

24 JULY 2023

# SPOTLIGHT ON THAILAND

## Published Reports

- SC ASSET CORPORATION (SC TB) - Flatish earnings expected in 2Q23; Maintain BUY TP THB5.00
- KASIKORNBANK (KBANK TB) - 2Q23 results at first glance; Maintain BUY TP THB150.00
- BANGKOK BANK (BBL TB) - 2Q23 results at first glance; Maintain BUY TP THB197.00
- TMBTHANACHART BANK (TTB TB) - Key takeaways from analyst meeting; Maintain BUY TP THB1.83
- BANGCHAK CORP (BCP TB) - No impact on oil retail margins; Maintain BUY TP THB42.70

## Results Comments

- SCB X (SCB TB, TP THB123) - 2Q23 results beat our estimate by 6%
- Krungthai Bank (KTB TB, TP THB23.10) - 2Q23 results in line with our estimates and consensus
- Kiatnakin Bank (KKP TB, TP THB65) - 2Q23 results was significantly lower than estimates
- Thailand banks - 2Q23 results beat our estimates by 4%

## Key takeaways from Analyst Meeting

- SCB X (SCB TB, TP THB123) - Key takeaways from analyst meeting

## Economics

- BoT unveils measures to tackle household debt
- India aims to trade electricity with Asean
- Rice prices set to climb further
- Stocks fall amid political chaos
- Regime urged to rev up EEC growth
- Budget jitters

## Corporate News

- New firms surge amid Thai recovery
- MJD upbeat on B7bn presales target

Indices	Index as of 21-Jul-23	Change -1D (%)	Change YTD (%)	Net Foreign YTD (USD m)
Thailand SET	1,529	0.5	(8.4)	(3,350)
China SHCOMP	3,168	(0.1)	2.5	
Hong Kong HSI	19,075	0.8	(3.6)	
India SENSEX	66,684	(1.3)	9.6	15,056
Indonesia JCI	6,881	0.2	0.4	1,351
Korea KOSPI	2,610	0.4	16.7	9,153
MY FBMKLCI	1,414	0.5	(5.5)	
PH PCOMP	6,648	0.5	1.2	(409)
SG FSSTI	3,278	0.1	0.8	
Taiwan TWSE	17,031	(0.8)	20.5	8,717
VN VNINDEX	1,186	1.1	17.8	(91)
MSCI Emerging	1,015	(0.3)	6.1	
Nikkei 225	32,304	(0.6)	23.8	
FTSE 100	7,664	0.2	2.8	
CAC 40	7,433	0.6	14.8	
DAX	16,177	(0.2)	16.2	
Dow Jones	35,228	0.0	6.3	
Nasdaq	14,033	(0.2)	34.1	
S&P 500	4,536	0.0	18.1	
Brent	81.07	(0.6)	(6.2)	
Dubai	81.69	1.4	3.9	
WTI	77.07	(0.6)	(4.5)	
GOLD	1,961.94	0.0	7.6	

Trade data (THB m)	Buy (THB m)	Sell (THB m)	Net (THB m)	Share (%) (THB m)
Foreign	26,389	26,973	(585)	52
Retail	16,966	15,811	1,154	32
Prop Trade	4,722	4,428	294	9
Local Institution	3,626	4,489	(863)	8
Total Trade	51,702	51,702	(0)	100

Rates	Last close 21/7/2023	1M ago 21/6/2023	End last yr 30/12/2022	1yr ago 21/7/2022
THB/USD	34.45	34.85	34.61	36.92
Inflation *	0.23	0.53	5.89	7.66
MLR **	6.87	6.87	5.83	5.31
1Y Fixed *	1.41	1.41	0.99	0.43
Govt bond 10Y	2.59	2.60	2.64	2.63

Commodity (USD/bbl)	Last close 21/7/2023	1M ago 21/6/2023	End last yr 30/12/2022	1yr ago 21/7/2022
Brent	81.07	73.85	85.91	103.20
Dubai	81.69	76.35	78.66	103.87
WTI	77.07	69.16	80.26	94.70
Gold	1,962	1,923	1,824	1,720
Baltic Dry	978	1,240	1,515	2,146
(USD/ton)	21-Jul-23	14-Jul-23	25-Dec-20	22-Jul-22
Coal	130.10	128.88	84.45	425.35
% change	0.9	0.0	54.1	(69.4)

\* chg y-y% last at end of most recent month end; \*\* Avg of 4 major banks;

Sources: Bloomberg, except coal from BANPU

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### Thailand Equity Sales:

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## Published Reports

### SC ASSET CORPORATION (SC TB) - Flattish earnings expected in 2Q23; Maintain BUY TP THB5.00

#### Unexciting 2Q23E transfers due to late-quarter launches

We expect 2Q23 transfers of THB4.95b (+6% q-q, -1% y-y), slightly below management's target of THB5.2b. Of the total, 77% would be low-rise and 23% condo projects. Low-rise transfers should post THB3.8b, flat q-q but dropping 14% y-y. Though SC had a number of new low-rise projects with great responses, most of them were launched in late May to June. Also, the buyers usually inspect the properties for around 1-2 months before transferring. Low-rise transfers would mainly come from the gradual backlog realisation. 2Q23 condo transfers should reach THB1.1b (+25% q-q, +105% y-y) from continued transfers of SCOPE Langsuan from 4Q22, representing 53% of 2Q23E condo transfers.

#### Expect moderate 2Q23 performance

We project a moderate 2Q23 net profit of THB540m (+1% q-q, -7% y-y), near our previous expectation. Though its property gross margin should drop to 31.3% from project mix (vs 32.2% in 1Q23), 2Q23 profit could be stable q-q as transfers recover with a gain from an investment in the new JV condo project, Reference Sathorn-Wongwianyai. However, the y-y drop in earnings would be due to a projected increase in SG&A to sales to 19.1% (vs 18.3% in 2Q22) following more new launches and rising financial costs from the interest rate hikes. For JV projects, we assume a 2Q23 share of profit from its JVs of THB20m (vs a loss of THB2m in 2Q22) from improving presales for The Crest Park Residence condo.

#### Solid backlog, plus more new launches to drive 2H23

Assuming in-line results, SC's 1H23 net profit would equal THB1.1b (+11% y-y), accounting for 41% of our full-year forecast. 2H23 earnings should rise h-h, growing q-q in every quarter, supported by a solid low-rise backlog realisation of THB6.8b at end-2Q23, up from THB5.3b in 1Q23. Aside from that, there are 14 new low-rise project launches worth THB21b planned in 2H23 (vs 8 projects worth THB11b in 1H23).

#### Maintain BUY with a TP of THB5.0

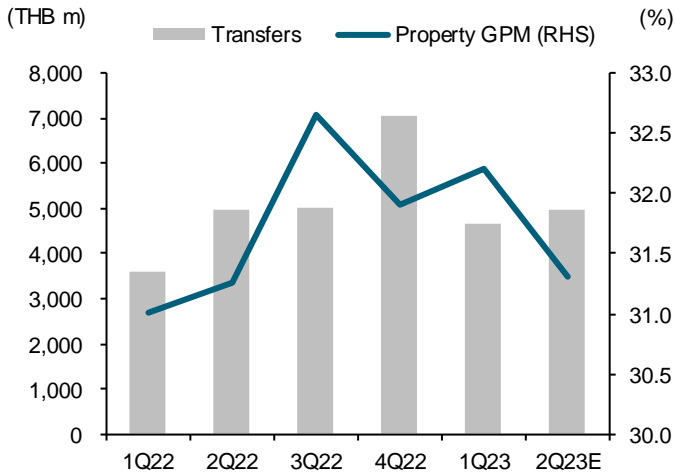
We maintain BUY with the same TP of THB5.0. More aggressive launch plans for 2Q-4Q23 would further accelerate its positive presales and transfers, with its strong market share in the housing market. Moreover, we expect a DPS of THB0.09 for 1H23, implying a dividend yield of 2%.

#### Exhibit 1: 2Q23 results preview

	2Q22	3Q22	4Q22	1Q23	2Q23E	----- Change -----	
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)
Total revenue	5,204	5,244	7,308	4,922	5,200	5.6	(0.1)
Cost of sales	3,510	3,469	4,861	3,265	3,502	7.3	(0.2)
Gross profit	1,693	1,775	2,447	1,657	1,698	2.4	0.2
SG&A	951	935	1,264	921	996	8.1	4.7
Operating profit	743	839	1,183	737	702	(4.7)	(5.5)
Interest expense	18	29	65	95	95	0.2	423.8
Tax	155	175	238	140	135	(4.0)	(12.9)
Associates	(2)	(2)	64	29	20	(29.9)	n/a
Reported net profit	581	652	935	535	540	1.0	(7.1)
Normalised profit	581	653	976	535	540	1.0	(7.1)
<b>Key ratios (%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(ppt)</b>	<b>(ppt)</b>
Property gross margin	31.3	32.6	31.9	32.2	31.3	(0.9)	0.0
Gross margin	32.5	33.8	33.5	33.7	32.6	(1.0)	0.1
SG&A to sales	18.3	17.8	17.3	18.7	19.1	0.4	0.9
Operating margin	14.3	16.0	16.2	15.0	13.5	(1.5)	(0.8)
Net profit margin	11.2	12.4	12.8	10.9	10.4	(0.5)	(0.8)
Normalised profit margin	11.2	12.5	13.4	10.9	10.4	(0.5)	(0.8)
<b>Operating statistics</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(THB m)</b>	<b>(q-q%)</b>	<b>(y-y%)</b>
<b>Property transfers</b>	<b>4,975</b>	<b>5,009</b>	<b>7,061</b>	<b>4,673</b>	<b>4,950</b>	<b>6</b>	<b>(1)</b>
-- Low-rise	4,418	4,580	5,218	3,759	3,812	1	(14)
-- High-rise	557	429	1,843	914	1,139	25	105
<b>Presales</b>	<b>6,736</b>	<b>5,161</b>	<b>7,286</b>	<b>4,918</b>	<b>7,300</b>	<b>48</b>	<b>8</b>
-- Low-rise	5,119	4,181	5,648	3,256	5,475	68	7
-- High-rise	1,617	980	1,638	1,662	1,825	10	13
<b>New launches</b>	<b>13,785</b>	<b>9,940</b>	<b>18,960</b>	<b>930</b>	<b>16,250</b>	<b>1,647</b>	<b>18</b>

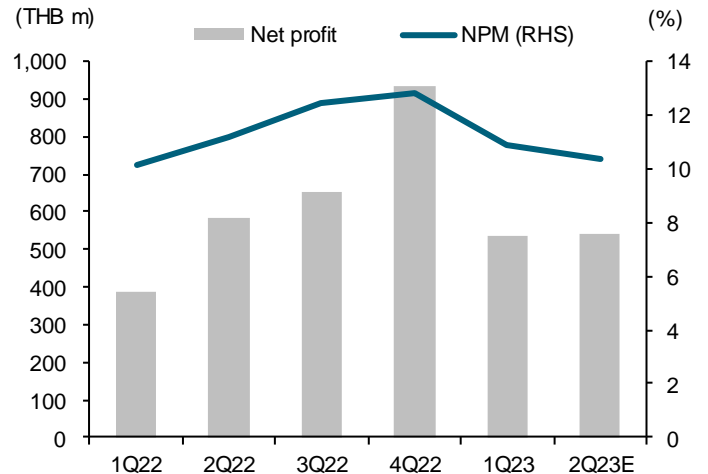
Sources: SC; FSSIA estimates

**Exhibit 2: Quarterly transfers and property GPM**



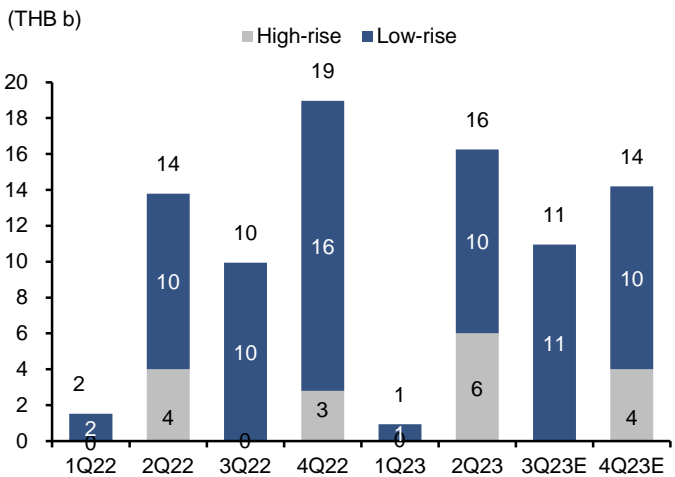
Sources: SC; FSSIA estimates

**Exhibit 3: Quarterly net profit and NPM**



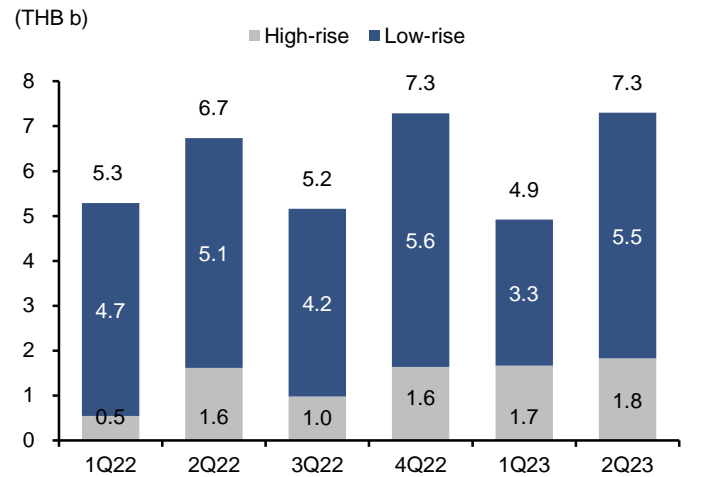
Sources: SC; FSSIA estimates

**Exhibit 4: Quarterly new launches**



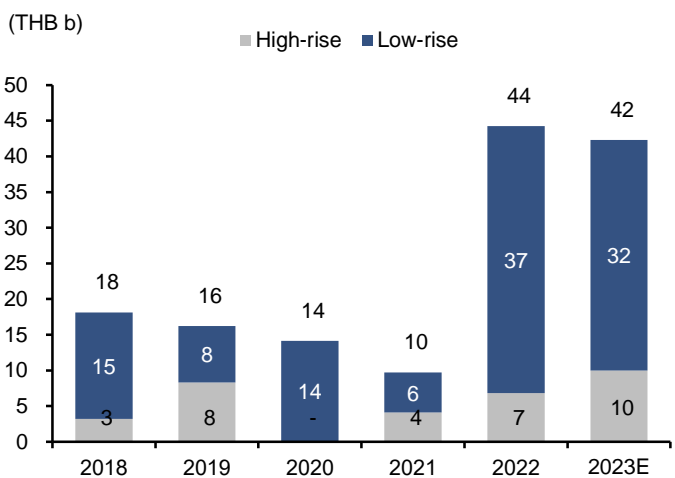
Sources: SC; FSSIA's compilation

**Exhibit 5: Quarterly presales**



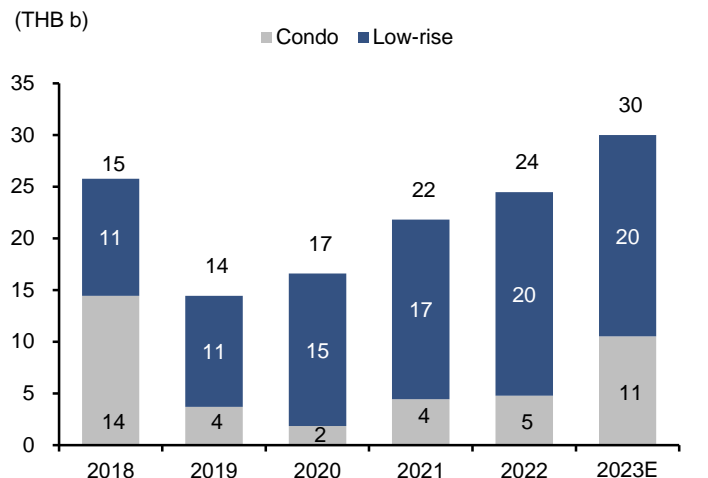
Sources: SC; FSSIA's compilation

**Exhibit 6: Yearly new launches**



Sources: SC; FSSIA's compilation

**Exhibit 7: Yearly presales**



Sources: SC; FSSIA's compilation

## KASIKORNBANK (KBANK TB) - 2Q23 results at first glance; Maintain BUY TP THB150.00

### 2Q23 results in line with our estimates

KBANK posted a 2Q23 net profit of THB11b, in line with our estimate and Bloomberg's consensus projection. Earnings were up 2% q-q and 2% y-y, supported by stronger net interest income (NII) and higher non-interest income (mainly from FVTPL). KBANK's 1H23 profit accounts for 53% of our 2023 earnings estimate. Weakening asset quality was a main concern in this quarter.

#### Highlights

- (+) NII was THB36.7b, up 5% q-q and 15% y-y, in line with our expectation, supported by a better-than expected NIM which rose by 17bp to 3.64% in 2Q23 during the interest rate hike cycle.
- (-) Loans dropped by 0.6% q-q and 1.6% y-y, pressured by its non-performing loan (NPL) management (e.g., debt restructuring, sales, and written-off loans).
- (-) Non-NII contracted by 3% q-q, but increased 20% y-y, mainly due to lower fee income from the brokerage and fund management businesses, in line with market conditions, and a drop in transaction service fees. Higher-than expected other non-NII reflected the higher-than-expected FVTPL (financial instruments measured at fair value through profit or loss) according to market conditions. For net premiums earned, there was a net decrease y-y from higher underwriting expenses, although net premiums earned still grew.
- (-) Operating expenses rose by 5% q-q and 15% y-y due to an increase in marketing expenses and premises and equipment expenses. Hence, the cost-to-income ratio (CTI) rose to 43.4% from 42.5% in 1Q23. However, the 1H23 CTI ratio at 42.9% was still in line with our forecast of 43% and the bank's target of low to mid-40%.
- (-) Asset quality was the main concern in this period. The NPL ratio ticked up to 3.83% from 3.56% in 1Q23, despite having aggressive write-offs and NPL sales in the quarter. The NPL inflow was mainly from SMEs (especially small SMEs) and retail loans. Credit cost in 2Q23 slightly increased to 208bp from 205bp in 1Q23, exceeding the upper range of KBANK's 2023 target of 175-200bp, but it was relatively in line with our forecast of 210bp. In all, the NPLs, which increased at a higher rate compared to the increase in allowance for expected credit losses (ECL), pulled the coverage ratio down to 137% from 146% in 1Q23.

Though we have a BUY call on KBANK, we believe the unimpressive asset quality and the postponement of its normalised credit cost potentially to 2025 could create negative sentiment for its share price in the short term.

#### Exhibit 8: KBANK – 2Q23 operations summary

Year-end Dec 31	2Q22	1Q23	2Q23	---- Change ----		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y %)	23E	(THB m)	(THB m)	(y-y %)
Net interest income	32,012	34,875	36,701	5	15	71,576	12	49	132,998	144,839	9
Non-interest income	9,498	11,699	11,369	(3)	20	23,068	26	55	40,259	41,784	4
<i>Fee income - net</i>	8,146	8,114	7,714	(5)	(5)	15,828	(7)	48	32,882	32,933	0
<b>Total operating income</b>	<b>41,510</b>	<b>46,574</b>	<b>48,070</b>	<b>3</b>	<b>16</b>	<b>94,644</b>	<b>15</b>	<b>51</b>	<b>173,258</b>	<b>186,624</b>	<b>8</b>
Total operating expenses	18,070	19,793	20,847	5	15	40,640	15	51	74,753	80,162	7
<b>PPOP before tax</b>	<b>23,441</b>	<b>26,781</b>	<b>27,223</b>	<b>2</b>	<b>16</b>	<b>54,004</b>	<b>16</b>	<b>51</b>	<b>98,505</b>	<b>106,462</b>	<b>8</b>
Expected credit loss	9,852	12,692	12,784	1	30	25,476	33	47	51,919	53,707	3
Income tax	2,454	2,562	2,760	8	12	5,322	3	55	8,633	9,760	13
Non-controlling interest	341	786	685	(13)	101	1,471	363	66	2,183	2,227	2
<b>Net profit</b>	<b>10,794</b>	<b>10,741</b>	<b>10,994</b>	<b>2</b>	<b>2</b>	<b>21,735</b>	<b>(1)</b>	<b>53</b>	<b>35,769</b>	<b>40,768</b>	<b>14</b>
EPS (THB)	4.56	4.53	4.64	2	2	9.17	(1)	54	14.78	16.85	14
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>---- Change ----</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(q-q%)</b>	<b>(y-y%)</b>	<b>(THB m)</b>	<b>(y-y %)</b>		<b>(%)</b>	<b>(%)</b>	<b>(y-y %)</b>
Gross NPLs (THB m)	109,972	87,640	93,834	7	(15)	93,834	(15)		92,536	97,536	5
Change (% from prior period)	3.3	(5.3)	7.1			(14.7)			(11.1)	5.4	
NPL ratios (%) - reported	3.80	3.04	3.20			3.20			3.19		
NPL ratio (%)*	4.42	3.56	3.83			3.83			3.71	3.72	
Coverage ratio (%) - reported	145	157	147			147			154		
Coverage ratio (%)*	128	146	137			137			144	146	
Credit cost (bp)	159	205	208			206			211	210	
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Cost to income ratio	43.5	42.5	43.4			42.9			43.1	43.0	
Average yield (%)	3.66	4.22	4.49			4.37			3.80	4.40	
Cost of funds (%)	0.64	1.08	1.21			1.16			0.63	1.20	
NIM (%) - reported	3.21	3.46	3.63			3.63			3.33		
NIM (%)*	3.22	3.47	3.64			3.57			3.34	3.51	
Non-interest income/total income (%)	22.9	25.1	23.7			24.4			23.2	22.4	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
q-q	1.3	(1.2)	(0.6)								
y-y	4.5	0.3	(1.6)			(2)			3.0	5	
Year-to-date	2.8	(1.2)	(1.8)			(1.8)					

\* FSSIA's calculation; Sources: KBANK; FSSIA estimates

## BANGKOK BANK (BBL TB) - 2Q23 results at first glance; Maintain BUY TP THB197.00

### 2Q23 results beat our estimate by 13%

BBL posted a 2Q23 net profit of THB11.3b, 13% higher than our expectation and 11% higher than Bloomberg's consensus projection. Earnings were up 11% q-q and 62% y-y due to higher-than-expected growth in all revenue segments. BBL's 1H23 profit accounts for 56% of our 2023 earnings estimate.

#### Highlights

- (+) **Higher-than-expected net interest income** of THB31.5b, up 5% q-q and 34% y-y, supported by larger-than-expected loan growth and a NIM of 2.83% (+10bp from 1Q23 as yields rose 25bp and cost of funds edged up only 17bp from 1Q23). Overall, the NIM in 1H23 at 2.81% was in line with our 2023 forecast of 2.82%.
- (+) **Net loans** grew by 2.2% q-q and 1.7% y-y (defying expectations of a dip q-q), mainly due to growth in corporate loans and loans made through its international network. Overall, net loans grew by 0.6% YTD, still lower than our 2023 forecast of 5% y-y growth and the bank's target of +4-6% y-y. We see no cause for concern as loans usually accelerate in 2H due to seasonality.
- (+) **Non-interest income** was higher than expected at THB10.9b, growing by 7% q-q and 3% y-y. Fee income pulled back with a larger-than-expected decline of 8% q-q and 2% y-y (amid a securities business slump due to capital market conditions), but this was offset by a surprisingly high increase in other revenues, especially FVTPL.
- (-) **Operating expenses** at THB20.1b were higher than expected, up 7% q-q and 15% y-y, but in line with business growth. The cost-to-income ratio rose slightly to 47.4%, still in line with our 2023 forecast (48.4%), but exceeding BBL's target (low 50s).
- (+) **Asset quality**: Although credit cost increased more than expected to 133bp (we expected 120bp) from 127bp in 1Q23, proactive NPL management (TDR/write-off/sell) drove the reported NPL ratio down to 2.90% from 3.09% in 1Q23. The reported coverage ratio (LLR/NPL) increased to 287% from 265% in 1Q23 (using BBL's figures due to no disclosure of stage 3 NPLs and allowances for stage 3 loans). Overall, 1H23 credit cost was 130bp, slightly higher than our 2023 forecast of 127bp and BBL's target of 100bp.

**Outlook in 2H23:** We expect 3Q23 performance to remain solid, especially for NIM, which should see a significant increase due to the reduction in savings rates at the end of 2Q23. However, 4Q23 may weaken due to higher seasonal operating expenses.

We reaffirm our positive outlook on BBL due to its long-term business growth prospects from both its domestic and foreign operations.

#### Exhibit 9: BBL - 2Q23 operations summary

Year-end Dec 31	2Q22	1Q23	2Q23	--- Change ---		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(THB m)	(y-y%)
Net interest income	23,526	30,078	31,487	5	34	61,565	36	48	102,223	127,331	25
Non-interest income	10,666	10,215	10,956	7	3	21,171	6	63	36,672	33,482	(9)
<i>Fee income - net</i>	6,726	7,122	6,571	(8)	(2)	13,693	0	50	27,508	27,626	0
<b>Total operating income</b>	<b>34,192</b>	<b>40,293</b>	<b>42,443</b>	<b>5</b>	<b>24</b>	<b>82,736</b>	<b>27</b>	<b>51</b>	<b>138,895</b>	<b>160,813</b>	<b>16</b>
Total operating expenses	17,435	18,850	20,111	7	15	38,961	18	50	69,019	77,831	13
<b>PPOP before tax</b>	<b>16,757</b>	<b>21,443</b>	<b>22,333</b>	<b>4</b>	<b>33</b>	<b>43,776</b>	<b>35</b>	<b>53</b>	<b>69,876</b>	<b>82,982</b>	<b>19</b>
Expected credit loss	8,354	8,474	8,880	5	6	17,354	17	50	32,647	35,000	7
Income tax	1,319	2,728	2,047	(25)	55	4,774	49	50	7,484	9,596	28
Non-controlling interest	123	112	112	0	(9)	224	(8)	49	440	462	5
<b>Net profit</b>	<b>6,961</b>	<b>10,129</b>	<b>11,294</b>	<b>11</b>	<b>62</b>	<b>21,423</b>	<b>52</b>	<b>56</b>	<b>29,306</b>	<b>37,924</b>	<b>29</b>
EPS (THB)	3.65	5.31	5.92	11	62	11.22	52	56	15.35	19.87	29
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>--- Change ---</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(q-q%)</b>	<b>(y-y%)</b>	<b>(%)</b>	<b>(y-y %)</b>		<b>(%)</b>	<b>(%)</b>	<b>(y-y%)</b>
Gross NPLs (THB m)	105,046	98,359	93,285	(5)	(11)	93,285	(11)		97,188	102,047	5
<i>Change (% from prior period)</i>	2.6	1.2	(5.2)			(11.2)			(3.9)	5.0	
NPL ratios (%) - reported	3.40	3.09	2.90			2.90			3.06		
NPL ratio (%)*	3.96	3.73	n/a			n/a			3.62	3.62	
Coverage ratio (%) - reported	233	265	287			287			255		
Coverage ratio (%)*	225	255	n/a			n/a			251	252	
Credit cost (bp)	128	127	133			130			124	127	
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>						<b>(%)</b>	<b>(%)</b>	
Cost to income ratio	51.0	46.8	47.4			47.1			49.7	48.4	
Average yield (%)	2.96	4.01	4.26			4.17			3.21	3.90	
Cost of funds (%)	0.93	1.53	1.70			1.63			1.01	1.29	
NIM (%) - reported	2.24	2.84	2.91			2.81			2.42		
NIM (%)*	2.18	2.73	2.83			2.81			2.36	2.82	
Non-interest income/total income (%)	31.2	25.4	25.8			25.6			26.4	20.8	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>						<b>(%)</b>	<b>(%)</b>	
q-q	2.5	(1.6)	2.2								
y-y	9.6	2.0	1.7						3.6	5	
Year-to-date	2.5	(1.6)	0.6			0.6					

\* FSSIA's calculation; Sources: BBL; FSSIA estimates

## TMBTHANACHART BANK (TTB TB) - Key takeaways from analyst meeting; Maintain BUY TP THB1.83

TTB's analyst meeting on 20 July 2023 mainly confirmed the positive progress of the liquidity recycling strategy, which has proved timely for benefiting from the rising interest rate environment. The balance sheet restructuring offers shorter durations for TTB's investment portfolio and gradual repricing at higher interest rates, the ability to extend high-yield loans, and a reduced impact from the rising funding cost trend (i.e., by pre-funding the term-deposits). TTB's strong 1H23 performance vindicated this strategy with a NIM at 3.17%, up from 3.04% in 1Q23 and 2.83% in 2Q22, and cost to income at 44.3%.

### Other highlights include:

- (+) **An upbeat outlook for TTB's digital channels**, with rising user numbers – the majority of whom are quality customers – and an increase in the number of cars entering its used-car sales platform. Despite increasing cross sales of products via mobile banking, we think it is too soon to see a positive effect on fee income growth, as most fees are bancassurance-related and mutual fund fees, which are subject to market conditions.
- (+) **Business outlook in 2024**. With the end of the rise in interest rates potentially in sight, TTB believes the two key factors driving its earnings performance are 1) a lower credit cost; and 2) the bank's digital transformation. Management believes its past conservative provisioning strategy should support the first, and the latter's future gains should come from the progress of the above-mentioned positive developments.
- (o) **Asset quality**. TTB noted that the increase in stage 2 loans in the industry was mainly due to the expansion of the used car segment to include low-income customers. TTB's management insists that over 50% of TTB's stage 2 loans are of good quality and appeared to be stabilising in 2Q23 due to its proactive management and a prudent provisioning policy.

We maintain a positive view on TTB's business prospects and position it as one of the sector's top picks (aside from BBL). Our 2023 GGM-based TP of THB1.83 implies a P/BV of 0.77x.

### Exhibit 10: TTB – 2Q23 operations summary

Year-end Dec 31	2Q22		1Q23		2Q23		---- Change ----		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y %)						
<b>Total operating income</b>	<b>15,889</b>	<b>16,870</b>	<b>17,760</b>	<b>5</b>	<b>12</b>	<b>34,630</b>	<b>9</b>	<b>49</b>	<b>65,852</b>	<b>71,271</b>	<b>8</b>			
Total operating expenses	7,262	7,303	7,863	8	8	15,166	6	47	29,952	32,225	8			
<b>PPOP before tax</b>	<b>8,627</b>	<b>9,567</b>	<b>9,897</b>	<b>3</b>	<b>15</b>	<b>19,464</b>	<b>12</b>	<b>50</b>	<b>35,900</b>	<b>39,045</b>	<b>9</b>			
Expected credit loss	4,382	4,276	4,244	(1)	(3)	8,520	(7)	46	18,353	18,717	2			
<b>Net profit</b>	<b>3,438</b>	<b>4,295</b>	<b>4,566</b>	<b>6</b>	<b>33</b>	<b>8,861</b>	<b>34</b>	<b>54</b>	<b>14,195</b>	<b>16,446</b>	<b>16</b>			
EPS (THB)	0.036	0.044	0.047	6	33	0.09	33	54	0.147	0.170	16			
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>---- Change ----</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>			
	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y %)		(%)	(%)	(y-y %)			
<b>Gross NPLs (THB m)</b>	<b>41,331</b>	<b>42,006</b>	<b>40,719</b>	<b>(3)</b>	<b>(1)</b>	<b>40,719</b>	<b>(1)</b>		<b>41,707</b>	<b>42,090</b>	<b>1</b>			
Change (% from prior period)	(1.9)	0.7	(3.1)			(1.5)			(1.0)	0.9				
NPL ratios (%) - reported	2.63	2.63	2.63						2.73					
NPL ratio (%)*	2.97	3.09	2.99			2.99			3.03	3.01				
Coverage ratio (%) - reported	133	140	144			144			138					
Coverage ratio (%)*	133	140	144			144			138	133				
Credit cost (bp)	127	125	125			125			134	135				
Cost to income ratio	45.7	43.3	44.3			43.8			45.5	45.2				
NIM (%) - reported	2.83	3.08	3.18						2.95					
NIM (%)*	2.83	3.04	3.17			3.12			2.96	3.13				
Loan to deposit	99.8	96.8	97.7			97.7			98.3	96.0				
Loan to deposit & borrowing (LDBR)	89.9	87.9	88.6			88.6			94.3	92.2				
CAR	19.9	19.9	19.8			19.8			20.0	20.5				
CET 1/ Risk assets	14.8	15.7	15.7			15.7			15.7	16.4				
Loan growth q-q (%)	1.9	(1.3)	0.4											

\* FSSIA's calculation

Sources: TTB; FSSIA estimates

## BANGCHAK CORP (BCP TB) - No impact on oil retail margins; Maintain BUY TP THB42.70

### Diesel subsidy will help absorb the impact of tax cut's expiration

Thailand's Ministry of Finance has chosen not to extend the THB5/l diesel tax waiver which expired on 20 July 2023. First introduced in February 2021, the diesel tax waiver has been extended seven times, leading to lost revenue of more than THB158b. To alleviate fears of a diesel price jump after the waiver period expires, the Oil Fuel Fund Office (OFFO) has announced that it would cap the diesel price at THB32/l. In our view, this is positive for BCP.

### Oil fund's financial position supports lengthy subsidy duration

Given the oil price downtrend and support from the excise tax cut, the oil fund has collected ~THB4-5/l from sales of diesel in recent months. Therefore, to maintain the diesel price at THB32/l, OFFO's subsidy will cost the oil fund THB1-2/l. As of 16 July 2023, OFFO currently has a deficit of THB50b with THB55b in extra loan credit available for the subsidy. Therefore, we think the oil fund will be able to subsidise the diesel price for several months during the government transition period. We estimate the THB1-2/l subsidy should cost the oil fund THB2b-4b per month if diesel demand remains steady at 65-67m litres per day.

### Likely no impact for BCP

We anticipate no impact on BCP as the oil fund still has room to subsidise diesel for a while. Therefore, we maintain our 2023 estimates for BCP's marketing margins at a healthy THB0.85/l. In 2022, diesel accounted for 59% of the total sales volume of BCP's oil and retail business. We expect marketing margins and sales volumes to improve in 2Q23 and partly offset the potentially weaker performance from its other businesses, mainly its refinery. We believe the oil and retail business will be one of BCP's key strengths in 2H23.

### Maintain BUY rating and TP of THB42.70/shr

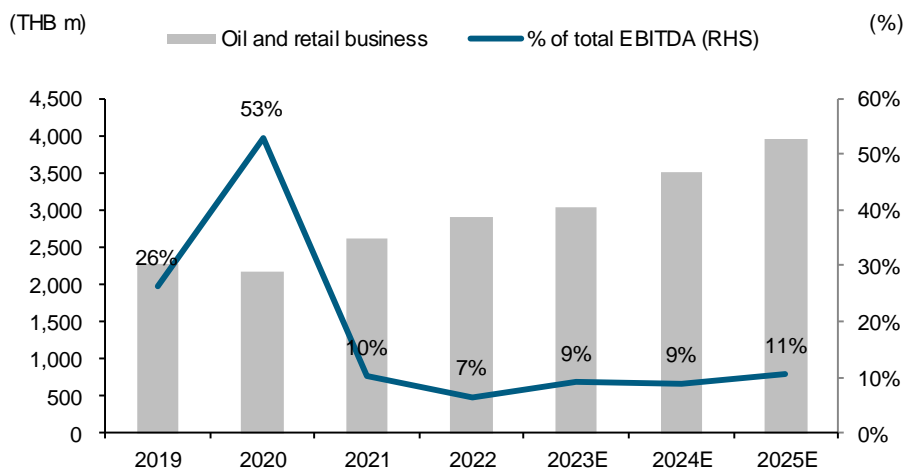
We maintain our BUY rating and SoTP-based valuation at THB42.7/shr. Risks to our TP are 1) a sharp decline in oil prices; 2) weaker-than-expected petroleum product spreads and GRM; 3) higher crude oil premiums; and 4) unplanned refinery shutdowns.

### Exhibit 11: Oil fund impact

	Oil fund income / (subsidy) (THB/litre)	Oil fund income / (subsidy) per month (THB b)
Oil fund collection from diesel in Jun-Jul 2023	THB3-4/litre	5.9-7.9
Subsidy	(THB1-2/ litre)	(2.0)-(4.0)

Sources: Oil Fuel Fund Oil (OFFO), FSSIA estimates

### Exhibit 12: BCP's oil and retail EBITDA vs % of total EBITDA – Oil and retail EBITDA grows steadily



Sources: BCP, FSSIA estimates

## Results Comments

### SCB X (SCB TB, TP THB123) - 2Q23 results beat our estimate by 6%

SCB's 2Q23 net profit of THB11.9b was better than our preview of THB11.1b vs. Bloomberg consensus of THB10.9b, increased by 8% q-q and 18% y-y, from higher net interest income (NII), net interest margin (NIM), and FVTPL. The well-managed asset quality helped the NPLs ratio to decline, while higher ECL enlarged coverage ratio. 1H23 results accounted for 52% of our 2023 estimates. We rated SCB a BUY with 2023 GGM-based TP of THB123 implies a P/BV of 0.85x and attractive 2023-25E dividend yields of 6-7% pa.

#### 2Q23 highlights

- (+) **NII** was prominent in 2Q23, growing strongly by 6% q-q and 18% y-y, slightly better than expected, thanks to the rising interest rate and its ample liquidity, which led to NIM expansion of 24bp to 3.70%. The 1H23 NIM increased to 3.61%, still inline with our 2023 NIM forecast of 3.60% and the bank's forecast of >3.50%.
- (+) **Loans** grew by 1% q-q and 2.7% y-y in 2Q23, inline with expected. Overall 1H23 loan growth of 1.9% YTD, led by SME and retail segments (housing, CardX, and AutoX), was inline with our 2023 projection of 5% y-y, under the expectation of accelerated-growth rate in 2H23.
- (+) **Non-NII** spurred by 13% q-q and 7% y-y, thanks to the FVTPL due to higher mark-to-market gains from the investment portfolio of SCB 10X. However, fee income decreased by 4% q-q and 9% y-y, mainly from the lower bancassurance fees, lending-related fees, and wealth management business amid unfavorable markets.
- (o) **Operating expenses** increased by 2% q-q and 7% y-y, in line with our forecast. The q-q increased due to higher premises and equipment expenses from outlet expansion of portfolio company. The cost-to-income ratio in 2Q23 was 38.4%, down from 41% in 1Q23. The overall cost-to-income ratio in 1H23 was 39.6%, far below our 2023 forecast of 45.1% and the bank's target of mid40%, predicting the acceleration rate in 2H23.
- (o) **Asset quality**; the bank reported lower NPLs ratio to 3.84% from 3.97% in 1Q23. SCB had set aside the ECL higher-than-expected in this quarter to preemptively provide a cushion for overall uneven economic recovery also with higher ECL of the portfolio companies, especially CardX, as a prudent approach to possible deterioration in asset quality. Its policy of setting higher ECL expenses compared to the NPL write-off and sales amount could push the coverage ratio up to 162% from 158% in 1Q23, which was sufficient under current circumstances from a management view. 1H23 credit cost was 183bp, higher-than our 2023 forecast of 150bp, and the bank's target of 120-140bp.

#### Exhibit 13: SCB - 2Q23 operations summary

Year end Dec 31	2Q22	1Q23	2Q23	--- Change ---		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(THB m)	(y-y%)
Net interest income	26,068	28,942	30,791	6	18	59,734	18	49	107,865	122,406	13
Non-interest income	12,634	11,958	13,525	13	7	25,482	(0)	53	46,555	47,898	3
Fee income - net	9,347	8,909	8,509	(4)	(9)	17,418			37,148	37,812	2
<b>Total operating income</b>	<b>38,702</b>	<b>40,900</b>	<b>44,316</b>	<b>8</b>	<b>15</b>	<b>85,216</b>	<b>12</b>	<b>50</b>	<b>154,420</b>	<b>170,304</b>	<b>10</b>
Total operating expenses	15,938	16,757	17,016	2	7	33,773	5	44	69,874	76,842	10
<b>PPOP before tax</b>	<b>22,764</b>	<b>24,143</b>	<b>27,300</b>	<b>13</b>	<b>20</b>	<b>51,443</b>	<b>16</b>	<b>55</b>	<b>84,547</b>	<b>93,462</b>	<b>11</b>
Expected credit loss	10,250	9,927	12,098	22	18	22,025	16	60	33,829	36,550	8
Income tax	2,681	3,147	3,289	4	23	6,436	16	51	13,592	12,521	(8)
Non-controlling interest	(217)	73	46	(37)	(121)	118	(138)	79	(421)	150	(136)
<b>Net profit</b>	<b>10,051</b>	<b>10,995</b>	<b>11,868</b>	<b>8</b>	<b>18</b>	<b>22,864</b>	<b>14</b>	<b>52</b>	<b>37,546</b>	<b>44,242</b>	<b>18</b>
Net EPS (THB)	2.98	3.27	3.52	8	18	6.79	14	52	11.15	13.14	18
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>--- Change ---</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>
<b>Asset quality ratio</b>	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y%)		(%)	(%)	(y-y%)
<b>Gross NPLs (THB m)</b>	<b>102,538</b>	<b>95,153</b>	<b>93,028</b>	<b>(2)</b>	<b>(9)</b>	<b>93,028</b>	<b>(9)</b>		<b>95,329</b>	<b>99,329</b>	<b>4</b>
Change (% from prior period)	(3.5)	(0.2)	(2.2)			(9.3)			(12.6)	4.2	
NPL ratios (%) - reported	3.58	3.32	3.25			3.25			3.34		
NPL ratio (%)*	4.34	3.97	3.84			3.84			4.01	3.98	
Coverage ratio (%) - reported	153	164	171			171			160		
Coverage ratio (%)*	148	158	162			162			156	154	
Credit cost (bp)	175	166	201			183			145	150	
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Cost to income ratio	41.2	41.0	38.4			39.6			45.2	45.1	
Average yield (%)	3.71	4.44	4.75			4.63			3.87	4.61	
Cost of funds (%)	0.65	1.17	1.26			1.22			0.69	1.22	
NIM (%) - reported	3.58	3.32	3.25			3.25			3.29		
NIM (%)*	3.17	3.46	3.70			3.61			3.29	3.60	
Non-interest income/total income (%)	32.6	29.2	30.5			29.9			30.1	28.1	
<b>Liquidity ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Loan to deposit	93.5	95.6	98.2			98.2			93.0	95.7	
Loan to deposit & borrowing (LDBR)	90.6	92.9	94.0			94.0			84.6	86.9	
<b>Capital adequacy ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>						<b>(%)</b>	<b>(%)</b>	
CAR	18.7	18.6	18.7			18.7			18.9	19.1	
CET 1/ Risk assets	17.5	17.5	17.5			17.5			17.7	18.0	
Tier 2 / Risk assets	1.1	1.1	1.1			1.1			1.1	1.1	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
q-q	1.4	0.9	1.0								
y-y	2.8	3.1	2.7			2.7			3.3	5	
Year-to-date	2.5	0.9	1.9			1.9					

\* FSSIA's calculation; Sources: SCB; FSSIA estimates



## Krungthai Bank (KTB TB, TP THB23.10) - 2Q23 results in line with our estimates and consensus

KTB reported a 2Q23 net profit of THB10.2b, in line with our preview and Bloomberg's consensus projection, which rose by 1% q-q and 22% y-y due to higher net interest income (NII) and lower credit cost, with no cause for concern on the asset quality. KTB's 1H23 profit accounts for 54% of our 2023 earnings estimate.

### Highlights

- (+) **NII** significantly increased by 8% q-q and 27% y-y, in line with our expectation, supported by a better-than expected NIM which rose by 24bp to 3.21% in 2Q23 in tandem with the RP rate hikes.
- (0) **Loans** contracted by 0.2% q-q and 2.2% y-y, pressured by a decline in private corporate loans (28% of totals) and SME loans (12% of totals). Retail loans continued to grow as planned in the personal, credit, and housing loan segments - aligning with its focused strategy. 1H23 loan decreased by 0.6% YTD. However, excluding government loans, 1H23 loan growth was relatively stable from 2022, still in line with our 2023 forecast of 2% y-y and the bank's target of 3-5% y-y.
- (-) **Fee income** dropped by 7% q-q and 2% y-y, below our expectations, mainly owing to a slowdown in fees from mutual fund management related to the market situation amid a continual expansion of bancassurance fees. Other non-interest income (Non-NII) – gains on financial instruments measured at FV through PL (FVTPL), FX fees, and dividend income – all showed in-line figures.
- (-) **Operating expenses** increased by 8% q-q and 8% y-y, mainly from its investment for the future, especially in IT, to enhance customers' experience. Thus, the cost-to-income ratio (CIR) slightly increased to 39.3% from 38.7% in 1Q23. The 1H23 CIR was 39%, still in line with our 2023 projection of 41.1% and the bank's target of a low 40% due to the expectation of an acceleration in operating expenses during 2H23.
- (+) **Asset quality remained manageable**; NPL ratio contracted to 3.83% from 3.97% in 1Q23. 2Q23 credit cost was 125bp, -5bp from 1Q23, slightly below our stable forecast. 1H23 credit cost was 123bp, slightly below our 2023 forecast of 125bp. 2Q23 coverage ratio slightly dropped to 171% but in line with its 2023 target of c170%.

We rate KTB a BUY with 2023 GGM-based TP of THB23.10 implies a P/BV of 0.81x. KTB currently offers a potential upside of 18% and attractive 2023-25E dividend yields of 4%.

### Asset quality

Asset quality remained manageable; the 2Q23 NPL ratio contracted to 3.83% from 3.97% in 1Q23, better than expected (we projected a slight increase in NPL ratio), with no alarming sign of NPL formation - both the decreased in stage 2 and 3 loans were proactively managed by debt restructuring, NPL sales and written-off.

2Q23 credit cost was 125bp, -5bp from 1Q23, slightly below our stable forecast. 1H23 credit cost was 123bp, slightly below our 2023 forecast of 125bp. However, the bank's 2Q23 coverage ratio slightly dropped to 171% from 177% in 1Q23, but in line with its 2023 target of c170% - reflecting its actively managed NPL resolution.

### Exhibit 14: Loans by stage and ECL

Loans by stage	2Q22 (THB b)	1Q23 (THB b)	2Q23 (THB b)
Stage 1 (Performing)	2,324	2,277	2,290
Stage 2 (Underperforming)	219	218	204
Stage 3 (Non performing)	109	111	99
Lifetime ECL-Simplified approach	3	3	4
Loan and accrued interest	2,656	2,609	2,596
Allowance for ECL	(THB b)	(THB b)	(THB b)
Stage 1 (Performing)	45.5	46.6	46.4
Stage 2 (Underperforming)	50.4	55.1	52.6
Stage 3 (Non performing)	76.8	79.1	69.5
Lifetime ECL-Simplified approach	2.3	0.7	0.7
Loan and accrued interest	175.0	181.6	169.3
% ECL to total loans	(%)	(%)	(%)
Stage 1 (Performing)	2.0	2.0	2.0
Stage 2 (Underperforming)	23.0	25.4	25.8
Stage 3 (Non performing)	70.3	71.3	70.6
Lifetime ECL-Simplified approach	70.9	21.2	19.4
<b>Loan and accrued interest</b>	<b>6.6</b>	<b>7.0</b>	<b>6.5</b>
NPL	104.4	102.5	98.8
LLR/NPL (%)	168%	177%	171%

Sources: KTB; FSSIA's compilation

## Exhibit 15: KTB - 2Q23 operations summary

Year end Dec 31	2Q22	1Q23	2Q23	--- Change ---		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(THB m)	(y-y%)
Net interest income	21,818	25,619	27,771	8	27	53,391	24	50	90,405	106,274	18
Non-interest income	7,646	9,653	7,944	(18)	4	17,597	8	48	34,986	36,496	4
<i>Fee income - net</i>	4,911	5,139	4,797	(7)	(2)	9,935	1	48	20,316	20,715	2
<b>Total operating income</b>	<b>29,464</b>	<b>35,272</b>	<b>35,715</b>	<b>1</b>	<b>21</b>	<b>70,987</b>	<b>20</b>	<b>50</b>	<b>125,391</b>	<b>142,770</b>	<b>14</b>
Total operating expenses	12,517	13,650	14,028	3	12	27,679	12	47	54,771	58,661	7
<b>PPOP before tax</b>	<b>16,947</b>	<b>21,622</b>	<b>21,687</b>	<b>0</b>	<b>28</b>	<b>43,309</b>	<b>26</b>	<b>51</b>	<b>70,620</b>	<b>84,109</b>	<b>19</b>
Expected credit loss	5,669	8,104	7,754	(4)	37	15,858	42	48	24,338	32,735	35
Income tax	1,996	2,531	2,864	13	43	5,395	25	54	9,077	10,069	11
Non-controlling interest	924	921	912	(1)	(1)	1,832	2	52	3,508	3,509	0
<b>Net profit</b>	<b>8,358</b>	<b>10,067</b>	<b>10,157</b>	<b>1</b>	<b>22</b>	<b>20,223</b>	<b>18</b>	<b>54</b>	<b>33,698</b>	<b>37,796</b>	<b>12</b>
EPS (THB)	0.60	0.72	0.73	1	22	1.45	18	54	2.41	2.70	12
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>--- Change ---</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(q-q%)</b>	<b>(y-y%)</b>	<b>(THB m)</b>	<b>(y-y%)</b>		<b>(%)</b>	<b>(%)</b>	
<b>Gross NPLs (THB m)</b>	<b>104,434</b>	<b>102,542</b>	<b>98,810</b>	<b>(4)</b>	<b>(5)</b>	<b>98,810</b>	<b>(5)</b>		<b>101,096</b>	<b>101,821</b>	
<i>Change (% from prior period)</i>	<i>(2.0)</i>	<i>1.4</i>	<i>(3.6)</i>			<i>(5.4)</i>			<i>(5.3)</i>	<i>0.7</i>	
NPL ratios (%) - reported	3.32	3.22	3.11			3.11			3.26		
<b>NPL ratio (%)*</b>	<b>3.96</b>	<b>3.97</b>	<b>3.83</b>			<b>3.83</b>			<b>3.90</b>	<b>3.85</b>	
Coverage ratio (%) - reported	174	183	177			177			180		
Coverage ratio (%)*	168	177	171			171			172	182	
<b>Credit cost (bp)</b>	<b>86</b>	<b>125</b>	<b>120</b>			<b>123</b>			<b>93</b>	<b>125</b>	
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Cost to income ratio	42.5	38.7	39.3			39.0			43.7	41.1	
Average yield (%)	3.14	3.95	4.26			4.11			3.28	4.15	
Cost of funds (%)	0.71	1.13	1.21			1.17			0.76	1.23	
NIM (%) - reported	2.44	2.80	3.00			3.00			2.60		
<b>NIM (%)*</b>	<b>2.51</b>	<b>2.97</b>	<b>3.21</b>			<b>3.09</b>			<b>2.62</b>	<b>3.07</b>	
Non-interest income/total income (%)	25.9	27.4	22.2			24.8			27.9	25.6	
<b>Liquidity ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Loan to deposit	101.2	98.5	100.0			100.0			100.1	100.1	
Loan to deposit & borrowing (LDBR)	95.5	93.2	94.2			94.2			94.6	94.6	
<b>Capital adequacy ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
CAR	20.1	19.7	20.1			20.1			19.8	20.5	
CET 1/ Risk assets	15.1	15.6	15.9			15.9			15.7	16.5	
Tier 2 / Risk assets	4.2	3.2	3.2			3.2			3.1	3.1	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
q-q	(0.9)	(0.4)	(0.2)								
y-y	6.0	(2.9)	(2.2)			(2.2)			(1.4)	2.0	
Year-to-date	0.2	(0.4)	(0.6)			(0.6)					

\* FSSIA's calculation;

Sources: KTB; FSSIA estimates

## Kiatnakin Bank (KKP TB, TP THB65) - 2Q23 results was significantly lower than estimates

KKP posted a 2Q23 net profit of THB1.41b, dived by 32% q-q and 31% y-y, significantly lower than our estimates by 19% and Bloomberg's consensus projection by 24%, with the negative impacts from the commercial banking business (mainly loss from the sale of repossessed cars). Continued weakening asset quality resulted in a considerable credit cost in this period. We have KKP on a HOLD call, given concern about its asset quality in 2023-24 which could create negative sentiment to share price. Our 2023 GGM-based TP of THB65 implies a P/BV of 0.88x.

### Highlights

- (+) **Net interest income** up 6% q-q and 23% y-y, in line with our expectation, supported by a better-than-expected NIM, which rose by 17bp to 4.55% in 2Q23, thanks to the multiple increases in the policy rate during the recent period, and growth in loan portfolio. The 1H23 NIM was 4.59% - higher than our 2023 forecast of 4.38%,
- (+) **Loans** expanded in line with expectations, up 2.8% q-q, 17.3% y-y, and 5.6%ytd. The YTD loan growth in 1H23 was led by retail loans (+5.6% YTD), including hire purchase (48% of total loans, new cars: used cars at 40:60), personal loans, Micro SME, and housing loans.
- (+) **Non-interest income** was better than expected, driven mainly by; 1) higher fees from the investment banking business and bancassurance, and 2) higher gain on financial instruments measured at fair value through profit or loss (FVTPL).
- (-) **Operating expenses** jumped higher than expected by 17% q-q and 35% y-y, pressured by massive losses from the sale of repossessed cars totaled THB978m, slightly dropped from THB1.12b in 1Q23). KKP disclosed that this was from a higher number of repossessed cars sold from the expanded loan portfolio size and its proactive measures in managing the outstanding repossessed cars, pressured the used car price. If excluded this item, the 2Q23 cost-to-income ratio would decrease to 37.9% from the included figure of 51.1%.
- (-) **Asset quality** - the NPLs ratio showed a five consecutive quarter increase of 3.78% from 3.56% in 1Q23, leading to a significant increase of credit cost to 294bp (including loss from the sale of repossessed cars), up 60bp from 1Q23. The coverage ratio dropped to 137% from 143% in 1Q23. KKP disclosed that its total allowance for ECL of THB19.8b comprises the management overlay of merely 3%, implying the prolonged setting up of massive credit costs amid the rising NPLs.

### Concerns on asset quality

KKP's NPLs ratio showed a five consecutive quarter increase of 3.78% from 3.56% in 1Q23, driven by retail lending in the hire purchase segment and the Corporate lending segment, which KKP had already provisioned for. As such, the 2Q23 credit cost significantly increased to 294bp (including loss from the sale of repossessed cars), up 60bp from 1Q23, driven by the expanded loan portfolio and the weakening loan quality amid uneven economic recovery.

On the contrary, the coverage ratio dropped to 137% from 143% in 1Q23, reflecting KKP's proactively managing its loan portfolio quality through debt restructuring and write-off. KKP disclosed that its total allowance for ECL of THB19.8b comprises the management overlay of merely 3%, implying the prolonged setting up of massive credit costs amid the rising NPLs.

### Exhibit 16: Loans by stage, 2Q23

	2Q22	1Q23	2Q23	---- Change ----	
Loans & accrued interest	(THB b)	(THB b)	(THB b)	(q-q%)	(y-y%)
Stage 1 - Performing	313.3	355.5	364.4	3	16
Stage 2 - Under-performing	20.2	23.6	24.7	5	22
Stage 3 - Non-performing	11.6	14.7	16.0	9	39
Purchased credit-impaired assets	0.9	1.0	1.0	3	10
<b>Total</b>	<b>346.0</b>	<b>394.7</b>	<b>406.2</b>	<b>3</b>	<b>17</b>
Allowance for ECL	(THB b)	(THB b)	(THB b)	(q-q%)	(y-y%)
Stage 1 - Performing	8.3	8.5	8.5	0	2
Stage 2 - Under-performing	3.4	4.1	4.3	5	25
Stage 3 - Non-performing	4.7	6.3	7.0	10	49
Purchased credit-impaired assets	0.0	0.1	0.1	0	132
<b>Total</b>	<b>16.4</b>	<b>18.9</b>	<b>19.8</b>	<b>5</b>	<b>21</b>
<i>Excess reserves</i>	<i>0.9</i>	<i>0.7</i>	<i>0.6</i>	<i>(14)</i>	<i>(40)</i>
<b>Total allowance for ECL</b>	<b>17.4</b>	<b>19.6</b>	<b>20.4</b>	<b>4</b>	<b>17</b>
% of ECL to loans	(%)	(%)	(%)		
Stage 1 - Performing	2.7	2.4	2.3		
Stage 2 - Under-performing	16.8	17.2	17.3		
Stage 3 - Non-performing	40.5	43.1	43.5		
Purchased credit-impaired assets	3.3	7.1	6.9		
<b>Total</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>		

Sources: KKP; FSSIA's compilation

## Exhibit 17: KKP - 2Q23 operations summary

Year end Dec 31	2Q22	1Q23	2Q23	---- Change ----		1H23	Change	%of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y %)	23E	(THB m)	(THB m)	(y-y %)
Net interest income	4,475	5,223	5,521	6	23	10,744	22	50	19,081	21,337	12
Non-interest income	1,672	1,718	1,902	11	14	3,620	(5)	49	8,457	7,434	(12)
<i>Fee income - net</i>	1,396	1,343	1,464	9	5	2,807	(5)	51	6,165	5,465	(11)
<b>Total operating income</b>	<b>6,147</b>	<b>6,941</b>	<b>7,423</b>	<b>7</b>	<b>21</b>	<b>14,364</b>	<b>14</b>	<b>50</b>	<b>27,539</b>	<b>28,772</b>	<b>4</b>
Total operating expenses	2,818	3,239	3,791	17	35	7,030	25	48	13,013	14,499	11
<b>PPOP before tax</b>	<b>3,329</b>	<b>3,702</b>	<b>3,632</b>	<b>(2)</b>	<b>9</b>	<b>7,334</b>	<b>5</b>	<b>51</b>	<b>14,526</b>	<b>14,273</b>	<b>(2)</b>
Expected credit loss	812	1,097	1,878	71	131	2,975	58	61	5,036	4,901	(3)
Income tax	481	517	342	(34)	(29)	859	(14)	46	1,873	1,874	0
Non-controlling interest	2	3	3	(5)	41	6	(24)	40	14	16	12
<b>Net profit</b>	<b>2,033</b>	<b>2,085</b>	<b>1,408</b>	<b>(32)</b>	<b>(31)</b>	<b>3,493</b>	<b>(15)</b>	<b>47</b>	<b>7,602</b>	<b>7,482</b>	<b>(2)</b>
EPS (THB)	2.40	2.46	1.66	(32)	(31)	4.13	(15)	47	8.98	8.84	(2)
<b>Key ratios</b>	<b>2Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>---- Change ----</b>		<b>1H23</b>	<b>Change</b>		<b>2022</b>	<b>2023E</b>	<b>Change</b>
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(q-q%)</b>	<b>(y-y%)</b>	<b>(THB m)</b>	<b>(y-y %)</b>		<b>(%)</b>	<b>(%)</b>	<b>(y-y %)</b>
<b>Gross NPLs (THB m)</b>	<b>10,951</b>	<b>13,660</b>	<b>14,928</b>	<b>9</b>	<b>36</b>	<b>14,928</b>	<b>36</b>		<b>13,031</b>	<b>13,943</b>	<b>7</b>
<i>Change (% from prior period)</i>	7.7	4.8	9.3			36.3			27.9	7.0	
NPL ratios (%) - reported	3.20	3.50	3.70			3.70			3.40		
NPL ratio (%)*	3.26	3.56	3.78			3.78			3.49	3.39	
Coverage ratio (%) - reported	169	152	143			143			154		
Coverage ratio (%)*	159	143	137			137			146	158	
Credit cost (bp) +	138	234	294			278			202	230	
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Cost to income ratio	45.8	46.7	51.1			48.9			47.3	50.4	
Average yield (%)	5.06	5.86	6.16			6.18			5.43	5.91	
Cost of funds (%)	1.12	1.68	1.82			1.80			1.20	1.72	
NIM (%)*	4.08	4.38	4.55			4.59			4.38	4.40	
Non-interest income/total income (%)	27.2	24.7	25.6			25.2			30.7	25.8	
<b>Liquidity ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
Loan to deposit	104.8	111.2	118.2			118.2			112.7	115.1	
Loan to deposit & borrowing (LDBR)	88.3	93.3	96.9			96.9			95.1	98.0	
<b>Capital adequacy ratio (Bank only)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
CAR	15.4	14.7	14.8			14.8			16.6	16.1	
CET 1/ Risk assets	11.8	11.4	11.6			11.6			13.3	12.9	
Tier 2 / Risk assets	3.6	3.3	3.2			3.2			3.3	3.2	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>			<b>(%)</b>			<b>(%)</b>	<b>(%)</b>	
q-q	2.9	2.8	2.8			2.8					
y-y	19.2	17.4	17.3			17.3			21.7	10.0	
Year-to-date	9.6	2.8	5.6			5.6					

\* FSSIA's calculation; + include loss from repossessed car; Sources: KKP; FSSIA estimates

## Thailand banks - 2Q23 results beat our estimates by 4%

### Impressive bottom line in 2Q23 - NII was the star

Seven banks under our coverages reported a 2Q23 net profit of THB52.1b, increased by 4% q-q and 20% y-y. BBL, SCB, and TTB were the best performer, while KKP was the worst. PPOP (pre-provisioning operating profit) also increased by 4% q-q and 21% y-y. Net interest income remained the star in this period, supported by the rising yields, aligning with the increasing RP rate of 50bp this quarter, which could benefit the lending portfolio, a net lender status in the interbank market (especially the big banks, e.g., BBL, KBANK, SCB, and KTB), and the positive impacts from a repricing interest rate of the investment portfolio amid interest rate hikes. The magnitude of the increasing cost of funds was lower- thanks to less competition on the deposit side - mainly from the banks' ample liquidity. Thus, 2Q23 NIM improved significantly to 3.37% (+18bp from 1Q23). Fee income and Non-NII delivered unimpressive performances in 2Q23, pressured by the poor capital market conditions. Though it witnessed a climb in operating expenses, the cost-to-income ratio remained at 42.9%.

### Asset quality varied - KKP and KBANK were the weakest

Thailand's economy's uneven recovery, the high level of household debt, and the proactive management of the bank's NPLs led to higher credit costs in 2Q23 to tackle the rising NPLs. Thus, with their attempts at sales and written-off approaches, the 2Q23 NPLs ratio slightly declined to 3.62% from 3.69% in 1Q23, and the coverage ratio (LLR/NPL) could remain stable at 183%. KKP and KBANK showed the poorest asset quality in 2Q23 compared to peers, mainly from the aggressive growth policy during the COVID pandemic (KKP) and the high exposure in SMEs and retail loan segment (KBANK).

### Strong 3Q23 PPOP expected – BBL could be the best performer

We expect the PPOP's growth to continue in 3Q23, pushed by the rising momentum of NIM - the RP rate rising on May 23 tends to benefit the banks' NIM in 3Q23 fully - and the coming season of loan demand compared to 1H23. We expect BBL to post a robust performance in this quarter from NIM expansion due to its saving rate cut of 25bp at the end of 2Q23.

### Reiterate NEUTRAL weight call – BBL and TTB are our top picks

We reiterate Thailand's banking sector call with a NEUTRAL weight. Though most banks continue to trade below their five-year average P/BV and under their book value per share (BVS), this is unlikely to trigger a valuation re-rating for the sector in the near term amid the cloudy of their asset quality. BBL and TTB are our top BUY calls.

## Exhibit 18: 2Q23 operations summary of Thai banks under coverage

Year end Dec 31	BBL	KBANK	KTB	SCB	TTB	KKP	TISCO	Coverage
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
<b>Net interest income</b>	<b>31,487</b>	<b>36,701</b>	<b>27,771</b>	<b>30,791</b>	<b>14,093</b>	<b>5,521</b>	<b>3,420</b>	<b>149,784</b>
Change q-q%	5	5	8	6	4	6	4	6
Change y-y%	34	15	27	18	14	23	10	21
<b>Non-interest income</b>	<b>10,956</b>	<b>11,369</b>	<b>7,944</b>	<b>13,525</b>	<b>3,668</b>	<b>1,902</b>	<b>1,324</b>	<b>50,687</b>
Change q-q%	7	(3)	(18)	13	9	11	(4)	1
Change y-y%	3	20	4	7	6	14	(9)	8
<b>Fee income - net</b>	<b>6,571</b>	<b>7,714</b>	<b>4,797</b>	<b>8,509</b>	<b>2,659</b>	<b>1,464</b>	<b>1,152</b>	<b>32,865</b>
Change q-q%	(8)	(5)	(7)	(4)	4	9	(9)	(5)
Change y-y%	(2)	(5)	(2)	(9)	1	5	(1)	(4)
<b>Total operating income</b>	<b>42,443</b>	<b>48,070</b>	<b>35,715</b>	<b>44,316</b>	<b>17,760</b>	<b>7,423</b>	<b>4,743</b>	<b>200,471</b>
Change q-q%	5	3	1	8	5	7	2	5
Change y-y%	24	16	21	15	12	21	4	18
Total operating expenses	20,111	20,847	14,028	17,016	7,863	3,791	2,378	86,033
<b>PPOP before tax</b>	<b>22,333</b>	<b>27,223</b>	<b>21,687</b>	<b>27,300</b>	<b>9,897</b>	<b>3,632</b>	<b>2,366</b>	<b>114,438</b>
Change q-q%	4	2	0	13	3	(2)	(1)	4
Change y-y%	33	16	28	20	15	9	(3)	21
<b>Expected credit loss</b>	<b>8,880</b>	<b>12,784</b>	<b>7,754</b>	<b>12,098</b>	<b>4,244</b>	<b>1,878</b>	<b>63</b>	<b>47,701</b>
Change q-q%	5	1	(4)	22	(1)	71	(59)	7
Change y-y%	6	30	37	18	(3)	131	(55)	21
Income tax	2,047	2,760	2,864	3,289	1,087	342	449	12,837
Non-controlling interest	112	685	912	46	0	3	0	1,758
<b>Net profit</b>	<b>11,294</b>	<b>10,994</b>	<b>10,157</b>	<b>11,868</b>	<b>4,566</b>	<b>1,408</b>	<b>1,854</b>	<b>52,141</b>
Change q-q%	11	2	1	8	6	(32)	3	4
Change y-y%	62	2	22	18	33	(31)	0	20
EPS (THB)	5.92	4.64	0.73	3.52	0.05	1.66	2.32	
2Q23 net profit (% of 2023E)	30%	27%	27%	27%	28%	19%	25%	27%
<b>Key ratios</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>	<b>2Q23</b>
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Gross NPLs (THB m)	93,285	93,834	98,810	93,028	40,719	14,928	5,065	439,669
Change q-q%	(5.2)	7.1	(3.6)	(2.2)	(3.1)	9.3	7.9	(1.0)
NPL ratios (%) - reported	2.90	3.20	3.11	3.25	2.63	3.70	2.20	
NPL ratio (%)*	3.46	3.83	3.83	3.84	2.99	3.78	2.20	3.62
Coverage ratio (%) - reported	287	147	177	171	144	143	224	
Coverage ratio (%)*	287	137	171	162	144	137	224	183
Credit cost (bp)	133	208	120	201	125	294	11	158
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Cost to income ratio	47.4	43.4	39.3	38.4	44.3	51.1	50.1	42.9
Average yield (%)	4.26	4.49	4.26	4.75	4.38	6.16	6.44	4.50
Cost of funds (%)	1.70	1.21	1.21	1.26	1.39	1.82	1.80	1.39
NIM (%) - reported	2.91	3.63	3.00	3.25	3.18	n/a	5.02	
NIM (%)*	2.83	3.64	3.21	3.70	3.17	4.55	5.01	3.37
Non-interest income/total income (%)	25.8	23.7	22.2	30.5	20.7	25.6	27.9	25.3
<b>Liquidity ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Loan to deposit	84.3	90.4	100.0	98.2	97.7	118.2	115.6	94.2
Loan to deposit & borrowing (LDBR)	79.5	82.3	94.2	94.0	88.6	96.9	108.0	87.7
<b>Capital adequacy ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
CAR	19.1	19.0	19.7	18.6	19.8	14.8	20.2	
CET 1/ Risk assets	14.8	16.1	15.7	17.5	15.7	11.6	16.9	
Tier 2 / Risk assets	3.5	2.0	3.1	1.1	3.7	3.2	3.3	
<b>Loan growth</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
q-q	2.2	(1.6)	(0.2)	1.0	0.4	2.8	4.7	0.7
y-y	1.7	(1.8)	(2.2)	2.7	(2.1)	17.3	13.4	0.6
Year-to-date	0.6	(0.6)	(0.6)	1.9	(0.9)	5.6	5.2	0.2

\* FSSIA's calculation;

Sources: Company data; FSSIA estimates

## Exhibit 19: 1H23 operations summary of Thai banks under coverage

Year end Dec 31	BBL (THB m)	KBANK (THB m)	KTB (THB m)	SCB (THB m)	TTB (THB m)	KKP (THB m)	TISCO (THB m)	Coverage (THB m)
<b>Net interest income</b>	<b>61,565</b>	<b>71,576</b>	<b>53,391</b>	<b>59,734</b>	<b>27,595</b>	<b>10,744</b>	<b>6,707</b>	<b>291,311</b>
Change y-y%	36	12	24	18	11	22	9	20
1H23 % of 23E	48	49	50	49	49	50	50	49
<b>Non-interest income</b>	<b>21,171</b>	<b>23,068</b>	<b>17,597</b>	<b>25,482</b>	<b>7,035</b>	<b>3,620</b>	<b>2,707</b>	<b>100,681</b>
Change y-y%	6	26	8	(0)	3	(5)	(4)	7
1H23 % of 23E	63	55	48	53	48	49	48	54
<b>Fee income - net</b>	<b>13,693</b>	<b>15,828</b>	<b>9,935</b>	<b>17,418</b>	<b>5,218</b>	<b>2,807</b>	<b>2,418</b>	<b>67,318</b>
Change y-y%	52	(1)	18	14	34	(15)	0	17
1H23 % of 23E	56	53	54	52	54	47	49	53
<b>Total operating income</b>	<b>82,736</b>	<b>94,644</b>	<b>70,987</b>	<b>85,216</b>	<b>34,630</b>	<b>14,364</b>	<b>9,414</b>	<b>391,992</b>
Change y-y%	27	15	20	12	9	14	5	17
1H23 % of 23E	51	51	50	50	49	50	49	50
Total operating expenses	38,961	40,640	27,679	33,773	15,166	7,030	4,659	167,908
<b>PPOP before tax</b>	<b>43,776</b>	<b>54,004</b>	<b>43,309</b>	<b>51,443</b>	<b>19,464</b>	<b>7,334</b>	<b>4,755</b>	<b>224,084</b>
Change y-y%	35	16	26	16	12	5	(0)	20
1H23 % of 23E	53	51	51	55	50	51	47	52
<b>Expected credit loss</b>	<b>17,354</b>	<b>25,476</b>	<b>15,858</b>	<b>22,025</b>	<b>8,520</b>	<b>2,975</b>	<b>218</b>	<b>92,426</b>
Change y-y%	17	33	42	16	(7)	58	(3)	22
1H23 % of 23E	50	47	48	60	46	61	32	51
Income tax	4,774	5,322	5,395	6,436	2,083	859	889	25,760
Non-controlling interest	224	1,471	1,832	118	0	6	0	3,653
<b>Net profit</b>	<b>21,423</b>	<b>21,735</b>	<b>20,223</b>	<b>22,864</b>	<b>8,861</b>	<b>3,493</b>	<b>3,646</b>	<b>102,245</b>
Change y-y%	52	(1)	18	14	34	(15)	0	17
1H23 % of 23E	56	53	54	52	54	47	49	53
<b>Key ratios</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>	<b>1H23</b>
<b>Asset quality ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
<b>Gross NPLs (THB m)</b>	<b>93,285</b>	<b>93,834</b>	<b>98,810</b>	<b>93,028</b>	<b>40,719</b>	<b>14,928</b>	<b>5,065</b>	<b>439,669</b>
Change q-q%	(11.2)	(14.7)	(5.4)	(9.3)	(1.5)	36.3	13.5	(8.2)
NPL ratios (%) - reported	2.90	3.20	3.11	3.25	2.63	3.70	2.20	
NPL ratio (%)*	3.46	3.83	3.83	3.84	2.99	3.78	2.20	3.62
Coverage ratio (%) - reported	287	147	177	171	144	143	224	
Coverage ratio (%)*	287	137	171	162	144	137	224	183
Credit cost (bp)	130	206	123	183	125	278	19	153
<b>Profitability ratio</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Cost to income ratio	47.1	42.9	39.0	39.6	43.8	48.9	49.5	42.8
Average yield (%)	4.17	4.37	4.11	4.63	4.28	6.18	6.58	4.39
Cost of funds (%)	1.63	1.16	1.17	1.22	1.34	1.80	1.77	1.34
NIM (%) - reported	2.91	3.63	2.91	3.25	3.18	n/a	5.02	
NIM (%)*	2.81	3.57	3.09	3.61	3.12	4.59	5.17	3.30
Non-interest income/total income (%)	25.6	24.4	24.8	29.9	20.3	25.2	28.8	25.7

\* FSSIA's calculation

Sources: Company data; FSSIA estimates

## Key takeaways from Analyst Meeting

### SCB X (SCB TB, TP THB123) - Key takeaways from analyst meeting

SCB held analyst meeting posted results announcement on Friday 21 Jul 2023. Additional information that we learned from the meeting are summarized as follows;

- (+) **NIM guidance** - SCBX expects the policy rate to reach 2.50% in 2023. The bank also guides that every 1% increase in RP rate could push its NIM higher by 30bp, but the bank could do better than that, proved by the rise of NIM in 2Q23 of 24bp amid the rising RP rate of 0.50%, mainly from the higher magnitude of loan yield increased could offset the cost of funds raised.
- (-) **Asset quality** - The sign of deteriorating asset quality, the increasing of stage 2 loan, for its personal loan portfolio, while the credit card portfolio is relatively stable.
- (o) **ECL** - The higher-than-expected ECL in 2Q23 could preempt asset quality worsening and a write-off from legacy NPLs of personal loans. Furthermore, there were internal factors from the operational issues following high volumes of customer data migration to a new system in 2Q23, causing a delay in utilizing the new capability. Moreover, a delay in collection efficiency improvement resulted in higher-than-expected provision requirements. SCB insists that the incident tends to stabilize and considers it a one-time event.
- (+) **2H23E credit cost outlook** - Management has confirmed in the analyst meeting (21 Jul) that its target of 120-140bp is still achievable with a potential of lower credit cost in 2H23. Moreover, SCB is gradually building the management overlay for Gen 2 business (e.g., CardX and autoX) together with its banking business in Gen 1, which is over 15% of total allowances for ECL at present.
- (o) **JV AMC** - The setting up of JV AMC (as KBANK's JK AMC) is in the accessing process but not rushed. SCB believes that it could efficiently manage its NPLs at the moment.
- (+) **L/T ROE** - The long-term ROE target (3-5 years) is challenging at 13-15%; SCB believes in its potential to deliver strong earnings momentum during that time, but capital management must be carried out in parallel by sustaining the high dividend payout ratio.

We have a BUY call on SCB. Our 2023 GGM-based TP of THB123 implies a P/BV of 0.85x, with a potential upside of 11% and very attractive dividend yields at 6-7% pa during 2023-25.

### Exhibit 20: SCB's 2023 financial guidance

	2022	SCB 2023E*					FSSIA 2023E
		SCB X Group	Gen 1 Banking services	Gen 2 Consumer & digital financial services	Gen 3 Platforms & digital assets	1H23	
Total loan growth (y-y %)	3%	5-8%	< 5%	>40%	-	2.7%	5%
Net interest margin (%)	3.30%	> 3.5%	~3%	Mid-teens	-	3.58%	3.60%
Total income growth (y-y %)	3%	> 10%	-	-	-	11.5%	10.3%
Cost/income ratio (%)	45%	Mid 40s	~40%	High 40s	-	39.6%	45.1%
Credit cost (bp)	145	120-140	~100	600-650	-	184	150
Customers (m)	29	35	18	13	4		

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



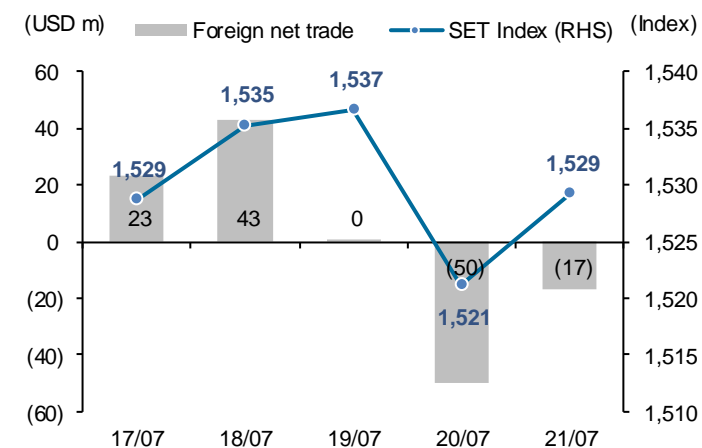
## Economic news

- [BoT unveils measures to tackle household debt](#) BANGKOK POST: The Bank of Thailand has announced a series of measures to start its long-term battle against almost 16 trillion baht of household debt, which has become an impediment to the country's economic growth.
- [India aims to trade electricity with Asean](#) BANGKOK POST: BAMBOLIM, India: India is considering trading power with Southeast Asian countries through Myanmar and Thailand, five sources briefed on the matter say, as New Delhi looks to use its growing renewables capacity to boost regional diplomatic engagement.
- [Rice prices set to climb further](#) BANGKOK POST: SINGAPORE: Asian rice trade paused on Friday to digest the previous day's ban by India, by far the world's biggest supplier, of a major share of its exports of the staple, with prices expected to climb substantially in coming days, three traders said.
- [Stocks fall amid political chaos](#) BANGKOK POST: The Stock Exchange of Thailand (SET) index retreated on Thursday, following several days of increases, but analysts said the outlook has improved with stocks related to the Bhumjaithai Party expecting to gain in the next few days on the likelihood that the party would join a new government formation led by the Pheu Thai Party.
- [Regime urged to rev up EEC growth](#) BANGKOK POST: The next government will be asked to fuel growth of the Eastern Economic Corridor (EEC) by speeding up the construction of a high-speed rail system linking three airports and through the second-phase development of the EEC, says the EEC Office.
- [Budget jitters](#) BANGKOK POST: A delay in the state budget planning for fiscal 2024 will be hard to avoid if Thailand still fails to secure a new prime minister in the next parliamentary vote scheduled for July 27.

## Corporate news

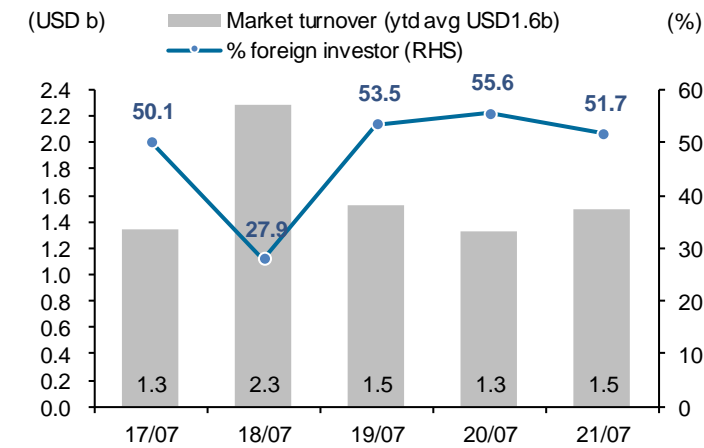
- [New firms surge amid Thai recovery](#) BANGKOK POST: New corporate registrations are expected to reach 83,000-90,000 this year, boosted by the increase in foreign tourists and the Thai economic recovery, outstripping an earlier projection of 75,000-78,000, according to the Commerce Ministry's Business Development Department.
- [MJD upbeat on B7bn presales target](#) BANGKOK POST: Property developer Major Development Plc (MJD) is confident of achieving its target of 7 billion baht in presales by year-end despite recording 2 billion baht in the first half, as all of the company's new projects are slated for the second half.

Exhibit 21: Foreign fund flow and SET Index



Source: Bloomberg

Exhibit 22: Foreign participation



Source: Bloomberg

Exhibit 23: Index performance

	SET Index		Index performance (% change)								
	Index	(%chg)	Energy	Bank	Comu	Commerce	Food	Property	Construct	Transport	Petrochem
<b>% of SET Index</b>			21%	10%	8%	10%	5%	6%	3%	8%	2%
Current	1,529.25	0.5	1.1	(0.7)	0.8	0.6	0.8	0.3	0.4	1.3	0.1
-5D	1,517.92	0.7	0.5	1.7	0.4	1.7	0.4	0.1	(1.4)	1.9	(6.4)
-1M	1,505.52	1.6	4.8	2.0	5.0	1.2	(2.3)	0.9	(1.1)	0.5	(2.2)
-3M	1,557.87	(1.8)	(1.4)	6.6	(1.7)	(4.4)	(3.3)	(7.2)	0.5	(2.7)	(5.3)
-6M	1,682.94	(9.1)	(11.5)	2.0	(6.3)	(11.4)	(12.9)	(9.7)	(10.9)	(8.3)	(21.4)
-1Y	1,552.73	(1.5)	(8.2)	12.7	(8.3)	1.2	(13.1)	3.8	(11.5)	(2.0)	(19.3)
WTD	1,529.25	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MTD	1,503.10	1.7	3.2	2.7	2.7	0.6	(0.8)	(0.6)	(0.6)	0.2	(2.1)
QTD	1,503.10	1.7	3.2	2.7	2.7	0.6	(0.8)	(0.6)	(0.6)	0.2	(2.1)
End of 2022	1,668.66	(8.4)	(12.6)	3.0	(4.4)	(10.8)	(13.0)	(11.4)	(9.8)	(7.3)	(17.7)

Source: Bloomberg

Exhibit 24: Trade by investor types

	SET Index		Exchange rate (USD:THB)	SET Index		Equity trading / Net position				Bond Net foreign (USD m)
	Index	Change (y-y%)		Average daily turnover (THB m)	(USD m)	Foreign (USD m)	Retail (USD m)	PropTrade (USD m)	Local Inst (USD m)	
2019	1,579.84	1.0	31.06	52,468	1,689	(1,496)	(662)	477	1,681	(502)
2020	1,449.35	(8.3)	31.29	67,335	2,152	(8,287)	6,873	459	953	(1,005)
2021	1,657.62	14.4	32.00	88,443	2,764	(1,632)	3,630	435	(2,330)	6,550
2022	1,668.66	15.1	34.78	53,589	1,541	5,362	(656)	56	(4,758)	4,111
<b>2023YTD</b>	<b>1,529.25</b>	<b>(8.4)</b>	<b>34.26</b>	<b>54,269</b>	<b>1,584</b>	<b>(3,350)</b>	<b>2,196</b>	<b>(152)</b>	<b>1,306</b>	<b>1,361</b>
1Q22	1,695.24	6.8	33.04	89,343	2,704	3,369	(902)	32	(2,495)	2,613
2Q22	1,568.33	(1.2)	34.40	70,765	2,057	72	126	10	(212)	663
3Q22	1,589.51	(1.0)	36.42	66,215	1,818	1,076	(93)	(20)	(962)	24
4Q22	1,668.66	0.7	36.37	57,767	1,588	1,443	(533)	(115)	(792)	2,928
1Q23	1,609.17	(5.1)	33.92	63,300	1,866	(1,646)	1,594	(83)	136	612
2Q23	1,503.10	(4.2)	34.48	47,432	1,376	(1,461)	593	(120)	987	(178)
Jan-23	1,671.46	1.4	33.22	68,181	2,052	545	16	172	(732)	822
Feb-23	1,622.35	(3.7)	34.05	63,203	1,856	(1,273)	836	34	404	(1,115)
Mar-23	1,609.17	(5.1)	34.49	58,517	1,697	(917)	742	(290)	464	905
Apr-23	1,529.12	(8.3)	34.27	44,594	1,301	(231)	222	(16)	24	(608)
May-23	1,533.54	(7.8)	34.26	52,780	1,541	(967)	137	(49)	880	699
Jun-23	1,503.10	(4.2)	34.92	44,923	1,286	(263)	234	(55)	83	(269)
Jul-23	1,529.25	(3.0)	34.71	42,688	1,230	(243)	10	51	183	928
<b>2023YTD</b>	<b>1,529.25</b>	<b>(7.7)</b>	<b>34.26</b>	<b>54,269</b>	<b>1,584</b>	<b>(3,350)</b>	<b>2,196</b>	<b>(152)</b>	<b>1,306</b>	<b>1,361</b>
17/07/2023	1,528.77		34.62	46,463	1,342	23	(58)	10	24	(34)
18/07/2023	1,535.30		34.22	43,928	1,284	43	(54)	3	8	69
19/07/2023	1,536.64		34.04	51,752	1,520	0	(25)	2	22	452
20/07/2023	1,521.18		34.00	45,332	1,333	(50)	75	5	(30)	84
21/07/2023	1,529.25		34.45	51,702	1,501	(17)	34	9	(25)	17

Source: Bloomberg

## Exhibit 25: Upcoming events

Date Time	Event		Survey	Actual	Prior
07/21/2023 03:30	Foreign Reserves	Jul-14	--	\$221.9b	\$217.9b
07/21/2023 03:30	Forward Contracts	Jul-14	--	\$30.8b	\$30.8b
07/20/2023 07/24	Car Sales	Jun	--	--	65088
07/22/2023 07/28	Customs Exports YoY	Jun	-6.30%	--	-4.60%
07/22/2023 07/28	Customs Imports YoY	Jun	-7.50%	--	-3.40%
07/22/2023 07/28	Customs Trade Balance	Jun	-\$871m	--	-\$1849m
07/27/2023 00:00	Capacity Utilization ISIC	Jun	--	--	60.2
07/27/2023 00:00	Mfg Production Index ISIC NSA YoY	Jun	-3.25%	--	-3.14%
07/27/2023 03:30	Forward Contracts	Jul-21	--	--	\$30.8b
07/28/2023 03:30	Foreign Reserves	Jul-21	--	--	\$221.9b
07/31/2023 03:00	BoP Current Account Balance	Jun	--	--	-\$2766m
07/31/2023 03:30	Exports YoY	Jun	--	--	-5.90%
07/31/2023 03:30	Exports	Jun	--	--	\$24075m
07/31/2023 03:30	Imports YoY	Jun	--	--	-2.30%
07/31/2023 03:30	Imports	Jun	--	--	\$24020m
07/31/2023 03:30	Trade Balance	Jun	--	--	\$55m
07/31/2023 03:30	BoP Overall Balance	Jun	--	--	\$1018m
08/01/2023 20:30	S&P Global Thailand PMI Mfg	Jul	--	--	53.2
08/02/2023 03:00	BoT Benchmark Interest Rate	Aug-02	--	--	2.00%
08/02/2023 03:30	Business Sentiment Index	Jul	--	--	51
08/06/2023 23:30	CPI Core YoY	Jul	--	--	1.32%
08/06/2023 23:30	CPI NSA MoM	Jul	--	--	0.60%
08/06/2023 23:30	CPI YoY	Jul	--	--	0.23%
08/06/2023 08/15	Consumer Confidence	Jul	--	--	56.7
08/06/2023 08/15	Consumer Confidence Economic	Jul	--	--	51.2
08/20/2023 22:30	GDP SA QoQ	2Q	--	--	1.90%
08/20/2023 22:30	GDP YoY	2Q	--	--	2.70%

Source: Bloomberg

## Exhibit 26: Management trading

Company	Management	Securities	Transaction	Shares	Price (THB)	Action	Value (THBm)
Eastern Commercial Leasing (ECL)	Danucha Verapong	Common Shares	7/20/2023	240,000	1.59	Buy	0.38
BGT Corporation (BGT)	Nantarika Chansue	Common Shares	7/20/2023	60,000	0.98	Buy	0.06
BGT Corporation (BGT)	Nopdol Tumwattana	Common Shares	7/20/2023	88,700	0.98	Buy	0.09
SKY ICT (SKY)	Raj Tantananta	Common Shares	7/14/2023	20,000	23.50	Sell	0.47
SKY ICT (SKY)	Raj Tantananta	Common Shares	7/14/2023	20,000	23.70	Sell	0.47
SKY ICT (SKY)	Raj Tantananta	Common Shares	7/17/2023	20,000	23.60	Sell	0.47
SKY ICT (SKY)	Raj Tantananta	Common Shares	7/19/2023	20,000	24.30	Sell	0.49
Sabuy Technology (SABUY)	Chookiat Rujanapompajee	Common Shares	7/20/2023	7,000,000	-	Transfer	n/a
Sabuy Technology (SABUY)	Chookiat Rujanapompajee	Common Shares	7/20/2023	7,000,000	-	Receive	n/a

Source: SEC

## Exhibit 27: Upcoming XM

Symbol	X-Date	Meeting Date	Type of Meeting	Agenda	Venue
M-CHAI	24/07/2023	29/08/2023	EGM	Change of par value	3rd floor meeting room, Mahachai Hospital 927/43 kor Settakit 1 Road Mahachai, Muang Samutsakorn
JCK	25/07/2023	31/08/2023	EGM	Capital increase, Connected transaction, Acquisition and disposition of assets	Through only electronic media
JASIF	27/07/2023	23/08/2023	EGM	To consider and approve the waiver and/or the amendments in relation to the suspension of the rental payment and the rental payment default under the Amended and Restated Rental Assurance Agreement the amendments to the Benefits Seeking Agreements	at Le Concord Ballroom 2nd floor SWISSOTEL BANGKOK RATCHADA 204 Ratchadapisek Road, Huay Kwang, Bangkok 10320 Thailand
KCC	27/07/2023	11/09/2023	EGM	Shareholding and management restructuring	Bunga Meeting Room, Golden Tulip Sovereign Hotel, located at No. 92 Soi Rama 9 Hospital, Bangkapi Sub-district, Huai Khwang District, Bangkok 10310
POMPUI	02/08/2023	18/08/2023	EGM	Changing the director(s)	Electronic meeting

Source: SET

**Exhibit 28: Upcoming XR**

Symbol	X-Date	Announce Date	Rights for	Subscription Price	Unit	Subscription Ratio (Holding:New)	Subscription Period	Allotted Shares (Shares)
APEX	11/08/2023	26/06/2023	Common	0.05	Baht	1 : 2	01/09/2023 - 08/09/2023	8068998702
JCK	07/09/2023	07/07/2023	Common	0.3	Baht	1 : 1	-	3465833184
JCK	07/09/2023	07/07/2023	Common	-	Baht	-	-	693166636
ALPHAX	30/10/2023	15/05/2023	Common	0.25	Baht	1 : 1	-	4646406094

Source: SET

**Exhibit 29: Upcoming XD**

Symbol	X-Date	Dividend (per Share)	Unit	Operation Period	Source of Dividend	Payment Date	Price	Div Yield	Par
CN01	24/7/2023	-	Baht	-	NP	22/8/2023	-	-	-
VGI	25/7/2023	0.04	Baht	01/10/2022 - 31/03/2023	NP	18/8/2023	2.80	1.4%	0.1
EPG	31/7/2023	0.14	Baht	01/04/2022 - 31/03/2023	NP	-	6.50	2.2%	1
KYE	3/8/2023	4.1	Baht	01/04/2022 - 31/03/2023	NP	22/8/2023	294.00	1.4%	10
BTS	7/8/2023	0.16	Baht	01/04/2022 - 31/03/2023	NP	25/8/2023	7.65	2.1%	4
PTL	7/8/2023	0.27	Baht	01/04/2022 - 31/03/2023	NP	24/8/2023	14.20	1.9%	1
MSFT80X	16/8/2023	-	Baht	-	NP	17/10/2023	-	-	-

Source: SET

**Exhibit 30: New securities**

Derivative Warrants	Trade Date	Underlying	Issuer	DW Type	Market	Maturity Date	Exercise Price (Baht)
AIA41C2311A	24/07/2023	AIA	JPM	Call	SET	05/12/2023	92.5
CMBANK41C2311A	24/07/2023	CMBANK	JPM	Call	SET	05/12/2023	40
EA16C2311A	24/07/2023	EA	TNS	Call	SET	07/12/2023	79.5
GULF16C2311A	24/07/2023	GULF	TNS	Call	SET	07/12/2023	62
GULF41P2311A	24/07/2023	GULF	JPM	Put	SET	08/11/2023	42.25
HKEX41C2311A	24/07/2023	HKEX	JPM	Call	SET	05/12/2023	360
HSBC41C2311A	24/07/2023	HSBC	JPM	Call	SET	05/12/2023	75
JMT16C2311A	24/07/2023	JMT	TNS	Call	SET	07/12/2023	52.5
MINT41C2311A	24/07/2023	MINT	JPM	Call	SET	08/11/2023	39.75
ORI19C2401A	24/07/2023	ORI	YUANTA	Call	SET	16/01/2024	12.4
PTTGC13C2312A	24/07/2023	PTTGC	KGI	Call	SET	15/12/2023	48
TLI13C2312A	24/07/2023	TLI	KGI	Call	SET	15/12/2023	14.2
TRUE19P2312A	24/07/2023	TRUE	YUANTA	Put	SET	15/12/2023	4.72

Source: SET

