29 OCTOBER 2024

EQUITIES RESEARCH

FINANSIA
FSS INTERNATIONAL INVESTMENT ADVISORY

# Thailand Banks

## สินเชื่อน่าจะกลับมาโตใหม่พร้อมคุณภาพสินทรัพย์ที่ดีขึ้น

- เรามีมุมมองเป็นบวกเกี่ยวกับการฟื้นตัวทางเศรษฐกิจของไทยในปี 2025-26 โดยเฉพาะในด้านการลงทุนในโครงการขนาดใหญ่ที่กำลังจะมาถึงซึ่งน่าจะส่งสัญญาณความต้องการสินเชื่อบรรษัทของธนาคารต่าง ๆ
- คุณภาพสินทรัพย์อ่อนตัวลงต่อเนื่องแต่ยังอยู่ในระดับที่จัดการได้และมีความกังวลที่ลดลง
- คงให้น้ำหนักเท่ากับตลาดโดยยังเลือก KTB และ BBL เป็นหุ้นเด่น นอกจากนี้เรายังแนะนำซื้อสำหรับ KBANK และ TTB

### ผลของมาตรการกระตุ้นเศรษฐกิจเอื้อต่อการเติบโตของสินเชื่อในปี 2025 ส่วนมากในกลุ่มสินเชื่อบรรษัท

ธปท. คาดว่าเศรษฐกิจในปี 2024-25 จะโต 2.7% y-y และ 2.9% y-y ตามลำดับโดยปัจจัยหนุนการเติบโตสำคัญมาจากการฟื้นตัวอย่างต่อเนื่องในภาคการท่องเที่ยว การเติบโตของการบริโภคในภาคเอกชน การใช้จ่ายภาครัฐที่สูงขึ้นตาม พรบ. งบประมาณปี 2024 ซึ่งมีผลในปลายเดือน เม.ย. 2024 และมาตรการกระตุ้นเศรษฐกิจของรัฐบาลในช่วงที่เหลือของปี 2024 ความคาดหวังเกี่ยวกับแผนการลงทุนขนาดใหญ่ของรัฐบาลน่าจะผลักดันการเติบโตใหม่ของไทย ความสำเร็จของ 2 โครงการดังกล่าวอาจช่วยกระตุ้นการลงทุนในภาคเอกชนและเพิ่มความต้องการสำหรับสินเชื่อธนาคารในปี 2025 โดยเฉพาะในกลุ่มสินเชื่อบรรษัทโดยอาจทำให้สินเชื่อโตสูงกว่าสมมติฐาน Conservative ของเราในปัจจุบันที่ 2.1% y-y

### คุณภาพสินทรัพย์อยู่ในระดับที่จัดการได้ คาดต้นทุนความเสี่ยงในการปล่อยสินเชื่อจะลดลงในปี 2025-26

คุณภาพสินทรัพย์รวมน่ากังวลน้อยลงใน 3Q24 โดยยังไม่มีสัญญาณความเสี่ยงในกลุ่มสินเชื่อบรรษัทขนาดใหญ่ การก่อตัวของหนี้ด้อยคุณภาพ (NPL) ใหม่และสินเชื่อขั้นที่ 2 เพิ่มต่อเนื่องจากเศรษฐกิจที่ฟื้นตัวช้าและไม่สม่ำเสมอรวมถึงหนี้ครัวเรือนที่อยู่ในระดับสูง อย่างไรก็ดีเรามองว่ายังอยู่ในระดับที่จัดการได้ ธนาคารส่วนมากได้บริหารหนี้เชิงรุกโดยคงเป้าประมาณการต้นทุนความเสี่ยงในการปล่อยสินเชื่อ (Credit cost) ไว้ในระดับสูงที่ 161bp ในปี 2024 ก่อนลดลงเป็น 154bps ในปี 2025 และ 146bps ในปี 2026 ตามสัดส่วนหนี้ด้อยคุณภาพ (NPL ratio) ที่เราคาดว่าจะค่อย ๆ ลดลงเหลือ 3.67% ในปี 2026

### รายได้ดอกเบี้ยสุทธิและค่าธรรมเนียมจะกลับมาเป็นปัจจัยหนุนสำคัญสำหรับประมาณการกำไรสุทธิปี 2025-26

เราคาดกำไรสุทธิรวมปี 2024 ของธนาคารที่เราทำการศึกษาอยู่ที่ 200.4พัน ลบ. เพิ่มขึ้น 2.6% y-y ส่วนมากจากผลของฐานสูงในปี 2023 การเติบโตของสินเชื่อที่ชะลอตัวตามมาตรการควบคุมคุณภาพสินเชื่อด้วยความระมัดระวังและผลขาดทุนทางเครดิตที่คาดว่าจะเกิดขึ้น (ECL) และ Credit cost ที่อยู่ในระดับสูงอย่างต่อเนื่อง สำหรับปี 2025-26 เราประมาณการกำไรสุทธิเติบโต 5.7-6.8% y-y โดยคาดว่ามี Upside จากสมมติฐานที่ Conservative ในด้านสินเชื่อ รายได้ค่าธรรมเนียมและ Credit cost ที่ลดลงอย่างค่อยเป็นค่อยไป เนื่องจากยังไม่ได้รวมปัจจัยบวกที่คาดว่าจะเกิดขึ้นจากมาตรการกระตุ้นเศรษฐกิจของรัฐบาลที่กำลังจะเกิดขึ้นและ รวมถึงแรงกดดันจากการลดอัตราดอกเบี้ยนโยบายครั้งล่าสุด

### คงให้น้ำหนักเท่ากับตลาดโดยมี KTB และ BBL เป็นหุ้นเด่น

เราคงให้น้ำหนักกลุ่มธนาคารเท่ากับตลาดโดยมีปัจจัยหนุนจากการเติบโตของกำไรสุทธิในปี 2025-26 นอกจากนี้เรายังคาดด้วยว่าผลตอบแทนในรูปเงินปันผลจะสูงขึ้นโดยเฉลี่ยของกลุ่มฯ อยู่ที่ 5.2-5.9% เทียบกับ 2.5-4.5% ในช่วง 3 ปีที่ผ่านมา หุ้นเด่นของเราประกอบด้วย KTB (TP 23.50 บาท) และ BBL (TP 184 บาท) ซึ่งน่าจะได้ประโยชน์สูงสุดจากรอบการลงทุนใหม่ นอกจากนี้เรายังแนะนำซื้อ KBANK (TP 192 บาท) นอกจากการเติบโตของกำไรสุทธิที่คาดว่าจะโตสูงในปี 2025-26 แล้วเราเชื่อว่าธนาคารฯ เหมาะสมที่จะมี Valuation ที่มี Premium จากคะแนน ESG ที่สูงที่สุดในกลุ่มฯ เราแนะนำซื้อ TTB (TP 2.52 บาท) จากผลตอบแทนในรูปเงินปันผลที่น่าสนใจที่ 6-7% ต่อปี ท้ายที่สุดเราเลือก SCB (TP 112 บาท) เป็นหุ้นปันผลจากผลตอบแทนที่โดดเด่นโดยคาดว่าจะอยู่ที่ 10-11% ต่อปีภายใต้สมมติฐานอัตราการจ่ายเงินปันผลที่ 80%


**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




บทวิเคราะห์ฉบับนี้แปลมาจากต้นฉบับภาษาอังกฤษ ที่ออกรายงานเมื่อวันที่ 29 ตุลาคม 2024

## Anticipate a gradual recovery in the Thai economy

After a strong start in 1H24, with an average quarterly increase of 1.2% q-q, we maintain our positive outlook on the Thai economy, supported by a K-shaped recovery. The BoT forecasts 2024 GDP growth at 2.7% y-y, up from 1.9% y-y in 2023, implying that Thai GDP will grow by 2.7% y-y and 3.6% y-y each quarter in 2H24, driven by 1) a continued recovery in the tourism sector; 2) private consumption growth, particularly in the service sector, though at a slower pace compared to 2023 due to debt burdens and incomplete income recovery; 3) increased government spending after the 2024 Budget Act came into effect in late April 2024; and 4) the government's economic stimulus measures both in the short and long term.

### Exhibit 1: NESDC and BoT economic projections

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | ---- NESDC ---- 2024E | ---- Bank of Thailand ---- 2024E | 2025E |
|---|---|---|---|---|---|---|---|---|---|
| | (y-y%) | (y-y%) | (y-y%) | (y-y%) | (y-y%) | (y-y%) | (y-y%) | (y-y%) | (y-y%) |
| Real GDP growth | 4.2 | 2.3 | (6.4) | 1.5 | 2.6 | 1.9 | 2.3-2.8 | **2.7** | **2.9** |
| Private consumption | 4.6 | 4.0 | (0.8) | 0.6 | 6.3 | 7.1 | 4.5 | **4.2** | **2.5** |
| Private investment | 4.1 | 2.7 | (8.1) | 3.0 | 5.1 | 3.2 | 0.3 | **(2.8)** | **2.9** |
| Public consumption | 2.6 | 1.7 | 1.4 | 3.7 | (0.0) | (4.6) | 1.7 | **2.0** | **2.6** |
| Public investment | 2.8 | 0.1 | 5.1 | 3.4 | (4.9) | (4.6) | (0.7) | **1.1** | **4.5** |
| Export value growth (USD b) | 7.5 | (3.3) | (6.5) | 19.2 | 5.5 | (1.7) | 2.0 | **4.8** | **2.8** |
| Headline inflation | 1.1 | 0.7 | (0.8) | 1.2 | 6.1 | 1.2 | 0.4-0.9 | **0.5** | **1.2** |
| Current account to GDP (%) | 5.6 | 7.0 | 4.2 | (2.0) | (3.2) | 1.3 | 2.3 | **-** | **-** |
| Number of tourist arrivals (m) | 38.2 | 39.9 | 0.0 | 0.4 | 11.2 | 28.1 | 36.5 | **36.0** | **39.5** |

Sources: NESDC and BoT

High expectations surround the government's plans for large-scale investment projects to drive new growth for Thailand. These include 1) the Southern Economic Corridor (Landbridge Project) with a project value of THB1t; and 2) an entertainment complex project valued at THB300-500b. Successful execution of these two projects could boost private sector investment and increase demand for bank loans in 2025, potentially resulting in growth that exceeds our current conservative estimate of 2.1% y-y.

However, several persistent challenges continue to pressure economic growth, including 1) a high possibility that Thailand could face a trade deficit for the third consecutive year due to declining competitiveness in the global trade market, driven by the influx of Chinese products, while the country must continue to import energy and essential goods at high values; 2) rising costs impacting the business sector, driven by increases in energy prices and the minimum wage; 3) the Thai economy grappling with elevated household debt while adjusting to the responsible lending measures that have been in effect since January 2024; and 4) slowing domestic demand, mainly from reduced spending on vehicles and real estate.

While economic concerns persist over the divergence in household income recovery in 1H24, particularly for low-income households with higher debt burdens, the BoT's measures are in place to address these issues. The ongoing debt deleveraging and the measures to align bank-lending practices with borrowers' debt repayment capacity and facilitate debt restructuring provide a sense of security. Programs include a restructuring initiative accessible to debtors experiencing initial difficulties before classification as non-performing loans (NPLs) and those already classified as NPLs, namely one before and one after.

Although this program is the main reason for the slowdown in loan growth for financial institutions, we have a favorable view of this measure despite a downturn in sales and bad debt write-offs; it potentially leads to lower new NPL formation than it should, which will probably not affect financial institutions' (FIs) NPLs in the end.

Furthermore, an established program can resolve persistent debt by converting high-interest revolving personal loans into lower-interest installment loans with terms and conditions that enable debtors to repay within five years. However, the results were ineffective since the credit bureau must blacklist the debtors, who must not incur additional debt.

## Corporate loans to be a growth driver in 2025

Since the alleviation of the Covid-19 pandemic in 2022, aggregate loans have grown continually but at a sluggish pace, and were almost stable in 2023. Additionally, the responsible lending measures implemented by the BoT since early 2024 have unavoidably contributed to a slowdown in aggregate loan growth, as FIs have had to extend loans while also considering the financial status of debtors, ensuring they do not encourage excessive borrowing.

1H24 loans were also stable from the end of 2023. Although the corporate segment could increase following the loan demand concentrating on manufacturing and wholesale and retail sale operators for short-term working capital and long-term loans, it was offset by the high level of debt repayment. In addition, the contraction of SMEs and retail loans, mainly from their deteriorated credit quality, also pressured overall loan growth.

Including anticipated significant bad debt write-offs and sales by financial institutions, we expect aggregate loans to grow 1.5% y-y and 2.1% y-y in 2024-25, slightly below the BoT's GDP forecast at 2.7% y-y and 2.9% y-y during the same period. However, the predicted growth in 2024 could be concentrated in 2H24 following the flat level YTD.

When examining individual banks, large banks lead the group's projected loan growth during this period, while mid-sized and smaller banks (TTB, KKP) show slower growth. TISCO, however, should benefit from expanding its high-yield loan portfolio, particularly auto title loans (18%), which account for a more significant proportion than at TTB (4%) and KKP.

### Exhibit 2: Loan growth of banks under coverage, 2018-2026E

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|---|
| **Loans growth (%)** | | | | | | | | | |
| BBL | 4.0 | (1.0) | 14.9 | 9.3 | 3.6 | (0.4) | 3.0 | 3.0 | 3.0 |
| KBANK | 6.2 | 4.6 | 12.1 | 7.9 | 3.0 | (0.2) | 2.5 | 3.0 | 3.0 |
| KTB | 4.4 | 3.3 | 11.7 | 12.6 | (1.4) | (0.6) | 1.0 | 1.0 | 1.0 |
| SCB | 5.2 | (1.3) | 6.7 | 2.1 | 3.3 | 2.1 | 2.5 | 2.5 | 2.5 |
| TTB | 6.6 | 103.0 | 0.1 | (1.6) | 0.4 | (3.5) | (6.0) | 0.5 | 0.5 |
| KKP | 18.6 | 4.1 | 11.7 | 15.9 | 23.0 | 5.7 | (3.0) | (1.0) | 0.0 |
| TISCO | (4.3) | 0.9 | (7.4) | (9.7) | 7.9 | 7.2 | 2.0 | 3.0 | 5.0 |
| **Coverage** | **5.1** | **8.8** | **9.3** | **6.6** | **2.5** | **0.1** | **1.2** | **2.1** | **2.2** |

Sources: Company data; FSSIA estimates

The main contributor comes from the corporate segment (51% of total), with expected 6-7% y-y growth, lower than their double-digit average during 2010-13. This is due to the structural headwinds and deteriorating competitiveness that have limited the benefits of the global economic recovery on the Thai economy.

Meanwhile, we expect SME loans (18%) to plunge continually by c4-5% y-y because of their financial condition and debt serviceability. However, we have seen a growth opportunity from the "sustainable finance transition" enacted by the BoT to support SMEs transitioning to sustainable business practices and adhering to environmental, social, and governance (ESG) standards.

Besides the energy and transport sector in the first phase commencing in 2023, the regulator wants banks to pay greater attention to four industries: manufacturing, agriculture, waste management, and building and construction in the second phase, starting in 4Q24. However, we anticipate a minor impact on NIM following the special interest rate and attractive loan conditions.

In addition, we expect retail loans to contract c2% y-y, dragged by hire purchases (6%), particularly with the new car segment, credit card (1%), and personal loans (1%) – the unsecured segment – following their credit quality deteriorations.

## Exhibit 3: Aggregate banks – loan breakdown, 2016-2Q24

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1Q24 | 2Q24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Corporate | 34% | 37% | 35% | 35% | 49% | 49% | 50% | 51% | 51% | 51% |
| SME | 35% | 34% | 34% | 32% | 20% | 20% | 19% | 18% | 18% | 18% |
| Retail | 30% | 29% | 31% | 33% | 31% | 31% | 31% | 31% | 31% | 31% |
| Housing | 15% | 15% | 15% | 16% | 15% | 15% | 15% | 15% | 15% | 16% |
| Hire purchase | 7% | 7% | 8% | 8% | 7% | 7% | 7% | 7% | 7% | 6% |
| Credit card | 2% | 2% | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 1% |
| Personal loans - unsecured | 1% | 1% | 1% | 2% | 1% | 1% | 1% | 1% | 1% | 1% |
| Personal loans - secured | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Others | 5% | 5% | 5% | 5% | 5% | 6% | 6% | 6% | 7% | 7% |
| **Total loans** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| % Growth | | | | | | | | | | |
| Corporate | 2.7% | 16.7% | -2.2% | 4.3% | 48.9% | 7.2% | 3.3% | 3.4% | -0.9% | 0.4% |
| SME | 1.2% | 3.0% | 2.9% | -1.7% | -32.9% | 4.9% | 0.7% | -5.5% | -4.7% | -3.9% |
| Retail | 4.9% | 6.1% | 9.3% | 7.5% | 4.5% | 4.0% | 3.1% | 2.3% | 1.1% | 0.0% |
| Housing | 6.2% | 5.7% | 8.1% | 5.5% | 5.9% | 4.4% | 3.2% | 1.4% | 1.1% | 0.9% |
| Hire purchase | 1.4% | 8.4% | 12.6% | 7.7% | 2.4% | 0.1% | 0.3% | -0.4% | -3.0% | -6.2% |
| Credit card | 6.5% | 8.2% | 7.4% | 10.3% | -2.3% | 2.2% | -13.1% | 2.0% | -0.3% | -2.4% |
| Personal loans - unsecured | -0.6% | -0.5% | 7.3% | 32.2% | -12.5% | 6.5% | -10.9% | 0.1% | -6.7% | 1.2% |
| Personal loans - secured | N/A | N/A | N/A | N/A | -3.9% | -1.9% | 19.4% | 18.3% | 13.7% | 10.6% |
| Others | 7.1% | 4.8% | 9.6% | 2.2% | 10.8% | 8.5% | 13.7% | 7.5% | 7.0% | 4.2% |
| **Total loans** | **4.9%** | **6.1%** | **9.3%** | **7.5%** | **4.5%** | **4.0%** | **3.1%** | **2.3%** | **1.1%** | **0.0%** |

Sources: Company data; FSSIA's compilation

## Expect manageable NIM in 2025

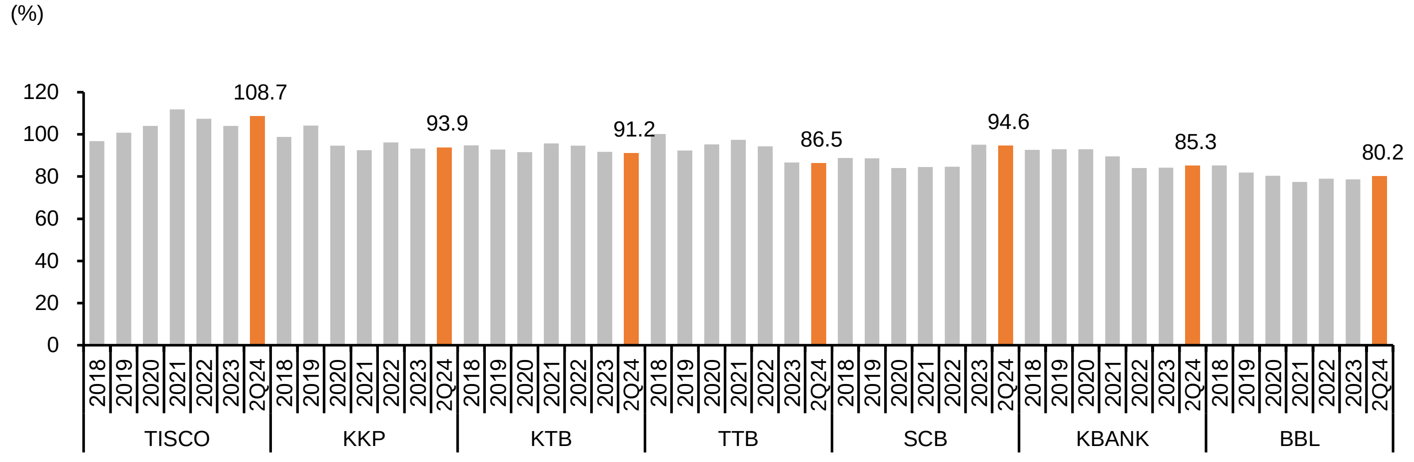
Since Thailand's first interest rate hikes in 4Q22, the aggregate NIM has changed in the same direction. It peaked at 3.60% in 4Q23 and gradually weakened to 3.46% in 2Q24. The aggregate earning asset yields increased and peaked in 4Q23, while the cost of funds continues to surge, particularly for the small banks TISCO and KKP, whose cost of funds we expect to rise the highest in 2H24.

### Exhibit 4: Aggregate banks – breakdown of deposits, 1Q22-2Q24

| | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Deposits** | | | | | | | | | | |
| Current | 6% | 6% | 6% | 6% | 6% | 6% | 6% | 6% | 6% | 6% |
| Saving | 65% | 66% | 66% | 65% | 65% | 64% | 63% | 63% | 62% | 62% |
| Fixed+CD/NCD | 29% | 28% | 28% | 28% | 29% | 30% | 31% | 31% | 32% | 32% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| | | | | | | | | | | |
| Deposits | 89% | 89% | 89% | 89% | 89% | 88% | 88% | 87% | 87% | 87% |
| Interbank | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 8% | 8% | 8% |
| Debentures | 4% | 4% | 4% | 4% | 4% | 5% | 5% | 5% | 4% | 4% |
| | | | | | | | | | | |
| **Total funding** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |
| | | | | | | | | | | |
| Earning assets | | | | | | | | | | |
| Loans | 69% | 70% | 70% | 69% | 69% | 69% | 70% | 68% | 69% | 69% |
| Interbank | 15% | 15% | 14% | 15% | 16% | 15% | 15% | 16% | 14% | 14% |
| Investment | 15% | 15% | 16% | 16% | 15% | 15% | 16% | 16% | 17% | 17% |
| | | | | | | | | | | |
| **Total earning assets** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

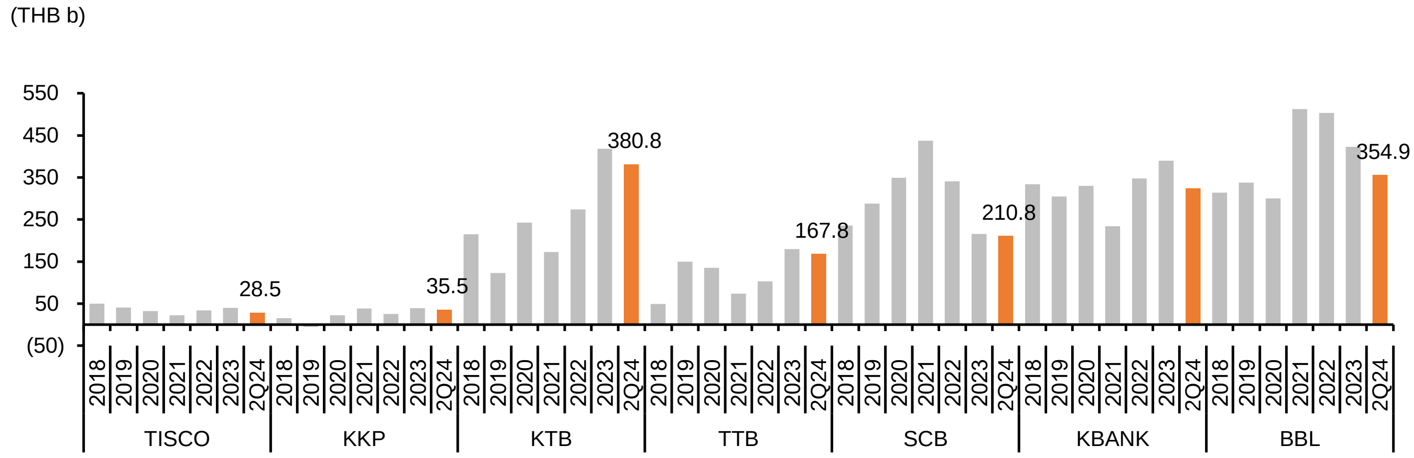
Sources: Company data; FSSIA's compilation

### Exhibit 5: LDBR of Thai banks under coverage, 2018-2Q24




Sources: Company data; FSSIA's compilation

**Exhibit 6: Net lending position in interbank market of Thai banks under coverage, 2018-2Q24**




Sources: Company data; FSSIA's compilation

Considering the structure of earning assets, there have been exciting changes in the interbank lending and investment segments during the interest rate hikes, as shown in Exhibit 6. Commercial banks lent more money in the money market to receive positive results from suddenly changing interest rates. However, this proportion began to decrease when interest rates began to stabilize. Meanwhile, we observed an increase in investment, particularly in the fixed-income segment, due mainly to the expected downward direction of interest rates.

The proportion of loans was relatively stable at around 69%, but their components changed during 2019-23. The low-yield large corporate loans increased significantly from 35% at the end of 2019 to 51% of total loans at the end of 2Q24, while the high-yield SME and retail loans decreased. SME loans considerably reduced from 32% to only 18%, and retail loans declined from 33% to 31%. Such changes also pressured the aggregate loan yields, excluding the benefit of increased market interest rates during 2023.

Regarding the aggregate deposit mix, term deposits continued to increase to 32% of total at 2Q24 vs 29% at 1Q22, aligning with the rising interest rate in 2023, where the saving deposit interest rate was relatively stable. Consequently, aggregate deposit costs surged and impacted the NIM, particularly for medium and small banks with fewer CASA deposits than large banks.

When considering the funding structure between 1Q22 and 2Q24, deposits decreased to 87% in 2Q24 from 89% of total funding in 1Q22. This trend aligns with the sluggish loan growth during the same period, helping most banks to avoid acquiring deposits aggressively. The proportion of savings deposits declined to 62% from 65% in 1Q22 because, during the period of rising interest rates, most banks barely raised interest rates for this type of deposit, mainly to avoid significantly impacting their deposit costs.

However, fixed deposits increased from 29% to 32% in 2Q24, mainly due to banks raising fixed deposit interest rates in line with market rates for customers with maturing deposits, aiming to retain their deposit base.

The situation has increased funding costs for banks, especially for mid-small banks with a higher proportion of fixed deposits than larger banks. However, we expect rising interest expenses to stabilize more in 2H24, particularly for large banks. In contrast, we still anticipate increases in interest expenses for mid-small banks but a slower pace compared to 1H24. Hence, we expect the 2H24 aggregate NIM to drop slightly by 4bp to 3.45%, mainly due to lower yields expected from the effects of more extraordinary large corporate focuses, assuming there will be no interest rate cut.

For 2025-26, we expect the aggregate NIM to stabilize at c3.42-3.43%. However, we anticipate that corporate loans will accelerate, which could continue to pressure the aggregate loan yield, as seen in 2024. Nonetheless, this may be offset by the expected flattening of the cost of funds.

When examining individual banks, SCB and KBANK show the highest NIMs among the large banks, benefiting from their loan structures that focus more on high-yield segments, such as SMEs and retail loans, than other large banks. Both banks also maintain a high proportion of low-cost deposits (CASA), with SCB at 76% and KBANK at 74%. On the other hand, BBL and KTB have higher proportions of low-yield loans at 70% and 44%, respectively. However, KTB's advantage lies in its CASA ratio, which is the highest in the group at 77%, resulting in a much higher NIM than BBL.

TISCO has the highest NIM among mid-sized and smaller banks in this group. While both TISCO and KKP have a high proportion of retail loans at 68%, TISCO benefits from a higher share of auto title loans, which make up 18% of its total loans, compared to KKP's lower share. Additionally, TISCO has a much lower proportion of mortgage loans than KKP, giving it an advantage in loan yields. This advantage helps offset the impact of TISCO's higher interest expense due to its higher proportion of fixed deposits than KKP.

### Exhibit 7: Aggregate banks – loan yield, 1Q23-26E

| | 1Q23 | 4Q23 | 1Q24 | 2Q24 | 1H23 | 2H23 | 1H24 | 2H24 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BBL | 4.01% | 4.70% | 4.59% | 4.59% | 4.17% | 4.60% | 4.62% | 4.34% | 4.43% | 4.42% | 4.42% |
| KBANK | 4.22% | 4.82% | 4.76% | 4.69% | 4.37% | 4.70% | 4.77% | 4.71% | 4.67% | 4.67% | 4.67% |
| KTB | 3.95% | 4.74% | 4.58% | 4.65% | 4.11% | 4.57% | 4.69% | 4.53% | 4.56% | 4.56% | 4.55% |
| SCB | 4.44% | 5.15% | 4.99% | 5.08% | 4.63% | 5.00% | 4.99% | 5.24% | 5.11% | 5.10% | 5.10% |
| TTB | 4.15% | 4.81% | 4.77% | 4.81% | 4.28% | 4.62% | 4.80% | 4.85% | 4.81% | 4.83% | 4.84% |
| KKP | 5.84% | 6.32% | 6.24% | 6.23% | 6.15% | 6.29% | 6.34% | 6.41% | 6.26% | 6.26% | 6.26% |
| TISCO | 6.15% | 6.89% | 6.71% | 6.80% | 6.58% | 6.44% | 6.90% | 7.32% | 6.86% | 6.86% | 6.86% |
| Coverage | 4.22% | 4.91% | 4.80% | 4.82% | 4.39% | 4.77% | 4.84% | 4.78% | 4.76% | 4.76% | 4.76% |

Sources: Company data; FSSIA estimates

### Exhibit 8: Aggregate banks – cost of funds, 1Q23-26E

| | 1Q23 | 4Q23 | 1Q24 | 2Q24 | 1H23 | 2H23 | 1H24 | 2H24 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BBL | 1.53% | 1.87% | 1.96% | 1.99% | 1.63% | 1.79% | 1.99% | 1.66% | 1.80% | 1.84% | 1.85% |
| KBANK | 1.02% | 1.34% | 1.36% | 1.40% | 1.09% | 1.28% | 1.39% | 1.37% | 1.36% | 1.36% | 1.36% |
| KTB | 1.13% | 1.49% | 1.46% | 1.48% | 1.17% | 1.39% | 1.49% | 1.51% | 1.48% | 1.48% | 1.48% |
| SCB | 1.17% | 1.42% | 1.40% | 1.41% | 1.22% | 1.39% | 1.39% | 1.70% | 1.55% | 1.54% | 1.51% |
| TTB | 1.29% | 1.60% | 1.75% | 1.82% | 1.34% | 1.51% | 1.78% | 1.84% | 1.83% | 1.85% | 1.85% |
| KKP | 1.68% | 2.21% | 2.36% | 2.48% | 1.80% | 2.10% | 2.47% | 2.58% | 2.49% | 2.52% | 2.54% |
| TISCO | 1.60% | 2.24% | 2.40% | 2.42% | 1.77% | 2.02% | 2.46% | 2.77% | 2.52% | 2.52% | 2.52% |
| Coverage | 1.25% | 1.59% | 1.63% | 1.66% | 1.32% | 1.51% | 1.65% | 1.64% | 1.63% | 1.65% | 1.64% |

Sources: Company data; FSSIA estimates

### Exhibit 9: Aggregate banks – NIM, 1Q23-26E

| | 1Q23 | 4Q23 | 1Q24 | 2Q24 | 1H23 | 2H23 | 1H24 | 2H24 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BBL | 2.73% | 3.14% | 2.97% | 2.94% | 2.81% | 3.09% | 2.98% | 2.97% | 2.94% | 2.91% | 2.91% |
| KBANK | 3.47% | 3.84% | 3.77% | 3.68% | 3.57% | 3.76% | 3.76% | 3.72% | 3.68% | 3.68% | 3.68% |
| KTB | 2.97% | 3.45% | 3.31% | 3.37% | 3.09% | 3.37% | 3.39% | 3.23% | 3.28% | 3.27% | 3.27% |
| SCB | 3.46% | 3.96% | 3.83% | 3.90% | 3.61% | 3.84% | 3.83% | 3.83% | 3.83% | 3.83% | 3.86% |
| TTB | 3.04% | 3.42% | 3.26% | 3.24% | 3.12% | 3.32% | 3.25% | 3.28% | 3.24% | 3.24% | 3.24% |
| KKP | 4.36% | 4.36% | 4.16% | 4.04% | 4.57% | 4.46% | 4.17% | 4.16% | 4.08% | 4.08% | 3.99% |
| TISCO | 4.89% | 5.07% | 4.77% | 4.85% | 5.17% | 4.81% | 4.92% | 5.09% | 4.82% | 4.84% | 4.87% |
| Coverage | 3.19% | 3.60% | 3.47% | 3.46% | 3.30% | 3.53% | 3.49% | 3.45% | 3.43% | 3.42% | 3.43% |

Sources: Company data; FSSIA estimates

The BoT's Monetary Policy Committee (MPC) recently voted to cut the policy interest rate by 0.25% to 2.25%, aiming to stimulate spending and boost investment confidence. However, the MPC emphasized that the overall trend for interest rates does not indicate a downward direction. We believe the MPC will likely maintain the policy rate at 2.25% in the upcoming meeting at the end of 2024, with a strong possibility of holding this rate throughout 2025.

Following the MPC's policy rate cut, most banks responded to the BoT's guidance by reducing lending rates across all loan types by an average of 0.12-0.25%. They reduced the primary lending rates, MLR and MRR, by approximately 0.12-0.125% while decreasing the minor rate MOR by 0.25%. However, deposit rates remained unchanged except for BBL, which reduced deposit rates across all types at levels similar to its lending rate cuts. The changes take effect from early November 2024 onward.

We estimate a limited impact on the 4Q24 aggregate NIM; however, the effect should become more pronounced in 2025. Based on our study of the impact on NII, NIM, net profit, and the target prices of the aggregate banks under our coverage, when the market interest rate decreases by every 25bp, the projected NII for 2025, currently at THB639.9b, would decline by 3.1%. The NIM would decrease by 7bp from the current forecast of 3.42%, and net profit would drop by 6.3% from the current projection of THB211.8b, all else being equal.

We expect KTB, BBL, KBANK, and SCB to be the most affected banks, respectively, due to their financial asset structures having more floating interest rate assets than floating interest rate liabilities (assuming only a 10bp saving deposit rate cut as during rising interest rates, this type of deposit rarely sees an increase in interest rates). Conversely, TISCO and KKP, as smaller banks, are likely to benefit when market interest rates decline for the opposite reasons.

### Exhibit 10: Sensitivity analysis of 2025 NII, NIM, net profit, and TP in the event of a 0.25% interest rate decrease

| | BBL | KBANK | KTB | SCB | TTB | TISCO | KKP | Coverage |
|---|---|---|---|---|---|---|---|---|
| NII - Base case (THB m) | 138,443 | 156,853 | 118,688 | 133,622 | 57,669 | 14,458 | 20,146 | 639,878 |
| Change (%) | (3.6) | (3.1) | (5.3) | (2.7) | (1.0) | 2.1 | (0.3) | (3.1) |
| NIM - Base case (%) | 2.91 | 3.68 | 3.27 | 3.83 | 3.27 | 4.84 | 4.69 | 3.42 |
| Change (bp) | (9) | (10) | (15) | (8) | (1) | 11 | 3 | (7) |
| Net profit - Base case (THB m) | 43,779 | 51,555 | 38,760 | 42,995 | 23,132 | 6,846 | 4,739 | 211,806 |
| Change (%) | (7.6) | (6.5) | (11.4) | (5.4) | (0.9) | 3.7 | 0.2 | (6.3) |
| **TP 2025 - Base case (THB)** | **184.00** | **173.00** | **23.50** | **112.00** | **2.52** | **98.00** | **50.30** | |
| **Change (%)** | **(3.1)** | **(2.7)** | **(4.7)** | **(2.2)** | **(0.1)** | **1.3** | **-** | |

Source: FSSIA estimates

## Manageable asset quality; expect lower credit costs in 2025

Thai banks' asset quality has continued to deteriorate. The NPL ratio increased to 3.15-3.25% during Covid-19 (2020-21). The BoT implemented measures to assist debtors affected by the pandemic and relaxed the criteria for debt classification and provisioning for banks until the end of 2023. These measures helped reduce the NPL ratio to 2.78%.

However, in 2023, the continuous rise in market interest rates and a sluggish and slower-than-expected economic recovery further impacted overall asset quality. After the expiration of the BoT's measures, the aggregate 1H24 NPL ratio and stage 2 ratio rose again to 2.92% and 6.29%, respectively, driven by pressure from the retail and SME segments, particularly in housing (previously concentrated in the segment priced below THB3m, it has now expanded more into the THB3-5m segment) and credit card loans (affected by the increase in the minimum payment requirement from 5% to 8%).

Referencing the BoT’s data, Thai banks have a lot of pressure, as the overall increase in NPLs remains higher than the resolved rate. They have proactively managed the NPLs via aggressive write-offs and sales, which has increased to 34% of the overall NPL management approach. Meanwhile, the debt restructuring has decreased to only 18%, likely due to the inability to reduce NPLs quickly, the insufficient resources for collecting the debt, and the decline in debtors' repayment capacity.

As for the seven banks under our coverage, the aggressive reduction of NPLs inevitably led to a significant increase in credit costs to 161bp in 2023 from an average of 137-139bp during 2018-23 (excluding the abnormal level of 155-187bp in 2020-21 during the Covid-19 pandemic). However, we view the situation as manageable, thanks to the rising interest rate during 2023, which benefited the aggregate net profit and helped alleviate the effects. In addition, the solid aggregate NPL coverage ratio at 185% as of 2Q24, which banks accumulated during the robust profit growth in 2023, is another factor that helped partially alleviate the ECL burden.

We expect aggregate credit costs to rise to 167bps in 2H24, bringing the full-year figure to 161bp, the same as in 2023. Given the anticipated gradual economic recovery and the asset quality, which is gradually improving due to the tightened lending policies of most banks since 2023, we project aggregate credit costs to decline to 154bps in 2025 and 146bps in 2026, following a stabilized NPL ratio at 3.68% in 2025, then declining to 3.66% in 2026.

When analyzing individual banks, KKP raises the most concern regarding asset quality, with the highest NPL ratio in the group at 4.11%. This marks a significant increase from 3.31% at the end of 2023, exceeding its 2024 guidance. The slow economic recovery continues to affect the quality of auto hire purchase loans and impacts the classification of commercial loans. We expect that KKP's asset quality issues will take time and require close monitoring.

Meanwhile, TISCO's NPL ratio continues to rise, though it remains within expectations, given its focus on high-yield loans (auto title loans, used car loans, and motorcycle loans), which impacts loan quality. Among the large banks, KTB is the least concerning regarding asset quality. Although its NPL trend may not decline significantly in 1H24, its stage 2 loans have consistently decreased over the past five years (2018-23), and credit costs have declined since 2023.

### Exhibit 11: Aggregate banks – NPLs, 2018-26E

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|---|---|---|---|
| NPL ratio | | | | | | | | | |
| BBL | 3.85 | 3.84 | 4.41 | 3.91 | 3.62 | 3.22 | 3.45 | 3.39 | 3.32 |
| KBANK | 3.89 | 4.20 | 4.50 | 4.38 | 3.74 | 3.70 | 3.76 | 3.74 | 3.73 |
| KTB | 5.26 | 4.91 | 4.59 | 4.06 | 3.90 | 3.86 | 3.80 | 3.80 | 3.80 |
| SCB | 3.29 | 4.03 | 4.50 | 4.74 | 4.01 | 3.99 | 4.06 | 4.10 | 4.10 |
| TTB | 3.17 | 2.71 | 2.84 | 3.07 | 3.03 | 3.09 | 3.25 | 3.27 | 3.28 |
| KKP | 4.13 | 4.03 | 3.19 | 3.32 | 3.45 | 3.31 | 4.10 | 4.00 | 4.00 |
| TISCO | 2.86 | 2.40 | 2.50 | 2.44 | 2.09 | 2.22 | 2.63 | 2.72 | 2.82 |
| **Coverage** | **3.96** | **3.99** | **4.22** | **4.06** | **3.68** | **3.58** | **3.70** | **3.69** | **3.67** |

Sources: Company data; FSSIA estimates

## Exhibit 12: Aggregate banks – credit cost, 2018-26E

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|---|---|---|---|
| Credit cost | | | | | | | | | |
| BBL | 107 | 156 | 141 | 138 | 124 | 126 | 129 | 122 | 115 |
| KBANK | 175 | 174 | 205 | 173 | 211 | 208 | 195 | 180 | 160 |
| KTB | 132 | 116 | 203 | 131 | 93 | 143 | 140 | 135 | 130 |
| SCB | 115 | 127 | 214 | 184 | 145 | 182 | 195 | 190 | 190 |
| TTB | 242 | 99 | 178 | 156 | 134 | 164 | 160 | 155 | 150 |
| KKP | 112 | 110 | 215 | 255 | 201 | 282 | 285 | 270 | 253 |
| TISCO | 110 | 46 | 142 | 97 | 34 | 27 | 70 | 100 | 100 |
| **Coverage** | **137** | **134** | **187** | **155** | **139** | **161** | **161** | **154** | **146** |

Sources: Company data; FSSIA estimates

## Exhibit 13: Staged loans of Thai commercial banks, 2015-2Q24

| Staged loans - Total | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| THB m | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1H24 |
| Stage 1 | 11,750,458 | 12,009,403 | 13,049,408 | 13,439,901 | 13,819,025 | 14,371,891 | 15,238,976 | 15,746,257 | 15,992,088 | 15,695,694 |
| Stage 2 | 298,820 | 343,472 | 358,725 | 354,374 | 421,457 | 1,062,329 | 1,065,310 | 1,049,011 | 1,043,162 | 1,087,665 |
| Stage 3 | 332,889 | 380,935 | 425,579 | 440,056 | 460,954 | 518,228 | 525,927 | 495,084 | 486,583 | 504,684 |
| **Total** | **12,382,167** | **12,733,810** | **13,833,712** | **14,234,331** | **14,701,436** | **15,952,448** | **16,830,213** | **17,290,352** | **17,521,833** | **17,288,043** |
| | | | | | | | | | | |
| % | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1H24 |
| Stage 1 | 94.90 | 94.31 | 94.33 | 94.42 | 94.00 | 90.09 | 90.55 | 91.07 | 91.27 | 90.79 |
| Stage 2 | 2.41 | 2.70 | 2.59 | 2.49 | 2.87 | 6.66 | 6.33 | 6.07 | 5.95 | 6.29 |
| Stage 3 | 2.69 | 2.99 | 3.08 | 3.09 | 3.14 | 3.25 | 3.12 | 2.86 | 2.78 | 2.92 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |
| | | | | | | | | | | |
| **Staged loans - SME** | | | | | | | | | | |
| THB m | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1H24 |
| Stage 1 | 3,658,964 | 3,673,620 | 3,720,362 | 3,888,384 | 3,761,798 | 2,599,328 | 2,560,497 | 2,515,787 | 2,402,009 | 2,346,146 |
| Stage 2 | 98,883 | 112,229 | 131,558 | 133,675 | 168,566 | 434,875 | 392,851 | 395,076 | 367,802 | 366,572 |
| Stage 3 | 164,703 | 206,316 | 221,010 | 230,331 | 231,769 | 236,723 | 251,534 | 252,480 | 233,959 | 237,849 |
| **Total** | **3,922,550** | **3,992,165** | **4,072,930** | **4,252,390** | **4,162,133** | **3,270,926** | **3,204,882** | **3,163,343** | **3,003,770** | **2,950,567** |
| | | | | | | | | | | |
| % | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1H24 |
| Stage 1 | 93.28 | 92.02 | 91.34 | 91.44 | 90.38 | 79.47 | 79.89 | 79.53 | 79.97 | 79.52 |
| Stage 2 | 2.52 | 2.81 | 3.23 | 3.14 | 4.05 | 13.30 | 12.26 | 12.49 | 12.24 | 12.42 |
| Stage 3 | 4.20 | 5.17 | 5.43 | 5.42 | 5.57 | 7.24 | 7.85 | 7.98 | 7.79 | 8.06 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

Sources: BoT; FSSIA's compilation

## Exhibit 14: NPL movement of Thai commercial banks, 2015-2H24

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 1H24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross NPL increasing amounts | | | | | | | | | | |
| New NPL | 68 | 70 | 66 | 70 | 69 | 54 | 55 | 65 | 65 | 62 |
| Re-entry NPL | 25 | 24 | 23 | 21 | 19 | 34 | 31 | 24 | 23 | 25 |
| Other reasons | 7 | 7 | 10 | 9 | 12 | 12 | 14 | 11 | 11 | 14 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |
| | | | | | | | | | | |
| Gross NPL decreasing amounts | | | | | | | | | | |
| Debt restructuring | 20 | 35 | 24 | 31 | 24 | 24 | 28 | 25 | 20 | 18 |
| Others | 80 | 65 | 76 | 69 | 76 | 76 | 72 | 75 | 80 | 82 |
| Non-DR - Transfer to performing loan category | 15 | 13 | 13 | 15 | 12 | 19 | 17 | 21 | 26 | 18 |
| Principal Repayment | 27 | 24 | 28 | 23 | 25 | 28 | 31 | 29 | 23 | 30 |
| Principal repayment, write-off, debt selling, etc. | 37 | 28 | 35 | 31 | 38 | 29 | 24 | 25 | 31 | 34 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

Sources: BoT; FSSIA's compilation

### Exhibit 15: NPLs by business sector of Thai commercial banks, 2015-2Q24

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2Q24 |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, Fishing and Forestry | 1.08 | 1.17 | 1.06 | 1.12 | 1.45 | 1.81 | 1.71 | 1.62 | 2.04 | 1.92 |
| Mining and Quarrying | 0.21 | 0.16 | 2.53 | 0.61 | 0.81 | 0.68 | 0.74 | 0.11 | 0.13 | 0.11 |
| Manufacturing | 30.76 | 25.78 | 27.38 | 27.70 | 24.08 | 20.94 | 21.89 | 19.89 | 18.88 | 18.03 |
| Construction | 3.08 | 3.18 | 3.10 | 3.15 | 3.99 | 4.26 | 4.39 | 5.51 | 5.78 | 5.25 |
| Commerce | 21.29 | 25.31 | 24.74 | 25.32 | 24.31 | 23.40 | 23.50 | 25.19 | 22.92 | 23.09 |
| Banking and Other Financial Business | 0.71 | 0.65 | 0.75 | 1.28 | 1.11 | 1.85 | 2.05 | 1.67 | 1.50 | 1.52 |
| Real Estate Business | 7.15 | 6.98 | 6.19 | 5.48 | 6.63 | 5.91 | 6.14 | 4.95 | 3.96 | 3.90 |
| Public Utilities | 1.55 | 1.64 | 1.65 | 1.54 | 1.33 | 5.55 | 3.98 | 4.23 | 3.99 | 4.11 |
| Services | 6.07 | 7.84 | 6.87 | 6.63 | 6.06 | 8.00 | 8.21 | 8.69 | 8.78 | 8.57 |
| Personal Consumptions | 28.10 | 27.30 | 25.73 | 27.15 | 30.23 | 27.59 | 27.40 | 28.13 | 32.02 | 33.49 |
| Housing | 13.34 | 14.99 | 15.68 | 16.43 | 18.88 | 18.09 | 17.22 | 16.24 | 18.49 | 19.83 |
| Automobile | 5.91 | 4.06 | 3.55 | 4.00 | 4.62 | 3.24 | 3.64 | 4.47 | 5.10 | 4.95 |
| Credit Card | 2.50 | 2.18 | 1.41 | 1.31 | 1.42 | 1.22 | 1.31 | 1.46 | 1.74 | 1.87 |
| Other Personal Loans | 6.35 | 6.07 | 5.09 | 5.41 | 5.31 | 5.04 | 5.23 | 5.97 | 6.69 | 6.84 |
| Others | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** | **100.00** |

Sources: BoT; FSSIA's compilation

## JV AMCs and virtual banks to be upside risks in the medium term

We have a positive outlook on the establishment of JV AMCs and virtual banks by FIs, as these initiatives should help expand their profit base in the medium to long term, as follows:

**JV AMCs - another tool to speed up the debt restructuring process**

Referring to the BoT's announcement on 27 January 2022, it introduced measures encouraging commercial banks and asset management companies (AMCs) to invest in joint ventures (JVs) within a three-year application window. The JV AMC has to be established by 31 December 2024 and operate for 15 years. During this period, the JV AMC will assist non-performing debtors transferred to these JVs with debt restructuring.

The BoT's objective is that these measures will enable FIs to manage non-performing assets more effectively, leveraging the experience and expertise of AMCs to their fullest potential. This approach provides additional resources for FIs to support debtors currently in recovery more efficiently. The continuous mechanism of debt restructuring will ensure that debtors receive ongoing assistance, preventing them from being forced to liquidate their assets at unreasonable prices.

We have a positive outlook on establishing JV AMCs, as we expect to see more partnerships between commercial banks and AMCs due to the approaching deadline for establishment at the end of 2024. Successful outcomes in the form of win-win partnerships are already evident. For instance, KBANK has partnered with JMT to establish JK AMC for managing unsecured NPLs since 2Q22, demonstrating consistent net profit, as shown in Exhibit 16.

Most recently, KBANK has announced a partnership with BAM to establish a new JV AMC focused on managing secured NPLs, leveraging BAM's extensive expertise and experience in the business. We believe this collaboration will create a win-win situation for both parties from 2025 onwards.

### Exhibit 16: Historical performance of JK AMC, 2Q22-2Q24

| | 2Q22 (THB m) | 3Q22 (THB m) | 4Q22 (THB m) | 1Q23 (THB m) | 2Q23 (THB m) | 3Q23 (THB m) | 4Q23 (THB m) | 1Q24 (THB m) | 2Q24 (THB m) | 2022 (THB m) | 2023 (THB m) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Share of profit from JK AMC | (0) | 35 | 63 | 134 | 130 | 114 | 161 | 82 | 146 | 98 | 538 |
| % holding of JMT | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| **Net profit of JK AMC** | **(0)** | **71** | **125** | **267** | **259** | **228** | **321** | **164** | **293** | **196** | **1,076** |

Sources: Company data; FSSIA's compilation

### Exhibit 17: Scenarios for net profit upside from JV AMC in 2025

| | -------------------------------------- 2025E -------------------------------------- | | | | |
|---|---|---|---|---|---|
| | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) |
| Paid up capital | 1,000 | 2,000 | 3,000 | 4,000 | 5,000 |
| Total invested capital | 2,500 | 5,000 | 7,500 | 10,000 | 12,500 |
| O/S | 5,000 | 10,000 | 15,000 | 20,000 | 25,000 |
| Assumed sale price - 80% | 4,000 | 8,000 | 12,000 | 16,000 | 20,000 |
| Expected gain on sales | 1,200 | 2,400 | 3,600 | 4,800 | 6,000 |
| Expected realized proportion - 5 yrs | 240 | 480 | 720 | 960 | 1,200 |
| Share of profit to each shareholder | 16 | 33 | 49 | 65 | 82 |
| **% upside to BAM's 2025E net profit** | **0.8%** | **1.7%** | **2.5%** | **3.3%** | **4.1%** |
| **% upside to KBANK's 2025E net profit** | **0.0%** | **0.1%** | **0.1%** | **0.1%** | **0.2%** |

Source: FSSIA estimates

**Virtual banks - a new era in financial services for the underserved segment**

Virtual banks (VBs) represent a new era in financial services, specifically targeting underserved segments. By leveraging advanced technology and digital platforms, virtual banks can offer a range of financial products and services more efficiently and with greater accessibility than traditional banks. This digital-first approach allows for personalized banking experiences, faster loan approval processes, and more competitive rates, particularly for customers the conventional banking sector has previously underserved.

Through their innovative services, VBs have the potential to expand financial inclusion, providing easier access to credit for individuals and small businesses that might otherwise struggle to secure financing through traditional channels. This model benefits customers and contributes to a more dynamic and inclusive financial ecosystem.

On 5 March 2023, the Ministry of Finance (MOF) issued guidelines for establishing VBs to attract entities with technological capabilities, digital service expertise, and experience acquiring, managing, and utilizing diverse datasets (open data). The aim is to develop innovative financial services delivered through digital channels, focusing on retail customers without regular income and SMEs, particularly those underserved and unserved by traditional FIs.

VBs will remain under the BoT’s supervision and fall within the Deposit Protection Agency's purview. They must have their headquarters in Thailand and are prohibited from sharing deposit and lending systems or Internet banking services with other domestic or foreign FIs. However, they can be established as JVs to leverage specialized expertise.

VBs must have a minimum registered and paid-up capital of THB5b and demonstrate plans to increase it to at least THB10b after the initial business phase.

A notable change from previous guidelines is removing the initial cap on the number of licenses, initially limited to three. This change allows for a broader range of eligible applicants, as the MOF seeks to encourage competition without compromising the system's stability. The BoT will assess the number of licenses to be issued.

The next step involves a joint review by the MOF and the BoT of the license applications within nine months following the application period, which runs from 20 March to 19 September 2024 (6 months). Applicants must establish a public limited company and prepare in various areas, such as security and risk management. The list of VB license recipients will be announced by mid-2025, with the first service providers likely to emerge by mid-2026.

## Exhibit 18: Summary of applicants for virtual bank licenses

| Leader | Partners | Strengths |
|---|---|---|
| SCBX | **SCBX** | The fourth largest bank in Thailand in terms of assets which has 26.3m digital users on all platforms (14.9m users on SCB EASY). This aligns with its mission to make finance simple, accessible and affordable for all through the power of technology and innovation. |
| | **KaKao Bank** | KakaoBank, the world's second-largest digital bank in terms of users, boasts 16.7 million accounts and a 14% market share in domestic lending. Due to its profitability, which rivals traditional banks, and its rapidly growing user base, KakaoBank turned a profit for the first time in 1Q19—only 18 months after it began operations. This achievement was much earlier than anticipated, as it was initially expected to take at least 3-5 years to become profitable. |
| | **WeBank** | WeBank is China's first virtual bank and one of the most successful, compared globally with over 360m accounts, serving primarily the working class. Given its experience in digital lending and partnerships with tech giants like Tencent, it may offer advanced solutions like smart lending, digital KYC, and AI-based credit scoring to Thai virtual banks. |
| KTB | **KTB** | The third largest bank in Thailand in terms of assets is the only state commercial bank in Thailand, with 55.05% owned by BoT. It has a solid digital payment infrastructure with 18m digital users via 'Krungthai NEXT' apart from other related apps, 'PaoTang' with 40m users and 'Krungthai Connext'. |
| | **ADVANC** | ADVANC would likely provide the digital infrastructure, customer reach, and data capabilities necessary for virtual banking. ADVANC could leverage its over 42m accounts of customer data to integrate financial products directly into its telecom offerings. |
| | **OR** | PTTOR, with its expansive network of gas stations and retail outlets of more than 2000 locations throughout Thailand, could provide the physical touchpoints for virtual banking services, bridging the gap for customers who prefer or need physical locations for certain banking activities. |
| CP group | **Ant Group** | It operates via MYBank, which is a virtual bank in China. MYbank is part of Ant Group's digital financial services business, which includes payments (Alipay), lending, wealth management, and insurance. MYbank focuses on providing digital banking services, particularly to SMEs and individuals. |
| | **Ascend money** | Ascend Money could be a vital asset to CP Group's virtual bank consortium, leveraging its extensive user base of over 50m across Thailand to reach underbanked populations. Its expertise in digital finance, including TrueMoney e-wallet services and data-driven tools like AI-driven credit scoring, aligns with the consortium's goal of accessible banking. |
| Sea group | **VGI** | VGI can provide a knowledge in marketing channeling and customer acquisition, which are crucial keys to profitability of virtual banking business. The firm specializes in advertising content across BTS sky trains, and digital screens. |
| | **BBL** | BBL, with its expertise in banking business, could provide a crucial backbone for partnership in virtual banking business. The bank could offer back-end services such as clearing, settlement, and compliance, while maintain strong integrity of virtual banking business. |
| | **Sea Group** | Sea group has legacy in e-commerce business (Shopee) and financial services (SeaMoney) with business operated wide across south east Asia region. The firm possess a strong background, serving as a solid candidate of Thailand's virtual banking landscape. With capability in both sectors, Sea group could provide a maneuver for customers' seamless digital finance/commerce experience. |
| | **SPC** | Sahapat (SPC) boasts a vast consumer reach with over 200 brands across categories like food, personal care, and household goods. With retail points nationwide, Sahapat provides a powerful network for introducing virtual banking options such as microloan services, integrating seamless daily consumer transactions. |
| | **ThailandPost** | Thailand Post brings crucial infrastructure and nationwide reach, with over 1,200 branches and 22,000 service points spanning Thailand, making it an ideal partner for extending banking access to underserved regions. With a monthly reach of 20m people, Thailand Post enjoys deep consumer trust as a government entity, which could instill confidence among customers exploring virtual banking for the first time. |
| Lightnet | **Lightnet** | Lightnet is a Singapore-based fintech group founded in 2018, with regional hubs in Lithuania and Dubai, and operations across Southeast Asia, including Thailand, Indonesia, and the Philippines. Lightnet offers cross-border payment solutions tailored for money transfer operators, local banks, and corporates. |
| | **WeLab** | WeLab, a leading fintech with successful digital banking operations in Hong Kong, Indonesia, and mainland China. With over 50m registered users at WeLab Bank and reported to have over HKD1.94b of outstanding loans (cUSD250m, cTHB8.22b) as of 2023, which the bank has demonstrated its ability to scale rapidly and efficiently since its introduction in 2013. WeLab offers fast, low-cost financial services and could potentially address Thailand's underbanked population. The bank's capital is backed by investors like Allianz and Sequoia Capital. |

Source: FSSIA's compilation

When comparing the business operations of VBs in Thailand and other countries, such as the UK, Australia, Malaysia, Singapore, and South Korea, most follow a similar direction in promoting competition among domestic FIs. However, they ensure a balance to foster sustainable long-term growth. While countries like the UK and Australia promote unrestricted competition, Thailand follows a more selective and phased approach, similar to Malaysia and Singapore, focusing on financial inclusion and long-term stability.

### Exhibit 19: Comparisons of the landscape of the virtual bank industry in different regions

| | Objective | Approach | Regulation | Results |
|---|---|---|---|---|
| **United Kingdom and Australia** | Focus on promoting competition within the financial system. | There is no limit on the number of VB licenses, and VBs can be established continuously. | Strong emphasis on regulation to prevent risks that may impact the financial system. If a Virtual Bank needs to cease operations, an orderly exit plan ensures a smooth process without negatively affecting customers and depositors. | Several new virtual banks have entered the market with innovative services, though some have exited due to profitability or cost management issues. |
| **Malaysia, Singapore, and South Korea** | Increase financial access and promote balanced competition. | Virtual Bank licenses are issued in rounds, with limited licenses to ensure the most suitable candidates are selected. | A phased approach is applied in the early stages of operations, and exit plans are in place to ensure stability. This aims to minimize risks to the financial system. | |
| **Thailand** | Increase financial access, address gaps in financial inclusion and literacy, and promote competition in a balanced and sustainable manner. | Aligns more closely with the second approach (Malaysia, Singapore, South Korea). Virtual Banks will be issued licenses focusing on targeting underserved and unserved customer segments, including SMEs and individuals. | Emphasis on sustainability, ensuring Virtual Banks do not over-stimulate competition or misuse market power in ways that could threaten the stability of the financial system, depositors, or consumers. | |

Source: BoT; FSSIA's compilation

We hold a positive long-term outlook on establishing VBs by traditional banks, as they can effectively address customers' evolving needs in the digital age. There may be positive sentiments about establishing virtual banks and the license application process involving related companies in the short term. According to reports, key players include: SCBX, KTB, CP Group, Sea Group (BBL's consortium), and Lightnet.

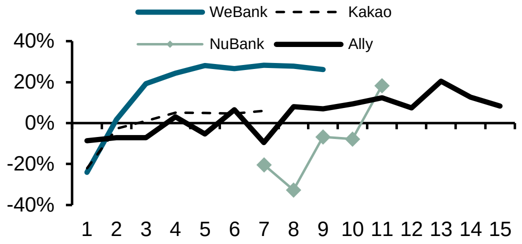
Other banks express no interest in this round of application, likely because they offer effective digital banking services or operate via their subsidiary, particularly 'LINE BK' of KBANK. Although it is currently challenging to assess the growth potential and business impact of the new JVs, we believe that, in the long term, they will positively contribute to customer base expansion and cross-sales of JV products.

However, there are risks to monitor, particularly asset quality, given the high-risk profile of the targeted customer segments. The JV's experience and expertise in deep behavioral analysis of customer bases and the trend toward risk-based pricing should mitigate some concerns.

## Exhibit 20: Summary of key financial metrics of foreign virtual banks by years since inception

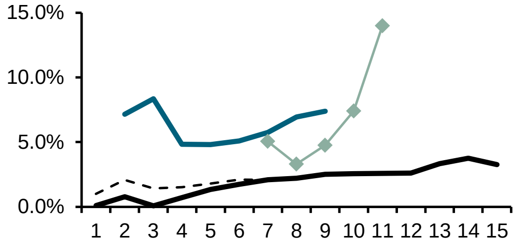
| Company | Year of initiation | Country |
|---|---|---|
| WeBank | 2015 | China |
| Kakao Bank | 2017 | South Korea |
| NuBank | 2013 | Brazil, Mexico, and Colombia |
| Ally | 2009 | United States |

**ROE**



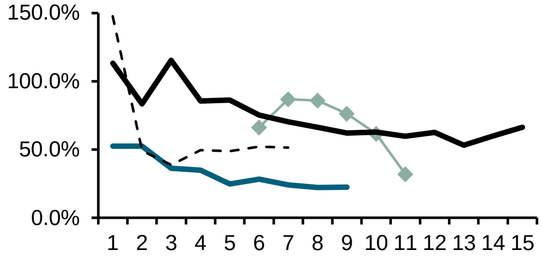

In general, there are foreign digital banks that took almost a decade until generating profitability. There was a negative ROE for Ally and NuBank in their 7th and 10th years. However, Asian digital banks tend to have a shorter breakeven period, with Kakao Bank generating a positive ROE in its 4th year and the 2nd year for WeBank, owing to their rapid business scalability.

**NIM**



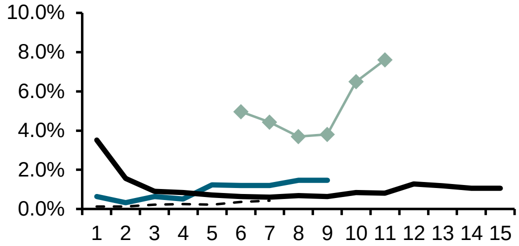

Like traditional banks, the NIMs of digital banks moved in unison with their respective countries' policy rate. With NuBank's NIM spiking sharply recently, in-line with the rapid pace of rate hikes by the central bank of Brazil in 2021-23.

**Cost-to-income ratio**



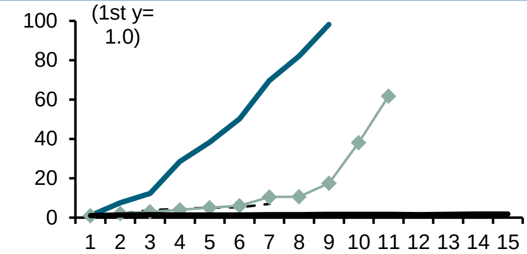

All banks that we observe exhibited declining trends in CIR, reflecting hefty IT infrastructure investment at their initialization. Relating to the ROE metric, Asian banks have a lower CIR, in general, relative to Western counterparts. After some degree of saturation in recent years, the CIR of the group stayed relatively in-line with industry averages (US c65%, CH c35%, SK c60%) and did not show a meaningful benefit from digital scalability in numbers.

**NPL ratio**



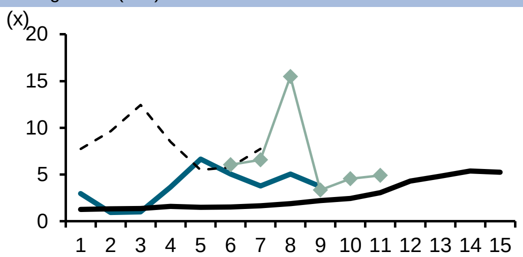

NPL ratios of most digital banks ranged at a low level, with Ally and Kakao progressing well as their NPL ratios were consistently controlled under 1% for most of the period. However, NuBank was an outlier with the 2022-23 NPL ratio at 7-8%, burdened by the country's stagflationary pressure during the period.

**Cumulative loan growth**




WeBank showed the most rapid scalability with loans growing over a hundred-fold within a decade, while Ally bank expanded the slowest (c3-4% p.a.) due to its large base and relatively lower loan demand from the mature economy. Meanwhile, NuBank exhibited a noticeable upward kink in its 8th year after receiving additional fund from the IPO in 2021.

**Leverage ratio (D/E)**




Leverage ratio of most digital banks fluctuates widely due to factors such as fund raising and IPOs, especially as some banks generated consecutive losses in their initial stage. The most noticeable variation occurred in NuBank's 8th year of operation where the D/E ratio spiked to 16x from just 7x in the prior year due to a higher net loss, before vastly declining to 3x in the following year after receiving IPO funds in 2021.

Note: There is an absence of data on graphics due to availability issues. We performed arithmetic series adjustments for NuBank's loan growth, substituting for missing data points.
Sources: Company data; FSSIA's compilation

## Multiple rounds of debt relief measures to have a limited impact

Given the high level of household debt, the fragile economic recovery, and the expiration of debt relief measures for those affected by the COVID-19 pandemic at the end of 2023, these factors have affected debtors' ability to repay their debts. Furthermore, the Bank of Thailand (BoT) has only gradually reduce the policy rate and given no prospective view for meaningful cuts in the near-term. This approach aims to uphold financial discipline among debtors, preventing them from accumulating new debts beyond their repayment capacity. As a result, it has become necessary to implement alternative debt relief measures to support debtors as summarized in Exhibit 21.

### Exhibit 21: Summary of various debt relief measures

| Measures | Action | View |
|---|---|---|
| Vulnerable debtors' assistant measures | During mid-May, 2024, most banks under our coverage have announced relief measures to assist vulnerable debtors, by reducing lending interest rates almost across all categories by 0.25% per annum for six months, May 16 to November 15, 2024. | We view the affects to banks' profitability as insignificant (approximately THB600m or 0.06% of the 2024E interest income). |
| Extending 8% minimum credit card repayment into 2025 | The minimum payment for credit cards will remain at 8% for another year, extending until the end of 2025.<br><br>Debtors who make minimum payments of 8% or more will receive a cashback equivalent to 0.5% of the outstanding balance for 1H25 and 0.25% for 2H25. | We view this as having a limited impact on both banks and non-banks. Extending the minimum payment could favor the outlook for credit costs and NPLs.<br><br>Cashback to debtors will lead to increased expenses of 0.5% in 1H25 and 0.25% in 2H25.<br><br>We estimate the impact on the 2025 net profit forecasts for the banks and non-banks under our coverage in Exhibit 22. |
| Consolidation of housing and retail loans | The BoT encourags FIs and SFIs to assist debtors by consolidating housing and retail loans more effectively by relaxing the LTV conditions for all contract levels in debt consolidation cases, allowing it to exceed the set limits. Lenders who comply must ensure the reduction of debt burden post-consolidation by offering lower interest rates and installment payments. These measures will be in effect until the end of 2025. | Although the LTV relaxation and interest rate reduction may enhance loan growth, the reduced yield could outweigh the positive effects, leading to lower net interest income (NII) and net profit for the remainder of 2024-25 as summarized in Exhibit 23. |
| Persistent debt policy | The BoT is extended the debt resolution period from 5 years to 7 years to reduce the installment payments for debtors.<br><br>Debtors will also have access to their remaining credit limit. These measures will take effect from 1 Jan 2025. | We believe non-banks, particularly AEONTS and KTC will be more affected than banks. According to consultations with various FIs, most banks do not offer loans classified as PD.<br><br>However, so far, we have seen minimal interest from debtors in the policy. |
| Debt relief measures for debtors affected by flooding | Due to flooding in Aug-Sep 24, most banks under our coverage have introduced financial measures to assist affected customers, aiming to provide immediate financial relief. | Based on inquiries from most banks, the impact is limited. This is because flooding occurs annually, and this year is less severe than the major floods of 2011.<br><br>Most relief measures are short-term, primarily allowing debtors to delay payments without significantly altering their repayment capacity. |

Source: FSSIA's compilation

### Exhibit 22: Net impact from the rising cashback expense on 2025E net profit

| | 2024E credit card loans (THB m) | 2025E net impact - after taxes (THB m) | 2025E net profit (THB m) | *% of 2025E (%)* |
|---|---|---|---|---|
| KBANK | 102,106 | 306 | 51,555 | *0.6* |
| SCB | 95,000 | 285 | 42,995 | *0.7* |
| TTB | 38,644 | 116 | 20,306 | *0.6* |
| AEONTS | 43,632 | 131 | 3,440 | *3.8* |
| KTC | 75,985 | 228 | 7,998 | *2.9* |
| **Total** | **355,367** | **1,066** | **126,294** | ***0.6*** |

Source: FSSIA estimates

### Exhibit 23: Loan breakdown of companies under coverage, as of 2Q24

| Bank | Corporate (%) | Gov & SoE (%) | SME (%) | Housing loans (%) | HP (%) | Credit cards (%) | Other retail (%) | Total (%) |
|---|---|---|---|---|---|---|---|---|
| BBL | 70 | 0 | 18 | 12 | 0 | 0 | 0 | 100 |
| KBANK | 38 | 0 | 28 | 17 | 6 | 4 | 6 | 100 |
| KKP | 17 | 0 | 15 | 15 | 45 | 0 | 8 | 100 |
| KTB | 28 | 16 | 10 | 23 | 0 | 0 | 23 | 100 |
| SCB | 35 | 0 | 17 | 32 | 7 | 4 | 5 | 100 |
| TTB | 30 | 0 | 8 | 25 | 30 | 3 | 4 | 100 |
| TISCO | 26 | 0 | 6 | 3 | 44 | 0 | 21 | 100 |
| AEONTS | 0 | 0 | 0 | 0 | 8 | 44 | 48 | 100 |
| KTC | 0 | 0 | 0 | 0 | 66 | 34 | 34 | 100 |

Sources: Company data; FSSIA's compilation

### Exhibit 24: Regulated housing loan LTV ratio by the BoT (Act. 24/2018)

| Housing loans | Time after first home installment | Property price < THB10m | Property price > THB10m |
|---|---|---|---|
| First home | | 100%+10% | 90% |
| Second home | > 2 yrs. | 90% | 80% |
| | < 2 yrs. | 80% | |
| Third home and above | | 70% | 70% |

Source: BoT

## Growing 3Q24 net profit following a drop in ECLs and rising fees

The seven banks under our coverage posted an aggregate 3Q24 net profit of THB54.8b, which was in line with expectations, reflecting an increase of 2.3% q-q and 8.5% y-y. PPOP slightly declined by 1.8% q-q but remained stable y-y at THB113.9b. Non-NII grew more than expected, up by 1.9% q-q and 13.6% y-y, mainly driven by stronger-than-anticipated fee income from brokerage commissions and wealth management transactions. Other income also grew, with gains from the MTM of the FVTPL portfolio offsetting the impact of sluggish NII and rising operating expenses.

NII remained soft due to a 1.7% q-q and 2.6% y-y loan contraction. Loan reductions were seen across all segments, particularly in corporate loans (51% of total), which fell due to higher debt repayments. Banks' de-risking strategies affected SME loans (18%), while retail loans (31%) saw declines, especially in auto hire-purchase loans (6%), driven by weak domestic car sales. The 3Q24 NIM was relatively stable q-q at 3.47%, with increased loan yields from a shrinking loan base helping to offset the higher funding costs.

Operating expenses were higher than anticipated, driven by employee-related costs, IT investments, and the development of digital banking infrastructure. Continued losses from selling repossessed vehicles also contributed to the rising expenses. As a result, the cost-to-income ratio climbed to 44.7% from 43.5% in 2Q24.

The 9M24 net profit reached THB163.3b, marking 6.9% y-y growth and representing 81% of our 2024 net profit forecast. 4Q24 net profit should decline, which aligns with the typical seasonal trend. Loan growth will likely rise, driven by increased seasonal demand, supporting NII growth. However, higher operating expenses, the highest of the year, should offset these gains. This period typically sees an uptick in employee and marketing expenses to boost retail loans. Additionally, the aggregate NIM should contract slightly due to the interest rate cut in early November 2024.

The aggregate asset quality was less concerning in 3Q24, particularly in the corporate segment, while SMEs and the retail segment continued deteriorating. New NPL formations and stage 2 loans continued to increase from 2Q24 following the slow, uneven economic recovery and the high level of household debt. However, we view this as manageable. Most banks have proactively managed and sustained the high credit cost level with an on-top management overlay in 3Q24. The NPL ratio rose to 3.76% vs 3.67% in 2Q24, mainly from the loan base contraction. 3Q24 credit costs dropped sharply to 149bp, slightly decreasing the coverage ratio to 183% vs 185% in 2Q24.

## Exhibit 25: Aggregate banks – 3Q24 results summary

| Year end 31 Dec | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | ---- Change ---- | | 9M24 | Change | %of | 2024E | Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (THB m) | (THB m) | (THB m) | (THB m) | (THB m) | (q-q%) | (y-y%) | (THB m) | (y-y %) | 24E | (THB m) | (y-y %) |
| Net interest income | 157,561 | 161,865 | 156,319 | 155,815 | 155,308 | (0.3) | (1.4) | 467,442 | 4.1 | 75 | 626,173 | 2.5 |
| Non-interest income | 44,609 | 43,454 | 48,419 | 49,717 | 50,668 | 1.9 | 13.6 | 148,805 | 2.4 | 76 | 194,747 | 3.2 |
| Fee income - net | 33,258 | 32,140 | 33,445 | 32,346 | 33,710 | 4.2 | 1.4 | 99,502 | (1.1) | 74 | 133,959 | 0.9 |
| Total operating income | 202,170 | 205,318 | 204,738 | 205,532 | 205,977 | 0.2 | 1.9 | 616,246 | 3.7 | 75 | 820,920 | 2.7 |
| Total operating expenses | 88,639 | 100,649 | 90,311 | 89,473 | 92,052 | 2.9 | 3.9 | 271,836 | 6.0 | 73 | 373,317 | 4.5 |
| PPOP before tax | 113,532 | 104,669 | 114,427 | 116,059 | 113,925 | (1.8) | 0.3 | 344,410 | 2.0 | 77 | 447,603 | 1.2 |
| Expected credit loss | 48,343 | 54,320 | 44,501 | 49,186 | 44,903 | (8.7) | (7.1) | 138,590 | (1.5) | 71 | 195,801 | 0.4 |
| Income tax | 13,233 | 5,775 | 13,018 | 11,157 | 12,636 | 13.3 | (4.5) | 36,810 | (5.6) | 83 | 44,198 | (1.3) |
| Non-controlling interest | 1,490 | 1,902 | 1,965 | 2,172 | 1,616 | (25.6) | 8.5 | 5,754 | 11.9 | 80 | 7,202 | 2.2 |
| **Net profit** | **50,467** | **42,673** | **54,943** | **53,543** | **54,770** | **2.3** | **8.5** | **163,256** | **6.9** | **81** | **200,401** | **2.6** |
| EPS (THB) | 10.63 | 8.99 | 11.35 | 11.06 | 11.31 | 2.3 | 6.4 | 33.72 | 4.8 | 81 | 41.39 | 0.6 |
| Key ratios | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | ---- Change ---- | | 9M24 | Change | | 2024E | |
| Asset quality ratio | (%) | (%) | (%) | (%) | (%) | (q-q%) | (y-y%) | (THB m) | (y-y %) | | (%) | |
| Gross NPLs (THB m) | 435,814 | 433,117 | 439,703 | 444,849 | 448,831 | 0.9 | 3.0 | 448,831 | 3.0 | | 453,488 | 4.7 |
| Change (% from prior period) | (0.7) | (0.6) | 1.5 | 1.2 | 0.9 | | | 3.0 | | | 4.7 | |
| NPL ratio (%) | 3.56 | 3.57 | 3.60 | 3.67 | 3.76 | | | 3.76 | | | 3.70 | |
| Coverage ratio (%) | 187 | 190 | 186 | 185 | 183 | | | 183 | | | 188 | |
| Credit cost (bp) | 159 | 178 | 146 | 162 | 149 | | | 153 | | | 161 | |
| Profitability ratio | (%) | (%) | (%) | (%) | (%) | | | | | | (%) | |
| Cost to income ratio | 43.8 | 49.0 | 44.1 | 43.5 | 44.7 | | | 44.1 | | | 45.5 | |
| Average yield (%) | 4.73 | 4.91 | 4.80 | 4.82 | 4.84 | | | 4.86 | | | 4.76 | |
| Cost of funds (%) | 1.46 | 1.59 | 1.63 | 1.66 | 1.69 | | | 1.67 | | | 1.63 | |
| Loan spreads | 3.27 | 3.32 | 3.17 | 3.16 | 3.16 | | | 3.19 | | | 3.13 | |
| NIM (%) | 3.53 | 3.60 | 3.47 | 3.46 | 3.47 | | | 3.49 | | | 3.43 | |
| Non-interest income /total income (%) | 22.1 | 21.2 | 23.6 | 24.2 | 24.6 | | | 24.1 | | | 23.7 | |
| Loan growth | (%) | (%) | (%) | (%) | (%) | | | | | | (%) | |
| q-q | 0.8 | (1.0) | 0.7 | (0.7) | (1.7) | | | | | | | |
| y-y | 0.4 | 0.0 | 1.3 | (0.1) | (2.6) | | | (2.6) | | | 1.2 | |
| Year-to-date | 1.0 | 0.0 | 0.7 | 0.0 | (1.6) | | | (1.6) | | | | |

Sources: Company data; FSSIA estimates

## NII and fee income to return and drive 2025-26E net profit

We estimate an aggregate 2024 net profit of THB200.4b for the banks under our coverage, remaining nearly flat y-y, due mainly to a large base in 2023 following a less positive impact from the interest rate increase compared to 2023. Moreover, the 2024 business guidance from most banks shows a more cautious view on loan growth, NIMs, fee income growth, and sustaining a high level of ECL and credit costs.

For 2025-26, we expect upside risks to our net profit growth rate of 5.4-6.5% y-y, based on our conservative assumptions for loans, fee income growth, and a gradual reduction in credit costs. We have not factored in the expected positive factors to our forecasts following the upcoming government stimulus measures.

Our sensitivity analysis below summarizes the impact on the 2025 net profit forecast in the scenario where loan growth and NIM are below expectations, while credit costs are higher than anticipated.

### Exhibit 26: Sector's 2025E net profit sensitivity on loan growth, NIM, and credit cost

| | BBL | | KBANK | | KTB | | KKP | | SCB | | TISCO | | TTB | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Base | Worse | Base | Worse | Base | Worse | Base | Worse | Base | Worse | Base | Worse | Base | Worse |
| Loan growth; -2ppt | 3.0 | 1.00 | 3.0 | 1.00 | 1.0 | (1.0) | (1.0) | (3.0) | 2.5 | 0.50 | 3.0 | 1.00 | 0.5 | (1.5) |
| *% change in net profit* | | *(2.1)* | | *(1.6)* | | *(2.2)* | | *(1.7)* | | *(1.8)* | | *(2.0)* | | *(1.3)* |
| NIM (%); -5bp | 2.91 | 2.86 | 3.68 | 3.63 | 3.27 | 3.22 | 4.69 | 4.64 | 3.83 | 3.78 | 4.84 | 4.79 | 3.27 | 3.22 |
| *% change in net profit* | | *(4.0)* | | *(3.5)* | | *(4.5)* | | *(3.0)* | | *(3.3)* | | *(1.8)* | | *(3.9)* |
| Credit cost; +10bp | 122 | 112 | 180 | 170 | 135 | 125 | 270 | 260 | 190 | 180 | 100 | 90 | 155 | 145 |
| *% change in net profit* | | *5.5* | | *4.1* | | *5.5* | | *6.8* | | *4.6* | | *2.8* | | *5.4* |

Source: FSSIA estimates

## Maintain a NEUTRAL weight call with KTB and BBL as our top BUYs

We retain our sector's weight call at NEUTRAL, driven by the upcoming catalysts that should support 2025-26 net profit growth. Dividend yields should rise, with most projected to grow to 5.2-5.7% vs 2.5-4.5% over the past three years. Our top picks are KTB (TP THB23.50) and BBL (TP THB184), which should benefit the most from the new investment cycle.

We also recommend buying KBANK (TP THB192). Besides its top ranking in terms of projected net profit growth in 2025-26, we believe it deserves a premium valuation from the highest ESG score in the sector. We recommend TTB (TP THB2.52) as well, due to its attractive dividend yield of 6-7% p.a. Finally, we pick SCB (TP THB112) as a dividend play for its outstanding yields estimated at 10-11% p.a. under an 80% payout ratio assumption.

## Sector's comparative overview of ESG performance

Across the banking sector, the seven banks under our coverage are making varied progress in integrating ESG principles into their business strategies. The overarching trend is a collective commitment to sustainable finance, with a particular emphasis on achieving net-zero emissions, promoting financial inclusion, and establishing strong governance frameworks. However, the pace and depth of these efforts vary significantly across institutions, with some leading the charge, while others struggle to align with long-term sustainability goals.

In general, KBANK and SCB emerge as the clear leaders in ESG performance, followed by TTB and KKP. Banks like BBL, KTB, and TISCO are facing more challenges, especially on the environmental front, lagging behind their peers in both emissions reduction and green financing efforts.

**Environmental**: In terms of environmental impact, KBANK and SCB have demonstrated the most significant progress. KBANK leads the sector with its achievements in reducing operational carbon emissions, cutting 12.74% of its greenhouse gas emissions in 2023 from a 2020 baseline, surpassing its 12.6% target. Similarly, SCB has made strides by outlining a comprehensive roadmap to achieve net-zero emissions by 2030, achieving a 5% reduction in 2023 and aiming for 10% in 2024. SCB has not only set explicit short- and long-term goals but has also laid out detailed strategies, such as investing in solar energy and switching to environmentally friendly office appliances, positioning it as a leader in operational sustainability.

In contrast, BBL and KTB face more significant environmental hurdles. BBL saw only a 3.13% reduction in Scope 2 emissions, while its Scope 1 emissions increased by 48.48%, reflecting a setback in environmental management. KTB's progress toward its 2030 net-zero target has been sluggish, as it only introduced its emission reduction goals in 2022, trailing behind its peers who began in 2020.

**Green financing:** Specifically for the banking sector, we view green lending being a crucial solution for banks to promotion emission reduction, not only for themselves but also their customers.

Among big banks in 2023, we observed that KBANK has the most outstanding proportion of ESG-related loans at 2.8% of its total loans, which expands across corporate (renewable project developers), SME, and retail segments (EV, green home loans). In contrast, between smaller-sized banks, TISCO has the highest green loan concentration at 5.3% (top-notch of our coverage), owing to its corporate customers, which secured high exposure to renewable energy firms.

**Social:** On the social front, KBANK once again outperforms its peers. The bank's financial literacy programs reached 52,500 participants in 2023, making it a standout in terms of its focus on vulnerable communities and inclusion. SCB is also a leader here. SCB's continued recognition in the Bloomberg Gender-Equality Index is a testament to its commitment to fostering a diverse and inclusive workplace.

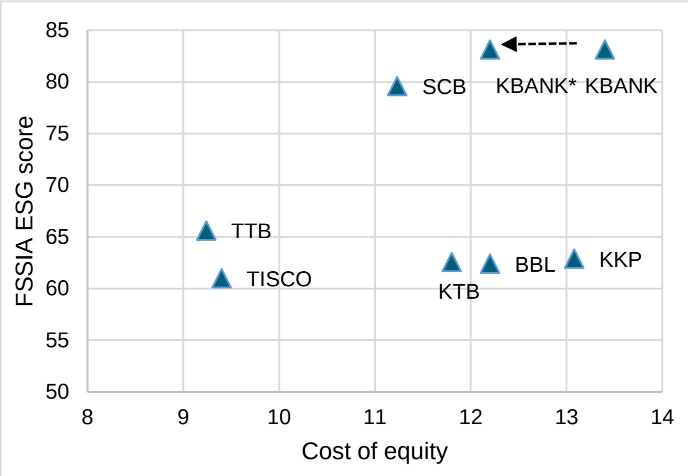
BBL and KTB, while making efforts in financial inclusion, do not exhibit the same depth of commitment in their social programs. KTB's digital financial education platform reached over 1.0m people, but its broad approach lacks the targeted impact of KBANK or SCB, which focus on vulnerable communities and specific social issues such as gender equality.

**Governance:** In terms of governance, all banks display robust governance structures. KBANK leads with its global recognition, earning an AA rating from MSCI and maintaining a place in the Dow Jones Sustainability Index for eight consecutive years, highlighting its focus on transparency, ethical business practices, and comprehensive risk management. SCB is not far behind, consistently achieving high corporate governance scores and maintaining rigorous cybersecurity and data protection protocols. Moreover, TTB has been recognized for its governance by being included in the FTSE4Good Index for eight consecutive years, demonstrating its focus on responsible and ethical business practices.

**Recommendation:** Considering the combined performance across all ESG pillars, KBANK and SCB emerge as the top performers in the Thai banking sector. KBANK leads the sector with its environmental achievements, broad social inclusion programs, and global recognition for governance. SCB, with its explicit net-zero roadmap, commitment to financial inclusion, and strong diversity programs, follows closely as a well-rounded ESG leader. Both banks are well-positioned to attract ESG-conscious investors due to their comprehensive sustainability strategies and consistent track records.

TTB and KKP show promise, particularly in social impact and governance, but still need to strengthen their environmental performance to compete with the leaders. BBL, and KTB, while maintaining strong governance, are lagging in environmental sustainability and social initiatives, making them less attractive for investors focused on a well-rounded ESG performance.

### Exhibit 27: 2025E cost of equity vs FSSIA ESG scores




Source: FSSIA estimates

### Exhibit 28: 2025E cost of equity vs FSSIA ESG scores (table)

| | Current COE (%) | FSSIA ESG score |
|---|---|---|
| **BBL** | **12.2** | **62** |
| KBANK | 13.4 | 83 |
| SCB | 11.23 | 80 |
| KTB | 11.8 | 63 |
| TTB | 9.24 | 66 |
| TISCO | 9.4 | 61 |
| KKP | 13.08 | 63 |
| **KBANK (Adjusted COE)** | **12.2** | **83** |

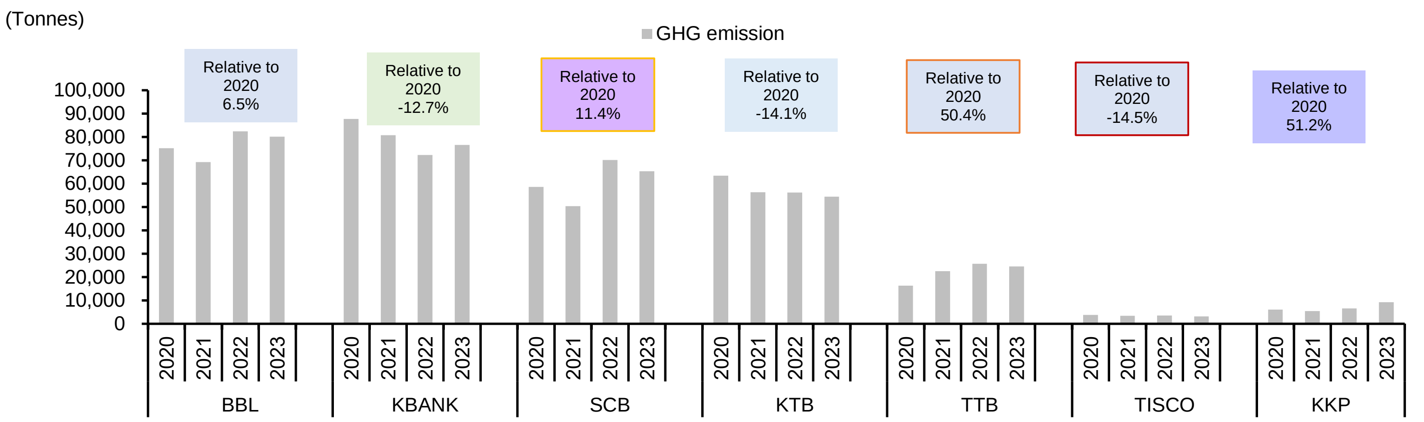
Source: FSSIA estimates

### Exhibit 29: ESG – peers comparison

| | FSSIA | ------------------ Domestic ratings | | | | | ---------------------- | ------------------------------ Global ratings | | | | | ----------------------- | --- Bloomberg --- | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ESG score | DJSI | SET THSI | THSI | CG score | AGM level | Thai CAC | Morningstar ESG risk | ESG Book | MSCI | Moody's | Refinitiv | S&P Global | ESG score | Disclosure score |
| SET100 | 70.66 | 5.69 | 4.40 | 4.05 | 4.81 | 4.50 | 4.04 | Medium | 57.14 | BBB | 23.05 | 60.65 | 66.19 | 3.72 | 28.17 |
| Coverage | 66.38 | 5.37 | 4.15 | 4.00 | 4.65 | 4.31 | 3.64 | Medium | 52.68 | BB | 18.59 | 58.02 | 61.99 | 3.40 | 31.94 |
| BBL | 62.41 | -- | Y | AA | 5.00 | 4.00 | Certified | Medium | 59.26 | -- | 41.00 | 62.71 | 69.00 | 2.19 | 60.06 |
| KBANK | 83.13 | Y | Y | AAA | 5.00 | 5.00 | Certified | Medium | 51.11 | AA | 48.00 | 73.64 | 86.00 | 4.05 | 59.77 |
| KTB | 62.57 | -- | Y | AAA | 5.00 | 4.00 | Certified | Medium | 64.47 | BBB | 36.00 | 60.53 | 61.00 | 2.12 | 59.11 |
| SCB | 79.60 | Y | Y | AA | 5.00 | 4.00 | Certified | Medium | 50.11 | A | -- | 77.07 | 85.00 | 3.43 | -- |
| KKP | 62.90 | -- | Y | BBB | 5.00 | 5.00 | Certified | Medium | 54.19 | BBB | -- | 75.73 | 26.00 | 2.18 | 45.90 |
| TISCO | 60.99 | -- | Y | AAA | 5.00 | 5.00 | Certified | Medium | 65.63 | -- | -- | 63.45 | 26.00 | 3.57 | 44.21 |
| TTB | 65.62 | -- | Y | AA | 5.00 | 5.00 | Certified | Medium | 62.10 | BBB | 39.00 | 59.32 | 68.00 | 3.20 | 52.96 |

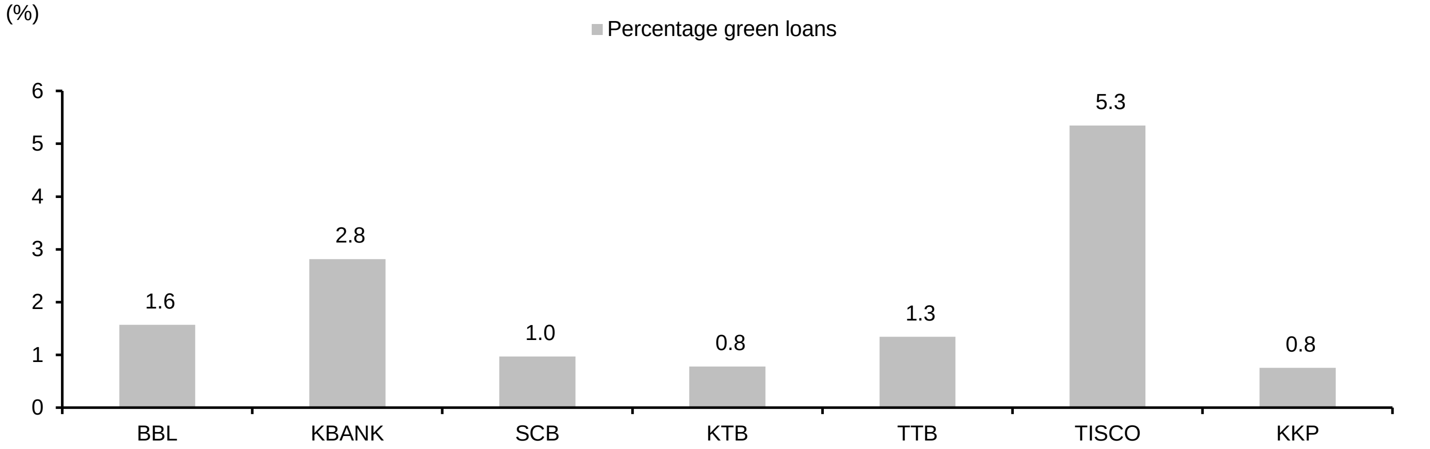
Sources: SETTRADE.com; FSSIA's compilation

### Exhibit 30: GHG emissions of banks under coverage, 2020-23



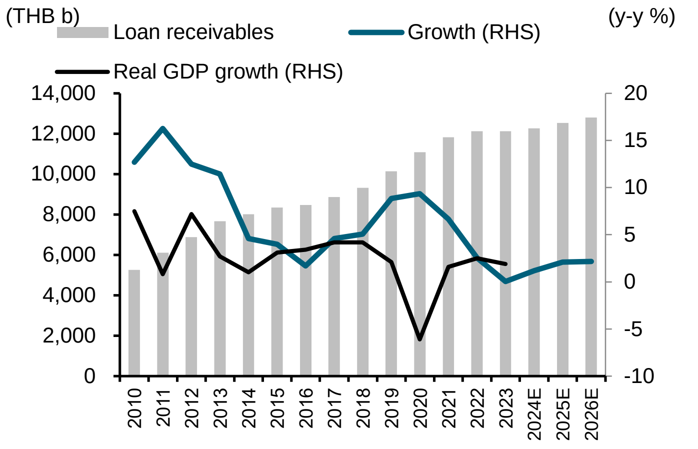

Sources: Company data; FSSIA's compilation

### Exhibit 31: ESG-related loans to percentage of total portfolio, as of 2023



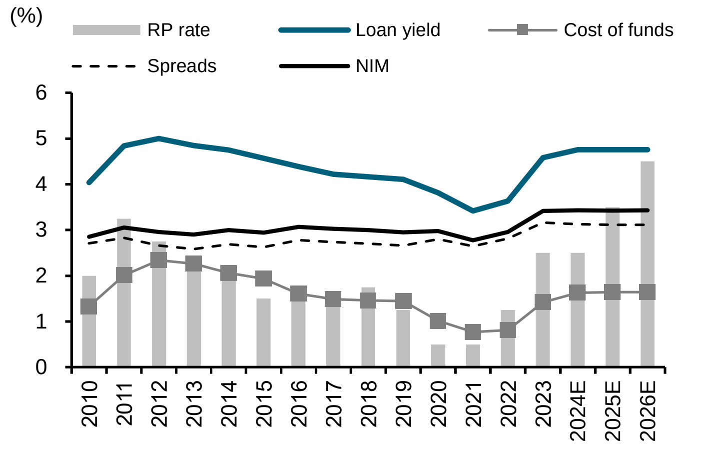

Sources: Company data; FSSIA's compilation

### Exhibit 32: Loan growth vs real GDP growth, 2010-26E



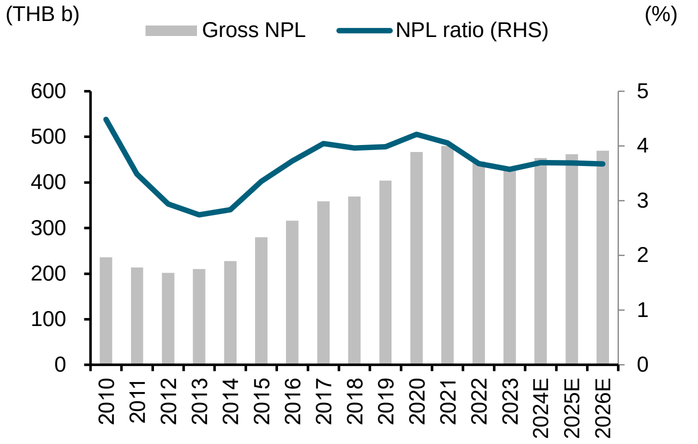

Sources: Company data; FSSIA estimates

### Exhibit 33: Yields, cost of funds, and spreads, 2010-26E



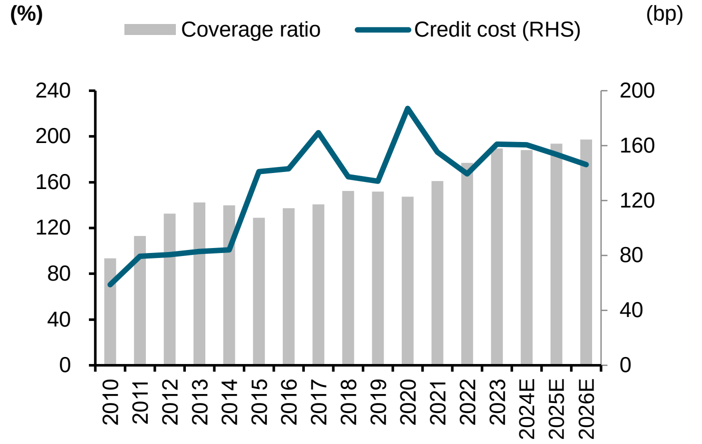

Sources: Company data; FSSIA estimates

### Exhibit 34: NPLs and NPL ratio, 2010-26E




Sources: Company data; FSSIA estimates

### Exhibit 35: Coverage ratio and credit cost, 2010-26E



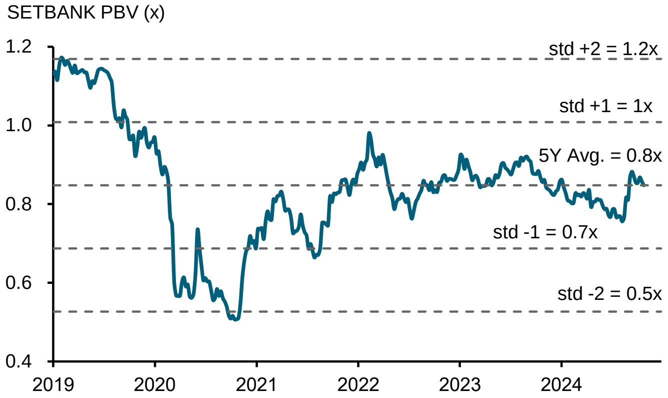

Sources: Company data; FSSIA estimates

### Exhibit 36: Aggregate banks – key financial summary, as of 25 October 2024

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|---|---|---|
| Net profit (THB m) | 167,006 | 156,017 | 111,916 | 145,315 | 165,342 | 195,360 | 200,401 | 211,806 | 226,204 |
| EPS (THB) | 39.7 | 35.6 | 25.5 | 33.2 | 34.7 | 41.14 | 41.4 | 43.7 | 46.7 |
| Change y-y | -5.0% | -10.3% | -28.3% | 29.8% | 4.8% | 18.4% | 0.6% | 5.7% | 6.8% |
| P/E (x) | 11.1 | 9.5 | 13.2 | 12.5 | 11.2 | 9.3 | 9.6 | 9.1 | 8.5 |
| BVS (THB) | 393.2 | 422.3 | 441.4 | 473.1 | 455.1 | 479.0 | 491.4 | 511.4 | 536.8 |
| P/B (x) | 1.1 | 0.8 | 0.8 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| ROE (%) | 20.2 | 8.9 | 5.9 | 7.3 | 7.8 | 8.8 | 8.6 | 8.7 | 8.9 |
| ROA (%) | 2.4 | 1.1 | 0.7 | 0.8 | 0.9 | 1.1 | 1.1 | 1.1 | 1.1 |
| Dividend yield (%) | 3.5 | 4.8 | 2.3 | 2.5 | 3.6 | 5.2 | 5.2 | 5.5 | 5.9 |

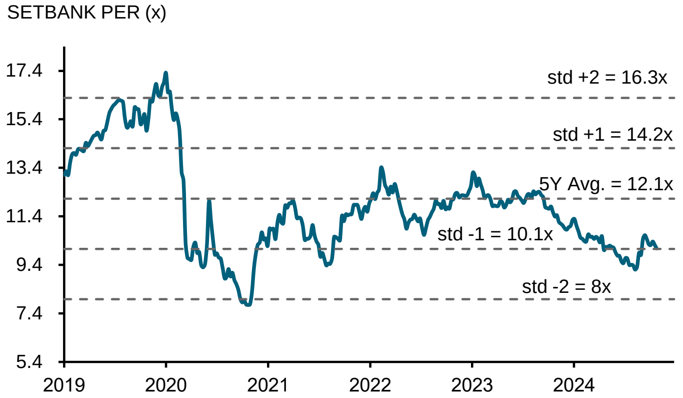
Sources: Company data; Bloomberg; FSSIA estimates

### Exhibit 37: SETBANK – one-year prospective P/BV band




Sources: Bloomberg; FSSIA estimates

### Exhibit 38: SETBANK – one-year prospective PER band




Sources: Bloomberg; FSSIA estimates

## Exhibit 39: Peer regional banks comparison, as of 28 Oct 2024

| Company name | BBG code | Share price (LCY) | Target price (LCY) | Upside (%) | Market Cap. (USD m) | PE 24E (x) | PE 25E (x) | PBV 24E (x) | PBV 25E (x) | ROE 24E (%) | ROE 25E (%) | Div yld 24E (x) | Div yld 25E (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Thailand | | | | | | | | | | | | | |
| Bangkok Bank | BBL TB | 150.50 | 184.00 | *22* | 8,488 | 6.8 | 6.6 | 0.5 | 0.5 | 7.7 | 7.6 | 4.8 | 5.0 |
| Kasikornbank | KBANK TB | 149.00 | 192.00 | *29* | 10,430 | 7.7 | 7.0 | 0.6 | 0.6 | 8.6 | 9.0 | 6.0 | 6.7 |
| Krung Thai Bank | KTB TB | 20.90 | 23.50 | *12* | 8,630 | 7.8 | 7.5 | 0.7 | 0.6 | 9.1 | 8.8 | 4.3 | 4.4 |
| SCB X | SCB TB | 115.00 | 112.00 | *(3)* | 11,441 | 9.4 | 9.0 | 0.8 | 0.8 | 8.6 | 8.8 | 8.5 | 8.9 |
| TMBThanachart Bank | TTB TB | 1.78 | 2.52 | *42* | 5,117 | 8.1 | 7.4 | 0.7 | 0.7 | 9.1 | 9.4 | 7.4 | 8.1 |
| Kiatnakin Bank | KKP TB | 54.50 | 50.30 | *(8)* | 1,344 | 10.5 | 9.5 | 0.7 | 0.7 | 7.0 | 7.5 | 4.6 | 5.0 |
| Tisco Financial Group | TISCO TB | 97.00 | 98.00 | *1* | 2,295 | 11.2 | 11.3 | 1.8 | 1.8 | 16.1 | 15.6 | 8.0 | 8.0 |
| **Thailand weighted average** | | | | | **6,821** | **9.0** | **8.5** | **0.8** | **0.7** | **8.6** | **8.7** | **5.6** | **6.0** |
| Hong Kong | | | | | | | | | | | | | |
| Industrial & Comm Bank of China | 1398 HK | 4.70 | n/a | *n/a* | 281,165 | 4.4 | 4.4 | 0.4 | 0.4 | 9.9 | 9.3 | 7.1 | 7.1 |
| China Construction Bank | 939 HK | 6.08 | n/a | *n/a* | 197,934 | 4.2 | 4.2 | 0.4 | 0.4 | 10.5 | 10.0 | 7.1 | 7.2 |
| HSBC Holdings | 5 HK | 69.05 | n/a | *n/a* | 166,194 | 7.2 | 7.4 | 1.0 | 0.9 | 13.6 | 12.5 | 8.6 | 6.8 |
| Bank of China | 3988 HK | 3.77 | n/a | *n/a* | 184,966 | 4.7 | 4.6 | 0.4 | 0.4 | 9.3 | 8.9 | 6.8 | 6.9 |
| **Hong Kong average** | | | | | **207,565** | **5.1** | **5.1** | **0.6** | **0.5** | **10.8** | **10.2** | **7.4** | **7.0** |
| China | | | | | | | | | | | | | |
| Industrial & Comm Bank of China | 601398 CH | 6.06 | n/a | *n/a* | 281,161 | 6.1 | 6.0 | 0.6 | 0.6 | 9.9 | 9.3 | 5.0 | 5.0 |
| Agricultural Bank of China | 601288 CH | 4.79 | n/a | *n/a* | 229,747 | 6.4 | 6.3 | 0.6 | 0.6 | 10.2 | 9.8 | 4.9 | 4.9 |
| China Construction Bank | 601939 CH | 8.01 | n/a | *n/a* | 197,931 | 6.1 | 6.0 | 0.6 | 0.6 | 10.6 | 10.0 | 4.9 | 5.0 |
| Bank of China | 601988 CH | 4.90 | n/a | *n/a* | 184,963 | 6.5 | 6.5 | 0.6 | 0.6 | 9.3 | 8.9 | 4.8 | 4.9 |
| **China average** | | | | | **223,451** | **6.3** | **6.2** | **0.6** | **0.6** | **10.0** | **9.5** | **4.9** | **4.9** |
| South Korea | | | | | | | | | | | | | |
| KB Financial Group | 105560 KS | 95,500 | n/a | *n/a* | 27,128 | 7.2 | 6.4 | 0.6 | 0.6 | 9.1 | 9.3 | 3.3 | 3.7 |
| Shinhan Finanicial Group | 055550 KS | 56,700 | n/a | *n/a* | 20,849 | 6.0 | 5.6 | 0.5 | 0.5 | 9.0 | 9.0 | 3.8 | 4.2 |
| Hana Financial Group | 086790 KS | 65,000 | n/a | *n/a* | 13,477 | 5.0 | 4.7 | 0.5 | 0.4 | 9.4 | 9.3 | 5.5 | 5.9 |
| Industrial Bank of Korea | 024110 KS | 14,530 | n/a | *n/a* | 8,364 | 4.4 | 4.2 | 0.4 | 0.3 | 8.6 | 8.4 | 7.1 | 7.6 |
| **South Korea average** | | | | | **17,455** | **5.6** | **5.2** | **0.5** | **0.5** | **9.0** | **9.0** | **4.9** | **5.4** |
| Indonesia | | | | | | | | | | | | | |
| Bank Central Asia | BBCA IJ | 10,600 | n/a | *n/a* | 82,465 | 23.9 | 21.9 | 4.9 | 4.5 | 21.4 | 21.4 | 2.7 | 2.9 |
| Bank Rakyat Indonesia Persero | BBRI IJ | 4,760 | n/a | *n/a* | 45,359 | 11.8 | 10.7 | 2.2 | 2.1 | 19.1 | 19.9 | 6.9 | 7.3 |
| Bank Mandiri Persero | BMRI IJ | 6,825 | n/a | *n/a* | 39,947 | 11.1 | 10.1 | 2.2 | 2.0 | 20.7 | 20.9 | 5.3 | 5.6 |
| Bank Negara Indonesia Persero | BBNI IJ | 5,500 | n/a | *n/a* | 12,652 | 9.0 | 7.9 | 1.2 | 1.1 | 14.3 | 15.0 | 5.3 | 5.9 |
| Bank Syariah Indonesia | BRIS IJ | 3,010 | n/a | *n/a* | 8,658 | 20.0 | 16.5 | 3.0 | 2.6 | 16.3 | 17.1 | 0.7 | 1.1 |
| **Indonesia average** | | | | | **37,816** | **15.2** | **13.4** | **2.7** | **2.5** | **18.4** | **18.9** | **4.2** | **4.6** |
| Malaysia | | | | | | | | | | | | | |
| Malayan Banking | MAY MK | 10.40 | n/a | *n/a* | 28,826 | 12.4 | 11.9 | 1.3 | 1.3 | 10.4 | 10.6 | 6.0 | 6.3 |
| Public Bank | PBK MK | 4.46 | n/a | *n/a* | 19,897 | 12.5 | 11.8 | 1.5 | 1.4 | 12.4 | 12.4 | 4.6 | 4.8 |
| CIMB Group Holdings | CIMB MK | 8.02 | n/a | *n/a* | 19,745 | 11.1 | 10.3 | 1.2 | 1.1 | 11.1 | 11.3 | 5.7 | 5.6 |
| Hong Leong Bank | HLBK MK | 20.86 | n/a | *n/a* | 10,178 | 10.2 | 9.5 | 1.2 | 1.1 | 11.6 | 11.6 | 3.3 | 3.7 |
| RHB Bank | RHBBANK MK | 6.36 | n/a | *n/a* | 6,384 | 9.3 | 8.8 | 0.9 | 0.8 | 9.3 | 9.5 | 6.3 | 6.5 |
| **Malaysia average** | | | | | **17,006** | **11.1** | **10.4** | **1.2** | **1.1** | **11.0** | **11.1** | **5.2** | **5.4** |
| Singapore | | | | | | | | | | | | | |
| DBS Group Holdings | DBS SP | 39.08 | n/a | *n/a* | 84,133 | 10.3 | 10.5 | 1.7 | 1.6 | 17.2 | 15.9 | 5.7 | 6.2 |
| Oversea-Chinese Banking | OCBC SP | 15.27 | n/a | *n/a* | 52,103 | 9.2 | 9.3 | 1.2 | 1.1 | 13.6 | 12.7 | 5.8 | 5.8 |
| United Overseas Bank | UOB SP | 32.41 | n/a | *n/a* | 41,085 | 9.2 | 8.9 | 1.2 | 1.1 | 12.9 | 12.6 | 5.5 | 5.6 |
| **Singapore average** | | | | | **59,107** | **9.5** | **9.6** | **1.4** | **1.3** | **14.5** | **13.7** | **5.6** | **5.9** |
| **Regional average (excl. Thailand)** | | | | | **89,812** | **9.1** | **8.6** | **1.2** | **1.1** | **12.4** | **12.2** | **5.3** | **5.5** |
| **Total average (incl. Thailand)** | | | | | **71,658** | **9.1** | **8.5** | **1.1** | **1.1** | **11.7** | **11.6** | **5.5** | **5.7** |

Sources: Bloomberg; 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 (60-69), 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%). *(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.)* | 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. *(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.)* | 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. *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.* | A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored.<br>**NEGL** 0-10; **Low** 10-20; **Medium** 20-30; **High** 30-40; **Severe** 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. | |

| | | | |
|---|---|---|---|
| **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 | **Average:** | a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers |
| **BBB** | 4.286-5.713 | | |
| **BB** | 2.857-4.285 | | |
| **B** | 1.429-2.856 | **Laggard:** | lagging its industry based on its high exposure and failure to manage significant ESG risks |
| **CCC** | 0.000-1.428 | | |

| ESG score | Methodology |
|---|---|
| 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. *(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)* |
| 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.

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 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 150.50 | BUY | Downside risks to our GGM-based TP are 1) prolonged economic sluggishness affecting loan growth and asset quality; and 2) an impact of new regulations from the Bank of Thailand. |
| Kasikornbank | KBANK TB | THB 149.00 | HOLD | 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. Upside risks are 1) government stimulus projects leading to economic recovery; and 2) rising NIM from well-controlled cost of funds. |
| Krung Thai Bank | KTB TB | THB 20.90 | 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 115.00 | 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 1.78 | 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 Phatra Bank | KKP TB | THB 54.50 | HOLD | Downside risks to our GGM-based target price include weakened asset quality and lower fee income. By contrast, upside risks include better capital market conditions, higher used car prices, and strengthened asset quality. |
| Tisco Financial | TISCO TB | THB 97.00 | HOLD | 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. Upside risks are 1) aggressive loan growth; and 2) well-controlled asset quality. |

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 28-Oct-2024 unless otherwise stated.

# RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / 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.