

# ACB Bank (ACB)

## Strong growth with a healthy balance sheet

March 8, 2022

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### 2022 business results maintain high growth

In 4Q22, Asia Commercial Bank's (ACB) TOI continued to set a new quarterly peak at VND7,926 billion (+11.8%QoQ or 32.7%YoY). OPEX gained 60.9%QoQ or 68.1%YoY, directly narrowing the bank's profit. Provision expenses decreased sharply YoY, which helped 4Q PBT gain 19.2%YoY. For the whole year of 2022, ACB recorded VND17,114 billion in PBT, a sharp increase of 42.6%YoY.

### ACB's NIM starts to feel pressure from cost of capital

4Q cost of capital rose 0.74ppts QoQ or 1ppt YoY to 4.32%. Thanks to the good absorption of the loan portfolio, NIM inched up 0.06ppts QoQ or 0.6ppts YoY. ACB is one of the few banks that recorded continuous QoQ increase in NIM.

### NPL is well controlled, but substandard debts have increased sharply

The bank's 2022-end NPL ratio was 0.74%, a slight decrease of 0.03ppts YoY. Provision for bad debts remained high at 159.3%. The weight of substandard debt in total loans surged to 0.6% due to the update according to CIC but it is not a cause of concern and should gradually decrease.

### The bank has room to reduce lending interest while ensuring a stable NIM

Despite lower mortgage rates, NIM should be stable thanks to the modest margin of increase in deposit rate and expectations about CASA recovery thanks to the transaction app for businesses.

### BUY recommendation, target price VND30,500/share

Using two methods of valuation P/B and Residual income, we recommend BUY for ACB stocks with a target price of VND30,500/share, 22.0% higher than the price on March 8, 2023.

## Buy maintain

<b>Target price</b>	<b>VND30,500</b>
Upside/Downside	22,0%
Current price (Mar 8, 2023)	25,000
Consensus target price	31,700
Market cap (VNDbn)	84,098

#### Forecast earnings & valuation

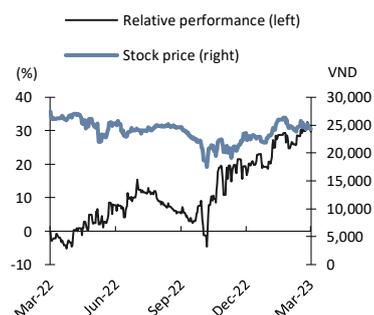
FY-end	2021A	2022A	2023F	2024F
NII (VNDbn)	18,945	23,534	27,254	31,664
Pre-provision operating profit (VNDbn)	15,334	17,185	21,776	25,485
NPAT of parent bank (VNDbn)	9,603	13,688	16,846	19,305
EPS (VND)	3,498	4,008	3,990	3,658
EPS growth (%)	-0.4%	14.6%	-0.4%	-8.3%
PER (x)	9.71	6.98	7.01	7.65
Book value per share (VND)	16,219	16,968	17,681	17,785
PBR (x)	2.09	1.65	1.58	1.57
ROE (%)	23.9%	26.5%	25.1%	22.6%
Dividend yield (%)	25%	25%	25%	25%

#### Trading data

Free float	83.2%
3M avg trading value (VNDbn)	75.38
Foreign ownership	30%
Major shareholder	Dragon Financial Holding (8.06%)

#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-2.4	9.0	-1.4	-8.6
<b>Relative</b>	3.5	11.3	22.6	33.3



Source: Bloomberg, KB Securities Vietnam

## Business operation

### 4Q22 PBT only increased by 19.2%YoY due to a strong increase in OPEX

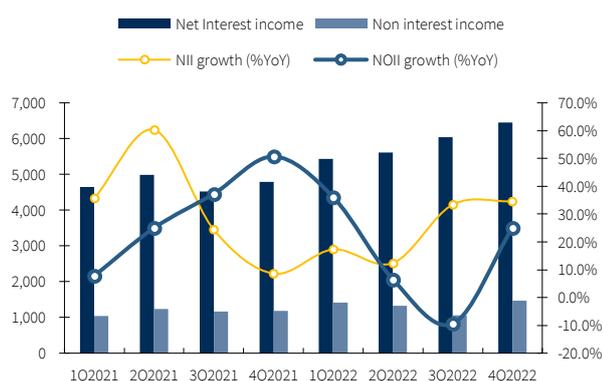
4Q22 NII was VND6,454 billion, slightly increasing 7% QoQ but significantly gaining 34.6% YoY. Total NOII hit VND1,472 billion, up 39%QoQ or 25.1%YoY. As a result, TOI continued to set a new quarterly peak at VND7,926 billion (+11.8%QoQ or 32.7%YoY). However, the increase of 60.9%QoQ or 68.1%YoY in OPEX during the period reduced the bank's pre-provision profit to VND3,862 billion (-15.4%QoQ or -8.7%YoY). ACB continued to record reversals from Covid-related provision, so it only had to make a provision of VND251 billion (+178.9%QoQ and -52.1%YoY) in 4Q, so Q4 PBT still manage to gain 19.2%YoY to VND3,611 billion. For the whole year of 2022, with only about VND71 billion recorded in provision expenses, much lower than VND3,336 billion in the same period, 2022 PBT climbed 42.6%YoY to VND17,114 billion.

### ACB's NIM starts to feel pressure from capital expenditure

As we assessed in the previous report, as ACB proactively reduced the fixed rate mortgage to only three months for all customers, and its loan portfolio is mainly short-term loans, ACB's loan portfolio can effectively absorb the increase in deposit rates. As a result, the loan portfolio yield in 4Q gained 0.9ppts QoQ to 9.97%. In addition, maintaining a large deposit balance on the interbank market while interest rates on this channel peaked also helped to significantly improve incomes from deposit interest in 4Q (+97.0%QoQ or a 9x increase vs 4Q21). Average yield on earning assets was 8.48% in 4Q (+0.8ppts QoQ or +1.59ppts YoY).

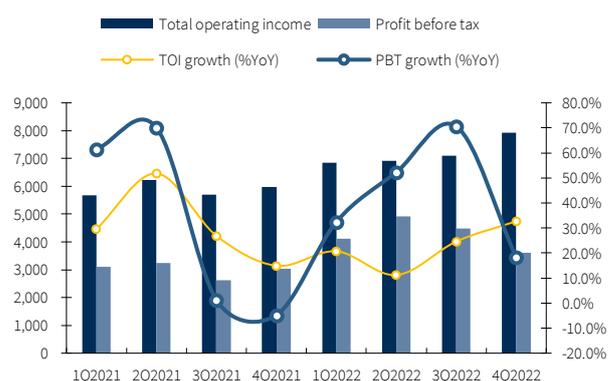
Like other banks, ACB also had to boost capital mobilization at the end of the year to ease liquidity pressure. That, when combined with the high deposit rate base after the SBV's raising policy rate, made the cost of capital in 4Q rise 0.74ppts QoQ or 1ppt YoY to 4.32%. Thanks to the good absorption of the loan portfolio, 4Q NIM inched up 0.06ppts QoQ or 0.65ppts YoY. ACB is one of the few banks that still recorded continuous improvement in NIM QoQ. The CASA ratio fell from the peak of 26.9% to 22.2% by the end of 2022 mainly due to an increase of 13.8%YoY in term deposit balance.

Fig 1. ACB – NII & NOII growth by quarter (%YoY)



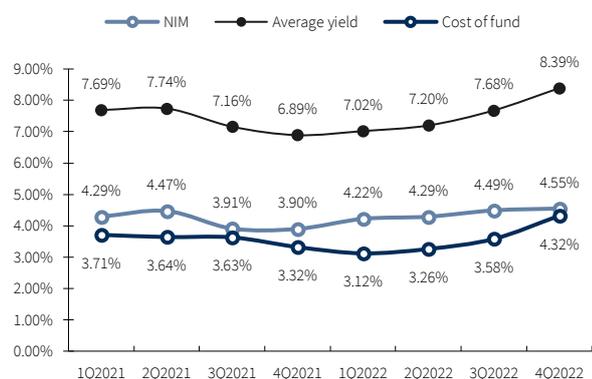
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – TOI & PBT growth (%YoY)



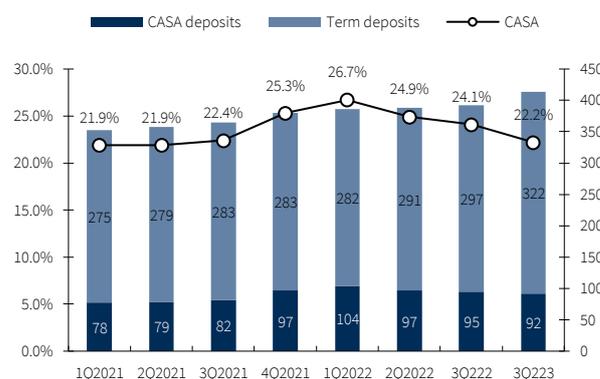
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – NIM by quarter (%)



Source: Asia Commercial Bank, KB Securities Vietnam

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



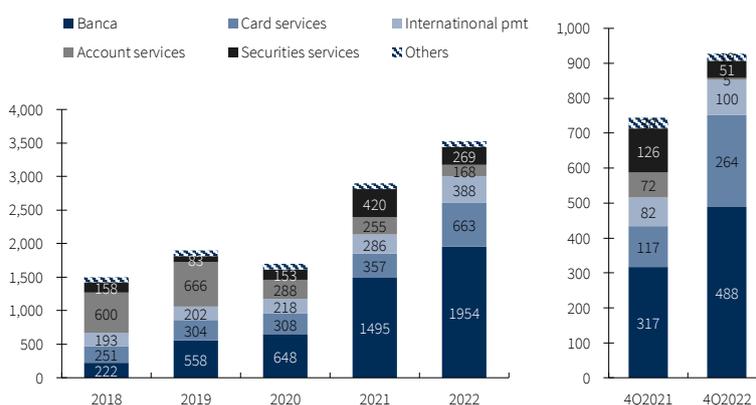
Source: Asia Commercial Bank, KB Securities Vietnam

**Banca revenue and card services are the main growth drivers**

Net income from services in 4Q reached VND927 billion, of which (1) income from bancassurance contracts reached VND488 billion (+53.9%YoY); (2) income from card services surged 125.6%YoY; (3) international payment services brought in VND100 billion (+22%YoY); and (4) account services and securities fell sharply by 93.1% and 59.5%, respectively.

For the whole year of 2022, net income from service activities reached VND3,526 billion (+21.8%YoY), of which income from bancassurance channel brought in VND1,954 billion (+30.7%YoY). The cooperation agreement with Sun Life helps to maintain high growth in insurance income even during the COVID-19 pandemic. ACB’s annual premium equivalent ranked in the top five in the banking industry. With the advantage from the existing retail customer base, the management expects that insurance premium can maintain a growth rate of ≥ 30% annually. Income from card services jumped 85.7% YoY to VND663 billion. Income from international payment services also increased 35.7%YoY. ACB should gain more from this source through UPAS. The zero-fee policy to boost the demand for services from customers has caused this income to shrink from 2020 to VND168 billion by 2022 (down 34.1%YoY). Income from securities services fell 36%YoY due to poor performance on the stock market.

Fig 5. ACB – Income from services structure



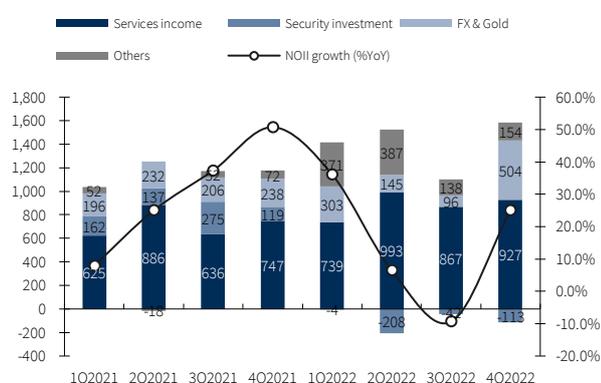
Source: Asia Commercial Bank, KB Securities Vietnam

## Income from forex & gold trading surged in 4Q22

The bank continued to record a loss of VND113 billion from securities trading in 4Q, of which (1) ACBS lost VND80 billion from its proprietary portfolio while (2) the parent bank lost VND30 billion as the bank restructured the government bond portfolio when bond interest rates peaked. For the whole year, ACB lost VND388 billion from securities trading. Income from foreign exchange and gold trading in 4Q doubled that of the same period last year to reach VND504 billion. The figure for the whole 2022 reached VND1,048 billion, up 20.2%YoY. Debt collection activities were better thanks to the recovery of the economy, helping net interest from other activities this year increased seven times YoY to VND990 billion.

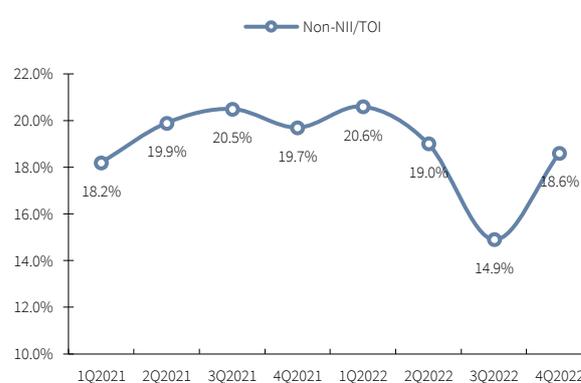
Thanks to the strong improvement in income from services and foreign exchange, the ratio of NOII to TOI rebounded to 18.6% in 4Q. The ratio for the whole year 2022 is 18.3%, which we think is low compared to the industry average of 20%. We expect ACB's fee income will improve this year with the driving force from banca and card services. In addition, income from securities trading is still expected to gradually recover when the stock market becomes more favorable and interest rates falls. ACB also targets that income from foreign exchange trading and services will gain by 20~30% in 2023.

Fig 6. ACB – NOII structure by quarter



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – NOII/TOI ratio by quarter (%YoY)



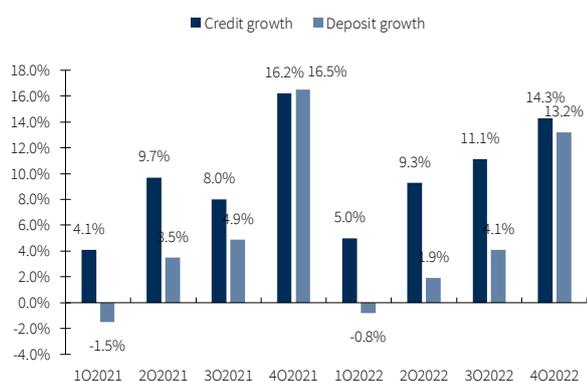
Source: Asia Commercial Bank, KB Securities Vietnam

## ACB makes effective use of the allocated credit room and has a prudent loan structure

As the credit room is quite limited in 2022, ACB has proactively allocated the credit room appropriately for each quarter instead of focusing on the first half of the year like many other banks, thereby maintaining a stable interest income during the year. ACB's total credit balance by the end of 2022 was VND 414 trillion, up 15.2% YTD, higher than the industry credit growth of 14%, and only slightly decreasing over the same period. The proportion of loans to individual customers by the end of 2022 is 65%, ranking second in the industry, after Vietnam International Bank (VIB) with 87.5%. ACB also focuses on exploiting SME customers whose loans account for 29% of ACB's total loan. SME lending mainly serves commercial, manufacturing and processing activities. It can be seen that ACB's loan portfolio is relatively healthy and in line with the orientation of the SBV in the post-pandemic economic recovery period.

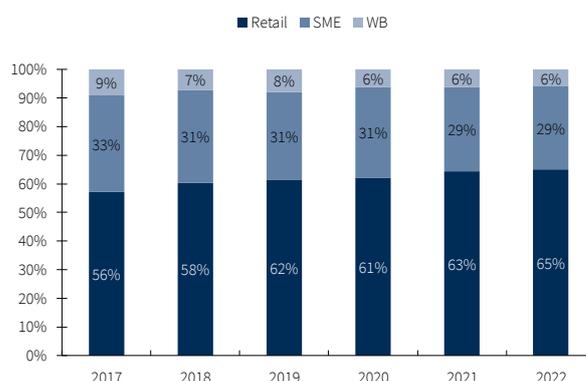
It is known that the outstanding loan related to real estate construction is about VND9.3 trillion, accounting for 24% of the total loan. Of that, 82% is personal loans to buy and repair houses (VND8.1.4 trillion), and the rest is loans to construction and real estate businesses (VND17 trillion or 4.1% of total loan).

Fig 8. ACB – Credit and Deposit growth by quarter (%YTD)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Loan structure by customer group



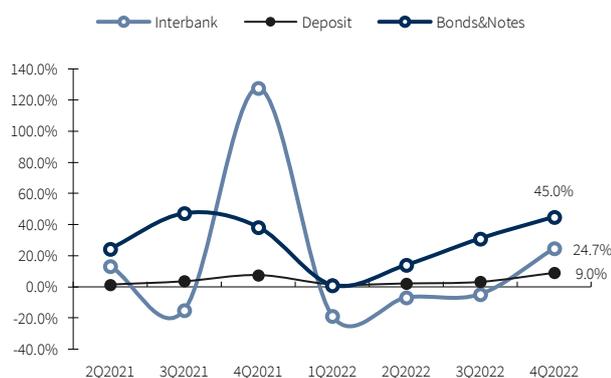
Source: Asia Commercial Bank, KB Securities Vietnam

**ACB’s accelerating capital mobilization in the last months of the year helped reduce liquidity pressure**

Total mobilized capital at the end of 2022 was up 13.2% YoY to VND526 trillion. Customer deposits modestly gained in 9M22 and concentrated in 4Q (Figure 10). Although SBV’s raising policy rates to control inflation and exchange rate adversely affected the capital cost of banks, it also helped to reduce liquidity pressure in the system. Mobilization through the issuance of valuable papers strongly rose 45%YoY. ACB issued 10,950 billion bonds, mainly of short maturities in 2022. The balance of deposits and loans with other credit institutions also increased by 24.7% in 2022.

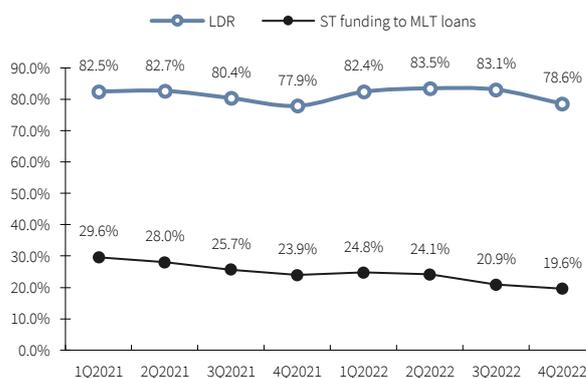
Thanks to the promotion of deposit, ACB’s LDR dropped to 78.6% in 4Q, a significant improvement from the base level of 83% in 9M22. The ratio of short-term capital for medium and long-term loans (SMLR) was 19.6%, which still adhered to the SBV’s regulations.

Fig 10. ACB – Deposit growth by source (%YTD)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 11. ACB – LDR & SMLR by quarter (%)



Source: Asia Commercial Bank, KB Securities Vietnam

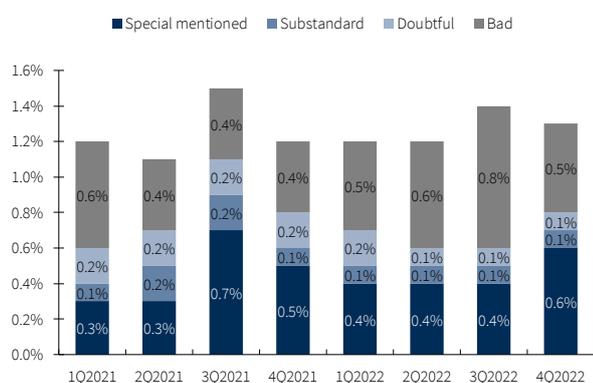
### NPL was well controlled, but substandard debts increased sharply

ACB's NPL structure has become healthier compared to 3Q22 with a write-off of VND990 billion. Bad debt ratio decreased from 0.8% at the end of 3Q to 0.5% at the end of 2022, equivalent to previous periods. Doubtful debts lowered by 22.1%QoQ or 50.5%YoY to VND437 billion. Special mention debt increased sharply by 44.9% QoQ but still decreased by 17.8% YoY. The bank's NPL at the end of 2022 was 0.74%, a slight decrease of 0.03ppts YoY. Provision ratio for bad debts at the end of 2022 was 159.3%. ACB's maintaining NPL ratio for the whole year below 1% despite the COVID-19 pandemic has shown the bank's prudent lending orientation and good risk management capacity.

Outstanding loans increased sharply by 33.6%QoQ to VND2,345 billion. The proportion of substandard debts rose to 0.6% of the total loan, compared to 0.3~0.4% in the past. The surge in substandard debts was mainly due to the adjustment according to data of the CIC. The increase was evenly distributed among customers instead of concentrating in a specific industry group, so it is not a cause of concern.

In 2022, ACB recovered VND8,632 billion in restructuring debt, thereby reversing about VND2,069 billion in provision expenses. The repayment capacity of customers has recovered and the value of collateral for restructuring debts was up to VND19.1 trillion. Therefore, ACB is still able to recover VND8,398 billion of the remaining restructuring debts.

Fig 12. ACB – NPL structure by quarter



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 13. ACB – NPL & LLCR by quarter (%)

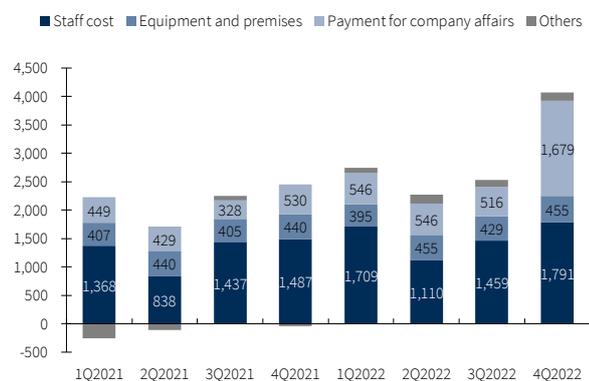


Source: Asia Commercial Bank, KB Securities Vietnam

### OPEX surged due to the provision for the science and technology investment fund

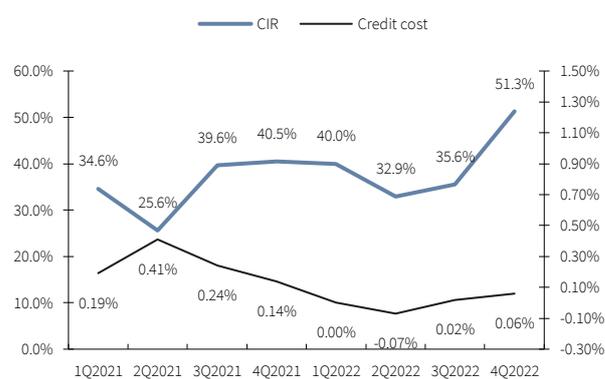
4Q OPEX climbed 60.1%QoQ to VND4,000 billion, so CIR increased to 51.3%. It can be seen from the OPEX structure that the main reason for the strong increase in OPEX is the amount of VND1,000 billion ACB spent to invest in science and technology. The provision for the science and technology investment fund has been started since 2019, and the scale of additional provision will depend on disbursement in the year, so this expenditure may not appear in 2023. Credit cost for the whole year was only about 0.02%, which is the lowest in the industry thanks to the active collection of bad debts.

Fig 14. ACB – OPEX by quarter (VNDbn)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 15. ACB – CIR &amp; credit cost by quarter (%)



Source: Asia Commercial Bank, KB Securities Vietnam

### The bank has room to reduce lending interest while ensuring a stable NIM

ACB has recently implemented a preferential loan interest rate package with a scale of up to VND20,000 billion for corporate and individual customers. This incentive package will apply to customers who have been using ACB's services. The bank would offer 1% discount for existing customers who are about to subject to interest rate changes and 2% discount for existing customers who only use ACB's services and products from ACB.

We believe that ACB still has room to reduce lending rates without affecting the bank's NIM because:

- (1) The bank is not under too much pressure from interest rate increase thanks to effective capital business strategy and low loan turnover.
- (2) The margin of interest rate increases is low compared to other banks (Table 1). Banks have simultaneously reduced interest rates recently, so ACB's interest rates are still attractive.
- (3) ACB can further improve CASA ratio through digital transformation and complete ecosystem for both individuals and corporations via applications like ACB One, ACB One Biz (for SMEs), and ACB One Pro (for large enterprises). Although two platforms One Biz and One Pro have been put into use since the middle of 3Q22, they have made significant contributions to ACB's digital banking channel as the number of transactions jumped up to 81 million right in 4Q (tripled the number of transactions in 9M22). Transaction value in 4Q gained VND2 trillion while 9M22 was only VND691 billion. The bank aims for an above-25% CASA, ranking in the top five in the banking industry.

In addition, ACB's actively reducing mortgage rates also brings many benefits such as (1) increasing the cohesion between the bank and existing customers, (2) attracting new customers, and (3) being ready to follow the direction of the SBV, so the bank may be favored and allocated a better credit room.

Table 1. Vietnamese banks – Margin of deposit rates adjustment (%)

ACB adjusted by 1ppt for terms of nine months or less and 0.7ppts for terms from 12 months or longer, focusing mainly on December. The bank continued to adjust by 0.5ppts for all terms in January. Meanwhile, most other private joint stock commercial banks adjusted interest rates right in November with a much higher margin, ranging from 1.2 to 2.35%.

Month	Term	ACB	MBB	TCB	VPB	TPB (Super Savy)	VIB	HDB	MSB (online)
Oct-22	1T	0.0%	0.8%	0.0%	0.8%	0.0%	1.0%	1.1%	1.5%
	3T	0.2%	1.0%	0.0%	0.8%	1.3%	1.0%	1.1%	1.0%
	6T	-0.3%	0.4%	0.0%	0.5%	0.7%	0.3%	0.9%	1.2%
	9T	-0.2%	0.2%	0.0%	0.4%	0.5%	0.3%	0.3%	1.4%
	12T	0.1%	0.7%	0.0%	0.5%	0.6%	0.3%	0.9%	1.3%
24T	0.5%	0.4%	0.0%	0.7%	0.5%	0.4%	0.1%	1.8%	
Nov-22	1T	0.0%	1.8%	2.6%	1.5%	0.0%	0.9%	1.0%	1.0%
	3T	0.0%	1.2%	2.4%	1.3%	1.0%	0.9%	1.0%	1.0%
	6T	0.0%	1.9%	2.4%	1.7%	0.5%	0.9%	0.9%	1.1%
	9T	0.0%	1.9%	2.4%	1.7%	0.5%	0.8%	1.3%	1.1%
	12T	0.0%	1.2%	2.3%	1.6%	0.5%	0.9%	0.9%	1.0%
24T	0.0%	1.2%	2.2%	1.4%	0.5%	0.7%	0.6%	1.0%	
Dec-22	1T	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	3T	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
	6T	1.0%	0.0%	0.8%	0.8%	0.8%	0.5%	-0.1%	1.1%
	9T	1.0%	0.0%	0.8%	0.8%	0.8%	1.0%	-0.1%	1.1%
	12T	0.7%	0.0%	0.8%	0.9%	0.8%	1.0%	-0.1%	0.8%
24T	0.7%	0.0%	0.8%	0.8%	0.8%	1.0%	-0.1%	0.4%	
Jan-23	1T	0.5%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
	3T	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	6T	0.5%	0.0%	0.5%	0.0%	0.0%	0.5%	0.0%	-0.4%
	9T	0.5%	0.0%	0.5%	0.0%	0.0%	0.0%	0.0%	-0.4%
	12T	0.5%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.4%
24T	0.5%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.4%	

Source: Vietnambiz

## Forecast & valuation

### 2023F performance

We make forecasts for ACB performance in 2023 as follows:

- We expect ACB's 2023 credit growth to be at a prudent rate of 15% as the SBV is still very cautious of its credit growth target given inflation risks still exist during the period of adjusting wages in the middle of this year, and China's reopening is causing commodity prices to rebound.
- Deposit growth should be about 13.8% to ensure liquidity for the bank. The LDR may inch up to 79.4%.
- 2023F NPL is stable at 0.75%, corresponding to the provision ratio for bad debts of 144%.
- 2023 NIM may modestly gain 0.05ppts YoY to 4.31%, assuming (1) interest rates are high in at least the first half of the year; (2) ACB continues to promote interest rate reduction to support businesses to increase market share and attract new customers; and (3) CASA ratio improves thanks to continued investment in digital transformation.
- 2023 NIM should be up 21.4%YoY to VND27,254 billion. Net fee income may hit VND4,149 billion, up 17.7%.
- OPEX is projected at VND11,218 billion, assuming a forward CIR of 34% since there is no longer a large provision for the science and technology investment fund. Provision expense in 2023 may be around VND714 billion.
- 2023F NPAT is VND16,846 billion, up 23.1% YoY.

**Table 2. ACB –2023F business results**

	2021	2022	2023F	%YoY2022	%YoY2023
Net interest income	18,945	23,534	27,254	24.2%	15.8%
Net fee and commission income	2,894	3,526	4,149	21.8%	17.7%
Total operating income	23,564	28,790	32,994	22.2%	14.6%
Provision expenses	-3,336	-71	-714	-97.9%	905.6%
NPAT of the parent bank	9,603	13,688	16,846	42.5%	23.1%
NIM	4.01%	4.26%	4.31%	25bps	5bps
Average earnings yield	7.14%	7.37%	7.68%	23bps	31bps
Average cost of funds	3.42%	3.46%	3.78%	4bps	32bps
CIR	34.9%	40.3%	34.0%	5.4%	-6.3%
NPL	0.77%	0.74%	0.75%	-3bps	1bps
Total assets	527,770	607,875	698,702	15.2%	14.9%
Equity	44,901	58,439	75,694	30.2%	29.5%

Source: KB Securities Vietnam

## Valuation – BUY recommendation with the target price of VND30,500 per share

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

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

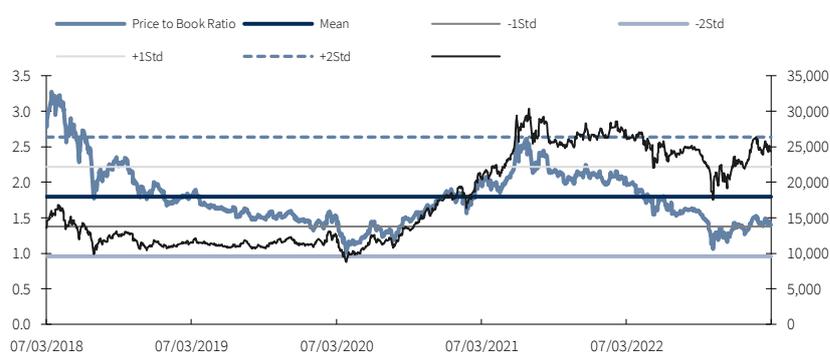
We still appreciate ACB's efforts in controlling bad debts and ensuring asset quality. Besides, the loan portfolio is relatively safe and focuses on industries in line with the government's direction, so we expect the bank will be allocated a better credit room than other banks. ACB's investment portfolio is also safe with only government bonds. ACB's current P/B valuation is around 1.42x. Therefore, we put ACB's 2023 target P/B at 1.8x, equivalent to ACB's three-year average P/B.

### (2) Method of discounting residual profit (Table 3):

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

Combining the two methods with the ratio of 50–50, we conclude the final fair price for ACB is VND30,500/share, 22.0% higher than the closing price on March 8, 2023. We raised the target price by 9.2% compared to the target price in 3Q22 report as ACB's performance is better than expected and will continue to improve this year.

Fig 26. ACB – Share prices & P/B (VNDbn, x)



Source: Bloomberg, KB Securities Vietnam

Table 3. ACB – Stock valuation according to residual income method

VND bn	2022F	2023F	2024F	2025F	2026F
Profit after tax	13,688	16,846	19,305	22,171	27,119
Excessed return	4,630	5,114	4,581	4,010	4,755
Required rate of return (re)	15.5%				
Growth (g)	3%				
Terminal value	19,064				
Present value (PV)	34,445				
<b>Share price (VND)</b>	<b>29,366</b>				

Source: KB Securities Vietnam

Table 4. ACB – Final valuation & target price

Valuation method	Forecast price	Weight	Weighted price
Residual income	29,366	50%	14,683
P/B	31,824	50%	15,912
<b>Target price</b>			<b>30,595</b>

Source: KB Securities Vietnam



## KB SECURITIES VIETNAM RESEARCH

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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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