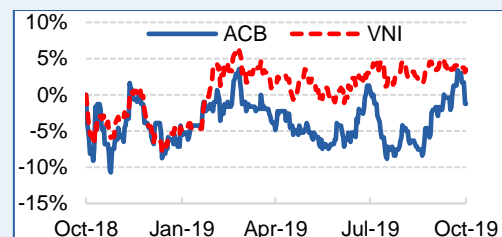


# Asia Commercial Bank (ACB)

# Earnings Flash

<b>Industry:</b>	<b>Banking</b>		<b>2018</b>	<b>9M 19</b>	<b>2019F</b>
<b>Report Date:</b>	<b>October 23, 2019</b>	PPOP y/y	40.2%	5.3%	12.2%
Current Price:	VND23,500	NPAT y/y	142.5%	17.9%	21.3%
Current Target Price:	VND28,800	NIM	3.55%	3.55%	3.57%
Upside	22.6%	NPL	0.73%	0.67%	0.79%
Dividend Yield:	4.3%	CIR	47.8%	49.3%	47.0%
TSR	26.8%	Div/Sh (VND)	-	-	1,000
Rating:	BUY	P/B	1.8x	1.5x	1.5x*



Market Cap:	USD1.6bn		<b>ACB</b>	<b>Peers</b>	<b>VNI</b>
Foreign Room:	USD0	P/E (ttm)	6.6x	8.7x	16.6x
ADTV30D:	USD2.6mn	P/B (curr)	1.5x	1.5x	2.4x
State Ownership:	0.00%	ROE	25.6%	19.7%	14.7%
Outstanding Shares:	1.621bn	ROA	1.7%	1.7%	2.5%
Fully Diluted Shares:	1.663bn	(*) 2019F P/B has been adjusted for VND1000/share dividend assumptions			

## Company overview

Founded in 1993, ACB is the fourth smallest bank among our coverage banks by total assets as of December 31, 2018. ACB has the fifth-largest network among our ten coverage banks. The bank listed its shares in November 2006 and primarily focuses on the retail and SME segments.

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## Solid asset quality, but peers outpace in growth

ACB released inline results for 9M 2019 with NPAT-MI of VND4.4tn (USD191mn, +17.9% YoY), completing 72% of our 2019 full-year forecast. Annualized 9M 2019 ROA and ROE stood at 1.7% and 25.6%, respectively. All QoQ figures below are comparisons between Q3 2019 and Q2 2019.

**NIM increased by 18 bps to 3.55% on YoY basis (+2 bps QoQ), but was unchanged compared to FY 2018.** Although interest earning asset (IEA) yields tracked up by 20 bps YoY (+27 bps QoQ) to 8.34% in 9M 2019, the cost of funds jumped by 23 bps YoY (+29 bps QoQ) to 5.06%. A 4.7 times increase in valuable papers balance from USD170mn to USD796mn in the last 12 months resulted in an increase in interest expenses to 17.2% in 9M 2019 despite a 126-bp boost in CASA.

**Solid 18.3% YoY growth (+4.1% QoQ) in net interest income.** Both lending and deposit activities were slow in Q3 2019 with 2.1% and 2.3% QoQ growth, respectively. We estimated 9M credit growth reached ~11%; therefore, ACB still has ample credit quota to continue expanding its credit book in Q4 2019 given its initial granted credit quota of 17%.

**Robust increase in net fee income and earnings from investment securities while other components in non-interest income (Noll) saw negative YoY growth in 9M 2019.** Net fee income grew soundly at 31.7% YoY, contributing 56.3% to Noll. Gains from investment securities were VND75bn (USD3mn), contributing 3% to Noll, compared to a loss of VND47bn (USD2mn) in 9M 2018. In contrast, income from FX trading and sales of securities dropped by 5.4% and 98% on YoY basis, respectively, which together accounted for 11.8% of Noll in 9M 2019. In regards to other income, we observed an overall YoY slowdown in the magnitude of recovery in 2019, which led to 22.4% decrease in 9M 2019 of other income and contributed 29% of Noll. In total, Noll contributed 22.2% to total operating income in 9M 2019, which was a 258-bp decline YoY.

**Low provisioning expenses in 9M 2019 made up for a shortfall in Noll.** ACB reported provision expenses of VND162bn (USD7mn) vs VND660bn (USD28mn) in 9M 2018. We suspect the bank engaged in a reversal of the specific provision account in a vicinity of VND250bn (USD10.9mn) within the first six months of 2019; however, the presentation of the provision balance in its financial statement makes it difficult to work out precisely.

**Strong asset quality as evidenced by the lowest NPL ratio among reported banks, accompanied by negligible write-offs in 9M 2019.** The NPL ratio dropped by 17 bps YoY to 0.67% (the same level as in Q2 2019). Receivable and accrued interest over total assets also tracked down to 2.03% in 9M 2019 vs FY2018's number at 2.38% (ACB does not have a corporate

bond balance, so improvement can be exclusively attributed to the loan book). This strengthens our confident view regarding ACB's asset quality. Moreover, loan loss reserve (LLR) was 159% of NPLs vs 161.1% in Q2 2019 and 151.9% in 2018.

**Figure 1: ACB's 9M 2019 results**

VND bn	9M 2019	9M 2018	Y-o-Y	Q3 2019	Q2 2019	Q-o-Q
NIM	3.55%	3.38%	18 bps	3.55%	3.53%	0.02%
Asset yield	8.34%	8.15%	20 bps	8.55%	8.28%	0.27%
Cost of funds	5.06%	4.83%	23 bps	5.29%	4.99%	0.29%
CASA ratio*	17.2%	16.0%	126 bps	17.2%	17.4%	-0.13%
CASA ratio plus term deposits in FX*	18.9%	18.1%	85 bps	18.9%	19.1%	-0.19%
NII	8,783	7,424	18.3%	3,023	2,903	4.1%
Non-II	2,505	2,445	2.5%	826	797	3.6%
Provision expenses	(162)	(660)	-75.5%	(66)	(111)	-40.2%
PPOP	5,723	5,437	5.3%	2,005	2,026	-1.0%
Net profit	4,448	3,772	17.9%	1,549	1,533	1.1%
CIR	49.3%	44.9%	4.40%	47.9%	48.7%	-0.78%
NPL	0.67%	0.84%	-0.17%	0.67%	0.67%	0.00%
Loan growth	11.07%	11.33%	-0.25%	2.13%	5.62%	-3.49%
Deposit growth	10.37%	11.01%	-0.64%	2.31%	5.89%	-3.58%

Source: ACB, VCSC; (\*) CASA calculation consists of demand, margin and specific purpose deposits.



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OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
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