

# Asia Commercial Bank (ACB)

Aim towards becoming the leading retail bank

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**1Q22 PBT reached VND6,785 billion, up 22.9%YoY**

In 1Q22, Asia Commercial Bank (ACB) recorded NII of VND5,441 billion (+13.5% QoQ, +17.3% YoY), NOII of VND1,409 billion (+19.8% QoQ, +36.1% YoY). The bank reversed VND2.84 billion of provision expenses in 1Q22, while provision expenses in 1Q21 were VND606 billion. Thus, PBT was up 32.5%YoY to VND4,114 billion.

**1Q22 NIM was 4.22%, +32bps QoQ and +8bps YoY.**

The average earnings yield in 1Q22 inched up 13bps QoQ to 7.02%. The CASA ratio continued to reach a new high of 26.7%, resulting in a 20bps QoQ reduction in capital expenditure. NIM, therefore, increased 32bps QoQ to 4.22%.

**1Q22 asset quality remains positive**

1Q22 NPL ratio inched up 5bps from the end-2021 level due to debt classifications, and the LLCR dropped to 187.8%. Restructured debts decreased by VND2,000 billion to VND15,000 billion or 3.95% of total outstanding loans.

**ACB approved FY22 business plan and dividend payment plan**

ACB targets credit and deposit growth at 10%YoY and 11%YoY. NPAT should be VND15 trillion, up 25%YoY. The BOD approved the plan to pay dividends: stock dividend (25%) in 2021, and cash dividend (10%) & stock dividend (15%) in 2022.

**There is lots of room left for the growth of home loans in 2022**

We are upbeat about ACB's growth of home loans given: (1) limited impact of real estate credit tightening on ACB; (2) rising housing demand; (3) lots of room left for credit growth. Boosted imports & exports will further drive commercial loans.

**We recommend BUYING ACB shares with a target price of VND40,700**

Based on P/B and residual income methods, we recommend BUYING ACB shares with a target price of 40,700 VND, 32.3% higher than the price on May 10, 2022.

**Buy** maintain

<b>Target price</b>	<b>VND40,700</b>
Upside/Downside	32.3%
Current price (May 5, 2022)	VND30,800
Consensus target price	VND42,800
Market cap (VNDbn)	83,220

<b>Trading data</b>	
Free float	84.54%
3M avg trading value (VNDbn)	172
Foreign ownership	12.2%
Major shareholder	Dragon Financial Holding (6.92%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-0.6	-5.5	-4.6	-15.0
<b>Relative</b>	2.1	7.6	4.2	-9.7

## Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	14,582	18,945	24,332	28,260
Pre-provision operating income (VNDbn)	10,537	15,334	18,761	21,475
NPAT of the parent bank (VNDbn)	7,683	9,603	13,664	16,312
EPS (VND)	3,511	3,498	4,046	3,864
EPS growth (%)	-3.3%	-0.4%	15.7%	-4.5%
PER (x)	8.95	9.71	10.07	10.55
Book value per share (VND)	15,906	16,219	18,794	21,005
PBR (x)	1.98	2.09	2.17	1.94
ROE (%)	24.3%	23.9%	24.9%	21.1%
Dividend yield (%)	30%	25%	25%	25%



Source: Bloomberg, KB Securities Vietnam

## Updated business performance

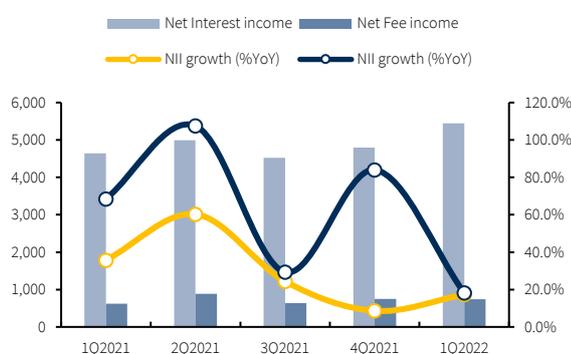
**1Q22 PBT reached VND6,785 billion, up 22.9%YoY**

In 1Q22, ACB recorded positive growth with net interest income (NII) of VND5,441 billion (+13.5%QoQ, +17.3%YoY, non-interest income (NOII) of VND1,409 billion (+19.8% QoQ, +36.1% YoY), helping total operating income (TOI) rise by 20.7%YoY and +14.7%QoQ to VND6,850 billion. Notably, the bank reversed VND2.84 billion in provision expenses in 1Q22 since ACB boosted writing off debts in 2021. Hence, 1Q22 PBT advanced by +32.5% YoY and +35.8 % QoQ to VND3,029 billion. Credit growth remains high at 4.1%YTD, up from 2.1%YTD in 1Q21 but lower than 5.04% YTD of the industry standard.

**1Q22 NIM was 4.22%, +32bps QoQ and +8bps YoY.**

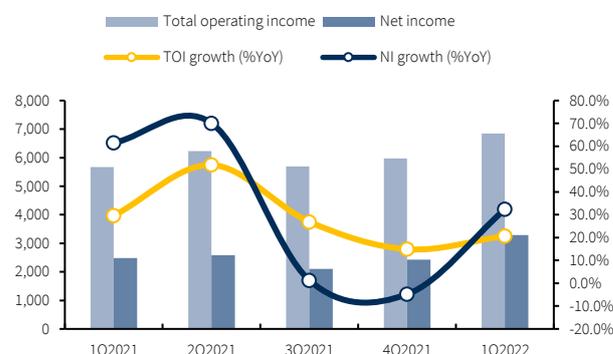
Unpredictable developments of the pandemic in the South, ACB's primary market, have had negative impacts on the lending activities of ACB. Therefore, the average earnings yield dropped by 58bps in 3Q21 and 28bps in 4Q21. In 1Q22, despite the economic recovery, tightening real estate credit and cutting lending rates to attract customers caused the average earnings yield to fall 14bps QoQ to 7.02%. The CASA ratio improved 1ppts to 26.3% in 1Q22, helping to lower capital costs by 20bps QoQ. NIM picked up 32bps QoQ to 4.22%.

Fig 1. ACB – NII, service fees (VNDbn, %YoY)



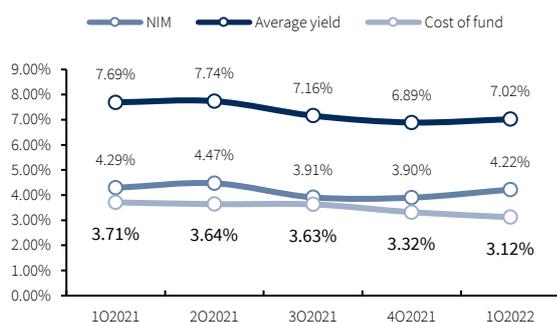
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 2. ACB – TOI, NPAT (VNDbn, %YoY)



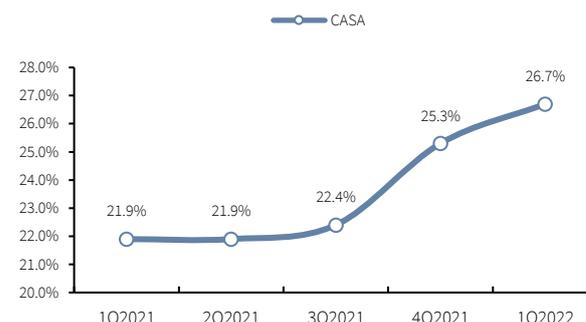
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 3. ACB – NIM (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 4. ACB – CASA (%)



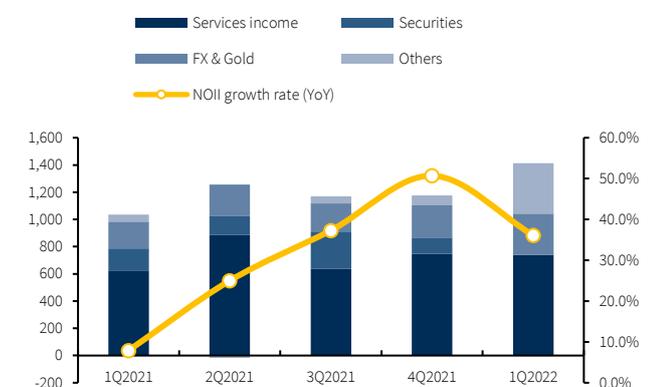
Source: Asia Commercial Bank, KB Securities Vietnam

## 1Q22 NOII reached VND1,409 billion, up 36.0%YoY

Service fees picked up 18.2%YoY to VND739 billion as bancassurance contributed VND390 billion, and net other income surged to VND369 billion (+7.5x YoY) thanks to the bank actively handling bad debts. Foreign currency and gold trading brought in VND303 billion, up 54.7%YoY. Besides, investment securities saw a loss of -VND4.7 billion, given a 34%YoY increase in transaction fees and VND25 billion in provisions for this investment. ACB still recorded VND1,409 billion in NOII, up 14.7%QoQ and 36.0%YoY.

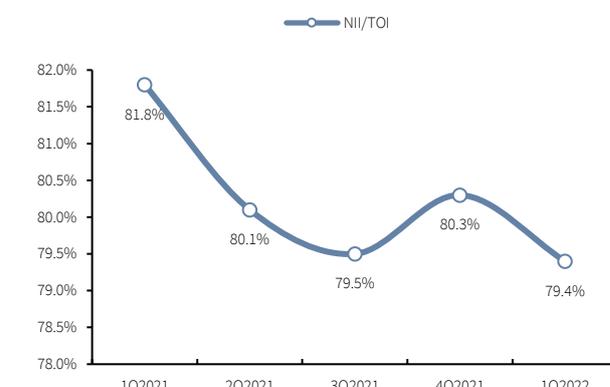
The NII/TOI ratio in 1Q22 decreased slightly to 79.4%. NII is still the bank's main contributor, accounting for 80% of TOI. ACB aims to reduce this ratio to 76% in the coming years by promoting Sun Life's life insurance cross-selling.

Fig 6. ACB – NOII breakdown (VNDbn, %)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 7. ACB – NII/TOI (%)



Source: Asia Commercial Bank, KB Securities Vietnam

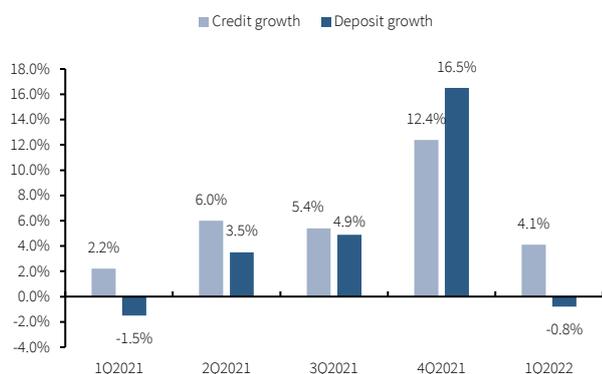
## Credit growth hit 4.1%YTD while deposit growth went down 0.76%YTD

Loans to customers grew positively at 5%YTD in 1Q22 (vs. 4.1%YTD in 1Q21). ACB's loan structure mainly focuses on the retail segment, with the proportion of personal and SME loans at 64% and 30% in late 2021, respectively. Personal loans include household loans, home and home repair loans (representing 70–75%), and consumer loans. Consumer finance accounts for only about 2% of total outstanding loans by the end-2021, despite being boosted since 2017. Commercial loans make up 17–18% of total outstanding loans.

Investment securities inched down -0.3%YoY, -1.3%QoQ to VND58,710 billion. Notably, ACB is one of the few banks not investing in corporate bonds, and its securities portfolio is primarily government bonds (~VND58 trillion).

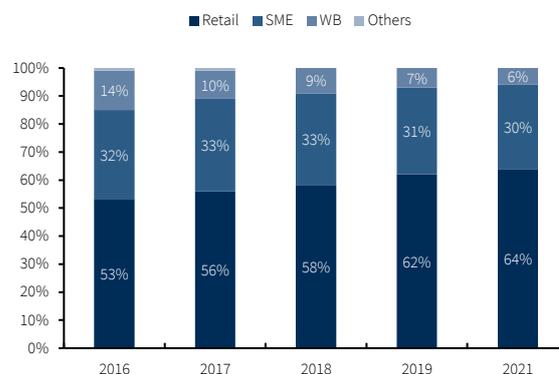
Total mobilized capital reached VND461 trillion (-0.76% YTD) mainly due to an 18.5% YTD decrease in interbank borrowing. Meanwhile, customer deposit and valuable papers issuance improved by only 1.6%YTD and 1.3%YTD, respectively. Decreased capital mobilization caused the LDR ratio in 1Q22 to plunge to 82.4% (vs. 76.6% by the end of 2021), approaching the target of 85% set by the State Bank. Therefore, in the next few months, ACB needs to promote mobilized capital by raising interest rates or offering card incentives.

Fig 8. ACB – Credit and deposit growth (%YTD)



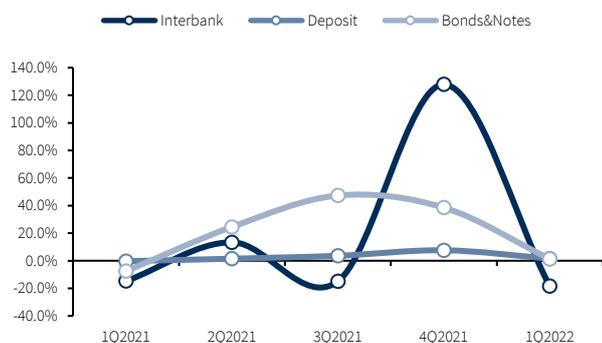
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Loan structure (%)



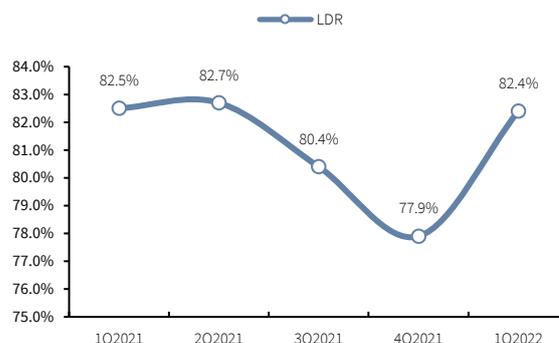
Source: Asia Commercial Bank, KB Securities Vietnam

Fig 9. ACB – Deposit growth breakdown (%)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 10. ACB – 1Q21A-1Q22 LDR (%)



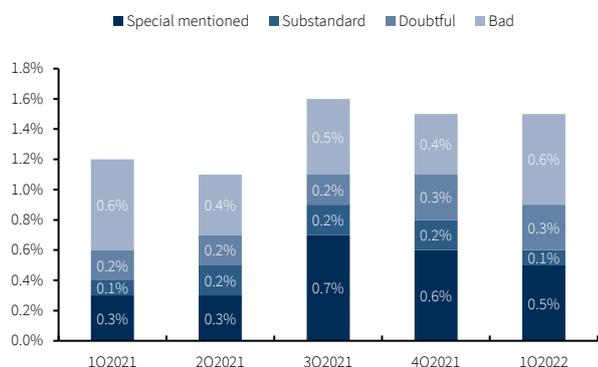
Source: Asia Commercial Bank, KB Securities Vietnam

**NPL ratio inched up to 0.82%**

The COVID-19 wave in the South has hurt the operation of ACB as this is the bank's primary market. Asset quality may also deteriorate since ACB's customer base is hard hit by the pandemic. However, thanks to promoting provisioning, ACB could control the NPL ratio well below 1%, and the loan loss coverage ratio (LLCR) increased to a new high of 209.4% in 4Q21. Thus, it will help ACB to ease the provisioning pressure and may record the reversal of provisions in subsequent years.

Asset quality over the previous quarter stayed positive when the NPL ratio only increased slightly by 5bps to 0.82% due to the classification of about VND555 billion from special mention and subprime debts to bad debts. Restructured debts continued to decrease to VND15 trillion from VND17 trillion at the end of 2021. The LLCR dropped to 185.8% in 1Q22, but ACB is still among the banks with the highest LLCR in the banking system.

Fig 11. ACB – Groups of debt (%)



Source: Asia Commercial Bank, KB Securities Vietnam

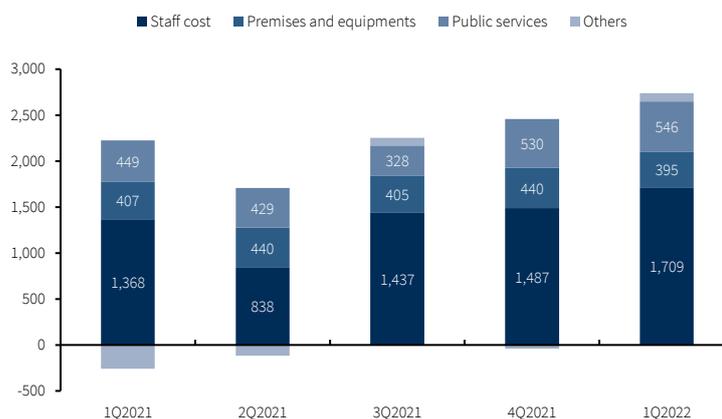
Fig 12. ACB – NPL, LLCR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

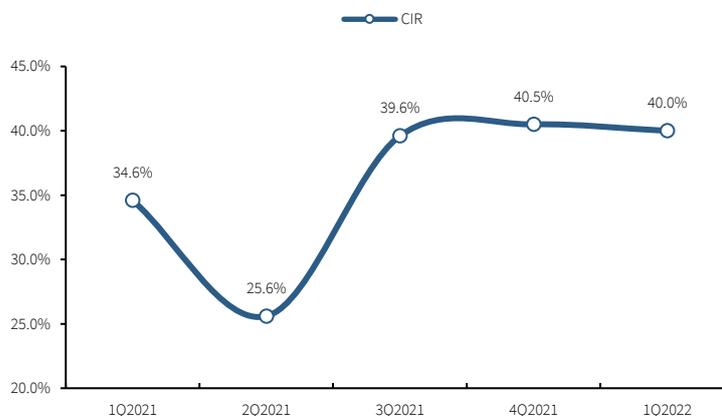
General and administrative expenses reached VND2,738 billion (+13.3%QoQ and +39.3%YoY) mainly due to increased staff costs. Therefore, the CIR in 1Q22 increased by 5.4 pts YoY to 40%. ACB is still among the banks with the highest CIR. ACB would not recruit new employees to cut costs in 2022.

Fig 13. ACB – 1Q21-1Q22 operating expense (VNDbn)



Source: Asia Commercial Bank, KB Securities Vietnam

Fig 14. ACB – 1Q21-1Q22 CIR (%)



Source: Asia Commercial Bank, KB Securities Vietnam

### **ACB set a conservative business plan for 2022**

- In 2022, ACB set a relatively conservative plan for deposit and credit growth at 11% and 10%, respectively. However, the bank aims towards credit growth of 16% (flat YoY).
- ACB plans to exploit FDI enterprises and the industrial real estate market in the coming years.
- The NPL ratio should be below 2%. We believe that ACB can keep the NPL ratio below 1% because it has set aside required provisions for restructured debts and is among the banks with the highest LLCR in the industry.
- PBT should increase by 25%YoY to VND15,018 billion.
- Management approved the plan to pay stock dividends in 2021 at 25%, expected in 3Q22.
- ACB would pay cash dividends (10%) and stock dividends (15%) in 2022. However, the cash dividend payment requires the approval of the State Bank.

### **ACB would accelerate CASA growth, aiming towards 28–29% in the coming years**

ACB's Employee Banking and Transaction Banking initiatives helped the CASA ratio spike to 25.3% by the end-2021. Earlier this year, ACB officially launched ACB ONE and established Digital Banking Division. ACB ONE can help customers open bank accounts online; withdraw cash and transfer money at ATM by QR code; buy Sun Life insurance, contributing to the growth of demand deposits. As a result, the CASA ratio continued to improve to 27% in 1Q22.

### **NOII was driven by bancassurance**

In 2020, ACB signed an exclusive insurance distribution cooperation agreement with Sun Life, with a term of 15 years and an upfront fee of up to VND8,500 billion, only behind the deal between VCB and FWD (VND9,200 billion). Bancassurance brought in VND1,500 billion (+131%YoY) in 2021. ACB has been promoting cross-selling insurance products by offering preferential interest rates to customers with home loans if they purchase Sun Life's life insurance. It may help ACB capitalize on the existing advantages of a retail bank, but it may also affect the earnings yield. In the years to come, ACB expects bancassurance to grow by 25–30%YoY and an upfront fee of VND567 billion/year, which will boost ACB's NOII.

### **There is a lot of room left for retail lending in 2022**

ACB is one of the banks with the highest proportion of retail lending (personal and SME loans) in the industry, representing 94% of total outstanding loans at the end of 2021, with an average growth rate of 20.3%/annum between 2014–2021. SBV's tight control of real estate credit will not impact ACB since the bank focuses mainly on home loans. Given that the bank has only used 4.1%/10% of the credit cap granted by the State Bank since the beginning of the year, there is still room for credit growth.

The real estate market in Ho Chi Minh City (HCMC) continued to bounce back in 1Q22 after being severely impacted by the pandemic in the third quarter of last year. As reported by JLL Vietnam:

(1) The apartment market in HCMC provided the market with 6,487 new products (+4x QoQ) in 4Q21 and 1,518 new products in 1Q22 (-76.5QoQ due to the long-lasting holiday season). The absorption rate in 4Q21 and 1Q22 stood at 92.7% and 90%, respectively, reflecting the high demand for housing. The new supply for the rest of the year is forecast at 32,400 units (+90.5% YoY).

(2) The townhouse market in HCMC provided the market with 992 new products (+4x QoQ). Total transaction volume in 1Q22 also increased sharply to 1,185 units (+5.5x QoQ). The demand for townhouses, considered a long-term investment, has increased amid rising inflation and real estate credit tightening. The number of townhouses in HCMC may reach 1,500-2,000 by the end-2022.

In addition, ACB's home loan interest rate is quite attractive when the preferential interest rate for the first year is relatively low, though the floating rate is higher than that of other banks. Besides, the penalty for early prepayment is only 0.25%/month/prepaid amount.

**Table 1. Banks – Interest rates of home loans**

Ticker	Preferential i/r	Loan value	Tenor	Floating rate	Penalty for early prepayment
OCB	5.99%	100% collateral	20 years	6M deposit i/r + 3,5%	3 - 5%
MSB	5.99%	80% demand	20 years	13M deposit i/r + 3%-5%	1 - 2%
MBB	6.84%	90% demand	20 years	24M deposit i/r + 4%	1 - 3%
TPB	6.90%	85% asset value	20 years	13M deposit i/r + 3,8%	0 - 3%
BID	7.30%	100% collateral	20 years	12M deposit i/r + 4%	0.05% x prepaid amount
EIB	7.49%	100% demand	20 years	24M deposit i/r + 3%	1 - 3%
ACB	7.50%	Flexible	20 years	13M deposit +2.5%-4%	0.25%/month/prepaid amount
VCB	7.50%	70% collateral	15 years	24M deposit i/r + 3,5%	0,5 - 1%
LPB	7.50%	100% demand	20 years	13M deposit i/r + 3,5%	1 - 3%
CTG	7.70%	80% asset value	20 years	36M deposit i/r + 3,5%	0.5 - 2%
SCB	7.90%	100% demand	25 years	13M deposit i/r + 4%	0 - 4%
SSB	8.50%	90% demand	20 years	13M deposit i/r + 3,5%	0 - 3%

Source: Vietnamese banks

Commercial lending (accounting for 18% of outstanding loans) should grow by 19%YoY in 2022 (vs. 16.7%YoY in 2021) thanks to boosted import and export activities by effective free trade agreements & Russia-Ukraine tensions that added to European supply chain snags.

## Forecast business performance

### 2022F business results

We make our forecast for ACB in 2022 as follows:

- Credit growth should reach 16.8%, driven by: (1) limited impact of real estate credit tightening; (2) increased market share as ACB reduces interest rates to attract customers; and (3) recovering real estate market in HCMC.
- NIM may increase by 39bps YoY thanks to: (1) earnings yield dropping by 6bps YoY due to interest rate cuts to attract customers and cross-sell insurance; (2) capital expenditure falling by 43bps YoY with the expectation that the CASA ratio would continue to improve throughout the year.
- NPL ratio is forecast at 0.65%, down 12bps YoY, as ACB will accelerate bad debt handling.
- Provision expense should be VND1,642 billion, down 50.8% YoY, as the bank actively made provisions in 2021 and may record provision reversal as in 1Q22.
- We expect NPAT to hit VND13,664 billion, up 42.3% YoY.

**Table 2. ACB – 2022E–2023E business results**

VND bn	2021A	2022F	2023F	%YoY2022	%YoY2023
Net interest income	18,945	24,332	28,260	28.4%	16.1%
Service fees	2,894	3,124	3,901	7.9%	24.9%
TOI	23,564	29,314	33,872	24.4%	15.5%
Provision expense	-3,336	-1,689	-1,095	-49.4%	-35.2%
NPAT	9,603	13,664	16,312	42.3%	19.4%
NIM	4.01%	4.40%	4.44%		
Average earnings yield	7.14%	7.08%	7.52%		
Average cost of funds	3.42%	3.01%	3.51%		
CIR	34.9%	36.0%	36.6%		
NPL	0.77%	0.58%	0.63%		
Total assets	527,770	606,272	709,835	14.9%	17.1%
Equity	44,901	64,687	90,101	44.1%	39.3%

Source: KB Securities Vietnam

**We recommend BUYING ACB shares with a target price of VND40,700/share**

We combine two valuation methods, P/B and residual income, with the weight of 50–50 to find a fair price for ACB shares.

(1) P/B method (Figure 15)

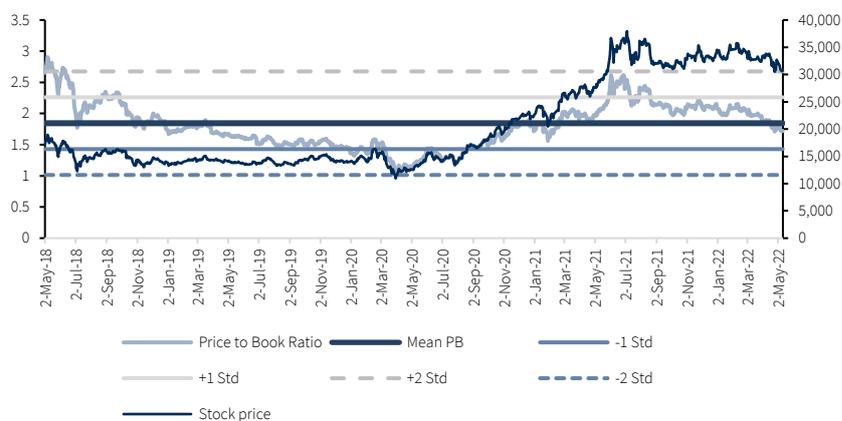
We highly appreciate ACB's efforts in controlling bad debts and ensuring asset quality. In addition, ACB's real estate lending activities will be less affected by the SBV's tight control of real estate credit as ACB's loan structure mainly focuses on personal loans. Meanwhile, loans to real estate businesses account for only 1% of the outstanding loans. The bank's securities portfolio includes only government bonds. Therefore, we give ACB's end-2022 target P/B of 1.9x (vs. 1.72x currently), equaling ACB's three-year average P/B.

(2) Residual income method (Table 4)

In addition, we use the residual income method to reflect systematic risk and long-term expectations.

Thus, we recommend BUYING ACB shares with a target price of VND40,700, 32.3% higher than the closing price on May 10, 2022. Some downside risks are: (1) unpredictable developments of the pandemic, worsening asset quality; (2) competitiveness among banks, lowering the CASA ratio; (3) slow recovery of housing supply due to difficulties in raising capital through bond issuance.

Fig 15. ACB – P/B &amp; share price performance (x, VND/share)



Source: Fiinpro, KB Securities Vietnam

Table 4. ACB – Target price according to residual income method (VND/share)

VND bn	2022F	2023F	2024F	2025F
NPAT	13,664	16,312	19,271	21,506
Excessed return	8,564	9,937	11,302	11,545
Required rate of return (re)	15.1%			
Growth (g)	5%			
Terminal value	61,819			
Present value (PV)	96,695			
<b>Share price</b>	<b>45,786</b>			

Source: KB Securities Vietnam

Table 5. ACB – Target price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted price
P/B	45,786	50%	22,893
Residual income	35,709	50%	17,855
<b>Target price</b>			<b>40,748</b>

Source: KB Securities Vietnam

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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