.vn

Trading Manager Huong Chu

(+84 28) 54046630 (x308)

huongctk@acbs.com.vn

Customer Support Institutional Client

Thanh Le

(+84 28) 3823 4798

thanhlnt@acbs.com.vn

Trader Nhan Nguyen

(+84 28) 38234159 (x311)

nhanntt.sgn@acbs.com.vn

Director - Institutional Client

Patrick Mitchell

(+84 28) 54 046 632

patrick@acbs.com.vn

Customer Support Institutional Client

Ngoc Tuyen Nguyen

(+84 28) 3823 4955

tuyenenn@acbs.com.vn

Trader Thanh Tran

(+84 28) 54046626

thanhtt@acbs.com.vn

Trader Dung Ly

(+84 28) 54046630

dungln.hso@acbs.com.vn

DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

Analyst Certification(s)

We, the author(s) of this report, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures

ACBS and/or an affiliate thereof (hereby collectively called ACBS) did or may seek to do business with companies covered in this report as its routine business. ACBS's proprietary trading accounts may have a position in such companies' securities. As a result, the investor should be aware that ACBS may have a conflict of interest from time to time.

ACBS produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Disclaimer

This report is provided for information purposes only. ACBS makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this report. ACBS will not treat unauthorized recipients of this report as its clients. Prices shown (if any) are indicative and ACBS is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. **Without limiting any of the foregoing and to the extent permitted by law, in no event shall ACBS, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this report or its contents.** Other than disclosures relating to ACBS, the information contained in this report has been obtained from sources that ACBS believes to be reliable, but ACBS does not represent or warrant that it is accurate or complete. The views in this report are subject to change, and ACBS has no obligation to update its opinions or the information in this report.

Some parts of this report reflect the assumptions, views and analytical methods of the analysts who prepared them, and ACBS is not responsible for any error of their works and assumptions. ACBS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report.

The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of ACBS. This report does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the investors who receive it. The securities discussed herein may not be suitable for all investors. ACBS recommends that investors independently evaluate each issuer, securities or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This report may not be distributed to the public media or used by the public media without prior written consent of ACBS. Otherwise it will be considered as illegal. The breacher shall compensate fully to ACBS any loss or damage which arises from such breach (if any).

In the event that the distribution and/or receipt of this report is prohibited by the investor's jurisdiction, the investor shall dismiss this report immediately otherwise it will be at his/her own risks.

ACBS does not provide tax advice and nothing contained herein should be construed to be tax advice. Accordingly, the investors should seek advice based on their particular circumstances from an independent tax advisor. This report may contain links to third-party websites. ACBS is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by ACBS. Access to any third-party website is at the investor's own risks, and the investor should always review the terms and privacy policies at third-party websites before submitting any personal information to them. ACBS is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

© Copyright ACBS (2019). All rights reserved. No part of this report may be reproduced in any manner without the prior written permission of ACBS.