

ACB Bank (ACB)

NPLs rose but remained under control

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Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

ACB recorded TOI of VND8,024 billion (+16% YoY), with NII & NOII both rising

For 2Q23, Asia Commercial Bank (ACB) recorded total operating income (TOI) of VND8,024 billion (+16% YoY), of which net interest income (NII) contributed VND6,246 billion (+11% YoY) and non-interest income (NOII) grew strongly. Provision expenses rose sharply to VND706 billion, which ACB expects to reverse in the second half.

Lending structure saw a rise in major corporate loans

Individual customers still struggle financially due to the economic headwinds, so ACB has been focusing more on major corporate clients to fit the current situation. Loan growth should accelerate in the coming time so that the bank can achieve the new credit quota of 14.5% assigned by the State Bank of Vietnam (SBV).

Asset quality deteriorated but remained under control

Special mentioned and substandard debts in the second quarter expanded by 4% and 16% QoQ, respectively, reflecting slowing increase rates. KBSV expects the NPL formation rate to decrease over the next two quarters on customers' financial well-being improvement, thus helping ACB ease provisioning pressure. We forecast the NPL ratio at a conservative level of 1.15%.

We recommend BUY for ACB with a target price of VND30,100/share

Based on two valuation approaches P/B and residual income, we reiterate our BUY rating for ACB with a target price of VND30,100/share, 37.0% higher than the closing price on September 25, 2023.

Buy maintain

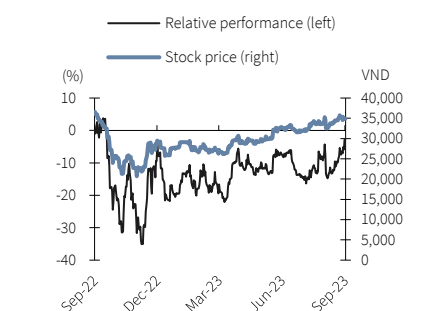
Target price	VND30,100
Upside	37,0%
Current price (Sep 25, 2023)	VND22,000
Market cap (VNDbn/USDmn)	85,499/3.49

Trading data	
Free float	85%
3M avg trading value (VNDbn/USDmn)	121.2/4.95
Foreign ownership	30%
Major shareholder	VN Enterprise Investments Ltd (6.26%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3.7	4.8	31.9	4.2
Relative	0.0	-3.3	12.5	-1.0

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	18,945	23,534	25,093	29,920
PPOP (VNDbn)	15,334	17,185	20,780	24,662
NPAT of parent bank (VNDbn)	9,603	13,688	15,727	18,449
EPS (VND)	3,554	4,053	4,657	5,462
EPS growth (%)	0%	14%	15%	17%
PER (x)	12.4	10.9	9.4	8.1
Book value per share (VND)	16,618	17,303	20,789	24,681
PBR (x)	2.65	2.54	2.12	1.78
ROE (%)	23.9%	26.5%	24.4%	24.0%



Source: Bloomberg, KB Securities Vietnam

Business performance

ACB recorded TOI of VND8,024 billion (+16% YoY), with NII & NOII both rising

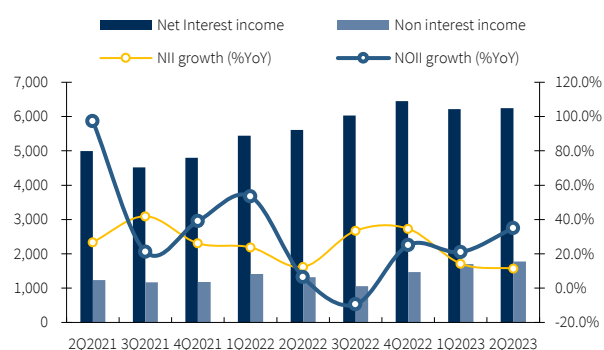
For 2Q23, ACB recorded total operating income (TOI) of VND8,024 billion (+16% YoY), of which net interest income (NII) contributed VND6,246 billion (+11% YoY) and non-interest income (NOII) grew strongly. Provision expenses rose sharply to VND706 billion, which ACB expects to reverse in the second half.

Table 1. ACB – 1H22–1H23 business results

(VNDbn)	2Q2022	2Q2023	+/-% YoY	1H2022	1H2023	+/-% YoY	KBSV's comments
Net interest income	5,606	6,246	+11.4%	11,047	12,461	+12.8%	Loan growth recovered well against the prior quarter, up 4.9% YTD. The credit quota granted by the SBV for the whole year is 14.5%.
Non-interest income	1,317	1,778	+35.0%	2,726	3,483	+27.8%	The impressive growth was driven by FX trading (+125 YoY) and investment securities reaching VND480 billion (from a loss of VND200 billion in the same period last year) offset the disappointed business performance of bancassurance, international payment, securities services.
Total operating income	6,923	8,024	+15.9%	13,773	15,944	+15.8%	
Operating expenses	(2,276)	(2,485)	+9.2%	(5,015)	(4,993)	-0.4%	CIR improved from 40% in 2022 to 31% at the end of 2Q23 as ACB actively cut costs.
CIR	32.9%	31.0%	-190bps				
Provision expenses	267	(706)	-364.0%	270	(962)	-456.0%	Due debt group reclassification on the CIC system, ACB's provision expenses surged in the second quarter.
PBT	4,914	4,832	-1.7%	9,028	9,989	+10.6%	
NPAT	3,943	3,866	-2.0%	7,231	8,001	+10.7%	
Loan growth	9.3%	4.9%	-439bps				Loan grew strongly, led by corporate clients with outstanding loans up 7.6% YTD vs. an increase of 3% YTD of retail loans.
Deposit growth	1.9%	3.8%	+188bps				
NIM	4.23%	4.13%	-9bps				NIM tends to fall as lending interest rates decrease faster than deposit interest rates.
NPL ratio	0.76%	1.06%	+30bps				ACB's on-balance sheet NPL ratio is 0.96%, the rest was due to debt group reclassification on Credit Information Center (CIC).

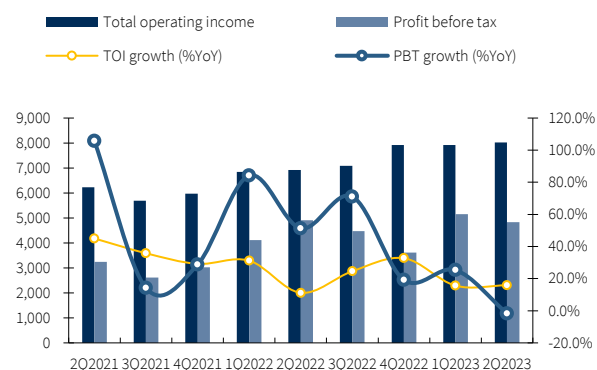
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – NII & NOII growth (VNDbn, %)



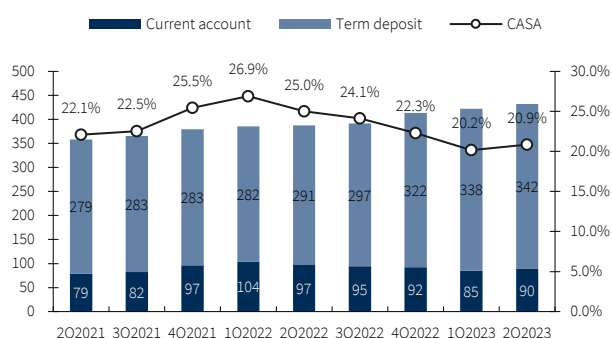
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – TOI & PBT growth (VNDbn, %)



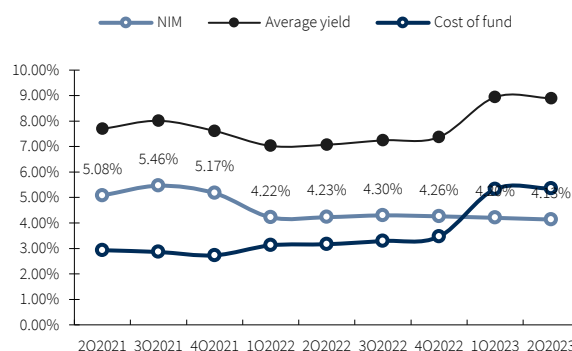
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – CASA, term deposit, CASA ratio (VNDbn, %)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 5. ACB – NIM, average earnings yield & cost of funds (%)

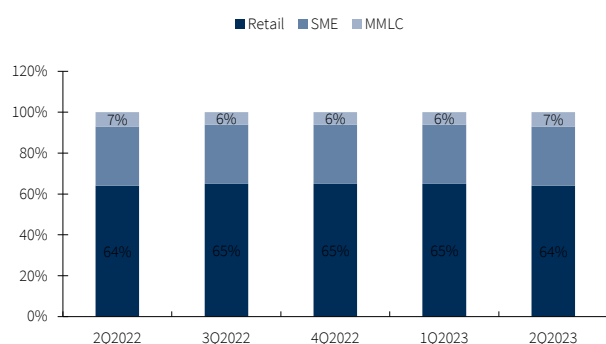


Source: Asia Commercial Bank, KB Securities Vietnam

Lending structure saw a rise in major corporate loans

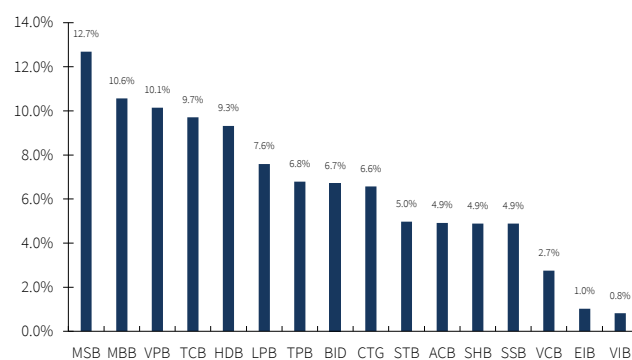
ACB previously concentrated on retail and small and medium-sized enterprises (SMEs) lending (accounting for 94% of the total outstanding loans). However, individual customers still struggle financially due to the economic headwinds, so ACB has been focusing more on major corporate clients to fit the current situation. Credit saw negative growth in the first months of the year but picked up 7% YTD by the end of August. It is expected to accelerate in the coming time so that the bank can touch the new credit quota of 14.5% assigned by the SBV. However, ACB remains cautious in lending activities to mitigate the risk of NPLs increasing sharply in the future.

Fig 6. ACB – Lending structure (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. Local banks – Loan growth in 1H23 (%)



Source: Asia Commercial Bank, KB Securities Vietnam

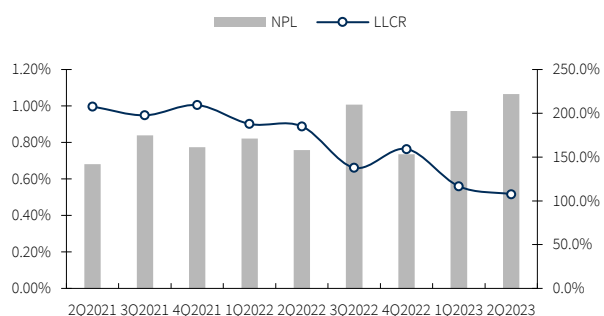
Asset quality deteriorated but remained under control

Although asset quality deteriorated, partly due to debt group reclassification on the Credit Information Center (CIC), ACB's asset-related variables remain better than those of other commercial banks. At an analyst meeting, the BOD of ACB shared that by the end of June 2023, the total restructured loans under Circular 02 hit VND1,200 billion, with Covid-related ones down to VND5,800 billion. Thus, ACB's restructured loans only comprise about 1.7% of total outstanding loans, which we assess is not worrisome.

Special mentioned and substandard debts in the second quarter increased by 4% and 16% QoQ, respectively, reflecting slowing increase rates. We also see

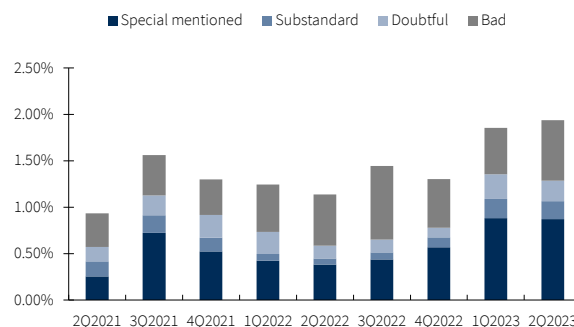
that the NPL formation rate went from 0.34% in 1Q23 to 0.2% in 2Q23. As a result, KBSV expects this figure to fall further over the next two quarters when customers' financial well-being improves, helping ACB reduce provisioning pressure. We forecast the NPL ratio at a conservative level of 1.15% (adjusted up 35 bps compared to the previous projection).

Fig 8. ACB – NPL ratio, LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Debt groups (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Forecast & Valuation

Table 10. ACB – 2022A–2023F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's comments
Net interest income	23,534	25,093	+6.6%	29,920	+19.2%	We lower our forecasts for ACB's 2023F business results due to worse-than-expected 1H23 credit growth. KBSV expects loan to grow well in 2H23 so that ACB can touch the quota assigned by the SBV.
Net fee income	3,526	4,478	+27.0%	4,420	-1.3%	
Total operating income	28,790	31,014	+7.7%	36,699	+18.3%	
Provision expenses	(71)	(1,121)	+1482.8%	(1,601)	+42.8%	Provision expenses increased sharply in 2Q23 due to debt group reclassification. However, ACB's provisioning pressure is expected to ease over the next two quarters.
NPAT	13,688	15,727	+14.9%	18,449	+17.3%	
NIM	4.26%	4.04%	-22bps	4.32%	+28bps	NIM decreased slightly since deposit interest rates remained high while ACB continued to cut lending interest rates.
Average earnings yield	7.37%	8.17%	+81bps	7.71%	-46bps	
Average cost of funds	3.46%	4.63%	+117bps	3.80%	-83bps	
CIR	40.3%	33.0%	-731bps	32.8%	-20bps	CIR improved significantly in the second quarter. However, ACB may promote some investing activities in the near term.
NPL	0.74%	1.15%	+41bps	1.08%	-7bps	The NPL ratio is conservatively forecast at 1.15%, including debt reclassification on the CIC system.
Total assets	607,875	672,207	+10.6%	752,996	+12.0%	
Equity	58,439	70,213	+20.1%	83,359	+18.7%	

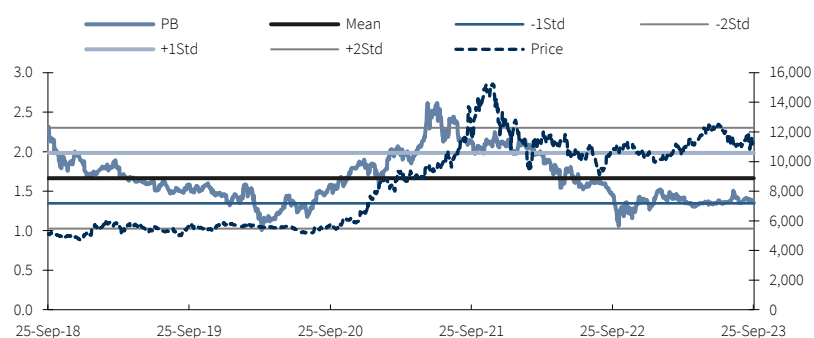
Source: KB Securities Vietnam

We recommend BUY for ACB with a target price of VND30,100/share

We combine two valuation methods, P/B and residual income, to assess ACB's value. Our forecasts for ACB's 2023F business results remain relatively unchanged, with NPAT revised up 0.2% on the expectation that ACB will reverse bad debts previously written off in the year-end period.

ACB is among our top picks, given its healthy financial structure and insignificant investment in corporate bonds and real estate. We expect ACB will maintain appropriate growth orientations and expand lending in parallel with ensuring a healthy balance sheet, helping the bank to withstand volatile scenarios. We recommended BUY for ACB with a target price of VND30,100/share, 37% higher than the closing price on September 25, 2023.

Fig 11. ACB – Historical P/B and share performance in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

Table 12. ACB – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	15,727	18,449	20,186
Excessed return	4,667	5,525	5,059
Required rate of return (re)	15.5%		
Growth (g)	3%		
Terminal value	15,895		
Present value (PV)	92,159		
Value per share	27,287		

Source: KB Securities Vietnam

Table 13. ACB – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
Residual income	27,287	50%	13,543
P/B	33,200	50%	16,600
Target price			30,100

Source: KB Securities Vietnam

ACB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020A	2021A	2022A	2023F	2024F	(VNDbn)	2020A	2021A	2022A	2023F	2024F
Net interest income	14,582	18,945	23,534	25,093	29,920	Loans	308,529	356,051	408,857	466,269	534,062
Interest income	31,856	33,714	40,699	50,825	53,390	Marketable securities	6,168	11,260	1,131	1,109	1,274
Interest expense	(17,27)	(14,76)	(17,16)	(25,73)	(23,47)	Cash (ex. Reserves)	6,968	7,510	8,461	9,481	10,643
Fees & commissions	4)	9)	5)	3)	0)	Interest earning assets	429,891	514,889	590,241	653,415	731,786
Other non-interest income	1,695	2,894	3,526	4,478	4,420	Fixed assets & other assets	11,124	11,080	14,163	14,799	16,646
Total operating income	18,161	23,564	28,790	31,014	36,699	Total assets	444,530	527,770	607,875	672,207	752,996
SG&A expenses	(7,624)	(8,230)	(11,60)	(10,23)	(12,03)	Customer deposits	355,196	379,921	413,953	471,625	529,422
Pre-provisioning OP	10,537	15,334	17,185	20,780	24,662	Borrowings & call money/repos	22,166	30,634	44,365	55,614	63,146
Provision for credit losses	(941)	(3,336)	(71)	(1,121)	(1,601)	Interest bearing liabilities	399,237	464,949	526,664	584,411	651,466
Other income	495	703	1,110	35	542	Other liabilities	9,844	17,920	22,772	17,583	18,172
Other expense	(216)	(564)	(121)	(5)	(81)	Total liabilities	409,082	482,869	549,437	601,994	669,637
Pre-tax income	9,596	11,998	17,114	19,659	23,061	Charter capital	21,616	27,019	33,774	33,774	33,774
Income tax expense	(1,913)	(2,395)	(3,426)	(3,932)	(4,612)	Capital surplus	272	272	272	272	272
NPL	7,683	9,603	13,688	15,727	18,449	Retained earnings	7,819	10,445	15,172	26,947	40,092
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	7,683	9,603	13,688	15,727	18,449	Total shareholders' equity	35,448	44,901	58,439	70,213	83,359

Financial Indicators (%)						Valuation (VND, X, %)					
	2020A	2021A	2022A	2023F	2024F		2020A	2021A	2022A	2023F	2024F
Profitability						Share Price Indicators					
ROE	24.3%	23.9%	26.5%	24.4%	24.0%	EPS	3,554	3,554	4,053	4,593	5,517
ROA	1.9%	2.0%	2.4%	2.5%	2.6%	BVPS	16,399	16,618	17,303	20,725	24,672
Pre-provision ROE	26.7%	30.5%	26.6%	25.8%	25.7%	Tangible BVPS	15,906	16,219	16,968	20,349	24,251
Pre-provision ROA	2.0%	2.5%	2.4%	2.6%	2.8%	Valuations					
Net interest margin (NIM)	3.6%	4.0%	4.3%	4.0%	4.3%	PER	8.5	8.5	7.4	6.6	5.5
Efficiency						PBR	1.8	1.8	1.7	1.5	1.2
Pure Loan to deposit ratio	88.2%	95.3%	99.9%	100.0%	102.0%	Dividend yield	2.0%	2.0%	2.0%	2.0%	3.5%
Cost-income ratio	42.0%	34.9%	40.3%	33.0%	32.8%	ROE	24.3%	23.9%	26.5%	24.2%	24.3%
Growth						Capital Adequacy					
Asset growth	15.9%	18.7%	15.2%	10.6%	12.0%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	15.9%	15.4%	14.8%	14.0%	14.5%	Asset Quality					
PPOP growth	35.3%	45.5%	12.1%	20.9%	18.7%	NPL ratio (substandard)	0.6%	0.8%	0.7%	1.2%	1.1%
Parent NP growth	27.8%	25.0%	42.5%	14.9%	17.3%	Coverage ratio (substandard)	160.3%	209.4%	159.3%	93.2%	102.0%
EPS growth	-1.7%	0.0%	14.0%	14.9%	17.3%	NPL ratio (precautionary)	0.8%	1.3%	1.3%	2.3%	1.9%
BVPS growth	-1.8%	1.3%	4.1%	20.1%	18.7%	Coverage ratio (precautionary)	122.1%	124.8%	90.0%	52.3%	58.6%

Source: Asia Commercial Bank, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tiens@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

Investment ratings & definitions

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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