ACB JOINT STOCK COMMERCIAL BANK (HNX:ACB)

Diversifying for Future Growth

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– QoQ*	Q3–FY16	*+/– YoY*
Total operating income	2,535	2,775	–9%	1,851	37%
Profit before tax and provision	1,267	1,027	23%	608	108%
Profit before tax	742	667	11%	416	78%
NPAT	547	502	9%	334	64%

Source: ACB, RongViet Research

Strong income growth was driven by favorable business environment and reversal of provisions. Total operating income was VND7,986B (+58% YoY), of which interest income was VND6,075B (+19.4% YoY) and service income was VND850B (+28.6% YoY), contributing 76% and 11% of total operating income, respectively.

ACB's provision burden comes from (1) the six companies of Mr. Nguyen Duc Kien (Group 6) and (2) special bonds. ACB has been trying to handle these two problems. Provision expenses in 9M 2017 soared up, nearly tripling that of the same period last year, reaching approximately VND1,491B. In the meanwhile, since the bank made huge privisions for corporate bonds related to its legacy issues in 2016, and reversed over VND300B from Vinaline bonds in H1 2017, the provision expense related to legacy issues was actually lower than that of 9M 2016. Operating expenses increased sharply to VND4,491B (+28.7% YoY) due to provision expenses of other assets. Excluding these provisions, operating expense increased merely 10% YoY. PBT in 9M 2017 was VND2,004B (+61% YoY), fulfilling 89% of the annual target.

Growth drivers will be maintained in 2017 and 2018. ACB's liquidity and capital adequacy ratios are really good and higher than the SBV's requirements. Hence, the bank has large room to restructure its loan portfolio by increasing the proportion of higher interest rate loans. Thanks to that, we expect its NIM will continue to improve in 2017–2018. In addition, its room for credit growth in 2017 was lifted to 20%. For 2018, we expect credit growth to be around 18%.

For 2017, we forecast ACB will reach VND2,690B (+61.4% YoY), higher than the bank's target by 20%. NPAT and EPS will be VND2,152B (+62.4% YoY) and VND2,101, respectively.

Valuation and recommendation

The year 2017 marks a new chapter in ACB's operations as the bank nearly finished its burden on legacy issues arising from 2012 as well as its liabilities from making provision for special bonds. Given its strong earnings growth in 2017, ACB is also spurring provision expenses for on-balance sheet bad debts, resulting in high LLR. We also appreciate ACB due to its strategy to focus on its core business of retail banking. In addition, most of the collateral for legacy issues are stocks; the uptrend in the stock market could be a good point for ACB to collect these debts. Therefore, we expect that ACB will have large provision reversals related to these bad debts, resulting in high earnings growth for 2018.

We estimate that ACB's target price in the immediate -term will be around VND38,400 per share, equivalent to PBR forward 2018 at 2.0x, 26% higher than our target price updated on November Strategy Report. ACB pays stock dividends in recent year. Hence, total expected return is 13%, and we recommend NEUTRAL rating for ACB%.

NEUTRAL

CMP (VND)	33,900
Target price (VND)	38,400
Cash dividend (VND)*	0

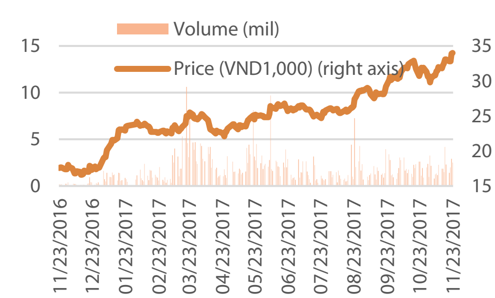
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market Cap (VND B)	33,422
Current Shares O/S	985,901,281
Beta	0.77
Free float (%)	74.19
52 week High	33,900
52 week Low	16,473
Avg. Daily Volume (20 sessions)	1,963,654

	FY2016	Current
EPS	1,293	1,882
EPS growth (%)	37.8	N/a
Diluted EPS	1,423	N/a
P/E	15.3	18.1
P/B	1.3	2.2
Cash dividend	0	0
ROE (%)	9.9	12.6

Price performance



Major Shareholders (%)

Standard Chartered Bank Limited	9.58
Standard Chartered APR Limited	8.77
Dragon Financial Holdings Limited	7.46
First Burns Investment Limited	4.38
Foreign ownership room (%)	0.0

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Exhibit 1: Q3 2017 Results

Particular (VND B)	**Q3-FY17**	**Q2-FY17**	*+/- (QoQ)*	**Q3-FY16**	*+/- (YoY)*
Interest and Similar Income	5,194	5,002	3.8%	4,143	25.4%
Interest and Similar Expenses	-3,046	-2,982	2.2%	-2,486	22.6%
Net Interest Income	2,147	2,020	6.3%	1,657	29.6%
Non-interest Incomes	388	755	-48.6%	194	99.9%
Net Fee and Commission Income	*309*	*293*	*5.4%*	*236*	*30.6%*
Net gain/(loss) from foreign currency and gold dealings	*54*	*59*	*-7.1%*	*52*	*5.2%*
Net gain/(loss) from trading of trading securities	*-26*	*13*	*-298.1%*	*8*	*-443.2%*
Net gain/(loss) from disposal of investment securities	*3*	*327*	*-99.2%*	*-140*	*-101.8%*
Net Other income/expenses	49	64	-23.8%	39	25.4%
Total operating income	2,535	2,775	-8.6%	1,851	37.0%
Operating expenses	-1,269	-1,748	-27.4%	-1,243	2.1%
Operating Profit Before Provision	1,267	1,027	23.4%	608	108.3%
Provision expenses	-525	-359	46.1%	-192	173.1%
Profit before tax	742	667	11.2%	416	78.4%
Corporate income tax	-195	-165	17.9%	-82	137.8%
NPAT	547	502	8.9%	334	63.8%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: ACB, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	**Q2-FY17**	**+/- (QoQ)**	**Q3-FY16**	**+/- (YoY)**
Growth (%)					
Customer loan	12.9	11.2	174 bps	19.2	-633 bps
Customer deposit	13.0	11.2	186 bps	15.1	-210 bps
Operating income	-8.6	3.7	-1234 bps	5.9	-1458 bps
Profit before tax and provision	23.4	-14.6	3800 bps	5.5	1788 bps
NPAT	8.9	5.0	396 bps	-5.4	1429 bps
Total assets	15.7	13.8	189 bps	13.6	205 bps
Equity	9.7	5.8	383 bps	7.3	234 bps
Profitability (%)					
NIM	3.8	3.5	25 bps	3.4	33 bps
Interest spread	4.2	3.7	50 bps	3.5	70 bps
ROAE	12.6	11.5	111 bps	8.8	375 bps
ROAA	0.7	0.7	6 bps	0.5	18 bps
Asset quality					
NPL (%)	1.0	1.1	-6 bps	1.1	-9 bps
Loan loss reserve (%)	151.0	130.9	2019 bps	100.4	5067 bps
Equity/Total assets (x)	5.7	5.6	11 bps	6.0	-29 bps

Source: ACB, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	**H2-FY17**	**+/- HoH**	**+/- YoY**
Net interest income	4,175	6%	16%
Total operating income	5,009	-8%	22%
Profit before tax and provision	2,141	-4%	27%
NPAT	1,172	20%	77%

Source: RongViet Research

Business updates

ACB's asset quality, capital adequacy, and liquidity ratios have improved significantly. By the end of Q3 2017, growth of customer credit and deposit was 12.9% YTD and 13.0% YTD, respectively. As a result, CAR and loan-to-deposit ratio (LDR) were maintained at an acceptable level compared to the requirements of Circular 36. By the end of Q2 2017, consolidated CAR was 12.7% and LDR was 75%.

NPL raitio was controlled at 1% while the bank increased provision expenses. As a result, LLR increased to 151%, just lower than that of VCB.

ACB may fully make provisions for special bonds in 2017. By the end of Q2 2017, outstanding loans of Group 6 was VND3,500B, in which the bank made VND3,000B provision. Regarding the special bonds, the net amount (after provision) was approximately VND883B. According to the bank's BOD, we learned that ACB will spur provision-making for these two issues to fulfill its obligation in 2017.

Major shareholder transactions. On October 17, Connaught Investor Ltd, a major shareholder holding 7.26% stake in ACB, transferred all shares to its subsidiaries, Asia Reach Investment Ltd (33.53 million shares, equivalent to 3.26% of ACB's charter capital) and to First Burn Investment Ltd (41.09 million shares, equivalent to 4% of ACB's charter capital).

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	14,082	16,448	20,671	24,383
Interest and similar expenses	-8,198	-9,556	-12,568	-14,863
Net interest income	**5,884**	**6,892**	**8,103**	**9,520**
Non-interest incomes	337	671	2,357	2,621
Net Fee and Commission Income	745	944	1,133	1,360
Net gain/(loss) from foreign currency and gold dealings	121	230	250	250
Net gain/(loss) from trading securities	15	72	66	66
Net gain/(loss) from disposal of investment securities	-808	-886	417	640
Net Other income/expenses	264	310	491	305
Total operating income	**6,220**	**7,563**	**10,460**	**12,141**
Operating expenses	-4,022	-4,678	-6,090	-6,677
Operating profit before provision	2,199	2,885	4,370	5,463
Provision expenses	**-884**	**-1,218**	**-1,679**	**-836**
Profit before tax	**1,314**	**1,667**	**2,690**	**4,627**
Corporate income tax	-286	-342	-538	-925
NPAT	**1,028**	**1,325**	**2,152**	**3,702**
Attributable to parent	**1,028**	**1,325**	**2,152**	**3,702**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	15.2	21.9	20.0	18.0
Customer deposit	13.1	18.4	20.0	16.0
Net interest incomes	23.5	17.1	17.6	17.5
Operating income	2.7	21.6	38.3	16.1
NPAT	8.0	28.9	62.4	72.0
Total Assets	12.2	16.0	19.9	16.9
Equity	3.1	10.0	18.7	22.2
Profitability				
NIM	3.4	3.5	3.5	
Interest spread	0.0	0.0	0.0	0.0
CIR	64.7	61.9	58.2	55.0
ROAE	8.2	9.9	14.0	20.0
ROAA	0.5	0.6	0.8	1.2
Assets Quality				
NPLs ratio	1.3	1.8	N/A	N/A
Bad debt coverage ratio	87.0	62.7	N/A	N/A
Equity-to-Assets ratio	6.3	6.0	6.0	6.2
Operating Safety Ratio				
Customer Loans-to-Total Assets	64.0	64.9	72.0	72.8
Customer Loans-to-Deposit ratio	80.8	81.1	80.0	81.4
CAR	12.8	13.2	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	2,806	3,541	3,218	6,184
Balances with the SBV	4,609	5,119	8,696	10,088
Loans to other CIs	10,122	8,152	8,152	10,598
Trading securities, net	100	1,183	504	504
Derivatives & financial assets	48	16	0	0
Loans and advances to customers, net	132,491	161,604	193,537	227,996
Investment securities	38,679	42,801	53,825	58,261
Investment in other entities and long term investments	208	190	190	190
Fixed assets	2,480	2,851	3,278	3,770
Investment properties	62	212	266	266
Other assets	9,852	8,010	8,411	9,672
TOTAL ASSETS	**201,457**	**233,681**	**280,078**	**327,529**
Due to Gov and borrowings from SBV	5,179	0	0	0
Deposits and borrowings from other credit institutions	2,433	2,235	3,666	4,765
Deposits from customers	174,919	207,051	248,462	288,215
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	162	123	137	137
Convertible bonds/CDs and other valuable papers issued	3,075	6,615	7,164	9,664
Other liabilities	2,901	3,594	3,953	4,349
Total liabilities	**188,669**	**219,618**	**263,381**	**307,130**
Shareholder's equity	**12,788**	**14,063**	**16,697**	**20,399**
Capital	8,711	8,711	9,193	9,193
Reserves	2,374	2,590	2,941	3,544
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained earnings	1,702	2,761	4,563	7,662
Minority interest	0	0	0	0
LIABILITIES & SHAREHOLDER'S EQUITY	**201,457**	**233,681**	**280,078**	**327,529**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest incomes	**14,082**	**16,448**	**20,671**	**24,383**
From customers	10,731	13,550	16,664	19,815
From other Cis	271	181	224	258
From fixed-income investment	2,636	2,411	3,575	4,102
From other activities	444	306	207	207
Interest expenses	**-8,198**	**-9,556**	**-12,568**	**-14,863**
To customers	-7,471	-8,794	-12,041	-14,186
To other CIs	-92	-130	-145	-186
To fixed-income investment	-380	-536	-382	-491
To other activities	-255	-96	0	0
Operating expenses	**-4,022**	**-4,678**	**-6,090**	**-6,677**
Provision expenses	**-884**	**-1,218**	**-1,679**	**-836**

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	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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