December, 2019

ASIA COMMERCIAL JOINT STOCK BANK (HNX: ACB)

Core earnings growth to remain stable

Particulars (VND Bn)	3Q-FY19	2Q-FY18	+/- QoQ	3Q-FY18	+/- yoy
Total operating income	3,849	3,949	-2.5%	3,360	14.5%
PBT and provision	2,005	2,026	-1.0%	1,840	9.0%
PBT	1,939	1,915	1.2%	1,625	19.3%
NPAT	1,549	1,533	1.1%	1,309	18.3%

Source: ACB, Rong Viet Securities

9M 2019: Stable growth, low provision expenses

- Net interest income reached VND 8,783 bn (USD 381.9 mn, +18.3% YoY), due to credit growth of 10.8% YTD and a 12.5 bps YoY increase in NIM (trailing 12M) to 3.7%. ACB has the lowest credit growth amongst Circular 41 compliance banks.
- Service income reached 1,411 bn (USD 61.3 mn, +31.2% YoY), driven by bancassurance income (VND 414 bn, USD 18 mn, +108% YoY) accounting for 29.3% of service income.
- However, income from other activities decreased by 20.0% YoY- only trading securities income is on an upward trend. Overall, total operating income increased by 14.4% to VND 11,288 bn (USD 490.8 mn).
- Operation expenses grew by 25.5 % YoY to VND 5,565 bn (USD 242 mn) and CIR went up to 49.3%. Therefore, pre-provision profits only increased slightly by 5.3% YoY.
- Asset quality remained healthy. ACB has the lowest NPL ratio (0.7%) and the second highest NPL provision (158.9%) among listed banks. As a result, provision expenses plummeted by 75.5%. ACB maintained a PBT growth of 16.4% YoY, fulfilling 76% of the year guidance.

2019 outlook:

With stable profit growth of around 15% YoY since the beginning of the year, ACB is expected to achieve its earnings target. We forecast credit growth to reach 16% mainly by continuous expansion into retail and SME lending. In addition, NIM is expected to increase slightly to 3.7% and net interest income to increase by 18.7% to VND 12.3 Tn (USD 534.8 mn). We estimate that service income would reach VND 1.9 Tn (USD 82.6 mn, +26.8%) and consolidated operating income would be 15,487 bn (USD 673.3 mn, +10.4%). Operating expenses are expected to increase by 15.2% to VND 7,735 bn (USD 336.3 mn), translating to a CIR of 50%. Provision expenses is likely to decline sharply by 64.4% to VND 332 bn (USD 14.4 mn). According to our forecast, PBT is estimated at VND 7,419 bn (USD 322.5 mn, +16.1% YoY).

Valuation and recommendation

We have a positive view on ACB considering that, along with healthy liquidity and sufficient capital buffers, the bank can keep its focus on its traditional strengths instead of expanding into high-risk areas. In addition, the potential for bancassurance income growth should be boosted by the recently signed non-exclusive bancassurance agreement with Manulife, given ACB's loyal retail customer base. This will act as main driver for normalized operating income since few growth factors for interest income and other income are expected. More importantly, healthy asset quality and strong competency in controlling credit costs are advantages that can help ACB maintain a stable profit growth in medium term.

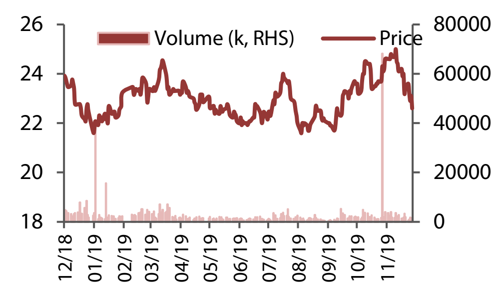
ACB is currently trading at VND 22,600, equivalent to a PBR 2020f of 1.1x. We estimate the stock fair value at ***VND 27,000 per share.*** *With an expected cash dividend of VND1,000/share over the next 12 months, total upside should be* ***24%****. We reiterate our* ***BUY*** *recommendation on the stock.*

BUY	+24%
Target price (VND)	27,000
Current market price (VND)	22,600
Cash dividend (VND)*	1,000
*within next 12 months	

Stock Info	
Sector	Banks
Market Cap (VND bn)	38,431.2
Current Shares O/S	1,656.5
Beta	1.5
Free float (%)	65.5
52 weeks High	25,000
52 weeks Low	21,600
Avg. Daily Volume (in 20 sessions)	2,300,848

	FY2018	Current
EPS	3,987	3,579
EPS Growth (%)	98.0	-17.2
Diluted EPS	3,609	3,305
P/E	5.8	6.5
P/B	1.4	1.5
Cash dividend (%)	0	0
ROE (%)	27.7	25.1

Price performance



Major Shareholders (%)	
Dragon Financial Holdings Limited	6.9%
Whistler Investments Limited	4.6%
Dang Ngoc Lan	4.2%
Foreign ownership room left (%)	*0%*

Anh Nguyen
(084) 028- 6299 2006 – Ext 1531
anh2.ntt@vdsc.com.vn
Lam Nguyen
(084) 028- 6299 2006 – Ext 1313
lam.ntp@vdsc.com.vn

Exhibit 1: 3Q 2019 Results

(VND Bn)	3Q-FY19	2Q-FY19	+/-(qoq)	3Q-FY18	+/-(yoy)
Interest and Similar Income	7,285	6,812	7.0%	6,008	21.3%
Interest and Similar Expenses	-4,262	-3,909	9.0%	-3,445	23.7%
Net Interest Income	3,023	2,903	4.1%	2,563	17.9%
Non-interest Incomes	830	1,047	-20.7%	855	-2.9%
Net Fee and Commission Income	519	520	-0.2%	328	58.1%
Net gain/(loss) from foreign currency and gold dealings	142	69	106.6%	161	-11.7%
Net gain/(loss) from trading of trading securities	52	-4	-1414.1%	-19	-379.3%
Net gain/(loss) from disposal of investment securities	12	-27	-144.7%	123	-90.3%
Net Other income/expenses	88	481	-81.6%	250	-64.6%
Income from capital contribution	17	8	113.4%	11	49.0%
Total operating income	3,849	3,949	-2.5%	3,360	14.5%
Operating expenses	-1,844	-1,922	-4.1%	-1,520	21.3%
Operating Profit Before Provision	2,005	2,026	-1.0%	1,840	9.0%
Provision expenses	-66	-111	-40.2%	-215	-69.1%
Profit before tax	1,939	1,915	1.2%	1,625	19.3%
Corporate income tax	-390	-383	1.8%	-316	23.3%
NPAT	1,549	1,533	1.1%	1,309	18.3%
Attributable to parent company	1,549	1,533	1.1%	1,309	18.3%

Source: ACB, Rong Viet Securities

Exhibit 2: 3Q 2019 Performance Analysis

(%)	2Q-FY19	1Q-FY19	+/-(qoq)	2Q-FY18	+/-(yoy)
Profitability (TTM)					
NIM	3.7	3.6	8 bps	3.5	12 bps
CIR	49.3	50.0	-72 bps	44.9	439 bps
ROAE	25.1	25.7	-59 bps	24.6	55 bps
ROAA	1.7	1.7	1 bps	1.4	25 bps
Assets Quality					
NPLs ratio	0.7	0.7	1 bps	0.8	-17 bps
Bad debt coverage ratio	158.9	161.4	-250 bps	129.5	2939 bps
Equity-to-Assets ratio	7.1	6.8	29 bps	6.2	84 bps
Operating Safety Ratio					
Customer Loans-to-Total Assets ratio	77.9	78.7	-80 bps	74.8	307 bps
Customer LDR	91.0	91.1	-12 bps	82.6	833 bps
Regulatory LDR	78.6	78.0	60 bps	77.0	160 bps
Adjusted LDR	80.9	81.6	-66 bps	81.2	-35 bps

Source: ACB, Rong Viet Securities

Exhibit 3: 4Q 2019 Performance Forecast

Particulars (VND Bn)	4Q-FY19	+/- (qoq)	+/- (yoy)
Net interest income	3,516	16.3%	19.6%
Total operating income	4,199	9.1%	0.8%
Profit before tax and provision	2,028	1.1%	7.6%
NPAT	1,479	-4.5%	8.3%

Source: ACB, Rong Viet Securities

Update

Prudent credit expansion, stable NIM

In April 2019, ACB was approved to comply with Circular 41 regarding capital adequacy requirement under Basel 2. After that, the credit growth limit was raised to 17% from the 13% assigned earlier this year. However, due to the bank's strict control on lending, credit growth in 3Q2019 went up by only 10.8% YTD, the lowest among Circular 41 compliant banks under our watch list. In addition, unlike certain banks who spend some of this credit on purchasing corporate bonds, ACB persisted with the policy of not holding any of those bonds. As such, the bank's debt securities portfolio only consists of government bonds, generating a lower average interest rate than most of its counterparts.

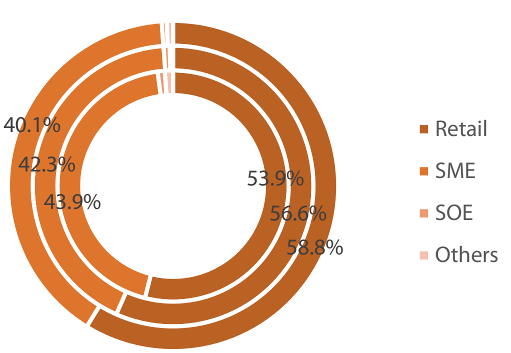
ACB's customer lending structure continues to shift towards retail and SME, which is a traditional strength of the bank. The proportion of individual and SME lending consistently accounted for over 90% of total lending for years. ACB's portfolio has a decent portion of household loans (about 23%) and a moderate portion of housing loans compared to other banks (about 20%). Lending to real estate developers is insignificant (at merely less than 3%). Due to its conservative lending approach, ACB's asset yields did not expand much from 2015 until now (only from 8.1% in 2015-2016 to 8.3% in 2017-2018). Despite of that, the expansion into retail lending has pushed asset yields by 26.3 bps since 3Q2018.

While credit growth reached 10.8% YTD, total mobilization (customer deposits and issued valuable papers) grew faster, by 13.7% YTD. So far in 2019, ACB only raised deposit interest rate once in January. As a result, by 3Q, customer deposits only increased by 10.4% YTD, lower than lending growth. To compensate, long-term bonds surged by +123.6% YTD through three batches of issuance with a total value of VND 10.4 Tn (USD 452.2 mn). The increase in deposit rates as well as bonds issuance acceleration led to an increase of 20.5 bps YoY in funding cost despite an improvement of 126 bps YoY in the bank's CASA ratio.

While both asset yields and funding cost were on an upward trend, NIM expanded by 10.8 bps YoY to 3.7% in 3Q2019. We expect that ACB can boost lending in the year-end peak season to achieve 16% credit growth for the whole year. At the same time, mobilization growth is expected to slow down to the same level of credit growth as ACB plans to keep its LDR ratio unchanged. The bank has announced that in the last quarter it will issue VND 5 Tn (USD 217.4 mn) of deposit certificates, with face value of 1bn/certificate, tenor of 12 months and interest rate of equal or less than 6% per year.

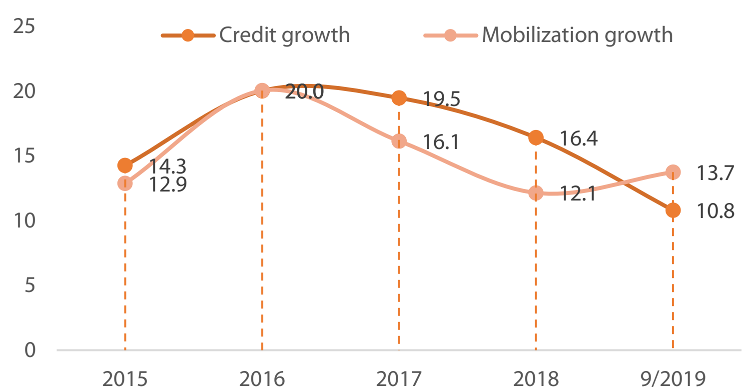
With the regulatory LDR ratio of 78.6% (versus Circular 22/2019 new threshold of 85%) and the ratio of short-term funding for mid/long-term loans at 29% (versus current threshold of 40%), ACB has successfully maintained its abundant liquidity. However, as current capital adequacy ratio under Basel 2 is at 9.7% (versus Circular 41 requirement of 8%), the bank could continue to maintain a fairly moderate lending expansion policy to control CAR, liquidity ratios and average funding costs. The need for capital injection is unlikely to arise in less than two years. Accordingly, we forecast that ACB's credit growth would be kept at 15% per year and the current NIM level is more likely to be stable in a couple of years ahead.

Figure 1: ACB's customer loan structure 1H2017 – 1H2019



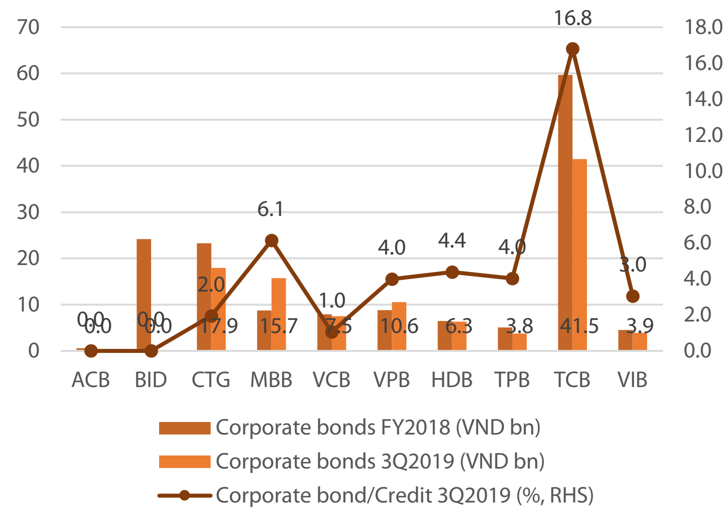
Source: ACB, Rong Viet Securities. From inside to outside: 1H2017, 1H2018, 1H2019

Figure 2: ACB's credit and mobilization growth (% YTD)



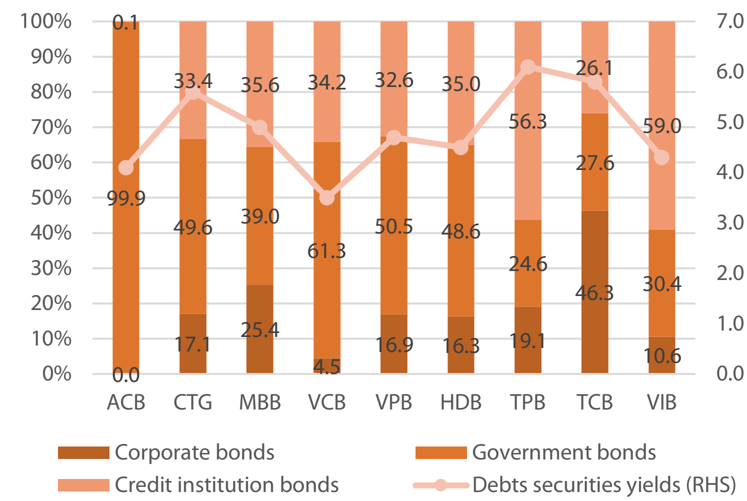
Source: ACB, Rong Viet Securities. Mobilization includes customer deposits and bonds issuance

Figure 3: Corporate bonds (VND bn) and proportion to credit (%) at some listed banks



Source: Bank's FS, Rong Viet Securities

Figure 4: Structure of debt securities portfolio as of Sep 2019 and 9M2019 average debt securities interest rate (%)

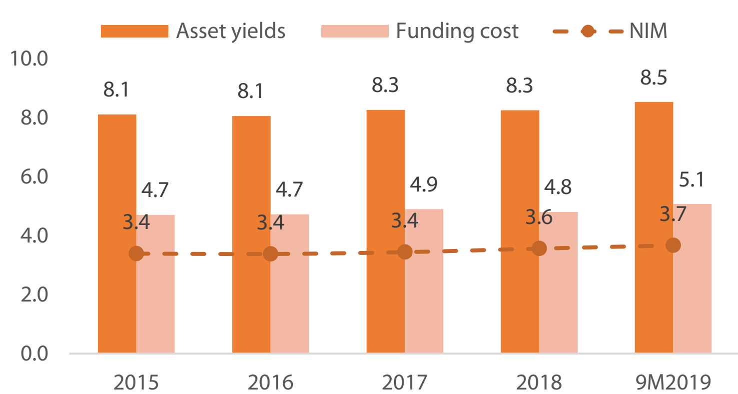


Source: Bank's FS, Rong Viet Securities

Low provision expenses due to top asset quality

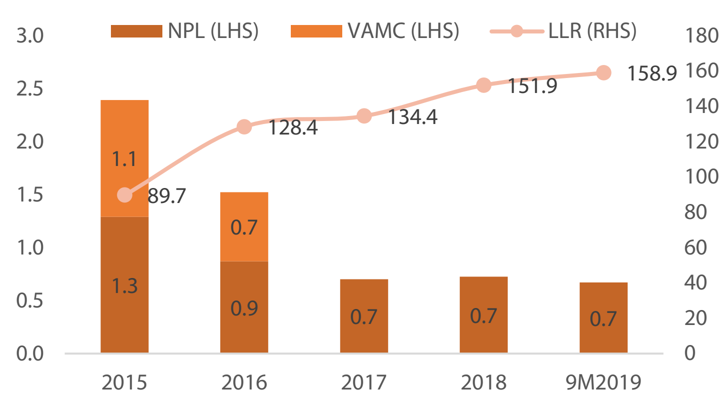
Despite high growth in retail lending, ACB's low risk appetite ensures its top asset quality among listed banks: the lowest NPL ratio (0.7%) and the second highest provision coverage (158.9%) among all banks in 3Q2019. The outstanding accrued interest is low, at about VND 3 Tn (USD 130.4 mn, down 12% YTD), accounting for only 0.8% of total assets. As a result, the burden of provision has eased significantly with only VND 162 bn (USD 7.0 mn) of expenses recorded in the 9M2019 (-75.5% YoY), equivalent to 2.8% of pre-provision profit. We believe that the ability to control provision expenses will be an important advantage for the bank to secure profit growth.

Figure 5: ACB's asset yield, funding cost and NIM (% TTM)



Source: ACB, Rong Viet Securities

Figure 6: ACB's NPL, VAMC and provision coverage ratio (%)



Source: ACB, Rong Viet Securities

Great service income growth potential thanks to bancassurance

In recent years ACB has tried to boost service income by promoting activities such as payments, insurance, guarantees and securities brokerage. Insurance income achieved the strongest expansion and is expected to be the growth driver in the context that there is limited growth coming from other sources. According to statistics by the Vietnam Insurance Association, ACB's life insurance premiums in 1H2019 reached VND 423 bn (USD 18.4 mn), giving the bank a market share of 5.1%. It ranked 7th in the market versus 8 in 2018. In 9M, net income from this activity has doubled YoY to VND 414bn (USD 18 mn), accounting for 29.3% of service income. We believe that ACB's life insurance segment has great potential and will be further promoted after the non-exclusive agreement with Manulife - the second largest life insurance market player - besides the current existing partner AIA. The cooperation with Manulife will focus on 'priority clients' while AIA products targets the mass segment.

ACB's plan is to look for an exclusive bancassurance partner - maybe one of the above partners or another - possibly starting in the end of 2020. With ACB's large and loyal individual customer base, we expect that the bank can collect a decent amount of up-front fee as well as boost insurance commission income growth to 50%/year in the next three years.

Increased investment to improve competitiveness in the retail segment

Unlike provision expenses which plummeted, operating expenses increased by 25.5% YoY, faster than TOI's (14.4% YoY), thereby raising 9M2019 CIR to 49.3% (versus 44.9% in 9M2018). During the last three quarters, ACB booked VND 303bn (USD 13.2 mn) as provision for other assets, which is actually due to a legacy responsibility. Excluding this provision, actual CIR should be 46.6%, similar to last year's. The bank confirmed that it has already finished provision booking for all legacy issues; therefore CIR ratio should no longer be impacted by these non-recurring items in the future.

According to ACB, the bank will implement a new strategic plan with a target on five customer segments (1) affluent, (2) pensioners, (3) household businesses, (4) generation Y and (5) young urban professionals. This will require ACB to invest more in technology, including transactional banking and digital banking, in order to enhance product proposition and customer experience. In addition, we believe that the campaign of brand repositioning (which started in 2014) also requires investment in assets and marketing, which are necessary to strengthen the bank's competitiveness in the retail segment. This implies that the CIR ratio is unlikely to improve significantly in the near future. However, we hold the view that the digital transformation could help ACB improve its efficiency and reduce CIR gradually. The bank aims to lower its CIR to 40% within 5 years.

Unit: VND Bn

INCOME STATEMENT	FY2017A	FY2018A	FY2019E	FY2020F
Interest and Similar Income	20,320	24,015	28,229	32,942
Interest and Similar Expenses	-11,862	-13,652	-15,930	-18,721
Net Interest Income	**8,458**	**10,363**	**12,299**	**14,221**
Non-interest Income	2,981	3,670	3,188	3,275
Net Fee and Commission Income	1,188	1,498	1,898	2,462
Net gain/(loss) from foreign currency and gold dealings	237	241	354	277
Net gain/(loss) from trading of securities	25	-78	6	6
Net gain/(loss) from disposal of investment securities	603	169	0	0
Net Other income/expenses	892	1,815	900	500
Income from capital contribution	36	26	29	29
Total operating income	**11,439**	**14,033**	**15,487**	**17,496**
Operating expenses	-6,217	-6,712	-7,735	-8,625
Operating Profit Before Provision	5,222	7,321	7,751	8,871
Provision expenses	**-2,565**	**-932**	**-332**	**-385**
Profit before tax	**2,656**	**6,389**	**7,419**	**8,486**
Corporate income tax	-538	-1,252	-1,493	-1,696
NPAT	**2,118**	**5,137**	**5,927**	**6,790**
Attributable to parent company	**2,118**	**5,137**	**5,927**	**6,790**

Unit: %

FINANCIAL RATIO	FY2017A	FY2018A	FY2019E	FY2020F
Growth				
Customer loans	21.7	15.9	16.0	16.0
Customer deposit	16.6	11.9	15.0	13.0
Net interest incomes	22.7	22.5	18.7	15.6
Operating income	51.3	22.7	10.4	13.0
NPAT	59.8	142.5	15.4	14.6
Total Assets	21.7	15.8	15.3	15.0
Equity	14.0	31.1	32.4	18.5
Profitability				
NIM	3.5	3.6	3.6	3.7
CIR	54.4	47.8	49.9	49.3
ROAE	14.1	27.7	24.3	22.3
ROAA	0.8	1.7	1.7	1.7
Asset Quality				
NPL ratio	0.7	0.7	0.7	0.7
Bad debt coverage ratio	134.4	151.9	153.6	150.2
Equity-to-Assets ratio	5.6	6.4	7.3	7.5
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	72.3	74.9	75.4	75.7
Customer LDR	80.1	84.9	88.0	90.1

Unit: VND Bn

BALANCE SHEET	FY2017A	FY2018A	FY2019E	FY2020F
Cash and precious metals	4,852	6,129	7,971	9,231
Balances with the SBV	8,315	10,684	10,867	12,280
Placements with and loans to other credit institutions	8,942	18,770	21,585	23,744
Trading securities, net	1,237	1,178	1,165	1,165
Derivatives and other financial assets	0	0	0	0
Loans and advances to customers, net	196,669	227,983	264,535	306,936
Investment securities	52,718	53,380	61,618	70,547
Investment in other entities and long-term investments	190	156	156	156
Fixed assets	3,008	3,233	3,557	3,912
Investment properties	256	247	247	247
Other assets	8,131	7,573	7,952	8,349
TOTAL ASSETS	**284,316**	**329,333**	**379,654**	**436,568**
Due to Gov and borrowings from SBV	0	3,074	0	0
Deposits and borrowings from other credit institutions	15,454	20,718	14,503	15,953
Deposits from customers	241,393	269,999	310,498	350,863
Derivatives and other financial liabilities	10	38	0	0
Funds received from Gov, international & other institutions	136	160	144	144
Convertible bonds/CDs and other valuable papers issued	6,761	8,291	18,240	27,360
Other liabilities	3,873	4,645	5,427	6,388
Total liabilities	**268,285**	**308,315**	**351,834**	**403,614**
Shareholder's equity	**16,031**	**21,018**	**27,820**	**32,954**
Capital	9,608	12,220	16,837	16,837
Reserves	2,914	3,693	4,953	6,397
Foreign currency difference reserve	0	0	0	0
Difference on assets revaluation	0	0	0	0
Retained Earnings	3,510	5,105	6,030	9,719
Minority interest	0	0	0	0
LIABILITIES AND SHAREHOLDER'S EQUITY	**284,316**	**329,333**	**379,654**	**436,568**

Unit: VND Bn

FOOTNOTES	FY2017A	FY2018A	FY2019E	FY2020F
Interest Income	**20,320**	**24,015**	**28,229**	**32,942**
From customers	16,526	20,471	24,076	28,361
From other Cis	222	309	714	802
From fixed-income investment	3,293	2,957	3,161	3,779
From guarantee	0	0	0	0
From other activities	77	69	69	0
Interest Expenses	203	209	209	0
To customers	**-11,862**	**-13,652**	**-15,930**	**-18,721**
To other Cis	-11,013	-13,061	(15,566)	(18,065)
To fixed-income investment	-78	-174	(19)	(16)
To other activities	-700	-371	(346)	(640)
Operating expenses	-71	-47	0	0
Provision expenses	**-6,217**	**-6,712**	**-7,735**	**-8,625**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. We strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. Investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Deputy Manager
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Market Strategy

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction
- Utilities

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Natural Rubber
- Agriculture

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Steel

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

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