

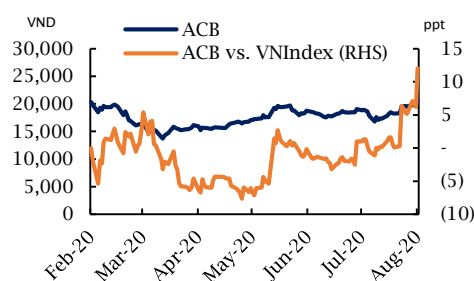
**Vietnam: Banks**
**21 August 2020**
**Action**
**BUY**
**TP upside (downside) +24%**
**Close 20 Aug 2020**
**Price VND 20,800**  
**12M Target VND 25,690**
**What's new?**

- ▶ **ACB plans to list its shares on the HSX in 2020.**
- ▶ **Potential upfront fee** from an exclusivity bancassurance deal.
- ▶ **Potential one-off income** from loan loss recoveries.
- ▶ **ACBS divestment?** Maybe, but we don't expect substantial gains.

**Our view**

- ▶ **We expect that listing on HSX and the exclusivity bancassurance deal** will be the short-term catalysts to ACB's share price.
- ▶ **Earnings are under pressure in 2020E** due to Covid-19, but the bank's solid balance sheet should help it weather the storm.
- ▶ **Cheap valuation—Initiate with BUY.** ACB trades at 1.2x 2020E P/BV with 2020E ROAE of 19%.

**Company profile:** ACB is a fundamentally solid bank with strong capital ratios and asset quality. It regularly achieves a high ranking in our [CAMEL framework rankings](#). It is primarily a retail-focused bank, with 60% of total loans attributable to individuals and 31% to SMEs in 2019A. Management plans to switch its listing from the HNX (Hanoi) to the HSX (HCMC) this year.

**Share price performance relative to VNIndex**


<b>Market cap</b>	<b>US\$1.9 bn</b>
<b>6M avg. daily turnover</b>	<b>US\$5.0 mn</b>
<b>Outstanding shares</b>	<b>2,162 mn</b>
<b>Free float</b>	<b>77%</b>
<b>FINI ownership</b>	<b>30.0%</b>
<b>Major shareholders</b>	<b>30%</b>
<b>2020E Asset/equity (x)</b>	<b>10.8</b>
<b>2020E P/E (x)</b>	<b>7.1</b>
<b>2020E P/B (x)</b>	<b>1.2</b>
<b>Remaining foreign room</b>	<b>0.0%</b>

Source: Bloomberg

**Financial outlook (VND bn)**

Year	2019A	2020E	2021E	2022E
NIM (%)	3.66%	3.24%	3.53%	3.64%
Fee growth (%)	2.7%	8%	2.9%	2.9%
CIR	5.7%	5.4%	5.1%	4.9%
PPOP growth	1.4%	1.2%	2.8%	2.3%
Net profit (*)	5,910	6,221	8,147	9,960
ROAA	1.66%	1.54%	1.80%	1.93%
ROAF	24.2%	18.6%	19.2%	20.3%
PF	5.7	7.1	5.5	4.5
PB	1.3	1.2	1.0	0.9
Div. yield (%)	0.0%	0.0%	3.6%	6.6%

Source: Company data, Yuanta Vietnam. (\*) Net profit (PATMI minus employee welfare contribution).

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## ASIA COMMERCIAL BANK (ACB VN)

### Safe-haven in the storm

**Listing on HSX.** ACB plans to list on HSX in 2020E. If this goes through, there will be a high chance that ACB's shares will be included in important indices with relatively high weights. Management believes that its weightings could be as high as 4% on the VN30 Index, 10% on the VN Diamond, and 12% on the VN FinLead. Regardless of the actual index weightings, the move should boost ACB's trading liquidity.

**Potential upfront fee of VND2–3 tn (US\$86–129m) from bancassurance exclusivity deal.** Unlike many of its peers, ACB has not yet signed an insurance distribution exclusivity agreement. We believe that ACB will reach a deal in 2020 or early 2021. We have not factored the expected upfront fee from the deal into our model given the lack of visibility, but this implies potential upside to our (and the Street's) earnings forecasts.

**Solid balance sheet.** ACB's NPL ratio of 0.68% as at 2Q20 is the lowest of any listed bank, and its loan loss reserve (LLR) ratio of 144% is the second highest among the banks. ACB's CAR ratio (Basel II) was 11.0% as at 1Q20, which is far above the minimum requirement of 8.0%.

**Yuanta vs consensus.** Our 2020E earnings forecast is basically in line with the consensus, but our earnings forecast for 2021E is 17% higher than the Street. Although earnings are under pressure for all the banks, we expect ACB to outperform the sector operationally given its solid asset quality and capital, which should allow it to outgrow its peers.

**Cheap valuation – Initiate with BUY.** ACB trades at 1.2x 2020E P/BV with 2020E ROE of 19%. We believe that ACB deserves a premium to its peers given its asset quality strengths. Our target price of VND25,690 implies 24% 12-month TSR, and we believe the stock offers value even after factoring in the FOL premium of about 7–9%.

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

# Investment thesis

Table 1: Valuations

Valuation Ratios	2017A	2018A	2019A	2020E	2021E	2022E
Adjusted PER (x)	10.4	6.8	5.7	7.1	5.5	4.5
PEG	0.2	0.1	0.3	(0.4)	0.2	0.2
Adj. ROA (%)	0.76%	1.63%	1.66%	1.54%	1.80%	1.93%
Adj. ROE (%)	13.1%	26.9%	24.2%	18.6%	19.2%	20.3%
PBR (x)	1.3	1.6	1.3	1.2	1.0	0.9
Dividend Yield (%)	0.6%	0.3%	0.0%	0.0%	3.6%	6.6%

Source: Company data, Yuanta Vietnam

## Stock price is undervalued

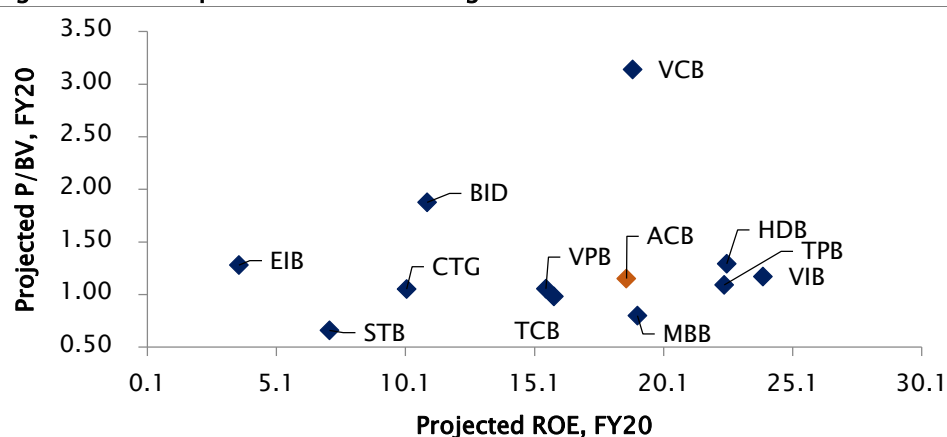
### Valuation is attractive:

ACB trades at 1.2x 2020E P/BV with 2020E ROE of 19%. The stock still offer value even factoring in the FOL premium of about 7%-9%.

despite expected 2020E ROE of 20%, which is higher than the peer median of 17%. In our view, a solid bank like ACB with higher ROE and growth prospects than the sector deserves a much higher premium over its peers. Currently, ACB trades just slightly above the peers' median despite generating much higher profitability than the sector, which could be due to its full-FOL status as well as being listed on the HNX. Factoring in the FOL premium of 7%-9%, ACB currently trades at 1.3x 2020E P/BV (or 1.1x 2021 P/BV).

The chart below illustrates that ACB's stock price is undervalued with low P/BV despite relatively high ROE.

Figure 1: Scatter plot: ROE and PB among banks



Source: Bloomberg for pricing and ROE estimates on CTG, TCB, VIB, and TPB projections, Yuanta Vietnam for ACB, BID, MBB, HDB, STB, VCB and VPB.

## Listing on HSX will help boost its liquidity and share price

It might take approximately five trading days of turnover to include ACB shares in VN30, VN Diamond, and VN Finlead indices.

**ACB plans to list on HSX in 2020E.** If the listing is successful, ACB's shares are likely to be included in index benchmarks with relatively high weights. The company expects inclusion in the VN30 Index (where management expects ACB's weighting to be 4%), VN Diamond (10%), and VN FinLead (12%). Based on the AUMs of the respective HSX-listed ETFs, we estimate that the liquidity inflows from those three ETFs alone represent approximately five trading days (see table 3) of turnover; this boost to ACB's short-term liquidity is also likely to increase its share price, in our opinion.

**ACB's inclusion in these indices might result in other stocks being down-weighted or even removed.** For VNDiamond, the total weight for all stocks in one sector is capped at 40%. Currently, bank stocks accounts for 39.3% of the total stocks in VNDiamond (source: VFM); thus, if ACB is in VNDiamond, other banks (TCB, VPB, MBB,

TPB, and CTG) might be down-weighted or even removed from the list. *See table 4 for details*

### Potential bancassurance exclusivity deal

We expect ACB to sign an exclusivity deal in late 2020E or early 2021E, with an estimated upfront fee of VND2-3tn (US\$86-129mn).

Unlike many other banks, ACB has not signed an exclusive bancassurance distribution agreement. We expect that ACB will eventually reach such a deal, perhaps in late 2020E or early 2021E. ACB has an attractive customer base with slightly more than 2.8 million clients in 2019A, mostly individuals. ACB has invested heavily in IT infrastructure (about VND 800bn annually from 2019-2024) to transform into a digital bank, and management expects to expand its customer base to 5 million in 2021E. Such a considerable retail customer base should create a competitive advantage for ACB to command favorable deal terms in a bancassurance exclusivity agreement. Thus, we expect ACB to receive a huge amount of upfront fees from the deal (*see table 4*) and subsequent income from bancassurance sales will also boost earnings.

### Solid balance sheet will help ACB weather the storm

In our view, ACB is one of the highest quality banks in Vietnam. It ranks as No.3 in our latest [2Q20 CAMEL rankings](#).

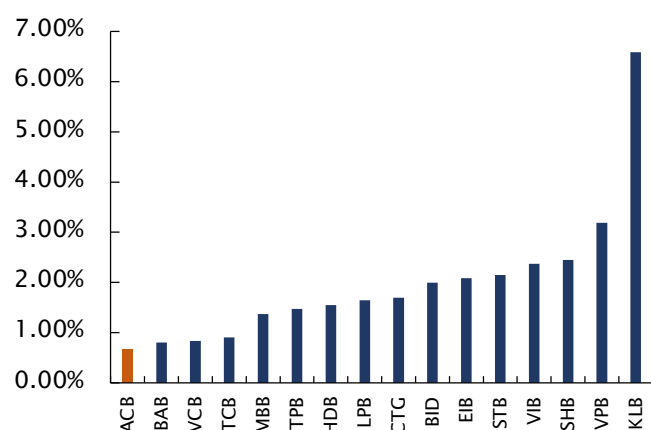
**Capital is robust relative to most of the (highly leveraged) Vietnamese banks.** Total CAR of 11.0% and Tier 1 CAR of 9.9% as at 1Q20 under the Basel II framework is well above the minimum 8% requirement.

Solid balance sheet should help ACB weather the storm.

NPL ratio was 0.68% and LLR ratio was 144% as at 2Q20.

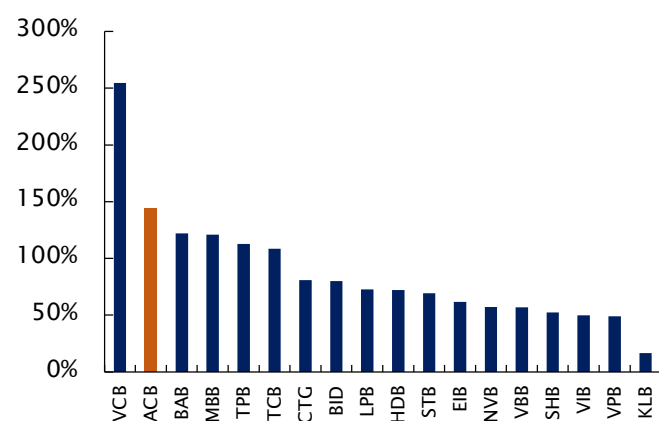
**Asset quality is strong.** ACB's NPL ratio of 0.68% as at 2Q20 is the lowest in the sector. Its loan loss reserve (LLR) ratio of 144% is the second highest among the banks, and we believe this to be a superior indicator of asset quality. This is because a bank's reported NPL ratio might not be a perfect indicator of its underlying asset quality given the SBV's forbearance policy to support Covid-19 impacted customers. Thus, the LLR ratio would be a key ratio to monitor the asset quality in 2020. Banks with high LLR ratios are in better shape to weather any potential asset deterioration in upcoming quarters. We are gratified that ACB has taken a prudent approach in setting aside provisions against potential rising NPLs.

Figure 2: NPL ratios among banks at 2Q20



Source: FiinPro, Yuanta Vietnam

Figure 3: LLR among banks at 2Q20



Source: FiinPro, Yuanta Vietnam

**Yuanta vs. Consensus.** We believe that earnings will be under pressure in 2020E due to the impact of Covid-19. Our net income forecast is -1% below the consensus mean estimate for 2020E. However, our net income forecast for 2021E is 17% higher than the street's estimate as we believe that ACB's solid balance sheet will help it better weather asset quality deterioration and also to grow more rapidly than peers in 2021E.

**Table 2: Yuanta vs. Consensus**

Net income (VND bn)	2020E	2021E	2022E
Consensus mean	6,269	6,966	8,111
Yuanta forecast	6,221	8,147	9,960
<i>%ge difference</i>	<i>-0.8%</i>	<i>17.0%</i>	<i>22.8%</i>
Consensus high	6,433	7,655	8,901
Consensus low	6,123	5,678	7,051
EPS (VND)			
Consensus mean	2,744	3,052	3,466
Yuanta forecast (adj.)	2,940	3,769	4,608
<i>%ge difference</i>	<i>7.2%</i>	<i>23.5%</i>	<i>32.9%</i>
Consensus high	2,982	3,415	4,038
Consensus low	2,089	2,549	2,646

Source: Bloomberg, Yuanta Vietnam

## Catalysts

### HSX listing: A short-term liquidity boost

ACB plans to list its shares on HSX in 2020. Once this has occurred, we would expect ACB's shares to be included in several critical indices, including the VN30, VN Diamond, and VN Financial Leaders Indices, with relatively high weightings. Inflows from the relevant ETFs alone should boost its short-term liquidity and the share price.

Below is our estimate for the number of trading days to buy ACB's shares once it is included in the below indices.

**Table 3: Estimated number of trading days to buy ACB shares**

	Total NAV (VND bn)	Weight (%)	Value (VND bn)	ACB's average daily turnover over 3-month	Number of trading days
VFMVN30	5,222	4%	209	100	2.1
VNDIAMOND	1,575	10%	158	100	1.6
VNFINLEAD	731	12%	88	100	0.9
Total					4.7

Source: FiinPro, Yuanta Vietnam

Once ACB is added in VN Diamond, we expect that other bank stocks will be down-weighted as shown in Table 4.

**From a practical perspective, it might take several months to include ACB in these indices.** Assuming that ACB is listed on HSX at the end of 2020, we would expect its inclusion in the respective indices to occur by mid-2021. At that time, the current weight of each stock in the VN Diamond (table 4) may have changed; however, for the sake of simplicity, we assume that the weights remain constant. Once ACB is added with estimated weight of roughly 10%, we expect that VPB, MBB, CTG, and TPB will be down-weighted as illustrated in Table 4 below. Recall that the total weight of all stocks in one sector is capped at 40% in VN Diamond.

Below are estimate number of trading days it takes to down-weight other bank stocks in the VN Diamond list once ACB is included.

**Table 4: Estimated number of trading days to down-weight other bank stocks**

	Current weight in VNDiamond	Market Cap * Free Float (VND bn)	Estimated new weight (%)	Down-weighted by (%)	Value (VND bn)	ADTV-3M (VND bn)	Number of trading days
TCB	10.9%	46,531	10.9%	0.0%	0.0	37	0.0
VPB	10.3%	36,347	8.1%	2.2%	34.6	86	0.4
MBB	8.5%	24,597	5.5%	3.1%	48.3	86	0.6
CTG	6.0%	17,277	3.8%	2.2%	34.0	113	0.3
TPB	3.6%	10,337	2.3%	1.3%	20.2	2	9.6
ACB	0.0%	40,439	9.5%				

Source: VFM, Bloomberg, Yuanta Vietnam

### Fee income boost through bancassurance exclusivity deal

Unlike many other banks, ACB has not signed an bancassurance exclusivity deal with an insurance company. ACB has signed non-exclusive contracts with AIA (in Nov 2015), Manulife (in Sep 2019), and FWD (in Dec 2019). Bancassurance income contribution to total net fee income has increased significantly from only 2% in 2015 to 29% in 2019 (see figure 4).

Given its experience cooperating with many insurance companies, ACB should be able to choose the most suitable candidate and preferential terms for an exclusivity agreement. ACB expects to finalize a deal by the end of 2020. However, in our view, the deal might be delayed given the current dismal macro outlook, and we have not factored it into our forecasts. As such, a potential deal in 2020 will constitute an

upside potential to our earnings forecasts and could be a short-term catalyst for the share price.

We expect that the exclusivity deal will bring substantial upfront fees and ongoing subsequent income from bancassurance sales. Based on the estimated value from previous deals of ACB's peers (i.e. TCB with Manulife: VND1.5 tn, VPB with AIA: VND1.8 tn), we estimate that ACB will receive about VND2.0 tn (equivalent to 13% of 2020E adj. revenue) in upfront fees from the bancassurance deal (see Table 5 for details). But given the lack of visibility on the details or timing of such a deal, we have not factored it into our model.

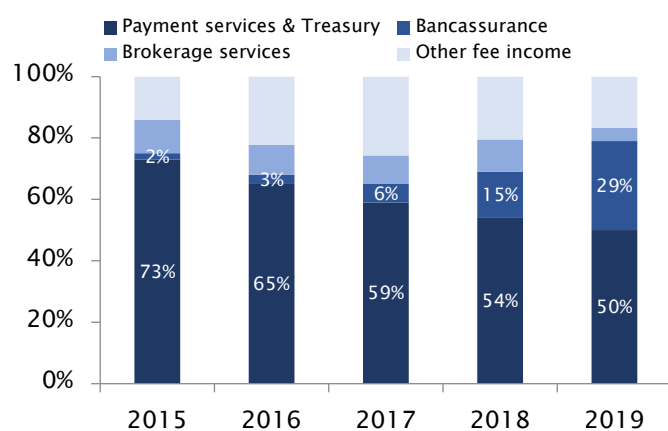
**Table 5: Upfront fees from bancassurance exclusivity deals\***

Banks	No. of clients at the time of signing the deal (mn)	No. of branches/offices	Network (cities)	Year (signed the deal)	Term (years)	Partner	Estimated upfront fee (VND bn)
VCB	10	552	53	Nov-19	15	FWD	9,000
TCB	5	315	45	Sep-17	15	Manulife	1,500
VPB	5	216	51	Oct-17	15	AIA	1,800
ACB*	5	369	47	2021?	15	???	2,000

Source: Company data, tapchitaichinh.vn, Yuanta Vietnam

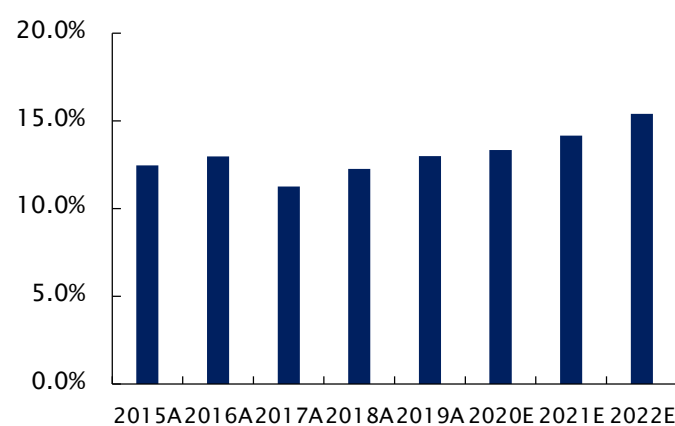
\* Note: All data for VCB, TCB, and VPB are estimated numbers at the time of signing the contract. Yuanta Vietnam estimate for ACB.

**Figure 4: Fee income breakdown**



Source: Company Data, Yuanta Vietnam

**Figure 5: Fee income/adj. revenue (%)**



Source: Company data, Yuanta Vietnam

### Potential ACBS divestment is... problematic

ACB has stated that they plan to divest 51% of their 100% stake in ACBS. The details and progress of this divestment are unclear. Although we understand (and agree with) the reasons for divesting the brokerage, we do not understand the rationale for retaining a 49% stake after the sale.

In any case, the book value of ACBS was VND1.9 trillion (US\$83mn) as at 2Q20, and 51% of that represents VND984 billion (US\$42mn).

Listed securities companies currently trade at around 0.8x P/B. At that price, ACB would collect VND787 bn from the sale and post a loss on divestment of VND197 bn. However, we expect ACB to be highly reluctant to sell the securities subsidiary at a loss. If we were at the table, we would argue that a c.20%-30% premium to prevailing

peer valuations is extremely reasonable for a controlling stake, but realistically any divestment gains in the current operating environment are likely to be limited.

Below are scenarios with different P/B multiples for the divestment of ACB Securities:

**Table 6: Estimate potential income from ACBS divestment**

Book value of ACBS (VND bn)	1,930	1,930	1,930	1,930	1,930
Divestment multiple (P/B (x))	0.8	0.9	1.0	1.1	1.2
% stake that ACB will sell	51%	51%	51%	51%	51%
Selling price (VND bn)	787	886	984	1,083	1,181
Gain/loss on divestment (VND bn)	-197	-98	0	98	197

Source: Company data, Yuanta Vietnam

### **Potential income from loan loss recoveries**

Total bad debts related to the six companies associated with the ACB's former chairman (Nguyen Duc Kien) was VND806 bn as at 1Q20. Management expects that it might take two years to sell the related collateral. ACB has already fully provisioned against the related loans; thus, we expect ACB to recognize total potential income of VND806 bn from loan loss recoveries in 2020E and 2021E.

## ACB Business Overview

We expect loan growth in 2020E of 11.7% for ACB and 9%-10% for the whole sector.

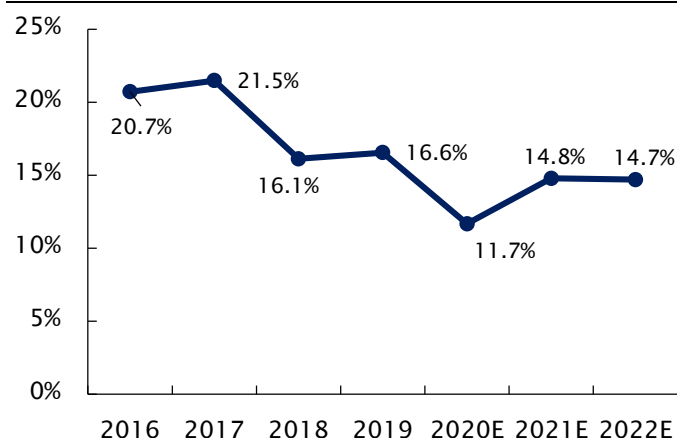
**Loan growth** is under pressure for all banks in 2020E. ACB is no exception, but we still expect it to outgrow the sector. We estimate loan growth for ACB of 11.7% in 2020 (vs. 16.6% in 2019A). In the first 6M20, ACB achieved 5.6% YTD loan growth, well ahead of the 3.3% achieved by the banking system overall.

The SBV set credit growth target for the bank sector at 14.0% at the beginning of the year; however, total credit growth reached just 3.3% in the first 6M20. Thus, the SBV increased room for some banks to boost credit growth in the second half. However, we believe that total credit growth will not reach 14.0% this year given weak capital absorption due to the impact of the pandemic. We expect credit growth of the whole sector to reach about 9.0%-10.0% this year. Again, ACB should exceed that figure by c.2-3ppt.

ACB is a retail-focused bank with 60% of the loan portfolio is individuals and 31% is SMEs.

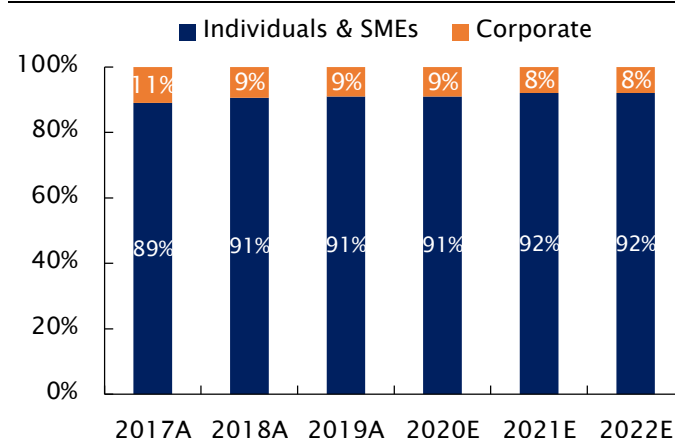
**Loan breakdown by customer type.** ACB's consolidated loan book reflects its retail focus, with 60% of the total loan portfolio attributable to individuals and 31% to SMEs in 2019A. In the current dismal business outlook, retail-focused banks are likely to be hit harder than wholesale banks, in our view. However, we believe that ACB is able to weather the storm better than most of the other banks given its solid balance sheet, evidenced by its sector-low NPL ratio (0.68% at 2Q20) and second-highest LLR ratio (144% as at 2Q20) (see Figure 19 and Figure 22).

Figure 6: Loan growth



Source: Company Data, Yuanta Vietnam

Figure 7: Loan breakdown



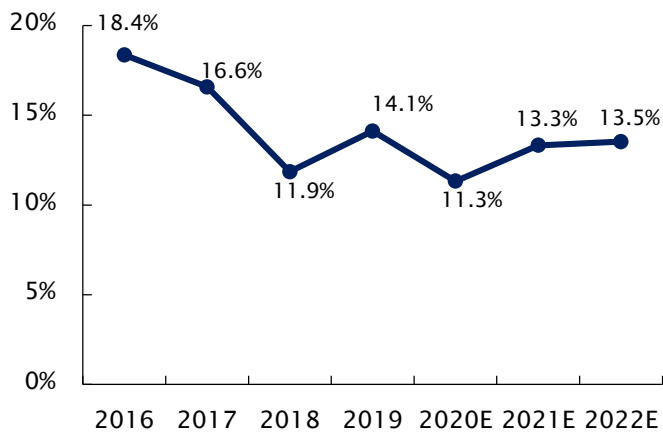
Source: Company Data, Yuanta Vietnam

**Deposit growth.** We expect deposit growth to slow down also this year, as balance sheet growth is under pressure due to weak capital absorption from the economy. We forecast ACB's deposits to expand 11% YoY in 2020E. Deposit growth was 7% YTD in the first 6M20.

**Deposit mix.** ACB's consolidated funding comprises mostly customer deposits (80%). CASA deposits accounted for 18.1% of total deposits as at 2Q20 (+1.6ppt QoQ/-1.0ppt YTD).

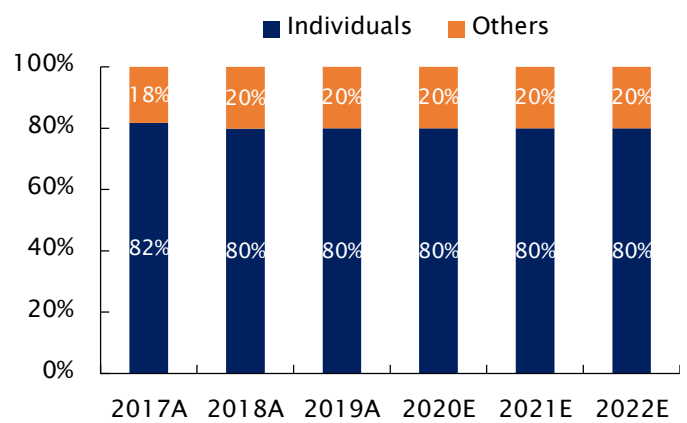


**Figure 8: Deposit growth**



Source: Company Data, Yuanta Vietnam

**Figure 9: Deposit breakdown**

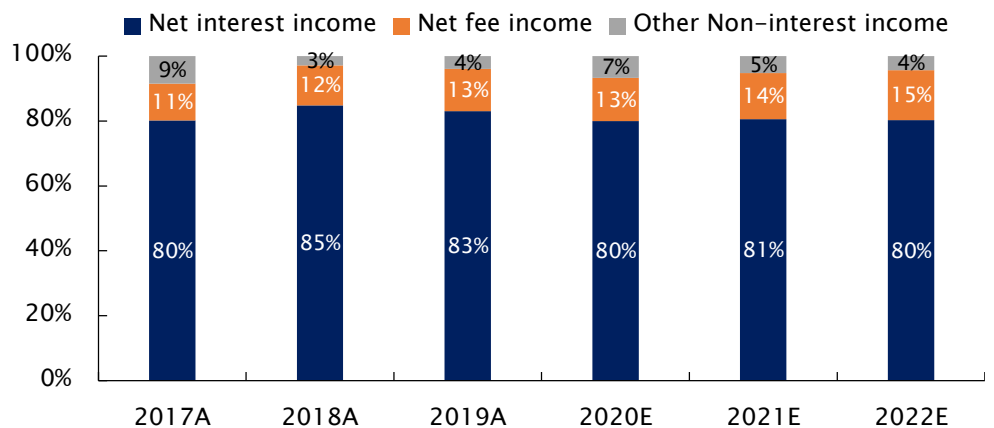


Source: Company Data, Yuanta Vietnam

### Revenue breakdown

After stripping out loan loss recoveries from revenues, net interest income contributed 83% of adjusted total operating income in 2019A, with fee income at only 13%. This is obviously quite low, but banks including ACB are seeking alternative income from fees (including income from bancassurance sales) to reduce dependence on loan growth, and we believe this will be a key trend going forward.

**Figure 10: Revenue Mix in 2018A**

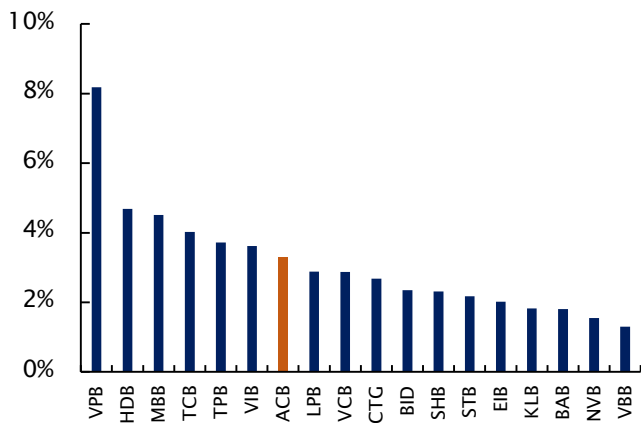


Source: Company Data, Yuanta Vietnam

### NIM will be under pressure partly due to the impact of Covid-19.

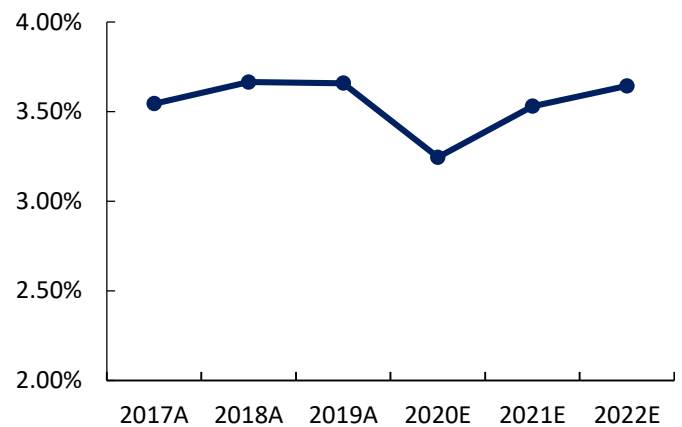
ACB has provided loan restructuring of VND15 trillion (or 5% of its total 2020E loans) and a new incentive loan package of VND 25 trillion (or 8% of its total 2020E loans) with average interest rate of as much as 2ppt lower than that of the pre-pandemic period. We estimate that the incentive loan package should reduce gross interest income of ACB by about VND500 bn with gross yields falling to 7.8% (-70bps YoY) in 2020E; however, the net effect might be smaller because deposit rates are also decreasing. The annualized NIM on total average assets in 2Q20 was 3.17% (-37bps QoQ/-21bps YoY).

**Figure 11: 3Q19–2Q20 NIM among banks**



Source: FiinPro, Yuanta Vietnam

**Figure 12: NIM will be under pressure in 2020E**



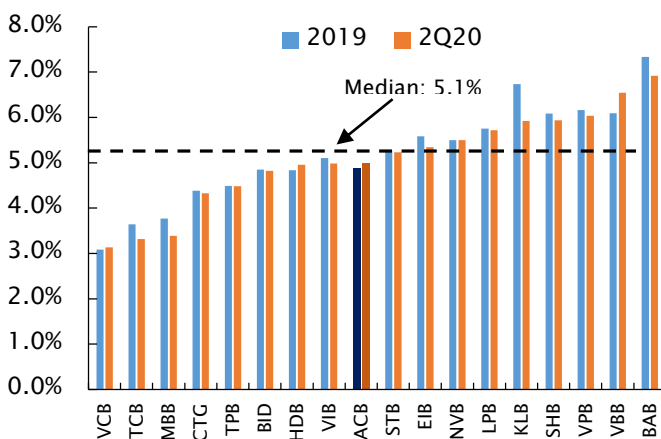
Source: Company Data, Yuanta Vietnam

**Funding cost is relatively high.** ACB’s funding cost of 5.0% as at 2Q20 was just slightly below the peers’ median of 5.1% (see figure 13). Clearly, funding cost is not a competitive advantage of ACB, and this is largely due to its low CASA ratio of only 18.1% vs. the CASA leaders (i.e. [MBB \(BUY\)](#): 35.6%, [TCB](#): 34.4%, and [VCB \(HOLD-UPF\)](#): 28.8%). However, we believe that increased CASA deposits should result from ACB’s intensive investment in IT systems to transform it into a digital bank.

**Limited room for NIM enhancement.** As a retail-oriented bank, 91% of customers are individuals and SMEs, which should be good for NIM. However, this also indicates that there is no much room to expand its retail business to improve NIM further. As discussed above, one way to improve NIM is to boost CASA deposits and thus to reduce funding costs.

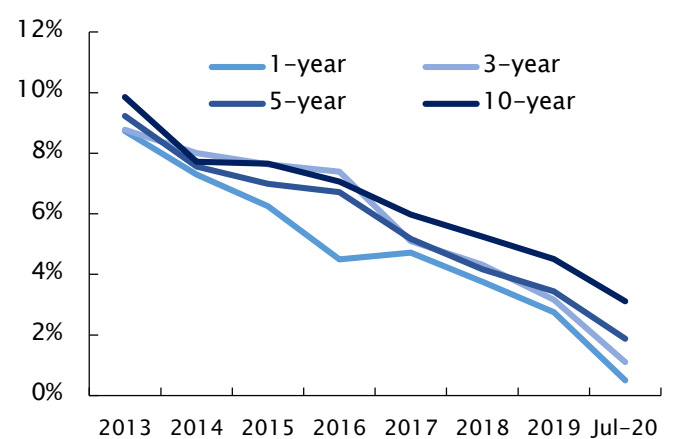
Another constraint on ACB’s NIM is its relatively high exposure to government bonds (G-bonds). G-bonds accounted for 14% of total assets as at 2Q20, which is the highest among banks, as exhibited in figure 15. We think that this is a prudent approach to asset allocation and risk management in the current dismal business outlook. However, G-bonds yields are relatively low and the trend has been declining, as illustrated in figure 14 below.

**Figure 13: Funding cost among banks in 2019 & 2Q20**



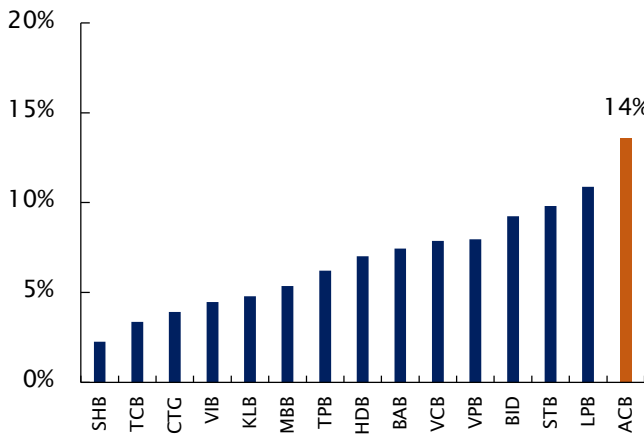
Source: Company Data, Yuanta Vietnam

**Figure 14: Average G-bonds yields (%)**



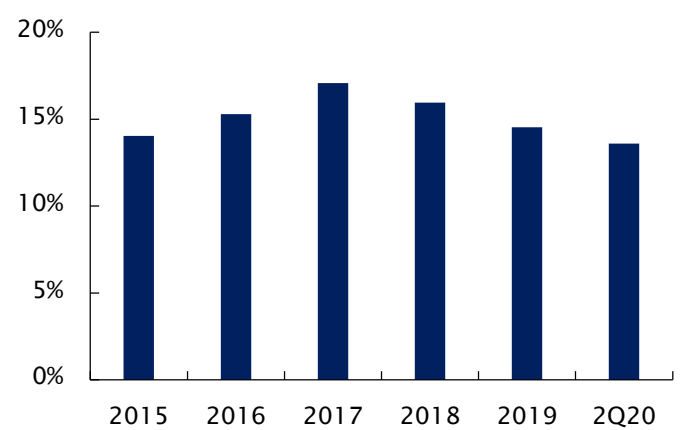
Source: HNX

**Figure 15: G-Bonds/Total assets among banks at 2Q20**



Source: Company Data, Yuanta Vietnam

**Figure 16: ACB: G-Bonds/Total assets**



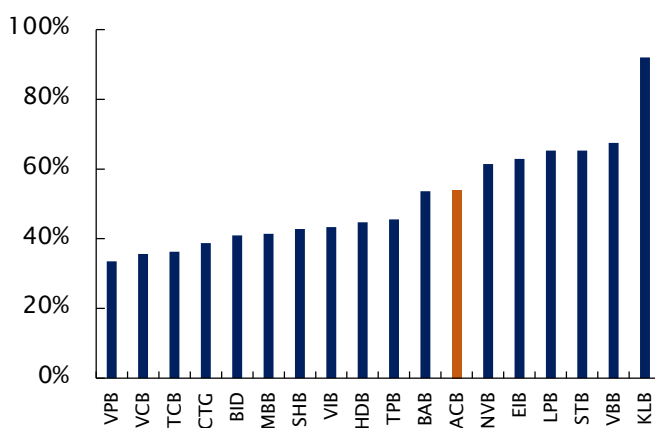
Source: FiinPro, Yuanta Vietnam

**Operating expense is high.** This is largely due to its intensive investment on IT infrastructure. ACB plans to spend about US\$35 million (or about VND800 bn) each year to invest in IT in 2019–2024. By investing in IT, ACB aims to transform itself into a digital bank, which we believe that will help attract more customers and encourage online transactions (i.e. cashless payments) as well as card transactions. This should also help ACB increase its CASA deposits and thereby reduce its funding costs over the long haul.

ACB expects to increase its number of customer bank accounts to 5 million in 2021E. We believe that such a considerable customer base will help ACB negotiate a better deal in the upcoming bancassurance exclusivity deal.

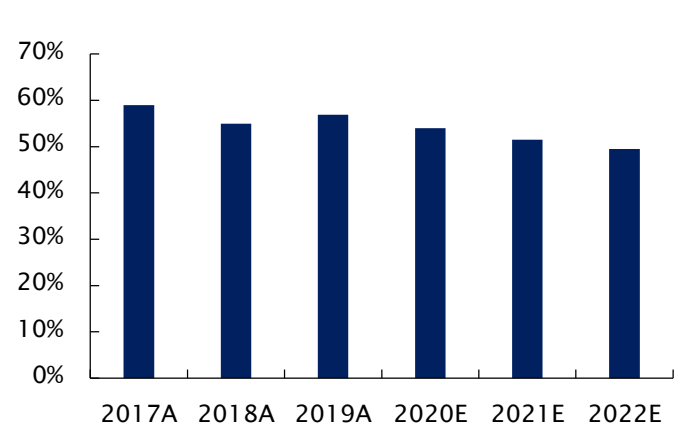
Of course, this investment in IT system upgrades carries a cost. However, we believe that investment in IT is a must for ACB to transform itself and compete with its peers in the retail banking segment. We think that the digital progress of most banks in Vietnam is just at the initial stage, as only a minor component of business operations has been digitalized. It might take many years for the banks (including ACB) to become fully digitalized. However, we believe that cost efficiency will gradually improve once the digital banking system is in operation.

**Figure 17: Adj. CIR among banks in 3Q19–2Q20**



Source: FiinPro, Yuanta Vietnam

**Figure 18: Adj. CIR of ACB**



Source: Company Data, Yuanta Vietnam

In 2Q20, operating cost was VND1.8 tn (-25% QoQ/-8% YoY). However, opex still increased +11% YoY in 1H20.

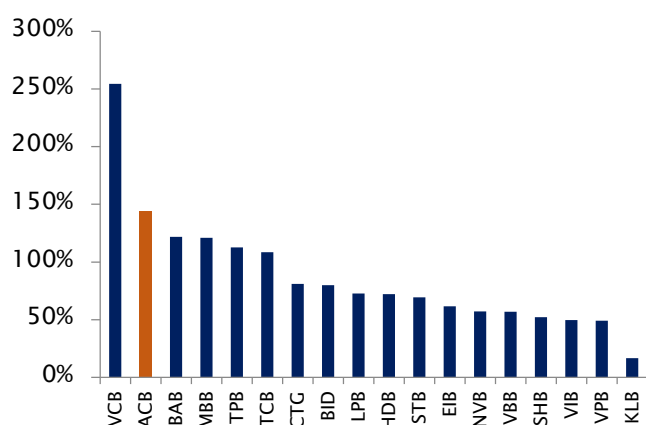
### Provision costs to increase ahead of NPL recognition

ACB's current LLR ratio is the second highest in the sector. However, we expect that ACB will continue to set aside higher provisions over the medium term to weather the probable asset quality deterioration that is not yet reflected in reported NPLs due to SBV forbearance policies. This should boost its observed coverage ratio going forward, as reported NPLs are likely to remain low in accordance with government policy inhibiting loan classification downgrades during the COVID-19 crisis. Reported NPLs are a lagging indicator of asset quality in normal times, but the lag has likely been extended by this forbearance.

Thus, investors should take rising loan loss reserve coverage numbers with a grain of salt—or more specifically, as an indicator of prudence as bank managers proactively prepare for the eventual asset quality downgrades.

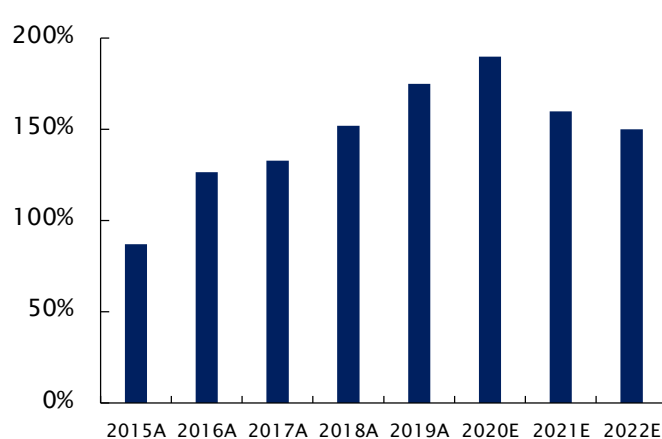
ACB increased its provisioning significantly in 2Q20 to reach VND440 bn (+374% QoQ, +295% YoY). Its LLR was 144% as at 2Q20, which is the second highest among banks. We forecast ACB's LLR ratio to reach 190% in 2020E (+15ppt YoY).

**Figure 19: LLR ratio among banks as at 2Q20**



Source: FiinPro, Yuanta Vietnam

**Figure 20: ACB's LLR ratio trend**



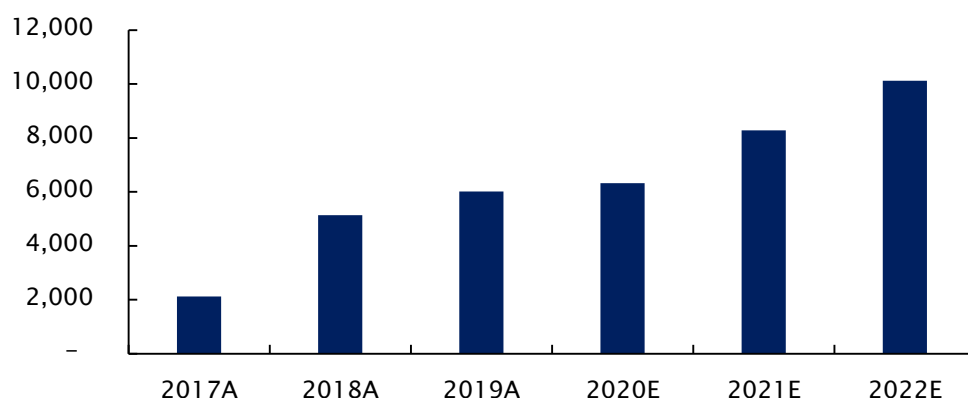
Source: Company Data, Yuanta Vietnam

### 2Q20 earnings were flat due to increased provisioning

Unlike many other banks, ACB increased its provisioning in 2Q20 (+374% QoQ/+295% YoY). We think this is a prudent approach to prepare for potential asset quality deterioration, but provisioning obviously dented the bottom line. 2Q20 PATMI of VND1.5 tn was slightly down -1% QoQ/-1% YoY.

We expect pressure on earnings in 2020E due to the pandemic impact. We forecast ACB's 2020E PATMI to increase slightly YoY at VND6.3 tn (+5% YoY).

**Figure 21: ACB's PATMI 2017A–2022E (VND bn)**



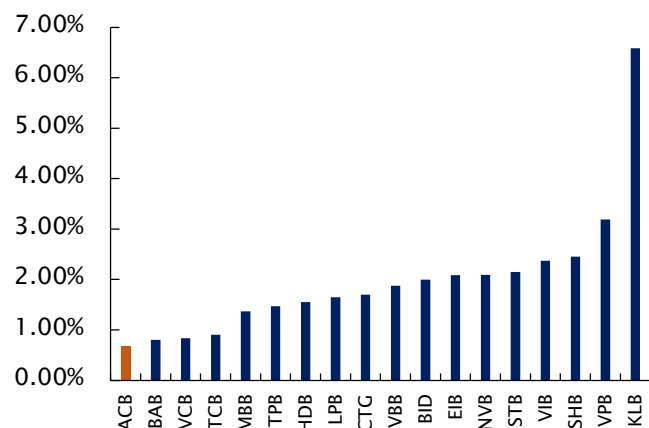
Source: Company Data, Yuanta Vietnam

## CAMEL Analysis

**Capital levels are strong:** Total CAR was 11% as at 1Q20 under Basel II, which is above the minimum 8% requirement under Basel II.

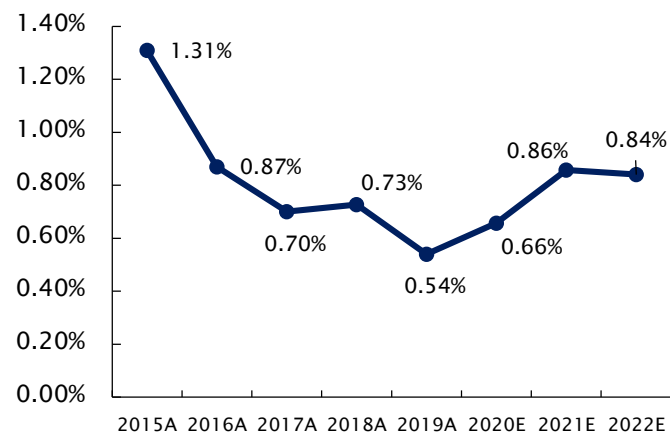
**Asset quality is solid:** NPL ratio of 0.68% as at 2Q20 (+3bps QoQ/+2bps YoY) is the lowest in the sector. Loan loss reserve (LLR) ratio of 144% as at 2Q20 is the second highest among banks.

Figure 22: NPL ratios among banks at 2Q20



Source: FiinPro, Yuanta Vietnam

Figure 23: NPL ratios of ACB

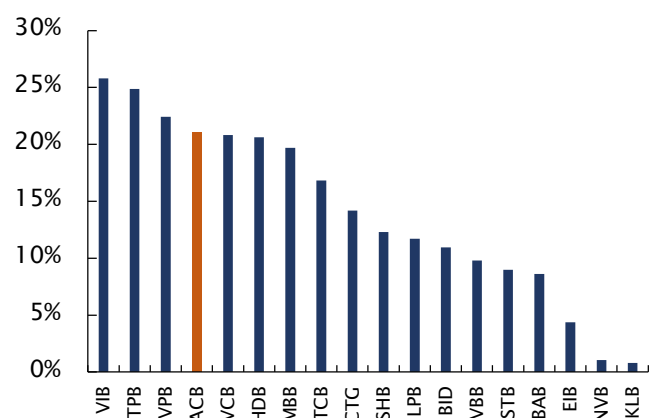


Source: Company data, Yuanta Vietnam

**Management quality is relatively strong, in our opinion:** Low credit costs (of 0.18% as at 2Q20) reflect a prudent approach to loan issuance, and its credit cost-adjusted NIM is among the highest in the sector. This demonstrates that its credit risk management is quite strong. However, its cost efficiency is relatively weak currently due to intensive investments in IT. ACB's adjusted cost-to-income ratio (CIR) of 54% was much higher than that of the sector's 45% in 2Q20.

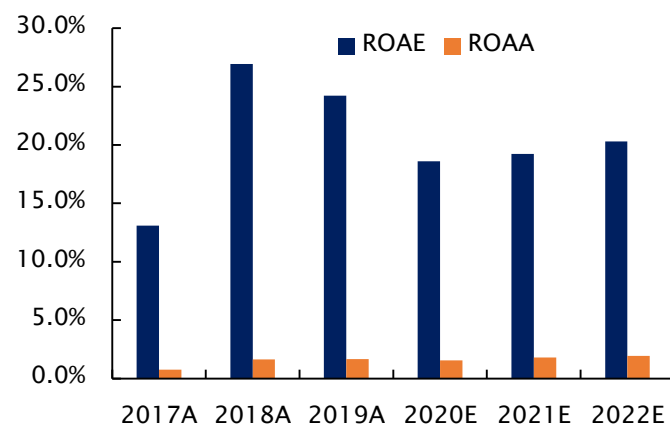
**Earnings are robust:** 3Q19-2Q20 ROAE of 21% was above the 18 listed banks' average of 13% and was the fourth highest in the sector. This high return was largely due to low credit costs, as the management has provisioned against its legacy assets (which should lead to recoveries as collateral assets are divested going forward).

Figure 24: ROAE among banks in 2Q19-2Q20



Source: FiinPro, Yuanta Vietnam

Figure 25: ACB's ROAE & ROAA

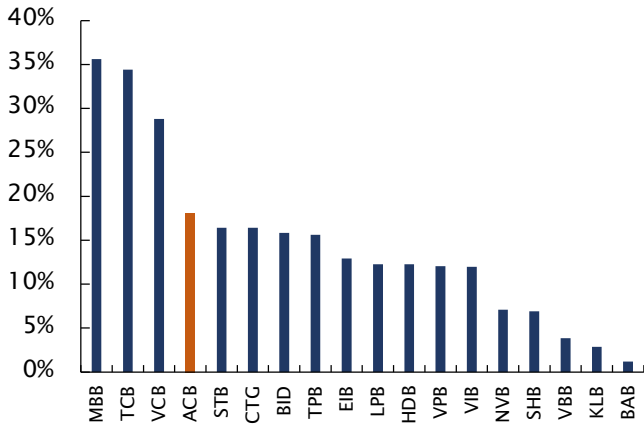


Source: Company data, Yuanta Vietnam

**Liquidity:** The bank's CASA deposit ratio has decreased by -1.0ppt YTD to 18.1% in 2Q20, which is above the peer median of 12.6%. However, this level is still far lower

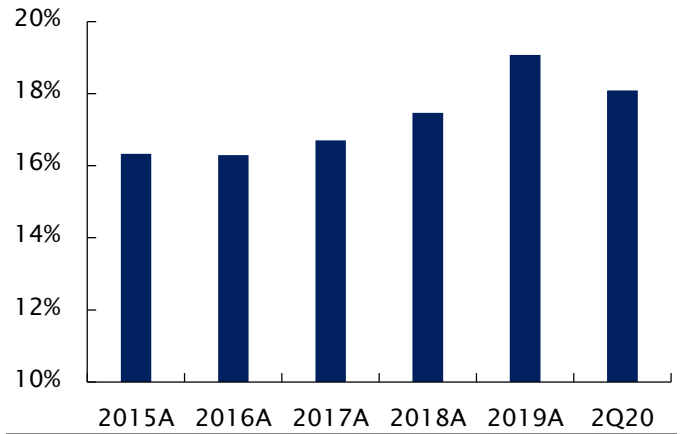
than that of VCB (28.8%) and MBB (35.6%). Short-term funding for medium-to long-term loans was 26.6%, which is well below the SBV's requirement of 40.0%.

**Figure 26: CASA ratios among banks at 2Q20**



Source: FiinPro, Yuanta Vietnam

**Figure 27: ACB's CASA ratio trend**



Source: Company data, Yuanta Vietnam

## Valuation: our 12-month price target is VND25,690 per share

We apply five valuation methodologies to generate our VND25,690 target price, which implies 1.2x P/BV for 2021E and adjusted PER of 6.8x for 2021E.

Our target price is calculated on a weighted average basis. We apply a 50% weighting for residual income (the largest component) and 12.5% weightings for the other four methodologies.

*We employ the following assumptions in our residual income and DDM models:*

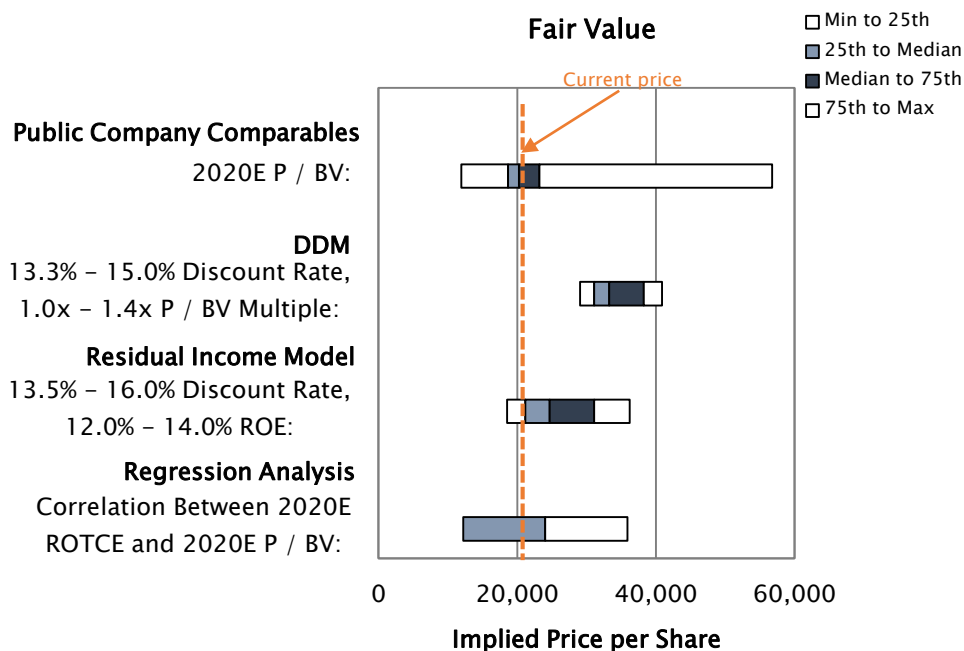
- **Cost of equity** starts at 14.9% and falls to 11.9% in Year 15 to reflect reduced risk and reduced potential returns as ACB grows.
- **ROTCE** is based on our model forecasts for Years 1–5, is set at 23.0% in Year 6, and gradually declines to 13.0% in Year 15.
- **Asset growth** is based on our model forecasts for Years 1–5, is set at 13.0% in Year 6, and gradually declines to 7.0% in Year 15.

**Table 7: ACB's estimated fair value**

Valuation Methods	Average Fair Value (VND/share)		
	Estimated Price	Weight (%)	Price
Residual Income	24,692	50.0%	12,346
DDM Perpetuity	31,706	12.5%	3,963
DDM Multiple	30,764	12.5%	3,845
Regression	24,047	12.5%	3,006
Public Comps	20,252	12.5%	2,531
<b>Estimated Fair Value</b>			<b>25,690</b>

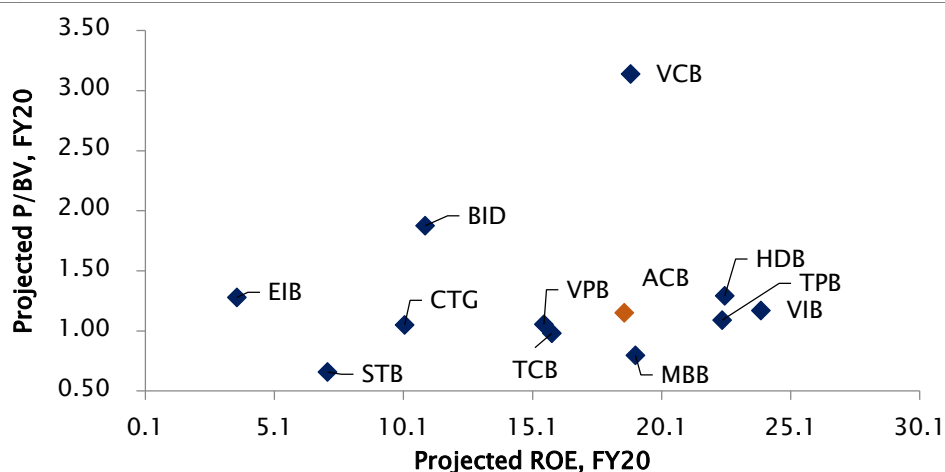
Source: Yuanta Vietnam

**Figure 28: ACB's estimated fair value graph**



Source: Bloomberg, Yuanta Vietnam

Figure 29: Vietnam banks: 2020E P/BV and 2020E ROE



Source: Bloomberg, Yuanta Vietnam

### Residual Income Model

Based on the residual income approach, we estimate ACB's fair value at VND24,690 per share, implying a 19% premium to the current share price (VND 20,800 at Aug 20, 2020) and a 2021E P/BV multiple of 1.2x.

Table 8: ACB's Implied fair value based on Residual Income Model

<b>Terminal Net Income Growth Rate:</b>	<b>4.0%</b>
Projected Net Income 1 Year After Period:	19,480
Residual Income Terminal Value:	20,326
(+) Current Common Shareholders' Equity:	30,832
(+) PV of Residual Income Terminal Value:	3,968
(+) Sum of PV of Residual Income:	18,573
<b>Implied Equity Value:</b>	<b>53,374</b>
% of Implied Value from PV of TV:	7.4%
<b>Implied Share Price:</b>	<b>24,692</b>
Current Share Price:	20,800
<b>Implied P/BV</b>	<b>1.2x</b>
<b>Premium / (Discount) to Current:</b>	<b>19%</b>

Source: Company data, Yuanta Vietnam

Table 9: Residual income fair value: Sensitivities to ROE and Cost of Equity

		Initial Cost of Equity (Declines by 0.4% Annually):						
		13.0%	13.5%	14.0%	14.9%	15.5%	16.0%	16.5%
Terminal Return on Common Equity:	15.0%	44,352	39,390	35,206	29,004	25,785	23,473	21,437
	14.5%	42,527	37,804	33,819	27,907	24,835	22,626	20,681
	14.0%	40,724	36,237	32,449	26,822	23,896	21,790	19,933
	13.5%	38,943	34,689	31,095	25,751	22,968	20,964	19,195
	13.0%	37,184	33,160	29,757	24,692	22,051	20,147	18,465
	12.5%	35,446	31,649	28,436	23,647	21,146	19,340	17,744
	12.0%	33,730	30,157	27,131	22,614	20,251	18,543	17,031
	11.5%	32,034	28,683	25,841	21,593	19,367	17,755	16,327
	11.0%	30,360	27,228	24,568	20,585	18,494	16,977	15,632

Source: Yuanta Vietnam



**Table 10: ACB: OROA Analysis**

OROA	2016A	2017A	2018A	2019A	2020	2021E	2022E	2023E
NIM	3.44%	3.54%	3.66%	3.66%	3.24%	3.53%	3.64%	3.75%
Net interest income to total adj. income	94.7%	80.2%	84.8%	83.0%	79.9%	80.6%	80.3%	80.0%
Cost to income	64.3%	58.9%	54.9%	56.9%	54.0%	51.5%	49.5%	47.8%
PPOP/Assets	1.19%	1.67%	1.79%	1.76%	1.75%	2.00%	2.17%	2.32%
Provisions to Assets	0.56%	0.99%	0.30%	0.08%	0.23%	0.16%	0.16%	0.16%
<b>Operating Return on Assets (OROA)</b>	<b>0.74%</b>	<b>0.82%</b>	<b>1.64%</b>	<b>1.82%</b>	<b>1.64%</b>	<b>1.96%</b>	<b>2.13%</b>	<b>2.28%</b>
Leverage (x)	16.6	17.7	15.7	13.8	10.8	10.6	10.5	10.4
Operating Return on Equity (OROE)	12.3%	14.6%	25.7%	25.2%	17.7%	20.8%	22.3%	23.9%

Source: Company data, Yuanta Vietnam

**Table 11: Peers valuation comparison table**

Company	Ticker	Rating	Price	Mkt Cap (US\$ bn)	EPS (VND)			PER (x)			PBR(x)		
					2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
<b>Asia Commercial Bank</b>	<b>ACB VN</b>	<b>BUY</b>	<b>20,800</b>	<b>1.9</b>	<b>3,632</b>	<b>2,940</b>	<b>3,769</b>	<b>5.7</b>	<b>7.1</b>	<b>5.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>
<b>Peers</b>													
<b>BIDV Bank</b>	<b>BID VN</b>	<b>SELL</b>	38,250	6.7	1,780	2,073	2,517	<b>20.2</b>	<b>18.8</b>	<b>15.5</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>
Vietinbank	CTG VN	NR	23,300	3.8	2,044	1,828	2,419	<b>12.9</b>	<b>12.9</b>	<b>9.7</b>	<b>1.1</b>	<b>1.1</b>	<b>1.0</b>
<b>HDBank</b>	<b>HDB VN</b>	<b>HOLD-UPF</b>	26,850	1.1	3,359	4,034	4,551	<b>8.1</b>	<b>6.4</b>	<b>5.2</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>
<b>Military Bank</b>	<b>MBB VN</b>	<b>BUY</b>	17,050	1.8	3,488	3,664	4,254	<b>4.9</b>	<b>4.7</b>	<b>4.0</b>	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>
<b>Sacombank</b>	<b>STB VN</b>	<b>BUY</b>	10,650	0.9	1,119	1,093	1,463	<b>8.2</b>	<b>8.4</b>	<b>6.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>
Techcombank	TCB VN	NR	20,000	3.1	2,871	2,890	3,432	<b>6.9</b>	<b>6.9</b>	<b>5.8</b>	<b>1.1</b>	<b>1.0</b>	<b>0.8</b>
Tienphong Bank	TPB VN	NR	21,400	0.7	3,691	3,499	4,236	<b>5.8</b>	<b>6.0</b>	<b>4.9</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>
<b>Vietcombank</b>	<b>VCB VN</b>	<b>HOLD-UPF</b>	83,000	13.3	4,481	4,540	5,613	<b>18.3</b>	<b>18.1</b>	<b>14.6</b>	<b>3.8</b>	<b>3.1</b>	<b>2.7</b>
Vietnam International Bank	VIB VN	NR	20,900	0.8	3,475	3,834	4,603	<b>4.8</b>	<b>5.3</b>	<b>4.4</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>
<b>Vietnam Prosperity Bank</b>	<b>VPB VN</b>	<b>HOLD-UPF</b>	21,350	2.3	3,375	2,907	3,744	<b>6.3</b>	<b>7.4</b>	<b>5.7</b>	<b>1.2</b>	<b>1.1</b>	<b>0.9</b>
<b>Median</b>				2.1	3,367	3,203	3,990	7.5	7.2	5.8	1.3	1.1	0.9

Source: Company data, Bloomberg Consensus for CTG, TCB, TPB, and VIB, Yuanta Vietnam estimates for ACB, BID, HDB, MBB, STB, VCB, and VPB

## Investment risks

Due to Covid-19, banks have been told to reschedule loan payments while maintaining the asset quality categories of related loans to support customers. The restructured loan packages are bank-dependent, but for the sake of simplicity, we assume that the restructured loan amounts are 10% of ACB's total loans. We also assume that 10% of the restructured loans will have to be written off as losses. With 10% writeoffs of 10% of loans, the losses work out to 1% of the bank's total loans, which would reduce the bank's book value by 9%.

The table below illustrates the degree of impact on the bank's book value from different potential loan losses.

**Table 12: The degree of impact on ACB's book value from potential loan losses**

% Write-offs	2020E Gross Loan	Restructured loans	Write-offs (VND bn)	2020E Equity before	2020E Equity after	BVPS	P/B at the current price
0%	295,960	29,596	-	33,424	33,424	20,102	1.26
<b>10%</b>	<b>295,960</b>	<b>29,596</b>	<b>2,960</b>	<b>33,424</b>	<b>30,464</b>	<b>18,322</b>	<b>1.39</b>
20%	295,960	29,596	5,919	33,424	27,505	16,542	1.54
30%	295,960	29,596	8,879	33,424	24,545	14,762	1.72
40%	295,960	29,596	11,838	33,424	21,586	12,982	1.96
50%	295,960	29,596	14,798	33,424	18,626	11,202	2.27
60%	295,960	29,596	17,758	33,424	15,666	9,422	2.70
70%	295,960	29,596	20,717	33,424	12,707	7,642	3.32
80%	295,960	29,596	23,677	33,424	9,747	5,862	4.33
90%	295,960	29,596	26,636	33,424	6,788	4,082	6.22
100%	295,960	29,596	29,596	33,424	3,828	2,302	11.03

Source: Company data, Yuanta Vietnam

## Appendix: Consolidated Financial Statements

### Balance Sheet

(VND bn)	FY19A	FY20E	FY21E	FY22E
Cash and Balances at SBV:	16,858	18,082	20,492	23,265
Loans and Advances to Banks:	30,342	32,063	36,337	41,254
Investment Securities	58,941	65,618	74,364	84,427
Investment in Associates & others:	186	(136)	(155)	(175)
<b>Gross Loans:</b>	<b>268,701</b>	<b>300,057</b>	<b>344,420</b>	<b>395,057</b>
(-) Specific Provisions:	(1,964)	(3,103)	(3,990)	(4,135)
(-) General Provisions:	(572)	(639)	(733)	(841)
<b>Total provisions:</b>	<b>(2,536)</b>	<b>(3,742)</b>	<b>(4,724)</b>	<b>(4,976)</b>
Net Loans:	266,165	296,315	339,697	390,080
Fixed Tangible asset:	2,721	2,804	2,889	2,977
Intangible Assets:	1,049	1,049	1,049	1,049
Real estate investment	362	362	362	362
Accrued interests:	3,676	3,676	3,676	3,676
Deferred tax:	23	23	23	23
Other Assets:	3,192	3,192	3,192	3,192
<b>Total Assets:</b>	<b>383,514</b>	<b>423,048</b>	<b>481,926</b>	<b>550,131</b>
Deposits:	308,129	343,034	388,754	441,363
Liabilities to Government and SBV	-	-	-	-
Due to Banks:	19,249	18,494	21,229	24,350
Subordinated Notes& Invest. Trust:	20,987	20,987	20,987	20,987
Other Liabilities:	7,384	1,459	5,365	10,867
<b>Total Liabilities:</b>	<b>355,749</b>	<b>383,974</b>	<b>436,334</b>	<b>497,567</b>
Share Capital & Share Premium:	16,899	21,887	21,887	21,887
Reserves:	4,596	4,596	4,596	4,596
Treasury Shares	(100)	-	-	-
Retained Earnings:	6,370	12,591	19,109	26,081
<b>Total Equity:</b>	<b>27,765</b>	<b>39,074</b>	<b>45,592</b>	<b>52,564</b>
<b>Total Liabilities &amp; Equity:</b>	<b>383,514</b>	<b>423,048</b>	<b>481,926</b>	<b>550,131</b>

### Profit and Loss

(VND bn)	FY19A	FY20E	FY21E	FY22E
Total Net Interest Income:	12,112	12,262	15,047	17,772
<b>Total Net Fee Income:</b>	<b>1,896</b>	<b>2,047</b>	<b>2,642</b>	<b>3,401</b>
Total other Non-II:	589	1,032	983	957
Total Net Non-II:	2,485	3,079	3,625	4,358
<b>Total Adj. Revenue:</b>	<b>14,597</b>	<b>15,341</b>	<b>18,672</b>	<b>22,130</b>
Total Non-Interest Expenses:	(8,308)	(8,278)	(9,615)	(10,947)
<b>PPOP:</b>	<b>6,290</b>	<b>7,063</b>	<b>9,058</b>	<b>11,183</b>
Gross Provisions:	(274)	(936)	(730)	(837)
NPL Recoveries:	1,500	1,781	2,028	2,315
Net Provisions:	1,226	845	1,299	1,478
<b>Pre-Tax Income:</b>	<b>7,516</b>	<b>7,907</b>	<b>10,356</b>	<b>12,661</b>
(-) Income Tax:	(1,506)	(1,581)	(2,071)	(2,532)
<b>Net Income:</b>	<b>6,010</b>	<b>6,326</b>	<b>8,285</b>	<b>10,129</b>
(-) Minority Interest	-	-	-	-
(-) Bonus & Welfare:	(100)	(105)	(138)	(169)
<b>Net Attributable Income:</b>	<b>5,910</b>	<b>6,221</b>	<b>8,147</b>	<b>9,960</b>
Adjusted EPS:	3,632	2,940	3,769	4,608

Source: Company data, Yuanta Vietnam

SELECTED FINANCIAL RATIOS	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E
<b>GROWTH PROJECTIONS</b>						
Net interest income	23%	23%	17%	1%	23%	18%
Fee Income	26%	26%	27%	8%	29%	29%
Other NII	-261%	-60%	64%	75%	-5%	-3%
Operating costs	33%	8%	24%	0%	16%	14%
Provision	111%	-64%	-71%	242%	-22%	15%
Pre-provision profit	67%	27%	14%	12%	28%	23%
Adjusted Net profit	60%	143%	17%	5%	31%	22%
Assets	22%	16%	16%	10%	14%	14%
<b>ASSET ANALYSIS</b>						
Earning assets to total assets	92%	92%	93%	94%	94%	95%
Average Returns on Earnings Assets	0.82%	1.76%	1.78%	1.65%	1.91%	2.04%
<b>LOAN ANALYSIS</b>						
Loan growth (% YoY)	21.5%	16.1%	16.6%	11.7%	14.8%	14.7%
Loans to Interest Earnings Assets	75%	75%	74%	75%	75%	75%
<b>DEPOSIT ANALYSIS</b>						
Deposit growth (YoY %)	16.6%	11.9%	14.1%	11.3%	13.3%	13.5%
Deposits to Interest Bearing Liabilities	90%	88%	87%	89%	89%	89%
<b>LIQUIDITY</b>						
Pure LDR	81%	84%	86%	86%	87%	88%
<b>ASSET QUALITY</b>						
NPL ratio	0.70%	0.73%	0.54%	0.66%	0.86%	0.84%
Total provisions in a year to Gross loans	0.93%	1.10%	0.94%	1.25%	1.37%	1.26%
Loan loss coverage ratio	133%	152%	175%	190%	160%	150%
<b>SPREAD ANALYSIS</b>						
Int. rate received on Average IEA	8.51%	8.49%	8.55%	7.82%	8.19%	8.36%
Int. rate paid on Average IBL	4.86%	4.74%	4.88%	4.64%	4.84%	4.93%
Interest rate spread	3.65%	3.76%	3.67%	3.18%	3.35%	3.43%
NIM	3.54%	3.66%	3.66%	3.24%	3.53%	3.64%
<b>OTHER INCOME</b>						
Fee income to total income	11.3%	12.3%	13.0%	13.3%	14.1%	15.4%
Other Non-Il to total Income	8.5%	2.9%	4.0%	6.7%	5.3%	4.3%
<b>OPERATING EFFICIENCY</b>						
Cost to income ratio	59%	55%	57%	54%	51%	49%
<b>CREDIT COSTS</b>						
Provision/avg. assets	0.99%	0.30%	0.08%	0.23%	0.16%	0.16%
<b>PROFITABILITY</b>						
Pre provision ROA	1.67%	1.79%	1.76%	1.75%	2.00%	2.17%
Pre provision ROE	28.8%	29.7%	25.8%	21.1%	21.4%	22.8%
ROAA	0.76%	1.63%	1.66%	1.54%	1.80%	1.93%
ROAE	13.1%	26.9%	24.2%	18.6%	19.2%	20.3%
Dividend Yield	0.6%	0.3%	0.0%	0.0%	3.6%	6.6%
<b>VALUATIONS</b>						
PER (x)	10.4x	6.8x	5.7x	7.1x	5.5x	4.5x
PBR (x)	1.3x	1.6x	1.2x	1.2x	1.0x	0.9x

Source: Company data, Yuanta Vietnam

# Appendix A: Important Disclosures

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