

Asia Commercial Bank [ACB VN]

17 March 2021

BUY

TP upside +14%

Close 16 Mar 2021

Price	VND 33,450
12M Target	VND 38,115
Previous Target	VND 25,690
% Change	+48%

What's new?

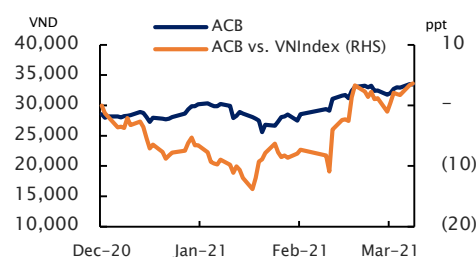
- ▶ We increase our target price by 48% after raising our earnings forecasts and applying a lower discount rate.
- ▶ We increase our earnings forecasts by 12% for 2021E and 13% for 2022E.
- ▶ Loan growth assumption raised by 50bps to 15.3% for 2021E.

Our view

- ▶ **Maintain BUY.** The stock trades at 1.6x 2021E P/B with 2021E ROE of 23%.
- ▶ **Strong asset quality with high LLR ratio** gives ACB flexibility to reduce provisioning to boost earnings.
- ▶ **Short-term catalysts** include higher bancassurance fees and potential inclusion in ETF-linked indices.

Company profile: ACB ranks among Vietnam's most fundamentally solid banks, with strong capital ratios and asset quality. As such, it regularly achieves a high ranking in our [CAMEL framework rankings](#). ACB is primarily a retail-focused bank, with 60% of total loans attributable to individuals and 31% to SMEs.

Share price performance relative to VNIndex



Market cap	US\$3.1 bn
6M avg. daily turnover	US\$15.9 mn
Outstanding shares	2,162 mn
Free float	90.0%
FINI ownership	30.0%
Major shareholders	30.5%
2021E Asset/equity (x)	11.5
2021E P/E (x)	7.9
2021E P/B (x)	1.6
FOL remaining room	0.0%
2021E dividend yield (%)	0.0%

Source: Bloomberg, Yuanta Vietnam

Asia Commercial Bank [ACB VN]

Strong quality with short-term catalysts

Slightly increased loan growth assumption. We raise our 2021E loan growth forecast for ACB by 50bps to 15.3% YoY vs. our previous forecast of 14.8% YoY.

NIM forecasts increased by 28bps vs. our previous forecast to 3.81% for 2021E (+3bps YoY).

Operating expenses forecast decreased by 4% vs. our previous forecast for 2021E.

We increase our 2021E forecast for provisioning by 9% vs our previous forecast to reach VND797 bn (-15% YoY vs. 2020A).

Net-net, we raise our PATMI forecasts by 12% for 2021E and 13% for 2022E, implying PATMI growth of 20% YoY in 2021E and 23% in 2022E.

Yuanta vs. the consensus. Our PATMI forecasts now are in line with the consensus mean for 2021E, but 9% higher than the Street for 2022E.

Strong asset quality. ACB's high LLR ratio gives it more flexibility than most banks have to reduce provisioning and boost future earnings.

Maintain BUY. ACB trades at 1.6x 2021E vs. the sector median of 1.5x. We raise our target price to VND38,115, implying 2021E P/B of 2.0x based on higher earnings and reduced discount rate.

We believe that ACB deserves a premium over its peers given its strong operational results and solid asset quality. We expect 2021E ROE to reach 23% compared to the sector median of 20%.

Short-term catalysts include a long-term boost in fees from the bancassurance exclusivity deal and potential inclusion in several ETF-linked indices (e.g., VN30 and VNDiamond).

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Valuations

Valuation Ratios	2018A	2019A	2020P	2021E	2022E	2023E
Adjusted PER (x)	10.9	9.2	9.5	7.9	6.4	5.4
PEG	0.2	0.5	(2.9)	0.4	0.3	0.3
Adj. ROA (%)	1.63%	1.66%	1.83%	1.91%	2.05%	2.17%
Adj. ROE (%)	26.9%	24.2%	24.0%	22.8%	22.6%	22.6%
PBR (x)	2.6	2.0	2.0	1.6	1.3	1.1
Dividend Yield (%)	0.2%	0.0%	0.0%	0.0%	1.6%	3.8%

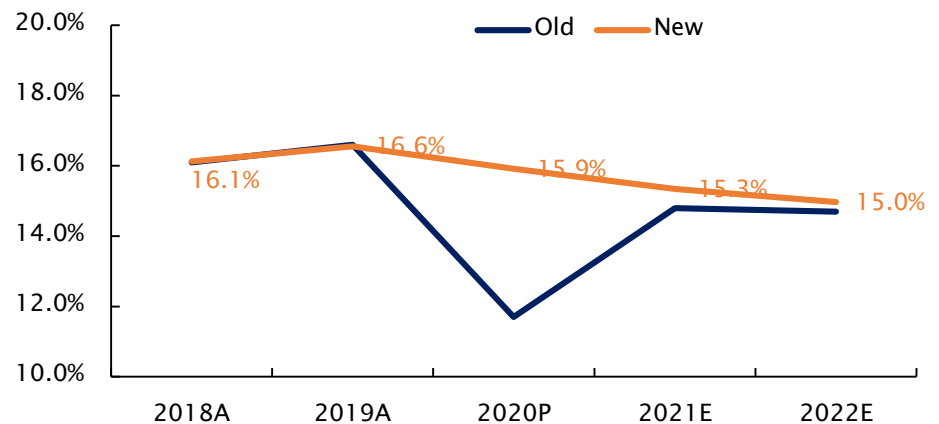
Source: Company data, Yuanta Vietnam

Company Update

Increased loan growth forecast for 2021E

We increase our loan growth forecast by 50bps to 15.3% in 2021E as we believe that the economy will recover this year, thus boosting demand for capital, while liquidity conditions will remain loose given the SBV's continued easing monetary policy.

Figure 1: Loan growth (%)

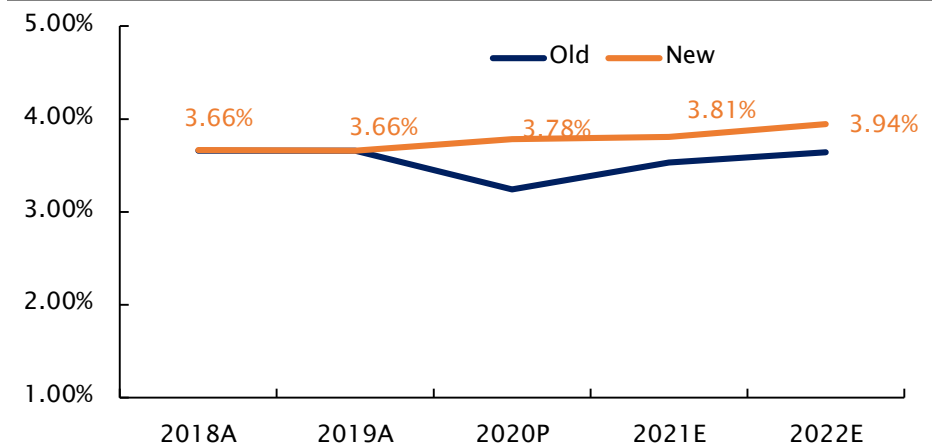


Source: Company data, Yuanta Vietnam.

We increase our NIM forecast by 28bps in 2021E and 30bps in 2022E. This is mostly based on the higher-than-expected results in 2020. Actual 2020 NIM was 3.78%, which is 54bps higher than our previous forecast.

However, our new 2021E NIM forecast is 3.81%, which is nearly flat with an increase of only 3bps YoY.

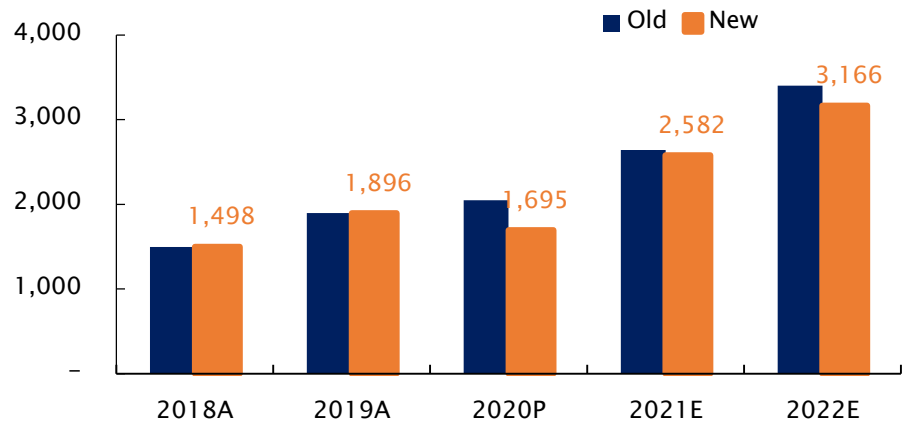
Figure 2: NIM (%)



Source: Company data, Yuanta Vietnam.

Fee income forecast. We revise down our fee income forecast slightly by -2% for 2021E and -7% for 2022E. This reduction is merely a change in timing: we previously had expected ACB to recognize the upfront fee from the bancassurance exclusivity deal in a short period, rather than the recently announced 15-year straight-line recognition.

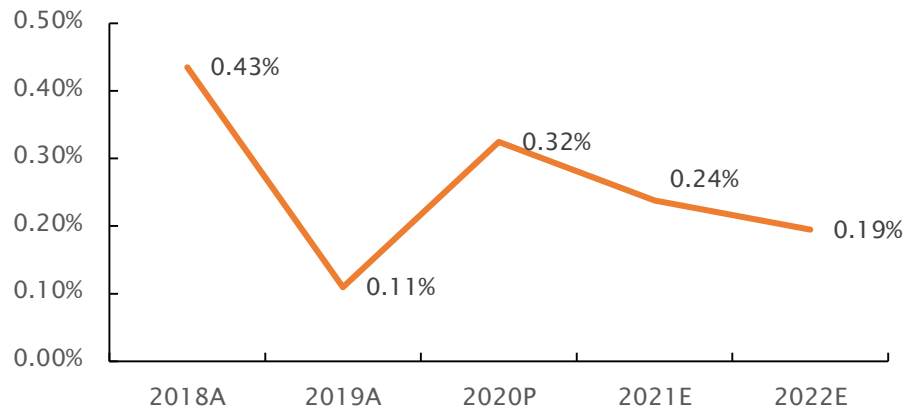
Figure 3: Fee income



Source: Company data, Yuanta Vietnam.

We expect provisioning expenses to reach VND797 bn in 2021E (-15% YoY) and the credit cost ratio (provisioning/average loans) to decrease to 0.24% (-8bps YoY).

Figure 4: Credit cost (%) (Provision/avg. loans)

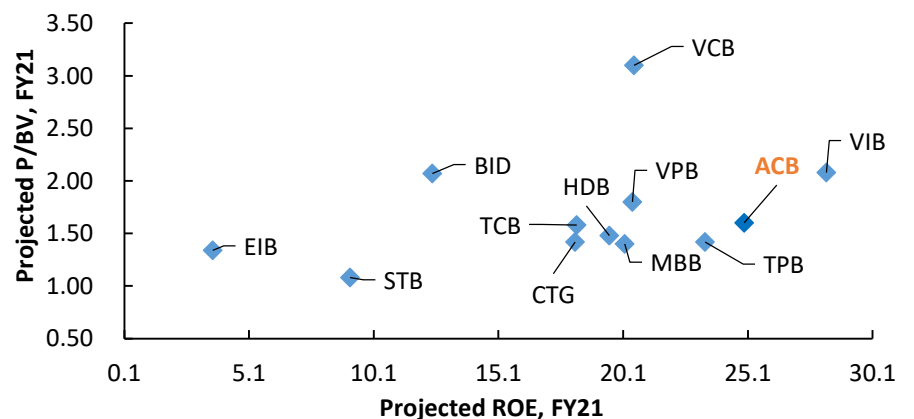


Source: Company data, Yuanta Vietnam.

Valuation is reasonable

ACB trades at 1.6x 2021E vs. the sector median of 1.5x. We believe that ACB deserves a premium over most of its peers given its strong operational results and solid asset quality. We expect 2021E ROE to reach 23% compared to the sector median of 20%.

Figure 6: Scatter Plot between banks' 2021E ROE and PB



Source: Company data, Yuanta Vietnam.

Given our increased earnings expectations and reduced discount rate (a function of what we see as a sustained low risk-free rate), we raise our target price for ACB by 48% to VND38,115 from our previous estimate of VND25,690 in our [initiation report](#) of August 2020. Our new target price implies 2021E P/BV of 2.0x, which we think is entirely reasonable given the bank's strong fundamentals.

Valuation Methods	Estimated Price	Weight (%)	Price
Residual Income	35,938	50.0%	17,969
DDM Perpetuity	38,907	12.5%	4,863
DDM Multiple	44,385	12.5%	5,548
Regression	42,799	12.5%	5,350
Public Comps	35,080	12.5%	4,385
Estimated Fair Value			38,115

Source: Yuanta Vietnam

Valuation based on Residual Income approach

Terminal Net Income Growth Rate:	4.0%
Projected Net Income 1 Year After Period:	24,404
Residual Income Terminal Value:	38,298
(+) Current Common Shareholders' Equity:	35,448
(+) PV of Residual Income Terminal Value:	8,837
(+) Sum of PV of Residual Income:	33,397
Implied Equity Value:	77,681
Implied Share Price:	35,938

Source: Yuanta Vietnam

Sensitivity table of Residual Income Approach: ROE vs. Cost of equity

Terminal Return on Common Equity:	Cost of Equity:						
	12.0%	12.5%	13.0%	13.5%	14.1%	14.6%	15.1%
15.0%	58,387	51,827	46,276	41,748	36,857	33,355	30,280
14.5%	56,220	49,942	44,626	40,286	35,596	32,235	29,280
14.0%	54,061	48,064	42,982	38,830	34,340	31,119	28,285
13.5%	51,912	46,195	41,346	37,381	33,089	30,007	27,294
13.0%	49,773	44,333	39,716	35,938	31,843	28,901	26,308
12.5%	47,642	42,480	38,094	34,501	30,603	27,799	25,325
12.0%	45,521	40,635	36,478	33,070	29,369	26,702	24,347
11.5%	43,409	38,797	34,870	31,646	28,139	25,610	23,373
11.0%	41,307	36,968	33,268	30,227	26,915	24,522	22,403

Source: Yuanta Vietnam

Yuanta vs. Consensus

Net income (VND bn)	2021E	2022E
Consensus mean	8,956	10,309
Yuanta forecast	9,125	11,224
%ge difference	1.9%	8.9%
Consensus high	9,521	11,195
Consensus low	8,298	9,090
EPS (VND)		
Consensus mean	4,134	4,760
Yuanta forecast (adj.)	4,221	5,193
%ge difference	2.1%	9.1%
Consensus high	4,405	5,179
Consensus low	3,839	4,205

Source: Bloomberg, Yuanta Vietnam

Key financial data (Old vs. New)

Balance Sheet (VND bn)	Old		New		% difference (New vs. Old)	
	2021E	2022E	2021E	2022E	2021E	2022E
Gross Loans:	344,420	395,057	359,278	413,057	4.3%	4.6%
Total Assets:	481,926	550,131	511,001	584,224	6.0%	6.2%
Deposits:	388,754	441,363	407,265	463,140	4.8%	4.9%
Total Liabilities:	436,334	497,567	466,428	529,549	6.9%	6.4%
Capital & Premium:	21,887	21,887	21,887	21,887	0.0%	0.0%
Total Equity:	45,592	52,564	44,573	54,675	-2.2%	4.0%
Total Liabilities & Equity:	481,926	550,131	511,001	584,224	6.0%	6.2%

Income Statement (VND bn)	Old		New		% difference (New vs. Old)	
	2021E	2022E	2021E	2022E	2021E	2022E
Net interest income	15,047	17,772	16,918	20,138	12%	13%
Net fee income	2,642	3,401	2,582	3,166	-2%	-7%
Other Non-II	983	957	1,317	1,505	34%	57%
TOI	18,672	22,130	20,816	24,809	11%	12%
Total Expenses	(9,615)	(10,947)	(9,260)	(10,749)	-4%	-2%
PPOP	9,057	11,183	11,556	14,060	28%	26%
Gross Provision	(730)	(837)	(797)	(751)	9%	-10%
NPL recoveries	2,028	2,315	856	979	-58%	-58%
Net Provisions	1,299	1,478	59	227	-95%	-85%
Pre-Tax Income	10,356	12,661	11,615	14,287	12%	13%
(-) Tax	(2,071)	(2,532)	(2,323)	(2,857)	12%	13%
Net Income	8,285	10,129	9,292	11,430	12%	13%
(-) Minority Interest	-	-	-	-	N/A	N/A
(-) Others	(138)	(169)	(167)	(206)	21%	22%
PATMI	8,147	9,960	9,125	11,224	12%	13%

Source: Yuanta Vietnam

Financial Statement (Revised)

Balance Sheet

(VND bn)	2020A	20201E	2022E	2023E
Cash & Balances at SBV	23,585	27,195	30,926	35,280
Deposit at SBV & Loans to banks	31,671	36,520	41,530	47,377
Investment securities	69,567	80,217	91,222	104,066
Others	154	178	202	230
Gross Loans	311,479	359,278	413,057	476,314
(-) Specific Provisions	(689)	(781)	(711)	(592)
(-) General Provisions	(2,262)	(2,626)	(3,019)	(3,481)
Total provisions	(2,950)	(3,407)	(3,730)	(4,073)
Net Loans	308,529	355,871	409,327	472,242
Fixed Tangible asset	2,717	2,713	2,709	2,704
Intangible Assets	1,066	1,066	1,066	1,066
Real estate investment	349	349	349	349
Accrued interests	3,638	3,638	3,638	3,638
Deferred tax	51	51	51	51
Other Assets	3,204	3,204	3,204	3,204
Total Assets	444,530	511,001	584,224	670,207
Deposits	353,196	407,265	463,140	528,347
Due to SBV & banks	23,875	27,539	31,661	36,510
Subordinated notes	22,050	22,050	22,050	22,050
Other Liabilities	9,961	9,574	12,698	17,737
Total Liabilities	409,082	466,428	529,549	604,645
Capital & Premium	21,887	21,887	21,887	21,887
Reserves	5,742	5,742	5,742	5,742
Retained Earnings	7,819	16,944	27,045	37,933
Total Equity	35,448	44,573	54,675	65,563
Total Liabilities & Equity	444,530	511,001	584,224	670,207

Income Statement

(VND bn)	2020A	2021E	2022E	2023E
Net Interest income	14,582	16,918	20,138	23,340
Net Fee Income	1,695	2,582	3,166	3,868
Other Non-II	1,605	1,317	1,505	1,727
Total Non-II	3,300	3,898	4,671	5,594
TOI	17,882	20,816	24,809	28,934
Total expenses	(7,624)	(9,260)	(10,749)	(12,258)
PPOP	10,257	11,556	14,060	16,677
Gross Provisions	(941)	(797)	(751)	(676)
NPL Recoveries	280	856	979	1,324
Net Provisions	(662)	59	227	648
Pre-Tax Income	9,596	11,615	14,287	17,325
(-) Income Tax	(1,913)	(2,323)	(2,857)	(3,465)
Net Income	7,683	9,292	11,430	13,860
(-) Minority Interest	-	-	-	-
(-) Others	(100)	(167)	(206)	(250)
PATMI	7,583	9,125	11,224	13,610
Adjusted Diluted EPS	3,511	4,221	5,193	6,296

Source: Company data, Yuanta Vietnam.

SELECTED FINANCIAL RATIOS	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GROWTH PROJECTIONS						
Net interest income	23%	17%	20%	16%	19%	16%
Fee Income	26%	27%	-11%	52%	23%	22%
Other NII	-60%	64%	173%	-18%	14%	15%
Operating costs	8%	24%	-8%	21%	16%	14%
Provision	-64%	-71%	244%	-15%	-6%	-10%
Pre-provision profit	27%	14%	63%	13%	22%	19%
Adjusted Net profit	143%	17%	28%	21%	23%	21%
Assets	16%	16%	16%	15%	14%	15%
ASSET ANALYSIS						
Earning assets to total assets	92%	93%	93%	93%	93%	94%
Average Returns on Earnings Assets	1.76%	1.78%	1.97%	2.05%	2.20%	2.32%
LOAN ANALYSIS						
Loan growth (% YoY)	16.1%	16.6%	15.9%	15.3%	15.0%	15.3%
Loans to Interest Earnings Assets	75%	74%	75%	75%	75%	75%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	11.9%	14.1%	14.6%	15.3%	13.7%	14.1%
Deposits to IBLs	88%	87%	86%	87%	87%	87%
LIQUIDITY						
LDR	84%	86%	87%	87%	88%	89%
ASSET QUALITY						
NPL ratio	0.73%	0.54%	0.59%	0.68%	0.69%	0.71%
General Provisions to Gross loans	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%
LLR	152%	175%	160%	140%	130%	120%
SPREAD ANALYSIS						
Int. rate received on Average IEA	8.49%	8.55%	8.26%	8.41%	8.62%	8.71%
Int. rate paid on Average IBL	4.74%	4.88%	4.52%	4.68%	4.80%	4.90%
Interest rate spread	3.76%	3.67%	3.75%	3.73%	3.82%	3.81%
NIM	3.66%	3.66%	3.78%	3.81%	3.94%	3.98%
OTHER INCOME						
Fee income to total income	12.3%	13.0%	9.5%	12.4%	12.8%	13.4%
Other Non-IL to total Income	2.9%	4.0%	9.0%	6.3%	6.1%	6.0%
OPERATING EFFICIENCY						
Cost to income ratio	55%	57%	43%	44%	43%	42%
CREDIT COSTS						
Provision/Avg. loans	0.30%	0.08%	0.23%	0.17%	0.14%	0.11%
PROFITABILITY						
Pre-provision ROAA	1.79%	1.76%	2.48%	2.42%	2.57%	2.66%
Pre-provision ROAE	29.7%	25.8%	32.5%	28.9%	28.3%	27.7%
ROAA	1.63%	1.66%	1.83%	1.91%	2.05%	2.17%
ROAE	26.9%	24.2%	24.0%	22.8%	22.6%	22.6%
Dividend Yield	0.2%	0.0%	0.0%	0.0%	1.6%	3.8%
VALUATIONS						
PER (x)	10.9x	9.2x	9.5x	7.9x	6.4x	5.3x
PBR (x)	2.6x	2.0x	2.0x	1.6x	1.3x	1.1x

Source: Company data, Yuanta Vietnam.

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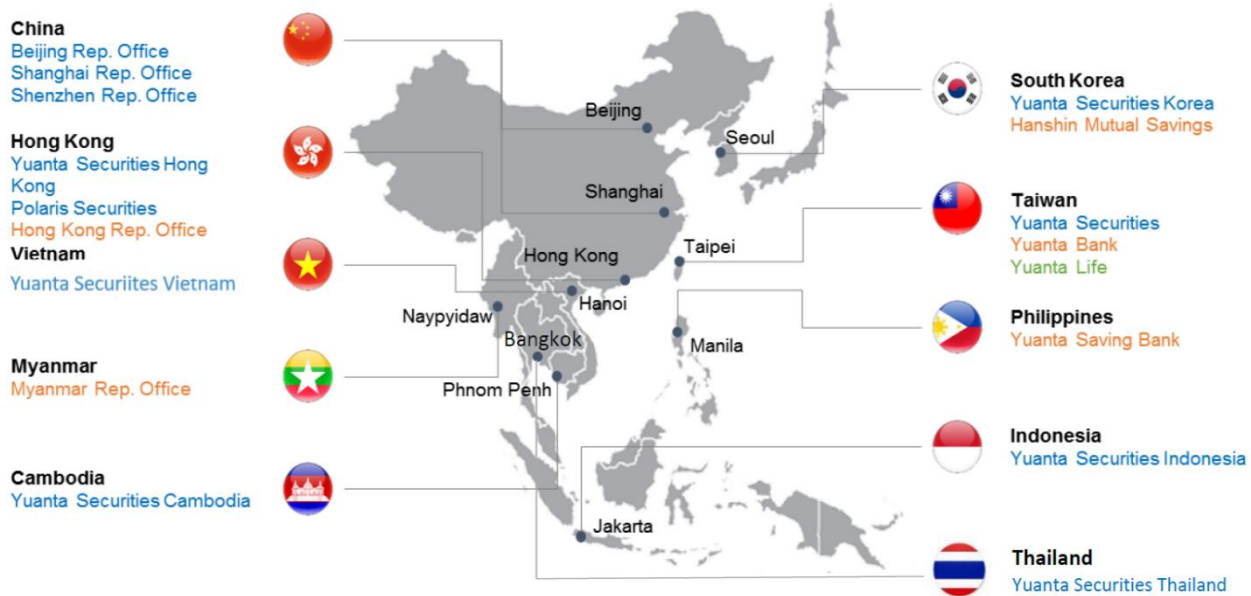
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