

**ACB – OUTPERFORM**

**STOCK INFORMATION**  
(August 10<sup>th</sup> 2021)

Stock exchange	HOSE
Market price (VND)	36,50
10-day average trading volume	10,909,57
Market capital (VND bn)	96,05
Outstanding shares	2,701,948,07
Share held by foreign investors	30%

**EQUITY ANALYST**

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**VCBS's Research**

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**EARNING GROWTH REMAIN EVEN WHEN NIM IS ABOUT TO DECREASE**

**Prospects:**

- Credit growth fast with good quality remained:** ACB recorded credit growth of 9.2% in H1.2021. With the advantage of abundant equity from retained earnings and early response to the SBV's lending rate decrease request, we expect ACB will continue to be assigned a credit growth target higher than the industry average in the coming years.
- Low provisioning pressure:** ACB has made all provisions for the current restructuring loans according to Circular 03, helping to reduce the provisioning pressure in the next quarters to be lower than that of the banking system in general.
- The reverse of the provision for receivables from related lawsuits helps to reduce operating costs.**
- Deploying digitization helps to reduce operating costs in the long term:** ACB is in the active phase of digitizing operations, shortening processes to increase customer experience as well as save operating costs.
- Active insurance activity** with 2 income components including (1) Prepaid fee of VND 8,500 billion recorded quarterly for 15 years and (2) Insurance sales remained in the top 5 banks with revenue highest monthly since early 2021

**Recommendation:** We recommend **OUTPERFORM** on ACB's stock with long-term positive and sustainable growth potential in both asset size and profitability. The fair price for ACB shares is **41,117 VND/share**.

(VND billion)	2018	2019	2020	2021F	2022F
Net interest income	10,363	12,112	14,582	19,224	20,542
Net non interest income	3,670	3,985	3,579	4,164	4,567
Total operating income	14,033	16,097	18,161	23,388	25,109
Operating expense	6,712	8,308	7,624	7,129	8,407
Provision expense	932	274	941	2,973	1,425
EBT	6,389	7,516	9,596	13,286	15,278
NIM	3.5%	3.5%	3.7%	4.2%	4.0%
VAMC bond outstanding	21	0	0	0	0
ROAE	27.7%	24.6%	24.3%	26.1%	24.9%
CIR	47.8%	51.6%	42.0%	30.5%	33.5%
CAR	12.8%	11.7%	11.1%	na	na
NPL ratio	0.7%	0.5%	0.6%	0.7%	0.7%
LLCR	151.9%	175.0%	160.3%	210.3%	205.3%
CASA	16.7%	18.2%	21.0%	22.9%	23.5%

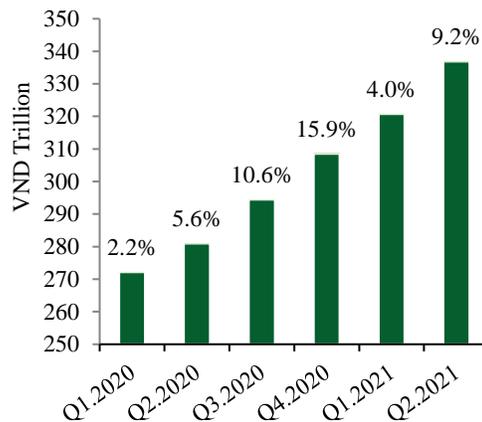
Source: ACB, VCBS Research

**H1 earning growth rapidly thanks to NIM widen**

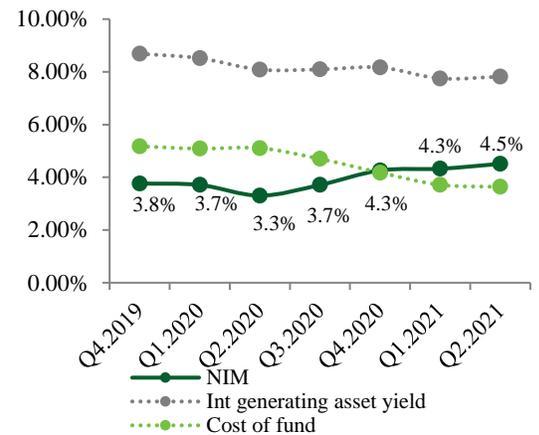
**ACB records EBT at 6,353 VND billion in H1.2021 (+66% yoy)** with main contribution is from the 0.8% wider in NIM since the beginning of 2020.

**H1 Credit growth reach 9.2% and Loan to customers go up to 337 VND Trillion.** According to the bank's representative, outstanding loan growth in the first half of 2021 is mainly due to individual customers and small and medium enterprises (SMEs), these two groups of customers account for 93% of ACB's outstanding loans by the end of 2020. ACB continues to not hold corporate bonds in its credit portfolio and maintains high lending standards.

**Credit size and ytd growth**



**NIM**



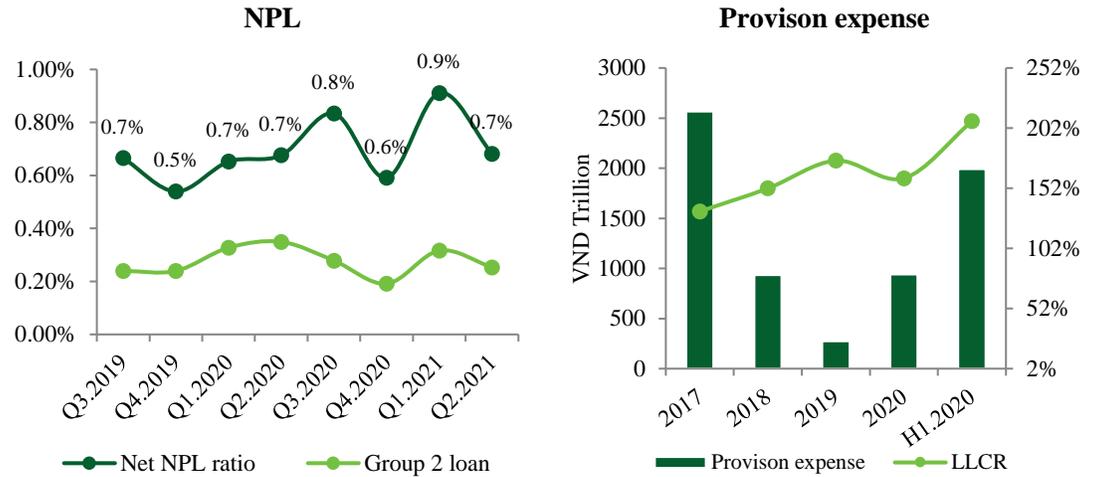
Source: ACB, VCBS research

**Customer deposits grew slowly 1.5% in H1.2021**, driving ACB's LDR to 82.5% and partly contributing to the expansion of NIM's net profit margin. The slower growth rate of deposits compared to loans is a common phenomenon for many banks in the first period of the year because cash flow tends to find other investment channels. The liquidity of the banking system in general and ACB in particular is no longer abundant compared to the previous period.

**ACB's non-interest income increased by 16.6% to VND 2,273 billion.** In which, the sustainability of this income group becomes more sustainable with net income from service activities reaching VND 1,512 billion (+90% yoy). ACB starts to record Bancassurance Upfront fee of 8,500 billion VND from 2021 and is divided equally among each quarter, lasting 15 years (142 billion VND per quarter). Besides, ACB has risen to become the bank with the third largest insurance sales in the whole system in H1.2021.

**ACB recorded a reversal of 583 billion dong of receivables** related to previous legal cases, bringing operating expenses to only 3,557 billion dong in H1 (-14% yoy), CIR ratio decreased to 30%. Excluding extraordinary reversals, ACB's CIR stands at 36%.

**ACB made a provision of 1,417 billion dong for restructuring debts according to Circular 03 in Q2.2021**, as of 100% portion in one quarter since the Circular 03 required it within 3 years. The bank's on-balance sheet bad debt ratio remained low at 0.7% and the restructured loan balance according to Circular 01 and the revised Circular 03 was at VND 8,195 billion (2.7% of outstanding loan).



Source: ACB, VCBS research

**Decrease Lending rate from 0.3 – 1% for all existing customers**

**ACB offers a support package to reduce interest rates for existing customers** with a reduction of 0.3 - 0.8% for individuals and 0.5 - 1% for corporates and the condition is simple. For example, requiring customers to use related products of the bank such as cards, insurance, ... The range of interest rate reduction packages is unlimited. Thus, the bank's recorded lending interest rate may decrease significantly in Q4.2021 when the quarterly interest rate period for old loans is recalculated at a lower interest rate.

**Many banks head toward reopening economy**

**At the moment, the disbursement of new loans of banks is facing many difficulties due to social distancing** regulations in many localities across the country. The necessary procedures for lending activities such as notarization, vehicle registration, receipt of collateral, etc. cannot be performed. Credit growth in the first half of August slowed down notably according to some banks.

**Banks look forward to the scenario of reopening the economy from the end of 3Q21.** Currently, Vietnam is in the urgent phase of vaccination with an average injection rate of over 400,000 doses/day and nearly 10 million doses have been injected (~10% of the country's population). Many banks shared at investor meetings about their expectation that major economic contributors cities such as Ho Chi Minh City could complete the vaccination process soon and be reopened from the end of 3Q2021. Credit growth will become more positive at the end of the year.

**Prospects:**

**Credit growth fast with good quality:** ACB recorded credit growth of 9.2% in H1.2021, faster than the industry average growth rate of 5.9%. With the advantage of abundant equity from retained earnings and early response to the SBV's lending rate decrease request, we expect ACB will continue to be assigned a credit growth target higher than the industry average in the coming years. The difficult situation in new disbursement is expected to disappear at the end of the year. In addition, ACB's policy of focusing on customer quality and collateral continues to be maintained.

**Low provisioning pressure:** ACB has made all provisions for the current restructuring loans according to Circular 03, helping to reduce the provisioning pressure in the next quarters to be lower than that of the banking system in general.

**The reverse of the provision for receivables from related lawsuits helps to reduce operating costs** in the context of increased provision cost pressure due to Covid-19. We expect ACB will continue to collect the remaining small portion of this receivable in the coming quarters.

**Deploying digitization helps to reduce operating costs in the long term:** ACB is in the active phase of digitizing operations, shortening processes to increase customer experience as well as save operating costs. Digitization has been successfully implemented at some other banks, helping to reduce staff size and we expect ACB's staff growth rate will be slower than asset growth in the coming years, helping to reduce bank's CIR.

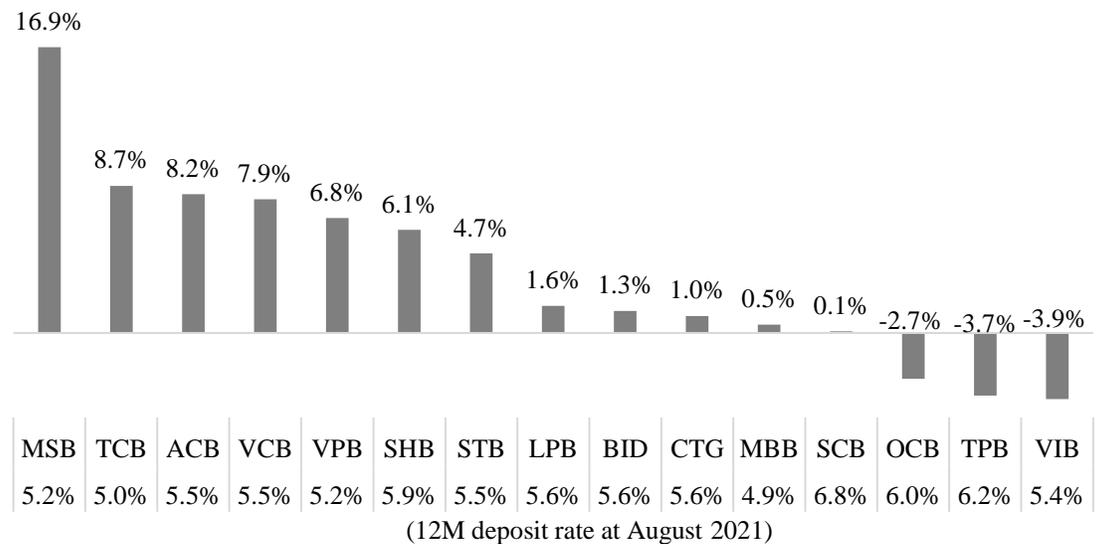
**Active insurance activity** with 2 income components including (1) Prepaid fee of VND 8,500 billion recorded quarterly for 15 years and (2) Insurance sales remained in the top 5 banks with revenue highest monthly since early 2021.

**Risks:**

**Bad debt risk:** Despite having superior asset quality compared to the system average, ACB will still face increased risk of bad debt if the Covid-19 pandemic persists, causing provision expense to increase.

**NIM's narrowing will slow down the growth rate in H2.2021 and 2022** when (1) lending rates decrease and (2) liquidity is less abundant making it difficult for deposit rates to further reduce. The slow growth of deposits in general and long-term deposits in particular has put pressure on the LDR and short-term capital for medium and long-term loans of ACB and some other banks, creating pressure to raise deposit rates in the medium term.

**Gap (loan growth - deposit growth) in H1.2021**



Source: Banks, VCBS research

**Forecast**

**We forecast ACB's EBT in 2021 at 13,268 VND Billion (+38% yoy),** equivalent to EPS of 3,934 VND/shares and BVPS of 16,975 VND/shares.

Unit: VND Billion	2020	2021	Growth	2022F	Growth
Net interest income	14,582	19,224	31.8%	20,542	6.9%
Total operating income	18,161	23,388	28.8%	25,109	7.4%
Provision expenses	-941	-2,973	215.9%	-1,425	-52.1%
Earning before tax	9,596	13,286	38.5%	15,278	15.0%
ROE	24.3%	26.1%	0.0%	24.9%	0.0%

Source: VCBS forecast

**Recommendation:**  
**OUTPERFORM**

We use the 2.3x P/B valuation of similar banks to value ACB stock in the P/B comparison approach and the 12.9% equity required rate of return (Ke) in the Residual Income valuation. The fair price for ACB shares is **41,117 VND/share**. We recommend **OUTPERFORM** on ACB's stock with long-term positive and sustainable growth potential in both asset size and profitability.

Method	Stock price (VND/shares)	Weight
P/B Multiple	<b>38,684</b>	50%
Residual Income	<b>43,549</b>	50%
<b>Target Price</b>	<b>41,117</b>	

## APPENDIXDISCLAIMER

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