

BUY

TP upside +21%
Close 16 Dec 2021

Price	VND 33,000
12M Target	VND 39,850
Previous Target	VND 30,492
% Change	+31%

What's new?

- ▶ **We increase target price** by 31% after raising our earnings forecasts and rolling forward our valuation basis to end-2022E.
- ▶ **We increase our earnings forecasts** by +3% for 2022E.
- ▶ **Cost efficiency improved.** 9M21 CIR was 33% (-12ppt YoY).

Our view

- ▶ **Maintain BUY.** The stock trades at 1.6x 2022E P/B, in line with the sector median. We believe that ACB deserves a premium vs. peers, and our new target price implies 2022E P/B of 1.9x.
- ▶ **Strong asset quality with high LLR ratio** gives ACB the flexibility to reduce provisioning to boost earnings.

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 62% of total loans attributable to individuals and 31% to SMEs as at 3Q21. We believe FOL share blocks are obtainable at a +7% premium.

Share price performance relative to VNIndex



Market cap	US\$3.9 bn
6M avg. daily turnover	US\$11.4 mn
Outstanding shares	2,702 mn
Free float	85.0%
FINI ownership	30.0%
Major shareholders	30.4%
2022E Asset/equity (x)	10.2
2022E P/E (x)	7.8
2022E P/B (x)	1.6
FOL remaining room	0.0%
2022E dividend yield (%)	0.0%

Source: Bloomberg, Yuanta Vietnam

Year to Dec	2020A	2021E	2022E
NIM (%)	3.65%	4.04%	4.00%
Fee growth (%)	-11%	57%	27%
CIR	43%	36%	36%
PPOP growth	63%	44%	14%
PATMI	7,683	9,315	11,689
ROAA	1.86%	1.95%	2.15%
ROAE	24.0%	23.0%	22.9%
PE	11.9	9.8	7.8
PB	2.0	2.0	1.6
Div. yield (%)	0.0%	0.0%	0.0%

Source: Company Data, Yuanta Vietnam

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Asia Commercial Bank [ACB VN]

Reasonable valuation for quality bank

We reiterate our 2022E loan growth forecast of 15% YoY despite reducing our 2021E forecast to +13% (-2ppt vs. our previous forecast). Our 2022E net interest income forecast increases by +5% to reach VND21.2 tn (+13% YoY). The bank's low LDR of 80% (vs. the SBV's cap of 85%) allows for flexibility to increase asset yields.

NIM increased slightly on rising CASA. We raise our NIM forecasts by +6bps vs. our previous forecast to reach 4.00% in 2022E.

Fee income forecast increased by +7% vs. our previous forecast to reach VND3.4 tn (+27% YoY) in 2022E. Bancassurance sales and upfront fee recognition from the banca exclusivity deal will continue to be the key fee income driver in 2022E and beyond.

Operating expenses forecast decreased by -12% vs. our previous forecast to reach VND9.5 tn (+15% YoY) in 2022E.

We increase our provisioning forecast to VND2.6 tn in 2022E (-21% YoY), with the Covid impact driving the change.

Net-net, we raise our earnings forecasts slightly by +3% for 2022E to reach VND11.7 tn, implying earnings growth of 25% YoY.

Yuanta vs. the consensus. Our earnings forecast is now -8% below the consensus in 2022E, probably due to our high provisioning assumption.

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

Maintain BUY. ACB trades at 1.6x 2022E, in line with the sector median. We raise our target price to VND39,850, implying 2022E P/B of 1.9x.

We believe that ACB deserves a premium over its peers given its strong operational results and solid asset quality. We expect 2022E ROE to reach 23% compared to the sector median of 20%.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Valuations

Valuation Ratios	2019A	2020A	2021E	2022E	2023E	2024E
PER (x)	15.2	11.9	9.8	7.8	6.1	5.1
PEG	0.8	0.4	0.5	0.3	0.2	0.2
ROAA (%)	1.69%	1.86%	1.95%	2.15%	2.43%	2.55%
ROAE (%)	24.2%	24.0%	23.0%	22.9%	23.4%	22.6%
PBR (x)	2.0	2.0	2.0	1.6	1.3	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.8%	1.0%

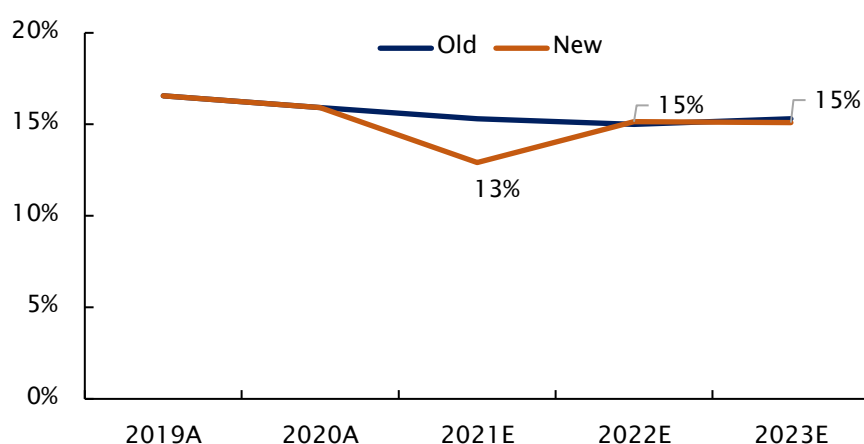
Source: Company data, Yuanta Vietnam

A quality bank at a reasonable price

Our loan growth forecast remains unchanged for 2022E

We expect ACB to receive a higher credit growth quota for next year than that of the sector given its strong asset quality. Our loan growth forecast for 2022E is 15% (+2ppt YoY), which we think is reasonable given the potential economic recovery in 2022E.

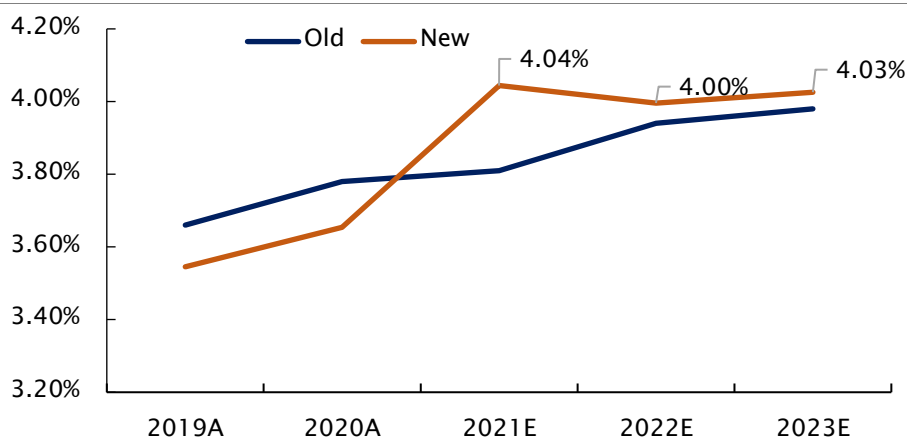
Figure 1: Loan growth (%)



Source: Company data, Yuanta Vietnam.

We increase our NIM forecast by +6bps in 2022E to reach 4.00% as we expect funding cost to decrease slightly on improved CASA. 3Q21 CASA ratio was 23% (+92bps YTD). Also, the bank's retail focus, with 93% of total loans attributable to the consumer and SME segments, should help ACB to sustain high NIM.

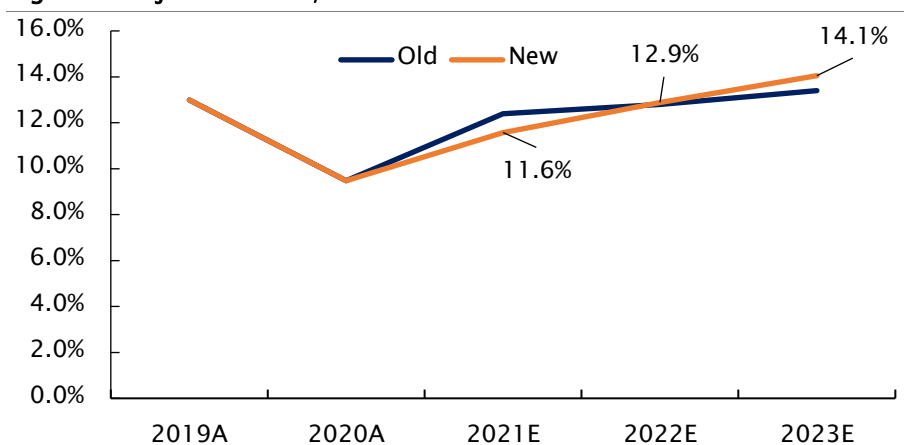
Figure 2: NIM (%)



Source: Company data, Yuanta Vietnam.

Fee income forecast increased by +7% versus our previous forecast. Bancassurance sales and upfront fee recognition (amortized over a 15-year period starting from 2021) are likely to be the key drivers of ACB's fee income in 2022E and beyond.

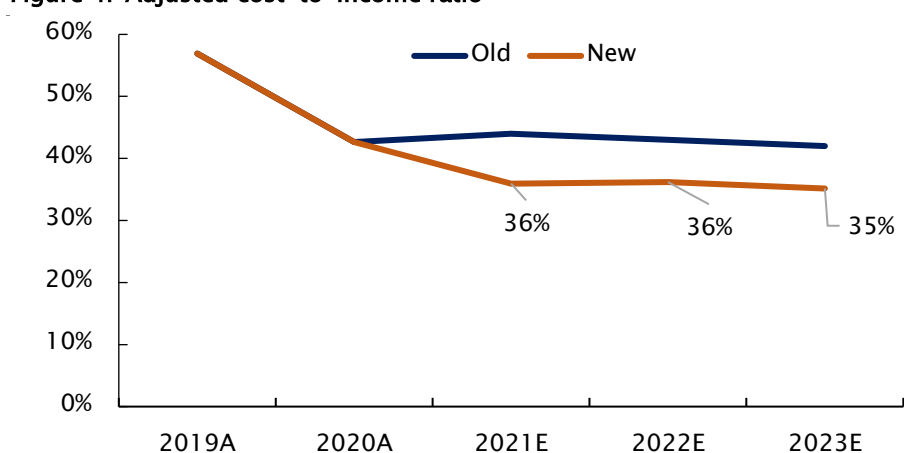
Figure 3: Adj. Fee income/TOI



Source: Company data, Yuanta Vietnam.

We reduce our operating expenses assumption by -12% vs. the previous forecast to VND9.5 tn (+15% YoY) in 2022E. Our adj. CIR forecast for 2022E is 36.2% (+20bps YoY). The bank's CIR has declined significantly since 2019 (56.9%), and we expect it to trend lower in the future as ACB's digital banking efforts bear fruit (just like many other banks).

Figure 4: Adjusted cost-to-income ratio

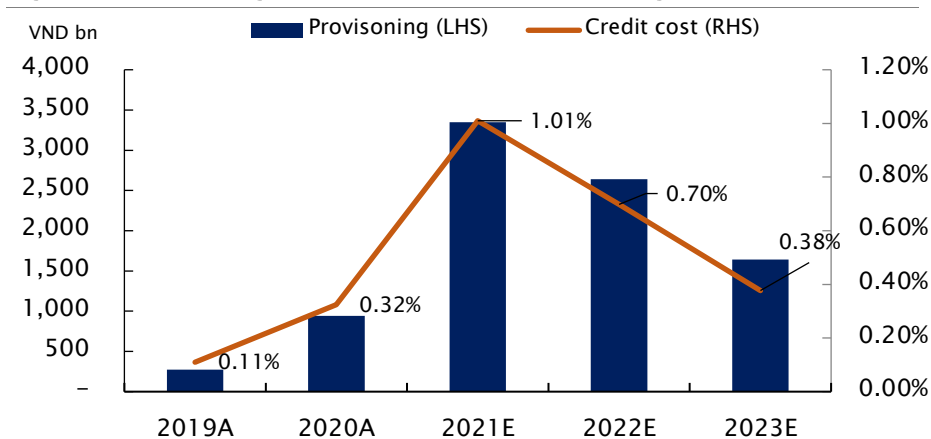


Source: Company data, Yuanta Vietnam.

Increased provisioning forecast. Our previous provisioning assumption was only VND797 bn for 2021E and VND751 for 2022E, and this assumption was made before the 4th wave of Covid. However, the 9M21 provisioning expense of ACB was already VND2.8 tn (3.5x higher than our previous forecast for 2021E), and 3Q21 NPLs was 16% higher than our 2021E forecast.

Given that new NPL formation has exceeded our earlier expectations YTD, we now assume that trend will continue in the short term. Thus, we increase our provisioning assumption for 2022E to VND2.6 tn (still down -21% YoY) and the credit cost ratio (provisioning/average loans) increases by +51bps to 0.70% in 2022E (-31bps YoY) as a result.

Figure 5: Provisioning and Credit cost (%) (Provision/avg. loans)

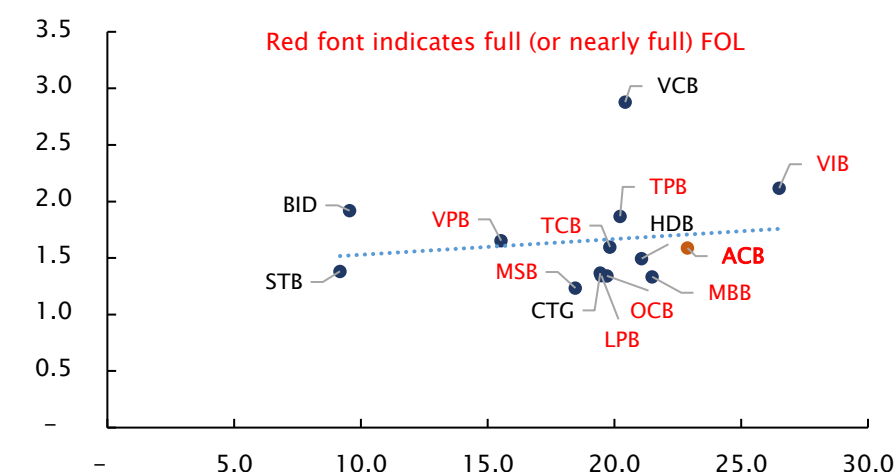


Source: Company data, Yuanta Vietnam.

Valuation is reasonable

ACB trades at 1.6x 2021E, in line with the sector median. We believe that ACB deserves a premium over most of its peers given its strong operational results and solid asset quality. We expect 2022E ROE to reach 23%, well above our estimate of the sector median ROE of 20%.

Figure 6: Scatter Plot between banks' 2022E ROE and PB



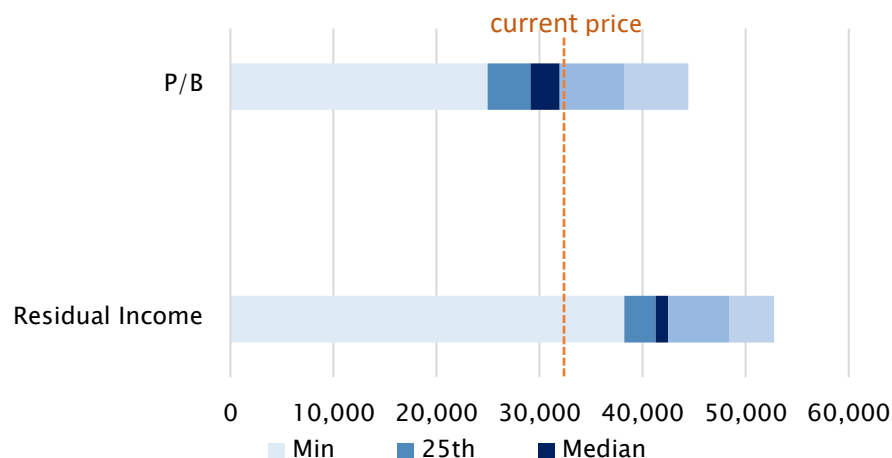
Source: Company data, Yuanta Vietnam.

We raise our target price for ACB by 31% to VND39,850 from our previous estimate of VND30,492 (after adjusting for stock dividend paid in 2021). Our new target price implies 2022E P/BV of 1.9x, which we think is reasonable given the bank's strong fundamentals.

Valuation Methods	Estimated Value	Weight (%)	Weighted value
Residual Income	42,489	75.0%	31,867
Comparable P/B	31,950	25.0%	7,987
Estimated Fair Value			39,854

Source: Yuanta Vietnam

Figure 7: Valuation Graph



Source: Company data, Yuanta Vietnam.

Valuation based on Residual Income approach

Terminal Net Income Growth Rate:	4.0%
Projected Net Income 1 Year After Period:	36,320
Residual Income Terminal Value:	118,212
(+) Current Common Shareholders' Equity:	42,483
(+) PV of Residual Income Terminal Value:	27,429
(+) Sum of PV of Residual Income:	44,891
Implied Equity Value:	114,804
Implied Share Price:	42,489
Implied P/B	2.0x

Source: Yuanta Vietnam

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

		Cost of Equity:						
		12.5%	13.0%	13.5%	14.2%	14.5%	15.0%	15.5%
Terminal Return on Common Equity:	15.5%	79,821	68,897	60,004	50,067	46,505	41,302	36,858
	15.0%	76,628	66,180	57,672	48,161	44,749	39,765	35,506
	14.5%	73,448	63,475	55,350	46,262	43,001	38,235	34,160
	14.0%	70,282	60,781	53,037	44,372	41,261	36,711	32,820
	13.5%	67,129	58,099	50,735	42,489	39,527	35,194	31,486
	13.0%	63,991	55,428	48,443	40,615	37,802	33,684	30,158
	12.5%	60,866	52,769	46,160	38,749	36,083	32,180	28,835
	12.0%	57,754	50,122	43,888	36,891	34,373	30,682	27,518
	11.5%	54,657	47,487	41,625	35,041	32,669	29,192	26,206

Source: Yuanta Vietnam

Yuanta vs. Consensus

Net income (VND bn)	2021E	2022E
Consensus mean	9,640	12,482
Yuanta forecast	9,194	11,537
%ge difference	-4.6%	-7.6%
Consensus high	10,055	13,698
Consensus low	9,177	11,421
EPS (VND)		
Consensus mean	3,562	4,613
Yuanta forecast (adjusted)	3,403	4,270
%ge difference	-4.5%	-7.4%
Consensus high	3,721	5,070
Consensus low	3,396	4,227

*We believe that BBG consensus does not factor in employee welfare fund contributions.

Source: Bloomberg, Yuanta Vietnam

Financial Statement (Revised)

Balance Sheet

(VND bn)	2020A	20201E	2022E	2023E
Cash & Balances at SBV	23,585	43,470	34,828	39,680
Loans to banks	31,671	33,603	40,550	46,199
Investment securities	69,567	76,987	90,023	102,564
Invest. In Associates	154	211	240	274
Gross Loans:	311,479	351,705	404,966	466,102
(-) Specific Provisions:	(689)	(3,471)	(3,367)	(3,441)
(-) General Provisions:	(2,262)	(2,554)	(2,941)	(3,384)
Total provisions:	(2,950)	(6,025)	(6,307)	(6,825)
Net Loans:	308,529	345,680	398,659	459,277
Fixed Tangible asset:	2,717	2,581	2,664	2,749
Intangible Assets:	1,066	1,065	1,065	1,065
Real estate investment	349	216	216	216
Accrued interests:	3,638	2,591	2,591	2,591
Deferred tax:	51	117	117	117
Other Assets:	3,204	3,771	3,771	3,771
Total Assets:	444,530	510,291	574,724	658,502
Deposits:	353,196	391,246	446,159	508,312
Due to SBV:	0	0	0	0
Due to Banks:	23,875	21,102	24,298	27,966
Subordinated notes	22,050	32,470	32,470	32,470
Other Liabilities:	9,961	20,830	15,618	19,537
Total Liabilities:	409,082	465,649	518,545	588,285
Capital & Premium:	21,887	27,291	27,291	27,291
Reserves:	5,742	5,742	5,742	5,742
Total Equity:	35,448	44,642	56,179	70,217
Total Liabilities & Equity:	444,530	510,291	574,724	658,502

Source: Company data, Yuanta Vietnam.

Income Statement

(VND bn)	2020A	2021E	2022E	2023E
Net Interest income	14,582	18,749	21,157	24,261
<i>Net Fee Income</i>	<i>1,695</i>	<i>2,667</i>	<i>3,383</i>	<i>4,286</i>
<i>Other Non-IT</i>	<i>1,605</i>	<i>1,619</i>	<i>1,709</i>	<i>1,958</i>
Total Non-IT	3,300	4,286	5,092	6,244
TOI	17,882	23,035	26,249	30,506
Total expenses	(7,624)	(8,284)	(9,501)	(10,725)
PPOP:	10,257	14,750	16,749	19,780
Gross Provisions:	(941)	(3,349)	(2,641)	(1,641)
NPL Recoveries:	280	243	503	576
Net Provisions:	(662)	(3,106)	(2,138)	(1,065)
Pre-Tax Income:	9,596	11,644	14,611	18,716
(-) Income Tax:	(1,913)	(2,329)	(2,922)	(3,743)
Net Income	7,683	9,315	11,689	14,972
(-) Minority Interest	-	-	-	-
(-) Others	(100)	(121)	(152)	(195)
Adj. Net Income	7,583	9,194	11,537	14,778

SELECTED FINANCIAL RATIOS	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
GROWTH PROJECTIONS						
Net interest income	17%	20%	29%	13%	15%	14%
Fee Income	27%	-11%	57%	27%	27%	26%
Other NII	64%	173%	1%	6%	15%	15%
Operating costs	24%	-8%	9%	15%	13%	13%
Provision	-71%	244%	256%	-21%	-38%	-18%
Pre-provision profit	14%	63%	44%	14%	18%	17%
Adjusted Net profit	17%	28%	21%	25%	28%	20%
Assets	16%	16%	15%	13%	15%	15%
ASSET ANALYSIS						
Earning assets to total assets	96%	97%	98%	98%	98%	98%
Average Returns on Earnings Assets	1.73%	1.90%	1.98%	2.18%	2.45%	2.57%
LOAN ANALYSIS						
Loan growth (% YoY)	17%	16%	12%	15%	15%	15%
Loans to Interest Earnings Assets	72%	72%	69%	71%	71%	72%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	14%	15%	11%	14%	14%	14%
Deposits to IBLs	87%	86%	84%	86%	86%	87%
LIQUIDITY						
LDR	86%	87%	88%	89%	90%	91%
ASSET QUALITY						
NPL ratio	0.54%	0.59%	0.90%	0.87%	0.84%	0.81%
General Provisions to Gross loans	0.73%	0.73%	0.73%	0.73%	0.73%	0.73%
LLR	175%	160%	190%	180%	175%	170%
SPREAD ANALYSIS						
Int. rate received on Average IEA	8.29%	7.98%	7.50%	7.60%	7.87%	8.05%
Int. rate paid on Average IBL	4.88%	4.52%	3.67%	3.87%	4.18%	4.45%
Interest rate spread	3.41%	3.47%	3.84%	3.72%	3.68%	3.60%
NIM	3.55%	3.65%	4.04%	4.00%	4.03%	4.01%
OTHER INCOME						
Fee income to total income	13.0%	9.5%	11.6%	12.9%	14.1%	15.2%
Other Non-IL to total Income	4.0%	9.0%	7.0%	6.5%	6.4%	6.3%
OPERATING EFFICIENCY						
Adj. Cost to income ratio	57%	43%	36%	36%	35%	34%
CREDIT COSTS						
Provision/Avg. loans	0.11%	0.32%	1.01%	0.70%	0.38%	0.27%
PROFITABILITY						
Pre-provision ROAA	1.76%	2.48%	3.09%	3.09%	3.21%	3.29%
Pre-provision ROAE	25.8%	32.5%	36.8%	33.2%	31.3%	29.5%
ROAA	1.66%	1.83%	1.93%	2.13%	2.40%	2.52%
ROAE	24.2%	24.0%	23.0%	22.9%	23.4%	22.6%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.8%	1.0%
VALUATIONS						
PER (x)	12.0x	9.5x	8.8x	7.8x	6.1x	5.1x
PBR (x)	2.0x	2.0x	2.0x	1.6x	1.3x	1.0x

Source: Company data, Yuanta Vietnam.

Appendix A: Important Disclosures

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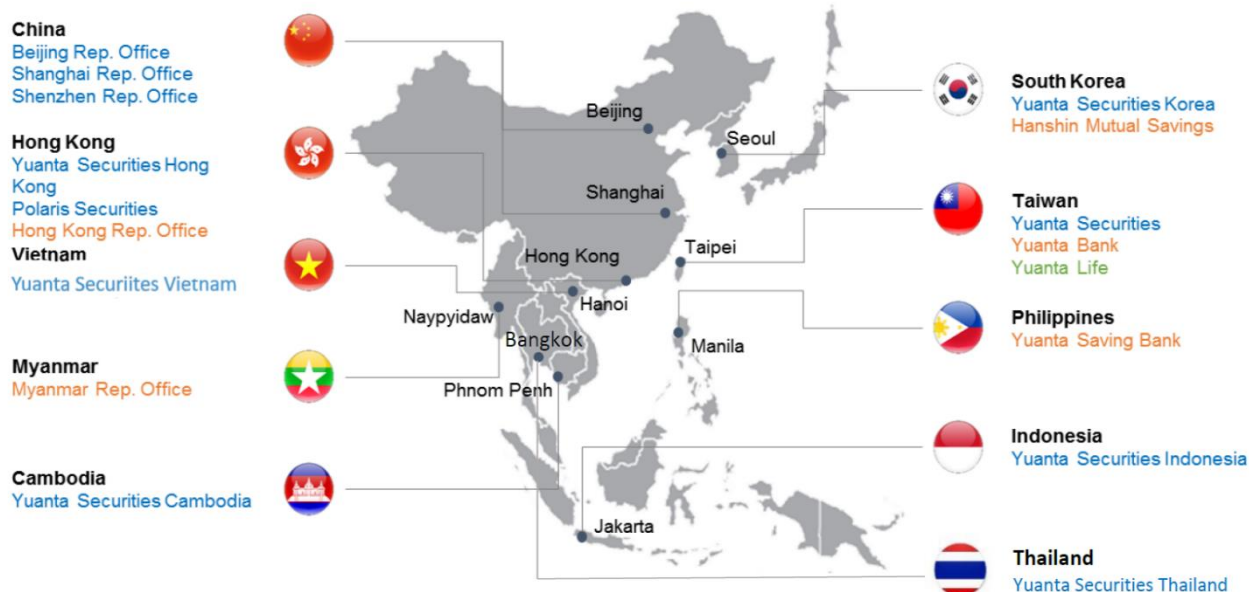
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