

Company Flash Note

I Vietnam

April 11, 2017 - 3:36 PM

ADD (no change)

Consensus ratings*:	Buy 4	Hold 2	Sell 0
Current price:	VND24,400		
Target price:	VND29,800		
Previous target:	VND29,800		
Up/downside:	22.1%		
CIMB / Consensus:	13.7%		
Reuters:	ACB.HM		
Bloomberg:	ACB VN		
Market cap:	US\$1,062m		
	VND24,055,992m		
Average daily turnover:	US\$2.07m		
	VND47,073m		
Current shares o/s	937.7m		
Free float:	75.9%		

*Source: Bloomberg

Key financial forecasts

	Dec-17F	Dec-18F	Dec-19F
Net Profit (VNDb)	1,788	2,489	3,202
Core EPS (VND)	1,822	2,429	3,125
Core EPS Growth	35.6%	33.3%	28.7%
FD Core P/E (x)	13.39	10.05	7.81
Normalised EPS (VND)	1,822	2,429	3,125
Normalised EPS Growth	35.6%	33.3%	28.7%
FD Normalised P/E (x)	13.39	10.05	7.81
Recurring ROE	12.0%	15.0%	17.7%
P/BV (x)	1.58	1.44	1.33
DPS (VND)	0	1,000	1,700
Dividend Yield	0.00%	4.10%	6.97%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3	16.2	45.1
Relative (%)	0.5	9	17.6

Major shareholders

	% held
Standard Chartered	15.5
Chairman's family	8.6
Connaught Investors Ltd. (Jardine Matheson)	7.5

Analyst(s)

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Asia Commercial Bank

32% pre-tax profit growth target for FY17 announced

- ACB targets 32% pre-tax profit growth in FY17; its PBT rose 59% yoy in 1Q17.
- Management aims to finish resolving Kien-related troubled assets in FY17. It also plans to buy back bad debts from VAMC if debt collection goes well.
- ACB postponed its plans to raise more tier-2 capital and sell treasury shares, as the Basel 2 implementation has been delayed till 2020 as guided by the central bank.

32% pre-tax profit growth target

- At its AGM held on 10 Apr, ACB management said it aimed to achieve VND2,205bn (US\$97m) in pre-tax profit in FY17, up 32% yoy, which is based on 16% credit growth and stable NIM. Hence, ROE will improve from 9.9% in FY16 to 11.9% in FY17. Management said that the bank earned VND595bn PBT in 1Q17, up 53% yoy.
- Our observations of this profit target: 1) A rise in other incomes (composed largely of proceeds from resolving bad debts and collateral assets) will likely be a driver. 2) Thanks to progress in cleaning up legacy troubled assets, ACB will likely achieve the target, and continue its steady recovery post-2012 crisis.

To fully resolve legacy troubled assets in FY17

- The chairman and management reiterated their resolution to resolve all troubled assets related to former vice chairman, Nguyen Duc Kien, by end-FY17. They aim to collect back VND1,700bn of bad debts in FY17. Then, it can buy back all bad debts that were previously transferred to the Vietnam Asset Management Company (VAMC), i.e. ~0.7% of total loans.
- In our view, ACB will be able to resolve all Kien-related troubled assets (net value of VND1,500bn as at end-FY16, ~0.9% of total loans) in FY17, by just making provisions for them, while delivering c.30-35% PBT growth. If it makes progress in bad-debt collection, it would have more resources to accelerate the resolution of bad debts that were transferred to the VAMC.

To pay stock dividends

- ACB will pay stock dividends for FY16 and FY17F (i.e. essentially a stock-split, at a 110-for-100 ratio). In our view, the stock-split plan (at that ratio) is fine given the bank's robust earnings growth outlook and steady ROE improvement.

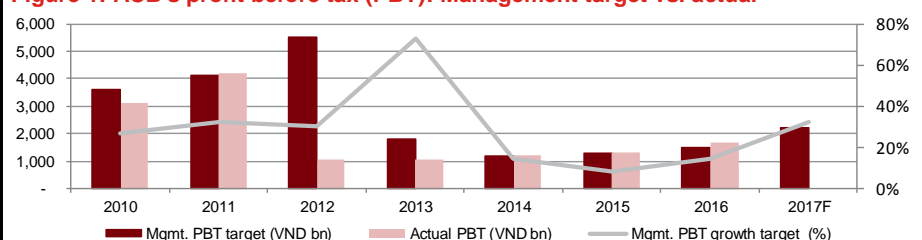
Delaying Basel 2 implementation

- Management said it would delay Basel 2 implementation until 2020, as guided by the central bank. This gives it more time to restructure its asset mix and generate more earnings internally in order to minimise recapitalisation pressure till 2020. It also postponed plans to raise more tier-2 capital and sell treasury shares to raise its capital adequacy ratio (CAR) which was 13.2% at end-FY16.
- In our view, ACB delaying Basel 2 implementation is reasonable but not an optimal move. Should it implement Basel 2 (though it may slow growth for the time being), it would naturally deserve higher valuations since its operations and financials would then comply with higher standards.

Maintain Add

- Local retail investors appear less excited post-AGM since they did not get big surprises from management as speculated (i.e. a 2-3x surge in 1Q17 earnings). Hence, the share price weakened 3% post-AGM. But we believe this price-weakening provides longer-term investors a good opportunity to buy ACB shares.
- We believe ACB's valuation will rise to pre-crisis levels as the clean-up is completed by end-FY17. We keep our Add rating with a target price based on 1.8x FY17F P/BV (i.e. average valuation in 2011-12, before the crisis). Downside risks include an unexpected slowdown in loan growth, which is more a systemic risk than one specific to ACB.

Figure 1: ACB's profit before tax (PBT): Management target vs. actual



SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(VNDb)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Net Interest Income	6,892	7,936	9,089	10,646
Total Non-Interest Income	671	2,072	2,090	2,376
Operating Revenue	7,563	10,008	11,179	13,022
Total Non-Interest Expenses	(4,678)	(5,387)	(6,177)	(7,035)
Pre-provision Operating Profit	2,885	4,621	5,003	5,987
Total Provision Charges	(1,218)	(2,387)	(1,891)	(1,984)
Operating Profit After Provisions	1,667	2,235	3,111	4,003
Pretax Income/(Loss) from Assoc.	0	0	0	0
Operating EBIT (incl Associates)	1,667	2,235	3,111	4,003
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	1,667	2,235	3,111	4,003
Exceptional Items	0	0	0	0
Pre-tax Profit	1,667	2,235	3,111	4,003
Taxation	(342)	(447)	(622)	(801)
Consolidation Adjustments & Others				
Exceptional Income - post-tax				
Profit After Tax	1,325	1,788	2,489	3,202
Minority Interests	0	0	0	0
Pref. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
Preference Dividends (Australia)				
Net Profit	1,325	1,788	2,489	3,202
Recurring Net Profit	1,325	1,788	2,489	3,202
Normalised Net Profit	1,325	1,788	2,489	3,202

Balance Sheet

(VNDb)	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Gross Loans	171,553	202,426	239,065	282,435
Liquid Assets & Invst. (Current)	42,801	47,082	51,790	59,558
Other Int. Earning Assets	5,119	4,827	5,669	6,683
Total Gross Int. Earning Assets	219,474	254,335	296,524	348,676
Total Provisions/Loan Loss Reserve	(1,797)	(3,293)	(4,134)	(4,878)
Total Net Interest Earning Assets	217,677	251,042	292,391	343,799
Intangible Assets	512	687	823	932
Other Non-Interest Earning Assets	11,950	14,189	16,675	19,457
Total Non-Interest Earning Assets	12,462	14,876	17,498	20,389
Cash And Marketable Securities	3,541	4,470	4,779	3,495
Long-term Investments	0	0	0	0
Total Assets	233,681	270,388	314,668	367,683
Customer Interest-Bearing Liabilities	207,051	241,374	283,460	334,135
Bank Deposits	2,235	2,235	2,235	2,235
Interest Bearing Liabilities: Others	6,738	6,738	6,738	6,738
Total Interest-Bearing Liabilities	216,024	250,347	292,433	343,107
Bank's Liabilities Under Acceptances	0	0	0	0
Total Non-Interest Bearing Liabilities	3,594	4,190	4,920	5,800
Total Liabilities	219,618	254,537	297,354	348,908
Shareholders' Equity	14,063	15,851	17,315	18,775
Minority Interests	0	0	0	0
Total Equity	14,063	15,851	17,315	18,775

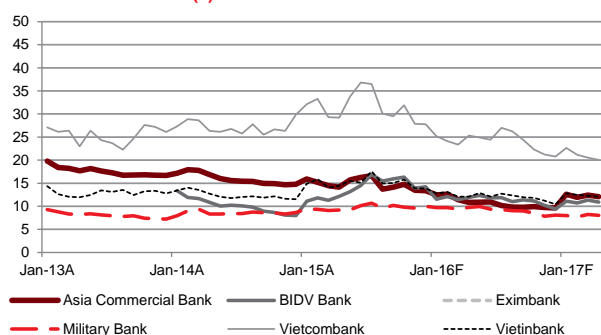
Balance Sheet Employment

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Loans/Cust Deposits	78.9%	79.9%	80.3%	80.3%
Avg Loans/Avg Deposits	78.2%	79.4%	80.1%	80.3%
Avg Liquid Assets/Avg Assets	26.6%	24.9%	23.9%	23.1%
Avg Liquid Assets/Avg IEAs	28.4%	26.5%	25.4%	24.4%
Net Cust Loans/Assets	69.2%	70.1%	71.0%	71.7%
Net Cust Loans/Broad Deposits	77.2%	77.8%	78.2%	78.4%
Equity & Provs/Gross Cust Loans	9.7%	9.9%	9.4%	8.8%
Asset Risk Weighting	64.6%	73.7%	74.4%	75.0%
Provision Charge/Avg Cust Loans	0.66%	1.21%	0.78%	0.68%
Provision Charge/Avg Assets	0.45%	0.86%	0.56%	0.49%
Total Write Offs/Average Assets	0.56%	0.95%	0.65%	0.58%

Key Ratios

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Income Growth	21.6%	32.3%	11.7%	16.5%
Operating Profit Growth	31.2%	60.2%	8.2%	19.7%
Pretax Profit Growth	26.9%	34.1%	39.2%	28.7%
Net Interest To Total Income	91.1%	79.3%	81.3%	81.8%
Cost Of Funds	4.76%	5.23%	5.28%	5.28%
Return On Interest Earning Assets	8.06%	8.50%	8.50%	8.50%
Net Interest Spread	3.30%	3.27%	3.22%	3.22%
Net Interest Margin (Avg Deposits)	3.61%	3.54%	3.46%	3.45%
Net Interest Margin (Avg RWA)	5.05%	4.53%	4.19%	4.18%
Provisions to Pre Prov. Operating Profit	42.2%	51.6%	37.8%	33.1%
Interest Return On Average Assets	3.17%	3.15%	3.11%	3.12%
Effective Tax Rate	20.5%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	NA	NA	41.2%	54.4%
Return On Average Assets	0.61%	0.71%	0.85%	0.94%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Loan Growth (%)	20.7%	18.0%	18.0%	18.0%
Net Interest Margin (%)	3.4%	3.4%	3.3%	3.3%
Non Interest Income Growth (%)	99.1%	209.0%	0.9%	13.7%
Cost-income Ratio (%)	61.9%	53.8%	55.3%	54.0%
Net NPL Ratio (%)	0.5%	0.5%	0.4%	0.4%
Loan Loss Reserve (%)	126.5%	113.9%	121.1%	121.1%
GP Ratio (%)	0.8%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	9.2%	7.9%	7.3%	6.7%
Total CAR (%)	13.2%	10.9%	9.9%	8.9%
Deposit Growth (%)	18.4%	16.6%	17.4%	17.9%
Loan-deposit Ratio (%)	78.1%	78.5%	78.8%	78.9%
Gross NPL Ratio (%)	0.9%	1.5%	1.5%	1.5%
Fee Income Growth (%)	26.7%	19.0%	17.3%	17.3%

SOURCE: CIMB RESEARCH, COMPANY DATA

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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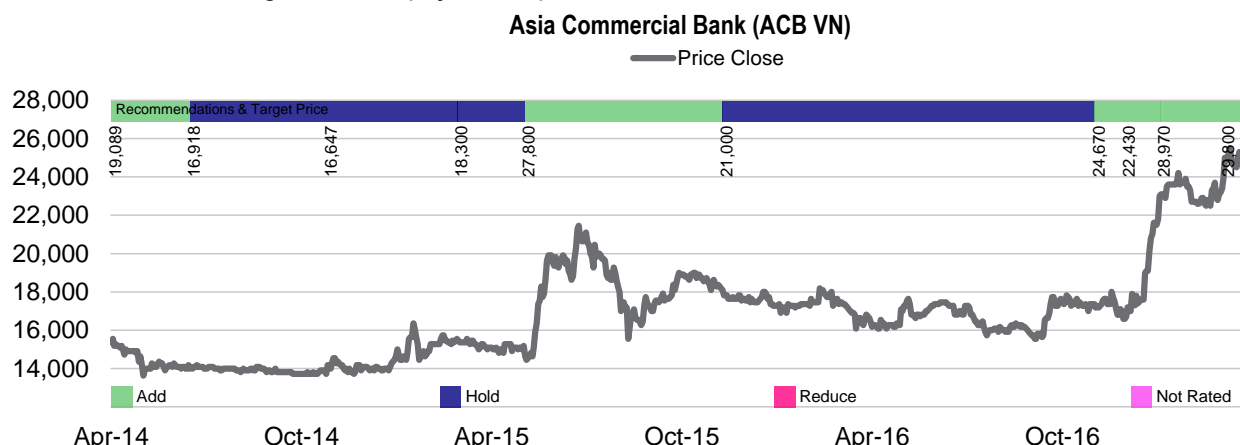
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared,

HANA - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.