BUY (Unchanged)

Change in Numbers

TP: Bt 120.00 (From: Bt 111.00)

Upside : 28.3%

30 JULY 2021

Siam Commercial Bank (SCB TB)

Road to recovery

SARACHADA SORNSONG

662 – 779 9106

sarachada.sor@thanachartsec.co.th

SCB is proactively undertaking a deep restructuring for its 20% of potentially-impaired loans. This would help the bank avoid the NPL cliff effect and smoothen the provisioning impact on the bottom line. Together with higher PPOP, we raise our earnings estimates and lift our TP to Bt120.

Thanachart Securities

Deep restructuring approach

While awaiting the BoT's loan classification guidelines after the two-year suspension ends in December 2021, SCB is undergoing a deep restructuring for its 20% of potentially impaired loans, ie, 16% under the BoT's relief measures and 4% outside. This will be done by cutting interest charges and modifying repayment terms to suit cash flows. This would definitely hurt NIM, but we see it being net positive as it would help the bank to avoid the NPL cliff effect and smoothen the provisioning impact on its bottom line. We expect NIM to contract further but are confident that SCB's credit costs already passed their peak of 2.1% in 2020.

How big is the provision cushion?

Of SCB's forbearance loans of 16% of loans as of 2Q21, we reckon around 85% are still being classified as normal loans (stage I). We believe this is exposure where the bank has built management overlay provisions over time to mitigate provisioning overshoot risks after the relaxation of loan classification ends in 2021. We estimate management overlay provisions of Bt23bn or 7% of loans in the relief plans that are yet to be reclassified as stage II or III. The cushion looks decent to us. As for loans that have exited the relief programs, 60% can pay under the original terms, 30% can make payments under modified terms and 10% comprise the vulnerable portion which SCB must monitor closely.

Robust bottom-up drivers

While we like the way SCB is proactively handling potential impaired loans, the bank is ahead of peers in turning its pre-provisioning profits (PPOP) around. SCB's PPOP bottomed in 4Q19, and we estimate growth of 4% over 2021-25F, led by 1) lower cost of funds on growing CASA and liquidity leverage, 2) improving fee income cross-selling capabilities through growing bancassurance and asset-management fees, and 3) improving operating efficiency through growing digitalization and human resource rationalization plans.

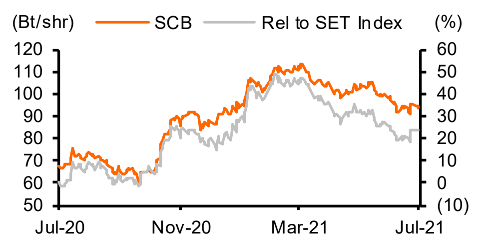
Our top sector pick

We raise our earnings by 9% on average over 2021-25F to reflect lower provisions, operating costs and higher non-interest income. We also assume extension of the 50% cut in FIDF fees to 2022. We expect a decent earnings recovery of 13%, 11% and 8% over 2021-23F. We reaffirm our BUY call with a higher DDM-based TP of Bt120 (using the 2022 base year; from Bt111) for three reasons: 1) Due to SCB's strong bottom-up drivers, it has a better earnings growth story than peers. 2) With the bank's proactive moves, asset quality looks manageable with a limited front-loaded provisioning hit. 3) With higher ROE and greater potential, SCB deserves a premium valuation and remains our top sector pick.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	80,516	80,554	84,646	85,900
Net profit	27,218	30,654	34,091	36,705
Consensus NP	—	33,007	35,870	44,230
Diff frm cons (%)	—	*(7.1)*	*(5.0)*	*(17.0)*
Norm profit	27,218	30,654	34,091	36,705
Prev. Norm profit	—	27,693	28,917	33,935
Chg frm prev (%)	—	*10.7*	*17.9*	*8.2*
Norm EPS (Bt)	8.0	9.0	10.0	10.8
Norm EPS grw (%)	(24.6)	12.6	11.2	7.7
Norm PE (x)	11.7	10.4	9.3	8.7
P/BV (x)	0.8	0.7	0.7	0.7
Div yield (%)	2.5	2.8	5.4	5.8
ROE (%)	6.7	7.2	7.6	7.8
ROA (%)	0.9	0.9	1.0	1.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price: *as of* 30-Jul-21 (Bt)	93.50
Market Cap (US$ m)	9,660
Listed Shares (m shares)	3,395.6
Free Float (%)	76.6
Avg. Daily Turnover (US$ m)	37.5
12M Price H/L (Bt)	113.00/60.75
Sector	BANK
Major Shareholder	HM King Maha Vajiralongkorn Bodindradebayavarangkun 23.38%

Sources: Bloomberg, Company data, Thanachart estimates

Deep restructuring and provision cushions

The COVID-19 pandemic is a chronic crisis that has severely derailed the tourism-related industry, economy, banking operations and asset quality. We expect it to take at least two to three years for the economy to recover to the pre-COVID level.

Ex 1: Relief Measures For COVID-19 Impacts

BOT	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
	Blanket measures			→	Targeted measures			
Businesses	**Feb-20** Issued proactive measures to assist borrowers and relaxed pre-emptive debt restructuring rules **Mar-20** Issued minimum guidelines covering various types of loan products (inc. the first phase of relief measures for retail borrowers)	**Apr-20** Launched debt holiday for SMEs* for a 6-month period	**Sep-20** Launched DR BIZ to help expedite debt restructuring for multi-creditor businesses	**Oct-20** Issued debt-restructuring guidelines for SMEs after debt holiday ended	**Jan-21** Extended current measures to help borrowers affected by the new wave of COVID-19**	**Apr-21** ▪ Issued two new measures*** to support business recovery and transformation post-COVID-19 ▪ Changed the methods for calculating default interest and application of debt-repayment proceeds		
Individuals		**Jun-20** Implemented second phase of relief measures to assist retail borrowers	**Sep-20** Implemented debt consolidation		**Feb-21** Rolled out credit card and personal loan "Debt Mediation Fair" for both NPL and non-NPL status			
	Effective Period of BoT relief measures							
Loan classification guidelines	The BoT temporarily allows banks to relax loan classification for two years for loans in the suspension period of relief measures							
	After the debt holiday ended, the BoT allowed the freezing of loan stages in 2 cases:							
		May – Oct 20 Debt holiday 6-month period, Ended on 22 Oct 2020		**Oct 20 – Dec 20** 1) SMEs which are in the debt-restructuring process				
				Oct 20 – Jun 21 2) SMEs which cannot forecast their cash flows clearly**				

Sources: KBANK, Bank of Thailand

Note: * According to the Emergency Decree on Financial Assistance to Enterprises affected by Coronavirus 2019 (B.E. 2563), dated 18 April 2020.
** According to the BoT's announcement on 12 January 2021, the BoT allows banks to help SME and retail borrowers by extending current measures from 30 December 2020 to 30 June 2021, such as the second phase of COVID-19 relief measures for retail and assistance guidelines after the debt holiday for SMEs ended. The BoT also urges banks to provide financial assistance to all customers taking into account the risk of the customer.
*** According to the Emergency Decree on Financial Rehabilitation and Recovery to Support Businesses affected by COVID-19 (B.E. 2564), dated 19 April 2021. (i.e., soft loans and asset warehousing)

Ex 1: Relief Measures For COVID-19 Impacts *(Con't)*

Measures from BOT

Credit Adjustment

For Businesses:

- **Loan Payments for SMEs:**
  - ✓ 6-month debt holiday on principal and interest payments for SMEs with a credit line of not over Bt100mn (ended in October 2020)

For Individuals: First phase is the minimum guideline for general public. Measure ended in June 2020

- **Credit Card and Revolving Loans:**
  - ✓ Reduce minimum installment payment to 5% in 2020-21 and 8% in 2022, returning to 10% in 2023; refinancing into long-term loans with lower interest rates
- **Personal Loans with Installment Payments and Auto Title Loans:**
  - ✓ (Banks and SFIs), 3-month grace period on principal and interest payments
  - ✓ (Other lenders), 3-month grace period on principal and interest payments, or pay up to 70% of installments for 6 months
- **Hire Purchase:**
  - ✓ 3-month grace period on principal and interest payments, or 6-month grace period on principal payments for motorcycles (<=Bt35,000), automobiles (<=250,000), and leasing (<=Bt3mn)
- **Housing Loans and Micro and Nano Finance:**
  - ✓ 3-month grace period on principal payments and case-by-case interest rate cuts for housing (<=Bt3mn) and micro and nano finance (<=Bt20mn)
- **Ease Commercial Bank Loan Rules for Easier Access**

Phase 2: For Individuals: Second phase is to ease the burden of affected people; customers can opt in for alternative measures suited to their debt-servicing ability

- **Reduce the interest rate ceiling for credit cards and personal loans** by 2% to 4% p.a., effective from 1 August 2020 onwards.
- **Increase credit limit from 1.5x to 2x of monthly income** for good debtors with a monthly income of less than Bt30,000, from August 2020 to December 2021
- **Provide alternative measures to help debtors hit by COVID-19** whose loans do not become NPLs, such as suspension of principal and/or interest payments, extension of loan terms, payment reduction, or postponement of debt repayment
- **Restructure debt:** FIs must focus on debtors' debt-servicing ability in order to relieve their burden

Debt Consolidation Program for Individuals:

- **Consolidate** unsecured loans, hire purchase and housing loans from the same creditor to utilize the collateral. For the combined unsecured loan, the interest rate is capped to be no higher than the Minimum Retail Rate (MRR), while the loan repayment period can be extended according to the debt-servicing ability of the debtor

"DR BIZ" Project for Businesses which have multiple financial institution creditors with a total loan of Bt50m–500m:

- **Receive** relief measures with all financial institutions in an integrated manner
- **Have** main creditors to take care of debtors and coordinate with other creditors
- **Around** 8,400 debtors with total loans of Bt1.2trn have qualified to take part in the scheme

Loan Classification

Standstill: For the debt holiday, allow loan stages to be maintained for SMEs that are in the process of debt restructuring until 31 December 2020; and SMEs that cannot forecast their cash flow clearly until 30 June 2021

- **Non-NPL (Pre-Emptive):**
  1) Can immediately classify non-NPL debtors as stage 1 (stage 1 or stage 2 >> stage 1)
  2) Not to be deemed as TDR and not to be reported to the National Credit Bureau
- **NPL:** Classified as stage 1, under a 3 consecutive-month payment period (from the previous 12 months)
- **Additional Working Capital:** Can be classified as stage 1, provided that the debtors have sufficient cash flow for repayment

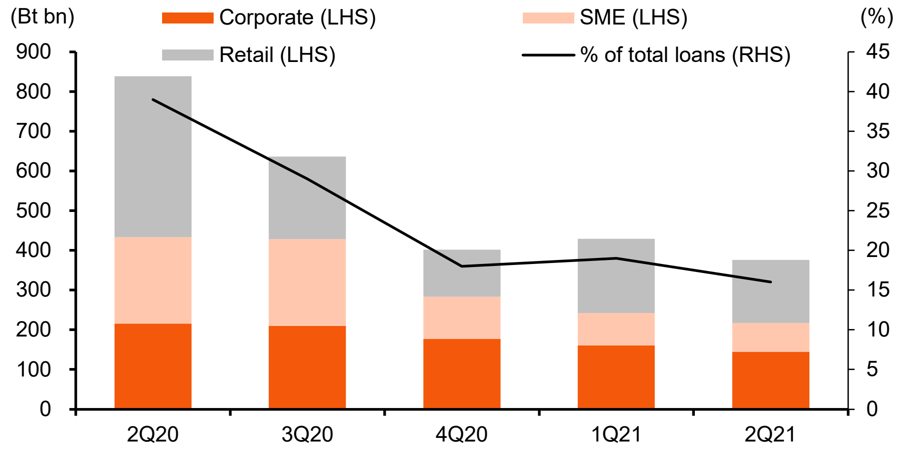
Regulation Relaxation	Report to the BoT	Other measures
▪ No additional provisions for unused credit lines ▪ Easing liquidity-related regulations, including NSFR and LCR ▪ Reducing the FIDF fee from 0.46% of the deposit base to 0.23% per annum for a period of two years	▪ Financial institutions are required to submit reports to the BoT detailing the target loans and outstanding debts of the debtors who are subject to these measures	▪ Relaxing credit line in emergency cases

Sources: KBANK, Bank of Thailand

Moving to offer deep restructuring to 20% of potentially impaired loans

Seeing the relief measures for the COVID-19 impacts as only a temporary solution, SCB is moving to offer deep restructuring programs for its potentially impaired loans, estimated at around 20% of its total loan book. This comprises 16% of loans in the BoT's relief program and 4% under the bank's assistance plans.

Ex 2: SCB's Forbearance Loans



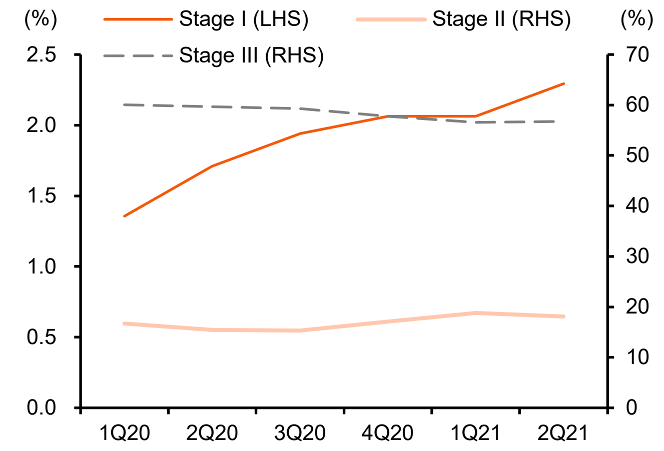
Source: Company data

Of the bank's forbearance loans of Bt376bn, or 16% of total loans, 39% are corporate, 19% are SME and the rest are retail loans, mainly housing and auto loans. Compared to 2Q20, corporate and SME forbearance loans have fallen by 33% and 67%, respectively. These comprise accounts that had exited the programs and those that already turned into NPLs. As for the retail segment, most of the program expired in 4Q20 when retail forbearance loans fell by 71% to Bt119bn from Bt406bn as of 2Q20. However, SCB has received increasing new requests and seen re-entries of retail forbearance customers, particularly for self-employed borrowers who have been hit very hard by the third COVID wave. Retail forbearance loans have risen by 34% from 4Q20 and we expect them to increase further as a result of stricter lockdown policies for 13 provinces imposed this month.

We estimate Bt23bn of management overlay provisions

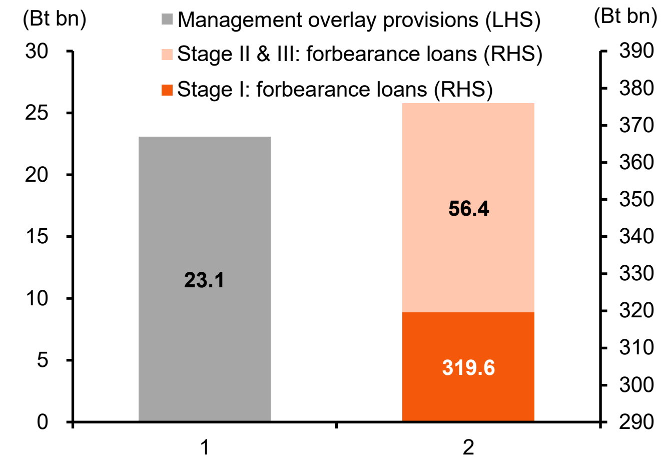
The BoT's COVID-19 relief measures allow banks to relax the loan classification of COVID-impacted loans for two years ending in December 2021. We reckon that 85% of SCB's forbearance loans are still being classified as normal or stage I loans. These made up around Bt319bn, or 14% of SCB's total loans outstanding, as of 2Q21. We believe this is exposure where SCB has been building management overlay provisions over time. This is in order to mitigate provisioning overshoot risks when the loan reclassification relaxation ends in 2021. We estimate management overlay provisions of Bt23bn, or 7% of loans in the relief plans that are yet to be reclassified as stage II or III. The cushion looks decent to us. According to the bank's data for loans that have exited the relief programs, 60% can service them on the original terms, 30% can make payments under modified terms and 10% comprises the vulnerable portion which the bank has to monitor closely.

Ex 3: Provisioning To Loans



Source: Company data

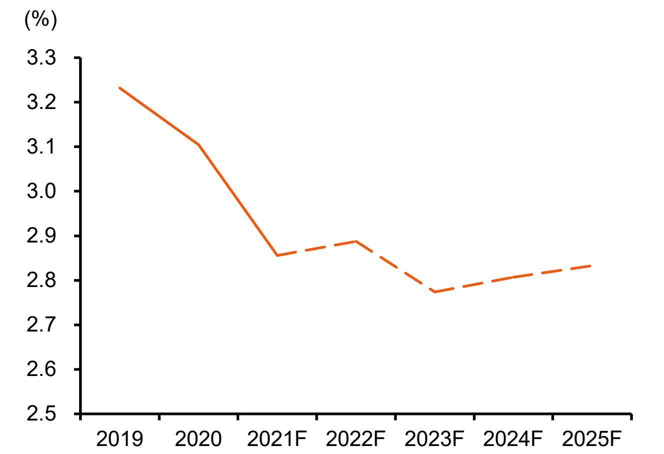
Ex 4: SCB's Estimated Provisioning Cushion



Sources: Company data; Thanachart estimates

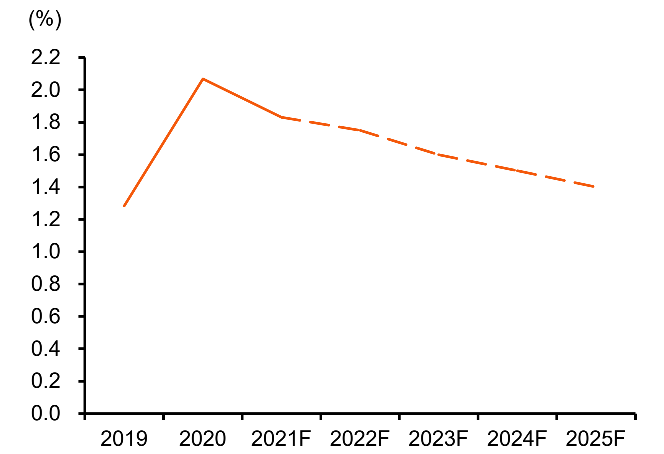
In addition to building a provisioning buffer, SCB is planning to undertake deep restructuring plans so that it can avoid the NPL cliff effect and smoothen the provisioning impact on its bottom line. The plans include a reduction of interest charges, modification of repayment terms and perhaps principal haircuts. The objective is to come up with debt-servicing plans that suit borrowers' cash flows in the COVID-induced recession environment. This would definitely hit lending yield and NIM. But we expect a net positive impact on profits via lower front-loaded provisions. From 3.1% in 2020, we estimate SCB's NIM at 2.9% in 2021-22F and 2.8% in 2023-25F. In light of its long-term debt-restructuring approach, we are confident that SCB's credit costs already passed their peak of 2% in 2020.

Ex 5: NIM



Sources: Company data; Thanachart estimates

Ex 6: Credit Costs



Sources: Company data; Thanachart estimates

Raising our earnings and TP

Strong bottom-up drivers

While we like the way SCB is proactively handling potential impaired loans, the bank is also ahead of its peers in turning its pre-provisioning profits (PPOP) around. SCB's PPOP bottomed in 4Q19, and we estimate growth of 4% over 2021-25F, backed by 1) lower cost of funds on growing CASA and liquidity leverage, 2) improving fee income cross-selling capabilities through growing bancassurance and asset management fees, 3) and improving operating efficiency via growing digitalization and human resource rationalization plans. These factors, along with lower provisions and an extension of the 50% cut in Financial Institution Development Fund (FIDF) fees to 2022, prompt us to raise our earnings projections for SCB by an average of 9% over 2021-25F.

Ex 7: Earnings Revisions

	2021F	2022F	2023F	2024F	2025F
Net profits (Bt bn)					
- New	30.65	34.09	36.71	42.65	48.94
- Old	27.69	28.92	33.93	40.99	46.33
- Change (%)	*10.69*	*17.89*	*8.16*	*4.06*	*5.65*
Lending yield (%)					
-New	4.60	4.57	4.54	4.56	4.57
-Old	4.67	4.61	4.62	4.64	4.65
- Change (pp)	*(0.07)*	*(0.04)*	*(0.08)*	*(0.08)*	*(0.08)*
Cost of funds (%)					
-New	0.63	0.63	0.76	0.76	0.75
-Old	0.73	0.89	0.88	0.88	0.87
- Change (pp)	*(0.10)*	*(0.26)*	*(0.12)*	*(0.12)*	*(0.11)*
Operating expenses (Bt bn)					
-New	63.11	63.73	65.34	67.04	68.83
-Old	62.80	64.15	65.57	67.07	68.64
- Change (%)	*0.50*	*(0.65)*	*(0.35)*	*(0.05)*	*0.28*
Credit costs (%)					
-New	1.83	1.75	1.60	1.50	1.40
-Old	1.90	1.70	1.60	1.40	1.30
- Change (pp)	*(0.07)*	*0.05*	*-*	*0.10*	*0.10*

Source: Thanachart estimates

Ex 8: 12-month DDM-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
Dividend of common shares	8,890	17,045	18,353	25,589	29,366	44,570	48,461	52,605	57,157	62,035	83,946	83,946
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	8,890	17,045	18,353	25,589	29,366	44,570	48,461	52,605	57,157	62,035	83,946	800,237

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.2
WACC (%)	11.7
Cost of equity	11.7
Terminal growth (%)	2.0
Equity value	409,405
No. of shares (m shares)	3,396
Equity value / share (Bt)	**120.00**

Sources: Company data, Thanachart estimates

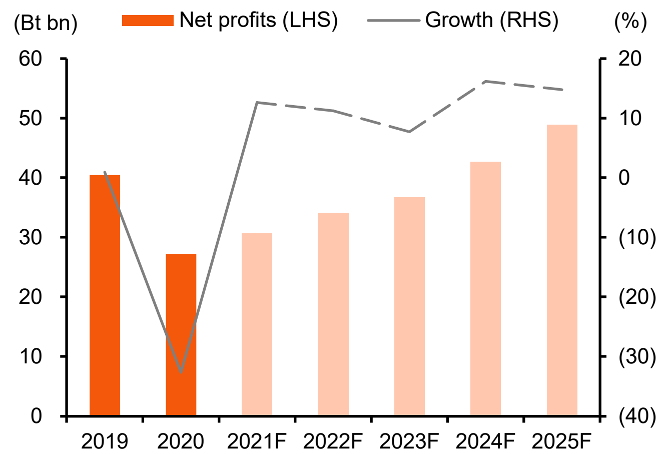
Post-earnings hikes, we estimate SCB to experience a decent earnings recovery of 13%, 11% and 8% over 2021-23F. We reaffirm our BUY call with a higher DDM-based 12-month TP, using a 2022F base year, of Bt120/share (from Bt111) for the following reasons.

1) Thanks to the bank's strong bottom-up drivers, SCB offers a better earnings-growth story than peers.

2) In light of the bank's proactive moves, asset quality looks manageable with a limited front-loaded provisioning impact.

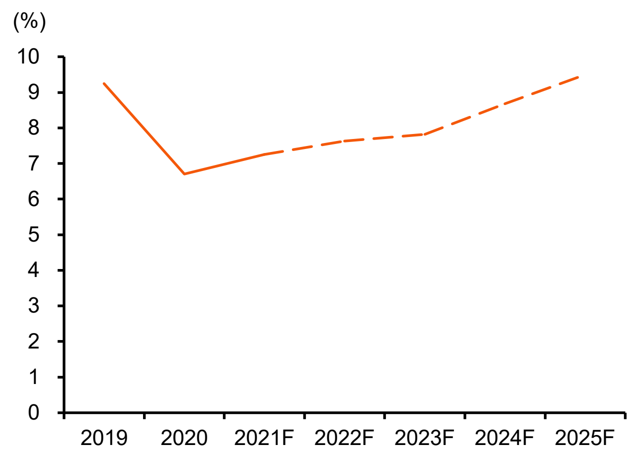
3) With higher ROE and greater potential, we believe SCB deserves a premium valuation and the bank remains our top sector pick.

Ex 9: Decent Earnings Recovery



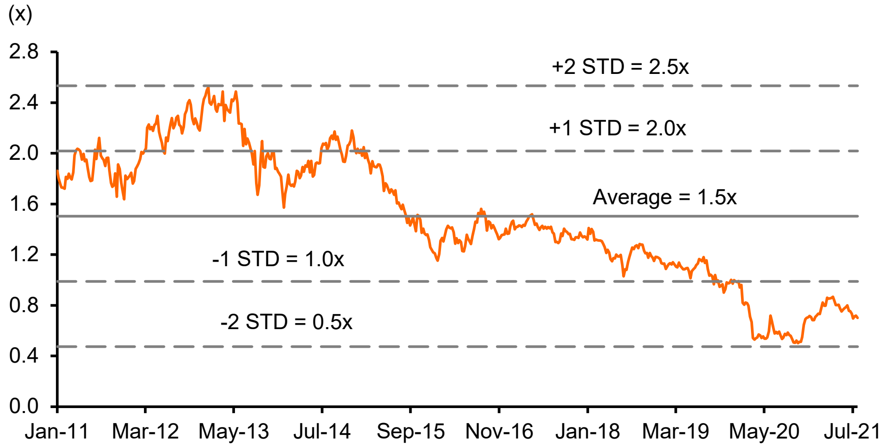
Sources: Company data; Thanachart estimates

Ex 10: Improving ROE



Sources: Company data; Thanachart estimates

Ex 11: P/BV STD



Sources: Bloomberg, Thanachart estimates

Valuation Comparison

Ex 12: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	ROE 21F (%)	ROE 22F (%)	Div. Yield 21F (%)	Div. Yield 22F (%)
BOC Hong Kong Holdings	2388 HK	Hong Kong	4.4	11.3	9.6	8.6	0.8	0.8	9.3	9.8	5.3	5.9
Bank of East Asia	23 HK	Hong Kong	33.6	22.5	9.9	8.1	0.4	0.4	3.5	4.1	5.3	5.7
China Citic Bank Corp	998 HK	Hong Kong	9.4	8.1	3.4	3.1	0.3	0.3	10.1	10.2	8.0	8.6
Hang Seng Bank	11 HK	Hong Kong	2.3	11.2	16.7	15.0	1.6	1.5	9.8	10.8	4.0	4.4
Industrial & Commercial Bk	1398 HK	Hong Kong	5.6	7.4	4.8	4.4	0.5	0.5	11.4	11.2	6.5	6.9
Axis Bank	AXSB IN	India	(6.2)	94.4	31.2	16.1	2.3	2.0	6.3	12.8	0.6	1.9
ICICI Bank	ICICIBC IN	India	15.9	(6.3)	21.6	23.1	na	na	14.1	13.3	0.5	0.7
State Bank of India	SBIN IN	India	(97.8)	58.1	17.4	11.0	1.5	1.4	8.7	13.0	0.7	1.1
Bank Central Asia	BBCA IJ	Indonesia	(78.1)	501.9	123.8	20.6	5.8	3.3	6.5	16.6	0.1	2.1
Bank Danamon	BDMN IJ	Indonesia	87.1	na	9.0	na	0.4	na	6.5	na	1.9	na
Bank Internasional	BNII IJ	Indonesia	92.6	na	1.4	na	0.2	na	14.2	na	34.8	na
Bank Mandiri	BMRI IJ	Indonesia	92.6	222.8	23.0	7.1	3.1	0.8	14.2	11.8	2.1	3.0
Bank Pan	PNBN IJ	Indonesia	92.6	222.8	2.9	0.9	0.4	0.1	14.2	11.8	16.3	23.8
Bank Rakyat	BBRI IJ	Indonesia	63.3	222.8	15.0	4.6	2.0	0.5	14.2	11.8	3.2	4.7
Bank Negara	BBNI IJ	Indonesia	178.9	63.1	9.7	6.0	0.8	0.7	8.0	11.8	1.9	3.6
CIMB Group Holdings	CIMB MK	Malaysia	243.9	21.7	10.7	8.8	0.7	0.7	7.6	8.3	4.3	5.2
Hong Leong Bank	HLBK MK	Malaysia	13.5	10.9	13.0	11.7	1.3	1.2	10.2	10.5	2.5	3.1
Malayan Banking	MAY MK	Malaysia	19.6	11.6	11.6	10.4	1.0	1.0	8.9	9.8	6.5	7.4
Public Bank	PBKF MK	Malaysia	(76.4)	7.4	na	na	na	na	11.9	12.1	na	na
Industrial Bank of Korea	024110 KS	S Korea	26.6	1.4	4.1	4.1	0.3	0.3	8.1	7.6	6.0	6.3
DBS Group Holdings	DBS SP	Singapore	34.8	7.9	12.2	11.3	1.4	1.3	11.5	11.9	3.9	4.5
Oversea-Chinese Banking	OCBC SP	Singapore	36.3	7.7	11.3	10.5	1.1	1.0	9.8	10.1	4.2	4.6
United Overseas Bank	UOB SP	Singapore	36.1	12.0	11.4	10.2	1.1	1.0	9.4	10.1	4.3	5.0
Bank of Ayudhya	BAY TB*	Thailand	(8.9)	(7.8)	9.9	10.7	0.7	0.6	7.1	6.2	2.0	2.3
Bangkok Bank	BBL TB*	Thailand	(1.8)	7.7	11.6	10.8	0.4	0.4	3.7	3.9	2.6	2.8
KASIKORNBANK	KBANK TB*	Thailand	3.2	(0.1)	8.1	8.1	0.5	0.5	6.7	6.4	3.7	3.7
Kiatnakin Bank	KKP TB*	Thailand	8.4	3.6	7.8	7.5	0.9	0.8	11.5	11.2	6.4	6.7
Krung Thai Bank	KTB TB*	Thailand	(2.0)	(2.6)	8.6	8.8	0.4	0.4	4.7	4.4	4.1	4.0
Siam Commercial Bank	SCB TB*	Thailand	12.6	11.2	10.4	9.3	0.7	0.7	7.2	7.6	2.8	5.4
Tisco Financial Group	TISCO TB*	Thailand	4.1	4.5	11.2	10.7	1.7	1.6	15.7	15.7	6.3	6.6
TMBThanachart Bank	TTB TB*	Thailand	(7.3)	6.8	10.0	9.3	0.4	0.4	4.5	4.7	4.6	4.8
Average			**27.0**	**53.2**	**15.0**	**9.7**	**1.1**	**0.9**	**9.3**	**10.0**	**5.2**	**5.2**

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

Based on 30 July 2021 closing prices

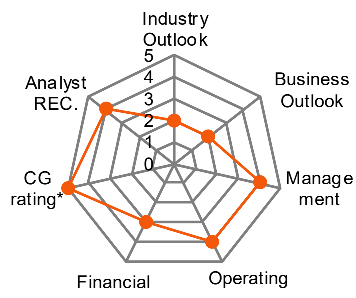
Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 20.1% of the shareholding in TMBThanachart Bank Pcl.

COMPANY DESCRIPTION

Siam Commercial Bank (SCB) was Thailand's first home-grown bank, established in 1906 under Royal Charter and listed on the SET in 1976. As of 2017, the bank had, on a consolidated basis, Bt3,024bn in total assets and it was Thailand's second-largest commercial bank in terms of total assets. SCB provides a full range of financial services such as corporate and personal lending, retail and wholesale banking through its head office and extensive branch network.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Leading position in retail products.
- Strong deposit franchise.
- Healthy balance sheet.

W — Weakness

- High cost base after undergoing a major transformation program in 2017.
- Relatively high concentration risks.

O — Opportunity

- Increasing its exposure to unsecured, digital/machine lending.
- Wealth management
- Non-bank service fees.

T — Threat

- Digital disruption.
- Global economic recession.
- New accounting standards and regulations.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	118.78	120.00	1%
Net profit 21F (Bt m)	33,007	30,654	-7%
Net profit 22F (Bt m)	35,870	34,091	-5%
Consensus REC	**BUY: 23**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are less positive than the Bloomberg consensus on the declining trend of credit costs while we don't expect NIM to improve over the next two years.
- As a consequence, our earnings forecasts are 5-7% lower than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- In the event that asset-quality risk is greater than we forecast, leading to higher-than-expected provisions, this would present the key downside risk to our earnings forecasts and TP.
- In any circumstances in which the bank cannot enjoy the benefits from its transformation plan that we currently assume, this would also lead to downside to our TP.

Source: Thanachart

Strong recovery of non-NII and falling provisions

Deep restructuring to avoid NPL cliff effect

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Interest and Dividend Income	135,025	118,371	110,664	113,553	117,573
Interest Expenses	35,624	21,472	17,030	17,097	21,505
Net Interest Income	**99,402**	**96,899**	**93,634**	**96,455**	**96,068**
% of total income	70.0%	66.9%	65.2%	65.0%	63.5%
Gain on Investment	5,383	1,703	100	100	100
Fee Income	29,670	36,586	39,931	42,779	45,831
Gain on Exchange	6,817	7,662	8,500	7,500	7,650
Others	145	1,840	1,300	1,339	1,379
Non-interest Income	**42,642**	**47,947**	**50,031**	**51,924**	**55,172**
% of total income	30.0%	33.1%	34.8%	35.0%	36.5%
Total Income	**142,043**	**144,846**	**143,664**	**148,380**	**151,240**
Operating Expenses	70,538	64,330	63,111	63,734	65,340
Pre-provisioning Profit	**71,505**	**80,516**	**80,554**	**84,646**	**85,900**
Provisions	27,111	46,649	42,486	42,301	40,292
Pre-tax Profit	**44,394**	**33,866**	**38,068**	**42,345**	**45,609**
Income Tax	8,518	6,794	7,614	8,469	9,122
After Tax Profit	35,876	27,072	30,454	33,876	36,487
Equity Income	31	(78)	0	0	0
Minority Interest	185	224	200	215	218
Extraordinary Items	4,343	0	0	0	0
NET PROFIT	**40,436**	**27,218**	**30,654**	**34,091**	**36,705**
Normalized Profit	**36,093**	**27,218**	**30,654**	**34,091**	**36,705**
EPS (Bt)	11.9	8.0	9.0	10.0	10.8
Normalized EPS (Bt)	10.6	8.0	9.0	10.0	10.8

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Liquid Items	**481,125**	**599,136**	**618,000**	**671,000**	**712,000**
cash & cash equivalents	47,615	51,632	52,000	52,000	52,000
interbank & money market	433,510	547,504	566,000	619,000	660,000
Securities under resale agreeme	0	0	0	0	0
Investments	312,065	311,796	251,320	251,320	251,320
Net loans	**2,002,461**	**2,130,308**	**2,178,739**	**2,252,156**	**2,338,342**
Gross and accrued interest	2,116,733	2,269,750	2,331,646	2,423,192	2,524,488
Provisions for doubtful	114,272	139,442	152,908	171,036	186,146
Fixed assets - net	57,418	56,445	49,613	42,789	37,881
Other assets	110,677	180,699	182,000	183,820	185,658
Total assets	**2,963,746**	**3,278,384**	**3,279,672**	**3,401,085**	**3,525,202**
LIABILITIES:					
Liquid Items	**2,317,066**	**2,629,213**	**2,596,862**	**2,694,684**	**2,797,141**
Deposit	2,159,425	2,420,455	2,386,362	2,478,974	2,576,217
Interbank & money market	145,844	198,491	200,000	205,000	210,000
Liability payable on demand	11,796	10,267	10,500	10,710	10,924
Borrowings	77,952	67,235	76,370	71,534	70,244
Other liabilities	167,882	170,106	172,000	175,440	178,949
Total liabilities	**2,562,900**	**2,866,554**	**2,845,232**	**2,941,658**	**3,046,334**
Minority interest	489	399	199	(16)	(234)
Shareholders' equity	**400,358**	**411,430**	**434,241**	**459,442**	**479,102**
Preferred capital	-	-	-	-	-
Paid-in capital	33,992	33,992	33,960	33,960	33,960
Share premium	11,124	11,124	11,124	11,124	11,124
Surplus/ Others	16,170	16,907	16,907	16,907	16,907
Retained earnings	339,072	349,407	372,250	397,451	417,111
Liabilities & equity	**2,963,746**	**3,278,384**	**3,279,672**	**3,401,085**	**3,525,202**

Sources: Company data, Thanachart estimates

Trading below five-year average P/BV

NIM to be pressured by deep restructuring plans

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normlized PE (x)	8.8	11.7	10.4	9.3	8.7
Normalized PE - at target price (x)	11.3	15.0	13.3	12.0	11.1
PE (x)	7.9	11.7	10.4	9.3	8.7
PE - at target price (x)	10.1	15.0	13.3	12.0	11.1
P/PPP (x)	4.4	3.9	3.9	3.8	3.7
P/PPP - at target price (x)	5.7	5.1	5.1	4.8	4.7
P/BV (x)	0.8	0.8	0.7	0.7	0.7
P/BV - at target price (x)	1.0	1.0	0.9	0.9	0.9
Dividend yield (%)	6.7	2.5	2.8	5.4	5.8
Market cap / net loans (x)	0.2	0.1	0.1	0.1	0.1
Market cap / deposit (x)	0.1	0.1	0.1	0.1	0.1
(Bt)					
Normalized EPS	10.6	8.0	9.0	10.0	10.8
EPS	11.9	8.0	9.0	10.0	10.8
DPS	6.3	2.3	2.6	5.0	5.4
PPP/Share	21.1	23.7	23.7	24.9	25.3
BV/Share	117.9	121.2	127.9	135.3	141.1

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	3.1	(2.5)	(3.4)	3.0	(0.4)
Non-interest income (Non-II)	2.0	12.4	4.3	3.8	6.3
Operating expenses	9.1	(8.8)	(1.9)	1.0	2.5
Pre-provisioning profit (PPP)	(2.8)	12.6	0.0	5.1	1.5
Net profit	0.9	(32.7)	12.6	11.2	7.7
Normalized profit growth	(9.9)	(24.6)	12.6	11.2	7.7
EPS	0.9	(32.7)	12.6	11.2	7.7
Normalized EPS	(9.9)	(24.6)	12.6	11.2	7.7
Dividend payout ratio	52.5	28.7	29.0	50.0	50.0
Loan - gross	(1.3)	6.7	2.9	4.1	4.2
Loan - net	(1.9)	6.4	2.3	3.4	3.8
Deposit	(0.0)	12.1	(1.4)	3.9	3.9
NPLs	21.1	19.1	12.0	15.0	4.0
Total assets	(7.0)	10.6	0.0	3.7	3.6
Total equity	5.3	2.8	5.5	5.8	4.3
Operating Ratios (%)					
Net interest margin (NIM)	3.2	3.1	2.9	2.9	2.8
Net interest spread	4.5	4.5	4.2	4.2	4.2
Yield on earnings assets	4.5	4.0	3.5	3.5	3.5
Avg cost of fund	1.5	0.8	0.6	0.6	0.8
NII / operating income	70.0	66.9	65.2	65.0	63.5
Non-II / operating income	30.0	33.1	34.8	35.0	36.5
Fee income / operating income	20.9	25.3	27.8	28.8	30.3
Normalized net margin	25.4	18.8	21.3	23.0	24.3
Cost-to-income	49.7	44.4	43.9	43.0	43.2
Credit cost - provision exp / loans	1.3	2.1	1.8	1.8	1.6
PPP / total assets	2.3	2.6	2.5	2.5	2.5
PPP / total equity	18.3	19.8	19.1	18.9	18.3
ROA	1.2	0.9	0.9	1.0	1.1
ROE	9.2	6.7	7.2	7.6	7.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Very strong capital

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	97.9	93.2	97.3	97.5	97.7
Loan-to-deposit & S-T borrow ing	97.9	93.2	97.0	97.4	97.7
Net loan / assets	67.6	65.0	66.4	66.2	66.3
Net loan / equity	500.2	517.8	501.7	490.2	488.1
Investment / assets	10.5	9.5	7.7	7.4	7.1
Deposit / liabilities	84.3	84.4	83.9	84.3	84.6
Liabilities / equity	640.2	696.7	655.2	640.3	635.8
Net interbank lender (Bt m)	287,666	349,013	366,000	414,000	450,000
Tier 1 CAR	17.0	17.1	18.2	18.7	18.8
Tier 2 CAR	1.1	1.1	2.0	1.9	1.9
Total CAR	18.1	18.2	20.2	20.6	20.7
NPLs (Bt m)	85,212	101,462	113,637	130,683	135,910
NPLs / Total loans (NPL Ratio)	4.0	4.5	4.9	5.4	5.4
Loan-Loss-Coverage	134.1	137.4	134.6	130.9	137.0

Sources: Company data, Thanachart estimates

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