

**HOLD** (Unchanged)**TP: Bt 1.30** (From: Bt 1.10)**9 FEBRUARY 2022**

Change in Numbers

Downside : 7.1%

# TMBThanachart Bank (TTB TB)

## Less leveraging effect

Given an overly selective strategy, a high base of auto HP loans and its lowest capital market exposure, TTB looks set to benefit from the economic upturn less than peers. Though we raise our earnings to reflect strong 4Q21 results, the stock looks fairly priced, with 7% potential downside to our higher Bt1.30 TP. Maintain HOLD.

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### Too selective growth strategy

Concerned about the SME sector's structural problems, TTB has run down SME loans by 59% over the past three years. The bank does not seem keen to grow SME loans or low-yield corporate lending. TTB's focus has been on beefing up its leading auto-HP loan position and raising exposure to housing and unsecured lending. Competition in retail lending is very fierce, besides the high household debt level of over 80% to GDP. With 51% of the bank's retail loans from auto-HP, which is running at a 30% repayment rate, we see it being very difficult for TTB to grow its loan book with what we regard as an overly selective strategy. The bank's loan growth target looks realistic to us at 2%.

### Slower growth recovery

4Q21 profits beat our estimates on higher fees and lower provisioning expenses. To reflect this, we raise our earnings by 11% this year and 8%/2% over 2023-24F. Driven by lower provisions and improving efficiency, we project EPS growth of 14%/11%/17% over 2022-24F. That said, with slower loan growth than the industry, limited room for provision cut and its lowest exposure to the capital market which we expect to continue performing thanks to plenty of excess liquidity, slower interest rate hikes and a likely early election, TTB's earnings recovery story looks not to be as exciting as the market has expected.

### Restructuring benefits not to materialize soon

To enhance agility, run a leaner operation and lower service costs, TTB set up a new subsidiary, TTB consumer, with a mission to become one of top 4 players in consumer loans and over 50% of its business generated from digital lending. The bank is also exploring partnership and JV opportunities for the bad debt management business to improve the recovery of NPLs and written-off loans. Last but not least, TTB plans to extract new auto HP bookings, estimated at over Bt10bn per month, into a new secured lending subsidiary. The abovementioned restructuring plans are an ongoing process. We don't expect any material contributions over the near term, say within 12-18 months. TTB's plan is to monetize them via listing, probably by 2025.

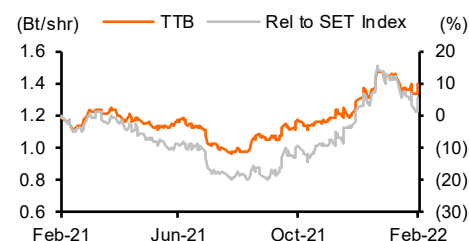
### Maintaining HOLD

After our earnings hikes, we raise our DDM-based 12-month TP (2022F base year) to Bt1.30 from Bt1.1 previously. TTB's share price has rallied by 16.7% from December's low of Bt1.2. Trading on 2022F PE of 11x and with a higher P/BV-to-ROE than the sector average, we believe the market has already priced in a stronger earnings recovery after it completed its entire business transfer last year. The counter looks fairly priced to us and we see 7% potential downside to our TP.

### COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	33,972	34,988	35,029	37,694
Net profit	10,474	11,910	13,227	15,487
Consensus NP	—	12,743	14,706	16,414
Diff frm cons (%)	—	(6.5)	(10.1)	(5.6)
Norm profit	10,474	11,910	13,227	15,487
Prev. Norm profit	—	10,742	12,275	15,179
Chg frm prev (%)	—	10.9	7.8	2.0
Norm EPS (Bt)	0.1	0.1	0.1	0.2
Norm EPS grw (%)	3.6	13.7	11.1	17.1
Norm PE (x)	12.9	11.3	10.2	8.7
P/BV (x)	0.6	0.6	0.6	0.6
Div yield (%)	3.6	3.6	4.9	5.7
ROE (%)	5.0	5.6	6.0	6.7
ROA (%)	0.6	0.7	0.8	0.9

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price: as of 9-Feb-22 (Bt)	1.40
Market Cap (US\$ m)	4,132
Listed Shares (m shares)	96,622.9
Free Float (%)	34.2
Avg. Daily Turnover (US\$ m)	16.2
12M Price H/L (Bt)	1.48/0.96
Sector	BANK
Major Shareholder	ING Bank N.V. 23.02%

Sources: Bloomberg, Company data, Thanachart estimates

**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 21.2% of the shareholding in TMBThanachart Bank Pcl.



## Ex 1: Earnings Revisions

	2019A	2020A	2021A	2022F	2023F	2024F
<b>Net profits (Bt bn)</b>						
- New	7.22	10.11	10.47	11.91	13.24	15.50
- Old				10.74	12.28	15.18
- Change (%)				10.92	7.82	2.10
<b>Loans growth (%)</b>						
- New	103.03	0.05	(1.48)	2.43	3.15	3.17
- Old				2.96	3.60	3.63
- Change (pp)				(0.53)	(0.45)	(0.46)
<b>NIM (%)</b>						
- New	1.95	2.93	2.86	2.91	2.85	2.90
- Old				2.91	2.77	2.80
- Change (pp)				(0.00)	0.08	0.10
<b>Non-interest income (Bt bn)</b>						
- New	12.63	15.18	14.19	14.78	15.64	16.56
- Old				14.02	14.83	15.69
- Change (%)				5.40	5.46	5.53
<b>Credit costs (%)</b>						
- New	0.74	1.78	1.57	1.50	1.35	1.30
- Old				1.65	1.50	1.40
- Change (pp)				(0.15)	(0.15)	(0.10)
<b>Opex (Bt bn)</b>						
- New	20.67	32.18	31.22	30.66	30.85	31.49
- Old				29.39	28.77	29.01
- Change (%)				4.31	7.22	8.55

Sources: Company data, Thanachart estimates

**Ex 2: 12-month DDM-based TP Calculation, Using A Base Year Of 2022F**

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
Dividend of common shares	4,818	6,614	7,744	8,994	12,510	15,756	16,996	20,953	28,252	30,460	30,460
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	4,818	6,614	7,744	8,994	12,510	15,756	16,996	20,953	28,252	30,460	261,087
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.3										
WACC (%)	12.9										
Cost of equity (%)	12.9										
Terminal growth (%)	2.0										
Equity value	125,302										
No. of shares (m)	96,359										
<b>Equity value / share (Bt)</b>	<b>1.30</b>										

Sources: Company data, Thanachart estimates

## Valuation Comparison

## Ex 3: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		— ROE —		— Div. Yield —	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)	22F (%)	23F (%)
BOC Hong Kong Holdings	2388 HK	Hong Kong	7.5	17.6	12.1	10.3	1.1	1.0	9.2	10.1	4.2	4.9
Bank of East Asia	23 HK	Hong Kong	71.1	19.2	8.5	7.2	0.4	0.4	4.3	5.1	5.4	6.3
China Citic Bank Corp	998 HK	Hong Kong	16.7	10.7	3.5	3.1	0.3	0.3	10.3	10.5	7.8	7.9
Hang Seng Bank	11 HK	Hong Kong	11.2	15.1	17.0	14.7	1.7	1.6	10.2	11.1	3.9	4.3
Industrial & Commercial Bk	1398 HK	Hong Kong	14.1	6.6	5.0	4.7	0.5	0.5	11.4	11.3	6.1	6.6
Axis Bank	AXSB IN	India	57.7	38.3	21.0	15.2	2.2	2.0	12.3	14.5	1.8	2.2
ICICI Bank	ICICIBC IN	India	16.7	23.9	25.3	20.4	na	na	14.2	15.2	0.6	0.7
State Bank of India	SBIN IN	India	54.1	30.9	13.9	10.6	1.7	1.5	13.9	15.2	1.1	1.4
Bank Central Asia	BBCA IJ	Indonesia	13.8	12.5	27.4	24.3	4.4	4.0	16.8	17.2	1.6	1.9
Bank Danamon	BDMN IJ	Indonesia	304.9	26.6	5.8	4.6	0.5	0.5	8.0	10.2	4.2	na
Bank Internasional	BNII IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Mandiri	BMRI IJ	Indonesia	13.5	17.2	11.3	9.6	1.6	1.5	14.9	16.0	4.9	5.7
Bank Pan	PNBN IJ	Indonesia	8.6	10.0	5.7	5.2	na	na	7.3	7.4	na	na
Bank Rakyat	BBRI IJ	Indonesia	16.1	19.7	16.1	13.4	2.1	2.0	13.9	15.3	3.6	4.3
Bank Negara	BBNI IJ	Indonesia	38.9	22.7	9.3	7.6	1.0	0.9	11.9	13.1	2.6	3.6
CIMB Group Holdings	CIMB MK	Malaysia	314.5	16.8	10.8	9.3	0.9	0.9	8.2	9.3	4.5	5.8
Hong Leong Bank	HLBK MK	Malaysia	5.1	16.4	13.6	11.7	1.3	1.2	9.9	11.0	2.8	3.2
Malayan Banking	MAY MK	Malaysia	22.5	16.1	12.0	10.4	1.1	1.1	9.1	10.4	6.6	7.4
Public Bank	PBKF MK	Malaysia	(76.4)	16.2	na	na	na	na	11.2	12.4	na	na
Industrial Bank of Korea	024110 KS	S Korea	8.2	2.0	3.7	3.6	0.3	0.3	8.6	8.3	6.8	7.1
DBS Group Holdings	DBS SP	Singapore	51.7	13.1	13.1	11.6	1.6	1.5	12.3	13.1	3.7	4.0
Oversea-Chinese Banking	OCBC SP	Singapore	50.5	13.1	11.0	9.7	1.1	1.0	10.3	10.9	4.3	4.8
United Overseas Bank	UOB SP	Singapore	57.0	15.1	12.4	10.7	1.2	1.2	10.4	11.5	4.0	4.5
Bank of Ayudhya	BAY TB*	Thailand	(3.8)	4.0	11.1	10.7	0.8	0.8	7.6	7.5	2.2	2.3
Bangkok Bank	BBL TB*	Thailand	14.1	10.5	9.2	8.3	0.5	0.5	6.0	6.3	3.3	3.6
KASIKORNBANK	KBANK TB*	Thailand	1.7	4.5	10.0	9.6	0.8	0.7	7.9	7.8	2.0	4.2
Kiatnakin Bank	KKP TB*	Thailand	0.1	15.7	9.6	8.3	1.1	1.0	12.0	13.0	3.8	6.0
Krung Thai Bank	KTB TB*	Thailand	31.8	12.3	7.1	6.3	0.5	0.5	7.6	8.1	3.2	5.6
Siam Commercial Bank	SCB TB*	Thailand	(3.4)	7.8	13.3	12.3	1.0	0.9	7.6	7.8	2.3	4.1
Tisco Financial Group	TISCO TB*	Thailand	5.2	1.4	11.1	11.0	1.8	1.7	16.9	16.2	6.3	6.4
TMBThanachart Bank	TTB TB*	Thailand	13.7	11.1	11.3	10.2	0.6	0.6	5.6	6.0	3.6	4.9
<b>Average</b>			<b>37.9</b>	<b>14.9</b>	<b>11.8</b>	<b>10.2</b>	<b>1.2</b>	<b>1.1</b>	<b>10.3</b>	<b>11.0</b>	<b>3.8</b>	<b>4.6</b>

Source: Bloomberg

Note: \* Thanachart estimates, using Thanachart normalized EPS

Based on 9 Feb 2022 closing prices

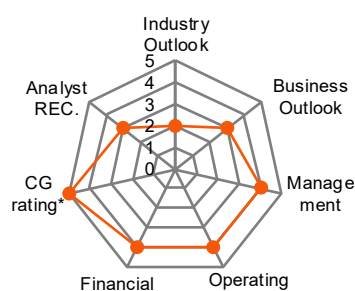
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## COMPANY DESCRIPTION

TMBThanachart Bank (TTB). The Bank engages in universal banking business to serve corporate, SME, and retail customers. ING Bank B.V., a financial group in the Netherland, is its strategic partner and a major shareholder as well as Ministry of Finance.

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

- Complete banking platform
- Product innovation.
- Know-how from its foreign partner ING.

### O — Opportunity

- Ability to cross-sell and upsell income.
- Room to increase fee income.

### W — Weakness

- Difficulties in cutting overlapped and redundant costs given separate operation before EBT completion in mid-2021.

### T — Threat

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

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	1.49	1.30	-13%
<b>Net profit 22F (Bt m)</b>	12,743	11,910	-7%
<b>Net profit 23F (Bt m)</b>	14,706	13,227	-10%
<b>Consensus REC</b>	<b>BUY: 11</b>	<b>HOLD: 10</b>	<b>SELL: 3</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are lower than the Bloomberg consensus numbers, which we attribute to us being more conservative on TTB's business outlook and growth prospects.

## RISKS TO OUR INVESTMENT CASE

- Downside to our numbers and TP would materialize if the economy does not recover in line with our expectation.
- On the other hand, If TMB can perform better than we currently anticipate and enjoy greater synergistic benefits than we presently assume, this would present potential upside to our earnings forecasts and TP.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

## INCOME STATEMENT

	FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<i>Tepid recovery in income</i>						
Interest and Dividend Income		72,321	64,239	63,753	65,654	68,493
Interest Expenses		18,515	13,240	12,885	15,419	15,869
<b>Net Interest Income</b>		<b>53,805</b>	<b>51,000</b>	<b>50,868</b>	<b>50,236</b>	<b>52,624</b>
% of total income		78.0%	78.2%	77.5%	76.3%	76.1%
Gain on Investment		678	182	300	300	300
Fee Income		11,348	11,248	11,578	12,355	13,184
Gain on Exchange		1,726	1,480	1,600	1,648	1,697
Others		1,426	1,281	1,300	1,339	1,379
<b>Non-interest Income</b>		<b>15,178</b>	<b>14,191</b>	<b>14,778</b>	<b>15,642</b>	<b>16,561</b>
% of total income		22.0%	21.8%	22.5%	23.7%	23.9%
<b>Total Income</b>		<b>68,983</b>	<b>65,191</b>	<b>65,645</b>	<b>65,878</b>	<b>69,185</b>
Operating Expenses		32,177	31,219	30,658	30,848	31,490
<b>Pre-provisioning Profit</b>		<b>36,806</b>	<b>33,972</b>	<b>34,988</b>	<b>35,029</b>	<b>37,694</b>
Provisions		24,831	21,514	20,280	18,696	18,571
<b>Pre-tax Profit</b>		<b>11,975</b>	<b>12,458</b>	<b>14,707</b>	<b>16,334</b>	<b>19,124</b>
Income Tax		2,223	2,327	2,794	3,103	3,633
After Tax Profit		9,752	10,131	11,913	13,230	15,490
Equity Income		363	346	0	0	0
Minority Interest		(3)	(3)	(3)	(3)	(3)
Extraordinary Items		0	0	0	0	0
<b>NET PROFIT</b>		<b>10,112</b>	<b>10,474</b>	<b>11,910</b>	<b>13,227</b>	<b>15,487</b>
<b>Normalized Profit</b>		<b>10,112</b>	<b>10,474</b>	<b>11,910</b>	<b>13,227</b>	<b>15,487</b>
EPS (Bt)		0.1	0.1	0.1	0.1	0.2
Normalized EPS (Bt)		0.1	0.1	0.1	0.1	0.2

## BALANCE SHEET

	FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
<i>Slower loan growth than the industry's</i>						
<b>ASSETS:</b>						
<b>Liquid Items</b>		<b>233,128</b>	<b>174,884</b>	<b>174,300</b>	<b>186,000</b>	<b>190,000</b>
cash & cash equivalents		21,943	16,011	14,000	12,000	10,000
interbank & money market		211,185	158,873	160,300	174,000	180,000
Securities under resale agreeme		0	0	0	0	0
Investments		134,351	180,229	185,635	191,204	196,941
<b>Net loans</b>		<b>1,348,480</b>	<b>1,325,212</b>	<b>1,303,186</b>	<b>1,334,133</b>	<b>1,375,162</b>
Gross and accrued interest		1,401,458	1,379,684	1,359,010	1,392,034	1,435,920
Provisions for doubtful		52,978	54,472	55,824	57,901	60,758
Fixed assets - net		30,076	30,252	29,160	28,745	27,820
Other assets		62,297	48,604	45,000	46,350	47,741
<b>Total assets</b>		<b>1,808,332</b>	<b>1,759,181</b>	<b>1,737,282</b>	<b>1,786,432</b>	<b>1,837,663</b>
<b>LIABILITIES:</b>						
<b>Liquid Items</b>		<b>1,453,211</b>	<b>1,429,486</b>	<b>1,398,950</b>	<b>1,439,295</b>	<b>1,480,819</b>
Deposit		1,373,408	1,339,195	1,305,835	1,343,443	1,382,148
Interbank & money market		75,909	84,966	87,515	90,140	92,845
Liability payable on demand		3,895	5,325	5,600	5,712	5,826
Borrowings		88,965	68,398	70,652	70,544	70,870
Other liabilities		61,406	50,460	50,000	50,500	51,005
<b>Total liabilities</b>		<b>1,603,582</b>	<b>1,548,345</b>	<b>1,519,601</b>	<b>1,560,339</b>	<b>1,602,694</b>
Minority interest		37	1	4	7	10
<b>Shareholders' equity</b>		<b>204,713</b>	<b>210,835</b>	<b>217,676</b>	<b>226,086</b>	<b>234,959</b>
Preferred capital		-	-	-	-	-
Paid-in capital		91,589	91,792	91,541	91,541	91,541
Share premium		43,322	43,345	43,345	43,345	43,345
Surplus/ Others		5,798	5,172	5,172	5,172	5,172
Retained earnings		64,004	70,526	77,618	86,027	94,901
<b>Liabilities &amp; equity</b>		<b>1,808,332</b>	<b>1,759,181</b>	<b>1,737,282</b>	<b>1,786,432</b>	<b>1,837,663</b>

Sources: Company data, Thanachart estimates

**VALUATION**

<b>FY ending Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Normalized PE (x)	13.3	12.9	11.3	10.2	8.7
Normalized PE - at target price (x)	12.4	12.0	10.5	9.5	8.1
PE (x)	13.3	12.9	11.3	10.2	8.7
PE - at target price (x)	12.4	12.0	10.5	9.5	8.1
P/PPP (x)	3.7	4.0	3.9	3.9	3.6
P/PPP - at target price (x)	3.4	3.7	3.6	3.6	3.3
P/BV (x)	0.7	0.6	0.6	0.6	0.6
P/BV - at target price (x)	0.6	0.6	0.6	0.6	0.5
Dividend yield (%)	3.2	3.6	3.6	4.9	5.7
Market cap / net loans (x)	0.1	0.1	0.1	0.1	0.1
Market cap / deposit (x)	0.1	0.1	0.1	0.1	0.1
<b>(Bt)</b>					
Normalized EPS	0.1	0.1	0.1	0.1	0.2
EPS	0.1	0.1	0.1	0.1	0.2
DPS	0.0	0.1	0.1	0.1	0.1
PPP/Share	0.4	0.4	0.4	0.4	0.4
BV/Share	2.1	2.2	2.3	2.3	2.4

*Fairly priced in our view*

**FINANCIAL RATIOS**

<b>FY ending Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
<b>Growth Rate (%)</b>					
Net interest income (NII)	100.3	(5.2)	(0.3)	(1.2)	4.8
Non-interest income (Non-II)	20.2	(6.5)	4.1	5.9	5.9
Operating expenses	55.6	(3.0)	(1.8)	0.6	2.1
Pre-provisioning profit (PPP)	95.5	(7.7)	3.0	0.1	7.6
Net profit	40.0	3.6	13.7	11.1	17.1
Normalized profit growth	40.0	3.6	13.7	11.1	17.1
EPS	(31.0)	3.6	13.7	11.1	17.1
Normalized EPS	(31.0)	3.6	13.7	11.1	17.1
Dividend payout ratio	42.9	46.0	50.0	50.0	50.0
Loan - gross	0.1	(1.5)	(1.5)	2.4	3.2
Loan - net	(0.0)	(1.7)	(1.7)	2.4	3.1
Deposit	(1.8)	(2.5)	(2.5)	2.9	2.9
NPLs	4.9	6.4	4.0	4.0	3.0
Total assets	(2.7)	(2.7)	(1.2)	2.8	2.9
Total equity	5.1	3.0	3.2	3.9	3.9
<b>Operating Ratios (%)</b>					
Net interest margin (NIM)	2.9	2.9	2.9	2.9	2.9
Net interest spread	4.1	3.9	4.0	4.1	4.1
Yield on earnings assets	4.1	3.7	3.7	3.8	3.8
Avg cost of fund	1.2	0.9	0.9	1.0	1.0
NII / operating income	78.0	78.2	77.5	76.3	76.1
Non-II / operating income	22.0	21.8	22.5	23.7	23.9
Fee income / operating income	16.4	17.3	17.6	18.8	19.1
Normalized net margin	14.7	16.1	18.1	20.1	22.4
Cost-to-income	46.6	47.9	46.7	46.8	45.5
Credit cost - provision exp / loans	1.8	1.6	1.5	1.4	1.3
PPP / total assets	2.0	1.9	2.0	2.0	2.1
PPP / total equity	18.4	16.4	16.3	15.8	16.4
ROA	0.6	0.6	0.7	0.8	0.9
ROE	5.1	5.0	5.6	6.0	6.7

*Lower integration costs  
and already lean opex*

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
<b>Liquidity and Quality Ratio (%)</b>					
Loan-to-deposit	101.4	102.5	103.5	103.1	103.4
Loan-to-deposit & S-T borrowing	101.4	102.5	103.5	103.0	103.3
Net loan / assets	74.6	75.3	75.0	74.7	74.8
Net loan / equity	658.7	628.6	598.7	590.1	585.3
Investment / assets	7.4	10.2	10.7	10.7	10.7
Deposit / liabilities	85.6	86.5	85.9	86.1	86.2
Liabilities / equity	783.3	734.4	698.1	690.2	682.1
Net interbank lender (Bt m)	135,276	73,907	72,785	83,860	87,155
Tier 1 CAR	15.5	15.3	16.0	16.3	16.5
Tier 2 CAR	4.1	4.0	4.0	3.9	3.8
Total CAR	19.6	19.3	20.1	20.2	20.3
NPLs (Bt m)	39,594	42,121	43,806	45,558	46,925
NPLs / Total loans (NPL Ratio)	2.8	3.1	3.2	3.3	3.3
Loan-Loss-Coverage	133.8	129.3	127.4	127.1	129.5

*With a higher portion of secured loans, TTB is satisfied with its current LLR*

Sources: Company data, Thanachart estimates

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