



Company Report: Asia Commercial Joint Stock Bank (ACB)

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Prudent business model

INVESTMENT THESIS

- Prudential business model. ACB is one of the best asset quality banks in the system (stable NPL<1% since 2016). The bank owns loyal retail customers base (individual and SME) accounting for more than 90% total credit (the highest in the system) which helps to maintain a stable growth rate, high profit margin and mitigating risks. In addition, the strength in government bond investment with the scale ranked top 4 sectors (follow SOBs), accounting for 13% of TTS helps maintain a high and stable interest income component.
- The bancas agreement with Sunlife generates a steady upfront fee (\$500 billion a year over 15 years), while setting the growing basis for the bank's non-interest income.
- ACB focuses on secured lending and proactively sets up provisions. The quality of assets is among the best in the sector, LLCR has reached 200%.

RISKS

The impact of covid on the asset's quality is the biggest issue at present. Social distancing lasts for 3 months caused the bank's credit growth rate to decrease by 2% in the third quarter (from 9.5%ytd to 7.5%ytd), PBT sharply decreased by more than 20%qoq. The restructured loan increased sharply to VND 13,000 billion, +5,000 billion.

RECOMMENDATION

Assuming that ACB continues to maintain a stable credit growth rate of 13%-14% per year, NIM averaging 3.7% and CIR 37% in the period 2021-2023, we determine the target price for ACB shares as 37,000VND/share. Along with the fact that the P/B of the stock is at 2.16, which is relatively reasonable compared to peers, we recommend "HOLD" ACB shares with a long-term target price (6-18- month investment term) of **37,000VND/share**, corresponding to an expected return of 14.9%.

Recommendation:

Hold
 (Updated)

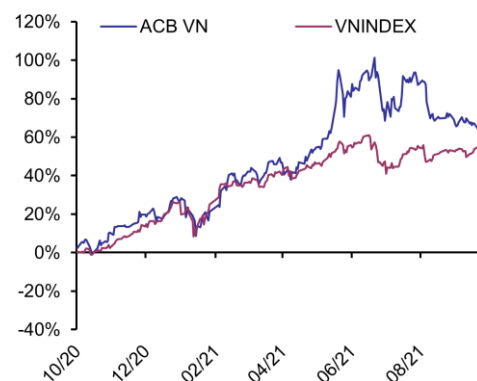
6-18m TP:

VND37,000

Current price:

VND32,200

Price performance



	1 M	3 M	1Y
Price change			
Abs. %	2.2	-4.2	72.7
Relative to VN index	6.2	3.0	123.2
Avg price (VND)	31,762	33,032	28,182

Source: Bloomberg, Guotai Junan (VN)

12/31	TOI (VND b)	Net Profit (VND b)	EPS (VND)	EPS (Δ%)	BPS (VND)	DPS (VND)	Yield (%)	NIM (%)	CIR (%)	ROE (%)
2019A	16,097	6,010	3,632	-9.18	10.28	-	-	3.65	-51.61	24.64
2020A	18,161	7,683	3,511	-3.33	13.12	-	-	3.78	-41.98	24.31
2021F	22,194	9,266	3,429	-2.32	13.55	-	-	3.96	-33	25.72
2022F	23,977	11,019	4,078	18.92	15.83	-	-	3.88	-37	27.77
2023F	27,208	12,964	4,798	17.65	18.63	-	-	3.82	-37	27.85

Shares in issue (m)	2,701.95	Major shareholders (%)	Dragon Capital	6.92
Market cap (VND b)	87,002.73	Free float (%)		84.5
3- month average vol. ('000)	7,581.06	LDR (%)		80.2
52w high/low (VND)				38200 / 18560

Source: the Company, Guotai Junan (VN).

9M BUSINESS RESULT UPDATING

Q3 result was sharply affected by 4th Covid wave

Total credit growth was down to 7.5%ytd from 9.5%ytd growth recorded at the end of Q2 due to struggles in disbursement and expanding the loan book. At the same time, suffered bancas activities led to lower fee income in Q3. Repressed with skyrocketed provision expenses, the bank's pre-tax profit in the third quarter was just over 2.5 trillion, equivalent to the same period in 2020 and decreased sharply compared to the first two quarters of the year. However, the high profit base in the first and second quarters helped the bank's cumulative nine-month profit still grow by 40%yoy, reaching VND 8,900 billion.

Picking up restructured loan

The bank's restructuring loan climbed from nearly VND9 trillion to more than 13 trillion at the end of the third quarter as the bank's target customer base was strongly affected by Covid. NPL ratio also rose to 0.8% from 0.7% in Q2. In response to asset risks, ACB set aside an additional VND2,069 billion in provisions, equivalent to 100% of the total provisions to be set up in 3 years according to Cir14 for the entire size of restructuring loan. As a results, the total provision for the first 9 months of the year reached VND 2,795 billion, tripled 2020 figure.

Actively support customers affected by Covid

ACB pledged to reduce profit by more than VND700 billion to support customers in 2021. Accordingly, the bank reduced profit by VND200 billion in the third quarter and expected to reduce the remaining VND500 billion in the rest of 2021.

BUSINESS PROSPECTS

Focusing on retail segment maintains lower risks

ACB is well-known for its cautious business model of which individuals and SME loans accounted for over 90% total credit of the bank. The bank has maintained its NPL ratio below 1% since 2016, one of best asset quality performers in the market. Loyal customer group also creates a significant advantage for the bank as deposits from individuals accounts for more than 80% of ACB's total deposits.

NIM has peaked since benefiting in the short term thanks to lower cost of fund

The more rapid deposit rate reducing compared to lending rate created the short-term benefit in most banks in the system. NIM in Q3 reached 4.1%, equivalent to the second quarter and increased sharply compared to the previous years' base.

In alien with the fact that the reduction in deposit and lending rate will find the new balancing point, NIM is predicted to decline. However, it will not return to the old level as ACB is still benefiting from the gradually increasing CASA ratio. Moreover, lower funding cost of VND20,000 billion bonds (mostly in 3-4-year term) still creates significant cheap funding costs for the bank. In addition, the strength in bond investment activities helps maintain a stable and high interest income component. In addition, the strength in government bond investment with the scale ranked top 4 sectors (follow SOBs), accounting for 13% of TTS helps maintain a high and stable interest income component.

Besides, the improvement in non-interest income will compensate for the decrease in net interest income.

For credit growth, ACB aims to achieve a credit growth rate of 13.5% in 2021, corresponding to the cap approved by SBV. Accordingly, the bank will pick up growth in the 4th quarter especially in production/trading and consumer goods sectors. In addition, new low interest rate lending packages are expected to attract new customers so as help the bank to expand market share and income in the coming time. At the end of September 2021, ACB launched a credit package of VND10,000 billion with preferential interest rate of 5%/year. The preferential interest rate for enterprises is from 5%/year and for business households is from 6%/year. Additionally, from October 1, ACB provides fee exemption policy, including free online transaction fee, payroll fee to both individual and corporate customers.

Non-interest income will be the key growing driver for the bank's earnings in the long-term. The outlook for bancas and fee income growth is still promising.

The ratio of non-interest income to interest income (adjusted for abnormal income from bad debt recovery and handling in the period 2017-2019) significantly increased from 5.23% in 2016 to 22.5% in 2020 and 23.24% in 1H2021. Although, ACB still has a large gap compared to top private banks owning a rate of over 50% such as TCB, the gap can completely loosened thanks to rapid growing insurances and settlement income. In particular, the bank's service income has been growing impressively after signing bancassurance contract with Sunlife in 2020. Service income/TOI ratio improved to 12.7% in 1H2021. Notably, in the third quarter of 2021, ACB reclassified fee income for credit card revenue. Therefore, fee income in 2020 and 2021 was adjusted to decrease due to reclassified. Despite this, the bank's net fee income in the first 9 months of the year still reached nearly VND1,900 billion, an **increase of 55% yoy (after adjusting for the whole of 9 months 2020)**, while also exceeding the results achieved for the whole year 2020.

Well maintained risk management

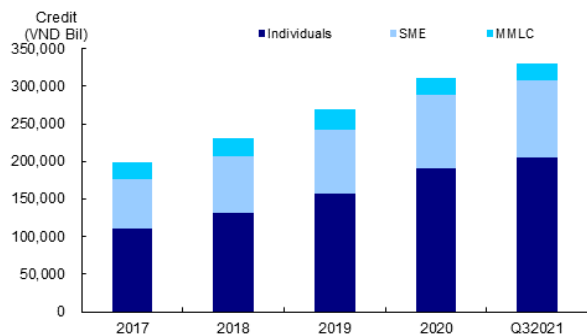
There is low provision expenses burden in the future as the bank has set up 100% provision for restructuring loan. Although the restructuring loan is expected to continue to increase in the fourth quarter, prudent risk assessment combining with proactive action in bad -debt written-off helps to ease pressure on asset quality of the bank. In Q4, ACB plans to set aside an additional VND500 billion provision to ensure the full coverage of the bank's bad debts.

Question on digitization and market share competition

Despite owning many strengths in terms of risk management and a consistent strategy on segment concentration, we believe that ACB is moving slower than peers in terms of digitization and new product lines. The size of customers increased slowly, and the transaction size increased by only 22%, slower than most banks in the segment, especially the private banking group.

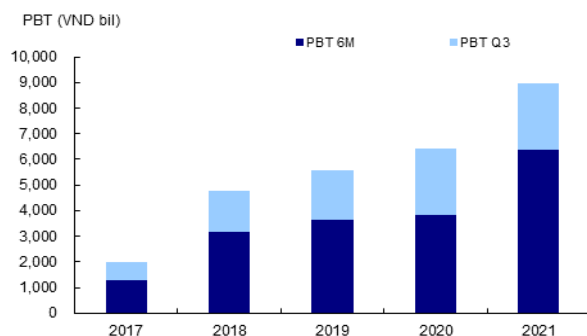
Therefore, with the orientation to boost non-interest income to compensate for slower credit growth, we think that banks need to make more efforts in the digitalization race if they do not want to lose market share to competitors.

Figure-1: Lending breakdown by segment



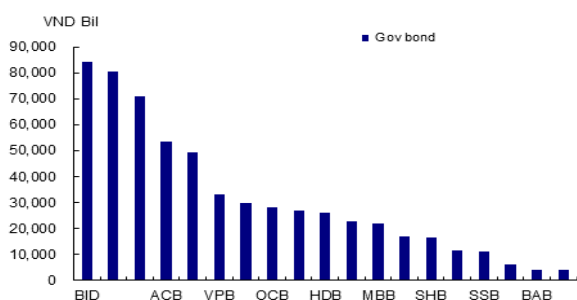
Source: ACB, Guotai Junan (VN).

Figure-2: PBT



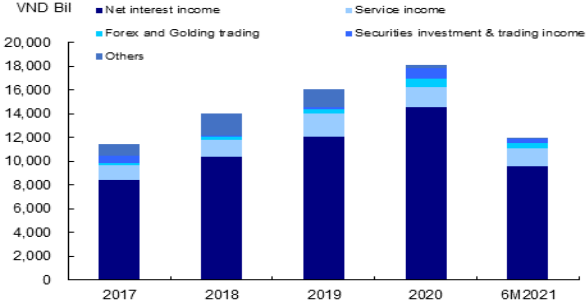
Source: ACB, Guotai Junan (VN).

Figure-3: Sector peers government bond Q2/2021



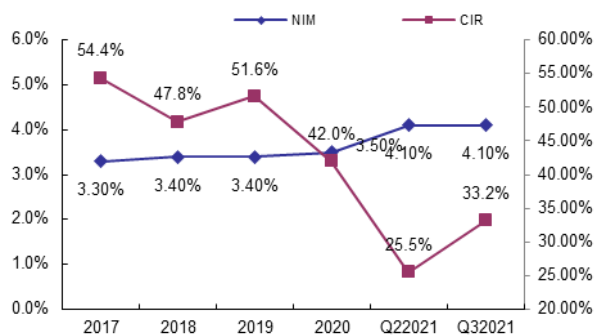
Source: ACB, Guotai Junan (VN).

Figure-4: Income breakdown



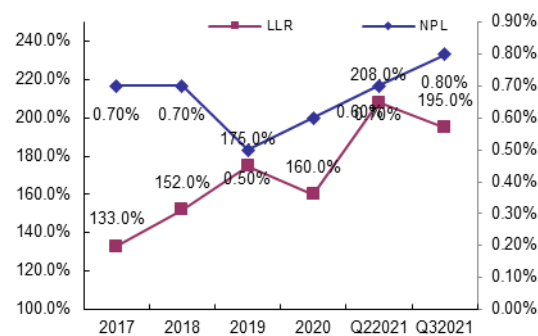
Source: ACB, Guotai Junan (VN)

Figure-5: Operating efficiency



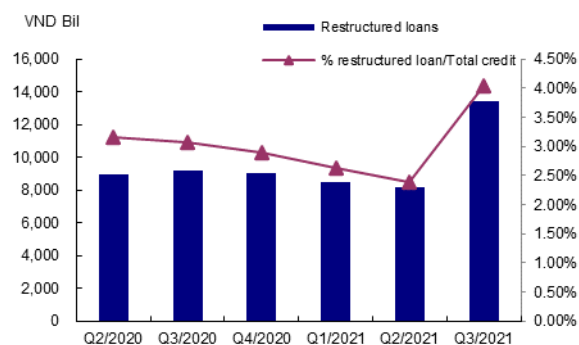
Source: ACB, Guotai Junan (VN).

Figure-6: Asset quality



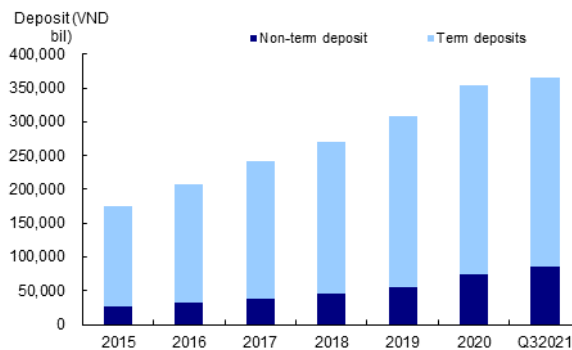
Source: ACB, Guotai Junan (VN).

Figure-7: Restructuring loan



Source: ACB, Guotai Junan (VN).

Figure-8: Deposit breakdown



Source: ACB, Guotai Junan (VN).

EVALUATION

Our target price is based on the Residual Income model. Key assumptions include a risk-free rate of 3.79%, cost of capital 14.79%.

Unit: VND Bil	2020A	2021F	2022F	2023F
Beginning Owners' equity	27,765	35,448	36,609	42,765
PAT	7,683	9,266	11,019	12,964
Residual income		8,106	4,863	5,404
Total PV of residual income				63,371
Outstanding shares (mil)				2,702
12-month targeted price				37,000
Current price				32,200
Expected return				14.9%

RECOMMENDATION

With the brighter picture of Covid control in Vietnam as the South region, we expect the bank's credit growth will get back on track in the fourth quarter, thereby reaching total credit growth of 13.3% in 2021. Updating provision expenses and supporting packages, the bank will reach PBT of VND 11,600 billion for whole year, up 21%yoy

Assuming that ACB continues to maintain a stable credit growth rate of 13%-14% per year, NIM averaging 3.7% and CIR 37% in the period 2021-2023, we determine the target price for ACB shares as 37,000VND/share. Along with the fact that the P/B of the stock is at 2.16, which is relatively reasonable compared to peers, we recommend "HOLD" ACB shares with a long-term target price (6-18- month

investment term) of **37,000VND/share**, corresponding to an expected return of 14.9%.

Financial Statements and Ratios

BS					P&L				
Year end Dec (VND ' bil)	2018	2019	2020	2021F	Year end Dec (VND ' bil)	2018	2019	2020	2021F
TOTAL ASSETS					Interest and Similar Income	24,015	28,318	31,856	35,301
Cash and precious metal	6,129	6,438	6,968	8,176	Interest and Similar Expenses	(13,652)	(16,205)	(17,274)	(17,842)
Loans and advances to customers, net	227,983	266,165	308,529	349,641	Net Interest Income	10,363	12,112	14,582	17,458
Investment securities	53,380	55,956	63,399	72,510	TOI	14,033	16,097	18,161	22,194
Fixed assets	3,233	3,770	3,783	3,070	Total operating expenses	(6,712)	(8,308)	(7,624)	(7,324)
Investment property	593	1,049	1,066	-	Operating Profit Before Provision for Credit Losses	7,321	7,790	10,537	14,870
Other assets	7,573	6,891	6,893	7,811	Provision for credit losses	(932)	(274)	(941)	(3,288)
					PBT	6,389	7,516	9,596	11,583
LIABILITIES & SHAREHOLDERS' EQUITY	329,679	384,202	445,247	498,162	PAT	5,137	6,010	7,683	9,266
TOTAL LIABILITIES	308,315	355,749	409,082	461,553	Minority interest	-	-	-	-
Due to Gov and Loans from SBV	3,074	-	-	-	Attributable to parent company	5,137	6,010	7,683	9,266
Deposits & Loans from other credit institutions	20,718	19,249	23,875	27,053	EPS	3,999	3,632	3,511	3,429
Deposits from customers	269,999	308,129	353,196	400,212					
					Financial ratio				
Funds received from Gov, international and other institutions	160	156	117	132		2018	2019	2020	2021F
Valuable papers	8,291	20,831	22,050	23,000	NIM (Net Interest Margin)	3.65%	3.78%	3.96%	3.88%
Other liabilities	6,035	7,384	9,844	11,155	Output average interest rate	8.53%	8.25%	8.00%	8.10%
SHAREHOLDERS' EQUITY	21,018	27,765	35,448	36,609	Input average interest rate	-4.98%	-4.62%	-4.20%	-4.40%
Capital and fund	21,018	27,765	35,448	36,609	Earnings Spread	3.55%	3.63%	3.80%	3.70%
Retained earnings	5,105	6,370	7,819	7,586	Interest expense/Interest income	-57.23%	-54.22%	-50.54%	-52.09%
Minority interest	-	-	-	-	Net Serving Fee Margin (NSFM)	0.57%	0.44%	0.60%	0.52%
LIABILITIES & SHAREHOLDERS' EQUITY	329,333	383,514	444,530	498,162	Servicing fee expense/Servicing fee income	-29.99%	-39.55%	-39.55%	-39.55%
					NNIM (Net Non-Interest Margin)	1.20%	0.93%	1.07%	0.89%
					EBT to Interest Income ratio	26.54%	30.12%	32.81%	33.83%
					CIR (Cost-to-Income) ratio	-51.61%	-41.98%	-33.00%	-37.00%
					Asset Management				
					LDR (Loan-to-Deposit) ratio Market 1	87.20%	88.19%	88.19%	88.19%
					LDR (Loan-to-Deposit) ratio Market 2	104.75%	126.53%	139.50%	132.65%
					ROA	1.68%	1.85%	1.96%	2.07%
					ROE	24.64%	24.31%	25.72%	27.77%

Source: the Company, Guotai Junan (VN).

COMPANY RATING DEFINITION

Benchmark: VN – Index.

Time Horizon: 6 to 18 months

Rating	Definition
Buy	Relative Performance is greater than 15% Or the Fundamental outlook of the company or sector is favorable
Accumulate	Relative Performance is 5% to 15% Or the Fundamental outlook of the company or sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the company or sector is neutral
Reduce	Relative Performance is -15% to -5% Or the Fundamental outlook of the company or sector is unfavorable
Sell	Relative Performance is lower than - 15% Or the Fundamental outlook of the company or sector is unfavorable

SECTOR RATING DEFINITION

Benchmark: VN – Index

Time Horizon: 6 to 18 months

Rating	Definition
Outperform	Relative Performance is greater than 5% Or the Fundamental outlook of the sector is favorable
Neutral	Relative Performance is -5% to 5% Or the Fundamental outlook of the sector is neutral
Underperform	Relative Performance is lower than -5% OrThe Fundamental outlook of the sector is unfavorable

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