

Thailand Banks

October 2023 loan growth turned negative; 10M23 dropped 0.17%

- Most banks showed negative loan growth in October 2023, except TISCO and BBL.
- We are more positive about the 4Q23E earnings, supported by NIM expansion which could offset rising seasonal operating expenses.
- Cloudy asset quality still obstructing valuation re-rating in the near term. NEUTRAL weighting reiterated with KTB and KBANK as top Buys.

Most banks showed a decrease in net loans, except TISCO and BBL

Seven banks under our coverage reported an aggregate net loan value (net of allowances for ECL) for October 2023 of THB10.86t, slipping by 0.74% m-m, 0.57% y-y, and 0.17% YTD. Most banks showed a m-m decrease in net loan growth, except TISCO and BBL, which increased m-m. TTB, SCB and KTB all showed a decrease in net loans above the average this month, while KKP and KBANK showed the most negligible decrease in net loans, respectively. Most net loan decreases were due primarily to a decline in corporate (TTB, KTB, SCB and KBANK) and government loans (KTB). At the same time, SME loans also dipped (KBANK, KKP and TISCO), except for TTB, which posted an increase in this segment. In contrast, high-yield retail loans showed an increase (TISCO and TTB) as well as personal loans (KTB). However, hire-purchase loans, for both new and used cars, showed unimpressive growth for most banks (TTB, KKP and TISCO) due to their prudent credit strategies in this segment.

Deposits continued to grow, except for SCB and KBANK

For October 2023 deposits, the outstanding amount was THB12.42t, increasing in contrast to net loans by 0.46% m-m, but decreasing by 0.83% y-y and increasing by 2.28% YTD. KTB, TISCO and BBL reported the largest increase in deposits this month, in contrast to SCB and KBANK 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 banks had increased their fixed deposits along with market rate hikes.

More positive view on 4Q23 outlook

For the 4Q23 outlook, we expect PPOP to be stable or show slight q-q growth, pushed by rising NIM momentum. In particular, the RP rate increases in August and late September 2023 should fully benefit banks' NIMs in 4Q23 and the coming season when loan demand increases, which could offset the rising seasonal operating expenses. We expect BBL and KTB to post solid performances in 4Q23 from NIM expansion due to ample liquidity.

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

We reiterate our NEUTRAL weight Thailand banking sector call. We are sticking with the big banks and retain KTB as our top BUY based on its focus on the high-yield, low-risk segment – private corporate loans. We are replacing BBL (due to rising concerns over its international business growth in Vietnam and China) with KBANK as another top BUY despite its poor asset quality. The current share price, which still lags the sector's average, has already factored in the negatives, in our view.



Usanee Liurut, CISA

Fundamental Investment Analyst on Capital Market; License no. 017928
 usanee.l@fssia.com, +66 2646 9967

Maeta CherdSATIRAKUL

Research Assistant
 maeta.c@fssia.com, +66 2646 9971

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

	BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Coverage
Growth (m-m %)								
Loan	0.05	(0.23)	(0.54)	(1.19)	(1.20)	0.23	(1.47)	(0.74)
Deposit	0.42	(0.36)	0.34	2.57	(0.81)	1.16	0.41	0.46
Deposit + Borrowing	(0.36)	(0.60)	0.89	2.47	(0.78)	1.62	0.37	0.25
Growth (y-y %)								
Loan	(4.56)	(3.70)	8.01	1.65	3.56	8.85	(3.16)	(0.57)
Deposit	(0.97)	(2.12)	0.83	(1.26)	0.91	9.70	(2.17)	(0.83)
Deposit + Borrowing	(0.39)	(1.39)	4.85	(1.62)	2.21	7.68	(3.18)	(0.38)
Growth (YTD %)								
Loan	0.44	(3.64)	5.52	0.20	2.13	6.99	(2.46)	(0.17)
Deposit	(1.24)	(3.06)	6.01	3.45	(1.16)	7.90	(4.52)	2.28
Deposit + Borrowing	(0.02)	(2.36)	6.98	3.60	0.43	5.83	(4.42)	2.95
LDR (%)	78.51	82.96	109.95	88.15	90.88	110.02	96.58	87.40

Sources: Company data; FSSIA's compilation

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

Year end 31 Dec	3Q22	4Q22	1Q23	2Q23	3Q23	--- Change ---		9M23	Change	%of	2023E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y %)	23E	(THB m)	(y-y %)
Net interest income	131,157	143,245	141,527	149,784	157,561	5.2	20.1	448,873	20.1	75.3	596,124	15.3
Non-interest income	46,262	46,816	49,994	50,687	44,609	(12.0)	(3.6)	145,290	3.8	77.1	188,447	0.9
Fee income - net	35,253	34,391	34,453	32,865	33,258	1.2	(5.7)	100,576	(4.3)	73.7	136,383	(2.2)
Total operating income	177,419	190,061	191,521	200,471	202,170	0.8	14.0	594,162	15.7	75.7	784,570	11.5
Total operating expenses	79,219	91,467	81,874	86,033	88,639	3.0	11.9	256,546	12.3	73.5	349,201	9.1
PPOP before tax	98,199	98,593	109,647	114,438	113,532	(0.8)	15.6	337,616	18.4	77.5	435,369	13.5
Expected credit loss	38,822	52,559	44,726	47,701	48,343	1.3	24.5	140,769	23.2	72.9	193,102	15.7
Income tax	13,346	10,741	12,922	12,837	13,233	3.1	(0.9)	38,992	11.3	80.7	48,335	5.6
Non-controlling interest	1,470	2,199	1,895	1,758	1,490	(15.3)	1.4	5,143	45.8	79.7	6,449	12.6
Net profit	44,561	33,094	50,104	52,141	50,467	(3.2)	13.3	152,712	15.5	81.5	187,484	13.4
EPS (THB)	9.36	6.95	10.53	10.96	10.60	(3.2)	13.3	32.09	15.5	81.3	39.48	13.6
Key ratios												
Asset quality ratio	3Q22	4Q22	1Q23	2Q23	3Q23	--- Change ---		9M23	Change		2023E	
	(%)	(%)	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y %)		(%)	
Gross NPLs (THB m)	449,730	445,464	444,054	439,669	436,408	(0.7)	(3.0)	436,408	(3.0)		460,057	
Change (% from prior period)	(6.1)	(0.9)	(0.3)	(1.0)	(0.7)						3.3	
NPL ratio (%)*	3.69	3.68	3.69	3.62	3.56			3.56			3.65	
Coverage ratio (%)*	175	179	183	183	186			186			180	
Credit cost (bp)	128	173	148	158	159			154			156	
Profitability ratio	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Cost to income ratio	44.7	48.1	42.7	42.9	43.8			43.2			44.5	
Average yield (%)	3.67	4.02	4.22	4.50	4.73			4.51			4.35	
Cost of funds (%)	0.82	0.94	1.25	1.38	1.46			1.37			1.28	
NIM (%)*	2.99	3.25	3.19	3.37	3.53			3.38			3.30	
Non-interest income/total income (%)	26.1	24.6	26.1	25.3	22.1			24.5			24.0	
Liquidity ratio	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Loan to deposit	94.8	93.0	92.7	94.2	95.0			95.0			93.6	
Loan to deposit & borrowing (LDBR)	88.2	87.3	86.8	87.7	88.1			88.1			87.8	
Capital adequacy ratio	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
CAR	19.2	19.1	19.1	19.3	19.5			19.5			19.3	
CET 1/ Risk assets	15.7	15.9	15.9	16.0	16.3			16.3			16.1	
Tier 2 / Risk assets	2.8	2.6	2.6	2.6	2.6			2.6			2.5	
Loan growth	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
q-q	1.0	(0.6)	(0.6)	0.8	0.8							
y-y	4.5	2.5	1.0	0.6	0.5						4	
Year-to-date	3.1	2.5	(0.6)	0.2	1.0			1.0				

Source: FSSIA estimates

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

Company name	code	Rec	Share price (LCY)	Target price (LCY)	Up side (%)	Market Cap. (USD m)	----- PE -----		----- PBV -----		----- ROE -----		---- Div yld ----	
							23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)
Thailand														
Bangkok Bank	BBL TB	BUY	152.00	208	37	8,241	7.7	7.1	0.5	0.5	7.2	7.3	3.8	4.1
Kasikornbank	KBANK TB	BUY	131.50	160	22	8,850	7.8	7.1	0.6	0.5	7.9	8.2	3.7	4.0
Krung Thai Bank	KTB TB	BUY	18.30	23	26	7,265	6.8	6.4	0.6	0.6	9.7	9.6	4.3	4.5
SCB X	SCB TB	BUY	99.25	121	22	9,492	8.1	7.5	0.7	0.7	8.7	9.1	7.3	7.6
TMBThanachart Bank	TTB TB	BUY	1.56	2	17	4,292	9.2	8.5	0.7	0.6	7.3	7.6	5.4	5.9
Kiatnakin Bank	KKP TB	HOLD	50.50	55	9	1,215	7.2	6.3	0.7	0.7	10.0	10.7	6.4	6.1
Tisco Financial Group	TISCO TB	BUY	98.50	111	13	2,240	10.6	10.0	1.8	1.8	17.2	17.8	8.1	8.4
Thailand weighted average					24	41,595	9.7	9.0	0.8	0.8	8.6	8.8	4.0	4.3

Sources: Bloomberg consensus; FSSIA estimates

Disclaimer for ESG scoring

ESG score	Methodology	Rating																			
The Dow Jones Sustainability Indices (DJSI) By S&P Global	The DJSI World applies a transparent, rules-based component selection process based on the companies' Total Sustainability Scores resulting from the annual S&P Global Corporate Sustainability Assessment (CSA). Only the top-ranked companies within each industry are selected for inclusion.	Be a member and invited to the annual S&P Global Corporate Sustainability Assessment (CSA) for DJSI. Companies with an S&P Global ESG Score of less than 45% of the S&P Global ESG Score of the highest scoring company are disqualified. The constituents of the DJSI indices are selected from the Eligible Universe.																			
Sustainability Investment List (THSI) by The Stock Exchange of Thailand (SET)	THSI quantifies responsibility in Environmental and Social issues by managing business with transparency in Governance, updated annually. Candidates must pass the preemptive criteria, with two crucial conditions: 1) no irregular trading of the board members and executives; and 2) free float of >150 shareholders, and combined holding must be >15% of paid-up capital. Some key disqualifying criteria include: 1) CG score of below 70%; 2) independent directors and free float violation; 3) executives' wrongdoing related to CG, social & environmental impacts; 4) equity in negative territory; and 5) earnings in red for > 3 years in the last 5 years.	To be eligible for THSI inclusion , verified data must be scored at a minimum of 50% for each indicator, unless the company is a part of DJSI during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality. SETTHSI Index is extended from the THSI companies whose 1) market capitalization > 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.																			
CG Score by Thai Institute of Directors Association (Thai IOD)	An indicator of CG strength in sustainable development, measured annually by the Thai IOD, with support from the Stock Exchange of Thailand (SET). The results are from the perspective of a third party, not an evaluation of operations.	Scores are rated in six categories: 5 for Excellent (90-100), 4 for Very Good (80-89), 3 for Good (70-79), 2 for Fair (60-69), 1 for Pass (50-59), and not rated for scores below 50. Weightings include: 1) the rights; 2) and equitable treatment of shareholders (weight 25% combined); 3) the role of stakeholders (25%); 4) disclosure & transparency (15%); and 5) board responsibilities (35%).																			
AGM level By Thai Investors Association (TIA) with support from the SEC	It quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and information is transparent and sufficiently disclosed. All form important elements of two out of five the CG components to be evaluated annually. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). <i>(The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating 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.)</i>	The scores are classified into four categories: 5 for Excellent (100), 4 for Very Good (90-99), 3 for Fair (80-89), and not rated for scores below 79.																			
Thai CAC By Thai Private Sector Collective Action Against Corruption (CAC)	The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. The Certification is good for three years. <i>(Companies deciding to become a CAC certified member start by submitting a Declaration of Intent to kick off an 18-month deadline to submit the CAC Checklist for Certification, including risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.)</i>	The document will be reviewed by a committee of nine professionals. A passed Checklist will move for granting certification by the CAC Council approvals whose members are twelve highly respected individuals in professionalism and ethical achievements.																			
Morningstar Sustainalytics	The Sustainalytics' ESG risk rating provides an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. <i>Sources to be reviewed include corporate publications and regulatory filings, news and other media, NGO reports/websites, multi-sector information, company feedback, ESG controversies, issuer feedback on draft ESG reports, and quality & peer reviews.</i>	A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored. <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>NEGL</th> <th>Low</th> <th>Medium</th> <th>High</th> <th>Severe</th> </tr> </thead> <tbody> <tr> <td>0-10</td> <td>10-20</td> <td>20-30</td> <td>30-40</td> <td>40+</td> </tr> </tbody> </table>	NEGL	Low	Medium	High	Severe	0-10	10-20	20-30	30-40	40+									
NEGL	Low	Medium	High	Severe																	
0-10	10-20	20-30	30-40	40+																	
ESG Book	The ESG score identifies sustainable companies that are better positioned to outperform over the long term. The methodology considers the principle of financial materiality including information that significantly helps explain future risk-adjusted performance. Materiality is applied by over-weighting features with higher materiality and rebalancing these weights on a rolling quarterly basis.	The total ESG score is calculated as a weighted sum of the features scores using materiality-based weights. The score is scaled between 0 and 100 with higher scores indicating better performance.																			
MSCI	MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. <table border="1" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td>AAA</td> <td>8.571-10.000</td> <td rowspan="3">Leader:</td> <td rowspan="3">leading its industry in managing the most significant ESG risks and opportunities</td> </tr> <tr> <td>AA</td> <td>7.143-8.570</td> </tr> <tr> <td>A</td> <td>5.714-7.142</td> </tr> <tr> <td>BBB</td> <td>4.286-5.713</td> <td rowspan="3">Average:</td> <td rowspan="3">a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</td> </tr> <tr> <td>BB</td> <td>2.857-4.285</td> </tr> <tr> <td>B</td> <td>1.429-2.856</td> </tr> <tr> <td>CCC</td> <td>0.000-1.428</td> <td>Laggard:</td> <td>lagging its industry based on its high exposure and failure to manage significant ESG risks</td> </tr> </tbody> </table>	AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities	AA	7.143-8.570	A	5.714-7.142	BBB	4.286-5.713	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers	BB	2.857-4.285	B	1.429-2.856	CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks
AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities																		
AA	7.143-8.570																				
A	5.714-7.142																				
BBB	4.286-5.713	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers																		
BB	2.857-4.285																				
B	1.429-2.856																				
CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks																		
Moody's ESG solutions	Moody's assesses the degree to which companies take into account ESG objectives in the definition and implementation of their strategy policies. It believes that a company integrating ESG factors into its business model and relatively outperforming its peers is better positioned to mitigate risks and create sustainable value for shareholders over the medium to long term.																				
Refinitiv ESG rating	Designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data. The score ranges from 0 to 100 on relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly. <i>(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)</i>																				
S&P Global	The S&P Global ESG Score is a relative score measuring a company's performance on and management of ESG risks, opportunities, and impacts compared to its peers within the same industry classification. The score ranges from 0 to 100.																				
Bloomberg	ESG Score	Bloomberg score evaluating the company's aggregated Environmental, Social and Governance (ESG) performance. The score is based on Bloomberg's view of ESG financial materiality. The score is a weighted generalized mean (power mean) of Pillar Scores, where the weights are determined by the pillar priority ranking. Values range from 0 to 10; 10 is the best.																			
Bloomberg	ESG Disclosure Score	Disclosure of a company's ESG used for Bloomberg ESG score. The score ranges from 0 for none to 100 for disclosure of every data point, measuring the amount of ESG data reported publicly, and not the performance on any data point.																			

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"**; 2) **"AGM Level"**; 3) **"Thai CAC"**; and 4) **THSI**. The ratings are updated on an annual basis. FSSIA does not confirm nor certify the accuracy of such ratings.

Source: FSSIA's compilation

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.

This report has been prepared by FSS International Investment Advisory Securities Company Limited (FSSIA). The information herein has been obtained from sources believed to be reliable and accurate; however FSSIA makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSSIA has no intention to solicit investors to buy or sell any security in this report. In addition, FSSIA does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSSIA. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

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

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.