

# Thailand Banks

## Household Debt: Not as Bad as Feared

- **Consumer-loan growth to moderate, not collapse** — The BoT has raised concerns about Thailand's growing household (HH) debt, which on the BoT's rather broad definition has jumped from 55% to 77% in the past five years. In this report we argue that the situation is not as alarming if the HH debt totals factor out 'business' loans, and that consumer-loan growth will normalize in the long run (from 20% to 12-13%) rather than collapse. *KBANK* remains our top pick (earnings do not rely on credit growth). For *SCB*, whose shares have been under pressure, we see a growth slowdown rather than significant asset-quality deterioration. Financial firms (*TISCO*, *TCAP*, *BAY*) over-dependent on auto sales will suffer, in our view.
- **BoT lumps together consumer and 'business' loans** — Based on our in-depth study, we conclude that: (1) Not all 'household debt', as described by the BoT, is for consumption; thus medium-term loan growth could be more resilient than high headline debt data suggest; (2) Some consumption-driven loans over the past two years are linked to wage hikes and the auto cycle. Growth of such loans would moderate in FY14E; (3) Drawing parallels with Malaysia, we believe that restrictive policies will eject marginal borrowers, not kill underlying demand. We therefore expect Thai banks' retail loans growth to decelerate to normalized levels, driven by slower personal and auto loans.
- **'Consumption' driven HH debt likely 20-30% lower** — If HH debt were calculated as consumption loans, exposure could be c20% lower than the BoT headline number as: 1) Commercial banks have only 80% of the consumer loans on their books compared with the HH debt attributed in the BoT's figures. The discrepancy is likely the result of personal borrowing (such as overdrafts) for business purposes in small SMEs. 2) Gov Savings Bank's and Bank of Agriculture's (the two combine for 2/3 of SFI loans) major exposures are i) lending to community professional groups (41% of GSB book) and ii) 'farmers' loans' (94% of Bank of Agri book). These exposures may show up as individual borrowings rather than working capital or business loans.
- **Long-term growth linked to income; commercial bank clients financially healthier** — Based on income data and underwriting criteria, commercial banks service mainly the top 20% households, which earn 49% of total income (vs. 41% debt share). We therefore expect sustained 12-13% pa long-term consumer loan growth, led by income growth (7-8%) plus penetration effect. We also estimate that half of households still lack access to credit due to low income levels, hence there is still room for further penetration. Nonetheless, after strong growth in FY12 and early FY13, commercial banks have become more stringent in underwriting, which is likely to slow growth near-term but limit asset quality deterioration.

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**Kritapas Siripassorn, CFA**

+66-2-788-3611

krit.siripassorn@citi.com

**Fiona Leong**

+60-3-2383-2942

fiona.leong@citi.com

**Robert P Kong, CFA**

robert.p.kong@citi.com

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[Thai Residential Property - Pre-emptive Measures to Cool Buying Frenzy](#)

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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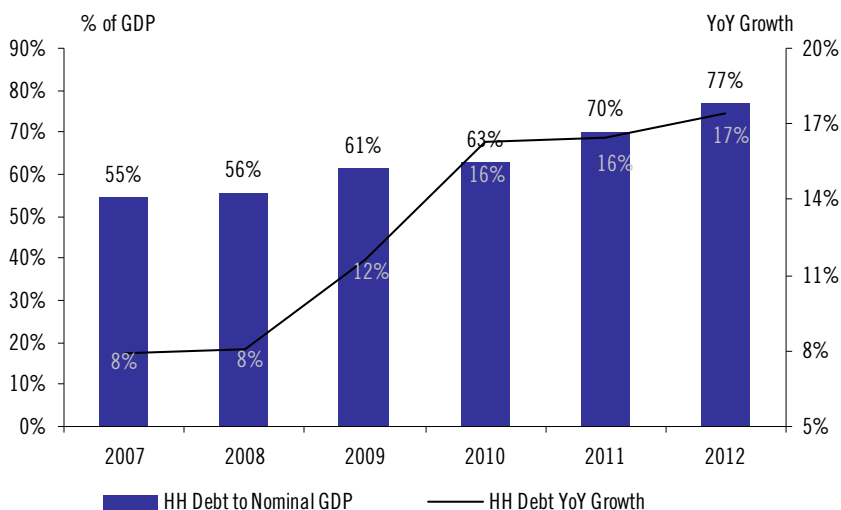
# Thai Household Debt: Big Picture

## BoT on alert as HH debt is rising

**BoT says household debt up from 55% to 77% in the past 5 years**

The Bank of Thailand (BoT) has recently been on alert about rising HH debt. Based on its measure, Thai HH debt ballooned from 55% in 2007 to 77% in 2012.

Figure 1. Thailand — Household Debt as Seen by BoT



Source: Bank of Thailand

**BoT's all-inclusive definition of HH debt:** Household debt, as defined by the BoT, requires clarification, before any comparisons can be made regionally and, indeed, before any valid conclusions can be drawn about the outlook for the Thai banking sector.

**BoT uses very inclusive definition in measuring HH debt**

"Household debt", as measured by the BoT, includes any *borrowing exposure made by individuals for any purposes*. Therefore, it includes, consumer credit (mortgages, auto loans, personal loans), business loans for single owners, farmers' loans made under individual names, brokerage exposures, and the unique rural credit system of co-op and career vocational groups. The BoT argues that 'business purpose' loans made to individuals help to support household incomes; hence, they should be included in an analysis of household debt.

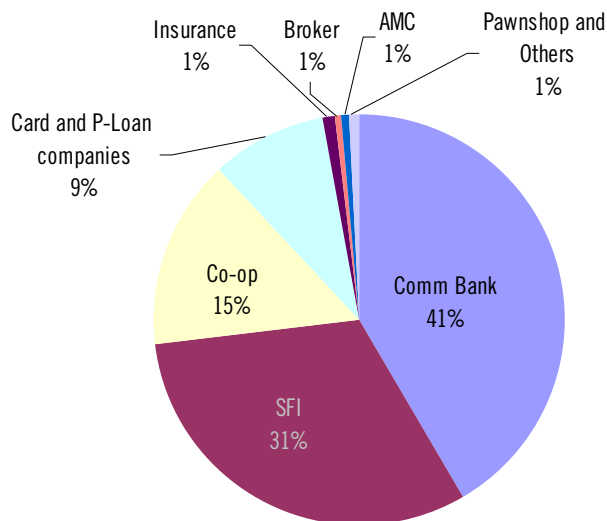
**HH debt, on a narrower definition, could be 20-30% lower than the BoT figure; yet, the trend is still on the rise**

**'Consumption' driven HH debt likely 20-30% lower:** If HH debt were calculated as consumption loans basis, exposure could be c20% lower than the BoT headline number as: 1) *Commercial banks* have only 80% of the consumer loans on their books compared with the HH debt attributed in the BoT's figures. The discrepancy is likely the result of personal borrowing (such as overdrafts) for business purposes in small SMEs. 2) *Gov Savings Bank and Bank of Agriculture* (the two combine for 2/3 of SFI loans) major exposures are i) lending to community professional group (41% of GSB book) and ii) 'farmers' loans' (94% of Bank of Agri book). These exposures may show up as individual borrowings rather than working capital or business loans.

## Provider of HH debt: Commercial banks make up only 41%

Commercial banks contribute only 41% of the BoT's total HH debt number. SFIs are the second-largest providers (31%) and, surprisingly, savings co-operatives make up a sizable contribution, larger than even card and consumer-finance companies.

Figure 2. Household Debt Providers in Thailand

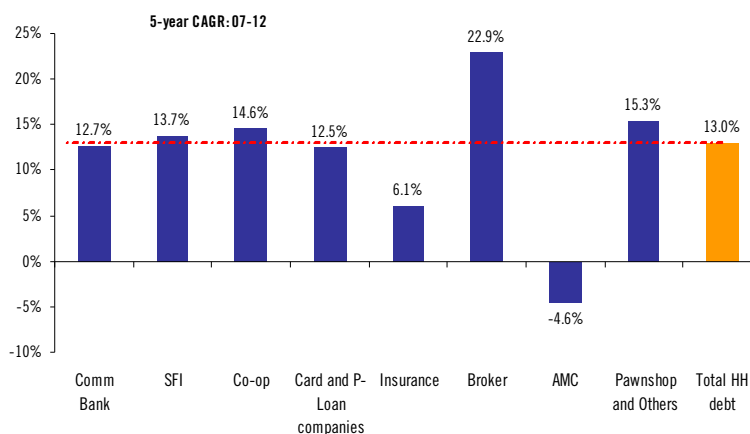


Source: Bank of Thailand

### 5-year loan CAGRs of key players are not significantly different

Defying conventional wisdom that rising HH debt is due to the aggressive growth of SFIs, the five-year CAGRs indicate **no material variance** among the key players from the average growth of 13% in overall HH debt. Commercial banks' 12.7% growth compares with 13.7% for SFIs and 14.6% for savings co-ops. Brokerage exposure is high due to larger margin loans recently, in line with market valuations. But these are loans made with strict maintenance margin (hence over-collateralized). So, this phenomenon is not a major concern, in our view.

Figure 3. No Major Difference in 5-yr CAGRs Among Key Loan Providers



Source: Bank of Thailand

Yet, each segment has flourished at different times. SFI from gov policy in 09-11; Comm bank from personal loans and auto 11-13

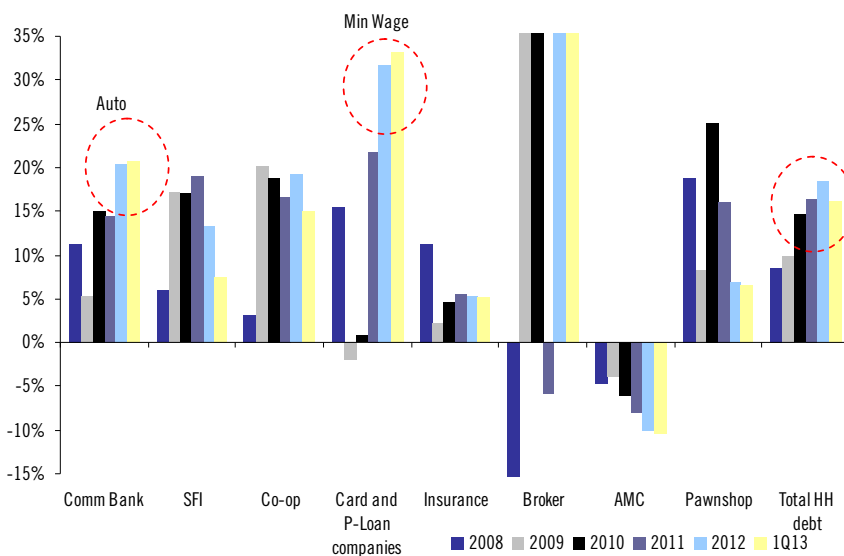
However, when we look at different phases of a cycle, loan providers have flourished at different times.

**SFI:** SFIs were aggressive in 2009-11, which was linked to a government initiative to re-finance underground loans into formal SFIs. SFIs have been relatively quiet since 2012, after their funding advantage disappeared: 1) fees have been imposed on the deposit base, as with commercial banks; 2) the government has directed SFIs to stick to their core businesses; and 3) capital pressures.

**Commercial banks:** Their accelerated growth in 2012-13 is related to the surge in auto loans after the government's 'first-car policy', which nearly doubled annual car sales in FY12 with backlog delivery into 1H13. However, due to the end of the first-car policy and normalization of car sales since late 2Q13, such strong growth is more cyclical rather than structural.

**Card, leasing, personal-loan companies:** Muted growth in 2009-10 was followed by strong growth since FY11, related to the government's push for higher minimum wages for general workers and bachelor-degree graduates, which arguably broadened the client base of these consumer loan companies. We also note a drop in the pawnshop segment, as a result.

Figure 4. Consumer Debt Bullishness: Banks, P-loans, SFIs



Source: Bank of Thailand

Only top 20% HH are 'bankable' based on commercial bank criteria. These groups earn 49% of total HH income, better than commercial bank share of HH debt of 41%

## Two-tier system explains roles of different providers

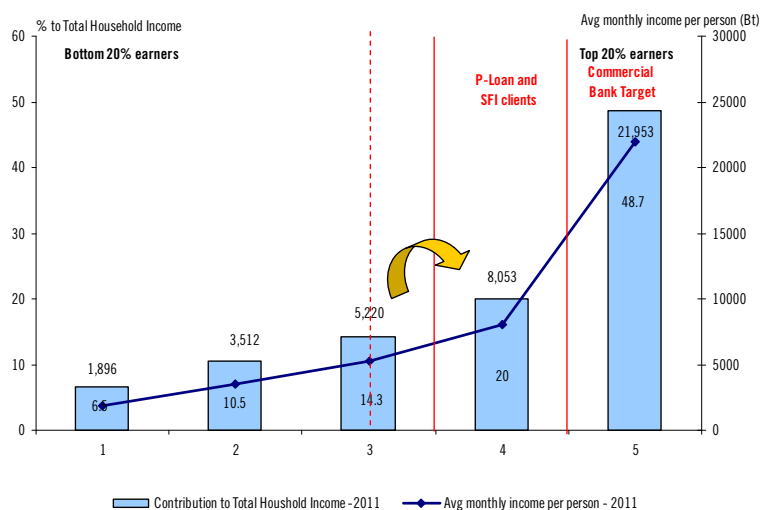
Commercial banks usually limit their clients to a debt service burden of 40-50% of monthly income (with some adjustment to job type and security factors). For card products, banks cater to only those with monthly salary of Bt15K and above. Based on HH income data, we estimate that only the top 20% of Thailand's population is viewed by commercial banks as 'bankable'. The 'top 20%' earn about 49% of total household income, which explains why commercial banks' share in total HH debt is around 41%.

**Personal loan companies and SFIs** usually deal with clients ranging from minimum wage earners to the commercial banks' threshold. However, P-loan companies tend to lose the edge with high-income clients as charges tend to be less competitive.

However, as the government significantly increased minimum wages in 2011-12 (by an average of 40%), we expect wage earners, who under the old wage system were in the third quintile income of 5-6K/month, may enter the 9K/month bracket, which explains the surge in the personal loan segment recently.

**SFI** clients are more specific. Govt Savings Bank is more about rural development and local professional groups. Govt Housing is focused on low-end housing. Bank of Agri is dedicated to financing farmers.

Figure 5. Income Distribution and Target Market; Avg Income Growth Around 10% p.a.

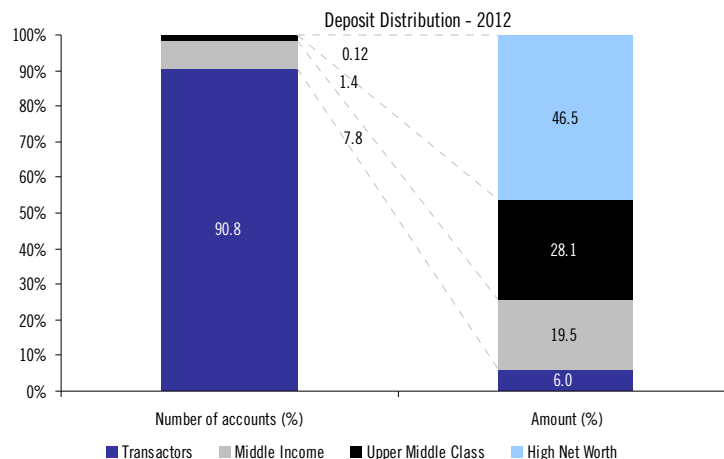


Source: NSO (National Statistics Office)

**Lack of savings draws marginal 'bankable' clients to borrow. This explains why personal loans surged after minimum wage hikes**

Another characteristic of Thai households is the lack of savings at the low end. Based on banking system data, the bottom 91% of depositors make up just 6% of system deposits and have deposit balances of less than Bt100K. 8% control 20% of the deposits and the top 1.5% control 72%. This partly explains why the lower middle income / lower income earners are most leveraged.

Figure 6. Top 9% Accounts for 94% of Deposits, Top 100K for 47% of Deposits

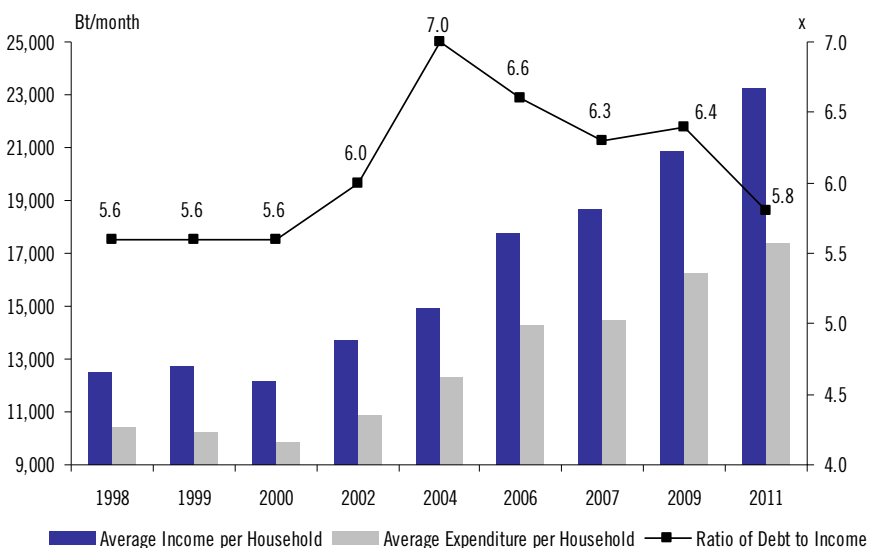


Source: Bank of Thailand

Note: We define 'transactors' as those leaving deposit balance <100K; Middle income for Bt100K-1m; Upper Middle Bt1m-10m; HNw for >10m

Lastly, based on a household survey, HH debt to income remains 6-7 months since 2004 with a slight decline in late 2011 (arguably this ratio should rise in FY2012-13). We see the trend as manageable.

Figure 7. Thailand — Household Income, Expense, and Indebtedness



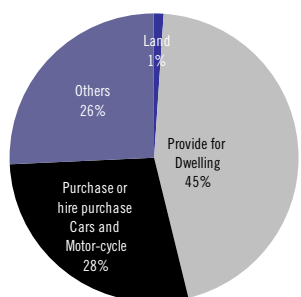
Source: NSO

We discuss below the key characteristics and risks of each player / segment in this rising HH debt phenomena and conclude our report by drawing parallels with Malaysia.

## Commercial banks: Gov policy and risk strategy

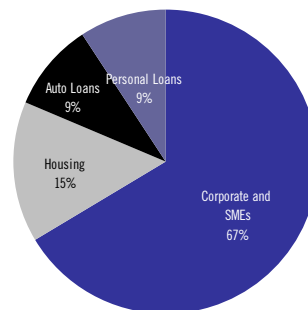
Commercial banks' consumer loans make up 34% of total loans. Their breakdown is 45% mortgages, 28% auto, and 26% cards and other personal loans.

Figure 8. Commercial Bank Lending for Consumption



Source: Bank of Thailand

Figure 9. Commercial Banks: 34% for Consumer Loans



Source: Bank of Thailand

### Mortgages rarely a bubble

**Mortgages:** Despite talk of a 'hot' property market, mortgage growth looks reasonable. After its peak in 2Q10, when growth hit 17-18%, it has moderated towards 10-13%. This is partly attributable to slow transfer of property and construction delays after the flood. With strong pre-sales, we expect a growth rate of 12-14% in the near future.

**Personal and other consumer loans:** They surged in FY11-12 on rising incomes and post-flood household spending. However, growth has moderated recently from near-30% to 19%.

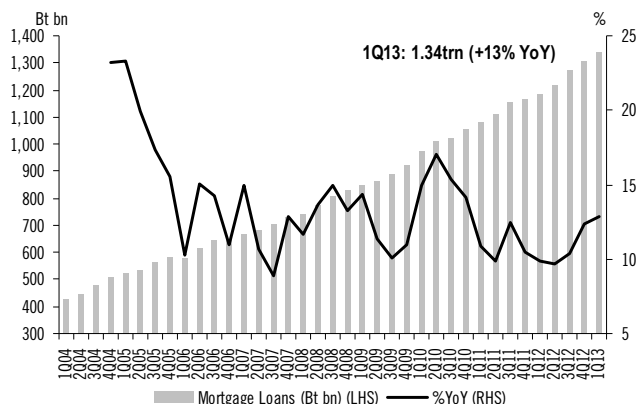
### Banks keen to climb the risk curve

In addition to normal spending and income effects, personal loans have also been boosted by banks' strategies to climb the risk curve to improve the yield of its portfolio by introducing auto-refinancing products (i.e., personal loans with cars as collateral) and home equity. After strong growth initially, we expect medium-term growth of 10-12%, in line with income growth, for this type of high yield general-purpose consumer loans.

### Auto super-cycle driven by first-car policy

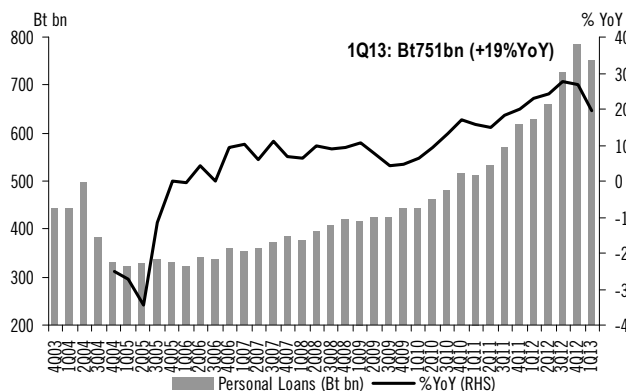
**Auto loans:** Stronger than normal growth in consumer loans of commercial banks in the past two years is attributable to 30% pa growth in auto loans, riding strong car sales since FY10. Consumer loan growth reached a peak in FY12, when car sales touched 1.4m units vs. average annual sales of 700K in the past. However, after the end of the first-car policy, we expect car sales to drop back to 800-900K pa, which should support 10-12% annual growth in new-car auto loans.

Figure 10. Mortgage – Dependent on Housing Cycle



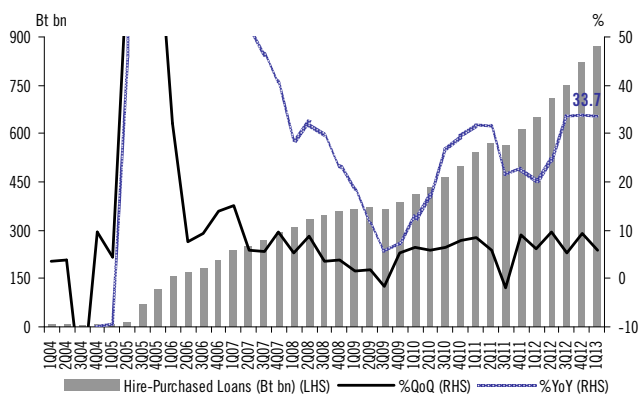
Source: Bank of Thailand

Figure 11. Personal and other Consumer Loans – Slowing Down



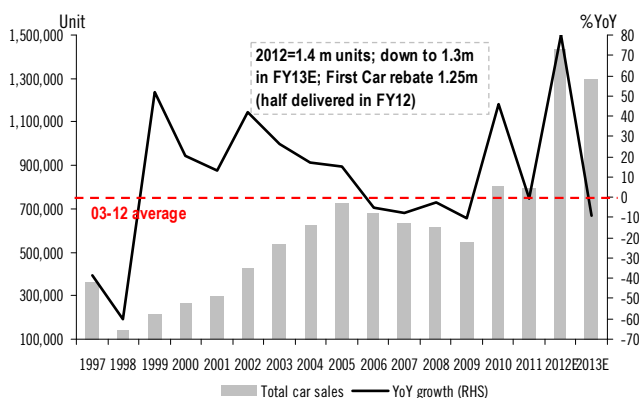
Source: Bank of Thailand

Figure 12. Hire Purchase – Highest Growth Driven by Car Sales Boom in Past 3 Years



Source: Bank of Thailand

Figure 13. Auto Sales Cycle



Source: Toyota

Expecting slower growth from commercial banks going forward

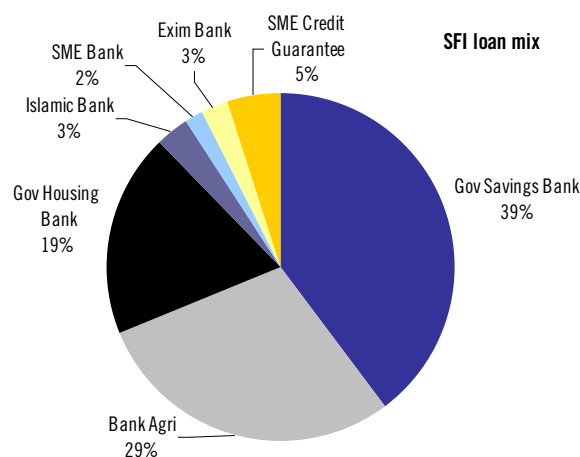
**Bottom line: cyclical push plus banks' own "risk-up" strategy should moderate loan growth in 2H13:** A breakdown by segment suggests a rather cyclical push to auto loans by the auto cycle. Mortgage growth looks reasonable. Personal loan growth is a consequence of banks' strategy to ride the risk curve during a period of strong consumer confidence, which should moderate naturally when banks tighten their debt servicing criteria and given the recent weakening of consumer confidence after lackluster economic growth.

## SFIs in HH debt: Time to break away from the stereotype

**Big-3 SFIs combined account for 87% of total SFI loans**

SFIs serve specific government policies. Key players are *Government Savings Bank* (GSB, the largest SFI, focused on rural savings and rural development), *Bank of Agriculture and Cooperatives* (BAAC, second largest SFI, focused on financing the agricultural sector), and *Government Housing Bank* (GHB, focused on financing homes for the low-income segment). The three banks combined account for 87% of the total SFI loans.

Figure 14. SFI Loans



Source: Ministry of Finance

**While top SFIs may lend to individuals, the bulk of GSB and BAAC exposure to individuals is for career/business objectives**

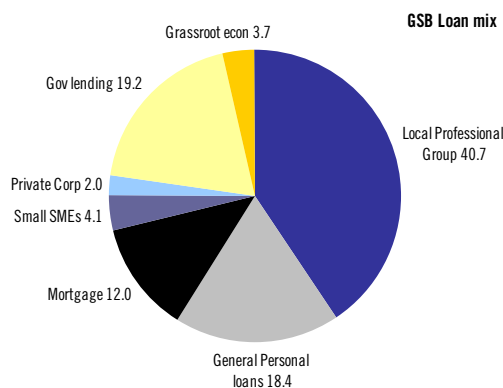
While the general public may hold the view that SFIs' credit policy is rather lax and driven by the government to support rural consumption, a closer look reveals that consumption loans make up only a small portion of SFI lending.

Only GHB's loans are clearly consumer-driven, with mortgages making up the bulk of its book.

GSB's portfolio is rather mixed with c30% consumer loans (mortgage + general purpose loans), and 25% government, corporate, and SME loans. The rest of its loan book is for 'grassroots economy' initiatives (i.e. microfinance; 4% of loans) and financing of local professional groups (41% of loans). While these loans may be extended to individuals, they look more like business loans for the informal sector rather than typical consumption loans.

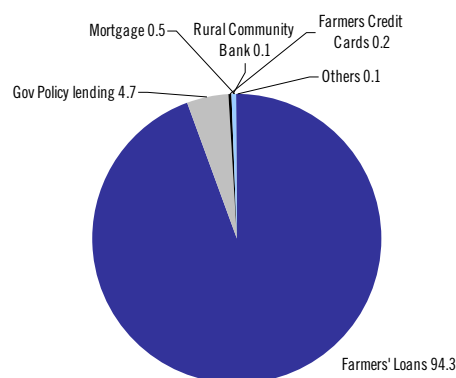
For BAAC the mix is mostly farmers' loans with <1% for consumption (mortgages, farmers' credit cards).

Figure 15. Gov Savings Bank: Loans for 'business' to individuals and micro-finance like operations



Source: Gov Savings Bank (Annual report FY2011)

Figure 16. BAAC Mainly Offers Farmer Loans



Source: Bank of Agriculture and Coop (March 2013 Report)

#### Differentiate HH debt from SFI loans

#### Bottom line: rising SFI loans...yes... but are they really consumer loans?

While SFIs continue to play a significant role in BoT's 'household' debt, a deep-dive into their portfolios suggests that the issue is with the definition rather than risk from a consumption and financial discipline perspective.

We still see GSB and BAAC as financiers of 'un-bankable' sectors of the economy (farmers, low-income groups) rather than financiers of irresponsible consumption. In that regard, we think the SFI portfolio is more about 'business risk' (i.e. success of farmers' crop or local professional group products, etc) rather than leverage per se.

#### Are co-ops a new kind of shadow banking?

Co-ops contribute 15% to HH debt, much higher than in other countries (MY 3%)

Savings co-operatives may appear as a surprise contributor to HH debt, contributing 15% of total household debt, nearly double the household debt originated by card and personal-loan companies. Compared with other countries, Thai co-op contribution to household debt appears rather high.

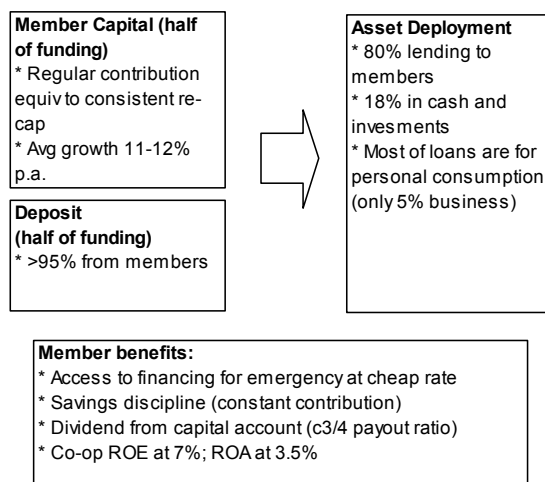
Key characters: Member as part owners, borrowers, and depositors to co-ops

**Savings co-operatives** are established by members in similar society (community, workplace, occupation). The objectives of savings co-ops are to 1) promote savings and 2) provide financial needs to its member. Savings co-ops were first established in 1949. Members are usually required to make regular payments on their capital account with the co-op and have an option to place deposits. Most co-ops also lend to its members at lower rate, with credit limit associated with the capital account and salary. Co-ops have generated c3% ROA due to their large capital content in funding (which pay 0% interest to the capital account but pays out dividend).

1412 co-ops, 2.76m members, Bt1.47trn assets in FY12

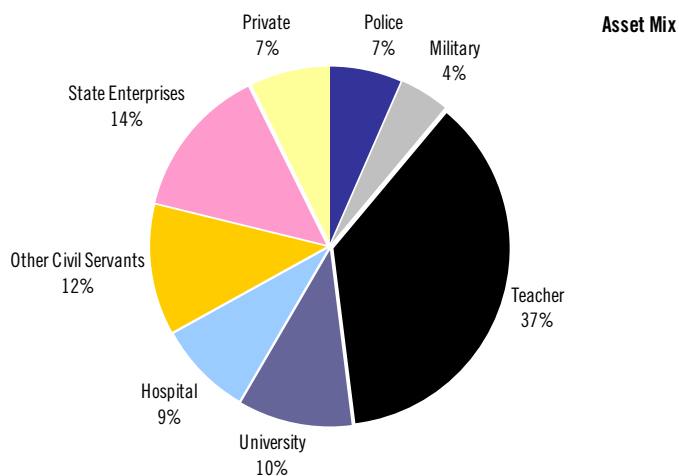
As of FY12, there were 1,412 co-operatives with 2.76m members and Bt1.47trn assets. 75% of co-op members are civil-servants (79% of loans). The biggest savings co-op group is the teachers (37% of co-op assets; 25% of system members).

Figure 17. How Co-ops Work?



Source: Citi Research

Figure 18. Civil Servants Make up 79% of Coop Assets; Teacher Group is the Largest



Source: Ministry of Agriculture and Coop

Figure 19. Key Co-op Stats

% Total	Number of coops	Number of Member	Capital size	Profit size	Asset size
<b>Civil Servants</b>	<b>54.8</b>	<b>75.1</b>	<b>77.0</b>	<b>79.9</b>	<b>78.8</b>
Police	8.9	7.3	6.8	9.0	6.8
Military	12.7	8.3	4.7	5.1	4.2
<b>Teacher</b>	<b>8.1</b>	<b>26.9</b>	<b>34.9</b>	<b>34.0</b>	<b>37.1</b>
University	2.4	4.1	6.7	7.5	10.2
Hospital	10.9	8.6	9.6	9.6	8.5
Other Civil Servants	11.8	19.8	14.4	14.8	11.9
<b>State Enterprises</b>	<b>3.8</b>	<b>8.7</b>	<b>15.7</b>	<b>14.1</b>	<b>14.2</b>
<b>Private</b>	<b>41.4</b>	<b>16.2</b>	<b>7.3</b>	<b>5.9</b>	<b>7.1</b>

Source: Ministry of Agriculture and Coop

Most of the assets are personal loans to members; funded half by members' capital, half by deposits (mostly members')

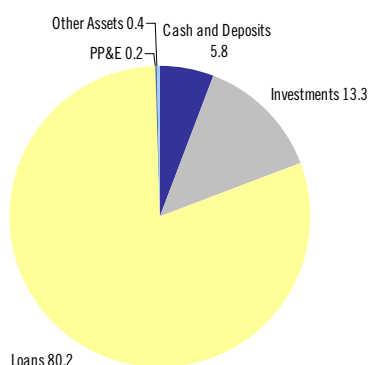
#### Co-op asset and funding: Self-recap system

**Asset deployment:** 80% of co-op assets are lending (mostly to its members), with excess funding placed in cash and short-term investments.

**Loan mix:** Co-op lending to its members are mostly for consumption (c88%).

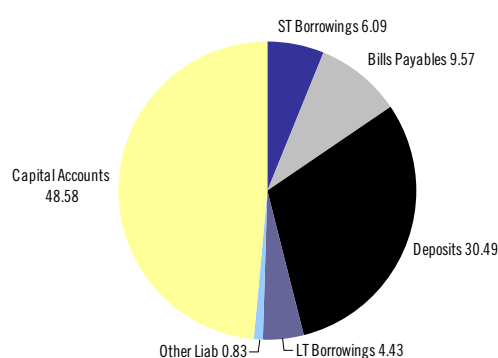
**Funding by members' capital:** Half of the funding comes from 'capital accounts' where co-op members make regular contributions. This makes the growth on the funding side very stable at 11-12% pa and explains how co-op grows over time. The majority of deposits in co-ops come from their own members. With a huge capital base, solvency buffer could be huge and asset quality leans largely on the mutual trust system.

Figure 20. 80% of Assets are Loans to Members



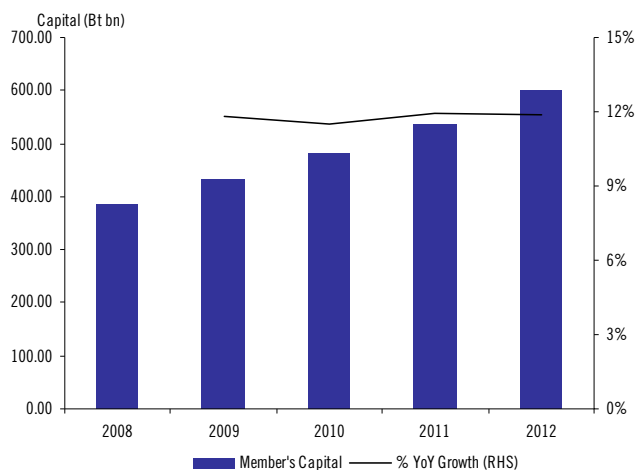
Source: Ministry of Agriculture and Coop

Figure 21. Half-funding from 'Capital Accounts' (i.e., equity)



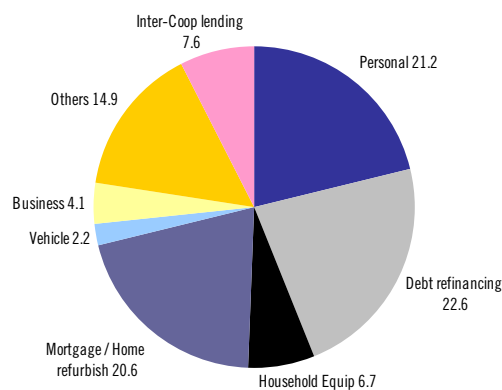
Source: Ministry of Agriculture and Coop

**Figure 22. System of recurring capital call means steady growth of capital account and assets**



Source: Ministry of Agriculture and Coop

**Figure 23. Most of the lending is for members' personal needs (88%)**



Source: Ministry of Agriculture and Coop

**Co-op structure of self-recap means asset growth is constrained by membership growth, which depends on underlying career groups**

**Bottom line: Self-recap model will help co-ops grow:** Unique to savings co-ops is their funding models and members' capital contributions. Therefore, unless we see a contraction in membership (i.e., from shrinking civil servant numbers), co-op asset and lending will most likely continue to grow. While we agree that 3% reported ROA of these co-ops is a rather inflated number of their true profitability due to 0% accounting cost on members' capital, which supports half of funding, the popularity of co-ops as an emergency source of financing among civil servants will not change in the medium term, in our view.

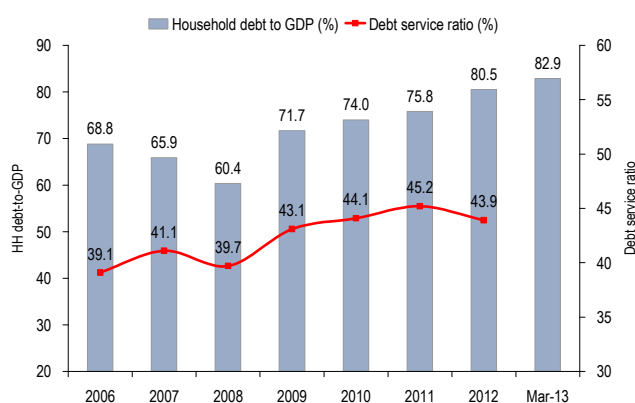
## Malaysia Case Study

Fiona Leung

In this section we draw parallels with Malaysia, where household debt has been on the rise since 2009 despite several Bank Negara (BNM) initiatives. (Link to full report: [Malaysia Banks - Targeted Curbs on Household Leverage Will Likely Continue](#)).

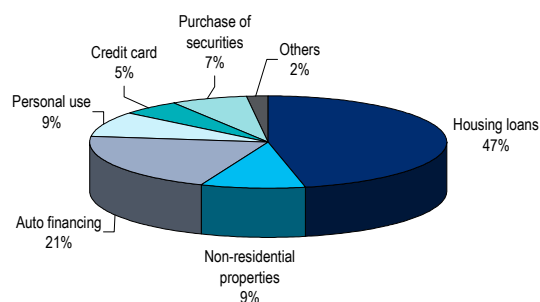
Malaysia's household debt has seen a similar rise from 60% of GDP in 2009 to 83% recently. Like Thailand, the majority of household debt is related to mortgage financing, followed by car purchases. However, one salient difference is that none of Malaysia's measures of HH debt is associated with business loans or agricultural working capital financing.

Figure 24. Malaysia – Household Debt to GDP



Source: BNM and Citi Research

Figure 25. Malaysia – Composition of Household Debt, 2012



Source: BNM and Citi Research

Instead of broad-based policies to halt household debt, BNM has adopted a rather sensible "*targeted policy*" to serve the objectives of orderly appreciation in property prices, curbing speculative purchases. Meanwhile, BNM also recognizes the need to balance growth, access to credit, and ensure that genuine home-buyers have access to credit.

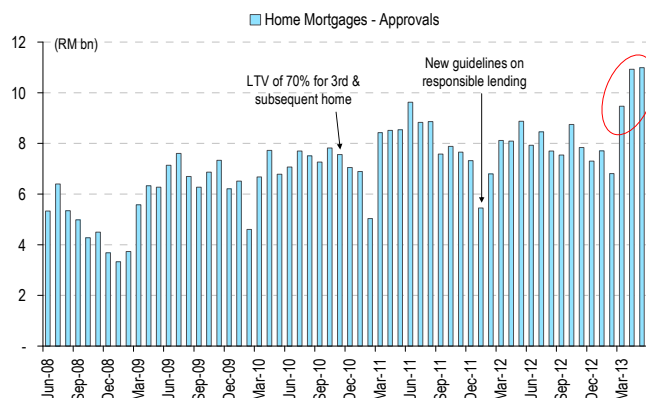
Figure 26. Malaysia: Macro-prudential Measures to Curb Excessive Household Leverage

Date	Measures	Objective/Rationale
Nov-10	<b>Loan-to-value of 70% for third and subsequent home mortgages</b>	<ul style="list-style-type: none"> <li>Pre-emptive measure to curb speculative buying in property market</li> </ul>
Jan-11	Annual government service tax of RM50 per credit card; <b>higher risk weights of 100% for home mortgage with LTV&lt;90%</b> and personal loans with tenure of more than 5 years	<ul style="list-style-type: none"> <li>To curb growth in non-asset backed consumer financing (credit cards &amp; 100% risk weights for personal loans &gt;5 years)</li> <li>To curb over-leverage in lending for residential property</li> </ul>
Mar-11	New credit card rules: minimum income RM24,000 p.a. (prev: RM18k p.a.); <b>maximum 2 cards from two issuers with max credit limit &gt;2x monthly income</b>	<ul style="list-style-type: none"> <li>To curb growth in non-asset backed consumer financing, particularly among lower-income group</li> </ul>
Dec-11	<b>LTV of 60% for housing loans by non-individuals</b> ; concept paper on Guidelines on Risk-Informed Pricing for Retail Loans/Financing to ensure pricing of financing products commensurate with risks assumed	<ul style="list-style-type: none"> <li>To curb speculative buying in property market by closing loophole of borrowers using alternative route to circumvent LTV of 70% for third &amp; subsequent home mortgages</li> </ul>
Jan-12	New guidelines on responsible lending for consumer financing (credit assessment based on net income); <b>debt service ratio (DSR) of civil servants capped at 60%</b>	<ul style="list-style-type: none"> <li>Board measure to curb excessive household leverage</li> <li>To curb excessive indebtedness among civil servants</li> <li>Instill responsible lending practices</li> </ul>
Sep-12	Effective 1 Jan 2013, RPGT for disposal of properties within 1st and 2nd year raised to 15% from 10%, within 3rd to 5th year raised to 10% from 5%	<ul style="list-style-type: none"> <li>To curb speculative buying in property market</li> </ul>
Jul-13	<b>Maximum tenure of 10 years financing for personal loans; maximum tenure of 35 years financing for residential and non-residential mortgages</b> ; and prohibition on offering of pre-approved personal financing products. New measures apply for all credit providers, including credit cooperatives, MBSB and AEON Credit  In addition, key credit providers are required to observe prudent DSR in their credit assessment. Cap of 60% DSR for borrowers who are vulnerable to rising costs and unexpected adverse events.	<ul style="list-style-type: none"> <li>To curb growth in lending for purchase of property and unsecured personal loans</li> <li>To rein in growth in personal financing among non-bank credit providers</li> <li>Reinforce need for responsible lending practices.</li> </ul>

Source: BNM and Citi Research

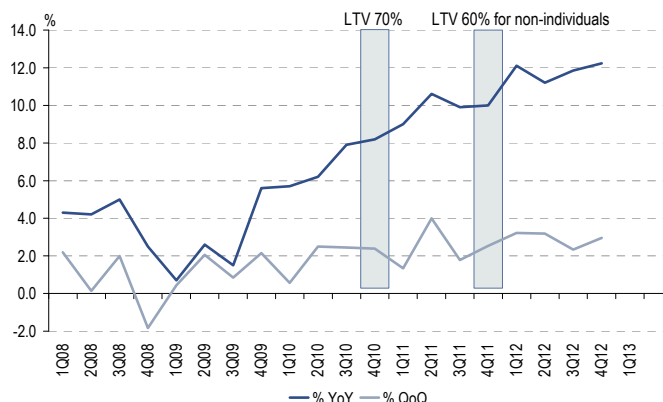
**Market reaction to policy:** One takeaway from Malaysia's case is that the market tends to react strongly to policies near-term as consumers adopt a 'wait and see' approach. However, as demand for underlying assets is real and income can support debt servicing, we usually see growth returning to a normal pace.

Figure 27. Loan Approvals – Residential Property, Monthly Trend



Source: BNM and Citi Research

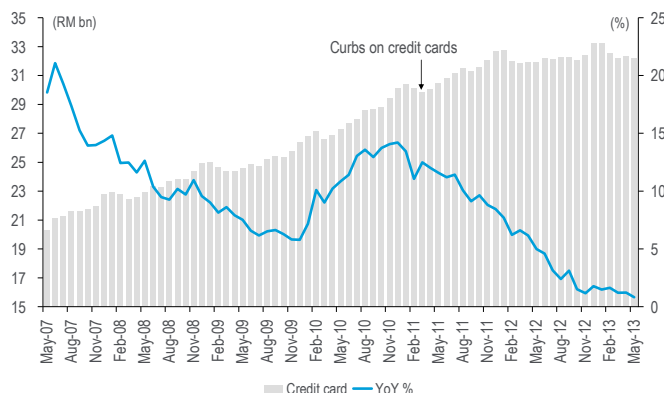
Figure 28. Malaysia Housing Index



Source: NAPIC and Citi Research

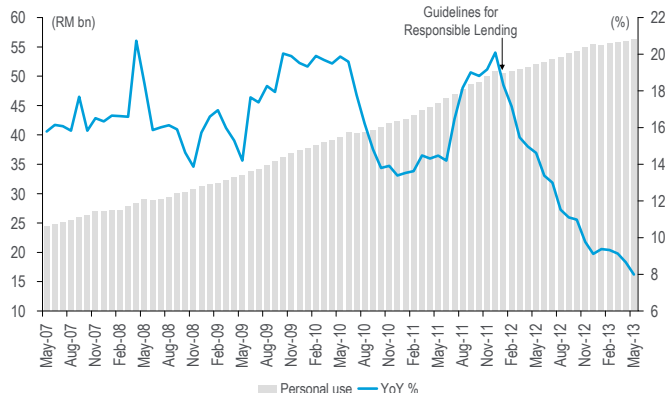
In the case of Malaysia, we noticed a sharper reaction to policies targeted at excessive use of card and personal loans, which have capped the number of cards and credit lines, as well as subsequently introduced a cap on debt servicing ratio. Another consequence of tightening on the banking sector is the rising use of non-bank FIs.

Figure 29. Banking System – Credit Card Outstanding



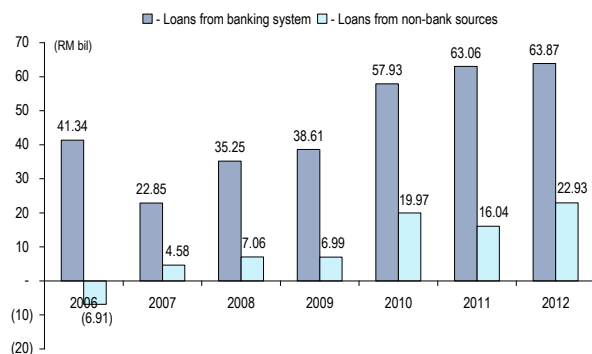
Source: BNM and Citi Research

Figure 30. Banking System – Personal Loans



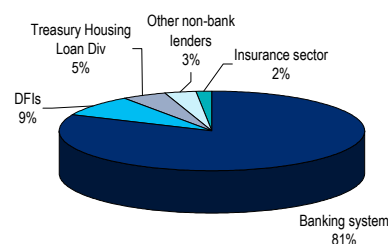
Source: BNM and Citi Research

Figure 31. Growth in HH Loans – Banking System vs. Non-banks



Source: BNM and Citi Research

Figure 32. Malaysia – Credit Providers to Household Sector, 2012



Source: BNM and Citi Research

\* DFIs = Development Financial Institutions

\* Coop and building society grouped as 'Other Non Bank lenders'

Despite series of 'targeted' policies, we note that growth in the banking system remains decent and just a few % lower than in the pre-policy periods. We believe that eventually real demand will drive long-term growth and 'marginal' borrowers will be screened out without causing a collapse in real demand due to regulatory policy responses.

**Figure 33. Malaysia Household Leverage and growth trend of banks vs non-banks – growth drop only mildly with targeted policy trimming excess borrowers**

(RM bn)	2006	2007	2008	2009	2010	2011	2012
Households financial debts	395.47	422.90	465.20	510.80	588.70	667.80	754.60
- Loans from banking system	334.81	357.66	392.91	431.52	489.45	552.52	616.39
- Loans from non-bank sources	60.65	65.24	72.29	79.28	99.25	115.28	138.21
Banking system loans	593.01	644.24	726.55	783.51	883.29	1,003.50	1,108.01
- Loans to Household sector	334.81	357.66	392.91	431.52	489.45	552.52	616.39
- Loans to non-HH sectors	258.20	286.57	333.64	351.99	393.83	450.99	491.61
<b>Household debt to GDP ratio (%)</b>	<b>68.8</b>	<b>65.9</b>	<b>60.4</b>	<b>71.7</b>	<b>74.0</b>	<b>75.8</b>	<b>80.5</b>

**YoY Change**

Households financial debts	9.5%	6.9%	10.0%	9.8%	15.3%	13.4%	13.0%
- Loans from banking system	14.1%	6.8%	9.9%	9.8%	13.4%	12.9%	11.6%
- Loans from non-bank sources	-10.2%	7.6%	10.8%	9.7%	25.2%	16.2%	19.9%
Banking system loans	6.3%	8.6%	12.8%	7.8%	12.7%	13.6%	10.4%
- Loans to Household sector	14.1%	6.8%	9.9%	9.8%	13.4%	12.9%	11.6%
- Loans to non-HH sectors	-2.4%	11.0%	16.4%	5.5%	11.9%	14.5%	9.0%

Source: BNM and Citi Research

## What Does All this Mean for Thai Banks?

Assuming reasonable and not draconian policy responses to rising household debt, we expect consumer loan growth to moderate (from 20% recently to low to mid-teens in the long-term). We still see demand in auto and properties, largely real demand, driven by rising incomes. Therefore, policies would affect 'marginal' borrowers who are on a tight budget or have excess debt.

In that regard, we note some policies that are relevant in the Thai context.

### ■ Lower LTV for second or third mortgages

- *Current policy:* The BoT introduced lower LTV for all mortgages in FY10 but still kept the max LTV at 90-95%. Banks may lend at higher LTV but it will be subject to capital penalty in the form of higher risk weight.

### ■ Max credit limit and min monthly payment or max tenure of personal loans

- *Current policy:* The BoT introduced in 2004-5 a credit limit of 5x monthly income and 10% minimum monthly payment (up from 5%).

### ■ Cap on debt-servicing ratio

- *Current policy:* No direct policy, but commercial banks monitor this ratio closely, based on credit bureau data, which include banks and SFIs but may not contain co-op exposure. Most banks estimate 'aggregate' debt service based on credit bureau data and try to cap debt service of borrowers to 40-45% after inclusion of all consumer debt (mortgages, auto, personal loans, cards).

### Likely response by banks: Self-restrained approach

After the BoT expressed concerns about household debt, some banks have voluntarily adhered to strict underwriting or have imposed a lower LTV on non-first-home buyers. Banks have informed us that they tend to take a firmer line on debt servicing ratio as the economic outlook gets bleaker.

(Full note by property analyst: [Thai Residential Property - Pre-emptive Measures to Cool Buying Frenzy](#))

As a result, we expect **slower growth in retail loans** from the 1Q13 level of 20% YoY growth, towards c14% by year end and 12-13% in the medium term. Growth should remain slightly above 7-8% avg income growth in the top 40% earners, reflecting both 'penetration' and 'wage growth' effects.

**Auto loan deceleration could be the sharpest:** We expect auto loan growth to moderate most significantly, from 30% to 15-18% by year end and 10-12% by FY14. Mortgage growth is likely to sustain 10-14% growth (largely dependent on underwriting stringency and borrowers' profile). Personal loan growth should drop from 19% to 10-12% as consumer sentiment turns more cautious and post-flood / wage hike impact fades. Banks' higher scrutiny on debt servicing should eventually cap personal loan growth at the income growth level plus slight penetration effect.

## Stock implications: KBANK best positioned

We expect retail-driven banks' (BAY, SCB, TISCO, TCAP) growth to moderate, especially in auto loans, in FY14. This would reflect 'demand advanced' for new cars and 'substitution effect' of used cars by the new first-car policy.

We expect sector loan growth to moderate from 14% in FY11 and 13% in FY12 to 11% in FY13 and 10% in FY14. Despite slower growth, retail loan growth will likely remain slightly faster than business loan growth, which we expect to be in line with nominal GDP at c8-9% for FY14, with probably 1-2% additions if government projects can be executed faster than anticipated.

**KBANK looks best positioned; SCB should experience manageable headwinds on auto growth and used car NPLs given relative size to book**

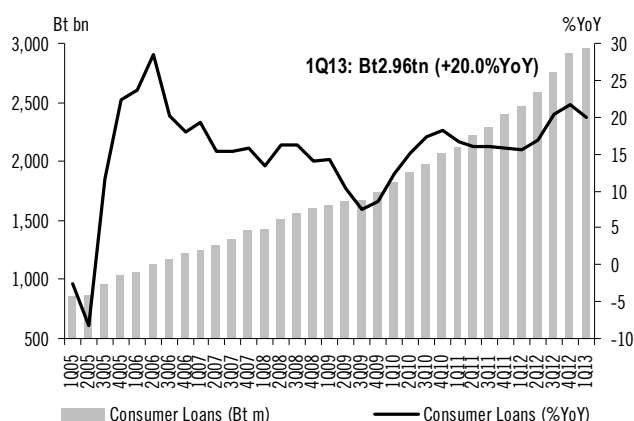
Among the banks, we see **KBANK** as best positioned in this retail moderation phase as its earnings have been less dependent on credit growth and more on execution-driven non-II (fee and insurance). While **SCB** may take some hit due to its exposure to the auto market, the impact of both growth slowdown and used car NPL should be manageable (12% of portfolio is auto; 3.5% 'net' exposure to used cars). Among retail small banks, we rate **BAY** and **TCAP** as Neutral. **TISCO** is rated a Sell (most exposed to used car as % total book).

Figure 34. TISCO, TCAP, BAY highest effective exposure to high yield auto segment

	Auto as % Total loan portfolio	Used car and Personal loans related to cars as % of Total Auto loans	Overall book 'effective' exposure to high risk auto loans
BAY	26	54	14.0
TCAP	55	27	14.9
TISCO	70	25 (19 Used; 6 P-loans)	17.5
SCB	12	30	3.5
KBANK	6	6	0.4

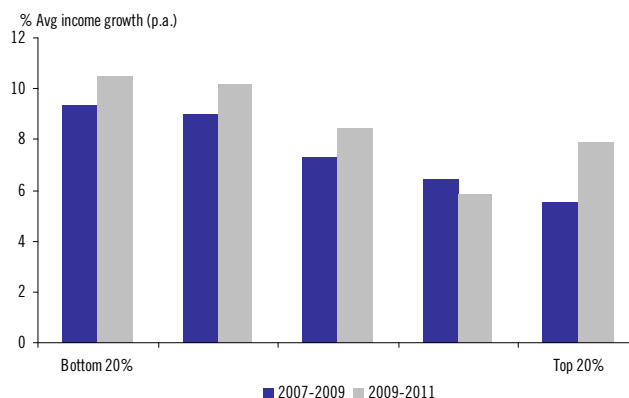
Source: Citi Research

Figure 35. Comm Bank — Retail growth



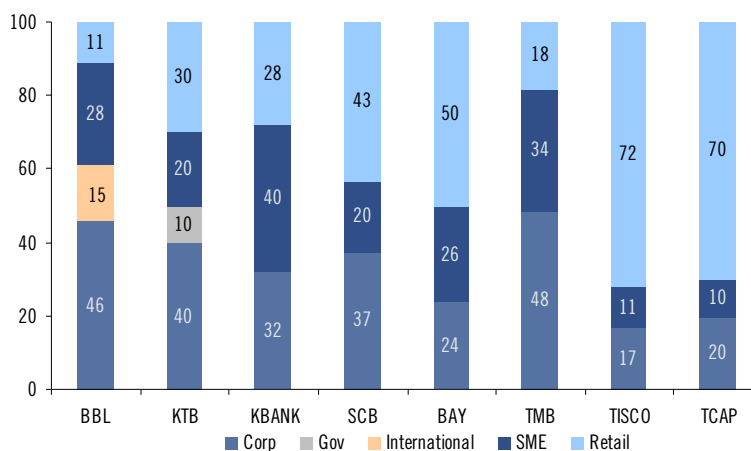
Source: Bank of Thailand

Figure 36. Wage growth



Source: NSO

Figure 37. Portfolio mix: TISCO, TCAP, BAY, SCB Highest Exposure to Retail



Source: Company Reports and Citi Research Estimates

Figure 38. Thailand Banks — Valuation Snapshot\*

Stock, Rating, RIC	Price (Bt)	TP (Bt)	ETR (%)	Mkt Cap (Bt b)	Profit (Bt m)		EPS (Bt)		EPS (%YoY)		P/E (x)		NBV/S (Bt)		P/NBV (x)		Net DPS (Bt)		Yield (%)		ROAE (%)	
					12A	13E	12A	13E	12A	13E	12A	13E	12A	13E	12A	13E	12A	13E	12A	13E	12A	13E
BBL, Buy, BBLf.BK	211.0	250.0	22.2	402.8	37,788	41,251	19.8	21.6	14.4	9.2	10.7	9.8	154.4	167.4	1.4	1.3	7.9	8.6	3.8	4.1	13.3	13.4
KBANK, Buy, KBANf.BK	193.5	252.0	32.6	463.1	42,359	49,942	17.7	20.9	20.2	17.9	10.9	9.3	90.5	105.1	2.1	1.8	4.5	6.3	2.3	3.2	21.1	21.3
SCB, Buy, SCB.BK	165.0	203.0	26.1	560.8	49,800	56,270	14.7	16.6	23.8	13.0	11.3	10.0	72.4	83.2	2.3	2.0	5.1	5.8	3.1	3.5	21.7	21.3
KTB, Buy, KTB.BK	19.0	24.0	31.0	265.5	30,936	36,905	2.2	2.6	16.6	19.3	8.6	7.2	14.4	16.0	1.3	1.2	0.9	1.1	4.7	5.6	16.1	17.4
BAY, Neutral, BAY.BK	37.3	39.0	7.6	226.3	16,437	21,004	2.7	3.5	12.4	27.8	13.8	10.8	20.3	22.4	1.8	1.7	1.1	1.4	2.9	3.7	13.9	16.2
TMB, Sell, TMB.BK	2.5	2.1	-14.4	109.0	5,375	7,897	0.1	0.2	235	46.9	20.3	13.8	1.4	1.5	1.8	1.6	0.0	0.1	1.6	2.4	9.1	12.4
TISCO, Sell, TISCO.BK	42.5	40.0	-0.6	34.0	4,520	4,856	5.6	6.1	10.9	7.4	7.5	7.0	27.0	30.7	1.6	1.4	2.3	2.4	5.3	5.7	22.7	21.0
TCAP, Neutral, TCAP.BK	38.0	39.0	6.5	48.6	8,432	6,353	6.6	5.0	53.8	-24.7	5.8	7.6	39.1	42.6	1.0	0.9	1.5	1.5	3.8	3.9	18.0	12.2

\*Priced as of July 24th, 2013.

Source: Company data, Citi Research estimates

## Appendix A-1

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