

**OVERWEIGHT [+19.2%]**

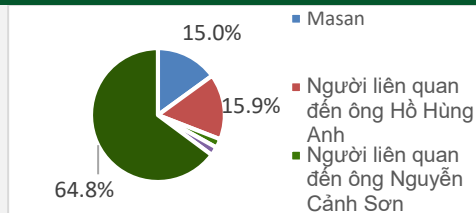
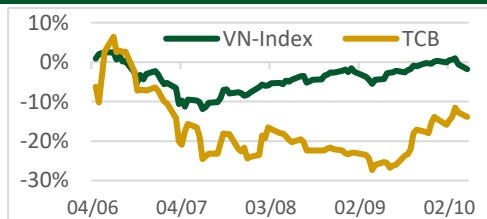
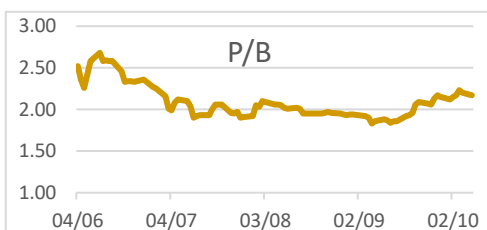
Updated time: 12/10/2018

Target price	33,200	VND
Current price (Oct 11)	27,850	VND

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**Stock information**

Outstanding share (million)	3,496.6
Free-float (million)	2,304.8
Market cap (billion dong)	101,926
3 month average volume	1,635,057
Foreign owning rate	22.50%
First listing date	04/6/2018

**Major shareholder**

**Price movement comparing to the Index**

**Evaluating history**


Source: PHS Research

Unit: billion dong	2014	2015	2016	2017	1H2018	2018F
Net revenue	5,871	7,214	8,142	8,930	5,051	10,740
Earnings after tax	1,082	1,529	3,149	6,446	4,150	7,894
EPS (VND)	1,216	1,718	3,538	5,531	3,146	2,258(*)
EPS growth (%)	64%	41%	191%	56%	33%	22%(*)
Book value (VND)	16,838	18,492	22,007	23,107	40,695	15,417
P/E	-	-	-	-	-	14.69
P/B	-	-	-	-	-	2.15
Cash dividend (VND)	0%	0%	0%	0%	0%	0%

(\*) Adjusted after paying bonus dividend at the rate of 1:2

**Most effective bank in the system**
**Extraordinary results if 1H2018:**

TCB EBT is 5,196 billion (+90% yoy), reaching over 50% target. The credit growth is only 3.6% but net interest income growth is nearly 15% with high CASA rate of 22.4%. Mobilization growth is 9%, higher than debt balance growth so NIM rate is 3.56%, down by 19 basic points comparing to the beginning of the year.

Non-interest income saw a good growth YoY (+31%) with good exploiting on insurance and payment services. At the same time, profit from the divestment in Techcom Finance (+895 billion) also pushed the bank's non-interest profit up. Besides, Techcombank is the most effective bank in the system currently with CIR in the first half of the year at only 27.9% while it is about 40% in other banks.

After being listed on HOSE, Techcombank has paid bonus share at the rate of 1:2, raising chartered capital by 3 times. Total asset increased by 12%, mainly because of the growth of deposit in credit organizations and capital source growth from equity surplus after IPO and non-distributed profit in half year.

**2018 Forecast:**

The growth will continue since there is still quite big credit growth room. Techcombank continues exploiting customer ecology with a core being big enterprises like Vietnam Airlines, Masan Group, and Vingroup. Vincity project will be opened for sales at the end of the year which will give a push on loan items and cross selling financial products in the value chain. Expected net interest income will be 10,740 billion (+20% yoy), accounting 64% total operating income. Provision expense drops strongly since the bank is clear of VAMC debt. EBT is expected at 9,868 billion (+58% yoy).

Non-interest income dropped slightly without irregular income from insurance affiliation. Income from insurance brokerage, bond brokerage and distribution, and bank trading fee will continue growing which will be the main motivation for non-interest income.

**Evaluation and recommendation:**

By weighted average method between Residual Income and P/B forward, we evaluate TCB price at 33,200 dong and recommend OVERWEIGHT.

**Risks:**

TCB expected interest income growth is higher than debt balance and total asset growth which raises the risk of potential bad debt.

Development strategic in ecological system model lessens the diversify of customer portfolio.

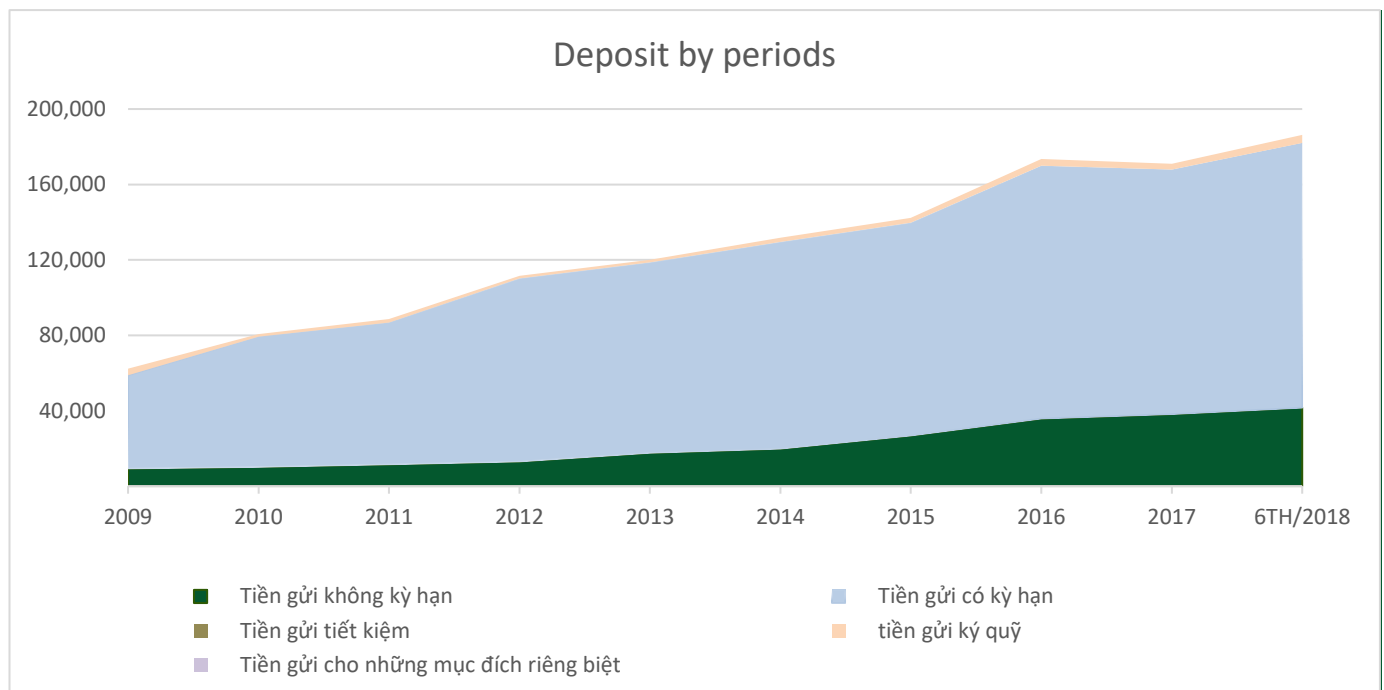
## Strong growth in the first 6 months 2018

### - Irregular profit growth because of strongly dropping provision expense

Techcombank EBT increased strongly to 5,196 billion (+90.1% yoy), other than the growing operation, it was also because the bank didn't have to setup special bond provision this year since it has purchased and setup to process all bad debt from VAMC at the same time. Therefore, provision expense in the first half 2018 in TCB is only 1,044 billion (-56.1% yoy), accounting 12% total operating income.

### - Good CASA ratio

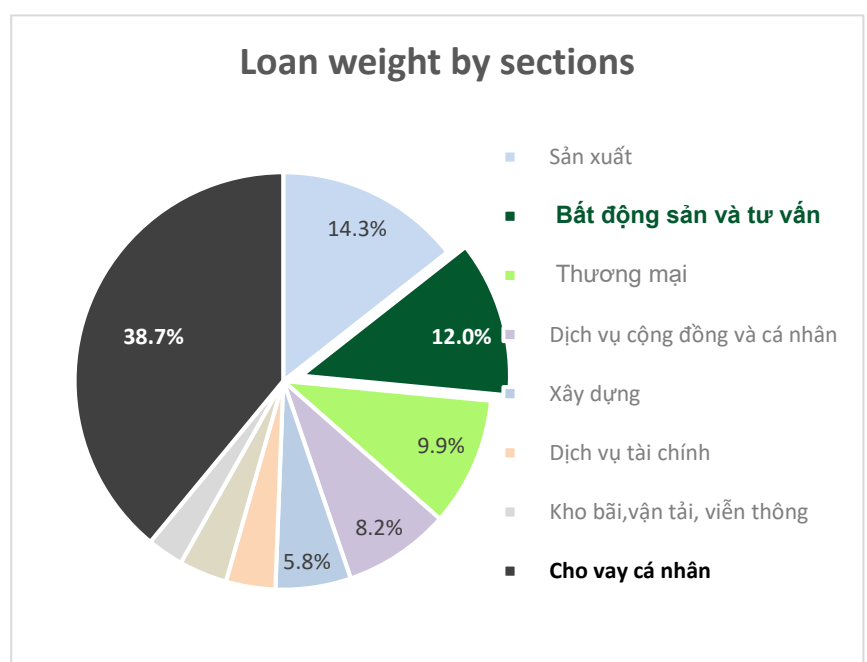
Current account weight in Techcombank has been increasing and stayed at 22.35% from the end of 2017. This is a high rate in Vietnam banking system, which is a low cost capital source that helps TCB being benefited from lower interest payment expense. With the strategy of focusing on value chain, Techcombank has well exploited middle and high-end customer section which is the group that brings high current deposit source to the system via special financial services.

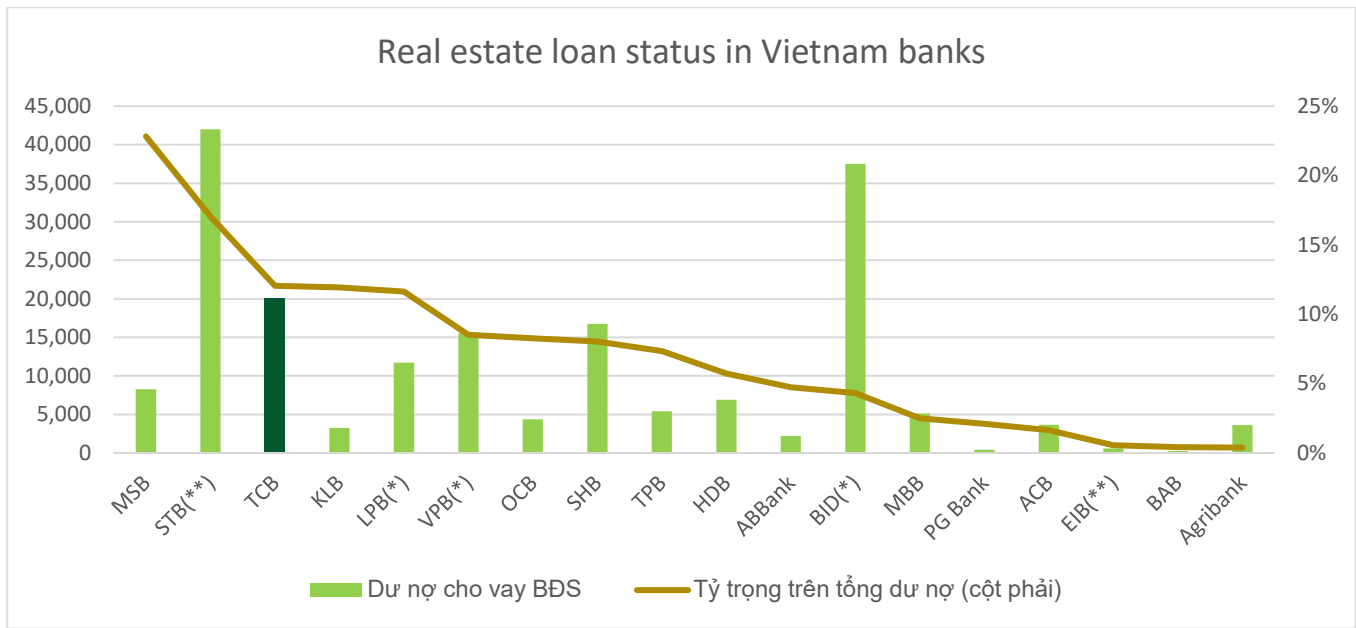


(Source: Techcombank, PHS summarization)

### - Real estate loan accounts a high weight

With the advantage of connecting with important customer Vingroup, real estate development loan in Techcombank accounts 12% customer loan balance, house purchase loan balance from individual customers is also very high. Techcombank is also the bank with high real estate loan rate in Vietnam banking system, after STB (17.03%) and MSB (22.82%). However, with tightening policy on credit for real estate market as well as few projects in the first half 2018, real estate loan didn't see strong growth yet.





(\*)At the end of 2017

(\*\*)Debt balance related to asset trading and consultant service operation

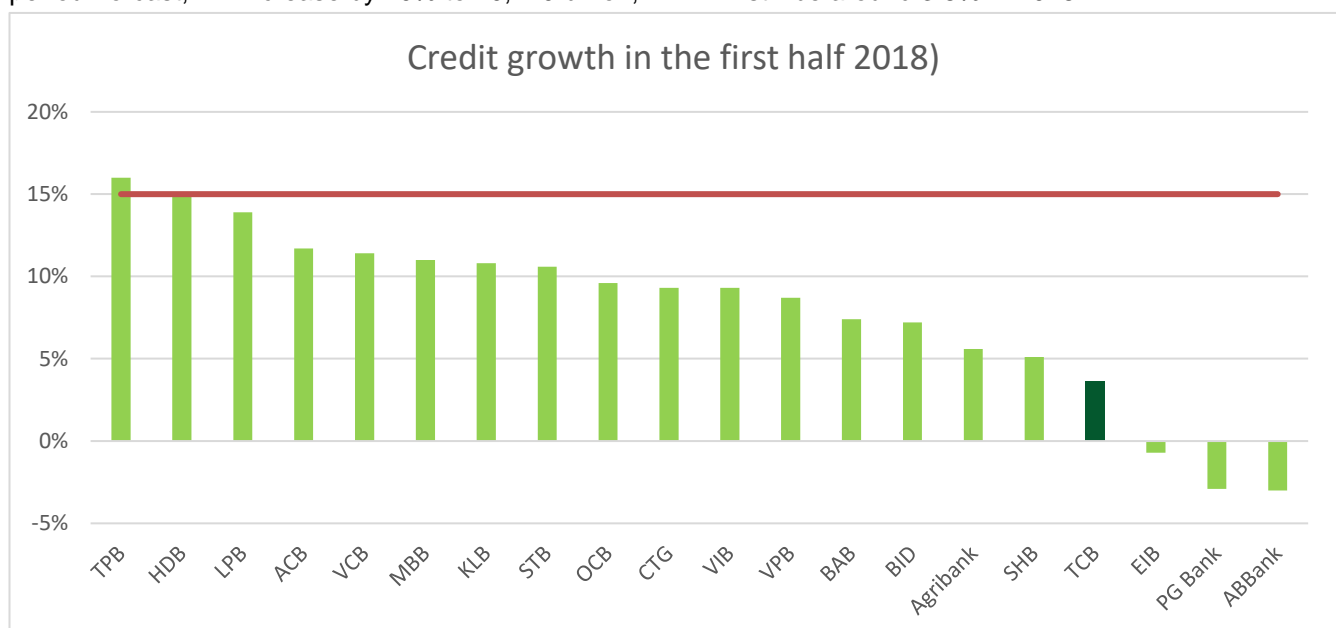
(Source: PHS Research summarization)

### Stable growth in the second half of 2018

2018 is considered an important year in Techcombank 2016-2020 strategy, pointing toward the target of becoming Vietnam number 1 bank. With special development strategy, highly skilled human resource, Techcombank is totally confident on the transparency without being afraid of model copy. Total asset is not even a half of that in big banks, but Techcombank profit is now among leading group of the system and it is expected to still see stable growth in the operating indicators are all in effective status.

#### - Rich credit growth room, LDR is at safe level

Techcombank has advantage in the second half of 2018 comparing to other banks since credit growth room is still very rich comparing to the credit growth speed as of the end of Q2 at 3.6%. Other than that, loan over deposit rate as per Circular 36 is always at a safe distance with the regulation of 80% for non-state owned banks which will ease the pressure on Techcombank when the bank needs to expand new loan items. With Vincity project being sold at the end of the year, Techcombank loan balance is expected to increase strongly in 2018-2019. TCB net interest income, as per our forecast, will increase by 20% to 10,740 billion, NIM will still be around 3.8% in 2018.



(Source: PHS Research summarization)

- **Non-interest income sees stable growth**

The cooperation with Manulife will raise the commission from insurance fee collection for Techcombank by about 634 billion in 2018 (+23.5% yoy), contributing 17.7% in service income. The revenue from enterprise bond issuance consulting will still increase strongly since Vietnam bond market is still small and the Government is paying attention on expanding it. Total profit from service activity is expected at 2,828 billion (-26% yoy) lower than 3,812 billion in 2017, however, if excluding one-time-collecting insurance authorization and agency service, the service profit growth in Techcombank in 2018 is 22.3%.

- **Low operating expense**

Techcombank is much more effective than other banks in the system with low CIR. From around 60% in 2013, TCB's CIR has dropped strongly to only 27.9% at the moment, becoming the most effective bank in the system, while other banks have high CIR at the average of 40% and up. TCB's advantage comes from the customer development strategy in ecological system model, helping with lowering the work amount and raising effectivity for employees. We expect that the bank CIR will still be low and even drop in the future with IT development investment on digital banking and the solutions on risk management and confidentiality.

## Developing the ecological system by value chain

Techcombank's growth speed is impressive because of the strategy for supplying comprehensive financial products and services. Starting with the foundation of Anchor Corporate in Vietnam, TCB will approach and form a connection among potential partners to form a value chain. Using data source from the ecological system, Techcombank team will design, adjust, and combine financial and non-financial services to strengthen the experience and connection of the partners and customers in the value chain. Besides, the bank also encourages product cross sale to strengthen the experience and convenient for the customers in the value chain.

- **Masan Group ecological system**

Other than being major shareholder, Masan Group has also become one important customer ecological system in Techcombank's development strategy. According to TCB's finance statements, Nui Phao Minerals exploiting and processing contributed 1,013 billion dong in loan portfolio, 13.8% higher than the beginning of the year. Masan group's deposit in the bank is 983 billion.

- **Vietnam Airlines ecological system**

According to Techcombank, as of the end of 2017, the bank has 37,000 customers using TCB and the airline co-brand card, accounting 13% customer with high income and regular activities in the bank. This customer group also brought total house purchase loan balance of 6.5 trillion (15% real estate loan portfolio). Vietnam Airlines customer ecological system brings 8% total CASA (mostly from the customers with co-brand card and salary account from the airline's employees) and 7% fee revenue of Techcombank.

- **Vingroup ecological system**

Accounting 87% total mortgage value in the bank, Vingroup is one of the big ecological systems that Techcombank is focusing on exploiting. There is high potential for high product cross sale since Vingroup alone is a big value chain including retail, trading centers, health care, and education, and the strength is real estate business with customer bank of about 11,000 persons. Product cross sale rate is 3.3 products a customer, higher than 2.3 in individual customer section. Also according to Techcombank, Vingroup also contributes 8% CASA and 639 billion dong of fee revenue, accounting 44% total fee income in 2017 of the bank, and all are increasing strongly. Techcombank is also benefited as an important partner of Vingroup in issuing corporate bond, since it can limit the risk from loan and collect guarantee fee and bond distribution. Vingroup District 9 project will be sold from the end of 2018 and it is expected to expand real estate loan portfolio as well as strengthen the collecting source from Vingroup ecological system.

## Evaluation and recommendation details

Unit: billion dong	2014	2015	2016	2017	2018 E
Net interest income	5,871	7,214	8,142	8,930	10,740
%YoY	35%	23%	13%	10%	20%
Earnings before tax	1,417	2,037	3,997	8,036	9,868
%YoY	61%	44%	96%	101%	23%
Earnings after tax	1,082	1,529	3,149	6,446	7,894
Net interest income/Total operating income	83.79%	77.20%	68.31%	54.64%	63.55%
Operating expense/ Total operating income	47.22%	39.37%	35.75%	28.74%	27.92%
Provision/ Total operating income	32.55%	38.83%	30.72%	22.08%	13.69%

(Source: PHS estimation)

With these assumptions, we think that Techcombank's EBT in 2018 might be 9,868 billion (+23% yoy), almost reaching the bank's target of 10,000 billion.

By Residual Income and P/B forward, basing on estimated TCB book value in 2018 and target P/B of 2.2 times. We evaluate TCB stock target price at 33,200 dong.

Evaluation in Residual Income method	2019F	2020F	2021F	2022F
Beta	1.1			
Equity source expense	11.5%			
Long-term growth	3.0%			
(Unit: billion)				
Net profit	9,128	10,539	12,210	14,575
Residual Income	2,913	3,480	4,571	6,188
Current value of Residual income (2019 – 2022)	2,612	2,798	3,295	3,999
Final value				74,720
Total current value of Residual Income flow	60,996			
Equity capital	53,907			
Outstanding share (million share)	3.497			
<b>Target price</b>	<b>32,861</b>			

Method	Billion trọng	Giá trị (đồng)
Residual Income	70.00%	32,861
forward P/B (2.2x)	30.00%	33,917
Total	100.00%	<b>33,178</b>

(Source: PHS Research)

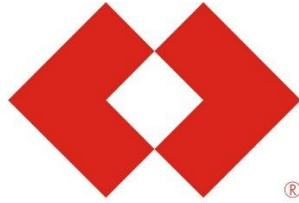
With current price of 27,850 dong (October 11<sup>th</sup>, 2018), we recommend OVERWEIGHT on TCB.

## Risks

Interest and fee receivables of Techcombank in the first half of 2018 increased by 20%, faster than 11.5% of total asset and 3.64% of customer loan balance, the weight over total asset also increased from 1.4% to 1.6% comparing to the end of the year. Interest income growth in TCB is among fastest growing group in the system, with the risk of unsustainable growth and increasing bad debt rate of the bank.

The strategy of focusing in exploiting ecological system and developing customer source in value chain is professionalization but it makes customer structure being dense, lowering the benefit of diversifying customer portfolio.

## Company profile

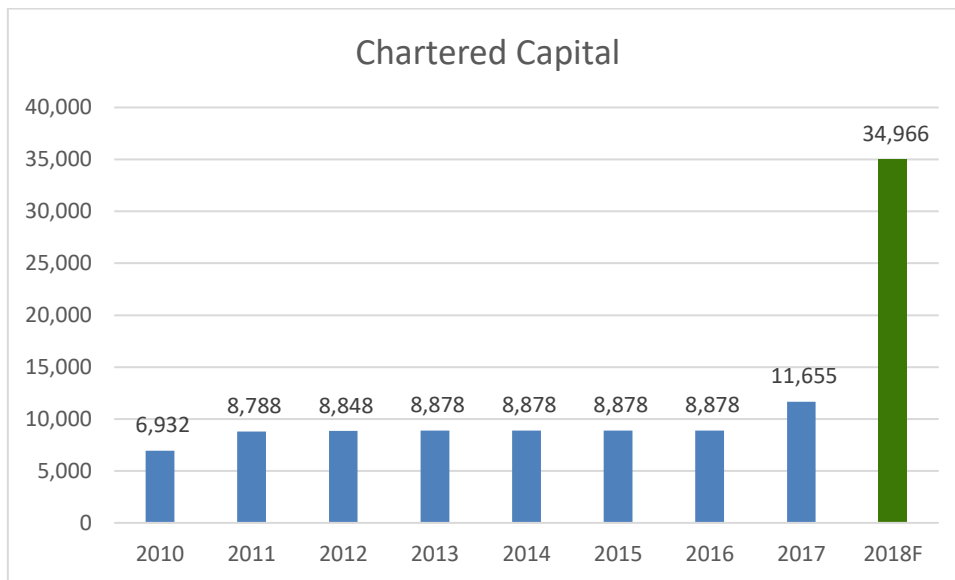


# TECHCOMBANK

Vietnam Technological and Commercial Bank is one of the biggest joint stock banks in Vietnam. Founded on September 27<sup>th</sup>, 1993 with initial capital of 20 billion, Techcombank hasn't stopped developing with diversify and wide service network of 315 branches and 1,229 ATMs all over the country along with the most innovative banking technology system.

Techcombank strategic business sections are: Personal Financial service, Bank services for small and middle scale companies, Wholesale Bank, and Trading Bank, Techcombank provides financial and banking solutions and services to 3.3 million individual customers and 45,368 insitutional customers.

### Capital raising progress (billion)



(Source: VCB, PHS estimation)

**Finance statement (billion dong)**

Business results	2015A	2016A	2017A	2018E	2019E	2020E	2021E
<b>Interest income</b>	<b>13,379</b>	<b>15,736</b>	<b>17,595</b>	<b>21,244</b>	<b>24,205</b>	<b>27,613</b>	<b>31,504</b>
Interest expense	(6,166)	(7,594)	(8,664)	(10,504)	(12,110)	(13,937)	(16,046)
<b>Net interest income</b>	<b>7,214</b>	<b>8,142</b>	<b>8,930</b>	<b>10,740</b>	<b>12,095</b>	<b>13,676</b>	<b>15,458</b>
Non-interest income	2,130	3,776	7,415	6,159	6,757	7,951	9,416
<b>Total operating income</b>	<b>9,344</b>	<b>11,919</b>	<b>16,344</b>	<b>16,899</b>	<b>18,852</b>	<b>21,627</b>	<b>24,874</b>
Operating expense	(3,679)	(4,261)	(4,698)	(4,718)	(5,245)	(5,995)	(6,870)
<b>Pre-provision net profit</b>	<b>5,665</b>	<b>7,658</b>	<b>11,646</b>	<b>12,181</b>	<b>13,607</b>	<b>15,632</b>	<b>18,004</b>
Provision expense	(3,628)	(3,661)	(3,609)	(2,313)	(2,197)	(2,458)	(2,741)
<b>Total earnings before tax</b>	<b>2,037</b>	<b>3,997</b>	<b>8,036</b>	<b>9,868</b>	<b>11,410</b>	<b>13,174</b>	<b>15,263</b>
Tax expense	(508)	(848)	(1,591)	(1,974)	(2,282)	(2,635)	(3,053)
<b>Earnings after tax</b>	<b>1,529</b>	<b>3,149</b>	<b>6,446</b>	<b>7,894</b>	<b>9,128</b>	<b>10,539</b>	<b>12,210</b>

Balance sheet	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Cash and equivalent	2,754	2,957	2,344	3,590	3,590	3,590	3,590
Deposits in SBV	2,677	2,534	4,279	4,175	5,428	7,056	9,173
Deposits in credit organizations	14,763	21,599	30,156	53,508	60,726	64,751	70,228
Short-term investment	1,876	8,025	6,794	5,588	6,167	6,718	7,426
Customer loans	112,180	142,616	160,849	184,976	216,422	253,431	296,767
Loan risk provision	(1,167)	(1,495)	(1,885)	(2,781)	(3,168)	(3,614)	(4,123)
Stock investment	45,017	45,675	51,542	59,831	65,339	71,146	77,209
Long-term capital investment	597	578	10	12	12	12	12
Fixed asset	538	577	570	874	1,488	2,278	3,313
Other asset	12,384	11,275	13,780	15,552	15,552	15,552	15,552
<b>Total asset</b>	<b>191,994</b>	<b>235,363</b>	<b>269,392</b>	<b>326,185</b>	<b>372,320</b>	<b>421,569</b>	<b>479,639</b>
<b>Total liabilities</b>	<b>175,536</b>	<b>215,777</b>	<b>242,462</b>	<b>272,278</b>	<b>311,095</b>	<b>355,314</b>	<b>406,902</b>
Government and SBV liabilities	0	1,448	1,000	2,600	2,782	2,949	3,111
Loans of credit organizations	20,746	24,886	46,324	39,592	41,571	43,442	45,614
Valued papers	8,134	10,415	17,640	20,259	21,711	23,267	24,935
Other liability	4,417	5,579	6,527	8,082	8,082	8,082	8,082
<b>Equity source</b>	<b>16,458</b>	<b>19,586</b>	<b>26,931</b>	<b>53,907</b>	<b>61,225</b>	<b>66,255</b>	<b>72,737</b>
<b>Total capital source</b>	<b>191,994</b>	<b>235,363</b>	<b>269,392</b>	<b>326,185</b>	<b>372,320</b>	<b>421,569</b>	<b>479,639</b>

Cash flow	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Operational net cash flow	(5,318)	2,355	6,968	19,572	13,297	14,336	16,334
Investment net cash flow	8	(921)	755	546	(657)	(834)	(1,079)
Financial net cash flow	0	2	765	23,311	0	(3,497)	(3,497)
<b>Change during the period</b>	<b>(5,310)</b>	<b>1,436</b>	<b>8,488</b>	<b>43,429</b>	<b>12,640</b>	<b>10,006</b>	<b>11,758</b>
Cash at the beginning	18,067	12,757	14,193	22,681	66,110	78,750	88,756
<b>Cash at the end</b>	<b>12,757</b>	<b>14,193</b>	<b>22,681</b>	<b>66,110</b>	<b>78,750</b>	<b>88,756</b>	<b>100,514</b>

Growth indicators	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Credit growth	40.0%	27.0%	13.0%	15.0%	17.0%	17.0%	17.0%
Mobilization growth	8.0%	22.0%	-1.0%	18.0%	17.0%	17.0%	17.0%
Net interest income growth	22.9%	12.9%	9.7%	20.3%	12.6%	13.1%	13.0%
Non- interest income growth	87.5%	77.3%	96.4%	-16.9%	9.7%	17.7%	18.4%
Operating income growth	33.4%	27.6%	37.1%	3.4%	11.6%	14.7%	15.0%
EBT growth	43.8%	96.2%	101.1%	22.8%	15.6%	15.5%	15.9%
Total asset growth	9.0%	23.0%	14.0%	21.0%	14.0%	13.0%	14.0%

Financial indicators	2015A	2016A	2017A	2018E	2019E	2020E	2021E
<b>Profitability</b>							
Net interest income ratio	77.2%	68.3%	54.6%	63.6%	63.6%	64.2%	63.2%
Non-interest income rator	22.8%	31.7%	45.4%	36.4%	36.4%	35.8%	36.8%
Net profit rator	16.4%	26.4%	39.4%	46.7%	46.7%	48.4%	48.7%
ROAA	0.8%	1.5%	2.6%	2.8%	2.8%	2.6%	2.7%
ROAE	9.7%	17.5%	27.7%	19.5%	19.5%	15.9%	16.5%

Private indicators	2015A	2016A	2017A	2018E	2019E	2020E	2021E
Expense/ Operating income (CIR)	39.4%	35.7%	28.7%	27.9%	27.9%	27.8%	27.7%
Loan/Deposit (LDR) (*)	68.0%	71.0%	73.0%	75.0%	75.0%	77.0%	78.0%
Net Interest Margin (NIM)	4.3%	4.1%	3.8%	3.8%	3.8%	4.1%	4.4%
Net non-interest margin (NNIM)	1.3%	1.9%	3.2%	2.1%	2.1%	2.3%	2.6%
Current savings account (CASA)	18.8%	20.7%	22.4%	22.4%	22.4%	22.4%	22.4%
Non-performing loan (NPL)	1.7%	1.6%	1.6%	2.0%	2.0%	1.9%	1.8%
DPRR fund/ bad debt (LLR)	63.0%	67.0%	73.0%	75.0%	75.0%	77.0%	79.0%
DPPR fund/customer loan	1.0%	1.1%	1.2%	1.5%	1.5%	1.5%	1.4%

(\*) LDR is calculated as regulated in SBV Circular number 36

(Source: PHS Research)



## Analyst Certification

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Sell = Expected to underperform the local market by >10%.

Not Rated = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends)

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