

Thailand Banks

There is blue sky behind the fog

- No huge earnings downgrade for banks; lack of visibility on sector's multiple in S-T.
- In L-T, there is more room for sector's multiple to rerate on profit and ROE recovery.
- Maintain Overweight for long term, with SCB and KKP as top picks.

Lack of visibility on banking sector's multiple over the next 1-2 months

Though we do not expect a huge earnings downgrade for banks from the Ukraine conflict, there is a lack of visibility on the sector's multiple. Thus, we think the banking sector's share price will be rangebound in the short term, while diversified financials' share prices could outperform banks' as they are more dependent on domestic factors. Based on our study of periods of GDP forecast downgrades, there could be negative sentiment toward banks' share prices for around 2-3 months. Also, the foreign holding in banks is currently at c40%, near the peak level of banks' share price rally in Nov-20 to Mar-21. Thus, we anticipate limited additional foreign flows into the banking sector in the short term. The sector's current P/BV multiple is 0.68x. In 2021, the average P/BV was 0.63x, with a sector ROE of 7.2%. In 2022, we project an ROE of 7.5%. Thus, the worst case would be a P/BV multiple at the same level as 2021. We estimate a c7-8% maximum downside risk to SETBank.

Long-term outlook remains sanguine

Once the mist from the geopolitical uncertainty and Omicron clears, we believe that the market will turn its attention to the profit and ROE recovery. In the next 6-12 months, we believe there is more room for the sector's multiple to rerate, supported by 1) higher earnings growth of the banks under our coverage (BUC) in 2H22 and 2023E net profit growth of 10% y-y – the earnings level in 2023 should be higher than that of 2019; 2) a continued increase in ROE to 7.8% in 2023; and 3) a brighter economic outlook in 2H22 following a tourism recovery. In our view, SETBank's multiple might increase to 0.8x (0.25 STD below its five-year average). This implies a 15% upside from the current level.

Expect a solid start in 1Q22

We expect the 1Q22 aggregate net profit of the BUC to be at THB42.2b (+8% y-y, +18% q-q). We see three positives. First, we expect impressive NII growth following a rise in loan volume. Second, we expect efficient cost control. Lastly, we expect banks to smooth out their ECL due to already having a sufficient cushion. The Ukraine crisis should have a limited impact on banks' provisions. One negative in 1Q22 is the decline in fee income due to lower capital market and transactional fees. Regarding NPLs, we expect that they will rise immaterially by 1.4% q-q due to the comprehensive debt restructuring program.

Maintain Overweight for long term, with SCB and KKP as top picks

We reiterate our OVERWEIGHT view for long-term investment. We pick KKP (replacing TTB) as a hedge against short-term uncertainty. It should also ride the economic upturn expected in 2H22 due to its solid capital market profits. SCB remains one of our top picks as its transformation will allow it to penetrate the high risk-reward lending industry and high growth potential digital industry. Its share price underperformance since Feb-22 comes from the SWAP transaction between SCB and SCBX, leading to lower liquidity. We think its share price should outperform after the SWAP is complete.



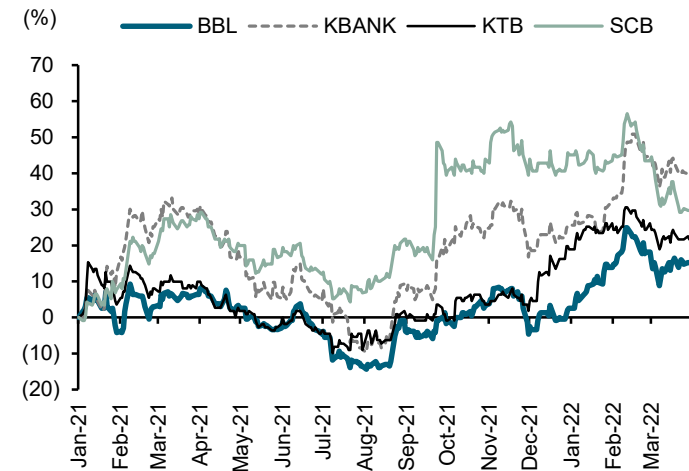
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Lack of visibility on sector's multiple over the next 1-2 months

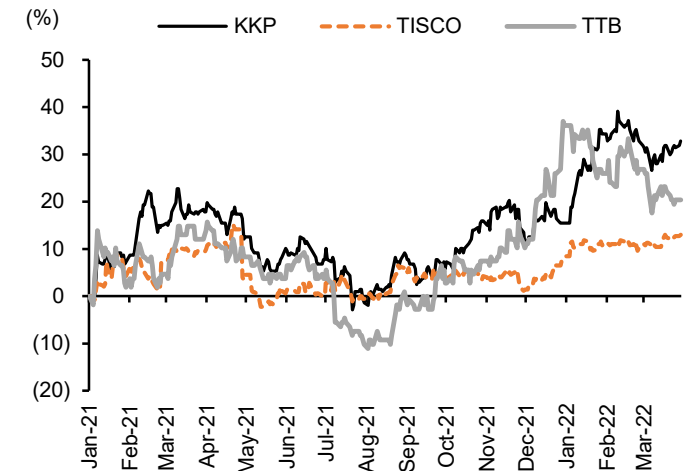
In Mar-22, the banking sector turned to underperform the finance sector and the SET index, with returns of -4%, -1% and +0.3% MTD, respectively. We believe the Ukraine crisis could potentially lead to higher global energy prices, rising inflation, slower retail consumption, etc. These pressures could eventually result in worldwide GDP being revised down, including for Thailand.

Exhibit 1: Big banks' price performance index since 2021



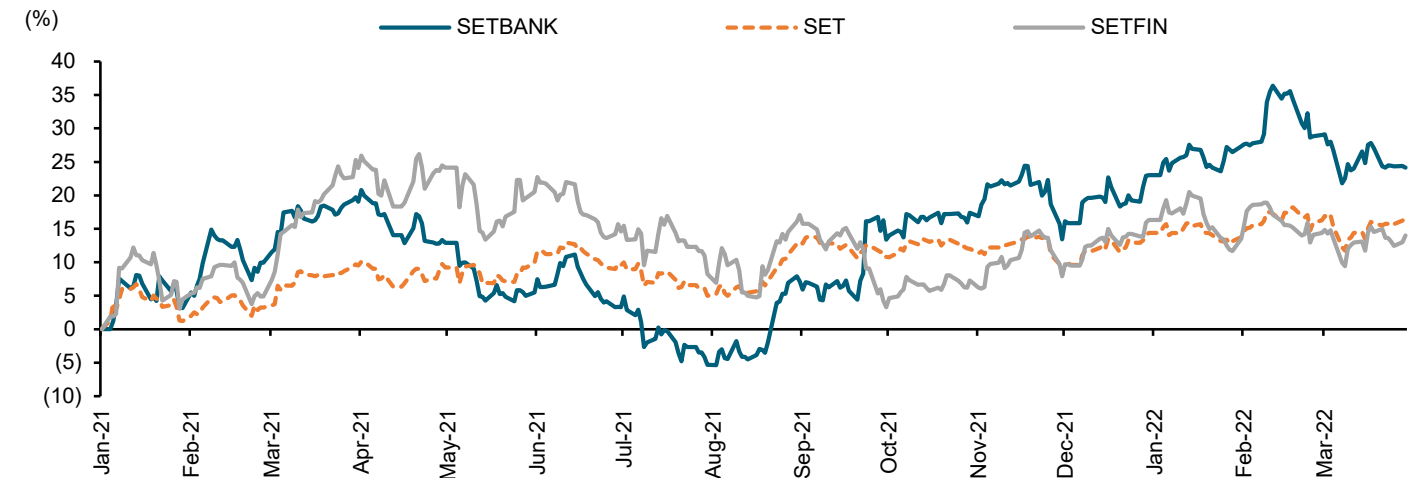
Sources: Bloomberg; FSSIA's compilation

Exhibit 2: Auto lenders' price performance index since 2021



Sources: Bloomberg; FSSIA's compilation

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



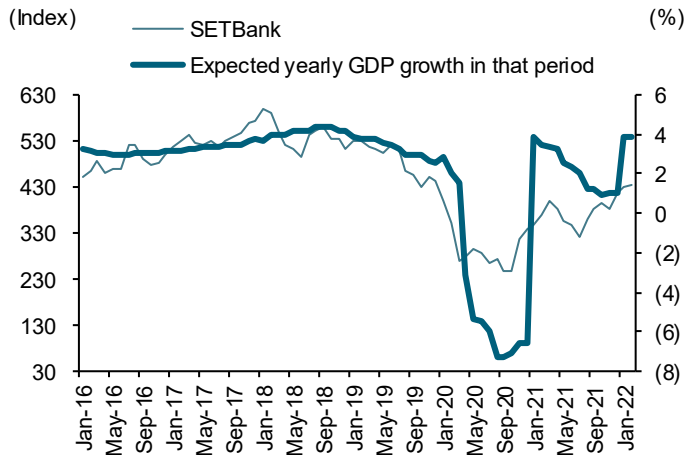
Sources: Bloomberg; FSSIA's compilation

In the next 1-2 months, we think banks' share prices will be rangebound due to 1) negative sentiment from potentially lower Thai GDP forecasts; 2) limited additional foreign flows into the banking sector; and 3) a lack of specific positive catalysts. We think diversified financial companies' share prices could outperform banks' as they are more dependent on domestic factors.

#1) Negative sentiment from potentially lower Thai GDP forecasts

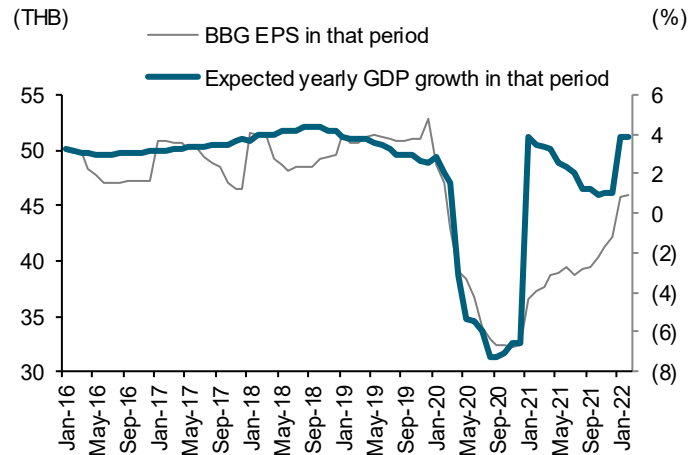
We think there is some correlation between expected GDP growth, the expected EPS of the banking sector, and banks' share price movement. Based on our study, we found that the banking sector's share price performance has a high correlation with GDP revisions. On the other hand, the banking sector's EPS has a lower correlation with GDP revisions as there are many factors, particularly provision setup, that might affect EPS.

Exhibit 4: Banking sector's share price movement has a high correlation with expected GDP forecasts



Sources: Bloomberg; FSSIA's compilation

Exhibit 5: Banking sector's EPS has a lower correlation with expected GDP forecasts

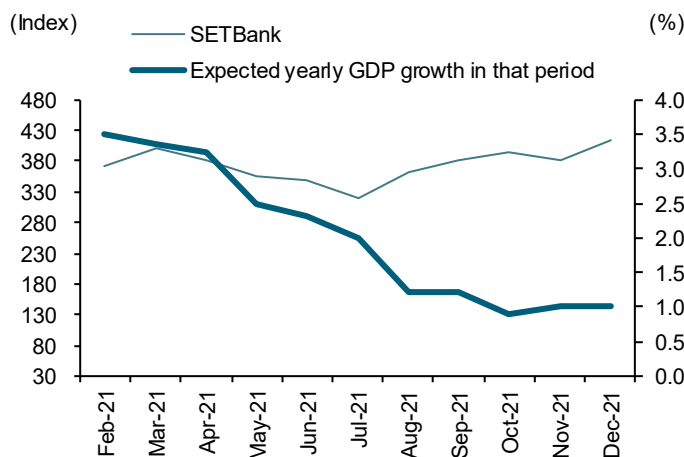


Sources: Bloomberg; FSSIA's compilation

We think the situation in 2021 is the best representation of what could happen in 2022. In early 2021, SETBank performed well following the expected GDP recovery. Then, when the spread of the Delta variant occurred in Apr-21, SETBank started to decline. This was the same trend as what occurred during the downward revision of Thailand's GDP. SETBank was pressured by the blurry economic outlook for around three months until Jul-21. After that, it started to increase once there was a limited risk of a downward GDP revision and investors began looking beyond to the economic recovery in 2022. As for the expected EPS of the banking sector, it went an opposite direction to the expected GDP. EPS was revised up all over the year, due mainly to lower provisions.

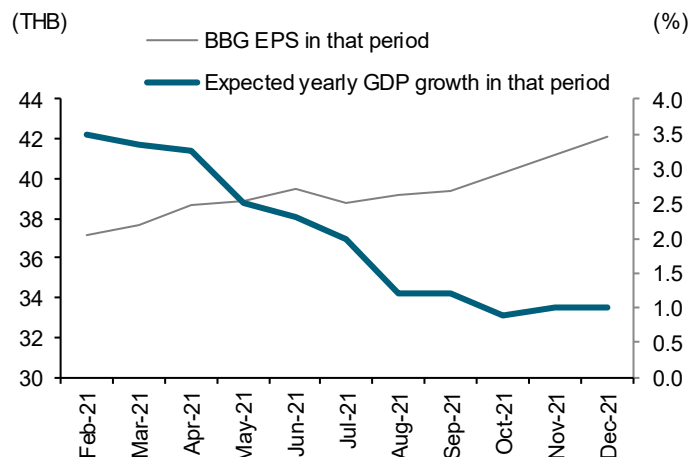
In our view, what we can summarise from this relationship in 2021 is that EPS and GDP revisions might not follow the same trend, especially when there are other essential factors, i.e. provisions, cost saving, etc., to impact banks' earnings. Meanwhile, downward GDP revisions will likely impact banks' share price movement, at least in the first three months of a big downgrade.

Exhibit 6: The relationship between SETBank's movement and expected GDP forecasts in 2021



Sources: Bloomberg; FSSIA's compilation

Exhibit 7: The relationship between EPS forecasts for the banking sector and expected GDP forecasts in 2021



Sources: Bloomberg; FSSIA's compilation

We think this pattern should occur again in 2022. We do not expect a significant downward revision in the banking sector's earnings. During the last few weeks, we saw some economists revise down their estimates for Thai GDP growth in 2022 by c0.5-0.8% from the range of c3.0-3.8%. We forecast that for every 0.5% downside risk to Thailand's GDP growth forecast, there would be a limited 1-1.5% downside risk to our 2022 BUC net profit forecasts. Our research shows that the Bloomberg consensus forecast for the banking sector's 2022 net profit is higher than our own by 3%. Thus, this implies a c4% downside risk to the consensus estimate.

Nevertheless, we expect that the slower GDP growth should weigh on banks' traded multiples. This has happened since early Mar-22. To us, this pressure on share price momentum could last long into the next 1-2 months.

Exhibit 8: Comparing FSSIA's net profit forecasts and Bloomberg's consensus forecasts

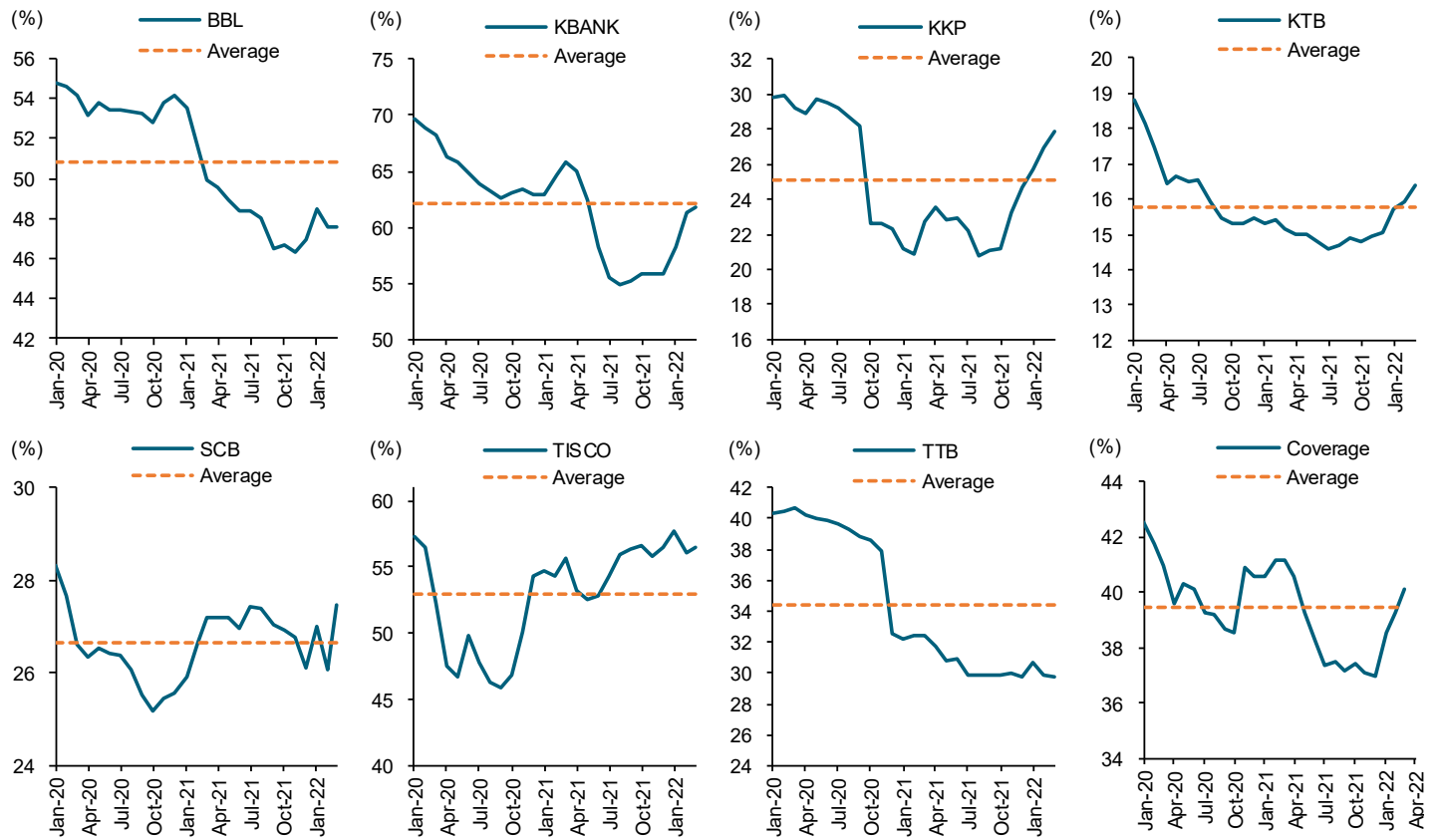
Bank	----- FSSIA net profit forecasts -----			----- Consensus net profit forecasts -----			----- diff between FSSIA and consensus -----		
	2022E (THB m)	2023E (THB m)	2024E (THB m)	2022E (THB m)	2023E (THB m)	2024E (THB m)	2022E (%)	2023E (%)	2024E (%)
BBL TB	29,229	30,623	35,686	31,141	33,045	37,649	(6)	(7)	(5)
KBANK TB	41,542	45,695	50,848	42,635	46,439	52,094	(3)	(2)	(2)
KKP TB	7,099	8,187	9,201	6,827	7,520	8,562	4	9	7
KTB TB	23,458	25,827	30,057	24,017	25,755	29,150	(2)	0	3
SCB TB	38,181	42,621	47,718	40,747	44,351	50,574	(6)	(4)	(6)
TISCO TB	7,052	7,693	8,258	7,028	7,395	7,850	0	4	5
TTB TB	13,217	15,129	17,226	12,650	14,764	16,756	4	2	3
Total	159,778	175,776	198,993	165,045	179,268	202,634	(3)	(2)	(2)

Sources: Company data; FSSIA estimates; Bloomberg

#2) Limited additional foreign flows into the banking sector

We note that during 2020-21, SETBank was able to rally due mainly to foreign fund inflows. For example, during the first rally phase in Nov-21 to Mar-22, the total foreign holding in the banking sector increased to c40-41% of total shareholding from the lowest point at 38.5% in Oct-21. Currently, foreign shareholding has increased from 37% in Dec-21 to 40%, which has nearly reached the peak of the last rally phase. Coupled with the weaker economic outlook and the uncertainty around the world, we expect to see limited foreign flows into the Thai banking sector in the short term.

Exhibit 9: Foreign holding of banks under our coverage from 2020 to present



Source: SETSMART; FSSIA's compilation

#3) The lack of specific positive catalysts

In early 2022, we think two catalysts are driving SETBank: 1) the interest rate uptrend environment; and 2) the stronger performance of the banking sector in 1Q22.

Currently, we see limited catalysts in the next month. Regarding the rate uptrend, a higher interest rate and bond yield have generally been read as positive factors in terms of boosting NIM. However, this logic only holds as long as the economy increases at a fast pace. As a result, during periods when GDP forecasts are revised downward, we do not think that a potential interest rate rise would be a catalyst to drive SETBank in the short term. As for 1Q22 earnings, we retain our positive view, but we think the market has already perceived this.

We think the next catalyst will be the completion of the SWAP transaction between SCB and SCBX in late Apr-22. According to SCB, it might hold a meeting to present SCBX's outlook after the SWAP transaction's completion. We think SCB, and also the banking sector, should gain investors' interest again, similar to what happened during the first initiation to restructure the organisation of SCB. However, this time the rally should be lower than before as investors will look to the realistic earnings accretion from the organisational restructuring rather than focusing on the related valuation only. Moreover, we expect that once the risk of a downward GDP revision is more limited, potentially in 2Q22, the rate uptrend could be a positive factor to drive the banking sector's share price again.

Expect stronger core operations in 1Q22

We expect the BUC to deliver a 1Q22 aggregate net profit of THB42.2b (+8% y-y, +18% q-q). We think the expected significant q-q net profit increase would be the result of lower seasonal OPEX. We also expect banks to smooth out their provisioning expenses as the BUC proactively set aside special provisions to provide a cushion from uncertainties in the previous quarters. Regarding the Russia-Ukraine crisis, in our follow up talks with management, it was indicated that the BUC have proactively supported their affected clients, i.e. corporations whose production costs may increase rapidly. They also believe that the current provision level should offset the potentially weaker asset quality.

The 1Q22 earnings for the BUC could increase moderately y-y, due mainly to a rise in their NII following an increase in loan volume by 6.2% y-y due to the strong demand from corporates and the higher risk appetite for some banks to lend to retail clients. These positives should more than completely offset the potential slowdown in fee income due to 1) lower capital market-related fees following the weak market environment; and 2) lower transactional fees as their clients move toward the digital channel.

Regarding non-performing loans (NPLs), we expect that they will continue to increase immaterially by 1.4% q-q in 1Q22 due to the comprehensive debt restructuring (CDR) program. This could account for an NPL ratio (calculated by FSSIA) of 4.09% in 1Q22 vs 4.05% in 4Q21.

We project that most banks should deliver y-y and q-q net profit growth in 1Q22, and expect a q-q drop in KKP's earnings due to the high base from fee income in 4Q21. All of the big four banks (BBL, KBANK, KTB, and SCB) and KKP should deliver satisfactory performance, while we expect decent performance for TTB and TISCO.

Exhibit 10: Summary of 1Q22E earnings preview

BBG	Norm profit			1Q22E		Expected results date	FSSIA's views
	1Q21 (THB m)	4Q21 (THB m)	1Q22E (THB m)	Change (y-y %)	Change (q-q %)		
BBL	6,923	6,318	7,707	11.3	22.0	19-21 April	BBL could deliver a y-y rise in net profit growth in 1Q22 due to an increase in loan volume. We also expect a q-q net profit rise following lower seasonal OPEX and lower provisions. Regarding its asset quality, we have few concerns. We think its NPLs should increase insignificantly. BBL also has sufficient provisions.
KBANK	10,627	9,901	11,278	6.1	13.9	21 April	An increase y-y in KBANK's net profit would likely come from a rise in its loan volume. We also expect a q-q rise in its net profit due to seasonally lower OPEX. Regarding its asset quality, we have few concerns. We think its NPLs should increase insignificantly.
KKP	1,463	2,023	1,784	22.0	(11.8)	19-20 April	A solid y-y rise in KKP's net profit should be driven by strong loan growth following its higher market share in hire purchase lending. Also, its ECL should decline y-y, driven by healthy asset quality and sufficient provisions. A q-q drop in its 1Q22 net profit would likely come from the abnormally high fee income and Non-NII bases in 4Q21.
KTB	5,578	4,944	5,812	4.2	17.6	20-21 April	A y-y and q-q rise in KTB's 1Q22 net profit should be supported by a rise in its loan volume due mainly to an increase in the government segment.
SCB	10,088	7,879	10,826	7.3	37.4	20 April	The projected rise y-y and q-q in SCB's earnings would come from plummeting provisions as we expect SCB to continue to provide long-term debt restructuring to its clients.
TISCO	1,764	1,791	1,806	2.4	0.9	18 April	We expect decent growth y-y and q-q in TISCO's 1Q22 net profit, driven mainly by significantly lower provisions as 1) TISCO should be able to control its asset quality effectively, with flat q-q NPLs expected; and 2) the bank has excess provisions.
TTB	2,782	2,799	2,982	7.2	6.5	20 April	A decent increase y-y and q-q would come mainly from a decline in OPEX as there are no extra integration costs.
Coverage	39,224	35,655	42,196	7.6	18.3		

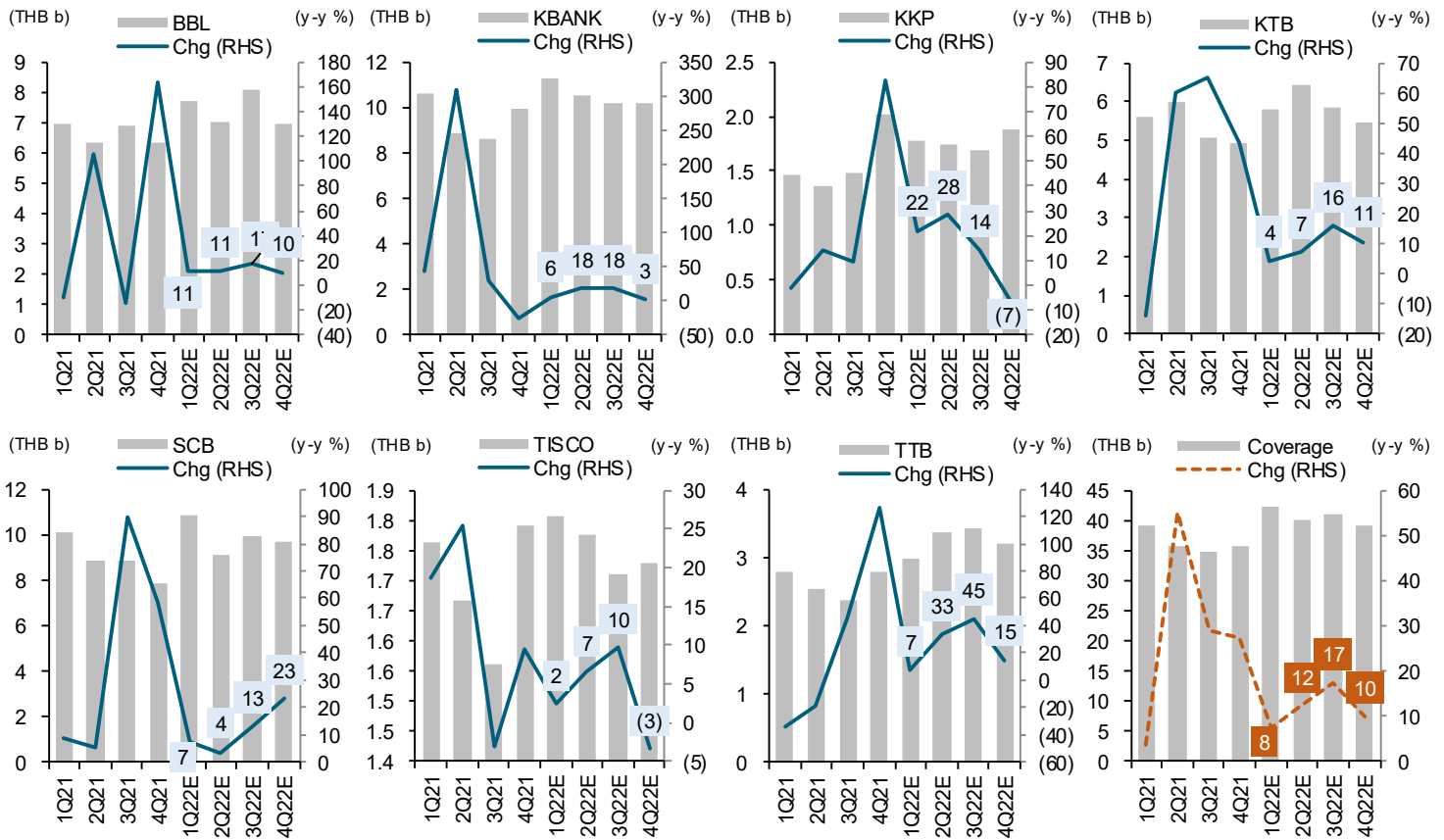
Sources: Company data; FSSIA estimates

Exhibit 11: Thai banks under coverage, 1Q22E earnings preview

BBG	Norm profit				Pre-provision profit			Expected credit loss			
	(THB m)	(y-y%)	(q-q%)	(%22E)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y%)	(q-q%)	
Bangkok Bank	BBL TB	7,707	11.3	22.0	26.4	20,642	(5.2)	(9.3)	6,455	2.0	(20.6)
Kasikornbank	KBANK TB	11,278	6.1	13.9	27.1	25,901	1.7	7.8	9,760	12.8	1.9
Kiatnakin Bank	KKP TB	1,784	22.0	(11.8)	25.1	3,376	11.5	(16.8)	1,171	(5.1)	(26.0)
Krung Thai Bank	KTB TB	5,812	4.2	17.6	24.8	16,566	19.7	26.7	8,455	4.9	2.7
Siam Commercial Bank	SCB TB	10,826	7.3	37.4	28.4	24,928	10.1	13.6	8,610	(14.0)	(28.0)
Tisco Financial	TISCO TB	1,806	2.4	0.9	25.6	2,569	(15.4)	(3.4)	305	(63.4)	(25.1)
TMBThanachart Bank	TTB TB	2,982	7.2	6.5	22.6	14,268	59.9	67.6	5,141	(6.2)	2.5
Coverage		42,196	7.6	18.3	26.4	108,250	9.6	11.6	39,897	(1.7)	(11.1)

Sources: Company data; FSSIA estimates

Exhibit 12: Earnings momentum 1Q21 to 4Q22E



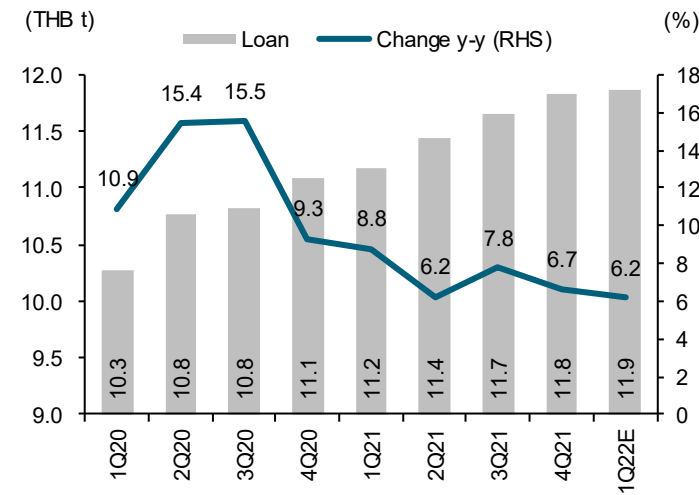
Source: FSSIA estimates

1Q22E key highlights

1) Corporates and retail clients should lead higher loan demand

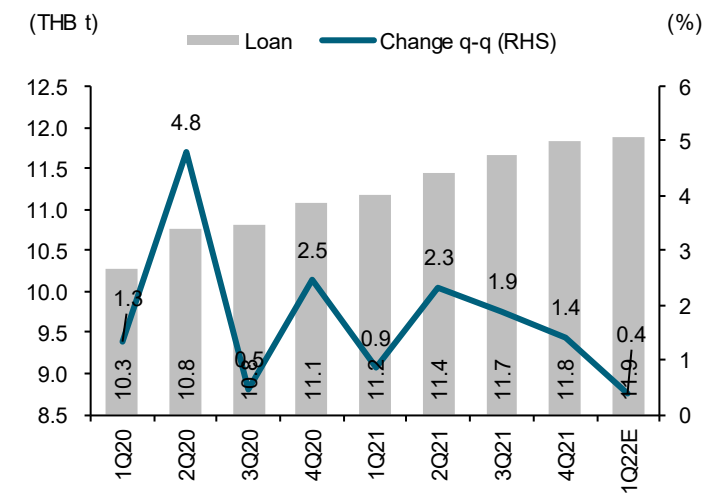
We expect banks' overall loan portfolios to slightly increase by 0.4% q-q (+6.2% y-y). We expect an increase in working capital loan demand for the corporate segment, along with a rise in retail client volume due to the higher risk appetite for some banks to more aggressively engage in small ticket size retail lending.

Exhibit 13: Sector's loan growth (y-y basis)



Sources: Company data; FSSIA estimates

Exhibit 14: Sector's loan growth (q-q basis)

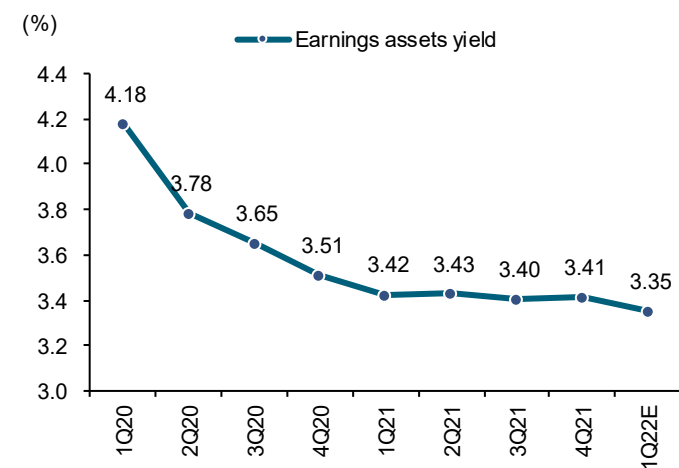


Sources: Company data; FSSIA estimates

2) NIM should fall slightly due to CDR program

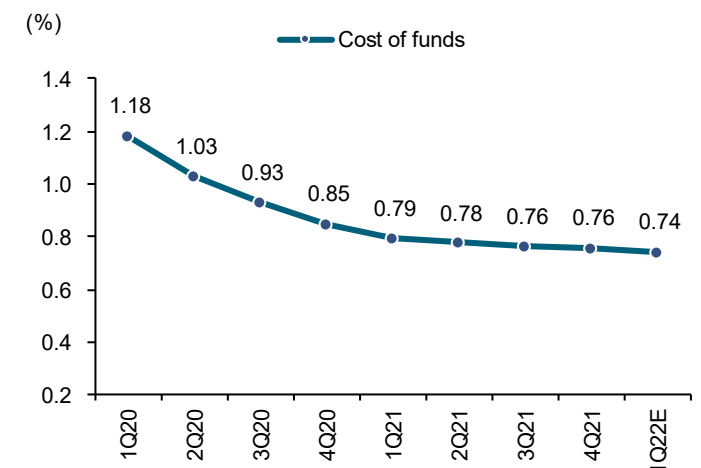
We expect that the banking sector's NIM will slightly fall to 2.74% in 1Q22 from 2.78% in 4Q21 due to lower EIR, as we believe banks are offering more CDR for clients, resulting in a lower loan yield. However, this should be partially minimised by a lower cost of funds thanks to the low interest rate environment and the drainage deposit policy of most banks.

Exhibit 15: Sector's quarterly earnings assets yield



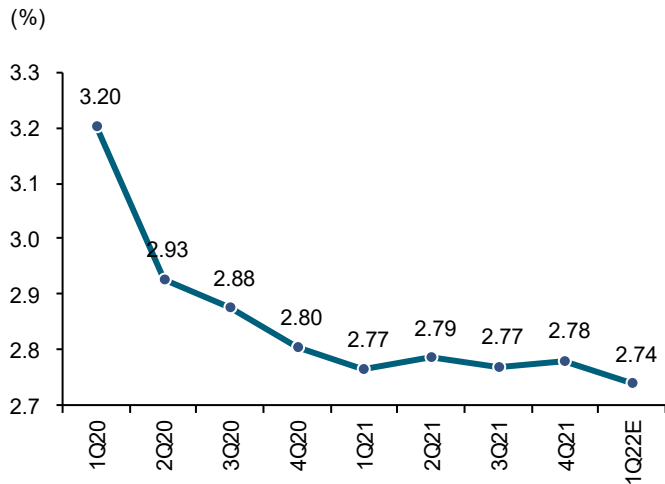
Sources: Company data; FSSIA estimates

Exhibit 16: Sector's cost of funds



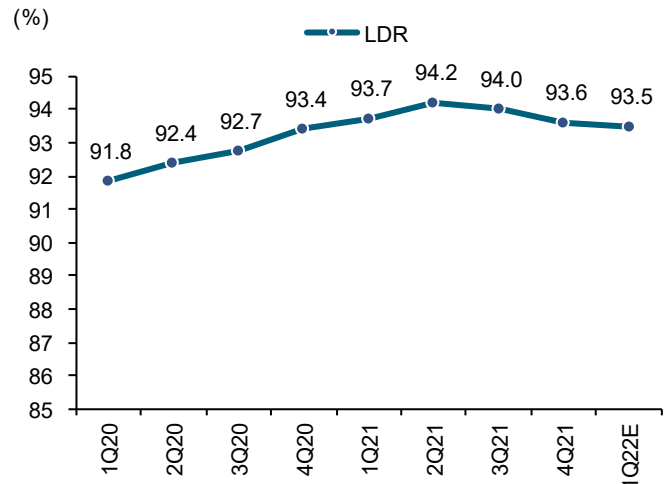
Sources: Company data; FSSIA estimates

Exhibit 17: Sector's quarterly NIM



Sources: Company data; FSSIA estimates

Exhibit 18: Sector's loan to deposit ratio (LDR)

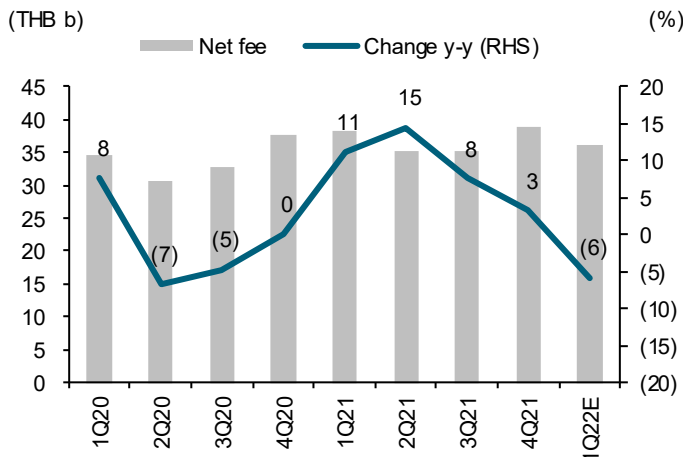


Sources: Company data; FSSIA estimates

3) Lower fee income due to weak capital market and lower transactional fees

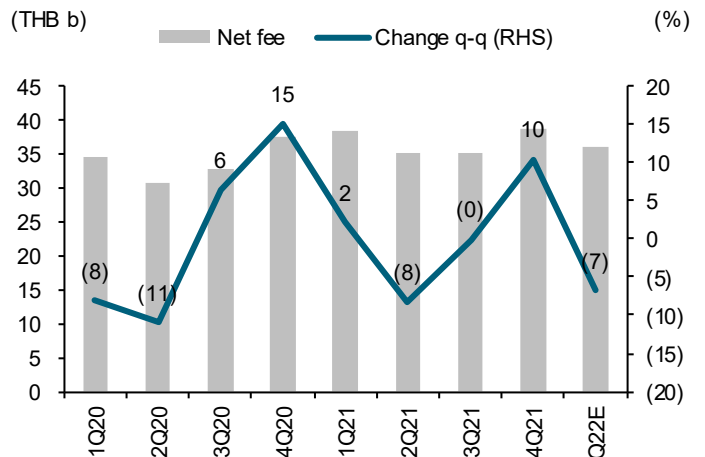
We expect banks to post a y-y and q-q drop in fee income in 1Q22 due to 1) lower capital market-related fees following the weak market environment; and 2) lower transactional fees as their clients move toward the digital channel. Also, Non-NII should drop y-y and q-q, dragged down by lower fee income and a contraction in investment gains.

Exhibit 19: Sector's fee income growth (y-y basis)



Sources: Company data; FSSIA estimates

Exhibit 20: Sector's fee income growth (q-q basis)



Sources: Company data; FSSIA estimates

4) Good cost control

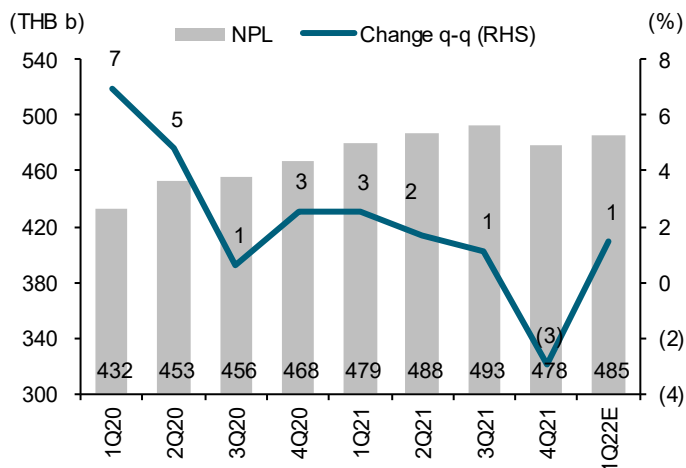
OPEX should decrease by 11% q-q in 1Q22 due to seasonality. We believe that most banks should still be able to control their operating expenses effectively. Covid-19 forced their clients to use digital platforms, leading to a faster network rationalisation pace and frozen headcounts. Thus, we expect a rise of only 5% y-y in the BUC's OPEX.

5) Insignificant increase in NPLs and lower provisions

We think banks will provide more CDR to their clients. As a result, we expect that NPLs will continue to increase immaterially by 1.4% q-q in 1Q22. This could account for an NPL ratio (calculated by FSSIA) of 4.09% in 1Q22 vs 4.05% in 4Q21.

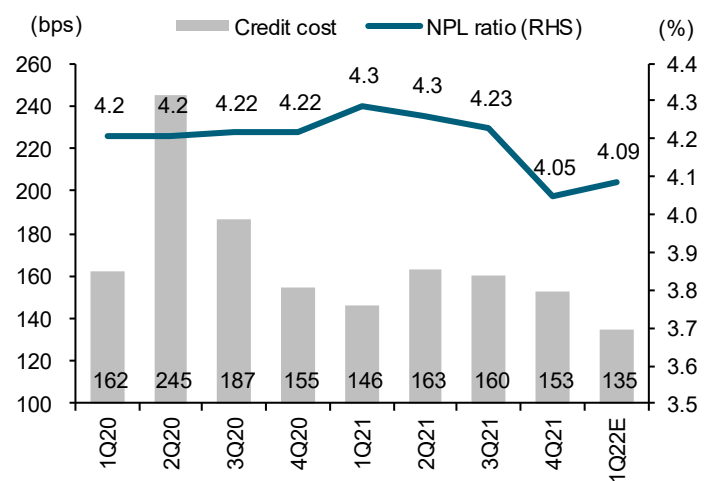
Regarding provisions, we expect banks to smooth out their provisioning expenses as the BUC proactively set aside special provisions to provide a cushion from uncertainties in the previous quarters. Regarding the Russia-Ukraine crisis, in our follow up talks with management, it was indicated that the BUC have proactively supported their affected clients, i.e. corporations whose production costs may increase rapidly. They also believe that the current provision level should offset the potentially weaker asset quality. As a result, we project that banks will set the sector's lowest credit cost since the Covid pandemic began at 135 bps in 1Q22.

Exhibit 21: Sector's NPL growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 22: Sector's NPL ratio and credit cost



Sources: Company data; FSSIA estimates

Exhibit 23: Forbearance programs of banks under coverage

	4Q21 loans				3Q21 loans			2Q21 loans		
	Amount outstanding (THB b)	Absolute (THB b)	% of portfolio (%)	% change q-q (%)	Absolute (THB b)	% of portfolio (%)	% change q-q (%)	Absolute (THB b)	% of portfolio (%)	% change q-q (%)
BBL	2,588	285	11	(6)	303	12	4	290	12	n/a
KBANK	2,422	322	13	(10)	359	15	6	339	14	6
KKP	307	34	11	(2)	35	12	(5)	37	13	51
KTB	2,629	98	4	(16)	117	5	8	108	4	(14)
SCB	2,302	397	17	(14)	464	20	23	376	16	(12)
TISCO	203	16	8	0	16	8	27	13	6	16
TTB	1,372	162	12	(1)	163	12	(16)	193	14	(0)

Sources: Company data; FSSIA's compilation

Exhibit 24: Breakdown of 1Q22E earnings preview

1Q22E	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	21,881	32,763	4,395	21,543	27,413	3,133	18,322	129,449
Change (y-y %)	11.0	16.5	14.8	7.9	17.3	0.7	42.3	16.6
Change (q-q %)	0.8	6.4	3.3	0.9	10.6	0.8	43.5	9.0
Non-interest Income	11,140	11,154	1,781	8,342	13,123	1,537	3,556	50,632
Change (y-y %)	(0.2)	(19.6)	(0.2)	27.1	(8.7)	(22.8)	(10.6)	(5.8)
Change (q-q %)	(18.7)	(18.6)	(37.3)	29.4	(9.0)	(11.1)	(18.6)	(11.5)
Net fee income	7,142	9,012	1,412	5,315	9,461	1,292	2,565	36,198
Change (y-y %)	(2.6)	(4.4)	(1.5)	1.9	(9.4)	(16.2)	(15.4)	(5.8)
Change (q-q %)	(6.1)	3.0	(10.0)	3.0	(8.0)	(24.6)	(31.8)	(6.8)
Operating income	33,021	43,916	6,176	29,884	40,536	4,670	21,878	180,081
Change (y-y %)	7.0	4.5	10.0	12.6	7.4	(8.5)	29.8	9.3
Change (q-q %)	(6.8)	(1.3)	(12.9)	7.5	3.4	(3.4)	27.7	2.3
Operating expenses	16,878	18,016	2,799	13,318	15,608	2,101	7,610	76,329
Change (y-y %)	7.1	9.0	8.4	5.0	3.4	1.8	(4.0)	5.1
Change (q-q %)	(12.7)	(12.0)	(7.8)	(9.5)	(9.6)	(3.5)	(11.7)	(10.9)
Pre-provision profit	16,144	25,901	3,376	16,566	24,928	2,569	14,268	103,752
Change (y-y %)	6.8	1.7	11.5	19.7	10.1	(15.4)	59.9	12.7
Change (q-q %)	0.4	7.8	(16.8)	26.7	13.6	(3.4)	67.6	14.8
Expected credit loss	6,455	9,760	1,171	8,455	8,610	305	5,141	39,897
Change (y-y %)	2.0	12.8	(5.1)	4.9	(14.0)	(63.4)	(6.2)	(1.7)
Change (q-q %)	(20.6)	1.9	(26.0)	2.7	(28.0)	(25.1)	2.5	(11.1)
Income tax	1,841	2,821	419	1,534	2,585	457	677	10,335
Normalised profit	7,707	11,278	1,784	5,812	10,826	1,806	2,982	42,196
Change (y-y %)	11.3	6.1	22.0	4.2	7.3	2.4	7.2	7.6
Change (q-q %)	22.0	13.9	(11.8)	17.6	37.4	0.9	6.5	18.3
% of 2022E	26.4	27.1	25.1	24.8	28.4	24.4	22.6	26.4
Net profit	7,707	11,278	1,784	5,812	10,826	1,806	2,982	42,196
Change (y-y %)	11.3	6.1	22.0	4.2	7.3	2.4	7.2	7.6
Change (q-q %)	22.0	13.9	(11.8)	17.6	37.4	0.9	6.5	18.3
% of 2022E	26.4	27.1	25.1	24.8	28.4	24.4	22.6	26.4
Loan (q-q %)	(0.5)	1.5	3.5	1.0	(0.5)	0.5	(0.2)	0.4
Loan (y-y %)	8.7	6.8	17.5	12.5	0.6	(7.6)	(0.8)	6.2
Deposit (q-q %)	(0.5)	0.6	2.5	1.0	1.0	1.0	0.5	0.5
Deposit (y-y %)	8.2	8.9	17.1	8.3	6.0	(15.1)	(2.7)	6.5
Loan/ Deposits (LDR %)	82.0	94.0	107.5	100.5	91.9	121.3	101.8	93.5
Loan/Deposits & Borrowing (%)	77.5	91.0	93.3	95.6	89.2	111.3	96.8	89.2
Key ratios	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Net interest margin	2.03	3.12	4.29	2.46	3.02	5.08	2.98	2.74
Credit cost (bp/total loans)	1.00	1.60	1.50	1.28	1.50	0.60	1.50	1.35
Cost to income	51.11	41.02	45.33	44.57	38.50	44.99	34.78	42.39
Loan-loss-coverage	224	140	162	163	139	233	131	163
Absolute NPL (THB m)	102,114	106,117	10,395	107,450	111,196	4,957	42,963	485,192
Change (y-y %)	(5.9)	3.7	10.4	1.4	6.6	(10.4)	(1.0)	1.2
Change (q-q %)	1.0	2.0	2.0	0.6	1.9	0.0	2.0	1.4
NPL ratio	3.96	4.32	3.27	4.05	4.86	2.43	3.14	4.09
Reported NPL ratio	3.25	3.80	3.25	3.49	3.88	2.43	2.71	

Source: FSSIA estimates

Earnings and ROE recovery in next 6-12 months remains likely

We are convinced that the Russia-Ukraine crisis and Omicron variant should have a limited negative impact on our and Bloomberg consensus' 2022 earnings forecasts, as previously mentioned. Therefore, once the mist from the geopolitical uncertainty and Omicron clears, we believe that the market will turn its attention to the profit and ROE recovery.

We currently expect an increase in the banking sector's 2022 ROE to 7.5% from 7.2% in 2021, with an ROE increase for all of the BUC. In 2021, the average P/BV multiple of SETBank was 0.63x (1 STD below its five-year average). Although there is a lack of catalysts in the short term, we think the worst-case scenario would be if the P/BV multiple of the banking sector is discounted to the same level as in 2021 from 0.68x currently. That said, the maximum downside risk that we estimate for SETBank is limited to around 7-8%.

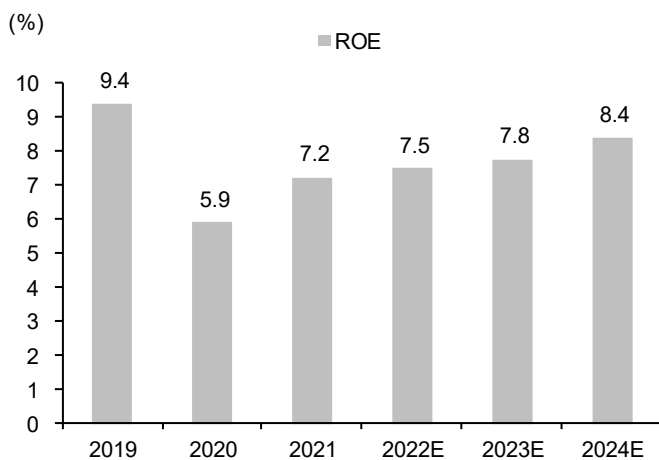
Exhibit 25: The potential bull and bear cases for SETBank's multiple

BBG code	Current		Potential bull case				Bear case		Maximum downside (%)
	P/BV (x)	Share price (THB)	Average 2019 (Pre-Covid)		Average 5-year		Average PBV 2021		
			Mean P/BV (x)	Implied price (THB)	Mean P/BV (x)	Implied price (THB)	Mean P/BV (x)	Implied price (THB)	
BBL TB	0.51	137.00	0.80	215	0.70	188	0.45	121	(12)
KBANK TB	0.74	160.00	0.94	203	0.85	184	0.62	135	(16)
KKP TB	0.98	68.75	1.27	88	1.17	81	0.92	64	(7)
KTB TB	0.50	13.60	0.74	20	0.67	18	0.43	12	(13)
SCB TB	0.85	113.00	1.05	139	1.02	136	0.81	108	(5)
TISCO TB	1.82	100.50	1.95	108	1.73	96	1.77	97	(3)
TTB TB	0.57	1.31	0.58	1.33	0.67	1.54	0.51	1.17	(10)
SETBANK	0.69	420.38	0.89	540	0.85	518	0.63	386	(8)

Sources: Bloomberg; FSSIA estimates

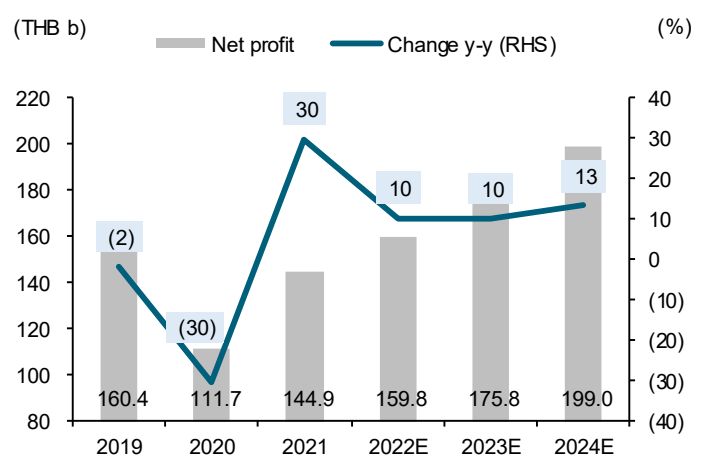
In the next 6-12 months, we believe there is more room for the sector's multiple to rerate, supported by 1) higher earnings growth of the BUC in 2H22 and 2023E net profit growth of 10% y-y – the earnings level in 2023 should be higher than that of 2019; 2) a continued increase in ROE to 7.8% in 2023; and 3) a brighter economic outlook in 2H22 following a tourism recovery. In our view, SETBank's multiple might increase to 0.8x (0.25 STD below its five-year average). This implies a 15% upside from the current level.

Exhibit 26: Banking sector's ROE



Sources: Company data; FSSIA's estimates

Exhibit 27: Banking sector's net profit growth



Sources: Company data; FSSIA's estimates

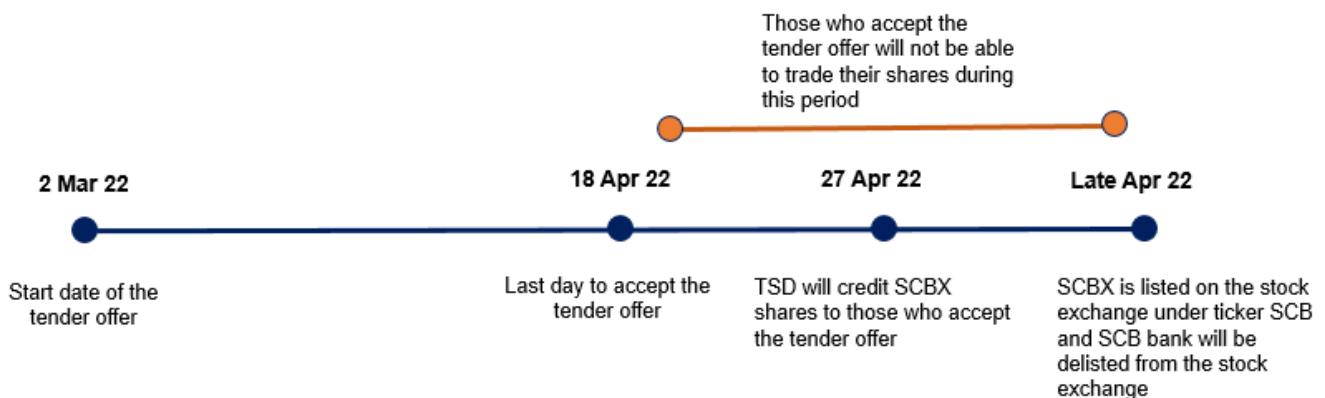
Recommendations and top picks

We think the banking sector's share price might be rangebound in the next 1-2 months due to 1) negative sentiment from GDP forecast downgrades; 2) limited additional foreign fund inflows; and 3) a lack of positive catalysts. We, however, reiterate our Overweight view on the banking sector for long-term investment. We are convinced that the banking sector's valuation has room to rerate, supported by a transformation to break out of the traditional framework to generate a higher ROE and long-term growth amid the interest rate uptrend cycle.

During the current uncertainty, we replace TTB with KKP as our top pick as we believe its second highest dividend yield should be a key to support its share price. Also, we think KKP has two main points that differentiate it from other banks. First, it is selectively growing quality loans in a situation where competitors are retreating from the market, enabling it to compete for market share. Second, KKP's dominant institutional brokerage position, plus its investment banking and financial advisory businesses, should help it to generate more sustainable performance.

SCB remains one of our top picks for long-term investment. We reiterate our view that its great transformation will allow it to penetrate the high risk-reward lending industry and high growth potential digital industry. Thus, we think that SCB is in the best position in the banking sector to benefit from the region's digital age. Also, its ROE should be in an improving trend. The underperformance in its share price since Feb-22 comes from the SWAP transaction between SCB bank and SCBX, lasting from 2 Mar to 18 Apr-22. This transaction leads to lower liquidity in stock trading as Non-Voting Depository Receipts (NVDRs) cannot buy SCB during this period. Moreover, investors who enter into the SWAP deal cannot trade SCB from 18 Apr to the end of Apr-22. As a result, we think some investors who cannot hold their position will sell SCB during this time. We think SCB's share price should outperform after the SWAP is done.

Exhibit 28: SCB's SWAP transaction timeline



Sources: SCB; FSSIA's compilation

We maintain our BUY call on KBANK as 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.

We also maintain our BUY call on TTB as we are convinced that TTB should deliver the largest net profit growth in 2022 after the merger synergies start to clearly bear fruit. Moreover, we expect that TTB will be the only bank whose 2022 ROE could recover to be higher than that of 2019's.

Regarding KTB, we maintain our BUY call as we believe it will utilise its digital users' big data to generate top-line growth. Thus, we expect that its net profit could increase by 8%/10% in 2022-23. We also think KTB's share price will garner the most positive sentiment from a global rising interest rate environment.

For TISCO, we think it is less attractive than KKP as its lazy balance sheet strategy over the past several years will likely hinder its growth once the economy recovers. Our BUY call is for its potentially superior dividend yield at 7-8% p.a. and low asset quality risk. TISCO normally gains more attention in the first quarter before the dividend payment period.

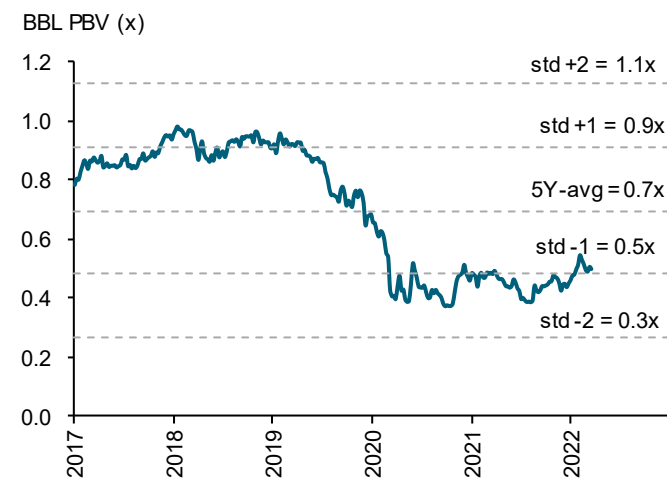
We reiterate our HOLD rating for BBL due to its traditional and much too conservative framework, in our view. Its cheap valuation and having the most defensive balance sheet in the banking space are not enough to catch our attention.

Exhibit 29: Key valuations of Thai banks under coverage

	BBG	Rec	--Share price --		Up (dn) side	Market Cap (USD m)	EPS growth		----- PE -----		-- DivYld -		----- ROE ----		--- PBV ---	
			Current (THB)	Target (THB)			22E (%)	23E (%)	22E (x)	23E (x)	22E (%)	23E (%)	22E (%)	23E (%)	22E (x)	23E (x)
Bangkok Bank	BBL TB	HOLD	137.00	134.00	(2)	7,841	10.3	4.8	8.9	8.5	3.6	5.1	6.0	6.2	0.5	0.5
Kasikornbank	KBANK TB	BUY	160.00	180.00	13	11,366	9.2	10.0	9.1	8.3	2.8	3.1	8.4	8.6	0.7	0.7
Kiatnakin Bank	KKP TB	BUY	68.75	80.00	16	1,745	12.4	15.3	8.2	7.1	6.2	7.3	13.4	14.4	1.1	1.0
Krung Thai Bank	KTB TB	BUY	13.60	15.50	14	5,699	8.7	10.1	8.1	7.4	4.3	4.8	6.4	6.7	0.5	0.5
Siam Commercial Bank	SCB TB	BUY	113.00	160.00	42	11,505	7.1	11.6	10.1	9.0	4.4	5.3	8.4	8.7	0.8	0.8
Tisco Financial	TISCO TB	BUY	100.50	110.00	9	2,413	4.0	9.1	11.4	10.5	7.7	8.2	16.7	17.4	1.9	1.8
TMBThanachart Bank	TTB TB	BUY	1.31	1.80	37	3,795	26.5	14.5	9.6	8.3	4.7	5.4	6.1	6.7	0.6	0.5
Coverage						44,365	10.1	10.1	9.3	8.5	4.1	4.9	8.2	8.5	0.8	0.7

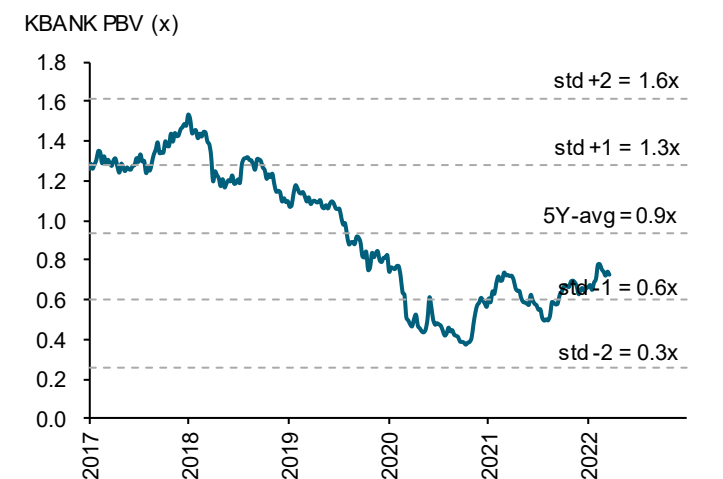
Share prices as of 30 Mar 2022
Source: FSSIA estimates

Exhibit 30: BBL – one-year rolling prospective P/BV



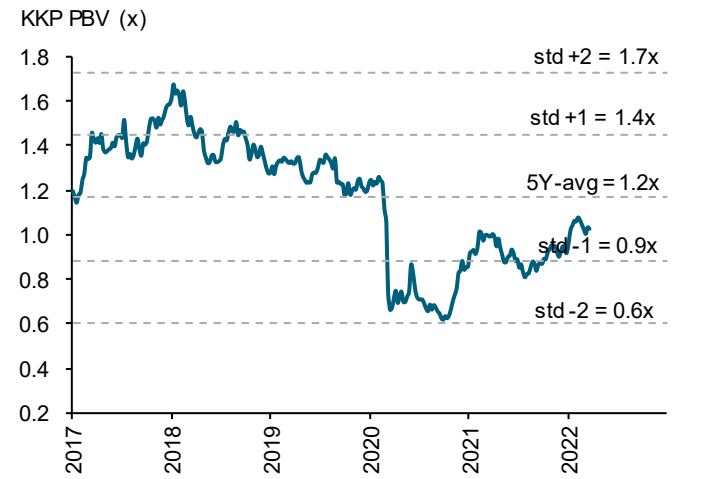
Sources: Bloomberg; FSSIA estimates

Exhibit 31: KBANK – one-year rolling prospective P/BV



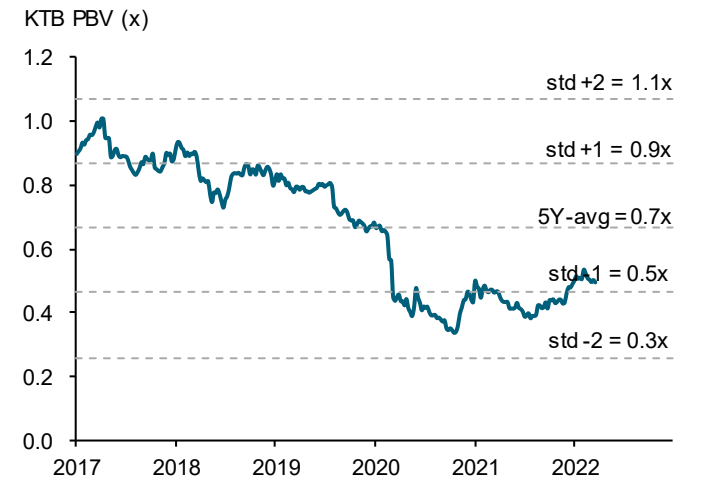
Sources: Bloomberg; FSSIA estimates

Exhibit 32: KKP – one-year rolling prospective P/BV



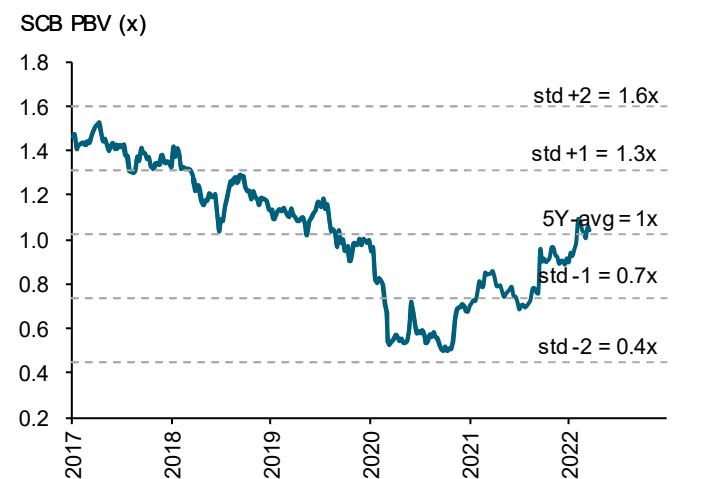
Sources: Bloomberg; FSSIA estimates

Exhibit 33: KTB – one-year rolling prospective P/BV



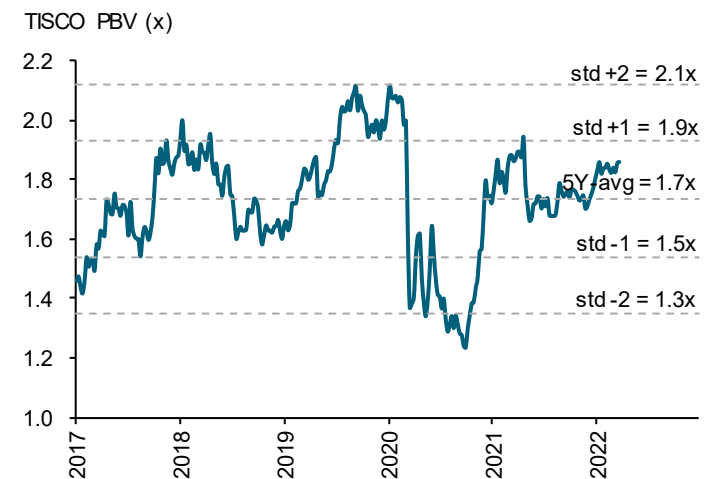
Sources: Bloomberg; FSSIA estimates

Exhibit 34: SCB – one-year rolling prospective P/BV



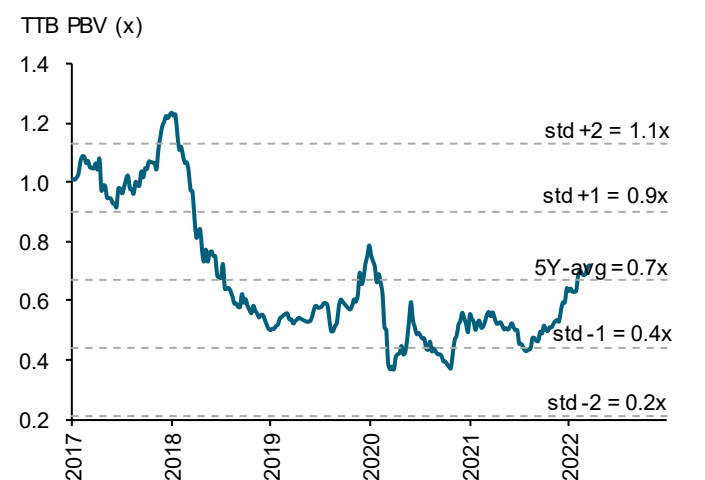
Sources: Bloomberg; FSSIA estimates

Exhibit 35: TISCO – one-year rolling prospective P/BV



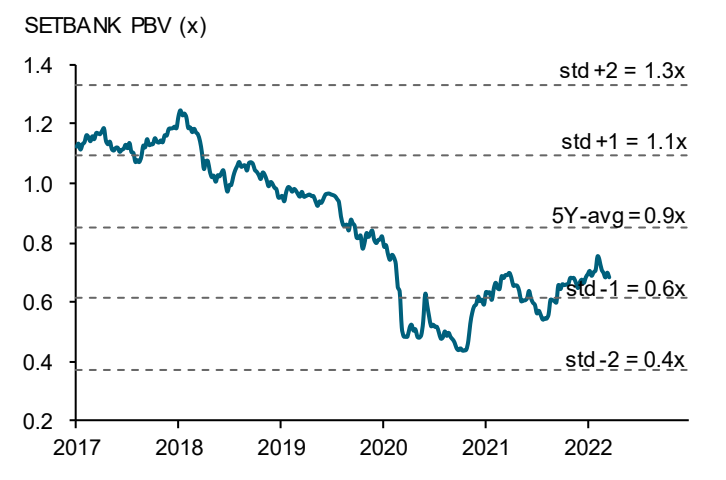
Sources: Bloomberg; FSSIA estimates

Exhibit 36: TTB – one-year rolling prospective P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 37: SETBANK – one-year rolling prospective P/BV



Sources: Bloomberg; 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	PAP	PCSGH	PDJ	PG	PHOL	PLANB
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	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	TTB	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

Disclaimer:

The disclosure of the survey results of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey results may be changed after that date. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such survey results.

* 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	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)

Disclaimer:

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operation and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, FSS International Investment Advisory Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment results.

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

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Yuvanart Suwanumphai FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
Bangkok Bank	BBL TB	THB 137.00	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 160.00	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 68.75	BUY	Downside risks to our GGM-based target price include weakening asset quality and lower fee income.
Krung Thai Bank	KTB TB	THB 13.60	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; and 3) an increase in OPEX due to aggressive digital investment.
Siam Commercial Bank	SCB TB	THB 113.00	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 100.50	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; 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 1.31	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 30-Mar-2022 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.