

KRUNG THAI BANK

KTB TB

THAILAND / BANKING

BUY

Continued growth with low risk

- We expect the positive trend for KTB's NIM to continue mainly from its portfolio rationalisation policy.
- Asset quality is manageable with a high coverage ratio.
- We initiate coverage of KTB with a BUY call. Our 2023 GGM-based TP of THB23.10 implies a P/BV of 0.81x.

TARGET PRICE	THB23.10
CLOSE	THB19.60
UP/DOWNSIDE	+17.9%
TP vs CONSENSUS	+8.7%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Operating profit	46,283	51,374	54,029	56,533
Net profit	33,698	37,796	39,929	41,941
EPS (THB)	2.41	2.70	2.86	3.00
vs Consensus (%)	-	(0.6)	0.9	2.4
Recurring net profit	33,698	37,796	39,929	41,941
Core EPS (THB)	2.41	2.70	2.86	3.00
EPS growth (%)	56.1	12.2	5.6	5.0
Core P/E (x)	8.1	7.2	6.9	6.5
Dividend yield (%)	3.5	4.0	4.2	4.4
Price/book (x)	0.7	0.7	0.6	0.6
ROE (%)	9.2	9.7	9.6	9.4
ROA (%)	1.0	1.1	1.2	1.2

Greater focus on private corporate and retail loans

We are optimistic about KTB's business strategy in 2023, based on its total loan growth target of 3-5% y-y, excluding government loans. The bank will focus more on growth in private corporate loans (low yield but still higher than government loans) and retail loans, mainly housing and personal loans (a low-risk, niche market composed of civil servants who are paid via the bank), which should push NIM higher. Moreover, KTB is another of the big banks that should benefit from interest rate hikes due to the favourable structure of its lending and funding sources and role as a net lender in money markets.

Strong 2Q23E profit growth on wider NIM

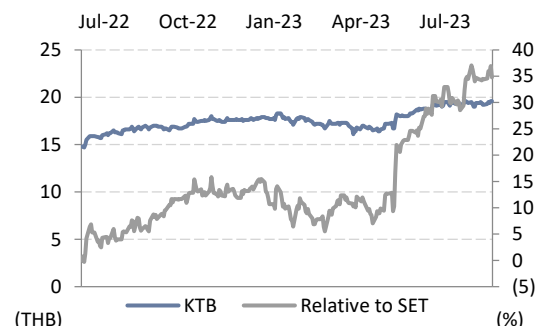
We expect a 2Q23 net profit of THB10.2b, up 1.3% q-q and 22.1% y-y, supported by net interest income growth (+3.7% q-q and 21.8% y-y). In contrast, we expect non-interest income to shrink by 7.7% q-q (but still increase by 16.5% y-y) mainly due to a decrease in other volatile income (FVTPL, capital gains, etc.). KTB's NIM should continue its positive trend in 2Q23 (+9bp to 3.06%) due to higher market interest rates. The cost-to-income ratio should remain stable from 1Q23 at around 38.6% (expected to accelerate in 2H23 in line with KTB's 2023 target of mid-40%). As for asset quality in 2Q23, we see no cause for concern, and expect the NPL/TL ratio to remain stable at around 3.22%, with credit cost flat at around 125bp, and LLR/NPL at 177% (FSSIA's calculation).

Manageable asset quality with a high coverage ratio

KTB's asset quality has not shown any signs of deterioration due to effective management. Evidence of positive results can be seen in the reported NPL/TL ratio, which has fallen below the 2023 target range of no more than 3.50% (down from 3.81% in 2020 to 3.22% at the end of 1Q23). Therefore, there has been no increased credit cost burden, despite being 124bp in 1H23E, lower than the target set in 2023 of ± 170 bp (we predict 125bp).

Initiate with BUY and a 2023 GGM-based TP of THB23.10

We initiate coverage of KTB with a BUY call. Our 2023 GGM-based TP of THB23.10 implies a P/BV of 0.81x, with a potential upside of 18% and attractive annual dividend yields of 4% during 2023-25.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.5	14.0	34.2
Relative to country (%)	3.4	19.6	35.9
Mkt cap (USD m)	7,901		
3m avg. daily turnover (USD m)	28.3		
Free float (%)	45		
Major shareholder	FIDF (55%)		
12m high/low (THB)	19.70/14.30		
Issued shares (m)	13,976		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We initiate coverage with a BUY call on KTB for the following reasons:

- We expect net profit to grow at an 8% CAGR during 2023-25, driven by KTB's stepped up focus on the low-risk lending segment (more corporate loans to replace government loans) that offers higher yields, NIM, and a greater focus on unique consumer loans that offer better asset quality.
- We have yet to see a significant contribution to fee income from its digital banking channels, Pao Tang and KTB Next. Instead, we think this should benefit the bank's data acquisition efforts and drive future product cross-sales.
- Currently, its share price is still trading at only 0.68x 2023E P/BV with a potential upside of 18%, while offering attractive dividend yields in 2023-25.

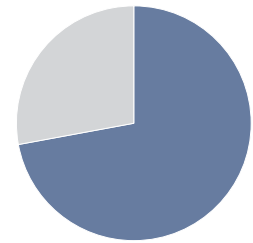
Company profile

Krung Thai Bank began operations in 1966 and in 1989 was the first privatised state enterprise to be listed on the SET. At end-2022, KTB was the largest Thai bank in terms of lending, and ranked third by total assets.

www.ktb.co.th

Principal activities (revenue, 2022)

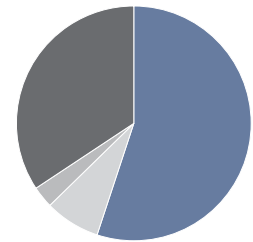
- Net interest income - 72.1 %
- Non-interest income - 27.9 %



Source: Krung Thai Bank

Major shareholders

- FIDF - 55.1 %
- Thai NVDR - 7.6 %
- EGAT Saving and Credit Cooperative Limited - 3.0 %
- Others - 34.3 %



Source: Krung Thai Bank

Catalysts

Potential share price catalysts for KTB include:

- Higher utilisation of data acquisition from KTB's digital channels;
- 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
21 Jul 2023	2Q23 results announcement

Key assumptions

	2023E (%)	2024E (%)	2024E (%)
Net profit (THB m)	37,796	39,929	41,941
Net profit growth	12.2	5.6	5.0
NIM	3.07	3.14	3.15
Loan growth	2.0	3.0	3.0
Fee growth	2.0	1.5	1.5
Non-NII growth	4.3	6.3	3.6
Credit cost (bp)	125.0	125.0	125.0
Cost to income	41.1	41.4	41.3

Source: FSSIA estimates

Earnings sensitivity

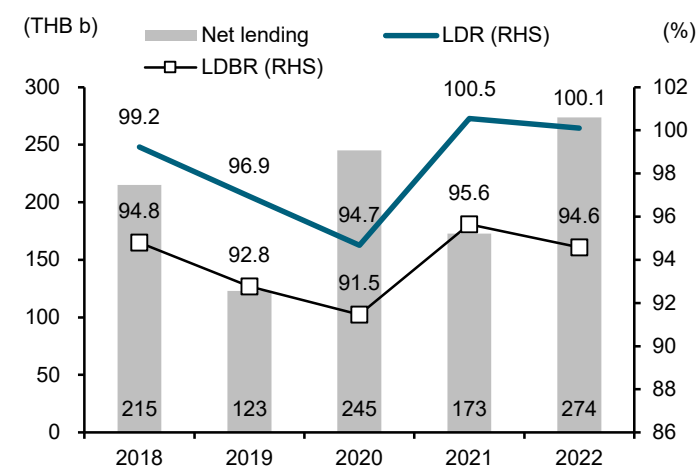
		----- 2023E -----		
Loan growth (%)	±2ppt	0	2	4
<i>% change in net profit</i>		(2)		+2
NIM (%)	±5bp	3.02	3.07	3.12
<i>% change in net profit</i>		(4)		+4
Credit cost (bp)	±10bp	115	125	135
<i>% change in net profit</i>		+6		(6)

Source: FSSIA estimates

Greater focus on private corporate and retail loans

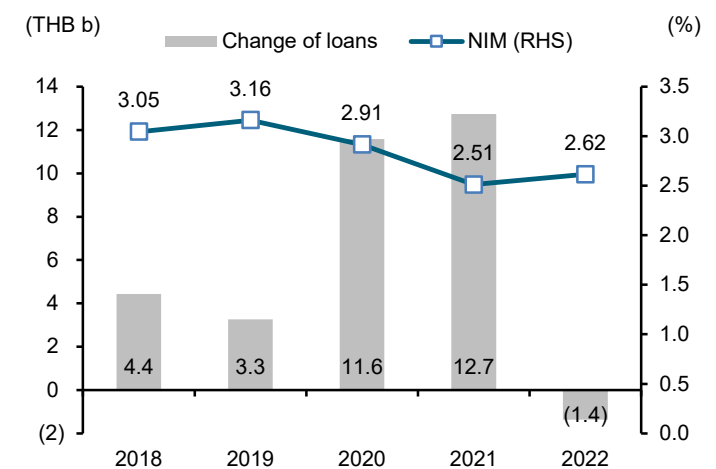
We are optimistic about KTB's business strategy in 2023 based on its total loan growth target of 3-5% y-y, excluding government loans. The bank will focus more on growth in private corporate loans (low yield but still higher than government loans) and retail loans, mainly housing and personal loans (a low-risk, niche market composed mainly of civil servants who are paid via the bank), which should push NIM higher. While the target for 2023 of more than 2.80% was already exceeded in 1Q23 at 2.97%, the recovery follows the continual contraction seen during Covid-19 (3.16% in 2019 to 2.62% in 2022) under pressure from aggressive government loan growth (total loans grew at an average 8% CAGR during 2020-22 – higher than the sector's average, which grew at a 6% CAGR during the same period). Moreover, we think KTB is one of the major banks that should benefit from interest rate hikes as 1) more than 57% of its loans are structured at a floating rate; and 2) it enjoys a net lender status in the money market, although the positive results are not likely to be as significant as those of BBL, KBANK, and SCB due to the recent continued rise in its LDBR (loan to deposit and borrowing ratio) to near the pre-Covid level of 94.6%.

Exhibit 1: KTB's net lending position, LDR and LDBR



Sources: KTB; FSSIA's compilation

Exhibit 2: Change of loans vs NIM



Sources: KTB; FSSIA's compilation

Impressive 2Q23E profit growth on wider NIM

We expect a 2Q23 net profit of THB10.2b, up 1.3% q-q and 22.1% y-y, supported by net interest income growth (+3.7% q-q and 21.8% y-y). In contrast, we expect non-interest income to shrink by 7.7% q-q (but still increase by 16.5% y-y) mainly due to a decrease in other volatile income (FVTPL, capital gains, etc.). KTB's NIM should continue its positive trend in 2Q23 (+9bp to 3.06%) due to higher market interest rates. The cost-to-income ratio should remain stable from 1Q23 at around 38.6% and accelerate in 2H23 in line with KTB's 2023 target of mid-40%. As for asset quality in 2Q23, we see no cause for concern and expect the NPL/TL ratio to remain stable at the 1Q23 level of around 3.22% with credit cost flat at around 125bp and LLR/NPL at 177% (FSSIA's calculation).

Manageable asset quality with a high coverage ratio

KTB's asset quality has not shown any signs of deterioration thanks to effective management. In our view, positive results are reflected in the declining NPL/TL ratio. Already at 3.22% by the end of 1Q23, it has fallen below the 2023 target range of no more than 3.50%, and down from 3.81% in 2020. This has avoided further burdening credit cost, which we expect to be 125bp lower than the ±170bp target set in 2023.

Exhibit 3: Loans by stage and allowance for ECL

	Loans by stage				Allowance for ECL			
	2020 (THB b)	2021 (THB b)	2022 (THB b)	1Q23 (THB b)	2020 (THB b)	2021 (THB b)	2022 (THB b)	1Q23 (THB b)
Stage 1 (Performing)	2,013	2,306	2,290	2,277	32.1	44.7	44.7	46.6
Stage 2 (Underperforming)	224	228	218	218	41.6	48.9	52.5	55.1
Stage 3 (Non performing)	109	111	109	111	74.2	77.3	76.5	79.1
Lifetime ECL-Simplified approach	5	3	2	3	2.6	2.3	0.6	0.7
Net loan and accrued interest	2,351	2,650	2,618	2,609	150.5	173.3	174.4	181.6
	Staged loans as % of total loans				Allowance for ECL to respective loans			
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Stage 1 (Performing)	85.6	87.1	87.4	87.3	1.6	1.9	2.0	2.0
Stage 2 (Underperforming)	9.5	8.6	8.3	8.3	18.6	21.4	24.1	25.4
Stage 3 (Non performing)	4.7	4.2	4.2	4.3	67.8	69.4	70.4	71.3
Lifetime ECL-Simplified approach	0.2	0.1	0.1	0.1	54.7	73.2	25.5	21.2
Net loan and accrued interest	100.0	100.0	100.0	100.0	6.4	6.5	6.7	7.0
NPL					107.1	106.8	101.1	102.5
LLR/NPL					140	162	172	177

Sources: KTB; FSSIA's compilation

Exhibit 4: KTB's schedule of interest rates

KTB	Saving (%)	MOR (%)	MLR (%)	MRR (%)	Ceiling (%)	Default (%)
1Q22	0.250	5.820	5.250	6.220	16.220	28.000
2Q22	0.250	5.820	5.250	6.220	16.220	28.000
3Q22	0.250	5.820	5.250	6.220	16.220	28.000
4Q22	0.250	6.320	5.750	6.370	16.370	28.000
1Q23	0.250	6.870	6.350	6.870	16.870	28.000
2Q23	0.300	7.270	6.800	7.320	17.320	28.000
Chg from 1Q22	0.050	1.450	1.550	1.100	1.100	0.000

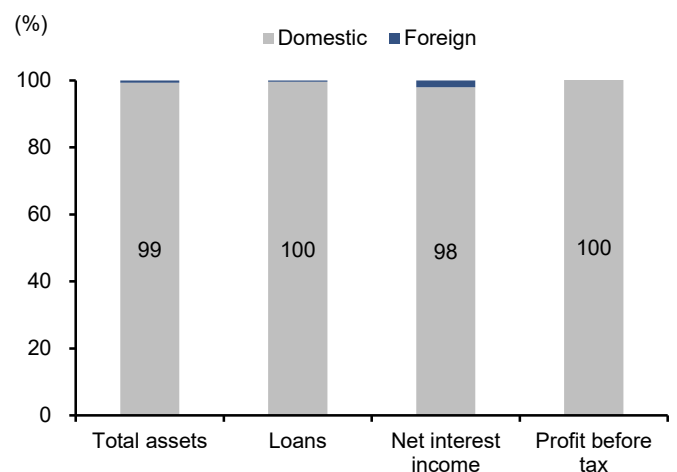
Sources: [Bank of Thailand](#)

Exhibit 6: KTB - GGM-based TP

Target price	THB 23.10
Sustainable ROE	9.0%
g	1.0%
ROE-g	8.0%
Beta	1.05
RF	2.5%
MRP	8.0%
COE	10.9%
COE-g	9.9%
ROE-g / COE-g (PBV)	0.81x

Source: FSSIA estimates

Exhibit 5: KTB's operations by geographical segment



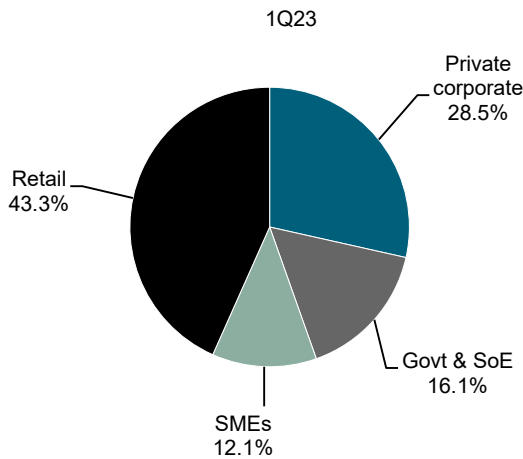
Sources: KTB; FSSIA's compilation

Exhibit 7: 2023 key financial guidance vs FSSIA estimates

	KTB 2022	KTB 2023E	FSSIA 2023E
Loan growth	4.3%	3-5%	2.0%
NIM	2.60%	> 2.80%	3.02%
Fee income growth	1.5%	Low single digits	2.0%
Cost to income	43.7%	≤ Mid 40s	42.6%
NPL	3.26%	< 3.5%	3.85%
Coverage ratio	179.7%	c170% ±	177.4%

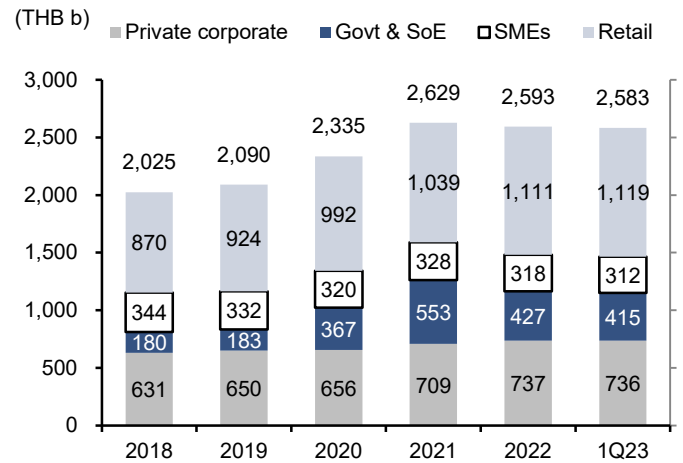
Sources: KTB; FSSIA estimates

Exhibit 8: Loan breakdown, 1Q23



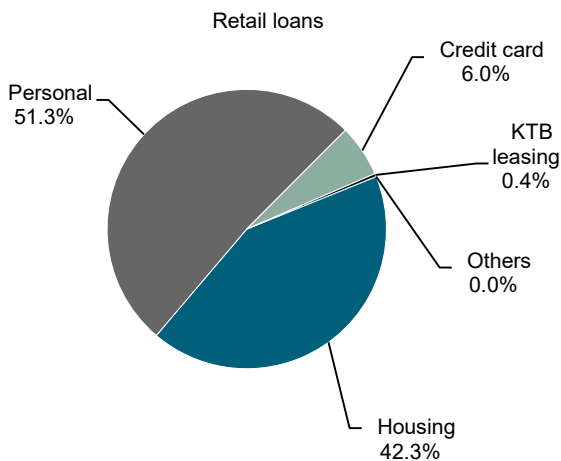
Sources: KTB; FSSIA's compilation

Exhibit 9: Loan breakdown, 2018 to 1Q23



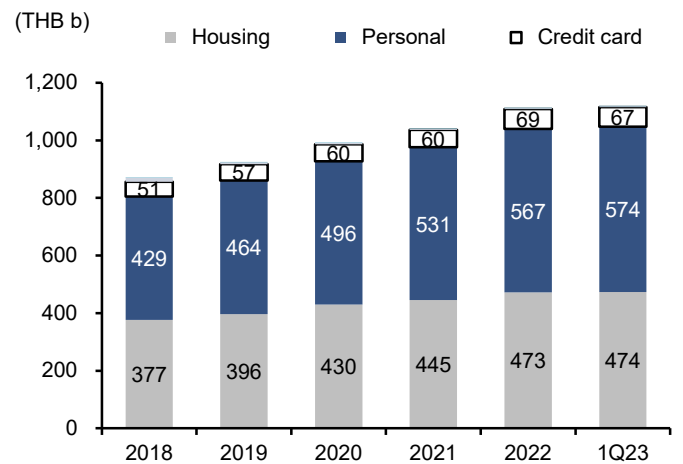
Sources: KTB; FSSIA's compilation

Exhibit 10: Retail loan breakdown, 1Q23



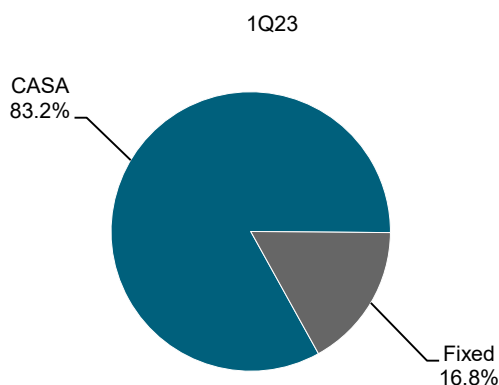
Sources: KTB; FSSIA's compilation

Exhibit 11: Retail loan breakdown, 2018 to 1Q23



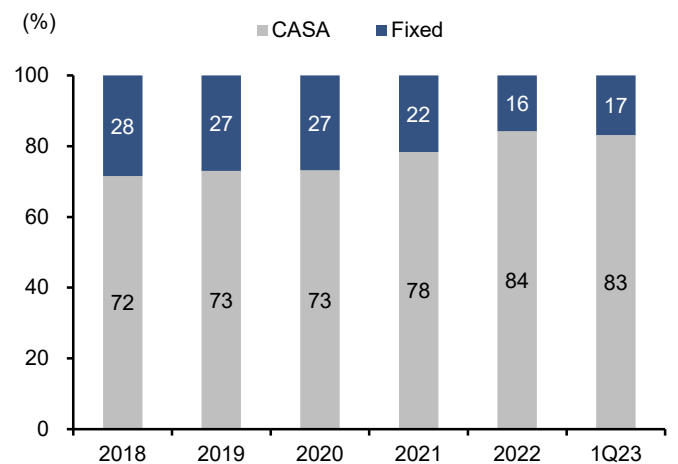
Sources: KTB; FSSIA's compilation

Exhibit 12: Deposit structure, 1Q23



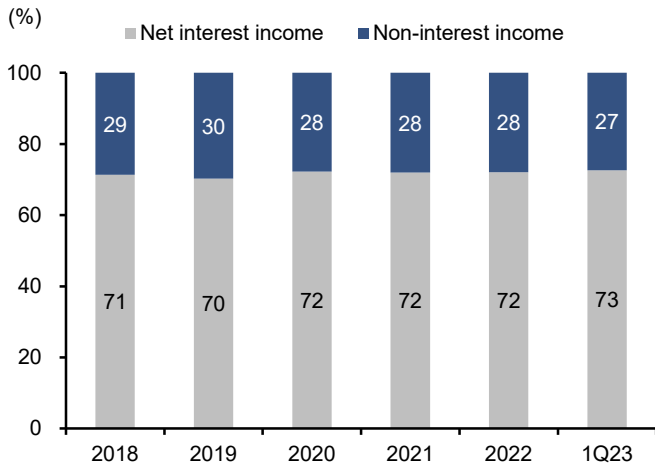
Sources: KTB; FSSIA's compilation

Exhibit 13: Deposit structure, 2018 to 1Q23



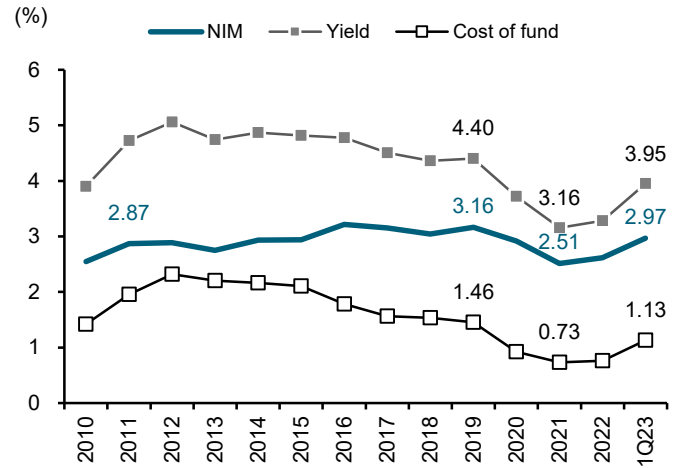
Sources: KTB; FSSIA's compilation

Exhibit 14: Revenue breakdown



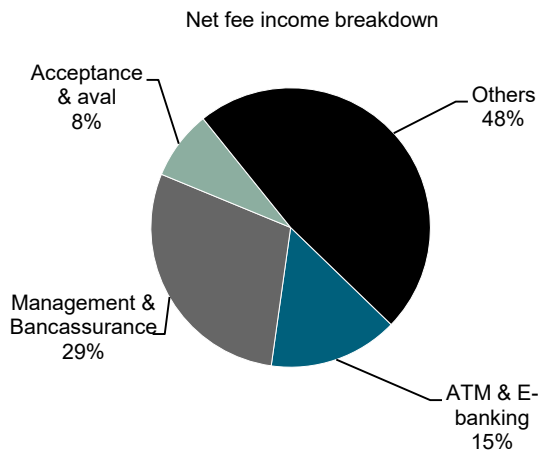
Sources: KTB; FSSIA's compilation

Exhibit 15: Yield, cost of funds, and NIM



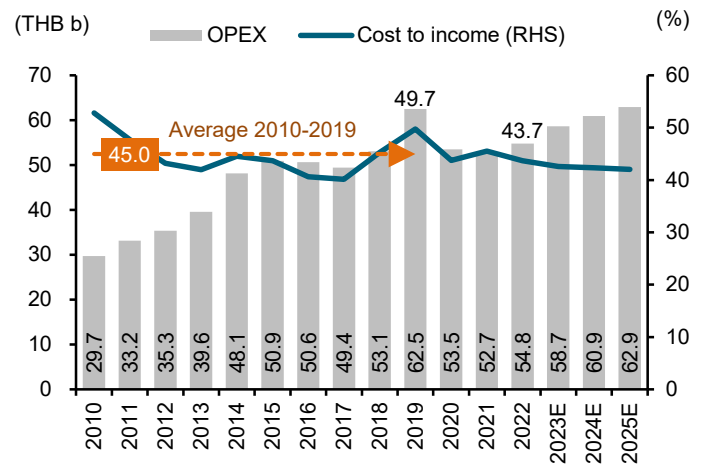
Sources: KTB; FSSIA's calculation

Exhibit 16: Net fee income breakdown, 1Q23



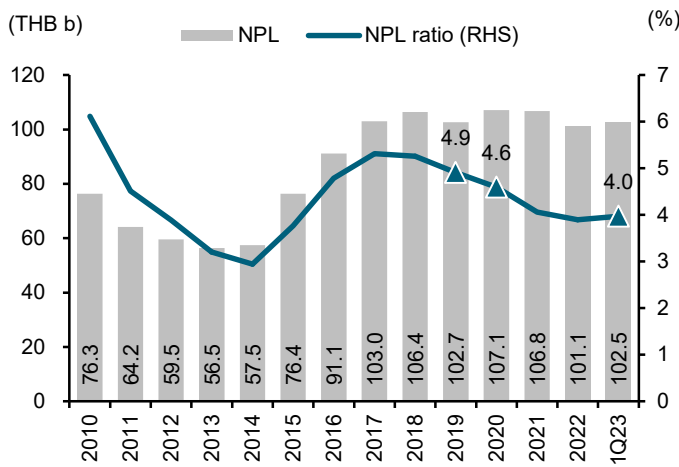
Sources: KTB; FSSIA's compilation

Exhibit 17: Operating expenses vs cost to income



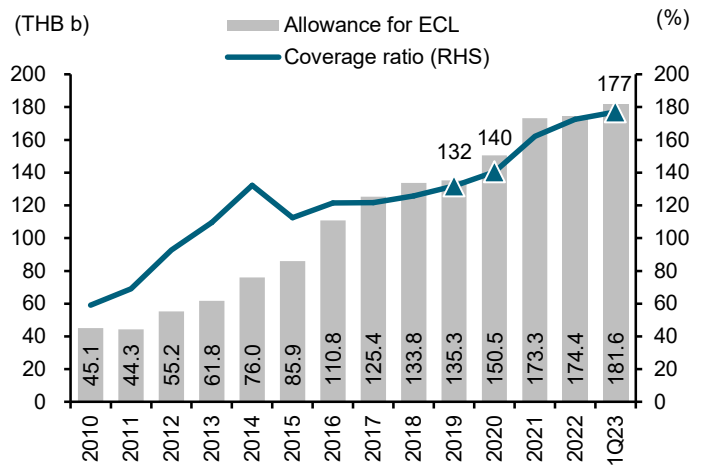
Sources: KTB; FSSIA estimates

Exhibit 18: NPL and NPL ratio*



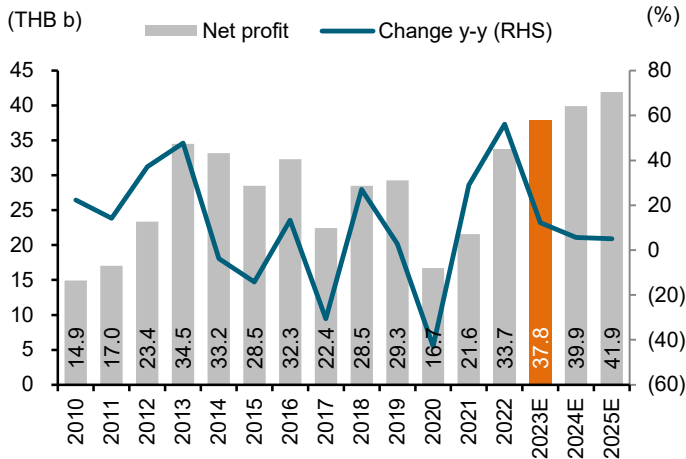
Sources: KTB; *FSSIA's calculation

Exhibit 19: Coverage ratio (allowance for ECL to NPL)*



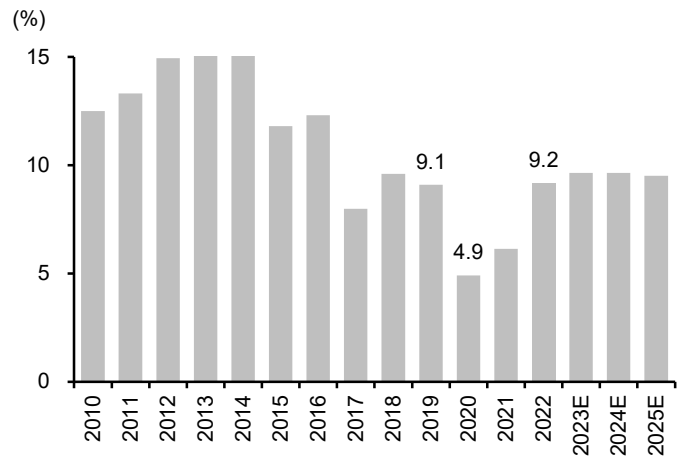
Sources: KTB; *FSSIA's calculation

Exhibit 20: Net profit and growth



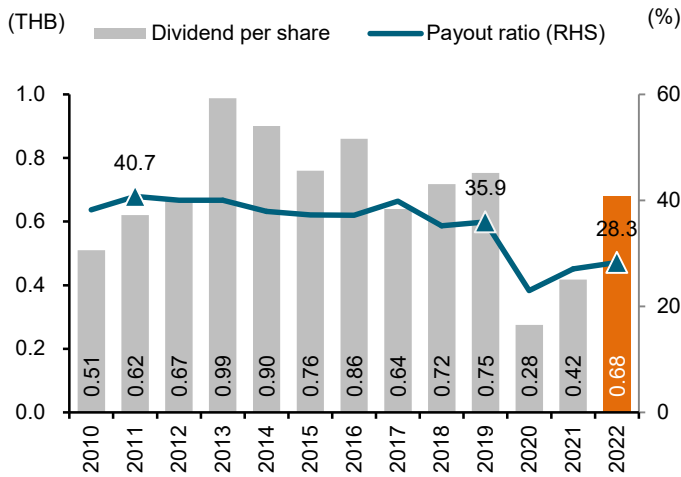
Sources: KTB; FSSIA estimates

Exhibit 21: ROE



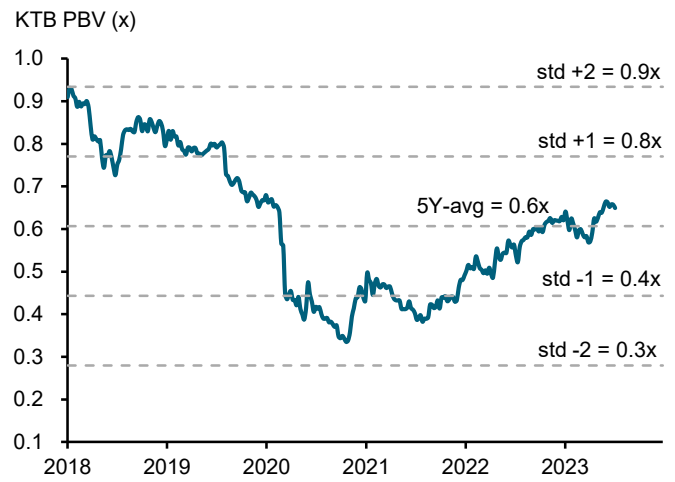
Sources: KTB; FSSIA estimates

Exhibit 22: Dividend and payout ratio



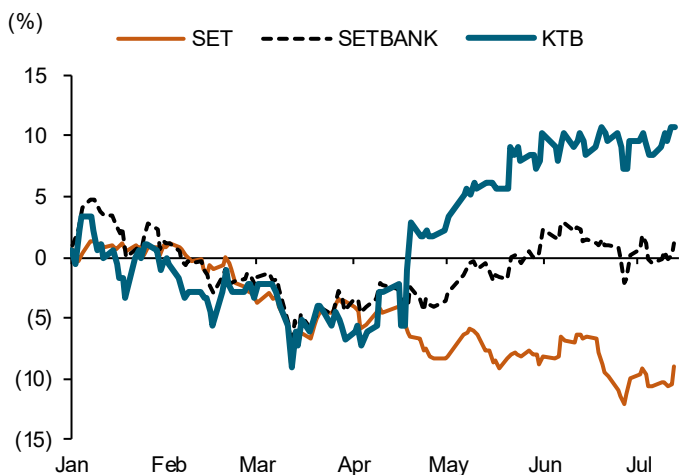
Sources: KTB; FSSIA's compilation

Exhibit 23: One-year forward rolling P/BV



Sources: Bloomberg; FSSIA estimates

Exhibit 24: Share price performance as of close on 14 July 2023



Source: Bloomberg

Exhibit 25: Share price performance of Thai banks under coverage, as of 14 July 2023

BBG	Price Performance				
	1M (%)	3M (%)	6M (%)	1Y (%)	YTD (%)
BBL TB	(2.5)	0.6	1.0	24.4	6.8
KBANK TB	1.5	(2.6)	(14.5)	(5.4)	(10.2)
KKP TB	(2.4)	(6.3)	(18.6)	(1.2)	(18.6)
KTB TB	1.0	14.0	10.7	35.2	10.7
SCB TB	1.4	2.8	(2.7)	15.4	1.4
TISCO TB	0.8	(4.2)	(6.0)	12.1	(2.0)
TTB TB	(3.7)	11.4	10.6	39.3	10.6
SET Index	(2.7)	(5.2)	(9.7)	(1.0)	(9.0)
SETBANK Index	(0.2)	4.0	(1.3)	13.4	1.2

Source: Bloomberg

Exhibit 26: Network development

	Network						Change				
	2018 (no.)	2019 (no.)	2020 (no.)	2021 (no.)	2022 (no.)	1Q23 (no.)	2019 (no.)	2020 (no.)	2021 (no.)	2022 (no.)	1Q23 (no.)
Branch	1,120	1,066	1,024	1,028	995	984	(54)	(42)	4	(33)	(11)
Upcountry	764	747	723	724	703	696	(17)	(24)	1	(21)	(7)
Metro	356	319	301	304	292	288	(37)	(18)	3	(12)	(4)
ATM	8,836	8,618	8,493	8,173	7,461	7,426	(218)	(125)	(320)	(712)	(35)
Upcountry	6,438	6,352	6,290	6,149	5,782	5,757	(86)	(62)	(141)	(367)	(25)
Metro	2,398	2,266	2,203	2,024	1,679	1,669	(132)	(63)	(179)	(345)	(10)

Sources: KTB; FSSIA's compilation

Exhibit 27: KTB - 2Q23 results preview

Year-end Dec 31	2Q22	1Q23	2Q23E	--- Change ---		1H23E	Change	% of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(THB m)	(y-y%)
Net interest income	21,818	25,619	26,578	4	22	52,197	22	49	90,405	106,274	18
Non-interest income	7,646	9,653	8,911	(8)	17	18,563	14	51	34,986	36,496	4
Fee income - net	4,911	5,139	5,241	2	7	10,379			20,316	20,715	2
Total operating income	29,464	35,272	35,488	1	20	70,760	20	50	125,391	142,770	14
Total operating expenses	12,517	13,650	13,708	0	10	27,358	10	47	54,771	58,661	7
PPOP before tax	16,947	21,622	21,780	1	29	43,402	26	52	70,620	84,109	19
Expected credit loss	5,669	8,104	8,100	(0)	43	16,204	45	49	24,338	32,735	35
Income tax	1,996	2,531	2,558	1	28	5,089	18	51	9,077	10,069	11
Non-controlling interest	924	921	920	(0)	(0)	1,840	2	52	3,508	3,509	0
Net profit	8,358	10,067	10,202	1	22	20,269	18	54	33,698	37,796	12
EPS (THB)	0.60	0.72	0.73	1	22	1.45	18	54	2.41	2.70	12
Key ratios	2Q22	1Q23	2Q23E	--- Change ---		1H23E	Change		2022	2023E	
Asset quality ratio	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y%)		(%)	(%)	
Gross NPLs (THB m)	104,434	102,542	105,042	2	1	105,042	1		101,096	101,821	
Change (% from prior period)	(2.0)	1.4	2.4			0.6			(5.3)	0.7	
NPL ratios (%) - reported	3.32	3.22							3.26		
NPL ratio (%)	3.96	3.97	4.03			4.03			3.90	3.85	
Coverage ratio (%) - reported	174	183							180		
Coverage ratio (%)	168	177	177			177			172	182	
Credit cost (bp)	86	125	125			124			93	125	
Profitability ratio	(%)	(%)	(%)			(%)			(%)	(%)	
Cost to income ratio	42.5	38.7	38.6			38.7			43.7	41.1	
Average yield (%)	3.14	3.95	4.11			4.02			3.28	4.15	
Cost of funds (%)	0.71	1.13	1.22			1.18			0.76	1.23	
NIM (%) - reported	2.44	2.80	3.00						2.60		
NIM (%)	2.51	2.97	3.06			3.01			2.62	3.07	
Non-interest income/total income (%)	25.9	27.4	25.1			26.2			27.9	25.6	
Liquidity ratio	(%)	(%)	(%)			(%)			(%)	(%)	
Loan to deposit	101.2	98.5	99.7			99.7			100.1	100.1	
Loan to deposit & borrowing (LDBR)	95.5	93.2	94.2			94.2			94.6	94.6	
Capital adequacy ratio	(%)	(%)	(%)						(%)	(%)	
CAR	20.1	19.9	19.6						19.8	20.5	
CET 1/ Risk assets	15.1	15.8	15.6						15.7	16.5	
Tier 2 / Risk assets	4.2	3.1	3.1						3.1	3.1	
Loan growth	(%)	(%)	(%)			(%)			(%)	(%)	
Year-to-date	0.2	(0.4)	0.6			0.6					
q-q	(0.9)	(0.4)	1.0								
y-y	6.0	(2.9)	(1.0)						(1.4)	2	

Sources: KTB; FSSIA estimates

Exhibit 28: Regional peers comparison as of 14 July 2023

Company	BBG	Share price (LCY)	Market Cap (USD b)	PE		PBV		ROE		Div yld	
				23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)
Thailand											
Bangkok Bank	BBL TB	158.00	8.7	8.0	7.4	0.6	0.5	7.2	7.3	3.7	4.0
Kasikornbank	KBANK TB	132.50	9.1	7.9	7.1	0.6	0.6	7.9	8.2	3.6	4.0
Krung Thai Bank	KTB TB	19.60	7.9	7.2	6.9	0.7	0.6	9.7	9.6	4.0	4.2
SCB X	SCB TB	108.50	10.5	8.3	7.6	0.8	0.7	9.4	9.7	6.7	6.9
TMBThanachart Bank	TTB TB	1.56	4.4	9.2	8.5	0.7	0.6	7.3	7.6	5.4	5.9
Kiatnakin Bank	KKP TB	60.00	1.5	6.8	6.0	0.8	0.7	12.4	12.8	5.4	6.3
Tisco Financial Group	TISCO TB	97.25	2.2	10.4	9.9	1.8	1.7	17.2	17.8	8.2	8.5
Thailand average			44.3	8.2	7.6	0.8	0.8	10.2	10.4	4.0	4.3
Hong Kong											
Industrial & Comm Bank of China	1398 HK	3.66	224.5	3.3	3.1	0.4	0.3	11.0	10.8	9.4	9.9
China Construction Bank	939 HK	4.39	143.0	3.0	2.8	0.3	0.3	11.8	11.6	10.0	10.6
HSBC Holdings	5 HK	62.80	158.9	6.7	6.7	0.9	0.8	14.5	13.5	7.5	9.0
Bank of China	3988 HK	2.80	147.7	3.4	3.2	0.3	0.3	10.4	10.1	9.3	9.9
Hong Kong average			674.1	4.1	4.0	0.5	0.4	11.9	11.5	9.1	9.9
China											
Industrial & Comm Bank of China	601398 CH	4.87	224.5	4.8	4.5	0.5	0.5	11.0	10.7	6.5	6.8
Agricultural Bank of China	601288 CH	3.61	171.8	4.9	4.5	0.5	0.5	11.4	11.1	6.4	6.8
China Construction Bank	601939 CH	5.96	143.0	4.5	4.2	0.5	0.5	11.8	11.5	6.7	7.2
Bank of China	601988 CH	3.99	147.7	5.2	4.9	0.5	0.5	10.6	10.2	6.0	6.3
China average			687.0	4.8	4.5	0.5	0.5	11.2	10.9	6.4	6.8
South Korea											
KB Financial Group	105560 KS	48,750	15.5	4.0	3.8	0.4	0.3	9.5	9.1	6.8	7.2
KB Financial Group	055550 KS	34,100	13.9	3.9	3.7	0.3	0.3	9.2	8.9	6.3	6.7
Hana Financial Group	086790 KS	39,300	9.2	3.1	3.1	0.3	0.3	10.0	9.5	9.2	9.5
Industrial Bank of Korea	024110 KS	10,360	6.5	2.9	2.9	0.3	0.3	9.8	9.2	9.7	10.0
South Korea average			45.1	3.5	3.4	0.3	0.3	9.6	9.2	8.0	8.4
Indonesia											
Bank Central Asia	BBCA IJ	9,200	75.8	23.9	21.9	4.6	4.2	20.1	19.7	2.3	2.6
Bank Rakyat Indonesia Persero	BBRI IJ	5,525	56.0	14.2	12.7	2.6	2.4	18.8	19.5	5.2	6.0
Bank Mandiri Persero	BMRI IJ	5,400	33.7	10.8	9.8	2.0	1.8	19.5	19.6	5.3	5.9
Bank Negara Indonesia Persero	BBNI IJ	8,925	11.1	7.7	6.9	1.1	1.0	14.9	15.0	4.0	5.1
Bank Syariah Indonesia	BRIS IJ	1,695	5.2	14.3	11.8	2.1	1.8	15.5	16.6	1.2	1.3
Indonesia average			181.8	14.2	12.6	2.5	2.2	17.8	18.1	3.6	4.2
Malaysia											
Malayan Banking	MAY MK	8.80	23.4	11.3	10.7	1.2	1.1	10.6	10.7	7.0	7.4
Public Bank	PBK MK	3.99	17.1	11.4	11.0	1.4	1.3	13.1	12.8	4.6	4.7
CIMB Group Holdings	CIMB MK	5.30	12.5	8.5	7.9	0.8	0.8	10.0	10.1	6.1	6.6
Hong Leong Bank	HLBK MK	19.00	9.1	10.2	9.6	1.2	1.1	12.1	12.0	3.4	3.8
RHB Bank	RHBBANK MK	5.54	5.2	7.7	7.3	0.8	0.7	10.2	10.2	7.5	7.9
Malaysia average			67.4	9.8	9.3	1.1	1.0	11.2	11.1	5.7	6.1
Singapore											
DBS Group Holdings	DBS SP	31.99	62.4	8.5	8.6	1.4	1.3	16.8	15.8	5.7	6.2
Oversea-Chinese Banking	OCBC SP	12.37	42.1	8.1	8.1	1.0	0.9	12.7	12.0	6.3	6.4
United Overseas Bank	UOB SP	27.83	35.3	8.3	7.9	1.0	1.0	12.8	12.8	5.8	6.1
Singapore average			139.8	8.3	8.2	1.1	1.1	14.1	13.6	6.0	6.3
Regional average (excl. Thailand)			1,795.1	7.8	7.3	1.1	1.0	12.7	12.5	6.3	6.8
Total average (incl. Thailand)			1,839.4	7.9	7.3	1.0	0.9	12.3	12.2	6.2	6.6

*simple average

Sources: Bloomberg consensus; FSSIA estimates for Thai banks

Corporate Governance and ESG – KTB

Board structure, 2022 One report

Independent Directors (ID)	6/12 of board members, 1 female
Percentage of IDs on the board	50%
ID attendance at board meetings	96.1%
ID in audit/remuneration committee	3/3 in audit committee and 2/3 in remuneration committee
ID terms	Not exceed nine consecutive years; eligible to be re-appointed*; if terminated from the appointment as director, manager, management authority, advisor or staff member of the Bank and the Bank's

* Must terminate from the appointment as director, manager, management authority, advisor or staff member of the Bank and the Bank's Financial Business Group for at least 2 years before the date of submission for directorship approval to the Bank of Thailand

Compensation and remuneration

Directors' remuneration vs earnings/ROE/share performance	In 2022, THB30.2m, 0.09% of net profit
Changes/stability in senior management	None
Incidents of termination of senior management	None
Track record on insider sales	None

ESG and sustainability management

Mission: The Bank is committed to developing financial technology and innovation on the Thailand Open Digital Platform to enhance the quality of life for all groups of customers and people in various dimensions, such as helping grassroots people learn how to take advantage of technology, helping reduce inequality in accessing digital economy infrastructure and income distribution gap, contributing to driving Thai society toward becoming a cashless, digital society, as well as aiming to create financial equality for Thai people, such as improving access to financing, financial literacy, fundamental rights for government services, and income equality, in order to support the achievement of the Bank's new mission.

Materiality Matrix



Audit Practices

Auditor	EY Office Limited
Length of service	More than five years
Reporting incidents	None
Fee track record	THB30.9m
Policy on change of audit firm	To review every five years

Shareholders' rights

Practice	Activity
Communication - shareholder participation in AGMs/EGMs	AGM once annually, EGM when appropriated and in accordance with SEC guidelines
Related party transactions	In accordance with SEC guidelines
Voting issues - policies, incidents of rejected proposals	None

"Several contextual changes are found to affect the focus on each sustainability issue, such as the recovery dynamic of the post-pandemic market, the uncertainty in global economy and politics, technological and digital transition, rising concerns on data privacy and cybersecurity, and the more imminent impact of climate change on environment and humanity, which lead to consumers' awareness and behaviour shifts towards choosing greener options. As a result, this year's materiality matrix significantly differs from the previous year due to the GRI Standards guideline revised in 2021. The impact that the Bank has on the economy, environment, and people in terms of each material aspect was considered and classified into 5 levels of importance. The stakeholders are encouraged to consider all-round impacts, whether they have already occurred or have yet to occur, positive or negative, intentional or unintentional by the Bank, and short-term or long-term."

Awards and recognitions

- Listed on the Stock Exchange of Thailand's Thailand Sustainability Investment (THSI) list
- Most Sustainable Bank Thailand 2022 from World Economic Magazine, USA
- Best Sustainable & Business Solutions Bank Award 2021 from The European Magazine, United Kingdom
- The Asset ESG Corporate 2021, Platinum Award from The Asset Magazine, Hong Kong, at The Asset Asian Awards 2021
- Best Digital Bank Thailand Award 2022 from World Economic Magazine, USA
- Best Digital Transformation Bank Award 2022
- Most Innovative Digital Banking Platform Award 2022 from the Global Business Outlook Magazine, United Kingdom
- Most Innovative Banking Initiatives – Thailand 2022 from The Global Economics Magazine, United Kingdom
- Most Innovative Retail Bank-Thailand 2022 from International Finance Magazine, United Kingdom
- Best Digital Wallet in Thailand from The Asian Banker Magazine
- Cybersecurity Excellence Award (Capacity Development) from the Office of the National Cyber Security Commission at Thailand Cybersecurity Excellence Awards 2022

Additional information: [KTB Sustainability Report](#)
Source: FSSIA compilation

Financial Statements

Krung Thai Bank

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Interest Income	104,832	113,475	143,521	151,245	158,565
Interest expense	(21,460)	(23,070)	(37,246)	(40,619)	(43,628)
Net interest income	83,372	90,405	106,274	110,626	114,937
Net fees & commission	20,022	20,316	20,715	21,026	21,341
Foreign exchange trading income	3,467	5,233	5,000	6,000	6,000
Securities trading income	711	239	220	220	220
Dividend income	379	352	385	424	466
Other income	7,835	8,847	10,176	11,130	12,177
Non interest income	32,414	34,986	36,496	38,800	40,204
Total income	115,786	125,391	142,770	149,426	155,142
Staff costs	(27,311)	(25,763)	(28,340)	(29,190)	(30,065)
Other operating costs	(25,420)	(29,007)	(30,322)	(32,652)	(33,982)
Operating costs	(52,731)	(54,771)	(58,661)	(61,842)	(64,048)
Pre provision operating profit	63,055	70,620	84,109	87,584	91,094
Expected credit loss	(32,524)	(24,338)	(32,735)	(33,555)	(34,561)
Other provisions	-	-	-	-	-
Operating profit	30,531	46,283	51,374	54,029	56,533
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	30,531	46,283	51,374	54,029	56,533
Tax	(5,975)	(9,077)	(10,069)	(10,590)	(11,080)
Profit after tax	24,556	37,206	41,305	43,440	45,452
Non-controlling interest	(2,968)	(3,508)	(3,509)	(3,510)	(3,511)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	21,588	33,698	37,796	39,929	41,941
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	21,588	33,698	37,796	39,929	41,941
Per share (THB)					
Recurring EPS *	1.54	2.41	2.70	2.86	3.00
Reported EPS	1.54	2.41	2.70	2.86	3.00
DPS	0.42	0.68	0.78	0.83	0.87
Growth					
Net interest income (%)	(5.6)	8.4	17.6	4.1	3.9
Non interest income (%)	(4.4)	7.9	4.3	6.3	3.6
Pre provision operating profit (%)	(8.3)	12.0	19.1	4.1	4.0
Operating profit (%)	27.9	51.6	11.0	5.2	4.6
Reported net profit (%)	29.0	56.1	12.2	5.6	5.0
Recurring EPS (%)	29.0	56.1	12.2	5.6	5.0
Reported EPS (%)	29.0	56.1	12.2	5.6	5.0
Income Breakdown					
Net interest income (%)	72.0	72.1	74.4	74.0	74.1
Net fees & commission (%)	17.3	16.2	14.5	14.1	13.8
Foreign exchange trading income (%)	3.0	4.2	3.5	4.0	3.9
Securities trading income (%)	0.6	0.2	0.2	0.1	0.1
Dividend income (%)	0.3	0.3	0.3	0.3	0.3
Other income (%)	6.8	7.1	7.1	7.4	7.8
Operating performance					
Gross interest yield (%)	3.16	3.28	4.15	4.29	4.35
Cost of funds (%)	0.73	0.76	1.23	1.33	1.39
Net interest spread (%)	2.43	2.52	2.92	2.96	2.96
Net interest margin (%)	2.5	2.6	3.1	3.1	3.2
Cost/income (%)	45.5	43.7	41.1	41.4	41.3
Cost/assets (%)	1.5	1.5	1.6	1.7	1.7
Effective tax rate (%)	19.6	19.6	19.6	19.6	19.6
Dividend payout on recurring profit (%)	27.1	28.3	29.0	29.0	29.0
ROE (%)	6.1	9.2	9.7	9.6	9.4
ROE - COE (%)	(3.8)	(0.8)	(0.2)	(0.3)	(0.5)
ROA (%)	0.7	1.0	1.1	1.2	1.2
RORWA (%)	1.2	1.8	1.9	2.0	2.0

* 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	2021	2022	2023E	2024E	2025E
Gross customer loans	2,628,963	2,592,838	2,644,695	2,724,036	2,805,757
Allowance for expected credit loss	(173,322)	(174,379)	(185,114)	(193,668)	(204,229)
interest in suspense	20,579	25,373	26,976	27,785	28,619
Net customer loans	2,476,220	2,443,832	2,486,557	2,558,153	2,630,146
Bank loans	469,216	550,941	583,997	601,517	619,562
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	382,055	322,942	264,204	283,246	310,891
Cash & equivalents	63,544	61,591	68,059	69,908	65,477
Other interesting assets	-	-	-	-	-
Tangible fixed assets	70,745	72,029	73,374	74,750	76,160
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	94,963	141,075	148,497	157,816	167,900
Total assets	3,556,745	3,592,410	3,624,688	3,745,389	3,870,137
Customer deposits	2,614,747	2,590,236	2,642,041	2,721,302	2,802,941
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	434,372	433,289	381,043	388,716	396,544
Non interest bearing liabilities	133,514	176,321	185,137	188,840	192,617
Hybrid Capital	-	-	-	-	-
Total liabilities	3,182,633	3,199,847	3,208,222	3,298,858	3,392,102
Share capital	72,005	72,005	72,005	72,005	72,005
Reserves	288,048	304,291	327,381	356,591	387,199
Total equity	360,053	376,296	399,386	428,596	459,204
Non-controlling interest	14,059	16,267	17,081	17,935	18,831
Total liabilities & equity	3,556,744	3,592,410	3,624,688	3,745,389	3,870,137
Supplementary items					
Risk weighted assets (RWA)	2,065,348	2,131,788	2,169,544	2,242,043	2,320,842
Average interest earning assets	3,320,300	3,456,331	3,460,467	3,523,490	3,643,074
Average interest bearing liabilities	2,934,632	3,031,708	3,018,211	3,061,305	3,149,347
CET 1 capital	328,180	335,601	357,192	385,783	415,808
Total capital	395,476	401,825	423,899	453,229	484,014
Gross non performing loans (NPL)	106,809	101,096	101,821	103,513	106,619
Per share (THB)					
Book value per share	25.76	26.92	28.57	30.66	32.85
Tangible book value per share	25.76	26.92	28.57	30.66	32.85
Growth					
Gross customer loans	12.7	(1.4)	2.0	3.0	3.0
Average interest earning assets	9.5	4.1	0.1	1.8	3.4
Total asset (%)	6.9	1.0	0.9	3.3	3.3
Risk weighted assets (%)	3.3	3.2	1.8	3.3	3.5
Customer deposits (%)	6.2	(0.9)	2.0	3.0	3.0
Leverage & capital measures					
Customer loan/deposits (%)	94.7	94.3	94.1	94.0	93.8
Equity/assets (%)	10.1	10.5	11.0	11.4	11.9
Tangible equity/assets (%)	10.1	10.5	11.0	11.4	11.9
RWA/assets (%)	58.1	59.3	59.9	59.9	60.0
CET 1 CAR (%)	15.9	15.7	16.5	17.2	17.9
Total CAR (%)	19.1	18.8	19.5	20.2	20.9
Asset Quality (FSSIA's calculation)					
Change in NPL (%)	(0.3)	(5.3)	0.7	1.7	3.0
NPL/gross loans (%)	4.1	3.9	3.9	3.8	3.8
Allowance for ECL/gross loans (%)	6.6	6.7	7.0	7.1	7.3
Allowance for ECL/NPL (%)	162.3	172.5	181.8	187.1	191.6
Valuation					
Recurring P/E (x) *	12.7	8.1	7.2	6.9	6.5
Recurring P/E @ target price (x) *	15.0	9.6	8.5	8.1	7.7
Reported P/E (x)	12.7	8.1	7.2	6.9	6.5
Dividend yield (%)	2.1	3.5	4.0	4.2	4.4
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)	0.9	0.9	0.8	0.8	0.7

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Krung Thai Bank; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

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Usanee Liurut, CISA FSS International Investment Advisory Securities Co., Ltd

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Company	Ticker	Price	Rating	Valuation & Risks
Krung Thai Bank	KTB TB	THB 19.60	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.
Bangkok Bank	BBL TB	THB 158.00	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 132.50	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 60.00	HOLD	Downside risks to our GGM-based target price include weakening asset quality and lower fee income and upside risks include better capital market conditions, higher used car price, and strengthening asset quality.
SCB X	SCB TB	THB 108.50	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.
Tisco Financial	TISCO TB	THB 97.25	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.
TMBThanachart Bank	TTB TB	THB 1.56	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.

Source: FSSIA estimates

Additional Disclosures

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

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All share prices are as at market close on 14-Jul-2023 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.