

ACB Bank (ACB)

Steadfast in the face of adversity

November 28, 2023

Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

Credit growth should rebound more strongly in the year-end peak season

We expect Asia Commercial Bank's (ACB) loan growth to improve against the first half of this year. Our credit growth forecast for 2023F is around 12–13% compared with the 14.5% quota assigned by the State Bank of Vietnam (SBV). For 2024, the figure should reach 14–15% from the low base this year and in the context of a brighter economic picture.

Synergistic effects created by the priority banking customer base will ensure long-term growth

KBSV assesses that the priority banking customer quantity of ACB will increase further thanks to its focus strategy. This potential customer base can bring synergistic effects to ACB via (1) significantly contributing to mobilizing funds and CASA for ACB due to this group's good financial health, (2) supporting credit growth, and (3) boosting cross-selling of other products.

ACB is still among the top banks with solid asset quality

ACB always puts asset quality as a top priority rather than participating in the growth race among joint stock commercial banks. With an investment portfolio free of corporate bonds and real estate loans and good control of non-performing loans, ACB is considered a good investment opportunity.

We recommend BUY for ACB with a target price of VND30,000/share

We use two valuation approaches P/B and residual income to evaluate ACB's value. Accordingly, we reiterate our BUY recommendation for ACB with a target price for 2023F at VND30,000/share, equivalent to a total return of 37.4% against the closing price as of November 27, 2023.

Buy maintain

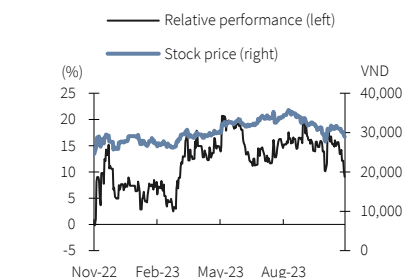
Target price	VND30,000
Upside	37.4%
Current price (Nov 27, 2023)	21,850
Market cap (VNDbn/USDmn)	84,866/3.5

Trading data	
Free float	85%
3M avg trading value (VNDbn/USDmn)	156/6.4
Foreign ownership	30%
Major shareholder	Vietnam Enterprise Investments Ltd (6.26%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-2.2	-15.0	-3.3	14.7
Relative	-4.2	-5.7	-5.1	9.3

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	18,945	23,534	24,922	29,504
PPOP (VNDbn)	15,334	17,185	21,063	24,474
NPAT-MI (VNDbn)	9,603	13,688	15,629	18,455
EPS (VND)	3,554	4,053	4,627	5,464
EPS growth (%)	0%	14%	14%	18%
PER (x)	12.4	10.9	9.5	8.1
Book value per share (VND)	16,618	17,303	20,760	24,654
PBR (x)	2.65	2.54	2.12	1.78
ROE (%)	23.9%	26.5%	24.3%	24.1%



Source: Bloomberg, KB Securities Vietnam

Business performance

3Q23 results were quite positive

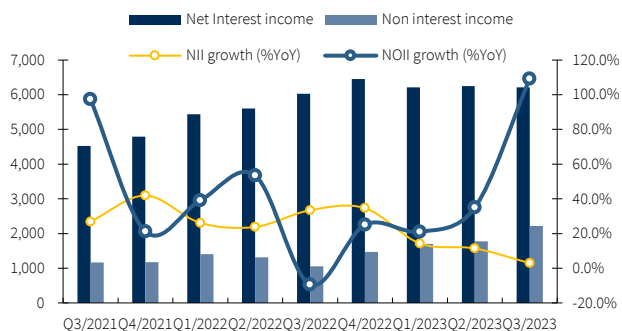
In the third quarter of 2023, ACB's net interest income (NII) stood still amid a bleak credit market, while non-interest income (NOII) recorded impressive growth, doubling YoY. Thanks to that, total operating income (TOI) for the first nine months of 2023 still maintained double-digit growth (+16.8% YoY), reaching VND24,368 billion. ACB's asset quality deteriorated in line with the general trend of the entire system, with the NPL ratio up from 1.01% in 2Q23 to 1.2% in 3Q23. 9M23 PBT amounted to VND15,024 billion (+11.3% YoY).

Table 1. ACB – 9M22–9M23 business results

(VNDbn)	Q3/2022	Q3/2023	+/-% YoY	9M2022	9M2023	+/-% YoY	Comments
Net interest income	6,032	6,209	+2.9%	17,079	18,670	+9.3%	Credit growth as of the end of September 2023 reached 8.7% YTD. Despite improvements compared to the beginning of the year, the recovery remains weak amid economic hurdles.
Non-interest income	1,059	2,215	+109.2%	3,785	5,698	+50.6%	<ul style="list-style-type: none"> - Securities investment & trading recorded an unexpected gain of VND950 billion against a VND42 billion loss in the same period a year earlier thanks to ACB taking advantage of fluctuations in government bond yields recently. - FX trading recorded a 229% YoY growth. - Bancassurance is slowly recovering compared to the start of the year.
Total operating income	7,091	8,424	+18.8%	20,864	24,368	+16.8%	
Operating expenses	(2,526)	(2,868)	+13.6%	(7,541)	(7,861)	+4.2%	The CIR hovers around 30–35% as the target set.
CIR	35.6%	34.0%	-157bps	36%	32%	-2154bps	
Provision expenses	(90)	(521)	+475.7%	180	(1,483)		Provision expense increased sharply from the low base in the same period due to reversals. However, compared to the previous quarter, it was better controlled, down 26% QoQ.
PBT	4,475	5,035	+12.5%	13,503	15,024	+11.3%	
NPAT	3,587	4,038	+12.6%	10,818	12,038	+11.3%	
Loan growth (YTD)	11.1%	8.7%	-243bps				Retail lending grew modestly by 7% YoY, but corporate lending expanded by more than 10%, which was the major contributor to ACB's credit growth. ACB shifted its focus from retail lending (consumer loans, household business, home loans) to corporate lending since retail credit market was relatively bleak.
Deposit growth (YTD)	4.1%	6.2%	+205bps				
NIM	4.30%	4.07%	-22bps				NIM continued its downward trend when (1) ACB offered preferential lending interest rates, only higher than state-owned banks'; (2) the proportion of corporate lending picked up but the margin of this group is lower than that of retail lending.
NPL ratio	1.01%	1.20%	+19bps				ACB's asset quality moved in line with the general market but ACB, besides Vietcombank (VCB), is still among banks with the lowest NPL ratio in the entire system. On-balance sheet NPL (excluding debt reclassification on the CIC system) is controlled at 1.08%.

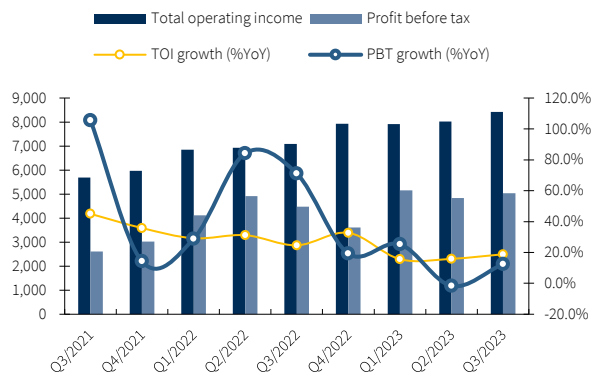
Source: Asia Commercial Bank, KB Securities Vietnam

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



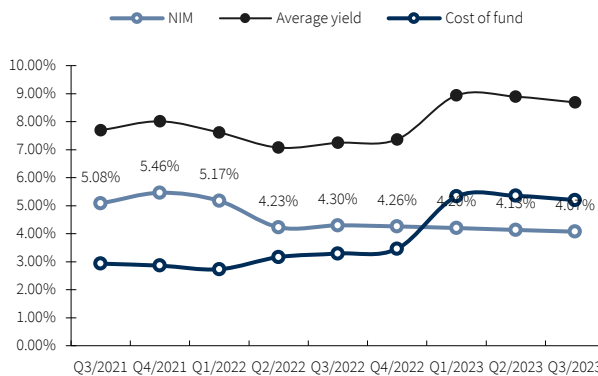
Source: Asia Commercial Bank, KB Securities Vietnam

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



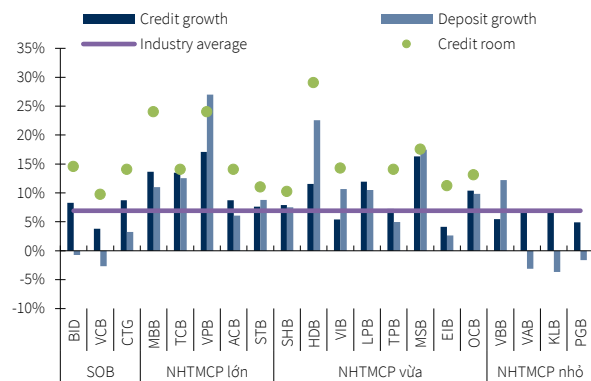
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – NIM, average earnings yield & cost of funds (%)



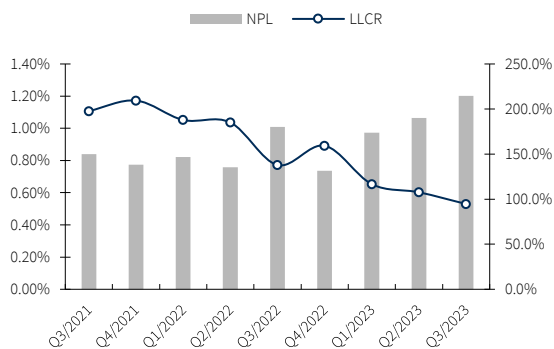
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 5. Vietnam – Loan & deposit growth at local banks (%)



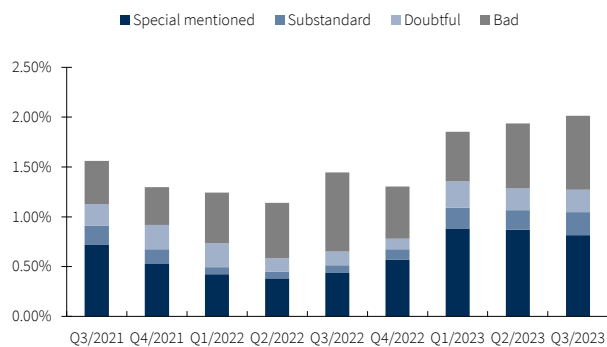
Source: Local banks, KB Securities Vietnam

Fig 6. ACB – NPL ratio, LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – Debt groups (%)



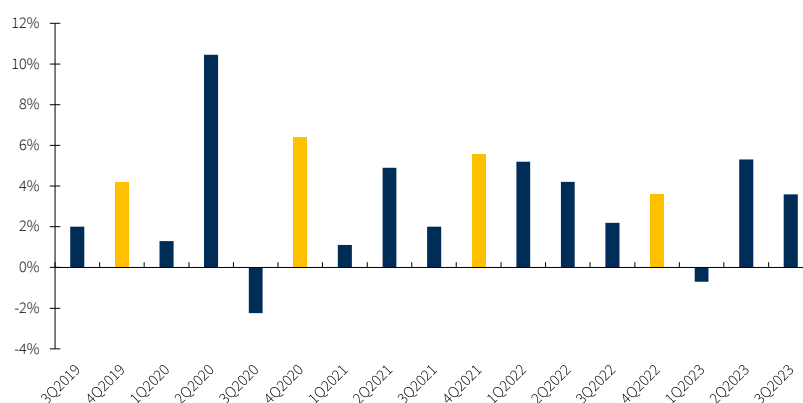
Source: Asia Commercial Bank, KB Securities Vietnam

Investment catalysts

Credit growth should rebound more strongly in the year-end peak season

From our observations, the last months of the year are often the peak season of credit growth. We therefore expect ACB's lending segment to enjoy more positive results than in the first half of this year. Our credit growth forecast for 2023F is around 12–13% compared with the 14.5% quota assigned by the SBV, backed by: (1) the recovery in the borrowing demand from individual customers during the year-end holidays; (2) improved exports that help businesses receive new orders, thus boosting the demand for loans for production and business; and (3) ACB's lending interest rates are relatively low compared to joint stock commercial banks and only higher than State-owned banks' (SOB). For 2024, we expect ACB's loan growth to hit 14–15% from this year's low base and in the context of a brighter economic picture.

Fig 8. ACB – Quarterly loan growth (%)



Source: State Bank of Vietnam, KB Securities Vietnam

Synergistic effects created by the priority banking customer base will ensure long-term growth

ACB will continue to promote retail lending, which has been its consistent strategy, especially the priority banking customer base. ACB has focused on this customer group for many years, currently contributing about 40% of retail banking revenue. We assess the focus strategy with improved service quality will help ACB expand its priority banking customer base. This potential group with good financial health can bring synergistic effects to ACB via (1) significantly contributing to mobilizing funds and CASA for ACB due to this group's good financial health, (2) supporting credit growth, and (3) boosting cross-selling of other products. We learned that ACB has been cooperating with other financial institutions to provide new investment options besides the traditional savings deposit channel.

ACB is still among the top banks with solid asset quality

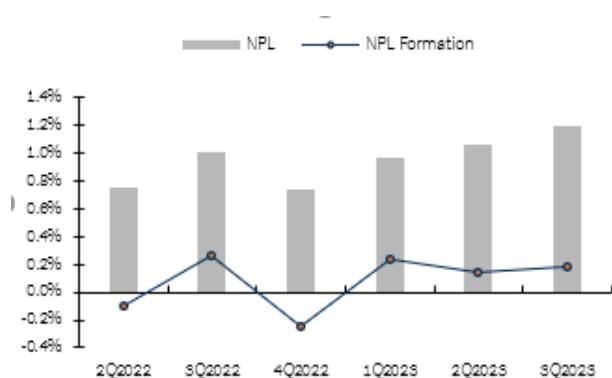
We like ACB as it always puts asset quality as a top priority rather than participating in the growth race among joint stock commercial banks.

The NPL ratio gained 19 bps QoQ to 1.2% in 3Q23, but ACB is still among the top banks with the lowest NPL ratio in the industry, with on-balance sheet NPL ratio (excluding debt reclassification on the CIC system) at 1.08%. The NPL ratio of retail and small and medium-sized enterprises (SMEs) lending is 1.16% and 1.07%, respectively while that of corporate lending increased sharply to 2%, primarily due to 1-2 customers having difficulty repaying debt at other banks, leading to adjustments on the credit information center (CIC). However, given the current economic hurdles, ACB's NPL ratio at around 1% shows that the bank is always prudent in lending activities, which partly explains the humble credit growth relative to other comparable peers. In addition, we also notice the slowdown of the NPL formation rate and special mentioned loans. We expect the bank's NPL ratio back to 1% in 2024.

According to ACB, its restructured loans under Circular 02 are about VND1,900 billion (equivalent to 0.4% of total outstanding loans), a relatively low level. We will continue to monitor this, especially when Circular 02 expires next year. COVID-related restructured loans continuously decreased to VND 4,600 billion. In general, restructured loans are no longer a major risk to ACB.

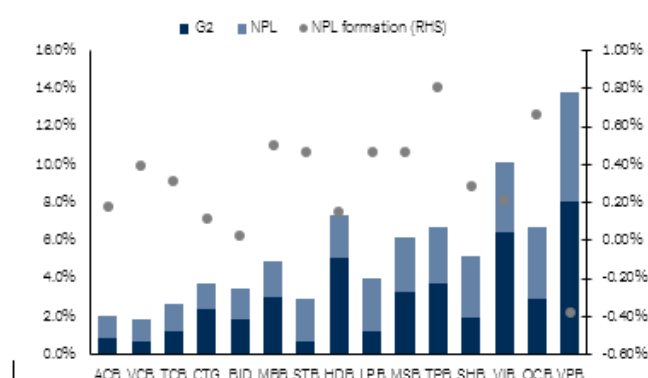
Besides, as mentioned in previous reports, ACB always maintains a safe investment portfolio free of corporate bonds and real estate loans, showing the bank's cautious strategy.

Fig 9. ACB – NPL ratio, NPL formation rate (%)



Source: State Bank of Vietnam, KB Securities Vietnam

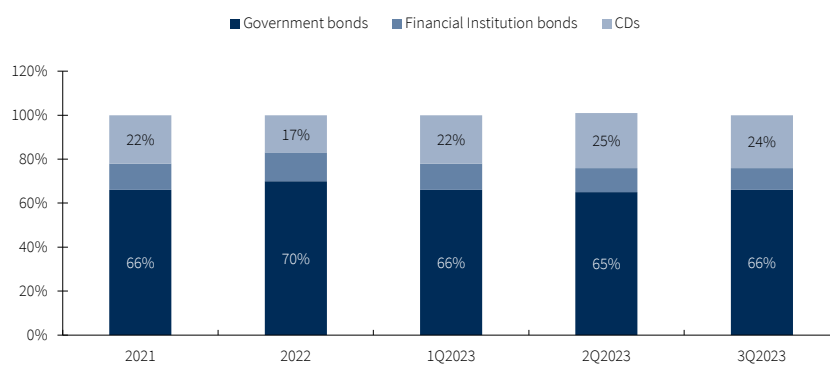
Fig 10. ACB's NPL formation rate vs others'



Source: Local banks, KB Securities Vietnam

The investment portfolio accounts for 11% of total assets, of which government bonds always constitute a large proportion (60–70%), and the remainder are bonds of credit institutions and certificates of deposit (CDs).

Fig 11. ACB – Investment portfolio



Source: State Bank of Vietnam, KB Securities Vietnam

Forecast & Valuation

Table 10. ACB – 2022A–2024F business results

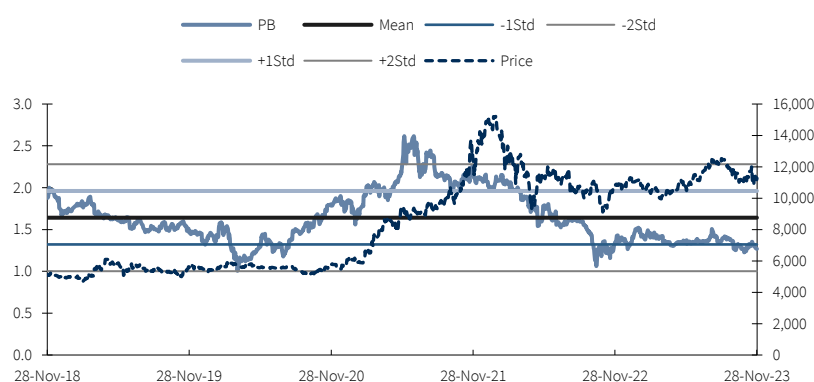
(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	23,534	24,922	+5.9%	29,504	+18.4%	Credit growth should hit 12–13% for 2023F and 14.5% for 2024.
Net fee income	3,526	3,485	-1.2%	4,074	+16.9%	Card service and bancassurance should improve from the low base of 2023.
Total operating income	28,790	31,437	+9.2%	36,419	+15.8%	
Provision expenses	(71)	(1,527)	+2056.4%	(1,404)	-8.0%	Provision expenses tend to decrease as non-performing loans are gradually under control. ACB is expected to record reversals in the fourth quarter.
NPAT	13,688	15,629	+14.2%	18,455	+18.1%	
NIM	4.26%	4.03%	-23bps	4.31%	+28bps	NIM is expected to recover in 2024 when (1) a sharp fall in the average cost of funds coupled with the maturity of 12M term deposits with high interest rates at the end of this year would lead funding costs to fall significantly and (2) retail lending with a higher margin than that of corporate lending is still ACB's key strategy.
Average earnings yield	7.37%	8.16%	+79bps	7.68%	-48bps	
Average cost of funds	3.46%	4.63%	+117bps	3.80%	-83bps	
CIR	40.3%	33.0%	-731bps	32.8%	-20bps	The CIR should hover between 30–35%.
NPL	0.74%	1.20%	+ 46bps	1.08%	-12bps	KBSV revises up our NPL ratio projection since the NPL ratio kept growing in the third quarter of 2023. We expect it to have peaked and be well controlled around 1% in 2024.
Total assets	607,875	663,551	+9.2%	743,312	+12.0%	
Equity	58,439	70,115	+20.0%	83,267	+18.8%	

Source: KB Securities Vietnam

We recommend BUY for ACB with a target price of VND30,000/share

We keep using two valuation methods P/B and residual income (50:50 weighting) as in previous reports. The target P/B is 1.3x for 2023F and 1.4x for 2024F. We maintain our BUY recommendation for ACB with a target price of VND30,000/share, 37.4% higher than the closing price on November 27, 2023.

Fig 12. ACB – Historical P/B & share price performance (x, VND/share)



Source: Bloomberg, KB Securities Vietnam

Table 13. ACB – Residual income valuation

(VNDbn)	2023F	2024F	2025F
NPAT	15,629	18,455	19,784
Excessed return	4,667	5,525	5,059
Required rate of return (re)	15.5%		
Growth (g)	3%		
Terminal value	15,144		
Total present value (PV)	90,645		
Value per share	26,838		

Source: KB Securities Vietnam

Table 14. ACB – Valuation results

Valuation method	Forecast price	Weighing	Weighted price
Residual income	26,838	50%	13,419
P/B	33,216	50%	16,608
Target price			30,000

Source: KB Securities Vietnam

ACB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	14,582	18,945	23,534	24,922	29,504	Loans	308,529	356,051	408,857	457,881	524,692
Interest income	31,856	33,714	40,699	50,415	52,565	Marketable securities	6,168	11,260	1,131	1,810	2,079
Interest expense	(17,274)	(14,769)	(17,165)	(25,493)	(23,061)	Cash (ex. Reserves)	6,968	7,510	8,461	9,315	10,456
Fees & commissions	1,695	2,894	3,526	3,485	4,074	Interest earning assets	429,891	514,889	590,241	645,708	722,949
Other non-interest income	280	139	990	30	628	Fixed assets & other assets	11,124	11,080	14,163	14,244	15,992
Total operating income	18,161	23,564	28,790	31,437	36,419	Total assets	444,530	527,770	607,875	663,551	743,312
SG&A expenses	(7,624)	(8,230)	(11,605)	(10,374)	(11,945)	Customer deposits	353,196	379,921	413,953	463,351	520,134
Pre-provisioning OP	10,537	15,334	17,185	21,063	24,474	Borrowings & call money/repos	22,166	30,634	44,365	54,703	62,103
Provision for credit losses	(941)	(3,336)	(71)	(1,527)	(1,404)	Interest bearing liabilities	399,237	464,949	526,664	574,222	640,101
Other income	495	703	1,110	35	739	Other liabilities	9,844	17,920	22,772	19,213	19,945
Other expense	(216)	(564)	(121)	(5)	(111)	Total liabilities	409,082	482,869	549,437	593,436	660,045
Pre-tax income	9,596	11,998	17,114	19,536	23,069	Charter capital	21,616	27,019	33,774	33,774	33,774
Income tax expense	(1,913)	(2,395)	(3,426)	(3,907)	(4,614)	Capital surplus	272	272	272	272	272
NP	7,683	9,603	13,688	15,629	18,455	Retained earnings	7,819	10,445	15,172	26,849	40,001
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	7,683	9,603	13,688	15,629	18,455	Total shareholders' equity	35,448	44,901	58,439	70,115	83,267

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	24.3%	23.9%	26.5%	24.3%	24.1%	EPS	3,554	3,554	4,053	4,627	5,464
ROA	1.9%	2.0%	2.4%	2.5%	2.6%	BVPS	16,399	16,618	17,303	20,760	24,654
Pre-provision ROE	26.7%	30.5%	26.6%	26.2%	25.5%	Tangible BVPS	15,906	16,219	16,968	20,370	24,200
Pre-provision ROA	2.0%	2.5%	2.4%	2.7%	2.8%	Valuations					
Net interest margin (NIM)	3.6%	4.0%	4.3%	4.0%	4.3%	PER	12.4	12.4	10.9	9.5	8.1
Efficiency						PBR	2.7	2.6	2.5	2.1	1.8
Pure Loan to deposit ratio	88.2%	95.3%	99.9%	100.0%	102.0%	Dividend yield	24.3%	23.9%	26.5%	24.3%	24.1%
Cost-income ratio	42.0%	34.9%	40.3%	33.0%	32.8%	ROE					
Growth						Capital Adequacy					
Asset growth	15.9%	18.7%	15.2%	9.2%	12.0%	CAR	11.0%	11.2%	12.8%	>13%	>13%
Loan growth	15.9%	15.4%	14.8%	12.0%	14.6%	Asset Quality					
PPOP growth	35.3%	45.5%	12.1%	22.6%	16.2%	NPL ratio (substandard)	0.6%	0.8%	0.7%	1.2%	1.1%
Parent NP growth	27.8%	25.0%	42.5%	14.2%	18.1%	Coverage ratio (substandard)	160.3%	209.4%	159.3%	98.4%	102.0%
EPS growth	-1.7%	0.0%	14.0%	14.2%	18.1%	NPL ratio (precautionary)	0.8%	1.3%	1.3%	2.0%	1.9%
BVPS growth	-1.8%	1.3%	4.1%	20.0%	18.8%	Coverage ratio (precautionary)	122.1%	124.8%	90.0%	59.0%	58.6%

Source: Asia Commercial Bank, KB Securities Vietnam

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

Research Division
research@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

Macro/Strategy

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

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@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
tienss@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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