

Bank Sector – Overweight

News update

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Better-than-expected 1Q23 profits

- Profits were up 13% y-y and 51% q-q.
- Key beats were NIM and investment gains.
- Manageable asset quality.
- Maintain OW, BBL, KBANK and TTB are our picks.

Ex 1: 1Q23 results summary

| (Bt m) | BBL | KBANK | KTB | KKP | SCB | TISCO | TTB | Industry |
|-----------------------------------|---------------|---------------|---------------|--------------|---------------|--------------|---------------|----------------|
| Net interest income | 30,078 | 34,875 | 25,619 | 5,223 | 28,942 | 3,257 | 13,502 | 141,497 |
| Change (q-q%) | (1.2) | (3.5) | 4.1 | (5.5) | (1.4) | (2.6) | (2.3) | (1.2) |
| Change (y-y%) | 38.3 | 9.8 | 21.5 | 21.4 | 17.0 | 6.4 | 8.8 | 18.8 |
| Net fee income | 7,122 | 8,114 | 5,139 | 1,343 | 8,909 | 1,266 | 2,559 | 34,453 |
| Change (q-q%) | 2.4 | 4.3 | 1.3 | (18.4) | 1.1 | (7.4) | (6.9) | 0.2 |
| Change (y-y%) | 2.4 | (8.1) | 3.4 | (13.6) | (5.8) | (0.9) | 3.9 | (3.0) |
| OPEX | 18,850 | 19,793 | 13,650 | 3,239 | 16,757 | 2,282 | 7,303 | 81,874 |
| Change (q-q%) | (1.2) | (5.9) | (13.0) | (24.6) | (19.6) | 1.3 | (11.5) | (10.5) |
| Change (y-y%) | 21.6 | 13.8 | 11.5 | 16.0 | 3.8 | 8.7 | 4.5 | 11.9 |
| Pre-provision profit | 21,386 | 26,781 | 21,223 | 3,702 | 24,046 | 2,349 | 9,491 | 108,979 |
| Change (q-q%) | 20.4 | (5.4) | 12.8 | (3.9) | 38.9 | (10.1) | (0.3) | 11.0 |
| Change (y-y%) | 37.5 | 15.1 | 24.5 | 1.5 | 11.8 | 1.8 | 9.2 | 18.4 |
| Provision | 8,474 | 12,692 | 8,104 | 1,097 | 9,927 | 125 | 4,276 | 44,696 |
| Change (q-q%) | 7.1 | (44.3) | 7.6 | (47.0) | 40.2 | (66.9) | (11.0) | (15.0) |
| Change (y-y%) | 30.6 | 36.0 | 48.1 | 2.9 | 13.5 | 46.9 | (11.1) | 24.1 |
| Normalized profits | 10,129 | 10,741 | 10,067 | 2,085 | 10,995 | 1,793 | 4,295 | 50,104 |
| Change (q-q%) | 33.8 | 236.6 | 24.1 | 45.8 | 53.9 | (0.7) | 11.6 | 51.4 |
| Change (y-y%) | 42.3 | (4.2) | 14.6 | 1.4 | 9.5 | (0.2) | 34.4 | 13.4 |
| % of 2021F profits | 29.7 | 27.0 | 29.0 | 25.1 | 24.4 | 23.2 | 26.6 | 26.9 |
| Growth | | | | | | | | |
| Loan growth (q-q%) | (1.59) | (1.20) | (0.41) | 2.70 | 0.93 | 0.50 | (1.31) | (0.56) |
| Loan growth (ytd) | (1.59) | (1.20) | (0.41) | 2.70 | 0.93 | 0.50 | (1.31) | (0.56) |
| Deposit growth (q-q%) | (0.15) | (1.28) | 1.18 | 4.16 | (1.78) | 4.47 | 0.22 | (0.23) |
| Deposit growth (ytd) | (0.15) | (1.28) | 1.18 | 4.16 | (1.78) | 4.47 | 0.22 | (0.23) |
| Loan to deposit ratio (%) | 82.35 | 90.85 | 98.53 | 111.09 | 95.58 | 111.91 | 96.84 | 92.72 |
| NIM (q-q%) | (0.04) | (0.12) | 0.16 | (0.22) | (0.03) | (0.29) | (0.07) | (0.03) |
| Non interest income growth (y-y%) | 9.08 | 31.25 | 12.70 | (19.63) | (8.03) | 2.14 | 0.59 | 7.09 |
| Non interest income growth (q-q%) | 59.19 | (11.36) | (6.65) | (34.42) | 34.39 | (9.67) | (16.74) | 6.34 |
| Cost-to-income ratio (%) | 46.85 | 42.50 | 39.14 | 46.66 | 41.07 | 49.28 | 43.49 | 42.90 |
| NPL in absolute (q-q%) | 1.20 | (5.29) | 1.43 | 5.18 | (0.18) | 2.56 | 0.72 | (0.30) |
| Credit costs (%) | 1.28 | 2.06 | 1.26 | 1.14 | 1.66 | 0.23 | 1.26 | 1.48 |
| Loan loss coverage ratio (%) | 254.64 | 146.16 | 177.10 | 133.48 | 161.10 | 248.08 | 139.81 | 161.06 |
| Loan loss coverage ratio (q-q%) | 4.13 | 1.86 | 4.61 | (2.52) | 4.92 | (10.73) | 2.21 | 3.09 |

Source: Company data

Banking profits were generally better than expected. With exception of a default of one corporate account at KBANK and SCB, asset quality is manageable with slight drop in NPLs in absolute term from 4Q22. Loans volume was quite mute but margin expansion was better than expected. While most bank enjoyed mark-to-market investment gains in the quarter.

- Of seven banks under coverage, BBL's earnings growth was the strongest at 42% y-y, followed by TTB (34% y-y). KTB's profits also beat our estimates on margin and fee income.

- With rising interest rate, corporate and SME moved to bond market to secure lending rate for longer duration. Hit by repayments, loans contracted almost 1% q-q.
- To ensure good liquidity position, banks grew deposits at faster pace than loans, leading to healthy loan to deposit ratio of 93%. BBL is the only big bank that has raised saving rates to 50bps. Other big banks still maintain their strong CASA position as they see savings as mainly use for transactional purpose, we see limited possibility of them raising savings rate to match BBL's.
- Fee income improved q-q mainly on higher brokerage volume and loan related fees. Non-NII was driven by mark-to-market investment gains of which we believe the gains were mainly from debt securities.
- Despite rising FIDF fees, big banks were able to maintain good margin while a sharp contraction of KKP and TISCO's NIMs was within our expectation.
- Opex was falling q-q on seasonality impact. With higher income, cost to income ratio fell across the sector to 43%.
- Asset quality was manageable and under good control. KBANK and SCB utilized their excess provisions to tackle deterioration of one large corporate account. Meanwhile, KKP's aggressive loan extension over past years amid unfavorable used car prices led to high repossession losses and higher rise of NPLs than peers.
- Looking forward, banks expect another 25bps increase in policy rate. As impact of rising FIDF fees is normalizing q-q, NIM should trend upward in 2H23.
- Driven by NIM expansion and economic rebound after Covid, bank is in cyclical upturn cycle. We maintain OW with our top picks are BBL, KBANK and TTB.

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