

24 Feb 2021

Asia Commercial Bank (ACB)

Good in managing credit cost

- 2020 NP achieved VND7.7tn, up 28% yoy, beat our estimate.
- Credit cost was 0.32%, reaching just 78% of our forecast.
- Still enjoy favorable macro stability and bright economy outlook in 2021F.

2020 credit cost is better than expected

ACB 2020 NP came at VND7.7tn, up 28% yoy, surpassing the target by 26% and beating our estimate by 11%. The result was driven by less-than-expected credit cost and CIR. Credit growth achieved 15.9% in 2020, 1%p above our latest estimate. NPL ratio fell by 24bps qoq to 0.59% and restructured COVID-19 loans outstanding decreased slightly to ~VND9tn (~2.9% of total loans) against 3Q20. Credit cost tripled yoy to 0.32%, but reaching just ~78% of our forecast which may due resilience economy amid well-contained virus environment in Vietnam.

2021F credit cost still be manageable

Despite of the rise of new cases in early this year, we believe that partial restriction may limit negative impacts from business disruption and enhance consumer confidence. Banks like ACB may keep its upturn trajectory following the SBV's direction to support macro stability and economy relief. We project ACB's lending book to grow by 14% in 2021, 2%p above the industry growth guidance of 12% by SBV. Given existing condition, ACB may maintain NPL coverage ratio at ~160%. Besides, we trim 2021F NPL ratio to 0.62% and credit cost to 0.39% based on following reasons:

- 1) the bank's prudent credit practice with high secured loans component may limit damage if happen;
- 2) positive movement in NPL ratio, NPL formation and accrued interest ratio in 4Q20; and
- 3) three-year delay of credit provision on restructured COVID-19 impacted loans (draft amendment of Cir.01).

Collection of legacy NPAs drags down CIR

The strong CIR drop to 34% for 4Q20 and to 42% for 2020 was attributed to reversal of provision on non-performing assets. If excluding this item, the bank 2020's CIR was around ~45.5%, same with our estimate. We expect the remaining VND957bn legacy NPAs (fully provisioning) to be recouped in the next two years and restrain CIR as around 42-44% before bouncing back to normal level (no extra R&D fund & reversal provision) of 44-46% from 2023.

12M rating **BUY (Maintain)**

12M TP **35,600**

Up/Downside **+15.5%** (incl 3.2% cash dividend)

Stock data

VNIndex (23 Feb, pt)	1,178
Stock price (23 Feb, VND)	31,700
Market cap (USD mn)	2,976
Shares outstanding (mn)	2,162
52-Week high/low (VND)	31,700/17,800
6M avg. daily turnover (USD mn)	10.59
Free float / Foreign ownership (%)	75.8/30.0
Major shareholders (%)	
Dragon Capital & affiliates	12.2
ALP Asia Financial	10.0
Mr. Tran Hung Huy & affiliates	3.43

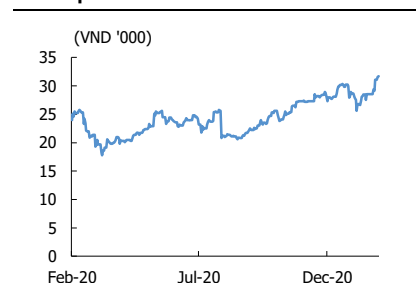
Valuation

	2019A	2020F	2021F
PB (x)	2.5	1.9	1.6
PE (x)	11.6	9.0	7.6
ROA (%)	1.7	1.9	1.9
ROE (%)	24.6	24.3	23.4
DY (%)	-	-	3.2
P/PPE (x)	8.8	6.5	5.4
BPS (VND,adj)	12,893	16,399	19,565
EPS (VND,adj)	2,744	3,508	4,166

Performance

	1M	6M	12M
Absolute (%)	10.6	49.5	60.4
Relative to VNIndex (%p)	9.7	10.4	31.7

Stock price



Source: Bloomberg

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Favorable low interest rate environment

For whole 2020, the bank's NIM increased by 17bps yoy to 3.69% but increased just 7bps yoy to 3.58% if removing ~VND450bn from card fee reclassification due to weak 2Q20 performance. However, NIM widened considerably in 4Q20 to 4.15% (excluding card fee reclassification impact) thanks to low funding cost which is an outcome of a higher CASA ratio (21% by 4Q20, up 3%p yoy) and a couple of deposit rate cuts in 2020. As we believe that the SBV may keep supportive policy for economy relief, low interest rate environment may encourage the bank's 2021 credit growth and NIM (3.8%, up 11bps yoy).

Action: Maintain BUY

Even though a VND8.4tn of upfront from exclusive bancassurance deal was amortized in 15 years rather than 5 years as our latest estimate, we lift 2021F NP to VND9.1tn after trimming credit cost and CIR forecasts. The bank's assets quality is still solid with NPL ratio of 0.62% and NPL coverage ratio at 162%. We revise up TP to VND35,600 and reaffirm BUY to reflect brighter 2021 earnings outlook.

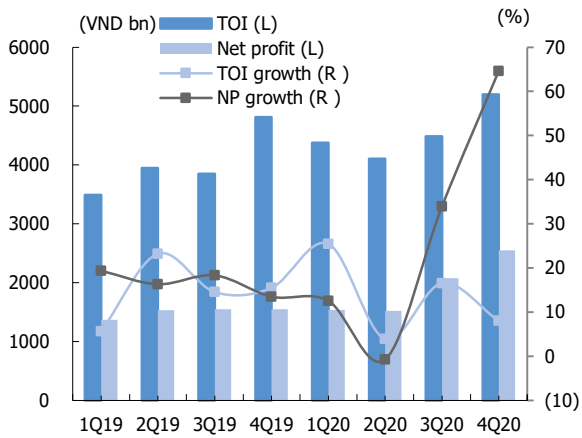
Table 1. Earnings trend and outlook

(VND bn, %, %p)

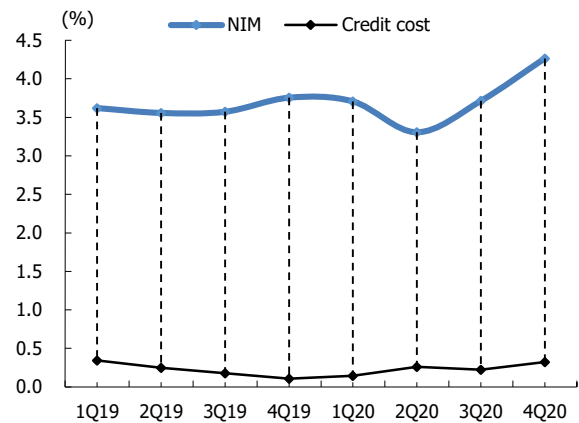
	2019				2020				2019	2020	4Q20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			QoQ	YoY
Loans to customers and corporate bonds	237,358	250,704	256,052	268,701	274,794	283,755	297,386	311,479	268,701	311,479	4.7	15.9
% growth (ytd)	3.0	8.8	11.1	16.6	2.3	5.6	10.7	15.9	16.6	15.9	-	(0.6)
Loans to customers	237,358	250,704	256,052	268,701	274,794	283,755	297,386	311,479	268,701	311,479	4.7	15.9
NPL (3-5 group)	1,623	1,656	1,704	1,449	1,792	1,919	2,480	1,840	1,449	1,840	(25.8)	27.0
NPL ratio (% , %p)	0.7	0.7	0.7	0.5	0.7	0.7	0.8	0.6	0.5	0.6	(0.2)	0.1
NPL (2-5 group)	2,314	2,265	2,302	2,080	2,678	2,888	3,308	2,416	2,080	2,416	(26.9)	16.2
NPL ratio (% , %p)	1.0	0.9	0.9	0.8	1.0	1.0	1.1	0.8	0.8	0.8	(0.3)	0.0
Loan loss coverage (% , %p)	158.1	161.5	159.0	175.0	148.3	144.1	117.5	160.3	175	160	42.8	(14.7)
VAMC	40	40	0	0	0	-	-	-	-	-	-	-
Deposit from customers and bond	283,031	307,419	316,543	328,960	335,643	353,642	357,617	375,246	328,960	375,246	4.9	14.1
Deposit from customers	275,070	291,280	298,007	308,129	312,654	330,551	334,729	353,196	308,129	353,196	5.5	14.6
% growth (ytd)	1.9	7.9	10.4	14.1	3.4	4.9	10.9	12.3	14.1	14.6	-	(1.8)
CASA (%)	16.1	16.6	16.5	18.2	15.9	17.5	18.4	21.0	18.2	21.0	2.5	2.8
Total assets	335,803	350,938	358,175	383,514	387,396	396,760	418,748	444,530	383,514	444,530	6.2	15.9
Total equity	22,384	23,833	25,365	27,765	29,412	30,832	32,919	35,448	27,765	35,448	7.7	27.7
Total operating income	3,490	3,949	3,849	4,810	4,378	4,102	4,486	5,195	16,097	18,161	15.8	8.0
Net interest income	2,857	2,903	3,023	3,330	3,419	3,112	3,635	4,416	12,112	14,582	21.5	32.6
NIM (% , %p)	3.62	3.56	3.57	3.76	3.71	3.31	3.71	4.26	3.6	3.7	0.6	0.5
Non-interest income	634	1,046	826	1,480	959	990	851	780	3,985	3,579	(8.3)	(47.3)
Net commission income	452	589	661	625	514	579	684	604	2,327	2,382	(11.7)	(3.3)
Gains on investment securities	48	-23	81	52	365	389	55	109	158	918	99.0	108.9
Other non-interest income	134	480	84	803	81	22	111	66	1,500	280	(40.7)	(91.8)
Provision for credit losses	-16	111	66	112	93	440	162	247	274	941	52.4	120.8
Net operating revenue	3,506	3,837	3,782	4,698	4,286	3,663	4,324	4,948	15,824	17,220	14.5	5.3
SG&A	1,799	1,922	1,844	2,743	2,361	1,768	1,732	1,764	8,308	7,624	1.8	(35.7)
CIR (%)	51.5	48.7	47.9	57.0	53.9	43.1	38.6	33.9	52	42	(4.7)	(23.1)
Pre-provision earnings	1,691	2,026	2,005	2,067	2,018	2,334	2,754	3,432	7,790	10,537	24.6	66.0
EBT	1,707	1,915	1,939	1,955	1,925	1,895	2,592	3,185	7,516	9,596	22.9	62.9
Net profit	1,366	1,533	1,549	1,549	1,537	1,522	2,075	2,550	6,010	7,683	22.9	64.6
Controlling-int. NP	1,366	1,533	1,549	1,549	1,537	1,522	2,075	2,550	6,010	7,683	22.9	64.6

■ Company overview

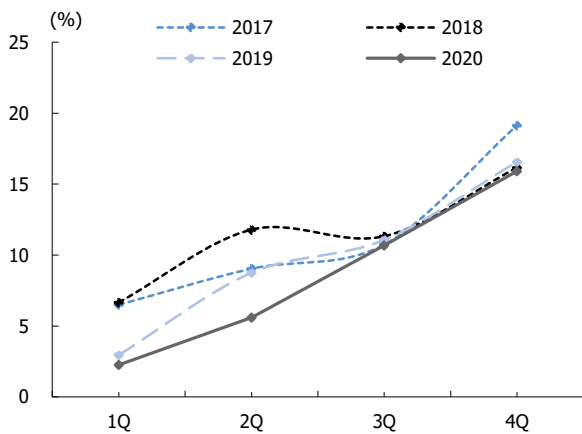
ACB is one of the leading private banks in Vietnam, operating 369 branches and transaction offices in 47/64 provinces in Vietnam. ACB positioned itself as the leader in retail banking market with a client base of ~3mn customers. It has four subsidiaries including ACB Securities (VND1,500bn of charter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

Figure 1. Quarterly results

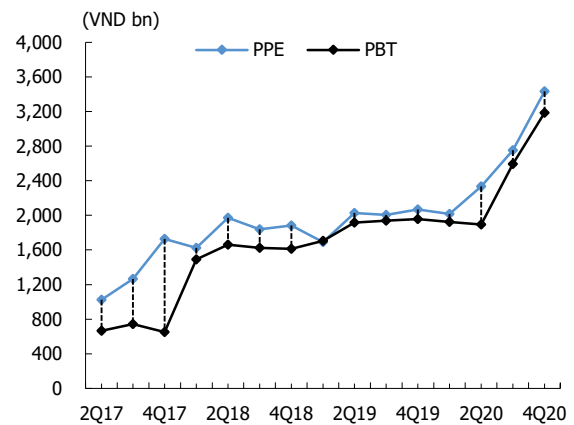
Source: Company data, KIS Vietnam

Figure 2. Annualized NIM & credit cost

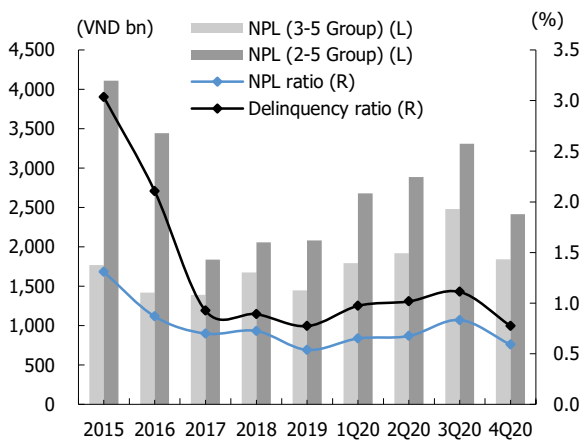
Source: Company data, KIS Vietnam

Figure 3. Quarterly YTD credit growth

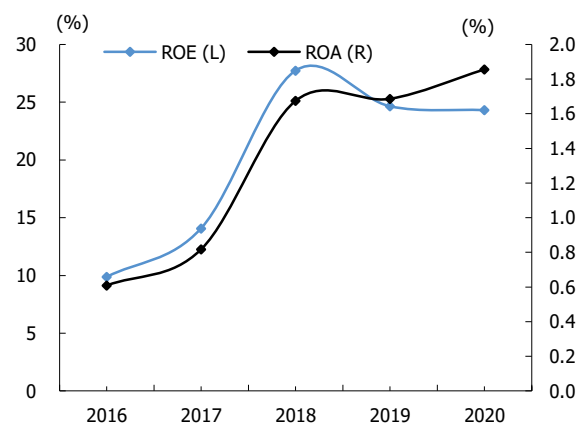
Source: Company data, KIS Vietnam

Figure 4. PPE and PBT

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)

	2018A	2019A	2020A	2021F	2022F
Total assets	329,333	383,514	444,530	503,147	565,280
Gross IEAs	314,817	368,778	425,690	487,052	547,228
Loans and corp bonds	230,527	268,701	311,479	355,086	404,798
Household	215,713	247,094	-	-	-
Corporate	14,814	21,606	311,479	355,086	404,798
Dep't and loans to FIs	19,460	30,442	31,671	40,691	41,712
Dep't to SBV & G-bond	64,829	69,636	82,540	91,275	100,718
VAMC bond	40	-	-	-	-
NIEAs	19,109	19,609	23,310	20,874	23,058
Others	4,633	4,873	4,470	4,779	5,007
Total liabilities	308,315	355,749	409,082	460,856	514,404
Deposits	269,999	308,129	353,196	398,751	445,322
Debentures	8,291	20,831	22,050	24,894	27,801
Dep't and loans from FIs	20,878	19,405	23,992	26,379	29,006
Loans from Gov't & SBV	3,074	-	-	-	-
Other liabilities	6,073	7,384	9,844	10,831	12,275
Total equities	21,018	27,765	35,448	42,291	50,876
Controlling interests	21,018	27,765	35,448	42,291	50,876
Capital stock	12,886	16,627	21,616	21,616	21,616
Capital surplus	-	272	272	272	272
Other reserves	3,693	4,596	5,742	6,894	8,260
Retained earnings	4,439	6,270	7,819	13,510	20,729
OCI	-	-	-	-	-
Minority interest	-	-	-	-	-

Income statement

(VND bn)

	2018A	2019A	2020A	2021F	2022F
Total operating income	14,033	16,097	18,161	22,591	26,639
Net interest income	10,363	12,112	14,582	17,843	20,646
Interest income	24,015	28,318	31,856	36,270	41,712
Interest cost	13,652	16,205	17,274	18,427	21,066
Non-interest income	3,670	3,985	3,579	4,748	5,993
Net commission income	1,739	2,327	2,382	3,711	4,722
Gains on investment securities	117	158	918	769	763
Other non-interest income	1,815	1,500	280	268	508
Provision for credit losses	932	274	941	1,305	1,767
Net operating revenue	13,101	15,824	17,220	21,286	24,873
SG&A	6,712	8,308	7,624	9,906	11,292
Employee benefits	3,220	3,746	4,337	5,395	6,362
Pre-provision earnings	7,321	7,790	10,537	12,685	15,348
Earnings before tax	6,389	7,516	9,596	11,381	13,581
Tax	1,252	1,506	1,913	2,276	2,716
Tax rate (%)	19.6	20.0	19.9	20.0	20.0
Continuing operations profit	3,372	4,583	7,403	8,837	10,357
Reversals of written-off loans	1,765	1,427	280	268	508
Net profit	5,137	6,010	7,683	9,104	10,865
Net profit of controlling interest	5,137	6,010	7,683	9,104	10,865

Key financial data

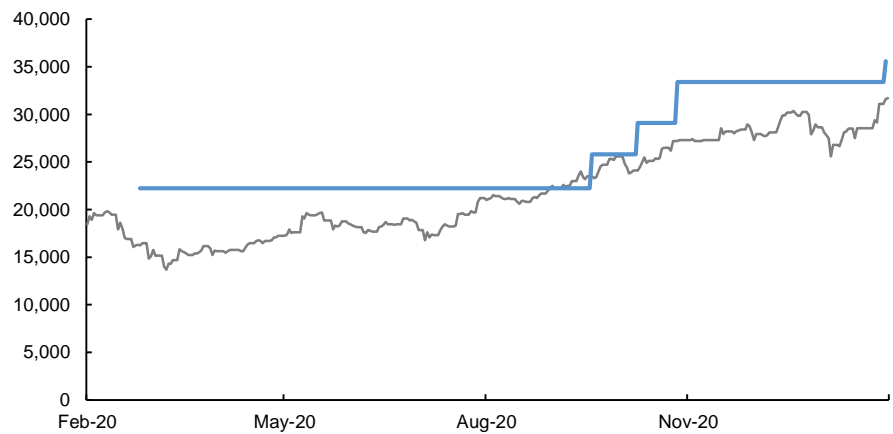
	2018A	2019A	2020A	2021F	2022F
Profitability and efficiency (%)					
ROE	27.7	24.6	24.3	23.4	23.3
ROA	1.7	1.7	1.9	1.9	2.0
NIM	3.6	3.6	3.7	3.9	4.0
Asset yield	8.3	8.3	8.1	8.0	8.1
Cost of fund	4.8	5.0	4.6	4.3	4.4
Cost-income ratio	47.8	51.6	42.0	43.8	42.4
Credit cost	0.4	0.1	0.3	0.4	0.5
Growth (%)					
Net profit of controlling interest	142.5	17.0	27.8	18.5	19.3
Pre-provision earnings	40.2	6.4	35.3	20.4	21.0
Credit growth	16.0	16.6	15.9	14.0	14.0
Total assets	15.8	16.5	15.9	13.2	12.3
Asset quality (%)					
NPL ratio	0.7	0.5	0.6	0.6	0.7
NPL coverage ratio	151.9	175.0	160.3	162.0	157.0
Loan to deposit	78.6	78.4	80.3	81.1	82.9
Capital adequacy (%)					
CAR ratio	10.1	10.9	10.8	11.4	12.0
CET1 ratio	n.a	9.7	9.8	10.3	10.9
Tier 1 ratio	8.6	9.7	9.8	10.3	11.0

Valuation

	2018A	2019A	2020A	2021F	2022F
Per share (VND, adj.)					
BPS	9,972	12,893	16,399	19,565	23,537
EPS	2,390	2,744	3,508	4,166	4,972
DPS	-	-	-	1,000	1,000
Valuation (x)					
PB	3.2	2.5	1.9	1.6	1.3
PE	13.3	11.6	9.0	7.6	6.4
P/PPE	9.1	8.8	6.5	5.4	4.5
Dividend yield (%)	-	-	-	3.2	3.2
Dividend payout ratio (%)	-	-	-	24.0	20.1
ROE analysis (%)					
ROE	27.7	24.6	24.3	23.4	23.3
Leverage(x)	15.7	13.8	12.5	11.9	11.1
IEAs to total assets	94.3	95.0	94.8	95.9	96.0
Net income to IEAs	1.6	1.6	1.8	1.9	2.0
Net interest income to IEAs	3.3	3.3	3.4	3.7	3.8
Non-interest income to IEAs	1.2	1.1	0.8	1.0	1.1
Credit cost to IEAs	0.3	0.1	0.2	0.3	0.3
SG&A to IEAs	2.1	2.3	1.8	2.0	2.1

Changes to recommendation and price target

Company (code)	Date	Recommendation	Target price	%vs. avg. price	%vs. high (low)
Asia Commercial Bank (ACB)	20-03-20	BUY	VND22,200	-	-
	28-04-20	BUY	VND22,200	-	-
	29-07-20	BUY	VND22,200	-	-
	05-10-20	BUY	VND25,800	-	-
	30-10-20	BUY	VND29,100	-	-
	24-11-20	BUY	VND33,400	-	-
	23-02-21	BUY	VND35,600	-	-



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Prepared by: Yen Tran

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