

# SCB X SCB TB

THAILAND / BANKING

# BUY

## New business trajectory is on track

- Gen 1 & Gen 2 businesses growing as planned under new policy.
- We project 2023-24 net profits to grow by 17.8% y-y and 8.4% y-y, with ROE expected to rise to 9.7% in 2024.
- We initiate coverage of SCB with a BUY rating. Our 2023 GGM-based TP of THB123 implies a P/BV of 0.85x.

TARGET PRICE	THB123.00
CLOSE	THB108.50
UP/DOWNSIDE	+13.4%
TP vs CONSENSUS	-4.1%

### KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Operating profit	50,718	56,913	60,975	65,087
Net profit	37,546	44,242	47,960	51,208
EPS (THB)	11.15	13.14	14.24	15.21
vs Consensus (%)	-	1.5	1.0	(0.7)
Recurring net profit	37,546	44,242	47,960	51,208
Core EPS (THB)	11.15	13.14	14.24	15.21
EPS growth (%)	6.4	17.8	8.4	6.8
Core P/E (x)	9.7	8.3	7.6	7.1
Dividend yield (%)	6.2	6.7	6.9	7.4
Price/book (x)	0.8	0.8	0.7	0.7
ROE (%)	8.3	9.4	9.7	9.8
ROA (%)	1.1	1.3	1.3	1.3

### Business restructuring remains on track

We are optimistic about SCB's new business structure, which reflects its growth direction under a simplified business arrangement. After the completion of SCBX's restructuring in 2022, the business trajectory remains on track. For the banking business (Gen 1), the ongoing plan of implementing a digital wealth model has had good progress under the bank's new focus on wealth customers while reducing its focus on growth in traditional loans (corporate and SME). For other retail loans, the bank will focus on low-risk groups, especially mortgage loans. For Gen 2, CardX (4.8% of total loans) and autoX (0.5% of total loans) have delivered solid growth under prudent provisions and asset quality amid the current market situation.

### Higher NIM and lower credit cost to benefit 2Q23 profit

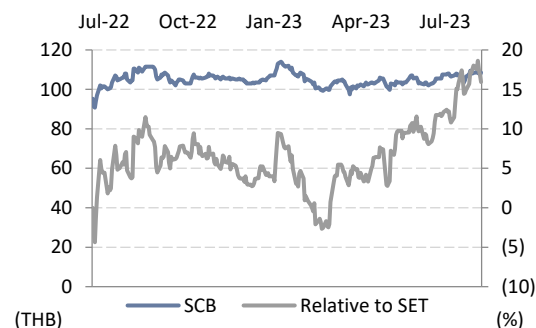
We expect a 2Q23 net profit of THB11,173m (+11 y-y, +2% q-q), with an improvement in SCB's net interest income (NII) and net interest margin (NIM), driven by 1) an increase in interest rates for most types of loans, as opposed to savings rates (77% of total deposits), which remained flat during the same period; and 2) an increase in interbank and investment returns following the policy rate hikes. Besides this, we expect credit cost to fall by 17 bps to 1.49% in 2Q23 (the upper bound of its 2023 target), with less concern over asset quality from its NPL (stage 2&3) movement.

### Expect earnings growth momentum in the next two years

The overall performance in 3Q23 should remain positive, as in 2Q23E, driven by strong NII, a rising NIM, and stable credit costs. Overall, we project SCB's net profit in 2023-24 to grow by 17.8% y-y and 8.4% y-y, respectively, with ROE expected to rise to 9.7% in 2024. We give credit to Gen 1's earnings contribution to the group's profit, which benefited from the rising interest rate, while Gen 2, despite seeing strong growth, has yet provided very low earnings contributions.

### Initiate with BUY; low valuation with attractive dividend yields

We initiate coverage of SCB with a BUY call. Our 2023 GGM-based TP of THB123 implies a P/BV of 0.85x, with a potential upside of 13% and very attractive dividend yields at 6-7% pa during 2023-25.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.5	2.8	14.2
Relative to country (%)	3.3	7.9	15.6
Mkt cap (USD m)	10,538		
3m avg. daily turnover (USD m)	35.8		
Free float (%)	53		
Major shareholder	King Rama X (24%)		
12m high/low (THB)	114.00/89.75		
Issued shares (m)	3,399		

Sources: Bloomberg consensus; FSSIA estimates



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## Investment thesis

- We are optimistic about SCB's new business structure, which reflects its growth direction under a simplified business arrangement.
- Its successful transformation will allow it to penetrate the high-risk-reward lending industry and capture the digital industry's high growth potential.
- SCB is another big bank that should enjoy the benefit of rising interest rates due primarily to the good composition of its loan and deposit mix.
- Asset quality is manageable with no alarming signs of rising credit cost.
- Current share price is still trading at only 0.76x 2023E P/BV with a potential upside of 13%, while offering very attractive dividend yields in 2023-25.

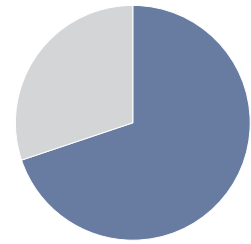
## Company profile

SCB is the first commercial bank in Thailand, 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](http://www.scb.co.th)

## Principal activities (revenue, 2022)

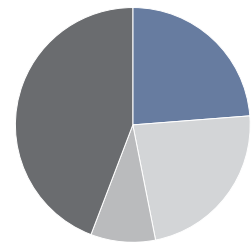
- Net interest income - 69.9 %
- Non-interest income - 30.1 %



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:

- 1) Higher interest rate rises than we expect;
- 2) Higher growth contribution from Gen 2 business;
- 3) Lower credit cost mainly from better asset quality;
- 4) Lower cost-to-income ratio than expected due to better 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
20-21 July 2023	2Q23 results announcement

## Key assumptions

	2023E	2024E	2025E
Year-to-Dec	(%)	(%)	(%)
Net profit (THB m)	44,242	47,960	51,208
Net profit growth (%)	17.8	8.4	6.8
NIM (%)	3.60	3.70	3.72
Loan growth (%)	5.0	5.0	5.0
Fee growth (%)	1.8	2.0	3.0
Non-NII growth (%)	2.9	(2.3)	4.9
Credit cost (bp)	150.0	140.0	140.0
Cost to income (%)	45.1	45.5	44.9

Source: FSSIA estimates

## Earnings sensitivity

		----- 2023E -----		
<b>Loan growth</b>	<b>±2ppt</b>	3	<b>5</b>	7
<i>% change in net profit</i>		(1.6)	-	+1.6
<b>NIM (%)</b>	<b>±5bp</b>	3.55	<b>3.60</b>	3.65
<i>% change in net profit</i>		(2.6)	-	+2.6
<b>Credit cost (bp)</b>	<b>±10bp</b>	140	<b>150</b>	160
<i>% change in net profit</i>		+4.3	-	-4.3

Source: FSSIA estimates

## Business restructuring remains on track

We are optimistic about SCB's new business structure, which reflects its growth direction under a simplified business arrangement. After the completion of SCBX's restructuring in 2022, the business trajectory remains on track. For the banking business (Gen 1), the ongoing plan of implementing a digital wealth model has had good progress under the bank's new focus on wealth customers while reducing its focus on growth in traditional loans (corporate and SME). It is also expanding to other retail loans with a focus on low-risk groups, especially mortgage loans. For Gen 2, CardX (4.8% of total loans) and autoX (0.5% of total loans) have delivered solid growth under prudent provisions and asset quality amid the current market situation.

### Exhibit 1: Operational performance by segment, 2022

2022	----- Before restructuring -----					----- After restructuring -----				
	Gen 1	Gen 2	Gen 3	Inter transactions & others	Total	Gen 1	Gen 2	Gen 3	Inter transactions & others	Total
	Banking services	Consumer & digital financial services	Platforms & digital assets			Banking services	Consumer & digital financial services	Platforms & digital assets		
	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)
Net interest income	81	14	(0)	0	95	91	18	0	(2)	108
Fees and others	39	12	5	(9)	47	39	4	7	(5)	45
Investment & trading income	4	(0)	4	(0)	8	12	-	1	(11)	2
<b>Total operating income</b>	<b>124</b>	<b>26</b>	<b>9</b>	<b>(9)</b>	<b>150</b>	<b>142</b>	<b>22</b>	<b>8</b>	<b>(17)</b>	<b>154</b>
Total operating expenses	(53)	(11)	(5)	5	(64)	(53)	(12)	(8)	3	(70)
<b>Profit before ECL &amp; tax</b>	<b>71</b>	<b>15</b>	<b>5</b>	<b>(4)</b>	<b>87</b>	<b>88</b>	<b>10</b>	<b>0</b>	<b>(14)</b>	<b>85</b>
Expected credit loss (ECL)					(42)					(34)
Income tax expense					(9)					(14)
<b>Net profit</b>					<b>35</b>					<b>37</b>
<b>Loans to customers</b>	<b>2,299</b>	<b>5</b>	<b>2</b>	<b>(5)</b>	<b>2,302</b>	<b>2,307</b>	<b>133</b>	<b>4</b>	<b>(66)</b>	<b>2,377</b>
<b>Total assets</b>	<b>3,324</b>	<b>7</b>	<b>37</b>	<b>(52)</b>	<b>3,315</b>	<b>3,384</b>	<b>134</b>	<b>45</b>	<b>(108)</b>	<b>3,454</b>
Total liabilities	2,874	5	13	(20)	2,872	2,952	113	13	(91)	2,988

	----- Change of contribution -----							
	----- Before restructuring -----				----- After restructuring -----			
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Profit before ECL & income tax	78.0	16.9	5.1	100.0	89.6	10.3	0.1	100.0
Loans to customers	99.7	0.2	0.1	100.0	94.4	5.4	0.2	100.0
Total assets	98.7	0.2	1.1	100.0	95.0	3.8	1.3	100.0

Sources: SCBX; FSSIA's compilation

### Exhibit 2: Loan breakdown – before and after business restructuring

	Before	----- After -----		----- Change -----		
	1Q22	4Q22	1Q23	(q-q %)	(y-y %)	(ytd %)
	(THB m)	(THB m)	(THB m)			
<b>Corporate</b>	<b>854,161</b>	<b>857,736</b>	<b>852,635</b>	<b>(0.6)</b>	<b>(0.2)</b>	<b>(0.6)</b>
<b>SME</b>	<b>407,809</b>	<b>407,355</b>	<b>416,180</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>
<b>Retail</b>	<b>950,556</b>	<b>975,946</b>	<b>987,146</b>	<b>1.1</b>	<b>3.8</b>	<b>1.1</b>
- Housing	700,043	729,555	739,986	1.4	5.7	1.4
- Auto	210,859	188,765	184,984	(2.0)	(12.3)	(2.0)
- Unsecured	31,408	45,028	43,873	(2.6)	39.7	(2.6)
- Others	8,246	12,599	18,303	45.3	122.0	45.3
- Loan under subsidiaries	113,870	136,178	143,262	5.2	25.8	5.2
- CARDX	104,966	114,044	115,173	1.0	9.7	1.0
- AUTOX	n/a	7,495	12,399	65.4	n/a	65.4
- Other subsidiaries	8,904	14,639	15,690	7.2	76.2	7.2
<b>Total loans</b>	<b>2,326,396</b>	<b>2,377,216</b>	<b>2,399,223</b>	<b>0.9</b>	<b>3.1</b>	<b>0.9</b>

Sources: SCB; FSSIA's compilation

**Exhibit 3: SCB's change of interest rates**

SCB	Saving (%)	MOR (%)	MLR (%)	MRR (%)	Ceiling (%)	Default (%)
1Q22	0.250	5.845	5.250	5.995	28.000	29.625
2Q22	0.250	5.845	5.250	5.995	28.000	29.625
3Q22	0.250	5.845	5.250	5.995	28.000	29.625
4Q22	0.250	6.345	5.750	6.120	28.000	29.750
1Q23	0.250	6.895	6.350	6.620	28.000	30.250
2Q23	0.300	7.325	6.800	7.050	28.000	30.680
<b>Change from 1Q22</b>	<b>0.050</b>	<b>1.480</b>	<b>1.550</b>	<b>1.055</b>	<b>0.000</b>	<b>1.055</b>

Sources: [Bank of Thailand](#); FSSIA's compilation

**Exhibit 4: SCBX's 2023 financial guidance**

----- 2023E* -----						
	2022*	SCBX Group	Gen 1 Banking services	Gen 2 Consumer & digital financial services	Gen 3 Platforms & digital assets	1Q23*
Total loan growth	3%	5-8%	< 5%	>40%	-	3.10%
Net interest margin	3.30%	> 3.5%	~3%	Mid-teens	-	3.46%
Total income growth	3%	> 10%	-	-	-	8.50%
Cost/income ratio	45%	Mid 40s	~40%	High 40s	-	41%
Credit cost (bp)	145	120-140	~100	600-650	-	166
Customers (m)	29	35	18	13	4	

Sources: \* SCB as of 21 Apr 2023; FSSIA estimates

## Higher NIM and lower credit cost to benefit 2Q23 profit

We expect a net profit for 2Q23 of THB11,173m (+11 y-y, +2% q-q), with an improvement in NII and NIM driven by 1) an increase in interest rates for most types of loans, as opposed to savings rates (77% of total deposits), remaining virtually flat during the same period; and 2) an increase in interbank and investment returns following the policy rate hikes. Meanwhile, overall loan growth did not accelerate much on the back of its loan optimisation strategy. We estimate operating expenses to remain high in line with subsidiaries' investments, which still need to grow continuously according to the business plan. We forecast NPLs to remain relatively stable at 3.95% in 2Q23. Furthermore, we expect credit cost to fall by 17 bps to 1.49% (the upper bound of its 2023 target).

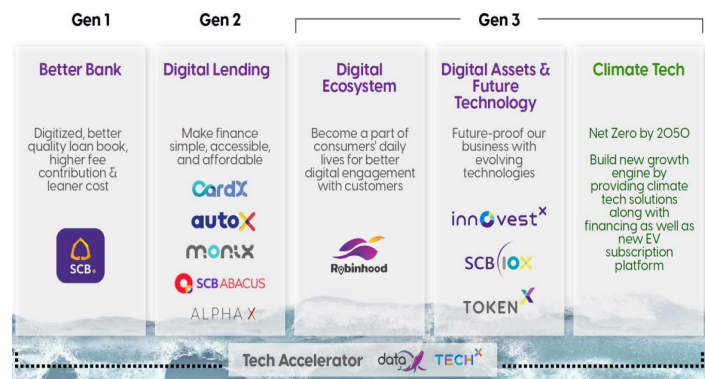
### Exhibit 5: 2Q23 results preview

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	26,068	28,942	29,701	3	14	58,643	15	48	107,865	122,406	13
Non-interest income	12,634	11,958	10,746	(10)	(15)	22,704	(11)	47	46,555	47,898	3
<i>Fee income - net</i>	9,347	8,909	8,852	(1)	(5)	17,761			37,148	37,812	2
<b>Total operating income</b>	<b>38,702</b>	<b>40,900</b>	<b>40,447</b>	<b>(1)</b>	<b>5</b>	<b>81,347</b>	<b>6</b>	<b>48</b>	<b>154,420</b>	<b>170,304</b>	<b>10</b>
Total operating expenses	15,938	16,757	17,028	2	7	33,785	5	44	69,874	76,842	10
<b>PPOP before tax</b>	<b>22,764</b>	<b>24,143</b>	<b>23,419</b>	<b>(3)</b>	<b>3</b>	<b>47,562</b>	<b>7</b>	<b>51</b>	<b>84,547</b>	<b>93,462</b>	<b>11</b>
Expected credit loss	10,250	9,927	9,000	(9)	(12)	18,927	(0)	52	33,829	36,550	8
Income tax	2,681	3,147	3,172	1	18	6,320	14	50	13,592	12,521	(8)
Non-controlling interest	(217)	73	74	1	(134)	147	(147)	98	(421)	150	(136)
<b>Net profit</b>	<b>10,051</b>	<b>10,995</b>	<b>11,173</b>	<b>2</b>	<b>11</b>	<b>22,168</b>	<b>10</b>	<b>50</b>	<b>37,546</b>	<b>44,242</b>	<b>18</b>
Net EPS (THB)	2.98	3.27	3.32	2	11	6.58	11	50	11.15	13.14	18
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23E</b>	<b>---- Change ----</b>		<b>1H23E</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>
	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y%)		(%)	(%)	(y-y%)
Asset quality ratio											
Gross NPLs (THB m)	102,538	95,153	95,753	1	(7)	95,753	(7)		95,329	99,329	
<i>Change (% from prior period)</i>	(3.5)	(0.2)	0.6			(6.6)			(12.6)	4.2	
NPL ratios (%) - reported	3.58	3.32							3.34		
<b>NPL ratio (%)*</b>	<b>4.34</b>	<b>3.97</b>	<b>3.95</b>			<b>3.95</b>			<b>4.01</b>	<b>3.98</b>	
Coverage ratio (%) - reported	153	164							160		
<b>Coverage ratio (%)*</b>	<b>148</b>	<b>158</b>	<b>157</b>			<b>157</b>			<b>156</b>	<b>154</b>	
<b>Credit cost (bp)</b>	<b>175</b>	<b>166</b>	<b>149</b>			<b>158</b>			<b>145</b>	<b>150</b>	
Profitability ratio	(%)	(%)	(%)			(%)			(%)	(%)	
<b>Cost to income ratio</b>	<b>41.2</b>	<b>41.0</b>	<b>42.1</b>			<b>41.5</b>			<b>45.2</b>	<b>45.1</b>	
Average yield (%)	3.71	4.44	4.52			4.50			3.87	4.61	
Cost of funds (%)	0.65	1.17	1.19			1.19			0.69	1.22	
NIM (%) - reported	3.17	3.46							3.29		
<b>NIM (%)*</b>	<b>3.17</b>	<b>3.46</b>	<b>3.54</b>			<b>3.52</b>			<b>3.29</b>	<b>3.60</b>	
Non-interest income/total income (%)	32.6	29.2	26.6			27.9			30.1	28.1	
Liquidity ratio	(%)	(%)	(%)			(%)			(%)	(%)	
Loan to deposit	93.5	95.6	97.1			97.1			93.0	95.7	
Loan to deposit & borrowing (LDBR)	90.6	92.9	94.9			94.9			84.6	86.9	
Capital adequacy ratio	(%)	(%)	(%)						(%)	(%)	
CAR	18.7	18.6							18.9	19.1	
CET 1/ Risk assets	17.5	17.5							17.7	18.0	
Tier 2 / Risk assets	1.1	1.1							1.1	1.1	
Loan growth	(%)	(%)	(%)			(%)			(%)	(%)	
Year-to-date	2.5	0.9	2.0			2.0					
q-q	1.4	0.9	1.1								
y-y	2.8	3.1	2.8						3.3	5	

\* FSSIA's calculation

Sources: SCBX; FSSIA estimates

## Exhibit 6: SCB's five strategic themes



Source: SCB

## Exhibit 7: SCB - GGM-based TP

Target price	THB 123.00
Sustainable ROE	9.6%
g	1.0%
ROE-g	8.6%
Beta	1.1
RF	2.5%
MRP	8.0%
COE	11.1%
COE-g	10.1%
ROE-g / COE-g (PBV)	0.85x

Sources: SCB; FSSIA's estimates

## Exhibit 8: SCB's loans by stage and allowance for ECL

	Loans by stage			Allowance for ECL		
	2021* (THB b)	2022* (THB b)	1Q23 (THB b)	2021 (THB b)	2022 (THB b)	1Q23 (THB b)
Stage 1 (Performing)	2,003	2,103	2,123	43.6	44.7	47.7
Stage 2 (Underperforming)	190	179	181	40.0	44.3	45.1
Stage 3 (Non-performing)	109	95	95	62.0	56.6	57.5
<b>Gross loans</b>	<b>2,302</b>	<b>2,377</b>	<b>2,399</b>	<b>145.7</b>	<b>145.6</b>	<b>150.3</b>
	% of total loans			Allowance for ECL for respective loans		
Stage 1 (Performing)	87.0	88.5	88.5	2.2	2.1	2.2
Stage 2 (Underperforming)	8.2	7.5	7.5	21.1	24.8	25.0
Stage 3 (Non-performing)	4.7	4.0	4.0	56.8	59.4	60.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>6.3</b>	<b>6.1</b>	<b>6.3</b>
NPL				109.1	95.3	95.2
LLR/NPL for gross loans (%)				133%	153%	158%

\* 2021 = before restructuring, 2022 onwards = after restructuring

Sources: SCB; FSSIA's compilation

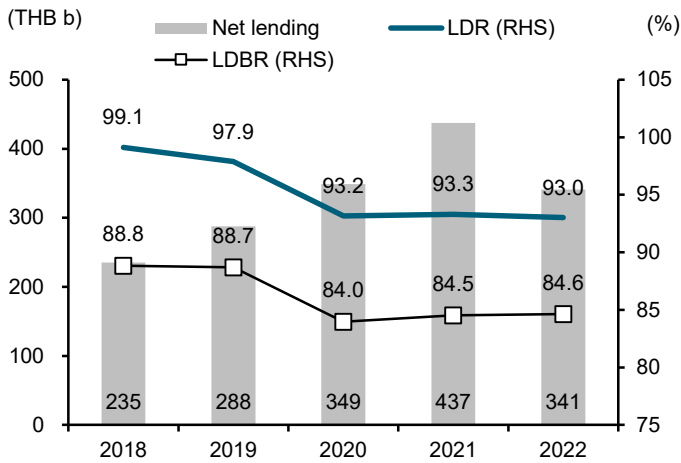
## Exhibit 9: Loans by business type and stage

	2021 (Before restructuring)				2022				1Q23			
	Stage 1 (THB b)	Stage 2 (THB b)	Stage 3 (THB b)	Total (THB b)	Stage 1 (THB b)	Stage 2 (THB b)	Stage 3 (THB b)	Total (THB b)	Stage 1 (THB b)	Stage 2 (THB b)	Stage 3 (THB b)	Total (THB b)
Agriculture and mining	8.9	1.0	3.8	13.6	7.6	0.5	1.2	9.2	11.4	0.5	1.2	13.0
Manufacturing & commercial	536.6	47.3	47.9	631.8	553.6	63.4	44.4	661.4	557.8	64.1	42.2	664.1
Real estate and construction	152.0	7.7	18.5	178.2	149.1	8.6	10.6	168.3	155.6	6.8	10.1	172.6
Utilities and services	357.2	37.5	13.5	408.2	389.2	24.5	13.0	426.6	382.2	25.2	12.8	420.2
Housing loans	526.9	34.3	15.2	576.4	558.0	26.4	13.0	597.4	560.4	27.3	13.3	601.0
Others	421.6	61.8	10.3	493.7	446.0	55.1	13.1	514.3	456.0	56.8	15.5	528.3
<b>Total gross loans*</b>	<b>2,003.1</b>	<b>189.6</b>	<b>109.1</b>	<b>2,301.8</b>	<b>2,103.4</b>	<b>178.5</b>	<b>95.3</b>	<b>2,377.2</b>	<b>2,123.5</b>	<b>180.6</b>	<b>95.2</b>	<b>2,399.2</b>
	% of respective stage loans											
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Agriculture and mining	0.4	0.5	3.5	0.6	0.4	0.3	1.2	0.4	0.5	0.3	1.2	0.5
Manufacturing & commercial	26.8	24.9	43.9	27.4	26.3	35.5	46.6	27.8	26.3	35.5	44.4	27.7
Real estate and construction	7.6	4.1	16.9	7.7	7.1	4.8	11.1	7.1	7.3	3.8	10.6	7.2
Utilities and services	17.8	19.8	12.3	17.7	18.5	13.7	13.6	17.9	18.0	13.9	13.5	17.5
Housing loans	26.3	18.1	13.9	25.0	26.5	14.8	13.7	25.1	26.4	15.1	14.0	25.1
Others	21.0	32.6	9.5	21.4	21.2	30.9	13.8	21.6	21.5	31.4	16.3	22.0
<b>Total gross loans*</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Excludes accrued interest receivables and undue interest receivables

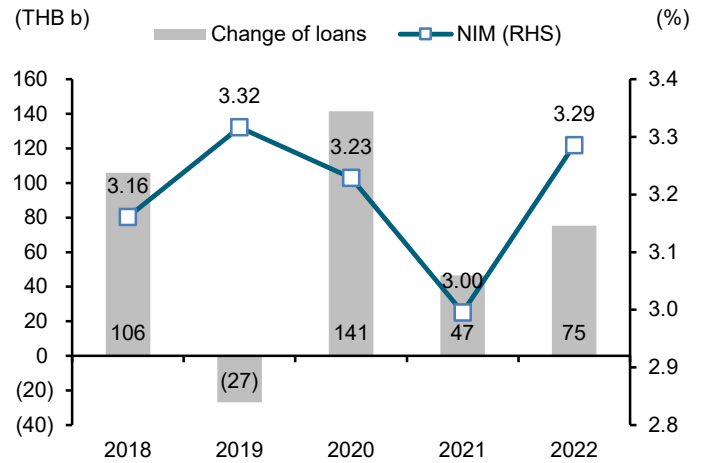
Sources: SCB; FSSIA's compilation

**Exhibit 10: SCB's net lending position, LDR and LDBR**



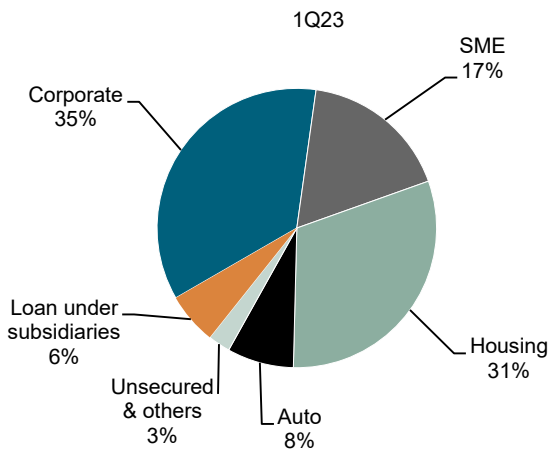
Sources: SCB; FSSIA's compilation

**Exhibit 11: Change of loans vs NIM**



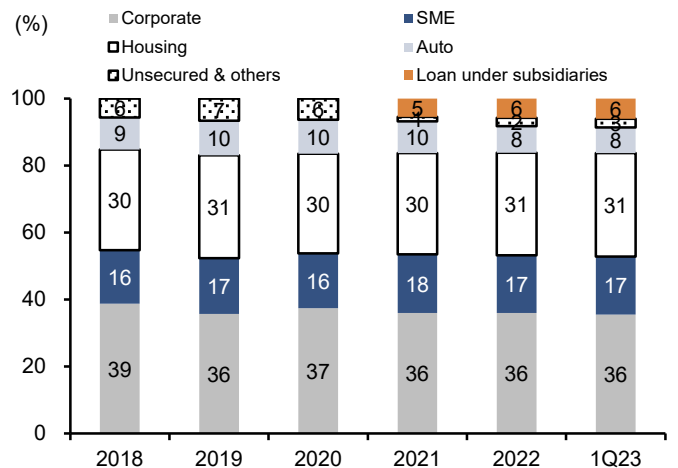
Sources: SCB; FSSIA's compilation

**Exhibit 12: Loan breakdown, 1Q23**



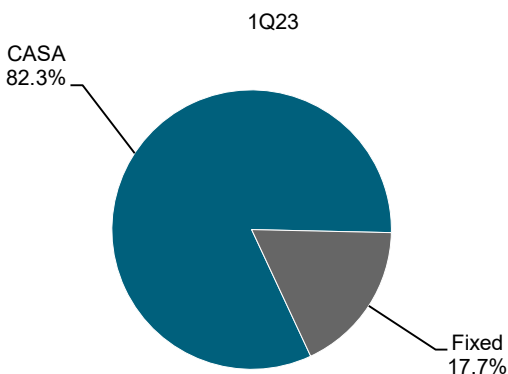
Sources: SCB; FSSIA's compilation

**Exhibit 13: Loan breakdown, 2018-1Q23**



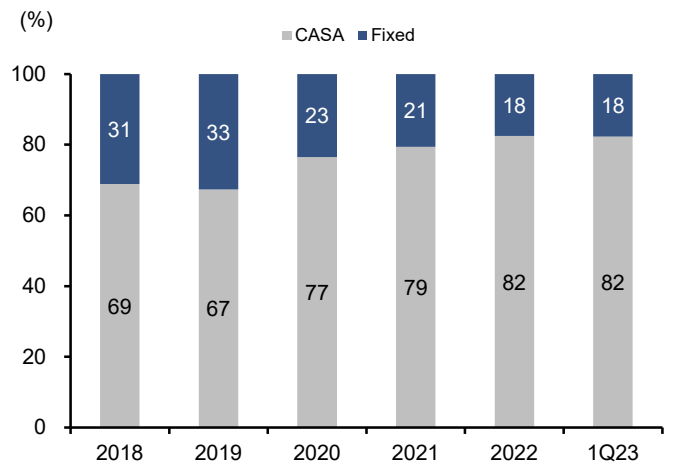
Sources: SCB; FSSIA's compilation

**Exhibit 14: Deposit structure, 1Q23**



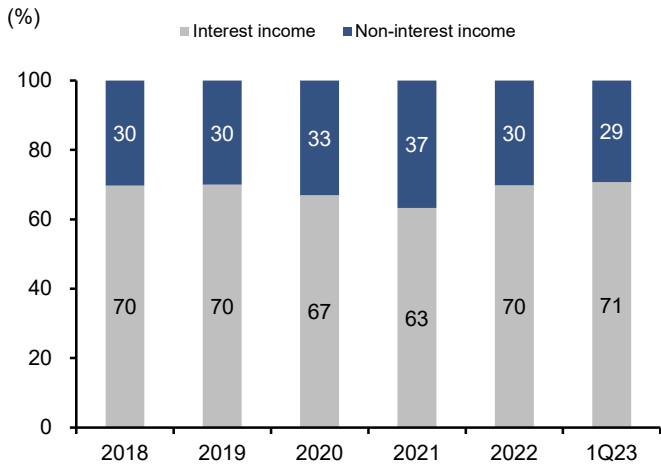
Sources: SCB; FSSIA's compilation

**Exhibit 15: Deposit structure, 2018-1Q23**



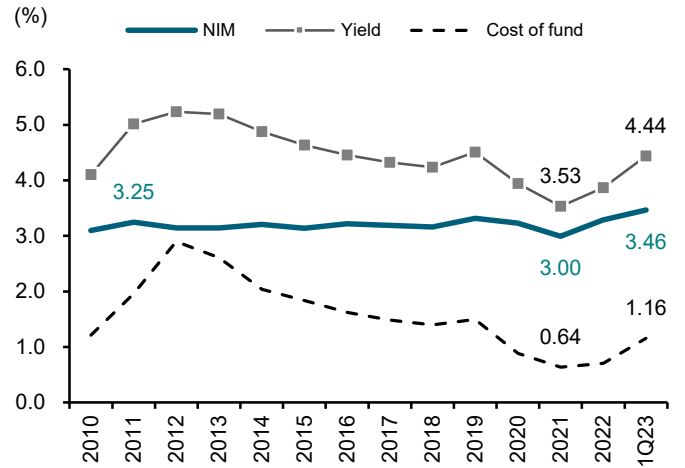
Sources: SCB; FSSIA's compilation

**Exhibit 16: Revenue breakdown**



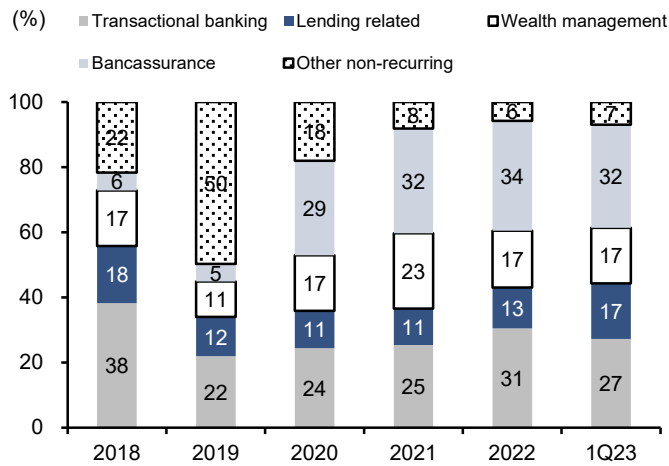
Sources: SCB; FSSIA's compilation

**Exhibit 17: Yield, cost of funds, and NIM**



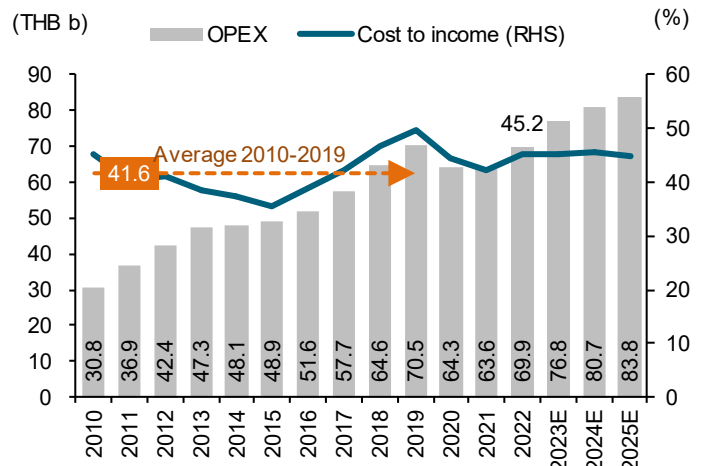
Sources: SCB; FSSIA's calculation

**Exhibit 18: Fee income breakdown**



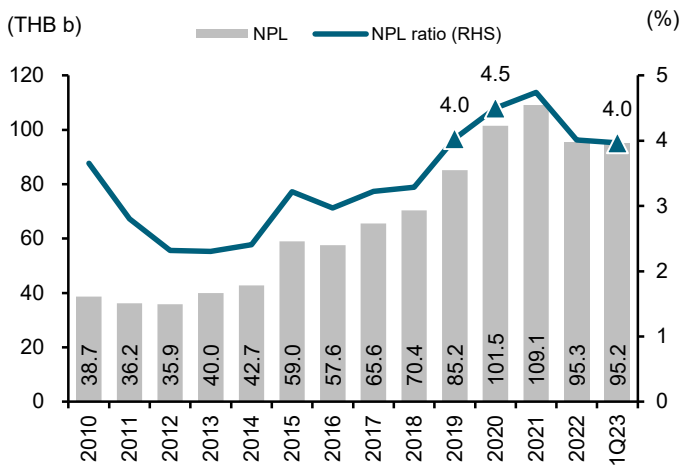
Sources: SCB; FSSIA's compilation

**Exhibit 19: OPEX vs cost to income**



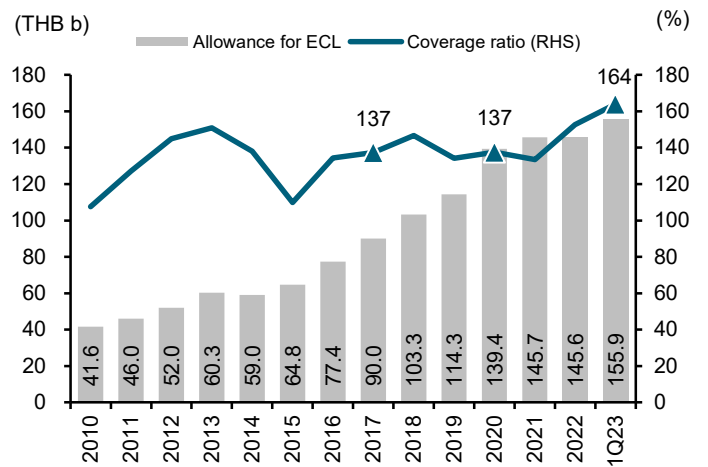
Sources: SCB; FSSIA estimates

**Exhibit 20: NPL and NPL ratio\***



Sources: SCB; \*FSSIA's calculation

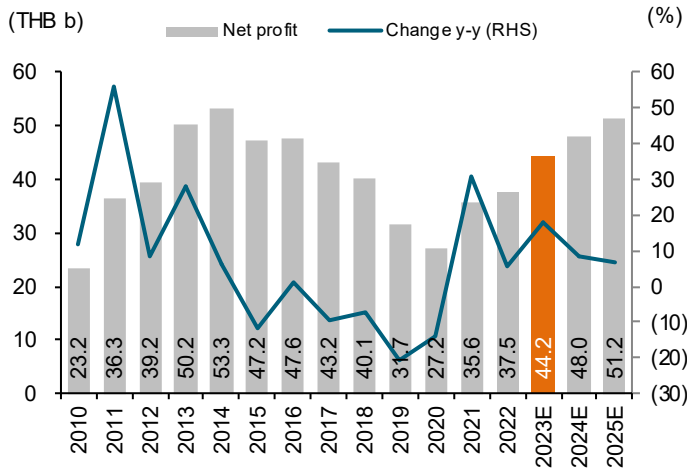
**Exhibit 21: Coverage ratio (allowance for ECL to NPL)\***



Sources: SCB; \*FSSIA's calculation

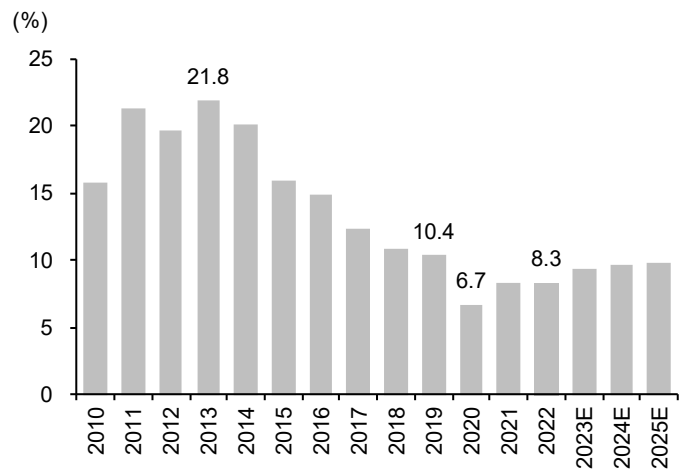


**Exhibit 22: Net profit and growth**



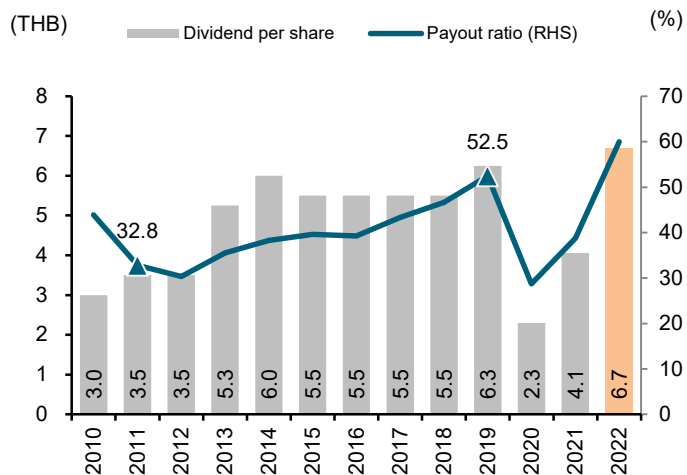
Sources: SCB; FSSIA estimates

**Exhibit 23: ROE**



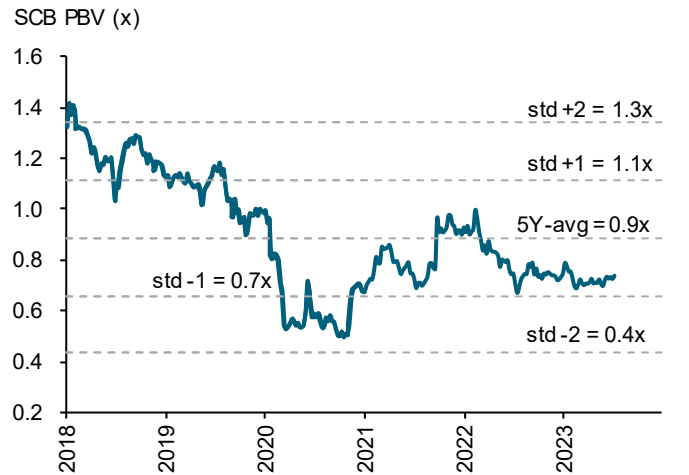
Sources: SCB; FSSIA estimates

**Exhibit 24: Dividend and payout ratio**



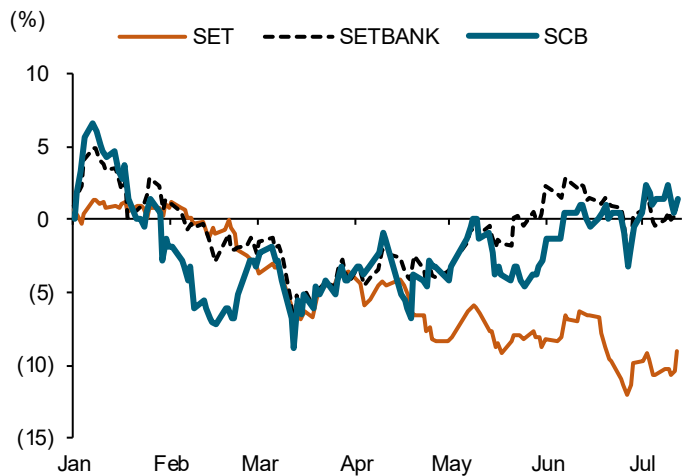
Sources: SCB; FSSIA's compilation

**Exhibit 25: One-year forward rolling P/BV**



Sources: Bloomberg; FSSIA estimates

**Exhibit 26: Share price performance as of close on 14 July 2023**



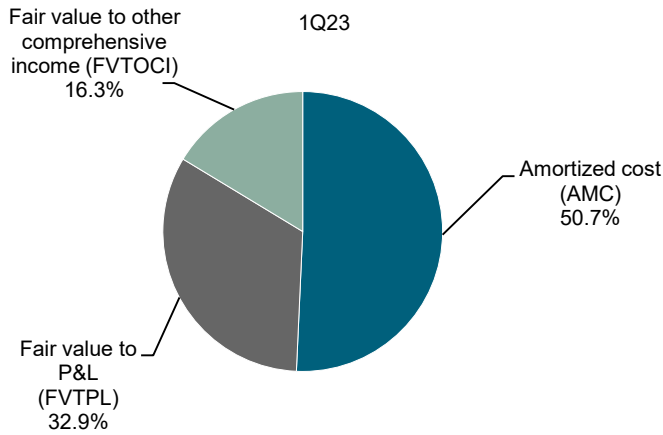
Source: Bloomberg

**Exhibit 27: 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
<b>SET Index</b>	<b>(2.7)</b>	<b>(5.2)</b>	<b>(9.7)</b>	<b>(1.0)</b>	<b>(9.0)</b>
SETBANK Index	(0.2)	4.0	(1.3)	13.4	1.2

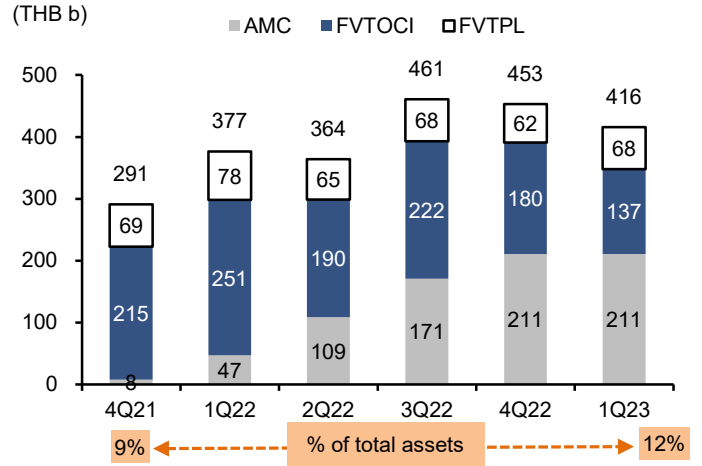
Source: Bloomberg

**Exhibit 28: SCBX investment classification\***



\* Excluding investments in associated companies  
Source: SCB

**Exhibit 29: Investments measured at amortised cost are all Thai government bonds, mainly added in mid-2022**



Note: Amortised cost (AMC); Fair value to P&L (FVTPL); and Fair value to other comprehensive income (FVTOCI)  
Source: SCB

## Exhibit 30: 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)
<b>Thailand</b>											
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
<b>Thailand average</b>			<b>44.3</b>	<b>8.2</b>	<b>7.6</b>	<b>0.8</b>	<b>0.8</b>	<b>10.2</b>	<b>10.4</b>	<b>4.0</b>	<b>4.3</b>
<b>Hong Kong</b>											
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
<b>Hong Kong average</b>			<b>674.1</b>	<b>4.1</b>	<b>4.0</b>	<b>0.5</b>	<b>0.4</b>	<b>11.9</b>	<b>11.5</b>	<b>9.1</b>	<b>9.9</b>
<b>China</b>											
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
<b>China average</b>			<b>687.0</b>	<b>4.8</b>	<b>4.5</b>	<b>0.5</b>	<b>0.5</b>	<b>11.2</b>	<b>10.9</b>	<b>6.4</b>	<b>6.8</b>
<b>South Korea</b>											
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
<b>South Korea average</b>			<b>45.1</b>	<b>3.5</b>	<b>3.4</b>	<b>0.3</b>	<b>0.3</b>	<b>9.6</b>	<b>9.2</b>	<b>8.0</b>	<b>8.4</b>
<b>Indonesia</b>											
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
<b>Indonesia average</b>			<b>181.8</b>	<b>14.2</b>	<b>12.6</b>	<b>2.5</b>	<b>2.2</b>	<b>17.8</b>	<b>18.1</b>	<b>3.6</b>	<b>4.2</b>
<b>Malaysia</b>											
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
<b>Malaysia average</b>			<b>67.4</b>	<b>9.8</b>	<b>9.3</b>	<b>1.1</b>	<b>1.0</b>	<b>11.2</b>	<b>11.1</b>	<b>5.7</b>	<b>6.1</b>
<b>Singapore</b>											
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
<b>Singapore average</b>			<b>139.8</b>	<b>8.3</b>	<b>8.2</b>	<b>1.1</b>	<b>1.1</b>	<b>14.1</b>	<b>13.6</b>	<b>6.0</b>	<b>6.3</b>
<b>Regional average (excl. Thailand)</b>			<b>1,795.1</b>	<b>7.8</b>	<b>7.3</b>	<b>1.1</b>	<b>1.0</b>	<b>12.7</b>	<b>12.5</b>	<b>6.3</b>	<b>6.8</b>
<b>Total average (incl. Thailand)</b>			<b>1,839.4</b>	<b>7.9</b>	<b>7.3</b>	<b>1.0</b>	<b>0.9</b>	<b>12.3</b>	<b>12.2</b>	<b>6.2</b>	<b>6.6</b>

\*simple average

Sources: Bloomberg consensus; FSSIA estimates for Thai banks

# Corporate Governance and ESG– SCB

## Board structure, 2022 One report

Independent Directors (ID)	8/16 of board members, 4 females
Percentage of IDs on the board	50%
ID attendance at board meetings	99.5%
ID in audit/remuneration committee	3/3 in audit committee and 3/4 in remuneration committee
ID terms	Nine-consecutive years inclusive of their tenure as ID of companies in the Group.

**Additional information:** 1) The Board's professional experience, skills, knowledge, and other key attributes. Directors possess skills, knowledge and expertise in specialised fields that are relevant to the Company's business as identified in the board skills matrix.

## Compensation and remuneration

Directors' remuneration vs earnings/ROE/share performance	In 2022 – after restructuring - THB273.8m, 0.74% of net profit; In 2021 – before restructuring - THB111.7m, 0.32% 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

**Policy and strategy:** SCBX encourages and supports its group companies to sustainability under an 'Our Presence Contributes to the Better Future for All' mission steered by three key pillars: Sustainable Finance, Creating Social Impact, and Better Environmental Future. These efforts seek to utilise digital technology in creating positive changes in financial stability, bridging the digital divide, connecting individuals to financial access and convenience with speed, while leveraging financial innovations to create added value for consumers and businesses. This will serve as a foundation for future digital services to support sustainable economic, social, and environmental development.

**Materiality assessment:** In 2022, SCBX identified a total of 123 materiality sustainability issues, categorized into 31 topics; where 12 of which were considered significant.

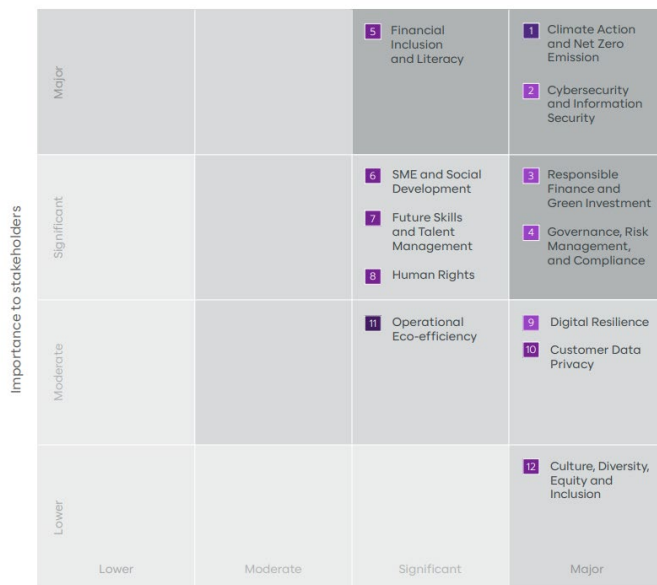
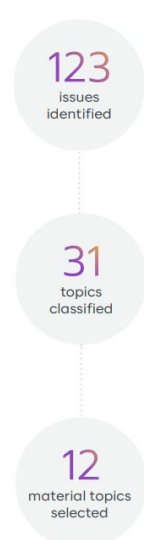
## Audit Practices

Auditor	KPMG Phoomchai Audit Ltd.
Length of service	More than five years
Reporting incidents	None
Fee track record	THB46.8m
Policy on change of audit firm	To review every five years

**Additional information:** Fees for services other than statutory audits were: 1) audits and examination as required by regulators, i.e., special audits and examination of banking returns; 2) transfer pricing audit; 3) penetration test; 4) credit review; 5) tax services; and 6) review and consultation services relating to financial group restructuring.

## 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



### 12 significant material issues:

- 1) Climate Action and Net Zero Emissions
- 2) Cybersecurity and Information Security
- 3) Responsible Finance and Green Investment
- 4) Governance, Risk Management, and Compliance
- 5) Financial Inclusion and Literacy
- 6) SME and Social Development
- 7) Future Skills and Talent Management
- 8) Human Rights
- 9) Digital Resilience
- 10) Customer Data Privacy
- 11) Operational Eco-efficiency
- 12) Culture, Diversity, Equity, and Inclusion

**Monetary contribution** to external organisations for sustainability in 2022 totalled THB31.5m; 45% of which to the Thai Bankers Association, and 40% to the Securities and Exchange Commission of Thailand (SEC)

### Awards and recognitions

- Selected by S&P Global as a member of Dow Jones Sustainability Indices (DJSI) for the World Index and the Emerging Markets Index in the banking sector for the 5th consecutive year SCBX also ranked among top 5% S&P Global ESG Score of the banking sector as reported in The Sustainability Yearbook 2023
- Selected by FTSE Russell as a member of FTSE4Good Index Series in the FTSE4Good Emerging Index
- Rated "A" by MSCI on Environmental, Social, and Governance (ESG) Performance in the Banking Category
- Rated "C" on Climate Change Management Assessment by CDP
- Listed in the Thailand Sustainability Investment (THSI) with SET Awards 2022, Sustainability Excellence, Commended recognition and Best Asset Management Company Awards – ESG From Stock Exchange of Thailand
- The 7th Asia's Best Sustainability Report award • Asia's Best Workplace Reporting, Gold • Asia's Best Sustainability Report (Design), Bronze from CSRWorks International Pte Ltd
- Low Carbon and Sustainable Business Index (LCSI) 2022 - Rising Star Award from Thailand Greenhouse Gas Management Organization (Public Organization) or TGO

Additional information: [SCBX's 2022 Sustainability Report](#); Source: FSSIA compilation

## Financial Statements

SCB X

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Interest Income	112,177	126,993	157,077	169,692	179,974
Interest expense	(17,006)	(19,127)	(34,671)	(38,967)	(42,618)
Net interest income	95,171	107,865	122,406	130,725	137,356
Net fees & commission	40,198	37,148	37,812	38,568	39,725
Foreign exchange trading income	-	-	-	-	-
Securities trading income	11,236	6,724	7,244	5,251	6,259
Dividend income	166	149	154	158	163
Other income	3,571	2,535	2,689	2,812	2,950
Non interest income	55,171	46,555	47,898	46,789	49,097
Total income	150,342	154,420	170,304	177,514	186,453
Staff costs	(30,007)	(31,219)	(34,341)	(36,058)	(36,779)
Other operating costs	(33,549)	(38,655)	(42,501)	(44,662)	(46,977)
Operating costs	(63,556)	(69,874)	(76,842)	(80,720)	(83,756)
Pre provision operating profit	86,786	84,547	93,462	96,794	102,697
Expected credit loss	(42,024)	(33,829)	(36,550)	(35,819)	(37,610)
Other provisions	-	-	-	-	-
Operating profit	44,762	50,718	56,913	60,975	65,087
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	44,762	50,718	56,913	60,975	65,087
Tax	(9,376)	(13,592)	(12,521)	(13,414)	(14,319)
Profit after tax	35,386	37,125	44,392	47,560	50,768
Non-controlling interest	204	421	(150)	400	440
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	35,590	37,546	44,242	47,960	51,208
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	35,590	37,546	44,242	47,960	51,208
<b>Per share (THB)</b>					
Recurring EPS *	10.48	11.15	13.14	14.24	15.21
Reported EPS	10.48	11.15	13.14	14.24	15.21
DPS	4.06	6.69	7.25	7.50	8.00
<b>Growth</b>					
Net interest income (%)	(1.8)	13.3	13.5	6.8	5.1
Non interest income (%)	15.3	(15.6)	2.9	(2.3)	4.9
Pre provision operating profit (%)	7.9	(2.6)	10.5	3.6	6.1
Operating profit (%)	32.5	13.3	12.2	7.1	6.7
Reported net profit (%)	30.8	5.5	17.8	8.4	6.8
Recurring EPS (%)	30.8	6.4	17.8	8.4	6.8
Reported EPS (%)	30.8	6.4	17.8	8.4	6.8
<b>Income Breakdown</b>					
Net interest income (%)	63.3	69.9	71.9	73.6	73.7
Net fees & commission (%)	26.7	24.1	22.2	21.7	21.3
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	7.5	4.4	4.3	3.0	3.4
Dividend income (%)	0.1	0.1	0.1	0.1	0.1
Other income (%)	2.4	1.6	1.6	1.6	1.6
<b>Operating performance</b>					
Gross interest yield (%)	3.53	3.87	4.61	4.80	4.87
Cost of funds (%)	0.64	0.70	1.23	1.35	1.42
Net interest spread (%)	2.89	3.17	3.38	3.45	3.45
Net interest margin (%)	3.0	3.3	3.6	3.7	3.7
Cost/income(%)	42.3	45.2	45.1	45.5	44.9
Cost/assets(%)	1.9	2.1	2.2	2.2	2.2
Effective tax rate (%)	20.9	26.8	22.0	22.0	22.0
Dividend payout on recurring profit (%)	38.8	60.0	55.2	52.7	52.6
ROE (%)	8.4	8.3	9.4	9.7	9.8
ROE - COE (%)	(2.8)	(2.8)	(1.8)	(1.5)	(1.3)
ROA (%)	1.1	1.1	1.3	1.3	1.3
RORWA (%)	1.6	1.6	1.9	1.9	2.0

\* Pre-exceptional, pre-goodwill and fully diluted

Sources: SCB X; FSSIA estimates

## Financial Statements

SCB X

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Gross customer loans	2,301,834	2,377,215	2,496,076	2,620,880	2,751,924
Allowance for expected credit loss	(151,409)	(148,890)	(153,440)	(161,258)	(169,868)
interest in suspense	15,031	19,523	20,499	21,524	22,600
<b>Net customer loans</b>	<b>2,165,456</b>	<b>2,247,848</b>	<b>2,363,135</b>	<b>2,481,145</b>	<b>2,604,656</b>
Bank loans	618,269	522,056	532,497	543,147	554,010
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	292,123	454,203	425,336	446,603	468,933
Cash & equivalents	50,421	47,254	39,683	44,098	43,827
Other interesting assets	-	-	-	-	-
Tangible fixed assets	63,397	68,898	72,535	76,439	80,633
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	124,900	114,194	125,738	131,703	134,562
<b>Total assets</b>	<b>3,314,565</b>	<b>3,454,452</b>	<b>3,558,924</b>	<b>3,723,135</b>	<b>3,886,621</b>
Customer deposits	2,467,495	2,555,800	2,606,916	2,716,406	2,825,063
Bank deposits	180,961	181,347	190,415	199,936	205,934
Other interest bearing liabilities	10,539	11,429	14,858	15,601	16,381
Non interest bearing liabilities	212,963	239,264	257,431	277,299	298,287
Hybrid Capital	-	-	-	-	-
<b>Total liabilities</b>	<b>2,871,959</b>	<b>2,987,840</b>	<b>3,069,619</b>	<b>3,209,241</b>	<b>3,345,664</b>
Share capital	33,992	33,671	33,671	33,671	33,671
Reserves	407,005	427,561	449,716	473,712	500,124
<b>Total equity</b>	<b>440,997</b>	<b>461,232</b>	<b>483,387</b>	<b>507,384</b>	<b>533,795</b>
Non-controlling interest	1,609	5,380	5,918	6,510	7,161
<b>Total liabilities &amp; equity</b>	<b>3,314,565</b>	<b>3,454,452</b>	<b>3,558,924</b>	<b>3,723,135</b>	<b>3,886,621</b>
<b>Supplementary items</b>					
Risk weighted assets (RWA)	2,265,443	2,306,339	2,384,479	2,494,501	2,604,036
Average interest earning assets	3,177,400	3,282,850	3,403,691	3,532,269	3,692,748
Average interest bearing liabilities	2,676,339	2,720,839	2,819,651	2,881,757	2,997,994
CET 1 capital	399,566	408,287	428,118	450,825	475,096
Total capital	424,235	433,835	454,915	478,934	504,582
Gross non performing loans (NPL)	109,114	95,329	99,329	103,429	107,429
<b>Per share (THB)</b>					
Book value per share	129.86	136.98	143.56	150.69	158.53
Tangible book value per share	129.86	136.98	143.56	150.69	158.53
<b>Growth</b>					
Gross customer loans	2.1	3.3	5.0	5.0	5.0
Average interest earning assets	5.9	3.3	3.7	3.8	4.5
Total asset (%)	1.1	4.2	3.0	4.6	4.4
Risk weighted assets (%)	3.1	1.8	3.4	4.6	4.4
Customer deposits (%)	1.9	3.6	2.0	4.2	4.0
<b>Leverage &amp; capital measures</b>					
Customer loan/deposits (%)	87.8	88.0	90.6	91.3	92.2
Equity/assets (%)	13.3	13.4	13.6	13.6	13.7
Tangible equity/assets (%)	13.3	13.4	13.6	13.6	13.7
RWA/assets (%)	68.3	66.8	67.0	67.0	67.0
CET 1 CAR (%)	17.6	17.7	18.0	18.1	18.2
Total CAR (%)	18.7	18.8	19.1	19.2	19.4
<b>Asset Quality (FSSIA's calculation)</b>					
Change in NPL (%)	7.5	(12.6)	4.2	4.1	3.9
NPL/gross loans (%)	4.7	4.0	4.0	3.9	3.9
Allowance for ECL/gross loans (%)	6.6	6.3	6.1	6.2	6.2
Allowance for ECL/NPL (%)	138.8	156.2	154.5	155.9	158.1
<b>Valuation</b>					
Recurring P/E (x) *	10.4	9.7	8.3	7.6	7.1
Recurring P/E @ target price (x) *	11.7	11.0	9.4	8.6	8.1
Reported P/E (x)	10.4	9.7	8.3	7.6	7.1
Dividend yield (%)	3.7	6.2	6.7	6.9	7.4
Price/book (x)	0.8	0.8	0.8	0.7	0.7
Price/tangible book (x)	0.8	0.8	0.8	0.7	0.7
Price/tangible book @ target price (x)	0.9	0.9	0.9	0.8	0.8

\* Pre-exceptional, pre-goodwill and fully diluted

Sources: SCB X; 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)<sup>1</sup>

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)<sup>2</sup>

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)<sup>3</sup>

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)<sup>4</sup> 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 Indices<sup>5</sup> (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:

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> Sustainability Investment List (THSI), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

<sup>5</sup> Dow Jones Sustainability Indices – Wikipedia – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

## GENERAL DISCLAIMER

### ANALYST(S) CERTIFICATION

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

The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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Company	Ticker	Price	Rating	Valuation & Risks
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.
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.
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.
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

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

All share prices are as at market close on 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.