ASIA COMMERCIAL JSB (ACB)

ADD (Maintained)

FINANCIALS

Current Price	VND24,350
52Wk High/Low	VND24,906/VND17,724
Target Price	VND30,300
Previous TP	VND24,600(*)
TP vs Consensus	-8.2%
Upside	24.4%
Dividend Yield	3.5%
Total stock return	27.9%

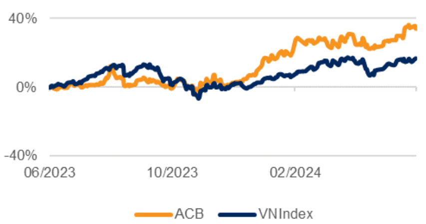
Growth rating	Neutral
Value rating	Positive
ST Technical Analysis	Negative

Market Cap	USD4.32bn
3m Avg daily value	USD8.92mn
Avail Foreign Room	USD0.30mn
Outstanding Shares	4,467mn
Fully diluted O/S	4,467mn

	ACB	Peers	VNI
P/E TTM	6.9x	7.5x	14.6x
P/B Current	1.5x	1.3x	1.8x
ROA	2.4%	1.5%	2.1%
ROE	23.0%	17.0%	12.0%

**as of 6/10/2024*

Share Price performance



Share price (%)	1M	3M	12M
ACB	4.9	7.4	34.8
VN-Index	3.7	3.5	16.5

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.

Note (*): TP is adjusted for the 15% stock dividend of FY23.

Analyst(s):

Hung Vu
hung.vumanh3@vndirect.com.vn

Valuation remains attractive given strong ROE

- We maintain our ADD rating with 24.4% upside. We rise our TP by 23.2% while the shares have increased 24.4% since our last report.
- We raise our TP given a lower cost of equity and FY24's BVPS rising 17.4%.
- YE24 P/B of 1.3x, a 14.2% discount to both ACB and the sector's five-year average P/B of 1.5, is attractive given that ROAE remains above the sector average.

Financial Highlights

- TOI maintained modest growth for a second quarter in 1Q24, inching up 3.1% YoY (-2.5% QoQ) to VND8.2tn (USD323mn), due to a decrease of Non-II, while NII improved.
- 1Q24 PBT inched down 5% YoY (-3.0% QoQ) to VND4.9tn (USD193mn) due to TOI remaining low and increases in operating and provisioning expenses.
- 1Q24 ROE continued to decelerate to 21.4%, but remained higher than the sector average of 17.4%.

Investment Thesis

Credit growth will be driven by business loans through 2025

We project credit growth to reach 16% YoY, higher than our forecast of 14.3% for FY24. The higher credit growth will be supported by the recovery of the Vietnam 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 will expand given retail demand surge through 2025

We expect NIM to expand 0.2% pts YoY to 4.1%, 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) to increase to 3.0% from 2.9% in FY24 due to a low base interest rate environment in FY24. However, we anticipate that retail demand will fully recover in 2025 as the economy is expected to fully recover. Therefore, ACB will be able to pass on interest costs to customers.

Better income will reduce provisioning pressure

We expect credit cost to decrease to 0.34% from **our** forecast of 0.46% in FY24 We believe that in 2025 better personal income and improved performance of investment assets (stocks, real estate, businesses) will drive ACB's NPL formation ratio down to 0.25% from 0.45% in FY24. Therefore, ACB will experience less pressure on provisioning.

Valuation still attractive given high ROE

The current price is 1.3x at YE24 BVPS, which is 14.2% below both ACB's and the sector's five-year average of 1.5x. We believe ACB valuation is still at an attractive level given ACB's ROAE of 22% during FY24-25, which is higher than the sector average of 18-19%.

Financial summary (VND)	12-23A	12-24E	12-25F	12-26F
Net profit (yoy)	17.2%	4.9%	26.0%	9.0%
Credit growth	17.9%	14.3%	16.0%	16.2%
NIM	3.86%	3.85%	4.11%	3.76%
CASA ratio	21.9%	23.0%	24.0%	25.0%
NPLs / Gross loans	1.2%	1.2%	1.0%	0.9%
LLR	91.2%	95.0%	104.2%	112.8%
ROEA	24.8%	21.8%	22.6%	19.9%
P/B	1.53	1.31	1.04	0.85

Source: VNDIRECT RESEARCH

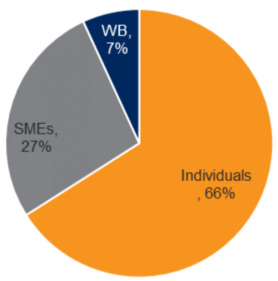
Company Profile

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 the 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 the loan book), household business, and personal consumption. By the end of 2023, business loans accounted for 83% of the corporate customer debt structure.

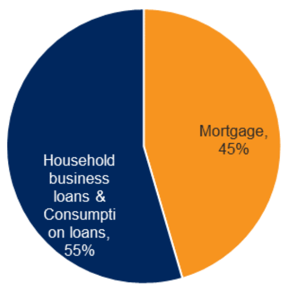
ACB tends to develop in tandem with the economic activity of Ho Chi Minh City, and is closely linked to the small-scale businesses of the FMCG and retail segments thriving in the city. ACB has the sixth highest CASA ratio in the industry, reaching 21.7% at the end of Q1 2024. ACB's abundant CASA source comes from: 1) having a fairly affluent customer base, and 2) 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 FY21-23.

Figure 1: Loan book mix by customer type



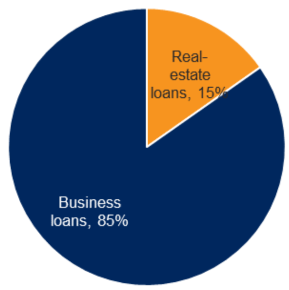
Source: ACB, VNDIRECT RESEARCH

Figure 2: Retail loan book mix by sector



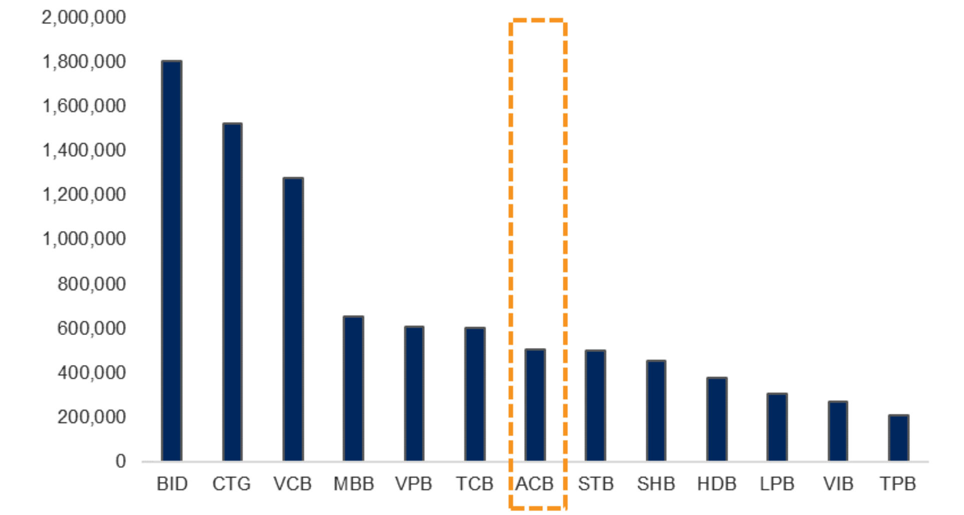
Source: ACB, VNDIRECT RESEARCH

Figure 3: Corporate loan book mix by sector



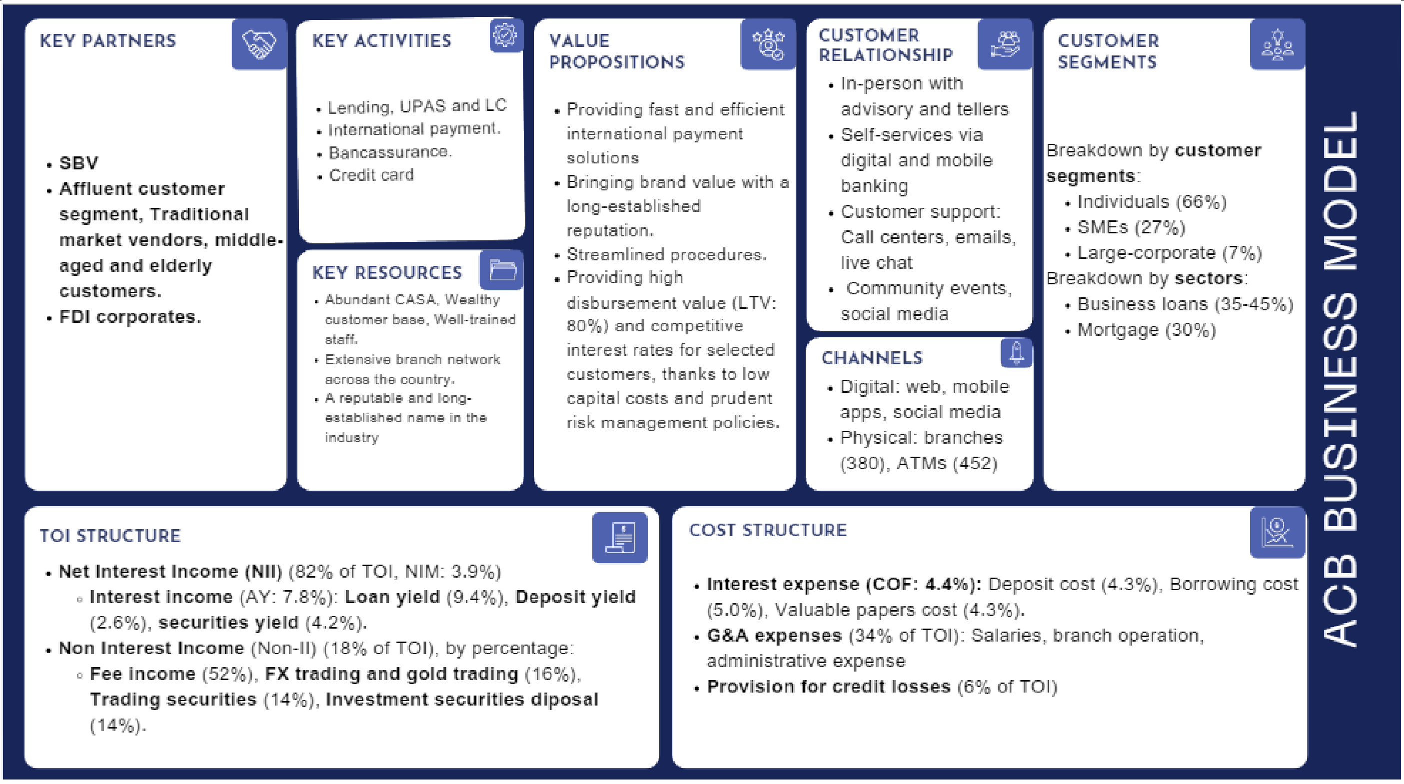
Source: ACB, VNDIRECT RESEARCH

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



Source: ACB, VNDIRECT RESEARCH

Figure 5: ACB business model canvas

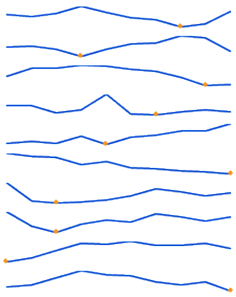


Source: VNDIRECT RESEARCH

Results Recap 1Q24: Earnings fall as bad debt rises

Figure 6: ACB's key ratios by quarter

	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
NII/TOI	80.3%	79.4%	81.0%	85.1%	81.4%	78.5%	77.8%	73.7%	75.1%	82.3%
Non-II/TOI	19.7%	20.6%	19.0%	14.9%	18.6%	21.5%	22.2%	26.3%	24.9%	17.7%
NIM (quarterly)	4.01%	4.22%	4.23%	4.30%	4.26%	4.20%	4.13%	3.98%	3.77%	3.81%
CIR	40.5%	40.0%	32.9%	35.6%	51.3%	31.7%	31.0%	34.0%	36.0%	33.8%
NPL ratio	0.8%	0.8%	0.8%	1.0%	0.7%	1.0%	1.1%	1.2%	1.2%	1.5%
Loan loss reserve (LLR)	209.4%	187.8%	185.1%	137.8%	159.3%	116.6%	107.6%	94.6%	91.2%	78.6%
Credit cost (quarterly)	0.99%	0.00%	-0.14%	-0.06%	0.02%	0.25%	0.67%	0.47%	0.27%	0.41%
Provisions/PPOP	14.75%	-0.07%	-5.75%	1.98%	6.49%	4.73%	12.75%	9.37%	5.99%	9.48%
ROAA (trailing 12m)	2.0%	2.1%	2.3%	2.5%	2.5%	2.5%	2.4%	2.4%	2.5%	2.4%
ROAE (trailing 12m)	23.9%	24.3%	25.8%	27.2%	26.4%	26.2%	24.8%	24.3%	24.8%	23.0%



Source: ACB, VNDIRECT RESEARCH

Figure 7: Result comparison

	1Q23	1Q24	4Q23	FY23	FY24F (VND's forecast)	% of VND forecasts
NII YoY	14.2%	8.1%	-2.6%	6.1%	13.8%	24%
Non-interest income YoY	21.0%	-15.1%	41.9%	48.1%	8.9%	17%
OPEX YoY	-8.4%	10.2%	-25.9%	-6.3%	18.7%	21%
PPOP YoY	31.7%	-0.1%	38.9%	27.3%	9.6%	23%
Provision expenses YoY	-9105%	100.1%	28.4%	2448%	-28.7%	40%
Pre-tax profit YoY	25.3%	-5.1%	39.7%	17.3%	13.0%	22%
Loan growth YoY	8.2%	23.1%	17.9%	17.9%	8.8%	
Deposit growth YoY	9.5%	16.6%	16.6%	16.6%	16.4%	
NIM	4.2%	3.8%	3.8%	3.9%	3.9%	
Interest-earning asset yield	8.9%	6.8%	7.5%	8.1%	7.1%	
Cost of funds	5.3%	3.4%	4.2%	4.8%	3.6%	
CASA ratio	20.1%	22.0%	21.9%	21.9%	22.0%	
CIR	31.7%	33.8%	36.0%	33.2%	35.0%	
ROAE	26.3%	23.0%	24.8%	24.8%	22.7%	
NPLs / Gross loans	1.0%	1.5%	1.2%	1.2%	0.9%	
Group 2 loans / Gross loans	0.9%	0.8%	0.7%	0.7%	0.2%	
Loan loss reserves	116.6%	78.6%	91.2%	91.2%	110.8%	

Source: ACB, VNDIRECT RESEARCH

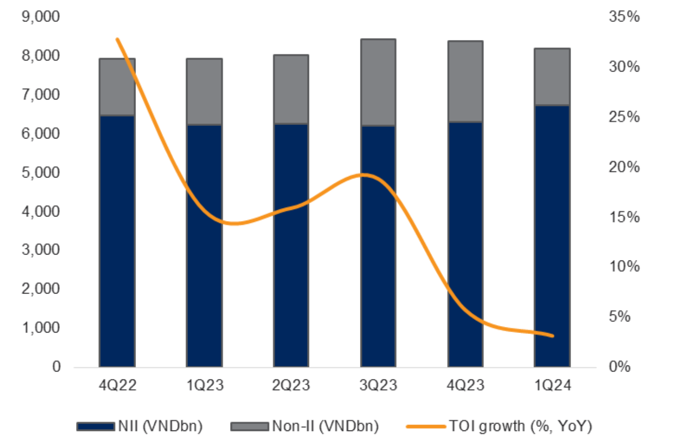
TOI growth remained low due to Non-II

TOI maintained modest growth for a second quarter in 1Q24, inching up 3.1% YoY (-2.5% QoQ) to VND8.2tn (USD323mn). The deceleration of TOI growth in 1Q24 came from a decrease of Non-II, while NII improved.

Non-II declined 15.1% YoY (-30.7% QoQ) in 1Q24, following three quarters of vigorous increases, given a decrease in the net gain from currency dealings and net other income. In 1Q24, ACB's net gain from currency dealings plunged 47% YoY, while net other income fell 89% YoY in 1Q24 due to a non-recurring item of VND390bn (USD15mn) in 1Q23.

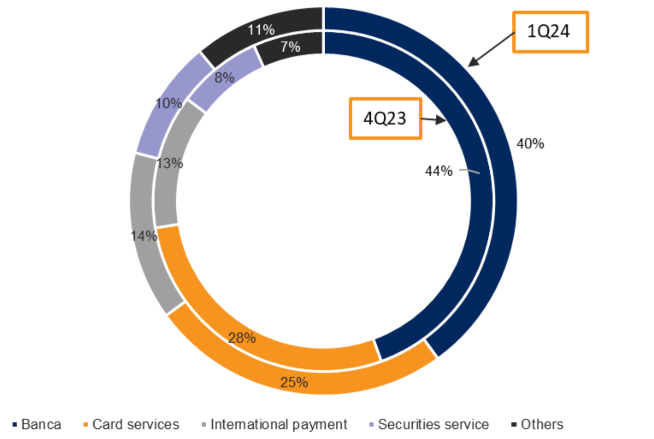
On the contrary, fee income, which accounted for 51.5% of the Non-II mix, grew 18.9% YoY (+2.5% QoQ) in 1Q24. The fee income surge was supported by Card services (+41.1% YoY; -8.5% QoQ), International payment (+22.7% YoY; +12.6% QoQ), and Securities services (+81.8% YoY; +26.8% QoQ).

Figure 8: TOI continued its decelerating trend



Sources: ACB, VNDIRECT RESEARCH

Figure 9: Fee income structure (%)



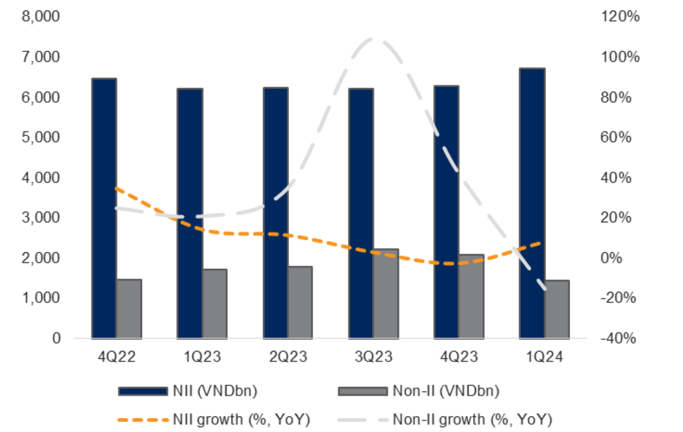
Sources: ACB, VNDIRECT RESEARCH

NII bounced back due to corporate loan demand

In 1Q24, NII broke its downward momentum since 1Q23, rising 8.1% YoY to VND6.7tn (USD264mn), offsetting Non-II growth. NII growth in 1Q24 was driven by loan book surging 23.1% YoY (+3.8% YTD), the largest increase since 1Q17. ACB expanded its loan book through a tactical strategy of targeting corporate loans amid weak demand for retail loans.

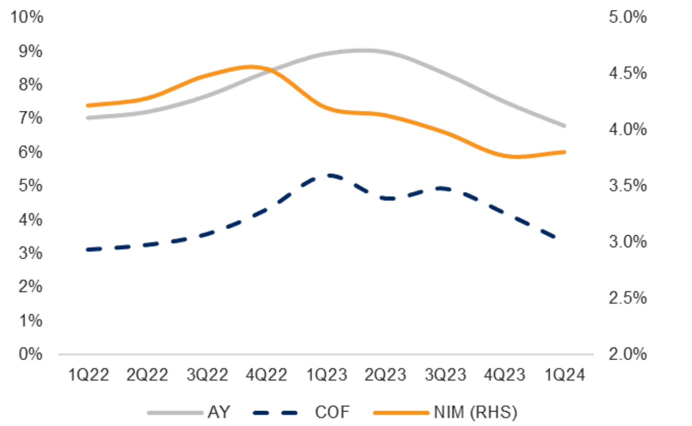
However, NIM compressed 0.4% pts YoY as COF fell 2.0% pts YoY and AY decreased 2.2% pts YoY. COF improved due to the low interest rate environment, while CASA rose to 22.0% from 20.1% in 1Q23 amid low deposit rates. Meanwhile, AY declined faster due to the higher proportion of corporate loans in the loan book mix (1Q24: 7%, 1Q23: 6%).

Figure 10: NII growth showed sign of bottoming out



Sources: ACB, VNDIRECT RESEARCH

Figure 11: NIM remained at low level in 1Q24



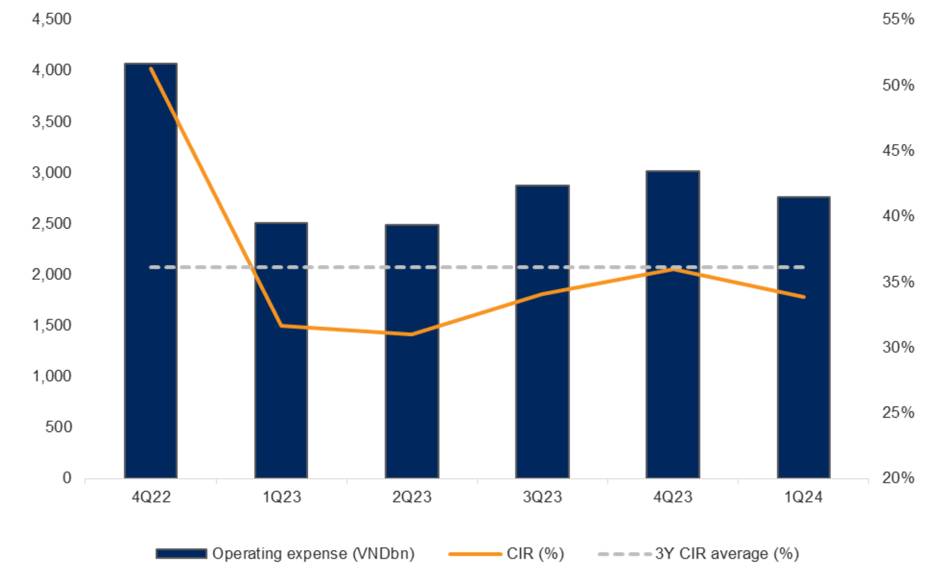
Sources: ACB, VNDIRECT RESEARCH

Operating cost rose off last year's low base

Operating profit before provision (PPOP) stayed flat at VND5.4tn (USD212mn) in 1Q24 amid higher operating cost (OPEX) (+10.2% YoY). The increase of OPEX was mainly due to 1Q23's low base. Thus, 1Q24's CIR edged up to

33.8%, higher than that of 31.7% in 1Q23, but lower than the three-year average of 36.1%.

Figure 12: CIR was below íts three-year average



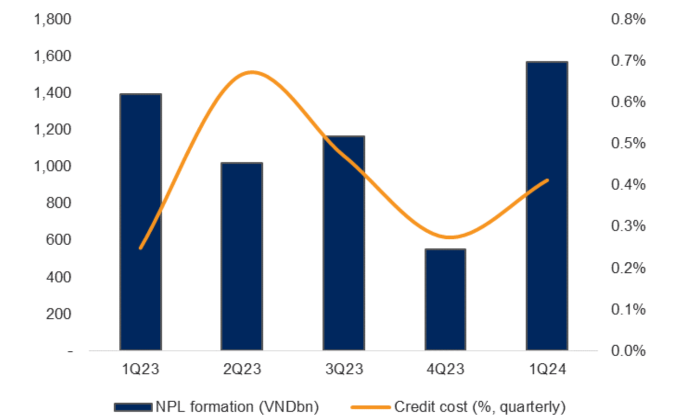
Source: ACB, VNDIRECT RESEARCH

Asset quality showed signs of weakening

ACB's asset quality deteriorated in 1Q24, reflected in a higher NPL ratio and lower LLR ratio. The NPL ratio jumped to 1.5% in 1Q24 from 1.2% in 4Q23, which was higher than the five-year average of 0.8%. The rise of NPL was due to retail customers, who accounted for 94% of the loan book, still struggling amid an economy that is gradually recovering.

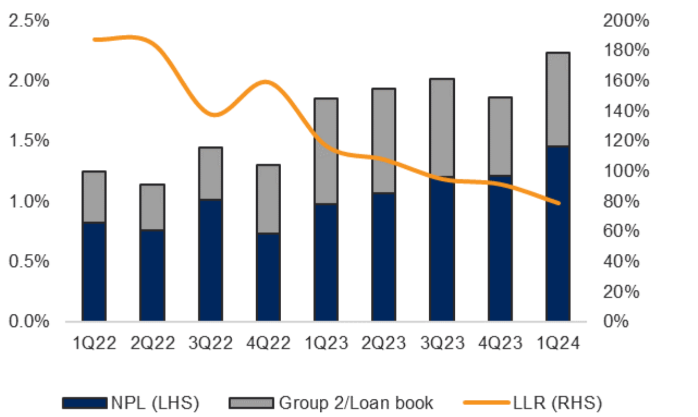
In the context of rising bad debt, ACB's credit cost rose to 0.4% in 1Q24 from 0.3% in 4Q23. In addition, LLR decreased to 79%, the lowest level since 2015, due to NPL formation soaring 184% QoQ, higher than the 59% QoQ surge of provision expense. Altogether, pre-tax profit inched down 5.1% YoY to VND4.9tn (USD193mn) in 1Q24.

Figure 13: NPL formation increased in 1Q24



Sources: ACB, VNDIRECT RESEARCH

Figure 14: Delinquency ratio hit new high in 1Q24



Sources: ACB, VNDIRECT RESEARCH

Balance sheet KPI: Demand for capital might rise

Figure 15: Balance sheet key KPIs (QoQ growth, %)

Balance sheet key KPIs	1Q23	2Q23	3Q23	4Q23	1Q24
Interest-earning assets (excl. provisions) "IEAs	0.6%	3.8%	2.8%	10.9%	1.4%
Customer loans	-0.6%	5.5%	3.6%	8.4%	3.8%
Interbank lending	10.1%	-5.2%	9.4%	17.0%	6.2%
Investment book	5.2%	-0.8%	-10.9%	12.1%	-6.7%
Interest-bearing liabilities "IBLs"	-0.2%	3.9%	2.3%	11.8%	1.1%
Customer deposits	2.1%	2.3%	3.0%	8.4%	2.1%
Interbank deposits	-22.1%	30.5%	-7.0%	39.6%	-0.2%
CDs and valuable papers	13.2%	-11.0%	9.4%	7.3%	-6.5%

Source: ACB, VNDIRECT RESEARCH

Customer loans and interbank lending drove IEA growth

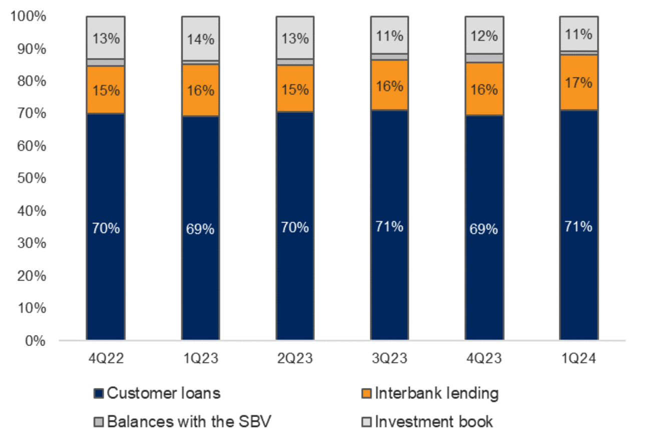
In 1Q24, total interest earning assets (IEA) inched up 1.4% QoQ, higher than the sector average of 0.6% QoQ and up from 0.6% QoQ growth in 1Q23. The growth of IEA was driven by customer loans (+3.8% QoQ) and interbank lending (+6.2% QoQ).

As a result, the proportions of customer loans and interbank lending in the IEA mix increased to 71% and 17%, respectively. In the loan book structure, short-term loans (+4.4% QoQ) were the main driver of customer loan growth in 1Q24.

Meanwhile, ACB reduced its investment book by 6.7% QoQ, decreasing its share in the IEA mix to 10% from 11% in 4Q23. In conclusion, we observe that ACB allocated more to short-term assets, which will create pressure on compressing NIM.

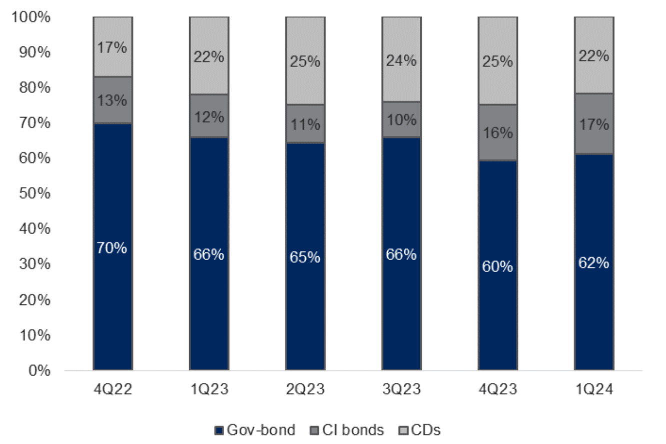
The reduction of the investment book was mainly due to certificates of deposit declining by 17.9% QoQ, accounting for 22% of the investment book mix (4Q23: 25%). In addition, Government bonds (G-bonds) and credit institution bonds (CI-bonds) decreased by 3.6% QoQ and 0.9% QoQ, respectively.

Figure 16: IEA structure by quarter



Sources: ACB, VNDIRECT RESEARCH

Figure 17: Investment book structure



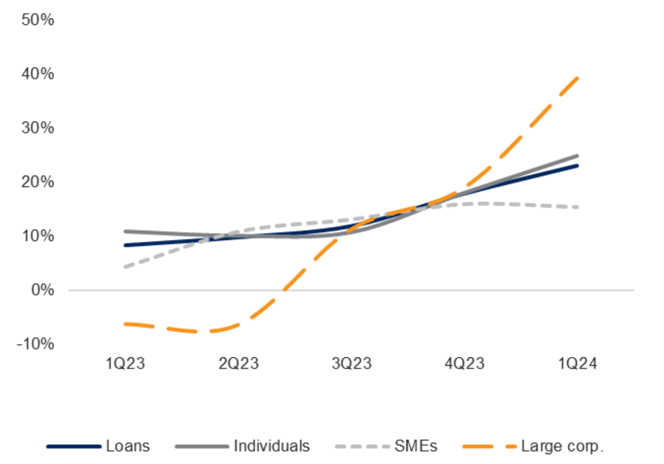
Sources: ACB, VNDIRECT RESEARCH

Corporate demand drove loan growth

Credit growth of ACB rose to 3.8% YTD in 1Q24, much higher than the system total of 0.3% YTD. This credit growth was driven by individual loans (+3.8% YTD) and large corporate loans (+26.0% YTD). As a result, the proportion of retail loans (individuals + SMEs) in the loan book decreased to 93% from 94% in 4Q23.

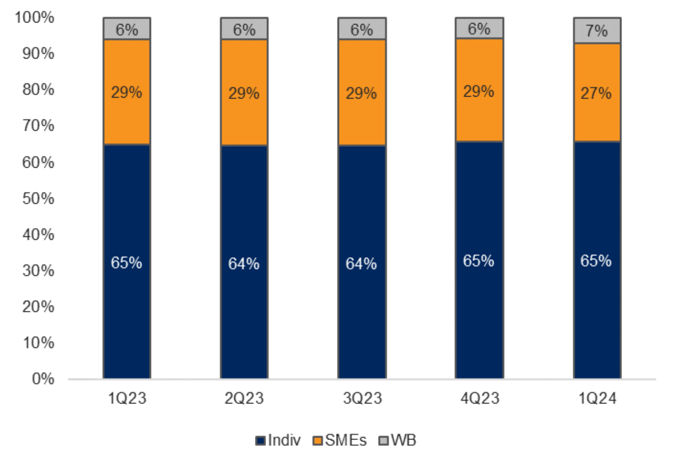
We believe household business loan demand drove loan growth in 1Q24 amid a rise in the need for funds for working capital. As a result, ACB's credit growth was mainly supported by short-term loans (+4.4% QoQ) in 1Q24.

Figure 18: Retail loans gradually recovered (% YoY)



Sources: ACB, VNDIRECT RESEARCH

Figure 19: Corporate loans were still the main driver



Sources: ACB, VNDIRECT RESEARCH

Interest-bearing liabilities were driven by customer deposits

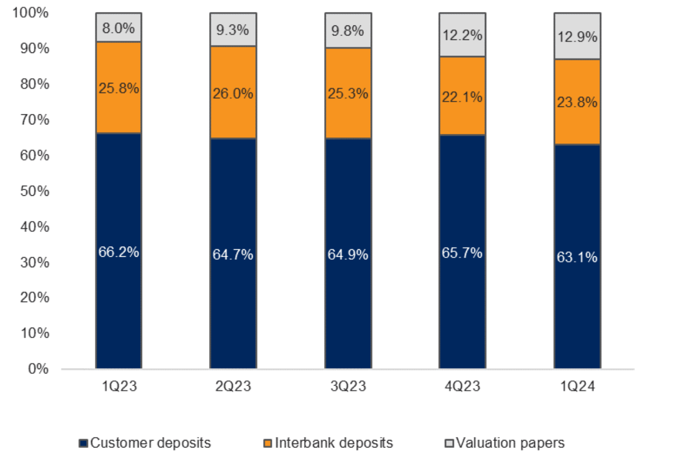
In 1Q24, total IBL grew 1.1% QoQ, slower than IEA growth (1.4% QoQ) but higher than the sector average of 0.3% QoQ (top 25 banks). Total funding growth was driven by customer deposits increasing 2.1% QoQ in 1Q24.

As a result, the proportion of customer deposits in the IBL mix inched up to 78% in 1Q24. Meanwhile, interbank deposits and valuable papers declined by 0.2% QoQ and 6.5% QoQ, respectively.

The CASA ratio rose for the second quarter in a row, reaching 22.0% in 1Q24 from 20.5% in 3Q23. CASA gradually returned due to the low interest rate environment, and the return of cash flow from business activities of households and SMEs.

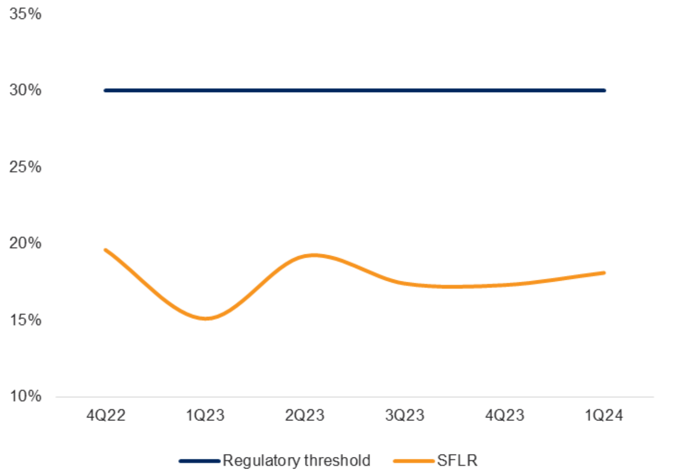
In 1Q24, ACB's LDR increased to 81% from 78% in 4Q23. Since this level nearly reaches the threshold of 85% and is also higher than the three-year average of 78.5%, it indicates that ACB might need to raise its deposit rate at the counter or issue more valuable papers. In our opinion, ACB might support its NIM by raising the interest rate on short-term deposits amid the SLFR remaining low at 18.1% (regulatory threshold: 30%).

Figure 20: IEA structure by quarter



Sources: ACB, VNDIRECT RESEARCH

Figure 21: SLFR remained at a low level



Sources: ACB, VNDIRECT RESEARCH

FY24-25 outlook: Lower provisioning supports strong FY25 outlook

Figure 22: 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	28,397	33,037	28,996	16.2%	33,840	16.7%	2.1%	2.4%	
NIM	4.0%	4.0%	3.9%	0.0% pts	3.9%	0.0% pts	-0.1% pts	-0.1% pts	We reduce our FY24 NIM forecast by 0.1% pts due to a large corporate loan-oriented strategy aimed at achieving credit growth in FY24.
Credit growth	13.6%	15.3%	14.3%		16.0%				
Non-Interest Income	8,478	9,807	7,129	-8.4%	8,280	16.1%	-15.9%	-15.6%	
Operating revenue	36,875	42,845	36,126	10.3%	42,120	16.6%	-2.0%	-1.7%	
Operating expenses	12,906	15,424	12,644	16.3%	14,742	16.6%	-2.0%	-4.4%	
CIR	35.0%	36.0%	35%	1.8% pts	35%	0.0% pts			
Pre-provision profit	23,969	27,421	23,482	7.4%	27,378	16.6%	-2.0%	-0.2%	
Provision expenses	1,287	1,175	2,429	34.6%	2,020	-16.8%	88.7%	72.0%	
Credit cost	0.26%	0.21%	0.46%	0.1% pts	0.34%	-0.1% pts	0.2% pts	0.1% pts	We raise our forecast for credit costs by 0.2% pts because ACB might increase bad debt provisions, as the LLR was at 79% in 1Q24, the lowest point since 2015
Pre-tax profit	22,681	26,246	21,053	4.9%	25,358	20.5%	-7.2%	-3.4%	
Net profit	18,141	20,992	16,832	4.9%	20,274	20.5%	-7.2%	-3.4%	

Source: VNDIRECT RESEARCH

Slower earning growth in FY24

TOI growth slows due to Non-II deceleration

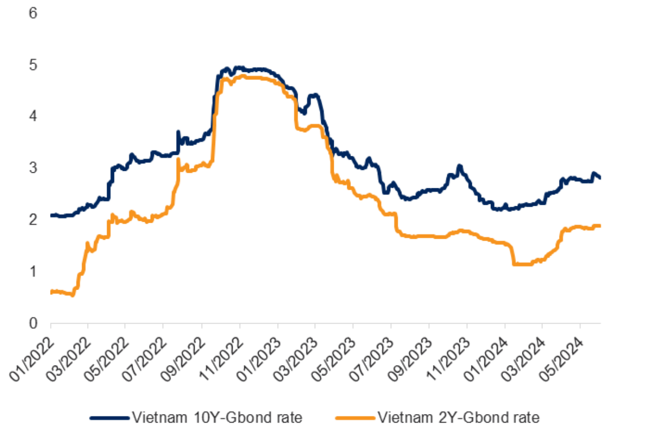
We expect TOI to grow by 10.1% YoY in FY24, which is lower than the 13.7% YoY growth in FY23, due to Non-II growth, while NII is expected to bounce back from a low base in FY23.

Non-II is projected to decrease by 8.4% YoY, decelerating from a high base growth of 48.1% in FY23, which grew mainly due to a net gain from the trading of investment securities amounting to VND2.6tn (USD102mn), compared to VND20bn (USD0.8mn) in FY22.

These strong net gains were due to ACB divesting G-bonds (-10.7% YoY) amid a lower interest rate environment in FY23 compared to FY22. We believe ACB still has this advantage in FY24, thanks to owning a large amount of G-bonds as of the end of 1Q24 (VND45.9tn/USD1.8bn).

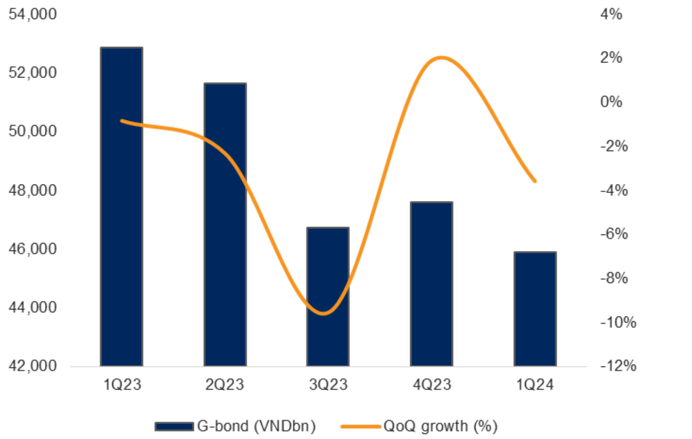
However, this advantage will be partly offset by rising interest rates. As of June 3, 2024, the Government 10Y bond has risen by 0.58% YTD. Thus, we forecast that net gain from trading of investment securities will slump by 20% to VND2.3tn (USD90bn) in FY24. As a result, Non-II might decrease by 8.4% YoY in FY24.

Figure 23: Vietnam 10Y G-bond rate has risen 0.58% YTD as of 6/3/2024



Sources: ACB, VNDIRECT RESEARCH

Figure 24: ACB held VND45.9tn of G-bonds at end-1Q24



Sources: ACB, VNDIRECT RESEARCH

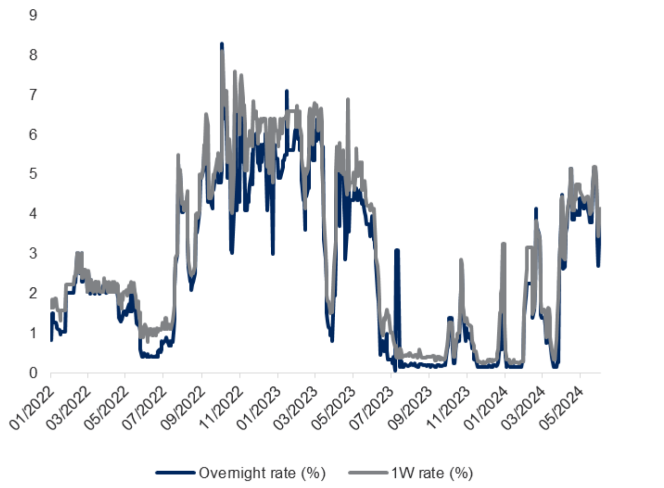
Stable NIM given low interest rate effect

Conversely, NII should support TOI growth, surging by 15.9% YoY in FY24 and bouncing back from a low base of 6.1% YoY in FY23. The rebound in NII will be driven by NIM and 14% credit growth.

NIM is expected to maintain at 3.85% in FY24, given COF will slump 1.6% pts while AY will only decrease 1.0% pts. The robust decrease in COF will be driven by lower deposit costs and higher CASA. We believe the lower interest rate environment will be the main driver for a lower COF for ACB, as ACB's 12-month deposit rate has slumped 3.1% pts YTD. We expect deposit rates will bottom out in 2Q24 but will still remain at a low level.

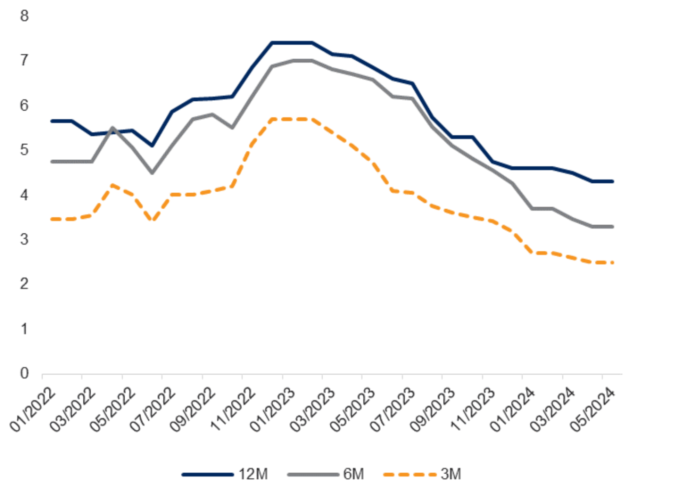
In addition, we expect CASA for ACB will improve to 23% from 22% in FY23 as a result of rising business activity, which accounts for 30%-40% of ACB's loan book.

Figure 25: Interbank rate maintained at a high level



Sources: ACB, VNDIRECT RESEARCH

Figure 26: Low deposit rate will support ACB's COF in upcoming quarters (%)



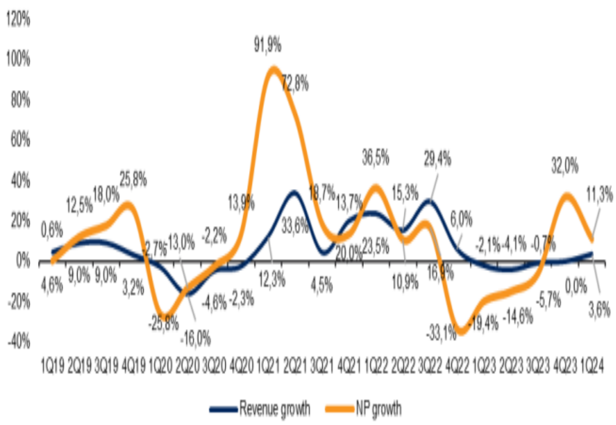
Sources: ACB, VNDIRECT RESEARCH

Economic recovery will support credit growth

We project that ACB's credit growth will be 14.3% in FY24, slightly lower than the credit quota of 16%. Credit growth is expected to be driven by corporate loans (+35% YoY) as ACB plans to target large corporate customers in FY24. ACB is likely to achieve this thanks to its pricing advantage, as its COF was 3.4% in 1Q24, the third lowest in the industry.

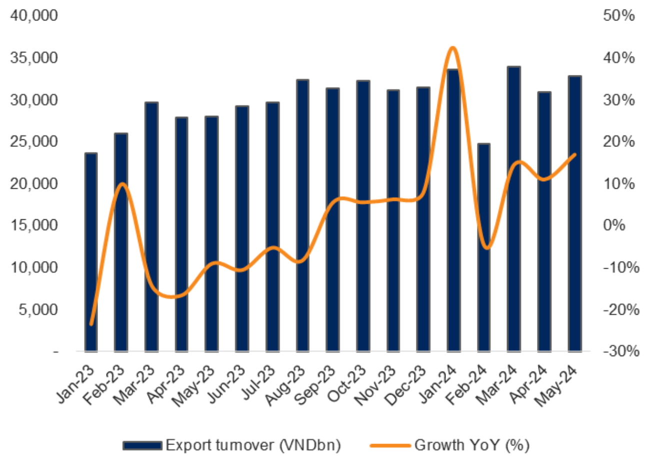
Meanwhile, on the retail side, which accounts for 93% of the loan book, we believe retail loans will grow by 13.1% YoY due to: 1) the gradual recovery of the economy supporting the capital needs of business loans (30-40% of the total loan book); and 2) a low-interest rate environment and the new Land Law driving mortgage loans (30% of the loan book). Currently, we see signs of the economy gradually returning as: 1) revenue of listed companies grew 3.6% YoY in 1Q24; and 2) export turnover increased over 14% YoY during March to May 2024.

Figure 27: Aggregate revenue of listed companies is recovering



Sources: ACB, VNDIRECT RESEARCH

Figure 28: Export turnover is recovering



Sources: ACB, VNDIRECT RESEARCH

High provisioning pressure due to persistent risk of bad debt

We forecast credit cost will rise 6bps YoY to 0.46% due to: 1) NPL formation improving but remaining at a high level; and 2) ACB will increase write-offs and provisioning to deal with bad debt. As mentioned above, in 1Q24, NPL formation rose 184.4% QoQ to VND1.6tn (USD63mn), equivalent to 49.4% of group 2 loans in 4Q23.

In FY24, we believe th NPL formation ratio (FY24's NPL formation divided by FY23 group 1 and group 2 loans) will fall to 0.5%, lower than that of 1.0% in FY23. However, this is still a high level compared to the five-year average of 0.4%. Given that NPL was 1.45% at end-1Q24 (highest level since 2014) and provision buffer stayed at a low level, we believe ACB will try to strengthen its balance sheet through write-offs and provisioning. As a result, credit cost is expected to increase 6bps YoY to 0.46% in FY24.

The rise in credit cost and slowed growth of TOI will drive NP of ACB in FY24 to rise 4.9% YoY, lower than the increase of 17.2% YoY in FY23.

Earnings to rebound vigorously in FY25

In FY25, we expect ACB's net profit to rebound by 26.0% YoY, given:

- **Credit growth** is expected to reach 16% YoY, higher than our forecast of 14.3% for FY24. The higher credit growth 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 0.2% pts YoY to 4.1%, 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 increase to 3.0% from 2.9% in FY24, due to a low base interest environment in FY24. However, 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 0.46% in FY24. We believe in FY25, better income and better performance of investment assets (stocks, real estates, businesses) will drive ACB NPL formation ratio to drop to 0.25% from 0.45% in FY24. Therefore, ACB will have less pressure for provisioning.

Valuation: Reiterate ADD with a lower TP of VND30,300

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 the same risk-free rate of 2.63%, a lower equity risk premium of 9.0% (compared to 9.6% in previous report), and a five-year average adjusted Beta of 1.1.

Figure 29: Target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	32,528	16,264
P/B multiple (at 1.50x FY24F BVPS)	50%	27,981	13,991
Target price (VND/share)			30,255
Target price (VND/share, rounded)			**30,300**

Source: VNDIRECT RESEARCH

Figure 30: Residual income valuation

Assumptions	2024E	2025F	2026F	2027F	2028F	Terminal year
Risk free rate (10-year G-bond yield)	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1
Cost of equity	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
ROE (%)	21.7%	22.4%	19.8%	18.4%	17.0%	16.2%
Long-term growth rate						3.0%
Ending shareholder's equity	83,904	105,116	128,227	154,232	182,942	
RI	7,941	10,699	9,940	9,938	9,385	6,649
Discount factor	0.89	0.79	0.70	0.62	0.55	0.55
PV of RI	7,057	8,449	6,976	6,198	5,201	71,860
(VNDbn)						
Opening shareholders' equity	70,956					
PV of RI	33,880					
PV of Terminal value	39,824					
Implied EV	144,660					
No.of o/s shares (million)	4,467					
Implied value per share (VND/share)	**32,387**					

Source: VNDIRECT RESEARCH

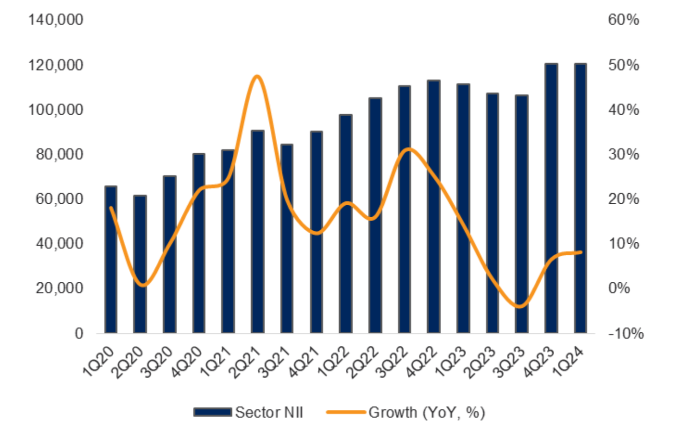
Figure 31: Sensitivity analysis for residual income method

		Long-term growth rate				
		1.0%	2.0%	**3.0%**	4.0%	5.0%
Cost of equity	10.5%	36,394	38,472	41,112	44,571	49,294
	11.5%	33,001	34,481	36,317	38,650	41,708
	12.5%	30,196	31,248	**32,528**	34,117	36,137
	13.5%	27,839	28,576	29,459	30,535	31,872
	14.5%	25,830	26,330	26,922	27,634	28,502

Source: VNDIRECT RESEARCH

We set our target P/B ratio at 1.5x, which aligns with both ACB's and the sector's five-year average. Due to its conservative strategy, clean books, and focus on asset quality, ACB tends to receive a premium compared to peers when the banking sector's core business (Net Interest Income growth) is in the early recovery cycle. This is because ACB may experience less provisioning pressure due to its clean loan books. Additionally, during the expansion cycle of the core business, the spread between ACB's P/B and the sector's P/B tends to narrow as the sector's P/B rises faster. Therefore, we believe a 1.5x P/B ratio is an appropriate target for ACB as the core business of the banking sector gradually returns to growth.

Figure 32: Sector's core business is recovering (Unit: VNDbn)



Sources: ACB, VNDIRECT RESEARCH

Figure 33: ACB price to book ratio compared to sector average

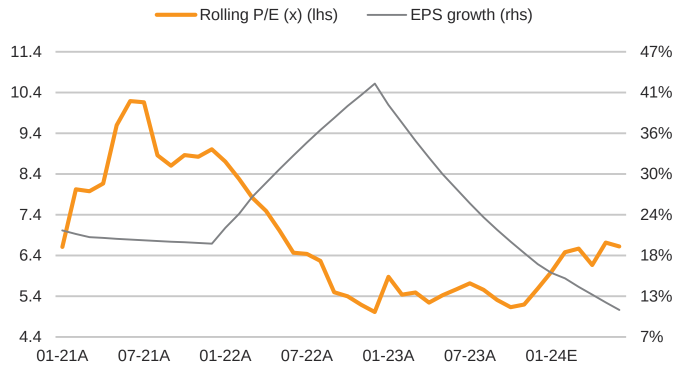
Sources: ACB, VNDIRECT RESEARCH

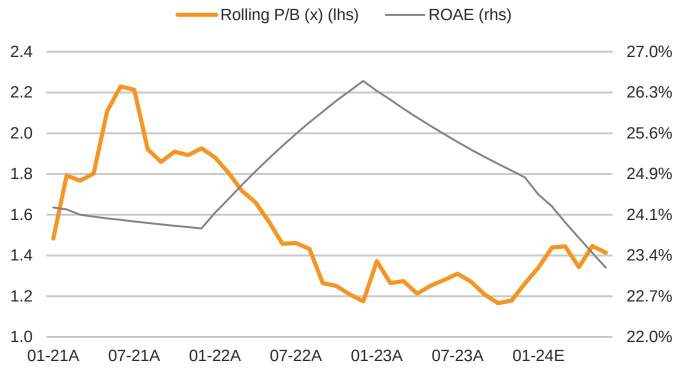
Figure 34: Vietnam bank comparison (price as of June 10, 2024)

Bloomberg Code	Upside (%)	Market cap	NIM (%)		NPL (%)		P/B (x)		P/E (x)		3-yr Forward EPS CAGR	ROA (%)		ROE (%)	
		(USDbn)	TTM	FY24F	TTM	FY24F	Current	FY24F	Current	FY24F	%	TTM	FY24F	TTM	FY24F
VCB VN	34.7%	19,362.2	3.1%	3.1%	1.2%	0.8%	2.8	2.4	15.1	13.5	18.1%	1.8%	1.9%	20.5%	19.5%
CTG VN	17.4%	7,105.5	3.0%	2.9%	1.3%	1.4%	1.4	1.2	9.0	8.8	21.1%	1.0%	1.3%	16.6%	19.7%
VPB VN	30.6%	5,662.4	5.7%	5.4%	4.8%	4.4%	1.0	1.0	11.9	10.6	22.4%	1.5%	1.4%	9.3%	9.9%
TCB VN	8.8%	6,849.4	3.6%	4.1%	1.1%	0.9%	1.3	1.1	8.8	7.7	15.3%	2.5%	2.5%	15.6%	16.0%
MBB VN	40.6%	4,688.1	4.8%	4.8%	2.5%	1.4%	1.2	1.0	5.8	5.4	7.8%	2.4%	2.3%	22.7%	22.6%
HDB VN	24.8%	2,725.8	5.3%	5.1%	2.2%	1.6%	1.4	1.2	6.2	5.2	15.8%	2.1%	2.1%	25.6%	26.2%
VIB VN	29.7%	2,284.3	4.6%	4.4%	3.6%	3.0%	1.5	1.2	6.9	5.8	17.1%	2.2%	2.3%	23.7%	23.4%
TPB VN	28.6%	1,588.6	4.2%	4.1%	2.2%	2.3%	1.2	1.1	9.0	6.8	11.4%	1.3%	1.6%	13.3%	17.0%
LPB VN	-8.5%	2,604.8	3.0%	3.3%	1.4%	1.0%	1.8	2.2	9.6	8.7	5.7%	1.8%	1.9%	21.5%	20.3%
Average			4.1%	4.1%	2.2%	1.8%	1.4	1.4	7.6	7.9	14.4%	1.9%	1.9%	19.2%	19.6%
ACB VN	**24.4%**	**4,276.8**	**4.0%**	**3.9%**	**1.5%**	**1.2%**	**1.5**	**1.3**	**6.9**	**6.5**	**9.8%**	**2.4%**	**2.2%**	**23.0%**	**21.8%**

Source: BLOOMBERG, VNDIRECT RESEARCH

Valuation





Income statement

(VNDbn)	12-23A	12-24E	12-25E
Net interest income	**24,960**	**28,996**	**35,645**
Non interest income	**7,787**	**7,129**	**8,280**
Total operating income	**32,747**	**36,126**	**43,926**
Total operating costs	(10,874)	(12,644)	(15,374)
Pre-provision operating profit	**21,872**	**23,482**	**28,552**
Total provision charges	**(1,804)**	**(2,429)**	**(2,020)**
Income from associates & JVs			
Net other income			
Pre-tax profit	**20,068**	**21,053**	**26,531**
Tax expense	(4,023)	(4,221)	(5,319)
Profit after tax	**16,045**	**16,832**	**21,212**
Minority interest	0	0	0
Net profit	**16,045**	**16,832**	**21,212**

Balance sheet

(VNDbn)	12-23A	12-24E	12-25E
Gross loans to customers	487,602	557,345	646,350
Loans to banks	114,874	132,105	151,921
Total gross loans	**602,476**	**689,450**	**798,271**
Securities - total	80,640	92,485	106,483
Other interest earning assets	18,505	22,206	26,647
Total gross IEAs	**701,621**	**804,140**	**931,401**
Total provisions	**(5,367)**	**(6,179)**	**(6,638)**
Net loans to customers	**482,235**	**551,165**	**639,712**
Total net IEAs	**696,254**	**797,961**	**924,763**
Cash and deposits	6,909	7,220	7,545
Total investments	317	331	346
Other assets	15,314	16,003	16,723
Total non-IEAs	**22,541**	**23,555**	**24,615**
Total assets	**718,795**	**821,515**	**949,378**
Customer deposits	482,703	540,627	632,534
Cds outstanding	52,410	53,458	54,527
Customer interest-bearing liabilities	535,113	594,085	687,061
Bank deposits	0	0	0
Broad deposits	535,113	594,085	687,061
Other interest-bearing liabilities	89,665	107,573	112,950
Total IBLs	**624,778**	**701,658**	**800,011**
Deferred tax liability			
Other non-interest bearing liabilities	23,060	36,536	44,833
Total non-IBLs	**23,060**	**36,536**	**44,833**
Total liabilities	**647,839**	**738,194**	**844,844**
Share capital	38,841	44,667	44,667
Additional paid-in capital	272	272	272
Treasury shares	0	0	0
Retained earnings reserve	20,286	26,825	48,038
Other reserves	11,557	11,557	11,557
Shareholders' equity	**70,956**	**83,321**	**104,533**
Minority interest	0	0	0
Total equity	**70,956**	**83,321**	**104,533**
Total liabilities & equity	**718,795**	**821,515**	**949,378**

	12-23A	12-24E	12-25E
Growth rate (yoy)			
Cust deposit growth	16.6%	12.0%	17.0%
Gross cust loan growth	17.9%	14.3%	16.0%
Net interest income growth	6.1%	16.2%	22.9%
Pre provision operating profit growth	27.3%	7.4%	21.6%
Net profit growth	17.2%	4.9%	26.0%
Growth in IEAs	19.0%	14.6%	15.9%
Share value			
Basic EPS (VND)	3,592	3,768	4,749
BVPS (VND)	15,886	18,654	23,403
DPS (VND)	0	0	0
EPS growth	17.2%	4.9%	26.0%

Key ratios

	12-23A	12-24E	12-25E
Net interest margin	3.9%	3.9%	4.1%
Cost-income ratio	(33.2%)	(35.0%)	(35.0%)
Reported NPLs / gross cust loans	1.2%	1.2%	1.0%
Reported NPLs / net cust loans	1.2%	1.2%	1.0%
GP charge / average cust loans	0.4%	0.5%	0.3%
Total CAR	13.0%	13.1%	14.0%
Loan deposit ratio	91.1%	93.8%	94.1%
Margins and spreads			
Return on IEAs	8.1%	6.5%	6.6%
Cost of funds	4.8%	3.0%	2.9%
Interest return on average assets	3.8%	3.8%	4.0%
ROAE	24.8%	21.8%	22.6%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

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.

Growth Ratings	Definition:
Positive	We forecast the company to have stronger earnings growth that than peers over the investment horizon.
Neutral	We forecast the company's earnings growth to be in line with peers over the investment horizon.
Negative	We forecast the company to have weaker earnings growth that than peers over the investment horizon.

Value Ratings	Definition:
Positive	The current share price is lower than peers on the basis of historical P/E, P/B or another ratio specified.
Neutral	The current share price is in-line with peers on the basis of historical P/E, P/B or another ratio specified.
Negative	The current share price is higher than peers on the basis of historical P/E, P/B or another ratio specified.

Sector Ratings	Definition:
Overweight	Stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	Stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	Stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Barry Weisblatt – Head of Research
Email: barry.weisblatt@vndirect.com.vn
Chien Vo Minh – Manager
Email: chien.vominh@vndirect.com.vn
Hung Vu Manh – Analyst
Email: hung.vumanh3@vndirect.com.vn

VNDIRECT Securities Corporation
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi
Tel: +84 2439724568
Email: research@vndirect.com.vn
Website: https://vndirect.com.vn