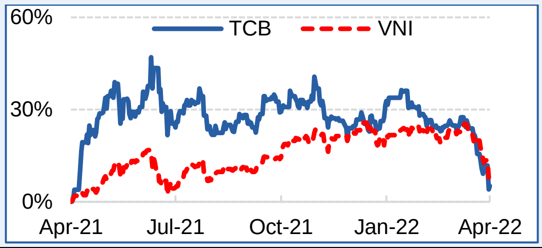
Techcombank (TCB)

Earnings Flash

Industry:	**Banking**
Report Date:	**April 26, 2022**
Current Price:	VND41,500
Target Price*:	VND71,000
Upside to TP:	71.1%
Dividend Yield:	0.0%
TSR:	71.1%
Rating*:	BUY

	2021	Q1 22	2022F
PPOP y/y	40.7%	10.0%	20.3%
NPAT y/y	46.2%	25.4%	24.5%
NIM	5.71%	5.92%	5.68%
NPLs/loans	0.66%	0.67%	0.74%
CIR	30.1%	30.7%	31.5%
P/E	8.1x	N.M.	6.5x
P/B	1.6x	1.5x	1.3x



Market Cap:	USD6.3bn
Foreign Room:	USD0
ADTV30D:	USD14.5mn
State Ownership:	0%
Outstanding Shares:	3.5 bn
Fully Diluted Shares:	3.5 bn

	TCB	Peers	VNI
P/E (ttm)	7.5x	9.4x	15.1x
P/B (curr)	1.5x	1.9x	2.3x
ROE (ttm)	22.0%	22.0%	15.7%
ROA (ttm)	3.6%	1.7%	2.6%

* TP and rating last updated February 14, 2022

Company overview

Incorporated in 1993, Techcombank is the fifth largest bank in our coverage universe as calculated by total assets; however, it ranked second in terms of absolute net income in 2021. TCB's mortgages/gross loans is among the highest levels in the sector. The bank listed shares on June 4, 2018.

Truc Ngo
Analyst
truc.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 116

Long Ngo
Associate Director
long.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 123

NIM, lower provisions make up for drag on bond portfolio

TCB released consolidated results for Q1 2022 with PPOP and NPAT-MI of VND7.0tn (USD305mn; +10.0% YoY) and VND5.5tn (USD239mn; +25.2% YoY), which achieved 22.5% and 24.4% of our FY2022 forecasts, respectively. The strong increase in the bottom line was driven by (1) 32.5% and 31.4% YoY respective increases in NII and NFI (including FX trading), and (2) a 74.3% YoY decrease in provision expenses, which were partly offset by losses in trading and investment securities and a 27.2% YoY decrease in net other income. We see no material change to our earnings forecast for TCB, pending a fuller review.

Strong Q1 2022 credit growth, led by growth in corporate bonds despite the promulgation of Circular 16. TCB reported Q1 2022 credit growth of 7.9% QoQ, which was derived from a 5.3% QoQ increase in loans to customers and 22.2% QoQ increase in corporate bonds. We currently expect that the promulgation of Circular 16 will ease the growth of corporate bonds in our coverage universe. However, we also saw an increase in corporate bonds at VPB in Q1 2022 (+50% QoQ from a low base). We await MBB's corporate bond growth results in Q1 2022 to have a broader view on this matter. At a glance, these results imply that bonds held by banks are from sectors not experiencing difficulty with qualifying under Circular 16, in our view.

NIM reached a new high on a quarterly basis in Q1 2022. TCB reported a 7-bp YoY increase in Q1 2022 NIM to 5.92%, which was mainly driven by a 9-bp YoY decrease in COF and 1-bp YoY increase in the IEA yield. We attribute the lower Q1 2022 COF relative to Q1 2021 to (1) a higher CASA ratio (50.4% QoQ in Q1 2022 and 44.2% in Q1 2021) and (2) 133.8% YoY increase in interbank funding sources — part of which we believe could have been driven by USD800mn of offshore syndicated loans that TCB raised in October 2021. TCB maintained a high CASA ratio of 50.4% (vs 50.5% in Q4 2021), which was impressive to us given the slight increase in deposit rates that we have observed at several private banks in our coverage universe. High NIM and relatively strong credit growth supported TCB to deliver NII growth of 32.5% YoY in Q1 2022.

Pure NFI grew 35.3% YoY, led by income from securities brokerage and bond underwriting. Q1 2022 NFI (including FX income) grew 31.4% YoY thanks to a 35.3% YoY increase in pure NFI, which was partly offset by a 48.1% YoY decrease in FX trading from VND66bn in Q1 2021 to VND34bn in Q1 2022. In terms of pure NFI, net fees from banking services (including trade services, cash management and numerous retail related items such as credit cards) increased 14.5% YoY (32% contribution to NFI). Net fees from banca decreased 12.6% YoY, (12% contribution to NFI). Income from the securities brokerage service delivered the highest YoY growth across pure NFI items, which we attribute to Techcom Securities' (TCBS) success in gaining trading market share on HOSE over the last four quarters (144% YoY — a 15% contribution to NFI).

Notably, net fees from underwriting securities experienced strong YoY growth (133% YoY — a 24% contribution to NFI).

Despite the strong NFI growth, other categories were a drag on NOII. Net gains from trading securities recorded a VND96bn loss in Q1 2022 vs a gain of VND134bn in Q1 2021, while net gains from investment securities recorded a VND219bn loss in Q1 2022 vs a gain of VND611bn in Q1 2021, which were driven by lower capital gains and higher provision for devaluation in bonds for both categories. Net other income decreased 27.2% YoY in Q1 2022, which was derived from decreased income from other derivatives as well as recovery from written-off bad debts. Overall, Q1 2022 TOI increased 13.2% YoY.

Q1 2022 provision expenses decreased 74.3% YoY despite a 29-bp YoY increase in the NPL ratio. According to TCB, the decrease in provision expenses was mainly thanks to the recovery of businesses as COVID-19 subsided. Q1 2022 restructured loans were VND1.6tn (equivalent to 0.4% of gross loans) vs VND1.9tn in Q4 2021.

Asset quality remained intact. The Q1 2022 NPL ratio was 0.67% (+1 bp QoQ and +29 bps YoY) vs our full-year forecast of 0.74%. Having said that, this NPL ratio level was relatively low compared to banks in our coverage universe that have reported results/preliminary results so far. Group 2 loans relative to gross loans decreased to 0.60% in Q1 2022 (-2 bps QoQ and -1 bps YoY). Q1 2022 accrued interest over IEAs was 1.27% (+16 bps QoQ and -5 bps YoY). Q1 2022 LLR was 161% (-2 ppts QoQ and -59 ppts YoY). TCB wrote off VND104bn in Q1 2022— equivalent to a write-off rate over gross loans of 0.03%.

Figure 1: TCB's consolidated Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY
NII	6,124	8,111	32.5%
Non-interest income	2,808	2,001	-28.8%
OPEX	(2,563)	(3,108)	21.3%
PPOP	6,369	7,004	10.0%
Provision expenses	(851)	(218)	-74.3%
NPAT-MI	4,397	5,505	25.2%
Loan growth**	6.8%	5.3%	-1.5 ppts
Deposit growth**	3.6%	4.5%	0.9 ppts
NIM	5.85%	5.92%	7.0 bps
Interest-earning asset yield	7.79%	7.80%	1.0 bps
Cost of funds	2.24%	2.15%	-9.0 bps
CASA ratio*	44.2%	50.4%	6.2 ppts
CASA ratio plus term deposits in FX	46.0%	51.6%	5.6 ppts
CIR	28.7%	30.7%	2.0 ppts
NPLs / Gross loans	0.38%	0.67%	29.0 bps
Group 2 loans / Gross loans	0.61%	0.60%	-1.0 bps
Accrued interest / IEAs	1.32%	1.27%	-5.0 bps

Source: TCB, VCSC — *CASA volume included demand deposits and margin deposits; **Q1 2021 and Q1 2022 loans and deposits is QoQ growth.

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

Disclaimer

Analyst Certification of Independence

We, Truc Ngo and Long Ngo, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

 This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.

VIET CAPITAL SECURITIES

Contacts

Corporate

www.vcsc.com.vn

Head Office
Bitexco Financial Tower, 15th Floor
2 Hai Trieu Street, District 1, HCMC
+84 28 3914 3588

Hanoi Branch
109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office Nguyen Hue
Vinatex Building, 1st & 3rd Floor
10 Nguyen Hue Street, District 1, HCMC
+84 28 3914 3588 (417)

Transaction Office Nguyen Cong Tru
Floor 6B, 236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588 (400)

Transaction Office Dong Da
9 Nguyen Ngoc Doan,
Dong Da District, Hanoi
+84 24 6262 6999

Transaction Office ABS
Sailing Tower, 8th Floor,
111A Pasteur Street, District 1, HCMC
+84 28 3914 3588 (403)

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Alastair Macdonald, Head of Research, ext 105
alastair.macdonald@vcsc.com.vn

Banks, Securities and Insurance
Long Ngo, Associate Director, ext 123
- Truc Ngo, Analyst, ext 116
- Ngoc Huynh, Analyst, ext 138
- Nhan Nguyen, Analyst, ext 139

Macro
Luong Hoang, Manager, ext 364
- Nguyen Truong, Senior Analyst, ext 132

Consumer
Nam Hoang, Manager, ext 124
- Ha Dao, Senior Analyst, ext 194
- Ha Huynh, Analyst, ext 185
- Huy Phan, Analyst, ext 173

Oil & Gas and Power
Duong Dinh, Senior Manager, ext 140
- Tram Ngo, Manager, ext 135
- Duc Le, Analyst, ext 196

Real Estate and Infrastructure
Hong Luu, Senior Manager, ext 120
- Dang Thai, Senior Analyst, ext 149
- Duc Pham, Analyst, ext 174

Materials and Industrials
Vy Nguyen, Manager, ext 147
- Vinh Bui, Analyst, ext 149

Retail Client Research
Duc Vu, Senior Manager, ext 363
- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

Brokerage and Institutional Sales & Trading

Tuan Nhan
Managing Director, Brokerage & Institutional Sales & Trading
+84 28 3914 3588, ext 107
tuan.nhan@vcsc.com.vn

Quynh Chau
Managing Director
Brokerage
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Dung Nguyen
Director
Institutional Sales & Trading
+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn