ASIA COMMERCIAL JSB (ACB)

ADD (Maintained)

FINANCIALS

Current Price	VND26,150
52Wk High/Low	VND26,250/17,724
Target Price	VND31,200
Previous TP	VND30,300
TP vs Consensus	5.0%
Upside	19.5%
Dividend Yield	3.3%
Total stock return	22.8%

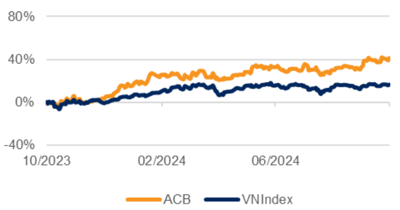
Growth rating	Neutral
Value rating	Positive
ST Technical Analysis	Positive

Market Cap	USD4.64bn
3m Avg daily value	USD8.5mn
Avail Foreign Room	USD0.0mn
Outstanding Shares	4,467mn
Fully diluted O/S	4,467mn

	ACB	Coverage	VNI
P/E TTM	7.1x	9.2x	14.3x
P/B Current	1.6x	1.6x	1.8x
ROA	2.3%	1.8%	6.3%
ROE	23.9%	19.1%	11.3%

**as of 10/18/2024*

Share Price performance



Share price (%)	1M	3M	12M
ACB	6.7	6.7	38.7
VN-Index	2.2	1.4	14.7

Ownership

Chairman and related parties	6.0%
Dragon Financial Holdings Limited	3.6%
Others	90.4%

Business Description

Asia Commercial JSB (ACB) is a leading commercial bank in Vietnam, with a conservative strategy focusing on retail customers. The bank has a network of over 384 branches and 452 ATMs across the country, and serves over 7 million customers.

Strong resurgence driven by high asset quality

- We maintain our ADD rating with 19.5% upside. We raise our TP by 3.0% while shares have increased 8.1% since our last report.
- We raise our TP given a lower cost of equity and FY24's net profit rising 2.9% compared to our previous forecast.
- YE24 P/B of 1.4x, below both ACB's five-year average and our coverage average, is attractive given that ROAE remains above our coverage average.

Financial Highlights

- 2Q24 TOI broke its downward momentum since 3Q23, rising 7.8% YoY to VND8.6tn (USD339mn), driven by strong credit growth.
- 2Q24 PBT grew 15.8% YoY to VND5.6tn (USD221mn), recovering from a 5.1% YoY decline in 1Q24, due to lower provision expense.
- 2Q24 trailing ROAE rebounded to 23.9%, much higher than our coverage average of 19.1%.

Investment Thesis

Business loans will support credit growth in 2025

We project ACB's credit growth to continue rising by 16.0% in 2025, driven by increased economic activity, exports, and a vibrant real estate market. In 2025, as Vietnam's economy is expected to continue its recovery, ACB's business loans and trading loans (which account for 50.3% of the loan book) will see strong demand. Additionally, mortgage loans (18.7% of the loan book) will be boosted by the real estate market's momentum.

Expansion of medium- and long-term loans will enhance NIM in 2025

We expect ACB's NIM to expand by 0.3% pts YoY to 4.2% in 2025, driven by a higher net interest rate spread, increased CASA, and growth in medium- to long-term loans. With strong credit demand, ACB can pass on higher interest costs to customers. The CASA ratio will benefit from improved business cash flow and personal income. Additionally, ACB can grow its medium- and long-term loans, supported by a low short-term funding ratio of 17.6%.

Asset quality will recover amid a vibrant real estate market

We expect provisioning pressure to ease in 2025, with credit costs decreasing by 0.2% pts YoY. We believe that in FY25, improved income and better performances by investment assets (stocks, real estate, businesses) will drive ACB's NPL formation ratio down to 0.23% from 0.62% in FY24. As a result, the NPL ratio will improve to 1.1%, down from 1.3% in FY24. This will lead to reduced provisioning pressure for ACB in FY25.

Valuation still attractive given high ROE amid strong credit demand

The current price is 1.4x at YE24 BVPS, which is below ACB's five-year average of 1.5x and in line with the sector average. Valuation remains attractive given ACB's FY24-25 ROAE of 22% compared to our coverage universe forecast of 18-19%.

Financial summary (VND)	12-23A	12-24E	12-25F	12-26F
Net profit (yoy)	17.2%	7.9%	20.9%	9.2%
Credit growth	17.9%	16.0%	16.0%	16.2%
NIM	3.86%	3.88%	4.16%	3.81%
CASA ratio	21.9%	23.0%	24.0%	25.0%
NPLs / Gross loans	1.2%	1.3%	1.1%	1.0%
LLR	91.2%	85.2%	93.0%	101.1%
ROEA	24.8%	22.3%	22.1%	19.6%
P/B	1.26	1.38	1.11	0.91

Source: VNDIRECT RESEARCH

Analyst(s):

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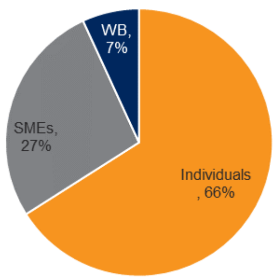
Company Profile

Established in 1993, Asia Commercial JSB (ACB VN) is one of the leading commercial banks in Vietnam, ranking seventh in terms of credit balance within the Vietnamese banking system (not including Agribank). ACB currently owns 384 branches and 452 ATMs spread across cities (concentrated in Ho Chi Minh City) in Vietnam, catering to nearly 7 million customers.

ACB boasts a specialized business structure focused on funding for retail customers (93% of loan book) and a lending segment for business production (35-45% of the debt structure). The retail segment includes the individual segment and the SME segment, with individuals accounting for 66% of the loan structure with three main segments: mortgage loans (45% of loan book), household business, and personal consumption. By the end of 2023, business loans accounted for 83% of the corporate customer debt structure.

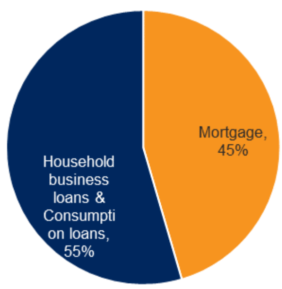
ACB tends to develop in tandem with the economic activity of Ho Chi Minh City, and is closely linked to the small-scale businesses of the FMCG and retail segments thriving in the city. ACB had the fifth highest CASA ratio in the industry from 2019-23, reaching 21.5%. ACB's abundant CASA source comes from having a fairly affluent customer base and steady cash flow from retail business activity, giving it an advantage in selecting high-quality customers. With this advantage and a conservative disbursement strategy, ACB has excellent asset quality, with an NPL ratio among the top three in the industry during 2021-23.

Figure 1: Loan book mix by customer type



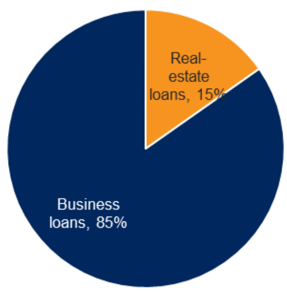
Source: ACB, VNDIRECT RESEARCH

Figure 2: Retail loan book mix by sector



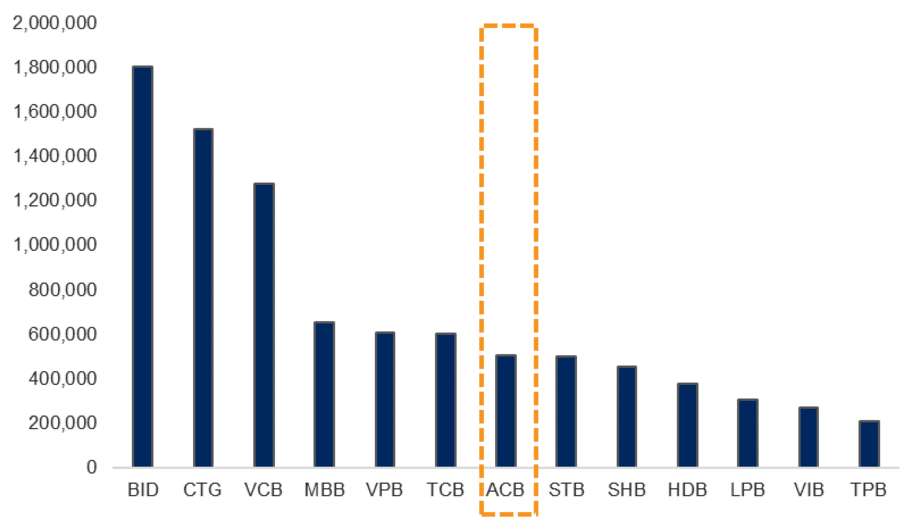
Source: ACB, VNDIRECT RESEARCH

Figure 3: Corporate loan book mix by sector



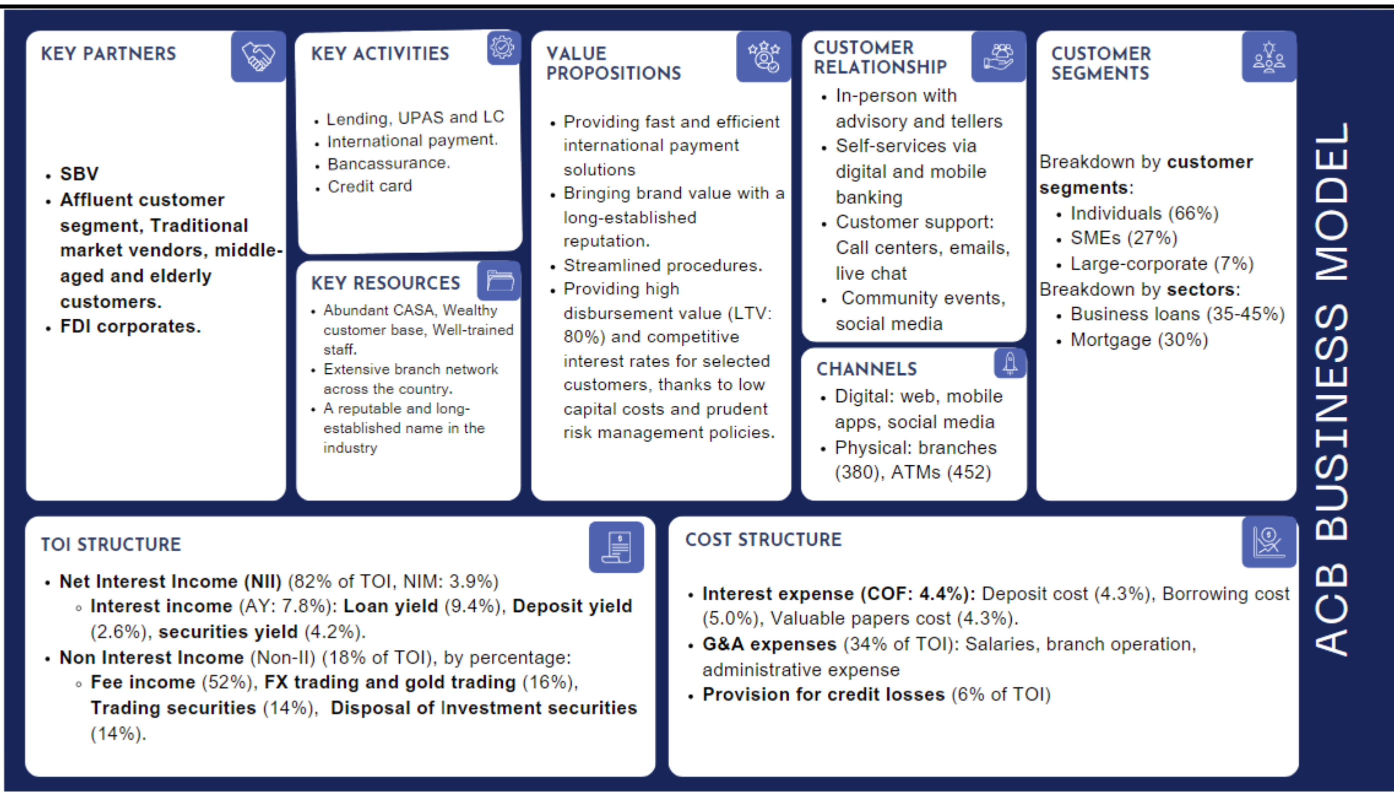
Source: ACB, VNDIRECT RESEARCH

Figure 4: Credit balance among banks (Unit: VNDbn)



Source: ACB, VNDIRECT RESEARCH

Figure 5: ACB business model canvas

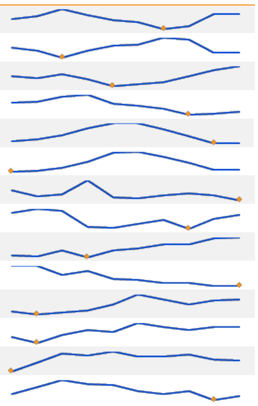


Source: VNDIRECT RESEARCH

Results Recap 1Q24: Earnings rebound on strong credit demand

Figure 6: ACB's key ratios by quarter

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
NII/TOI	79.4%	81.0%	85.1%	81.4%	78.5%	77.8%	73.7%	75.1%	82.3%	82.2%
Non-II/TOI	20.6%	19.0%	14.9%	18.6%	21.5%	22.2%	26.3%	24.9%	17.7%	17.8%
Credit growth YoY	17.2%	15.8%	19.5%	14.3%	8.2%	9.7%	11.8%	17.9%	23.1%	26.8%
NIM (quarterly)	4.2%	4.3%	4.5%	4.5%	4.2%	4.1%	4.0%	3.8%	3.8%	3.9%
AY (quarterly)	7.0%	7.2%	7.7%	8.4%	8.9%	9.0%	8.3%	7.5%	6.8%	6.8%
COF (quarterly)	3.1%	3.3%	3.6%	4.3%	5.3%	5.5%	4.9%	4.2%	3.4%	3.3%
CIR	40.0%	32.9%	35.6%	51.3%	31.7%	31.0%	34.0%	36.0%	33.8%	28.5%
LDR	82.8%	83.9%	83.5%	79.0%	78.5%	79.8%	80.8%	78.3%	81.0%	82.1%
NPL ratio	0.8%	0.8%	1.0%	0.7%	1.0%	1.1%	1.2%	1.2%	1.5%	1.5%
Loan loss reserve (LLR)	187.8%	185.1%	137.8%	159.3%	116.6%	107.6%	94.6%	91.2%	78.6%	77.8%
Credit cost (quarterly)	0.0%	-0.1%	-0.1%	0.0%	0.2%	0.7%	0.5%	0.3%	0.4%	0.4%
Provisions/PPOP	-0.1%	-5.8%	2.0%	6.5%	4.7%	12.7%	9.4%	6.0%	9.5%	9.5%
ROAA (trailing 12m)	2.1%	2.3%	2.5%	2.5%	2.5%	2.4%	2.4%	2.5%	2.4%	2.3%
ROAE (trailing 12m)	24.3%	25.8%	27.2%	26.4%	26.2%	24.8%	24.3%	24.8%	23.0%	23.9%



Source: ACB, VNDIRECT RESEARCH

Figure 7: Results comparison

	2Q23	2Q24	% QoQ (2Q24vs 1Q24)	% YoY (2Q24vs 2Q23)	6M23	6M24	FY24F (VND's forecast)	% of VND forecasts
NII YoY	11.4%	13.9%	5.8%		12.8%	11.0%	16.2%	48%
Non-interest income YoY	35.0%	-13.4%	6.5%		27.8%	-14.2%	-8.4%	42%
OPEX YoY	9.2%	-0.8%	-10.8%		-0.4%	4.7%	16.3%	41%
PPOP YoY	19.2%	11.7%	14.5%		25.0%	5.8%	7.4%	49%
Provision expenses YoY	-364%	-16.7%	14.8%		-456.0%	14%	34.6%	45%
Pre-tax profit YoY	-1.7%	15.8%	14.4%		10.6%	5.0%	4.9%	50%
Loan growth YoY	9.7%	26.8%	8.7%		9.7%	26.8%	14.3%	
Deposit growth YoY	11.4%	18.3%	3.8%		11.4%	18.3%	12.0%	
NIM	4.1%	3.9%	0.1% pts	-0.3% pts	4.1%	3.8%	3.9%	
Interest-earning asset yield	9.0%	6.8%	0.0% pts	-2.2% pts	8.9%	6.7%	6.5%	
Cost of funds	5.5%	3.3%	-0.1% pts	-2.2% pts	5.3%	3.3%	3.0%	
CASA ratio	20.7%	21.5%	-0.6% pts	0.8% pts	20.7%	21.5%	23.0%	
CIR	31.0%	28.5%	-5.3% pts	-2.5% pts	31.3%	31.1%	35.0%	
ROAE	25.2%	23.9%	0.8% pts	-1.3% pts	25.2%	23.9%	21.7%	
NPLs / Gross loans	1.1%	1.5%	0.0% pts	0.4% pts	1.1%	1.5%	1.2%	
Group 2 loans / Gross loans	0.9%	0.5%	-0.2% pts	-0.3% pts	0.9%	0.5%	0.4%	
Loan loss reserves	107.6%	77.8%	-0.8% pts	-29.8% pts	107.6%	77.8%	95.0%	

Source: ACB, VNDIRECT RESEARCH

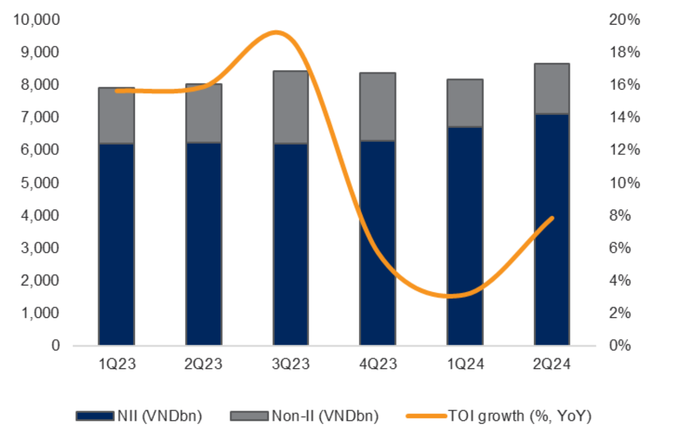
Interbank rate increase supported slight NIM expansion

2Q24 TOI broke its downward momentum since 3Q23, rising 7.8% YoY to VND8.6tn (USD339mn). This increase was driven by a recovery in net interest income (NII). In 2Q24, NII accelerated by 13.9% YoY to VND7.1tn (USD280mn) (1Q24: 8.1% YoY; 4Q23: -2.6% YoY). NII rebounded due to loan growth surging 26.8% YoY (+12.8% YTD) at the end of 1H24, significantly outpacing systemwide credit growth of 6.0%. ACB's loan growth was supported by large corporate loans (+37.6% YTD) and individual loans (+12.3% YTD).

ACB's quarterly NIM bottomed out in 1Q24, rising 0.1 percentage points QoQ to 3.9% in 2Q24, amid AY staying flat at 6.8% while COF edged down 0.1% pts QoQ. In 2Q24, ACB reduced net interest spread by 0.4% QoQ to support credit growth. As of result, lending yield compressed 0.4% QoQ while deposit cost stayed flat. However, AY was still resilient while COF continued to edge down thanks to: 1) deposit yield in interbank market surged 1.2% QoQ; and 2) valuable paper cost slumped 0.8% QoQ due to increased mobilization from short-term CDs (+105% YTD).

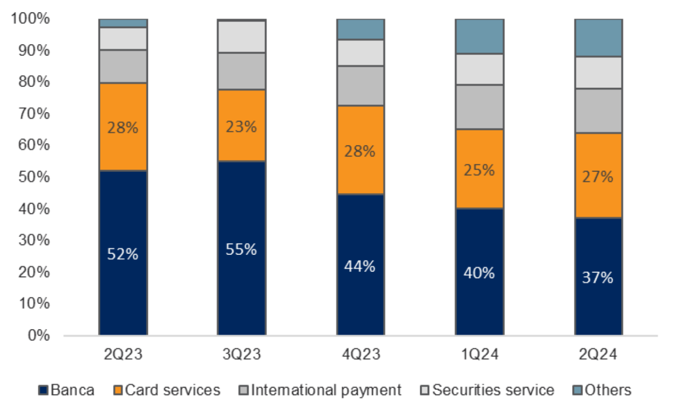
On a year-on-year basis, NIM decreased by 0.3% pts YoY, primarily due to ACB's mobilized funding source growing by 23% YoY, outpacing the allocation to earning assets (+22% YoY). ACB's credit growth reached 26.8% YoY in 2Q24, driven by a contraction in the net interest rate spread (lending yield: -3.0% pts YoY; deposit cost: -2.3% pts YoY). However, the AY moved in tandem with COF, both declining by 2.2% pts YoY, due to interbank deposit yields rising by 0.2% pts YoY. The slump in COF was mainly driven by a significant decrease in deposit rates at the counter to 4.3%, down from 6.8% in 2Q23.

Figure 8: TOI broke its decelerating trend



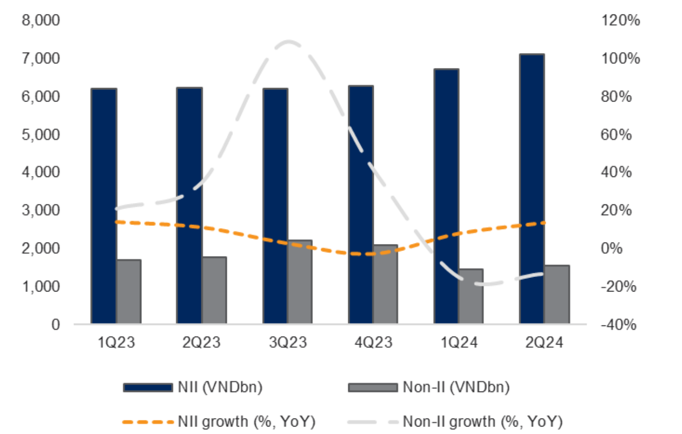
Sources: ACB, VNDIRECT RESEARCH

Figure 9: Fee income structure (%)



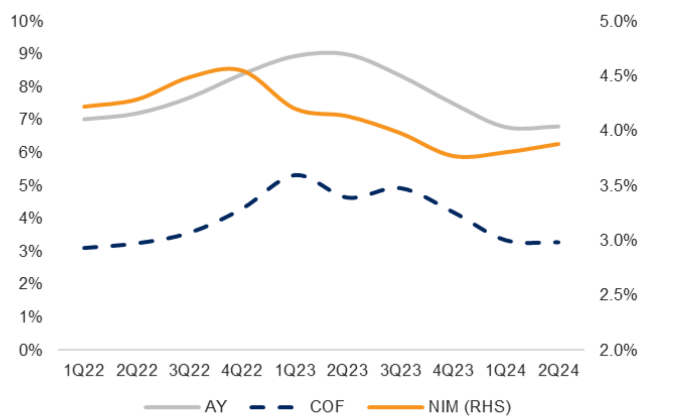
Sources: ACB, VNDIRECT RESEARCH

Figure 10: NII growth accelerated…



Sources: ACB, VNDIRECT RESEARCH

Figure 11: … on the back of NIM expanding 0.1% pts in 2Q24



Sources: ACB, VNDIRECT RESEARCH

Lower CIR boosted earnings growth

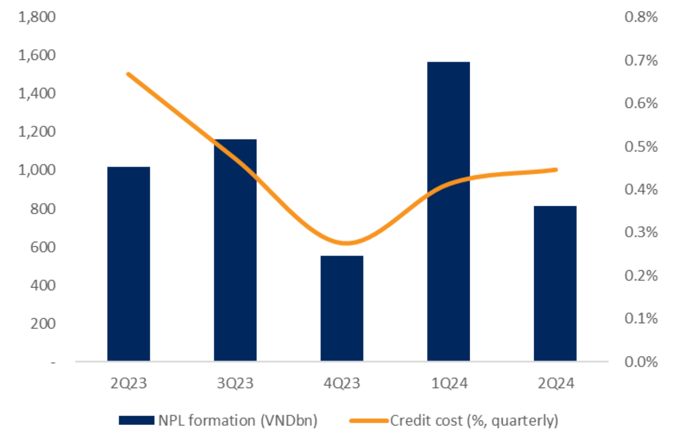
Operating profit before provision (PPOP) rose 11.7% YoY to VND6.1tn (USD240mn) in 2Q24 amid a lower operating cost (OPEX) (-0.8% YoY). A decrease in operating cost was driven by reductions in both other asset payments (-13.7% YoY) and payments for company affairs (-15.5% YoY). The lower OPEX resulted in CIR decreasing to 28.5%, much lower than its three-year average of 36.1%.

Group two loan ratio dropped to its lowest level in a year

ACB's asset quality remained resilient in 2Q24 as: 1) NPL formation slumped 48% QoQ; and 2) the NPL ratio stayed flat compared to the previous quarter at 1.5%. Additionally, the ratio of group two loans to total loans declined to 0.5% from prolonged periods at around 0.7-0.8% during 1Q23 to 1Q24. This indicates that ACB's asset quality may improve in upcoming quarters.

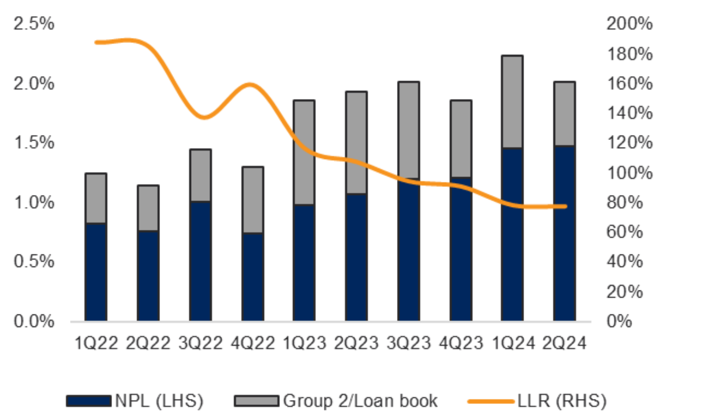
In 2Q24, amid weaker NPL formation, ACB reduced write-offs to VND41bn (USD1.6mn) (-61.2% QoQ) while maintaining a high credit cost of 0.5% (1Q24: 0.4%). However, 2Q24 credit cost was lower than the high base of 0.7% in 2Q23, resulting in a provision expense slump of 16.7% YoY. The decrease in provision expense boosted PBT growth by 15.8% YoY to VND5.6tn (USD221mn), recovering from a 5.1% YoY decline in 1Q24. Consequently, trailing ROAE improved to 23.9% in 2Q24 from 23.0% in 1Q24.

Figure 12: NPL formation decreased in 2Q24



Sources: ACB, VNDIRECT RESEARCH

Figure 13: Group two loan ratio dropped to lowest level in a year



Sources: ACB, VNDIRECT RESEARCH

Balance sheet KPI: Preparing for longer-term loans

Figure 14: Balance sheet key KPIs (QoQ growth, %)

Balance sheet key KPIs	2Q23	3Q23	4Q23	1Q24	2Q24
Interest-earning assets (excl. provisions) "IEAs"	3.8%	2.8%	10.9%	1.4%	6.1%
Customer loans	5.5%	3.6%	8.4%	3.8%	8.7%
Interbank lending	-5.2%	9.4%	17.0%	6.2%	-13.6%
Investment book	-0.8%	-10.9%	12.1%	-6.7%	10.7%
Interest-bearing liabilities "IBLs"	3.9%	2.3%	11.8%	1.1%	6.5%
Customer deposits	2.3%	3.0%	8.4%	2.1%	3.8%
Interbank deposits	30.5%	-7.0%	39.6%	-0.2%	4.9%
CDs and valuable papers	-11.0%	9.4%	7.3%	-6.5%	36.6%
CASA ratio	20.7%	20.5%	21.9%	22.0%	21.5%
LDR	79.8%	80.8%	78.3%	81.0%	82.1%
SLFR	19.2%	17.4%	17.3%	18.1%	17.6%

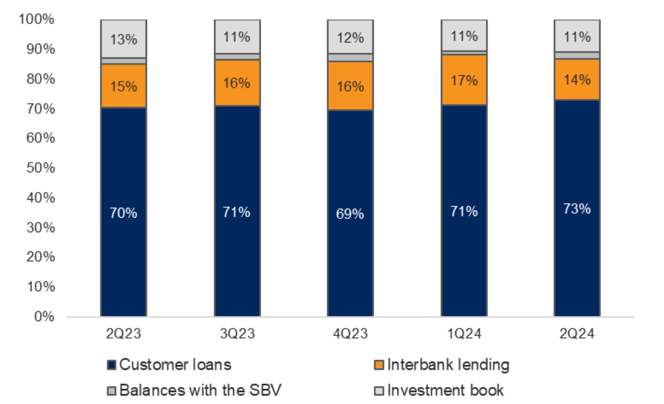
Source: ACB, VNDIRECT RESEARCH

IEA structure: Allocating more to investment book and customer loans

In 2Q24, total interest earning assets (IEA) increased 6.1% QoQ, slightly higher than the sector average of 5.8% QoQ and up from 1.4% QoQ growth in 1Q24. The growth of IEA was driven by customer loans (+8.7% QoQ) and investment book (+10.7% QoQ). As a result, the proportions of customer loans in the IEA mix increased to 73% from 71% in 1Q24. In the investment book structure, the proportion of both CI-bonds and CDs expanded to 18% and 32%, respectively. However, ACB reduced its G-bonds by 10.7% QoQ due to a divestment as the interest rate environment stayed low.

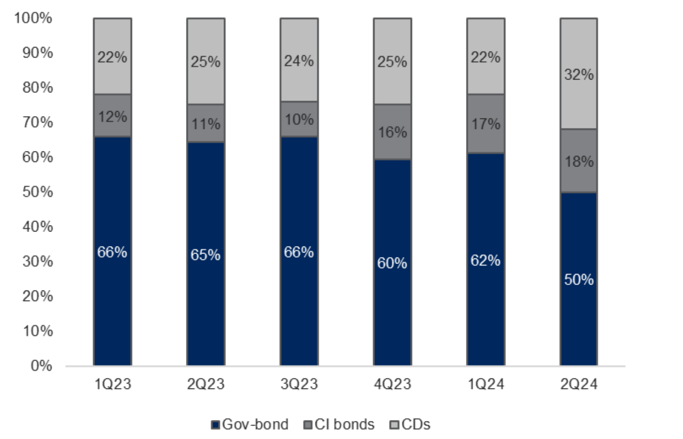
Meanwhile, ACB reduced its interbank lending by 13.6% QoQ in 2Q24, decreasing its share in the IEA mix to 14% from 17% in 1Q24. In conclusion, ACB allocated more to longer-term assets to preserve NIM.

Figure 15: ACB allocated more to investment book …



Sources: ACB, VNDIRECT RESEARCH

Figure 16: … by raising CDs and CI-bonds



Sources: ACB, VNDIRECT RESEARCH

Retail demand bounced back amid rise of mortgage loans

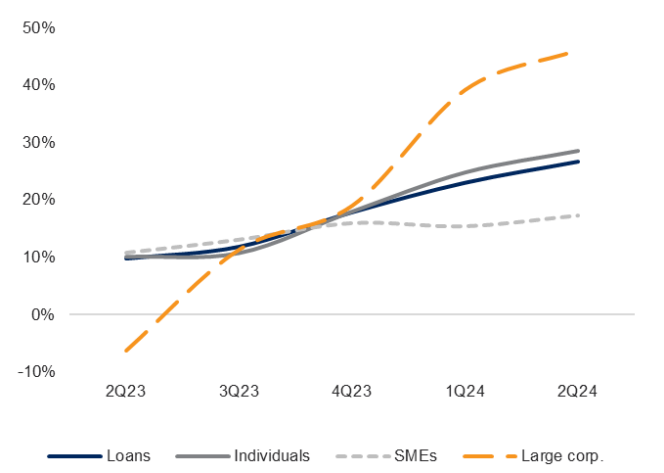
Credit growth of ACB rose to 12.8% YTD (+8.7% QoQ) in 2Q24, much higher than the system average of 6.1% YTD. The surge of credit was driven by all types of customers. Corporate loans maintained the strongest growth, surging 8.8% QoQ on the back of a 9.2% QoQ increase from large corporates. Coupled with short-term loans (+9.0% QoQ) in 2Q24, demand returned for loans for working capital.

In addition, individual loan growth also shined, soaring 8.2% QoQ in 2Q24. ACB is one of the first banks to see a recovery of retail demand thanks to: 1) the ability to lower lending conditions as a result of high asset quality (NPL ranked third lowest in the system); and 2) the lending rate was also sixth lowest in the sector in 2Q24.

Breaking down the individual book, business loans were the largest segment in the loan book structure, comprising 48.5% of loan book mix. In 1H24, individual book grew 12.3% YTD, given strong personal loans and mortgage loans. Personal loans increased 15.6% YTD in 1H24, amid a recovery in personal incomes. Additionally, an improving property sector drove mortgage loans to surge 12.0% YTD. Among Vietnamese banks, ACB saw the earliest and strongest mortgage demand in 2Q24.

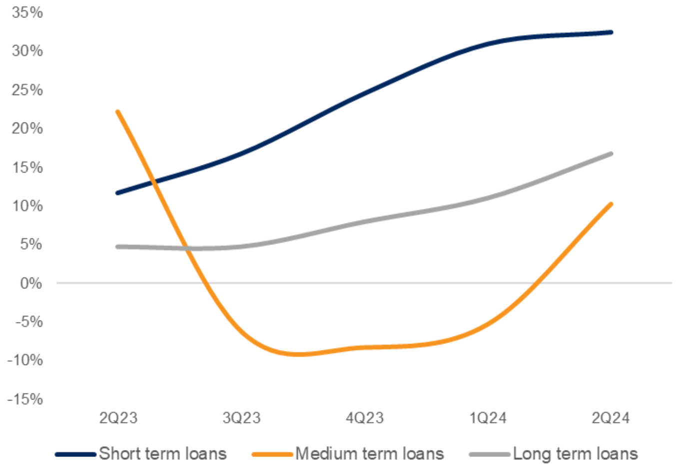
Breaking down the corporate book, the trading sector accounted for 55% of the corporate book mix. In 1H24, corporate loans surged 12.2% YTD, due to trading, construction, and community services. Trading loans rose 21.2% YTD in 1H24 as total trade (export-import) rose 16.4% YoY. Amid an improving property sector, construction demand returned, increasing 16.7% YTD in 1H24.

Figure 17: Large corporates drove loan growth (% YoY) …



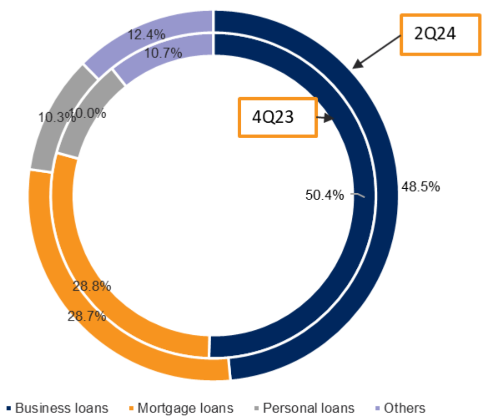
Sources: ACB, VNDIRECT RESEARCH

Figure 18: … on the back of working capital demand



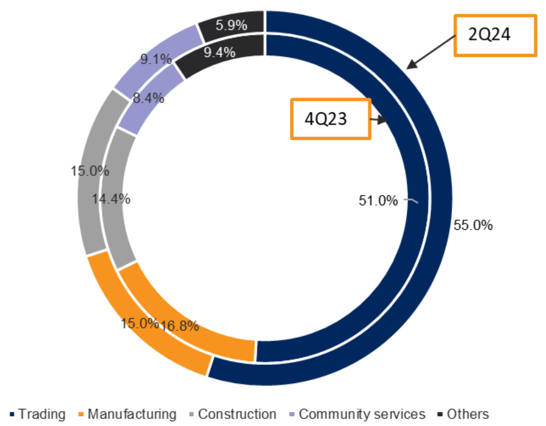
Sources: ACB, VNDIRECT RESEARCH

Figure 19: Individual loans saw the earliest improvement among sectors



Sources: ACB, VNDIRECT RESEARCH

Figure 20: Corporate book was supported by Trading and Construction demand



Sources: ACB, VNDIRECT RESEARCH

IBL mix: Mobilizing more valuable papers to prepare for loan growth

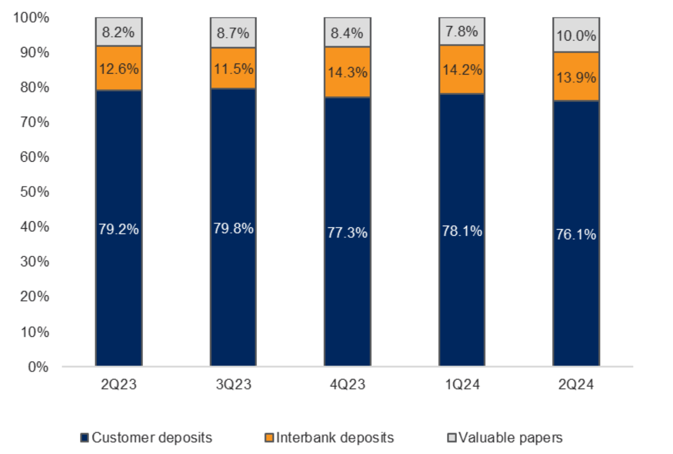
In 2Q24, total IBL grew 6.5% QoQ, slightly higher than IEA growth (6.1% QoQ) and in line with the sector average of 6.3% QoQ (top 25 banks). Total funding growth was driven by valuable papers increasing 36.6% QoQ in 2Q24. As a result, the proportion of valuable paper in the IBL mix rose to 10% in 2Q24 from 8% in 1Q24. We believe this was done to prepare to expand the loan book into longer-term loans such as mortgage loans, or capital for expanding or opening new businesses.

In 2Q24, ACB's LDR increased to 82% from 81% in 1Q24 to support NIM while maintaining a low lending rate to support loan growth. Since this level nearly reaches the threshold of 85% and is also higher than the three-year average of 78.5%, it indicates that ACB might need to raise its deposit rate at the counter or issue more valuable papers. In our opinion, ACB might support its NIM by raising the interest rate on short-term deposits aa the SLFR remained low at 17.6% (regulatory threshold: 30%) in 2Q24.

The CASA ratio maintained at a high level of 21.5% in 2Q24. Retail and business comprised 66% and 34.2% of the CASA mix, respectively.

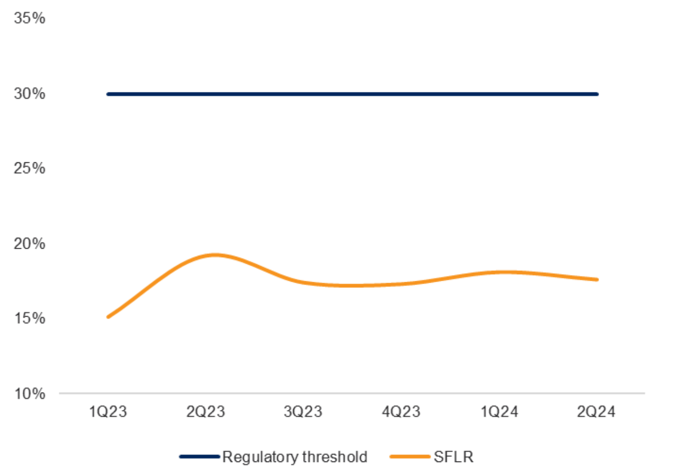
Large corporates of ACB were buying inventory amid modest growth of retail consumption. Therefore, large corporate deposits dropped 7.7% QoQ in 2Q24, accounting for 8% of the deposit mix. We believe this condition might improve in upcoming quarters as individual deposit increased 5.1% QoQ in 2Q24 given higher personal income.

Figure 21: IEA structure by quarter



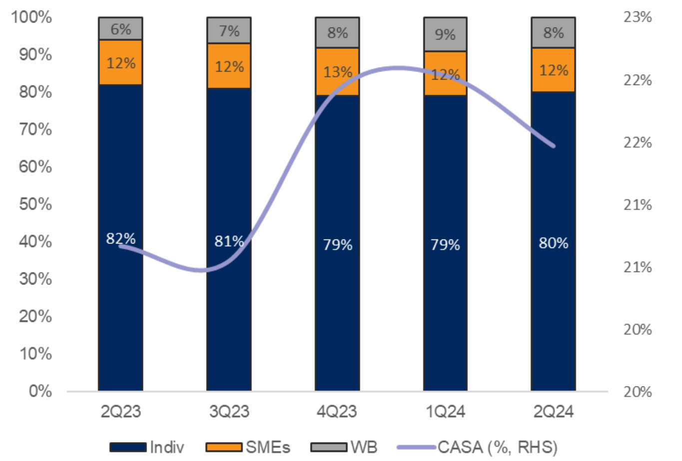
Sources: ACB, VNDIRECT RESEARCH

Figure 22: SLFR remained at a low level



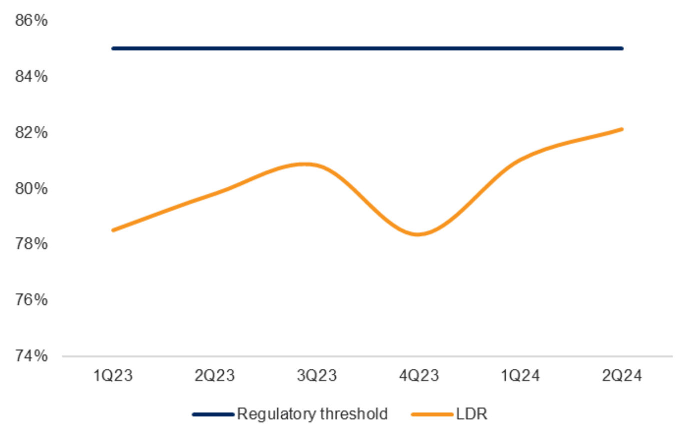
Sources: ACB, VNDIRECT RESEARCH

Figure 23: Deposit structure and CASA



Sources: ACB, VNDIRECT RESEARCH

Figure 24: LDR



Sources: ACB, VNDIRECT RESEARCH

FY24-25 outlook: Strong resurgence driven by high asset quality

Figure 25: Changes in our forecasts (VND bn, otherwise noted)

	Old forecasts		New forecasts				Change		Comments
	FY24F	FY25F	FY24F	% YoY	FY25F	% YoY	FY24F	FY25F	
Net Interest Income	28,996	35,645	29,362	17.6%	36,461	24.2%	1.3%	2.3%	
NIM	3.9%	4.1%	3.9%	0.0% pts	4.2%	0.3% pts	0.0% pts	0.1% pts	
Credit growth	14.3%	16.0%	16.0%	-1.8% pts	16.0%	-0.1% pts	1.7% pts	0.0% pts	We raise our forecast for credit growth to reflect strong credit growth in 1H24 and this is expected to extend into 2H24
Non-Interest Income	7,129	8,280	5,941	-23.7%	6,971	17.3%	-16.7%	-15.8%	
Operating revenue	36,126	43,926	35,303	7.8%	43,433	23.0%	-2.3%	-1.1%	
Operating expenses	12,644	15,374	10,944	0.6%	15,201	38.9%	-13.4%	-1.1%	
CIR	35.0%	35.0%	31%	-2.2% pts	31%	0.0% pts			
Pre-provision profit	23,482	28,552	24,359	11.4%	28,231	15.9%	3.7%	-1.1%	
Provision expenses	2,429	2,020	2,704	49.8%	2,050	-24.2%	11.3%	1.5%	
Credit cost	0.46%	0.34%	0.51%	0.1% pts	0.34%	-0.2% pts	0.0% pts	0.0% pts	
Pre-tax profit	21,053	26,531	21,655	7.9%	26,181	20.9%	2.9%	-1.3%	
Net profit	16,832	21,212	17,314	7.9%	20,932	20.9%	2.9%	-1.3%	

Source: VNDIRECT RESEARCH

Higher earnings growth in 2H24 due to strong credit demand

We forecast ACB's net profit will surge 11.1% YoY in 2H24, higher than that of 4.7% YoY in 1H24, due mainly to a NIM expansion. Earnings growth in 2H24 will be driven by:

- **Credit growth is expected to reach 16.0% YoY in FY24**, equivalent to ACB's credit quota of ~16%. The key drivers of ACB's credit growth will be stronger business activity amid Vietnam's economic recovery and a rebound in the property sector. By the end of 3Q24, Vietnam's GDP growth had accelerated to 7.5%, up from 6.9% in 2Q24. We anticipate that stronger business activity will boost business loans to both individual and corporate customers, particularly in the trading sector, which currently accounts for 50.3% of the loan book. Additionally, we expect mortgage demand (18.7% of the loan book) to remain robust, as seen in 1H24, driven by the warming property market in Ho Chi Minh City.

- **NIM is expected to rise 0.2% pts YoY** to 4.0% in 2H24 as a result of a lower COF while AY decreases at a slower pace. A lower COF will be driven by a higher CASA ratio due to personal income recovering and a rise of cash flow from SME and individual clients. Meanwhile, strong credit demand will support ACB to adjust AY to inch down slower than COF. Additionally, ACB can leverage its low SLFR to expand its loan book into medium and long-term loans.

- **Provision expense is expected to surge 35.8% YoY** due to ACB continuing to deal with bad debt through write-offs. The NPL ratio is expected to fall to 1.8% (1H24: 2.1%) as a result of 2H24 NPL formation dropping by 59% compared to 1H24, given that the recovery of the Vietnamese economy will boost personal income as well as the property sector and stock market. However, ACB will likely maintain the strategy of write-offs and provisioning to deal with bad debt. As a result, the provision buffer will increase to 70% at end-FY24 from 58.8% at end-1H24.

Earnings to rebound vigorously in FY25 on the back of NIM expansion

In FY25, we expect ACB's net profit to rebound by 20.9% YoY, given:

- **Credit growth is expected to reach 16% YoY**, same as our forecast of 16.0% for FY24. Credit growth in FY25 will be supported by the recovery of the Vietnamese economy, which will boost demand for both business and mortgage loans. Currently, business and mortgage loans together account for 60-70% of the loan book structure.

- **NIM is expected to expand by 0.3% pts YoY to 4.2%,** driven by a higher net interest rate spread due to the ability to pass on interest costs amid a strong recovery in retail demand. In FY25, we forecast the cost of funds (COF) will maintain at 3.0% as in FY24, due to a higher CASA ratio amid higher cash flow from business activity and higher personal incomes. In addition, we anticipate that retail demand will fully recover in FY25 as mentioned above. Therefore, ACB will be able to pass on interest costs to customers, resulting in a higher net interest rate spread in FY25.

- **Credit cost is expected to decreased to 0.34%** from our forecast of 0.51% in FY24. We believe in FY25, higher incomes and a better performance of investment assets (stocks, real estates, businesses) will drive ACB's NPL formation ratio to drop to 0.23% from 0.62% in FY24. Therefore, ACB will have less pressure for provisioning.

Valuation: Reiterate ADD with a higher TP of VND31,200

We combine P/B valuation and the residual income approach with an equal weight of 50% to deliver a target price of VND30,300 for ACB. For the next year, we revise the cost of equity with a higher risk-free rate of 2.78%, a lower equity risk premium of 7.8% (compared to 9.6% in previous report), and a five-year average adjusted Beta of 1.2.

Figure 26: Target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	34,143	17,071
P/B multiple (at 1.50x FY24F BVPS)	50%	28,339	14,169
Target price (VND/share)			31,241
Target price (VND/share, rounded)			**31,200**

Source: VNDIRECT RESEARCH

Figure 27: Residual income valuation

Assumptions	2024E	2025F	2026F	2027F	2028F	Terminal year
Risk free rate (10-year G-bond yield)	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
Equity risk premium	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%
Beta	1.2	1.2	1.2	1.2	1.2	1.2
Cost of equity	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
ROE (%)	22.3%	22.1%	19.6%	18.3%	16.9%	16.1%
Long-term growth rate						3.0%
Ending shareholder's equity	84,386	105,318	128,174	153,950	182,421	
RI	8,717	10,708	10,096	10,246	9,818	7,222
Discount factor	0.89	0.80	0.71	0.63	0.56	0.56
PV of RI	7,775	8,519	7,164	6,485	5,542	81,602
(VNDbn)						
Opening shareholders' equity	70,956					
PV of RI	35,484					
PV of Terminal value	46,064					
Implied EV	152,505					
No.of o/s shares (million)	4,467					
Implied value per share (VND/share)	**34,143**					

Source: VNDIRECT RESEARCH

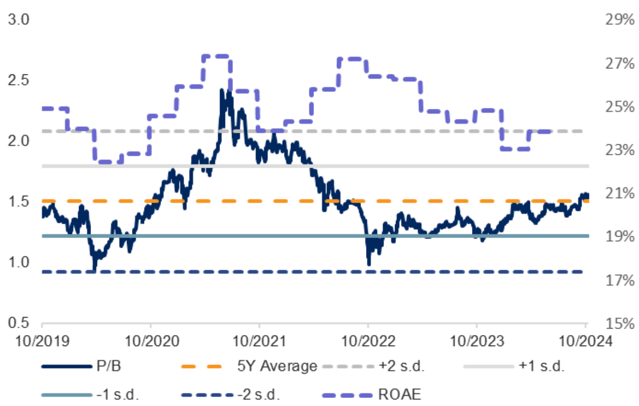
We believe ACB's ROAE will decline to 16.1% by 2029 due to its conservative business strategy, focusing on short-term loans for working capital. ACB's operating model emphasizes prudent disbursement, targeting retail clients (individual and SMEs) with a strategy centered on short-term working capital loans. First, this approach will slow ACB's loan book growth in the long term, as it faces strong competition from banks like STB, VIB, and HDB. Second, ACB's NIM will be impacted by the lack of expansion into riskier segments like real estate. Last, we have not yet seen a long-term plan for cash dividend payments from ACB. With book value per share (BVPS) increasing over the years and a cautious strategy, ACB's ROE will face downward pressure in the long term.

Figure 28: Sensitivity analysis for residual income method

Cost of equity	Long-term growth rate				
	1.0%	2.0%	**3.0%**	4.0%	5.0%
10.1%	38,254	40,644	43,715	47,803	53,503
11.1%	34,526	36,220	38,339	41,065	44,694
12.1%	31,469	32,670	**34,143**	35,987	38,360
13.1%	28,917	29,760	30,776	32,023	33,587
14.1%	26,754	27,329	28,015	28,843	29,861

Source: VNDIRECT RESEARCH

Figure 29: ACB price to book ratio



Sources: ACB, VNDIRECT RESEARCH

Figure 30: ACB price to book ratio compared to sector average

Sources: ACB, VNDIRECT RESEARCH

Figure 31: Vietnam bank comparison (price as of October 18, 2024)

Bloomberg Code	Upside (%)	Market cap	NIM (%)		NPL (%)		P/B (x)		P/E (x)		3-yr Forward EPS CAGR	ROAA (%)		ROAE (%)	
		(USDmn)	TTM	FY24F	TTM	FY24F	TTM	FY24F	TTM	FY24F	%	TTM	FY24F	TTM	FY24F
VCB VN	22.1%	20,509.6	3.1%	3.0%	1.2%	0.9%	2.8	2.5	15.5	14.7	13.8%	1.8%	1.7%	20.0%	17.5%
CTG VN	10.1%	7,730.8	3.0%	2.9%	1.3%	1.4%	1.4	1.3	9.6	10.1	20.5%	1.0%	1.0%	16.0%	16.2%
BID VN	14.5%	11,387.3	2.6%	2.3%	1.5%	1.5%	2.2	2.0	12.6	13.4	29.1%	1.0%	1.0%	19.1%	18.8%
VPB VN	16.3%	6,475.1	5.8%	5.8%	4.8%	4.4%	1.2	1.1	13.6	10.6	45.8%	1.4%	1.7%	9.8%	11.1%
TCB VN	10.0%	6,840.8	3.9%	4.1%	1.1%	0.9%	1.3	1.2	8.0	7.5	25.0%	2.6%	2.5%	16.6%	16.0%
MBB VN	21.2%	5,426.4	4.6%	4.7%	2.5%	1.5%	1.4	1.2	6.3	6.7	9.3%	2.4%	2.2%	23.4%	21.2%
HDB VN	22.6%	3,123.1	5.6%	5.1%	2.2%	1.8%	1.5	1.4	6.5	6.1	19.9%	2.2%	2.0%	27.0%	26.2%
VIB VN	27.2%	2,307.1	4.2%	3.8%	3.6%	3.5%	1.5	1.3	7.6	7.5	13.5%	1.9%	1.8%	21.4%	18.1%
TPB VN	18.0%	1,867.6	4.3%	4.1%	2.2%	1.9%	1.3	1.2	9.9	7.2	10.6%	1.3%	1.6%	14.2%	16.7%
LPB VN	-21.5%	3,285.9	3.3%	3.3%	1.4%	1.1%	2.0	1.9	8.6	9.9	7.8%	2.4%	2.0%	28.8%	21.8%
STB VN	16.7%	2,661.6	3.6%	4.1%	2.3%	3.0%	1.4	1.2	8.2	6.1	29.2%	1.2%	1.5%	18.0%	21.3%
OCB VN	8.5%	1,209.4	2.8%	3.3%	2.9%	2.5%	1.0	0.9	10.4	8.5	14.3%	1.3%	1.4%	10.2%	12.0%
Average			3.9%	3.9%	2.2%	2.0%	1.6	1.4	9.5	8.9	19.4%	1.8%	1.7%	19.1%	18.4%
ACB VN	**19.5%**	**4,629.9**	**3.9%**	**3.9%**	**1.5%**	**1.3%**	**1.6**	**1.4**	**7.1**	**6.8**	**12.6%**	**2.3%**	**2.2%**	**23.9%**	**22.3%**

Source: BLOOMBERG, VNDIRECT RESEARCH

Income statement

Income Statement (VNDbn)	12-19A	12-20A	12-21A	12-22A	12-23A	12-24E	12-25F
Net Interest Income	12,112	14,582	18,945	23,534	24,960	29,362	36,461
Non-Interest Income	3,985	3,579	4,619	5,257	7,787	5,941	6,971
Net Operating Income	**16,097**	**18,161**	**23,564**	**28,790**	**32,747**	**35,303**	**43,433**
Operating Expenses	8,230	11,605	10,874	10,944	15,201	16,305	18,504
Pre-Provision Profit	7,790	10,537	15,334	17,185	21,872	24,359	28,231
Provision expense	274	941	3,336	71	1,804	2,704	2,050
Profit Before Tax	7,516	9,596	11,998	17,114	20,068	21,655	26,181
Net Profit After Tax	**6,010**	**7,683**	**9,603**	**13,688**	**16,045**	**17,314**	**20,932**

Balance sheet

Balance Sheet (VNDbn)	12-19A	12-20A	12-21A	12-22A	12-23A	12-24E	12-25F
Cash & Deposits with SBV	16,858	23,585	39,859	22,118	25,414	29,426	34,192
Interbank Loans	30,342	31,671	49,819	85,971	114,874	132,105	151,921
Securities	59,408	70,007	70,742	76,666	80,640	92,485	106,483
Loans to Customers	**266,165**	**308,529**	**356,051**	**408,857**	**482,235**	**559,407**	**649,276**
Gross Loans	268,701	311,479	361,913	413,706	487,602	565,848	656,183
Provision	(2,536)	(2,950)	(5,862)	(4,850)	(5,367)	(6,441)	(6,907)
Net Fixed Assets	3,770	3,783	3,763	3,981	4,763	4,977	5,201
Other Assets	6,971	6,956	7,536	10,281	10,869	11,358	11,869
Total Assets	**383,514**	**444,530**	**527,770**	**607,875**	**718,795**	**829,758**	**958,942**
Payables to the Government and SBV	-	-	-	506	0	0	0
Interbank Deposits	19,249	23,875	54,394	67,841	89,507	107,408	112,778
Customer Deposits	308,129	353,196	379,921	413,953	482,703	540,627	632,534
Valuable Papers	20,831	22,050	30,548	44,304	52,410	53,458	54,527
Other Liabilities	7,540	9,961	18,007	22,833	23,219	43,879	53,784
Total Liabilities	**355,749**	**409,082**	**482,869**	**549,437**	**647,839**	**745,372**	**853,624**
Equity	16,627	21,616	27,019	33,774	38,841	44,667	44,667
Reserves	4,596	5,742	7,164	9,220	11,557	11,557	11,557
Retained Earnings	6,370	7,819	10,445	15,172	20,286	27,890	48,822
Non-Controlling Interests	-	-	-	-	-	-	-
Total Owners' Equity	**27,765**	**35,448**	**44,901**	**58,439**	**70,956**	**84,386**	**105,318**
Total Liabilities and Owners' Equity	**383,514**	**444,530**	**527,770**	**607,875**	**718,795**	**829,758**	**958,942**

Key ratios

Key Ratios

	12-19A	12-20A	12-21A	12-22A	12-23A	12-24E	12-25F
Valuation ratios							
Price to book	1.26	1.59	1.93	1.17	1.26	1.38	1.11
Dividend yield	0%	0%	0%	0%	5%	4%	0%
Dividend Payout Ratio	0%	0%	0%	0%	21%	22%	0%
EPS (VND)	1,442	1,755	2,116	3,031	3,559	3,843	4,653
Growth Rates							
Credit YoY	16.6%	15.9%	16.2%	14.3%	17.9%	16.0%	16.0%
Deposits YoY	14.1%	14.6%	7.6%	9.0%	16.6%	12.0%	17.0%
Net Interest Income YoY	16.9%	20.4%	29.9%	24.2%	6.1%	17.6%	24.2%
Non Interest Income YoY	8.6%	-10.2%	29.1%	13.8%	48.1%	-23.7%	17.3%
TOI YoY	14.7%	12.8%	29.7%	22.2%	13.7%	7.8%	23.0%
Net Profit YoY	17.0%	27.8%	25.0%	42.5%	17.2%	7.9%	20.9%
Profitabilty Ratios							
NIM	3.54%	3.65%	4.01%	4.26%	3.86%	3.88%	4.16%
Cost to Income ratio (CIR) (%)	51.6%	42.0%	34.9%	40.3%	33.2%	31.0%	35.0%
Operating Profit Margin (PPOP Margin)	48.4%	58.0%	65.1%	59.7%	66.8%	69.0%	65.0%
Net Profit Margin	37.3%	42.3%	40.8%	47.5%	49.0%	49.0%	48.2%
ROAA	1.7%	1.9%	2.0%	2.4%	2.4%	2.2%	2.3%
ROAE	24.6%	24.3%	23.9%	26.5%	24.8%	22.3%	22.1%
Asset Quality							
Group 2 Ratio	0.23%	0.18%	0.52%	0.57%	0.65%	0.40%	0.38%
Group 2 Formation YoY							
NPL Ratio	0.54%	0.59%	0.77%	0.74%	1.21%	1.34%	1.13%
NPL Formation YoY	-85.6%	718.3%	123.9%	-7.6%	223.1%	-21.1%	-57.4%
Write-off Ratio (Including Loans Sold to VAMC)	0.12%	0.08%	0.13%	0.27%	0.29%	0.30%	0.25%
Loan Loss Reserves (LLR) (%)	175%	160%	209%	159%	91%	85%	93%
Liquidity and Solvency Ratios							
LDR (Loans to Deposits Ratio)	77.1%	78.0%	77.8%	78.6%	78.0%	80.6%	82.0%
Leverage Ratios							
Equity/Assets	7.2%	8.0%	8.5%	9.6%	9.9%	10.2%	11.0%

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Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
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.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
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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