

5 OCTOBER 2021

Thailand Banks

The tide is turning

Will the recent valuation re-rating of the banking sector continue?

In Sep-21, the banking sector significantly outperformed the SET index and finance sector. We are convinced that the banking sector's valuation should continue to re-rate, supported by three factors. Most recently and importantly, we believe that SCB's reimagining favours the banking sector overall in terms of encouraging its peers to break out of the traditional framework to generate a higher ROE and narrow the number of competitors, leaving only commercial banks and major non-banks to compete with each other. Second, banks should be one of the greatest beneficiaries of the country reopening theme. Lastly, we believe that the Bank of Thailand (BoT)'s recent guidance on comprehensive long-term debt restructuring (CDR) will minimise the risk of poor asset quality. We believe that the banking sector's valuation could gradually re-rate to at least its max P/BV rally level in Oct-20 to Apr-21 at 0.7x 2022E P/BV.

What are the key factors to be monitored?

Due to the more favourable medium to long-term growth trajectory, we believe that investors should pay less attention to the weak aggregate 3Q21E net profit of THB29.9b (+30% y-y, -16% q-q) for the banks under our coverage. We think there are two other essential factors to watch out for: 1) the CDR, which might make some noise for banks' share prices in the short term but could provide a brighter outlook in the long run; and 2) the potential transformation of the rest of the banks. We prefer banks that reform and expand their businesses via asset-light and digitally oriented strategies (vs asset heavy), as we believe that these would consume less capital and could shorten payback periods for shareholders. We have conducted a banking framework spectrum analysis of long-term competitiveness and found that KBANK and SCB are ahead of the pack, while BBL and KTB are behind.

What should investors do?

We reiterate our recommendation to gradually re-accumulate banks ahead of the expected recovery next year. SCB remains one of our top picks. We replace TISCO with KBANK as our other top pick and believe that it will deliver strong growth in 2022. We also think that KBANK is the most likely candidate to transform itself after SCB. Assessing KBANK's hidden value through the lens of SCB, we have come up with an accretion value, if KBANK reforms itself, of at least THB20.3/shr. We reiterate our BUY call on KKP, TTB and TISCO. We downgrade BBL to HOLD due to its traditional and much too conservative framework, in our view. KTB remains our least preferred bank.



Yuvanart Suwanumphai

yuvanart.suw@fssia.com
+66 2611 3554

Investment thesis

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Catalysts

- 1) The effectiveness of government stimulus and on-going investment to affect the private sector and domestic consumption;
- 2) A comprehensive debt restructuring program and recovery of asset quality;
- 3) 3) Great transformations.

Risks to our call

- 1) The higher-than-expected deterioration of assets;
- 2) Greater policy rate cuts;
- 3) Changes in financial regulations from the Bank of Thailand.

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Company reports

Bangkok Bank	(BBL TB, HOLD, TP THB128)
Kasikornbank	(KBANK TB, BUY, TP THB168)
Kiatnakin Bank	(KKP TB, BUY, TP THB68)
Krung Thai Bank	(KTB TB, HOLD, TP THB12.20)
Siam Commercial Bank	(SCB TB, BUY, TP THB158)
Tisco Financial	(TISCO TB, BUY, TP THB110)
TMBThanachart Bank	(TTB TB, BUY, TP THB1.4)

Thailand banks under coverage

Company	BBG code	Share price	Rating		Target Price			
			Current	Previous	Current	Previous	Change	Up/downside
Bangkok Bank	BBL TB	116.50	HOLD	BUY	128.00	146.00	-12.33%	+9.9%
Kasikornbank	KBANK TB	137.00	BUY	Unchanged	168.00	150.00	+12.00%	+22.6%
Kiatnakin Bank	KKP TB	55.25	BUY	Unchanged	68.00	65.00	+4.62%	+23.1%
Krung Thai Bank	KTB TB	11.10	HOLD	Unchanged	12.20	12.70	-3.94%	+9.9%
Siam Commercial Bank	SCB TB	124.00	BUY	Unchanged	158.00	Unchanged	-	+27.4%
Tisco Financial	TISCO TB	92.25	BUY	Unchanged	110.00	122.00	-9.84%	+19.2%
TMBThanachart	TTB TB	1.12	BUY	Unchanged	1.40	Unchanged	-	+25.0%

Note: Priced at close of business 04/10/2021. Share prices and TPs are in listing currency.
Sources: FSSIA estimates

Event Calendar

Date	Event
14-21 Oct 21	3Q21 results announcement

Banking framework spectrum

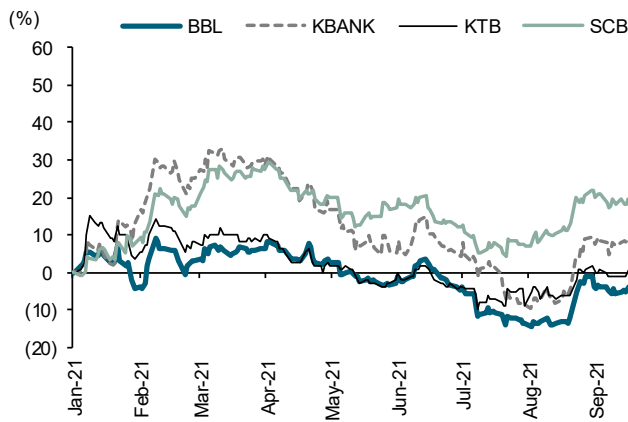


Source: FSSIA estimates

Will the recent valuation re-rating continue?

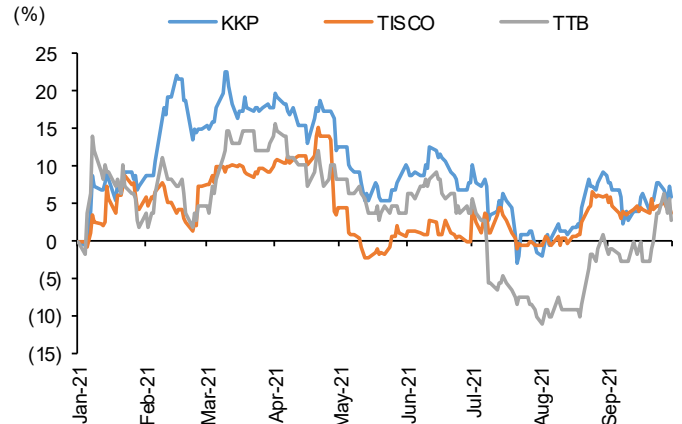
In Sep-21, the banking sector significantly outperformed the SET index and finance sector at +5.8% m-m vs -2% and -11.8%, respectively. We are convinced that the banking sector's valuation should continue to re-rate, supported by three factors.

Exhibit 1: Big banks' price performance index in 2021



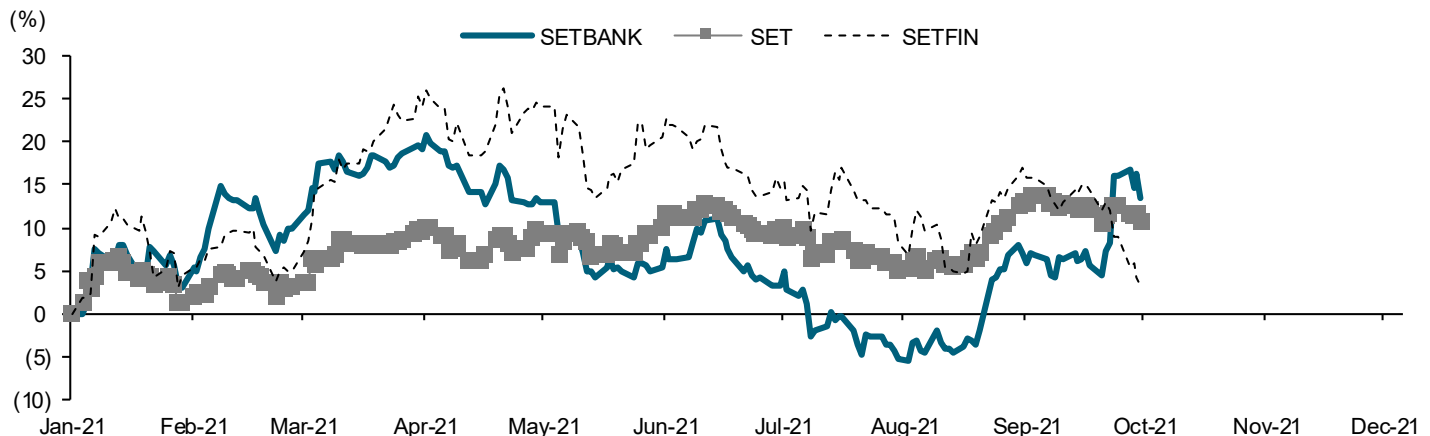
Note: We used 1 Jan-21 as the starting point to construct the index
Sources: Bloomberg; FSSIA's compilation

Exhibit 2: Auto lenders' price performance index in 2021



Note: We used 1 Jan-21 as the starting point to construct the index
Sources: Bloomberg; FSSIA's compilation

Exhibit 3: SET index, SETBANK, and SETFINANCE's performance in 2021



Note: We used 1 Jan-21 as the starting point to construct the index
Sources: Bloomberg; FSSIA's compilation

1) SCB's big move should narrow the number of competitors

Most recently and importantly, we believe that SCB's big move will not only benefit itself in terms of unlocking its long-term growth and valuation, but also favour the banking sector overall. Within the traditional banking framework, we think that the banking sector's bottom-line growth and ROE would be stuck in the mid to high single-digits. We think SCB's adaptation to the digital world could encourage its peers to break out of their own frameworks. We believe that the expansion of SCB into the untapped high risk-reward lending market and digital platform and technology services could ward off players like non-bank lending operators and fintech companies from vying for market share in the banking sector. SCB's move could narrow the number of competitors, leaving only commercial banks and major non-banks to compete with each other.

Exhibit 4: Competitors – there are a few commercial banks

Example of commercial banks	Focus segment
BAY	Retail - auto, housing
BBL	Corporate
KBANK	SME and retail - housing, unsecured
KKP	Retail - auto
KTB	Government and retail - officer
TISCO	Retail - auto
TTB	Retail - auto

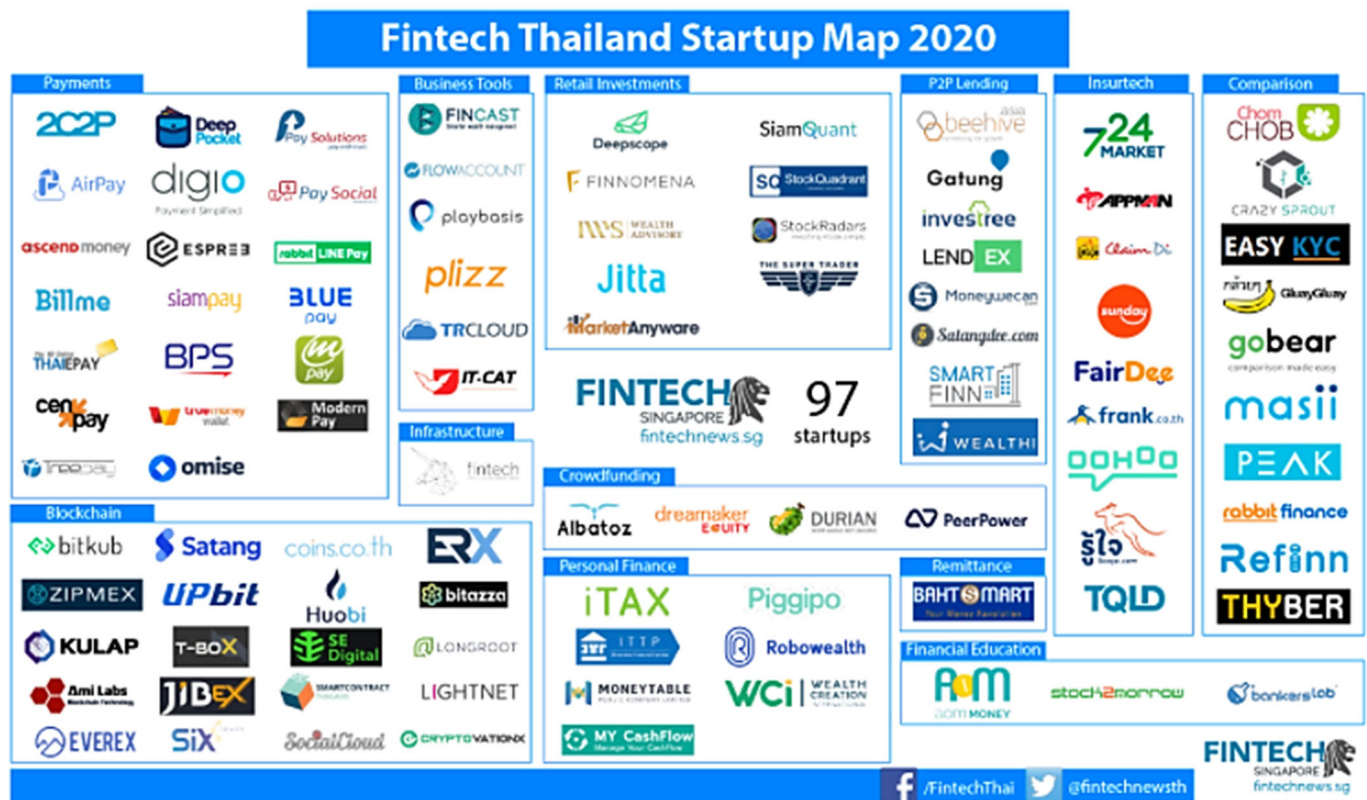
Source: FSSIA's compilation

Exhibit 5: Competitors – there are a lot more non-banks

Example of non-banks	Focus segment
Unsecured loans	
AEONTS	Card, p-loans
KTC	Card, p-loans
Secured loans	
MTC	Auto title - motorcycle and car
SAWAD	Auto title - motorcycle and car
SAK	Auto title - car
TIDLOR	Auto title - car and truck
SINGER	Auto title - truck
MICRO	Hire purchase - truck
THANI	Hire purchase - truck
NCAP	Hire purchase - motorcycle
S11	Hire purchase - motorcycle
TK	Hire purchase - motorcycle

Source: FSSIA's compilation

Exhibit 6: Competitors – there are a huge amount of fintech startups



Source: FinTechThai

2) Country's re-opening and the economic recovery

Second, the number of vaccinations has accelerated continuously. We believe the market will turn its attention to the country reopening theme again. We believe that a higher number of vaccinated people could limit strict preventive measures such as a national lockdown. The fewer of these measures that are implemented, the lower the impact on Thai people's cash flow and their ability to repay debts would be. Eventually, this should limit the downside risk of an increase in banks' credit cost.

Moreover, according to BNP Paribas' forecasts, Thailand's GDP is likely to bottom out in 3Q21, with GDP shrinking by 2.0% y-y in 3Q21 and rebounding by 1.3% y-y in 4Q21.

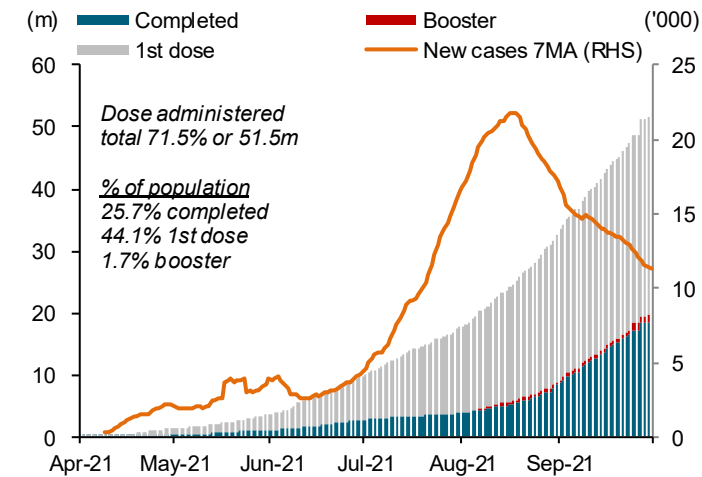
This leads us to believe that banks should be one of the greatest beneficiaries of the country reopening theme and the eventual economic recovery.

Exhibit 7: Easing Covid-19 restrictions from the Covid-19 Situation Administration (CCSA)

Effective date	Province - location	Easing measures and pre-requisites
1 Oct 21	The 29 provinces declared dark-red zones of maximum and strict disease control	<p>Shorter night curfews in dark-red zones by one hour from 10pm to 4am, from 9pm to 4pm previously.</p> <p>Reopen beauty salons, beauty clinics, massage and spa parlours and movie theatres and permit music performances at restaurants.</p> <p>Reopen nurseries, libraries, museums, learning centres and manicure and tattoo shops.</p> <p>Reopen closed stadiums until 9pm, competitions can be organised, but without spectators. Open-air stadiums can allow spectators to a maximum 25% of seating capacity.</p> <p>Shorten quarantine periods from 14 days to seven days for fully vaccinated foreign tourists, otherwise 10 days for arrivals by air and water and 14 days by land. Activities are allowed at quarantine facilities.</p> <p>Extend the Emergency Decree to Nov 30.</p>
1 Oct 21	Surat Thani - Koh Samui, Koh Phangan and Koh Tao Phangnga - Khao Lak and Koh Yao in Krabi - Koh Phi Phi, Koh Ngai, Railay, Khlong Muang & Thap Khaek	<p>70% vaccination coverage for populations in those areas.</p> <p>Quarantine period for vaccinated travellers is 7 days, instead of 14, those without have to go through 10-14 days' quarantine.</p>
1 Nov 21	Bangkok Krabi Phangnga Prachuap Khiri Khan - Hua Hin and Nong Kae areas Phetchaburi - Cha-am Chon Buri - Pattaya, Bang Lamung, Jomtien and Bang Sare Ranong - Koh Phayam Chiang Mai - Mae Rim, Mae Taeng, Muang and Doi Tao Loei - Chiang Khan Buri Ram - Muang	<p>Extend reopening the rest from 1 Oct 2021.</p> <p>Business operators must adopt Covid-free setting measures, ensure safety including strict social distancing, proper air ventilation, good hygiene, and Covid-19 screenings for staff members and full vaccinations for employees.</p>

Source: [Bangkok Post dated 27 Sep 2021](#)

Exhibit 8: The continued increase in vaccination rates



Sources: Worldometers; Ministry of Higher Education, Science, Research and Innovation (MHESI)

Exhibit 9: BNP Paribas' GDP forecasts

	Annual growth (% y/y)			Quarterly growth (% q/q)							
	2021	2022	2023	2021				2022			
				Q1(1)	Q2(1)	Q3	Q4	Q1	Q2	Q3	Q4
EM Asia	5.2	8.3	5.3	1.2	-6.9	5.2	3.6	2.1	1.3	1.7	1.5
India (4)	7.0	11.2	6.2	1.2	-12.5	10.0	4.5	2.5	1.5	2.1	1.8
Indonesia	2.8	5.6	5.1	0.9	0.8	-2.0	3.5	1.7	1.2	1.5	1.3
Malaysia	4.1	5.6	4.9	2.7	-2.0	0.0	2.5	2.0	1.5	1.2	1.5
South Korea	3.9	3.0	2.5	1.7	0.8	0.4	1.0	0.8	0.8	0.7	0.5
Thailand	0.9	3.4	4.0	0.2	0.4	-2.0	1.3	1.6	1.2	1.3	0.8

Source: BNP Paribas - Global Outlook Q42021, published 7 September 2021

3) Comprehensive debt restructuring

Third, we believe that the BoT's recent guidance encouraging banks to provide CDR for their clients will benefit the banking sector overall, with KBANK having the most potential benefit as its portfolios are at the highest risk of deteriorating. The asset quality risk should be minimised as a result of the CDR. We think these measures will give an opportunity for both troubled debtors and banks to deal with the short-term impact.

Exhibit 10: Summary of BoT's guidance announced on 20 Aug 2021

New measures		Previous measures
1. Liquidity preservation and injection measures		
For SME clients		
1. New debtors	BoT raising credit lines up to THB50m.	Credit lines were up to THB20m.
2. Existing debtors	For credit lines not over 30% of outstanding loans (outstanding loans not over THB150m) or for clients who have outstanding loans of less than THB150m, they can borrow at a maximum of not over THB50m.	Credit lines not over 30% of outstanding loans (outstanding loans not over THB150m).
The BoT will also ease credit guarantee conditions to accept higher credit risk for both new and existing debtors		
For retail clients		
1. Credit card	BoT extended the 5% minimum repayment to 2022.	5% minimum repayment in 2020-21, 8% in 2022 and 10% (normal rate before Covid) in 2023.
2. Personal loans	BoT allows no limit for lenders to 2022.	Limited to 3 lenders.
3. Credit card and personal loans	BoT extending an increase in credit lines up to 2x income for THB30k income customers to 2022.	An increase in credit lines of up to 2x income for THB30k income customers ending in 2021.
4. Digital personal loans	BoT increasing credit lines up to THB40k and repayment terms to 12 months.	Credit lines of up to THB20k and repayment terms not over 6 months.
2. Comprehensive long-term debt restructuring (CDR)		
1. Relaxation of loan classification	An extension of the relaxation of loan classification and provision setting measure if financial institutions provide additional assistance to debtors in addition to extending the repayment period alone to Dec-23 from Dec-21 (note that to allow financial institutions to have sufficient time to consider appropriate long-term debt restructuring, the BoT temporally extended the relaxation of loan classifications to Mar-22).	Relaxation of loan classification will end in Dec-21.
2. FIDF fee	BoT extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.	FIDF fee is at 0.23% in 2020-21 and will be back to the normal rate of 0.46% in 2022.

Sources: BoT; FSSAI's compilation

The negative impact from offering CDR would be a reduction in loan yields, depending on the CDR program. However, we think that 1) the extension of the Financial Institutions Development Fund (FIDF) fee at 0.23% should mitigate the impact on bank's NII; and 2) in the medium to long term, banks should save on their provisioning setups.

Currently, most banks have still not provided any clues about their CDR plans, except for SCB which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

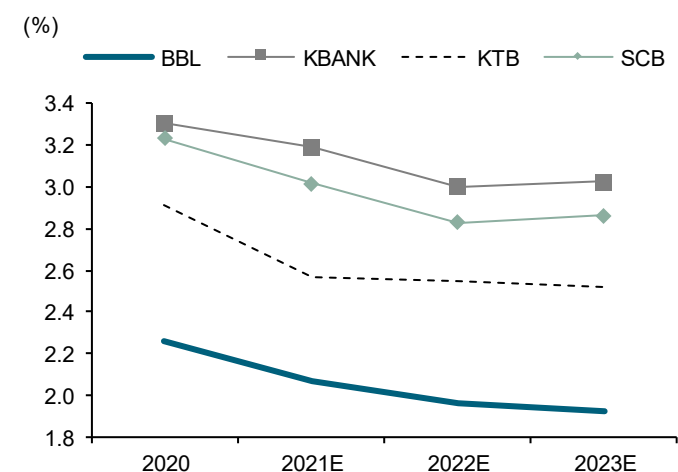
- 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
- Banks will likely offer CDR at 60% of their 2021 forbearance programs;
- Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
- The CDR effective interest rate (EIR) would be 50% lower than that of each bank's current level;
- Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 11: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

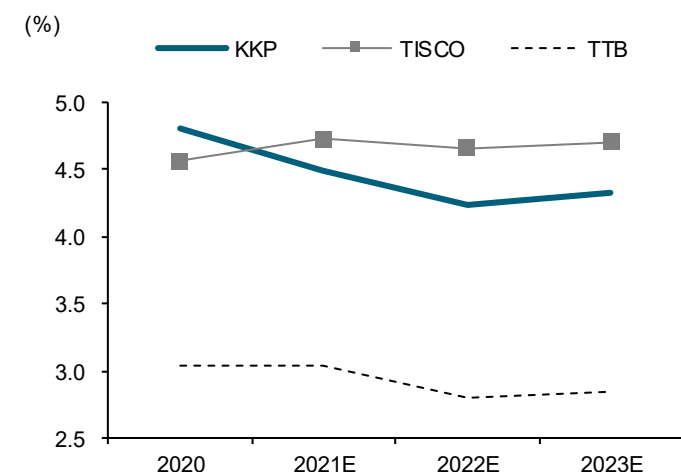
Sources: Company data; FSSIA estimates

Exhibit 12: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 13: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

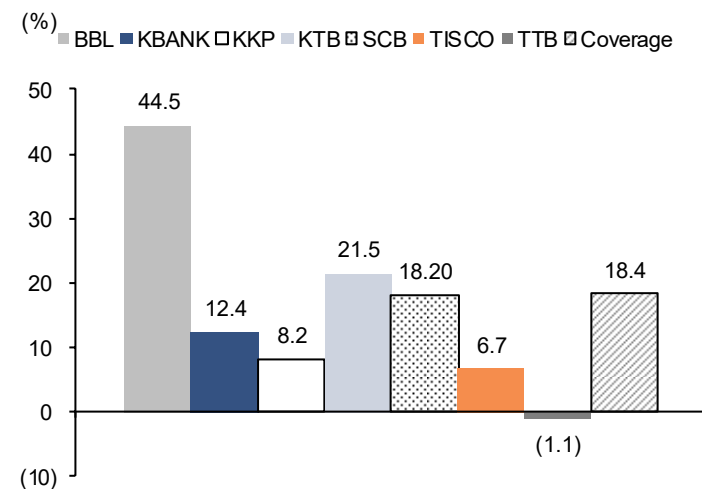
Exhibit 14: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

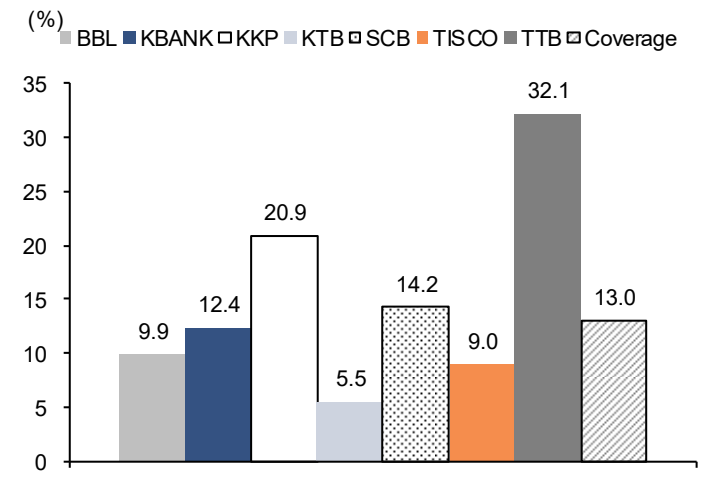
Sources: Company data; FSSIA estimates

We have determined that the pressure on loan yields would be in the range of 0.2-0.46%. KTB and BBL would be the least affected under our scenario, as most of their portfolios are comprised of the corporate and government segments. On the other hand, SCB would be the most impacted, as we expect that SCB will provide the most aggressive CDR to its clients. However, the negative impact on its loan yield should be totally offset by the lower FIDF fee (from 0.46% to 0.23%) and the resulting decline in its credit cost. We have also revised some of our other assumptions for the other banks. As a result, we revise up our 2021-23E net profit for the banking sector by 2.5%/1.6%/1.8%. We increase our 2022-23 estimates for KBANK the most, while cutting TISCO's the most.

After the revisions, we still expect solid double-digit earnings growth of 18%/13% in 2021/2022. We expect TTB to deliver the strongest net profit growth in 2022, while KTB would be the lowest.

Exhibit 15: 2021 net profit growth of banking sector

Source: FSSIA estimates

Exhibit 16: 2022 net profit growth of banking sector

Source: FSSIA estimates

Exhibit 17: Summary of earnings revisions for banks under coverage

	New			Previous			Change		
	2021E (THB m)	2022E (THB m)	2023E (THB m)	2021E (THB m)	2022E (THB m)	2023E (THB m)	2021E (%)	2022E (%)	2023E (%)
Net interest income									
BBL	78,373	78,424	78,329	78,373	77,745	80,175	0.0	0.9	(2.3)
KBANK	114,513	113,616	117,376	111,801	110,160	114,769	2.4	3.1	2.3
KKP	15,201	15,247	16,066	15,201	15,597	16,538	0.0	(2.2)	(2.9)
KTB	83,773	85,460	87,003	88,790	89,833	95,170	(5.7)	(4.9)	(8.6)
SCB	93,769	87,451	90,776	93,769	90,727	94,666	0.0	(3.6)	(4.1)
TISCO	12,548	12,031	12,437	12,487	12,632	13,313	0.5	(4.8)	(6.6)
TTB	51,885	47,419	49,039	51,885	48,998	51,453	0.0	(3.2)	(4.7)
Total	450,063	439,649	451,025	452,306	445,693	466,084	(0.5)	(1.4)	(3.2)
Non-interest income									
BBL	45,547	43,275	45,172	45,547	43,792	46,246	0.0	(1.2)	(2.3)
KBANK	45,847	50,357	53,646	45,847	50,357	53,646	0.0	0.0	0.0
KKP	7,509	7,600	7,792	7,509	7,185	7,369	0.0	5.8	5.7
KTB	33,700	35,539	37,157	35,339	36,663	38,349	(4.6)	(3.1)	(3.1)
SCB	49,839	51,760	55,905	49,839	51,760	55,905	0.0	0.0	0.0
TISCO	6,256	7,050	7,547	6,615	7,340	7,730	(5.4)	(4.0)	(2.4)
TTB	15,659	18,838	19,339	15,659	18,838	19,339	0.0	0.0	0.0
Total	204,357	214,418	226,558	206,355	215,935	228,585	(1.0)	(0.7)	(0.9)
PPOP									
BBL	59,321	56,689	57,734	59,321	56,865	59,745	0.0	(0.3)	(3.4)
KBANK	88,415	91,865	96,137	85,702	88,409	93,531	3.2	3.9	2.8
KKP	12,089	11,910	12,879	12,089	11,845	12,828	0.0	0.5	0.4
KTB	62,669	65,635	67,624	67,558	66,341	69,505	(7.2)	(1.1)	(2.7)
SCB	82,545	78,309	84,927	82,545	81,585	88,816	0.0	(4.0)	(4.4)
TISCO	10,517	10,652	11,523	10,814	11,354	12,194	(2.8)	(6.2)	(5.5)
TTB	36,308	36,519	38,643	36,308	38,097	41,057	0.0	(4.1)	(5.9)
Total	351,863	351,580	369,468	354,338	354,496	377,677	(0.7)	(0.8)	(2.2)
Expected credit loss (ECL)									
BBL	28,332	22,214	21,944	29,058	22,607	23,286	(2.5)	(1.7)	(5.8)
KBANK	41,821	39,392	38,777	41,659	41,541	42,335	0.4	(5.2)	(8.4)
KKP	5,327	3,534	3,401	4,968	3,828	3,710	7.2	(7.7)	(8.3)
KTB	33,791	35,283	34,875	40,239	35,351	36,411	(16.0)	(0.2)	(4.2)
SCB	43,035	33,171	33,266	43,035	36,725	36,962	0.0	(9.7)	(10.0)
TISCO	2,495	1,910	1,987	2,617	2,033	2,068	(4.7)	(6.1)	(3.9)
TTB	24,254	20,395	20,187	24,254	21,802	22,674	0.0	(6.5)	(11.0)
Total	179,054	155,898	154,436	185,831	163,887	167,446	(3.6)	(4.9)	(7.8)
Net profit									
BBL	24,827	27,281	28,321	24,245	27,445	29,030	2.4	(0.6)	(2.4)
KBANK	33,139	37,321	40,797	31,325	34,198	36,642	5.8	9.1	11.3
KKP	5,543	6,700	7,581	5,695	6,412	7,293	(2.7)	4.5	4.0
KTB	20,330	21,447	23,141	19,233	21,898	23,384	5.7	(2.1)	(1.0)
SCB	32,171	36,753	42,064	32,171	36,527	42,222	0.0	0.6	(0.4)
TISCO	6,471	7,052	7,693	6,613	7,519	8,169	(2.1)	(6.2)	(5.8)
TTB	10,002	13,217	15,129	10,002	13,358	15,070	0.0	(1.1)	0.4
Total	132,483	149,772	164,727	129,283	147,356	161,809	2.5	1.6	1.8

Source: FSSIA estimates

Exhibit 18: Summary of changes in key ratios for banks under coverage

	New			Previous			Change		
	2021E (%)	2022E (%)	2023E (%)	2021E (%)	2022E (%)	2023E (%)	2021E (bp)	2022E (bp)	2023E (bp)
NIM									
BBL	2.07	1.97	1.92	2.07	1.95	1.97	0.0	0.0	(0.0)
KBANK	3.19	3.00	3.02	3.12	2.97	3.02	0.1	0.0	0.0
KKP	4.50	4.24	4.33	4.50	4.34	4.47	0.0	(0.1)	(0.1)
KTB	2.57	2.55	2.52	2.72	2.68	2.75	(0.2)	(0.1)	(0.2)
SCB	3.01	2.83	2.86	3.01	2.93	2.98	0.0	(0.1)	(0.1)
TISCO	4.72	4.66	4.71	4.56	4.60	4.77	0.2	0.1	(0.1)
TTB	3.05	2.81	2.85	3.05	2.91	2.99	0.0	(0.1)	(0.1)
Cost to income									
BBL	52.1	53.4	53.3	52.1	53.2	52.7	0.0	0.2	0.5
KBANK	44.9	44.0	43.8	45.6	44.9	44.5	(0.8)	(0.9)	(0.7)
KKP	46.8	47.9	46.0	46.8	48.0	46.3	0.0	(0.1)	(0.3)
KTB	46.7	45.8	45.5	45.6	47.6	47.9	1.1	(1.8)	(2.4)
SCB	42.5	43.7	42.1	42.5	42.7	41.0	0.0	1.0	1.1
TISCO	44.1	44.2	42.3	43.4	43.2	42.1	0.7	1.0	0.3
TTB	46.2	44.9	43.5	46.2	43.8	42.0	0.0	1.0	1.5
ROA									
BBL	0.6	0.7	0.7	0.6	0.7	0.7	0.0	(0.0)	(0.0)
KBANK	0.9	0.9	1.0	0.8	0.9	0.9	0.0	0.1	0.1
KKP	1.5	1.7	1.9	1.5	1.6	1.8	(0.0)	0.1	0.1
KTB	0.6	0.6	0.7	0.6	0.6	0.7	0.0	(0.0)	(0.0)
SCB	1.0	1.1	1.3	1.0	1.1	1.3	0.0	0.0	(0.0)
TISCO	2.4	2.7	2.9	2.4	2.7	2.9	0.0	0.0	0.0
TTB	0.6	0.7	0.8	0.6	0.8	0.8	0.0	(0.0)	0.0
ROE									
BBL	5.5	5.8	5.8	5.4	5.9	6.0	0.1	(0.0)	(0.1)
KBANK	7.2	7.5	7.7	6.8	7.0	7.0	0.4	0.6	0.7
KKP	11.6	13.0	13.6	11.9	12.5	13.2	(0.3)	0.6	0.5
KTB	5.8	5.8	6.0	5.5	5.9	6.1	0.3	(0.1)	(0.1)
SCB	7.6	8.4	9.2	7.6	8.4	9.2	0.0	0.0	(0.0)
TISCO	16.1	16.7	17.4	16.4	17.6	18.1	(0.3)	(0.9)	(0.7)
TTB	4.8	6.1	6.7	4.8	6.2	6.7	0.0	(0.1)	0.0
Credit cost (bp)									
BBL	117	88	84	120	90	90	(3.0)	(2.0)	(6.0)
KBANK	180	160	150	180	170	165	0.0	(10.0)	(15.0)
KKP	193	120	110	180	130	120	13.0	(10.0)	(10.0)
KTB	140	140	135	170	145	145	(30.0)	(5.0)	(10.0)
SCB	188	140	135	188	155	150	0.0	(15.0)	(15.0)
TISCO	115	90	90	117	90	88	(2.0)	0.0	2.0
TTB	175	145	138	175	155	155	0.0	(10.0)	(17.0)
Loan growth									
BBL	4.5	4.0	3.0	4.5	3.0	3.0	0.0	1.0	0.0
KBANK	7.0	5.0	5.0	6.2	5.0	5.0	0.8	0.0	(0.0)
KKP	8.5	5.0	5.0	8.5	5.0	5.0	0.0	0.0	0.0
KTB	7.0	2.0	3.0	3.0	3.0	3.0	4.0	(1.0)	0.0
SCB	3.0	4.0	4.0	3.0	4.0	4.0	0.0	0.0	0.0
TISCO	(7.0)	3.0	5.0	(1.0)	3.0	5.0	(6.0)	0.0	0.0
TTB	(1.0)	4.0	4.0	(1.0)	4.0	4.0	0.0	0.0	0.0
NPL ratio									
BBL	4.27	4.23	4.35	4.56	4.34	4.09	(0.3)	(0.1)	0.3
KBANK	4.08	4.08	4.00	4.44	3.98	3.90	(0.4)	0.1	0.1
KKP	3.98	4.10	4.21	3.83	4.02	3.94	0.1	0.1	0.3
KTB	4.09	4.33	4.54	4.91	5.01	5.11	(0.8)	(0.7)	(0.6)
SCB	3.82	3.38	3.32	3.93	3.40	3.27	(0.1)	(0.0)	0.0
TISCO	3.01	2.92	2.92	2.78	2.70	2.70	0.2	0.2	0.2
TTB	2.95	2.98	3.10	3.28	3.16	3.25	(0.3)	(0.2)	(0.1)
Loan loss reserve/NPLs									
BBL	172	175	173	162	171	178	10.4	3.8	(4.6)
KBANK	131	129	126	122	122	124	9.8	6.7	2.1
KKP	148	151	151	150	153	163	(2.4)	(2.4)	(12.4)
KTB	136	137	138	123	128	133	12.9	9.5	4.9
SCB	136	145	138	132	147	147	3.7	(2.7)	(9.2)
TISCO	196	194	182	199	197	184	(3.5)	(3.3)	(2.2)
TTB	125	126	121	123	129	127	1.8	(3.8)	(6.2)

Source: FSSIA estimates

How far can the banking sector go?

In order to estimate how far the banking sector's valuation could re-rate, we have tracked the P/BV highs in three trading periods, including 1) the recent rally in Oct-20 to Apr-21; 2) the pre-Covid level in Dec-19; and 3) the three-year average P/BV (see Exhibit 19). We have found that most banks are trading in the range of the mean P/BV to max P/BV of the rally period, except for SCB whose valuation has accelerated beyond the max P/BV.

We believe that the banking sector's valuation could gradually re-rate to at least the max P/BV of the rally phase at 0.7x 2022E P/BV. Most of the banks' values are likely to move in the same direction as the banking sector.

We are convinced that KBANK has the highest probability to re-rate to its max P/BV during the rally phase at 0.73x P/BV, implying THB157/share. We think that after SCB's reimagining, KBANK is the most prepared bank to reform itself to effectively manage its capital and uplift its ROE. Assessing KBANK's hidden value through the lens of SCB, we have come up with an accretion value, if KBANK reforms itself, of at least THB20.3/shr.

BBL's valuation will likely move toward the mean P/BV of the rally phase, as it is sticking with the traditional banking framework, leading to less efficient capital management than its peers. We think SCB is likely to be the only bank whose valuation continues to rally above the pre-Covid level, driven by its great reforms.

Exhibit 19: Implied banks' share prices by using P/BV multiples of max and min P/BV during the last rally phase in 2020, pre-Covid level in Dec-19, and 3-year historical average

	----- Current -----		----- Rally phase in Oct-20 to Apr-21 -----						---- Pre-Covid in Dec-19 --		----- 3-year -----	
	Share price (THB)	P/BV (x)	Min P/BV (x)	Implied price (THB)	Mean P/BV (x)	Implied price (THB)	Max P/BV (x)	Implied price (THB)	Mean P/BV (x)	Implied price (THB)	Mean P/BV (x)	Implied price (THB)
BBL TB	116.50	0.47	0.39	99	0.47	118	0.55	138	0.68	170	0.69	173
KBANK TB	137.00	0.65	0.37	79	0.55	118	0.73	157	0.80	173	0.86	186
KKP TB	55.25	0.90	0.64	43	0.84	57	1.05	72	1.21	82	1.13	77
KTB TB	11.10	0.42	0.33	9	0.41	11	0.49	13	0.66	18	0.63	17
SCB TB	124.00	0.96	0.51	66	0.69	91	0.88	115	0.99	129	0.94	122
TISCO TB	92.25	1.73	1.24	70	1.59	89	1.94	109	1.98	111	1.74	98
TTB TB	1.12	0.50	0.37	0.85	0.47	1.07	0.56	1.28	0.70	1.60	0.58	1.34
SETBANK	386.92	0.66	0.44	260	0.57	340	0.70	420	0.81	482	0.80	478

Share prices as of 4 Oct 2021

Source: FSSIA estimates

CDR and transformations are key factors to monitor

Due to the more favourable medium to long-term growth trajectory, we believe that investors should pay less attention to the potentially weak 3Q21 earnings results. We think there are two other essential factors to watch out for: 1) the CDR; and 2) the potential transformation of the rest of the banks.

The negative side of CDR is the potentially lower loan yield. Thus, we think that CDR might make some noise for banks' share prices in the short to medium term. In the longer run, banks should enjoy a lower provision period.

SCB's transformation will likely encourage other banks to reform themselves. In our view, to generate higher growth, banks should break out from their old frameworks – asset-heavy and traditional banking strategies. We prefer banks that reform and expand their businesses via asset-light and digitally oriented strategies, as we believe that these would consume less capital and could shorten payback periods for shareholders.

We have conducted a banking framework spectrum analysis of long-term competitiveness and found that KBANK and SCB are ahead of the pack in terms of asset-light strategies and digital orientation. This leads us to believe that they should have higher long-term competitiveness than their peers. Meanwhile, we think BBL and KTB are behind their peers.

Exhibit 20: Banking framework spectrum



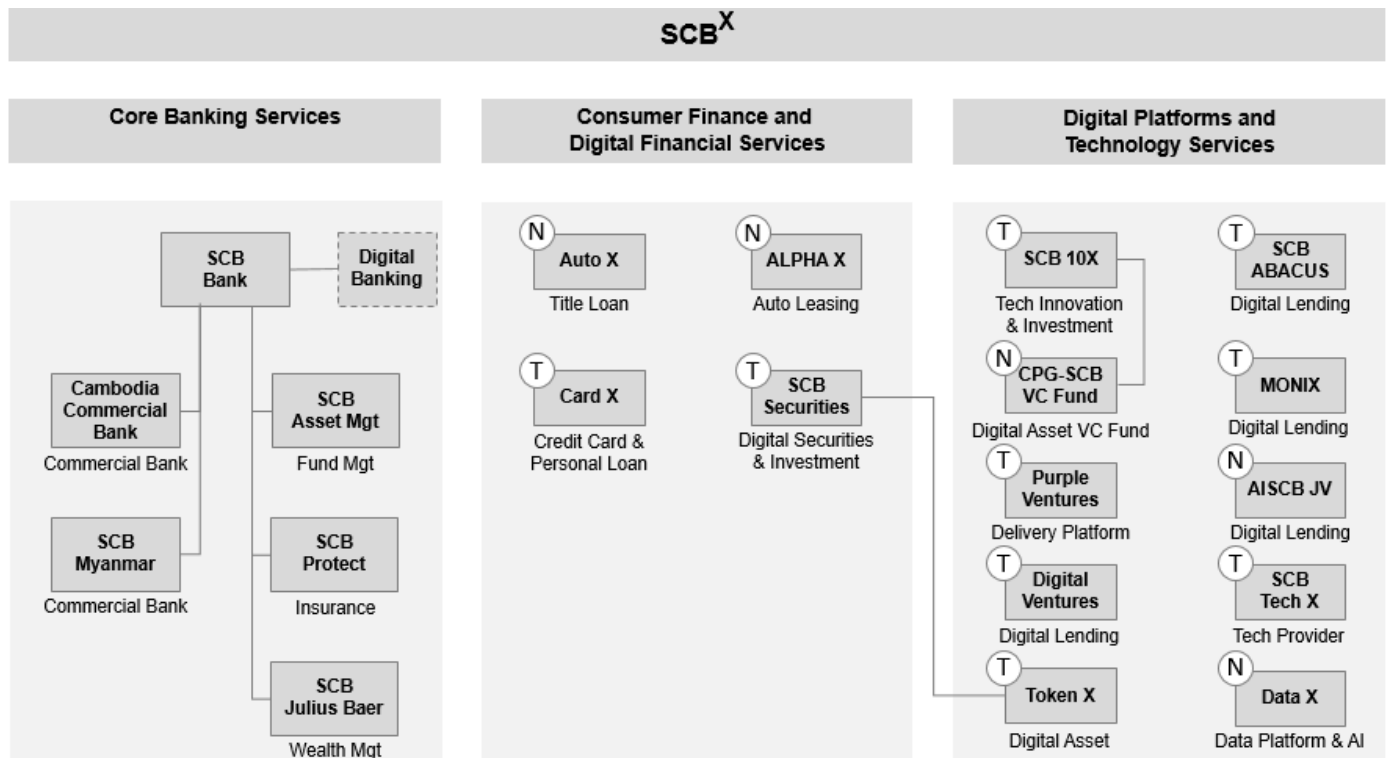
Source: FSSIA estimates

Exhibit 21: Comparing high and low risk-reward businesses of top three big banks

As of 2Q21	High risk-reward				Low risk-reward			
	BBL	KBANK	SCB		BBL	KBANK	SCB	
	----- (THB b) -----				----- (THB b) -----			
Current businesses	1. Cards and consumer lending	Has exposure but still minimal	206	140	1. Housing loans	315	423	686
	2. Auto title loans	nm.	Has exposure but still minimal	42	2. Hire purchase loans (car, machinery)	nm.	115	188
	3. SME loans	557	786	396	3. Corporate loans	968	834	845
					4. International loans	581		
	----- Exposure -----							
Potential businesses	1. Fintech startups, VC	Bualuang Ventures	Kasikorn X, Kasikorn Vision, Beacon Ventures	CPG-SCB				
	2. Digital assets	nm.	KUBIX	Token X				
	3. Data platform, Tech innovation	nm.	KBTG	SCB10X, Data X, Tech X				

Source: FSSIA estimates

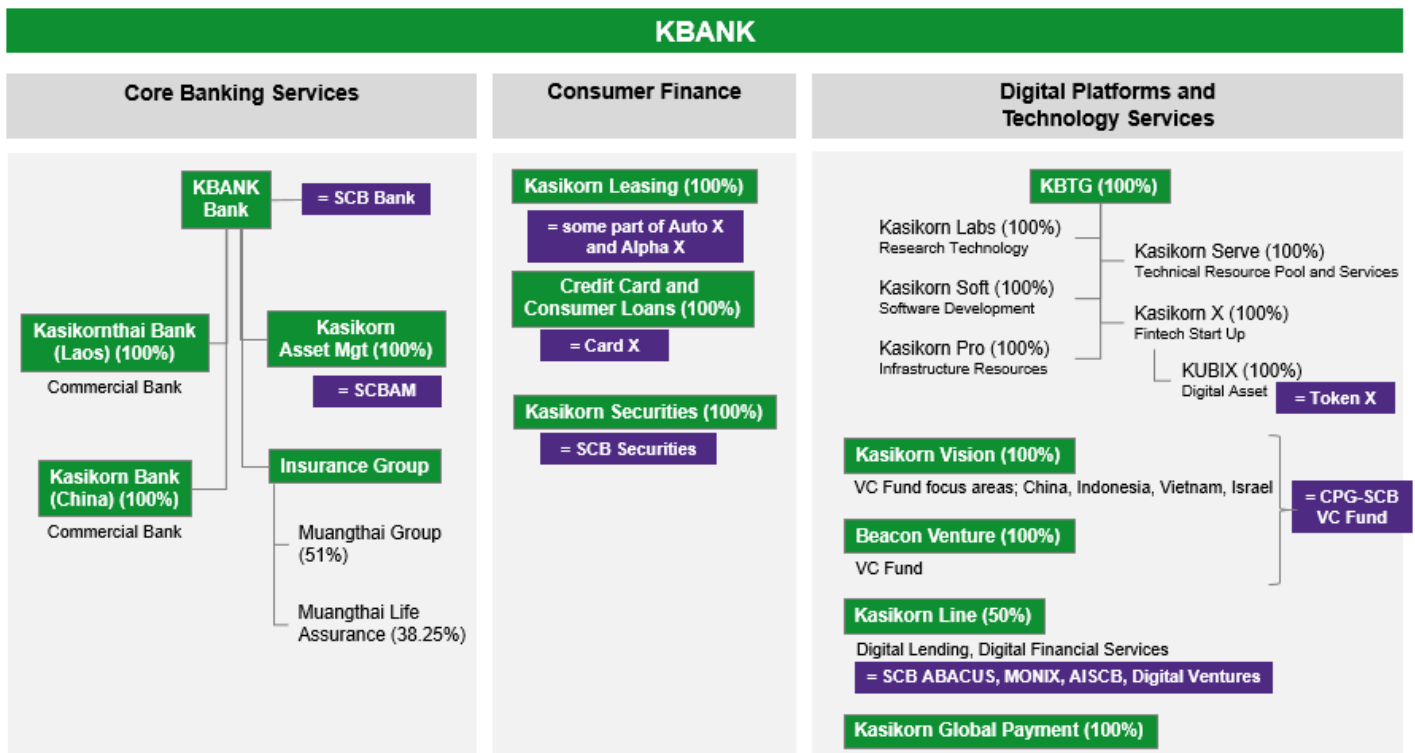
Exhibit 22: SCBX's structure



N = newly established company, T = transferred from SCB bank

Sources: SCB; FSSIA's compilation

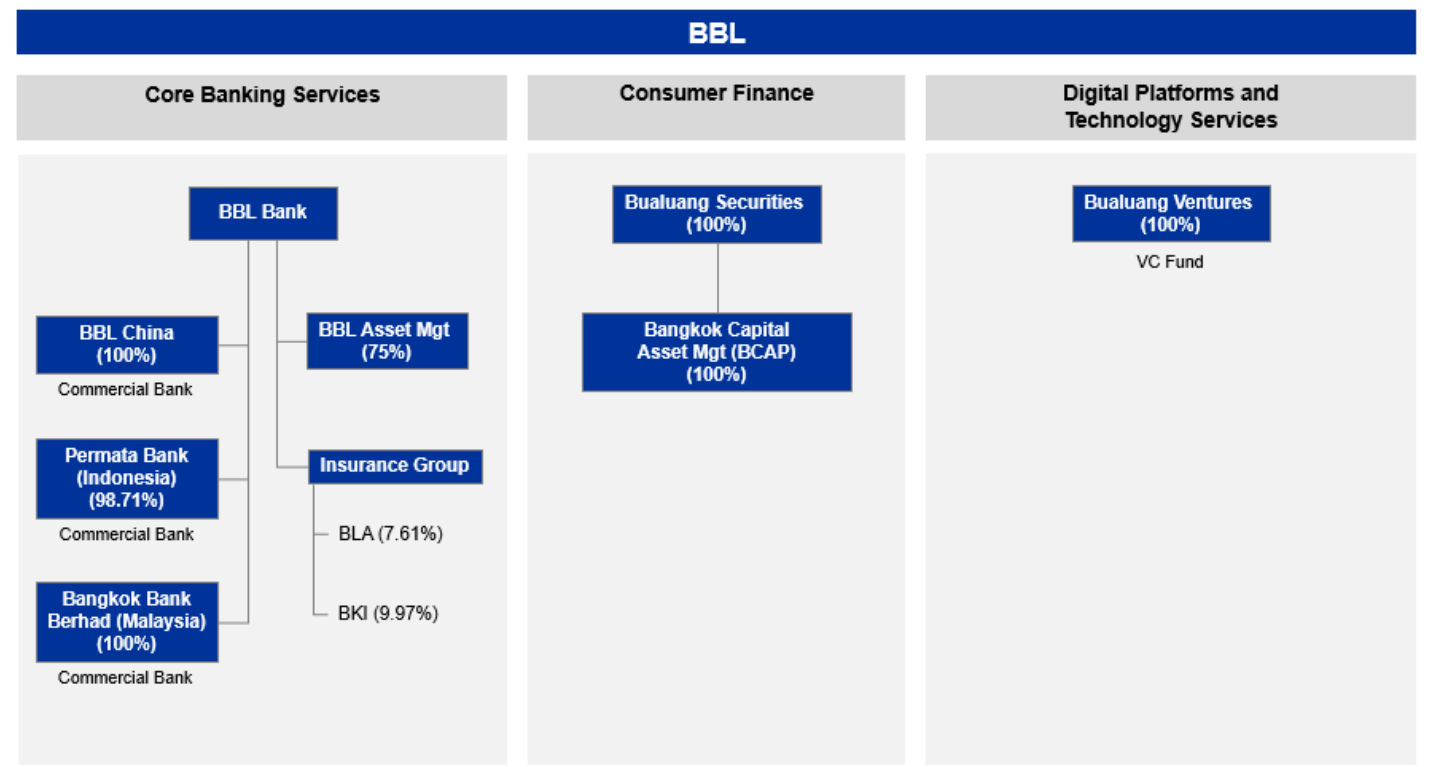
Exhibit 23: KBANK's potential new business structure – FSSIA's view



*Percentages in parentheses are the current percentage holding by KBANK

Source: FSSIA estimates

Exhibit 24: Looking at BBL through SCB's reforms



*Percentages in parentheses are the current percentage holding by BBL
Source: FSSIA estimates

Weak 3Q21 performance expected due to the prolonged pandemic

We expect the banks under our coverage to deliver a 3Q21 aggregate net profit of THB29.9b (+30% y-y, -16% q-q). We think the expected q-q net profit decline would be the result of 1) a high level of provisions, as we believe that banks have set aside special provisions to provide a cushion against uncertainties from the third wave of Covid; 2) a contraction in fee income and gains on investments due to the partial lockdown and less favourable capital market conditions; and 3) a continued softening of loan yields thanks to the financial aid provided to impacted clients.

However, the earnings for the banks under our coverage could increase significantly y-y due mainly to plummeting expected credit losses (ECL), as in 3Q20 most banks proactively set aside provisions against potentially deteriorating asset quality.

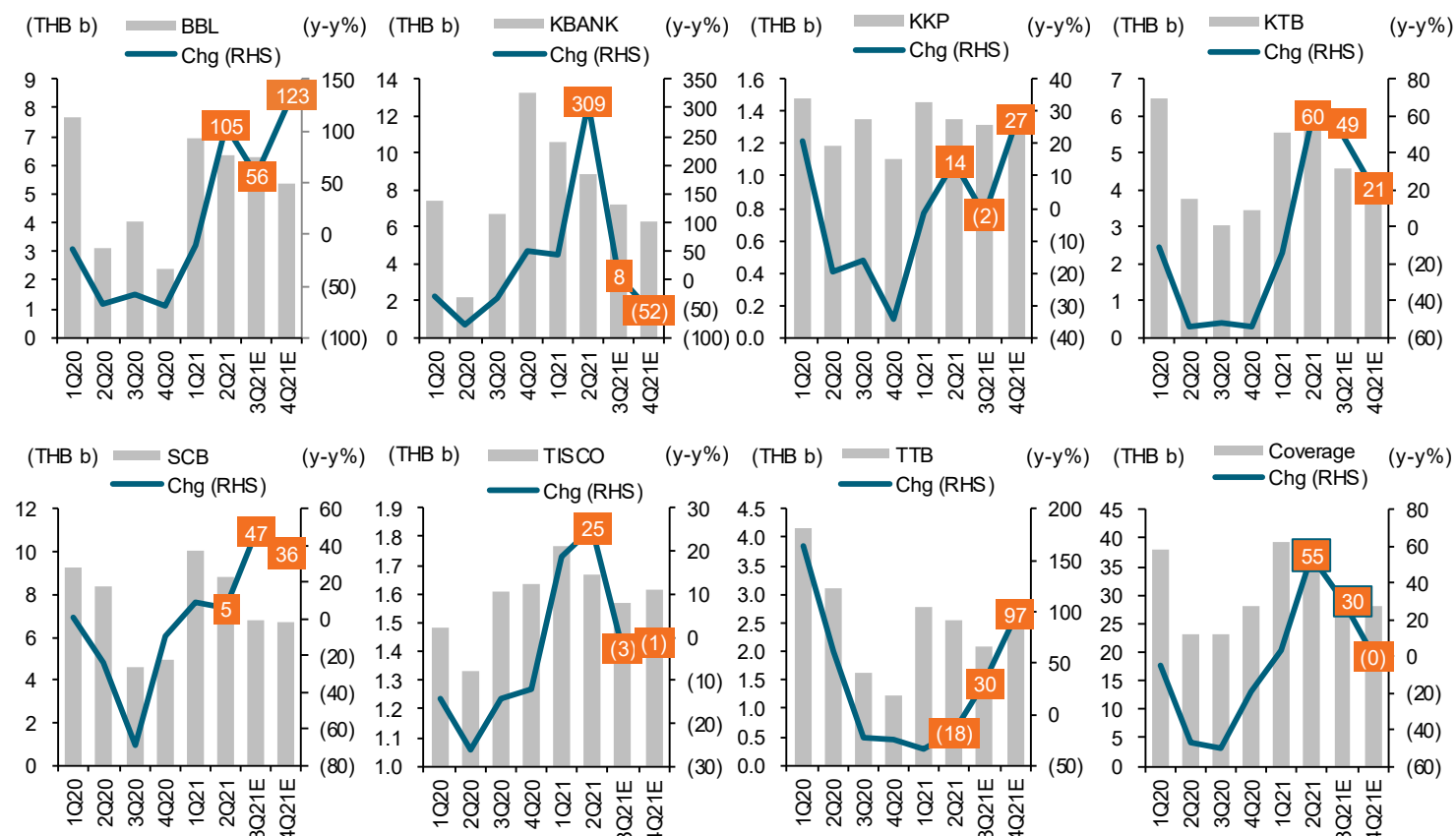
We expect BBL to deliver the best performance in 3Q21, with the potentially highest y-y growth and the lowest q-q drop. The expected surge in its net profit y-y would be due to a one-off drop in its OPEX from the integration of three of BBL's Indonesia branches with PT Bank Permata Tbk (BNLI IJ)'s network. KKP and TISCO might deliver a slightly drop y-y and q-q in terms of net profit. Regarding the rest of the big banks (BBL, KBANK, KTB, and TTB), we expect their earnings to be in line with the trend of the sector, increasing y-y but declining q-q.

Exhibit 25: Summary of 3Q21E earnings preview

BBG	Net profit			3Q21E		Expected results date	FSSIA's view
	3Q20 (THB m)	2Q21 (THB m)	3Q21E (THB m)	Change (y-y %)	Change (q-q %)		
BBL	4,017	6,357	6,277	56	(1)	20-21 Oct	BBL could deliver the highest y-y net profit growth in 3Q21 due to the very low base last year from its extra branches in Indonesia and Permata's consolidation expenses. We think BBL's performance will be in line with the banking sector in 3Q21, which entails a softening in its core operations in terms of loan growth and fee income. Regarding its asset quality, we expect its non-performing loans (NPLs) to slightly increase in 3Q21. We believe BBL will maintain its conservative provisioning policy as usual.
KBANK	6,679	8,894	7,210	8	(19)	21 Oct	KBANK could deliver solid NII in 3Q21, in our view, for two reasons. First, we expect KBANK to post the second highest YTD loan growth at 7.8%, driven by 1) the rehabilitation loans and forbearance program; and 2) the new credit demand from clients. Second, we think KBANK might partially overstate its EIR recognition due to the forbearance program. Accordingly, we think the bank will continue to set aside extra ECL to offset the overstated EIR. Moreover, we think its NPLs should increase slightly by 3% q-q in 3Q21. This would result in a rise in its credit cost to 195 bps in 3Q21 from 185 bps in 2Q21, exceeding its 2021 target of less than 160 bps. For its fee income, we expect KBANK to suffer from the slow business activities due to the lockdowns, in line with other banks.
KKP	1,347	1,354	1,320	(2)	(3)	19-20 Oct	Its 3Q21 core operations should be strong, driven by 1) a 1.0% q-q loan volume increase due largely to a rise in its hire purchase loans; and 2) a high fee income level (moderately dropping q-q due to the very high base in 2Q21) thanks to its strong brokerage and investment banking businesses, i.e. the CP All (CPALL TB, BUY) and Siam Makro (MAKRO TB, HOLD) deal. However, we believe that KKP will still set aside a huge management overlay to cushion the continued rise in accrued interest. We also think its NPLs will increase after the end of the debt forbearance program.
KTB	3,057	6,011	4,561	49	(24)	20-21 Oct	We think its performance will be a mixed bag. On the positive side, we expect KTB to deliver the highest loan growth among its peers at 2.5% q-q in 3Q21, driven by the government segment. Additionally, we expect its asset quality to outperform its peers, as more than 70% of its portfolio consists of those segments least affected by Covid. On the other hand, the main pressure on its bottom line should come from the lower fee income due to being the government's arm in implementing stimulus packages. Its loan yield is also in a downtrend following the increase in government loans.
SCB	4,641	8,815	6,831	47	(22)	21 Oct	We think its performance will be a mixed bag. Its core operations should still be soft in 3Q21 while its loan volume is likely to increase by 1% q-q. We forecast its fee income to decline q-q due to a drop in its wealth-related fees following the partial lockdown measures. However, on the positive side, we believe SCB will be able to efficiently control its OPEX. We expect the bank to set aside provisions in line with management's guidance – cTHB10b quarterly. This implies a significant drop y-y in its ECL, as SCB had already set aside pro-cyclical extra ECL in the previous quarters. Regarding asset quality, there should be a small q-q rise in its 3Q21 NPLs due to the CDR it provided to its clients.
TISCO	1,612	1,666	1,570	(3)	(6)	14 Oct	We think its core operations will still be soft. TISCO could be the only bank to see a drop in its loan volume, which we estimate at 3.5% q-q, due to its conservative strategy. Moreover, we forecast its 3Q21 fee income to decline q-q due to a drop in its bancassurance and mutual fund fees following the partial lockdown measures. These negative factors should be mostly offset by 1) its efficient cost of fund management; 2) variable cost structure, allowing flexibility in its cost management; and 3) proactively setting aside ECL in the previous quarters. Although we expect its NPLs to increase 3% q-q – in line with the sector's trend – we expect a decline in its ECL in 3Q21. Its NPL coverage ratio should still be the highest in the banking sphere in 3Q21 at 213%.
TTB	1,619	2,534	2,100	30	(17)	20 Oct	Its performance should continue to be weak, dragged down by slow loan growth, lower fee income, and higher OPEX. We expect TTB to be one of two banks with negative loan growth in 3Q21 (1.5% YTD) due to its conservative strategy. 3Q21 fee income should decline thanks to the slow cross-selling activities from the partial lockdown and the impact of its entire business transfer (EBT) with Thanachart Bank (TBANK, not listed). Moreover, we expect its OPEX to increase on the OPEX related to the EBT. Regarding asset quality, we think its NPLs will slightly increase by 3% q-q. We expect TTB to slow its NPL sales to third parties, as it plans to revive its AMC to manage NPLs itself. 3Q21 credit cost should increase minimally to 165 bps, though still in line with its guidance.
Coverage	22,972	35,631	29,869	30	(16)		

Sources: Company data; FSSIA estimates

Exhibit 26: Banks' earnings momentum



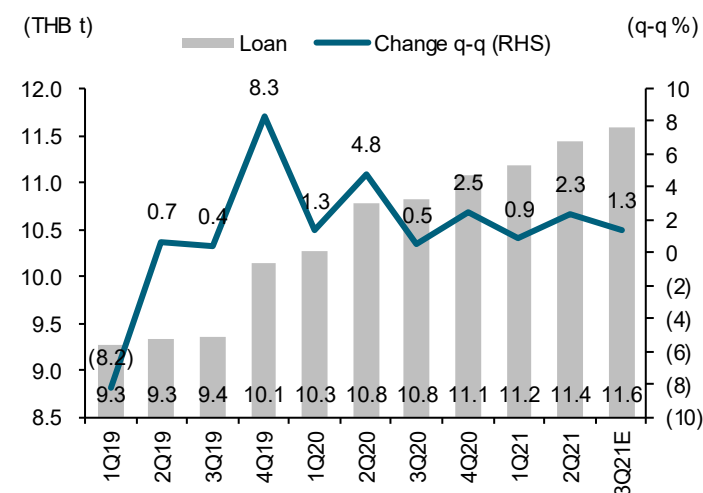
Source: FSSIA estimates

3Q21E key highlights

1) Corporates and government should lead higher loan demand

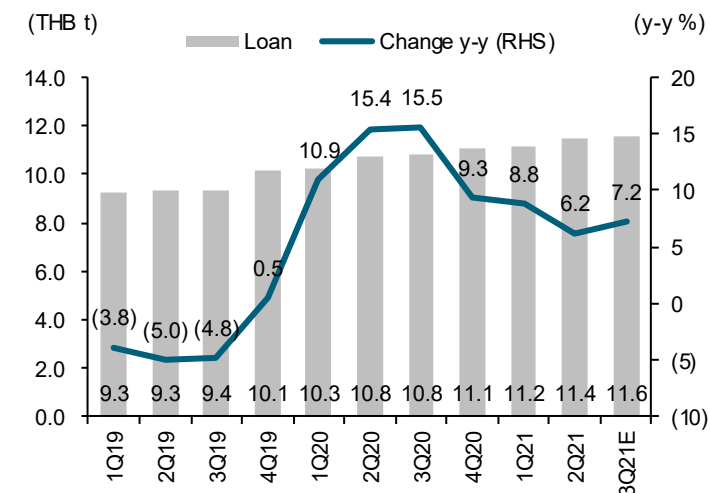
We expect banks' overall loan portfolios to slightly increase by 1.3% q-q, largely driven by the working capital loan demand of the corporate segment, along with a rise in government loans at KTB. The SME segment should be relatively stable q-q, as we believe that most banks still lent cautiously. Additionally, the auto and credit card segments' loan volumes will likely decline, thanks to the slow business activities from the partial lockdown.

Exhibit 27: Sector's loan growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 28: Sector's loan growth (y-y basis)

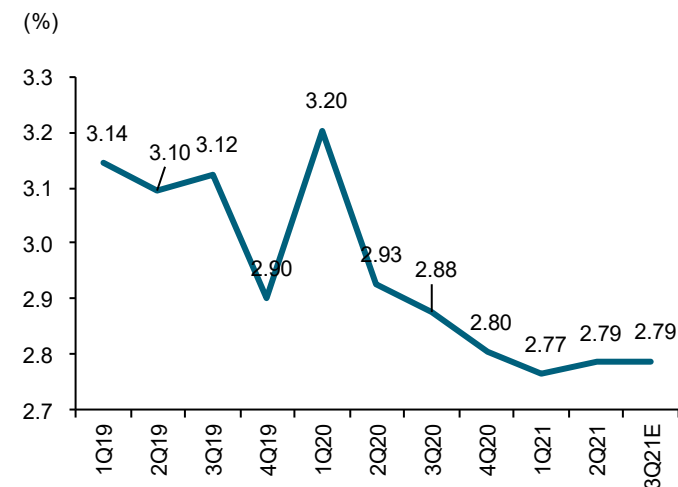


Sources: Company data; FSSIA estimates

2) NIM should be relatively stable

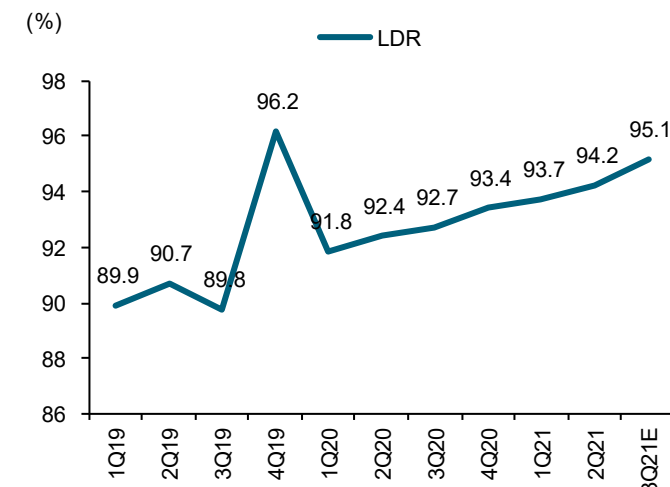
We expect that the banking sector's NIM will be relatively stable q-q at 2.79% in 3Q21. A lower EIR due to the relief programs for clients who were affected by Covid-19 should be offset by a lower cost of funds thanks to the low interest rate environment and the drainage deposit policy of most banks.

Exhibit 29: Sector's quarterly NIM



Sources: Company data; FSSIA estimates

Exhibit 30: Sector's loan to deposit ratio (LDR)

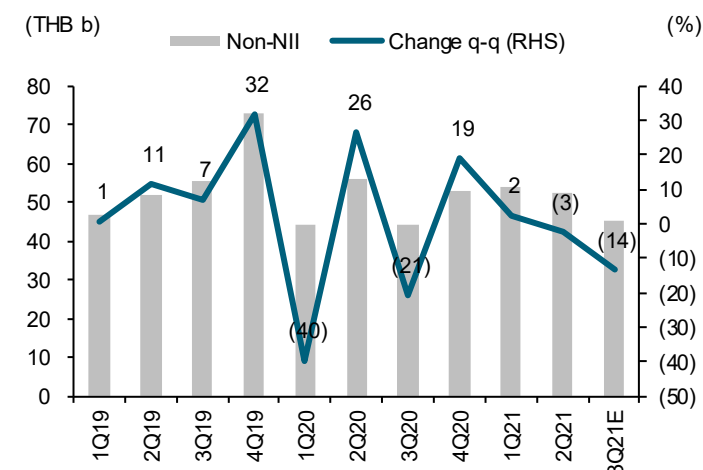


Sources: Company data; FSSIA estimates

3) Drop in Non-NII

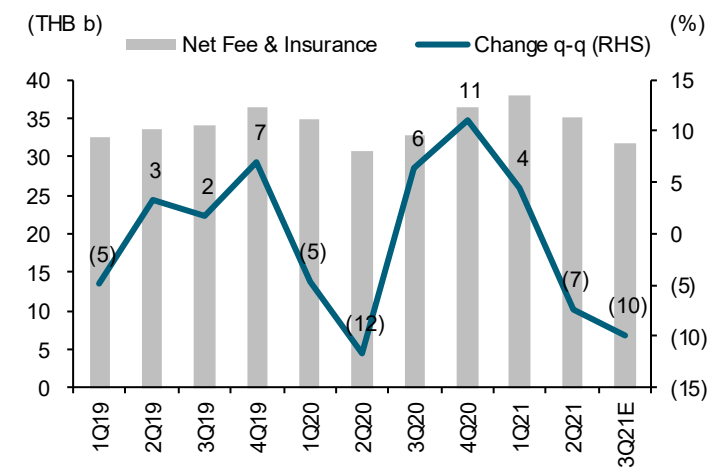
We expect banks to post softer Non-NII in 3Q21, dragged down by 1) a contraction in investment gains thanks to the unfavourable capital market environment; and 2) a q-q decline in fee income due to the partial lockdown, leading to slower insurance and wealth product sales.

Exhibit 31: Sector's Non-NII growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 32: Sector's fee income growth (q-q basis)



Sources: Company data; FSSIA estimates

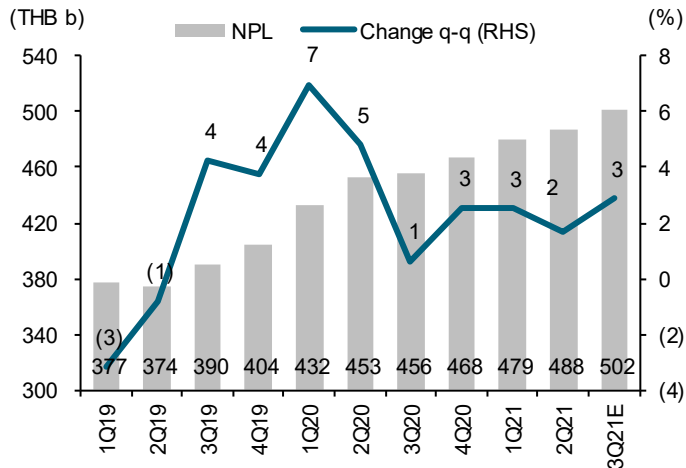
4) Good cost controlling

Most banks should continue to control their operating expenses effectively, in our view. Covid-19 forced their clients to use digital platforms, leading to a faster network rationalisation pace and frozen headcounts. Banks also tightened their spending, i.e. marketing and promotion expenses.

5) Elevated provisions

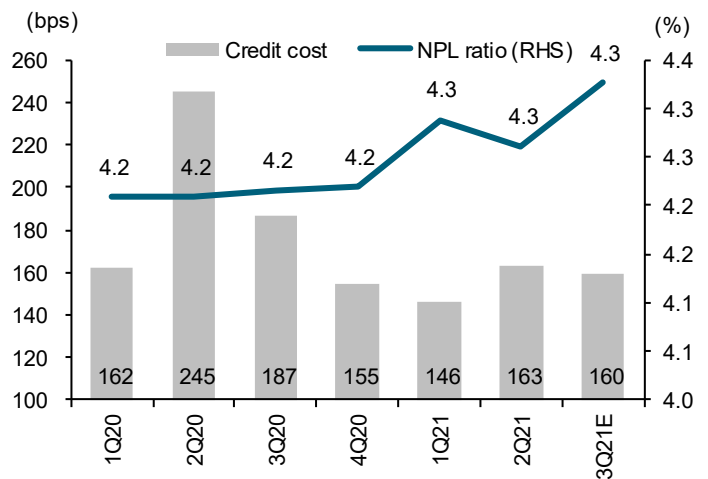
Due to the extension of the relaxed loan classification and provision rules, we expect that non-performing loans (NPLs) will continue to increase immaterially by 3% q-q. This could account for an NPL ratio of 4.33% in 3Q21 vs 4.26% in 2Q21. We, however, expect that banks will proactively, as always, set aside provisions to provide a cushion against uncertainties in the future. We project that the sector's credit cost will be at a high level of 160 bps in 3Q21.

Exhibit 33: Sector's NPL growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 34: Sector's NPL ratio and credit cost



Sources: Company data; FSSIA estimates

Exhibit 35: Details of 3Q21E earnings preview

3Q21E	BBL (THB m)	KBANK (THB m)	KKP (THB m)	KTB (THB m)	SCB (THB m)	TISCO (THB m)	TTB (THB m)	Coverage (THB m)
Net Interest Income	20,223	29,957	3,952	21,069	23,309	3,144	12,747	114,400
Change (y-y %)	1.9	9.9	12.0	(2.5)	(1.7)	(3.5)	(3.6)	1.7
Change (q-q %)	1.0	0.8	4.2	0.7	(0.7)	(0.2)	(0.3)	0.5
Non-interest Income	10,011	9,987	1,703	8,095	11,173	1,405	2,988	45,361
Change (y-y %)	4.6	5.1	32.7	(6.7)	3.8	(2.7)	0.1	2.6
Change (q-q %)	(27.4)	(10.3)	(12.3)	2.0	(14.0)	(10.3)	(4.2)	(13.6)
Net fee income	6,125	7,842	1,394	4,403	8,828	1,164	2,102	31,857
Change (y-y %)	(4.0)	0.5	36.1	(12.4)	3.0	(9.1)	(20.2)	(2.6)
Change (q-q %)	(11.2)	(8.6)	(13.6)	(10.0)	(10.0)	(5.0)	(4.4)	(9.5)
Operating income	30,234	39,943	5,654	29,164	34,482	4,549	15,734	159,761
Change (y-y %)	2.8	8.7	17.5	(3.7)	(0.0)	(3.2)	(2.9)	2.0
Change (q-q %)	(10.6)	(2.2)	(1.4)	1.1	(5.4)	(3.5)	(1.0)	(4.0)
Operating expenses	15,173	17,811	2,673	13,846	15,425	2,032	7,541	74,501
Change (y-y %)	(1.6)	8.3	25.5	1.1	(2.0)	(2.4)	1.5	2.1
Change (q-q %)	(6.9)	4.3	(0.2)	13.2	0.3	(1.8)	1.9	1.9
Pre-provision profit	15,061	22,132	2,981	15,318	19,058	2,517	8,194	85,260
Change (y-y %)	7.6	9.0	11.2	(7.6)	1.7	(3.9)	(6.7)	1.9
Change (q-q %)	(14.1)	(7.0)	(2.5)	(7.8)	(9.6)	(4.8)	(3.6)	(8.5)
Expected credit loss	7,181	11,706	1,347	8,809	10,675	578	5,633	45,930
Change (y-y %)	26.7	8.2	32.4	(29.0)	(17.6)	(4.4)	(17.9)	(8.8)
Change (q-q %)	(26.8)	8.3	(2.2)	8.8	6.5	2.3	2.6	(0.5)
Income tax	1,497	1,971	310	1,302	1,593	368	461	7,502
Normalised profit	6,277	7,210	1,320	4,561	6,831	1,570	2,100	29,869
Change (y-y %)	(21.7)	8.0	(2.0)	49.2	47.2	(2.6)	29.7	10.7
Change (q-q %)	(1.3)	(18.9)	(2.5)	(24.1)	(22.5)	(5.8)	(17.1)	(16.2)
% of 2021E	25.3	21.8	23.8	22.4	21.2	24.3	21.0	22.5
Net profit	6,277	7,210	1,320	4,561	6,831	1,570	2,100	29,869
Change (y-y %)	56.2	8.0	(2.0)	49.2	47.2	(2.6)	29.7	30.0
Change (q-q %)	(1.3)	(18.9)	(2.5)	(24.1)	(22.5)	(5.8)	(17.1)	(16.2)
% of 2021E	25.3	21.8	23.8	22.4	21.2	24.3	21.0	22.5
Loan (q-q %)	1.0	1.5	1.0	2.5	1.0	(3.5)	1.0	1.3
Loan (y-y %)	3.3	12.2	11.8	11.7	6.9	(8.2)	0.7	7.2
Deposit (q-q %)	0.5	1.0	(4.0)	1.0	0.5	(6.0)	(1.0)	0.4
Deposit (y-y %)	8.5	10.2	(1.1)	8.9	(1.1)	(16.9)	(6.8)	4.4
Loan/ Deposits (LDR %)	79.8	96.5	119.1	101.2	97.4	121.3	104.7	95.1
Loan/Deposits & Borrowing (%)	76.2	93.7	101.7	96.1	94.6	112.2	99.0	91.0
Key ratios								
Net interest margin	1.98	3.16	4.36	2.53	3.01	4.94	2.99	2.79
Credit cost (%)	1.18	1.95	1.90	1.40	1.85	1.10	1.65	1.60
Cost to income	50.19	44.59	47.28	47.47	44.73	44.68	47.93	46.63
Loan-loss-coverage	180	137	148	154	137	213	126	150
Absolute NPL (THB m)	114,366	110,662	10,856	107,852	107,233	6,043	44,849	501,862
Change (y-y %)	6.1	14.4	30.4	(2.5)	19.3	2.1	22.0	10.0
Change (q-q %)	3.0	3.5	5.0	2.0	3.0	3.0	3.0	2.9
NPL ratio (%)	4.68	4.57	3.81	4.23	4.62	2.93	3.27	4.33

Source: FSSIA estimates

Recommendations and top picks

We reiterate our recommendation to gradually re-accumulate banks ahead of the expected recovery next year.

SCB remains one of our top picks. SCB is a first mover, disrupting itself and the whole lending industry and breaking through the old banking framework. We believe its great transformation will allow it to penetrate a digital industry with high risk-reward lending. This could unlock its valuation. We replace TISCO with KBANK as our other top pick and believe that it will deliver strong growth in 2022. We also think that it is in full swing to transform itself to unlock its value and increase shareholders' returns. Regarding KKP, we maintain our BUY call on the back of the second highest dividend yield and the second highest net profit growth that we project in 2022, backed up by its strong fee income franchise and solid loan growth.

For TTB, we maintain our BUY call. We have a strong conviction that TTB should deliver the strongest net profit growth in 2022 after the merger synergies start to clearly bear fruit, along with its undemanding valuation. However, due to its weak earnings outlook in the short term, we think a good time to accumulate TTB would be in late 4Q21. Regarding TISCO, we think it is less attractive due to its overly conservative lending strategy that is unlikely to fare as well as others' once the economy recovers. Our BUY call is for its potentially superior dividend yield at 7-8% pa and low asset quality risk.

We turn more bearish on BBL's long-term competitive outlook. As a result, we downgrade BBL to HOLD due to its traditional and much too conservative framework, in our view. Its cheap valuation and having the most defensive balance sheet in the banking space are not enough to catch our attention. KTB remains our least preferred bank. KTB has only lightly invested in digital banking platforms. Most of its business still relies on the traditional banking framework. We believe this could result in a loss of competitiveness in the long run.

Exhibit 36: Valuation summary

	----- BBL -----		----- KBANK -----		----- KKP -----		----- KTB -----		----- SCB -----		----- TISCO -----		----- TTB -----	
	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	Old
Recommendation	HOLD	BUY	BUY	BUY	BUY	BUY	HOLD	HOLD	BUY	BUY	BUY	BUY	BUY	BUY
Key assumptions														
Risk free rate (%)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Risk premium (%)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Beta	0.6	0.6	0.7	0.0	1.2	1.2	0.7	0.7	0.7	0.7	1.0	1.0	0.6	0.6
CAPM (%)	8.1	8.1	8.4	8.4	12.3	12.3	8.7	8.7	8.3	8.3	10.9	10.9	7.8	7.8
Target growth rate (%)	2.3	2.7	4.5	4.0	4.5	4.3	3.4	3.4	4.6	4.6	4.9	5.0	4.1	4.1
Long-term ROE (%)	5.3	5.9	7.6	7.2	12.9	12.5	5.9	5.9	8.6	8.6	17.0	18.2	6.4	6.4
Fair value (THB/share)	128.00	146.00	168.00	150.00	68.00	65.00	12.70	12.70	158.00	158.00	110.00	122.00	1.40	1.40

Source: FSSIA estimates

Exhibit 37: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side	Market Cap	EPS growth		----- PE -----		----- ROE -----		--- PBV ---	
			Current	Target			21E	22E	21E	22E	21E	22E	21E	22E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(x)	(x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

BANGKOK BANK BBL TB**HOLD**

FROM BUY

TARGET PRICE	THB128.00
CLOSE	THB116.50
UP/DOWNSIDE	+9.9%
PRIOR TP	THB146.00
CHANGE IN TP	-12.3%
TP vs CONSENSUS	-11.6%

Ageing strategy amid rapid change

Potential loss of competitive advantage in the long term

We turn more bearish on BBL's long-term competitive outlook. As a result, we downgrade BBL to HOLD for three reasons. First, BBL is still sticking with the traditional banking framework. It applies an asset-heavy strategy with less digital investment to expand its business, such as acquiring PT Bank Permata Tbk (BNLI IJ). This strategy requires a huge amount of capital but provides lower returns and takes a longer time for shareholders to harvest earnings vs the asset-light and digital oriented methods that other big banks have adopted. Second, we see less hidden value in BBL vs the other four big banks, as most of its business is in low risk-reward segments like corporate clients. Third, it has always set aside provisions prudently. When economy recovers, we think that its overly conservative strategy will deteriorate the profitability of the bank.

3Q21: strongest y-y growth expected due to low base effect

We expect BBL to report a 3Q21 net profit of THB6,277m (+56% y-y, -1% q-q). BBL could deliver the highest y-y net profit growth in 3Q21 due to the very low base last year from its extra branches in Indonesia and Permata's consolidation expenses. We think BBL's performance will be in line with the banking sector in 3Q21, which entails a softening in its core operations in terms of loan growth and fee income. Regarding its asset quality, we expect its NPLs to slightly increase in 3Q21. We believe BBL will maintain its conservative provisioning policy as usual.

Fine-tuning net profit following the BoT's new guidance

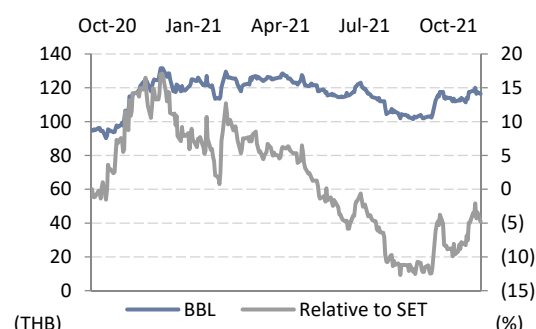
We think that the BoT's guidance on the relaxed loan classification and provision rules should positively affect BBL. Based on our calculation, BBL's 2022 loan yield would decline by 0.24% from its current yield of 4.0%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to its normal rate of 88 bps from our projected 117 bps in 2021. However, due to its lower competitiveness in generating fee income compared with its peers, we slightly revise down our fee income forecast for 2022-23. All in all, we lower our 2022-23 net profit forecasts by 1%/2%.

Downgrade to HOLD with revised GGM-based TP of THB128

We lower our 2022 GGM-based TP to THB128 due to our lower ROE and long-term growth assumptions. Its cheap valuation and having the most defensive balance sheet in the banking space are not enough to catch our attention.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	25,573	31,005	34,493	35,809
Net profit	17,181	24,827	27,281	28,321
EPS (THB)	9.00	13.01	14.29	14.84
vs Consensus (%)	-	(2.3)	(5.9)	(14.7)
Core net profit	21,181	24,827	27,281	28,321
Core EPS (THB)	11.10	13.01	14.29	14.84
Chg. In EPS est. (%)	-	2.4	(0.6)	(2.4)
EPS growth (%)	(40.9)	17.2	9.9	3.8
Core P/E (x)	10.5	9.0	8.2	7.9
Dividend yield (%)	2.1	3.4	4.3	6.0
Price/book (x)	0.5	0.5	0.5	0.4
ROE (%)	4.8	5.5	5.8	5.8
ROA (%)	0.6	0.6	0.7	0.7



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	2.2	4.0	23.9
Relative to country (%)	4.5	1.7	(5.0)
Mkt cap (USD m)	6,582		
3m avg. daily turnover (USD m)	45.9		
Free float (%)	76		
Major shareholder	Thai NVDR (24%)		
12m high/low (THB)	134.50/90.00		
Issued shares (m)	1,909		

Sources: Bloomberg consensus; FSSIA estimates

**Yuvarart Suwanumchai**yuvarart.suw@fssia.com
+66 2611 3554

Investment thesis

We downgrade BBL to HOLD from Buy After the pandemic ends, we think it will lack the foundation to generate solid interest income and non-interest income growth. Moreover, we believe its overly conservative strategy will lead to a lower profitability margin in the long run. Therefore, among the big banks, we prefer KBANK and SCB to BBL.

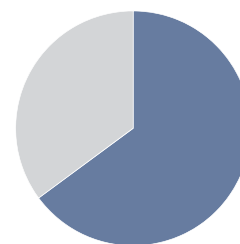
Company profile

Bangkok Bank is a leading bank in Thailand and a major regional bank in Southeast Asia. It is a market leader in corporate and business banking, with a large retail customer base.

www.bangkokbank.com

Principal activities (revenue, 2020)

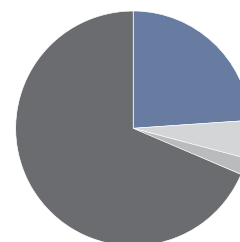
- Net interest income - 64.9 %
- Non-interest income - 35.1 %



Source: Bangkok Bank

Major shareholders

- Thai NVDR - 23.9 %
- Social Security Office - 5.2 %
- UOB Kay Hian (Hong Kong) Limited - 2.3 %
- Others - 68.6 %



Source: Bangkok Bank

Catalysts

Potential share price catalysts for BBL include:

- Lower credit cost from better-than-expected new NPLs;
- The return of foreign fund flows into the Thai stock market.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on its NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk would be better-than-expected synergies with Permata.

Event calendar

Date	Event
Oct 2021	3Q21 results announcement

Key assumptions

	2021E (%)	2022E (%)	2023E (%)
Net profit (THB m)	24,827	27,281	28,321
Net profit growth	44.5	9.9	3.8
NIM	2.07	1.97	1.92
Loan growth	4.5	4.0	3.0
Fee growth	7.5	0.1	3.0
Non-NII growth*	9.3	(5.0)	4.4
Credit cost (bp)	117	88	84
Cost to income*	52.1	53.4	53.3

* Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
Loan growth	±2ppt	2.50	4.50	6.50
% change in net profit		(1.6)	0.0	1.6
NIM (%)	±5bp	2.02	2.07	2.12
% change in net profit		(5.0)	0.0	5.0
Credit cost (bp)	±10bp	107	117	127
% change in net profit		3.9	0.0	(3.9)

Source: FSSIA estimates

Potential loss of competitive advantage in the long term

We turn more bearish on BBL's long-term competitive outlook. As a result, we downgrade BBL to HOLD for three reasons:

First, BBL is still sticking with the traditional banking framework. It applies an asset-heavy strategy with less digital investment to expand its business, such as acquiring Bank Permata. This strategy requires a huge amount of capital but provides lower returns and takes a longer time for shareholders to harvest earnings vs the asset-light and digital oriented methods that other big banks have adopted.

Second, we see less hidden value in BBL vs the other four big banks, as most of its business is in low risk-reward segments like corporate clients.

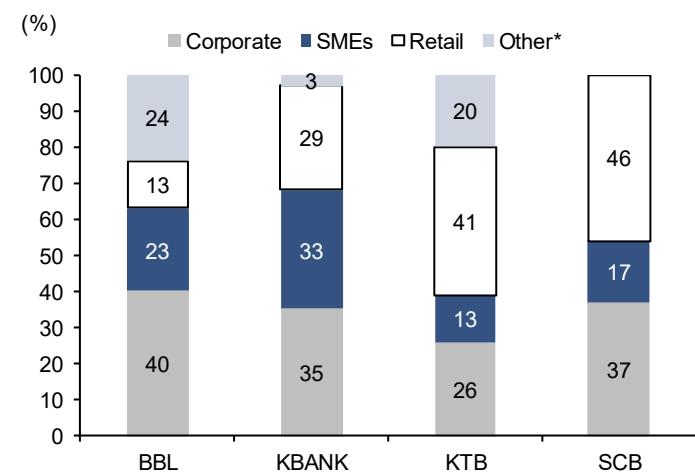
Third, the bank has always set aside provisions prudently, both at BBL itself and at Permata. During an economic downturn, we believe that this will give BBL strength. On the flip side, in the event of economic recovery, we think that its overly conservative strategy will deteriorate the profitability of the bank.

Exhibit 38: Comparing high and low risk-reward businesses of top three big banks

As of 2Q21	High risk-reward				Low risk-reward			
	BBL	KBANK	SCB		BBL	KBANK	SCB	
	----- (THB b) -----				----- (THB b) -----			
Current businesses	1. Cards and consumer lending	Has exposure but still minimal	206	140	1. Housing loans	315	423	686
	2. Auto title loans	nm.	Has exposure but still minimal	42	2. Hire purchase loans (car, machinery)	nm.	115	188
	3. SME loans	557	786	396	3. Corporate loans	968	834	845
					4. International loans	581		
	----- Exposure -----							
Potential businesses	1. Fintech startups, VC	Bualuang Ventures	Kaskiorn X, Kasikorn Vision, Beacon	CPG-SCB				
	2. Digital assets	nm.	KUBIX	Token X				
	3. Data platform, Tech innovation	nm.	KBTG	SCB 10X, Data X, Tech X				

Sources: FSSIA estimates

Exhibit 39: Comparing 2Q21 loan structure of top four big banks



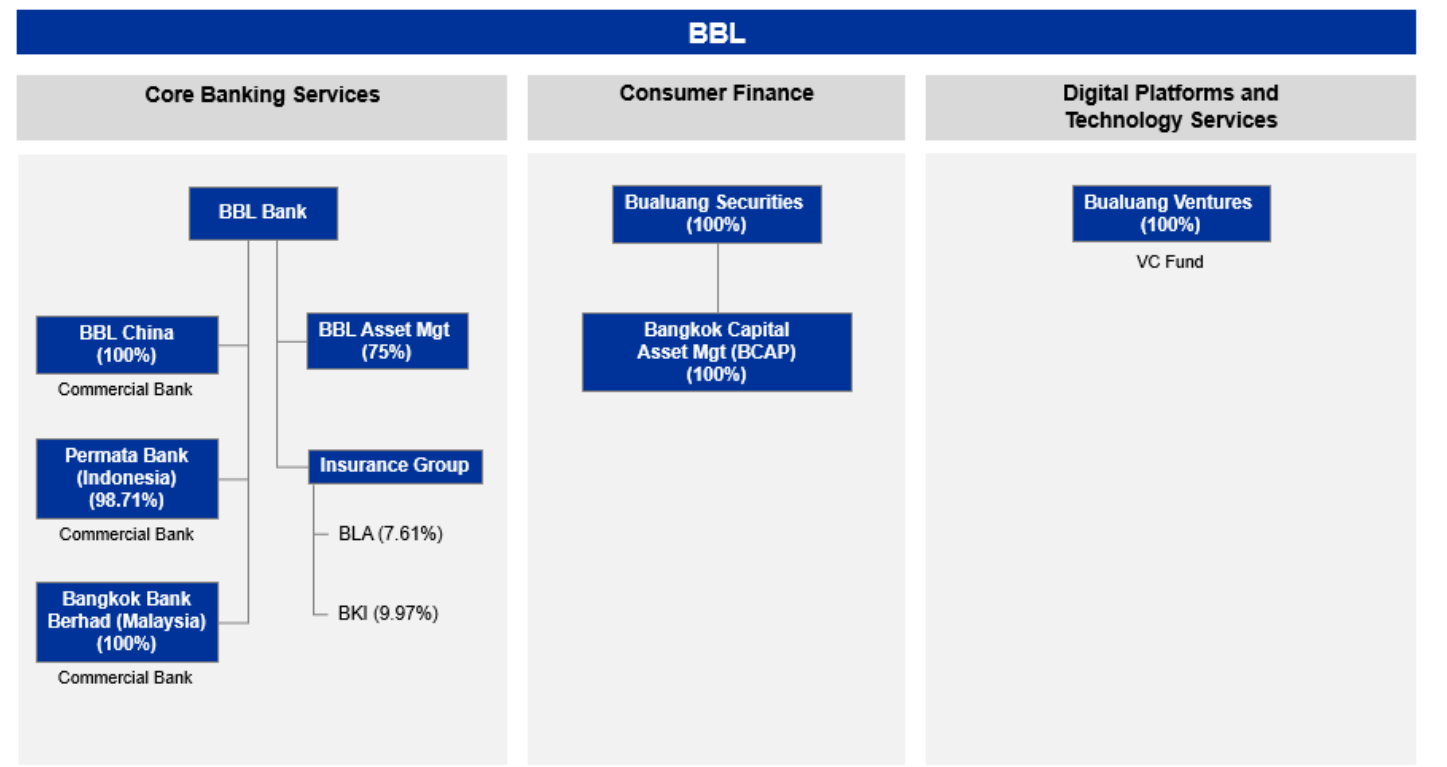
*Other for BBL = international loans; for KTB = government loans
Sources: Company data; FSSIA's compilation

Exhibit 40: BBL has one of the most defensive balance sheets

2Q21	Coverage ratio*	LLR/Loans	NPL ratio
	(%)	(%)	(%)
BBL	181	8.3	3.70
KBANK	136	6.1	3.95
KTB	155	6.6	3.54
SCB	139	6.3	3.79
TMB	125	4.0	2.89
KKP	149	5.5	3.60
TISCO	214	5.9	2.74

*Excluding interbank and money market lending
Sources: Company data; FSSIA's compilation

Exhibit 41: Looking at BBL through SCB's reforms



*Percentages in parentheses are the current percentage holding by BBL
Source: FSSIA estimates

3Q21: strongest y-y growth expected due to low base effect

We expect BBL to report a 3Q21 net profit of THB6,277m (+56% y-y, -1% q-q). BBL could deliver the highest y-y net profit growth in 3Q21 due to the very low base last year from its extra branches in Indonesia and Permata's consolidation expenses. We think BBL's performance will be in line with the banking sector in 3Q21, which entails a softening in its core operations. Its loan volume is likely to minimally increase by 1% q-q, driven by the corporate segment. We expect its fee income to drop q-q due to the partial lockdowns. Regarding its asset quality in 3Q21, we expect its non-performing loans (NPLs) to slightly increase. Its 3Q21 expected credit losses (ECL) should still be at an abnormally high level, but lower than in 2Q21. We believe that the bank will maintain its conservative provisioning policy as usual. Its NPL coverage ratio should still be the second highest in the banking sphere in 3Q21.

Exhibit 42: BBL – 3Q21E results preview

Year end Dec 31	3Q20	2Q21	3Q21E		9M21E		2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	3Q21E
Net interest income	19,852	20,027	20,223	2	1	59,958	4	77	2
Non-interest income*	9,569	13,796	10,011	5	(27)	34,973	15	77	9
Operating income*	29,421	33,823	30,234	3	(11)	94,930	8	77	4
Operating expenses	15,427	16,289	15,173	(2)	(7)	47,223	13	73	4
PPOP before tax*	13,994	17,534	15,061	8	(14)	47,707	3	80	5
Provision	5,668	9,810	7,181	27	(27)	23,318	(3)	82	(9)
Income tax	212	1,263	1,497	605	19	4,507	40	79	43
Minority interest	97	104	105			325	16		
Normalised profit	8,017	6,357	6,277	(22)	(1)	19,557	4	79	17
Extraordinary items	(4,000)	0	0			0			
									Extra expenses in 3Q21 from Permata Bank and its Indonesian branch consolidation
Net profit	4,017	6,357	6,277	56	(1)	19,557	32	79	44
EPS (THB)	2.10	3.33	3.29	56	(1)	10.25	32	79	44
Asset quality ratio									
Gross NPLs	107,743	111,035	114,366	6	3				15
NPL ratios (%)	4.09	3.70	4.20						4.27
LLR/NPLs (%)	178	190	180						172
Credit cost (bp)	96	164	118						117
Profitability ratio									
Cost to income ratio*	52.4	48.2	50.2						52.1
Average yield	3.2	2.8	2.8						2.9
Cost of fund	1.2	0.9	0.9						1.0
NIM	2.1	2.0	2.0						2.1
Non-int inc/total income	32.5	40.8	33.1						36.8
Liquidity ratio									
Loan/deposit ratio	83.9	79.4	79.8						83.4
Capital adequacy									
CAR	17.6	18.4	18.4						17.9
CET 1/ Risk assets	14.2	15.1	16.0						15.5
Tier 2 / Risk assets	2.6	2.5	2.5						2.5
Loan growth									
Year-to-date	14.8	2.2	3.2						
y-y	18.3	2.8	3.3						4.5
q-q	0.6	2.2	1.0						

*Including share of profits from associates

Sources: BBL; FSSIA estimates

Earnings revisions following the Bank of Thailand's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for Siam Commercial Bank (SCB TB, BUY, TP THB158) which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

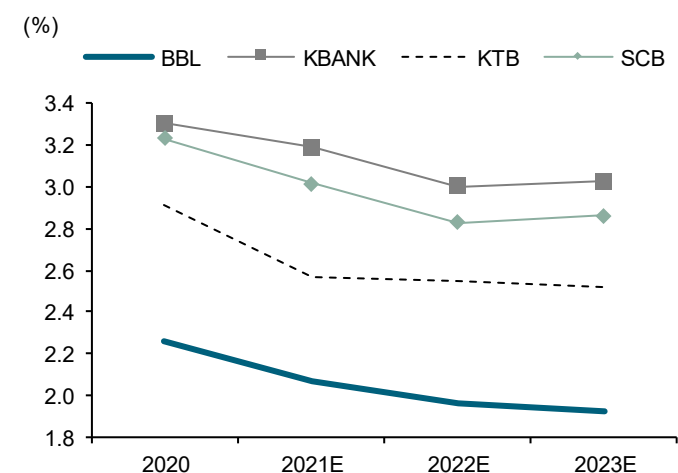
6. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
7. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
8. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
9. The CDR EIR would be 50% lower than that of each bank's current level;
10. Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 43: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

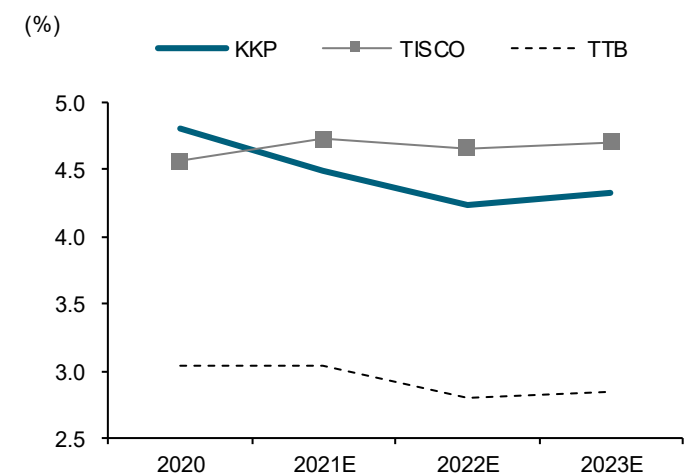
Sources: Company data; FSSIA estimates

Exhibit 44: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 45: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 46: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

We think that the BoT's guidance should positively affect BBL. Based on our calculation, BBL's 2022 loan yield would decline by 0.24% from its current loan yield of 4.0%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to its normal rate of 88 bps from our projected 117 bps in 2021.

However, due to its lower competitiveness in generating fee income compared with its peers, we slightly revise down our fee income forecast for 2022-23.

Due to the slightly negative impacts on our earnings forecasts, we lower our 2022-23 net profit forecasts by 1%/2%.

Exhibit 47: BBL – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	77,047	78,373	78,373	0.0	77,745	78,424	0.9	80,175	78,329	(2.3)
Non-interest income*	41,682	45,547	45,547	0.0	43,792	43,275	(1.2)	46,246	45,172	(2.3)
Operating income*	118,729	123,920	123,920	0.0	121,537	121,699	0.1	126,421	123,500	(2.3)
Operating expenses	61,974	64,600	64,600	(0.0)	64,672	65,010	0.5	66,676	65,766	(1.4)
PPOP before tax*	56,755	59,321	59,321	(0.0)	56,865	56,689	(0.3)	59,745	57,734	(3.4)
Expected credit loss (Reversal)	31,196	29,058	28,332	(2.5)	22,607	22,214	(1.7)	23,286	21,944	(5.8)
Tax expenses	4,014	5,599	5,733	2.4	6,338	6,723	6.1	6,927	6,979	0.7
Minority interest	364	419	429	2.5	475	472	(0.7)	502	490	(2.4)
Normalised profit	21,181	24,245	24,827	2.4	27,445	27,281	(0.6)	29,030	28,321	(2.4)
Extraordinary items	(4,000)	0	0		0	0		0	0	
Net profit	17,181	24,245	24,827	2.4	27,445	27,281	(0.6)	29,030	28,321	(2.4)
EPS (THB)	9.0	12.7	13.0	2.4	14.4	14.3	(0.6)	15.2	14.8	(2.4)
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	104,405	128,221	120,066	(6.4)	125,657	123,668	(1.6)	121,887	131,088	(2.3)
Gross NPLs / Loans (%)	3.9	4.6	4.3		4.3	4.2		4.1	4.4	
Loan loss reserve/NPLs (%)	177.7	161.6	172.0		170.7	174.5		177.9	173.3	
Credit cost (bps)	141	120	117		90	88		90	84	
Profitability ratio (%)										
Cost to income ratio*	52.2	52.1	52.1		53.2	53.4		52.7	53.3	
Average yield	3.30	2.90	2.90		2.95	2.82		2.96	2.92	
Cost of funds	1.22	0.97	0.97		1.16	0.99		1.17	1.17	
Net interest margin (NIM)	2.26	2.07	2.07		1.95	1.97		1.97	1.92	
Loan growth (%)										
y-y	14.9	4.5	4.5		3.0	4.0		3.0	3.0	

*Including share of profits from associates

Sources: FSSIA estimates

Downgrade to HOLD

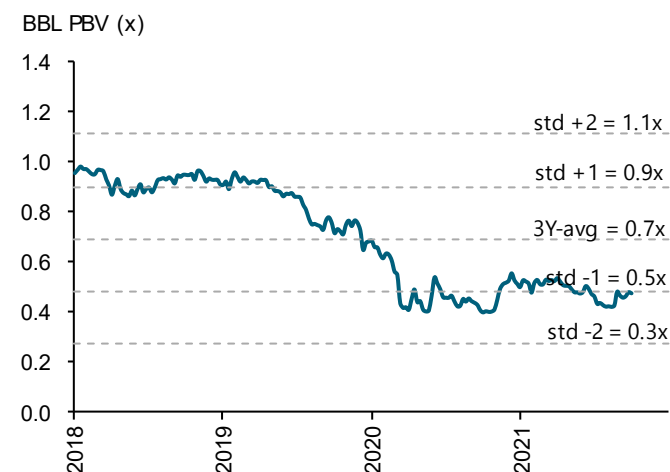
We lower our 2022 GGM-based TP to THB128 from THB146. We decrease our terminal growth and ROE targets to 2.3% and 5.3% from 2.7% and 5.9%, respectively, due to the bank's potentially lower competitiveness in the long run. Our target price implies 0.52x 2022E P/BV, 1 STD below its three-year average. Its cheap valuation and most defensive balance sheet in the banking space are not enough to catch our attention.

Exhibit 48: BBL's GGM-derived target price

Target price	THB 128 (from THB146)
Recommendation	HOLD (from BUY)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost to equity (%)	8.1 (unchanged)
Terminal growth (%)	2.3 (from 2.7)
ROE target (%)	5.3 (from 5.9)
Risk to TP	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on its NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk would be better-than-expected synergies with Permata.

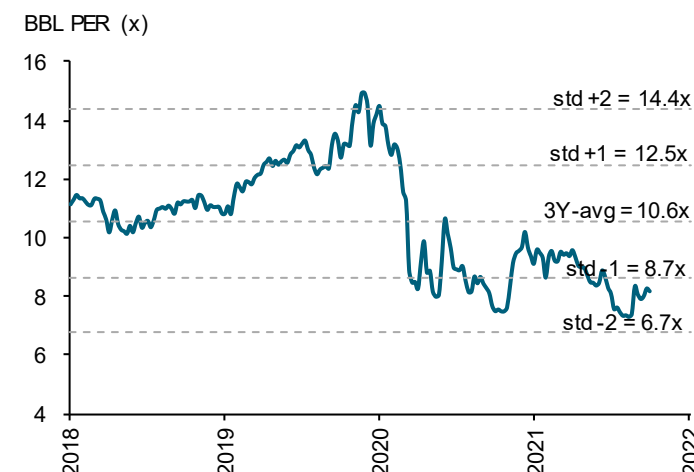
Sources: FSSIA estimates

Exhibit 49: BBL – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 50: BBL – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 51: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- PE -----		--- ROE ---		--- PBV ---	
			Current (THB)	Target (THB)			21E (%)	22E (%)	21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Bangkok Bank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	112,565	112,524	110,104	112,282	118,853
Interest expense	(41,494)	(35,477)	(31,731)	(33,858)	(40,524)
Net interest income	71,071	77,047	78,373	78,424	78,329
Net fees & commission	28,505	24,711	26,569	26,606	27,404
Foreign exchange trading income	7,848	0	0	0	0
Securities trading income	19,765	13,570	15,339	12,774	13,595
Dividend income	3,769	2,039	2,141	2,248	2,361
Other income	2,696	1,376	1,513	1,665	1,831
Non interest income	62,582	41,696	45,563	43,293	45,191
Total income	133,653	118,743	123,936	121,717	123,520
Staff costs	(26,726)	(30,959)	(33,746)	(34,083)	(34,765)
Other operating costs	(28,237)	(31,015)	(30,854)	(30,927)	(31,001)
Operating costs	(54,963)	(61,974)	(64,600)	(65,010)	(65,766)
Pre provision operating profit	78,690	56,769	59,337	56,707	57,754
Provision for bad and doubtful debt	(32,351)	(31,196)	(28,332)	(22,214)	(21,944)
Other provisions	-	-	-	-	-
Operating profit	46,339	25,573	31,005	34,493	35,809
Recurring non operating income	93	(14)	(16)	(18)	(19)
Associates	93	(14)	(16)	(18)	(19)
Goodwill amortization	-	-	-	-	-
Non recurring items	0	(4,000)	0	0	0
Profit before tax	46,431	21,559	30,989	34,476	35,790
Tax	(10,219)	(4,014)	(5,733)	(6,723)	(6,979)
Profit after tax	36,212	17,545	25,256	27,753	28,811
Minority interests	(397)	(364)	(429)	(472)	(490)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	35,816	17,181	24,827	27,281	28,321
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	35,816	21,181	24,827	27,281	28,321
Per share (THB)					
Recurring EPS *	18.76	11.10	13.01	14.29	14.84
Reported EPS	18.76	9.00	13.01	14.29	14.84
DPS	7.00	2.50	4.00	5.00	7.00
Growth					
Net interest income (%)	(0.4)	8.4	1.7	0.1	(0.1)
Non interest income (%)	25.3	(33.4)	9.3	(5.0)	4.4
Pre provision operating profit (%)	18.9	(27.9)	4.5	(4.4)	1.8
Operating profit (%)	4.9	(44.8)	21.2	11.3	3.8
Reported net profit (%)	1.4	(52.0)	44.5	9.9	3.8
Recurring EPS (%)	1.4	(40.9)	17.2	9.9	3.8
Reported EPS (%)	1.4	(52.0)	44.5	9.9	3.8
Income Breakdown					
Net interest income (%)	53.2	64.9	63.2	64.4	63.4
Net fees & commission (%)	21.3	20.8	21.4	21.9	22.2
Foreign exchange trading income (%)	5.9	-	-	-	-
Securities trading income (%)	14.8	11.4	12.4	10.5	11.0
Dividend income (%)	2.8	1.7	1.7	1.8	1.9
Other income (%)	2.0	1.2	1.2	1.4	1.5
Operating performance					
Gross interest yield (%)	3.59	3.30	2.90	2.82	2.92
Cost of funds (%)	1.58	1.22	0.97	0.99	1.17
Net interest spread (%)	2.01	2.08	1.93	1.83	1.75
Net interest margin (%)	2.3	2.3	2.1	2.0	1.9
Cost/income(%)	41.1	52.2	52.1	53.4	53.2
Cost/assets(%)	1.7	1.8	1.7	1.6	1.6
Effective tax rate (%)	22.0	18.6	18.5	19.5	19.5
Dividend payout on recurring profit (%)	37.3	22.5	30.8	35.0	47.2
ROE (%)	8.5	4.8	5.5	5.8	5.8
ROE - COE (%)	(0.8)	(4.5)	(3.8)	(3.5)	(3.5)
ROA (%)	1.1	0.6	0.6	0.7	0.7
RORWA (%)	1.5	0.8	0.9	0.9	1.0

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Bangkok Bank; FSSIA estimates

Financial Statements

Bangkok Bank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	2,061,309	2,368,238	2,474,809	2,573,801	2,651,015
Total provisions	(174,276)	(185,567)	(206,474)	(215,819)	(227,159)
interest in suspense	4,013	6,431	7,424	7,207	7,423
Net customer loans	1,891,046	2,189,102	2,275,759	2,365,188	2,431,278
Bank loans	472,349	519,036	648,880	625,975	606,464
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	649,434	759,394	814,712	837,085	860,119
Cash & equivalents	58,090	73,886	82,350	69,091	75,169
Other interesting assets	-	-	-	-	-
Tangible fixed assets	50,117	74,804	74,963	75,282	75,746
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	95,706	148,802	157,813	160,889	163,974
Total assets	3,216,743	3,765,023	4,054,478	4,133,511	4,212,750
Customer deposits	2,370,792	2,810,863	2,965,819	3,077,187	3,123,345
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	284,550	362,583	452,268	392,959	399,680
Non interest bearing liabilities	133,284	199,267	179,340	184,720	190,262
Hybrid Capital	-	-	-	-	-
Total liabilities	2,788,627	3,372,713	3,597,427	3,654,866	3,713,287
Share capital	19,088	19,088	19,088	19,088	19,088
Reserves	408,663	429,925	436,710	458,246	479,007
Total equity	427,751	449,014	455,799	477,334	498,095
Minority interests	365	1,233	1,252	1,311	1,368
Total liabilities & equity	3,216,743	3,822,960	4,054,478	4,133,511	4,212,750
Supplementary items					
Risk weighted assets (RWA)	2,393,700	2,743,525	2,866,983	2,981,663	3,071,112
Average interest earning assets	3,137,674	3,414,880	3,792,534	3,987,631	4,077,230
Average interest bearing liabilities	2,621,123	2,914,394	3,284,517	3,421,054	3,472,370
Tier 1 capital	406,529	431,380	443,793	462,211	480,468
Total capital	478,740	502,065	514,478	532,896	551,153
Gross non performing loans (NPL)	79,149	104,405	120,066	123,668	131,088
Per share (THB)					
Book value per share	224.09	235.21	238.77	250.05	260.92
Tangible book value per share	224.09	235.21	238.77	250.05	260.92
Growth					
Gross customer loans	(1.0)	14.9	4.5	4.0	3.0
Average interest earning assets	2.4	8.8	11.1	5.1	2.2
Total asset (%)	3.2	17.0	7.7	1.9	1.9
Risk weighted assets (%)	1.0	14.6	4.5	4.0	3.0
Customer deposits (%)	1.9	18.6	5.5	3.8	1.5
Leverage & capital measures					
Customer loan/deposits (%)	79.8	77.9	76.7	76.9	77.8
Equity/assets (%)	13.3	11.9	11.2	11.5	11.8
Tangible equity/assets (%)	13.3	11.9	11.2	11.5	11.8
RWA/assets (%)	74.4	72.9	70.7	72.1	72.9
Tier 1 CAR (%)	17.0	15.7	15.5	15.5	15.6
Total CAR (%)	20.0	18.3	17.9	17.9	17.9
Asset Quality					
Change in NPL (%)	(1.2)	31.9	15.0	3.0	6.0
NPL/gross loans (%)	3.8	4.4	4.9	4.8	4.9
Total provisions/gross loans (%)	8.5	7.8	8.3	8.1	8.6
Total provisions/NPL (%)	220.2	177.7	172.0	174.5	173.3
Valuation					
Recurring P/E (x) *	6.2	10.5	9.0	8.2	7.9
Recurring P/E @ target price (x) *	6.8	11.5	9.8	9.0	8.6
Reported P/E (x)	6.2	12.9	9.0	8.2	7.9
Dividend yield (%)	6.0	2.1	3.4	4.3	6.0
Price/book (x)	0.5	0.5	0.5	0.5	0.4
Price/tangible book (x)	0.5	0.5	0.5	0.5	0.4
Price/tangible book @ target price (x)	0.6	0.5	0.5	0.5	0.5

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Bangkok Bank; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

KASIKORNBANK

KBANK TB

BUY

UNCHANGED

TARGET PRICE	THB168.00
CLOSE	THB137.00
UP/DOWNSIDE	+22.6%
PRIOR TP	THB150.00
CHANGE IN TP	+12.0%
TP vs CONSENSUS	+7.3%

In full swing to a transformation

What is KBANK's hidden value?

We believe that KBANK's business is almost running parallel with SCB's. KBANK is one of the leading banks in terms of digital platforms and technologies, and its retail lending market share is always ranked among the top three spots. Retail lending in Thailand has high growth potential, with the most attractive risk-reward vs other segments, in our view. As a result, investors typically give premium valuations to retail lending-oriented stocks. We believe that there is a lot of hidden value in KBANK. It has not officially announced its new transformation roadmap, though we have a strong conviction that after SCB's restructuring, KBANK is probably the most prepared bank to reform itself to effectively manage its capital and uplift its ROE. Assessing KBANK's hidden value through the lens of SCB, we have come up with an accretion value, if KBANK reforms itself, of at least THB20.3/shr, consisting of 17.3/shr from credit cards and personal loans, 2.1/shr from KLeasing and 0.9/shr from LINE BK.

Looking beyond the potentially weak results in 3Q-4Q21

We expect KBANK to report weak results in 3Q-4Q21, with a 3Q21E net profit of THB7.2b (+8% y-y, -19% q-q) due to the prolonged pandemic, leading to higher provisions and softer fee income. However, we think that investors should look past this to the solid recovery we expect in 2022. We think the market will prioritise opportunities for restructuring to counter competitors for a potential increase in shareholders' returns.

Largest beneficiary of BoT's loan classification guidance

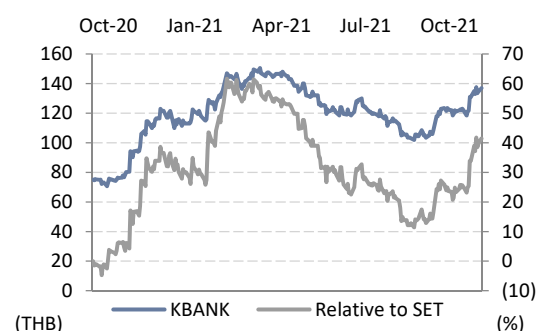
We think KBANK should benefit the most from the BoT's guidance. This should protect it from a cliff effect and give the bank more time to deal with its clients. Based on our calculation, KBANK's 2022 loan yield would decline by 0.44% from its current yield of 4.7%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to 160 bps from our projected 180 bps in 2021. Accordingly, we increase our 2022-23E net profit by 9%/11%.

Turning more bullish on KBANK; upgrade to a top pick

We increase our 2022 GGM TP to THB168. After recommending KBANK as a safe investment in Thailand Banks and Diversified Financials – "One movement shakes the whole circle," 23 September 2021, we now choose KBANK as one of our top picks. We believe that it will deliver strong growth in 2022. We also think that it is in full swing to transform itself to unlock its value and increase shareholders' returns.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	41,540	46,806	52,697	57,595
Net profit	29,487	33,139	37,321	40,797
EPS (THB)	12.45	13.99	15.75	17.22
vs Consensus (%)	-	(1.0)	0.6	(4.2)
Core net profit	29,487	33,139	37,321	40,797
Core EPS (THB)	12.45	13.99	15.75	17.22
Chg. In EPS est. (%)	-	5.8	9.1	11.3
EPS growth (%)	(23.1)	12.4	12.6	9.3
Core P/E (x)	11.0	9.8	8.7	8.0
Dividend yield (%)	1.8	2.0	2.6	2.9
Price/book (x)	0.7	0.7	0.6	0.6
ROE (%)	7.0	7.2	7.5	7.7
ROA (%)	1.0	1.0	1.1	1.2



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	11.8	15.6	80.9
Relative to country (%)	14.3	13.0	38.6
Mkt cap (USD m)	9,608		
3m avg. daily turnover (USD m)	106.5		
Free float (%)	50		
Major shareholder	Thai NVDR (18%)		
12m high/low (THB)	153.00/70.00		
Issued shares (m)	2,393		

Sources: Bloomberg consensus; FSSIA estimates



Yuvarart Suwanumchai

yuvarart.suw@fssia.com
+66 2611 3554

Investment thesis

We turn more bullish view on KBANK and choose it as one of our top picks, as we believe that the extension of the relaxed loan classification and provision setup rules will allow the bank to have more time to deal with its trouble debts.

Moreover, once the Covid-19 dust has settled, we expect KBANK to post sustainable long-term growth, as it has laid a strong foundation for such. First, KBANK has been heavily investing in digital platforms for more than a decade – we believe it will utilise its digital platform to generate more revenue while reducing operating and funding costs. Second, KBANK is one of the first movers to have expanded into the Asean Economic Community +3. Therefore, its digital investment and international expansion should be a game changer, helping it to become a regional digital bank.

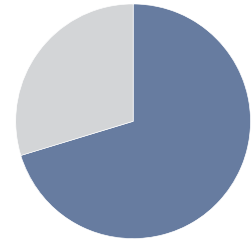
Company profile

Established on 8 June 1945, Kasikornbank was listed on the Stock Exchange of Thailand in 1976. At the end of 2020, KBANK operated 860 branches, down from 886 in 2019 and 10,981 ATMs, up from 8,168 in 2019. In addition, the bank has an international network that includes 16 establishments in eight countries.

www.kasikornbank.com

Principal activities (revenue, 2020)

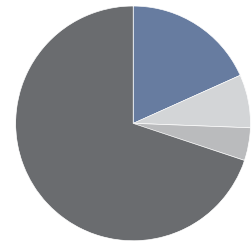
- Net interest income - 70.3 %
- Non-interest income - 29.7 %



Source: Kasikornbank

Major shareholders

- Thai NVDR - 18.3 %
- State Street Europe Ltd. - 7.3 %
- South East Asia UK (Type C) Nominees - 4.5 %
- Others - 69.9 %



Source: Kasikornbank

Catalysts

Potential share price catalysts for KBANK include:

- Lower credit cost from fewer new NPLs;
- Faster expansion in the digital lending space than expected;
- The return of foreign fund flows into the Thai stock market.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.

Event calendar

Date	Event
21 Oct 2021	3Q21 results announcement

Key assumptions

	2021E (%)	2022E (%)	2023E (%)
Net profit (THB m)	33,139	37,321	40,797
Net profit growth	12.4	12.6	9.3
NIM	3.19	3.00	3.02
Loan growth	7.0	5.0	5.0
Fee growth	4.7	5.0	5.0
Non-NII growth*	(0.0)	9.8	6.5
Credit cost (bp)	180	160	150
Cost to income*	44.9	44.0	43.8

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
Loan growth	±2ppt	5.0	7.0	9.0
% change in net profit		(1.2)	-	1.2
NIM (%)	±5bp	3.14	3.19	3.24
% change in net profit		(4.1)	-	4.1
Credit cost (bp)	±10bp	170	180	190
% change in net profit		3.4	-	(3.4)

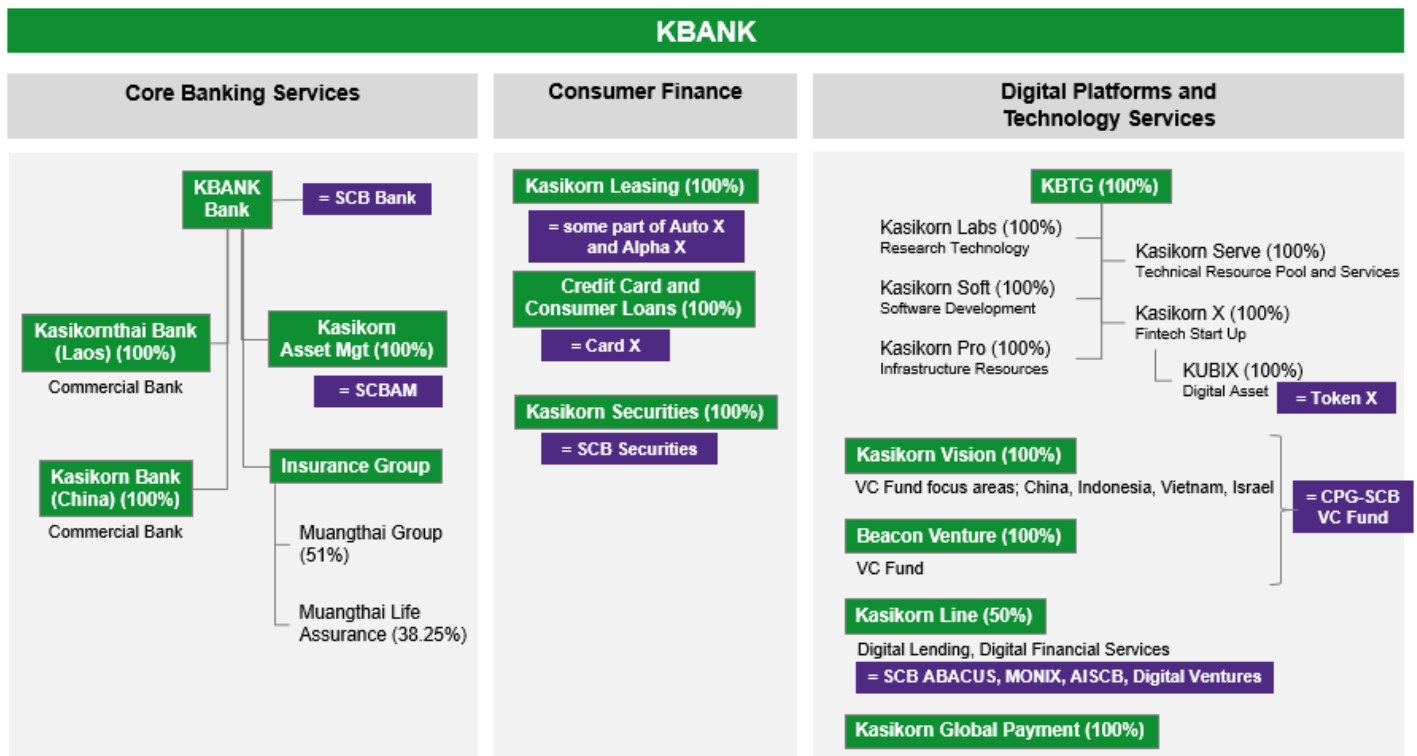
Source: FSSIA estimates

What is KBANK's hidden value?

After the reimagining of Siam Commercial Bank (SCB TB, BUY, TP THB158) caused a surge in its share price, we recommended that investors without a long position in SCB accumulate KBANK as a safe investment strategy in our report, Thailand Banks and Diversified Financials – “One movement shakes the whole circle”, dated 23 September 2021. We will expand upon why we believe KBANK could be the safest investment in the banking sphere.

We believe that KBANK's business is almost running parallel with SCB's (see Exhibits 1 and 2). First, KBANK is one of the leading banks in terms of digital platforms and technologies. Accordingly, we believe that it is one of the best positioned banks to benefit from the country's digital age. Second, KBANK's retail lending market share is always ranked among the top three spots. Retail lending in Thailand has high growth potential, with the most attractive risk-reward vs other segments, in our view. As a result, investors typically give premium valuations to retail lending-oriented stocks. For example, the average P/BV of Krungthai Card (KTC TB, HOLD, TP THB73), the leader in credit card and personal loans, is 4.7x vs the average of 0.6-0.7x P/BV for the banking sector. We are convinced that there is a lot of hidden value in KBANK.

Exhibit 52: KBANK's potential new business structure – FSSIA's view



*Percentages in parentheses are the current percentage holding by KBANK

Source: FSSIA estimates

Exhibit 53: SCBX’s structure

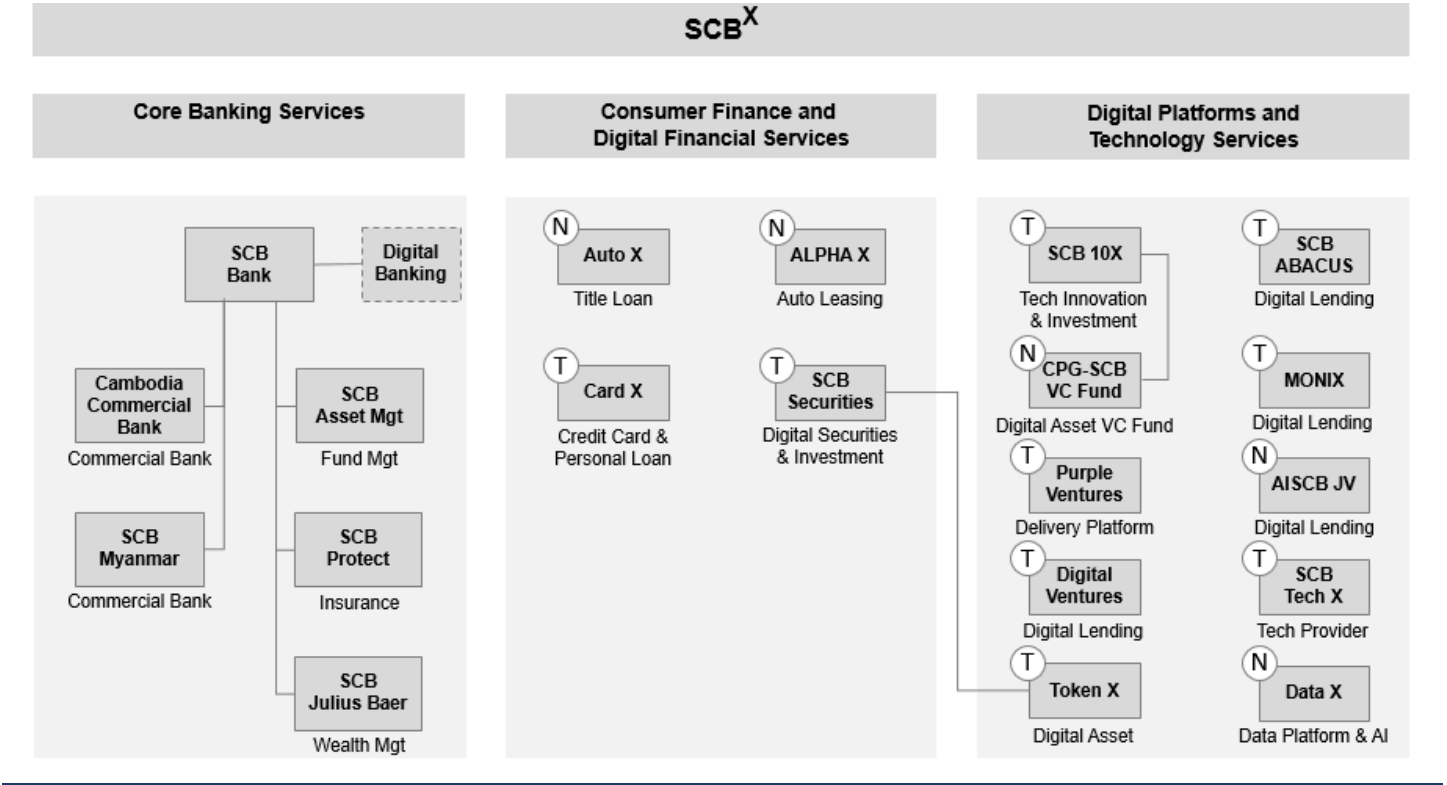




Exhibit 54: Example of KBTG's innovative technologies

<p>MAKE by KBank</p> <p>A mobile banking application designed specifically for a new generation increasingly reliant on mobile banking for the freedom it gives to personalize financial management.</p> 	<p>LINE BK</p> <p>Customers can open an account, make funds transfers, and receive real-time notifications on transactions; includes integration of risk-assessment for instant loan service approval via LINE application.</p> 	<p>KUBIX</p> <p>Kubix Digital Asset Company Limited was established to operate as an Initial Coin Offering (ICO) portal for offering digital tokens in the primary market, aiming to develop investment markets via blockchain, while helping to promote technological literacy among investors, especially in digital token investment.</p> 
<p>KhunThong</p> <p>Social chatbot helping friends settle expenses within a chat for a seamless payment experience.</p> 	<p>Alternative Vaccine Registration</p> <p>Jointly developed with Thonburi Healthcare Group to serve as a channel to register for appointments and make advance payment for the Moderna vaccination via LINE application.</p> 	<p>COVID-19 Hospitel Management Solution</p> <p>Worked with Praram 9 Hospital in creating a registration system for asymptomatic COVID-19 patients and those with minor symptoms.</p> 

Source: KBANK

2) Among the top three banks for retail segment market share

Apart from being a technology-driven bank, KBANK also ranks among the top three banks for retail segment market share, including housing loans, credit cards and personal loans. Recently, it has expanded its business to the small ticket size retail segment under LINE BK. The outstanding portfolio was at cTHB8b in 1H21.

Exhibit 55: KBANK's retail loan portfolio – among the top three banks for retail segment market share

Outstanding loans	2019 (THB b)	2020 (THB b)	2021E (THB b)	2022E (THB b)	2023E (THB b)
Housing loans	326	390	429	472	519
Credit cards	86	91	96	100	105
Consumer loans	78	91	100	110	121
KLeasing	115	115	121	127	133
Change y-y	(%)	(%)	(%)	(%)	(%)
Housing loans	14.4	19.6	10	10	10
Credit cards	8.7	5.8	5	5	5
Consumer loans	24.9	16.7	10	10	10
KLeasing	6.2	-	5	5	5

Sources: KBANK; FSSIA's compilation

Hidden value of KBANK

KBANK has not officially announced its new transformation roadmap, though we have a strong conviction that after SCB's restructuring, KBANK is probably the most prepared bank to reform itself to effectively manage its capital and uplift its ROE.

Assessing KBANK's hidden value through the lens of SCB, we have come up with an accretion value, if KBANK reforms itself, of at least THB20.3/shr, consisting of 17.3/shr from credit cards and personal loans, 2.1/shr from KLeasing and 0.9/shr from LINE BK. This accretion value does not yet factor in its digital platforms and technology services, as KBANK has still not provided many details.

Exhibit 56: Total accretion value

Incremental value	(THB/share)	Note
- Accretion value from card and consumer loans	17.31	Applying 15.5x 2022E P/E
- Accretion value from KLeasing	2.09	Applying 12x 2022E P/E
- Accretion value from LINE BK	0.86	Applying 15.5x 2022E P/E
Total net incremental value	20.26	

Source: FSSIA estimates

Exhibit 57: Card and consumer loan (CC) assumptions

	2019	2020	2021E	2022E	2023E
Assumptions					
Total outstanding loans (THB m)	164,000	182,000	195,650	210,438	226,465
- Credit cards	86,000	91,000	95,550	100,328	105,344
- Consumer loans	78,000	91,000	100,100	110,110	121,121
<i>Total outstanding loans change y-y (%)</i>		11.0	7.5	7.6	7.6
<i>Net yield on average port (%)</i>			4.0	4.0	4.0
Net profit (THB m)			7,553	8,122	8,738

Source: FSSIA estimates

Exhibit 58: Incremental value of CC in case of valuing CC separately

Value of CC operating under KBANK	
- 2022E net profit (THB m)	8,122
- 2022E average P/E of KBANK (x)	10.4
- Total current value of CC (THB m)	84,466
CC value/share (THB/share)	35.65
Separate entity	
- 2022E net profit (THB m)	8,122
- 2022E average P/E of KTC and AEONTS (x)	15.5
- Total current value of CC (THB m)	125,481
CC value/share (THB/share)	52.96
Net incremental CC value in case of valuing CC separately (THB/share)	17.31

Source: FSSIA estimates

Exhibit 59: KLeasing assumptions

	2019	2020	2021E	2022E	2023E
Assumptions					
Total outstanding loans (THB m)	115,000	115,000	120,750	126,788	133,127
<i>Total outstanding loans change y-y (%)</i>		-	5.0	5.0	5.0
<i>Net yield on average port (%)</i>			2.0	2.0	2.0
Net profit (THB m)			2,358	2,475	2,599

Source: FSSIA estimates

Exhibit 60: Incremental value of KLeasing in case of valuing KLeasing separately

Value of KLeasing operating under	
KBANK	
- 2022E net profit (THB m)	2,475
- 2022E average P/E of KBANK (x)	10.4
- Total current value of KLeasing (THB m)	25,744
KLeasing value/share (THB/share)	10.9
Separate entity	
- 2022E net profit (THB m)	2,475
- 2022E average P/E of THANI and ASK* (x)	12
- Total current value of KLeasing (THB m)	30,695
KLeasing value/share (THB/share)	12.96
Net incremental KLeasing value in case of valuing KLeasing separately (THB/share)	2.09

*We use THANI and ASK's average P/E as most of KLeasing's loans are hire purchase lending not auto title loans
Source: FSSIA estimates

Exhibit 61: LINE BK assumptions

	2021E	2022E	2023E
Assumptions			
Total outstanding loans (THB m)	10,000	13,000	15,600
Total outstanding loans change y-y (%)		30.0	20.0
Net yield on average port (%)	1	3.5	5
Net profit (THB m)	100	403	715

Source: FSSIA estimates

Exhibit 62: Incremental value of LINE BK in case of valuing LINE BK separately

Value of LINE BK operating under	
KBANK	
- 2022E net profit (THB m)	403
- 2022E average P/E of KBANK (x)	10.4
- Total current value of LINE BK (THB m)	4,186
LINE BK value/share (THB/share)	1.8
Separate entity	
- 2022E net profit (THB m)	403
- 2022E average P/E of KTC and AEONTS (x)	15
- Total current value of LINE BK (THB m)	6,219
LINE BK value/share (THB/share)	2.62
Net incremental LINE BK value in case of valuing LINE BK separately (THB/share)	0.86

Source: FSSIA estimates

Looking beyond the potentially weak results in 3Q-4Q21

We expect KBANK to report weak results in 3Q-4Q21 due to the prolonged Covid pandemic, leading to higher provisions and softer fee income. However, we think that investors should look past this to the solid recovery we expect in 2022. We think the market will prioritise opportunities for restructuring to counter competitors for a potential increase in shareholders' returns. We expect KBANK to report a 3Q21 net profit of THB7,210m (+8% y-y, -19% q-q). KBANK could deliver solid NII in 3Q21, in our view, for two reasons. First, we expect KBANK to post the second highest YTD loan growth at 7.8%, driven by 1) the rehabilitation loans and forbearance program; and 2) the new credit demand from clients. Second, we think KBANK might partially overstate its EIR recognition due to the forbearance program. Accordingly, we think the bank will continue to set aside extra expected credit losses (ECL) to offset the overstated EIR. Moreover, we think its non-performing loans (NPLs) should increase slightly by 3% q-q in 3Q21. This would result in a rise in its credit cost to 195 bps in 3Q21 from 185 bps in 2Q21, exceeding its 2021 target of less than 160 bps. For its fee income, we expect KBANK to suffer from the slow business activities due to the lockdowns, in line with other banks.

Exhibit 63: KBANK – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	27,255	29,717	29,957	10	1	87,806	7	77	114,513	5	Lower fee income q-q from lockdown measures
Non-interest income*	9,498	11,138	9,987	5	(10)	33,020	(2)	72	45,847	(0)	
Operating income*	36,754	40,855	39,943	9	(2)	120,826	4	75	160,360	4	
Operating expenses	16,447	17,069	17,811	8	4	51,411	3	71	71,945	3	
PPOP before tax*	20,306	23,786	22,132	9	(7)	69,414	5	79	88,415	4	
Provision	10,815	10,807	11,706	8	8	31,163	(27)	75	41,821	(4)	
Income tax	2,048	2,548	1,971	(4)	(23)	7,553	76	86	8,806	15	
Minority interest	765	1,537	1,246			3,968	39		4,648	11	
Normalised profit	6,679	8,894	7,210	8	(19)	26,731	65	81	33,139	12	
Extraordinary items	0	0	0			0			0		
Net profit	6,679	8,894	7,210	8	(19)	26,731	65	81	33,139	12	
EPS (THB)	2.82	3.75	3.04	8	(19)	11.28	66	81	13.99	12	
Asset quality ratio											
Gross NPLs	96,743	106,920	110,662	14	3				112,118	11	
NPL ratios (%)	3.95	3.95	4.03						4.08		
LLR/NPLs (%)	142	136	137						131		
Credit cost (bp)	202	185	195						180		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	44.7	41.8	44.6						44.9		
Average yield	3.7	3.7	3.6						3.6		
Cost of fund	0.7	0.6	0.6						0.6		
NIM	3.2	3.2	3.2						3.2		
Non-int inc/total income	25.8	27.3	25.0						28.6		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan/deposit ratio	94.8	96.1	96.5						96.1		
Capital adequacy	(%)	(%)	(%)						(%)		
CAR	18.4	18.2	18.6						18.5		
CET 1/ Risk assets	15.7	15.3	16.1						16.0		
Tier 2 / Risk assets	2.7	2.3	2.5						2.5		
Loan growth	(%)	(%)	(%)						(%)		
Year-to-date	7.7	6.2	7.8								Second highest loan growth from both new demand and support measures
y-y	10.7	12.1	12.2						7.0		
q-q	1.4	3.5	1.5								

*Including share of profits from associates

Sources: KBANK; FSSIA estimates

The largest beneficiary of BoT's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for SCB which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

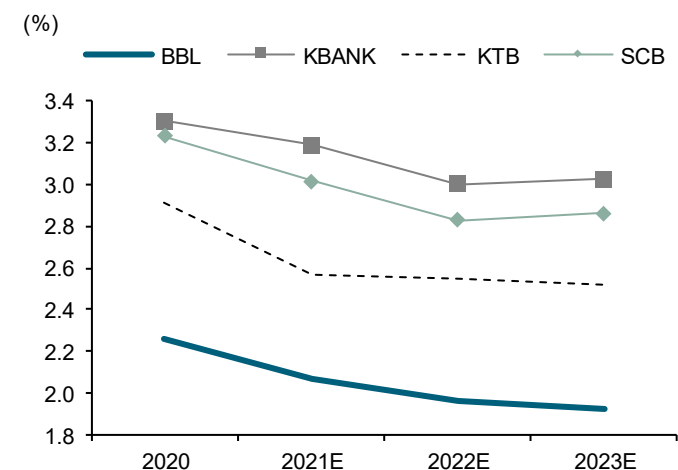
11. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
12. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
13. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
14. The CDR EIR would be 50% lower than that of each bank's current level;
15. Banks will set credit costs in 2022-23 close to their normal rat.

Exhibit 64: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

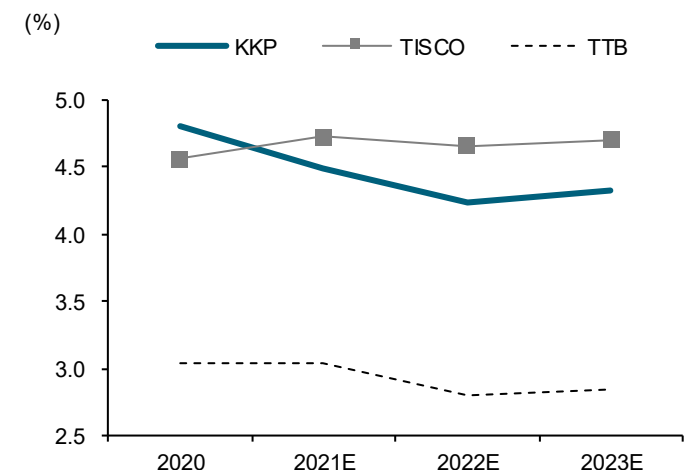
Sources: Company data; FSSIA estimates

Exhibit 65: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 66: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 67: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

We think KBANK should benefit the most from the BoT's guidance. This should protect it from a cliff effect and give the bank more time to deal with its clients. Based on our calculation, KBANK's 2022 loan yield would decline by 0.44% from its current yield of 4.7%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to 160 bps from our projected 180 bps in 2021, close to its normal rate of 120-140 bps. Accordingly, we increase our 2022-23 net profit forecasts by 9%/11%. We also increase our 2021 earnings forecast by 6%, mainly due to the higher-than-expected loan growth and loan yield.

Exhibit 68: KBANK – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	109,022	111,801	114,513	2.4	110,160	113,616	3.1	114,769	117,376	2.3
Non-interest income*	45,869	45,847	45,847	(0.0)	50,357	50,357	(0.0)	53,646	53,646	0.0
Operating income*	154,891	157,647	160,360	1.7	160,517	163,973	2.2	168,415	171,022	1.5
Operating expenses	69,997	71,945	71,945	0.0	72,107	72,107	0.0	74,885	74,885	(0.0)
PPOP before tax*	84,895	85,702	88,415	3.2	88,409	91,865	3.9	93,531	96,137	2.8
Expected credit loss (Reversal)	43,548	41,659	41,821	0.4	41,541	39,392	(5.2)	42,335	38,777	(8.4)
Tax expenses	7,656	8,324	8,806	5.8	7,874	9,917	26.0	9,414	10,841	15.2
Minority interest	4,203	4,393	4,648	5.8	4,796	5,234	9.1	5,139	5,722	11.3
Normalised profit	29,487	31,325	33,139	5.8	34,198	37,321	9.1	36,642	40,797	11.3
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	29,487	31,325	33,139	5.8	34,198	37,321	9.1	36,642	40,797	11.3
EPS (THB)	12.45	13.22	13.99	5.8	14.43	15.75	9.2	15.47	17.22	11.3
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	101,007	121,208	112,118	(7.5)	113,936	117,724	3.3	117,354	121,255	3.3
Gross NPLs / Loans (%)	3.93	4.44	4.08		3.98	4.08		3.90	4.00	
Loan loss reserve/NPLs (%)	133	122	131		122	129		124	126	
Credit cost (bps)	205	180	180		170	160		165	150	
Profitability ratio (%)										
Cost to income ratio*	45.2	45.6	44.9		44.9	44.0		44.5	43.8	
Average yield	3.86	3.54	3.60		3.51	3.40		3.65	3.58	
Cost of funds	0.78	0.59	0.58		0.76	0.55		0.77	0.77	
Net interest margin (NIM)	3.30	3.12	3.19		2.97	3.00		3.10	3.02	
Loan growth (%)										
y-y	12.1	6.2	7.0		5.0	5.0		5.0	5.0	

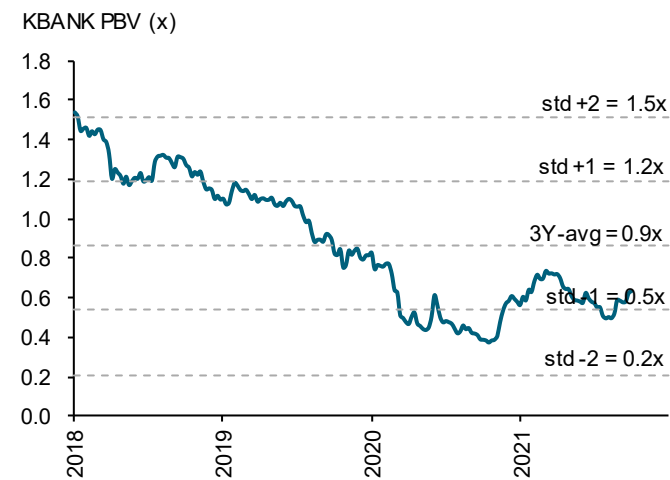
*Including share of profits from associates

Source: FSSIA estimates

Exhibit 69: KBANK – GGM-derived target price

Target price	THB 168 (from THB150)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost to equity (%)	8.4 (unchanged)
Terminal growth (%)	4.5 (from 4.0)
ROE target (%)	7.6 (from 7.2)
Risk to TP	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.

Source: FSSIA estimates

Exhibit 70: KBANK – one-year forward rolling P/BV

Sources: Bloomberg; FSSIA estimates

Exhibit 71: KBANK – one-year forward rolling P/E

Sources: Bloomberg; FSSIA estimates

Exhibit 72: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side	Market Cap	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current	Target			21E	22E	21E	22E	21E	22E	21E	22E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(x)	(x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Kasikornbank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	130,178	127,592	129,592	128,574	138,948
Interest expense	(27,490)	(18,570)	(15,079)	(14,958)	(21,573)
Net interest income	102,688	109,022	114,513	113,616	117,376
Net fees & commission	36,740	33,004	34,548	36,276	38,090
Foreign exchange trading income	8,362	0	0	0	0
Securities trading income	8,412	9,428	7,939	8,986	9,809
Dividend income	2,817	2,384	2,623	2,754	2,892
Other income	1,428	1,246	949	2,564	3,090
Non interest income	57,759	46,063	46,059	50,580	53,881
Total income	160,447	155,085	160,572	164,196	171,256
Staff costs	(33,261)	(32,143)	(32,786)	(31,803)	(33,393)
Other operating costs	(39,468)	(37,853)	(39,159)	(40,305)	(41,492)
Operating costs	(72,729)	(69,997)	(71,945)	(72,107)	(74,885)
Pre provision operating profit	87,718	85,088	88,627	92,089	96,371
Provision for bad and doubtful debt	(34,012)	(43,548)	(41,821)	(39,392)	(38,777)
Other provisions	-	-	-	-	-
Operating profit	53,706	41,540	46,806	52,697	57,595
Recurring non operating income	44	(193)	(213)	(223)	(234)
Associates	44	(193)	(213)	(223)	(234)
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	53,750	41,347	46,594	52,473	57,360
Tax	(10,309)	(7,656)	(8,806)	(9,917)	(10,841)
Profit after tax	43,441	33,690	37,787	42,556	46,519
Minority interests	(4,714)	(4,203)	(4,648)	(5,234)	(5,722)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	38,727	29,487	33,139	37,321	40,797
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	38,727	29,487	33,139	37,321	40,797
Per share (THB)					
Recurring EPS *	16.18	12.45	13.99	15.75	17.22
Reported EPS	16.18	12.45	13.99	15.75	17.22
DPS	5.00	2.50	2.70	3.50	4.00
Growth					
Net interest income (%)	4.2	6.2	5.0	(0.8)	3.3
Non interest income (%)	1.5	(20.3)	0.0	9.8	6.5
Pre provision operating profit (%)	0.7	(3.0)	4.2	3.9	4.7
Operating profit (%)	(1.6)	(22.7)	12.7	12.6	9.3
Reported net profit (%)	0.7	(23.9)	12.4	12.6	9.3
Recurring EPS (%)	0.7	(23.1)	12.4	12.6	9.3
Reported EPS (%)	0.7	(23.1)	12.4	12.6	9.3
Income Breakdown					
Net interest income (%)	64.0	70.3	71.3	69.2	68.5
Net fees & commission (%)	22.9	21.3	21.5	22.1	22.2
Foreign exchange trading income (%)	5.2	-	-	-	-
Securities trading income (%)	5.2	6.1	4.9	5.5	5.7
Dividend income (%)	1.8	1.5	1.6	1.7	1.7
Other income (%)	0.9	0.8	0.6	1.6	1.8
Operating performance					
Gross interest yield (%)	4.20	3.86	3.60	3.40	3.58
Cost of funds (%)	1.24	0.78	0.58	0.55	0.77
Net interest spread (%)	2.96	3.08	3.02	2.85	2.81
Net interest margin (%)	3.3	3.3	3.2	3.0	3.0
Cost/income(%)	45.3	45.1	44.8	43.9	43.7
Cost/assets(%)	2.3	2.0	1.9	1.8	1.9
Effective tax rate (%)	19.2	18.5	18.9	18.9	18.9
Dividend payout on recurring profit (%)	30.9	20.1	19.3	22.2	23.2
ROE (%)	9.9	7.0	7.2	7.5	7.7
ROE - COE (%)	(0.1)	(3.0)	(2.7)	(2.4)	(2.2)
ROA (%)	1.3	1.0	1.0	1.1	1.2
RORWA (%)	2.0	1.5	1.5	1.6	1.7

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kasikornbank; FSSIA estimates

Financial Statements

Kasikornbank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	2,001,956	2,244,821	2,401,958	2,522,056	2,648,159
Total provisions	(124,879)	(134,393)	(147,391)	(151,474)	(153,176)
interest in suspense	2,830	11,272	16,814	20,176	21,185
Net customer loans	1,879,907	2,121,700	2,271,382	2,390,759	2,516,168
Bank loans	385,940	417,420	436,899	383,155	363,053
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	776,700	777,790	910,776	919,415	928,153
Cash & equivalents	61,385	61,962	57,818	93,342	65,485
Other interesting assets	-	-	-	-	-
Tangible fixed assets	77,686	85,664	87,471	89,928	93,034
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	112,272	194,261	116,423	119,895	122,656
Total assets	3,293,889	3,658,798	3,880,769	3,996,493	4,088,550
Customer deposits	2,072,049	2,344,998	2,500,005	2,575,005	2,626,505
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	185,132	183,631	205,628	211,797	216,033
Non interest bearing liabilities	582,994	638,883	638,883	638,883	638,883
Hybrid Capital	-	-	-	-	-
Total liabilities	2,840,174	3,167,512	3,344,516	3,425,685	3,481,421
Share capital	23,933	23,693	23,693	23,693	23,693
Reserves	382,425	415,976	456,219	487,144	519,648
Total equity	406,358	439,670	479,913	510,837	543,342
Minority interests	47,357	51,616	56,341	59,971	63,787
Total liabilities & equity	3,293,889	3,658,798	3,880,769	3,996,493	4,088,550
Supplementary items					
Risk weighted assets (RWA)	2,210,881	2,404,276	2,572,575	2,701,204	2,836,264
Average interest earning assets	3,101,614	3,302,313	3,594,832	3,787,130	3,881,996
Average interest bearing liabilities	2,214,536	2,368,844	2,590,381	2,718,755	2,786,523
Tier 1 capital	357,975	387,854	412,059	440,893	471,659
Total capital	433,753	452,095	476,300	505,134	535,900
Gross non performing loans (NPL)	84,038	101,007	112,118	117,724	121,255
Per share (THB)					
Book value per share	169.79	185.57	202.55	215.60	229.32
Tangible book value per share	169.79	185.57	202.55	215.60	229.32
Growth					
Gross customer loans	4.6	12.1	7.0	5.0	5.0
Average interest earning assets	6.9	6.5	8.9	5.3	2.5
Total asset (%)	4.4	11.1	6.1	3.0	2.3
Risk weighted assets (%)	6.2	8.7	7.0	5.0	5.0
Customer deposits (%)	3.9	13.2	6.6	3.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	90.7	90.5	90.9	92.8	95.8
Equity/assets (%)	12.3	12.0	12.4	12.8	13.3
Tangible equity/assets (%)	12.3	12.0	12.4	12.8	13.3
RWA/assets (%)	67.1	65.7	66.3	67.6	69.4
Tier 1 CAR (%)	16.2	16.1	16.0	16.3	16.6
Total CAR (%)	19.6	18.8	18.5	18.7	18.9
Asset Quality					
Change in NPL (%)	13.0	20.2	11.0	5.0	3.0
NPL/gross loans (%)	4.2	4.5	4.7	4.7	4.6
Total provisions/gross loans (%)	6.2	6.0	6.1	5.7	5.8
Total provisions/NPL (%)	148.6	133.1	131.5	128.7	126.3
Valuation					
Recurring P/E (x) *	8.5	11.0	9.8	8.7	8.0
Recurring P/E @ target price (x) *	10.4	13.5	12.0	10.7	9.8
Reported P/E (x)	8.5	11.0	9.8	8.7	8.0
Dividend yield (%)	3.6	1.8	2.0	2.6	2.9
Price/book (x)	0.8	0.7	0.7	0.6	0.6
Price/tangible book (x)	0.8	0.7	0.7	0.6	0.6
Price/tangible book @ target price (x)	1.0	0.9	0.8	0.8	0.7

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kasikornbank; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

KIATNAKIN BANK KKP TB

BUY

UNCHANGED

TARGET PRICE	THB68.00
CLOSE	THB55.25
UP/DOWNSIDE	+23.1%
PRIOR TP	THB65.00
CHANGE IN TP	+4.6%
TP vs CONSENSUS	+5.4%

2nd highest NP growth and div yield

Turning more bullish on KKP

We turn more bullish on KKP due to the relaxed loan classification and provision rules by the Bank of Thailand (BoT). This should give KKP more time to deal with its trouble loans and should result in a significant increase in its accrued interest (currently increasing at the highest rate vs peers, though could be a burden in the future if customers cannot repay their debts). Moreover, we believe that KKP should deliver continually solid top-line growth due to 1) its unique strategy to expand its hire purchase loans to new markets; and 2) its strong franchise fee income.

3Q21: strong core operations but high provisions expected

We expect KKP to report a 3Q21 net profit of THB1,320m (-2% y-y, -3% q-q). Its 3Q21 core operations should be strong, driven by 1) a 1.0% q-q loan volume increase due largely to a rise in its hire purchase loans; and 2) a high fee income level (moderately dropping q-q due to the very high base in 2Q21) thanks to its strong brokerage and investment banking (IB) businesses, i.e. the CPALL and MAKRO deal. However, we believe that KKP will still set aside a huge management overlay to cushion the continued rise in accrued interest. We also think its NPLs will increase after the end of the debt forbearance program.

Earnings revisions following the Bank of Thailand's new guidance

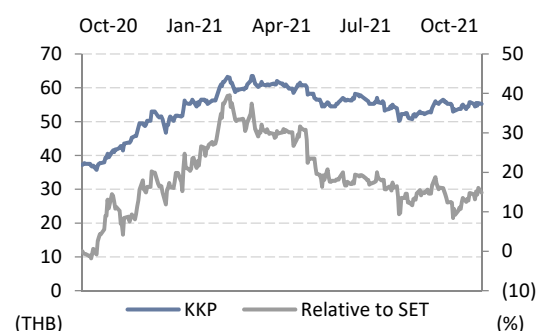
The BoT is encouraging banks to provide CDR to their clients. The negative impact would be a reduction in loan yields, depending on the CDR program. Based on our calculation, KKP's 2022 loan yield would decline by 0.39% from its current yield of 6.6%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 120 bps vs our projected 193 bps in 2021, close to its normal rate of 100-120 bps. We raise our 2022-23 fee income assumptions, supported by the strong IB team and the more favourable capital market conditions. Thus, we increase our 2022-23 net profit forecasts by 5%/4%.

Second highest net profit growth and dividend yield

We revise up our GGM-based TP to THB68 from THB65. Our TP implies a 1.1x 2021E P/BV, near its three-year average. We expect KKP's performance to pass its bottom in 3Q21, with stronger bottom-line growth starting from 4Q21. We expect KKP to post the second highest 2022 net profit growth at 21% y-y, with the second highest dividend yield at 5-7% pa. Hence, KKP is our third most preferred Buy in the banking space.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	6,487	6,761	8,376	9,478
Net profit	5,123	5,543	6,700	7,581
EPS (THB)	6.05	6.55	7.91	8.95
vs Consensus (%)	-	(0.7)	7.9	8.6
Core net profit	5,123	5,543	6,700	7,581
Core EPS (THB)	6.05	6.55	7.91	8.95
Chg. In EPS est. (%)	-	(2.7)	4.5	4.0
EPS growth (%)	(14.4)	8.2	20.9	13.2
Core P/E (x)	9.1	8.4	7.0	6.2
Dividend yield (%)	4.1	4.5	6.3	7.2
Price/book (x)	1.0	0.9	0.9	0.8
ROE (%)	11.3	11.6	13.0	13.6
ROA (%)	1.5	1.5	1.7	1.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.0	(0.9)	51.4
Relative to country (%)	2.2	(3.1)	16.0
Mkt cap (USD m)	1,385		
3m avg. daily turnover (USD m)	5.1		
Free float (%)	80		
Major shareholder	Wattanavekin family (4%)		
12m high/low (THB)	64.25/35.50		
Issued shares (m)	847		

Sources: Bloomberg consensus; FSSIA estimates



Yuvanart Suwanumphai

yuvanart.suw@fssia.com
+66 2611 3554

Investment thesis

KKP is a modest commercial banking operation whose main portfolio includes hire purchase lending. The bank commands a medium-sized c4% market share in auto hire purchase lending. Moreover, KKP has a solid investment banking arm, Phatra Securities PLC (PHATRA, not listed), under Phatra Capital (100% owned by KKP). PHATRA is prominent in investment banking (IB), financial advisory (FA), institutional securities brokerage, and the growing private banking business. In our opinion, KKP's dominant position in institutional brokerage, as well as its IB and FA businesses, can potentially help it to generate more sustainable performance compared with its peers in the current low interest rate environment.

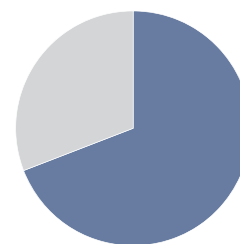
Company profile

KKP was created through the merger of a commercial banking business driven by Kiatnakin Bank and a capital market business led by Phatra Capital and Phatra Securities. KKP's banking operations are mostly geared toward retail, with auto hire purchase lending accounting for 47% of its loan portfolio at end-2020.

kiatnakin.co.th

Principal activities (revenue, 2020)

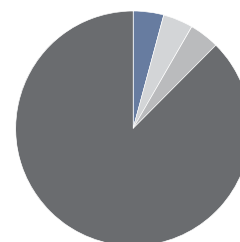
- Net interest income - 69.1 %
- Non-interest income - 30.9 %



Source: Kiatnakin Bank

Major shareholders

- Wattanavekin family - 4.2 %
- Eastern Sugar and Cane - 4.1 %
- Ramkamhang Hospital - 4.1 %
- Others - 87.6 %



Source: Kiatnakin Bank

Catalysts

Potential share price catalysts for KKP include:

- A higher dividend payout;
- Higher fee income, especially from Phatra;
- An increase in revenues related to the equity market.

Risks to our call

Downside risks to our GGM-based target price include weakening asset quality and lower fee income.

Event calendar

Date	Event
Mid Oct-2021	3Q21 results announcement

Key assumptions

	2021E	2022E	2023E
	(%)	(%)	(%)
Net profit (THB m)	5,543	6,700	7,581
Net profit growth	8.2	20.9	13.2
NIM	4.50	4.24	4.33
Loan growth	8.5	5.0	5.0
Fee growth	33.5	(0.2)	2.0
Non-NII growth*	14.6	1.2	2.5
Credit cost (bp)	193	120	110
Cost to income*	46.8	47.9	46.0

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
		6.50	8.50	10.50
Loan growth	±2ppt			
% change in net profit		(1.5)	-	1.5
NIM (%)	±5bp	4.45	4.50	4.55
% change in net profit		(2.5)	-	2.5
Credit cost (bp)	±10bp	170	180	190
% change in net profit		1.6	-	(1.6)

Source: FSSIA estimates

3Q21: strong core operations but high provisions expected

We expect KKP to report a 3Q21 net profit of THB1,320m (-2% y-y, -3% q-q). Its 3Q21 core operations should be strong, driven by 1) a 1.0% q-q loan volume increase due largely to a rise in its hire purchase loans; and 2) a high fee income level (moderately dropping q-q due to the very high base in 2Q21) thanks to its strong brokerage and investment banking (IB) businesses, i.e. the CP All (CPALL TB, BUY, TP THB76) and Siam Makro (MAKRO TB, HOLD, TP THB52) deal. However, we believe that KKP will still set aside a huge management overlay to cushion the continued rise in accrued interest. We also think its non-performing loans (NPLs) will increase after the end of the debt forbearance program.

Exhibit 73: KKP – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	3,530	3,794	3,952	12	4	11,576	8	76	15,201	4	Strong loan growth
Non-interest income	1,283	1,941	1,703	33	(12)	5,429	19	72	7,509	15	Lower fee income q-q due to high base effect
Operating income	4,813	5,735	5,654	17	(1)	17,005	11	75	22,710	7	
Operating expenses	2,130	2,678	2,673	25	(0)	7,934	(2)	75	10,621	(0)	
PPOP before tax	2,682	3,058	2,981	11	(2)	9,071	27	75	12,089	14	
Provision	1,017	1,378	1,347	32	(2)	3,960	96	74	5,327	30	
Income tax	310	322	310	(0)	(4)	938	(15)	77	1,217	(9)	
Minority interest	8	4	3			37	257		1		
Normalised profit	1,347	1,354	1,320	(2)	(3)	4,137	3	75	5,543	8	
Extraordinary items	0	0	0			0			0		
Net profit	1,347	1,354	1,320	(2)	(3)	4,137	3	75	5,543	8	
EPS (THB)	1.59	1.60	1.56	(2)	(3)	4.89	3	75	6.55	8	
Asset quality ratio											
Gross NPLs (THB m) ex POCI	7,518	9,652	10,156	35	5				11,416	47	
NPL ratios (%) ex POCI	2.90	3.40	3.56						3.98		
LLR/NPLs (%) ex POCI	153	160	158						148		
Credit cost (bp)	162	200	190						193		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio	44.3	46.7	47.3						46.8		
Average yield	5.6	5.4	5.4						5.7		
Cost of fund	1.6	1.2	1.2						1.4		
NIM	4.2	4.3	4.4						4.5		
Non-int inc/total income	26.7	33.8	30.1						33.1		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan/deposit ratio	105.3	113.2	119.1						119.2		
Capital adequacy	(%)	(%)	(%)						(%)		
CAR	19.1	18.1	18.1						17.7		
CET 1/ Risk assets	14.6	13.8	13.9						14.0		
Tier 2 / Risk assets	4.4	4.3	4.2						3.6		
Loan growth	(%)	(%)	(%)						(%)		
Year-to-date	7.5	6.6	7.7								
y-y	7.3	14.0	11.8						8.5		
q-q	2.9	4.4	1.0								

*Including share of profits from associates

Sources: KKP; FSSIA estimates

Earnings revisions following the Bank of Thailand's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for Siam Commercial Bank (SCB TB, BUY, TP THB158) which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

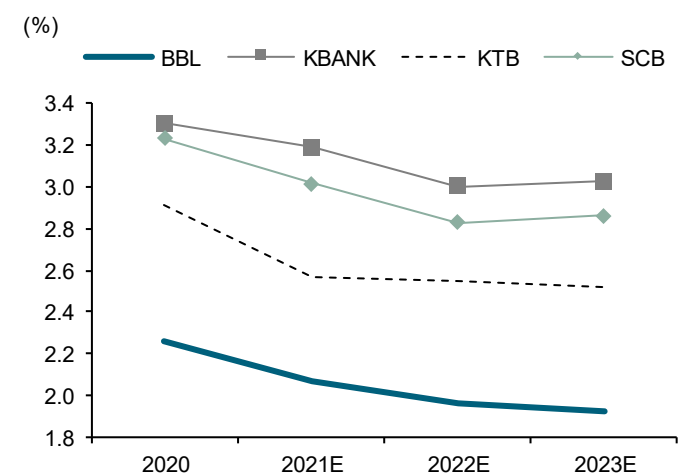
- 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
- Banks will likely offer CDR at 60% of their 2021 forbearance programs;
- Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
- The CDR EIR would be 50% lower than that of each bank's current level;
- Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 74: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (bps)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

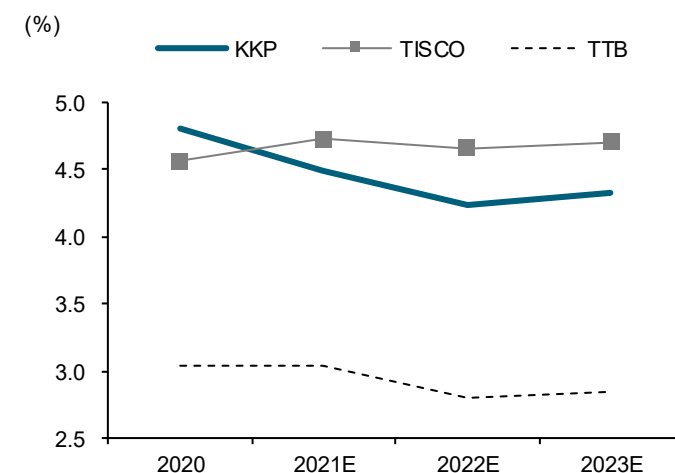
Sources: Company data; FSSIA estimates

Exhibit 75: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 76: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 77: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

Based on our calculation, KKP's 2022 loan yield would decline by 39 bps from its current yield of 6.6%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 120 bps vs our projected 193 bps in 2021, close to its normal rate of 100-120 bps. We raise our 2022-23 fee income assumptions, supported by the strong IB team and the more favourable capital market conditions. Accordingly, we increase our 2022-23 net profit forecasts by 5%/4%. However, due to the weaker asset quality we expect in 2021, we increase our expected credit loss assumptions, resulting in a lower 2021E net profit by 3%.

Exhibit 78: KKP – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	14,679	15,201	15,201	-	15,597	15,247	(2.2)	16,538	16,066	(2.9)
Non-interest income*	6,554	7,509	7,509	-	7,185	7,600	5.8	7,369	7,792	5.7
Operating income*	21,233	22,710	22,710	-	22,782	22,847	0.3	23,907	23,858	(0.2)
Operating expenses	10,652	10,621	10,621	-	10,937	10,937	-	11,079	10,979	(0.9)
PPOP before tax*	10,581	12,089	12,089	-	11,845	11,910	0.5	12,828	12,879	0.4
Expected credit loss (Reversal)	4,095	4,968	5,327	7.2	3,828	3,534	(7.7)	3,710	3,401	(8.3)
Tax expenses	1,344	1,424	1,217	(14.5)	1,603	1,675	4.5	1,824	1,896	4.0
Minority interest	20	1	1	(2.7)	1	1	4.5	1	2	4.0
Normalised profit	5,123	5,695	5,543	(2.7)	6,412	6,700	4.5	7,293	7,581	4.0
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	5,123	5,695	5,543	(2.7)	6,412	6,700	4.5	7,293	7,581	4.0
EPS (THB)	6.05	6.73	6.55	(2.7)	7.57	7.91	4.5	8.61	8.95	4.0
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	8,456	10,993	11,416	3.8	12,092	12,329	2.0	12,455	13,315	6.9
Gross NPLs / Loans (%)**	3.20	3.83	3.98		4.02	4.10		3.94	4.21	
Loan loss reserve/NPLs (%)	155	150	148		153	151		163	151	
Credit cost (bps)	163	180	193		130	120		120	110	
Profitability ratio (%)										
Cost to income ratio*	50.2	46.8	46.8		48.0	47.9		46.3	46.0	
Average yield	6.4	5.7	5.7		5.7	5.4		5.8	5.7	
Cost of funds	1.8	1.4	1.4		1.7	1.4		1.6	1.6	
Net interest margin (NIM)	4.81	4.50	4.50		4.34	4.24		4.47	4.33	
Loan growth (%)										
y-y	105.3	119.2	119.2		116.7	116.7		120.7	120.7	

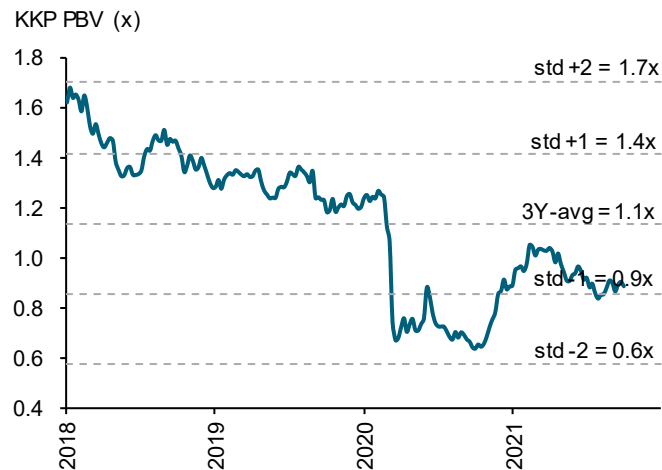
*Including share of profits from associates

Source: FSSIA estimates

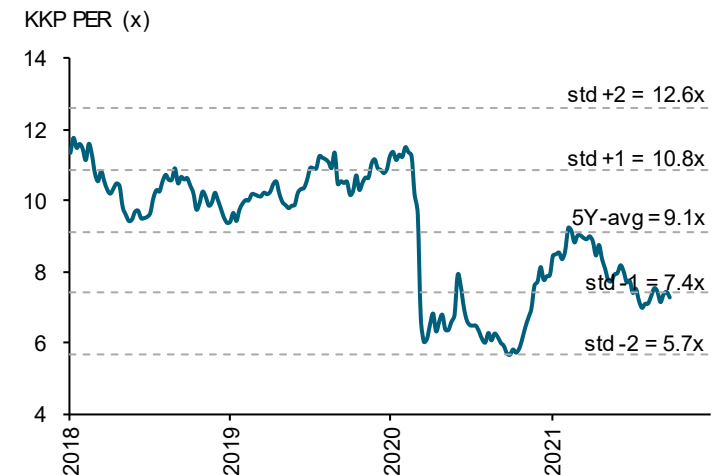
Exhibit 79: KKP – GGM-derived target price

Target price	THB 68 (from THB65)
Recommendation	BUY
Risk-free rate (%)	3.0
Market risk premium (%)	8.0
Cost to equity (%)	12.3 (unchanged)
Terminal growth (%)	4.5 (from 4.3)
ROE target (%)	12.9 (from 12.5)
Risk to TP	Downside risks to our GGM-based target price include weakening asset quality and lower fee income.

Source: FSSIA estimates

Exhibit 80: KKP – one-year forward rolling P/BV

Sources: Bloomberg, FSSIA estimates

Exhibit 81: KKP – one-year forward rolling P/E

Sources: Bloomberg, FSSIA estimates

Exhibit 82: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current (THB)	Target (THB)			21E (%)	22E (%)	21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Kiatnakin Bank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	18,036	19,584	19,388	19,480	21,065
Interest expense	(5,720)	(4,905)	(4,187)	(4,233)	(4,999)
Net interest income	12,316	14,679	15,201	15,247	16,066
Net fees & commission	4,604	4,336	5,790	5,776	5,892
Foreign exchange trading income	277	1,079	863	906	952
Securities trading income	568	50	55	60	66
Dividend income	576	389	311	342	342
Other income	827	700	490	515	540
Non interest income	6,852	6,554	7,509	7,600	7,792
Total income	19,168	21,233	22,710	22,847	23,858
Staff costs	(5,577)	(5,664)	(5,893)	(6,128)	(6,373)
Other operating costs	(4,617)	(4,988)	(4,729)	(4,809)	(4,606)
Operating costs	(10,194)	(10,652)	(10,621)	(10,937)	(10,979)
Pre provision operating profit	8,974	10,581	12,089	11,910	12,879
Provision for bad and doubtful debt	(1,676)	(4,095)	(5,327)	(3,534)	(3,401)
Other provisions	-	-	-	-	-
Operating profit	7,297	6,487	6,761	8,376	9,478
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	7,297	6,487	6,761	8,376	9,478
Tax	(1,307)	(1,344)	(1,217)	(1,675)	(1,896)
Profit after tax	5,990	5,143	5,544	6,701	7,583
Minority interests	(1)	(20)	(1)	(1)	(2)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	5,988	5,123	5,543	6,700	7,581
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	5,988	5,123	5,543	6,700	7,581
Per share (THB)					
Recurring EPS *	7.07	6.05	6.55	7.91	8.95
Reported EPS	7.07	6.05	6.55	7.91	8.95
DPS	5.00	2.25	2.50	3.50	4.00
Growth					
Net interest income (%)	9.4	19.2	3.6	0.3	5.4
Non interest income (%)	0.2	(4.3)	14.6	1.2	2.5
Pre provision operating profit (%)	3.9	17.9	14.2	(1.5)	8.1
Operating profit (%)	(1.2)	(11.1)	4.2	23.9	13.2
Reported net profit (%)	(0.9)	(14.4)	8.2	20.9	13.2
Recurring EPS (%)	(0.9)	(14.4)	8.2	20.9	13.2
Reported EPS (%)	(0.9)	(14.4)	8.2	20.9	13.2
Income Breakdown					
Net interest income (%)	64.3	69.1	66.9	66.7	67.3
Net fees & commission (%)	24.0	20.4	25.5	25.3	24.7
Foreign exchange trading income (%)	1.4	5.1	3.8	4.0	4.0
Securities trading income (%)	3.0	0.2	0.2	0.3	0.3
Dividend income (%)	3.0	1.8	1.4	1.5	1.4
Other income (%)	4.3	3.3	2.2	2.3	2.3
Operating performance					
Gross interest yield (%)	6.28	6.42	5.74	5.41	5.67
Cost of funds (%)	2.34	1.83	1.41	1.39	1.63
Net interest spread (%)	3.94	4.59	4.33	4.02	4.04
Net interest margin (%)	4.3	4.8	4.5	4.2	4.3
Cost/income(%)	53.2	50.2	46.8	47.9	46.0
Cost/assets(%)	3.3	3.2	2.8	2.8	2.8
Effective tax rate (%)	17.9	20.7	18.0	20.0	20.0
Dividend payout on recurring profit (%)	70.7	37.2	38.2	44.2	44.7
ROE (%)	13.9	11.3	11.6	13.0	13.6
ROE - COE (%)	3.1	0.5	0.8	2.2	2.8
ROA (%)	1.9	1.5	1.5	1.7	1.9
RORWA (%)	2.3	1.9	1.8	2.1	2.3

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kiatnakin Bank; FSSIA estimates

Financial Statements

Kiatnakin Bank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	237,139	264,773	287,279	301,643	316,725
Total provisions	(10,589)	(13,105)	(16,852)	(18,576)	(20,076)
interest in suspense	1,128	7,178	8,044	7,239	6,334
Net customer loans	227,677	258,846	278,470	290,306	302,983
Bank loans	11,982	32,771	31,084	27,215	21,873
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	39,201	34,603	35,750	36,940	38,175
Cash & equivalents	1,110	1,491	2,195	1,394	2,685
Other interesting assets	-	-	-	-	-
Tangible fixed assets	6,624	6,451	6,173	5,937	5,737
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	25,096	29,250	30,754	31,460	32,300
Total assets	311,690	363,411	384,427	393,253	403,752
Customer deposits	172,174	251,526	240,909	258,577	262,456
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	73,132	39,184	61,430	46,794	47,503
Non interest bearing liabilities	22,373	26,076	32,595	34,224	35,935
Hybrid Capital	-	-	-	-	-
Total liabilities	267,679	316,785	334,934	339,595	345,894
Share capital	8,468	8,468	8,468	8,468	8,468
Reserves	35,435	38,050	40,909	45,065	49,256
Total equity	43,902	46,517	49,377	53,533	57,723
Minority interests	109	109	115	125	135
Total liabilities & equity	311,690	363,411	384,427	393,253	403,752
Supplementary items					
Risk weighted assets (RWA)	267,295	288,371	312,883	328,527	344,954
Average interest earning assets	287,099	305,121	338,016	359,955	371,285
Average interest bearing liabilities	244,834	267,916	296,336	303,658	307,457
Tier 1 capital	36,377	41,319	43,901	47,482	51,235
Total capital	45,975	52,714	55,296	58,877	62,630
Gross non performing loans (NPL)	9,560	8,456	11,416	12,329	13,315
Per share (THB)					
Book value per share	51.85	54.94	58.31	63.22	68.17
Tangible book value per share	51.85	54.94	58.31	63.22	68.17
Growth					
Gross customer loans	4.1	11.7	8.5	5.0	5.0
Average interest earning assets	9.7	6.3	10.8	6.5	3.1
Total asset (%)	1.8	16.6	5.8	2.3	2.7
Risk weighted assets (%)	3.5	7.9	8.5	5.0	5.0
Customer deposits (%)	(5.2)	46.1	(4.2)	7.3	1.5
Leverage & capital measures					
Customer loan/deposits (%)	132.2	102.9	115.6	112.3	115.4
Equity/assets (%)	14.1	12.8	12.8	13.6	14.3
Tangible equity/assets (%)	14.1	12.8	12.8	13.6	14.3
RWA/assets (%)	85.8	79.4	81.4	83.5	85.4
Tier 1 CAR (%)	13.6	14.3	14.0	14.5	14.9
Total CAR (%)	17.2	18.3	17.7	17.9	18.2
Asset Quality					
Change in NPL (%)	1.7	(11.5)	35.0	8.0	8.0
NPL/gross loans (%)	4.0	3.2	4.0	4.1	4.2
Total provisions/gross loans (%)	4.5	4.9	5.9	5.9	6.3
Total provisions/NPL (%)	110.8	155.0	147.6	150.7	150.8
Valuation					
Recurring P/E (x) *	7.8	9.1	8.4	7.0	6.2
Recurring P/E @ target price (x) *	9.6	11.2	10.4	8.6	7.6
Reported P/E (x)	7.8	9.1	8.4	7.0	6.2
Dividend yield (%)	9.0	4.1	4.5	6.3	7.2
Price/book (x)	1.1	1.0	0.9	0.9	0.8
Price/tangible book (x)	1.1	1.0	0.9	0.9	0.8
Price/tangible book @ target price (x)	1.3	1.2	1.2	1.1	1.0
* Pre-exceptional, pre-goodwill and fully diluted					

Sources: Kiatnakin Bank; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

KRUNG THAI BANK KTB TB

HOLD

UNCHANGED

TARGET PRICE	THB12.20
CLOSE	THB11.10
UP/DOWNSIDE	+9.9%
PRIOR TP	THB12.70
CHANGE IN TP	-3.9%
TP vs CONSENSUS	-5.3%

Behind the pack

Our least preferred bank

KTB is our least preferred bank for three reasons. First, KTB has only lightly invested in digital banking platforms. Most of its business still relies on the traditional banking framework. We believe this could result in a loss of competitiveness in the long run. Second, we believe KTB's growth prospects are eclipsed by a further decline in its NIM due to a shift in its loan portfolio mix to include a larger government segment. Third, positioned as a commercial bank held by a government entity, KTB may have to sacrifice its employees to help the government implement stimulus packages, resulting in a decreased ability to cross-sell products.

3Q21: lower fee income and loan yield expected

We expect KTB to report a 3Q21 net profit of THB4,561m (+49% y-y, -24% q-q). We think its performance will be a mixed bag. On the positive side, we expect KTB to deliver the highest loan growth among its peers at 2.5% q-q in 3Q21, driven by the government segment. Additionally, we expect its asset quality to outperform its peers, as more than 70% of its portfolio consists of those segments least affected by Covid. On the other hand, the main pressure on its bottom line should come from the lower fee income due to being the government's arm in implementing stimulus packages. Its loan yield is also in a downtrend following the increase in government loans.

Fine-tuning net profit following BoT's new guidance

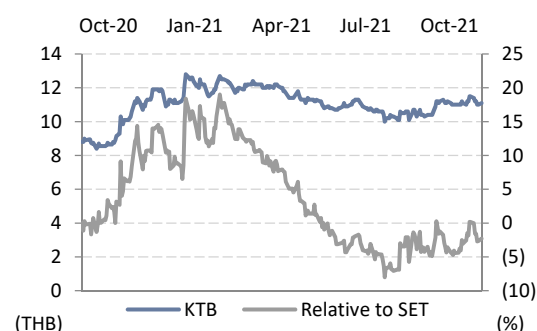
We think that the BoT's guidance on the relaxed loan classification and provision rules should positively affect KTB. Based on our calculation, KTB's 2022 loan yield would decline by 0.2% from its current yield of 4.06%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) we estimate its credit cost in 2022 to decline to 140 bps, close to its normal rate of 120-140 bps. However, the higher-than-expected increase in low-yield government loans should result in a lower loan yield. The prolonged pandemic should also lead to lower fee income. All in all, we lower our 2022-23 net profit forecasts by 2%/1%.

Cheap valuation not enough to grab our attention

We maintain our HOLD call. We slightly trim our 2022 GGM-based TP to THB12.2 to reflect KTB's potentially lower competitiveness in the long run. KTB might be back on our radar once 1) the interest rate begins to reverse to an uptrend; and/or 2) the bank can take advantage of big data to generate more income.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	21,819	26,612	27,860	30,007
Net profit	16,732	20,330	21,447	23,141
EPS (THB)	1.20	1.45	1.53	1.66
vs Consensus (%)	-	7.5	(0.4)	(5.9)
Core net profit	16,732	20,330	21,447	23,141
Core EPS (THB)	1.20	1.45	1.53	1.66
Chg. In EPS est. (%)	0.3	6.0	(2.1)	(1.0)
EPS growth (%)	(42.9)	21.5	5.5	7.9
Core P/E (x)	9.3	7.6	7.2	6.7
Dividend yield (%)	2.5	4.6	4.8	5.2
Price/book (x)	0.5	0.4	0.4	0.4
ROE (%)	4.9	5.8	5.8	6.0
ROA (%)	0.6	0.7	0.7	0.8



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.9)	4.7	26.9
Relative to country (%)	1.3	2.4	(2.8)
Mkt cap (USD m)	4,592		
3m avg. daily turnover (USD m)	10.1		
Free float (%)	45		
Major shareholder	FIDF (55%)		
12m high/low (THB)	12.90/8.35		
Issued shares (m)	13,976		

Sources: Bloomberg consensus; FSSIA estimates



Yuvanart Suwanumphai

yuvanart.suw@fssia.com
+66 2611 3554

Investment thesis

Although its valuation looks attractive, we believe KTB will continue to trade at the deepest discount among its peers due to having no short-term positive catalysts.

KTB might be back on our radar once 1) the interest rate begins to reverse to an uptrend; and/or 2) the bank can take advantage of big data to generate more income.

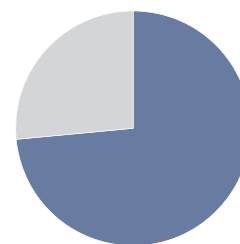
Company profile

Krung Thai Bank began operations in 1966 and in 1989 was the first privatised state enterprise to be listed on the SET. At end-2019, KTB was the second largest Thai bank in terms of lending, and ranked fourth by total assets.

www.ktb.co.th

Principal activities (revenue, 2020)

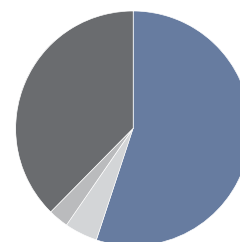
- Net interest income - 73.5 %
- Non-interest income - 26.5 %



Source: Krung Thai Bank

Major shareholders

- FIDF - 55.1 %
- Thai NVDR - 4.5 %
- EGAT Saving and Credit Cooperative Limited - 2.8 %
- Others - 37.6 %



Source: Krung Thai Bank

Catalysts

Potential share price catalysts for KTB include:

- Lower credit cost from a better-than-expected new NPL rate;
- Better operating cost control;
- Faster IT investment to capture digital trends.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk is the better-than-expected ability to control cost of funds.

Event calendar

Date	Event
Mid-Oct 2021	3Q21 results announcement

Key assumptions

	2021E (%)	2022E (%)	2023E (%)
Net profit (THB m)	20,330	21,447	23,141
Net profit growth	21.5	5.5	7.9
NIM	2.57	2.55	2.52
Loan growth	7.0	2.0	3.0
Fee growth	(3.2)	8.0	6.0
Non-NII growth*	(0.6)	5.5	4.6
Credit cost (bp)	140	140	135
Cost to income*	46.7	45.8	45.5

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
Loan growth (%)	±2ppt	5.00	7.00	9.00
% change in net profit		(1.9)	-	1.9
NIM (%)	±5bp	2.52	2.57	2.62
% change in net profit		(5.5)	-	5.3
Credit cost (bp)	±10bp	130	140	150
% change in net profit		6.2	-	(6.2)

Source: FSSIA estimates

3Q21: lower fee income and loan yield expected

We expect KTB to report a 3Q21 net profit of THB4,561m (+49% y-y, -24% q-q). We think its performance will be a mixed bag. On the positive side, we expect KTB to deliver the highest loan growth among its peers at 2.5% q-q in 3Q21, driven by the government segment. Additionally, KTB's portfolio is comprised of 26% corporate, 20% government, and c25% government officers. These segments have been the least impacted by the Covid pandemic. Thus, we expect KTB's asset quality to outperform its peers in 3Q21. On the other hand, we expect the main pressure on its bottom line to come from its lower fee income due to being the government's arm in implementing stimulus packages. Also, its loan yield is in a downtrend following the increase in government loans.

Exhibit 83: KTB – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	21,602	20,916	21,069	(2)	1	61,954	(9)	74	83,773	(5)	Solid loan growth but lower loan yield
Non-interest income*	8,672	7,934	8,095	(7)	2	24,732	(4)	73	33,700	(1)	
Operating income*	30,274	28,851	29,164	(4)	1	86,687	(7)	74	117,473	(4)	
Operating expenses	13,702	12,235	13,846	1	13	38,769	(2)	71	54,805	3	
PPOP before tax*	16,572	16,616	15,318	(8)	(8)	47,918	(12)	76	62,669	(9)	
Provision	12,414	8,097	8,809	(29)	9	24,964	(30)	74	33,791	(25)	
Income tax	482	1,657	1,302	170	(21)	4,477	41	83	5,371	21	
Minority interest	619	852	646			2,327	14		3,177	17	
Normalised profit	3,057	6,011	4,561	49	(24)	16,150	22	79	20,330	22	
Extraordinary items	0	0	0			0			0		
Net profit	3,057	6,011	4,561	49	(24)	16,150	22	79	20,330	22	
EPS (THB)	0.22	0.43	0.33	49	(24)	1.16	22	79	1.45	22	
Asset quality ratio											
Gross NPLs	110,662	105,737	107,852	(3)	2				115,709	8	
NPL ratios (%)	4.21	3.54	3.52						4.09		
LLR/NPLs (%)	131	155	154						136		
Credit cost (bp)	217	134	140						140		
Profitability ratio											
Cost to income ratio*	45.3	42.4	47.5						46.7		
Average yield	3.57	3.21	3.18						3.2		
Cost of fund	0.85	0.75	0.74						0.7		
NIM	2.83	2.55	2.53						2.6		
Non-int inc/total income	28.6	27.5	27.8						28.7		
Liquidity ratio											
Loan/deposit ratio	98.7	99.7	101.2						99.2		
Capital adequacy											
CAR	18.4	19.4	19.1						18.2		
CET 1/ Risk assets	15.0	15.0	15.9						15.1		
Tier 2 / Risk assets	3.4	3.4	3.3						3.2		
Loan growth											
Year-to-date	9.2	6.5	9.1								
y-y	9.1	8.8	11.7						7.0		
q-q	(0.2)	5.3	2.5								

*Including share of profits from associates

Sources: KTB; FSSIA estimates

Fine-tuning net profit following BoT's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for Siam Commercial Bank (SCB TB, BUY, TP THB158) which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

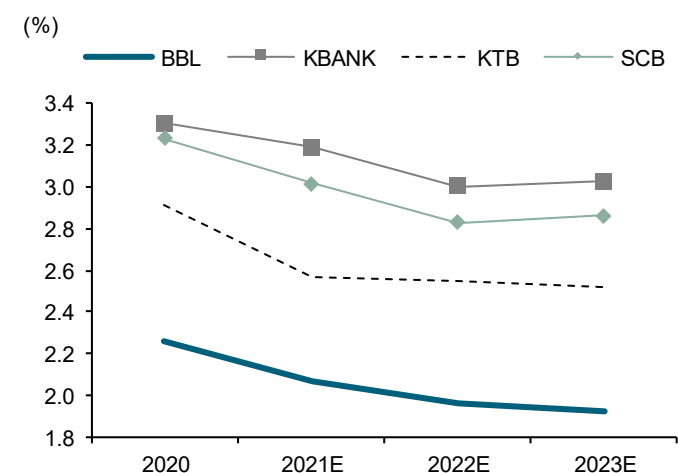
16. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
17. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
18. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
19. The CDR EIR would be 50% lower than that of each bank's current level;
20. Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 84: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

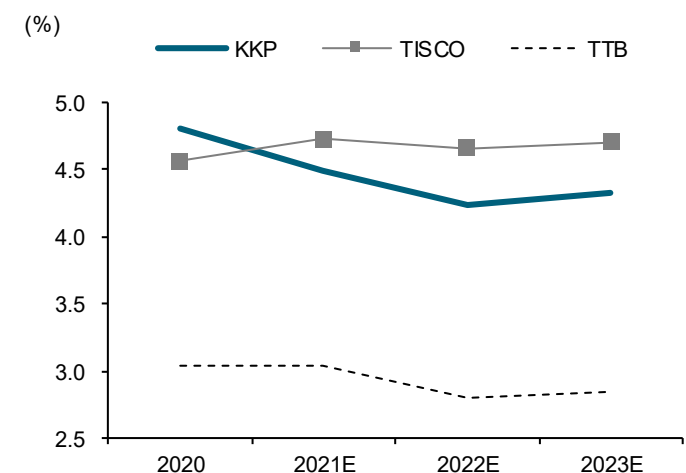
Sources: Company data; FSSIA estimates

Exhibit 85: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 86: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 87: Credit cost assumptions

	Credit costs				Expected normal credit costs
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

We think that the BoT's guidance should positively affect KTB. Based on our calculation, KTB's 2022 loan yield would decline by 0.2% from its current yield of 4.06%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) we estimate its credit cost in 2022 to decline to 140 bps, close to its normal rate of 120-140 bps.

However, the higher-than-expected increase in low-yield government loans should result in a lower loan yield. Together with being the government's arm to implement official stimulus packages during the Covid pandemic, these two factors will likely reduce the bank's ability to generate fee income.

All in all, there could be a slightly negative impact on our 2022-23 earnings forecast. Accordingly, we lower our 2022-23 net profit forecasts by 2%/1%. We raise our 2021 net profit assumption by 6% due to the better-than-expected asset quality, leading to lower provisions.

Exhibit 88: KTB – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	88,343	88,790	83,773	(5.7)	89,833	85,460	(4.9)	95,170	87,003	(8.6)
Non-interest income*	33,905	35,339	33,700	(4.6)	36,663	35,539	(3.1)	38,349	37,157	(3.1)
Operating income*	122,247	124,130	117,473	(5.4)	126,497	120,999	(4.3)	133,519	124,160	(7.0)
Operating expenses	53,465	56,572	54,805	(3.1)	60,156	55,363	(8.0)	64,014	56,536	(11.7)
PPOP before tax*	68,783	67,558	62,669	(7.2)	66,341	65,635	(1.1)	69,505	67,624	(2.7)
Expected credit loss (Reversal)	44,903	40,239	33,791	(16.0)	35,351	35,283	(0.2)	36,411	34,875	(4.2)
Tax expenses	4,441	5,081	5,371	5.7	5,733	5,615	(2.1)	6,122	6,059	(1.0)
Minority interest	2,707	3,005	3,177	5.7	3,359	3,290	(2.1)	3,587	3,550	(1.0)
Normalised profit	16,732	19,233	20,330	5.7	21,898	21,447	(2.1)	23,384	23,141	(1.0)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	16,732	19,233	20,330	5.7	21,898	21,447	(2.1)	23,384	23,141	(1.0)
EPS (THB)	1.20	1.38	1.45	5.7	1.57	1.53	(2.1)	1.67	1.66	(1.0)
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	107,138	133,923	115,709	(13.6)	140,619	124,966	(11.1)	147,650	134,963	(8.6)
Gross NPLs/Loans (%)	3.81	4.91	4.09		5.01	4.33		5.11	4.54	
Loan loss reserve/NPLs (%)	140	123	136		128	138		133	138	
Credit cost (bps)	203	170	140		145	140		145	135	
Profitability ratio (%)										
Cost to income ratio*	43.73	45.57	46.65		47.56	45.76		47.94	45.53	
Average yield	3.72	3.41	3.22		3.55	3.22		3.66	3.36	
Cost of funds	0.93	0.78	0.74		1.01	0.78		1.06	0.99	
Net interest margin (NIM)	2.91	2.72	2.57		2.68	2.55		2.75	2.52	
Loan growth (%)										
y-y	11.59	3.00	7.00		3.00	2.00		3.00	3.00	

*Including share of profits from associates

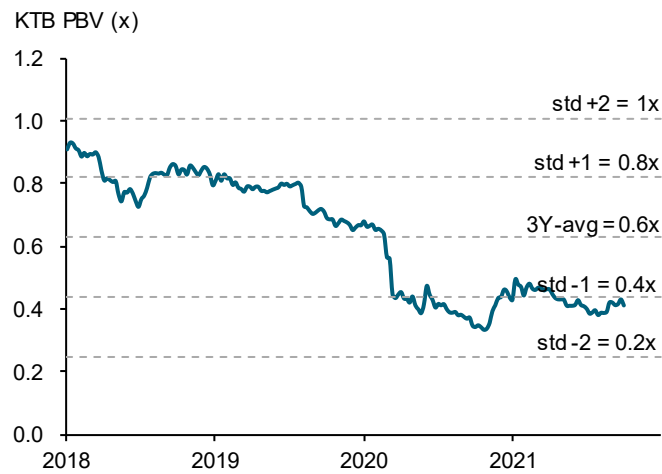
Source: FSSIA estimates

Exhibit 89: KTB – GGM-derived target price

Target price	THB 12.2 (from 12.7)
Recommendation	HOLD
Risk-free rate (%)	3.0
Market risk premium (%)	8.0
Cost to equity (%)	8.7 (unchanged)
Terminal growth (%)	3.3 (from 3.4)
ROE target (%)	5.7 (from 5.9)
Risk to TP	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk is the better-than-expected ability to control cost of funds.

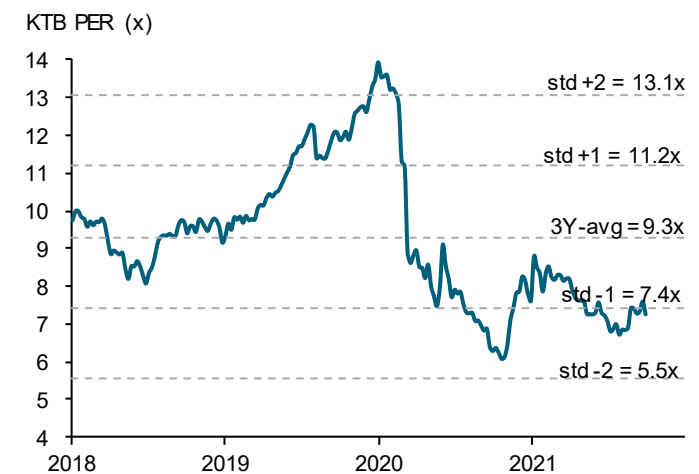
Source: FSSIA estimates

Exhibit 90: KTB – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 91: KTB – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 92: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side	Market Cap	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current	Target			21E	22E	21E	22E	21E	22E	21E	22E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(x)	(x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Krung Thai Bank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	122,972	112,837	104,888	108,168	116,241
Interest expense	(34,655)	(24,494)	(21,115)	(22,708)	(29,238)
Net interest income	88,316	88,343	83,773	85,460	87,003
Net fees & commission	23,238	20,528	19,876	21,466	22,754
Foreign exchange trading income	3,197	3,134	3,511	3,159	2,844
Securities trading income	4,372	951	1,426	1,569	1,726
Dividend income	496	376	451	496	546
Other income	4,615	6,855	6,170	6,355	6,545
Non interest income	35,917	31,844	31,434	33,046	34,415
Total income	124,233	120,187	115,207	118,506	121,418
Staff costs	(31,390)	(28,466)	(28,182)	(28,182)	(28,182)
Other operating costs	(31,084)	(24,999)	(26,623)	(27,182)	(28,354)
Operating costs	(62,474)	(53,465)	(54,805)	(55,363)	(56,536)
Pre provision operating profit	61,759	66,722	60,402	63,142	64,882
Provision for bad and doubtful debt	(23,814)	(44,903)	(33,791)	(35,283)	(34,875)
Other provisions	-	-	-	-	-
Operating profit	37,946	21,819	26,612	27,860	30,007
Recurring non operating income	1,425	2,060	2,266	2,493	2,742
Associates	1,425	2,060	2,266	2,493	2,742
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	39,370	23,880	28,878	30,353	32,750
Tax	(7,233)	(4,441)	(5,371)	(5,615)	(6,059)
Profit after tax	32,138	19,439	23,507	24,737	26,691
Minority interests	(2,854)	(2,707)	(3,177)	(3,290)	(3,550)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	29,284	16,732	20,330	21,447	23,141
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	29,284	16,732	20,330	21,447	23,141
Per share (THB)					
Recurring EPS *	2.10	1.20	1.45	1.53	1.66
Reported EPS	2.10	1.20	1.45	1.53	1.66
DPS	0.73	0.28	0.51	0.54	0.58
Growth					
Net interest income (%)	5.5	0.0	(5.2)	2.0	1.8
Non interest income (%)	10.8	(11.3)	(1.3)	5.1	4.1
Pre provision operating profit (%)	(2.0)	8.0	(9.5)	4.5	2.8
Operating profit (%)	3.1	(42.5)	22.0	4.7	7.7
Reported net profit (%)	2.8	(42.9)	21.5	5.5	7.9
Recurring EPS (%)	2.8	(42.9)	21.5	5.5	7.9
Reported EPS (%)	2.8	(42.9)	21.5	5.5	7.9
Income Breakdown					
Net interest income (%)	71.1	73.5	72.7	72.1	71.7
Net fees & commission (%)	18.7	17.1	17.3	18.1	18.7
Foreign exchange trading income (%)	2.6	2.6	3.0	2.7	2.3
Securities trading income (%)	3.5	0.8	1.2	1.3	1.4
Dividend income (%)	0.4	0.3	0.4	0.4	0.4
Other income (%)	3.7	5.7	5.4	5.4	5.4
Operating performance					
Gross interest yield (%)	4.48	3.72	3.22	3.22	3.36
Cost of funds (%)	1.45	0.92	0.74	0.78	0.98
Net interest spread (%)	3.03	2.80	2.48	2.44	2.38
Net interest margin (%)	3.2	2.9	2.6	2.5	2.5
Cost/income(%)	50.3	44.5	47.6	46.7	46.6
Cost/assets(%)	2.2	1.7	1.6	1.6	1.6
Effective tax rate (%)	18.4	18.6	18.6	18.5	18.5
Dividend payout on recurring profit (%)	35.0	23.0	35.0	35.0	35.0
ROE (%)	9.1	4.9	5.8	5.8	6.0
ROE - COE (%)	(0.9)	(5.0)	(4.2)	(4.1)	(4.0)
ROA (%)	1.1	0.6	0.7	0.7	0.8
RORWA (%)	1.7	1.0	1.2	1.2	1.3
* Pre-exceptional, pre-goodwill and fully diluted					

Sources: Krung Thai Bank; FSSIA estimates

Financial Statements

Krung Thai Bank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	2,089,874	2,331,998	2,495,238	2,545,143	2,621,497
Total provisions	(135,268)	(150,523)	(156,866)	(171,788)	(185,690)
interest in suspense	5,159	16,199	19,962	12,726	13,107
Net customer loans	1,959,765	2,197,674	2,358,334	2,386,081	2,448,914
Bank loans	338,771	519,631	398,328	438,449	454,868
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	426,174	360,112	414,527	423,744	433,191
Cash & equivalents	68,434	68,161	38,343	37,313	27,407
Other interesting assets	-	-	-	-	-
Tangible fixed assets	56,383	57,421	59,797	62,277	64,866
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	162,690	124,780	140,883	144,155	147,546
Total assets	3,012,216	3,327,780	3,410,212	3,492,019	3,576,791
Customer deposits	2,155,865	2,463,225	2,515,337	2,565,643	2,616,956
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	317,408	365,863	370,333	377,740	385,295
Non interest bearing liabilities	190,617	143,629	150,810	158,351	166,268
Hybrid Capital	-	-	-	-	-
Total liabilities	2,663,890	2,972,717	3,036,480	3,101,734	3,168,519
Share capital	72,005	72,005	71,977	71,977	71,977
Reserves	266,282	271,498	289,587	305,601	323,002
Total equity	338,287	343,503	361,563	377,578	394,979
Minority interests	10,039	11,561	12,169	12,708	13,293
Total liabilities & equity	3,012,216	3,327,780	3,410,212	3,492,019	3,576,791
Supplementary items					
Risk weighted assets (RWA)	1,929,176	1,913,726	2,047,687	2,088,641	2,151,300
Average interest earning assets	2,745,719	3,033,280	3,259,917	3,357,715	3,458,446
Average interest bearing liabilities	2,385,528	2,651,180	2,857,379	2,914,526	2,972,817
Tier 1 capital	285,462	293,683	308,370	322,144	336,931
Total capital	360,078	359,015	373,702	387,476	402,263
Gross non performing loans (NPL)	102,629	107,138	115,709	124,966	134,963
Per share (THB)					
Book value per share	24.20	24.58	25.87	27.02	28.26
Tangible book value per share	24.20	24.58	25.87	27.02	28.26
Growth					
Gross customer loans	3.3	11.6	7.0	2.0	3.0
Average interest earning assets	2.4	10.5	7.5	3.0	3.0
Total asset (%)	10.0	10.5	2.5	2.4	2.4
Risk weighted assets (%)	1.8	(0.8)	7.0	2.0	3.0
Customer deposits (%)	5.7	14.3	2.1	2.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	90.9	89.2	93.8	93.0	93.6
Equity/assets (%)	11.2	10.3	10.6	10.8	11.0
Tangible equity/assets (%)	11.2	10.3	10.6	10.8	11.0
RWA/assets (%)	64.0	57.5	60.0	59.8	60.1
Tier 1 CAR (%)	14.8	15.3	15.1	15.4	15.7
Total CAR (%)	18.7	18.8	18.2	18.6	18.7
Asset Quality					
Change in NPL (%)	(3.3)	4.4	8.0	8.0	8.0
NPL/gross loans (%)	4.9	4.6	4.6	4.9	5.1
Total provisions/gross loans (%)	6.5	6.5	6.3	6.6	7.1
Total provisions/NPL (%)	131.8	140.5	135.6	137.5	137.6
Valuation					
Recurring P/E (x) *	5.3	9.3	7.6	7.2	6.7
Recurring P/E @ target price (x) *	5.8	10.2	8.4	8.0	7.4
Reported P/E (x)	5.3	9.3	7.6	7.2	6.7
Dividend yield (%)	6.6	2.5	4.6	4.8	5.2
Price/book (x)	0.5	0.5	0.4	0.4	0.4
Price/tangible book (x)	0.5	0.5	0.4	0.4	0.4
Price/tangible book @ target price (x)	0.5	0.5	0.5	0.5	0.4
* Pre-exceptional, pre-goodwill and fully diluted					

Sources: Krung Thai Bank; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

SIAM COMMERCIAL BANK SCB TB

BUY

UNCHANGED

TARGET PRICE	THB158.00
CLOSE	THB124.00
UP/DOWNSIDE	+27.4%
PRIOR TP	THB158.00
CHANGE IN TP	UNCHANGED
TP vs CONSENSUS	+23.7%

The waking giant

Best position to benefit from the region's digital age

SCB is a first mover, disrupting itself and the whole lending industry and breaking through the old banking framework. We believe its great transformation will allow it to penetrate a digital industry with high risk-reward lending. Accordingly, we think that SCB is in the best position in the banking sector to benefit from the region's digital age. Moreover, we are convinced that the proactive comprehensive long-term debt restructuring programs (CDR) it offers to its clients should solve its prolonged asset quality problem.

3Q21: soft top line but good (operating and credit) cost control

We expect SCB to report a 3Q21 net profit of THB6,831m (+47% y-y, -22% q-q). We think its performance will be a mixed bag. Its core operations should still be soft in 3Q21 while its loan volume is likely to increase by 1% q-q. We forecast its fee income to decline q-q due to a drop in its wealth-related fees following the partial lockdown measures. However, on the positive side, we believe SCB will be able to efficiently control its OPEX. We expect the bank to set aside provisions in line with management's guidance – cTHB10b quarterly. This implies a significant drop y-y in its ECL, as SCB had already set aside pro-cyclical extra ECL in the previous quarters. Regarding asset quality, there should be a small q-q rise in its 3Q21 NPLs due to the CDR it provided to its clients.

Fine-tuning net profit following BoT's new guidance

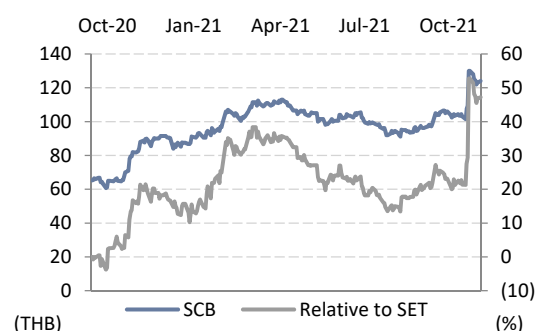
The BoT is encouraging banks to provide CDR to their clients. The negative impact from offering CDR would be a reduction in loan yields, depending on the CDR program. Based on our calculation, SCB's 2022 loan yield would decline by 0.46% from its current yield of 4.6%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 140 bps vs our projected 188 bps in 2021, close to its normal rate of 120-140 bps. Accordingly, we only fine-tune our 2022-23 net profit forecasts by +0.6%/-0.4%.

Weak 3Q21E priced-in; strong growth expected in next 2 years

We maintain our 2022 SoTP TP of THB158. SCB remains one of our top picks. In our view, the potential softening in its 3Q21 performance has been partly priced-in. We think the market will look to its strong growth outlook and potential ROE uplift in the next two years. To us, the key focus would be its great reforms and potential special dividend in 1H22.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	33,866	39,011	44,613	51,109
Net profit	27,218	32,171	36,753	42,064
EPS (THB)	8.02	9.46	10.81	12.37
vs Consensus (%)	-	(4.1)	(1.4)	(3.2)
Core net profit	27,218	32,171	36,753	42,064
Core EPS (THB)	8.02	9.46	10.81	12.37
Chg. In EPS est. (%)	-	-	0.6	(0.4)
EPS growth (%)	(7.0)	18.1	14.2	14.4
Core P/E (x)	15.5	13.1	11.5	10.0
Dividend yield (%)	1.9	6.2	2.8	3.8
Price/book (x)	1.0	1.0	1.0	0.9
ROE (%)	6.7	7.6	8.4	9.2
ROA (%)	0.9	1.0	1.1	1.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	17.0	28.2	94.5
Relative to country (%)	19.6	25.3	49.1
Mkt cap (USD m)	12,463		
3m avg. daily turnover (USD m)	54.2		
Free float (%)	53		
Major shareholder	King Rama X (24%)		
12m high/low (THB)	137.00/60.00		
Issued shares (m)	3,399		

Sources: Bloomberg consensus; FSSIA estimates



Yuvarart Suwanumphai

 yuvarart.suw@fssia.com
 +66 2611 3554

Investment thesis

We believe SCB's big move by transforming itself into a holding company will allow SCBX to enhance its capital effectively, generate a higher growth outlook, and potentially pay a higher dividend.

We think that SCB is in the best position in the banking sector to benefit from the region's digital age with its integrated digital platform. Moreover, we are convinced that the proactive long-term debt restructuring program it offers to its clients should solve the prolonged asset quality problem. Thus, we reiterate our BUY call and maintain SCB as a top pick.

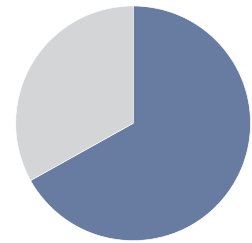
Company profile

SCB is Thailand's first commercial bank, established in 1906. It is ranked the largest in terms of total loans, the second largest for deposits and the fourth largest for total assets as of end-2020. It had a total of 811 branches and 24k personnel, with 14.85m digital users at end-20.

www.scb.co.th

Principal activities (revenue, 2020)

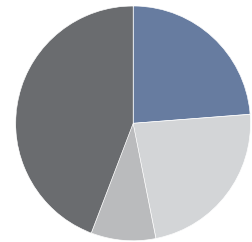
- Net interest income - 66.9 %
- Non-interest income - 33.1 %



Source: Siam Commercial Bank

Major shareholders

- King Rama X - 23.8 %
- Vayupak Fund - 23.1 %
- Thai NVDR - 8.9 %
- Others - 44.2 %



Source: Siam Commercial Bank

Catalysts

Potential share price catalysts for SCB include:

- 1 The success of long-term comprehensive debt restructuring;
- 2 The success of its transformation plan;
- 3 The announcement of a special dividend.

Risks to our call

Downside risks to our SOTP-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on its NIM.

Event calendar

Date	Event
Oct 2021	3Q21 results announcement

Key assumptions

	2021E	2022E	2023E
Year-to-Dec	(%)	(%)	(%)
Net profit (THB m)	32,171	36,753	42,064
Net profit growth	18.2	14.2	14.4
NIM	3.01	2.83	2.86
Loan growth	3.0	4.0	4.0
Fee growth	5.4	9.9	8.7
Non-NII growth*	4.1	3.9	8.0
Credit cost (bp)	188	140	135
Cost to income*	42.5	43.7	42.1

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
Loan growth	±2ppt	1.00	3.00	5.00
% change in net profit		(1.3)	0.0	1.3
NIM (%)	±5bp	2.96	3.01	3.06
% change in net profit		(3.9)	0.0	3.9
Credit cost (bp)	±10bp	178	188	198
% change in net profit		2.8	0.0	(2.8)

Source: FSSIA estimates

3Q21: soft top line but good cost control expected

We expect SCB to report a 3Q21 net profit of THB6,831m (+47% y-y, -22% q-q). We think its performance will be a mixed bag. Its core operations should still be soft in 3Q21 while its loan volume is likely to increase by 1% q-q. We forecast its fee income to decline q-q due to a drop in its bancassurance and mutual fund fees following the partial lockdown measures. However, on the positive side, we believe SCB will be able to efficiently control its OPEX. We expect the bank to set aside provisions in line with management's guidance – cTHB10b quarterly. This implies a significant drop y-y in its expected credit loss (ECL), as SCB had already set aside pro-cyclical extra ECL in the previous quarters. Regarding asset quality, there should be a small q-q rise in its 3Q21 non-performing loans (NPLs) due to the CDR programs it provided to its clients.

Exhibit 93: SCB – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	23,724	23,475	23,309	(2)	(1)	70,159	(4)	75	93,769	(3)	Slow loan growth
Non-interest income*	10,761	12,994	11,173	4	(14)	38,545	10	77	49,839	4	Fee income up y-y but down q-q
Operating income*	34,484	36,469	34,482	(0)	(5)	108,704	0	76	143,608	(1)	
Operating expenses	15,747	15,376	15,425	(2)	0	45,902	(5)	75	61,063	(5)	
PPOP before tax*	18,738	21,093	19,058	2	(10)	62,802	4	76	82,545	3	
Provision	12,955	10,028	10,675	(18)	6	30,711	(5)	71	43,035	(8)	
Income tax	1,204	2,304	1,593	32	(31)	6,493	15	85	7,595	12	
Minority interest	(62)	(54)	(41)			(136)	(23)		(255)	n/a	
Normalised profit	4,641	8,815	6,831	47	(22)	25,734	16	80	32,171	18	
Extraordinary items		0	0			0			0	n/a	
Net profit	4,641	8,815	6,831	47	(22)	25,734	16	80	32,171	18	
EPS (THB)	1.37	2.60	2.01	47	(22)	8	16	80	9.46	18	
Asset quality ratio											
Gross NPLs	89,909	104,110	107,233	19	3				108,564	7	
NPL ratios (%)	3.32	3.79	3.87						3.82		
LLR/NPLs (%)	143	139	137						136		
Credit cost (bp)	240	175	185						188		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	45.7	42.2	44.7						42.5		
Average yield	3.8	3.6	3.6						3.6		
Cost of fund	0.7	0.6	0.6						0.6		
NIM	3.1	3.0	3.0						3.0		
Non-int inc/total income	31.2	35.6	32.4						34.7		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan/deposit ratio	90.2	96.9	97.4						98.9		
Capital adequacy	(%)	(%)	(%)						(%)		
CAR	18.7	18.2	18.3						18.5		
CET 1/ Risk assets	17.6	17.1	17.2						17.4		
Tier 2 / Risk assets	1.1	1.1	1.1						1.1		
Loan growth	(%)	(%)	(%)						(%)		
Year-to-date	2.7	1.8	2.9								
y-y	1.0	7.1	6.9						3.0		
q-q	1.2	0.8	1.0								

*Including share of profits from associates

Sources: SCB; FSSIA estimates

Fine-tuning net profit following BoT's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for SCB which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

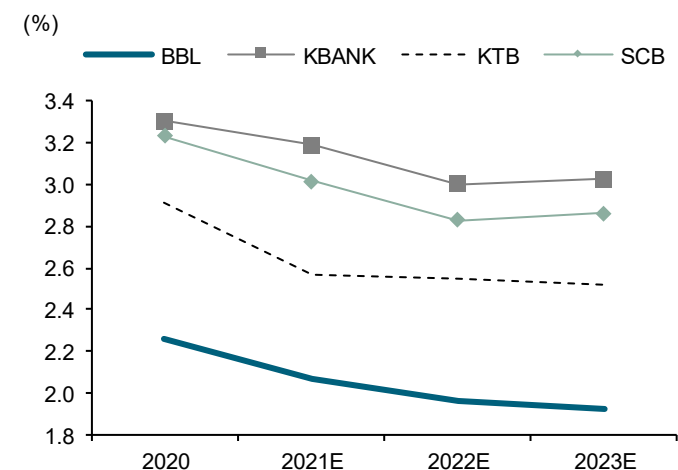
21. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
22. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
23. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
24. The CDR EIR would be 50% lower than that of each bank's current level;
25. Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 94: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (bps)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

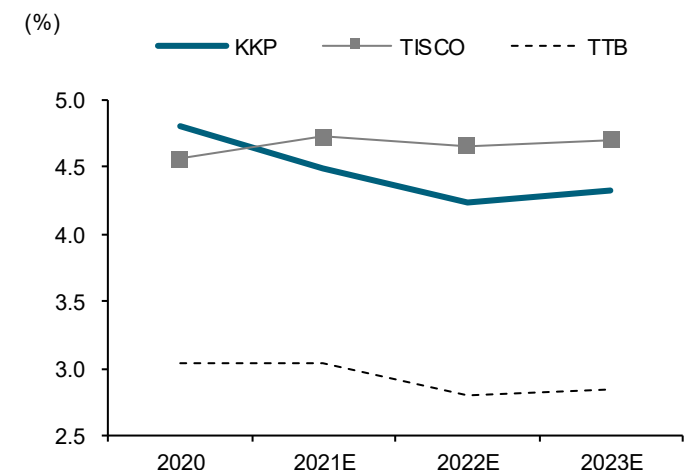
Sources: Company data; FSSIA's estimates

Exhibit 95: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 96: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 97: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

Based on our calculation, SCB's 2022 loan yield would decline by 0.46% from its current yield of 4.6%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 140 bps vs our projected 188 bps in 2021, close to its normal rate of 120-140 bps. Accordingly, we only fine-tune our 2022-23 net profit forecasts by +0.6%/-0.4%.

Exhibit 98: SCB – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	96,899	93,769	93,769	-	90,727	87,451	(3.6)	94,666	90,776	(4.1)
Non-interest income*	47,869	49,839	49,839	-	51,760	51,760	-	55,905	55,905	-
Operating income*	144,768	143,608	143,608	-	142,488	139,212	(2.3)	150,571	146,681	(2.6)
Operating expenses	64,330	61,063	61,063	-	60,902	60,902	-	61,755	61,755	-
PPOP before tax*	80,437	82,545	82,545	-	81,585	78,309	(4.0)	88,816	84,927	(4.4)
Expected credit loss (Reversal)	46,649	43,035	43,035	-	36,725	33,171	(9.7)	36,962	33,266	(10.0)
Tax expenses	6,794	7,595	7,595	-	8,623	8,677	0.6	9,968	9,931	(0.4)
Minority interest	(224)	(255)	(255)	-	(290)	(292)	0.6	(335)	(334)	(0.4)
Normalised profit	27,218	32,171	32,171	-	36,527	36,753	0.6	42,222	42,064	(0.4)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	27,218	32,171	32,171	-	36,527	36,753	0.6	42,222	42,064	(0.4)
EPS (THB)	8.02	9.46	9.46	-	10.75	10.81	0.6	12.42	12.37	(0.4)
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	101,462	111,608	108,564	(2.7)	100,447	99,879	(0.6)	100,447	101,877	1.4
Gross NPLs / Loans (%)**	3.68	3.93	3.82		3.40	3.38		3.27	3.32	
Loan loss reserve/NPLs (%)	137	132	136		147	145		147	138	
Credit cost (bps)	214	188	188		155	140		150	135	
Profitability ratio (%)										
Cost to income ratio*	44.4	42.5	42.5		42.7	43.7		41.0	42.1	
Average yield	3.94	3.56	3.56		3.64	3.34		3.70	3.56	
Cost of funds	0.85	0.64	0.64		0.84	0.61		0.86	0.83	
Net interest margin (NIM)	3.23	3.01	3.01		2.93	2.83		2.98	2.86	
Loan growth (%)										
y-y	6.7	3.0	3.0		4.0	4.0		4.0	4.0	

*Including share of profits from associates

Source: FSSIA estimates

Exhibit 99: SCB – sum-of-the-parts valuation

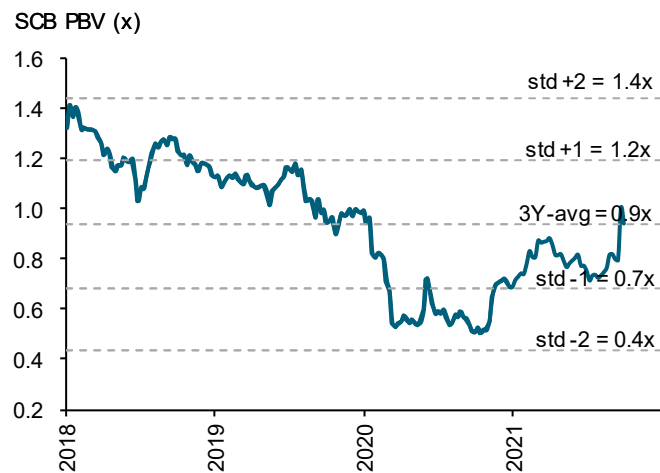
	Valuation method	(Implied) multiple (x)	2022 valuation (THB m)	Value (THB/shr)
SCB Bank*	GGM with L-T ROE 8.8%, CAPM 8.3%	1.1	412,890	121.5
Card X*	P/E	15.5	107,069	31.5
Auto X*	P/E	20.1	4,020	1.2
Alpha X*	P/E	11.4	958	0.3
Digital lending business group*	P/E	15.5	3,708	1.1
Tech and venture capital businesses**	Investment capital multiple	1.5	9,600	2.8
SCBX		1.2	538,244	158

*Implied P/BV multiples for SCB Bank and SCBX. P/E multiple for Card X, Auto X, Alpha X and digital lending group

**Investment capital multiple for tech and venture capital businesses

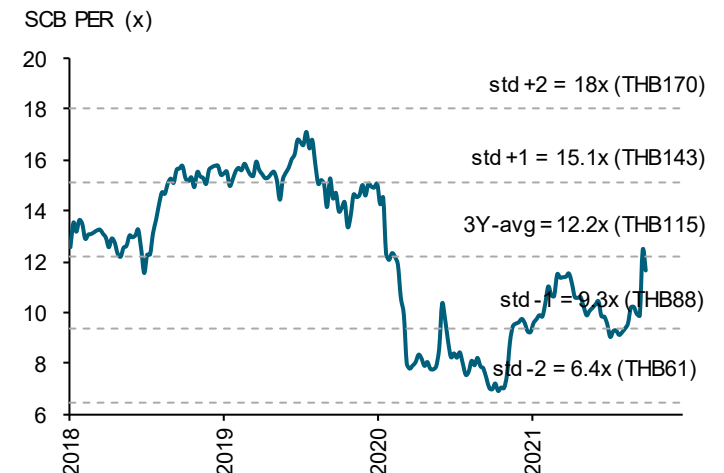
Source: FSSIA estimates

Exhibit 100: SCB – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 101: SCB – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 102: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current (THB)	Target (THB)			21E (%)	22E (%)	21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Siam Commercial Bank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	135,025	118,371	110,645	103,405	112,957
Interest expense	(35,624)	(21,472)	(16,876)	(15,954)	(22,181)
Net interest income	99,401	96,899	93,769	87,451	90,776
Net fees & commission	29,670	36,586	38,564	42,371	46,047
Foreign exchange trading income	0	0	0	0	0
Securities trading income	5,383	9,365	9,500	7,525	7,901
Dividend income	627	155	171	180	189
Other income	145	1,840	1,104	1,159	1,217
Non interest income	35,825	47,947	49,339	51,235	55,354
Total income	135,226	144,846	143,108	138,687	146,130
Staff costs	(33,281)	(31,344)	(30,404)	(30,404)	(31,316)
Other operating costs	(37,257)	(32,986)	(30,659)	(30,498)	(30,439)
Operating costs	(70,538)	(64,330)	(61,063)	(60,902)	(61,755)
Pre provision operating profit	64,688	80,516	82,045	77,784	84,375
Provision for bad and doubtful debt	(27,111)	(46,649)	(43,035)	(33,171)	(33,266)
Other provisions	-	-	-	-	-
Operating profit	37,577	33,866	39,011	44,613	51,109
Recurring non operating income	31	(78)	500	525	551
Associates	31	(78)	500	525	551
Goodwill amortization	-	-	-	-	-
Non recurring items	4,364	0	0	0	0
Profit before tax	41,972	33,788	39,511	45,138	51,661
Tax	(8,538)	(6,794)	(7,595)	(8,677)	(9,931)
Profit after tax	33,434	26,994	31,916	36,461	41,730
Minority interests	185	224	255	292	334
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	33,619	27,218	32,171	36,753	42,064
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	29,255	27,218	32,171	36,753	42,064
Per share (THB)					
Recurring EPS *	8.62	8.02	9.46	10.81	12.37
Reported EPS	9.90	8.02	9.46	10.81	12.37
DPS	6.26	2.30	7.70	3.50	4.75
Growth					
Net interest income (%)	3.1	(2.5)	(3.2)	(6.7)	3.8
Non interest income (%)	(14.3)	33.8	2.9	3.8	8.0
Pre provision operating profit (%)	(12.0)	24.5	1.9	(5.2)	8.5
Operating profit (%)	(24.1)	(9.9)	15.2	14.4	14.6
Reported net profit (%)	(16.1)	(19.0)	18.2	14.2	14.4
Recurring EPS (%)	(26.9)	(7.0)	18.1	14.2	14.4
Reported EPS (%)	(16.0)	(19.0)	18.1	14.2	14.4
Income Breakdown					
Net interest income (%)	73.5	66.9	65.5	63.1	62.1
Net fees & commission (%)	21.9	25.3	26.9	30.6	31.5
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	4.0	6.5	6.6	5.4	5.4
Dividend income (%)	0.5	0.1	0.1	0.1	0.1
Other income (%)	0.1	1.3	0.8	0.8	0.8
Operating performance					
Gross interest yield (%)	4.54	3.94	3.56	3.34	3.56
Cost of funds (%)	1.49	0.85	0.64	0.61	0.83
Net interest spread (%)	3.05	3.09	2.92	2.73	2.73
Net interest margin (%)	3.3	3.2	3.0	2.8	2.9
Cost/income(%)	52.2	44.4	42.7	43.9	42.3
Cost/assets(%)	2.3	2.1	1.9	1.9	1.9
Effective tax rate (%)	20.3	20.1	19.2	19.2	19.2
Dividend payout on recurring profit (%)	72.6	28.7	81.4	32.4	38.4
ROE (%)	7.5	6.7	7.6	8.4	9.2
ROE - COE (%)	(3.3)	(4.1)	(3.2)	(2.4)	(1.6)
ROA (%)	0.9	0.9	1.0	1.1	1.3
RORWA (%)	1.4	1.3	1.4	1.6	1.7

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Siam Commercial Bank; FSSIA estimates

Financial Statements

Siam Commercial Bank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	2,113,787	2,255,242	2,322,899	2,415,815	2,512,448
Total provisions	(117,395)	(139,442)	(147,633)	(144,567)	(140,146)
interest in suspense	2,946	14,508	12,776	12,079	11,306
Net customer loans	1,999,339	2,130,308	2,188,042	2,283,327	2,383,608
Bank loans	433,510	547,504	477,953	411,868	428,034
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	312,143	339,828	278,871	282,837	294,459
Cash & equivalents	47,615	51,632	34,858	44,914	4,537
Other interesting assets	-	-	-	-	-
Tangible fixed assets	57,418	56,445	55,492	54,560	53,647
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	110,599	152,667	148,246	150,312	154,550
Total assets	2,960,624	3,278,383	3,183,462	3,227,818	3,318,836
Customer deposits	2,159,425	2,420,455	2,347,842	2,371,320	2,418,747
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	235,592	275,993	267,713	270,390	275,798
Non interest bearing liabilities	167,882	170,106	136,085	142,889	150,034
Hybrid Capital	-	-	-	-	-
Total liabilities	2,562,900	2,866,554	2,751,640	2,784,600	2,844,578
Share capital	33,992	33,992	33,956	33,956	33,956
Reserves	366,366	377,438	397,448	408,833	439,842
Total equity	400,358	411,430	431,404	442,789	473,798
Minority interests	489	399	419	430	460
Total liabilities & equity	2,963,746	3,278,384	3,183,462	3,227,818	3,318,836
Supplementary items					
Risk weighted assets (RWA)	2,075,492	2,197,568	2,263,495	2,354,035	2,448,196
Average interest earning assets	2,973,403	3,001,007	3,111,149	3,095,121	3,172,730
Average interest bearing liabilities	2,396,471	2,534,701	2,645,888	2,618,624	2,657,968
Tier 1 capital	352,691	377,036	393,813	402,101	429,612
Total capital	375,206	400,892	417,669	425,957	453,468
Gross non performing loans (NPL)	85,212	101,462	108,564	99,879	101,877
Per share (THB)					
Book value per share	117.89	121.16	126.91	130.26	139.38
Tangible book value per share	117.89	121.16	126.91	130.26	139.38
Growth					
Gross customer loans	(1.3)	6.7	3.0	4.0	4.0
Average interest earning assets	(1.0)	0.9	3.7	(0.5)	2.5
Total asset (%)	(7.1)	10.7	(2.9)	1.4	2.8
Risk weighted assets (%)	(4.2)	5.9	3.0	4.0	4.0
Customer deposits (%)	0.0	12.1	(3.0)	1.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	92.6	88.0	93.2	96.3	98.5
Equity/assets (%)	13.5	12.5	13.6	13.7	14.3
Tangible equity/assets (%)	13.5	12.5	13.6	13.7	14.3
RWA/assets (%)	70.1	67.0	71.1	72.9	73.8
Tier 1 CAR (%)	17.0	17.2	17.4	17.1	17.5
Total CAR (%)	18.1	18.2	18.5	18.1	18.5
Asset Quality					
Change in NPL (%)	21.1	19.1	7.0	(8.0)	2.0
NPL/gross loans (%)	4.0	4.5	4.7	4.1	4.1
Total provisions/gross loans (%)	5.6	6.2	6.4	5.8	5.6
Total provisions/NPL (%)	137.8	137.4	136.0	144.7	137.6
Valuation					
Recurring P/E (x) *	14.4	15.5	13.1	11.5	10.0
Recurring P/E @ target price (x) *	18.3	19.7	16.7	14.6	12.8
Reported P/E (x)	12.5	15.5	13.1	11.5	10.0
Dividend yield (%)	5.0	1.9	6.2	2.8	3.8
Price/book (x)	1.1	1.0	1.0	1.0	0.9
Price/tangible book (x)	1.1	1.0	1.0	1.0	0.9
Price/tangible book @ target price (x)	1.3	1.3	1.2	1.2	1.1
* Pre-exceptional, pre-goodwill and fully diluted					

Sources: Siam Commercial Bank; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

TISCO FINANCIAL TISCO TB

BUY

UNCHANGED

TARGET PRICE	THB110.00
CLOSE	THB92.25
UP/DOWNSIDE	+19.2%
PRIOR TP	THB122.00
CHANGE IN TP	-9.8%
TP vs CONSENSUS	+4.7%

Time for a sprint, not a marathon

Conservative strategy might not work for economic recovery

When the economy recovers, TISCO may be less attractive due to its overly conservative lending strategy. The bank is usually conservative with its hire purchase car lending (56% of total port). During the pandemic, its credit underwriting process for auto title loans (ATL) (15% of total port) has also been more stringent. Thus, its ATL has declined since 2Q20. We believe that it may lose some of its customers to non-banks. Also, SCB plans to expand its ATL more aggressively next year. We think SCB's target clients could overlap with TISCO's, thereby weakening TISCO's competitiveness in the medium term.

3Q21: soft top line but good cost control expected

We expect TISCO to report a 3Q21 net profit of THB1,570m (-3% y-y, -6% q-q). We think its core operations will still be soft. TISCO could be the only bank to see a drop in its loan volume, which we estimate at 3.5% q-q, due to its conservative strategy. Moreover, we forecast its 3Q21 fee income to decline q-q due to a drop in its bancassurance and mutual fund fees following the partial lockdown measures. These negative factors should be mostly offset by 1) its efficient cost of fund management; 2) variable cost structure, allowing flexibility in its cost management; and 3) proactively setting aside ECL in the previous quarters. Although we expect its NPLs to increase 3% q-q – in line with the sector's trend – we expect a decline in its ECL in 3Q21. Its NPL coverage ratio should still be the highest in the banking sphere in 3Q21 at 213%.

Earnings revisions following the Bank of Thailand's new guidance

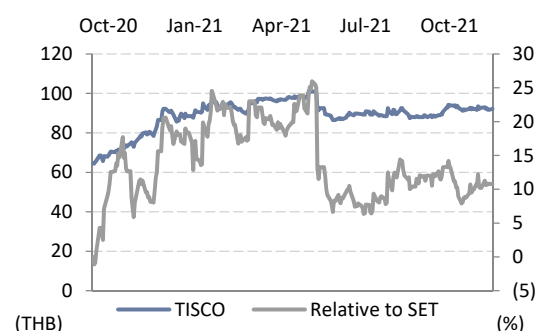
We think that the BoT's guidance on the relaxed loan classification and provision setup should positively affect TISCO. Based on our calculation, TISCO's 2022 loan yield should decline by 0.24% from its current loan yield of 6.8%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to its normal rate of c90 bps from our expectation of 115 bps in 2021. However, due to its conservative lending strategy, its loan volume could be lower than expected. Lower loan growth would also lead to lower fee income. All in all, there could be a moderately negative impact on our earnings forecast. Thus, we lower our 2021-23 net profit forecasts by 2%/6%/6%.

Less bullish, maintain BUY for dividend

We lower our 2022 GGM-based TP to THB110. We are less bullish on TISCO. Our BUY call is for its potentially superior dividend yield at 7-8% pa and low asset quality risk.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	7,563	8,024	8,744	9,539
Net profit	6,063	6,471	7,052	7,693
EPS (THB)	7.57	8.08	8.81	9.61
vs Consensus (%)	-	(1.4)	1.8	5.6
Core net profit	6,063	6,471	7,052	7,693
Core EPS (THB)	7.57	8.08	8.81	9.61
Chg. In EPS est. (%)	-	(2.1)	(6.2)	(5.8)
EPS growth (%)	(16.6)	6.7	9.0	9.1
Core P/E (x)	12.2	11.4	10.5	9.6
Dividend yield (%)	6.8	7.2	8.4	8.4
Price/book (x)	1.9	1.8	1.7	1.6
ROE (%)	15.4	16.1	16.7	17.4
ROA (%)	2.1	2.4	2.7	2.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(0.5)	1.7	47.0
Relative to country (%)	1.7	(0.6)	12.7
Mkt cap (USD m)	2,186		
3m avg. daily turnover (USD m)	12.6		
Free float (%)	80		
Major shareholder	Thai NVDR (11%)		
12m high/low (THB)	102.50/62.50		
Issued shares (m)	801		

Sources: Bloomberg consensus; FSSIA estimates



Yuvarart Suwanumphai

 yuvarart.suw@fssia.com
 +66 2611 3554

Investment thesis

Our BUY call on TISCO is in view of it having one of the highest dividend yields among the banks under our coverage. We believe TISCO could sustain such high dividend payments over the next 2-3 years at least, due to its solid capital base along with its selective growth strategy. We also believe that TISCO is one of the banks that will be the least affected by the Covid-19 outbreak, owing to its proactive build-up of provisions.

However, in the medium to long term, we think investors should pay more attention to TISCO's competitiveness. Due to its conservative lending strategy, the bank might lose some of its clients to non-banks and Siam Commercial Bank (SCB TB, BUY, TP THB158).

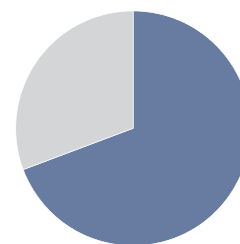
Company profile

TISCO was the first Thai investment bank (in 1969) and the first finance company to be upgraded to a commercial bank (in 2005). At present, TISCO is a financial group holding company with a sustainable development operating framework. TISCO's businesses are both retail banking and corporate banking.

www.tisco.co.th

Principal activities (revenue, 2020)

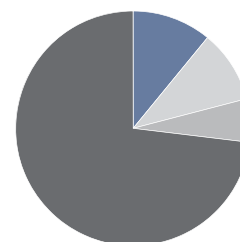
- Net interest income - 69.3 %
- Non-interest income - 30.7 %



Source: Tisco Financial

Major shareholders

- Thai NVDR - 10.9 %
- CDIB & Partners Investment Holding - 10.0 %
- South East Asia UK (Type C) Nominees - 6.0 %
- Others - 73.1 %



Source: Tisco Financial

Catalysts

Potential share price catalysts for TISCO include:

- A high-yield auto title loan volume recovery;
- Better operating cost control.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; 2) the impact of new regulations from the Bank of Thailand on debt-servicing programs; and 3) the slow expansion of its high-yield auto cash portfolio.

Event calendar

Date	Event
14 Oct 2021	3Q21 results announcements

Key assumptions

	2021E	2022E	2023E
	(%)	(%)	(%)
Net profit (THB m)	6,471	7,052	7,693
Net profit growth	6.7	9.0	9.1
NIM	4.72	4.66	4.71
Loan growth	(7.0)	3.0	5.0
Fee growth	4.7	13.2	7.0
Non-NII growth*	7.8	12.7	7.1
Credit cost (bp)	115	90	90
Cost to income*	44.1	44.2	42.3

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
		(9.0)	(7.00)	(5.0)
Loan growth (%)	±2ppt	(9.0)	(7.00)	(5.0)
% change in net profit		(1.4)	-	1.4
NIM (%)	±5bp	4.67	4.72	4.77
% change in net profit		(1.7)	-	1.7
Credit cost (bp)	±10bp	105	115	125
% change in net profit		1.3	-	(1.3)

Source: FSSIA estimates

3Q21: soft top line but good cost control expected

We expect TISCO to report a 3Q21 net profit of THB1,570m (-3% y-y, -6% q-q). We think its core operations will still be soft. TISCO could be the only bank to see a drop in its loan volume, which we estimate at 3.5% q-q, due to its conservative strategy.

Moreover, we forecast its 3Q21 fee income to decline q-q due to a drop in its bancassurance and mutual fund fees following the partial lockdown measures. These negative factors should be mostly offset by 1) its efficient cost of fund management; 2) variable cost structure, allowing flexibility in its cost management; and 3) proactively setting aside extra expected credit losses (ECL) in the previous quarters. Although we expect its non-performing loans (NPLs) to increase 3% q-q – in line with the sector's trend – we expect a decline in its ECL in 3Q21. Its NPL coverage ratio should still be the highest in the banking sphere in 3Q21 at 213%.

Exhibit 103: TISCO – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	3,252	3,149	3,144	(3)	(0)	9,403	(4)	75	12,548	(4)	Drop in loan growth but uptick in NIM Fee income drop expected q-q from lockdown measures
Non-interest income*	1,443	1,566	1,405	(3)	(10)	4,962	20	79	6,256	8	
Operating income*	4,696	4,715	4,549	(3)	(4)	14,365	3	76	18,805	(1)	
Operating expenses	2,082	2,070	2,032	(2)	(2)	6,167	5	74	8,288	3	
PPOP before tax*	2,614	2,645	2,517	(4)	(5)	8,198	1	78	10,517	(3)	
Provision	605	565	578	(4)	2	1,976	(23)	79	2,495	(25)	
Income tax	397	413	368	(7)	(11)	1,222	12	79	1,548	3	
Minority interest									3	nm.	
Normalised profit	1,612	1,666	1,570	(3)	(6)	5,000	13	77	6,471	7	
Extraordinary items	0	0	0			0			0		
Net profit	1,612	1,666	1,570	(3)	(6)	5,000	13	77	6,471	7	
EPS (THB)	2.01	2.08	1.96	(3)	(6)	6.25	13	77	8.08	7	
Asset quality ratio											
Gross NPLs	5,918	5,867	6,043	2	3				6,293	12	
NPL ratios (%)	2.63	2.74	2.92						3.01		
LLR/NPLs (%)	196	214	213						196		
Credit cost (bp)	107	104	110						115		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	44.3	43.9	44.7						44.1		
Average yield	5.9	5.7	5.8						5.6		
Cost of fund	1.5	1.2	1.1						1.2		
NIM	4.7	4.8	4.9						4.7		
Non-int inc/total income	30.7	33.2	30.9						33.3		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan/deposit ratio	109.8	118.2	121.3						113.9		
Capital adequacy	(%)	(%)	(%)						(%)		
CAR	21.8	22.5	24.2						24.2		
CET 1/ Risk assets	17.5	18.0	19.6						19.5		
Tier 2 / Risk assets	4.3	4.5	4.6						4.7		
Loan growth	(%)	(%)	(%)						(%)		
Year-to-date	(7.4)	(4.8)	(8.1)								
y-y	(6.6)	(6.2)	(8.2)						(7.0)		
q-q	(1.4)	(3.1)	(3.5)								

*Including share of profits from associates

Sources: TISCO; FSSIA estimates

Earnings revisions following the Bank of Thailand's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for Siam Commercial Bank (SCB TB, BUY, TP THB158) which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

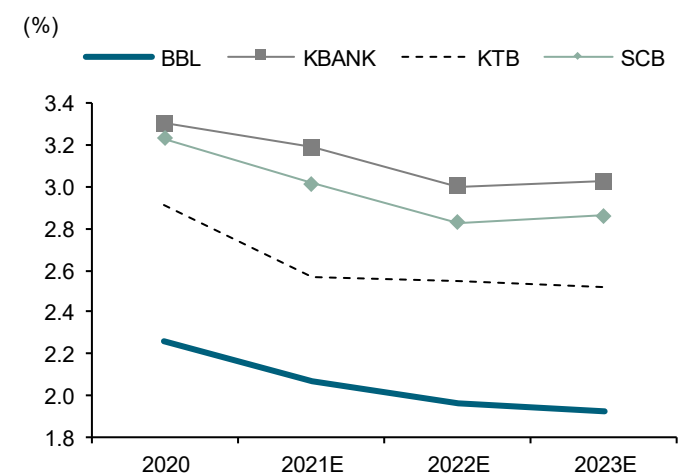
26. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
27. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
28. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
29. The CDR EIR would be 50% lower than that of each bank's current level;
30. Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 104: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

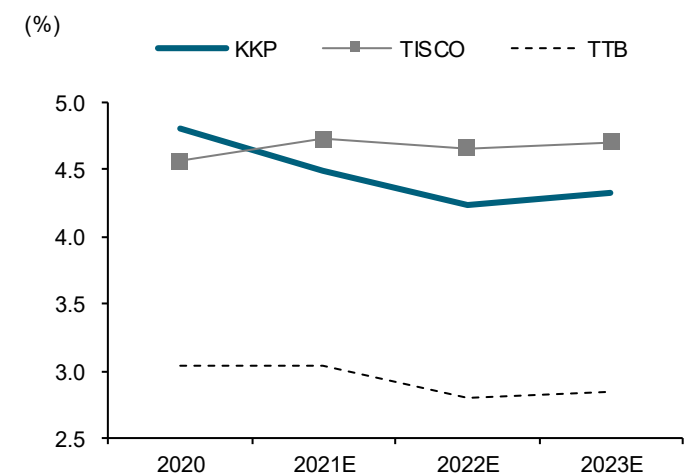
Sources: Company data; FSSIA estimates

Exhibit 105: NIM assumptions for big banks



Sources: Company data; FSSIA estimates

Exhibit 106: NIM assumptions for auto lenders



Sources: Company data; FSSIA estimates

Exhibit 107: Credit cost assumptions

	----- Credit cost -----				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

We think that the BoT's guidance should positively affect TISCO. Based on our calculation, TISCO's 2022 loan yield should decline by 0.24% from its current loan yield of 6.8%. This should be offset by 1) the extension of the FIDF fee at 0.23%; and 2) its credit cost in 2022 should decline to its normal rate of c90 bps from our expectation of 115 bps in 2021.

However, due to its conservative lending strategy, its loan volume could be lower than expected. Lower loan growth would also lead to lower fee income.

All in all, there could be a moderately negative impact on our earnings forecast. Thus, we lower our 2021-23 net profit forecasts by 2%/6%/6%.

Exhibit 108: TISCO – change of key assumptions

	-----2021E-----				-----2022E-----			-----2023E-----		
	2020 (THB m)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	13,098	12,487	12,548	0.5	12,632	12,031	(4.8)	13,313	12,437	(6.6)
Non-interest income*	5,806	6,615	6,256	(5.4)	7,340	7,050	(4.0)	7,730	7,547	(2.4)
Operating income*	18,904	19,102	18,805	(1.6)	19,972	19,081	(4.5)	21,043	19,984	(5.0)
Operating expenses	8,012	8,288	8,288	0.0	8,618	8,429	(2.2)	8,849	8,461	(4.4)
PPOP before tax*	10,892	10,814	10,517	(2.8)	11,354	10,652	(6.2)	12,194	11,523	(5.5)
Expected credit loss (Reversal)	3,331	2,617	2,495	(4.7)	2,033	1,910	(6.1)	2,068	1,987	(3.9)
Tax expenses	1,498	1,582	1,548	(2.1)	1,799	1,687	(6.2)	1,954	1,841	(5.8)
Minority interest	0	3	3	(2.1)	3	3	(6.2)	3	3	(5.8)
Normalised profit	6,063	6,613	6,471	(2.1)	7,519	7,052	(6.2)	8,169	7,693	(5.8)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	6,063	6,613	6,471	(2.1)	7,519	7,052	(6.2)	8,169	7,693	(5.8)
EPS (THB)	7.57	8.26	8.08	(2.1)	9.39	8.81	(6.2)	10.20	9.61	(5.8)
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	5,618	6,180	6,293	1.8	6,180	6,293	1.8	6,489	6,607	1.8
Gross NPLs / Loans (%)	2.50	2.78	3.01		2.70	2.92		2.70	2.92	
Loan loss reserve/NPLs (%)	210	199	196		197	194		184	182	
Credit cost (bps)	142	117	115		90	90		88	90	
Profitability ratio (%)										
Cost to income ratio*	42.4	43.4	44.1		43.2	44.2		42.1	42.3	
Average yield	5.84	5.79	5.65		6.02	5.54		6.19	5.80	
Cost of funds	1.56	1.53	1.16		1.78	1.13		1.79	1.39	
Net interest margin (NIM)	4.56	4.56	4.72		4.60	4.66		4.77	4.71	
Loan growth (%)										
y-y	(7.42)	(1.00)	(7.00)		3.00	3.00		5.00	5.00	

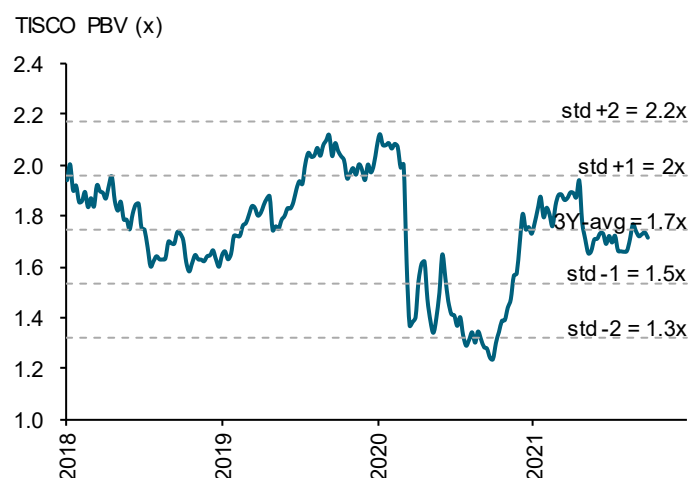
*Including share of profits from associates

Source: FSSIA estimates

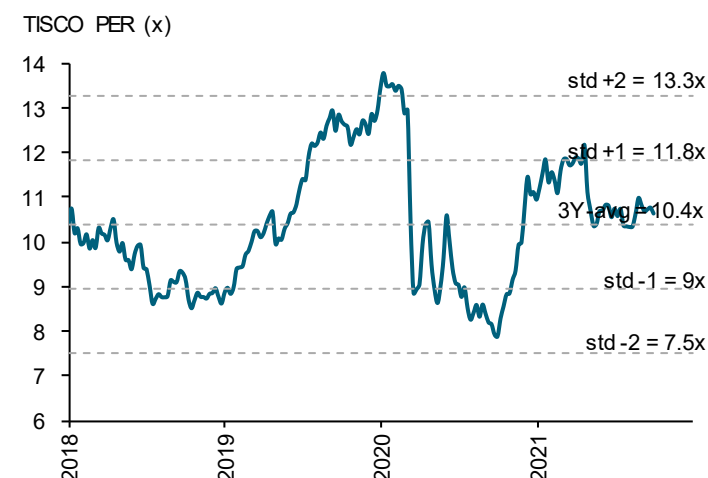
Exhibit 109: TISCO – GGM-derived target price

Target price	THB 110 (from THB122)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost to equity (%)	10.9 (unchanged)
Terminal growth (%)	4.9 (from 5.0)
ROE target (%)	17.0 (from 18.2)
Risk to TP	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; 2) the impact of new regulations from the Bank of Thailand on debt-servicing programs; and 3) the slow expansion of its high-yield auto cash portfolio.

Sources: FSSIA estimates

Exhibit 110: TISCO - one-year forward rolling P/BV

Sources: Bloomberg; FSSIA estimates

Exhibit 111: TISCO – one-year forward rolling P/E

Sources: Bloomberg; FSSIA estimates

Exhibit 112: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current (THB)	Target (THB)			21E (%)	22E (%)	21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

Tisco Financial

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	17,881	16,757	15,004	14,329	15,315
Interest expense	(5,089)	(3,659)	(2,456)	(2,298)	(2,878)
Net interest income	12,792	13,098	12,548	12,031	12,437
Net fees & commission	6,185	5,146	5,389	6,100	6,527
Foreign exchange trading income	(24)	257	386	425	467
Securities trading income	7	12	74	79	84
Dividend income	65	59	65	78	86
Other income	399	333	345	370	386
Non interest income	6,631	5,808	6,258	7,052	7,549
Total income	19,424	18,906	18,807	19,083	19,986
Staff costs	(6,410)	(5,288)	(5,500)	(5,610)	(5,610)
Other operating costs	(2,860)	(2,723)	(2,788)	(2,819)	(2,851)
Operating costs	(9,271)	(8,012)	(8,288)	(8,429)	(8,461)
Pre provision operating profit	10,153	10,894	10,519	10,654	11,526
Provision for bad and doubtful debt	(1,109)	(3,331)	(2,495)	(1,910)	(1,987)
Other provisions	-	-	-	-	-
Operating profit	9,044	7,563	8,024	8,744	9,539
Recurring non operating income	12	(2)	(2)	(2)	(2)
Associates	12	(2)	(2)	(2)	(2)
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	9,056	7,562	8,022	8,742	9,536
Tax	(1,783)	(1,498)	(1,548)	(1,687)	(1,841)
Profit after tax	7,273	6,064	6,474	7,055	7,696
Minority interests	(3)	0	(3)	(3)	(3)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	7,270	6,063	6,471	7,052	7,693
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	7,270	6,063	6,471	7,052	7,693
Per share (THB)					
Recurring EPS *	9.08	7.57	8.08	8.81	9.61
Reported EPS	9.08	7.57	8.08	8.81	9.61
DPS	7.75	6.30	6.60	7.75	7.75
Growth					
Net interest income (%)	1.4	2.4	(4.2)	(4.1)	3.4
Non interest income (%)	(7.8)	(12.4)	7.8	12.7	7.1
Pre provision operating profit (%)	(8.2)	7.3	(3.4)	1.3	8.2
Operating profit (%)	8.2	(16.4)	6.1	9.0	9.1
Reported net profit (%)	3.6	(16.6)	6.7	9.0	9.1
Recurring EPS (%)	3.6	(16.6)	6.7	9.0	9.1
Reported EPS (%)	3.6	(16.6)	6.7	9.0	9.1
Income Breakdown					
Net interest income (%)	65.9	69.3	66.7	63.0	62.2
Net fees & commission (%)	31.8	27.2	28.7	32.0	32.7
Foreign exchange trading income (%)	(0.1)	1.4	2.1	2.2	2.3
Securities trading income (%)	0.0	0.1	0.4	0.4	0.4
Dividend income (%)	0.3	0.3	0.3	0.4	0.4
Other income (%)	2.1	1.8	1.8	1.9	1.9
Operating performance					
Gross interest yield (%)	5.93	5.84	5.65	5.54	5.80
Cost of funds (%)	2.04	1.56	1.16	1.13	1.39
Net interest spread (%)	3.89	4.28	4.49	4.41	4.41
Net interest margin (%)	4.2	4.6	4.7	4.7	4.7
Cost/income(%)	47.7	42.4	44.1	44.2	42.3
Cost/assets(%)	3.1	2.8	3.1	3.3	3.2
Effective tax rate (%)	19.7	19.8	19.3	19.3	19.3
Dividend payout on recurring profit (%)	85.3	83.2	81.7	88.0	80.7
ROE (%)	18.9	15.4	16.1	16.7	17.4
ROE - COE (%)	8.1	4.6	5.3	5.9	6.6
ROA (%)	2.4	2.1	2.4	2.7	2.9
RORWA (%)	4.1	3.3	3.6	4.0	4.2

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Tisco Financial; FSSIA estimates

Financial Statements

Tisco Financial

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	242,826	224,812	209,075	215,347	226,114
Total provisions	(10,717)	(11,826)	(12,334)	(12,198)	(12,037)
interest in suspense	1,241	1,902	1,673	1,615	1,583
Net customer loans	233,350	214,888	198,413	204,764	215,660
Bank loans	45,300	38,212	32,472	31,750	25,734
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	10,177	12,931	13,711	14,543	15,024
Cash & equivalents	1,103	1,220	1,497	1,411	1,588
Other interesting assets	-	-	-	-	-
Tangible fixed assets	3,003	3,837	3,897	3,958	4,020
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	5,372	4,355	4,016	4,119	4,209
Total assets	298,304	275,443	254,006	260,545	266,236
Customer deposits	216,085	203,473	183,544	187,215	190,960
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	29,980	19,918	17,508	17,858	18,215
Non interest bearing liabilities	13,044	12,590	11,960	11,960	11,960
Hybrid Capital	-	-	-	-	-
Total liabilities	259,108	235,981	213,013	217,034	221,135
Share capital	8,007	8,007	8,006	8,006	8,006
Reserves	31,186	31,452	32,984	35,502	37,091
Total equity	39,193	39,459	40,990	43,508	45,097
Minority interests	3	3	3	3	4
Total liabilities & equity	298,304	275,443	254,006	260,545	266,236
Supplementary items					
Risk weighted assets (RWA)	185,573	185,168	172,206	177,372	186,241
Average interest earning assets	301,421	287,129	265,606	258,449	264,256
Average interest bearing liabilities	249,671	234,728	212,222	203,063	207,124
Tier 1 capital	30,395	32,369	33,604	35,736	36,903
Total capital	38,562	40,478	41,713	43,844	45,012
Gross non performing loans (NPL)	5,834	5,618	6,293	6,293	6,607
Per share (THB)					
Book value per share	48.95	49.28	51.20	54.34	56.33
Tangible book value per share	48.95	49.28	51.20	54.34	56.33
Growth					
Gross customer loans	0.9	(7.4)	(7.0)	3.0	5.0
Average interest earning assets	(1.0)	(4.7)	(7.5)	(2.7)	2.2
Total asset (%)	(1.4)	(7.7)	(7.8)	2.6	2.2
Risk weighted assets (%)	7.9	(0.2)	(7.0)	3.0	5.0
Customer deposits (%)	11.9	(5.8)	(9.8)	2.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	108.0	105.6	108.1	109.4	112.9
Equity/assets (%)	13.1	14.3	16.1	16.7	16.9
Tangible equity/assets (%)	13.1	14.3	16.1	16.7	16.9
RWA/assets (%)	62.2	67.2	67.8	68.1	70.0
Tier 1 CAR (%)	16.4	17.5	19.5	20.1	19.8
Total CAR (%)	20.8	21.9	24.2	24.7	24.2
Asset Quality					
Change in NPL (%)	(15.1)	(3.7)	12.0	-	5.0
NPL/gross loans (%)	2.4	2.5	3.0	2.9	2.9
Total provisions/gross loans (%)	4.4	5.3	5.9	5.4	5.3
Total provisions/NPL (%)	183.7	210.5	196.0	193.8	182.2
Valuation					
Recurring P/E (x) *	10.2	12.2	11.4	10.5	9.6
Recurring P/E @ target price (x) *	12.1	14.5	13.6	12.5	11.4
Reported P/E (x)	10.2	12.2	11.4	10.5	9.6
Dividend yield (%)	8.4	6.8	7.2	8.4	8.4
Price/book (x)	1.9	1.9	1.8	1.7	1.6
Price/tangible book (x)	1.9	1.9	1.8	1.7	1.6
Price/tangible book @ target price (x)	2.2	2.2	2.1	2.0	2.0

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Tisco Financial; FSSIA estimates

5 OCTOBER 2021

THAILAND / BANKS

TMBTHANACHART BANK

TTB TB

BUY

UNCHANGED

TARGET PRICE	THB1.40
CLOSE	THB1.12
UP/DOWNSIDE	+25.0%
PRIOR TP	THB1.40
CHANGE IN TP	UNCHANGED
TP vs CONSENSUS	+14.1%

Treasure chest should open next year

Wait for synergies to clearly bear fruit

TTB's revenue and OPEX are under pressure, mainly from its post-merger restructuring. We believe that the revenue synergies will kick in next year. We think TTB could utilise the increase in its customer base to generate cross-selling and up-selling opportunities. This would enlarge its loan volume and fee income. Moreover, we are convinced that TTB will fully enjoy the benefits from the overlapping branch network rationalisation, along with the resulting workforce, marketing and IT investment savings. Hence, we believe TTB will deliver the highest net profit growth among banks at 32% y-y in 2022. It is likely to be the only bank whose 2022 ROE can increase above the 2019 pre-Covid level.

3Q21: weak core operations expected

We expect TTB to report a 3Q21 net profit of THB2,100m (+30% y-y, -17% q-q). Its performance should continue to be weak, dragged down by slow loan growth, lower fee income, and higher OPEX. We expect TTB to be one of two banks with negative loan growth in 3Q21 (1.5% YTD) due to its conservative strategy. 3Q21 fee income should decline thanks to the slow cross-selling activities from the partial lockdown and the impact of its entire business transfer (EBT) with Thanachart Bank (TBANK, not listed). Moreover, we expect its OPEX to increase on the OPEX related to the EBT. Regarding asset quality, we think its NPLs will slightly increase by 3% q-q. We expect TTB to slow its NPL sales to third parties, as it plans to revive its AMC to manage NPLs itself. 3Q21 credit cost should increase minimally to 165 bps, though still in line with its guidance.

Fine-tuning net profit assumptions following BoT's new guidance

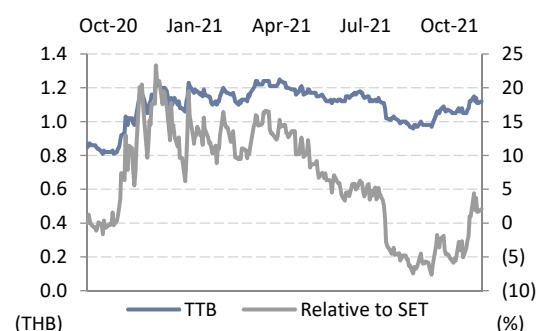
The BoT is encouraging banks to provide CDR to their clients. The negative impact would be a reduction in loan yields, depending on the CDR program. Based on our calculation, TTB's 2022 loan yield would decline by 0.33% from its current yield of 4.5%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 145 bps vs our 2021E of 175 bps, close to its normal rate of 120-140 bps. Accordingly, we only fine-tune our 2022-23 net profit forecasts by -1.1%/+0.4%.

Maintain BUY and GGM-based 2022 TP of THB1.40

TTB's valuation is very undemanding. However, we see few short-term positive catalysts. We are convinced that TTB will be able to gain investors' attention next year. We reiterate BUY for long-term investment.

KEY STOCK DATA

YE Dec (THB m)	2020	2021E	2022E	2023E
Operating profit	11,975	11,655	15,684	17,973
Net profit	10,112	10,002	13,217	15,129
EPS (THB)	0.10	0.10	0.14	0.16
vs Consensus (%)	-	(2.9)	11.1	1.3
Core net profit	10,112	10,002	13,217	15,129
Core EPS (THB)	0.10	0.10	0.14	0.16
Chg. In EPS est. (%)	-	-	(1.1)	0.4
EPS growth (%)	(29.4)	(1.1)	32.1	14.5
Core P/E (x)	10.7	10.8	8.2	7.1
Dividend yield (%)	4.0	3.7	4.9	5.6
Price/book (x)	0.5	0.5	0.5	0.5
ROE (%)	5.1	4.8	6.1	6.7
ROA (%)	0.6	0.6	0.7	0.8



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	4.7	0.0	30.2
Relative to country (%)	7.0	(2.2)	(0.2)
Mkt cap (USD m)	3,199		
3m avg. daily turnover (USD m)	10.3		
Free float (%)	39		
Major shareholder	ING Bank N.V. (23%)		
12m high/low (THB)	1.27/0.80		
Issued shares (m)	43,852		

Sources: Bloomberg consensus; FSSIA estimates



Yuvarart Suwanumphai

 yuvarart.suw@fssia.com
 +66 2611 3554

Investment thesis

We maintain our BUY call for long-term investment on TTB as we believe that it will deliver superior performance in 2022, driven by synergies from its consolidation with Thanachart Bank (TBANK, not listed) in terms of both revenue and cost and lower expected credit losses (ECL), thanks to its prudent provision stockpiling in 2020-21 which should lead to an ECL decline. Additionally, we like its prudent and transparent asset quality management. This should allow TTB to deliver sustainable long-term post-Covid growth. Moreover, TTB is well known as a digital lending bank that could benefit from the current digital banking trend. Lastly, TTB's share price is trading at an undemanding valuation.

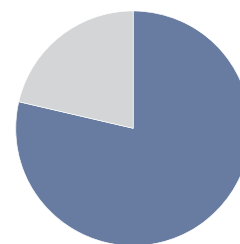
Company profile

TMBThanachart Bank Public Company Limited provides a full range of banking and financial services. The bank offers corporate and personal lending, retail and wholesale banking, international trade financing, and investment banking services to its customers throughout Thailand. It merged with TBANK at the end of 2019. The entire business transfer (EBT) process was completed in Jul-21.

www.ttbank.com

Principal activities (revenue, 2020)

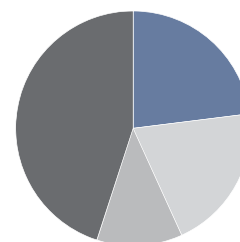
- Net interest income - 78.6 %
- Non-interest income - 21.4 %



Source: TMBThanachart Bank

Major shareholders

- ING Bank N.V. - 23.0 %
- TCAP - 20.2 %
- Ministry of finance - 11.8 %
- Others - 45.0 %



Source: TMBThanachart Bank

Catalysts

Potential share price catalysts for TTB include:

- Lower credit cost from better-than-expected new NPLs;
- Better operating cost control;
- Revenue synergies starting to kick in.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.

Event calendar

Date	Event
20 Oct 2021	3Q21 results announcement

Key assumptions

	2021E	2022E	2023E
	(%)	(%)	(%)
Net profit (THB m)	10,002	13,217	15,129
Net profit growth	(1.1)	32.1	14.5
NIM	3.05	2.81	2.85
Loan growth	(1.0)	4.0	4.0
Fee growth	5.1	24.5	1.6
Non-NII growth*	4.5	20.3	2.7
Credit cost (bp)	175	145	138
Cost to income*	46.2	44.9	43.5

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2021E		
		(3.0)	(1.0)	1.0
Loan growth	±2ppt	(3.0)	(1.0)	1.0
% change in net profit		(2.1)	-	2.1
NIM (%)	±5bp	3.00	3.05	3.10
% change in net profit		(6.0)	-	6.0
Credit cost (bp)	±10bp	165	175	185
% change in net profit		4.7	-	(4.7)

Source: FSSIA estimates

3Q21: weak core operations expected

We expect TTB to report a 3Q21 net profit of THB2,100m (+30% y-y, -17% q-q). Its performance should continue to be weak, dragged down by slow loan growth, lower fee income, and higher OPEX. We expect TTB to be one of two banks with negative loan growth in 3Q21 (1.5% YTD) due to its conservative strategy and shifting focus toward the retail segment from the corporate and SME-oriented segments. 3Q21 fee income should decline thanks to the slow cross-selling activities from the partial lockdown and the impact of its EBT with TBANK. Moreover, we expect its OPEX to increase on the OPEX related to the EBT, which was delayed from being booked in 2Q21.

Regarding asset quality, we think its non-performing loans (NPLs) will slightly increase by 3% q-q. We expect TTB to slow its NPL sales to third parties, as it plans to revive its asset management company (AMC) to manage NPLs itself and gain an advantage from raising funds at a better cost using TTB as a guarantor. 3Q21 credit cost should increase minimally to 165 bps, though still in line with its guidance.

Exhibit 113: TTB – 3Q21E results preview

Year-end Dec 31	3Q20	2Q21	3Q21E			9M21E			2021E		Comments
	(THBm)	(THBm)	(THBm)	(y-y%)	(q-q%)	(THBm)	(y-y%)	%21E	(THB m)	(y-y%)	3Q21E
Net interest income	13,227	12,782	12,747	(4)	(0)	38,401	(5)	74	51,885	(4)	Slow loan growth
Non-interest income*	2,984	3,118	2,988	0	(4)	10,077	(6)	64	15,659	4	A drop in fee income due to lockdown measures and EBT
Operating income*	16,212	15,900	15,734	(3)	(1)	48,478	(5)	72	67,544	(2)	
Operating expenses	7,429	7,402	7,541	2	2	22,871	(3)	73	31,236	(1)	
PPOP before tax*	8,783	8,498	8,194	(7)	(4)	25,607	(7)	71	36,308	(2)	
Provision	6,863	5,491	5,633	(18)	3	16,604	0	68	24,254	(2)	
Income tax	301	472	461	53	(2)	1,586	(19)	77	2,049	(8)	
Minority interest	0	1	0			2	(19)		3		
Normalised profit	1,619	2,534	2,100	30	(17)	7,416	(16)	74	10,002	(1)	
Extraordinary items	0	0	0			0			0		
Net profit	1,619	2,534	2,100	30	(17)	7,416	(16)	74	10,002	(1)	
EPS (THB)	0.02	0.03	0.02	30	(17)	0	(17)	74	0.10	(1)	
Asset quality ratio											
Gross NPLs	36,747	43,543	44,849	22	3				46,325	17	Slower NPL sales to third parties
NPL ratios (%)	2.33	2.89	2.82						2.95		
LLR/NPLs (%)	132	125	126						125		
Credit cost (bp)	200	160	165						175		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	45.8	46.6	47.9						46.2		
Average yield	3.9	3.7	3.7						3.8		
Cost of fund	1.1	0.9	0.9						0.9		
NIM	2.9	3.0	3.0						3.0		
Non-int inc/total income	18.4	19.6	19.0						23.2		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan/deposit ratio	96.9	102.6	104.7						104.3		
Capital adequacy	(%)	(%)	(%)						(%)		
CAR	19.2	19.6	20.0						20.3		
CET 1/ Risk assets	14.2	14.5	16.0						16.1		
Tier 2 / Risk assets	4.1	5.1	4.0						4.2		
Loan growth	(%)	(%)	(%)						(%)		
Year-to-date	(2.1)	(2.5)	(1.5)								
y-y	96.5	(1.7)	0.7						(1.0)		
q-q	(1.4)	(1.6)	1.0								

*Including share of profits from associates

Sources: TTB; FSSIA estimates

Fine-tuning net profit assumptions following BoT's new guidance

The Bank of Thailand (BoT) is encouraging banks to provide comprehensive debt restructuring (CDR) to their clients by extending the relaxed loan classification and provision setup rules to Dec-23 and extending the reduction of the Financial Institutions Development Fund (FIDF) fee at 0.23% to Dec-22.

Currently, most banks have still not provided any clues about their CDR plans, except for Siam Commercial Bank (SCB TB, BUY, TP THB158) which will offer c20% of its total portfolio to its clients. We think it is still difficult to quantify the precise impact that CDR could have on banks' net profits, and will mostly depend on the CDR that they choose to apply. Accordingly, we have 1) collected forbearance program data and previous debt restructuring program data; and 2) followed up with each bank's management. Thus, we assess the impact on banks' bottom lines using the following assumptions:

Assumptions:

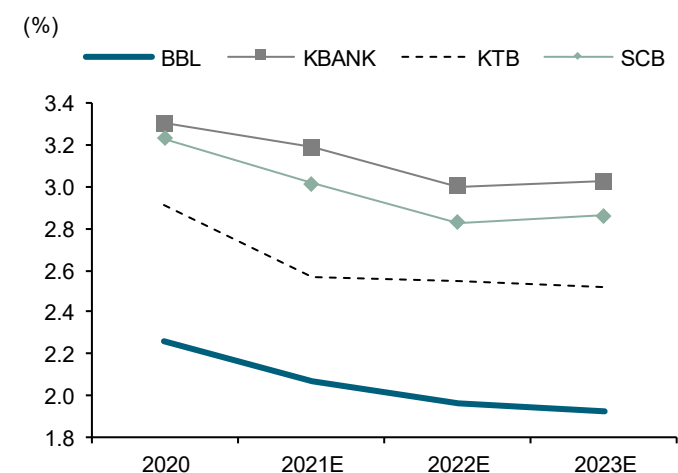
31. 2021 forbearance programs should increase slightly to moderately from the current level as of 2Q21, depending on each bank's portfolio makeup and client profiles;
32. Banks will likely offer CDR at 60% of their 2021 forbearance programs;
33. Banks will also offer CDR for some of their trouble loans which are not classified under the forbearance program, depending on each bank's portfolio makeup and client profiles;
34. The CDR EIR would be 50% lower than that of each bank's current level;
35. Banks will set credit costs in 2022-23 close to their normal rates.

Exhibit 114: CDR impact on loan yield

	Forbearance program (FB)		Banks will offer CDR			Net negative impact on 2022E EIR (%)
	2Q21 (% total loans)	2021E (% total loans)	60% of FB	Other trouble loans (% of total loans)	Total expected CDR (% of total loans)	
BBL	12	12	7	3	10	(0.20)
KBANK	14	18	11	8	19	(0.44)
KKP	13	15	9	3	12	(0.39)
KTB	4	7	4	5	9	(0.20)
SCB	16	20	12	8	20	(0.46)
TISCO	3	7	4	3	7	(0.24)
TTB	14	16	10	5	15	(0.33)

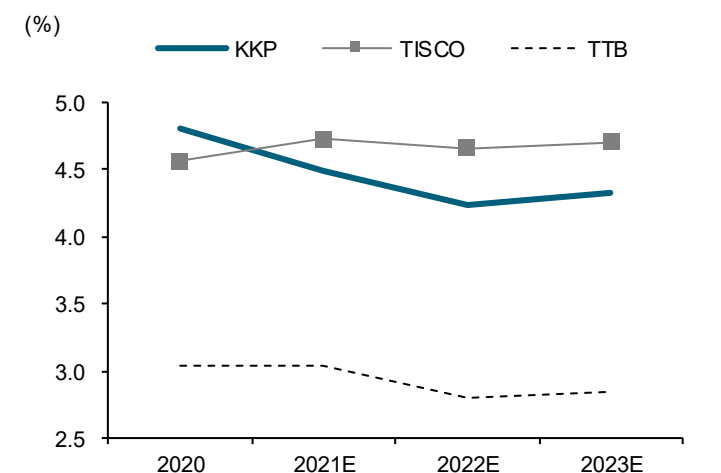
Sources: Company data; FSSIA estimates

Exhibit 115: NIM assumptions for big banks



Sources: Company data; FSSIA's estimates

Exhibit 116: NIM assumptions for auto lenders



Sources: Company data; FSSIA's estimates

Exhibit 117: Credit cost assumptions

	Credit cost				Expected normal credit cost
	2020 (bps)	2021E (bps)	2022E (bps)	2023E (bps)	
BBL	141	117	88	84	80-100
KBANK	205	180	160	150	120-140
KKP	163	193	120	110	100-120
KTB	203	140	140	130	120-140
SCB	214	188	140	135	120-140
TISCO	142	115	90	90	90-110
TTB	178	175	145	138	120-140

Sources: Company data; FSSIA estimates

Based on our calculation, TTB's 2022 loan yield would decline by 0.33% from its current yield of 4.5%. However, we think that 1) the extension of the FIDF fee at 0.23% should mitigate the impact on its NII; and 2) its credit cost in 2022 should decline to 145 bps vs an expected 175 bps in 2021, close to its normal rate of 120-140 bps. Accordingly, we only fine-tune our 2022-23 net profit forecasts by -1.1%/+0.4%.

Exhibit 118: TTB – change of key assumptions

	2020 (THB m)	2021E			2022E			2023E		
		Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)	Old (THB m)	New (THB m)	Change (%)
Net interest income	53,805	51,885	51,885	-	48,998	47,419	(3.2)	51,453	49,039	(4.7)
Non-interest income*	14,986	15,659	15,659	-	18,838	18,838	-	19,339	19,339	-
Operating income*	68,791	67,544	67,544	-	67,836	66,258	(2.3)	70,792	68,378	(3.4)
Operating expenses	31,623	31,236	31,236	-	29,739	29,739	-	29,735	29,735	-
PPOP before tax*	37,169	36,308	36,308	-	38,097	36,519	(4.1)	41,057	38,643	(5.9)
Expected credit loss (Reversal)	24,831	24,254	24,254	-	21,802	20,395	(6.5)	22,674	20,187	(11.0)
Tax expenses	2,223	2,049	2,049	-	2,933	2,902	(1.1)	3,309	3,322	0.4
Minority interest	3	3	3	-	4	4	(1.1)	5	5	0.4
Normalised profit	10,112	10,002	10,002	-	13,358	13,217	(1.1)	15,070	15,129	0.4
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	10,112	10,002	10,002	-	13,358	13,217	(1.1)	15,070	15,129	0.4
EPS (THB)	0.10	0.10	0.10	-	0.14	0.14	(1.1)	0.16	0.16	0.4
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	39,594	51,472	46,325	(10.0)	51,472	48,641	(5.5)	55,075	52,533	(4.6)
Gross NPLs / Loans (%)	2.50	3.28	2.95		3.16	2.98		3.25	3.10	
Loan loss reserve/NPLs (%)	134	123	125		129	126		127	121	
Credit cost (bps)	178	175	175		155	145		155	138	
Profitability ratio (%)										
Cost to income ratio*	46.0	46.2	46.2		43.8	44.9		42.0	43.5	
Average yield	4.09	3.82	3.82		3.86	3.58		3.93	3.79	
Cost of funds	1.18	0.87	0.87		1.07	0.87		1.07	1.07	
Net interest margin (NIM)	3.05	3.05	3.05		2.91	2.81		2.99	2.85	
Loan growth (%)										
y-y	0.1	(1.0)	(1.0)		4.0	4.0		4.0	4.0	

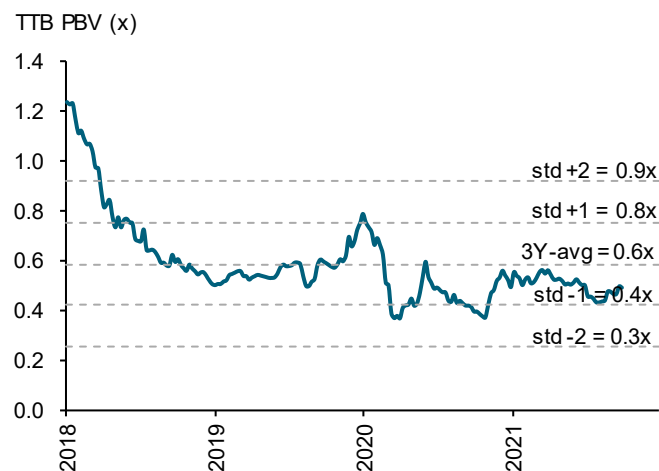
*Including share of profits from associates

Source: FSSIA estimates

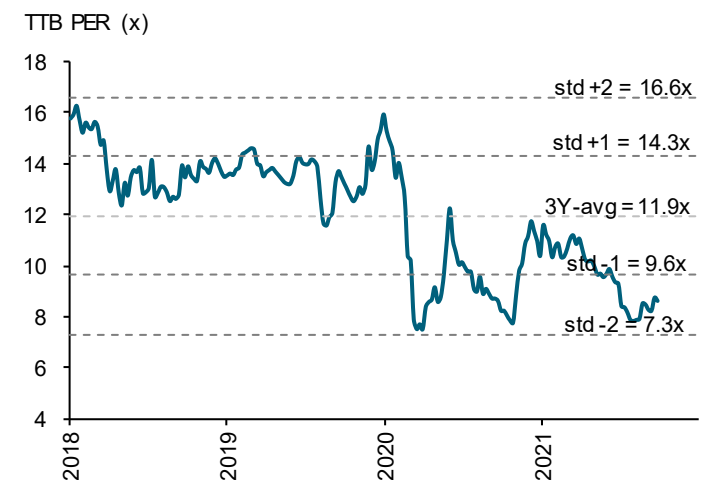
Exhibit 119: TTB – GGM-derived target price (unchanged)

Target price	THB 1.40 (unchanged)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost to equity (%)	7.8 (unchanged)
Terminal growth (%)	4.1 (unchanged)
ROE target (%)	6.4 (unchanged)
Risk to TP	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.

Source: FSSIA estimates

Exhibit 120: TTB – one-year forward rolling P/BV

Sources: Bloomberg; FSSIA estimates

Exhibit 121: TTB – one-year forward rolling P/E

Sources: Bloomberg; FSSIA estimates

Exhibit 122: Peers comparison

Company name	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- PE -----		---- ROE ----		--- PBV ---	
			Current (THB)	Target (THB)			21E (%)	22E (%)	21E (x)	22E (x)	21E (%)	22E (%)	21E (x)	22E (x)
Bangkok Bank	BBL TB	HOLD	116.50	128.00	10	6,582	17.2	9.9	9.0	8.2	5.5	5.8	0.5	0.5
Kasikornbank	KBANK TB	BUY	137.00	168.00	23	9,608	12.4	12.6	9.8	8.7	7.2	7.5	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	55.25	68.00	23	1,385	8.2	20.9	8.4	7.0	11.6	13.0	0.9	0.9
Krung Thai Bank	KTB TB	HOLD	11.10	12.20	10	4,592	21.5	5.5	7.6	7.2	5.8	5.8	0.4	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	158.00	27	12,463	18.1	14.2	13.1	11.5	7.6	8.4	1.0	1.0
Tisco Financial	TISCO TB	BUY	92.25	110.00	19	2,186	6.7	9.0	11.4	10.5	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.12	1.40	25	3,199	(1.1)	32.1	10.8	8.2	4.8	6.1	0.5	0.5
Coverage						40,015	0.8	13.6	10.6	9.3	7.3	7.9	0.8	0.7

Share prices as of 4 Oct 2021

Sources: Company data; FSSIA estimates

Financial Statements

TMBThanachart Bank

Profit and Loss (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Interest Income	39,837	72,321	65,048	60,356	65,238
Interest expense	(12,972)	(18,515)	(13,163)	(12,937)	(16,200)
Net interest income	26,865	53,805	51,885	47,419	49,039
Net fees & commission	8,098	10,575	11,117	13,842	14,063
Foreign exchange trading income	1,528	0	0	0	0
Securities trading income	1,956	2,404	2,746	3,020	3,102
Dividend income	0	0	0	0	0
Other income	1,050	1,644	1,398	1,537	1,691
Non interest income	12,632	14,623	15,260	18,399	18,856
Total income	39,497	68,429	67,145	65,819	67,895
Staff costs	(9,629)	(16,536)	(15,544)	(14,766)	(15,062)
Other operating costs	(11,046)	(15,087)	(15,692)	(14,973)	(14,673)
Operating costs	(20,674)	(31,623)	(31,236)	(29,739)	(29,735)
Pre provision operating profit	18,822	36,806	35,909	36,080	38,160
Provision for bad and doubtful debt	(10,337)	(24,831)	(24,254)	(20,395)	(20,187)
Other provisions	-	-	-	-	-
Operating profit	8,486	11,975	11,655	15,684	17,973
Recurring non operating income	324	363	399	439	483
Associates	324	363	399	439	483
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	8,810	12,338	12,054	16,123	18,456
Tax	(1,588)	(2,223)	(2,049)	(2,902)	(3,322)
Profit after tax	7,222	10,115	10,005	13,221	15,134
Minority interests	0	(3)	(3)	(4)	(5)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	7,222	10,112	10,002	13,217	15,129
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	7,222	10,112	10,002	13,217	15,129
Per share (THB)					
Recurring EPS *	0.15	0.10	0.10	0.14	0.16
Reported EPS	0.15	0.10	0.10	0.14	0.16
DPS	0.04	0.05	0.04	0.05	0.06
Growth					
Net interest income (%)	9.7	100.3	(3.6)	(8.6)	3.4
Non interest income (%)	8.4	15.8	4.4	20.6	2.5
Pre provision operating profit (%)	0.8	95.5	(2.4)	0.5	5.8
Operating profit (%)	(11.3)	41.1	(2.7)	34.6	14.6
Reported net profit (%)	(37.7)	40.0	(1.1)	32.1	14.5
Recurring EPS (%)	(15.8)	(29.4)	(1.1)	32.1	14.5
Reported EPS (%)	(43.9)	(29.4)	(1.1)	32.1	14.5
Income Breakdown					
Net interest income (%)	68.0	78.6	77.3	72.0	72.2
Net fees & commission (%)	20.5	15.5	16.6	21.0	20.7
Foreign exchange trading income (%)	3.9	-	-	-	-
Securities trading income (%)	5.0	3.5	4.1	4.6	4.6
Dividend income (%)	-	-	-	-	-
Other income (%)	2.7	2.4	2.1	2.3	2.5
Operating performance					
Gross interest yield (%)	2.99	4.09	3.82	3.58	3.79
Cost of funds (%)	1.10	1.18	0.87	0.87	1.07
Net interest spread (%)	1.89	2.91	2.95	2.71	2.72
Net interest margin (%)	2.0	3.0	3.0	2.8	2.8
Cost/income(%)	52.3	46.2	46.5	45.2	43.8
Cost/assets(%)	1.5	1.7	1.8	1.7	1.7
Effective tax rate (%)	18.0	18.0	17.0	18.0	18.0
Dividend payout on recurring profit (%)	26.5	42.9	40.0	40.0	40.0
ROE (%)	4.9	5.1	4.8	6.1	6.7
ROE - COE (%)	4.9	5.1	4.8	6.1	6.7
ROA (%)	0.5	0.6	0.6	0.7	0.8
RORWA (%)	0.8	0.8	0.8	1.1	1.2

* Pre-exceptional, pre-goodwill and fully diluted

Sources: TMBThanachart Bank ; FSSIA estimates

Financial Statements

TMBThanachart Bank

Balance Sheet (THB m) Year Ending Dec	2019	2020	2021E	2022E	2023E
Gross customer loans	1,392,225	1,392,925	1,378,996	1,434,156	1,491,522
Total provisions	(45,477)	(52,978)	(57,926)	(61,112)	(63,401)
interest in suspense	1,883	3,879	3,861	4,016	4,176
Net customer loans	1,348,631	1,343,826	1,324,931	1,377,059	1,432,297
Bank loans	236,311	211,185	151,876	126,526	108,072
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	166,265	138,139	141,687	145,328	149,066
Cash & equivalents	23,853	21,943	41,610	43,630	29,188
Other interesting assets	-	-	-	-	-
Tangible fixed assets	28,452	30,076	29,850	29,717	29,666
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	54,679	58,510	56,508	57,588	58,458
Total assets	1,858,191	1,803,677	1,746,461	1,779,849	1,806,747
Customer deposits	1,398,112	1,373,408	1,321,838	1,341,665	1,355,082
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	198,844	168,768	158,651	161,031	162,641
Non interest bearing liabilities	66,423	61,406	55,265	56,923	58,631
Hybrid Capital	-	-	-	-	-
Total liabilities	1,663,379	1,603,582	1,535,754	1,559,620	1,576,354
Share capital	91,541	91,589	91,589	91,589	91,589
Reserves	103,235	113,124	119,079	128,600	138,762
Total equity	194,777	204,713	210,668	220,189	230,351
Minority interests	35	37	38	40	42
Total liabilities & equity	1,858,190	1,808,332	1,746,461	1,779,849	1,806,747
Supplementary items					
Risk weighted assets (RWA)	1,216,836	1,188,683	1,176,796	1,223,868	1,272,823
Average interest earning assets	1,333,754	1,766,631	1,703,692	1,685,612	1,723,580
Average interest bearing liabilities	1,174,710	1,569,566	1,511,333	1,491,593	1,510,210
Tier 1 capital	165,793	171,724	189,536	197,145	206,031
Total capital	218,440	220,769	238,581	246,190	255,076
Gross non performing loans (NPL)	37,746	39,594	46,325	48,641	52,533
Per share (THB)					
Book value per share	4.01	2.12	2.19	2.29	2.39
Tangible book value per share	4.01	2.12	2.19	2.29	2.39
Growth					
Gross customer loans	103.0	0.1	(1.0)	4.0	4.0
Average interest earning assets	57.8	32.5	(3.6)	(1.1)	2.3
Total asset (%)	108.4	(2.9)	(3.2)	1.9	1.5
Risk weighted assets (%)	90.8	(2.3)	(1.0)	4.0	4.0
Customer deposits (%)	115.2	(1.8)	(3.8)	1.5	1.0
Leverage & capital measures					
Customer loan/deposits (%)	96.5	97.8	100.2	102.6	105.7
Equity/assets (%)	10.5	11.3	12.1	12.4	12.7
Tangible equity/assets (%)	10.5	11.3	12.1	12.4	12.7
RWA/assets (%)	65.5	65.9	67.4	68.8	70.4
Tier 1 CAR (%)	13.6	14.4	16.1	16.1	16.2
Total CAR (%)	18.0	18.6	20.3	20.1	20.0
Asset Quality					
Change in NPL (%)	73.8	4.9	17.0	5.0	8.0
NPL/gross loans (%)	2.7	2.8	3.4	3.4	3.5
Total provisions/gross loans (%)	3.3	3.8	4.2	4.1	4.3
Total provisions/NPL (%)	120.5	133.8	125.0	125.6	120.7
Valuation					
Recurring P/E (x) *	7.5	10.7	10.8	8.2	7.1
Recurring P/E @ target price (x) *	9.4	13.3	13.5	10.2	8.9
Reported P/E (x)	7.5	10.7	10.8	8.2	7.1
Dividend yield (%)	3.5	4.0	3.7	4.9	5.6
Price/book (x)	0.3	0.5	0.5	0.5	0.5
Price/tangible book (x)	0.3	0.5	0.5	0.5	0.5
Price/tangible book @ target price (x)	0.3	0.7	0.6	0.6	0.6

* Pre-exceptional, pre-goodwill and fully diluted

Sources: TMBThanachart Bank ; FSSIA estimates

Corporate Governance report of Thai listed companies 2020

EXCELLENT LEVEL										
AAV	ADVANC	AF	AIRA	AKP	AKR	ALT	AMA	AMATA	AMATAV	ANAN
AOT	AP	ARIP	ARROW	ASP	BAFS	BANPU	BAY	BCP	BCPG	BDMS
BEC	BEM	BGRIM	BIZ	BKI	BLA	BOL	BPP	BRR	BTS	BWG
CENTEL	CFRESH	CHEWA	CHO	CIMBT	CK	CKP	CM	CNT	COL	COMAN
COTTO	CPALL	CPF	CPI	CPN	CSS	DELTA	DEMCO	DRT	DTAC	DTC
DV8	EA	EASTW	ECF	ECL	EGCO	EPG	ETE	FNS	FPI	FPT
FSMART	GBX	GC	GCAP	GEL	GFPT	GGC	GPSC	GRAMMY	GUNKUL	HANA
HARN	HMPRO	ICC	ICHI	III	ILINK	INTUCH	IRPC	IVL	JKN	JSP
JWD	K	KBANK	KCE	KKP	KSL	KTB	KTC	LANNA	LH	LHFG
LIT	LPN	MAKRO	MALEE	MBK	MBKET	MC	MCOT	METCO	MFEC	MINT
MONO	MOONG	MSC	MTC	NCH	NCL	NEP	NKI	NOBLE	NSI	NVD
NYT	OISHI	ORI	OTO	PAP	PCSGH	PDJ	PG	PHOL	PLANB	PLANET
PLAT	PORT	PPS	PR9	PREB	PRG	PRM	PSH	PSL	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QTC	RATCH	RS	S	S & J	SAAM
SABINA	SAMART	SAMTEL	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SDC
SEAFCO	SEOIL	SE-ED	SELIC	SENA	SIRI	SIS	SITHAI	SMK	SMPC	SNC
SONIC	SORKON	SPALI	SPI	SPRC	SPVI	SSSC	SST	STA	SUSCO	SUTHA
SVI	SYMC	SYNTEC	TACC	TASCO	TCAP	TFMAMA	THANA	THANI	THCOM	THG
THIP	THRE	THREL	TIP	TIPCO	TISCO	TK	TKT	TTB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TSC	TSR	TSTE	TSTH	TTA
TTCL	TTW	TU	TVD	TVI	TVO	TWPC	U	UAC	UBIS	UV
VGI	VIH	WACOAL	WAVE	WHA	WHAUP	WICE	WINNER	TRUE		

VERY GOOD LEVEL										
2S	ABM	ACE	ACG	ADB	AEC	AEONTS	AGE	AH	AHC	AIT
ALLA	AMANAHA	AMARIN	APCO	APCS	APURE	AQUA	ASAP	ASEFA	ASIA	ASIAN
ASIMAR	ASK	ASN	ATP30	AUCT	AWC	AYUD	B	BA	BAM	BBL
BFIT	BGC	BJC	BJCHI	BROOK	BTW	CBG	CEN	CGH	CHARAN	CHAYO
CHG	CHOTI	CHOW	CI	CIG	CMC	COLOR	COM7	CPL	CRC	CRD
CSC	CSP	CWT	DCC	DCON	DDD	DOD	DOHOME	EASON	EE	ERW
ESTAR	FE	FLOYD	FN	FORTH	FSS	FTE	FVC	GENCO	GJS	GL
GLAND	GLOBAL	GLOCON	GPI	GULF	GYT	HPT	HTC	ICN	IFS	ILM
IMH	INET	INSURE	IRC	IRCP	IT	ITD	ITEL	J	JAS	JCK
JCKH	JMART	JMT	KBS	KCAR	KGI	KIAT	KOOL	KTIS	KWC	KWM
L&E	LALIN	LDC	LHK	LOXLEY	LPH	LRH	LST	M	MACO	MAJOR
MBAX	MEGA	META	MFC	MGT	MILL	MITSI	MK	MODERN	MTI	MVP
NETBAY	NEX	NINE	NTV	NWR	OCC	OGC	OSP	PATO	PB	PDG
PDI	PICO	PIMO	PJW	PL	PM	PPP	PRIN	PRINC	PSTC	PT
QLT	RCL	RICHY	RML	RPC	RWI	S11	SALEE	SAMCO	SANKO	SAPPE
SAWAD	SCI	SCP	SE	SEG	SFP	SGF	SHR	SIAM	SINGER	SKE
SKR	SKY	SMIT	SMT	SNP	SPA	SPC	SPCG	SR	SRICHA	SSC
SSF	STANLY	STI	STPI	SUC	SUN	SYNEX	T	TAE	TAKUNI	TBSP
TCC	TCMC	TEAM	TEAMG	TFG	TIGER	TITLE	TKN	TKS	TM	TMC
TMD	TMI	TMT	TNITY	TNP	TNR	TOG	TPA	TPAC	TPCORP	TPOLY
TPS	TRITN	TRT	TRU	TSE	TVT	TWP	UEC	UMI	UOBKH	UP
UPF	UPOIC	UT	UTP	UWC	VL	VNT	VPO	WIJK	WP	XO
YUASA	ZEN	ZIGA	ZMICO							

GOOD LEVEL										
7UP	A	ABICO	AJ	ALL	ALUCON	AMC	APP	ARIN	AS	AU
B52	BC	BCH	BEAUTY	BGT	BH	BIG	BKD	BLAND	BM	BR
BROCK	BSBM	BSM	BTNC	CAZ	CCP	CGD	CITY	CMAN	CMO	CMR
CPT	CPW	CRANE	CSR	D	EKH	EP	ESSO	FMT	GIFT	GREEN
GSC	GTB	HTECH	HUMAN	IHL	INOX	INSET	IP	JTS	JUBILE	KASET
KCM	KKC	KUMWEL	KUN	KWG	KYE	LEE	MATCH	MATI	M-CHAI	MCS
MDX	MJD	MM	MORE	NC	NDR	NER	NFC	NNCL	NPK	NUSA
OCEAN	PAF	PF	PK	PLE	PMTA	POST	PPM	PRAKIT	PRECHA	PRIME
PROUD	PTL	RBF	RCI	RJH	ROJNA	RP	RPH	RSP	SF	SFLEX
SGP	SISB	SKN	SLP	SMART	SOLAR	SPG	SQ	SSP	STARK	STC
SUPER	SVOA	TC	TCCC	THMUI	TIW	TNH	TOPP	TPCH	TPIPP	TPLAS
TTI	TYCN	UKEM	UMS	VCOM	VRANDA	WIN	WORK	WPH		

Description	Score Range
Excellent	90-100
Very Good	80-89
Good	70-79

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* CGR scoring should be considered with news regarding wrong doing of the company or director or executive of the company such unfair practice on securities trading, fraud, and corruption SEC imposed a civil sanction against insider trading of director and executive; ** delisted

Source: Thai Institute of Directors Association (IOD); FSSIA's compilation

Anti-corruption Progress Indicator 2020

CERTIFIED										
2S	ADVANC	AI	AIE	AIRA	AKP	AMA	AMANAH	AP	AQUA	ARROW
ASK	ASP	AYUD	B	BAFS	BANPU	BAY	BBL	BCH	BCP	BCPG
BGC	BGRIM	BJCHI	BKI	BLA	BPP	BROOK	BRR	BSBM	BTS	BWG
CEN	CENTEL	CFRESH	CGH	CHEWA	CHOTI	CHOW	CIG	CIMBT	CM	CMC
COL	COM7	CPALL	CPF	CPI	CPN	CSC	DCC	DELTA	DEMCO	DIMET
DRT	DTAC	DTC	EASTW	ECL	EGCO	FE	FNS	FPI	FPT	FSS
FTE	GBX	GC	GCAP	GEL	GFPT	GGC	GJS	GPSC	GSTEEL	GUNKUL
HANA	HARN	HMPRO	HTC	ICC	ICHI	IFS	INET	INSURE	INTUCH	IRPC
ITEL	IVL	K	KASET	KBANK	KBS	KCAR	KCE	KGI	KKP	KSL
KTB	KTC	KWC	L&E	LANNA	LHFG	LHK	LPN	LRH	M	MAKRO
MALEE	MBAX	MBK	MBKET	MC	MCOT	MFC	MFEC	MINT	MONO	MOONG
MPG	MSC	MTC	MTI	NBC	NEP	NINE	NKI	NMG	NNCL	NSI
NWR	OCC	OCEAN	OGC	ORI	PAP	PATO	PB	PCSGH	PDG	PDI
PDJ	PE	PG	PHOL	PL	PLANB	PLANET	PLAT	PM	PPP	PPPM
PPS	PREB	PRG	PRINC	PRM	PSH	PSL	PSTC	PT	PTG	PTT
PTTEP	PTTGC	PYLON	Q-CON	QH	QLT	QTC	RATCH	RML	RWI	S & J
SABINA	SAT	SC	SCB	SCC	SCCC	SCG	SCN	SEAOIL	SE-ED	SELIC
SENA	SGP	SIRI	SITHAI	SMIT	SMK	SMPC	SNC	SNP	SORKON	SPACK
SPC	SPI	SPRC	SRICHA	SSF	SSSC	SST	STA	SUSCO	SVI	SYNTEC
TAE	TAKUNI	TASCO	TBSP	TCAP	TCMC	TFG	TFI	TFMAMA	THANI	THCOM
THIP	THRE	THREL	TIP	TIPCO	TISCO	TKT	TTB	TMD	TMILL	TMT
TNITY	TNL	TNP	TNR	TOG	TOP	TPA	TPCORP	TPP	TRU	TSC
TSTH	TTCL	TU	TVD	TVI	TVO	TWPC	U	UBIS	UEC	UKEM
UOBKH	UWC	VGI	VIH	VNT	WACOAL	WHA	WHAUP	WICE	WIIK	XO
ZEN	TRUE									
DECLARED										
7UP	ABICO	AF	ALT	AMARIN	AMATA	AMATAV	ANAN	APURE	B52	BKD
BM	BROCK	BUI	CHO	CI	COTTO	DDD	EA	EFORL	EP	ERW
ESTAR	ETE	EVER	FSMART	GPI	ILINK	IRC	J	JKN	JMART	JMT
JSP	JTS	KWG	LDC	MAJOR	META	NCL	NOBLE	NOK	PK	PLE
ROJNA	SAAM	SAPPE	SCI	SE	SHANG	SINGER	SKR	SPALI	SSP	STANLY
SUPER	SYNEX	THAI	TKS	TOPP	TRITN	TTA	UPF	UV	WIN	ZIGA

Level	
Certified	This level indicates practical participation with thoroughly examination in relation to the recommended procedures from the audit committee or the SEC's certified auditor, being a certified member of Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) or already passed examination to ensure independence from external parties.
Declared	This level indicates determination to participate in the Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

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Note: Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of June 24, 2019) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

Source: The Securities and Exchange Commission, Thailand; * FSSIA's compilation

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Yuvanart Suwanumchai FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
Bangkok Bank	BBL TB	THB 116.50	HOLD	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on its NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk would be better-than-expected synergies with Permata.
Kasikornbank	KBANK TB	THB 137.00	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.
Kiatnakin Bank	KKP TB	THB 55.25	BUY	Downside risks to our GGM-based target price include weakening asset quality and lower fee income.
Krung Thai Bank	KTB TB	THB 11.10	HOLD	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs. The upside risk is the better-than-expected ability to control cost of funds.
Siam Commercial Bank	SCB TB	THB 124.00	BUY	Downside risks to our SOTP-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on its NIM.
Tisco Financial	TISCO TB	THB 92.25	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; 2) the impact of new regulations from the Bank of Thailand on debt-servicing programs; and 3) the slow expansion of its high-yield auto cash portfolio.
TMBThanachart Bank	TTB TB	THB 1.12	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness and further waves of the Covid-19 pandemic affecting loan growth and asset quality; and 2) the impact of further interest rate cuts on NIM and potential new regulations from the Bank of Thailand on debt-servicing programs.
CP All	CPALL TB	THB 63.25	BUY	The key downside risks to our DCF-derived TP are: 1) the higher-than-expected impact from a loss of service income from the convenience store business; 2) the worse-than-expected overseas performance of Makro; and 3) the slow recovery of tourist numbers.
Siam Makro	MAKRO TB	THB 48.25	HOLD	The key downside risks to our DCF-based TP include: 1) lower-than-expected SSSG; 2) lower-than-expected GPM improvement; and 3) operational losses from its overseas business. The key upside risks include: 1) the faster-than-expected recovery of Lotus' performance; and 2) a more aggressive expansion plan.

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finansia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finansia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 04-Oct-2021 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.