

29 Jul 2020

Asia Commercial Bank (ACB)

Solid non-interest income

- 2Q20 NP flat at VND1.5tn despite of high credit provision.
- VND389bn profit from securities trading and investment.
- Bancassurance to be speeded up in 2H20.

Facts: 2Q20 NP flat at VND1.5tn

ACB reported 2Q20 controlling-interest NP at VND1.5tn, staying flat for five consecutive quarters. TOI dropped 6.3% qoq to VND4.1tn as the consequence of a thinner NIM at 3.3% while non-interest income remained strong at VND990tn. Operating expenses dropped 25% qoq to VND1.8tn because of no abnormal surge in labor expenses like 1Q20. Credit provision jumped to VND440bn in 2Q20 from VND93bn in 1Q20. Notably, the credit provision uplift in 2Q20 (~VND330bn) mostly came from interbank loans which is unusual amid ample liquidity in the local banking system. Provision for customer loans was stable at VND114bn without significant change in assets quality, except VND9tn of COVID-19 restructured loans.

Pros & cons: Strong deposit and good non-interest income

Customer deposit jumped 7.3% ytd to VND331tn while lending grew just 5.6% ytd to VND284tn. Since ACB is conservative in credit expansion amid the uncertainty of the pandemic, stronger deposit growth puts a strain on NIM. We believe ACB is still cautious for new lending at this time. However, some expired restructured COVID-19 loans and interest payments may help to improve 2H NIM.

Non-interest income was solid at VND1.9tn in 1H20, up 16% yoy despite of the reclassification of VND205bn credit card fees to interest income. Of note, trading and investments securities posted an outstanding gain of VND753bn when ACB realized profit from a part of its government bond investments.

Action: solid client base to send NII further

We reaffirm BUY at TP of VND28,900. Credit provision is expected to escalate to VND1.2tn in 2H from VND530bn in 1H20. However, healthy non-interest income stream with a main push from bancassurance may offset weak credit activities. We believe the bank's solid retail client base will help it to develop NII further, particularly following exclusive bancassurance distribution agreement expected in 4Q20.

12M rating **BUY (Maintain)**

12M TP **28,900**

Up/Downside **+30.2%** (incl 0% cash dividend)

Stock data

VNIndex (29 Jul, pt)	791
Stock price (29 Jul, VND)	22,200
Market cap (USD mn)	1,592
Shares outstanding (mn)	2,162
52-Week high/low (VND)	26,600/17,800
6M avg. daily turnover (USD mn)	4.30
Free float / Foreign ownership (%)	77.2/30.0
Major shareholders (%)	
Dragon Capital	14.1
ALP Asia Finance	10.0
Mr. Tran Hung Huy and affiliates	6.1
Estes Investment Ltd	5.0

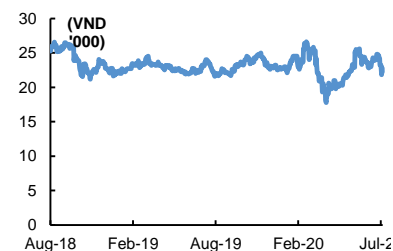
Valuation

	2019A	2020F	2021F
PB (x)	1.3	1.1	0.9
PE (x)	6.1	5.8	5.3
ROA (%)	1.7	1.6	1.5
ROE (%)	24.6	20.7	18.8
DY (%)	-	-	2.3
P/PPE (x)	4.6	3.7	3.2
BPS (VND,adj)	16,761	20,547	24,196
EPS (VND,adj)	3,568	3,788	4,419

Performance

	1M	6M	12M
Absolute (%)	(3.1)	(9.4)	(3.5)
Relative to VNIndex (%p)	1.2	10.1	15.7

Stock price



Source: Bloomberg

Yen Tran

yen.tt@kisvn.vn

Table 1. Earnings trend and outlook

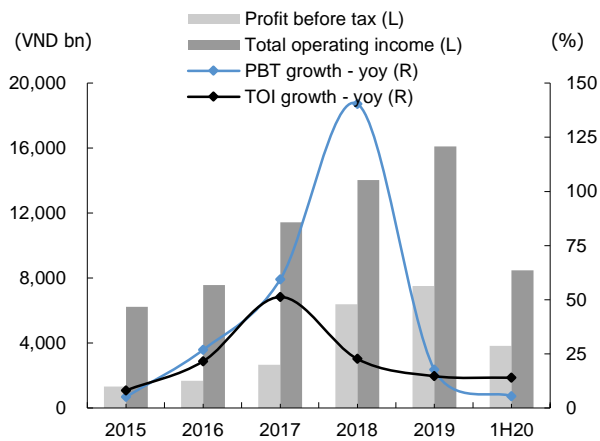
(VND bn, %, %p)

	2019				2020		2019	2020F	2Q20	
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY
Loans to customers and corporate bonds	237,358	250,704	256,052	268,701	274,794	283,755	268,701	301,824	3.3	13.2
% growth (ytd)	3.0	8.8	11.1	16.6	2.3	5.6	16.6	12.3	-	(3.2)
Loans to customers	237,358	250,704	256,052	268,701	274,794	283,755	268,701	301,824	3.3	13.2
NPL (3-5 group)	1,623	1,656	1,704	1,449	1,792	1,919	1,449	2,642	7.1	15.9
NPL ratio (% , %p)	0.68	0.66	0.67	0.54	0.65	0.68	0.54	0.88	-	-
NPL (2-5 group)	2,314	2,265	2,302	2,080	2,678	2,888	2,080	4,342	7.8	27.5
NPL ratio (% , %p)	1.0	0.9	0.9	0.8	1.0	1.0	0.8	1.4	-	0.1
Loan loss coverage (% , %p)	158.1	161.5	159.0	175.0	148.3	144.1	175.0	133.4	(4.2)	(17.4)
VAMC	-	40	-	-	-	-	-	-	-	-
Deposit from customers and bond	283,031	307,419	316,543	328,960	335,643	353,642	328,960	370,173	5.4	15.0
Deposit from customers	275,070	291,280	298,007	308,129	312,654	330,551	308,129	346,732	5.7	13.5
% growth (ytd)	1.9	7.9	10.4	14.1	3.4	7.3	14.1	12.5	3.9	(0.6)
CASA (%)	16.1	16.6	16.5	18.2	15.9	17.5	18.2	18.6	1.6	(0.2)
Total assets	335,803	350,938	358,175	383,514	387,396	396,760	383,514	431,959	2.4	13.1
Total equity	22,384	23,833	25,365	27,765	29,412	30,832	27,765	34,164	4.8	29.4
Total operating income	3,490	3,949	3,849	4,810	4,378	4,102	16,097	17,839	(6.3)	3.9
Net interest income	2,857	2,903	3,023	3,330	3,419	3,112	12,112	13,297	(9.0)	7.2
NIM (% , %p)	3.62	3.56	3.57	3.76	3.71	3.31	3.57	3.42	(0.4)	(0.3)
Non-interest income	634	1,046	826	1,480	959	990	3,985	4,542	3.3	(5.3)
Net commission income	452	589	661	625	514	579	2,327	2,878	12.8	(1.6)
Gains on investment securities	48	-23	81	52	365	389	158	811	6.6	-
Other non-interest income	134	480	84	803	81	22	1,500	853	(72.7)	(95.4)
Provision for credit losses	-16	111	66	112	93	440	274	1,756	374.3	295.4
Net operating revenue	3,506	3,837	3,782	4,698	4,286	3,663	15,824	16,083	(14.5)	(4.6)
SG&A	1,799	1,922	1,844	2,743	2,361	1,768	8,308	8,084	(25.1)	(8.0)
CIR (%)	51.5	48.7	47.9	57.0	53.9	43.1	51.6	45.3	(10.8)	(5.6)
Pre-provision earnings	1,691	2,026	2,005	2,067	2,018	2,334	7,790	9,755	15.7	15.2
EBT	1,707	1,915	1,939	1,955	1,925	1,895	7,516	7,999	(1.6)	(1.1)
Net profit	1,366	1,533	1,549	1,549	1,537	1,522	6,010	6,399	(1.0)	(0.7)
Controlling-int. NP	1,366	1,533	1,549	1,549	1,537	1,522	6,010	6,399	(1.0)	(0.7)

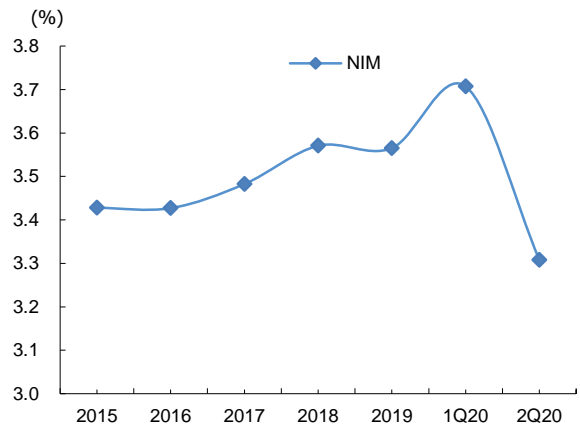
Source: Company data, KIS

■ Company overview

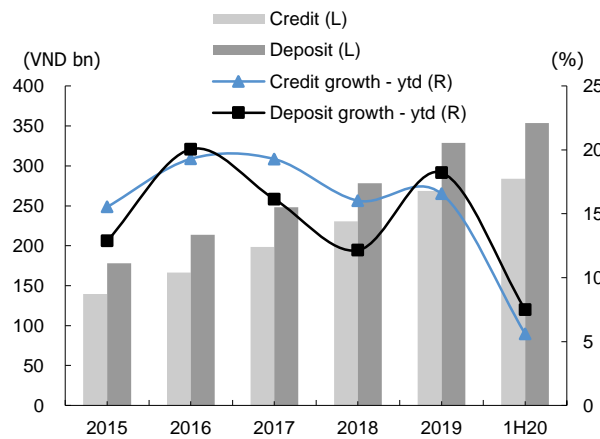
ACB is one of the leading private bank in Vietnam, operating 369 branches and transaction offices in 47/64 provinces in Vietnam. ACB positioned itself as the leader in retail banking market with a client base of ~3mn customers. It has four subsidiaries including ACB Securities (VND1,500bn of charter capital), ACB Assets Management (VND340bn), ACB Leasing (VND300bn) and ACB Capital (VND50bn).

Figure 1. 1H20 results

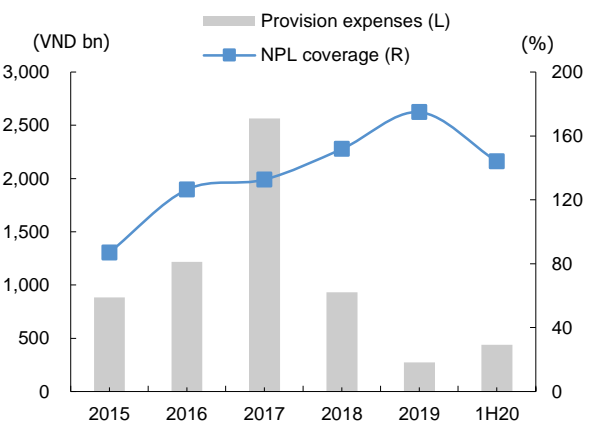
Source: Company data, KIS Vietnam

Figure 2. Annualized NIM

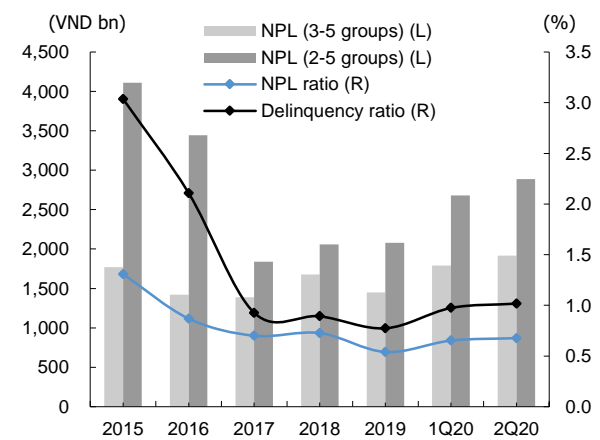
Source: Company data, KIS Vietnam

Figure 3. Credit & Deposit

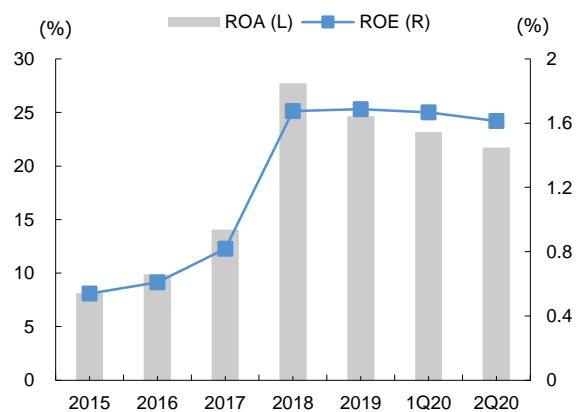
Source: Company data, KIS Vietnam

Figure 4. Provision expenses

Source: Company data, KIS Vietnam

Figure 5. NPL ratios

Source: Company data, KIS Vietnam

Figure 6. T12M profitability

Source: Company data, KIS Vietnam

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total assets	284,316	329,333	383,514	431,959	480,440
Gross IEAs	269,537	314,817	368,778	414,955	461,403
Loans and corp bonds	198,689	230,527	268,701	301,824	341,061
Household	197,294	215,713	247,094	-	-
Corporate	1,395	14,814	21,606	301,824	341,061
Dep't and loans to FIs	12,768	19,460	30,442	44,922	48,123
Dep't to SBV & G-bond	58,080	64,829	69,636	68,209	72,219
VAMC bond	40	40	-	-	-
NIEAs	18,659	19,109	19,609	23,108	26,222
Others	3,920	4,633	4,873	6,104	7,186
Total liabilities	268,285	308,315	355,749	397,795	440,208
Deposits	241,393	269,999	308,129	346,732	385,487
Debentures	6,761	8,291	20,831	23,441	26,061
Dep't and loans from FIs	15,590	20,878	19,405	19,405	19,405
Loans from Gov't & SBV	-	3,074	-	-	-
Other liabilities	4,541	6,073	7,384	8,217	9,255
Total equities	16,031	21,018	27,765	34,164	40,232
Controlling interests	16,031	21,018	27,765	34,164	40,232
Capital stock	10,273	12,886	16,627	16,627	16,627
Capital surplus	-	-	272	272	272
Other reserves	2,914	3,693	4,596	5,497	6,457
Retained earnings	2,844	4,439	6,270	11,768	16,876
OCI	-	-	-	-	-
Minority interest	-	-	-	-	-

Income statement

(VND bn)

	2017A	2018A	2019A	2020F	2021F
Total operating income	11,439	14,033	16,097	17,839	20,928
Net interest income	8,458	10,363	12,112	13,297	15,636
Interest income	20,320	24,015	28,318	31,071	35,496
Interest cost	11,862	13,652	16,205	17,773	19,861
Non-interest income	2,981	3,670	3,985	4,542	5,293
Net commission income	1,425	1,739	2,327	2,878	4,043
Gains on investment securities	664	117	158	811	435
Other non-interest income	892	1,815	1,500	853	815
Provision for credit losses	2,565	932	274	1,756	2,688
Net operating revenue	8,874	13,101	15,824	16,083	18,241
SG&A	6,217	6,712	8,308	8,084	9,484
Employee benefits	2,668	3,220	3,746	4,151	4,870
Pre-provision earnings	5,222	7,321	7,790	9,755	11,444
Earnings before tax	2,656	6,389	7,516	7,999	8,757
Tax	538	1,252	1,506	1,600	1,751
Tax rate (%)	20.3	19.6	20.0	20.0	20.0
Continuing operations profit	1,749	3,372	4,510	5,546	6,191
Reversals of written-off loans	369	1,765	1,500	853	815
Net profit	2,118	5,137	6,010	6,399	7,005
Net profit of controlling interest	2,118	5,137	6,010	6,399	7,005

Key financial data

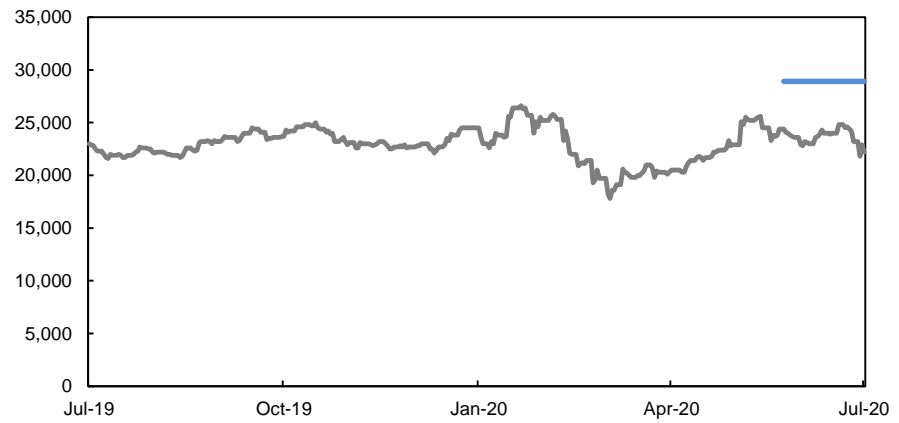
	2017A	2018A	2019A	2020F	2021F
Profitability and efficiency (%)					
ROE	14.1	27.7	24.6	20.7	18.8
ROA	0.8	1.7	1.7	1.6	1.5
NIM	3.5	3.6	3.6	3.4	3.6
Asset yield	8.4	8.3	8.3	8.0	8.2
Cost of fund	4.9	4.8	5.0	4.8	4.8
Cost-income ratio	54.4	47.8	51.6	45.3	45.3
Credit cost	0.9	0.4	0.1	0.6	0.8
Growth (%)					
Net profit of controlling interest	59.8	142.5	17.0	6.5	9.5
Pre-provision earnings	81.0	40.2	6.4	25.2	17.3
Credit growth	19.3	16.0	16.6	12.3	13.0
Total assets	21.7	15.8	16.5	12.6	11.2
Asset quality (%)					
NPL ratio	0.7	0.7	0.5	0.9	0.9
NPL coverage ratio	132.7	151.9	175.0	133.4	142.7
Loan to deposit	76.9	78.6	78.4	78.6	80.3
Capital adequacy (%)					
CAR ratio	8.0	10.1	10.9	11.8	12.4
CET1 ratio	n.a	n.a	9.7	10.6	11.2
Tier 1 ratio	6.7	8.6	9.7	10.6	11.2

Valuation

	2017A	2018A	2019A	2020F	2021F
Per share (VND, adj.)					
BPS	9,887	12,963	16,761	20,547	24,196
EPS	1,276	3,107	3,568	3,788	4,149
DPS	426	-	-	-	500
Valuation (x)					
PB	2.2	1.7	1.3	1.1	0.9
PE	17.1	7.0	6.1	5.8	5.3
P/PPE	6.8	4.8	4.6	3.7	3.2
Dividend yield (%)	2.0	-	-	-	2.3
Dividend payout ratio (%)	33.4	-	-	-	12.1
ROE analysis (%)					
ROE	14.1	27.7	24.6	20.7	18.8
Leverage(x)	17.7	15.7	13.8	12.6	11.9
IEAs to total assets	93.5	94.3	95.0	94.7	94.6
Net income to IEAs	0.8	1.6	1.6	1.5	1.5
Net interest income to IEAs	3.1	3.3	3.3	3.2	3.4
Non-interest income to IEAs	1.1	1.2	1.1	1.1	1.1
Credit cost to IEAs	1.0	0.3	0.1	0.4	0.6
SG&A to IEAs	2.3	2.1	2.3	1.9	2.1

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target	% vs. avg. price	% vs. high (low)
Asia Commercial Bank (ACB)		BUY	VND28,900	-	-
	20 Mar 20	BUY	VND28,900		
	28 Apr 20	BUY	VND28,900		



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