

Thailand Banks

1Q14 results: zero growth; stick to quality and defensive laggard

- **Flat earnings; slowdown in top line; KBANK stood out** – Thai banks reported soft 1Q14 earnings -0.5% YoY (PPOP +4%) with flat loan growth, steady NIM, weaker-than-expected fee income, and rising pressure on asset quality. None of these come as a surprise given deteriorating economic momentum since 2H13 with political upheaval. Asset quality trends remain divergent among banks. NPL pressure is on low-end consumer and small SMEs while corporates are largely safer. With bank stocks outperforming the market (16% vs 9%) and valuation back to average multiples; we turned more selective and defensive. Stick to **KBANK** (earnings resilience due to Non-II) and **BBL** (defensive balance sheet; laggards). **SCB** (+15% yd.) may still deliver on funding cost and Opex mgmt. but caution on small SMEs may limit NIM expansion. **KTB** seen weakest among big banks with rising NPLs from small SMEs and behind-the-curve provisioning. **Small banks** likely to suffer from 'cyclical' fee-income downtrend (loan related; capital market) and dependence on consumer/auto loans, which could post slow growth for entire FY14.
- **Weak loans and fees as expected; cyclical fees plunged** – Loan growth moderated to just 0.5% QoQ (8.8% YoY) driven by business working capital / trade loans. Meanwhile, banks have turned cautious on small SMEs and high-yield consumer. Auto loans dropped QoQ as car sales plunged 45% YoY. Fee income growth decelerated to just 1%YoY with KBANK retaining strong momentum (+10%). Small banks' fees dropped 13-22% as loan-related and brokerage fees turned slow.
- **NIM: holding up despite rate cuts thanks to cost mgmt.** – NIM held up QoQ for most banks except BAY and TMB. All banks stopped chasing deposits and let expensive tranches expire; hence, lower cost of funds (**SCB** largest drop 24bps QoQ). However, NIM upside was limited due to policy rate cut and slower growth in high-yield consumer and small SMEs, which lowered overall loan yield as well.
- **Asset quality remained concentrated in high yield consumer and SMEs** – NPL rose 5% QoQ and 9% YoY with pressure from consumer (used cars, p-loans) and small SMEs, plus few weak corporates relapsed. Provision charges maintained at high 82bps of loans as write-offs surged 63% YoY. LLR coverage declined 4% QoQ to 135% despite relatively high provisioning. TCAP, KTB, TISCO on the lower end of LLR buffer. We expect provision to remain in mid-80s and KTB needs to catch up.
- **Tighten Opex to save earnings** – With slow top lines, banks turned to tighten expenses to support earnings. OpEx grew only 4.5% YoY, -9% QoQ. **BBL, SCB, BAY** seem to cap cost the best. KTB and KBANK still posted double-digit cost growth with KBANK citing variable payment related to strong non-II (Fee +10%; Insurance +35%) as a key reason. Hence, this should not be read as negative given revenue contribution. **KTB** seems to lag peers on this front.

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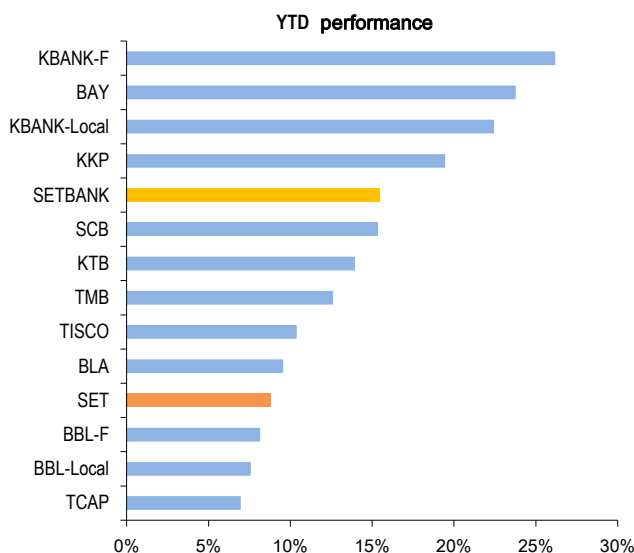
1Q14 Result Recap: Zero Growth

Share prices: strong comeback after early correction

After retreating by 6% in early January which pushed the stocks below -1SD on forward P/E valuation, Thai bank stocks have gradually moved up +16% YTD as the political situation stabilized. Despite no visible ending to the political standoff, the risk of violence appeared to ease.

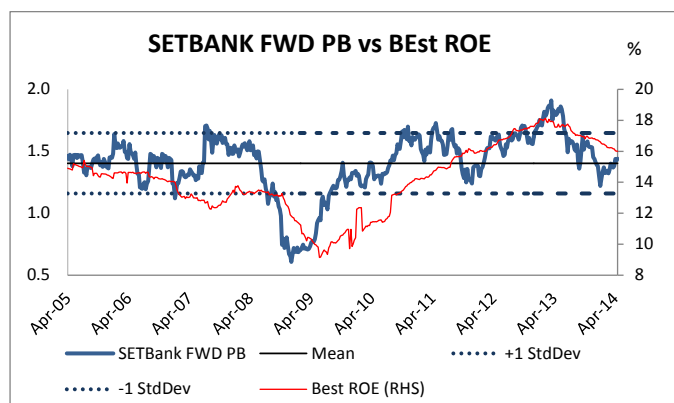
KBANK led the recovery up 22% YTD; SCB +15%; BBL still a laggard +8%.
Small banks underperformed. However, given more vulnerable business models (such as cyclical fees, slow consumer loans), we expect small banks to underperform. BBL's poor earnings may push back investors but its underperformance so far is likely to price that in.

Figure 1. SETBANK has outperformed SET ytd; KBANK top performer



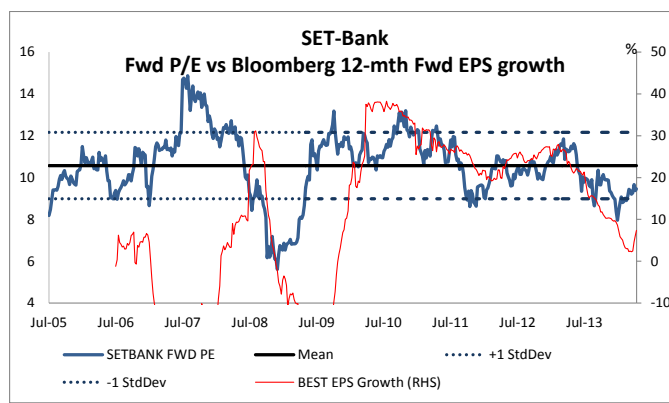
Source: Citi Research

Figure 2. Fwd P/B Valuation: from discount back to average at 1.5x



Source: Bloomberg

Figure 3. Fwd P/E valuation reverting to mean around 10x



Source: Bloomberg

Figure 4. Thailand Banks — Valuation Snapshot*

Stock, Rating, RIC	Price	TP	ETR	Mkt	Profit		EPS		EPS		P/E		NBV/S		P/NBV		Yield		ROAE	
				Cap	(Bt m)		(Bt)		(%YoY)		(x)		(Bt)		(x)		(%)		(%)	
	(Bt)	(Bt)	(%)	(Bt b)	13A	14E	13A	14E	13A	14E	13A	14E	13A	14E	13A	14E	13A	14E	13A	14E
BBL, Buy, BBLf.BK	192.5	210.0	13.0	367.5	35,905	36,411	18.8	19.1	12.7	1.4	10.2	10.1	155.0	166.5	1.1	1.2	3.9	4.0	12.6	11.9
KBANK, Buy, KBANf.BK	202.0	215.0	8.6	483.4	41,325	44,505	17.3	18.6	17.3	7.7	11.7	10.9	91.6	105.2	1.7	1.9	2.2	2.5	20.4	18.9
SCB, Buy, SCB.BK	165.5	182.0	13.5	562.5	50,233	51,453	14.8	15.1	28.0	2.4	11.2	10.9	72.5	81.5	2.0	2.0	3.6	3.7	21.8	19.7
KTB, Buy, KTB.BK	18.8	22.0	21.7	262.7	33,925	30,257	2.4	2.2	28.9	-10.8	7.7	8.7	14.7	16.0	1.1	1.2	4.6	4.6	17.4	14.1
TCAP, Neutral, TCAP.BK	34.3	34.0	3.5	43.8	9,231	6,185	7.2	4.8	67.6	-33.0	4.7	7.1	37.1	40.5	0.9	0.8	4.2	4.2	20.3	12.5
TMB, Sell, TMB.BK	2.3	2.1	-7.6	101.3	5,737	7,915	0.1	0.2	354.1	37.9	17.6	12.8	1.4	1.5	1.5	1.5	1.9	2.6	9.6	12.3
TISCO, Sell, TISCO.BK	42.8	35.0	-13.2	34.2	4,249	4,254	5.3	5.3	4.3	0.1	8.1	8.0	28.7	31.1	1.3	1.4	5.0	5.0	20.6	17.8

*Priced as of 21 April 2014. Source: Company data, Citi Research estimates

Overall profit and PPOP trend: sharp deceleration

While political 'worst case' scenario (i.e. violence) has not materialized, the economy seems to have shifted to a much lower momentum given low consumer and business confidence, issues with rice pledging payments, and limited government spending.

This, in turn, affected banks' net profit and PPOP, which decelerated sharply from FY13 momentum. 1Q14 net income decreased by 0.5% YoY. PPOP still rose by 3.8% but paled in comparison to 25% growth in FY13.

KBANK stood out; SCB / BBL in-line; KTB lower quality earnings. Small banks sharp drop.

KBANK remains the only bank that sustained double-digit growth (1Q14 profit +18%) with its strong non-IL execution. Small banks that rely on small SME (TMB) or auto market (TCAP, TISCO, BAY) plus exposure to capital market / brokerage income (TCAP, TISCO) suffered sharper earnings drops as the 'cycle' turned unfavorable with rising risk on small SMEs and a capital market slowdown.

Figure 5. Net income –1Q14 Flat YoY

Net Income (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	9.0	-0.5	16.6	27.3	31.8	35.9	12.7%
KTB	8.3	-2.4	-17.1	17.0	23.4	33.9	45.2%
KBANK	11.9	18.1	25.3	24.2	35.2	41.3	17.3%
SCB	13.1	0.1	11.7	36.3	39.2	50.2	28.0%
BAY	3.3	-19.3	4.0	9.3	14.6	14.0	-4.1%
TMB	1.6	-11.8	-11.0	4.0	1.3	5.7	355%
TISCO	0.9	-19.0	16.2	3.3	3.7	4.2	14.7%
TCAP	1.3	-32.2	-14.0	5.0	5.5	9.2	67.6%
Total	49.5	-0.5	6.9	126.4	154.8	194.6	25.7%

Source: Company Data; Citi Research

Figure 6. PPOP – also barely grew

PPOP (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	13.3	1.2	15.9	46.2	48.3	53.5	10.9%
KTB*	11.9	-1.6	-23.3	36.3	46.6	54.0	16.1%
KBANK	19.9	15.7	25.4	47.5	57.4	68.0	18.6%
SCB	19.9	6.0	3.5	54.2	60.6	76.2	25.8%
BAY	8.3	2.0	-6.3	27.8	30.4	34.9	14.9%
TMB	3.1	-9.1	-22.5	7.2	10.4	14.7	40.7%
TISCO	2.4	-2.0	-9.4	6.1	6.7	9.6	41.9%
TCAP*	5.0	-10.1	-5.5	14.0	15.1	32.8	117.3%
Total	83.7	3.8	1.1	239.3	275.4	343.7	24.8%

Source: Company Data; Citi Research

*Excluding one-off, TCAP PPOP in FY13 would grow c20%; KTB c10%

Lending: banks turning cautious

Slow loans growth; NII dropped QoQ

Loans: Overall loan growth was flattish for 1Q14 (+0.5% QoQ) with a small contraction in auto loans and seasonal repayment of personal loans. Business working capital and trade loans still grew modestly.

KTB seems to be the only major bank that continued to grow (+3% QoQ from corporate working cap; retail). Other major banks posted near-zero growth QoQ with a slight drop in retail and uptick in corporate working capital.

TISCO loan decrease was attributed to two fronts – 1) slow auto book and 2) its policy to tighten dealer financing on its SME book given the risk on the inventory as car sales slowed down, a positive preemptive move on asset quality but one that will put another dent in the growth profile.

NII: NII dropped QoQ by 1% mainly due to sharp contraction in small banks while most major banks continue to post a slow rise. Some of these declines are due to one-off collection in 4Q13 (TCAP, TMB). The rest is due to shift in mix as banks turn more cautious on high yield loans (small SMEs, consumer) and shift into safer working capital.

Figure 7. Loan growth – Consumer engine turned off

Loans (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	1,746	9.6	-0.4	1,470	1,604	1,753	9.2%
KTB	1,767	10.7	3.3	1,423	1,530	1,711	11.8%
KBANK	1,450	7.0	0.8	1,211	1,327	1,439	8.5%
SCB	1,735	8.8	0.0	1,293	1,547	1,735	12.1%
BAY	940	12.3	-0.4	720	830	943	13.6%
TMB	501	10.2	0.3	398	453	499	10.3%
TISCO	285	6.7	-2.6	185	248	292	17.7%
TCAP	791	2.5	-0.1	637	755	791	4.7%
Total	9,214	8.8	0.5	7,336	8,295	9,163	10.5%

Source: Company Data; Citi Research

Figure 8. Net Interest Income (NII) – first QoQ drop

NII (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	14.1	1.4	1.4	52.7	55.0	55.9	1.7%
KTB	16.8	12.0	0.3	50.4	58.1	63.9	9.9%
KBANK	19.5	13.3	1.8	56.5	63.6	72.8	14.5%
SCB	19.4	12.4	1.9	50.5	62.1	73.0	17.6%
BAY	11.5	8.4	-5.0	37.5	40.0	44.9	12.5%
TMB	5.0	6.0	-16.1	14.2	17.1	20.8	22.0%
TISCO	2.3	9.6	-0.6	6.9	7.0	9.0	27.3%
TCAP	6.8	7.3	-3.3	24.3	23.3	26.6	14.0%
Total	95.4	9.5	-0.9	293.0	326.1	366.8	12.5%

Source: Company Data; Citi Research

Banks drove out some expensive deposits; LDR consequentially stayed high despite slow loan growth

Funding: Despite slow loan growth, loans to deposits+borrowing remained high at 90% as banks adopted a strategy to let expensive deposits mature with a gradual build-up of cheaper replacements; hence causing a slight drop in funding QoQ. TISCO, TCAP, SCB, BBL saw a decrease in the funding base, partly related to this deposit-management strategy.

Figure 9. Loan to Deposit + Borrowings

LDR+ Borrowings (%)	1Q14	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	84.3	1.8	-0.2	86	83	84	1.9
KTB	85.3	-0.1	0.5	89	84	85	0.4
KBANK	89.7	0.1	-0.2	92	90	90	0.1
SCB	92.1	2.7	1.6	90	89	90	1.9
BAY	101.4	2.4	0.9	94	99	100	1.8
TMB	84.0	-0.3	-4.0	72	84	88	4.0
TISCO	100.9	2.4	6.2	101	100	95	-5.6
TCAP	100.3	1.6	4.4	91	96	96	-0.6
Total	90.0	1.2	0.6	89	88	89	1.1

Source: Company Data; Citi Research

Figure 10. Funding growth – 'Cheap replacement' strategy

Funding (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	2,072	7.3	-0.2	1,705	1,943	2,075	6.8%
KTB	2,070	10.8	2.6	1,594	1,814	2,017	11.2%
KBANK	1,617	6.9	1.0	1,313	1,479	1,601	8.3%
SCB	1,884	5.6	-1.8	1,440	1,747	1,918	9.8%
BAY	927	9.5	-1.3	769	842	939	11.5%
TMB	596	10.6	5.0	555	539	568	5.3%
TISCO	282	4.2	-8.6	183	248	309	24.6%
TCAP	788	0.8	-4.5	699	783	825	5.4%
Total	10,236	7.4	-0.2	8,257	9,394	10,252	9.1%

Source: Company Data; Citi Research

Overall Funding = Deposits + Borrowings

NIM – Steady trend despite rate cut

NIM steady: pressure from policy rate cut and shift to ‘safer’ loans vs funding cost mgmt.

NIM edged lower 8bps QoQ due to some one-off loan collection in 4Q13 and seasonal effect of personal loans.

Tracking ‘core’ spread between loan yield and cost of funds, we see **steady trend** for banks without one-offs (BBL, SCB, KBANK).

KTB suffered a lower spread as its incremental growth seemed to come from lower-yielding loans. Hence, despite funding cost decrease of 12bps QoQ (in line with peers), its loan yield decreased significantly higher by 28bps.

SCB margin: Cost of funds down aggressively; yet, NIM expansion limited due to shift in mix and yield

SCB: Cost mgmt. vs lower yield – SCB continued to embark on its strategy to lower funding cost to be back to one of the lowest cost in the sector. Its funding cost decrease in 1Q14 was the highest (-24bps QoQ). However, the spread has not improved much as its loan yield also dropped proportionally. While some of this could be attributed to falling policy rate, we believe this is partly due to shift in loan mix (away from high yield small SMEs, home equity, used cars for risk mgmt. perspectives), which could be in the right direction given tough economic backdrop. However, the ability to raise margin from lower funding cost may be less than anticipated due to falling asset yield given the loan mix changes.

BBL NIM seems bottoming out

BBL: Bottoming out? – BBL’s NIM usually suffers when there are rate cuts due to its high holdings of liquid assets (short-term bonds, money market placements). In this quarter, however, its NIM held up well due to its ability to manage down funding cost, similar to others, while its asset mix is already very defensive; hence, there is limited downside from asset-yield pressure even though most incremental loans are relatively low yield.

Figure 11. NIM – Steady for diversified banks; pressure on ‘high yield’ players

NIM (%)	1Q14	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	2.21	-0.13	-0.02	2.67	2.48	2.28	-0.21
KTB	2.77	0.06	-0.06	2.87	2.90	2.80	-0.10
KBANK	3.62	0.13	0.02	3.75	3.59	3.55	-0.03
SCB	3.21	0.10	0.00	3.18	3.18	3.19	0.01
BAY	4.16	-0.07	-0.31	4.44	4.27	4.29	0.03
TMB	2.82	-0.04	-0.65	2.39	2.61	3.07	0.46
TISCO	2.68	-0.11	0.01	3.56	2.78	2.79	0.00
TCAP	2.70	0.10	-0.10	2.87	2.54	2.67	0.13
Overall	3.00	0.03	-0.08	3.15	3.05	3.03	-0.02

Source: Company Data; Citi Research

Figure 12. Loan Spread Trend (measure by loan yield – cost of funds)

(%)	4Q11	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	ΔYoY	ΔQoQ
BBL	3.25	2.91	2.93	2.89	2.88	2.70	2.72	-0.21	-0.02
KTB	3.58	3.57	3.30	3.27	3.34	3.38	3.22	-0.08	-0.15
KBANK	3.92	4.34	4.37	4.40	4.50	4.50	4.48	0.11	-0.02
SCB	3.48	3.66	3.72	3.74	3.92	3.82	3.83	0.11	0.01
BAY	4.61	4.78	4.73	4.85	4.73	4.94	4.53	-0.20	-0.41
TMB	3.22	3.65	3.69	3.77	3.92	4.44	3.66	-0.03	-0.78
TISCO	2.70	3.04	3.10	3.04	3.06	3.05	3.01	-0.09	-0.04
TCAP	2.88	3.05	2.92	2.98	2.97	3.15	2.94	0.03	-0.20

Source: Company reports

Figure 13. Loan Yield %

(%)	4Q11	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	ΔYoY	ΔQoQ
BBL	5.20	5.14	5.00	4.98	4.97	4.89	4.85	-0.15	-0.04
KTB	5.80	5.84	5.50	5.46	5.57	5.67	5.39	-0.10	-0.28
KBANK	6.24	6.34	6.27	6.30	6.45	6.47	6.33	0.06	-0.14
SCB	5.96	6.20	6.11	6.23	6.33	6.26	6.04	-0.07	-0.23
BAY	7.58	7.69	7.53	7.62	7.60	7.75	7.26	-0.27	-0.49
TMB	5.72	5.95	5.86	6.04	6.24	6.78	5.93	0.07	-0.85
TISCO	6.62	6.69	6.54	6.54	6.57	6.56	6.46	-0.08	-0.10
TCAP	6.17	6.27	6.03	6.07	6.11	6.26	5.97	-0.06	-0.28

Source: Company reports

Figure 14. Cost of Funds (%)

(%)	4Q11	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	ΔYoY	ΔQoQ
BBL	1.95	2.23	2.07	2.09	2.09	2.19	2.13	0.06	-0.06
KTB	2.22	2.27	2.19	2.19	2.23	2.29	2.17	-0.02	-0.12
KBANK	2.32	2.00	1.89	1.89	1.95	1.97	1.85	-0.05	-0.12
SCB	2.48	2.54	2.39	2.50	2.42	2.45	2.21	-0.18	-0.24
BAY	2.97	2.91	2.80	2.77	2.87	2.80	2.72	-0.07	-0.08
TMB	2.50	2.30	2.18	2.26	2.33	2.35	2.27	0.09	-0.08
TISCO	3.91	3.64	3.44	3.50	3.51	3.51	3.45	0.01	-0.06
TCAP	3.29	3.22	3.12	3.09	3.14	3.11	3.03	-0.09	-0.08

Source: Company reports

Fee income and Non-II: cyclical fees took a severe hit; KBANK remained strong

KBANK strong fee and non-II (insurance)

After strong mid-high teen growth over the past few years, 1Q14 fee income grew just 1% YoY with smaller banks (TMB, TCAP, TISCO) suffered 13-22% drop in fee income. Large banks continued to hold up with **KBANK** posting strongest growth in fee income (+10% YoY) followed by KTB (+6.5%) and SCB (+5%). Key areas of strength seemed to be cards, bancassurance, and trade finance.

Weak results of small banks are largely due to dependence on loan related fees / bancassurance related to loan origination (TMB), and capital market / brokerage income (TCAP, TISCO).

KBANK Non-II remained strongest overall as well, posting 19% YoY increase (vs -5% industry). Insurance (+35% for KBANK) explained most of this outperformance.

Figure 15. Fee income – slowdown to 1% YoY; Cyclical fees of small banks hurt more

'Net' Fee income (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	5.2	-0.2	1.7	18.1	19.1	21.2	11.1%
KTB	3.9	6.5	-1.4	11.4	13.7	15.7	14.9%
KBANK	7.9	10.4	6.3	20.6	24.5	29.4	20.3%
SCB	6.3	5.0	-4.2	19.8	20.5	24.5	19.7%
BAY	3.4	-4.4	-6.7	10.8	12.7	14.6	14.3%
TMB	1.1	-17.0	-21.1	3.7	4.7	5.6	19.0%
TISCO	1.2	-21.5	4.2	2.9	4.1	5.2	25.7%
TCAP	1.6	-13.4	-5.2	3.4	5.1	6.9	35.6%
Total	30.7	1.0	-1.2	90.7	104.4	123.1	17.9%

Source: Company Data; Citi Research

Figure 16. Overall Non-II: Only KBANK holding up

Non-II (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	8.7	-2.6	6.0	29.5	30.5	35.6	16.8%
KTB*	6.5	-11.3	-35.0	19.1	23.8	30.5	28.1%
KBANK	13.7	18.9	17.5	34.0	40.7	48.2	18.2%
SCB	11.5	-6.5	-11.3	40.5	40.9	50.5	23.6%
BAY	5.1	-12.7	-14.0	17.8	21.2	23.6	11.0%
TMB	1.8	-10.2	-20.3	6.6	7.6	8.4	9.7%
TISCO	1.5	-31.3	-3.3	4.2	6.1	6.8	11.3%
TCAP**	3.2	-26.4	-16.7	11.4	13.7	27.7	102.4%
Total	52.0	-4.6	-7.9	163.2	184.5	231.2	25.3%

Source: Company Data; Citi Research

* KTB gained from vayupak Bt3bn in 4Q13; YoY drag as Vayupak dividend disappeared ** TCAP one off gain from T-Life sale Bt12bn core growth c10% in FY13;

Cost management: discipline to support earnings

With limited attractive top-line opportunities in a slow economy, banks turned into cost management to sustain earnings and ROE. **SCB, BBL, TCAP, BAY** controlled cost to near zero growth. Meanwhile, **KBANK** cost still grew at double digits but mgmt. explained it is due to some variable payments associated with strong 19% increase in Non-II. This is reflected into good cost to income at 40%.

KTB seems to be the one that still lag peers in this regard with double-digit growth in expenses while its top line was not as outstanding.

Figure 17. OpEx – SCB tight control; KBANK / TISCO driven by variable pay; KTB on rising trend

OpEx (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	9.4	-2	-11	36.1	37.1	37.9	2%
KTB	11.5	11	1	33.2	35.3	40.3	14%
KBANK	13.2	15	-11	43.0	46.9	52.9	13%
SCB	11.0	2	-14	36.9	42.4	47.3	12%
BAY	8.3	0	-9	27.5	30.8	33.6	9%
TMB	3.8	11	-12	13.6	14.3	14.5	2%
TISCO	1.4	-23	15	4.9	6.4	6.2	-3%
TCAP	5.0	-3	-11	21.8	21.9	21.5	-2%
Total	63.7	4.5	-8.9	217.0	235.3	254.3	8%

Source: Company Data; Citi Research

Figure 18. Cost to Income: KTB, TMB, TCAP on the rise

Cost to Income (%)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	41.4	-0.8	-6.5	43.8	43.5	41.5	-2.0
KTB	49.1	3.1	6.9	47.7	43.2	42.7	-0.4
KBANK	39.9	-0.1	-8.4	47.5	45.0	43.7	-1.3
SCB	35.7	-0.9	-4.3	40.5	41.2	38.3	-2.9
BAY	50.1	-0.5	-0.9	49.7	50.3	49.0	-1.3
TMB	55.1	5.1	3.0	65.5	57.8	49.8	-8.0
TISCO	37.5	-5.8	5.3	44.6	48.9	39.5	-9.4
TCAP	50.1	2.0	-1.4	60.9	59.2	39.6	-19.6
Total	43.2	0.2	-2.6				

Source: Company Data; Citi Research

Provision and NPL: Provision build-up continued; NPL creeping up

Provision charges rose by 18% YoY for 1Q14 (82bps of loans). We expect provision charges to stay high throughout FY14 as NPL pressure lingers. Note that the level of **LLR 'write off'** rose by 63% YoY with a notable increase at SCB (seasoning of some high yield book), TISCO (used-car problem), TMB, BAY.

NPL up QoQ from consumer and small SMEs with few banks reporting NPLs from few corporate cases

Despite significant increase in write offs, **NPLs** still crept up +5% QoQ with pressure seen in high-yield consumers (used cars), small SMEs (KTB, SCB), and few weak corporates (BBL). KTB, TISCO, BAY reported the sharpest increase QoQ for NPLs.

KTB: smaller than expected provision may put pressure later on

Among the banks, we feel **KTB's** provision rate of 40bps is behind the curve especially in light of 'thin buffer' of 105% LLR coverage. We see this as an overhang on the stock into 2H14.

Figure 19. Provision as bps of loans: on rising trend to build LLR

Provision (bps)	1Q14	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	48	5	8	88	47	51	4
KTB	41	-1	-32	101	103	76	-27
KBANK	101	-4	16	64	66	85	19
SCB	74	10	-26	56	66	83	17
BAY	173	26	-31	178	147	190	43
TMB	93	-5	-50	82	206	160	-46
TISCO	162	16	-61	77	89	153	65
TCAP	84	12	-4	33	42	149	107
Total	82	6	-15	85	83	99	16

Source: Company Data; Citi Research

Figure 20. Provision (Bt bn) +18%YoY as pressure building up

Provision (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	2.1	21	21	12.0	7.2	8.6	19%
KTB	1.8	10	-43	13.5	15.2	12.3	-19%
KBANK	3.7	4	21	7.3	8.4	11.7	40%
SCB	3.2	27	-24	6.6	9.4	13.6	45%
BAY	4.1	33	-13	12.2	11.4	16.8	48%
TMB	1.2	5	-33	3.1	8.8	7.6	-13%
TISCO	1.2	24	-27	1.3	1.9	4.1	115%
TCAP	1.7	21	-4	2.1	2.9	11.5	297%
Total	18.8	18	-14	58.2	65.2	86.4	32.5%

Source: Company Data; Citi Research

Figure 21. NPL as % of Loans – creeping up QoQ esp at 'high yield' players

NPL %	4Q13	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	2.58	-0.15	0.11	2.90	2.64	2.47	-0.17
KTB	3.43	-0.30	0.21	4.51	3.89	3.22	-0.67
KBANK	2.33	-0.11	0.00	2.62	2.50	2.33	-0.17
SCB	2.32	0.01	0.02	2.80	2.32	2.31	-0.01
BAY	3.20	0.58	0.33	4.11	2.57	2.77	0.21
TMB	4.65	-0.16	0.16	7.50	4.88	4.49	-0.39
TISCO	1.89	0.61	0.19	1.41	1.25	1.70	0.45
TCAP	4.85	0.50	0.11	6.31	4.54	4.74	0.20
Total	3.00	0.01	0.13				

Source: Company Data; Citi Research

Figure 22. LLR coverage – dropping from peak

LLR coverage	1Q14	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	210.1	6.8	-4.0	199	207	214	7
KTB	105.1	9.7	-7.2	69	93	114	21
KBANK	137.8	-0.9	3.2	127	132	135	3
SCB	147.9	3.1	-2.9	127	145	151	6
BAY	133.7	-13.5	-10.6	106	146	141	-5
TMB	138.4	20.3	-2.0	73	113	140	28
TISCO	120.7	-46.3	-7.2	169	165	128	-37
TCAP	81.2	6.5	-0.7	68	73	82	9
Total	135.3	4.0	-4.0				

Source: Company Data; Citi Research

Figure 23. LLR Writeoff (Bt bn)

LLR Writeoff (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	0.1	-90	-96	-0.3	4.4	3.6	-18%
KTB	0.0	-201	-101	14.4	4.2	5.7	34%
KBANK	2.1	61	-20	3.8	5.0	10.4	107%
SCB	4.0	244	134	2.2	3.4	5.3	54%
BAY	2.9	56	114	14.9	11.6	11.0	-5%
TMB	0.4	90	-1	1.9	5.6	1.1	-81%
TISCO	1.0	178	8	1.0	1.2	2.9	138%
TCAP	1.3	10	-30	2.8	5.3	5.6	6%
Total	11.8	63	-31	40.8	40.8	45.6	11.6%

Source: Company Data; Citi Research

Figure 24. NPL (Bt bn)

NPL (Bt bn)	1Q14	YoY (%)	QoQ (%)	FY11	FY12	FY13	YoY (%)
BBL	45.0	3.7	4.1	42.6	42.3	43.2	2.1%
KTB	60.5	1.6	10.0	64.2	59.5	55.0	-7.5%
KBANK	33.9	2.2	1.0	31.7	33.2	33.5	1.1%
SCB	40.3	9.3	0.7	36.2	35.9	40.1	11.5%
BAY	30.0	37.1	11.2	29.5	21.3	26.1	22.8%
TMB	23.3	6.5	3.9	29.8	22.1	22.4	1.4%
TISCO	5.4	57.6	8.0	2.6	3.1	5.0	60.3%
TCAP	38.4	14.2	2.2	40.2	34.3	37.5	9.4%
Total	276.7	9.1	4.9	277	252	263	4.4%

Source: Company Data; Citi Research

Capital: Tier I divergence between large and small banks

Overall capital position of Thai banks remained strong. **BBL** Tier I led the pack with 14.4% level. **KBANK** and **SCB** at 12% are also respectable. We see limited risk in these top names despite some introduction of capital deductions (notably phasing in intangibles) may take out c1% from KBANK Tier I.

KTB, TISCO, TCAP – not as strong as peers but see small risk on re-cap; room to add Tier II for most banks

KTB, TISCO, TCAP may appear weaker than peers but we see limited risk on capital raising in light of slower loan growth and profit weakening but not yet dipping into loss.

Tier II capital continued to be depleted as various Tier II Sub debt raised during 2008-09 began to mature after five years. We anticipate several Tier II activities after clarification on Basel 3-compliant debt instruments.

Figure 25. Tier I trend

Tier I	1Q14	ΔYoY	ΔQoQ	FY11	FY12	FY13	ΔYoY
BBL	14.4%	0.3%	0.0%	12.2%	11.9%	14.4%	2.5%
KTB	9.8%	-0.2%	-0.3%	8.7%	10.2%	10.2%	0.0%
KBANK	11.9%	0.8%	-0.1%	9.6%	10.4%	12.0%	1.6%
SCB	12.0%	0.8%	0.3%	11.1%	10.9%	11.7%	0.9%
BAY	10.4%	-1.2%	0.2%	11.9%	10.9%	11.1%	0.2%
TMB	10.5%	-1.0%	-0.1%	11.1%	11.1%	10.6%	-0.5%
TISCO	9.4%	1.0%	0.3%	9.9%	8.5%	9.1%	0.6%
TCAP	9.3%	1.3%	-0.2%	9.3%	8.5%	9.5%	1.0%

Source: Company Data; Citi Research

Figure 26. Capital Position – Tier 2 replenishment as most bonds issued around 2008 matured

	Total Capital (Bt bn)	Tier 1 (Bt bn)	Tier 2 (Bt bn)	CAR (%)	Tier 1 (%)	Tier 2 (%)
BBL	319	273	45	16.8	14.4	2.4
KTB	255	189	66	13.3	9.8	3.4
KBANK	227	178	49	15.1	11.9	3.2
SCB	262	203	59	15.5	12.0	3.5
BAY	121	87	34	14.5	10.4	4.1
TMB	76	52	24	15.3	10.5	4.8
TISCO	26	17	9	14.3	9.4	4.9
TCAP	105	70	36	14.0	9.3	4.7

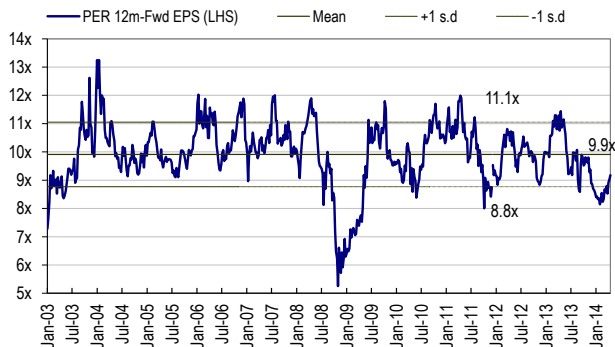
Source: Company Data; Citi Research

Links to individual bank result details:

- *TISCO Financial Group (TISCO.BK) - Sluggish Top Line with Rising SME and Retail NPLs;*
- *TMB Bank (TMB.BK) - 20% Miss from Soft NIM and Fees;*
- *Siam Commercial Bank (SCB.BK) - In-line results; slower top line; tightening cost;*
- *Kasikornbank (KBANKf.BK) - 6% Beat – Resilient Results Despite Headwinds;*
- *Bangkok Bank (BBLf.BK) - In-Line, Slow Top Line with Slight Asset Quality Pressure;*
- *Thanachart Capital (TCAP.BK) - Soft revenue outweigh cost control; profit dropped 32%;*
- *Krung Thai Bank (KTB.BK) - In-Line Profit; Provision Stayed Behind Expectation*

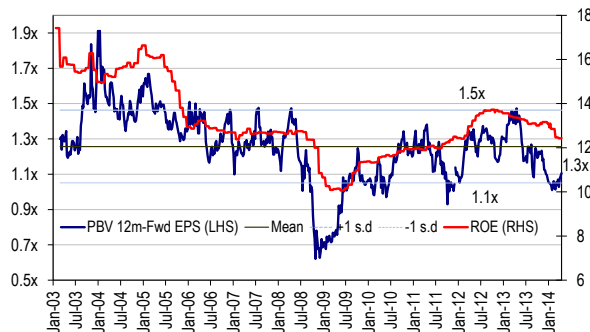
Valuation Charts

Figure 27. BBL — PER Based on 1-Year Forward IBES EPS



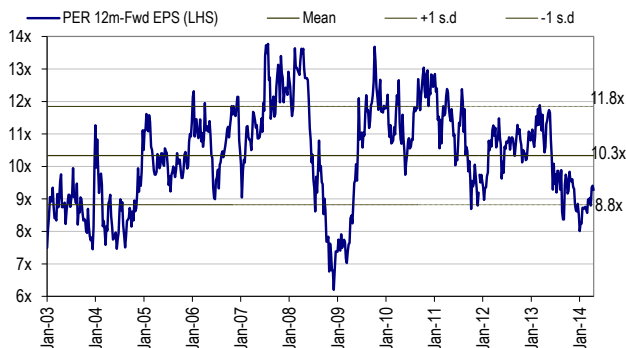
Source: DataStream and Citi Research

Figure 28. BBL — P/B Based on 1-Year Forward IBES BVPS



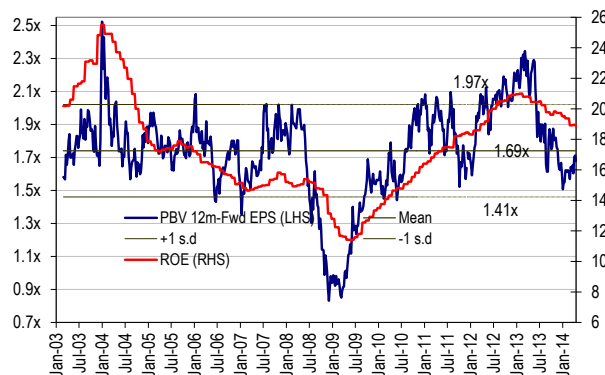
Source: DataStream and Citi Research

Figure 29. KBANK — PER Based on 1-Year Forward IBES EPS



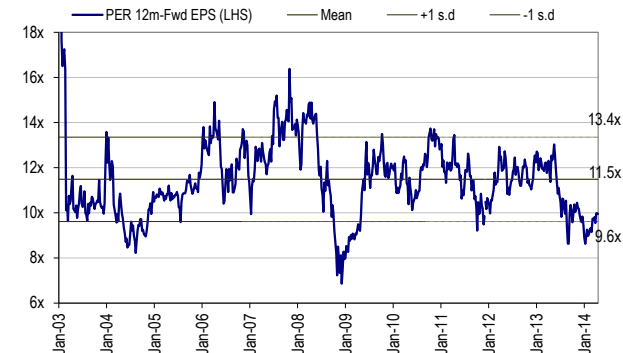
Source: DataStream and Citi Research

Figure 30. KBANK — P/B Based on 1-Year Forward IBES BVPS



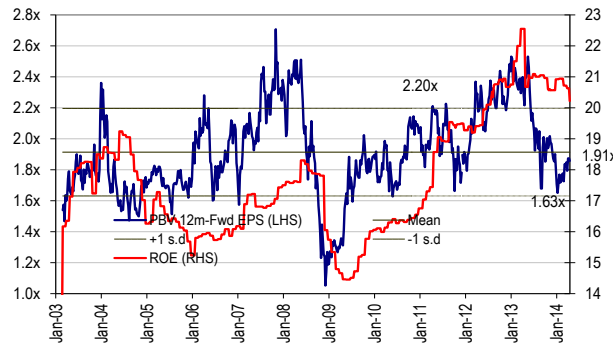
Source: DataStream and Citi Research

Figure 31. SCB — PER Based on 1-Year Forward IBES EPS



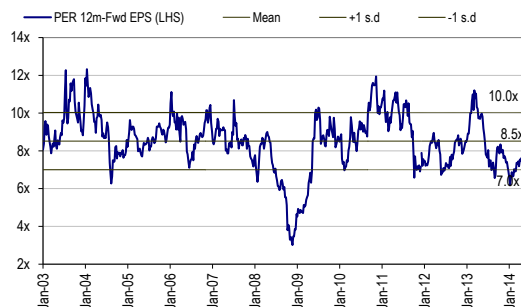
Source: DataStream and Citi Research

Figure 32. SCB — P/B Based on 1-Year Forward IBES BVPS



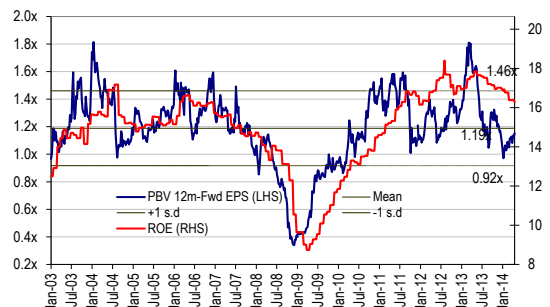
Source: DataStream and Citi Research

Figure 33. KTB — PER Based on 1-Year Forward IBES EPS



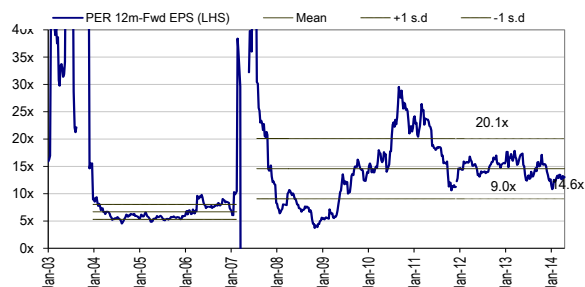
Source: DataStream and Citi Research

Figure 34. KTB — P/B Based on 1-Year Forward IBES BVPS



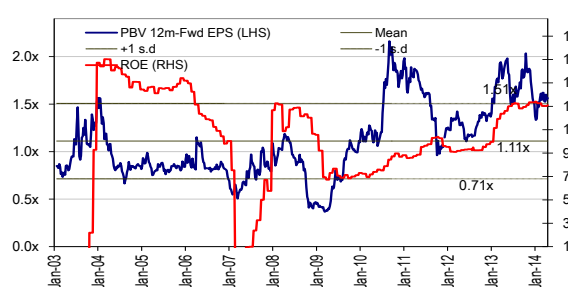
Source: DataStream and Citi Research

Figure 35. TMB — PER Based on 1-Year Forward IBES EPS



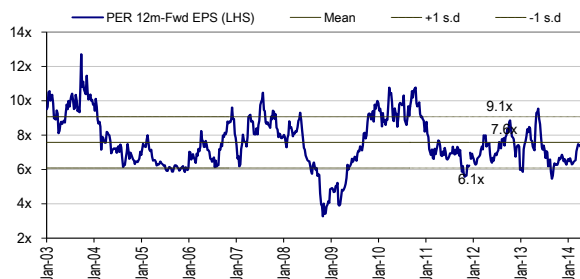
Source: DataStream and Citi Research

Figure 36. TMB — P/B Based on 1-Year Forward IBES BVPS



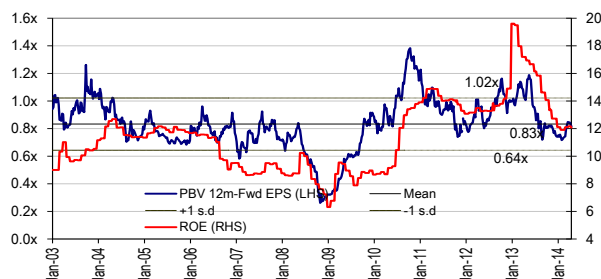
Source: DataStream and Citi Research

Figure 37. TCAP — PER Based on 1-Year Forward IBES EPS



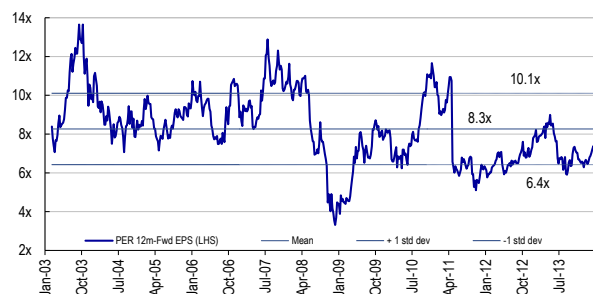
Source: DataStream and Citi Research

Figure 38. TCAP — P/B Based on 1-Year Forward IBES BVPS



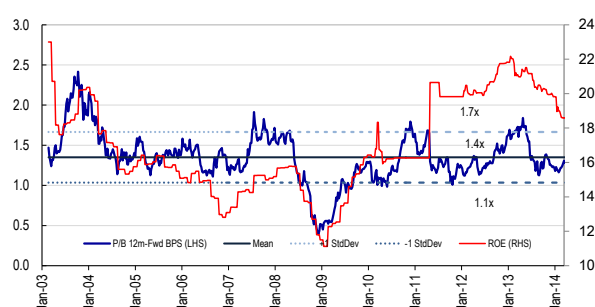
Source: DataStream and Citi Research

Figure 39. TISCO — PER Based on 1-Year Forward IBES EPS



Source: Bloomberg and Citi Research

Figure 40. TISCO — P/B Based on 1-Year Forward IBES BVPS



Source: Bloomberg and Citi Research

Forecast Summary

Figure 41. Thailand Banks — Financial Forecasts

		BBL	KTB	KBANK	SCB	TMB	TISCO	TCAP	Overall
Loan Growth	12A	9.1%	7.5%	9.6%	19.7%	13.9%	34.2%	18.6%	12.8%
	13A	9.2%	11.8%	8.5%	12.1%	10.3%	17.7%	4.7%	10.1%
	14E	5.6%	7.4%	7.1%	7.7%	8.1%	5.7%	4.2%	6.7%
Net Interest Margin	12A	248	290	359	318	261	278	254	304
	13A	228	280	355	319	307	279	267	301
	14E	226	276	352	320	308	271	268	300
Net Interest Income	12A	54,952	58,122	63,581	62,105	17,065	7,044	23,295	286,165
NII Growth	12A	4.3%	15.4%	12.6%	22.9%	19.9%	2.0%	-4.2%	12.0%
	13A	55,879	63,870	72,797	73,009	20,822	8,968	26,557	321,901
	13A	1.7%	9.9%	14.5%	17.6%	22.0%	27.3%	14.0%	12.5%
	14E	58,793	68,399	78,715	80,285	22,423	9,992	27,992	346,599
	14E	5.2%	7.1%	8.1%	10.0%	7.7%	11.4%	5.4%	7.7%
Non Interest Income	12A	30,458	23,774	40,724	40,880	7,641	6,138	13,698	163,314
Non-II Growth	12A	3.1%	24.2%	19.7%	0.9%	16.1%	47.4%	19.8%	12.3%
	13A	35,579	30,466	48,153	50,523	8,385	6,833	27,721	207,660
	13A	16.8%	28.1%	18.2%	23.6%	9.7%	11.3%	102.4%	27.2%
	14E	36,265	27,268	52,946	48,526	9,077	6,062	14,750	194,893
	14E	1.9%	-10.5%	10.0%	-4.0%	8.2%	-11.3%	-46.8%	-6.1%
- Net Fee Income	12A	19,123	13,664	24,467	20,456	4,690	4,129	5,089	91,618
- Fee Growth	12A	5.5%	20.1%	18.6%	3.3%	25.7%	44.7%	50.9%	14.7%
	13A	21,239	15,703	29,443	24,476	5,579	5,190	6,900	108,530
	13A	11.1%	14.9%	20.3%	19.7%	19.0%	25.7%	35.6%	18.5%
	14E	22,348	17,400	32,549	26,021	6,191	4,912	7,044	116,464
	14E	5.2%	10.8%	10.5%	6.3%	11.0%	-5.4%	2.1%	7.3%
- Net Insurance Income	12A	-	-	7,327	9,319	-	-	2,147	18,792
- Insurance Income Growth	12A	-	-	35.4%	48.9%	-	-	0.9%	36.2%
	13A	-	-	9,729	10,190	-	-	2,282	22,201
	13A	-	-	32.8%	9.3%	-	-	6.3%	18.1%
	14E	-	-	11,170	11,371	-	-	2,509	25,051
	14E	-	-	14.8%	11.6%	-	-	10.0%	12.8%
- Other Income	12A	11,335	10,110	8,930	11,106	2,951	2,009	6,462	52,903
- Other Income Growth	12A	-0.7%	30.2%	12.1%	-23.1%	3.6%	53.3%	9.0%	2.4%
	13A	14,340	14,762	8,980	15,857	2,807	1,644	18,539	76,929
	13A	26.5%	46.0%	0.6%	42.8%	-4.9%	-18.2%	186.9%	45.4%
	14E	13,917	9,868	9,227	11,134	2,886	1,150	5,196	53,378
	14E	-2.9%	-33.2%	2.7%	-29.8%	2.8%	-30.0%	-72.0%	-30.6%
Total Income	12A	85,410	81,896	104,305	102,985	24,706	13,182	36,994	449,479
Total Income Growth	12A	3.9%	17.8%	15.2%	13.1%	18.7%	19.1%	3.5%	12.1%
	13A	91,457	94,336	120,950	123,532	29,207	15,802	54,278	529,561
	13A	7.1%	15.2%	16.0%	20.0%	18.2%	19.9%	46.7%	17.8%
	14E	95,058	95,667	131,661	128,811	31,500	16,054	42,742	541,493
	14E	3.9%	1.4%	8.9%	4.3%	7.9%	1.6%	-21.3%	2.3%
Operating Costs	12A	37,146	35,343	46,934	42,402	14,291	6,447	21,896	204,459
Costs Growth	12A	3.0%	6.5%	9.1%	15.0%	4.8%	30.6%	0.6%	7.9%
	13A	37,947	40,302	52,903	47,317	14,550	6,241	21,476	220,735
	13A	2.2%	14.0%	12.7%	11.6%	1.8%	-3.2%	-1.9%	8.0%
	14E	41,436	42,276	56,683	49,725	15,569	6,355	22,458	234,502
	14E	9.2%	4.9%	7.1%	5.1%	7.0%	1.8%	4.6%	6.2%
Net Fee + Insurance to Total Income (%)	12A	22.4%	16.7%	30.5%	28.9%	19.0%	31.3%	19.6%	24.6%
	13A	23.2%	16.6%	32.4%	28.1%	19.1%	32.8%	16.9%	24.7%
	14E	23.5%	18.2%	33.2%	29.0%	19.7%	30.6%	22.4%	26.1%
Costs to Income	12A	43.5%	43.2%	45.0%	41.2%	57.8%	48.9%	59.2%	45.5%
	13A	41.5%	42.7%	43.7%	38.3%	49.8%	39.5%	39.6%	41.7%
	14E	43.6%	44.2%	43.1%	38.6%	49.4%	39.6%	52.5%	43.3%

Source: Company Data; Citi Research estimates

Figure 42. Thailand Banks — Financial Forecasts (continued)

		BBL	KTB	KBANK	SCB	TMB	TISCO	TCAP	Overall
Pre-Provision Profit	12A	48,264	46,553	57,371	60,584	10,415	6,736	15,098	245,020
PPP Growth	12A	4.5%	28.1%	20.8%	11.9%	45.1%	9.7%	8.0%	15.9%
	13A	53,510	54,034	68,047	76,215	14,657	9,561	32,802	308,825
	13A	10.9%	16.1%	18.6%	25.8%	40.7%	41.9%	117.3%	26.0%
	14E	53,622	53,391	74,978	79,086	15,931	9,699	20,284	306,990
	14E	0.2%	-1.2%	10.2%	3.8%	8.7%	1.4%	-38.2%	-0.6%
PPOP/Avg Loans	12A	3.1%	3.2%	4.5%	4.3%	2.4%	3.1%	2.2%	3.5%
	13A	3.2%	3.3%	4.9%	4.6%	3.1%	3.5%	4.2%	3.9%
	14E	3.0%	3.0%	5.0%	4.4%	3.1%	3.2%	2.5%	3.6%
Provision Charges	12A	7,248	15,163	8,390	9,396	8,751	1,922	2,900	53,770
- Provisions bps of Loans	12A	47	103	66	66	206	89	42	76
	13A	8,593	12,284	11,743	13,641	7,613	4,141	11,511	69,526
	13A	51	76	85	83	160	153	149	83
	14E	8,024	15,565	14,250	14,525	6,038	4,244	6,354	68,999
	14E	45	88	96	81	116	141	79	81
- NPL Ratio	12A	2.6%	3.9%	2.5%	2.3%	4.9%	1.2%	4.5%	2.8%
	13A	2.5%	3.2%	2.3%	2.3%	4.5%	1.7%	4.7%	2.7%
	14E	2.6%	4.2%	2.4%	3.0%	4.7%	2.8%	5.0%	3.1%
- Provision Coverage	12A	206.9%	92.7%	131.8%	144.6%	112.8%	165.3%	72.6%	127.3%
	13A	214.2%	112.3%	134.5%	150.6%	140.4%	127.9%	82.0%	138.7%
	14E	195.9%	89.6%	131.1%	113.4%	134.5%	82.5%	76.0%	118.7%
Net Profit	12A	31,847	23,366	35,233	39,235	1,262	3,705	5,509	140,157
FD EPS Growth	12A	16.5%	31.6%	45.4%	8.2%	-68.5%	13.4%	10.1%	21.7%
	13A	35,905	33,928	41,325	50,233	5,737	4,249	9,231	180,608
	13A	12.7%	28.9%	17.3%	28.0%	354.1%	4.3%	67.6%	20.1%
	14E	36,411	30,260	44,505	51,453	7,915	4,254	6,185	180,983
	14E	1.4%	-10.8%	7.7%	2.4%	37.9%	0.1%	-33.0%	3.0%
BVPS	12A	142.5	13.1	77.3	62.9	1.3	25.0	34.1	70.1
BVPS Growth	12A	11.6%	19.8%	19.5%	15.0%	9.8%	12.3%	13.9%	14.8%
	13A	155.0	14.7	91.6	72.5	1.4	28.7	37.1	79.5
	13A	8.8%	12.7%	18.5%	15.2%	7.6%	14.8%	8.7%	13.4%
	14E	166.5	16.0	105.2	81.5	1.5	31.1	40.5	88.3
	14E	7.4%	8.8%	14.8%	12.5%	8.6%	8.4%	9.1%	11.0%
Tier 1 ratio	12A	11.9%	10.2%	10.4%	10.9%	11.1%	8.5%	8.5%	10.8%
	13A	14.4%	10.2%	12.0%	11.7%	10.6%	9.1%	9.5%	11.9%
	14E	14.8%	10.0%	12.4%	12.8%	10.9%	9.3%	10.0%	12.5%
CAR	12A	16.3%	16.3%	16.0%	16.5%	18.2%	12.8%	14.0%	16.3%
	13A	16.9%	14.8%	15.2%	15.1%	15.9%	13.3%	14.8%	15.5%
	14E	17.2%	14.2%	15.5%	16.1%	16.2%	13.3%	15.2%	15.8%
ROA	12A	1.41%	1.11%	1.85%	1.91%	0.18%	1.45%	0.57%	1.36%
	13A	1.43%	1.42%	1.89%	2.09%	0.77%	1.31%	0.89%	1.56%
	14E	1.37%	1.17%	1.86%	1.95%	1.00%	1.15%	0.57%	1.45%
ROE	12A	12.3%	14.9%	20.7%	19.6%	2.3%	21.5%	13.5%	15.6%
	13A	12.6%	17.4%	20.4%	21.8%	9.6%	20.6%	20.3%	17.4%
	14E	11.9%	14.1%	18.9%	19.7%	12.3%	17.8%	12.5%	15.6%
Leverage (Asset / Equity)	12A	8.8	13.5	11.2	10.3	13.1	14.9	23.5	11.5
	13A	8.8	12.3	10.8	10.4	12.5	15.8	22.9	11.2
	14E	8.7	12.0	10.1	10.1	12.3	15.5	21.9	10.8
Loan to Deposit ratio (%)	12A	87.4%	91.8%	95.4%	95.9%	91.2%	113.0%	108.9%	93.8%
	13A	90.6%	90.8%	94.1%	95.2%	94.3%	110.4%	110.5%	93.9%
	14E	90.0%	91.5%	92.8%	95.3%	94.7%	108.0%	109.2%	93.6%
Loan/(Deposits+Borrowings) (%)	12A	82.6%	84.4%	89.7%	88.6%	83.9%	100.2%	96.5%	85.7%
	13A	85.8%	84.0%	88.5%	87.9%	87.2%	97.1%	95.5%	86.1%
	14E	85.5%	84.5%	87.7%	87.8%	87.7%	95.9%	94.2%	86.0%

Source: Company Data; Citi Research estimates

Appendix A-1

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