

The Siam Commercial Bank Pcl (SCB TB) - BUY

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Analyst Meeting

Unlocking growth and value

- **A reorganization to establish SCBx as a FinTech holding.**
- **3 biz pillars: old bank (scb), consumer finance and tech platform.**
- **5-year aspirations = Bt1tr mkt cap, higher margin, 200m customers.**
- **Brighter prospect for valuation re-rating; BUY.**

SCB announced grand scale business reorganization to avoid financial disruption, unlocking growth and value.

- SCBx will be established as a parent company for the group to manage capital allocation and investments through a share swap between SCB Bank and SCBx. The swap ratio will be one-to-one.
- SCB Bank will pay Bt70bn dividends to SCBx of which 70% will be used to fund unsecured lending, SCB's tech platform companies and JVs with Advanced Info Service (ADVANC TB) and CP group (CPG), etc. The remaining 30% will be reserved for future investments and dividends. The Bt70bn dividend would cut SCB Bank's Tier I from 17% to 15%. Basically, the new structure will allow the bank to better utilize excess capital and liquidity.
- SCB Bank will be de-listed and SCBx will be new listed entity. SCBx will be positioned as a Fintech holding, having three business pillars.
 1. **Cash cow (old bank)** - corporate, SME, housing and auto-HP loans. Digital banking platform under SCB easy will be at the bank. This together with asset management, bancassurance and also wealth businesses. This is conventional banking facing pricing competition with low ROE.
 2. **Consumer finance and digital finance services.** This includes Card X (unsecured lending, similar to KTC), Auto X (newly set-up company to offer titled loans in 1Q22), Alpha X (hire purchase for luxury car-partnership with Millennium group), AISC B (JV with ADVANC to offer digital lending) and SCB securities to offer digital asset services.
 3. **Digital platform and technology services.** SCB 10x (venture capital investor in Fintech space), Token x, and its latest 50:50 JV with CPG to set up US\$600-800m fund size (US\$100m each from SCB 10x and CPG and the rest of US\$400-600m from Limited partners).
- Current contribution to SCBX is 85-90% from old bank and 10-15% from new bank i.e. #2 and #3. SCBX is looking to grow new bank contribution to one-third in five years. It is also looking to monetize subsidiaries in #2 via IPOs over 2-3 years and foresee good value creation of #3.
- SCBX's five-year aspirations are to grow customer base from 16m to 200m, change from intermediaries to platform and from bank to FinTech group.
- In terms of monetization, SCBX aims for Bt1tr market cap (370bn now), higher portion of high-margin business i.e. 1.5x rise of quality earnings and one-third revenue contribution of the growth business.

Key Valuations

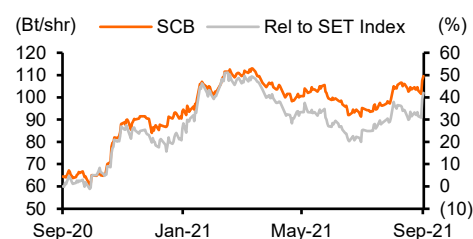
Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Prov. Profit	80,516	80,554	84,646	85,900
Net profit	27,218	30,654	34,091	36,705
Norm net profit	27,218	30,654	34,091	36,705
Norm EPS (Bt)	8.0	9.0	10.0	10.8
Norm EPS gr (%)	(24.6)	12.6	11.2	7.7
Norm PE (x)	13.7	12.1	10.9	10.1
P/BV (x)	0.9	0.9	0.8	0.8
Div. yield (%)	2.1	2.4	4.6	4.9
ROE (%)	6.7	7.2	7.6	7.8
ROA (%)	0.9	0.9	1.0	1.1

Source: Thanachart estimates

Stock Data

Closing price (Bt)	109.50
Target price (Bt)	120.00
Market cap (US\$ m)	11,118
Avg daily turnover (US\$ m)	35.29
12M H/L price (Bt)	113.00/60.75

Price Performance

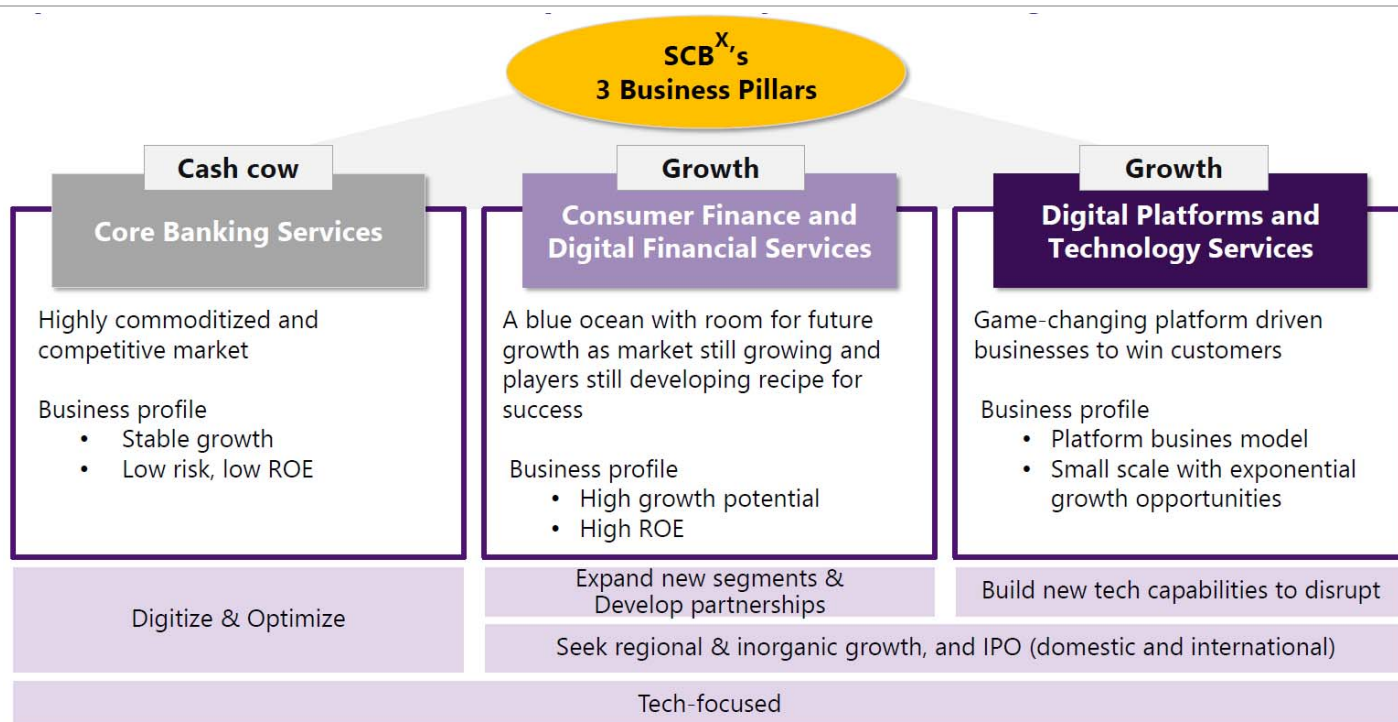


Source: Bloomberg

Our view:

- This is very bold move as we see it as a breakthrough solution to avoid financial disruption of no intermediaries, pave ways for the group to penetrate into unbanked, long-tail segments and unlock the group's value from Thai bank's current valuation trap.
- We see good growth opportunities and value accretion of consumer finance and digital finance services over next three year. The structure will equip SCBx with flexibility, agility, entrepreneurship-driven mindset management team. This is an area where see near term multiple re-rating. For example, SCB Card X is having 120bn assets with 13% market share. This compares to KTC's Bt90bn with its 1.8x price-to-asset. Assuming 3-yr CAGR of 10%, using KTC's multiple, Card X value could be at least Bt290bn. The title loan under Auto x is also a blue ocean business, trading at high P/BV multiples of 4x.
- The digital platform and technology services will not be immediate earnings accretive. But this is a platform for future revenue streams with high potential of long term value creation.
- Despite its growth-focused strategy, SCBX will still pay good dividends with minimum dividend payout policy of 30% (similar level to SCB Bank). SCB Bank also intends to maintain its solid balance sheet and capital position with minimum CAR ratio of 16-16.5%.
- Without the reorganization, SCB already trades at premium valuation to the sector's. Share prices have performed very well thus far and it is likely that part of the abovementioned reorganization benefits is priced in.
- Having said that we see upsides to our TP as we look to change from valuation methodology from DDM to sum-of-the-part (SOTP) valuation to reflect better value of #2 and #3. Maintain BUY as a top sector pick.

Ex 1: SCBX's Three Pillars Of Business



Source: Company data

Ex 2: Conventional Bank And Future Growth Business Areas



Source: Company data

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