BUY (Unchanged)

Change in Numbers

TP: Bt 150.00 (From: Bt 120.00)

Upside : 17.2%

28 SEPTEMBER 2021

Siam Commercial Bank (SCB TB)

The X factors

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We like SCB's reorganization plan to transform the bank into SCB^X – a FinTech holding company. The move would unlock the bank's growth and value traps. In this report we show the value accretion from the spin-off growth pillars and derive a new SOTP-based TP of Bt150. BUY as our top sector pick.

Thanachart Securities

A bold reorganization move

SCB's board has approved the set-up of SCB^X as its parent, with SCB its 100%- held subsidiary. This would be done via a 1:1 share swap as SCB would be de-listed if it receives 90% shareholder approval at November's EGM. And SCB^X will be the new listed entity. SCB would pay Bt70bn in one-off dividends to SCB^X to settle the transfer of the consumer lending business and finance JV and venture capital investments of Bt50bn. The remaining Bt20bn would stay at SCB^X for future investment and dividends. Post-reorganization, SCB^X would comprise a cash cow bank, a conventional banking business and two growth pillars: 1) consumer finance and digital financial services; and 2) digital platform and technology services.

What are the key benefits?

We see the move unlocking both growth and value. *First,* the bank would be able to better utilize excess liquidity and allocate capital more efficiently. *Second,* the spun-off consumer lending businesses under many "X" subsidiaries and JVs would be well equipped with flexibility, agility and an entrepreneur-driven mindset. Growth potential would no longer be hindered by banking regulatory constraints. Therefore, they could raise penetration of blue ocean subprime lending and tap into unbanked customers, estimated at around 80% of the total population. This is not to mention plans to develop more partnerships and seek growth opportunities overseas. *Third*, we see clear value accretion of the two growth pillars via multiple re-ratings, IPOs and start-up unicorns.

New sum-of-the-parts TP of Bt150

We keep our earnings forecasts unchanged pending more details post-reorganization completion. In this report, we provide our detailed analysis of how we see profit and value creation from the two growth pillars. In summary, we see the reorganization lifting SCB^X's profits by 3-10% and increasing ROE from 7% this year to 11% in 2026F. In our SOTP-based TP (previously DDM), we value the cash-cow conventional bank at Bt100 (down from Bt120 currently), the consumer finance and digital financial services at Bt40, and the digital platform and technology services at Bt10.

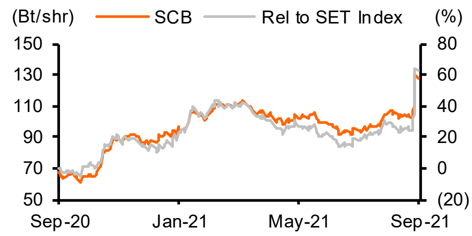
Upside to dividends

Given concerns over capital stability during the COVID crisis, the BoT has capped banks' dividend payout ratios. This led SCB's dividend payout ratio to fall to 29% in 2020 from 52% in 2019. The reorganization into a holding company would pave the way for SCB^X to pay more dividends as there are no dividend caps at non-bank subsidiaries.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	80,516	80,888	85,240	86,582
Net profit	27,218	30,753	34,390	37,073
Consensus NP	—	33,379	36,623	44,071
Diff frm cons (%)	—	*(7.9)*	*(6.1)*	*(15.9)*
Norm profit	27,218	30,753	34,390	37,073
Prev. Norm profit	—	30,654	34,091	36,705
Chg frm prev (%)	—	*0.3*	*0.9*	*1.0*
Norm EPS (Bt)	8.0	9.1	10.1	10.9
Norm EPS grw (%)	(24.6)	13.0	11.8	7.8
Norm PE (x)	16.0	14.1	12.6	11.7
P/BV (x)	1.1	1.0	0.9	0.9
Div yield (%)	1.8	2.1	2.4	4.3
ROE (%)	6.7	7.3	7.7	7.8
ROA (%)	0.9	0.9	1.0	1.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price: *as of* 27-Sep-21 (Bt)	128.00
Market Cap (US$ m)	12,970
Listed Shares (m shares)	3,395.6
Free Float (%)	76.6
Avg. Daily Turnover (US$ m)	46.2
12M Price H/L (Bt)	130.00/60.75
Sector	BANK
Major Shareholder	HM King Maha Vajiralongkorn Bodindradebayavarangkun 23.38%

Sources: Bloomberg, Company data, Thanachart estimates

A bold reorganization move in our view

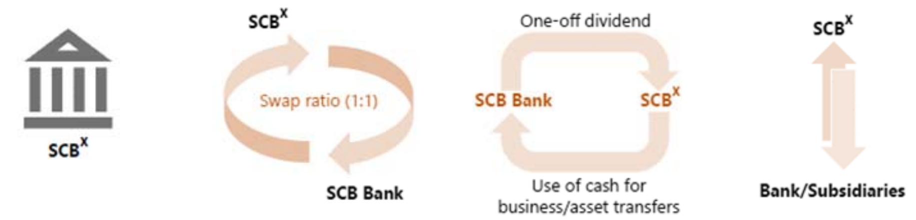
We see the move unlocking the bank from its growth and value traps

Siam Commercial Bank Pcl's (SCB) board has approved a reorganization plan to establish SCB^X as its parent company with the aspiration to be the most admired financial technology group in Asean. The "X" stands for "Exponential" and this also ties into our report title, *The X factors.*

Under the plan, SCB would become a 100%-held subsidiary of SCB^x via a one-to-one share swap. The bank would then be delisted and SCB^X would become the new listed entity. This would require 90% shareholder approval at the EGM scheduled for November 2021.

Then, SCB would pay Bt70bn of one-off dividends to SCB^x of which 70% of the proceeds, or around Bt50bn, would be used by SCB^X to acquire the unsecured lending businesses and selected companies under SCB. The remaining Bt20bn would be preserved for future investments and dividends.

Ex 1: Transformation Process



1) Initial setup	2) Share swaps	3) One-off dividend	4) Asset transfer
• Registered & Paid-up capital of Bt10,000	• SCB^X to increase registered capital to Bt34bn by a 1:1 share-for-share swap with SCB Bank • Conditional on a minimum 90% acceptance of the share swap[1/] • SCB Bank shares to be delisted/SCB^X the new listed entity	One-off dividend payment (Bt70bn) from SCB Bank to SCB^X for: • Business/asset transfers from SCB Bank to SCB^X • New investment • Future dividend payment to shareholders of SCB^X	• Business/assets transfer to SCB^X for investment in subsidiaries

Source: Company data
Note: [1/] vs. minimum legal requirement of 75%

Ex 2: Key Milestones For The Transaction

Indicative timeline	Key milestones
3Q21	Board approval on 22 September
4Q21	Shareholder approval at EGM on 15 November
	SEC filing (mid-November)
1Q22	Tender offer (January 2022)
	Listing of SCB^X / Delisting of SCB (February 2022)
2Q22	One-off dividend payment to SCB^X
	Business / asset transfer

Sources: Company data

Post-reorganization, SCB^X would comprise three business pillars:

Separating high-return growth businesses from low-return conventional banking platform

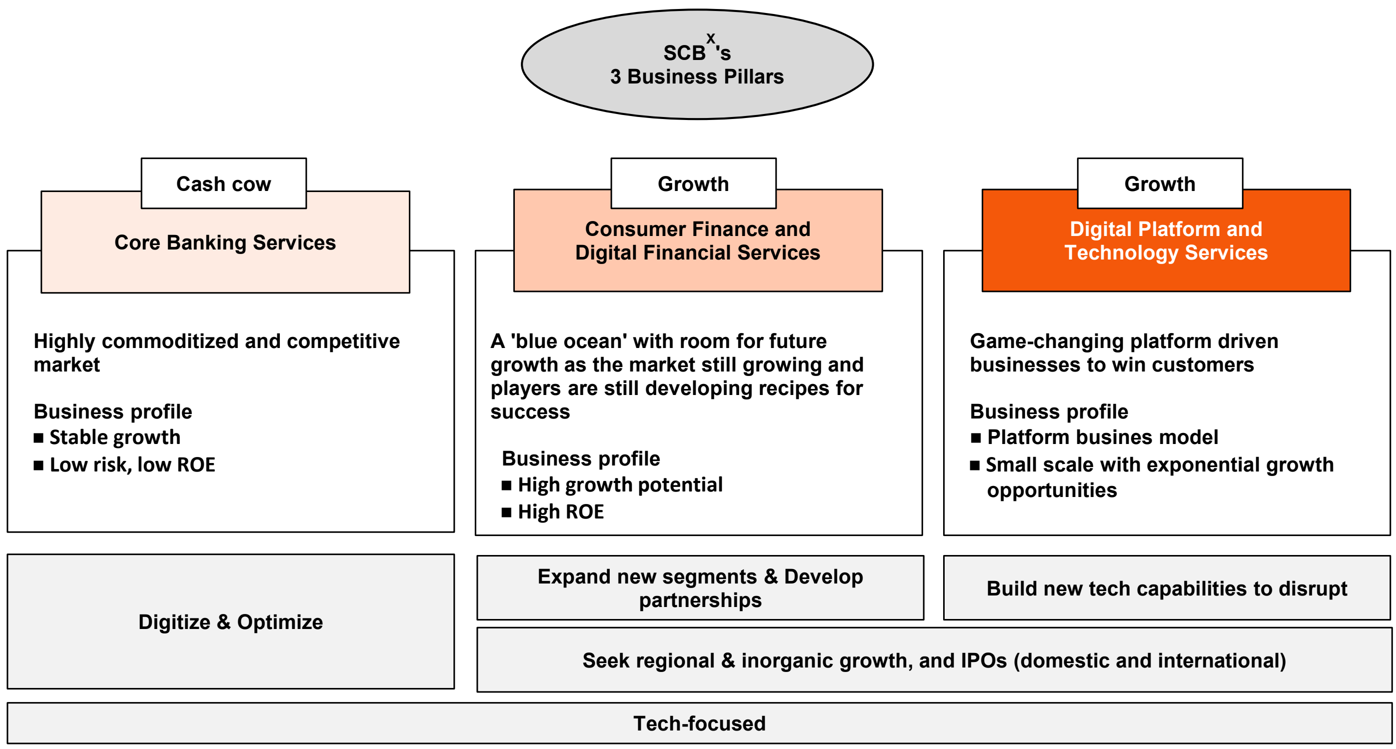
1st pillar: Cash-cow banking. The core conventional banking business covers corporate, SME, housing and auto-hire purchase lending. This is together with the bancassurance, mutual fund and wealth-management businesses and also the digital banking platform under SCB Easy. This is a highly commoditized and competitive market with an organic growth outlook and a low return.

2nd pillar: The consumer finance and digital financial services. This is a spin-off growth pillar focusing on high-yield consumer and digital loans as well as a digital asset business. Under this pillar, there would be Card X, Auto X, Alpha X, SCB Securities (SCBS) and its latest joint venture with Advanced Info Services Pcl (ADVANC TB, BUY, Bt195.50), AISCB. Of the X subsidiaries, CARD X and SCBS are well-established companies under the bank's umbrella. Auto X is a newly set-up company offering title loan services. Meanwhile, Alpha X is also a 50:50 JV with Millennium Group Corporation to offer hire-purchase and financial leasing for luxury car brands.

3rd pillar: Digital platform and technology services. Most of the companies under this pillar were originated by and invested in by SCB 10X, the bank's venture capital investment arms. This pillar would focus on building the platform's business model and equipping the group with new tech capabilities to avoid decentralized finance threats.

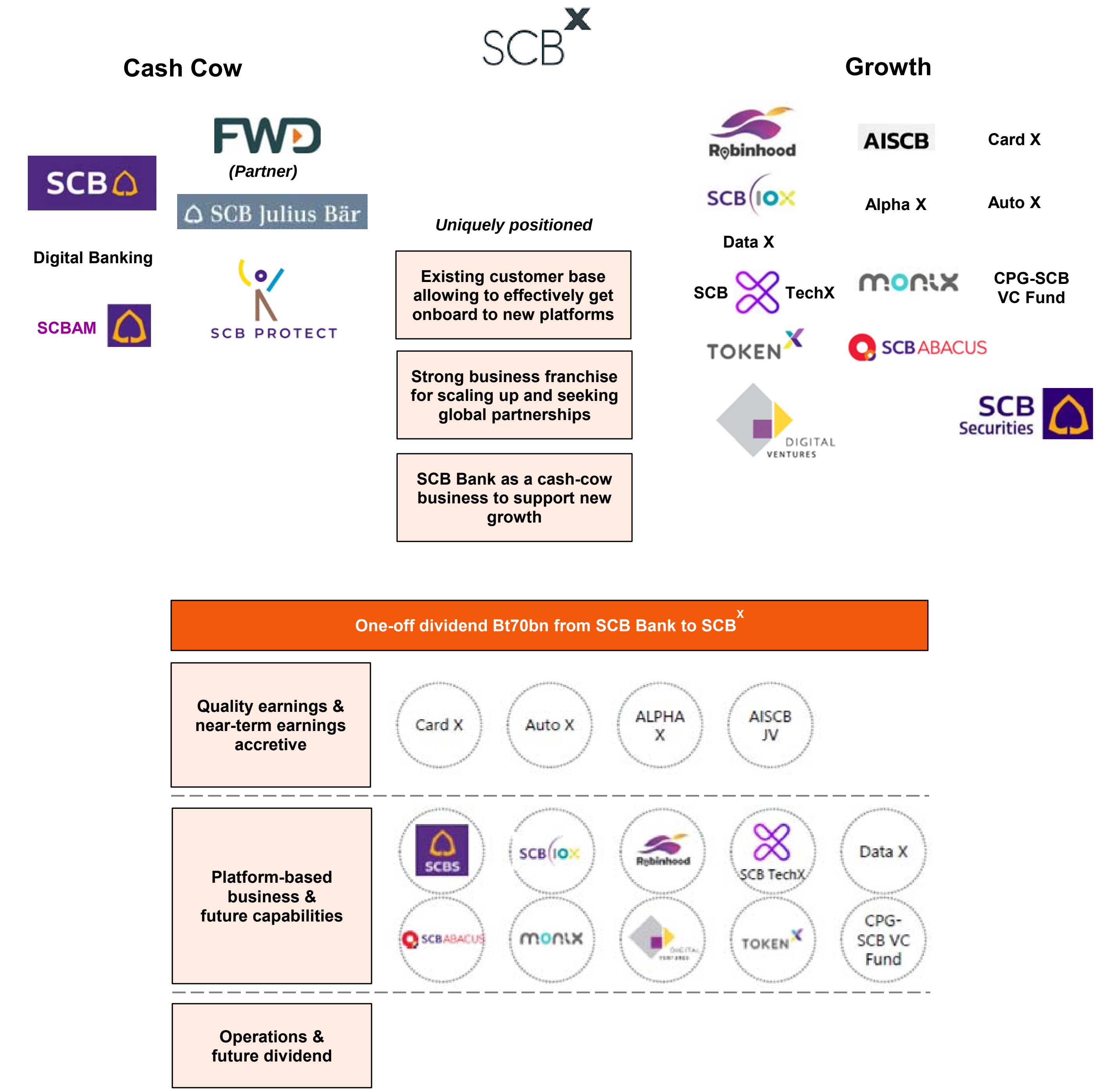
A newly set-up company under SCB 10X is Token X which is in process of applying for a digital asset license. It also announced a 50:50 JV with Charoen Pokphand Group (CPG) to set up another venture capital fund, CPG-SCB, with a total investment size of US$400m-600m, i.e. US$100m each from SCB^X and CPG and the rest to be funds raised from limited partners.

Ex 3: Three Business Pillars



Source: Company data

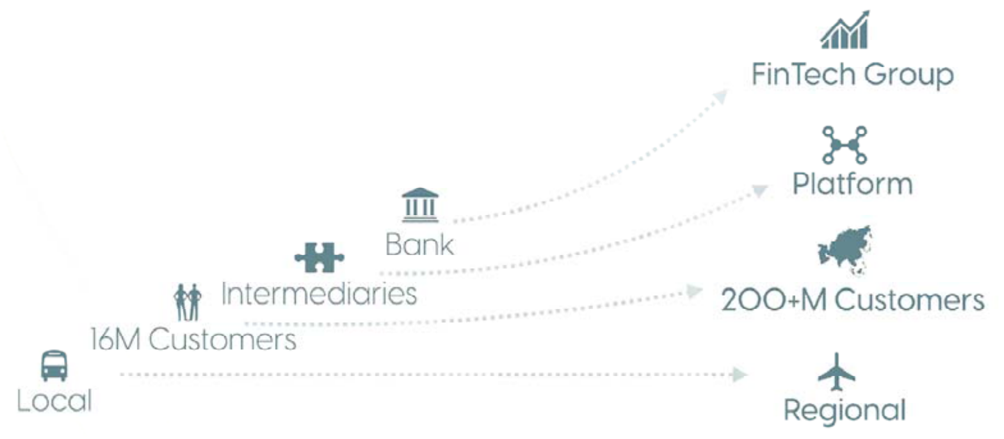
Ex 4: Cash Cow And New Growth Subsidiaries and Portfolios



Source: Company data

SCBX expects the reorganization to unlock growth potential and create value. The group's five-year aspirations are to become a regional player, enlarge its customer base from 16m to 200m, change from playing roles as intermediaries to becoming a platform, and transform the bank into a FinTech group. As for financial targets, SCBx aims to expand the 10% profit contribution of the two growth pillars to one-third in five years. It is also looking to have more than a Bt1trn market cap via unlocking subsidiaries' values through IPOs and start-up unicorns.

Ex 5: Five-year Vision



Source: Company data

What are the key benefits?

Reorganization to enhance return of banking entity…

…and unlock growth potential and value of the consumer lending business

We like the move as we see it as a good springboard for growth and value. We see the following three layers of benefits:

1) The move should allow the bank to better utilize excess liquidity and to allocate capital more efficiently. The one-off dividend payment from the bank is 17% of total equity and around 2% of its Tier I ratio. Some 70% of Bt70bn would be returned to the bank to settle the acquisition of unsecured lending businesses and selected companies. The net equity deduction would be Bt20bn at the bank level. This is 5% of the bank's total equity. Meanwhile, the leftover Bt20bn that remains at SCB^X would be further utilized to generate higher ROE either via investments in sunrise businesses or dividend payments. Post-reorganization, the cash cow bank's focuses would be to pursue digital transformation, ensure business optimization and manage capital more efficiently.

2) The spun-off consumer lending businesses under many "X" subsidiaries and JVs would be well equipped with flexibility, agility and an entrepreneurship-driven mindset. This would allow them to compete on the same level playing field as non-banks with the advantage of greater scale and lower cost of funds. Their growth potential would no longer be hindered by banking regulatory constraints. Therefore, they could raise their penetration of blue ocean subprime lending and tap into unbanked customers, estimated at around 80% of the total population, not to mention plans to develop more partnerships and seek growth opportunities overseas.

   The "X" subsidiaries and JVs are not new businesses for the bank. SCB is the leading player in the credit card business with Bt120bn of loans outstanding and a 13% market share. It also offers auto-title loans under "My car, My cash", with outstanding loans of Bt42bn, or 18% of auto-HP loans in 2020. As for digital lending, it started this under the SCB Easy application and through some startups under SCB 10X two years ago and had grown loans to Bt27bn as of 1H21. This accounts for 20% of the bank's unsecured lending. We discuss this in detail in the next section. As an executive summary here, we don't think SCB^x plans to start its business in the 2^{nd} growth pillar from scratch. The group has been running most of the businesses before and we see the reorganization helping to expand the market to unlock its growth potential.

3) We see clear value accretion of the two growth pillars via multiple re-ratings, IPOs and start-up unicorns. Compared to the banking sector's P/BV and PE multiples of 0.7x and 9x, non-bank consumer finance companies are trading at much higher multiples. We foresee an immediate multiple re-rating of the 2nd growth pillar with potential IPOs over three to five years for the "X" consumer lending subsidiaries and AISCB.

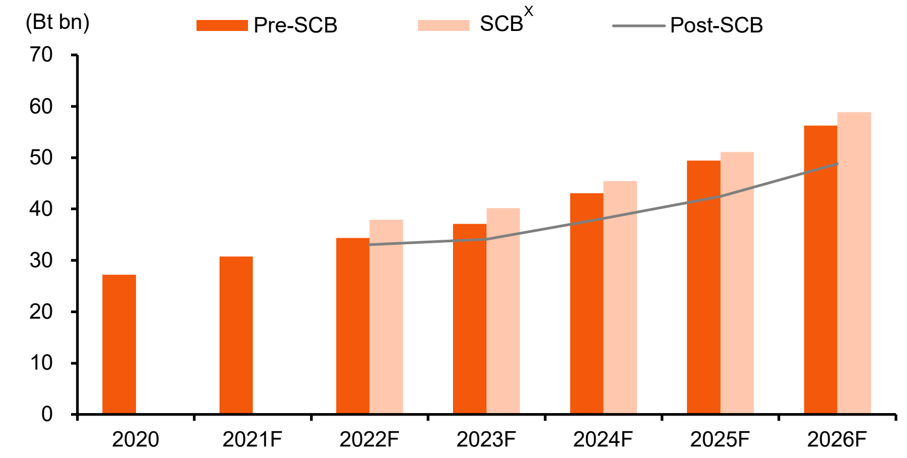
   As for the 3rd pillar of digital platform and technology services, they are start-ups and portfolio investments. They are unlikely to be earnings accretive over the near term. But we see them as a platform for future revenues and value enhancement as they become unicorns.

New sum-of-the-parts TP of Bt150

Bt50 value accretion from two growth pillars

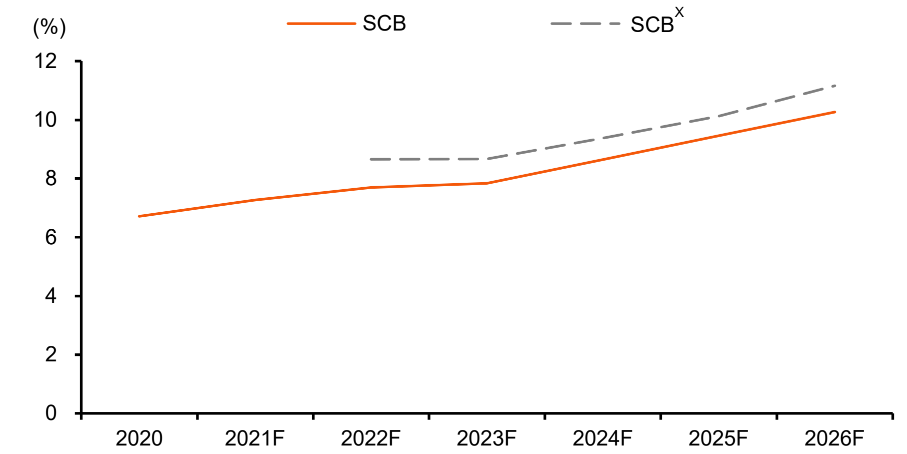
We keep our earnings forecasts unchanged pending more details post-reorganization completion. However, we provide our detailed analysis of how we foresee profit and value creation by the two growth pillars below. In summary, we see the reorganization lifting the profits of SCB^{X} by 3-10% and increasing ROE from 7% this year to 11% in 2026F.

Ex 6: Pre Vs. Post-Reorganization Profits Over The Next Five Years



Sources: Company data, Thanachart estimates

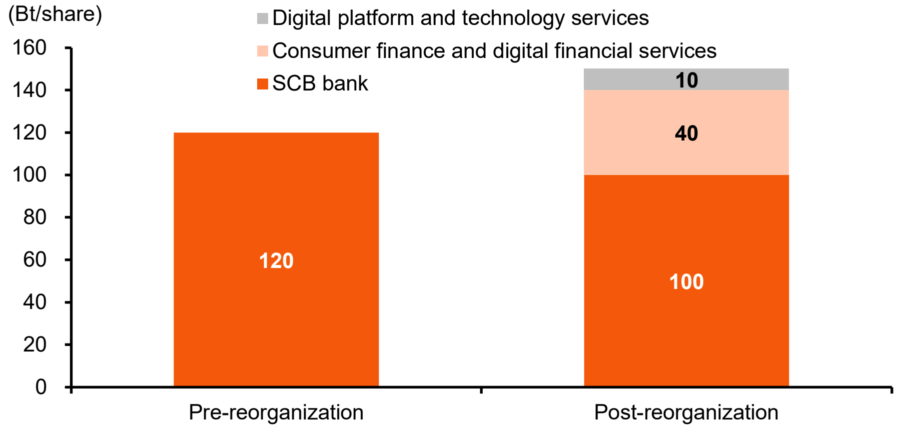
Ex 7: ROE Lifted



Sources: Company data, Thanachart estimates

In a nutshell, we value the cash-cow conventional bank at Bt100 (down from Bt120 currently), consumer finance and digital financial services at Bt40, and the digital platform and technology services at Bt10. The lower value of the bank reflects the spin-off of the unsecured consumer lending, securities business and portfolio companies. We also expect the bank to be the cost center, with rights over fixed assets and taking care of IT technology investments.

Ex 8: Clear Value Accretion Post-reorganization



Sources: Company data, Thanachart estimates

We see greater value accretion from the 2nd growth pillar. As discussed earlier, we don't foresee the group starting the business from scratch. We derive a Bt40 value for consumer finance and digital financial services through our five-year asset growth and profit generation model for each "X" subsidiary and JV as follows:

1. Card X

The candidate most ready for an IPO, in our view

From being the unsecured lending business unit in the bank, CARD X would act as SCB^{X}'s non-bank consumer lending subsidiary offering the simplest and most accessible services to all clientele segments. Pre-organization, SCB's credit card unit is of the largest consumer loan providers with Bt120bn of loans outstanding and a 13% market share. It has around 2.7m credit cards and 3.7m loan accounts. This is much larger than Krungthai Card Pcl (KTC TB, SELL, Bt58.00) with a Bt90bn loan book, 2.6m credit cards and less than 1m loan accounts as of 2020. However, looking at SCB's credit card revolving loan yield of 13% vs. KTC's 16%, we believe SCB has yet to penetrate the low-end market much and has a much lower proportion of revolving credit card loans.

As an independent company solely focused on the unsecured consumer loans business, CARD X would be well equipped with agility and speed. We believe it would expand into the mass/lower segment with new risk appetite. CARD X's business model would be different from previously as one of the bank's subsidiaries. New business models using innovation and technology capability to lower costs would allow it to compete better in the mass smaller-ticket market. Exhibit 9 below shows our asset growth and earnings forecasts for CARD X over the next five years.

Ex 9: Card X's Profit Generation

Card X	2022F	2023F	2024F	2025F	2026F
Loans outstanding (Bt m)	124,200.00	134,136.00	144,866.88	156,456.23	168,972.73
Total income (Bt m)	17,023.24	18,772.60	20,692.92	22,800.33	25,112.50
Operating expenses (Bt m)	5,106.97	5,537.92	6,000.95	6,498.10	7,031.50
Net profits (Bt m)	3,571.41	4,149.22	4,799.97	5,531.89	6,354.11
Net spread (%)	12.16	12.46	12.76	13.06	13.36
Credit costs (%)	6.00	6.00	6.00	6.00	6.00

Source: Thanachart estimates

We see CARD X as being the candidate that is most ready for an IPO. Loans are sizable to carry out a listing. Yield and cost structure to us are areas where CARD X needs to improve and beef up post-reorganization. These are not tough tasks in our view and should be achievable with CARD X's asset-light business model, cost-sharing structure with the cash-cow bank and funding cost advantage. SCB^{x} is looking to enhance the ROA and ROE of CARD X to 5% and 20% respectively over the next three to five years.

2. Auto X

Stepping into the sunrise title loan industry

This is a newly set-up company looking to offer title loans in 1Q22. SCB's "My car, My cash" program will remain under the bank. And we believe the reason for it setting up Auto X is that it aims to expand into Ngern Tid Lor Pcl (TIDLOR, BUY, Bt35.00) and eventually to Srisawad Corp (SAWAD TB, BUY, Bt63.50) and Muangthai Capital Pcl's (MTC TB, BUY, Bt58.25) markets. Title loans have been growing very quickly and have generated high returns despite intensifying pricing competition. With the country's 40m registered vehicle backlog and around 1m new car sales domestically every year, title loans are structurally a sunrise industry. We see plenty of market growth potential with room to expand loan volume for many years to come.

We expect Auto X to use omni distribution channels, similar to TIDLOR. Positioning in the group as a tech-driven firm, we don't expect Auto X to aggressively expand branches to play catch up with SAWAD and MTC. That being said, it could take at least three years for Auto X to scale up its loan book. But we see a good chance of Auto X emerging as a major title loan market player given strong funding and infrastructure support from the group.

Ex 10: Auto X's Profit Generation

Auto X	2022F	2023F	2024F	2025F	2026F
Loans outstanding (Bt m)	2,000.00	6,000.00	12,000.00	20,000.00	24,000.00
Total income (Bt m)	132.42	646.26	1,349.09	2,385.05	3,244.44
Operating expenses (Bt m)	39.73	190.65	391.24	679.74	908.44
Net profits (Bt m)	58.16	316.49	670.28	1,204.25	1,676.80
Net spread (%)	15.66	14.66	13.66	13.66	13.66
Credit costs (%)	1.00	1.00	1.00	1.00	1.00

Source: Thanachart estimates

3. Alpha X

Partnership with MGC, the leader in the automotive retail business

Alpha X is a 50:50 JV of SCB^{X} with Millennium Group Corporation (MGC) to offer hire-purchase services for the luxury and premium segments. MGC is the leader in the automotive retail business. MGC's main business is authorized car dealers covering luxury segments such as Rolls-Royce, Aston Martin and Maserati, premium brands like BMW, BMW Motorrad and Mini and premium mass brands such as Peugeot. It also has used-car showrooms, and offers car rental and insurance services. MGC has 21 locations with 66 showrooms, 37 service centers, and 29 car rental booths in Thailand and eight in Laos and Malaysia. MGC targets to boost revenues by over 10% to reach Bt23bn this year.

MGC's main car sales are from BMW where it shares a 35-40% market share of around 10,000-11,000 sales each year. The luxury auto-HP is a lucrative market with competitive pricing but very solid asset quality. Sales in this segment are not highly linked to the state of the economy as it focuses on the top-end customer segment. We see Alpha X as partly overlapping with Ratchthani Leasing (THANI TB, BUY, Bt4.06), around 15% of whose loan book is from the luxury car segment. But THANI is geared more toward supercars than luxury brands. Having established a strong footprint in the wealth business with its partnership with Julius Baer, we see SCB Bank having an edge and good synergistic benefits to this company. Our profit forecasts below mainly focus on the HP loans of BMW sales. So, we leave Alpha X's ability to grow other brands as potential upside.

Ex 11: Alpha X's Profit Generation

Alpha X	2022F	2023F	2024F	2025F	2026F
Loans outstanding (Bt m)	8,147.25	9,269.96	10,545.36	11,993.97	13,639.09
Total income (Bt m)	264.48	590.92	672.26	764.66	869.59
Operating expenses (Bt m)	79.34	174.32	194.96	217.93	243.49
Net profits (Bt m)	115.52	296.20	339.66	389.41	446.33
Net spread (%)	4.66	4.66	4.66	4.66	4.66
Credit costs (%)	0.50	0.50	0.50	0.50	0.50

Source: Thanachart estimates

4. AISCB

A collaboration of two leaders in banking and telecommunication industries

Another JV of SCB^{X} is to partner 50:50 with Advanced Info Service (ADVANC) to offer digital lending and insurance brokerage sales. This is similar to KBANK and Line BK. AISCB's paid-up capital is Bt600m but the JV is looking to grow loans to Bt10bn-15bn in two years and probably list in 2024-25.

Compared to KBANK's JV with Line BK that started in October last year and which has loans outstanding of Bt9bn, we see AISCB's target as not too challenging. This is given ADVANC's 40m-plus subscriber base and SCB^{X}'s 16m combined digital users.

KBANK-Line BK's customers stand at around 1.5m presently with the loan ticket size ranging from Bt8,000-20,000. So, if we assume an average loan size of Bt8,000, AISCB needs to penetrate just 3-6% of ADVANC's customer base in order to grow loans to its target of Bt10bn-15bn in two years. Despite being a newly set-up firm, we also see good value-unlocking potential from AISCB.

Ex 12: AISCB's Profit Generation

AISCB	2022F	2023F	2024F	2025F	2026F
Loans outstanding (Bt m)	4,102.73	9,556.10	12,759.25	15,561.67	18,758.34
Total income (Bt m)	287.04	1,157.93	1,778.94	2,174.26	2,547.03
Operating expenses (Bt m)	86.11	347.38	533.68	652.28	764.11
Net profits (Bt m)	141.05	602.57	934.96	1,142.89	1,336.30
Net spread (%)	14.66	14.16	13.66	13.16	12.66
Credit costs (%)	0.60	0.60	0.60	0.60	0.60

Source: Thanachart estimates

5. SCB Securities (SCBS)

Highly profitable company in growing capital market with digital asset opportunities

SCBS is one of the top three brokers in term of revenue growth and net profit margin, due to its digital-first strategy. It has also captured a 50% share of new customer sign-ups through its digital platform, with more than 500,000 digital customers as at 1H21. It is also the first traditional broker financial institution to venture into the digital assets (DA) space for its DA broker, exchange, and ICO portal businesses.

In light of heavy excess liquidity, capital market growth remains strong despite COVID-19. Average daily trading volume grew 36% last year and we expect it to grow by another 40%, 30% and 25% over 2021-23F. SCBS ranked No.11 and has a 3.57% market share YTD. It is growing fee service income from 21% last year to 25% of total income in 1H21. SCBS is a highly profitable company with more than a 20% ROE.

SCBS sees digital assets as emerging new business opportunities. We believe the company aims to be a pioneer in this business, leveraging on SCB 10X which has global access to tech and digital asset ecosystem in both Centralized Finance (CeFi) and Decentralized Finance (DeFi). Note that SCB 10 X recently established a new subsidiary, Token X, which is waiting to receive a digital asset license from the Bank of Thailand (BoT).

Digital assets is a very fast-growing business. The two most common blockchain-based digital assets are cryptocurrencies and tokens. From US$7bn in 2016, the digital asset market cap has risen to US$2trn now. This is a 300-fold growth rate over five years. As for Thailand, digital asset accounts number around 1.4m with a trading value of Bt200bn in May 2021. The initial coin offering (ICO) market, i.e., security tokens and Investment tokens is less robust. Nevertheless, it is clear that blockchain technology is going to disrupt the banking business. And SCB^{x} is looking to mitigate the disruption impact via moving into the digital asset business through SCBS and SCB 10X.

We see good growth potential for SCBS's move and direction. However, we leave digital asset contribution as potential upside. We foresee continued robust growth in trading volume given the prolonged low interest rate cycle, plenty of excess liquidity and the growing wealth of the mid-income segment. We factor in declining commission rates as the sector will be more digital driven. Exhibit 13 below show our earnings forecasts for SCBS.

Ex 13: SCBS's Profits Contribution

SCBS	2022F	2023F	2024F	2025F	2026F
Total trading volume (Bt m)	1,901,341.87	1,901,341.87	1,901,341.87	1,901,341.87	1,901,341.87
Brokerage market share (%)	3.50	3.50	3.50	3.50	3.50
Total income (Bt m)	3,918.65	3,935.34	4,022.03	4,115.72	4,217.11
Operating expenses (Bt m)	2,549.53	2,521.21	2,593.22	2,669.43	2,750.27
Net profits (Bt m)	1,095.30	1,131.31	1,143.05	1,157.03	1,173.48

Source: Company data

Bt40 per share from the consumer finance and digital financial services

Putting these "X" subsidiaries and JVs in perspective, we estimate profit contribution from the 2nd growth pillar of Bt4.8bn-10bn over 2022-26F. We value each business using PE multiple methodology. Each business is assigned different multiples based on its growth prospects and the current valuation of relevant peers. Since some companies have been set up recently, we look over a five-year horizon to arrive at their intrinsic values and then use a 10% discount rate to derive a value for a 2022F base year. In sum, we value the consumer finance and digital financial services (2nd growth pillar) at Bt40 per SCB^{X} share.

Ex 14: Total Profits Contribution Of The 2nd Growth Pillar

Profits contribution to SCB^{x}	% ownership	2022F	2023F	2024F	2025F	2026F
CARDX	100%	3,571.41	4,149.22	4,799.97	5,531.89	6,354.11
AUTOX	100%	58.16	316.49	670.28	1,204.25	1,676.80
ALPHAX	50%	57.76	148.10	169.83	194.70	223.16
AISCB	50%	70.52	301.29	467.48	571.45	668.15
SCBS	100%	1,095.30	1,131.31	1,143.05	1,157.03	1,173.48
Total profits contribution		**4,853.15**	**6,046.41**	**7,250.61**	**8,659.32**	**10,095.70**

Source: Company data

Bt10 per share from the digital platform and technology services

To us, the 3rd pillar, digital platform and technology services, is portfolio investment. Given that most investments are pouring into startups, we don't expect near-term earnings contributions but more value accretion as they become unicorns. Nevertheless, SCB 10X's track record is pretty impressive in our view. The portfolio size is US$400m currently. Out of its 40 investments, six have become unicorns. They are Pagaya, BlockFi, Ripple, Traveloka, Gojek and Flash express. And SCB realized some investment gains on new financing rounds over the past quarters. We conservatively derive a value for this portfolio investment using SCB 10X investment budget plus the 50% stake in the newly set-up VC with CPG worth US$600m with our expected investment return assumption of 20%. We arrive at a 3rd pillar value of Bt10 per SCB^{X} share.

Ex 15: Our SOTP TP Using A Base Year Of 2022F

Subsidiaries and JVs	% ownership	Intrinsic value (Bt m)	Holding value for SCBx (Bt m)	Remarks
1. Cash cow: SCB Bank	100%	339,289.29	339,289.29	DDM approach at a cost of equity of 12%
2. Consumer finance and digital financial services		153,680.90	137,703.89	Using a PE approach on 2026F earnings and PV at a 10% discount rate
- Card X	100%	86,798.87	86,798.87	Applying a 20x PE and following the above methodology
- Auto X	100%	22,905.52	22,905.52	Applying a 20x PE and following the above methodology
- Alpha X	50%	4,572.72	2,286.36	Applying a 15x PE and following the above methodology
- AISCB	50%	27,381.29	13,690.64	Applying a 30x PE and following the above methodology
- SCBS	100%	12,022.50	12,022.50	Applying a 15x PE and following the above methodology
3. Digital platform and technology services		47,760.00	35,880.00	Assuming a 20% return on investments
- SCB 10 X portfolio value	100%	24,000.00	24,000.00	Investment budget of Bt20bn
- VC fund with CPG	50%	23,760.00	11,880.00	A 50:50 JV to set up US$600m VC
Total value			512,873.18	
Number of shares			3,396.00	
Sum-of-the-parts TP			150.00	

Source: Thanachart estimates

Potential upside to dividends

Better structure to accommodate dividend payments

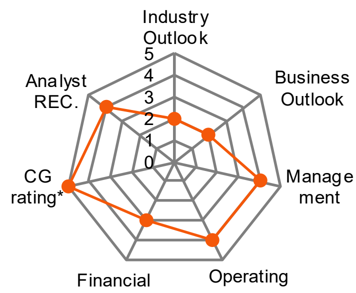
Given concerns over capital stability during the COVID crisis, the Bank of Thailand (BoT) capped banks' dividend payout ratios. The policy is that the payout ratio should not be higher than the level in 2019 and not exceed 50%. This is based on banks' standalone profits. This led SCB's dividend payout ratio to fall to 29% in 2020 from 52% in 2019 and the cap has remained in place this year. Given that the BoT has allowed the suspension of loan staging and a more lenient provisioning policy until 2023, it looks likely that the dividend cap policy will last until then too. The reorganization into a holding company would pave the way for SCB^X to pay more dividends as there are no dividend caps for non-bank subsidiaries.

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)	123.65	150.00	21%
Net profit 21F (Bt m)	33,379	30,753	-8%
Net profit 22F (Bt m)	36,623	34,390	-6%
Consensus REC	**BUY: 23**	**HOLD: 2**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts have yet to factor in the planned reorganization. We leave them unchanged pending more details post-transaction completion.
- Our TP is higher as we change to SOTP methodology to incorporate our estimate of the value accretion from the reorganization plan.

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 reorganization plan that we currently assume, this would also lead to downside to our TP.

Source: Thanachart

Provisions were at a peak in 2020

Better NPL management under new relief measures

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Interest and Dividend Income	135,025	118,371	110,998	114,149	118,257
Interest Expenses	35,624	21,472	17,030	17,097	21,505
Net Interest Income	**99,402**	**96,899**	**93,967**	**97,051**	**96,752**
% of total income	70.0%	66.9%	65.3%	65.1%	63.7%
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%	34.7%	34.9%	36.3%
Total Income	**142,043**	**144,846**	**143,998**	**148,976**	**151,924**
Operating Expenses	70,538	64,330	63,111	63,735	65,342
Pre-provisioning Profit	**71,505**	**80,516**	**80,888**	**85,240**	**86,582**
Provisions	27,111	46,649	42,696	42,521	40,514
Pre-tax Profit	**44,394**	**33,866**	**38,192**	**42,719**	**46,068**
Income Tax	8,518	6,794	7,638	8,544	9,214
After Tax Profit	35,876	27,072	30,553	34,175	36,854
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**	**30,753**	**34,390**	**37,073**
Normalized Profit	**36,093**	**27,218**	**30,753**	**34,390**	**37,073**
EPS (Bt)	11.9	8.0	9.1	10.1	10.9
Normalized EPS (Bt)	10.6	8.0	9.1	10.1	10.9

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Liquid Items	**481,125**	**599,136**	**601,000**	**658,000**	**706,000**
cash & cash equivalents	47,615	51,632	52,000	52,000	52,000
interbank & money market	433,510	547,504	549,000	606,000	654,000
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**	**2,190,131**	**2,264,599**	**2,351,965**
Gross and accrued interest	2,116,733	2,269,750	2,343,105	2,435,797	2,538,355
Provisions for doubtful	114,272	139,442	152,974	171,197	186,390
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**	**3,274,065**	**3,400,529**	**3,532,825**
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	70,663	70,916	70,709
Other liabilities	167,882	170,106	172,000	175,440	178,949
Total liabilities	**2,562,900**	**2,866,554**	**2,839,525**	**2,941,040**	**3,046,798**
Minority interest	489	399	199	(16)	(234)
Shareholders' equity	**400,358**	**411,430**	**434,341**	**459,505**	**486,261**
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	372,349	397,514	424,269
Liabilities & equity	**2,963,746**	**3,278,384**	**3,274,065**	**3,400,529**	**3,532,825**

Sources: Company data, Thanachart estimates

We see the reorganization plan unlocking the bank from growth and value traps

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normlized PE (x)	12.0	16.0	14.1	12.6	11.7
Normalized PE - at target price (x)	14.1	18.7	16.6	14.8	13.7
PE (x)	10.8	16.0	14.1	12.6	11.7
PE - at target price (x)	12.6	18.7	16.6	14.8	13.7
P/PPP (x)	6.1	5.4	5.4	5.1	5.0
P/PPP - at target price (x)	7.1	6.3	6.3	6.0	5.9
P/BV (x)	1.1	1.1	1.0	0.9	0.9
P/BV - at target price (x)	1.3	1.2	1.2	1.1	1.0
Dividend yield (%)	4.9	1.8	2.1	2.4	4.3
Market cap / net loans (x)	0.2	0.2	0.2	0.2	0.2
Market cap / deposit (x)	0.2	0.2	0.2	0.2	0.2
(Bt)					
Normalized EPS	10.6	8.0	9.1	10.1	10.9
EPS	11.9	8.0	9.1	10.1	10.9
DPS	6.3	2.3	2.7	3.0	5.5
PPP/Share	21.1	23.7	23.8	25.1	25.5
BV/Share	117.9	121.2	127.9	135.3	143.2

Low interest rates to continue to pressure NIM

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	3.1	(2.5)	(3.0)	3.3	(0.3)
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	0.5	5.4	1.6
Net profit	0.9	(32.7)	13.0	11.8	7.8
Normalized profit growth	(9.9)	(24.6)	13.0	11.8	7.8
EPS	0.9	(32.7)	13.0	11.8	7.8
Normalized EPS	(9.9)	(24.6)	13.0	11.8	7.8
Dividend payout ratio	52.5	28.7	30.0	30.0	50.0
Loan - gross	(1.3)	6.7	3.5	4.1	4.2
Loan - net	(1.9)	6.4	2.8	3.4	3.9
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	(0.1)	3.9	3.9
Total equity	5.3	2.8	5.6	5.8	5.8
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	65.3	65.1	63.7
Non-II / operating income	30.0	33.1	34.7	34.9	36.3
Fee income / operating income	20.9	25.3	27.7	28.7	30.2
Normalized net margin	25.4	18.8	21.4	23.1	24.4
Cost-to-income	49.7	44.4	43.8	42.8	43.0
Credit cost - provision exp / loans	1.3	2.1	1.8	1.8	1.6
PPP / total assets	2.3	2.6	2.5	2.6	2.5
PPP / total equity	18.3	19.8	19.1	19.1	18.3
ROA	1.2	0.9	0.9	1.0	1.1
ROE	9.2	6.7	7.3	7.7	7.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	97.9	93.2	97.8	98.0	98.3
Loan-to-deposit & S-T borrow ing	97.9	93.2	97.7	98.0	98.3
Net loan / assets	67.6	65.0	66.9	66.6	66.6
Net loan / equity	500.2	517.8	504.2	492.8	483.7
Investment / assets	10.5	9.5	7.7	7.4	7.1
Deposit / liabilities	84.3	84.4	84.0	84.3	84.6
Liabilities / equity	640.2	696.7	653.8	640.0	626.6
Net interbank lender (Bt m)	287,666	349,013	349,000	401,000	444,000
Tier 1 CAR	17.0	17.1	18.2	18.7	19.1
Tier 2 CAR	1.1	1.1	2.0	1.9	1.9
Total CAR	18.1	18.2	20.2	20.6	20.9
NPLs (Bt m)	85,212	101,462	113,637	130,683	135,910
NPLs / Total loans (NPL Ratio)	4.0	4.5	4.8	5.4	5.4
Loan-Loss-Coverage	134.1	137.4	134.6	131.0	137.1

Strong capital position

Sources: Company data, Thanachart estimates

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