

## Bank Sector – Overweight

## Results Comment

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## Stronger-than-expected profits

- Strong norm profits growth of 42% y-y and only 2% drop q-q.
- Lower costs and higher capital market fees were drivers.
- This affirms our view that banks are over the worst.
- Re-iterate OW with SCB and KBANK as top picks.

## Ex 1: 3Q21 results summary

(Bt m)	BAY	BBL	KBANK	KTB	KKP	SCB	TISCO	TTB	Industry
<b>Net interest income</b>	<b>19,492</b>	<b>20,705</b>	<b>30,741</b>	<b>21,142</b>	<b>3,823</b>	<b>23,533</b>	<b>3,093</b>	<b>12,577</b>	<b>135,106</b>
Change (q-q%)	0.7	3.4	3.4	1.1	0.8	0.2	(1.8)	(1.6)	1.4
Change (y-y%)	(0.7)	4.3	12.8	(2.1)	8.3	(0.8)	(4.9)	(4.9)	2.3
<b>Pre-provision profit</b>	<b>15,684</b>	<b>18,434</b>	<b>23,143</b>	<b>15,028</b>	<b>2,850</b>	<b>21,051</b>	<b>2,223</b>	<b>8,299</b>	<b>106,712</b>
Change (q-q%)	5.4	5.3	(3.1)	(7.7)	(6.8)	(0.0)	(15.3)	(1.0)	(0.9)
Change (y-y%)	(1.2)	83.2	13.9	(3.4)	6.3	12.3	(15.0)	(4.7)	12.9
<b>Provision</b>	<b>8,134</b>	<b>9,870</b>	<b>11,296</b>	<b>8,137</b>	<b>1,007</b>	<b>10,035</b>	<b>254</b>	<b>5,527</b>	<b>54,259</b>
Change (q-q%)	1.3	0.6	4.5	0.5	(26.9)	0.1	(54.2)	0.7	0.1
Change (y-y%)	(6.9)	74.1	4.4	(34.5)	(1.0)	(22.5)	(58.0)	(19.5)	(8.1)
<b>Net profits</b>	<b>6,362</b>	<b>6,909</b>	<b>8,631</b>	<b>5,055</b>	<b>1,478</b>	<b>8,818</b>	<b>1,560</b>	<b>2,359</b>	<b>41,171</b>
Change (q-q%)	(56.3)	8.7	(3.0)	(15.9)	9.1	0.0	(6.3)	(6.9)	(17.9)
Change (y-y%)	4.0	72.0	29.2	65.4	9.7	90.0	(3.2)	45.7	41.5
<b>Normalized profits</b>	<b>6,362</b>	<b>6,909</b>	<b>8,631</b>	<b>5,055</b>	<b>1,478</b>	<b>8,818</b>	<b>1,560</b>	<b>2,359</b>	<b>41,171</b>
Change (q-q%)	0.1	8.7	(3.0)	(15.9)	9.1	0.0	(6.3)	(6.9)	(1.9)
Change (y-y%)	4.0	72.0	29.2	65.4	9.7	90.0	(3.2)	45.7	41.5
<b>% of 2021F profits</b>	<b>80.7</b>	<b>83.1</b>	<b>80.4</b>	<b>73.8</b>	<b>78.3</b>	<b>90.1</b>	<b>76.1</b>	<b>82.5</b>	<b>81.7</b>
<b>Growth</b>									
Loan growth (ytd)	1.16	6.57	8.87	9.64	8.70	1.05	(9.08)	(2.40)	4.60
Deposit growth (ytd)	(2.81)	11.15	7.94	4.83	3.67	(0.42)	(17.03)	(3.51)	3.53
Loan to deposit ratio (%)	96.29	79.43	96.07	99.71	113.23	96.94	118.20	102.61	94.49
NIM (q-q%)	0.14	(0.01)	0.00	(0.02)	(0.06)	(0.04)	0.14	(0.01)	0.00
Non interest income growth (y-y%)	3.86	41.18	(1.47)	(8.87)	54.20	23.88	(24.01)	2.87	12.69
Non interest income growth (q-q%)	(2.17)	(1.19)	(16.57)	(8.14)	1.91	2.89	(29.36)	(0.50)	(4.79)
Fee income growth (y-y)	(3.38)	15.56	9.67	(5.41)	42.23	12.77	(11.93)	(14.25)	6.32
Fee income growth (q-q)	2.12	6.92	(0.18)	(2.85)	(9.74)	(1.51)	(7.97)	2.69	0.16
Cost-to-income ratio (%)	42.69	46.28	42.30	46.56	50.87	42.90	46.96	46.69	45.24
NPL in absolute (q-q%)	2.04	1.26	(0.93)	0.60	4.92	2.84	3.88	1.99	1.23
Credit costs (%)	1.75	1.56	1.85	1.27	1.40	1.76	0.50	1.63	1.61
Loan loss coverage ratio (%)	170.16	198.91	138.32	157.19	153.15	138.28	196.50	121.42	159.24
Loan loss coverage ratio (q-q%)	2.39	17.52	1.84	2.64	8.63	(0.71)	(17.25)	(3.56)	1.44

Source: Company data

Thai banks' 3Q21 earnings came in better-than-expected. The beats were lower costs and higher non-interest income. For eight banks under our coverage, KTB and TISCO's profits growth was driven mainly by provisions cut. BBL's core profits outstood peers on higher investment gains and strong rebound of fee both y-y and q-q. We see upside risks to our projection for a rebound of sector's earnings by 17% this year and 13% for next. Re-iterate OW with SCB and KBANK are our top sector picks.

- As expected, banks have entered lower opex and provision cycle. Thanks to manageable Covid-19 impact, better relief measures from the Bank of Thailand (BoT) and the sector's decent provision cushions, provisions have already passed their peak in 2020.
- Opex is also structurally low thanks to rising digital adoption and efficient cost control.

- On the loans side, the growth was healthy at 5% YTD. Note that part of the growth was driven by low-interest soft loan from Covid-19 relief programs. Lending yield has still come down. However, banks are still able to reduce excess liquidity to lower cost of funds. NIM has held up and starts to stabilize at around 2.7%.
- Non-interest income was stronger than expected, growing 12% y-y thanks to booming capital market. The 5% contraction from previous sector was mainly due to lower bancassurance and mutual fund fees on lockdown impact. With Nevertheless, the slowdown was not as hard as we had previously assumed.
- As for asset quality, NPLs rose slightly q-q as banks were still active on write-off. With growing SME and retail forbearance loans following 2-mth skip payment measures during July-August, total forbearance loans grew 8% q-q to 16% of total loans. We expect banks to undergo comprehensive debt restructuring programs and these should allow them to manage NPLs and provisions better.
- Coming off from high base, provisions were down 8% y-y and were about flat q-q. Credit costs were still above normalized level of 1.61% but they were trending down from 1.87% in 3Q20 and 1.63% in 2Q21

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