

03/12/2018

Recommendation

BUY

Tuoi Tran (Fundamental)

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Target price	55,852
Closed price	46,802
Upside	19%

Hung Tran (Technical)

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Target price	55,000
Cut loss	44,000

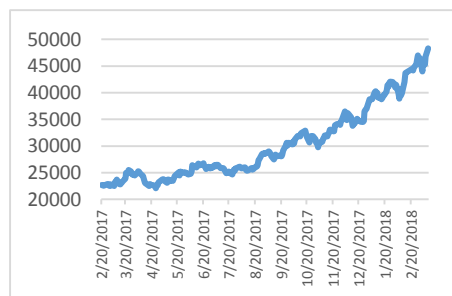
Market data

Outstanding shares (mil)	0.99
Market cap (VND. bil)	46,140
Highest of 52 weeks	47,500
Avg Vol 10 days (shares)	5,341,257
Foreign ownership	30%

Major shareholders (%)

Standard Chartered APR	8.77%
Cpmmaught Investors	7.26%
Dragon Financial Holdings	6.81%
Standard Chartered Bank	4.42%
Trần Huy Hùng	3.07%

Chart (1 year)



Company overviews: ACB's charter capital was VND 9 trillion. The bank has advantage in retail banking which accounted for 84% of total operating income in 2016.

Valuation

We recommend BUY ACB at 12 month target price of VND 55,900/share, upside 19% by adjusted P/B method. We visited ACB and have following notes.

2018 forecast.

BSC forecasts that 2018's EAT will be VND 4,343 billion (+105% yoy), EPS will be VND 4,354/share. 2018 equity will be VND 20,423 billion, book value will be VND 20,715/share.

Catalysts:

- Other income or provisions reversal from solved NPLs recovery.

Risks

- NIM decrease due to higher competition.
- CIR inflates

Investment highlights (more details in page 2)

- ACB completed provisioning G6 debts and VAMC bonds in 2017. Total provision expenses of VND 2,569 billion will not continue in 2018, and will boost EPS by VND 2,605/share.
- Expected provision reversal from recovering NPLs debts (G6, VAMC, others). Total off balance sheet is VND 5,000 billion.
- Operating profit before provision up by 81% to VND 5,222 billion, and expected to maintain high growth in 2018.
- Asset quality is good, provision expenses are expected to down sharply since 2018.
- Even with credit ceiling is set at 15% by SBV, ACB can attain higher growth due to strong financial position. ACB plan to boost services income by 20% annual, maintain NIM and decrease CIR to under 50%.

Company update

2017 positive business growth.

- **Total loan is up by 21.46% in 2017** reached VND 198 billion. In which, personal loans and others accounted for 55% of total loans. Deposit increased by 16.59%. Total assets hiked by 21.67%.
- **Operating profit before provision accelerated by 81% yoy**, to VND 5,222 billion. Excluding provision expenses for investment bonds in 2016, operating profit before provision is up by 31%. In which, interest income increased by 23% yoy, services income expanded by 26% yoy, investment bonds trading rose three times (excluding above provision for investment bonds) and other income escalated by 300%.

ACB completed provisioning G6 debts and VAMC bonds in 2017. Total provision expenses was VND 2,596 billion which will not continue be booked in 2018 financial statement.

- Total amount of G6 debts in the beginning of 2017 was VND 3,913 billion, provision fund was VND 2,413 billion. This meant that in 2017, ACB solved VND 1,501 billion of G6 debts, in which, collected VND 818 billion and made provision of the rest.
- Total VAMC bonds value was VND 1,487 billion at the beginning of 2017, provision was VND 417 billion. Net value of VAMC was VND 1,069 billion.

Other income will arise if ACB collect G6 debts, VAMC debts and other off- balance sheet. Income from recovery of off-balance sheet debts was VND 369 billion in 2017 and expected to be hike in the coming years, especially after the resolution No. 42 went to effect.

- From 2009- 1H2017, ACB wrote off about VND 1,936 billion (excluding G6 debts), while recover only VND 382 billion. Therefore, the bank has to collect VND 1,554 billion off-balance sheet debts.
- Total solved G6 debts was VND 3,913 billion, in which off-balance sheet was VND 2,478 billion, and in balance sheet was VND 616 billion which is fully provisioned, and recovery was VND 819 billion. Total collateral assets for G6 debts was VND 3,051 billion, in which, VND 725 billion was deposit, guarantee value from other banks and deposit to buy other CIs shares.
- Total collateral value of ACB was VND 370 billion at 31st Dec, 2017, equal to 1.86x of loans book.

Good asset quality.

- **NPL down both absolutely and relatively.** NPL ratio declined from 0.87% to 0.7%. Total NPL at the end of 2017 was VND 1,390 billion, (-3% yoy).
- **Doubtful asset shrank by 22%** to VND 10,052 billion, equal to 63% of equity, lower than several listed banks (average of 134%) implying ACB's assets is relatively good compared to other banks.
- **NPLs coverage ratio was high** at 133%. In 2017, ACB made VND 1,647 billion of provision, while total provision used was VND 1,599 billion, the highest since establishment. We believe that ACB's provision expense will reduce sharply since 2018, estimated at VND 415 billion assuming high NPLs coverage ratio of 135%.

Asia Commercial bank (ACB)

Business plan.

- **Credit growth is 15%**, the same as ceiling growth rate set by SBV. We assume that the real growth in 2018 will be higher due to (1) low pure LDR of 76% offer room to growth; (2) high CAR at 11.4%.
- **Maintain NIM.** 2017's NIM was 3.47%. CASA is up, but still low, at 15.82%. ACB targets to get 20% increase in CASA in 2018 to reduce deposit cost. Some solution including: (1) developing corporate segments, supply chains, satellite business to promote payroll, cross selling; (2) offer comprehensive product packages, etc.
- **Long term target, services income raise by 20% annually** through cross selling and services packages stated above, digital banking, payment services, etc.
- **Cost management.** CIR was 54.35% in 2017, higher than median of listed banks (46.2%). Excluding one-time expenses in 2017, CIR was 51-52%. ACB's representative noted that in next 1 or 2 years, CIR hardly reduces because of high investment for technology and competitive salaries. In long term, the bank targets to decrease CIR to under 50% and improve bank efficiency.

2018 forecast.

We forecast that 2018 EAT will be VND 4,343 billion, based on our assumption: (1) loans up by 20% in 2018; (2) NPL ratio is 0.7%, which is the same rate in 2017; (3) NPL coverage ratio up to 135% from current 133%; (4) CIR is 53.89%; (5) other income is VND 743 billion from collecting above deposit of third parties to buy other CIs shares. We note that the figure is much lower than total off-balance sheet debts (VND 5,000 billion). 2018's EPS as our calculation is VND 4,354/share, BV is VND 20,715/share.

Valuation.

We use adjusted P/B to value ACB share price.

- P/B is 2.5x, lower than median of listed banks (2.86x). We note that, ACB often trade at premium to others due to good asset quality and high potential growth.
- Adjusted equity is VND 22,026/share, including (1) 2017 equity was VND 16,030 billion, (2) 2018 EAT excluding other income from off balance sheet recovery is VND 3,771 billion; (3) 100% of cash and guaranteed assets from other CIs, 100% collateral of G6 debt which is shares of other listed CIs, total amount is VND 1,562 billion; (4) 20% of off –balance sheet debts from G6 and other debts. Then, BV is VND 22,341/share.
- Fair price is VND 55,900/share.

Asia Commercial bank (ACB)

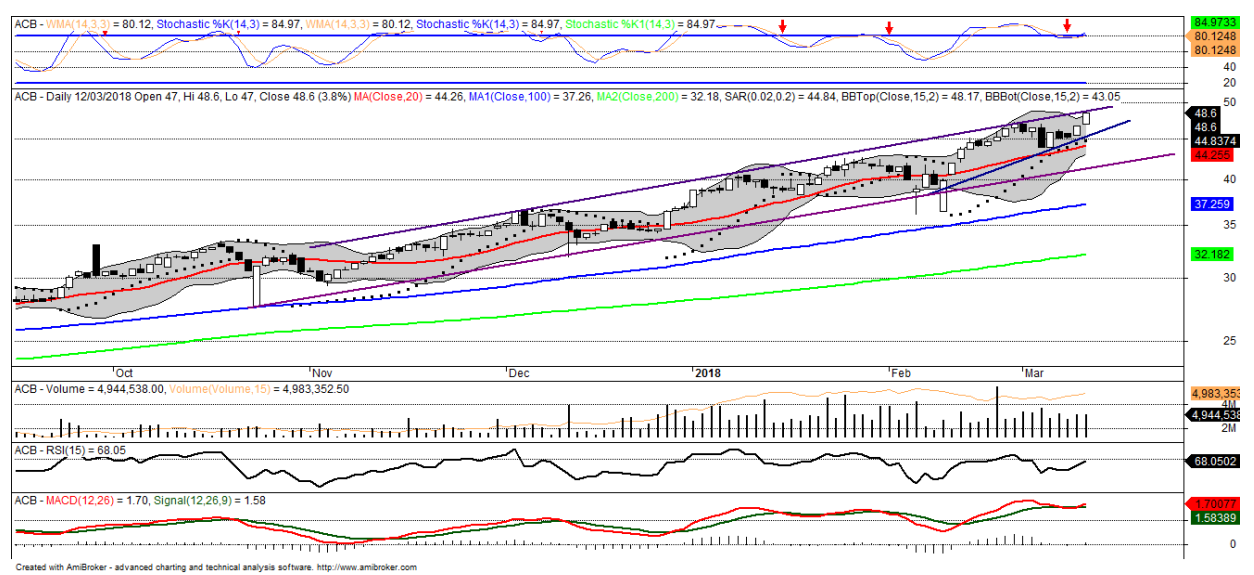
Technical analysis:

- Current trend: Upside
- MACD indicator: Convergence
- RSI indicator: Overbought.

Comment. ACB price continuously increase with strong uptrend, high RSI. Currently, ACB rose 2 sessions, approaching the top of blinger. It is likely that ACB will rise sharply to VND 55,000/share, break out resistants and RSI over bought.

Recommendation: Hold or buy if ACB price down to VND 46,000/share, target price is VND 55,000/share and cut loss if the price down to VND 46,000/share.

Technical chart.



Nguồn: Amibroker, BSC

Asia Commercial bank (ACB)



Appendix 01: Overviews

	2013	2014	2015	2016	2017
Scale					
Charter capital (bill. VND)	9,377	9,377	9,377	9,377	10,273
Equity (bill. VND)	12,504	12,397	12,788	14,063	16,031
Total asset ((bill. VND)	166,599	179,610	201,457	233,681	284,316
Equity/Total asset	7.51%	6.90%	6.35%	6.02%	5.64%
Growth (ytd)					
Asset Growth	-5.51%	7.81%	12.16%	16.00%	21.67%
Lending Growth	4.26%	8.52%	15.22%	21.91%	21.46%
Deposit Growth	10.28%	11.95%	13.13%	18.37%	16.59%
Lending/Deposit	77.61%	75.24%	76.63%	78.92%	82.22%
Asset quality					
NPL ratio	3.03%	2.18%	1.31%	0.87%	0.70%
NPL ratio including debt sold to VAMC	3.31%	3.04%	2.39%	1.51%	0.70%
Provision for bad debt/ Total debt debt	1.44%	1.36%	1.14%	1.10%	0.93%
NPL coverage ratio	47.73%	62.32%	87.02%	126.49%	132.74%
Interest receivable/ Lending	3.44%	2.80%	2.09%	1.98%	1.80%
Doubtful assets	20,455	18,177	15,292	10,892	10,052
% Total asset	12.28%	10.12%	7.59%	4.66%	3.54%
% Equity	163.58%	146.62%	119.58%	77.45%	62.71%
Business performance (ytd)					
% Interest income	78%	79%	95%	91%	73.94%
Operating income before risk provision (bill. VND)	1890	2193	2199	2885	5,222
% yoy	20.85%	16.00%	0.27%	31.20%	81.01%
Provision expense (bill. VND)	855	879	884	1218	(2,565)
% vs operating income before risk provision	45.21%	40.10%	40.23%	42.21%	49.13%
EAT (bill. VND)	826	952	1,028	1,325	2,118
% yoy	5%	15%	8%	29%	59.84%
NIM (TTM)	2.87%	3.03%	3.34%	3.36%	3.45%
CIR (TTM)	66.54%	63.14%	64.65%	61.86%	54.35%
ROA (TTM)	0.48%	0.55%	0.54%	0.61%	0.82%
ROE (TTM)	6.58%	7.64%	8.17%	9.87%	14.08%
EPS (VND/share) (TTM)		1,021	1,136	1,293	2,098
Book value (VND/share)	13,221	13,832	12,970	14,264	16,260

Nguồn: BSC research

Asia Commercial bank (ACB)



Appendix 02: ACB and other listed banks

	ACB	VCB	CTG	BID	MBB	STB	SHB	EIB	VIB	TCB	VPB	HDB
Scale												
Charter capital (bill. VND)	10,273	35,978	37,234	34,187	18,155	18,852	11,197	12,355	5,644	11,655	15,706	9,810
Equity (bill. VND)	16,031	54,067	63,685	48,986	29,601	23,228	14,868	14,251	8,792	26,931	29,693	11,287
Total asset ((bill. VND)	284,316	1,035,335	1,095,022	1,201,662	313,878	368,680	277,994	148,966	123,281	269,392	277,750	174,594
Equity/Total asset	5.64%	5.22%	5.82%	4.08%	9.43%	6.30%	5.35%	9.57%	7.13%	10.00%	10.69%	6.46%
Growth (ytd)												
Asset Growth	21.67%	31.40%	15.44%	19.40%	22.48%	11.04%	18.83%	15.66%	17.95%	14.46%	21.41%	25.98%
Lending Growth	21.46%	17.93%	19.44%	19.66%	22.19%	12.11%	20.79%	16.61%	32.71%	12.78%	26.26%	27.09%
Deposit Growth	16.59%	19.99%	14.86%	18.42%	13.02%	9.67%	17.70%	14.84%	15.42%	-1.43%	7.89%	16.69%
Demand Deposit	15.82%	28.37%	15.34%	18.63%	30.11%	13.85%	9.04%	13.77%	16.29%	22.36%	14.73%	12.09%
Lending/Deposit	82.22%	76.70%	105.09%	100.72%	83.65%	69.70%	100.04%	86.20%	116.76%	94.08%	136.78%	86.69%
Asset quality												
NPL ratio	0.70%	1.14%	1.13%	1.61%	1.19%	3.75%	1.90%	2.27%	2.49%	1.61%	3.39%	1.52%
NPL ratio including debt sold to VAMC	0.70%	1.14%	1.49%	3.15%	1.19%	17.48%	4.75%	6.41%	3.49%	1.61%	5.07%	2.63%
Provision for bad debt/ Total debt debt	0.93%	1.49%	1.05%	1.28%	1.15%	1.25%	1.38%	1.04%	1.14%	1.17%	1.72%	1.11%
NPL coverage ratio	133%	131%	93%	79%	97%	33%	73%	46%	46%	73%	51%	73%
Interest receivable/ Lending	1.80%	1.11%	1.84%	1.11%	4.87%	11.09%	4.22%	0.96%	1.40%	2.41%	2.09%	3.27%
Doubtful assets	10,052	16,089	38,543	69,082	15,636	93,829	30,084	9,751	4,761	15,574	34,204	11,681
% Total asset	3.54%	1.55%	3.52%	5.75%	4.98%	25.45%	10.82%	6.55%	3.86%	5.78%	12.31%	6.17%
% Equity	62.71%	29.76%	60.52%	141.02%	52.82%	403.95%	202.34%	68.42%	54.15%	57.83%	115.19%	79.15%
Business performance (ytd)												
% Interest income	73.94%	74.61%	83.00%	79.37%	80.90%	61.05%	75.05%	69.70%	84.46%	54.64%	82.42%	84.70%
Operating income before risk provision (bill VND)	5,222	17,536	17,550	23,716	7,868	2,335	3,974	1,622	1,767	11,646	16,128	3,434
% yoy	81.01%	17.46%	29.12%	40.27%	38.50%	174.06%	61.68%	9.59%	35.09%	52.08%	57.47%	60.39%
Provision expense (bill. VND)	(2,565)	(6,198)	(8,344)	(14,915)	(3,252)	(846)	(2,035)	(605)	(361)	(3,609)	(8,002)	(1,017)
% vs operating income before risk provision	49.12%	35.34%	47.54%	62.89%	41.33%	36.23%	51.21%	37.30%	20.43%	30.99%	49.62%	29.62%
EAT (bill. VND)	2,118	9,087	7,432	6,902	3,490	1,173	1,550	823	1,125	6,446	6,438	1,746
% yoy	59.85%	33.01%	8.69%	12.45%	19.85%	1217.98%	69.77%	166.34%	100.18%	104.70%	63.61%	136.59%
NIM (TTM)	3.47%	2.49%	2.77%	2.92%	4.19%	1.81%	2.12%	2.06%	3.12%	3.89%	8.73%	4.09%
CIR (TTM)	54.35%	40.36%	46.20%	39.32%	43.26%	73.00%	39.92%	57.63%	56.82%	28.74%	35.55%	54.38%
ROA (TTM)	0.82%	1.00%	0.73%	0.63%	1.22%	0.33%	0.61%	0.59%	0.99%	2.55%	2.54%	1.03%
ROE (TTM)	14.08%	17.79%	11.99%	14.82%	12.42%	5.16%	11.03%	5.94%	12.83%	27.71%	27.47%	14.51%
EPS (VND/share) (TTM)	2,098	2,531	1,996	2,019	1,936	650	1,188	669	2,003	7,504	4,424	1,966
Book value (VND/share)	16,260	15,028	17,025	13,489	15,516	12,321	13,278	11,535	15,577	23,107	18,906	14,348

Nguồn: BSC research

Disclosure

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