

ABC (KH1000100003 CSX)

26 Jun 2023

Performance Highlights

FY ends Dec (USD'mn)	2022	% YoY	4Q22	% QoQ	% YoY
Net interest income	449.9	12.1%	112.2	-1.8%	11.2%
Net fee and commission income	42.9	6.5%	10.2	-4.5%	5.0%
Net impairment losses	(20.6)	53.5%	(0.6)	-60.6%	-111.7%
Income after impairment losses	472.2	10.3%	121.8	-1.3%	5.4%
Profit before tax	228.3	11.5%	60.8	-1.8%	4.7%
Net profit	181.8	9.1%	48.8	-1.3%	4.8%
Net interest margin	5.6%	-5.6%pt	1.5%	-6.4%pt	-1.6%pt

Source: The Company, YSC Research

Executive Summary

2022 Review: Robust growth year despite headwind

- Both deposits and loans experienced rapid growth in 2022. The total number of loan accounts increased by 9.3% YoY, and the gross loan portfolio increased by 18.3% YoY to USD 6,422mn, slightly above the 18.2% industry growth rate. Total deposits from clients and other banks and financial institutions increased by 11.8% YoY, higher than the industry growth of 9.2%.
- Despite the average interest yield on loans declining by 0.36%pt, ABC's interest income increased by 16.9% to USD 671mn in 2022 from USD 574mn in 2021. The increase was fueled by a 17.4% YoY growth in earning assets. On the other hand, interest expenses increased by 28.1% YoY, stemming from higher interest rates on CASA deposits and borrowings and more reliance on fixed deposits and borrowings.
- Total revenue—comprised of net interest income after allowance, net fee and commission, and other income—was up 11.1% YoY to a new high of USD 498mn last year. Meanwhile, total operating expenses increased to USD 270mn, equivalent to a 10.7% YoY rise, resulting in pre-tax profit increasing 11.5% YoY to USD 228mn. As a result, consolidated net profit reached USD 182mn in 2022, up 9.1% YoY.

ABC continues to maintain its market-leading position

- As of the end of December 2022, ABC had the largest physical banking infrastructure network in Cambodia, including 264 branch offices, 125 self-service locations, 1,114 ATMs, 26 term deposit machines, 43 virtual tellers, 17 cash bag deposit machines, and 4,358 POS terminals.
- As of the end of 2022, ABC ranked second among all financial institutions in Cambodia in terms of assets (USD 9,031mn), equity (USD 1,311mn), customer deposits (USD 5,971mn), and gross loan portfolio (USD 6,422mn). Among all financial institutions, it had the largest interest income in 2022, totaling USD 671mn, and the second-highest non-interest income, amounting to USD 73mn.

Solid financial performance despite worrying NPL ratio

- Due to increasing competition and funding costs, the net interest margin (NIM) has gradually shrunk. NIM came to 5.60% in 2022, down from 5.93% in 2021. However, profitability remained stable with ROE edging down slightly to 14.4% from 14.5%, thanks mainly to the robust loan portfolio growth and enhanced operational efficiency brought about by the digital transformation efforts.
- The end of the loan restructuring program in June 2022 caused the NPL ratio to rise in 2022, however, it is still below the industry average, which is at a manageable level. Despite the rising NPL ratio, ABC has maintained its solvency ratio and liquidity coverage ratio at a level sufficiently high to support its strong capital and liquidity position.

Global headwind hits Cambodian banking industry's profitability in 2022

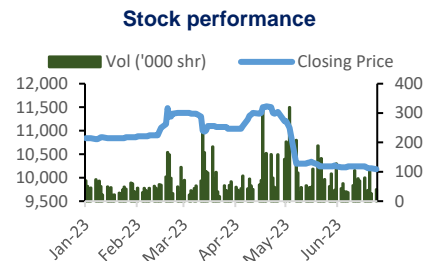
- The reopening of the economy combined with the growth of external demand has put IMF to project Cambodia's economy growth of 5.5% in 2023 and Cambodia is also expected to have the 2nd highest growth forecast in ASEAN over 2023-2028.
- In 2022, both the growth of credit and deposits in Cambodia's banking sector slowed due to interest rate hikes and rising NPL ratio. Consequently, the funding costs and provision expenses also increase leading to the decrease of the industry's yield margin to 1.88% in 2022. As an outcome, both net profit and ROAE declined, resulting in the banking sector's profitability sinking for the first time since 2018.

Closing Price	KHR 10,180
IPO Price	KHR 16,200

Source: CSX, YSC Research

Stock info	
Industry	Financial Services
Market cap (USD'mn)	1,073
Outstanding shares ('mn)	433
Majority shareholder	
ABC Financial Trust (%)	27.14
Avg. daily vol. (last 6 months, shr)	71,601
Free floating shares (last 6 months, %)	1.62
Price low/high (last 6 months, KHR)	9,360 ~ 11,600
EPS (KHR)	1,732
P/E* (x)	6.25
P/E** (x)	5.88
P/B* (x)	0.87
P/B** (x)	0.82

*Price at the end of 2022, **Price as of 26 Jun 2023

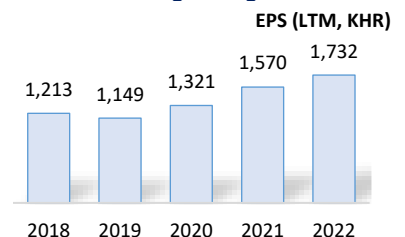


Trading volume/value in last 12 months

	Monthly trading		Average per day	
	Volume (shr)	Value (KHR'mn)	Volume (shr)	Value (KHR'mn)
May-22	3,115,526	35,841	148,358	1,707
Jun-22	2,709,404	29,781	129,019	1,418
Jul-22	1,845,273	19,513	87,870	929
Aug-22	1,805,628	18,648	78,506	811
Sep-22	1,116,802	11,467	53,181	546
Oct-22	1,747,717	17,951	83,225	855
Nov-22	1,305,356	13,785	68,703	726
Dec-22	1,225,545	13,046	55,707	593
Jan-23	965,430	10,453	43,883	475
Feb-23	1,111,094	12,359	55,555	618
Mar-23	1,674,753	18,599	76,125	845
Apr-23	1,686,961	19,191	88,787	1,010
May-23	2,115,831	22,289	105,792	1,114

Source: CSX, YSC Research

Earning Strength



Note: EPS = earnings per share. LTM = last twelve months

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2022 Results Full Review

Loans and deposits see robust growth in 2022

The number of loan accounts reached 591,494 at the end of 2022, an increase of 50,310 or 9.3% YoY. Gross loan portfolio surged 18.3% to USD 6,422mn, up by nearly USD 1bn during the year. The loan growth is almost on par with the industry's growth of 18.2% in 2022. The loan portfolio breakdown by product shows that small and medium loans continued to see robust growth of 16.9% YoY and 17.9% YoY, respectively. Growth was notable for trade loans, overdraft loans, and credit card loans, which jumped 87.4% YoY, 68.3% YoY, and 57.1% YoY, respectively. Although these loan products accounted for a small portion of the total loans, the surge can be an indication of potential room for strong growth of these products.

Loans and Deposits

	2022	2021	Change	%Change
Number of Loans	591,494	541,184	50,310	9.3%
Gross Loan Portfolio (USD'mn)	6,422	5,429	993	18.3%
Number of Deposit	3,865,749	3,298,382	567,367	17.2%
Total Deposit Balance (USD'mn)	6,389	5,716	673	11.8%

Source: The Company

Loan Portfolio Breakdown

USD'mn	2022	2021	Change	% Change	2022 % total
Small Loan	2,868.9	2,454.3	414.6	16.9%	44.7%
Staff Housing Loan	29.0	24.6	4.5	18.1%	0.5%
Public Housing Loan	153.9	136.0	17.9	13.2%	2.4%
Staff Loan	289.9	255.7	34.2	13.4%	4.5%
Overdraft Loan	161.6	96.0	65.6	68.3%	2.5%
Home Improvement Loan	23.2	31.5	(8.2)	-26.1%	0.4%
Personal & Others Loan	262.6	202.5	60.1	29.7%	4.1%
Credit Card Loan	63.3	40.3	23.0	57.1%	1.0%
Trade Loan	21.0	11.2	9.8	87.4%	0.3%
Revolving Loan	41.1	49.7	(8.6)	-17.3%	0.6%
Medium Loan	2,507.2	2,127.0	380.2	17.9%	39.0%
Total gross loan portfolio	6,421.6	5,428.6	993.1	18.3%	100.0%

Source: The Company

Meanwhile, the number of deposit accounts increased by 17.2% from 3,298,382 at the end of 2021 to 3,865,749 at the end of 2022. Total deposits from customers and other banks and financial institutions reached USD 6,389mn, posting a growth of 11.8% YoY, well above the industry growth of 9.2%. Total deposit growth was driven mainly by 21.1% YoY growth in fixed deposits, while CASA deposit growth remained modest.

Deposit Breakdown by Type of Account

USD'mn	2022	2021	Change	% Change	2022 % total
Current accounts	951.4	903.9	47.5	5.3%	14.9%
Savings deposits	2,130.9	2,081.6	49.3	2.4%	33.4%
Margin deposits	15.0	12.5	2.5	19.6%	0.2%
Fixed deposits	3,291.7	2,718.0	573.7	21.1%	51.5%
Total deposits	6,389.0	5,716.0	673.0	11.8%	100.0%

Source: The Company

Interest income increases 16.9% YoY on earning assets growth

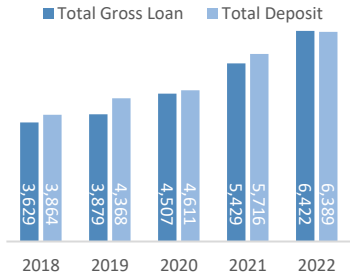
ABC earned USD 671mn in interest income in 2022, up 16.9% from USD 574mn in 2021, driven by 17.4% YoY growth in earning assets. Interest from loans and advances, which made up 98.4% of total interest income in 2022, increased by 15.6% YoY or USD89.0mn, contributing 92% of the total increase of USD 96.9mn last year. The increase was driven by the rise in loan portfolio outstanding amount, although the average interest yield on loans decreased by 0.36%pt to 11.14% from 11.49% in the previous year.

Interest income from financial investments (consisting mainly of NCD with NBC), which contributed 0.9% of total interest income in 2022, jumped more than 500% from USD 0.9mn in 2021 to USD 5.8mn, despite the drop in investment outstanding amount. The average interest yield on financial investment increased from 0.14% in 2021 to 0.86% in 2022. This was thanks to the gradual rise in USD NCD rates during the year and to the Bank's USD 30mn investment in early 2022 in corporate debt securities issued by Overseas Cambodian Investment Corporation for the new Techo International Airport project that earned 5.5% interest p.a.

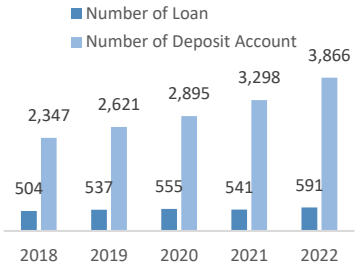
Meanwhile, interest income on deposits and placement with other banks, which represented 0.7% of total interest income, surged 164% from USD 1.9mn in 2021 to USD 5.0mn in 2022, driven by the increase in interest yield from 0.17% to 0.35%, as well as the 46.6% YoY surge in the outstanding amount from USD1,155mn to USD1,694mn.

Overall, the interest yield on earning assets continued its downtrend, declining further to 8.35% in 2022, from 8.78% in 2020, and 8.48% in 2021, attributable to the steady decline in interest yield on loan portfolio.

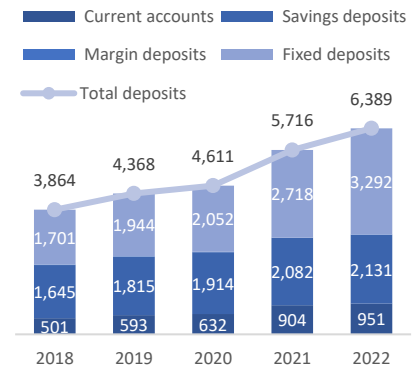
Deposit and Loan (USD'mn)



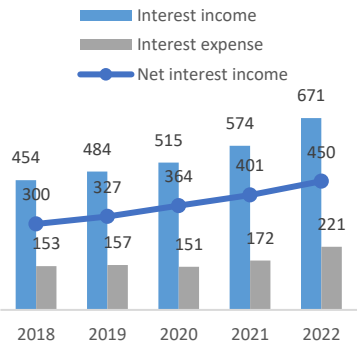
Borrower and Depositor ('000)



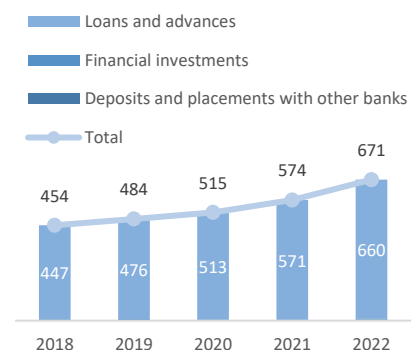
Deposit Breakdown (USD'mn)



Net Interest Income (USD'mn)



Interest Income Breakdown (USD'mn)



Interest Income

USD'mn	2022	2021	Change	%Change	2022 % total
Deposits and placements with other banks	5.0	1.9	3.1	164.3%	0.7%
Financial investments	5.8	0.9	4.9	522.8%	0.9%
Loans and advances	660.0	571.0	89.0	15.6%	98.4%
Total	670.8	573.8	97.0	16.9%	100.0%

Source: The Company

Average Interest Yield

Assets	2022	2021	Change
Loans and advances	11.14%	11.49%	-0.36%pt
Financial Investments	0.86%	0.14%	0.72%pt
Deposits and placements with other banks	0.35%	0.17%	0.18%pt
Total	8.35%	8.48%	-0.13%pt

Source: The Company

Interest expense increases faster than interest income growth

Interest expenses surged 28.1% YoY to USD 220.8mn, rising faster than interest income growth. The notable increase was due to higher interest rates on CASA deposits and borrowings, as well as the change in debt funding structure with ACLEDA being more reliant on fixed deposits and borrowings that cost more to finance.

While CASA deposits saw modest growth last year, interest expense on CASA deposits more than doubled from USD 7.0mn in 2021 to USD 14.5mn as the average interest cost on CASA deposits was up from 0.27% to 0.50%. Interest expense on borrowings soared 49.3% YoY, driven by increasing outstanding amount of borrowings, which climbed 57.3% from USD 608mn to USD 957mn, and rising average interest cost of borrowings, which expanded by 0.52%pt from 5.37% to 5.89%. Meanwhile, interest expense on fixed deposits increased 22.4% YoY to USD 148.0mn despite the average interest cost edging down slightly from 5.07% to 4.92%, due to the fixed deposit outstanding amount growing 21% YoY.

Overall, the average funding cost rose from 2.89% to 3.14%, but it was not the only factor that drove up the interest expense. 2022 was also marked by a significant change in the debt funding structure with CASA deposits' contribution to total debt fund dropping by 4.2%pt to 40.7% in 2022 from 44.9% in 2021, while the contribution of borrowings and fixed deposits increased by 3.3%pt and 1.6%pt to 13.0% and 44.6% of total debt fund, respectively. More efforts may be needed to further increase the popularity of the ACLEDA mobile app to further capture core deposits and reduce the overall funding cost.

Interest expense

USD'mn	2022	2021	Change	%Change	2022 % total
CASA deposits	14.5	7.0	7.5	105.9%	6.6%
Fixed deposits	148.0	120.8	27.1	22.4%	67.0%
Borrowings	46.1	30.9	15.2	49.3%	20.9%
Sub-debt	10.3	11.6	(1.4)	-11.6%	4.7%
Others	1.9	2.0	(0.0)	-1.1%	0.9%
Total	220.8	172.4	48.5	28.1%	100.0%

Source: The Company

Average interest cost

Debt	2022	2021	Change
CASA deposits	0.50%	0.27%	0.23%pt
Fixed deposits	4.92%	5.07%	-0.14%pt
Borrowings	5.89%	5.37%	0.52%pt
Subordinated debts	7.24%	7.19%	0.04%pt

Source: The Company

Net fee and commission income sees solid growth

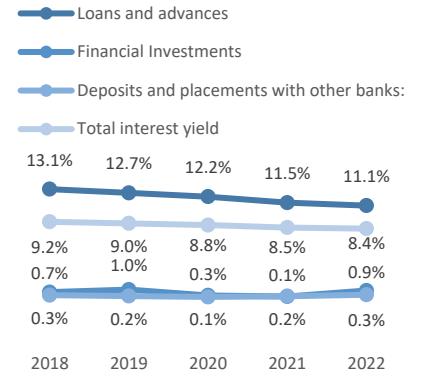
In 2022, net fee and commission income increased by 6.5% YoY to USD 42.9mn. In 2022, fees and commissions rise by USD 4.5mn, or 10.5% YoY. The solid growth was brought mainly by a 14.3% YoY increase in ATM fees, a 34.7% YoY increase in commission fees collected by assurance agencies, and a 59.4% YoY increase in training fees. On the other hand, fee and commission expenses increased by USD 1.9mn, a rise of more than 71.2% YoY.

Fee and commission income

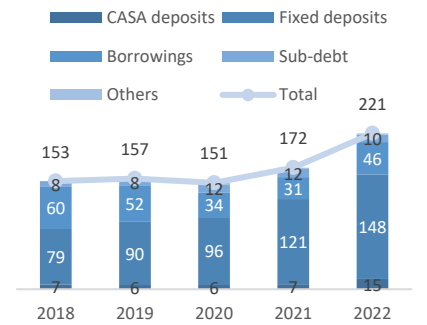
USD'mn	2022	2021	Change	%Change	2022 % total
Commission fees	15.7	15.2	0.5	3.4%	33.1%
Commission fee collected for assurance agency	5.0	3.7	1.3	34.7%	10.5%
ATM Fee	10.2	8.9	1.3	14.3%	21.4%
Early loan redemption fees	8.0	7.3	0.8	10.4%	16.9%
Deposit fee charged	0.8	2.0	(1.2)	-61.2%	1.6%
Fee income from the guarantee	0.8	0.6	0.2	27.7%	1.7%
Training fees	2.0	1.3	0.7	59.4%	4.2%
Others	5.0	4.0	1.0	24.2%	10.6%
Total	47.5	42.9	4.5	10.5%	100.0%

Source: The Company

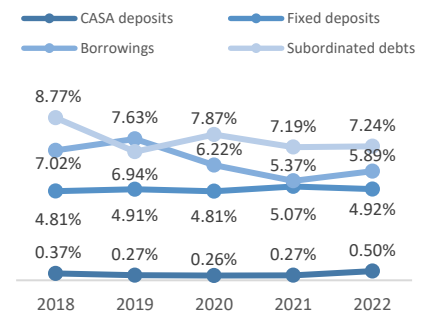
Average Interest Yield



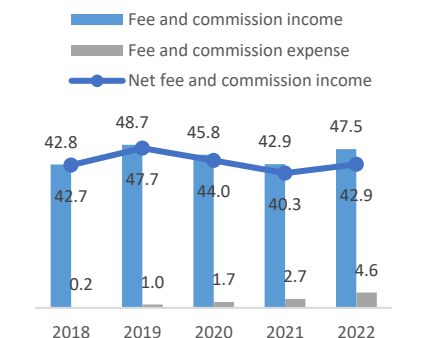
Interest Expense Breakdown (USD'mn)



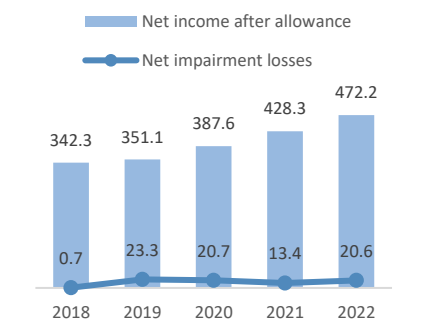
Average Funding Cost



Net Fee and Commission Income (USD'mn)



Net Income after Allowance (USD'mn)



Deteriorated loan portfolio quality leads to a spike in allowance for impairment

Net impairment losses climbed 53.5% to USD 20.6mn in 2022 from USD 13.4mn in 2021. This was hugely contributed by the 45.3% YoY increase in the allowance for impairments on loans and advances, which was due to deteriorated loan portfolio quality. Non-performing loan (NPL) ratio increased from 2.33% at the end of 2021 to 2.90% at the end of 2022, with the loan loss ratio widening by 0.75%pt from 1.06% to 1.81% over the same period.

Allowance for/(reversal of) impairments

USD'mn	2022	2021	Change	%Change	2022 % total
Loans and advances	20.0	13.8	6.2	45.3%	97.4%
Deposit and placement with other banks	(0.2)	(0.1)	(0.1)	93.8%	-0.8%
Other receivables	0.1	(0.2)	0.3	-144.4%	0.4%
Investment on debt securities	0.6	-	0.6	n/a	3.0%
Off-balance sheet commitments	(0.0)	(0.1)	0.1	-98.1%	0.0%
Total	20.6	13.4	7.2	53.5%	100.0%

Source: The Company

Loans and advances by classification

% of Total Gross Loans	2022	2021	Change
Normal	96.12%	97.17%	-1.05%pt
Special mention	0.97%	0.50%	0.47%pt
Substandard	0.57%	0.60%	-0.02%pt
Doubtful	0.52%	0.67%	-0.15%pt
Loss	1.81%	1.06%	0.75%pt

Source: The Company

Foreign exchange gain contributes more than half of other income

ACLEDA earned USD 25.6mn in other income in 2022, up 28.4% YoY. Foreign exchange gain is the biggest source of other income, with USD 14.2mn, accounting for 55.4%. Recovery from loans and advances came to USD 8.8mn, up 28.9% YoY.

Other income

USD'mn	2022	2021	Change	%Change	2022 % total
Foreign exchange gain	14.2	11.4	2.8	24.6%	55.4%
Recovery from loans and advances written off	8.8	6.8	2.0	28.9%	34.3%
Others	2.6	1.8	0.9	50.6%	10.3%
Total	25.6	20.0	5.7	28.4%	100.0%

Source: The Company

Bottom-line growth slows down but remains solid

Total revenue (net interest income after allowance + net fee and commission + other income) reached a record high of USD 498mn, increasing 11.1% YoY. Meanwhile, total operating expenses rose 10.7% YoY to USD 269.6mn, driven by the increase in personnel expenses of 8.7% YoY, repairs and maintenance expenses of 5.1% YoY, and other expenses of 39.1% YoY. With the modest growth in total operating expenses, the cost-to-income ratio (CIR) improved slightly from 54.3% in 2021 to 54.1% in 2022. As a result, pre-tax profit rose 11.5% YoY to USD 228mn.

Consolidated net profit increased 9.1% YoY to an all-time high of USD 182mn. However, the single-digit growth was a slowdown from 17.8% in 2021, due to lower pre-tax profit growth and a higher effective tax rate.

Earnings per share (EPS) in 2022 came to USD 0.43 (or KHR1,732), up 8.9% compared to USD 0.39 in 2021, while book value per share (BPS) was at USD 3.03 at the end of 2022, compared to USD 2.77 a year earlier. Based on these EPS, BPS figures, and the closing price on Jun 26, 2023, ABC stock is trading at a P/E of 5.88x, and a P/B of 0.82x.

General and administrative expenses

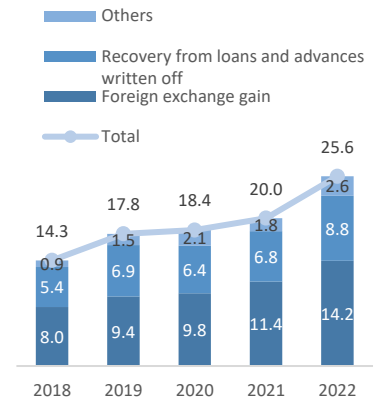
USD'mn	2022	2021	Change	%Change	2022 % total
D&A expense	36.9	35.8	1.0	2.9%	13.7%
Personnel expense	179.5	165.1	14.4	8.7%	66.6%
Repairs and maintenance	13.9	11.9	2.0	16.4%	5.1%
Utilities	5.8	5.3	0.4	8.0%	2.1%
Communication	5.4	4.0	1.4	34.0%	2.0%
Office supplies	5.5	4.9	0.6	12.3%	2.0%
Travelling expenses	2.7	1.8	0.9	53.6%	1.0%
License fees	1.1	1.1	(0.0)	-0.6%	0.4%
Others	18.8	13.5	5.3	39.1%	7.0%
Total	269.6	243.5	26.1	10.7%	100.0%

Source: The Company

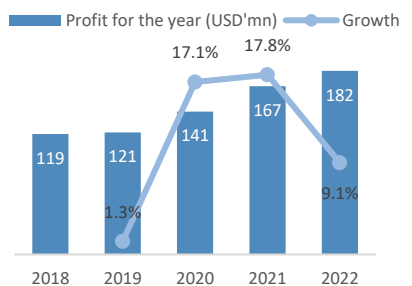
2022 Dividend

The company's dividend policy states that dividends would be reserved and/or distributed to common shareholders by the board of directors' decision. It was approved that ABC would pay the group's shareholders a dividend in an amount equal to USD 0.169 per share in 2022, which was a

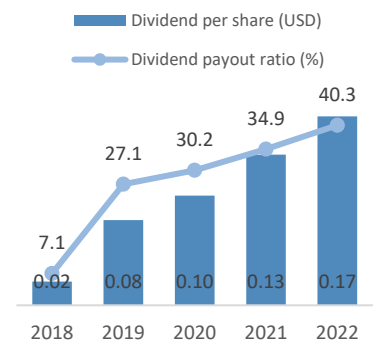
Other Income (USD'mn)



Annual Profit (USD'mn)



Dividend per Share and Payout Ratio



25.3% increase over the USD 0.135 paid in 2021. While the dividend yield increased by 1.3%pt YoY to 6.7%, the dividend payout ratio increased by 5.3%pt YoY to 40.3% of total earnings.

Detail of dividend distribution

	2022	2021	Change	%Change
Type of dividend	Cash	Cash		
Dividend payout ratio (%)	40.3%	34.9%	5.3%pt	15.3%
Dividend payout (USD'mn)	73.2	58.4	14.8	25.3%
Dividend per share (USD)	0.169	0.135	0.034	25.3%
Dividend yield (%) on closing price on June 26, 2023	6.7%	5.4%	1.3%pt	25.0%
Holder of record date	10-May-2023	6-May-2022		
Payment date	19-May-2023	10-Jun-2022		

Source: The Company

Company Overview

1. Company Profile

ACLEDA Bank Plc (ABC) was established in 1993 as a national NGO for the growth and financing of micro and small firms in Cambodia. The entity underwent multiple transformations throughout its history. It became a specialized bank in 2000, and a commercial bank in 2003. Over the years, ABC has made numerous changes in its legal structure, business operations, business strategies, and shareholding composition, emerging as the most influential bank in Cambodia.

ABC currently has 4 wholly owned subsidiaries: ACLEDA Bank Lao Ltd., ACLEDA MFI Myanmar Co, Ltd., ACLEDA Securities Plc., and ACLEDA Institute of Business.

Its total outstanding shares stood at 433,163,019 as of the end of 2022. ABC Financial Trust is its largest shareholder, owning 27.1%, followed by SMBC and COFIBRED S.A, which own 18.1% and 12.1%, respectively. Meanwhile, the public shareholders own 18.6% of its total outstanding shares.

As of the end of December 2022, ABC (Cambodia's operation alone) has more than 13,000 staff, serving more than 591 thousand borrowers, 3.9mn depositors, and nearly 3mn mobile banking app users. On October 25, 2022, Standard & Poor's issued an update for ABC's long-term credit rating, maintaining it at "B+ with stable outlook", making it the highest-rated company in Cambodia.

Board of directors

No.	Name	Position
1	Mr. Chhay Soeun	Chairman
2	Dr. In Channy	Executive Director
3	Mr. Rath Yumeng	Executive Director
4	Drs. Pieter Kooi	Independent Director
5	Mr. Van Sou leng	Independent Director
6	Ms. Phurik Ratana	Independent Director
7	Mr. Stéphane MANGIAVACCA	Non-Executive Director
8	Mr. Kiyosuke Hattori	Non-Executive Director
9	Dr. Albertus Bruggink	Non-Executive Director
10	Mr. Kay Lot	Non-Executive Director

Source: The Company

2. Operational Performance

ABC has the biggest network of physical banking infrastructure in Cambodia, with 264 branch offices, 125 self-service centers, 1,114 ATMs, 26 term deposit machines, 43 virtual tellers, 17 cash bag deposit machines, and 4,358 POS terminals, as at the end of December 2022. Since the COVID pandemic in 2020, the Bank has expanded its infrastructure with the addition of more self-service centers, while maintaining the number of its branch offices almost unchanged, as a cost-cutting measure, riding on the socially distanced banking trend, and leveraging the availability of the modern banking self-service technology.

Business Operation Performance

	2022	2021	Change	% Change
Number of branches	320	319	1	0.3%
Number of staff	13,582	13,674	-92	-0.7%
ATMs	1,114	901	213	23.6%
POS terminals	4,358	4,462	-104	-2.3%
ATM card	1,799,909	1,585,449	214,460	13.5%
ACLEDA Mobile User	2,845,886	2,278,220	567,666	24.9%

Source: The Company

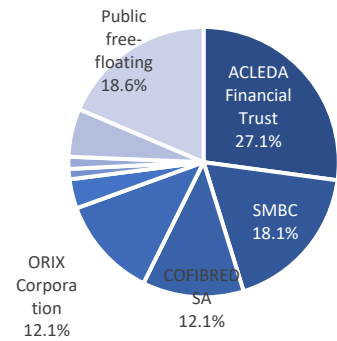
3. Business Overview

ABC is the second-largest bank in Cambodia in terms of assets (USD 9,031mn), equity (USD 1,311mn), customer deposits (USD 5,971mn), and gross loan portfolio (USD 6,422mn), as of the end of 2022. It earned the most interest income in 2022 among all financial institutions, totaling USD 671mn, and the second-highest non-interest income, totaling USD 73mn.

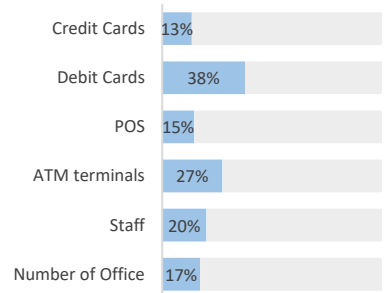
ABC offers a wide range of loan products, from personal loans (auto loans, motor loans, student loans, etc.), retail loans, and small business loans to large corporate loans and credit services (revolving credit lines, trade financing facilities, bank guarantees, etc.). Meanwhile, the Bank also provides various types of deposit accounts to customers. ABC's other services include fund transfers, cash management, trade finance, E-Banking, etc.

ABC has continued to maintain healthy loan portfolio growth. In 2022, the Bank achieved a healthy growth of 18.3% YoY, which was almost on par with the industry's average growth. The market's strong demand for the Bank's loan products, particularly in the small and medium loan categories, was the primary driver of this healthy growth. Last year, small and medium loans, which made up more than 80% of the total loan portfolio, experienced robust growth, with small loans growing by 16.9% YoY and medium loans by 17.9% YoY, respectively. Despite the increase in the number of banks and MFIs, ABC has been able to achieve average industry growth and since 2019 it has maintained a stable market share in loans, which has fluctuated in the range of 11.3% ~ 11.6%¹.

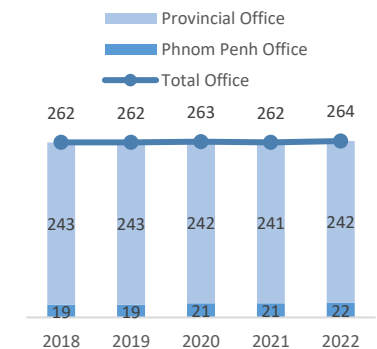
Shareholder Structure (31 Dec 2022)



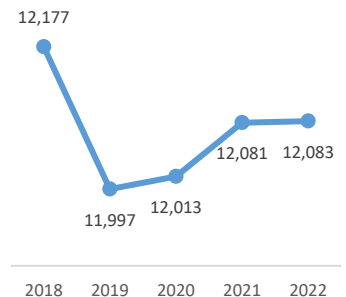
Overwhelming Market Share in 2022



Number of Offices



Number of Staff



Rating as of October 25, 2022

S&P Global Ratings

Issuer Credit Rating **B+/Stable/B**

¹ Compared to total loans of all banks and MFIs

The loan breakdown by sector shows that wholesale and retail trades, services, and agriculture, made up the majority of the Bank's loan portfolio in 2022, accounting for 33.2%, 24.9%, and 21.7%, respectively. After the COVID-19 crisis, ABC continues to support Cambodia's agricultural sector by lending to the industry and fostering supply chain stability and economic growth.

On the other hand, the Bank has been able to regain market share in deposits in the past two years. The stronger-than-average growth in 2022 brought its market share in deposits to 13.1%², the same level achieved in 2019 after the market share dropped to its lowest of 11.9% in 2020. Deposit growth in the last two years was driven by fixed deposits, which represented more than 50.0% of all deposits for the first time in 2022, with the combined current and saving (CASA) deposits sliding to 48.2% from 52.2% a year earlier. The gradual slide in the CASA deposit ratio in recent years was likely due to increasing competition from its competitors, in particular in digital mobile banking.

However, the National Bank of Cambodia (NBC)'s policy to promote unified KHQR as well as the Bank's efforts to enhance and increase the popularity of its mobile payment platform including the launch of cross-border QR payment in Thailand and Vietnam is helping ABC to break into its competitor's market dominance in mobile payment. With the recent achievement, the Bank could be on the right track to regain its market share in mobile payment and recapture more core deposits. For example, in the last two years, ABC achieved impressive growth in mobile transactions in terms of both number and value. In 2022, ACLEDA mobile processed over 149mn transactions, compared to 48.7mn transactions in 2020 and 79mn transactions in 2021. Transaction value handled by ACLEDA mobile doubled from USD 14.6bn in 2020 to USD 28.3bn in 2021 and increased by 77% to USD 50.2bn in 2022.

Deposits by account type

% of total deposits	2018	2019	2020	2021	2022
Current accounts	13.0%	13.6%	13.7%	15.8%	14.9%
Savings deposits	42.6%	41.5%	41.5%	36.4%	33.4%
Margin deposits	0.4%	0.4%	0.3%	0.2%	0.2%
Fixed deposits	44.0%	44.5%	44.5%	47.6%	51.5%
Total deposits	100.0%	100.0%	100.0%	100.0%	100.0%
CASA deposits	55.5%	55.1%	55.2%	52.2%	48.2%

Source: The Company

ABC generates revenue primarily through interest income from loans to customers, and fee & commission income which include commission fees, early loan redemption fees, deposit fees charged, etc. Other sources of income include foreign exchange gains, gains on disposal of property and equipment, dividends on financial investments, recovery from loan loss, etc..

Revenue Breakdown

USD'mn	2022	2021	Change	%Change	2022 % total
Interest income	671	574	97	16.9%	90.2%
Fee and commission income	47	43	5	10.5%	6.4%
Other income, net	26	20	6	28.4%	3.4%
Total revenue	744	637	107	16.8%	100.0%

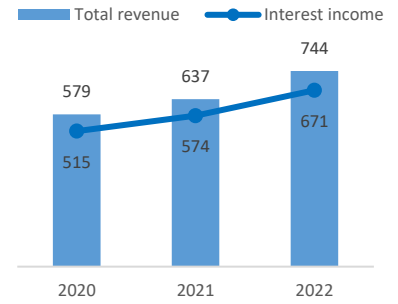
Source: The Company

4. Business Strategy and Plan

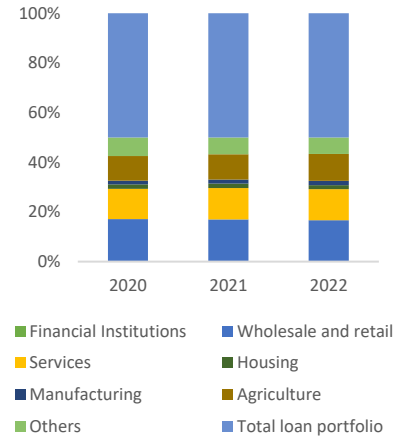
As a pioneer and leader in digital banking services, ABC seeks to establish itself as a leading regional digital bank and continue to produce exceptional and long-lasting returns for shareholders by enhancing its distinctive skills in a dynamic external environment.

As its strategic priorities, the Bank will continue to prioritize the promotion of mobile platforms and digitalization, by actively participating and taking a leading role in promoting the central bank's initiatives including the universal KHQR code system, National Payment Hub (NPH), and ASEAN payment network integration. The Bank aims also to implement human resource digital transformation and digitalization of workflow process, while it will continue its remodeling of physical branches with self-service centers to fit its digital banking transition. In addition, ABC plans to adopt and implement a data lakehouse—the new architecture that combines the strength of both data warehouse and data lake—for real-time data processing, algorithmic analysis and AI engine development aiming to achieve smart marketing, useful insight, successful product development, early fraudulent activity detection and superior customer services. It aims to build a first-class IT system to support the Bank business strategies while protecting information assets with the best and latest technology.

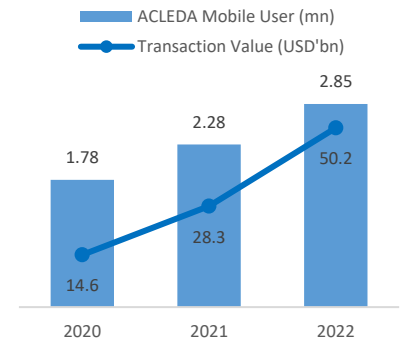
Revenue and Interest Income (USD'mn)



Credit Breakdown by Industry



ACLEDA Mobile App Statistics



² Compared to total loans of all banks and MFIs

Financial Analysis

Robust earnings growth achieved in last five years

ABC has achieved a robust earnings growth during the past five years. Consolidated net profit reached USD 181.8mn in 2022, growing at a CAGR of 11.1% between 2018-2022. Earnings growth was driven mainly by gross loan CAGR of 15.8% which in turn led to the growth of interest income at the CAGR of 10.3%.

Loan portfolio quality deteriorates, but remains at manageable level

The non-performing loan portfolio (NPL) ratio has been below 3% over the last five years, indicating that the quality of the loan portfolio has remained good. The end of the loan restructuring program in June 2022 caused the NPL to show signs of rising to 2.9% in 2022, but it still remained at a manageable rate (total industry (both banks and MFIs) average NPL ratio was 3.0%). In the previous five years, the write-off ratio has been varying below 0.70%.

Digital transformation leads to improved operational efficiency

The operational efficiency of ABC has improved over time. The operating expenses-to-average gross loans ratio steadily declined from 6.1% in 2018 to 4.5% in 2022, which is consistent with the average loan size gradually increasing from USD 7,198 to USD 10,857 during the same time period. The cost income ratio (CIR), similarly, has steadily dropped from 57.6% in 2018 to 52.0% in 2022. This trend was consistent with ABC's continuous initiatives to carry out digital transformation and reduce the use of physical branches.

High capital adequacy ratio supports sound financial position

Over the last five years, ABC's solvency ratio has exceeded the regulatory threshold of 15% set by the NBC. The Bank has maintained its solvency ratio (capital adequacy ratio) at a level high enough to support its sound financial position. Additionally, it has been quite conservative in meeting the liquidity coverage ratio (LCR) requirement. ABC's LCR ratio stood at 155% at the end of 2022, significantly higher than the regulatory threshold of 100%. By keeping a sufficient supply of liquid assets, the bank demonstrates its strong liquidity position and its preparedness to liquidity shock.

Interest rate hikes drive up cost of funds

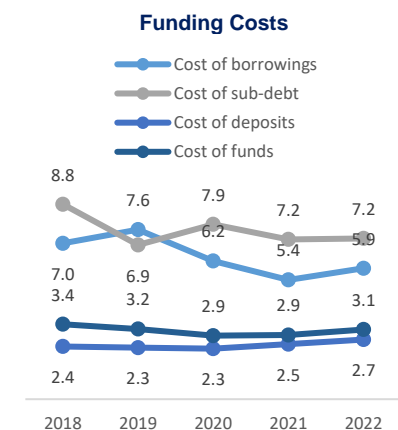
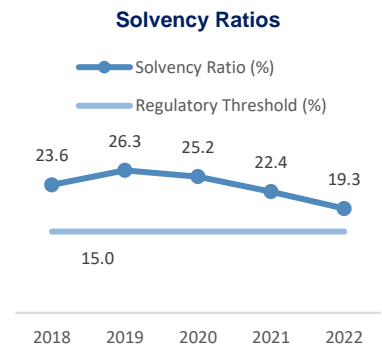
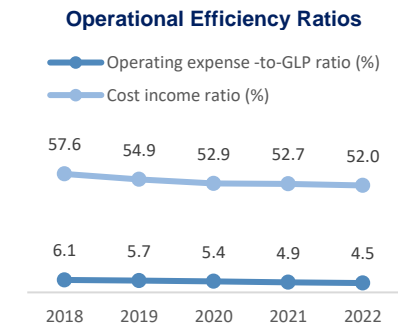
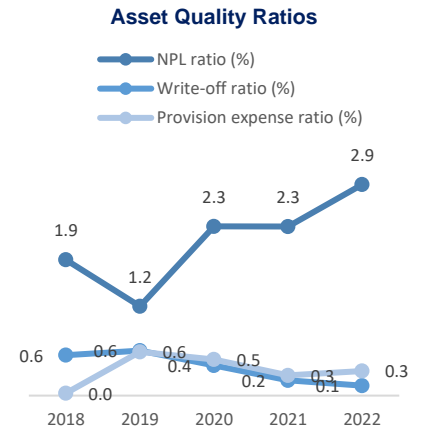
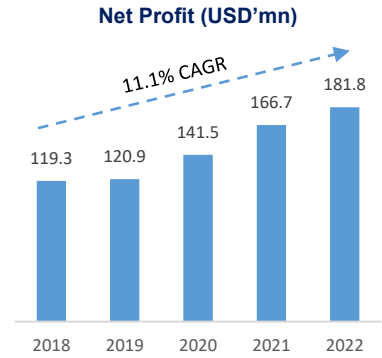
Throughout the previous five years, the average cost of funds has been close to 3.1%. The cost of funds did, however, noticeably rise in 2022 as a result of USD interest rate hikes implemented by US Federal Reserves to fight inflation. While the cost of sub-debt remained almost unchanged at 7.2% in 2022, borrowing costs increased from 5.4% in 2021 to 5.9% in 2022. Meanwhile, the average cost of deposits rose to 2.9% from 2.7%, partly due to the progressive increase in fixed deposit accounts relative to current and savings accounts, and partly to the significant increase in the interest rates on current and savings accounts.

Return on equity increases despite declining net interest margin

The interest yield on loans has gradually decreased as competition intensifies. The net interest margin (NIM), which fell from 6.2% in 2020 to 5.6% in 2022, has also been trending downward. Despite narrowing NIM, ABC has maintained average ROA, ROE, and ROIC of 2.2%, 14.2%, and 10.3% during the past five years, respectively. Since 2020, ROE has been increasing as a result of increased operational effectiveness, decreasing high-cost borrowings, and a rise in customer deposits.

Financial Ratios

FY to Dec	2018	2019	2020	2021	2022
Profitability Ratios					
Interest yield on loans (%)	13.13	12.68	12.23	11.49	11.14
Interest yield on deposits (%)	0.30	0.19	0.08	0.17	0.35
Interest yield on earning assets (%)	9.18	8.99	8.78	8.48	8.35
Net interest margin (%)	6.08	6.07	6.21	5.93	5.60
Return on asset (%)	2.18	2.04	2.22	2.31	2.15
Return on equity (%)	15.02	13.30	13.78	14.53	14.42
Return on invested capital (%)	9.99	9.93	10.31	10.65	10.38
Cost of Funding					
Cost of borrowings (%)	7.0	7.6	6.2	5.4	5.9
Cost of sub-debt (%)	8.8	6.9	7.9	7.2	7.2
Cost of deposits (%)	2.4	2.3	2.3	2.5	2.7
Cost of funds (%)	3.4	3.2	2.9	2.9	3.1
Asset Quality Ratios					
NPL ratio (x)	1.9	1.2	2.3	2.3	2.9
Doubtful loan ratio (x)	0.4	0.2	1.1	0.7	0.5
Loss loan ratio (x)	1.2	0.8	0.5	1.1	1.8
Write-off ratio (x)	0.56	0.62	0.41	0.21	0.14
Provision expense ratio (x)	0.03	0.60	0.50	0.28	0.34



Liquidity Ratios

Liquid assets-to-total assets ratio (%)	33.5	34.4	28.6	28.6	26.4
Liquid assets-to-CASA deposits ratio (%)	88.8	88.2	73.6	75.2	77.3
Liquidity Coverage Ratio* (%)	156.07	167.27	149.31	155.65	154.96

Leverage and Capital Adequacy Ratios

Total liabilities-to-total equity ratio (%)	566.4	540.3	501.3	551.9	585.9
Tier 1 capital ratio* (%)	23.1	23.6	22.1	19.8	16.5
Tier 2 capital ratio* (%)	0.5	2.7	3.1	2.5	2.8
Solvency ratio* (%)	23.6	26.3	25.2	22.4	19.3

Operational Efficiency Ratios

Loan per staff (USD)	267,041	284,106	328,856	397,000	472,806
Operating expense per staff (USD)	15,140	15,775	16,486	17,808	19,847
Operating expense-to-GLP ratio (%)	6.1	5.7	5.4	4.9	4.5

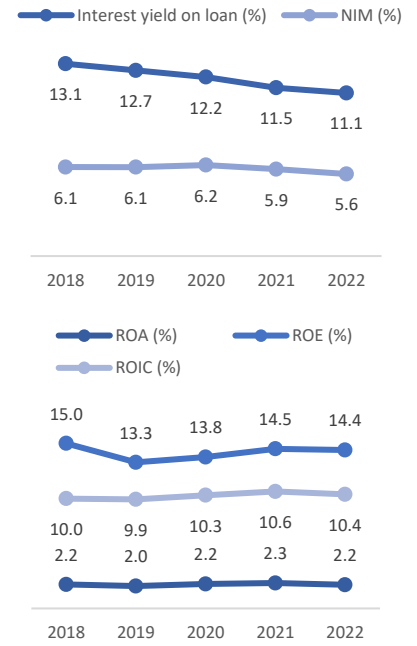
Per-share Ratios

BPS (KHR)	8,670	9,165	10,175	11,277	12,490
EPS (KHR)	1,213	1,149	1,321	1,570	1,732
DPS (KHR)	86	311	399	549	686

Valuation Ratios

Share Price at year end (KHR)	n/a	n/a	17,100	10,520	10,820
P/BV (x)	n/a	n/a	1.68	0.93	0.87
P/E (x)	n/a	n/a	12.94	6.70	6.25
Earning yield (%)	n/a	n/a	7.73	14.92	16.01
Dividend yield (%)	n/a	n/a	2.33	5.22	6.34

Note: *Standalone figure for ABC Bank
Source: The Company, YSC Research

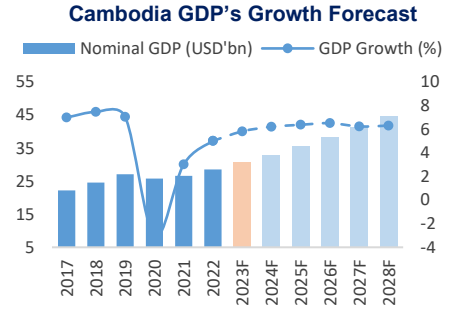
Profitability Ratios


Economy and Industry Overview

1. Cambodia's Economy

Cambodia expected to have 2nd highest average growth in ASEAN from 2023-2028

With the distribution of vaccinations and the prompt action to open the economic activities, Cambodia has performed very well in recovering from pandemic-driven economic contraction in 2020. The reopening of the economy combined with the growth of external demand has boosted the strong growth of major sectors such as manufacturing and tourism, while the construction and real estate sectors on the other hand continue to grow but at a slower pace. 2023 is expected to see growth accelerate to over 5.5% (ADB: April 2023; IMF: April 2023) with the average inflation rate decreasing to about 3.0% from over 5% in 2022, thanks to a more robust tourism recovery and growth in the services sector. In the medium term, the IMF projected Cambodia's average growth to be 6.24% over 2023-2028, which is the 2nd highest growth forecast in ASEAN.

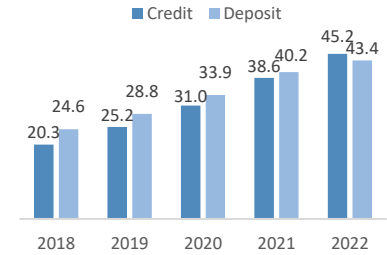


Source: IMF

Robust FDI inflows into financial sector

Despite the pandemic and global economic uncertainty, FDI inflows into Cambodia have remained strong, amounting to more than 12% of the country's GDP in 2021 and 2022. Investor trust in Cambodia's stable political and commercial environment is believed to be one important factor of the significant FDI inflows. FDI inflows increased by 2.7% to USD 3.58 bn in 2022. Interestingly, about 37% of all FDI inflows in 2021 went to the financial sector, indicating that foreign investors' interest and confidence in Cambodia's vibrant banking and finance industry.

Banking Credit and Deposit (USD'bn)



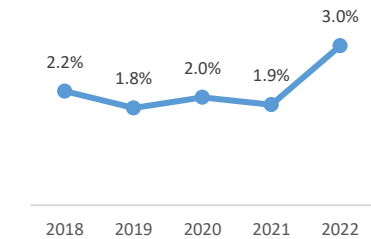
Source: NBC

2. Banking Sector in Cambodia

Fragmented industry with many participants

The banking system in Cambodia is characterized as a fragmented industry with numerous players. According to NBC, as of 2022, there are 59 commercial banks, 9 specialized banks, 5 deposit-taking microfinance, 82 non-deposit-taking microfinance, 82 rural credit institutions, 16 financial leasing companies, five third-party processor, 34 payment service providers, one credit information, six representative of foreign banks, and 2,869 money exchange agents. Banks' assets make up 85.2% of total assets in the banking system followed by microfinance, 14.2%.

Banking NPL Ratio

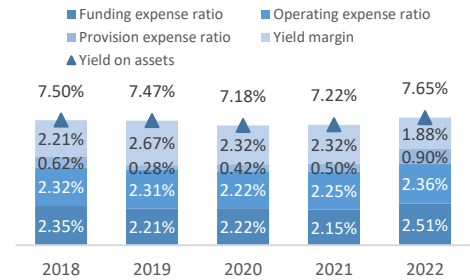


Source: NBC, YSC Research

Rising interest rates and NPL ratios put a brake on high growth

The banking sector in Cambodia has grown rapidly. Total credit has more than doubled from USD 20.3 bn in 2018 to USD 45.2 bn in 2022, while the total deposits have increased at a CAGR of 12.1% over the past five years. The entrance of a new foreign bank into the market, the digitization of banking products, and the regulatory interest rate cap established by NBC have allowed customers to acquire banking products more easily and at a cheaper cost, thereby promoting financial inclusion. However, due to the effects of the high interest rate environment and the increase in NPL ratio, the credit and deposit growth decelerated in 2022, contracting by 7.5% YoY and 10.4% YoY, respectively.

Breakdown of Yield on Assets for Bank

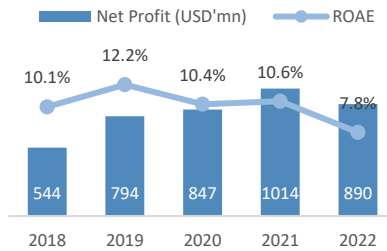


Source: NBC, YSC Research

NPL ratio remains low for five years, but increases in 2022

Over the past five years, the industry NPL ratio has remained at a level of less than 3%. In order to partially lessen the burden on COVID-19 afflicted customers, the NBC has implemented several crucial steps including loan restructuring and encouraging fees/charges grace/waiver. However, after June 2022, when the loan restructuring period came to an end, the banking NPL ratio has increased to 3.0% as restructured loans materialized into NPL.

Banking Profitability



Source: NBC, YSC Research

Rising funding costs and provision expenses hits Bank yield margin in 2022

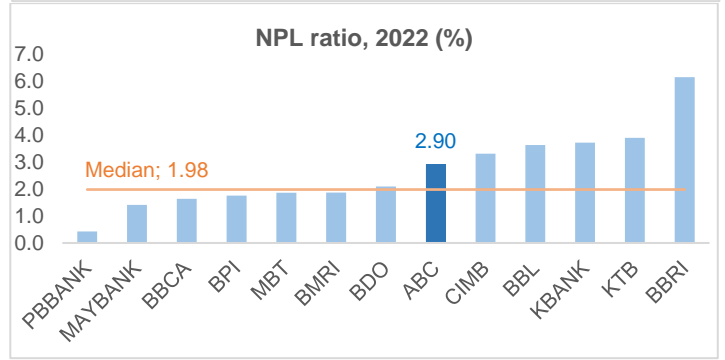
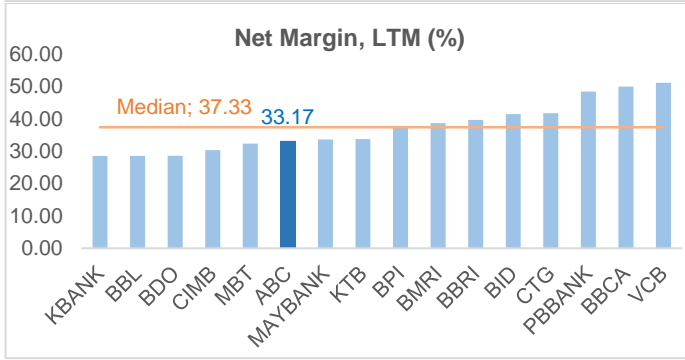
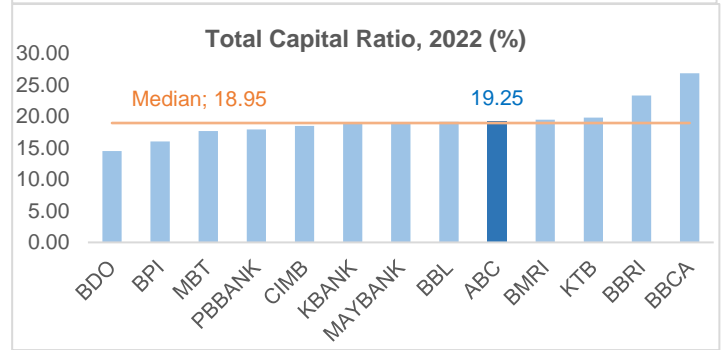
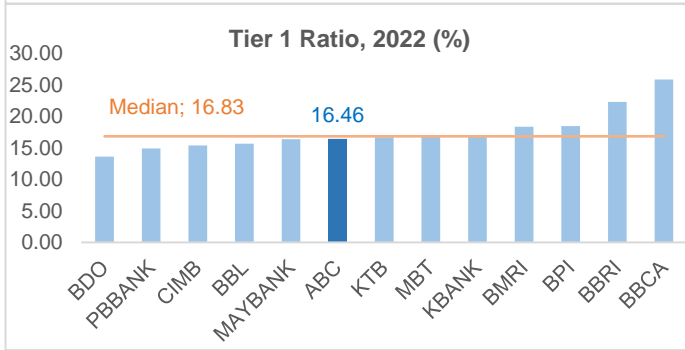
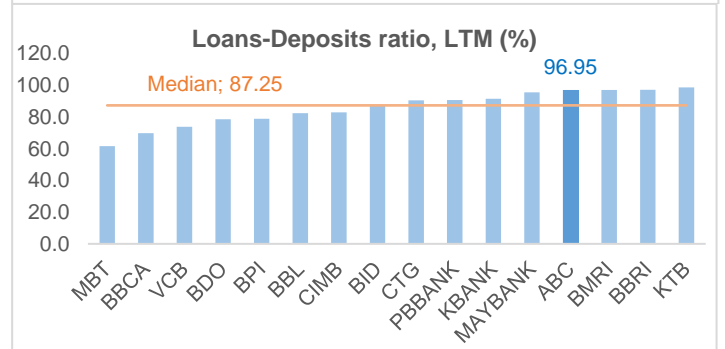
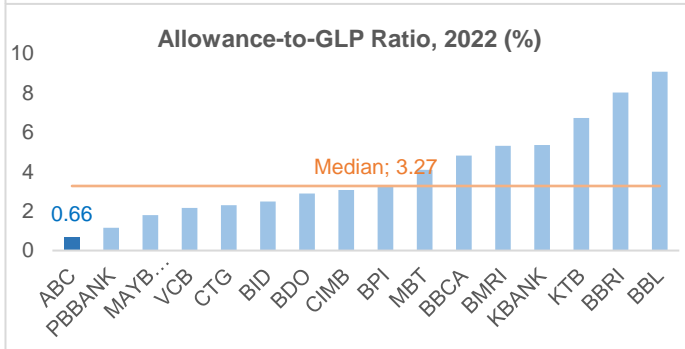
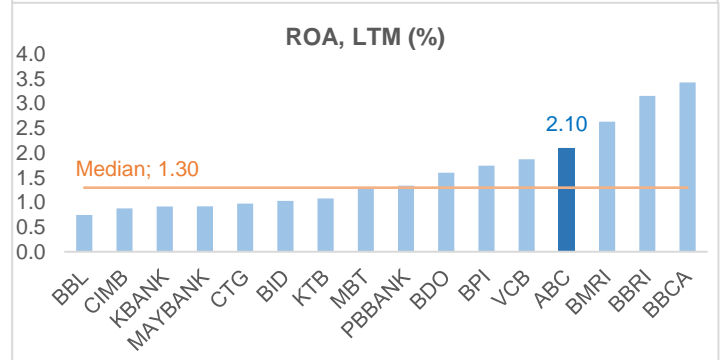
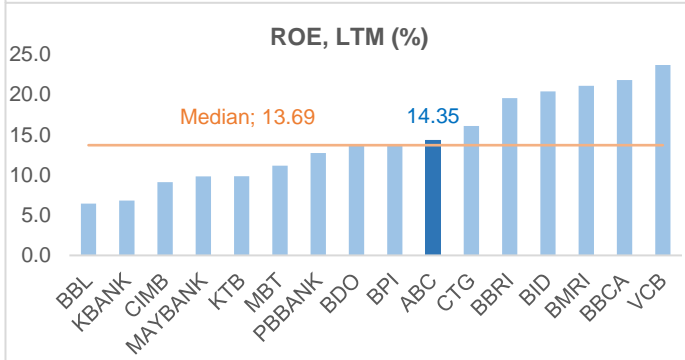
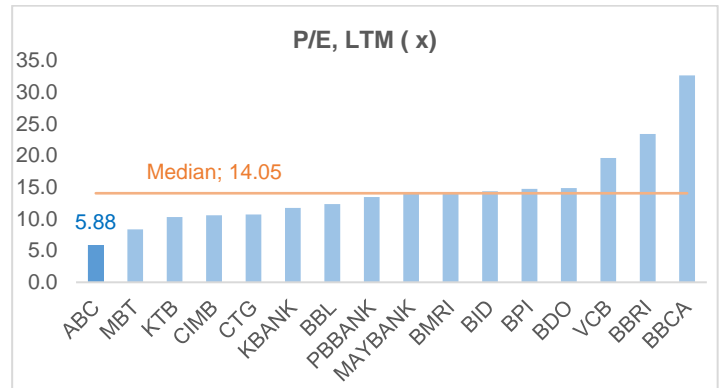
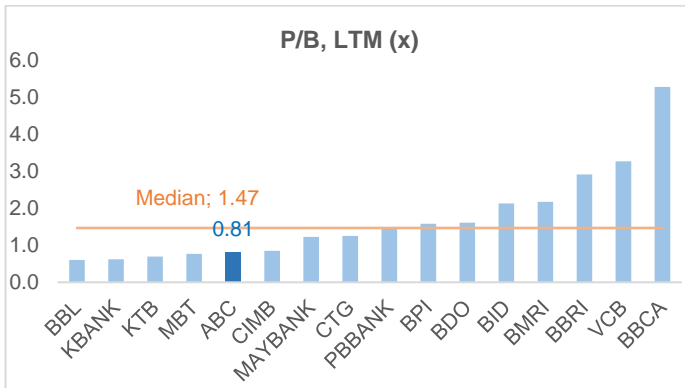
The bank's average asset yield had decreased gradually from 7.50% in 2018 to 7.22% in 2021. However, in 2022, it increased to 7.65%, likely as the result of rising lending interest rates. Despite the increase in overall yield, yield margin shrank to 1.88%, down from 2.32% in 2020 and 2021 as funding costs increased from 2.15% in 2021 to 2.51% in 2022, while provision expense ratio nearly doubled in 2022 from 2021.

Aggregate profitability falls in 2022 for first time since at least 2018

Over 2018-2021, the banking industry's profitability had been rising steadily. Due to continued improvements in operational efficiency and declining finance costs, ROAE averaged 10.8% prior to 2022. However, as a result of higher funding costs and increased loan loss provisions brought on by an increase in non-performing loans, the banking industry experienced a reduction in overall net profit in 2022 with a dip of 12.2% YoY, while ROAE decreased by 2.8%pt to 7.8% in 2022 from 10.6% in 2021.

Note: All data in the section "Economy and Industry Overview" are of bank only including commercial bank and specialized bank.

ASEAN Peers Comparison



Note: All figures are trailing-twelve-month figures obtained from S&P Capital IQ Pro; Share price as of June 26, 2023; ABC's price data is as of June 26, 2023
Source: S&P Capital IQ Pro, YSC Research

Peer Companies Information

No	Stock Symbol	Company Name	Stock Exchange	Country
1	BBL	Bangkok Bank PCL	SET	Thailand
2	BPI	Bank of the Philippine Islands	PSE	Philippine
3	BDO	BDO Unibank Inc	PSE	Philippine
4	CIMB	CIMB Group Holdings Bhd	KLSE	Malaysia
5	VCB	Commercial Bank for Foreign Trade of Vietnam	HOSE	Vietnam
6	BID	Commercial Bank for Investment and Development of Vietnam	HOSE	Vietnam
7	KBANK	Kasikorn Bank	SET	Thailand
8	KTB	Krung Thai Bank	SET	Thailand
9	MAYBANK	Malayan Banking Bhd	KLSE	Malaysia
10	MBT	Metropolitan Bank and Trust Company	PSE	Philippine
11	BBCA	Bank Central Asia Tbk PT	IDX	Indonesia
12	BMRI	Bank Mandiri (Persero) Tbk PT	IDX	Indonesia
13	BBRI	Bank Rakyat Indonesia (Persero) Tbk PT	IDX	Indonesia
14	PBBANK	Public Bank Berhad	KLSE	Malaysia
15	CTG	Commercial Bank for Industry and Trade	HOSE	Vietnam

Condensed Financial Statements

Statement of Comprehensive Income				
FY to Dec (USD'mn)	2019	2020	2021	2022
Interest income	483.5	515.1	573.8	670.8
Interest expense	(156.9)	(150.8)	(172.4)	(220.8)
Net interest income	326.7	364.3	401.4	449.9
Fee and commission income	48.7	45.8	42.9	47.5
Fee and commission expense	(1.0)	(1.7)	(2.7)	(4.6)
Net fee and commission income	47.7	44.0	40.3	42.9
Net impairment losses	(23.3)	(20.7)	(13.4)	(20.6)
Net income after allowance for impairment	351.1	387.6	428.3	472.2
Other income	17.8	18.4	20.0	25.6
General and administrative expenses	(215.4)	(225.9)	(243.5)	(269.6)
Profit before income tax	153.5	180.0	204.8	228.3
Income tax expense	(32.7)	(38.5)	(38.1)	(46.5)
Net profit of the period	120.9	141.5	166.7	181.8
Other comprehensive income for the year	0.0	0.2	(4.6)	(11.5)
Comprehensive income	120.9	141.7	162.0	170.3

Statement of Cash Flow				
FY to Dec (USD'mn)	2019	2020	2021	2022
Operating cash flow				
Profit before tax	153.5	180.0	204.8	228.3
Depreciation & amortization	35.4	35.5	35.5	36.9
Change in working capital	175.0	(171.6)	107.8	(395.6)
Others	(28.8)	(62.2)	0.1	467.1
Investing cash flow				
Net CAPEX	(16.5)	(27.0)	(34.1)	(24.9)
ST investment	22.9	(1.4)	(124.1)	-
Others	-	-	1.0	3.1
Financing cash flow				
Net change in share capital	-	16.1	-	-
Net change in debt	(163.5)	5.3	65.0	325.5
Cash dividend	(8.4)	(32.7)	(42.5)	(58.4)
Others	(11.3)	(12.3)	(55.8)	(75.6)
Net change in cash & equivalent				
Beginning cash & equivalent	1,305.7	1,498.7	1,497.1	1,803.2
Ending cash & equivalent	1,498.7	1,497.1	1,803.2	1,748.4

Statement of Financial Position				
FY to Dec (USD'mn)	2019	2020	2021	2022
Cash & statutory deposits	948.4	1,008.9	773.1	865.8
Deposits and placements with other banks, net	337.7	587.7	534.7	577.1
<i>Deposits and placements with other banks, gross</i>	337.8	588.3	535.2	577.6
<i>ECL allowance</i>	(0.1)	(0.6)	(0.6)	(0.5)
Financial instruments	619.9	527.5	566.7	801.1
Loans and advances, net	3,594.4	3,846.0	4,471.3	5,394.0
<i>Loans and advances, gross</i>	3,628.5	3,879.5	4,506.6	5,428.6
<i>ECL allowance</i>	(33.9)	(33.2)	(35.3)	(34.6)
Fixed assets	137.9	163.7	157.1	167.8
Intangible assets	11.2	9.0	14.7	12.3
Other current assets	34.1	32.3	34.0	37.2
Total assets	5,683.6	6,175.2	6,551.5	7,855.3
CASA & margin deposits	-	-	-	-
Fixed deposits	395.2	428.8	433.2	433.2
Borrowings	-	-	11.7	11.7
Sub-debt	457.6	535.6	644.8	760.2
Other liabilities	852.8	964.5	1,089.6	1,205.0
Total liabilities	2,163.0	2,424.0	2,559.1	2,998.0
Share capital	1,701.5	1,943.9	2,052.2	2,718.0
Capital reserves	790.3	565.0	542.4	608.5
Retained earnings	77.5	139.3	167.2	156.5
Total equity	98.5	138.5	141.0	169.2
Total liabilities and equity	4,830.7	5,210.7	5,461.9	6,650.2

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