

Thailand Banks

Loans turned positive in August 2023

- Most banks showed positive loan growth in August 2023, except KBANK.
- We are still positive about the 3Q23E earnings, supported by NIM expansion and lower credit cost.
- Cloudy asset quality to obstruct valuation re-rating in the near term. NEUTRAL weighting reiterated, with BBL and KTB as top Buys.

Most banks showed an increase in net loans, except KBANK

Seven banks under our coverage reported net loans (net of allowances to ECL) for August 2023 of THB10.84t, rising by 0.78% m-m, but slipping 0.74% y-y and 0.24% YTD. Most banks showed an increase in net loan growth in August 2023 (m-m growth), except KBANK, which showed a decrease. KTB, BBL, and TISCO all showed an increase in net loans above the average this month. KKP, SCB, and TTB showed the most negligible increase in net loans, respectively. Most net loan increases were due primarily to increased corporate loans (BBL, KTB, SCB) and government loans (KTB). At the same time, SME loans also slightly declined (SCB, KBANK, TTB), except for TISCO, which posted an increase in this segment (floor plan loans). In contrast, retail loans showed an impressive jump (TISCO, TTB, and KTB, except KKP, SCB, and KBANK, which showed a decrease in retail loans).

Deposits continued to decrease, especially for big banks, except SCB

On the deposit side, in August 2023, the outstanding amount was THB12.28t, decreasing in contrast to net loans by 0.23% m-m and 1.43% y-y, but increased 1.19% YTD. SCB, TISCO, and KKP reported the largest increase in deposits this month, vs TTB, KBANK, and BBL, which showed the highest reduction 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 market rate hikes.

Positive view reaffirmed on our 2023 performance outlook

We reaffirm our positive view on the 3Q23 performance outlook of the banking sector. We expect the 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 PPOP in 3Q23 from NIM expansion due to its savings rate cut of 20bp at the end of 2Q23.

Reiterate our NEUTRAL weight call with BBL and KTB as our top BUYs

We 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. 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 despite its upside of less than 10% as we see no change in its near-term fundamentals. We retain BBL as our top Buy based on its domestic and overseas banking performance. KTB is another top Buy because it focuses on the high-yield, low-risk segment – private corporate loans.



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Exhibit 1: Loan and deposit movement of banks under our coverage in August 2023

	Bangkok Bank	Kasikorn bank	Kiatnakin Bank	Krung Thai Bank	Siam Commercial Bank	TISCO Financial Group	TMB Thanachart Bank	Coverage
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Growth (m-m %)								
Loan	1.59	(0.31)	0.64	1.69	0.49	0.79	0.26	0.78
Deposit	(0.13)	(2.00)	2.07	(0.03)	2.35	2.16	(2.82)	(0.23)
Deposit + Borrowing	(0.00)	(1.90)	1.24	(0.08)	2.29	1.72	(2.83)	(0.22)
Growth (y-y %)								
Loan	(4.47)	(3.93)	11.87	(0.56)	3.98	10.75	(2.31)	(0.74)
Deposit	(0.98)	(0.74)	2.78	(1.74)	(3.13)	15.84	(3.12)	(1.43)
Deposit + Borrowing	(2.20)	0.04	6.21	(2.11)	(1.54)	13.22	(4.01)	(1.30)
Growth (YTD %)								
Loan	(1.17)	(3.05)	5.47	(0.03)	2.37	6.59	(1.40)	(0.24)
Deposit	(1.57)	(2.62)	4.59	(0.61)	(2.28)	8.58	(4.42)	1.19
Deposit + Borrowing	(1.42)	(1.84)	5.69	(0.46)	(0.76)	6.16	(4.36)	1.61
LDR (%)	77.51	83.09	111.39	91.53	92.14	108.92	97.53	88.29

Sources: Company data; FSSIA's compilation

Exhibit 2: 3Q23 earnings preview of Thai banks under coverage

Year end Dec 31	BBL	KBANK	KTB	SCB	TTB	KKP	TISCO	Coverage
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
Net interest income	32,300	38,608	29,348	32,671	14,173	5,760	3,487	156,347
Non-interest income	10,305	10,858	8,012	11,041	3,907	2,066	1,474	47,663
Fee income - net	6,650	7,788	4,862	8,299	2,700	1,516	1,243	33,058
Total operating income	42,605	49,466	37,360	43,712	18,080	7,826	4,961	204,010
Total operating expenses	19,926	21,879	15,135	18,425	8,019	3,858	2,438	89,680
PPOP before tax	22,679	27,587	22,225	25,287	10,061	3,968	2,523	114,330
Expected credit loss	9,000	12,950	7,850	9,500	4,260	2,090	210	45,860
Income tax	2,736	2,796	2,961	3,473	1,114	366	451	13,897
Non-controlling interest	112	750	912	60	0	3	0	1,838
Net profit	10,830	11,092	10,502	12,254	4,687	1,508	1,862	52,735
EPS (THB)	5.674	4.681	0.751	3.639	0.048	1.781	2.326	
Key ratios	3Q23E	3Q23E	3Q23E	3Q23E	3Q23E	3Q23E	3Q23E	3Q23E
Asset quality ratio	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Gross NPLs (THB m)	92,285	95,500	99,310	93,028	40,219	15,628	5,365	441,335
Change (% from prior period)	(1.1)	1.8	0.5	0.0	(1.2)	4.7	5.9	0.4
NPL ratios (%) - reported								
NPL ratio (%)*	3.39	3.88	3.84	3.79	2.93	3.82	2.28	3.61
Coverage ratio (%) - reported							206	
Coverage ratio (%)*	298	139	171	165	144	134	206	186
Credit cost (bp)	133	211	122	156	125	295	36	151
Profitability ratio	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Cost to income ratio	46.8	44.2	40.5	42.2	44.4	49.3	49.1	44.0
Average yield (%)	4.45	4.72	4.49	4.94	4.48	6.39	6.66	4.70
Cost of funds (%)	1.82	1.26	1.30	1.28	1.50	2.01	2.07	1.47
NIM (%) - reported								
NIM (%)*	2.94	3.79	3.37	3.89	3.19	4.64	5.02	3.50
Non-interest income/total income (%)	24.2	22.0	21.4	25.3	21.6	26.4	29.7	23.4
Liquidity ratio	(%)	0.00%	(%)	(%)	(%)	(%)	(%)	(%)
Loan to deposit	85.4	89.9	100.0	100.4	99.3	120.0	117.1	95.0
Loan to deposit & borrowing (LDBR)	80.6	80.4	94.2	96.1	89.7	99.3	109.9	88.1
Capital adequacy ratio	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
CAR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CET 1/ Risk assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tier 2 / Risk assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan growth	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
q-q	0.8	(0.1)	0.2	1.3	0.6	2.5	2.0	0.8
y-y	(2.8)	(1.3)	(1.1)	4.6	(1.6)	13.7	10.3	0.4
Year-to-date	1.4	0.5	(0.4)	3.2	(0.3)	9.5	7.4	1.0

Source: FSSIA estimates

Exhibit 3: Peers comparisons – Thai banks under coverage as of 21 September 2023

	BBG code	Rec	--- Share price ---		Up side (%)	Market Cap (USD m)	EPS growth		----- P/E -----		----- PBV -----		- Div Yld -		----- ROE -----	
			Current (THB)	Target (THB)			23E (%)	24E (%)	23E (x)	24E (x)	23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)
Bangkok Bank	BBL TB	BUY	165.00	197.00	19	8,770	29.4	8.2	8.4	7.8	0.6	0.6	3.5	3.8	7.2	7.3
Kasikornbank	KBANK TB	BUY	127.00	150.00	18	8,287	14.0	10.3	7.7	7.0	0.6	0.5	3.7	4.1	7.9	8.2
Kiatnakin Bank	KKP TB	HOLD	55.75	60.00	8	1,287	(13.2)	15.3	7.4	6.4	0.8	0.7	5.6	6.1	11.0	11.8
Krung Thai Bank	KTB TB	BUY	18.90	23.10	22	7,333	12.2	5.6	7.1	6.8	0.7	0.6	4.1	4.3	9.7	9.6
SCB X	SCB TB	BUY	108.50	123.00	13	9,674	17.8	8.4	8.8	8.1	0.8	0.8	6.3	6.5	9.4	9.7
Tisco Financial	TISCO TB	BUY	100.00	111.00	11	2,217	3.3	5.6	10.7	10.1	1.8	1.8	8.0	8.3	17.2	17.8
TMBThanachart Bank	TTB TB	BUY	1.70	1.83	8	4,544	15.9	8.1	10.1	9.4	0.7	0.7	4.9	5.3	7.3	7.6
Banks under coverage						42,113	15.7	8.3	9.9	9.1	0.8	0.8	4.0	4.2	8.6	8.8

*We extend our BUY call to TTB despite its upside of less than 10% because we see no changes in its near-term fundamentals;
Sources: Bloomberg consensus; 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 50-59), 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
Bangkok Bank	BBL TB	THB 167.00	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 130.50	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 57.75	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 19.30	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 116.00	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.
Tisco Financial	TISCO TB	THB 99.50	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.
TMBThanachart Bank	TTB TB	THB 1.72	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-Sep-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.