

25 OCTOBER 2021

Thailand Banks

The silver lining after the Covid storm

3Q21 results beat on fee income

The aggregate 3Q21 net profit of the banks under our coverage (BUC) totalled THB34.8b (+52% y-y, -2% q-q) – 17% higher than our projection due to higher-than-expected fee income. We read the sector's overall operating performance as slightly positive due to its strong core operations with manageable asset quality. Amid the lockdown measures, the BUC were able to deliver strong core operations, driven by 1) solid loan growth; 2) strong fee income supported by loan-related fees and the wealth management business; and 3) good cost control. Regarding asset quality, there was a rise in the non-performing loan (NPL) formation rate and a moderate rise in accrued interest. However, the BUC wrote-off NPLs actively in 3Q21. Accordingly, the BUC's NPLs increased by only 1% q-q. In our view, BBL, KKP and SCB, respectively, delivered the strongest 3Q21 results.

More relaxed view on top line growth from post-result meetings

The tone of the post-result analyst briefings was more relaxed regarding top line growth. Most banks aim to expand their loan volumes more aggressively from 4Q21 on, while fee income should be favoured by the resumption of business activities. Thus, we read the overall message from the meetings as neutral to slightly positive. In 4Q21, we expect the BUC to deliver stronger top line growth, efficient cost control, and elevated provisions. We expect their 4Q21 aggregate net profit to increase y-y and decline q-q on seasonality.

Few downside risks in the near term

The comprehensive debt restructuring program (CDR) indicates that the Bank of Thailand (BoT) is giving banks more time to deal with the asset quality issue. We also view the easing of the LTV criteria for the property sector as a good sign that the BoT has more confidence in the credit underwriting process and the asset quality of commercial banks. We do not anticipate any unpredictable, negative assistance measures from the BoT. In contrast, there might be positive upside risks to the banking sector's 2021 dividend payment criteria, which should be announced in Nov-21. Our estimates and the market's forecasts are conservative, with the 2021 dividend payout expected to be the same as in 2020.

Maintain OVERWEIGHT; gradually accumulate banks ahead of expected recovery

The SETBANK has increased 17% YTD and is trading at 0.66x 2022E P/BV vs its recent peak in Apr-21 at 21% and 0.70x 2022E P/BV. Given the rising vaccination rate and the country's reopening, we believe there is more room for the banking sector to re-rate to trade in the range of the max P/BV of its rally phase at 0.70x 2022E P/BV and the pre-Covid level of 0.81x. We reiterate our recommendation to gradually accumulate banks ahead of the expected recovery next year. SCB, KBANK and KKP are our top picks in that order.

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3Q21 results beat on fee income

The aggregate 3Q21 net profit of the BUC totalled THB34.8b (+52% y-y, -2% q-q) – 17% higher than our projection due mainly to higher-than-expected fee income. We read the sector's overall operating performance as slightly positive due to its strong core operations with manageable asset quality.

Amid the prolonged Covid pandemic and lockdown measures, the BUC were able to deliver strong core operations with +9% y-y and -2% q-q pro-provision operating profit (PPOP), driven by three factors. First, the BUC's loan volume increased by 1.9% q-q and 5.2% YTD thanks to the strong demand from the corporate and government sectors and rehabilitation loans for SMEs. Second, BUC's fee income was +8% y-y and flat q-q in 3Q21, supported by loan-related fees and the wealth management business. Third, the BUC were able to control their OPEX effectively, resulting in relatively stable OPEX y-y and q-q.

Regarding asset quality, the ongoing pandemic resulted in a slight asset quality deterioration. There was a rise in the NPL formation rate for most of the BUC. However, the BUC wrote-off NPLs actively in 3Q21. Accordingly, the BUC's NPLs increased by only 1% q-q.

In our view, BBL, KKP, and SCB, respectively, delivered the strongest 3Q21 results, with increases in their net profit growth both y-y and q-q. Meanwhile, TISCO was the only bank to post a drop in its net profit both y-y and q-q, dragged down by a decline in its fee income and loan volume. Regarding the rest of the banks (KBANK, TTB, and KTB), their net profits increased y-y but declined q-q.

Exhibit 1: Thai banks under coverage – 3Q21 profit, PPOP and ECL

	BBG code	3Q21 net profit				3Q21 pre-provision profit			Expected credit loss		
		(THB m)	(y-y%)	(q-q%)	(% 21E)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y%)	(q-q%)
Bangkok Bank	BBL TB	6,909	72.0	8.7	27.8	18,551	32.6	5.8	9,870	74.1	0.6
Kasikornbank	KBANK TB	8,631	29.2	(3.0)	26.0	22,978	13.2	(3.4)	11,296	4.4	4.5
Kiatnakin Bank	KKP TB	1,478	9.7	9.1	26.7	2,851	6.3	(6.7)	1,007	(1.0)	(26.9)
Krung Thai Bank	KTB TB	5,055	65.4	(15.9)	24.9	15,241	(8.0)	(8.3)	8,137	(34.5)	0.5
Siam Commercial Bank	SCB TB	8,818	90.0	0.0	27.4	21,098	12.6	0.0	10,035	(22.5)	0.1
Tisco Financial	TISCO TB	1,560	(3.2)	(6.4)	24.1	2,209	(15.7)	(16.5)	254	(58.0)	(55.0)
TMB Bank	TTB TB	2,359	45.7	(6.9)	23.6	8,395	(4.4)	(1.2)	5,527	(19.5)	0.7
Coverage		34,810	51.5	(2.3)	26.3	91,323	9.1	(2.0)	46,125	(8.4)	(0.1)

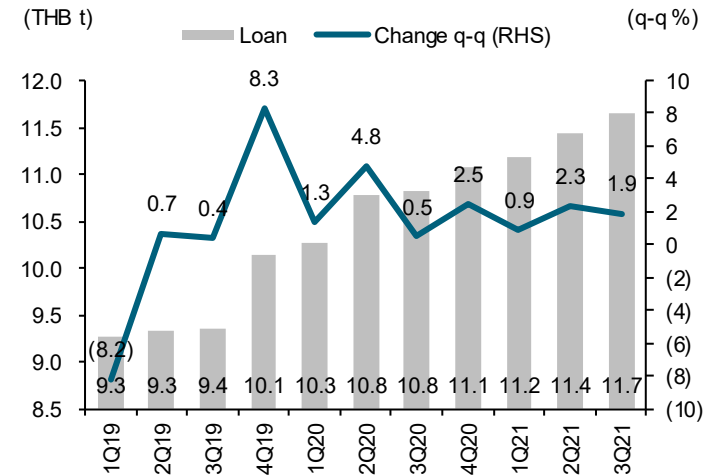
Sources: Company data; FSSIA estimates

3Q21 key highlights

1) Stronger loan growth from corporate and government segments

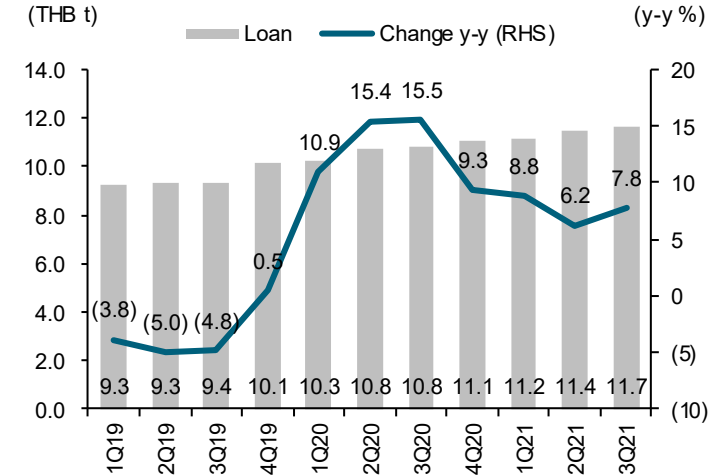
Overall, the aggregate loan portfolio moderately increased by 1.9% q-q, largely driven by the working capital and term loan demand from the corporate segment, along with a rise in government loans at KTB. The SME segment was relatively stable q-q; we believe that most banks still lent cautiously. Meanwhile, the auto and credit card segments' loan volumes declined, thanks to the slow business activities from the partial lockdown.

Exhibit 2: BUC's quarterly loan growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 3: BUC's quarterly loan growth (y-y basis)

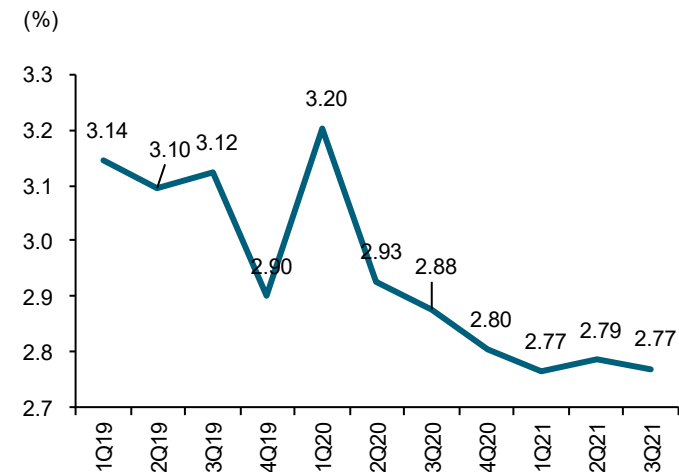


Sources: Company data; FSSIA estimates

2) NIM slightly declined due to the lower loan yield

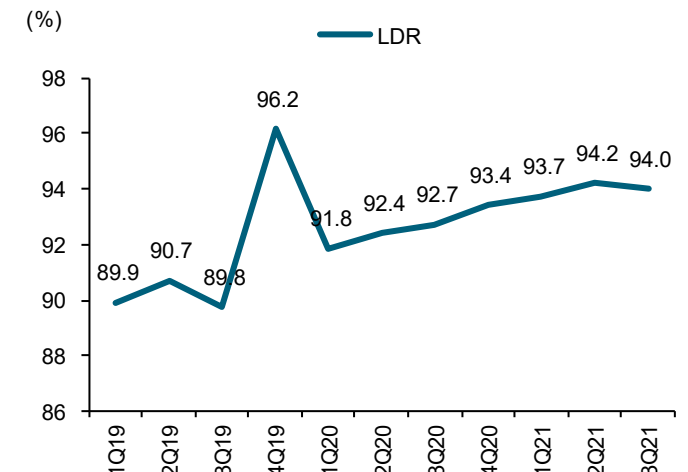
The BUC's NIM slightly decreased to 2.77% in 3Q21 from 2.79% in 2Q21 due to the lower loan yield on the back of the relief programs and the change in portfolio mix. The positive is that the BUC were able to control their cost of funds effectively.

Exhibit 4: BUC's quarterly NIM



Sources: Company data; FSSIA estimates

Exhibit 5: BUC's loan to deposit ratio (LDR)

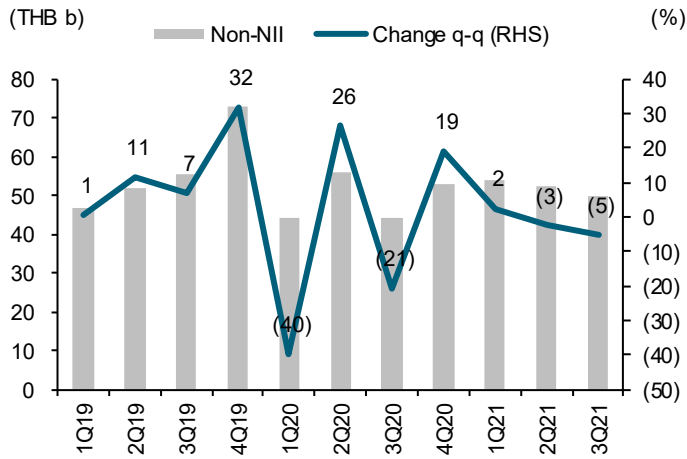


Sources: Company data; FSSIA estimates

3) Only a slight drop in Non-NII

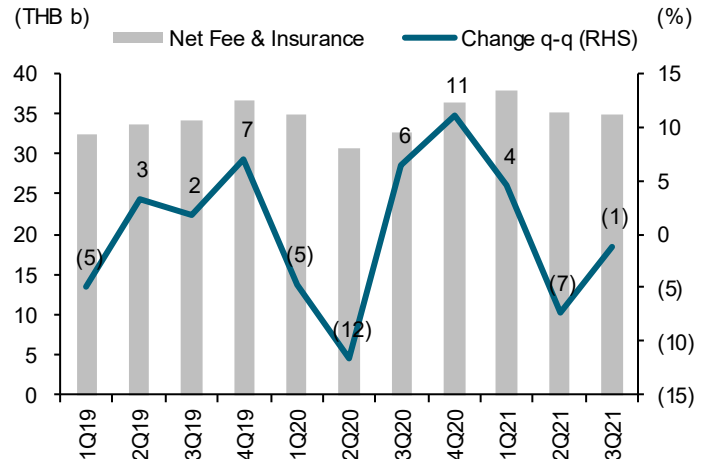
Amid the prolonged Covid pandemic and lockdown measures, the BUC's fee income only slightly declined by 1% q-q. The stronger-than-expected fee income came mainly from the wealth-related business and loan-related fees. Non-recurring Non-NII posted a decline q-q, dragged down by a contraction in investment gains thanks to the less favourable capital market environment.

Exhibit 6: BUC's Non-NII growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 7: BUC's fee income growth (q-q basis)



Sources: Company data; FSSIA estimates

4) Good cost controlling

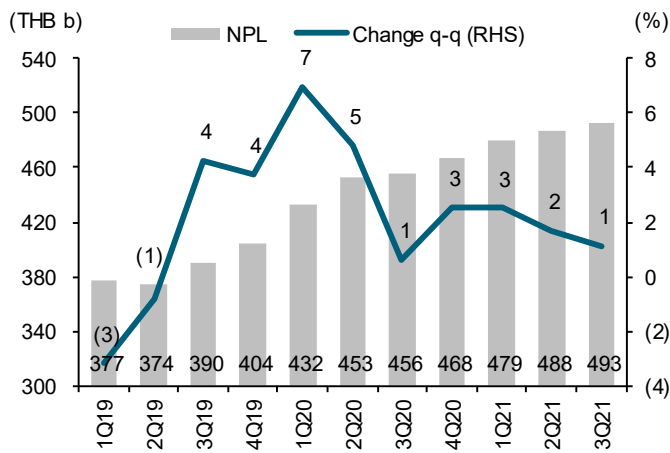
Most banks continued to control their operating expenses effectively. Covid-19 forced their clients to use digital platforms, leading to a faster network rationalisation pace and frozen headcounts. Banks also tightened their spending, i.e. marketing and promotion expenses.

5) Insignificant increase in NPLs continued

The ongoing pandemic resulted in a slight asset quality deterioration. There was a rise in the NPL formation rate for most of the BUC. However, outstanding NPLs increased immaterially by 1% q-q in 3Q21, accounting for an NPL ratio of 4.23% (by our calculation) – relatively the same level as in 2Q21. NPLs have increased insignificantly for five consecutive quarters due to 1) the forbearance programs; 2) the relaxed loan classifications measure; and 3) the accelerated NPL sales and write-offs.

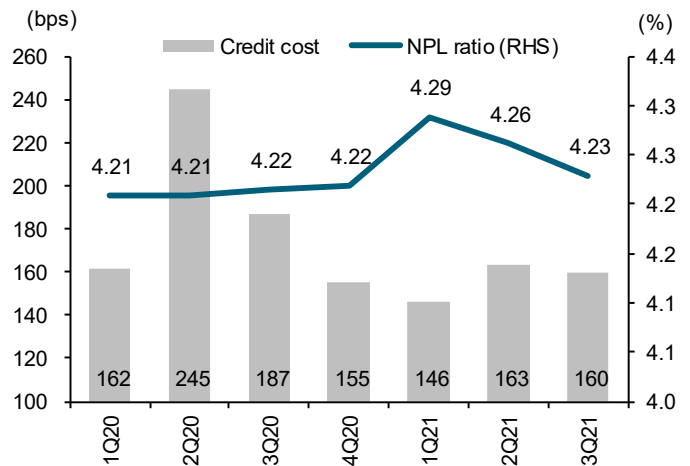
Note that most banks have taken advantage of the relaxed loan classifications measure, except TTB and TISCO. These two banks mostly classify their clients' loan status based on the real debt repayment ability of their customers. This means that TTB and TISCO's portfolios reflect real debt repayment ability.

Exhibit 8: BUC's NPL growth (q-q basis)



Sources: Company data; FSSIA's compilation

Exhibit 9: BUC's coverage ratio and NPL ratio



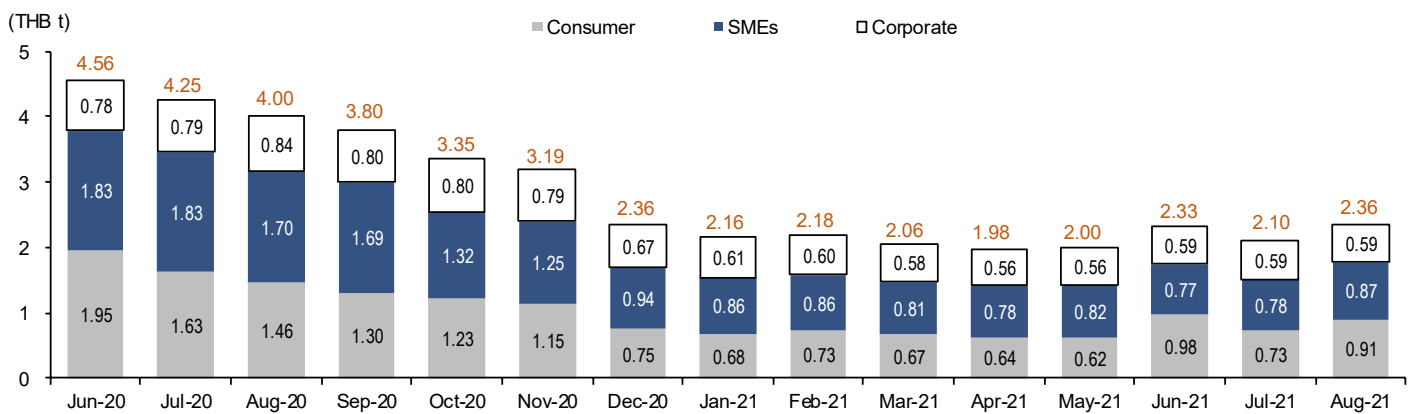
Sources: Company data; FSSIA's compilation

Exhibit 10: Forbearance programs of banks under coverage

	3Q21 loans				2Q21 loans			1Q20 loans		
	Amount outstanding (THB b)	under relief programs		% change q-q	Amount outstanding (THB b)	under relief programs		Amount outstanding (THB b)	under relief programs	
		Absolute (THB b)	% of portfolio (%)			Absolute (THB b)	% of portfolio (%)		Absolute (THB b)	% of portfolio (%)
BBL	2,524	n/a	n/a	n/a	2,420	290	12	2,369	n/a	n/a
KBANK	2,444	359	15	6	2,383	339	14	2,302	319	14
KKP	288	35	12	(5)	282	37	13	270	24	9
KTB	2,560	n/a	n/a	n/a	2,486	108	4	2,360	126	5
SCB	2,279	464	20	23	2,297	376	16	2,277	429	19
TISCO	204	16	8	27	214	13	6	221	11	5
TTB	1,359	163	12	(16)	1,359	193	14	1,380	193	14

Sources: Company data; FSSIA's compilation

Exhibit 11: Total debt forbearance program of commercial banks

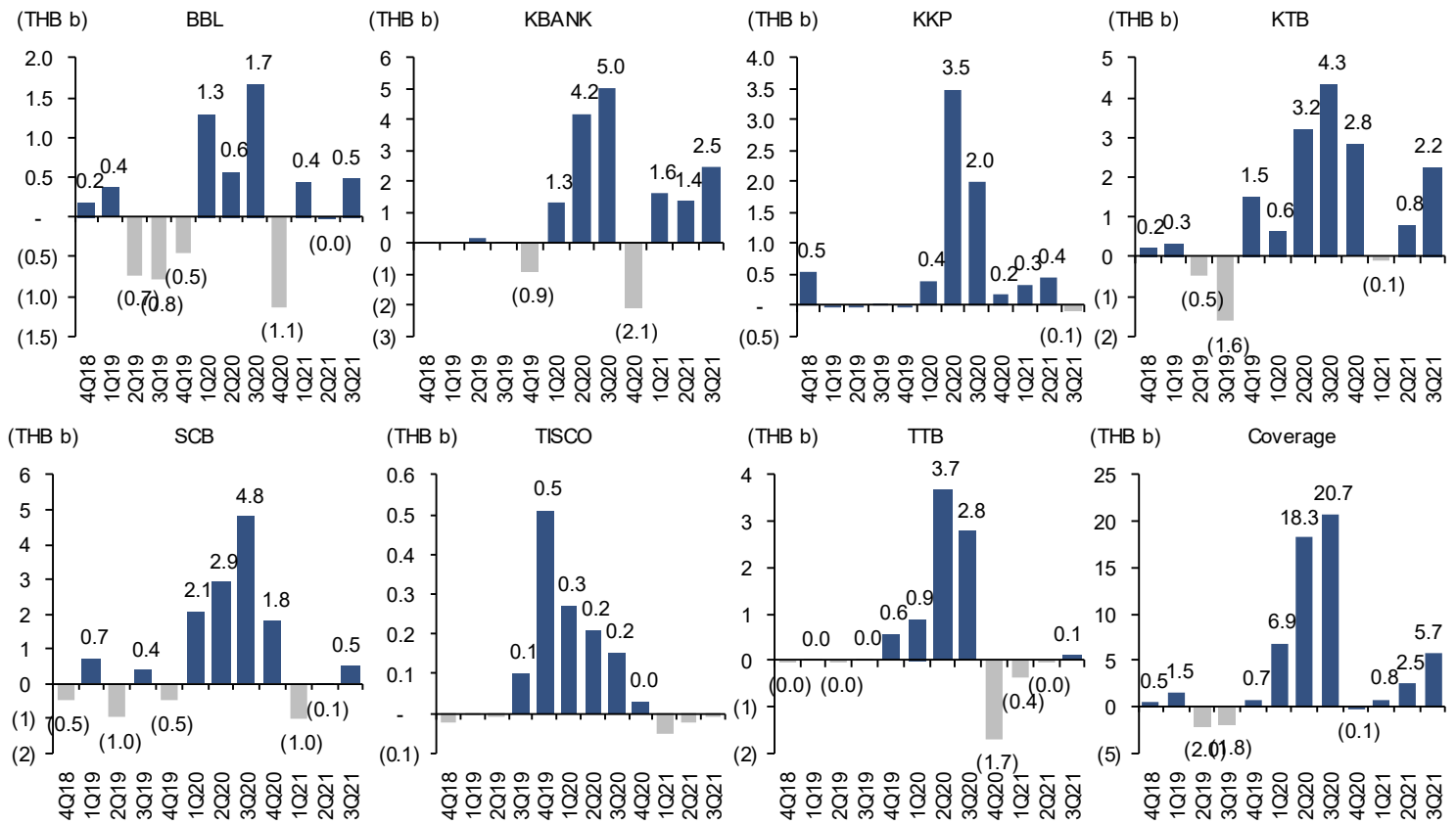


Sources: BoT; FSSIA's compilation

6) Moderate increase in accrued interest

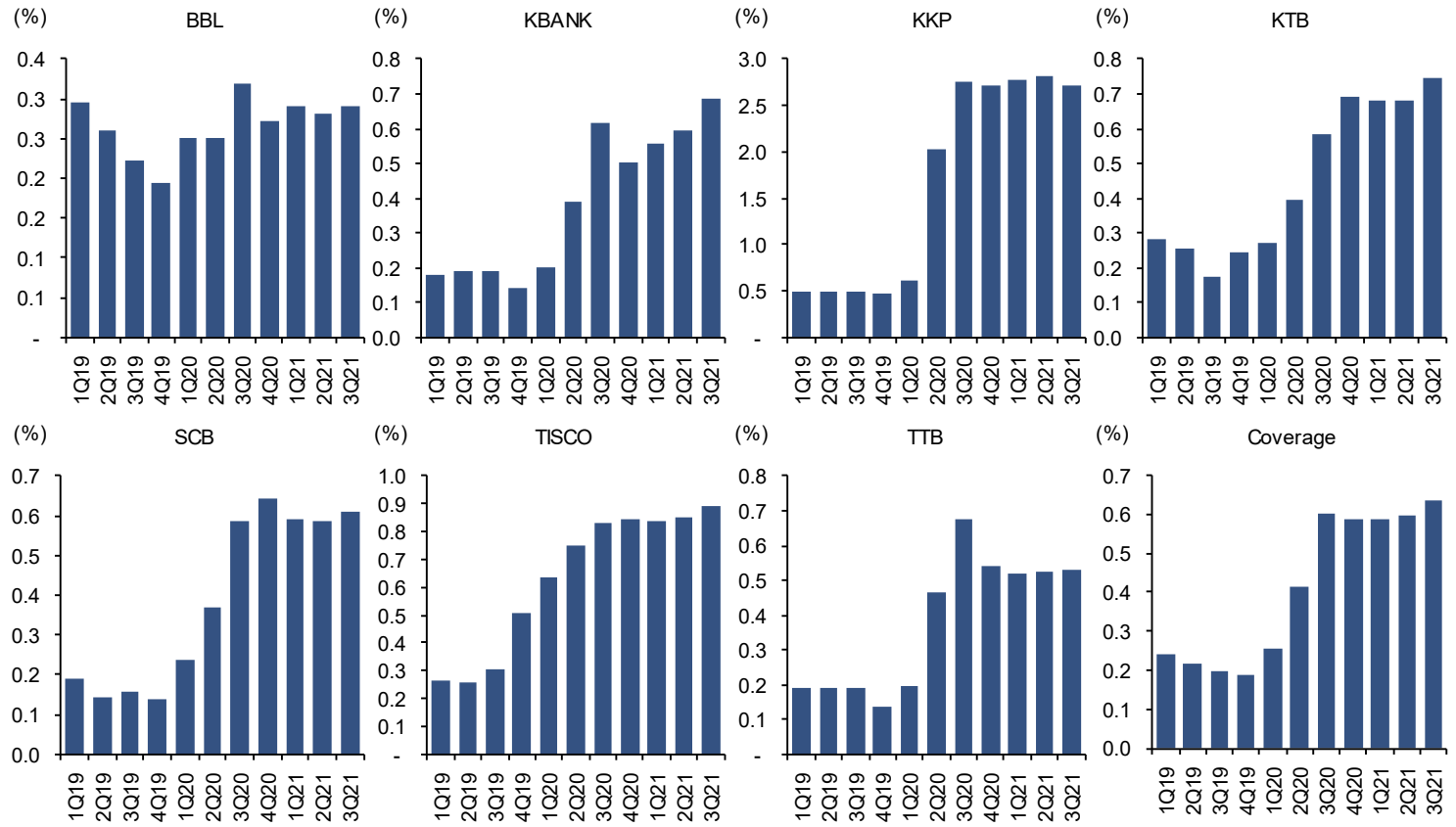
Accrued interest is another key area to watch, especially during the forbearance programs. The accrued interest of the BUC in 3Q21 increased moderately, driven by KBANK and KTB. We think this came from the two-month debt holiday program. We think that accrued interest could potentially increase in the following quarters due to the CDR. Accordingly, we recommend investors keep an eye on accrued interest, but we are not overly concerned as most of the BUC have set aside provisions proactively to cushion their potential burdens in the future.

Exhibit 12: Increase in accrued interest, q-q



Note: Accrued interest of KKP and BBL are FSSIA's calculation. The banks will announce actual numbers in Nov-21
 Source: FSSIA estimates

Exhibit 13: Accrued interest to total loans (%)



Note: Accrued interest of KKP and BBL are FSSIA's calculation. The banks will announce actual numbers in Nov-21
 Source: FSSIA estimates

Exhibit 14: Thailand banks under coverage – 3Q21 results summary

3Q21	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	20,705	30,741	3,824	21,142	23,534	3,093	12,577	115,616
Change (y-y %)	4.3	12.8	8.4	(2.1)	(0.8)	(5.1)	(4.9)	2.8
Change (q-q %)	3.4	3.4	0.8	1.1	0.3	(1.8)	(1.6)	1.5
Non-interest income	13,725	9,202	1,978	7,192	13,377	1,085	3,086	49,645
Change (y-y %)	43.4	(3.1)	54.2	(17.1)	24.3	(24.9)	3.4	12.3
Change (q-q %)	(0.5)	(17.4)	1.9	(9.4)	2.9	(30.7)	(1.0)	(5.4)
Net fee income	7,373	8,560	1,457	4,753	9,664	1,127	2,257	35,191
Change (y-y %)	15.6	9.7	42.2	(5.4)	12.8	(11.9)	(14.2)	7.6
Change (q-q %)	6.9	(0.2)	(9.7)	(2.9)	(1.5)	(8.0)	2.7	(0.8)
Operating income	34,430	39,943	5,802	28,334	36,911	4,178	15,663	165,261
Change (y-y %)	17.0	8.7	20.6	(6.4)	7.0	(11.1)	(3.4)	5.5
Change (q-q %)	1.8	(2.2)	1.2	(1.8)	1.2	(11.4)	(1.5)	(0.7)
Operating expenses	15,879	16,965	2,951	13,093	15,813	1,968	7,268	73,938
Change (y-y %)	2.9	3.1	38.5	(4.4)	0.4	(5.5)	(2.2)	1.3
Change (q-q %)	(2.5)	(0.6)	10.2	7.0	2.8	(4.9)	(1.8)	1.1
Pre-provision profit	18,551	22,978	2,851	15,241	21,098	2,209	8,395	91,323
Change (y-y %)	32.6	13.2	6.3	(8.0)	12.6	(15.7)	(4.4)	9.1
Change (q-q %)	5.8	(3.4)	(6.7)	(8.3)	0.0	(16.5)	(1.2)	(2.0)
Expected credit loss	9,870	11,296	1,007	8,137	10,035	254	5,527	46,125
Change (y-y %)	74.1	4.4	(1.0)	(34.5)	(22.5)	(58.0)	(19.5)	(8.4)
Change (q-q %)	0.6	4.5	(26.9)	0.5	0.1	(55.0)	0.7	(0.1)
Income tax	1,663	2,026	364	1,382	2,286	395	509	8,624
Normalised profit	6,909	8,631	1,478	5,055	8,818	1,560	2,359	34,810
Change (y-y %)	(13.8)	29.2	9.7	65.4	90.0	(3.2)	45.7	29.1
Change (q-q %)	8.7	(3.0)	9.1	(15.9)	0.0	(6.4)	(6.9)	(2.3)
% of 2021E	25.7	24.6	26.7	24.9	25.1	24.1	23.6	25.0
Net profit	6,909	8,631	1,478	5,055	8,818	1,560	2,359	34,810
Change (y-y %)	72.0	29.2	9.7	65.4	90.0	(3.2)	45.7	51.5
Change (q-q %)	8.7	(3.0)	9.1	(15.9)	0.0	(6.4)	(6.9)	(2.3)
% of 2021E	25.7	24.6	26.7	24.9	25.1	24.1	23.6	25.0
Actual vs FSSIA (%)	10.1	19.7	12.0	10.8	29.1	(0.6)	12.3	16.5
Actual vs Bloomberg (%)	13.4	4.7	19.1	(6.4)	17.4	(0.8)	12.8	8.2
Loan (q-q %)	4.3	2.5	2.0	3.0	(0.8)	(4.5)	0.1	1.9
Loan (y-y %)	6.6	13.3	12.9	12.2	5.0	(9.1)	(0.3)	7.8
Loan (ytd %)	6.6	8.9	8.7	9.6	1.1	(9.1)	(2.4)	5.2
Deposit (q-q %)	2.5	2.0	4.6	3.6	1.7	(6.8)	0.1	2.1
Deposit (y-y %)	10.7	11.3	7.7	11.7	0.1	(17.6)	(5.8)	6.3
Deposit (ytd %)	11.2	7.9	3.7	4.8	(0.4)	(17.0)	(3.5)	4.5
Loan/Deposits (LDR %)	80.8	96.6	110.4	99.1	94.6	121.1	102.6	94.0
Loan/Deposits & borrowing (%)	76.2	92.9	94.9	94.3	91.7	111.2	96.6	89.4
Key ratios	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Net interest margin	2.01	3.24	4.23	2.53	3.02	4.92	2.96	2.77
Credit cost	1.60	1.87	1.41	1.29	1.75	0.49	1.63	1.60
Cost to income	46.12	42.47	50.86	46.21	42.84	47.11	46.40	44.74
Loan-loss-coverage (FSSIA calculation)	183	138	147	157	138	196	121	152
Absolute NPL (THB m)	112,433	105,930	10,733	106,367	107,071	6,094	44,411	493,039
Change (y-y %)	4.4	9.5	29.0	(3.9)	19.1	3.0	20.9	8.1
Change (q-q %)	1.3	(0.9)	3.8	0.6	2.8	3.9	2.0	1.1
NPL ratio (FSSIA calculation)	4.45	4.33	3.73	4.15	4.70	2.98	3.27	4.23
Reported NPL ratio	3.70	3.85	3.70	3.57	3.89	2.98	2.98	
CAR	19.7	18.8	18.2	19.4	18.4	22.9	19.7	
CET1	15.3	16.5	14.0	15.2	17.3	18.3	14.6	

Sources: Company data; FSSIA estimates

Exhibit 15: Thailand banks under coverage – 9M21 profit, PPOP and ECL

	BBL (THB m)	KBANK (THB m)	KKP (THB m)	KTB (THB m)	SCB (THB m)	TISCO (THB m)	TTB (THB m)	Coverage (THB m)
FSSIA 2021E net profit	26,915	35,028	5,543	20,330	35,068	6,471	10,002	139,357
9M20 net profit	18,783	16,229	4,015	13,280	22,252	4,427	8,877	87,863
9M21 net profit	20,189	28,152	4,295	16,644	27,720	4,990	7,675	109,665
% of 2021E	75	80	77	82	79	77	77	79
Change y-y	7	73	7	25	25	13	(14)	25
FSSIA 2021E PPOP	65,229	91,474	12,089	62,669	83,749	10,517	36,308	362,036
9M20 PPOP	46,270	66,256	7,149	54,150	60,122	8,092	27,771	269,810
9M21 PPOP	51,197	70,261	8,937	47,841	64,842	7,891	25,809	276,776
% of 2021E	78	77	74	76	77	75	71	76
Change y-y	11	6	25	(12)	8	(2)	(7)	3
FSSIA 2021E ECL	31,634	42,225	5,327	33,791	40,089	2,495	24,254	179,815
9M20 ECL	23,993	42,879	2,017	35,649	32,415	2,560	16,595	156,108
9M21 ECL	26,006	30,753	3,619	24,291	30,071	1,652	16,497	132,889
% of 2021E	82	73	68	72	75	66	68	74
Change y-y	8	(28)	79	(32)	(7)	(35)	(1)	(15)

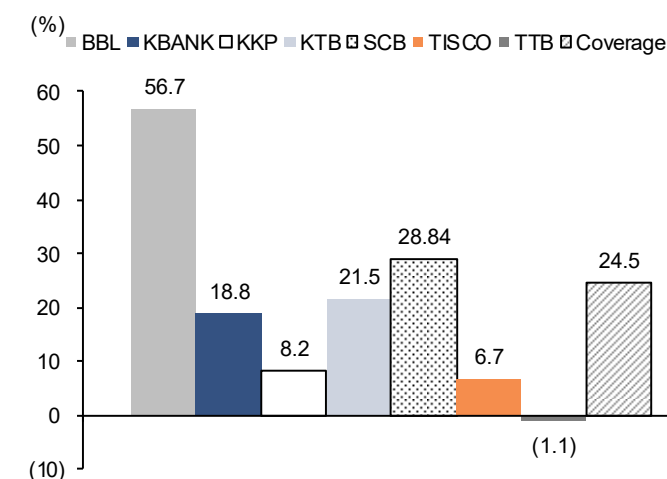
Sources: Company data; FSSIA estimates

More relaxed view on top line growth from post-result meetings

The tone of the post-result analyst briefings was more relaxed compared with the post-2Q21 results meetings, especially regarding potential top line expansion. Most banks aim to expand their loan volumes more aggressively from 4Q21 on, while fee income should be favoured by the resumption of business activities and an increase in loan volumes. The only cautious point from the meetings was asset quality. The BUC should continue to set elevated provisions in 4Q21, according to management. However, in 2022, the BUC expect that their credit costs should minimally to moderately decline from 2021's levels, given the gradual economic recovery that is widely expected. Accordingly, we read overall message from the meetings as neutral to slightly positive.

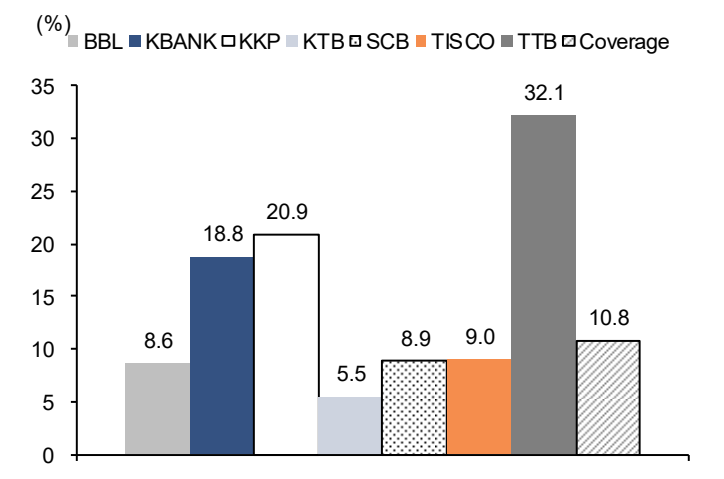
In 4Q21, we expect the BUC to deliver stronger top line growth, efficient cost control, and elevated provisions. We, therefore, expect the 4Q21 aggregate net profit of the BUC to continue to increase y-y and decline q-q on seasonality. In 2022, we expect the aggregate net profit of the BUC to rise 11% y-y, driven by strong fee income, good cost control, and lower provisions. These positives could outweigh the potential decline in NIM from the CDR.

Exhibit 16: 2021E net profit growth of banking sector



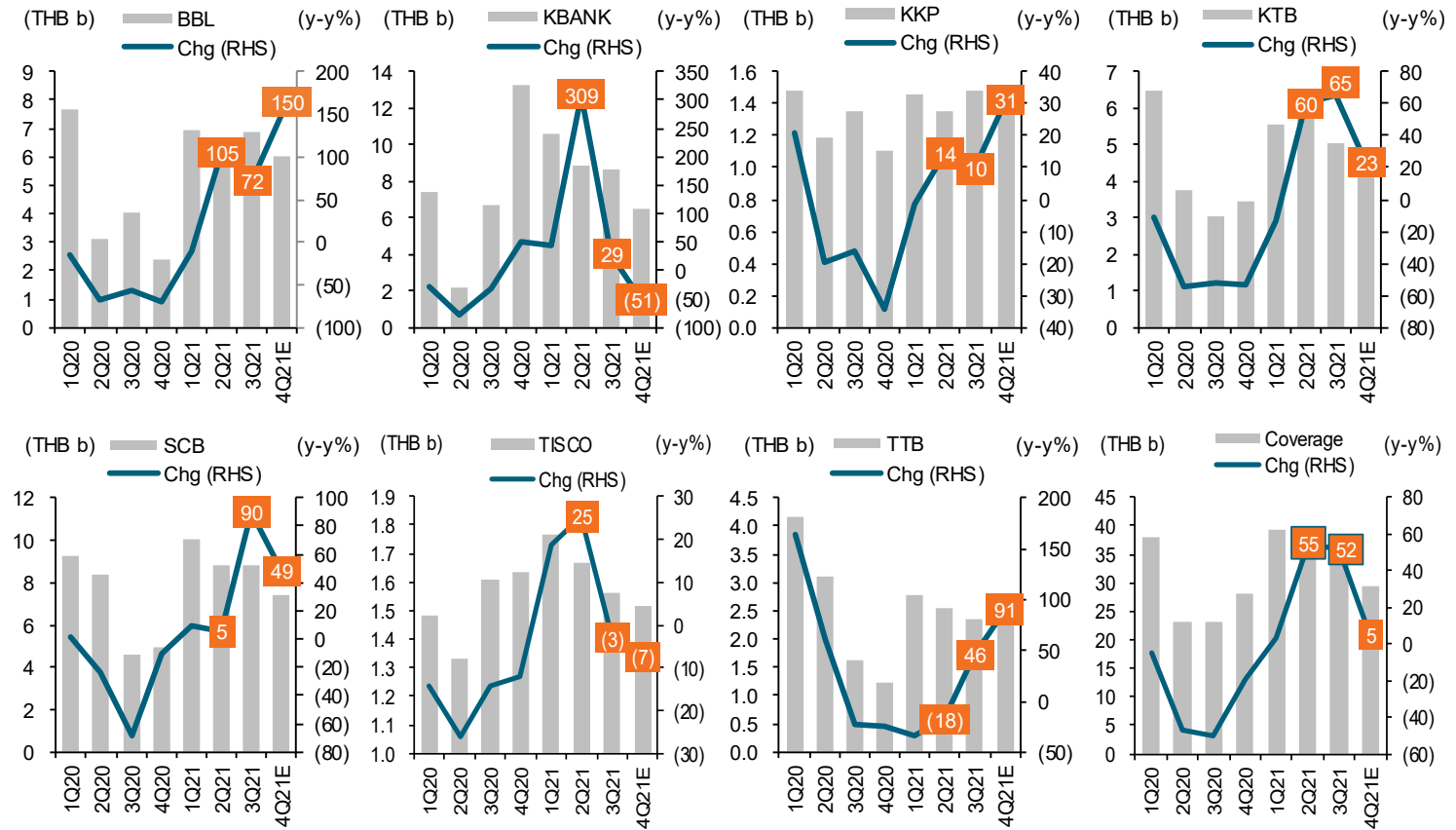
Source: FSSIA estimates

Exhibit 17: 2022E net profit growth of banking sector



Source: FSSIA estimates

Exhibit 18: Quarterly earnings momentum



Source: FSSIA estimates

Few downside risks in the near term

Encouraging banks to provide CDR to clients shows that the BoT understands that asset quality is now a long-term issue and is giving banks more time to deal with the problem. We also view the easing of the LTV criteria for the property sector as a good sign that the BoT wants to stimulate the economy and has more confidence in the credit underwriting process and the asset quality of commercial banks.

Exhibit 19: Easing of LTV regulations until December 2022

House price	Number of mortgage contracts	Minimum down payment	
		New	Previous
<THB 10m	First	- No minimum requirement but borrowers can seek a home loan of up to 110% if top-up mortgage is included	- No minimum requirement but the loan was capped at 100% if a top-up mortgage was included
	Second	- 0% if the first mortgage has been paid ≥ 2 years - 0% if the first mortgage has been paid < 2 years	- 10% if the first mortgage has been paid ≥ 3 years - 20% if the first mortgage has been paid < 3 years
	Third and subsequent	0%	30%
≥THB 10m	First	0%	20%
	Second	0%	20%
	Third and subsequent	0%	30%

Source :BoT

No significant fundamental impact from the LTV easing

We think that the LTV easing might not have a significant impact on the BUC's loan growth, as most banks view the risk-reward for housing loans as uninteresting. Accordingly, we expect that banks will let their housing loans grow along with the market conditions vs an aggressive expansion.

The big banks, namely SCB, KTB, and KBANK, might have the most positive sentiment from the LTV easing due to their large portion of housing loans.

Exhibit 20: 3Q21 loan structure

	BAY (THB b)	BBL* (THB b)	KBANK (THB b)	KKP (THB b)	KTB* (THB b)	SCB (THB b)	TTB (THB b)	TISCO (THB b)
Corporate	668	968	834	38	646	815	489	35
SME	297	557	782	53	323	405	109	9
Retail	890	315	744	192	1,019	1,059	747	159
- Housing	297	315	423	32	438	693	299	12
- Unsecured	185	-	206	8	581	132	54	-
- Auto	408	-	115	144	-	226	394	146
- Other retail	-	-	-	8	-	8	-	-
Other loans**	-	581	23	9	497	-	14	2
Total loans	1,854	2,420	2,383	291	2,486	2,279	1,359	204

*Data for BBL and KTB are as of 2Q21; ** Other loans for BBL = international loans, KTB = government loans

Sources: Company data; FSSIA's compilation

Exhibit 21: 3Q21 loan structure (% to total loans)

	BAY (%)	BBL (%)	KBANK (%)	KKP (%)	KTB (%)	SCB (%)	TTB (%)	TISCO (%)
Corporate	36	40	35	13	26	36	36	17
SME	16	23	33	18	13	18	8	4
Retail	48	13	31	66	41	46	55	78
- Housing	16	13	18	11	18	30	22	6
- Unsecured	10	-	9	3	23	6	4	-
- Auto	22	-	5	49	-	10	29	72
- Other retail	-	-	-	3	-	0	-	-
Other loans**	-	24	1	3	20	-	1	1
Total loans	100	100	100	100	100	100	100	100

*Data for BBL and KTB are as of 2Q21; ** Other loans for BBL = international loans, KTB = government loans

Sources: Company data; FSSIA's compilation

We do not anticipate any unpredictable, negative assistance measures from the BoT, at least in the short to medium term. In contrast, there might be positive upside risks to the banking sector's 2021 dividend payment criteria, which should be announced in Nov-21. We think the worst-case criteria would be the same as in 2020. We forecast the BUC's 2021 payouts to be relatively the same as in 2020. Thus, we believe the downside risk for dividend payments will be limited, with estimated yields of 1.9-7.1%. TISCO should have the highest yield by our estimation.

Exhibit 22: Dividend payments

	----- Payout ratio -----			----- DPS -----				----- Dividend yield -----	
	2019	2020	2021E	2019	2020	----- 2021E -----		----- 2021E -----	
	(%)	(%)	(%)	(THB/share)	(THB/share)	Interim (THB/share)	Full-year (THB/share)	Interim (%)	Full-year (%)
BBL	37.3	27.8	28.4	7.00	2.50	1.00	4.00	0.82	3.28
KBANK	30.9	20.1	18.3	5.00	2.50	0.50	2.70	0.35	1.91
KKP	60.1	37.2	38.2	4.25	2.25	0.75	2.50	1.27	4.24
KTB	35.9	23.0	35.0	0.75	0.28		0.51	-	4.31
SCB*	52.5	28.7	64.9	6.25	2.30	1.43	6.70	1.15	5.40
TISCO**	85.3	83.2	81.7	7.75	6.30		6.60	-	7.10
TTB	26.9	42.9	40.0	0.040	0.045		0.042	-	3.67

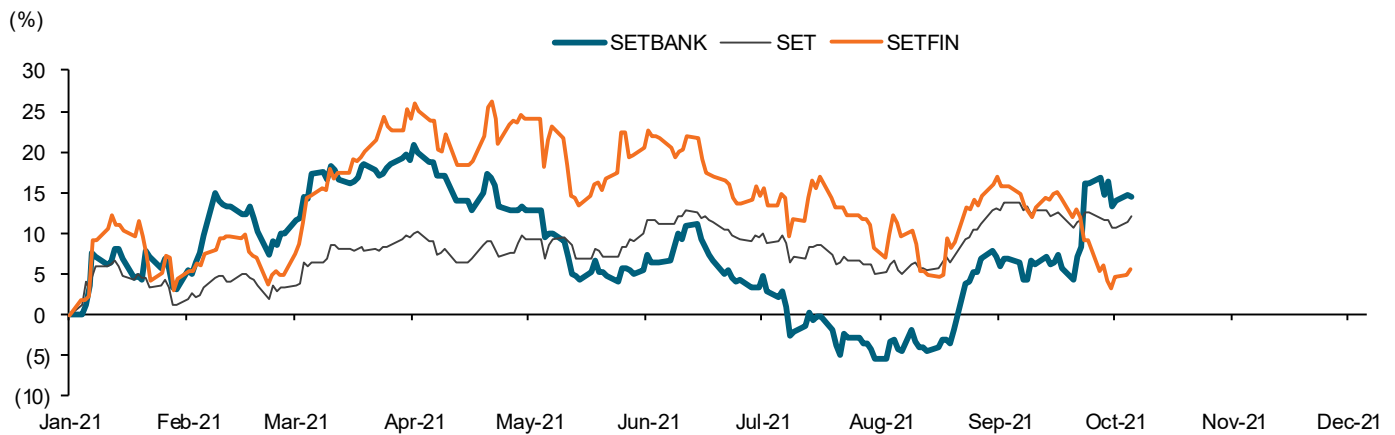
*Including THB4.0/share special dividend from its reforms; **Based on holding company basis

Sources: Company data; FSSIA estimates

More room for a gradual rerating

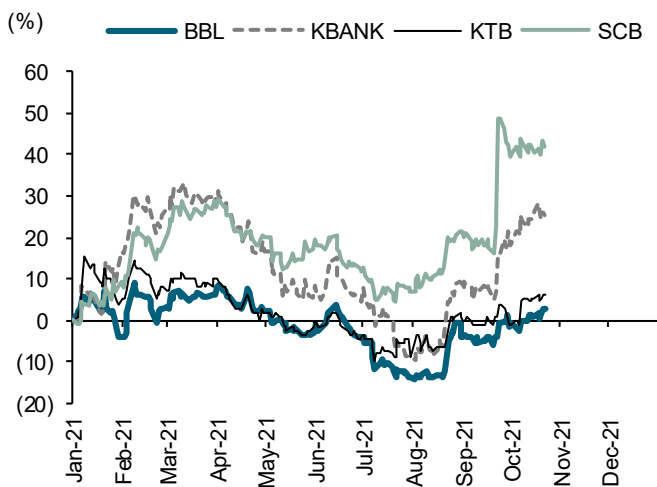
The SETBANK index has outperformed the SET index and SETFIN since Sep-21. The SETBANK has increased 17% YTD and is trading at 0.66x 2022E P/BV vs its recent peak in Apr-21 at 21% and 0.70x 2022E P/BV. Given the rising vaccination rate and the country's reopening, we believe there is more room for the banking sector to rerate.

Exhibit 23: SET index, SETBANK, and SETFINANCE's performance in 2021



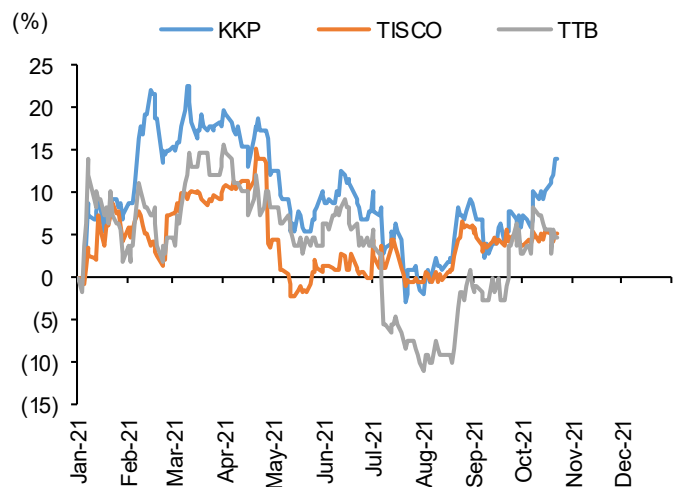
Note: We used 1 Jan-21 as the starting point to construct the index
Sources: Bloomberg; FSSIA's compilation

Exhibit 24: 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 25: 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

In order to estimate how far the banking sector's valuation could rerate, 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. 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 rerate to trade in the range of the max P/BV of the rally phase at 0.70x 2022E P/BV and the pre-Covid level of 0.81x. We are convinced that SCB is likely to be the only bank whose valuation continues to rally above the pre-Covid level, driven by its great reforms.

We think that KBANK and KKP have the highest probability to rerate to their maximum P/BV multiples during the rally phase at 0.73x P/BV, implying THB158/share, and at 1.05x P/BV, implying THB72/share, respectively. 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. For KKP, we view its continued strong top line growth and its second highest dividend yield estimated at 5-7% p.a. as the potential catalysts for its share price to rerate.

Exhibit 26: 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 ----		% upside comparing current price to MAX P/BV of rally phase
	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	122.00	0.48	0.3938	99	0.47	119	0.5488	138	0.68	172	0.69	173	13
KBANK TB	141.50	0.65	0.37	80	0.55	119	0.73	158	0.80	174	0.86	186	11
KKP TB	59.00	0.87	0.64	43	0.84	57	1.05	72	1.21	82	1.13	77	21
KTB TB	11.80	0.44	0.33	9	0.41	11	0.49	13	0.66	18	0.63	17	13
SCB TB	124.00	0.94	0.50	67	0.69	91	0.88	116	0.99	131	0.94	124	(6)
TISCO TB	93.00	1.65	1.24	70	1.59	89	1.94	109	1.98	111	1.74	98	17
TTB TB	1.13	0.49	0.37	0.85	0.47	1.07	0.56	1.28	0.70	1.60	0.58	1.33	13
SETBANK	395.33	0.66	0.43	260	0.57	340	0.70	420	0.81	482	0.80	477	

Share prices as of 21 Oct 2021

Source: FSSIA estimates

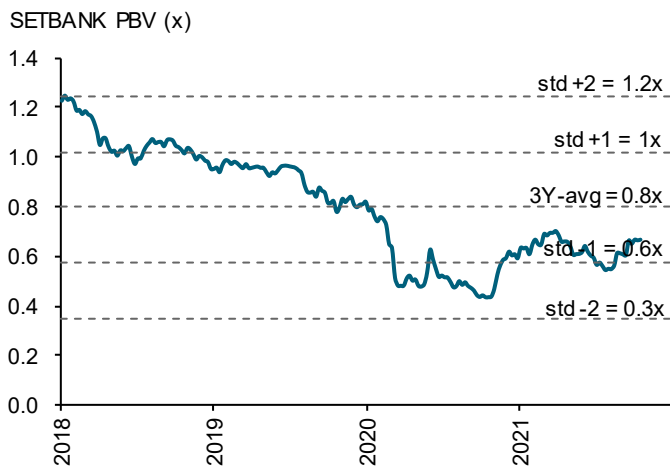
We reiterate our recommendation to gradually accumulate banks ahead of the expected recovery next year.

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 reiterate KBANK as our second most preferred bank. We think its business strategy to penetrate high-growth potential segments like unsecured lending and digital areas will outweigh the concerns over its asset quality. 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. Regarding KKP, we maintain it as our third top BUY 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% p.a. and low asset quality risk.

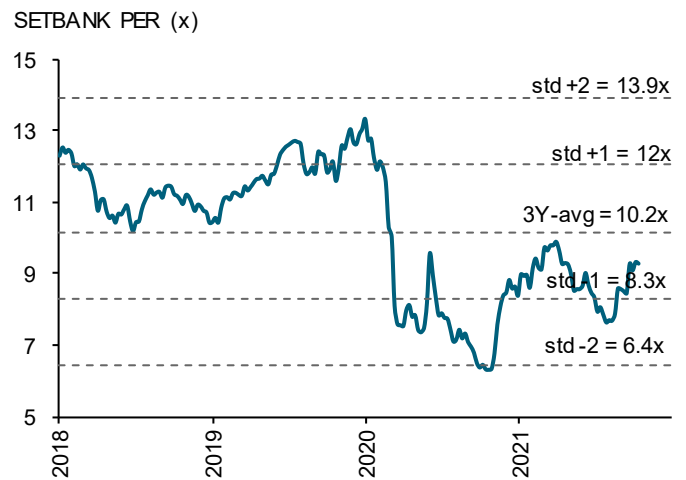
We maintain our HOLD call for BBL as we think its medium-term ROE and net profit growth will continue to be lower than SCB's and KBANK's. Its cheap valuation and most defensive balance sheet in the banking space are not enough to catch our attention. KTB remains our least preferred bank. KTB has only 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 27: SETBANK one-year rolling forward P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 28: SETBANK one-year rolling forward P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 29: 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	122.00	134.00	10	6,974	27.1	8.6	8.7	8.0	5.9	6.2	0.5	0.5
Kasikornbank	KBANK TB	BUY	141.50	172.00	22	10,040	18.8	10.1	9.6	8.7	7.6	7.7	0.7	0.7
Kiatnakin Bank	KKP TB	BUY	59.00	68.00	15	1,496	8.2	20.9	9.0	7.5	11.6	13.0	1.0	0.9
Krung Thai Bank	KTB TB	HOLD	11.80	12.20	3	4,939	21.5	5.5	8.1	7.7	5.8	5.8	0.5	0.4
Siam Commercial Bank	SCB TB	BUY	124.00	160.00	29	12,609	28.7	8.9	12.0	11.0	8.3	8.6	1.0	0.9
Tisco Financial	TISCO TB	BUY	93.00	110.00	18	2,230	6.7	9.0	11.5	10.6	16.1	16.7	1.8	1.7
TMBThanachart	TTB TB	BUY	1.13	1.40	24	3,270	(1.1)	32.1	10.9	8.2	4.8	6.1	0.5	0.5
Coverage						41,557	20.2	10.8	10.0	9.0	7.0	7.4	0.7	0.6

Share prices as of 21 Oct 2021

Sources: Company data; 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	ICI	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	SCCG	SCG	SCN	SDC
SEAFCO	SEAOIL	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	TMB	TMILL	TNDT
TNL	TOA	TOP	TPBI	TQM	TRC	TRC	TSC	TSR	TSTE	TSTH
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	MITSIB	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	TIPIP	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	AMANAHA	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	TMB	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	WIJK	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 Suwanumphai FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
Bangkok Bank	BBL TB	THB 122.00	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 141.50	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 59.00	BUY	Downside risks to our GGM-based target price include weakening asset quality and lower fee income.
Krung Thai Bank	KTB TB	THB 11.80	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 93.00	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; 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 1.13	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.

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 21-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.