VIETNAM TECHNOLOGICAL & COMMERCIAL JSB (HSX: TCB)

Accelerating growth on solid foundations

- **Competitive advantage from the funding base is a solid foundation for stable and high efficiency due to cost excellence**
- **The growth strategy for the period of 2021-2025 relies on a substantial capital base, diversified income sources and a supportive policy environment**
- **The distinctive ecosystem helps TCB deliver great value-added products and read up on customers given its leading technology and a vast amount of data**

Recommendations and Valuations

We rate TCB as a leading retail bank focusing on providing convenient, advanced and quick financial solutions and services to Affluent and Mass Affluent customers. TCB has comparative advantages in mortgages, retail deposits, payments, card and investment banking services. With a solid capital buffer and competitive lending rates based on low funding costs, TCB has high credit growth potential. Combined with the ability to stabilize an efficient NIM and sustain good efficiency, these are robust foundations for the 2021-2025 growth strategy. The balance sheet is expected to grow at a CAGR of 23% over the same period, aided by the economic recovery and supportive policies. In the worse case scenario which could affect the industry through a bad debt cycle, we still appreciate TCB's good provision buffer, its moderate risk exposure compared to peers, and headroom for absorbing surging credit costs.

In the short term, diversified income sources and high-end customer segments are the growth engines. TCB is currently trading at a 2021 forward P/B of 1.9x, 13% lower than the industry. Its 2021 forward ROE is 12% higher than average (before welfare and bonus fund).

*We estimate TCB's fair value at **VND 71,000 per share**, equivalent to a 2021 forward P/B of 2.7x and a 1-year forward P/B of 2.4x with expectation of stable and low interest rates. This implies an expected return of **40%** compared to the closing price as of October 08, 2021. Therefore, we have a **BUY** recommendation.*

Key financial metrics

Y/E Dec (VND bn)	FY2019	FY2020	FY2021E	FY2022F
Net interest income	14,258	18,751	26,062	32,905
Growth (%)	*25.2*	*31.5*	*39.0*	*26.3*
Total operating income	21,068	27,042	36,662	45,825
Growth (%)	*14.8*	*28.4*	*35.6*	*25.0*
Profit before tax	10,075	12,325	18,056	23,119
Growth (%)	*19.1*	*22.3*	*46.5*	*28.0*
ROA (%)	2.9	3.0	3.7	3.8
ROE (%)	17.7	18.0	21.7	22.3
Total assets growth (%)	19.5	14.6	24.8	23.6
BVPS (VND)	17,710	21,289	26,302	32,898
P/E (x)	8.2	6.8	9.9	7.7
P/B (x)	2.8	2.3	1.9	1.5

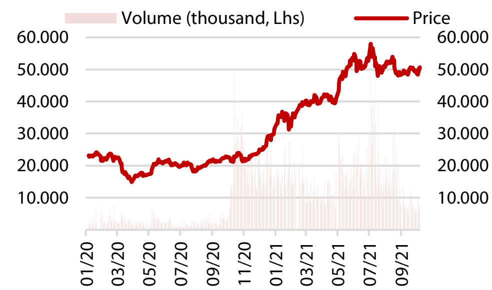
Source: TCB, RongViet Securities. Data as of October 08, 2021.

BUY	+40%
Target price (VND)	71,000
Market price (VND)	50,700
Cash dividend (VND)*	-
*within next 12 months	

Stock Info

Sector	Banks
Market Cap (VND bn)	178,003.4
Current Shares O/S (mn)	3,510.9
Beta	1.52
Free float (%)	65
52 weeks High (VND)	58,000
52 weeks Low (VND)	21,200
Avg. Daily Volume (in 20 sessions)	7,138,475

Price performance



Performance (%)

	3M	1Y	3Y
TCB	-10%	137%	73%
Banking	-12%	57%	78%
VN-Index	-0%	49%	38%

Major Shareholders (%)

Ho Hung Anh and related parties	17.0%
Masan Group	15.2%
Others	67.8%
Foreign ownership room left (%)	*0%*

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One of the key factors that allows businesses to achieve significant retained earnings over the long term is holding a sustainable competitive advantage. Regarding the banking industry, we don't consider this as a simple sector to establish an "economic moat". The core operation of banks depends on funding mobilization and risk management; hence, competitive advantages are built based on two pillars: cost management and switching costs. In particular, a bank's advantage of cost excellence includes operating, funding, and credit costs.

At the same time, capital and liquidity bases are critical buffers for growth momentum. The balance sheet scaling strategy will need to align these two drivers, combined with commensurate performance.

The balance sheet structure, including the asset portfolio and funding structure, is also an important factor in achieving and maintaining operational efficiency through managing and optimizing metrics related to liquidity risk, credit risk and interest rate risks.

Our approach on TCB and other banks is based on the above. However, the balance sheet structure is analyzed in the Business Analysis section, while the Investment Summary section will focus on strategy and competitive advantages.

Investment rationales

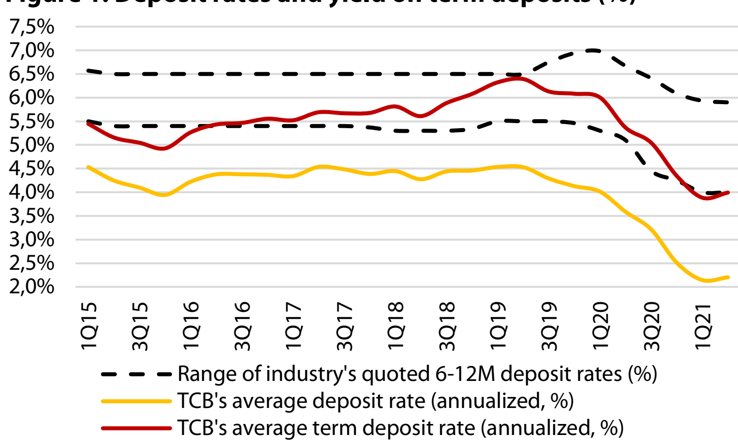
Sustainable competitive advantage owing to the powerful ecosystem, effective deposit strategy and leading position in technology race

Low-cost and sticky funding base

The strategy focusing on building a low-cost and stable funding base right after the restructuring period of the banking industry has brought significant advantages to TCB. Based on that, TCB is able to approach quality customers and maintain a large NIM without having to participate in high-risk lending. This directly helps it to price lending products at competitive rates to suit its risk appetite, resulting in the capability to manage risks efficiently. Besides, a sticky deposit franchise provides the foundation for cross-selling products and services, thereby boosting non-interest income.

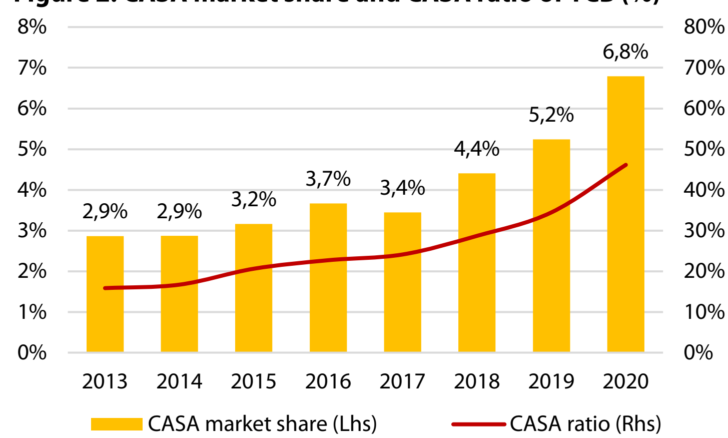
Specifically, the wide and distinctive ecosystem and pioneering technology are expected to reinforce the ability to provide differentiated, convenient, advanced and cost-effective products, thereby, creating high switching costs. This results in a stable and scalable deposit and customer base. Benefiting from low-cost and stable deposits, the funding base will facilitate NIM stabilization. In addition, competitive lending is also a driver to loan growth for the 2021-2025 period. Overall, due to the lowest cost of funds among the sector and headroom in NIM improvement via CASA ratio, TCB is able to simultaneously sustain efficient NIM in order to fund high growth and establish competitive pricing with peers without compromising risk appetite and accordingly, control credit costs.

Figure 1: Deposit rates and yield on term deposits (%)



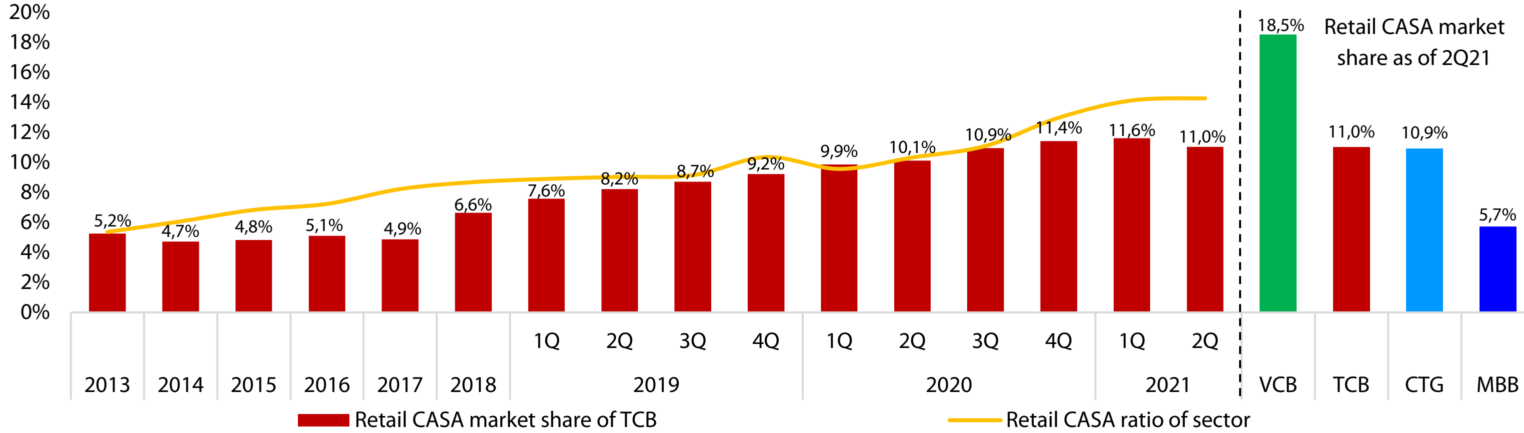
Source: TCB, SBV, Fiinpro, RongViet Securities

Figure 2: CASA market share and CASA ratio of TCB (%)



Source: Banks' FS, SBV, Fiinpro, RongViet Securities

Figure 3: Sector's retail CASA ratio and retail CASA market share of TCB and four leading banks (%)



Source: Bank's FS, SBV, Fiinpro, RongViet Securities

While other large banks have the advantage of state-owned corporate ecosystem and partnership that attract CASA and short-term deposits from large enterprises, TCB focuses on building a retail-centric funding base. Promotion campaigns including free transfer and payment fees combining with a customer-centric strategy have helped TCB increase its demand deposit market share and CASA ratio in the 2016-2020 period. In addition, the average maturity of term deposits has gradually shifted towards the short-end, contributing to the decrease of average deposit rates and improved competitiveness. We appreciate the retail non-maturing deposits due to better stickiness, stability, and scalability in comparison to the corporate ones which was trending down across the industry in terms of ratio.

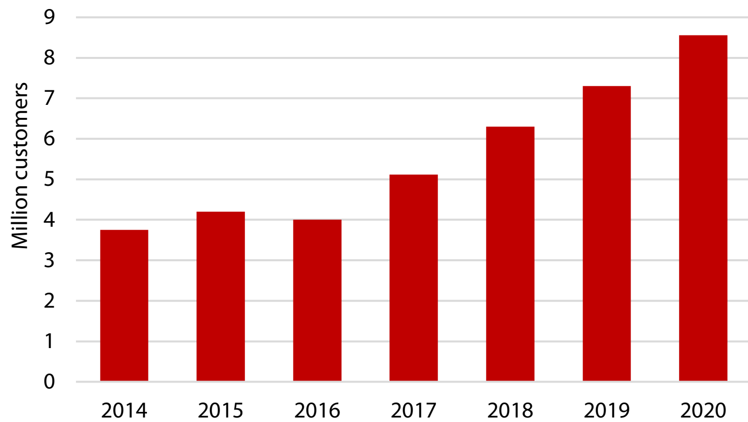
Although the development of the pandemic has changed customer behavior which supports the upward trend of retail CASA as well as short-term deposits on a sector-wide basis, TCB's advantage of pioneering is still valuable. We think that in order to have a sustainable demand deposit base with an appropriate growth rate in line with the bank's overall strategy, it will cost the other banks time as well as requiring institutional changes, efficient funding strategy and consistent delivery of quality products and services. This target requires initiatives further than the current fee competition. In fact, TCB is fully aware of the short-term characteristics and duplicable nature of the results brought by the "Zero Fee" program. ***We share this view and highly appreciate TCB in establishing a strategy to stabilize CASA and short-term deposits in the scenarios of interest rates normalization and in consistent with the 2021-2025 period balance sheet growth rate considering the fierce competition and high CASA ratio level.***

A distinctive real estate - retailing - financial services ecosystem to build loyal customer base

The advantage of deposit franchise partially comes from the ecosystem. TCB's partners are conglomerates in various industries, including residential real estate development and distribution, commercial real estate, automotive manufacturing and assembly, FMCG, Mining, Aviation, etc. Several major firms are Vingroup, Masan Group, Vietnam Airlines Corporation, Eurowindow Holding, Sun Group, and Masterise Group. While these partners do play quite important role in expanding the credit portfolio, we rather focus on the added value to the deposit side and services income. We assess that the real estate and retail value chains owned by TCB's partners will help improve and maintain the competitive advantage of deposit franchise and promote fees income. This is in line with the strategy to extensively penetrate and vertically expand the network in each of these areas of the bank.

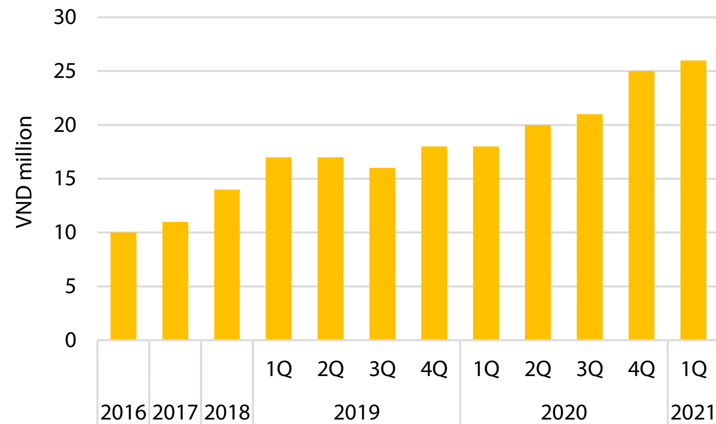
TCB is able to approach and meet the diverse needs of customers, especially the retail segment, due to utilization of various advantages from the ecosystem. We expect that this will exert an impact back on the deposit base, which requires stickiness and customer relationship rather than competitive interest rate pricing such as lending business. Based on the customer base growth strategy which extends selectively to lower segments and the focus on maintaining the edges in the high-end classes, along with its stewardship, we evaluate that TCB will make the most of their competitive advantages from the ecosystem and high-end brand position in order to build a loyal customer base from various segments.

Figure 4: Customer base



Source: TCB, RongViet Securities

Figure 5: CASA balance per active retail customer



Source: TCB, RongViet Securities

Well-invested digitalization and database are foundations to sustain competitive product quality

Technology is one of the key drivers for TCB to compete, develop products and thereby, sustain brand awareness and positioning. However, the technology race and digital transformation are established on multiple elements including commitment, strategy and resources. We think that a comprehensive digital transformation needs large infrastructure and staff expenditures and TCB has enough resources, especially financials, to implement the strategy and make recurring investment to sustain the edges.

In the "Plan for digital transformation of banking sector by 2025 with orientations towards 2030" that the SBV encourages credit institutions to boost the digital transformation process and in-depth integration of various digital payment solution, the demand for collaboration between technology companies, payment solution and e-wallet providers and banks will further increase. Theoretically, throughout the integration process with a third party, the challenging issues lies in processing and storage capacity and security architecture of both bank and its partner rather than in the integration capability or compatibility factors. When the number of users and processing volume are small, banks will have the capacity to grow their coverage via partnerships while assuring data security. However, when the firm size and customer base scale up which are often accompanied by higher demand for digital transactions, operational risks, counterparty risks and security risks also follow such as system crash in case of transaction volume exceeds the threshold, consumer data privacy, ...

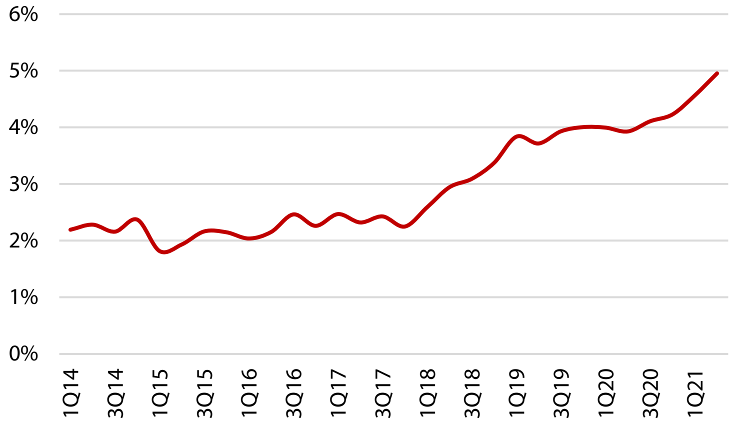
Based on our evaluation of TCB's plan to invest in technology infrastructure and IT staff base expansion, prioritize cloud migration including the core banking system and core applications and improve transaction capacity, TCB and its subsidiary TCBS are expected to soon achieve the goal of digitalization, cooperate and integrate with selective partners to maintain service quality and the sustainability of the ecosystem while reassuring data security. We expect TCB to continuously deliver its competitive, high-quality products and services with guaranteed privacy. Moreover, its major investment in the cloud-based core banking in order to adopt novel technologies will pressure other banks. Some of TCB's advantages during the technology race are high efficiency and large retained earnings to fund investment.

High operating efficiency on thick capital base and good liquidity buffer lays solid foundations of stable growth

Risk-return balance optimization due to low costs of funds

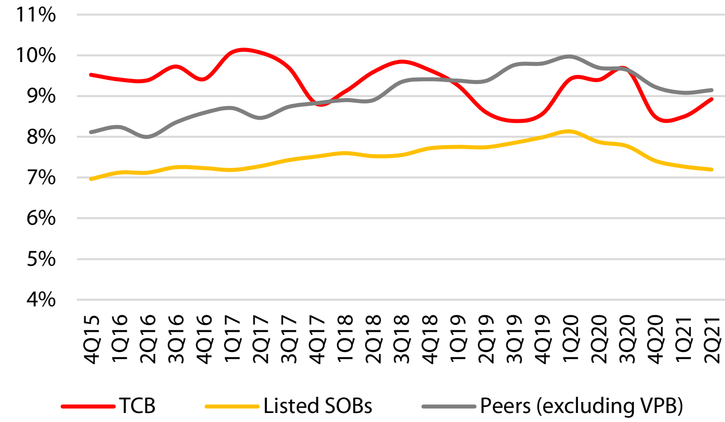
The prerequisite for TCB to have steady operating efficiency is the risk-adjusted NIM minus allocated operating expenses (OPEX). Due to low and stable funding costs, TCB offers competitive interest rate over a long period and is still able to maintain the desirable NIM at the same time. As a result, ***TCB can access large customer base with high creditworthiness and robust demand, thereby managing risk costs well.***

Figure 6: Risk-adjusted NIM (%, TTM)



Source: TCB, RongViet Securities

Figure 7: Average lending rate (%, TTM)



Source: TCB, RongViet Securities. Peers are MBB, ACB.

Given sustainable NIM with attractive lending rates and proper balance sheet expansion pace, TCB manages to control credit costs by adjusting risk tolerance to the market condition. High-profile customer segments also help mitigate the pandemic impact. Risk-adjusted NIM improved strongly from 2.3% in 2016 to 3.5% in 2018 before reaching 4.2% in 2020. Coupled with the stably low CIR because of resilient growth of total operating income, there is significant headroom to stabilize risk-adjusted NIM deducting OPEX, in our opinion. These are the fundamentals to achieve the highest operating efficiency (ROA) among the industry, thereby maintaining growth quality and capital buffer during the fast-growing period. The return on risk-weighted assets enhanced and was the highest among the industry, which indicating the bank's ability to optimize risk-return balance.

Growth strategy on the principle of strong capital buffer and good liquidity management

Current resources and foundations are sufficient to fund the expansion strategy of 2021-2025 period with a 23-25% CAGR. We expect efficiency metrics (ROA and ROE) to improve without degrading CAR by shifting the loan portfolio structure in terms of customer segment, leveraging the ecosystem to grow the book towards target industries and expanding the deposit base with a feasible CASA target.

Regarding liquidity position, TCB makes use of maturity transformation to leverage NIM based on the advantages in short-term mobilization and mortgage lending. Managing liquidity ratios at the limits throughout the period of low interest rates on high quality liquid assets helps optimize the balance sheet structure. Thereby, based on our analysis, it is not considered as an indicator of liquidity risk in the short-term. In the longer term, TCB targets to focus lending to industries such as manufacturing, FMCG, etc. Those loans usually have shorter duration, thereby, alleviating pressure on liquidity ratios such as short-term capital for medium and long-term loans. NIM still could be stabilized via other liquidity metrics.

The arguments for expecting a higher pace of balance sheet expansion compared to historical average in the coming years are sector's credit growth following by the economy recovery, TCB's top-tier CAR and well-controlled liquidity ratios. We forecast that the current CAR level will be assisted by retail loan shifting while liquidity ratios will be managed near the limits.

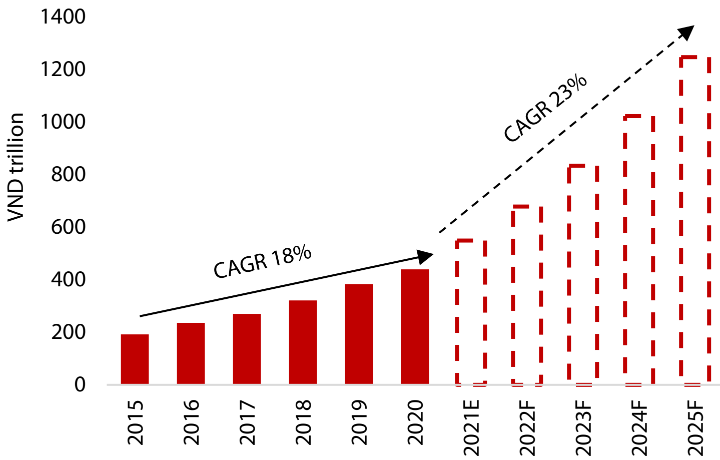
Accelerating growth on feasible funding strategy and favorable background

In the post-IPO period, the conservative growth strategy led to the low performance regarding efficiency. According to the 2021-2025 growth target, its balance sheet expansion pace could bring about a sustainable ROE of 20-22% and ROA remaining high in the base case.

Coupled with the demand recovery which positive impacts banking and real estate sectors, TCB has favorable conditions in growing loan book driven by a steady increase in the real estate supply and competitive interest rates.

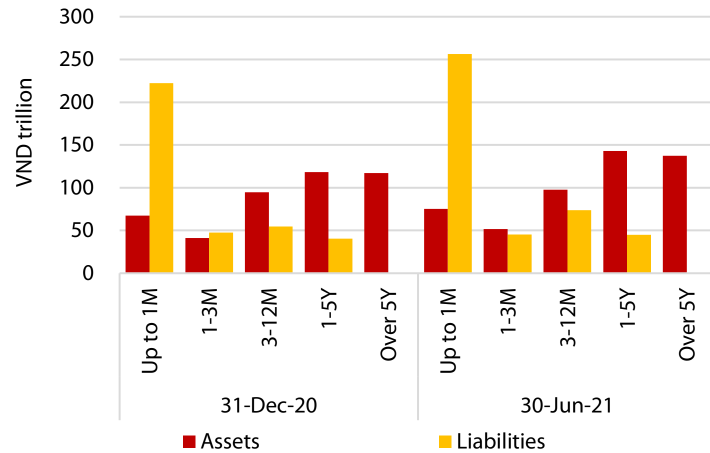
When interest rate rises followed by changes in the term structure of deposits across the banking industry, this will put pressure on short-term term deposits and CASA. We expect a shift in TCB's strategic concentration from fee-driven promotion to technology-driven differentiation and focusing on added-value products to utilize the ecosystem advantage. These actions are to develop a sticky and sustainably growing CASA base that will ultimately reinforce the bank's competitive advantage. We also expect a steeper yield curve which occurs in the early stage of an economic recovery to establish an opportunity for TCB to continuously leverage NIM given the maturity gap on the balance sheet.

Figure 8: Growth and forecast of TCB's total assets



Source: TCB, RongViet Securities

Figure 9: Assets and liabilities allocation by maturity buckets



Source: TCB, RongViet Securities

In summary, controlling of the pandemic leads to recovery in Vietnam and global economy eventually. Our monetary policy will remain in expansionary territory to support GDP growth. This facilitates TCB's target of balance sheet expansion pace. ***We expect total asset growth to be at 23.2% CAGR in the period of 2021-2025, in comparison to 18.0% in the 2016-2020 period.***

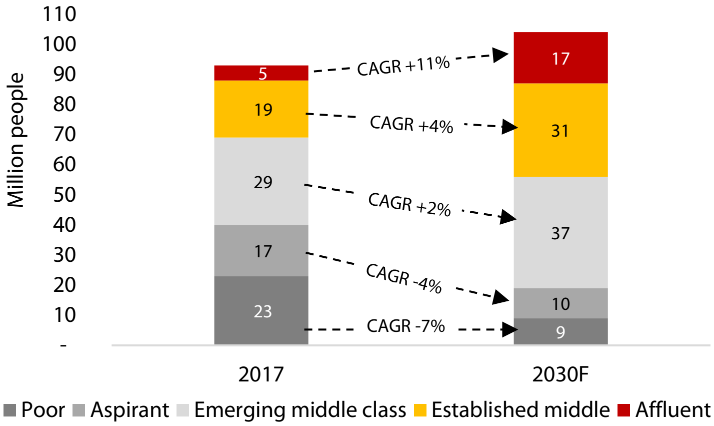
Maintaining good asset quality due to risk appetite and selective lending portfolio

"Low risk – high return" business model targeting customer segments with high financial capacity and good growth

As expanding retail banking and focusing on Affluent and Mass Affluent classes, we expect TCB to be able to manage credit costs and ensure efficiency. Based on the low funding costs, TCB can proactively and selectively underwrite loans to desirable segments that match its risk appetite, its consumer knowledge and risk profile of customers.

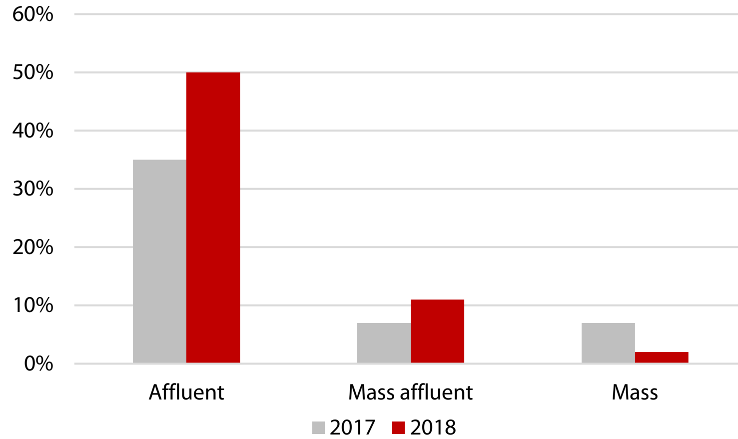
Regarding these high-end classes, the potential comes from good growth rate and acceptable credit profile of customers although the market size is not large in terms of number of consumers in comparison to the lower classes. This is supported by the national income trajectory and moving up the income ladder of Mass customers. Combining with a loan book focusing on high-demand segments such as mortgages and credit cards, TCB manages to achieve relatively good loan yield and robust loan growth while maintaining a moderately low risk appetite.

Figure 10: Population by class



Source: BCG, RongViet Securities. There is a difference in class classification between TCB and BCG. We estimate the majority of the Affluent and Mass Affluent segments according to TCB to be counted as BCG's Affluent group.

Figure 11: TCB's market share in retail segments (%)



Source: TCB, RongViet Securities

TCB is one of the pioneers in applying internally collected data and external resources into behavioral analysis models to gain customer insights as well as evaluating risk metrics. Beside successfully applying this model on high-end classes, we also look forward to TCB scaling up its business in Mass Affluent class with data gathered from existing and potential customers in the retail ecosystem with Masan Group. Meanwhile, the conservative approach applying for the middle segment, fierce competition, and the lack of advantage in data collection over segment leading banks will become obstacles to the Mass segment penetration rate. TCB aims to have restricted exposure with specific products to determined customers who suits its risk appetite. The selective portfolio expansion is also expected to help TCB avoid reputation risk or undesirable effects on its position as TCB holds major market share in the high-end segments.

We look forward to high-end segments becoming a buffer for TCB against the uncertain development of macroeconomic situation, which should have impact on the lower segments first and at a larger magnitude. The asset book will stay resilient during the upcoming rapid expansion phase, assisted by manageable credit costs with stable efficiency, even under the pressure from the lagging bad debt formation as the pandemic's consequences.

Risk governance, efficient lending and headroom to absorb provisions reassure asset quality

On the lending side, TCB focuses on industries where the bank has the advantages of understanding, experience, data and ecosystem such as real estate value chain, retailing value chain, primary home loans. TCB is initiating the secondary mortgage business as its core strength. Combining a prudent expansion strategy of the competence circle with the ability to utilize data-driven analytical models and heavily invested technology foundation, these will help TCB manage and forecast credit and related risks and develop early warning system for these, which should contribute to lowering credit costs volatility. In fact, the NPL formation rate decreased gradually before picking up slightly due to the pandemic. However, the NPL ratio stayed low because of strict write-off activities and sufficient provisioning buffers. Thereby, good asset quality is well-maintained. We expect this pattern to sustain with the support of low volatility of NPL ratio given the well-prepared provisions and financial headroom for more prudent credit costs.

Diversified income structure with leading position in many non-loan businesses

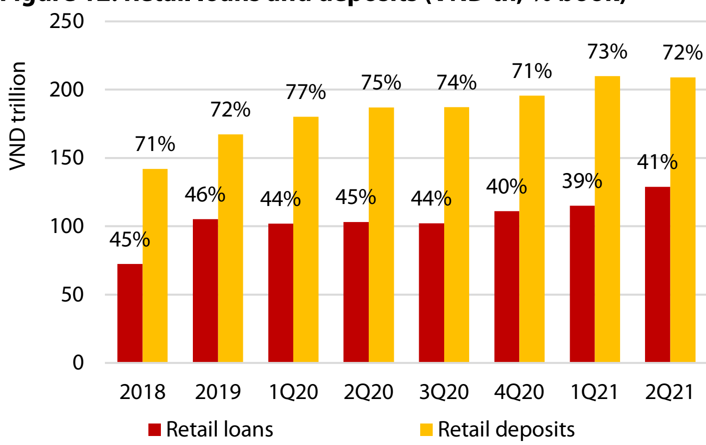
Prominent retail banking benefits from the ecosystem and customer segment

In the recent years, banks have been shifting their attention to the retail market. While some focus on retail lending products to boost retail proportion in the loan book, TCB has high retail contribution in lending, deposits, especially demand deposits and non-interest services. Therefore, we consider TCB as a leading and well-rounded retail bank.

While the proportion of retail loan fluctuated at 40-46% in the 2015-2020 period which was due to robust growth in wholesale lending, retail deposits advanced significantly in both terms of value and quality as retail CASA ratio steadily rose to the highest among sector. ***The deposit base plays a pivotal role in the medium and long term strategy because it implies good customer stickiness and retention and indicates cross-selling ability with other banking and non-banking services.*** Hence, TCB's fees income benefited and rose stably at a CAGR of 27% during 2016-2020 period, led by retail customers.

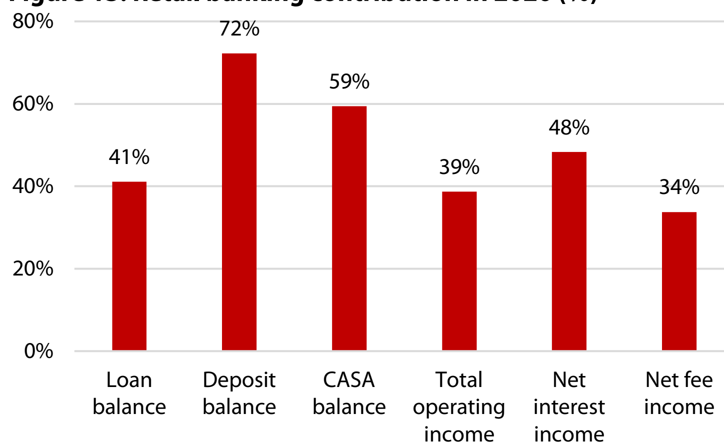
Behavior of individual consumers is also a critical factor in shaping the digital transformation pattern. TCB's conversion rate, growth in transaction volume, transaction value and number of customers totally indicate effective retail banking operation. This lays a solid foundation for the bank's sustainable growth in net interest and non-interest incomes with a well-structured risk-return balance as the retail segment, especially upper-middle and high-end classes, grows rapidly in terms of population and individual demand. Loans to those customers also generate good yields while having feasible risk weight.

Figure 12: Retail loans and deposits (VND tn, % book)



Source: TCB, RongViet Securities

Figure 13: Retail banking contribution in 2020 (%)



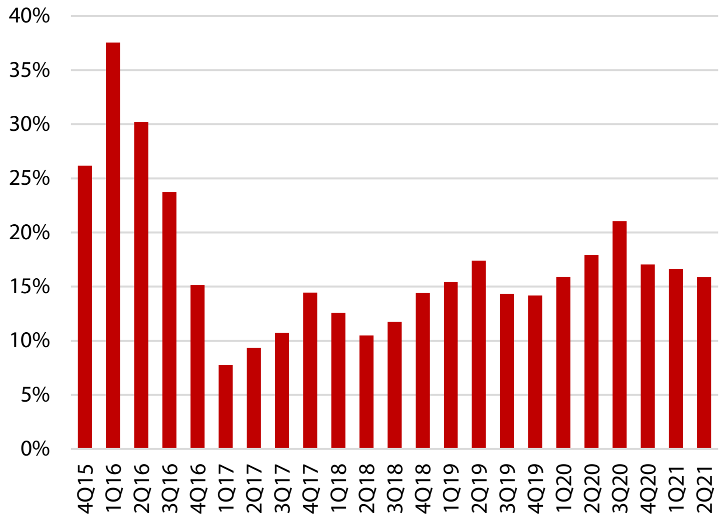
Source: TCB, RongViet Securities

The tech-enabled asset management platform is a critical non-interest income growth engine

With the long-term vision to deliver everyday banking services and become an integral part of customers' everyday life, TCBS is a key player in TCB's modern banking ecosystem. TCBS is a leading securities company in terms of asset under management oriented to pursue wealth management technology business model (WealthTech). Technology development strategy and product differentiation since the early stage established the competitive advantages of TCBS. Instead of concentrating on stock brokerage services which was potential but competitive, TCBS chose to prioritize the bond market since 2016. It simultaneously penetrates the equity market with distinctive approach: applying technology and data analysis into automatic customer advisory rather than using traditional brokers. We think that TCBS excellently accommodates the needs and preferences of the high-end customers, who favor diverse investment products which have multiple and tailored risk-return characteristics and offer variety of investment capital limit.

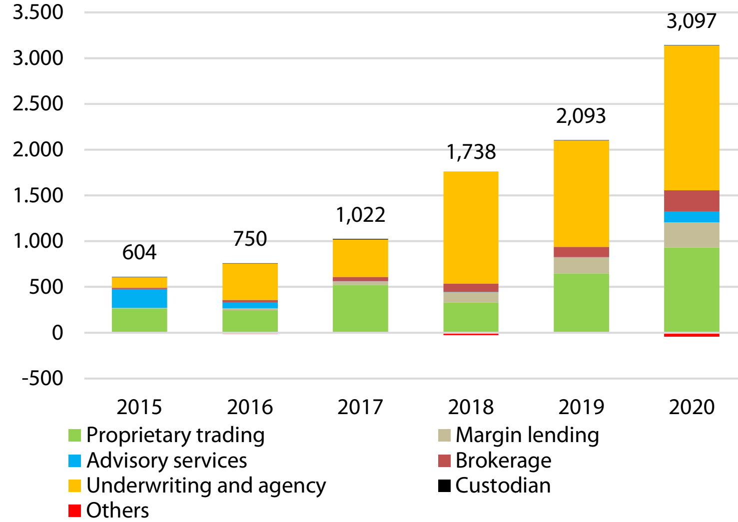
Given core advantages in technological capabilities and value chains, we consider TCBS as a suitable part of TCB's ecosystem and one of its unique value proposition. TCBS is also an important growth engine in the development of TCB with VND 2,692 billion (USD 117 mn) in pre-tax profit in 2020, up +48% compared to 2019 and higher than the listed securities firms. This earnings result equals to 17% of the consolidated pre-tax profit. Although there is no plan to go IPO or seek strategic partner this year yet, we think that TCBS's valuation will be comparable to any major listed securities companies in case the equity issuance or divestment occurs. Multiple valuation metrics of TCBS would even stand a chance to outperform listed traditional securities companies if it successfully transforms into a technology company providing platform services. TCBS is a driving factor of TCB's non-interest income and helps the bank to sustain a well-diversified income source.

Figure 14: Contribution of TCBS in TCB's profit (%, TTM)



Source: TCB, RongViet Securities

Figure 15: TCBS's gross profit structure (VND bn, %)



Source: TCBS, RongViet Securities

Risks

Upside risks

Consist of:

Successful deployment of the agency banking business model. TCB is testing the kiosk model at Masan Group's retail chain, specifically its subsidiary - The Crown X. This is a simplified model of agent banking that TCB has been planning to develop similarly to other countries such as Thailand. The model allows the bank to facilitate scalability and approach larger customer pool while attaining better cost-efficiency compared to a conventional branch or transaction point. According to the management, the proposed business plan was constructed conservatively and did not count in the synergy value derived from the successful deployment and utilization of the ecosystem advantages of Masan's retailing network. Thus, this is an upside risk for TCB during the 2021-2025 period.

Private placement, divestment or IPO of the subsidiary. TCB owns a potential subsidiary in the asset management and investment banking industries. In spite of no monetization plans in the short-term, we look forward to the activities of seeking strategic partners or taking the subsidiary public becoming a strong catalyst to the stock price and bringing an enormous surplus to TCB's book value.

Equity issuance to strategic partner. TCB locks the foreign ownership limit at a lower level than the regulatory limit in order to create headroom for a future strategic partnership. Although the bank has no capital raising plan beside ESOP in 2021, we assess that TCB is one of the most attractive investments among the private banks. In addition, the effective EVFTA requests the Vietnamese government to allow foreign investors to take up to 49% stake in private banks. Based on the income structure of European banks whose net interest income accounts for only 50% of total operating income (according to McKinsey), we considered TCB as a potential target as the bank has similar income model and good capacity to partner with payment technology companies due to its leading data infrastructure.

Downside risks

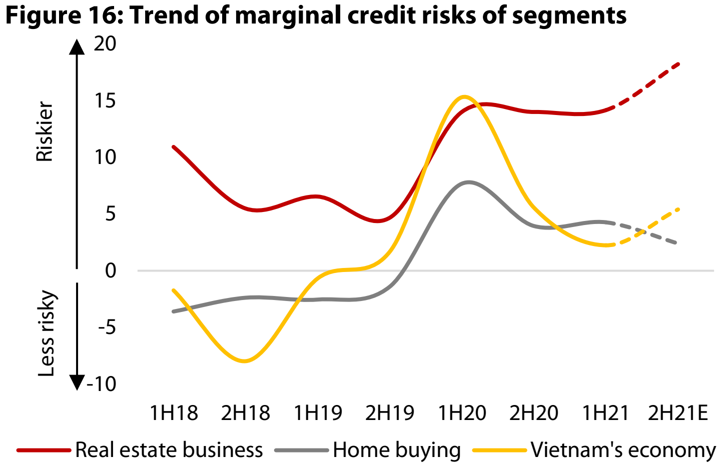
Consist of:

Risks related to the real estate cycle. Regarding the credit portfolio, TCB focuses on loans to the real estate value chain, spanning from suppliers and developers to home buyers. Outstanding advances to these corporates account for 70% of corporate loans, while mortgage made up 75-80% of retail loans. Although exposure to real estate accounts for over 70% of total outstanding loans, the risk management framework with concentration on consumers having good financial ability, residential properties and urban location establishes foundations for attaining a low NPL ratio in the real estate industry which was at 0.7% in 2020. The real estate credit portfolio also experienced a shift from loans to construction contractors and real estate developers to home buyer lending to diversify and mitigate market risks. At the same time, TCB also aims to diversify its credit book with other fast-growing industries such as fast-moving consumer goods (FMCG), electricity and utilities. Even so, we consider real estate cycle as a feasible concern as given the current real estate exposure and projected balance sheet growth, it is time-consuming to lower the weight in the loan book. However, we rather think of this uncertainty as systemic risk than specific risk.

Counterparty risk. TCB develops the banking products and services on the advantages of its major partnerships in order to build an ecosystem that helps TCB enhance its network and customer experience. Although this strategy offers differentiated benefits to customers, it also makes TCB struggle to sustain loans growth momentum and exposed to counterparty risk due to extensive integration.

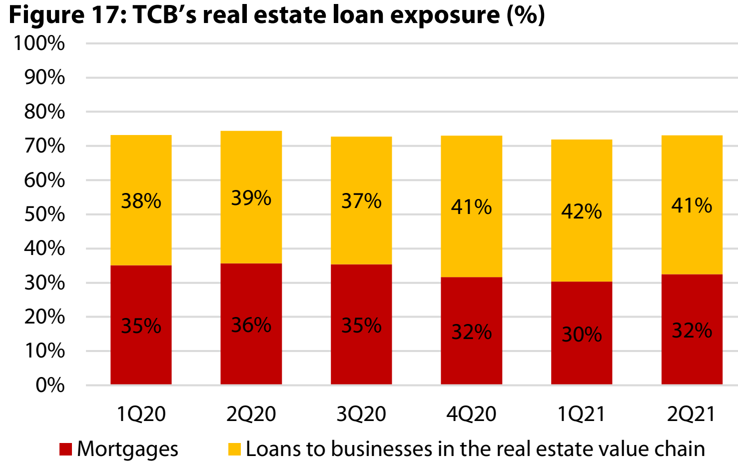
Pandemic risk. Credit risk is usually reflected via on-balance sheet NPL, NPL formation rate and provision expenses. It is present in many banking operations. Lending rates also adjust to credit risks according to a market mechanism. However, the pandemic outburst and distorted it. Banks were requested to reduce lending rates to support individuals and businesses according to the guidance of the government and SBV. The risk profile of borrowers becomes riskier as workers were losing jobs, wages were cut and businesses were suffering from the sharp decline in cash flows and profits. At the same time, banks must also balance against their balance sheet growth target. This dilemma puts pressure on NIM and asset growth efficiency. Circular 03 is evaluated as a legal corridor that timely supports the banking industry and help reduce pressure on provisions allocation. In the coming time, financial ability of the customers is projected to remain sensitive to the COVID-19 development without a reliable timing estimation of conclusion. The impact of the pandemic on the economy is likely to be severe given the current infection wave and social distancing measures taken by the government. If the pandemic prolongs, the high-end segments would be significantly affected thereafter. This would drive the NPL formation rate and provision expenses despite the extension in provisions booking period.

Figure 16: Trend of marginal credit risks of segments



Source: SBV, RongViet Securities

Figure 17: TCB's real estate loan exposure (%)



Source: TCB, RongViet Securities

Overview

Vietnam Technological and Commercial Joint Stock Bank - TCB is one of the first joint stock commercial banks with an initial chartered capital of VND 20 billion. Throughout its development process, TCB focuses on the mission of pioneering the digitalization journey of the financial industry, creating motivation for individuals, businesses and organizations to sustainably progress. By the end of 1Q2021, TCB has over

310 transaction points across the country, charter capital of approximately VND 35,000 billion (USD 1.5 bn), provides diverse products and services to more than 8.4 million retail and corporate customers and leads the transactions market share of Visa (debit and credit) card in Vietnam.

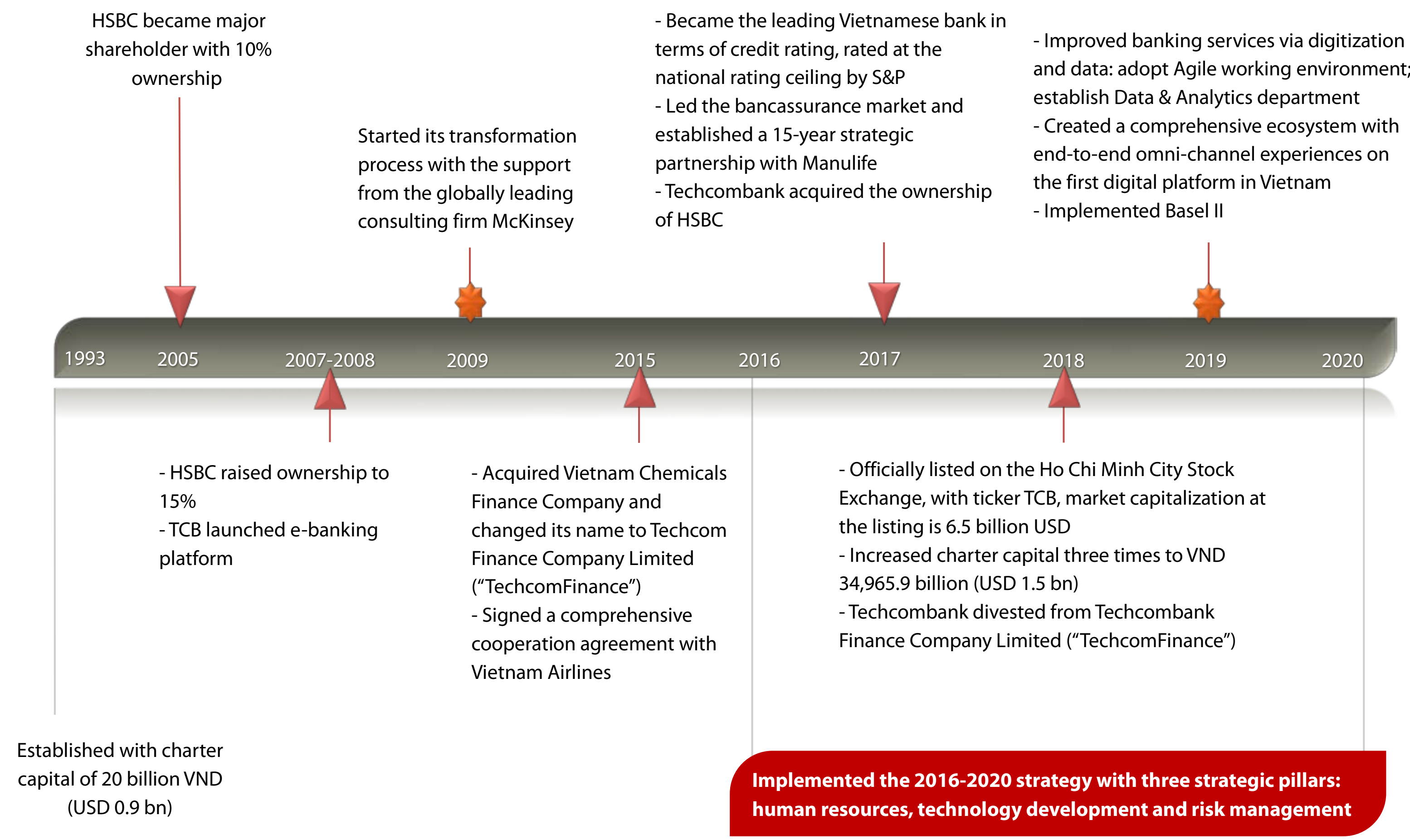
2018 marked an important milestone when TCB completed the largest IPO deal in the history of Vietnamese banking industry and proceeded to list on Ho Chi Minh City Stock Exchange with ticker HSX: TCB and initial market capitalization of USD 6.5 billion at the time of listing. It was one of the three largest IPO deals in Southeast Asia in 2018.

Charter capital

After 40 charter capital raisings and a successful IPO in 2018, TCB is currently the largest private commercial joint stock bank in Vietnam with charter capital of more than VND 35,000 billion (USD 1.5 bn). TCB ranks fifth among the banking system, after three state-owned banks and MB Bank.

Historical development

Figure 18: TCB's development timeline since establishment till 2020



Organizational structure

Figure 19: TCB's organizational structure as of 2020

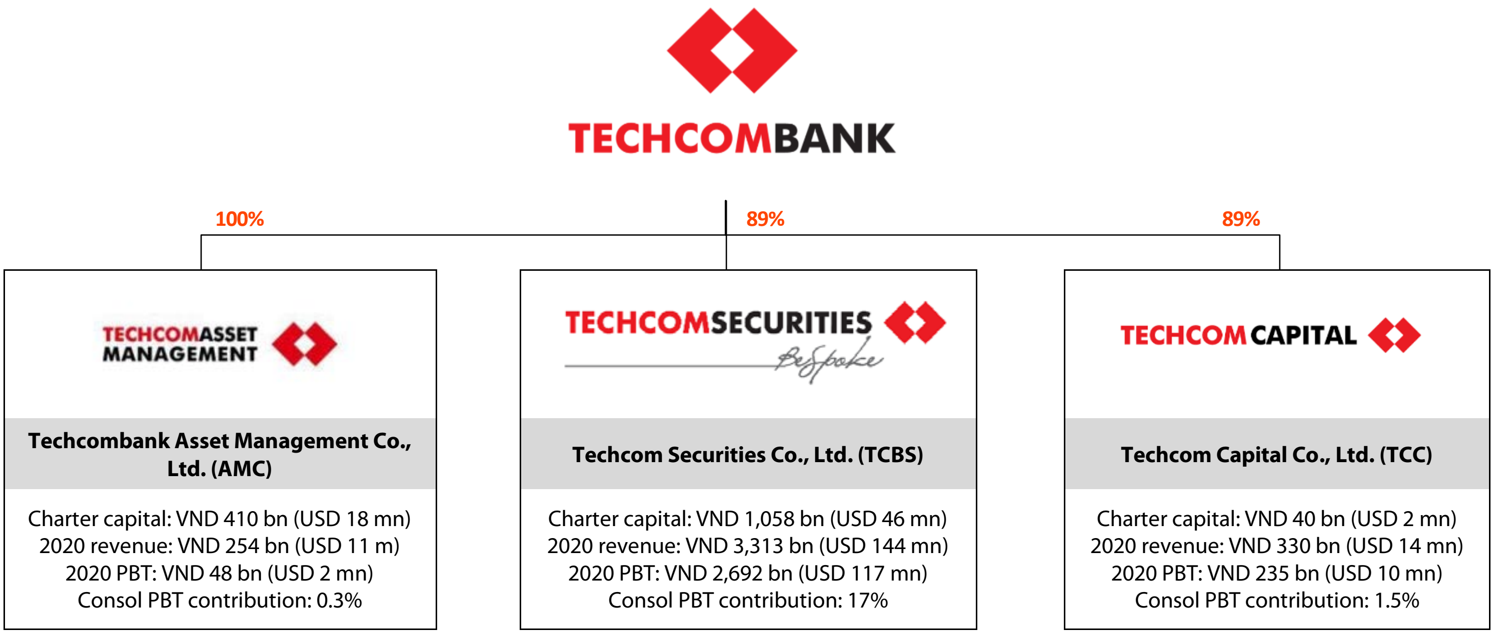
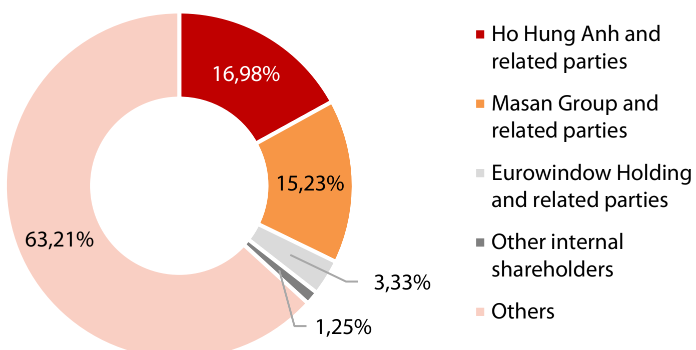
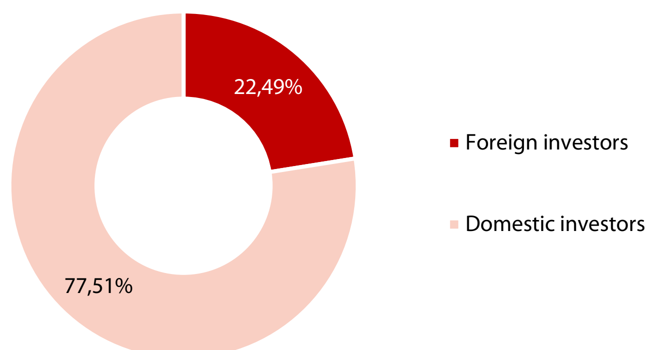


Figure 20: Ownership by major shareholders (year-ended 2020)



Source: Fiinpro, TCB, RongViet Securities

Figure 21: Ownership structure (June 2021)



Source: VSD, RongViet Securities

2021-2025 strategic plan

Figure 22: Strategic target of the 2021-2025 period

- CASA ratio ~ 55%
- Targeted ROE ~ 20%
- Market capitalization of USD 20 bn
- Fee income on total operating income ratio ~ 30%

Source: TCB, RongViet Securities

According to the five-year strategy (2021-2025), TCB focuses on building strong foundations for delivering customer value proposition at scale through three core pillars: Digitization, Data, and Talent.

Targeted market capitalization of USD 20 billion in 2025 (Figure 22). The data driven ecosystem helps boost revenue growth, reduce operating costs, and enhance productivity. It is a solid foundation to sustain the growth rate of shareholder's equity and profit, which thereafter will reflect on the market capitalization. In the near future, TCB concentrates on entirely digitalizing operations in order to commit comprehensive financial solutions and develop customer journey.

Targeted ROE at 20% (Figure 22), which is higher than 2020's result of 18%. To achieve better efficiency at larger scale, the strategy is consistent with TCB's current advantages. The bank focuses on its biggest profit pools including mortgages and wealth management and simultaneously utilize its strengths. The credit portfolio in the next five years will be directed into high financial capacity customers and mortgages to offer comprehensive solutions. In which, the Mass Affluent retail and SME segments will be new drivers. TCB also looks for diversity and growth in the industries of FMCG, electricity, utilities.

In addition, operating efficiency improvement is expected to be significantly contributed by non-interest income. Specifically, ***TCB targets a 30% net fee income to total operating income ratio*** (Figure 22), which almost doubles from the current level. We consider this goal achievable based on the bank's diversified non-interest income sources in the fast-growing segments that TCB leads. Moreover, the ecosystem will facilitate and boost cross-selling. The two major pillars of Vietnamese economy, in which TCB's partners are leading enterprises holding substantial market shares, are projected to become a key driver for its credit book diversification strategy (including loans and corporate bonds) and banking product/service packages. These are also principles to retain customers and generate high switching costs which indirectly attract low-cost funds as CASA. ***TCB targets a 55% CASA ratio in the next 5 years*** compared to 46% at the end of 2020.

In order to achieve these goals, the Talent pillar is critical for efficiency optimization, automation, and productivity enhancement by offering internal services to employees and managers. It is a foundation to delivering values not only to the human resources but also to the customers via service quality as the frontline workers represent the brand image. In 2020, TCB successfully executed the initial phase of its human resources (HR) transformation project with a new applicant tracking system that facilitates the recruitment. Phase 2 was launched with a focus on transforming core HR processes, payroll and training modules.

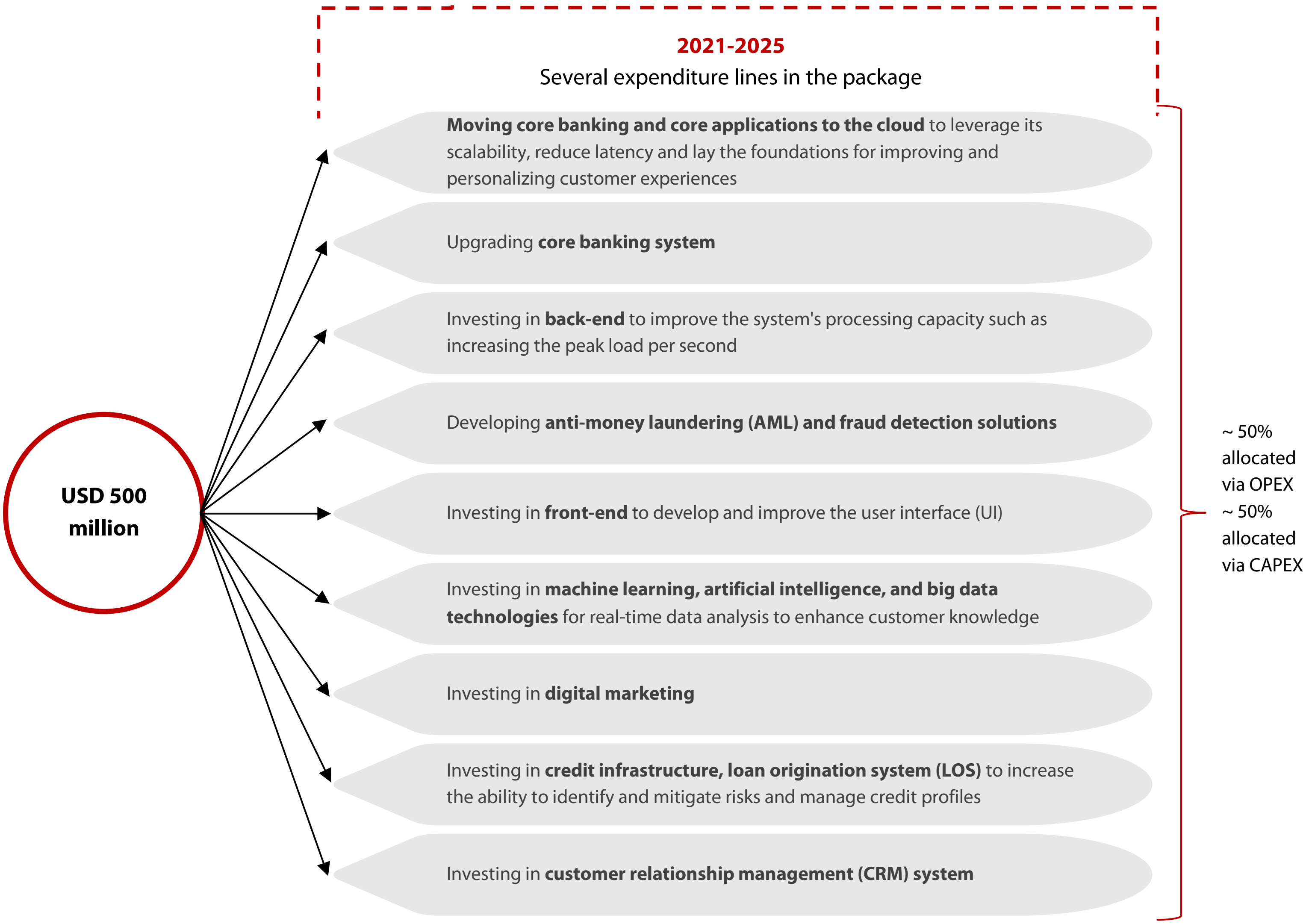
Digitalization strategy

Based on Vietnam's high technology penetration rate with an internet accessibility rate of over 70% (January 2021), digital banking and digital transformation initiatives are inevitable steps to achieve sustainable development and maintain competitiveness. Strategic moves have been taken continuously to automate processes and centralize data. Based on the need for customer knowledge using massive data sources from internal and partners, the Data and Analytics Division (DnA) was established. It gathers internationally experienced experts at leading global banks. This is expected to help TCB reinforce its position in big data application, machine learning and artificial intelligence. As a result, the customer journey is expected to be further enhanced due to customer-centric strategies.

Since 2016, the digitization journey started with the investment in developing card services platform, payment solutions, money transfer. TCB also continuously offer promotions for online transactions and debit card cashback. In the upcoming phase, TCB demonstrates commitment to digital transformation with a technology investment budget of USD 500 million, the largest among the industry.

The technology investment package will facilitate ecosystem extension. Currently, TCB only cooperates with One Mount Group (OMG) to integrate e-wallet into the ecosystem instead of open to collaborate with popular e-wallets on the market. Although it may put pressure on TCB's market share as other banks have been attempting to connect with various technology companies as possible, this conservative and selective approach regarding partnership will assure consistency, synergy value and added value of the ecosystem. Consequently, it leads to the development of customer journey. However, TCB acknowledge the importance of accessibility which will allow expanding the network into lower segments at ease. Meanwhile, being accessible as possible helps build up data resources to research the customers.

Figure 23: Committed technology investment budget during the 2021-2025 period



Source: TCB, RongViet Securities

Financial analysis

We apply CAMELS framework to analyze TCB.

C (Capital): TCB has thick capital buffer with the highest CAR in the banking industry. TCB has headroom to improve this ratio via average risk weight due to restructuring the loan portfolio. With stably high growth quality, TCB is able to maintain the competitive advantage in capital during the 2021-2025 period.

A (Assets quality): TCB has significant proportion of loans to Mass Affluent and Affluent classes, while its corporate customers mainly are leading corporations in the fields that TCB has expertise. Pioneering in applying data into understanding and forecasting customer behaviors in order to assess risk profile, TCB has low net NPL formation rate ad NPL ratio. Group 2 loans ratio and restructured debt are well-controlled also. The majority of its off-balance sheet commitments are forward contracts and currency swaps for the purpose of serving the customers' demand. High financial capacity of the customers and limited exposure to vulnerable industries during the pandemic help mitigate the impact of social distancing. We thereby appreciate the stability of TCB's asset quality.

M (Management): TCB's management team has extensive experiences in developed markets with exposure to various of successfully applied novel technologies in the financial sector. This assures the management capacity and strategy implementation capability which will be reflected on optimized metrics of revenue and profit turnovers and cost excellence, including operating costs and risk costs.

E (Earnings): Diversified income, strong capital base and costs advantage lay the foundations for sustaining good operating efficiency and thereby, ensuring sustainable scaling. Net interest income after provisions is driven by high credit quota and effective risk-adjusted NIM. Non-interest income growth is attributed to the ecosystem consisting of TCBS and advanced technology-based banking services.

L (Liquidity): In the condition of low yield on non-loan assets, TCB proactively manages liquidity through the assets - liabilities structure to optimize efficiency. In the short term, some liquidity ratios have limited headroom for improvement due to the advantage in short-term deposits and utilizing maturity transformation. This constraint is also a result of requiring contractual maturity in regulatory liquidity ratios calculation instead of behavioral maturity. TCB plans to reinforce the liquidity buffer with medium and long term capital from the international market to take advantage of low interest rate, stable exchange rate and its high credit rating.

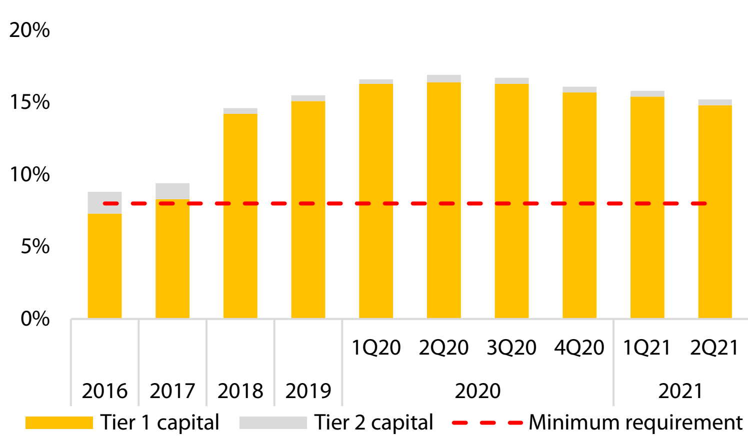
S (Sensitivity): In a volatile interest rate environment, stability of CASA and customer stickiness are TCB's strategic targets as the bank has large liquidity and reset gaps. Continuously improving service quality and customer experiences by applying cutting-edge technology assist with maintaining the stability of demand deposits in particular and funding base in general. Meanwhile, loan book diversification will help reduce the duration and cumulative repricing gap. A bear steepener will positively affect TCB's earnings.

Strong capital buffer with headroom for stabilization

As a result of the largest IPO deal in the industry's history and the no dividend policy for the purpose of retaining resources for growth, TCB has thick capital in comparison to industry's average. Specifically, the group of private commercial banks applying Circular 41/2016/TT-NHNN (equivalent to Basel II) had an average CAR of 10.9% at the end of 2020. This ratio of state-owned banks within the system is 8.94%, while TCB's CAR (Basel II) is 16.1%, twice as high as the minimum requirement of Pillar I of Basel II (8%).

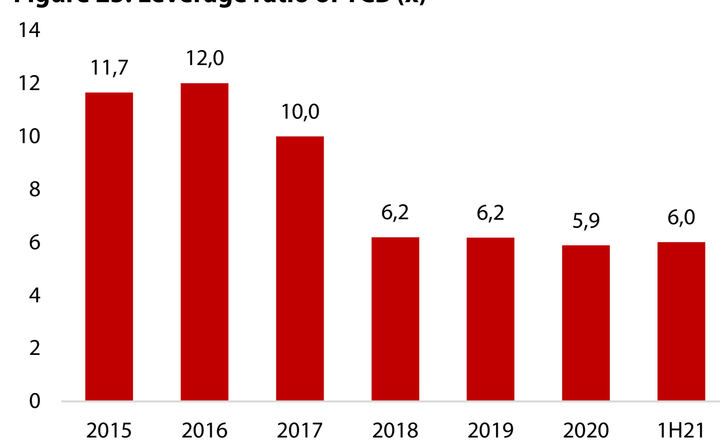
The leverage ratio (total assets to equity) fluctuated around 6x in the recent periods, the lowest among listed banks. We think that with the 2021-2025 growth rate, this ratio will be pressured. However, there remains a margin of safety between TCB's ratio and the industry's average. This is projected to not have much impact on the capital adequacy ratio (CAR). Zero cash dividend policy in order to reserve resources and appropriate periodic ESOPs also help to strengthen the capital base.

Figure 24: CAR of TCB (%)



Source: TCB, RongViet Securities

Figure 25: Leverage ratio of TCB (x)



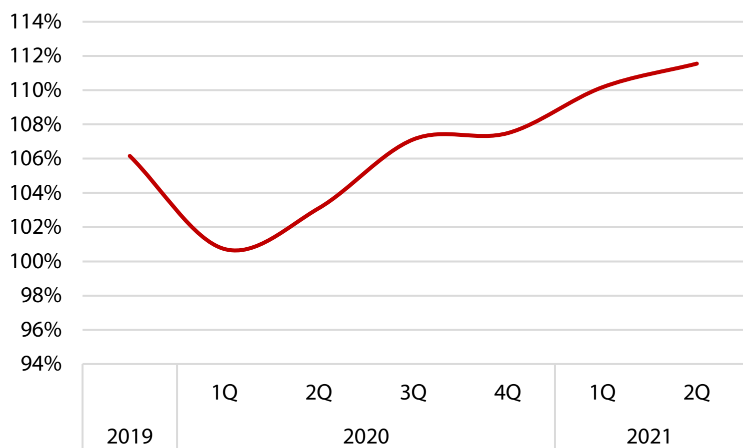
Source: TCB, RongViet Securities

Sufficient capital adequacy ratio (1) lays a solid foundation for high growth momentum, (2) helps TCB receive top-tier credit quota and (3) is one of the pivotal criteria for international organizations rating TCB high among the industry's leaders. According to Moody's rating, TCB is the only Vietnamese bank with a BCA constrained by the sovereign rating.

Besides, TCB still has headroom for CAR improvement via managing the average risk weight (*) according to Basel II. In the period before the pandemic, this risk weight ratio decreased from 106% in 2019 to nearly 100% in the first quarter of 2020 due to shifted lending portfolio towards the retail segment. It indirectly caused the CAR to rise sharply. As the pandemic outbreak in 2020 hampered loan disbursement in high-income retail segments, the proportion of wholesale banking loans increased and dragged on the surge of average risk weight. However, TCB managed to maintain the CAR during the pandemic.

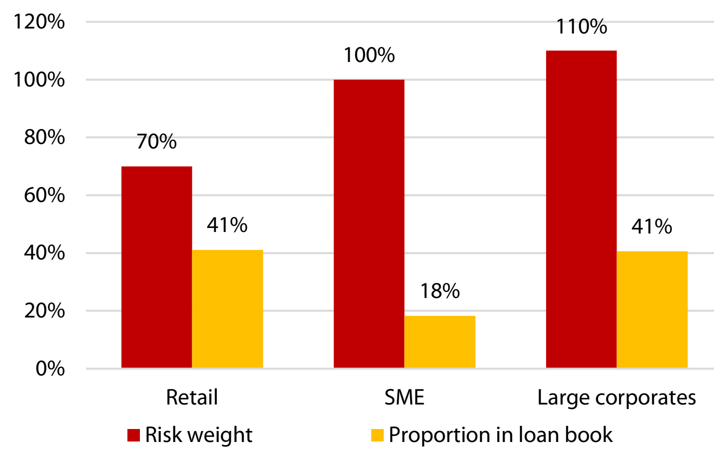
(*) Average risk weight: equals to total risky assets divided by total assets.

Figure 26: Average risk weight of TCB (Basel II, %)



Source: TCB, RongViet Securities

Figure 27: Average risk weight of segments in 1H21 (%)



Source: TCB, RongViet Securities

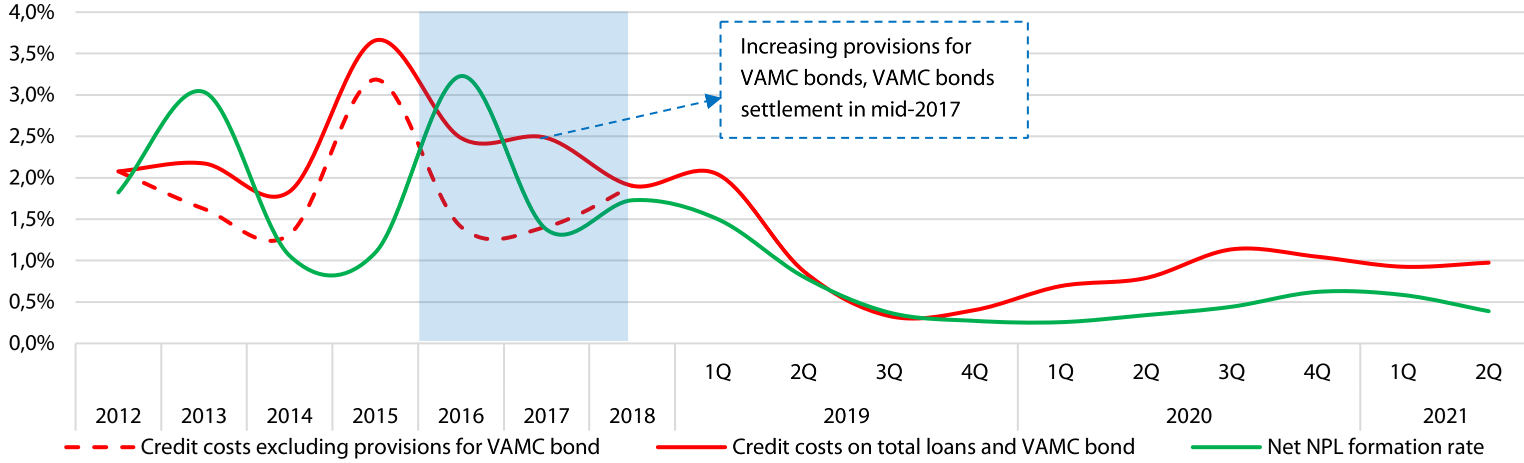
We expected the average risk weight to improve in the medium term due to loan book structure shifting towards retail and SME lending. Given its strong capital base, the highest ROA in the industry and favorable background with monetary policy in the expansionary territory, we expect TCB to achieve high credit growth during the post-pandemic period and properly implement the 2021-2025 strategy in order to increase total assets strongly and enhance ROE. The capital buffer will help TCB absorb shocks on asset markets if any, including real estate market, in this uncertain economic recovery phase.

Improving asset quality and strengthening provision buffers in the period of rapid growth based on technology application and customer positioning

TCB had the lowest NPL ratio in the industry reaching 0.47% at the end of 2020 and decreased to 0.36% in the second quarter of 2021. This was a result of stricter provisioning and active non-performing loan management since the settlement of VAMC bonds and was further accelerated by the pandemic to create headroom for potential bad debts. The net NPL formation rate was also controlled partially by the national debt restructuring and maintaining of classified debt group policies. Credit cost remained high compared to NPL formation to improve provision buffer. Combining competitive lending rates which enabled access to suitable risk profiles, a credit portfolio focusing on high-end customer segments, and the "K-shaped" (**) impact of the pandemic, we think that while banks are not completely protected from the inevitable negative effects of social distancing, TCB does have plenty of operating income headroom for controlling balance sheet quality and reinforcing the buffer.

(**) K-shape effect: different economic sectors are affected and then recovered in different time horizons and with different magnitudes.

Figure 28: Net NPL formation and credit costs on total loans of TCB (%, TTM)

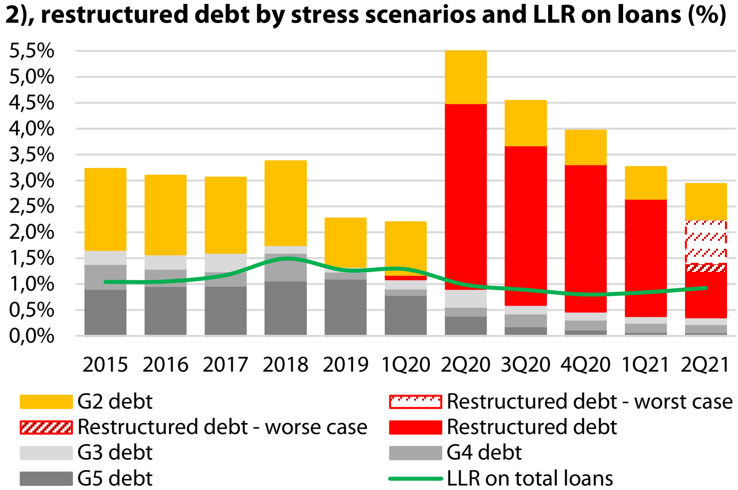


Source: TCB, RongViet Securities

TCB maintains credit costs at a higher level than that of 2019 when the economic condition was in a favorable period. This helps TCB to have headroom for using provisions to write off on-balance bad debts, improve balance sheet quality and create lending headroom. More specifically, the credit cost was trending downwardly since the recovery after the banking industry's restructuring. Credit costs (excluding VAMC) dropped sharply and remained at a low level in 2016, creating space to proactively increase provisions for VAMC bonds and complete the settlement in 2018. As a result, the bad debt coverage ratio (LLR) remained moderate, approximately 50%.

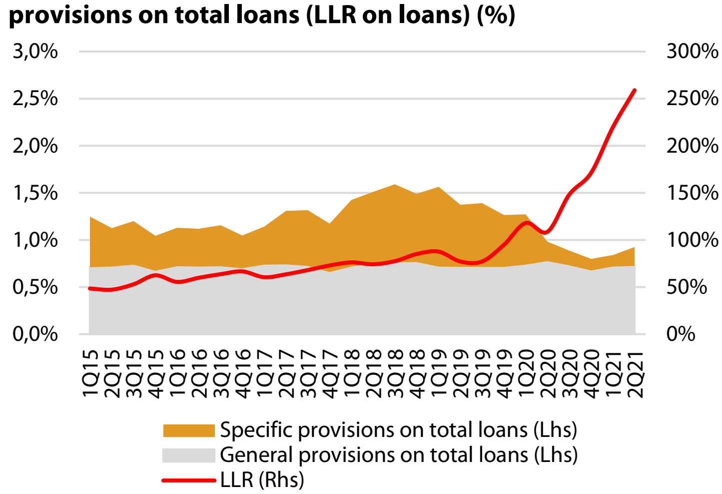
After settling the VAMC and being listed, the expected credit loss (including corporate bonds) gradually decreased to 1.5% in 2019, before re-surged due to the pandemic impact. In addition, TCB also increased the provision for potential bad debts. The credit costs (TTM) have remained around 0.9-1.1% since 3Q2020, which is 1-1.5 times higher than on-balance sheet bad debts formed in the period. Simultaneously, TCB has stepped up to manage problematic loans and write off potentially irrecoverable debts, resulting in the bank's group 5 debt ratio falling to less than 0.1%. Based on the maintaining of the debt group policy, NPL formation rate in 2020 was merely 0.5%, much lower than the level of 1.7% - 3.5% in the period 2015-2019. However, we estimate that there will be a lag from the pandemic impact, causing this rate to pick up but not prompting major fluctuations. We expect the provisioning trend to stay intact in the next few years, continuing the prudent policy to strengthen the buffer during this uncertain period.

Figure 29: NPL ratio (group 3-5), special mentioned debt (group 2), restructured debt by stress scenarios and LLR on loans (%)



Source: TCB, RongViet Securities

Figure 30: Loan loss coverage ratio (LLR) and loan loss provisions on total loans (LLR on loans) (%)



Source: TCB, RongViet Securities

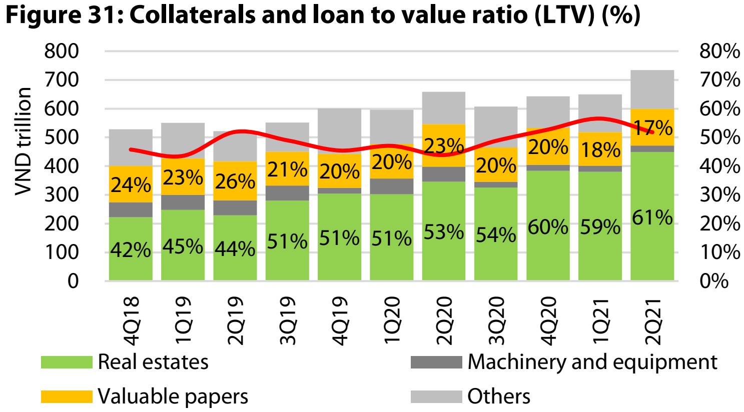
Relying on the combination of active provisioning policy and aggressive debt write-off, the NPL coverage ratio increased sharply on a low NPL ratio, reaching 259% at the end of 2Q21. We appreciate the well-controlled NPL formation rate of TCB.

Although supported by Circular 01 and Circular 03 to maintain the debt group of restructured debts, we assess that the current credit cost on outstanding loans (1.0%, TTM till the Q2/2021) is conservative considering the provisions adjusted for restructured debts. The additional provision for the restructured debt at the end of 2Q21, which was at VND 2,700 bn (USD 117 mn) and equivalent to 0.9% of total outstanding loans, is quite low at about VND 100 bn (USD 4 mn). A part of it was provisioned in the first half of 2021. The minimum requirement of additional provision for restructured loans in 2021 according to Circular 03 is about VND 30-34 bn (USD 1.3 mn). Currently, the combination of bad debt and restructured debt accounts for 1.2% of the loan book, equivalent to an adjusted bad debt coverage ratio of 76%, similar to the that of small and medium banks (except for the seven largest listed banks, 75% in 2Q2021). If including group 2 debt, this will account for 1.9% of the outstanding loans. In the unfavorable scenario announced by the bank, the impact on restructured debt is equaled to 0.2% of the entire loan portfolio. In the stressed scenario simulated by TCB, the impact on the restructured debt is increasing it by 0.9% of the outstanding loans, which means that the total of NPL, restructured loans and group 2 debt accounts for 2.9% of loan book. From the above stress test scenarios, we maintain a positive view on the volatility of credit costs which is currently at 1.1%, after considering the provisioning buffer, equivalent to 0.9% of the loan portfolio. Within this provision, 22% belongs to the specific provision. We assess the current coverage ratio as quite unstable due to the low base of NPL ratio. Credit costs maintaining at a high level will help TCB to have headroom for debt write-off and controlling NPL ratio. Therefore, we think that the NPL ratio can remain below 1.0% in the coming years and the coverage ratio can be sustained above 150%.

With Circular 03 recently being amended, we estimated that the restructured debt will increase in the second half of 2021 and 2022. The lag in NPL formation and uncertain development of the pandemic are also considered as causes. However, the pressure on provisioning may not be too significant considering the additional provisions (VND 100 billion) for the current restructured debt (VND 2,700 billion).

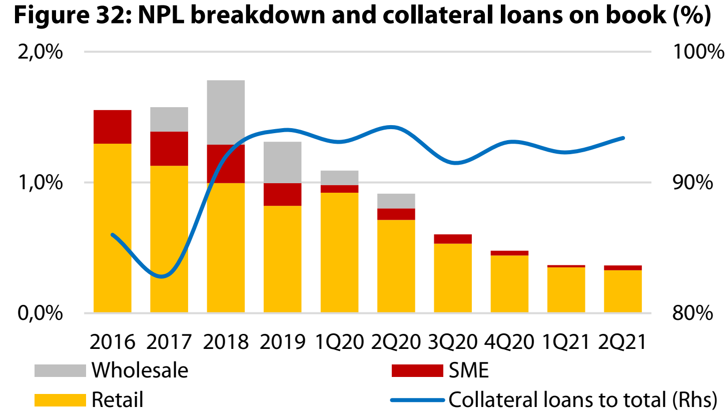
We value TCB's collateral buffer, which was mainly real estates and valued papers. This is a driver in alleviating the pressure on credit costs. Loan to value ratio (LTV) maintained at a prudent level partially contributed to low additional provision expenses according to Circular 03. TCB is also a low-risk-appetite bank with a high proportion of secured loans. In 2021, the bank also focuses on city central real estate lending to avoid the outskirt land bubble impact and reaches customers with real demand. In addition, the new credit management systems for retail and corporate customers by Moody's is expected to be upgraded this year, which will help TCB maintaining its ability to optimize the risk-reward balance through data-driven assessment and customer behavior forecasting, further improving the credit approval and efficiency management, and reducing pressure on the NPL formation rate.

Figure 31: Collaterals and loan to value ratio (LTV) (%)



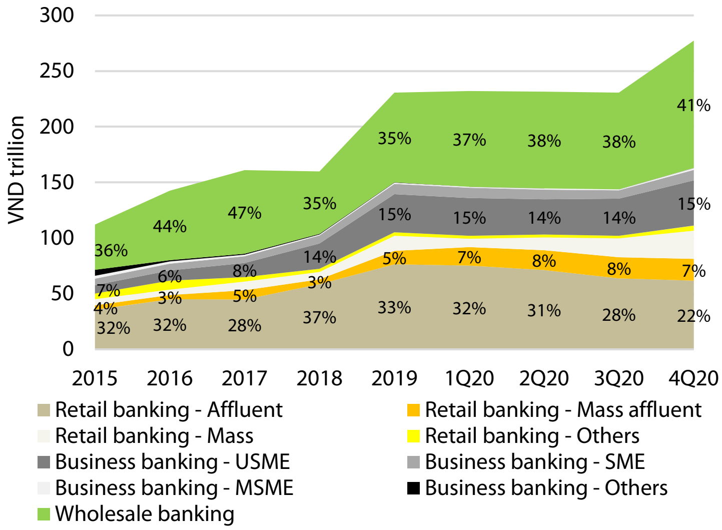
Source: TCB, RongViet Securities

Figure 32: NPL breakdown and collateral loans on book (%)



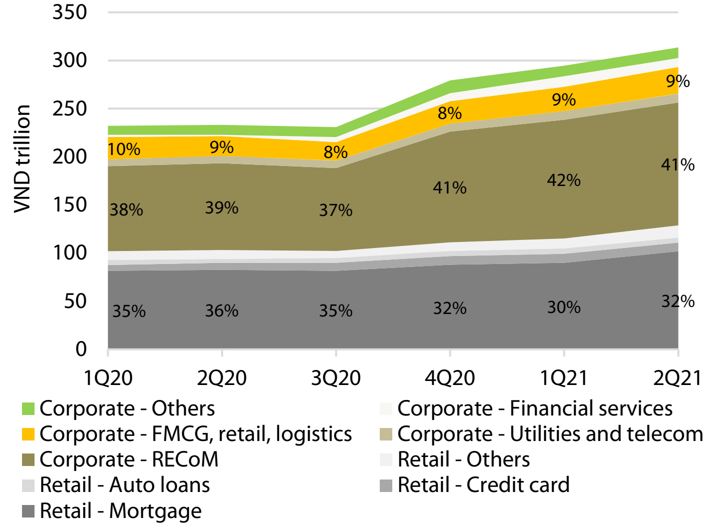
Source: TCB, RongViet Securities

Figure 33: Loan book by customer segments (VND trillion, %)



Source: TCB, RongViet Securities

Figure 34: Loan book by sectors and products (VND trillion, %)



Source: TCB, RongViet Securities

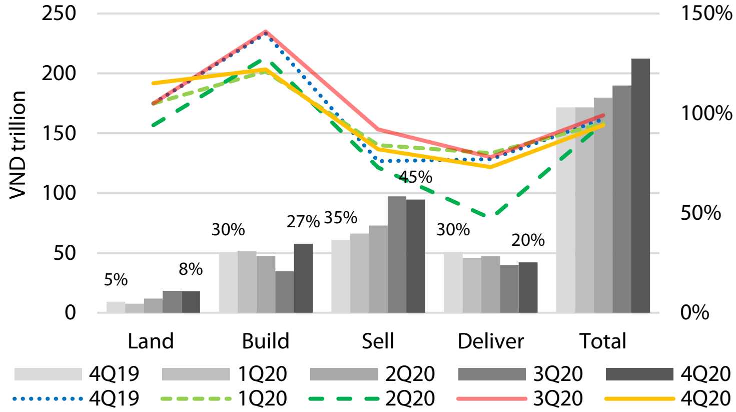
TCB is a leading bank holding the largest corporate bond portfolio in the banking sector due to its ecosystem of large enterprises. Demand for corporate bond issuance has increased in recent years, in line with the government's orientation on market size development. Circular 81/2020 also contributes to ensure the market growth quality. TCB's outstanding corporate bond grew strongly in the period of 2015-2018. TCB also maintains its strength in bond distribution to investors through TCBS.

Regarding the customer segments, TCB's lending portfolio focuses on the those having healthy financial capabilities with secured loans. High-end customers (Affluent, Mass Affluent, and large-sized corporates) with good credit records account for 85% of outstanding loans, helping TCB to strengthen the buffer against shocks such as the pandemic. This ratio was up from 79% in 2015, led by the USME segment. Meanwhile, outstanding loans to the high-end customer segment in the retail banking maintained dynamic growth in the period of 2015-2019, before having a slight decline during the pandemic due to lower investment demand. This is a group of customers who already possess real estate to live in. Therefore, we expect investment demand to bounce back along with recovered supply and a more active real estate market during the reopening and post-pandemic period. TCB maintains its leading position in the Affluent segment. The Mass Affluent segment maintains a stable credit demand while TCB has also selectively approached a group of Mass customers having real residential property demand. We expect that the contribution of high-income retail customers (Affluent and Mass Affluent) will be sustained in the 2021-2025 period while the retail proportion in loan book will improve. Simultaneously, the penetration plan into the secondary mortgages market is projected to help TCB to increase its market share in Mass Affluent segment. To the corporate customers, we expect a resilient growth in the medium-sized and large-sized SMEs proportions (SME and USME respectively).

TCB owns a large real estate lending portfolio, with total outstanding loans for real estate value chain businesses (ReCoM) fluctuating around 73% since the end of 1Q20. More particularly, the credit demand of corporate customers was resilient compared to that of retail customers with mortgages, which was mainly driven by real estate investment demand. Outstanding loans for FMCG, retail, and logistics were stable at around 10% of total loans. We expect loans to this sector to be one of the growth drivers in the 2021-2025 period, focusing on the SME segment by utilizing the value chain approach.

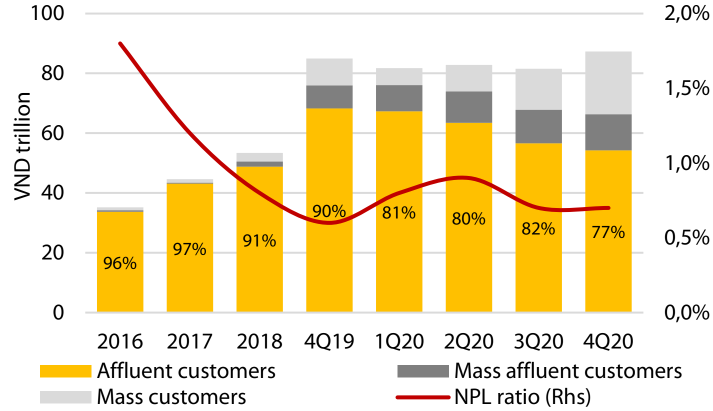
With the lending proportion of the tourism and entertainment sectors accounting for only 1.0%, the short-term impact of the pandemic can be well controlled. Combining with access to good credit records by competitive interest rates and high-profile customers, TCB's asset quality is expected to remain higher than the industry's average. The diversification strategy in the 5-year plan serves as a foundation to continue to improve asset quality and create headroom to control the NPL ratio and NPL formation ratio.

Figure 35: Loan exposure by RE project phase and risk weight (column: loan balance, Lhs; line: risk weight, Rhs)



Source: TCB, RongViet Securities

Figure 36: Mortgages balance and NPL of mortgages (VND tn, %)



Source: TCB, RongViet Securities

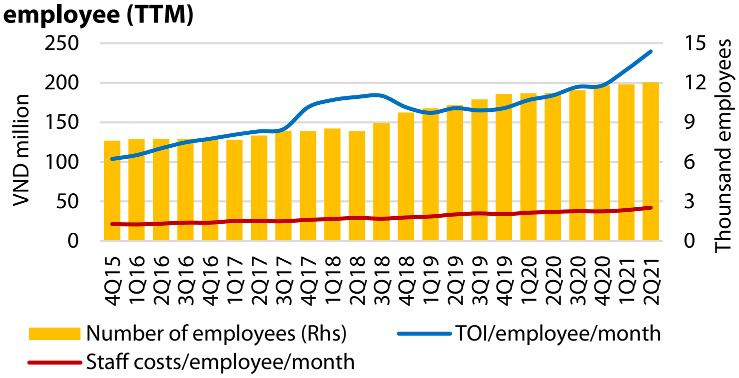
Regarding the risk exposure to the real estate segment, we have a positive view on the quality based on the bank's focus on products estimated with medium or low risk weights, high liquidity, large partners having great brands' awareness. This helps to ensure the stability of real demand, liquidity risk control, and good loan growth. More specifically, TCB focuses on lending to corporate customers during the build and sell phases, instead of the land phase. In 2020, TCB also did not lend to the retail customers in the land phase, which is risky and involves bubble uncertainties. The average risk weight according to Basel II for the real estate loan portfolio (including real estate business and home buying loan) fluctuated around 95-100%, lower than the overall average risk ratio. The segment of retail customers buying houses is mostly high-income. The NPL ratio for home loans has also remained stable below 1% since 2018.

Effective management on digital and data foundations

TCB is a leading bank with the highest average salary and bonus per employee in the industry, at VND 42 million/month (USD 1.8 thousand, TTM). The efficiency of TCB's personnel was also relatively high, reaching VND 240 million/month (USD 10.4 thousand), leading the sector as of 2Q21. The productivity of employees demonstrates the bank's management capability of optimizing resources and taking advantage of the technology foundation.

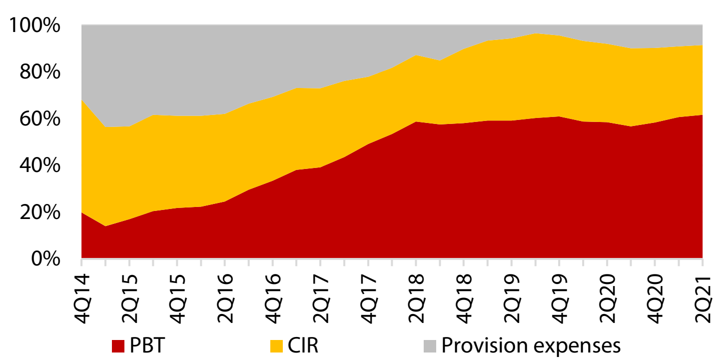
Personnel size has been actively expanding, with the number of employees reaching more than 12,000 at the end of 2Q21, equivalent to a growth of 62% compared to the end of 2014. However, this scale is still much lower than that of peers and other state-owned banks. The fact that TCB has the third-highest profit in 2020 (before the bonus and welfare) and the second highest after the first 6 months of 2021, along with the industry's highest ROA has proven the efficiency of balance sheet growth and HR system.

Figure 37: Staff headcount and monthly revenue and costs per employee (TTM)



Source: TCB, RongViet Securities

Figure 38: Quarterly TOI allocation (TTM, %)



Source: TCB, RongViet Securities

In terms of cost management, TCB is also a leading bank with a high profit margin in the banking industry. The CIR ratio (TTM) is also among the lowest, fluctuating between 30%-35% since the beginning of 2020. We asses that this ratio will sustain at the current level in the early stage of the technology investment with the direct allocation of about 50% of the USD-500-million technology investment package in the period of 2021-2025, before decreasing to a lower level after completing the cost recognition.

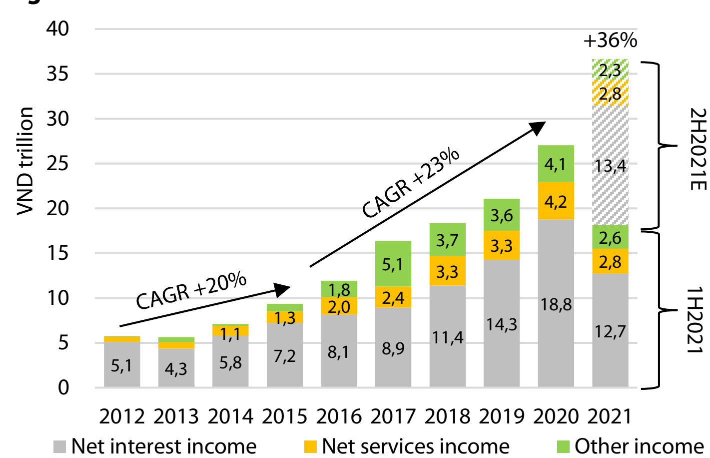
Provision expenses were also under pressure during the pandemic due to the surge of credit risk of the economy. TCB managed credit costs well as this accounted for only 9% of total operating income, while the credit costs fluctuated around the highest level since the beginning of 2019. PBT margin (TTM) reached 62% in 1H21, the highest in its history. Factoring various elements including the CIR during the period of major investment and high credit costs during a particularly tough period, we believe that the historically high margins are sustainable in the longer term given the headroom for CIR improvement. It will also be inflated during the recoveries and growth phases of the economy.

Combining with experienced management in developed markets, where payment technologies, mobile banking services, digital banking, agency banking, etc. have been implemented successfully, we highly value TCB's governance capability of implementing strategies and continuing to improve growth quality.

Highly stable operating efficiency on basis of solid foundations

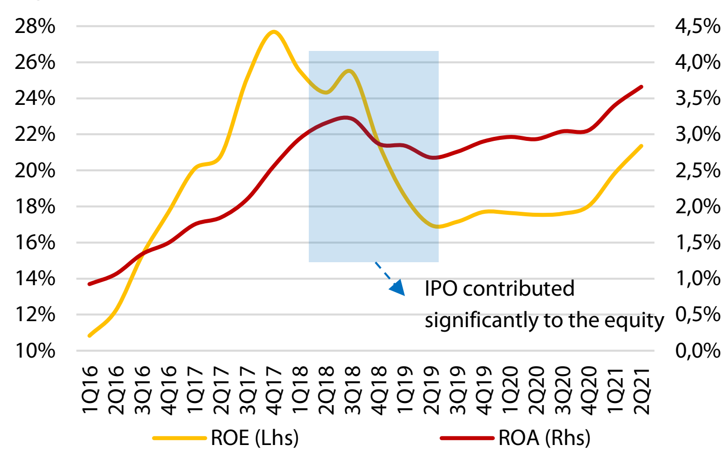
TCB has an impressive growth pace driven by core operations, thereby, leading to continuous improvement in operating efficiency to the industry's highest level. The bank's ROA doubled from 1.5% in 2016 to 3.1% in 2020, reflecting the effectiveness of the 2016-2020 strategy before reaching 3.6% in 1H21. In addition, the balance sheet expansion rate was also relatively high, averaging 18% in the same period. The performance on risk weighted assets (RORWA) also improved strongly from 1.2% to 3.0% thanks to the consistency in pursuing the business model of “low risk - high return”. Diversified incomes with accelerated growths across multiple businesses are foundations for dynamic performance and sustainable scalability. Combining with the asset growth forecast, we believe that the earnings quality momentum will be sustained in the period of 2021-2025.

Figure 39: Contributions to TOI and forecasts



Source: TCB, RongViet Securities

Figure 40: ROA and ROE of TCB (TTM, %)



Source: TCB, RongViet Securities

TCB's income growth rate in the period of 2016-2020 was attributed to steady lending business (CAGR +23%) and fee income (CAGR +21%).

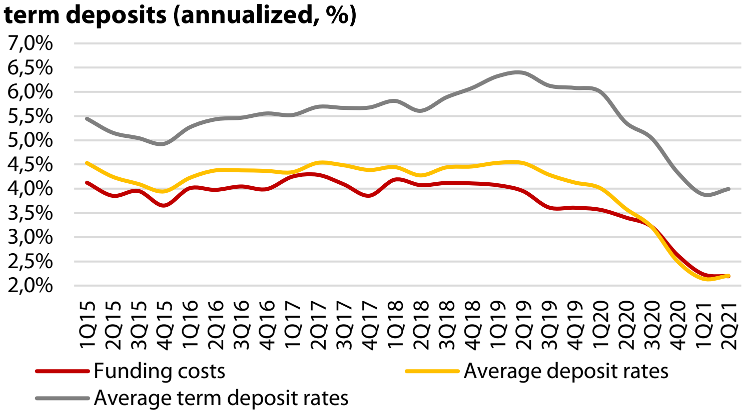
In this period, net interest income grew by an average of 21%, driven by the rapid pace of balance sheet expansion. More specifically, the outstanding loan book grew at a compounded annual growth rate (CAGR) of 21% based on the effective lending activities focusing on real estate and home loans combining with corporate bonds, which were mainly issued by real estate corporations.

NIM declined in the period of 2015-2017 due to the reduction in the corporate bond balance and initiation of supportive interest rates packages. The average lending rate in the period 2016-2020 reached 9% and intended to decrease gradually. However, the strong improvement in the CASA ratio based on the fee-reduction programs in 2016 was the main driver for the NIM recovery. More particularly, the CASA ratio increased from 21% in 2015 to 34% at the end of 2019, before witnessing a sharp improvement to 46% after 2020 which relies on the low interest rates and the demand boost for cashless payments accelerated by the pandemic. Due to the decline in deposit rates and sustained interest earning assets' proportion, TCB's basic NIM continuously improved in the period of 2017-2020, increased from 4.1% to 4.9%, before reaching 5.9% in 2Q21.

Strength in demand deposits was a solid foundation for TCB to sustain growth quality and growth rate with the ability to control operating, funding, and credit costs. At the end of 2019, TCB accounted for 3.5% market share of total customer deposits in the whole banking system, with state-owned banks accounting for 9-12% of the market share each. However, TCB's retail CASA market share was 9.2%, outperforming other larger banks. These figures improved strongly in 2020 with TCB reaching 3.8% of the deposit market share, while the retail CASA market share made up 11.4%, ranking second in the industry.

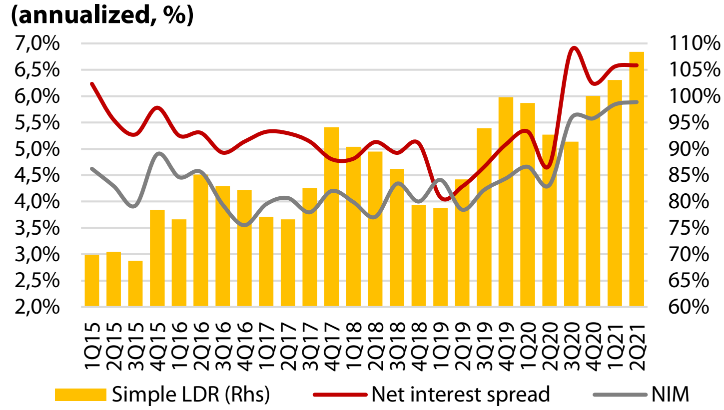
TCB's short-term deposits declined at a greater pace compared to the industry average downward trend in 2020 when the low interest rate environment caused the deposit term structure of the whole industry to shift to the short-term while retail deposits growth slowed down. Short-term deposits are key advantages of state-owned banks because of low interest rates and high demand from state-owned corporate and organizations. However, the low interest rate environment has more positive impacts on TCB compared to state-owned banks due to its retail deposit franchise. The behavior of individual customers has changed significantly during the pandemic. As a result, TCB's term deposit rate fell lower than that of other two listed state-owned banks and competed with that of VCB, which owns the largest market share of CASA, retail CASA and the largest amount of short-term deposits in the banking system.

Figure 41: Funding costs, average deposit rates và yield on term deposits (annualized, %)



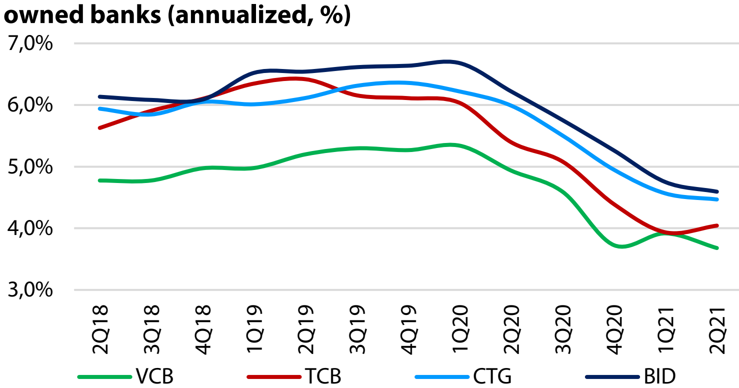
Source: TCB, RongViet Securities

Figure 42: Market 1 net interest spread, NIM and simple LDR (annualized, %)



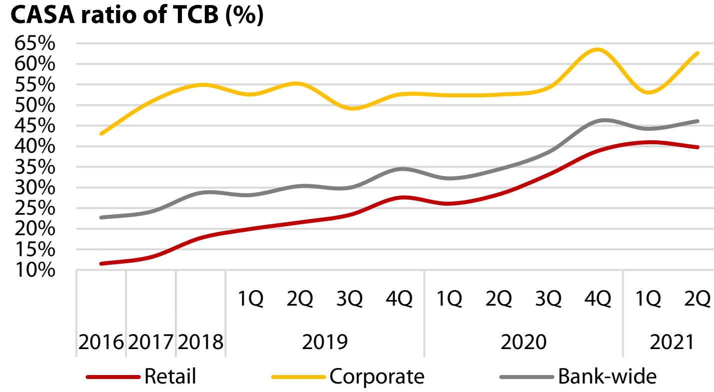
Source: TCB, RongViet Securities

Figure 43: Average term deposit rates of TCB and listed state-owned banks (annualized, %)



Source: TCB, RongViet Securities

Figure 44: Retail CASA ratio, corporate CASA ratio and total CASA ratio of TCB (%)



Source: TCB, RongViet Securities

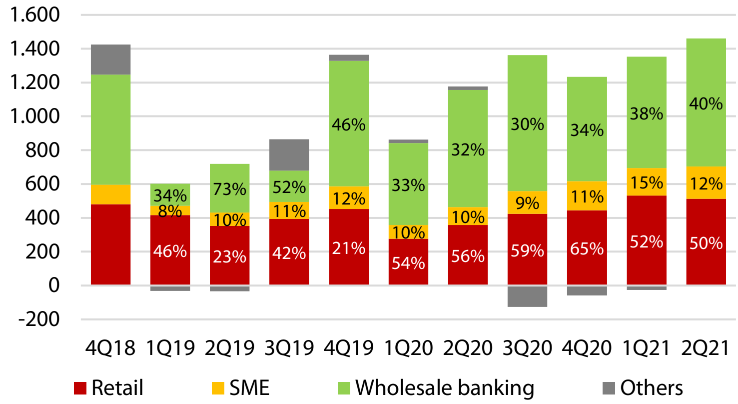
We expect a steady assets growth of over 20% in the coming years, driven by high credit quotas in a supportive monetary policy cycle. Combining with a slight upward trend of NIM thanks to payment deposits, balance sheet structure optimization and the lending rates recovery, net interest income will grow at 28% CAGR in the period of 2021-2025.

In addition, net fee income (including bond distributions and FX) also increased significantly with the development of payment services, investment banking services, and bancassurance. With the key strength in retail banking, TCB has its payment-related products well-developed. TCB is the leading bank in Visa card sales in Vietnam. This is one of the important business segments contributing to the rising trend of cashless payment. Regarding the e-banking platform, TCB shows that its technology capability has met customers' needs with a substantially high retail penetration rate, reflected by the number of customers using e-banking increasing by nearly three times since 2018. Transaction revenue also continuously increased with the catalyst from payment channel shifting. After 6M2021, the e-banking channel accounted for 82% of total transaction volume, with TCB's total transaction volume reaching 361 million in the period, up +80% YoY. The number of transactions processed through branches, ATMs, and POS channels has slowed down, accompanied by an increasing trend of money transfers via digital channels. The above results have proved TCB's payment service operations efficiency and technology platform preferences of customers. As a result, payment services revenue has sustained an average growth rate of 22% since 2012. The growth rate has gradually improved in recent years. We estimate a CAGR of 22% in the period of 2021-2023 because of fee incentives and cashback programs. However, the payment service income gross margin dropped sharply 2H18 when it started launching a 1% cashback product, down from 81% in 2015-2017 to less than 50% in 2019-2020 due to the increasing cost recognition. However, we expect gross margin to surge again in 2021 when the 1% cashback expenses will be reclassified into operating expenses, which facilitates the income growth improvement of payment services in the upcoming periods. At the same time, shifting the payment channel to a digital platform will help to increase the profit margin and reduce overall operating costs.

In addition, insurance is a potential high-growth segment thanks to TCB's exclusive agreement with Manulife in 2017. They launched the iTCBLife to improve consulting, customer understanding and user experience enhancement. Although the insurance income declined slightly in 2020 due to the restructure of operating model; however, this figure recovered in 1H2021 with the new insurance premium revenue increasing by 60% over the same period and income from bancassurance increased 48% YoY. We estimate that TCB's market share of new APE in 1H21 reaches 2.2%. Thanks to a high-end retail customer base with significant financial needs and stable market penetration, the bancassurance segment is expected to grow in the upcoming years and play an important role in net service income based on the effectiveness of this new model.

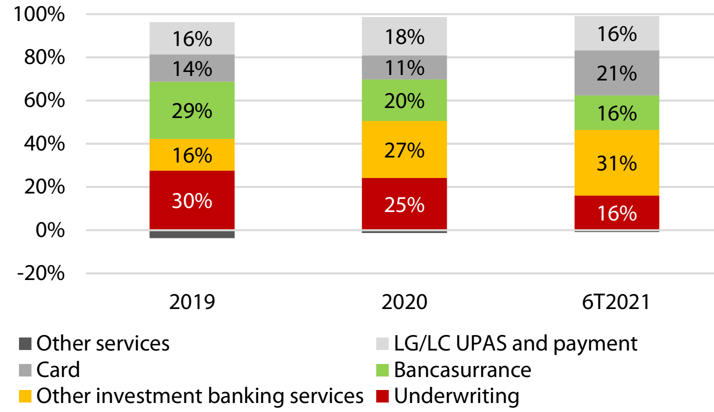
The investment banking segment benefits from relationships with major corporations and TCB's ecosystem, sustaining its contribution of about 50% of net service income. Although underwriting activities grew slowly in 2021, we assess the bond issuance demand will remain stable, particularly in the real estate segment and the market will be active when the social distance measures are gradually eased. Meanwhile, bond distribution became the new growth driver for non-interest income as it increased +73% YoY in 2Q21, equivalent to +43% YoY in 1H2021. The retail market for corporate bonds is becoming more popular and benefits from the demands for diversification from an active stock market. TCB is holding a dominant market share in these segments. We assess that there will be pressure from its high comparison base, resilient market growth and penetration of other securities companies. However, our positive view on TCB's investment banking outlook stay unchanged, mainly attributed to TCBS, based on its growing market potential, ecosystem and relationships with real estate corporations that increase their bonds issuance demand, first mover advantages, and rich experience.

Figure 45: Net fee income by customers (VND bn, %)



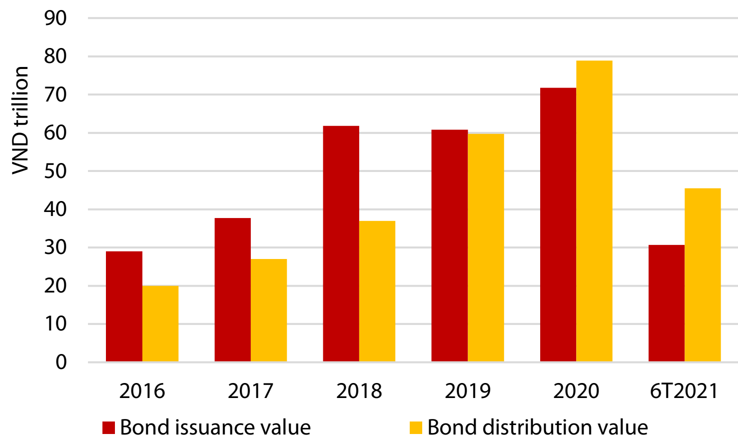
Source: TCB, RongViet Securities

Figure 46: Net service income structure (%)



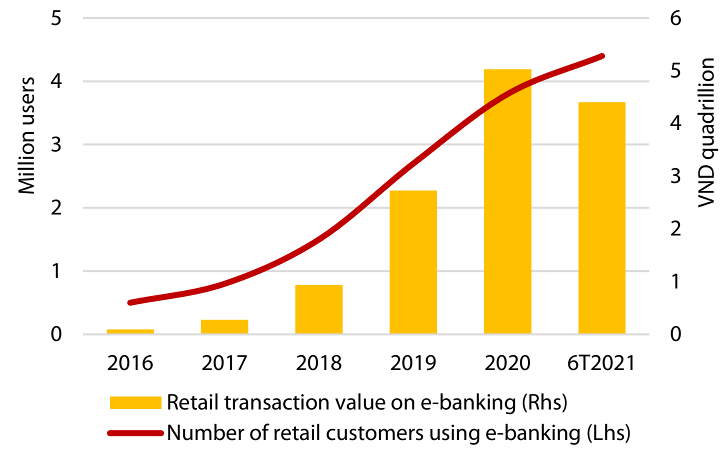
Source: TCB, RongViet Securities

Figure 47: Investment banking operation of TCBS



Source: TCB, RongViet Securities

Figure 48: Retail customer base and retail intra-period transaction value of e-banking platform



Source: TCB, RongViet Securities

Regarding the non-interest income, with a net written-off debt (written off debt minus bad debt collection) of nearly VND 4 trillion (USD 157 mn) since 2016, we expect bad debt recovery to be a supportive source of revenue. Total operating income growth is expected to witness healthy improvement, reaching an average of 26% in the 2021-2025 period based on scale expansion and core operating income growth.

In addition to sustaining dynamic operating efficiency which supports the CIR management and raises salaries as well as bonuses to attract talents at the same time, TCB manages lending operation well to effectively control credit costs to match its risk appetite. This indicates the earnings quality from credit activities of the bank. The risk-adjusted NIM maintain an upward trend even during the pandemic outbreak, partially attributed to the support of Circular 01 and Circular 03. TCB's focus has always been on the Affluent and Mass Affluent segments who have a high ability to absorb macro shocks. The bank has also adopted a conservative approach in expanding toward the Mass customer segment, even though this is a much larger market regarding retail customer base. Thus, when combining with an active write-off policy, the NPL ratio of the retail segment was well maintained below 1% in 1H21. For the corporate segment, the concentrating on VVIP customers also brings stable asset quality with the NPL ratio decreasing from 0.9% in 2019 to nearly 0% in 2020 also thanks to using provisions to write off bad debt and debt restructuring activities. Stable asset quality with low NPL ratio, the NPL formation rate controlled by supportive policies combining with a large, high-end customer base having good credit records as well as high operating efficiency that creates headroom for provisioning are several basic factors which help to keep credit costs at the low level. We expect the NPL formation rate to increase slightly in the upcoming period. However, further pressure on credit costs will be under controlled, leading to stable profit growth in line with the balance sheet expansion pace.

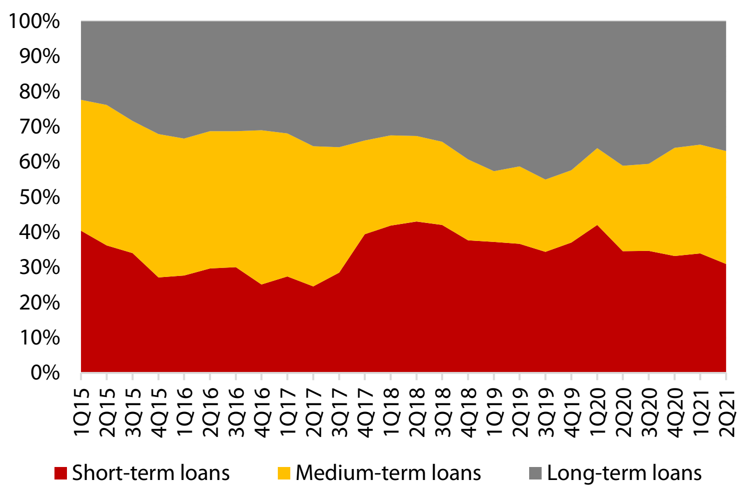
Efficiency metrics such as ROA and ROE of TCB have improved and are above the industry's average. More specifically, ROA as of 2Q21 is twice as high as the industry's average, while ROE has improved from 17-18% in the period of 2018-2020 to 21% with the lowest leverage ratio and highest CAR in the industry. This reflects the efficiency in profit optimization on basis of solid capital management.

At the end of 2020, TCB recorded a relatively healthy PBT of VND 15,800 billion (USD 687 mn), with a CAGR of about 50% in the period of 2015-2020 thanks to well-performing credit and operating costs management. Given diversifying income sources with a high proportion of net fee income, the 2021-2025 strategy continues the goal of profit diversification and ensures sustainability. We expect profit to grow at an CAGR of 31% over the same period, driven by an improving trend in cost management.

NIM and balance sheet optimization based on liquidity management

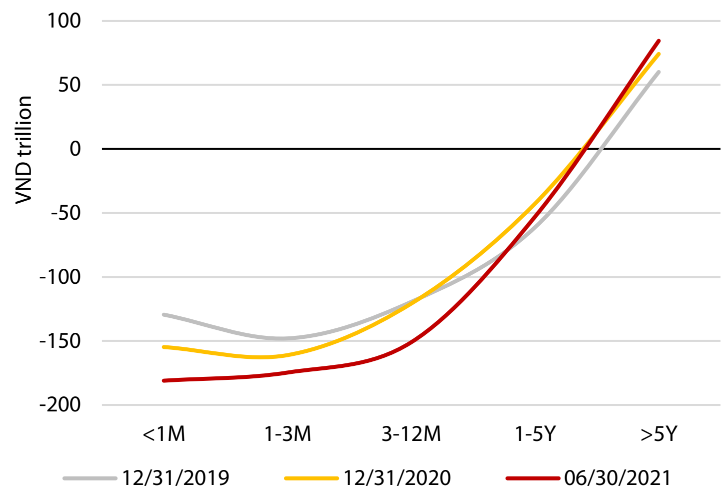
We consider TCB's liquidity position moderate, given some short-term indicators facing pressure from the limits under Circular 22/2019 and Circular 08/2020. The bank well optimized the balance sheet and utilize maturity transformation to improve NIM in the context of low yields on liquid assets that requires proper capital allocation. We expect the loan book diversification strategy in the 2021-2025 period and deposit rates increase during post-pandemic will help improve liquidity ratios and create liquidity headroom.

Figure 49: Loan book breakdown by time-to-maturity (%)



Source: TCB, RongViet Securities

Figure 50: Cumulative liquidity gap (VND trillion)

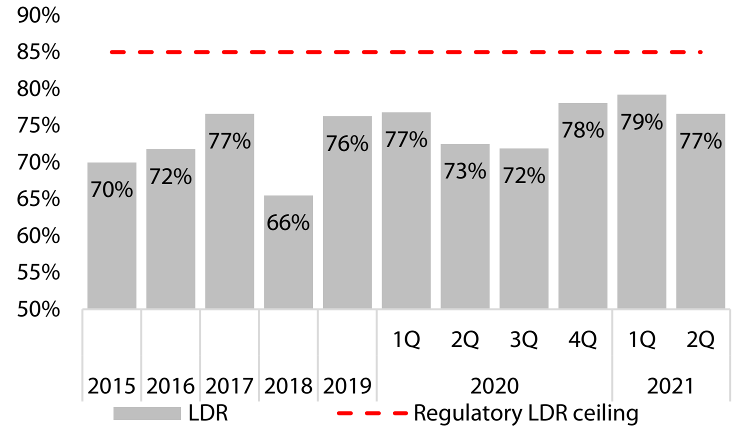


Source: TCB, RongViet Securities

With the loan book focusing on the real estate segment, the balance of the medium and long-term loans accounted for the majority of the portfolio (69% at the end of 2Q21). Meanwhile, TCB's CASA ratio (46%) is the highest in the industry, combining with the deposits shifting toward short terms, has created a notable advantage in lowering funding costs, leading to a huge gap between the two sides of the balance sheet. The trend of improving short-term deposits took place industry wide due to the low interest rates. We take a neutral view on the current large maturity gap and consider its implication of limited headroom for NIM leverage through the maturity transformation rather than as a liquidity risk for TCB. The liquidity of the banking system, in particular, stays abundant and Market 2 interest rates are stable at low levels. Some banks expect this situation to extend till 2022 while we share a similar view. Therefore, TCB's liquidity risk is not our concern. The fact that the current liquidity ratios use contractual maturity instead of behavioral maturity also puts pressure on banks, particularly, in risk management due to the large proportion of short-term deposits.

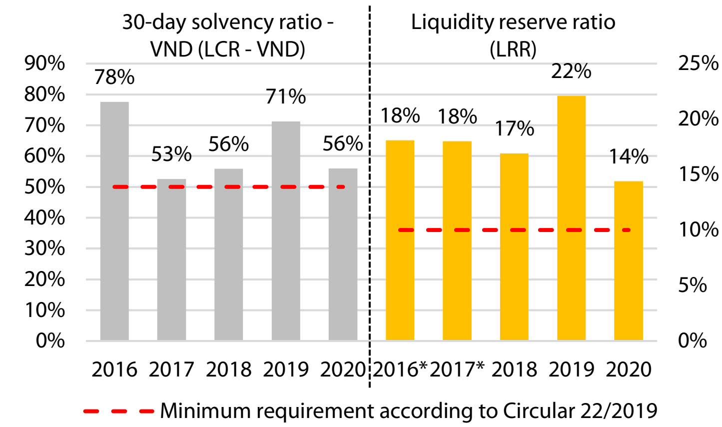
The regulatory LDR ratio is at 77%, increased significantly from 72% (2016) and 66% (2018) to improve profitability; however, this ratio remains under control with a limit up to 85%. In addition, the ratio of short-term funds for medium and long-term loans (SFLR) 2020 decreased to 34% at the end of 1Q21 from a peak of 43% in the period 2015-2019. This ratio rebounded in 2Q21 partially due to the increase in the medium-term loan proportion. We expect loan portfolio diversification and deposit structured products such as Techcombank iCAP to help sustaining this ratio.

Figure 51: LDR of TCB (%)



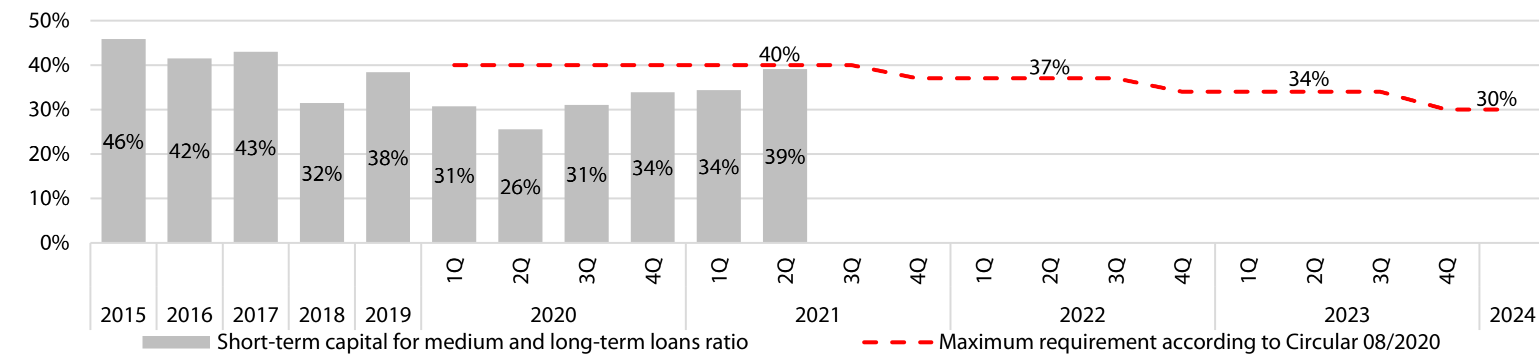
Source: TCB, RongViet Securities

Figure 52: Liquidity ratios of TCB (%)



*Source: TCB, RongViet Securities. * are our estimations.*

Figure 53: Short-term capital for medium and long-term loans ratio of TCB (%)



Source: TCB, RongViet Securities

TCB's 30-day solvency ratio in VND (LCR) decreased to 60% from 71.3% at the end of 2019, accompanied by a surging CASA ratio and a decline in the high quality liquid assets' proportion (HQLA). Having experienced a similar trend, the liquidity reserve ratio (LRR) also witnessed a decline when it was 14.4% in 2020, went down by 7.7% compared to the 2019 figure. With sharp declines in yield of government bond as HQLA, TCB reduced its weight to sustain NIM and promote balance sheet optimization given the limited credit quota granted. We also believe that CASA's strong momentum in the year-end period put pressure on this liquidity metric. We consider the liquidity ratio drop as a regular funding management to achieve the harmonization between multiple goals. These ratios are expected to remain reasonably above regulatory limits. With the low interest rates environment expected to be prolonged and stable market's liquidity, we think TCB will maintain little headroom for these ratios.

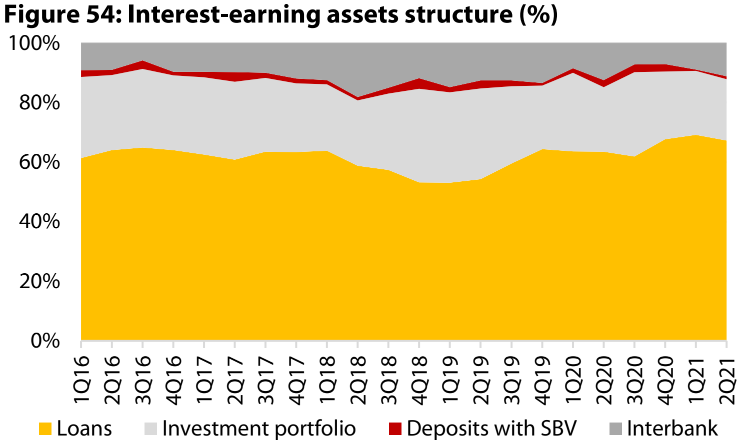
Although the majority of deposits comes from low-cost ones with a high proportion of CASA which was at 46.1% by the end of 2020 with the target of 55% by the end of 2025, TCB is still expected to maintain well-performing liquidity management. The term restructuring plan regarding two sides of the balance sheet is projected to improve the relative gap between medium and long-term loans and short-term funds when TCB implements revenue diversification, actively reduces the weight of real estate related loans and simultaneously promotes dues from growth sectors including FMCG, electricity, utilities or working capital loans. More specifically, series of programs such as Zero Fee, 1% Debit Cashback, and strong digital transformation investment are expected to create a customer-centric ecosystem meeting essential needs to reinforce competitive advantages. The strategic focus on enhancing the customer experience will help TCB to sustain high switching costs which strengthens users' commitment, especially leveraged by upcoming digital transformation projects.

In addition, TCB has multiple initiatives to strengthen the liquidity buffer by raising medium to long-term funds. In 2020, TCB successfully raised $500 million in medium and long-term funds from foreign investors, contributing to the bank's capital structure diversification, funding costs optimization, and ensuring risk management metrics within SBV's regulatory limits. This is a 3-year loan, with interest rate equals to the USD interbank rate (LIBOR) plus a margin of 1.5%/year, which was used to supplement the bank's mobilization. Structuring the funding base to take advantage of low funding costs from international capital market not only helped TCB maintain profitability targets, but also improved key liquidity metrics to reinforce risks management. Liquidity ratios will improve when interest rates become more favorable for depositors which does not challenge banks' liquidity management. Besides, we expect TCB to secure an additional 500 million USD offshore funding by taking advantage of the low interest rate environment and TCB's leading capability and rating to enhance medium and long-term funds.

CASA stability as a differentiating factor

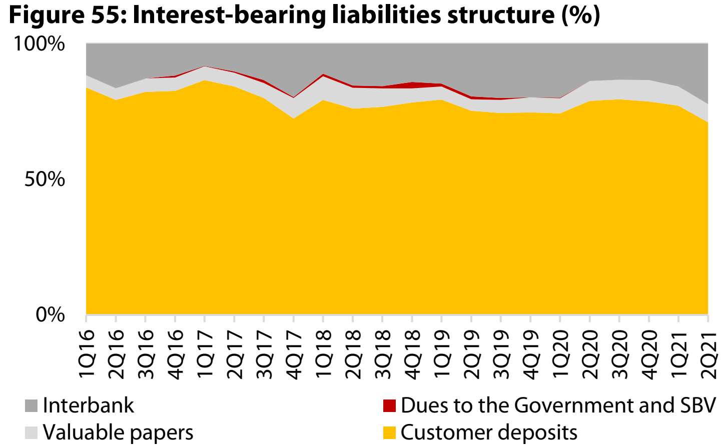
TCB has a large amount of short-term deposits and CASA and a longer-term asset structure. Therefore, TCB is basically highly sensitive to interest rates. Management highly values the CASA sustainability as a key target in a long-term interest rate cycle. Since then, the bank sets a comprehensive strategy to maintain the stability and stickiness of the funding base as well as customers' loyalty. This will bring great advantages to TCB in a period of higher yields. This is the current key concern when there is limited headroom for lower interest rates. With the CASA base being less sensitive to interest rates, TCB will have the opportunity to raise net interest spread without the need to optimize the balance sheet through the LDR, and simultaneously can also allocate sufficiently and effectively to liquid assets. Hence, other liquidity ratios will also have better headroom for being managed and leveraging NIM.

Figure 54: Interest-earning assets structure (%)



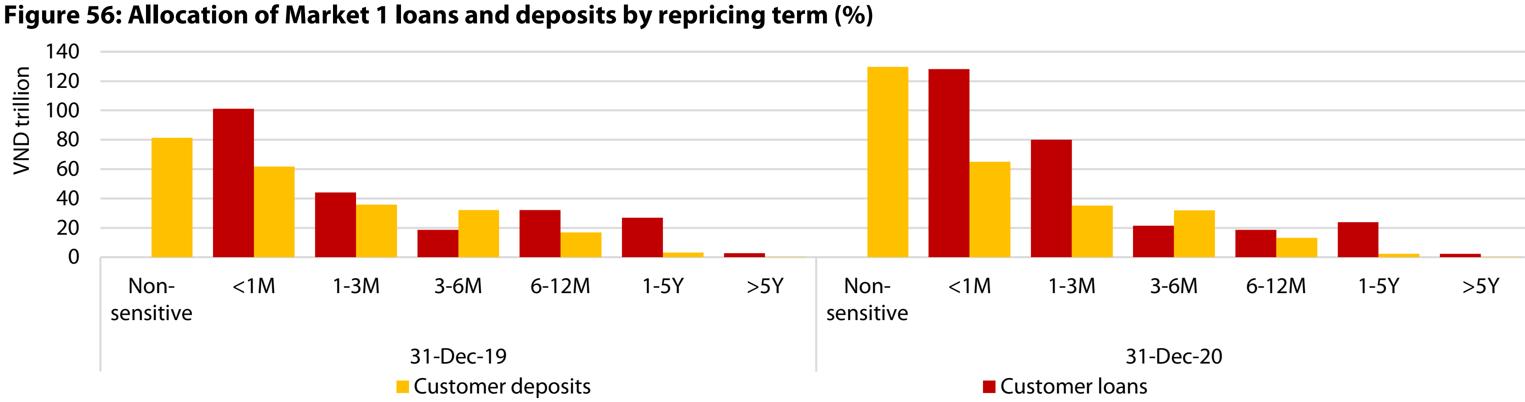
Source: TCB, RongViet Securities

Figure 55: Interest-bearing liabilities structure (%)



Source: TCB, RongViet Securities

Figure 56: Allocation of Market 1 loans and deposits by repricing term (%)



Source: TCB, RongViet Securities

TCB's balance sheet structure has been shifted towards utilizing non-lending assets, managing liquidity ratios through Market 2, and trying to take advantage of the credit quota granted by net interest spread in Market 1. The low funding cost was the basis for effective Market 1 lending. Simultaneously, low interbank interest rates also helped to reduce the cost of managing the liquidity risk ratios through the interbank market. More specifically, the proportion of interbank deposits increased to 18% of total assets after 1H2021, from 11% at the end of 2020, while customer deposits increased slowly due to low interest rates, leading to the lower contribution. On the loan book side, majority of the portfolio has long maturities. However, the repricing terms are short, mainly less than one quarter.

TCB uses quoted base rates as reference for loans with a repricing period of one month for households and individuals, and a that of one to six months for corporate customers. However, some current preferential interest packages offer fixed rates for the initial period, before turning to be floating at the reference rate plus a margin. As a result, some new loans have repricing periods longer than one year. With the repricing gap in short-term buckets at a negative level, TCB will benefit in case interest rates increase as long-term loans will be gradually repriced at the long-term deposit rate or base rate. Based on the current balance sheet structure, TCB will be more sensitive to rising interest rates. At the end of 2020, according to the bank's assessment, exposure of PBT to VND interest rate risk is nearly VND 5.2 trillion (USD 226 mn), equivalent to 33% of PBT in 2020 for the increase in lending and deposit rates of 3%, while the equity at risk is approximately VND 4.2 trillion (USD 183 mn), equivalent to 6% of the shareholder's equity.

One of the factors driving NIM, not only impacting TCB but also the whole banking industry, was the fact that the decline of the lending interest rate was at a slower pace than that of deposits, due to the low market competitiveness of the base rate or reference rate for loans, especially those applying for medium and long term loans. Therefore, TCB with assets and liabilities having long maturities benefited from this trend. However, in contrast, the increase in deposit interest rates will put pressure on NIM. Banks with low granted credit quotas will face challenges in balancing loan growth and NIM optimization. We expect this pattern will not have impacts on TCB based on the stability and growth of CASA base.

More specifically, we believe that the target of a CASA ratio increasing by 9% compared to the current level in 5 years is feasible and is likely to be achieved 1-1.5 years ahead of schedule. The momentum will come from the retail segment, supported by the industry's trend of increasing retail CASA ratio. With the surging demand for settlement, the shifting to digital payment solutions requires customers to maintain a stable CASA balance. Combining with large ecosystems and technology platforms to provide diverse, everyday banking services at convenience, these are fundamental factors that contributes to CASA's stability. Therefore, we expect that when interest rates rise again, combining with an improvement in CASA ratio, TCB will still be able to sustain the advantage in net interest spread, leading to a stable NIM.

2021/2022 performance projection

In the first six months of 2021, total operating income and PBT reached VND 18.1 trillion (USD 787 mn, +54%, YoY) and VND 11.5 trillion (USD 500 mn, +71%, YoY) respectively. These are very positive results compared to our initial expectations, in which:

- Net interest income reached VND 13.4 trillion (USD 583 mn), up +56% YoY and equal to 58% of our full-year forecast thanks to higher-than-expected NIM expansion. Although the CASA ratio was flat, NIM widened due to (1) asset yield was 17 bps higher compared to the full-year forecast, (2) a deep decline in average term deposit rates, combined with (3) slower deposit growth than that of lending which improved LDR. The sharp fall of funding costs which was lower than the annual forecast is the largest surprise.
- Regarding non-interest income, the bond distribution and bancassurance segments outperformed earnings expectations and offset the slower growth of the underwriting segment.

- The total operating income witnessed a strong growth, reaching 55% of the full-year forecast. Provision was maintained at a conservative level, yet higher than projections due to the complicated context of the pandemic

Based on the aforementioned positive results, combining with a cautious view on the pandemic movements, we adjust our forecast for the whole year of 2021 of total operating income and the pre-tax profit reaching VND 36,662 billion (USD 1.6 bn, +36%, YoY) and VND 23,010 billion, approximately USD 1 billion (+46%, YoY) respectively, which is 16% higher than the initial plan.

The total credit balance in 2021 is forecasted to increase by +22%, of which outstanding loans will increase by +20.8%. Customer deposit growth is projected at +22%, while total deposits including valuable papers are estimated to increase by +22.7%. We estimate that credit and deposit demand remain at fairly average levels, and will soon accelerate after the restrictions and distancing measures are loosened which will facilitate the appraisal, disbursement, and procedures activities to be normalized. In 2022, we forecast the credit growth to slightly improve at +22.7% and deposit growth of +22.3%. More specifically, CASA maintains a stable annual growth momentum of approximately +25%, however, the CASA ratio slowed down due to a high comparison base. The growth gap between loans and deposits gradually narrows to 0.3% in 2022.

In 2021, we expect NIM to surge strongly by 77 bps, with NIM in 2H21 falling slightly as the average lending rate going down at a higher pace than that of deposit rate, reaching 5.5%, compared with 5.8% in 1H21. Interest rates on debt securities and valuable papers in 2021 are both projected to decrease compared to 2020 figures, with interest rates on valuable papers down by 63 bps, higher than the debt securities yield. This is due to the improvement in a proportion of the corporate bonds having high yields. In the base case of the 2H22 when pandemic development is becoming less complicated and reducing the pressure on lending rates from supportive interest packages, NIM is expected to improve slightly by nearly 10 bps in 2022, from 5.8% in 2021 and approximately 5.0% in 2020. This is consistent with the assumption that TCB will benefit during the recovery period based on the large maturity gap and the CASA stability. The average deposit rate is projected to witness a slight decline as CASA continues to increase and the term deposit rate is flat.

Based on these assumptions, ***we forecast net interest income to grow +39% and 26%, equivalent to VND 26.1 trillion (USD 1.1 bn) and VND 32.9 trillion (USD 1.4 bn) in 2021 and 2022 respectively.***

We forecast net interest from service activities in 2021 to increase to VND 5.6 trillion (USD 243 mn, +34%), accounting for 15% of total operating income, which slightly decreases compared to the 2020 figure, due to a strong surge in net interest income. Net interest income to total assets improves to 1.1%, among the highest levels in the industry, driven by bancassurance and settlement (including cards) attributed to the launch of iTCBLife and the efficiency of the new business model, as well as 1% cashback expenses classified into operating costs. Meanwhile, the underwriting activity witnesses a negative growth. In 2022, we expect this segment to recover strongly, leading to a growth of +23% in net service income to VND 6.9 trillion (USD 300 mn).

Regarding other non-interest income activities, we expect bond distribution and bad debt recovery to become key drivers. We expect other non-interest income to grow 22% and 21% in 2021 and 2022, equivalent to VND 5 trillion (USD 217 mn) and VND 6 trillion (USD 261 mn) respectively.

We forecast an average annual increase of +24% of operating expenses over the period of 2021-2022. However, CIR will be controlled, decreasing to 30% in 2021 and 29% in 2022 due to the high growth of total operating income. The disbursement of USD-500-million technology investment package, which should increase CIR because of the 50% direct allocation to operating costs, is expected to be challenging in 2021.

We expect asset quality to be somewhat maintained based on the financial headroom for using provisions to write-off bad debt and a high-profile customer base. ***NPL ratio is forecasted to be at 0.5% in 2021 and 0.6% in 2022.*** The net NPL formation rate is estimated to increase slightly compared to the 2020 figure due to the lag of the pandemic impact, sustaining at 0.7-0.8% of total loans in the 2021-2022 period. With Circular 03 being amended by Circular 14 to extend the restructuring and maintaining debt group periods and expand the condition on debt repayment obligations period, the restructured debt may increase in the next two years. Our projection is consistent with the bank's simulated scenario in the worsening situation of the pandemic, where the restructuring debt may increase by 10-20% to subsequently reach 1.0% of the loan book, compared to the current level of 0.8%. Combining with the net NPL formation rate and the minimum additional provisions according to Circular 03, provision costs is projected to reach VND 2.7 trillion (USD 117 mn, +4%) in 2021 and VND 3.2 trillion (USD 139 mn, +19%) in 2022. This forecast implies the credit costs on total loans maintaining at 0.9% in the next two years, higher than the net NPL formation rate to maintain the provision buffer in this highly uncertain time.

Factoring the above assumptions, ***we forecast consolidated PBT to grow +46% and +28% in 2021 and 2022, respectively, reaching VND 23,010 (USD 1.0 bn) and VND 29,357 billion (USD 1.3 bn).*** ROA remains at a high level (3.7-3.8%) while ROE reaches 21.7% and 22.3% respectively in 2021 and 2022. Slightly increased NIM with a significant improvement in risk-adjusted NIM, operating efficiency maintained at the industry-leading position, combining with capital advantage and CAR headroom, altogether these factors made a solid foundation for a sustainable balance sheet growth momentum, which is estimated at 25 % in 2021, 24% in 2022 and an average of 23% in the period of 2021-2025.

Valuations and recommendations

At the price of VND 50,700 per share as of 08th October 2021, TCB is traded at a forward P/E of 9.9x and a forward P/B of 1.9x for 2021. Regarding the 1-year prospect (till mid-2022), 1-year forward P/E is 8.7x while 1-year forward P/B is 1.7x. The above 1-year forward P/B is -18% lower than the historical average of 27 listed banks, and -25% lower than the historical average level of banks having the same sizes (excluding TCB). Considering the above valuations in relations to TCB's top-tier forward ROA and forward ROE being 12-16% higher than the industry average, we highly recommend TCB stock based on fundamentals and attractive risk-reward balance despite no foreseeable dividends in the near future.

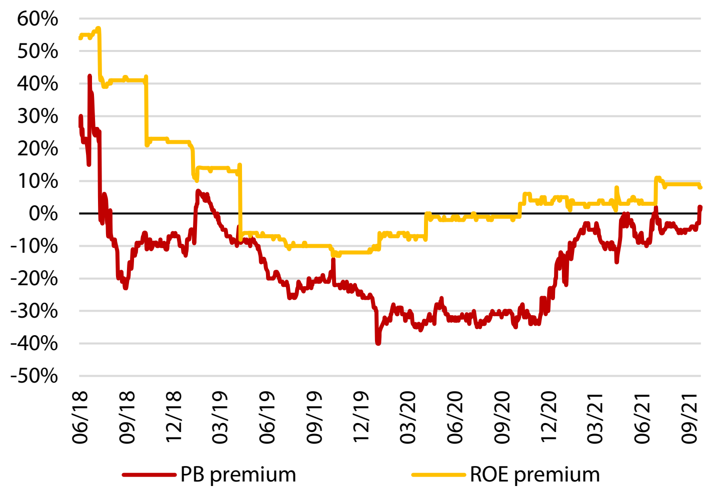
Table 1: Forward efficiency ratios, valuation multiples and dividend yields (x, %)

	ROE 2021E	ROE 2022F	P/B 2021E	P/B 2022F	Dividend yield 2021E	Dividend yield 2022F
TCB	3.7%	3.8%	1.9	1.5	0.0%	0.0%

Since having been listed with the industry-leading P/B during the peak of the market, the most successful IPO in the Vietnamese banking industry has faced significant pressure. Basically, the substantial equity gain from the public capital raising led to a sharp drop in ROE, while the growth momentum is not suitable to offset it. When TCB's ROE premium relative to the industry was on the decline and gradually turned from strongly positive to negative (discount, figure 57), combining with unfavorable market factors afterward, TCB's market price experienced a downward trend. However, after the normalization phase of ROE and when TCB enters the period of 2021-2025 with a higher balance sheet expansion pace, we believe that TCB's ROE has potential headroom to reach a sustainable level which is approximately 10% higher than the 20% reported ROE in mid-2021, while the industry's ROE has little headroom for further improvement as small banks have weak provision buffers. Moreover, many banks' NIMs are likely to peak. Therefore, the ROE premium can continue to improve, leading to the P/B premium compared to the industry figure. Indicated by the industry-leading ROA, strong capital buffer, high forward growth with stable risk-adjusted NIM, we think TCB deserves the a positive P/B premium. This is also supported by the current low interest environment, which is expected to be sustained due to the complicated developments of the pandemic that requires the support of expansionary monetary policy.

Based on TCB's time-series relative valuation, its P/B is below the level of historical mean plus one standard deviation, while the banking sector's P/B is moving towards the mean plus one standard deviation. Regarding risk-reward balance, TCB's trailing P/B is at downside risks of falling by -5% and -23% respectively to the two nearest lower P/B levels (Figure 58). These are insignificant compared to the upside risks of moving to the two nearest upper P/B levels. However, considering the book value's growth rate, which is estimated to reach 24% in 2021 and 25% in 2022, the upside is attractive. We also expect that in case the macro environment and internal factors of TCB are now different from those of 2018-2019, TCB's P/B will remain above the historical average (1.6x). In the higher interest rates environment occuring during the early stages of the economic recovery, a steepened yield curve is a supportive factor for TCB's business, and therefore, a positive catalyst offsetting the impact of rising interest rate on the equity risk premium. In summary, we expect an attractive risk-reward balance in various scenarios.

Figure 57: TCB's ROE and P/E to sector's (%)



Source: Fiinpro, RongViet Securities. Data as of October 08, 2021.

Figure 58: Historical P/B of TCB (TTM, %)

Source: Fiinpro, RongViet Securities. Data as of October 08, 2021.

We used various valuation models including DCF, residual income and relative valuation methods to determine the intrinsic value of TCB. However, the two core methods to more accurately determine the target price reflecting the prospect of dividend payment and share issuances in the medium and long term are DCF and forward P/B. More specifically, since the rising trend of the banking industry has been reflected by significant earnings growth in the first half of 2021, and we expect the momentum of the industry to gradually decrease until the end of the year, we increase the weight of the long-term component to 70% and reduce the weight of the market-based component to 30% to represent a longer-term vision towards the stock.

Table 2: Target prices by methods and the weighted average target price

	Intrinsic value according to the method	Upside as of Oct 08th 2021	Weight
DCF	70,693	39%	70%
Residual income	64,756	28%	0%
Forward P/B	71,841	42%	30%
Forward P/E	68,011	34%	0%
Total	**71,038**	**40%**	**100%**

We estimate the target price of TCB's stock at **VND 71,000 per share** (rounded), equivalent to a 1-year forward P/B of 2.4x. This target price is equivalent to an expected return of **40%** compared to the closing price on October 08, 2021. We recommend **BUY** call for TCB.

Unit: VND Bn

INCOME STATEMENT	FY2019A	FY2020A	FY2021E	FY2022F
Interest and Similar Income	25,016	29,002	35,267	44,157
Interest and Similar Expenses	-10,758	-10,251	-9,205	-11,252
Net Interest Income	**14,258**	**18,751**	**26,062**	**32,905**
Non-interest Income	6,810	8,291	10,600	12,920
Net fee and commission Income	*3,253*	*4,189*	*5,606*	*6,880*
Net gain/(loss) from foreign currency and gold dealing	*105*	*1*	*571*	*446*
Net gain/(loss) from trading of securities	*398*	*321*	*334*	*479*
Net gain/(loss) from disposal of investment securities	*1,244*	*1,497*	*2,055*	*2,664*
Net other income/expenses	*1,807*	*2,279*	*2,030*	*2,446*
Income from capital contribution	*4*	*4*	*4*	*4*
Total operating income	**21,068**	**27,042**	**36,662**	**45,825**
Operating expenses	-7,313	-8,631	-10,928	-13,239
Operating profit before provision	13,756	18,411	25,734	32,586
Provision expenses	**-917**	**-2,611**	**-2,724**	**-3,229**
Profit before tax	**12,838**	**15,800**	**23,010**	**29,357**
Corporate income tax	-2,612	-3,218	-4,696	-5,981
NPAT	**10,226**	**12,582**	**18,314**	**23,376**
Attributable to parent company	**10,075**	**12,325**	**18,056**	**23,119**

Unit: %

FINANCIAL RATIO	FY2019A	FY2020A	FY2021E	FY2022F
Growth				
Customer loans	44.6	20.8	20.8	22.3
Customer deposit	14.8	20.0	22.0	22.0
Net interest income	25.2	31.5	39.0	26.3
Operating income	14.8	28.4	35.6	25.0
NPAT	19.1	22.3	46.5	28.0
Total Assets	19.5	14.6	24.8	23.6
Equity	19.9	20.2	23.6	25.1
Profitability				
NIM	4.3	4.9	5.6	5.7
CIR	34.7	31.9	29.8	28.9
ROAE	17.7	18.0	21.7	22.3
ROAA	2.9	3.0	3.7	3.8
Asset Quality				
NPL ratio	1.3	0.5	0.5	0.6
Bad debt coverage ratio	94.8	171.1	155.4	140.9
Equity-to-Assets ratio	16.2	17.0	16.8	17.0
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	71.9	69.2	68.9	68.9
Customer LDR	99.8	100.0	99.0	99.3

Unit: VND Bn

BALANCE SHEET	FY2019A	FY2020A	FY2021E	FY2022F
Cash and precious metals	4,821	3,664	4,528	6,797
Balances with the SBV	3,192	10,253	11,847	14,454
Placements with and loans to other credit institutions	47,990	28,995	45,812	60,472
Trading securities, net	10,042	8,348	10,883	13,365
Derivatives and other financial assets	0	0	0	0
Loans and advances to customers, net	227,885	275,310	332,541	406,784
Investment securities	66,055	84,447	109,949	136,281
Investment in other entities and long-term investments	12	12	12	12
Fixed assets	3,208	4,613	4,939	6,781
Investment properties	1,161	1,125	1,298	1,314
Other assets	19,334	22,836	26,972	31,856
TOTAL ASSETS	**383,699**	**439,603**	**548,780**	**678,115**
Due to Gov and borrowings from SBV	0	0	0	0
Deposits and borrowings from other credit institutions	61,267	47,485	66,479	85,093
Deposits from customers	231,297	277,459	338,500	412,969
Derivatives and other financial liabilities	434	267	0	0
Funds received from Gov, international & other institutions	0	0	0	0
Convertible bonds/CDs and other valuable papers issued	17,461	27,900	36,270	45,337
Other liabilities	11,169	11,878	14,861	18,926
Total liabilities	**321,627**	**364,988**	**456,109**	**562,325**
Shareholder's equity	**62,073**	**74,615**	**92,187**	**115,306**
Capital	35,478	35,526	35,526	35,526
Reserves	5,173	6,790	9,291	12,494
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	21,130	31,816	47,370	67,286
Minority interest	*292*	*484*	*484*	*484*
LIABILITIES AND SHAREHOLDER'S EQUITY	**383,699**	**439,603**	**548,780**	**678,115**

Unit: VND Bn

FOOTNOTES	FY2019A	FY2020A	FY2021E	FY2022F
Interest Income	**25,016**	**29,002**	**35,267**	**44,157**
From customers	16,728	21,590	26,547	32,997
From other Cis	721	347	260	463
From fixed-income investment	6,795	6,253	7,531	9,543
From guarantee	0	0	0	0
From other activities	773	812	929	1,155
Interest Expenses	**-10,758**	**-10,251**	**-9,205**	**-11,252**
To customers	-9,421	-8,196	-6,450	-7,632
To other Cis	-370	-599	-942	-1,291
To fixed-income investment	-967	-1,419	-1,807	-2,321
To other activities	0	-37	-6	-8
Operating expenses	**-7,313**	**-8,631**	**-10,928**	**-13,239**
Provision expenses	**-917**	**-2,611**	**-2,724**	**-3,229**

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Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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