

ACB Bank (ACB)

Managed to grow despite difficulties

March 6, 2024

Analyst Pham Phuong Linh
linhpp@kbsec.com.vn

Credit growth is expected to reach 16% in 2024

In the base scenario, we expect Asia Commercial Bank (ACB) to complete the assigned credit limit of 16% and even grow 20% in the bull case if SBV has an additional round of credit room allocation for banks this year. The driving force for credit growth comes from (1) promoted lending activities in the corporate customer group and (2) improved situation from the individual customer group, mainly led by business loans for sole proprietors and consumer demand which is expected to be more positive from 2H24.

NIM expects a slight improvement compared to 2023, maintaining around 4%

KBSV believes that NIM of ACB has bottomed out in 2023 and will recover slightly to 4% in 2024 when costs of fund (CoF) continue to improve given low interest rates being maintained throughout this year. The level of NIM recovery may be slower than other banks because ACB will continue to deploy loan packages to support customers with attractive interest rates compared to the Big4.

NPL ratio is controlled thanks to a prudent lending strategy

Newly formed NPLs continue to increase slowly compared to previous quarters (gaining 0.1% compared to 0.3% in 1Q23). We believe that with a cautious lending strategy (with no corporate and real estate bonds), ACB will continue to maintain its high position in asset quality. KBSV expects that 2024 NPL ratio of the bank to be controlled at around 1%.

BUY recommendation – Target price VND33,400/share

Using P/B and residual income methods, we maintain the 2024F target price of ACB shares at VND33,400, 20% higher than the price on March 5, 2024, with a BUY recommendation.

Buy maintain

Target price VND33,400

Upside	20%
Current price (Mar 5, 2023)	30,686
Market cap (VNDbn/USDmn)	27,950

Trading data

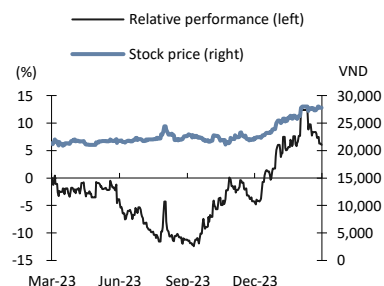
Free float	85%
3M avg trading value (VNDbn/USDmn)	156/6.4
Foreign ownership	30%
Major shareholder	6.26%

Share price performance

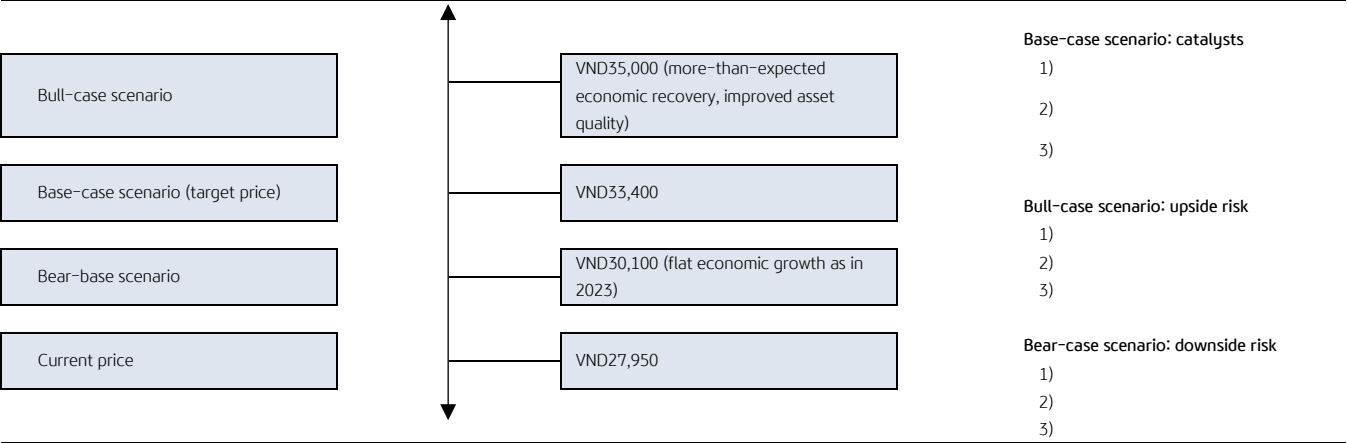
(%)	1M	3M	6M	12M
Absolute	3.7	4.8	31.9	4.2
Relative	0.0	-3.3	12.5	-1.0

Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	23,534	24,960	29,827	35,276
PPOP (VNDbn)	17,185	21,872	25,460	29,694
NPAT-MI (VNDbn)	13,688	16,045	18,979	22,313
EPS (VND)	4,053	4,131	4,887	5,745
EPS growth (%)	14%	2%	18%	18%
PER (x)	10.9	10.7	9.0	7.7
Book value per share (VND)	17,303	18,269	22,059	26,308
PBR (x)	2.54	2.41	1.99	1.67
ROE (%)	26.5%	24.8%	24.2%	23.8%



Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

4Q23 performance updates

4Q23 performance

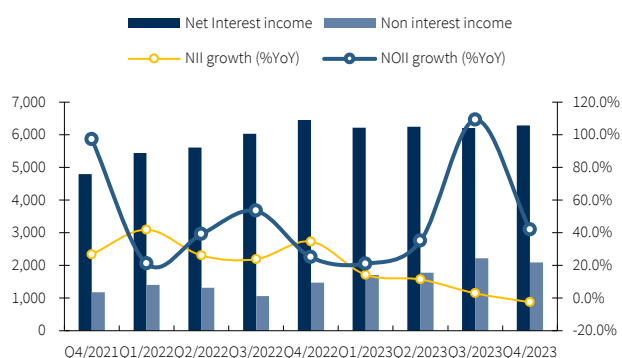
Total accumulated TOI in 2023 grew 13.7% YoY, driven mainly by non-interest income (NOII) (+48.1% YoY), while NII stayed flat due to slowing credit growth (except for the last month of 2023 but it is not immediately reflected on NII). Operating costs were well controlled, helping the CIR decrease from 40% (2022) to 33% (2023). However, credit risk provision costs surged due to deteriorating asset quality. Accumulated EBT in 2023 reached VND20,068 billion (+17.3% YoY), equivalent to 103% of our forecast.

Table 1. ACB – 4Q23 & 2023 updated business results

	4Q22	4Q23	+/-YoY	2022	2023	+/-YoY	KBSV's notes
NII (VNDbn)	6,454	6,290	-2.6%	23,534	24,960	+6.1%	<p>NII was flat YoY due to subdued lending activities for most of 2023 while strong credit growth at the end of the year has not yet been reflected in the overall NII.</p> <p>NOII positively grew in 2023, but there is differentiation between segments:</p> <ul style="list-style-type: none"> - NFI recorded a decrease of 17% YoY, mainly affected by the decline of the bancassurance segment (-20% YoY). - International payments also decreased due to poor import and export activities but was offset by a growth of 10% from the card segment and 26% from FX operations. - Profit/loss from securities trading reached VND1.3 trillion from realizing government bond profits compared to the loss of VND3 billion in the same period in 2022.
NOII (VNDbn)	1,472	2,089	+41.9%	5,257	7,787	+48.1%	
TOI (VNDbn)	7,926	8,378	+5.7%	28,790	32,747	+13.7%	
OPEX (VNDbn)	(4,064)	(3,013)	-25.9%	(11,605)	(10,874)	-6.3%	Operating costs in 4Q23 improved significantly compared to the previous year, and the CIR fell from 51.3% to 36%.
CIR (%)	51.3%	36.0%	-1531bps	40%	33%	-710bps	The CIR for the whole year maintained at 30-35% as the target set by the bank.
Provision expenses (VNDbn)	(251)	(322)	+28.4%	(71)	(1,804)	+2447.8%	Provisions spiked compared to the low base level of the last year (due to reversals), however compared to the previous quarter, provision costs were better controlled and decreased 26% QoQ.
PBT (VNDbn)	3,611	5,044	+39.7%	17,114	20,068	+17.3%	
NPAT (VNDbn)	2,871	4,006	+39.6%	13,688	16,045	+17.2%	
Credit growth (% YTD)	14.3%	17.9%	+355bps				Loans corporate customers still play a leading role in the bank's credit growth. Lending to large corporate customers grew by 26% YoY, and to SMEs gained 18% YoY. Despite modest growth in 9M23, loans to individual customers of ACB still reached the target with an increase of 18% YoY as of the end of 4Q. Thanks to the additional credit limit granted in the 3Q, ACB achieved the credit growth target of 17.9% for 2023.
Deposit growth (% YTD)	13.2%	18.7%	+555bps				
NIM (%)	4.26%	3.86%	-39bps				NIM lost 39bps YoY and 21bps QoQ due to the average lending interest rate falling 1.6% and faster than the decline of deposit interest rates (-1.2%).
NPL ratio (%)	0.74%	1.21%	+47bps				NPL ratio at the end of the year was 1.21% (up 47bps YoY/flat QoQ). Without considering the influence of CIC, AC, with NPL ratio at 1.1%, is still one of the banks with the best asset quality in the system.

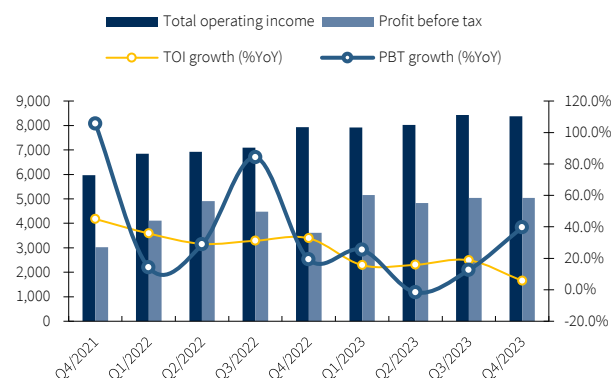
Source: Asia Commercial Bank, KB Securities Vietnam

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



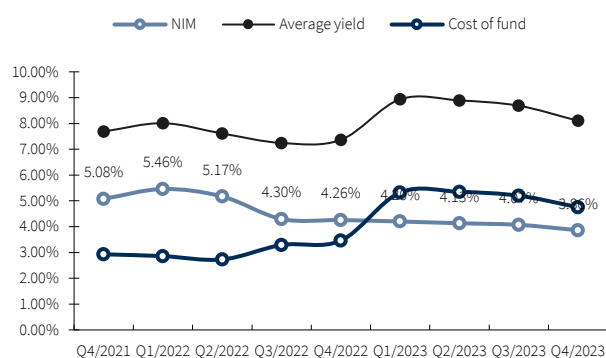
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – TOI & PBT growth (%)



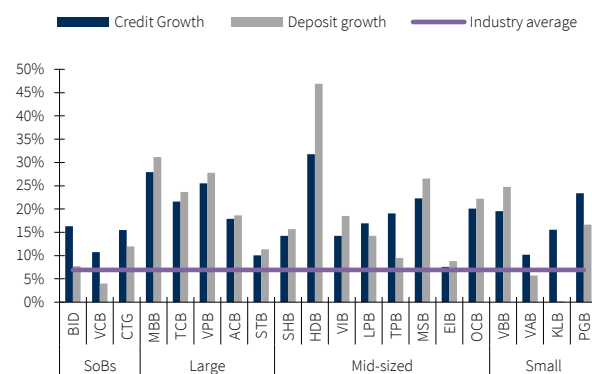
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – NIM growth by quarter (%)



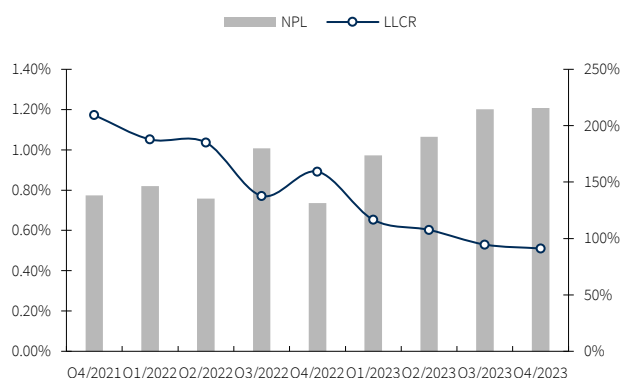
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 5. Vietnam banks – Credit & deposit growth (%)



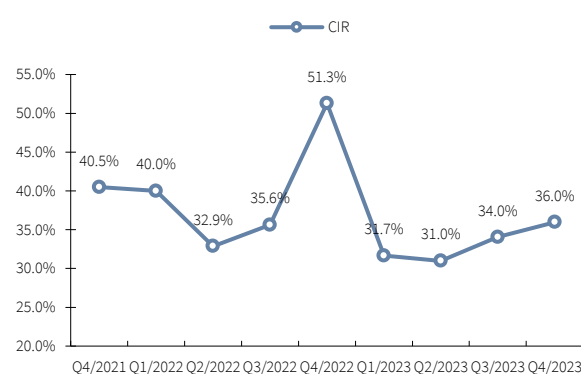
Source: Financial statements of the banks, KB Securities Vietnam

Fig 6. ACB – NPL ratio & LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – CIR by quarter (%)



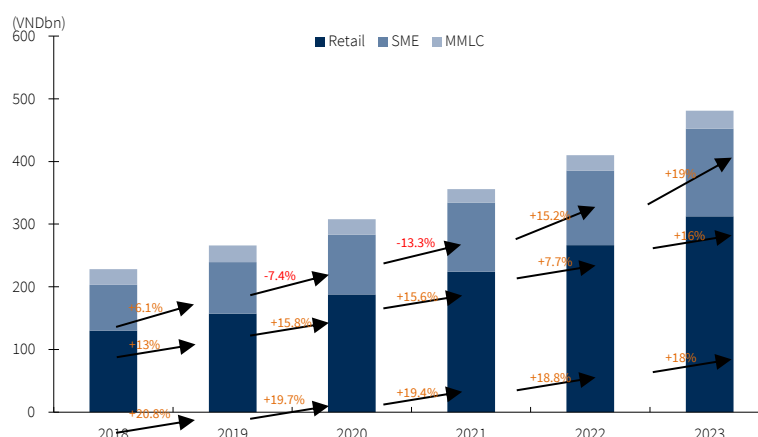
Source: Asia Commercial Bank, KB Securities Vietnam

Credit growth is expected to reach 16% in 2024

ACB said that the bank's credit limit granted by SBV for 2024 was 16.1%, higher than the industry average of 15% and equal to some banks in the same group under our coverage such as Military Bank (MBB) and Techcombank (TCB). In the base scenario, the economy gradually recovers, and low interest rates will stimulate credit demand. We expect ACB to achieve the assigned limit, and even get 20% growth in the bull-case scenario if the SBV has another round of credit room allocation for banks this year:

- (1) ACB continues to exploit lending to corporate customer groups. In 2023, lending to large corporate customers and SMEs gained 19% and 16% YoY, respectively, compared to single-digit increases in previous years. The more favorable recovery prospects of import-export activities and public investment are the driving force for lending activities in this customer group in 2024, expected to contribute 20–25% growth in bank credit growth.
- (2) Domestic consumption recovers at a slow pace but will accelerate from 3Q24. Along with that, the less gloomy real estate market will reactivate the demand for home purchases, helping loans to private customers strongly recover.

Fig 8. ACB – Credit by customer group and credit growth (VNDtn, % YTD)



Source: Asia Commercial Bank, KB Securities Vietnam

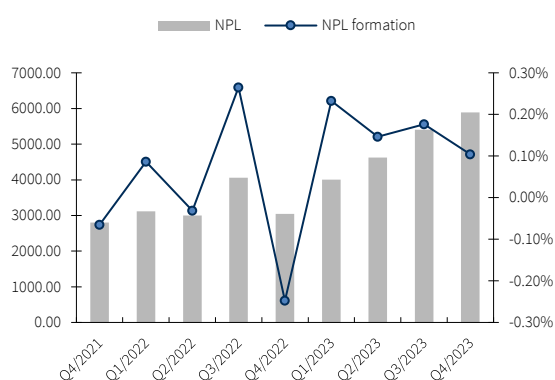
NIM is expected to improve slightly compared to 2023 to around 4%

NIM maintained a downward trend in 4Q23 (-21bps QoQ) although low deposit interest rates were gradually being reflected in CoF. The reason is ACB's implementing customer support policies, so lending interest rates at the bank have decreased faster than CoF (as mentioned in the Table 1). We observe that the lending interest rates of ACB are relatively low compared to other private banks. The bank said that in 2024 it would continue to deploy loan packages to support customers with attractive interest rates compared to the Big4 banks. This strategy helps ACB promote credit growth, especially in the corporate group, business loans for proprietors, and home loans, but at the same time, it will also make the NIM improve slower than other banks. KBSV believes that NIM has bottomed out in 2023 and will recover slightly to around 4% in 2024 when CoF continues to improve given low interest rates being maintained throughout this year.

NPL ratio should be controlled thanks to a prudent lending strategy

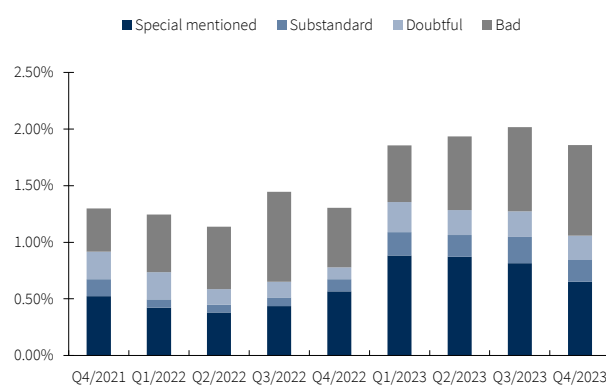
For ACB, asset quality is not a concern as the bank still maintains its leading position in debt quality compared to the entire industry. The NPL ratio of the bank went flat compared to the previous quarter (only +1bps QoQ to 1.21%). NPL reached 1.1% if not taking into account the influence of CIC. Newly formed NPLs decreased and continued to slow down compared to previous quarters (0.1% compared to an increase of 0.3% in 1Q23). The proportion of special mention, substandard, and doubtful debts all became smaller than 3Q levels. We believe that with a cautious lending strategy, saying no to corporate and real estate bonds, ACB will continue to maintain its high position in terms of asset quality. We expect the NPL ratio of ACB to be kept around 1% in 2024.

Fig 9. ACB – NPLs and newly formed NPLs (VNDbn)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 10. ACB – Loan structure (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Forecast & valuation

Table 10. ACB – 2023A–2025F results

	2023	2024F	%YoY2023	2025F	%YoY2024	KBSV's notes
NII (VNDbn)	24,960	29,827	19.5%	35,276	18.3%	Credit growth in 2024 should reach 16%, fulfilling the credit limit granted by the SBV. The forecast is based on the scenario of the economy recovering compared to the previous year, especially in 2H24. The bancassurance segment sharply dropped in 2023, creating a low base for growth in 2024. The revised Law on Credit Institutions to make the banca market more transparent will have a positive impact on the bancassurance model at ACB.
NFI (VNDbn)	2,922	4,154	42.2%	4,861	17.0%	
TOI (VNDbn)	32,747	38,285	16.9%	44,540	16.3%	Provision costs should slightly decrease as asset quality is gradually improving. We expect ACB to control credit costs at 0.2–0.3%.
Provision expenses (VNDbn)	(1,804)	(1,768)	–2.0%	(1,993)	12.7%	
NPAT (VNDbn)	16,045	18,954	18.1%	22,172	17.0%	2024 NIM should improve 12bps YoY after low deposit interest rates have been reflected in the CoF, while earnings yields are unlikely to decrease sharply because the current interest rates ACB offers to borrowers are already low, nearly equal to the Big4's.
NIM (%)	3.86%	3.99%	12bps	4.14%	16bps	
Average earnings yields (%)	8.10%	7.64%	–46bps	7.61%	–3bps	CIR should be kept at 30–35%.
Average cost of funds (%)	4.76%	4.12%	–64bps	3.92%	–20bps	
CIR (%)	33.2%	33.5%	29bps	33.3%	–20bps	NPL peaked in 3Q23, and asset quality is expected to improve thanks to the better financial situation of customers and the extension of Circular 02 which also helps reduce NPL stress for the entire industry.
NPL (%)	1.21%	1.05%	–16bps	0.98%	–7bps	
Total assets (VNDbn)	718,795	815,163	13.4%	932,929	14.4%	
Owner's equity (VNDbn)	70,956	85,653	20.7%	102,015	19.1%	

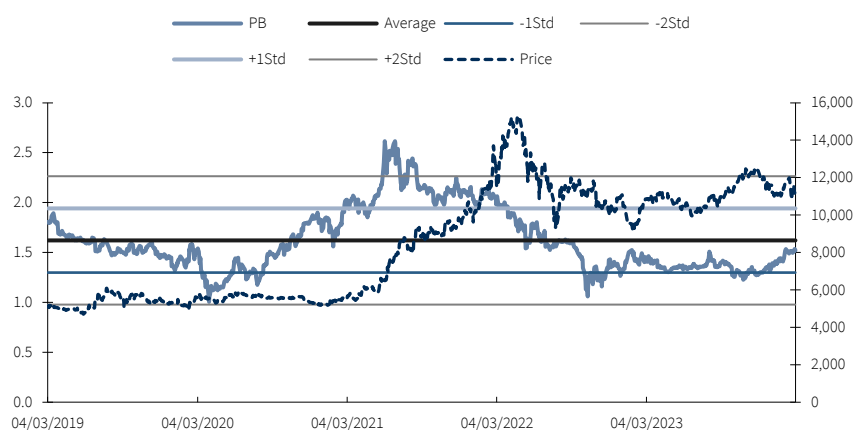
Source: KB Securities Vietnam

Valuation: BUY recommendation – Target price VND33,400/share

KBSV expects ACB's growth in the period 2024–2025 to remain at 15–20%. For 2024, based on the prospect of positive credit growth, NIM improvement, NPL controlled at 1%, we raise the 2024 target P/B to 1.5x, approaching the ACB's five-year average P/B.

We combined P/B and residual income valuation, weighing 50–50 to value ACB shares. Accordingly, the new target price for this stock is adjusted to VND33,400/share. We give a BUY recommendation with potential return of 20% compared to closing price on March 5, 2023.

Fig 12. ACB – Stock price & P/B (VND, x)



Source: Bloomberg, KB Securities Vietnam

Table 13. ACB – 2024F valuation according to residual income model

(VNDbn)	2024F	2025F	2026F
NPAT	18,979	22,313	24,310
Excessed return	8,634	7,415	6,813
Required rate of return (r)	14.58%		
Growth (g)	3%		
Terminal value	31,448		
Present value (PV)	131,003		
Price	33,728		

Source: KB Securities Vietnam

Table 24. ACB – Final valuation & target price (VND)

Valuation Method	Forecast Price	Weight	Weighted Price
Residual Income	33,728	50%	16,864
P/B	33,089	50%	16,544
Target Price			33,409

Source: KB Securities Vietnam

ACB – 2021A–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	29,827	35,276	Loans	356,051	408,857	482,235	559,641	655,050
Interest income	33,714	40,699	52,347	57,144	64,758	Marketable securities	11,260	1,131	7,177	8,581	9,739
Interest expense	(14,769)	(17,165)	(27,387)	(27,316)	(29,482)	Cash (ex. Reserves)	7,510	8,461	6,909	10,029	11,499
Fees & commissions	2,894	3,526	2,922	4,154	4,861	Interest earning assets	514,889	590,241	701,817	794,002	908,625
Other non-interest income	139	990	863	1,150	1,095	Fixed assets & other assets	11,080	14,163	15,631	17,387	20,077
Total operating income	23,564	28,790	32,747	38,285	44,519	Total assets	527,770	607,875	718,795	815,214	933,120
SG&A expenses	(8,230)	(11,605)	10,874)	(12,825)	(14,825)	Customer deposits	379,921	413,953	482,703	577,161	661,773
Pre-provisioning OP	15,334	17,185	21,872	25,460	29,694	Borrowings & call money/repos	30,634	44,365	52,569	66,050	76,635
Provision for credit losses	(3,336)	(71)	(1,804)	(1,736)	(1,803)	Interest bearing liabilities	464,949	526,664	624,778	700,928	804,586
Other income	703	1,110	1,197	1,353	1,288	Other liabilities	17,920	22,772	23,060	28,582	26,352
Other expense	(564)	(121)	(334)	(203)	(193)	Total liabilities	482,869	549,437	647,839	729,510	830,938
Pre-tax income	11,998	17,114	20,068	23,724	27,892	Charter capital	27,019	33,774	38,841	38,841	38,841
Income tax expense	(2,395)	(3,426)	(4,023)	(4,745)	(5,578)	Capital surplus	272	272	272	272	272
NP	9,603	13,688	16,045	18,979	22,313	Retained earnings	10,445	15,172	20,286	35,009	51,512
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	9,603	13,688	16,045	18,979	22,313	Total shareholders' equity	44,901	58,439	70,956	85,679	102,182

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%	24.2%	23.8%	EPS	3,554	4,053	4,131	4,887	5,745
ROA	2.0%	2.4%	2.4%	2.5%	2.6%	BVPS	16,618	17,303	18,269	22,059	26,308
Pre-provision ROE	30.5%	26.6%	27.0%	26.0%	25.3%	Tangible BVPS	16,219	16,968	17,897	21,615	25,778
Pre-provision ROA	2.5%	2.4%	2.6%	2.7%	2.7%	Valuations					
Net interest margin (NIM)	4.0%	4.3%	3.9%	4.0%	4.1%	PER	12.4	10.9	10.7	9.0	7.7
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	1.4%	1.4%	1.4%	1.4%	2.3%
Cost-income ratio	34.9%	40.3%	33.2%	33.5%	33.3%	ROE	23.9%	26.5%	24.8%	24.2%	23.8%
Growth						Capital Adequacy					
Asset growth	18.7%	15.2%	18.2%	13.4%	14.5%	CAR	11.0%	11.2%	12.8%	>13%	>13%
Loan growth	15.4%	14.8%	17.9%	16.1%	17.0%	Asset Quality					
PPOP growth	45.5%	12.1%	27.3%	16.4%	16.6%	NPL ratio (substandard)	0.8%	0.7%	1.2%	1.0%	0.9%
Parent NP growth	25.0%	42.5%	17.2%	18.3%	17.6%	Coverage ratio (substandard)	210.0%	159.8%	91.4%	105.7%	119.5%
EPS growth	0.0%	14.0%	1.9%	18.3%	17.6%	NPL ratio (precautionary)	1.3%	1.3%	1.9%	1.6%	1.6%
BVPS growth	1.3%	4.1%	5.6%	20.7%	19.3%	Coverage ratio (precautionary)	125.2%	90.3%	59.4%	66.0%	65.5%

Source: 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

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

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

Nguyen Dinh Thuan – Analyst
thuannd@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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.