

ACB Bank (ACB)

Granted higher credit limit for 2024

September 13, 2024

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ACB completed more than 80% of credit limit and received additional limit from SBV

Recently, the State Bank of Vietnam (SBV) announced an adjustment of credit limits for banks that have completed 80% of their credit targets. According to our projection, ACB's newly granted credit limit will be about 18.5% (2.5% higher than 16% granted at the beginning of the year). KBSV expects that with the strategy of prioritizing credit growth in 2024, ACB will complete the granted limit this year.

NIM should recover in the second half of the year

2Q yield on earning assets (IEA) has started to decrease more slowly than the previous quarter as we observed that ACB's credit growth is distributed evenly throughout the months, instead of being concentrated at the end of the quarter like some other banks. Meanwhile, cost of funds (CoF) still reflects low-interest deposits. We maintain the bank's 2024 NIM forecast at 3.96%.

NPL is affected by ACB's characteristics of a retail lending bank, but the overall asset quality is still at the top

Despite a slight deterioration in asset quality, there have been more positive signs as newly formed bad debts have slowed down, and the impact of CIC has gradually weakened. ACB expects NPL to be controlled below 1.5% when (1) the general economic situation is more positive in 2H24; and (2) the bank's risk appetite is relatively safe.

Valuation: BUY rating – Target price VND30,900/share

After adjusting our expectations for credit growth and declining in some other sources of income, we changed ACB's target price to VND30,900 and maintain our BUY rating with a potential upside of 26% compared to the closing price on September 12, 2024.

Buy maintain

Target price	VND30,900
Upside	26.4%
Current price (Sep 12, 2024)	VND24,450
Consensus target price	VND29,200
Market cap (VNDtn/USDbn)	108.5/4.4

Forecast earnings & valuation

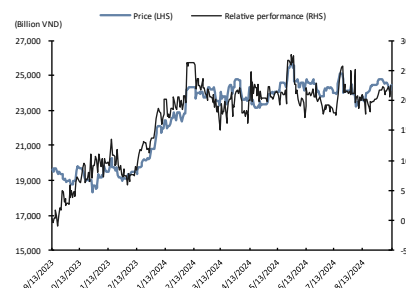
FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	23,534	24,960	29,823	35,265
Operating income/loss (VNDbn)	17,185	21,872	24,740	29,593
NPAT-MI (VNDbn)	13,688	16,045	17,889	21,509
EPS (VND)	4,053	4,131	4,606	5,538
EPS growth (%)	14%	2%	11%	20%
P/E (x)	10.9	10.7	9.6	7.9
P/B (x)	17,303	18,269	21,778	25,820
ROE (%)	2.54	2.41	2.02	1.70
Dividend yield (%)	26.5%	24.8%	23.0%	23.3%

Trading data

Free float	79.0%
3M avg trading value (VNDbn/USDmn)	170.7/6.8
Foreign ownership	30.0%
Major shareholder	Sather Gate Investments (4.99%)

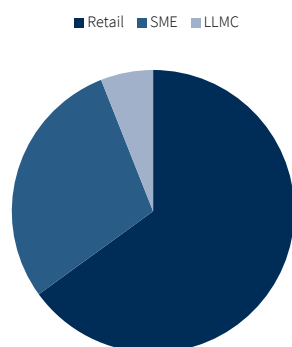
Share price performance

(%)	1M	3M	6M	12M
Absolute	3.6	-1.4	1.7	24.7
Relative	1.5	2.1	2.8	23.2



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Asia Commercial Bank, KB Securities Vietnam

Business operation

Asia Commercial Joint Stock Bank (ACB) was established and officially put into operation in 1993. With total assets of about VND718 trillion, it is currently in the group of large joint stock commercial banks according to our classification. ACB has focused on retail lending with a proportion of over 60% for many years. This is also the bank with the best asset quality in the system with low real estate loans and corporate bonds.

Investment Catalysts

ACB's average credit growth is expected to be 17-20% in 2024-2026

NIM is high thanks to retail lending strategy

ACB has a safe risk appetite and industry-leading asset quality

Notes

Please find more details [here](#)

Please see more details below

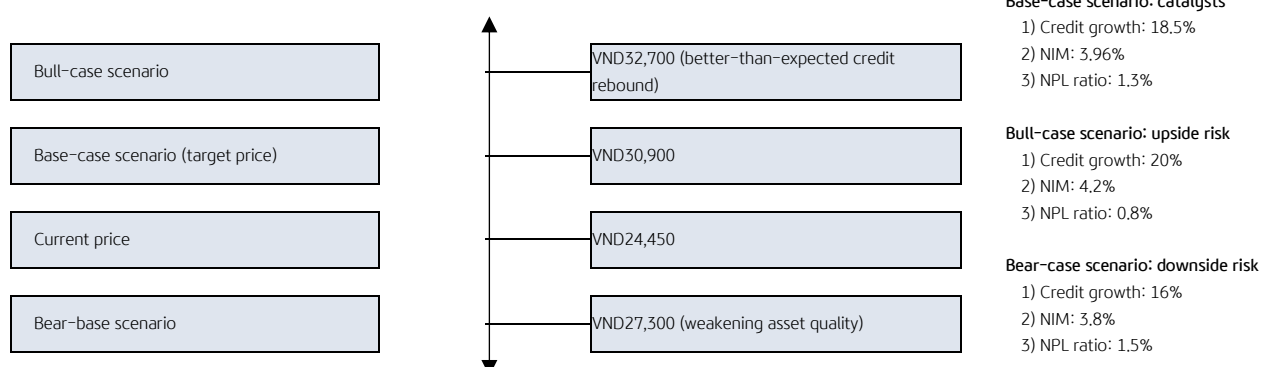
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	29,823	35,265	0%	0%	28,965	33,648	3%	5%
EBIT	24,740	29,593	1%	3%	24,153	28,001	2%	6%
NP after MI	17,889	21,509	-6%	-3%	17,193	20,067	4%	7%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

ACB's 1H24 reached over VND10,500 billion, equal to 47% of KBSV's projection

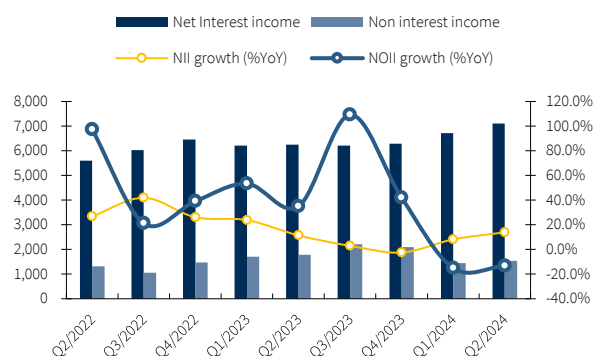
Credit grew by over 12% in the first six months of the year and was evenly distributed to the private and corporate customer groups. In 2Q, ACB's good cost control brought the CIR to its lowest level ever of 31%. As a result, accumulated PBT in 1H24 reached over VND10,500 billion (fulfilling 47% of KBSV's forecast). Asset quality remains well controlled with NPL indicators remaining at a safe level compared to the entire industry.

Table 1. ACB – 2Q24 updated results

(VNDbn, %)	2Q23	1Q24	2Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	6,246	6,722	7,112	13.9%	5.8%	Although credit growth was positive compared to the whole industry, the issue of fiercer competition in lending interest rates among banks caused net interest income of ACB to grow slightly by 5.8% QoQ in 2Q and +11% YoY in 1H24.
Non-interest income (NOII)	1,778	1,447	1,541	-13.4%	6.5%	- Non-interest income in 2Q improved compared to 1Q, cumulative growth in 1H24 recorded a decrease of 14% YoY mainly due to the favorable market in the previous year, creating a high comparative level of trading and investment securities. - Fee income had a relatively positive growth rate (+13% YoY in 1H24) although bancassurance activities (accounting for 37% of NFI) were still affected in 2Q (-24% YoY) but were offset by good growth in international payment activities (+44% YoY).
Total operating income (TOI)	8,024	8,168	8,652	7.8%	5.9%	
Operating expenses (OPEX)	(2,485)	(2,764)	(2,466)	-0.8%	-10.8%	Operating expenses were well managed. Administrative and personnel costs fell 29% QoQ and 4% QoQ, respectively.
Cost to income ratio (CIR)	31.0%	33.8%	28.5%	-247bps	-15.8%	
Provision expenses (VNDbn)	(706)	(512)	(588)	-16.7%	14.8%	Provision expenses increased by 15% QoQ amid rising bad debt pressure from retail customers and longer bad debt recovery.
Profit before taxes (PBT)	4,832	4,892	5,598	15.8%	14.4%	
Profit after taxes (NPAT)	3,866	3,905	4,469	15.6%	14.4%	
Credit growth (% YTD)	4.9%	3.8%	12.8%			ACB recorded consolidated credit growth of 12.8% YTD, which is quite positive compared to the whole industry (6% in 1H24). Credit grew evenly in both the individual customer group (+12% YTD) and corporate customer group (+12% YTD) with lending areas including production and business loans, home (retail) and trade loans, and import-export loans (wholesale).
Deposit growth (% YTD)	3.8%	1.0%	7.7%			Deposit growth was positive compared to the low average of the banking industry (about 2%) thanks to a reasonable deposit portfolio structure, balancing short-term and long-term mobilization sources through the issuance of bonds and certificates of deposit.
Net interest margin (NIM)	4.35%	3.90%	3.84%	-51bps	-6bps	NIM decreased slightly by 6bps QoQ as ACB continued to compete on lending rates to (1) prioritize growth targets (2) and help it gain a better-quality customer base. The CoF has improved but with the recent gradual increase in deposit interest rates, the rate of decline in CoF may slow down from 3Q. The bank expects to maintain the current NIM or a slight decrease compared to 2023.
Non-performing loan ratio (NPL)	1.06%	1.45%	1.48%	+41bps	+2bps	NPL increased across customer segments: Retail NPL was 1.51% (+0.27% YoY); corporate NPL was 1.47% (+0.29% YoY); and real estate sector was 1.79% (+0.4% YoY).

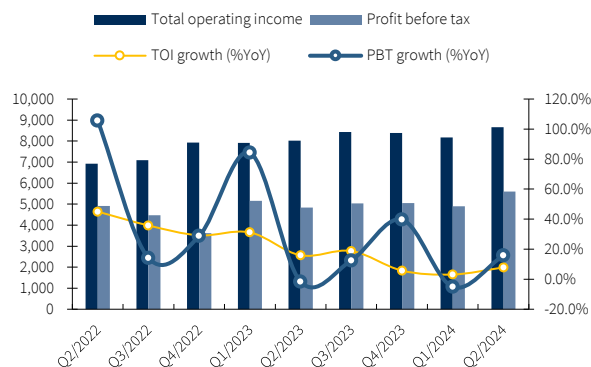
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – NII & NOI growth by quarter (%)



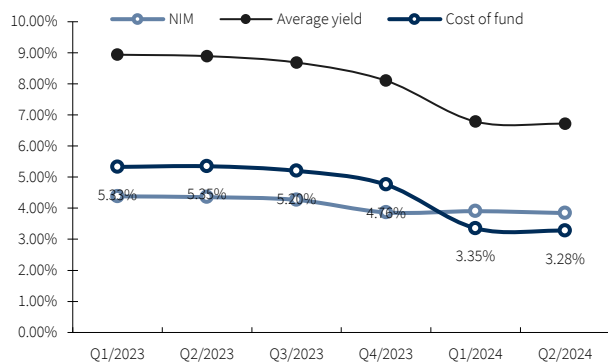
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – TOI & PBT growth (%)



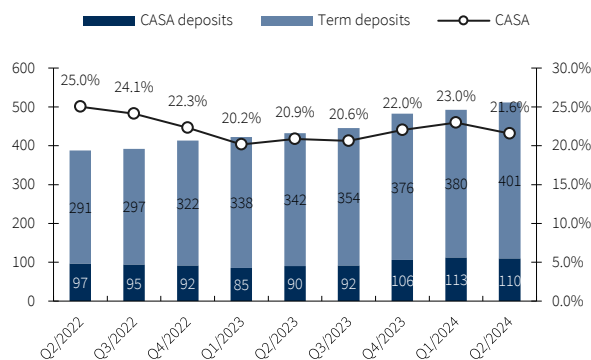
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – NIM by quarter (%)



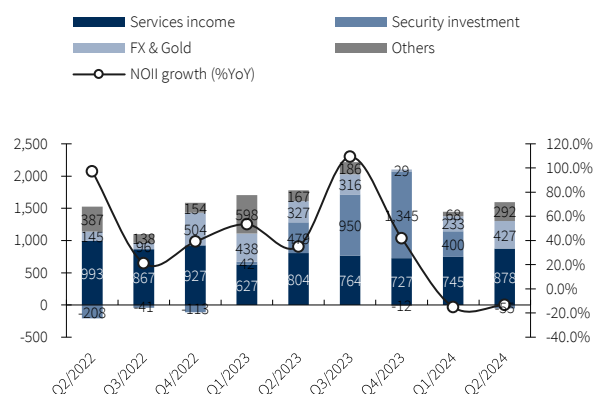
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 5. ACB – Deposit components



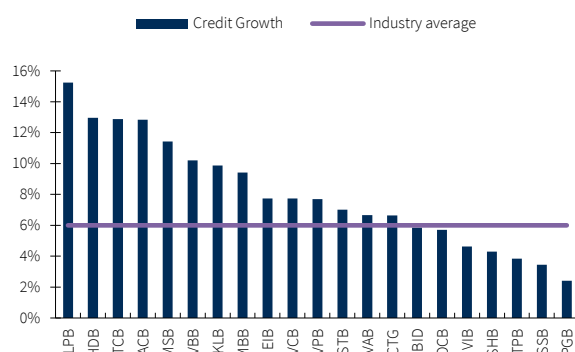
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 6. ACB – NOI breakdown



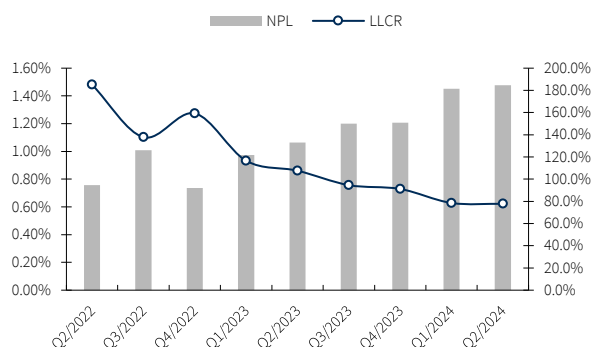
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. Vietnam banks – Credit growth (%)



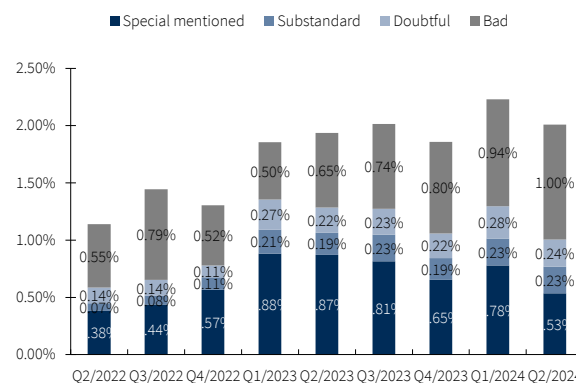
Source: Financial statements of the banks, KB Securities Vietnam

Fig 8. ACB – NPL ratio & LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – NPL/total credit ratio (%)



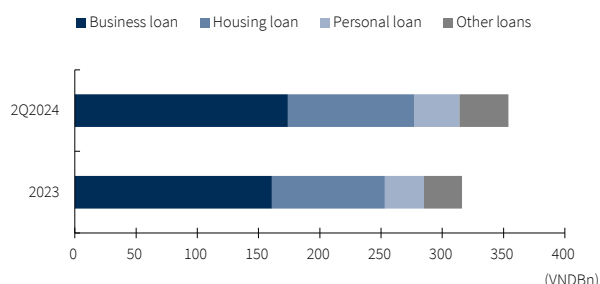
Source: Asia Commercial Bank, KB Securities Vietnam

ACB completed more than 80% of credit limit and received additional limit from SBV

The SBV announced an adjustment of credit limits for banks that have completed 80% of their credit targets. According to our projection, ACB's newly granted credit limit will be about 18.5% (2.5% higher than 16% granted at the beginning of the year). KBSV expects that with the strategy of prioritizing credit growth in 2024, ACB will complete the granted limit this year:

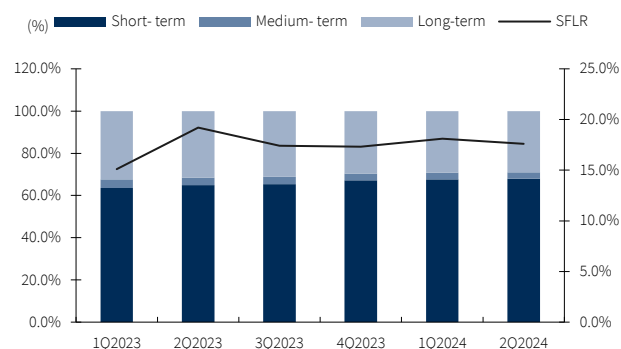
- The retail lending segment (accounting for 65% of the loan portfolio) rebounded more strongly with a credit growth of 12% YTD (vs 4% YTD at the end of 1Q). Of that, lending to business households (50% of the retail portfolio), home loans (accounting for 29%), personal consumer loans (accounting for 11%) grew by +8% YTD, 12% YTD, and +15.6% YTD respectively. KBSV believes that these segments will have a better recovery because they are associated with the general recovery of the economy and the real estate market. In addition, consumer credit is usually stronger towards the end of the year.
- The corporate customer group continued the growth momentum in 1H24. Credit growth in the first and second quarters of the corporate customer segment played a major role in driving ACB's credit growth, focusing mainly on the wholesale and retail sectors, processing and manufacturing, and energy industries. The loan portfolio is still safe as the outstanding loans for real estate development are low compared to other banks (<4% of the portfolio). In the near future, ACB plans to arrange capital for industrial park real estate projects, which could be a new growth driver for the bank while it will maintain its stance of only lending to large, leading enterprises in the industry. In addition, with ACB's short-term funding to medium- and long-term lending ratio (SFLR) relatively low (17%) compared to the ceiling of 30% set by the SBV, we believe that ACB will have more room to restructure its portfolio for longer loan terms.

Fig 10. ACB – Private customer loan portfolio



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 11. Vietnam banks – SFLR (%)



Source: Vietnam banks, KB Securities Vietnam

NIM should rebound in 2H24

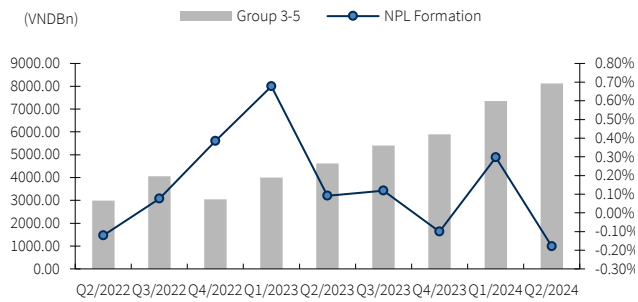
2Q yield on earning assets (IEA) has started to decrease more slowly than the previous quarter as we observed that ACB's credit growth is distributed evenly throughout the months, instead of being concentrated at the end of the quarter like some other banks. Meanwhile, cost of funds (CoF) still reflects low-interest deposits. We maintain the bank's 2024 NIM forecast at 3.96%, based on the following assumptions:

- IEA would improve in 2H24 and 2025 after the ending of interest rate support packages for customers in 6M24, lending rates gradually increase again as mentioned in the previous report.
- CoF may remain low as we observe that new deposit rates have only increased by 10–20bps for 6–12M terms. The pressure to increase deposit rates at the moment for banks has decreased as exchange rates are more stable, and the SBV's orientation is to maintain an easing policy to support the economy. In addition, ACB still balances its mobilization sources from issuing bonds, certificates of deposit and currently maintains its lending position in the interbank market (reducing mobilization pressure in the customer channel). Therefore, we expect ACB's deposit rates to remain low, helping to improve CoF.

NPL is affected by ACB's characteristics of a retail lending bank, but the overall asset quality is still at the top

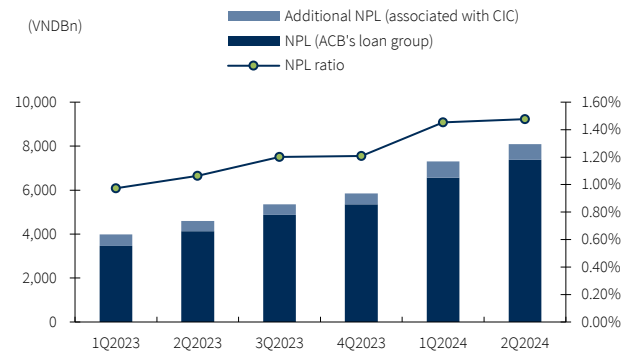
The NPL ratio in 2Q24 rose 3bps to 1.5%, and the impact from CIC (customer bad debt at other banks) decreased to 7–8% of total NPL (vs 10% in 1Q24). The LLCR modestly dropped from 78% in 1Q to 76% mainly due to the growth rate of NPL increasing faster than provisioning. The decrease in LLCR also came from customers paying off restructured debts due to Covid, so the bank reversed its provisions, causing the buffer to decrease. However, ACB's collateral assets are relatively large, so we believe that the lower LLCR is not an issue for asset quality, although provisioning pressure in 2H24 will still exist. As of the end of 2Q, restructured debt at ACB was about VND4,600 billion – accounting for 0.9% of total outstanding debt. Asset quality has slightly deteriorated, but newly formed bad debts have slowed down, and the impact of CIC has gradually weakened. ACB expects NPL to be controlled below 1.5% when (1) the general economic situation is more positive in 2H24; and (2) the bank's risk appetite is relatively safe.

Fig 12. ACB – NPL & NPL formation (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 13. ACB – NPL & CIC (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Forecast & valuation

Table 14. ACB – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Net interest income (NII)	24,960	29,823	19.5%	35,265	18.2%	The forecast for net interest income was raised after ACB was granted additional credit limit.
Non-interest income (NOII)	7,787	6,293	-19.2%	7,811	24.1%	The forecast for profit from securities trading of investment was lowered due to the absence of one-time income in 2023 when the bank took advantage of market interest rates. Forecasts for other sources of income remain unchanged.
Total operating income (TOI)	32,747	36,116	10.3%	43,076	19.3%	
Operating expenses (OPEX)	21,872	24,740	13.1%	29,593	19.6%	
Cost to income ratio (CIR)	(1,804)	(2,379)	31.9%	(2,707)	13.8%	The bank is under pressure from raising provisions to strengthen the reserve buffer, which is in line with ACB's safety strategy.
Provision expenses (VNDbn)	20,068	22,361	11.4%	26,886	20.2%	
Profit before taxes (PBT)	3.86%	3.96%	9bps	4.09%	13bps	
Profit after taxes (NPAT)	8.10%	7.22%	-88bps	7.57%	35bps	
Credit growth (% YTD)	4.76%	3.67%	-109bps	3.91%	25bps	
Deposit growth (% YTD)	33.2%	31.5%	-171bps	31.3%	-20bps	Operating expenses projection was downgraded thanks to ACB's good cost control in 6M24.
Net interest margin (NIM)	1.21%	1.30%	9bps	1.15%	-15bps	NPL should be better controlled in 2H24 when the economic conditions are more favorable.
Non-performing loan ratio (NPL)	718,795	825,273	14.8%	944,342	14.4%	
Equity	70,956	84,588	19.2%	100,287	18.6%	

Source: Asia Commercial Bank, KB Securities Vietnam

Valuation: BUY rating – Target price VND30,200

We evaluate ACB shares using two methods comparing P/B and residual income:

(1) P/B valuation method:

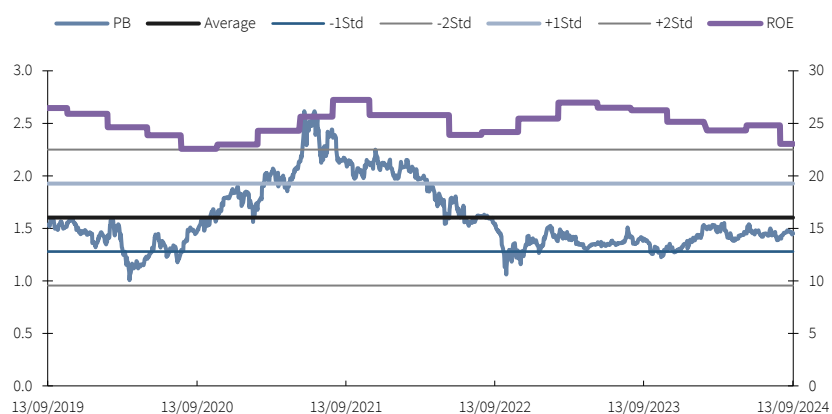
With a prudent lending strategy, system-leading safe quality, sustainable credit growth and a ROE of over 20%, ACB deserves a target P/B of 1.6x – equivalent to the five-year average.

(2) Residual income method:

In addition, we combine the use of residual income discount method to reflect systemic risks and long-term expectations.

After adjusting the expectation of credit growth and decline in some other sources of income, we only slightly adjusted ACB's target price to VND30,900/shar and maintained our BUY recommendation with a potential upside of 26% compared to the closing price on September 12, 2024.

Fig 15. ACB – P/B (x)



Source: Bloomberg, KB Securities Vietnam

Table 16. ACB – 2024F valuation according to residual income model

(VNDbn)	2024F	2025F	2026F
NPAT	17,889	21,509	26,267
Excessed return	7,543	6,887	8,761
Required rate of return (re)	13.2%		
Growth (g)	3.0%		
Terminal value	33,131		
Total present value (PV)	134,257		
Value per share	34,566		

Source: KB Securities Vietnam

Table 17. ACB – Final valuation & target price (VND)

Valuation method	Forecast price	Weight	Price per weight
Residual income	34,566	50%	17,283
P/B	27,228	50%	13,614
Target price			30,900

Source: KB Securities Vietnam

ACB – 2022A–2025F financials

Income Statement						Balance Sheet					
(VNDbn)	2021	2022	2023	2024F	2025F	(VNDbn)	2021	2022	2023	2024F	2025F
Net interest income	18,945	23,534	24,960	29,823	35,265	Loans	356,051	408,857	482,235	571,178	668,084
Interest income	33,714	40,699	52,347	54,404	65,366	Marketable securities	11,260	1,131	7,177	7,042	7,992
Interest expense	(14,769)	(17,165)	(27,387)	(24,581)	(30,102)	Cash (ex. Reserves)	7,510	8,461	6,909	10,245	11,747
Fees & commissions	2,894	3,526	2,922	3,709	4,080	Interest earning assets	514,889	590,241	701,817	804,994	921,514
Other non-interest income	139	990	863	601	1,412	Fixed assets & other assets	11,080	14,163	15,631	16,860	19,336
Total operating income	23,564	28,790	32,747	36,116	43,076	Total assets	527,770	607,875	718,795	825,273	944,342
SG&A expenses	(8,230)	(11,605)	(10,874)	(11,377)	(13,483)	Customer deposits	379,921	413,953	482,703	589,600	676,036
Pre-provisioning OP	15,334	17,185	21,872	24,740	29,593	Borrowings & call money/repos	30,634	44,365	52,569	67,392	78,205
Provision for credit losses	(3,336)	(71)	(1,804)	(2,379)	(2,707)	Interest bearing liabilities	464,949	526,664	624,778	715,952	821,845
Other income	703	1,110	1,197	1,002	1,765	Other liabilities	17,920	22,772	23,060	24,733	22,210
Other expense	(564)	(121)	(334)	(401)	(353)	Total liabilities	482,869	549,437	647,839	740,685	844,055
Pre-tax income	11,998	17,114	20,068	22,361	26,886	Charter capital	27,019	33,774	38,841	38,841	38,841
Income tax expense	(2,395)	(3,426)	(4,023)	(4,472)	(5,377)	Capital surplus	272	272	272	272	272
NP	9,603	13,688	16,045	17,889	21,509	Retained earnings	10,445	15,172	20,286	33,918	49,617
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	9,603	13,688	16,045	17,889	21,509	Total shareholders' equity	44,901	58,439	70,956	84,588	100,287

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	23.9%	26.5%	24.8%	23.0%	23.3%	EPS	3,554	4,053	4,131	4,606	5,538
ROA	2.0%	2.4%	2.4%	2.3%	2.4%	BVPS	16,618	17,303	18,269	21,778	25,820
Pre-provision ROE	30.5%	26.6%	27.0%	25.4%	25.6%	Tangible BVPS	16,219	16,968	17,897	21,329	25,279
Pre-provision ROA	2.5%	2.4%	2.6%	2.6%	2.7%	Valuations					
Net interest margin (NIM)	4.0%	4.3%	3.9%	4.0%	4.1%	PER	12.4	10.9	10.7	9.6	7.9
Efficiency						PBR	2.6	2.5	2.4	2.0	1.7
Pure Loan to deposit ratio	95.3%	99.9%	101.0%	98.0%	100.0%	Dividend yield	23.9%	26.5%	24.8%	23.0%	23.3%
Cost-income ratio	34.9%	40.3%	33.2%	31.5%	31.3%	ROE					
Growth						Capital Adequacy					
Asset growth	18.7%	15.2%	18.2%	14.8%	14.4%	CAR	11.0%	11.2%	12.8%	>13%	>13%
Loan growth	15.4%	14.8%	17.9%	18.4%	17.0%	Asset Quality					
PPOP growth	45.5%	12.1%	27.3%	13.1%	19.6%	NPL ratio (substandard)	0.8%	0.7%	1.2%	1.3%	1.2%
Parent NP growth	25.0%	42.5%	17.2%	11.5%	20.2%	Coverage ratio (substandard)	210.0%	159.8%	91.4%	88.3%	102.3%
EPS growth	0.0%	14.0%	1.9%	11.5%	20.2%	NPL ratio (precautionary)	1.3%	1.3%	1.9%	2.0%	1.9%
BVPS growth	1.3%	4.1%	5.6%	19.2%	18.6%	Coverage ratio (precautionary)	125.2%	90.3%	59.4%	57.4%	63.6%

Source: Asia Commercial Bank, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

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

Buy:	Neutral:	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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