

BUY (Unchanged)**TP: Bt 2.30** (From: Bt 2.05)**26 SEPTEMBER 2024**

Change in Numbers

Upside : 17.3%

TMBThanachart Bank (TTB TB)

Conquering setbacks

Having been cautious in lending, cleaning up legacy NPLs, and building up provisioning buffers, TTB is riding the structurally weak retail lending backdrop unharmed. This, along with above-expectation interim dividends, leads us to lift our earnings and TP to Bt2.3.

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Strong earnings capacity

While high household debt, slow housing sales, declining used car prices, and weakening debt-servicing capabilities among mass retail borrowers pose challenges to TTB's plan to expand its high-yield consumer loans and boost cross-selling fees, the bank is well equipped with several buffers. 1) Remaining tax benefits of Bt12bn, equivalent to 65% of its 2023 net profit of Bt14.6bn. 2) Additional management overlay provisions of Bt6.6bn, representing 4% of Stage 2 loans and NPLs as of 2Q24. Its loan-loss-coverage ratio remains robust at 152%, with total provisions to loans at 4.7% in 2Q24. 3) Operational cost savings, driven by efficiency improvements and increased digital adoption.

Slow asset but not profit growth

TTB's loan growth has fallen short of expectations, with loans contracting by 2.4% YTD. Consequently, we lower our loan growth projection for 2024F to -3.9%, with a slower recovery than initially expected, of 1% p.a. for 2025-26F. This has also led to a downward revision of our non-interest income assumptions by an average of 7% over 2024-26F. However, with strong provisioning cushions, tax benefits, and improved efficiency, we raise our earnings estimates by 1.6% for the next three years. We expect strong earnings growth for TTB of 14% p.a. in 2024-25F and 15% in 2026F.

Higher payouts, still our top BUY with Bt2.3 TP

TTB declared higher-than-expected interim dividends of Bt0.065 per share, implying a 59% payout ratio vs. 55% in 2023. This increase reflects the bank's commitment to its capital management plan aimed at enhancing ROE. The earnings upgrade, increased dividend payouts, and the rollover of our base year to 2025F prompts us to raise our DDM-based TP from Bt2.05 to Bt2.3, using a cost of equity of 10.2%. TTB remains our top sector pick, offering 17% potential upside. TTB's flexibility in managing internal dynamics positions it well to navigate headwinds in the Thai banking sector, outperforming peers with higher earnings growth and dividend yields.

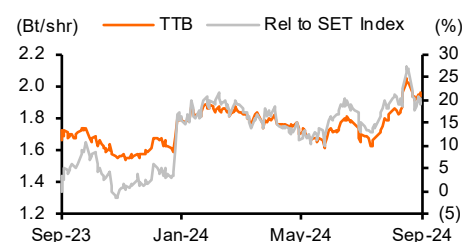
Does the bank urgently need M&As?

We don't believe so. Based on our estimates, the existing buffers should support the bank in achieving its goal of above-industry earnings growth and ROE of above 10% by 2026F. This gives the bank the flexibility to take its time to explore and selectively pursue investments that enhance its competitive edge and align with its strategic growth direction. Most importantly, any M&As must be earnings-accretive and represent a more efficient use of capital than simply increasing dividend payouts.

COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Pre Provision Profit	39,398	38,925	39,441	42,207
Net profit	18,462	21,046	24,001	27,620
Consensus NP	—	20,295	21,595	22,819
Diff frm cons (%)	—	3.7	11.1	21.0
Norm profit	18,462	21,046	24,001	27,620
Prev. Norm profit	—	20,920	23,718	26,834
Chg frm prev (%)	—	0.6	1.2	2.9
Norm EPS (Bt)	0.2	0.2	0.2	0.3
Norm EPS grw (%)	30.1	14.0	14.0	15.1
Norm PE (x)	10.3	9.0	7.9	6.9
P/BV (x)	0.8	0.8	0.8	0.7
Div yield (%)	5.4	6.7	7.6	8.8
ROE (%)	8.2	9.0	9.8	10.8
ROA (%)	1.0	1.2	1.3	1.5

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 25-Sep-24 (Bt)	1.96
Market Cap (US\$ m)	5,834
Listed Shares (m shares)	97,297.3
Free Float (%)	30.1
Avg. Daily Turnover (US\$ m)	15.3
12M Price H/L (Bt)	2.04/1.54
Sector	BANK
Major Shareholder	TCAP 24.35%

Sources: Bloomberg, Company data, Thanachart estimates

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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 24.35% of the shareholding in TMBThanachart Bank Pcl.

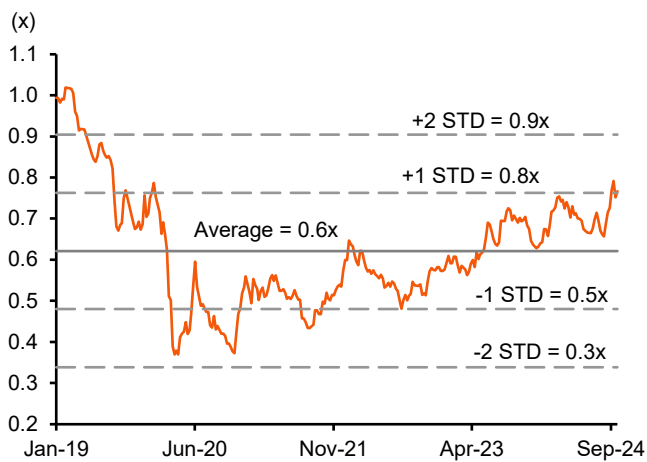
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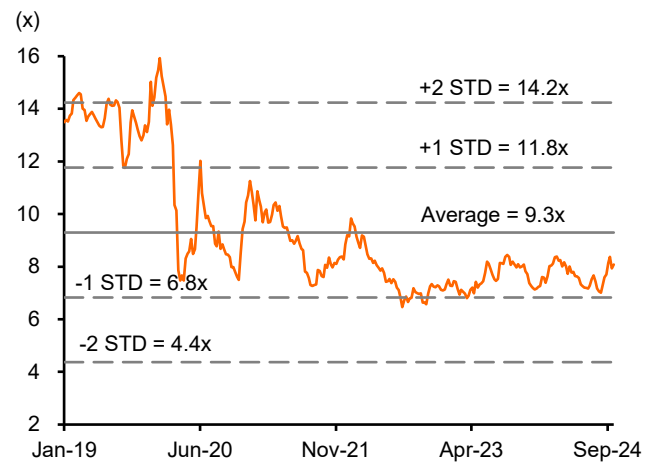
Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023	2024F	2025F	2026F
Net profits (Bt bn)								
- New	7.22	10.11	10.47	14.20	18.46	21.05	24.00	27.62
- Old						20.92	23.72	26.83
- Change (%)						0.61	1.20	2.93
Loan growth (%)								
- New	103.03	0.05	(1.55)	0.35	(3.50)	(3.87)	1.05	1.14
- Old						0.36	1.98	2.11
- Change (ppt)						(4.23)	(0.93)	(0.97)
NIM (%)								
- New	1.95	2.93	2.86	2.88	3.13	3.12	3.13	3.21
- Old						3.14	3.20	3.30
- Change (ppt)						(0.03)	(0.07)	(0.09)
Provisioning expenses (Bt bn)								
- New	10.34	24.83	21.51	18.35	17.31	19.13	15.70	14.57
- Old						18.53	17.45	17.51
- Change (%)						3.23	(10.04)	(16.77)
Net fee income (Bt bn)								
- New	8.10	11.35	11.25	10.39	10.36	9.60	10.06	10.56
- Old						10.68	11.10	11.66
- Change (%)						(10.08)	(9.38)	(9.38)
Non-interest income (Bt bn)								
- New	12.63	15.18	14.19	13.97	13.47	12.92	13.38	14.04
- Old						13.84	14.42	15.13
- Change (%)						(6.69)	(7.23)	(7.23)
OPEX (Bt bn)								
- New	20.67	32.18	31.22	29.95	31.28	30.32	30.40	30.81
- Old						32.16	32.76	33.39
- Change (%)						(5.72)	(7.22)	(7.74)

Sources: Company data, Thanachart estimates

Ex 2: STD P/BV

Sources: Bloomberg, Thanachart estimates

Ex 3: STD PE

Sources: Bloomberg; Thanachart estimates

Ex 4: 12-month DDM-based TP Calculation, Using A Base Year Of 2025F

(Bt m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	Terminal Value
Dividend of common shares	13,514	15,486	17,301	18,434	18,817	19,305	20,095	20,950	22,138	26,161	26,161
Dividend payment	13,514	15,486	17,301	18,434	18,817	19,305	20,095	20,950	22,138	26,161	306,719
PV of dividend	13,514	12,752	12,928	12,496	11,575	10,776	9,861	9,285	8,863	9,461	110,923
Risk-free rate (%)	3.0										
Market risk premium (%)	8.0										
Beta	1.1										
WACC (%)	10.2										
Cost of equity (%)	10.2										
Terminal growth (%)	2.0										
Equity value	222,435										
No. of shares (m)	96,623										
Equity value / share (Bt)	2.30										

Sources: Company data, Thanachart estimates

COMPANY DESCRIPTION

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

- Mid-sized bank with a fully equipped platform.
- Product innovation.
- Know-how from its foreign partner ING.

O — Opportunity

- Increasing loan product holdings.
- Ability to cross-sell and upsell income.
- Room to increase recurring fee income.

W — Weakness

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

T — Threat

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

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	2.07	2.30	11%
Net profit 24F (Bt m)	20,295	21,046	4%
Net profit 25F (Bt m)	21,595	24,001	11%
Consensus REC	BUY: 18	HOLD: 9	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are higher than the Bloomberg consensus numbers, which we attribute to our expectation that TTB will lower provisions and record higher tax-saving benefits.

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

INCOME STATEMENT

Bolstered by cost reductions

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Interest and Dividend Income	65,627	79,134	83,548	81,346	82,624
Interest Expenses	14,010	21,926	27,224	24,884	23,646
Net Interest Income	51,617	57,207	56,325	56,462	58,978
% of total income	78.7%	80.9%	81.3%	80.8%	80.8%
Gain on Investment	7	52	200	50	50
Fee Income	10,391	10,362	9,600	10,061	10,564
Gain on Exchange	1,693	1,666	1,716	1,768	1,821
Others	1,884	1,390	1,400	1,500	1,600
Non-interest Income	13,974	13,470	12,916	13,379	14,035
% of total income	21.3%	19.1%	18.7%	19.2%	19.2%
Total Income	65,591	70,678	69,241	69,841	73,013
Operating Expenses	29,952	31,280	30,316	30,400	30,806
Pre-provisioning Profit	35,639	39,398	38,925	39,441	42,207
Provisions	18,353	17,311	19,129	15,700	14,571
Pre-tax Profit	17,286	17,198	19,797	23,741	27,637
Income Tax	3,352	(980)	(990)	0	276
After Tax Profit	13,934	18,178	20,786	23,741	27,360
Equity Income	261	284	260	260	260
Minority Interest	(0)	(0)	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	14,195	18,462	21,046	24,001	27,620
Normalized Profit	14,195	18,462	21,046	24,001	27,620
EPS (Bt)	0.1	0.2	0.2	0.2	0.3
Normalized EPS (Bt)	0.1	0.2	0.2	0.2	0.3

BALANCE SHEET

Very cautious policy

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
ASSETS:					
Liquid Items	203,069	282,974	305,387	323,287	342,187
cash & cash equivalents	15,506	15,487	15,387	15,287	15,187
interbank & money market	187,563	267,486	290,000	308,000	327,000
Securities under resale agreeme	0	0	0	0	0
Investments	211,432	179,088	179,088	179,088	179,088
Net loans	1,326,505	1,273,136	1,216,858	1,228,829	1,242,085
Gross and accrued interest	1,383,895	1,336,638	1,285,191	1,298,671	1,313,451
Provisions for doubtful	57,390	63,502	68,333	69,842	71,366
Fixed assets - net	31,941	33,171	30,603	28,091	25,634
Other assets	53,333	56,066	59,066	62,066	65,066
Total assets	1,826,279	1,824,434	1,791,002	1,821,360	1,854,060
LIABILITIES:					
Liquid Items	1,489,603	1,480,436	1,453,600	1,473,300	1,493,384
Deposit	1,399,247	1,386,581	1,360,000	1,377,400	1,395,148
Interbank & money market	84,770	87,794	90,000	91,800	93,636
Liability payable on demand	5,586	6,061	3,600	4,100	4,600
Borrowings	59,644	59,531	45,850	45,491	45,437
Other liabilities	58,024	55,119	53,000	53,530	54,065
Total liabilities	1,607,271	1,595,087	1,552,450	1,572,321	1,592,887
Minority interest	1	0	0	0	0
Shareholders' equity	219,006	229,347	238,552	249,039	261,173
Preferred capital	-	-	-	-	-
Paid-in capital	91,937	92,246	91,792	91,792	91,792
Share premium	43,360	43,374	43,374	43,374	43,374
Surplus/ Others	4,456	5,735	5,735	5,735	5,735
Retained earnings	79,253	87,991	97,651	108,138	120,272
Liabilities & equity	1,826,279	1,824,434	1,791,002	1,821,360	1,854,060

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	13.3	10.3	9.0	7.9	6.9
Normalized PE - at target price (x)	15.7	12.0	10.6	9.3	8.0
PE (x)	13.3	10.3	9.0	7.9	6.9
PE - at target price (x)	15.7	12.0	10.6	9.3	8.0
P/PPP (x)	5.3	4.8	4.9	4.8	4.5
P/PPP - at target price (x)	6.2	5.6	5.7	5.6	5.3
P/BV (x)	0.9	0.8	0.8	0.8	0.7
P/BV - at target price (x)	1.0	1.0	0.9	0.9	0.9
Dividend yield (%)	3.7	5.4	6.7	7.6	8.8
Market cap / net loans (x)	0.1	0.1	0.2	0.2	0.2
Market cap / deposit (x)	0.1	0.1	0.1	0.1	0.1
(Bt)					
Normalized EPS	0.1	0.2	0.2	0.2	0.3
EPS	0.1	0.2	0.2	0.2	0.3
DPS	0.1	0.1	0.1	0.1	0.2
PPP/Share	0.4	0.4	0.4	0.4	0.4
BV/Share	2.3	2.4	2.5	2.6	2.7

*Expecting double-digit
EPS and DPS growth*

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Growth Rate (%)					
Net interest income (NII)	1.2	10.8	(1.5)	0.2	4.5
Non-interest income (Non-II)	(1.5)	(3.6)	(4.1)	3.6	4.9
Operating expenses	(4.1)	4.4	(3.1)	0.3	1.3
Pre-provisioning profit (PPP)	4.9	10.5	(1.2)	1.3	7.0
Net profit	35.5	30.1	14.0	14.0	15.1
Normalized profit growth	35.5	30.1	14.0	14.0	15.1
EPS	35.5	30.1	14.0	14.0	15.1
Normalized EPS	35.5	30.1	14.0	14.0	15.1
Dividend payout ratio	49.7	55.0	60.0	60.0	60.0
Loan - gross	0.4	(3.5)	(3.9)	1.0	1.1
Loan - net	0.2	(4.0)	(4.4)	1.0	1.1
Deposit	4.5	(0.9)	(1.9)	1.3	1.3
NPLs	(1.0)	(1.7)	(0.0)	1.0	2.0
Total assets	3.9	(0.1)	(1.8)	1.7	1.8
Total equity	3.9	4.7	4.0	4.4	4.9
Operating Ratios (%)					
Net interest margin (NIM)	2.9	3.1	3.1	3.1	3.2
Net interest spread	4.0	4.5	4.4	4.5	4.6
Yield on earnings assets	3.7	4.4	4.7	4.6	4.6
Avg cost of fund	0.9	1.4	1.8	1.6	1.5
NII / operating income	78.7	80.9	81.3	80.8	80.8
Non-II / operating income	21.3	19.1	18.7	19.2	19.2
Fee income / operating income	15.8	14.7	13.9	14.4	14.5
Normalized net margin	21.6	26.1	30.4	34.4	37.8
Cost-to-income	45.7	44.3	43.8	43.5	42.2
Credit cost - provision exp / loans	1.3	1.3	1.5	1.2	1.1
PPP / total assets	2.0	2.2	2.2	2.2	2.3
PPP / total equity	16.6	17.6	16.6	16.2	16.5
ROA	0.8	1.0	1.2	1.3	1.5
ROE	6.6	8.2	9.0	9.8	10.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	98.3	95.8	93.9	93.7	93.5
Loan-to-deposit & S-T borrowing	98.3	95.8	93.8	93.6	93.5
Net loan / assets	72.6	69.8	67.9	67.5	67.0
Net loan / equity	605.7	555.1	510.1	493.4	475.6
Investment / assets	11.6	9.8	10.0	9.8	9.7
Deposit / liabilities	87.1	86.9	87.6	87.6	87.6
Liabilities / equity	733.9	695.5	650.8	631.4	609.9
Net interbank lender (Bt m)	102,793	179,692	200,000	216,200	233,364
Tier 1 CAR	16.3	17.0	17.0	17.3	17.7
Tier 2 CAR	3.7	3.7	3.6	3.5	3.4
Total CAR	20.0	20.7	20.6	20.8	21.1
Solid balance sheet					
NPLs (Bt m)	41,707	41,006	41,000	41,410	42,238
NPLs / Total loans (NPL Ratio)	3.0	3.1	3.2	3.2	3.2
Loan-Loss-Coverage	137.6	154.9	166.7	168.7	169.0

Sources: Company data, Thanachart estimates

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Score range	Description
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BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

The Dow Jones Sustainability Indices (DJSI)

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

S&P Global Market Intelligence

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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

Moody's ESG Solutions

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90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Below		N/A

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