

Thailand Bank Sector

An extended cycle

Sector Valuation			Current price	Target price	Norm EPS grw		Norm PE		P/BV		Div yield	
Company	BBG Code	Rec.	(Bt)	(Bt)	2023F (%)	2024F (%)	2023F (x)	2024F (x)	2023F (x)	2024F (x)	2023F (%)	2024F (%)
Bangkok Bank	BBL TB	BUY	170.00	200.00	44.0	14.3	7.7	6.7	0.6	0.6	3.9	4.5
KASIKORNBANK	KBANK TB	HOLD	132.50	134.00	21.0	9.8	7.3	6.7	0.6	0.6	4.1	5.2
Kiatnakin Bank	KKP TB	HOLD	60.00	65.00	(16.0)	15.5	8.0	6.9	0.8	0.8	4.3	5.0
Krung Thai Bank	KTB TB	BUY	20.00	23.00	18.2	12.0	7.0	6.3	0.7	0.6	4.3	4.8
SCB X	SCB TB	BUY	117.50	130.00	18.6	13.8	8.9	7.8	0.8	0.8	5.7	6.0
Tisco Fin. Group	TISCO TB	BUY	100.00	113.00	8.3	4.7	10.2	9.8	1.8	1.8	8.3	8.7
TMBThanachart Bank	TTB TB	BUY	1.80	2.00	23.8	15.5	9.9	8.6	0.8	0.7	5.6	6.4

Source: Thanachart estimates, note: based on 23 Aug 2023 closing prices

We reaffirm our **OVERWEIGHT** stance on the Thai banking sector as we see its turnaround cycle being extended. Margin expansion that has driven growth this year should allow banks to push out provisioning cuts to 2024-25F, driving double-digit growth for two more years. We regard SCB and TTB as the best plays on this story.

Raising our earnings and TPs

We lift our earnings estimates for the Thai banking sector by an average of 8% p.a. in 2023-26F. Stronger-than-expected NIM this year is allowing banks to drag out their provisioning cut cycle for the next two years, and we now project 22/13/11% sector earnings growth in 2023-25F. Together with rolling over our base year to 2024F, we lift our TPs for most banks. The exception is KKP, where we cut our earnings and TP to Bt65 to reflect the bank's weaker-than-expected asset quality and higher default losses. Please see details on our new TPs in the table on the right.

Prolonging the growth cycle

With NIM expansion doing its work this year to grow banks' earnings, the following factors are taking their cues for double-digit earnings growth in 2024-25F. **First**, after increasing provisioning buffers this year, we expect credit costs to fall to 1.34/1.22% in 2024-25F vs. 1.48% in 2023F and an average normalized level for the sector of c.1.2%. **Second**, we expect continued loan growth from an economic recovery after a balance sheet clean-up. **Third**, 3-4% fee income growth isn't too challenging in our view from the low base this year. **Lastly**, cost rationalization is an ongoing effort for most banks.

Inexpensive with growth and yield

The bank index is up 5.9%, outperforming the SET by 13% YTD. But with its extended growth cycle that we project to drive ROE to 10% in 2025F from 7.8% in 2022, we see the sector's 0.7x 2024F P/BV as inexpensive. PE is also low at 7x against a double-digit earnings growth level. Also, thanks to the sector's historically high capital ratio and banks' willingness to pay out more to improve capital efficiency, the sector offers very attractive dividend yields in our view at 4.8/5.5/6.2% in 2023-25F.

SCB and TTB are our top picks

We see SCB and TTB as the best plays on the sector's extended upturn. With its highest yield and No.2 ROE position among big banks, SCB's share price underperformance vs. BBL and KTB looks unjustified. We expect TTB to continue to outperform the sector on its strong bottom-up growth story and rising dividend yield. As there is 13% potential upside to our 2024F TP of Bt113, we upgrade our call on TISCO from Hold to BUY. We also downgrade KKP to HOLD due to limited upside to our new TP.



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TPs And Ratings

	Rating		TP (Bt/shr)	
	New	Old	New	Old
BBL	BUY	BUY	200.00	170.00
KBANK	HOLD	HOLD	134.00	134.00
KKP	HOLD	BUY	65.00	80.00
KTB	BUY	BUY	23.00	19.00
SCB	BUY	BUY	130.00	122.00
TISCO	BUY	HOLD	113.00	110.00
TTB	BUY	BUY	2.00	1.75

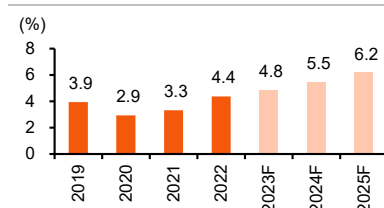
Source: Thanachart estimates

Continued Double-digit Growth



Sources: Company data; Thanachart estimates

Rising Dividend Yield



Sources: Company data; Thanachart estimates

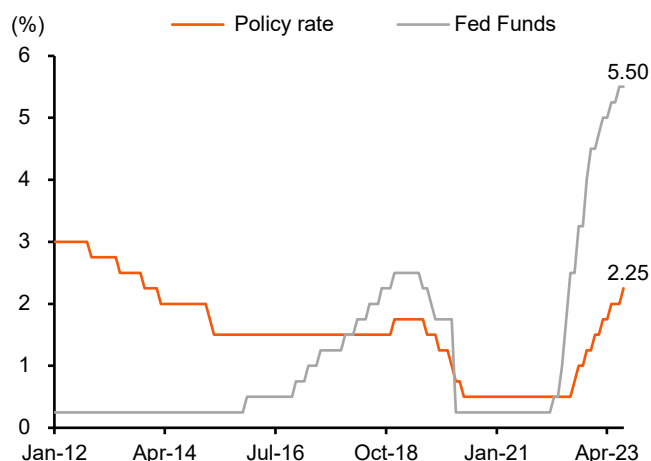
Raising our earnings and TPs

We raise our earnings by an average of 8% p.a. over 2023-26F

The Thai banking sector's 2Q23 earnings were generally better than we'd expected. Key beats were NIM expansion and mark-to-market investment gains. Meanwhile, loan volume and fee income were weaker than we'd anticipated due to slow exports, weak domestic car and housing sales, and unfavorable capital market conditions.

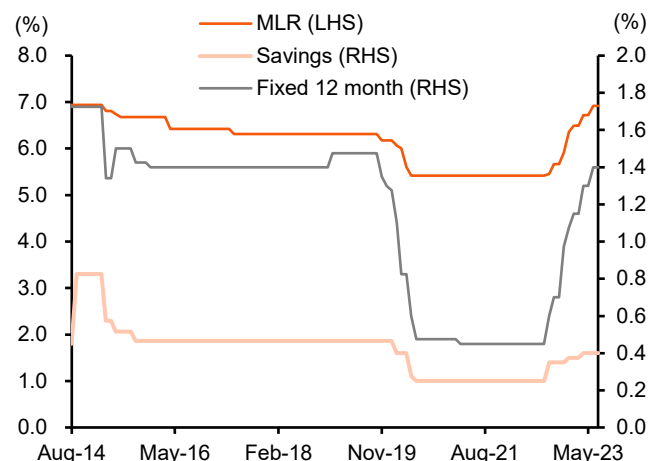
On the back of higher policy and lending rate hikes, average lending yield rose by 1.15% from an average of 5.75% in 4Q22. This together with higher income from interbank and investments, led interest income to increase nicely by 30% y-y in 1H23. Thanks to Thai banks' ample liquidity and competitive funding structure, despite the weak loan demand, funding costs were well under control. Interest expenses have been rising at a much slower pace than the growth in interest income. NII expanded substantially by 20% y-y over the same period of time.

Ex 1: Policy Rate



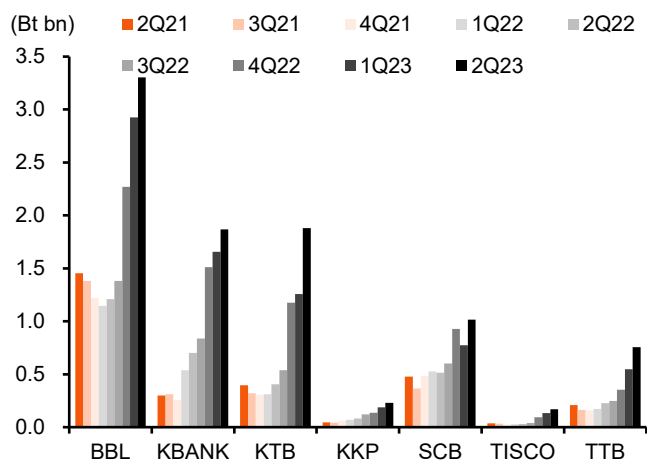
Source: Bloomberg

Ex 2: Lending Rates Vs. CASA And Time Deposit Rates



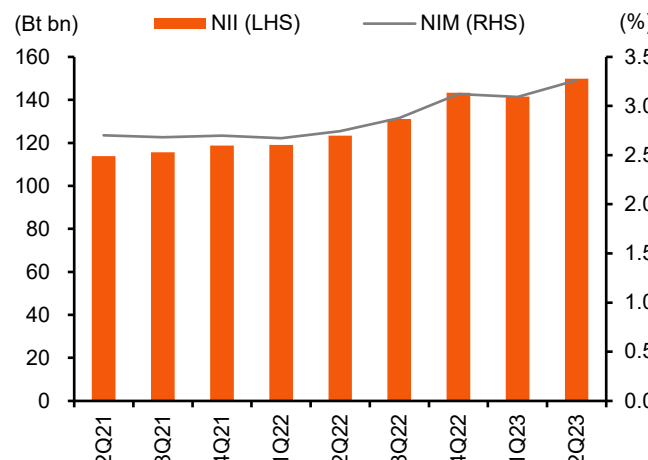
Source: Bank of Thailand

Ex 3: Net Interbank Income



Source: Company data

Ex 4: NIM And NII

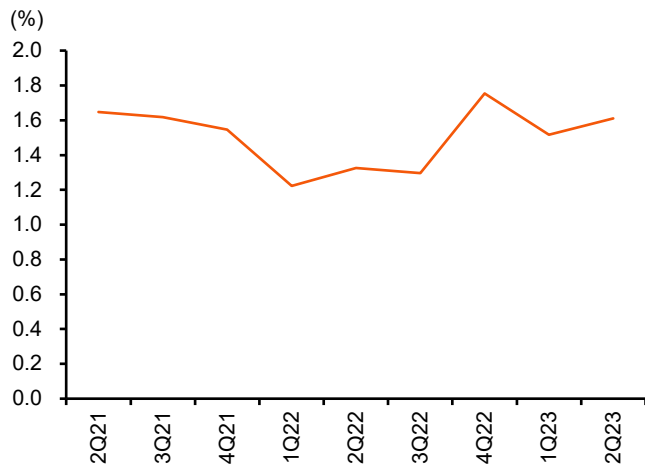


Source: Company data

Higher NIM allows banks to build up provision cushions and speed up NPL resolution

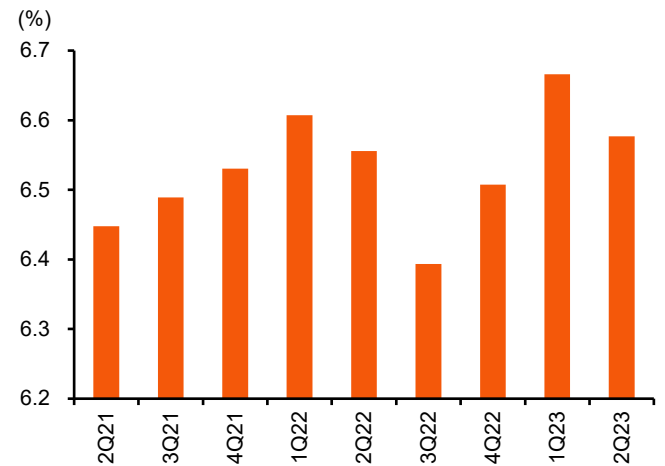
Stronger-than-expected NIM was more than sufficient to offset weak loan and fee income growth. It was also large enough to allow banks to speed up NPL resolution via write-offs and sales to clean up their balance sheets and set aside preemptive provisions at the same time. Provisions were higher than we'd expected, increasing by 22% y-y in 1H23. Credit costs were at an average of 1.53% in 1H23, higher than 2022's level of 1.31%.

Ex 5: Credit Costs



Source: Company data

Ex 6: Provisions To Loans

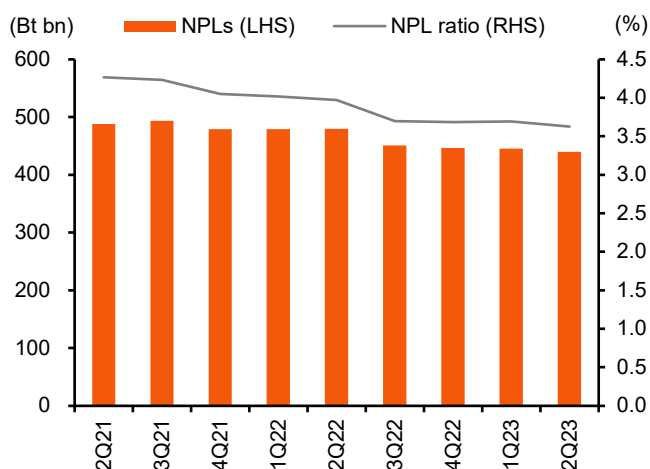


Source: Company data

NPLs under control, except for KKP due to its higher exposure to used-car HP

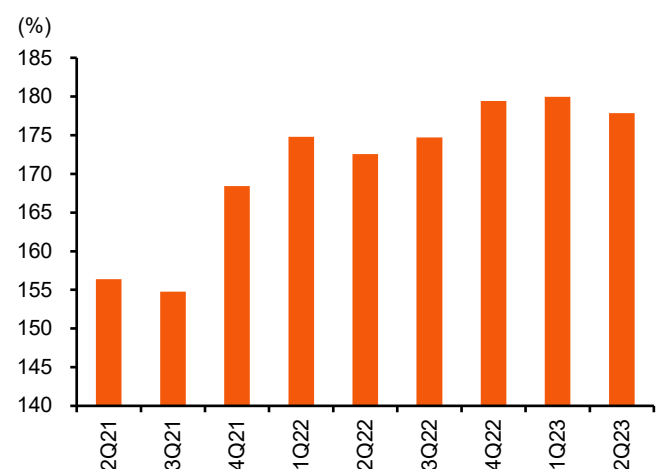
Looking at asset quality, NPLs were manageable in general. The NPL ratio has been within banks' guidance, and it fell from a peak of 4.29% during the COVID-19 outbreak in 1Q21 to 3.68% in 4Q22, 3.69% in 1Q23 and 3.62% in 2Q23. The exception was KKP, which has been suffering from the deteriorating quality of auto-HP loans after its aggressive expansion in 2021-22. This was especially the case for the used-car lending segment, where default rates have been rising amid higher losses on sales due to falling resale prices. Meanwhile, KBANK and SCB faced the unexpected default of a large corporate account over the period. Given that they have been proactive in carrying out NPL resolution, NPL ratio managed to stay within their targets.

Ex 7: NPLs Vs. NPL Ratio



Source: Company data

Ex 8: Loan Loss Coverage Ratio (LLR)



Source: Company data

With the full impact of the hike in lending rates in June 2023, NIM had not yet peaked in 2Q23. The rise in policy rate by 25bps in August is also positive to banks' interbank income. We expect further NIM expansion in 3Q23F and raise our earnings estimates for the sector by an average of 8% p.a. in 2023-26F. Stronger-than-expected NIM this year should allow banks to drag out their provision cuts cycle for the next two years and we now project 22/13/11% sector earnings growth in 2023-25F. Together with rolling over our valuation base year to 2024F, we lift our TPs for most banks. The exception is KKP, where we cut our earnings forecasts and TP to Bt65 to reflect the bank's weaker-than-expected asset quality and higher default losses. Exhibits 9-11 below show the changes in our key assumptions, earnings and TPs. Meanwhile, we will discuss banks' earnings trajectory after NIM expansion ends in the next section of this report.

Ex 9: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F	2026F
Sector's earnings (Bt bn)								
- New	160.40	111.92	145.31	165.34	201.63	226.95	252.38	276.40
- Old					189.46	210.51	232.07	252.17
- Change (%)					6.42	7.81	8.75	9.61
Total loans (Bt bn)								
- New	10,139	11,086	11,822	12,116	12,436	12,902	13,409	13,937
- Old					12,666	13,294	13,971	14,662
- Change (%)					(1.81)	(2.95)	(4.02)	(4.95)
NIM (%)								
- New	2.9	2.9	2.7	2.9	3.2	3.2	3.3	3.3
- Old					3.0	3.0	3.1	3.1
- Change (ppt)					0.26	0.22	0.20	0.19
Total fee income (Bt bn)								
- New	137.04	135.66	147.68	139.49	137.38	141.33	146.77	153.20
- Old					142.74	148.59	156.05	163.97
- Change (%)					(3.76)	(4.88)	(5.95)	(6.57)
Non-interest income (Bt bn)								
- New	225.01	195.09	211.92	184.78	193.61	199.81	209.42	219.91
- Old					191.56	204.47	215.05	225.95
- Change (%)					1.07	(2.28)	(2.62)	(2.67)
Total OPEX (Bt bn)								
- New	299.42	303.30	303.25	318.17	342.76	350.29	365.44	380.63
- Old					340.72	359.53	378.71	396.97
- Change (%)					0.60	(2.57)	(3.51)	(4.12)
Total provisions (Bt bn)								
- New	131.83	199.86	179.88	168.69	190.88	176.06	167.28	163.84
- Old					163.06	159.51	159.95	163.66
- Change (%)					17.06	10.37	4.58	0.11
Average credit costs (%)								
- New	1.17	1.79	1.57	1.31	1.48	1.34	1.22	1.16
- Old					1.17	1.09	1.03	1.00
- Change (ppt)					0.31	0.25	0.19	0.15
NPLs (Bt bn)								
- New	404.20	467.48	478.78	446.38	454.44	467.16	482.03	495.80
- Old					465.33	484.56	506.90	529.38
- Change (%)					(2.34)	(3.59)	(4.91)	(6.34)

Sources: Company data, Thanachart estimates

Ex 10: New TPs Using A 2024F Base Year

	TP (Bt/shr)	
	New	Old
BBL	200.00	170.00
KBANK	134.00	134.00
KKP	65.00	80.00
KTB	23.00	19.00
SCB	130.00	122.00
TISCO	113.00	110.00
TTB	2.00	1.75

Sources: Company data, Thanachart estimates

Ex 11: Key Assumptions Comparison

		BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Industry
Rating		BUY	HOLD	HOLD	BUY	BUY	BUY	BUY	Overweight
Target price	(Bt)	200.00	134.00	65.00	23.00	130.00	113.00	2.00	
Upside	(%)	17.6	1.1	8.3	15.0	10.6	13.0	11.1	
Consensus TP	(Bt)	190.88	153.08	64.41	22.65	126.65	107.83	1.70	
Differ from consensus	(%)	4.8	(12.5)	0.9	1.6	2.6	4.8	17.4	
Market cap.	(US\$ m)	9,255	8,953	1,449	7,972	11,284	2,283	4,973	
Pre-provision profit (Bt m)	2022A	69,687	98,390	14,526	69,525	84,274	9,656	35,639	381,697
	2023F	87,060	108,332	14,643	84,652	101,468	10,182	38,918	445,255
	2024F	92,614	109,107	15,380	86,678	104,790	11,147	41,218	460,934
	2025F	95,599	111,032	16,789	91,188	114,506	11,878	43,219	484,210
Net profit (Bt m)	2022A	29,306	35,769	7,602	33,698	37,546	7,222	14,195	165,338
	2023F	42,200	43,281	6,383	39,820	44,546	7,824	17,571	201,625
	2024F	48,238	47,542	7,371	44,613	50,701	8,188	20,296	226,950
	2025F	53,021	53,100	9,009	48,740	57,861	8,533	22,121	252,385
Loan growth (y-y %)	2022A	3.65	3.03	21.68	(1.37)	3.27	7.91	0.35	2.49
	2023F	4.31	0.64	11.16	1.59	3.12	5.79	1.33	2.64
	2024F	5.19	2.03	8.92	3.83	3.84	5.07	1.82	3.74
	2025F	4.32	4.41	6.88	3.87	3.64	4.67	1.86	3.93
Deposit growth (y-y %)	2022A	1.71	5.77	14.94	(0.94)	3.61	13.04	4.48	3.11
	2023F	1.71	0.92	2.74	0.15	(2.47)	8.34	0.17	0.37
	2024F	0.75	2.43	8.00	4.39	3.64	4.55	2.00	2.76
	2025F	4.00	2.44	8.00	4.41	3.65	4.55	2.00	3.59
NIM (%)	2022A	2.34	3.19	4.04	2.53	3.19	5.00	2.88	2.87
	2023F	2.84	3.42	4.07	2.99	3.58	4.80	3.10	3.23
	2024F	2.84	3.34	3.97	2.99	3.71	4.86	3.14	3.24
	2025F	2.86	3.35	4.02	3.00	3.86	4.89	3.16	3.28
Fee income growth (%)	2022A	(5.82)	(6.89)	1.50	1.47	(7.59)	(9.51)	(7.62)	(5.55)
	2023F	(0.52)	(3.20)	(4.42)	(1.55)	(2.70)	12.19	0.56	(1.51)
	2024F	1.32	1.50	4.80	2.28	3.89	7.48	5.14	2.87
	2025F	4.26	3.08	4.42	2.28	4.07	7.04	5.14	3.85

Sources: Company data, Thanachart estimates

Based on 23 Aug 2023 closing prices

Ex 11: Key Assumptions Comparison (Con't)

		BBL	KBANK	KKP	KTB	SCB	TISCO	TTB	Industry
Total provisions to loans (%)	2022A	9.08	5.35	5.08	6.73	6.26	5.41	4.17	6.51
	2023F	9.57	5.17	5.42	6.62	6.42	4.91	4.25	6.61
	2024F	9.68	5.41	5.63	6.47	6.33	4.58	4.21	6.65
	2025F	9.72	5.49	5.81	6.32	6.27	4.37	4.13	6.63
NPL ratio (%)	2022A	3.61	3.68	3.63	3.86	3.98	2.07	3.01	3.68
	2023F	3.46	3.68	4.00	3.86	3.93	2.48	2.97	3.65
	2024F	3.39	3.77	3.90	3.77	3.84	2.84	2.95	3.62
	2025F	3.35	3.81	3.70	3.74	3.77	2.98	2.95	3.59
ROE (%)	2022A	5.87	7.30	13.97	9.15	8.32	17.20	6.60	7.80
	2023F	8.10	8.32	10.68	10.19	9.43	17.99	7.84	9.03
	2024F	8.70	8.57	11.48	10.59	10.19	18.25	8.65	9.57
	2025F	8.99	9.00	12.93	10.72	10.95	18.44	9.01	10.00
LLC (%)	2022A	250.5	144.3	136.0	172.5	156.2	258.8	137.6	176.64
	2023F	275.4	139.4	132.3	170.3	161.9	196.2	141.9	180.94
	2024F	284.7	142.7	140.7	170.2	163.3	160.0	141.9	183.70
	2025F	289.6	143.3	153.5	167.8	164.7	145.5	139.1	184.53

Sources: Company data, Thanachart estimates

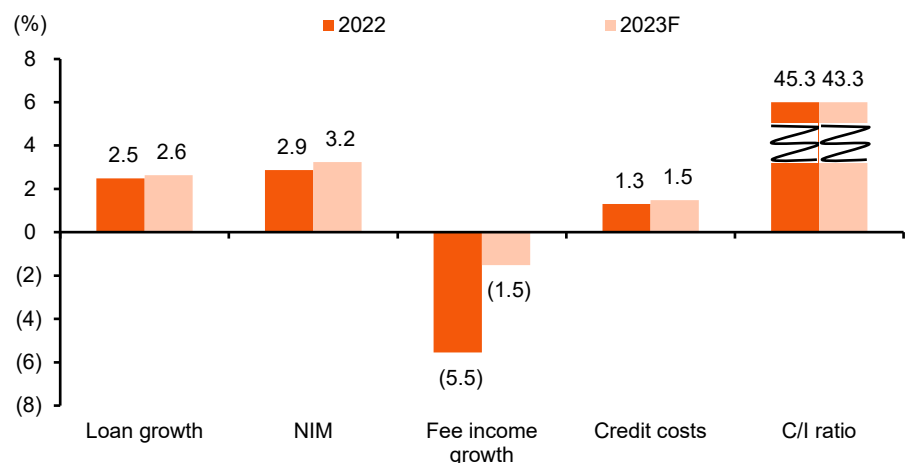
Based on 23 Aug 2023 closing prices

Prolonging the growth cycle

From 0.5% in April 2020, the policy rate has risen to 2.25% now. This is within the Bank of Thailand's (BoT) normalization zone. Given the current inflation rate of only 0.38% providing a low enough base to take on some risk of the El Nino effect that could upwardly affect farm prices, the clear falling trend of global inflation, and China's slower economic recovery momentum, we don't believe there is a strong argument for further rate hikes. Further policy rate hikes, if any, look set to be at a maximum of 25bps to 2.5% next year, in our view.

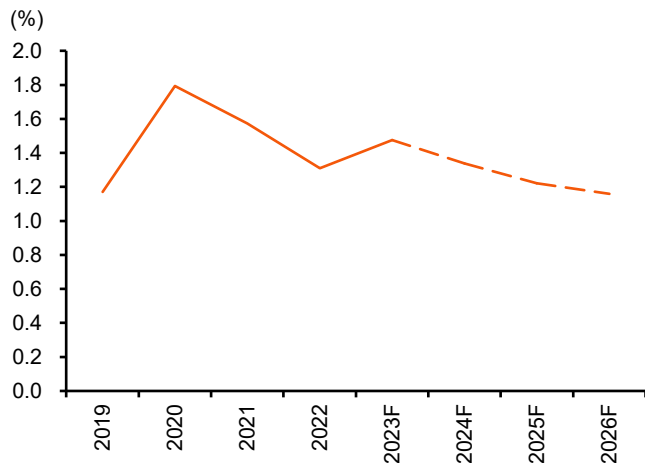
In addition, the average minimum lending rate (MLR) of big banks at 6.9% is already close to the peak of 7% in 2011, when the policy rate was 2.5%. With rising NPLs among fragile borrowers, we see limited potential for further lending rate hikes next year.

Ex 12: NIM Is The Main Engine Driving Banks' Earnings In 2023F

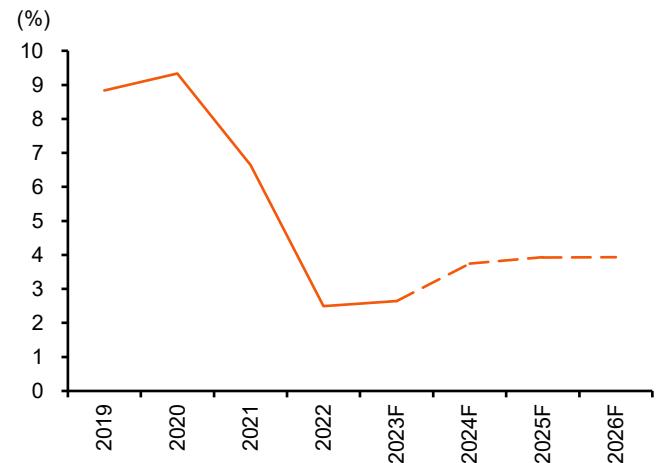


Sources: Company data, Thanachart estimates

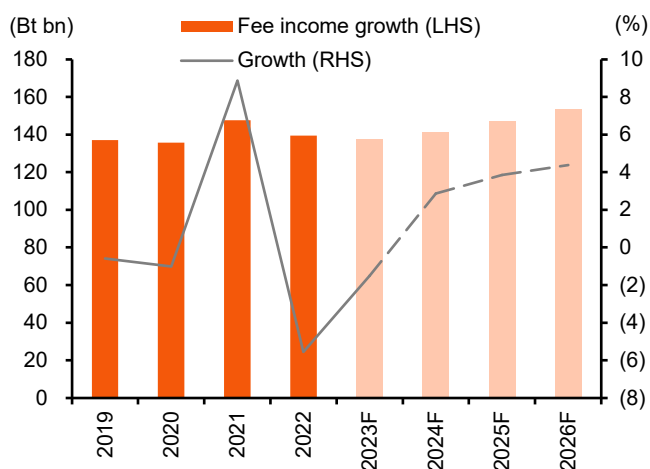
After NIM expansion did its work to grow banks' earnings by 22% this year, the following factors as shown in Exhibit 13-16 below are taking their cues for double-digit earnings growth in 2024-25F. We expect an extended growth cycle for the Thai banking sector with our estimates for sector earnings growth of 13% in 2024F and 11% in 2025F.

Ex 13: Falling Credit Costs

Sources: Company data, Thanachart estimates

Ex 14: Improving Loan Growth

Sources: Company data, Thanachart estimates

Ex 15: Improving Fees

Sources: Company data, Thanachart estimates

Ex 16: Falling Cost To Income Ratio

Sources: Company data, Thanachart estimates

#1: Falling provisions

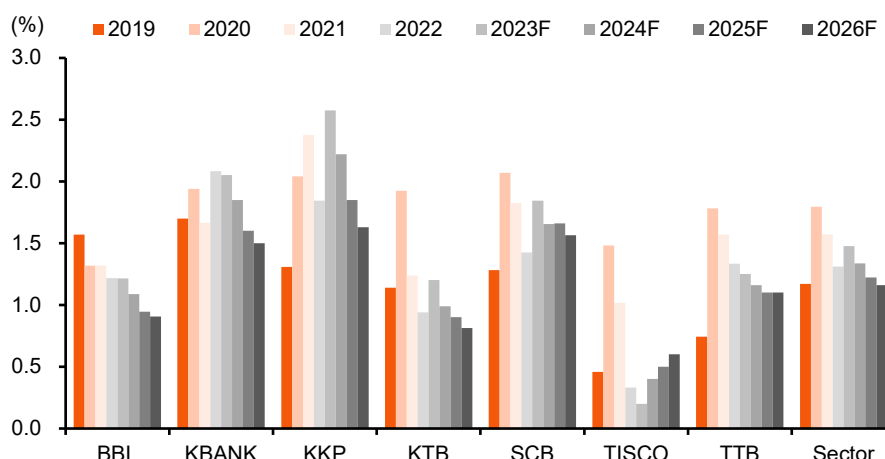
Rise in credit costs projected for this year is largely a deliberate move

We maintain our expectation of a structural decline in Thai banks' provisioning cycle. There is no change to our view that the sector's average credit costs already reached a peak of 1.9% in 2020. We believe the incremental rise in credit costs projected for the current year, coming to 17bps higher than in 2022, is largely a deliberate and strategic move. The expansion of NIM has exceeded banks' initial expectations. Capitalizing on this positive development, banks have proactively leveraged the advantages to expedite the resolution of NPLs and bolster their provisioning reserves.

After increasing provisioning buffers this year, we expect credit costs to fall to 1.34/1.22% in 2024-25F vs 1.48% in 2023F and to an average normalized level of 1.2% for the seven banks under our coverage. We estimate a reduction in provisioning expenses by 8% in 2024F and 5% in 2025F.

To assess the momentum of provisioning efforts by each bank, we have delved into the dynamics of the balance sheets of the seven banks we cover. Despite variations in the quality of their portfolios, which we have classified into three categories – solid, fair, and in transition – we find that NPLs will likely remain manageable overall. Moreover, the increase in credit costs for the current year does not alter the trajectory of the sector's structural decline in provisioning, which we expect to take effect starting from the following year.

Ex 17: Credit Costs Comparison



Sources: Company data, Thanachart estimates

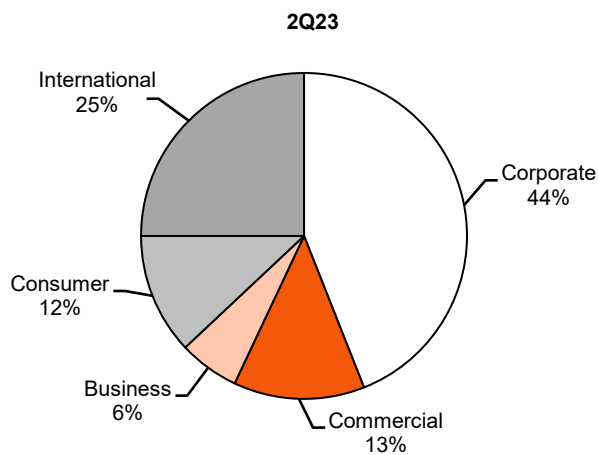
The solid banks: BBL, KTB, TISCO and TTB

We see BBL as a front-line beneficiary of the country's reopening

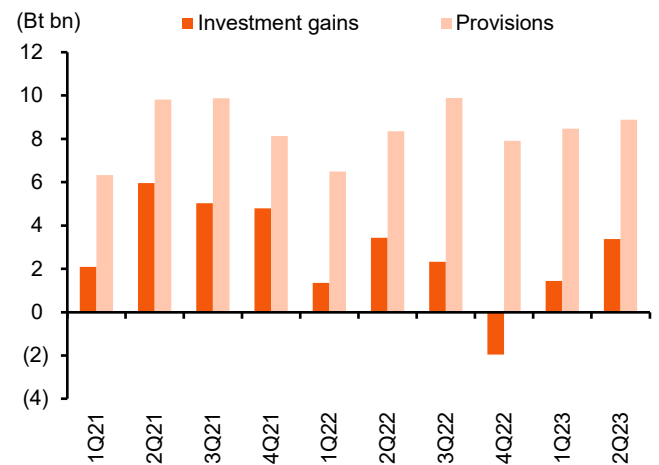
Focusing primarily on mid to large corporate clients, BBL emerged with a comparatively milder hit than its peers from the COVID-19 crisis. Approximately 11% of BBL's total loans are enrolled in COVID-relief programs, with the majority falling under lighter restructuring terms. The bank has also reaped greater benefits from the reopening of the country, leading to a decline in Stage 2 loans and NPLs since the third quarter of 2021. In contrast with other banks that have adopted more aggressive strategies for cleaning up their balance sheets, BBL has been more conservative in writing off non-performing loans.

Leveraging the benefits of a widened NIM and gains from investments marked-to-market, BBL has fortified its provisioning buffer, with provisions allocated to loans now standing at a historically high level of over 9%. Concurrently, we project the bank's loan loss reserve (LLR) to reach 275% this year and remain above 280% for the foreseeable future. This is despite our expectation of a decline in credit costs from 1.22% this year to 1.1% next year,

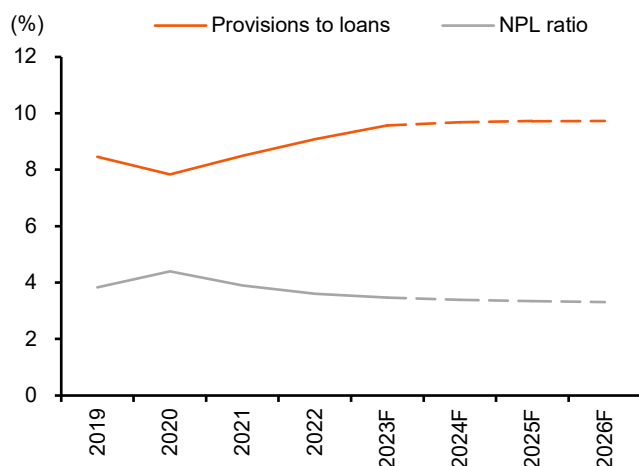
eventually reaching 1% by 2025. It is worth mentioning that while the bank had initially guided for credit costs of 1% this year, it reported 1.3% in the first half of 2023.

Ex 18: BBL's Loan Mix

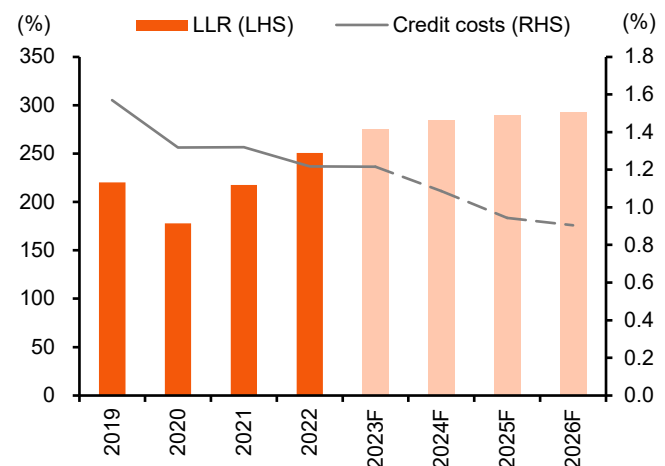
Source: Company data

Ex 19: Provisions Vs. Investment Gains

Source: Company data

Ex 20: Provisions To Loans And NPL Ratio

Sources: Company data, Thanachart estimates

Ex 21: Credit Costs Vs. Loan Loss Coverage Ratio

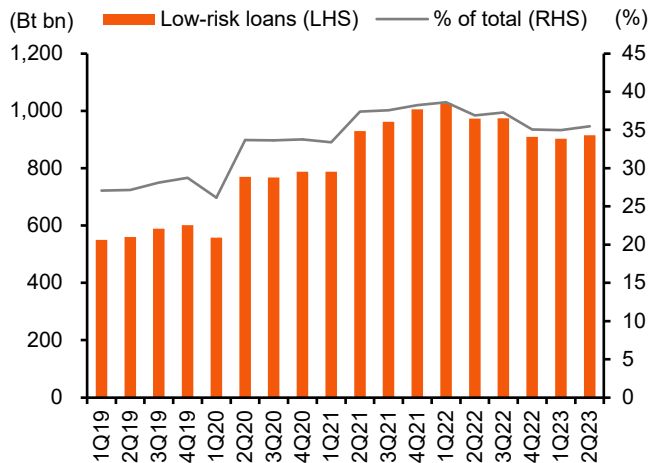
Sources: Company data, Thanachart estimates

Reaping the benefits of low-risk loan extension move during COVID

In the case of KTB, the bank responded to the severe COVID-19 pandemic from late 2019 by strategically reducing its exposure to the corporate and SME segments. In contrast, KTB opted to expand its focus on welfare and government loans during this period. Welfare loans encompass housing and unsecured loans provided by KTB to customers who maintain payroll accounts with the bank. As a government-owned entity, with 55% ownership by the government, KTB serves as the designated payroll bank for many government offices and state-owned enterprises.

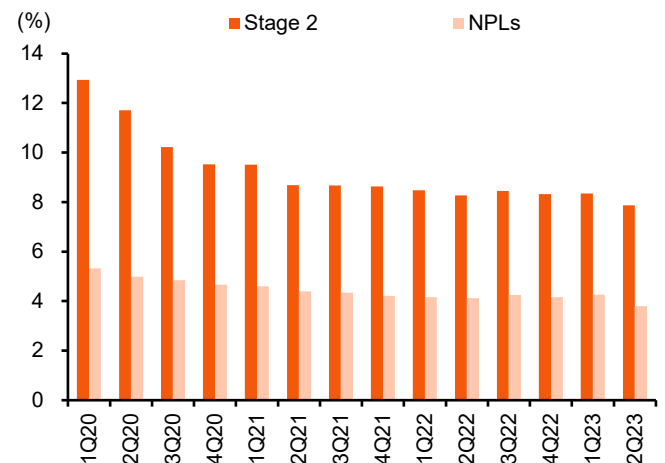
This emphasis on low-risk retail and government loans has led to a notable shift in KTB's loan portfolio composition. The proportion of these loans has grown from 28% of total loans in 2019 to 34% in 2020, reaching 38% in 2021 before stabilizing at 35% in 2022. This, coupled with KTB's proactive efforts in resolving NPLs, has yielded tangible outcomes. Stage 2 loans and NPLs have declined over the past years, as evidenced in Exhibit 23.

Ex 22: Growing Low-Risk Loans During COVID



Source: Company data

Ex 23: Falling Stage 2 And NPLs



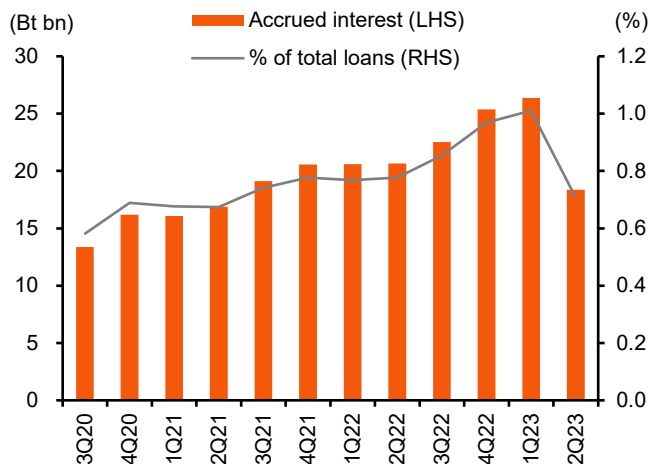
Source: Company data

While taking a serious approach to managing NPLs, KTB has adopted a proactive stance in building robust provisions. This strategic move aims to bolster the quality of its balance sheet and establish substantial buffers to address unforeseen contingencies. To align with industry practices, KTB also made adjustments to the accounting treatment of accrued interest in 2Q23. As a result of these adjustments, the portion of accrued interest relative to loans decreased from 1% in 1Q23 to 0.7% in 2Q23. Although the adjustments led to a reduction in outstanding provisions, KTB maintains a high NPL coverage ratio exceeding 170% as of 2Q23.

Furthermore, KTB is actively exploring opportunities to establish a Joint Venture Asset Management Company (JVAMC). As of 2Q23, the bank's NPLs and non-performing assets (NPA) amounted to Bt99bn and Bt40bn, respectively. The primary objective of this endeavor is to halve the NPA amount, aligning KTB's position with larger bank peers, which typically have NPAs of around Bt20bn.

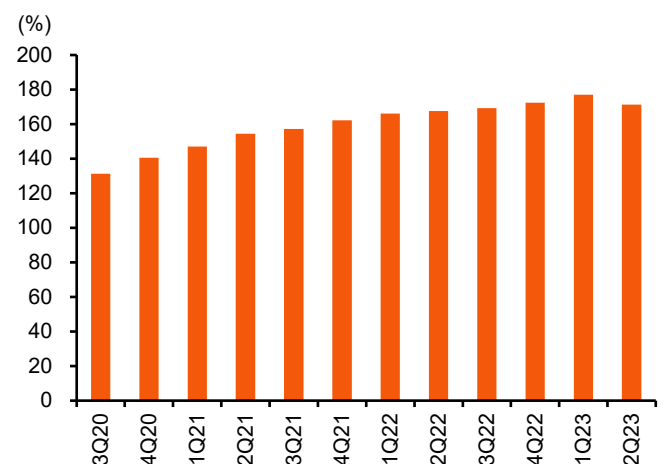
KTB envisions a normalized credit cost level of less than 1%, indicative of the bank's improved asset quality and risk profile. From an average of 1.23% in 1H23, we expect KTB's credit costs to be 1.2% this year, 1% in 2024F, and 0.9% in 2025F.

Ex 24: Falling Accrued Interest Rates



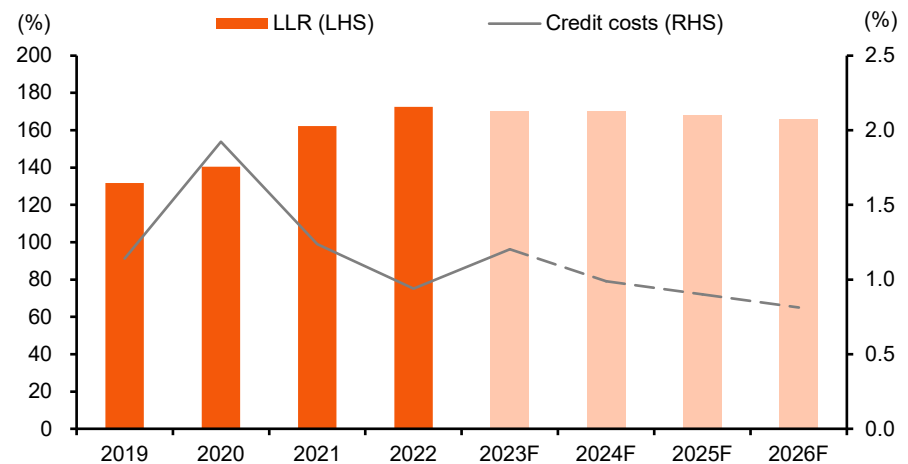
Source: Company data

Ex 25: Sustained High LLR



Source: Company data

Ex 26: Credit Costs Vs. LLR



Sources: Company data, Thanachart estimates

TISCO and TTB hardly grew their loan books during the COVID crisis

Despite having substantial exposure to auto-HP loans, a segment which the National Credit Bureau (NCB) has raised concerns about due to signs of special mention loans, we assess the balance sheet quality of both TISCO and TTB as solid.

Notably, both TISCO and TTB adopted a highly conservative approach and refrained from substantial loan portfolio growth during the severe COVID-19 outbreak years. TISCO's loans contracted by 7% and 9% in 2020 and 2021, respectively, while TTB experienced a 1% contraction from 2019.

TISCO's LLR is the second-highest in the sector

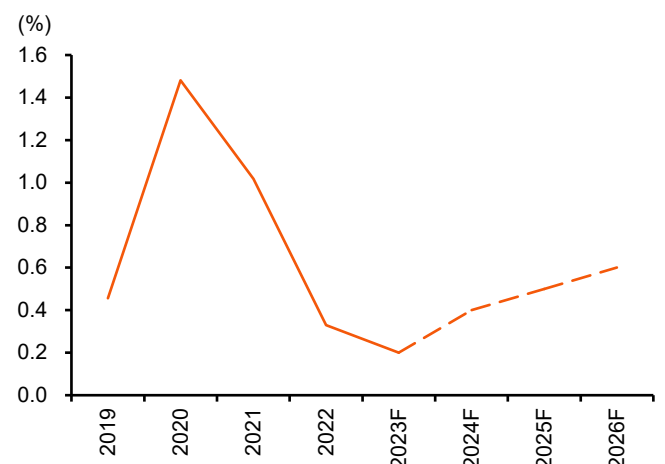
Furthermore, TISCO's strategy involved more selective implementation of debt-relief plans and limited utilization of the Bank of Thailand's (BoT) special assistance measures for loans. This approach led to quicker reporting of NPLs compared to peers, accompanied by higher provisioning expenses. TISCO experienced a 23% q-q increase in NPLs in the second quarter of 2020, and credit costs rose from the bank's pre-COVID normalized level of less than 1% to 1.9% in the same period. Due to its swift and effective response to the crisis, TISCO managed to successfully maintain the overall quality of its asset portfolio. NPLs reached their peak at 3.3% in the second quarter of 2020 and subsequently decreased to 2.4% in 2021 and 2.1% in 2022.

Ex 27: TISCO's Loan Growth



Sources: Company data, Thanachart estimates

Ex 28: TISCO's Credit Costs



Sources: Company data, Thanachart estimates

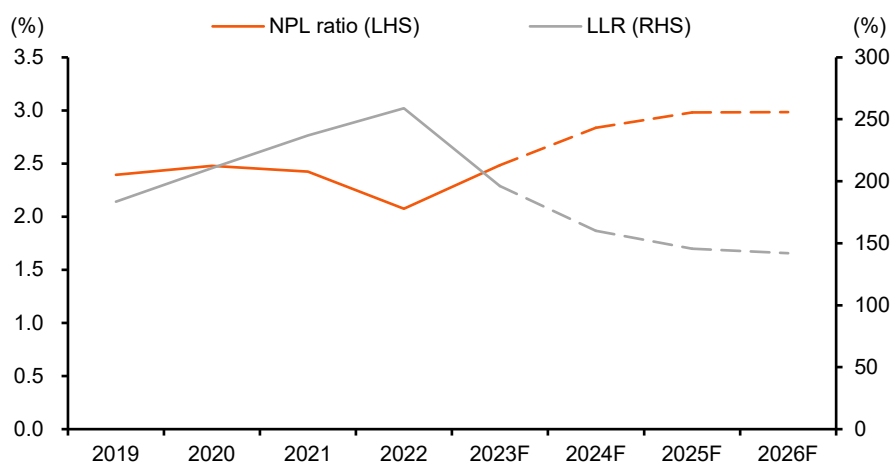
TISCO opted for more aggressive loan expansion...

....but we expect it to contain its NPL ratio below 2.5% by the end of this year

With the resumption of TISCO's lending appetite following the reopening of the country, the bank succeeded in expanding its loan book by 8% in 2022 and an additional 5% YTD in the first half of 2023. Capitalizing on the fact that there remains ample room for market penetration, especially considering the higher lending yield of auto cash loans compared to new car HP loans, TISCO is determined to enhance its auto cash loan portfolio to comprise over 20% of its total loans within the next three years.

In the context of TISCO's growth strategy, the recent increase in NPLs does not induce alarm. This aligns with the bank's outlined expansion plan, and TISCO anticipates successfully maintaining its NPL ratio at below 2.5% for the entirety of 2023. With the release of excess provisions since 2022, TISCO has managed to achieve a credit cost level that was already at a record low of 0.1% in the second quarter of 2023. In light of our projected loan growth of 5% p.a. and TISCO's comfortable loan loss reserve (LLR) coverage ranging from 150% to 160%, we foresee a gradual increase in the bank's credit costs from 0.3% in the first half of 2023 to 0.4% in 2024F and 0.5% in 2025F.

Ex 29: TISCO's NPL Ratio Vs. LLR



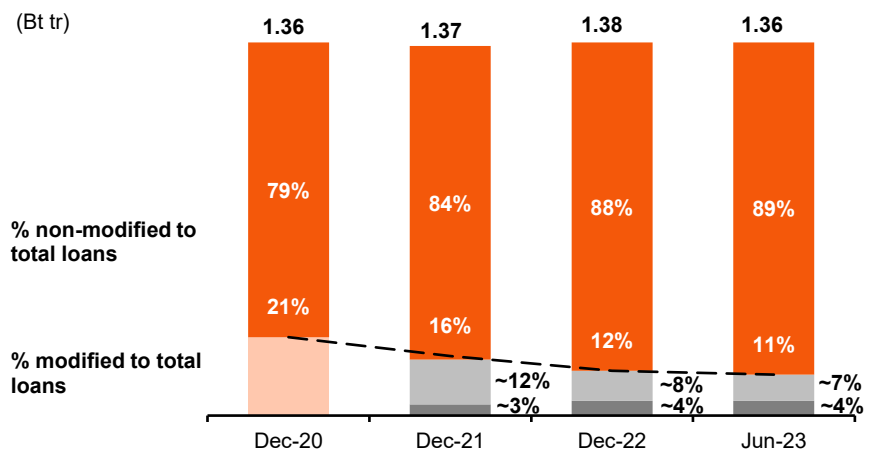
Sources: Company data, Thanachart estimates

Legacy modified loans are stable and well taken care off

Similar to TISCO, TTB took a proactive approach by writing off non-performing loans and cautiously utilizing the BoT's loan staging relaxation measures during the COVID-19 period. TTB's adjusted portfolio, which encompasses restructured loans both before and after the COVID-19 pandemic, accounted for 11% of the total loans in 2Q23. This percentage remained relatively stable compared to 4Q22 when it was at 12%. Within this 11%, 7% of the total loans were subject to lighter restructuring terms such as term extensions and grace periods, while only 4% underwent more substantial modifications.

To align with their customers' repayment capabilities, TTB has adopted more stringent staging and provisioning policies. Starting from the first quarter of 2023, loans that have experienced difficulties in servicing the principal on schedule have been reclassified into Stage 2 and 3 categories. This shift in classification is the primary reason behind the increase in TTB's Stage 2 loans q-q in 2Q23. Given that the bank has already set aside full provisions in accordance with the staging categories, we anticipate minimum potential for upside provision risks stemming from this adjusted portfolio in the future.

Ex 30: TTB's Modified Loan Portfolio



Source: Company data

Ex 31: Tightened Staging And Provisioning Policies in 2023

Scheme	Repayment schedule		Staging criteria		Minimum
	Interest	Principal	2022	2023	PD level
SC 1	Full	Full	Mostly 1	Mostly 1&2	100%
SC 2	Full	Partial	Mostly 1	Mostly 1&2	
SC 3	Full	Postponed	Mostly 2	Mostly 2&3	
SC 4	Partial	Postponed	Mostly 2&3	Unchanged	
SC 5	Additional skip payment ≤ 6 months		Mostly 2&3	Mostly 3	
SC 6	Additional skip payment ≥ 6-12 months		Mostly 2&3	Mostly 3	
SC 7	Additional skip payment ≥ 12 months		Mostly 3	Unchanged	

Source: Company data

TTB does not aim for strong volume growth

In addition to limited COVID legacy NPLs, we also like TTB's refocused strategy. Under this strategy, the bank is not targeting high loan volume expansion. Instead, it is actively decreasing its exposure to the low-yield corporate and high-risk SME segments. Simultaneously, TTB is strategically increasing its presence in the auto HP and mortgage segments – areas where the bank possesses experience and has already established a strong foothold and significant franchise value. The plan is to enjoy growth in the new loan book in line with the industry's, thus maintaining its leading position in the auto-HP sector and retaining a substantial market share in the housing loan market.

Furthermore, TTB's strategy involves creating additional value by offering top-up credit facilities to auto HP and housing loan customers who have demonstrated a consistent track record of repayments with the bank. This approach aims to yield several outcomes: maintaining a loan volume that is prudent and well-balanced, elevating combined yields for each borrower in the auto and HP and mortgages, generating higher fee income, effectively managing NPLs and provisioning requirements, and minimizing the need for substantial new capital injections.

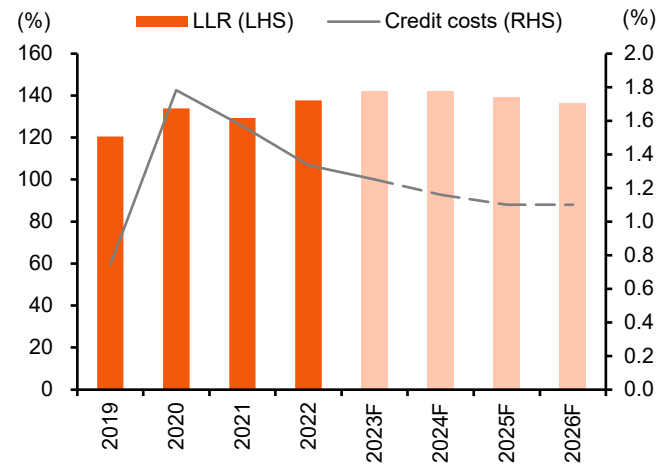
This strategic shift enabled the bank to lower credit costs by 1.25% in 1H23. We anticipate the bank to achieve a further reduction in credit costs of 9bps in 2024, ultimately reaching a normalized credit cost of 1.1% by the year 2025F. With approximately half of its portfolio comprising secured loans, we consider TTB's loan-loss-coverage ratio of 130-140% to be ample and justifiable, aligning well with its minimal balance sheet risk.

Ex 32: TTB's NPL Ratio...



Sources: Company data, Thanachart estimates

Ex 33: ...Credit Costs And LLR



Sources: Company data, Thanachart estimates

SCBx's asset quality is fair in our view

To analyze the quality of SCBx, we look into the mix of loans for its Gen 1 banking business and growth and collection strategies of Gen 2 consumer finance subsidiaries.

Our findings for Gen 1 are given below:

Overall credit quality looks well under control at the bank level

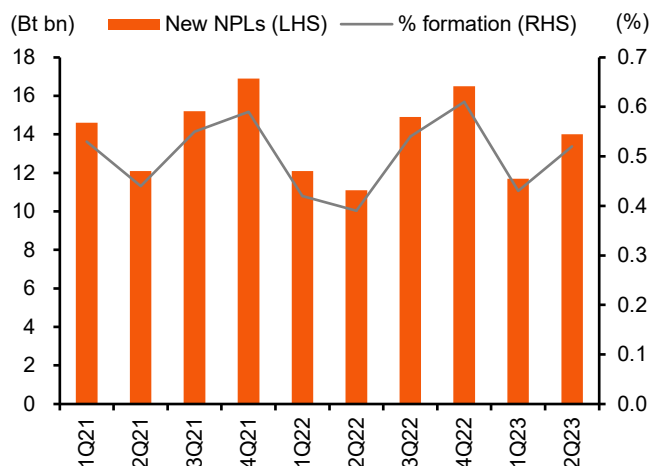
SCB bank has set aside extra provisions to cover the unexpected default of a large corporate

- SCB bank is moving to a selective growth strategy for its conventional banking business. Loan growth has been quite muted thus far. Of Gen 1's total loans of Bt2.27tr, 38% was from corporate, 19% from SME, 33% from housing loans, 8% from auto HP, and the rest unsecured lending.
- The quality of auto HP loans is deteriorating but the bank has been lowering its exposure to this segment since 1Q21. Meanwhile, the NPL ratio of housing loans has fallen from 2.5% in 2Q22 to 2.3% in 2Q23. That said, new NPL formation increased q-q but the run rate was still low at 0.65% for mortgage loans.
- As for the unexpected default of a large corporate, SCB bank has decided to top up another Bt700m of provisions in 2Q23 after the extra Bt1bn it provided in 1Q23. Therefore, the bank is confident in confirming that it has set aside full provisions for the total exposure of this large corporate.
- Loans in the comprehensive debt-restructuring (CDR) program dipped a bit q-q from Bt280bn to Bt270bn or at around 11% of total loans (from 12% in 1Q23). Of the bank's total CDR loans, 59% are corporate and SME, and the rest are in the retail segment. Since one-third of loans in the program are in the hospitality sector, they benefit from the booming tourism industry, and the businesses have recovered well thus far.
- Areas of concern are still with a certain number of retail customers in the CDR program. These are especially borrowers who are self-employed, as their financial well-being has not returned to normal. With higher living costs, there is a high possibility of this group being unable to step up their repayments according to plan. SCB bank plans to continue to monitor the development of this customer segment closely. That being said, the bank believes the provisions that it has been setting aside over past years should be sufficient to weather this uncertainty.

- Setting aside extra provisions of Bt1.7bn to fully cover the potential losses of the large corporate account, average credit costs at the bank level rose to 1.21% in 1H23. As these one-off expenses will be gone in 2H23F, we expect lower credit costs of Bt1.19% in 2H23F.
- Aiming to raise its provisioning buffer, we expect credit costs for this year to remain elevated at 1.2% in 2023F, and then come down to the bank's normalized level of 1% from 2024F.

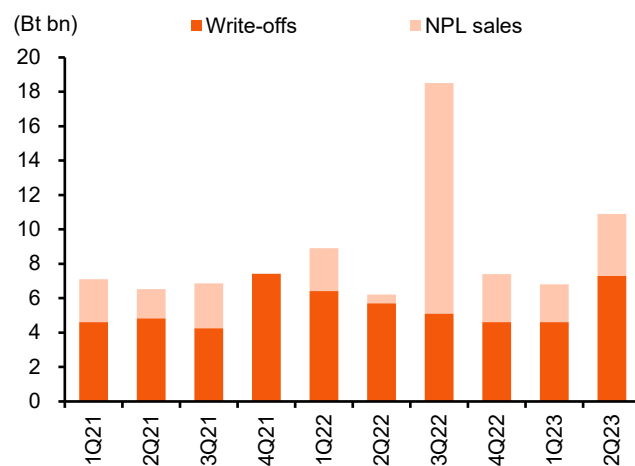
We expect its credit costs to drop to a normalized level of 1% from 2024F

Ex 34: SCB Bank's New NPLs And Formation



Source: Company data

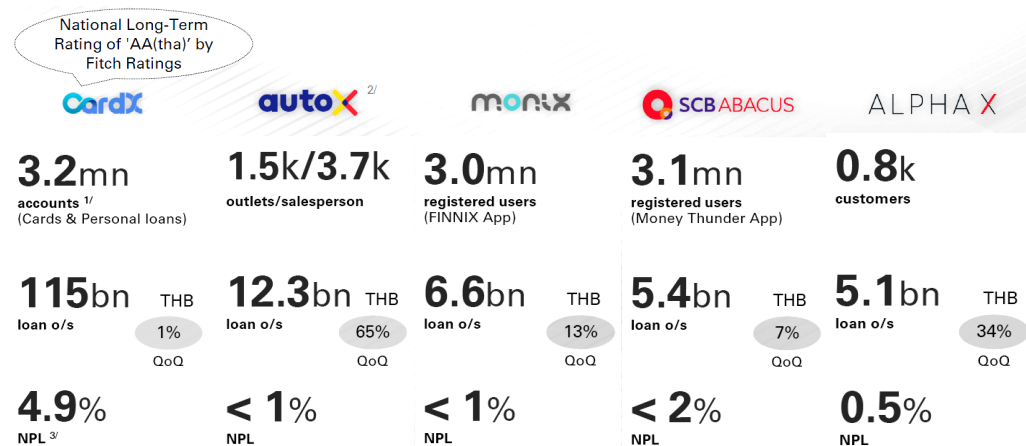
Ex 35: Continued NPL Reduction Efforts



Source: Company data

As for Gen 2 consumer finance businesses, an area of worry lies with CardX. There are no alarming signals at the other Gen 2 companies, in our view.

Ex 36: SCBx's Gen 2 Portfolios



Source: Company data

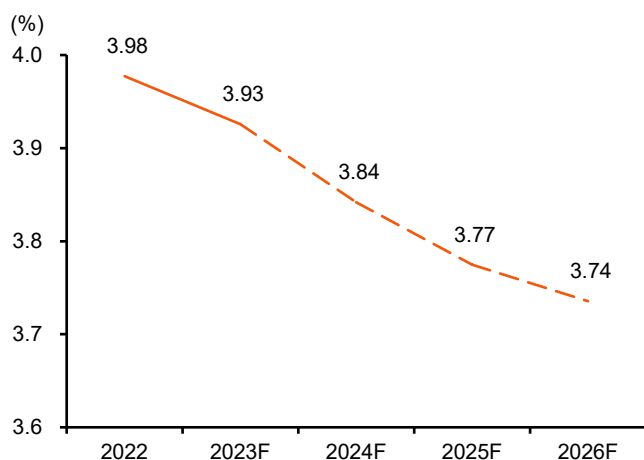
CardX hit by a one-off operational incident and a deteriorating legacy personal loan portfolio

- So, what has happened to CardX? CardX sees sign of deteriorating asset quality for its personal loan portfolio, while its credit card portfolio is relatively stable. NPLs rose from 4.9% of total loans in 1Q23 to 5.2% in 2Q23. Its provisions jumped by about Bt2bn q-q and credit costs for the company, therefore, rose to above 10% in the second quarter.

We expect credit costs of below 10%

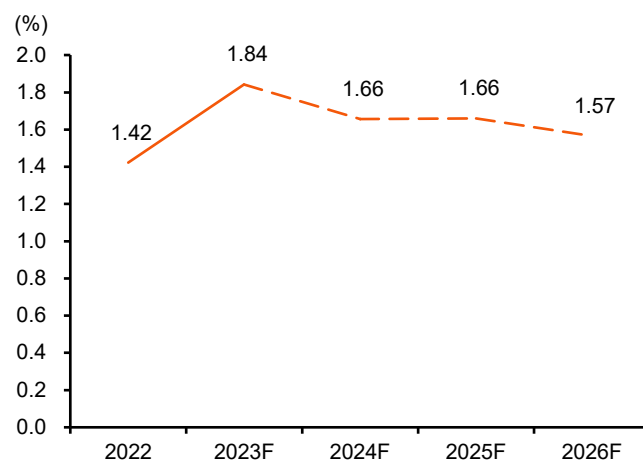
- Two areas caused this sharp provisioning rise. The company suffered an operational hiccup while migrating customer data for its personal loan portfolio (50% of the total loan portfolio) to a new system within CardX for operational and efficiency improvement. The migration hurt collection capability, leading to higher NPLs and a jump in provisions by Bt1bn in the second quarter. Another Bt1bn rise in provisions came from the write-off of expenses to clean up legacy NPLs in its personal loan portfolio.
- The operational incident was a one-off so the extra in Bt1bn provisions will not recur in 2H23. As CardX has also tightened its underwriting standards and is looking to utilize the new capability after the system is put in place, we expect the company's credit costs to fall from 12% in 2023F to 11% in 2024F and 10% in 2025F.
- As the group is taking a precautionary step toward its loan growth management for the Gen 2 companies in general, we foresee less robust loan growth for the remainder of the year. From over 40% y-y in 2Q23, we expect loan growth of Gen 2 of 27% this year, 22% in 2024F and 15% in 2025F. As for provisions, we model in a decline of Gen 2's credit costs from 11% in 1H23 to 10% in 2023F, 9% in 2024F and 8% in 2025F.
- Putting Gen 1 and Gen 2 operations in perspective, we expect NPL ratio to fall from 3.98% in 2022 to 3.93% in 2023F and 3.84/3.77% in 2024-25F. Driven by falling credit costs at the bank level, we anticipate a drop in the group's overall credit costs from 1.84% in 2023F to 1.66% p.a. in 2024-25F.

Ex 37: SCBx's NPL Ratio ...



Sources: Company data, Thanachart estimates

Ex 38: ...And Credit Costs

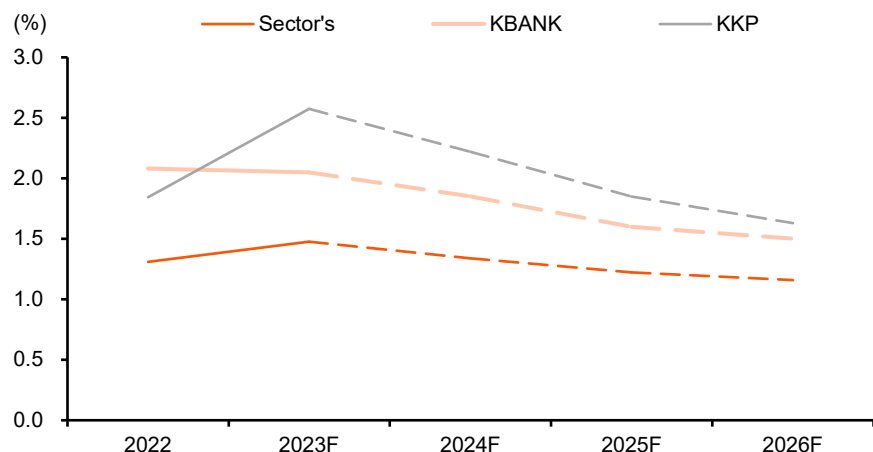


Sources: Company data, Thanachart estimates

KBANK and KKP are in an asset quality transition

The balance sheet quality of KBANK and KKP appears comparatively weaker than other banks under our analysis. We see both banks as being in a transitional phase in their asset quality management. While some banks have augmented their provisions to bolster their safeguards, KBANK and KKP have allocated a substantial portion of their elevated provisioning expenses toward addressing the mounting formation of NPLs and higher default losses. That being said, we also expect both KBANK and KKP's credit costs to have reached their peaks of 2.1% in 2022 and 2.6% in 2023, respectively.

Ex 39: Higher Credit Costs Than Sector Average



Sources: Company data, Thanachart estimates

Largest exposure to the unexpected default of a large corporate loan...

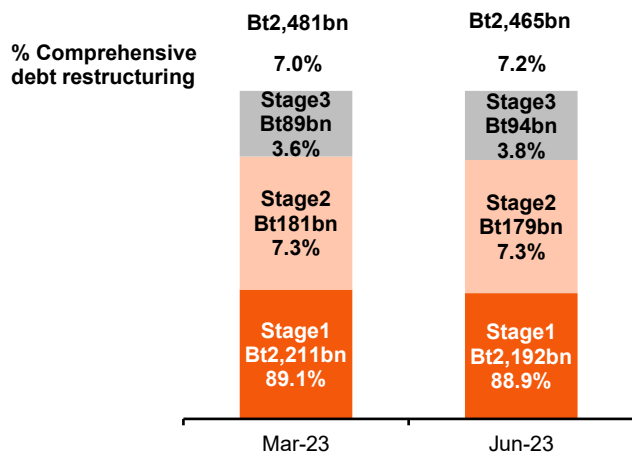
...while SME and retail customers' ability to pay off loans is weak

We see KBANK facing an asset quality storm. The bank has suffered from rising NPLs across all segments – corporate, SME and retail. Despite its more aggressive write-offs and NPL sales from 2Q22, KBANK no longer expects its heavy balance sheet clean-up to end this year. The completion of the process is now targeted to be in 2024. From its earlier guidance of up to 1.7-2%, KBANK sees the potential for higher credit costs at over 2% but not exceeding 2.1% in 2023. Meanwhile, the bank expects the convergence to a normalized credit cost cycle to be delayed from 2024 to 2025.

We believe the delays and higher-than-expected provisions are due to the following three factors:

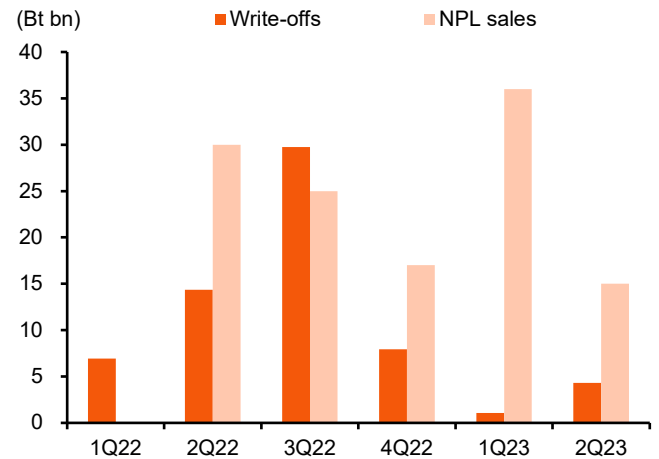
- 1) The bank's largest exposure to small SME loans and its aggressive unsecured loan extensions during the COVID-19 pandemic. This makes KBANK's loan book more fragile than those of its peers, especially during this period when the economic recovery remains uneven. Loans in the comprehensive debt-restructuring program increased slightly q-q to Bt177bn in 2Q23. With stepped-up repayments as per the rescheduled terms, KBANK foresees a risk of higher relapses and loan defaults.
- 2) The bank's largest exposure to an unexpected deterioration in a large corporate loan due to alleged accounting fraud. KBANK estimates total credit losses of around Bt8bn, the majority of which we believe was already classified as NPLs in 2Q23. The leftovers are a contingent line of credit that will turn into defaulted loans when they come due. Having not set aside extra provisions to back this unexpected deterioration, KBANK's management overlay provisions have come down from last year. Although the overlay remains in the bank's comfort range of 15-20%, we see a need for KBANK to replenish its excess provisions as the bank's loan-loss-coverage ratio is the lowest among big-bank peers.
- 3) Slower extensions of new loans due to the bank's more cautious underwriting standards. Even excluding the impact of write-offs and NPL sales, KBANK's loans have been flat YTD. With the spillover of its balance sheet clean-up completion into next year, we estimate loan growth of only 2-4% over 2023-25F.

Ex 40: KBANK's CDR



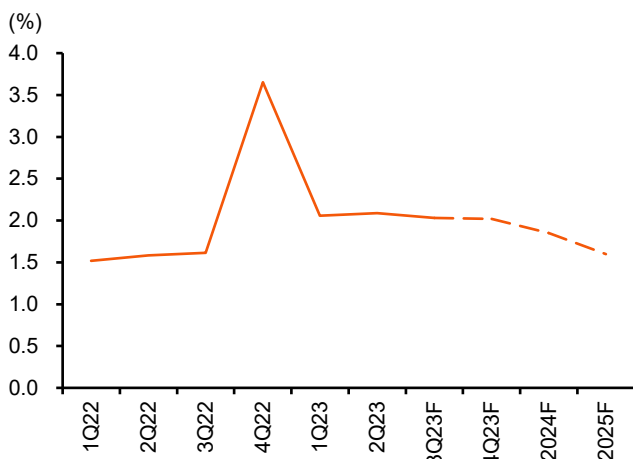
Source: Company data

Ex 41: Aggressive NPL Resolution



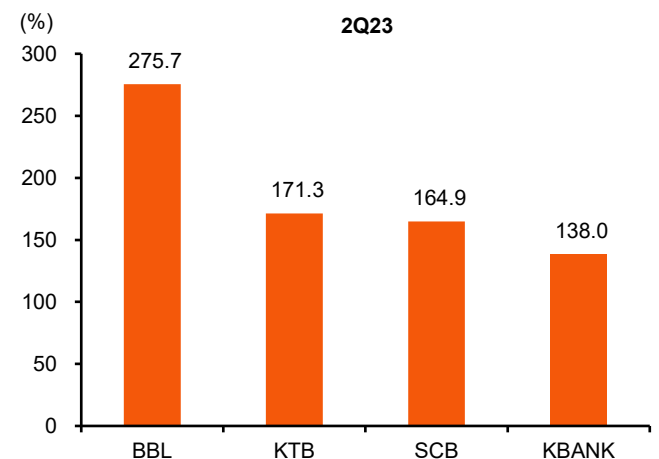
Sources: Company data, Thanachart estimates

Ex 42: KBANK's Credit Costs Remain Elevated...



Sources: Company data, Thanachart estimates

Ex 43: ...With Lowest LLR Among Big Banks



Source: Company data

**Rise in KKP's NPLs
mainly due to its overly
aggressive loan
expansion in 2022**

In the case of KKP, we believe the bank was too aggressive in growing its loan portfolio in 2022, particularly in the area of used-car HP loans. The fragility and heightened vulnerability of this segment's portfolio quality to potential economic headwinds prompted KKP to take notice of the early signs of deterioration. Consequently, the bank took measures to tighten its loan underwriting criteria beginning in the second half of 2022.

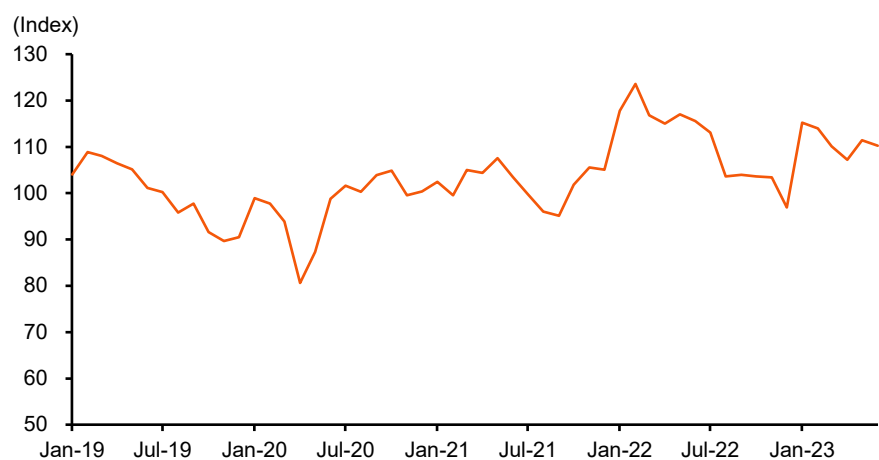
This strategic shift led to a deceleration in loan growth, transitioning from 7% q-q in 3Q22 to 3.8% in 4Q22 and subsequently stabilizing at 3% in both the first and second quarters of 2023. This more rigorous lending policy allowed the bank to enhance the overall quality of loans extended during this period.

As a result, the majority of non-performing loans (NPLs) can be attributed to the vintage loans from 2022. Acknowledging that the initial 12-18 months are critical in determining the quality of auto-HP loans, KKP believes it is now reaching the final phase of its asset quality bubble. The expectation is for NPLs to continue their upward trajectory over the next two quarters, gradually reaching a plateau in the first half of 2024 and subsequently returning to pre-2022 levels from the latter half of the same year.

The decline in used-car prices by 5% y-y in the first half of 2023, coupled with a surge in repossessed vehicles, led to an escalation in KKP's losses on sales. These losses surged from a quarterly average of Bt303m in 1H22 to Bt619m in 2H22 and rose further to Bt1bn in the first half of 2023. This progression subsequently impacted the bank's overall credit costs, causing them to increase from 1.65% in 1H22 to 2.4% in 2H22 and 2.6% in 1H23, respectively.

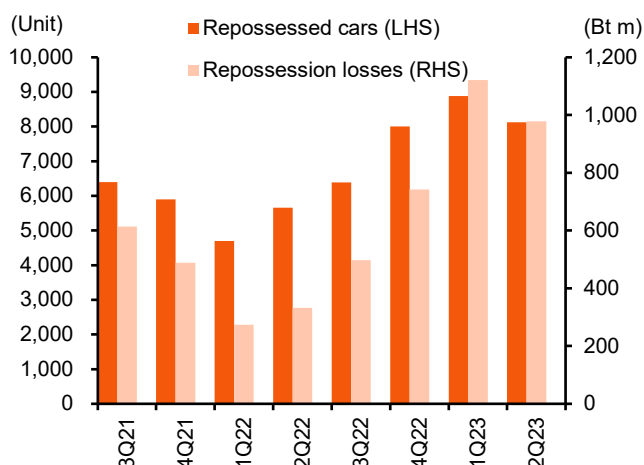
Given the persistently high inventory of vehicles, we expect KKP to continue grappling with substantial repossession losses throughout the year. However, we anticipate these losses to gradually recede in 2024F, driven by a reduced number of repossessed vehicles. Our model predicts KKP's total credit costs to stand at 2.57% in 2023F, before gradually declining to 2.22% in 2024F and 1.85% in 2025F.

Ex 44: Used Car Price Index



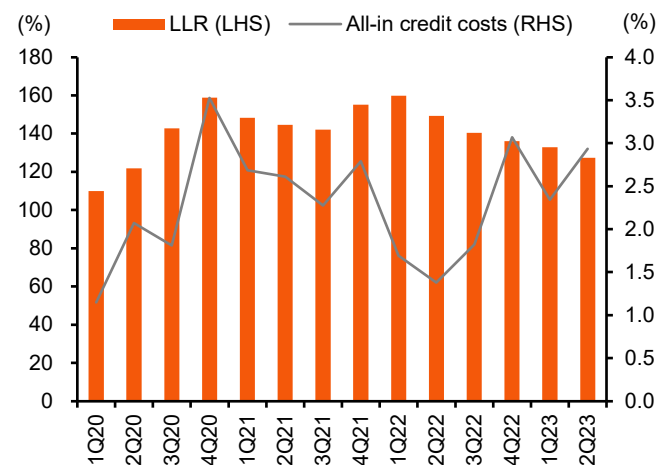
Source: Bank of Thailand

Ex 45: KKP's Repossessed Cars And Losses On Sales

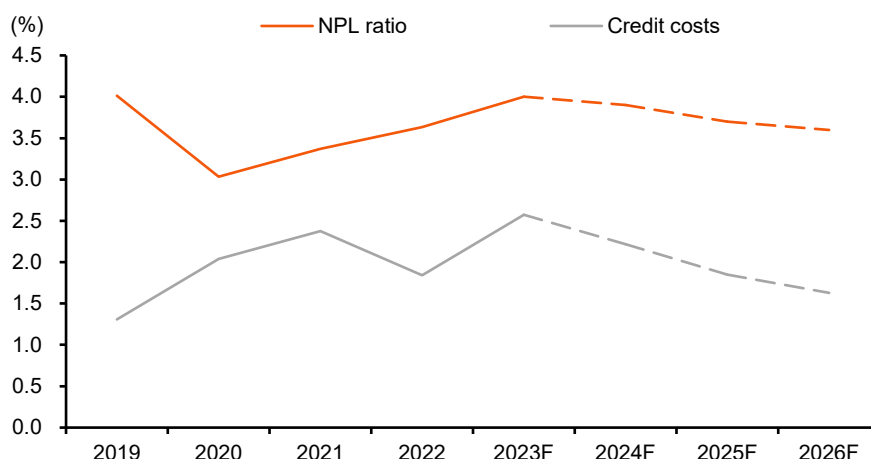


Source: Company data

Ex 46: Rising Credit Costs



Source: Company data

Ex 47: Falling NPLs And Credit Costs From 2024

Sources: Company data, Thanachart estimates

#2: Continued loan growth from economic recovery after a balance sheet clean-up.

Weak loan growth in the first half of the year...

Affected by elevated repayments and increased bond issuances, the loan portfolios of the seven banks under our coverage experienced a contraction of 0.6% q-q during the first quarter of 2023. The rise in demand for corporate loans was counterbalanced by declining SME and auto-HP loans due to aggressive balance sheet cleanups, sluggish car sales, and rigorous underwriting standards due to a deterioration in the quality of assets. Loan expansion demonstrated a modest improvement of 0.4% q-q in the second quarter of 2023, resulting in YTD growth of 0.2% as of June 2023.

...but BoT loan survey sees increasing demand for business and housing loans from 2Q23

According to the Bank of Thailand's loan survey for 2Q-3Q23, the demand for business loans is increasing in the third quarter of 2023. Larger businesses require credit for project and long-term asset investments, while SMEs primarily seek credit for working capital loans. Additionally, credit demand is rising across all business sectors, especially in services, aligning with the recovery of the tourism sector. Agricultural businesses are also showing an upward credit demand trend due to specific factors, such as rice cultivation entering the planting season. Export-oriented businesses' loan demand continues to slow in line with the weak export trend.

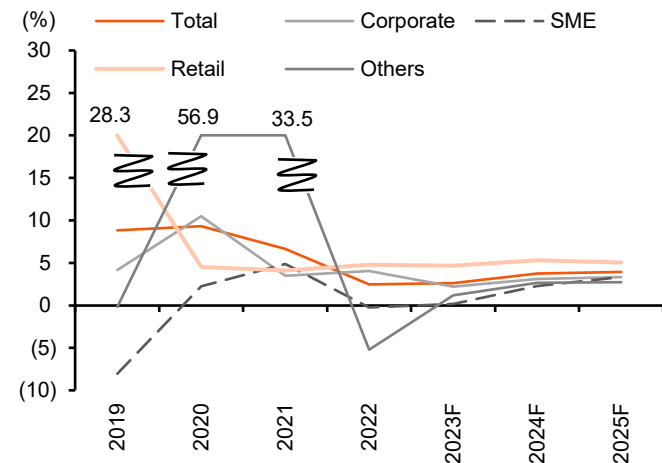
Regarding retail lending, there was a slight upward trajectory in demand for nearly all loan categories starting from the second quarter of 2023. This increase was particularly notable in the case of housing loans, which can be attributed to enhanced consumer confidence and slightly more lenient lending conditions due to increasing competition. However, the demand for auto-HP loans remains subdued due to banks adopting stricter underwriting practices. This heightened caution is in response to increasing apprehension regarding credit quality risks, especially given the declining prices of used cars.

We then expect corporate and housing loans to emerge as primary catalysts to drive loan expansion in the latter half of 2023. Coupled with the favorable impact of positive seasonal patterns in credit card lending, we look for loan growth of 3% for 2023F.

Going forward, we estimate loan growth of 4% p.a. over 2024-25F. This positive trajectory is attributed to a more balanced economic recovery and follows a proactive approach to cleaning up the balance sheet in the current year. Thanachart Securities believes the Thai economy continues to be in a cyclical turnaround period with accelerating GDP growth. Our

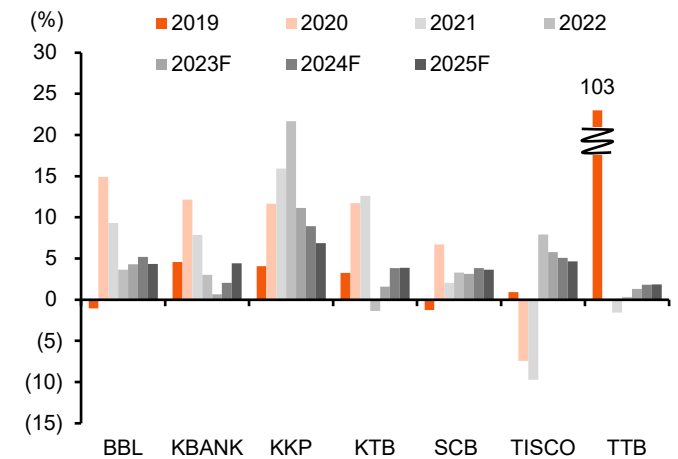
head of research, Ms. Pimpaka Nichgaroon, estimates GDP growth figures of 3.6/3.8% in 2023-24F. Exhibit 50 shows her GDP growth forecasts. Key drivers are a recovery in tourism, consumption growth, which is being supported by the tourism rebound and a high base of farm income, and improving private investment growth from a new FDI cycle. Key drags are weak exports, more sticky imports, and weak government spending.

Ex 48: Loan Growth By Segment



Sources: Company data, Thanachart estimates

Ex 49: Loan Growth Comparison



Sources: Company data, Thanachart estimates

Ex 50: GDP Growth Forecasts

% growth	2020	2021	2022	2023F	2024F	2025F
	(%)	(%)	(%)	(%)	(%)	(%)
Real GDP growth	(6.1)	1.5	2.6	3.6	3.8	3.7
Private consumption	(0.8)	0.6	6.3	3.8	3.4	3.0
Private investment	(8.1)	3.0	5.1	5.7	5.7	5.0
Government investment	5.1	3.4	(4.9)	(0.5)	(2.9)	3.0
Export (nominal USD growth)	(6.5)	19.2	5.5	(3.0)	(0.0)	3.9
Import (nominal USD growth)	(13.8)	28.0	15.3	(1.5)	0.2	3.5
Export of services (nominal baht growth)	(61.7)	(15.6)	75.4	44.8	12.2	7.4
Import of services (nominal baht growth)	(18.8)	45.5	5.4	(0.6)	2.0	3.0
Current account (% to GDP)	4.2	(2.1)	(3.5)	1.4	1.9	2.5
Headline CPI	(0.8)	1.2	6.1	1.5	1.1	1.7
Bt/USD – average	31.30	32.00	35.07	34.24	33.69	32.89
Policy rate	0.50	0.50	1.25	2.25	2.25	2.25

Sources: NESDC, Bank of Thailand, Ministry of Commerce, Thanachart estimates

*3-4% fee income growth
isn't too challenging in
our view from the low
base this year*

#3: Fee income growth of 3-4%

Following the move in late 2017 to waive online transaction fees, the Thai banking sector's fee income has experienced a gradual decline, averaging around 3% p.a. An exception occurred in 2021, marked by the capital market boom in Thailand leading to robust mutual fund and brokerage fees for banks. Despite foreseeing no breakthroughs with new fee-income products, a modest recovery in the low single digits, approximately 3% to 4% over the next two years, does not appear challenging to us.

- 1) A rise in loan-related fees along with loan growth.
- 2) The outlook for bancassurance fees should remain favorable, largely due to the prevailing high interest rate environment and increasing awareness among Thais regarding the significance of insurance protection policies. Additionally, we anticipate that banks will introduce more accessible insurance policies tailored to the mass market, aiming to enhance insurance penetration within this segment.
- 3) A turnaround of capital market-related fees due to improving market sentiment. Thailand looks likely to have a new government this month. It is also now clear that the Pheu Thai Party (PT) will lead the next government, with the Move Forward Party (MFP) in the opposition. Thanachart Securities believes the market will like this scenario due to PT's past policies in previous administrations of being pro-economic stimulus, populist, and pro-capitalism.

#4: Ongoing cost-rationalization efforts

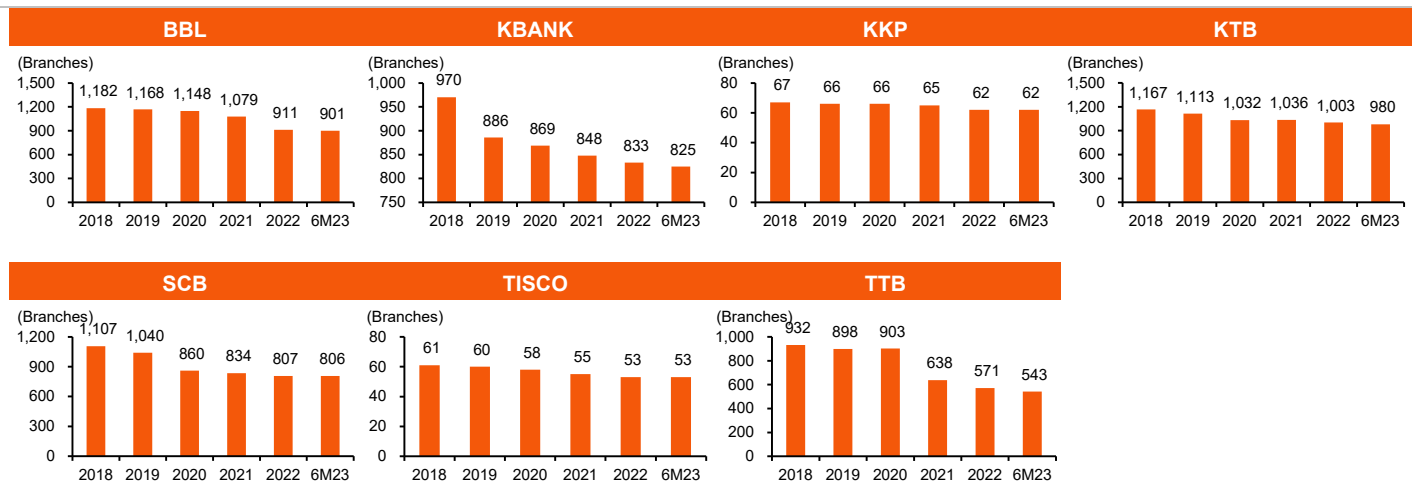
*C/I ratio to stay well
below 45%*

The rapid adoption of digital technology by the Thai population, particularly accelerated by the COVID-19 pandemic, resulted in a significant reduction in branch-based transactions to below 5% in 2022. This shift is enabling banks to strategically refine their branch network, enhance operational efficiency by digitizing backend processes, and reduce costs related to handling cash. Additionally, banks are implementing workforce management strategies that involve reallocating, upskilling, and reskilling staff. The decline in expenditure on facilities, personnel, and marketing has contributed to the stability of operating expenses (opex) throughout 2020-21.

However, with the reopening of the country in early 2022, banks have been focusing on boosting business growth through increased marketing activities. This, combined with the growing IT expenses needed to support online transactions and higher living costs for employees, has led to an increase in opex. Opex rose by 5% y-y in 2022 and further increased by 12% in the first half of 2023.

We expect branch optimization and workforce management implementation to continue, albeit at a more gradual pace compared to previous periods. Ongoing endeavors to rationalize costs are projected to align the pace of expense escalation with the growth in income. We anticipate that the cost-to-income ratio will remain comfortably below 45% in 2024F and 2025F.

Ex 51: Continued Branch Closures



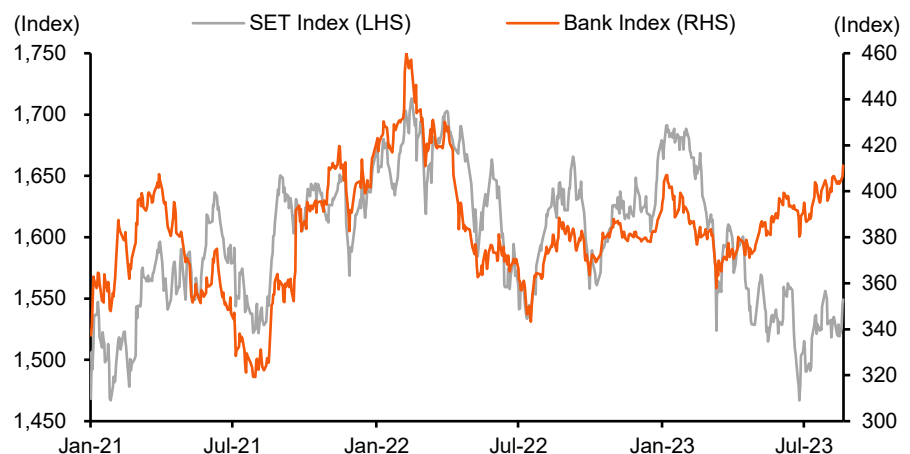
Source: Bank of Thailand

Inexpensive with growth and yield

Recent disparity where P/BV has not kept pace with rising ROE looks unjustified, in our view

The banking index is up 5.9% and has outperformed the SET by 13% YTD. But with an extended growth cycle that we estimate to drive ROE from 7.8% in 2022 to 9% in 2023F and 9.6% in 2024F, we see the sector's 0.7x P/BV as inexpensive. PE also looks low at 7x against a double-digit earnings growth level.

Ex 52: Banking Index Vs. SET

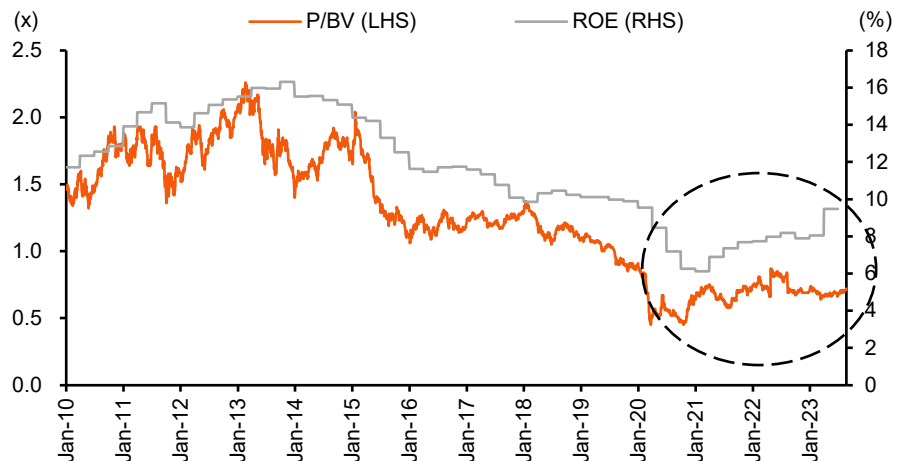


Source: Bloomberg

As shown in Exhibit 53 below, a comparison between P/BV and ROE highlights a recent disparity, whereby P/BV has not kept pace with the upward trajectory of ROE. This discrepancy can be attributed to mounting market concerns regarding the sector's growth prospects, particularly as the benefits stemming from NIM expansion begin to wane starting from 2024F. Additionally, recent delays in the establishment of a new government could have amplified the strain on both the performance of the SET and the banking sector.

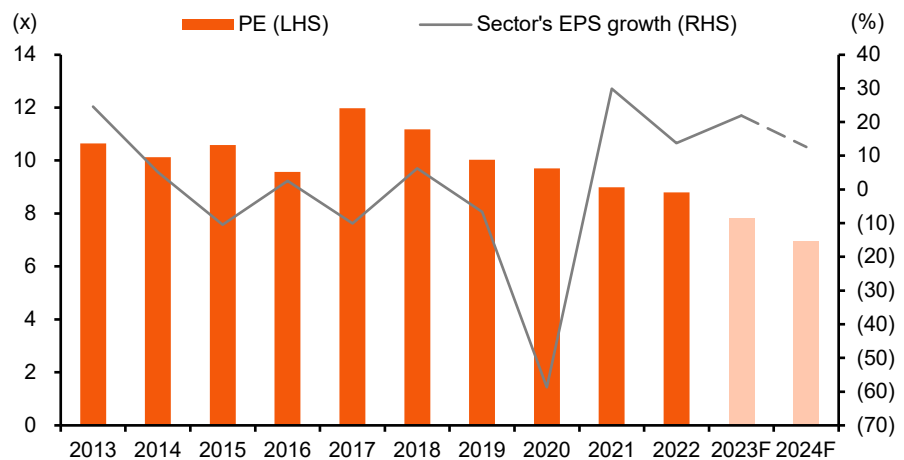
As elaborated in the previous section, we hold the expectation that diminishing credit costs, sustained expansion of loans, a revival in fee income, and the ongoing initiatives aimed at optimizing costs within banks will play a significant role as catalysts for sectoral growth over 2024-25F. Considering the resolution of the government formation process, the recent stagnation in bank valuations appears to lack justification, in our view.

Ex 53: P/BV Vs. ROE



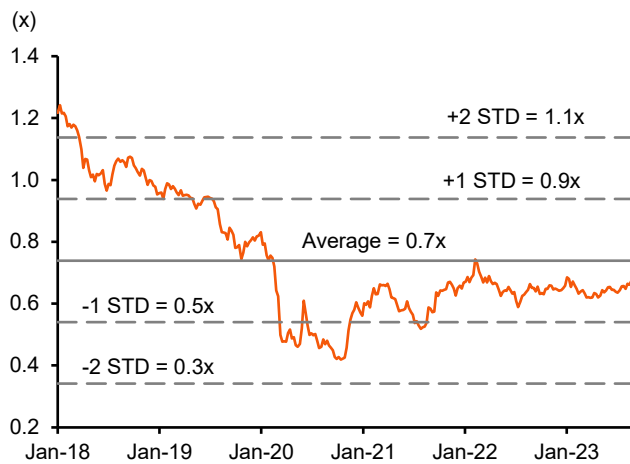
Source: SET

Ex 54: PE Vs. Sector's Earnings Growth



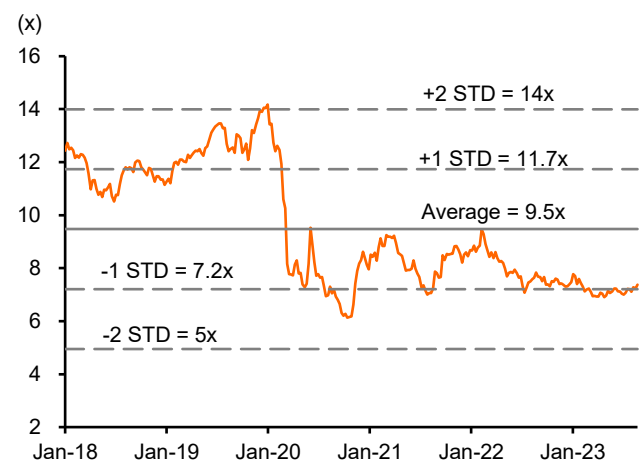
Sources: Company data, Thanachart estimates

Ex 55: P/BV STD



Sources: Bloomberg, Thanachart estimates

Ex 56: PE STD

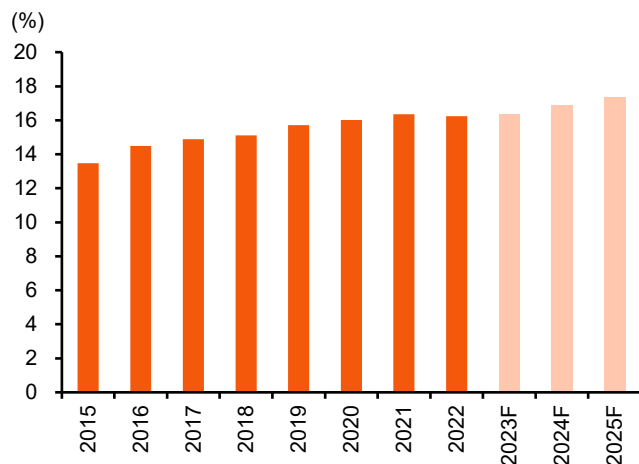


Sources: Bloomberg, Thanachart estimates

Historically high capital ratios to support high dividend yields

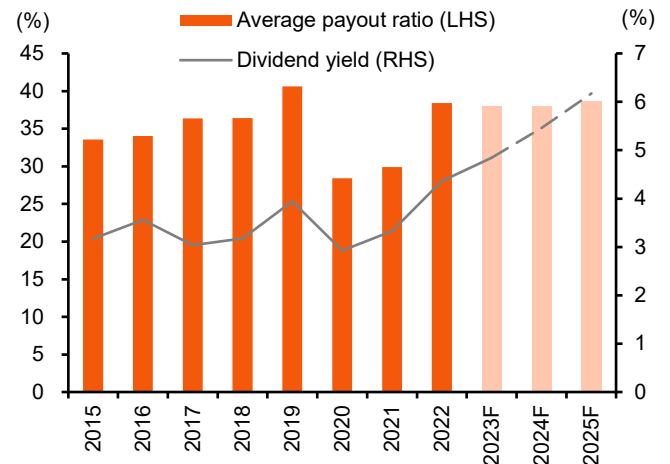
In addition, we see brighter prospects for banks' dividends. With banks' capital ratio at historical highs and with their willingness to pay out more to improve capital efficiency, we expect the sector to offer very attractive dividend yields of 4.8/5.5/6.2% in 2023-25F.

Ex 57: Historically High Tier I Ratio



Sources: Company data, Thanachart estimates

Ex 58: Higher Payout And Dividend Yield



Sources: Company data, Thanachart estimates

SCB and TTB are our top picks

We see SCB and TTB as the best plays on the sector's extended upturn. As there is 13% potential upside to our 2024F DDM-based 12-month TP of Bt113, we upgrade our recommendation on TISCO from Hold to BUY. With potential upside of only 8% to our new TP, which has been cut by 19% to reflect poorer asset quality and higher provisions, we downgrade KKP to HOLD from Buy.

Ex 59: Valuation Comparison

Sector Valuation			Current	Target	Norm EPS grw		— Norm PE —		— P/BV —		— Div yield —	
	BBG		price	price	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Company	Code	Rec.	(Bt)	(Bt)	(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
Bangkok Bank	BBL TB	BUY	170.00	200.00	44.0	14.3	7.7	6.7	0.6	0.6	3.9	4.5
KASIKORNBANK	KBANK TB	HOLD	132.50	134.00	21.0	9.8	7.3	6.7	0.6	0.6	4.1	5.2
Kiatnakin Bank	KKP TB	HOLD	60.00	65.00	(16.0)	15.5	8.0	6.9	0.8	0.8	4.3	5.0
Krung Thai Bank	KTB TB	BUY	20.00	23.00	18.2	12.0	7.0	6.3	0.7	0.6	4.3	4.8
SCB X	SCB TB	BUY	117.50	130.00	18.6	13.8	8.9	7.8	0.8	0.8	5.7	6.0
Tisco Fin. Group	TISCO TB	BUY	100.00	113.00	8.3	4.7	10.2	9.8	1.8	1.8	8.3	8.7
TMBThanachart Bank	TTB TB	BUY	1.80	2.00	23.8	15.5	9.9	8.6	0.8	0.7	5.6	6.4

Sources: Company data, Thanachart estimates

We expect SCB to play catch-up with BBL and KTB

Impacted more by the COVID-19 crisis and navigating an uneven economic recovery, SCBx has faced greater asset quality risks compared to BBL and KTB. Consequently, the performance of SCBx's share price has lagged behind these two banks.

Even after making adjustments to accommodate preemptive provisions and adopting a cautious approach to consumer lending, there's no sign of a slowdown in the strong growth trajectory of SCBx. We maintain our expectation that SCBx will continue to outperform with a more robust earnings growth rate compared to the average of larger banks, projected at 14% annually over 2024-25F.

In line with its strategic objective to elevate ROE from 8% in 2022 to a range of 13-15% within the span of three to five years, we foresee SCBx being committed to maintaining high dividend payments. Assuming a dividend per share (DPS) similar to the Bt6.7/share seen in 2022, the projected dividend yield for 2023F remains highly appealing, exceeding 6%.

When considering its superior earnings growth rate and dividend yield, in addition to its position as the second-best in terms of ROE among big banks, SCBx's underperformance in comparison to BBL and KTB seems unwarranted. We anticipate that the stock will close this performance gap and experience a catch-up trend in the near future.

Meanwhile, TTB's share price outperformance should continue...

...with its strong bottom-up growth story and rising dividend yield

Despite having substantial exposure to auto-HP loans, a segment that has raised the concern of the National Credit Bureau (NCB) due to signs of special mention loans, TTB's asset quality is well under control. We also do not find the slow pick-up in loan growth of 0.4% q-q in 2Q23 for TTB to be concerning. This deceleration was primarily driven by corporate loan repayments. Even with a higher baseline, retail loans exhibited a more accelerated growth rate than the overall loan portfolio. In the meantime, TTB has been actively advancing its strategy to increase the proportion of high-yield secured loans within categories like hire purchase (HP), mortgage, and consumer lending. We anticipate this emphasis on higher-yield loans to contribute to sustaining the momentum of net interest income (NII) and net interest margin (NIM) for the foreseeable future.

High NIM, along with lower-than-expected provisions, prompts us to raise our earnings estimates for TTB by 9% p.a. in 2023-24F and by another 2% in 2025F. We expect stronger earnings growth of 24% this year, 16% in 2024F, and 9% in 2025F. ROE also continues its expansion trend, rising from 6.6% in 2022 to 7.8% in 2023F and 8.6/9% in 2024-25F.

Even with an impressive share price performance YTD, TTB remains our other preferred choice with a higher TP of Bt2. Our confidence stems from the bank's strategic plan to expand ROE without compromising asset quality, even in the absence of robust economic growth. Additionally, we see the bank's dividend yield as attractive at over 6%.

Valuation Comparison

Ex 60: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		— ROE —		— Div. Yield —	
			23F	24F	23F	24F	23F	24F	23F	24F	23F	24F
			(%)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(%)	(%)
BOC Hong Kong Holdings	2388 HK	Hong Kong	23.4	7.8	6.7	6.2	0.7	0.7	10.5	10.8	7.7	8.3
Bank of East Asia	23 HK	Hong Kong	52.8	15.5	5.3	4.6	0.3	0.3	5.5	6.2	8.5	9.9
China Citic Bank Corp	998 HK	Hong Kong	7.3	12.5	2.7	2.4	0.3	0.3	11.2	11.4	10.3	11.1
Hang Seng Bank	11 HK	Hong Kong	84.7	5.7	10.0	9.5	1.1	1.1	10.8	11.0	6.5	7.0
Industrial & Commercial Bk	1398 HK	Hong Kong	2.3	3.9	3.4	3.3	0.4	0.3	10.9	10.7	9.2	9.5
Axis Bank	AXSB IN	India	38.0	59.2	20.2	12.7	na	na	na	na	1.6	2.8
ICICI Bank	ICICIBC IN	India	na	na	na	18.4	3.2	2.7	na	17.1	0.7	0.9
State Bank of India	SBIN IN	India	(6.0)	13.1	9.8	8.7	1.6	1.4	17.0	17.2	1.7	2.2
Bank Central Asia	BBCA IJ	Indonesia	19.0	8.8	23.7	21.8	4.6	4.2	20.7	20.4	2.4	2.7
Bank Danamon	BDMN IJ	Indonesia	5.4	13.1	8.3	7.3	0.6	0.6	7.3	7.8	na	na
Bank Internasional	BNII IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Mandiri	BMRI IJ	Indonesia	19.6	10.5	11.1	10.0	2.1	1.9	19.9	20.0	4.9	5.6
Bank Pan	PNBN IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Rakyat	BBRI IJ	Indonesia	15.6	11.7	14.3	12.8	2.6	2.4	18.7	19.6	5.2	5.9
Bank Negara	BBNI IJ	Indonesia	15.5	13.2	8.0	7.1	1.1	1.0	14.7	15.0	4.2	5.2
CIMB Group Holdings	CIMB MK	Malaysia	18.8	7.4	9.0	8.4	0.9	0.8	9.9	10.1	5.7	6.2
Hong Leong Bank	HLBK MK	Malaysia	15.4	5.9	10.7	10.1	1.2	1.1	12.1	11.9	3.3	3.7
Malayan Banking	MAY MK	Malaysia	13.4	5.0	11.5	11.0	1.2	1.2	10.6	10.8	6.8	7.1
Public Bank	PBKF MK	Malaysia	11.3	3.7	na	na	na	na	13.0	12.8	na	na
Industrial Bank of Korea	024110 KS	S Korea	3.7	4.3	3.1	2.9	0.3	0.3	9.6	9.2	9.5	9.8
DBS Group Holdings	DBS SP	Singapore	21.0	(1.5)	8.5	8.6	1.4	1.3	17.3	16.0	6.0	6.5
Oversea-Chinese Banking	OCBC SP	Singapore	24.1	1.7	7.8	7.7	1.0	0.9	13.1	12.7	6.6	6.9
United Overseas Bank	UOB SP	Singapore	27.0	4.3	8.2	7.9	1.0	1.0	13.1	12.9	6.1	6.3
Bangkok Bank	BBL TB*	Thailand	44.0	14.3	7.7	6.7	0.6	0.6	8.1	8.7	3.9	4.5
KASIKORNBANK	KBANK TB*	Thailand	21.0	9.8	7.3	6.7	0.6	0.6	8.3	8.6	4.1	5.2
Kiatnakin Bank	KKP TB*	Thailand	(16.0)	15.5	8.0	6.9	0.8	0.8	10.7	11.5	4.3	5.0
Krung Thai Bank	KTB TB*	Thailand	18.2	12.0	7.0	6.3	0.7	0.6	10.2	10.6	4.3	4.8
SCB X	SCB TB*	Thailand	18.6	13.8	8.9	7.8	0.8	0.8	9.4	10.2	5.7	6.0
Tisco Financial Group	TISCO TB*	Thailand	8.3	4.7	10.2	9.8	1.8	1.8	18.0	18.2	8.3	8.7
TMBThanachart Bank	TTB TB*	Thailand	23.8	15.5	9.9	8.6	0.8	0.7	7.8	8.6	5.6	6.4
Average			19.6	10.8	9.3	8.7	1.2	1.1	12.3	12.6	5.5	6.1

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS and simple average calculation

Based on 23 Aug 2023 closing prices

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 24.33% of the shareholding in TMBThanachart Bank Pcl.

STOCK PERFORMANCE

	Absolute (%)				Rel SET (%)			
	1M	3M	12M	YTD	1M	3M	12M	YTD
SET Index	1.7	0.9	(5.2)	(7.2)	—	—	—	—
BANK Index	4.1	5.8	8.7	5.9	2.4	4.9	13.9	13.0
BBL	1.2	5.6	24.5	14.9	(0.5)	4.7	29.7	22.0
KBANK	6.4	(1.5)	(14.5)	(10.2)	4.8	(2.4)	(9.3)	(3.0)
KKP	7.6	(4.4)	(13.4)	(18.6)	6.0	(5.3)	(8.2)	(11.5)
KTB	(1.0)	3.6	21.2	13.0	(2.6)	2.7	26.4	20.2
SCB	9.3	13.5	12.4	9.8	7.6	12.6	17.6	17.0
TISCO	2.0	4.7	8.1	0.8	0.4	3.8	13.3	7.9
TTB	7.8	14.6	47.5	27.7	6.1	13.7	52.7	34.8

Source: Bloomberg

SECTOR - SWOT ANALYSIS

S — Strength

- Solid balance sheet
- Strong capital base

O — Opportunity

- Fee-based income expansion
- Rising penetration of unsecured loans
- Overseas expansion

W — Weakness

- Shortage of high-caliber personnel
- Slow development of product innovations

T — Threat

- Global economic recession
- New accounting standards and regulations

REGIONAL COMPARISON

Name	— EPS growth —		— PE —		— P/BV —		— ROE —		— Div. Yield —	
	23F	24F	23F	24F	23F	24F	23F	24F	23F	24F
	(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
Hong Kong	34.1	9.1	5.6	5.2	0.5	0.5	9.8	10.0	8.4	9.2
India	16.0	36.1	15.0	13.2	2.4	2.0	17.0	17.1	0.0	2.0
Indonesia	15.0	11.5	13.1	11.8	2.2	2.0	16.3	16.6	4.2	na
Malaysia	14.7	5.5	10.4	9.8	1.1	1.0	11.4	11.4	5.3	5.7
S. Korea	3.7	4.3	3.1	2.9	0.3	0.3	9.6	9.2	9.5	9.8
Singapore	24.0	1.5	8.2	8.1	1.1	1.1	14.5	13.9	6.2	6.6
Thailand	16.8	12.2	8.4	7.5	0.9	0.8	10.4	10.9	5.2	5.8
Average	17.6	11.4	9.1	8.4	1.2	1.1	12.7	12.7	5.5	6.5
BBL	44.0	14.3	7.7	6.7	0.6	0.6	8.1	8.7	3.9	4.5
KBANK	21.0	9.8	7.3	6.7	0.6	0.6	8.3	8.6	4.1	5.2
KKP	(16.0)	15.5	8.0	6.9	0.8	0.8	10.7	11.5	4.3	5.0
KTB	18.2	12.0	7.0	6.3	0.7	0.6	10.2	10.6	4.3	4.8
SCB	18.6	13.8	8.9	7.8	0.8	0.8	9.4	10.2	5.7	6.0
TISCO	8.3	4.7	10.2	9.8	1.8	1.8	18.0	18.2	8.3	8.7
TMB	23.8	15.5	9.9	8.6	0.8	0.7	7.8	8.6	5.6	6.4
Average*	16.8	12.2	8.4	7.5	0.9	0.8	10.4	10.9	5.2	5.8

Sources: Bloomberg Consensus

Note: * Thanachart estimate – using normalized EPS and simple average calculation

Based on 23 Aug 2023 closing prices

BUY (Unchanged)

Change in Numbers

TP: Bt 200.00 (From: Bt 170.00)**Upside : 17.6%****24 AUGUST 2023**

Bangkok Bank Pcl (BBL TB)

Unfinished rally

Despite an exceptional performance, BBL's share price remains below pre-COVID levels. Profits have surged to a historic high, and the prospects for a double-digit growth story are evident, supported by a significantly enhanced balance sheet quality. Given these factors, we lift our earnings forecasts and TP to Bt200. Reaffirm BUY.

**SARACHADA SORNSONG**662 – 779 9106
sarachada.sor@thanachartsec.co.th

Raising our earnings and TP to Bt200

Amidst unexpectedly elevated provisions, BBL has managed to achieve a substantially higher NIM alongside significant investment gains. In total, these developments prompt us to boost our earnings estimates by 24% in 2023F, 25% in 2024F, and 26% in 2025F. The enhanced earnings outlook, coupled with rolling over our base year to 2024F, drives our DDM-based 12-month up to Bt200 from Bt170 previously. This new TP corresponds to a P/BV of 0.7x for 2024F.

Big-fish beneficiary

With a strategic focus on mid to large corporate clients, BBL has weathered the COVID-19 storm with a relatively milder impact compared to its peers, positioning it to reap substantial rewards from the country's reopening. While other banks adopted more aggressive balance sheet cleansing strategies, BBL chose a more conservative approach in dealing with NPLs. This prudent stance, in contrast to its peers, has borne fruit, resulting in robust loan growth that has outpaced other major banks. The bank's prospects for 2H23F look even more promising to us, bolstered by the growing loan demand for projects and long-term asset investments. Leveraging on its robust overseas network, we believe BBL is well poised to capitalize on growing ASEAN economies, which are benefiting from the relocation of production bases away from China.

All-time high coverage ratio

Despite a greater-than-expected expansion in NIM and gains from investments, BBL refrained from cutting provisions as initially planned. This decision was made despite clear evidence of improving asset quality, indicated by a decrease in Stage-2 loans and NPLs. BBL has, therefore, established a historically high provisioning buffer, with its loan-loss-coverage ratio climbing from 251% in 2022 to 276% in 1H23. Given this robust position, the prospect of reducing provisions appears very promising to us. We foresee a reduction in credit costs from 1.22% in 2023F to 1.1% in 2024F and falling further to 0.9% from 2025F onwards.

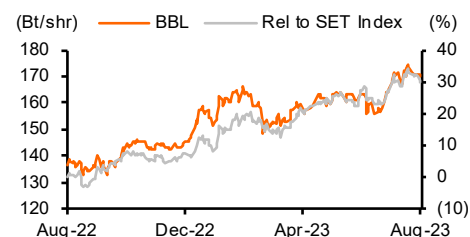
On course for double-digit EPS growth; BUY

Following our earnings hikes, we foresee all-time high profits of Bt42.2bn in 2023F, up 44% from 2022. The decrease in provisions, continued loan growth of 5%, and improving fees underscore a clear trajectory of ongoing double-digit earnings expansion. ROE has surged from 5.9% in 2022 to 8.1% this year, and we project a further rise to 8.7/9% in 2024-25F. BBL's valuation remains attractive, in our view, with 2024F P/BV and PE of 0.6x and 6.7x, respectively. With 18% potential upside to our new TP, we reaffirm our BUY call on the stock.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	69,687	87,060	92,614	95,599
Net profit	29,306	42,200	48,238	53,021
Consensus NP	—	40,384	43,963	46,481
Diff frm cons (%)	—	4.5	9.7	14.1
Norm profit	29,306	42,200	48,238	53,021
Prev. Norm profit	—	34,146	38,609	42,190
Chg frm prev (%)	—	23.6	24.9	25.7
Norm EPS (Bt)	15.4	22.1	25.3	27.8
Norm EPS grw (%)	10.6	44.0	14.3	9.9
Norm PE (x)	11.1	7.7	6.7	6.1
P/BV (x)	0.6	0.6	0.6	0.5
Div yield (%)	2.6	3.9	4.5	5.7
ROE (%)	5.9	8.1	8.7	9.0
ROA (%)	0.7	0.9	1.1	1.1

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	170.00
Market Cap (US\$ m)	9,255
Listed Shares (m shares)	1,908.8
Free Float (%)	98.6
Avg. Daily Turnover (US\$ m)	33.1
12M Price H/L (Bt)	174.50/132.50
Sector	BANK
Major Shareholder	Thai NVDR 23.19%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P34

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	35.82	17.18	26.51	29.31	42.20	48.24	53.02
- Old					34.15	38.61	42.19
- Change (%)					23.59	24.94	25.67
Loan growth (%)							
- New	(1.05)	14.89	9.29	3.65	4.31	5.19	4.32
- Old					5.46	5.47	4.60
- Change (ppt)					(1.15)	(0.27)	(0.28)
NIM (%)							
-New	2.24	2.19	2.01	2.34	2.84	2.84	2.86
-Old					2.40	2.46	2.50
% change					0.44	0.38	0.35
Non-NII (Bt bn)							
- New	62.58	41.70	52.18	36.48	38.77	38.81	41.19
- Old					37.64	39.72	42.11
- Change (%)					3.00	(2.28)	(2.18)
Opex (Bt bn)							
- New	54.96	65.97	67.27	69.02	79.06	76.26	79.94
- Old					71.93	75.04	78.65
- Change (%)					9.91	1.63	1.64
Provisions (Bt bn)							
- New	32.35	31.20	34.13	32.65	34.00	32.00	29.00
- Old					30.00	29.00	29.00
- Change (%)					13.33	10.34	0.00
NPLs (Bt bn)							
- New	79.15	104.40	101.10	97.19	97.19	100.10	103.11
- Old					102.05	107.15	112.51
- Change (%)					(4.76)	(6.58)	(8.36)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	13,566	16,514	19,145	20,345	21,595	22,997	26,371	33,789	52,077	76,059	76,059
Dividend payment	13,566	16,514	19,145	20,345	21,595	22,997	26,371	33,789	52,077	76,059	741,688
PV of dividend	13,603	13,171	13,637	12,944	12,268	11,669	11,951	13,198	18,082	23,483	228,993
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	383,653										
No. of shares	1,909										
Equity value / share	200.00										

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

THANACHART'S SWOT ANALYSIS

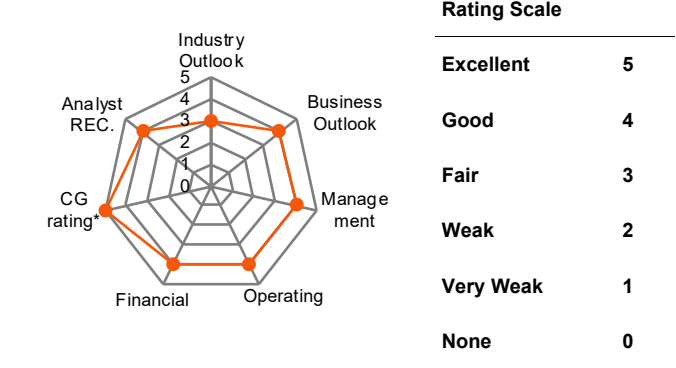
S — Strength

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

O — Opportunity

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

COMPANY RATING



Source: Thanachart; *CG Rating

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

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	190.88	200.00	5%
Net profit 23F (Bt m)	40,384	42,200	4%
Net profit 24F (Bt m)	43,963	48,238	10%
Consensus REC	BUY: 23	HOLD: 3	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in higher NIM for BBL and a provisioning decline from 2024F.
- As a result, our earnings and TP are higher.

Sources: Bloomberg consensus, Thanachart estimates

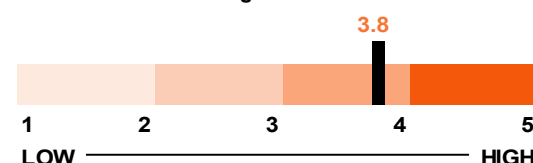
RISKS TO OUR INVESTMENT CASE

- 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 as we have 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)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
BBL	YES	YES	-	-	54.71	59.21	67.00	29.0	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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 has also underwritten 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 55% decrease in Scope 1 emissions and a 0.9% fall in Scope 2 emissions compared to 2020 (base year) in 2022. The 2021-23 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 Utopapat 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 includes phishing awareness as part of its compulsory training courses for all employees.

Source: Company data, Thanachart

INCOME STATEMENT

*Higher NIM and
investment gains*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	114,313	139,088	187,035	191,635	197,739
Interest Expenses	32,156	36,865	59,684	61,565	63,392
Net Interest Income	82,156	102,223	127,351	130,070	134,347
% of total income	61.2%	73.7%	76.7%	77.0%	76.5%
Gain on Investment	1,225	(1,454)	0	500	500
Fee Income	29,209	27,508	27,366	27,727	28,907
Gain on Exchange	17,868	5,155	7,000	6,000	7,000
Others	1,622	2,966	1,500	1,537	1,586
Non-interest Income	52,176	36,482	38,766	38,809	41,190
% of total income	38.8%	26.3%	23.3%	23.0%	23.5%
Total Income	134,332	138,705	166,117	168,878	175,537
Operating Expenses	67,266	69,019	79,057	76,264	79,938
Pre-provisioning Profit	67,066	69,687	87,060	92,614	95,599
Provisions	34,134	32,647	34,000	32,000	29,000
Pre-tax Profit	32,932	37,040	53,060	60,614	66,599
Income Tax	6,189	7,484	10,612	12,123	13,320
After Tax Profit	26,743	29,556	42,448	48,491	53,279
Equity Income	209	190	200	200	200
Minority Interest	(445)	(440)	(448)	(453)	(458)
Extraordinary Items	0	0	0	0	0
NET PROFIT	26,507	29,306	42,200	48,238	53,021
Normalized Profit	26,507	29,306	42,200	48,238	53,021
EPS (Bt)	13.9	15.4	22.1	25.3	27.8
Normalized EPS (Bt)	13.9	15.4	22.1	25.3	27.8

BALANCE SHEET

*Brighter prospects for
loan growth than the
sector, in our view*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	863,764	818,507	778,000	662,000	667,000
cash & cash equivalents	62,552	52,433	40,000	40,000	40,000
interbank & money market	801,212	766,074	738,000	622,000	627,000
Securities under resale agreeme	0	0	0	0	0
Investments	804,965	851,572	911,082	956,565	1,004,322
Net loans	2,376,027	2,449,355	2,539,135	2,667,613	2,781,554
Gross and accrued interest	2,595,828	2,692,829	2,806,815	2,952,575	3,080,161
Provisions for doubtful	219,801	243,474	267,680	284,962	298,608
Fixed assets - net	74,476	73,909	75,026	75,965	76,727
Other assets	214,049	228,409	250,000	255,000	260,000
Total assets	4,333,281	4,421,752	4,553,243	4,617,144	4,789,604
LIABILITIES:					
Liquid Items	3,453,761	3,481,187	3,573,573	3,601,133	3,735,929
Deposit	3,156,940	3,210,896	3,265,773	3,290,177	3,421,784
Interbank & money market	288,709	262,522	300,000	303,000	306,030
Liability payable on demand	8,113	7,770	7,800	7,956	8,115
Borrow ings	183,239	188,302	190,504	190,719	190,418
Other liabilities	201,688	245,122	250,000	251,000	252,000
Total liabilities	3,838,688	3,914,610	4,014,077	4,042,852	4,178,347
Minority interest	1,865	1,796	2,244	2,697	3,155
Shareholders' equity	492,727	505,346	536,922	571,595	608,102
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	66,349	54,243	54,243	54,243	54,243
Retained earnings	350,944	375,668	407,243	441,916	478,422
Liabilities & equity	4,333,281	4,421,752	4,553,243	4,617,144	4,789,604

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	12.2	11.1	7.7	6.7	6.1
Normalized PE - at target price (x)	14.4	13.0	9.0	7.9	7.2
PE (x)	12.2	11.1	7.7	6.7	6.1
PE - at target price (x)	14.4	13.0	9.0	7.9	7.2
P/PPP (x)	4.8	4.7	3.7	3.5	3.4
P/PPP - at target price (x)	5.7	5.5	4.4	4.1	4.0
P/BV (x)	0.7	0.6	0.6	0.6	0.5
P/BV - at target price (x)	0.8	0.8	0.7	0.7	0.6
Dividend yield (%)	2.1	2.6	3.9	4.5	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
(Bt)					
Normalized EPS	13.9	15.4	22.1	25.3	27.8
EPS	13.9	15.4	22.1	25.3	27.8
DPS	3.5	4.5	6.6	7.6	9.7
PPP/Share	35.1	36.5	45.6	48.5	50.1
BV/Share	258.1	264.7	281.3	299.4	318.5

Valuation still looks
inexpensive to us

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	6.6	24.4	24.6	2.1	3.3
Non-interest income (Non-II)	25.1	(30.1)	6.3	0.1	6.1
Operating expenses	2.0	2.6	14.5	(3.5)	4.8
Pre-provisioning profit (PPP)	27.1	3.9	24.9	6.4	3.2
Net profit	54.3	10.6	44.0	14.3	9.9
Normalized profit growth	54.3	10.6	44.0	14.3	9.9
EPS	54.3	10.6	44.0	14.3	9.9
Normalized EPS	54.3	10.6	44.0	14.3	9.9
Dividend payout ratio	25.2	29.3	30.0	30.0	35.0
Loan - gross	9.3	3.6	4.3	5.2	4.3
Loan - net	8.5	3.1	3.7	5.1	4.3
Deposit	12.3	1.7	1.7	0.7	4.0
NPLs	(3.2)	(3.9)	0.0	3.0	3.0
Total assets	13.3	2.0	3.0	1.4	3.7
Total equity	9.7	2.6	6.2	6.5	6.4
Operating Ratios (%)					
Net interest margin (NIM)	2.0	2.3	2.8	2.8	2.9
Net interest spread	3.3	3.8	4.5	4.5	4.4
Yield on earnings assets	2.9	3.3	4.3	4.3	4.3
Avg cost of fund	0.9	1.0	1.6	1.6	1.6
NII / operating income	61.2	73.7	76.7	77.0	76.5
Non-II / operating income	38.8	26.3	23.3	23.0	23.5
Fee income / operating income	21.7	19.8	16.5	16.4	16.5
Normalized net margin	19.7	21.1	25.4	28.6	30.2
Cost-to-income	50.1	49.8	47.6	45.2	45.5
Credit cost - provision exp / loans	1.3	1.2	1.2	1.1	0.9
PPP / total assets	1.6	1.6	1.9	2.0	2.0
PPP / total equity	14.2	14.0	16.7	16.7	16.2
ROA	0.6	0.7	0.9	1.1	1.1
ROE	5.6	5.9	8.1	8.7	9.0

Very impressive NIM
expansion

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

*Highly robust balance
sheet quality*

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	82.0	83.5	85.7	89.5	89.7
Loan-to-deposit & S-T borrow ing	82.0	83.5	85.7	89.4	89.7
Net loan / assets	54.8	55.4	55.8	57.8	58.1
Net loan / equity	482.2	484.7	472.9	466.7	457.4
Investment / assets	18.6	19.3	20.0	20.7	21.0
Deposit / liabilities	82.2	82.0	81.4	81.4	81.9
Liabilities / equity	779.1	774.6	747.6	707.3	687.1
Net interbank lender (Bt m)	512,504	503,553	438,000	319,000	320,970
Tier 1 CAR	16.0	15.7	15.8	16.6	17.1
Tier 2 CAR	3.6	3.5	3.3	3.2	3.1
Total CAR	19.6	19.1	19.0	19.9	20.2
NPLs (Bt m)	101,103	97,188	97,188	100,104	103,107
NPLs / Total loans (NPL Ratio)	3.9	3.6	3.5	3.4	3.3
Loan-Loss-Coverage	217.4	250.5	275.4	284.7	289.6

Sources: Company data, Thanachart estimates

HOLD (From: BUY)
Change in Recommendation

TP: Bt 65.00
Upside : 8.3%

(From: Bt 80.00)
24 AUGUST 2023

Small Cap Research

Kiatnakin Phatra Bank (KKP TB)

Waiting to exhale

We expect it to take at least two to three quarters from now for KKP to unwind its asset quality problems. This prompts us to cut our earnings forecast for the bank by an average of 17% over three years to reflect higher losses on sales. With only 8% potential upside to our new, lower TP of Bt65, we downgrade KKP to HOLD.



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Cutting our earnings and TP to Bt65

In light of higher NPLs, KKP's provisions and repossession losses have been higher than we'd expected. We raise expenses by 30/29/14% over 2023-25F, leading to cuts in our earnings estimates by 23%, 21% and 8%, respectively. Although we roll over our base year to 2024F, with the earnings cuts impact, we lower our DDM-based 12-month TP by 19% to Bt65 from Bt80.

Ongoing process of resolving asset quality

KKP took note of signs of deterioration in its auto HP loans and undertook measures to tighten its loan underwriting criteria beginning from the second half of 2022. This strategic shift led to a deceleration in loan growth, transitioning from 7% q-q in 3Q22 to 3.8% in 4Q22 and subsequently stabilizing at 3% in both the first and second quarters of 2023. This allowed the bank to enhance the overall quality of loans extended during this period. That being said, the bank has still suffered from the poor quality of vintage loans from 2022. KKP believes it is now reaching the final phase of its asset-quality bubble. The expectation is for NPLs to continue their upward trajectory for the next two quarters, gradually reaching a plateau in the first half of 2024 and then returning to pre-2022 levels from the latter half of the same year.

Quite resilient profits from capital markets

Amidst lackluster equity trading and market sentiment, KKP still made solid profits of Bt309m and Bt413m in 1Q-2Q23 from its capital market operations. The average daily turnover in the Thai equity market saw a 35% decline when compared to the same period in 2022. Despite facing a decrease in brokerage fees, KKP has maintained its leading market share at 18%. This decline has been countered by the robust performance of its equity and derivative trading activities, leveraging on the market's heightened volatility. With a diverse range of capital market income sources, KKP looks resilient in the face of downturns, and we see it poised to outshine its peers once market conditions turn more favorable.

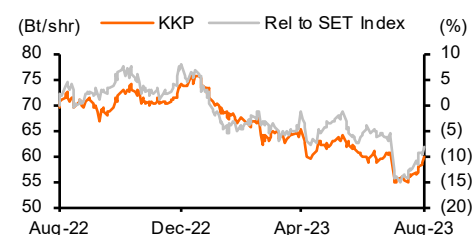
Downgrading to HOLD

KKP's share price fell to YTD low of Bt54.25, but it has since recovered by 11% within a month. Despite sharing the market's view that the bank's profits already bottomed in 2Q23, an additional two to three quarters will be needed to effectively address and resolve its asset quality concerns. We expect the bank's earnings growth trajectory to be subdued going to 1Q24. In the meantime, the bank's dividend yield of 4-5% is just in line with the industry norm. With potential upside of only 8% to our new TP, which has been cut by 19% to reflect poorer asset quality and higher provisions, we downgrade to HOLD from Buy.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	14,526	14,643	15,380	16,789
Net profit	7,602	6,383	7,371	9,009
Consensus NP	—	7,611	8,276	8,915
Diff frm cons (%)	—	(16.1)	(10.9)	1.0
Norm profit	7,602	6,383	7,371	9,009
Prev. Norm profit	—	8,322	9,330	9,784
Chg frm prev (%)	—	(23.3)	(21.0)	(7.9)
Norm EPS (Bt)	9.0	7.5	8.7	10.6
Norm EPS grw (%)	20.3	(16.0)	15.5	22.2
Norm PE (x)	6.7	8.0	6.9	5.6
P/BV (x)	0.9	0.8	0.8	0.7
Div yield (%)	5.4	4.3	5.0	7.1
ROE (%)	14.0	10.7	11.5	12.9
ROA (%)	1.6	1.2	1.3	1.5

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	60.00
Market Cap (US\$ m)	1,449
Listed Shares (m shares)	846.8
Free Float (%)	92.6
Avg. Daily Turnover (US\$ m)	8.5
12M Price H/L (Bt)	75.75/54.75
Sector	BANK
Major Shareholder	Thai NVDR 7.94%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P42

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	5.99	5.12	6.32	7.60	6.38	7.37	9.01
- Old					8.32	9.33	9.78
- Change (%)					(23.31)	(21.00)	(7.92)
Loan growth (%)							
- New	4.06	11.65	15.91	21.68	11.16	8.92	6.88
- Old					12.68	9.70	7.52
- Change (ppt)					(1.52)	(0.78)	(0.64)
NIM (%)							
- New	3.99	4.35	3.93	4.04	4.07	3.97	4.02
- Old					3.92	3.93	3.90
- Change (ppt)					0.15	0.04	0.12
Non-NII (Bt bn)							
- New	6.85	6.55	8.55	8.46	7.54	7.80	8.11
- Old					8.70	8.62	8.98
- Change (%)					(13.31)	(9.46)	(9.73)
Provisions (Bt bn)							
- New	1.68	4.09	5.20	5.04	6.64	6.14	5.50
- Old					5.64	5.44	5.50
- Change (%)					17.73	12.87	(0.00)
Loss from repossessed cars (Bt bn)							
- New	1.42	1.31	2.09	1.84	4.04	3.89	3.44
- Old					2.55	2.31	2.33
- Change (%)					58.66	68.31	47.27
All-in credit costs (%)							
- New	1.31	2.04	2.38	1.84	2.57	2.22	1.85
- Old					1.95	1.68	1.58
- Change (ppt)					0.63	0.54	0.27
NPLs (Bt bn)							
- New	9.56	8.26	10.64	13.95	17.00	18.10	18.29
- Old					16.80	18.00	18.77
- Change (%)					1.21	0.59	(2.57)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	2,371	3,072	3,867	4,329	4,675	5,005	5,390	5,810	6,266	7,243	7,243
Dividend payment	2,371	3,072	3,867	4,329	4,675	5,005	5,390	5,810	6,266	7,243	86,912
PV of dividend	2,377	2,492	2,826	2,851	2,773	2,674	2,594	2,431	2,350	2,436	29,238
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	10.5										
Cost of equity	10.5										
Terminal growth (%)	2.0										
Equity value	55,044										
No. of shares (m shares)	847										
Equity value / share (Bt)	65.0										

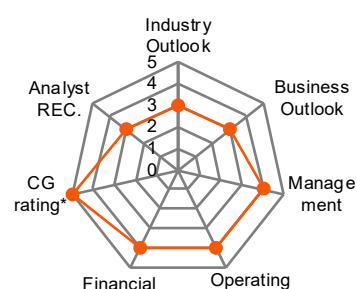
Source: Thanachart estimates

COMPANY DESCRIPTION

Kiatnakin Phatra Bank Pcl (KKP) provides commercial banking services, including commercial, developmental, consumer, hire-purchase, and mortgage financing, to its customers in Thailand. The bank also offers securities brokerage and investment advisory 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

- Strong footing in auto HP, particularly upcountry.
- Expertise in loan restructuring management.
- Abundant Tier-I capital.

O — Opportunity

- Fee-based income expansion.
- M&As.

W — Weakness

- Small branch network.
- Relatively weak deposit franchise.
- High concentration in a few lending segments.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	64.41	65.00	1%
Net profit 23F (Bt m)	7,611	6,383	-16%
Net profit 24F (Bt m)	8,276	7,371	-11%
Consensus REC	BUY: 7	HOLD: 10	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in incorporating higher repossession losses and provisions for KKP.
- As a result, our earnings forecasts are lower than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

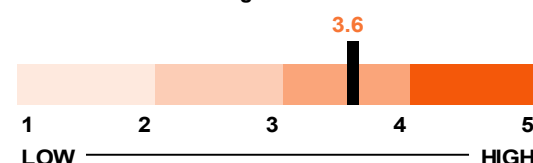
RISKS TO OUR INVESTMENT CASE

- Weaker economic momentum that drags down asset quality to a greater extent than we have currently factored in presents the key downside risk to our assumptions for KKP's credit costs.
- A weaker capital markets performance than we have assumed represents another downside risk to our earnings forecasts.
- Upside to our HOLD call emerges should KKP be able to contain NPL and provisions greater than what we'd assumed.

Source: Thanachart

KKP is a small-sized bank which plans to continue considering environmental, social, and governance (ESG) factors to drive sustainable social and environmental changes. We assign an ESG score of 3.6 to KKP.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
KKP	YES	YES	-	BBB	53.26	78	26.00	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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

- KKP has completed the renovation of its headquarters tower in conformity with LEED standards (Leadership in Energy & Environmental Design), which involved switching to LED bulbs to save energy, using eco-friendly glass that absorbs heat from the sun but allows light to pass through, and an air-conditioning system that circulates clean air for consistent cooling.
- Due to greater fuel consumption as employees returned from working from home, KKP's carbon dioxide emissions were up 5.6% for Scope 1 and 32.44% for Scope 2 in 2022. Electricity consumption also increased by 36.1% in 2022.
- The bank has provided credit facilities for environmentally friendly projects of Bt2.7bn.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- KKP respects human rights in accordance with the United Nation Guiding Principles on Business and Human Rights and complies with human rights laws.
- KKP strives to enhance responsible banking by providing training in financial literacy to clients, employees, and communities to enable them to properly manage their money and debts, build saving discipline, and develop investment skills, which are key to achieving long-term financial stability and a better quality of life.
- It donated Bt13m for social contribution activities, with 206 employee volunteers working a total of 1,720 volunteer hours.

GOVERNANCE &
SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- The bank's board of directors is comprised of 12 members, of whom three are non-executives and four are independent directors.
- The board of directors reviews and revises the corporate governance policy on an annual basis and constantly improves practices in several areas to upgrade the governance level of the group.
- KKP was selected as one of 170 companies to be named by the Stock Exchange of Thailand on the list of Thailand Sustainability Investment 2022 for the eighth consecutive year. It was also one of the 100 companies on the ESG100 list for 2022, as determined by the ESG Rating Unit of the Thaipat Institute for the seventh consecutive year.
- KKP Dime Company Limited (DIME) was founded with the aim of providing digital financial and investment services to enable more consumers to access financial opportunities.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	19,489	23,671	29,435	31,988	34,304
Interest Expenses	3,788	4,589	7,858	9,435	10,021
Net Interest Income	15,701	19,081	21,576	22,553	24,283
% of total income	64.8%	69.3%	74.1%	74.3%	75.0%
Gain on Investment	(10)	(4)	0	50	50
Fee Income	6,074	6,165	5,893	6,176	6,449
Gain on Exchange	1,152	1,789	1,100	1,000	1,000
Others	1,329	507	550	578	606
Non-interest Income	8,545	8,457	7,543	7,803	8,105
% of total income	35.2%	30.7%	25.9%	25.7%	25.0%
Total Income	24,246	27,539	29,119	30,356	32,388
Operating Expenses	11,248	13,013	14,476	14,976	15,599
Pre-provisioning Profit	12,998	14,526	14,643	15,380	16,789
Provisions	5,201	5,036	6,640	6,140	5,500
Pre-tax Profit	7,797	9,490	8,003	9,240	11,289
Income Tax	1,442	1,873	1,601	1,848	2,258
After Tax Profit	6,355	7,616	6,403	7,392	9,031
Equity Income	0	0	0	0	0
Minority Interest	(37)	(14)	(20)	(21)	(22)
Extraordinary Items	0	0	0	0	0
NET PROFIT	6,318	7,602	6,383	7,371	9,009
Normalized Profit	6,318	7,602	6,383	7,371	9,009
EPS (Bt)	7.5	9.0	7.5	8.7	10.6
Normalized EPS (Bt)	7.5	9.0	7.5	8.7	10.6

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	56,480	46,733	55,000	47,000	51,000
cash & cash equivalents	1,242	1,000	1,000	1,000	1,000
interbank & money market	55,238	45,732	54,000	46,000	50,000
Securities under resale agreeme	0	0	0	0	0
Investments	16,840	31,848	28,663	30,096	31,601
Net loans	299,148	364,871	402,608	438,657	466,179
Gross and accrued interest	315,653	383,839	425,104	464,128	494,250
Provisions for doubtful	16,505	18,969	22,496	25,471	28,071
Fixed assets - net	7,483	13,200	13,553	14,077	14,786
Other assets	56,172	50,986	52,092	55,192	58,292
Total assets	436,123	507,637	551,917	585,023	621,858
LIABILITIES:					
Liquid Items	305,715	351,979	364,234	391,717	421,381
Deposit	288,382	331,464	340,534	367,777	397,199
Interbank & money market	16,664	20,175	23,000	23,230	23,462
Liability payable on demand	669	340	700	710	720
Borrow ings	43,805	61,354	85,645	85,248	85,459
Other liabilities	35,441	36,192	40,000	41,000	42,000
Total liabilities	384,961	449,526	489,880	517,965	548,841
Minority interest	116	288	308	329	351
Shareholders' equity	51,046	57,824	61,729	66,729	72,666
Preferred capital	-	-	-	-	-
Paid-in capital	8,468	8,468	8,468	8,468	8,468
Share premium	9,356	9,356	9,356	9,356	9,356
Surplus/ Others	(286)	2,010	2,010	2,010	2,010
Retained earnings	33,508	37,990	41,896	46,896	52,833
Liabilities & equity	436,123	507,637	551,917	585,023	621,858

Sources: Company data, Thanachart estimates

Hit by higher provisions
and repossession losses

Loan growth has slowed
down but it's still higher
than the industry's

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	8.0	6.7	8.0	6.9	5.6
Normalized PE - at target price (x)	8.7	7.2	8.6	7.5	6.1
PE (x)	8.0	6.7	8.0	6.9	5.6
PE - at target price (x)	8.7	7.2	8.6	7.5	6.1
P/PPP (x)	3.9	3.5	3.5	3.3	3.0
P/PPP - at target price (x)	4.2	3.8	3.8	3.6	3.3
P/BV (x)	1.0	0.9	0.8	0.8	0.7
P/BV - at target price (x)	1.1	1.0	0.9	0.8	0.8
Dividend yield (%)	4.9	5.4	4.3	5.0	7.1
Market cap / net loans (x)	0.2	0.1	0.1	0.1	0.1
Market cap / deposit (x)	0.2	0.2	0.1	0.1	0.1
(Bt)					
Normalized EPS	7.5	9.0	7.5	8.7	10.6
EPS	7.5	9.0	7.5	8.7	10.6
DPS	3.0	3.3	2.6	3.0	4.3
PPP/Share	15.4	17.2	17.3	18.2	19.8
BV/Share	60.3	68.3	72.9	78.8	85.8

A recent rebound looks to price in an expectation of KKP's profits has reached bottom in 2Q23

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	7.0	21.5	13.1	4.5	7.7
Non-interest income (Non-II)	30.4	(1.0)	(10.8)	3.5	3.9
Operating expenses	5.6	15.7	11.2	3.5	4.2
Pre-provisioning profit (PPP)	22.8	11.8	0.8	5.0	9.2
Net profit	23.3	20.3	(16.0)	15.5	22.2
Normalized profit growth	23.3	20.3	(16.0)	15.5	22.2
EPS	23.3	20.3	(16.0)	15.5	22.2
Normalized EPS	23.3	20.3	(16.0)	15.5	22.2
Dividend payout ratio	39.5	36.2	34.5	34.5	40.0
Loan - gross	15.9	21.7	11.2	8.9	6.9
Loan - net	15.6	22.0	10.3	9.0	6.3
Deposit	14.7	14.9	2.7	8.0	8.0
NPLs	28.9	31.1	21.9	6.5	1.0
Total assets	20.0	16.4	8.7	6.0	6.3
Total equity	9.7	13.3	6.8	8.1	8.9
Operating Ratios (%)					
Net interest margin (NIM)	3.9	4.0	4.1	4.0	4.0
Net interest spread	5.5	5.7	5.6	5.4	5.3
Yield on earnings assets	5.4	5.6	6.1	6.1	6.1
Avg cost of fund	1.2	1.2	1.8	2.0	2.0
NII / operating income	64.8	69.3	74.1	74.3	75.0
Non-II / operating income	35.2	30.7	25.9	25.7	25.0
Fee income / operating income	25.1	22.4	20.2	20.3	19.9
Normalized net margin	26.1	27.6	21.9	24.3	27.8
Cost-to-income	46.4	47.3	49.7	49.3	48.2
Credit cost - provision exp / loans	1.7	1.3	1.6	1.4	1.1
PPP / total assets	3.3	3.1	2.8	2.7	2.8
PPP / total equity	26.6	26.7	24.5	23.9	24.1
ROA	1.6	1.6	1.2	1.3	1.5
ROE	13.0	14.0	10.7	11.5	12.9

Easing NIM pressure from 2024F

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	106.4	112.7	121.9	122.9	121.7
Loan-to-deposit & S-T borrow ing	106.4	112.7	121.7	122.9	121.5
Net loan / assets	68.6	71.9	72.9	75.0	75.0
Net loan / equity	586.0	631.0	652.2	657.4	641.5
Investment / assets	3.9	6.3	5.2	5.1	5.1
Deposit / liabilities	74.9	73.7	69.5	71.0	72.4
Liabilities / equity	754.1	777.4	793.6	776.2	755.3
Net interbank lender (Bt m)	38,574	25,557	31,000	22,770	26,538
Tier 1 CAR	13.6	13.3	13.0	13.4	13.9
Tier 2 CAR	3.7	3.3	3.0	2.8	2.7
Total CAR	17.4	16.6	16.0	16.2	16.5
NPLs (Bt m)	10,638	13,947	17,004	18,101	18,287
NPLs / Total loans (NPL Ratio)	3.4	3.6	4.0	3.9	3.7
Loan-Loss-Coverage	155.2	136.0	132.3	140.7	153.5

Sources: Company data, Thanachart estimates

Two to three more
quarters to resolve poor
asset quality issues

BUY (Unchanged)

Change in Numbers

TP: Bt 23.00 (From: Bt 19.00)**Upside : 15.0%****24 AUGUST 2023**

Krung Thai Bank Pcl (KTB TB)

More upside

In light of higher NIM and investment gains, we raise our earnings estimates for KTB by an average of 17% and lift our TP to Bt23. Despite KTB's impressive growth over the past two years, it appears poised to sustain its double-digit earnings growth trajectory through 2024F. With 15% potential share price upside, we reaffirm our BUY.

**SARACHADA SORNSONG**

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Raising our earnings and TP

We raise our earnings for KTB by 15% this year, 16% in 2024F, and 20% in 2025F. The upward revisions are due to the net positive impact of the following. 1) Raising NIM by an average of 44bps. 2) Increasing non-interest income by 7% p.a. on higher-than- expected investment gains. 3) Lower loan growth of 3% in 2023F. 4) Increasing provisioning expenses by 51%, 39%, and 24% respectively. After our earnings hikes and the rollover of our base year to 2024F, we boost our TP by 21% to Bt23 per share.

Riding on stronger balance sheet quality

We like KTB's notable improvement in balance sheet quality. The bank has taken proactive measures to address legacy issues and has effectively contained NPLs to below 4% of its total loan portfolio from 2022. This strategic approach, coupled with a substantial increase in provisions, has led to the bank positioning itself at the upper range of the sector's average provision-to-loans ratio and loan loss coverage. As it aims to set up a JVAMC to clean up legacy NPLs and NPAs, we expect further improvements in KTB's balance sheet quality. The bank's ample room for provisioning cuts has emerged as a prominent driver supporting its extended double-digit earnings growth cycle trajectory for 2023-24F.

'Pao Tang' monetization upside

KTB is the driving force behind Pao Tang, an open-platform digital payment application designed to support government initiatives. This app, now transformed into a versatile "super app", offers an extensive array of products to cater to the diverse needs of the entire Thai population, with a user base exceeding 40m now. While Pao Tang is not exclusively intended for KTB customers, the bank's integration with the app is more seamless compared to other banks. This advantageous connection empowers KTB to leverage potential opportunities for boosting fee-based revenue and pursuing its mission to expand its digital lending presence in the future. KTB has already ventured into digital lending by offering loans through its mobile app, resulting in loan bookings totaling Bt5bn in the previous year.

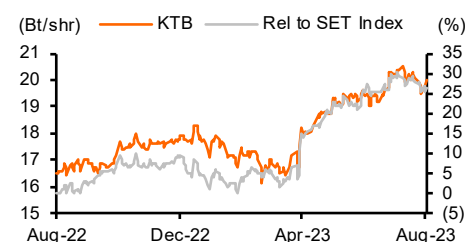
Reaffirming BUY

With 15% potential upside to our new Bt23 TP, we maintain our BUY call on KTB. The bank's prospects look buoyed by its strategic provision reductions, positioning it for robust 12% growth in profits. Together with ROE rising from 10.2% this year to 10.6% in 2024F, the share price looks inexpensive to us, trading at a P/BV of 0.64x and PE of 6.3x, respectively, in 2024F. Despite its less aggressive dividend payout ratio of below 30%, we estimate its dividend yield to remain healthy at over 4%.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	69,525	84,652	86,678	91,188
Net profit	33,698	39,820	44,613	48,740
Consensus NP	—	39,026	41,401	42,275
Diff frm cons (%)	—	2.0	7.8	15.3
Norm profit	33,698	39,820	44,613	48,740
Prev. Norm profit	—	34,756	38,580	40,504
Chg frm prev (%)	—	14.6	15.6	20.3
Norm EPS (Bt)	2.4	2.8	3.2	3.5
Norm EPS grw (%)	56.1	18.2	12.0	9.3
Norm PE (x)	8.3	7.0	6.3	5.7
P/BV (x)	0.7	0.7	0.6	0.6
Div yield (%)	3.4	4.3	4.8	5.2
ROE (%)	9.2	10.2	10.6	10.7
ROA (%)	0.9	1.1	1.2	1.3

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	20.00
Market Cap (US\$ m)	7,972
Listed Shares (m shares)	13,976.1
Free Float (%)	44.9
Avg. Daily Turnover (US\$ m)	26.9
12M Price H/L (Bt)	20.50/16.10
Sector	BANK
Major Shareholder	FIDF 55.07%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P50

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	29.28	16.73	21.59	33.70	39.82	44.61	48.74
- Old					34.76	38.58	40.50
- Change (%)					14.57	15.64	20.33
Loan growth (%)							
- New	3.26	11.72	12.60	(1.37)	1.59	3.83	3.87
- Old					4.48	4.53	4.29
- Change (ppt)					(2.89)	(0.70)	(0.42)
NIM (%)							
- New	3.07	2.79	2.42	2.53	2.99	2.99	3.00
- Old					2.53	2.55	2.57
- Change (ppt)					0.46	0.44	0.43
Non-NII (Bt bn)							
- New	35.92	31.84	31.37	33.89	33.65	35.01	36.39
- Old					31.41	32.69	33.99
- Change (%)					7.12	7.09	7.08
Opex (Bt bn)							
- New	62.47	53.46	52.73	54.77	57.18	59.56	61.98
- Old					56.37	58.58	60.81
- Change (%)					1.44	1.68	1.92
Provisions (Bt bn)							
- New	23.81	44.90	32.52	24.34	31.66	27.03	25.57
- Old					20.95	19.47	20.63
- Change (%)					51.11	38.87	23.93
NPLs (Bt bn)							
- New	102.66	107.14	106.81	101.10	102.45	103.91	107.08
- Old					105.76	108.85	112.94
- Change (%)					(3.14)	(4.53)	(5.19)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	12,665	14,003	15,363	16,520	17,328	18,128	25,413	43,061	58,353	63,991	63,991
Dividend payment	12,665	14,003	15,363	16,520	17,328	18,128	25,413	43,061	58,353	63,991	588,024
PV of dividend	12,700	11,041	10,757	10,273	9,567	8,889	11,067	16,073	19,251	18,666	193,996
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.1										
WACC (%)	12.1										
Cost of equity	12.1										
Terminal growth (%)	2.0										
Equity value	322,280										
No. of shares (m shares)	13,976										
Equity value / share (Bt)	23.00										

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Krung Thai Bank Pcl (KTB) is a state-owned commercial bank offering various banking and financial services, including commercial, consumer, credit card, and mortgage loans, as well as provident fund management, foreign exchange, and international trade financing services. The bank is majority-owned by the Financial Institutions Development Fund.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

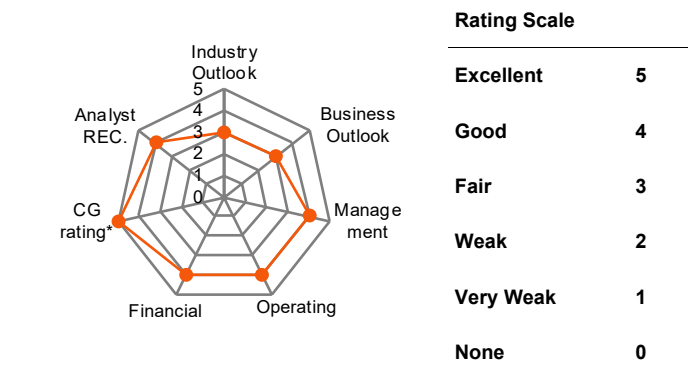
S — Strength

- Leading position in government-related and infrastructure loans.
- Large database as it operates “Pao Tang”, which is the government’s wallet application.

O — Opportunity

- Increasing its exposure to the retail-lending segment.
- Soliciting more fee-based income.

COMPANY RATING



Source: Thanachart; *CG Rating

W — Weakness

- Lower spread as it focuses on high-quality-low-yield loans.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	22.65	23.00	2%
Net profit 23F (Bt m)	39,026	39,820	2%
Net profit 24F (Bt m)	41,401	44,613	8%
Consensus REC	BUY: 20	HOLD: 4	SELL: 3

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in higher NIM and a lower provisioning trend from 2024F.
- Consequently, our earnings forecast and TP are higher than the Street’s.

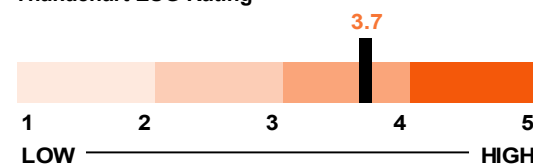
Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- There would be a material downside risk to our earnings forecasts and TP if KTB’s credit costs are not on a declining trend, as we have assumed.
- Slower economic momentum than we currently anticipate would present the key downside risk to our earnings.

Source: Thanachart

KTB is the third-largest bank by assets in Thailand. It recognizes the importance of good corporate governance and running its business while creating shared value (CSV) with society to ensure inclusive and sustainable development in all sectors based on ESG. We assign an ESG score of 3.7 to KTB.

Thanachart ESG Rating


	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
KTB	YES	YES	-	BBB	54.28	64.57	64.00	34.0	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	- KTB says it is committed to addressing climate change in a way that aligns with Thailand's sustainable economic development goals, focusing on the development of a Bio-Circular-Green (BCG) economy. - To reduce the bank's greenhouse gas emissions, several measures are being implemented, such as optimizing resource use by replacing equipment, including light bulbs and air conditioners, with environmentally friendly alternatives and adding electric cars to the company's fleet. This is alongside campaigns to encourage efficient resource use and waste reduction within its organization. - All actions are being conducted to achieve the bank's zero-emission goal.
SOCIAL - Human Rights - Staff Management - Health & Safety - Product Safety & Quality - Social Responsibility	- The bank is the developer of the Pao Tang mobile application, which is also known as the Thailand open digital platform and now has over 40m users. The app has played a crucial role in supporting the government's economic stimulus programs, including the "Khon La Khrueng" (Let's Go Halves) scheme phases 4 and 5, in which more than 24m Thais participated, generating over Bt90bn in domestic spending. - As part of the "Krungthai Go Local, Grow Local" project, the bank developed two model communities in 2022 with a focus on holistic development through sustainable value creation. This initiative has resulted in significant changes to the structure, policy, and mechanisms for working with communities. The bank aims to extend this project to other communities in the future.
GOVERNANCE & SUSTAINABILITY - Board - Ethics & Transparency - Business Sustainability - Risk Management - Innovation	- KTB has 12 board members. Six are independent. - The bank has announced a zero-tolerance policy and fosters its five core values — breakthrough, efficiency, integrity, teamwork, and social — through the "Foster, Prevent, Change" strategic principle, where KTB strives to operate transparently and in compliance with all rules and regulations. - The bank has received numerous global awards and recognition, including the Most Sustainable Bank Thailand 2022 Award from <i>World Economics</i> magazine and the Best Sustainable & Business Solutions Bank Award from <i>The European</i> magazine. - In addition to international awards, the bank has also been recognized locally. It won the Royal Thailand Corporate Excellence Awards 2022 in the categories of Product/Service Excellence, Leadership Excellence, and Marketing Excellence from the Thailand Management Association, as well as the Thailand Sustainability Investment 2022 award from the Stock Exchange of Thailand.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	104,832	113,475	145,473	151,032	158,240
Interest Expenses	21,460	23,070	37,290	39,804	41,470
Net Interest Income	83,372	90,405	108,182	111,228	116,770
% of total income	72.7%	72.7%	76.3%	76.1%	76.2%
Gain on Investment	711	239	300	400	500
Fee Income	20,022	20,316	20,000	20,457	20,924
Gain on Exchange	3,467	5,233	6,000	6,300	6,615
Others	6,789	7,753	7,000	7,500	8,000
Non-interest Income	31,368	33,891	33,650	35,010	36,395
% of total income	27.3%	27.3%	23.7%	23.9%	23.8%
Total Income	114,739	124,296	141,832	146,238	153,164
Operating Expenses	52,731	54,771	57,180	59,560	61,976
Pre-provisioning Profit	62,009	69,525	84,652	86,678	91,188
Provisions	32,524	24,338	31,655	27,034	25,567
Pre-tax Profit	29,485	45,188	52,997	59,644	65,621
Income Tax	5,975	9,077	10,599	11,929	13,124
After Tax Profit	23,510	36,111	42,398	47,715	52,497
Equity Income	1,046	1,095	1,145	1,195	1,245
Minority Interest	(2,968)	(3,508)	(3,722)	(4,297)	(5,001)
Extraordinary Items	0	0	0	0	0
NET PROFIT	21,588	33,698	39,820	44,613	48,740
Normalized Profit	21,588	33,698	39,820	44,613	48,740
EPS (Bt)	1.5	2.4	2.8	3.2	3.5
Normalized EPS (Bt)	1.5	2.4	2.8	3.2	3.5

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	532,760	612,531	637,000	695,000	756,000
cash & cash equivalents	63,544	61,591	50,000	50,000	50,000
interbank & money market	469,216	550,941	587,000	645,000	706,000
Securities under resale agreeme	0	0	0	0	0
Investments	364,017	289,374	278,292	291,591	305,554
Net loans	2,476,220	2,443,832	2,478,738	2,577,840	2,681,685
Gross and accrued interest	2,649,542	2,618,211	2,653,162	2,754,684	2,861,369
Provisions for doubtful	173,322	174,379	174,424	176,844	179,684
Fixed assets - net	70,745	72,029	68,583	65,785	63,586
Other assets	113,002	174,643	174,643	176,389	178,153
Total assets	3,556,744	3,592,410	3,637,256	3,806,605	3,984,979
LIABILITIES:					
Liquid Items	2,915,302	2,872,354	2,879,141	3,013,300	3,153,008
Deposit	2,614,747	2,590,236	2,594,122	2,708,131	2,827,684
Interbank & money market	296,344	277,099	280,000	300,000	320,000
Liability payable on demand	4,210	5,019	5,019	5,169	5,324
Borrow ings	133,817	151,172	155,750	155,694	155,621
Other liabilities	133,514	176,321	177,000	176,000	175,000
Total liabilities	3,182,633	3,199,847	3,211,890	3,344,994	3,483,630
Minority interest	14,059	16,267	19,990	24,287	29,288
Shareholders' equity	360,053	376,296	405,376	437,324	472,062
Preferred capital	28.33	28.33	28.33	28.33	28.33
Paid-in capital	71,977	71,977	71,977	71,977	71,977
Share premium	20,174	20,174	20,174	20,174	20,174
Surplus/ Others	30,526	17,907	17,907	17,907	17,907
Retained earnings	237,347	266,210	295,291	327,239	361,976
Liabilities & equity	3,556,744	3,592,410	3,637,256	3,806,605	3,984,979

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	12.9	8.3	7.0	6.3	5.7
Normalized PE - at target price (x)	14.9	9.5	8.1	7.2	6.6
PE (x)	12.9	8.3	7.0	6.3	5.7
PE - at target price (x)	14.9	9.5	8.1	7.2	6.6
P/PPP (x)	4.5	4.0	3.3	3.2	3.1
P/PPP - at target price (x)	5.2	4.6	3.8	3.7	3.5
P/BV (x)	0.8	0.7	0.7	0.6	0.6
P/BV - at target price (x)	0.9	0.9	0.8	0.7	0.7
Dividend yield (%)	2.1	3.4	4.3	4.8	5.2
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	1.5	2.4	2.8	3.2	3.5
EPS	1.5	2.4	2.8	3.2	3.5
DPS	0.4	0.7	0.9	1.0	1.0
PPP/Share	4.4	5.0	6.1	6.2	6.5
BV/Share	25.8	26.9	29.0	31.3	33.8

Inexpensive valuation, in our view

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	(5.6)	8.4	19.7	2.8	5.0
Non-interest income (Non-II)	(1.5)	8.0	(0.7)	4.0	4.0
Operating expenses	(1.4)	3.9	4.4	4.2	4.1
Pre-provisioning profit (PPP)	(7.1)	12.1	21.8	2.4	5.2
Net profit	29.0	56.1	18.2	12.0	9.3
Normalized profit growth	29.0	56.1	18.2	12.0	9.3
EPS	29.1	56.1	18.2	12.0	9.3
Normalized EPS	29.1	56.1	18.2	12.0	9.3
Dividend payout ratio	27.1	28.3	30.0	30.0	30.0
Loan - gross	12.6	(1.4)	1.6	3.8	3.9
Loan - net	12.5	(1.3)	1.4	4.0	4.0
Deposit	6.2	(0.9)	0.2	4.4	4.4
NPLs	(0.3)	(5.3)	1.3	1.4	3.0
Total assets	6.9	1.0	1.2	4.7	4.7
Total equity	4.8	4.5	7.7	7.9	7.9
Operating Ratios (%)					
Net interest margin (NIM)	2.4	2.5	3.0	3.0	3.0
Net interest spread	3.5	3.6	4.5	4.5	4.5
Yield on earnings assets	3.2	3.3	4.2	4.2	4.2
Avg cost of fund	0.7	0.8	1.2	1.3	1.3
NII / operating income	72.7	72.7	76.3	76.1	76.2
Non-II / operating income	27.3	27.3	23.7	23.9	23.8
Fee income / operating income	17.4	16.3	14.1	14.0	13.7
Normalized net margin	18.8	27.1	28.1	30.5	31.8
Cost-to-income	46.0	44.1	40.3	40.7	40.5
Credit cost - provision exp / loans	1.2	0.9	1.2	1.0	0.9
PPP / total assets	1.8	1.9	2.3	2.3	2.3
PPP / total equity	17.6	18.9	21.7	20.6	20.1
ROA	0.6	0.9	1.1	1.2	1.3
ROE	6.1	9.2	10.2	10.6	10.7

Highest ROE among big banks

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	100.5	100.1	101.5	101.0	100.5
Loan-to-deposit & S-T borrow ing	100.5	100.1	101.5	101.0	100.4
Net loan / assets	69.6	68.0	68.1	67.7	67.3
Net loan / equity	687.7	649.4	611.5	589.5	568.1
Investment / assets	10.2	8.1	7.7	7.7	7.7
Deposit / liabilities	82.2	80.9	80.8	81.0	81.2
Liabilities / equity	883.9	850.4	792.3	764.9	738.0
Net interbank lender (Bt m)	172,872	273,842	307,000	345,000	386,000
Tier 1 CAR	16.9	16.7	17.2	17.8	18.4
Tier 2 CAR	3.3	3.1	3.0	2.9	2.8
Total CAR	20.1	19.8	20.2	20.7	21.2
NPLs (Bt m)	106,809	101,096	102,446	103,915	107,080
NPLs / Total loans (NPL Ratio)	4.0	3.9	3.9	3.8	3.7
Loan-Loss-Coverage	162.3	172.5	170.3	170.2	167.8

Sources: Company data, Thanachart estimates

Solid balance sheet

BUY (Unchanged)

Change in Numbers

TP: Bt 130.00 (From: Bt 122.00)

Upside : 10.6%

24 AUGUST 2023

SCB X Pcl (SCB TB)

Uninterrupted growth

Despite adjusting its profits to account for pre-emptive provisions and a conservative approach to consumer lending, there is no indication of a halt in SCB's robust growth and high dividend yields. Given a very decent performance during the extended cycle of the sector from 2024-25F, SCB stands out as our preferred big bank.



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Pre-emptive provisioning

We interpret SCB's increased credit costs of 1.66% in 1Q23 and 2% in 2Q23 as a deliberate strategy to effectively address the unforeseen defaults of a large corporate loan and to rectify the declining quality of the personal loan portfolio under the oversight of CardX. It is evident to us that credit costs have already peaked at 2% in 2Q23, but we conservatively expect it to take some time for SCB to return to normalized provisions. However, owing to front-loaded provisions and manageable NPLs, we still anticipate a decrease in overall credit costs for SCB from 1.84% this year to 1.66% in both 2024F and 2025F before eventually reaching 1.6% by 2026F.

More cautious lending

In response to indications of a slower recovery in the ability to repay loans within the mass lending segments due to an uneven economic recovery, SCB has decided to exercise caution in its consumer lending loans across the entire group, encompassing both the bank and the Gen2 consumer finance companies. In light of this development, we have adjusted our loan growth projections for Gen 2 companies from 41/25/17% to 27/22/15% over 2023-25F. This strategic realignment is a contributing factor reinforcing our confidence in SCB's capability to manage NPLs. Consequently, we lower our overall loan growth assumptions for SCB to 3.1% for 2023F, 3.8% for 2024F, and 3.6% for 2026F.

Strongest earnings growth over 2024-25F

We have revised down our earnings projections for SCB by an average of 0.8% for 2023-25F. Despite our adjustments in reducing the expected loan growth and increasing provisions, SCB's NIM has managed to be higher than we had initially assumed. This, combined with lower operating expenses than we'd anticipated, has influenced our forecasts for ongoing robust profit growth. As a result, we are now estimating a 19% increase in net profit for 2023F, followed by growth of 14% for both 2024-25F. Since we roll forward our base year to 2024F, we raise our DDM-based 12-month TP to Bt130 from Bt122 previously.

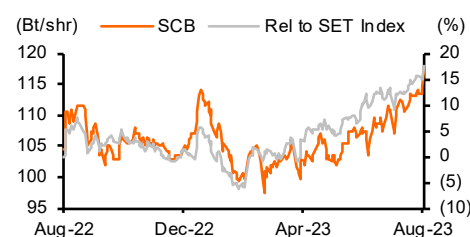
Our preferred choice among big banks

Impacted by a more pronounced impact from the COVID-19 crisis and navigating an uneven economic recovery, SCB has faced greater asset quality risks compared to BBL and KTB. Consequently, the performance of SCB's share price has lagged behind these two banks. SCB's superior growth story and its intention to continue paying high dividends, as part of its plan to lift ROE from 8% in 2022 to 13-15% in three to five years, bolster our preference for it vs. other big banks. Assuming a similar DPS to 2022's level, SCB offers the highest yield of close to 6%.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	84,274	101,468	104,790	114,506
Net profit	37,546	44,546	50,701	57,861
Consensus NP	—	43,696	47,231	51,538
Diff frm cons (%)	—	1.9	7.3	12.3
Norm profit	37,546	44,546	50,701	57,861
Prev. Norm profit	—	45,035	51,130	58,161
Chg frm prev (%)	—	(1.1)	(0.8)	(0.5)
Norm EPS (Bt)	11.2	13.2	15.1	17.2
Norm EPS grw (%)	5.5	18.6	13.8	14.1
Norm PE (x)	10.5	8.9	7.8	6.8
P/BV (x)	0.9	0.8	0.8	0.7
Div yield (%)	5.7	5.7	6.0	6.0
ROE (%)	8.3	9.4	10.2	10.9
ROA (%)	1.1	1.3	1.4	1.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	117.50
Market Cap (US\$ m)	11,284
Listed Shares (m shares)	3,367.1
Free Float (%)	76.4
Avg. Daily Turnover (US\$ m)	36.6
12M Price H/L (Bt)	114.50/97.50
Sector	BANK
Major Shareholder	HM King Maha Vajiralongkorn Bodindradebayavarangkun 23.58%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P58

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	40.44	27.22	35.59	37.55	44.55	50.70	57.86
- Old					45.03	51.13	58.16
- Change (%)					(1.08)	(0.84)	(0.52)
Loan growth (%)							
- New	(1.25)	6.69	2.07	3.27	3.12	3.84	3.64
- Old					5.37	5.84	5.60
- Change (ppt)					(2.24)	(2.00)	(1.96)
NIM (%)							
- New	3.23	3.10	2.89	3.19	3.58	3.71	3.86
- Old					3.47	3.59	3.78
- Change (ppt)					0.11	0.12	0.08
Non-NII (Bt bn)							
- New	42.64	47.95	54.61	46.28	49.10	47.32	49.97
- Old					44.37	46.92	49.55
- Change (%)					10.66	0.85	0.85
Opex (Bt bn)							
- New	70.54	64.33	63.56	69.87	71.64	74.00	76.84
- Old					73.36	78.08	83.12
- Change (%)					(2.34)	(5.23)	(7.55)
Provisions (Bt bn)							
- New	27.11	46.65	42.02	33.83	45.17	42.15	43.79
- Old					37.06	37.76	39.44
- Change (%)					21.91	11.62	11.03
NPLs (Bt bn)							
- New	85.21	101.46	109.11	95.33	97.18	98.75	100.49
- Old					102.37	107.15	112.51
- Change (%)					(5.07)	(7.84)	(10.68)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	22,560	23,570	23,570	29,522	31,689	37,677	39,512	41,487	43,661	92,097	92,097
Dividend payment	22,560	23,570	23,570	29,522	31,689	37,677	39,512	41,487	43,661	92,097	853,678
PV of dividend	22,621	18,616	16,547	18,422	17,571	18,569	17,309	15,591	14,515	27,094	251,142
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.2										
WACC (%)	12.0										
Cost of equity	12.0										
Terminal growth (%)	2.0										
Equity value	437,996										
No. of shares (m)	3,367										
Equity value / share (Bt)	130.0										

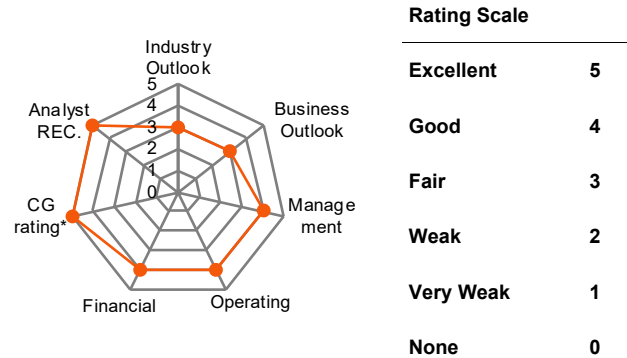
Sources: Company data, Thanachart estimates

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. The company has undergone a major business reorganization plan to transform the bank into SCBx, an investment holding company. The business transfer was completed in 4Q22. As a banking entity, it has divided its business operating platform into three generations. They are 1) Gen 1: SCB Bank; 2) Gen 2: Consumer and digital finance services; and 3) Gen 3: Platform and digital assets.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Leading position in retail products.
- Strong deposit franchise.
- Healthy balance sheet.

O — Opportunity

- Successful penetration of unsecured, digital/machine lending.
- Wealth management
- Non-bank service fees.

W — Weakness

- New structure has increased its exposure to higher-risk segments.
- Increasing exposure to digital assets, for which the business outlook remains unsettled.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	126.65	130.00	3%
Net profit 23F (Bt m)	43,696	44,546	2%
Net profit 24F (Bt m)	47,231	50,701	7%
Consensus REC	BUY: 20	HOLD: 4	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in incorporating better NIM and lower provisions from 2024F.
- Our earnings and TP are, therefore, higher than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

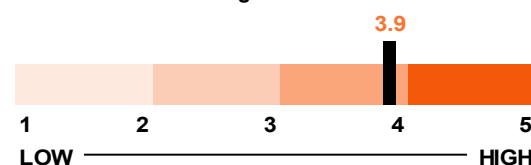
RISKS TO OUR INVESTMENT CASE

- Our more positive view is premised on greater NIM expansion, limited asset quality risks, and a better performance of its consumer finance subsidiaries.
- In any circumstances where the bank cannot enjoy benefits from rising interest rates that we currently assume, this would lead to downside risk to our forecasts and TP.
- 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 estimates and TP.

Source: Thanachart

SCB conducts its business by considering environmental, social and governance criteria, steered by three strategic pillars of sustainability: 1) sustainable finance, 2) creating social impacts, and 3) a better environmental future. We assign an ESG score of 3.86 to SCB.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
SCB	YES	YES	YES	A	-	-	86.00	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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

- SCBx has committed to becoming net zero within its operations by 2023 and for overall lending and investment by 2050.
- SCBx group, via SCB, assessed and considered ESG-related risks in 100% of project finance applications last year.
- The bank also integrates climate change considerations into its risk-management system, including climate scenario analyses in line with the TCFD's recommendations as one of its inputs for stress testing to set industry limits and inform business strategy.
- The bank has provided over Bt75.2bn in financing to help mitigate climate change impacts, reduce inequality, and promote well-being. The target is to provide Bt200bn of funding to support green/ESG finance by 2030.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- SCBx Group, via SCB, is committed to creating opportunities to provide youths of all ages with educational opportunities to help them develop skills for the 21st century because young people form an important foundation for the country's development and they need help to keep pace with future change.
- In 2022, SCB continued to support social initiatives, including with the SCB Challenge, CONNEXT ED, scholarships, and financial literacy schemes.
- Some 6,000 youths and teachers and 700 schools participated in the projects. SCB offers 240 Science and Technology scholarships and 543 general scholarships.

GOVERNANCE &
SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- With an ambition to align its growth strategy with the sustainable development guidelines, in 2022, SCBx established the group-wide sustainability governance structure that operates under a strategic framework comprising four pillars: "Planting Digital Seeds, Enriching Lives, Growing Economic Resilience, and Achieving Climate Neutrality" – steered by its sustainability mission, "Opportunities for Everyone, Possibilities Everyday".
- This is SCBx's direction to foster an inclusive financial ecosystem while empowering all stakeholders to take part and accelerate their climate actions through the use of technology and innovation. In doing so, the SCBx sustainability framework not only complies with the 10 principles of the United Nations Global Compact but also upholds the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement.
- SCBx was selected as a member of the Dow Jones Sustainability Indices (DJSI) for the World Index and the Emerging Markets Index in the banking sector for the 5th consecutive year. SCBx also ranked among the top 5% for its S&P Global ESG Score in the banking sector, as reported in *The Sustainability Yearbook 2023*.

Sources: Company data, Thanachart

INCOME STATEMENT

*Elevated provisions
factored in*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	112,177	126,993	158,829	169,595	180,410
Interest Expenses	17,006	19,127	34,823	38,122	39,035
Net Interest Income	95,171	107,865	124,006	131,473	141,375
% of total income	63.5%	70.0%	71.6%	73.5%	73.9%
Gain on Investment	146	54	100	100	100
Fee Income	40,198	37,148	36,143	37,550	39,078
Gain on Exchange	11,090	6,669	10,000	7,000	8,000
Others	3,014	2,262	2,700	2,500	2,625
Non-interest Income	54,615	46,283	49,103	47,315	49,972
% of total income	36.5%	30.0%	28.4%	26.5%	26.1%
Total Income	149,785	154,148	173,109	178,788	191,348
Operating Expenses	63,556	69,874	71,641	73,998	76,842
Pre-provisioning Profit	86,230	84,274	101,468	104,790	114,506
Provisions	42,024	33,829	45,174	42,149	43,793
Pre-tax Profit	44,205	50,445	56,294	62,641	70,712
Income Tax	9,376	13,592	12,948	13,155	14,142
After Tax Profit	34,829	36,853	43,346	49,486	56,570
Equity Income	557	273	400	400	400
Minority Interest	204	421	800	815	891
Extraordinary Items	0	0	0	0	0
NET PROFIT	35,590	37,546	44,546	50,701	57,861
Normalized Profit	35,590	37,546	44,546	50,701	57,861
EPS (Bt)	10.6	11.2	13.2	15.1	17.2
Normalized EPS (Bt)	10.6	11.2	13.2	15.1	17.2

BALANCE SHEET

*More cautious toward
consumer lending*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	668,689	569,309	567,000	591,000	634,000
cash & cash equivalents	50,421	47,254	38,000	38,000	38,000
interbank & money market	618,269	522,056	529,000	553,000	596,000
Securities under resale agreeme	0	0	0	0	0
Investments	222,634	390,671	346,367	346,567	346,767
Net loans	2,165,456	2,247,848	2,318,133	2,409,329	2,496,750
Gross and accrued interest	2,316,866	2,396,737	2,475,426	2,570,586	2,662,226
Provisions for doubtful	151,409	148,890	157,293	161,257	165,476
Fixed assets - net	63,397	68,898	70,715	71,014	68,584
Other assets	194,388	177,726	180,000	181,800	183,618
Total assets	3,314,565	3,454,452	3,482,215	3,599,710	3,729,720
LIABILITIES:					
Liquid Items	2,658,996	2,748,576	2,712,587	2,801,521	2,896,006
Deposit	2,466,717	2,555,800	2,492,587	2,583,316	2,677,495
Interbank & money market	181,740	181,347	205,000	205,205	205,410
Liability payable on demand	10,539	11,429	15,000	13,000	13,100
Borrowings	74,922	71,996	110,796	110,320	110,718
Other liabilities	138,032	167,268	171,000	172,710	174,437
Total liabilities	2,871,950	2,987,840	2,994,383	3,084,551	3,181,161
Minority interest	1,609	5,380	4,580	3,765	2,875
Shareholders' equity	441,006	461,232	483,252	511,394	545,684
Preferred capital	-	-	-	-	-
Paid-in capital	33,992	33,671	33,671	33,671	33,671
Share premium	11,124	11,019	11,019	11,019	11,019
Surplus/ Others	22,838	21,955	21,955	21,955	21,955
Retained earnings	373,053	394,587	416,607	444,749	479,039
Liabilities & equity	3,314,565	3,454,452	3,482,215	3,599,710	3,729,720

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	11.1	10.5	8.9	7.8	6.8
Normalized PE - at target price (x)	12.3	11.7	9.8	8.6	7.6
PE (x)	11.1	10.5	8.9	7.8	6.8
PE - at target price (x)	12.3	11.7	9.8	8.6	7.6
P/PPP (x)	4.6	4.7	3.9	3.8	3.5
P/PPP - at target price (x)	5.1	5.2	4.3	4.2	3.8
P/BV (x)	0.9	0.9	0.8	0.8	0.7
P/BV - at target price (x)	1.0	0.9	0.9	0.9	0.8
Dividend yield (%)	3.5	5.7	5.7	6.0	6.0
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	0.1
(Bt)					
Normalized EPS	10.6	11.2	13.2	15.1	17.2
EPS	10.6	11.2	13.2	15.1	17.2
DPS	4.1	6.7	6.7	7.0	7.0
PPP/Share	25.6	25.0	30.1	31.1	34.0
BV/Share	129.9	137.0	143.5	151.9	162.1

Highest dividend yield
among big banks

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	(1.8)	13.3	15.0	6.0	7.5
Non-interest income (Non-II)	13.9	(15.3)	6.1	(3.6)	5.6
Operating expenses	(1.2)	9.9	2.5	3.3	3.8
Pre-provisioning profit (PPP)	7.1	(2.3)	20.4	3.3	9.3
Net profit	30.8	5.5	18.6	13.8	14.1
Normalized profit growth	30.8	5.5	18.6	13.8	14.1
EPS	30.8	5.5	18.6	13.8	14.1
Normalized EPS	30.8	5.5	18.6	13.8	14.1
Dividend payout ratio	38.7	60.0	50.6	46.5	40.7
Loan - gross	2.1	3.3	3.1	3.8	3.6
Loan - net	1.6	3.8	3.1	3.9	3.6
Deposit	1.9	3.6	(2.5)	3.6	3.6
NPLs	7.5	(12.6)	1.9	1.6	1.8
Total assets	1.1	4.2	0.8	3.4	3.6
Total equity	7.2	4.6	4.8	5.8	6.7
Operating Ratios (%)					
Net interest margin (NIM)	2.9	3.2	3.6	3.7	3.9
Net interest spread	4.3	4.7	5.4	5.6	5.8
Yield on earnings assets	3.6	3.9	4.8	5.0	5.1
Avg cost of fund	0.6	0.7	1.2	1.3	1.3
NII / operating income	63.5	70.0	71.6	73.5	73.9
Non-II / operating income	36.5	30.0	28.4	26.5	26.1
Fee income / operating income	26.8	24.1	20.9	21.0	20.4
Normalized net margin	23.8	24.4	25.7	28.4	30.2
Cost-to-income	42.4	45.3	41.4	41.4	40.2
Credit cost - provision exp / loans	1.8	1.4	1.8	1.7	1.7
PPP / total assets	2.6	2.5	2.9	3.0	3.1
PPP / total equity	20.2	18.7	21.5	21.1	21.7
ROA	1.1	1.1	1.3	1.4	1.6
ROE	8.4	8.3	9.4	10.2	10.9

Higher NIM

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	93.3	93.0	98.3	98.5	98.5
Loan-to-deposit & S-T borrow ing	93.3	93.0	98.3	98.5	98.5
Net loan / assets	65.3	65.1	66.6	66.9	66.9
Net loan / equity	491.0	487.4	479.7	471.1	457.5
Investment / assets	6.7	11.3	9.9	9.6	9.3
Deposit / liabilities	85.9	85.5	83.2	83.8	84.2
Liabilities / equity	651.2	647.8	619.6	603.2	583.0
Net interbank lender (Bt m)	436,529	340,708	324,000	347,795	390,590
Tier 1 CAR	17.6	17.7	18.5	19.1	19.8
Tier 2 CAR	1.1	1.1	2.0	1.9	1.8
Total CAR	18.7	18.9	20.4	20.9	21.6
NPLs (Bt m)	109,114	95,329	97,177	98,754	100,490
NPLs / Total loans (NPL Ratio)	4.7	4.0	3.9	3.8	3.8
Loan-Loss-Coverage	138.8	156.2	161.9	163.3	164.7

Sources: Company data, Thanachart estimates

Manageable NPLs, in our view

BUY (From: HOLD)
Change in Recommendation

TP: Bt 113.00
Upside : 13.0%

(From: Bt 110.00)

24 AUGUST 2023

TISCO Financial Group (TISCO TB)

Solid with high yields

We upgrade our call on TISCO to BUY, given 13% potential upside to our new, higher TP of Bt113. With a robust provisioning cushion, TISCO is targeting higher-yield segments without compromising its compelling ROE and dividend payments. We expect a sustained ROE of above 18% and a solid 8%+ dividend yield.



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New, higher TP of Bt113

Having released excess provisions in the quarter, TISCO's credit costs came down to only 0.11% in 2Q23. This is a historically low level and significantly below our expectation. Although we don't expect this to set a trend for the rest of the year, we need to cut our provisioning assumption and raise our earnings for this year by 1.3%. We trim our earnings estimates in 2024-26F as our previous credit cost assumptions of 0.2-0.3% appear to be too low in light of its more aggressive loan growth and increasing penetration of the auto-cash segment. Given that we roll over our base year to 2024F, we raise our DDM-based 12-month TP to Bt113 from Bt110 previously.

Boosting corporate and auto-cash loans

Emerging from hibernation from 2018 through COVID, TISCO now has a sturdy balance sheet that we believe is primed for an assertive lending push. It is eyeing corporate loan expansion and ramping up high-yield auto-cash loans. With a swift rise in branch openings, from 450 in 4Q22 to a projected 1,000 by 2025, TISCO targets loan growth of over 5% annually from 2023 to 2025. Meanwhile, we expect auto-cash loans to rise from 17% of total loans in 2022 to 18%, 20%, and eventually 22% in 2023-25F.

Sustained high ROE and dividend yield

Despite a strategic shift toward more robust loan growth, TISCO remains unwavering in its emphasis on ROE. Thus, the bank's heightened lending appetite doesn't appear to jeopardize its ability to generate high ROE. Given the bank's robust capital ratio of 17%, we anticipate no obstacles to its capacity for substantial dividend payouts. Our projections hold firm, maintaining a dividend payout assumption of 85% over our forecast horizon.

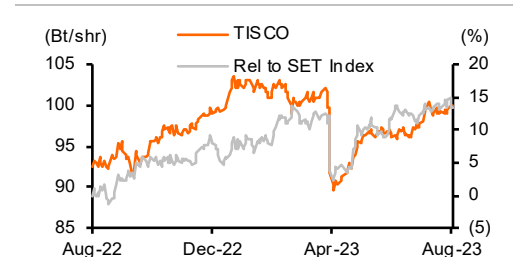
Upgrading to BUY

With a substantial portion of fixed-rate loans, rising interest rates have cast a shadow over TISCO's spread and net interest income. However, with the policy rate now resting at 2.25%, firmly within the Bank of Thailand's normalization zone, the headwinds of interest rate hikes appear to be diminishing. We anticipate a slower impact on TISCO's NIM from rising funding costs in 2024F. Backed by consistent earnings growth of approximately 6% annually from 2023F to 2025F, along with a sustained high ROE surpassing 18% and a robust dividend yield exceeding 8%, share price potential upside of 13% emerges. We, therefore, upgrade our recommendation on TISCO from Hold to BUY.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	9,656	10,182	11,147	11,878
Net profit	7,222	7,824	8,188	8,533
Consensus NP	—	7,411	7,639	8,118
Diff frm cons (%)	—	5.6	7.2	5.1
Norm profit	7,222	7,824	8,188	8,533
Prev. Norm profit	—	7,727	8,349	8,734
Chg frm prev (%)	—	1.3	(1.9)	(2.3)
Norm EPS (Bt)	9.0	9.8	10.2	10.7
Norm EPS grw (%)	6.4	8.3	4.7	4.2
Norm PE (x)	11.1	10.2	9.8	9.4
P/BV (x)	1.9	1.8	1.8	1.7
Div yield (%)	7.8	8.3	8.7	9.1
ROE (%)	17.2	18.0	18.2	18.4
ROA (%)	2.8	2.9	2.9	2.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	100.00
Market Cap (US\$ m)	2,283
Listed Shares (m shares)	800.6
Free Float (%)	73.8
Avg. Daily Turnover (US\$ m)	11.0
12M Price H/L (Bt)	103.50/89.50
Sector	BANK
Major Shareholder	Thai NVDR 10.84%

Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	7.27	6.06	6.78	7.22	7.82	8.19	8.53
- Old					7.73	8.35	8.73
- Change (%)					1.26	(1.92)	(2.30)
Loan growth (%)							
- New	0.90	(7.42)	(9.72)	7.91	5.79	5.07	4.67
- Old					5.62	5.05	4.65
- Change (ppt)					0.17	0.02	0.02
NIM (%)							
- New	3.89	4.28	4.58	4.78	4.49	4.53	4.54
- Old					4.49	4.50	4.47
- Change (ppt)					0.00	0.03	0.07
Non-NII (Bt bn)							
- New	6.63	5.81	6.37	5.55	6.20	6.86	7.42
- Old					6.20	6.86	7.32
- Change (%)					-	-	1.37
Opex (Bt bn)							
- New	9.27	8.01	8.28	8.63	9.15	9.64	10.09
- Old					9.15	9.71	10.30
- Change (%)					-	(0.67)	(2.02)
Provisions (Bt bn)							
- New	1.11	3.33	2.06	0.72	0.46	0.97	1.27
- Old					0.58	0.61	0.51
- Change (%)					(19.87)	60.28	150.47
NPLs (Bt bn)							
- New	5.84	5.62	4.96	4.58	5.80	6.96	7.66
- Old					4.85	5.14	5.45
- Change (%)					19.56	35.35	40.46

Sources: Company data, Thanachart estimates

Ex 2: DDM-based 12-month TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	6,805	7,107	7,477	7,887	8,343	8,890	9,462	10,065	10,688	11,349	11,349
Dividend payment	6,805	7,107	7,477	7,887	8,343	8,890	9,462	10,065	10,688	11,349	121,851
PV of dividend	6,824	5,766	5,465	5,194	4,949	4,750	4,555	4,211	4,009	3,818	40,991
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	10.5										
Cost of equity	10.5										
Terminal growth (%)	2.0										
Equity value	90,532										
No. of shares (m)	800										
Equity value / share (Bt)	113.00										

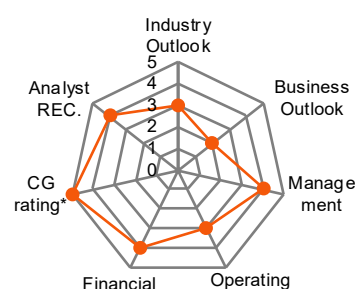
Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

TISCO Financial Group Plc (TISCO) was set up by TISCO Group, a well-established Thai financial institution. Under the new shareholding restructure, TISCO has become the parent of TISCO Group. Its subsidiaries comprise TISCO Bank Plc, TISCO Asset Management, TISCO Securities, Hi-Way, TISCO Information Technology and TISCO Tokyo Leasing Co Ltd.

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

- Strong management execution.
- Low operating cost advantage.
- Agility and flexibility.

O — Opportunity

- Rising penetration of auto cash loans.
- Wealth management and financial advisory services.

W — Weakness

- As a retail-oriented bank, TISCO's business is more geared to the economic cycle than peers.
- Relatively low CASA portion.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	107.83	113.00	5%
Net profit 23F (Bt m)	7,411	7,824	6%
Net profit 24F (Bt m)	7,639	8,188	7%
Consensus REC	BUY: 13	HOLD: 10	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in TISCO's lower provisions.
- Our earnings and TP are, therefore, above the Street's.

Sources: Bloomberg consensus, Thanachart estimates

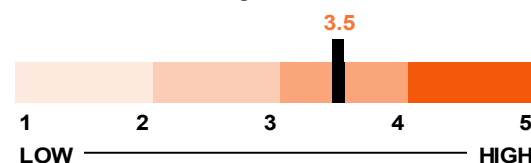
RISKS TO OUR INVESTMENT CASE

- Weakening asset quality represents a downside risk to our expectation for a declining provisioning trend.
- Upside to our earnings would be higher loan growth while the bank's higher dividend payment presents potential upside to our TP.

Source: Thanachart

TISCO Group is dedicated to providing competitive and innovative financial solutions that ensure customer satisfaction. This commitment applies to TISCO and its subsidiaries, directors, management, and subsidiaries' employees. However, with unclear targets to improve its environmental impact, we assign an ESG score of 3.54.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
TISCO	YES	YES	-	-	61.73	68.46	29.00	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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

- TISCO provides financing and advisory services to businesses and projects that are beneficial to the environment and society. It supports electric vehicle (EV) financing through prominent and market pioneer partners in Thailand, with the financing amount as much as 25% of the sales of popular EV models. TISCO also supports large business loans for environmentally friendly projects, reaching 20.99% of total corporate loans.
- In addition, the bank has integrated environmental impact management into its operations by raising awareness among employees of using resources efficiently and disseminating environmental conservation knowledge to communities in its operating areas to promote joint environmental management and continually support environmental conservation activities with external agencies, such as "Care the Whale" (invisible garbage), "Care the Bear" (eco event) and the "Won Project" (send plastic home).

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- TISCO has set out a policy of an "Organization of Happiness", with agility and employee engagement to grow together. Emphasis is placed on supervising and enhancing employees' potential to be ready for new challenges. This includes skills development for new tools and technology to increase the quality of work.
- TISCO Group emphasizes "promotion from within" for available job positions. Employees are assessed at all stages from the selection of new candidates to promotion, career development, and succession planning.
- For the social aspect, TISCO focuses on economic foundations. The bank has supported affected customers through sustainable debt restructuring, such as returning cars and ending debt, thereby helping more than 8,600 customers completely resolve their debt problems without affecting their financial records. It has also expanded opportunities to access financial services in remote areas by increasing "Somwang Ngern Sang Dai" branches, focusing on the responsible lending principle.

GOVERNANCE &
SUSTAINABILITY

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- The board structure comprises a board of directors and five subcommittees. Risk management and internal control are monitored and controlled by the board of directors with delegation to the executive board of directors of the group.
- The board of directors has 12 members, including three women. Half of them are independent directors and 17% are non-executives.
- To uphold the highest standards of good corporate governance, TISCO Group has established a "Business Code of Conduct" that demonstrates its determination to be a good corporate citizen in society. The group also holds a compulsory compliance and human resource policy test annually through the TISCO Intranet system.
- TISCO received an Excellent Corporate Governance Report from the Thai Institute of Directors (IOD) for the 16th year since 2007.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	14,792	14,904	16,571	17,774	18,984
Interest Expenses	2,332	2,171	3,431	3,844	4,437
Net Interest Income	12,460	12,734	13,140	13,930	14,547
% of total income	66.2%	69.6%	68.0%	67.0%	66.2%
Gain on Investment	6	3	4	6	8
Fee Income	5,615	5,081	5,701	6,127	6,559
Gain on Exchange	404	86	120	150	200
Others	70	73	75	77	80
Non-interest Income	6,369	5,551	6,196	6,861	7,422
% of total income	33.8%	30.4%	32.0%	33.0%	33.8%
Total Income	18,829	18,285	19,335	20,792	21,969
Operating Expenses	8,279	8,630	9,154	9,645	10,091
Pre-provisioning Profit	10,550	9,656	10,182	11,147	11,878
Provisions	2,064	723	463	974	1,274
Pre-tax Profit	8,486	8,933	9,718	10,174	10,604
Income Tax	1,708	1,766	1,944	2,035	2,121
After Tax Profit	6,778	7,167	7,775	8,139	8,483
Equity Income	7	55	50	50	50
Minority Interest	(0)	(0)	(0)	(0)	(0)
Extraordinary Items	0	0	0	0	0
NET PROFIT	6,785	7,222	7,824	8,188	8,533
Normalized Profit	6,785	7,222	7,824	8,188	8,533
EPS (Bt)	8.5	9.0	9.8	10.2	10.7
Normalized EPS (Bt)	8.5	9.0	9.8	10.2	10.7

Supported by lower provisions

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	31,593	41,277	44,900	43,000	42,000
cash & cash equivalents	1,103	1,005	1,000	1,000	1,000
interbank & money market	30,489	40,272	43,900	42,000	41,000
Securities under resale agreeme	0	0	0	0	0
Investments	8,852	4,863	4,149	4,315	4,488
Net loans	192,922	208,881	222,115	234,189	245,642
Gross and accrued interest	204,662	220,726	233,496	245,327	256,780
Provisions for doubtful	11,740	11,845	11,381	11,138	11,138
Fixed assets - net	2,901	2,793	2,653	2,533	2,433
Other assets	7,354	7,600	7,800	8,000	8,200
Total assets	243,622	265,414	281,617	292,037	302,762
LIABILITIES:					
Liquid Items	174,897	194,718	210,478	219,817	229,592
Deposit	166,542	188,266	203,960	213,236	222,948
Interbank & money market	8,081	6,195	6,257	6,320	6,383
Liability payable on demand	274	257	261	261	261
Borrowings	14,962	15,757	14,905	14,702	14,326
Other liabilities	12,563	12,148	12,048	11,948	11,848
Total liabilities	202,422	222,623	237,431	246,467	255,766
Minority interest	3	3	4	4	5
Shareholders' equity	41,197	42,788	44,182	45,565	46,992
Preferred capital	-	-	-	-	-
Paid-in capital	8,007	8,007	8,003	8,003	8,003
Share premium	1,018	1,018	1,018	1,018	1,018
Surplus/ Others	1,828	1,831	1,831	1,831	1,831
Retained earnings	30,344	31,932	33,330	34,713	36,139
Liabilities & equity	243,622	265,414	281,617	292,037	302,762

Resumption of loan growth

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	11.8	11.1	10.2	9.8	9.4
Normalized PE - at target price (x)	13.3	12.5	11.6	11.0	10.6
PE (x)	11.8	11.1	10.2	9.8	9.4
PE - at target price (x)	13.3	12.5	11.6	11.0	10.6
P/PPP (x)	7.6	8.3	7.9	7.2	6.7
P/PPP - at target price (x)	8.6	9.4	8.9	8.1	7.6
P/BV (x)	1.9	1.9	1.8	1.8	1.7
P/BV - at target price (x)	2.2	2.1	2.0	2.0	1.9
Dividend yield (%)	7.2	7.8	8.3	8.7	9.1
Market cap / net loans (x)	0.4	0.4	0.4	0.3	0.3
Market cap / deposit (x)	0.5	0.4	0.4	0.4	0.4
(Bt)					
Normalized EPS	8.5	9.0	9.8	10.2	10.7
EPS	8.5	9.0	9.8	10.2	10.7
DPS	7.2	7.8	8.3	8.7	9.1
PPP/Share	13.2	12.1	12.7	13.9	14.8
BV/Share	51.5	53.5	55.2	56.9	58.7

Attractive dividend yields
with sustained high ROE

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	(4.9)	2.2	3.2	6.0	4.4
Non-interest income (Non-II)	9.7	(12.8)	11.6	10.7	8.2
Operating expenses	3.3	4.2	6.1	5.4	4.6
Pre-provisioning profit (PPP)	(3.2)	(8.5)	5.4	9.5	6.6
Net profit	11.9	6.4	8.3	4.7	4.2
Normalized profit growth	11.9	6.4	8.3	4.7	4.2
EPS	11.9	6.4	8.3	4.7	4.2
Normalized EPS	11.9	6.4	8.3	4.7	4.2
Dividend payout ratio	84.3	85.9	85.0	85.0	85.0
Loan - gross	(9.7)	7.9	5.8	5.1	4.7
Loan - net	(10.2)	8.3	6.3	5.4	4.9
Deposit	(18.2)	13.0	8.3	4.5	4.6
NPLs	(11.8)	(7.7)	26.7	20.0	10.0
Total assets	(11.6)	8.9	6.1	3.7	3.7
Total equity	4.4	3.9	3.3	3.1	3.1
Operating Ratios (%)					
Net interest margin (NIM)	4.8	5.0	4.8	4.9	4.9
Net interest spread	6.0	6.1	6.1	6.1	6.1
Yield on earnings assets	5.7	5.9	6.1	6.2	6.4
Avg cost of fund	1.1	1.1	1.6	1.7	1.9
NII / operating income	66.2	69.6	68.0	67.0	66.2
Non-II / operating income	33.8	30.4	32.0	33.0	33.8
Fee income / operating income	29.8	27.8	29.5	29.5	29.9
Normalized net margin	36.0	39.5	40.5	39.4	38.8
Cost-to-income	44.0	47.2	47.3	46.4	45.9
Credit cost - provision exp / loans	1.0	0.3	0.2	0.4	0.5
PPP / total assets	4.1	3.8	3.7	3.9	4.0
PPP / total equity	26.2	23.0	23.4	24.8	25.7
ROA	2.6	2.8	2.9	2.9	2.9
ROE	16.8	17.2	18.0	18.2	18.4

Easing NIM pressure
from 2024F

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	121.9	116.3	113.6	114.2	114.3
Loan-to-deposit & S-T borrowing	121.8	116.3	113.1	113.8	114.1
Net loan / assets	79.2	78.7	78.9	80.2	81.1
Net loan / equity	468.3	488.2	502.7	514.0	522.7
Investment / assets	3.6	1.8	1.5	1.5	1.5
Deposit / liabilities	82.3	84.6	85.9	86.5	87.2
Liabilities / equity	491.3	520.3	537.4	540.9	544.3
Net interbank lender (Bt m)	22,409	34,077	37,643	35,680	34,617
Tier 1 CAR	18.6	17.2	17.1	17.2	17.3
Tier 2 CAR	4.6	3.5	3.3	3.2	3.1
Total CAR	23.2	20.6	20.5	20.4	20.3
NPLs (Bt m)	4,957	4,577	5,800	6,960	7,656
NPLs / Total loans (NPL Ratio)	2.4	2.1	2.5	2.8	3.0
Loan-Loss-Coverage	236.8	258.8	196.2	160.0	145.5

Sources: Company data, Thanachart estimates

**Strong provisioning
buffer to support growing
penetration of high-yield
loans**

BUY (Unchanged)
Change in Numbers

TP: Bt 2.00 (From: Bt 1.75)
Upside : 11.1%

24 AUGUST 2023

TMBThanachart Bank (TTB TB)

Growth and yield

Even after an impressive share price performance YTD, TTB remains our preferred choice with a higher TP of Bt2. Our confidence stems from the bank's strategic plan to expand ROE without compromising asset quality, even in the absence of robust economic growth. Besides, the bank's dividend yield looks attractive to us at over 6%.



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Lifting our TP to Bt2; reaffirming BUY

We raise our earnings estimates for TTB by 9% p.a. in 2023-24F and by another 2% in 2025F. The upward revisions are due mainly to cuts in our provisioning expense projections by 2/5/10% over those years in light of the bank's more manageable NPLs. As we have also rolled forward our valuation base year to 2024F, our DDM-based 12-month TP for TTB rises by 14% to Bt2 from Bt1.75 previously. We continue to like TTB and reaffirm our BUY call for its higher 11% share price potential upside.

Nice shift of lending mix

We do not find the slow pick-up in loan growth of 0.4% q-q in 2Q23 for TTB to be concerning. This deceleration was primarily driven by corporate loan repayments. Even with a higher baseline, retail loans exhibited more accelerated growth than the overall loan portfolio. In the meantime, TTB has been actively advancing its strategy to increase the proportion of high-yield secured loans within categories like hire purchase (HP), mortgage, and consumer lending. We expect this emphasis on higher-yield loans to contribute to sustaining the momentum of net interest income (NII) and net interest margin (NIM) in the foreseeable future. From an initial growth rate of 11% y-y in 1H23, we estimate NII to expand by 10% this year, with a subsequent growth rate of 3% p.a. in 2024F and 2025F.

Stable asset quality

Despite having substantial exposure to auto-HP loans, a segment that has raised concerns at the National Credit Bureau (NCB) due to signs of special-mention loans, TTB's asset quality has been well controlled. This is evident through the bank's ability to keep NPLs at below 2.7%, maintaining low credit costs but with an increase in its loan-loss-coverage ratio to 144% in 2Q23. TTB's relatively stronger loan quality in comparison to other banks with a focus on HP loans can be attributed to its more cautious approach to volume growth and its proactive efforts to address loans that show early signs of deteriorating quality.

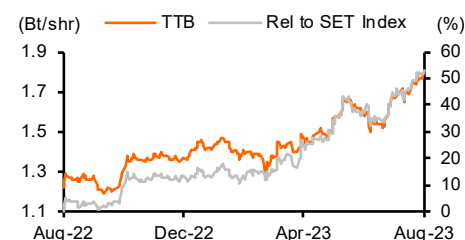
Ongoing ROE-enhancement efforts

TTB remains committed to efficiently managing surplus liquidity by initiating a third round of repurchasing hybrid Tier-I securities before their maturity in 2024. It plans to acquire up to 15% of the remainder at prices that do not surpass 97% of the face value this month. We see benefits from the buyback via a leaner equity base, a lower cost of funds, and some investment gain windfalls in 3Q23F. This would further enhance the bank's ROE alongside with allowing an improvement of its core operations.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	35,639	38,918	41,218	43,219
Net profit	14,195	17,571	20,296	22,121
Consensus NP	—	16,793	18,527	20,262
Diff frm cons (%)	—	4.6	9.6	9.2
Norm profit	14,195	17,571	20,296	22,121
Prev. Norm profit	—	16,142	18,697	21,634
Chg frm prev (%)	—	8.9	8.6	2.2
Norm EPS (Bt)	0.1	0.2	0.2	0.2
Norm EPS grw (%)	35.5	23.8	15.5	9.0
Norm PE (x)	12.3	9.9	8.6	7.9
P/BV (x)	0.8	0.8	0.7	0.7
Div yield (%)	4.1	5.6	6.4	7.0
ROE (%)	6.6	7.8	8.6	9.0
ROA (%)	0.8	1.0	1.1	1.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	1.80
Market Cap (US\$ m)	4,973
Listed Shares (m shares)	96,865.6
Free Float (%)	29.8
Avg. Daily Turnover (US\$ m)	17.3
12M Price H/L (Bt)	1.78/1.19
Sector	BANK
Major Shareholder	TCAP 24.39%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P74

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 24.33% of the shareholding in TMBThanachart Bank Pcl.

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Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	7.22	10.11	10.47	14.20	17.57	20.30	22.12
- Old					16.14	18.70	21.63
- Change (%)					8.85	8.55	2.25
Loan growth (%)							
- New	103.03	0.05	(1.55)	0.35	1.33	1.82	1.86
- Old					3.29	3.23	3.29
- Change (ppt)					(1.96)	(1.41)	(1.43)
NIM (%)							
- New	1.95	2.93	2.86	2.88	3.10	3.14	3.16
- Old					2.93	2.99	3.08
- Change (ppt)					0.17	0.15	0.08
Non-NII (Bt bn)							
- New	12.63	15.18	14.19	13.97	13.70	14.59	15.31
- Old					14.03	14.92	15.61
- Change (%)					(2.37)	(2.24)	(1.90)
Opex (Bt bn)							
- New	20.67	32.18	31.22	29.95	31.55	31.60	32.17
- Old					29.98	30.55	31.14
- Change (%)					5.25	3.44	3.30
Provisions (Bt bn)							
- New	10.34	24.83	21.51	18.35	17.43	16.47	15.91
- Old					17.81	17.40	17.67
- Change (%)					(2.16)	(5.35)	(9.97)
NPLs (Bt bn)							
- New	37.75	39.59	42.12	41.71	41.71	42.12	42.97
- Old					41.71	42.12	43.39
- Change (%)					0.00	0.00	(0.97)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation, Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	9,662	11,163	12,167	14,623	15,897	17,227	18,615	23,367	25,083	38,385	38,385
Dividend payment	9,662	11,163	12,167	14,623	15,897	17,227	18,615	23,367	25,083	38,385	355,286
PV of dividend	9,689	8,814	8,538	9,119	8,808	8,483	8,147	8,772	8,328	11,276	104,373
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.2										
WACC (%)	12.0										
Cost of equity (%)	12.0										
Terminal growth (%)	2.0										
Equity value	194,347										
No. of shares (m)	96,623										
Equity value / share (Bt)	2.00										

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

Founded in 1957, TMB Bank Public Company Limited (TMB) was one of the leading mid-sized commercial banks in Thailand. TMB merged with Thanachart Bank and became the sixth-largest bank in Thailand in 2019. The merged bank, TMBThanachart Bank (TTB), was launched after the completion of the Entire Business Transfer in 2020. Having successfully completed its integration mission on 5 July last year as planned. TTB became one of the Domestically Systemically Important Banks (D-SIBs) in Thailand in 2021.

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

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

O — Opportunity

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

W — Weakness

- With its largest exposure to auto-HP, loan growth heavily relies on domestic car sales and demand/supply dynamic and the automotive industry.

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	1.70	2.00	17%
Net profit 23F (Bt m)	16,793	17,571	5%
Net profit 24F (Bt m)	18,527	20,296	10%
Consensus REC	BUY: 14	HOLD: 10	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in incorporating higher NIM and lower provisions for TTB.
- As a result, our earnings forecasts and TP are higher.

Sources: Bloomberg consensus, Thanachart estimates

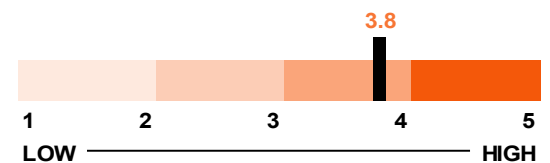
RISKS TO OUR INVESTMENT CASE

- If TTB fails to execute its plans to extract more post-merger revenue synergies in three ecosystem models and is unable to manage asset quality well as we presently expect, this would lead to potential downside risk to our earnings and TP.

Source: Thanachart

TTB strives to integrate sustainability aspects into its business, aiming to avoid and minimize the negative impacts of operations, products, and services, and to identify business opportunities to create positive impacts. We assign an ESG score of 3.82 to TTB.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
TTB	YES	YES	-	-	54.16	59.71	71.00	36.0	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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	- TTB has set a target to reduce the bank's electricity consumption by 15% and its water consumption by 10% by 2026, compared to the 2019 baseline. - Shifting toward a net-zero economy requires moving away from carbon-intensive economic activities. TTB's policy is to reduce the financing of business activities that contribute the most to worsening climate change. Since 2020, the bank stopped financing activities related to new coal-fired power plant projects and coal mining and exploration, while existing financing is planned to be run down to zero by 2028. - In 2022, the bank issued a total of Bt13.1bn in green loans. It also issued a Bt2bn sustainability-linked loan agreement with Thai Union Group. - The bank is the first and only Thai commercial bank to issue green and blue bonds.
SOCIAL - Human Rights - Staff Management - Health & Safety - Product Safety & Quality - Social Responsibility	- The bank's human rights policy entails a commitment to respecting the human rights of all stakeholders related to its business activities, in line with the Universal Declaration of Human Rights, the UN Guiding Principles for Business and Human Rights, the UN Global Compact Principles, and the International Labour Organization. - TTB has committed to having a diverse, inclusive workforce and aims to create a level playing field where all staff, both male and female, have equal employment opportunities. The bank's target is to have at least 40% of management positions held by women. - The bank established the TTB Stock Retention Program (TSRP) in 2021, as approved by the board of directors. Some 305,000,000 shares at a par value of 0.95 baht are to be offered to TSRP-eligible employees with a vesting schedule of three years (2021-23).
GOVERNANCE & SUSTAINABILITY - Board - Ethics & Transparency - Business Sustainability - Risk Management - Innovation	- The 14-member board of directors consists of eight non-executive directors, one executive director, and five independent directors. - The board of directors, in conjunction with six of the bank's sub-committees: the Nomination, Remuneration and Corporate Governance Committee, Credit Committee, Risk Oversight Committee, IT Oversight Committee, Audit Committee, and Board of Executive Directors Committee, serves as a crucial overseer for the sustainable growth of the bank. - Through its whistleblowing channel, 45 incidents were investigated, and all employees involved were penalized. There was one inappropriate incident of behavior at the workplace, six of dishonest conduct, 18 of non-compliance with procedures and regulations, and 20 cases of fraudulent acts in 2022. - All employees have completed online risk-awareness training courses covering topics such as cybersecurity risk awareness and non-financial risk management. All members of the board of directors have participated in risk-related training on topics such as Security Awareness Training, Cybersecurity, and Cyber Resilience.

Sources: Company data, Thanachart

INCOME STATEMENT

*Boosted by higher NIM
and lower provisions*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	64,239	65,627	78,104	80,258	83,062
Interest Expenses	13,240	14,010	21,334	22,026	22,987
Net Interest Income	51,000	51,617	56,770	58,232	60,075
% of total income	78.2%	78.7%	80.6%	80.0%	79.7%
Gain on Investment	182	7	50	100	100
Fee Income	11,248	10,391	10,449	10,986	11,551
Gain on Exchange	1,480	1,693	1,800	2,000	2,060
Others	1,281	1,884	1,400	1,500	1,600
Non-interest Income	14,191	13,974	13,699	14,586	15,311
% of total income	21.8%	21.3%	19.4%	20.0%	20.3%
Total Income	65,191	65,591	70,469	72,818	75,386
Operating Expenses	31,219	29,952	31,551	31,600	32,167
Pre-provisioning Profit	33,972	35,639	38,918	41,218	43,219
Provisions	21,514	18,353	17,430	16,470	15,909
Pre-tax Profit	12,458	17,286	21,488	24,748	27,310
Income Tax	2,327	3,352	4,167	4,702	5,189
After Tax Profit	10,131	13,934	17,321	20,046	22,121
Equity Income	346	261	250	250	0
Minority Interest	(3)	(0)	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	10,474	14,195	17,571	20,296	22,121
Normalized Profit	10,474	14,195	17,571	20,296	22,121
EPS (Bt)	0.1	0.1	0.2	0.2	0.2
Normalized EPS (Bt)	0.1	0.1	0.2	0.2	0.2

BALANCE SHEET

*Adopting a less
aggressive volume
growth approach*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	174,884	203,069	211,000	223,000	235,000
cash & cash equivalents	16,011	15,506	13,000	12,000	11,000
interbank & money market	158,873	187,563	198,000	211,000	224,000
Securities under resale agreeme	0	0	0	0	0
Investments	180,229	211,432	190,288	195,997	201,877
Net loans	1,324,201	1,326,505	1,343,695	1,368,725	1,395,283
Gross and accrued interest	1,378,673	1,383,895	1,402,897	1,428,496	1,455,054
Provisions for doubtful	54,472	57,390	59,203	59,771	59,771
Fixed assets - net	30,252	31,941	33,568	34,674	34,452
Other assets	48,604	53,333	54,933	56,581	58,279
Total assets	1,758,170	1,826,279	1,833,484	1,878,977	1,924,891
LIABILITIES:					
Liquid Items	1,429,486	1,489,603	1,493,292	1,523,158	1,553,621
Deposit	1,339,195	1,399,247	1,401,692	1,429,726	1,458,321
Interbank & money market	84,966	84,770	85,000	86,700	88,434
Liability payable on demand	5,325	5,586	6,600	6,732	6,867
Borrowings	68,398	59,644	60,813	60,806	60,299
Other liabilities	49,449	58,024	50,000	55,000	60,000
Total liabilities	1,547,334	1,607,271	1,604,105	1,638,964	1,673,920
Minority interest	1	1	1	1	1
Shareholders' equity	210,835	219,006	229,378	240,012	250,970
Preferred capital	-	-	-	-	-
Paid-in capital	91,792	91,937	91,792	91,792	91,792
Share premium	43,345	43,360	43,360	43,360	43,360
Surplus/ Others	5,172	4,456	4,456	4,456	4,456
Retained earnings	70,526	79,253	89,771	100,405	111,363
Liabilities & equity	1,758,170	1,826,279	1,833,484	1,878,977	1,924,891

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	16.6	12.3	9.9	8.6	7.9
Normalized PE - at target price (x)	18.4	13.6	11.0	9.5	8.7
PE (x)	16.6	12.3	9.9	8.6	7.9
PE - at target price (x)	18.4	13.6	11.0	9.5	8.7
P/PPP (x)	5.1	4.9	4.5	4.2	4.0
P/PPP - at target price (x)	5.7	5.4	5.0	4.7	4.5
P/BV (x)	0.8	0.8	0.8	0.7	0.7
P/BV - at target price (x)	0.9	0.9	0.8	0.8	0.8
Dividend yield (%)	2.1	4.1	5.6	6.4	7.0
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	0.1	0.1	0.2	0.2	0.2
EPS	0.1	0.1	0.2	0.2	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	2.2	2.3	2.4	2.5	2.6

Very attractive dividend
yield, in our view

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	(5.2)	1.2	10.0	2.6	3.2
Non-interest income (Non-II)	(6.5)	(1.5)	(2.0)	6.5	5.0
Operating expenses	(3.0)	(4.1)	5.3	0.2	1.8
Pre-provisioning profit (PPP)	(7.7)	4.9	9.2	5.9	4.9
Net profit	3.6	35.5	23.8	15.5	9.0
Normalized profit growth	3.6	35.5	23.8	15.5	9.0
EPS	3.6	35.5	23.8	15.5	9.0
Normalized EPS	3.6	35.5	23.8	15.5	9.0
Dividend payout ratio	35.1	49.7	55.0	55.0	55.0
Loan - gross	(1.6)	0.4	1.3	1.8	1.9
Loan - net	(1.8)	0.2	1.3	1.9	1.9
Deposit	(2.5)	4.5	0.2	2.0	2.0
NPLs	6.4	(1.0)	0.0	1.0	2.0
Total assets	(2.8)	3.9	0.4	2.5	2.4
Total equity	3.0	3.9	4.7	4.6	4.6
Operating Ratios (%)					
Net interest margin (NIM)	2.9	2.9	3.1	3.1	3.2
Net interest spread	3.9	4.0	4.4	4.5	4.5
Yield on earnings assets	3.7	3.7	4.4	4.4	4.5
Avg cost of fund	0.9	0.9	1.4	1.4	1.4
NII / operating income	78.2	78.7	80.6	80.0	79.7
Non-II / operating income	21.8	21.3	19.4	20.0	20.3
Fee income / operating income	17.3	15.8	14.8	15.1	15.3
Normalized net margin	16.1	21.6	24.9	27.9	29.3
Cost-to-income	47.9	45.7	44.8	43.4	42.7
Credit cost - provision exp / loans	1.6	1.3	1.3	1.2	1.1
PPP / total assets	1.9	2.0	2.1	2.2	2.3
PPP / total equity	16.4	16.6	17.4	17.6	17.6
ROA	0.6	0.8	1.0	1.1	1.2
ROE	5.0	6.6	7.8	8.6	9.0

Rising ROE

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

	FY ending Dec	2021A	2022A	2023F	2024F	2025F
<i>Solid balance sheet</i>	Liquidity and Quality Ratio (%)					
	Loan-to-deposit	102.4	98.3	99.5	99.3	99.2
	Loan-to-deposit & S-T borrowing	102.4	98.3	99.4	99.3	99.2
	Net loan / assets	75.3	72.6	73.3	72.8	72.5
	Net loan / equity	628.1	605.7	585.8	570.3	556.0
	Investment / assets	10.3	11.6	10.4	10.4	10.5
	Deposit / liabilities	86.5	87.1	87.4	87.2	87.1
	Liabilities / equity	733.9	733.9	699.3	682.9	667.0
	Net interbank lender (Bt m)	73,907	102,793	113,000	124,300	135,566
	Tier 1 CAR	15.3	16.3	16.0	16.2	16.2
	Tier 2 CAR	4.0	3.7	3.5	3.4	3.2
	Total CAR	19.3	20.0	19.5	19.6	19.4
	NPLs (Bt m)	42,120	41,707	41,707	42,124	42,967
	NPLs / Total loans (NPL Ratio)	3.1	3.0	3.0	2.9	3.0
	Loan-Loss-Coverage	129.3	137.6	141.9	141.9	139.1

Sources: Company data, Thanachart estimates

KASIKORNBANK**INCOME STATEMENT**

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	135,415	151,333	181,142	184,958	190,603
Interest Expenses	16,024	18,334	33,717	37,145	38,331
Net Interest Income	119,390	132,998	147,425	147,813	152,272
% of total income	72.8%	76.8%	76.8%	74.9%	74.9%
Gain on Investment	817	(130)	(500)	400	400
Fee Income	35,316	32,882	31,829	32,305	33,299
Gain on Exchange	5,539	5,053	10,000	10,500	11,000
Others	(330)	(1,106)	(678)	2,123	2,123
Non-interest Income	44,653	40,145	44,650	49,428	51,022
% of total income	27.2%	23.2%	23.2%	25.1%	25.1%
Total Income	164,043	173,143	192,075	197,240	203,293
Operating Expenses	71,044	74,753	83,743	88,134	92,261
Pre-provisioning Profit	92,999	98,390	108,332	109,107	111,032
Provisions	40,332	51,919	51,475	47,399	42,802
Pre-tax Profit	52,667	46,470	56,856	61,708	68,230
Income Tax	9,729	8,633	10,575	11,416	12,623
After Tax Profit	42,939	37,838	46,281	50,292	55,607
Equity Income	(694)	115	0	100	200
Minority Interest	(4,192)	(2,183)	(3,000)	(2,850)	(2,708)
Extraordinary Items	0	0	0	0	0
NET PROFIT	38,053	35,769	43,281	47,542	53,100
Normalized Profit	38,053	35,769	43,281	47,542	53,100
EPS (Bt)	15.9	14.9	18.1	19.9	22.2
Normalized EPS (Bt)	15.9	14.9	18.1	19.9	22.2

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	480,466	559,651	635,000	674,000	652,000
cash & cash equivalents	59,972	57,115	45,000	45,000	45,000
interbank & money market	420,494	502,536	590,000	629,000	607,000
Securities under resale agreement	0	0	0	0	0
Investments	1,034,372	982,177	996,910	1,028,403	1,060,780
Net loans	2,293,640	2,377,774	2,397,228	2,438,359	2,542,370
Gross and accrued interest	2,438,412	2,511,303	2,526,990	2,577,089	2,689,125
Provisions for doubtful	144,772	133,529	129,763	138,730	146,755
Fixed assets - net	97,185	111,105	108,619	111,596	115,143
Other assets	197,736	215,662	225,662	235,662	245,662
Total assets	4,103,399	4,246,369	4,363,419	4,488,020	4,615,956
LIABILITIES:					
Liquid Items	2,810,429	2,928,812	2,966,379	3,033,438	3,102,518
Deposit	2,598,630	2,748,685	2,773,981	2,841,264	2,910,565
Interbank & money market	186,449	155,240	170,000	170,000	170,000
Liability payable on demand	25,350	24,887	22,399	22,175	21,953
Borrowings	103,886	67,897	90,432	90,566	90,255
Other liabilities	652,409	682,581	702,581	722,581	742,581
Total liabilities	3,566,724	3,679,289	3,759,392	3,846,585	3,935,354
Minority interest	59,961	63,810	66,810	69,660	72,367
Shareholders' equity	476,714	503,270	537,217	571,775	608,235
Preferred capital	-	-	-	-	-
Paid-in capital	23,693	23,693	23,933	23,933	23,933
Share premium	18,103	18,103	18,103	18,103	18,103
Surplus/ Others	39,104	36,439	36,439	36,439	36,439
Retained earnings	395,813	425,035	458,743	493,300	529,761
Liabilities & equity	4,103,399	4,246,369	4,363,419	4,488,020	4,615,956

Sources: Company data, Thanachart estimates

KASIKORNBANK**VALUATION**

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	8.3	8.9	7.3	6.7	6.0
Normalized PE - at target price (x)	8.4	9.0	7.4	6.7	6.0
PE (x)	8.3	8.9	7.3	6.7	6.0
PE - at target price (x)	8.4	9.0	7.4	6.7	6.0
P/PPP (x)	3.4	3.2	2.9	2.9	2.9
P/PPP - at target price (x)	3.4	3.3	3.0	2.9	2.9
P/BV (x)	0.7	0.6	0.6	0.6	0.5
P/BV - at target price (x)	0.7	0.6	0.6	0.6	0.5
Dividend yield (%)	2.5	3.0	4.1	5.2	6.7
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
(Bt)					
Normalized EPS	15.9	14.9	18.1	19.9	22.2
EPS	15.9	14.9	18.1	19.9	22.2
DPS	3.3	4.0	5.4	7.0	8.9
PPP/Share	38.9	41.1	45.3	45.6	46.4
BV/Share	199.2	210.3	224.5	238.9	254.1

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	9.5	11.4	10.8	0.3	3.0
Non-interest income (Non-II)	(3.1)	(10.1)	11.2	10.7	3.2
Operating expenses	1.5	5.2	12.0	5.2	4.7
Pre-provisioning profit (PPP)	9.3	5.8	10.1	0.7	1.8
Net profit	29.0	(6.0)	21.0	9.8	11.7
Normalized profit growth	29.0	(6.0)	21.0	9.8	11.7
EPS	29.0	(6.0)	21.0	9.8	11.7
Normalized EPS	29.0	(6.0)	21.0	9.8	11.7
Dividend payout ratio	20.4	26.8	30.0	35.0	40.0
Loan - gross	7.9	3.0	0.6	2.0	4.4
Loan - net	8.1	3.7	0.8	1.7	4.3
Deposit	10.8	5.8	0.9	2.4	2.4
NPLs	3.0	(11.1)	0.6	4.4	5.4
Total assets	12.2	3.5	2.8	2.9	2.9
Total equity	8.4	5.6	6.7	6.4	6.4
Operating Ratios (%)					
Net interest margin (NIM)	3.1	3.2	3.4	3.3	3.3
Net interest spread	4.4	4.7	5.4	5.3	5.3
Yield on earnings assets	3.7	3.8	4.5	4.4	4.5
Avg cost of fund	0.6	0.6	1.1	1.2	1.2
NII / operating income	72.8	76.8	76.8	74.9	74.9
Non-II / operating income	27.2	23.2	23.2	25.1	25.1
Fee income / operating income	21.5	19.0	16.6	16.4	16.4
Normalized net margin	23.2	20.7	22.5	24.1	26.1
Cost-to-income	43.3	43.2	43.6	44.7	45.4
Credit cost - provision exp / loans	1.7	2.1	2.1	1.9	1.6
PPP / total assets	2.4	2.4	2.5	2.5	2.4
PPP / total equity	20.3	20.1	20.8	19.7	18.8
ROA	1.0	0.9	1.0	1.1	1.2
ROE	8.3	7.3	8.3	8.6	9.0

Sources: Company data, Thanachart estimates

KASIKORNBANK**FINANCIAL RATIOS**

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	93.2	90.8	90.5	90.2	91.9
Loan-to-deposit & S-T borrowing	93.2	90.8	90.5	90.2	91.9
Net loan / assets	55.9	56.0	54.9	54.3	55.1
Net loan / equity	481.1	472.5	446.2	426.5	418.0
Investment / assets	25.2	23.1	22.8	22.9	23.0
Deposit / liabilities	72.9	74.7	73.8	73.9	74.0
Liabilities / equity	748.2	731.1	699.8	672.7	647.0
Net interbank lender (Bt m)	234,044	347,296	420,000	459,000	437,000
Tier 1 CAR	16.5	16.8	17.1	17.9	18.7
Tier 2 CAR	2.3	2.0	2.1	2.0	1.9
Total CAR	18.8	18.8	19.2	19.9	20.7
NPLs (Bt m)	104,036	92,536	93,114	97,202	102,439
NPLs / Total loans (NPL Ratio)	4.3	3.7	3.7	3.8	3.8
Loan-Loss-Coverage	139.2	144.3	139.4	142.7	143.3

Sources: Company data, Thanachart estimates

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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

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