

Thailand Banks

แรงต้านจากเงินเพื่อ แรงส่งจากการปรับขึ้นอัตราดอกเบี้ย

- เราคิดว่าแนวโน้มอัตราดอกเบี้ยขาขึ้นน่าจะมีน้ำหนักมากกว่าเงินเพื่อที่อยู่ในระดับสูง ด้วยเหตุดังกล่าวเราจึงปรับเพิ่มประมาณการกำไรสุทธิปี 2022-24 สำหรับธนาคารที่เราทำการศึกษา (BUC) ขึ้น 2%/3%/2% โดย KTB และ BBL น่าจะได้ประโยชน์สูงสุด
- หุ้นธนาคารอาจเคลื่อนไหวในกรอบแคบจนกว่าเงินเพื่อจะปรับขึ้นสูงสุด คงให้น้ำหนักกลุ่มธนาคารมากกว่าตลาดในระยะยาว

อัตราดอกเบี้ยที่กำลังปรับขึ้นมีน้ำหนักมากกว่าเงินเพื่อที่อยู่ในระดับสูง

เราคาดว่าประเทศไทยจะเข้าสู่ช่วงการปรับขึ้นอัตราดอกเบี้ยโดยคาดว่าอัตราดอกเบี้ยนโยบายจะอยู่ที่ 1.0% และ 1.5% ในปี 2022-23 เทียบกับ 0.5% ในปัจจุบัน เช่นเดียวกับในปี 2010-11 เมื่อกำไรสุทธิของกลุ่มธนาคารปรับขึ้น 22% y-y และดัชนีหุ้นกลุ่มธนาคารปรับตัวได้สูงกว่า the SET อย่างไรก็ดีในคราวนี้นักลงทุนบางท่านมีความสงสัยว่าอัตราดอกเบี้ยที่สูงขึ้นจะสามารถเอาชนะสินเชื่อที่อาจโดนขาลงและต้นทุนความเสี่ยงในการปล่อยสินเชื่อที่สูงขึ้นจากสภาวะเงินเฟ้อในระดับสูงหรือไม่ จากการวิเคราะห์ความเป็นไปได้ของเรา เราเชื่อว่าอัตราดอกเบี้ยที่กำลังปรับขึ้นน่าจะมีน้ำหนักมากกว่าเงินเพื่อที่อยู่ในระดับสูง โดยเฉพาะอย่างยิ่งสำหรับ BBL, KTB, และ KBANK และผลประกอบการของกลุ่มธนาคารน่าจะได้ประโยชน์จากแนวโน้มอัตราดอกเบี้ยขาขึ้น (แต่น่าจะน้อยกว่าในช่วงปี 2010-11) เพราะฉะนั้นเราจึงปรับเพิ่มประมาณการกำไรสุทธิปี 2022-24 สำหรับ BUC ขึ้น 2%/3%/2%

คาดการณ์กำไรสุทธิ 2Q22 จะออกมาดีพอใช้จากต้นทุนที่ลดลง

เราคาดว่า BUC จะรายงานกำไรสุทธิ 2Q22 รวมที่ 42.7 พัน ลบ. (+20% y-y, -4% q-q) จากปัจจัยบวก 2 ประการ: 1) ค่าใช้จ่ายในการจัดสรรสำรองที่ลดลงจากหนี้ต่อคุณภาพที่คาดว่าจะเพิ่มอย่างไม่มีนัยสำคัญเพียง 1% q-q, และ 2) การควบคุมต้นทุนการดำเนินงานที่ดี อย่างไรก็ดีเรายังคงคาดว่ารายได้จะมีแรงกดดันอย่างต่อเนื่องและรายได้ค่าธรรมเนียมจะหลุดตัวจากสภาวะตลาดหุ้นที่อ่อนแอ นอกจากนี้รายได้ดอกเบี้ยสุทธิของ BUC น่าจะเพิ่มเล็กน้อยจากส่วนต่างดอกเบี้ยที่อยู่ในระดับต่ำเพียง 2.74% จากมาตรการปรับโครงสร้างหนี้แบบเบ็ดเสร็จ (CDR)

คงให้น้ำหนักกลุ่มธนาคารมากกว่าตลาดโดยมี KTB และ BBL เป็นหุ้นเด่น

เราคิดว่าใน 6 เดือนข้างหน้าตลาดจะหันความสนใจจากการหาผลตอบแทนต่อส่วนผู้ถือหุ้นระยะยาวผ่านการเปลี่ยนแปลงโครงสร้างธนาคารในปัจจุบันสู่ปัจจัยที่กำลังก่อตัวขึ้นใหม่ กล่าวคือ อัตราดอกเบี้ยและเงินเฟ้อที่สูงขึ้น ด้วยเหตุดังกล่าวเรายังเลือก KTB เป็นหนึ่งในหุ้นเด่นของเราและแทน KKP ด้วย BBL เป็นหุ้นเด่นอีกตัว เราเชื่อว่าทั้ง KTB และ BBL น่าจะได้ประโยชน์มากที่สุดจากอัตราดอกเบี้ยที่ปรับขึ้นในอนาคตและมีความเสี่ยงน้อยที่สุดจากการเสื่อมทรมของสินทรัพย์ หุ้นที่เราชอบน้อยที่สุดคือ TISCO นอกจากนี้เราคิดว่าก่อนอัตราเงินเฟ้อในประเทศไทยจะแตะระดับสูงสุด ซึ่งอาจเกิดขึ้นในเดือน ส.ค. 22 ราคาหุ้นกลุ่มธนาคารอาจเคลื่อนไหวอยู่ในกรอบแคบเนื่องจากความกังวลของนักลงทุนเกี่ยวกับคุณภาพสินทรัพย์อาจมีน้ำหนักมากกว่าประโยชน์ของอัตราดอกเบี้ยที่กำลังปรับขึ้นในช่วงนี้ จากแรงต้านในด้านเงินเฟ้อในระยะสั้น เรามองธนาคารไทยเป็นบวกน้อยลง อย่างไรก็ตามเราคิดว่าราคาหุ้นกลุ่มธนาคารที่ปรับตัวลดลงเมื่อไม่นานมานี้ได้สะท้อนความกังวลดังกล่าวไปแล้วบางส่วน นอกจากนี้ในระยะยาวธนาคารน่าจะได้ประโยชน์เพิ่มจากแนวโน้มอัตราดอกเบี้ยขาขึ้น ด้วยเหตุดังกล่าวเราคงให้น้ำหนักกลุ่มธนาคารมากกว่าตลาดสำหรับการลงทุนในระยะยาว



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Investment thesis

We think over the next six months the market's attention will shift from its current focus on capturing long-term ROE via bank transformations to the emerging themes of potentially higher interest rates and rising inflation. Hence, we believe that banks with lower downside risks from asset deterioration and a greater likelihood of benefiting from rate hikes should outperform their peers.

Therefore, we retain KTB as one of our top picks. Also, we replace KKP with BBL as another top pick. We believe both KTB and BBL should benefit the most from rate hikes. Our least preferred is TISCO due to its potential for negative impacts from the rate uptrend and its lazy balance sheet.

We think that before the inflation rate in Thailand reaches its peak, potentially in Aug-22, the banking sector's share prices might become rangebound as investors' concerns about asset quality could outweigh the benefits of rising rates during this period. Nevertheless, we reiterate our Overweight view on the banking sector for long-term investment. We are convinced that the banking sector has room to rerate as current valuations have not yet factored in the favourable interest rate uptrend cycle and the potential for rising ROE.

Catalysts

- 1) The interest rate uptrend;
- 2) The comprehensive debt restructuring program and recoveries in asset quality;
- 3) Successful bank transformations.

Risks to our call

- 1) Higher-than-expected deterioration of assets;
- 2) High inflation, resulting in a slower pace of economic recovery;
- 3) Changes in financial regulations from the Bank of Thailand.

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Company reports

Bangkok Bank	(BBL TB, BUY, TP THB170)
Kasikornbank	(KBANK TB, BUY, TP THB192)
Kiatnakin Bank	(KKP TB, BUY, TP THB82)
Krung Thai Bank	(KTB TB, BUY, TP THB18.20)
SCB X	(SCB TB, BUY, TP THB134)
Tisco Financial	(TISCO TB, HOLD, TP THB94)
TMBThanachart Bank	(TTB TB, BUY, TP THB1.40)

Event Calendar

Date	Event
14-22 Jul 22	2Q22 results announcement

Thailand banks under coverage

Company	BBG code	Share price	Rating		Target Price			
			Current	Previous	Current	Previous	Change	Up/downside
Bangkok Bank	BBL TB	130.00	BUY	HOLD	170.00	134.00	+26.9%	+30.8%
Kasikornbank	KBANK TB	146.00	BUY	Unchanged	192.00	180.00	+6.7%	+31.5%
Kiatnakin Bank	KKP TB	61.75	BUY	Unchanged	82.00	86.00	-4.7%	+32.8%
Krung Thai Bank	KTB TB	14.70	BUY	Unchanged	18.20	16.40	+11.0%	+23.8%
SCB X	SCB TB	99.00	BUY	Unchanged	134.00	160.00	-16.3%	+35.4%
Tisco Financial	TISCO TB	86.75	HOLD	BUY	94.00	110.00	-14.5%	+8.4%
TMBThanachart	TTB TB	1.17	BUY	Unchanged	1.40	1.80	-22.2%	+19.7%

Note: Priced at close of business 07/07/2022. Share prices and TPs are in listing currency.
Source: FSSIA estimates

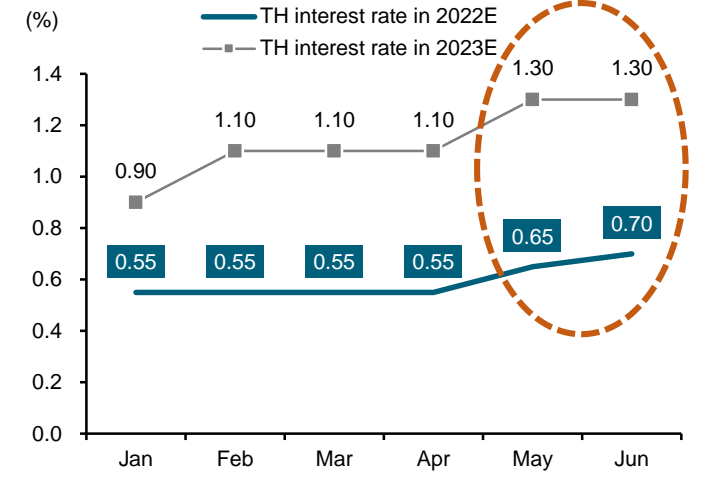
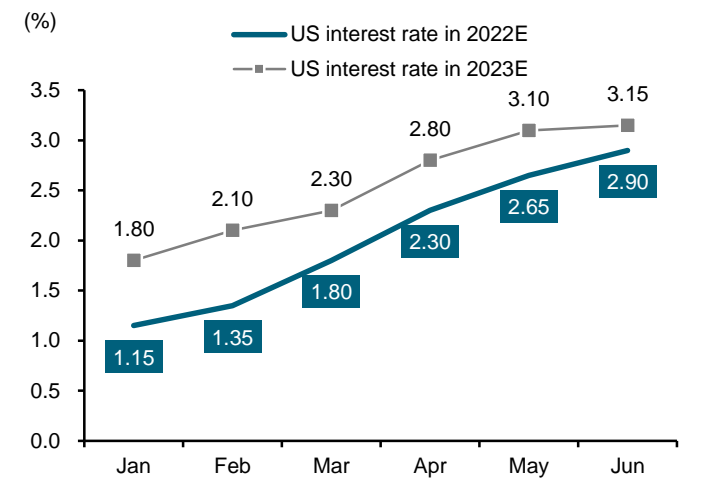
Three years of easy monetary policy come to an end

After the inflation rate hit a 13-year high of 7.1% y-y in May-22, Thailand’s Monetary Policy Committee (MPC) shifted its policy priority to curbing inflation instead of supporting the economic recovery as it had done previously. At its recent meeting on 8 Jun-22, the MPC stated that its former “very accommodative” monetary policy will be less needed going forward and that they are considering gradual increases in the policy rate at the appropriate times.

The Bloomberg consensus view, then, changed from no rate hike in 2022 to at least one rate hike in 2022 and at least two more incremental rate hikes in 2023. This implies that investors believe the Thai policy rate should increase from the record low rate of 0.5% to at least 0.75% in 2022 and 1.25% in 2023.

Exhibit 1: Changes in the US interest rate forecast for 2022 and 2023 from Jan-Jun 2022

Exhibit 2: Changes in the Thai policy rate forecast for 2022 and 2023 from Jan-Jun 2022



As of 15 Jun-22
Source: Bloomberg consensus

As of 15 Jun-22
Source: Bloomberg consensus

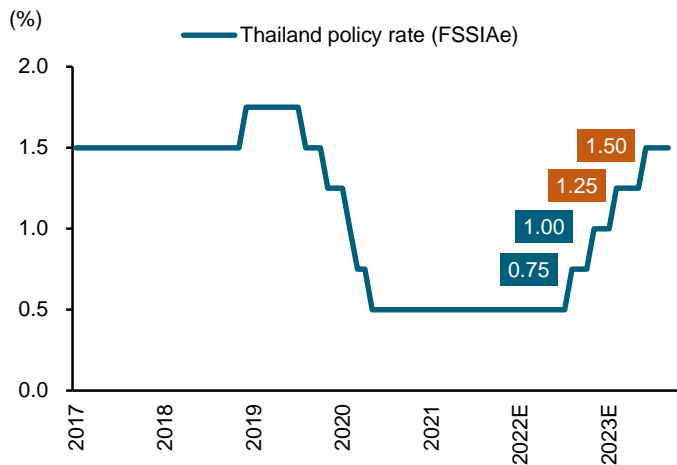
Thailand’s policy rate hike: sooner, not later

FSSIA believes the Bank of Thailand (BoT)’s upcoming MPC meeting on 10 Aug-22 is likely to result in a hike in its policy rate by 0.25%, followed by another 0.25% hike in Nov-22, with the aim of proactively reining in consumer inflation expectations, given the rising prices of energy, electricity, and food despite the potential for collateral damage in the form of lower GDP in 2022-23. Then in 2023, we expect the BoT to hike its rate by 0.25% twice, likely in 1H23, in order to curb inflation and – mostly importantly – crush higher consumer inflation expectations.

FSSIA forecasts headline inflation at 6.5% in 2022 and 2.6% in 2023

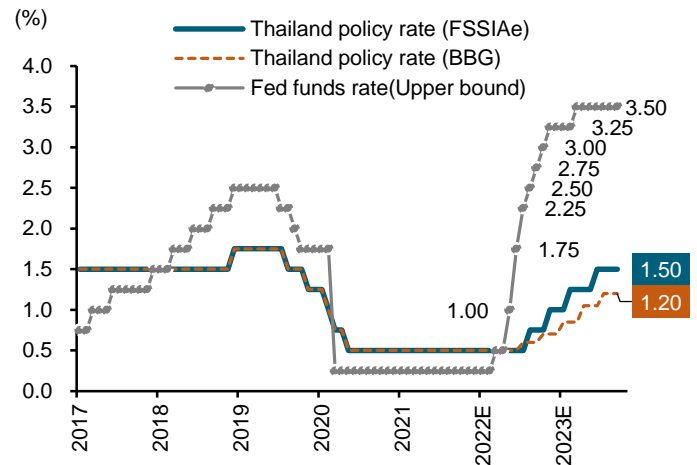
The key assumption that underlines the BoT’s higher energy price inflation is based on a USD105/bbl average crude oil price in 2022-23, lower than our USD120/bbl forecast in 2022 and USD110/bbl in 2023. Hence, we forecast headline inflation at 6.5% vs the BoT’s 6.2% in 2022 and 2.6% vs the BoT’s 2.5% in 2023. We forecast core inflation to match the BoT’s at 2.2% in 2022 and 2.0% in 2023 as we expect the prices of food and other items, mostly domestically produced or highly regulated by the regulators, to remain relatively stable y-y in 2022-23.

Exhibit 3: FSSIA expects the BoT to hike its rate twice in 2022 by 25bp each to 1% and twice in 2023 by 25bp each to 1.50%



Source: FSSIA estimates

Exhibit 4: BoT policy rate hike projections by FSSIA, Bloomberg consensus vs Fed rate hike (upper bound)



Sources: Bloomberg; FSSIA estimates

Exhibit 5: Key economic indicator forecasts

US economic forecasts (%)	2022E	2023E	2024E
Fed's rate (FSSIA)	4.0	4.5	3.5
Fed's rate (BNPP)	3.5	3.8	3.3
Fed's rate (FOMC's dot plot)	3.4	3.8	3.5
GDP (BNPP)	2.6	1.9	1.7
CPI (BNPP)	7.5	3.9	2.4
Thailand economic forecasts (%)	2022E	2023E	2024E
Headline inflation (FSSIA)	6.5	2.6	1.7
Headline inflation (BoT)	6.2	2.5	
Headline inflation (BNPP)	6.4	2.4	1.5
Core inflation (FSSIA)	2.2	2.0	
Core inflation (BoT)	2.2	2.0	
GDP (FSSIA)	3.0	4.3	3.8
GDP (BoT)	3.3	4.2	3.9
GDP (BNPP)	3.9	4.9	3.5
BoT's policy rate (FSSIA)	1.0	1.5	
Crude oil price (USD/bbl)	2022E	2023E	2024E
Dubai crude oil price (FSSIA)	120	110	
Dubai crude oil price (BoT)	105	105	
Dubai crude oil price (BNPP)	105	105	
Number of tourist arrivals (m)	2022E	2023E	2024E
No. of international tourists (FSSIA)	8.5	34.1	-
No. of international tourists (BoT)	6.0	19.0	

Sources: Bank of Thailand (BoT); Bloomberg; Airports of Thailand (AOT); BNP Paribas (BNPP); FSSIA estimates

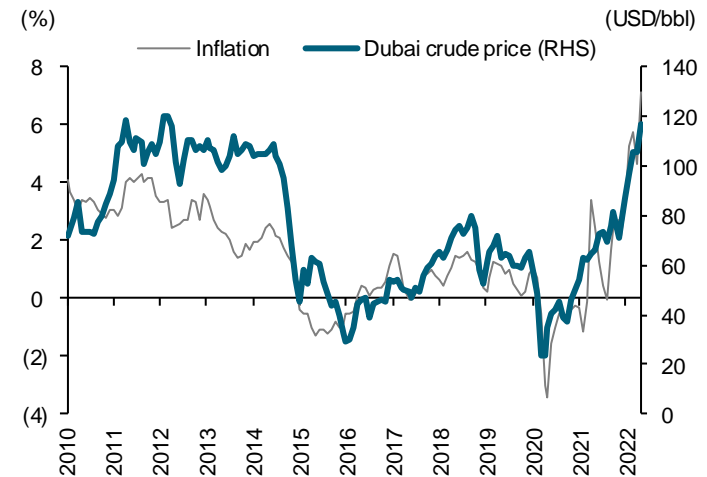
Is the high interest rate environment good for banks?

In the past, SETBANK outperformed when rates rose

Normally, higher rates can lead to billions of baht in additional interest income for the banks as it allows them to charge more for loans while paying depositors only modestly more, in our view.

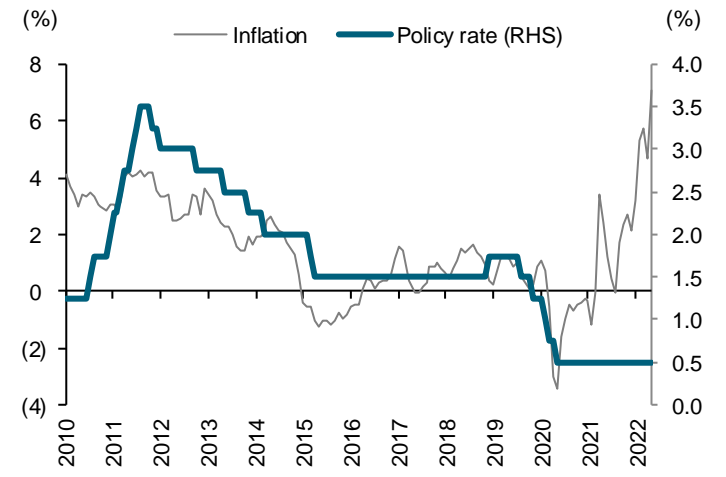
Thailand experienced a long rate hike cycle in 2010, as rates rose from 1.25% in Jun-10 to 3.5% in Aug-11, due mainly to the strong 7.5% y-y real GDP growth and a rise in the inflation rate from increases in energy and raw food prices.

Exhibit 6: Thailand's inflation rate vs crude price during 2010-22



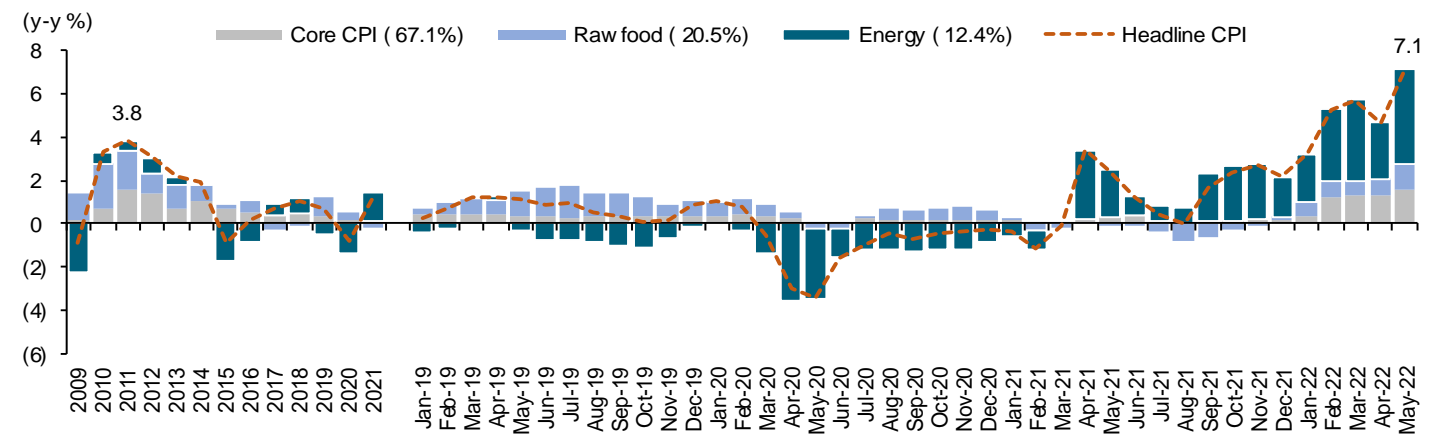
Source: Bloomberg

Exhibit 7: Thailand's inflation rate vs policy rate during 2010-22



Source: Bloomberg

Exhibit 8: Contribution to Thailand's Consumer Price Index by sector, y-y

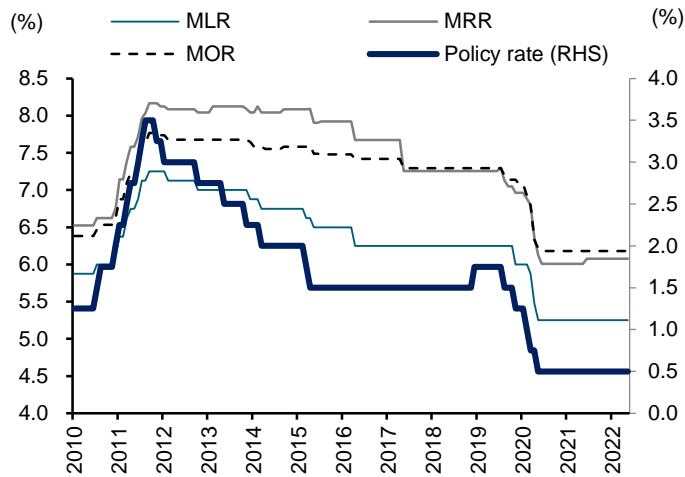


Sources: Office of the National Economic and Social Development Council (NESDC), Ministry of Commerce

After the policy rate hike in Jul-10, banks promptly increased their lending reference rate (M-rate) – including MLR, MRR, and MOR. However, they did not increase their M-rate as high as the policy rate, instead raising it to around 60-70% of the policy rate.

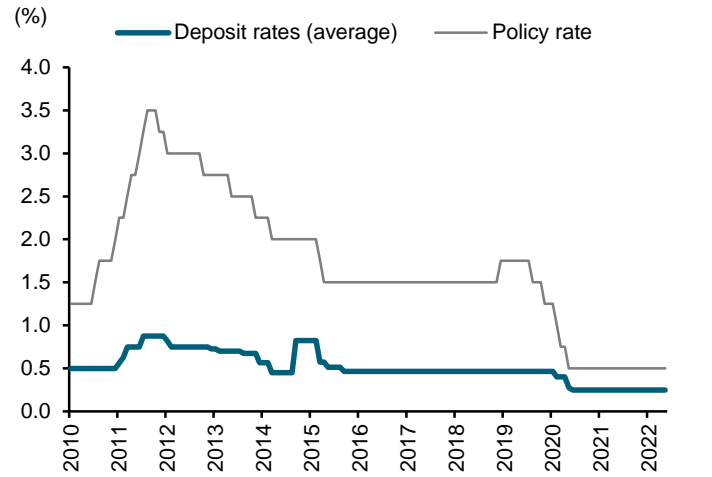
Also, banks increased their savings deposit rates, but at a rate lower than their M-rate, or around 20% of the policy rate hike. This implied that the margin spreads of banks were wider.

Exhibit 9: Thai policy rate vs banking sector M-rate



Sources: BoT; Bloomberg, FSSIA's compilation

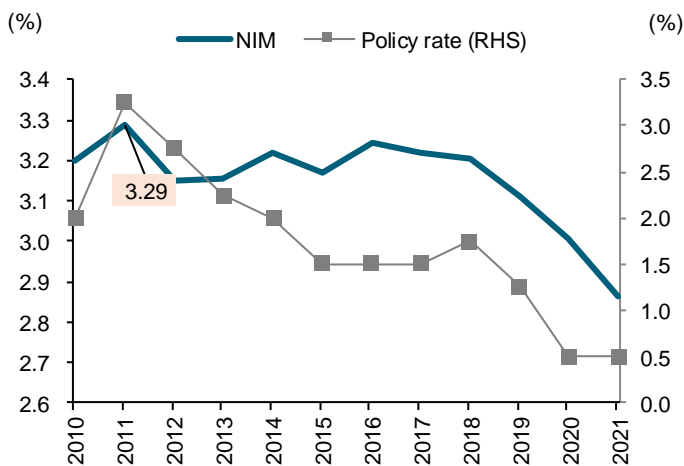
Exhibit 10: Thai policy rate vs deposit rate



Sources: BoT; Bloomberg, FSSIA's compilation

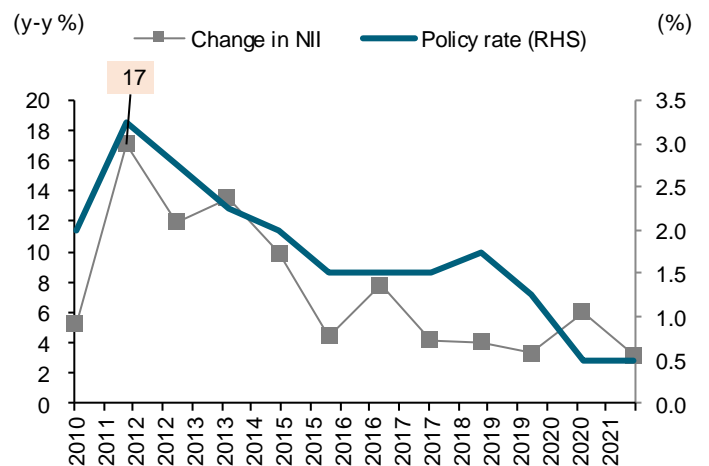
Accordingly, in 2011, the banking sector's NIM increased to 3.29% from 3.2% in 2010 for the seven banks under our coverage and Bank of Ayudhya (BAY TB, not rated). Loan growth surged 16% y-y in 2011. Banking NII and net profit also increased substantially by 17% y-y and 22% y-y, respectively. On top of that, banks continued to benefit from the high interest rate environment and strong GDP growth until 2013.

Exhibit 11: Banking sector NIM during 2010-22



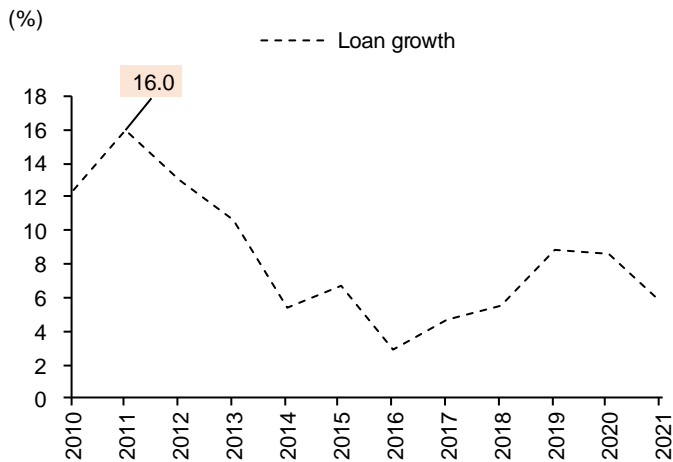
Sources: Bloomberg; Company data; FSSIA's calculation

Exhibit 12: Change (y-y %) in banking sector NII during 2010-22



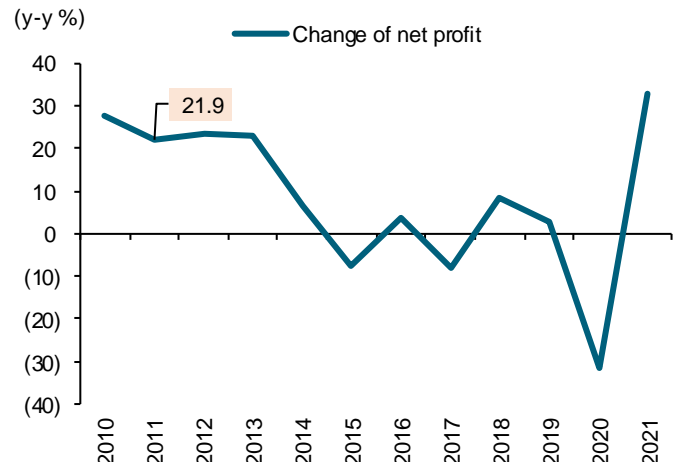
Sources: Bloomberg; Company data; FSSIA's calculation

Exhibit 13: Change (y-y %) in banking sector loan growth during 2010-22



Sources: Bloomberg; Company data; FSSIA's calculation

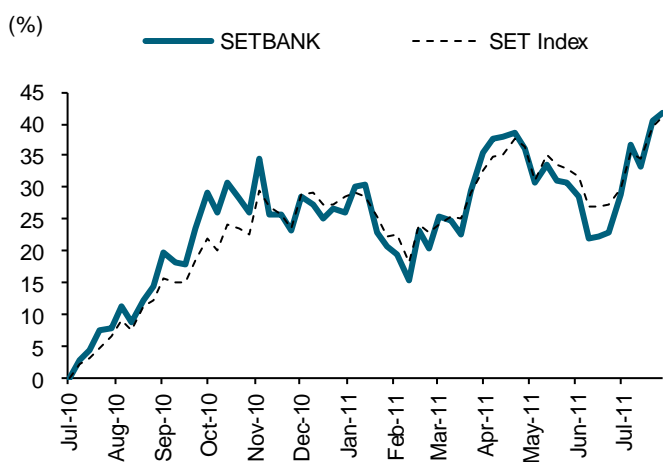
Exhibit 14: Change (y-y %) in banking sector net profit growth during 2010-22



Sources: Bloomberg; Company data; FSSIA's calculation

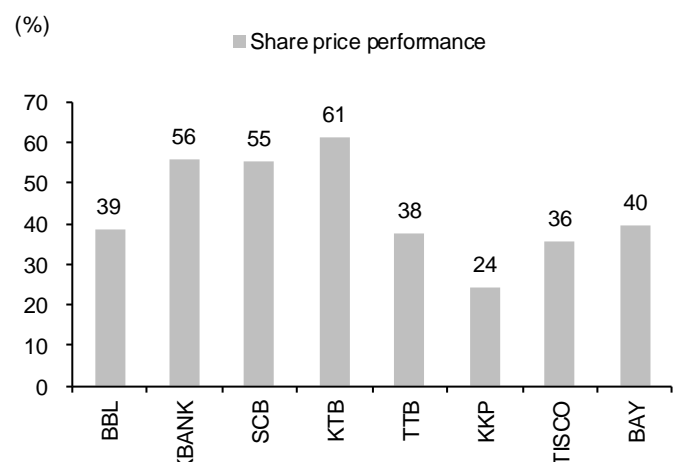
During the rate hike rally from Jul-10 to Jul-11, SETBANK's price performance outperformed the SET Index, with the four biggest banks providing the highest returns – led by KTB with 61%, followed by KBANK, SCB and BBL. Medium-sized and smaller banks – including TTB, TISCO, and KKP – also provided substantial positive returns.

Exhibit 15: Comparing SETBANK and SET Index price performance from Jul-10 to Jul-11



Sources: Bloomberg; FSSIA's compilation

Exhibit 16: Share performance of eight banks from Jul-10 to Jul-11



Sources: Bloomberg; FSSIA's compilation

This time, banks should benefit, but less than in 2010-11

As mentioned previously, we expect Thailand to enter a rate hike rally phase over the next one to two years. However, this time, some investors are wondering if wider net interest margins can overcome the potentially slower loan growth and higher credit costs from the highly inflationary environment. Based on our analysis, we believe that rising rates should outweigh high inflation for BBL, KTB, and KBANK in particular. Therefore, we believe the banking sector's bottom lines should still benefit from the rate uptrend, but to a lesser degree than in 2010-11.

To recap, FSSIA forecasts Thailand's GDP growth at 3.0% (vs the BoT's 3.3%) in 2022 and 4.3% (vs the BoT's 4.2%) in 2023. The stronger GDP growth should begin in 4Q22 onward, once Thailand's tourism industry gets back on track. Regarding inflation, FSSIA expects Thailand's inflation rate to continue rising at least until 3Q22, with an expected overshoot as headline inflation hits 6.5% in 2022, before climbing down to a near-normal level of 2.6% in 2023.

Rising rates outweigh high inflation

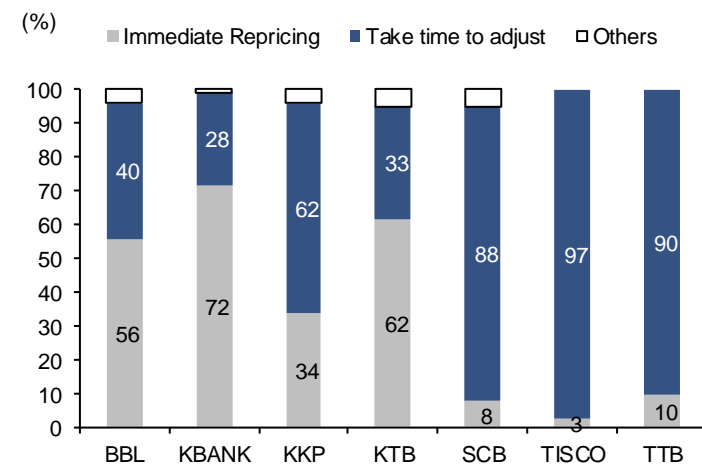
We think policy rate hikes within a high inflation environment should have three impacts on bank performance, including:

1) Wider net interest income – As always, when the policy rate is raised, we have a strong conviction that banks will increase their lending rate charges to their clients. This time, due to the fragile, uneven economic recovery and high inflation, we believe banks will raise their rates gradually rather than immediately. Hence, we forecast banks to increase their M-rate to only 50% of the policy rate hike vs the normal rate of 60-70%. Meanwhile, we expect banks to raise their deposit rates by only 20% of the policy rate hike. Therefore, based on FSSIA’s expectation of a 100-bps policy rate hike, we expect bank M-rates to rise 50 bps (rates may slightly differ between each bank and each M-rate type) and deposit rates to climb 20 bps during 2022-23.

BBL and KTB should benefit the most from the rate hikes due to their floating asset base, in our view, and the rising rate trend should also benefit KBANK, SCB, and TTB, in that order. Due to KKP and TISCO’s high proportion of fixed rate assets, we expect slight negative impacts to their NIMs as adjusting their rate charges would take more time.

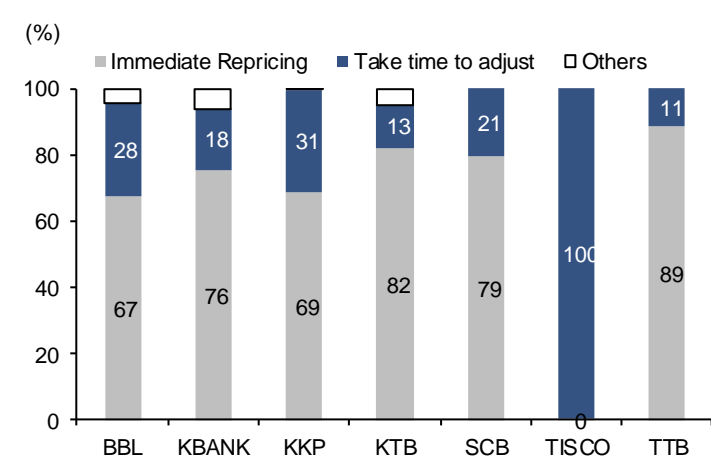
All in all, we revise up our NIM estimate for the BUC in 2022-24 by 2/6/5 bps.

Exhibit 17: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA estimates

Exhibit 18: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA estimates

Exhibit 19: Earnings revisions – changes in net interest margin (NIM)

	2022E			2023E			2024E		
	Previous (%)	New (%)	Change (%)	Previous (%)	New (%)	Change (%)	Previous (%)	New (%)	Change (%)
BBL	2.07	2.08	0.01	2.05	2.14	0.09	2.18	2.25	0.07
KBANK	3.16	3.18	0.02	3.12	3.20	0.08	3.21	3.27	0.06
KKP	4.44	4.43	(0.01)	4.22	4.19	(0.03)	4.20	4.16	(0.03)
KTB	2.42	2.44	0.02	2.44	2.53	0.09	2.52	2.60	0.07
SCB	2.90	2.98	0.09	2.87	2.91	0.04	2.96	3.01	0.05
TISCO	4.94	4.93	(0.00)	4.93	4.89	(0.03)	4.97	4.87	(0.10)
TTB	2.97	2.97	(0.01)	2.95	2.97	0.03	2.97	3.01	0.04
Coverage	2.73	2.75	0.02	2.71	2.77	0.06	2.80	2.85	0.05

Source: FSSIA estimates

2) Slower loan growth – We believe the high inflation rate will curb bank loan growth as the banks take a more cautious approach to new lending, especially for high-risk, small ticket size retail lending.

Therefore, we lower our estimates for BUC loan growth in 2022-24 by 1/31/12 bps to 3.93%/3.58%/3.37% y-y, and revise down our loan growth projections for KBANK, SCB, KKP, TISCO and TTB due to their higher proportions of retail and SME clients. Meanwhile, we maintain our loan growth forecasts for BBL and KTB.

Exhibit 20: Earnings revisions – changes in loan growth

	2022E			2023E			2024E		
	Previous (%)	New (%)	Change (%)	Previous (%)	New (%)	Change (%)	Previous (%)	New (%)	Change (%)
BBL	4.00	4.00	0.00	3.00	3.00	0.00	3.00	3.00	0.00
KBANK	5.00	5.00	0.00	5.00	4.50	(0.50)	4.00	4.00	0.00
KKP	11.00	11.00	0.00	7.00	6.50	(0.50)	5.00	4.75	(0.25)
KTB	4.00	4.00	0.00	4.00	4.00	0.00	4.00	4.00	0.00
SCB	3.00	3.00	0.00	3.00	2.75	(0.25)	3.00	2.75	(0.25)
TISCO	3.00	2.50	(0.50)	5.00	3.00	(2.00)	3.00	2.50	(0.50)
TTB	2.00	2.00	0.00	4.00	3.00	(1.00)	3.00	2.50	(0.50)
Coverage	3.94	3.93	(0.01)	3.90	3.58	(0.31)	3.49	3.37	(0.12)

Source: FSSIA estimates

3) Higher asset deterioration rate – We expect the debt repayment ability of bank clients might decline following the increase in lending rate charges amid high inflation. The most vulnerable segments should be retail and SMEs due to their lower bargaining power. As for corporate clients, we see strong balance sheets with debt-to-equity ratios significantly lower than in 2008 and the 1997 financial crisis. After being stung by the 1997 economic crisis, Thai corporates have managed their financing requirements against their earnings growth much more effectively and conservatively than they did prior to 1997. We think that Thai corporates have optimised their capital structures and managed to lock in their interest rates at low levels ahead of the interest rate upturn.

We, thus, increase our NPL projections for BUC in 2023-24 by 2% and 4%, and raise our credit cost forecasts by 4 bps and 5 bps over the same period. We think credit costs will increase at only a minimal rate as strong balance sheets provide some shelter.

Exhibit 21: Loan breakdown by clients

Loan structure	BBL (%)	KBANK (%)	KKP (%)	KTB (%)	SCB (%)	TISCO (%)	TTB (%)
Corporate	42	34	15	27	37	18	34
SME	21	33	18	12	18	4	9
Retail	12	29	66	40*	46	76	57
<i>Housing</i>		19	12	17	30	6	23
<i>Auto</i>		5	49	1	9	70	29
<i>Credit card/ p-loan</i>		7	5	22	6		4
<i>Credit card</i>							
<i>Other retails</i>					1		
Others **	25	4	2	21	0	1	0
Total	100	100	100	100	100	100	100

Sources: Company data; FSSIA's compilation

*We assume 60% of KTB's retail loans are government officials

** Other for 1) BBL = International loans; and 2) KTB = Government loans

Exhibit 22: Earnings revisions – change in NPLs

	----- 2022E -----			----- 2023E -----			----- 2024E -----		
	Previous	New	Change	Previous	New	Change	Previous	New	Change
	(THBm)	(THBm)	(%)	(THBm)	(THBm)	(%)	(%)	(%)	(%)
BBL	111,213	112,224	1	117,886	122,325	4	123,780	128,441	4
KBANK	107,157	104,036	(3)	109,300	107,157	(2)	115,858	114,658	(1)
KKP	11,414	11,516	1	12,555	13,013	4	13,811	14,444	5
KTB	115,354	115,354	0	124,582	125,736	1	128,319	133,280	4
SCB	109,114	110,205	1	111,296	115,715	4	113,522	122,658	8
TISCO	5,205	5,205	0	5,465	5,465	0	5,739	5,739	0
TTB	46,333	46,333	0	50,040	51,893	4	52,542	56,563	8
Coverage	505,790	504,873	(0)	531,125	541,304	2	553,572	575,783	4

Source: FSSIA estimates

Exhibit 23: Earnings revisions – change in credit cost

	----- 2022E -----			----- 2023E -----			----- 2024E -----		
	Previous	New	Change	Previous	New	Change	Previous	New	Change
	(bps)	(bps)	(bps)	(bps)	(bps)	(bps)	(bps)	(bps)	(bps)
BBL	100	100	0	90	98	8	85	95	10
KBANK	160	160	0	155	158	3	155	158	3
KKP	140	140	0	120	126	6	110	117	7
KTB	100	100	0	105	105	0	105	105	0
SCB	148	155	7	138	144	6	138	144	6
TISCO	85	45	(40)	85	60	(25)	85	65	(20)
TTB	150	152	2	145	152	7	140	150	10
Coverage	128	129	1	123	127	4	121	126	5

Source: FSSIA estimates

In summary, we think the wider NIM should outweigh the slower loan growth and higher credit costs. Hence, we increase our 2022-24 net profit forecasts for the BUC by 2%/3%/2%. We revise up our earnings projections for BBL, KBANK, and KTB, but lower our net profit forecasts for KKP, SCB, TISCO, and TTB.

Exhibit 24: Earnings revisions – change in net profit

	----- 2022E -----			----- 2023E -----			----- 2024E -----		
	Previous	New	Change	Previous	New	Change	Previous	New	Change
	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
BBL	29,229	30,538	4.5	30,623	34,035	11.1	35,686	38,687	8.4
KBANK	41,542	42,072	1.3	45,695	47,488	3.9	50,848	52,605	3.5
KKP	7,616	7,572	(0.6)	8,525	8,293	(2.7)	9,489	9,258	(2.4)
KTB	26,889	27,322	1.6	27,616	29,973	8.5	31,502	33,071	5.0
SCB	38,181	39,138	2.5	42,621	41,734	(2.1)	47,718	46,636	(2.3)
TISCO	7,052	7,317	3.7	7,693	7,569	(1.6)	8,259	7,924	(4.1)
TTB	13,217	12,563	(4.9)	15,129	14,082	(6.9)	17,226	15,538	(9.8)
Coverage	163,727	166,521	1.7	177,904	183,174	3.0	200,728	203,719	1.5

Source: FSSIA estimates

We note that in the case that the Bank of Thailand increases the policy rate above our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be an upside/downside to our current 2023 net profit and NIM forecasts as below.

Exhibit 25: Sensitivity analysis for every 25-bps policy rate hike above our current forecasts

	----- 2023E net profit -----			----- 2023E NIM -----		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Expect a decent 2Q22 net profit driven by cost-side gains

We expect the BUC to deliver a 2Q22 aggregate net profit of THB42.7b (+20% y-y, -4% q-q). We see two positives in this quarter. First, we expect banks to smooth out their provisioning expenses as they have already proactively set aside special provisions to provide a cushion from uncertainties in the previous quarters. Second, we believe that most banks should still be able to control their operating expenses effectively. However, we expect bank topline to be under continuous pressure due to a slowdown in fee income from 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, the BUC's NII should only minimally increase due to a low NIM at 2.74% from the comprehensive debt restructuring program. Meanwhile, we expect moderate loan growth of 5.2% y-y, 0.9% q-q, driven by the corporate and retail segments.

Regarding NPLs, we expect that they will continue to increase immaterially by 1% q-q in 2Q22 due to the CDR program. This could account for an NPL ratio (calculated by FSSIA) of 4.03% in 2Q22 vs 4.01% in 1Q22.

We project that all banks should deliver y-y net profit growth in 2Q22. 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 26: Summary of 2Q22 earnings preview

BBG	----- Norm profit -----			---- 2Q22E ----		Expected results date	FSSIA's views
	2Q21 (THB m)	1Q22 (THB m)	2Q22E (THB m)	----Change ---- (y-y %) (q-q %)			
BBL	6,357	7,118	7,303	14.9	2.6	19-21 Jul	We expect BBL to report a solid 2Q22 net profit of THB7,303m (+15% y-y, +3% q-q). We believe BBL will smooth out its ECL as the bank has proactively set aside a special provision to weather the uncertainty in the previous quarters and the bank should still be able to control its asset quality. Its NPLs could increase by 2% q-q, in our view. As for its revenue side, we think BBL's loan volume should rise 1% q-q, driven by corporate and international demand. Its NIM should also inch up to 2.04% in 2Q22 from 2.02% in 1Q22. Hence, we expect a rise y-y and q-q in its NII. However, like other banks, its non-NII – fee income and gains from investments in particular – might drop due to the unfavourable capital market conditions.
KBANK	8,894	11,211	11,022	23.9	(1.7)	21 Jul	We expect KBANK to report a 2Q22 net profit of THB11,022m (+24% y-y, -2% q-q). We think KBANK will be the only bank to report a drop in NPLs (-2% y-y, -1% q-q) as its active partnership with JMT should help clean up its balance sheet. According to KBANK, it will sell THB30b worth of NPLs – both on and off-balance sheet – to JK AMC (50% owned by KBANK and JMT each) in 2Q22. At the same time, it will start to do a qualitative downgrade of stage 2 loans to NPLs. Thus, we think its credit cost should increase from 153 bps in 1Q22 to 160 bps in 2Q22 (still lower than 2Q21's 185 bps). As for the revenue side, we think KBANK should deliver 0.4% q-q loan growth, with a slightly lower NIM at 3.17% in 2Q22, down from 3.21% in 1Q22 due to the CDR program. Its fee income, like other banks, should face continued pressure from the unfavourable capital market conditions and low consumer confidence, in our view.
KKP	1,354	2,055	1,875	38.4	(8.8)	19-20 Jul	We expect KKP to report an outperforming 2Q22 net profit of THB1,875m (+38% y-y, -9% q-q). We see two positives: 1) continued outstanding loan growth of 18% y-y and 2% q-q following the bank's strategy to tap into the new low-risk auto lending segment; and 2) efficient asset quality control, with an expected rise in NPLs by 4% q-q. As for fee income, it should decline y-y and q-q due to brokerage and IB fees thanks to the lower capital market activities. Regarding losses on repossessed cars, we think they should increase q-q due to the abnormally good level in 1Q22. Accordingly, our concern on this point is limited.
KTB	6,011	8,780	7,170	19.3	(18.3)	20-21 Jul	We expect KTB to report a 2Q22 net profit of THB7,170m (+19% y-y, -18% q-q). We still hold a positive view of KTB's asset quality and expect NPLs to be stable q-q due to its low-risk portfolio profile compared with its peers. Thus, we expect KTB to reduce its credit cost from 134 bps in 2Q21 to 100 bps in 2Q22 (credit cost should rise q-q due to the abnormal low in 1Q22). Also, we believe KTB should continue to control its OPEX effectively, resulting in an expected 43% cost to income ratio. Regarding the revenue side, we think KTB – like the other banks – will deliver unexciting revenue growth. We expect its loan volume to slightly increase by 1% q-q, with a relatively stable NIM of 2.44%. Its fee income should drop due to the unfavourable capital market conditions and clients' changing behaviour toward increased digital platform use.
SCB	8,815	10,193	10,448	18.5	2.5	21 Jul	We expect SCB to report a 2Q22 net profit of THB10,448m (+19% y-y, +2% q-q). Although we expect that some of SCB's retail clients might start to be affected by the high inflation, we expect the bank's NPLs to rise immaterially by 3% q-q as it has continued to provide CDR program. Thus, we expect its credit cost to remain stable q-q at 150 bps. As for its OPEX, SCB should maintain its effective cost control, resulting in a stable cost to income ratio of 42%. Like other banks, we believe SCB's top line is still under pressure. We expect a 0.8% q-q rise in loan volume, with a low NIM level at 3.04% due to the CDR program. Meanwhile, we think its fee income should continue to decline y-y and q-q from wealth-related management fees due to the unfavourable capital market conditions and low consumer confidence
TISCO	1,666	1,795	1,796	7.8	0.0	14 Jul	We expect TISCO to report a 2Q22 net profit of THB1,796m (+8% y-y, flat q-q). We see unexciting performance. The rise in net profit should come mainly from lower provisions due to its effective asset quality control and having excess provisions to survive uncertainties. However, we expect the bank's revenue side to be weak, with -5% y-y and +1% q-q operating income. Its NII should fall y-y continuously from the lazy balance sheet in the past couple of years. On top of that, we think its fee income – including brokerage and asset management fees – and gains on investments should decrease y-y, dragged down by the unfavourable capital market conditions.
TTB	2,534	3,195	3,079	21.5	(3.6)	20 Jul	We expect TTB to report a 2Q22 net profit of THB3,079m (+21% y-y, -4% q-q). The increase y-y in its 2Q22 net profit would come from lower OPEX due to the absence of merger-related fees and a rise in its fee income from the low base. Meanwhile, we expect a drop q-q in its net profit. Although we expect an improvement in its NIM to 2.94% in 2Q22 vs 2.86% in 1Q22 from a minimal rise in its retail loans, this should be dragged down by higher q-q OPEX. TTB is expanding its retail business unit, called TTB Consumer. Also, it is in a digital investment phase. Thus, we expect its OPEX to be in a rising trend. Regarding its asset quality, we believe TTB has been able to control NPLs efficiently. However, as the bank did not set a huge special provision aside in the previous quarters, we do not expect a significantly lower ECL in 2Q22 like for other banks.
Coverage	35,631	44,348	42,692	19.8	(3.7)		

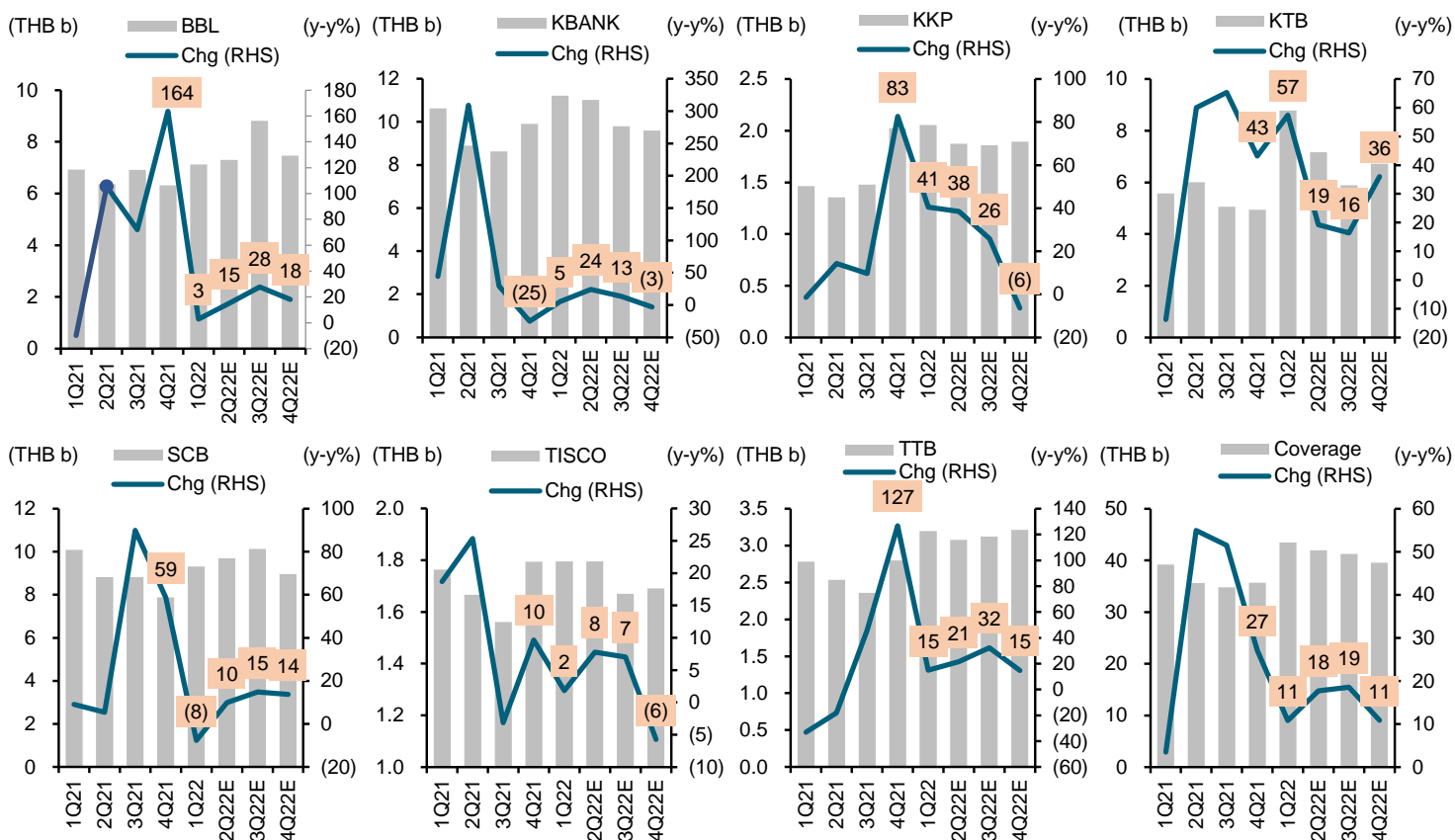
Sources: Company data; FSSIA estimates

Exhibit 27: Thai banks under coverage, 2Q22 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	7,303	14.9	2.6	23.9	15,661	(10.7)	0.4	6,501	(33.7)	0.2
Kasikornbank	KBANK TB	11,022	23.9	(1.7)	26.2	24,176	1.6	4.1	9,853	(8.8)	5.5
Kiatnakin Bank	KKP TB	1,875	38.4	(8.8)	24.8	3,584	17.3	(1.8)	1,238	(10.1)	16.2
Krung Thai Bank	KTB TB	7,170	19.3	(18.3)	26.2	16,702	0.5	(4.2)	6,680	(17.5)	22.1
Siam Commercial Bank	SCB TB	10,448	18.5	2.5	26.7	21,596	2.4	(0.5)	8,759	(12.7)	0.1
Tisco Financial	TISCO TB	1,796	7.8	0.0	24.5	2,337	(11.6)	0.7	92	(83.7)	7.8
TMBThanachart Bank	TTB TB	3,079	21.5	(3.6)	24.5	8,779	3.3	(0.1)	4,976	(9.4)	3.5
Coverage		42,692	19.8	(3.7)	25.6	92,835	(0.4)	0.1	38,100	(17.5)	5.8

Sources: Company data; FSSIA estimates

Exhibit 28: Earnings momentum 1Q21 to 4Q22E



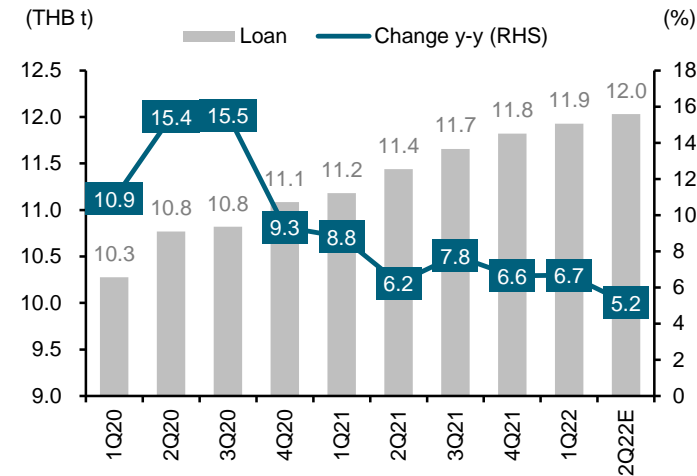
Source: FSSIA estimates

2Q22E key highlights

1) Corporates and retail clients should drive higher loan demand

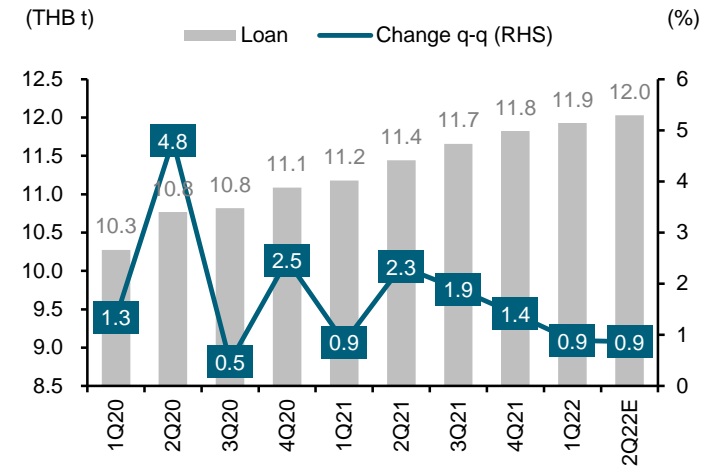
We expect banks' overall loan portfolios to slightly increase by 0.9% q-q (+5.2% y-y), driven by an increase in working capital loan demand from the corporate segment, along with a rise in retail client volume due to the higher risk appetites of some banks seeking to more aggressively engage in small ticket size retail lending. Meanwhile, we think SME loans should stay flat q-q as banks continue to selectively lend to this segment.

Exhibit 29: Sector loan growth (y-y basis)



Sources: Company data; FSSIA estimates

Exhibit 30: Sector loan growth (q-q basis)

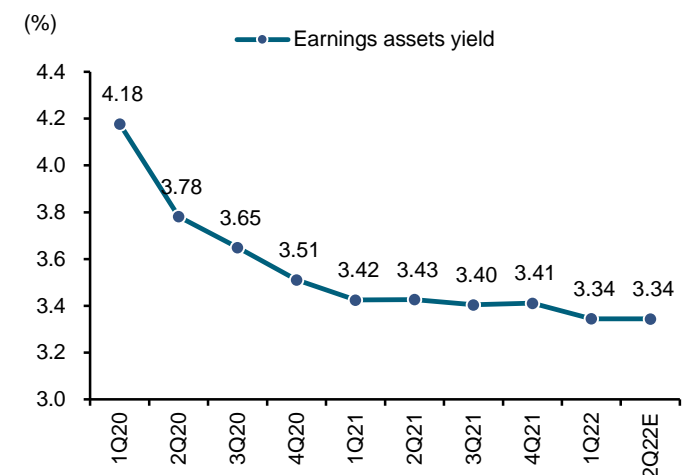


Sources: Company data; FSSIA estimates

2) NIM should remain at a low level due to CDR program

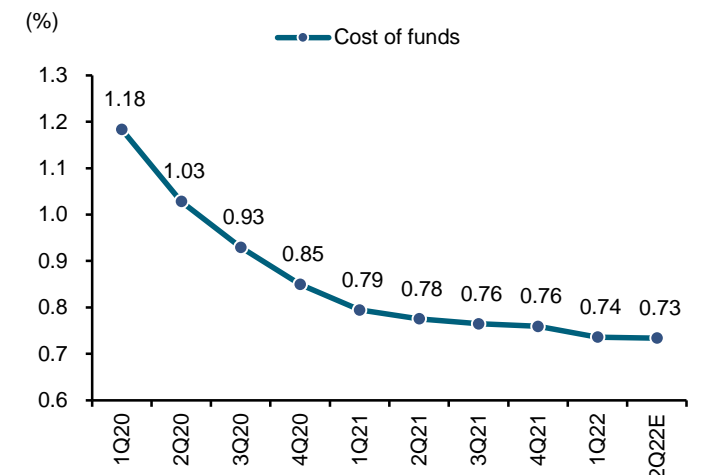
We expect the banking sector's NIM to be relatively stable at 2.74% in 2Q22. The sector's loan yield should remain at a low level due to the lower EIR, as we believe banks are offering more CDR for clients, resulting in a lower loan yield. Meanwhile, we believe banks should continue to manage their cost of funds effectively from the drainage deposit policy of most banks.

Exhibit 31: Sector's quarterly earnings assets yield



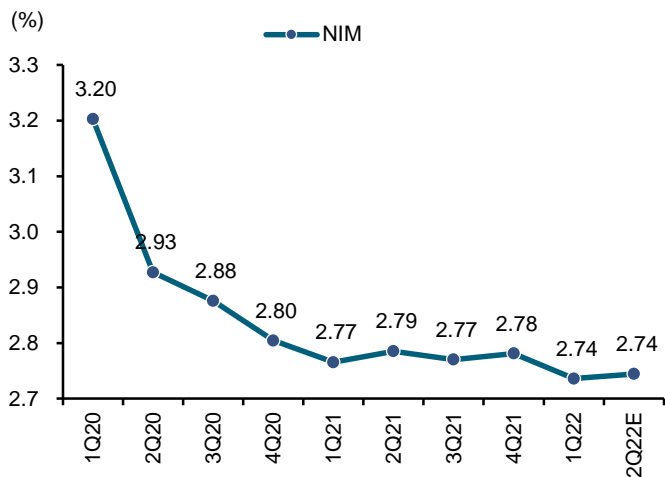
Sources: Company data; FSSIA estimates

Exhibit 32: Sector's cost of funds



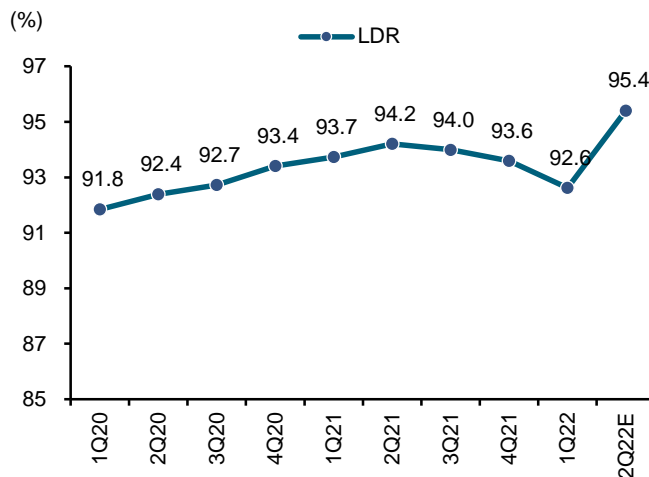
Sources: Company data; FSSIA estimates

Exhibit 33: Sector's quarterly NIM



Sources: Company data; FSSIA estimates

Exhibit 34: Sector's loan to deposit ratio (LDR)

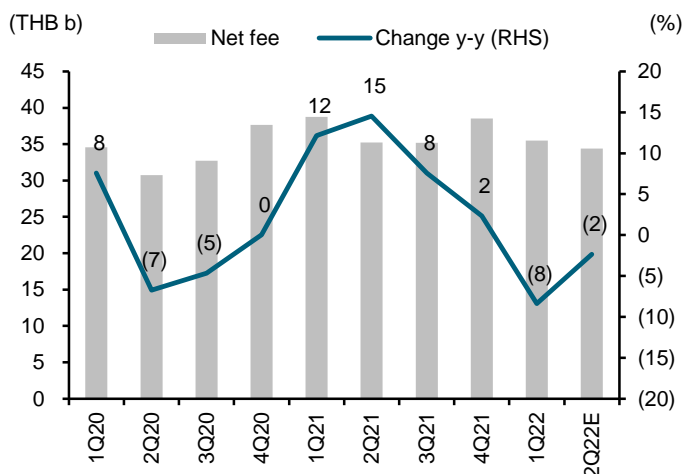


Sources: Company data; FSSIA estimates

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

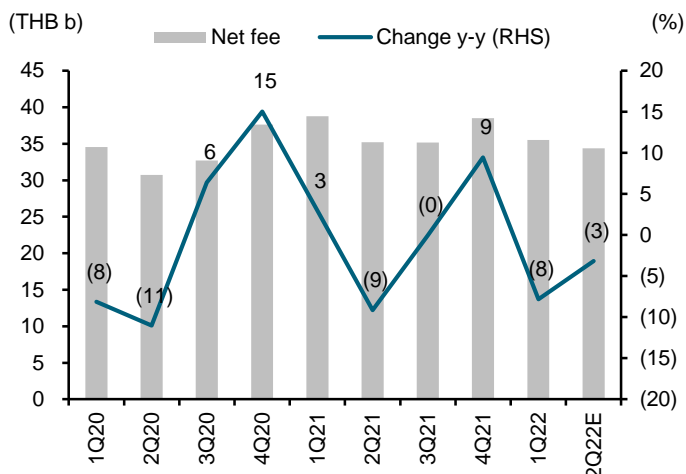
We expect banks to post a 2% y-y and 3% q-q drop in fee income in 2Q22 due to 1) lower capital market-related fees amid the weak market environment; and 2) lower transactional fees as their clients move toward the digital channel. Also, Non-NII should drop y-y, dragged down by lower fee income and a contraction in investment gains.

Exhibit 35: Sector's fee income growth (y-y basis)



Sources: Company data; FSSIA estimates

Exhibit 36: Sector's fee income growth (q-q basis)



Sources: Company data; FSSIA estimates

4) Good cost control

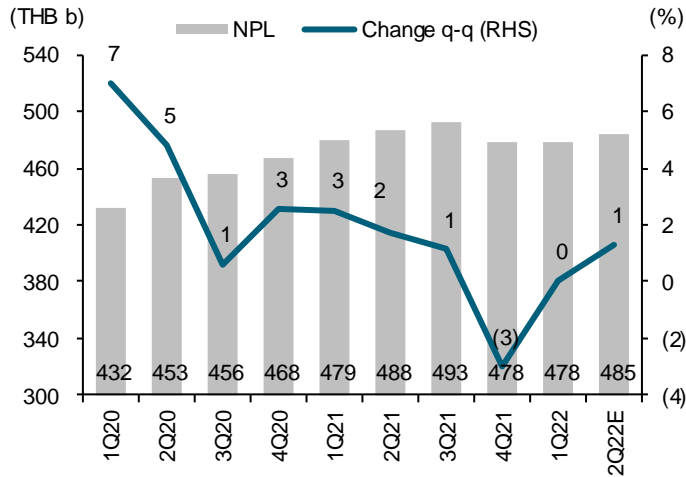
OPEX should increase minimally by 3% y-y and 3% q-q in 2Q22. We believe that most banks should still be able to control their operating expenses effectively as Covid-19 forced their clients to use digital platforms, leading to a faster network rationalisation pace and frozen headcounts.

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% q-q in 2Q22. This could account for an NPL ratio (calculated by FSSIA) of 4.03% in 2Q22 vs 4.01% in 1Q22.

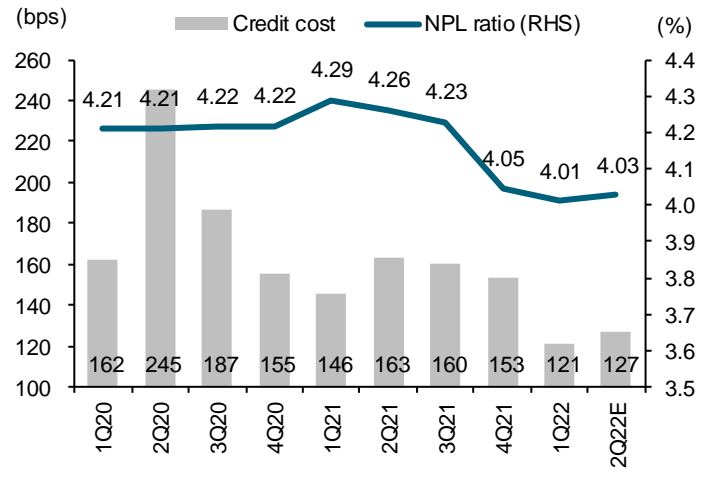
Regarding provisions, we expect banks to smooth out their provisioning expenses as they have already proactively set aside special provisions to provide a cushion from uncertainties in the previous quarters. Regarding the Russia-Ukraine crisis, in our follow-up talks with management, it was indicated 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 a sector credit cost average of 127 bps.

Exhibit 37: Sector's NPL growth (q-q basis)



Sources: Company data; FSSIA estimates

Exhibit 38: Sector's NPL ratio and credit cost



Sources: Company data; FSSIA estimates

Exhibit 39: Breakdown of 2Q22 earnings preview

2Q22E	BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Coverage
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
Net Interest Income	22,037	31,754	4,586	21,246	25,088	3,088	12,646	120,444
Change (y-y %)	10.0	6.9	20.9	1.6	6.9	(1.9)	(1.1)	5.8
Change (q-q %)	1.3	0.0	6.5	0.8	1.4	0.9	1.9	1.1
Non-interest Income	10,427	10,302	1,860	8,180	12,145	1,378	3,301	47,594
Change (y-y %)	(24.4)	(7.5)	(4.2)	3.1	(6.5)	(12.0)	5.9	(9.3)
Change (q-q %)	11.4	16.2	(13.0)	(4.9)	(6.3)	1.5	(1.9)	2.0
Net fee income	6,395	8,365	1,519	4,883	9,569	1,319	2,329	34,379
Change (y-y %)	(7.3)	(2.5)	(5.9)	(0.2)	(2.5)	7.7	5.9	(2.4)
Change (q-q %)	(8.1)	(5.3)	(2.3)	(1.7)	1.2	3.2	(5.4)	(3.2)
Operating income	32,463	42,056	6,446	29,427	37,233	4,466	15,947	168,038
Change (y-y %)	(4.0)	2.9	12.4	2.0	2.1	(5.3)	0.3	1.0
Change (q-q %)	4.4	3.6	0.0	(0.9)	(1.2)	1.1	1.1	1.4
Operating expenses	16,803	17,879	2,861	12,725	15,638	2,129	7,168	75,203
Change (y-y %)	3.2	4.7	6.9	4.0	1.7	2.9	(3.2)	2.8
Change (q-q %)	8.4	2.8	2.4	3.9	(2.2)	1.4	2.6	3.0
Pre-provision profit	15,661	24,176	3,584	16,702	21,596	2,337	8,779	92,835
Change (y-y %)	(10.7)	1.6	17.3	0.5	2.4	(11.6)	3.3	(0.4)
Change (q-q %)	0.4	4.1	(1.8)	(4.2)	(0.5)	0.7	(0.1)	0.1
Expected credit loss	6,501	9,853	1,238	6,680	8,759	92	4,976	38,100
Change (y-y %)	(33.7)	(8.8)	(10.1)	(17.5)	(12.7)	(83.7)	(9.4)	(17.5)
Change (q-q %)	0.2	5.5	16.2	22.1	0.1	7.8	3.5	5.8
Income tax	1,740	2,721	469	1,904	2,439	449	723	10,445
Normalised profit	7,303	11,022	1,875	7,170	10,448	1,796	3,079	42,692
Change (y-y %)	14.9	23.9	38.4	19.3	18.5	7.8	21.5	19.8
Change (q-q %)	2.6	(1.7)	(8.8)	(18.3)	2.5	0.0	(3.6)	(3.7)
% of 2022E	24.5	26.2	24.8	26.2	26.7	24.5	24.5	25.7
Net profit	7,303	11,022	1,875	7,170	10,448	1,796	3,079	42,692
Change (y-y %)	14.9	23.9	38.4	19.3	18.5	7.8	21.5	19.8
Change (q-q %)	2.6	(1.7)	(8.8)	(18.3)	2.5	0.0	(3.6)	(3.7)
% of 2022E	24.5	26.2	24.8	26.2	26.7	24.5	24.5	25.7
Loan (q-q %)	1.0	0.4	2.0	1.0	0.8	0.9	1.0	0.9
Loan (y-y %)	8.0	3.6	18.1	8.0	2.1	(4.0)	1.5	5.2
Deposit (q-q %)	(1.2)	(2.4)	2.6	(3.9)	(2.8)	1.5	(0.1)	(2.1)
Deposit (y-y %)	3.6	3.7	23.3	4.6	2.8	(3.9)	2.6	3.8
Loan/ Deposits (LDR %)	82.8	96.0	108.5	103.0	96.3	118.1	101.6	95.4
Loan/Deposits & Borrowing (%)	78.1	92.9	93.3	97.9	93.4	110.8	95.6	90.8
Key ratios	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Net interest margin	2.04	3.17	4.20	2.44	3.04	4.98	2.88	2.74
Credit cost (bp/total loans)	1.00	1.60	1.50	1.00	1.50	0.18	1.45	1.27
Cost to income	51.76	42.51	44.39	43.24	42.00	47.68	44.95	44.75
Loan-loss-coverage	227	143	165	156	138	258	127	163
Absolute NPL (THB m)	104,389	104,949	10,559	107,001	109,328	4,474	43,830	484,530
Change (y-y %)	(6.0)	(1.8)	2.1	1.2	5.0	(23.7)	0.7	(0.6)
Change (q-q %)	2.0	(1.4)	3.8	0.4	2.8	2.0	4.0	1.3
NPL ratio	3.99	4.25	3.17	3.98	4.66	2.18	3.18	4.03
Reported NPL ratio	3.32	3.74	3.14	3.42	3.86	2.18	2.75	

Source: FSSIA estimates

Recommendations and top picks

We think over the next six months the market will move its attention away from long-term, ROE-driven bank transformations to the new theme of interest rate hikes amid high inflation. Hence, we believe that the banks with lower asset deterioration downside risks and a higher exposure to rate hike benefits should outperform their peers.

Exhibit 40: Comparing current and previous valuations of the BUC

	Previous						New						Change				
	Rec	TP	BV	ROE	CoE	Terminal g	Rec	TP	BV	ROE	CoE	Terminal g	TP	BV	ROE	CoE	Terminal g
	(THB)	(THB)	(%)	(%)	(%)	(%)	(THB)	(THB)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(ppt)	(ppt)	(ppt)
BBL	HOLD	134.00	270.66	5.8	8.1	2.9	BUY	170.00	271.35	6.4	8.1	3.7	26.9	0.3	0.61	0.00	0.81
KBANK	BUY	180.00	215.49	8.7	9.1	4.0	BUY	192.00	215.71	9.0	9.1	4.8	6.7	0.1	0.32	0.00	0.85
KKP	BUY	86.00	70.86	14.8	12.3	4.7	BUY	82.00	69.89	14.5	12.6	4.5	(4.7)	(1.4)	(0.29)	0.26	(0.20)
KTB	BUY	16.40	27.37	7.0	9.2	4.2	BUY	18.20	27.40	7.6	9.2	4.5	11.0	0.1	0.57	0.00	0.27
SCB*	BUY	160.00	139.18	8.7	8.3	4.5	BUY	134.00	139.46	8.5	8.9	4.4	(16.3)	0.2	(0.19)	0.62	(0.13)
TISCO	BUY	110.00	55.20	17.7	10.9	3.5	HOLD	94.00	55.38	17.4	11.4	3.1	(14.5)	0.3	(0.37)	0.53	(0.42)
TTB	BUY	1.80	2.29	6.7	7.1	4.0	BUY	1.40	2.28	6.3	8.1	3.7	(22.2)	(0.3)	(0.44)	1.04	(0.27)

* We apply SOTP valuation for SCB. Data in this table for SCB are only the implied value from SOTP.

Source: FSSIA estimates

We reiterate KTB as one of our top picks. We revise our 2022-24 net profit forecast on KTB higher by 2%/9%/5% and roll forward our valuation to 2023 with a new TP of THB18.2. During this time of economic uncertainty, we see KTB as a safe place to invest. We see lower asset deterioration downside risks compared with its peers due to its concentrated low risk government and corporate portfolio. In our view, KTB should ride the economic upturn with the monetisation of its Pao Tang app and as one of the banks best positioned to reap the highest benefits from a rising interest rate environment. Moreover, its valuation looks attractive at 0.5x 2023E P/BV vs a 7.6% 2023E ROE.

During the current uncertainty, we replace KKP with BBL as our top pick as we upgrade our recommendation to BUY from Hold. We revise our 2022-24 net profit forecast on BBL up by 5%/11%/8% and roll forward our valuation to 2023 with a new TP of THB170. Amid the rise in the inflation rate, we have limited concerns about BBL's asset quality vs other big banks as most of its clients are corporate and medium-sized companies which are more resilient than the retail segment due to their ability to pass on increases in production costs to clients. Also, we think BBL should be one of the banks that benefits the most from the interest rate uptrend.

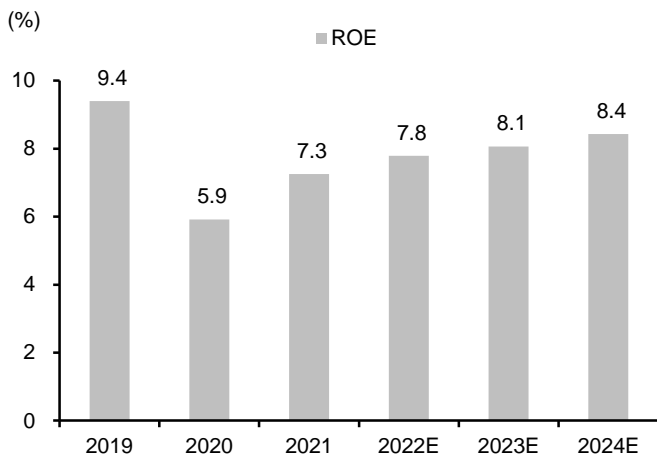
We maintain our BUY call on KBANK while revising our 2022-24 net profit forecasts higher by 1%/4%/4%. We roll forward our valuation to 2023 and derive a new TP of THB192. We think its partnership with JMT Network Services (JMT, BUY, TP THB80) should give KBANK more control over its asset quality. We also think that KBANK's transformation is poised to unlock its value and increase shareholders' returns.

We maintain our BUY call on KKP, SCB, and TTB. However, we have a less bullish view on them due to their retail segment orientation. As for KKP, we lower our 2022-24 net profit forecasts by 1%/3%/2% due to the negative impact from rate hikes and derive our new 2023 TP of THB82. Regarding SCB, we decrease our 2023-24 net profit forecasts by 2%/2% due to its potentially higher asset deterioration rate and set our new 2023 TP at THB134. For TTB, we lower our 2022-24 net profit forecasts by 5%/7%/10% to reflect the lower loan growth and potentially higher NPLs from high inflation and derive our new 2023 TP of THB1.40.

We downgrade TISCO to HOLD and lower our 2023-24 net profit forecasts by 2%/4% to derive our 2023 TP of THB94. We think TISCO's bottom line could be hurt slightly by an interest rate upturn. Additionally, 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. However, we recommend HOLD for its potentially superior dividend yield at 9-10% p.a. in 2022-24 and low asset quality risk.

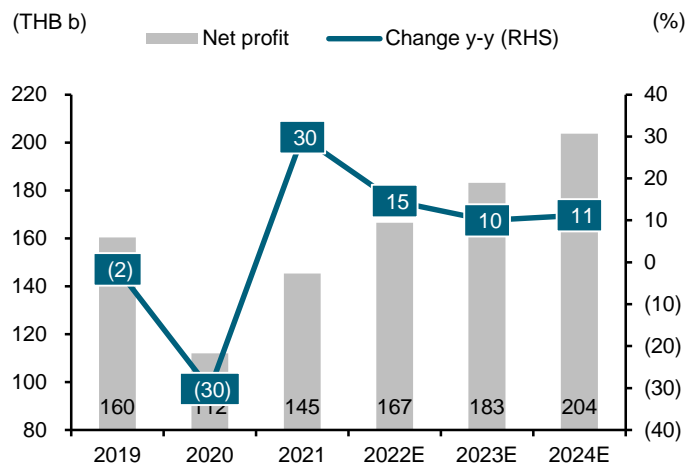
We think that in the period before the inflation rate in Thailand reaches its peak, potentially in Aug-22, the banking sector's share prices might become rangebound as concerns over asset quality overcome the benefit of rising rates. Due to inflation headwinds in the short term, we have a less bullish view on Thai banks. Nevertheless, we think the recent drop in banks' share prices have partly priced in this concern. Also, in the long term, banks should benefit more from the rate uptrend. Accordingly, we reiterate our Overweight view on the banking sector for long-term investment.

Exhibit 41: Banking sector's ROE



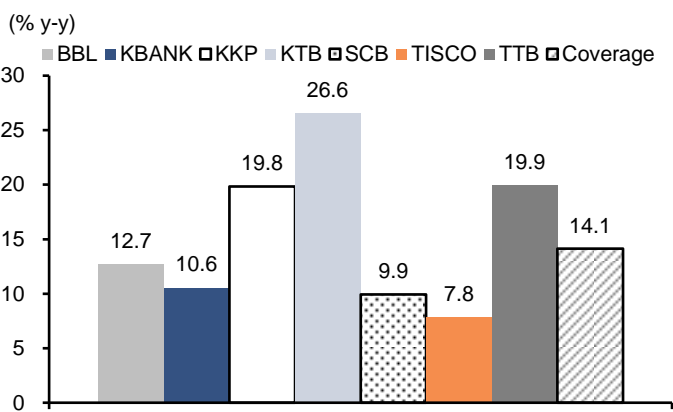
Sources: Company data; FSSIA estimates

Exhibit 42: Banking sector's net profit growth



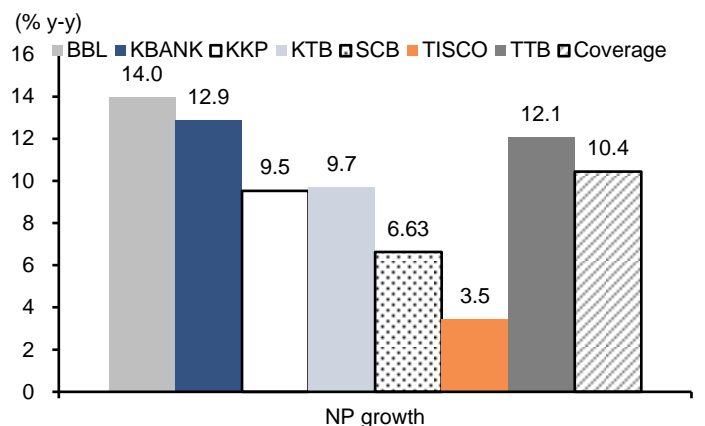
Sources: Company data; FSSIA estimates

Exhibit 43: BUC's 2022E net profit growth



Source: FSSIA estimates

Exhibit 44: BUC's 2022E net profit growth



Source: FSSIA estimates

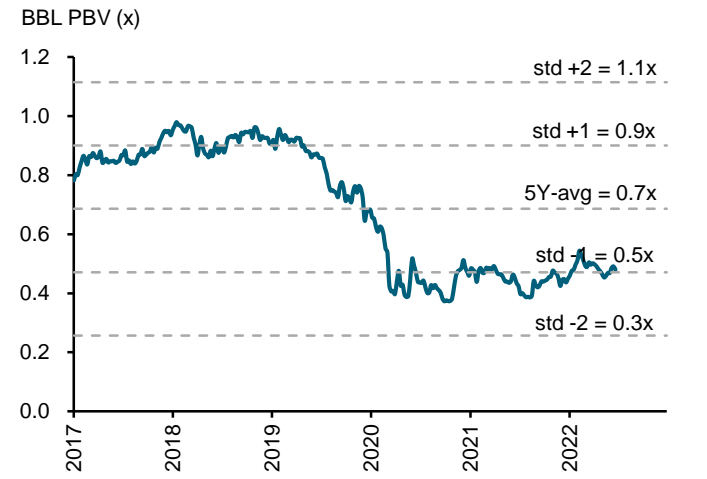
Exhibit 45: Peers comparison

	BBG	Rec	-- Share price --		Up	Market	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		-- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

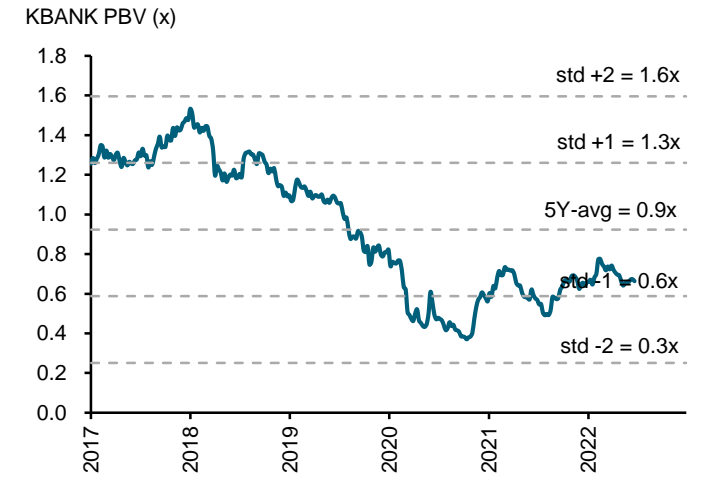
Source: FSSIA estimates

Exhibit 46: BBL – one-year rolling prospective P/BV



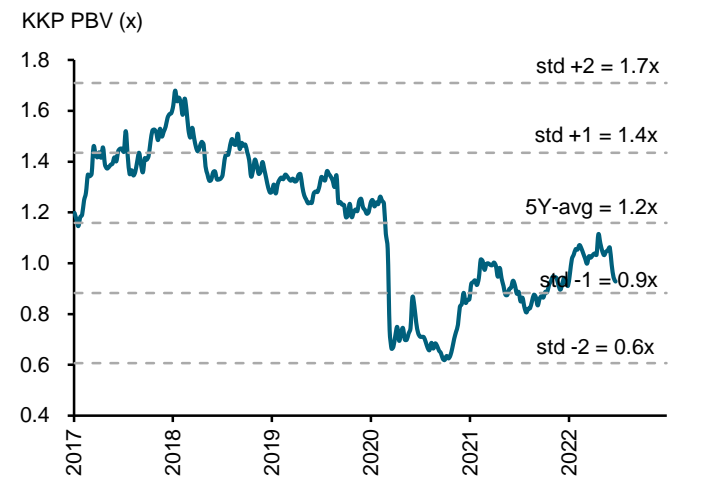
Sources: Bloomberg; FSSIA estimates

Exhibit 47: KBANK – one-year rolling prospective P/BV



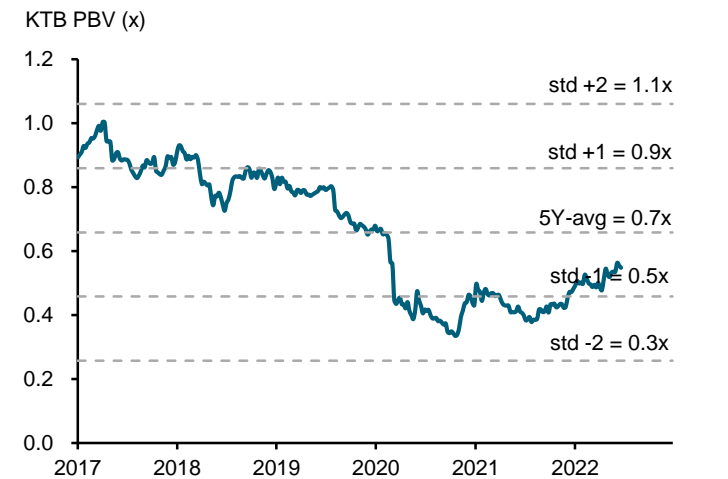
Sources: Bloomberg; FSSIA estimates

Exhibit 48: KKP – one-year rolling prospective P/BV



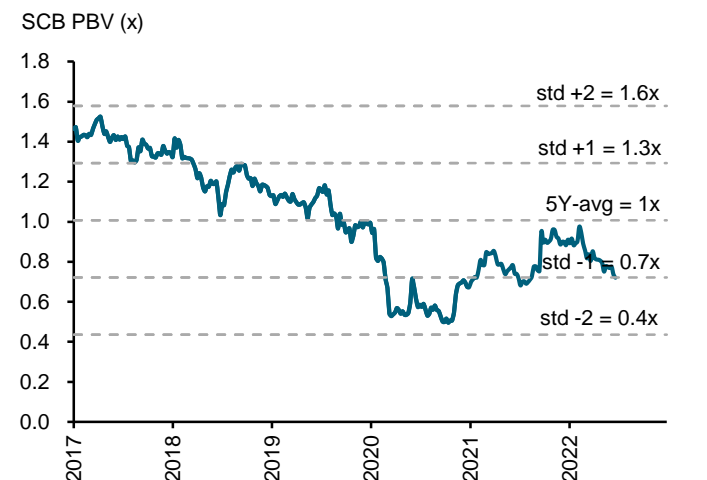
Sources: Bloomberg; FSSIA estimates

Exhibit 49: KTB – one-year rolling prospective P/BV



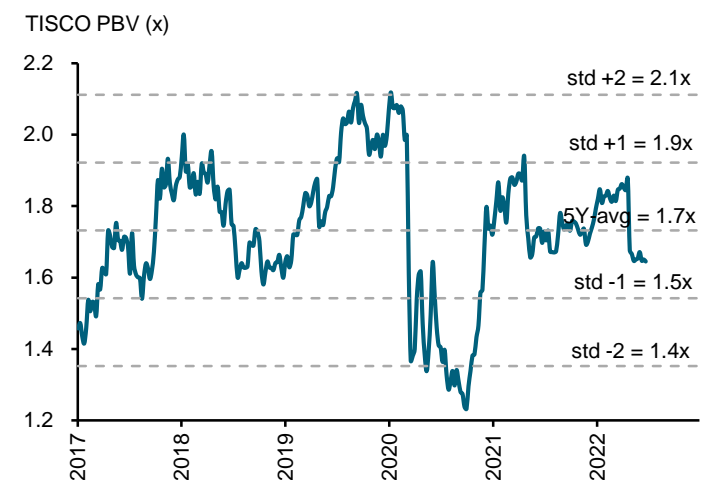
Sources: Bloomberg; FSSIA estimates

Exhibit 50: SCB – one-year rolling prospective P/BV



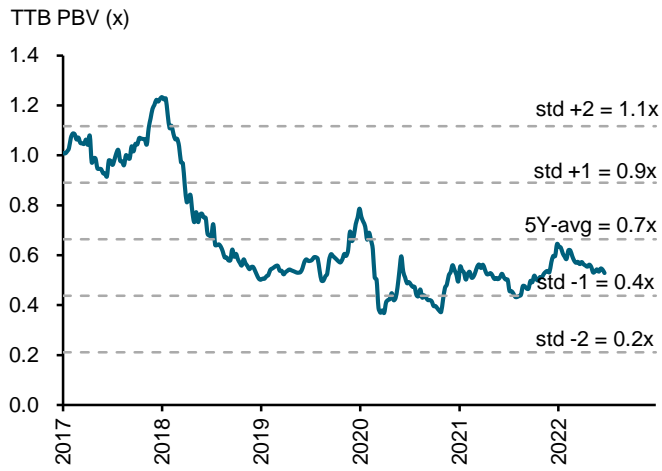
Sources: Bloomberg; FSSIA estimates

Exhibit 51: TISCO – one-year rolling prospective P/BV



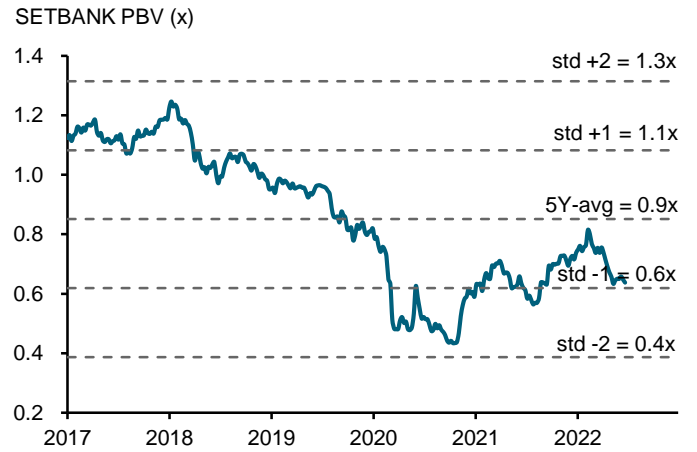
Sources: Bloomberg; FSSIA estimates

Exhibit 52: TTB – one-year rolling prospective P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 53: SETBANK – one-year rolling prospective P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 54: Key financial data and ratios of Thai banks under coverage

		BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Coverage
Rating		BUY	BUY	BUY	BUY	BUY	HOLD	BUY	
Target price	(THB)	170.00	192.00	82.00	18.20	134.00	94.00	1.40	
Share price (7 Jul 22)	(THB)	130.00	146.00	61.75	14.70	99.00	86.75	1.17	
Upside/(downside)	(%)	31	32	33	24	35	8	20	
Total mkt cap	(USD m)	6,881	9,592	1,450	5,697	9,243	1,926	3,135	37,922
3-mth avg trading value	(USD m)	32	61	12	21	41	12	10	
Net interest income (THB m)	2021	82,156	119,390	15,701	83,372	95,171	12,460	51,000	459,249
	2022E	90,148	125,091	17,674	86,150	96,362	12,148	51,442	479,014
	2023E	95,096	130,455	18,361	91,959	95,990	12,252	52,806	496,919
	2024E	102,470	138,662	19,570	97,408	101,805	12,555	54,820	527,291
Net interest income growth (%)	2021	6.6	9.5	7.0	(5.6)	(1.8)	(4.9)	(5.2)	1.4
	2022E	9.7	4.8	12.6	3.3	1.3	(2.5)	0.9	4.3
	2023E	5.5	4.3	3.9	6.7	(0.4)	0.9	2.7	3.7
	2024E	7.8	6.3	6.6	5.9	6.1	2.5	3.8	6.1
Net fee income (THB m)	2021	29,209	35,316	6,074	20,022	40,198	5,615	11,248	147,683
	2022E	29,346	37,273	6,135	20,100	42,299	5,668	11,643	152,464
	2023E	29,932	39,137	6,431	21,708	44,837	6,303	12,574	160,922
	2024E	30,531	41,094	6,495	23,445	47,975	6,681	13,832	170,052
Net fee income growth (%)	2021	18.2	7.0	40.1	(2.5)	9.9	9.1	(0.9)	8.9
	2022E	0.5	5.5	1.0	0.4	5.2	0.9	3.5	3.2
	2023E	2.0	5.0	4.8	8.0	6.0	11.2	8.0	5.5
	2024E	2.0	5.0	1.0	8.0	7.0	6.0	10.0	5.7
Non-interest income (THB m)	2021	50,162	43,958	8,545	32,414	55,171	6,376	14,537	211,164
	2022E	45,669	48,131	7,724	32,942	53,622	6,221	15,632	209,942
	2023E	47,112	52,510	8,174	34,795	56,726	6,888	16,800	223,005
	2024E	48,495	55,983	8,413	37,710	60,214	7,303	18,280	236,397
Non-interest income growth (%)	2021	20.3	(4.2)	30.4	(4.4)	15.3	9.8	(6.5)	7.1
	2022E	(9.0)	9.5	(9.6)	1.6	(2.8)	(2.4)	7.5	(0.6)
	2023E	3.2	9.1	5.8	5.6	5.8	10.7	7.5	6.2
	2024E	2.9	6.6	2.9	8.4	6.1	6.0	8.8	6.0
OPEX (THB m)	2021	67,266	71,044	11,248	52,731	63,547	8,280	31,219	305,334
	2022E	70,584	74,353	11,461	53,244	64,822	8,374	30,658	313,496
	2023E	72,153	76,822	11,803	55,181	66,325	8,491	30,833	321,607
	2023E	75,035	79,749	12,138	58,004	68,510	8,657	32,231	334,324
OPEX growth (%)	2021	8.5	1.5	5.6	(1.4)	(1.2)	3.3	(3.0)	1.6
	2022E	4.9	4.7	1.9	1.0	2.0	1.1	(1.8)	2.7
	2023E	2.2	3.3	3.0	3.6	2.3	1.4	0.6	2.6
	2024E	4.0	3.8	2.8	5.1	3.3	2.0	4.5	4.0
Pre-provision profit (THB m)	2021	67,275	92,305	12,998	63,055	86,795	10,556	34,318	367,302
	2022E	65,233	98,870	13,937	65,847	85,162	9,995	36,416	375,460
	2023E	70,056	106,143	14,732	71,572	86,391	10,650	38,773	398,317
	2024E	75,930	114,897	15,845	77,114	93,509	11,200	40,869	429,364
Pre-provision profit growth (%)	2021	18.5	8.7	22.8	(8.3)	7.9	(3.1)	(7.7)	5.1
	2022E	(3.0)	7.1	7.2	4.4	(1.9)	(5.3)	6.1	2.2
	2023E	7.4	7.4	5.7	8.7	1.4	6.6	6.5	6.1
	2024E	8.4	8.2	7.6	7.7	8.2	5.2	5.4	7.8
Net profit (THB m)	2021	26,507	38,053	6,318	21,588	35,599	6,784	10,474	145,323
	2022E	30,538	42,072	7,572	27,322	39,138	7,317	12,563	166,521
	2023E	34,035	47,488	8,293	29,973	41,734	7,569	14,082	183,174
	2024E	38,687	52,605	9,258	33,071	46,636	7,924	15,538	203,719

Sources: Company data; FSSIA estimates

Exhibit 55: Key financial data and ratios of Thai banks under coverage (cont.)

		BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Coverage
Rating		BUY	BUY	BUY	BUY	BUY	HOLD	BUY	
Target price	(THB)	170.00	192.00	82.00	18.20	134.00	94.00	1.40	
Norm profit (THB m)	2021	26,507	38,053	6,318	21,588	35,599	6,784	10,474	145,323
	2022E	30,538	42,072	7,572	27,322	39,138	7,317	12,563	166,521
	2023E	34,035	47,488	8,293	29,973	41,734	7,569	14,082	183,174
	2024E	38,687	52,605	9,258	33,071	46,636	7,924	15,538	203,719
Norm profit growth (%)	2021	25.1	29.0	23.3	29.0	30.8	11.9	3.6	25.4
	2022E	15.2	10.6	19.8	26.6	9.9	7.8	19.9	14.6
	2023E	11.5	12.9	9.5	9.7	6.6	3.5	12.1	10.0
	2024E	13.7	10.8	11.6	10.3	11.7	4.7	10.3	11.2
Gross loans (THB b)	2021	2,588	2,422	307	2,629	2,302	203	1,372	11,823
	2022E	2,692	2,543	341	2,734	2,371	208	1,400	12,288
	2023E	2,773	2,657	363	2,843	2,436	214	1,442	12,728
	2024E	2,856	2,764	380	2,957	2,503	220	1,478	13,157
Loan growth (%)	2021	9.3	7.9	15.9	12.6	2.1	(9.7)	(1.5)	6.7
	2022E	4.0	5.0	11.0	4.0	3.0	2.5	2.0	3.9
	2023E	3.0	4.5	6.5	4.0	2.7	3.0	3.0	3.6
	2024E	3.0	4.0	4.8	4.0	2.8	2.5	2.5	3.4
Deposit (THB b)	2021	3,157	2,599	288	2,615	2,467	167	1,339	12,631
	2022E	3,399	2,774	311	2,738	2,491	177	1,357	13,247
	2023E	3,450	2,857	327	2,792	2,541	180	1,385	13,532
	2024E	3,497	2,926	333	2,848	2,592	180	1,412	13,788
Deposit growth (%)	2021	12.3	10.8	14.7	6.2	1.9	(18.2)	(2.5)	6.4
	2022E	7.7	6.7	7.8	4.7	1.0	6.2	1.4	4.9
	2023E	1.5	3.0	5.0	2.0	2.0	2.0	2.0	2.2
	2024E	1.4	2.4	2.0	2.0	2.0	(0.2)	2.0	1.9
LDR (%)	2021	82.0	93.2	106.4	100.5	93.3	121.9	102.5	93.6
	2022E	79.2	91.7	109.6	99.9	95.2	117.7	103.1	92.8
	2023E	80.4	93.0	111.1	101.8	95.9	118.8	104.1	94.1
	2024E	81.7	94.4	114.1	103.8	96.6	122.1	104.6	95.4
NIM (%)	2021	2.07	3.26	4.52	2.49	3.00	4.79	2.95	2.78
	2022E	2.08	3.18	4.43	2.44	2.98	4.93	2.97	2.75
	2023E	2.14	3.20	4.19	2.53	2.91	4.89	2.97	2.77
	2024E	2.25	3.27	4.16	2.60	3.01	4.87	3.01	2.85
Cost to income (%)	2021	50.0	43.5	46.4	45.5	42.3	44.0	47.6	45.4
	2022E	52.0	42.9	45.1	44.7	43.2	45.6	45.7	45.5
	2023E	50.7	42.0	44.5	43.5	43.4	44.4	44.3	44.7
	2024E	49.7	41.0	43.4	42.9	42.3	43.6	44.1	43.8
Credit cost (bp)	2021	138	173	182	131	184	97	156	155
	2022E	100	160	140	100	155	45	152	129
	2023E	98	158	126	105	144	60	152	127
	2024E	95	158	117	105	144	65	150	126
NPL ratio (%)	2021	3.91	4.30	3.32	4.06	4.74	2.44	3.07	4.05
	2022E	4.17	4.09	3.38	4.22	4.65	2.50	3.31	4.11
	2023E	4.41	4.03	3.59	4.42	4.75	2.55	3.60	4.25
	2024E	4.50	4.15	3.80	4.51	4.90	2.61	3.83	4.38

Sources: Company data; FSSIA estimates

BANGKOK BANK

BBL TB

THAILAND / BANKS

BUY

FROM HOLD

Riding the rate uptrend wave

- Expect a solid 2Q22 NP of THB7.3b from lower provisions.
- Sector's top beneficiary from rate hikes while facing limited potential impacts from high inflation.
- Roll forward valuation to 2023; new TP of THB170; top pick.

TARGET PRICE	THB170.00
CLOSE	THB130.00
UP/DOWNSIDE	+30.8%
PRIOR TP	THB134.00
CHANGE IN TP	+26.9%
TP vs CONSENSUS	+6.9%

Expect strong 2Q22 performance driven by smoothed out ECL

We expect BBL to report a solid 2Q22 net profit of THB7,303m (+15% y-y, +3% q-q). We believe BBL will smooth out its expected credit loss (ECL) as the bank has proactively set aside a special provision to weather the uncertainty in the previous quarters and the bank should still be able to control its asset quality. Its non-performing loans (NPLs) could increase by 2% q-q, in our view. As for its revenue side, we think BBL's loan volume should rise 1% q-q, driven by corporate and international demand. Its NIM should also inch up to 2.04% in 2Q22 from 2.02% in 1Q22. Hence, we expect a rise y-y and q-q in its NII. However, like other banks, its non-NII – fee income and gains from investments in particular – might drop due to the unfavourable capital market conditions.

BBL stands to benefit the most from an interest rate upcycle

Out of the banks under our coverage, we expect that BBL stands to benefit the most from an interest rate uptrend. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 2.7% upside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

Limited concern about asset quality from high inflation

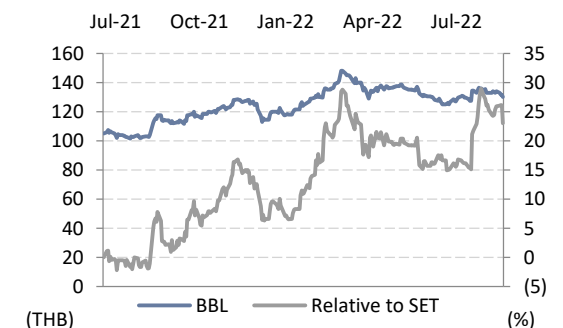
We are convinced that BBL should be able to control its asset quality effectively as its portfolio is comprised of 42% corporates and c25% international loans, and these segments have been the least impacted by the Covid pandemic and high inflation. We believe BBL will enjoy a wider margin from the rate uptrend and a limited impact from a rise in provisions.

Upgrade to top pick; roll forward 2023 valuation; TP of THB170

We revise up our net profit forecasts for 2022-24 by 5%/11%/8% to mostly reflect the benefit from the interest rate uptrend. We currently assume 50 bps in rate hikes this year and another 50 bps in 1H23. We roll forward our valuation to 2023 and derive a new TP of THB170, up from our 2022 TP of THB134. We also upgrade BBL to BUY from Hold. Among our covered banks, we think BBL should benefit the most from the interest rate uptrend. Also, amid the rise in the inflation rate, we have limited concerns about BBL's asset quality due to its portfolio with low concentration risk and sufficient provision cushion.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	32,932	38,602	43,027	48,917
Net profit	26,506	30,538	34,035	38,687
EPS (THB)	13.89	16.00	17.83	20.27
vs Consensus (%)	-	(1.2)	0.3	(2.3)
Core net profit	26,506	30,538	34,035	38,687
Core EPS (THB)	13.89	16.00	17.83	20.27
Chg. In EPS est. (%)	-	4.5	11.1	15.8
EPS growth (%)	25.1	15.2	11.5	13.7
Core P/E (x)	9.4	8.1	7.3	6.4
Dividend yield (%)	2.7	3.8	5.0	5.4
Price/book (x)	0.5	0.5	0.5	0.4
ROE (%)	5.6	6.0	6.4	6.9
ROA (%)	0.7	0.7	0.8	0.9



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	2.0	(5.1)	20.4
Relative to country (%)	6.8	2.4	18.9
Mkt cap (USD m)	6,881		
3m avg. daily turnover (USD m)	32.1		
Free float (%)	76		
Major shareholder	Thai NVDR (24%)		
12m high/low (THB)	149.00/100.00		
Issued shares (m)	1,909		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We upgrade BBL to BUY from Hold and choose it as one of our top picks in the banking sector. Among our covered banks, we think BBL should benefit the most from the interest rate uptrend due to its high proportion of floating rate assets. Also, amid the rise in the inflation rate, we have limited concerns about BBL's asset quality due to its portfolio with low concentration risk and sufficient provision cushion.

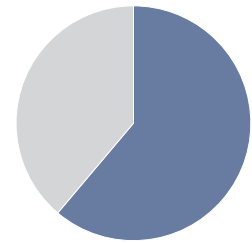
Company profile

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, 2021)

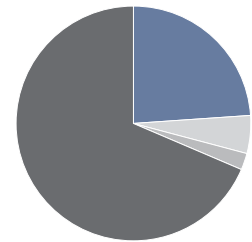
- Net interest income - 61.2 %
- Non-interest income - 38.8 %



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 affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.

Event calendar

Date	Event
21/22 Jul 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	30,538	34,035	38,687
Net profit growth (%)	15.2	11.5	13.7
NIM (%)	2.08	2.14	2.25
Loan growth (%)	4.0	3.0	3.0
Fee growth (%)	0.5	2.0	2.0
Non-NII growth (%)	(9.0)	3.2	2.9
Credit cost (bp)	100	98	95
Cost to income (%)	52.0	50.7	49.7

*Including share of profits from associates

Source: FSSIA estimates

Earnings sensitivity

		2022E		
	±2ppt	2.0	4.0	6.0
Loan growth	±2ppt	2.0	4.0	6.0
% change in net profit		(2.0)	0.0	2.0
NIM (%)	±5bp	2.03	2.08	2.13
% change in net profit		(5.0)	0.0	5.0
Credit cost (bp)	±10bp	90	100	110
% change in net profit		5.8	0.0	(5.8)

Source: FSSIA estimates

Expect strong 2Q22 performance driven by smoothed out ECL

We expect BBL to report a solid 2Q22 net profit of THB7,303m (+15% y-y, +3% q-q). We believe BBL will smooth out its ECL as the bank proactively set aside special provisions to weather the uncertainty in the previous quarters and the bank should continue to control its asset quality well. Its NPLs could increase by 2% q-q, in our view. As for the revenue side, we think BBL's loan volume should rise 1% q-q, driven by corporate and international demand. Its NIM should also inch up to 2.04% in 2Q22 from 2.02% in 1Q22. Hence, we expect a rise y-y and q-q in its NII. However, like other banks, its non-NII – fee income and gains from investment in particular – might drop due to the unfavourable capital market conditions.

Exhibit 56: BBL – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	Change		1H22E			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	20,027	21,747	22,037	10	1	43,784	10	49	90,148	10	
Non-interest income*	13,796	9,363	10,427	(24)	11	19,790	(21)	43	45,669	(9)	
Operating income*	33,823	31,110	32,463	(4)	4	63,574	(2)	47	135,817	1	
Operating expenses	16,289	15,507	16,803	3	8	32,310	1	46	70,584	5	
PPOP before tax*	17,534	15,604	15,661	(11)	0	31,264	(4)	48	65,233	(3)	
Provision	9,810	6,490	6,501	(34)	0	12,991	(19)	49	26,401	(23)	
Income tax	1,263	1,875	1,740	38	(7)	3,615	20	47	7,766	25	
Minority interest	104	121	116			237		45	528	19	
Normalised profit	6,357	7,118	7,303	15	3	14,421	9	47	30,538	15	
Extraordinary items	0	0	0			0			0		
Net profit	6,357	7,118	7,303	15	3	14,421	9	47	30,538	15	
EPS (THB)	3.33	3.73	3.83	15	3	7.56	9	47	16.00	15	
Asset quality ratio											
Gross NPLs	111,035	102,342	104,389	(6)	2				112,224	11	
NPL ratios (%)	3.70	3.30	3.32						3.42		
LLR/NPLs (%)	190	229	227						210		
Credit cost (bp)	164	100	100						100		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	48.2	49.8	51.8						52.0		
Average yield (%)	2.8	2.8	2.8						2.9		
Cost of fund (%)	0.9	0.9	0.9						0.9		
Net interest margin (NIM)	2.02	2.02	2.04						2.08		
Non-int inc/total income	40.8	30.1	32.1						33.6		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	79.4	81.0	82.8						79.2		
Capital adequacy ratio	(%)	(%)	(%)						(%)		
CAR	18.4	19.5	19.7						19.5		
CET 1/ Risk assets	15.1	15.2	16.2						16.1		
Tier 2 / Risk assets	2.5	3.5	3.5						3.5		
Loan growth	(%)	(%)	(%)						(%)		
y-y	2.8	9.2	8.0						4.0		
q-q	2.2	(0.0)	1.0								Driven by corporate and International segments

*Including share of profits from associates

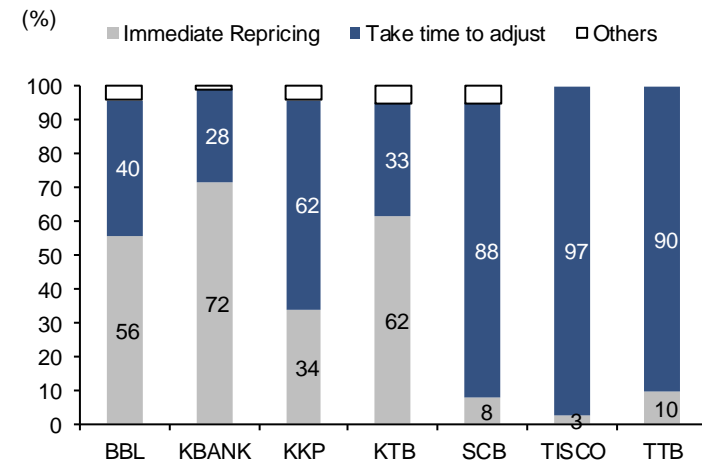
Source: BBL; FSSIA estimates

BBL stands to benefit the most from an interest rate upcycle

Out of the banks under our coverage, we expect BBL to benefit the most from an interest rate uptrend as it has a higher proportion of assets based on floating rate returns than other banks.

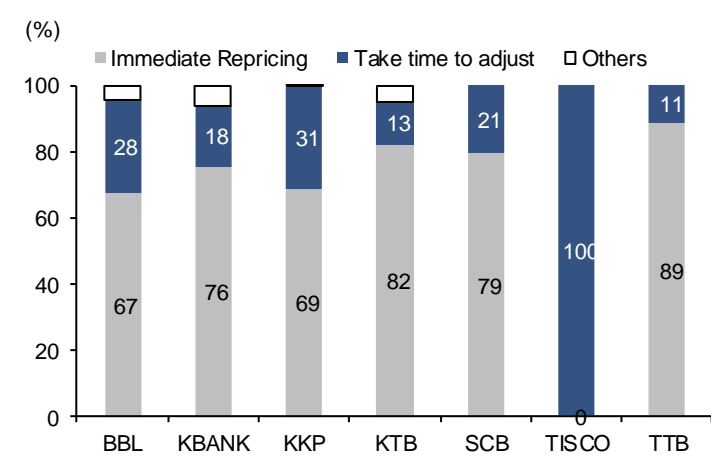
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank's reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 2.7% upside to our current 2023 net profit forecast.

Exhibit 57: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA's estimates

Exhibit 58: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA's estimates

Exhibit 59: We expect a 2.7% upside to BBL's 2023E net profit for every 25-bps policy rate hike – assuming a 12.5 bps increase in its M-rate and a five bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We revise up our net profit forecasts for 2022-24 by 5%/11%/8% to mostly reflect the benefit from the interest rate uptrend. We raise our NIM assumptions in 2022-24 to 2.08%/2.14%/2.25% from 2.01%/2.05%/2.18%.

FSSIA expects the policy rate to rise 50 bps in 2022 and another 50 bps in 1H23, lifting Thailand's policy rate up to 1% in 2022 and 1.5% in 2023. We assume that the bank will increase 1) its reference rate (MLR, MRR, MOR) by 25 bps in 2022 and by another 25 bps in 2023; and 2) its deposit rate by 10 bps in 2022 and another 10 bps in 2023. Note that our cost of funds already reflects the 0.46% Financial Institutions Development Fund (FIDF) fee from 2023 onward.

Exhibit 60: BBL – changes in key assumptions

	-----2022E-----				-----2023E-----			-----2024E-----		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	82,156	87,837	90,148	2.6	87,234	95,096	9.0	94,890	102,470	8.0
Non interest income*	50,162	45,669	45,669	0.0	47,112	47,112	0.0	48,495	48,495	0.0
Operating income*	134,541	133,506	135,817	1.7	134,346	142,208	5.9	143,385	150,965	5.3
Operating expenses	67,266	69,970	70,584	0.9	70,922	72,153	1.7	74,085	75,035	1.3
PPOP before tax*	67,275	63,537	65,233	2.7	63,425	70,056	10.5	69,300	75,930	9.6
Provision (Reversal)	34,134	26,401	26,401	0.0	24,484	26,776	9.4	23,921	26,735	11.8
Tax expenses	6,189	7,401	7,766	4.9	7,788	8,656	11.1	9,076	9,839	8.4
Minority interest	445	505	528	4.5	530	589	11.1	617	669	8.4
Normalised profit	26,506	29,229	30,538	4.5	30,623	34,035	11.1	35,686	38,687	8.4
Extraordinary items	0	0	0		0	0		0	0	
Net profit	26,506	29,229	30,538	4.5	30,623	34,035	11.1	35,686	38,687	8.4
EPS (THB)	13.9	15.3	16.0	4.5	16.0	17.8	11.1	18.7	20.3	8.4
Key statistics and ratios										
Asset quality ratio										
Gross NPLs	101,103	111,213	112,224	0.9	117,886	122,325	3.8	123,780	128,441	3.8
Gross NPLs / Loans (%)	3.2	3.4	3.4		3.5	3.6		3.6	3.7	
Loan loss reserve/NPLs	225.8	216.2	210.2		223.4	205.6		225.6	207.8	
Credit cost (bp)	138	100	100		90	98		85	95	
Profitability ratio										
Cost to income ratio (%)*	50.0	52.4	52.0		52.8	50.7		51.7	49.7	
Average yield (%)	2.88	2.90	2.88		3.04	3.20		3.20	3.39	
Cost of fund (%)	0.95	0.96	0.95		1.12	1.25		1.16	1.34	
Net interest margin (NIM) (%)	2.07	2.01	2.08		2.05	2.14		2.18	2.25	
Liquidity ratio										
Loan to deposit ratio (%)	82.0	79.2	79.2		80.4	80.4		81.7	81.7	
Capital adequacy ratio										
CAR (%)	19.6	19.5	19.5		19.6	19.7		19.6	19.9	
% growth										
Loan growth (y-y %)	9.3	4.0	4.0		3.0	3.0		3.0	3.0	

*Including share of profits from associates

Source: FSSIA estimates

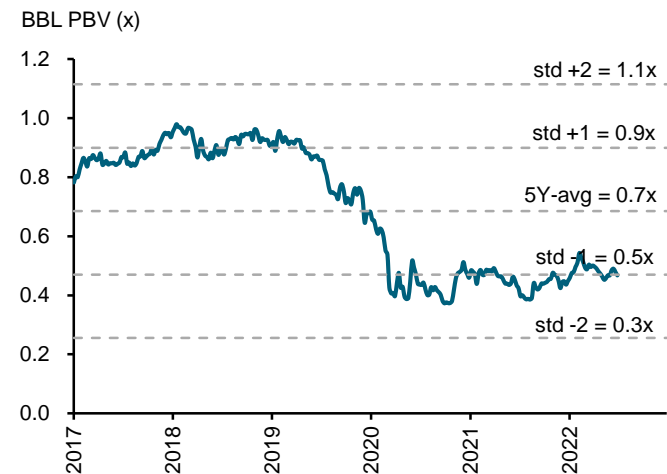
We roll forward our valuation to 2023 and derive a new TP of THB170, up from our 2022 TP of THB134. Our TP implies 0.63x 2023E P/BV, within its five-year average standard deviation. We also upgrade BBL to BUY from Hold. Amid the rise in the inflation rate, we have limited concerns about BBL's asset quality vs other big banks as most of its clients are corporations and medium-sized companies which are more resilient than the retail segment due to their ability to pass on increases in production costs to clients. Also, we think BBL should be one of the banks that benefits the most from the interest rate uptrend.

Exhibit 61: BBL – GGM-derived target price

Target price	THB 170 (from THB 134)
Recommendation	BUY (from HOLD)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	8.1 (unchanged)
Terminal growth (%)	3.7 (from 2.9)
ROE target (%)	6.4 (from 5.8)

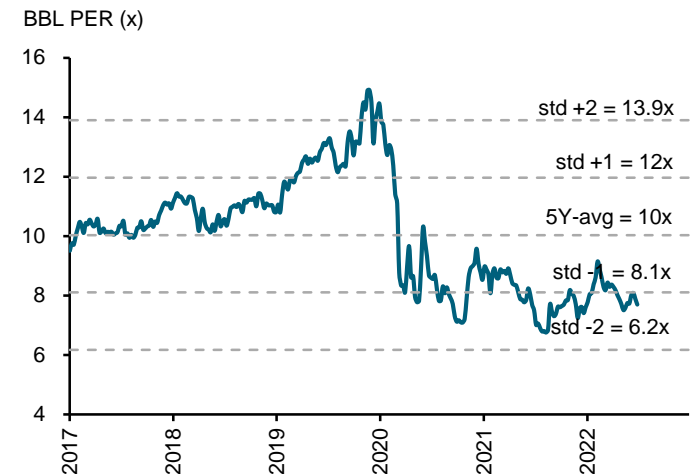
Source: FSSIA estimates

Exhibit 62: BBL – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 63: BBL – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 64: Peers comparison

	BBG	Rec	--- Share price ---		Up	Market	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

Bangkok Bank

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	112,524	114,312	125,020	142,344	154,255
Interest expense	(35,477)	(32,156)	(34,872)	(47,248)	(51,785)
Net interest income	77,047	82,156	90,148	95,096	102,470
Net fees & commission	24,711	29,209	29,346	29,932	30,531
Foreign exchange trading income	0	0	0	0	0
Securities trading income	13,570	19,093	11,946	12,482	13,045
Dividend income	2,039	2,252	2,364	2,482	2,482
Other income	1,376	1,622	1,784	1,962	2,159
Non interest income	41,696	52,176	45,440	46,859	48,217
Total income	118,743	134,331	135,587	141,956	150,687
Staff costs	(30,959)	(35,003)	(37,103)	(37,978)	(39,497)
Other operating costs	(31,015)	(32,263)	(33,480)	(34,175)	(35,537)
Operating costs	(61,974)	(67,266)	(70,584)	(72,153)	(75,035)
Pre provision operating profit	56,769	67,066	65,004	69,803	75,652
Provision for bad and doubtful debt	(31,196)	(34,134)	(26,401)	(26,776)	(26,735)
Other provisions	-	-	-	-	-
Operating profit	25,573	32,932	38,602	43,027	48,917
Recurring non operating income	(14)	209	230	253	278
Associates	(14)	209	230	253	278
Goodwill amortization	-	-	-	-	-
Non recurring items	(4,000)	0	0	0	0
Profit before tax	21,559	33,141	38,832	43,280	49,195
Tax	(4,014)	(6,189)	(7,766)	(8,656)	(9,839)
Profit after tax	17,545	26,952	31,066	34,624	39,356
Minority interests	(364)	(445)	(528)	(589)	(669)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	17,181	26,506	30,538	34,035	38,687
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	21,181	26,506	30,538	34,035	38,687
Per share (THB)					
Recurring EPS *	11.10	13.89	16.00	17.83	20.27
Reported EPS	9.00	13.89	16.00	17.83	20.27
DPS	2.50	3.50	5.00	6.50	7.00
Growth					
Net interest income (%)	8.4	6.6	9.7	5.5	7.8
Non interest income (%)	(33.4)	25.1	(12.9)	3.1	2.9
Pre provision operating profit (%)	(27.9)	18.1	(3.1)	7.4	8.4
Operating profit (%)	(44.8)	28.8	17.2	11.5	13.7
Reported net profit (%)	(52.0)	54.3	15.2	11.5	13.7
Recurring EPS (%)	(40.9)	25.1	15.2	11.5	13.7
Reported EPS (%)	(52.0)	54.3	15.2	11.5	13.7
Income Breakdown					
Net interest income (%)	64.9	61.2	66.5	67.0	68.0
Net fees & commission (%)	20.8	21.7	21.6	21.1	20.3
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	11.4	14.2	8.8	8.8	8.7
Dividend income (%)	1.7	1.7	1.7	1.7	1.6
Other income (%)	1.2	1.2	1.3	1.4	1.4
Operating performance					
Gross interest yield (%)	3.30	2.88	2.88	3.20	3.39
Cost of funds (%)	1.22	0.94	0.94	1.25	1.34
Net interest spread (%)	2.08	1.94	1.94	1.95	2.05
Net interest margin (%)	2.3	2.1	2.1	2.1	2.3
Cost/income(%)	52.2	50.1	52.1	50.8	49.8
Cost/assets(%)	1.8	1.7	1.6	1.6	1.6
Effective tax rate (%)	18.6	18.7	20.0	20.0	20.0
Dividend payout on recurring profit (%)	22.5	25.2	31.3	36.5	34.5
ROE (%)	4.8	5.6	6.0	6.4	6.9
ROE - COE (%)	(4.5)	(3.7)	(3.3)	(2.9)	(2.4)
ROA (%)	0.6	0.7	0.7	0.8	0.9
RORWA (%)	0.8	1.0	1.1	1.1	1.3

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Bangkok Bank; FSSIA estimates

Financial Statements

Bangkok Bank

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Gross customer loans	2,368,238	2,588,339	2,691,873	2,772,629	2,855,808
Total provisions	(185,567)	(228,291)	(235,849)	(251,534)	(266,846)
interest in suspense	6,431	15,978	17,497	18,854	19,991
Net customer loans	2,189,102	2,376,027	2,473,521	2,539,949	2,608,952
Bank loans	519,036	801,212	801,630	783,881	787,204
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	759,394	889,306	913,722	938,858	964,741
Cash & equivalents	73,886	62,552	70,482	78,071	119,181
Other interesting assets	-	-	-	-	-
Tangible fixed assets	74,804	74,476	74,664	75,009	75,494
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	148,802	129,707	133,732	136,255	140,569
Total assets	3,765,023	4,333,281	4,467,751	4,552,022	4,696,141
Customer deposits	2,810,863	3,156,940	3,398,940	3,449,925	3,496,687
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	362,583	480,061	347,170	352,378	419,684
Non interest bearing liabilities	199,267	201,688	201,688	201,688	201,688
Hybrid Capital	-	-	-	-	-
Total liabilities	3,372,713	3,838,688	3,947,798	4,003,990	4,118,059
Share capital	19,088	19,088	19,088	19,088	19,088
Reserves	429,925	473,639	498,903	526,877	556,813
Total equity	449,014	492,727	517,992	545,965	575,902
Minority interests	1,233	1,865	1,961	2,067	2,180
Total liabilities & equity	3,822,960	4,333,281	4,467,751	4,552,022	4,696,141
Supplementary items					
Risk weighted assets (RWA)	2,743,525	2,859,316	2,973,689	3,062,900	3,154,787
Average interest earning assets	3,414,880	3,962,763	4,343,041	4,451,296	4,551,560
Average interest bearing liabilities	2,914,394	3,405,223	3,691,555	3,774,206	3,859,337
Tier 1 capital	431,380	457,469	477,401	500,142	524,095
Total capital	502,065	560,426	580,358	603,099	627,052
Gross non performing loans (NPL)	104,401	101,103	112,224	122,325	128,441
Per share (THB)					
Book value per share	235.21	258.11	271.35	286.00	301.68
Tangible book value per share	235.21	258.11	271.35	286.00	301.68
Growth					
Gross customer loans	14.9	9.3	4.0	3.0	3.0
Average interest earning assets	8.8	16.0	9.6	2.5	2.3
Total asset (%)	17.0	15.1	3.1	1.9	3.2
Risk weighted assets (%)	14.6	4.2	4.0	3.0	3.0
Customer deposits (%)	18.6	12.3	7.7	1.5	1.4
Leverage & capital measures					
Customer loan/deposits (%)	77.9	75.3	72.8	73.6	74.6
Equity/assets (%)	11.9	11.4	11.6	12.0	12.3
Tangible equity/assets (%)	11.9	11.4	11.6	12.0	12.3
RWA/assets (%)	72.9	66.0	66.6	67.3	67.2
Tier 1 CAR (%)	15.7	16.0	16.1	16.3	16.6
Total CAR (%)	18.3	19.6	19.5	19.7	19.9
Asset Quality					
Change in NPL (%)	31.9	(3.2)	11.0	9.0	5.0
NPL/gross loans (%)	4.4	3.9	4.2	4.4	4.5
Total provisions/gross loans (%)	7.8	8.8	8.8	8.8	9.3
Total provisions/NPL (%)	177.7	225.8	210.2	205.6	207.8
Valuation					
Recurring P/E (x) *	11.7	9.4	8.1	7.3	6.4
Recurring P/E @ target price (x) *	15.3	12.2	10.6	9.5	8.4
Reported P/E (x)	14.4	9.4	8.1	7.3	6.4
Dividend yield (%)	1.9	2.7	3.8	5.0	5.4
Price/book (x)	0.6	0.5	0.5	0.5	0.4
Price/tangible book (x)	0.6	0.5	0.5	0.5	0.4
Price/tangible book @ target price (x)	0.7	0.7	0.6	0.6	0.6

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Bangkok Bank; FSSIA estimates

KASIKORNBANK KBANK TB

THAILAND / BANKS

BUY

UNCHANGED

Striving to unlock long-term growth

- Expect a decent 2Q22 NP of THB11b (+24% y-y, -2% q-q).
- Third most likely to benefit from rate hikes, while its JK AMC should help buffer the impact of high inflation.
- Roll forward to our new 2023 TP of THB192; maintain BUY call.

TARGET PRICE	THB192.00
CLOSE	THB146.00
UP/DOWNSIDE	+31.5%
PRIOR TP	THB180.00
CHANGE IN TP	+6.7%
TP vs CONSENSUS	+7.4%

Expect stronger balance sheet in 2Q22

We expect KBANK to report a 2Q22 net profit of THB11,022m (+24% y-y, -2% q-q). We think KBANK will be the only bank to report a drop in NPLs (-2% y-y, -1% q-q) as its active partnership with JMT should help clean up its balance sheet. According to KBANK, it will sell THB30b worth of NPLs – both on and off-balance sheet – to JK AMC (50% owned by KBANK and JMT each) in 2Q22. At the same time, it will start to do a qualitative downgrade of stage 2 loans to NPLs. Thus, we think its credit cost should increase from 153 bps in 1Q22 to 160 bps in 2Q22 (still lower than 2Q21's 185 bps). As for the revenue side, we think KBANK should deliver 0.4% q-q loan growth, with a slightly lower NIM at 3.17% in 2Q22, down from 3.21% in 1Q22 due to the comprehensive debt restructuring (CDR) program. Its fee income, like other banks, should face continued pressure from the unfavourable capital market conditions and low consumer confidence, in our view.

The third-in-line bank to benefit from rate hikes

Out of the banks under our coverage, we expect KBANK to be the third in line to benefit from rising interest rates after BBL and KTB, respectively. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 2.0% upside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

Pro-active strategy to cope with high inflation

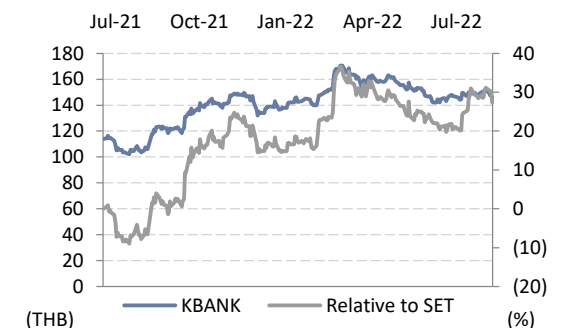
KBANK's portfolio is 33% SMEs and 29% retail clients, which in our view, are the most likely to default in a highly inflationary environment. However, the establishment of JK AMC has reduced our concerns about asset quality and should prevent a potential NPL influx after the relaxed loan classification measures end in 2023. Therefore, we expect the bank to progressively maintain its asset quality and provisions long term.

Maintain BUY with 2023 TP of THB192

We revise up our 2022-24E net profit by 1%/4%/4% mostly to reflect the benefit from the interest rate uptrend. We maintain BUY, while rolling forward our valuation to 2023 to derive a new TP of THB192. We believe KBANK's net profit and ROE will increase continuously. Based on JK AMC and the potential sale of KAsset, we think its transformation aimed at unlocking value and increasing shareholder returns is in full swing.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	52,667	59,881	65,826	72,875
Net profit	38,053	42,072	47,488	52,605
EPS (THB)	16.06	17.76	20.04	22.20
vs Consensus (%)	-	0.4	3.3	0.8
Core net profit	38,053	42,072	47,488	52,605
Core EPS (THB)	16.06	17.76	20.04	22.20
Chg. In EPS est. (%)	-	1.3	3.9	3.5
EPS growth (%)	29.0	10.6	12.9	10.8
Core P/E (x)	9.1	8.2	7.3	6.6
Dividend yield (%)	2.2	3.1	3.4	3.4
Price/book (x)	0.7	0.7	0.6	0.6
ROE (%)	8.3	8.5	9.0	9.2
ROA (%)	1.1	1.2	1.2	1.3



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	1.4	(8.5)	24.8
Relative to country (%)	6.2	(1.2)	23.3
Mkt cap (USD m)	9,592		
3m avg. daily turnover (USD m)	59.6		
Free float (%)	50		
Major shareholder	Thai NVDR (18%)		
12m high/low (THB)	175.00/101.00		
Issued shares (m)	2,369		

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We maintain our BUY call, as we believe KBANK's net profit and ROE will increase continuously.

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.

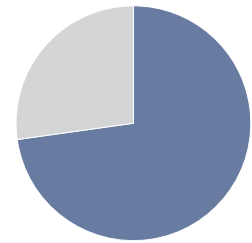
Company profile

Established on 8 June 1945, Kasikornbank was listed on the Stock Exchange of Thailand in 1976. At the end of 2021, KBANK operated 839 branches, down from 860 in 2020 and 10,991 ATMs, up from 10,911 in 2020. In addition, the bank has an international network that includes 16 establishments in eight countries.

www.kasikornbank.com

Principal activities (revenue, 2021)

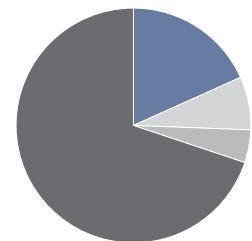
- Net interest income - 72.8 %
- Non-interest income - 27.2 %



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 better asset quality due to setting up JK AMC;
- 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 affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.

Event calendar

Date	Event
21 Jul 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	42,072	47,488	52,605
Net profit growth (%)	10.6	12.9	10.8
NIM (%)	3.18	3.20	3.27
Loan growth (%)	5.0	4.5	4.0
Fee growth (%)	5.5	5.0	5.0
Non-int-income growth (%)	9.5	9.1	6.6
Credit cost (bp)	160	158	158
Cost to income (%)	42.9	42.0	41.0

Source: FSSIA estimates

Earnings sensitivity

		2022E		
		3.0	5.0	7.0
Loan growth	±2ppt			
% change in net profit		(0.5)	-	0.5
NIM (%)	±5bp			
% change in net profit		(2.5)	-	2.5
Credit cost (bp)	±10bp			
% change in net profit		4.0	-	(4.0)

Source: FSSIA estimates

Expect a stronger balance sheet in 2Q22

We expect KBANK to report a 2Q22 net profit of THB11,022m (+24% y-y, -2% q-q). We think KBANK will be the only bank to report a drop in its NPLs (-2% y-y, -1% q-q) due to its active partnership with JMT Network Services (JMT, BUY, TP THB80) to clean up its balance sheet. According to KBANK, it will sell THB30b worth of NPLs – both on and off-balance sheet – to JK AMC (50% owned by KBANK and JMT each) in 2Q22. At the same time, it will start qualitatively downgrading stage 2 loans to NPLs. Thus, we think its credit cost should increase from 153 bps in 1Q22 to 160 bps in 2Q22 (still lower than 2Q21's 185 bps). As for the revenue side, we think KBANK should deliver 0.4% q-q loan growth, with a slightly lower NIM at 3.17% in 2Q22 from 3.21% in 1Q22 due to the CDR program. Its fee income, like other banks, should continue to face pressure from the unfavorable capital market conditions and low consumer confidence.

Exhibit 65: KBANK – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	---- Change ----		----- 1H22E -----			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	29,717	31,751	31,754	7	0	63,504	10	51	125,091	5	
Non-interest income	11,138	8,863	10,302	(8)	16	19,164	(17)	40	48,131	9	Dropping y-y from a decline in fee income
Operating income	40,855	40,613	42,056	3	4	82,669	2	48	173,222	6	
Operating expenses	17,069	17,391	17,879	5	3	35,270	5	47	74,353	5	
PPOP before tax	23,786	23,223	24,176	2	4	47,399	0	48	98,870	7	
Provision	10,807	9,336	9,853	(9)	6	19,189	(1)	48	39,718	(2)	
Income tax	2,548	2,700	2,721	7	1	5,421	(3)	48	11,180	15	
Minority interest	1,537	(24)	580			556		9	5,901	41	
Normalised profit	8,894	11,211	11,022	24	(2)	22,233	14	53	42,072	11	
Extraordinary items	0	0	0			0			0		
Net profit	8,894	11,211	11,022	24	(2)	22,233	14	53	42,072	11	
EPS (THB)	3.75	4.73	4.65	24	(2)	9.38	14	53	17.76	11	
Asset quality ratio											
Gross NPLs (THB m)	106,920	106,482	104,949	(2)	(1)				104,036	0	
NPL ratios (%)	3.95	3.78	3.74						3.58		
LLR/NPLs (%)	136	139	143						143		
Credit cost (bp)	185	153	160						160		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio	41.8	42.8	42.5						42.9		
Average yield (%)	3.7	3.6	3.6						3.6		
Cost of fund (%)	0.6	0.6	0.6						0.6		
Net interest margin (NIM)	3.23	3.21	3.17						3.18		
Non-int inc/total income	27.3	21.8	24.5						27.8		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	96.1	93.3	96.0						91.7		
Capital adequacy ratio	(%)	(%)	(%)						(%)		
CAR	18.2	18.4	19.1						19.1		
CET 1/ Risk assets	15.2	15.2	16.8						16.9		
Tier 2 / Risk assets	2.3	2.6	2.3						2.2		
Loan growth	(%)	(%)	(%)						(%)		
y-y	12.1	6.8	3.6						5.0		
q-q	3.5	1.5	0.4								

*Including share of profits from associates

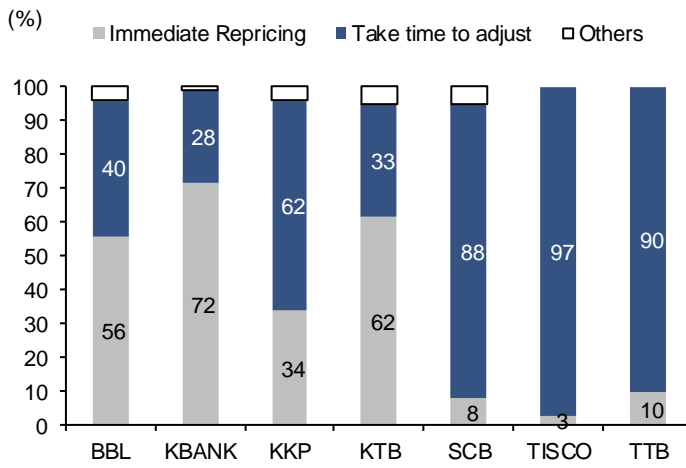
Source: KBANK; FSSIA estimates

The third-in-line bank to benefit from rate hikes

Out of the banks that we cover, our estimates place KBANK as third in line to benefit from rising interest rates, after BBL and KTB, respectively.

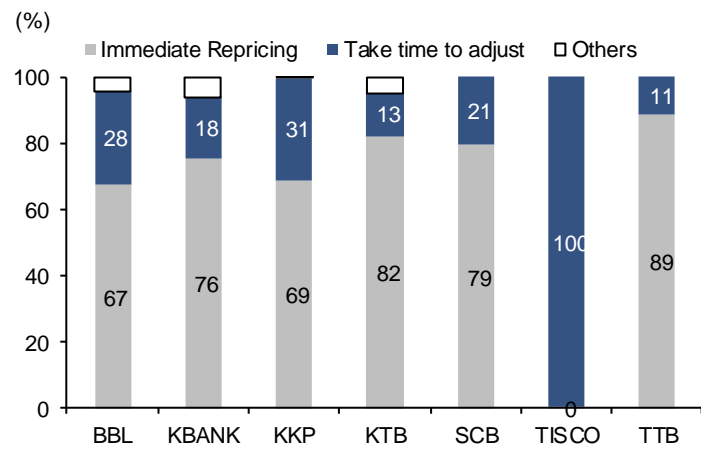
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank's reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 2.0% upside to our current 2023 net profit forecast.

Exhibit 66: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA estimates

Exhibit 67: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA estimates

Exhibit 68: We expect a 2.0% upside to KBANK's 2023E net profit for every 25-bps rise in the policy rate – assuming a 12.5-bps increase in its M-rate and a five-bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We revise up our net profit forecasts for 2022-24 by 1%/4%/4% mostly to reflect the benefit from the interest rate uptrend by raising our NIM assumptions in 2022-24 to 3.18%/3.20%/3.27% from 3.16%/3.12%/3.21%.

Furthermore, we incorporate the potential benefit from partnering with JMT that could help resolve asset quality problems. Thus, we lower our NPL assumptions in 2022-24 by 3%/2%/1%.

However, we increase our credit cost assumptions in 2023-24 to 158/158 bps from 155/155 bps. We think KBANK will be more aggressive in qualitatively downgrading its stage 2 loans after it begins selling NPLs to JK AMC. On top of that, we think the deterioration rate of its assets might increase from high inflation.

To recap, FSSIA expects policy rate hikes of 50 bps in 2022 and another 50 bps in 1H23, lifting Thailand's policy rate to 1% in 2022 and 1.5% in 2023. We assume that the bank will increase 1) its reference rates (MLR, MRR, MOR) by 25 bps in 2022 and by another 25 bps in 2023; and 2) its deposit rate by 10 bps in 2022 and by another 10 bps in 2023. Note that our cost of funds already reflects the 0.46% Financial Institutions Development Fund (FIDF) fee from 2023 onward.

Exhibit 69: KBANK – changes in key assumptions

	-----2022E-----				-----2023E-----			-----2024E-----		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	119,390	124,346	125,091	0.6	127,198	130,455	2.6	135,970	138,662	2.0
Non interest income*	43,958	48,131	48,131	-	51,549	52,510	1.9	54,523	55,983	2.7
Operating income*	163,349	172,477	173,222	0.4	178,747	182,964	2.4	190,493	194,646	2.2
Operating expenses	71,044	74,353	74,353	-	75,742	76,822	1.4	78,615	79,749	1.4
PPOP before tax*	92,305	98,125	98,870	0.8	103,004	106,143	3.0	111,877	114,897	2.7
Expected credit loss	40,332	39,718	39,718	-	40,400	41,082	1.7	42,213	42,826	1.5
Taxes expenses	9,729	11,039	11,180	1.3	11,832	12,296	3.9	13,166	13,621	3.5
Minority interest	4,192	5,826	5,901	1.3	5,077	5,276	3.9	5,650	5,845	3.5
Normalised profit	38,053	41,542	42,072	1.3	45,695	47,488	3.9	50,848	52,605	3.5
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	38,053	41,542	42,072	1.3	45,695	47,488	3.9	50,848	52,605	3.5
EPS (THB)	16.06	17.53	17.76	1.3	19.29	20.04	3.9	21.46	22.20	3.5
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (THB m)	104,036	107,157	104,036	(2.9)	109,300	107,157	(2.0)	115,858	114,658	(1.0)
Gross NPLs / Loans (%)	3.76	3.69	3.58		3.58	3.53		3.65	3.63	
Loan loss reserve/NPLs (%)	139	139	143		139	143		134	137	
Credit cost (bps)	173	160	160		155	158		155	158	
Profitability ratio	(%)	(%)	(%)		(%)	(%)		(%)	(%)	
Cost to income ratio*	43.5	43.1	42.9		42.4	42.0		41.3	41.0	
Average yield	3.70	3.59	3.60		3.72	3.82		3.84	3.92	
Cost of fund	0.59	0.57	0.57		0.81	0.84		0.85	0.88	
Net interest margin (NIM)	3.26	3.16	3.18		3.12	3.20		3.21	3.27	
Liquidity ratio	(%)	(%)	(%)		(%)	(%)		(%)	(%)	
Loan to deposit ratio	93.2	91.7	91.7		93.5	93.0		94.9	94.4	
Loan growth (%)	(%)	(%)	(%)		(%)	(%)		(%)	(%)	
y-y	7.9	5.0	5.0		5.0	4.5		4.0	4.0	

*Including share of profits from associates

Source: FSSIA estimates

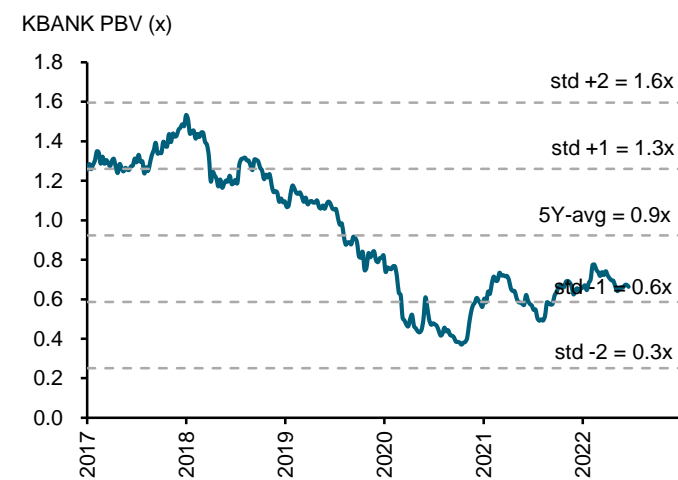
We roll forward our valuation to 2023 and derive a new TP of THB192, up from our 2022 TP of THB180. Our TP implies 0.83x 2023E P/BV, 0.5 STD below its five-year average. We maintain our BUY rating.

Exhibit 70: KBANK – GGM-derived target price

Target price	THB 192 (from THB 180)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	9.1 (unchanged)
Terminal growth (%)	4.8 (from 4.0)
ROE target (%)	9.0 (from 8.7)

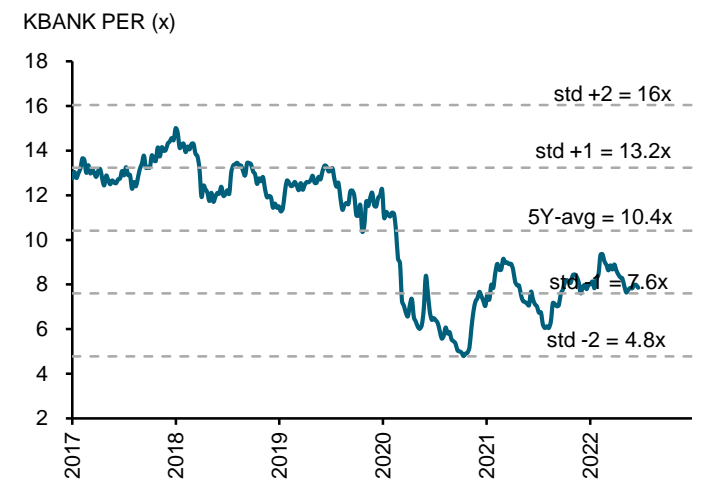
Source: FSSIA estimates

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



Sources: Bloomberg; FSSIA estimates

Exhibit 72: KBANK – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 73: Peers comparison

	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
			Current (THB)	Target (THB)			22E (%)	23E (%)	22E (x)	23E (x)	22E (%)	23E (%)	22E (%)	23E (%)	22E (x)	23E (x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

Kasikornbank

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	127,592	135,415	141,838	155,750	166,104
Interest expense	(18,570)	(16,024)	(16,747)	(25,296)	(27,442)
Net interest income	109,022	119,390	125,091	130,455	138,662
Net fees & commission	33,004	35,316	37,273	39,137	41,094
Foreign exchange trading income	0	0	0	0	0
Securities trading income	9,428	6,356	6,397	7,401	7,946
Dividend income	2,384	3,310	3,475	3,649	3,831
Other income	1,246	(330)	1,714	3,088	3,916
Non interest income	46,063	44,653	48,860	53,275	56,787
Total income	155,085	164,043	173,951	183,730	195,450
Staff costs	(32,143)	(34,481)	(35,170)	(35,874)	(36,950)
Other operating costs	(37,853)	(36,563)	(39,182)	(40,948)	(42,799)
Operating costs	(69,997)	(71,044)	(74,353)	(76,822)	(79,749)
Pre provision operating profit	85,088	92,999	99,599	106,908	115,701
Provision for bad and doubtful debt	(43,548)	(40,332)	(39,718)	(41,082)	(42,826)
Other provisions	-	-	-	-	-
Operating profit	41,540	52,667	59,881	65,826	72,875
Recurring non operating income	(193)	(694)	(729)	(766)	(804)
Associates	(193)	(694)	(729)	(766)	(804)
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	41,347	51,973	59,152	65,061	72,071
Tax	(7,656)	(9,729)	(11,180)	(12,296)	(13,621)
Profit after tax	33,690	42,244	47,972	52,764	58,450
Minority interests	(4,203)	(4,192)	(5,901)	(5,276)	(5,845)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	29,487	38,053	42,072	47,488	52,605
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	29,487	38,053	42,072	47,488	52,605
Per share (THB)					
Recurring EPS *	12.45	16.06	17.76	20.04	22.20
Reported EPS	12.45	16.06	17.76	20.04	22.20
DPS	2.50	3.25	4.50	5.00	5.00
Growth					
Net interest income (%)	6.2	9.5	4.8	4.3	6.3
Non interest income (%)	(20.3)	(3.1)	9.4	9.0	6.6
Pre provision operating profit (%)	(3.0)	9.3	7.1	7.3	8.2
Operating profit (%)	(22.7)	26.8	13.7	9.9	10.7
Reported net profit (%)	(23.9)	29.0	10.6	12.9	10.8
Recurring EPS (%)	(23.1)	29.0	10.6	12.9	10.8
Reported EPS (%)	(23.1)	29.0	10.6	12.9	10.8
Income Breakdown					
Net interest income (%)	70.3	72.8	71.9	71.0	70.9
Net fees & commission (%)	21.3	21.5	21.4	21.3	21.0
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	6.1	3.9	3.7	4.0	4.1
Dividend income (%)	1.5	2.0	2.0	2.0	2.0
Other income (%)	0.8	(0.2)	1.0	1.7	2.0
Operating performance					
Gross interest yield (%)	3.86	3.70	3.60	3.82	3.92
Cost of funds (%)	0.78	0.59	0.57	0.84	0.88
Net interest spread (%)	3.08	3.11	3.03	2.98	3.04
Net interest margin (%)	3.3	3.3	3.2	3.2	3.3
Cost/income(%)	45.1	43.3	42.7	41.8	40.8
Cost/assets(%)	2.0	1.8	1.8	1.8	1.8
Effective tax rate (%)	18.5	18.7	18.9	18.9	18.9
Dividend payout on recurring profit (%)	20.1	20.2	25.3	24.9	22.5
ROE (%)	7.0	8.3	8.5	9.0	9.2
ROE - COE (%)	(3.0)	(1.6)	(1.4)	(1.0)	(0.7)
ROA (%)	1.0	1.1	1.2	1.2	1.3
RORWA (%)	1.5	1.7	1.8	1.9	2.0

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kasikornbank; FSSIA estimates

Financial Statements

Kasikornbank

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Gross customer loans	2,244,821	2,421,813	2,542,904	2,657,334	2,763,628
Total provisions	(134,393)	(144,772)	(148,889)	(152,768)	(156,903)
interest in suspense	11,272	16,599	20,343	21,259	22,109
Net customer loans	2,121,700	2,293,640	2,414,358	2,525,825	2,628,834
Bank loans	417,420	420,494	405,081	439,619	457,012
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	777,790	1,034,372	1,044,995	1,055,746	1,098,167
Cash & equivalents	61,962	59,972	64,729	32,238	61,389
Other interesting assets	-	-	-	-	-
Tangible fixed assets	85,664	97,185	97,343	98,276	88,448
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	194,261	197,736	203,017	209,330	218,513
Total assets	3,658,798	4,103,399	4,229,522	4,361,033	4,552,363
Customer deposits	2,344,998	2,598,630	2,773,612	2,856,820	2,926,076
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	183,631	315,685	228,133	234,977	289,392
Non interest bearing liabilities	638,883	652,409	652,409	652,409	671,981
Hybrid Capital	-	-	-	-	-
Total liabilities	3,167,512	3,566,724	3,654,153	3,744,205	3,887,449
Share capital	23,693	23,693	23,693	23,693	23,693
Reserves	415,976	453,020	487,392	524,218	566,931
Total equity	439,670	476,714	511,085	547,911	590,624
Minority interests	51,616	59,961	64,285	68,917	74,289
Total liabilities & equity	3,658,798	4,103,399	4,229,522	4,361,033	4,552,363
Supplementary items					
Risk weighted assets (RWA)	2,404,276	2,630,858	2,762,401	2,886,709	3,002,177
Average interest earning assets	3,302,313	3,658,355	3,934,829	4,072,839	4,235,753
Average interest bearing liabilities	2,368,844	2,695,575	2,930,346	3,016,303	3,122,096
Tier 1 capital	387,854	433,959	466,321	500,439	538,638
Total capital	452,095	493,930	526,292	560,410	598,609
Gross non performing loans (NPL)	101,007	104,036	104,036	107,157	114,658
Per share (THB)					
Book value per share	185.57	201.20	215.71	231.25	249.28
Tangible book value per share	185.57	201.20	215.71	231.25	249.28
Growth					
Gross customer loans	12.1	7.9	5.0	4.5	4.0
Average interest earning assets	6.5	10.8	7.6	3.5	4.0
Total asset (%)	11.1	12.2	3.1	3.1	4.4
Risk weighted assets (%)	8.7	9.4	5.0	4.5	4.0
Customer deposits (%)	13.2	10.8	6.7	3.0	2.4
Leverage & capital measures					
Customer loan/deposits (%)	90.5	88.3	87.0	88.4	89.8
Equity/assets (%)	12.0	11.6	12.1	12.6	13.0
Tangible equity/assets (%)	12.0	11.6	12.1	12.6	13.0
RWA/assets (%)	65.7	64.1	65.3	66.2	65.9
Tier 1 CAR (%)	16.1	16.5	16.9	17.3	17.9
Total CAR (%)	18.8	18.8	19.1	19.4	19.9
Asset Quality					
Change in NPL (%)	20.2	3.0	-	3.0	7.0
NPL/gross loans (%)	4.5	4.3	4.1	4.0	4.1
Total provisions/gross loans (%)	6.0	6.0	5.9	5.5	5.7
Total provisions/NPL (%)	133.1	139.2	143.1	142.6	136.8
Valuation					
Recurring P/E (x) *	11.7	9.1	8.2	7.3	6.6
Recurring P/E @ target price (x) *	15.4	12.0	10.8	9.6	8.6
Reported P/E (x)	11.7	9.1	8.2	7.3	6.6
Dividend yield (%)	1.7	2.2	3.1	3.4	3.4
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	1.0	0.9	0.8	0.8

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kasikornbank; FSSIA estimates

KIATNAKIN BANK KKP TB

THAILAND / BANKS

BUY

UNCHANGED

Strong NP growth amid rate hikes

- Expect outperforming 2Q22 NP of THB1.9b from solid loan growth.
- The most negative impact from the rate hikes should be partly cushioned by strong fee income.
- Recent share price drop has mostly factored in the concern over rate hikes; maintain BUY call.

TARGET PRICE	THB82.00
CLOSE	THB61.75
UP/DOWNSIDE	+32.8%
PRIOR TP	THB86.00
CHANGE IN TP	-4.7%
TP vs CONSENSUS	-1.0%

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	7,797	9,404	10,300	11,499
Net profit	6,318	7,572	8,293	9,258
EPS (THB)	7.46	8.94	9.79	10.93
vs Consensus (%)	-	6.0	8.2	7.4
Core net profit	6,318	7,572	8,293	9,258
Core EPS (THB)	7.46	8.94	9.79	10.93
Chg. In EPS est. (%)	-	(0.6)	(2.7)	(2.4)
EPS growth (%)	23.3	19.8	9.5	11.6
Core P/E (x)	8.3	6.9	6.3	5.6
Dividend yield (%)	4.8	7.1	8.1	8.9
Price/book (x)	1.0	0.9	0.9	0.8
ROE (%)	13.0	14.2	14.5	15.0
ROA (%)	1.6	1.7	1.8	1.9

Solid loan growth should drive 2Q22 net profit

We expect KKP to report an outperforming 2Q22 net profit of THB1,875m (+38% y-y, -9% q-q). We see two positives: 1) continued outstanding loan growth of 18% y-y and 2% q-q following the bank's strategy to tap into the new low-risk auto lending segment; and 2) efficient asset quality control, with an expected rise in NPLs by 4% q-q. As for fee income, it should decline y-y and q-q due to brokerage and IB fees thanks to the lower capital market activities. Regarding losses on repossessed cars, we think they should increase q-q due to the abnormally good level in 1Q22. Accordingly, our concern on this point is limited.

KKP could be the most negatively impacted by rate hikes

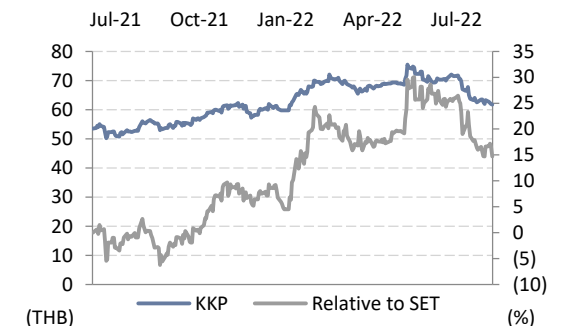
Out of the banks that we cover, our estimates place KKP as the most negatively impacted by rising interest rates due to two reasons. First, the bank has a high proportion of fixed-rate loans. Second, during the past two years, KKP increased its auto loans significantly, meaning that it would take two to three years for this loan volume to reprice. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 1.5% downside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

Strong fee income franchise should minimise margin squeeze

To us, fee income could be a key catalyst for KKP's bottom-line growth. This is because Phatra Capital has a strong and stable securities brokerage revenue share and a solid investment banking franchise. We expect KKP's fee income to be stronger, driven by major investment banking deals. Accordingly, once its interest spread is increasingly squeezed, its fee income should cushion its net profit, in our view.

Maintain our BUY call with a new 2023 TP of THB82

We lower our net profit forecasts for 2022-24 by 1%/3%/2% to reflect the drawbacks from the interest rate uptrend, including lower NIM; lower loan growth; and higher credit costs. We roll forward our valuation to 2023 and derive a new TP of THB82. The 13% drop in its share price over one month has mostly reflected the concern over rate hikes, in our view. Also, we believe KKP will deliver satisfactory net profit growth throughout 2022-23, resulting in a rise in its ROE. Thus, we maintain our BUY call.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(12.4)	(10.8)	11.3
Relative to country (%)	(8.2)	(3.8)	9.9
Mkt cap (USD m)	1,450		
3m avg. daily turnover (USD m)	12.4		
Free float (%)	80		
Major shareholder	Wattanavekin family (4%)		
12m high/low (THB)	76.25/49.75		
Issued shares (m)	847		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

KKP is a modest commercial banking operation whose main portfolio includes hire purchase lending. The bank commands a medium-sized c5-6% market share in auto hire purchase lending. Moreover, KKP has a solid capital market 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 institutional brokerage position, plus its IB and FA businesses, should help it to generate more sustainable performance.

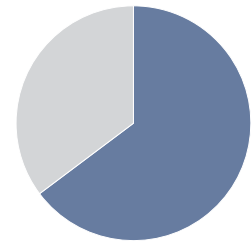
Company profile

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, 2021)

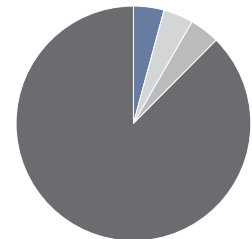
- Net interest income - 64.8 %
- Non-interest income - 35.2 %



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-July 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	7,572	8,293	9,258
Net profit growth (%)	19.8	9.5	11.6
NIM (%)	4.43	4.19	4.16
Loan growth (%)	11.0	6.5	4.8
Fee growth (%)	1.0	4.8	1.0
Non-NII growth (%)	(9.6)	5.8	2.9
Credit cost (bp)	140	126	117
Cost to income (%)	45.1	44.5	43.4

Source: FSSIA estimates

Earnings sensitivity

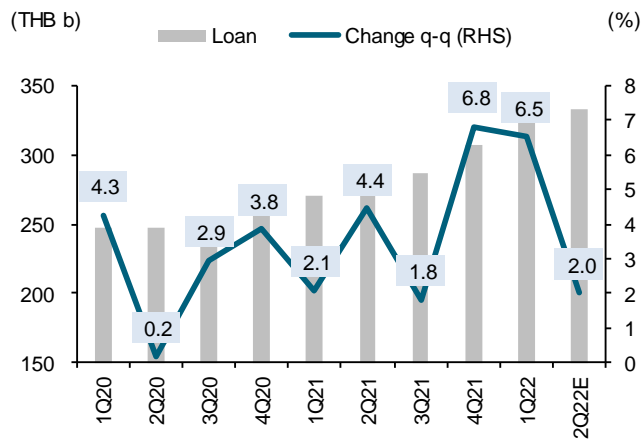
		----- 2022E -----		
		9.00	11.00	13.00
Loan growth	±2ppt			
% change in net profit		(1.2)	-	1.2
NIM (%)	±5bp			
% change in net profit		(2.8)	-	2.8
Credit cost (bp)	±10bp			
% change in net profit		3.7	-	(3.7)

Source: FSSIA estimates

Solid loan growth should drive 2Q22 net profit

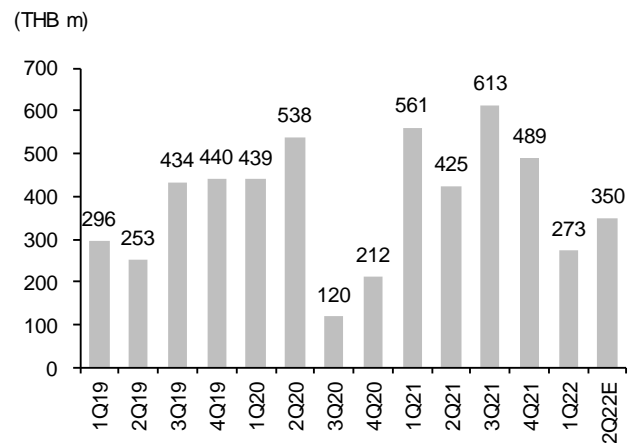
We expect KKP to report an outperforming 2Q22 net profit of THB1,875m (+38% y-y, -9% q-q). We see two positives: 1) continued outstanding loan growth of 18% y-y and 2% q-q following the bank's strategy to tap into the new low-risk auto lending segment; and 2) efficient asset quality control, with an expected rise in non-performing loans (NPLs) by 4% q-q. As for fee income, it should decline y-y and q-q due to brokerage and IB fees thanks to the lower capital market activities. Regarding losses on repossessed cars, we think they should increase q-q due to the abnormally good level in 1Q22. Accordingly, our concern on this point is limited. Losses on repossessed cars remain in good shape, in our view.

Exhibit 74: Quarterly loan growth



Sources: KKP; FSSIA's compilation

Exhibit 75: Losses from repossessed car sales



Sources: KKP; FSSIA's compilation

Exhibit 76: KKP – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	--- Change ---		----- 1H22E -----			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	3,794	4,304	4,586	21	7	8,890	17	50	17,674	13	
Non-interest income*	1,941	2,137	1,860	(4)	(13)	3,997	7	52	7,724	(10)	
Operating income*	5,735	6,441	6,446	12	0	12,887	14	51	25,398	5	
Operating expenses	2,678	2,793	2,861	7	2	5,655	7	49	11,461	2	
PPOP before tax*	3,058	3,648	3,584	17	(2)	7,232	19	52	13,937	7	
Provision	1,378	1,066	1,238	(10)	16	2,304	(12)	51	4,533	(13)	
Income tax	322	521	469	46	(10)	990	58	55	1,787	24	
Minority interest	4	6	2			8		18	46	23	
Normalised profit	1,354	2,055	1,875	38	(9)	3,930	40	52	7,572	20	
Extraordinary items	0	0	0			0			0		
Net profit	1,354	2,055	1,875	38	(9)	3,930	40	52	7,572	20	
EPS (THB)	1.60	2.43	2.21	38	(9)	4.64	40	52	8.94	20	
Asset quality ratio											
Gross NPLs (THB m) ex POCI**	9,652	9,483	9,819	2	4				10,710	13	
NPL ratios (%) ex POCI	3.40	2.90	2.94						3.14		
LLR/NPLs (%) ex POCI	160	181	178						177		
Credit cost (bp)	200	135	150						140		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	46.7	43.4	44.4						45.1		
Average yield (%)	5.4	5.1	5.2						5.5		
Cost of fund (%)	1.2	1.1	1.1						1.2		
Net interest margin (NIM)	4.3	4.2	4.2						4.4		
Non-int inc/total income	33.8	33.2	28.9						30.4		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	113.2	109.2	108.5						109.6		
Loan growth	(%)	(%)	(%)						(%)		
y-y	14.0	21.0	18.1						11.0		
q-q	4.4	6.5	2.0								

*Including share of profits from associates; ** POCI = Purchased or Originated Credit Impaired

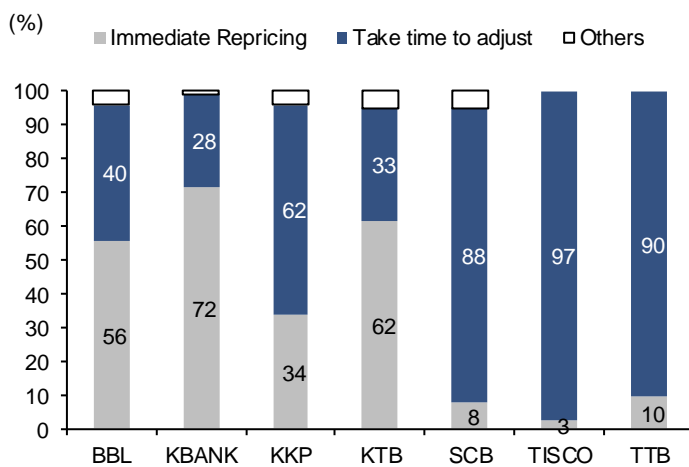
Source: FSSIA estimates

KKP could be the most negatively impacted by rate hikes

Out of the banks that we cover, our estimates place KKP as the most negatively impacted by rising interest rates due to two reasons. First, the bank has a high proportion of fixed-rate loans. Second, during the past two years, KKP increased its auto loans significantly, meaning that it would take two to three years for this loan volume to reprice.

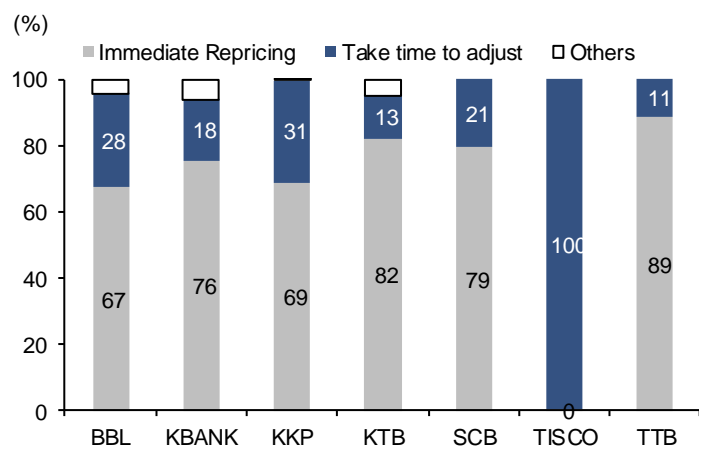
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank’s reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25-bps increase in the policy rate (assuming a 12.5 bps increase in the bank’s M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 1.5% downside to our current 2023 net profit forecast.

Exhibit 77: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA estimates

Exhibit 78: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA estimates

Exhibit 79: We expect a 1.5% downside to KKP’s 2023E net profit for every 25-bps rise in the policy rate – assuming a 12.5-bps increase in its M-rate and a five-bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We lower our net profit forecasts for 2022-24 by 1%/3%/2% mostly to reflect the drawbacks from the interest rate uptrend. We think KKP will be hurt by a tighter margin and higher asset deterioration rate. Therefore, we:

- 1) lower our NIM assumptions in 2022-24 to 4.43%/4.19%/4.16% from 4.44%/4.22%/4.20% as we expect KKP's cost of funds to immediately increase from the rate hikes, while its loan yield should gradually adjust;
- 2) increase our credit cost assumptions in 2023-24 to 126/117 bps from 120/110 bps as we expect a higher asset deterioration rate from high inflation due to its retail-concentrated portfolio; and
- 3) lower our loan growth assumptions in 2023-24 to 6.5%/4.8% from 7.0%/5.0% as we believe the bank will lend new loans more cautiously due to the higher NPLs.

Exhibit 80: KKP – changes in key assumptions

	-----2022E-----				-----2023E-----			-----2024E-----		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	15,701	17,729	17,674	(0.3)	18,480	18,361	(0.6)	19,730	19,570	(0.8)
Non interest income	8,545	7,724	7,724	-	8,211	8,174	(0.5)	8,450	8,413	(0.4)
Operating income	24,246	25,453	25,398	(0.2)	26,691	26,535	(0.6)	28,180	27,982	(0.7)
Operating expenses	11,248	11,461	11,461	-	11,872	11,803	(0.6)	12,211	12,138	(0.6)
PPOP before tax	12,998	13,992	13,937	(0.4)	14,819	14,732	(0.6)	15,969	15,845	(0.8)
Provision (Reversal)	5,201	4,533	4,533	-	4,231	4,432	4.7	4,110	4,346	5.7
Taxes expenses	1,442	1,797	1,787	(0.6)	2,012	1,957	(2.7)	2,313	2,185	(5.5)
Minority interest	37	46	46	(0.6)	51	50	(2.7)	57	56	(2.4)
Normalised profit	6,318	7,616	7,572	(0.6)	8,525	8,293	(2.7)	9,489	9,258	(2.4)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	6,318	7,616	7,572	(0.6)	8,525	8,293	(2.7)	9,489	9,258	(2.4)
EPS (THB)	7.46	8.99	8.94	(0.6)	10.07	9.79	(2.7)	11.21	10.93	(2.4)
Key statistic and ratio										
Asset quality ratio										
Gross NPLs (THB m)	10,191	11,414	11,516	0.9	12,555	13,013	3.6	13,811	14,444	4.6
Gross NPLs / Loans	3.30	3.33	3.36		3.42	3.56		3.59	3.78	
Loan loss reserve/NPLs	162	166	165		168	163		165	161	
Credit cost (bp)	182	140	140		120	126		110	117	
Profitability ratio										
Cost to income ratio	46.4	45.0	45.1		44.5	44.5		43.3	43.4	
Average yield (%)	5.6	5.5	5.5		5.5	5.6		5.5	5.6	
Cost of fund (%)	1.2	1.2	1.2		1.5	1.7		1.6	1.8	
Net interest margin (NIM)	4.52	4.44	4.43		4.22	4.19		4.20	4.16	
Liquidity ratio										
Loan to deposit ratio	106.4	109.6	109.6		111.6	111.1		114.9	114.1	
% growth										
Loan growth (y-y)	15.9	11.0	11.0		7.0	6.5		5.0	4.8	

*Including share of profits from associates

Source: FSSIA estimates

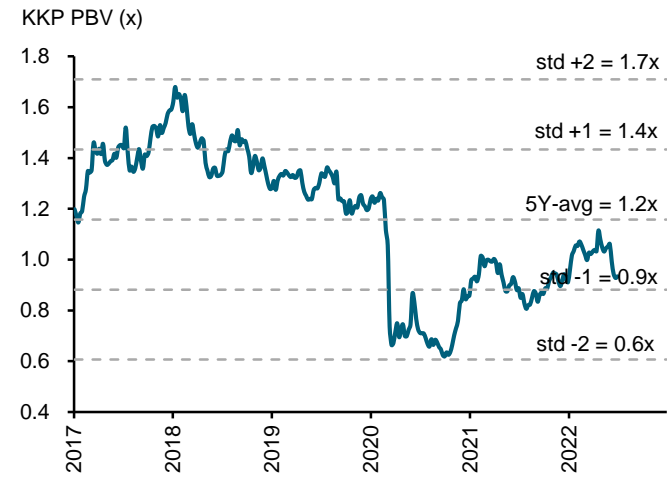
We roll forward our valuation to 2023 and derive a new TP of THB82, down from our 2022 TP of THB86, as we believe the bank should be negatively impacted by the rate hikes. Our TP implies 1.17x 2023E P/BV, its five-year average STD. We maintain our BUY rating.

Exhibit 81: KKP – GGM-derived target price

Target price	THB 82 (from THB 86)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	12.6 (from 12.6)
Terminal growth (%)	4.5 (from 4.7)
ROE target (%)	14.5 (from 14.8)

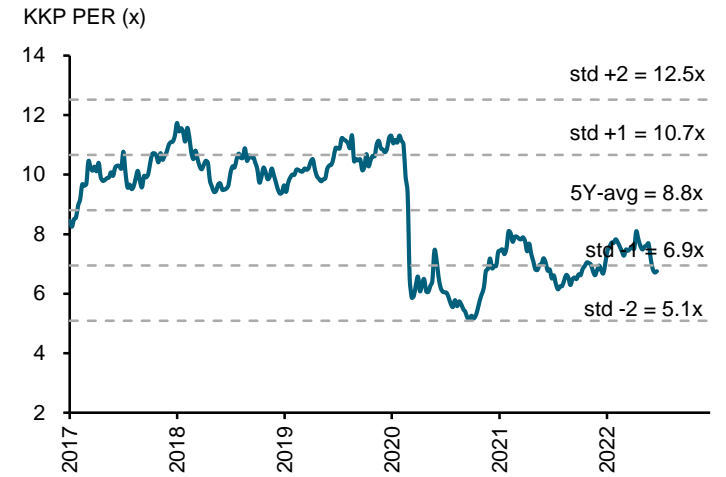
Source: FSSIA estimates

Exhibit 82: KKP – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 83: KKP – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 84: Peers comparison

	BBG	Rec	--- Share price ---		Up	Market	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

Kiatnakin Bank

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	19,584	19,489	21,959	24,686	26,551
Interest expense	(4,905)	(3,788)	(4,285)	(6,325)	(6,981)
Net interest income	14,679	15,701	17,674	18,361	19,570
Net fees & commission	4,336	6,074	6,135	6,431	6,495
Foreign exchange trading income	1,079	(158)	200	320	352
Securities trading income	50	(10)	(11)	(12)	(13)
Dividend income	389	1,329	700	700	770
Other income	700	1,309	700	735	809
Non interest income	6,554	8,545	7,724	8,174	8,413
Total income	21,233	24,246	25,398	26,535	27,982
Staff costs	(5,664)	(6,428)	(6,878)	(7,222)	(7,656)
Other operating costs	(4,988)	(4,820)	(4,583)	(4,580)	(4,482)
Operating costs	(10,652)	(11,248)	(11,461)	(11,803)	(12,138)
Pre provision operating profit	10,581	12,998	13,937	14,732	15,845
Provision for bad and doubtful debt	(4,095)	(5,201)	(4,533)	(4,432)	(4,346)
Other provisions	-	-	-	-	-
Operating profit	6,487	7,797	9,404	10,300	11,499
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	6,487	7,797	9,404	10,300	11,499
Tax	(1,344)	(1,442)	(1,787)	(1,957)	(2,185)
Profit after tax	5,143	6,355	7,617	8,343	9,314
Minority interests	(20)	(37)	(46)	(50)	(56)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	5,123	6,318	7,572	8,293	9,258
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	5,123	6,318	7,572	8,293	9,258
Per share (THB)					
Recurring EPS *	6.05	7.46	8.94	9.79	10.93
Reported EPS	6.05	7.46	8.94	9.79	10.93
DPS	2.25	2.95	4.40	5.00	5.50
Growth					
Net interest income (%)	19.2	7.0	12.6	3.9	6.6
Non interest income (%)	(4.3)	30.4	(9.6)	5.8	2.9
Pre provision operating profit (%)	17.9	22.8	7.2	5.7	7.6
Operating profit (%)	(11.1)	20.2	20.6	9.5	11.6
Reported net profit (%)	(14.4)	23.3	19.8	9.5	11.6
Recurring EPS (%)	(14.4)	23.3	19.8	9.5	11.6
Reported EPS (%)	(14.4)	23.3	19.8	9.5	11.6
Income Breakdown					
Net interest income (%)	69.1	64.8	69.6	69.2	69.9
Net fees & commission (%)	20.4	25.1	24.2	24.2	23.2
Foreign exchange trading income (%)	5.1	(0.7)	0.8	1.2	1.3
Securities trading income (%)	0.2	0.0	0.0	0.0	0.0
Dividend income (%)	1.8	5.5	2.8	2.6	2.8
Other income (%)	3.3	5.4	2.8	2.8	2.9
Operating performance					
Gross interest yield (%)	6.42	5.61	5.50	5.63	5.65
Cost of funds (%)	1.83	1.18	1.20	1.68	1.79
Net interest spread (%)	4.59	4.43	4.30	3.95	3.86
Net interest margin (%)	4.8	4.5	4.4	4.2	4.2
Cost/income(%)	50.2	46.4	45.1	44.5	43.4
Cost/assets(%)	3.2	2.8	2.6	2.5	2.4
Effective tax rate (%)	20.7	18.5	19.0	19.0	19.0
Dividend payout on recurring profit (%)	37.2	39.5	49.2	51.1	50.3
ROE (%)	11.3	13.0	14.2	14.5	15.0
ROE - COE (%)	0.5	2.2	3.4	3.7	4.2
ROA (%)	1.5	1.6	1.7	1.8	1.9
RORWA (%)	1.9	2.1	2.3	2.3	2.5

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kiatnakin Bank; FSSIA estimates

Financial Statements

Kiatnakin Bank

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Gross customer loans	264,773	306,910	340,670	362,813	380,047
Total provisions	(13,105)	(16,505)	(18,994)	(21,250)	(23,315)
interest in suspense	7,178	8,743	8,176	7,256	7,601
Net customer loans	258,846	299,148	329,851	348,820	364,333
Bank loans	32,771	55,238	43,979	45,753	65,172
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	34,603	39,205	40,744	42,350	44,025
Cash & equivalents	1,491	1,242	3,338	3,460	3,736
Other interesting assets	-	-	-	-	-
Tangible fixed assets	6,451	7,804	7,408	7,068	6,777
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	29,250	33,486	34,485	36,280	37,122
Total assets	363,411	436,123	459,806	483,730	521,166
Customer deposits	251,526	288,382	310,965	326,513	333,043
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	39,184	61,378	56,283	59,097	60,287
Non interest bearing liabilities	26,076	35,201	36,961	38,809	36,869
Hybrid Capital	-	-	-	-	-
Total liabilities	316,785	384,961	404,209	424,420	430,199
Share capital	8,468	8,468	8,468	8,468	8,468
Reserves	38,050	42,579	47,003	50,709	56,141
Total equity	46,517	51,046	55,470	59,176	64,608
Minority interests	109	116	126	135	147
Total liabilities & equity	363,411	436,123	459,806	483,730	494,954
Supplementary items					
Risk weighted assets (RWA)	288,370	313,428	347,905	370,519	388,119
Average interest earning assets	305,121	347,536	399,272	438,155	470,080
Average interest bearing liabilities	267,916	320,023	358,258	376,171	389,199
Tier 1 capital	41,319	42,676	46,488	49,848	54,813
Total capital	52,714	54,380	58,192	61,551	66,517
Gross non performing loans (NPL)	8,456	10,191	11,516	13,013	14,444
Per share (THB)					
Book value per share	54.94	60.28	65.51	69.89	76.30
Tangible book value per share	54.94	60.28	65.51	69.89	76.30
Growth					
Gross customer loans	11.7	15.9	11.0	6.5	4.8
Average interest earning assets	6.3	13.9	14.9	9.7	7.3
Total asset (%)	16.6	20.0	5.4	5.2	7.7
Risk weighted assets (%)	7.9	8.7	11.0	6.5	4.8
Customer deposits (%)	46.1	14.7	7.8	5.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	102.9	103.7	106.1	106.8	109.4
Equity/assets (%)	12.8	11.7	12.1	12.2	12.4
Tangible equity/assets (%)	12.8	11.7	12.1	12.2	12.4
RWA/assets (%)	79.4	71.9	75.7	76.6	74.5
Tier 1 CAR (%)	14.3	13.6	13.4	13.5	14.1
Total CAR (%)	18.3	17.4	16.7	16.6	17.1
Asset Quality					
Change in NPL (%)	(11.5)	20.5	13.0	13.0	11.0
NPL/gross loans (%)	3.2	3.3	3.4	3.6	3.8
Total provisions/gross loans (%)	4.9	5.4	5.6	5.6	6.1
Total provisions/NPL (%)	155.0	162.0	164.9	163.3	161.4
Valuation					
Recurring P/E (x) *	10.2	8.3	6.9	6.3	5.6
Recurring P/E @ target price (x) *	13.6	11.0	9.2	8.4	7.5
Reported P/E (x)	10.2	8.3	6.9	6.3	5.6
Dividend yield (%)	3.6	4.8	7.1	8.1	8.9
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)	1.5	1.4	1.3	1.2	1.1

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kiatnakin Bank; FSSIA estimates

KRUNG THAI BANK

THAILAND / BANKS

KTB TB

BUY

UNCHANGED

Safe haven amid the perfect storm

- Expect a 2Q22 NP of THB7.2b on lower provisions and OPEX.
- Second most likely to benefit from rate hikes, while at the same time facing limited impacts from high inflation.
- Roll forward TP to 2023 at THB18.2; maintain as top pick.

TARGET PRICE	THB18.20
CLOSE	THB14.70
UP/DOWNSIDE	+23.8%
PRIOR TP	THB16.40
CHANGE IN TP	+11.0%
TP vs CONSENSUS	+16.2%

Solid asset quality and good OPEX control should drive 2Q22 NP

We expect KTB to report a 2Q22 net profit of THB7,170m (+19% y-y, -18% q-q). We still hold a positive view of KTB's asset quality and expect NPLs to be stable q-q due to its low-risk portfolio profile compared with its peers. Thus, we expect KTB to reduce its credit cost from 134 bps in 2Q21 to 100 bps in 2Q22 (credit cost should rise q-q due to the abnormal low in 1Q22). Also, we believe KTB should continue to control its OPEX effectively, resulting in an expected 43% cost to income ratio. Regarding the revenue side, we think KTB – like the other banks – will deliver unexciting revenue growth. We expect its loan volume to slightly increase by 1% q-q, with a relatively stable NIM of 2.44%. Its fee income should drop due to the unfavourable capital market conditions and clients' changing behaviour toward increased digital platform use.

KTB second in line to benefit from rate hikes

Out of the banks under our coverage, we expect that KTB stands to benefit the second most from the interest rate uptrend. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 2.6% upside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

Limited concerns about asset quality from high inflation

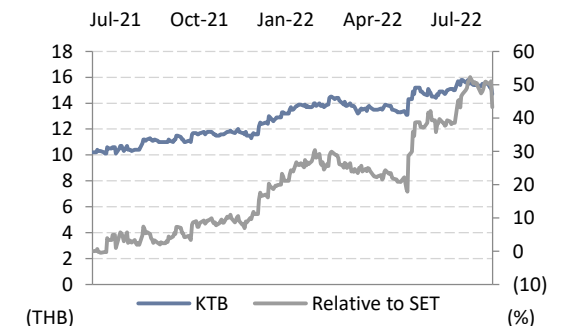
We are convinced that KTB should be able to control its asset quality effectively as its portfolio is comprised of 27% corporates, 21% government entities, and c25% government officials – segments that have been the least impacted by Covid-19 and the highly inflationary environment. We believe KTB will gain a wider margin from the rate uptrend and see a limited impact in terms of rising provisions.

Maintain as our top pick with a new 2023 TP of THB18.2

We revise up our net profit forecasts for 2022-24 by 2%/9%/5% to mostly reflect the benefit from the interest rate uptrend. We roll forward our valuation to 2023 and derive a new TP of THB18.2, up from our 2022 TP of THB16.4. Amid the economic uncertainty, we see KTB as a safe place to invest, based on its lower-than-peers downside risk of asset deterioration thanks to its concentrated low-risk government and corporate portfolio. We think KTB should ride the economic upturn, both from the monetisation of its Pao Tang app and as one of the top beneficiaries of rising interest rates.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	29,485	37,881	41,024	45,268
Net profit	21,588	27,322	29,973	33,071
EPS (THB)	1.54	1.95	2.14	2.37
vs Consensus (%)	-	2.6	2.1	1.6
Core net profit	21,588	27,322	29,973	33,071
Core EPS (THB)	1.54	1.95	2.14	2.37
Chg. In EPS est. (%)	-	1.6	8.5	5.0
EPS growth (%)	29.0	26.6	9.7	10.3
Core P/E (x)	9.5	7.5	6.9	6.2
Dividend yield (%)	2.8	4.7	5.1	4.8
Price/book (x)	0.6	0.5	0.5	0.5
ROE (%)	6.1	7.4	7.6	7.9
ROA (%)	0.7	0.9	0.9	1.0



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(5.8)	8.9	41.3
Relative to country (%)	(1.3)	17.5	39.7
Mkt cap (USD m)	5,697		
3m avg. daily turnover (USD m)	21.2		
Free float (%)	45		
Major shareholder	FIDF (55%)		
12m high/low (THB)	16.00/9.90		
Issued shares (m)	13,976		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We reiterate our BUY call and maintain KTB as one of our top picks. Amid economic uncertainty, we see KTB as a safe place to invest based on its lower-than-peers downside risk of asset deterioration thanks to its concentrated low-risk government and corporate portfolio. We also think it should ride the economic upturn from the monetisation of its Pao Tang app and its position as one of the banks most likely to benefit from a rising interest rate environment. Moreover, its valuation looks attractive at 0.5x 2023E P/BV vs its 7.6% 2023E ROE.

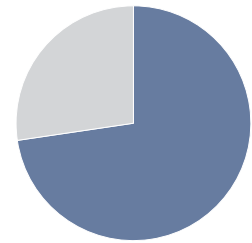
Company profile

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, 2021)

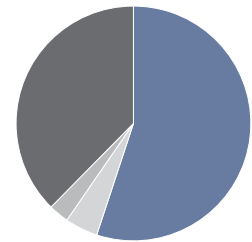
- Net interest income - 72.7 %
- Non-interest income - 27.3 %



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:

- Faster utilisation of big data to capture digital trends;
- Lower credit cost from a better-than-expected new NPL rate;
- Better operating cost control.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.

Event calendar

Date	Event
July 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	27,322	29,973	33,071
Net profit growth	26.6	9.7	10.3
NIM	2.44	2.53	2.60
Loan growth	4.0	4.0	4.0
Fee growth	0.4	8.0	8.0
Non-NII growth*	1.6	5.6	8.4
Credit cost (bp)	100	105	105
Cost to income*	44.7	43.5	42.9

Source: FSSIA estimates

Earnings sensitivity

		----- 2022E -----		
		2.00	4.00	6.00
Loan growth (%)	±2ppt			
% change in net profit		(1.6)	-	1.6
NIM (%)	±5bp			
% change in net profit		(4.6)	-	4.6
Credit cost (bp)	±10bp			
% change in net profit		6.0	-	(6.0)

Source: FSSIA estimates

Solid asset quality and good OPEX control should drive 2Q22 NP

We expect KTB to report a 2Q22 net profit of THB7,170m (+19% y-y, -18% q-q). We still hold a positive view of its asset quality, with non-performing loans (NPLs) expected to be stable q-q due to its low-risk portfolio profile compared with its peers. Thus, we expect KTB to reduce its credit cost from 134 bps in 2Q21 to 100 bps in 2Q22 (credit cost should rise q-q due to the abnormal low in 1Q22). Also, we believe KTB should continue to control its OPEX effectively, resulting in an expected 43% cost to income ratio. Regarding its revenue side, we think KTB – like other banks – will deliver unexciting revenue growth. We expect its loan volume to slightly increase by 1% q-q, with a relatively stable NIM of 2.44%. Its fee income should drop due to the unfavourable capital market conditions and clients' changing behaviour toward increased digital platform use.

Exhibit 85: KTB – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	Change		1H22E			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	20,916	21,086	21,246	2	1	42,332	4	49	86,150	3	
Non-interest income	7,934	8,599	8,180	3	(5)	16,780	1	51	32,942	2	
Operating income	28,851	29,685	29,427	2	(1)	59,112	3	50	119,092	3	
Operating expenses	12,235	12,244	12,725	4	4	24,969	0	47	53,244	1	
PPOP before tax	16,616	17,441	16,702	1	(4)	34,143	5	52	65,847	4	
Provision	8,097	5,470	6,680	(17)	22	12,151	(25)	45	26,815	(18)	
Income tax	1,657	2,317	1,904	15	(18)	4,221	33	54	7,806	31	
Minority interest	852	873	947			1,820		47	3,903	32	
Normalised profit	6,011	8,780	7,170	19	(18)	15,951	38	58	27,322	27	
Extraordinary items	0	0	0			0			0		
Net profit	6,011	8,780	7,170	19	(18)	15,951	38	58	27,322	27	
EPS (THB)	0.43	0.63	0.51	19	(18)	1.14	38	58	1.95	27	
Asset quality ratio											
Gross NPLs	105,737	106,549	107,001	1	0				115,354	8	
NPL ratios (%)	3.54	3.34	3.42						3.63		
LLR/NPLs (%)	155	166	156						162		
Credit cost (bp)	134	83	100						100		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio	42.4	41.2	43.2						44.7		
Average yield (%)	3.2	3.0	3.0						3.05		
Cost of funds (%)	0.8	0.7	0.7						0.70		
Net interest margin (NIM)	2.55	2.41	2.44						2.44		
Non-int inc/total income	27.5	29.0	27.8						27.7		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	99.7	98.0	103.0						99.9		
Loan growth	(%)	(%)	(%)						(%)		
y-y	8.8	12.7	8.0						4.0		
q-q	5.3	1.1	1.0								

*Including share of profits from associates

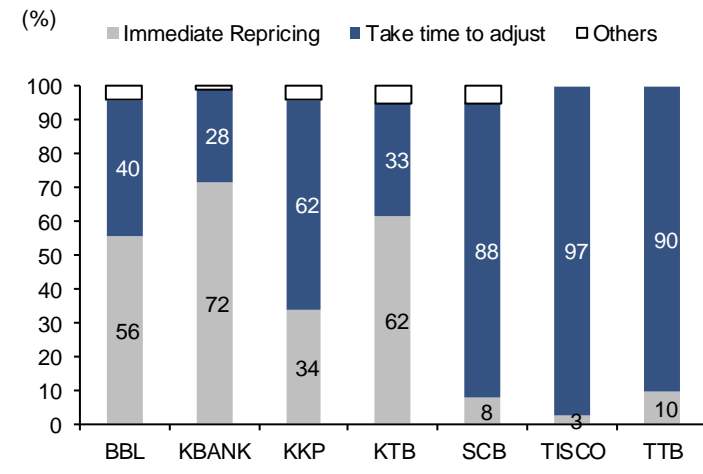
Source: KTB; FSSIA estimates

KTB stands second in line to benefit from the interest rate upcycle

Out of the banks under our coverage, we expect that KTB stands to benefit the second most from an interest rate uptrend as it has a higher proportion of assets based on floating rate returns than other banks.

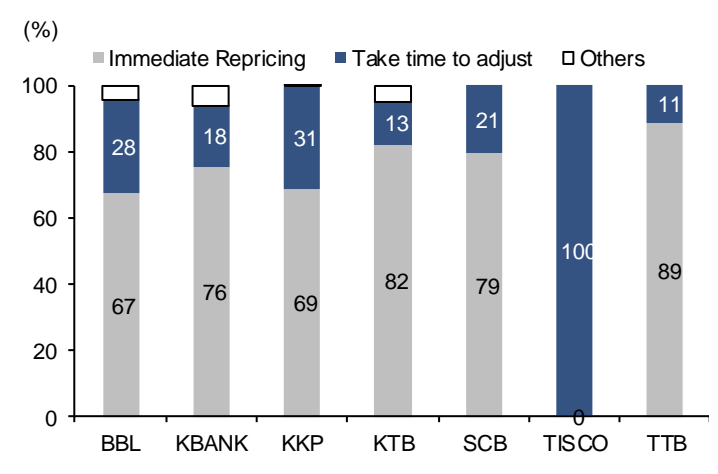
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank's reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 2.6% upside to our current 2023 net profit forecast.

Exhibit 86: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA's estimates

Exhibit 87: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA's estimates

Exhibit 88: We expect a 2.6% upside to KTB's 2023E net profit for every 25-bps policy rate hike – assuming a 12.5 bps increase in its M-rate and a five bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We revise up our net profit forecasts for 2022-24 by 2%/9%/5% mostly to reflect the benefit from the interest rate uptrend. We also raise our NIM assumptions in 2022-24 to 2.44%/2.53%/2.60% from 2.42%/2.44%/2.52%.

FSSIA expects the policy rate to rise by 50 bps in 2022 and by another 50 bps in 1H23, bringing Thailand's policy rate up to 1% in 2022 and 1.5% in 2023. We assume that the bank will increase 1) its reference rates (MLR, MRR, MOR) by 25 bps in 2022 and by another 25 bps in 2023; and 2) its deposit rate by 10 bps in 2022 and by another 10 bps in 2023. Note that our cost of funds already reflects the 0.46% Financial Institutions Development Fund (FIDF) fee from 2023 onward.

Exhibit 89: KTB – changes in key assumptions

	2022E				2023E			2024E		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	83,372	85,531	86,150	0.7	88,827	91,959	3.5	94,626	97,408	2.9
Non-interest income*	32,414	32,942	32,942	-	34,795	34,795	-	37,710	37,710	-
Operating income*	115,786	118,473	119,092	0.5	123,622	126,754	2.5	132,336	135,118	2.1
Operating expenses	52,731	53,244	53,244	-	55,375	55,181	(0.3)	57,435	58,004	1.0
PPOP before tax*	63,055	65,229	65,847	0.9	68,247	71,572	4.9	74,901	77,114	3.0
Expected credit loss (Reversal)	32,524	26,815	26,815	-	29,282	29,282	-	30,454	30,454	-
Tax expenses	5,975	7,683	7,806	1.6	7,403	8,035	8.5	8,445	8,865	5.0
Minority interest	2,968	3,841	3,903	1.6	3,945	4,282	8.5	4,500	4,724	5.0
Normalised profit	21,588	26,889	27,322	2	27,616	29,973	9	31,502	33,071	5
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	21,588	26,889	27,322	1.6	27,616	29,973	8.5	31,502	33,071	5.0
EPS (THB)	1.54	1.92	1.95	1.6	1.98	2.14	8.5	2.25	2.37	5.0
Asset quality ratio										
Gross NPLs (THB m)	106,809	115,354	115,354	-	124,582	125,736	0.9	128,319	133,280	3.9
Gross NPLs/Loans (%)	3.50	3.63	3.63	-	3.77	3.81	-	3.74	3.88	-
Loan loss reserve/NPLs (%)	162.27	154.54	161.65	-	148.34	158.02	-	149.31	158.61	-
Credit cost (bps)	131	100	100	-	105	105	-	105	105	-
Profitability ratio (%)										
Cost to income ratio*	45.54	44.94	44.71	-	44.79	43.53	-	43.40	42.93	-
Average yield	3.13	3.03	3.05	-	3.24	3.50	-	3.35	3.56	-
Cost of funds	0.73	0.70	0.70	-	0.92	1.12	-	0.96	1.12	-
Net interest margin (NIM)	2.49	2.42	2.44	-	2.44	2.53	-	2.52	2.60	-
Loan growth (%)										
y-y	12.60	4.00	4.00	-	4.00	4.00	-	4.00	4.00	-

*Including share of profits from associates

Source: FSSIA estimates

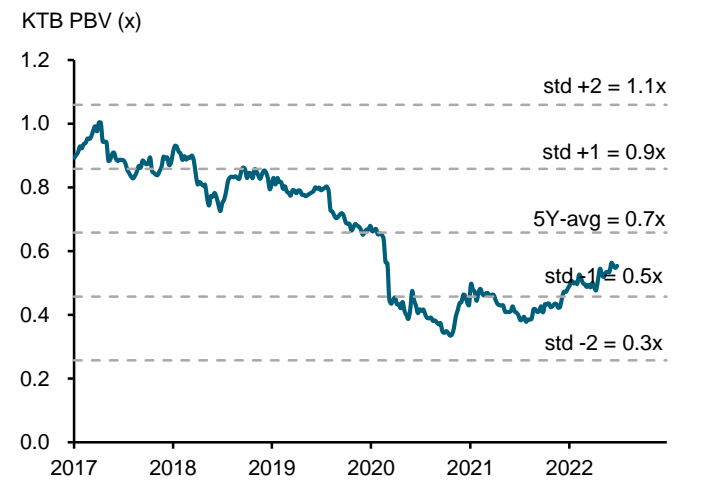
We roll forward our valuation to 2023 and derive a new TP of THB18.2, up from our 2022 TP of THB16.4. Our TP implies 0.63x 2023E P/BV, within its five-year average standard deviation.

Exhibit 90: KTB – GGM-derived target price

Target price	THB 18.2 (from THB 16.4)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	9.2 (unchanged)
Terminal growth (%)	4.5 (from 4.2)
ROE target (%)	7.6 (from 7.0)

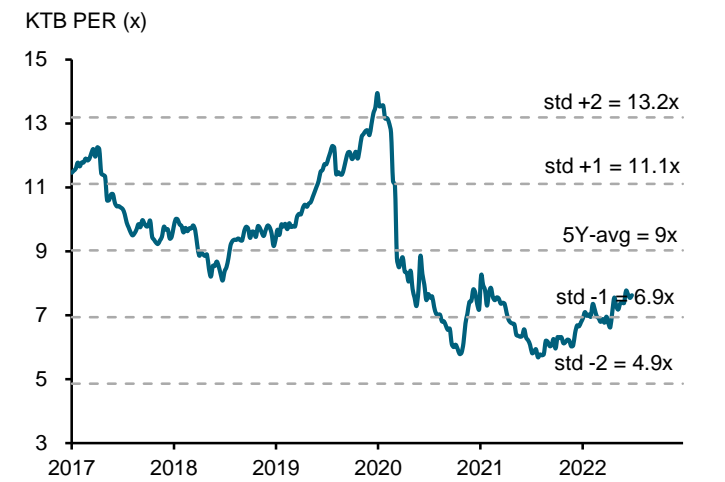
Source: FSSIA estimates

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



Sources: Bloomberg; FSSIA estimates

Exhibit 92: KTB – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 93: Peers comparison

	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
			Current (THB)	Target (THB)			22E (%)	23E (%)	22E (x)	23E (x)	22E (%)	23E (%)	22E (%)	23E (%)	22E (x)	23E (x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

Krung Thai Bank

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	112,837	104,832	107,827	127,372	133,501
Interest expense	(24,494)	(21,460)	(21,677)	(35,413)	(36,093)
Net interest income	88,343	83,372	86,150	91,959	97,408
Net fees & commission	20,528	20,022	20,100	21,708	23,445
Foreign exchange trading income	3,134	3,467	3,500	3,300	3,500
Securities trading income	951	711	782	860	946
Dividend income	376	379	417	459	505
Other income	6,855	6,789	6,992	7,202	7,922
Non interest income	31,844	31,368	31,791	33,529	36,317
Total income	120,187	114,739	117,941	125,487	133,725
Staff costs	(28,466)	(27,311)	(27,584)	(28,274)	(29,687)
Other operating costs	(24,999)	(25,420)	(25,660)	(26,908)	(28,317)
Operating costs	(53,465)	(52,731)	(53,244)	(55,181)	(58,004)
Pre provision operating profit	66,722	62,009	64,696	70,306	75,721
Provision for bad and doubtful debt	(44,903)	(32,524)	(26,815)	(29,282)	(30,454)
Other provisions	-	-	-	-	-
Operating profit	21,819	29,485	37,881	41,024	45,268
Recurring non operating income	2,060	1,046	1,151	1,266	1,393
Associates	2,060	1,046	1,151	1,266	1,393
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	23,880	30,531	39,032	42,290	46,660
Tax	(4,441)	(5,975)	(7,806)	(8,035)	(8,865)
Profit after tax	19,439	24,556	31,226	34,255	37,795
Minority interests	(2,707)	(2,968)	(3,903)	(4,282)	(4,724)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	16,732	21,588	27,322	29,973	33,071
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	16,732	21,588	27,322	29,973	33,071
Per share (THB)					
Recurring EPS *	1.20	1.54	1.95	2.14	2.37
Reported EPS	1.20	1.54	1.95	2.14	2.37
DPS	0.28	0.42	0.68	0.75	0.70
Growth					
Net interest income (%)	0.0	(5.6)	3.3	6.7	5.9
Non interest income (%)	(11.3)	(1.5)	1.3	5.5	8.3
Pre provision operating profit (%)	8.0	(7.1)	4.3	8.7	7.7
Operating profit (%)	(42.5)	35.1	28.5	8.3	10.3
Reported net profit (%)	(42.9)	29.0	26.6	9.7	10.3
Recurring EPS (%)	(42.9)	29.0	26.6	9.7	10.3
Reported EPS (%)	(42.9)	29.0	26.6	9.7	10.3
Income Breakdown					
Net interest income (%)	73.5	72.7	73.0	73.3	72.8
Net fees & commission (%)	17.1	17.4	17.0	17.3	17.5
Foreign exchange trading income (%)	2.6	3.0	3.0	2.6	2.6
Securities trading income (%)	0.8	0.6	0.7	0.7	0.7
Dividend income (%)	0.3	0.3	0.4	0.4	0.4
Other income (%)	5.7	5.9	5.9	5.7	5.9
Operating performance					
Gross interest yield (%)	3.72	3.13	3.05	3.50	3.56
Cost of funds (%)	0.92	0.73	0.70	1.12	1.12
Net interest spread (%)	2.80	2.40	2.35	2.38	2.44
Net interest margin (%)	2.9	2.5	2.4	2.5	2.6
Cost/income(%)	44.5	46.0	45.1	44.0	43.4
Cost/assets(%)	1.7	1.5	1.5	1.5	1.5
Effective tax rate (%)	18.6	19.6	20.0	19.0	19.0
Dividend payout on recurring profit (%)	23.0	27.1	35.0	35.0	29.6
ROE (%)	4.9	6.1	7.4	7.6	7.9
ROE - COE (%)	(5.0)	(3.8)	(2.6)	(2.3)	(2.0)
ROA (%)	0.6	0.7	0.9	0.9	1.0
RORWA (%)	1.0	1.3	1.5	1.6	1.7

* 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	2020	2021	2022E	2023E	2024E
Gross customer loans	2,334,842	2,628,963	2,734,122	2,843,486	2,957,226
Total provisions	(150,528)	(173,322)	(186,467)	(198,688)	(211,399)
interest in suspense	16,199	20,579	21,873	23,317	24,841
Net customer loans	2,200,513	2,476,220	2,569,528	2,668,115	2,770,668
Bank loans	516,792	469,216	460,165	449,840	414,943
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	360,112	382,055	390,356	398,855	430,778
Cash & equivalents	68,161	63,544	70,401	57,852	76,308
Other interesting assets	-	-	-	-	-
Tangible fixed assets	57,421	70,745	73,652	76,686	69,215
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	124,781	94,963	114,634	117,332	120,142
Total assets	3,327,780	3,556,744	3,678,735	3,768,679	3,882,054
Customer deposits	2,463,225	2,614,747	2,737,544	2,792,295	2,848,141
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	365,863	434,372	403,049	411,110	419,332
Non interest bearing liabilities	143,629	133,514	140,190	144,485	148,914
Hybrid Capital	-	-	-	-	-
Total liabilities	2,972,717	3,182,633	3,280,782	3,347,890	3,416,387
Share capital	72,005	72,005	71,977	71,977	71,977
Reserves	271,498	288,048	311,022	333,000	357,226
Total equity	343,503	360,053	382,998	404,976	429,203
Minority interests	11,561	14,059	14,954	15,813	16,759
Total liabilities & equity	3,327,780	3,556,744	3,678,735	3,768,679	3,862,348
Supplementary items					
Risk weighted assets (RWA)	1,913,726	1,981,545	2,060,807	2,143,239	2,228,969
Average interest earning assets	3,033,282	3,345,990	3,532,438	3,638,411	3,747,564
Average interest bearing liabilities	2,651,180	2,939,103	3,094,856	3,171,999	3,235,439
Tier 1 capital	293,683	327,685	346,298	365,383	386,414
Total capital	359,015	393,995	412,608	431,693	452,724
Gross non performing loans (NPL)	107,138	106,809	115,354	125,736	133,280
Per share (THB)					
Book value per share	24.58	25.76	27.40	28.98	30.71
Tangible book value per share	24.58	25.76	27.40	28.98	30.71
Growth					
Gross customer loans	11.7	12.6	4.0	4.0	4.0
Average interest earning assets	10.5	10.3	5.6	3.0	3.0
Total asset (%)	10.5	6.9	3.4	2.4	3.0
Risk weighted assets (%)	(0.8)	3.5	4.0	4.0	4.0
Customer deposits (%)	14.3	6.2	4.7	2.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	89.3	94.7	93.9	95.6	97.3
Equity/assets (%)	10.3	10.1	10.4	10.7	11.1
Tangible equity/assets (%)	10.3	10.1	10.4	10.7	11.1
RWA/assets (%)	57.5	55.7	56.0	56.9	57.4
Tier 1 CAR (%)	15.3	16.5	16.8	17.0	17.3
Total CAR (%)	18.8	19.9	20.0	20.1	20.3
Asset Quality					
Change in NPL (%)	4.4	(0.3)	8.0	9.0	6.0
NPL/gross loans (%)	4.6	4.1	4.2	4.4	4.5
Total provisions/gross loans (%)	6.4	6.6	6.8	6.7	7.1
Total provisions/NPL (%)	140.5	162.3	161.6	158.0	158.6
Valuation					
Recurring P/E (x) *	12.3	9.5	7.5	6.9	6.2
Recurring P/E @ target price (x) *	15.2	11.8	9.3	8.5	7.7
Reported P/E (x)	12.3	9.5	7.5	6.9	6.2
Dividend yield (%)	1.9	2.8	4.7	5.1	4.8
Price/book (x)	0.6	0.6	0.5	0.5	0.5
Price/tangible book (x)	0.6	0.6	0.5	0.5	0.5
Price/tangible book @ target price (x)	0.7	0.7	0.7	0.6	0.6

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Krung Thai Bank; FSSIA estimates

SCB X SCB TB

THAILAND / BANKS

BUY

UNCHANGED

Wait for transformation benefits

- Expect a 2Q22 net profit of THB10b (+19% y-y, +2% q-q).
- Expect neutral impact from rate hikes and inflation, but its net profit and valuation should be pressured by the delay in its transformation processes and new business expansion.
- Roll forward to our new 2023 TP of THB134; maintain BUY call.

TARGET PRICE	THB134.00
CLOSE	THB99.00
UP/DOWNSIDE	+35.4%
PRIOR TP	THB160.00
CHANGE IN TP	-16.3%
TP vs CONSENSUS	-6.5%

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	44,214	48,364	51,167	57,272
Net profit	35,599	39,138	41,734	46,636
EPS (THB)	10.48	11.51	12.28	13.72
vs Consensus (%)	-	(3.9)	(5.2)	(7.2)
Core net profit	35,599	39,138	41,734	46,636
Core EPS (THB)	10.48	11.51	12.28	13.72
Chg. In EPS est. (%)	-	-	-	-
EPS growth (%)	30.8	9.8	6.6	11.7
Core P/E (x)	9.4	8.6	8.1	7.2
Dividend yield (%)	4.1	5.1	6.1	6.1
Price/book (x)	0.8	0.7	0.7	0.6
ROE (%)	8.4	8.6	8.5	8.8
ROA (%)	1.1	1.2	1.2	1.3

Expect a decent 2Q22 net profit

We expect SCB to report a 2Q22 net profit of THB10,448m (+19% y-y, +2% q-q). Although we expect that some of SCB's retail clients might start to be affected by the high inflation, we expect the bank's NPLs to rise immaterially by 3% q-q as it has continued to provide comprehensive debt restructuring (CDR). Thus, we expect its credit cost to remain stable q-q at 150 bps. As for its OPEX, SCB should maintain its effective cost control, resulting in a stable cost to income ratio of 42%. Like other banks, we believe SCB's top line is still under pressure. We expect a 0.8% q-q rise in loan volume, with a low NIM level at 3.04% due to the CDR program. Meanwhile, we think its fee income should continue to decline y-y and q-q from wealth-related management fees due to the unfavourable capital market conditions and low consumer confidence.

Net neutral impact from rate hike and high inflation, but...

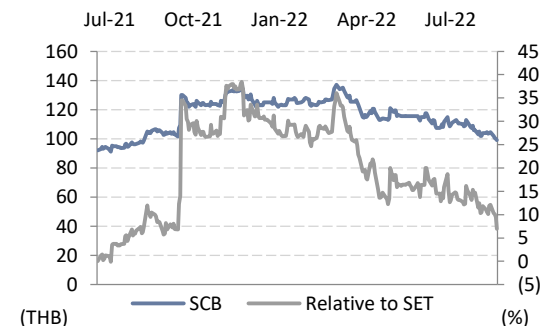
We expect that SCB's NIM should be wider from the interest rate uptrend. Our estimates place SCB as fourth in line to benefit from rising interest rates, after BBL, KTB, and KBANK, respectively. This should be completely offset by the negatives from inflation, which will likely result in 1) a higher asset deterioration rate; and 2) slower loan growth.

... Delay in transformation processes should pressure valuation

We view the delay in SCB's transformation processes and new business expansion, e.g. Card X, Auto X, and digital asset exchange, as the main pressure point on its net profit and, importantly, on its valuation. Hence, we lower our net profit forecasts for 2023-24 by 2%/2%.

Maintain our BUY call with a new 2023 TP of THB134

We roll forward our valuation to 2023 and derive a new SOTP-based TP of THB134, down from our 2022 TP of 160, to reflect the devaluation of most of its subsidiaries – especially Card X and Auto X. In the short term, we think SCB is less attractive as the market shifts focus to rate hikes and the high inflation environment, rather than transformation. However, we still think 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 a good position in the banking sector to benefit from the region's digital age. Hence, we reiterate our BUY call.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(8.8)	(14.3)	4.8
Relative to country (%)	(4.4)	(7.5)	3.5
Mkt cap (USD m)	9,243		
3m avg. daily turnover (USD m)	40.2		
Free float (%)	53		
Major shareholder	King Rama X (24%)		
12m high/low (THB)	138.00/66.00		
Issued shares (m)	3,399		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We roll forward our valuation to 2023 and derive a new SOTP-based TP of THB134, down from our 2022 TP of 160, to reflect the devaluation of most of its subsidiaries – especially Card X and Auto X. In the short term, we think SCB is less attractive as the market shifts focus to rate hikes and the high inflation environment, rather than transformation. However, we still think 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 a good position in the banking sector to benefit from the region's digital age. Hence, we reiterate our BUY call.

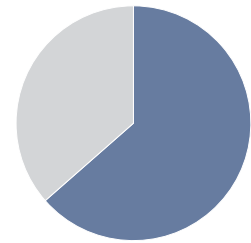
Company profile

SCB is Thailand's first commercial bank, established in 1906. It is ranked the fourth largest in terms of total loans, the fourth largest for deposits and the fourth largest for total assets as of end-2021. It had a total of 718 branches, with 20m digital users at end-2021.

www.scb.co.th

Principal activities (revenue, 2021)

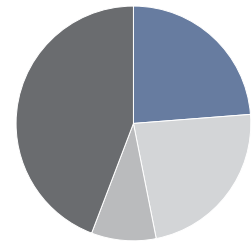
- Net interest income - 63.5 %
- Non-interest income - 36.5 %



Source: SCB X

Major shareholders

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



Source: SCB X

Catalysts

Potential share price catalysts for SCB include:

- The success of long-term comprehensive debt restructuring;
- The success of its transformation plan;
- 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
21 Jul 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
Year-to-Dec	(%)	(%)	(%)
Normalised profit (THB m)	39,138	41,734	46,636
Normalised profit growth (%)	9.9	6.6	11.7
NIM (%)	2.98	2.91	3.01
Loan growth (%)	3.0	2.8	2.8
Fee growth (%)	5.2	6.0	7.0
Non-NII growth (%)	(2.8)	5.8	6.1
Credit cost (bp)	155	144	144
Cost to income (%)	43.2	43.4	42.3

Source: FSSIA estimates

Earnings sensitivity

		2022E		
Loan growth	±2ppt	1.00	3.00	5.00
% change in net profit		(1.2)	-	1.2
NIM (%)	±5bp	2.93	2.98	3.03
% change in net profit		(3.4)	-	3.4
Credit cost (bp)	±10bp	145	155	165
% change in net profit		4.9	-	(4.9)

Source: FSSIA estimates

Expect a decent 2Q22 net profit

We expect SCB to report a 2Q22 net profit of THB10,448m (+19% y-y, +2% q-q). Although we expect that some of SCB's retail clients might start to be affected by the high inflation, we expect the bank's non-performing loans (NPLs) to rise immaterially by 3% q-q as it has continued to provide CDR. Thus, we expect its credit cost to remain stable q-q at 150 bps. As for its OPEX, SCB should maintain its effective cost control, resulting in a stable cost to income ratio of 42%. Like other banks, we believe SCB's top line is still under pressure. We expect a 0.8% q-q rise in loan volume, with a low NIM level at 3.04% due to the CDR program. Meanwhile, we think its fee income should continue to decline y-y and q-q from wealth-related management fees due to the unfavourable capital market conditions and low consumer confidence.

Exhibit 94: SCB – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	--- Change ---		----- 1H22E -----			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	23,475	24,744	25,088	7	1	49,832	6	52	96,362	1	
Non-interest income	12,994	12,960	12,145	(7)	(6)	25,105	(8)	47	53,622	(3)	
Operating income	36,469	37,704	37,233	2	(1)	74,937	1	50	149,984	(0)	
Operating expenses	15,376	15,990	15,638	2	(2)	31,628	4	49	64,822	2	
PPOP before tax	21,093	21,713	21,596	2	(1)	43,309	(1)	51	85,162	(2)	
Provision	10,028	8,750	8,759	(13)	0	17,509	(13)	48	36,214	(14)	
Income tax	2,304	2,864	2,439	6	(15)	5,303	8	53	10,034	7	
Minority interest	(54)	(93)	(50)			(143)		64	(224)	10	
Normalised profit	8,815	10,193	10,448	19	2	20,640	9	53	39,138	10	
Extraordinary items	0	0	0			0			0		
Net profit	8,815	10,193	10,448	19	2	20,640	9	53	39,138	10	
EPS (THB)	2.60	3.00	3.07	19	2	6.07	9	53	11.51	10	
Asset quality ratio											
Gross NPLs (THB m)	104,110	106,305	109,328	5	3				110,205	1	
NPL ratios (%)	3.79	3.70	3.86						3.72		
LLR/NPLs (%)	139	143	138						142		
Credit cost (bp)	175	151	150						155		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio	42.2	42.4	42.0						43.2		
Average yield (%)	3.6	3.6	3.6						3.5		
Cost of fund (%)	0.6	0.6	0.6						0.6		
Net interest margin (NIM)	3.0	3.0	3.0						3.0		
Non-int inc/total income	35.6	34.4	32.6						35.8		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	96.9	92.9	96.3						95.2		
Loan growth	(%)	(%)	(%)						(%)		
y-y	7.1	2.1	2.1						3.0		
q-q	0.8	1.1	0.8								

*Including share of profits from associates

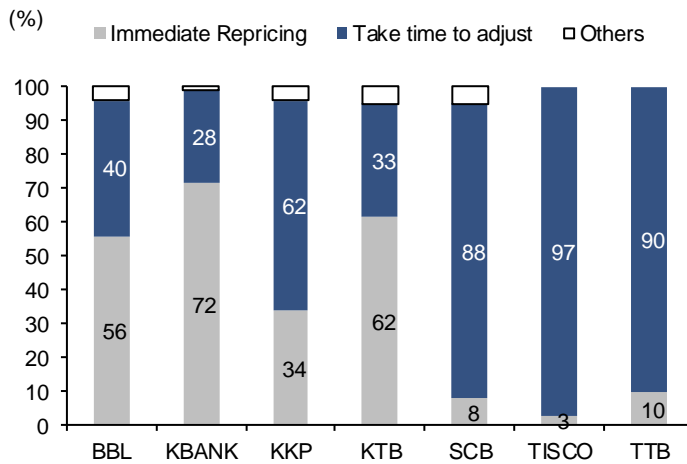
Source: SCB; FSSIA estimates

The fourth-in-line bank to benefit from rate hikes

Out of the banks that we cover, our estimates place SCB as fourth in line to benefit from rising interest rates, after BBL, KTB, and KBANK, respectively.

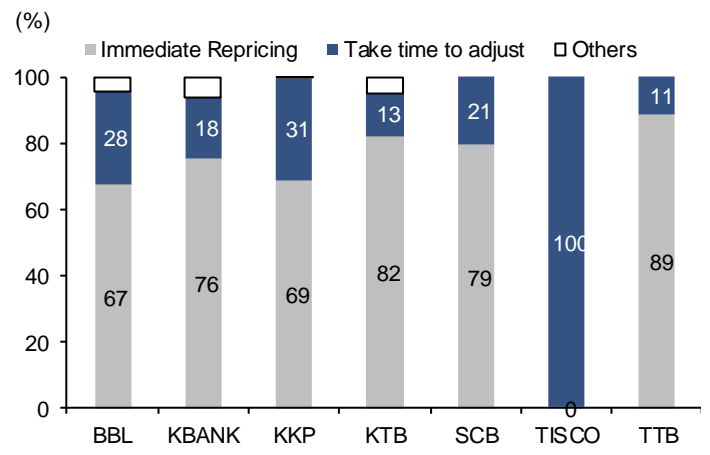
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank's reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 1.7% upside to our current 2023 net profit forecast.

Exhibit 95: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA's estimates

Exhibit 96: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA's estimates

Exhibit 97: We expect a 1.7% upside to SCB's 2023E net profit for every 25-bps policy rate hike – assuming a 12.5 bps increase in its M-rate and a five bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We increase our 2022 net profit forecast by 3% to reflect the better-than-expected NIM management from the CDR program. However, we lower our net profit forecasts for 2023-24 by 2%/2%. Although we expect that SCB's NIM should be wider from the interest rate uptrend, this should be dragged down by 1) a higher asset deterioration rate from high inflation; and 2) the delay in its transformation to a holding company. Details are as follows:

1) we increase our NIM assumptions in 2022-24 to 2.98%/2.91%/3.01% from 2.90%/2.87%/2.96% to mostly reflect the benefit from the interest rate uptrend and the effective NIM management from the CDR program;

2) we increase our credit cost assumptions in 2022-24 to 155/144/144 bps from 148/138/138 bps as we expect a higher asset deterioration rate from high inflation due to its retail-concentrated portfolio;

3) we lower our loan growth assumptions in 2023-24 to 2.8%/2.8% from 3.0%/3.0% as we believe the bank will lend new loans more cautiously due to higher NPLs; and

4) we lower our non-NII estimates in 2022-24 by 0.1%/2%/2% due to the slower fee income and gains from investments due to the delay in the transformation to a holding company.

Exhibit 98: SCB – changes in key assumptions

	2022E				2023E			2024E		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	95,171	93,558	96,362	3.0	94,513	95,990	1.6	100,372	101,805	1.4
Non-interest income	55,171	53,688	53,622	(0.1)	57,903	56,726	(2.0)	61,535	60,214	(2.1)
Operating income	150,342	147,246	149,984	1.9	152,416	152,716	0.2	161,907	162,019	0.1
Operating expenses	63,547	64,917	64,822	(0.1)	66,325	66,325	(0.0)	68,411	68,510	0.1
PPOP before tax	86,795	82,330	85,162	3.4	86,090	86,391	0.3	93,496	93,509	0.0
Provision (Reversal)	42,024	34,578	36,214	4.7	33,209	34,610	4.2	34,205	35,562	4.0
Taxes expenses	9,376	9,789	10,034	2.5	10,576	10,356	(2.1)	11,858	11,589	(2.3)
Minority interest	(204)	(219)	(224)	nm.	(316)	(310)	nm.	(285)	(278)	nm.
Normalised profit	35,599	38,181	39,138	2.5	42,621	41,734	(2.1)	47,718	46,636	(2.3)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	35,599	38,181	39,138	2.5	42,621	41,734	(2.1)	47,718	46,636	(2.3)
EPS (THB)	10.48	11.23	11.51	2.5	12.54	12.28	(2.1)	14.04	13.72	(2.3)
Key statistic and ratio										
Asset quality ratio										
Gross NPLs (THBm)	109,114	109,114	110,205	1.0	111,296	115,715	4.0	113,522	122,658	8.0
Gross NPLs / Loans (%)	3.79	3.68	3.72		3.64	3.80		3.61	3.92	
Loan loss reserve/NPLs	139	134	142		128	134		139	140	
Credit cost (bps)	184	148	155		138	144		138	144	
Profitability ratio										
Cost to income ratio	42.3	44.1	43.2		43.5	43.4		42.3	42.3	
Average yield (%)	3.53	3.42	3.51		3.58	3.68		3.69	3.84	
Cost of fund (%)	0.63	0.62	0.62		0.84	0.91		0.87	1.00	
Net interest margin (NIM)	3.00	2.90	2.98		2.87	2.91		2.96	3.01	
Liquidity ratio										
Loan to deposit ratio	93.3	95.2	95.2		96.1	95.9		96.1	96.6	
% growth										
Loan growth (y-y)	2.1	3.0	3.0		3.0	2.8		3.0	2.8	

*Including share of profits from associates

Source: FSSIA estimates

We roll forward our valuation to 2023 and derive a new TP of THB134, down from our 2022 TP of THB160. Although we believe the bank should have a neutral impact from the rate hikes and high inflation, its organisation transformation processes to change it into a holding company are slower than expected. This leads to a lower valuation of its subsidiaries, especially Card X and Auto X. Our TP implies 1.0x 2023E P/BV, its five-year average STD. We maintain our BUY rating.

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

	Valuation method	(Implied) multiple	2023 valuation	
		(x)	(THB m)	Value (THB/shr)
SCB Bank*	GGM with L-T ROE 8.5%, CAPM 8.9%	0.9	401,440	118.2
Card X*	P/E	12.5	39,131	11.5
Auto X*	P/E	16.2	3,888	1.1
Alpha X*	P/E	11.4	958	0.3
Digital lending business group*	P/E	12.5	3,708	1.1
Tech and venture capital businesses**	Investment capital multiple	1.5	6,720	2.0
SCBX		1.0	455,845	134

*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: Previous SCB – sum-of-the-parts valuation

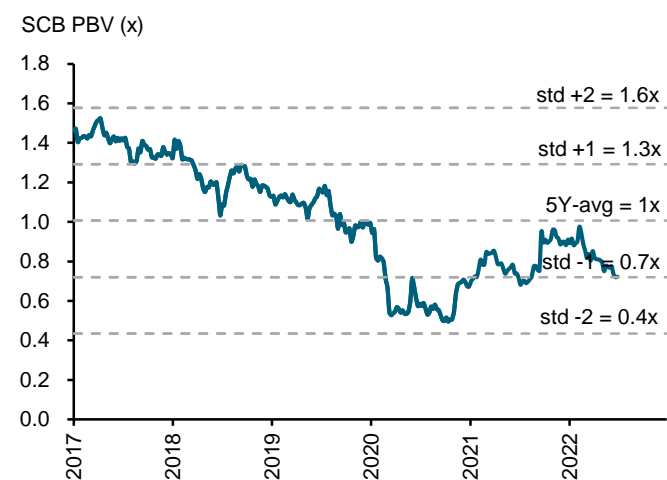
	Valuation method	(Implied) multiple	2022 valuation	
		(x)	(THB m)	Value (THB/shr)
SCB Bank*	GGM with L-T ROE 8.7%, CAPM 8.3%	1.12	419,348	123.5
Card X*	P/E	15.5	107,069	31.5
Auto X*	P/E	20.1	4,020	1.2
Alpha X*	P/E	11.4	958	0.3
Digital lending business group*	P/E	15.5	3,708	1.1
Tech and venture capital businesses**	Investment capital multiple	1.5	9,600	2.8
SCBX		1.2	544,702	160

*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

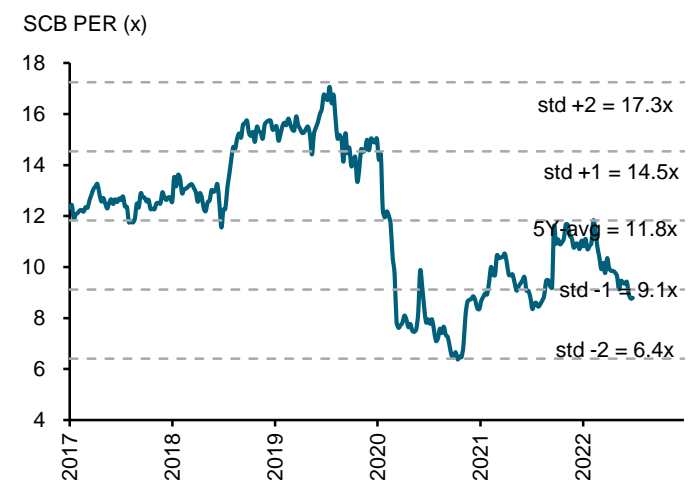
Source: FSSIA estimates

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



Sources: Bloomberg; FSSIA estimates

Exhibit 102: SCB – one-year forward rolling P/E



Sources: Bloomberg; FSSIA estimates

Exhibit 103: Peers comparison

	BBG	Rec	--- Share price ---		Up	Market	EPS growth		---- P/E ----		-- DivYld --		---- ROE ----		--- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

SCB X

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	118,371	112,177	113,284	121,301	130,190
Interest expense	(21,472)	(17,006)	(16,923)	(25,312)	(28,385)
Net interest income	96,899	95,171	96,362	95,990	101,805
Net fees & commission	36,586	40,198	42,299	44,837	47,975
Foreign exchange trading income	0	0	0	0	0
Securities trading income	9,365	11,236	8,153	8,561	8,577
Dividend income	155	166	174	183	201
Other income	1,840	3,014	2,411	2,532	2,785
Non interest income	47,947	54,615	53,038	56,113	59,539
Total income	144,846	149,785	149,399	152,102	161,344
Staff costs	(31,453)	(30,007)	(30,907)	(31,834)	(33,426)
Other operating costs	(32,877)	(33,540)	(33,915)	(34,491)	(35,084)
Operating costs	(64,330)	(63,547)	(64,822)	(66,325)	(68,510)
Pre provision operating profit	80,516	86,239	84,577	85,777	92,834
Provision for bad and doubtful debt	(46,649)	(42,024)	(36,214)	(34,610)	(35,562)
Other provisions	-	-	-	-	-
Operating profit	33,866	44,214	48,364	51,167	57,272
Recurring non operating income	(78)	557	584	614	675
Associates	(78)	557	584	614	675
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	33,788	44,771	48,948	51,781	57,947
Tax	(6,794)	(9,376)	(10,034)	(10,356)	(11,589)
Profit after tax	26,994	35,395	38,914	41,425	46,358
Minority interests	224	204	224	310	278
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	27,218	35,599	39,138	41,734	46,636
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	27,218	35,599	39,138	41,734	46,636
Per share (THB)					
Recurring EPS *	8.02	10.48	11.51	12.28	13.72
Reported EPS	8.02	10.48	11.51	12.28	13.72
DPS	2.30	4.06	5.00	6.00	6.00
Growth					
Net interest income (%)	(2.5)	(1.8)	1.3	(0.4)	6.1
Non interest income (%)	33.8	13.9	(2.9)	5.8	6.1
Pre provision operating profit (%)	24.5	7.1	(1.9)	1.4	8.2
Operating profit (%)	(9.9)	30.6	9.4	5.8	11.9
Reported net profit (%)	(19.0)	30.8	9.9	6.6	11.7
Recurring EPS (%)	(7.0)	30.8	9.8	6.6	11.7
Reported EPS (%)	(19.0)	30.8	9.8	6.6	11.7
Income Breakdown					
Net interest income (%)	66.9	63.5	64.5	63.1	63.1
Net fees & commission (%)	25.3	26.8	28.3	29.5	29.7
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	6.5	7.5	5.5	5.6	5.3
Dividend income (%)	0.1	0.1	0.1	0.1	0.1
Other income (%)	1.3	2.0	1.6	1.7	1.7
Operating performance					
Gross interest yield (%)	3.94	3.53	3.51	3.68	3.84
Cost of funds (%)	0.85	0.63	0.62	0.91	1.00
Net interest spread (%)	3.09	2.90	2.89	2.77	2.84
Net interest margin (%)	3.2	3.0	3.0	2.9	3.0
Cost/income(%)	44.4	42.4	43.4	43.6	42.5
Cost/assets(%)	2.1	1.9	1.9	1.9	1.9
Effective tax rate (%)	20.1	20.9	20.5	20.0	20.0
Dividend payout on recurring profit (%)	28.7	38.8	43.4	48.9	43.7
ROE (%)	6.7	8.4	8.6	8.5	8.8
ROE - COE (%)	(4.1)	(2.4)	(2.2)	(2.3)	(2.0)
ROA (%)	0.9	1.1	1.2	1.2	1.3
RORWA (%)	1.3	1.6	1.7	1.8	1.9

* Pre-exceptional, pre-goodwill and fully diluted

Sources: SCB X; FSSIA estimates

Financial Statements

SCB X

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Gross customer loans	2,255,242	2,301,835	2,370,890	2,436,090	2,503,082
Total provisions	(139,442)	(151,410)	(156,802)	(154,871)	(171,660)
interest in suspense	14,508	15,031	15,411	15,347	15,018
Net customer loans	2,130,308	2,165,456	2,229,499	2,296,566	2,346,440
Bank loans	547,504	618,269	575,635	597,372	612,076
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	339,828	292,123	297,824	308,218	318,417
Cash & equivalents	51,632	50,421	80,384	66,876	75,913
Other interesting assets	-	-	-	-	-
Tangible fixed assets	56,445	63,397	71,206	79,977	89,829
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	152,667	124,900	127,440	131,139	134,807
Total assets	3,278,384	3,314,565	3,381,987	3,480,148	3,577,483
Customer deposits	2,420,455	2,466,717	2,491,384	2,541,212	2,592,036
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	275,993	267,200	269,872	275,270	280,775
Non interest bearing liabilities	170,106	138,032	144,934	152,181	152,181
Hybrid Capital	-	-	-	-	-
Total liabilities	2,866,554	2,871,950	2,906,191	2,968,663	3,024,992
Share capital	33,992	33,992	33,956	33,956	33,956
Reserves	377,438	407,014	440,110	475,669	516,526
Total equity	411,430	441,006	474,067	509,626	550,482
Minority interests	399	1,609	1,729	1,859	2,008
Total liabilities & equity	3,278,384	3,314,565	3,381,987	3,480,148	3,577,483
Supplementary items					
Risk weighted assets (RWA)	2,197,668	2,264,803	2,332,747	2,396,898	2,462,812
Average interest earning assets	3,001,007	3,177,400	3,228,288	3,293,014	3,387,627
Average interest bearing liabilities	2,534,701	2,704,780	2,736,995	2,778,118	2,833,681
Tier 1 capital	377,036	399,566	422,896	446,336	470,125
Total capital	400,911	424,227	447,557	470,997	494,786
Gross non performing loans (NPL)	101,462	109,114	110,205	115,715	122,658
Per share (THB)					
Book value per share	121.16	129.86	139.46	149.92	161.94
Tangible book value per share	121.16	129.86	139.46	149.92	161.94
Growth					
Gross customer loans	6.7	2.1	3.0	2.8	2.7
Average interest earning assets	0.9	5.9	1.6	2.0	2.9
Total asset (%)	10.6	1.1	2.0	2.9	2.8
Risk weighted assets (%)	5.9	3.1	3.0	2.8	2.7
Customer deposits (%)	12.1	1.9	1.0	2.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	88.0	87.8	89.5	90.4	90.5
Equity/assets (%)	12.5	13.3	14.0	14.6	15.4
Tangible equity/assets (%)	12.5	13.3	14.0	14.6	15.4
RWA/assets (%)	67.0	68.3	69.0	68.9	68.8
Tier 1 CAR (%)	17.2	17.6	18.1	18.6	19.1
Total CAR (%)	18.2	18.7	19.2	19.7	20.1
Asset Quality					
Change in NPL (%)	19.1	7.5	1.0	5.0	6.0
NPL/gross loans (%)	4.5	4.7	4.6	4.8	4.9
Total provisions/gross loans (%)	6.2	6.6	6.6	6.2	6.9
Total provisions/NPL (%)	137.4	138.8	142.3	133.8	139.9
Valuation					
Recurring P/E (x) *	12.4	9.4	8.6	8.1	7.2
Recurring P/E @ target price (x) *	16.7	12.8	11.6	10.9	9.8
Reported P/E (x)	12.4	9.4	8.6	8.1	7.2
Dividend yield (%)	2.3	4.1	5.1	6.1	6.1
Price/book (x)	0.8	0.8	0.7	0.7	0.6
Price/tangible book (x)	0.8	0.8	0.7	0.7	0.6
Price/tangible book @ target price (x)	1.1	1.0	1.0	0.9	0.8

* Pre-exceptional, pre-goodwill and fully diluted

Sources: SCB X; FSSIA estimates

TISCO FINANCIAL

TISCO TB

THAILAND / BANKS

HOLD

FROM BUY

TARGET PRICE	THB94.00
CLOSE	THB86.75
UP/DOWNSIDE	+8.4%
PRIOR TP	THB110.00
CHANGE IN TP	-14.5%
TP vs CONSENSUS	-13.0%

Limited means to fight rate hikes

- Expect unexciting 2Q22 NP of THB1.8b from lazy balance sheet.
- Second-most negatively impacted by rate hikes.
- Prefer KKP to TISCO; downgrade to HOLD while rolling valuation over to 2023 TP of THB94.

Expect unexciting 2Q22 performance

We expect TISCO to report a 2Q22 net profit of THB1,796m (+8% y-y, flat q-q). We see unexciting performance. The rise in net profit should come mainly from lower provisions due to its effective asset quality control and having excess provisions to survive uncertainties. However, we expect the bank's revenue side to be weak, with -5% y-y and +1% q-q operating income. Its NII should fall y-y continuously from the lazy balance sheet in the past couple of years. On top of that, we think its fee income – including brokerage and asset management fees – and gains on investments should decrease y-y, dragged down by the unfavourable capital market conditions.

Second-most negatively impacted by rate hikes

Out of the banks that we cover, our estimates place TISCO as the second-most negatively impacted by rising interest rates, after KKP, due to its high proportion of fixed rate loans. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 1.0% downside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

Conservative strategy might lead to loss of competitive advantage

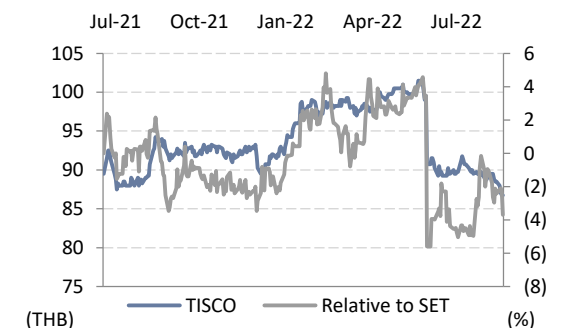
Compared with KKP, we think TISCO has limited means to fight the interest rate uptrend. The bank is usually conservative with its lending. We believe that it may lose its competitive advantage to competitors, resulting in difficulty in returning to growth mode amid the rate hike environment. On top of that, we think TISCO's fee income, both brokerage fees and asset management fees, should be impacted by the unfavourable capital market. We see limited catalysts to drive its bottom line. Therefore, we expect its net profit to increase at the lowest rate among covered banks at 5% CAGR during 2022-24.

Downgrade to HOLD with a new 2023 TP of THB94

We downgrade TISCO to HOLD and lower our 2023-24 net profit forecasts by 2%/4% to derive our 2023 TP of THB94. We think TISCO's bottom line could be hurt slightly by an interest rate upturn. Additionally, 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. However, we recommend HOLD for its potentially superior dividend yield at 9-10% p.a. in 2022-24 and low asset quality risk.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	8,485	9,061	9,374	9,780
Net profit	6,784	7,317	7,569	7,924
EPS (THB)	8.47	9.14	9.45	9.90
vs Consensus (%)	-	3.5	2.9	1.1
Core net profit	6,784	7,317	7,569	7,924
Core EPS (THB)	8.47	9.14	9.45	9.90
Chg. In EPS est. (%)	-	3.7	(1.6)	(4.1)
EPS growth (%)	11.9	7.8	3.5	4.7
Core P/E (x)	10.2	9.5	9.2	8.8
Dividend yield (%)	8.2	8.9	9.5	9.8
Price/book (x)	1.7	1.6	1.6	1.5
ROE (%)	16.8	17.4	17.4	17.6
ROA (%)	2.6	3.0	3.0	3.1



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(3.6)	(14.1)	(5.2)
Relative to country (%)	1.0	(7.3)	(6.3)
Mkt cap (USD m)			1,926
3m avg. daily turnover (USD m)			12.3
Free float (%)			80
Major shareholder		Thai NVDR (11%)	
12m high/low (THB)			101.50/86.25
Issued shares (m)			801

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We downgrade TISCO to HOLD and lower our 2023-24 net profit forecasts by 2%/4% to derive our 2023 TP of THB94. We think TISCO's bottom line could be hurt slightly by an interest rate upturn. Additionally, 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. However, we recommend HOLD for its potentially superior dividend yield at 9-10% p.a. in 2022-24 and low asset quality risk.

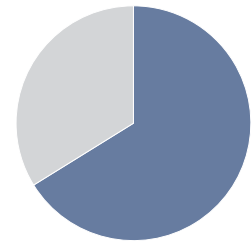
Company profile

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, 2021)

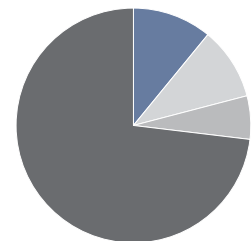
- Net interest income - 66.2 %
- Non-interest income - 33.8 %



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;
- A higher dividend payout ratio;
- Better operating cost control.

Risks to our call

Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand. An upside risk to our GGM-based TP would be lower-than-expected policy rate hikes.

Event calendar

Date	Event
14 July 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	7,317	7,569	7,924
Net profit growth (%)	7.8	3.5	4.7
NIM (%)	4.93	4.89	4.87
Loan growth (%)	2.5	3.0	2.5
Fee growth (%)	0.9	11.2	6.0
Non-int-income growth (%)	(2.4)	10.7	6.0
Credit cost (bp)	45	60	65
Cost to income (%)	45.6	44.4	43.6

Source: FSSIA estimates

Earnings sensitivity

		2022E		
		0.5	2.50	4.5
Loan growth (%)	±2ppt			
% change in net profit		(1.3)	-	1.3
NIM (%)	±5bp	4.88	4.93	4.98
% change in net profit		(2.8)	-	2.8
Credit cost (bp)	±10bp	35	45	55
% change in net profit		2.4	-	(2.4)

Source: FSSIA estimates

Expect unexciting 2Q22 performance

We expect TISCO to report a 2Q22 net profit of THB1,796m (+8% y-y, flat q-q). We see unexciting performance. The rise in net profit should come mainly from lower provisions due to its effective asset quality control and having excess provisions to survive uncertainties. However, we expect the bank's revenue side to be weak, with -5% y-y and +1% q-q operating income. Its NII should fall y-y continuously from the lazy balance sheet in the past couple of years. On top of that, we think its fee income – including brokerage and asset management fees – and gains on investments should decrease y-y, dragged down by the unfavourable capital market conditions.

Exhibit 104: TISCO – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	---- Change ----		----- 1H22E -----			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	3,149	3,061	3,088	(2)	1	6,149	(2)	51	12,148	(3)	
Non-interest income*	1,566	1,358	1,378	(12)	1	2,736	(23)	44	6,221	(2)	
Operating income*	4,715	4,419	4,466	(5)	1	8,885	(9)	48	18,369	(2)	
Operating expenses	2,070	2,099	2,129	3	1	4,228	3	50	8,374	1	
PPOP before tax*	2,645	2,320	2,337	(12)	1	4,657	(18)	47	9,995	(5)	
Provision	565	85	92	(84)	8	177	(87)	19	925	(55)	
Income tax	413	439	449	9	2	888	4	51	1,750	3	
Minority interest	0	0	0			0		8	3	632	
Normalised profit	1,666	1,795	1,796	8	0	3,591	5	49	7,317	8	
Extraordinary items	0	0	0			0			0		
Net profit	1,666	1,795	1,796	8	0	3,591	5	49	7,317	8	
EPS (THB)	2.08	2.24	2.24	8	0	4.49	5	49	9.14	8	
Asset quality ratio											
Gross NPLs	5,867	4,386	4,474	(24)	2				5,205	5	
NPL ratios (%)	2.74	2.15	2.18						2.50	0	
LLR/NPLs (%)	214	262	258						205		
Credit cost (bp)	104	17	18						45		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio*	43.9	47.5	47.7						45.6		
Average yield	5.7	5.8	5.8						5.8		
Cost of fund	1.2	1.0	1.0						1.1		
Net interest margin (NIM)	4.8	5.0	5.0						4.9		
Non-int inc/total income	33.2	30.7	30.9						33.9		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	118.2	118.7	118.1						117.7		
Loan growth	(%)	(%)	(%)						(%)		
y-y	(6.2)	(7.8)	(4.0)						2.5		
q-q	(3.1)	0.3	0.9								

*Including share of profits from associates

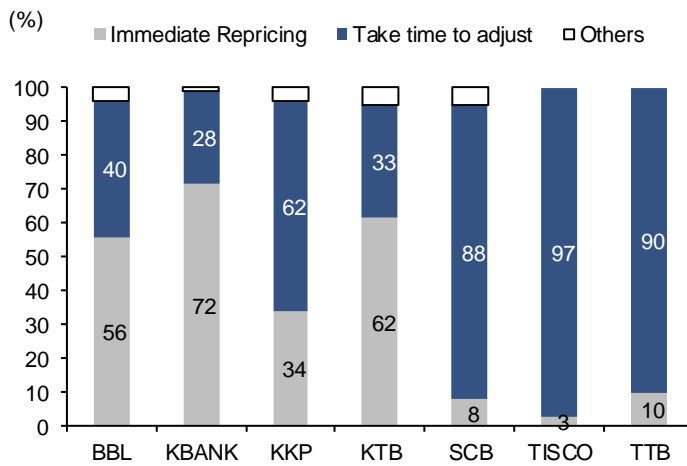
Source: FSSIA estimates

TISCO could be the second-most negatively impacted by rate hikes

Out of the banks that we cover, our estimates place TISCO as the second-most negatively impacted by rising interest rates, after KKP, due to its high proportion of fixed rate loans.

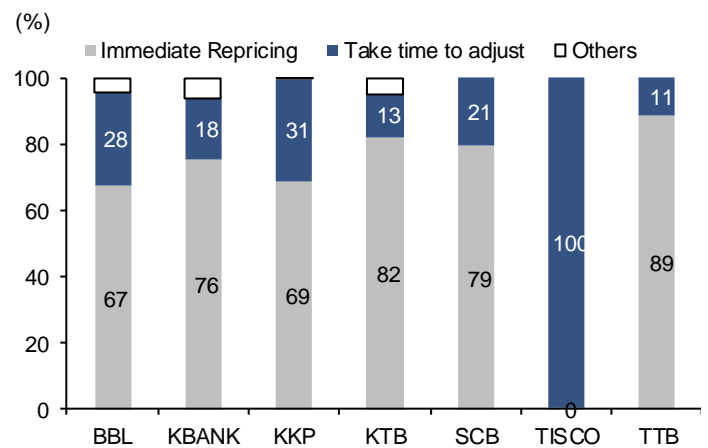
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank's reference rate (M-rate) and a total 10 bps increase in its deposit rate). In the case that the Bank of Thailand increases the policy rate above our expectation, for every 25-bps increase in the policy rate (assuming a 12.5 bps increase in the bank's M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 1.0% downside to our current 2023 net profit forecast.

Exhibit 105: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA estimates

Exhibit 106: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA estimates

Exhibit 107: We expect a 1.0% downside to TISCO's 2023E net profit for every 25-bps rise in the policy rate – assuming a 12.5-bps increase in its M-rate and a five-bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We increase our 2022 net profit forecast by 4% to reflect our lower credit cost estimate to 45 bps from 85 bps as the bank has excess provisions. But, we lower our net profit forecasts for 2023-24 by 2%/4% mostly to reflect the drawbacks from the interest rate uptrend. We adjust our forecasts by:

1) lowering our NIM assumptions in 2023-24 to 4.89%/4.87% from 4.93%/4.97% as we expect TISCO's cost of funds to immediately increase from the rate hikes, while its loan yield should gradually adjust; and

2) lowering our loan growth assumptions in 2023-24 to 3.0%/2.5% from 5.0%/3.0% as we believe the bank will lend new loans more cautiously due to the slower economic recovery.

Exhibit 108: TISCO – changes in key assumptions

	-----2022E-----				-----2023E-----			-----2024E-----		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	12,460	12,183	12,148	(0.3)	12,400	12,252	(1.2)	12,878	12,555	(2.5)
Non-interest income	6,376	6,684	6,221	(6.9)	7,449	6,888	(7.5)	7,877	7,303	(7.3)
Operating income	18,836	18,868	18,369	(2.6)	19,849	19,141	(3.6)	20,755	19,857	(4.3)
Operating expenses	8,280	8,374	8,374	0.0	8,491	8,491	0.0	8,657	8,657	0.0
PPOP before tax	10,556	10,493	9,995	(4.8)	11,358	10,650	(6.2)	12,098	11,200	(7.4)
Expected credit loss (Reversal)	2,064	1,751	925	(47.2)	1,821	1,267	(30.4)	1,894	1,410	(25.5)
Tax expenses	1,708	1,687	1,750	3.7	1,841	1,811	(1.6)	1,944	1,865	(4.1)
Minority interest	0	3	3	3.7	3	3	(1.6)	2	2	0.0
Normalized profit	6,784	7,052	7,317	3.7	7,693	7,569	(1.6)	8,259	7,924	(4.1)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	6,784	7,052	7,317	3.7	7,693	7,569	(1.6)	8,259	7,924	(4.1)
EPS (THB)	8.47	8.81	9.14	3.7	9.61	9.45	(1.6)	10	9.90	(4.1)
Key statistics and ratios										
Asset quality ratio										
Gross NPLs (%)	4,957	5,205	5,205	0.0	5,465	5,465	0.0	5,739	5,739	0.0
Gross NPLs / Loans (%)	2.50	2.49	2.50		2.49	2.55		2.54	2.61	
Loan loss reserve/NPLs (%)	237	221	205		206	181		199	169	
Credit cost (bp)	97	85	45		85	60		85	65	
Profitability ratio										
Cost to income ratio (%)	44.0	44.4	45.6		42.8	44.4		41.7	43.6	
Average yield (%)	5.69	5.81	5.81		6.01	5.99		6.07	6.00	
Cost of fund (%)	1.13	1.13	1.13		1.39	1.41		1.43	1.45	
Net interest margin (NIM) (%)	4.79	4.94	4.93		4.93	4.89		4.97	4.87	
Liquidity ratio										
Loan to deposit ratio (%)	121.9	118.2	117.7		121.7	118.8		125.7	122.1	
Capital adequacy ratio										
CAR (%)	23.2	23.2	23.4		22.7	23.3		22.7	23.4	
% growth										
Loan growth (y-y %)	(9.72)	3.00	2.50		5.00	3.00		3.00	2.50	

*Including share of profits from associates

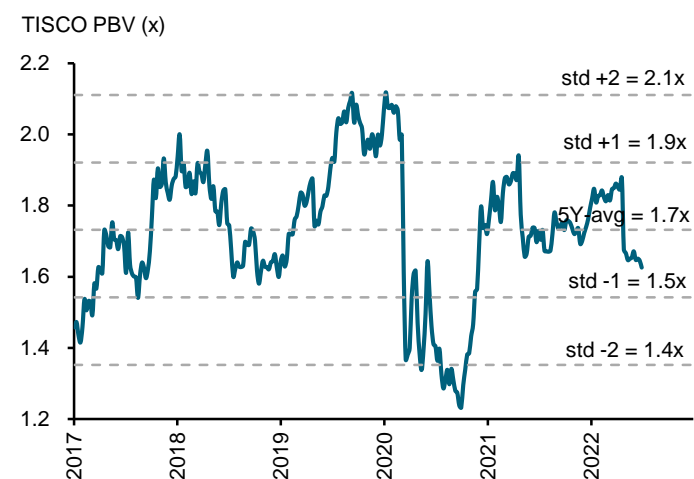
Source: FSSIA estimates

We roll forward our valuation to 2023 and derive a new TP of THB94, down from our 2022 TP of THB110, as we believe the bank should be negatively impacted by the rate hikes. Our TP implies 1.7x 2023E P/BV, its five-year average STD. We downgrade our recommendation to HOLD from Buy.

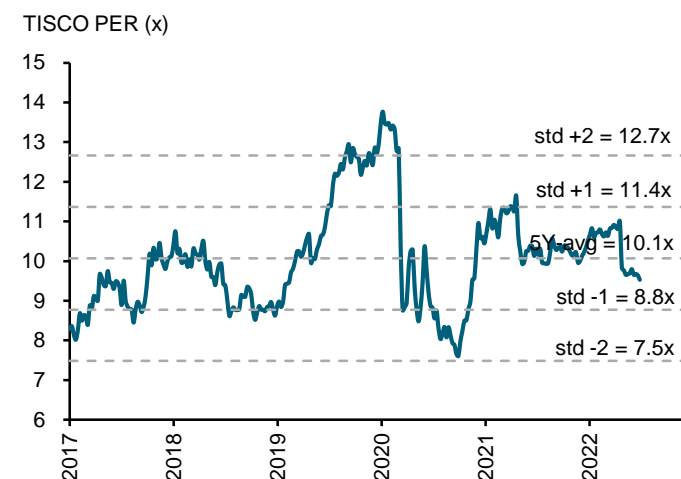
Exhibit 109: TISCO – GGM-derived target price

Target price	THB 94 (from THB 110)
Recommendation	HOLD (from BUY)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	11.4 (from 10.9)
Terminal growth (%)	3.1 (from 3.5)
ROE target (%)	17.4 (from 17.7)

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

	BBG	Rec	--- Share price ---		Up	Market	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

Tisco Financial

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	16,757	14,792	14,313	15,006	15,449
Interest expense	(3,659)	(2,332)	(2,165)	(2,754)	(2,894)
Net interest income	13,098	12,460	12,148	12,252	12,555
Net fees & commission	5,146	5,615	5,668	6,303	6,681
Foreign exchange trading income	0	0	0	0	0
Securities trading income	270	410	158	166	167
Dividend income	59	70	84	92	101
Other income	333	274	303	318	344
Non interest income	5,808	6,369	6,212	6,879	7,292
Total income	18,906	18,829	18,360	19,131	19,847
Staff costs	(5,288)	(5,727)	(5,787)	(5,897)	(6,009)
Other operating costs	(2,723)	(2,553)	(2,587)	(2,594)	(2,648)
Operating costs	(8,012)	(8,280)	(8,374)	(8,491)	(8,657)
Pre provision operating profit	10,894	10,549	9,986	10,640	11,190
Provision for bad and doubtful debt	(3,331)	(2,064)	(925)	(1,267)	(1,410)
Other provisions	-	-	-	-	-
Operating profit	7,563	8,485	9,061	9,374	9,780
Recurring non operating income	(2)	7	9	10	10
Associates	(2)	7	9	10	10
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	7,562	8,492	9,070	9,383	9,790
Tax	(1,498)	(1,708)	(1,750)	(1,811)	(1,865)
Profit after tax	6,064	6,785	7,319	7,572	7,925
Minority interests	0	0	(3)	(3)	(2)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	6,063	6,784	7,317	7,569	7,924
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	6,063	6,784	7,317	7,569	7,924
Per share (THB)					
Recurring EPS *	7.57	8.47	9.14	9.45	9.90
Reported EPS	7.57	8.47	9.14	9.45	9.90
DPS	6.30	7.15	7.75	8.25	8.50
Growth					
Net interest income (%)	2.4	(4.9)	(2.5)	0.9	2.5
Non interest income (%)	(12.4)	9.7	(2.5)	10.7	6.0
Pre provision operating profit (%)	7.3	(3.2)	(5.3)	6.6	5.2
Operating profit (%)	(16.4)	12.2	6.8	3.4	4.3
Reported net profit (%)	(16.6)	11.9	7.8	3.5	4.7
Recurring EPS (%)	(16.6)	11.9	7.8	3.5	4.7
Reported EPS (%)	(16.6)	11.9	7.8	3.5	4.7
Income Breakdown					
Net interest income (%)	69.3	66.2	66.2	64.0	63.3
Net fees & commission (%)	27.2	29.8	30.9	32.9	33.7
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	1.4	2.2	0.9	0.9	0.8
Dividend income (%)	0.3	0.4	0.5	0.5	0.5
Other income (%)	1.8	1.5	1.7	1.7	1.7
Operating performance					
Gross interest yield (%)	5.84	5.69	5.81	5.99	6.00
Cost of funds (%)	1.56	1.13	1.13	1.41	1.45
Net interest spread (%)	4.28	4.56	4.68	4.58	4.55
Net interest margin (%)	4.6	4.8	4.9	4.9	4.9
Cost/income(%)	42.4	44.0	45.6	44.4	43.6
Cost/assets(%)	2.8	3.2	3.4	3.4	3.3
Effective tax rate (%)	19.8	20.1	19.3	19.3	19.1
Dividend payout on recurring profit (%)	83.2	84.4	84.8	87.3	85.9
ROE (%)	15.4	16.8	17.4	17.4	17.6
ROE - COE (%)	4.6	6.0	6.6	6.6	6.8
ROA (%)	2.1	2.6	3.0	3.0	3.1
RORWA (%)	3.3	3.8	4.1	4.2	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	2020	2021	2022E	2023E	2024E
Gross customer loans	224,812	202,950	208,023	214,264	219,621
Total provisions	(11,826)	(11,736)	(10,685)	(9,916)	(9,679)
interest in suspense	1,902	1,713	1,560	1,500	1,537
Net customer loans	214,888	192,926	198,899	205,848	211,479
Bank loans	38,212	30,489	28,510	26,839	30,436
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	12,931	10,933	11,505	11,896	12,303
Cash & equivalents	1,220	1,103	1,856	1,359	461
Other interesting assets	-	-	-	-	-
Tangible fixed assets	3,837	3,654	3,716	3,779	3,843
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	4,355	4,509	4,611	4,710	4,816
Total assets	275,443	243,616	249,096	254,429	263,338
Customer deposits	203,473	166,542	176,793	180,328	179,889
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	19,918	23,317	16,864	17,201	21,591
Non interest bearing liabilities	12,590	12,559	12,559	12,559	12,936
Hybrid Capital	-	-	-	-	-
Total liabilities	235,981	202,418	206,215	210,089	214,416
Share capital	8,007	8,007	8,006	8,006	8,006
Reserves	31,452	33,187	34,871	36,331	37,750
Total equity	39,459	41,194	42,877	44,337	45,757
Minority interests	3	3	3	4	4
Total liabilities & equity	275,443	243,616	249,096	254,429	260,176
Supplementary items					
Risk weighted assets (RWA)	185,168	174,636	179,002	184,372	188,982
Average interest earning assets	287,129	260,164	246,205	250,518	257,679
Average interest bearing liabilities	234,728	206,625	191,758	195,593	199,505
Tier 1 capital	32,369	32,421	33,747	34,985	36,126
Total capital	40,478	40,481	41,807	43,044	44,186
Gross non performing loans (NPL)	5,618	4,957	5,205	5,465	5,739
Per share (THB)					
Book value per share	49.28	51.45	53.55	55.38	57.15
Tangible book value per share	49.28	51.45	53.55	55.38	57.15
Growth					
Gross customer loans	(7.4)	(9.7)	2.5	3.0	2.5
Average interest earning assets	(4.7)	(9.4)	(5.4)	1.8	2.9
Total asset (%)	(7.7)	(11.6)	2.2	2.1	3.5
Risk weighted assets (%)	(0.2)	(5.7)	2.5	3.0	2.5
Customer deposits (%)	(5.8)	(18.2)	6.2	2.0	(0.2)
Leverage & capital measures					
Customer loan/deposits (%)	105.6	115.8	112.5	114.2	117.6
Equity/assets (%)	14.3	16.9	17.2	17.4	17.4
Tangible equity/assets (%)	14.3	16.9	17.2	17.4	17.4
RWA/assets (%)	67.2	71.7	71.9	72.5	71.8
Tier 1 CAR (%)	17.5	18.6	18.9	19.0	19.1
Total CAR (%)	21.9	23.2	23.4	23.3	23.4
Asset Quality					
Change in NPL (%)	(3.7)	(11.8)	5.0	5.0	5.0
NPL/gross loans (%)	2.5	2.4	2.5	2.6	2.6
Total provisions/gross loans (%)	5.3	5.8	5.1	4.5	4.4
Total provisions/NPL (%)	210.5	236.7	205.3	181.4	168.7
Valuation					
Recurring P/E (x) *	11.5	10.2	9.5	9.2	8.8
Recurring P/E @ target price (x) *	12.4	11.1	10.3	9.9	9.5
Reported P/E (x)	11.5	10.2	9.5	9.2	8.8
Dividend yield (%)	7.3	8.2	8.9	9.5	9.8
Price/book (x)	1.8	1.7	1.6	1.6	1.5
Price/tangible book (x)	1.8	1.7	1.6	1.6	1.5
Price/tangible book @ target price (x)	1.9	1.8	1.8	1.7	1.6

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Tisco Financial; FSSIA estimates

TMBTHANACHART BANK

THAILAND / BANKS

TTB TB

BUY

UNCHANGED

Limited short-term catalysts

- Expect a modest 2Q22 NP of THB3.1m (+21% y-y, -4% q-q).
- Net negative impact from rate hikes and high inflation.
- Maintain BUY rating, but less bullish on TTB.

TARGET PRICE	THB1.40
CLOSE	THB1.17
UP/DOWNSIDE	+19.7%
PRIOR TP	THB1.80
CHANGE IN TP	-22.2%
TP vs CONSENSUS	-6.8%

Expect modest 2Q22 performance

We expect TTB to report a 2Q22 net profit of THB3,079m (+21% y-y, -4% q-q). The increase y-y in its 2Q22 net profit would come from lower OPEX due to the absence of merger-related fees and a rise in its fee income from the low base. Meanwhile, we expect a drop q-q in its net profit. Although we expect an improvement in its NIM to 2.94% in 2Q22 vs 2.86% in 1Q22 from a minimal rise in its retail loans, this should be dragged down by higher q-q OPEX. TTB is expanding its retail business unit, called TTB Consumer. Also, it is in a digital investment phase. Thus, we expect its OPEX to be in a rising trend. Regarding its asset quality, we believe TTB has been able to control NPLs efficiently. However, as the bank did not set a huge special provision aside in the previous quarters, we do not expect a significantly lower ECL in 2Q22 like for other banks.

Slightly benefit from rate hikes, but...

Out of the banks that we cover, our estimates place TTB as fifth in line to benefit from rising interest rates, after BBL, KTB, KBANK, and SCB, respectively. For every increase in the policy rate by 25 bps, ceteris paribus, we project a 1.6% upside to our current 2023 net profit forecast – assuming 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23.

... Higher drawbacks from high inflation and its digital project

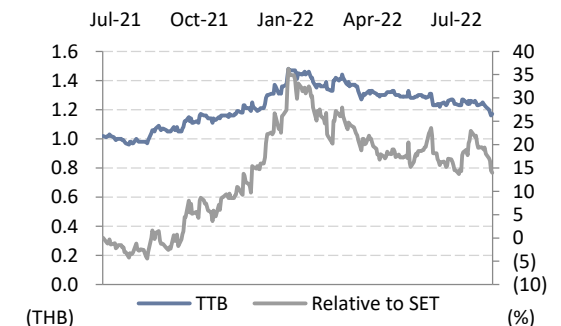
Meanwhile, we expect that the debt repayment ability of TTB's clients should be reduced from the high inflation environment due to the high concentration of SME and retail segments – 66% of total portfolio. This should result in higher provisions. On top of that, this might reduce TTB's willingness to lend new loans. The negative impacts from the higher asset deterioration rate should overcome the positives from the wider net interest margin, in our view. Moreover, we expect its OPEX to rise from its digital transformation project. Consequently, we lower we lower our 2022-24 net profit forecasts by 5%/7%/10%.

Maintain our BUY call with a new 2023 TP of THB1.4

We roll forward our valuation to 2023 and derive a new TP of THB1.4. We have a less bullish view on TTB due to the net negative impacts from the rate hikes and high inflation. Nevertheless, due to its undemanding valuation (0.5x 2023E P/BV and 6.3% 2023E ROE) and impressive net profit growth at 14% CAGR in 2022-24E, we maintain our BUY call.

KEY STOCK DATA

YE Dec (THB m)	2021	2022E	2023E	2024E
Operating profit	12,458	14,968	16,760	18,513
Net profit	10,474	12,563	14,082	15,538
EPS (THB)	0.11	0.13	0.15	0.16
vs Consensus (%)	-	4.8	(0.7)	(4.2)
Core net profit	10,474	12,563	14,082	15,538
Core EPS (THB)	0.11	0.13	0.15	0.16
Chg. In EPS est. (%)	-	(4.9)	(6.9)	(9.8)
EPS growth (%)	3.3	20.3	12.1	10.3
Core P/E (x)	10.8	9.0	8.0	7.3
Dividend yield (%)	3.2	5.0	5.6	6.2
Price/book (x)	0.5	0.5	0.5	0.5
ROE (%)	5.0	5.8	6.3	6.7
ROA (%)	0.6	0.7	0.8	0.8



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(4.9)	(10.7)	8.3
Relative to country (%)	(0.3)	(3.6)	7.0
Mkt cap (USD m)	3,135		
3m avg. daily turnover (USD m)	10.2		
Free float (%)	39		
Major shareholder	ING Bank N.V. (23%)		
12m high/low (THB)	1.50/0.95		
Issued shares (m)	43,852		

Sources: Bloomberg consensus; FSSIA estimates


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Investment thesis

We roll forward our valuation to 2023 and derive a new TP of THB1.4. We have a less bullish view on TTB due to the net negative impacts it will likely suffer from rate hikes and high inflation. Nevertheless, due to its undemanding valuation (0.5x 2023E P/BV and 6.3% 2023E ROE) and the impressive net profit growth we estimate at 14% CAGR during 2022-24, we maintain our BUY call.

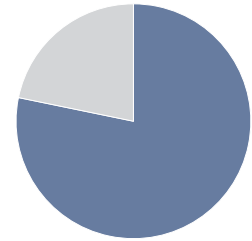
Company profile

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 Thanachart Bank at the end of 2019. The entire business transfer (EBT) process was completed in Jul-21.

www.ttbbank.com

Principal activities (revenue, 2021)

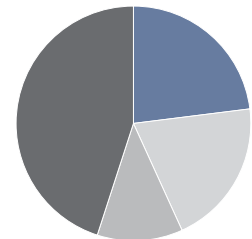
- Net interest income - 78.2 %
- Non-interest income - 21.8 %



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 affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.

Event calendar

Date	Event
20 Jul 2022	2Q22 results announcement

Key assumptions

	2022E	2023E	2024E
	(%)	(%)	(%)
Net profit (THB m)	12,563	14,082	15,538
Net profit growth	19.9	12.1	10.3
NIM	2.97	2.97	3.01
Loan growth	2.0	3.0	2.5
Fee growth	3.5	8.0	10.0
Non-NII growth	7.5	7.5	8.8
Credit cost (bp)	152	152	150
Cost to income	45.7	44.3	44.1

Source: FSSIA estimates

Earnings sensitivity

		----- 2022E -----		
Loan growth	±2ppt	-	2.0	4.0
% change in net profit		(2.0)	-	2.0
NIM (%)	±5bp	2.92	2.97	3.02
% change in net profit		(2.4)	-	2.4
Credit cost (bp)	±10bp	142	152	162
% change in net profit		7.0	-	(7.0)

Source: FSSIA estimates

Expect modest 2Q22 performance

We expect TTB to report a 2Q22 net profit of THB3,079m (+21% y-y, -4% q-q). The significant increase y-y in its 2Q22 net profit would come from lower OPEX due to the absence of merger-related fees and a rise in its fee income from the low base, as the bank was not able to generate revenue synergy in 2Q21. Meanwhile, we expect a drop q-q in its net profit. Although we expect an improvement in its NIM to 2.94% in 2Q22 vs 2.86% in 1Q22 from a minimal rise in its retail loans, this should be dragged down by an increase in its OPEX q-q. TTB is expanding its retail business unit, called TTB Consumer. Also, it is in a digital investment phase. Therefore, we expect its OPEX to be in a rising trend. Regarding its asset quality, we believe TTB has been able to control non-performing loans (NPLs) efficiently. However, as the bank did not set a huge special provision aside in the previous quarters, we do not expect a significantly lower expected credit loss (ECL) in 2Q22 like for other banks.

Exhibit 113: TTB – 2Q22 results preview

Year-end Dec 31	2Q21	1Q22	2Q22E	Change		1H22E			2022E	Change	Comments
	(THB m)	(THB m)	(THB m)	(y-y%)	(q-q%)	(THB m)	(y-y %)	%22E	(THB m)	(y-y %)	
Net interest income	12,782	12,409	12,646	(1)	2	25,055	(2)	49	51,442	1	
Non-interest income	3,118	3,365	3,301	6	(2)	6,667	(10)	43	15,632	8	
Operating income	15,900	15,774	15,947	0	1	31,722	(4)	47	67,074	2	
Operating expenses	7,402	6,987	7,168	(3)	3	14,155	(9)	46	30,658	(2)	
PPOP before tax	8,498	8,787	8,779	3	(0)	17,567	1	48	36,416	6	
Provision	5,491	4,808	4,976	(9)	3	9,785	(11)	46	21,068	(2)	
Income tax	472	784	723	53	(8)	1,507	34	54	2,781	20	
Minority interest	1	(0)	1			1		35	4	44	
Normalised profit	2,534	3,195	3,079	21	(4)	6,274	18	50	12,563	20	
Extraordinary items	0	0	0			0			0		
Net profit	2,534	3,195	3,079	21	(4)	6,274	18	50	12,563	20	
EPS (THB)	0.03	0.03	0.03	21	(4)	0.06	18	50	0.13	20	
Asset quality ratio											
Gross NPLs	43,543	42,144	43,830	1	4				46,333	10	
NPL ratios (%)	2.89	2.73	2.75						3.03		
LLR/NPLs (%)	125	132	127						127		
Credit cost (bp)	160	141	145						152		
Profitability ratio	(%)	(%)	(%)						(%)		
Cost to income ratio	46.6	44.3	44.9						45.7		
Average yield (%)	3.7	3.6	3.6						3.7		
Cost of fund (%)	0.9	0.9	0.9						0.9		
Net interest margin (NIM)	3.0	2.9	2.9						3.0		
Non-int inc/total income	19.6	21.3	20.7						23.3		
Liquidity ratio	(%)	(%)	(%)						(%)		
Loan to deposit ratio	102.6	100.4	101.6						103.1		
Loan growth	(%)	(%)	(%)						(%)		
y-y	(1.7)	(1.0)	1.5						2.0		
q-q	(1.6)	(0.4)	1.0								

*Including share of profits from associates

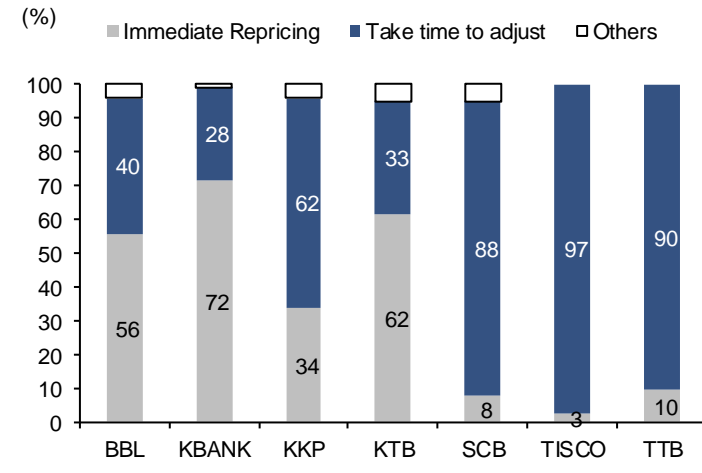
Source: TTB; FSSIA estimates

The fifth-in-line bank to benefit from rate hikes

Out of the banks that we cover, our estimates place TTB as fifth in line to benefit from rising interest rates, after BBL, KTB, KBANK, and SCB, respectively.

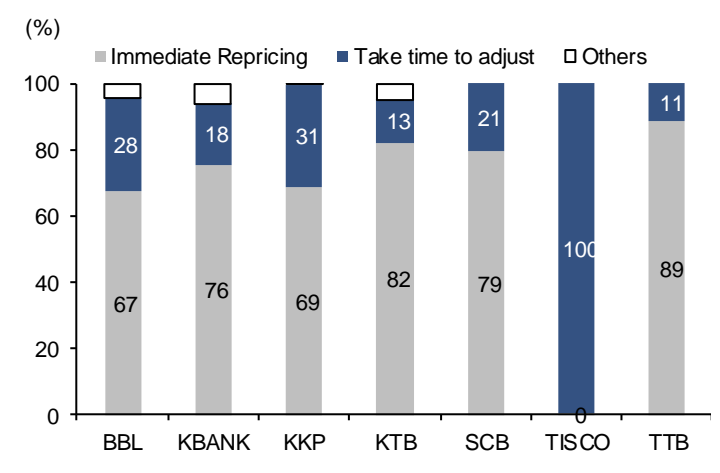
We currently assume 50 bps in rate hikes in 2022 and another 50-bps rise in 1H23 (assuming a total 50 bps increase in the bank’s reference rate (M-rate) and a total 10 bps increase in its deposit rate). In case the Bank of Thailand increases rate more than our expectation, for every 25 bps increase in the policy rate (assuming a 12.5 bps increase in the bank’s M-rate and a five bps increase in its deposit rate), ceteris paribus, there would be a 1.6% upside to our current 2023 net profit forecast.

Exhibit 114: Breakdown of floating vs fixed interest rate loans by bank



Sources: Company data; FSSIA estimates

Exhibit 115: Breakdown of floating vs fixed interest rate deposits by bank



Sources: Company data; FSSIA estimates

Exhibit 116: We expect a 1.6% upside to TTB’s 2023E net profit for every 25-bps policy rate hike – assuming a 12.5 bps increase in its M-rate and a five bps increase in its deposit rate

	2023E net profit			2023E NIM		
	Current	Rate hikes 25 bps	Diff	Current	Rate hikes 25 bps	Diff
	(THB m)	(THB m)	(%)	(%)	(%)	(%)
BBL	34,035	34,959	2.7	2.14	2.16	0.03
KBANK	47,488	48,415	2.0	3.20	3.23	0.03
KKP	8,293	8,171	(1.5)	4.19	4.16	(0.03)
KTB	29,973	30,761	2.6	2.53	2.56	0.03
SCB	41,734	42,454	1.7	2.91	2.94	0.03
TISCO	7,569	7,493	(1.0)	4.89	4.85	(0.04)
TTB	14,082	14,309	1.6	2.97	2.99	0.02
Coverage	183,174	186,563	1.8	2.77	2.80	0.03

Sources: Company data; FSSIA estimates

Net profit and TP revisions

We lower our net profit forecasts for 2022-24 by 5%/7%/10%. Although we expect TTB's NIM to be wider from the interest rate uptrend, this should be dragged down by 1) a higher asset deterioration rate from high inflation; 2) slower revenue synergy from the merger of Thanachart Bank; and 3) its new digital investment cycle. Details are as follows:

- 1) we increase our NIM assumptions in 2023-24 to 2.97%/3.01% from 2.95%/2.97% to mostly reflect the benefit from the interest rate uptrend;
- 2) we increase our credit cost assumptions in 2022-24 to 152/152/150 bps from 150/145/140 bps as we expect a higher asset deterioration rate from high inflation due to its retail-concentrated portfolio;
- 3) we lower our loan growth assumptions in 2023-24 to 3.0%/2.5% from 4.0%/3.0% as we believe the bank will lend new loans more cautiously due to the higher NPLs;
- 4) we increase our OPEX estimates in 2022-24 by 1%/2%/3% to reflect its digital investment and new retail business expansion; and
- 5) we lower our non-NII assumptions in 2022-24 by 3%/4%/4% due to the slower fee income synergy from Thanachart Bank.

Exhibit 117: TTB – changes in key assumptions

	-----2022E-----				-----2023E-----			-----2024E-----		
	2021	Old	New	Change	Old	New	Change	Old	New	Change
	(THB m)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)	(THB m)	(THB m)	(%)
Net interest income	51,000	51,416	51,442	0.0	52,056	52,806	1.4	53,859	54,820	1.8
Non-interest income	14,537	16,030	15,632	(2.5)	17,471	16,800	(3.8)	19,018	18,280	(3.9)
Operating income	65,537	67,446	67,074	(0.6)	69,527	69,606	0.1	72,877	73,100	0.3
Operating expenses	31,219	30,509	30,658	0.5	30,368	30,833	1.5	31,158	32,231	3.4
PPOP before tax	34,318	36,938	36,416	(1.4)	39,158	38,773	(1.0)	41,719	40,869	(2.0)
Provision (Reversal)	21,514	20,791	21,068	1.3	20,702	21,596	4.3	20,686	21,897	5.9
Taxes expenses	2,327	2,926	2,781	(4.9)	3,322	3,092	(6.9)	3,802	3,429	(9.8)
Minority interest	3	4	4	(4.9)	5	4	(6.9)	5	5	(9.8)
Norm. profit	10,474	13,217	12,563	(4.9)	15,129	14,082	(6.9)	17,226	15,538	(9.8)
Extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit	10,474	13,217	12,563	(4.9)	15,129	14,082	(6.9)	17,226	15,538	(9.8)
EPS (THB)	0.11	0.14	0.13	(4.9)	0.16	0.15	(6.9)	0.18	0.16	(9.8)
Key statistic and ratio										
Asset quality ratio										
Gross NPLs (THBm)	42,121	46,333	46,333	-	50,040	51,893	3.7	52,542	56,563	7.7
Gross NPLs / Loans (%)	2.81	3.03	3.03	-	3.15	3.30	0.15	3.21	3.50	0.29
Loan loss reserve/NPLs	129	126	127	0.8	123	121	(1.6)	123	119	(3.3)
Credit cost (bps)	156	150	152	1.3	145	152	4.8	140	150	7.1
Profitability ratio										
Cost to income ratio	47.6	45.2	45.7	0.5	43.7	44.3	0.6	42.8	44.1	1.3
Average yield (%)	3.72	3.75	3.74	(0.02)	3.91	4.05	0.14	3.96	4.12	0.16
Cost of fund (%)	0.87	0.89	0.89	0.02	1.11	1.25	0.14	1.15	1.29	0.14
Net interest margin (NIM)	2.96	2.97	2.97	0.01	2.95	2.97	0.02	2.97	3.01	0.04
% growth										
Loan growth (y-y)	(1.5)	2.0	2.0	0.0	4.0	3.0	(1.0)	3.0	2.5	(0.5)

*Including share of profits from associates

Source: FSSIA estimates

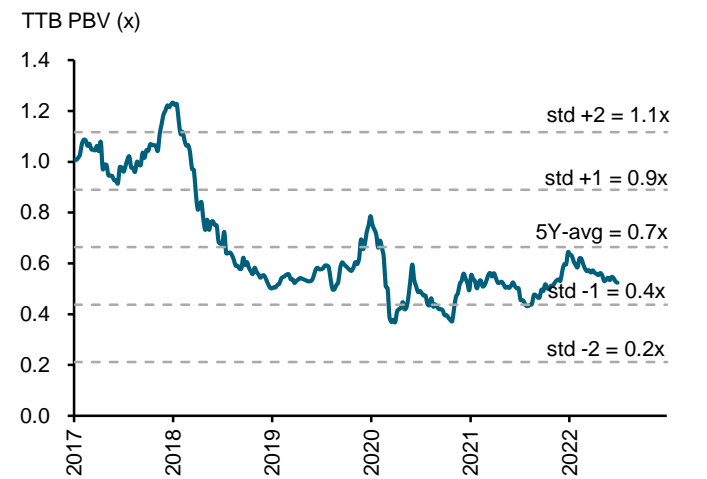
We roll forward our valuation to 2023 and derive a new TP of THB1.4, down from our 2022 TP of THB1.8, as we believe the bank should be net negatively impacted by the rate hikes and its new digital transformation project. Our TP implies 0.6x 2023E P/BV, -0.5 STD below its five-year average. We maintain our BUY rating.

Exhibit 118: TTB – GGM-derived target price

Target price	THB 1.40 (from THB1.80)
Recommendation	BUY (unchanged)
Risk-free rate (%)	3.0 (unchanged)
Market risk premium (%)	8.0 (unchanged)
Cost of equity (%)	8.1 (from 7.1)
Terminal growth (%)	3.7 (from 4.0)
ROE target (%)	6.3 (from 6.7)

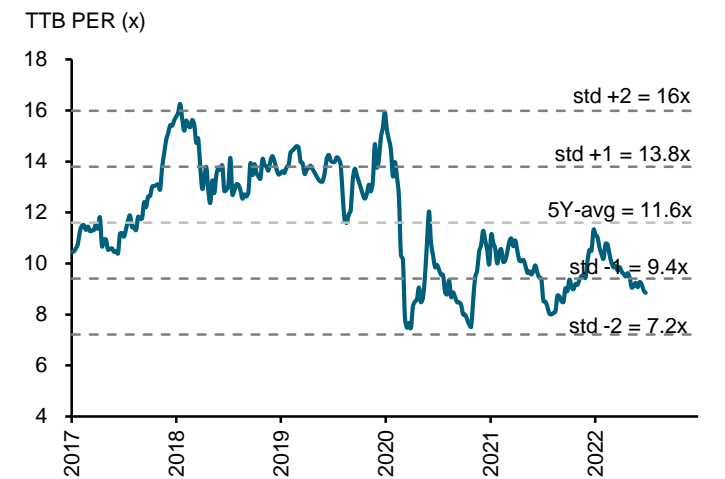
Source: FSSIA estimates

Exhibit 119: TTB – one-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

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



Sources: Bloomberg; FSSIA estimates

Exhibit 121: Peers comparison

	BBG	Rec	--- Share price ---		Up	Market	EPS growth		--- P/E ---		-- DivYld --		--- ROE ---		--- PBV ---	
	code		Current	Target	side	Cap	22E	23E	22E	23E	22E	23E	22E	23E	22E	23E
			(THB)	(THB)	(%)	(USD m)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Coverage						37,922	14.6	9.9	8.3	7.5	4.5	5.3	8.4	8.6	0.7	0.6
Bangkok Bank	BBL TB	BUY	130.00	170.00	31	6,881	15.2	11.5	8.1	7.3	3.8	5.0	6.0	6.4	0.5	0.5
Kasikornbank	KBANK TB	BUY	146.00	192.00	32	9,592	10.6	12.9	8.2	7.3	3.1	3.4	8.5	9.0	0.7	0.6
Kiatnakin Bank	KKP TB	BUY	61.75	82.00	33	1,450	19.8	9.5	6.9	6.3	7.1	8.1	14.2	14.5	0.9	0.9
Krung Thai Bank	KTB TB	BUY	14.70	18.20	24	5,697	26.6	9.7	7.5	6.9	4.7	5.1	7.4	7.6	0.5	0.5
SCB X	SCB TB	BUY	99.00	134.00	35	9,243	9.8	6.6	8.6	8.1	5.1	6.1	8.6	8.5	0.7	0.7
Tisco Financial	TISCO TB	HOLD	86.75	94.00	8	1,926	7.8	3.5	9.5	9.2	8.9	9.5	17.4	17.4	1.6	1.6
TMBThanachart Bank	TTB TB	BUY	1.17	1.40	20	3,135	20.3	12.1	9.0	8.0	5.0	5.6	5.8	6.3	0.5	0.5

Share prices as of 7 Jul 2022

Source: FSSIA estimates

Financial Statements

TMBThanachart Bank

Profit and Loss (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Interest Income	72,321	64,239	64,784	71,888	74,983
Interest expense	(18,515)	(13,240)	(13,341)	(19,082)	(20,163)
Net interest income	53,805	51,000	51,442	52,806	54,820
Net fees & commission	11,348	11,248	11,643	12,574	13,832
Foreign exchange trading income	0	0	0	0	0
Securities trading income	2,404	1,662	2,200	2,220	2,242
Dividend income	0	0	0	0	0
Other income	1,426	1,281	1,409	1,587	1,746
Non interest income	15,178	14,191	15,252	16,382	17,820
Total income	68,983	65,191	66,694	69,188	72,640
Staff costs	(17,142)	(16,480)	(16,480)	(17,304)	(18,170)
Other operating costs	(15,035)	(14,739)	(14,178)	(13,528)	(14,062)
Operating costs	(32,177)	(31,219)	(30,658)	(30,833)	(32,231)
Pre provision operating profit	36,806	33,972	36,036	38,355	40,409
Provision for bad and doubtful debt	(24,831)	(21,514)	(21,068)	(21,596)	(21,897)
Other provisions	-	-	-	-	-
Operating profit	11,975	12,458	14,968	16,760	18,513
Recurring non operating income	363	346	380	418	460
Associates	363	346	380	418	460
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	12,338	12,804	15,348	17,178	18,972
Tax	(2,223)	(2,327)	(2,781)	(3,092)	(3,429)
Profit after tax	10,115	10,477	12,567	14,086	15,543
Minority interests	(3)	(3)	(4)	(4)	(5)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	10,112	10,474	12,563	14,082	15,538
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	10,112	10,474	12,563	14,082	15,538
Per share (THB)					
Recurring EPS *	0.10	0.11	0.13	0.15	0.16
Reported EPS	0.10	0.11	0.13	0.15	0.16
DPS	0.04	0.04	0.06	0.07	0.07
Growth					
Net interest income (%)	100.3	(5.2)	0.9	2.7	3.8
Non interest income (%)	20.2	(6.5)	7.5	7.4	8.8
Pre provision operating profit (%)	95.5	(7.7)	6.1	6.4	5.4
Operating profit (%)	41.1	4.0	20.1	12.0	10.5
Reported net profit (%)	40.0	3.6	19.9	12.1	10.3
Recurring EPS (%)	(29.4)	3.3	20.3	12.1	10.3
Reported EPS (%)	(29.4)	3.3	20.3	12.1	10.3
Income Breakdown					
Net interest income (%)	78.0	78.2	77.1	76.3	75.5
Net fees & commission (%)	16.4	17.3	17.5	18.2	19.0
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	3.5	2.5	3.3	3.2	3.1
Dividend income (%)	-	-	-	-	-
Other income (%)	2.1	2.0	2.1	2.3	2.4
Operating performance					
Gross interest yield (%)	4.09	3.72	3.74	4.05	4.12
Cost of funds (%)	1.18	0.87	0.88	1.24	1.29
Net interest spread (%)	2.91	2.85	2.86	2.81	2.83
Net interest margin (%)	3.0	3.0	3.0	3.0	3.0
Cost/income(%)	46.6	47.9	46.0	44.6	44.4
Cost/assets(%)	1.8	1.8	1.7	1.7	1.7
Effective tax rate (%)	18.0	18.2	18.1	18.0	18.1
Dividend payout on recurring profit (%)	42.9	35.0	45.0	45.0	45.0
ROE (%)	5.1	5.0	5.8	6.3	6.7
ROE - COE (%)	5.1	5.0	5.8	6.3	6.7
ROA (%)	0.6	0.6	0.7	0.8	0.8
RORWA (%)	0.8	0.9	1.0	1.0	1.1

* Pre-exceptional, pre-goodwill and fully diluted

Sources: TMBThanachart Bank ; FSSIA estimates

Financial Statements

TMBThanachart Bank

Balance Sheet (THB m) Year Ending Dec	2020	2021	2022E	2023E	2024E
Gross customer loans	1,392,925	1,372,315	1,399,761	1,441,754	1,477,798
Total provisions	(51,967)	(54,472)	(58,743)	(63,037)	(67,200)
interest in suspense	3,879	3,783	3,919	4,037	4,138
Net customer loans	1,344,837	1,321,626	1,344,938	1,382,754	1,414,736
Bank loans	211,185	158,873	169,671	166,876	171,009
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	138,139	181,649	186,226	190,919	195,731
Cash & equivalents	21,943	16,011	13,741	14,052	14,442
Other interesting assets	-	-	-	-	-
Tangible fixed assets	30,076	30,252	29,675	29,224	28,887
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	58,510	47,183	48,072	49,163	50,292
Total assets	1,804,688	1,755,595	1,792,323	1,832,989	1,875,097
Customer deposits	1,373,408	1,339,195	1,357,430	1,384,579	1,412,270
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	168,768	158,690	162,923	166,182	169,505
Non interest bearing liabilities	61,406	50,460	51,974	53,533	55,139
Hybrid Capital	-	-	-	-	-
Total liabilities	1,603,582	1,548,345	1,572,327	1,604,293	1,636,915
Share capital	91,589	91,792	91,792	91,792	91,792
Reserves	113,124	119,043	128,203	136,903	146,390
Total equity	204,713	210,835	219,995	228,695	238,181
Minority interests	37	1	1	1	1
Total liabilities & equity	1,808,332	1,759,181	1,792,323	1,832,989	1,875,097
Supplementary items					
Risk weighted assets (RWA)	1,188,683	1,228,574	1,351,431	1,391,974	1,426,774
Average interest earning assets	1,766,631	1,724,939	1,732,809	1,776,129	1,820,533
Average interest bearing liabilities	1,569,566	1,520,031	1,509,119	1,535,557	1,566,268
Tier 1 capital	171,724	176,284	196,230	203,899	212,372
Total capital	220,769	225,331	245,277	252,946	261,419
Gross non performing loans (NPL)	39,594	42,121	46,333	51,893	56,563
Per share (THB)					
Book value per share	2.12	2.18	2.28	2.37	2.47
Tangible book value per share	2.12	2.18	2.28	2.37	2.47
Growth					
Gross customer loans	0.1	(1.5)	2.0	3.0	2.5
Average interest earning assets	32.5	(2.4)	0.5	2.5	2.5
Total asset (%)	(2.9)	(2.7)	2.1	2.3	2.3
Risk weighted assets (%)	(2.3)	3.4	10.0	3.0	2.5
Customer deposits (%)	(1.8)	(2.5)	1.4	2.0	2.0
Leverage & capital measures					
Customer loan/deposits (%)	97.9	98.7	99.1	99.9	100.2
Equity/assets (%)	11.3	12.0	12.3	12.5	12.7
Tangible equity/assets (%)	11.3	12.0	12.3	12.5	12.7
RWA/assets (%)	65.9	70.0	75.4	75.9	76.1
Tier 1 CAR (%)	14.4	14.3	14.5	14.6	14.9
Total CAR (%)	18.6	18.3	18.1	18.2	18.3
Asset Quality					
Change in NPL (%)	4.9	6.4	10.0	12.0	9.0
NPL/gross loans (%)	2.8	3.1	3.3	3.6	3.8
Total provisions/gross loans (%)	3.7	4.0	4.2	4.3	4.5
Total provisions/NPL (%)	131.2	129.3	126.8	121.5	118.8
Valuation					
Recurring P/E (x) *	11.2	10.8	9.0	8.0	7.3
Recurring P/E @ target price (x) *	13.3	12.9	10.7	9.6	8.7
Reported P/E (x)	11.2	10.8	9.0	8.0	7.3
Dividend yield (%)	3.8	3.2	5.0	5.6	6.2
Price/book (x)	0.6	0.5	0.5	0.5	0.5
Price/tangible book (x)	0.6	0.5	0.5	0.5	0.5
Price/tangible book @ target price (x)	0.7	0.6	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 2021

EXCELLENT LEVEL – Score range 90-100										
AAV	BCPG	CPALL	GCAP	K	MSC	PLANET	SAMART	SPI	THRE	TVD
ADVANC	BDMS	CPF	GFPT	KBANK	MST	PLAT	SAMTEL	SPRC	THREL	TVI
AF	BEM	CPI	GGC	KCE	MTC	PORT	SAT	SPVI	TIPCO	TVO
AH	BGC	CPN	GLAND	KKP	MVP	PPS	SC	SSSC	TISCO	TWPC
AIRA	BGRIM	CRC	GLOBAL	KSL	NCL	PR9	SCB	SST	TK	U
AKP	BIZ	CSS	GPI	KTB	NEP	PREB	SCC	STA	TKT	UAC
AKR	BKI	DDD	GPSC	KTC	NER	PRG	SCCC	STEC	TMT	UBIS
ALT	BOL	DELTA	GRAMMY	LALIN	NKI	PRM	SCG	STI	TNDT	UV
AMA	BPP	DEMCO	GULF	LANNA	NOBLE	PROUD	SCGP	SUN	TNITY	VGI
AMATA	BRR	DRT	GUNKUL	LH	NSI	DRS	SCM	SUSCO	TOA	VIH
AMATAV	BTS	DTAC	HANA	LHFG	NVD	PSL	SDC	SUTHA	TOP	WACOAL
ANAN	BTW	DUSIT	HARN	LIT	NWR	PTG	SEAFCO	SVI	TPBI	WAVE
AOT	BWG	EA	HMPRO	LPN	NYT	PTT	SEAOIL	SYMC	TQM	WHA
AP	CENTEL	EASTW	ICC	MACO	OISHI	PTTEP	SE-ED	SYNTEC	TRC	WHAUP
ARIP	CFRESH	ECF	ICHI	MAJOR	OR	PTTGC	SELIC	TACC	TRU	WICE
ARROW	CHEWA	ECL	III	MAKRO	ORI	PYLON	SENA	TASCO	TRUE	WINNER
ASP	CHO	EE	ILINK	MALEE	OSP	Q-CON	SHR	TCAP	TSC	ZEN
AUCT	CIMBT	EGCO	ILM	MBK	OTO	QH	SIRI	TEAMG	TSR	
AWC	CK	EPG	INTUCH	MC	PAP	QTC	SIS	TFMAMA	TSTE	
AYUD	CKP	ETC	IP	MCOT	PCSGH	RATCH	SITHAI	TGH	TSTH	
BAFS	CM	FPI	IRPC	METCO	PDG	RS	SMK	THANA	TTA	
BANPU	CNT	FPT	ITEL	MFEC	PDJ	S	SMPC	THANI	TTB	
BAY	COM7	FSMART	IVL	MINT	PG	S & J	SNC	THCOM	TTCL	
BBL	COMAN	GBX	JSP	MONO	PHOL	SAAM	SONIC	THG	TTW	
BCP	COTTO	GC	JWD	MOONG	PLANB	SABINA	SPALI	THIP	TU	
VERY GOOD LEVEL – Score range 80-89										
2S	ASIMAR	CHOW	FLOYD	IT	LOXLEY	OCC	RPC	SKY	TCC	TVT
7UP	ASK	CI	FN	ITD	LRH	OGC	RT	SLP	TCMC	TWP
ABICO	ASN	CIG	FNS	J	LST	PATO	RWI	SMIT	TEAM	UEC
ABM	ATP30	CMC	FORTH	JAS	M	PB	S11	SMT	TFG	UMI
ACE	B	COLOR	FSS	JCK	MATCH	PICO	SA	SNP	TFI	UOBKH
ACG	BA	CPL	FTE	JCKH	MBAX	PIMO	SAK	SO	TIGER	UP
ADB	BAM	CPW	FVC	JMART	MEGA	PJW	SALEE	SORKON	TITLE	UPF
AEONTS	BC	CRD	GEL	JMT	META	PL	SAMCO	SPA	TKN	UPOIC
AGE	BCH	CSC	GENCO	KBS	MFC	PM	SANKO	SPC	TKS	UTP
AHC	BEC	CSP	GJS	KCAR	MGT	PMTA	SAPPE	SPCG	TM	VCOM
AIT	BEYOND	CWT	GYT	KEX	MICRO	PPP	SAWAD	SR	TMC	VL
ALL	BFIT	DCC	HEMP	KGI	MILL	PPPM	SCI	SRICHA	TMD	VPO
ALLA	BJC	DCON	HPT	KIAT	MITSIB	PRIME	SCN	SSC	TMI	VRANDA
ALUCON	BJCHI	DHOUSE	HTC	KISS	MK	PRIN	SCP	SSF	TMILL	WGE
AMANAH	BLA	DOD	HYDRO	KOOL	MODERN	PRINC	SE	STANLY	TNL	WIJK
AMARIN	BR	DOHOME	ICN	KTIS	MTI	PSG	SFLEX	STGT	TNP	WP
APCO	BROOK	DV8	IFS	KUMWEL	NBC	PSTC	SFP	STOWER	TOG	XO
APCS	CBG	EASON	IMH	KUN	NCAP	PT	SFT	STPI	TPA	XPG
APURE	CEN	EFORL	IND	KWC	NCH	QLT	SGF	SUC	TPAC	YUASA
AQUA	CGH	ERW	INET	KWM	NETBAY	RBF	SIAM	SWC	TPCS	
ASAP	CHARAN	ESSO	INSET	L&E	NEX	RCL	SINGER	SYNEX	TPS	
ASEFA	CHAYO	ESTAR	INSURE	LDC	NINE	RICHY	SKE	TAE	TRITN	
ASIA	CHG	ETE	IRC	LEO	NRF	RML	SKN	TAKUNI	TRT	
ASIAN	CHOTI	FE	IRCP	LHK	NTV	ROJNA	SKR	TBSP	TSE	
GOOD LEVEL – Score range 70-79										
A	BGT	CITY	GIFT	JTS	MDX	PK	SGP	SUPER	TQR	YGG
AI	BH	CMAN	GLOCON	JUBILE	MJD	PLE	SICT	SVOA	TTI	ZIGA
AIE	BIG	CMO	GREEN	KASET	MORE	PPM	SIMAT	TC	TYCN	
AJ	BLAND	CMR	GSC	KCM	MUD	PRAKIT	SISB	TCCC	UKEM	
ALPHAX	BM	CPT	GTB	KK	NC	PRAPAT	SK	THMUI	UMS	
AMC	BROCK	CRANE	HTECH	KKC	NDR	PRECHA	SMART	TNH	UNIQ	
APP	BSBM	CSR	HUMAN	KWI	NFC	PTL	SOLAR	TNR	UPA	
AQ	BSM	D	IHL	KYE	NNCL	RJH	SPACK	TOPP	UREKA	
ARIN	BTNC	EKH	IIG	LEE	NOVA	RP	SPG	TPCH	VIBHA	
AS	BYD	EMC	INGRS	LPH	NPK	RPH	SQ	TPIPL	W	
AU	CAZ	EP	INOX	MATI	NUSA	RSP	SSP	TIPIP	WIN	
B52	CCP	F&D	JAK	M-CHAI	PAF	SABUY	STARK	TPLAS	WORK	
BEAUTY	CGD	FMT	JR	MCS	PF	SF	STC	TPOLY	WPH	

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

Sources: Thai Institute of Directors Association (IOD); FSSIA's compilation; data as of 26 October 2021

Anti-corruption Progress Indicator

CERTIFIED										
2S	BCH	CPALL	GC	K	MFC	PE	QLT	SNP	THCOM	TU
7UP	BCP	CPF	GCAP	KASET	MFEC	PG	QTC	SORKON	THIP	TVD
ADVANC	BCPG	CPI	GEL	KBANK	MILL	PHOL	RATCH	SPACK	THRE	TVI
AF	BE8	CPN	GFPT	KBS	MINT	PK	RML	SPALI	THREL	TVO
AI	BEYOND	CSC	GGC	KCAR	MONO	PL	RWI	SPC	TIDLOR	TWPC
AIE	BGC	DCC	GJS	KCE	MOONG	PLANB	S & J	SPI	TIPCO	U
AIRA	BGRIM	DELTA	GPI	KGI	MSC	PLANET	SAAM	SPRC	TISCO	UBE
AKP	BJCHI	DEMCO	GPSC	KKP	MST	PLAT	SABINA	SRICHA	TKS	UBIS
ALPHAX	BKI	DIMET	GSTEEL	KSL	MTC	PM	SAPPE	SSF	TKT	UEC
AMA	BLA	DRT	GUNKUL	KTB	MTI	PPP	SAT	SSP	TMD	UKEM
AMANAHA	BPP	DTAC	HANA	KTC	NBC	PPPM	SC	SSSC	TMILL	UOBKH
AMATA	BROOK	DUSIT	HARN	KWC	NEP	PPS	SCB	SST	TMT	UPF
AMATAV	BRR	EA	HEMP	KWI	NINE	PR9	SCC	STA	TNITY	UV
AP	BSBM	EASTW	HENG	L&E	NKI	PREB	SCCC	STOWER	TNL	VGI
APCS	BTS	ECL	HMPRO	LANNA	NMG	PRG	SCG	SUSCO	TNP	VIH
AQUA	BWG	EGCO	HTC	LH	NNCL	PRINC	SCN	SVI	TNR	WACOAL
ARROW	CEN	EP	ICC	LHFG	NOBLE	PRM	SEAOIL	SYMC	TOG	WHA
AS	CENTEL	EPG	ICHI	LHK	NOK	PROS	SE-ED	SYNTEC	TOP	WHAUP
ASIAN	CFRESH	ERW	IFEC	LPN	NSI	PSH	SELIC	TAE	TOPP	WICE
ASK	CGH	ESTAR	IFS	LRH	NWR	PSL	SENA	TAKUNI	TPA	WIJK
ASP	CHEWA	ETE	ILINK	M	OCC	PSTC	SGP	TASCO	TPP	XO
AWC	CHOTI	FE	INET	MAKRO	OGC	PT	SINGER	TBSP	TRU	ZEN
AYUD	CHOW	FNS	INSURE	MALEE	ORI	PTG	SIRI	TCAP	TRUE	
B	CIG	FPI	INTUCH	MATCH	PAP	PTT	SITHAI	TCMC	TSC	
BAFS	CIMBT	FPT	IRC	MBAX	PATO	PTTEP	SKR	TFG	TSTE	
BAM	CM	FSMART	IRPC	MBK	PB	PTTGC	SMIT	TFI	TSTH	
BANPU	CMC	FSS	ITEL	MC	PCSGH	PYLON	SMK	TFMAMA	TTA	
BAY	COM7	FTE	IVL	MCOT	PDG	Q-CON	SMPC	TGH	TTB	
BBL	COTTO	GBX	JKN	META	PDJ	QH	SNC	THANI	TTCL	
DECLARED										
AJ	CHG	DDD	ETC	JR	MAJOR	NUSA	RS	SSS	TQM	YUASA
ALT	CPL	DHOUSE	FLOYD	JTS	NCAP	NYT	SAK	STECH	TSI	ZIGA
APCO	CPR	DOHOME	GULF	KEX	NCL	OR	SCGP	STGT	VARO	
B52	CPW	ECF	III	KUMWEL	NOVA	PIMO	SCM	TKN	VCOM	
BEC	CRC	EKH	INOX	LDC	NRF	PLE	SIS	TMI	VIBHA	

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 26 October 2021) are categorised into: 1) companies that have declared their intention to join CAC, and; 2) companies certified by CAC.

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

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Yuvanart Suwanumchai FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
Bangkok Bank	BBL TB	THB 130.00	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.
Kasikornbank	KBANK TB	THB 146.00	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.
Kiatnakin Bank	KKP TB	THB 61.75	BUY	Downside risks to our GGM-based target price include weakening asset quality and lower fee income.
Krung Thai Bank	KTB TB	THB 14.70	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 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.
SCB X	SCB TB	THB 99.00	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 86.75	HOLD	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand. An upside risk to our GGM-based TP would be lower-than-expected policy rate hikes.
TMBThanachart Bank	TTB TB	THB 1.17	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.
JMT Network Services	JMT TB	THB 69.25	BUY	Downside risks to our GGM-based TP include 1) lower cash collection from its fully amortised portfolio; and 2) the lower-than-expected acquisition of new bad debt.

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 Finasia 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 Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 07-Jul-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.