

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

Sector

Banking

3Q22 results preview: Expect robust yoy earnings growth.

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KEY INDICES

| Symbol | Close | Chg | %Chg |
|-------------------|-----------|----------|--------|
| SET | 1,592.37 | (6.86) | (0.43) |
| SET50 | 956.73 | (7.02) | (0.73) |
| Value (Btm) - SET | 70,855 | | |
| Top 5 Sector | | | |
| BANK | 372.49 | 2.67 | 0.72 |
| PETRO | 922.10 | (2.40) | (0.26) |
| PROP | 247.43 | (0.63) | (0.25) |
| ENERG | 24,367.05 | (275.98) | (1.12) |
| ICT | 169.49 | (1.51) | (0.88) |

Source: Bloomberg

TOP VOLUME

| Symbol | Price (Bt) | Chg (%) | Volume ('000) |
|--------|------------|---------|---------------|
| DELTA | 660.00 | 5.43 | 7,130.8 |
| PTT | 34.25 | (2.14) | 96,070.9 |
| PTTEP | 161.00 | (0.62) | 17,598.6 |
| AOT | 73.00 | 0.00 | 37,129.4 |
| CPALL | 56.25 | (0.88) | 43,930.8 |

TOP GAINERS

| Symbol | Price (Bt) | Chg (%) | Volume ('000) |
|--------|------------|---------|---------------|
| AIE | 4.40 | 27.17 | 283,763.4 |
| MORE | 2.60 | 15.04 | 453,655.5 |
| AI | 6.65 | 12.71 | 22,809.1 |
| UKEM | 1.97 | 8.84 | 135,949.9 |
| GCAP | 1.25 | 8.70 | 25,211.7 |

TOP LOSERS

| Symbol | Price (Bt) | Chg (%) | Volume ('000) |
|--------|------------|---------|---------------|
| STOWER | 0.04 | (20.00) | 26,980.9 |
| LDC | 1.20 | (13.04) | 38,537.7 |
| NINE | 6.50 | (10.96) | 529.1 |
| FVC | 1.62 | (9.50) | 106,793.9 |
| BRR | 8.20 | (9.39) | 16,824.6 |

KEY STATISTICS

| Commodity | Current Price | %Chg----- | | |
|------------------|---------------|-----------|--------|--------|
| | | 1m | 3M | YTD |
| Brent crude* | 88.5 | (7.5) | (13.9) | 19.9 |
| Dubai crude* | 88.8 | (11.1) | (23.2) | 16.1 |
| Baltic Dry Index | 1,799.0 | 86.4 | (19.7) | (18.9) |
| Gold Spot*** | 1,662.5 | (2.8) | (8.0) | (9.1) |

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

| Day (Mil US\$) | MTD Net (Mil US\$) | YTD Net (Mil US\$) | YTD Net YoY% |
|----------------|--------------------|--------------------|--------------|
| (55.6) | (618.7) | 4,554.2 | 7,410.9 |

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 37.93

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

Thai Lending Rate (%)* - MLR = 5.25

SECTOR UPDATE

Banking – Thailand

3Q22 Results Preview: Expect Robust yoy Earnings Growth

We expect the sector's earnings to grow 28% yoy, mainly driven by the lower provision expenses. Despite increasing interest rates, the demand for loans remains solid, as evidenced by the 5% yoy loan growth in Aug 22. We believe the net impacts from the deterioration in debt under relief measures are limited, and the mid-to-long term earnings outlook remains solid. Maintain **OVERWEIGHT**. Our top picks are **BBL** and **SCB**.

WHAT'S NEW

- **Expect a strong yoy earnings growth in 3Q22.** We estimate banks under our coverage to report a combined net profit of around Bt44b in 3Q22, up 3% qoq and 28% yoy. The key driver for yoy growth is a significant drop in provisioning thanks to the absence of lockdown measures, which the government had implemented back in 3Q21. We expect the banking sector's average credit cost to decline 29bp yoy. Excluding provision expenses, pre-provision operating profit (PPOP) is expected to grow 5% yoy, driven by a decent loan growth and NIM expansion. On the downside, we expect the sector's non-interest income (non-II) to fall 10% yoy, dragged by the bear capital markets and high bond yields globally.
- **Net loans in Aug 22 grew 1% from 2Q22.** Banks under our coverage reported aggregate net loans of Bt10.9t in Aug 22, up 1% from 2Q22 and 4.9% yoy. Among the Big Four banks, Bangkok Bank (BBL) shows the most promising net loan growth of 5.6% from 2Q22. On a yoy basis, BBL's net loans grew 12.8%, which has already exceeded 2022's target of 4-6% yoy. Meanwhile, small banks like Kiatnakin Phatra (KKP) and Tisco Financial Group (TISCO) also showed strong qtd net loan growth of 4.6% and 6.9%, respectively.
- **MPC hiked policy rate by 25bp and is ready for more aggressive rate hikes if needed.** The Monetary Policy Committee (MPC) increased the central rate by 25bp in the last meeting (28 Sep 22). The magnitude of the rate hike was largely in line with the market's expectation, but there are some concerns that MPC might be behind the curve as the policy rate in Thailand has only increased by 50bp since the COVID-19 outbreak, whereas the region's policy rates have been increased by 100bp on average. The MPC reasoned that Thailand is in the recovery phase, and raising the policy rate too fast would undermine economic growth. While the Thai baht has depreciated 14.8% ytd (a record-low in 16 years against the dollar), it still outperformed most currencies, as evidenced by an 18% ytd spike in U.S. Dollar Index (DXY). Nevertheless, the MPC guided that it is ready to promote a more aggressive rate hike if the underlying risks, especially inflation, have changed.
- **Maintain OVERWEIGHT.** Despite the short-term rising NPL trend, we expect the banking sector's earnings to grow strongly at 13.5% CAGR for 2022-24. The sector's valuation is undemanding as it is trading at 0.65x 2022F P/B, which is -0.5SD to its five-year mean. BBL is one of our top picks as it is the prime beneficiary of rate hikes and has robust asset quality. Another top pick is SCBX (SCB), which is the most laggard in price performance.

PEER COMPARISON

| Company | Rec. | Last Price 28 Sep 22 | Target Price (Bt) | Upside Downside (%) | Market Cap (US\$m) | Net Profit 2022F (Btm) | 2023F (Bt m) | PE 2022F (x) | 2023F (x) | Net EPS Growth (%) | P/B 2022F (x) | Yield 2022F (%) | ROE 2022F (%) |
|----------------|------|-------------------------|----------------------|---------------------------|-----------------------|------------------------------|-----------------|--------------------|--------------|--------------------------|---------------------|-----------------------|---------------------|
| BBL TB | BUY | 136.00 | 168.00 | 23.5 | 7,417 | 30,432 | 35,879 | 8.5 | 7.2 | 14.8 | 0.5 | 2.8 | 6.1 |
| | | (Previous TP165.00) | | | | | | | | | | | |
| KBANK TB | BUY | 143.50 | 186.00 | 29.6 | 9,714 | 41,185 | 48,406 | 8.3 | 7.0 | 8.2 | 0.7 | 2.4 | 8.4 |
| KKP TB | BUY | 69.25 | 89.00 | 28.5 | 1,675 | 7,550 | 7,805 | 7.8 | 7.5 | 19.5 | 1.1 | 5.7 | 14.2 |
| KTB TB | HOLD | 16.60 | 16.90 | 1.8 | 6,629 | 30,605 | 28,686 | 7.6 | 8.1 | 41.8 | 0.6 | 2.5 | 8.4 |
| SCB TB | BUY | 103.50 | 138.00 | 33.3 | 9,957 | 42,934 | 45,660 | 8.2 | 7.7 | 20.6 | 0.8 | 4.7 | 9.5 |
| TISCO TB | BUY | 93.75 | 114.00 | 21.6 | 2,145 | 7,261 | 7,424 | 10.3 | 10.1 | 7.1 | 1.8 | 7.6 | 17.3 |
| TTB TB | BUY | 1.21 | 1.57 | 29.8 | 3,340 | 13,296 | 15,805 | 8.8 | 7.4 | 26.9 | 0.5 | 4.3 | 6.2 |
| Banking | | | | | 40,877 | 173,263 | 189,665 | 8.3 | 7.5 | 19.2 | 0.7 | 3.6 | 8.8 |

Source: Respective companies, UOB Kay Hian

OVERWEIGHT

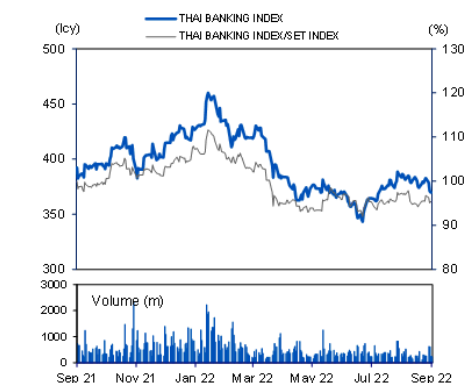
(Maintained)

OUR TOP PICK

| Company | Ticker | Rec | Target Price (Bt) | Current Price (Bt) |
|--------------|--------|-----|----------------------|-----------------------|
| Bangkok Bank | BBL | BUY | 168.00 | 136.00 |
| SCB X | SCB | BUY | 103.5 | 138.00 |

Source: Respective companies, UOB Kay Hian

RETURN: BANK VS SET



Source: UOB Kay Hian

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ESSENTIALS

- Mixed asset quality outlook.** The biggest overhang on the bank's share prices is asset quality. The inflation crisis and lacklustre debt moratorium compared with 2021 put downward pressure on the banks' asset quality outlook in the short term. On a positive note, Thailand's economy has gradually improved, driven by strong domestic consumption and tourism recovery. In Jul 22, the number of tourist arrivals reached 1.1m and it continues to grow. Also, we expect European tourism to migrate to Thailand during 4Q22 due to the winter season and the abnormally high electricity costs in Europe.
- The debts under relief programme pose a limited impact on banks' bottom line.** The debts under the relief programme have fallen from 40% of total debts (Bt7.2t) in 2Q20 to 14% of total debts (Bt3t) in 2Q22. We believe the rate of decline in the debts under the relief programme will diminish and expect it to fall below 5% in 2026 as the remaining 14% are those that received severe impacts from the COVID-19 pandemic. Nevertheless, the downside risk from credit default to the banks' bottom line should be limited. We conducted a scenario analysis using the banking sector's current NPL ratio (1H22: 3.1%) as a proxy for the credit default rate for debts under relief programme. In the worst-case scenario, we assume the credit default rate to be 15% (5x of the banking sector's current NPL ratio) and found that the deterioration in debt under relief measures will push the sector's NPL ratio up by 30bp in 2023, which poses a 9.3% earnings downside to our base-case forecast.

SCENARIO ANALYSIS

| | Best Case | Base Case | Worst Case | 1H22 Actual |
|-------------------------------------------------|--------------|-----------|-------------|-------------|
| Default rate | 3.0% | 6.0% | 15.0% | - |
| 2023 NPL ratio | 3.2% | 3.4% | 3.7% | 3.1% |
| 2023 credit cost | 113bp (-7bp) | 120bp | 148 (+28bp) | 113bp |
| 2023 earnings upside/downside | +3.0% | - | -9.3% | - |
| NPL ratio If all debt relief measures end today | 3.6% | 4.0% | 5.2% | - |

Source: UOB Kay Hian

LOAN MIX CLASSIFIED BY RISK TYPE

| | BBL | KBANK | KKP | KTB | SCB | TISCO | TTB |
|-----------------------------------------------------------------|------|-------|------|------|------|-------|------|
| Low risk loans (Corporate loans & lending to the government) | 58% | 34% | 13% | 47% | 37% | 19% | 35% |
| Moderate risk loans (Retail loans) | 18% | 29% | 68% | 41% | 45% | 73% | 52% |
| High risk loans (SMEs loans) | 24% | 33% | 16% | 12% | 18% | 5% | 9% |
| Others | - | 4% | 1% | - | - | 1% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Respective companies, UOB Kay Hian

EARNINGS REVISION

| | 2022F | | | 2023F | | | 2024F | | |
|------------------|---------|---------|-------|---------|---------|-------|---------|---------|-------|
| Net profit (Btm) | New | Old | % Chg | New | Old | % Chg | New | Old | % Chg |
| BBL | 30,432 | 30,946 | (1.7) | 35,879 | 34,984 | 2.6 | 42,282 | 40,058 | 5.6 |
| KBANK | 41,185 | 41,185 | - | 48,406 | 48,406 | - | 56,129 | 56,129 | - |
| KKP | 7,550 | 7,550 | - | 7,805 | 7,805 | - | 8,922 | 8,922 | - |
| KTB | 30,605 | 30,605 | - | 28,686 | 28,686 | - | 28,652 | 28,652 | - |
| SCB | 42,934 | 42,934 | - | 45,660 | 45,660 | - | 51,349 | 51,349 | - |
| TISCO | 7,403 | 7,403 | - | 7,674 | 7,674 | - | 8,219 | 8,219 | - |
| TTB | 13,296 | 13,296 | - | 15,805 | 15,805 | - | 17,476 | 17,476 | - |
| Total | 173,406 | 173,919 | (0.3) | 189,915 | 189,020 | 0.5 | 213,028 | 210,805 | 1.1 |

Source: Respective companies, UOB Kay Hian

RISKS

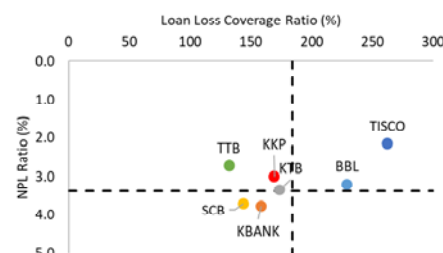
- Higher-than-expected credit risk resulting from a weaker-than-expected economy.

BOT'S FORECASTS

| | 2022F | 2023F |
|--------------------|------------------|--------------|
| GDP forecast | 3.3% (No change) | 3.8% (-0.4%) |
| Headline inflation | 6.3% (+0.1%) | 2.6% (+0.1%) |
| Core CPI | 2.6% (+0.4%) | 2.4% (+0.4%) |
| Tourist arrivals | 9.5m (+3.5m) | 21m (+2m) |

Source: Bank of Thailand

ASSET QUALITY MATRIX



Source: Respective companies, UOB Kay Hian

SECTOR P/B BAND



Source: UOB Kay Hian

SECTOR PE BAND



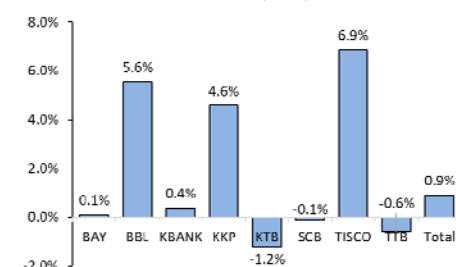
Source: UOB Kay Hian

3Q22 EARNINGS PREVIEW

| | 3Q22F | 2Q22 | 3Q21 | qoq (%) | yoy (%) | 2022F | 2021 | yoy (%) |
|---------------------------------------------|---------------|---------------|---------------|------------|--------------|----------------|----------------|--------------|
| Net profit (Btm) | | | | | | | | |
| BBL | 8,227 | 6,961 | 6,909 | 18.2 | 19.1 | 30,432 | 26,507 | 14.8 |
| KBANK | 10,326 | 10,794 | 8,631 | (4.3) | 19.6 | 41,185 | 38,053 | 8.2 |
| KKP | 1,728 | 2,033 | 1,478 | (15.0) | 16.9 | 7,550 | 6,318 | 19.5 |
| KTb | 7,129 | 8,358 | 5,055 | (14.7) | 41.0 | 30,605 | 21,588 | 41.8 |
| SCB | 12,025 | 10,051 | 8,818 | 19.6 | 36.4 | 42,934 | 35,599 | 20.6 |
| TISCO | 1,713 | 1,848 | 1,560 | (7.3) | 9.8 | 7,261 | 6,781 | 7.1 |
| TTB | 3,443 | 3,438 | 2,359 | 0.1 | 46.0 | 13,296 | 10,474 | 26.9 |
| Total | 44,591 | 43,484 | 34,809 | 2.5 | 28.1 | 173,263 | 145,320 | 19.2 |
| Pre-provision operating profit (Btm) | | | | | | | | |
| BBL | 18,505 | 16,757 | 18,551 | 10.4 | (0.2) | 69,337 | 67,275 | 3.1 |
| KBANK | 25,104 | 23,441 | 22,978 | 7.1 | 9.3 | 95,160 | 92,305 | 3.1 |
| KKP | 3,210 | 3,329 | 2,850 | (3.6) | 12.6 | 13,783 | 12,998 | 6.0 |
| KTb | 15,963 | 16,947 | 15,241 | (5.8) | 4.7 | 65,695 | 63,055 | 4.2 |
| SCB | 22,262 | 22,764 | 21,097 | (2.2) | 5.5 | 87,079 | 86,795 | 0.3 |
| TISCO | 2,374 | 2,439 | 2,209 | (2.7) | 7.5 | 9,817 | 10,549 | (6.9) |
| TTB | 8,827 | 8,627 | 8,395 | 2.3 | 5.1 | 34,918 | 34,318 | 1.7 |
| Total | 96,245 | 94,305 | 91,322 | 2.1 | 5.4 | 375,789 | 367,295 | 2.3 |
| Total loans (Btb) | | | | | | | | |
| BBL | 2,829 | 2,660 | 2,531 | 6.4 | 11.8 | 2,866 | 2,596 | 10.4 |
| KBANK | 2,558 | 2,506 | 2,461 | 2.1 | 4.0 | 2,615 | 2,438 | 7.2 |
| KKP | 351 | 346 | 296 | 1.4 | 18.7 | 368 | 316 | 16.5 |
| KTb | 2,677 | 2,656 | 2,579 | 0.8 | 3.8 | 2,703 | 2,650 | 2.0 |
| SCB | 2,391 | 2,376 | 2,293 | 0.6 | 4.3 | 2,429 | 2,317 | 4.8 |
| TISCO | 204 | 203 | 204 | 0.1 | (0.4) | 209 | 203 | 2.7 |
| TTB | 1,400 | 1,400 | 1,367 | (0.0) | 2.4 | 1,429 | 1,380 | 3.6 |
| Total | 12,409 | 12,147 | 11,731 | 2.2 | 5.8 | 12,618 | 11,899 | 6.0 |
| NIM (%) | | | | | | | | |
| BBL | 2.2 | 2.2 | 2.0 | 2bp | 19bp | 2.2 | 2.1 | 6bp |
| KBANK | 3.3 | 3.4 | 3.4 | -4bp | -5bp | 3.2 | 3.3 | -4bp |
| KKP | 4.6 | 4.7 | 4.8 | -10bp | -21bp | 4.6 | 4.9 | -27bp |
| KTb | 2.5 | 2.5 | 2.6 | -2bp | -8bp | 2.5 | 2.5 | -3bp |
| SCB | 3.2 | 3.2 | 3.1 | -1bp | 5bp | 3.0 | 3.0 | -5bp |
| TISCO | 5.0 | 5.1 | 5.0 | -5bp | 11bp | 5.0 | 4.8 | 17bp |
| TTB | 3.0 | 2.8 | 3.0 | 14bp | -2bp | 2.9 | 2.9 | -3bp |
| Average | 3.4 | 3.4 | 3.4 | 2bp | 3bp | 3.3 | 3.4 | -3bp |
| Credit cost (bp) | | | | | | | | |
| BBL | 117 | 127 | 159 | -10bp | -42bp | 114 | 137 | -24bp |
| KBANK | 165 | 158 | 186 | 7bp | -21bp | 160 | 172 | -12bp |
| KKP | 120 | 95 | 137 | 25bp | -17bp | 127 | 177 | -50bp |
| KTb | 91 | 85 | 128 | 6bp | -37bp | 89 | 130 | -41bp |
| SCB | 126 | 174 | 174 | -48bp | -49bp | 142 | 183 | -41bp |
| TISCO | 46 | 28 | 49 | 18bp | -3bp | 37 | 96 | -59bp |
| TTB | 129 | 126 | 162 | 3bp | -33bp | 131 | 155 | -24bp |
| Average | 113 | 113 | 142 | 0bp | -29bp | 114 | 150 | -36bp |
| NPL ratio (%) | | | | | | | | |
| BBL | 3.3 | 3.4 | 3.7 | -8bp | -33bp | 3.3 | 3.2 | 10bp |
| KBANK | 3.9 | 3.8 | 3.9 | 11bp | 6bp | 4.1 | 3.8 | 32bp |
| KKP | 3.1 | 3.0 | 3.5 | 6bp | -44bp | 3.1 | 3.0 | 11bp |
| KTb | 3.4 | 3.3 | 3.6 | 4bp | -21bp | 3.4 | 3.5 | -11bp |
| SCB | 3.7 | 3.6 | 3.9 | 12bp | -19bp | 3.8 | 3.8 | -1bp |
| TISCO | 2.3 | 2.2 | 3.0 | 10bp | -68bp | 2.4 | 2.4 | -4bp |
| TTB | 2.7 | 2.6 | 3.0 | 7bp | -28bp | 2.7 | 2.8 | -10bp |
| Average | 3.2 | 3.1 | 3.5 | 6bp | -30bp | 3.3 | 3.2 | 4bp |

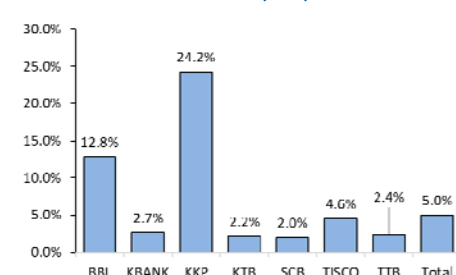
Source: Respective companies, UOB Kay Hian

LOAN GROWTH IN AUG 22 (QTD)



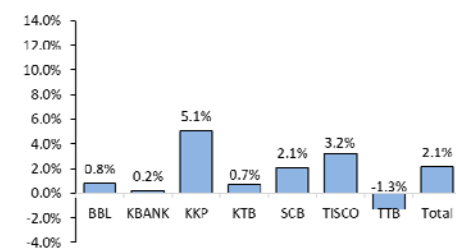
Source: Respective companies, BOT, UOB Kay Hian

LOAN GROWTH IN AUG 22 (YOY)



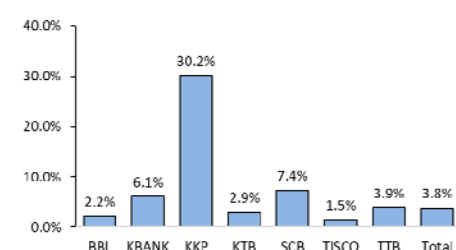
Source: Respective companies, BOT, UOB Kay Hian

DEPOSIT GROWTH IN AUG 22 (QTD)



Source: Respective companies, BOT, UOB Kay Hian

DEPOSIT GROWTH IN AUG 22 (YOY)



Source: Respective companies, BOT, UOB Kay Hian

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