

Thailand Banks

Unimpressive July 2023 net loans and deposits

- None of our coverage showed an increase in net loans m-m, while deposits rose YTD.
- The rising NIM momentum from the RP rate rise and potential seasonal loan demand should boost 2H23 earnings.
- Cloudy asset quality to obstruct valuation re-rating in the near term. NEUTRAL weighting reiterated, with BBL and KTB as top Buys.

None of our coverage showed an increase in net loans m-m in July 2023

The seven banks under our coverage reported net loans (net of allowances to ECL) for July 2023 of THB10.8t, down 0.8% m-m, 1.2% y-y, and 1.0% YTD. None of the commercial banks showed an increase in net loans in July (m-m growth). BBL, KTB, and KKP all showed a decrease in net loans above the average this month. TISCO, SCB, and KBANK showed the most negligible reduction in net loans, respectively. Most net loan declines were due primarily to decreased corporate loans (BBL, TTB, and KKP) and government loans (KTB). At the same time, SME loans also slightly declined (TTB, TISCO, and KKP), as did retail loans, which showed a slight decline (KBANK and TISCO, while TTB and KKP showed an increase in retail loans).

Deposits decreased m-m and y-y but expanded 1.4% YTD

On the deposit side, in July 2023, the outstanding amount was THB12.32t, decreasing in line with net loans by 0.4% m-m and 1.3% y-y, but still up 1.4% YTD. TTB, SCB, and BBL reported the largest decrease in deposits this month, opposite to KKP, KBANK, and TISCO, which showed the highest increase in deposits, respectively. Most of the decline in deposits occurred in the savings group due to its relatively low interest rate, which has stayed the same in the past. Hence, some saving deposits were migrated to fixed deposits, as most commercial banks had increased their fixed deposits along with the market rate hikes.

Positive view reaffirmed on our 3Q23 performance outlook for the banking sector

We expect solid pre-provision operating profit (PPOP) growth to continue in 3Q23, pushed by the rising NIM momentum. Just as the RP rate's rise on 23 May 2023 benefits banks' NIMs in 3Q23, the upcoming increase should continue to boost NIMs in 4Q23, especially with the loan-demand high season approaching. We expect BBL to post a robust performance in 3Q23 from NIM expansion due to its savings rate cut of 25bp at the end of 2Q23.

Reiterate our NEUTRAL weight Thailand banking sector call

Most banks continue to trade below their five-year average P/BV and under their book value per share (BVS). However, we do not expect the rate hike to trigger a valuation re-rating for the sector in the near term due to the cloudy nature of their asset quality. We extend our BUY call to TTB and SCB despite their upside of less than 10% because we see no changes in their near-term fundamentals. Based on its domestic and overseas banking performance, we retain BBL as our top Buy. We also pick KTB as another top Buy because it focuses more on the high-yield, low-risk segment – private corporate loans.



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Exhibit 1: Thailand banks under coverage – loans in July 2023

	Bangkok Bank	Kasikorn-bank	Kiatnakin Bank	Krung Thai Bank	Siam Commercial Bank	TISCO Financial Group	TMBThanachart Bank	Coverage	Bank of Ayudhya (not rated)
	BBL TB	KBANK TB	KKP TB	KTB TB	SCB TB	TISCO TB	TTB TB		BAY TB
Growth (YTD %)									
Loan	(2.72)	(2.75)	4.80	(1.70)	1.87	5.75	(1.66)	(1.01)	0.36
Deposit	(1.44)	(0.64)	2.46	(0.58)	(4.52)	6.28	(1.64)	1.42	(2.30)
Deposit + Borrowing	(1.42)	0.06	4.39	(0.38)	(2.99)	4.36	(1.58)	1.83	(2.17)
Growth (m-m %)									
Loan	(2.12)	(0.44)	(0.87)	(0.96)	(0.10)	(0.02)	(0.67)	(0.84)	(0.68)
Deposit	(0.85)	0.58	1.68	(0.18)	(1.13)	0.36	(1.43)	(0.43)	(1.75)
Deposit + Borrowing	(1.04)	0.16	0.89	(0.21)	(1.12)	(0.20)	(1.44)	(0.60)	(1.69)
Growth (y-y %)									
Loan	(2.14)	(4.30)	15.13	(3.49)	2.74	13.72	(3.23)	(1.22)	0.51
Deposit	(2.44)	0.63	5.59	(1.25)	(4.46)	21.06	(1.13)	(1.28)	0.06
Deposit + Borrowing	(3.72)	1.26	9.55	(1.49)	(2.96)	18.05	(1.79)	(1.16)	(1.02)
LDR (%)	76.20	81.68	112.98	89.98	93.84	110.40	94.53	87.40	96.83

Sources: Company data; FSSIA's compilation

Exhibit 2: SETBANK's valuation implied from seven banks under coverage, as of 21 Aug 2023

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Net profit (THB m)	167,006	156,017	111,916	145,315	165,338	191,238	207,155	220,136
EPS (THB)	39.6	37.1	25.5	33.2	34.7	40.3	43.6	46.4
Change y-y		-6.3%	-31.1%	29.8%	4.8%	15.9%	8.3%	6.3%
P/E (x)	12.9	11.9	13.2	12.5	11.2	10.1	9.3	8.7
BVS (THB)	391.8	440.0	441.4	473.1	455.1	484.2	512.2	538.6
P/B (x)	1.3	1.0	0.8	0.9	0.9	0.8	0.8	0.8
ROE (%)	10.4	8.9	5.9	7.3	7.8	8.6	8.8	8.8
ROA (%)	1.2	1.1	0.7	0.8	0.9	1.0	1.1	1.1
Dividend yield (%)	2.9	3.8	2.3	2.5	3.6	3.9	4.2	4.4
SETBANK	512	441	337	415	388	405	405	405
Market capitalisation	2,162,251	1,856,858	1,478,189	1,818,296	1,847,854	1,923,981	1,923,981	1,923,981

Sources: Bloomberg; FSSIA estimates

Exhibit 3: Summary of key valuations of Thailand banks under coverage as of 21 Aug 2023

	BBG code	Rec	---Share price---		Up	-- EPS growth --		---- P/E ----		--- PBV ---		-- Div Yld --		--- ROE ---	
			Current	Target	Side	23E	24E	23E	24E	23E	24E	23E	24E	23E	24E
			(THB)	(THB)	(%)	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Bangkok Bank	BBL TB	BUY	171.00	197.00	15	29.4	8.2	8.6	8.0	0.6	0.6	3.4	3.7	7.2	7.3
Kasikornbank	KBANK TB	BUY	129.00	150.00	16	14.0	10.3	7.7	6.9	0.6	0.5	3.7	4.1	7.9	8.2
Kiatnakin Bank	KKP TB	HOLD	58.25	60.00	3	(13.2)	15.3	7.5	6.5	0.8	0.7	5.6	6.0	11.0	11.8
Krung Thai Bank	KTB TB	BUY	19.80	23.10	17	12.2	5.6	7.3	6.9	0.7	0.6	4.0	4.2	9.7	9.6
SCB X*	SCB TB	BUY	113.50	123.00	8	17.8	8.4	8.6	8.0	0.8	0.8	6.4	6.6	9.4	9.7
Tisco Financial	TISCO TB	BUY	100.00	111.00	11	3.3	5.6	10.7	10.2	1.8	1.8	8.0	8.3	17.2	17.8
TMBThanachart Bank*	TTB TB	BUY	1.77	1.83	3	15.9	8.1	10.4	9.6	0.7	0.7	4.8	5.2	7.3	7.6
Banks under coverage						15.9	8.3	10.1	9.3	0.8	0.8	3.9	4.2	8.6	8.8

Note: *We extend our Buy call to TTB and SCB despite their upsides being less than 10% because we see no changes in their near-term fundamentals.

Source: 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).

Corporate Governance Report Disclaimer

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

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. **FSSIA** does not confirm nor certify the accuracy of such survey result.

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 **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. 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: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (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.

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
Bangkok Bank	BBL TB	THB 171.00	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 129.00	BUY	Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) the impact of new regulations from the Bank of Thailand.
Kiatnakin Bank	KKP TB	THB 58.25	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 19.80	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.
SCB X	SCB TB	THB 113.50	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 100.00	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.
TMBThanachart Bank	TTB TB	THB 1.77	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 21-Aug-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.