

## Banking sector

3Q21 Earnings Update

October 2021

Recommendation **OUTPERFORM**

Target price (VND/Share) **41,940**

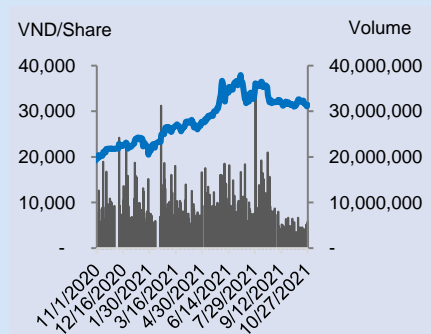
Market price (27/10/2021) 31,400

Upside potential **33.6%**

### SHARES INFORMATION

Trading exchange	HSX
52-week price range	19,030-37,950
Market cap	VND84,841 bn
Shares outstanding	2,701,948,075
10-day average volume	4,375,060
Foreign Ownership	30%
FOL	30%
Dividend per share	N/a
Dividend yield	N/a
Beta	1.5

### PRICE MOVEMENTS



	YTD	1M	3M	6M
ACB	37.1%	-0.5%	-12.3%	9.7%
VNIndex	27.0%	6.0%	6.8%	13.3%

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# Asia Commercial JS Bank

Ticker: ACB

Reuters: ACB.HM

Bloomberg: ACB VN Equity

## 3Q21 pretax profits flat y/y

Recently, ACB has posted its consolidated financial statements with 3Q21 PBT of VND2,615.6 bn (+0.9% YoY) amid the worst-ever COVID-19 resurgence in Vietnam, a tad below our estimate of VND2,719 bn (+4.9% YoY). Cumulatively, ACB's 9M21 PBT grew nicely by 39.9% YoY to VND8,968bn, fulfilling 85.0%/ 71.9% of ACB's target/ our forecast in the [previous update](#).

### Customer loans are picking ups following a 3Q21 slowdown

ACB's customer loans were slowing down to VND331 tn (-1.5% QoQ; +8.0% YTD), slightly ahead of the sector-wide level of 7.2%. Per management, customer loans are showing signs of pick-ups decelerating in the previous three months.

The management is targeting to fully utilize the bank's current FY21 credit quota of 13.5%, implying an ample room for credit growth in 4Q21. To do so, the bank is offering a variety of interest rate cut programs, aiming to forego around VND500 bn of interest income to not only support its current customers but also expand its customer base to excel its going-forward outlook.

### Continued CASA increase; Further LDR optimization in 4Q21

ACB's 3Q21 customer deposits rose to VND366 tn (+2.0% QoQ; +3.6% YTD), which we believe to finance its 4Q21 credit growth; of which, CASA expanded to 22.5% vs 21.6% by end-FY20. While ACB is targeting to achieve CASA of 24.0% by end-FY21, the management expects FY21 deposit growth of 5-6%. That said, LDR optimization is very likely in place in 4Q21 to keep NIM stable, in our view. Noteworthy, ACB continued to actively issue valuable papers during the period, lifting total balance to VND32.5 tn (+18.3% QoQ; +47.3 % YoY).

### NIM fell QoQ but rose YoY, in-line with the industry trend

3Q21 NIM stayed high at 3.91% (-56 bps QoQ; +28 bps YoY), mostly owing to a faster drop in funding costs, which partially offset the decline in IEA yields. Notably, ACB has foregone VND204 bn of interest income to assist customers in 3Q21.

### CIR likely to trend down on efficient branch optimization and plan to recruit no new employee in FY22

3Q21 CIR inched up to 39.6% vs 38.6% in 3Q20 and 25.6% in 2Q21. We expect ACB's core CIRs to trend down, on optimization of efficient branches and the absence of new employees in FY22. The management is targeting FY22 CIR of below 40.0%.

### LAR increase; NPL coverage stayed high

ACB's 3Q21 NPLs inched up to 0.84% (+15 bps QoQ; +1 bps YoY). SML (Group 2) increased to VND2.4 tn, equivalent to 0.72% of loan books, which is likely to be among the lowest in the industry.

ACB continued proactively making provisions, with 3Q21 provision expenses surging strongly by 5.1x YoY to VND820.1 bn. 3Q21 NPL coverage stayed high at 197.7% vs 207.7% in 2Q21 and 160.3% by end-FY20.

ACB's total exposure to restructured loans by end-3Q21 grew to VND13.4 tn, vs VND8.2 tn in 2Q21. In which, the bank had booked VND2,069 bn of provision expenses for these restructured loans, while reaffirming its principal of booking full provisions for FY21 restructured loans by year-end.

We emphasize that ACB is reporting total exposure to restructured loans, different from other banks that are reporting direct restructured loans. For instance, ACB's end-2Q21 total exposure to restructured loans were VND8,195 bn (-9.2% YTD). However, at the bank's FY21 AGM, the management shared that only about VND1.0 tn (0.3% of outstanding loans) was indeed restructured.

### Capital ratio and liquidity in good shape

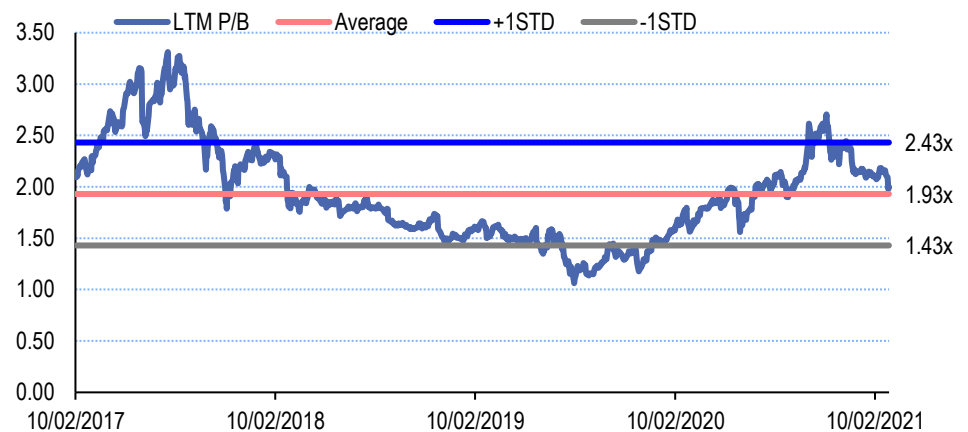
By end-3Q21, ACB's short-term funds used for mid- and long-term loans ratio was 22.7%. CAR (Basel II) continued to expand to over 11%.

### Recommendation:

The ACB closed at VND31,400/ share on October 27, 2021, trading at respective FY21-22 P/Bs of 1.9x and 1.5x, which is indeed inexpensive, given its 5-Y historical P/Bs of 1.93x, and sustainably robust ROEs of above 20% by end-FY26. We maintain our Outperform rating on ACB, but put our estimates and TP under review.

ACB remains our fave stock on its: (1) Superior retail banking franchise, (2) Top-notch assets quality, (3) High and sustainable profitability; and (4) Prudent management team with proactive provisioning policy, which should strongly support its future growth potential.

**Figure 1: ACB's historical P/Bs in FY17-21:**



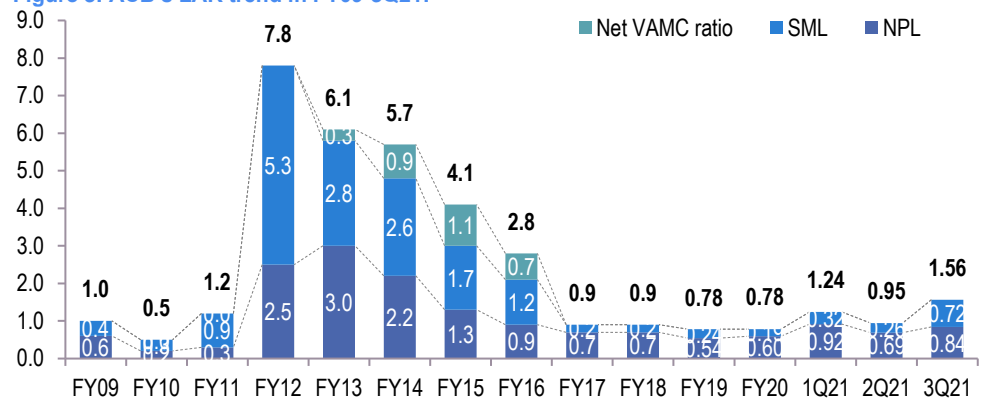
Source: FiinPro; BVSC

**Figure 2: ACB's IEA yields, funding costs and NIM trends:**

	2018	2019	2020	3Q20	4Q20	1Q21	2Q21	3Q21
IEA yield	8.23%	8.30%	8.00%	8.03%	8.12%	7.70%	7.75%	7.18%
Funding cost	4.82%	4.98%	4.62%	4.75%	4.13%	3.71%	3.63%	3.63%
<b>NIM</b>	<b>3.55%</b>	<b>3.55%</b>	<b>3.66%</b>	<b>3.63%</b>	<b>4.28%</b>	<b>4.30%</b>	<b>4.47%</b>	<b>3.91%</b>

Source: Bank data; BVSC

**Figure 3: ACB's LAR trend in FY09-3Q21:**



Source: Bank data; BVSC; Unit: %

**FINANCIAL RATIOS**

<b>INCOME STATEMENT</b>					
<b>Unit: VND bn</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
Total operating income	14,033	16,097	18,161	22,834	26,738
Total operating expenses	-6,712	-8,308	-7,624	-9,248	-10,562
Pre-provision operating profit	7,321	7,790	10,537	13,586	16,177
Provision expenses	-932	-274	-941	-1,017	-793
NPAT-MI	5,137	6,010	7,683	10,055	12,307

<b>BALANCE SHEET</b>					
<b>Unit: VND bn</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
Cash and cash equivalents	6,129	6,438	6,968	8,436	9,402
Balances with State Bank	10,684	10,420	16,617	16,050	18,429
Deposits with other banks	18,770	30,342	31,671	36,739	42,249
Net customer loans	196,669	227,983	266,165	308,529	357,640
Investment securities	53,380	55,956	63,399	72,283	82,513
<b>Total assets</b>	<b>284,316</b>	<b>329,333</b>	<b>383,514</b>	<b>444,530</b>	<b>508,074</b>
Deposits & loans from SBV	3,074	-	-	-	-
Deposits from other FIS	20,718	19,249	23,875	26,263	28,889
Customer deposits	269,999	308,129	353,196	402,643	459,013
Shareholders' equity	21,018	27,783	35,448	45,353	57,510
<b>Total liabilities and equity</b>	<b>284,316</b>	<b>329,333</b>	<b>383,514</b>	<b>444,530</b>	<b>508,074</b>

<b>FINANCIAL INDICATORS</b>					
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>
<b>Growth</b>					
Customer loan growth	16.1%	16.6%	15.9%	16%	15%
Customer deposit growth	11.9%	14.1%	14.6%	14%	14%
Total asset growth	15.8%	16.5%	15.9%	14%	14%
Shareholder equity growth	31.1%	32.2%	27.6%	28%	27%
<b>Profitability</b>					
NIM (%)	3.55%	3.55%	3.66%	4.16%	4.28%
ROA (%)	1.67%	1.69%	1.77%	2.43%	2.58%
ROE (%)	27.73%	24.63%	22.84%	24.89%	23.93%
<b>Asset quality</b>					
NPL (%)	0.7%	0.5%	0.8%	0.85%	0.65%
Loan loss reserve (LLR)	152%	175%	144%	127%	125%
<b>Liquidity</b>					
Customer loans/ Total assets	69%	69%	69%	69%	70%
Customer loans/ deposits	73%	74%	75%	77%	78%
<b>Per-share</b>					
EPS (VND/share)	2,377	2,780	3,554	3,721	4,555
BVPS (VND/share)	9,723	12,853	16,399	16,785	21,285

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