

BUY (Update)

Asia Commercial Joint Stock Bank (HNX: ACB)

Report date	Jul.16, 2019
Current price	VND 30,100
Target price	VND34,700
Upside	15.2%
Bloomberg	ACB VN
Market cap	VND 36,916bn
	USD 1,588mn
52 weeks movement	VND34,500
	VND27,500
Average daily value	VND 81.95bn
	USD 3.52mn
FOL	30.00%
Current FO	30.00%

Better-than-expected earnings

Our takeaway

- Earnings in 1H2019 grew by 14% yoy to VND 3,600 bn, better than 1Q2019 of 5.7% yoy. Yet our view that earnings peaked in 2018 is maintained due to lower incremental credit growth from 11.8% in 1H2018 to 9% in 1H2019.
- However, thanks to credit extension approval leading to higher income growth, asset compliance to Basel II and projected share dividend of 30% in mid-August 2019 under stable share price base, we upgrade our HOLD recommendation to BUY and increase target price from VND33,600 to VND 34,700 bn (+17.1% upside) to capture better earnings in 2H2019.

What's new

Our net earnings growth in 2019 is revised slightly to 15% yoy from 14% in our previous forecast. We expect better performance in 2H2019, leading to FY EBT of VND 7,369 bn) thanks to: (i) Our revised forecast credit growth from 15.5% to 17% in 2019 according to recently approved extension from SBV. The extra credit room would be supported by existing fruitful SME, entrepreneur and affluent segments (ii) Strengthened NIM by 11bpts thanks to stable projected cost of fund despite current increase in deposit rate in the overall market. However, we maintained our sceptical view about slower growth rate in retail lending, especially target millennial and urban professional classes and conservative investment approach of ACB.

Consistently strong asset: We believe there will be no sudden provisioning loss in 2019 thanks to: (i) Low NPL forecast of 0.8% in 2019 and high LLR at 140%. The rates were at 0.7% and 156% in 1H2019 respectively. Accrued interest rate also stayed at low rate of 14% and mainly from Gov bond (ii) ACB suffers no impact from draft change in Circular 36 thanks to recent compliance to Circular 42 (iii) Low loan-to-value of 65% in real estate lendings and current minor contribution of lendings to developer of approximately 2.6%

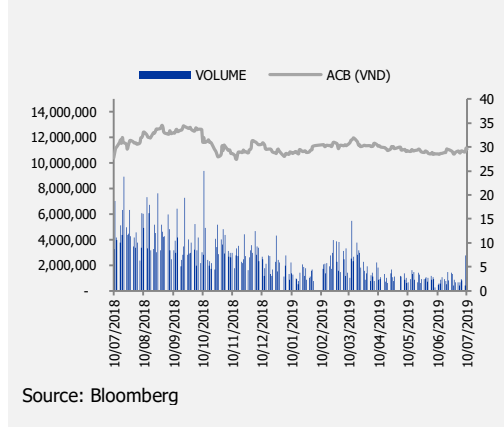
Expected record date for 30% share dividend is mid-August 2019, increasing chartered capital from VND 12,886 bn to VND 16,627 bn. Given our forecast of attractive earnings growth, cash dividend is expected in future years after 2019.

We maintain our modest projection in financial service revenue with average growth of 19% yoy from 2019 to 2023 despite exceeding number of transaction via digital banking than over the counter as Mobile Banking app was just recently launched. Besides, ACB has not planned for any Bancassurance exclusive deal this year.

Valuation

We upgrade our HOLD recommendation to BUY and increase target price from VND33,600 to VND 34,700 bn (+15.2% upside) thanks to credit extension approval leading to higher income growth, asset compliance to Basel II and projected share dividend 30% in mid-August 2019 under stable share price base. Target price is based on average of P/B multiples result (target price (TP) VND34,311, BVPS forecast at 21,641 VND and P/B of 1.59x) and residual income result (TP VND35,008, Re 15.4% and growth rate 2%). Average P/B at the TP is 1.6x.

Price movement



Stock performance	1M	3M	12M
ACB (%)	3%	-2%	7%
VNIndex (%)	1%	-1%	7%

Source: Bloomberg

Major Shareholder

Dragon Financial Holdings Limited	6.9%
Nguyen Duc Kien & relatives	7.6%
Whistler Investments Limited	4.6%
Tran Hung Huy & relatives	3.4%
First Burns Investments Limited	4.0%
Asia Reach Investments Limited	3.3%
Others	70.2%



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Unit: VND billion	FY18	FY19F	FY20F	FY21F
Operating income	14,033	15,816	17,457	20,049
Pre-provision profit	7,321	8,138	8,933	10,674
Growth y-o-y	40%	11%	10%	19%
Provision expenses	932	768	921	799
Growth y-o-y	-64%	-18%	20%	-13%
Profit before tax	6,389	7,370	8,012	9,875
Growth y-o-y	141%	15%	9%	23%
Net profit	5,137	5,896	6,410	7,900
Growth y-o-y	143%	15%	9%	23%
EPS (basic) (VND)	4,119	4,727	5,140	6,334
BVPS (VND)	16,853	21,641	26,727	33,004
ROAA	1.7%	1.7%	1.6%	1.7%
ROEA	27.7%	24.6%	21.3%	21.2%
Target P/E	8.4	7.3	6.7	5.5
Target P/B	2.1	1.6	1.3	1.1
P/E	6.9	6.0	5.6	4.5
P/B	1.7	1.3	1.1	0.9

Source: MBS Research

Financial Update

Figure 1: Key assumptions

	2018F	2019F	2020F
Previous			
Loan growth	16.1%	15.5%	15.2%
NIM (*)	3.58%	3.68%	3.68%
CIR	48%	49%	49%
Credit cost rate	1.04%	1.06%	1.06%
Re	15.6%		
Valuation P/B	1.55		
New			
Loan growth	16.1%	17.0%	15.2%
NIM	3.58%	3.69%	3.70%
CIR	48%	49%	49%
Credit cost rate	1.04%	1.06%	1.06%
Re	15.4%		
Valuation P/B	1.60		

Figure 2: What's changed?

	2018F	2019F	2020F
Pre-tax profit (previous)	6,389	7,309	7,813
Pre-tax profit (new)	6,389	7,370	8,012
Changes (%)	0.0%	0.8%	2.5%
BVPS (previous) (**)	16,853	21,603	26,561
BVPS (new)	16,853	21,641	26,727
Changes (%)	0.0%	0.2%	0.6%
ROE (previous)	27.73%	24.39%	20.81%
ROE (new)	27.73%	24.56%	21.25%
Changes (%)	0.00%	0.18%	0.44%
Price target (previous)	33,580		
Price target (new)	34,659		
Changes (%)	3.2%		
Average P/B	1.55		
Average P/B	1.60		
Changes (%)	3.0%		

Source: MBS Research

Financials and Valuation Summary

Income Statement (VND billion)				Key ratio			
	2018	2019F	2020F		2018	2019F	2020F
Net interest income	10,363	12,276	13,983	Capital Adequacy			
Net fee and commission income	1,498	1,926	2,246	CAR	12.81%	12.87%	13.52%
Net gain from trading foreign currencies	241	253	266	Total Equity/Total Assets	6%	7%	8%
Net gain from sales of investment securities	90	252	261	Total Assets/Total Equity	15.67	13.84	12.75
Net other income	1,815	1,088	680	Asset Quality			
Income from investment in other entities	26	20	22	Loan group 3-5	0.7%	0.8%	0.8%
TOTAL OPERATING INCOME	14,033	15,816	17,457	Loan group 2	0.2%	0.3%	0.5%
OPERATING EXPENSES	(6,712)	(7,678)	(8,524)	Provision reserve/Loan group 3-5 (LLR)	70.1%	138.2%	132.3%
Profit before credit provisions	7,321	8,138	8,933	Credit cost rate	1.1%	1.04%	1.06%
Credit provisions	(932)	(768)	(921)	Liquidity			
Earnings Before Tax	6,389	7,370	8,012	LDR	78.5%	81.4%	82.0%
Total income tax expenses	(1,252)	(1,474)	(1,602)	Customer deposit growth	11.9%	16.6%	15.1%
Earnings After Tax	5,137	5,896	6,410	Liquid asset/Total Assets	10.8%	9.2%	9.0%
Minority interest	-	-	-	Liquid asset/Customer deposit	13.2%	11.0%	10.6%
Net profit	5,137	5,896	6,410	Profitability			
				ROA	1.7%	1.7%	1.6%
				ROE	27.7%	24.6%	21.3%
				NIM	3.6%	3.7%	3.7%
				Interest Income/ Operating Income	73.8%	77.6%	80.1%
				Operating Expense/ Operating Income	47.8%	48.5%	48.8%
				Growth			
				Asset growth	15.8%	13.4%	13.8%
				Customer loan growth	16.1%	17.0%	15.2%
				Customer deposit growth	11.9%	16.6%	15.1%
				Profit before provision and tax growth	40.2%	11.2%	9.8%
				EBT growth	140.5%	15.4%	8.7%
				Valuation			
				EPS (basic) (VND)	4,119	4,727	5,140
				BVPS (VND)	16,853	21,641	26,727
				P/E	8.41	7.33	6.74
				P/B	2.06	1.60	1.30
Balance Sheet							
	2017	2018F	2019F				
Cash	6,129	5,796	6,833				
Balances with the SBV	10,684	8,772	10,138				
Balances with and loans to other credit institutions	18,770	19,938	21,252				
Trading securities	1,178	1,197	1,305				
Derivatives and other financial assets	-	-	-				
Loans and advances to customers	227,983	266,921	307,426				
Loans and advances to customers	230,527	269,717	310,714				
Allowance	(2,544)	(2,796)	(3,288)				
Investment securities	53,380	57,674	63,422				
Long-term investments	156	164	173				
Fixed assets	3,481	3,647	3,853				
Tangible fixed assets	2,641	2,773	2,911				
Intangible fixed assets	593	622	685				
Investment properties	247	252	257				
Other assets	7,573	9,355	10,721				
TOTAL ASSET	329,333	373,463	425,123				
Amount due to the Government and the SBV	3,074	1,135	1,248				
Deposits and borrowings from other credit institutions	20,718	14,137	14,046				
Customer deposits	269,999	314,685	362,058				
Derivatives and other financial liabilities	8,489	8,709	9,049				
Other liabilities	6,035	7,807	5,389				
EQUITY	21,018	26,990	33,333				
- Charter capital	12,886	12,886	12,886				
-Surplus	-	-	-				
-Treasury shares	-	-	-				
-Other capital	(666)	(666)	(666)				
Reserves	3,693	4,572	5,528				
Foreign exchange differences	-	-	-				
Asset revaluation differences	-	-	-				
Retained profits	5,105	10,198	15,585				
Minority interest	-	-	-				
TOTAL LIABILITIES AND EQUITY	329,333	373,463	425,123				

Source: FS ACB, MBS Research

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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price) / current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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