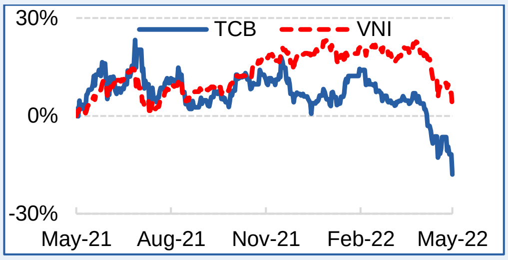
VIET CAPITAL SECURITIES

Techcombank (TCB) [BUY +92.3%] — Update Report

			2021A	2022F	2023F	2024F
Industry:	**Banking**					
Report Date:	**May 13, 2022**	PPOP y/y	40.7%	17.8%	16.8%	15.7%
Current Price:	VND36,300	NPAT y/y	46.4%	23.2%	15.3%	16.0%
Target Price:	VND69,800	EPS y/y	46.2%	23.3%	15.4%	16.1%
Last Target Price:	VND71,000	NIM	5.71%	5.75%	5.79%	5.73%
Upside to TP:	92.3%	NPL	0.66%	0.74%	0.84%	0.84%
Dividend Yield:	0.0%	CIR	30.1%	31.5%	33.0%	33.0%
TSR:	92.3%	P/B	1.4x	1.1x	0.9x	0.7x
		P/E	7.1x	5.7x	5.0x	4.3x



			TCB	Peers	VNI
Market Cap:	USD5.5bn				
Foreign Room:	USD0	P/E (ttm)	6.5x	8.3x	13.5x
ADTV30D:	USD16mn	P/B (curr)	1.3x	1.6x	2.1x
State Ownership:	0%	ROE	22.0%	21.6%	15.8%
Outstanding Shares:	3.511 bn	ROA	3.6%	1.7%	2.6%
Fully Diluted Shares:	3.511 bn				

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 in the sector. The bank listed shares in June 2018.

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Valuation still favors TCB as best long-term growth play

- We cut our target price for TCB by 1.7% to VND69,800/share but maintain our BUY rating.
- Our lower TP is mainly driven by a lower valuation produced by both the residual income and target P/B approaches that is derived from (1) a 6.4% aggregate decrease in our projection for 2022-2026F NPAT-MI and (2) downward revision in our target P/B for TCB from 2.1x to 1.95x, which are partly offset by the positive effect of rolling over our TP to mid-2023.
- We decrease our 2022F NPAT-MI by 1.0% to VND22.3tn (USD969mn; +23.4% YoY) vs our previous forecast as a result of (1) a 5.5% decrease in projected pure NFI that is derived from our assumed decreases in fees from card services, banca sales and brokerage services and (2) a 35.1% decrease in 2022F net gains from trading and investment securities, which are partly offset by a 14.8% YoY decrease in provision expenses.
- We cut our average 2022-2024F credit growth from 22.0% to 20.0% as we see a potential higher credit quota for the peer group participating in the rehabilitation of zero-dong banks. However, 20% credit growth p.a. remains high compared to expected system-wide credit growth at ~14%-15% p.a.
- Downside risks to our positive view: Lower-than-expected credit quota; failure to maintain CASA ratio; higher-than-expected NPLs arising from loans and corporate bonds.

TCB stands by its long-term strategy in the real estate segment and bond market. The current actions of the Government to increase scrutiny on the corporate bond market and real estate sector have increased investor concerns surrounding TCB as the bank is one of the largest players in these two segments. However, TCB has reaffirmed its view that it supports the Government's actions and has stated these actions actually benefit TCB over the long run. As Vietnam is still a frontier market with great growth opportunities, we believe the actions of the Government are necessary to protect investors and the future sustainable development of the economy. We see a slight short-term impact to TCB's credit growth outlook over the next three years — partially from a potential higher credit growth quota from its peer group participating in the rehabilitation of zero-dong banks. However, we maintain our view that TCB has a superior beta to Vietnam's economic growth.

Draft supplement to Decree 153 could impact TCB in the short term but should support long-term growth. The draft to supplement and amend Decree 153 could tighten regulations for bond raising activities at companies and regulations for individual investors to be qualified as a professional investor to purchase bonds. We believe the promulgation of the draft could produce downward pressure over the short term on the number of bonds issued but should support sustainable growth of the bond sector over the long run. We take a more conservative view in our forecast for TCB's fees from its underwriting business as we cut 2023-2024F growth of fees in this business but raise growth for 2025-2026F.

We view TCB's valuation as attractive at a 2022F P/B of 1.11x vs the peer median of 1.38x with 2022F ROE of 21.6% vs the peer median of 20.5%.

VIET CAPITAL SECURITIES

Q1 2022 Recap: Higher NIM counteracts weakness in NOII

Figure 1: TCB's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	% of 2022F Old	VCSC comments
Net interest income (NII)	6,124	8,111	32.5%	24.2%	* Q1 2022 NII increased 24.2% YoY to VND8.1tn thanks to (1) a 7-bp YoY expansion in NIM and (2) faster pace of Q1 2022 loan growth relative to deposit growth (5.3% and 4.5%, respectively). * Q1 2022 credit growth was 7.9% with corporate bonds growing 22.2%. In 2021, TCB's QoQ loan growth was among the top five highest in our coverage universe through all four quarters; however, TCB's Q1 2022 loan growth was among the lowest in our coverage banks. * Q1 2022 loan growth was driven by the retail and SME segments — QoQ growth from SME was the highest (+8% QoQ).
Net fee income (NFI) (includes FX)	1,391	1,827	31.4%	21.4%	* Q1 2022 pure NFI grew 35.3% YoY to VND1.8tn following (1) a 14.5% YoY increase in net fees from banking services, (2) 133% YoY increase in net fees from underwriting securities and (3) 144% YoY increase in income from the securities brokerage service. These were partly offset by a 12.6% YoY drop in income from the banca business. * TCB reported a gain from FX trading of VND34bn in Q1 2022 (-48.1% YoY).
Total Non-interest income (NOII)	2,808	2,001	-28.8%	16.7%	* Net gains from trading securities incurred a VND96bn loss in Q1 2022 vs a gain of VND134bn in Q1 2021, while net gains from investment securities incurred a VND219bn loss in Q1 2022 vs a gain of VND611bn in Q1 2021. TCB explained these results were derived from unrealized losses in its G-bond portfolio following a widening of credit spreads. These bonds are held to maintain the liquidity of the bank. The bank could reverse these unrealized losses in Q2 2022 following the promulgation of Circular 24/2022 that come into effect in May 2022. * 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.
TOI	8,932	10,112	13.2%	22.2%	
OPEX	(2,563)	(3,108)	21.3%	21.7%	
Pre-provision operating profits (PPOP)	6,369	7,004	10.0%	22.5%	
Provision expenses	(851)	(218)	-74.3%	9.4%	* The sharp decrease in Q1 2022 provision expenses was mainly thanks to the recovery of businesses as COVID-19 subsided, according to TCB.
NPAT-MI	4,397	5,505	25.2%	24.4%	
NIM*	5.85%	5.92%	7.0 bps		
Interest-earning asset (IEA) yields*	7.79%	7.80%	1.0 bps		
Cost of funds (COF)*	2.24%	2.15%	-9.0 bps		
CASA ratio**	44.2%	50.4%	6.2 ppts		* TCB maintained a high CASA ratio of 50.4% (vs 50.5% in Q4 2021), which was impressive given the slight rise in deposit rates that we have observed at several private banks in our coverage universe. The portion of CASA coming from retail customers remained above 60%.
CASA** with term deposits in foreign currencies	46.0%	51.6%	5.6 ppts		
CIR	28.7%	30.7%	2.0 ppts		
NPL ratio	0.38%	0.67%	29.0 bps		
Loan growth (3M)	6.8%	5.3%	-1.5 ppts		* TCB continued to focus on diversifying its corporate loan book in Q1 2022. Loans to ReCoM witnessed the lowest QoQ growth while higher growth was experienced in the FMCG, utilities, telco and financial services segments.
Deposit growth (3M)	3.6%	4.5%	0.9 ppts		

Source: TCB; VCSC. (*) NIM, IEA, COF are calculated with Q1 2020 / Q1 2021 - Q1 2021 / Q1 2022 average denominators; (**) CASA consists of demand, specific purposes and margin deposits.

2022 Outlook: Lower provision forecast offsets NOII cuts

Figure 2: VCSC's 2022 forecasts

	2021	2022F New	2022F Old	2022F New vs 2021	VCSC comments
Net interest income	26,699	33,766	33,504	26.5%	* We leave our forecast for 2022F NII relatively unchanged as we raise our NIM projection by 8 bps and cut our assumption for 2022F credit growth from 25.4% to 22.8% mainly due to our 3-ppt cut in our loan growth assumption. * As banks participating in the State Bank of Vietnam's (SBV) rescue of zero-dong banks (e.g., VCB and MBB) could receive a higher credit quota, we believe the credit quota at the remaining banks could be lower in order to control system-wide credit growth at a reasonable level.
Net fee income (including FX)	6,614	8,088	8,551	22.3%	* We cut 2022F pure NFI by 5.5% relative to our previous report mainly because of (1) an 11.5% decrease in fees from banca following weak Q1 2022 results as a result of intense competition in the banca segment — especially from CTG and VCB — (2) 14.3% decrease in fees from credit cards following lower-than-expected Q1 2022 results and (3) 5.7% decrease in securities brokerage services following our conservative assumption on market turnover. These are partly offset by an 8.7% increase in fees from the underwriting business. * We maintain our 2022F FX trading projection at VND162bn (-30 YoY).
Total NOII	10,378	10,781	11,978	3.9%	* We revise down our projection for 2022F NOII by 10.0%, which apart from the cut in pure NFI, was partly due to our 35.1% downward revision in gains from trading and investment securities.
TOI	37,076	44,547	45,481	20.1%	
OPEX	(11,173)	(14,032)	(14,327)	25.6%	* We maintain our assumption for 2022F CIR at 31.5%.
PPOP	25,903	30,515	31,155	17.8%	
Provision expenses	(2,665)	(1,986)	(2,332)	-25.5%	* We lower our forecast for 2022F provision expenses by 14.8% YoY following our 3-ppt cut in our loan growth assumption on the back of an unchanged assumption for NPL ratio as well as our expectation for a reversal from provision expenses booked for restructured loans to continue in future quarters. * We maintain our assumption for the write-off rate/gross loans at 0.3%.
NPAT-MI	18,052	22,281	22,517	23.4%	
NIM	5.71%	5.75%	5.68%	4.0 bps	* We raise our projection for 2022F NIM by 8 bps mainly because of a 17-bp increase in our forecast in IEA yield that outweighs an 11-bp increase in COF.
IEA yield	7.59%	7.74%	7.57%	15.0 bps	
Cost of funds	2.16%	2.30%	2.19%	14.0 bps	* We maintain our view that the deposit rate will increase in 2022 as the economy recovers; however, the magnitude will be less than or equal to 50 bps to support the economy. * However, we raise our projection for 2022F COF by 11 bps relative to our previous report mainly because of an upward revision to our assumption for the lending yield in interbank market and a downward revision in our CASA ratio assumption.
CASA ratio**	50.5%	51.0%	52.0%	53.0 bps	* While TCB succeeded in maintaining its CASA ratio above 50% in Q1 2022, we are cautious in our projection for 2022F CASA ratio and cut forecast by 1 ppt following the recent increase in deposit rates at several private banks.
CIR	30.1%	31.5%	31.5%	136.0 bps	
NPL ratio	0.66%	0.74%	0.74%	8.0 bps	
Gross loans	347,342	427,231	437,651	23.0%	* We believe SME and retail segments will be the key drivers for loan growth this year. TCB has not had a strong focus on SME in the past; however, with its aim to diversify its lending portfolio, we believe growth from the SME segment will be higher this year.
Customer deposits	314,753	380,851	387,146	21.0%	
Valuable papers	33,680	40,416	40,416	20.0%	
Total assets	568,729	684,331	690,946	20.3%	
Total equity	92,195	114,429	114,686	24.1%	
ROAA	3.6%	3.6%	3.6%	-2.0 bps	
ROAE	21.7%	21.6%	21.8%	-0.1 ppts	* We assume no dividend to be paid for 2021 in 2022.
Regulated LDR	75.4%	77.0%	78.0%	1.6 ppts	

Source: VCSC; units are in VND bn unless otherwise stated; *CASA volume includes demand and margin deposits.

We maintain our view that TCB is the best long-term play to capture future economic growth despite recent concerns surrounding the real estate sector and bond market. The current actions of the Government to increase scrutiny on the corporate bond market and real estate sector have increased investor concerns on TCB as the bank is one of the largest players in these two segments.

Regarding the real estate sector, both the chairman and the CEO shared at the recent AGM and analyst meeting that the message from the Government is very clear: bonds/loans raised to speculate on the real estate sector will be squeezed. Meanwhile, loans to those with real needs to buy houses to live in will be appraised via the usual process. The chairman emphasized that the real estate sector's outsized position in the economy — especially in a frontier-market country like Vietnam — is normal. In addition, he stated the development of the real estate sector is good for the economy because it creates jobs and value to citizens while also contributing tax. However, there are currently a number of projects hoarding land, which is a speculative activity and brings no value to society; as such, the recent actions of the Government are to target this activity.

Regarding the bond sector, the chairman shared that the Government is not aiming to limit the bond market (or capital market in general) but instead wants to clean the capital market and reduce prohibited activities, thereby making the capital market become more transparent and in turn support the healthy development of the capital market moving forward. TCB supports these actions of the Government and believes the recent signals of the Government actually open opportunities for Techcom Securities (TCBS) to offer high-quality bonds to investors, which should benefit both TCB and TCBS over the long term. TCB shared that its corporate bond book breakdown is somewhat similar to its corporate loan book (~70% from ReCoM). TCB reviews its issuers on a weekly basis, so it is confident that the corporate bond book has low probability of default. In conclusion, TCB believes in its long-term strategy for the real estate and bond segments. In our view, TCB is well positioned to capture growth of Vietnam in the long run with this strategy.

Additionally, concerns have arisen from the draft to supplement and amend Decree 153, which regulates the private placement and trading of privately placed corporate bonds in the domestic market and offering of corporate bonds in the international market. One important point from the draft is that it requires companies to specify the purpose of the bond issuance: the bond raised must be linked to a specific project, and companies can no longer raise capital to increase working capital as per Decree 153. This point is in line with Circular 16, which prohibits banks from buying bonds of companies with the purpose to increase working capital. However, the impact of the draft could be larger if it comes into effect because while the Circular 16 has limited the demand for bonds raised to increase working capital, the draft could limit the supply, in our view. The draft also has stricter rules for retail investors to be qualified as a professional investor (i.e., the Law on Securities regulates that (retail) professional investors are those who (1) hold securities professional certifications, (2) hold a quantity of listed or registered securities that is worth at least VND2bn as confirmed by the securities company and (3) taxable income in the latest year is at least VND1bn according to his/her submitted tax return or tax deduction documents of his/her income payer. The draft requires retail investors to maintain a list of listed and registered securities held (excluding securities from escrow accounts and securities for purchase and sale with a term) with a minimum value specified in the Law on Securities **for at least two consecutive years before making a transaction).**

The draft is still under review and has been adjusted five times. Some have commented that the draft is too strict and could limit the funding channels of good companies. We believe that the Government will make an appropriate adjustment to Decree 153 so that good companies can approach funding through the bonds channel.

However, we take a more conservative view in our forecast for TCB's fees from its underwriting business following the potential promulgation of the draft. We lower our projection for growth of fees from the underwriting business in 2023-2024F from positive growth of 15% to negative growth of 10%. Meanwhile, we raise our 2025-2026F growth from the underwriting business from 5%-10% to 10%-15%.

We also run a sensitivity analysis to see the impact of loss on the corporate bond market and loss on loans to ReCoM (as of Q1 2022, loans to ReCoM accounted for 34.4% of TCB's total loan book) on our target price. Our assumption for the lending rate (for these bonds and loans) is 10%. Note that this is a simple analysis. In reality, when we move down the axis, the collateral backing most loans at TCB would also be negatively impacted, but this is not simulated in the table below.

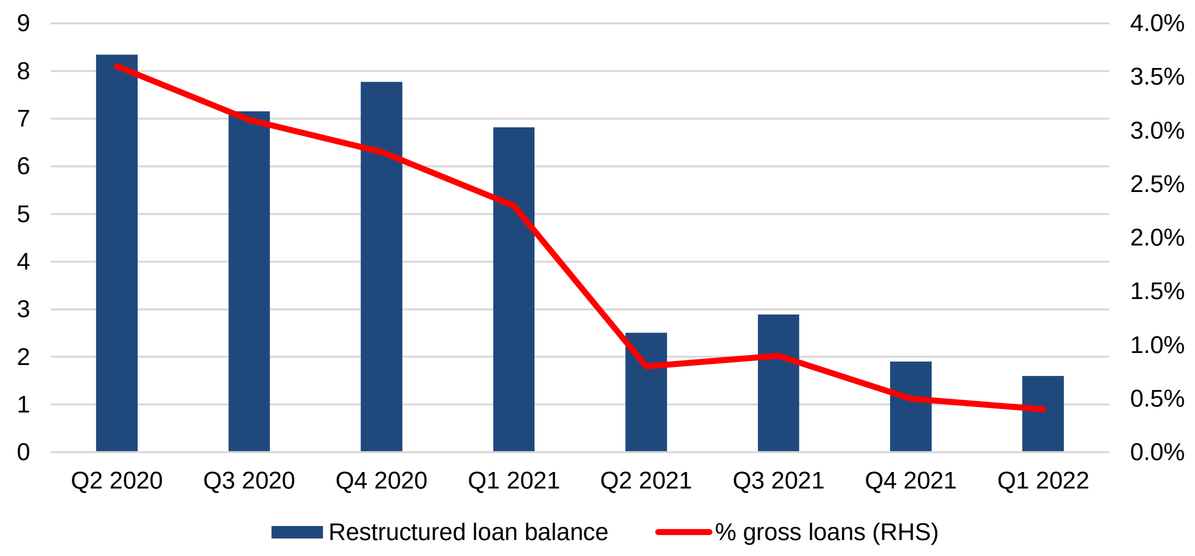
Figure 3: Sensitivity of loss from corporate bond and loss on ReCoM loans to target price assuming no recovery of written off debt (unit: VND)

% loss on ReCoM (x-axis) / % loss on corporate bond book (y-axis)	10.0%	20.0%	30.0%	40.0%	50.0%
5.0%	66,100	65,000	63,800	62,600	61,500
10.0%	64,400	63,200	62,000	60,900	59,700
15.0%	62,600	61,400	60,200	59,100	57,900
20.0%	60,800	59,600	58,400	57,300	56,100

Source: VCSC

Restructured loans decreased in Q1 2022. TCB's restructured loan balance decreased 15.8% QoQ to VND1.6tn in Q1 2022. On a relative basis to gross loans, restructured loans experienced a 10-bp QoQ decrease to 0.40% in Q1 2022 from 0.50% in Q4 2021. Q1 2022 restructured loans were the lowest since the first wave of COVID-19 on both an absolute and relative basis. We believe there should be no concern on restructured loans at TCB as the bank has already booked all additional provision expenses for restructured loans. Although Circular 14 does not allow for new restructuring after June 30, 2022, we see no pressure on the NPL ratio as the economy is recovering as the impact from COVID-19 has faded. We maintain our assumption for the 2022F NPL ratio at 0.74%.

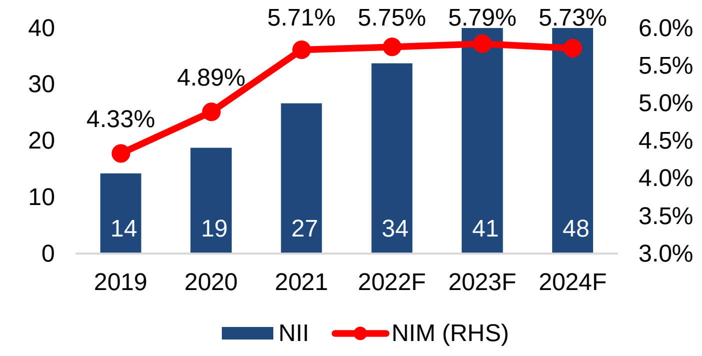
Figure 4: Restructured loan balance (VND tn) and restructured loans as a percentage of gross loans



Source: TCB, VCSC compilation

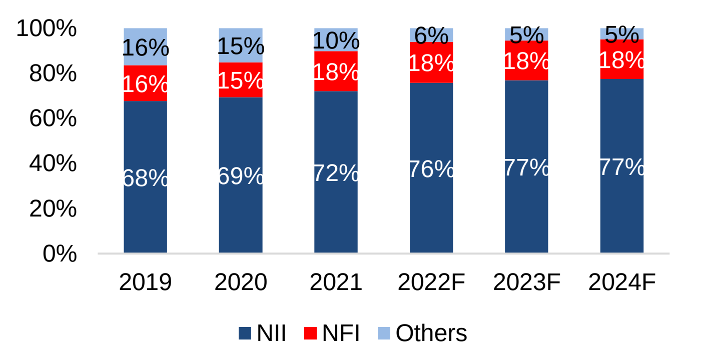
Key Figures of TCB

Figure 5: NIM (%) and NII (VND tn) (2019-2024F)



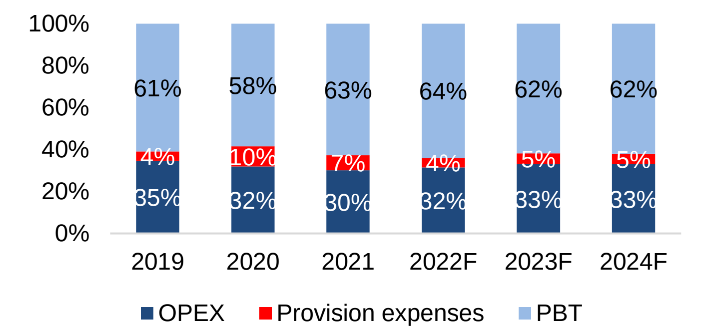
Source: TCB, VCSC

Figure 6: TOI components (2019-2024F)



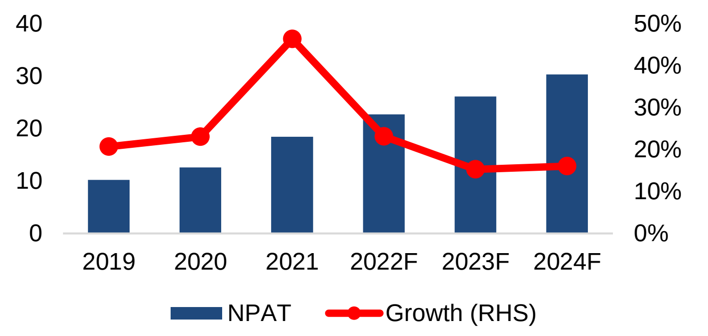
Source: TCB, VCSC

Figure 7: OPEX, provision expenses and PBT as % of TOI (2019-2024F)



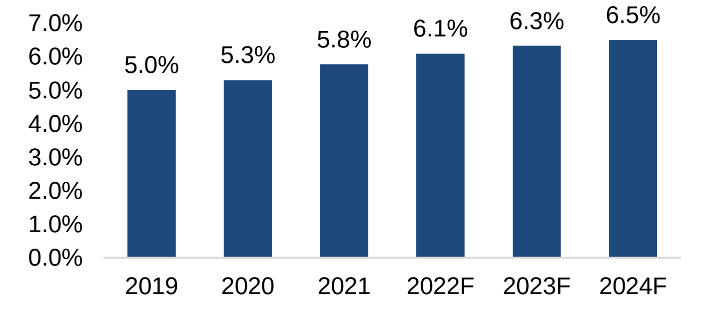
Source: TCB, VCSC

Figure 8: NPAT (VND tn) and growth (%) (2019-2024F)



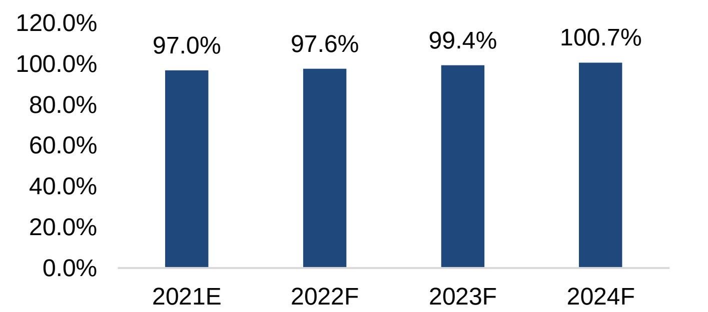
Source: TCB, VCSC

Figure 9: Lending market share in our coverage universe (2019-2024F)



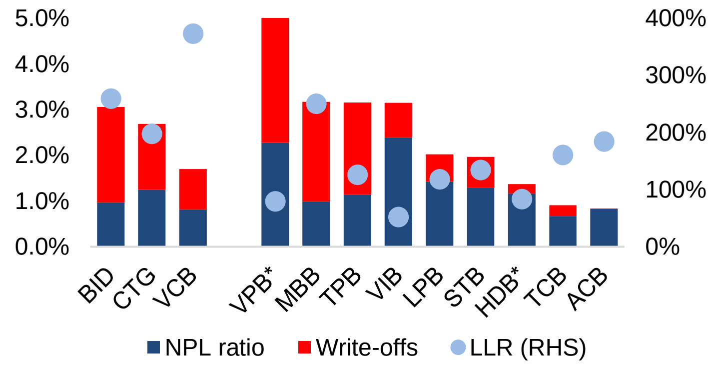
Source: Company data, VCSC

Figure 10: RWAs as % of total assets (2021-2024F)



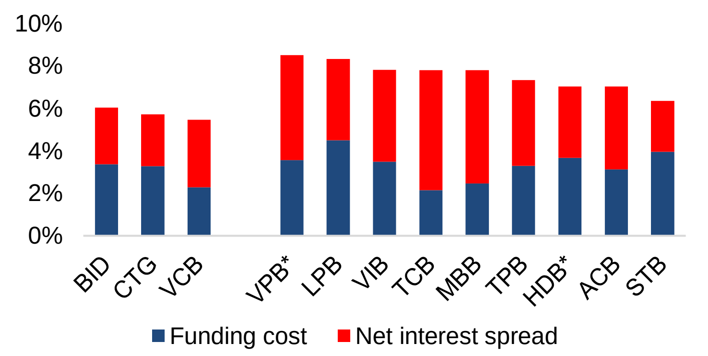
Source: TCB, VCSC

Figure 11: NPL ratio, annualized write-offs over gross loans and LLR of banks under coverage (Q1 2022)**



Source: Company data, VCSC; * standalone bank only; ** LLR is percentage of total provision balance over NPLs.

Figure 12: Annualized interest-earning asset yields of banks under coverage (Q1 2022)



Source: Company data, VCSC; * standalone bank only

Valuation

We utilize two valuation methodologies to reach our estimated target price for mid-2023, including (1) the residual income method with 50% weighting and target P/B method with 50% weighting.

In this Update Report, we cut our target price by 1.7% to VND69,800/share mainly due to a lower valuation produced by both the residual income and target P/B approaches that is derived from (1) a 6.4% aggregate decrease in our projection for 2022-2026F NPAT-MI and (2) a downward revision in our target P/B for TCB from 2.1x previously to 1.95x, which are partly offset by the positive effect of rolling over our TP to mid-2023. The decrease in our NPAT-MI forecasts is mainly driven by (1) a 3.0% aggregate decrease in NII as we are more cautious on TCB's credit growth given that the receivers of the zero-dong banks could receive higher-than-peer credit growth, (2) a 9.3% aggregate decrease in pure NFI partly because we lower our forecast for 2023-2026F fees from underwriting securities following our expectation for the promulgation of the draft to Decree 153, which could increase the transparency as well as quality of bonds issued but could decrease the size of bond issuance over the short term, in our view, and (3) a 43.1% aggregate decrease in trading and investment securities following the increase in bond yields.

Figure 13: Valuation summary

(VND bn)	Fair value	Weighting	Contribution
Residual income	241,707 (USD10.51bn)	50%	120,854
Target P/B @ 1.95x average 2022/23F	248,146 (USD10.79bn)	50%	124,073
Composite valuation			**244,926 (USD10.65bn)**
Number of shares outstanding (bn)			3.511
Target price (VND)			**69,800**
Current price (VND)			36,300
Upside			92.3%
Dividend yield			0%
TSR			92.3%
2022F P/B at TP			2.14x
RATING			**BUY**

Source: VCSC; units are in VND bn unless otherwise stated.

Residual income model

Figure 14: Residual income model

(VND bn)	2022F	2023F	2024F	2025F	2026F
ROE (Beginning period equity)	24.6%	22.8%	21.7%	19.7%	18.2%
COE	12.5%	12.5%	12.5%	12.5%	12.5%
Economic Margin	12.1%	10.3%	9.2%	7.2%	5.7%
Equity value (Beginning period)	92,195	114,429	140,080	169,863	202,750
Residual income (RI)	5,578	11,841	12,819	12,255	11,461
PV of residual income	5,259	9,923	9,550	8,115	6,746
Sum PV of RI					39,593
PV of terminal value (8% intermediate growth rate for 10 years and 3% perpetual growth)					98,802
Beginning EV (average book value 2021/22F)					103,312
Current equity value					**241,707**
Number of shares outstanding (bn)					3.511
Fair value per share (VND)					**68,844**

Source: VCSC; units are in VND bn unless otherwise stated.

Figure 15: Cost of equity

Cost of equity	
Risk free rate	5.5%
Beta	1.0
Market risk premium	7.0%
Cost of equity	**12.5%**

Source: VCSC

We maintain our assumption for an intermediate growth rate for 10 years after the explicit forecast at 8.0%, which equals our assumption for VCB. In addition, we maintain our assumption for a perpetual growth rate at 3.0%. Currently, there are several events that could have a short-term impact on TCB's growth outlook (as presented on page 4). However, we believe in the long-term strategy of TCB, and we view TCB's well-capitalized equity buffers to offer capabilities to capture growth opportunities over the long run. TCB has delivered consistent progress in lifting its CASA ratio from 24% as of YE2017 to 50.4% as of Q1 2022 — the highest level in Vietnam's banking industry — together with the increased use of international syndicated loans to optimize its funding cost. We believe TCB's ROA will remain at the highest level in the industry for the foreseeable future.

Target P/B

TCB is trading at a slight discount of 13.0% relative to the peer median 2022F P/B of 1.38x (**Figure 16**). Our observation suggests that TCB has traded at a discount of 2.2% to the peer median trailing P/B over the past 12 months. TCB's valuation gap with peers has widened since the beginning of the year, which we believe is partly because of concerns surrounding the risks from corporate bonds and rumors regarding the potential tightening of the real estate sector. However, we believe TCB should trade at a premium relative to the peer group for the following reasons:

- TCB's CASA level is now at the top of the industry and is driven largely by the retail segment. However, the bank still targets for an increase in its CASA ratio to 55% by 2025, which could help the bank to continue outperform its peers on the liabilities side and thereby improve its ROE.
- Syndicated loans of USD500mn and USD800mn raised by TCB in 2020 and 2021, respectively, will also help the bank to deliver competitive COF in the sector, thereby supporting increased exposure to wholesale banking.
- TCB has consistently delivered strong performances since 2013 with a net income CAGR in 2013-2020 of 52%. TCB has a strong relationship with Vingroup and a strategic partnership with Masan — the latter of which has a 15% stake in TCB. As a result, the bank has advantages to leverage the customer bases of these two companies.
- TCB is operating under a well-capitalized condition with low financial leverage of 6.1x as of Q4 2021 vs the median level at ~12x. Even so, TCB's TTM ROE was 22.0% against a domestic peer median at 22.0% as of Q1 2022. We believe TCB's business could provide ~20% ROE over the next five years.
- TCB has a strong position in the corporate bond business as well as the local stock market, which is supported by its securities company TCBS. TCBS has a leading market share in terms of corporate bond brokerage on HOSE (38.87% as of 2021) and ranks in sixth place for market share in terms of stock brokerage on HOSE (4.57% as of 2021). We believe there could be a slowdown in the corporate bonds issued in the next two years; however, in the long run, we believe corporate bonds will remain to be an important capital raising channel for companies in Vietnam.

We set our target P/B for TCB at 1.95x vs the peer median target P/B at ~1.7x. We remain comfortable to set a higher target P/B relative to peers as we believe that the current actions of the Government will support long-term sustainable growth of both the real estate sector and bond market, which is beneficial to TCB in the long run given its synergies; moreover, any negative impacts will remain short-term impacts only.

Figure 16: Bloomberg consensus forecasts for Vietnamese banks

Bloomberg Ticker	Market Cap. (USD bn)	P/E 2021	P/E 2022F	P/E 2023F	P/B 2021	P/B 2022F	P/B 2023F	ROE 2021	ROE 2022F	ROE 2023F	ROA TTM	Equity Multi-plier 2021	NPL ratio 2021
ACB VN	3.60	7.9	6.4	5.5	1.72	1.44	1.16	24.2%	24.6%	23.2%	2.1%	11.75	0.77%
BID VN	7.59	15.2	13.0	9.4	2.01	1.83	1.47	13.8%	17.2%	20.2%	0.7%	20.41	1.00%
CTG VN	5.27	9.8	6.1	5.1	1.24	1.09	0.95	13.0%	20.1%	20.9%	0.8%	16.35	1.26%
MBB VN	4.31	7.2	6.4	5.2	1.55	1.31	1.07	23.7%	24.1%	23.4%	2.4%	9.72	0.90%
VCB VN	16.06	16.0	14.2	11.3	3.15	2.73	2.11	21.1%	20.9%	21.7%	1.7%	12.96	0.64%
VPB VN	6.16	8.2	9.1	7.6	1.62	1.46	1.22	24.0%	16.7%	17.1%	3.4%	6.34	4.57%
STB VN	1.95	11.3	10.3	6.1	1.26	1.16	0.99	11.9%	13.9%	17.8%	0.7%	15.21	1.50%
HDB VN	2.02	7.1	6.4	5.3	1.48	1.25	1.01	23.1%	22.4%	21.9%	1.8%	12.17	1.65%
TPB VN	2.18	9.6	7.4	6.0	1.83	1.55	1.26	22.0%	23.0%	22.6%	1.9%	11.27	0.82%
VIB VN	2.64	9.1	7.8	5.9	2.33	1.96	1.46	29.5%	28.1%	27.4%	2.3%	12.74	2.32%
LPB VN	1.39	6.6	5.2	4.8	1.16	0.98	0.81	18.5%	18.1%	19.6%	1.1%	17.21	1.37%
Median	**3.12**	**8.6**	**6.9**	**5.7**	**1.59**	**1.38**	**1.11**	**21.6%**	**20.5%**	**21.3%**	**1.7%**	**12.45**	**1.13%**
TCB VN	**5.90**	**7.1**	**6.3**	**5.2**	**1.39**	**1.20**	**0.97**	**21.7%**	**21.0%**	**20.6%**	**3.6%**	**6.11**	**0.66%**

Source: Bloomberg as of May 9, 2022, VCSC

Figure 17: Sensitivity analysis of 2022F P/B for TCB derived from ROE and terminal growth rate using the Gordon Growth Model, ceteris paribus.

		Average ROE during 2016-2026F				
		15.9%	17.9%	19.9%	21.9%	23.9%
Terminal growth (g)	**1.5%**	1.31	1.50	1.68	1.86	2.04
	2.0%	1.33	1.52	1.71	1.90	2.09
	2.5%	1.34	1.54	1.74	1.94	2.14
	3.0%	1.36	1.57	1.78	1.99	2.20
	3.5%	1.38	1.61	1.83	2.05	2.27
	4.0%	1.41	1.64	1.88	2.11	2.35

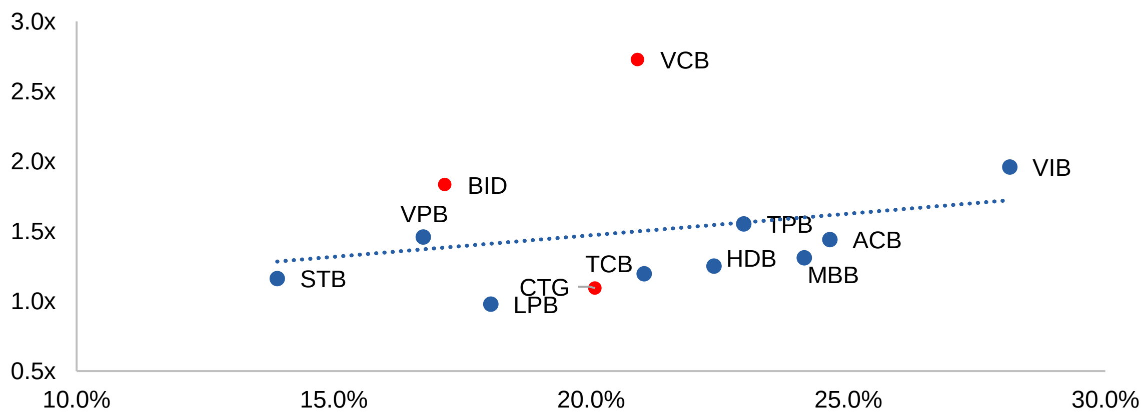
Source: VCSC

The above sensitivity matrix illustrates a fair value P/B multiple for TCB at 1.78x using the Gordon Growth Model (GGM) with our average ROE in 2016-2026F at 19.9%, cost of equity at 12.5% (**Figure 17**) and terminal growth assumption of 3%.

The P/B multiple derived from the GGM is 9% lower than our 2022F target P/B multiple of 1.95x because our projected ROEs reflect the negative impact of low leverage. Despite a large retained earnings base, TCB is currently not enthusiastic about paying a cash dividend.

Potential downside risks to our positive view: TCB may fail to meet our earnings and profitability forecasts either due to its failure to execute on its business model and/or failure to receive credit quota as high as our expectation and/or risks arising from their corporate bonds.

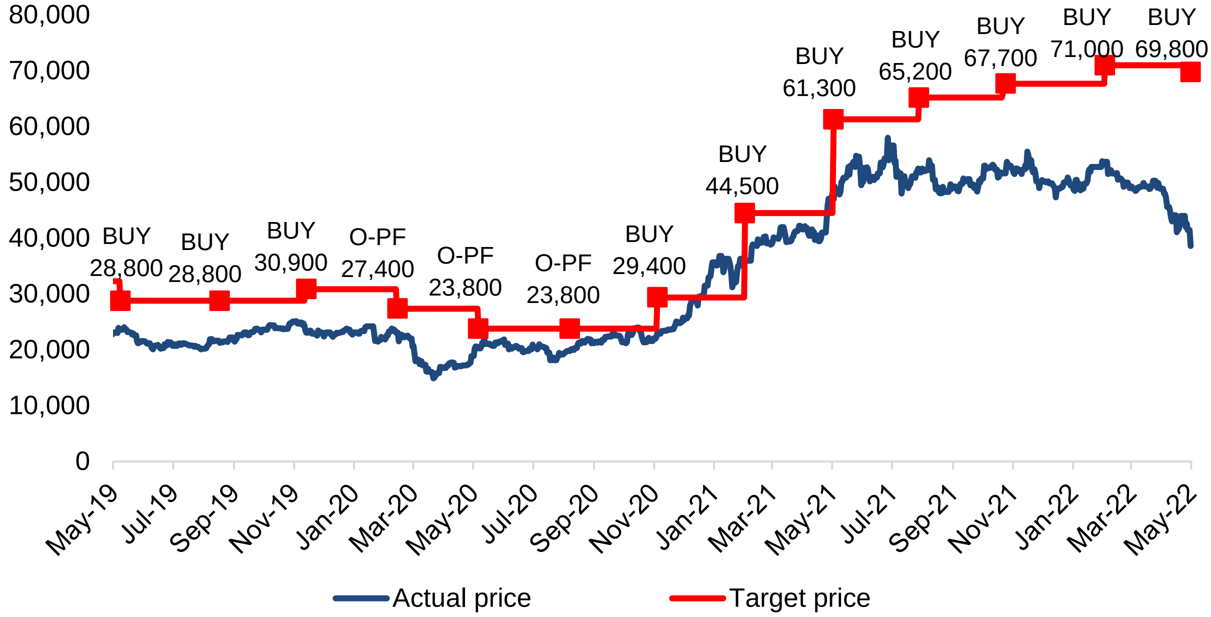
Figure 18: Vietnam banks P/B (y-axis) and ROE (x-axis) (2022F)



Source: Bloomberg, VCSC — red dots signify SOCBs; priced on May 10, 2022.

History of Recommendations

Figure 19: Historical VCSC target price vs share price (VND/share)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F
Interest inc.	35,503	45,433	55,682	66,650
Interest exp.	(8,805)	(11,667)	(14,773)	(18,946)
Net interest inc.	**26,699**	**33,766**	**40,909**	**47,704**
Fee & commission inc.	6,382	7,926	9,224	10,593
Other non-interest inc.	3,995	2,855	3,076	3,288
Total non-interest inc.	10,378	10,781	12,300	13,881
Total operating inc.	**37,076**	**44,547**	**53,210**	**61,586**
Non-interest exp.	(11,173)	(14,032)	(17,559)	(20,323)
Other G&A exp.	0	0	0	0
Total operating exp.	(11,173)	(14,032)	(17,559)	(20,323)
PPOP	**25,903**	**30,515**	**35,650**	**41,263**
Provision exp.	(2,665)	(1,986)	(2,764)	(3,113)
Other inc./exp.	0	0	0	0
Pre-tax profit	**23,238**	**28,529**	**32,886**	**38,150**
Taxes	(4,823)	(5,848)	(6,742)	(7,821)
Net profit	**18,415**	**22,680**	**26,144**	**30,329**
Minorities/pref divs	(363)	(399)	(439)	(483)
Attributable net profit	**18,052**	**22,281**	**25,705**	**29,846**
Adj shares, wt avg (mn)	3,507	3,511	3,511	3,511
EPS (VND)	5,148	6,346	7,321	8,501
DPS (VND)	0	0	0	0

BS (VND bn)	2021	2022F	2023F	2024F
Cash & equivalents	3,579	4,280	5,049	5,914
Balances with SBV	4,909	5,779	6,930	8,255
Due from FIs	70,515	98,124	111,575	141,627
ST investments	102,457	118,107	133,037	146,063
Net customer loans	343,606	422,991	507,361	598,747
HTM	200	(506)	(506)	(506)
Long term investments	13	13	14	14
Property & equipment	8,313	9,909	11,441	12,689
Other assets	35,138	25,634	28,197	30,248
Total assets	**568,729**	**684,331**	**803,097**	**943,051**
Borrowings from SBV	1	1	1	1
IB deposits & borrowings	112,459	133,732	147,106	161,816
Other borrowed funds	0	0	0	0
Customer deposits	314,753	380,851	453,212	534,790
Other financial int.	0	0	0	0
Valuable papers	33,680	40,416	48,499	63,049
Other liabilities	14,796	14,056	13,353	12,685
Shareholders' equity	92,195	114,429	140,079	169,862
MI	847	847	847	847
Liabilities & equity	**568,729**	**684,331**	**803,097**	**943,051**

RATIOS (%)	2021	2022F	2023F	2024F
Growth				
Loan growth	25.2	23.0	20.0	18.0
Deposit growth	13.4	21.0	19.0	18.0
TOI growth	37.1	20.1	19.4	15.7
PPOP growth	40.7	17.8	16.8	15.7
NPAT growth	46.4	23.2	15.3	16.0
Asset quality				
Group 2 / loans	0.62	0.70	0.80	0.70
NPL ratio	0.66	0.74	0.84	0.84
LLR / NPLs	162.9	133.6	123.0	121.8
Provision exp. / loans	0.77	0.46	0.54	0.51
Liquidity				
CAR under BASEL II	15.0	15.3	15.6	15.9
Regulated LDR	75.4	77.0	79.0	79.6

RATIOS (%)	2021	2022F	2023F	2024F
Profitability				
NIM	5.71	5.75	5.79	5.73
Int-earning asset yields	7.59	7.74	7.88	8.01
Funding costs	2.16	2.30	2.45	2.69
CIR	30.1	31.5	33.0	33.0
ROE decomposition (as % avg total assets)				
NII	5.30	5.39	5.50	5.46
Provisions	-0.53	-0.32	-0.37	-0.36
Post-provision NII	4.77	5.07	5.13	5.11
Non-Interest inc.	2.06	1.72	1.65	1.59
Operating exp.	-2.22	-2.24	-2.36	-2.33
Taxes & MI	-1.03	-1.00	-0.97	-0.95
ROAA	3.58	3.56	3.46	3.42
Equity Mult. (x)	6.1	6.1	5.8	5.6
ROAE	21.7	21.6	20.2	19.3

Source: Company data, VCSC

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
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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.

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