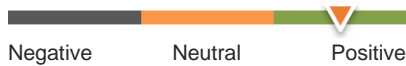


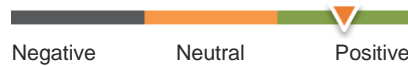
ASIA COMMERCIAL JSB (ACB) - UPDATE

Market Price VND30,300	Target Price VND39,800	Dividend Yield 0.0%	Rating ADD	Sector FINANCIALS
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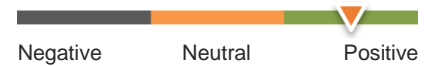
Outlook – Short term



Outlook – Long term



Valuation



5 March 2019

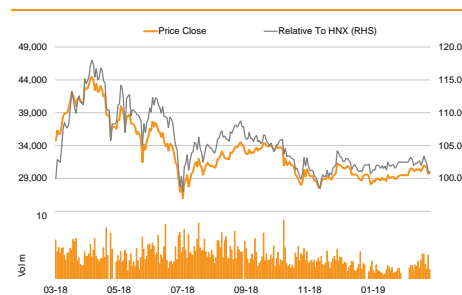
Thuy Le Minh

thuy.leminh@vndirect.com.vn

Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	44,435
52w low (VND)	26,000
3m Avg daily volume (shares)	2.9mn
3m Avg daily value (VNDmn)	85,357
Market cap (VNDbn)	37,789
Outstanding shares (m)	1,247
Free float (%)	35
TTM P/E (x)	7.5
Current P/B (x)	1.8

Ownership

Chairman and related parties	11.3%
Dragon Financial Holdings Limited	5.6%
First Burns Investments Limited	4.0%
Others	79.1%

Source: VNDIRECT

Solid core earnings growth and the tapering-off of expenses related to legacy assets boosted the bottom line.

Total operating income (TOI) surged by 22.7% in FY18. Net interest income grew 22.5% yoy on the back of 16.1% yoy loan growth and an 11bp yoy hike in net interest margin (NIM). NIM improved as the current account and savings account (CASA) rate moved from 16.7% in FY17 to 17.5% in FY18 and the loan-to-deposit ratio rose from 82.2% in FY17 to 85.4% in FY18. Non-interest income (Non-II) grew 23.1% yoy, as net fee income increased 26.0% yoy and other Non-II was double that of FY17, most of which stemmed from bad debt recoveries. Income from investment securities, however fell due to a high base last year.

Contained rise in operating expense (opex) and drop in provision expense boosted net profit growth. Opex inched up only 8.0% yoy, whereas TOI was up 22.7% yoy. As such, cost-to-income (CIR) ratio fell from 54.4% in FY17 to 47.8% in FY18. High CIR in FY17 was due to VND954bn provision expense for receivables, which were legacy assets at ACB. Excluding this provision expense, FY17 CIR would be 46.0%. The modest rise in opex was accompanied by a 63.7% plunge in provision expense, as ACB had ramped up provisioning in FY17 to fully provision for and write-off loans to Group 6 companies and provision expense normalised in FY18.

Industry-leading asset quality with the lowest non-performing loan (NPL) ratio and high loan-loss-reserves (LLR). NPL ratio at end-FY18 was 0.7%, unchanged from end-FY17 levels. It is encouraging that ACB can sustain such a low NPL ratio with a small write-off rate (only 0.1% of the average loan book in FY18), speaking to its underwriting discipline. LLR also improved from 132.7% in FY17 to 151.9% in FY18.

Robust net profit growth leads us to maintain our Add call on ACB. FY18 net profit reached VND5,137bn, up 142.5% yoy and in line with our forecasts. Our target price is intact at VND39,800, implying a 31% upside to the current share price. ACB is trading at a FY19F P/B of 1.4x versus a peer average P/B of 1.9x. We expect ACB to sustain a ROE of 24.8% in FY19F, compared to a peer average ROE of 19.0%, implying that it deserves to trade at least in line with peer average P/B.

Financial summary (VND)	12-16A	12-17A	12-18A	12-19E
Net interest income (bn)	6,892	8,458	10,363	12,206
Net interest margin	3.3%	3.4%	3.5%	3.6%
Total operating income (bn)	7,563	11,439	14,033	16,358
Total provision charges (bn)	(1,218)	(2,565)	(932)	(1,057)
Net profit (bn)	1,325	2,118	5,137	5,937
Net profit growth	28.9%	59.8%	142.5%	15.6%
Adjusted EPS	1,022	1,658	4,022	4,648
BVPS	11,276	12,854	16,853	21,613
ROAE	9.9%	14.1%	27.7%	24.8%

Source: VNDIRECT

2018 RECAP: SOLID CORE EARNINGS GROWTH AIDED BY THE TAPERING-OFF OF EXPENSES RELATED TO LEGACY ASSETS

Figure 1: Results comparison (VND bn unless otherwise noted)

Profit & Loss statement	4Q17	4Q18	% yoy	FY17	FY18	% yoy	FY18 forecasts	% FY18 forecasts	Comments
Net interest income	2,383	2,939	23%	8,458	10,363	23%	10,092	103%	In line with our forecast.
Non-interest income	1,070	1,226	15%	2,981	3,670	23%	3,087	119%	Higher than our forecast due to better recovery of bad debt.
Operating revenue	3,453	4,164	21%	11,439	14,033	23%	13,179	106%	
Operation expenses	(1,726)	(2,280)	32%	(6,217)	(6,712)	8%	(6,062)	111%	Above our forecast. Although CIR fell in FY18, it was due to provision expense for receivables booked in FY17. Excluding this provision, FY17 CIR was only 46.0%, lower than 47.8% in FY18. Opex increased as ACB raised salary to attract high quality staff and the bank restructured its network with many transaction offices relocated/renovated in FY18. As a result, opex for the year was higher than our forecast.
Pre-provision profit	1,726	1,884	9%	5,222	7,321	40%	7,117	103%	
Provision expenses	(1,074)	(272)	-75%	(2,565)	(932)	-64%	(851)	110%	Above our forecast as strong topline growth enabled ACB to increase provision buffer. FY18 credit cost was 0.43% of the average loan book, slightly higher than our forecast of 0.40%.
Pre-tax profit	652	1,612	147%	2,656	6,389	141%	6,266	102%	In line with our forecast.
Net profit	591	1,365	131%	2,118	5,137	143%	4,997	103%	In line with our forecast.

Source: VNDIRECT, Company report

2019 OUTLOOK: STABLE GROWTH AFTER HIGH-BASE 2018

Customer base expansion part of a deliberate strategy to enhance NIM and sustain high growth of fee income. Being a well-established retail bank, ACB has a big retail loan book with 90% of the loan book composed of lending to individuals and SMEs. As a result, ACB has less headroom for retail loan expansion compared to some other banks. In order to improve NIM, ACB is pursuing a strategy of increasing CASA to reduce funding costs. The bank launched new campaigns including Privilege Banking and Family Banking to expand its customer base to Affluent and Mass customer segments. With new customers, the bank was able to increase demand deposit and fee income by selling card and insurance products to these customers. We forecast FY19F NIM to increase by 8bp yoy on improving CASA, and net fee income to grow by 26.0% driven by efforts to widen the customer base and higher credit card fees implemented in Feb 2019.

Profit growth to normalise in FY19F. Net profit recorded an impressive growth of 142.5% yoy in FY18 thanks to solid growth in TOI (+22.7% yoy), a modest growth in opex (+8.0% yoy) and a drop in provision expense (-63.7% yoy). The fall in provision expense and the contained rise in opex was due to the absence of provision for legacy assets in FY18, as ACB fully provisioned and wrote-off legacy assets in FY17. As a result, net profit soared in FY18, creating a high base for FY19F. We expect FY19F profit growth to normalise after a high base FY18, with a projected net profit growth of 15.6% yoy.

Figure 2: Earnings revision (VND bn, unless otherwise noted)

	FY18 Actual	FY19F forecasts		Change	Comments
		Old forecasts	New forecasts		
Net Interest Income	10,363	11,710	12,206	4.2%	FY18 NIM of 3.54% was higher than our forecast of 3.51% as ACB increased loan-to-deposit ratio to improve NIM. As a result, we revised up our projected loan-to-deposit ratio, leading to a 4bp increase in FY19F NIM.
Non-Interest Income	3,670	4,151	4,153	0.0%	
Operating revenue	14,033	15,861	16,358	3.1%	
Operating expenses	(6,712)	(7,455)	(7,852)	5.3%	FY18 opex was higher than our forecast due to higher salary expenses and expenses for network restructuring. We revised up our opex forecast for FY19F because of higher salary expenses and we expect ACB will make IT investments in FY19F to digitalise bank operations and procedures.
Pre-provision profit	7,321	8,407	8,506	1.2%	
Provision expenses	(932)	(991)	(1,057)	6.7%	Although FY18 NPL ratio was kept unchanged versus FY17 at 0.7%, non-performing loans actually started rising with NPL increasing 20.5% yoy. We, therefore, increased our credit cost assumption for FY19F from 0.40% to 0.43%.
Pre-tax profit	6,389	7,416	7,449	0.5%	
Net profit	5,137	5,913	5,937	0.4%	

Source: VNDIRECT

VALUATION

We maintain our target price at VND39,800/share and reiterate our Add rating on ACB. Our target price is based on residual income (70% weighting, COE: 13.8%, LTG: 3.0%) and P/B multiple (30% weighting, FY19F target P/B of 1.9x). For multiple valuation, we applied a 1.9x target P/B on FY19F book value per share. ACB is trading at 26.3% discount to the regional peer average in terms of FY19F P/B, despite a higher ROE of 24.8% versus peer average of 19.0% in FY19F. However, ACB is a mature retail bank with limited opportunities for strong profit growth. We forecast ACB will sustain stable growth in the coming years, with a 3-year forward EPS CAGR of 15.9%, compared to regional peers' average growth of 19.4% projected for the same period. Given its substantially higher return on capital than the peer average but its slightly inferior future growth profile, we believe that ACB deserves to trade roughly in line with peers. Our target price corresponds to a 2019 P/B of 1.8x.

Figure 3: Target price calculation, based on our estimates

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	70%	39,321	27,525
P/B multiple (at 1.9x FY19F BVPS)	30%	41,065	12,319
Target price (VND/share)			39,844
Target price (VND/share, rounded)			39,800

Source: VNDIRECT

Figure 4: Key assumptions of residual income valuation

General assumptions	2019E	2020E	2021E	2022E	2023E	Terminal
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
Long-term growth rate						3.0%
<i>(VND bn, otherwise noted)</i>						
Opening shareholders' equity	21,018					
PV of RI	10,875					
PV of Terminal value	17,146					
Implied EV	49,039					
No. of o/s shares (million)	1,247					
Implied value per share (VND/share)	39,321					

Source: VNDIRECT

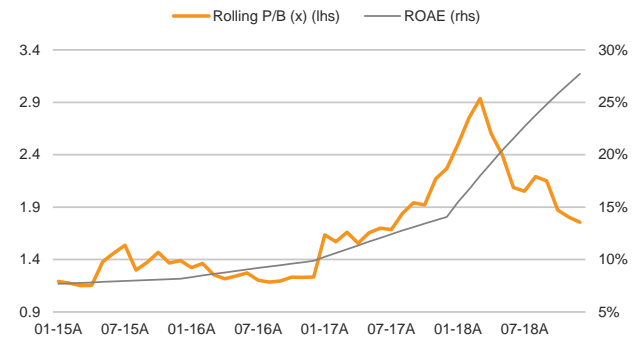
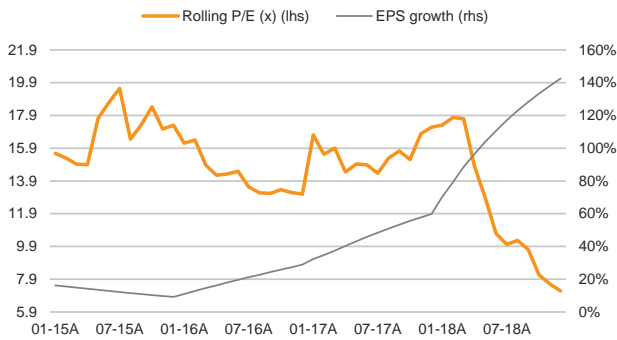
Figure 5: Regional sector comparison

Banks	Bloomberg Code	Recommendation	Closing Price	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
						FY19F	FY20F	FY19F	FY20F		FY19F	FY20F
			(local curr.)	(local curr.)	(US\$m)					%	FY19F	FY20F
China Merchants Bank	3968 HK	ADD	37	38	121,290	1.4	1.2	8.5	7.1	16.9%	17.6%	18.3%
Bank Rakyat Indonesia	BBRI IJ	ADD	3,860	4,500	33,695	2.3	2.0	12.8	11.2	13.9%	18.8%	18.9%
Bank Mandiri	BMRI IJ	ADD	6,950	8,800	22,954	1.6	1.5	11.4	9.9	15.4%	14.9%	15.5%
Indusind Bank	IIB IN	ADD	1,516	2,100	12,886	2.9	2.5	17.4	13.7	24.6%	18.3%	19.6%
Vietcombank	VCB VN	ADD	63,000	73,800	10,072	2.8	2.4	14.4	12.3	13.2%	22.1%	20.9%
Yes Bank	YES IN	ADD	237	300	2,266	1.6	1.4	9.6	7.4	22.6%	18.6%	20.4%
Vietnam Prosperity JSC Bank	VPB VN	ADD	21,400	26,100	7,746	1.3	1.0	6.3	5.3	16.5%	22.3%	22.0%
Military JSC Bank	MBB VN	ADD	22,150	31,100	2,063	1.2	1.1	7.0	5.9	32.0%	19.3%	19.3%
Average regional peers						1.9	1.6	10.9	9.1	19.4%	19.0%	19.4%
Asia Commercial Joint Stock Bank	ACB VN	ADD	30,300	39,800	1,629	1.4	1.1	6.4	5.5	15.9%	24.8%	22.7%

Price as of 5 Mar 2019

Source: CGS-CIMB RESEARCH, VNDIRECT

Valuation



Income statement

(VNDbn)	12-17A	12-18A	12-19E
Net interest income	8,458	10,363	12,206
Non interest income	2,981	3,670	4,153
Total operating income	11,439	14,033	16,358
Total operating costs	(6,217)	(6,712)	(7,852)
Pre-provision operating profit	5,222	7,321	8,506
Total provision charges	(2,565)	(932)	(1,057)
Income from associates & JVs			
Net other income			
Pre-tax profit	2,656	6,389	7,449
Tax expense	(538)	(1,252)	(1,512)
Profit after tax	2,118	5,137	5,937
Minority interest	0	0	0
Net profit	2,118	5,137	5,937

Balance sheet

(VNDbn)	12-17A	12-18A	12-19E
Gross loans to customers	198,513	230,527	265,106
Loans to banks	8,942	18,770	21,585
Total gross loans	207,455	249,297	286,692
Securities - total	54,396	55,015	60,985
Other interest earning assets	8,315	10,684	12,286
Total gross IEAs	270,165	314,995	359,963
Total provisions	(2,285)	(3,001)	(3,828)
Net loans to customers	196,669	227,983	261,784
Total net IEAs	267,880	311,994	356,135
Cash and deposits	4,852	6,129	6,558
Total investments	446	403	432
Other assets	11,138	10,806	11,563
Total non-IEAs	16,436	17,339	18,553
Total assets	284,316	329,333	374,687
Customer deposits	241,393	269,999	307,798
Cds outstanding	6,761	8,291	8,291
Customer interest-bearing liabilities	248,154	278,289	316,089
Bank deposits	15,454	23,792	24,828
Broad deposits	263,608	302,082	340,918
Other interest-bearing liabilities	147	198	208
Total IBLs	263,755	302,280	341,126
Deferred tax liability			
Other non-interest bearing liabilities	4,531	6,035	6,607
Total non-IBLs	4,531	6,035	6,607
Total liabilities	268,285	308,315	347,732
Share capital	10,273	12,886	12,886
Additional paid-in capital	0	0	0
Treasury shares	(666)	(666)	(666)
Retained earnings reserve	3,510	5,105	11,042
Other reserves	2,914	3,693	3,693
Shareholders' equity	16,031	21,018	26,955
Minority interest	0	0	0
Total equity	16,031	21,018	26,955
Total liabilities & equity	284,316	329,333	374,687

	12-17A	12-18A	12-19E
Growth rate (yoy)			
Cust deposit growth	16.6%	11.9%	14.0%
Gross cust loan growth	21.5%	16.1%	15.0%
Net interest income growth	22.7%	22.5%	17.8%
Pre provision operating profit growth	81.0%	40.2%	16.2%
Net profit growth	59.8%	142.5%	15.6%
Growth in IEAs	22.4%	16.5%	14.1%
Share value			
Basic EPS (VND)	1,698	4,119	4,760
BVPS (VND)	12,854	16,853	21,613
DPS (VND)	0	0	0
EPS growth	59.8%	142.5%	15.6%

Key ratios

	12-17A	12-18A	12-19E
Net interest margin	3.4%	3.5%	3.6%
Cost-income ratio	(54.4%)	(47.8%)	(48.0%)
Reported NPLs / gross cust loans	0.7%	0.7%	0.8%
Reported NPLs / net cust loans	0.7%	0.7%	0.8%
GP charge / average cust loans	1.4%	0.4%	0.4%
Total CAR	11.5%	11.6%	12.0%
Loan deposit ratio	80.0%	82.8%	83.9%
Margins and spreads			
Return on IEAs	8.2%	8.2%	8.2%
Cost of funds	4.9%	4.8%	4.9%
Interest return on average assets	3.3%	3.4%	3.5%
ROAE	14.1%	27.7%	24.8%

Source: VNDIRECT

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- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% 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.

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Definition:

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- 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.

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