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KEY HIGHLIGHTS

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Bangkok Bank (BBL TB/BUY/Bt122.00/Target: Bt154.00)

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3Q21: Earnings exceeded our expectations.

Kasikorn Bank (KBANK TB/BUY/Bt141.50/Target: Bt172.00)

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3Q21: Headed for positive growth.

Siam Commercial Bank (SCB TB/BUY/Bt124.00/Target: Bt133.00)

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3Q21: Earnings were higher than expectations.

KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,643.42	5.87	0.36
SET50	988.81	2.95	0.30
Value (Btm) - SET	64,825		
Top 5 Sector			
BANK	395.33	(0.07)	(0.02)
PETRO	1,201.05	1.98	0.17
PROP	239.31	2.98	1.26
ENERG	24,698.12	155.57	0.63
ICT	162.30	0.43	0.27

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
KBANK	141.50	(0.70)	21,738.0
BBL	122.00	1.24	16,836.7
PTT	40.00	1.27	45,160.8
BANPU	12.50	1.63	132,110.5
SPALI	21.60	5.88	71,825.2

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SAMCO	2.32	24.73	456,856.6
PRECHA	1.58	23.44	148,171.4
BROCK	2.54	14.41	17,312.8
CHEWA	1.23	11.82	237,191.1
GSC	1.97	11.30	69,313.5

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NEWS	0.05	(16.67)	228,268.1
STAR	1.00	(11.50)	20,335.7
EFORL	0.23	(8.00)	355,420.7
ILM	17.40	(5.43)	2,287.1
M-PAT	3.96	(4.81)	35.8

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	85.7	11.0	19.2	68.8
Dubai crude*	82.2	12.9	15.8	63.7
Baltic Dry Index	4,410.0	(5.0)	37.9	222.8
Gold Spot***	1,794.4	2.5	(0.4)	(5.5)

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
59.2	679.2	(1,798.0)	9,517.9

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 33.28

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

COMPANY RESULTS

Bangkok Bank (BBL TB)

3Q21: Earnings Exceeded Our Expectations

BBL's 3Q21 earnings exceeded our expectations, increasing yoy and qoq. Loan quality was relatively stable with a high coverage ratio against NPLs. BBL's earnings growth is expected to outperform peer banks with an expected rise of 41% yoy in 2021 and a continued increase of 15% yoy in 2022. Valuation is undemanding as the stock is trading at 0.5x 2022F P/B or -15SD below its historical mean (2016-19). Maintain BUY. Target price: Bt154.00.

RESULTS

• **Earnings topped our expectations.** Bangkok Bank (BBL) reported 3Q21 net profit of Bt6.9b, up 72% yoy (+9% qoq), 7% higher than our expectations. The rise in earnings was largely due to higher interest income on the back of higher loan demand, higher fee income and good operating cost control. NIM was relatively flat qoq at 2.05% in 3Q21. Cost-to-income ratio was lower at 46.1% (2Q21: 48.2%), which was largely due to higher operating income.

STOCK IMPACT

- **Strong loan growth.** Total loans continued to rise 4.3% qoq in 3Q21 (2Q21: 2.2%), largely due to business loans and loans made from international networks. Thus far, BBL's loan growth of 6.6% ytd for 9M21 has been stronger than our estimates of 4%.
- **Resilient asset quality.** NPL ratio was relatively stable qoq at 3.7% in 3Q21 despite lacklustre economic recovery. The coverage ratio was higher at 199% and was sufficient to help the company cope with economic uncertainties.
- **Lesser impact on consumer and SME NPLs.** As BBL is focusing on large corporate and international loans (64% of its total loans), higher consumer and SME NPLs will impact BBL less than its peers. Note that small-sized enterprises and consumers accounted for 20% of BBL's total loans in June.
- **Recovery is on the way.** Thailand began to reopen some businesses in September and is likely to experience wider economic opening in 4Q21 as more local residents have received vaccinations. The government expects 74% of local residents to receive two vaccine doses by end-21. Given BBL's lower provisions and higher net interest income from elevated loan growth, we expect its 4Q21 earnings to rise strongly by 70% yoy on: a) lower provisions, and b) higher fee income on an improvement in economic activities.
- But earnings are expected to decline qoq on seasonal high operating expenses.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net interest income	71,071	77,046	78,266	81,419	86,010
Non-interest income	62,582	41,696	41,859	43,235	44,679
Net profit (rep./act.)	35,816	17,181	24,299	27,980	30,889
Net profit (adj.)	35,816	17,181	24,299	27,980	30,889
EPS (Bt)	18.8	9.0	12.7	14.7	16.2
PE (x)	6.4	13.3	9.4	8.2	7.4
P/B (x)	0.5	0.5	0.5	0.5	0.4
Dividend yield (%)	5.6	2.1	2.9	3.4	3.7
Net int margin (%)	2.3	2.3	2.1	2.2	2.2
Cost/income (%)	41.1	55.6	54.3	53.4	52.1
Loan loss cover (%)	220.2	186.8	173.8	180.3	185.7
Consensus net profit	-	-	25,492	29,250	32,706
UOBKH/Consensus (x)	-	-	0.95	0.96	0.94

Source: BBL, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt122.00
Target Price	Bt154.00
Upside	+26.2%

COMPANY DESCRIPTION

The largest commercial bank in Thailand with roughly 15% of the credit market. The bank has a strong focus on corporate lending, which accounts for 41% of its loan book.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	BBL TB
Shares issued (m):	1,908.8
Market cap (Btm):	229,061.1
Market cap (US\$m):	6,864.5
3-mth avg daily t'over (US\$m):	47.0

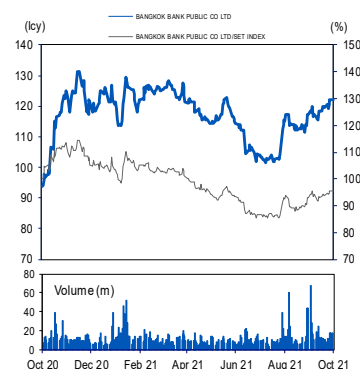
Price Performance (%)

52-week high/low	Bt131.50/Bt90.25			
1mth	3mth	6mth	1yr	YTD
7.1	13.2	(2.4)	24.7	1.3

Major Shareholders

NVDR	25.8
SET for Depository	4.4
State Street Bank	3.4
FY21 NAV/Share (Bt)	251.95
FY21 CAR Tier-1 (%)	16.07

PRICE CHART



Source: Bloomberg

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EARNINGS REVISION/RISK

- **Strong earnings rebound intact.** BBL's 9M21 earnings accounted for 83% of our full-year earnings projections. We expect strong earnings growth of 41% yoy in 2021 (2020: -52% yoy), supported by lower provisions and lower cost-to-income ratio of 54.3% (2020: 55.6%). With resilient asset quality and high coverage ratio, we believe that BBL would be able to reduce credit costs, which would help sustain long-term growth. In addition, ROE is expected to rise to 5.2-6% in 2021-23 after 2020's low of 3.9%.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt154.00.** Our valuation is derived from the Gordon Growth Model (ROE: 5.9%, cost of equity: 8.7%, long-term growth: 2%) and implies 0.60x 2022F P/B, or -1SD to its 2016-20 mean.

SHARE PRICE CATALYST

- Improvement in economic growth will boost loan demand.
- Better-than-expected asset quality leading to lower credit cost.

3Q21 RESULTS

Year to 31 Dec (Btm)	3Q20	2Q20	3Q21	qoq % chg	yoy % chg	Comments
Net interest income	19,852	20,027	20,705	3%	4%	Higher due to higher loan growth
Net interest margin	2.2%	2.1%	2.0%			
Non-interest income	9,569	13,796	13,725	(1%)	43%	Higher due to a gain on financial instruments measured of value through profit or loss
Operating income	29,421	33,823	34,430	2%	17%	
Overhead expenses	(19,427)	(16,289)	(15,879)	(3%)	(18%)	Lower due to lower premises expenses and other expenses
Cost-to-Income Ratio	66.0%	48.2%	46.1%			
Pre-provision profit	9,994	17,534	18,551	6%	86%	
Loan loss provision	(5,668)	(9,810)	(9,870)	1%	74%	
Credit cost - annualised (bp)	96	164	160			Increased to strengthen balance sheet
Pre-tax profit	4,327	7,724	8,681	12%	101%	
Net profit	4,017	6,357	6,909	9%	72%	
EPS (Bt)	2.1	3.3	3.6	9%	72%	

Other Key Data and Ratios (%)

Loan growth yoy	18.3%	2.8%	6.6%			Higher business and loans made through its international network
Deposit growth yoy	19.4%	6.8%	10.7%			
Loan/deposit ratio	83.9%	79.4%	80.8%			
Gross NPL ratio	4.1%	3.7%	3.7%			
Loan loss coverage	178.0%	190.3%	198.9%			Higher due to additional provisions set aside
Tier-1 CAR	15.1%	15.9%	16.1%			
Total CAR	17.6%	18.4%	19.7%			

Sources: BBL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Interest income	112,524	105,934	113,344	118,545
Interest expense	(35,477)	(27,667)	(31,925)	(32,535)
Net interest income	77,046	78,266	81,419	86,010
Fees & commissions	24,711	25,585	26,864	28,207
Other income	16,985	16,274	16,371	16,471
Non-interest income	41,696	41,859	43,235	44,679
Income from islamic banking	0	0	0	0
Total income	118,743	120,126	124,654	130,688
Staff costs	(30,959)	(33,436)	(34,105)	(34,787)
Other operating expense	(35,015)	(31,749)	(32,493)	(33,257)
Pre-provision profit	52,769	54,940	58,056	62,645
Loan loss provision	(31,196)	(24,156)	(22,610)	(23,514)
Other provisions	0	0	0	0
Associated companies	(14)	(16)	(16)	(18)
Other non-operating income	0	0	0	0
Pre-tax profit	21,558	30,768	35,430	39,112
Tax	(4,014)	(5,846)	(6,732)	(7,431)
Minorities	(364)	(623)	(717)	(792)
Net profit	17,181	24,299	27,980	30,889
Net profit (adj.)	17,181	24,299	27,980	30,889

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Capital Adequacy				
Tier-1 CAR	15.7	16.1	16.5	16.9
Total CAR	18.3	18.6	18.9	19.3
Total assets/equity (x)	8.5	8.1	7.9	7.7
Tangible assets/tangible common equity (x)	8.5	8.1	7.9	7.7
Asset Quality				
NPL ratio	3.9	4.3	4.4	4.4
Loan loss coverage	186.8	173.8	180.3	185.7
Loan loss reserve/gross loans	7.8	8.5	8.9	9.2
Increase in NPLs	31.9	15.0	5.0	5.0
Credit cost (bp)	140.9	100.0	90.0	90.0
Liquidity				
Loan/deposit ratio	84.3	85.0	86.5	87.0
Liquid assets/short-term liabilities	41.3	40.3	39.1	38.1
Liquid assets/total assets	32.7	32.1	31.2	30.8

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Cash with central bank	73,886	69,845	71,242	72,667
Govt treasury bills & securities	657,137	671,893	669,697	667,145
Interbank loans	519,036	504,440	494,739	504,634
Customer loans	2,189,102	2,269,022	2,346,961	2,431,418
Investment securities	159,281	162,973	162,076	161,079
Derivative receivables	67,560	68,574	69,945	71,344
Associates & JVs	911	911	911	911
Fixed assets (incl. prop.)	74,804	75,865	77,383	78,930
Other assets	81,242	56,780	64,955	48,940
Total assets	3,822,960	3,880,304	3,957,910	4,037,068
Interbank deposits	219,149	194,015	197,896	201,853
Customer deposits	2,810,863	2,897,609	2,961,256	3,062,007
Derivative payables	57,128	68,574	69,945	71,344
Debt equivalents	136,177	131,177	131,177	131,177
Other liabilities	149,396	106,694	94,568	44,676
Total liabilities	3,372,713	3,398,069	3,454,841	3,511,057
Shareholders' funds	449,014	480,940	501,709	524,584
Minority interest - accumulated	1,233	1,295	1,360	1,428
Total equity & liabilities	3,822,960	3,880,304	3,957,910	4,037,068

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Growth				
Net interest income, yoy chg	8.4	1.6	4.0	5.6
Fees & commissions, yoy chg	(13.3)	3.5	5.0	5.0
Pre-provision profit, yoy chg	(32.9)	4.1	5.7	7.9
Net profit, yoy chg	(52.0)	41.4	15.1	10.4
Net profit (adj.), yoy chg	(52.0)	41.4	15.1	10.4
Customer loans, yoy chg	15.8	3.7	3.4	3.6
Customer deposits, yoy chg	18.6	3.1	2.2	3.4
Profitability				
Net interest margin	2.3	2.1	2.2	2.2
Cost/income ratio	55.6	54.3	53.4	52.1
Adjusted ROA	0.5	0.6	0.7	0.8
Reported ROE	3.9	5.2	5.7	6.0
Adjusted ROE	3.9	5.2	5.7	6.0
Valuation				
P/BV (x)	0.5	0.5	0.5	0.4
P/NTA (x)	0.5	0.5	0.5	0.4
Adjusted P/E (x)	13.3	9.4	8.2	7.4
Dividend Yield	2.1	2.9	3.4	3.7
Payout ratio	27.8	27.8	27.8	27.8

COMPANY RESULTS

Kasikorn Bank (KBANK TB)

3Q21: Headed For Positive Growth

3Q21 earnings came in in line with our expectations with stable loan quality. Despite the pandemic's lingering impact, our credit cost assumptions are conservative enough against NPLs. We thus expect earnings to resume positive growth of 17% yoy in 2021 and a further 12% yoy in 2022. Valuation remains undemanding as KBANK is trading at 0.7x 2021F P/B, -1SD to the historical mean (2016-20). Maintain BUY. Target price: Bt172.00.

RESULTS

- Performance in line with guidance despite downgrade of Thailand GDP.** Kasikornbank (KBANK) cut its GDP growth projection for 2021 to -0.5% yoy (from +1% earlier) given the larger-than-expected impact from the COVID-19 pandemic. Despite the lacklustre economic recovery, KBANK's 9M21 performance was marginally better than management guidance, particularly as seen in: a) strong loan growth of 13.2% yoy (vs 4-6% guidance), b) higher net fee income of 7.6% yoy (vs low single-digit growth), and c) lower NPL ratio of 3.85% in Sep 21 (vs 4-4.5% at end-21). However, credit costs of 175bp for 9M21 were higher than guidance of up to 160bp for 2021. Management maintained its conservative provisioning assumptions amid high economic uncertainties. It constantly reviewed provisions set aside when the economic situation started deteriorating. As for its digital banking platform, KBANK affirmed that its business structure sufficiently supported new financial services in response to changes in customer needs. Although the bank plans to unlock the value of its subsidiary going forward, no definite time frame was given during the meeting.
- Earnings in line with expectations.** KBANK's net profit came in at Bt8.6b in 3Q21, up 29% (-3% qoq), which was in line with our expectations. The rise was largely supported by higher net interest income from elevated loan growth and higher fees from income-related segments (asset management and brokerage businesses). However, earnings declined slightly qoq due to higher provisions. NIM was relatively flat qoq at 3.3% in 3Q21. In addition, the cost-to-income ratio was higher qoq at 42.5% (2Q21: 41.8%) due to lower Non-II.
- Resilient loan quality.** Loan growth continued, rising 2.5% qoq, supported by higher demand from commercial and mortgage lending. The NPL ratio slightly declined qoq at 3.9% (2Q21: 4%) partly due to additional NPL write-off. The coverage ratio was higher at 157% in 3Q21. Loans under the relief programme ticked up to 15% of total loans in Sep 21 (vs 14% in Jun 21) as more retail customers registered for the programme despite some corporate and SME customers exiting the scheme.
- Earnings likely to hit the bottom in 4Q21 on seasonally high opex.** Earnings are likely to be at the lowest level in 4Q21, largely due to seasonally high operating expenses. Earnings are expected to sharply decline 53% yoy due to a rise in provisions.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net interest income	102,688	109,022	110,223	112,077	117,379
Non-interest income	57,759	46,063	44,785	46,639	48,584
Net profit (rep./act.)	38,727	29,487	34,359	38,294	42,375
Net profit (adj.)	38,727	29,487	34,359	38,294	42,375
EPS (Bt)	16.2	12.3	14.5	16.2	17.9
PE (x)	8.7	11.4	9.7	8.7	7.9
P/B (x)	0.8	0.8	0.7	0.7	0.6
Dividend yield (%)	3.6	1.8	2.1	2.3	2.6
Net int margin (%)	3.3	3.3	3.2	3.1	3.1
Cost/income (%)	45.3	45.1	45.2	44.9	44.4
Loan loss cover (%)	148.6	149.1	138.8	143.2	153.6
Consensus net profit	-	-	33,948	37,733	42,986
UOBKH/Consensus (x)	-	-	1.01	1.01	0.99

Source: KBANK, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt141.50
Target Price	Bt172.00
Upside	+21.6%

COMPANY DESCRIPTION

KBANK is the fourth largest commercial bank in Thailand with a 14% share of the credit market. The bank focuses on SME lending which accounts for 34% of its loan book.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	KBANK TB
Shares issued (m):	2,369.3
Market cap (Btm):	332,890.5
Market cap (US\$m):	9,976.0
3-mth avg daily t'over (US\$m):	111.6

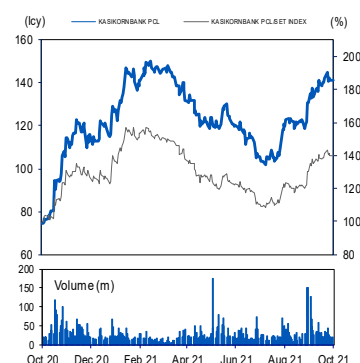
Price Performance (%)

52-week high/low	Bt150.50/Bt70.75				
1mth	3mth	6mth	1yr	YTD	
16.1	22.7	1.4	87.3	24.3	

Major Shareholders

NVDR	25.9
State Street Bank and Trust	8.5
State Street Bank EU.	5.1
FY21 NAV/Share (Bt)	198.13
FY21 CAR Tier-1 (%)	15.52

PRICE CHART



Source: Bloomberg

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EARNINGS REVISION/RISK

- **Positive growth expected.** Despite the lingering impact from the pandemic, we maintain our expectation that KBANK's earnings will return to positive growth in 2021. We expect earnings to grow 17% yoy to Bt34.4b, supported by lower provisions and higher fee income. For 2022, earnings are expected to rise by a further 12% yoy to Bt38.3b, supported by lower provisions and a lower cost-to-income ratio of 45% (from 45.3% in 2021).

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt172.00.** Our valuation is derived from the Gordon Growth Model (ROE 8%, cost of equity 9.4%, long-term growth of 2%), implying 0.8x 2021F P/B, or -0.7SD to its 2016-20 mean.

SHARE PRICE CATALYST

- An improvement in economic growth will boost demand for loans.
- Better-than-expected asset quality leading to lower credit costs.

3Q21 RESULTS

FYE Dec (Btm)	3Q20	2Q21	3Q21	qoq % chg	yoy % chg	Comments
Net interest income	27,255	29,717	30,741	3%	13%	Higher yoy due to higher loans and a rise in NIM
<i>NIM</i>	<i>3.2%</i>	<i>3.3%</i>	<i>3.3%</i>			
Non-interest income	9,498	11,138	9,202	(17%)	(3%)	Lower due to a loss on financial instruments measured of value through profit or loss
Operating income	36,754	40,855	39,943	(2%)	9%	
Overhead expenses	(16,447)	(17,069)	(16,965)	(1%)	3%	Higher due to higher staff costs
<i>Cost-Income Ratio</i>	<i>44.7%</i>	<i>41.8%</i>	<i>42.5%</i>			
Pre-impairment profit	20,306	23,786	22,978	(3%)	13%	
Impairment allowance	(10,815)	(10,807)	(11,296)	5%	4%	
<i>Credit cost - annualised (bps)</i>	<i>202</i>	<i>185</i>	<i>187</i>			<i>Lower as the bank set aside adequate loan loss reserves to cope with NPL risks</i>
Pretax profit	9,491	12,979	11,682	(10%)	23%	
Net profit	6,679	8,894	8,631	(3%)	29%	
EPS	2.8	3.7	3.6	(3%)	29%	

Other key Data and Ratios

Loan growth	10.7%	12.1%	13.3%			Elevated demands from consumer and corporate loans
Deposit growth	13.8%	7.5%	11.3%			
Loan/deposit ratio (%)	94.8%	96.1%	96.6%			
Gross NPL ratio (%)	4.0%	4.0%	3.9%			Lower due to additional NPL write-off
Loan loss coverage (%)	161.1%	154.1%	157.0%			Lower due to elevated NPLs
Tier-1 CAR (%)	15.7%	14.7%	15.4%			
Total CAR	18.5%	17.1%	17.8%			

Source: KBANK, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Interest income	127,592	124,511	131,137	137,237
Interest expense	(18,570)	(14,289)	(19,060)	(19,859)
Net interest income	109,022	110,223	112,077	117,379
Fees & commissions	33,004	34,548	36,276	38,090
Other income	13,058	10,236	10,363	10,494
Non-interest income	46,063	44,785	46,639	48,584
Income from islamic banking	0	0	0	0
Total income	155,085	155,007	158,716	165,963
Staff costs	(32,143)	(31,501)	(31,816)	(32,134)
Other operating expense	(37,853)	(38,566)	(39,459)	(41,538)
Pre-provision profit	85,088	84,941	87,441	92,291
Loan loss provision	(43,548)	(36,815)	(33,824)	(32,978)
Other provisions	0	0	0	0
Associated companies	(193)	(195)	(197)	(199)
Other non-operating income	0	0	0	0
Pre-tax profit	41,347	47,930	53,420	59,113
Tax	(7,656)	(9,107)	(10,150)	(11,232)
Minorities	(4,203)	(4,465)	(4,976)	(5,506)
Net profit	29,487	34,359	38,294	42,375
Net profit (adj.)	29,487	34,359	38,294	42,375

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Cash with central bank	61,962	60,004	57,942	60,259
Govt treasury bills & securities	597,319	606,418	624,611	649,595
Interbank loans	417,420	412,529	405,591	421,815
Customer loans	2,121,700	2,209,996	2,306,733	2,408,243
Investment securities	178,420	181,138	186,572	194,035
Derivative receivables	59,986	61,486	63,331	65,864
Associates & JVs	2,051	2,051	2,051	2,051
Fixed assets (incl. prop.)	85,664	84,989	87,539	91,041
Other assets	134,275	131,655	128,406	124,384
Total assets	3,658,798	3,750,268	3,862,776	4,017,287
Interbank deposits	87,797	93,757	96,569	100,432
Customer deposits	2,344,998	2,405,165	2,499,914	2,598,661
Derivative payables	46,826	61,486	63,331	65,864
Debt equivalents	69,390	68,890	68,390	67,890
Other liabilities	618,500	597,342	577,498	590,530
Total liabilities	3,167,512	3,226,640	3,305,702	3,423,376
Shareholders' funds	439,670	469,430	500,166	534,158
Minority interest - accumulated	51,616	54,197	56,907	59,752
Total equity & liabilities	3,658,798	3,750,268	3,862,776	4,017,287

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Capital Adequacy				
Tier-1 CAR	14.9	15.5	16.3	17.0
Total CAR	17.7	18.2	18.9	19.5
Total assets/equity (x)	8.3	8.0	7.7	7.5
Tangible assets/tangible common equity (x)	8.3	8.0	7.7	7.5
Asset Quality				
NPL ratio	3.9	4.3	4.5	4.5
Loan loss coverage	149.1	138.8	143.2	153.6
Loan loss reserve/gross loans	6.0	6.8	7.4	7.9
Increase in NPLs	20.2	0.0	0.0	0.0
Credit cost (bp)	205.1	160.0	140.0	130.0
Liquidity				
Loan/deposit ratio	95.7	98.0	99.0	100.0
Liquid assets/short-term liabilities	44.3	43.2	41.9	41.9
Liquid assets/total assets	29.4	28.8	28.2	28.2

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Growth				
Net interest income, yoy chg	6.2	1.1	1.7	4.7
Fees & commissions, yoy chg	(10.2)	4.7	5.0	5.0
Pre-provision profit, yoy chg	(3.0)	(0.2)	2.9	5.5
Net profit, yoy chg	(23.9)	16.5	11.5	10.7
Net profit (adj.), yoy chg	(23.9)	16.5	11.5	10.7
Customer loans, yoy chg	12.9	4.2	4.4	4.4
Customer deposits, yoy chg	13.2	2.6	3.9	4.0
Profitability				
Net interest margin	3.3	3.2	3.1	3.1
Cost/income ratio	45.1	45.2	44.9	44.4
Adjusted ROA	0.8	0.9	1.0	1.1
Reported ROE	7.0	7.6	7.9	8.2
Adjusted ROE	7.0	7.6	7.9	8.2
Valuation				
P/BV (x)	0.8	0.7	0.7	0.6
P/NTA (x)	0.8	0.7	0.7	0.6
Adjusted P/E (x)	11.4	9.7	8.7	7.9
Dividend Yield	1.8	2.1	2.3	2.6
Payout ratio	20.3	20.3	20.3	20.3

COMPANY RESULTS

Siam Commercial Bank (SCB TB)

3Q21: Earnings Were Higher Than Expectations

SCB's 3Q21 earnings beat our expectations with a 90% rise yoy rise (flat qoq). Loan quality was relatively stable with a high coverage ratio against NPLs. Going forward, earnings are likely to be lower qoq in 4Q21 on seasonally high operating expenses. SCB's earnings are poised for a recovery ahead. Earnings are expected to rise 19% yoy in 2021 and continue rising 14% yoy in 2022. Maintain BUY. Target price: Bt133.00.

RESULTS

• **Earnings topped our expectations.** Siam Commercial Bank (SCB) reported 3Q21 net profit of Bt8.8b, up 90% yoy (flat qoq), which was 11% higher than our expectations on higher non-recurring income. The yoy rise in earnings was largely supported by higher fees from income-related segments (bancassurance and wealth management) and lower provisions. Net profit was relatively flat qoq as higher operating income was offset by higher operating expenses. NIM remained relatively stable qoq at 3% in 3Q21. The cost-to-income ratio was higher at 42.8% (2Q21: 42.2%) due to lower non-II.

STOCK IMPACT

- **Muted loan demands.** Despite strong SME loans, total loans declined 0.8% qoq in 3Q21 (2Q21: +0.8% qoq), largely due to lower corporate lending. So far, SCB's loan growth has been in line with our estimates; thus, we maintain our full-year loan growth forecast of 4% yoy in 2021.
- **NPLs remained at a manageable level.** Gross NPLs increased slightly by 3% qoq in 3Q21, largely from qualitative classification of corporate customers and higher auto hire purchase after the debt holiday relief programme ended. The NPL ratio was higher qoq at 3.9% in 3Q21 (vs guidance of 4.0-4.5% at end-21). The coverage ratio slightly declined to 138% and was sufficient to cope with the economic uncertainties. SCB's loans under the relief programme increased to 20% of total loans (from 16% in Jun 21), particularly for housing and auto loans following the Bank of Thailand's two-month debt holiday from Jul-Aug 21. Roughly 90% of loans under the programme remained within SCB's expectations (roughly 90% still made payment).
- **Earnings to hit the bottom in 4Q21 on seasonally high OPEX.** Despite wider economic reopening starting in Sep 21, SCB's earnings are likely to be lower qoq in 4Q21 largely due to seasonally high operating expenses.

KEY FINANCIALS

Year to 31 Dec (Btm)	2019	2020	2021F	2022F	2023F
Net interest income	99,402	96,899	92,779	93,761	97,425
Non-interest income	66,666	47,869	53,277	54,138	56,359
Net profit (rep./act.)	40,436	27,218	32,451	36,990	42,332
Net profit (adj.)	40,436	27,218	32,451	36,990	42,332
EPS (Bt)	11.9	8.0	9.5	10.9	12.5
PE (x)	10.5	15.5	13.0	11.4	10.0
P/B (x)	1.1	1.0	1.0	0.9	0.8
Dividend yield (%)	5.0	1.8	2.2	2.5	2.9
Net int margin (%)	3.3	3.2	2.9	2.9	2.9
Cost/income (%)	42.5	44.4	42.5	41.9	40.6
Loan loss cover (%)	134.1	140.8	130.7	132.8	141.8
Consensus net profit	-	-	33,239	37,477	43,458
UOBKH/Consensus (x)	-	-	0.98	0.99	0.97

Source: SCB, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt124.00
Target Price	Bt133.00
Upside	+7.3%

COMPANY DESCRIPTION

One of the largest commercial banks with roughly 15% share of Thailand's credit market. The bank's has a strong focus on retail lending, which accounts for 46% of its loan book.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	SCB TB
Shares issued (m):	3,395.6
Market cap (Btm):	422,756.3
Market cap (US\$m):	12,669.1
3-mth avg daily t'over (US\$m):	55.9

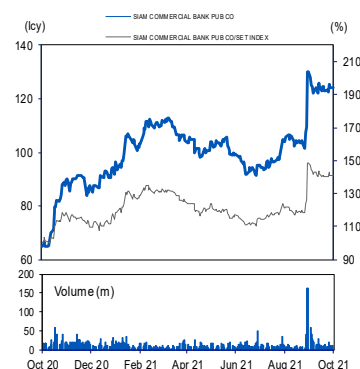
Price Performance (%)

52-week high/low	Bt130.00/Bt60.75			
1mth	3mth	6mth	1yr	YTD
20.3	33.9	16.9	86.5	42.3

Major Shareholders

Crown property Bureau	21.3
Vayupak Fund 1	11.6
vayupak Fund 2	11.6
FY21 NAV/Share (Bt)	130.37
FY21 CAR Tier-1 (%)	18.41

PRICE CHART



Source: Bloomberg

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- **Credit costs likely to be lower ahead.** Although management did not provide 2022 financial targets during the analyst meeting last Thursday, the bank shared that credit costs for 2022 should be around 130-170bp (vs <200bp in 2021), given an improvement in economic growth and benefits from SCB's comprehensive debt restructuring programme going forward. The bank started the comprehensive debt restructuring process in 3Q21 and is expected to complete roughly 50% (~Bt250b) by end-21.

EARNINGS REVISION/RISK

- **Back to growth mode.** We expect SCB's earnings to resume its strong growth of 19% yoy in 2021 and 14% yoy in 2022. The growth is due to the lower cost-to-income ratio and lower provisions. Note that we keep our credit costs assumptions conservative at 190bp in 2021 (vs 214bp in 2020), dropping to 170bp for 2022 and 160bp for 2023 respectively to reflect the recovery of the economy.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of Bt133.00.** Our valuation is derived from the Gordon Growth Model (ROE 8.4%, cost of equity 8.7%, long-term growth of 2%) and implies 0.96x 2022F P/B, or -0.5SD to its 2016-20 mean.

SHARE PRICE CATALYST

- Improving economic outlook to shore up loan demand.
- Low interest rates environment would lower funding costs and increase NIM.

3Q21 RESULTS

FYE Dec (Btm)	3Q20	2Q21	3Q21	qoq % chg	yoy % chg	Comments
Net interest income	23,724	23,475	23,533	0%	(1%)	Lower due to lower loan yield
<i>NIM</i>	<i>3.1%</i>	<i>3.0%</i>	<i>3.0%</i>			
Non-interest income	10,761	12,994	13,377	3%	24%	Higher due to strong fee income and a gain on financial instruments measured of value through profit or loss
Operating income	34,485	36,469	36,910	1%	7%	
Overhead expenses	(15,747)	(15,376)	(15,813)	3%	0%	Flat yoy
<i>Cost-Income Ratio</i>	<i>45.7%</i>	<i>42.2%</i>	<i>42.8%</i>			
Pre-impairment profit	18,738	21,093	21,097	0%	13%	
Impairment allowance	(12,955)	(10,028)	(10,035)	0%	(23%)	
<i>Credit cost - annualised (bps)</i>	<i>240</i>	<i>175</i>	<i>175</i>			<i>Lower given adequate reserves to withstand risks</i>
Pretax profit	5,783	11,065	11,062	(0%)	91%	
Net profit	4,641	8,815	8,818	0%	90%	
EPS	1.4	2.6	2.6	0%	90%	

Other key Data and Ratios

Loan growth	1.0%	7.1%	5.0%			Higher due to higher SME and consumer loans
Deposit growth	9.7%	5.1%	0.1%			
Loan/deposit ratio (%)	90.2%	96.9%	94.6%			
Gross NPL ratio (%)	3.3%	3.8%	3.9%			Higher NPLs from corporate and SME NPLs
Loan loss coverage (%)	145.7%	142.3%	138.0%			
Tier-1 CAR (%)	17.6%	16.8%	17.3%			
Total CAR	18.7%	17.9%	18.4%			

SCB, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Interest income	118,371	109,436	115,939	119,915
Interest expense	(21,472)	(16,656)	(22,178)	(22,490)
Net interest income	96,899	92,779	93,761	97,425
Fees & commissions	23,812	26,825	27,898	29,293
Other income	24,056	26,451	26,240	27,066
Non-interest income	47,869	53,277	54,138	56,359
Income from islamic banking	0	0	0	0
Total income	144,768	146,056	147,899	153,784
Staff costs	(31,344)	(32,285)	(32,930)	(33,589)
Other operating expense	(32,986)	(29,823)	(29,039)	(28,786)
Pre-provision profit	80,437	83,949	85,930	91,409
Loan loss provision	(46,649)	(43,707)	(40,670)	(39,614)
Other provisions	0	0	0	0
Associated companies	0	0	0	0
Other non-operating income	0	0	0	0
Pre-tax profit	33,788	40,242	45,260	51,796
Tax	(6,794)	(8,048)	(8,599)	(9,841)
Minorities	224	258	330	378
Net profit	27,218	32,451	36,990	42,332
Net profit (adj.)	27,218	32,451	36,990	42,332

OPERATING RATIOS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Capital Adequacy				
Tier-1 CAR	17.1	18.4	19.2	20.2
Total CAR	18.2	19.5	20.3	21.3
Total assets/equity (x)	8.0	7.5	7.3	7.0
Tangible assets/tangible common equity (x)	8.0	7.5	7.3	7.0
Asset Quality				
NPL ratio	3.7	4.2	4.5	4.6
Loan loss coverage	140.8	130.7	132.8	141.8
Loan loss reserve/gross loans	6.2	6.8	7.3	7.9
Increase in NPLs	19.1	20.0	10.0	5.0
Credit cost (bp)	213.5	190.0	170.0	160.0
Liquidity				
Loan/deposit ratio	93.2	96.0	98.0	99.0
Liquid assets/short-term liabilities	33.4	33.0	32.9	32.9
Liquid assets/total assets	26.7	25.9	25.7	25.7

BALANCE SHEET

Year to 31 Dec (Btm)	2020	2021F	2022F	2023F
Cash with central bank	51,632	53,503	44,341	45,228
Govt treasury bills & securities	280,616	245,631	251,048	256,574
Interbank loans	543,504	568,472	579,841	591,438
Customer loans	2,130,308	2,200,376	2,276,087	2,328,090
Investment securities	31,180	27,292	27,894	28,508
Derivative receivables	86,830	88,566	90,338	92,145
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	56,445	55,175	52,868	50,446
Other assets	97,869	104,936	88,414	86,619
Total assets	3,278,384	3,343,951	3,410,830	3,479,047
Interbank deposits	198,491	183,917	170,542	173,952
Customer deposits	2,420,455	2,443,179	2,489,051	2,537,826
Derivative payables	79,272	83,599	90,338	92,145
Debt equivalents	67,235	67,235	67,235	67,235
Other liabilities	101,102	122,380	123,384	107,137
Total liabilities	2,866,554	2,900,310	2,940,548	2,978,295
Shareholders' funds	411,430	443,162	469,707	500,062
Minority interest - accumulated	399	479	575	690
Total equity & liabilities	3,278,384	3,343,951	3,410,830	3,479,047

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Growth				
Net interest income, yoy chg	(2.5)	(4.3)	1.1	3.9
Fees & commissions, yoy chg	(19.7)	12.7	4.0	5.0
Pre-provision profit, yoy chg	(15.8)	4.4	2.4	6.4
Net profit, yoy chg	(32.7)	19.2	14.0	14.4
Net profit (adj.), yoy chg	(32.7)	19.2	14.0	14.4
Customer loans, yoy chg	6.4	3.3	3.4	2.3
Customer deposits, yoy chg	12.1	0.9	1.9	2.0
Profitability				
Net interest margin	3.2	2.9	2.9	2.9
Cost/income ratio	44.4	42.5	41.9	40.6
Adjusted ROA	0.9	1.0	1.1	1.2
Reported ROE	6.7	7.6	8.1	8.7
Adjusted ROE	6.7	7.6	8.1	8.7
Valuation				
P/BV (x)	1.0	1.0	0.9	0.8
P/NTA (x)	1.0	1.0	0.9	0.8
Adjusted P/E (x)	15.5	13.0	11.4	10.0
Dividend Yield	1.8	2.2	2.5	2.9
Payout ratio	28.7	28.7	28.7	28.7

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