BUY (Unchanged)

Change in Numbers

TP: Bt 170.00 (From: Bt 165.00)

Upside : 25.0%

29 SEPTEMBER 2022

Bangkok Bank Pcl. (BBL TB)

Structurally positive

BBL benefits from rising interest rate than peers due to its 25% overseas loan proportion, the rates for which can rise more along with the global trend, and its limited portion of COVID-induced forbearance loans. The bank's conservatism is not news and has already been factored into its share price. Still one of our top BUYs.

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Thanachart Securities

In a better position

We see BBL's loan composition being in a better position than peers' to enjoy the rate hike benefits. First, BBL has limited exposure to the fragile SME and retail loan segments where lending yield cannot be raised in tandem with the market due to concerns over NPLs. Second, 25% of its loans are from overseas operations, which stand to benefit from the weak baht and faster pace of interest rate hikes globally. Third, we believe BBL has recouped some lost business due to the sharp increase in the debenture coupon rate along with the steepening yield curve. BBL's NIM bottomed at 1.97% in 3Q21 and has risen to 2.16% in 2Q22. BBL targets to keep NIM at above 2.1% for this year.

Low fee income base

Dragged by transaction and capital market-related fees, we expect flat fee income growth this year. Transaction fees will likely continue to fall on the rising adoption of digital banking. We project a net fee income growth recovery of 3% p.a. over 2023-24F backed by 1) rising bancassurance fees of 5%, 2) 3% growth in credit card fees, and 3) 10% growth in loan-related fees.

Aggressive provisioning is not news

BBL's aggressive provisioning policy has always been the main pushback for the bank. We believe BBL's very high provisioning buffer is one of the main reasons for its below-potential profitability reflected in its ROE of 6.5% being much lower than the average of 8.2% for its big-bank peers. That said, this is not news. While having a loan-loss-coverage ratio of over 200%, BBL has been using provisions to counter extra income or any windfalls to smoothen earnings. We fine-tune our earnings this year to reflect higher loans and NIM but lower fees and higher provisions. Since we raise our earnings from 2023F and roll forward our DDM-based TP to 2023F base year at an 11.2% cost of equity, we lift our TP to Bt170/share from Bt165.

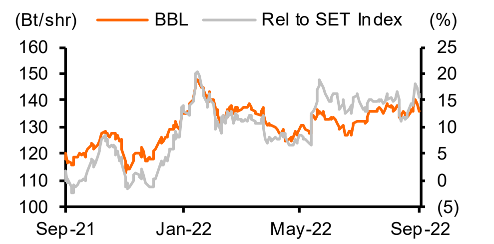
Still one of our top sector picks

BBL remains one of our top BUYs with 25% potential upside to our Bt170 TP. BBL is the cheapest big bank on PBV basis. PBV to ROE is in line with big banks' despite BBL's superior balance sheet quality and improving earnings growth. High provisions keep its ROE low but we see a limited risk of it hurting profitability further as LLR is at a record high while the economy has been recovering from the COVID-19 crisis. Structurally, BBL should reap the benefits of higher interest rates to a greater extent than peers thanks to its largest portion of overseas loans and its limited portion of COVID-induced forbearance loans. As Tier I is recovering to pre-Permata acquisition level, we expect higher dividends and estimate a healthy yield of 4% in 2023F.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	67,066	67,396	72,169	77,382
Net profit	26,507	29,995	34,190	38,311
Consensus NP	—	30,327	34,179	38,664
Diff frm cons (%)	—	*(1.1)*	*0.0*	*(0.9)*
Norm profit	26,507	29,995	34,190	38,311
Prev. Norm profit	—	30,245	33,426	37,407
Chg frm prev (%)	—	*(0.8)*	*2.3*	*2.4*
Norm EPS (Bt)	13.9	15.7	17.9	20.1
Norm EPS grw (%)	54.3	13.2	14.0	12.1
Norm PE (x)	9.8	8.7	7.6	6.8
P/BV (x)	0.5	0.5	0.5	0.5
Div yield (%)	2.6	3.5	4.0	4.4
ROE (%)	5.6	6.0	6.5	6.9
ROA (%)	0.6	0.7	0.7	0.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price: *as of* 28-Sep-22 (Bt)	136.00
Market Cap (US$ m)	6,775
Listed Shares (m shares)	1,908.8
Free Float (%)	98.6
Avg. Daily Turnover (US$ m)	28.8
12M Price H/L (Bt)	148.00/113.00
Sector	BANK
Major Shareholder	Thai NVDR 21.52%

Sources: Bloomberg, Company data, Thanachart estimates

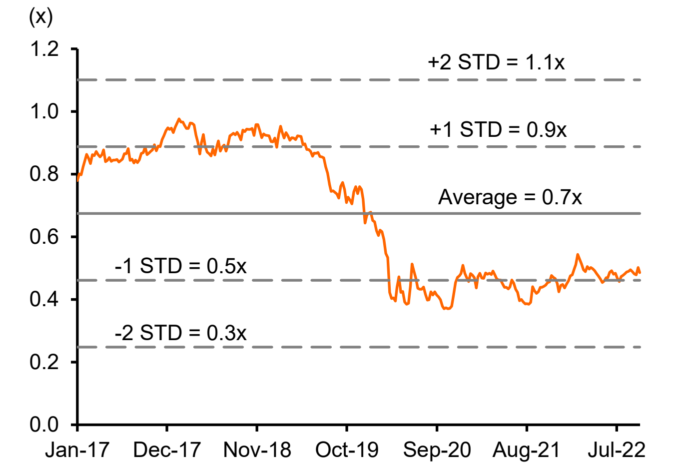
ESG Summary Report P37

Ex 1: Earnings Revisions

	2018	2019	2020	2021	2022F	2023F	2024F	2025F
Net profits (Bt bn)								
- New	35.33	35.82	17.18	26.51	30.00	34.19	38.31	42.55
- Old					30.25	33.43	37.41	40.65
- Change (%)					*(0.83)*	*2.29*	*2.42*	*4.68*
Loan growth (%)								
- New	3.95	(1.05)	14.89	9.29	8.35	6.39	6.41	4.67
- Old					5.01	5.18	5.20	4.35
- Change (pp)					*3.34*	*1.21*	*1.21*	*0.32*
Lending yield (%)								
- New	4.56	4.50	4.33	3.91	4.12	4.49	4.60	4.61
- Old					3.91	3.90	3.95	3.97
- Change (pp)					*0.21*	*0.58*	*0.65*	*0.64*
NIM (%)								
- New	2.31	2.24	2.19	2.01	2.18	2.20	2.23	2.27
- Old					2.24	2.19	2.01	2.00
- Change (pp)					*(0.06)*	*0.01*	*0.22*	*0.27*
Net fee income (Bt bn)								
- New	27.59	28.50	24.71	29.21	26.53	27.26	28.54	29.54
- Old					29.58	30.79	32.20	33.80
- Change (%)					*(10.33)*	*(11.47)*	*(11.38)*	*(12.63)*
Opex (Bt bn)								
- New	55.16	54.96	65.97	67.27	67.20	69.92	72.42	75.36
- Old					68.84	71.66	74.60	77.64
- Change (%)					*(2.37)*	*(2.43)*	*(2.92)*	*(2.93)*
Cost-to-income ratio (%)								
- New	45.47	41.12	55.56	50.07	49.93	49.21	48.34	47.66
- Old					51.94	51.98	51.15	50.74
- Change (pp)					*(2.01)*	*(2.77)*	*(2.80)*	*(3.08)*
Credit costs (%)								
- New	1.05	1.57	1.32	1.32	1.07	0.97	0.91	0.87
- Old					0.96	0.84	0.80	0.76
- Change (pp)					*0.11*	*0.13*	*0.12*	*0.11*
NPLs (Bt bn)								
- New	80.14	79.15	104.40	101.10	108.18	115.75	122.70	128.83
- Old					106.16	111.47	117.04	122.89
- Change (%)					*1.90*	*3.85*	*4.83*	*4.83*

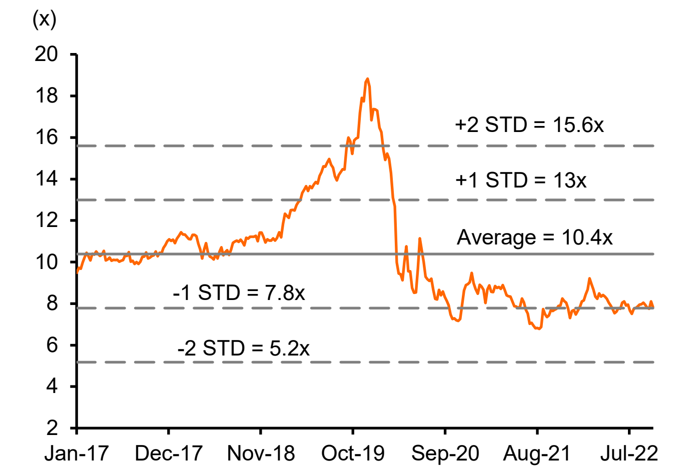
Sources: Company data, Thanachart estimates

Ex 2: STD P/BV



Sources: Bloomberg, Thanachart estimates

Ex 3: STD PE



Sources: Bloomberg, Thanachart estimates

Ex 4: 12-month DDM-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	9,628	10,875	14,257	17,783	19,367	21,289	29,667	42,107	49,471	54,019	67,611	67,611
Dividend payment	9,628	10,875	14,257	17,783	19,367	21,289	29,667	42,107	49,471	54,019	67,611	659,305
PV of dividend	9,628	8,751	10,156	11,314	11,005	10,802	13,445	17,044	17,183	16,678	18,562	181,004

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.1
WACC (%)	11.2
Cost of equity	11.2
Terminal growth (%)	2.0
Equity value	325,573
No. of shares	1,909
Equity value / share	**170.00**

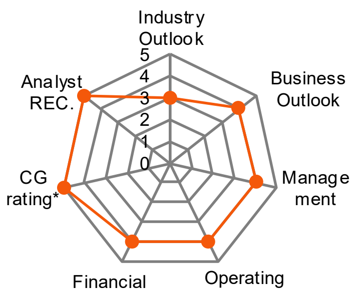
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Bangkok Bank Pcl (BBL) provides various banking and financial services including commercial, consumer, credit card, and mortgage lending, international trade financing, investment banking, and securities services.

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

- Extensive banking network and large customer base
- Strong relationships with large corporates
- Competitive edge in trade-finance services
- Very solid balance sheet

W — Weakness

- Its large business size makes it difficult for the bank to adjust itself to changes in the industry landscape
- Its conservatism has prevented the bank from running at its full potential in our view

O — Opportunity

- Beefing up its overseas presence and expanding its footprint into many more countries
- Rising cross-selling activity

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	160.39	170.00	6%
Net profit 22F (Bt m)	30,327	29,995	-1%
Net profit 23F (Bt m)	34,179	34,190	0%
Consensus REC	**BUY: 22**	**HOLD: 4**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are more conservative than the Bloomberg consensus on a recovery in fee income.
- Our TP is higher than the Street's, likely as we don't expect BBL to aggressively build up extra provisions over the longer term.

Sources: Bloomberg consensus, Thanachart estimates

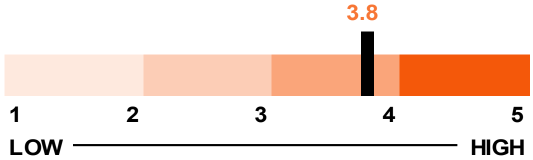
RISKS TO OUR INVESTMENT CASE

- Slower economic momentum adversely disrupting business activity would present the key downside risk to our NPL and credit cost assumptions.
- If the bank is not able to control operating expenses and reap greater synergistic benefits from the Indonesian acquisition as we had assumed, this would present downside risks to our earnings forecasts.

Source: Thanachart

BBL signed the Statement of Commitment for Sustainable Thailand 2021. The bank's approach to sustainability is based on four key pillars – efficient and effective risk management, sound human resource management, good corporate governance, and creating sustainable value for society and the environment. We assign an ESG score of 3.76 to BBL.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	Arabesque S-Ray (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
BBL	YES	YES	-	-	60.40	67.12	67.53	29.0	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)
Note: Please see third party on "term of use" in the following back page.

Factors	Our Comments
ENVIRONMENT – **Environmental Policies & Guidelines** – **Energy Management** – **Carbon Management** – **Water Management** – **Waste Management**	▪ The bank has continuously supported many important sustainability projects, such as clean energy development across Asia, electric vehicle production and electric mass-transit system development. BBL also underwrote the majority of private-sector green bonds and sustainability-linked bonds issued in Thailand. ▪ BBL established its environmental and energy conservation policy and set a medium-term target to reduce Scope 1 and 2 greenhouse gas (GHG) emissions from its own operations, which will be closely monitored. The bank reported a 17.24% decrease in Scope 1 GHG emissions and a 5.75% decrease in Scope 2 GHG emissions compared to 2020 (base year) in 2021. The 2021-2023 target is to achieve a 7.5% decrease in Scope 1 and Scope 2 GHG emissions compared to 2020 (base year) ▪ BBL has partnered with the Hydro-Informatics Institute (Public Organization) and the Utokapat Foundation under Royal Patronage to help disadvantaged people in rural areas obtain access to water and manage it, which will enable them to have a better quality of life and gain economic stability.
SOCIAL – **Human Rights** – **Staff Management** – **Health & Safety** – **Product Safety & Quality** – **Social Responsibility**	▪ To continuously enhance human rights and build awareness among employees, the bank is in the process of conducting human rights due diligence and it targets to review this every three years. ▪ BBL has social commitments of supporting financial literacy and financial inclusion. It initiated the "Fin Lit for the Blind" project. The bank continues to support its branch managers and staff in being school partners and working with schools in the CONNEXT ED Foundation to improve the quality of education, provide essential financial knowledge, and promote a savings mindset among students. ▪ To encourage financial inclusion, BBL has expanded its digital services to make it more convenient for people to do their banking anywhere and anytime.
GOVERNANCE & SUSTAINABILITY – **Board** – **Ethics & Transparency** – **Business Sustainability** – **Risk Management** – **Innovation**	▪ BBL has 20 board of director members, of whom eight are independent ▪ BBL received an Excellent CG rating from the Corporate Governance Report of Thai Companies by the Thai Institute of Directors. ▪ The bank has prepared a written code of conduct and business ethics practices for directors, executives, and staff to follow. It was approved by the board of directors and posted on BBL's website. ▪ BBL organizes a test and rehearsal of a response plan for cyber threats at least once a year. Some 87.55% of employees completed training on phishing awareness in 2021 with a target to hit 100% in 2023.

Source: Thanachart, Company

Improving margin

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Interest and Dividend Income	112,524	114,313	131,293	151,208	163,474
Interest Expenses	35,477	32,156	35,119	50,615	57,208
Net Interest Income	**77,046**	**82,156**	**96,173**	**100,593**	**106,266**
% of total income	64.9%	61.2%	71.5%	70.8%	70.9%
Gain on Investment	2,512	1,225	0	1,000	1,000
Fee Income	24,711	29,209	26,525	27,261	28,536
Gain on Exchange	11,058	17,868	8,000	9,000	9,500
Others	1,376	1,622	1,400	1,612	1,743
Non-interest Income	**41,696**	**52,176**	**38,425**	**41,499**	**43,535**
% of total income	35.1%	38.8%	28.5%	29.2%	29.1%
Total Income	**118,743**	**134,332**	**134,599**	**142,092**	**149,802**
Operating Expenses	65,974	67,266	67,203	69,923	72,419
Pre-provisioning Profit	**52,769**	**67,066**	**67,396**	**72,169**	**77,382**
Provisions	31,196	34,134	30,000	29,000	29,000
Pre-tax Profit	**21,573**	**32,932**	**37,396**	**43,169**	**48,382**
Income Tax	4,014	6,189	7,105	8,634	9,676
After Tax Profit	17,559	26,743	30,291	34,535	38,706
Equity Income	(14)	209	200	200	200
Minority Interest	(364)	(445)	(495)	(545)	(595)
Extraordinary Items	0	0	0	0	0
NET PROFIT	**17,181**	**26,507**	**29,995**	**34,190**	**38,311**
Normalized Profit	**17,181**	**26,507**	**29,995**	**34,190**	**38,311**
EPS (Bt)	9.0	13.9	15.7	17.9	20.1
Normalized EPS (Bt)	9.0	13.9	15.7	17.9	20.1

Solid balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Liquid Items	**592,922**	**863,764**	**773,000**	**751,000**	**727,000**
cash & cash equivalents	73,886	62,552	50,000	50,000	50,000
interbank & money market	519,036	801,212	723,000	701,000	677,000
Securities under resale agreeme	0	0	0	0	0
Investments	759,394	804,965	845,147	887,338	931,638
Net loans	**2,189,102**	**2,376,027**	**2,567,091**	**2,732,690**	**2,911,374**
Gross and accrued interest	2,374,669	2,595,828	2,812,965	2,992,647	3,184,457
Provisions for doubtful	185,567	219,801	245,875	259,957	273,083
Fixed assets - net	74,804	74,476	73,573	72,499	71,253
Other assets	206,738	214,049	215,049	216,049	217,049
Total assets	**3,822,960**	**4,333,281**	**4,473,860**	**4,659,576**	**4,858,314**
LIABILITIES:					
Liquid Items	**3,037,269**	**3,453,761**	**3,495,997**	**3,656,307**	**3,824,987**
Deposit	2,810,863	3,156,940	3,257,697	3,415,541	3,581,728
Interbank & money market	219,149	288,709	230,000	232,300	234,623
Liability payable on demand	7,257	8,113	8,300	8,466	8,635
Borrow ings	136,177	183,239	220,619	219,917	220,946
Other liabilities	199,267	201,688	240,000	241,000	242,000
Total liabilities	**3,372,713**	**3,838,688**	**3,956,615**	**4,117,224**	**4,287,932**
Minority interest	1,233	1,865	2,361	2,906	3,501
Shareholders' equity	**449,014**	**492,727**	**514,884**	**539,446**	**566,881**
Preferred capital	-	-	-	-	-
Paid-in capital	19,088	19,088	19,090	19,090	19,090
Share premium	56,346	56,346	56,346	56,346	56,346
Surplus/ Others	47,257	66,349	66,349	66,349	66,349
Retained earnings	326,322	350,944	373,099	397,661	425,097
Liabilities & equity	**3,822,960**	**4,333,281**	**4,473,860**	**4,659,576**	**4,858,314**

Sources: Company data, Thanachart estimates

At too deep a valuation discount, in our view

Greater benefits from rising rates

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normlized PE (x)	15.1	9.8	8.7	7.6	6.8
Normalized PE - at target price (x)	18.9	12.2	10.8	9.5	8.5
PE (x)	15.1	9.8	8.7	7.6	6.8
PE - at target price (x)	18.9	12.2	10.8	9.5	8.5
P/PPP (x)	4.9	3.9	3.9	3.6	3.4
P/PPP - at target price (x)	6.1	4.8	4.8	4.5	4.2
P/BV (x)	0.6	0.5	0.5	0.5	0.5
P/BV - at target price (x)	0.7	0.7	0.6	0.6	0.6
Dividend yield (%)	1.8	2.6	3.5	4.0	4.4
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
(Bt)					
Normalized EPS	9.0	13.9	15.7	17.9	20.1
EPS	9.0	13.9	15.7	17.9	20.1
DPS	2.5	3.5	4.7	5.4	6.0
PPP/Share	27.6	35.1	35.3	37.8	40.5
BV/Share	235.2	258.1	269.7	282.6	297.0

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	8.4	6.6	17.1	4.6	5.6
Non-interest income (Non-II)	(33.4)	25.1	(26.4)	8.0	4.9
Operating expenses	20.0	2.0	(0.1)	4.0	3.6
Pre-provisioning profit (PPP)	(32.9)	27.1	0.5	7.1	7.2
Net profit	(52.0)	54.3	13.2	14.0	12.1
Normalized profit growth	(52.0)	54.3	13.2	14.0	12.1
EPS	(52.0)	54.3	13.2	14.0	12.1
Normalized EPS	(52.0)	54.3	13.2	14.0	12.1
Dividend payout ratio	27.8	25.2	30.0	30.0	30.0
Loan - gross	14.9	9.3	8.3	6.4	6.4
Loan - net	15.8	8.5	8.0	6.5	6.5
Deposit	18.6	12.3	3.2	4.8	4.9
NPLs	31.9	(3.2)	7.0	7.0	6.0
Total assets	18.8	13.3	3.2	4.2	4.3
Total equity	5.0	9.7	4.5	4.8	5.1
Operating Ratios (%)					
Net interest margin (NIM)	2.2	2.0	2.2	2.2	2.2
Net interest spread	3.5	3.3	3.6	3.7	3.7
Yield on earnings assets	3.3	2.9	3.1	3.4	3.5
Avg cost of fund	1.2	0.9	1.0	1.3	1.4
NII / operating income	64.9	61.2	71.5	70.8	70.9
Non-II / operating income	35.1	38.8	28.5	29.2	29.1
Fee income / operating income	20.8	21.7	19.7	19.2	19.0
Normalized net margin	14.5	19.7	22.3	24.1	25.6
Cost-to-income	55.6	50.1	49.9	49.2	48.3
Credit cost - provision exp / loans	1.3	1.3	1.1	1.0	0.9
PPP / total assets	1.5	1.6	1.5	1.6	1.6
PPP / total equity	12.0	14.2	13.4	13.7	14.0
ROA	0.5	0.6	0.7	0.7	0.8
ROE	3.9	5.6	6.0	6.5	6.9

Sources: Company data, Thanachart estimates

Highest provisioning buffer

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	84.3	82.0	86.1	87.4	88.6
Loan-to-deposit & S-T borrow ing	84.2	82.0	86.1	87.4	88.6
Net loan / assets	57.3	54.8	57.4	58.6	59.9
Net loan / equity	487.5	482.2	498.6	506.6	513.6
Investment / assets	19.9	18.6	18.9	19.0	19.2
Deposit / liabilities	83.3	82.2	82.3	83.0	83.5
Liabilities / equity	751.1	779.1	768.4	763.2	756.4
Net interbank lender (Bt m)	299,887	512,504	493,000	468,700	442,377
Tier 1 CAR	15.8	16.0	16.2	16.4	16.6
Tier 2 CAR	2.6	3.6	3.5	3.3	3.2
Total CAR	18.3	19.6	19.7	19.7	19.8
NPLs (Bt m)	104,401	101,103	108,180	115,753	122,698
NPLs / Total loans (NPL Ratio)	4.4	3.9	3.8	3.9	3.9
Loan-Loss-Coverage	177.7	217.4	227.3	224.6	222.6

Sources: Company data, Thanachart estimates

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3. Refinitiv (0-100)
4. S&P Global (0-100)
5. Moody's ESG Solutions (0-100)

SET THSI Index (SETTHSI)
Nowadays, long-term investment tends to be more focused on sustainable companies. The financial statement performance and the consideration in environmental, social and governance (ESG) perspective are keys aspects for analysis.
SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects
As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

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Score range	Description
CCC - B	**LAGGARD:** A company lagging its industry based on its high exposure and failure to manage significant ESG risks
BB - BBB - A	**AVERAGE :** A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	**LEADER:** A company leading its industry in managing the most significant ESG risks and opportunities

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The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

S&P Global Market Intelligence

ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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