

# ACB Bank (ACB)

## Surging PBT thanks to the reversal of provision expenses

August 12, 2022

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**2Q22 PBT increased by 51.3%YoY to VND4,914 billion**

In 2Q22, Asia Commercial Bank (ACB) recorded VND5,606 billion (+3.0%QoQ and +12.3%YoY) in NII and VND1,317 billion (-6.5%QoQ and +6.5%YoY) in NOII. The bank continued to reverse VND267 billion while the provision expenses in 2Q21 were VND1,386 billion. Thus, PBT jumped by 51.3%YoY to VND4,914 billion.

**NIM was up slightly 7bps QoQ to 4.29%**

The average earnings yield was up 18bps QoQ to 7.20%. Meanwhile, the average cost of funds was up only 14bps QoQ, partially thanks to the high CASA ratio. Net interest margin (NIM) increased slightly by 7bps QoQ to 4.29%.

**Credit and deposit growth hit 9.3%YTD and 1.9%YTD, respectively**

By the end of June, credit growth reached 9.3%YTD, with personal and corporate loans up 10.7%YTD and 7.5%YTD, respectively. Deposit growth slowed with an increase of only 1.9%YTD, mainly driven by the issuance of valuable papers. LDR rose to 83.5%, which is approaching the designated level of 85%.

**Asset quality stayed positive in the second quarter**

NPL ratio went down 6bps QoQ, equivalent to the end-2021 level of 0.76%. LLCR contracted by 2ppts to 185.1%, still high compared to the industry standard.

**The SBV will likely approve credit room extension for ACB given its good asset quality**

We believe the SBV will likely expand the credit room for ACB thanks to (1) high CAR in recent years (11.23% in late 2021 vs. the limit of 9%); (2) NPL ratio always below 1% & high LLCR; and (3) safe investment portfolio without corporate bonds.

**We recommend BUY for ACB stocks with a target price of VND32,000**

Based on P/B and residual income methods, we recommend BUY for ACB stocks with a target price of VND32,000, 28.8% higher than the price on August 10, 2022.

**Buy** maintain

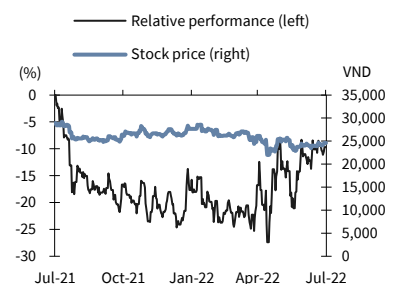
<b>Target price</b>	<b>VND32,000</b>
Upside/Downside	28.8%
Current price (Aug 10, 2022)	VND24,850
Consensus target price	VND34,200
Market cap (VNDbn)	77,276

<b>Trading data</b>	
Free float	84.54%
3M avg trading value (VNDbn)	71.20
Foreign ownership	23.2%
Major shareholder	Dragon Financial Holding (6.92%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	2.3	-6.0	-11.0	-13.4
<b>Relative</b>	1.5	5.6	9.6	-7.4

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	14,582	18,945	23,105	27,086
Pre-provision operating profit (VNDbn)	10,537	15,334	18,423	21,974
NPAT of the parent bank (VNDbn)	7,683	9,603	14,016	16,733
EPS (VND)	3,511	3,498	4,150	3,963
EPS growth (%)	-3.3%	-0.4%	18.6%	-4.5%
PER (x)	8.95	9.71	8.44	8.84
Book value per share (VND)	15,906	16,219	19,253	21,225
PBR (x)	1.98	2.09	1.82	1.65
ROE (%)	24.3%	23.9%	25.2%	21.3%
Dividend yield (%)	30%	25%	25%	25%



Source: Bloomberg, KB Securities Vietnam

## Business performance

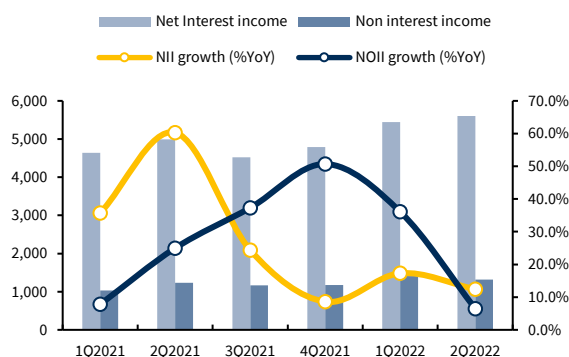
### 2Q22 PBT increased by 51.3%YoY to VND4,914 billion

In 2Q22, ACB achieved VND5,606 billion (+3.0%QoQ and +12.3%YoY) in net interest income (NII) and VND1,317 billion (-6.5%QoQ and +6.5%YoY) in non-interest income (NOII). As a result, total operating income (TOI) rose slightly by 1% YoY and 11.2% YoY. Notably, the bank continued to reverse VND267 billion out of VND1,386 billion in provision expenses in 2Q21. Thus, PBT jumped by 51.3%YoY and 19.4% QoQ to VND4,914 billion. In the first half of this year, credit growth hit 9.3% (flat YoY, equaling the industry standard).

### NIM was up slightly 7bps QoQ to 4.29%

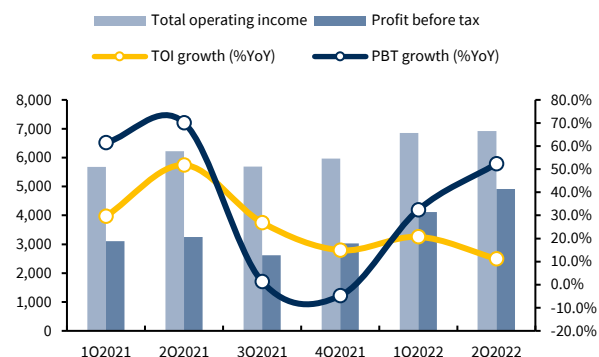
The COVID-19 outbreak in the southern region and the reduction in lending rates to attract customers negatively impacted the profitability of the loan portfolio. The average earnings yield in 2Q continued to show signs of recovery with an increase of 18bps QoQ to 7.20% but still much lower than the 7.74% level reached in 2Q21. The average cost of funds grew by 14bps QoQ to 3.26%. It was in line with the general trend of the banking industry when banks boosted capital mobilization for credit growth. In 2Q22, NIM increased slightly by 7bps QoQ to 4.29% and the CASA ratio decreased to 24.9% from 26.7% in 1Q22.

Fig 1. ACB – NII, NOII (VNDbn, %YoY)



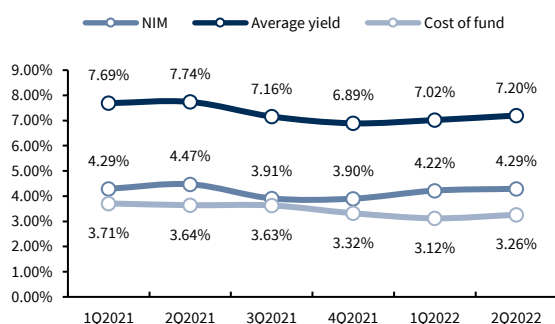
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – TOI, NPAT growth (VNDbn, %YoY)



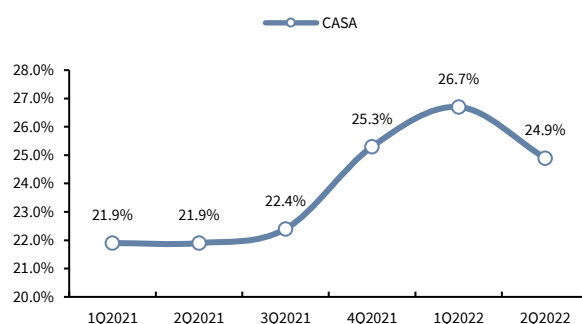
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – NIM, average earnings yield & cost of funds (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – CASA ratio by quarter (%)



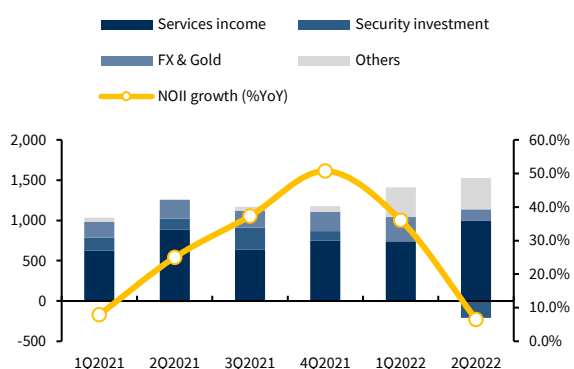
Source: Asia Commercial Bank, KB Securities Vietnam

## 2Q22 NOII reached VND1,317 billion, up 6.5%YoY

Over the second quarter, ACB recorded VND1,317 billion (+6.5% YoY and +6.5% QoQ) in NOII. Specifically, net fee income (NFI) remained the main contribution to NOII growth and brought in VND993 billion (+34.4%QoQ and 12.1%YoY). Net gains from foreign currency exchange and gold trading dropped to VND145 billion (-52%QoQ and -37.3%YoY); investment securities made a profit of VND18.3 billion, down 59%YoY as the bank no longer recognized the reversal of provision expenses for investment securities. Notably, ACB lost VND226 billion in trading securities in the second quarter due to corrections in the stock market, thus reducing the efficiency of ACBS's operations. Net other income was VND356 billion (up from a loss of VND2 billion in 2Q21) thanks to debt recovery.

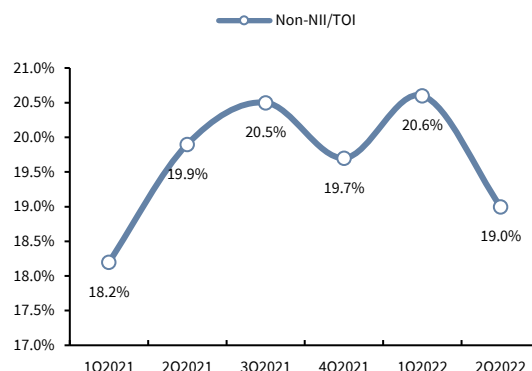
NOII/TOI in 2Q22 decreased to 19%, showing that NII remained the main driving force of TOI growth (usually accounting for 80% of TOI). We expect NOII/TOI to pick up in the near future, with the growth momentum coming from bancassurance.

Fig 6. ACB – NOII breakdown by quarter (VNDbn, %)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – NOII/TOI by quarter (%)



Source: Asia Commercial Bank, KB Securities Vietnam

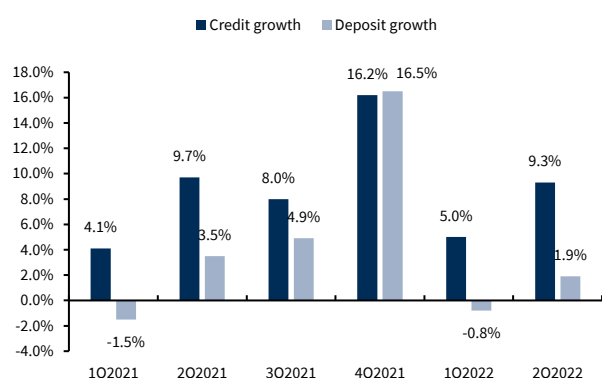
## Credit and deposit growth hit 9.3%YTD and 1.9%YTD, respectively

The bank's lending activities continued to recover in the second quarter, with credit growth up 9.3%YTD. We estimate personal loans by the end of 2Q to VND255 trillion (+10.7% YTD), accounting for 64.5% of total outstanding loans. Outstanding loans to corporates (mainly SMEs) sit around VND139 trillion, up 7.5%YTD. ACB is known as one of the pioneers in the retail segment, with outstanding loans increasing by 2.4 times between 2016 and 2021 and accounting for 94% of the total loan portfolio currently. Thus, ACB is fully capable of competing with others that are also boosting retail lending.

ACB is among the few banks that do not invest in corporate bonds. The bank's investment securities portfolio is mainly government bonds, with outstanding loans by the end-2Q22 being VND64,482 billion. It, therefore, helped ACB stock prices drop only about 18% vs. 30% in stock prices of other banks in April and May.

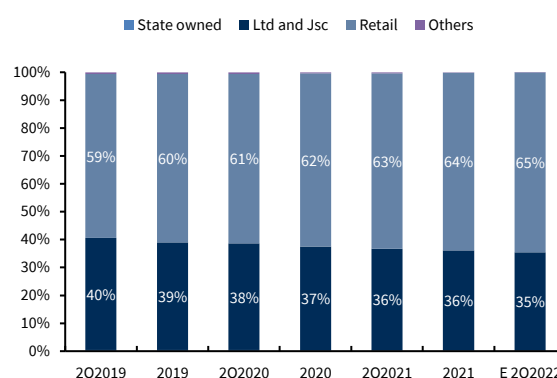
In 2Q22, total mobilized capital reached VND474 trillion, up 1.9%YTD. It improved compared to 1Q22 as interbank deposits only decreased by 6.8%YTD while customer deposits improved by 2.2%YTD and the bank successfully mobilized nearly VND5,000 billion through the issuance of valuable papers. Deposit growth was not as good as credit growth, making the loan-to-deposit ratio (LDR) touch 83.2%, approaching the limit of 85% prescribed by the SBV. Thus, ACB needs to mobilize capital from different sources since the bank's LDR in recent quarters was mainly above 80%. The estimated ratio of short-term capital for medium and long-term loans is 24.1% at the end of 2Q22, still within the limit of 34% for the 2022-2023 period.

Fig 8. ACB – Credit & deposit growth by quarter (%YTD)



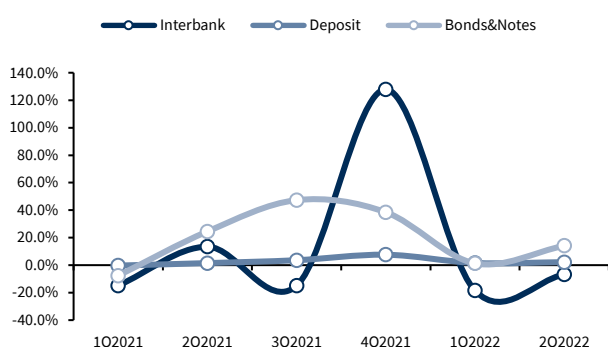
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Loans to customer (%)



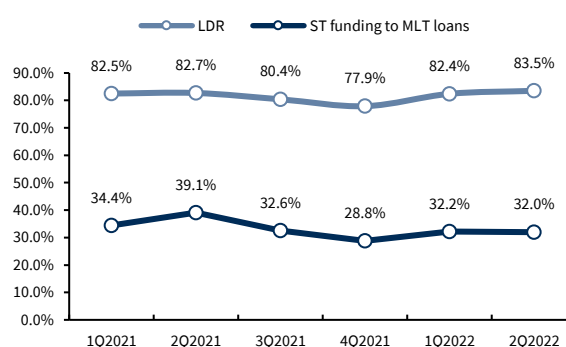
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 10. ACB – Deposit growth (%YTD)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 11. ACB – LDR, short-term capital for medium and long-term loans (%)



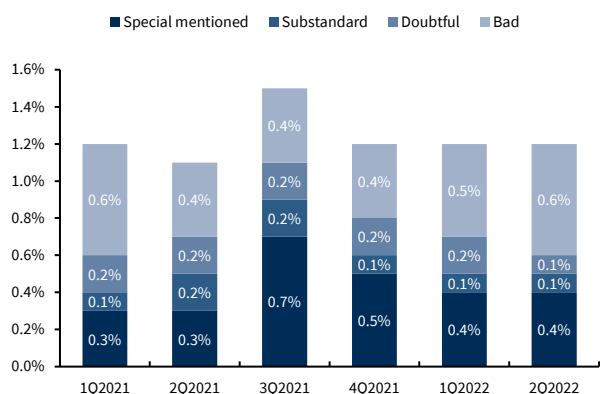
Source: Asia Commercial Bank, KB Securities Vietnam

**In the second quarter, NPL ratio decreased to 0.76%, LLCR remained high**

We highly appreciate ACB's efforts in ensuring good asset quality: (1) ACB was among the banks with the lowest NPL ratio in the industry during 2016-2021; (2) loan loss coverage ratio (LLCR) persistently increased and was always above the industry standard during 2016-2021; and (3) ACB proactively dealt with and made provision for restructured debts. With large provision expenses in 2021 (8-fold YoY) and improved financial health of businesses and customers, ACB reversed up to VND526 billion in 2Q22. ACB's asset quality is expected to continue to improve in 2H22.

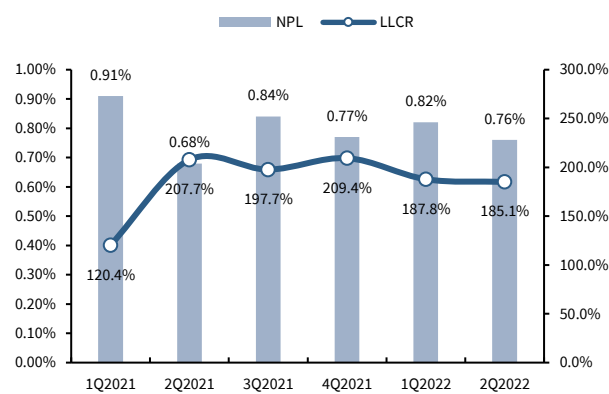
NPL ratio in the second quarter contracted by 6bps QoQ as doubtful debts and bad debts shrank by VND373 billion and VND256 billion, respectively. Restructured debts were down 13.3% QoQ to VND13 trillion at the end-2Q22. LLCR fell 2ppts QoQ to 185% but is still higher than the industry standard.

Fig 12. ACB – Groups of debt (%)



Source: Asia Commercial Bank, KB Securities Vietnam

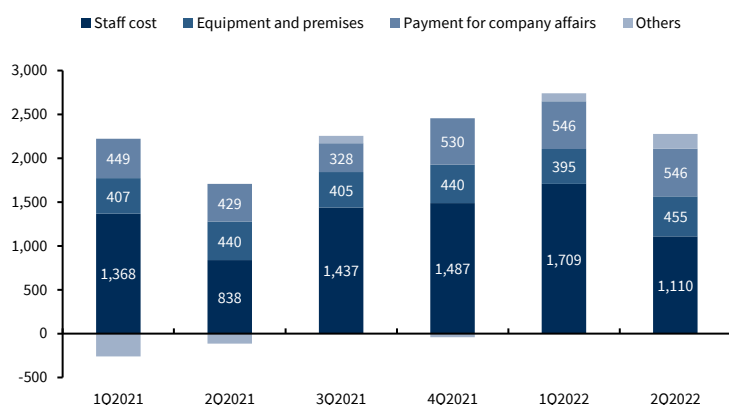
Fig 13. ACB – NPL ratio, LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

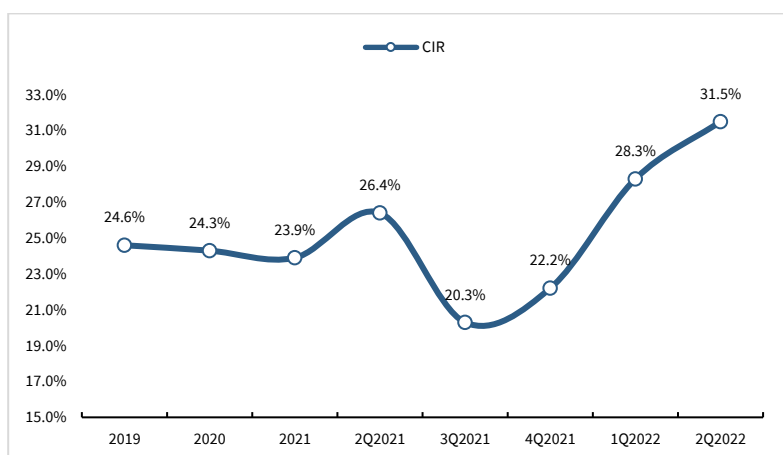
Fig 14. ACB – Operating expense breakdown (VNDbn)

General and administrative expenses in 2Q22 reached VND2,276 billion (-16.9%QoQ and +42.6%YoY) mainly due to an increase of 32.4%YoY in staff cost. Due to the sharp jump in costs over the same period, CIR in 2Q22 was up 5.4ppts YoY to 31.5%. ACB plans not to hire new staff in 2022 to cut costs.



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 15. ACB – CIR by quarter (%)



Source: Asia Commercial Bank, KB Securities Vietnam

**The SBV will likely approve credit room extension for ACB given its good asset quality**

Loan growth in the first six months reached 9.3%, which nears the designated level in early 2022 at 10%. We believe the SBV will likely expand the credit growth ceiling for ACB to maintain good growth momentum in the second half of the year thanks to: (1) high capital adequacy ratio (CAR) in recent years (11.23% by the end of 2021, higher than the 9% threshold prescribed by the SBV); (2) low NPL ratio (always below 1%) and high LLCR (always higher than the industry standard); and (3) safe investment securities portfolio without corporate bonds in the context that the SBV wants to direct credit flows into production activities and strictly controls the issuance of corporate bonds. We expect the bank's new credit room to reach 16%.

The full-year business plan is based on the assumption that credit growth ceiling will maintain at 10–11% so that the bank can still fulfill the targets in the event of no credit extension.

## Forecast

### 2022F business results

We make our forecast for ACB in 2022F as follows:

- We adjust down our credit growth forecast for 2022 by 0.8 ppts to 16%, equivalent to the expectation of the BOD at the start of the year. We expect the SBV will soon approve the credit room extension for ACB, given its healthy asset quality and that ACB does not invest in corporate bonds.
- NIM should increase by 12bps YoY to 4.13% for: (1) average earnings yield dropping by 7bps YoY due to interest rate cuts to attract customers; and (2) average cost of funds falling by 11bps YoY with the expectation that the CASA ratio will keep improving throughout the year and costs from valuable papers issuance are lower YoY. Slowing deposit growth also mitigates pressure from rising deposit rates.
- NPL ratio is forecast at 0.65%, down 12bps YoY since the bank will accelerate bad debt handling.
- Provision expenses are VND911 billion, down 72.1% YoY as the bank boosted writing off debts in 2021 and consistently recorded the reversal in the first half of 2022.
- NPAT is expected at VND13.732 billion, up 43.0% YoY.

**Table 1. ACB – 2022E-2023E business results**

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	18,945	22,594	26,490	19.3%	17.2%
Net fee income	2,894	3,124	3,901	7.9%	24.9%
Total operating income	23,564	27,655	31,950	17.4%	15.5%
Provision expenses	-3,336	-913	-1,067	-72.6%	16.9%
NPAT	9,603	13,732	16,407	43.0%	19.5%
NIM	4.01%	4.13%	4.23%		
Average earnings yield	7.14%	7.07%	7.35%		
Average cost of funds	3.42%	3.31%	3.58%		
CIR	34.9%	34.7%	32.5%		
NPL ratio	0.77%	0.58%	0.63%		
Total assets	527,770	592,773	697,981	12.3%	17.7%
Equity	44,901	65,938	90,371	46.9%	37.1%

Source: Asia Commercial Bank, KB Securities Vietnam

## Valuation

**We recommend BUY for ACB stocks with a target price of VND32,000/share**

We combine two valuation methods, P/B and residual income, to find a fair price for ACB stocks.

### (1) P/B method (Figure 16)

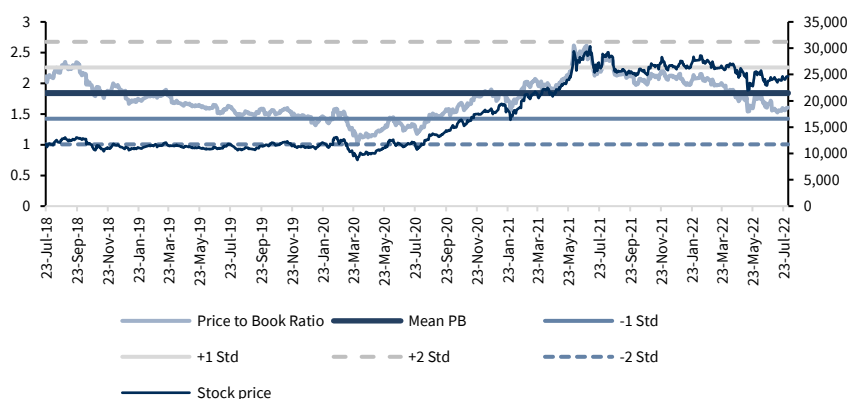
We highly appreciate the bank's efforts in controlling bad debts and maintaining good asset quality. In addition, ACB's loans to real estate will be less affected by the SBV's tight control over real estate credit since that amount accounts for only 1% of the outstanding loans. The bank's investment securities portfolio covers only government bonds. We give ACB an end-2022 target P/B of 1.8x, equivalent to ACB's 3-year average P/B given its P/B of 1.6x currently.

### (2) Residual income method (Table 2)

In addition, we incorporate the residual income method to reflect systematic risk and long-term expectations.

Based on the above two valuation methods with a ratio of 50-50, we recommend BUY for ACB stocks with a target price of VND32,000/share, 28.8% higher than the closing price on August 10, 2022. We lowered the target price compared to the previous projection of VND32,560/share after the bank paid a 25% stock dividend. Some downside risks include: (1) CASA ratio may fall short of expectation due to fierce competition among banks and (2) the SBV might grant new credit growth ceiling at a lower-than-expected level.

**Fig 16. ACB – Share performance & P/B (VND/share, x)**



Source: Fiiipro, KB Securities Vietnam

**Table 2. ACB – Target price according to residual income method (VND/share)**

VND bn	2022F	2023F	2024F	2025F	2026F
NPAT	13,732	16,407	19,765	23,312	27,720
Excessed return	5,819	5,562	5,290	4,465	3,576
Required rate of return (re)	12.0%				
Growth (g)	5%				
Terminal value	30,438				
Present value (PV)	48,700				
<b>Target price</b>	<b>29,531</b>				

Source: KB Securities Vietnam



**Table 3. ACB – Target price according to valuation methods (VND/share)**

Valuation method	Forecast price	Weight	Weighted price
P/B	29,531	50%	14,766
Residual income	34,510	50%	17,255
<b>Target price</b>			<b>32,021</b>

Source: KB Securities Vietnam

## ACB – 2020A–2023E financials

**Income Statement**

(Bn VND)	2020	2021	2022F	2023F
Interest and Similar Income	31,856	33,714	38,530	45,982
Interest and Similar Expenses	(17,274)	(14,769)	(15,425)	(18,896)
<b>Net Interest Income</b>	<b>14,582</b>	<b>18,945</b>	<b>23,105</b>	<b>27,086</b>
Fees and Commission income	2,804	4,027	4,376	5,428
Fees and Commission expenses	(1,109)	(1,133)	(1,252)	(1,527)
Net Fee and Commission Income	1,695	2,894	3,124	3,901
Net gain/(loss) from foreign currency and gold dealings	687	872	843	792
Net gain/(loss) from trading of trading securities	167	450	(68)	119
Net gain/(loss) from disposal of investment securities	732	244	223	269
Net Other income/(expenses)	280	140	889	445
Dividends income	19	20	46	20
<b>Total operating income</b>	<b>18,161</b>	<b>23,564</b>	<b>28,162</b>	<b>32,632</b>
General and Admin expenses	(7,624)	(8,230)	(9,743)	(10,605)
<b>Operating Profit Before Provision for Credit Losses</b>	<b>10,537</b>	<b>15,334</b>	<b>18,419</b>	<b>22,027</b>
Provision for credit losses	(941)	(3,336)	(911)	(1,067)
<b>Profit before tax</b>	<b>9,596</b>	<b>11,998</b>	<b>17,508</b>	<b>20,960</b>
Corporate income tax	(1,913)	(2,395)	(3,495)	(4,184)
<b>Net profit for the year</b>	<b>7,683</b>	<b>9,603</b>	<b>14,013</b>	<b>16,776</b>
Minority interest	0	0	0	0
<b>Attributable to parent company</b>	<b>7,683</b>	<b>9,603</b>	<b>14,013</b>	<b>16,776</b>

**Financial indicators**

%	2020	2021	2022F	2023F
<b>Profitability</b>				
ROAA	1.9%	2.0%	2.5%	2.6%
ROAE	24.3%	23.9%	25.2%	21.3%
NIM	3.66%	4.01%	4.20%	4.28%
Average yield	7.99%	7.14%	7.01%	7.27%
Cost of fund	4.62%	3.42%	3.16%	3.43%
<b>Operational efficiency</b>				
Non-performing loans (NPL)	0.59%	0.77%	0.65%	0.62%
Loan life coverage ratio (LLCR)	160.3%	209.4%	190.0%	180.0%
LDR	78.0%	77.9%	82.2%	81.9%
CIR	42.0%	34.9%	34.6%	32.5%
CASA	21.5%	25.3%	45.3%	44.5%

Source: Asia Commercial Bank, KB Securities Vietnam

**Balance Sheet**

(Bn VND)	2020	2021
<b>TOTAL ASSETS</b>	<b>444,530</b>	<b>527,770</b>
Cash and precious metals	6,968	7,510
Balances with the SBV	16,617	32,350
Placements with and loans to other credit institutions	31,671	49,819
Trading securities, net	6,168	11,260
Derivatives and other financial assets	55	227
Loans and advances to customers, net	308,529	356,051
Debts purchase	0	0
Investment securities	63,399	59,475
Investment in other entities and LT investments	100	172
Fixed assets	3,783	3,763
Investment properties.	349	216
Other assets	6,893	6,929
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>444,530</b>	<b>527,770</b>
<b>Total liabilities</b>	<b>409,082</b>	<b>482,869</b>
Due to Gov and Loans from SBV	0	0
Deposits and Loans from other credit institutions	23,875	54,394
Deposits from customers	353,196	379,921
CBs/CDs and other valuable papers issued	22,050	30,548
Other liabilities	9,845	17,921
<b>Shareholders' equity</b>	<b>35,448</b>	<b>44,901</b>
Charter capital	21,616	27,020
Share premium	272	272
Reserves	5,742	7,164
<b>Retained Earnings</b>	<b>7,819</b>	<b>10,445</b>

**Valuation**

(VND, x, %)	2020	2021
<b>Pricing ratio</b>		
Basic EPS	3,511	3,498
Book value per share	15,906	16,219
<b>Valuation ratio</b>		
PER	6.91	7.39
PBR	1.53	1.59
Dividend yield	0.9%	1.6%

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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