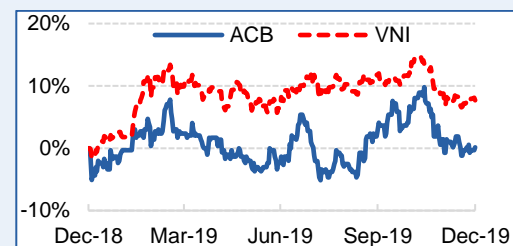


# Asia Commercial Bank (ACB)

# Earnings Flash

<b>Industry:</b>	<b>Banking</b>		<u>2018</u>	<u>2019</u>
<b>Report Date:</b>	<b>January 22, 2019</b>			
Current Price:	VND24,500	PPOP y/y	40.2%	6.4%
Current Target Price:	VND31,600	NPAT y/y	142.5%	16.7%
Upside	29.0%	NIM	3.55%	3.55%
Dividend Yield:	4.1%	NPLs/loans	0.73%	0.54%
TSR	33.1%	CIR	47.8%	51.6%
Rating:	BUY	P/E	7.9x	6.8x
		P/B	1.9x	1.5x



Market Cap:	USD1.7bn		<u>ACB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room:	USD0	P/E (ttm)	6.8x	7.5x	16.2x
ADTV30D:	USD2.3mn	P/B (curr)	1.5x	1.4x	2.4x
State Ownership:	0.00%	ROE	25.6%	21.0%	14.8%
Outstanding Shares:	1.657bn	ROA	1.7%	1.7%	2.4%
Fully Diluted Shares:	1.657bn				

## Company overview

Founded in 1993, ACB is the fourth smallest bank among our coverage banks by total assets as of December 31, 2019. 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.

## Strong banca fees with favorable NPL support earnings

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ACB released inline results for FY 2019 with NPAT-MI of VND6.0tn (USD257mn, +16.7% YoY), completing 99% of our 2019 full-year forecast. FY 2019 ROA and ROE stood at 1.7% and 24.6%, respectively. All QoQ figures below are comparisons between Q4 2019 and Q3 2019.

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**Solid 16.9% YoY growth (+10.1% QoQ) in net interest income while NIM remained stable at 3.55%.** ACB's FY 2019 credit growth reached 16.6%. Although interest earning asset (IEA) yields tracked up by seven bps YoY (+7 bps QoQ) to 8.29% in FY 2019, the cost of funds jumped by 15 bps YoY (-12 bps QoQ) to 5.01%. We suspect that a 1.5x increase in valuable papers balance from USD356mn to USD894mn in the last 12 months resulted in the above increase in cost of funds in FY 2019 — despite a 161-bp boost in ACB's CASA ratio to 19.1%.

**Net fee income (including FX) soared while recovery income experienced negative YoY growth.** Net fee income (including FX) grew at 33.8% YoY, which was driven by a 151% jump in bancassurance fees that contributed 48% to Noll. In contrast, we observed an overall YoY slowdown in the magnitude of recovery in 2019, which led to a 19.1% decrease in FY 2019 of recovery income to VND1.4tn (USD62mn) and contributed 38% of Noll. In total, Noll contributed 24.8% to total operating income in FY 2019, which was a 140-bp decline YoY.

**Low provisioning expenses in FY 2019 made up for a shortfall in Noll.** ACB reported provision expenses of VND274bn (USD12mn) vs VND932bn (USD40mn) in FY 2018. We suspect the bank engaged in a reversal of the specific provision account in a vicinity of VND400bn (USD17mn) during the year; 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 in the sector, accompanied by negligible write-offs in FY 2019.** NPL ratio dropped by 18 bps YoY to 0.54%. Loan loss reserve (LLR) soared to 175.5% of NPLs in 2019 vs 151.9% in 2018. Write-offs/gross loans of 0.09% compared with 0.1% that was observed in 2018.

**Figure 1: ACB's FY 2019 results**

VND bn	FY 2019	FY 2018	Y-o-Y	Q4 2019	Q3 2019	Q-o-Q
NIM	3.55%	3.55%	0 bps	3.73%	3.55%	19 bps
Asset yield	8.29%	8.22%	7 bps	8.62%	8.55%	7 bps
Cost of funds	5.01%	4.85%	15 bps	5.17%	5.29%	-12 bps
CASA ratio*	19.1%	17.5%	161 bps	19.1%	17.2%	185 bps
CASA ratio plus term deposits in FX*	20.6%	19.5%	112 bps	20.6%	18.9%	173 bps
NII	12,112	10,363	16.9%	3,330	3,023	10.1%
Non-II	3,985	3,670	8.6%	1,480	826	79.2%
Provision expenses	(274)	(932)	-70.6%	(112)	(66)	68.4%
PPOP	7,790	7,321	6.4%	2,067	2,005	3.1%
Net profit	5,997	5,137	16.7%	1,549	1,549	0.0%
CIR	51.6%	47.8%	378 bps	57.0%	47.9%	913 bps
NPL ratio	0.54%	0.73%	-18 bps	0.54%	0.67%	-13 bps
Loan growth	16.56%	16.16%	40 bps	4.94%	2.13%	281 bps
Deposit growth	14.12%	11.85%	227 bps	3.40%	2.31%	109 bps

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



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**Stock ratings** are set based on projected total shareholder return (TSR), defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
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%
SELL	If the projected TSR is -20% or lower
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**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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