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Diversified Banks
Asia

Asean Banks

Deep Dive: Four “Unloved” Stocks, Catalysts for Rerating

- **Why read this report?** We showcase four mid-large cap banks that may appeal to long-only investors looking for alternatives to the outperforming mainstream banks. BBNI, BBL, RHBC and PNB trade at a steep P/B discount to sector leaders, but a business model deep dive identifies franchise strengths/operational upside to help cut the ROE gap, with 18%-30% P/B re-rating potential. History (Pg. 6) shows how mkts. reward ROE change; we provide an in-depth ROA-ROE analysis (Pg. 8). BBNI tops our list: unrewarded ROE uplift post-2011, could close the gap on BMRI. BBL #2: downside looks limited, strong execution may revive non-II, capex recovery angle. RHBC #3: ambitious wholesale-IB/regionalization strategy, but with execution risks. PNB #4: underleveraged CASA/branch franchise, possible strategic investor target. We currently have Buy ratings on BBNI, BBL, RHBC; Neutral PNB. **[See Pg. 3]**.

- **[1] BBNI —** BBNI drove a 3%pt ROE lift from 2011-2013, yet saw limited reward on P/B. BBNI improved CASA ratio, kept opex growth <15% and reduced credit costs. **ROE drivers:** SME lending to raise yields, income from subs (esp. life insurance), controlling costs, maintain CASA. Beyond near term industry pressures, we view sustainable LT ROE likely 20-22%. **Concerns:** Limited SME loan growth success, possible 2016E equity needs. **[Pg. 9]**.

- **[2] BBL —** BBL saw ROE stall vs. KBANK/SCB as (aside mortgages) it sat out a decade long retail boom. **ROE drivers:** Revive fees/non-II (insurance, transactions services) via a stronger sales culture is the key execution gap (KTB is a good case study). Expect BBL to benefit from eventual capex recovery; its leading international network could capture Thai cross-border growth. Mgmt. targets LT ROE 15%; on existing model 13% the likely max. **Concerns:** Mgmt. conservatism to change. **[Pg. 21]**.

- **[3] RHB Capital —** At 15% ROE/1.7x P/B in 2011, RHBC de-rated on 2012’s OSKIB M&A (RM1.95bn price for RM30m profit). But OSKIB delivered synergies ahead of schedule, broadening RHBC’s wholesale-IB platform. **ROE drivers:** Mgmt. have a 2017 strategy to reposition domestic retail-SME and lift regional revenue to 30% (from 11%). 2017E goal of 14% ROE. **Concerns:** Indonesia bank M&A key to regional targets, capital concerns on BNM’s strict B3 rules. **[Pg. 37]**.

- **[4] PNB —** PNB has untapped franchise value in an underleveraged 60% CASA deposit base, 55% LDR, 2/3 of 655 branches outside Manila, largest (81) branch network overseas. **ROE drivers:** higher yield retail lending, broaden fee growth. Post-Allied merger synergies evident, but integration costs remain. **Concerns:** Low post-Allied NPL cover just 38%, and large legacy foreclosed assets. ROAs may soften before they improve, and the recent rights issue (CET1 to 16.4%) could cap ROE performance to 9% by 2015. Prospect of the entry of a new strategic stakeholder the more likely near term stock price catalyst. **[Pg. 46]**.

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Four Unloved Stocks, Catalysts for Rerating

Figure 1. Forecast Summary & Valuations

Stock, Rating, BBG	Price (Rp)	Targt Price (Rp)	ETR (%)	Mkt Cap US$ b	Net Profit* (LCY m) 14E	Net Profit* (LCY m) 15E	EPS (LCY) 14E	EPS (LCY) 15E	EPS chg %YoY 14E	EPS chg %YoY 15E	PER (x) 14E	PER (x) 15E	BPS (LCY) 14E	BPS (LCY) 15E	PBV (x) 14E	PBV (x) 15E	DPS (LCY) 14E	DPS (LCY) 15E	Yield (%) 14E	Yield (%) 15E	ROAE (%) 14E	ROAE (%) 15E
Negara, 1, BBNI.JK	4,855	5,450	15.3	7.8	9,394	9,865	504	529	3.8	5.0	9.6	9.2	2,762	3,190	1.8	1.5	101	106	2.1	2.2	19.0	17.8
BBL, 1, BBLf.BK	184.5	210.0	18.0	10.8	36,411	40,039	19.1	21.0	1.4	10.0	9.7	8.8	166.5	179.1	1.1	1.0	7.6	8.4	4.1	4.5	11.9	12.1
RHB Cap, 1, RHBC.KL	8.4	8.9	8.6	6.6	2,023	2,240	0.79	0.88	8.9	10.7	10.6	9.6	7.19	7.80	1.2	1.1	0.26	0.28	3.1	3.3	11.5	11.7
PNB, 2, PNB.PS	92	90	-2.2	2.6	6,448	7,948	5.19	6.36	5.2	22.6	17.7	14.5	78.37	84.17	1.2	1.1	0.00	0.00	0.0	0.0	7.2	7.8

* Net Profit in Rp bn for Bank Negara

Source: Citi Research estimates

Revenue strategies and mgmt. execution are key

Why read this report? This report showcases four names that could appeal to long-only investors looking for mid-large cap investment ideas in Asean banks, where at present most "mainstream" large cap names have outperformed, while small-cap Asean banks remain under pressure (fundamentally and sentiment-wise) from liquidity pressures or QE tapering concerns. Each of our four stocks are among the "Big 4" banks in their respective markets, but for company-specific reasons the stocks have been de-rated or otherwise been overlooked by investors, resulting in a clear P/B multiple discount versus their large bank peer group.

For each of these banks we have performed a business model deep-dive analysis, explaining in an ROA-ROE and operational context what may be the banks' main earnings shortcomings and in turn what operating strategies could drive a P/B re-rating. Generally we find that the potential drivers are revenue related, meaning strong mgmt. commitment and execution is key to success.

Using 12mth forward consensus ROE forecasts, comparing the performance of our "unloved" banks versus other large banks peers and sector average as a whole, we can predict a potential 18% to 30% P/B re-rating if these banks can succeed in achieving target ROE improvements, as summarized below.

Figure 2. Asean Banks Consensus 12M Fwd Estimates — "Unloved" vs. Peers and Sector Averages

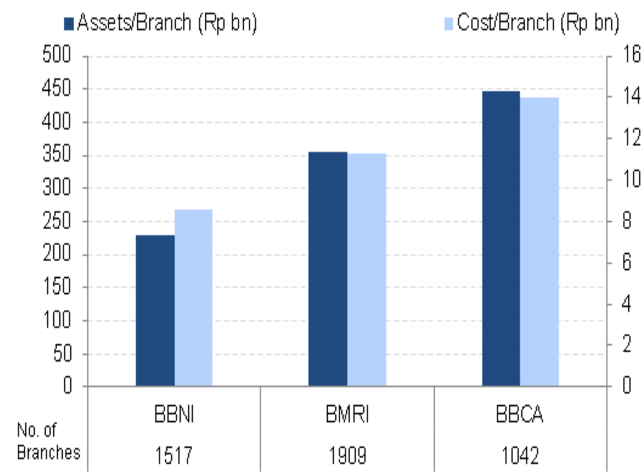
	BBNI	Peers	Var %	Sector	Var %	Peer Avg. = (BMRI + BBRI); Sector Avg. = 6 banks
PER (x)	9.0	10.8	-16%	10.5	-14%	BBNI has driven a 3%pt improvement in ROE from 2011-2013, but has not been rewarded by a similar P/B rise. If BBNI could reach the 23% ROE of its peers, may deserve a >30% P/B re-rating. We view sustainable LT ROE likely 20-22%. Drivers: SME loans to raise yield, higher income from subs, control costs, maintain CASA.
P/B (x)	1.54	2.30	-33%	1.94	-20%	
ROE (%)	18.4	23.2	-21%	19.1	-4%	
	BBL	**Peers**	**Var %**	**Sector**	**Var %**	**Peer Avg. = (KBANK + SCB); Sector Avg. = 6 banks**
PER (x)	8.9	9.8	-9%	9.0	-1%	BBL experienced ROE stagnation as peers (KBANK, SCB) rode the retail banking boom of the last decade. BBL targets 15% LT ROE; this may deserve > 40% P/B re-rating based on BBL's historic valuation ranges, or a more modest 18% using current muted multiples, and with arguably ltd. valuation downside (given strong capital, high NPL cover). Key drivers: core fees non-II, capex cycle recovery, cross border growth.
P/B (x)	1.07	1.77	-39%	1.31	-18%	
ROE (%)	12.4	19.5	-36%	15.3	-19%	
	RHBC	**Peers**	**Var %**	**Sector**	**Var %**	**Peer Avg. = (Maybank + CIMB); Sector Avg. = 7 banks**
PER (x)	10.4	12.4	-16%	12.0	-13%	RHBC de-rated fm. 15% ROE to 11% post 2012 OSKIB M&A. OSKIB delivered strong 2013 revenue synergies. RHBC's 2017 strategy targets 14% ROE; this may deserve c.25% P/B re-rating. Drivers: International revenue 30% (11% now), including Indo banks M&A; revamping domestic retail/SME, regional wholesale-IB growth.
P/B (x)	1.14	1.63	-30%	1.71	-33%	
ROE (%)	11.2	13.9	-20%	14.6	-23%	
	PNB	**Peers**	**Var %**	**Sector**	**Var %**	**Peer Avg. = (BDO + MBT); Sector Avg. = 4 banks**
PER (x)	13.2	14.2	-7%	14.4	-8%	Untapped franchise value in an underleveraged 60% CASA deposit base, 55% LDR, 2/3 of branches outside Manila, and largest (81) branch network overseas. 36% P/B discount vs peers, but near term ROE likely capped at 9% post rights issue. Drivers: higher yield retail loans, merger cost synergies, address low NPL cover. Prospect of the entry of a new strategic stakeholder the more likely near term stock price catalyst.
P/B (x)	1.04	1.63	-36%	1.71	-39%	
ROE (%)	8.9	12.1	-26%	12.5	-29%	

Source: Datastream, Citi Research

***Stock ranking:* We currently have Buy ratings on BBNI, BBL and RHB Capital, and a Neutral rating on PNB.** This also reflects our relative ranking as to the ability for stock re-ratings to occur. A brief summary of each stock as follows:

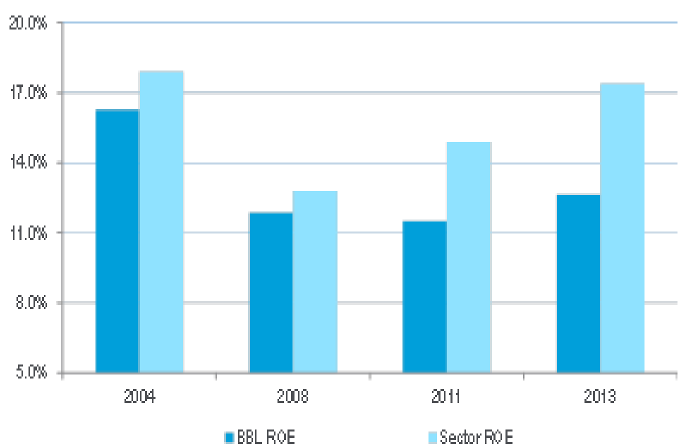
BBNI has the customer franchise attributes to close the gap on BMRI. BBNI tops our list of "unloved" banks as the only one to have already made material ROA-ROE improvement that has been underappreciated by the market. As a gauge of this, BBNI trades at a 30% P/B discount to BMRI yet consensus forecast ROE is 18.4% vs 20.8%. From 2011 to 2013, BBNI raised its recurring pre-tax ROA by 70bps to 2.3%, through a combination of holding NIMs (strong CASA, low cost of funds), curbing opex growth below 15%, and improving credit costs. BBNI's customer franchise and network is comparable to BMRI (and in some respects even BCA), but the bank has a materially lower average asset base per branch. Operationally, mgmt. have reinvigorated branch branding, a stronger transactional banking platform, asset quality improvement and a recapitalized balance sheet. The consumer franchise has seen material progress in mortgages, cards and importantly CASA, for higher fee income and lower costs. The next potential catalysts for re-rating could include a clear SME lending strategy, re-pricing of its fixed rate mortgages (both lifting asset yields), and higher non-interest income from subsidiaries, notably insurance, while continuing to control costs and maintaining CASA growth. We view that BNI's LT ROE could reach 20-22% (2014E: 19%), although we note that current sector pressures could weaken ROA-ROE near term.

Figure 3.BBNI's Underleveraged Branch Network



Source: Company, Citi Research

Figure 4. BBL — ROE de-rating since 2008, yet to return to old level

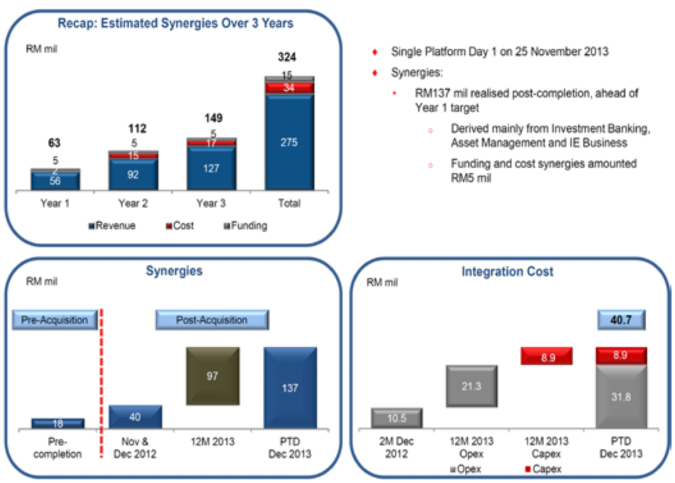


Source: Company, Citi Research

BBL — high revenue potential, but do mgmt. have the appetite to deliver? BBL ranks second in our unloved list for the reasons of [a] downside looks limited and in our view [b] clear areas of revenue improvement. BBL's ROE progress stalled (while its peers re-rated) as the bank appeared to largely sit out much of the Thai retail boom of the last decade (aside mortgages), with only relatively moderate growth in core fees non-interest income vs peers one of the major execution gaps. Given the current malaise facing the Thai economy, we believe BBL's low cost ratios, high NPL coverage and strongest core capital base are key attributes. BBL mgmt. consider 15% as a medium term ROE target — getting there is matter of delivering on revenue strategies, which KTB has shown in recent years is not insurmountable. Cyclically BBL going forward appears less disadvantaged now that the consumer boom has slowed, and we view the bank as a key beneficiary of an eventual capex recovery and Thai company cross border growth. But there remains a key question mark over whether mgmt. can depart from its conservative approach to growth. A 15% ROE (2014E: 12%) takes BBL almost half-way towards the c.20% ROE levels of SCB/KBANK, against which BBL presently trades at a 40% P/B discount. But if business model inertia continues, BBL may struggle to even reach 13% ROE.

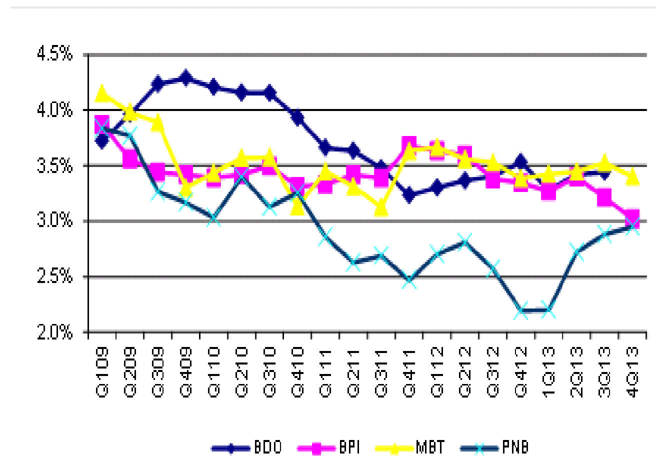
RHB Capital used to be a 15% ROE and 1.7x P/B stock as recently as 2011. RHBC ranks third on our unloved list. RHBC suffering a sharp ROE de-rating post a RM2bn acquisition of investment bank OSKIB, an M&A that significantly broadened and deepened RHBC's IB platform (including regionally), but necessitated a hefty equity raising and also weighed heavily on RHBC's cost base. This deal has however proved fortuitous, as Malaysia's medium term upside looks increasingly likely to be driven by corporate investment flows and regionalization. RHBC's mgmt. team recently revealed an ambitious broader business plan to reposition its domestic retail-SME business as well as expand the international contribution of its revenues. From a current ROE of just 11.3%, a 14% ROE target by 2017 could help close the present 30% P/B valuation gap with peers Maybank and CIMB. But in our view the execution risks of this strategy is also somewhat higher than the #1 and #2 banks on our list, and we also note that Malaysia's central bank appears to be taking a very conservative line on B3 capital levels, which worst case could mean that RHBC (along with several other banks) could have to add to its capital levels.

Figure 5. RHBC — OSKIB M&A Delivering Ahead of Schedule



Source: Citi Research

Figure 6. PNB — Rising NIMs on Low Cost Deposits, Not Loan Yield



Source: Citi Research

PNB — significant franchise potential, rights issue may curb near term ROE upside. PNB ranks fourth on our unloved list. Core strengths are its deposit franchise and branch network, and NII growth looks the most realistic near term option to drive revenues. At a 5-yr CAGR loan growth of <11%, PNB lags large bank peers, (loans 46% of interest bearing assets, LDR 55%). The mix is also skewed toward low yield govt. (13%) and corporate (48%) loans. Allied Bank merger raised middle market to 28% of total, and a core strategy is to rebalance the loan mix to capture SME and consumer (11%), which plays to PNB's provincial branch strength and Allied's Filipino Chinese network. At 2.95%, PNB's NIM has improved markedly over the past year, a testament to the strength of the deposit franchise (60% CASA, leverage to rising rates), despite low loan yields. At just 10-12% of income, PNB needs to review its fee structure, "quick wins" likely from aligning bank fees/charges to market. While merger cost savings are becoming apparent (and after NII is the next material driver of ROA improvement), PNB faces a difficult core banking system migration of Allied into 2015. Allied also drove a fall in NPL cover to 38% (83% pre-merger). For all these positives, execution delays amid more aggressive competition could erode these advantages. Post rights CET1 estimated 16.4% (peers avg. 14%) but ROEs also curbed to 8.7% by 2015E, well shy of the large banks' avg. 12% ROE. As such, the key near term rerating catalyst for the stock would be the prospect of the entry of a new strategic stakeholder, in our view.

Standard P/B equation:

P/B = [ROE – g] / [CoE – g]

where ROE = Return on Equity

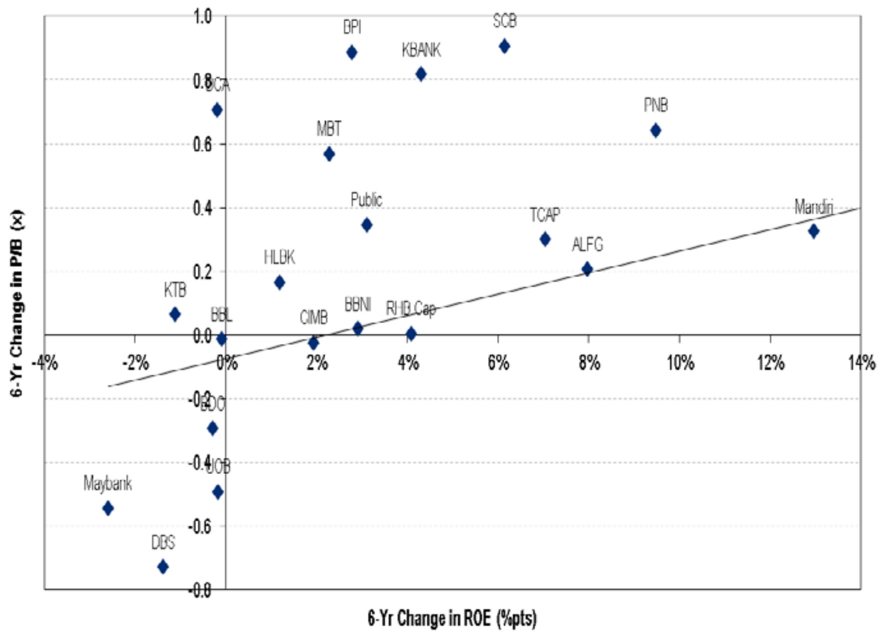
and CoE = Cost of Equity

g = ROE x retention ratio (in broad terms reflects core book value growth)

Market rewards ROE enhancement with P/B re-rating

While we are somewhat stating the obvious, it is good to see evidence from Asean bank names under Citi coverage that top bank performers over recent years enjoyed a P/B re-rating to reward ROE improvement. This was certainly the case for top-performing Indonesian, Thai and Philippine large cap names and selected Malaysian restructuring stories. However, we view that high book-value growth impact (especially for Indonesia) was a material driver as well, as was in some cases falling cost of equity (which in turn is a function of falling risk free rates).

Figure 7. ROE Improvement Rewarded With P/B Re-rating



Asean banks based on Citi Research coverage universe for period 2006-2012

Source: Datastream, Citi Research

The critical difference between this past experience and what we are considering going forward is that much of the past years' ROE improvements were costs (including asset quality/credit costs) driven. Going forward, we see revenue drivers as being the main ROE catalyst, which generally is more difficult (and our view needs strong management leadership) to successfully execute.

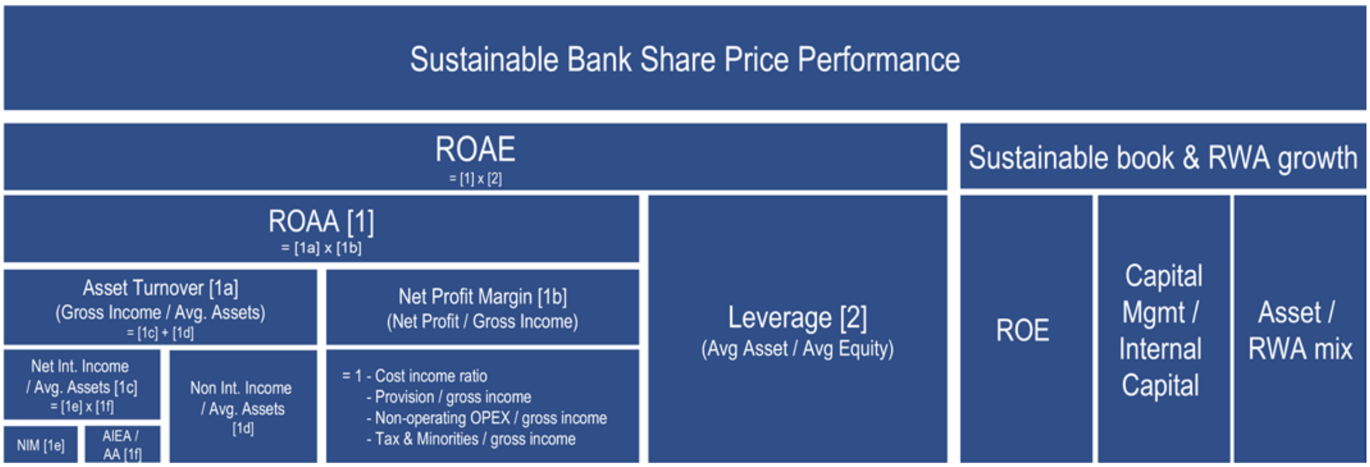
Analyzing performance using a banks ROA-ROE model

A classic Du Pont-style model of profitability analyzes how a company drives its ROAA between increasing asset turnover (= turnover divided by assets), and then improving net profit margin (=net profit divided by turnover). We can convert this to a "bank-like format" by defining total operating income (= net interest income + fees/other non-interest income) as a bank's turnover.

In addition, we need to capture the leverage decision as banks choose between ROAE improvement (a key P/B multiple driver, as previously discussed) and maintaining a healthy capital/common equity level.

Finally, to capture the dimension of a franchise's ability to deliver price performance over a number of years we have to assess additional factors relating to sustainability of (risk) assets growth and to assess the aforementioned price drivers of book-value growth. In a pictorial sense our banks Du Pont model is constructed as follows:

Figure 8. Banks Du Pont Model



Source: Citi Research

Figure 9. Asean Banks — ROA-ROE Comparison of Banks Across Key Metrics

		Indonesia (8 banks)					Malaysia (7 banks)					Philippines (4 banks)					Thailand (5 banks)				
		2012	2013	2014F	2015F	2016F	2012	2013	2014F	2015F	2016F	2012	2013	2014F	2015F	2016F	2012	2013	2014F	2015F	2016F
ROA-ROE DECOMPOSITION	Net interest income	5.76	5.97	5.89	5.91	5.99	1.98	1.89	1.85	1.83	1.86	2.96	2.85	3.03	3.14	3.07	2.83	2.80	2.79	2.83	2.86
	Net fees and commission	1.30	1.34	1.38	1.40	1.44	0.57	0.61	0.62	0.64	0.68	0.78	0.73	0.74	0.76	0.42	0.91	0.94	0.94	0.97	0.99
	Other non-interest income	0.32	0.30	0.27	0.26	0.25	0.83	0.86	0.83	0.82	0.83	1.61	1.66	1.07	1.05	1.34	0.67	0.75	0.63	0.62	0.61
	Operating Income	**7.38**	**7.60**	**7.54**	**7.57**	**7.69**	**3.38**	**3.37**	**3.31**	**3.29**	**3.37**	**5.35**	**5.24**	**4.84**	**4.95**	**4.83**	**4.41**	**4.50**	**4.36**	**4.42**	**4.46**
	Staff costs	-1.75	-1.77	-1.76	-1.75	-1.76	-0.95	-0.71	-0.44	-0.42	-0.35	-1.31	-1.23	-1.18	-1.16	-1.00	-0.96	-0.95	-0.93	-0.92	-0.92
	Other operating expense	-1.93	-1.86	-1.89	-1.92	-1.95	-0.67	-0.91	-1.13	-1.12	-1.19	-1.85	-1.77	-1.71	-1.66	-1.72	-0.99	-0.94	-0.93	-0.92	-0.91
	Operating Expense	**-3.67**	**-3.63**	**-3.65**	**-3.67**	**-3.70**	**-1.62**	**-1.62**	**-1.57**	**-1.54**	**-1.54**	**-3.16**	**-2.99**	**-2.89**	**-2.83**	**-2.71**	**-1.95**	**-1.89**	**-1.86**	**-1.85**	**-1.83**
	PPOP	**3.71**	**3.97**	**3.89**	**3.90**	**3.99**	**1.76**	**1.75**	**1.74**	**1.76**	**1.83**	**2.19**	**2.24**	**1.95**	**2.12**	**2.11**	**2.47**	**2.61**	**2.50**	**2.57**	**2.63**
	Loan provisions	-0.28	-0.42	-0.63	-0.82	-0.88	-0.11	-0.16	-0.16	-0.16	-0.18	-0.38	-0.33	-0.31	-0.37	-0.51	-0.54	-0.53	-0.53	-0.47	-0.43
	Other Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Profit after provisions	**3.43**	**3.55**	**3.26**	**3.09**	**3.10**	**1.65**	**1.59**	**1.58**	**1.59**	**1.66**	**1.81**	**1.92**	**1.64**	**1.76**	**1.60**	**1.92**	**2.08**	**1.98**	**2.10**	**2.20**
	Exceptionals	0.17	0.12	0.09	0.09	0.08	0.04	0.05	0.05	0.04	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Pre-tax profits	**3.60**	**3.68**	**3.35**	**3.17**	**3.18**	**1.69**	**1.64**	**1.63**	**1.64**	**1.69**	**1.81**	**1.92**	**1.64**	**1.76**	**1.60**	**1.92**	**2.08**	**1.98**	**2.10**	**2.20**
	Tax	-0.78	-0.81	-0.74	-0.70	-0.70	-0.40	-0.38	-0.39	-0.39	-0.41	-0.27	-0.27	-0.25	-0.28	-0.34	-0.45	-0.40	-0.40	-0.42	-0.44
	Net profit	**2.82**	**2.87**	**2.61**	**2.47**	**2.48**	**1.29**	**1.26**	**1.24**	**1.25**	**1.28**	**1.53**	**1.65**	**1.39**	**1.48**	**1.26**	**1.48**	**1.68**	**1.58**	**1.68**	**1.76**
	Minority interest	-0.03	-0.03	-0.03	-0.03	-0.03	-0.02	-0.02	-0.02	-0.02	-0.02	-0.05	-0.06	-0.05	-0.05	-0.02	-0.03	-0.04	-0.04	-0.04	-0.04
	ROA	**2.79**	**2.84**	**2.59**	**2.45**	**2.46**	**1.27**	**1.24**	**1.22**	**1.23**	**1.26**	**1.37**	**1.45**	**1.34**	**1.43**	**1.24**	**1.45**	**1.64**	**1.54**	**1.64**	**1.72**
	Leverage	8.3x	8.1x	8.0x	7.9x	7.7x	12.5x	12.2x	12.0x	11.9x	12.1x	9.1x	8.6x	8.4x	8.3x	6.6x	10.6x	10.4x	10.1x	9.7x	9.5x
	ROE	**23.29**	**22.91**	**20.60**	**19.35**	**18.98**	**15.83**	**15.06**	**14.63**	**14.64**	**15.22**	**12.53**	**12.54**	**11.20**	**11.82**	**8.23**	**15.32**	**16.96**	**15.50**	**15.89**	**16.25**
P&L RATIOS	Net Interest Margin	6.53	6.84	6.92	6.89	6.91	2.14	2.05	2.00	1.97	2.00	3.17	3.15	3.21	3.30	3.37	3.07	3.03	3.02	3.04	3.05
	NII as % oper. Inc.	78.0	78.5	78.1	78.0	77.9	58.6	56.2	56.0	55.6	55.2	55.3	54.5	62.5	63.5	63.6	64.1	62.3	63.9	64.0	64.0
	Fee income as % oper. Inc.	17.6	17.6	18.3	18.5	18.7	16.9	18.1	18.8	19.4	20.2	14.5	13.9	15.3	15.3	8.7	20.6	21.0	21.7	22.0	22.2
	Other non-II as % oper. Inc.	4.3	3.9	3.6	3.5	3.3	24.6	25.6	25.2	25.0	24.6	30.1	31.6	22.1	21.2	27.7	15.3	16.7	14.4	14.0	13.7
	Cost-income ratio	48.5	46.1	46.8	47.0	46.9	45.8	45.7	45.1	44.4	43.3	58.6	56.9	58.9	56.3	56.2	43.9	41.7	42.3	41.5	40.7
	Dividend Payout	28.3	27.2	20.7	20.7	20.9	56.4	50.0	49.9	49.5	49.7	22.9	21.9	25.0	20.9	0.0	38.8	35.1	36.1	36.1	38.1
B / S RATIOS	Loans / Assets	63.2	67.6	68.1	68.8	69.4	63.8	65.1	66.5	67.7	69.2	54.4	53.9	57.5	60.1	49.4	66.3	66.7	66.9	67.1	67.5
	Placement with banks / Asset	10.0	6.5	6.7	6.7	6.7	1.7	1.1	1.1	1.1	1.0	15.6	22.2	21.3	19.2	22.0	na	na	na	na	na
	Investments / Assets	11.6	11.5	10.5	9.7	9.1	19.7	19.9	19.3	18.7	17.2	21.4	16.6	14.5	14.7	17.0	17.1	16.1	17.3	17.2	17.3
	Int. Earning Assets / Tot. Assets	87.1	87.1	86.9	86.8	86.7	93.2	93.2	93.4	93.6	93.6	92.5	94.0	94.5	95.1	91.7	95.7	95.2	95.5	96.0	96.2
	Deposits / Assets	77.4	76.8	77.5	78.0	78.3	74.5	74.1	75.9	77.0	77.3	74.5	78.3	78.2	78.8	75.8	71.9	72.0	72.3	72.6	73.0
	Other IBL / Assets	5.6	5.9	5.4	5.1	4.7	13.0	13.7	12.0	11.0	11.1	9.0	5.7	5.4	5.1	2.6	12.6	11.3	10.5	9.7	9.0
	Equity / Assets	12.1	12.4	12.4	12.6	12.8	8.2	8.2	8.4	8.4	8.3	11.4	11.4	12.1	12.0	14.8	9.5	9.8	10.2	10.4	10.7
	Deposits / Liabilities	88.1	87.7	88.5	89.2	89.8	81.1	80.7	82.8	84.1	84.3	84.1	88.5	89.0	89.6	89.0	79.5	79.8	80.5	81.1	81.7
	Int. Bearing Liab. / Tot. Liab.	94.4	94.4	94.7	95.0	95.2	95.3	95.7	95.9	96.1	96.4	94.3	94.9	95.1	95.4	92.1	93.4	92.3	92.2	91.9	91.8
	Loans / Deposits	79.8	86.1	86.1	86.7	87.4	86.3	88.1	87.7	87.9	89.4	72.1	68.5	73.2	75.8	65.1	93.1	93.2	92.9	92.9	92.9
ASSET QUALITY	NPL Ratio	1.6	1.4	1.7	1.8	1.7	2.0	1.8	2.1	2.1	2.1	2.5	2.3	2.2	2.2	3.0	2.8	2.6	3.0	2.8	2.6
	Credit cost charge	0.3	0.6	0.9	1.1	1.2	0.2	0.2	0.2	0.2	0.2	0.7	0.6	0.6	0.6	1.1	0.8	0.8	0.8	0.7	0.7
	Provisions / NPLs	255	251	182	170	183	103	104	102	103	100	124	125	118	115	85	145	153	133	141	151
	Provisions / Total loans	3.0	2.8	2.7	2.7	2.8	1.9	1.7	1.9	1.9	1.9	3.0	2.6	2.5	2.4	2.5	3.9	3.9	3.9	3.9	3.9
CAPITAL RATIOS	Tier 1 Ratio	14.5	14.8	14.6	14.2	14.0	12.1	11.7	11.7	11.3	11.6	13.7	14.1	15.4	15.4	19.3	10.9	12.1	12.6	14.0	14.4
	Capital Adequacy Ratio	15.8	15.9	15.3	14.9	14.7	15.9	14.6	14.6	14.0	14.2	16.7	16.4	17.5	17.3	19.7	16.4	15.5	15.9	16.9	17.1
	RWA / Assets	62.9	67.0	69.3	71.2	72.8	59.0	58.8	60.8	65.9	60.9	68.4	68.4	69.0	68.9	61.2	68.4	70.0	70.4	70.3	70.3
	Equity / RWA	19.2	18.5	17.9	17.7	17.6	14.0	14.0	13.8	12.7	13.6	16.7	16.7	17.6	17.4	24.2	13.9	14.0	14.4	14.8	15.2
	Equity / Assets	12.1	12.4	12.4	12.6	12.8	8.2	8.2	8.4	8.4	8.3	11.4	11.4	12.1	12.0	14.8	9.5	9.8	10.2	10.4	10.7
GROWTH RATIOS	Revenue Growth	15.5	18.9	13.7	15.7	15.9	11.4	10.1	7.5	8.5	8.6	11.6	18.9	3.0	13.5	15.0	12.8	15.1	5.1	8.9	9.6
	Cost Growth	15.8	14.0	15.4	15.8	15.8	13.4	10.6	6.1	6.6	5.7	7.5	15.1	7.7	8.5	2.2	8.2	9.6	6.6	6.9	7.3
	Cost "Jaws"	-0.3	4.8	-1.7	-0.1	0.1	-1.9	-0.5	1.5	1.9	2.9	4.1	3.8	-4.6	5.0	12.8	4.6	5.5	-1.5	2.0	2.2
	Loan Growth	23.2	22.2	15.7	16.8	17.0	11.1	11.9	11.6	10.5	9.7	14.7	20.0	17.4	17.0	14.5	11.5	10.5	7.0	8.8	9.1
	Deposit Growth	15.0	13.2	16.0	16.2	16.5	11.3	9.0	12.0	10.2	9.4	10.4	27.4	9.7	12.9	11.3	21.7	10.0	7.2	8.8	9.2
	Total Asset Growth	15.7	14.2	14.9	15.6	15.8	11.4	9.7	9.4	8.5	8.1	13.4	21.2	10.0	11.9	9.0	16.5	9.8	6.8	8.3	8.6
	RWA Growth	14.5	21.7	18.8	18.8	17.8	10.8	9.3	13.1	17.7	8.4	13.5	21.3	10.9	11.7	9.0	14.1	12.5	7.3	8.2	8.5
	BVPS Growth	22.3	17.7	17.0	18.0	17.7	12.6	8.1	10.1	8.9	9.0	17.1	14.8	12.2	10.2	7.7	14.9	13.5	11.1	11.3	10.9
CAPITAL GENERATION	Capital Generated (% chg in equity)	16.7	16.7	16.3	15.3	15.0	6.9	7.5	7.3	7.4	7.7	9.7	9.8	8.4	9.3	8.2	9.4	11.0	9.9	10.2	10.1
	** Internal capital generated % of equity - computed as return on equity times retention ratio*																				
	Potential RWA growth @ 10x		32.0	30.2	27.5	26.5		10.5	10.2	10.2	9.7		16.3	14.1	16.5	14.3		15.3	13.9	14.7	14.9
	Actual RWA growth		17.7	17.0	18.0	17.7		8.1	10.1	8.9	9.0		14.8	12.2	10.2	7.7		13.5	11.1	11.3	10.9
	Excess/(Shortage)		**14.4**	**13.2**	**9.5**	**8.9**		**2.5**	**0.2**	**1.4**	**0.7**		**1.5**	**1.8**	**6.3**	**6.6**		**1.9**	**2.8**	**3.4**	**4.1**

** Excess of potential RWA growth supportable by internal capital generation over actual RWA growth. Insufficient capital generation eventually requires fresh capital raising*

Source: Companies, Citi Research estimates

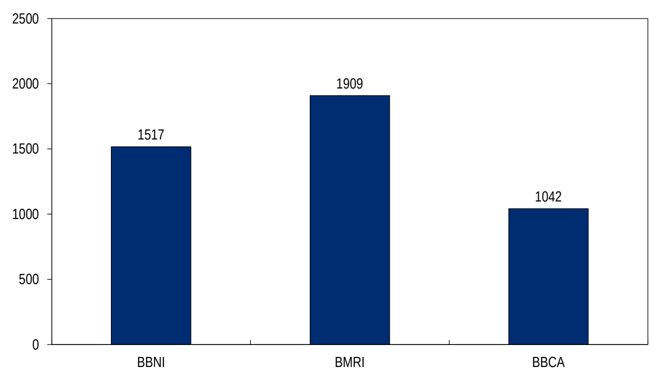
BBNI — Likely Sustainable ROE of 20%-22%

[1] Peer valuation — underrated restructuring story

BBNI is still the main "restructuring story" amongst large Indonesian banks. The branch network and customer relationships are similar to BMRI and BBCA, but due to a smaller asset base delivers lower quality ROA and ROE. Significant progress has been made since, 2008, manifesting in higher recurring ROA. Management has delivered a reinvigorated branch image, stronger transactional banking platform, asset quality improvement and balance sheet recapitalization. Market share has been gained in Mortgages, Credit Card and CASA, reflecting in higher Fee Income and lower Costs.

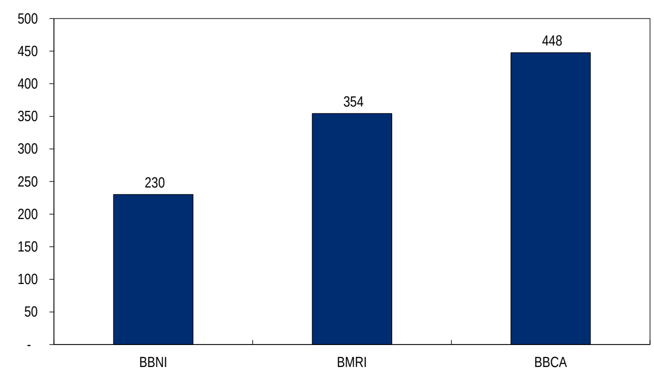
Share price has started responding since 2013, driven by quarterly results. Foreign ownership though remains lower than peer group, and in the current environment the market is concerned with lower trading gains and lower NPL cash recoveries/rising credit cost weighing on near term ROA/ROE. We believe catalysts for a medium term share price/re-rating will be 1) revival of SME lending 2) re-pricing of fixed rate mortgages 3) higher synergies from BNI Life and other subsidiaries 4) Maintaining CASA growth momentum and 5) keeping opex growth <15%.

Figure 10. Branch Network



Source: Company Reports

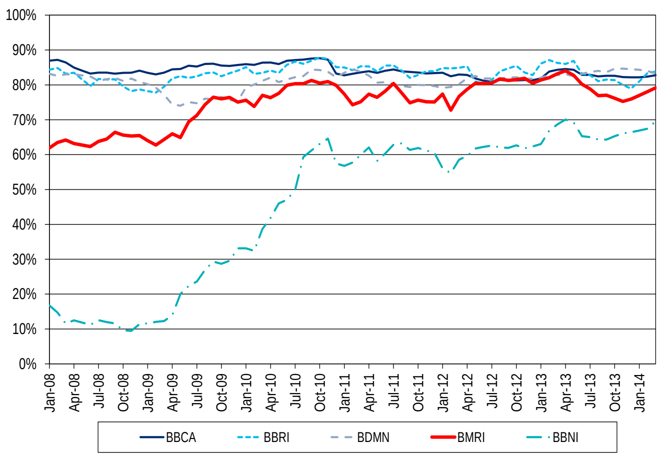
Figure 11. Total Assets per Branch (Rp Bn)



Source: Company Reports

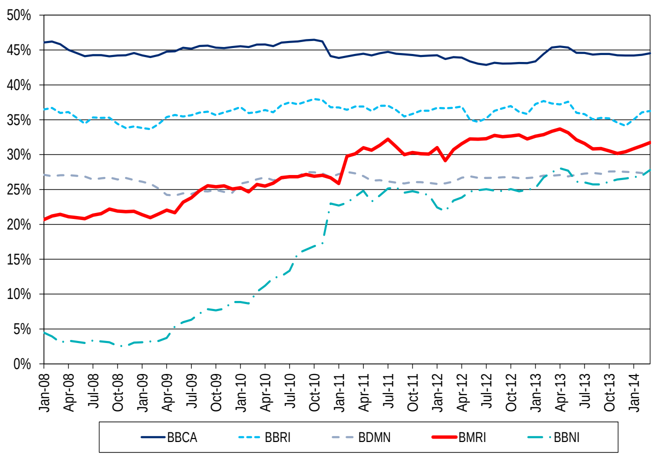
[2] Mkts. view — low foreign ownership belies ROE rise

Figure 12. BBNI is Relatively less owned by Foreign Investors (70% of Free Float)



Source: Company Reports

Figure 13. BBNI is Relatively less owned by Foreign Investors (28% of Issued Capital)



Source: Company Reports

Based on 12M forward consensus estimates, BBNI trades at lowest PER and PB multiples of the Big 4. It trades at a 30% P/B discount to BMRI which has similar business model. BBNI has been aspiring to replicate BMRI's success model and has made considerable progress in that regard.

Figure 14. Consensus 12M Forward Price Multiples vs. 10-Year Historic Ranges

	BMRI	BBRI	BBCA	BBNI	BDMN	BBTN
PER — Current (x)	11.3	10.3	16.2	9.0	9.7	6.5
Mean	10.7	10.2	13.4	10.1	11.1	10.2
+1SD	13.5	12.3	16.9	12.9	14.3	13.5
-1SD	7.9	8.2	9.8	7.3	7.9	6.8
P/B — Current (x)	2.20	2.41	3.44	1.54	1.16	0.88
Mean	1.88	2.65	3.01	1.49	2.05	1.52
+1SD	2.47	3.24	3.96	1.91	2.70	2.04
-1SD	1.29	2.07	2.06	1.07	1.40	1.00
ROE — Current (%)	20.8	25.6	22.9	18.4	12.5	14.2
Mean	18.8	28.2	24.2	16.0	19.9	16.0
+1SD	22.0	29.6	26.1	18.3	24.7	17.2
-1SD	15.5	26.8	22.2	13.7	15.2	14.7

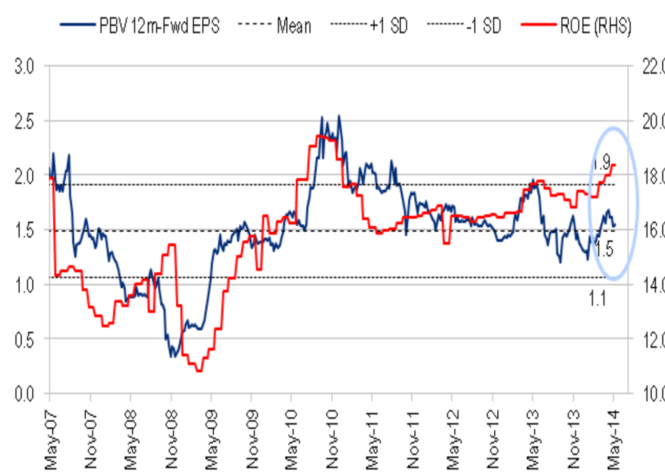
Banks ranked left to right by total assets
Source: Datastream, Citi Research. Priced as at 12 May 2014

Based on 12M forward consensus estimates, BBNI at 9.0x PER and 1.55x P/B, the lowest valued of its Indonesia "Big 4" banks peer group, and as importantly the stock trades at lower multiples versus its past 2 years' PER and P/B ranges despite having shown ROE improvement over that period..

Figure 15. BBNI —12M Fwd Consensus PER

Source: Datastream, Citi Research

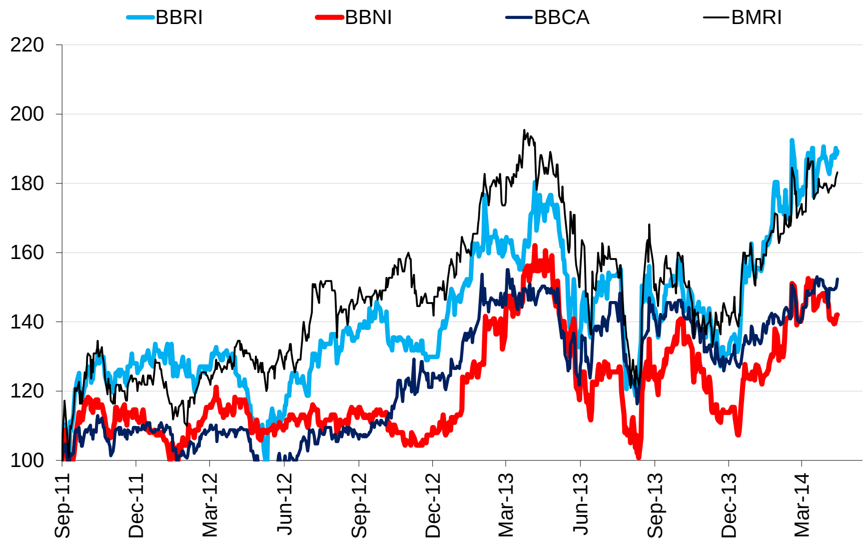
Figure 16. 12M Fwd Consensus P-Book v ROE



Source: Datastream, Citi Research

BBNI remains a Big 4 price laggard over the past 2 years despite a material improvement in ROE.

Figure 17. BBNI Recent Share Price Performance* vs "Big 4" Banks Peers



*Note: Start Price Rp3,425 on 26 Sept 2011
Source: Datastream, Citi Research

[3] BBNI in detail — corporate/consumer universal bank

Rising "recurring ROA"

Improving operations have resulted in rising recurring ROA since 2011. The table below illustrates 70bps improvement (to 2.3% all pre-tax). Key drivers include 1) flat NIMs 2) higher Fee Income 3) lower Opex and 4) lower Credit Cost. **We see room to further improve 1)** subsidiaries to boost Fee Income, led by Life Insurance **2)** Keep Opex growth < revenue growth **3)** Revive SME lending and **4)** Gaining CASA market share necessary for NIMs and increasing Leverage.

Figure 18. ROE Decomposition (% of Avg. Assets)

	2011	2012	2013
Net Interest Income	5.4	5.0	5.5
Fee, Commission and Other Income	1.4	1.3	1.5
Opex Expenses	(4.2)	(3.8)	(3.9)
Recurring PPOP	2.6	2.5	3.1
Credit Cost	(1.0)	(0.8)	(0.8)
Recurring Income	1.6	1.7	2.3
Trading + Forex	0.7	0.5	0.3
Cash Recoveries	0.7	0.7	0.6
Others	0.1	0.1	0.0
Pre-Tax Profit	3.0	2.9	3.2
Net Profit ROA	2.4	2.3	2.6
Leverage(Assets/Equity)	6.9	7.6	7.6
ROE	16.4	17.4	19.8

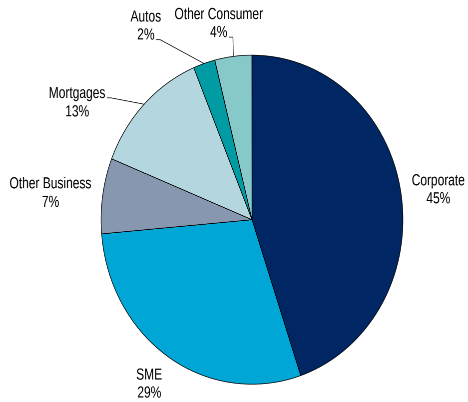
Source: Company Reports

2014 targets — ROA 3.4-3.6% (2013: 3.4%); ROE 21-23% (2013: 22.5%); loans +14-17% (2013: 24.9%), Business Banking 15-18% (2013: 26.5%) and Consumer 14-16% (15.5%); CASA growth 14-16% (2013: +15.3%), NIMs guidance 5.8-6% (2013: 6.1%); LDR 85-87% (2013: 86%) Fee Based Income growth 19-21% (2013: 14.5%) and CTI ratio 44-46% (2013: 46.7%), NPLs 1.8-2.2% (2013: 2.2%).

Loans — #4 mkt. share, Corporate and Mortgage driven

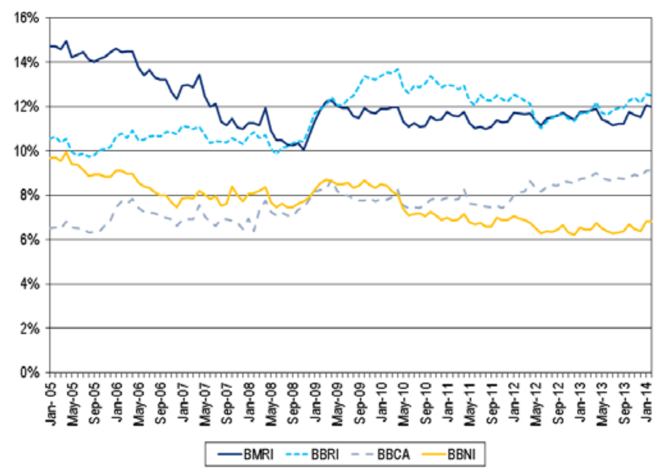
BBNI has a mostly urban footprint that historically focused on SME segment. Post restructuring, it has been focusing on Corporate and selected Consumer segments (Mortgages and Credit Card).

Figure 19. Business Loans > 80% led by Corporate



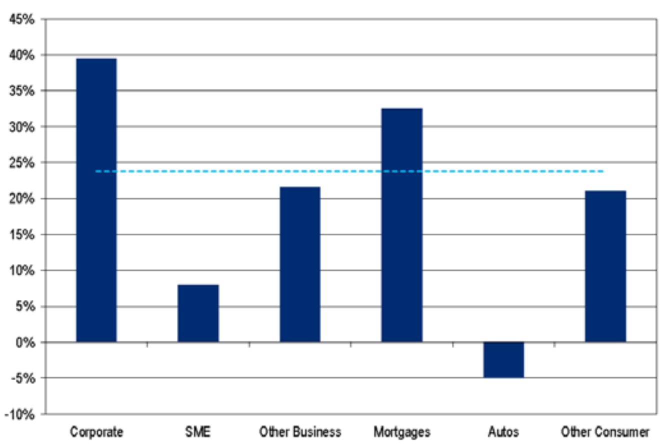
Source: Company Reports

Figure 20. Loan Market Share- Stable post restructuring



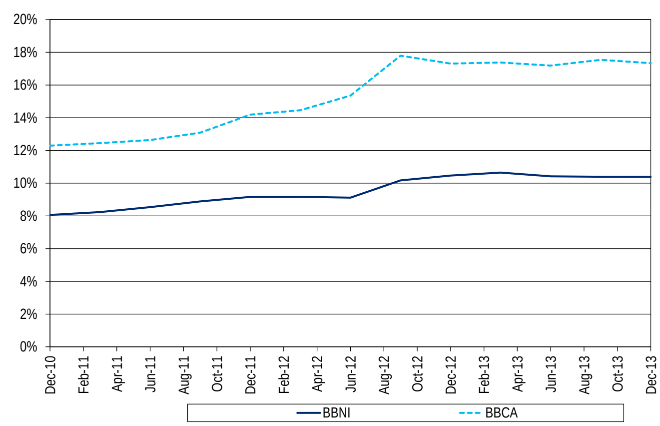
Source: Company Reports

Figure 21. Corporate and Mortgages leading growth (2011-13 CAGR)



Source: Company Reports

Figure 22. Loan Market Share- Stable post restructuring



Source: CEIC Data Company Limited

Business Loans > (80% of total loans): Loan growth has averaged 24%pa over the last two years, hence maintaining its market share of around 8%. Mortgage is one segment where it has been able to gain market share by focusing on mid-segment (from 8% in 2010 to 10% in 2013).

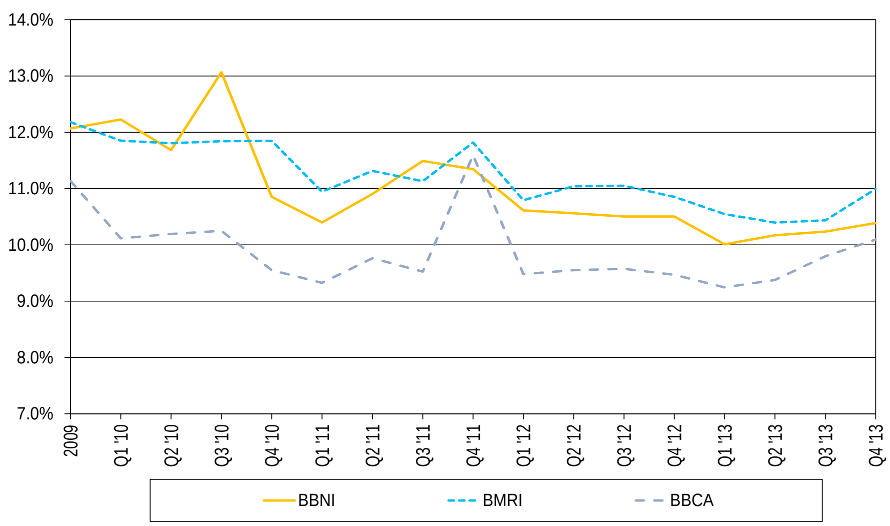
Business loans have been concentrated in Corporate segment, where it leverages its 1) relationships with SOEs and 2) large Per Party limit.

BBNI is one of 3 major state owned banks historically focused on Corporate and SME banking. Under current management, it has aggressively pushed into Consumer banking, targeting Mortgages and Credit Card.

These two businesses are targeted at existing market segment without requiring network expansion (like Micro or even auto financing). While diversifying Net Interest Income, also contribute to Fee Income.

SME is BBNI's Achilles Heel: Inability to grow SME loans though has held back further improvement in Return on Assets. Avg. loan yield has gradually been declining below BMRI while BBCA has narrowed the gap. This increases the necessity to revive the SME segment, especially with Regulatory restrictions in mortgages. Management has invested in improving its SME Risk Management by improving local knowledge to target specific industries in each region.

Figure 23. Loan Yield Comparison



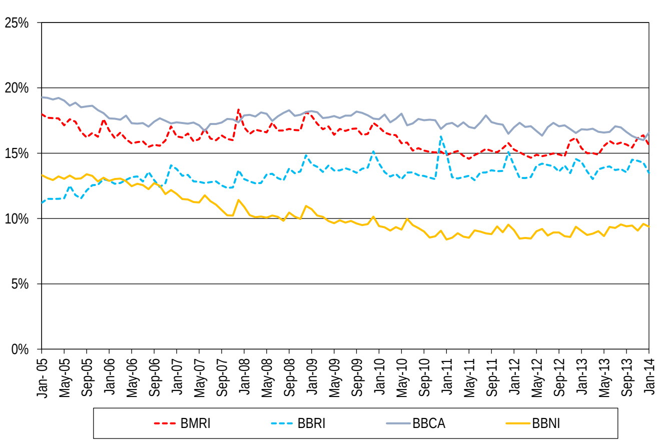
Source: Company Reports

CASA — #4 mkt. share — and rising

CASA growth is supported by linkages with SOEs and large network. Revival of SME should boost transactional banking and CASA.

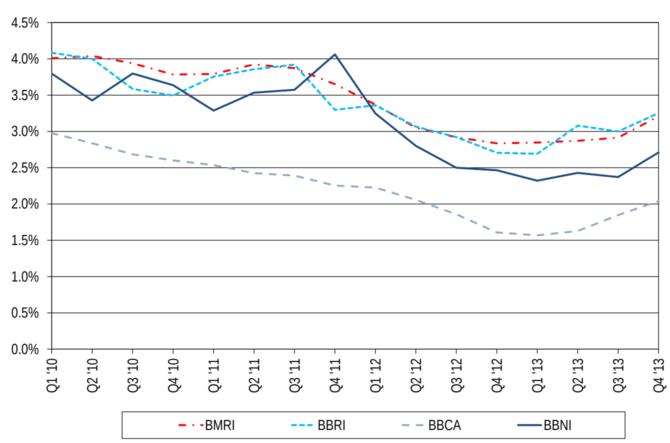
Deposit franchise has seen significant improvements with BBNI regaining its CASA market share. There is still a long way to go when compared to its 13% market share of 2005-06 period. Deposit cost has been kept well under control and is second lowest amongst large banks, with only BBCA having lower cost.

Figure 24. CASA Market Share slightly below 10%



Source: CEIC Data Company Limited

Figure 25. Has second lowest Deposit Cost

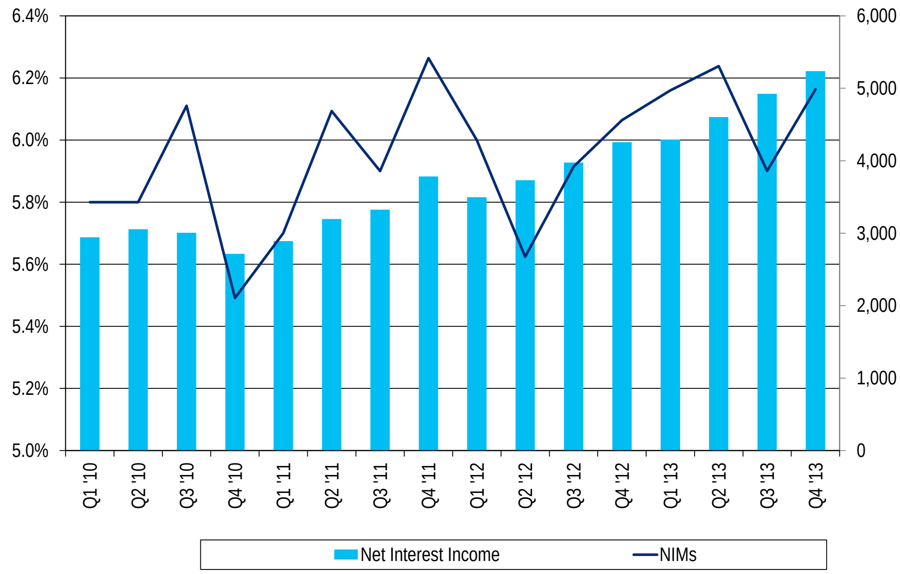


Source: Company Reports

NIMs — Stable but need to improve loan yield

NIMs have been volatile but on a rising trend, supported by low cost of funds and rising LDR.

Figure 26. Quarterly Net Interest Income (Rp Bn RHS) and derived NIMs (LHS)



Source: Company Reports and Citi Research Estimates

[4] ROE levers — non-II and under leveraged network

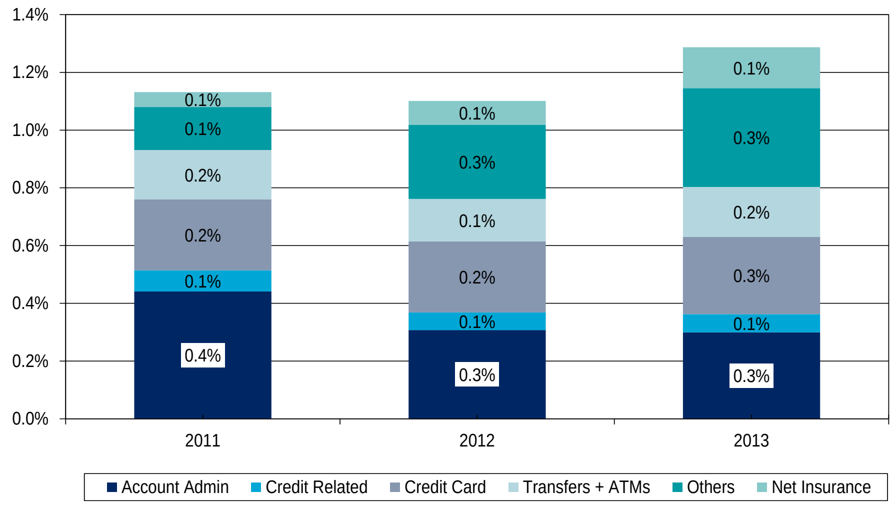
Sumitomo Life has signed agreement to become JV partner (40% stake) in BNI Life. Target is to add another 40bps to ROA through Net Premium, same as BMRI.

Non-II — Key are the Subsidiaries

Fee Income (rel. to Assets) for BBNI is now comparable to BBCA while higher than BBRI but lower than BMRI. Upside potential from BBNI is improving the performance of its Insurance and Securities subsidiaries.

BBNI has opted for JV route to reinvigorate its subsidiaries and a major step was bringing in Sumitomo as JV partner in BBNI Life (40% stake by injecting USD354mn equivalent). BBNI Life will appoint BBNI as its distribution partner and pay an annual fee that will contribute to bottom line immediately. Longer term, contribution will likely come from boosting profitability.

Figure 27. Fee and Commission Income Components (ROA Contribution)



Source: Company Reports

Contribution from BBNI subsidiaries is barely 2% of overall profit, hampered by their low ROAs. For BMRI, subsidiaries (led by AXA Mandiri) contribute around 7.6% of profits with ROA in the 4-4.5% range. Similar ROA for BBNI could add 4-5% to BBNI profits on a sustainable basis.

Subsidiaries have ROA of < 1.5%. They have presence in high growth/return businesses of Insurance and Capital Markets.

Figure 28. Contribution from Subsidiaries (Rp Bn)

	BBNI		BMRI	
	2012	2013	2012	2013
Revenue	2162	2,838	3739	4509
Net Profit	175	229	1226	1428
Avg. Assets	14,076	16,597	27,295	36610
Return on Assets	1.2%	1.4%	4.5%	3.9%
% of Group Profit	2.0%	2.0%	7.6%	7.6%

Source: Company Reports

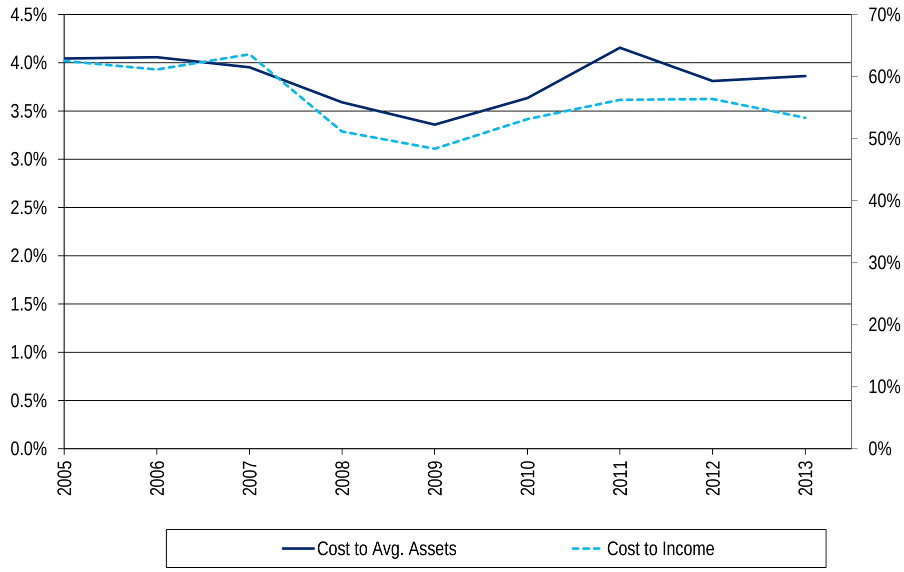
Cost-income — Leveraging existing Network

Improving Cost to Income (or to Assets) remains a priority. BBNI is the only bank amongst large banks has been able to keep its Opex growth < 15% pa in the last two years. This has helped improve both Cost to Income and Cost to Avg. Assets.

The Cost to Income calculated by Citi differs from reported numbers due to the treatment of Cash Recoveries against written off loan. We use them below the line while Management reports it as Gross Income.

Have invested in Network and Human Resource so incremental increases are lower.

Figure 29. Cost to Income and Avg. Assets



Source: Company Reports

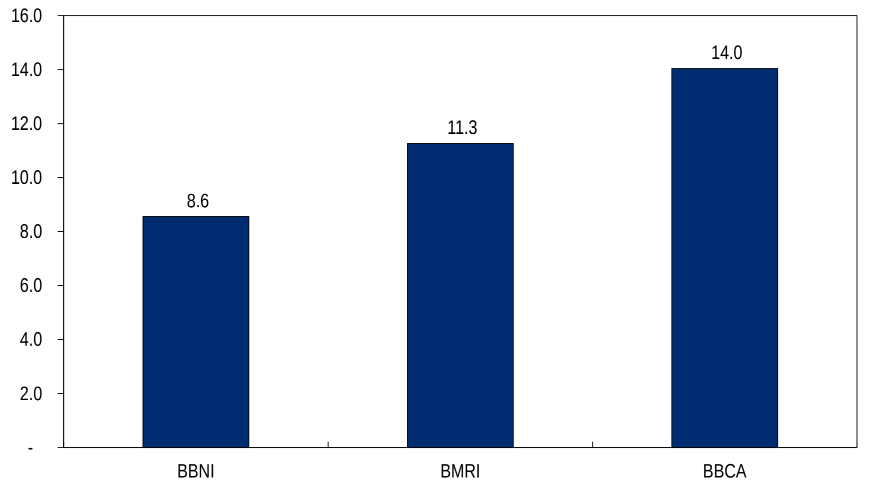
Comparison with BMRI illustrates that higher Opex is reducing ROA by 50bps (ROE impact of 3.8%). Large network with lower assets is pushing up the cost as Human Resources (+30bps) and Gen & Admin (+20bps). Room to further reduce cost per branch appears limited as it is already lowest at Rp8.6bn.

Figure 30. Peer Group Comparison: Cost Relative to Income and Avg. Assets

	BBNI		BMRI		BBCA		BBRI	
	2012	2013	2012	2013	2012	2013	2012	2013
HR to Income	27%	24%	20%	20%	22%	20%	23%	24%
HR to Assets	1.8%	1.7%	1.4%	1.4%	1.5%	1.5%	2.0%	2.1%
Gen & Admin to Income	28%	27%	28%	26%	24%	23%	22%	18%
Gen & Admin to Assets	1.9%	2.0%	1.9%	1.8%	1.6%	1.7%	1.9%	1.6%
Cost to Income	54%	51%	48%	46%	47%	43%	45%	42%
Cost to Assets	3.7%	3.7%	3.3%	3.2%	3.1%	3.1%	3.9%	3.8%

Source: Company Reports

Figure 31. Operating Cost per Branch (Rp Bn)



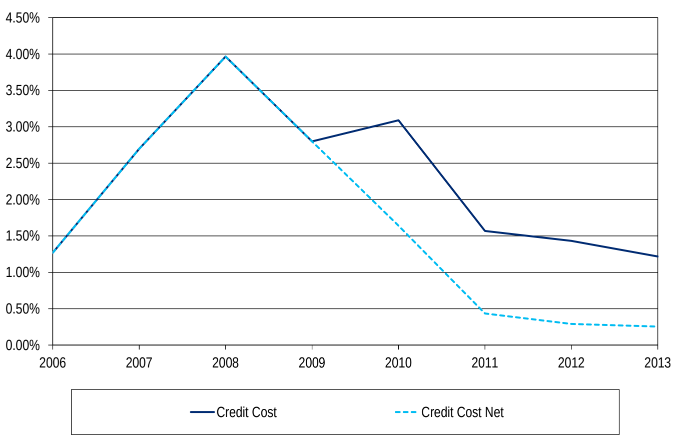
Source: Company Reports

Conservative recent lending should protect Asset Quality in this cycle

Improving Asset Quality has been reflected in declining credit cost. On recurring basis, credit cost is now ranging at 1.4-1.5%. NPLs have declined to 2.2% while coverage has improved to > 1.25%. With recent loan growth concentrated in relatively safer Corporate/Mortgage segments, it looks is better placed than some of its peers that aggressively expanded Micro/Small Business loans.

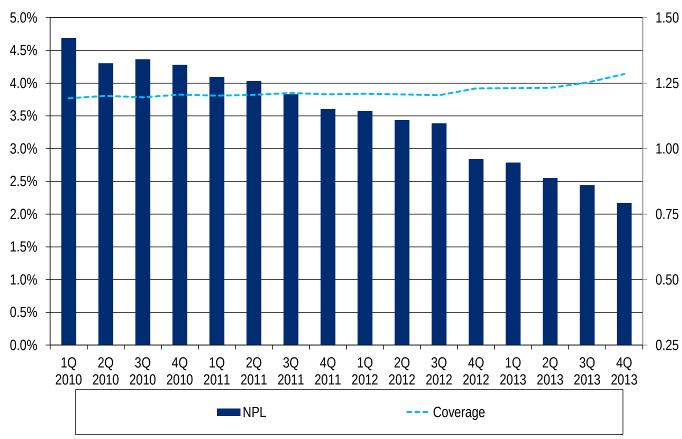
With recent loan growth focused in Corporate and Mortgages, risks in the current cycle are lower than compared to banks that have diversified into newer segments.

Figure 32. Credit Cost ; Gross and Net of Recoveries



Source: Company Reports

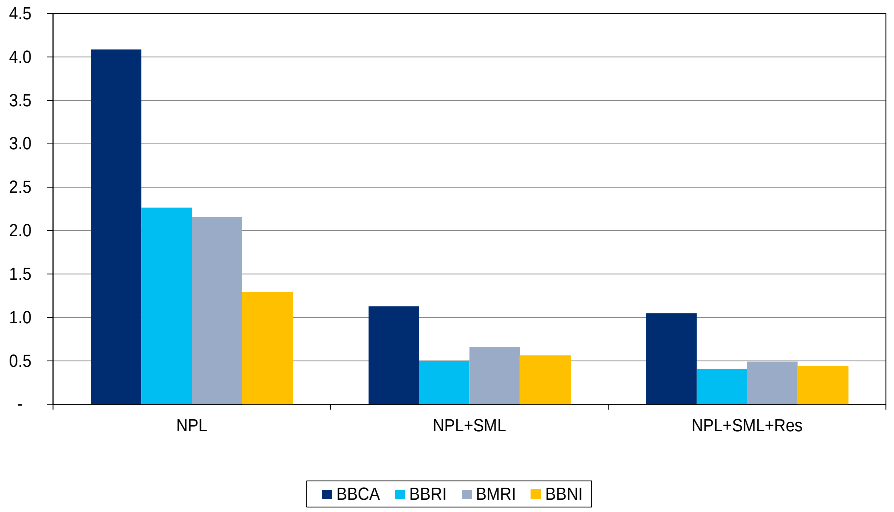
Figure 33. Non-Performing Loans and Coverage



Source: Company Reports

BBNI's coverage of NPLs is lower than Peer Group. It becomes comparable when adjusted for Special Mention Loans (SML) and Restructured Loans categorized under Performing Loans.

Figure 34. Coverage of NPLs + SML + Restructured Loans

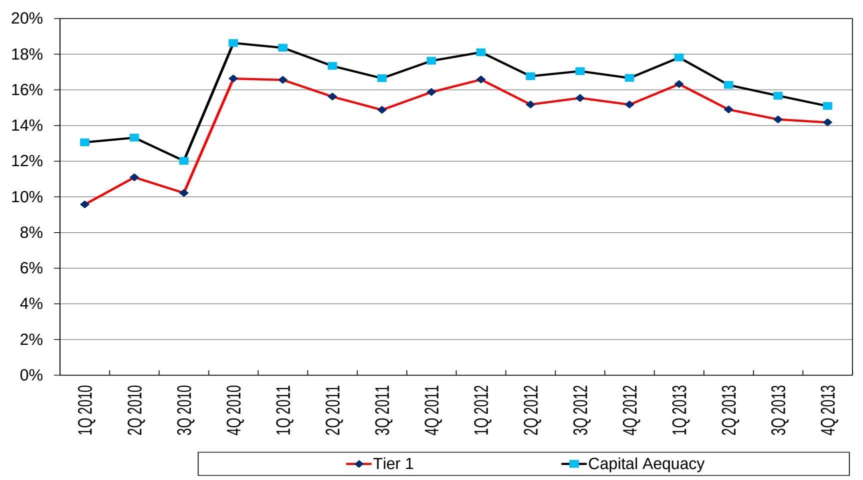


Source: Company Reports

Capital Adequate — But need lower Payout Ratio

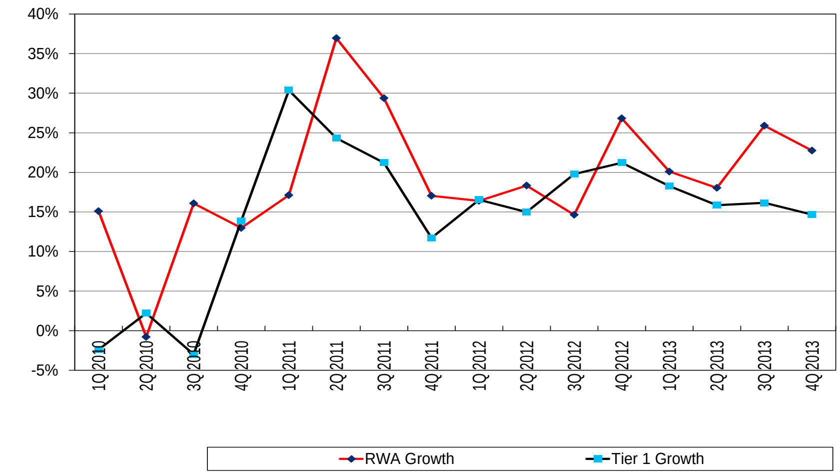
Tier 1 and Capital Adequacy (under Basle II) remain relatively healthy at 14% and 15% respectively. However, management has hinted that at current growth trajectory, it may need capital injection by 2016. The Risk Weighted Assets have been growing at 20+% while Tier 1 growth has slipped to 15%. As government (major shareholder) has raised dividend payout to 30%, pushing up Capital Growth will be contingent on improving ROE.

Figure 35. Tier 1 and Capital Adequacy Ratio



Source: Company Reports

Figure 36. Risk Weighted Assets and Tier 1 Growth (adj. for Rp 10trn rights in Q4 '10)



Source: Company Reports

Figure 37. Indonesia Banks ROA-ROE Decomposition

			ROA-ROE DECOMPOSITION																		
			Net interest income	Fees and comm.	Other non-int. inc.	Operating Income	Staff costs	Other oper. exp.	Operating Exp.	PPOP	Loan provision	Other provision	Profit after provision	Exceptional	Pre-tax profit	Tax	Net profit	Minority interest	ROA	Leverage	ROE
INDONESIA	Bank Central Asia	FY2008	5.49	1.13	0.59	7.21	-1.46	-1.57	-3.03	4.19	-0.78	0.00	3.41	0.02	3.43	-0.86	2.57	0.00	2.57	10.5x	27.04
		FY2009	5.40	1.40	0.59	7.38	-1.61	-1.63	-3.24	4.14	-0.87	0.00	3.27	0.16	3.44	-0.82	2.62	0.00	2.62	10.3x	27.04
		FY2010	4.88	1.33	0.57	6.78	-1.51	-1.67	-3.19	3.60	-0.11	0.00	3.49	0.06	3.55	-0.72	2.83	0.00	2.83	9.7x	27.36
		FY2011	5.21	1.31	0.41	6.93	-1.50	-1.65	-3.15	3.79	0.05	0.00	3.83	0.09	3.92	-0.81	3.12	0.00	3.12	9.1x	28.43
		FY2012	5.15	1.32	0.22	6.70	-1.49	-1.63	-3.12	3.58	-0.12	0.00	3.46	0.10	3.56	-0.72	2.84	0.00	2.84	8.8x	24.99
		FY2013	5.67	1.35	0.21	7.23	-1.47	-1.67	-3.14	4.09	-0.43	0.00	3.66	0.16	3.82	-0.76	3.06	0.00	3.06	8.1x	24.64
		FY2014E	5.82	1.38	0.22	7.42	-1.49	-1.74	-3.23	4.19	-0.43	0.00	3.76	0.06	3.82	-0.76	3.05	0.00	3.05	7.5x	22.99
		FY2015E	5.83	1.39	0.21	7.43	-1.48	-1.80	-3.29	4.14	-0.44	0.00	3.70	0.05	3.75	-0.75	3.00	0.00	3.00	7.2x	21.66
		FY2016E	5.89	1.39	0.21	7.49	-1.48	-1.87	-3.35	4.14	-0.44	0.00	3.70	0.04	3.74	-0.75	2.99	0.00	2.99	7.0x	20.86
	Bank Danamon	FY2008	8.54	1.99	-0.15	10.38	-3.13	-2.32	-5.45	4.93	-1.38	0.00	3.55	0.81	4.37	-0.90	3.47	-0.28	3.19	9.1x	29.15
		FY2009	9.27	1.60	0.29	11.16	-2.94	-2.41	-5.36	5.80	-3.01	0.00	2.79	-0.47	2.32	-0.74	1.58	-0.08	1.50	7.7x	11.61
		FY2010	9.52	3.24	0.24	13.00	-3.69	-2.82	-6.50	6.50	-2.05	0.00	4.45	-0.60	3.84	-0.98	2.87	-0.10	2.77	6.1x	16.84
		FY2011	9.35	3.72	0.04	13.11	-3.80	-2.97	-6.77	6.34	-1.88	0.00	4.46	-0.54	3.92	-0.99	2.93	-0.10	2.83	5.3x	14.97
		FY2012	8.67	3.14	0.08	11.89	-3.46	-2.58	-6.04	5.85	-2.11	0.00	3.74	-0.06	3.68	-0.92	2.76	-0.07	2.69	5.5x	14.86
		FY2013	8.20	3.11	0.10	11.41	-3.46	-2.52	-5.98	5.43	-2.03	0.00	3.40	-0.05	3.35	-0.83	2.52	-0.07	2.45	5.5x	13.53
		FY2014E	7.58	3.06	0.10	10.73	-3.30	-2.38	-5.68	5.05	-2.12	0.00	2.93	-0.04	2.89	-0.72	2.17	-0.06	2.11	5.9x	12.43
		FY2015E	7.48	3.05	0.10	10.63	-3.24	-2.37	-5.61	5.01	-2.19	0.00	2.83	-0.04	2.79	-0.69	2.10	-0.06	2.04	6.2x	12.63
		FY2016E	7.37	3.02	0.10	10.50	-3.21	-2.36	-5.56	4.94	-2.17	0.00	2.77	-0.03	2.73	-0.68	2.05	-0.06	2.00	6.5x	12.96
	Bank Mandiri	FY2008	4.68	1.07	0.37	6.11	-1.43	-1.40	-2.83	3.28	-0.81	0.00	2.47	0.05	2.52	-0.86	1.66	0.00	1.66	10.7x	17.78
		FY2009	4.33	1.44	0.37	6.14	-1.33	-1.41	-2.74	3.40	-0.55	0.00	2.86	0.11	2.96	-0.99	1.97	-0.01	1.96	11.1x	21.81
		FY2010	4.75	1.38	0.37	6.49	-1.41	-1.53	-2.94	3.56	-0.21	0.00	3.34	0.06	3.40	-1.12	2.28	-0.04	2.24	10.7x	24.05
		FY2011	4.84	1.86	0.41	7.10	-1.50	-2.12	-3.62	3.48	-0.16	0.00	3.32	0.35	3.67	-0.85	2.82	-0.10	2.72	8.7x	23.70
		FY2012	4.76	1.65	0.40	6.80	-1.39	-1.88	-3.27	3.54	-0.15	0.00	3.39	0.15	3.54	-0.77	2.77	-0.09	2.68	8.5x	22.74
		FY2013	4.85	1.68	0.41	6.94	-1.39	-1.78	-3.18	3.76	-0.27	0.00	3.48	0.08	3.56	-0.77	2.78	-0.09	2.69	8.3x	22.47
		FY2014E	4.77	1.73	0.37	6.87	-1.43	-1.81	-3.24	3.62	-0.57	0.00	3.05	0.07	3.12	-0.68	2.44	-0.08	2.36	8.3x	19.60
		FY2015E	4.79	1.77	0.36	6.91	-1.42	-1.84	-3.26	3.65	-0.85	0.00	2.81	0.06	2.87	-0.62	2.25	-0.07	2.17	8.3x	18.02
		FY2016E	4.83	1.81	0.35	6.99	-1.42	-1.82	-3.24	3.74	-0.93	0.00	2.81	0.06	2.87	-0.62	2.24	-0.07	2.17	8.3x	17.92
	BBTN	FY2008	4.89	0.01	0.57	5.47	-1.53	-2.26	-3.79	1.68	-0.01	0.00	1.67	0.13	1.80	-0.73	1.07	0.00	1.07	13.7x	14.69
		FY2009	4.36	0.67	0.09	5.11	-1.87	-1.63	-3.50	1.61	-0.13	0.00	1.48	-0.02	1.46	-0.48	0.98	0.00	0.98	11.8x	11.57
		FY2010	5.46	0.40	0.27	6.12	-1.85	-1.81	-3.66	2.47	-0.41	0.00	2.06	-0.02	2.03	-0.54	1.49	0.00	1.49	10.4x	15.49
		FY2011	5.53	0.48	0.16	6.16	-1.93	-2.04	-3.97	2.19	0.03	0.00	2.23	0.00	2.22	-0.59	1.63	0.00	1.63	10.0x	16.24
		FY2012	4.86	0.36	0.11	5.34	-1.53	-1.78	-3.30	2.03	-0.11	0.00	1.92	-0.01	1.92	-0.51	1.40	0.00	1.40	11.1x	15.51
		FY2013	4.67	0.32	0.03	5.03	-1.33	-1.73	-3.07	1.96	-0.20	0.00	1.76	0.00	1.77	-0.48	1.29	0.00	1.29	11.1x	14.31
		FY2014E	4.47	0.32	0.09	4.88	-1.24	-1.72	-2.97	1.91	-0.36	0.00	1.55	0.00	1.56	-0.42	1.14	0.00	1.14	11.8x	13.40
		FY2015E	4.35	0.30	0.10	4.76	-1.16	-1.71	-2.87	1.89	-0.37	0.00	1.52	0.00	1.53	-0.41	1.11	0.00	1.11	12.6x	14.07
		FY2016E	4.31	0.29	0.10	4.71	-1.11	-1.70	-2.81	1.90	-0.38	0.00	1.51	0.00	1.52	-0.41	1.11	0.00	1.11	13.4x	14.86
	Bank Negara	FY2008	5.46	1.12	0.45	7.02	-1.82	-1.77	-3.59	3.43	-2.40	0.00	1.03	0.03	1.06	-0.39	0.67	0.00	0.67	11.1x	7.48
		FY2009	5.09	1.35	0.50	6.94	-1.67	-1.69	-3.36	3.58	-1.95	0.00	1.63	0.03	1.66	-0.46	1.20	0.00	1.20	12.0x	14.37
		FY2010	5.14	1.04	0.67	6.85	-1.81	-1.83	-3.63	3.22	-0.79	0.00	2.43	-0.01	2.42	-0.61	1.81	0.00	1.81	8.7x	15.82
		FY2011	5.36	1.13	0.89	7.39	-2.05	-2.11	-4.16	3.23	-0.29	0.00	2.94	0.09	3.03	-0.67	2.36	0.00	2.36	6.9x	16.39
		FY2012	4.99	1.10	0.67	6.76	-1.80	-2.01	-3.81	2.95	-0.16	0.00	2.79	0.08	2.87	-0.60	2.27	0.00	2.27	7.6x	17.35
		FY2013	5.46	1.29	0.49	7.24	-1.74	-2.12	-3.86	3.38	-0.16	0.00	3.21	0.02	3.23	-0.64	2.59	0.00	2.59	7.7x	19.88
		FY2014E	5.56	1.38	0.37	7.30	-1.69	-2.18	-3.87	3.44	-0.48	0.00	2.95	0.01	2.97	-0.59	2.37	0.00	2.37	8.0x	18.96
		FY2015E	5.64	1.47	0.36	7.48	-1.68	-2.29	-3.97	3.51	-0.77	0.00	2.74	0.01	2.76	-0.55	2.20	0.00	2.20	8.1x	17.78
		FY2016E	5.55	1.54	0.35	7.45	-1.65	-2.36	-4.02	3.43	-0.86	0.00	2.57	0.01	2.59	-0.52	2.07	0.00	2.07	8.1x	16.68
	Bank Rakyat	FY2008	8.63	1.22	0.28	10.13	-2.91	-2.08	-4.99	5.14	-1.30	0.00	3.84	0.22	4.06	-1.32	2.74	0.00	2.74	10.4x	28.52
		FY2009	8.07	1.19	0.42	9.69	-2.46	-1.95	-4.40	5.29	-2.14	0.00	3.15	0.49	3.64	-0.95	2.69	0.00	2.69	10.9x	29.47
		FY2010	9.80	0.84	0.36	11.00	-2.58	-2.22	-4.80	6.20	-1.90	0.00	4.29	0.15	4.44	-1.02	3.42	0.00	3.42	10.5x	35.89
		FY2011	9.37	0.92	0.17	10.46	-2.37	-2.28	-4.65	5.80	-1.02	0.00	4.79	0.32	5.11	-1.00	4.11	0.00	4.11	8.5x	34.89
		FY2012	7.55	0.81	0.25	8.61	-1.99	-2.04	-4.03	4.58	-0.09	0.00	4.49	0.45	4.93	-1.07	3.87	0.00	3.86	8.4x	32.61
		FY2013	7.73	0.85	0.27	8.85	-2.15	-1.78	-3.92	4.93	-0.35	0.00	4.58	0.31	4.89	-1.15	3.74	0.00	3.74	7.9x	29.65
		FY2014E	7.64	0.89	0.25	8.78	-2.17	-1.81	-3.98	4.80	-0.63	0.00	4.18	0.29	4.46	-1.05	3.41	0.00	3.41	7.5x	25.62
		FY2015E	7.69	0.91	0.24	8.83	-2.17	-1.82	-3.99	4.84	-0.89	0.00	3.95	0.26	4.21	-0.99	3.22	0.00	3.22	7.2x	23.28
		FY2016E	7.70	0.92	0.23	8.85	-2.17	-1.81	-3.98	4.87	-0.95	0.00	3.92	0.23	4.16	-0.98	3.18	0.00	3.18	7.0x	22.19

Source: Citi Research estimates

[5] Risks — Reviving SME loans, CASA competition

SME Underwriting Capabilities: Attempts to revive SME lending so far has had limited success. While management has invested in improving its regional knowledge base, the robustness of its risk management system is yet to be tested. A push into SME lending poses risks of NPLs.

Delays in Life Insurance Revival: Competition is getting intense in the segment with a number of new Japanese entrants (as JV) as well as BCA trying to enter. This may delay the expected contribution from BNI Life.

High LDR and CASA Competition: The LDR has reached 85% (management targeted peak). System liquidity is tight and we expect intense competition. Direct competitors are SOE Banks, followed by BBCA and then other mid/smaller sized banks.

Potential BMRI acquisition of BBTN: BBNI's strong position in mid-end of mortgages can come under pressure if BMRI's planned acquisition of BBTN gets the government's blessing. We expect this entity will have a strong presence in the low end of the market and is likely to compete with BBNI in its segment also.

Capital: Management has hinted that if the bank maintains a strong loan growth trajectory, there is a moderate risk of needing a capital injection by 2016. If for example it were to match BBRI's 20% loan growth and maintain 30% Payout, then Tier 1 would decline to 12.7% by 2016. It may opt for raising Tier 2. If loan growth is more realistic 15-18% (current Citi forecasts) and allowed to cut payout to 20%, the Tier 1 would be in a healthier 14-15% range.

BBL — Much Potential, Needs Some Results

[1] Peer valuation — 40% P/B discount to KBANK-SCB

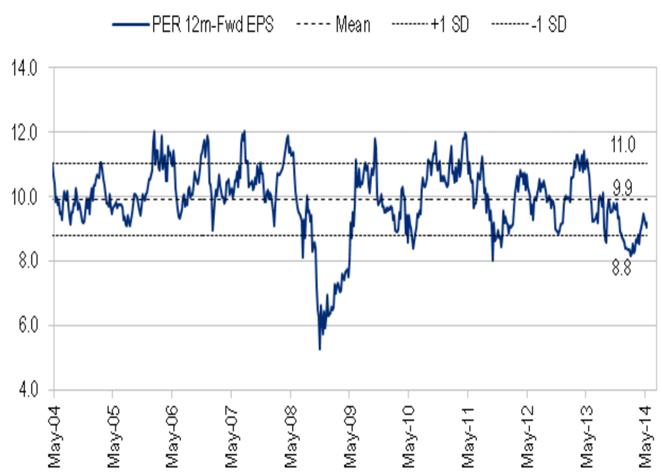
Figure 38. Consensus 12M Forward Price Multiples vs. 10-Year Historic Ranges

	BBL	KTB	SCB	KBANK	TMB	TCAP
PER — Current (x)	8.9	7.0	10.0	9.6	11.8	6.9
Mean	9.9	8.5	11.4	10.3	14.5	7.6
+1SD	11.0	10.0	13.0	11.8	24.7	9.1
-1SD	8.8	7.0	9.8	8.8	4.3	6.1
P/B — Current (x)	1.07	1.06	1.86	1.69	1.41	0.79
Mean	1.26	1.19	1.91	1.69	1.11	0.83
+1SD	1.46	1.46	2.19	1.97	1.51	1.02
-1SD	1.05	0.92	1.63	1.41	0.72	0.64
ROE — Current (%)	12.4	15.7	20.2	18.9	12.3	12.1
Mean	12.4	14.3	17.8	16.5	9.0	11.5
+1SD	13.3	16.7	19.9	19.1	12.3	14.4
-1SD	11.5	12.0	15.7	13.8	5.7	8.6

Banks ranked left to right by total assets
Source: Datastream, Citi Research. Priced as at 12 May 2014

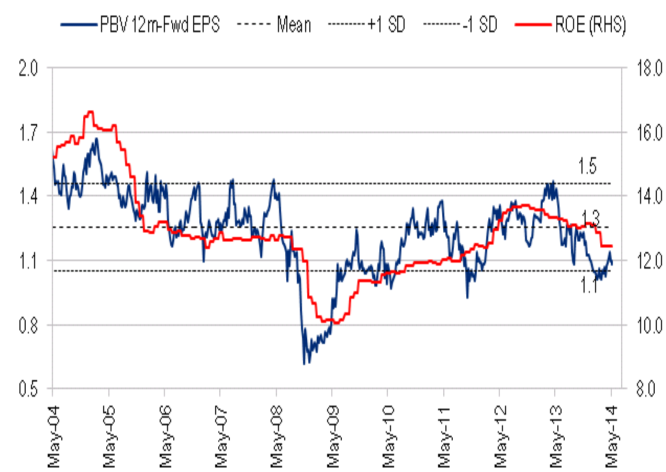
Based on 12M forward consensus estimates, BBL at 8.9x PER and 1.1x P/B, is the second lowest valued of its Thai “Big 4” banks peer group, and as importantly the stock trades at the lowest multiples versus its historic PER and P/B ranges (roughly -0.75 S.D. below mean).

Figure 39. BBL —12M Fwd Consensus PER



Source: Datastream, Citi Research

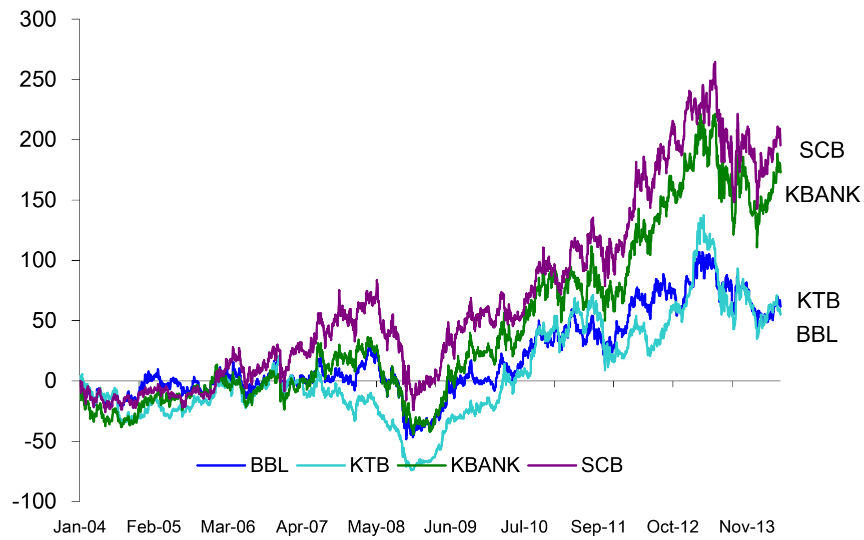
Figure 40. 12M Fwd Consensus P-Book v ROE



Source: Datastream, Citi Research

In fact, on a longer term horizon, BBL has been on a decade-long underperformance compared to large banks peers per chart below. Once the largest bank by market cap and asset size, now its market cap is around 36% less than SCB, and 22% less than KBANK.

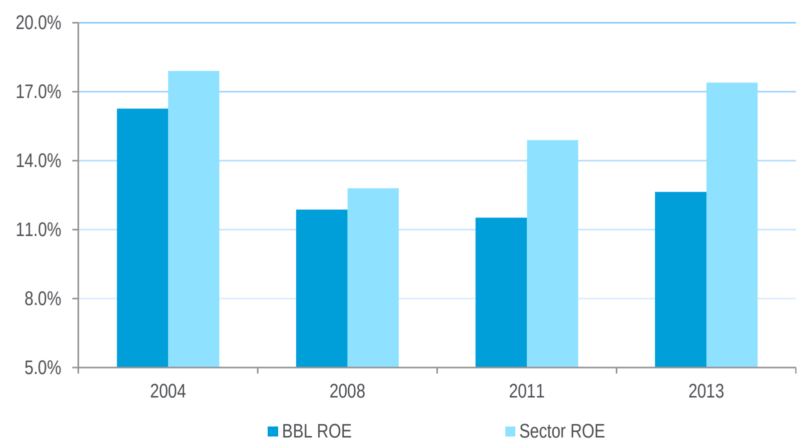
Figure 41. Cumulative return after 2004



Source: Bloomberg

The key reason for this long term underperformance is attributed to the ROE stagnation vs sector re-rating of ROE in the past decade. Investors tend to reward banks with expanding ROE with better valuation. In addition, to sustain high ROE implies such banks must have the right strategy to consistently grow the earnings as high ROE banks tend to grow Book value faster. In addition, high ROE also reflects the right level of payout to maintain efficient capital deployment.

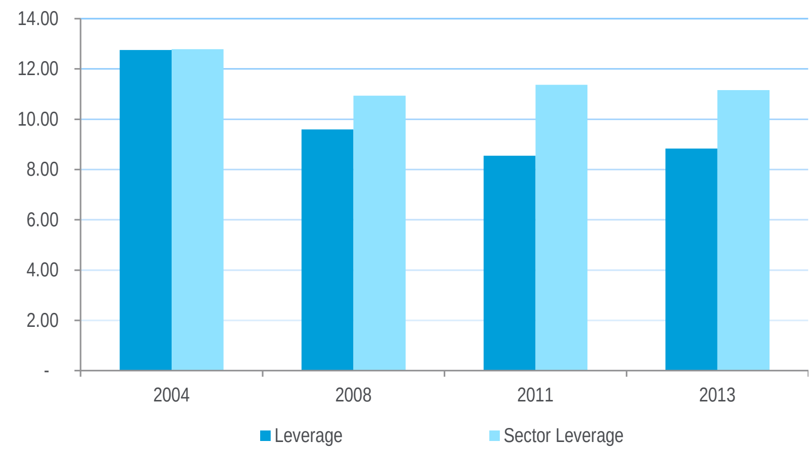
Figure 42. BBL ROE de-rating since 2008 and yet to return to old levels



Source: Company Data; Citi Research

BBL, once on par with sector ROE and leverage, has become lower than average as it did not participate in the upcycle from 2008-2013. Again, we note that ROE downtrend was partially due to continued de-leveraging of its balance sheet as reflected by lower leverage as measured by Asset to Equity multiples.

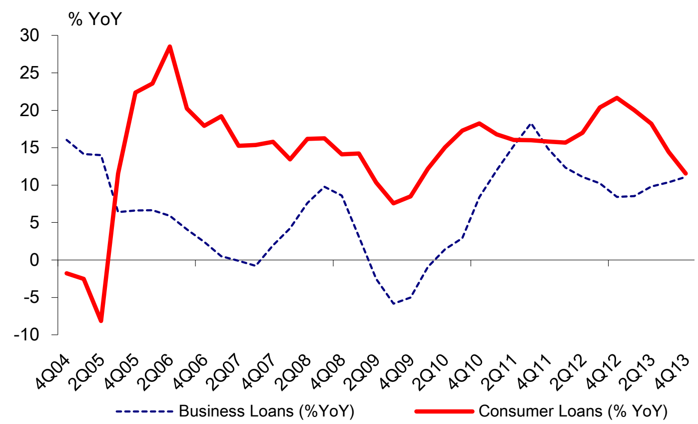
Figure 43. BBL de-leveraging: Slower growth at its core market



Source: Company Data; Citi Research Note: Leverage is defined as Asset/Equity

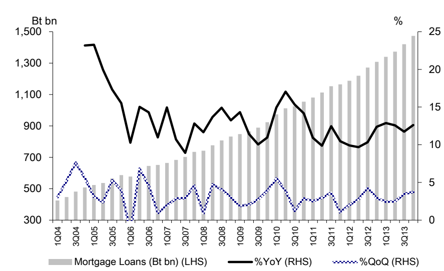
Part of the reason is the divergence between business vs retail lending by which BBL insists upon concentrating on just the mortgages, which has the slowest growth profile amongst the retail segment.

Figure 44. Multi-year growth superiority of retail lending vs business lending



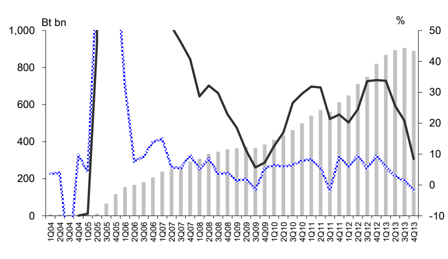
Source: Bank of Thailand; Citi Research

Figure 45. Mortgage



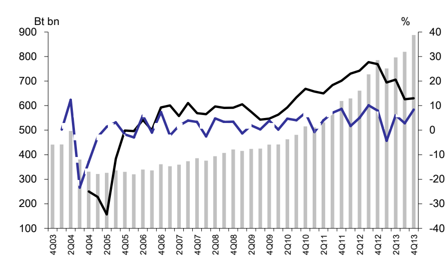
Source: Bank of Thailand

Figure 46. Auto loans



Source: Bank of Thailand

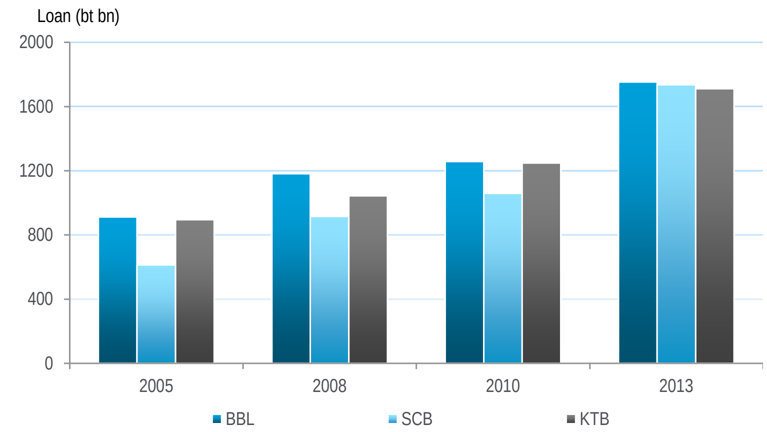
Figure 47. Other Retail loans



Source: Bank of Thailand

Effect of such growth differentials led to SCB growth from 67% of BBL as of 2005 to almost equal size by the end of FY13

Figure 48. SCB growth superiority led to size parity with BBL from 67% its size in 2005



Source: Company Data; Citi Research

If BBL achieves its 15% ROE ambition, historic valuation ranges suggest >1.5x P/B possible, or close to 40% upside from current levels (<1/1x P/B).

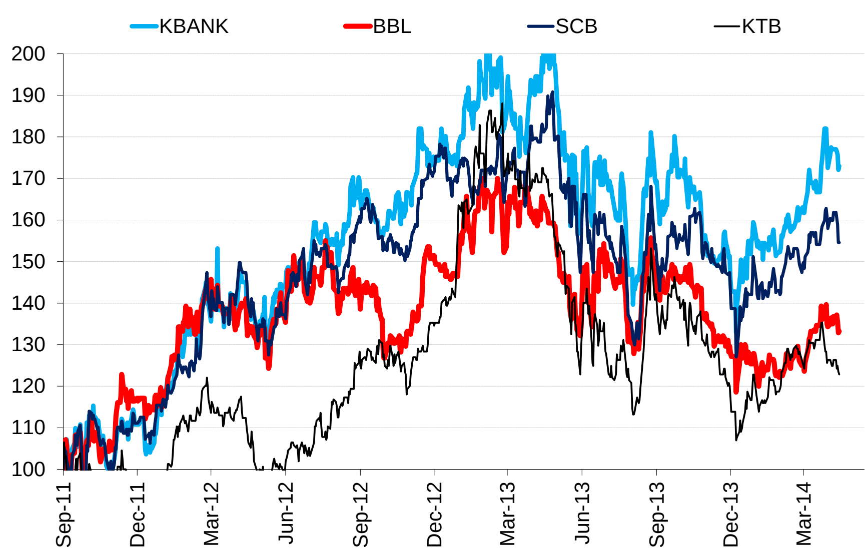
BBL mgmt. have a medium term ambition to achieve 15% ROE, which based on its historic consensus P/B vs ROE trading ranges could drive a re-rating of the stock to >1.5x P/B, which implies 40% upside from current levels (BBL reached a valuation level close to 1.7x in 2005-06 when its ROE was in the mid-teens despite a much weaker balance sheet position). However based on current (muted) sector averages, a 15% ROE is presently more consistent with >1.3x P/B, or a 17% P/B re-rating.

[2] Markets view — ROE stagnating

BBL – Proxy for CapEx cycle that continues to elude

BBL earnings seen capped in the near term given likely slow business loans. However, its low exposure to high yield consumer loans and conservative mgmt. should protect it from the economic downturn.

Figure 49. BBL Recent Share Price Performance* vs "Big 4" Banks Peers



*Note: Note: Start Price Bt140 on 26 Sept 2011
Source: Factset, Datastream, Citi Research

BBL has underperformed SETBANK in the past 6 months with expectations of slowdown in credit growth after the political standoff. BBL, historically, was regarded as a corporate CapEx cycle play given its exposure to corporate lending and strong balance sheet. Court decision to rule out the Bt2trn infrastructure plan in March, plus recent political disturbances indicate that strong CapEx rebound is unlikely to return soon.

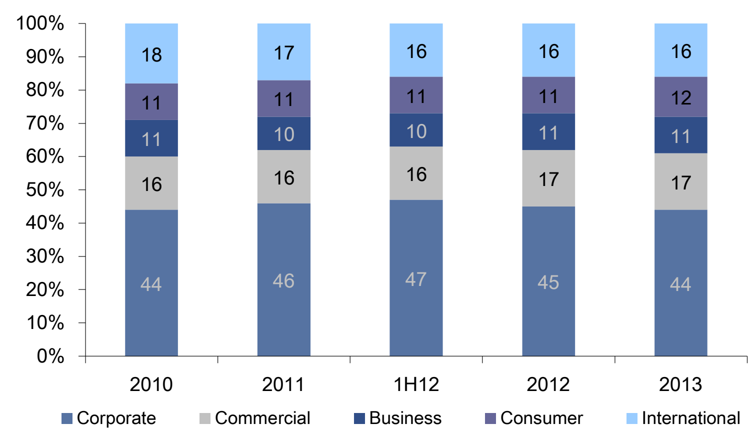
Related Report: ***Thailand Strategy - First Assessment of Bt2.2trn Infra Plan Ruling***

While we agree on the slowdown in earnings growth due to slow business credit growth, we believe that BBL's underperformance makes it relatively interesting given that growth differentials between BBL and the rest of the sector have diminished in light of retail credit growth slowdown. Meanwhile, BBL's 'safer' balance sheet (higher LLR coverage, strong capital) should protect it on the downside if the political situation drags on longer than market expectations of a mid-year resolution.

[3] BBL in detail — strong in corporate, soft in non-II

Loan mix and market share: leading edge in Corporate and SMEs

Figure 50. Loans Profile: Not much change over the years



Source: Company, Citi Research

Corporate (44% Total) – BBL remains #1 in corporate loan market share. Their advantage in corporate relationship with blue chip corporates, combined with their largest balance sheet and capital base (which determines 'single lending limit') give it a key edge. However, pricing-wise, BBL's powers may be limited as more corporates can now tap into bond markets, and the yield for a 3-5 year corporate bond appears very competitive.

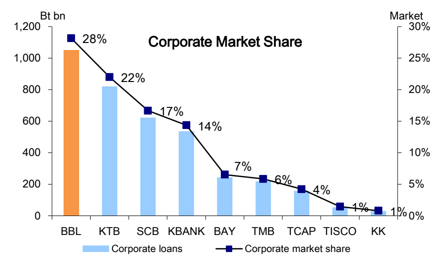
SME (28% Total) – BBL remains among the top-2 SME lenders with a larger proportion of 'large' SMEs (17% total vs 11% 'small' SMEs). BBL's strategy on supply chain and its relationship with corporates seem to support SME businesses well.

Consumer (12% Total) – BBL continues to stick to only mortgage products in its retail portfolio despite recent growth in auto loans and personal loans. This could prove to be credit-savvy given the current situation. Nonetheless, the fact that mortgage now represents just half of the overall retail loans, means that, by opting out of the mortgage market, BBL also limits its market share in retail lending which generates a larger spread vs corporate lending.

International (16% Total) – Major country exposures are Hong Kong, Singapore, China, Taiwan, Indonesia. Client base is the combination of Thai corporates expanding into overseas / ASEAN markets and local companies. International book seems to be differentiator for BBL presence compared to other large Thai banks.

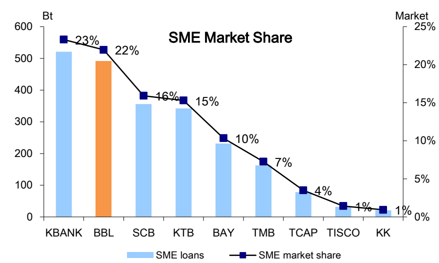
Modest new term targets – Given uncertainty due to the political unrest, BBL mgmt. maintained rather conservative targets of 5% loan growth in FY14, steady NIM of around 2.3%, 10% growth in Fee income, and slight increase in NPLs (NPL: 2.2-2.4% of loans), Cost to Income – core steady at 43-44% (Control OpEx at 8-10% growth). These metrics imply ROE in the 11.5-12% range.

Figure 51. Corporate Loan position



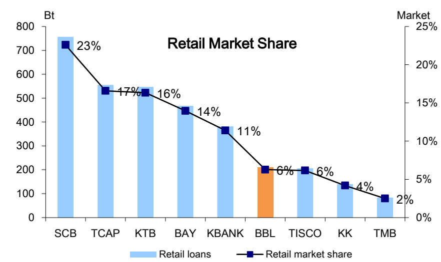
Source: Company Data; Citi Research

Figure 52. SME Loan position



Source: Company Data; Citi Research

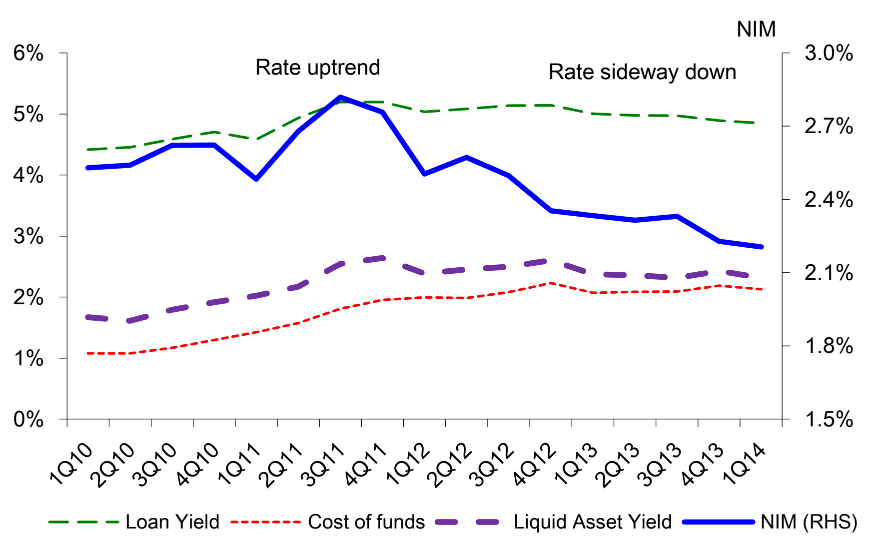
Figure 53. Retail loan position



Source: Company Data; Citi Research

NIMs: lower yield loan mix, but increasingly stable

Figure 54. NIM Trend: Downward pressure from rate cycle and funding competition



Source: Company Data; Citi Research

BBL NIM faced headwinds during FY12-13 as funding cost rose due to tight deposit competition during the credit up-cycle. Meanwhile, BBL's hesitation to enter into high yield consumer limited asset yield enhancement. Combined with a high proportion of investment portfolio, of which yield dropped in line with market rates, BBL's NIM suffered downward pressure. This is likely to end as 1) limited room to cut rates further given inflation at around 2% (policy rate already at 2%), and 2) less competition on deposits as loan growth moderate in FY14.

As we expect the policy rate to bottom at around 2% with less competition on deposits after loan growth slowdown for the banking sector, we anticipate BBL's NIM to bottom at the current level of 2.2% and could gradually improve going forward in a rising rate environment, plus potential shift in loan mix.

Non-II: Key execution gap

Apart from slower loan growth in the retail segment, which has enjoyed higher growth during 2005-13, plus higher margins, BBL's lower profitability is partly due to slower growth in 'core' non-II (as measured by net fee plus net insurance). We exclude trading gains, gains from disposal of foreclosed assets, and other one-offs in the analysis. We believe 'net insurance' reflects revenue contribution in bancassurance business for banks that own insurance as subsidiaries.

Economic contribution of insurance subsidiary 'net fee' and 'net insurance'

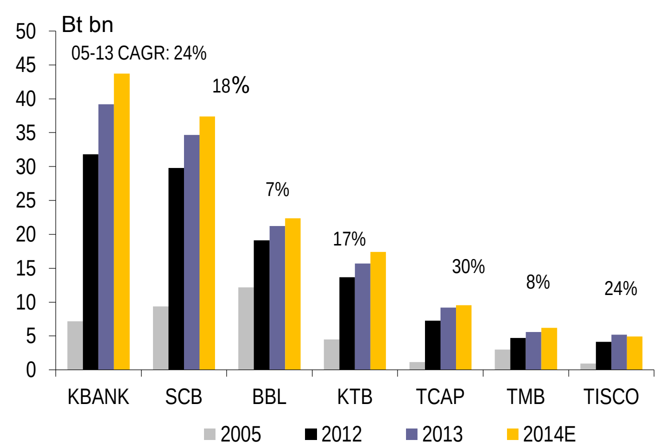
Such banks earn commission from their insurance subsidiary plus share of net profit, which is driven by investment income and underwriting margin. Note that commission paid to parent bank by the insurance subsidiary is a part of underwriting cost and will be eliminated at the consolidated level as inter-company transaction; hence, 'net insurance' reflects such income contribution.

For banks that do not own insurance business, they capture the economics of bancassurance via normal fee income from commission.

Once #1 in 2005, BBL slower core non-II growth (7% CAGR during 2005-13) pushed BBL to #3 and currently stands at around half of KBANK's core non-II

On core non-II basis, as we defined, BBL was #1 in non-II in FY2005 and posted 7% CAGR during 2005-2013. During that time, KBANK, which was #3 in 2005, ramped up its capabilities via K-Transformation and enjoyed 24% CAGR during 2005-13. KBANK became #1 in core non-II by 2012. SCB and KTB also posted faster core non-II growth of 18% and 17%, respectively.

Figure 55. Slower growth in 'core' non-II (Fee and insurance) compared to other top-4 banks

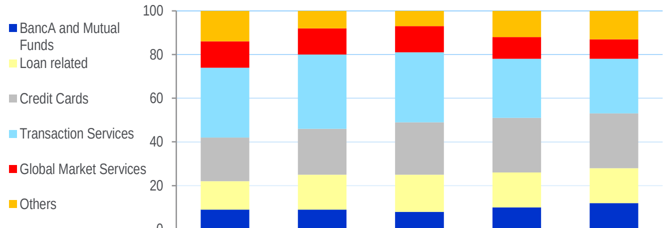


Source: Company Data; Citi Research

Tracking the fee income mix for BBL, noticeable trend has been declining contribution of 'transaction services' (which were cited as key growth areas by its competitors). While the size of transaction fees may be steady or grow slightly, its slower growth and large contribution (32% in 2009; 25% in 2013) partially explained the gap.

For growth drivers in the sector such as spending related (cards) and wealth management products (bancassurance and mutual funds), BBL also witnessed respectable growth in those areas as seen by bancassurance total premium, which began to improve noticeably after 2009.

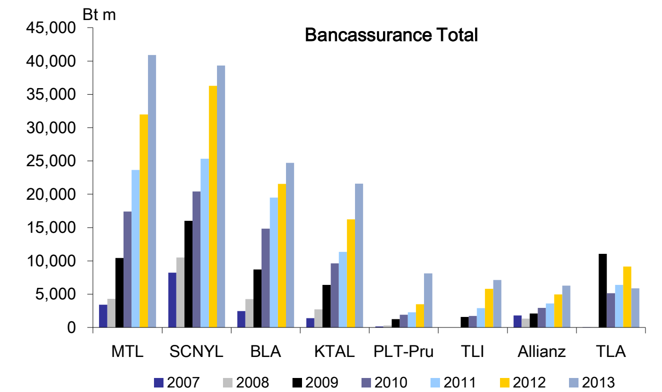
Figure 56. Fee income mix: Better Bancassurance lately



	2009	2010	2011	2012	2013
Others	14	8	7	12	13
Global Market Services	12	12	12	10	9
Transaction Services	32	34	32	27	25
Credit Cards	20	21	24	25	25
Loan related	13	16	17	16	16
BancA and Mutual Funds	9	9	8	10	12

Source: Company Data; Citi Research

Figure 57. Bancassurance Total Premium

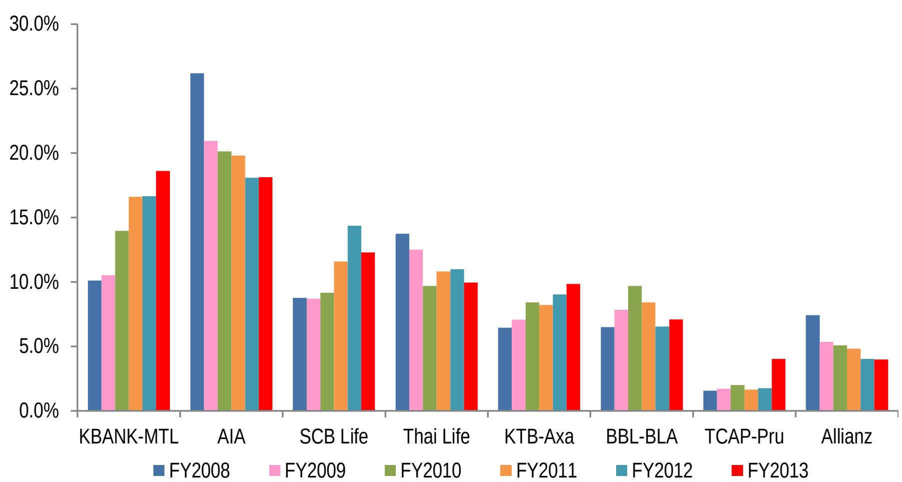


Source: Citi Research

KBANK Muang Thai Life has become #1 in FYP in 2013. KT Axa has grown past BBL and BLA.

Bancassurance: Consistency and Commitment – We believe the main issue for BBL in bancassurance is its on-and-off positioning of bancassurance sales. Market share of new business (as measured by 'First Year Premium', FYP) has been less consistent compared to peers. After a strong FY2010, BBL and BLA (Bangkok Life Assurance, BBL's partner) market share declined during 2011-12 from their decision to step back from the popular savings products due to their tax position, before resolving the tax issue in FY13, and partially regain market share. However, during that time, KTB and Axa managed to build up their market positions and have now surpassed BBL on FYP.

Figure 58. Market Share trend of insurance FYP; BBL inconsistency



Source: Citi Research

Some believe that BBL's inconsistent push for BLA products may be attributed to its own funding needs during times of growth, or its low share of the profit economics given less than 10% ownership of BLA. We disagree on both counts: 1) BBL was not exposed to high growth retail segment during the FY12-13 boom; hence, not as much pressure to chase deposits. SCB was in such a position; yet, still gained market share during 2011-13. 2) While BBL may own <10% of BLA, it earns market rate commission; hence, retains full incentive to sell. We suspect that BBL's inconsistency is probably related to the single product-driven strategy of its sales

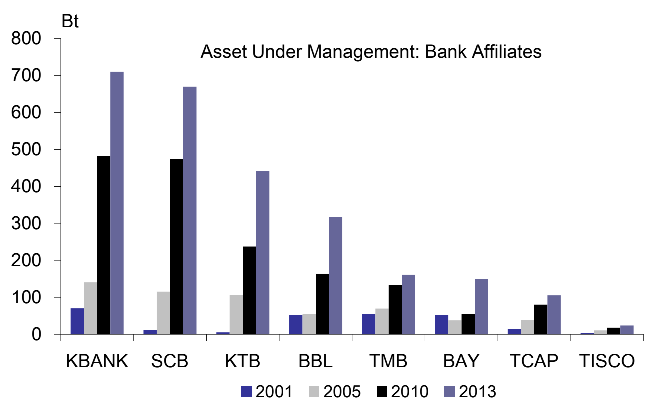
team as we witnessed for a few months in early 2013 and 2014, whereby BLA earned industry high FYP only to fizzle out a few months later. Consistency of sales may require a solution-driven strategy which can generate year-round production as compared to an occasional push. SCB has transformed itself in the 'Change' program since 2003. KBANK has been on K-Transformation after 2006. These projects are aimed at improving customer centricity with improved infrastructure, which eventually supports the ability to cross sell, in our view.

BBL 'incremental' AUM since 2010 has been catching up with leaders

Mutual Funds: Good catchup story – At first glance, BBL's mutual fund business looks rather disappointing, similar to overall non-II story. Its Assets Under Management (AUM) stood below peers – less than half of KBANK / SCB AUMs and c1/3 smaller than KTB.

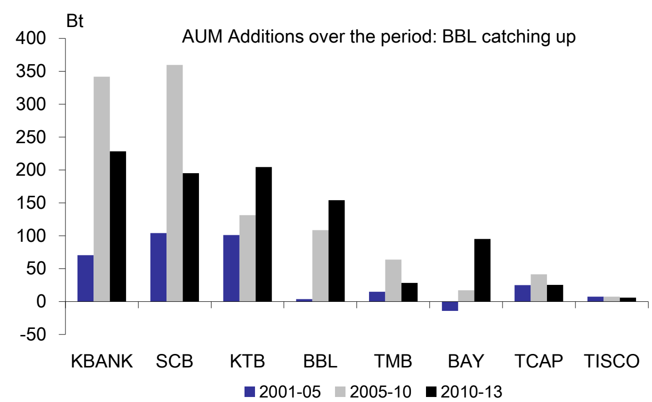
However, we see a silver lining from its recent momentum. Change in AUM analysis illustrated the early lead by KBANK and SCB during 2005-2010 (coincides with their universal banking platform buildup and 'Change / Transformation' strategies. Nonetheless, BBL seems to have kept pace with the leading pack after 2010. We believe that while it takes time to get used to new products, BBL has the capability to do it over the medium term. This could happen in other product category too.

Figure 59. Overall AUM of bank players



Source: AIMC

Figure 60. Change in AUMs: BBL catching up recently



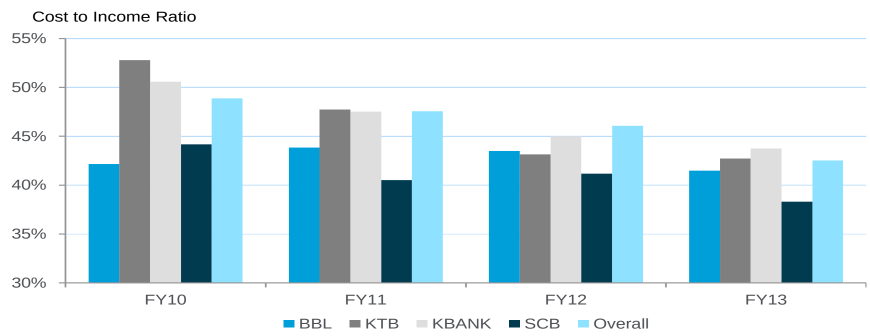
Source: AIMC

Efficiency: Revenue, not cost, is key

BBL's cost-to-income ratio turned from top end of industry towards average growth due to slower top line growth; cost already looks lean.

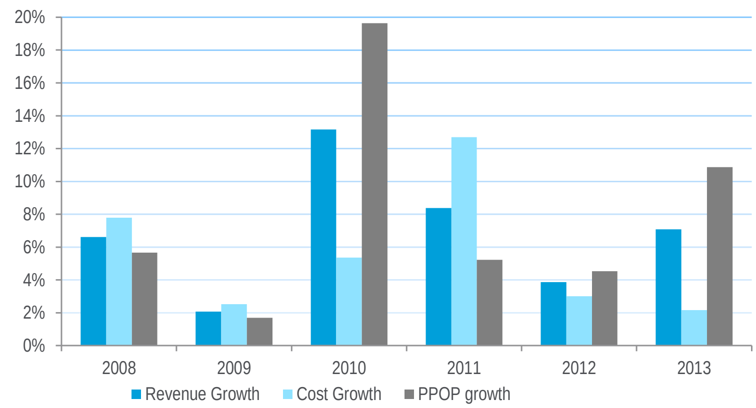
BBL's Cost-to-income has been steady at around 41-44% during the past up-cycle. However, relative to industry, it has gone from a 7% improvement (42% vs 49%) to recording average growth (41.5% vs 42.5%) as BBL's top line growth lagged peers during the up-cycle.

Figure 61. Cost-to-Income: from low to average due to weak top line



Source: Company Data; Citi Research

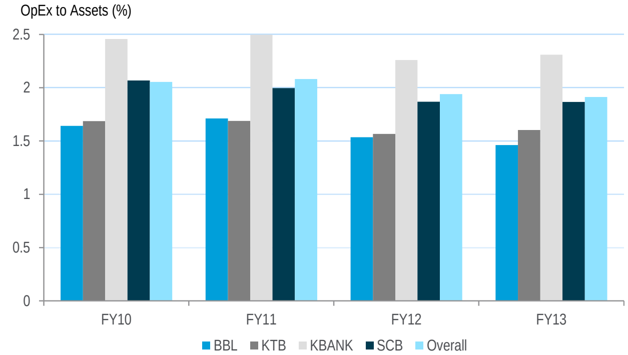
Figure 62. BBL Revenue, Cost, and PPOP growth – likely at its leanest



Source: Company Data

In terms of Cost to Assets, BBL continues to be on the lower end of the industry (currently 1.46% vs industry 1.91%).

Figure 63. OpEx to Assets: BBL already the leanest among peers



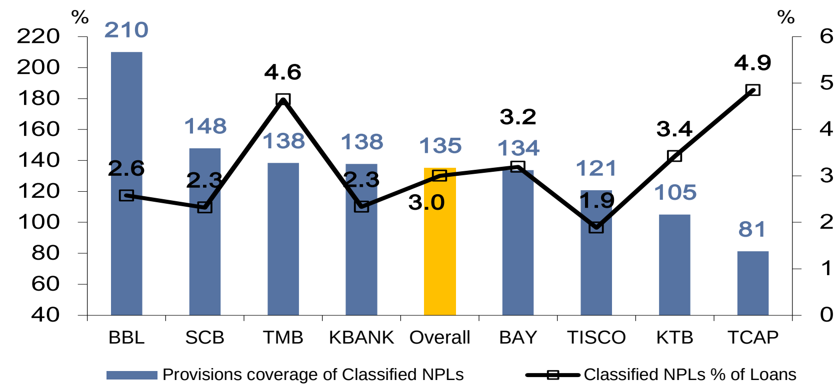
Source: Company Data; Citi Research

All the metrics point to issues with its revenue that need to be fixed, rather than the cost side, as we believe BBL is already at its leanest.

Balance Sheet: Key strengths – strong LLR buffer and capital

BBL's balance sheet is arguably the strongest in the Thai banking sector. Its LLR coverage stood at 210% while its NPL is only 2.6% of loans as of Mar-14.

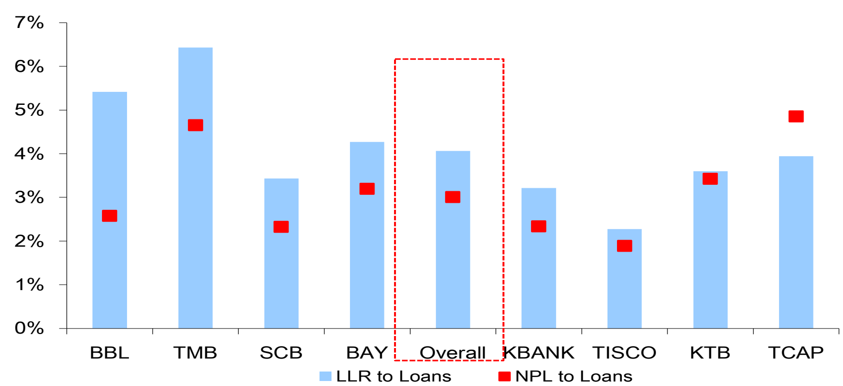
Figure 64. LLR coverage and NPL ratio: BBL stood out



Source: Company Data; Citi Research

BBL LLR stood at 5.4% vs NPL of 2.6% of loans as of Mar-14, giving it a strong cushion of 2.8% of loans. In other words, in case of protracted slowdown and rising NPLs, BBL's NPLs must more than double (i.e. rising by 2.8% of loans) before it can drive down LLR coverage below 100%. This 2.8% 'buffer' is more than double the industry average of 1.1%.

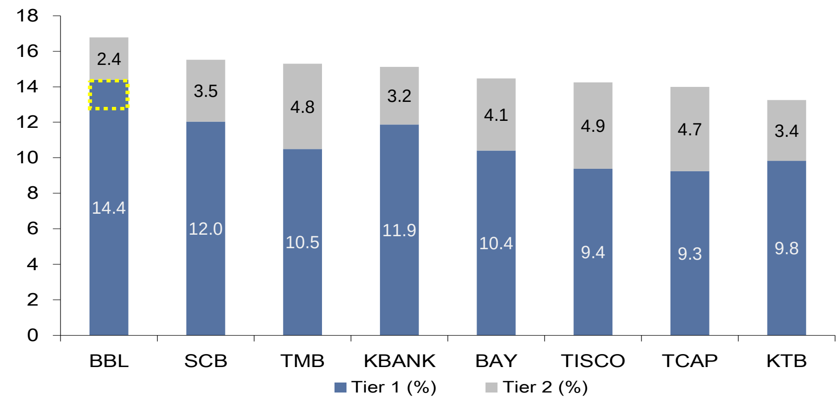
Figure 65. Asset Quality: Largest buffer on LLR



Source: Compay Data; Citi Research

Lastly, on the capital front, BBL Tier I is the highest in the industry with 14.4% core equity tier I (no hybrid capital). With the current payout level of 35-40% and ROE in the low teens, plus mid-single digit loan growth, we expect Tier I capital for BBL will continue to rise in the next few years.

Figure 66. Capital Position – Strong Tier I



Source: Company Data; Citi Research

[4] Strategies to improve ROE — revenue transformation

Related Report: *Krung Thai Bank (KTB.BK) - A Quiet but Remarkable K(TB) Transformation*

While BBL management may elaborate exactly how they plan to achieve their 15% ROE target, we anticipate few potential initiatives to drive ROE higher.

Revenue model shift: KTB case study – Based on analysis in the previous section, we believe the key to increase ROE lies in the revenue model. Low margin from over reliance on lower yield segment, lagged growth in key non-II areas (Insurance and mutual funds, slower growth in transaction fees) are key areas that could be improved. We believe BBL's situation is similar to KTB's that we highlight in our 2010 report on *Krung Thai Bank (KTB.BK) - A Quiet but Remarkable K(TB) Transformation.* KTB ROA has improved from 0.85% in 2009 to 1.42% in 2013. ROE improved from 12% towards 17% (This is after the rights offering in 2012 which added c25% to its equity base). We believe the KTB story hinges on the three-pronged approach: 1) leverage civil servant client base to add personal loans exposure to enhance NIMs; 2) improve cross-selling capabilities on both consumer and business fees; and 3) fixing balance sheet by bolstering provisions and strengthening the capital level.

Despite initial market skepticism on KTB's ability to deliver improvement in profitability (the market initially only associated KTB with government lending), KTB has shown that, by improving its network and sales culture, plus leveraging its core edge in civil servant positioning, it can drive up significant improvement in profitability.

Capital management: Not a real fix – Another 'quick fix' that investors may see as obvious is to streamline the capital base given deleveraging of the balance sheet. Some investors may attribute BBL's low ROE simply to its low leverage as its ROA at 1.43% vs 1.56% for the industry is not as bad as its ROE comparison (12.6% vs 17.4%). Hence, the solution in this camp may simply be a higher dividend payout. However, we see such strategy as short-lived as higher dividend payout without improvement in profitability will mean a lower capital level in the longer term, undermining BBL's competitive edge in corporate lending. Also, we believe such dividend management strategy provides no positive improvement in earnings (or indeed slight earnings drag due to lower investment portfolio), which means we may see rising P/B on slimmer Book Value and rather limited absolute reward for this financial management strategy.

How about International Strategy? Network not balance sheet is key – Another BBL 'edge' that the market seems to like is BBL's uniqueness in international lending. BBL has the broadest presence with 25 branches in 12 economies plus 1 Representative Office in Myanmar.

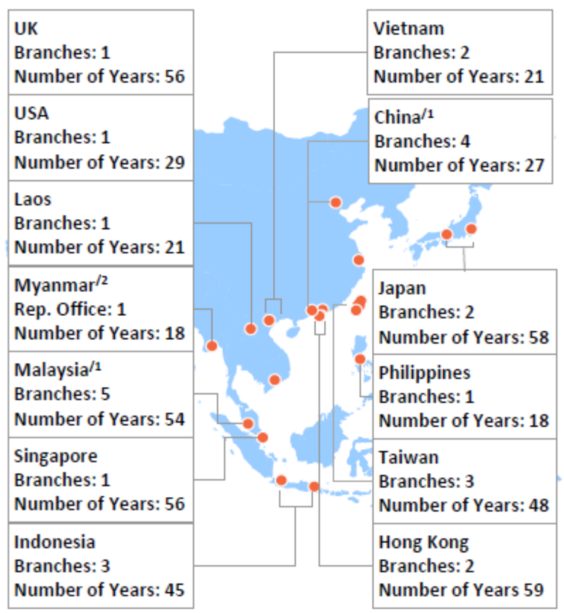
We believe BBL will have a competitive advantage during the early stage when Thai corporates expand overseas. Hence, we view its border trade strategy around neighboring countries positively.

However, we see limitation in international growth on the balance sheet side. BBL's FX loans stood at 23% of Total loans (16% international book; some originated from domestic book), the highest among Thai banks. More importantly, due to limited liabilities franchise outside Thailand, international deposits were well below loans, causing the FX gap at around 9% of assets between FX loans and Deposits. This 9% gap can be funded by money market, swap, bonds but that means higher cost source of funds. This is why we view that international lending could be a good strategy at the outset of Thai companies growing abroad. However, in the long run, once clients establish themselves, due to BBL's less competitive funding structure, we do not think this book can grow with good profitability.

Figure 67. BBL Foreign Operations – 17% Assets, 8% Profit, 10% Revenue

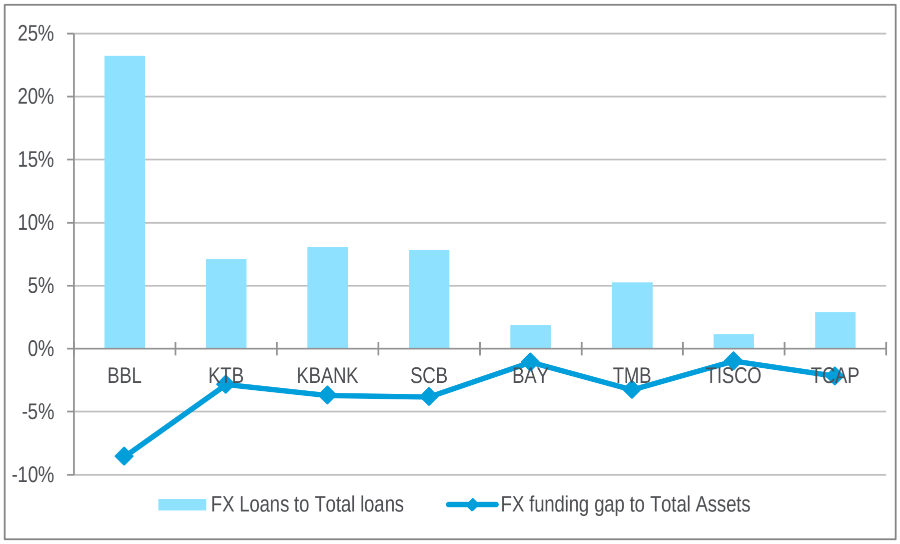
Source: Company Data; Citi Research

Figure 68. BBL International Branch network



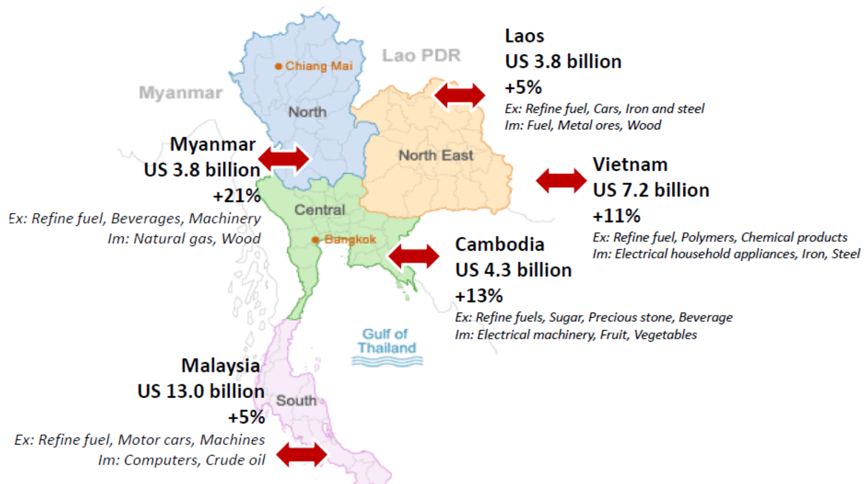
Source: Company Presentation

Figure 69. FX loans to Total vs Funding short as % of Assets



Source: Company Data (as of 4Q13); Citi Research

Figure 70. BBL: Border Trade strategy



Source: BBL Company presentation

Summary: We believe BBL's strategy to improve ROE hinges on enhancing its domestic revenue model. Its capital management and international strategy appears to have some issues that may prevent BBL's ROE to be driven higher to reach a 15% target in the medium term, in our view.

Figure 71. Thailand Banks ROA-ROE Decomposition

			ROA-ROE DECOMPOSITION																				
			Net interest income	Fees and comm.	Other non-int. inc.	Operating Income	Staff costs	Other oper. exp.	Operating Exp.	PPOP	Loan provision	Other provision	Profit after provision	Exceptional	Pre-tax profit	Tax	Net profit	Minority interest	ROA	Leverage	ROE
THAILAND	Bangkok Bank	FY2008	2.95	0.88	0.20	4.02	-0.87	-0.94	-1.81	2.21	-0.40	0.00	1.80	0.00	1.80	-0.56	1.24	0.00	1.24	9.6x	11.83
		FY2009	2.58	0.92	0.39	3.89	-0.88	-0.88	-1.76	2.13	-0.44	0.00	1.69	0.00	1.69	-0.49	1.20	-0.01	1.19	9.3x	11.14
		FY2010	2.45	0.93	0.70	4.08	-0.88	-0.84	-1.72	2.36	-0.41	0.00	1.95	0.00	1.95	-0.62	1.33	-0.01	1.32	8.8x	11.57
		FY2011	2.60	0.89	0.56	4.05	-0.89	-0.88	-1.78	2.28	-0.59	0.00	1.68	0.00	1.68	-0.32	1.36	-0.02	1.35	8.5x	11.49
		FY2012	2.43	0.84	0.50	3.77	-0.84	-0.80	-1.64	2.13	-0.32	0.00	1.81	0.00	1.81	-0.40	1.41	0.00	1.41	8.8x	12.33
		FY2013	2.23	0.85	0.57	3.65	-0.84	-0.68	-1.51	2.13	-0.34	0.00	1.79	0.00	1.79	-0.35	1.44	-0.01	1.43	8.9x	12.68
		FY2014E	2.20	0.84	0.52	3.56	-0.83	-0.72	-1.55	2.01	-0.30	0.00	1.71	0.00	1.71	-0.34	1.37	0.00	1.37	8.7x	11.91
		FY2015E	2.30	0.85	0.46	3.62	-0.83	-0.72	-1.55	2.07	-0.30	0.00	1.77	0.00	1.77	-0.35	1.42	0.00	1.41	8.6x	12.12
		FY2016E	2.32	0.87	0.44	3.63	-0.83	-0.71	-1.54	2.08	-0.28	0.00	1.80	0.00	1.80	-0.36	1.44	0.00	1.44	8.5x	12.25
	Kasikornbank	FY2008	3.41	1.12	0.49	5.02	-1.08	-1.32	-2.41	2.61	-0.68	0.00	1.93	0.00	1.93	-0.60	1.33	0.00	1.33	10.8x	14.35
		FY2009	2.98	1.13	0.44	4.54	-1.04	-1.24	-2.28	2.26	-0.70	0.00	1.56	0.00	1.56	-0.45	1.11	0.00	1.10	11.0x	12.18
		FY2010	3.21	1.25	0.70	5.16	-1.13	-1.47	-2.61	2.55	-0.46	0.00	2.09	0.00	2.09	-0.62	1.47	-0.09	1.38	10.6x	14.65
		FY2011	3.46	1.26	0.82	5.54	-1.20	-1.43	-2.63	2.90	-0.45	0.00	2.46	0.00	2.46	-0.85	1.60	-0.12	1.48	10.5x	15.51
		FY2012	3.35	1.29	0.86	5.49	-1.14	-1.33	-2.47	3.02	-0.44	0.00	2.58	0.00	2.58	-0.59	1.99	-0.14	1.85	10.3x	19.16
		FY2013	3.33	1.35	0.86	5.54	-1.07	-1.35	-2.42	3.12	-0.54	0.00	2.58	0.00	2.58	-0.52	2.05	-0.16	1.89	10.0x	18.88
		FY2014E	3.30	1.36	0.85	5.51	-1.05	-1.32	-2.37	3.14	-0.60	0.00	2.54	0.00	2.54	-0.51	2.03	-0.17	1.86	9.4x	17.43
		FY2015E	3.30	1.41	0.87	5.59	-1.05	-1.31	-2.35	3.23	-0.56	0.00	2.68	0.00	2.68	-0.54	2.14	-0.18	1.96	8.8x	17.33
		FY2016E	3.32	1.45	0.89	5.66	-1.04	-1.29	-2.32	3.34	-0.50	0.00	2.84	0.00	2.84	-0.57	2.27	-0.19	2.08	8.4x	17.54
	Siam Commercial	FY2008	3.33	1.16	0.63	5.12	-0.99	-1.21	-2.20	2.92	-0.41	0.00	2.51	0.00	2.51	-0.74	1.77	0.01	1.78	10.0x	17.87
		FY2009	2.96	1.22	0.62	4.80	-0.97	-1.18	-2.15	2.64	-0.44	0.00	2.20	0.00	2.20	-0.56	1.64	-0.01	1.64	9.4x	15.44
		FY2010	2.87	1.40	0.72	4.99	-0.99	-1.21	-2.20	2.79	-0.34	0.00	2.45	0.00	2.45	-0.69	1.76	-0.01	1.75	9.4x	16.35
		FY2011	3.04	1.19	1.25	5.48	-1.06	-1.16	-2.22	3.26	-0.40	0.00	2.86	0.00	2.86	-0.67	2.18	0.00	2.18	9.7x	21.19
		FY2012	3.02	0.99	0.99	5.00	-0.91	-1.14	-2.06	2.94	-0.46	0.00	2.49	0.00	2.49	-0.57	1.92	-0.01	1.91	10.2x	19.49
		FY2013	3.04	1.02	1.08	5.14	-0.89	-1.08	-1.97	3.17	-0.57	0.00	2.60	0.00	2.60	-0.49	2.11	-0.02	2.09	10.4x	21.68
		FY2014E	3.05	0.99	0.85	4.89	-0.86	-1.03	-1.89	3.00	-0.55	0.00	2.45	0.00	2.45	-0.49	1.96	-0.01	1.95	10.0x	19.52
		FY2015E	3.06	0.99	0.85	4.90	-0.85	-1.01	-1.86	3.04	-0.49	0.00	2.55	0.00	2.55	-0.51	2.04	0.00	2.04	9.6x	19.64
		FY2016E	3.08	0.99	0.85	4.92	-0.84	-0.98	-1.82	3.10	-0.42	0.00	2.68	0.00	2.68	-0.54	2.14	0.00	2.14	9.4x	20.04
	Krung Thai Bank	FY2008	3.11	0.58	0.42	4.11	-1.07	-0.94	-2.01	2.10	-0.86	0.00	1.24	0.00	1.24	-0.27	0.97	0.00	0.96	12.8x	12.31
		FY2009	2.56	0.64	0.33	3.54	-1.05	-0.83	-1.88	1.66	-0.43	0.00	1.23	0.00	1.23	-0.38	0.85	0.00	0.85	13.3x	11.27
		FY2010	2.41	0.63	0.37	3.40	-1.04	-0.76	-1.80	1.61	-0.37	0.00	1.24	0.00	1.24	-0.33	0.90	0.00	0.90	13.9x	12.51
		FY2011	2.70	0.61	0.42	3.73	-0.96	-0.82	-1.78	1.95	-0.73	0.00	1.22	0.00	1.22	-0.31	0.91	0.00	0.91	14.6x	13.31
		FY2012	2.75	0.65	0.48	3.88	-0.96	-0.72	-1.67	2.21	-0.72	0.00	1.49	0.00	1.49	-0.38	1.11	0.00	1.11	13.5x	14.94
		FY2013	2.68	0.66	0.62	3.95	-0.99	-0.70	-1.69	2.27	-0.51	0.00	1.75	0.00	1.75	-0.33	1.42	0.00	1.42	12.4x	17.66
		FY2014E	2.65	0.67	0.38	3.71	-0.96	-0.68	-1.64	2.07	-0.60	0.00	1.47	0.00	1.47	-0.29	1.17	0.00	1.17	12.2x	14.31
		FY2015E	2.68	0.71	0.38	3.76	-0.95	-0.68	-1.63	2.13	-0.51	0.00	1.62	0.00	1.62	-0.32	1.30	0.00	1.30	11.8x	15.31
		FY2016E	2.72	0.73	0.37	3.82	-0.95	-0.68	-1.62	2.19	-0.48	0.00	1.71	0.00	1.71	-0.34	1.37	0.00	1.37	11.5x	15.77
	Thanachart	FY2008	3.10	0.81	0.81	4.72	-1.03	-1.47	-2.51	2.22	-1.00	0.00	1.21	0.00	1.21	-0.28	0.93	-0.16	0.77	13.5x	10.46
		FY2009	3.31	0.53	1.57	5.42	-1.05	-1.32	-2.37	3.05	-0.67	0.00	2.38	0.00	2.38	-0.70	1.68	-0.48	1.20	14.2x	17.02
		FY2010	2.97	0.37	1.03	4.37	-1.11	-1.09	-2.20	2.16	-0.21	0.00	1.95	0.00	1.95	-0.62	1.33	-0.60	0.73	22.4x	16.25
		FY2011	2.74	0.38	0.91	4.02	-1.23	-1.22	-2.45	1.57	-0.23	0.00	1.34	0.00	1.34	-0.35	0.99	-0.42	0.56	23.9x	13.46
		FY2012	2.42	0.53	0.90	3.85	-1.11	-1.17	-2.28	1.57	-0.30	0.00	1.27	0.00	1.27	-0.25	1.02	-0.45	0.57	23.5x	13.46
		FY2013	2.55	0.66	2.00	5.22	-1.03	-1.04	-2.06	3.15	-1.11	0.00	2.05	0.00	2.05	-0.41	1.63	-0.75	0.89	22.9x	20.30
		FY2014E	2.58	0.65	0.71	3.93	-1.05	-1.02	-2.07	1.87	-0.58	0.00	1.28	0.00	1.28	-0.26	1.03	-0.46	0.57	21.9x	12.49
		FY2015E	2.54	0.65	0.71	3.91	-1.04	-1.02	-2.06	1.85	-0.54	0.00	1.31	0.00	1.31	-0.26	1.05	-0.46	0.59	21.5x	12.63
		FY2016E	2.54	0.66	0.71	3.92	-1.04	-1.00	-2.04	1.88	-0.50	0.00	1.37	0.00	1.37	-0.27	1.10	-0.48	0.62	21.1x	13.01
	TMB	FY2008	2.28	0.61	0.33	3.22	-0.99	-1.30	-2.29	0.93	-0.83	0.00	0.10	0.00	0.10	-0.01	0.09	-0.02	0.07	13.7x	0.95
		FY2009	1.86	0.56	0.97	3.39	-1.15	-1.43	-2.58	0.81	-0.46	0.00	0.35	0.00	0.35	-0.01	0.34	0.00	0.34	12.5x	4.24
		FY2010	1.84	0.59	0.42	2.86	-1.04	-0.95	-1.99	0.86	-0.29	0.00	0.57	0.00	0.57	0.00	0.57	0.00	0.57	11.7x	6.63
		FY2011	2.18	0.57	0.44	3.18	-1.05	-1.04	-2.09	1.10	-0.47	0.00	0.62	0.00	0.62	-0.01	0.62	0.00	0.61	12.8x	7.85
		FY2012	2.38	0.65	0.41	3.44	-1.01	-0.98	-1.99	1.45	-1.22	0.00	0.23	0.00	0.23	-0.05	0.18	0.00	0.18	13.1x	2.30
		FY2013	2.81	0.75	0.38	3.94	-1.03	-0.93	-1.96	1.98	-1.03	0.00	0.95	0.00	0.95	-0.17	0.78	0.00	0.77	12.4x	9.63
		FY2014E	2.82	0.78	0.36	3.97	-1.03	-0.93	-1.96	2.01	-0.76	0.00	1.25	0.00	1.25	-0.25	1.00	0.00	1.00	12.3x	12.27
		FY2015E	2.84	0.81	0.35	4.00	-1.02	-0.92	-1.94	2.05	-0.65	0.00	1.40	0.00	1.40	-0.28	1.12	0.00	1.12	12.1x	13.62
		FY2016E	2.86	0.83	0.34	4.04	-1.02	-0.90	-1.93	2.11	-0.60	0.00	1.51	0.00	1.51	-0.30	1.21	0.00	1.21	11.9x	14.35
	TISCO	FY2008	3.70	1.46	0.15	5.31	-1.48	-1.11	-2.59	2.72	-0.87	0.00	1.85	0.00	1.85	-0.32	1.53	-0.01	1.52	8.1x	12.36
		FY2009	4.28	1.49	0.48	6.26	-1.56	-1.38	-2.94	3.32	-1.17	0.00	2.15	0.00	2.15	-0.63	1.51	-0.01	1.50	10.2x	15.35
		FY2010	4.42	1.75	0.68	6.85	-1.79	-1.13	-2.91	3.94	-1.26	0.00	2.68	0.00	2.68	-0.81	1.87	-0.01	1.86	11.3x	21.09
		FY2011	3.52	1.46	0.67	5.65	-1.40	-1.12	-2.52	3.13	-0.65	0.00	2.48	0.00	2.48	-0.80	1.68	-0.01	1.67	12.6x	20.96
		FY2012	2.76	1.62	0.79	5.16	-1.27	-1.26	-2.52	2.64	-0.75	0.00	1.88	0.00	1.88	-0.42	1.46	-0.01	1.45	14.7x	21.36
		FY2013	2.76	1.60	0.51	4.86	-1.07	-0.86	-1.92	2.94	-1.27	0.00	1.67	0.00	1.67	-0.33	1.34	-0.03	1.31	15.6x	20.43
		FY2014E	2.69	1.32	0.31	4.32	-0.98	-0.73	-1.71	2.61	-1.14	0.00	1.47	0.00	1.47	-0.29	1.18	-0.03	1.15	15.3x	17.55
		FY2015E	2.60	1.32	0.30	4.23	-0.98	-0.72	-1.70	2.53	-0.97	0.00	1.56	0.00	1.56	-0.31	1.25	-0.03	1.22	14.9x	18.17
		FY2016E	2.64	1.32	0.29	4.26	-0.98	-0.70	-1.69	2.57	-0.90	0.00	1.67	0.00	1.67	-0.33	1.33	-0.03	1.31	14.3x	18.70

Source: Citi Research estimates

[5] Risks — Politics, regional, M&A

Related report: ***Thailand Strategy - After Rebound, Tilting to Laggards and Yield Plays***

Thai Politics

Thai politics currently seem to be in a state of flux. No solution over re-establishing new functioning government has emerged. New election date targeted for end of July continues to face pressure from protestors. However, alternative 'judicial' ending scenario may not materialize easily given pressure from pro-government supporters. For more detail please refer to our strategy note: *Thailand Strategy - After Rebound, Tilting to Laggards and Yield Plays*. While we do not anticipate a worst-case scenario of full blown violence and military intervention, stalemate could last longer than expected. Hence, we see downside risk to economic performance in the next 6 months.

China exposure

Given that BBL has 16% loans in its overseas book with major country exposures in Hong Kong, Singapore, China, and Taiwan, we believe that China slowdown will have some bearing on its borrowers as these countries' economic cycle seem to be tightly linked with China's business cycle. Nonetheless, given that BBL re-iterates its strategy to be very selective, and a significant portion of these exposures are companies with main operations in Thailand, we do not expect material impact to its asset quality.

Consumer M&A

As retail loans continue to be under pressure from a lackluster economy and high household debt, suppressed valuation on retail assets may create attractive opportunities. This could be either positive or negative to BBL depending on how any potential deal is structured and managed afterwards. However, given management's lukewarm response on this topic, we suspect there is not much appetite for M&A at present.

RHBC — 2017 Strategy Targets 14% ROE

[1] Peer valuation — lowest multiples & ROEs in sector

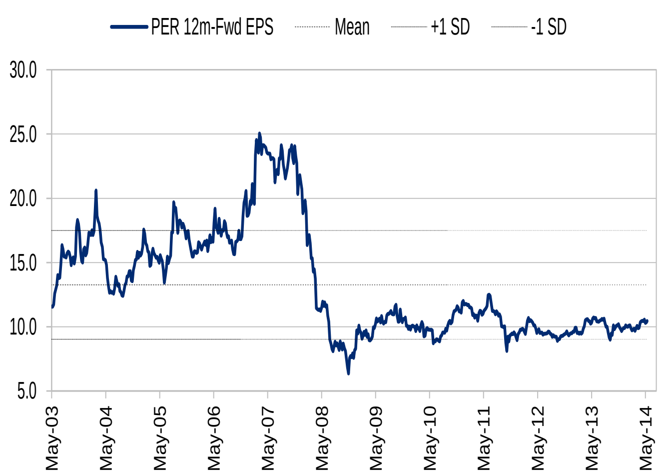
Figure 72. Consensus 12M Forward Price Multiples vs. 10 Year Historic Ranges

	MAY	CIMB	Public	RHBC	HLBK	AMMB	AFG
PER — Current (x)	12.6	12.2	15.1	10.4	11.6	10.9	11.2
Mean	13.6	12.9	13.6	13.3	12.5	12.1	11.7
+1SD	15.5	14.4	14.9	17.5	13.7	14.1	14.2
-1SD	11.8	11.5	12.4	9.0	11.3	10.1	9.3
P/B — Current (x)	1.69	1.57	2.97	1.14	1.65	1.49	1.46
Mean	2.04	1.76	2.76	1.43	1.76	1.34	1.46
+1SD	2.43	2.14	3.31	1.80	1.95	1.60	1.69
-1SD	1.65	1.38	2.21	1.07	1.58	1.07	1.23
ROE — Current (%)	14.1	13.8	20.6	11.2	15.0	14.2	13.6
Mean	15.6	14.3	20.9	11.4	14.7	11.6	12.5
+1SD	17.7	17.1	25.1	13.8	15.9	13.7	16.2
-1SD	13.4	11.6	16.8	9.0	13.5	9.4	8.7

Banks ranked left to right by total assets
Source: Datastream, Citi Research. Priced as at 12 May 2014

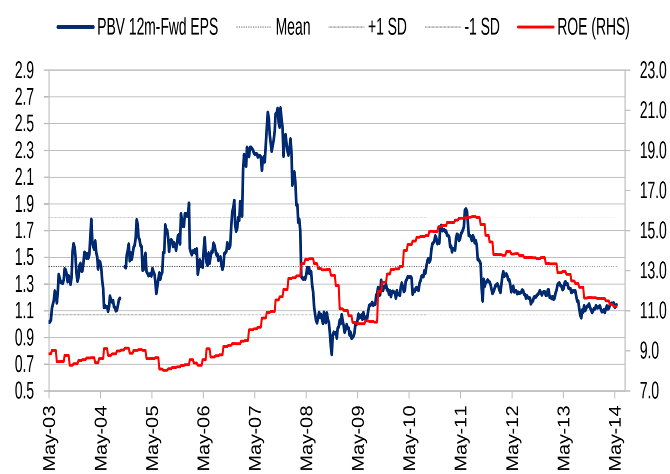
Based on 12M forward consensus estimates, RHB Capital at 10.4x PER and 1.14x P/B, is the lowest valued of its Malaysian banks peer group, and as importantly the stock trades at the lowest multiples versus its historic PER and P/B ranges (roughly -0.7 S.D. below mean). While RHBC also has the lowest expected ROE in the sector (11%), this was partly self-inflicted — equity raising for 2012 OSKIB M&A. However, OSKIB has helped to provide RHBC a stronger platform as one of Malaysia's wholesale cum-regional banks, and in its first year delivered above expectations on revenue synergies.

Figure 73. RHBC —12M Fwd Consensus PER



Source: Citi Research

Figure 74. 12M Fwd Consensus P-Book v ROE



Source: Citi Research

We evaluate the Malaysia Banks' long run performance by focusing on the business model. A simple assessment of its peer group valuation multiples suggests that if RHBC could revive its ROE performance to the 14% management target by 2017, then the market may value RHBC at closer to 1.5x P/B, an approximate 30% re-rating from current levels.

[2] Markets view — OSKIB M&A de-railed ROEs

But now RHBC seen as a high beta play on IB and capital markets

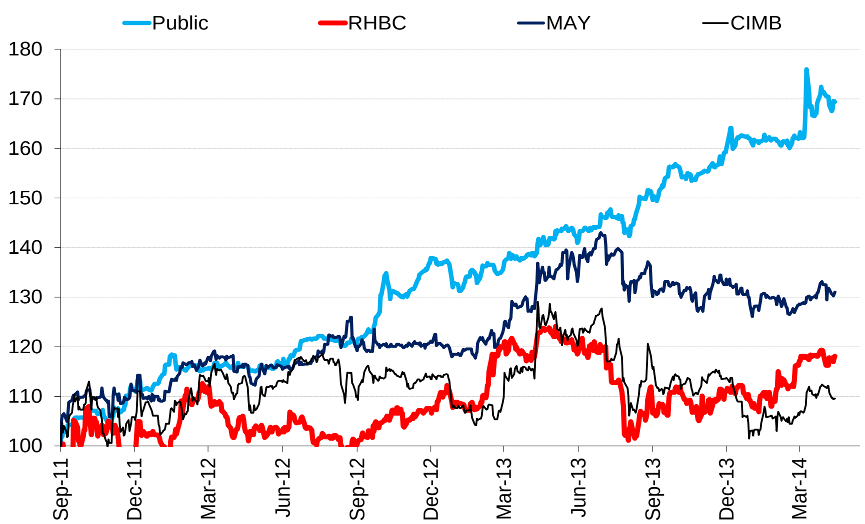
BVPS growth of 8%-9% annually eroded by a weakening ROE trend. Yield of 3% helped by a dividend reinvestment plan (DRP); for the 2013 final dividend there was a c.70% take up rate.

From Sept 2012, RHBC appeared to garner price momentum from the OSKIB M&A deal and subsequently from a QE-fueled rally into the May-13 elections.

Earnings disappointment in 1H13, QE tapering fears and NPL concerns hurt price performance.

Better than feared results in 2H13 has helped lift sentiment toward RHBC.

Figure 75. RHBC Recent Share Price Performance* vs “Big 4” Banks Peers



*Note: Start Price RM7.13 on 26 Sept 2011
Source: Datastream, Citi Research

[3] RHBC in detail — wholesale-IB, still largely domestic

Loans #4 mkt. share, consumer and corporate driven

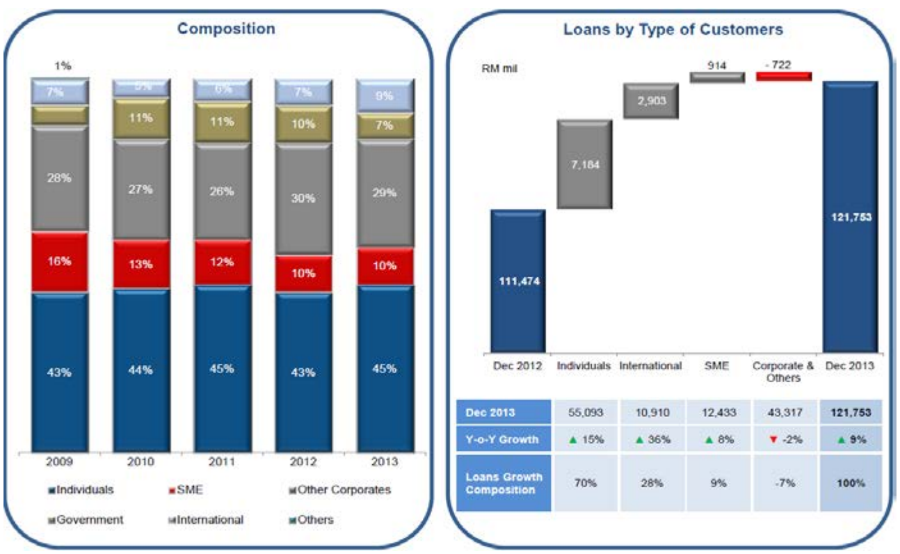
RHBC can be considered primarily a domestic lender with just 6% of its group loan book outside of Malaysia. RHBC had an estimated 9.5% share of the Malaysian loan market in 2013, not far behind the #3 player (11%).

Domestic loans over the past 2 years have been growing in the low to mid-teens, and about 2%pts above industry (2014 target +12%). Strong overseas loan growth (>+40%yoy) is from a low base and included OSKIB M&A from 4Q12.

Estimated loan market shares (2013) — consumer 8%, mortgages 7%, auto 8%, non-consumer loans 13%.

Mgmt. expect overall loan growth of 12% for 2014.

Figure 76. Loans Profile & Market Share



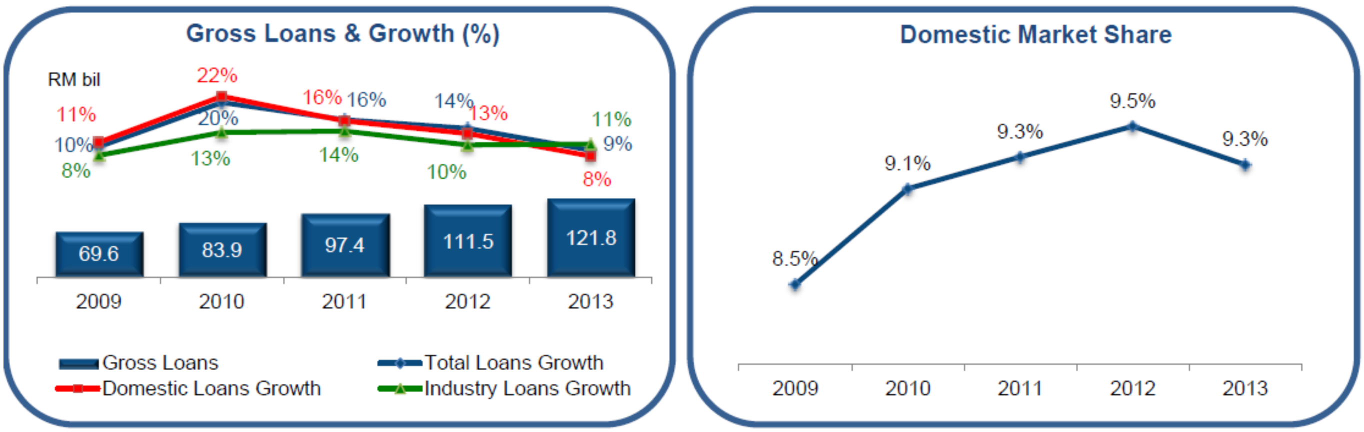
Source: Company, Citi Research

Consumer (44% of total loans): Although the consumer loan book is about 45% mortgages and 22% auto, the strongest recent growth drivers have been ASB loans and unsecured personal loans. On BNM’s July-2013 moves to curb personal loan growth, mgmt. note that there has not been any specific ruling capping ASB unit trust loans, which are deemed low risk by the banks (PNB likely buys back the unit

trust), and despite a pick-up in competition (only Maybank, CIMB and RHBC lend in this space) there appears to be good potential for growth. On personal loans (July rules cap the tenure at 10 years from previously 25 years) which were 5% of total loans Jun-13, this may be a small setback for consumer loan growth, although RHBC's own personal loan products were mostly capped at 5-7 year tenures. On mortgage RHBC has very little above 35 years in tenure but nonetheless overall applications are down in this segment as borrowers take time to adjust to the new market conditions.

Corporate (29% of total loans): Overall business loans had been relatively soft in 2013 in part because of the strength of DCM activity, and in 4Q13 RHBC saw a significant corporate loan repayment, without which core loan growth was close to 11.6%. Prospects into 2014 will likely be driven by ETP participation, as RHBC will expect to be active at the top end of the IB chain with long dated debt/sukuk financing initially funded through (lower yielding) loan bridging. Thus overall 2014 loan growth may well be a function of the pace of lumpy corporate loans. Mgmt. likely to cap govt. related loans at about 10% of the overall portfolio.

Figure 77. Loan Growth vs Industry and Domestic Market Share (RM millions, Percent)



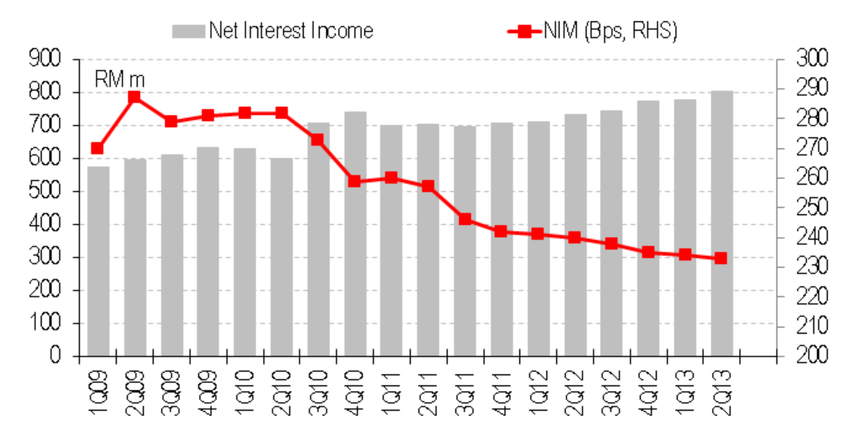
Source: Citi Research Note: 1H2013 growth annualized

NIMs: lower yield loan mix, but increasingly stable

RHBC 4Q13 NIM of 2.33% ranks #6 of 7 banks under our coverage. A loan mix with a large composition of corporate (and govt.) loans (and limited contribution from SMEs) helps explain the relatively lower NIMs.

The sharp decline from 2.60% end-2010 coincides with the period when RHBC started to aggressively grow lower yield govt. loans and in turn scale back SME contribution, with mortgage and auto loans likely adding to the loan yield pressure. Mmgt. targeting to maintain NIMs at present levels through reducing govt loan mix and better liabilities mgmt.

Figure 78. NII Growth & NIM Trends



Source: Citi Research

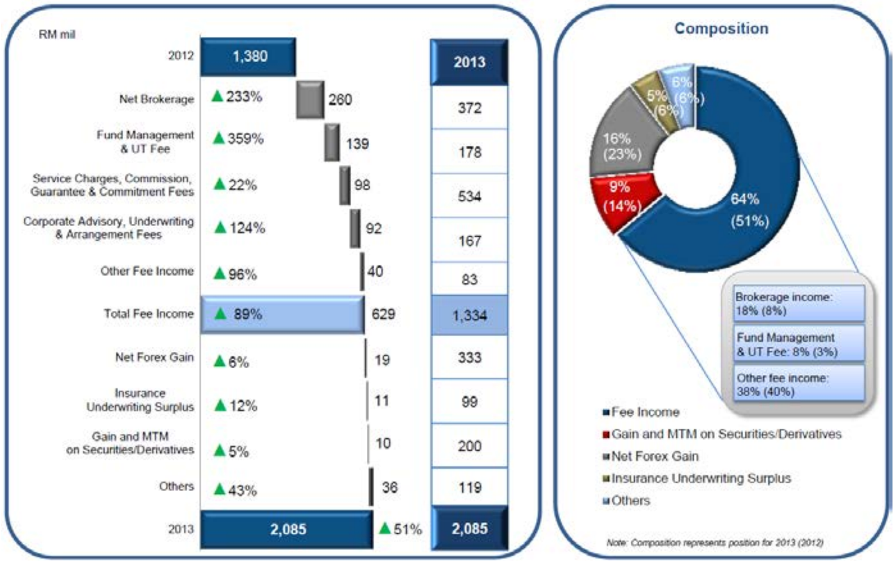
Non-II: OSKIB further raises earnings leverage to markets

The addition of investment bank OSKIB from 4Q12 was the key driver of the >40%yoy rise in non-II, notably boosting net brokerage, fund mgmt./unit trusts and corporate advisory fees.

AUM has risen from RM23bn pre-OSK to c.RM40bn end-2013, with a 7-fold increase in fund mgmt. fees. Brokerage income is up 5-fold post OSKIB.

We estimate that >50% of non-II (ex-Islamic) is now capital markets-related, which (along with the loan book upside likely coming from IB-related corporate) further raised overall earnings leverage to the health of capital markets.

Figure 79. Non-Interest Income Composition and Growth Drivers

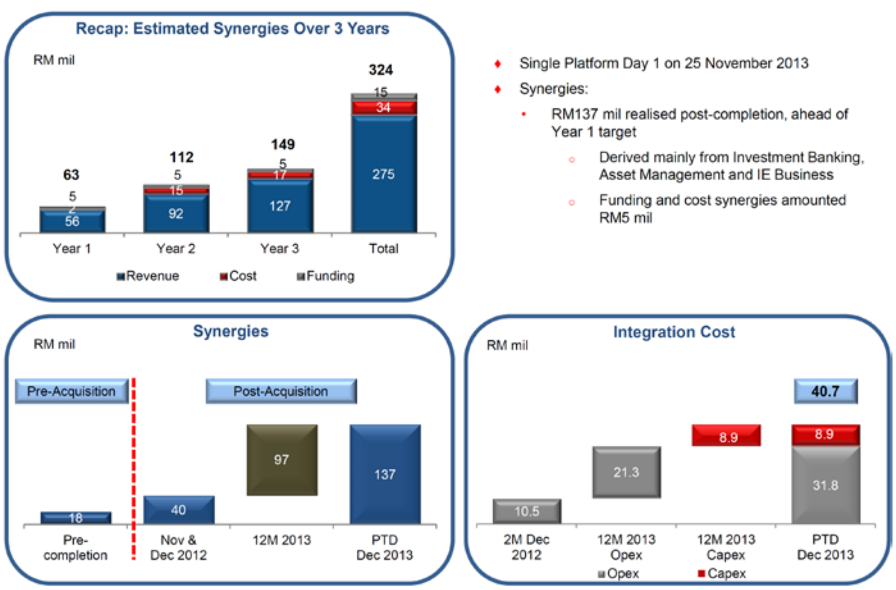


Source: Company, Citi Research

OSKIB M&A integration outperformed: In its first full year of integration, mgmt. achieved >RM137m largely revenue (costs c.RM3m) synergies in yr-1 v. RM63m target. Some funding costs were also saved by redeeming a legacy RM100m 7.5% sub debt (not needed given standalone CAR over 20%). Examples of major deals in 2013 included an Indonesian company tapping the MYR market and swapping back to USD, a commodities company, and a Singapore govt. related entity raising S$1.18bn debt.

Overall RHBC predicts RM324m in synergies over 3 years from having acquired OSKIB, 85% of which are projected revenue synergies.

Figure 80. OSKIB — Integration Synergies Projection



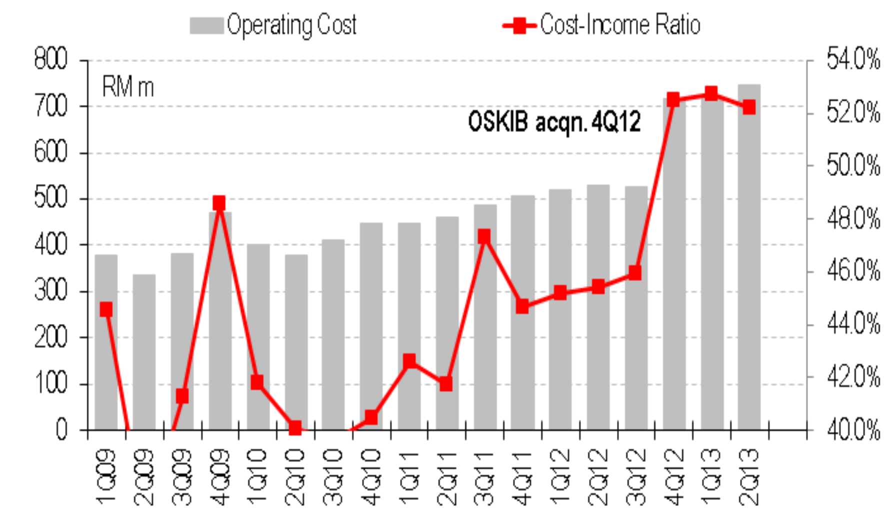
Source: Company, Citi Research

Cost-income and asset quality key focus areas

Although OSKIB boosted non-II by over 40% for 1H2013, operating costs also rose 40%, such that group CTI ratio rose to 51.3% end-2013 (2Q12: 45.4%), the second highest in the sector.

In contrast to expected strong revenue synergies, the level of cost synergies from OSKIB was not seen to be large — OSK was a more retail broker, but there could be savings from migrating some of OSK's 55 branches over to RHB ones.

Figure 81. Operating Costs and Cost-to-Income (CTI) Ratio Trend



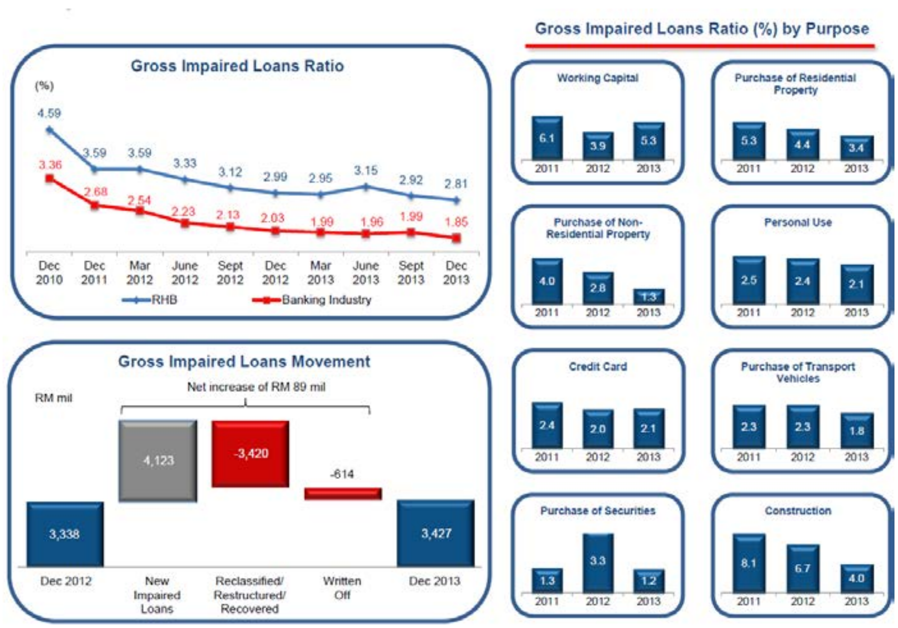
Source: Citi Research

Cost-income: Cost efficiency remains on the mgmt. agenda for 2014 with a goal of bringing it down below 50%, and over 2-3 years 46-47%, which near term may mean rationalizing some of the OSKIB cost base. On the revenue front, aside IB related revenue, more could be done on wealth mgmt.; RHBC estimate that there is just a 3% overlap with OSKIB's approximately 500,000-strong customer base. Mgmt. estimate business as usual (BAU) cost growth for the group at +7% to +8%.

Relatively higher NPL history and lowest provision coverage of peers (2013: 64%) has been another concern for investors.

The sudden +10%qoq spike in 2Q13 NPLs was largely due to a legacy RM409m corporate loan that was assessed to have suffered an impairment in future cash flow outlook. However a further RM126m in provisions was taken in 2H13, which mgmt. deemed as sufficient due to high collateral coverage.

Figure 82. Asset Quality and Credit Costs



Source: Citi Research

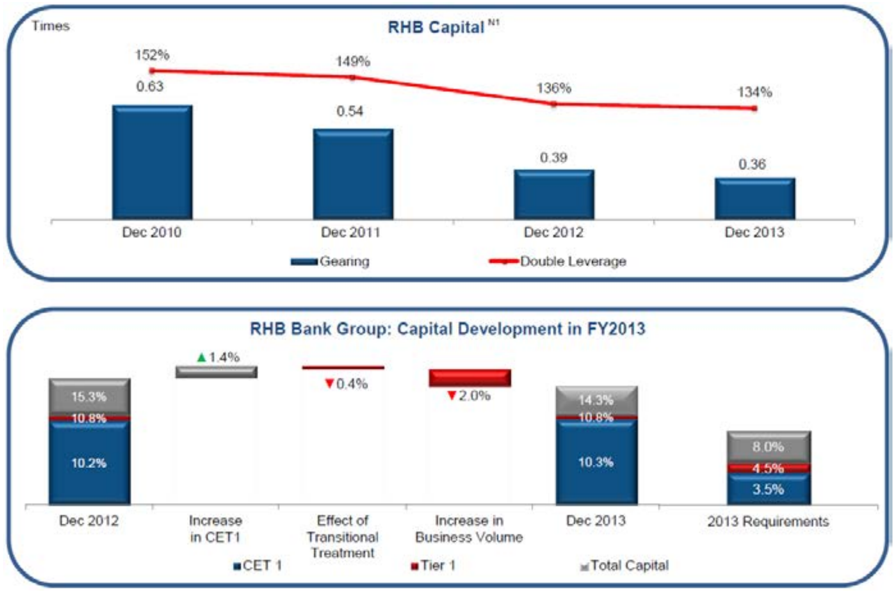
Like its peers, RHBC's capital position remains under review with BNM yet to announce on possible domestic SiFi and counter cyclical capital buffers.

Despite having a CET1 of 9% at group level, mgmt. cut dividend payout to 23% (from 30%) pending discussions with BNM on its FHC double leverage ratio (2013: 134%) and capital targets.

Arguably in a B3 world the FHC structure may not be a viable or efficient group structure, which would entail a potential group restructuring

Capital — rethinking the viability of the FHC structure

Figure 83. Capital Position



Note: Proforma Basel III CET 1 of RHB Capital Group (fully loaded) is at 9.0%

Source: Citi Research

[4] Strategies to improve ROE — regional income to 30%

Target of 14% ROE by 2017 — RHBC unveiled its "IGNITE" 2017 transformation program, which aims to lift ROE to 14% by 2017 (2013 ROE: 11.5%). In Malaysia the aim is to move from the mass to mass affluent segment with a more customer centric approach, and improved productivity. Regionally RHBC wants to derive >30% of revenues from outside Malaysia (2013: <10%). This will be driven by a doubling of Singapore's contribution from 5% to 10%, further leveraging off the bank's IB platform and we believe it assumes a successful acquisition of Indonesia's Bank Mestika.

Malaysia domestic strategy — [1] Historical consumer focus has been mass market but there are opportunities in moving up to the mass affluent space. Mgmt. estimates 3 million customer base potential that can be tapped. The bank will implement new sales and service models, enhance core banking platform plus look at next generation digital bank offerings. **[2]** RHBC will seek aggressive growth in Islamic banking to target >30% of group financing assets by 2017; mgmt. view that cannibalization can be avoided. **[3]** Rapid growth in the SME portfolio will also be targeted. **[4]** Mgmt. seemed to all but rule out a domestic M&A unless it was a really strong fit, as mgmt. views its domestic scale to be large enough.

Regional strategy — Overall target of >30% of revenues outside Malaysia by 2017 **[1]** Singapore is top priority, targeting to double revenue contribution from 5% to 10%, by repositioning the unit as a regional hub for flow and fee businesses, including treasury, global corporate account mgmt. and asset mgmt. (IB advisory, trade finance), and capturing cross-border flows between Malaysia and Singapore. **[2]** Leverage the OSKIB platform into Singapore, Indonesia and Hong Kong, where thus far international accounts for only 20% of IB business. **[3]** Successful acquisition of Bank Mestika in Indonesia should contribute about 5%-10% of the target overseas revenue contribution by 2017.

Capital — Mgmt. views that from a present CET1 of 9% (consolidated), the group's projected revenue uplift should outpace growth in risk assets and hence growth in retained earnings should be able to support RWA growth.

2014 targets — ROE >12% (2013: 11.5%); loans +12% (2013: +9.2%), SME having most upside; CASA growth >15% (2013: +9.1%), no NIM guidance (2013: 2.33%) but CASA key to offset asset yield pressure; non-II ratio ≥33% (2013: core ratio 33.4%) CTI ratio <50% (2013: 51.3%), gross impaired loans <2.5% (2013: 2.8%), cost of credit hoped to improve by one-third over 2013 (37bps), intl. profit contribution >12% (2013: 11%) on BAU growth (not including Mestika).

Figure 84. Management Team

Figure 85. Next Phase of Transformation Journey

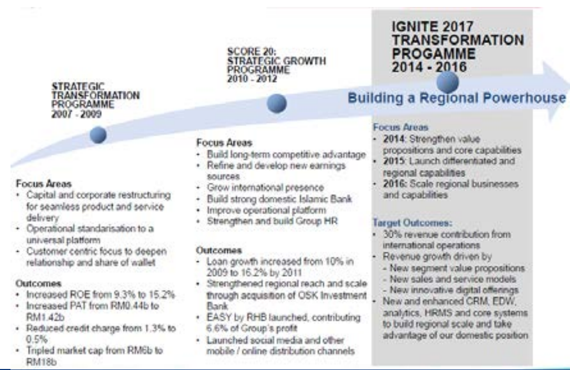


Figure 86. "IGNITE" 2017 Strategy

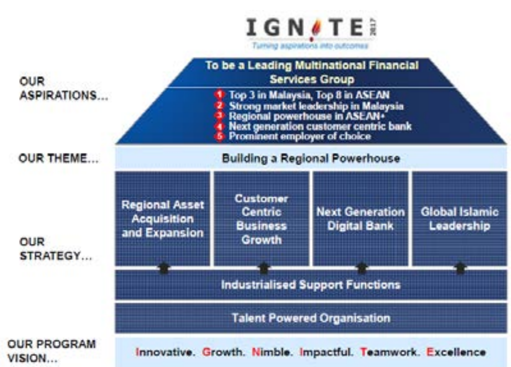


Figure 87. "IGNITE" 2017 Strategy

Figure 88. Strategic Levers

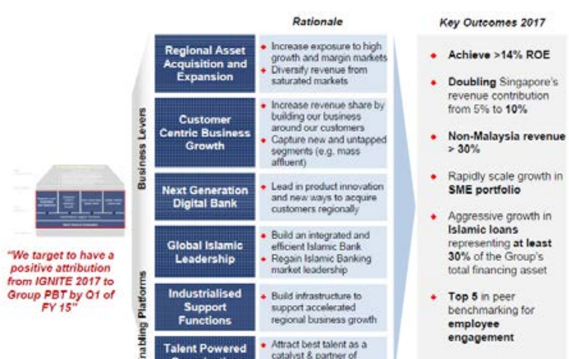
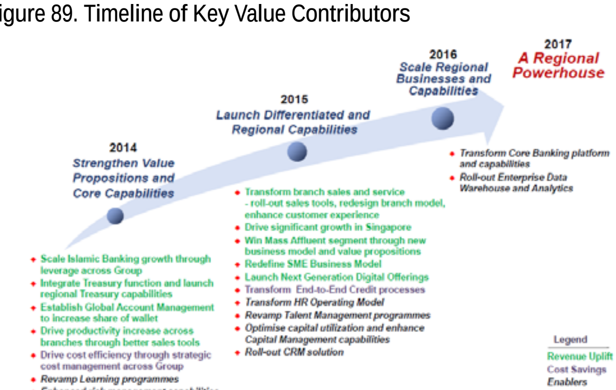


Figure 89. Timeline of Key Value Contributors



Source: Company

Figure 90. Malaysia Banks ROA-ROE Decomposition

			ROA-ROE DECOMPOSITION																		
			Net interest income	Fees and comm.	Other non-int. inc.	Operating Income	Staff costs	Other oper. exp.	Operating Exp.	PPOP	Loan provision	Other provision	Profit after provision	Exceptional	Pre-tax profit	Tax	Net profit	Minority interest	ROA	Leverage	ROE
MALAYSIA	Public	FY2008	2.01	0.53	0.56	3.10	-0.57	-0.39	-0.97	2.13	-0.31	0.00	1.82	0.01	1.83	-0.41	1.42	-0.02	1.39	18.3x	25.55
		FY2009	1.95	0.41	0.52	2.88	-0.61	-0.33	-0.94	1.94	-0.34	0.00	1.60	0.01	1.61	-0.37	1.23	-0.02	1.22	18.8x	22.94
		FY2010	2.07	0.47	0.55	3.08	-0.63	-0.32	-0.95	2.14	-0.30	0.00	1.84	0.01	1.84	-0.45	1.40	-0.02	1.37	17.5x	24.00
		FY2011	2.09	0.47	0.55	3.11	-0.63	-0.30	-0.93	2.18	-0.14	0.00	2.04	0.00	2.05	-0.48	1.56	-0.02	1.55	15.8x	24.48
		FY2012	2.00	0.44	0.51	2.95	-0.63	-0.29	-0.92	2.03	-0.11	0.00	1.92	0.00	1.92	-0.45	1.47	-0.02	1.46	15.0x	21.78
		FY2013	1.92	0.44	0.45	2.81	-0.60	-0.26	-0.86	1.95	-0.12	0.00	1.83	0.00	1.83	-0.41	1.41	-0.01	1.40	14.5x	20.37
		FY2014E	1.92	0.44	0.49	2.85	-0.46	-0.37	-0.83	2.02	-0.13	0.00	1.89	0.00	1.89	-0.44	1.45	-0.02	1.43	14.3x	20.52
		FY2015E	1.89	0.45	0.48	2.82	-0.42	-0.39	-0.80	2.02	-0.14	0.00	1.88	0.00	1.89	-0.44	1.44	-0.02	1.43	14.1x	20.14
		FY2016E	1.87	0.47	0.49	2.82	-0.38	-0.40	-0.79	2.04	-0.14	0.00	1.90	0.00	1.90	-0.45	1.46	-0.02	1.44	13.7x	19.78
	Maybank	FY2008	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		FY2009	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		FY2010	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
		FY2011	1.69	0.67	0.93	3.28	-0.88	-0.77	-1.65	1.63	-0.14	0.00	1.49	0.03	1.52	-0.39	1.13	-0.05	1.08	12.5x	13.56
		FY2012	1.96	0.67	0.91	3.54	-1.00	-0.74	-1.74	1.80	-0.17	0.00	1.64	0.03	1.67	-0.42	1.25	-0.04	1.21	11.9x	14.40
		FY2013	1.82	0.67	1.03	3.51	-0.94	-0.76	-1.69	1.82	-0.17	0.00	1.65	0.03	1.68	-0.40	1.28	-0.04	1.24	11.5x	14.31
		FY2014E	1.73	0.68	0.96	3.37	-0.25	-1.39	-1.64	1.73	-0.18	0.00	1.55	0.03	1.58	-0.39	1.19	-0.04	1.15	12.0x	13.79
		FY2015E	1.73	0.71	0.94	3.38	-0.23	-1.40	-1.64	1.74	-0.19	0.00	1.56	0.03	1.58	-0.39	1.20	-0.04	1.16	12.4x	14.35
		FY2016E	1.74	0.72	0.93	3.40	-0.21	-1.40	-1.61	1.78	-0.19	0.00	1.59	0.03	1.62	-0.40	1.22	-0.03	1.19	12.7x	15.11
	CIMB	FY2008	2.39	0.93	0.65	3.97	-1.01	-1.10	-2.11	1.86	-0.44	0.00	1.41	-0.02	1.39	-0.36	1.03	-0.03	1.00	10.9x	10.95
		FY2009	2.71	0.87	1.10	4.69	-1.29	-1.19	-2.47	2.22	-0.53	0.00	1.69	0.02	1.71	-0.34	1.36	-0.11	1.26	10.8x	13.54
		FY2010	2.59	0.82	1.25	4.66	-1.30	-1.29	-2.60	2.07	-0.29	0.00	1.78	0.04	1.82	-0.38	1.44	-0.07	1.37	10.8x	14.91
		FY2011	2.35	0.72	1.20	4.26	-1.24	-1.09	-2.33	1.93	-0.15	0.00	1.77	0.05	1.83	-0.40	1.43	-0.02	1.42	11.1x	15.71
		FY2012	2.32	0.72	1.20	4.24	-1.36	-1.04	-2.39	1.85	-0.11	0.00	1.73	0.05	1.78	-0.40	1.38	-0.02	1.37	11.3x	15.44
		FY2013	2.25	0.74	1.16	4.15	-0.37	-2.02	-2.39	1.76	-0.21	0.00	1.55	0.10	1.65	-0.35	1.30	-0.02	1.28	11.7x	15.01
		FY2014E	2.18	0.76	1.08	4.01	-0.34	-1.94	-2.28	1.73	-0.16	0.00	1.58	0.08	1.66	-0.39	1.27	-0.02	1.25	11.2x	13.93
		FY2015E	2.12	0.79	1.05	3.96	-0.31	-1.88	-2.19	1.76	-0.16	0.00	1.60	0.08	1.68	-0.40	1.29	-0.02	1.27	10.6x	13.45
		FY2016E	2.11	0.81	1.05	3.97	-0.29	-1.83	-2.12	1.85	-0.17	0.00	1.68	0.08	1.76	-0.41	1.35	-0.02	1.33	10.5x	13.97
	AMMB	FY2008	2.00	0.66	1.51	4.17	-0.86	-1.04	-1.90	2.27	-0.79	0.00	1.48	0.00	1.48	-0.47	1.00	-0.18	0.83	12.1x	10.03
		FY2009	2.05	0.53	0.77	3.35	-0.85	-0.62	-1.47	1.89	-0.48	0.00	1.41	0.00	1.41	-0.39	1.01	-0.02	0.99	11.4x	11.35
		FY2010	2.03	0.57	1.25	3.85	-0.96	-0.65	-1.61	2.24	-0.76	0.00	1.48	0.00	1.48	-0.36	1.12	-0.04	1.08	10.5x	11.36
		FY2011	2.07	0.58	1.22	3.86	-0.92	-0.60	-1.53	2.34	-0.52	0.00	1.82	0.00	1.82	-0.46	1.36	-0.05	1.31	10.0x	13.16
		FY2012	1.97	0.55	1.37	3.89	-0.99	-0.63	-1.62	2.27	-0.43	0.00	1.84	0.00	1.84	-0.45	1.39	-0.04	1.34	10.0x	13.46
		FY2013	1.85	0.56	1.23	3.64	-1.02	-0.69	-1.71	1.93	-0.11	0.00	1.82	0.00	1.82	-0.41	1.41	-0.05	1.36	9.7x	13.28
		FY2014E	1.75	0.56	1.46	3.77	-0.55	-1.14	-1.69	2.08	-0.17	0.00	1.91	0.00	1.91	-0.43	1.48	-0.10	1.38	9.6x	13.35
		FY2015E	1.71	0.58	1.48	3.77	-0.51	-1.12	-1.63	2.14	-0.18	0.00	1.95	0.00	1.95	-0.45	1.50	-0.09	1.41	9.6x	13.58
		FY2016E	1.69	0.59	1.50	3.78	-0.47	-1.10	-1.58	2.20	-0.18	0.00	2.02	0.00	2.02	-0.47	1.54	-0.09	1.45	9.6x	13.88
	Hong Leong Bank	FY2008	1.85	0.44	0.42	2.71	-0.57	-0.57	-1.14	1.57	-0.21	0.00	1.36	0.00	1.36	-0.36	1.00	0.00	1.00	15.3x	15.29
		FY2009	1.73	0.38	0.57	2.68	-0.56	-0.56	-1.12	1.56	-0.24	0.00	1.32	0.13	1.44	-0.29	1.15	0.00	1.15	14.6x	16.84
		FY2010	1.69	0.37	0.49	2.54	-0.56	-0.56	-1.12	1.42	-0.12	0.00	1.30	0.17	1.48	-0.25	1.23	0.00	1.23	13.5x	16.58
		FY2011	1.44	0.34	0.44	2.22	-0.52	-0.53	-1.05	1.16	-0.12	0.00	1.05	0.18	1.23	-0.24	0.99	0.00	0.99	16.5x	16.27
		FY2012	1.71	0.39	0.45	2.55	-0.73	-0.54	-1.27	1.29	0.04	0.00	1.33	0.14	1.47	-0.32	1.15	0.00	1.15	15.8x	18.19
		FY2013	1.56	0.37	0.56	2.49	-0.59	-0.56	-1.15	1.34	-0.02	0.00	1.32	0.17	1.49	-0.33	1.15	0.00	1.15	13.0x	15.01
		FY2014E	1.60	0.41	0.58	2.59	-0.65	-0.52	-1.17	1.42	-0.08	0.00	1.34	0.17	1.51	-0.33	1.18	0.00	1.18	12.3x	14.50
		FY2015E	1.59	0.44	0.61	2.64	-0.66	-0.52	-1.18	1.46	-0.09	0.00	1.37	0.17	1.54	-0.35	1.20	0.00	1.20	11.7x	13.99
		FY2016E	1.59	0.45	0.63	2.66	-0.66	-0.51	-1.17	1.49	-0.10	0.00	1.40	0.18	1.57	-0.35	1.22	0.00	1.22	11.2x	13.58
	RHB Capital	FY2008	2.11	0.50	0.68	3.29	-0.85	-0.60	-1.44	1.84	-0.49	0.00	1.36	0.00	1.36	-0.36	1.00	0.00	1.00	14.1x	14.06
		FY2009	2.20	0.47	0.67	3.34	-0.78	-0.65	-1.43	1.91	-0.51	0.00	1.40	0.00	1.40	-0.30	1.10	-0.01	1.09	13.2x	14.49
		FY2010	2.19	0.45	0.67	3.31	-0.79	-0.56	-1.34	1.97	-0.42	0.00	1.55	0.00	1.55	-0.39	1.17	-0.01	1.16	13.1x	15.18
		FY2011	2.03	0.40	0.68	3.11	-0.84	-0.51	-1.35	1.76	-0.16	0.00	1.60	0.00	1.60	-0.40	1.20	0.00	1.20	13.0x	15.63
		FY2012	1.73	0.41	0.68	2.83	-0.79	-0.56	-1.34	1.49	-0.09	0.00	1.40	0.00	1.40	-0.35	1.05	0.00	1.05	12.7x	13.24
		FY2013	1.72	0.70	0.71	3.13	-0.91	-0.69	-1.61	1.52	-0.23	0.00	1.30	0.00	1.30	-0.33	0.97	-0.01	0.96	11.8x	11.34
		FY2014E	1.73	0.68	0.72	3.13	-0.90	-0.68	-1.58	1.55	-0.19	0.00	1.36	0.00	1.36	-0.34	1.02	-0.01	1.01	11.3x	11.40
		FY2015E	1.72	0.67	0.70	3.09	-0.87	-0.65	-1.52	1.57	-0.20	0.00	1.37	0.00	1.37	-0.35	1.02	-0.01	1.02	11.4x	11.59
		FY2016E	1.72	0.66	0.67	3.06	-0.83	-0.63	-1.46	1.60	-0.20	0.00	1.40	0.00	1.40	-0.36	1.04	-0.01	1.04	11.5x	11.96
	Alliance FG	FY2008	2.36	0.59	0.82	3.76	-1.02	-0.72	-1.74	2.02	-0.17	0.00	1.86	0.00	1.86	-0.45	1.41	0.00	1.41	11.9x	16.73
		FY2009	2.20	0.45	0.90	3.54	-1.14	-0.74	-1.88	1.66	-0.65	0.00	1.02	0.00	1.02	-0.25	0.77	0.00	0.77	11.1x	8.55
		FY2010	1.84	0.47	1.04	3.35	-1.04	-0.70	-1.75	1.61	-0.32	0.00	1.29	0.00	1.29	-0.34	0.95	0.00	0.95	11.1x	10.54
		FY2011	1.98	0.43	0.92	3.33	-0.98	-0.62	-1.61	1.72	-0.09	0.00	1.64	0.00	1.63	-0.43	1.21	0.00	1.21	10.7x	12.97
		FY2012	1.76	0.47	1.06	3.28	-0.99	-0.57	-1.56	1.72	0.06	0.00	1.79	-0.01	1.78	-0.45	1.33	0.00	1.33	10.6x	14.10
		FY2013	1.75	0.42	1.03	3.20	-1.00	-0.53	-1.53	1.66	0.06	0.00	1.72	-0.01	1.71	-0.42	1.29	0.00	1.29	10.7x	13.78
		FY2014E	1.73	0.44	1.02	3.19	-0.94	-0.50	-1.45	1.74	-0.09	0.00	1.65	-0.01	1.64	-0.41	1.23	0.00	1.23	10.9x	13.46
		FY2015E	1.68	0.45	1.03	3.16	-0.92	-0.49	-1.40	1.76	-0.10	0.00	1.66	-0.01	1.65	-0.41	1.24	0.00	1.24	11.1x	13.68
		FY2016E	1.67	0.47	1.05	3.18	-0.90	-0.48	-1.38	1.81	-0.10	0.00	1.71	-0.01	1.70	-0.42	1.27	0.00	1.27	11.1x	14.13

Source: Citi Research estimates

[5] Risks — Indonesia M&A, capital?

Regional/M&A — Bank Mestika acquisition

Bank Mestika: Notwithstanding the present macroeconomic and liquidity concerns in Indonesia, RHBC is proceeding with its bid to acquire a 40% stake in Bank Mestika Dharma, a small-mid sized bank based in the predominantly Chinese business area of Medan in North Sumatera. In this long-delayed M&A deal (initially proposed back in 2009, with the present revised terms set in Jan 2013), RHBC agreed to purchase a 40% stake for Rp2.07tr (an estimated RM581m at current exchange rates), which equates to a P/B multiple of 2.66x equity based on the latest 2013 financial data. RHBC has issued a number of extensions to the offer period (the current offer extension expiring 30 June 2014), awaiting regulatory approval

from the Indonesia regulator OJK. It seems likely that the current offer period will again lapse, but we understand that RHBC is likely to make a further extension to the deal, knowing that current political elections in Indonesia may be the main reason for the OJK approval delay. The purchase price is likely to be fully funded by a rights issue (equals c.3% of market cap.). We believe it will be important for the vendor to remain part of the management team of the bank post sale.

Singapore and rest of the region: At 5% of group loans, Singapore is the largest component of the 8% non-Malaysia loan portfolio. Overall RHBC already has some sort of presence in 7 of the 10 Asean nations. Philippines is one of the remaining 3, and mgmt. view that an IB presence is the likely way forward. The Vietnam rep office may be converted into a full branch while RHBC has a small subsidiary in Laos. RHBC also has a Hong Kong IB presence (small losses of RM3m in 1H2013 (1H2012: RM8m loss) and a rep office in Shanghai.

Domestic M&A — Malaysia Building Society?

Due to common ownership by EPF, some investors may view that RHBC sees MBSB as a target. This would be considered material, as MBSB posted a 1H13 profit of RM331m (RHBC: RM767m) for 2.26% ROAA (RHBC 0.89%) and 38% ROAE on a 1H13 assets of RM32.3bn (RHBC: RM185.9bn). MBSB's growth has focused on largely salary deducted payroll loans to govt. civil servants. MBSB's mkt. cap. of RM4.9bn is about a quarter of RHBC's RM20bn. However, based on our recent discussions with RHBC, domestic M&A appears to be a low priority for the group.

Capital raising?

With both CIMB and Public bank announcing major equity issues in 2014, we continue to watch BNM on proposals for additional B3 capital buffers, where a high CET1 bar looks the likely outcome. RHBC has the additional complication of having a financial holding company (FHC) structure, for which we expect clearer BNM guidance in 2H2014. An unexpected equity issue could de-rail RHBC's ambitious 14% ROE target before they even start.

PNB — Executing on Revenue Growth Key

[1] Peer valuation — 36% P/B discount to BDO-MBT

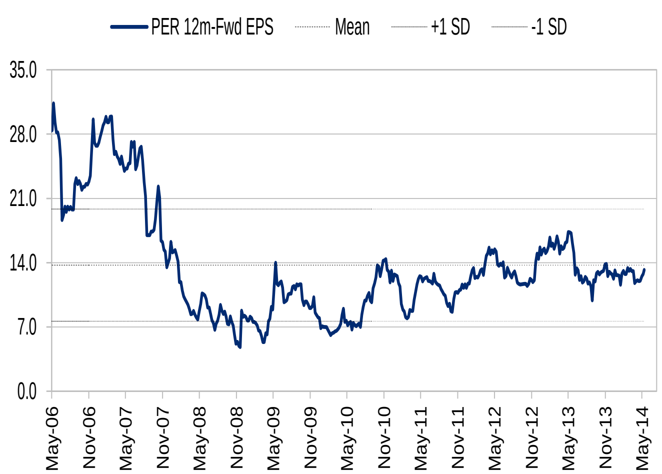
Figure 91. Consensus 12M Forward Price Multiples vs. 10 Year Historic Ranges

	BDO	MBT	BPI	PNB
PER — Current (x)	14.7	13.6	16.1	13.2
Mean	13.3	12.6	15.0	13.7
+1SD	16.2	15.0	17.3	19.8
-1SD	10.3	10.2	12.7	7.6
P/B — Current (x)	1.68	1.58	2.55	1.04
Mean	1.47	1.16	2.19	0.83
+1SD	1.82	1.53	2.69	1.14
-1SD	1.12	0.79	1.70	0.51
ROE — Current (%)	12.1	12.0	16.9	8.9
Mean	11.7	9.8	15.0	7.3
+1SD	13.5	12.0	17.1	9.4
-1SD	9.9	7.6	12.9	5.3

Banks ranked left to right by total assets
Source: Datastream, Citi Research. Priced as at 12 May 2014

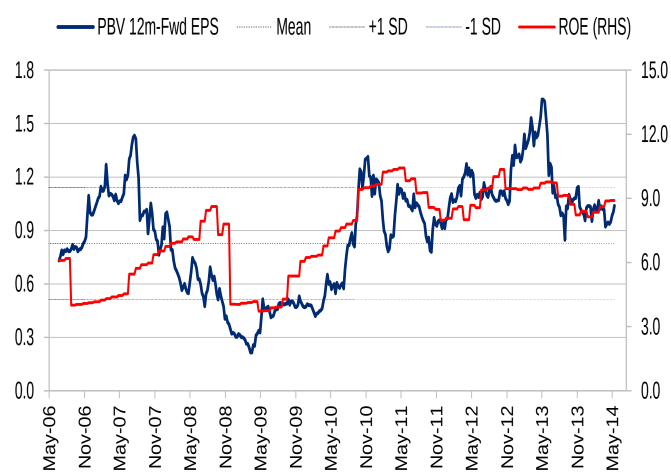
Based on 12M forward consensus estimates, PNB at 13.2x PER and 1.04x P/B, is the lowest valued of its "Big 4" banks peer group, and the stock trades at the lowest multiples versus its historic PER and P/B ranges. While PNB has the lowest expected ROE in the sector, ability to execute on revenue growth strategies amid strong competition could provide a catalyst for rerating.

Figure 92. PNB —12M Fwd Consensus PER



Source: Datastream, Citi Research

Figure 93. 12M Fwd Consensus P-Book v ROE



Source: Datastream, Citi Research

A simplistic assessment of its peer group valuation multiples suggests that PNB is at a 36% discount to the 1.63x avg. P/BV valuation of BDO and Metrobank, largely justified by a large discount to the two banks' avg. ROE of 12% (from PNB's current 8.9% for FY14E). Unfortunately our base case assumption is that we expect ROE to maintain around 8.7% by 2015 — despite our forecast of a 23% earnings CAGR from 2014-16E. Its rights offer January 2014 and on-going integration with Allied Bank has delayed ROE improvement.

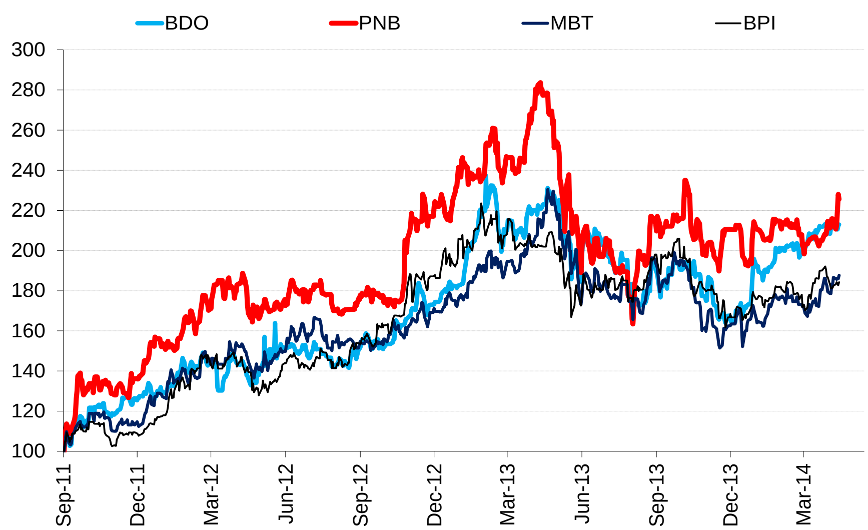
[2] Markets view — highly sought M&A target

PNB has an attractive deposit franchise, but weak recent earnings

PNB's outperformance since 2011 relative to peer banks was largely driven by its M&A news:
(1) the sale/merger talks of PNB to BPI (BPI.PS), which eventually fell through in December 2012;
(2) long overdue merger with Allied Bank (also majority owned by Lucio Tan Group (LTG.PS, not-rated) in February 2013.

PNB's underperformance YTD was driven by expectation of earnings' disappointment on insurance losses related to typhoon disasters last year.

Figure 94. PNB Recent Share Price Performance* vs "Big 3" Banks Peers



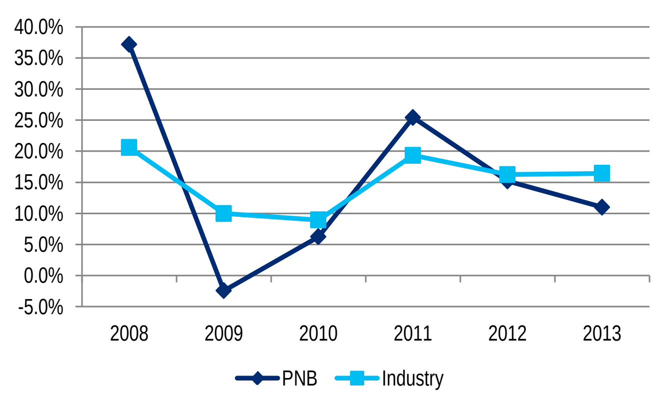
*Note: Start Price Ps41 on 26 Sept 2011
Source: Datastream, Citi Research

[3] PNB in detail — high CASA, strategic branch strength

Loans — 5.6% market share (#4), far from top banks

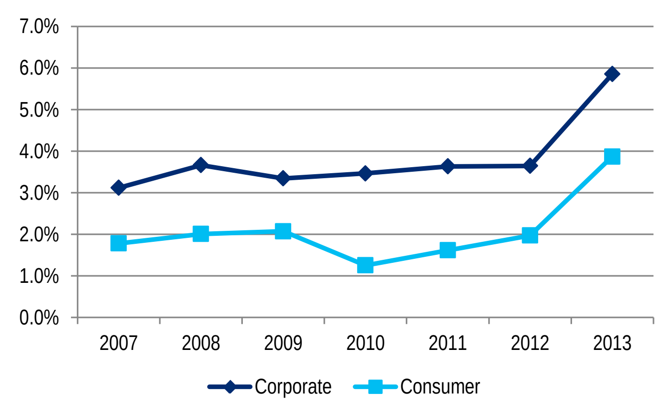
Prior to its merger with Allied Bank in 2013, PNB has been growing its loan book at a 10.6% CAGR in 2008-12, slower than industry pace of 13.5% CAGR. The merger with Allied Bank in early 2013 raised loan portfolio by around 72%, raising its market share to 5.5% from 3.4% in 2012. On a pro-forma basis, loans grew by 11% YoY in 2014, close to PNB's stand-alone average 5-year loan growth. A core management strategy in the medium term is to rebalance its portfolio mix toward SMEs and consumer lending, which we believe is more aligned to its branch network and franchise with retail depositors.

Figure 95. PNB loan growth vs. Industry



Source: BSP, Company data, Citi Research

Figure 96. PNB's market share in corporate and consumer loans

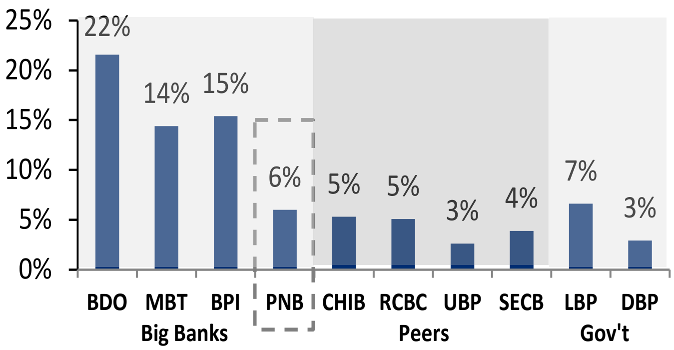


Source: BSP, Company data, Citi Research

Top tier private corporate lending accounts for close to half of total loans. Strong niche player in government lending, being still a government depository bank

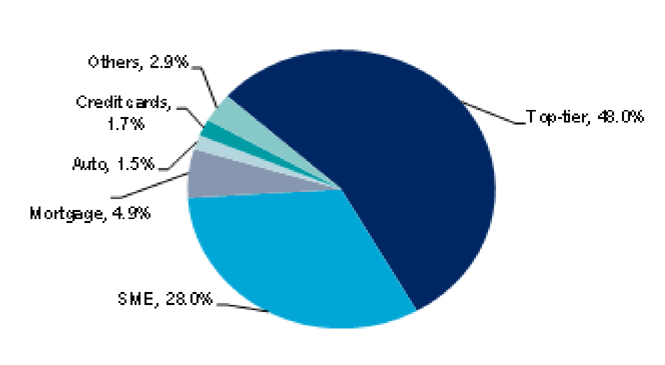
Corporate (89% of total loans): Key driver of loan growth is corporate segment, primarily private top tier corporates which make up 48% of total loans. Meanwhile, the merger with Allied Bank primarily expanded its middle market corporate exposure (28% of total portfolio), however what differentiates PNB from its top peer banks is its relatively higher government exposure (13% of total) which stems from its history as a government owned-bank until 2007, when government divested its remaining 12.5% stake (from 100% in 1989). Still, a government depository bank, PNB lends to government agencies/local government units (LGUs) using their budget allotments deposited in PNB.

Figure 97. Market Share in Loans - 2013



Source: Business World Banking Report; Comparny Reports; Citi Research

Figure 98. Loan Portfolio Breakdown



Source: Citi Research

Push on consumer lending via Allied Savings Bank. Targeting 30% consumer lending growth CAGR over the next five years.

Consumer (11% of total loans): PNB lags peer banks in terms of its consumer loan exposure where it only has a 3.9% market share. A core strategy is to rebalance its portfolio mix towards consumer lending and SMEs, which we believe is more aligned to PNB's distribution channels (relatively larger proportion of provincial and overseas branches) and Allied Bank's Filipino Chinese network.

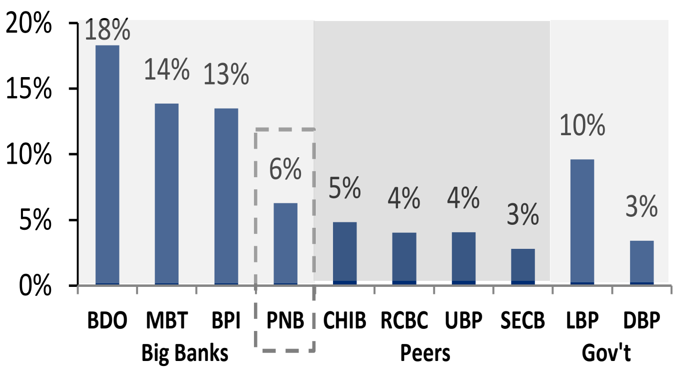
Thrift bank subsidiary, Allied Savings Bank, will become a key channel for its consumer lending and will be the recipient of P10bn in new capital infusion from the proceeds of PNB's rights offering. Management targets to grow its retail portfolio at a 30%CAGR (vs. Citi 21% CAGR in 2013-16E) over the next five year, mainly driven by mortgage and auto lending.

Deposits — 6.0% market share (#4); stronger retail deposit franchise

Lowest estimated deposit cost among the banks we cover owing to strong retail deposit franchise

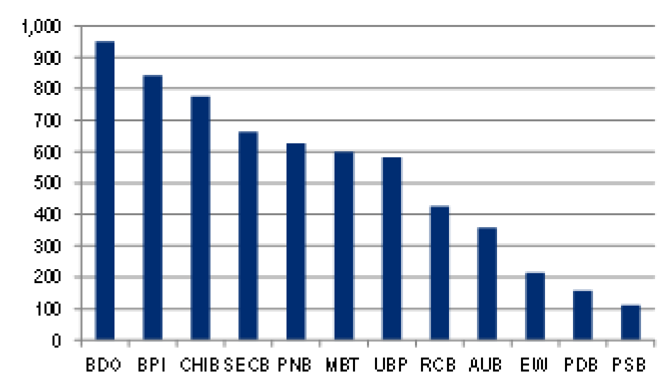
PNB has a stronger franchise in generating deposits, which can be attributed to its legacy as the largest government bank and the bigger proportion of provincial branch network. Close to 60% of its deposit are in the lower cost demand and savings deposits. In 2013, PNB's deposit base grew 21% YoY (from combined PNB-Allied Bank deposits, boosted by the inflow of funds coming from closure of the BSP's Special Deposit Accounts (SDA) window to retail investment management accounts (IMA).

Figure 99. Deposit Market Share – 2013



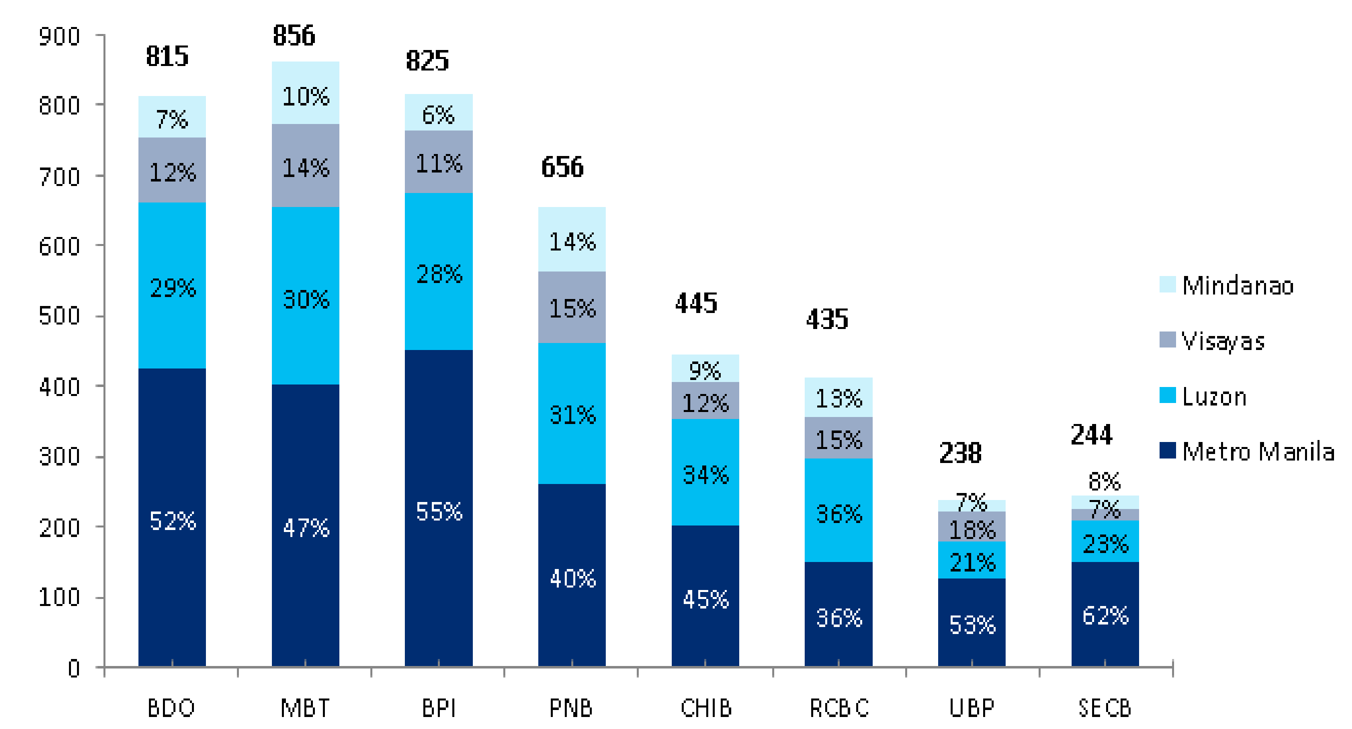
Source: Business World Banking Report; Company Reports; Citi Research

Figure 100. Casa Per Branch (Pm) -2013



Source: Citi Research

Figure 101. Philippine Major Private Universal Banks – Comparative Branch Networks



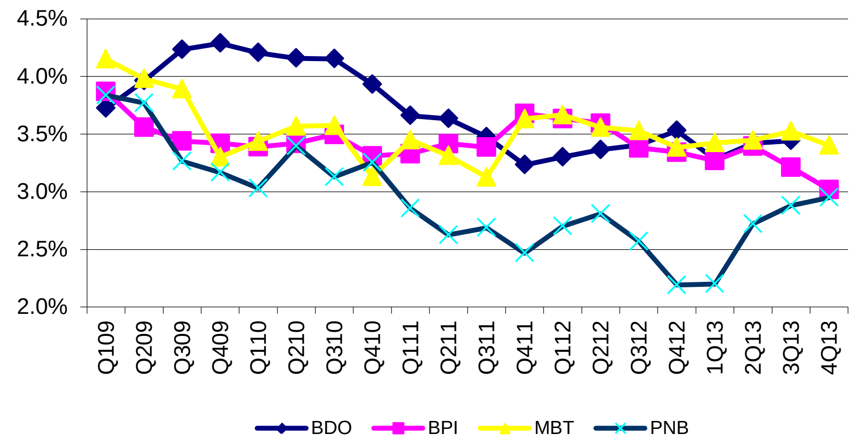
Source: Company data, Citi Research, as of December 2013

NIMs: lower yielding asset mix

Sub-par NIMs more a problem of low asset yields which could be addressed by efforts to tilt execute more aggressive loan growth strategies with a tilt toward SME and consumer lending

PNB's estimated NIMs have historically been below par, averaging at 62 bps lower than average NIM of the top banks from 2009-2013. Having the lowest funding cost (due to low deposit costs), the weak NIMs is mainly attributed to lower asset yields mainly a reflection of the relatively less than ideal asset mix (i.e. loans only account for 46% of total interest bearing assets) and loan mix (low exposure to consumer lending). We note though that the spread has narrowed from a peak of 123 bps in Q312 to 26 bps in 4Q14 (NIM of 2.95%) but this is largely attributed to continued decline in PNB's funding costs.

Figure 102.Comparative NIM trend



Source: Citi Research

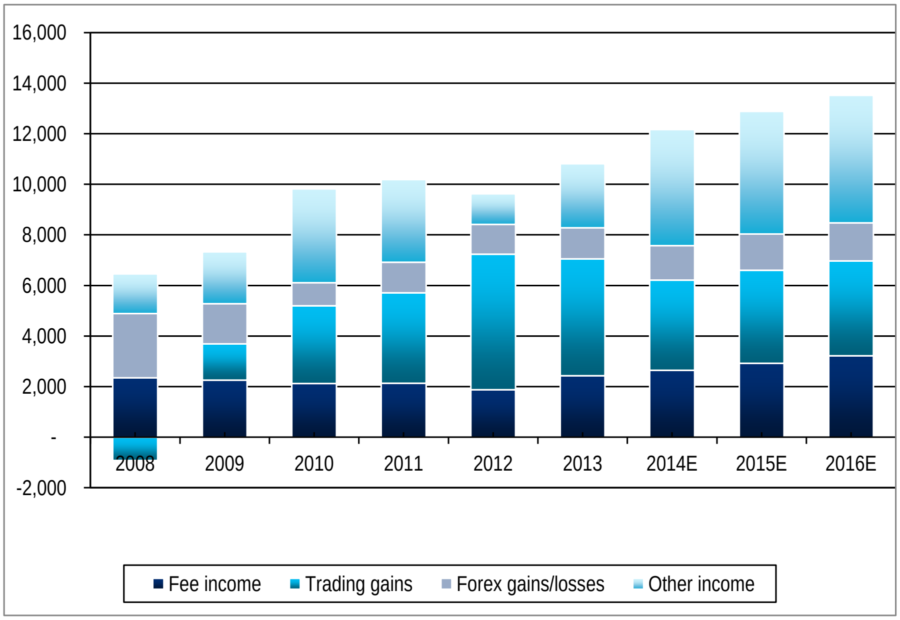
Non-interest income: Need to expand fee income

Limited non-interest income streams; fee income only accounts for 10-12% of total portfolio. Plan to accelerate sale of foreclosed assets provides upside potential to non-interest income but not sustainable.

PNB's fee based income is also sub-par, only accounting for 10%-12% of total operating income over the past three years. Trading and forex gains account for an average of 52% of total non-interest income. Management recognizes the need to improve its revenue mix and plans to review its fee structure and align bank fees and charges with market rates. PNB intends to intensify its efforts of marketing bancassurance products. Efforts to expand other financial services such as investment banking, private banking and asset management have been thus far limited.

Management intends to accelerate the sale of its foreclosed assets with an appraised value of P29.8bn, a 39% premium to book value of P21.4bbm. These property assets are commercial (11%), residential (69%), agricultural (17%) and others (3%). Aside from employing traditional channels (negotiated sales, auction, private and public sealed bidding and cross selling) to divest these assets, management is considering entering joint venture with developer, among others.

Figure 103. PNB — Non interest income breakdown



Source: Citi Research

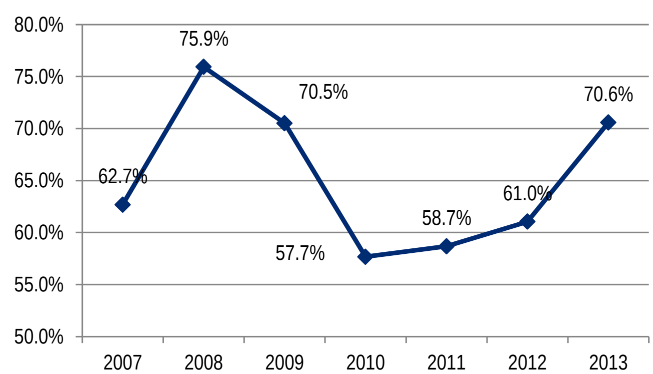
Cost to income: Potential improvements post-integration

Merger integration cost yet to be realized. Potential cost efficiency gains in trimming of staff size and branch rationalization post integration.

Cost to income ratio is expected to stay above 60% over the near term as PNB pursues integration with Allied Bank, which management estimates to cost P1.5bn. The more difficult and costly phase of migrating the core banking platform to the mainframe-based platform using Systematics (which is core system of ABC), and the transfer of the headquarters to Allied Bank's building in the financial district is set to only commence this year and expected to be completed by 2015,.

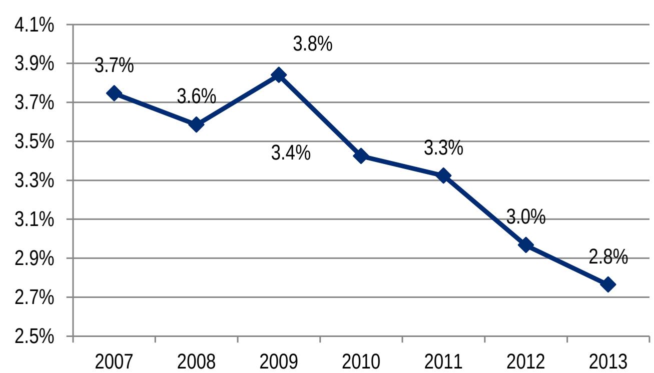
Nonetheless, the potential for cost savings is becoming apparent in both salary and occupancy expenses. Combined staff size is 3% lower YoY whilst occupancy cost was 21% lower YoY in 2013 driven by branch consolidation of PNB's overseas offices and rationalization or relocation of domestic branches. We do note however that the plans to accelerate the opening of branches of Allied Savings Bank could offset expected costs savings going forward.

Figure 104. Cost-to-income ratio of PNB



Source: Company data, Citi Research

Figure 105. Cost-to-asset ratio of PNB

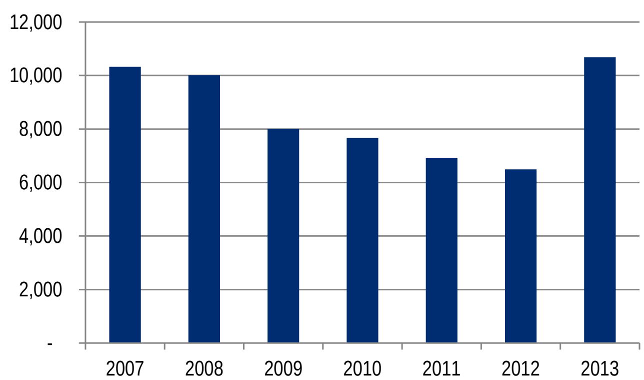


Source: Company data, Citi Research

Asset quality – limited flexibility to trim provision expense in the near term

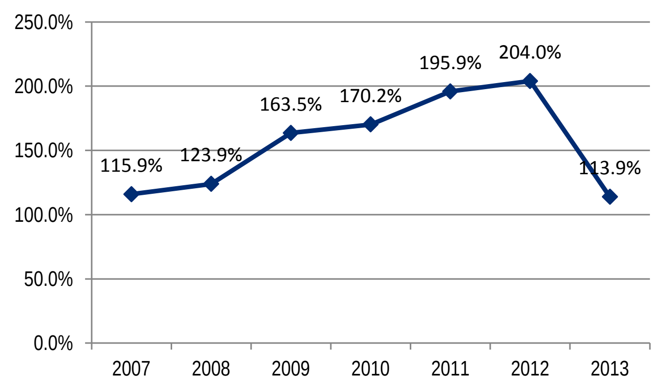
The merger with Allied Bank has lifted NPLs by 68% to P10.6bn. We note though that this is 4.5% lower that combined ABC and PNB NPLs prior the merger as NPL write-offs accelerated in 2013. The insurance losses in 2013, constrained PNB's ability to raise provision expenses in 2013, hence NPL cover declined to 38% from 83% pre-merger ratio. Efforts to restore NPL cover could clip earnings growth in the near term.

Figure 106. PNB's NPL (Pm)



Source: Company data, Citi Research

Figure 107. PNB's provision coverage

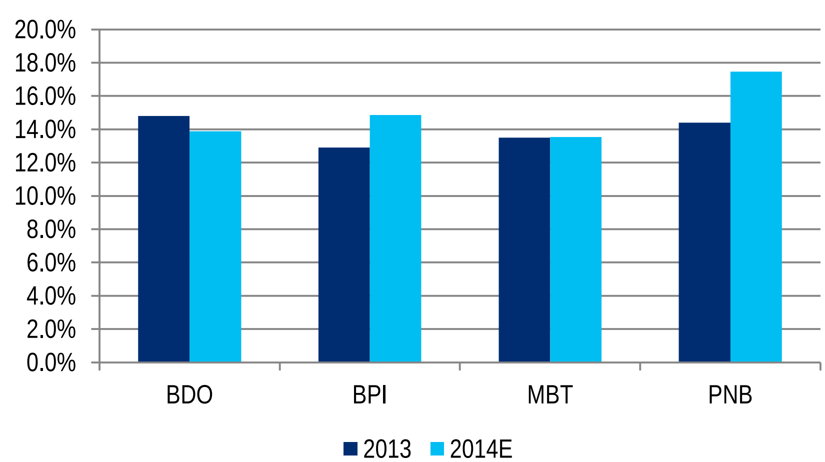


Source: Company data, Citi Research

Strong capital position post rights offering

The new equity from PNB's recent rights offer is seen to boost Basel 3 common equity tier 1 (CET1) to an estimated 16.4% in 2014, besting the average c14% of the banks under our coverage, providing substantial buffer above minimum 8.5% ratio (6% CET1 and 2.5% capital conservation buffer. We estimate that PNB can grow its risk asset base at 22% CAGR in 20-14-16, and still keep CET1 at 14% at par with the other banks.

Figure 108. Philippine Banks — Comparative CET1 ratio — PNB Highest of Peers



Source: Company data, Citi Research estimates. Note: 2013 data for PNB is Citi Research estimates

[4] Strategies to lift ROE — asset yields, cost synergies

The gap between PNB's average ROA of 1.04% vs. the top peer banks' average of 1.20% in 2009-13 could have been wider if we discount the strong trading income that has been booked from 2010-12. The disparity in ROA could even worsen to closer to 50 bps over the next three years, as PNB deals with lower trading income, integration costs and restoring NPL coverage to pre-merger levels.

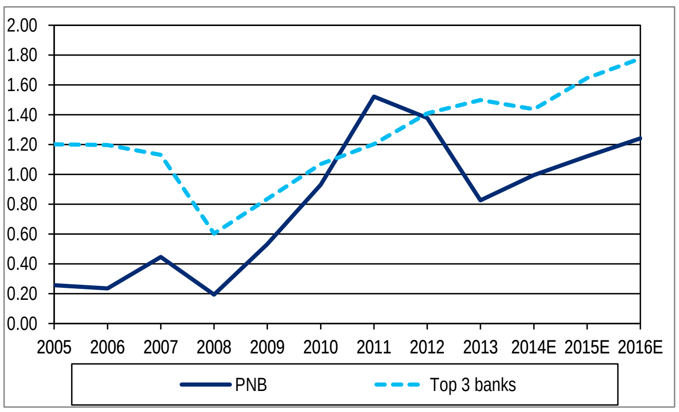
Ramping up asset yields

In our view, the key to raising PNB's ROA to the level of the 1.6% expected average of the top banks would be to raise the asset yield and there NIMs, which would require: (1) more aggressive efforts to rebalance its asset base (i.e. accelerating loan growth vs. investment securities) and loan (more middle market and consumer loans); and (2) expand sustainable fee income base. Relative to this, the medium term target is to tilt its portfolio towards middle-market and consumer lending as it leverages on PNB's large retail deposit base and on Allied Bank's niche in the Chinese Filipino market.

Potential cost efficiency gains from Allied integration

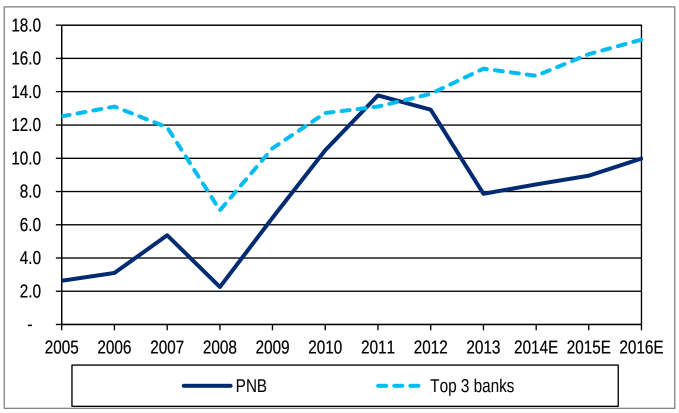
PNB has a track record being able to rationalize costs, having undergone several early retirement programs since it was privatized. We have seen a dip in opex post merger with Allied Bank driven by staff cuts and branch consolidation.

Figure 109. ROA trend – PNB vs Top 3 banks average



Source: Citi Research

Figure 110. ROE Trend – PNBvs. Top 3 banks average



Source: Citi Research

Figure 111. Philippine Banks ROA-ROE Decomposition

			ROA-ROE DECOMPOSITION																				
			Net interest income	Fees and comm.	Other non-int. inc.	Operating Income	Staff costs	Other oper. exp.	Operating Exp.	PPOP	Loan provision	Other provision	Profit after provision	Exceptional	Pre-tax profit	Tax	Net profit	Minority interest	ROA	Leverage	ROE
PHILIPPINES	BDO	FY2008	3.25	1.05	0.89	5.18	-1.42	-2.50	-3.93	1.26	-0.74	0.00	0.52	0.00	0.52	-0.20	0.32	-0.01	0.29	12.0x	3.44
		FY2009	3.67	1.00	0.86	5.53	-1.49	-2.37	-3.86	1.67	-0.74	0.00	0.93	0.00	0.93	-0.20	0.73	-0.01	0.69	13.2x	9.09
		FY2010	3.67	0.96	0.96	5.58	-1.46	-2.27	-3.73	1.85	-0.72	0.00	1.13	0.00	1.13	-0.18	0.95	-0.01	0.91	11.9x	10.85
		FY2011	3.22	1.00	0.99	5.21	-1.33	-2.13	-3.46	1.75	-0.59	0.00	1.16	0.00	1.16	-0.16	1.01	-0.01	0.97	11.3x	10.99
		FY2012	3.09	0.98	1.11	5.18	-1.37	-2.03	-3.40	1.77	-0.42	0.00	1.35	0.00	1.35	-0.13	1.22	-0.01	1.19	9.2x	10.98
		FY2013	2.95	0.98	1.25	5.18	-1.28	-1.92	-3.20	1.98	-0.35	0.00	1.63	0.00	1.63	-0.15	1.48	-0.01	1.45	8.2x	11.95
		FY2014E	3.10	1.00	0.69	4.79	-1.23	-1.85	-3.08	1.72	-0.33	0.00	1.39	0.00	1.39	-0.12	1.26	-0.01	1.24	8.6x	10.69
		FY2015E	3.20	1.05	0.69	4.95	-1.25	-1.80	-3.05	1.90	-0.40	0.00	1.50	0.00	1.50	-0.15	1.35	-0.01	1.32	8.9x	11.74
		FY2016E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	BPI	FY2008	2.99	0.47	1.16	4.61	-1.24	-1.57	-2.81	1.80	-0.30	0.00	1.51	0.00	1.51	-0.46	1.05	-0.02	1.03	9.7x	9.94
		FY2009	3.08	0.49	1.37	4.95	-1.32	-1.51	-2.83	2.12	-0.36	0.00	1.75	0.00	1.75	-0.51	1.25	-0.02	1.13	10.6x	11.91
		FY2010	2.95	0.52	1.40	4.87	-1.14	-1.47	-2.62	2.25	-0.43	0.00	1.82	0.00	1.82	-0.39	1.43	-0.02	1.38	10.7x	14.77
		FY2011	3.01	0.54	1.31	4.85	-1.21	-1.52	-2.73	2.13	-0.25	0.00	1.88	0.00	1.88	-0.36	1.51	-0.02	1.49	10.0x	14.84
		FY2012	3.00	0.56	1.62	5.19	-1.16	-1.57	-2.72	2.46	-0.32	0.00	2.14	0.00	2.14	-0.34	1.80	-0.02	1.78	9.7x	17.23
		FY2013	2.88	0.54	1.45	4.86	-1.06	-1.44	-2.50	2.36	-0.29	0.00	2.07	0.00	2.07	-0.35	1.72	-0.02	1.70	10.3x	17.62
		FY2014E	2.97	0.54	1.18	4.69	-1.04	-1.41	-2.45	2.24	-0.28	0.00	1.96	0.00	1.96	-0.33	1.63	-0.01	1.61	9.6x	15.54
		FY2015E	3.02	0.54	1.14	4.71	-0.98	-1.37	-2.35	2.36	-0.29	0.00	2.07	0.00	2.07	-0.35	1.72	-0.02	1.70	8.9x	15.18
		FY2016E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	MBT	FY2008	3.12	0.92	0.77	4.80	-1.26	-2.01	-3.27	1.53	-0.44	0.00	1.09	0.00	1.09	-0.41	0.69	-0.09	0.53	11.3x	6.00
		FY2009	3.30	0.80	1.30	5.40	-1.28	-1.91	-3.19	2.20	-1.09	0.00	1.12	0.00	1.12	-0.28	0.84	-0.09	0.68	11.9x	8.12
		FY2010	3.03	0.79	1.71	5.52	-1.32	-1.88	-3.19	2.33	-0.84	0.00	1.49	0.00	1.49	-0.43	1.06	-0.10	0.90	10.8x	9.78
		FY2011	3.19	0.84	1.44	5.46	-1.44	-1.88	-3.32	2.14	-0.41	0.00	1.72	0.00	1.72	-0.38	1.34	-0.15	1.10	9.4x	10.34
		FY2012	3.08	0.82	1.97	5.87	-1.44	-1.90	-3.34	2.54	-0.45	0.00	2.09	0.00	2.09	-0.38	1.71	-0.16	1.21	8.7x	10.49
		FY2013	3.08	0.79	2.54	6.41	-1.47	-1.87	-3.34	3.07	-0.44	0.00	2.63	0.00	2.63	-0.37	2.26	-0.20	1.56	8.5x	13.23
		FY2014E	3.26	0.79	1.24	5.28	-1.35	-1.70	-3.06	2.23	-0.32	0.00	1.90	0.00	1.90	-0.34	1.56	-0.14	1.38	8.2x	11.31
		FY2015E	3.39	0.78	1.22	5.39	-1.33	-1.66	-2.99	2.40	-0.40	0.00	1.99	0.00	1.99	-0.36	1.64	-0.16	1.45	8.1x	11.68
		FY2016E	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	PNB	FY2008	2.57	0.91	1.24	4.72	-1.35	-2.23	-3.58	1.14	-0.37	0.00	0.76	0.00	0.76	-0.33	0.43	0.00	0.43	8.7x	3.73
		FY2009	2.82	0.81	1.82	5.45	-1.41	-2.43	-3.84	1.61	-0.54	0.00	1.07	0.00	1.07	-0.28	0.79	-0.01	0.78	9.3x	7.26
		FY2010	2.58	0.73	2.63	5.94	-1.16	-2.27	-3.42	2.51	-0.82	0.00	1.69	0.00	1.69	-0.32	1.38	-0.16	1.22	9.1x	11.09
		FY2011	2.35	0.70	2.62	5.66	-1.24	-2.08	-3.32	2.34	-0.51	0.00	1.83	0.00	1.83	-0.29	1.55	-0.03	1.52	9.0x	13.67
		FY2012	2.04	0.55	2.27	4.86	-1.09	-1.88	-2.97	1.89	-0.24	0.00	1.65	0.00	1.65	-0.27	1.38	0.00	1.38	8.9x	12.24
		FY2013	2.19	0.39	1.34	3.91	-0.95	-1.81	-2.76	1.15	-0.13	0.00	1.02	0.00	1.02	-0.19	0.83	-0.02	0.83	7.6x	6.29
		FY2014E	2.52	0.41	1.48	4.41	-0.99	-1.99	-2.98	1.43	-0.28	0.00	1.15	0.00	1.15	-0.23	0.91	-0.02	1.00	6.5x	6.47
		FY2015E	2.76	0.42	1.42	4.60	-0.99	-1.91	-2.91	1.69	-0.36	0.00	1.32	0.00	1.32	-0.27	1.05	-0.02	1.13	6.6x	7.41
		FY2016E	3.07	0.42	1.34	4.83	-1.00	-1.72	-2.71	2.11	-0.51	0.00	1.60	0.00	1.60	-0.34	1.26	-0.02	1.24	6.6x	8.23

Source: Citi Research estimates

[5] Risks — M&A, asset quality

M&A Related

While PNB and Allied Bank's merger had been initiated back in 2007, the integration process, particularly the adoption of Allied Bank's core banking system could be fraught with execution issues.

On the other hand, while majority shareholder, LT Group, has indicated no immediate plans of renewing any merger talks in the near term, the prospect of an eventual sale of PNB or entry of a strategic shareholder could trigger a rerating and upside risk to PNB.

Competitive threats

Strong competitive pressures particularly in the higher yielding SME and consumer lending could thwart management efforts to build up momentum in loan growth which we have yet to see.

Weaker asset quality

Entry into consumer and SME lending could heighten risk of rising NPLs at a time when provision cover is relatively low. Meanwhile, a property downturn could make PNB vulnerable due to its substantial pool of foreclosed property assets.

Bank Negara Indonesia

(BBNI.JK; Rp4,870; 1)

Valuation

We use DDM to value Indonesian bank stocks. Our target price for BBNI of Rp5,450 is based on a theoretical 20% payout ratio. We use 2014F as the base year but have discounted it back one year due to the flat earnings growth outlook. The growth rate is assumed to be 14.6%. Our cost of equity assumption is 16.2% based on 6% inflation, a 3.3% real rate, an equity risk premium of 6%, and beta of 1.15x.

Risks

Downside risks that could impede the stock from reaching our target price are: 1) a decline in loan yields, 2) an inability to slow operating expenses, 3) a sharp decline in trading income, and 4) renewed credit costs in the SME segment.

Bangkok Bank

(BBLf.BK; Bt184.50; 1)

Valuation

Our Bt210 target price equates to 11x 14E EPS of Bt19.1 and 1.26x 14E BV of Bt166.5/share. 1) Using a dividend discount model (DDM), assuming a 2014E ROAE of 11.9%, a DPS of Bt7.6 and cost of equity of 11.6%, gives a fair-value of Bt210. We choose a DDM-based model as a DDM approach overtly quantifies sustainable earnings and dividend growth and excess returns relative to cost of equity. This is also consistent with our P/E cycle analysis. 2) Our P/E cycle analysis, which analyzes how banks are priced through an investment cycle based on one-year forward consensus EPS estimates, suggests a +/- 1 sd range for BBL of 8.8x to 11.2x, with a mean value of 10x. On a P/B basis, our target price is at 1.26x 2014E, around its historical mean of 1.3x (+/-1sd range of 1.1-1.5x). Peak valuation in 2004 was at 1.9x P/B.

Risks

Downside risks to our investment view and target price: 1) NIM from competitive pressure on corporate lending; 2) Our analysis suggests that BBL's loan growth recovery is related to the strength of investment GDP growth. Should political uncertainty or global economic slowdown further defer investment spending, BBL's loan volumes may disappoint. 3) Weak consumer presence - BBL is the only large Thai bank without decent consumer presence (<12% of portfolio vs. 25-40% peer level), which is a high yielding margin product. Lending to corporate is also subject to intense price competition especially in large deals. 4) Delay in gov infra spending from current political struggle could drag on private investment sentiment and eventually affect BBL's potential loan growth.

RHB Capital

(RHBC.KL; RM8.41; 1)

Valuation

Our 12-month target price of RM8.87 is based on a dividend discount-model (DDM) FY14E fair value of RM8.87. Our fair value estimate assumes FY14E DPS of RM0.26 (based on 32% dividend payout), cost of equity of 11.9%, and a 9% long-term growth rate. We use DDM as a valuation tool as we believe it reflects sustainable earnings, dividend growth, and excess returns relative to cost of equity, which in turn factors in the liquidity/sentiment impact on valuations. Our fair value implies a 12-month forward P/E of 11x and P/B of 1.25x (vs. historic valuation cycle ranges: 9x-18x P/E, 1.1x-1.8x P/B).

Risks

The key risks to our investment thesis include: 1) The extent to which central bank policy measures impact loan growth, especially in consumer; 2) Ability to contain NIM pressures that have been especially apparent in consumer banking; 3) Whether the bank is able to extract synergies from its recent acquisitions to broaden and deepen its fee/non-II base, and improve cost efficiency; 4) Ability to maintain current provision levels; 5) Dividend policy/capital (given a likely conservative central bank stance on Basel 3); 6) Event catalysts such as M&A, overseas and domestically.

Philippine National Bank

(PNB.PS; P93.00; 2)

Valuation

Our modified Gordon Growth derived TP of P90 incorporates a sustainable ROE of 10.4%, which reflects PNB's continuing integration of its operations with Allied Bank. Our COE assumption of 9.9% is based on 4.6% RFR, 5% risk premium and 1.05 beta. Our TP translates to a PBV target of 1.4x, which is 0.7 std above 0.9x mean.

Risks

Potential downside risks to our target price for PNB include: (1) Execution risks relating its merger with Allied Bank; (2) Substantial foreclosed assets could be vulnerable to a property downturn; (3) sensitivity of trading portfolio to financial market volatilities reversing trading and forex losses; and, (4) strong competition from the top banks could thwart PNB's efforts to accelerate loan growth momentum. Upside risks include (1) immediate realisation of the cost savings related to the Allied Bank merger; (2) strong recovery in loan growth. Any of these risks could cause the shares to deviate from our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Bank Negara Indonesia (BBNI.JK)

Ratings and Target Price History
Fundamental Research

Analyst: Salman Ali, CFA

	Date	Rating	Target Price	Closing Price
1	19-Aug-11	*2L	*4,700.00	4,175.00
2	30-Sep-11	2L	*4,050.00	3,725.00
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	4,050.00	3,350.00
5	8-Dec-11	1	*4,550.00	3,875.00
6	4-Sep-12	1	*4,700.00	3,775.00
7	7-Mar-13	1	*5,450.00	4,800.00
8	9-May-13	*2	5,450.00	5,350.00
9	21-Aug-13	*1	*4,700.00	3,750.00
10	18-Nov-13	1	*4,950.00	4,475.00
11	2-Mar-14	1	*5,450.00	4,550.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank Negara Indonesia (BBNI.JK)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Salman Ali, CFA

	Date	Rating	Target Price	Closing Price
1	30-Aug-12	*ADD MP	-	3,675.00
2	17-Feb-14	*REM MP	-	4,470.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

RHB Capital (RHBC.KL)

Ratings and Target Price History
Fundamental Research

Analyst: Robert P Kong, CFA
Covered since November 1 2013

	Date	Rating	Target Price	Closing Price
1	24-May-11	2L	*9.50	9.24
2	29-Sep-11	2L	*7.70	7.16
3	5-Oct-11	2L	*7.15	6.59
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*2	7.15	6.64
6	4-Jan-12	2	*7.66	7.28
7	28-Feb-12	2	*8.20	7.80
8	13-Sep-12	2	*7.63	7.02
9	28-Nov-12	2	*7.75	7.50
10	29-May-13	2	*9.45	8.85
11	1-Nov-13	*1	*8.87	7.89

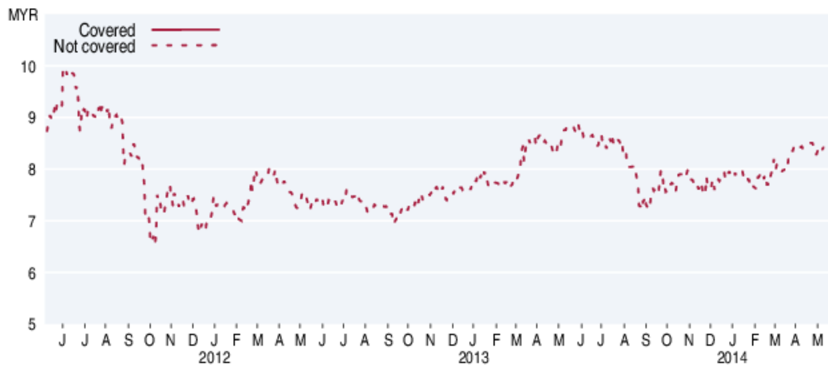
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

RHB Capital (RHBC.KL)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Robert P Kong, CFA
Covered since November 1 2013



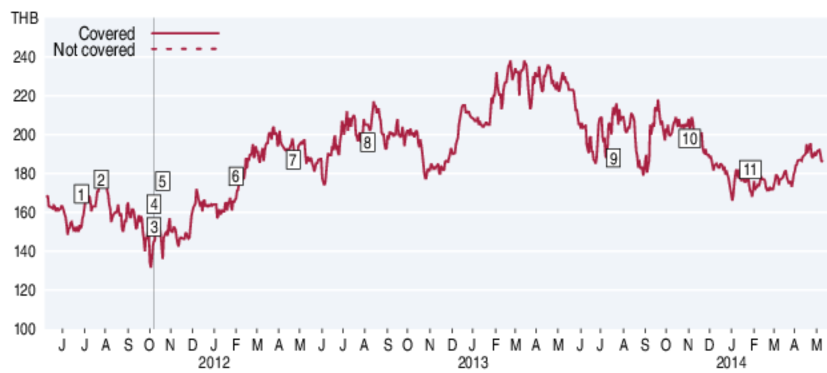
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bangkok Bank (BBLf.BK)

Ratings and Target Price History
Fundamental Research

Analyst: Kritapas Siripassorn, CFA



	Date	Rating	Target Price	Closing Price
1	28-Jun-11	*1L	185.00	152.50
2	26-Jul-11	1L	*203.00	177.00
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	203.00	145.00
5	20-Oct-11	1	*195.00	136.00
6	1-Feb-12	1	*190.00	167.00
7	22-Apr-12	*2	*200.00	198.00
8	6-Aug-12	2	*220.00	205.00
9	18-Jul-13	*1	*250.00	214.00
10	3-Nov-13	1	*240.00	208.00
11	28-Jan-14	1	*210.00	171.00

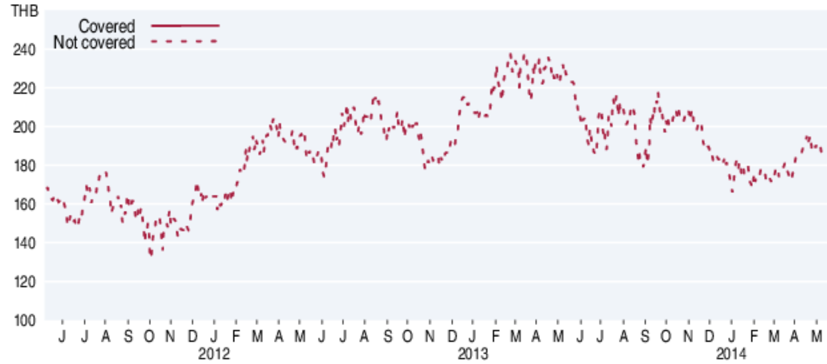
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bangkok Bank (BBLf.BK)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Kritapas Siripassorn, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Philippine National Bank (PNB.PS)

Ratings and Target Price History
Fundamental Research

Analyst: Minda A. Olonan

	Date	Rating	Target Price	Closing Price
1	24-Aug-11	2L	*58.06	53.93
2	30-Sep-11	2L	*52.65	45.86
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*1	52.65	45.17
5	4-Sep-12	*2	*71.83	68.00
6	30-Jan-13	2	*103.32	99.39
7	30-Jan-14	2	*90.00	84.80

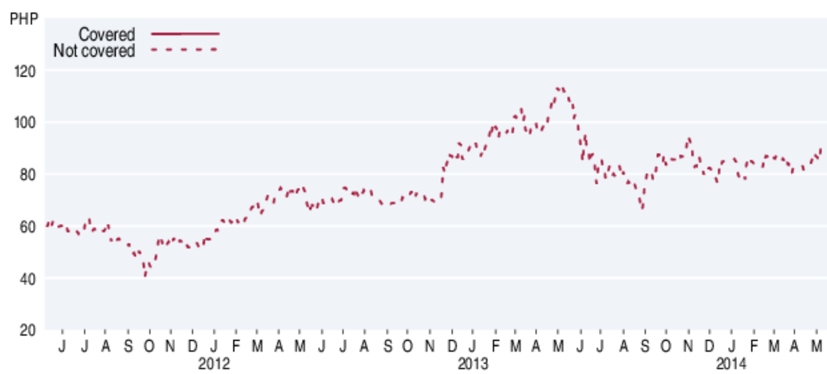
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Philippine National Bank (PNB.PS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Minda A. Olonan



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			Relative Rating		
Data current as of 31 Mar 2014	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	1%	98%	1%
% of companies in each rating category that are investment banking clients	55%	53%	45%	58%	53%	42%

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