

# Business update report

## ACB - ASIA COMMERCIAL BANK

# BSC

07/03/2019

### Recommendation

### TRACKING

#### Vuong Chi Tam (FA)

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|               |        |
|---------------|--------|
| Target price  | 32,686 |
| Closing price | 30,400 |
| Upside        | 7.5%   |

#### Le Quoc Trung (TA)

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|                |        |
|----------------|--------|
| Target price   | 35,000 |
| Cut loss price | 29,000 |

### STABLE GROWTH

#### Valuation

**We recommend TRACKING with ACB stock** with a target price of VND 32,686/share, upside 7.5% with P/B method = 1.8x (current industry average = 1.6x). We apply P/B = 1.8x because ACB is a good stock with high profitability, a good choice to invest in bank stocks and actively recovering debt of G6 group in 2019.

### Market data

|  |           |
|--|-----------|
| Number of shares (stock)                           | 1,247     |
| Capitalization (billion VND)                       | 37,789    |
| Highest price 52 weeks                             | 51,700    |
| The average trading volume of 10 sessions (shares) | 2,667,834 |
| Foreign ownership                                  | 30%       |

#### Forecast of business results 2019.

BSC forecasts that ACB will record TOI and PBT respectively at VND 5,464 billion (+ 12% yoy) and VND 1,393 billion (+ 14.8% yoy) assuming (1) credit growth of 14%, (2) NPL = 1.42%, bad debt coverage ratio = 100%, (3) NIM slightly decreased, down to 3.08%, (4) CIR = 62%, (5) social work expenses at VND 550 billion.

### Major shareholders (%)

|                              |       |
|------------------------------|-------|
| Dragon Financial Holding Ltd | 6.87% |
| Standard Chartered Bank      | 4.98% |
| Estes investment Ltd         | 4.38% |
| Sather Gate Investment Ltd   | 3.97% |
| Whistler Investments Ltd     | 3.97% |

#### Catalyst

(1) Boosting debt recovery of G6 group. (In 2018, VND 1,800 billion was collected).

#### Investment Risk

(1) The pressure of growth raises the NPL, (2) conflict of interests among major shareholders.

### Price movements



**Company overview:** ACB is currently a bank that is highly appreciated for asset quality (having made provision for G6 and VAMC groups).

#### Business update (Refer to page 2 for details)

**2018 business results.** In 2018, ACB recorded TOI and PBT at VND 14,033 billion (+ 22.7% yoy) and VND 6,389 billion (+ 141% yoy).

**Net interest income + 22.53% yoy (accounting for 74% TOI)** due to (1) credit growth in 2018 reached 15.04%, customer loans + 15.14% yoy, mobilization + 11.9% yoy, (2) NIM 2018 = 3.55% (+11 bps).

**Non-interest income increased sharply.** Net profit from service activities + 26.02% yoy, other income increased sharply to VND 1,815 billion (+ 104% yoy).

**Improved asset quality.** NPL = 0.73% (industry average of 1.65%). The ratio of bad debt by the end of 2018 reached 152%, higher than the current industry average (79.68%)..

**Business update**

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**2018 business results.** In 2018, ACB recorded TOI and PBT at VND 14,033 billion (+ 22.7% yoy) and VND 6,389 billion (+ 141% yoy), ROAA = 1.67%, ROAE = 27.73% (industry average ROAA = 1.39%, ROAE = 19.84%).

**Net interest income + 22.53% yoy (accounting for 74% TOI)** because (1) credit growth in 2018 reached 15.04%, customer loans + 15.14% yoy, mobilized + 11.9% yoy, (2) NIM 2018 = 3.55% (+11 bps), equivalent to the current industry average NIM = 3.53% thanks to increasing the proportion of shares to 16.7% of deposits (same period 15.8%) and the increase in retail lending proportion. In 2019, BSC expects ACB's credit growth will reach 14%, equivalent to 2018. ACB's NIM in 2019, according to BSC, is expected to fall slightly due to the increase in deposit rates this year.

**Non-interest income increased sharply, accounting for 25% of TOI structure.** Net profit from service activities + 26.02% yoy, other income increased sharply to VND 1,815 billion (+ 104% yoy) from recovering a part of bad debt from G6 and other bad debts.

**Improved asset quality.** NPL = 0.73% (industry average of 1.65%), now that the company has set up all VAMC debt and G6 debt in 2017, making provision expense plummeted -64% yoy. Bad debt coverage as of the end of 2018 reached 152%, higher than the current industry average (79.68%).

**Forecast for 2019.** BSC forecasts that in 2019, ACB will record TOI and PBT at VND 15,968 billion (+ 13.8% yoy) and VND 7,206 billion (+ 12.8% yoy) with the assumption (1) credit growth = 14 % in 2019, lending + 13.03% yoy, mobilization + 11.22% yoy, LDR = 80%, (2) NIM = 3.49%, down slightly from 3.55% in 2018 due to the trend of raising deposit rates , (3) NPL = 0.73%, bad debt ratio = 160%, (4) recovery of non-performing loans is VND 2,000 billion. Currently, ACB is being traded with P/E = 7.36x, P/B = 1.86x, higher than the current industry average of 1.6x.

## Asia Commercial Bank (ACB)

## Technical analysis

## ACB\_Sideway

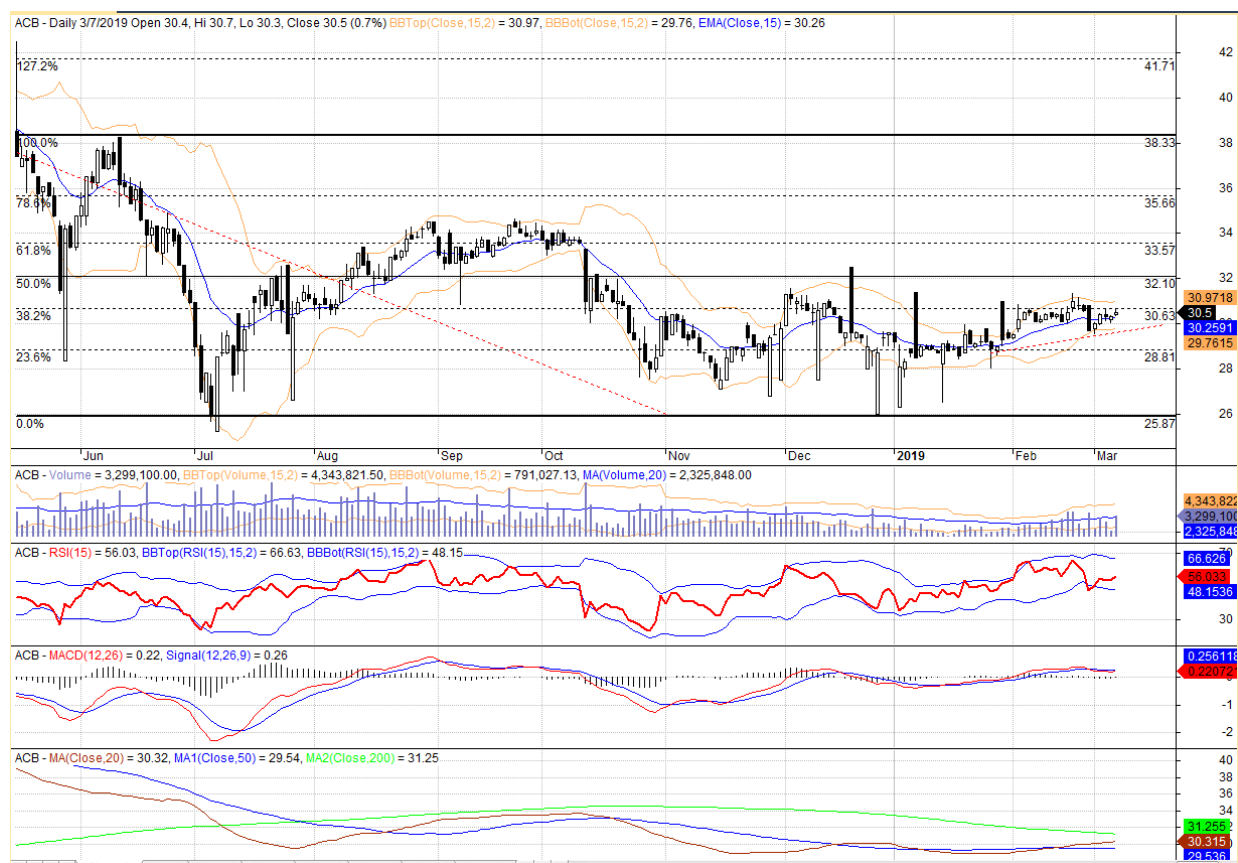
## Technical highlights:

- Current trend: Mid-term accumulation
- MACD trend indicator: Convergence, above level 0
- RSI indicator: Neutral

**Outlook:** ACB after a relatively good recovery period is accumulating at the mid-term price zone 30. With the current indicators and markets, the possibility that ACB will continue to accumulate at the price range of 30 in the short term is relatively large..

**Recommendations:** Watch and buy if exceeding the resistance above 31 with good liquidity with the nearest target at the price zone of 35.

## Technical chart of ACB



Source: Amibroker, BSC

## Asia Commercial Bank (ACB)



## Appendix 01: Overview of ACB

|   | 2014    | 2015    | 2016    | 2017    | 2018    | 2019    |
|---|---------|---------|---------|---------|---------|---------|
| <b>SCALE</b>  |         |         |         |         |         |         |
| Charter capital (billion VND)                         | 9,377   | 9,377   | 9,377   | 10,273  | 12,886  | 14,174  |
| Equity (billion VND)                                  | 12,397  | 12,788  | 14,063  | 16,031  | 21,018  | 25,740  |
| Total assets (billion VND)                            | 179,610 | 201,457 | 233,681 | 284,316 | 329,333 | 366,812 |
| Equity/Total assets                                   | 6.90%   | 6.35%   | 6.02%   | 5.64%   | 6.38%   | 7.02%   |
| <b>GROWTH (YOY)</b>                                   |         |         |         |         |         |         |
| Asset growth  | 7.81%   | 12.16%  | 16.00%  | 21.67%  | 15.83%  | 11.38%  |
| Lending growth  | 8.52%   | 16.35%  | 20.73%  | 21.49%  | 16.13%  | 13.03%  |
| Deposit growth  | 11.95%  | 13.13%  | 18.37%  | 16.59%  | 11.85%  | 11.22%  |
| CASA/mobilization                                     | 13.28%  | 15.21%  | 15.40%  | 15.82%  | 16.67%  | 17.99%  |
| Loans/deposits  | 75.24%  | 77.38%  | 78.92%  | 82.24%  | 85.38%  | 86.77%  |
| <b>ASSET QUALITY</b>                                  |         |         |         |         |         |         |
| NPL ratio   | 2.18%   | 1.31%   | 0.87%   | 0.70%   | 0.73%   | 0.73%   |
| NPL ratio includes debt sold to VAMC                  | 3.04%   | 2.39%   | 1.51%   | 0.71%   | 0.73%   | 0.73%   |
| Provision for bad debts/Total outstanding loans       | 1.36%   | 1.14%   | 1.10%   | 0.93%   | 1.11%   | 1.17%   |
| Bad debt ratio/Total bad debt                         | 62.32%  | 87.02%  | 126.49% | 132.74% | 151.89% | 160.00% |
| Real interest income/Interest income (ytd)            | 103.18% | 103.24% | 97.86%  | 98.39%  | 100.50% | 100.50% |
| Interest and fees receivable/loan                     | 2.80%   | 2.07%   | 1.98%   | 1.80%   | 1.51%   | 1.50%   |
| Doubtful property                                     | 16,513  | 14,145  | 12,523  | 9,999   | 9,631   | 10,370  |
| % Total asset   | 9%      | 7%      | 5%      | 4%      | 3%      | 3%      |
| % Equity  | 133%    | 111%    | 89%     | 62%     | 46%     | 40%     |
| <b>BUSINESS EFFICIENCY (YOY)</b>                      |         |         |         |         |         |         |
| % Net interest income                                 | 80.52%  | 94.59%  | 91.13%  | 73.94%  | 73.85%  | 72.87%  |
| Net profit before credit risk provision (VND billion) | 2,095   | 2,199   | 2,885   | 5,222   | 7,321   | 8,303   |
| % yoy   | 10.82%  | 4.96%   | 31.20%  | 81.01%  | 40.21%  | 13.42%  |
| Provision expenses for credit risk (VND billion)      | 879     | 884     | 1,218   | 2,565   | 932     | 1,097   |
| % to pre-provision profit                             |         | 40.23%  | 42.21%  | 49.13%  | 12.74%  | 13.21%  |
| Profit after tax (billion VND)                        | 952     | 1,028   | 1,325   | 2,118   | 5,137   | 5,765   |
| % yoy   | 15%     | 8%      | 29%     | 60%     | 143%    | 12%     |
| NIM (TTM)   | 3.01%   | 3.33%   | 3.36%   | 3.44%   | 3.55%   | 3.49%   |
| CIR (TTM)   | 64.61%  | 64.65%  | 61.86%  | 54.35%  | 47.83%  | 48.00%  |
| ROA (TTM)   | 0.55%   | 0.54%   | 0.61%   | 0.82%   | 1.67%   | 1.66%   |
| ROE (TTM)   | 7.64%   | 8.17%   | 9.87%   | 14.08%  | 27.73%  | 24.66%  |
| EPS (VND/share) (TTM)                                 | 1,015   | 1,086   | 1,360   | 2,042   | 3,870   | 3,948   |
| Diluted EPS (TTM)                                     | 1,015   | 1,086   | 1,360   | 2,042   | 3,870   | 3,948   |
| Book value (VND/share)                                | 13,221  | 13,637  | 14,997  | 15,604  | 16,311  | 18,159  |

Source: BSC research

## Asia Commercial Bank (ACB)



## Appendix 02: Overview of listed banks 2018

|   | MBB     | CTG       | VCB       | BID       | STB     | TCB     | VPB      | ACB            | HDB     | LPB     | TPB     | VIB     |
|---|---------|-----------|-----------|-----------|---------|---------|----------|----------------|---------|---------|---------|---------|
| <b>Scale</b>  |         |           |           |           |         |         |          |                |         |         |         |         |
| Charter capital (billion VND)                         | 21,605  | 37,234    | 35,978    | 34,187    | 18,852  | 34,966  | 25,300   | <b>12,886</b>  | 9,810   | 7,500   | 8,566   | 7,835   |
| Equity (billion VND)                                  | 34,173  | 67,469    | 63,889    | 54,693    | 24,632  | 51,783  | 34,750   | <b>21,018</b>  | 16,828  | 10,201  | 10,642  | 10,667  |
| Total assets (billion VND)                            | 362,361 | 1,164,318 | 1,072,983 | 1,313,038 | 406,041 | 321,049 | 323,308  | <b>329,333</b> | 216,107 | 175,095 | 136,179 | 139,000 |
| Equity/Total assets                                   | 9.43%   | 5.79%     | 5.95%     | 4.17%     | 6.07%   | 16.13%  | 10.75%   | <b>6.38%</b>   | 7.79%   | 5.83%   | 7.81%   | 7.67%   |
| <b>Growth (ytd)</b>                                   |         |           |           |           |         |         |          |                |         |         |         |         |
| Asset growth  | 15.45%  | 6.32%     | 3.64%     | 9.21%     | 10.20%  | 19.18%  | 16.40%   | <b>15.83%</b>  | 14.14%  | 7.13%   | 9.72%   | 12.86%  |
| Lending growth  | 16.16%  | 8.89%     | 16.26%    | 14.12%    | 14.94%  | -0.89%  | 21.38%   | <b>15.92%</b>  | 17.86%  | 18.43%  | 21.59%  | 20.71%  |
| Deposit growth  | 8.99%   | 9.68%     | 13.23%    | 15.08%    | 9.17%   | 17.84%  | 27.93%   | <b>11.85%</b>  | 6.24%   | -2.59%  | 8.31%   | 24.11%  |
| CASA  | 33.48%  | 15.02%    | 28.27%    | 16.35%    | 14.85%  | 27.14%  | 13.25%   | <b>16.67%</b>  | 8.35%   | 18.18%  | 18.16%  | 14.29%  |
| Loans/deposits  | 88.13%  | 103.16%   | 77.58%    | 98.65%    | 72.48%  | 78.20%  | 127.53%  | <b>84.44%</b>  | 95.11%  | 94.21%  | 100.21% | 112.25% |
| <b>Asset quality</b>                                  |         |           |           |           |         |         |          |                |         |         |         |         |
| NPL ratio   | 1.34%   | 1.59%     | 1.00%     | 1.71%     | 2.14%   | 1.78%   | 3.56%    | <b>0.73%</b>   | 1.55%   | 1.43%   | 1.13%   | 2.54%   |
| NPL ratio includes debt sold to VAMC                  | 1.34%   | 1.59%     | 1.00%     | 1.71%     | 2.14%   | 1.78%   | 3.56%    | <b>0.73%</b>   | 1.55%   | 1.43%   | 1.13%   | 2.54%   |
| Provision for bad debts/Total outstanding debt        | 1.52%   | 1.53%     | 1.65%     | 1.27%     | 1.39%   | 1.51%   | 1.64%    | <b>1.12%</b>   | 1.10%   | 1.26%   | 1.17%   | 0.92%   |
| Bad debt ratio/Total bad debt                         | 113%    | 96%       | 165%      | 74%       | 65%     | 85%     | 46%      | <b>152%</b>    | 71%     | 88.25%  | 103%    | 36%     |
| Interest and fees receivable/loan                     | 1.33%   | 1.86%     | 1.40%     | 2.12%     | 2.35%   | 2.17%   | 2.42%    | <b>1.50%</b>   | 2.58%   | 3.46%   | 1.76%   | 1.53%   |
| <b>Business efficiency (ytd)</b>                      |         |           |           |           |         |         |          |                |         |         |         |         |
| % Net interest income                                 | 74.64%  | 78.34%    | 72.31%    | 78.57%    | 65.37%  | 60.64%  | 79.46%   | <b>73.85%</b>  | 80.99%  | 102.89% | 77.80%  | 79.78%  |
| Net profit before credit risk provision (VND billion) | 10,805  | 14,490    | 25,679    | 28,366    | 3,839   | 12,507  | 20,452   | <b>7,321</b>   | 4,999   | 1,831   | 2,780   | 3,362   |
| % yoy   | 37.33%  | -17.44%   | 46.40%    | 20.64%    | 66.31%  | 7.40%   | 26.78%   | <b>40.21%</b>  | 45.59%  | -20.02% | 66.66%  | 91.57%  |
| Provision expenses for credit risk (VND billion)      | (3,038) | (7,748)   | (7,379)   | (18,894)  | (1,592) | (1,846) | (11,253) | <b>(932)</b>   | (994)   | (618)   | (522)   | (620)   |
| % to pre-provision profit                             | 28.11%  | 53.47%    | 28.73%    | 66.61%    | 41.47%  | 14.76%  | 55.02%   | <b>12.74%</b>  | 19.89%  | 33.77%  | 18.79%  | 18.46%  |
| Profit after tax (billion VND)                        | 6,190   | 5,428     | 14,658    | 7,542     | 1,790   | 8,474   | 7,356    | <b>5,137</b>   | 3,202   | 960     | 1,805   | 2,193   |
| % yoy   | 77.34%  | -27.23%   | 60.89%    | 8.58%     | 51.51%  | 31.47%  | 14.20%   | <b>142.53%</b> | 63.81%  | -29.83% | 87.29%  | 95.09%  |
| NIM (TTM)   | 4.56%   | 2.08%     | 2.78%     | 2.98%     | 2.34%   | 4.13%   | 8.81%    | <b>3.56%</b>   | 4.05%   | 3.50%   | 3.69%   | 3.79%   |
| CIR (TTM)   | 44.70%  | 49.59%    | 34.64%    | 36.24%    | 67.12%  | 31.84%  | 34.21%   | <b>47.83%</b>  | 47.05%  | 62.47%  | 50.59%  | 44.45%  |
| ROA (TTM)   | 1.83%   | 0.48%     | 1.39%     | 0.61%     | 0.46%   | 2.87%   | 2.45%    | <b>1.67%</b>   | 1.58%   | 0.93%   | 1.39%   | 1.67%   |
| ROE (TTM)   | 19.41%  | 8.27%     | 25.18%    | 14.52%    | 7.48%   | 21.53%  | 22.83%   | <b>27.73%</b>  | 20.27%  | 15.92%  | 20.84%  | 22.55%  |
| Diluted EPS (TTM)                                     | 2,865   | 1,456     | 4,070     | 2,152     | 950     | 2,420   | 2,907    | <b>3,987</b>   | 2,897   | 1,280   | 2,107   | 2,800   |
| Book value (VND/share)                                | 15,109  | 18,040    | 17,739    | 15,109    | 13,066  | 14,790  | 13,735   | <b>16,311</b>  | 15,938  | 13,601  | 12,424  | 13,615  |
| <b>Valuation</b>                                      |         |           |           |           |         |         |          |                |         |         |         |         |
| P/E   | 7.71    | 14.49     | 14.69     | 15.10     | 13.69   | 11.38   | 7.45     | <b>7.63</b>    | 10.77   | 7.03    | 10.11   | 6.32    |
| P/B   | 1.46    | 1.17      | 3.37      | 2.15      | 0.99    | 1.86    | 1.58     | <b>1.86</b>    | 1.96    | 0.66    | 1.71    | 1.30    |

## Disclosure

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