

Asia Commercial Bank (ACB: HNX)



Strong asset fundamental, strong growth

UPDATED REPORT
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Most of abnormal returns were recorded in 2018

INVESTMENT HIGHLIGHT

Most of non-recurring items recorded during 2018 would lead to less room for abnormal recording in 2019 and afterward. From now on, therefore, it would be more difficult for ACB to achieve the infrequently high growth as the last 2 years.

Non-interest income is expected to keep moderate growth

Non-interest income is forecast to slowdown because the sources of growth in the last 2 years, which mostly comprise of losses recovery, would be less abundant since 2019.

Retail lending would keep leading the ACB's overall lending activities in 2019

Retail lending, which focuses on mortgage car loans, is expected to withhold its position as the leading activities like in the last 2 years' figures and follow the general trend within banking industry. Beside, digital banking progress in "Future bank" strategy will be kept highly invested and expanded.

More pressure ratch up on cost of funding in 2019

Cost of funding pressure would be more prominent in 2019 due to many reasons: 1) Global interest rate hike and trade conflicts; 2) Domestic bond yield is forecast to stay in growing trend; 3) Drastic competition in customers deposit with rising compression from SOE-banks.

NIM still has room for improvement, ROE is forecast to maintain its stably high at around 20%

However, we suppose that NIM still has room to slightly increase as ACB keeps boosting its retail loan segments with better yield than average, combining with the positive impact from growing yield on the great amount of bond portfolio being held by the bank.

The ability to raise new capital and find a sole partnership in banca segment are the determined factors influencing stock price in 2019. High growth potential remains thanks to good quality assets base

We think that ACB's P/B trailing is justified with current market condition. Albeit believing in the long-term growth potential, we suppose that the catalysts for stock price growth this year are determined by 1 in 2 factors: Charter capital increase or Successfully finding a sole partner for bancassurance.

Hold

Target price	32–35,400VND
Increase/Decrease	11 - 23%
Current price (28/01/2019)	28,900VND
Target price	32-35,400VND
Market capitalization	36,043 bn VND (1.56 bn USD)
Exchange rate on 28/01/2019: 1USD=	23,150 VND

Forecast business performance and valuation

	2018A	2019F	2020F	2021F
NII (VND bn)	10,363	12,753	14,326	15,486
Growth speed (%)	22.5%	23.1%	12.3%	8.1%
Total operating profit (VND bn)	14,033	16,581	18,107	19,886
Operating cost CIR (%)	47.8%	45%	44%	43%
Net profit (VND bn)	5,137	6,274	6,889	7,604
Growth speed (%)	142.5%	22.1%	9.8%	10.4%
EPS (VND thousand)	3,986.5	4,868.9	5,346.2	5,901.0
BVPS (VND thousand)	16,310.8	21,179.7	26,525.9	32,426.9
P/B	1.77	1.36	1.09	0.89

Trading data

Outstanding share volume	1,247,165,130
Average trading volume in 10 sessions	2,389,232
% foreign ownership	30%

% of price change

(%)	1M	3M	6M	12M
ACB	-2.36%	3.21%	-6.7%	-13%
VN-INDEX	2.2%	2.63%	-2.5%	-17.8%



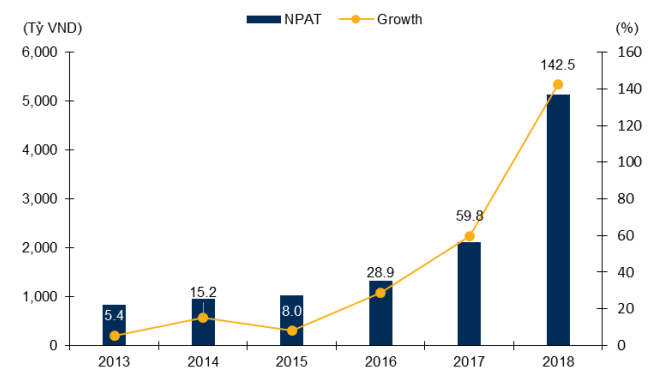
Source: Fiiopro, KBSV

2018 BUSINESS PERFORMANCE

2018 will be the last year which recorded dramatic profit

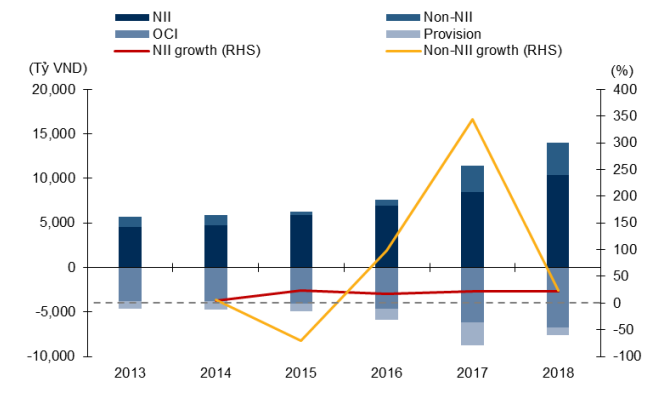
NPAT in 2018 of ACB recorded dramatic growth of 142.5%, which was much higher than that in previous years. This was because: 1) NII and Non-NII still had positive growth despite a small slowdown compared to previous years; 2) Operating cost index (OCI) growth speed was much lower than TOI, which helped to improve CIR continuously; 3) Provision cost plunged as there was no pressure from VAMC or troubled investment securities.

Figure 1: NPAT movement



Source: ACB; KBSV Research

Figure 2: Components of EBT



Source: ACB; KBSV Research

However, such high growth in the last three years may not be remained in 2019 due to these reasons:

- 1) NII: The credit trend does not show great potential growth despite favorable market conditions. In addition, with high gearing ratio (15.67x) and high CAR pressure, it is not likely that credit will get dramatic growth in 2019. Meanwhile, the average lending rate can be improved by stimulating retail lending. However, NIM cannot be improved significantly since funding cost is under the pressure of increasing market interest rate.
- 2) Non-NII: After massively increasing to 345% in 2017 thanks to reversals (from both investment securities and bad debts), Non-NII growth slowed and stayed at 23.1% in 2018 as potential growth of reversals decreased, and services interests showed no marked growth. Therefore in 2019, we suppose that Non-NII will maintain the same growth momentum in 2018 if ACB has not succeeded in finding a bancassurance partner.
- 3) Although CIR show many improvements in the last years, it was mainly contributed by reversal from provisions, while other costs of management were just slightly enhanced. As there is not much room for reversals, we believe that CIR will hardly maintain the improvement trend, and even slightly increase.
- 4) Cost of provisions will stay low, but this cost was normalized in 2018. Therefore, it will not strongly affect profit growth in 2019.

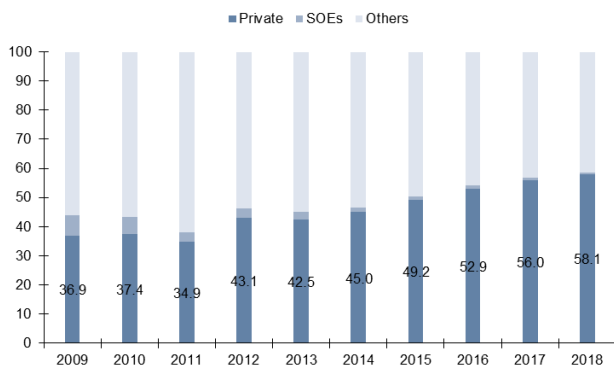
BUSINESS HIGHLIGHT 2019

Retail lending still leads the credit activities

Although the bank has not published a detailed announcement, we estimate that personal customer lending continue to follow the stable growth as in the past two years, increasing to 58.1% of total loan from 56% in 2017. Based on this movement, it can be seen that ACB can still follow its strategy and maintain its 2nd position in banking sector in terms of retail trading proportion (after Sacombank). The total retail lending in 2018 including loan for SMEs was maintained at 90% of total bank lending.

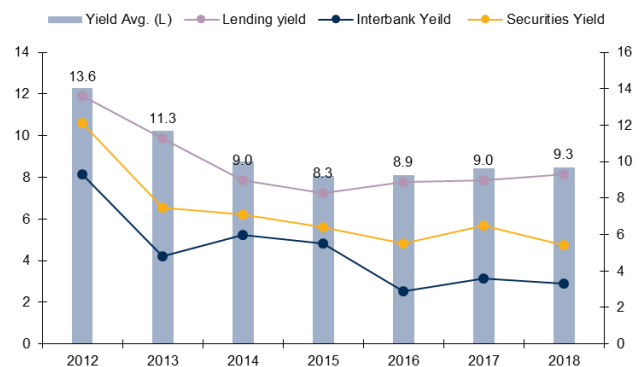
We believe that this trend will continue in the future, which will have positive impacts on average interest rates of ACB.

Figure 3: Loan portfolio structure



Source: ACB; KBSV

Figure 4: Yield volatility of earning assets



Source: ACB, KBSV Research

Pressure of competitiveness, market interest rates and capital demand of CAR will be exerted on funding cost in 2019

Drivers of market interest rates in 2019:

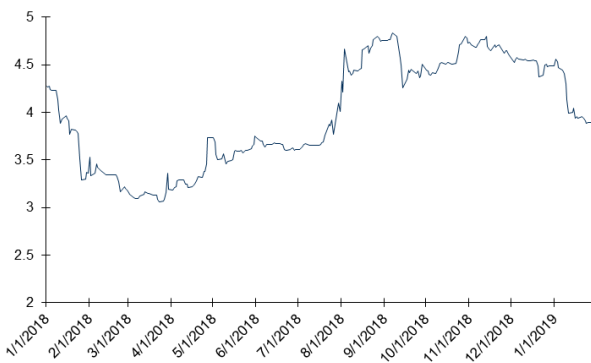
- 1) Pressure of inflation, Fed continuous interest rate hikes from now to 2020 and trade tension.
- 2) Average government bond yield will be higher than that of 2018: The yield hit the floor in the 2Q/2018 and rallied, and may continue to rise until 2020 with current market condition.

In terms of competitiveness involved in funding, except for banks with special ecosystem like MBB, TCB, VCB, other banks mainly use deposit rate and trading convenience or other added values as competitive advantage. Furthermore, according to new regulations of Circular No.16 from early 2019, banks will have to focus on medium and long term capital to ensure mid-long term lending, which makes the competition of interest rate fiercer.

Despite appreciating the customer ecosystem and electronic banking services provided by ACB, we still believe that the bank will be under pressure from raising deposit rates to maintain competitiveness as well as meeting its loan demand.

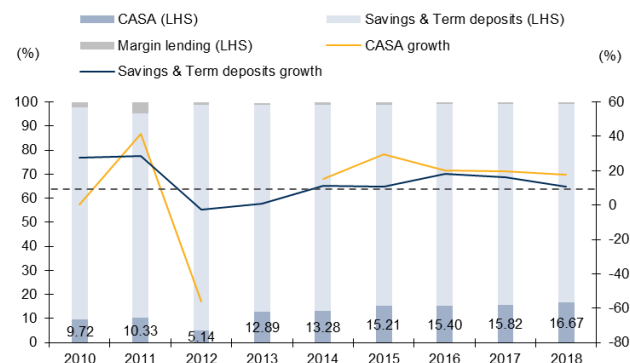
Finally, with less favorable market conditions, the possibility of ACB increasing its tier 1 capital in 2019 is small, thus, to ensure to meet Basel II, forcing banks to increase mobilization from tier 2 source through bonds, which will also put pressure on average funding cost.

Figure 5: Government bond yields in 5 years



Source: Bloomberg; KBSV Research

Figure 6: Deposit structure



Source: ACB, KBSV Research

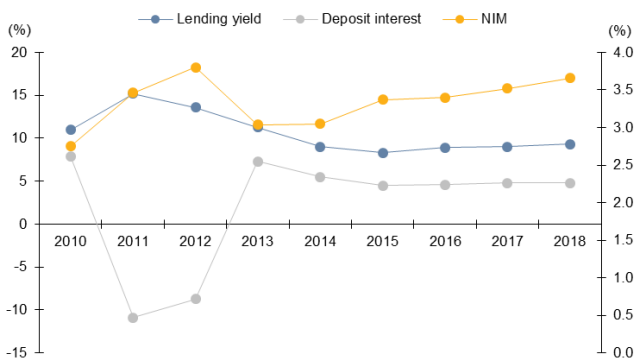
NIM may have small improvements, mainly because of retail lending stimulation

As our analysis of the trend of ACB interest rate and deposit rate above, we assess the increasing level of lending rates thanks to retail trading will overspeed the growth of funding cost. Besides, with a large portfolio of bonds (about 20% of total earning assets), NIM will benefit from the increase in yield in short-mid term. Therefore, we forecast NIM will have small improvements in 2019.

ROE will stay at 23 – 25%, a high level compared to the whole sector

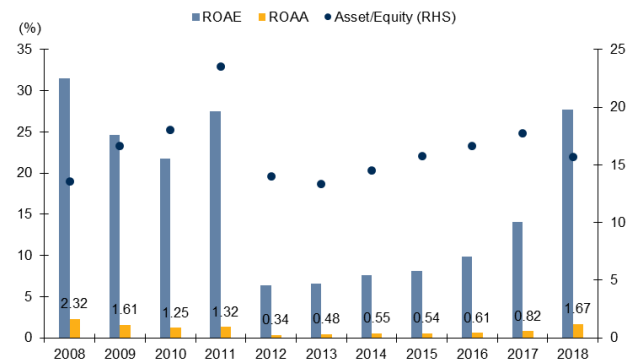
Although ROE is expected to dip from a high level of 27.73% in 2018, ACB may still keep its ROE at top rankings of banking sector due to enhanced ROA. We estimate ACB's ROE in 2019 may hit 23 – 25%.

Figure 7: NIM movement



Source: ACB; KBSV Research

Figure 8: ROE and ROA movement



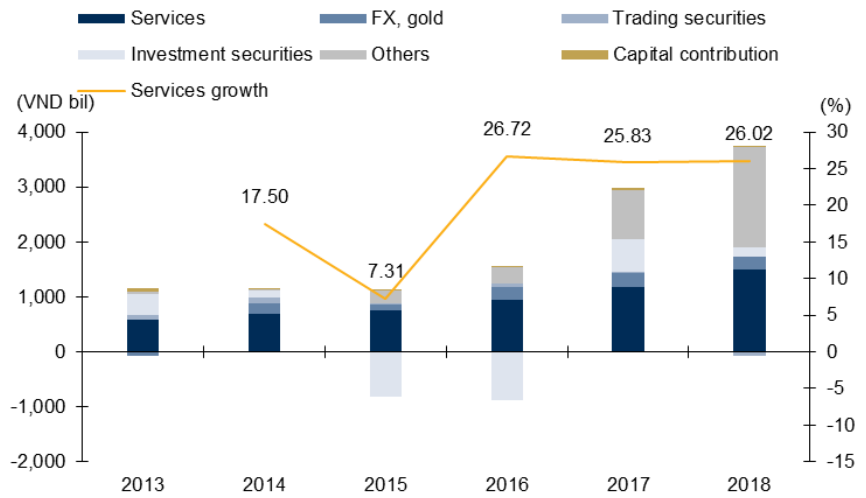
Source: ACB, KBSV Research

NII may remain modest growth and expect to gain dramatic profit from bancassurance

We expect NII to maintain stable growth from 2018: 1) Service income growth stays at 25%; 2) Foreign exchange activities may be stable or slightly increase by 5%; 3) There is still much room for reversals from bad debts (ACB has taken back VND4,000 bn in the last three years out of over VND11,000 bn provisioned.)

In addition, as mentioned in the previous report, we still expect ACB will find an exclusive bancassurance partner soon. This is a potential business field in Vietnam, so ACB will have chance to gain dramatic one-off profit from prepaid charges of bancassurance contracts.

Figure 9: NII movement



Source: ACB; KBSV Research

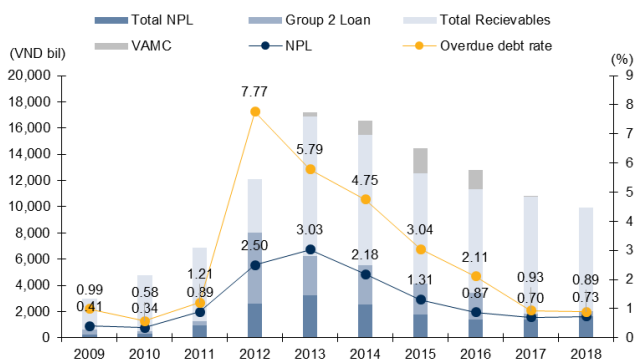
INVESTMENT VIEWPOINT & UPDATED VALUATION

Good quality assets are a firm background for sustainable growth with low risks

ACB is one of the banks with the best asset quality in the whole system, with VAMC being fully set up and low group 2 debts. NPL only increased slightly from 0.7% to 0.73% in 2018 and there is no sign of risk. Receivable ratio continued to decrease and Days sales outstanding was only about 1 month, the best level of the whole industry.

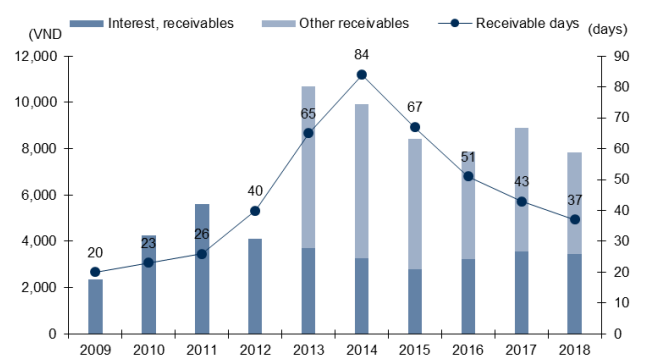
Therefore, with our solid foundation, we believe that ACB can sustainably grow in the next 2 years, and keep risks under control in unfavorable market conditions.

Figure 10: Troubled assets movement



Source: ACB; KBSV Research

Figure 11: Receivables movement



Source: ACB; KBSV Research

Forecast business performance in 2019

- Customer credit (bonds excluded) rose by 15%, lower than 2018 resulting from Basel II pressure and prudent strategy of the bank.
- The volume of interbank deposit and credit and bond portfolio just insignificantly change, the total earning assets is up by 12.54%.
- NIM continued to be improved, hitting 3.72%, which help NII to reach

VND12,753 bn, 23.1% more than 2018.

- Service incomes and foreign exchange maintain good increasing momentum. Additionally, VND1,500 bn is forecast to be reversed in 2019. To sum up, Non-NII is expected to be 4.3%, equal to VND3,828 bn.
- Provisioned CIR continues to be slightly improved, accounting for about 45% TOI, provision expenses are maintained at 14% of pre-provisioned profit.
- EBT is supposed to grow by 22.8% to VND7,843 bn, EPS forward and BVPS forward will reach VND4,869 and VND21,180 respectively.

Positive valuation, but still need more consideration into periodical movement

We choose 3 different methods to evaluate ACB: P/B; PEG and discount residual income. We used PEG method since we believe that the potential growth Vietnam's banking industry in general and ACB in particular is still very large.

ACB's P/B trailing is currently 1.77x, equivalent to the average of the industry. In our assessment, ACB has a better score than many other banks in terms of profitability and asset quality. However, the risk of ACB is involved in raising capital. The tightness of foreign room and stock market conditions are not really favorable, which could cause many difficulties in finding a new capital, thus slowing its growth. Therefore, we assess that the current trailing P/B is reasonable.

P/E and P/B leading for 2019 are 5.94x and 1.36x respectively. With the expectation of long-term growth potential of ACB 15%/year, PEG is about 0.48, a quite attractive and safe level. P/B leading is also attractive if compared to the average of banking sector this year, in favorable market conditions, we expect a 1-year P/B fair of 1.5x, equivalent to the price of VND32,000.

For more long-term expectations in 3 years, we use the residual income method with moderate assumptions, the offered price is VND35,400, 22.5% higher than the current market price.

Table 1: Valuation based on residual income method

VND bil	2019F	2020F	2021F
NPAT	6,274.00	6,889.00	7,604.00
Surplus profit	3,388.24	3,141.82	2,910.96
Capital cost R	13.73%		
g	2.00%		
Terminal value	25,312.70		
Current total value (PV)	45,612.28		
ACB reasonable price (VND/c)	35,397.1		

Source: KBSV Research

APPENDIX

	2013	2014	2015	2016	2017	2018
Financial summary						
NII	4,566	4,766	5,884	6,892	8,458	10,363
TOI	5,650	5,919	6,220	7,563	11,439	14,033
NPAT	826	952	1,028	1,325	2,118	5,137
Total Asset	166,599	179,610	201,457	233,681	284,316	329,333
Equity	12,504	12,397	12,788	14,063	16,031	21,018
Customer loans	107,190	116,324	135,348	163,401	198,513	230,527
Customer deposits	138,111	154,614	174,919	207,051	241,393	269,999
Profitability						
NIM	3.04%	3.05%	3.37%	3.40%	3.52%	3.66%
Average Lending Interest	11.30%	9.00%	8.30%	8.90%	9.00%	9.30%
Average Funding Cost	7.30%	5.50%	4.50%	4.60%	4.80%	4.80%
ROAA	0.48%	0.55%	0.54%	0.61%	0.82%	1.67%
ROAE	6.58%	7.64%	8.17%	9.87%	14.08%	27.73%
Leverage ratio	13.3	14.5	15.8	16.6	17.7	15.7
Asset Quality						
NPL	3.03%	2.18%	1.31%	0.87%	0.70%	0.73%
LLR	47.73%	62.32%	87.02%	126.49%	132.75%	151.89%
LDR	72.30%	71.80%	75.30%	76.60%	76.50%	78.30%
Overdue-debt rate	5.79%	4.75%	3.04%	2.11%	0.93%	0.89%
Provision/Pre-provision income	45.21%	41.98%	40.23%	42.21%	49.13%	12.74%
An toàn vốn						
CAR	15.00%	14.80%	13.00%	13.00%	11.00%	n/a
Equity/Total asset	7.52%	6.90%	6.33%	6.02%	5.65%	6.37%
Liquidity						
LDR	72.30%	71.80%	75.30%	76.60%	76.50%	78.30%
(Customers) Lending/Deposit	77.60%	75.20%	77.40%	78.90%	82.20%	85.40%
Operating Efficiency						
CIR	66.5%	64.6%	64.7%	61.9%	54.4%	47.8%
Valuation						
BVPS	13,335	13,221	13,637	14,997	15,605	16,311
EPS	881	1,015	1,097	1,413	2,062	3,987
P/B	2.32	2.34	2.27	2.07	1.99	1.77
P/E	35.17	30.54	29.72	21.94	15.4	7.25

Source: ACB; KBSV Research

Investment portfolio recommendations**Buy:** +15% or more**Take profit:** trong khoảng +15% và -15%**Sell:** -15% or less**DISCLAIMER**

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