

Thai Banks

How badly could the NPL cycle affect Thai banks?

Equities

Thailand
Banks, Ex-S&L

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Discounting a prolonged NPL cycle and low interest rate scenario

To account for the SME and retail loan NPL cycle, we now assume 10% and 5% of the big banks' SME and retail loans turn NPL during 2015-17, respectively, and raise our credit cost assumptions by 10-40bp. Besides factoring in one more policy rate cut from 1.50% to 1.25%, we now factor in a delay in the interest hike cycle from 2016 to 2017. This could lead to NIM contraction in both 2015 and 2016. Overall, we cut our sector EPS estimates by 9%/15%/15% in 2015/2016/2017 and lower our price targets 5-17%, respectively.

When will NPLs peak?

We believe the NPL cycle started in Q413 and we think the big four banks' NPL ratios might peak in late 2016. This would coincide with borrowers who took out car loans starting in 2012 under the government-initiated first car purchase scheme finishing their loan repayments. Although credit costs, in our view, are likely to fall in 2017, we think they will remain high as the big banks try to rebuild NPL coverage which we expect to fall from 150% in 2014 to 110% by 2017. The smaller banks are somewhat ahead in the NPL cycle and in a better position as credit costs could keep falling in 2016-17E while we expect their NPL coverage to rise from 80% to 100% by 2017.

No near-term catalysts, but glimmers on the horizon

While it will take time for NPLs to peak, we think banks' share prices should bottom out sooner than expected. Based on our study of periods of financial distress around the world, banks' share prices usually bottom three to four quarters head of the NPL peak. Moreover, we believe ROE will stabilise in 2016 and recover in 2017. This should put an end to the P/BV de-rating. In addition, even in a distressed earnings scenario, we don't foresee cash call risks and expect the big banks to generate 9-10% pa in BV growth with decent dividend yields and more upside to payout ratios in the long term.

Valuations look attractive

Although we don't see any clear catalysts in the near term, we think valuations appear attractive after the SET's Banking Sector Index corrected almost 30% from the recent peak in Q414 and 20% YTD. Banks are now trading at a historical trough P/BV (ex-2009). We take this opportunity to reiterate our buy ratings on the big banks whose share prices are under significant pressure. Our top pick is Kasikornbank.

Changes to ratings, price targets and EPS

		Price (Bt)	Rating		Price target		2015E EPS		2016E EPS		2017E EPS	
			Old	New	Old	New	Old	New	Old	New	Old	New
Kasikornbank	KBAN.BK	178.00	Buy	Buy	245.00	218.00	19.60	17.39	22.54	18.81	27.12	22.54
Siam Commercial Bank	SCB.BK	152.00	Buy	Buy	190.00	170.00	15.59	13.90	17.43	14.89	19.94	16.60
Krung Thai Bank	KTB.BK	17.50	Buy	Buy	24.00	21.00	2.20	2.09	2.59	2.10	3.16	2.60
Bangkok Bank	BBL.BK	166.00	Buy	Buy	207.00	186.00	19.24	17.29	21.05	17.95	23.72	20.24
TMB Bank	TMB.BK	2.34	Buy	Buy	2.90	2.70	0.20	0.19	0.25	0.22	0.30	0.29
TISCO Financial Group	TISC.BK	42.50	Buy	Buy	50.00	50.00	5.80	5.59	6.29	6.02	7.04	6.70
Thanachart Capital	TCAP.BK	31.25	Neutral	Neutral	36.00	34.00	4.66	4.57	4.79	4.69	5.22	4.88
Kiatnakin Phatra Financial	KKP.BK	30.50	Neutral	Neutral	38.50	32.00	3.63	3.37	4.60	3.97	5.49	4.68
Bank of Ayudhya	BAY.BK	31.75	Sell	Sell	34.00	30.00	2.60	2.42	3.03	2.63	3.72	3.13

Above data as of 31 July 2015.
Source: Reuters, UBS estimates

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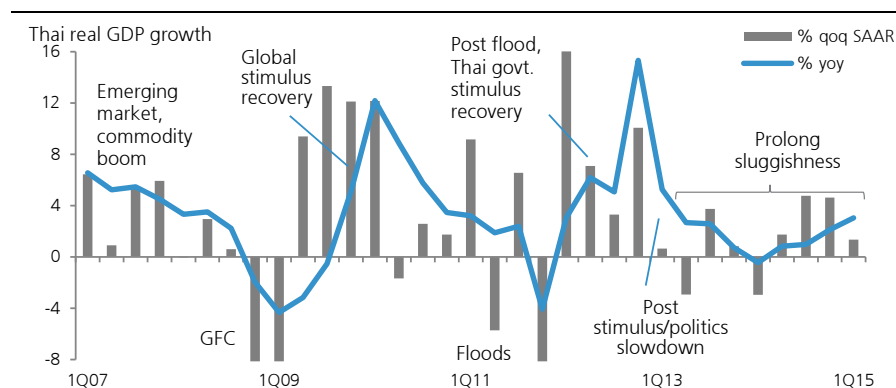
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Adjusting for a prolonged NPL cycle

Our latest assessment of the NPL situation

Over the past decade Thai banks have not experienced a major NPL cycle as the Thai economy has always recovered quickly after major credit risk events such as the global financial crisis (GFC) and the major flooding in 2011. However, this time it is different. The slowdown started in H213 and the economy has not had the chance to fully recover due to series of negative events including the political problems that caused the shutdown of Bangkok in 2014, the export slump, weak commodity prices and the drought in 2015. Moreover, high household debt levels have also made the situation worse. This, in our view, is the longest economic slowdown in the past decade.

Figure 1: Thailand real GDP growth



Source: CEIC, Bloomberg, UBS estimates

Against this backdrop, we believe NPL formation will continue to rise and likely hit a record high since 1997. Nevertheless, unlike the 1997 crisis which began on the corporate side, this time asset quality deterioration started in the retail sector, especially in the mid-to-low-income segments. Household leverage has risen sharply in the past five years, aggravated by unproductive government stimulus programmes, ie, the first-car purchase and rice pledging schemes launched in 2012. Our latest assessment indicates the NPL problem has spread to the business segment, particularly small companies and the self-employed, but not yet to corporate customers as their financial position remains strong and leverage is not excessive. Although this NPL cycle, in our view, has been a cumulative problem since Q413, however NPL picked up noticeably in Q115 as banks had helped customer loans from turning NPL by offering restructuring and/or rescheduling.

How do we discount this in our forecasts?

We have talked to commercial banks and assessed their loan exposure to derive our risk assessment. According to KBANK's latest announcement, around 12% of total SME customers as of Q115 have requested financial assistance from the bank. Affected customers were not limited to those with Special Mention Loans (SMLs) or Troubled Debt Restructure loans (TDR), but included those with normal loans under loan rescheduling/restructuring programmes. Clearly this is a vulnerable group. To factor in this risk to our forecasts, we use KBANK as a benchmark and assume roughly 10% of banks' SME loans turn NPL, but in the next three years (2015-17E) instead of all at once. Meanwhile we believe retail

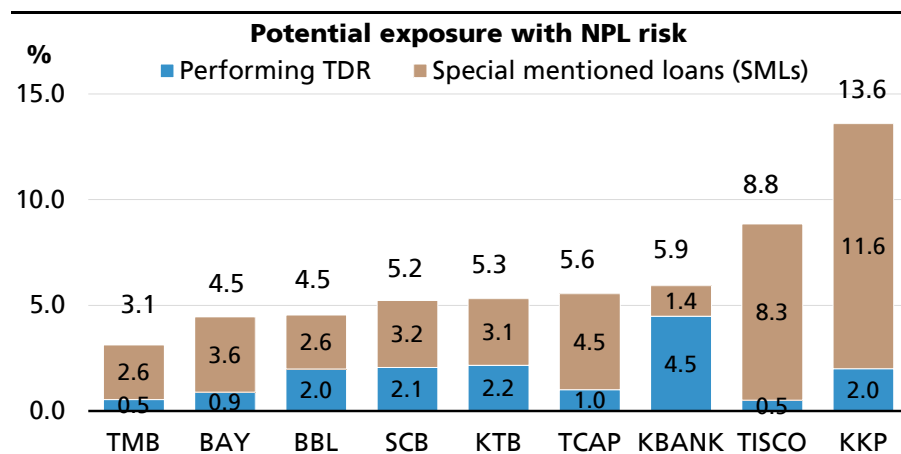
loans, mainly mortgages and personal loans, are also at risk but the default rate should be less than SME loans. We therefore assume 5% of the big banks' retail portfolios (non-auto) also turn NPL during 2015-17. This implies total new NPL formation for big banks of around Bt280bn or 4% of total loans as of Q115. This should largely cover vulnerable customers with SML and TDR. (Please see Figure 3.) Note that the Bt280bn does not include loans to Sahaviriya Steel Industries (SSI) by SCB and KTB of around Bt40bn that we also assume become NPLs in 2015.

Figure 2: Potential default risk of SME and retail loans

	Loan exposure		Default rate assumption		Total loans at risk	Total loans (As of Q115)	Loans at risk
	SME	Retail (non-auto)	SME	Retail (non-auto)			
	(%)	(%)	10%	5%	(%)	(Bt bn)	(Bt bn)
KBANK	37	22	3.7	1.1	4.8	1,570	76
SCB	19	34	1.9	1.7	3.6	1,820	66
KTB	20	36	2.0	1.8	3.8	1,983	76
BBL	30	13	3.0	0.6	3.6	1,793	65
Total					4.0	7,166	284

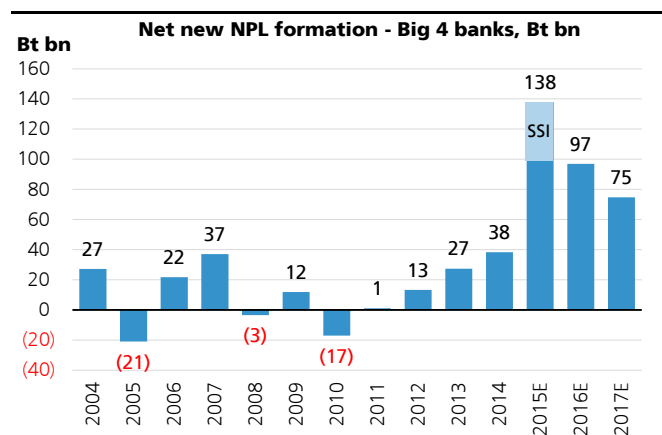
Source: Company data, UBS estimates

Figure 3: Troubled debt restructuring and SMLs



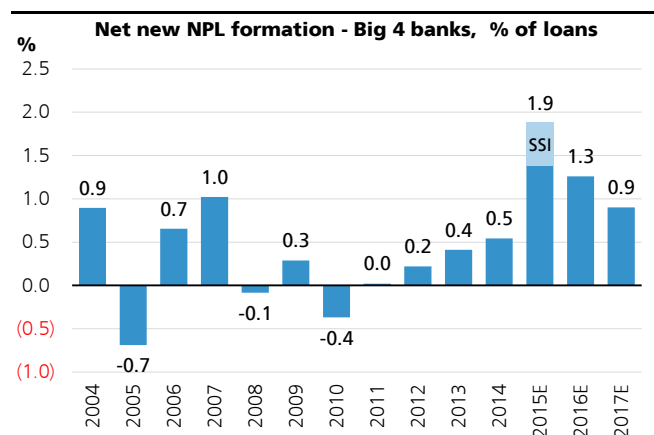
Source: Company data, UBS estimates; Data as of Q115.

Figure 4: Estimated big four banks' net new NPL formation



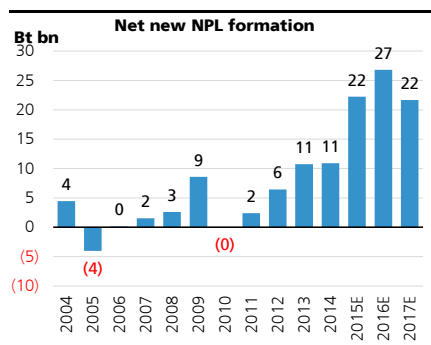
Source: Company data; UBS estimates

Figure 5: Estimated big four banks' net new NPL formation as a % of loans



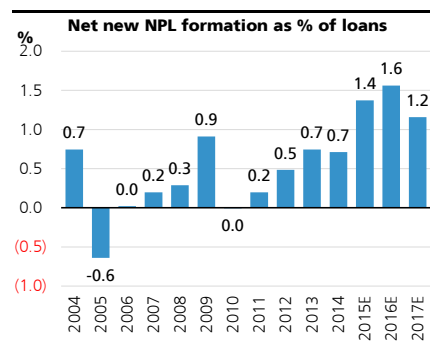
Source: Company data; UBS estimates

Figure 6: KBANK's net new NPLs...



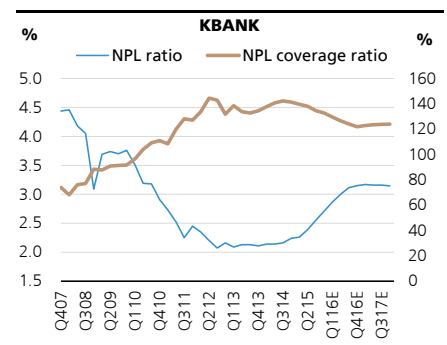
Source: Company data; UBS estimates

Figure 7: ...and as % of loans



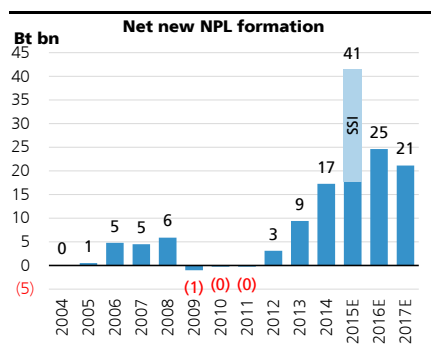
Source: Company data; UBS estimates

Figure 8: NPL ratio vs. NPL coverage



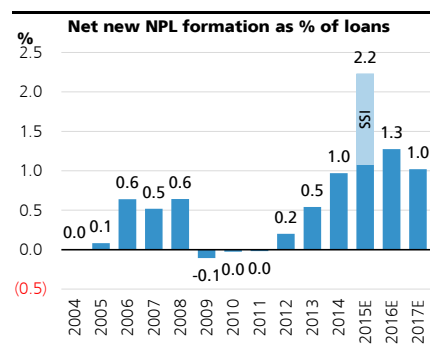
Source: Company data; UBS estimates

Figure 9: SCB's net new NPLs...



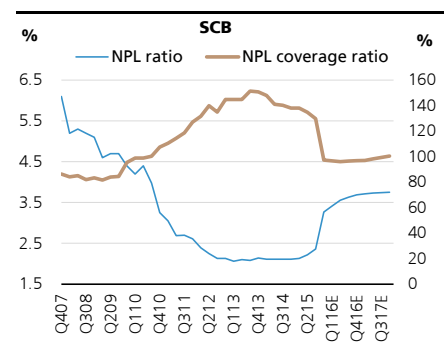
Source: Company data; UBS estimates

Figure 10: ...and as % of loans



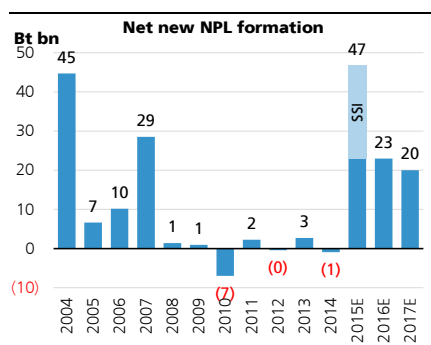
Source: Company data; UBS estimates

Figure 11: NPL ratio vs. NPL coverage



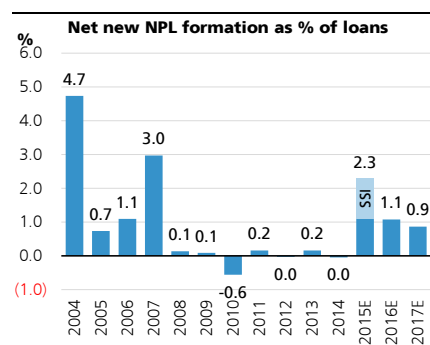
Source: Company data; UBS estimates

Figure 12: KTB's net new NPLs...



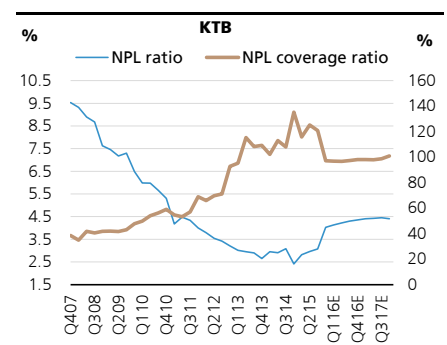
Source: Company data; UBS estimates

Figure 13: ...and as % of loans



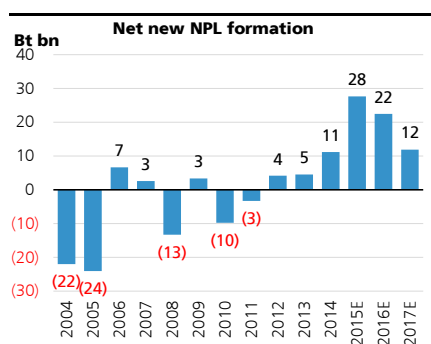
Source: Company data; UBS estimates

Figure 14: NPL ratio vs. NPL coverage



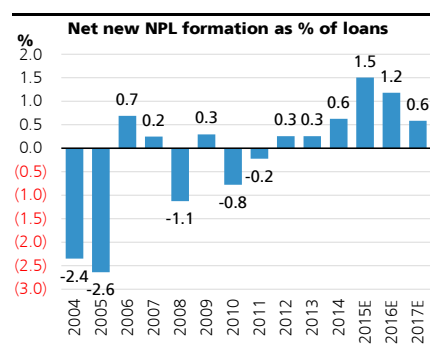
Source: Company data; UBS estimates

Figure 15: BBL's net new NPLs...



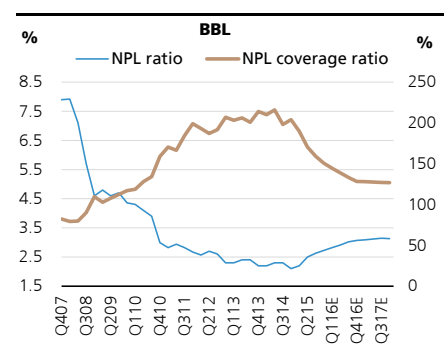
Source: Company data; UBS estimates

Figure 16: ...and as % of loans



Source: Company data; UBS estimates

Figure 17: NPL ratio vs. NPL coverage

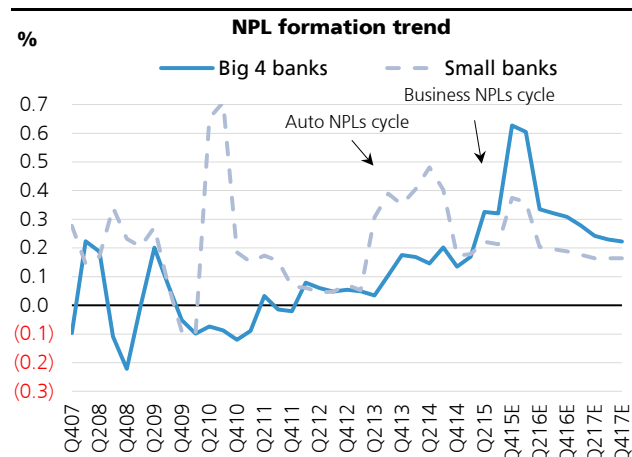


Source: Company data; UBS estimates

When will NPLs peak?

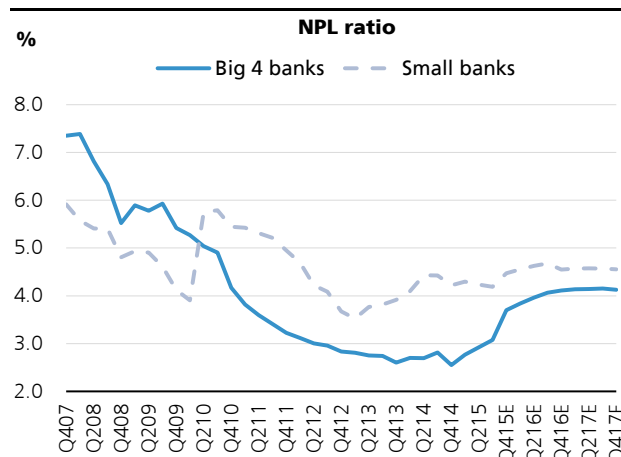
Based on our assumptions above, we expect NPL formation (excluding SSI) to peak in H216 and for the NPL ratio to level off in late 2016 or early 2017. Asset quality deterioration should be higher at the big banks, as new NPL formation for SME and retail loans (ex-autos) continues to rise. We believe small banks are in a better position in this NPL cycle as auto loan NPLs should have peaked in 2014 and their exposure to SMEs is much lower. However, small banks' NPL ratio may not come down as quickly as might be expected as loans will likely contract significantly in 2015 and remain weak in 2016.

Figure 18: Big banks' NPL formation to hit a record level



Source: Company data; UBS estimates

Figure 19: NPL ratio could potentially peak in late 2016

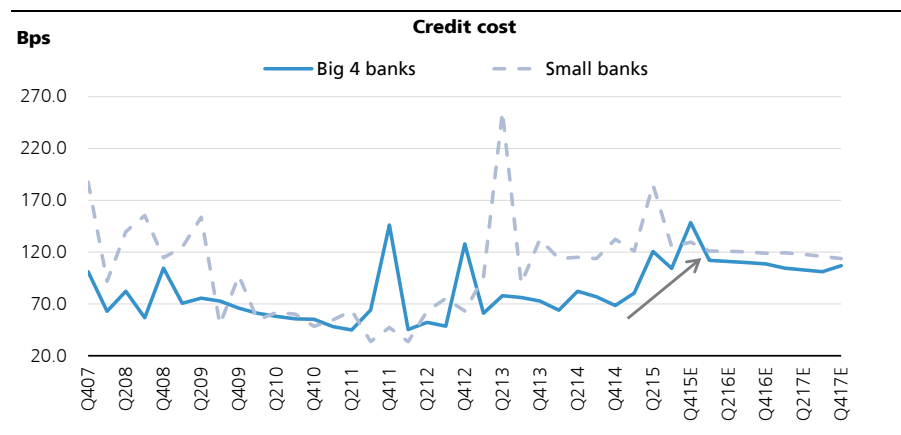


Source: Company data; UBS estimates

Factoring in higher credit costs

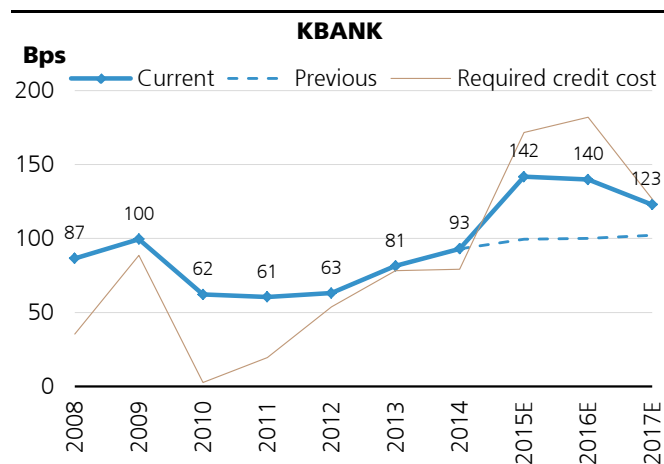
We raise our 2015-17 credit cost forecasts for the big banks significantly to reflect rising NPL formation and the banks' attempts to alleviate the adverse impact on NPL coverage ratios. We raise our estimates for KBANK's credit costs by 42bp/40bp/26bp for 2015/2016/2017, SCB's by 43bp/42bp/34bp, KTB's by 42bp/34bp/22bp, and BBL's by 16bp/11bp/8bp, respectively.

Figure 20: Increasing credit cost assumptions



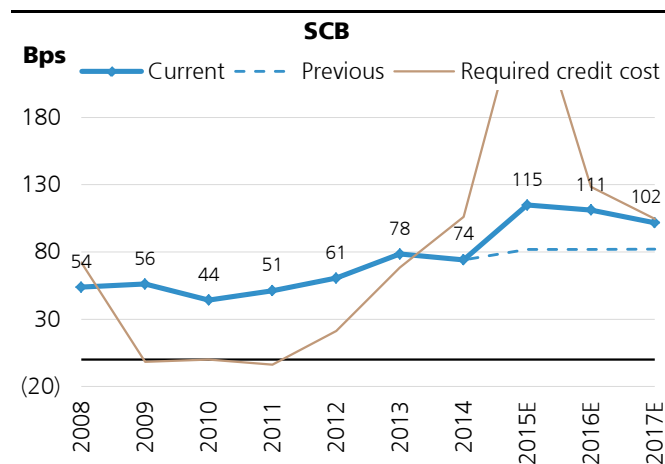
Source: Company data; UBS estimates

Figure 21: KBANK credit cost outlook



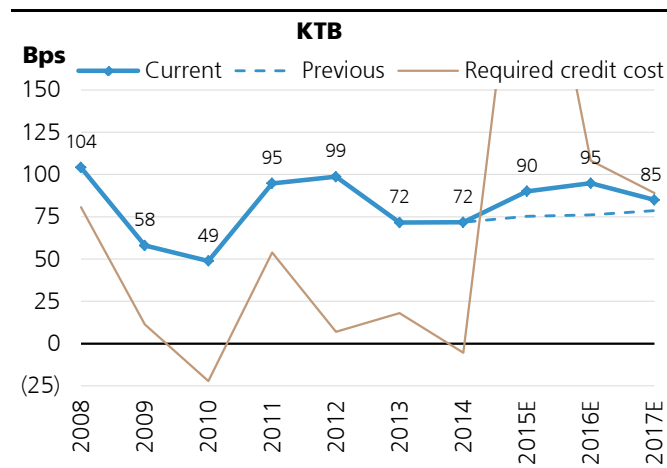
Source: Company data; UBS estimate

Figure 22: SCB credit cost outlook



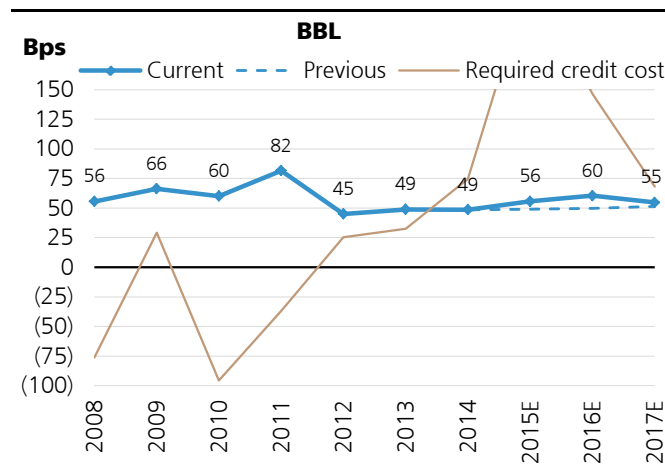
Source: Company data; UBS estimate

Figure 23: KTB credit cost outlook



Source: Company data; UBS estimate

Figure 24: BBL credit cost outlook

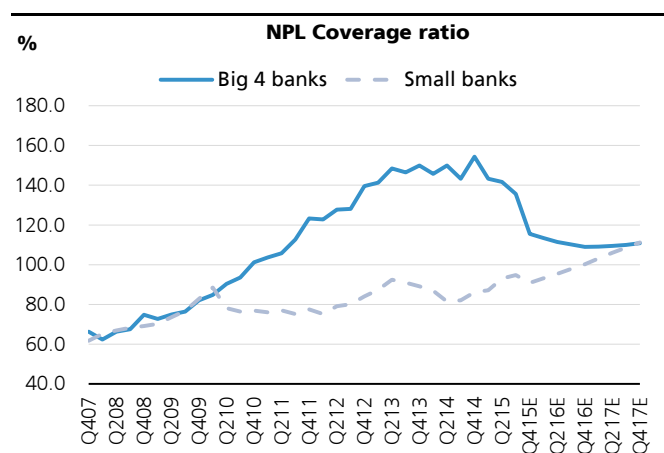


Source: Company data; UBS estimate

In the past decade, the big four banks provided more provision expenses than were required to cover NPL formation. The charts above show that the required credit costs needed to sustain NPL coverage ratios from the prior year were much lower than the credit costs the banks booked pre-2014. This led to a rise in the NPL coverage ratio over the past 10 years.

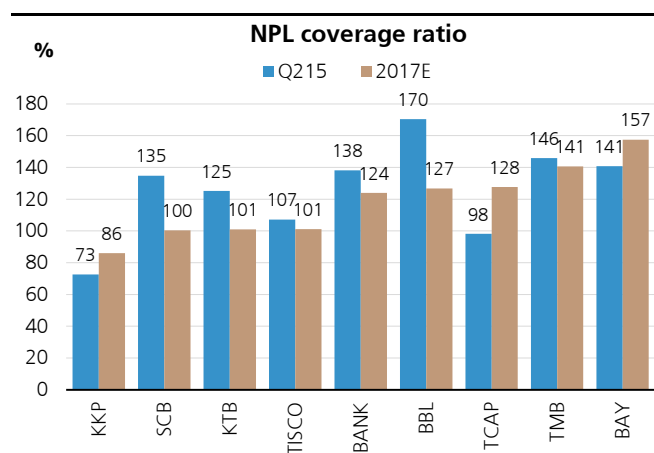
However during 2015-17E, although we expect credit costs to rise noticeably, it may not be enough to sustain NPL coverage ratios at the same level due to rising NPL formation. We expect the big banks' NPL coverage ratio to fall from an average of almost 150% in 2014 to 110% in 2017E. On the contrary, as NPL formation declines for the small banks, we expect NPL coverage ratio to rise as we believe they will continue to book additional provision buffers to strengthen their balance sheets. We expect small banks' NPL coverage ratio to improve from 80% in 2014 to over 100% by 2017.

Figure 25: Big bank's coverage ratio to drop; small banks to rise



Source: Company data; UBS estimates

Figure 26: NPL coverage ratio outlook

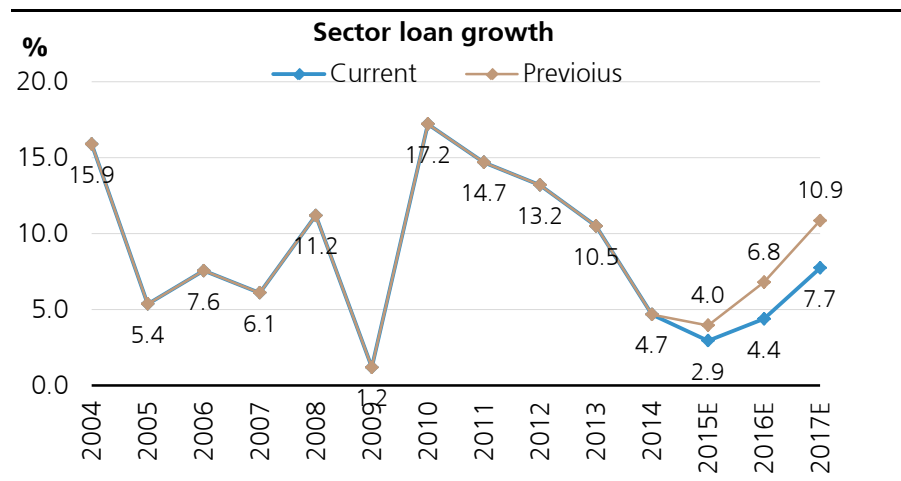


Source: Company data; UBS estimates

Trimming our loan growth forecasts

Although UBS's Thailand economist forecasts GDP growth to recover from 2.8% in 2015E to over 4% in 2016E, we believe many uncertainties are still in place. To be conservative, we lower our sector loan growth estimates by 1.0ppt/2.4ppt/3.1ppt to 2.9%/4.4%/7.7% for 2015/2016/2017, respectively. Note we expect loan growth to fall below 3% in 2015, a decade low excluding 2009, driven by higher than expected auto loan contraction and sluggish corporate loan demand.

Figure 27: Lowering our loan growth forecasts



Source: Company data; UBS estimates

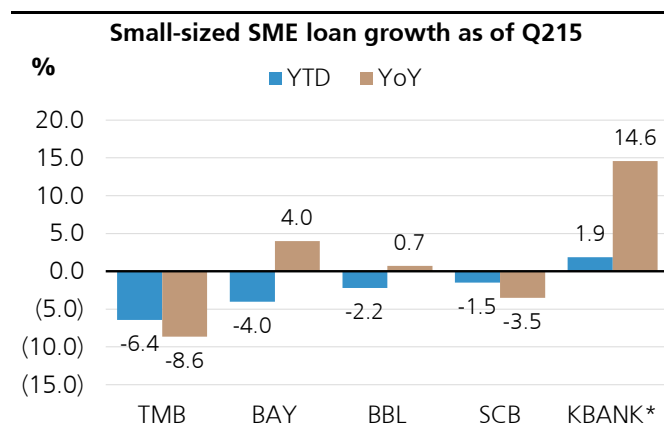
Risk of a credit crunch for small SMEs

Our expectations already factor in a small credit crunch, particularly for small SMEs. As of Q215, banks under our coverage continued to report loan contraction, particularly for small SMEs which we believe is due to asset quality concerns. Note that each Thai bank classifies small SMEs differently, but roughly they should have sales turnover of under Bt50m a year. Nevertheless we note that banks still have an appetite to lend to larger SMEs.

Corporate loans have been subdued, however, as many corporates have turned to

the bond market due to the low interest rate environment and not because banks see more NPL risk in the wholesale segment.

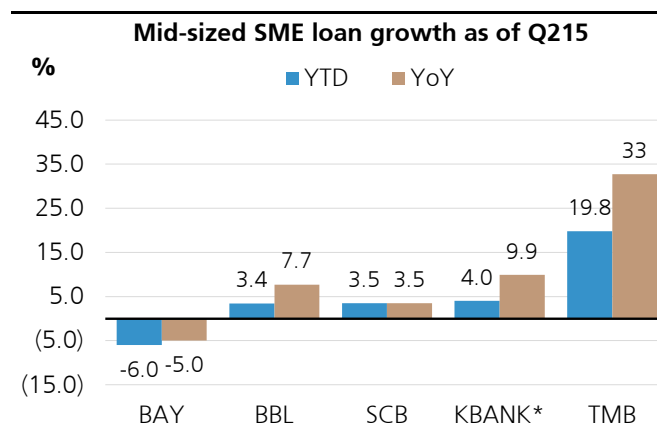
Figure 28: Small SME loan growth



Source: Company data; UBS estimates

* KBANK data is as of Q115 as the bank hasn't yet released Q215 data

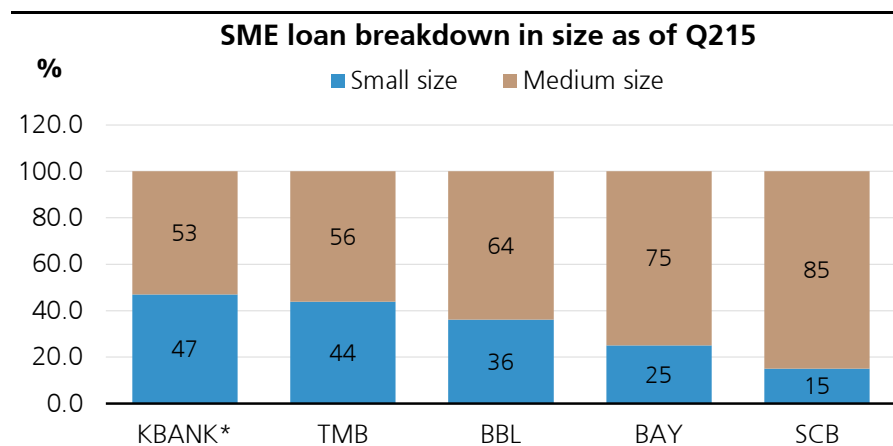
Figure 29: Mid-sized SME loan growth



Source: Company data; UBS estimates

* KBANK data is as of Q115 as the bank hasn't yet released Q215 data

Figure 30: SME loan breakdown by size



Source: Company data; UBS estimates

Note that * KBANK data is as of Q115 as the bank hasn't yet released Q215 data

Although we are concerned about a credit crunch for small SMEs, we think it is largely captured in our new forecasts in terms of slowing growth and rising NPLs. However, the situation may not deteriorate further if the government steps in and provides more help. Initiatives by the government to help stabilise the situation include direct lending by state-owned banks and loan guarantees from state-owned Thai Credit Guarantee Corporation (TCG). The government also recently gave approval for the TCG to raise its loan portfolio guarantee coverage for small SMEs from 18% to 30% by converting the remaining tranche of its loan guarantee programme (PGS5) of around Bt80bn to encourage more participation by commercial banks.

In addition to the TCG guarantee, the Fiscal Policy Office (FPO) has floated the idea of allowing the state-owned Government Savings Bank (GSB) to provide cheap loans at an interest rate of 1% to commercial lenders to lend to SMEs at 5%, while the Finance Ministry would subsidise an additional 1.5% for the GSB. While we wait for more details, we think some of the government's financial assistance may help alleviate the credit crunch to a certain extent.

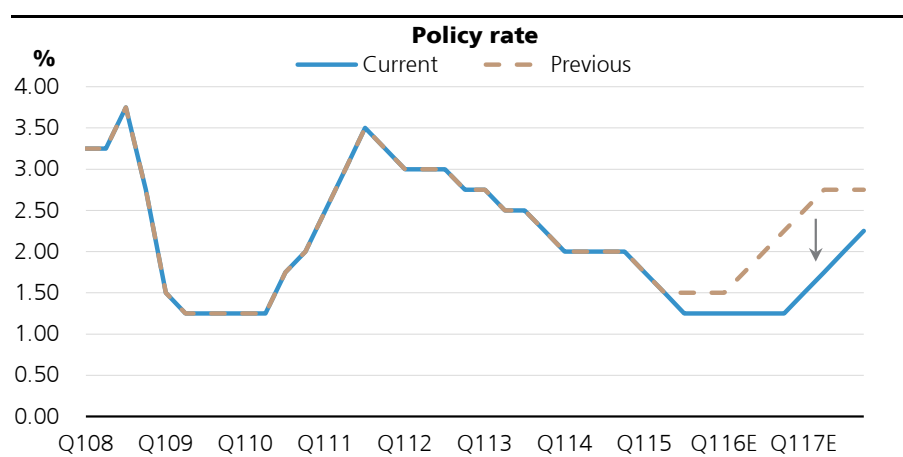
Taking a more conservative view of NIM

UBS's Thailand economist expects the policy rate to rise by 100bp in 2016 from 1.25% to 2.25%, based on expectations of a solid economic recovery in 2016. This scenario would be positive for the big banks' NIM as their assets would re-price quicker than liabilities, and vice versa be negative for small banks' NIM.

However, given the uncertainty about the global economy and the resultant pressure on Thai exports (70% of GDP), sluggish consumption due to high household debt/ weak agricultural prices, and risks of further delays to government infrastructure projects, our NIM forecasts are conservative as we factor in an extended period of low interest rates, somewhat similar to 2008-09 when the BoT kept the policy rate at 1.25% for five consecutive quarters.

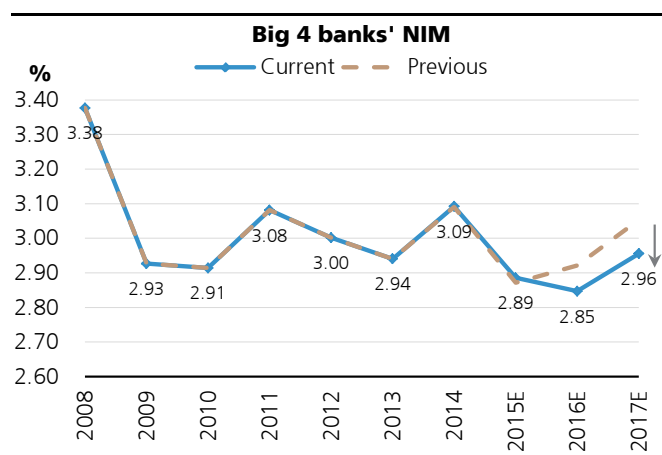
By pricing in a more conservative policy rate, we expect big banks' NIM to fall 20bp but small banks' NIM to rise 20bp in 2015. In 2016, we expect big banks' NIM to fall further, instead of rising as per our previous forecast.

Figure 31: Pricing in a more conservative policy rate outlook



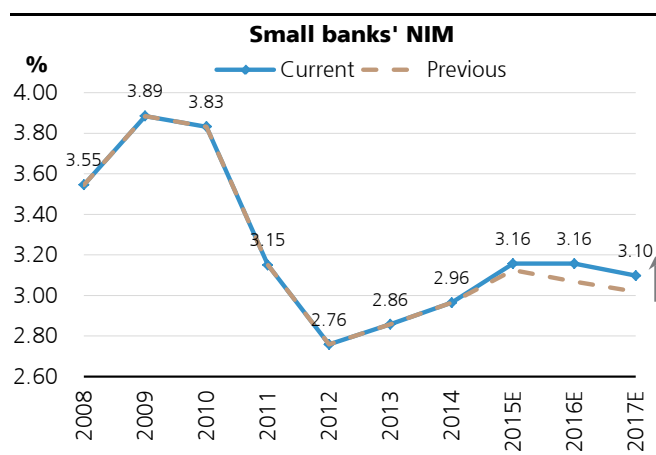
Source: BoT, UBS estimates

Figure 32: Big banks' NIM faces downward pressure



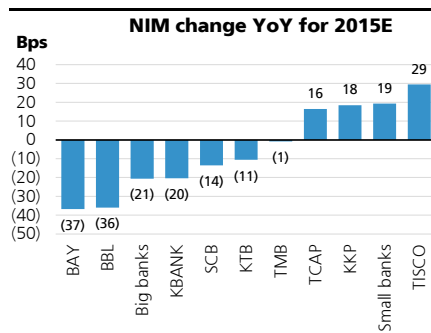
Source: Company data; UBS estimates

Figure 33: Small banks' NIM may rise



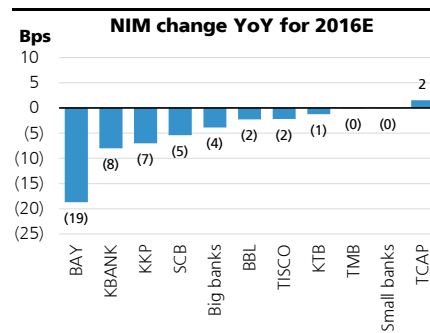
Source: Company data; UBS estimates

Figure 34: Big banks' NIM to drop in 2015E but small banks' NIM to rise



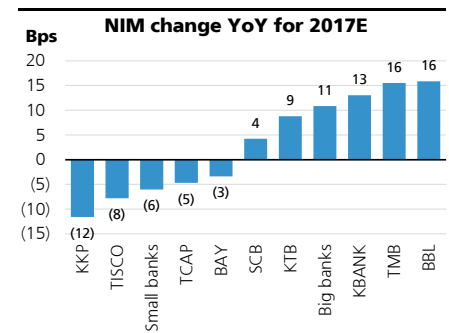
Source: UBS estimates

Figure 35: NIM to continue to weaken in 2016E as policy rate stays low



Source: UBS estimates

Figure 36: Big banks' NIM to recover in 2017E



Source: UBS estimates

Figure 37: Our NIM forecast revisions

		2012	2013	2014	2015E	2016E	2017E
KBANK	Current	3.55	3.53	3.76	3.56	3.48	3.61
	Previous	3.55	3.53	3.76	3.54	3.57	3.72
	Change (bps)	0.00	0.00	0.00	1.95	(8.78)	(11.05)
SCB	Current	3.17	3.17	3.27	3.14	3.08	3.13
	Previous	3.17	3.17	3.27	3.14	3.16	3.27
	Change (bps)	0.00	0.00	0.00	0.03	(8.22)	(14.76)
KTB	Current	2.84	2.78	3.07	2.96	2.95	3.04
	Previous	2.84	2.78	3.08	2.79	2.87	3.05
	Change (bps)	0.00	0.00	(1.28)	17.30	7.69	(1.43)
BBL	Current	2.55	2.36	2.35	1.99	1.97	2.12
	Previous	2.55	2.36	2.35	2.13	2.17	2.25
	Change (bps)	0.00	0.00	0.00	(14.04)	(20.81)	(12.28)
TMB	Current	2.65	3.09	2.96	2.95	2.95	3.11
	Previous	2.65	3.09	2.96	2.97	3.03	3.12
	Change (bps)	0.00	0.00	0.00	(1.74)	(7.61)	(1.31)
BAY	Current	4.25	4.29	4.24	3.87	3.67	3.64
	Previous	4.25	4.29	4.24	3.75	3.61	3.67
	Change (bps)	0.00	0.00	0.00	12.22	6.57	(2.81)
TISCO	Current	2.86	2.77	2.94	3.23	3.21	3.13
	Previous	2.86	2.77	2.94	3.16	3.10	2.95
	Change (bps)	0.00	0.00	0.00	6.53	10.73	17.85
KKP	Current	3.37	3.67	3.80	3.98	3.91	3.79
	Previous	3.37	3.67	3.80	3.95	3.81	3.71
	Change (bps)	0.00	0.00	0.00	3.54	9.53	8.23
TCAP	Current	2.59	2.70	2.78	2.94	2.96	2.91
	Previous	2.59	2.70	2.78	2.92	2.87	2.86
	Change (bps)	0.00	0.00	0.00	2.08	8.23	4.73

Source: Company data; UBS estimates

Lowering our EPS estimates

After factoring in the risk of a prolong NPL cycle and an extended period of low interest rates, we cut our sector EPS forecasts by 9%/15%/15% for 2015/2016/2017. The impact on big banks' EPS is greater than the small banks due to the uptrend in the credit cost cycle and NIM compression. We revise down our estimates for small banks' earnings mainly due to expected lower loan volume and non-interest income.

In contrast to the big banks, the credit costs of small banks are improving with some upside to NIM based on the declining interest rate environment. Our earnings downgrades brings down the big four banks' aggregate earnings to below 2013 levels and ROE to return to 2009 levels due to weaker ROA and deleveraging.

Figure 38: Lowering sector EPS estimates by 9%/15%/15% for 2015-17

Net profit, Bt m	New			Previous			% change		
	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
KBANK	41,622	45,015	53,947	46,899	53,937	64,897	-11%	-17%	-17%
SCB	47,241	50,611	56,425	52,992	59,244	67,790	-11%	-15%	-17%
KTB	29,244	29,321	36,312	30,700	36,245	44,139	-5%	-19%	-18%
BBL	33,003	34,269	38,639	36,721	40,176	45,276	-10%	-15%	-15%
BAY	17,807	19,379	22,987	19,126	22,286	27,393	-7%	-13%	-16%
TMB	8,293	9,410	12,713	8,994	11,030	13,321	-8%	-15%	-5%
KKP	2,850	3,350	3,948	3,060	3,876	4,633	-7%	-14%	-15%
TISCO	4,479	4,821	5,368	4,642	5,037	5,637	-4%	-4%	-5%
TCAP	5,845	5,999	6,239	5,951	6,120	6,666	-2%	-2%	-6%
Aggregate	190,383	202,174	236,577	209,085	237,951	279,753	-9%	-15%	-15%

Source: UBS estimates

Figure 39: Earnings sensitivity analysis

Earnings sensitivity, %	SCB	BBL	KBANK	KTB	BAY	TMB	TISCO	KKP	TCAP	Avg
2015E loan, %	4.3	2.9	5.8	4.2	3.5	6.3	-7.2	-6.7	-6.4	
Earnings sensitivity for every 1 ppt decrease in loan growth	-0.6%	-0.7%	-0.6%	-1.0%	-1.0%	-1.0%	-0.9%	-1.2%	-1.2%	-0.9%
2015E NIM, %	3.14	1.99	3.56	2.96	3.87	2.95	3.23	3.98	2.94	
Earning sensitivity for every 5bps decline in NIM	-1.8%	-2.8%	-2.0%	-3.6%	-2.8%	-3.4%	-2.7%	-2.8%	-3.2%	-2.8%
2015E credit cost, bps	125.1	64.8	141.7	117.8	162.6	115.2	172.5	233.7	125.4	
Earning sensitivity for every 5 bps Increase in Credit cost	-1.4%	-2.0%	-1.5%	-2.5%	-2.7%	-2.5%	-2.3%	-2.2%	-2.6%	-2.2%
2015E non-interest income growth, %	5.4	18.0	13.9	14.7	18.2	26.8	7.1	0.9	13.2	
Earning sensitivity for every 1% drop in non-interest income	-0.8%	-0.9%	-1.1%	-0.8%	-1.1%	-0.9%	-1.1%	-1.3%	-1.0%	-1.0%
2015E non-interest expense growth, %	3.8	6.1	8.1	17.1	12.7	3.4	9.9	9.6	2.6	
Earning sensitivity for every 1% rise in non-interest expenses	-0.8%	-0.9%	-1.2%	-0.8%	-1.7%	-1.4%	-1.0%	-1.9%	-1.4%	-1.2%

Source: UBS estimates

How far are we from the bottom?

Based on our estimates, which reflect an extreme NPL scenario and a prolonged low interest rate environment, we do not expect significant downside risk to 2015 consensus EPS forecasts. However, we believe downside risk to 2016 consensus EPS estimates remains above 10% for the big banks. That said, we expect consensus EPS downgrades to be mainly completed in the next three to six months, particularly as consensus has already cut 2015/2016 EPS forecasts by

roughly 20%, since 2014 (see Figure 41). On the other hand, if the recovery of the economy is quicker and the NPL cycle shorter than we expect, we could already be near the bottom.

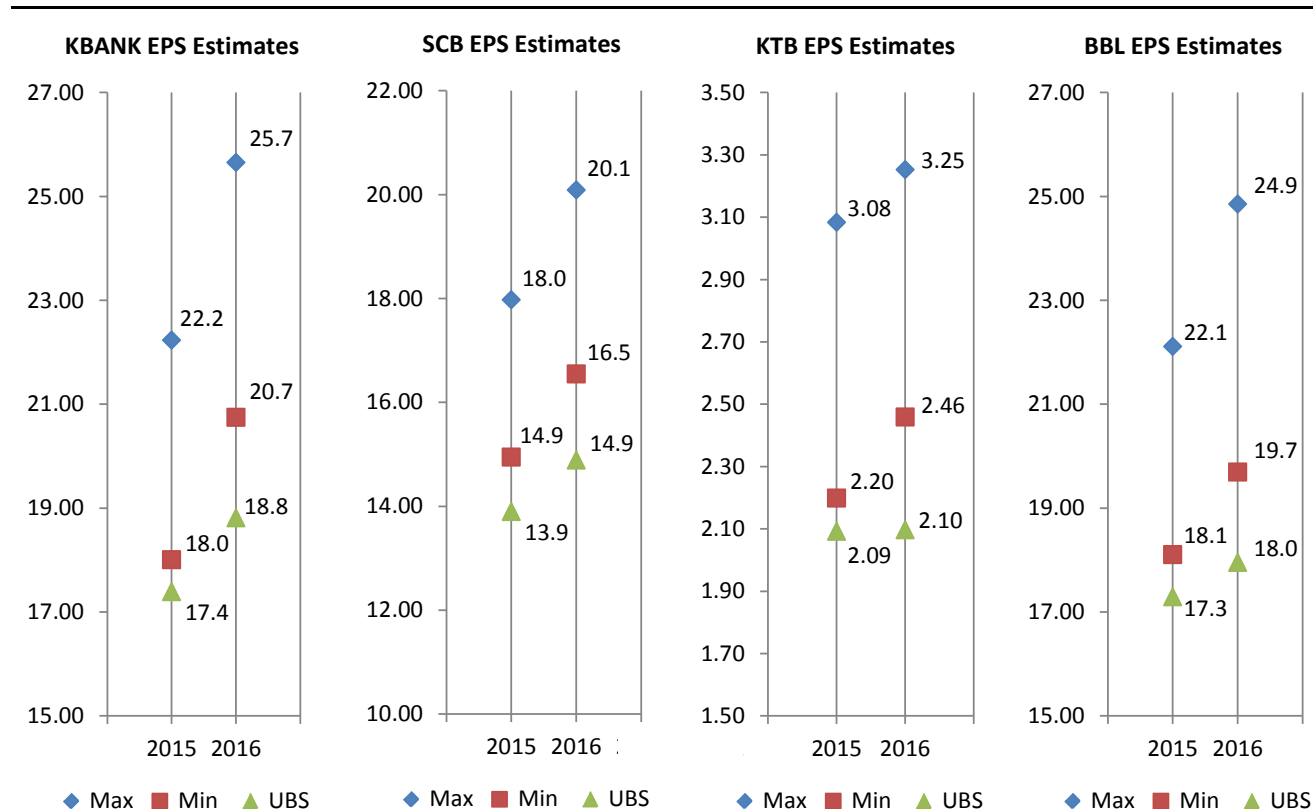
We don't expect significant downside risk to consensus EPS forecasts for the small banks (TISCO and TCAP) in both 2015 and 2016. Their earnings are recovering as the peak cycle of auto NPLs has passed and NIM could still expand in the low interest rate environment.

Figure 40: UBS versus consensus

Bt m		SCB	BBL	KBANK	KTB	BAY	TMB	TISCO	TCAP	KKP	Big Four	Sector
2015	UBS	47,241	33,003	41,622	29,244	17,807	8,293	4,479	5,845	2,850	151,110	190,383
	Consensus	50,677	34,465	43,216	30,966	17,131	8,213	4,512	5,577	3,228	159,324	197,985
	Diff, %	-7%	-4%	-4%	-6%	4%	1%	-1%	5%	-12%	-5%	-4%
2016	UBS	50,611	34,269	45,015	29,321	19,379	9,410	4,821	5,999	3,350	159,216	202,174
	Consensus	56,123	37,921	49,870	34,590	20,946	9,900	4,922	6,034	3,831	178,504	224,137
	Diff, %	-10%	-10%	-10%	-15%	-7%	-5%	-2%	-1%	-13%	-11%	-10%

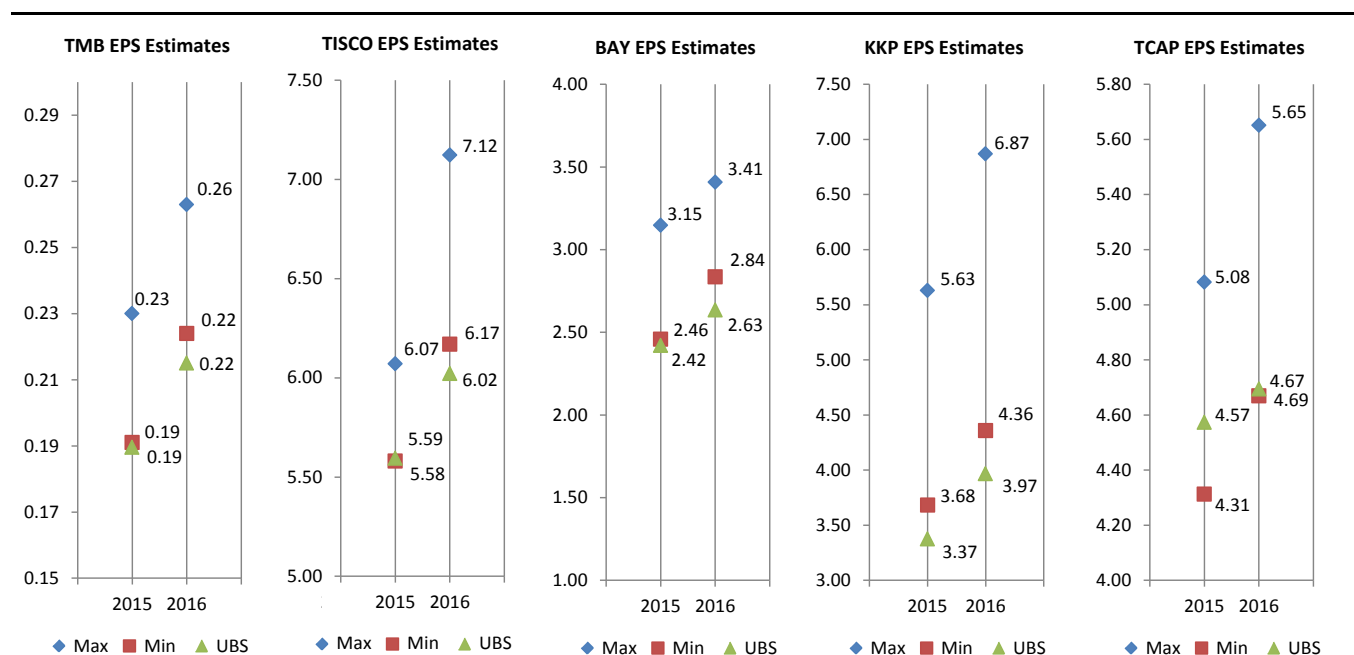
Source: UBS estimates, Bloomberg as of 31 July 2015

Figure 41: UBS vs. consensus EPS for the big four banks (Bt)



Note: Max and Min refer to Q214-Q115. Source: Bloomberg (as of 31 July 2015), UBS estimates

Figure 42: UBS vs. consensus EPS for mid-size and small banks (Bt)



Note: Max and Min refer to Q214-Q115. Source: Bloomberg (as of 31 July 2015), UBS estimates

We cut our price targets

To reflect our lower EPS estimates, we cut our price targets 10-13% for the big banks and 5-17% for the smaller banks. However, we maintain our price target for TISCO as the impact of our increase in the estimated dividend payout ratio (from 45% to 50%), based on TISCO's much stronger capital position, should be enough to offset our 4-5% EPS cut for 2015-17E. Our ratings are unchanged as shown in the figure below.

Figure 43: Price target assumptions

	KBANK	SCB	KTB	BBL	TMB	TISCO	TCAP	KKP	BAY
Cost of equity	10.7%	10.7%	10.7%	10.5%	10.6%	11.2%	10.9%	11.7%	10.6%
Long term DPS growth	5.4%	5.3%	5.3%	4.9%	5.2%	4.9%	4.9%	4.4%	5.2%
Price Target (DDM) – Current (Bt/s)	218.0	170.0	21.0	186.0	2.70	50.0	34.00	32.00	30.0
Price Target (DDM) – Previous (Bt/s)	245.0	190.0	24.0	207.0	2.90	50.0	36.00	38.50	34.0
% change	-11.0%	-10.5%	-12.5%	-10.1%	-6.9%	0.0%	-5.6%	-16.9%	-11.8%
Implied target 2015E P/BV (x)	1.8	1.9	1.2	1.0	1.6	1.4	0.8	0.7	1.2
Implied target 2015E PE (x)	12.5	12.3	10.0	10.8	14.2	8.9	7.3	9.5	12.3
Implied target 2016E P/BV (x)	1.6	1.7	1.1	0.9	1.5	1.3	0.8	0.7	1.1
Implied target 2016E PE (x)	11.6	11.4	10.0	10.4	12.6	8.3	7.2	8.1	11.4
Rating (New)	Buy	Buy	Buy	Buy	Buy	Buy	Neutral	Neutral	Sell
Rating (Old)	Buy	Buy	Buy	Buy	Buy	Buy	Neutral	Neutral	Sell

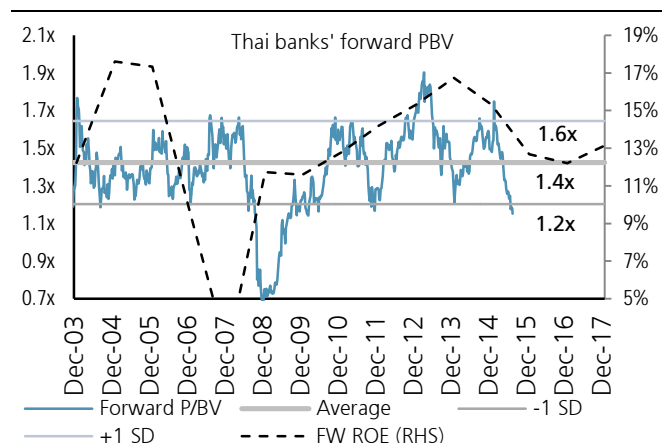
Source: UBS estimates

Valuations

While we have significantly adjusted our views on credit costs and NPLs, we do not change our ratings. We believe the share price correction has largely reflected the bad news. After incorporating the risks of an economic slowdown and prolonged NPL cycle, we believe a number of Thai banks offer good long-term value. The big four banks currently trade at a historical trough P/BV (excluding 2009).

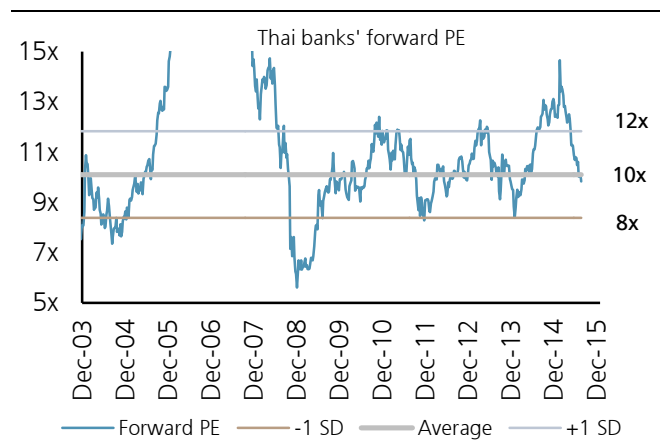
Historical valuations

Figure 44: Thai banks—forward P/BV and ROE



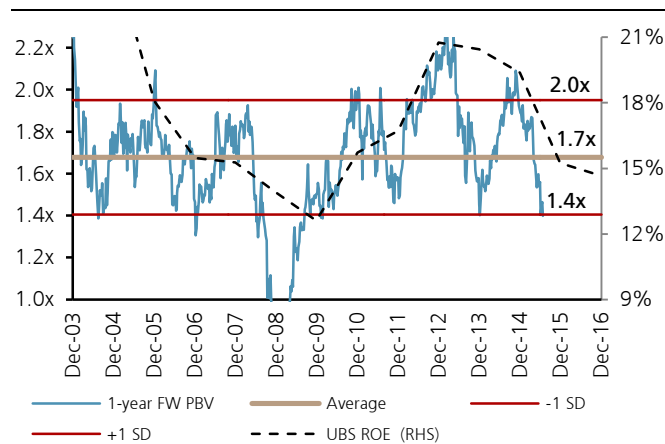
Source: SET, UBS estimates

Figure 45: Thai banks —forward PE



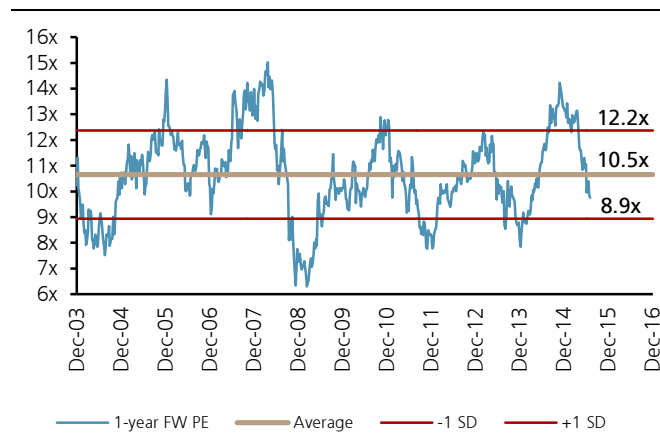
Source: SET, UBS estimates

Figure 46: KBANK—forward P/BV and ROE



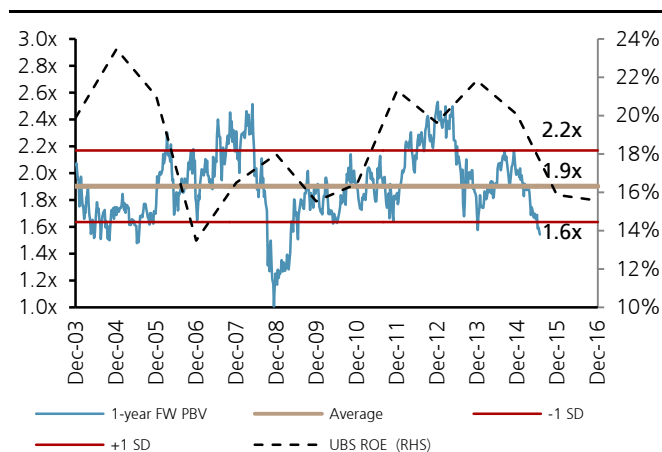
Source: SET, UBS estimates

Figure 47: KBANK —forward PE



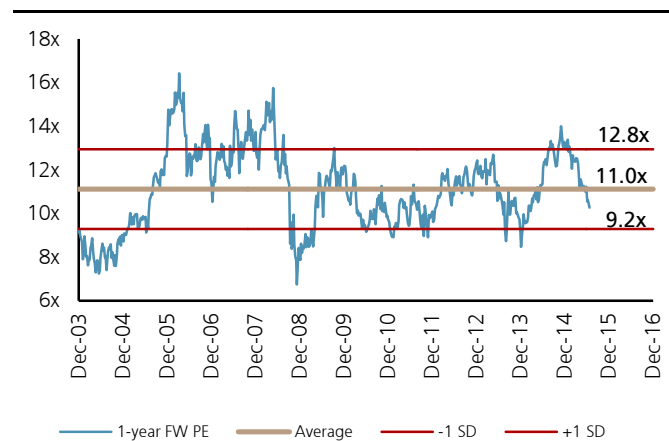
Source: SET, UBS estimates

Figure 48: SCB—forward P/BV and ROE



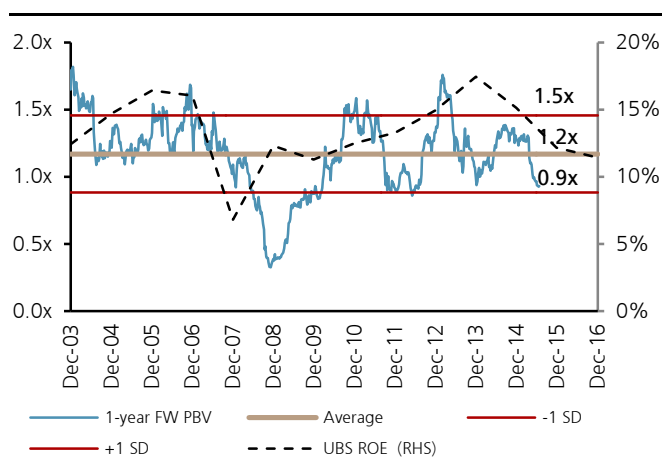
Source: SET, UBS estimates

Figure 49: SCB —forward PE



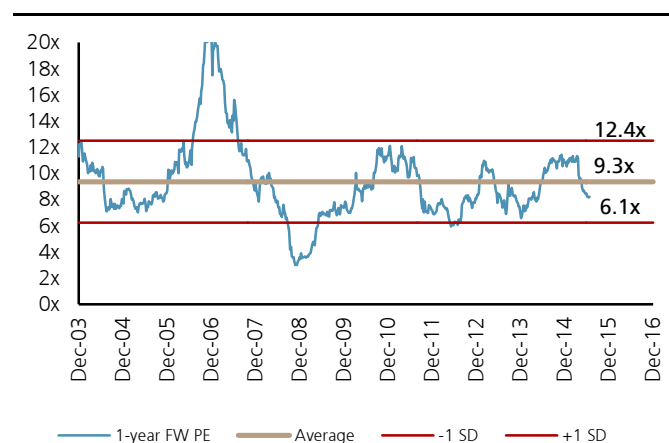
Source: SET, UBS estimates

Figure 50: KTB—forward P/BV and ROE



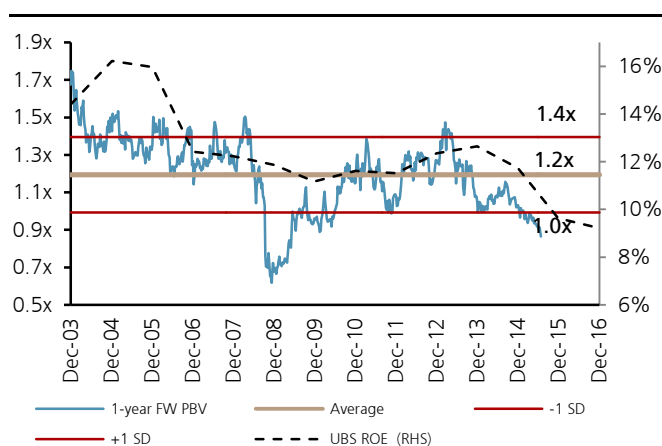
Source: SET, UBS estimates

Figure 51: KTB —forward PE



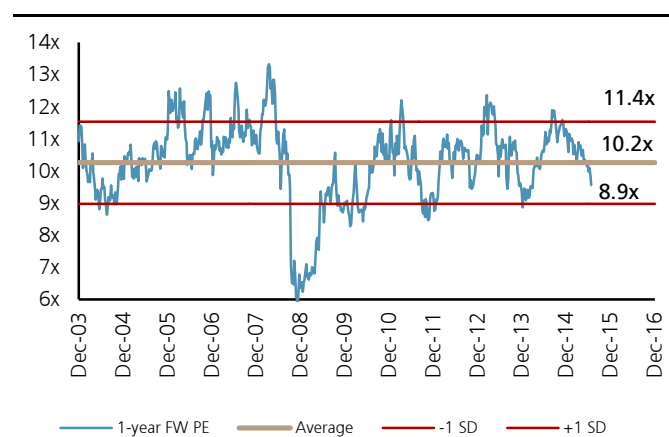
Source: SET, UBS estimates

Figure 52: BBL—forward P/BV and ROE



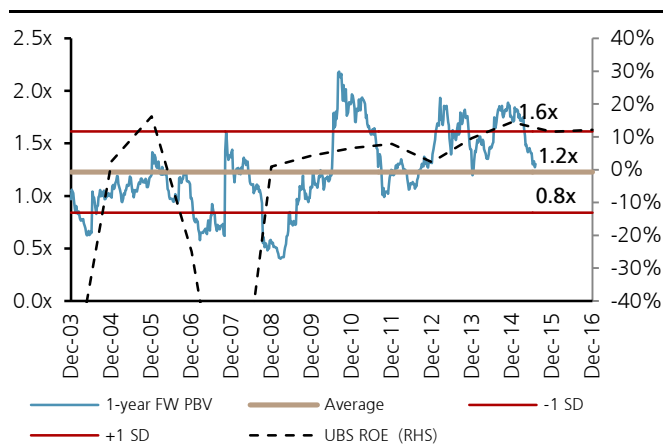
Source: SET, UBS estimates

Figure 53: BBL —forward PE



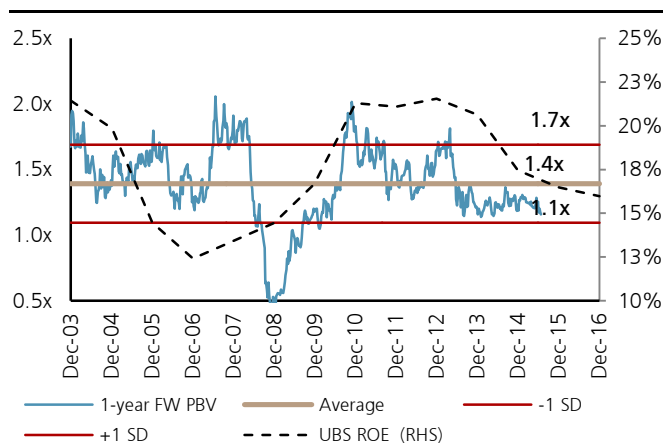
Source: SET, UBS estimates

Figure 54: TMB—forward P/BV and ROE



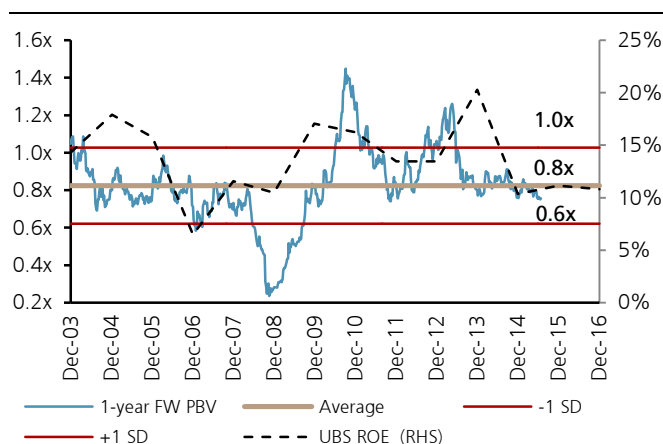
Source: SET, UBS estimates

Figure 56: TISCO—forward P/BV and ROE



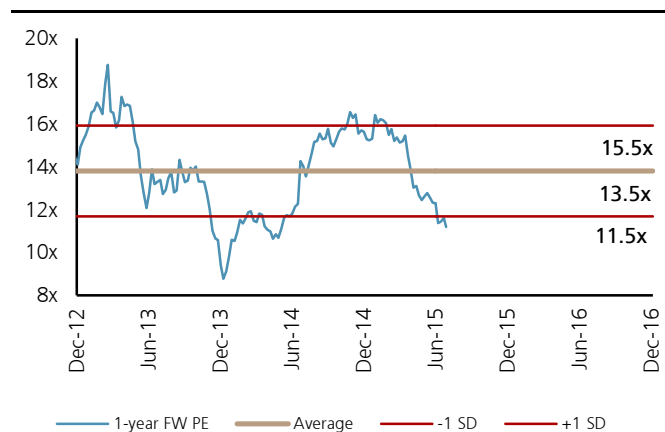
Source: SET, UBS estimates

Figure 58: TCAP—forward P/BV and ROE



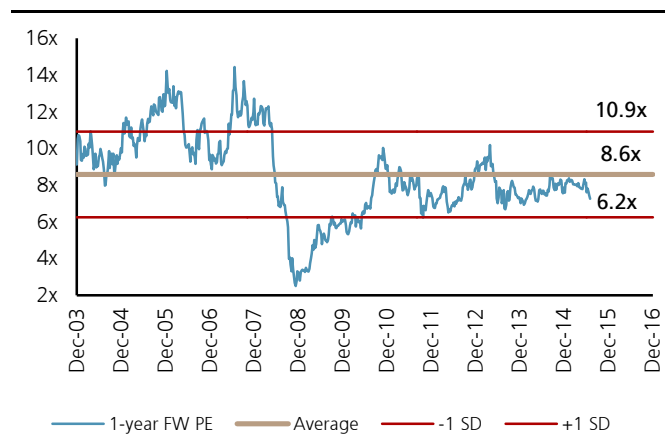
Source: SET, UBS estimates

Figure 55: TMB —forward PE



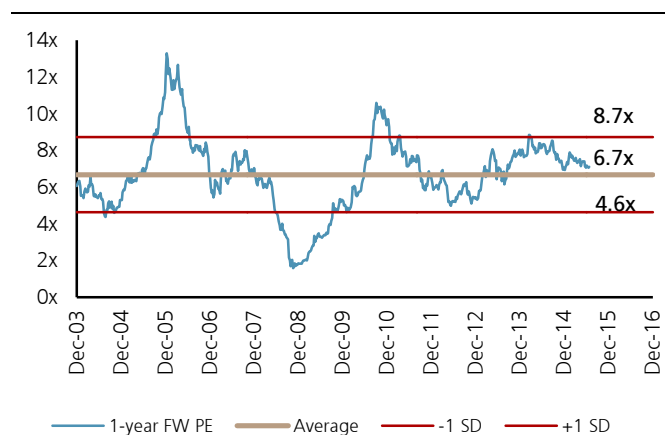
Source: SET, UBS estimates

Figure 57: TISCO —forward PE



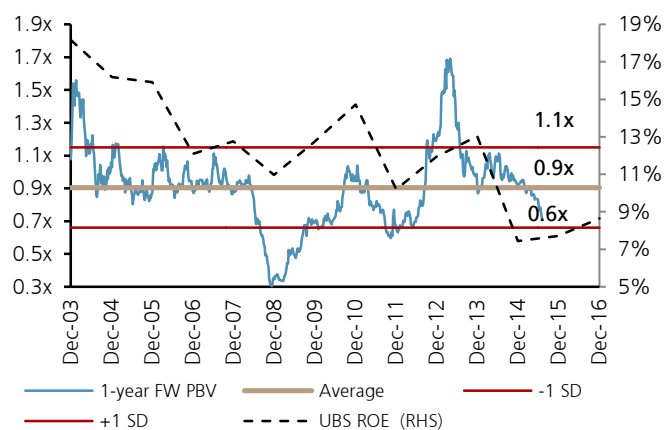
Source: SET, UBS estimates

Figure 59: TCAP —forward PE



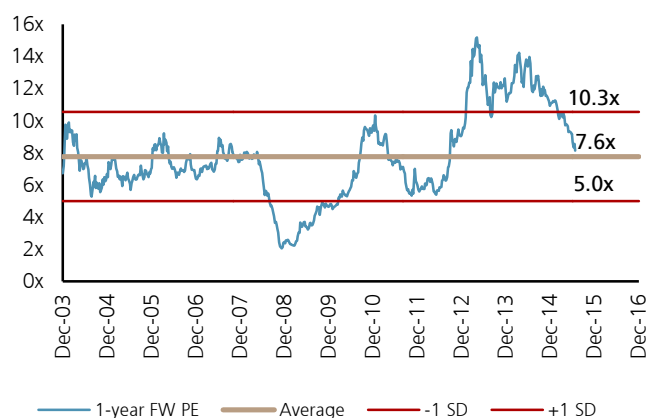
Source: SET, UBS estimates

Figure 60: KKP—forward P/BV and ROE



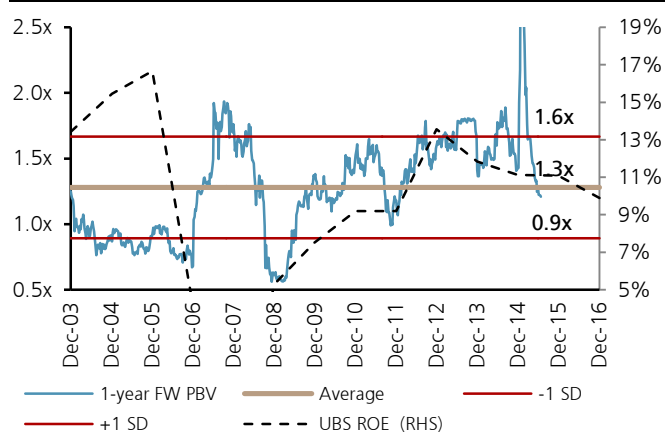
Source: SET, UBS estimates

Figure 61: KKP —forward PE



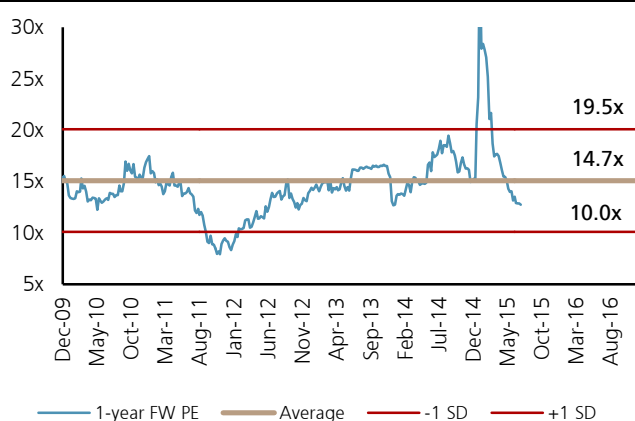
Source: SET, UBS estimates

Figure 62: BAY—forward P/BV and ROE



Source: SET, UBS estimates

Figure 63: BAY —forward PE



Source: SET, UBS estimates

Figure 64: Regional valuation comparison

Name	Rating	Mkt cap (US\$m)	Price (LC) 31-Jul-15	Price target (LC)	Upside (Downside)	1-yr div yield	PE (x)		P/BV (x)		NP growth(%)		ROE		YTD perf.
							2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	
Kasikornbank	Buy	12,196	178.00	218.00	22%	2.2%	10.2	9.5	1.5	1.3	-10%	8%	15.2%	14.7%	-22%
Krung Thai Bank	Buy	7,002	17.50	21.00	20%	5.0%	8.4	8.3	1.0	0.9	-12%	0%	12.2%	11.4%	-23%
Siam Commercial Bank	Buy	14,792	152.00	170.00	12%	3.9%	10.9	10.2	1.7	1.5	-11%	7%	15.9%	15.6%	-16%
TMB Bank	Buy	2,916	2.34	2.70	15%	2.6%	12.3	10.9	1.4	1.3	-13%	13%	11.5%	12.1%	-20%
TISCO Financial	Buy	974	42.50	50.00	18%	5.0%	7.6	7.1	1.2	1.1	5%	8%	16.5%	16.0%	0%
Bangkok Bank	Buy	9,071	166.00	186.00	12%	3.9%	9.6	9.2	0.9	0.8	-9%	4%	9.6%	9.2%	-14%
Kiatnakin Phatra	Neutral	732	30.50	32.00	5%	6.1%	9.0	7.7	0.7	0.7	8%	18%	7.7%	8.6%	-23%
Thanachart Capital	Neutral	1,143	31.25	34.00	9%	5.2%	6.8	6.7	0.7	0.7	14%	3%	11.1%	10.8%	-2%
Bank of Ayudhya	Sell	6,686	31.75	30.00	-6%	2.6%	13.1	12.1	1.2	1.1	26%	9%	11.1%	9.8%	-29%
Thailand		55,513			12%	3.5%	10.4	9.7	1.3	1.2	-7%	6%	13.2%	12.8%	-19%
Alliance Financial	Sell	1,719	4.24	4.10	-3%	3.2%	12.4	13.3	1.5	1.4	-7%	4%	12.3%	10.6%	-10%
AMMB Holdings	Buy	4,412	5.59	7.15	28%	4.0%	10.3	10.9	1.2	1.1	-6%	5%	11.8%	10.4%	-15%
CIMB Group	Neutral	11,867	5.38	5.80	8%	3.3%	12.0	10.1	1.1	1.1	23%	19%	9.9%	11.0%	-3%
Hong Leong Bank	Buy	6,238	13.58	16.90	24%	3.2%	11.3	11.9	1.5	1.4	-2%	4%	13.9%	12.2%	-3%
Malayan Banking	Neutral	22,450	9.20	9.60	4%	4.9%	13.9	12.9	1.5	1.5	-7%	11%	11.3%	11.6%	0%
Public Bank	Buy	19,314	19.00	21.40	13%	2.8%	16.0	15.3	2.4	2.2	1%	5%	15.6%	15.0%	4%
RHB Capital	Sell	5,005	7.43	7.30	-2%	2.0%	10.9	10.3	0.9	0.9	-14%	7%	9.0%	8.9%	-2%
Malaysia		71,004			10%	3.6%	13.5	12.7	1.6	1.5	-1%	9%	12.4%	12.2%	-1%
BCA	Sell	23,967	13,100.00	12,250.00	-6%	1.1%	18.1	16.0	3.5	3.0	10%	13%	21.0%	20.0%	0%
BNI	Buy	6,587	4,760.00	8,400.00	76%	3.0%	7.5	6.1	1.3	1.1	10%	23%	18.6%	19.7%	-22%
BRI	Buy	18,307	10,000.00	14,200.00	42%	2.9%	10.5	9.8	2.1	1.8	3%	8%	22.0%	20.2%	-14%
Bank Tabungan Negara	Buy	917	1,170.00	1,460.00	25%	1.8%	7.8	6.3	0.9	0.8	42%	23%	12.3%	13.5%	-3%
Bank BTPN	Buy	1,365	3,150.00	5,300.00	68%	0.0%	8.2	6.6	1.3	1.1	20%	25%	17.4%	18.2%	-20%
Bank Danamon Indo	Sell	2,987	4,200.00	4,000.00	-5%	1.9%	11.5	9.7	1.1	1.0	35%	19%	10.3%	11.2%	-7%
Bank Jabar Banten	Buy	573	805.00	1,385.00	72%	8.9%	5.1	4.6	1.0	0.9	36%	12%	20.4%	20.2%	10%
Bank Mandiri	Neutral	16,492	9,525.00	11,500.00	21%	2.2%	10.5	9.6	1.9	1.6	7%	9%	19.2%	18.1%	-12%
Indonesia		71,196			37%	2.1%	12.7	11.4	2.4	2.0	9%	13%	20.0%	19.1%	-9%
Banco de Oro	Neutral	7,903	100.40	112.00	12%	2.1%	15.1	13.2	1.9	1.7	6%	14%	13.3%	13.8%	-9%
BPI	Sell	8,200	95.00	101.00	6%	2.2%	18.1	16.7	2.4	2.2	14%	9%	13.7%	13.7%	1%
Metrobank	Neutral	6,176	88.35	104.00	18%	1.6%	17.3	14.5	1.5	1.4	30%	19%	9.8%	9.9%	10%
Phil. National Bank	Buy	1,744	63.50	100.00	57%	0.0%	12.8	10.3	0.8	0.7	30%	25%	6.2%	7.2%	-21%
Philippines		24,024				1.8%	16.5	14.5	1.9	1.7	16%	15%	12.0%	12.3%	-1%
DBS Group Holdings	Neutral	37,068	20.18	20.80	3%	3.0%	12.2	11.9	1.3	1.2	10%	4%	10.9%	10.6%	-2%
OCBC	Neutral	29,590	10.29	10.10	-2%	3.9%	11.4	11.0	1.3	1.2	4%	7%	11.6%	11.2%	-2%
UOB	Buy	26,196	22.20	25.20	14%	3.6%	11.0	10.4	1.2	1.1	3%	6%	11.4%	11.2%	-9%
Singapore		92,855			5%	3.4%	11.6	11.2	1.3	1.2	6%	6%	11.3%	10.9%	-4%
China		1,240,306			24%	5.8%	5.3	4.9	0.9	0.8	5%	8%	17.3%	16.5%	-5%
Hong Kong		304,066			0%	5.7%	12.0	11.4	1.2	1.1	11%	6%	9.8%	9.8%	3%
India		185,556			19%	1.1%	22.3	18.6	3.6	3.1	18%	25%	16.4%	16.7%	3%
Korea		19,469			17%	2.3%	8.4	8.8	0.6	0.5	16%	-5%	6.9%	6.2%	-3%
Taiwan		43,824			19%	3.2%	12.9	13.7	1.3	1.2	-12%	-7%	10.9%	9.4%	10%
Average (ex-Thailand)					16%	3.2%	12.8	11.9	1.6	1.5	7%	9%	13.0%	12.6%	-1%
Average ASEAN banks					13%	2.8%	13.6	12.4	1.8	1.6	6%	9%	13.9%	13.6%	-4%

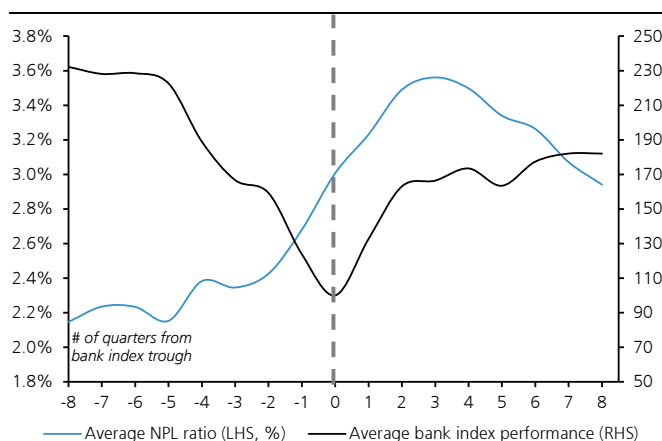
Source: UBS estimates

Potential catalysts

We think the share price performance of Thai banks will remain subdued as they work thorough the NPL cycle, and due to the uncertain macro-economic outlook due to disappointing exports, weak domestic demand and insufficient fiscal stimulus. However, we would take this opportunity to accumulate the big banks at this level as we believe the sentiment could turn more positive in early 2016 for the following reasons. Among the big banks, we prefer KBANK followed by SCB and KTB. For the smaller banks, we prefer TMB and TISCO.

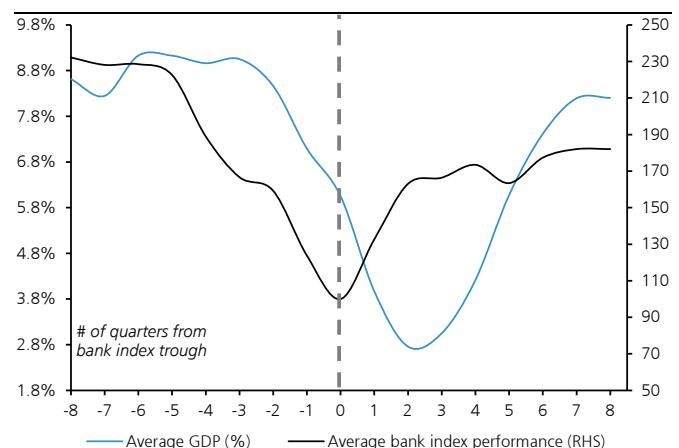
- 1) NPLs could peak in H216 as new NPL formation tapers off and loan growth starts to recover in 2017E. Moreover, we expect borrowers who took out car loans starting in 2012 under the government-initiated first car purchase scheme to finish loan repayments in 2016. Consumers should therefore start to regain some borrowing capacity and help cool NPL formation as we head into 2017. Based on our study of banks' performance during periods of financial distress around the world, we note that their share prices tend to bottom three to four quarters before NPLs peak. That implies Thai bank share prices could bottom around early 2016.

Figure 65: Looking at periods of financial distress around the world, we note that bank stocks tend to bottom 3-4 quarters ahead of NPLs peaking...



Source: Company data, Thomson DataStream Financial, UBS estimates

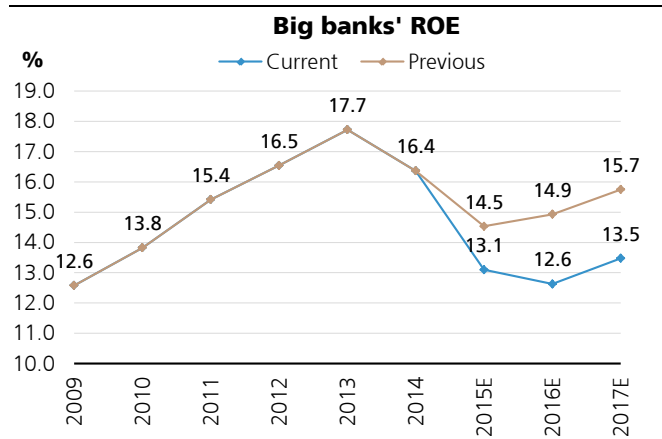
Figure 66: ...and 1-2 quarters ahead of economic growth bottoming out



Source: Company data, Thomson DataStream Financial, UBS estimates

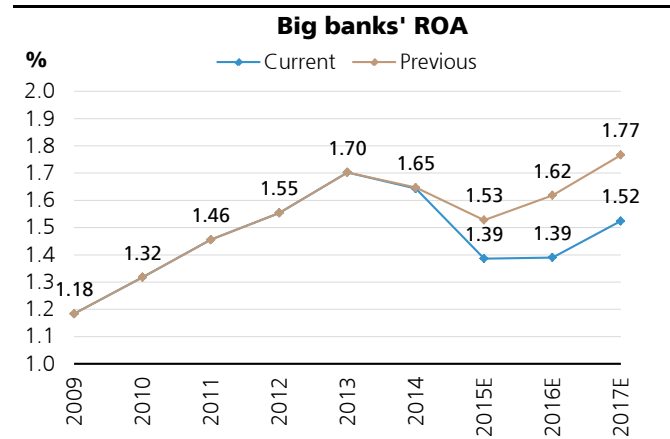
- 2) ROE and earnings to stabilise in 2016E. In the past, Thai banks' P/BV has de-rated significantly due to series of disappointments and on-going earnings downgrades. In the next three to six months, we expect consensus earnings downgrades for 2015-17 to come to an end. That could lead to share price stabilisation. Based on our new conservative forecasts, while we expect ROE to fall in 2015, we don't expect a repeat. In fact, we expect Thai banks' ROE to bottom in 2016 and recover in 2017. In our view, this should put an end to P/BV de-rating.

Figure 67: ROE to fall in 2015E but bottom in 2016E



Source: Company data; UBS estimates

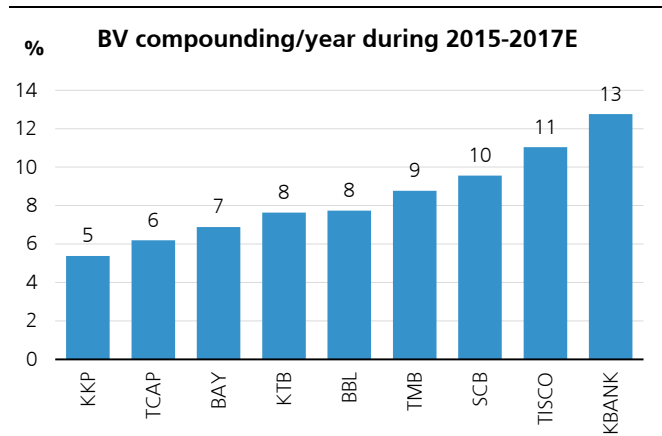
Figure 68: Big banks' ROA outlook



Source: Company data; UBS estimates

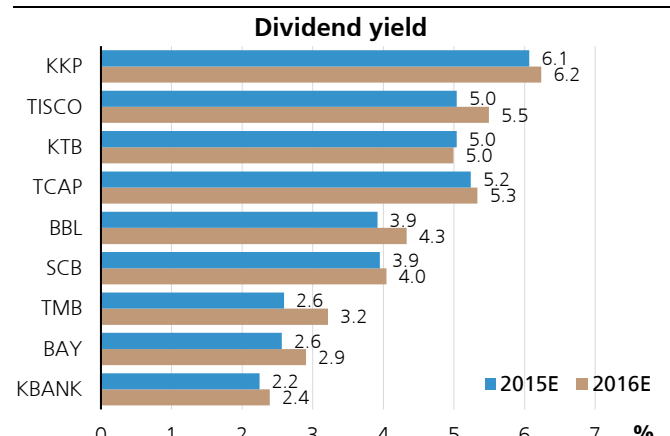
- 3) Solid BV growth with decent dividends. Even in the distressed earnings environment, we still expect the big banks to generate a 9% compounded BV/year. Moreover, we believe dividend prospects remain solid and we don't expect cash call risks arising from the NPL cycle due to a high safety margin (PPOP/loans) and solid tier-1 capital positions.

Figure 69: Thai banks' compounded book value per year



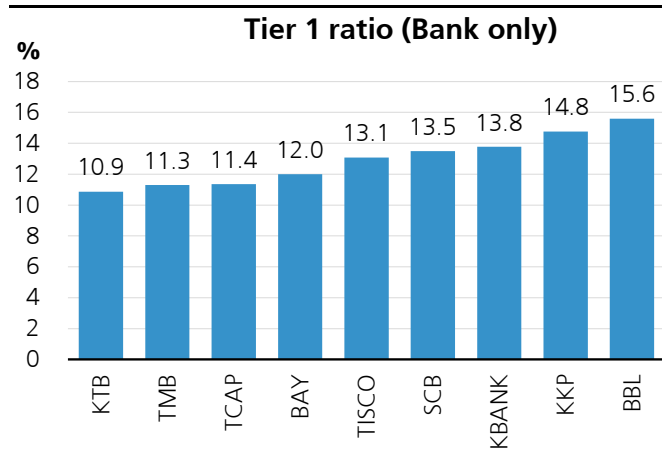
Source: UBS estimates

Figure 70: Dividend estimates



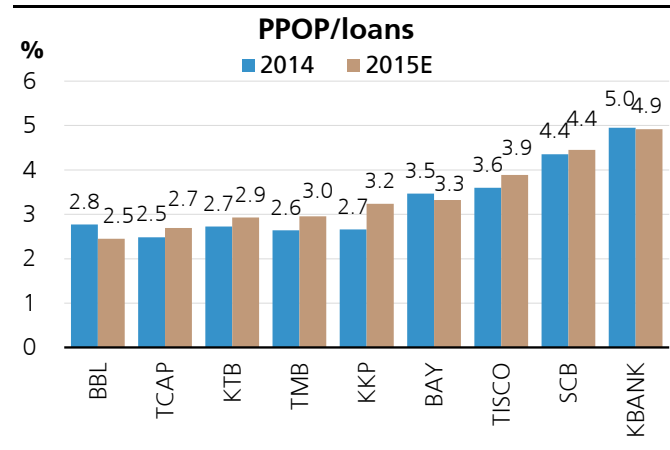
Source: UBS estimates

Figure 71: Solid tier 1 capital



Source: Company data; UBS estimates

Figure 72: Strong safety margins against NPL cycle



Source: Company data; UBS estimates

Company pages

Kasikornbank

Adjusting for a slower growth environment

Cut EPS forecasts to reflect a prolonged NPL cycle

To reflect a weak asset quality trend and the risk of lower policy rates, we cut our EPS forecasts by 11%/17%/17% for 2015/16/17 and raise our credit cost forecasts 26-42bp, cut our NIM estimates 9-11bp, and lower non-NII growth forecasts 4-6%. Our new forecasts imply ROE will fall from 19% in 2014 to around 15% during 2015-16E before recovering in 2017E.

Revise our NPL and provision assumptions

Our higher credit cost estimates factor in the risk that 10% of KBANK's SME and 5% of retail (non-auto) loans will turn NPL during 2015-17E. This would equal new NPL formation of Bt75bn in total or almost 5% of the total loan book. In this scenario we expect credit costs to increase from 93bp in 2014 to 140bp in 2015-16, and taper off to around 130bp in 2017. NPL coverage ratio should drop from 141% in 2014 to around 124% by 2017E. We expect NPL ratio to peak at 3.1-3.2% in late 2016 from 2.4% as of Q215.

Lower NIM assumptions

We expect the policy rate to decline from 1.5% to 1.25% in H215 and now factor in a delay in the rate hike cycle from 2016 to 2017. This lowers our NIM forecasts by 9bp/11bp for 2016/2017. Instead of a NIM recovery in 2016, we expect NIM to contract further in 2016 to 3.48% from 3.56% in 2015E (vs. 3.76% in 2014). This would mark a three year decline in NIM before a recovery in 2017E.

Valuation: our top pick: Buy rating; cut price target from Bt245.00 to Bt218.00

Even with our conservative EPS forecasts, our new price target still implies over 20% potential upside and the stock trades close to a decade-long trough P/BV. We therefore believe the bad news is in the price and maintain our Buy rating. We base our price target on a dividend discount model, assuming a cost of equity of 10.7% and long-term DPS growth of 5.4%. Our price target implies 1.8x 2015E P/BV and 12.5x 2015E PE.

Equities

Thailand
Banks, Ex-S&L

12-month rating

Buy

12m price target

Bt218.00

Prior: Bt245.00

Price

Bt178.00

RIC: KBANK.BK BBG: KBANK TB

Trading data and key metrics

52-wk range	Bt250.00-172.00
Market cap.	Bt426bn/US\$12.1bn
Shares o/s	2,393m (ORD)
Free float	76%
Avg. daily volume ('000)	8,285
Avg. daily value (m)	Bt1,588.4
Common s/h equity (12/15E)	Bt289bn
P/BV (12/15E)	1.5x
Tier 1 ratio	14%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	19.60	17.39	-11.25	18.38
12/16E	22.54	18.81	-16.54	21.39
12/17E	27.12	22.54	-16.87	24.77

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Analyst

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	104,286	120,756	138,565	146,825	156,529	175,150	197,298	214,499
Profit before tax	48,981	56,303	62,991	57,605	62,768	74,530	90,329	101,881
Net earnings (local GAAP)	35,260	41,325	46,151	41,622	45,015	53,947	65,762	73,912
Net earnings (UBS)	35,260	41,325	46,151	41,622	45,015	53,947	65,762	73,912
Tier 1 ratio %	10.4	12.0	12.9	13.9	14.6	15.0	15.7	16.6
EPS (UBS, diluted) (Bt)	14.73	17.27	19.28	17.39	18.81	22.54	27.48	30.88
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	20.8	20.4	19.4	15.2	14.7	15.6	16.7	16.6
P/POP (diluted)	6.7	6.7	6.4	5.3	4.9	4.3	3.7	3.4
P/BV x	2.1	2.1	1.9	1.5	1.3	1.2	1.0	0.9
P/BV (UBS) x	2.1	2.1	1.9	1.5	1.3	1.2	1.0	0.9
P/E (UBS, diluted)	11.0	11.0	10.6	10.2	9.5	7.9	6.5	5.8
Net dividend yield %	1.9	1.8	2.0	2.2	2.4	3.1	4.0	5.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt178.00 on 31 Jul 2015 22:38 HKT

Investment Thesis

Kasikornbank

Investment case

We are positive on Kasikornbank (KBANK) due to its strong fee income-generating platform and competitive advantages from its funding cost structure and strong management team. The bank has the largest market share in the SME segment, which we believe provides one of the most attractive risk-adjusted returns. We believe the valuation does not reflect the bank's solid and sustainable earnings growth potential.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215, policy rate remains unchanged and asset quality is under control, leading to better NIM and lower credit costs. We assume a 15bp higher NIM and 5bp lower credit cost. We estimate this would lead to 8% higher 2015E EPS. We apply +1.0 SD PE (12.1x) to derive a valuation of Bt230.00 per share.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM while credit costs rise. We assume a 5bp lower NIM and a 20bp increase in credit costs. We estimate this would lead to 8% lower 2015E EPS. We apply -0.5 SD PE (9.7x) to derive a valuation of Bt156.00 per share.

Upcoming catalysts

Government spending may pick up in H215 as the government tries to boost the economy. This could build up positive sentiment for the sector and the bank. Operating leverage should help support the bottom line this year after KBANK signalled that it would slow the growth of its branch network/ATMs and new hires following aggressive expansion in the past few years. However, declining policy rates and rising loan restructuring/NPLs could add pressure to NIM this year. A further delay in the economic recovery may increase provision risk to our forecasts.

12-month rating

Buy

12m price target

Bt218.00

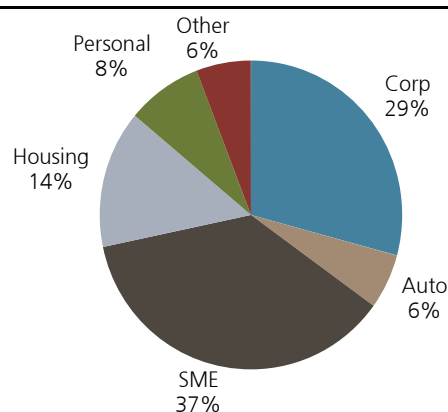
Business description

Kasikornbank (KBANK, formerly Thai Farmers Bank) was founded in 1945 and listed in 1976. Following the 1997 Asian financial crisis, KBANK raised Bt96bn in capital on three separate occasions and was the first Thai bank to issue hybrid capital. It retired its hybrid capital in January 2004, but has maintained Tier 1 capital at 12.9% as of 2014. KBANK is the leading bank for small and medium enterprises (SMEs) in Thailand. In 2014, it ranked fourth among Thai banks in terms of assets (US\$75bn, a 17% market share), deposits (US\$51bn, a 16% market share), and loans (US\$48bn, a 16% market share).

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 60% of KBANK's total revenue in 2014, while non-interest income represented 40%. Almost all operating profit for 2014 was derived from the domestic market.

Kasikornbank (KBANK.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	63,581	72,797	83,132	83,709	0.7	87,519	4.6	97,876	109,955	115,383
Total non interest income	40,705	47,959	55,432	63,116	13.9	69,011	9.3	77,274	87,343	99,117
Total income	104,286	120,756	138,565	146,825	6.0	156,529	6.6	175,150	197,298	214,499
Total cash expenses	(46,934)	(52,903)	(61,419)	(66,381)	-8.1	(69,841)	-5.2	(76,701)	(82,849)	(88,898)
Pre-depreciation operating profit	57,352	67,854	77,146	80,444	4.3	86,688	7.8	98,450	114,449	125,601
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	57,352	67,854	77,146	80,444	4.3	86,688	7.8	98,450	114,449	125,601
Total provisions	(8,390)	(11,743)	(14,243)	(22,944)	-61.1	(24,000)	-4.6	(24,000)	(24,200)	(23,800)
Operating profit post provisions	48,962	56,110	62,903	57,501	-8.6	62,688	9.0	74,450	90,249	101,801
Income from associates & JVs (pre-tax)	20	193	88	105	18.5	80	-23.6	80	80	80
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	48,981	56,303	62,991	57,605	-8.6	62,768	9.0	74,530	90,329	101,881
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	48,981	56,303	62,991	57,605	-8.6	62,768	9.0	74,530	90,329	101,881
Tax	(11,136)	(11,457)	(12,692)	(11,245)	11.4	(12,554)	-11.6	(14,906)	(18,066)	(20,376)
Profit after tax	37,845	44,847	50,299	46,361	-7.8	50,215	8.3	59,624	72,263	81,505
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(2,585)	(3,522)	(4,148)	(4,739)	-14.2	(5,200)	-9.7	(5,677)	(6,501)	(7,593)
Net earnings (local GAAP)	35,260	41,325	46,151	41,622	-9.8	45,015	8.2	53,947	65,762	73,912
Net earnings (before pref divs)	35,260	41,325	46,151	41,622	-9.8	45,015	8.2	53,947	65,762	73,912
Net earnings (UBS)	35,260	41,325	46,151	41,622	-9.8	45,015	8.2	53,947	65,762	73,912
Per share (Bt)										
EPS (local GAAP, basic)	14.73	17.27	19.28	17.39	-9.8	18.81	8.2	22.54	27.48	30.88
EPS (UBS, diluted)	14.73	17.27	19.28	17.39	-9.8	18.81	8.2	22.54	27.48	30.88
PPOP (diluted)	23.96	28.35	32.23	33.61	4.3	36.22	7.8	41.14	47.82	52.48
Net DPS	3.00	3.50	4.00	4.00	0.0	4.26	6.4	5.46	7.14	9.27
BVPS	77.28	91.60	107.41	120.88	12.5	135.69	12.3	153.97	175.67	197.14
BVPS (UBS)	77.28	91.60	107.41	120.88	12.5	135.69	12.3	153.97	175.67	197.14
Balance sheet (Btm)										
Banking assets (year end)	2,077,442	2,290,045	2,389,137	2,577,552	7.9	2,742,982	6.4	2,962,656	3,199,950	3,453,088
Banking assets (average)	1,900,191	2,183,744	2,339,591	2,483,344	6.1	2,660,267	7.1	2,852,819	3,081,303	3,326,519
Total assets (year end)	2,077,442	2,290,045	2,389,137	2,577,552	7.9	2,742,982	6.4	2,962,656	3,199,950	3,453,088
Risk weighted assets (RWA) (year end)	1,365,053	1,507,571	1,602,609	1,680,808	4.9	1,782,158	6.0	1,943,223	2,099,111	2,245,437
Risk weighted assets (RWA) (average)	1,317,147	1,436,312	1,555,090	1,641,709	5.6	1,731,483	5.5	1,862,690	2,021,167	2,172,274
Customer loans	1,285,310	1,396,807	1,479,113	1,555,478	5.2	1,645,097	5.8	1,793,065	1,929,427	2,057,721
Customer loans (average)	1,228,953	1,341,058	1,437,960	1,517,296	5.5	1,600,288	5.5	1,719,081	1,861,246	1,993,574
Interest earning assets (average)	1,788,746	2,060,378	2,209,642	2,352,660	6.5	2,516,271	7.0	2,712,355	2,939,180	3,190,515
Customer deposits	1,391,380	1,529,835	1,629,831	1,712,840	5.1	1,830,483	6.9	1,993,001	2,163,513	2,348,613
Common s/h equity (year end)	184,946	219,232	257,059	289,292	12.5	324,744	12.3	368,502	420,422	471,818
Common s/h equity (average)	169,872	202,089	238,146	273,176	14.7	307,018	12.4	346,623	394,462	446,120
Total SHF (equity, pref & MI) (year end)	200,821	237,007	280,686	316,957	12.9	357,609	12.8	407,043	465,465	524,454
Total SHF (equity, pref & MI) (average)	183,893	218,914	258,847	298,822	15.4	337,283	12.9	382,326	436,254	494,959
Net tangible assets	200,821	237,007	280,686	316,957	12.9	357,609	12.8	407,043	465,465	524,454
Balance sheet structure (%)										
Loans / banking assets (year end)	61.9	61.0	61.9	60.3	-2.5	60.0	-0.6	60.5	60.3	59.6
Deposits / banking assets (year end)	67.0	66.8	68.2	66.5	-2.6	66.7	0.4	67.3	67.6	68.0
Loans / deposits	92.4	91.3	90.8	90.8	0.1	89.9	-1.0	90.0	89.2	87.6
Total SHF / banking assets (year end)	9.7	10.3	11.7	12.3	4.7	13.0	6.0	13.7	14.5	15.2

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Kasikornbank (KBANK.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	142,375	181,210	206,416	234,080	259,374	290,827	329,412	373,068
Total capital	218,201	229,965	268,630	296,314	321,608	353,061	391,646	435,302
Risk weighted assets (RWA) (year end)	1,365,053	1,507,571	1,602,609	1,680,808	1,782,158	1,943,223	2,099,111	2,245,437
Core tier 1 ratio %	10.1	11.6	12.0	13.9	14.6	15.0	15.7	16.6
Tier 1 ratio %	10.4	12.0	12.9	13.9	14.6	15.0	15.7	16.6
Total capital ratio %	16.0	15.3	16.8	17.6	18.0	18.2	18.7	19.4
Tangible equity	184,946	219,232	257,059	289,292	324,744	368,502	420,422	471,818
Equity / assets %	8.9	9.6	10.8	11.2	11.8	12.4	13.1	13.7
Tangible equity to tangible assets %	8.9	9.6	10.8	11.2	11.8	12.4	13.1	13.7
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	44,170	44,380	47,855	58,873	68,380	72,056	76,260	81,009
Total risk reserves	43,723	45,099	50,992	63,276	71,265	78,415	92,186	104,816
NPLs / loans %	2.5	2.3	2.4	2.9	3.4	3.4	3.4	3.4
NPL coverage %	131.8	134.5	141.4	132.8	122.0	124.0	134.6	141.4
Provision charge / average loans %	0.7	0.9	1.0	1.5	1.5	1.4	1.3	1.2
Net NPAs / shareholders funds %	0.2	(0.3)	(1.1)	(1.4)	(0.8)	(1.6)	(3.4)	(4.5)
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	3.35	3.33	3.55	3.37	3.29	3.43	3.57	3.47
Provisions / operating profit	14.6	17.3	18.5	28.5	27.7	24.4	21.1	18.9
ROE (UBS earnings)	20.8	20.4	19.4	15.2	14.7	15.6	16.7	16.6
RoAdjE (UBS earnings & equity)	20.8	20.4	19.4	15.2	14.7	15.6	16.7	16.6
RoRWA (UBS)	2.87	3.12	3.23	2.82	2.90	3.20	3.58	3.75
RoA (UBS earnings)	1.99	2.05	2.15	1.87	1.89	2.09	2.35	2.45
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	45.0	43.8	44.3	45.2	44.6	43.8	42.0	41.4
Cost / average assets	2.47	2.42	2.63	2.67	2.63	2.69	2.69	2.67
Compensation expense ratio	27.4	25.6	26.8	27.8	27.6	26.8	25.5	25.4
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	15.2	15.8	14.7	6.0	6.6	11.9	12.6	8.7
Operating profit pre provisions	20.8	18.3	13.7	4.3	7.8	13.6	16.3	9.7
Net earnings (UBS)	45.5	17.2	11.7	-9.8	8.2	19.8	21.9	12.4
Net DPS	20.0	16.7	14.3	0.0	6.4	28.1	31.0	29.7
Total assets (year end)	20.6	10.2	4.3	7.9	6.4	8.0	8.0	7.9
Customer loans	9.6	8.7	5.9	5.2	5.8	9.0	7.6	6.6
Customer deposits	12.0	10.0	6.5	5.1	6.9	8.9	8.6	8.6
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	3.7	3.8	3.5	2.9	2.7	2.4	2.2	2.0
Market cap/deposits	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
P/PPOP (diluted)	6.7	6.7	6.4	5.3	4.9	4.3	3.7	3.4
P/E (local GAAP, basic)	11.0	11.0	10.6	10.2	9.5	7.9	6.5	5.8
P/E (UBS, diluted)	11.0	11.0	10.6	10.2	9.5	7.9	6.5	5.8
Net dividend yield %	1.9	1.8	2.0	2.2	2.4	3.1	4.0	5.2
P/BV x	2.1	2.1	1.9	1.5	1.3	1.2	1.0	0.9
P/BV (UBS) x	2.1	2.1	1.9	1.5	1.3	1.2	1.0	0.9

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Siam Commercial Bank

Strong enough to get through NPL cycle

Cut EPS to reflect a prolonged NPL cycle

We lower our EPS forecasts by 11%/15%/17% for 2015/16/17 and raise our credit cost estimates 34-43bp, cut NIM estimates 8-15bp and lower non-NII growth forecast 3-6% to reflect a prolonged NPL cycle, a delay in the policy rate hike cycle and risks for the economic recovery. Our new forecasts suggest SCB's ROE will fall from 20% in 2014 to 15-16% during 2015-17E.

Factoring rising NPLs and SSI default risk

We raised our credit cost estimates as we factor in the risk that 10% of SCB's SME and 5% of retail (non-auto) loans will turn NPL in during 2015-17E. This would equal new NPL formation of around Bt65bn in total or 3.6% of the total loan book. In addition we also assume its Bt20bn loan exposure to Sahaviriya Steel Industries (SSI) will turn NPL this year. In this scenario we expect credit costs to increase from 74bp in 2014 to 125bp in 2015-16, and taper off to around 115bp in 2017E. NPL coverage ratio should fall from 138% in 2014 to around 97bp in 2015E before gradually recovering to 100bp in 2017E. We expect the NPL ratio to rise from 2.2% in Q215 to 3.6-3.7% by 2017E, but for NPL formation to start to taper off in H216.

NIM to remain under pressure

In addition to factoring in one more policy rate cut, from 1.5% to 1.25%, we now expect a delay in the policy rate hike cycle from 2016 to 2017. This lowers our NIM forecasts by 8bp/15bp for 2016/2017. We expect SCB's NIM to contract further to 3.08% in 2016 from 3.14% in 2015E (vs. 3.27% in 2014). This would mark a three year NIM decline before recovering in 2017E, when interest rates start to rise and the economy starts to recover, in our view.

Valuation: maintain Buy; cut price target from Bt190.00 to Bt170.00

Despite our lower EPS estimates, we believe the potential upside to our price target justifies our Buy rating. We base our price target on a dividend discount model, assuming a cost of equity of 10.7% and long-term DPS growth of 5.3%. Our price target implies 1.9x 2015E P/BV and 12.3x 2015E PE.

Equities

Thailand
Banks, Ex-S&L

12-month rating **Buy**

12m price target **Bt170.00**
Prior: Bt190.00

Price **Bt152.00**

RIC: SCB.BK **BBG:** SCB TB

Trading data and key metrics

52-wk range	Bt197.50-146.50
Market cap.	Bt517bn/US\$14.7bn
Shares o/s	3,399m (ORD)
Free float	71%
Avg. daily volume ('000)	6,066
Avg. daily value (m)	Bt949.7
Common s/h equity (12/15E)	Bt310bn
P/BV (12/15E)	1.7x
Tier 1 ratio	14%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	15.59	13.90	-10.85	15.00
12/16E	17.43	14.89	-14.57	16.43
12/17E	19.94	16.60	-16.77	18.61

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	102,983	123,539	128,209	132,121	138,758	150,950	168,532	178,282
Profit before tax	51,187	62,574	66,827	58,931	63,333	70,600	83,074	88,711
Net earnings (local GAAP)	39,235	50,233	53,335	47,241	50,611	56,425	66,404	70,913
Net earnings (UBS)	39,235	50,233	53,335	47,241	50,611	56,425	66,404	70,913
Tier 1 ratio %	11.5	11.9	13.6	14.4	15.2	15.7	16.4	17.0
EPS (UBS, diluted) (Bt)	11.54	14.78	15.69	13.90	14.89	16.60	19.54	20.86
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	19.6	21.8	20.1	15.9	15.6	15.8	16.8	16.2
P/POP (diluted)	8.3	7.5	7.2	6.3	5.9	5.5	4.8	4.6
P/BV x	2.4	2.3	2.0	1.7	1.5	1.4	1.2	1.1
P/BV (UBS) x	2.4	2.3	2.0	1.7	1.5	1.4	1.2	1.1
P/E (UBS, diluted)	12.8	11.3	10.9	10.9	10.2	9.2	7.8	7.3
Net dividend yield %	3.0	3.1	3.5	3.9	4.0	4.7	5.8	6.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt152.00 on 31 Jul 2015 22:38 HKT

Investment Thesis

Siam Commercial Bank

Investment case

In our view, Siam Commercial Bank (SCB) has a competitive universal banking platform and a strong management team. We believe the bank has one of the best retail deposit franchises in Thailand, allowing it to attract low-cost funding and generate high fee income. On top of solid revenue generation, management's emphasis on cost discipline has also contributed to SCB's high efficiency ratio and the highest ROE in the sector. However, we believe it will be a challenge to sustain 2015 ROE at over 20%, given the fairly slow economic recovery and the bank's continued deleveraging in this environment. Therefore we believe it is crucial for SCB to find new growth engines. While we think the bank is heading in the right direction with expansion in the SME segment, it may take some time for market share to ramp up.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215, the policy rate is unchanged and asset quality remains under control, leading to better NIM and credit costs. We assume a 15bp higher NIM with 5bp lower credit costs. This would lead to a 7% higher 2015E EPS. We apply +1.0 SD PE (12.8x) to derive a valuation of Bt190.00 per share.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume 5bp lower NIM and 20bp higher credit costs. This would lead to an 8% lower 2015E EPS. We apply -0.5 SD PE (10.0x) to derive a valuation of Bt128.00 per share.

Upcoming catalysts

Government spending may pick up in H215 as the government tries to boost the economy. This could build up positive sentiment for the sector and the bank. In the low-interest-rate environment, M&A activity in the local market could increase as the economy continues to recover. We believe SCB will be a prime beneficiary of this trend, given its strong and competitive investment banking platform. The key risks lie in asset quality and its loan exposure to SSI.

12-month rating

Buy

12m price target

Bt170.00

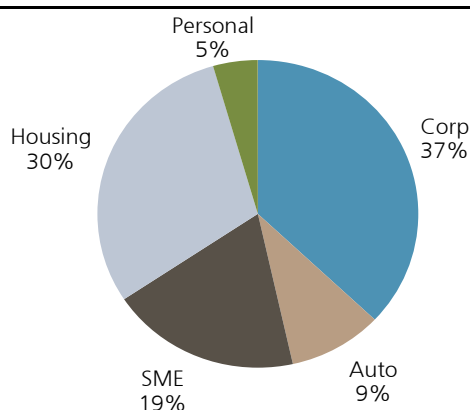
Business description

Established in 1904, Siam Commercial Bank (SCB) is the oldest commercial bank in Thailand and is closely linked to the Crown Property Bureau (CPB). As of 2014, SCB ranked third among Thai banks in terms of assets (US\$84bn, 19% of industry total), deposits (US\$59bn, 19%), and loans (US\$56bn, 18%). Its capital adequacy ratio was strong, at 16.9%, and Tier 1 ratio was 13.6% as of 2014. SCB has the largest retail branch network in Thailand and the biggest market share of retail loans, mainly in the mortgage segment. SCB's major shareholders are the CPB (21%) and the Ministry of Finance/Vayupak Fund (23%).

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 63% of total revenue in 2014, while non-interest income made up 37%. Almost 100% of total operating profit in 2014 came from the domestic market.

Siam Commercial Bank (SCB.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	62,104	73,009	81,100	82,500	1.7	84,741	2.7	91,166	101,641	104,018
Total non interest income	40,879	50,530	47,109	49,621	5.3	54,018	8.9	59,784	66,891	74,264
Total income	102,983	123,539	128,209	132,121	3.1	138,758	5.0	150,950	168,532	178,282
Total cash expenses	(42,402)	(47,317)	(48,089)	(49,908)	-3.8	(51,372)	-2.9	(56,293)	(61,399)	(65,510)
Pre-depreciation operating profit	60,582	76,222	80,120	82,214	2.6	87,386	6.3	94,656	107,133	112,772
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	60,582	76,222	80,120	82,214	2.6	87,386	6.3	94,656	107,133	112,772
Total provisions	(9,396)	(13,641)	(13,214)	(23,232)	-75.8	(24,000)	-3.3	(24,000)	(24,000)	(24,000)
Operating profit post provisions	51,186	62,581	66,906	58,982	-11.8	63,386	7.5	70,656	83,133	88,772
Income from associates & JVs (pre-tax)	1	(7)	(79)	(51)	35.6	(53)	-5.0	(56)	(59)	(62)
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	51,187	62,574	66,827	58,931	-11.8	63,333	7.5	70,600	83,074	88,711
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	51,187	62,574	66,827	58,931	-11.8	63,333	7.5	70,600	83,074	88,711
Tax	(11,667)	(11,821)	(13,175)	(11,634)	11.7	(12,667)	-8.9	(14,120)	(16,615)	(17,742)
Profit after tax	39,520	50,752	53,652	47,297	-11.8	50,666	7.1	56,480	66,459	70,968
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(285)	(519)	(317)	(56)	82.4	(55)	1.0	(55)	(55)	(55)
Net earnings (local GAAP)	39,235	50,233	53,335	47,241	-11.4	50,611	7.1	56,425	66,404	70,913
Net earnings (before pref divs)	39,235	50,233	53,335	47,241	-11.4	50,611	7.1	56,425	66,404	70,913
Net earnings (UBS)	39,235	50,233	53,335	47,241	-11.4	50,611	7.1	56,425	66,404	70,913
Per share (Bt)										
EPS (local GAAP, basic)	11.54	14.78	15.69	13.90	-11.4	14.89	7.1	16.60	19.54	20.86
EPS (UBS, diluted)	11.54	14.78	15.69	13.90	-11.4	14.89	7.1	16.60	19.54	20.86
PPOP (diluted)	17.82	22.42	23.57	24.19	2.6	25.71	6.3	27.85	31.52	33.18
Net DPS	4.50	5.25	6.00	6.00	0.1	6.15	2.4	7.14	8.79	9.81
BVPS	62.89	72.45	83.94	91.21	8.7	100.07	9.7	110.40	122.50	134.44
BVPS (UBS)	62.89	72.45	83.94	91.21	8.7	100.07	9.7	110.40	122.50	134.44
Balance sheet (Btm)										
Banking assets (year end)	2,270,067	2,534,206	2,699,703	2,831,992	4.9	2,952,712	4.3	3,158,576	3,379,299	3,605,984
Banking assets (average)	2,073,952	2,402,136	2,616,954	2,765,848	5.7	2,892,352	4.6	3,055,644	3,268,938	3,492,641
Total assets (year end)	2,270,067	2,534,206	2,699,703	2,831,992	4.9	2,952,712	4.3	3,158,576	3,379,299	3,605,984
Risk weighted assets (RWA) (year end)	1,531,617	1,708,983	1,739,801	1,843,555	6.0	1,918,364	4.1	2,058,225	2,201,757	2,344,906
Risk weighted assets (RWA) (average)	1,394,324	1,620,300	1,724,392	1,791,678	3.9	1,880,960	5.0	1,988,294	2,129,991	2,273,332
Customer loans	1,498,993	1,679,097	1,721,935	1,789,723	3.9	1,854,010	3.6	1,985,365	2,111,673	2,239,870
Customer loans (average)	1,374,341	1,589,045	1,700,516	1,755,829	3.3	1,821,866	3.8	1,919,688	2,048,519	2,175,771
Interest earning assets (average)	1,959,202	2,305,624	2,478,697	2,630,364	6.1	2,748,955	4.5	2,917,189	3,134,515	3,371,812
Customer deposits	1,614,059	1,822,911	1,895,343	1,937,835	2.2	2,018,490	4.2	2,178,448	2,346,353	2,519,824
Common s/h equity (year end)	213,789	246,272	285,332	310,048	8.7	340,140	9.7	375,257	416,400	456,980
Common s/h equity (average)	199,830	230,031	265,802	297,690	12.0	325,094	9.2	357,699	395,828	436,690
Total SHF (equity, pref & MI) (year end)	215,342	248,040	286,298	310,284	8.4	340,432	9.7	375,604	416,802	457,438
Total SHF (equity, pref & MI) (average)	201,263	231,691	267,169	298,291	11.6	325,358	9.1	358,018	396,203	437,120
Net tangible assets	215,342	248,040	286,298	310,284	8.4	340,432	9.7	375,604	416,802	457,438
Balance sheet structure (%)										
Loans / banking assets (year end)	66.0	66.3	63.8	63.2	-0.9	62.8	-0.6	62.9	62.5	62.1
Deposits / banking assets (year end)	71.1	71.9	70.2	68.4	-2.5	68.4	-0.1	69.0	69.4	69.9
Loans / deposits	92.9	92.1	90.9	92.4	1.7	91.9	-0.5	91.1	90.0	88.9
Total SHF / banking assets (year end)	9.5	9.8	10.6	11.0	3.3	11.5	5.2	11.9	12.3	12.7

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Siam Commercial Bank (SCB.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	176,136	203,369	236,613	265,237	291,744	323,071	360,064	398,636
Total capital	245,704	262,324	294,448	323,207	349,714	381,041	418,034	456,606
Risk weighted assets (RWA) (year end)	1,531,617	1,708,983	1,739,801	1,843,555	1,918,364	2,058,225	2,201,757	2,344,906
Core tier 1 ratio %	11.5	11.9	13.6	14.4	15.2	15.7	16.4	17.0
Tier 1 ratio %	11.5	11.9	13.6	14.4	15.2	15.7	16.4	17.0
Total capital ratio %	16.0	15.3	16.9	17.5	18.2	18.5	19.0	19.5
Tangible equity	213,789	246,272	285,332	310,048	340,140	375,257	416,400	456,980
Equity / assets %	9.4	9.7	10.6	10.9	11.5	11.9	12.3	12.7
Tangible equity to tangible assets %	9.4	9.7	10.6	10.9	11.5	11.9	12.3	12.7
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	45,330	49,642	52,464	78,400	89,002	94,683	101,022	106,062
Total risk reserves	51,956	60,317	59,014	67,020	78,077	87,583	105,834	121,811
NPLs / loans %	2.3	2.3	2.4	3.7	4.2	4.2	4.3	4.2
NPL coverage %	144.8	150.8	138.1	97.3	96.9	100.4	112.1	121.5
Provision charge / average loans %	0.7	0.9	0.8	1.3	1.3	1.3	1.2	1.1
Net NPAs / shareholders funds %	(3.1)	(4.3)	(2.3)	3.7	3.2	1.9	(1.2)	(3.4)
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	2.99	3.04	3.10	2.98	2.93	2.98	3.11	2.98
Provisions / operating profit	15.5	17.9	16.5	28.3	27.5	25.4	22.4	21.3
ROE (UBS earnings)	19.6	21.8	20.1	15.9	15.6	15.8	16.8	16.2
RoAdjE (UBS earnings & equity)	19.6	21.8	20.1	15.9	15.6	15.8	16.8	16.2
RoRWA (UBS)	2.83	3.13	3.11	2.64	2.69	2.84	3.12	3.12
RoA (UBS earnings)	1.91	2.11	2.05	1.71	1.75	1.85	2.03	2.03
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	41.2	38.3	37.5	37.8	37.0	37.3	36.4	36.7
Cost / average assets	2.04	1.97	1.84	1.80	1.78	1.84	1.88	1.88
Compensation expense ratio	23.7	22.0	21.6	21.7	21.5	21.6	21.0	21.4
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	20.4	20.0	3.8	3.1	5.0	8.8	11.6	5.8
Operating profit pre provisions	24.5	25.8	5.1	2.6	6.3	8.3	13.2	5.3
Net earnings (UBS)	8.2	28.0	6.2	-11.4	7.1	11.5	17.7	6.8
Net DPS	28.6	16.7	14.3	0.1	2.4	16.2	23.2	11.5
Total assets (year end)	20.9	11.6	6.5	4.9	4.3	7.0	7.0	6.7
Customer loans	19.9	12.0	2.6	3.9	3.6	7.1	6.4	6.1
Customer deposits	36.3	12.9	4.0	2.2	4.2	7.9	7.7	7.4
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	4.9	4.6	4.5	3.9	3.7	3.4	3.1	2.9
Market cap/deposits	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
P/PPOP (diluted)	8.3	7.5	7.2	6.3	5.9	5.5	4.8	4.6
P/E (local GAAP, basic)	12.8	11.3	10.9	10.9	10.2	9.2	7.8	7.3
P/E (UBS, diluted)	12.8	11.3	10.9	10.9	10.2	9.2	7.8	7.3
Net dividend yield %	3.0	3.1	3.5	3.9	4.0	4.7	5.8	6.5
P/BV x	2.4	2.3	2.0	1.7	1.5	1.4	1.2	1.1
P/BV (UBS) x	2.4	2.3	2.0	1.7	1.5	1.4	1.2	1.1

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Krung Thai Bank

Asset quality risk largely priced in

Cut EPS forecasts to reflect a prolonged NPL cycle

We lower our EPS forecasts by 5%/19%/18% for 2015/16/17, as we raise our credit cost forecasts 22-42bp during 2015-17 and cut our non-NII growth estimates 4-5% for 2016-17 to reflect a prolonged NPL cycle and weakness in the economy. Our new forecasts imply ROE will fall from 15.1% in 2014 to 11-12% during 2015-16E before recovering to 13% in 2017E.

Raise NPL and provision assumptions

Our higher credit cost estimates are based on the risk that 10% of KTB's SME and 5% of retail (non-auto) loans will turn NPL during 2015-17E. This would equal new NPL formation of Bt75bn or almost 4% of the total loan book. We also assume its Bt20bn loan exposure to Sahaviriya Steel Industries (SSI) turns NPL this year. In this scenario, we expect credit costs to increase from 70bp in 2014 to 110-120bp in 2015-16 and taper off to around 100bp in 2017E. This would lower NPL coverage ratio from 135% (consolidated) in 2014 to around 97% in 2015E, before gradually recovering to 100bp by 2017E. We expect NPLs to increase from 3.0% in Q215 and peak around 4.4% by 2017, based on our assumption that NPL formation will taper off in H216.

Better-than-expected NIM, but still on the decline

While we revised up our NIM forecasts 30-50bp from our previous estimates, this was mainly because of the consolidation of 50%-owned subsidiary, KTC, this year, and to a lesser extent better-than-expected NIM in Q215. Similar to other banks, however, we expect KTB's NIM to weaken in this environment, falling from 3.1% (consol) in 2014 to 2.96% in 2015E, and not recover until a possible policy rate hike in 2017.

Valuation: maintain Buy; lower price target from Bt24.00 to Bt21.00

Although we have significantly cut our EPS forecasts, our new price target still implies over 20% potential upside. The stock also trades at less than 1x 2015E P/BV, near its decade long trough (ex-2009). We therefore believe the bad news is largely reflected in the share price and maintain our Buy rating. We base our price target on a dividend discount model, assuming a cost of equity of 10.8% and long-term DPS growth of 5.0%. Our new price target implies 1.3x 2015E P/BV and 10.9x 2015E PE.

Equities

Thailand
Banks, Ex-S&L

12-month rating **Buy**

12m price target **Bt21.00**
Prior: Bt24.00

Price **Bt17.50**

RIC: KTB.BK **BBG:** KTB TB

Trading data and key metrics

52-wk range	Bt24.40-16.60
Market cap.	Bt245bn/US\$6.94bn
Shares o/s	13,976m (ORD)
Free float	45%
Avg. daily volume ('000)	57,699
Avg. daily value (m)	Bt1,047.7
Common s/h equity (12/15E)	Bt248bn
P/BV (12/15E)	1.0x
Tier 1 ratio	11%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	2.20	2.09	-4.74	2.21
12/16E	2.59	2.10	-19.10	2.46
12/17E	3.16	2.60	-17.73	2.85

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	80,118	91,847	93,412	107,982	111,682	123,654	136,964	144,223
Profit before tax	31,390	41,750	39,921	36,554	37,475	46,156	56,853	58,921
Net earnings (local GAAP)	23,366	33,928	33,196	29,244	29,321	36,312	44,926	46,594
Net earnings (UBS)	23,366	33,928	33,196	29,244	29,321	36,312	44,926	46,594
Tier 1 ratio %	10.2	10.2	10.9	11.4	11.7	11.8	12.2	12.7
EPS (UBS, diluted) (Bt)	1.97	2.43	2.38	2.09	2.10	2.60	3.21	3.33
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	14.9	17.4	15.1	12.2	11.4	13.1	14.7	13.8
P/POP (diluted)	4.4	5.7	5.8	4.3	4.3	3.8	3.3	3.2
P/BV x	1.3	1.4	1.3	1.0	0.9	0.8	0.8	0.7
P/BV (UBS) x	1.3	1.4	1.3	1.0	0.9	0.8	0.8	0.7
P/E (UBS, diluted)	8.3	8.7	8.7	8.4	8.3	6.7	5.4	5.2
Net dividend yield %	4.9	4.2	4.3	5.0	5.0	5.1	6.6	7.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt17.50 on 31 Jul 2015 22:38 HKT

Investment Thesis

Krung Thai Bank

Investment case

We have a Buy rating on KTB, as we think valuation is attractive with upside share price potential from internal process improvements and restructuring. We also believe the bank will benefit from government infrastructure investments. We think KTB has a long-term competitive edge in funding costs, as it has access to government and state enterprise deposits through its payroll and cash management systems. In our view, the valuation discount to the sector could narrow as the bank delivers strong core earnings growth and continues to improve its balance sheet.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215, the policy rate is unchanged and asset quality remains under control, leading to better NIM and lower credit costs. We assume a 15bp higher NIM and 5bp lower credit costs. This would lead to 13% higher 2015E EPS. We apply +1.0 SD PE (12.4x) to derive a valuation of Bt29.00 per share.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume a 5bp lower NIM and 20bp increase in credit costs. This could lead to 13% lower 2015E EPS. We apply -0.5 SD PE (7.7x) to derive valuation of Bt14.00 per share.

Upcoming catalysts

As KTB is noted for underwriting infrastructure project loans, faster government infrastructure spending could act as a catalyst. If government spending picks up in H215 as the government tries to boost the economy, this could build up positive sentiment for the sector and the bank. However, declining policy rates and rising loan restructuring/NPL could add pressure to NIM this year. If the economic recovery is delayed further, this would add provision risk to our forecasts, as would KTB's loan exposure to Sahaviriya Steel Industries.

12-month rating

Buy

12m price target

Bt21.00

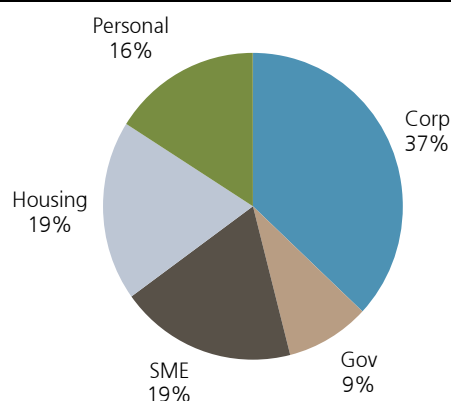
Business description

Krung Thai Bank (KTB) was established in 1966 and listed in 1984. In 1998, it merged with two nationalised banks, First Bangkok City Bank and Bangkok Bank of Commerce and the government injected two tranches of capital (Bt77bn and Bt108bn). The second tranche was subsequently reversed when Bt520bn of non-performing loans were sold to Sukhumvit Asset Management in September 2000. The Thai government owns 59% of KTB through various entities. As of 2014, KTB ranked No.1 in Thailand in terms of deposits (US\$67bn, 21%) and loans (US\$59bn, a 20% market share), and second in terms of assets (US\$86bn, 19%).

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 71% of KTB's total revenue in 2014, while non-interest income represented 29%. Almost 100% of total operating profit in 2014 was from the domestic market.

Krung Thai Bank (KTB.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	58,122	63,870	69,302	79,668	15.0	82,304	3.3	90,623	100,082	103,027
Total non interest income	21,996	27,977	24,110	28,313	17.4	29,378	3.8	33,030	36,882	41,195
Total income	80,118	91,847	93,412	107,982	15.6	111,682	3.4	123,654	136,964	144,223
Total cash expenses	(35,343)	(40,302)	(43,632)	(51,095)	-17.1	(54,473)	-6.6	(58,629)	(63,235)	(67,756)
Pre-depreciation operating profit	44,775	51,545	49,780	56,887	14.3	57,208	0.6	65,025	73,729	76,467
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	44,775	51,545	49,780	56,887	14.3	57,208	0.6	65,025	73,729	76,467
Total provisions	(15,163)	(12,284)	(13,658)	(24,040)	-76.0	(23,625)	1.7	(23,150)	(21,500)	(22,400)
Operating profit post provisions	29,612	39,261	36,122	32,847	-9.1	33,583	2.2	41,875	52,229	54,067
Income from associates & JVs (pre-tax)	1,778	2,489	3,798	3,706	-2.4	3,892	5.0	4,281	4,623	4,855
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	31,390	41,750	39,921	36,554	-8.4	37,475	2.5	46,156	56,853	58,921
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	31,390	41,750	39,921	36,554	-8.4	37,475	2.5	46,156	56,853	58,921
Tax	(8,024)	(7,822)	(6,725)	(6,315)	6.1	(7,214)	-14.2	(8,904)	(10,987)	(11,388)
Profit after tax	23,366	33,928	33,196	30,239	-8.9	30,261	0.1	37,251	45,866	47,534
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	(995)	NM	(940)	5.6	(940)	(940)	(940)
Net earnings (local GAAP)	23,366	33,928	33,196	29,244	-11.9	29,321	0.3	36,312	44,926	46,594
Net earnings (before pref divs)	23,366	33,928	33,196	29,244	-11.9	29,321	0.3	36,312	44,926	46,594
Net earnings (UBS)	23,366	33,928	33,196	29,244	-11.9	29,321	0.3	36,312	44,926	46,594
Per share (Bt)										
EPS (local GAAP, basic)	1.97	2.43	2.38	2.09	-11.9	2.10	0.3	2.60	3.21	3.33
EPS (UBS, diluted)	1.97	2.43	2.38	2.09	-11.9	2.10	0.3	2.60	3.21	3.33
PPOP (diluted)	3.77	3.69	3.56	4.07	14.3	4.09	0.6	4.65	5.28	5.47
Net DPS	0.80	0.88	0.90	0.88	-2.0	0.87	-0.9	0.90	1.16	1.23
BVPS	13.08	14.75	16.61	17.77	7.0	18.99	6.8	20.71	23.03	25.20
BVPS (UBS)	13.08	14.75	16.61	17.77	7.0	18.99	6.8	20.71	23.03	25.20
Balance sheet (Btm)										
Banking assets (year end)	2,256,490	2,514,143	2,789,143	2,814,481	0.9	2,973,374	5.6	3,191,691	3,413,175	3,612,888
Banking assets (average)	2,110,743	2,385,316	2,651,643	2,801,812	5.7	2,893,927	3.3	3,082,532	3,302,433	3,513,032
Total assets (year end)	2,256,490	2,514,143	2,789,143	2,814,481	0.9	2,973,374	5.6	3,191,691	3,413,175	3,612,888
Risk weighted assets (RWA) (year end)	1,613,216	1,872,134	1,919,826	2,013,737	4.9	2,088,844	3.7	2,233,658	2,390,615	2,533,492
Risk weighted assets (RWA) (average)	1,496,920	1,742,675	1,895,980	1,966,781	3.7	2,051,290	4.3	2,161,251	2,312,137	2,462,053
Customer loans	1,480,465	1,653,464	1,882,166	1,949,661	3.6	2,034,677	4.4	2,194,136	2,344,743	2,475,472
Customer loans (average)	1,432,590	1,566,965	1,767,815	1,915,914	8.4	1,992,169	4.0	2,114,407	2,269,440	2,410,108
Interest earning assets (average)	2,050,104	2,296,593	2,486,841	2,689,511	8.1	2,789,946	3.7	2,983,120	3,211,941	3,430,136
Customer deposits	1,666,961	1,883,795	2,151,268	2,155,354	0.2	2,291,944	6.3	2,480,674	2,664,114	2,827,541
Common s/h equity (year end)	182,847	206,089	232,142	248,344	7.0	265,337	6.8	289,437	321,809	352,230
Common s/h equity (average)	156,328	194,468	219,116	240,243	9.6	256,841	6.9	277,387	305,623	337,019
Total SHF (equity, pref & MI) (year end)	182,848	206,089	235,867	252,705	7.1	270,638	7.1	295,677	328,989	360,350
Total SHF (equity, pref & MI) (average)	156,328	194,469	220,978	244,286	10.5	261,672	7.1	283,158	312,333	344,669
Net tangible assets	182,848	206,089	235,867	252,705	7.1	270,638	7.1	295,677	328,989	360,350
Balance sheet structure (%)										
Loans / banking assets (year end)	65.6	65.8	67.5	69.3	2.7	68.4	-1.2	68.7	68.7	68.5
Deposits / banking assets (year end)	73.9	74.9	77.1	76.6	-0.7	77.1	0.7	77.7	78.1	78.3
Loans / deposits	88.8	87.8	87.5	90.5	3.4	88.8	-1.9	88.4	88.0	87.5
Total SHF / banking assets (year end)	8.1	8.2	8.5	9.0	6.2	9.1	1.4	9.3	9.6	10.0

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Krung Thai Bank (KTB.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	164,709	190,396	209,453	228,956	243,822	264,502	292,716	322,730
Total capital	264,328	276,696	284,905	294,184	309,049	329,730	357,944	387,958
Risk weighted assets (RWA) (year end)	1,613,216	1,872,134	1,919,826	2,013,737	2,088,844	2,233,658	2,390,615	2,533,492
Core tier 1 ratio %	9.6	9.4	10.1	11.4	11.7	11.8	12.2	12.7
Tier 1 ratio %	10.2	10.2	10.9	11.4	11.7	11.8	12.2	12.7
Total capital ratio %	16.4	14.8	14.8	14.6	14.8	14.8	15.0	15.3
Tangible equity	182,847	206,089	232,142	248,344	265,337	289,437	321,809	352,230
Equity / assets %	8.1	8.2	8.3	8.8	8.9	9.1	9.4	9.7
Tangible equity to tangible assets %	8.1	8.2	8.3	8.8	8.9	9.1	9.4	9.7
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	95,453	87,214	86,915	123,557	133,129	114,927	119,594	124,450
Total risk reserves	55,188	61,783	76,021	91,604	104,109	116,029	127,755	144,796
NPLs / loans %	3.9	3.3	2.9	4.6	5.0	5.0	4.8	4.7
NPL coverage %	92.7	109.3	135.3	97.1	98.1	101.0	106.8	116.3
Provision charge / average loans %	1.1	0.8	0.8	1.3	1.2	1.1	0.9	0.9
Net NPAs / shareholders funds %	22.0	12.3	4.6	12.6	10.7	(0.4)	(2.5)	(5.6)
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	2.75	2.68	2.61	2.84	2.84	2.94	3.03	2.93
Provisions / operating profit	33.9	23.8	27.4	42.3	41.3	35.6	29.2	29.3
ROE (UBS earnings)	14.9	17.4	15.1	12.2	11.4	13.1	14.7	13.8
RoAdjE (UBS earnings & equity)	14.9	17.4	15.1	12.2	11.4	13.1	14.7	13.8
RoRWA (UBS)	1.56	1.95	1.75	1.54	1.48	1.72	1.98	1.93
RoA (UBS earnings)	1.11	1.42	1.25	1.08	1.05	1.21	1.39	1.35
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	44.1	43.9	46.7	47.3	48.8	47.4	46.2	47.0
Cost / average assets	1.67	1.69	1.65	1.82	1.88	1.90	1.91	1.93
Compensation expense ratio	31.0	31.4	32.8	32.7	34.3	33.1	32.1	32.9
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	15.7	14.6	1.7	15.6	3.4	10.7	10.8	5.3
Operating profit pre provisions	24.2	15.1	-3.4	14.3	0.6	13.7	13.4	3.7
Net earnings (UBS)	37.4	45.2	-2.2	-11.9	0.3	23.8	23.7	3.7
Net DPS	29.2	9.8	2.3	-2.0	-0.9	2.8	28.8	6.6
Total assets (year end)	14.8	11.4	10.9	0.9	5.6	7.3	6.9	5.9
Customer loans	6.9	11.7	13.8	3.6	4.4	7.8	6.9	5.6
Customer deposits	29.7	13.0	14.2	0.2	6.3	8.2	7.4	6.1
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	2.6	3.2	3.1	2.3	2.2	2.0	1.8	1.7
Market cap/deposits	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
P/PPOP (diluted)	4.4	5.7	5.8	4.3	4.3	3.8	3.3	3.2
P/E (local GAAP, basic)	8.3	8.7	8.7	8.4	8.3	6.7	5.4	5.2
P/E (UBS, diluted)	8.3	8.7	8.7	8.4	8.3	6.7	5.4	5.2
Net dividend yield %	4.9	4.2	4.3	5.0	5.0	5.1	6.6	7.0
P/BV x	1.3	1.4	1.3	1.0	0.9	0.8	0.8	0.7
P/BV (UBS) x	1.3	1.4	1.3	1.0	0.9	0.8	0.8	0.7

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Bangkok Bank

Not exempt from the NPL cycle

Cut EPS estimates to reflect a prolonged NPL cycle

To reflect our view of weak asset quality and an extended low interest rate environment, we cut our EPS forecasts by 10%/15%/15% for 2015/16/17, as we raise our credit cost estimates 8-16bp and cut our NIM forecasts 12-21bp. Our new forecasts imply ROE will fall from 11.7% in 2014 to a decade low of 9.2-9.6% during 2015-16E.

Raise NPL and credit cost assumptions

Our new credit cost estimates factor in the risk that 10% of BBL's SME and 5% of retail (non-auto) loans will turn NPL during 2015-17E. This would equal new NPL formation of around Bt65bn or 3.6% of the total loan book. Note that during H115, net new NPL formation rose almost Bt15bn and gross NPL increased over 22% YTD. Moreover, BBL's relatively high exposure to TV digital operators could add to NPL risk later on. In this scenario, we expect credit costs to increase from 49bp in 2014 to 60-65bp in 2015-2017. We estimate NPL coverage ratio will fall from 204% in 2014 to around 127% by 2017, while NPL ratio could increase from 2.5% to 3.1% by 2017E.

Significant NIM contraction

We cut our NIM forecasts by 14bp/21bp/12bp for 2015/16/17 to reflect BBL's policy of maintaining relatively high excess liquidity and the low interest rate environment. We expect BBL's NIM to continue to shrink to a decade low of 1.97% in 2016 from 1.99% in 2015E (vs. 2.35% in 2014).

Valuation: maintain Buy; cut price target from Bt207.00 to Bt186.00

While BBL's profitability generation is much weaker than we had expected, the stock appears to have priced in the bad news to a certain extent. We therefore maintain our Buy rating. We base our price target on a dividend discount model, assuming a 10.5% cost of equity and 4.9% long-term DPS growth. Our price target implies 1.0x 2015E P/BV and 10.8x 2015E PE.

Equities

Thailand
Banks, Ex-S&L

12-month rating

Buy

12m price target

Bt186.00
Prior: Bt207.00

Price

Bt166.00

RIC: BBL.BK BBG: BBL TB

Trading data and key metrics

52-wk range	Bt215.00-162.50
Market cap.	Bt317bn/US\$8.99bn
Shares o/s	1,909m (ORD)
Free float	98%
Avg. daily volume ('000)	4,217
Avg. daily value (m)	Bt749.0
Common s/h equity (12/15E)	Bt362bn
P/BV (12/15E)	0.9x
Tier 1 ratio	16%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	19.24	17.29	-10.13	18.16
12/16E	21.05	17.95	-14.70	20.02
12/17E	23.72	20.24	-14.66	22.16

Worawat Saisuphatphol, CFA

Analyst

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	85,315	91,311	96,676	98,729	102,741	111,910	124,226	129,338
Profit before tax	41,016	44,917	45,084	41,322	43,131	48,595	57,835	58,961
Net earnings (local GAAP)	31,847	35,906	36,332	33,003	34,269	38,639	46,030	46,938
Net earnings (UBS)	31,847	35,906	36,332	33,003	34,269	38,639	46,030	46,938
Tier 1 ratio %	11.9	14.4	15.2	15.9	16.2	16.0	16.1	16.2
EPS (UBS, diluted) (Bt)	16.68	18.81	19.03	17.29	17.95	20.24	24.11	24.59
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	12.3	12.6	11.7	9.6	9.2	9.8	11.0	10.5
P/POP (diluted)	7.2	7.3	6.8	6.0	5.8	5.2	4.6	4.4
P/BV x	1.3	1.3	1.1	0.9	0.8	0.8	0.7	0.7
P/BV (UBS) x	1.3	1.3	1.1	0.9	0.8	0.8	0.7	0.7
P/E (UBS, diluted)	10.9	10.9	10.1	9.6	9.2	8.2	6.9	6.8
Net dividend yield %	3.6	3.2	3.4	3.9	4.3	5.2	6.5	7.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt166.00 on 31 Jul 2015 22:38 HKT

Investment Thesis

Bangkok Bank

Investment case

We have a Buy rating on Bangkok Bank (BBL) mainly due to its undemanding valuation. Moreover, as one of the biggest corporate lenders in Thailand, we think it is well placed to benefit from government infrastructure project investments. We believe ASEAN integration will support loan demand and boost fee income for the foreseeable future, as BBL has the largest exposure to international business among the Thai banks. In addition, BBL has the strongest balance sheet in the sector.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215, the policy rate is unchanged and asset quality remains under control, leading to better NIM and lower credit costs. We assume a 15bp higher NIM and 5bp lower credit costs. This would lead to a 10% higher 2015E EPS. We apply +1.0 SD PE (11.5x) to derive a valuation of Bt218.00.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume a 5bp lower NIM and 20bp increase in credit costs. This would lead to an 11% lower 2015E EPS. We apply -0.5 SD PE (9.6x) to derive a valuation of Bt147.00.

Upcoming catalysts

Government spending may pick up in H215 as the government tries to boost the economy. This could build up positive sentiment for the sector and the bank. Declining policy rates and rising loan restructuring/NPLs could put more pressure on NIM this year. If the economic recovery is delayed further, this may add provision risk to our forecasts.

12-month rating

Buy

12m price target

Bt186.00

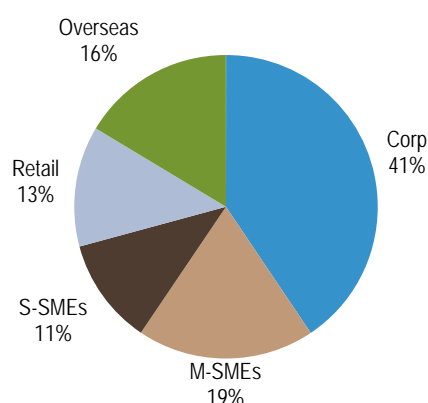
Business description

Bangkok Bank (BBL) was listed on the Stock Exchange of Thailand (SET) in 1975. It is the largest commercial bank in Thailand and a leading commercial bank in Southeast Asia. As of 2014, it led Thai banks in terms of assets (US\$86bn, 19% market share), deposits (US\$64bn, 20%), and loans (US\$56bn, 18%). It has a network of more than 1,000 branches. The bank's tier 1 was 15.2% as of 2014, the highest among Thai banks. BBL, a major lender in the large corporate segment, has the highest exposure to foreign operations in Thailand (17% of total assets). The Sophonpanich family owns 8-10% of BBL shares.

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 61% of BBL's total revenue in 2014, while non-interest income made up 39%. In 2014, 92% of total operating profit before tax was derived from the domestic market.

Bangkok Bank (BBL.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	54,953	55,879	58,997	54,251	-8.0	56,306	3.8	64,214	73,607	75,075
Total non interest income	30,362	35,432	37,678	44,477	18.0	46,435	4.4	47,696	50,619	54,264
Total income	85,315	91,311	96,676	98,729	2.1	102,741	4.1	111,910	124,226	129,338
Total cash expenses	(37,133)	(37,962)	(43,087)	(45,720)	-6.1	(48,378)	-5.8	(51,451)	(54,810)	(58,102)
Pre-depreciation operating profit	48,182	53,349	53,589	53,009	-1.1	54,363	2.6	60,459	69,416	71,237
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	48,182	53,349	53,589	53,009	-1.1	54,363	2.6	60,459	69,416	71,237
Total provisions	(7,248)	(8,593)	(8,687)	(11,901)	-37.0	(11,500)	3.4	(12,200)	(12,000)	(12,800)
Operating profit post provisions	40,933	44,755	44,902	41,108	-8.5	42,863	4.3	48,259	57,416	58,437
Income from associates & JVs (pre-tax)	83	162	182	215	18.0	268	25.0	335	419	524
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	41,016	44,917	45,084	41,322	-8.3	43,131	4.4	48,595	57,835	58,961
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	41,016	44,917	45,084	41,322	-8.3	43,131	4.4	48,595	57,835	58,961
Tax	(9,100)	(8,882)	(8,593)	(8,096)	5.8	(8,632)	-6.6	(9,725)	(11,574)	(11,792)
Profit after tax	31,916	36,035	36,491	33,226	-8.9	34,499	3.8	38,869	46,261	47,168
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(68)	(130)	(159)	(223)	-40.4	(230)	-3.3	(230)	(230)	(230)
Net earnings (local GAAP)	31,847	35,906	36,332	33,003	-9.2	34,269	3.8	38,639	46,030	46,938
Net earnings (before pref divs)	31,847	35,906	36,332	33,003	-9.2	34,269	3.8	38,639	46,030	46,938
Net earnings (UBS)	31,847	35,906	36,332	33,003	-9.2	34,269	3.8	38,639	46,030	46,938
Per share (Bt)										
EPS (local GAAP, basic)	16.68	18.81	19.03	17.29	-9.2	17.95	3.8	20.24	24.11	24.59
EPS (UBS, diluted)	16.68	18.81	19.03	17.29	-9.2	17.95	3.8	20.24	24.11	24.59
PPOP (diluted)	25.24	27.95	28.07	27.77	-1.1	28.48	2.6	31.67	36.37	37.32
Net DPS	6.50	6.50	6.50	6.50	0.0	7.19	10.6	8.71	10.86	11.56
BVPS	142.51	155.03	169.47	189.42	11.8	200.19	5.7	211.90	226.55	240.19
BVPS (UBS)	142.51	155.03	169.47	189.42	11.8	200.19	5.7	211.90	226.55	240.19
Balance sheet (Btm)										
Banking assets (year end)	2,420,740	2,596,507	2,759,890	2,940,147	6.5	3,071,054	4.5	3,266,851	3,465,768	3,677,335
Banking assets (average)	2,263,826	2,508,623	2,678,199	2,850,018	6.4	3,005,600	5.5	3,168,952	3,366,309	3,571,552
Total assets (year end)	2,420,740	2,596,507	2,759,890	2,940,147	6.5	3,071,054	4.5	3,266,851	3,465,768	3,677,335
Risk weighted assets (RWA) (year end)	1,720,444	1,889,758	1,950,017	2,039,915	4.6	2,112,183	3.5	2,260,341	2,407,300	2,552,459
Risk weighted assets (RWA) (average)	1,614,375	1,805,101	1,919,887	1,994,966	3.9	2,076,049	4.1	2,186,262	2,333,820	2,479,879
Customer loans	1,521,138	1,664,656	1,694,541	1,745,524	3.0	1,811,881	3.8	1,939,577	2,061,212	2,180,500
Customer loans (average)	1,455,480	1,592,897	1,679,598	1,720,033	2.4	1,778,703	3.4	1,875,729	2,000,395	2,120,856
Interest earning assets (average)	2,155,894	2,367,935	2,512,424	2,727,986	8.6	2,863,892	5.0	3,022,128	3,219,295	3,422,302
Customer deposits	1,834,654	1,935,272	2,058,779	2,185,923	6.2	2,276,859	4.2	2,428,479	2,574,915	2,732,876
Common s/h equity (year end)	272,025	295,936	323,491	361,566	11.8	382,129	5.7	404,492	432,450	458,484
Common s/h equity (average)	257,920	283,980	309,714	342,528	10.6	371,847	8.6	393,310	418,471	445,467
Total SHF (equity, pref & MI) (year end)	272,096	296,052	323,644	361,868	11.8	382,662	5.7	405,255	433,443	459,708
Total SHF (equity, pref & MI) (average)	258,391	284,074	309,848	342,756	10.6	372,265	8.6	393,958	419,349	446,576
Net tangible assets	272,096	296,052	323,644	361,868	11.8	382,662	5.7	405,255	433,443	459,708
Balance sheet structure (%)										
Loans / banking assets (year end)	62.8	64.1	61.4	59.4	-3.3	59.0	-0.6	59.4	59.5	59.3
Deposits / banking assets (year end)	75.8	74.5	74.6	74.3	-0.3	74.1	-0.3	74.3	74.3	74.3
Loans / deposits	82.9	86.0	82.3	79.9	-3.0	79.6	-0.3	79.9	80.0	79.8
Total SHF / banking assets (year end)	11.2	11.4	11.7	12.3	5.0	12.5	1.2	12.4	12.5	12.5

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Bangkok Bank (BBL.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	203,928	272,156	297,006	323,374	342,924	362,176	387,422	412,994
Total capital	278,884	319,747	342,423	365,833	385,383	404,635	429,881	455,453
Risk weighted assets (RWA) (year end)	1,720,444	1,889,758	1,950,017	2,039,915	2,112,183	2,260,341	2,407,300	2,552,459
Core tier 1 ratio %	11.9	14.4	15.2	15.9	16.2	16.0	16.1	16.2
Tier 1 ratio %	11.9	14.4	15.2	15.9	16.2	16.0	16.1	16.2
Total capital ratio %	16.2	16.9	17.6	17.9	18.2	17.9	17.9	17.8
Tangible equity	272,025	295,936	323,491	361,566	382,129	404,492	432,450	458,484
Equity / assets %	11.2	11.4	11.7	12.3	12.4	12.4	12.5	12.5
Tangible equity to tangible assets %	11.2	11.4	11.7	12.3	12.4	12.4	12.5	12.5
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	63,587	62,129	61,562	74,199	80,490	83,453	86,308	89,944
Total risk reserves	87,588	92,583	91,925	92,474	91,233	97,029	107,807	119,309
NPLs / loans %	2.6	2.5	2.5	3.3	3.7	3.8	3.7	3.8
NPL coverage %	206.9	214.2	204.1	150.7	128.3	126.7	132.7	138.3
Provision charge / average loans %	0.5	0.5	0.5	0.7	0.6	0.7	0.6	0.6
Net NPAs / shareholders funds %	(8.8)	(10.3)	(9.4)	(5.1)	(2.8)	(3.3)	(5.0)	(6.4)
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	2.43	2.23	2.20	1.90	1.87	2.03	2.19	2.10
Provisions / operating profit	15.0	16.1	16.2	22.5	21.2	20.2	17.3	18.0
ROE (UBS earnings)	12.3	12.6	11.7	9.6	9.2	9.8	11.0	10.5
RoAdjE (UBS earnings & equity)	12.3	12.6	11.7	9.6	9.2	9.8	11.0	10.5
RoRWA (UBS)	1.98	2.00	1.90	1.67	1.66	1.78	1.98	1.90
RoA (UBS earnings)	1.41	1.44	1.36	1.17	1.15	1.23	1.37	1.32
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	43.5	41.6	44.6	46.3	47.1	46.0	44.1	44.9
Cost / average assets	1.64	1.51	1.61	1.60	1.61	1.62	1.63	1.63
Compensation expense ratio	28.3	28.2	29.5	31.4	32.4	31.5	30.0	30.9
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	4.0	7.0	5.9	2.1	4.1	8.9	11.0	4.1
Operating profit pre provisions	4.5	10.7	0.5	-1.1	2.6	11.2	14.8	2.6
Net earnings (UBS)	16.5	12.7	1.2	-9.2	3.8	12.8	19.1	2.0
Net DPS	8.3	0.0	0.0	0.0	10.6	21.2	24.7	6.4
Total assets (year end)	14.9	7.3	6.3	6.5	4.5	6.4	6.1	6.1
Customer loans	9.4	9.4	1.8	3.0	3.8	7.0	6.3	5.8
Customer deposits	15.5	5.5	6.4	6.2	4.2	6.7	6.0	6.1
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	4.1	4.3	3.8	3.2	3.1	2.8	2.6	2.4
Market cap/deposits	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
P/PPOP (diluted)	7.2	7.3	6.8	6.0	5.8	5.2	4.6	4.4
P/E (local GAAP, basic)	10.9	10.9	10.1	9.6	9.2	8.2	6.9	6.8
P/E (UBS, diluted)	10.9	10.9	10.1	9.6	9.2	8.2	6.9	6.8
Net dividend yield %	3.6	3.2	3.4	3.9	4.3	5.2	6.5	7.0
P/BV x	1.3	1.3	1.1	0.9	0.8	0.8	0.7	0.7
P/BV (UBS) x	1.3	1.3	1.1	0.9	0.8	0.8	0.7	0.7

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

TMB Bank

Short-term setback, long term intact

Cut our EPS estimates to reflect NPL risk and a weak economy

We lower our EPS forecasts by 7%/14%/3% for 2015/16/17, as we raise our credit cost forecasts 15bp/20bp/6bp and cut our NIM estimates by 2-8bps. Our new forecasts imply ROE will fall from 14.5% in 2014 to 11-12% during 2015-16 before recovering to around 15% in 2017E. Note that management still targets ROE of 13-14% in 2015.

Revise NPL and provision assumptions

Our new credit cost estimates factor in the risk that 10% of TMB's SME and 5% of retail (non-auto) loans will turn NPL during 2015-17E. This would equal new NPL formation of Bt20bn-25bn or 4-5% of the total loan book. In this scenario, we expect credit costs to increase from 65bp in 2014 to 115bp in 2015-16, and taper off to around 100bp in 2017E. We estimate NPL coverage to drop from 157% in 2014 to around 140% by 2017, while NPL ratio would increase from 3.1% to around 3.3-3.4% by 2017E. However as 36% of TMB's total NPLs were covered by a Thai Credit Guarantee Corporation (TCG) loan guarantee as of Q215, it could lead to downside risk on our provision forecasts and upside risk to our NPL coverage ratio estimates.

Lower our NIM assumptions

On top our expectation of another policy rate cut from 1.5% to 1.25% in H215, we also factor in a delay in the policy rate hike cycle from 2016 to 2017; this lowers our NIM forecast 2-8bps for 2015-17. Instead of NIM expansion as the bank guided, we expect NIM to remain at 2.95% during 2015-16 (or stable since 2014), before improving to 3.1% in 2017E.

Valuation: maintain Buy; cut price target from Bt2.90 to Bt2.70

We base our price target on a dividend discount model, assuming a cost of equity of 10.6% and long-term DPS growth of 5.1%. Our price target implies 1.6x 2015E P/BV and 14.2x 2015E PE. In the longer term, we believe TMB is viewed as a potential acquisition candidate by foreign banks. The Ministry of Finance (which has a 26% stake in TMB) is looking for an opportunity to sell its holding. The average P/BV for acquisitions of major Thai banks is 1.5-1.6x. The recent Bank of Ayudhya and Mitsubishi UFJ Financial Group acquisition was done at 1.9x P/BV.

Equities

Thailand
Banks, Ex-S&L

12-month rating **Buy**

12m price target **Bt2.70**
Prior: Bt2.90

Price **Bt2.34**

RIC: TMB.BK **BBG:** TMB TB

Trading data and key metrics

52-wk range	Bt3.22-2.26
Market cap.	Bt102bn/US\$2.89bn
Shares o/s	43,529m (ORD)
Free float	44%
Avg. daily volume ('000)	132,349
Avg. daily value (m)	Bt324.0
Common s/h equity (12/15E)	Bt74.2bn
P/BV (12/15E)	1.4x
Tier 1 ratio	12%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	0.20	0.19	-6.72	0.20
12/16E	0.25	0.22	-13.69	0.22
12/17E	0.30	0.29	-3.45	0.27

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Analyst

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	24,708	29,216	30,004	33,234	35,668	40,672	45,035	48,724
Profit before tax	1,664	7,044	10,742	10,412	11,785	15,914	18,750	20,725
Net earnings (local GAAP)	1,261	5,737	9,539	8,293	9,410	12,713	14,982	16,561
Net earnings (UBS)	1,261	5,737	9,539	8,293	9,410	12,713	14,982	16,561
Tier 1 ratio %	11.1	10.6	11.0	11.6	12.1	12.5	13.1	13.7
EPS (UBS, diluted) (Bt)	0.03	0.13	0.22	0.19	0.22	0.29	0.34	0.37
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	2.3	9.6	14.5	11.5	12.1	14.9	15.9	16.0
P/POP (diluted)	7.1	7.4	8.1	6.0	5.5	4.5	4.0	3.7
P/BV x	1.3	1.8	1.7	1.4	1.3	1.1	1.0	1.0
P/BV (UBS) x	1.3	1.8	1.7	1.4	1.3	1.1	1.0	1.0
P/E (UBS, diluted)	58.2	18.9	12.1	12.3	10.9	8.1	6.8	6.3
Net dividend yield %	2.0	1.6	2.3	2.6	3.2	5.0	6.1	7.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt2.34 on 31 Jul 2015 22:38 HKT

Investment Thesis

TMB Bank

Investment case

We believe TMB Bank's innovative funding strategy and increased focus on the SME segment will improve core earnings and ROE. We believe the key risks are asset quality and slowing growth momentum due to intensifying competition in the SME segment. We view TMB Bank as a potential acquisition candidate.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215, the policy rate is unchanged and asset quality remains under control, leading to better NIM and lower credit costs. We assume a 15bp higher NIM and 5bp lower credit costs. This would lead to a 13% higher 2015E EPS. We assume an average PE of 13.5x, resulting in a valuation of Bt2.90.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume a 5bp lower NIM and 20bp increase in credit costs. This would lead to a 13% lower 2015E EPS. We assume -1 SD PE (11.5x), leading to a valuation of Bt1.90.

Upcoming catalysts

Government spending may pick up in H215 as the government tries to boost the economy. This could build up positive sentiment to the sector and the bank. Further collaboration with TCG and IFC could help TMB gain market share in the SME lending space, which would boost NIM (help sustained NIM and lower asset quality risk). Declining policy rates and rising loan restructuring/NPL could put more pressure on NIM this year. If an economic recovery is delayed further, this could add provision risk to our forecasts.

12-month rating

Buy

12m price target

Bt2.70

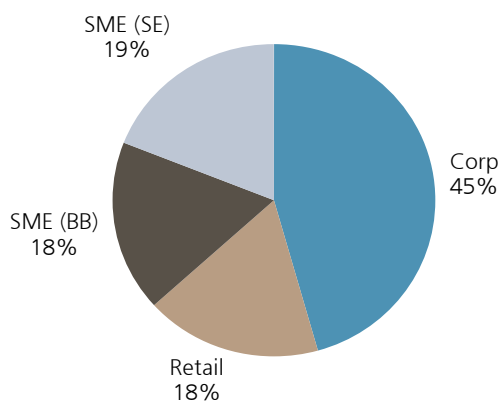
Business description

TMB Bank (TMB) was the seventh-largest bank in Thailand in 2014 in terms of assets (US\$25bn, a 6% market share), loans (US\$17bn, a 5% market share), and deposits (US\$18bn, a 6% market share). ING Group (ING) took control of TMB in 2007 and appointed the current management team in late 2008. ING and its partners own a 30% stake in TMB, followed by the Ministry of Finance (26%) and DBS Group (2.0%). The Ministry of Finance and DBS Group have indicated their intention to divest their stakes.

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 72% of total revenue in 2014, while non-interest income made up 28%. Almost 100% of operating profit in 2014 came from the domestic market.

TMB Bank (TMB.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	17,065	20,822	21,595	22,634	4.8	23,609	4.3	26,472	28,784	30,409
Total non interest income	7,643	8,394	8,409	10,599	26.0	12,058	13.8	14,200	16,251	18,314
Total income	24,708	29,216	30,004	33,234	10.8	35,668	7.3	40,672	45,035	48,724
Total cash expenses	(14,291)	(14,550)	(15,774)	(16,312)	-3.4	(16,983)	-4.1	(18,158)	(19,384)	(20,599)
Pre-depreciation operating profit	10,417	14,666	14,230	16,922	18.9	18,685	10.4	22,514	25,650	28,125
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	10,417	14,666	14,230	16,922	18.9	18,685	10.4	22,514	25,650	28,125
Total provisions	(8,751)	(7,613)	(3,437)	(6,511)	-89.4	(6,900)	-6.0	(6,600)	(6,900)	(7,400)
Operating profit post provisions	1,666	7,053	10,793	10,412	-3.5	11,785	13.2	15,914	18,750	20,725
Income from associates & JVs (pre-tax)	(2)	(9)	(51)	1	-	0	-	0	0	0
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	1,664	7,044	10,742	10,412	-3.1	11,785	13.2	15,914	18,750	20,725
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	1,664	7,044	10,742	10,412	-3.1	11,785	13.2	15,914	18,750	20,725
Tax	(376)	(1,297)	(1,191)	(2,101)	-76.5	(2,357)	-12.2	(3,183)	(3,750)	(4,145)
Profit after tax	1,288	5,748	9,552	8,311	-13.0	9,428	13.4	12,731	15,000	16,580
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(27)	(10)	(13)	(18)	-44.4	(18)	0.0	(18)	(18)	(18)
Net earnings (local GAAP)	1,261	5,737	9,539	8,293	-13.1	9,410	13.5	12,713	14,982	16,561
Net earnings (before pref divs)	1,261	5,737	9,539	8,293	-13.1	9,410	13.5	12,713	14,982	16,561
Net earnings (UBS)	1,261	5,737	9,539	8,293	-13.1	9,410	13.5	12,713	14,982	16,561
Per share (Bt)										
EPS (local GAAP, basic)	0.03	0.13	0.22	0.19	-13.5	0.22	13.5	0.29	0.34	0.37
EPS (UBS, diluted)	0.03	0.13	0.22	0.19	-13.5	0.22	13.5	0.29	0.34	0.37
PPOP (diluted)	0.24	0.34	0.33	0.39	18.3	0.43	10.4	0.51	0.59	0.64
Net DPS	0.03	0.04	0.06	0.06	1.1	0.08	24.1	0.12	0.14	0.17
BVPS	1.32	1.42	1.60	1.70	5.9	1.85	8.9	2.05	2.25	2.45
BVPS (UBS)	1.32	1.42	1.60	1.70	5.9	1.85	8.9	2.05	2.25	2.45
Balance sheet (Btm)										
Banking assets (year end)	716,925	765,732	810,167	828,495	2.3	868,046	4.8	929,119	994,138	1,057,614
Banking assets (average)	717,784	741,328	787,949	819,331	4.0	848,271	3.5	898,583	961,628	1,025,876
Total assets (year end)	716,925	765,732	810,167	828,495	2.3	868,046	4.8	929,119	994,138	1,057,614
Risk weighted assets (RWA) (year end)	447,831	510,009	535,525	551,986	3.1	579,413	5.0	618,587	653,169	689,696
Risk weighted assets (RWA) (average)	435,689	478,920	522,767	543,756	4.0	565,700	4.0	599,000	635,878	671,433
Customer loans	428,751	469,010	503,066	536,827	6.7	568,517	5.9	616,562	657,956	702,285
Customer loans (average)	402,685	448,881	486,038	519,947	7.0	552,672	6.3	592,540	637,259	680,121
Interest earning assets (average)	644,540	674,731	729,279	766,390	5.1	799,568	4.3	851,751	916,541	983,778
Customer deposits	496,158	529,606	571,625	609,611	6.6	641,299	5.2	692,121	746,952	799,041
Common s/h equity (year end)	57,316	61,757	69,704	74,172	6.4	80,761	8.9	89,685	98,492	108,445
Common s/h equity (average)	54,747	59,537	65,731	71,938	9.4	77,467	7.7	85,223	94,088	103,468
Total SHF (equity, pref & MI) (year end)	57,382	61,833	69,793	74,280	6.4	80,886	8.9	89,829	98,654	108,626
Total SHF (equity, pref & MI) (average)	54,832	59,608	65,813	72,036	9.5	77,583	7.7	85,357	94,241	103,640
Net tangible assets	57,382	61,833	69,793	74,280	6.4	80,886	8.9	89,829	98,654	108,626
Balance sheet structure (%)										
Loans / banking assets (year end)	59.8	61.2	62.1	64.8	4.4	65.5	1.1	66.4	66.2	66.4
Deposits / banking assets (year end)	69.2	69.2	70.6	73.6	4.3	73.9	0.4	74.5	75.1	75.6
Loans / deposits	86.4	88.6	88.0	88.1	0.1	88.7	0.7	89.1	88.1	87.9
Total SHF / banking assets (year end)	8.0	8.1	8.6	9.0	4.1	9.3	3.9	9.7	9.9	10.3

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

TMB Bank (TMB.BK)

	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Capital adequacy (Btm)								
Tier 1 capital	49,754	54,163	59,122	64,300	70,383	77,513	85,264	94,407
Total capital	81,304	81,048	98,172	101,555	107,638	114,768	122,519	131,662
Risk weighted assets (RWA) (year end)	447,831	510,009	535,525	551,986	579,413	618,587	653,169	689,696
Core tier 1 ratio %	11.1	10.6	11.0	11.6	12.1	12.5	13.1	13.7
Tier 1 ratio %	11.1	10.6	11.0	11.6	12.1	12.5	13.1	13.7
Total capital ratio %	18.2	15.9	18.3	18.4	18.6	18.6	18.8	19.1
Tangible equity	57,316	61,757	69,704	74,172	80,761	89,685	98,492	108,445
Equity / assets %	8.0	8.1	8.6	9.0	9.3	9.7	9.9	10.3
Tangible equity to tangible assets %	8.0	8.1	8.6	9.0	9.3	9.7	9.9	10.3
Asset quality (Btm)								
Non performing assets	24,254	24,318	19,953	20,964	24,063	25,295	26,678	28,197
Total risk reserves	24,923	31,468	28,362	28,340	31,911	34,915	39,275	43,932
NPLs / loans %	4.9	4.5	3.4	3.5	3.9	3.8	3.8	3.7
NPL coverage %	112.8	140.4	156.8	141.7	136.4	140.6	149.0	157.0
Provision charge / average loans %	2.2	1.7	0.7	1.3	1.2	1.1	1.1	1.1
Net NPAs / shareholders funds %	(1.2)	(11.6)	(12.0)	(9.9)	(9.7)	(10.7)	(12.8)	(14.5)
Profitability (%)								
Net interest margin (avg assets)	2.38	2.81	2.74	2.76	2.78	2.95	2.99	2.96
Provisions / operating profit	84.0	51.9	24.2	38.5	36.9	29.3	26.9	26.3
ROE (UBS earnings)	2.3	9.6	14.5	11.5	12.1	14.9	15.9	16.0
RoAdjE (UBS earnings & equity)	2.3	9.6	14.5	11.5	12.1	14.9	15.9	16.0
RoRWA (UBS)	0.30	1.20	1.83	1.53	1.67	2.13	2.36	2.47
RoA (UBS earnings)	0.18	0.78	1.21	1.01	1.11	1.42	1.56	1.62
Productivity (%)								
Cost income ratio	57.8	49.8	52.6	49.1	47.6	44.6	43.0	42.3
Cost / average assets	1.99	1.96	2.00	1.99	2.00	2.02	2.02	2.01
Compensation expense ratio	41.0	34.2	36.2	32.7	31.8	29.1	27.6	27.0
Growth (%)								
Revenue	18.7	18.2	2.7	10.8	7.3	14.0	10.7	8.2
Operating profit pre provisions	45.2	40.8	-3.0	18.9	10.4	20.5	13.9	9.6
Net earnings (UBS)	-68.5	354.9	66.3	-13.1	13.5	35.1	17.8	10.5
Net DPS	10.0	21.2	50.0	1.1	24.1	54.4	23.7	18.4
Total assets (year end)	-0.2	6.8	5.8	2.3	4.8	7.0	7.0	6.4
Customer loans	13.8	9.4	7.3	6.7	5.9	8.5	6.7	6.7
Customer deposits	9.7	6.7	7.9	6.6	5.2	7.9	7.9	7.0
Value (x)								
Market cap/revenues	3.0	3.7	3.9	3.1	2.9	2.5	2.3	2.1
Market cap/deposits	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
P/PPOP (diluted)	7.1	7.4	8.1	6.0	5.5	4.5	4.0	3.7
P/E (local GAAP, basic)	58.2	18.9	12.1	12.3	10.9	8.1	6.8	6.3
P/E (UBS, diluted)	58.2	18.9	12.1	12.3	10.9	8.1	6.8	6.3
Net dividend yield %	2.0	1.6	2.3	2.6	3.2	5.0	6.1	7.3
P/BV x	1.3	1.8	1.7	1.4	1.3	1.1	1.0	1.0
P/BV (UBS) x	1.3	1.8	1.7	1.4	1.3	1.1	1.0	1.0

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Bank of Ayudhya

Valuation still looks demanding

Cut our EPS forecasts

We lower our EPS forecasts by 7%/13%/15% for 2015-2017E as we raise our credit cost forecasts 15-19bp, cut interest earning asset growth 7-8% and lower our non-NII growth estimates 4-5% to reflect possible prolonged economic weakness and NPL risk. Our new forecasts imply ROE at 10-11% during 2015-17E, fairly stable since 2014.

Raise credit cost and NPL forecasts

Our new credit cost estimates take into account possible rising NPL formation, particularly for the SME and personal loans portfolios, during the sluggish economic environment. Even so, we expect credit costs to decline from 178bp in 2014 to 163bp/143bp/126bp in 2015/16/17, as pressure from auto NPLs continues to ease. We expect NPL ratio to rise from 2.4% as of Q215 to 2.6% by 2017, and NPL coverage ratio to improve from 133bp in 2014 to 157bp by 2017, driven by its conservative provision policy and easing NPL auto loan formation.

NIM to decline

Compared to other big banks, BAY's NIM should be less affected by the declining interest rate environment due to its large exposure to fixed rate auto loans (about 20% of its loan portfolio). However, we still expect NIM to trend lower during 2015-17. We expect NIM to fall from 4.24% to 3.87% in 2015, mainly due to consolidation of the BTMU Bangkok branch, and fall further to 3.64% by 2017E, due to the effect of the declining interest rate environment.

Valuation: maintain Sell; cut price target from Bt34.00 to Bt30.00

Despite the sharp correction in the share price YTD, we believe the current share price remains well above fair value. The stock trades at a premium P/BV over ROE of 12-13x versus other big bank peers at 8-10x. We therefore maintain our Sell rating. We base our price target on a dividend discount model, assuming a cost of equity of 10.6% and long-term DPS growth of 5.2%.

Equities

Thailand
Banks, Ex-S&L

12-month rating **Sell**

12m price target **Bt30.00**
Prior: Bt34.00

Price **Bt31.75**

RIC: BAY.BK **BBG:** BAY TB

Trading data and key metrics

52-wk range	Bt90.50-31.50
Market cap.	Bt234bn/US\$6.63bn
Shares o/s	7,356m (ORD)
Free float	67%
Avg. daily volume ('000)	1,692
Avg. daily value (m)	Bt58.9
Common s/h equity (12/15E)	Bt190bn
P/BV (12/15E)	1.2x
Tier 1 ratio	13%

EPS (UBS, diluted) (Bt)

	From	To	% ch	Cons.
12/15E	2.60	2.42	-6.89	2.54
12/16E	3.03	2.63	-13.05	2.84
12/17E	3.72	3.13	-16.08	3.34

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Analyst

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	61,011	68,388	70,601	81,801	85,451	92,411	100,182	108,893
Profit before tax	19,006	18,080	18,354	22,630	24,517	29,027	35,227	40,481
Net earnings (local GAAP)	14,625	14,019	14,170	17,807	19,379	22,987	27,947	32,150
Net earnings (UBS)	14,625	14,019	14,170	17,807	19,379	22,987	27,947	32,150
Tier 1 ratio %	10.9	10.2	10.6	12.7	13.2	13.3	13.7	14.1
EPS (UBS, diluted) (Bt)	2.41	2.31	2.33	2.42	2.63	3.13	3.80	4.45
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	13.6	11.8	11.1	11.1	9.8	10.9	12.2	13.0
P/POP (diluted)	5.7	6.2	7.1	5.4	5.4	5.0	4.6	4.1
P/BV x	1.5	1.8	2.0	1.2	1.1	1.1	1.0	0.9
P/BV (UBS) x	1.8	2.0	2.2	1.3	1.2	1.1	1.0	0.9
P/E (UBS, diluted)	11.8	15.4	18.2	13.1	12.1	10.2	8.4	7.1
Net dividend yield %	2.8	2.2	1.9	2.6	2.9	3.6	4.8	5.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt31.75 on 31 Jul 2015 22:38 HKT

Investment Thesis

Bank of Ayudhya

Investment case

We have a Sell rating on Bank of Ayudhya (BAY) as we think the valuation is demanding. While the acquisition of over 70% of BAY by Japan's Mitsubishi UFJ Financial Group in 2013 could be value accretive, we think the valuation has run ahead of fundamentals and does not take into account integration risk in the medium term.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215 and asset quality is under control, leading to better loan growth/non-NII and lower credit costs. We assume a 5ppt higher loan growth, 5ppt higher non-NII and 5bp lower credit costs. This would lead to a 13% higher 2015E EPS. We apply the historical average PE (14.6x) to derive a valuation of Bt39.00.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume a 5bp lower NIM and a 20bp increase in credit costs. This would lead to a 13.0% lower 2015E EPS. We apply -0.5 SD PE (12.3x) to derive a valuation of Bt26.00.

Upcoming catalysts

The MUFG stake acquisition could allow BAY to tap the Japanese customer base and boost its non-NII. BAY may also gain market share related to the international business as it could leverage MUFG's competitive advantage in regional markets. Declining policy rates and rising loan restructuring/NPL could put more pressure on NIM this year. If an economic recovery is delayed further, this may add provision risk to our forecasts.

12-month rating

Sell

12m price target

Bt30.00

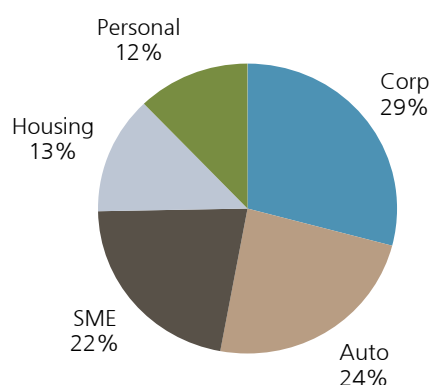
Business description

Bank of Ayudhya (BAY) was established in 1945 and has been majority-owned by the Ratanarak family since 1964, despite three rounds of capital-raising since 1998. In January 2007, GE Capital (GE) purchased a 32.9% stake (new shares) in BAY, which recapitalised its balance sheet and gave GE management control. In 2013, MUFG acquired more than 70% in the company and diluted the Ratanarak family's stake to roughly 25% (from 35%). As of 2015, BAY ranked fifth among Thai banks in terms of deposits (US\$23bn, 8% market share), total assets (US\$36bn, 9%) and loans (US\$29bn, 10%).

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 68% of total revenue in 2014, while non-interest income made up 32%. Almost all operating profit in 2014 came from the domestic market.

Bank of Ayudhya (BAY.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	39,953	44,939	47,943	55,183	15.1	56,660	2.7	59,706	63,478	67,923
Total non interest income	21,058	23,449	22,658	26,618	17.5	28,791	8.2	32,705	36,704	40,970
Total income	61,011	68,388	70,601	81,801	15.9	85,451	4.5	92,411	100,182	108,893
Total cash expenses	(30,798)	(33,594)	(34,300)	(38,645)	-12.7	(41,934)	-8.5	(45,584)	(49,455)	(53,012)
Pre-depreciation operating profit	30,213	34,794	36,301	43,156	18.9	43,517	0.8	46,827	50,727	55,881
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	30,213	34,794	36,301	43,156	18.9	43,517	0.8	46,827	50,727	55,881
Total provisions	(11,385)	(16,826)	(18,107)	(20,870)	-15.3	(19,200)	8.0	(18,000)	(15,700)	(15,600)
Operating profit post provisions	18,828	17,968	18,195	22,286	22.5	24,317	9.1	28,827	35,027	40,281
Income from associates & JVs (pre-tax)	177	112	159	344	115.9	200	-41.9	200	200	200
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	19,006	18,080	18,354	22,630	23.3	24,517	8.3	29,027	35,227	40,481
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	19,006	18,080	18,354	22,630	23.3	24,517	8.3	29,027	35,227	40,481
Tax	(4,337)	(3,942)	(4,031)	(4,593)	-14.0	(4,903)	-6.7	(5,805)	(7,045)	(8,096)
Profit after tax	14,669	14,138	14,323	18,036	25.9	19,614	8.7	23,222	28,182	32,385
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(43)	(119)	(154)	(229)	-49.2	(234)	-2.3	(234)	(234)	(234)
Net earnings (local GAAP)	14,625	14,019	14,170	17,807	25.7	19,379	8.8	22,987	27,947	32,150
Net earnings (before pref divs)	14,625	14,019	14,170	17,807	25.7	19,379	8.8	22,987	27,947	32,150
Net earnings (UBS)	14,625	14,019	14,170	17,807	25.7	19,379	8.8	22,987	27,947	32,150
Per share (Bt)										
EPS (local GAAP, basic)	2.41	2.31	2.33	2.42	3.8	2.63	8.8	3.13	3.80	4.45
EPS (UBS, diluted)	2.41	2.31	2.33	2.42	3.8	2.63	8.8	3.13	3.80	4.45
PPOP (diluted)	4.97	5.73	5.98	5.87	-1.8	5.92	0.8	6.37	6.90	7.74
Net DPS	0.80	0.80	0.80	0.81	1.6	0.92	13.4	1.16	1.52	1.88
BVPS	18.66	20.34	21.60	25.86	19.7	27.65	6.9	29.78	32.32	35.76
BVPS (UBS)	16.12	17.89	19.20	23.89	24.4	25.68	7.5	27.81	30.35	33.75
Balance sheet (Btm)										
Banking assets (year end)	1,071,965	1,181,734	1,214,268	1,657,994	36.5	1,737,696	4.8	1,834,192	1,942,905	2,053,044
Banking assets (average)	1,009,881	1,126,850	1,198,001	1,436,131	19.9	1,697,845	18.2	1,785,944	1,888,549	1,997,975
Total assets (year end)	1,071,965	1,181,734	1,214,268	1,657,994	36.5	1,737,696	4.8	1,834,192	1,942,905	2,053,044
Risk weighted assets (RWA) (year end)	747,066	833,277	929,794	1,193,319	28.3	1,244,178	4.3	1,331,579	1,418,149	1,503,658
Risk weighted assets (RWA) (average)	714,607	790,171	881,535	1,061,557	20.4	1,218,749	14.8	1,287,879	1,374,864	1,460,904
Customer loans	801,236	908,447	975,621	1,235,060	26.6	1,279,156	3.6	1,361,287	1,444,868	1,527,775
Customer loans (average)	745,661	854,842	942,034	1,105,341	17.3	1,257,108	13.7	1,320,222	1,403,078	1,486,322
Interest earning assets (average)	939,603	1,047,552	1,131,479	1,326,130	17.2	1,542,006	16.3	1,640,034	1,748,524	1,864,707
Customer deposits	687,159	764,050	837,556	1,037,736	23.9	1,097,069	5.7	1,170,121	1,251,732	1,332,453
Common s/h equity (year end)	113,322	123,521	131,210	190,197	45.0	203,359	6.9	219,022	237,720	258,061
Common s/h equity (average)	107,906	118,422	127,366	160,704	26.2	196,778	22.4	211,190	228,371	247,890
Total SHF (equity, pref & MI) (year end)	113,486	123,800	131,670	190,886	45.0	204,282	7.0	220,180	239,112	259,688
Total SHF (equity, pref & MI) (average)	108,091	118,643	127,735	161,278	26.3	197,584	22.5	212,231	229,646	249,400
Net tangible assets	98,051	108,919	117,086	176,395	50.7	189,792	7.6	205,689	224,622	245,197
Balance sheet structure (%)										
Loans / banking assets (year end)	74.7	76.9	80.3	74.5	-7.3	73.6	-1.2	74.2	74.4	74.4
Deposits / banking assets (year end)	64.1	64.7	69.0	62.6	-9.3	63.1	0.9	63.8	64.4	64.9
Loans / deposits	116.6	118.9	116.5	119.0	2.2	116.6	-2.0	116.3	115.4	114.7
Total SHF / banking assets (year end)	10.6	10.5	10.8	11.5	6.2	11.8	2.1	12.0	12.3	12.6

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Bank of Ayudhya (BAY.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	81,754	84,725	98,990	151,774	163,996	177,644	193,728	211,982
Total capital	126,553	122,325	132,428	172,684	184,906	198,554	214,638	232,892
Risk weighted assets (RWA) (year end)	747,066	833,277	929,794	1,193,319	1,244,178	1,331,579	1,418,149	1,503,658
Core tier 1 ratio %	10.4	10.2	10.6	12.7	13.2	13.3	13.7	14.1
Tier 1 ratio %	10.9	10.2	10.6	12.7	13.2	13.3	13.7	14.1
Total capital ratio %	16.9	14.7	14.2	14.5	14.9	14.9	15.1	15.5
Tangible equity	97,887	108,640	116,627	175,706	188,868	204,531	223,229	243,570
Equity / assets %	10.6	10.5	10.8	11.5	11.7	11.9	12.2	12.6
Tangible equity to tangible assets %	9.3	9.3	9.7	10.7	11.0	11.2	11.6	11.9
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	30,744	34,728	35,444	38,846	43,546	47,746	49,890	52,364
Total risk reserves	31,029	36,827	39,776	48,704	59,321	71,216	80,766	89,849
NPLs / loans %	2.6	2.9	3.0	2.7	3.0	3.2	3.1	3.2
NPL coverage %	145.7	136.3	132.6	141.7	147.6	157.4	168.2	176.3
Provision charge / average loans %	1.5	2.0	1.9	1.9	1.5	1.4	1.1	1.0
Net NPAs / shareholders funds %	(0.3)	(1.7)	(3.3)	(5.2)	(7.7)	(10.7)	(12.9)	(14.4)
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	3.96	3.99	4.00	3.84	3.34	3.34	3.36	3.40
Provisions / operating profit	37.7	48.4	49.9	48.4	44.1	38.4	30.9	27.9
ROE (UBS earnings)	13.6	11.8	11.1	11.1	9.8	10.9	12.2	13.0
RoAdjE (UBS earnings & equity)	15.5	13.6	12.6	12.2	10.6	11.7	13.1	13.8
RoRWA (UBS)	2.05	1.79	1.62	1.70	1.61	1.80	2.05	2.22
RoA (UBS earnings)	1.45	1.25	1.20	1.26	1.16	1.30	1.49	1.62
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	50.5	49.1	48.6	47.2	49.1	49.3	49.4	48.7
Cost / average assets	3.05	2.98	2.86	2.69	2.47	2.55	2.62	2.65
Compensation expense ratio	31.7	30.4	30.8	30.1	31.8	32.1	32.2	31.7
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	10.4	12.1	3.2	15.9	4.5	8.1	8.4	8.7
Operating profit pre provisions	8.7	15.2	4.3	18.9	0.8	7.6	8.3	10.2
Net earnings (UBS)	57.9	-4.1	1.1	25.7	8.8	18.6	21.6	15.0
Net DPS	14.3	0.0	0.0	1.6	13.4	25.4	31.4	23.7
Total assets (year end)	13.1	10.2	2.8	36.5	4.8	5.6	5.9	5.7
Customer loans	16.1	13.4	7.4	26.6	3.6	6.4	6.1	5.7
Customer deposits	22.6	11.2	9.6	23.9	5.7	6.7	7.0	6.4
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	2.8	3.2	3.7	2.9	2.7	2.5	2.3	2.1
Market cap/deposits	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
P/PPOP (diluted)	5.7	6.2	7.1	5.4	5.4	5.0	4.6	4.1
P/E (local GAAP, basic)	11.8	15.4	18.2	13.1	12.1	10.2	8.4	7.1
P/E (UBS, diluted)	11.8	15.4	18.2	13.1	12.1	10.2	8.4	7.1
Net dividend yield %	2.8	2.2	1.9	2.6	2.9	3.6	4.8	5.9
P/BV x	1.5	1.8	2.0	1.2	1.1	1.1	1.0	0.9
P/BV (UBS) x	1.8	2.0	2.2	1.3	1.2	1.1	1.0	0.9

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Kiatnakin Bank

Real estate development NPLs to remain a drag

Cut our EPS forecasts

We cut our EPS forecasts 7%/14%/15% for 2015/16/17, as we cut our loan growth assumptions 4.5%/4.6%/2% for 2015/16/17, lower our non-NII forecasts by 9%/13%/15% and raise our credit cost estimates 14-15bp during 2016-17E to reflect KKP's attempt to rebuild its NPL coverage ratio. Our new forecasts imply KKP's ROE will recover from 7.4% in 2014 to 7.7%/8.6%/9.7% in 2015/16/17E, albeit 0.6-1.4ppt below our previous projections.

Credit costs to remain high for an extended period

Although we believe KKP's auto loan quality has improved, the bank has relatively large exposure to real estate (RE) development NPLs (48% of total NPLs), which could take time to overcome. The sharp increase in auto NPLs and RE loans has contributed to the fall in its NPL coverage ratio from >100% in 2012 to 73% as of Q215. We therefore believe KKP will keep credit costs relatively high during 2015-17E to build up the NPL coverage ratio. We forecast the ratio to recover back to 85% by 2017E.

Core operation still under pressure

While the declining interest rate environment should be positive for NIM, we revised down our NII forecasts by 1-5% for 2015-17 due to the shrinking loan book. Moreover, we believe it will also take time for the bank to ramp up non-NII growth, not only due to persistently weak loan related fees, but also because of a slower-than-expected recovery of the economy and capital market revenue.

Valuation: cut price target from Bt38.50 to Bt32.0

We base our price target on a dividend discount model, assuming a cost of equity of 11.7% and long-term DPS growth of 4.4%.

Equities

Thailand
Diversified Financial

12-month rating **Neutral**

12m price target **Bt32.00**
Prior: Bt38.50

Price **Bt30.50**

RIC: KKP.BK BBG: KKP TB

Trading data and key metrics

52-wk range	Bt44.00-30.50
Market cap.	Bt25.6bn/US\$0.73bn
Shares o/s	839m (ORD)
Free float	77%
Avg. daily volume ('000)	665
Avg. daily value (m)	Bt23.3
Common s/h equity (12/15E)	Bt38.0bn
P/BV (12/15E)	0.7x
Tier 1 ratio	16%

EPS (UBS, diluted) (Bt)				
	From	To	% ch	Cons.
12/15E	3.63	3.37	-6.99	3.79
12/16E	4.60	3.97	-13.69	4.55
12/17E	5.49	4.68	-14.90	5.37

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Highlights (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	11,518	14,211	12,491	13,396	14,245	15,515	16,888	17,998
Profit before tax	4,033	5,391	3,007	3,568	4,241	4,989	5,572	5,801
Net earnings (local GAAP)	3,391	4,418	2,637	2,850	3,350	3,948	4,415	4,598
Net earnings (UBS)	3,391	4,418	2,637	2,850	3,350	3,948	4,415	4,598
Tier 1 ratio %	14.0	13.1	14.8	15.5	16.0	15.9	15.8	15.8
EPS (UBS, diluted) (Bt)	4.07	5.27	3.13	3.37	3.97	4.68	5.23	5.44
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE (UBS) %	11.9	13.0	7.4	7.7	8.6	9.7	10.3	10.1
P/POP (diluted)	5.8	5.7	5.6	4.0	3.6	3.3	3.0	2.9
P/BV x	1.0	1.2	1.0	0.7	0.7	0.6	0.6	0.6
P/BV (UBS) x	1.1	1.4	1.1	0.7	0.7	0.7	0.6	0.6
P/E (UBS, diluted)	9.6	9.8	13.3	9.0	7.7	6.5	5.8	5.6
Net dividend yield %	6.2	5.1	4.5	6.1	6.2	7.1	7.7	8.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Bt30.50 on 31 Jul 2015 22:38 HKT

Investment Thesis

Kiatnakin Bank

Investment case

We believe KKP will require more time than peers to fix its asset quality issues and turn around operations. However, we think this has been priced in to some extent. There is risk to KKP's earnings from slowing auto loans and high credit charges. Over the long term, we believe KKP will be able to diversify into other growth areas and generate higher ROE, driven by its competitive position in the capital markets and the corporate banking segment, which could lead to solid growth in non-NII as well as wholesale banking operations.

Upside scenario

In our upside scenario, we assume the economy starts to recover in H215 and asset quality remains under control, leading to better loan growth/non-NII and lower credit costs. We assume a 5ppt higher non-NII and 15bp lower credit costs. This would lead to 13% higher 2015E EPS. We apply +1.0 SD PE (10.0x) to derive a valuation of Bt42.00.

Downside scenario

In our downside scenario, we assume the economy remains sluggish, leading to disappointing loan growth and NIM, while credit costs rise. We assume a 5ppt lower non-NII and a 20bp increase in credit costs. This would lead to 15% lower 2015E EPS. We apply -0.5 SD PE (6.5x) to derive a valuation of Bt20.00.

Upcoming catalysts

Improving NPL formation for auto loan could help alleviate credit cost pressure. In addition, a declining interest rate environment and easing deposit competition should be positive for KKP's NIM. However, auto loans could remain weak due to sluggish loan demand while provision charges may not fall quickly due to rising risk on its real estate development loans.

12-month rating

Neutral

12m price target

Bt32.00

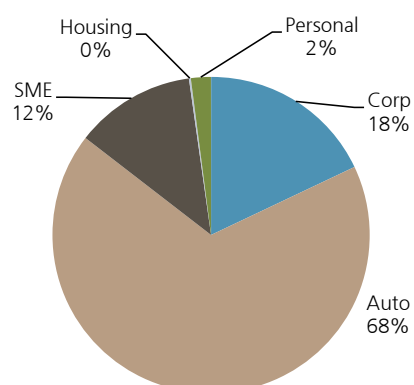
Business description

Kiatnakin Bank (KKP) was formed in 2013 through the merger of Kiatnakin Bank's commercial banking business and Phatra Capital and Phatra Securities' capital market businesses. Kiatnakin Bank has over 40 years experience, mainly in the auto hire-purchase business, while Phatra Capital and Phatra Securities are leading securities brokerages in Thailand. As of 2014, KKP ranked ninth in terms of asset size in Thailand (US\$8bn or a 2.0% market share), ninth in loans (US\$6bn or a 2% market share), and ninth in deposits (US\$4bn or a 1.0% market share).

Industry outlook

While Thailand's GDP growth decelerated to 0.9% in 2014 (from 2.8% in 2013), UBS economists expect a recovery in 2015 to 2.8% GDP growth. In this environment, we expect 2-3% sector loan growth in 2015, down from 4-5% in 2014. A delay in government infrastructure investment, high household debt, and a fragile export outlook still pose risks to the economic recovery and our loan growth expectations. However, we believe the government will continue to roll out economic stimulus programmes and infrastructure investments, which could boost confidence in the private sector and unleash pent-up loan demand from the corporate/SME segments later on. Besides slowing growth, asset quality is the top concern this year. As big banks go through the NPL cycle, we think their credit costs could remain high during 2015-16. Meanwhile, we expect NIM to decline in 2015 and 2016 due to the lower interest rate environment and rising NPLs, before recovering in 2017. Small banks, on the other hand, could record NIM expansion in 2015 while credit cost pressure should be less than for the big banks as auto NPL formation likely passed the peak in 2014.

Loan breakdown by segment (2014)



Source: Company data

Revenue breakdown

Net interest income accounted for 72% of total revenue in 2014, while non-interest income made up 28%. In 2014, 100% of total operating profit came from the domestic market.

Kiatnakin Bank (KKP.BK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Profit & Loss (Btm)										
Net income interest	7,113	8,347	8,926	8,844	-0.9	9,027	2.1	9,465	10,080	10,602
Total non interest income	4,405	5,864	3,565	4,552	27.7	5,218	14.6	6,051	6,808	7,396
Total income	11,518	14,211	12,491	13,396	7.2	14,245	6.3	15,515	16,888	17,998
Total cash expenses	(5,929)	(6,579)	(6,285)	(6,886)	-9.6	(7,085)	-2.9	(7,707)	(8,396)	(9,037)
Pre-depreciation operating profit	5,588	7,631	6,205	6,510	4.9	7,161	10.0	7,809	8,492	8,961
Depreciation & amort (excl. goodwill)	0	0	0	0	-	0	-	0	0	0
Operating profit pre provisions	5,588	7,631	6,205	6,510	4.9	7,161	10.0	7,809	8,492	8,961
Total provisions	(1,555)	(2,240)	(3,199)	(2,942)	8.0	(2,920)	0.8	(2,820)	(2,920)	(3,160)
Operating profit post provisions	4,033	5,391	3,007	3,568	18.7	4,241	18.8	4,989	5,572	5,801
Income from associates & JVs (pre-tax)	0	0	0	0	-	0	-	0	0	0
Other pre-tax items	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	4,033	5,391	3,007	3,568	18.7	4,241	18.8	4,989	5,572	5,801
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	4,033	5,391	3,007	3,568	18.7	4,241	18.8	4,989	5,572	5,801
Tax	(605)	(951)	(353)	(675)	-91.4	(848)	-25.6	(998)	(1,114)	(1,160)
Profit after tax	3,428	4,440	2,654	2,893	9.0	3,393	17.3	3,991	4,458	4,641
Other post-tax items	0	0	0	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(36)	(22)	(17)	(43)	-152.8	(43)	0.2	(43)	(43)	(43)
Net earnings (local GAAP)	3,391	4,418	2,637	2,850	8.1	3,350	17.5	3,948	4,415	4,598
Net earnings (before pref divs)	3,391	4,418	2,637	2,850	8.1	3,350	17.5	3,948	4,415	4,598
Net earnings (UBS)	3,391	4,418	2,637	2,850	8.1	3,350	17.5	3,948	4,415	4,598
Per share (Bt)										
EPS (local GAAP, basic)	4.07	5.27	3.13	3.37	7.9	3.97	17.5	4.68	5.23	5.44
EPS (UBS, diluted)	4.07	5.27	3.13	3.37	7.9	3.97	17.5	4.68	5.23	5.44
PPOP (diluted)	6.71	9.10	7.36	7.71	4.7	8.48	10.0	9.25	10.06	10.61
Net DPS	2.40	2.65	1.85	1.85	0.0	1.90	2.8	2.15	2.35	2.50
BVPS	39.69	41.66	42.97	44.96	4.6	46.86	4.2	49.41	52.38	55.43
BVPS (UBS)	35.97	37.98	39.30	41.33	5.2	43.23	4.6	45.78	48.75	51.80
Balance sheet (Btm)										
Banking assets (year end)	233,013	249,109	240,407	248,761	3.5	260,141	4.6	276,532	295,112	314,753
Banking assets (average)	211,504	241,061	244,758	244,584	-0.1	254,451	4.0	268,336	285,822	304,933
Total assets (year end)	233,013	249,109	240,407	248,761	3.5	260,141	4.6	276,532	295,112	314,753
Risk weighted assets (RWA) (year end)	186,495	206,314	200,829	197,430	-1.7	200,791	1.7	213,855	228,866	244,991
Risk weighted assets (RWA) (average)	165,630	196,404	203,572	199,130	-2.2	199,110	0.0	207,323	221,361	236,929
Customer loans	163,833	184,778	177,480	163,133	-8.1	163,165	0.0	171,820	182,084	193,086
Customer loans (average)	147,630	174,306	181,129	170,307	-6.0	163,149	-4.2	167,492	176,952	187,585
Interest earning assets (average)	211,027	227,454	234,941	222,000	-5.5	230,874	4.0	249,463	269,743	291,812
Customer deposits	153,027	145,996	132,315	120,190	-9.2	125,658	4.6	135,350	146,507	155,497
Common s/h equity (year end)	32,898	34,944	36,048	37,964	5.3	39,572	4.2	41,725	44,231	46,805
Common s/h equity (average)	28,392	33,921	35,496	37,006	4.3	38,768	4.8	40,649	42,978	45,518
Total SHF (equity, pref & MI) (year end)	33,198	35,144	36,195	38,227	5.6	39,878	4.3	42,075	44,623	47,240
Total SHF (equity, pref & MI) (average)	28,731	34,171	35,670	37,211	4.3	39,052	4.9	40,976	43,349	45,932
Net tangible assets	30,112	32,059	33,109	35,161	6.2	36,812	4.7	39,008	41,557	44,174
Balance sheet structure (%)										
Loans / banking assets (year end)	70.3	74.2	73.8	65.6	-11.2	62.7	-4.4	62.1	61.7	61.3
Deposits / banking assets (year end)	65.7	58.6	55.0	48.3	-12.2	48.3	0.0	48.9	49.6	49.4
Loans / deposits	107.1	126.6	134.1	135.7	1.2	129.8	-4.3	126.9	124.3	124.2
Total SHF / banking assets (year end)	14.2	14.1	15.1	15.4	2.1	15.3	-0.2	15.2	15.1	15.0

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Kiatnakin Bank (KKP.BK)

Capital adequacy (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Tier 1 capital	26,128	27,027	29,662	30,686	32,142	33,954	36,268	38,757
Total capital	27,391	28,177	30,451	31,451	32,907	34,719	37,033	39,522
Risk weighted assets (RWA) (year end)	186,495	206,314	200,829	197,430	200,791	213,855	228,866	244,991
Core tier 1 ratio %	14.0	13.1	14.8	15.5	16.0	15.9	15.8	15.8
Tier 1 ratio %	14.0	13.1	14.8	15.5	16.0	15.9	15.8	15.8
Total capital ratio %	14.7	13.7	15.2	15.9	16.4	16.2	16.2	16.1
Tangible equity	29,813	31,858	32,962	34,898	36,506	38,659	41,165	43,739
Equity / assets %	14.1	14.0	15.0	15.3	15.2	15.1	15.0	14.9
Tangible equity to tangible assets %	13.0	12.9	13.9	14.2	14.2	14.1	14.1	14.0
Asset quality (Btm)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Non performing assets	10,608	11,385	14,019	16,379	16,090	16,212	16,565	16,941
Total risk reserves	6,172	7,275	8,438	9,200	10,198	11,721	13,629	15,688
NPLs / loans %	3.3	3.8	5.6	7.3	7.6	7.4	7.2	7.1
NPL coverage %	109.7	99.9	81.5	73.1	77.9	86.0	96.1	106.3
Provision charge / average loans %	1.1	1.3	1.8	1.7	1.8	1.7	1.7	1.7
Net NPAs / shareholders funds %	13.4	11.7	15.4	18.8	14.8	10.7	6.6	2.7
Profitability (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net interest margin (avg assets)	3.36	3.46	3.65	3.62	3.55	3.53	3.53	3.48
Provisions / operating profit	27.8	29.4	51.5	45.2	40.8	36.1	34.4	35.3
ROE (UBS earnings)	11.9	13.0	7.4	7.7	8.6	9.7	10.3	10.1
RoAdjE (UBS earnings & equity)	12.6	14.3	8.1	8.4	9.4	10.5	11.1	10.8
RoRWA (UBS)	2.07	2.26	1.30	1.45	1.70	1.92	2.01	1.96
RoA (UBS earnings)	1.62	1.84	1.08	1.18	1.33	1.49	1.56	1.52
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Cost income ratio	51.5	46.3	50.3	51.4	49.7	49.7	49.7	50.2
Cost / average assets	2.80	2.73	2.57	2.82	2.78	2.87	2.94	2.96
Compensation expense ratio	35.3	34.7	38.2	38.6	37.5	37.7	38.0	38.5
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenue	20.9	23.4	-12.1	7.2	6.3	8.9	8.9	6.6
Operating profit pre provisions	18.9	36.6	-18.7	4.9	10.0	9.0	8.8	5.5
Net earnings (UBS)	49.2	30.3	-40.3	8.1	17.5	17.9	11.8	4.1
Net DPS	0.0	10.4	-30.2	0.0	2.8	13.1	9.4	6.5
Total assets (year end)	22.6	6.9	-3.5	3.5	4.6	6.3	6.7	6.7
Customer loans	24.7	12.8	-3.9	-8.1	0.0	5.3	6.0	6.0
Customer deposits	121.7	-4.6	-9.4	-9.2	4.6	7.7	8.2	6.1
Value (x)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap/revenues	2.4	3.0	2.8	1.9	1.8	1.6	1.5	1.4
Market cap/deposits	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
P/PPOP (diluted)	5.8	5.7	5.6	4.0	3.6	3.3	3.0	2.9
P/E (local GAAP, basic)	9.6	9.8	13.3	9.0	7.7	6.5	5.8	5.6
P/E (UBS, diluted)	9.6	9.8	13.3	9.0	7.7	6.5	5.8	5.6
Net dividend yield %	6.2	5.1	4.5	6.1	6.2	7.1	7.7	8.2
P/BV x	1.0	1.2	1.0	0.7	0.7	0.6	0.6	0.6
P/BV (UBS) x	1.1	1.4	1.1	0.7	0.7	0.7	0.6	0.6

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Bangkok Bank Investment case

We have a Buy rating on Bangkok Bank (BBL) mainly due to its undemanding valuation. Moreover, as one of the biggest corporate lenders in Thailand, we think it is well placed to benefit from government infrastructure project investments. We believe ASEAN integration will support loan demand and boost fee income for the foreseeable future, as BBL has the largest exposure to international business among the Thai banks. In addition, BBL has the strongest balance sheet in the sector.

Siam Commercial Bank Investment case

In our view, Siam Commercial Bank (SCB) has a competitive universal banking platform and a strong management team. We believe the bank has one of the best retail deposit franchises in Thailand, allowing it to attract low-cost funding and generate high fee income. On top of solid revenue generation, management's emphasis on cost discipline has also contributed to SCB's high efficiency ratio and the highest ROE in the sector. However, we believe it will be a challenge to sustain 2015 ROE at over 20%, given the fairly slow economic recovery and the bank's continued deleveraging in this environment. Therefore we believe it is crucial for SCB to find new growth engines. While we think the bank is heading in the right direction with expansion in the SME segment, it may take some time for market share to ramp up.

Krung Thai Bank Investment case

We have a Buy rating on KTB, as we think valuation is attractive with upside share price potential from internal process improvements and restructuring. We also believe the bank will benefit from government infrastructure investments. We think KTB has a long-term competitive edge in funding costs, as it has access to government and state enterprise deposits through its payroll and cash management systems. In our view, the valuation discount to the sector could narrow as the bank delivers strong core earnings growth and continues to improve its balance sheet.

Kasikornbank Investment case

We are positive on Kasikornbank (KBANK) due to its strong fee income-generating platform and competitive advantages from its funding cost structure and strong management team. The bank has the largest market share in the SME segment, which we believe provides one of the most attractive risk-adjusted returns. We believe the valuation does not reflect the bank's solid and sustainable earnings growth potential.

Bank of Ayudhya Investment case

We have a Sell rating on Bank of Ayudhya (BAY) as we think the valuation is demanding. While the acquisition of over 70% of BAY by Japan's Mitsubishi UFJ Financial Group in 2013 could be value accretive, we think the valuation has run ahead of fundamentals and does not take into account integration risk in the medium term.

TMB Bank Investment case

We believe TMB Bank's innovative funding strategy and increased focus on the SME segment will improve core earnings and ROE. We believe the key risks are asset quality and slowing growth momentum due to intensifying competition in the SME segment. We view TMB Bank as a potential acquisition candidate.

Kiatnakin Bank Investment case

We believe KKP will require more time than peers to fix its asset quality issues and turn around operations. However, we think this has been priced in to some extent. There is risk to KKP's earnings from slowing auto loans and high credit charges. Over the long term, we believe KKP will be able to diversify into other growth areas and generate higher ROE, driven by its competitive position in the capital markets and the corporate banking segment, which could lead to solid growth in non-NII as well as wholesale banking operations.

Statement of Risk

We expect the Thai economy to recover this year, with real GDP improving from a low base of 0.9% in 2014 to 2.8% in 2015E. A key risk to our expectation could come from the government's ability to execute its infrastructure project investments and disburse the budget. If execution is poor, this could lead to weaker business confidence, a slower economic recovery and further deterioration in asset quality. We expect the Bank of Thailand to cut the policy rate further to 1.25% this year (from 2.0% in Q414), which could be a headwind for the big banks' NIMs. Other risks lie in the export segment's (70% of Thailand's GDP) ability to recover, weak consumer sentiment due to high household debt, and weaker farm income.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Bangkok Bank	BBL.BK	Buy	N/A	Bt166.00	31 Jul 2015
Bank of Ayudhya	BAY.BK	Sell	N/A	Bt31.75	31 Jul 2015
Kasikornbank	KBANK.BK	Buy	N/A	Bt178.00	31 Jul 2015
Kiatnakin Bank	KKP.BK	Neutral	N/A	Bt30.50	31 Jul 2015
Krung Thai Bank	KTB.BK	Buy	N/A	Bt17.50	31 Jul 2015
Siam Commercial Bank	SCB.BK	Buy	N/A	Bt152.00	31 Jul 2015
Thanachart Capital	TCAP.BK	Neutral	N/A	Bt31.25	31 Jul 2015
TISCO Financial Group	TISCO.BK	Buy	N/A	Bt42.50	31 Jul 2015
TMB Bank	TMB.BK	Buy	N/A	Bt2.34	31 Jul 2015

Source: UBS. All prices as of local market close.

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