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Durable balance sheet to weather COVID-19 slowdown

ACB has one of Vietnam's most sturdy balance sheets with: 1) the industry's lowest non-performing loan ratio at 0.54% in 2019; 2) strong liquidity as seen in 2019's loan-to-deposit ratio at 77% vs the regulatory 85% cap; and 3) a capital adequacy ratio of 10.9% that meets Basel II requirements.

Able to build off its strong presence in the retail banking segment

The bank's strong presence in retail banking also makes it one of the best positioned to deliver on 2020E earnings. ACB boasts a strong retail customer base and the bank seeks to build on this by adding additional clients to grow credit and pre-tax profit by 15% in 2020E. Addition of a *bancassurance* product in 2H20 should also benefit ACB's product portfolio to increase cross-selling opportunities into its customers.

COVID-19 not likely to trigger any serious downturn in credit quality, making the stock attractive at 1.2x 2019 book value

We do not expect the COVID-19 pandemic to trigger a serious downturn in the credit cycle given the safety net being put in place by the government and central bank. With little risk of an erosion to book value at this time, we believe ACB is attractive at 1.2x 2019 book value and recommend a Buy and target price of VND27,000.

Buy maintain

Target price	VND27,000
Upside/downside	35%
Current price (Apr 13)	VND20,000
Consensus target price	VND31,100
Market cap (VNDtn/USDbn)	33.3/1.41

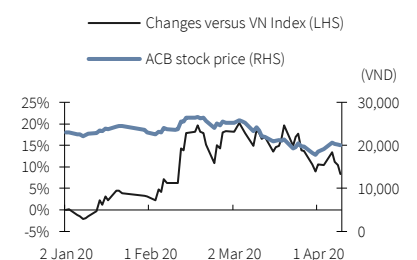
Trading Data	
Free float	77.1%
Avg T/O Val (3M, VNDbn/USDmn)	113.7/4.9
Foreign ownership	30%
Major shareholders:	Dragon Financial (6.92%)

Share price performance				
(%)	1M	3M	6M	12M
ACB	-14.2%	-10.7%	-15.6%	-14.8%
VN Index	-9.8%	-20.8%	-23.0%	-23.1%

Forecast earnings & valuation

FY-end	2017A	2018A	2019A	2020F
Net interest income (VND bn)	8,458	10,363	12,112	13,785
Pre-provisioning OP (VND bn)	5,222	7,321	7,790	9,164
NP to parent (VND bn)	2,089	5,124	5,918	7,064
EPS (VND)	2,013	3,987	3,554	4,091
EPS growth (%)	42%	98%	-11%	15%
PER (x)	9.9	5.0	5.6	6.6
BVPS (VND)	15,604	16,311	16,699	17,294
PBR (x)	1.3	1.2	1.2	1.6
ROE (%)	14%	28%	25%	25%
Div Yield (%)	--	--	--	--

Source: Bloomberg, KB Securities Vietnam



Source: Bloomberg, KB Securities Vietnam

Unique resilience

Asset quality supported by low non-performing loans, good balance sheet liquidity and capital adequacy at Basel II standards

ACB goes into any deterioration of the credit cycle with asset quality supported by: 1) the industry's lowest non-performing loan ratio at 0.54% in 2019 and full resolution of all Vietnam Asset Management Corp bonds; 2) ample liquidity, with a loan-to-deposit ratio of 77% vs the 85% regulatory maximum (under the new standards effective in 2020) and 99% of bonds held in government securities; and 3) capital adequacy meeting Basel II standards at 10.91% (one of 18 banks have met the Basel II requirements).

Most likely to deliver on 2020E targets as ACB builds on its strengths in retail banking

The bank continues to focus on its traditional strength in retail banking to expand market share by building out its digital banking platform and maintaining a diverse loan portfolio rather than jumping into riskier assets to boost growth. Management's 2020E targets are 15% growth for both credit and pre-tax earnings, as well as maintaining cash and stock dividends at VND2,500-VND3,000 per share (cash and stock dividends totaled VND3,000 per share for 2019 earnings). It hopes to achieve this by expanding its client base by one million customers (95% individuals and 5% businesses), all while maintaining its customer retention ratio at 70%-80%. Given the strength of ACB's asset quality, we believe the bank is best positioned to deliver on its 2020E targets (barring any regulatory guidance to reduce dividend payouts due to the COVID-19 pandemic).

New bancassurance exclusive and credit cards should allow ACB to narrow the gap in fee income versus peers

ACB's main weakness has been its comparatively smaller fee income due to the lack of an exclusive partner for life insurance and weak credit card franchise. That said, we expect this gap to narrow this gap in the coming years:

- 1) *bancassurance*: ACB became the first bank to launch online life insurance sales but currently only sells products for FWD Insurance in a non-exclusive agreement made at the end of 2019. Management has indicated they will finally sign an exclusive distribution agreement with an international insurer in 2H20, which should introduce upfront fees and boost overall non-interest income. The bank estimates that bancassurance will generate VND900 billion in fees or an increase of 50% YoY.
- 2) *card services*: ACB's card market share was only 4.5% at the end of 2019 but the bank will re-focus on this business line in the coming years. The bank plans to increase cross-selling into its customer base of individuals and SME companies.

2020E earnings likely a moving target due to COVID-19 but stock still trades at attractive 1.2x 2019 book value

Earnings for 2020E for all banks likely a moving target given uncertainty on the exact timing of stabilization for COVID-19 and the central role banks will play in any government stimulus action. Importantly, we do not expect the COVID-19 pandemic to trigger any serious downturn in the credit cycle given the safety net being put in place by the government and central bank. With little threat of erosion to book value at present, ACB trades at an attractive 1.2x 2019 book value and we recommend a Buy. Our VND27,000 target price implies a P/B multiple of 1.6x 2019 book value.

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2016	2017	2018	2019	2020F		2016	2017	2018	2019	2020F
Net interest income	6,892	8,458	10,363	12,112	13,785	Loans	163,401	198,513	230,527	268,701	309,006
Interest income	16,448	20,320	24,015	28,318	31,728	Marketable securities	46,998	54,399	55,176	59,569	67,437
Interest expense	(9,556)	(11,862)	(13,652)	(16,205)	(17,943)	Cash (ex. Reserves)	3,541	4,852	6,129	6,438	7,393
Fees & commissions	944	1,188	1,498	1,896	2,136	Interest earning assets	213,941	257,764	291,852	334,707	383,855
Other non-interest income	(274)	1,793	2,173	2,089	2,487	Fixed assets & other assets	10,981	10,580	10,124	13,128	13,597
Total operating income	7,563	11,439	14,033	16,097	18,408	Total assets	233,681	284,316	329,333	383,514	415,507
SG&A expenses	(4,678)	(6,217)	(6,712)	(8,308)	(9,244)	Customer deposits	207,051	241,393	269,999	308,129	339,153
Pre-provisioning OP	2,885	5,222	7,321	7,790	9,164	Borrowings & call money/repos	8,850	22,225	29,047	40,079	37,684
Provision for credit losses	(1,218)	(2,565)	(932)	(274)	(235)	Interest bearing liabilities	215,901	263,618	299,046	348,209	376,836
Operating income	1,667	2,656	6,389	7,516	8,929	Other liabilities	3,594	4,531	6,035	7,384	8,298
Other non-operating income	-	-	-	-	-	Total liabilities	219,618	268,285	308,315	355,749	385,314
Pre-tax income	1,667	2,656	6,389	7,516	8,929	Charter capital	9,377	10,273	12,886	16,627	17,459
Income tax expense	(342)	(538)	(1,252)	(1,506)	(1,786)	Capital surplus	-	-	-	272	272
NP	1,325	2,118	5,137	6,010	7,143	Retained earnings	2,761	3,510	5,105	6,370	7,757
Minority interest profit	-	-	-	-	-	Capital adjustments	-	-	-	-	-
Parent NP	1,308	2,089	5,124	5,918	7,064	Total shareholders' equity	14,063	16,031	21,018	27,765	30,193

Financial Indicators (%)						Valuation (VND, X, %)					
	2016	2017	2018	2019	2020F		2016	2017	2018	2019	2020F
Profitability						Share Price Indicators					
ROE	9.9%	14.1%	27.7%	24.6%	24.6%	EPS	1,413	2,013	3,987	3,554	4,091
ROA	0.6%	0.8%	1.7%	1.7%	1.8%	BVPS	14,997	15,604	16,311	16,699	17,294
RORWA	N/A	N/A	N/A	2.1%	2.3%	Tangible BVPS	14,451	15,086	15,851	16,068	16,637
Pre-provision ROE	21.5%	34.7%	39.5%	31.9%	31.6%	Common stock DPS	-	-	-	-	-
Pre-provision ROA	1.3%	2.0%	2.4%	2.2%	2.3%	Valuations					
Pre-provision RORWA	N/A	N/A	N/A	2.7%	3.0%	PER	14.2	9.9	5.0	5.6	6.6
Net interest margin (NIM)	3.2%	3.3%	3.6%	3.6%	3.6%	PBR	1.3	1.3	1.2	1.2	1.6
Efficiency						Capital Adequacy					
Loan to deposit ratio (Cir. 22)	75.7%	75.3%	77.1%	77.2%	82.0%	Tangible PBR	-	-	-	-	-
Cost-income ratio	61.9%	54.4%	47.8%	51.6%	50.2%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Growth						Asset Quality					
Asset growth	16.0%	21.7%	15.8%	16.5%	8.3%	ROE	9.9%	14.1%	27.7%	24.6%	24.6%
Loan growth	20.7%	21.5%	16.1%	16.6%	15.0%	Capital Adequacy					
PPOP growth	31.2%	81.0%	40.2%	6.4%	17.6%	BIS ratio	N/A	N/A	N/A	N/A	N/A
Parent NP growth	29.2%	59.7%	145.3%	15.5%	19.4%	Asset Quality					
EPS growth	35.5%	42.5%	98.1%	-10.9%	15.1%	NPL ratio (substandard)	0.9%	0.7%	0.7%	0.5%	0.6%
BVPS growth	9.7%	4.0%	4.5%	2.4%	3.6%	Coverage ratio (substandard)	85.7%	184.6%	55.7%	18.9%	13.1%
						NPL ratio (precautionary)	2.1%	0.9%	0.9%	0.8%	0.9%
						Coverage ratio (precautionary)	35.4%	139.5%	45.3%	13.2%	8.3%

Source: Company reports, 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:	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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