

3 July 2012

Krung Thai Bank

Bank
Overweight

2Q12 preview—good profit, led by loan and fee income growth

Investment thesis: Although KTB is expected to post good earnings for 2Q12, we maintain our HOLD rating, due to: 1) recapitalization risk next year and 2) a possible rise in loan loss provisioning in tandem with perceived debtor risk. We believe that the two factors will pressure its share price performance in 2H12.

Good 2Q12 profit, led by fee income: We expect a 2Q12 net profit of Bt6.5bn, up by 24% YoY and 2% QoQ. The YoY bottom-line growth is due to lending expansion of 12% YoY, a fee income increase of 15% YoY (which offset the effect of 2Q12 NIM squeeze from booking the BOT's 0.47% levy on deposits and B/Es) and well-managed OPEX. Unlike other banks, KTB did not book the BOT levy in 1Q12, so it will recognize the cost for both quarters in 2Q12, which will squeeze NIM by 14 bps QoQ to 2.53%. We also expect 2Q12 OPEX growth of 18% YoY (flat QoQ).

Normal LLPs in 2Q12, but may rise in 2H12: KTB is expected to set normalized 2Q12 LLPs of Bt1.5m, flat both QoQ and YoY. We anticipate that provisions may rise in order to cover potential losses from the bank's Bt10bn stake in a Bt24bn syndicated loan to Sahaviriya Steel Industries Plc (SSI) to acquire a billet plant in the UK. Repayments on the loan aren't scheduled till next year, so it is technically still performing.

Capital-raising risk? KTB denied recent rumors that it may make a cash call soon. But management doesn't rule out the possibility on capital-raising in the future. The bank said it will maintain Tier-1 capital at above 8.0% (at end-March its Tier-1 ratio was only 8.03%). Given that we expect considerable demand for finance from state infrastructure projects, the bank looks all but certain to make a cash call next year, if it is going to keep its Tier-1 ratio above 8.0%.

3Q12 profit will rise slightly: Despite a big-ticket debt repayment by the government, KTB will see lending growth, fueled by the SME and corporate categories. It posted 5M12 net lending expansion of 12% YoY and 3.8% YTD. We currently assume 10% loan growth for FY12, which is broadly in line with the current trend. Besides, NIM will fatten with increased lending to SME and corporate clients—both categories pay higher yields than lending to government agencies. Given the increased focus on high-yield assets, we expect KTB's 3Q12 profit to rise modestly, both QoQ and YoY.

BUALUANG RESEARCH

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HOLD (maintained)

Target Price: Bt21.00
Price (02/07/12): Bt16.30
KTB TB / KTB.BK

Key Ratios & Statistics

Market cap	Bt1811bn		
12-mth price range	Bt13.00/Bt21.00		
12-mth avg daily volume	Bt828.96m		
# of shares (m)	11,179.7		
Est. free float (%)	44.9		
Foreign limit (%)	25.0		
Share price perf. (%)	1M	3M	12M
Relative to SET	3.6	(6.6)	(28.8)
Absolute	10.2	(7.4)	(19.8)

Financial summary

FY Ended 31 Dec	2010	2011	2012E	2013E
Revenues (Btm)	60,857	82,938	91,923	104,530
Net profit (Btm)	14,913	17,012	21,500	24,000
EPS (Bt)	1.33	1.52	1.92	2.15
BLS/Consensus (x)	1.27	0.89	0.94	0.89
EPS Consensus (Bt)	1.05	1.71	2.05	2.42
EPS growth (%)	+22.3%	+14.1%	+26.4%	+11.6%
Core profit (Btm)	20,923	30,058	30,950	32,450
Core EPS (Bt)	1.87	2.69	2.77	2.90
Core EPS growth (%)	+19.3%	+43.6%	+3.0%	+4.8%
PER (x)	12.2	10.7	8.4	7.6
Core PER (x)	8.7	6.0	5.9	5.6
P/PPOP (x)	6.8	5.1	4.9	4.7
PABV (x)	1.6	1.4	1.3	1.2
Dividend (Bt)	0.53	0.62	0.77	0.86
Dividend yield (%)	3.3	3.8	4.7	5.3
ROE (%)	11.9	13.1	15.6	15.6

CG Rating - 2011



Company profile

Established in 1969 as Thailand's first investment bank, TISCO is the acronym of the company's original name—Thai Investment & Securities Co Ltd. It was the first finance company to receive approval from the Ministry of Finance to upgrade its status to a commercial bank in October 2004. TISCO commenced operating on June 30, 2010 with 46 branches. Lending grew by 16% YTD in end June-11 and accounts for 88% of assets. Retail loans made up 74% of total loans, followed by corporate and SME loans at 16% and 7%. As of end-December 2011, its CAR was 14.5% with 9.5% for Tier-1.

Figure 1: 2Q12 earnings previews

FY Ended 31 Dec (Btm)	2Q12	2Q11	YoY %	1Q12	QoQ %	6M12	6M11	YoY %
Income Statement								
Interest income	25,191	19,917	26	23,521	7	48,712	38,066	28
Interest Expense	11,395	7,586	50	9,802	16	21,198	14,370	48
Net interest income	13,796	12,330	12	13,718	1	27,514	23,695	16
Fee & service income	4,123	3,580	15	3,844	7	7,968	6,864	16
Total non-interest income	5,051	4,117	23	4,901	3	9,952	9,442	5
Operating expenses	8,991	7,614	18	8,872	1	17,863	15,510	15
Operating profit before provision	9,855	8,834	12	9,747	1	19,602	17,628	11
Provisioning charges	1,550	1,513	2	1,527	2	3,077	3,027	2
Operating profit after provision	8,305	7,321	13	8,221	1	16,526	14,601	13
Exceptional items	150	129	17	126	19	276	127	nm
Profit before tax	8,455	7,449	14	8,346	1	16,802	14,728	14
Tax	1,955	2,208	(11)	1,970	(1)	3,925	3,998	(2)
Minority interest	0	0	nm	(0)	0	(0)	(0)	nm
Net profit (loss)	6,500	5,241	24	6,377	2	12,877	10,730	20
EPS	0.58	0.47	24	0.57	2	1.15	0.96	20
Key ratios								
Asset Yield/Avg Assets (%)	4.61	4.19	0.42	4.57	0.04	4.59	4.04	
Funding Cost (%)	2.08	1.59	0.49	1.90	0.18	1.99	1.53	
Interest Spread (%)	2.52	2.59	(0.07)	2.66	(0.14)	2.59	2.52	
Tax rate (%)	23.1	29.6		23.6		23.13	29.64	
Net Interest Margin (%)	2.62	2.65	(0.03)	2.76	(0.14)	2.69	2.58	
Assets to Equities (X)	15.6	15.2		15.8		15.6	15.2	
Cost to Income (%)	50.2	47.9		50.5		50.3	50.8	
Est CAR (%)	13.1	13.9		13.0		13.1	13.9	
Balance Sheet								
Cash & Equivalent	28,500	30,907	(8)	29,631	(4)			
Net Loan & accrued interests	1,450,230	1,295,670	12	1,451,517	(0)			
ST debts, REPO & current porti	436,909	346,438	26	467,408	(7)			
Long-term debt	0	0	0	0	0			
Total liabilities	2,079,214	1,727,381	20	2,017,189	3			
Retained earnings	68,562	50,255	36	62,062	10			
Shareholders equity	142,554	121,867	17	136,054	5			
Minority interests	0	0	0	0	0			
BV (Bt)	12.7	10.9	17	12.2	5			

- NII will be flat QoQ

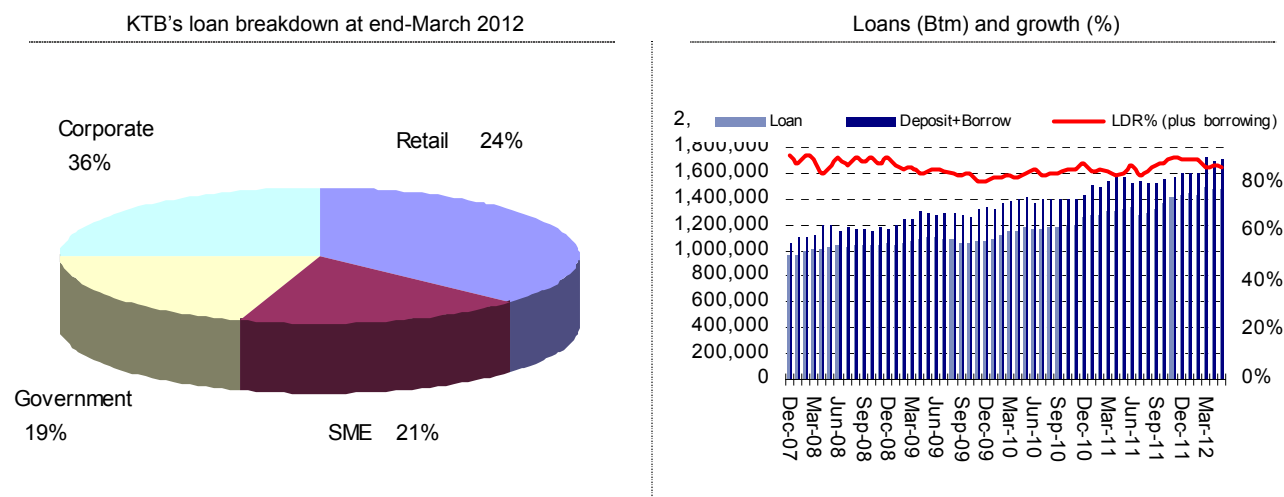
- Fee income will rise YoY and QoQ

- NIM will decline QoQ—the BOT levy on B/Es

- SME and corp lending growth; big-ticket govt loan repayment

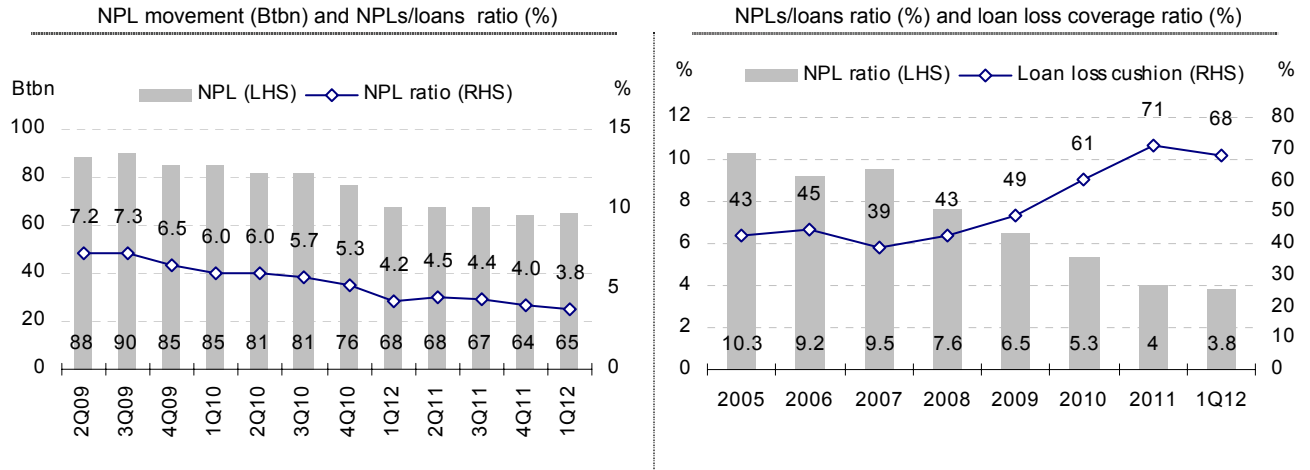
Source: Company data

Figure 2: Loan and deposit growth (% MoM) and loan breakdown at end-March 2012



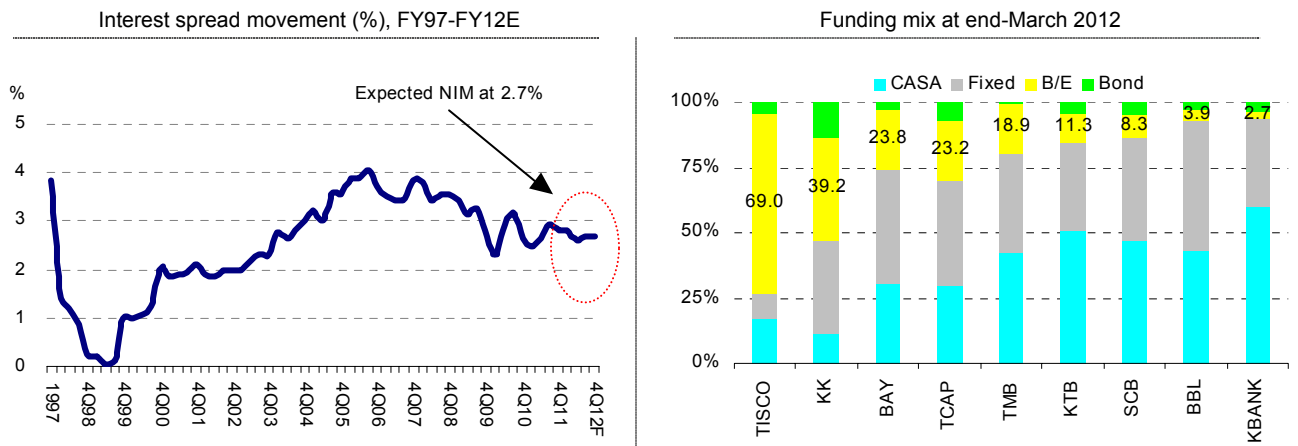
Sources: Company data, Bualuang Research

Figure 3: NPLs/loans ratio, loan loss coverage (%) and NPLs by classification (%)



Sources: Company data, Bualuang Research

Figure 4: Interest spread movement (%) and funding mix for each bank (%) at end-March 2012



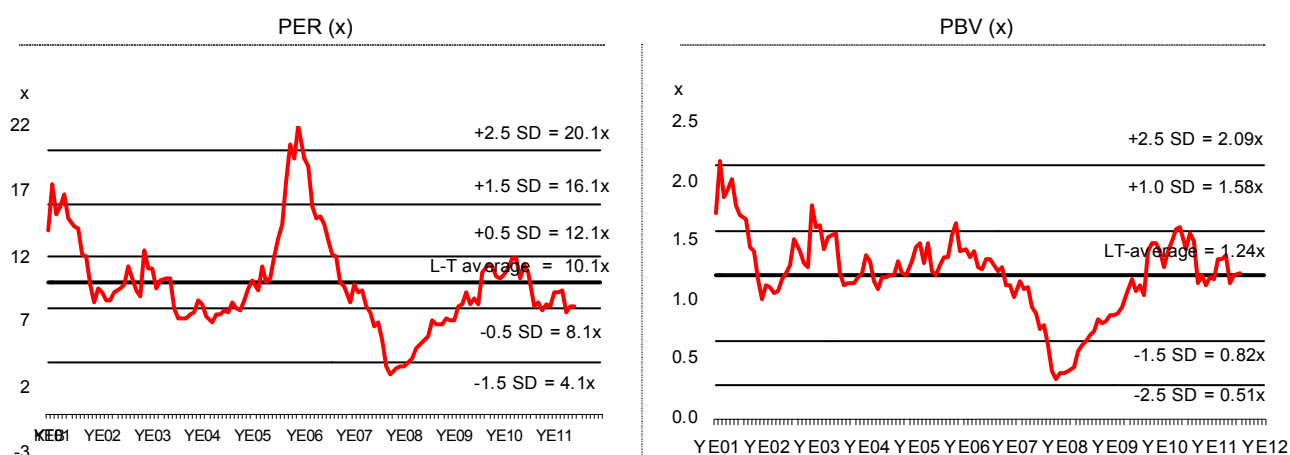
Sources: Company data, Bualuang Research

Figure 5: Valuation comparisons with regional peers

Company	Ticker	PER			2-Yr EPS Growth (%)	PBV		Div Yld (%)		ROE (%)	
		FY11	FY12E	FY13E		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Hang Seng Bank	11 HK	12.7	11.9	10.8	8.8%	2.4	2.2	5.0%	5.1%	20.6	21.7
BOC Hong Kong	2388 HK	13.0	13.6	12.2	3.3%	1.9	1.7	4.7%	5.2%	13.9	15.0
Wing Hang Bank	302 HK	13.9	12.6	11.5	10.6%	1.3	1.2	2.4%	2.7%	10.4	11.0
DBS group Holding	DBS SP	11.2	11.3	10.4	3.8%	1.1	1.0	4.4%	4.6%	10.0	10.2
UOB	UOB SP	12.8	12.4	11.2	7.0%	1.3	1.2	3.8%	4.0%	10.8	10.9
Malayan Bank	MAY MK	12.2	13.3	12.3	-0.4%	1.9	1.7	6.0%	6.2%	14.6	14.7
CIMB Group Holding Bhd	CIMB MK	14.2	13.6	11.7	10.8%	2.0	1.9	3.9%	4.5%	15.5	16.6
China Citic Bank	601998 CH	6.1	5.2	4.6	15.8%	0.9	0.8	5.1%	6.0%	19.4	18.7
China Construction Bank	601939 CH	6.2	5.2	4.5	18.1%	1.1	1.0	7.1%	8.0%	22.9	23.4
Bank Rakyat	BBRI IJ	11.5	10.0	8.5	18.2%	2.6	2.1	2.1%	2.5%	28.9	27.8
Bank of Philippines	BPI PM	21.8	19.1	16.3	16.9%	2.9	2.6	2.6%	2.6%	15.2	16.6
ICICI Bank LTD	ICICIB IN	18.1	15.3	13.5	17.2%	1.7	1.6	1.8%	2.1%	12.6	12.7
AXIS Bank Ltd	AXSB IN	13.0	10.9	9.0	21.9%	1.9	1.6	1.6%	1.7%	19.9	20.4
Bank Mandiri Tbk PT	BMRI IJ	13.7	12.3	10.2	17.0%	2.4	2.0	2.6%	3.1%	21.3	21.9
Bank Central Asia Tbk PT	BBCA IJ	18.0	15.7	13.3	17.5%	3.7	3.1	2.1%	2.4%	25.4	25.0
Bangkok Bank	BBL TB	13.3	10.4	8.6	27.7%	1.4	1.2	3.7%	4.2%	13.2	14.5
KASIKORNBANK	KBANK TB	16.1	11.9	9.1	38.1%	2.0	1.6	1.7%	1.8%	18.2	18.8
Siam Commercial Bank	SCB TB	14.0	12.1	10.3	17.9%	2.3	2.0	2.3%	2.5%	19.4	19.5
Krung Thai Bank	KTB TB	10.7	8.4	7.5	20.7%	1.3	1.2	4.8%	5.3%	15.6	15.6
Bank of Ayudhya	BAY TB	19.8	12.6	10.2	47.4%	1.6	1.5	2.7%	3.4%	13.5	15.1
Thanachart Capital	TCAP TB	7.7	6.9	5.9	15.0%	0.9	0.8	5.2%	5.2%	13.6	14.3
TMB Bank	TMB TB	16.7	14.0	11.5	22.8%	1.2	1.1	2.6%	3.2%	8.7	9.9
TISCO Financial Group	TISCO TB	8.7	7.8	7.1	11.3%	1.6	1.4	5.8%	5.8%	19.8	19.3
Kiatnakin Bank	KK TB	8.0	8.8	7.3	4.5%	0.9	0.9	6.9%	6.9%	10.6	11.9
Avg 24 regional banks		13.1	11.5	9.9	16.3%	1.8	1.6	3.8%	4.1%	16.4	16.9
Avg only 9 Thai banks		12.8	10.3	8.6	22.8%	1.5	1.3	4.0%	4.3%	14.7	15.4

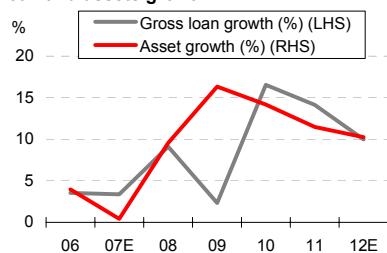
Sources: Bualuang Research estimates

Figure 6: Valuation multiples

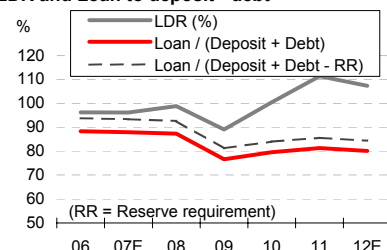


Sources: Company data, Bualuang Research, Bloomberg, Reuters

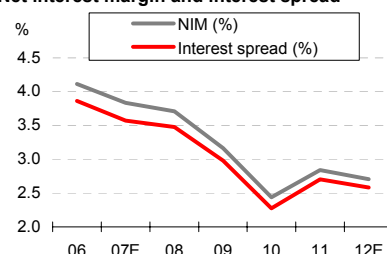
Loan and assets growth



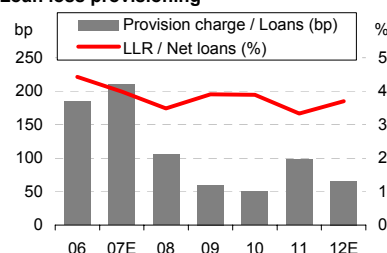
LDR and Loan to deposit +debt



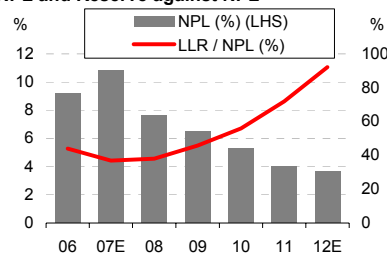
Net interest margin and interest spread



Loan loss provisioning



NPL and Reserve against NPL



PROFIT & LOSS (Btm)	2009	2010	2011	2012E	2013E
Interest income	57,982	60,857	82,938	91,923	104,530
Interest expense	-15,447	-21,089	-32,554	-38,551	-44,996
Net interest income	42,536	39,768	50,384	53,372	59,534
Fee & service income	11,033	11,556	14,186	15,745	16,996
Total non-interest income	12,888	16,402	18,640	20,904	22,493
Operating income	55,423	56,170	69,024	74,276	82,027
Operating expenses	-32,463	-29,712	-33,191	-37,265	-43,074
Operating profit before provi	22,960	26,458	35,833	37,011	38,954
Provisioning charges	-6,243	-6,124	-13,544	-10,000	-9,000
Operating profit after provisi	16,717	20,334	22,289	27,011	29,954
Exceptional items	898	115	498	550	550
Tax	-5,426	-5,535	-5,775	-6,061	-6,504
Minority interest	0	0	0	0	0
Net profit (loss)	12,189	14,913	17,012	21,500	24,000
Reported EPS	1.09	1.33	1.52	1.92	2.15
Fully diluted EPS	1.09	1.33	1.52	1.92	2.15
Core net profit	17,534	20,923	30,058	30,950	32,450
Core EPS	1.57	1.87	2.69	2.77	2.90
PPOP	22,960	26,458	35,833	37,011	38,954

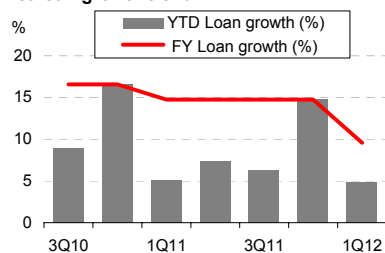
KEY RATIOS	2009	2010	2011	2012E	2013E
Revenue Growth (%)	(6.54)	9.02	31.48	11.07	12.58
PPOP Growth (%)	(13.98)	15.23	35.43	3.29	5.25
EPS Growth (%)	1.13	22.35	14.06	26.37	11.63
Net Loan Growth (%)	1.93	16.57	14.76	9.57	9.74
Cum. LLRs to Net loans (%)	3.91	3.89	3.33	3.70	3.91
Provision charge to loans (%)	0.60	0.51	0.98	0.66	0.54
Yield on Average Assets (%)	4.06	3.48	4.45	4.45	4.67
Cost of Funds (%)	1.08	1.21	1.75	1.87	2.01
Interest Spread (%)	2.98	2.27	2.70	2.58	2.66
Net Interest Margin: NIM (%)	3.16	2.44	2.84	2.71	2.77
Effective tax rate (%)	30.80	27.07	25.34	21.99	21.32
Asset growth (%)	16.32	14.16	11.49	10.25	6.73

BALANCE SHEET (Btm)	2009	2010	2011	2012E	2013E
Cash & Equivalent	33,203	35,328	37,331	30,368	35,368
Interbank & securities	252,875	235,745	229,610	233,574	237,618
Investment in securities	136,374	201,596	226,496	297,785	297,786
Net Loan & accrued interests	1,035,151	1,206,669	1,384,715	1,517,221	1,664,978
Other assets	86,227	83,138	86,843	87,379	76,469
Total assets	1,543,830	1,762,476	1,964,996	2,166,327	2,312,218
Deposits	1,207,613	1,248,051	1,285,390	1,465,454	1,582,466
ST debts, REPO & current por	118,321	146,406	165,066	188,590	197,070
Long-term debt	77,714	181,317	308,934	308,934	308,934
Other liabilities	27,655	60,915	75,798	65,128	70,128
Total liabilities	1,431,303	1,636,689	1,835,187	2,028,106	2,158,598
Paid-up capital	57,604	57,604	57,604	57,604	57,604
Share premium	1	1	1	1	1
Retained earnings	47,880	58,319	61,220	75,915	91,315
Shareholders equity	112,527	115,924	129,809	138,221	153,621
Minority interests	(0)	9,864	0	0	0
Total Liab.&Shareholders' ec	1,543,830	1,762,476	1,964,996	2,166,327	2,312,218
	(0.0)	0.0	(0.0)	0.0	0.0

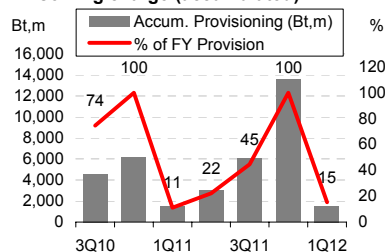
Asset quality	2009	2010	2011	2012E	2013E
Loan loss reserve	40,451	46,914	46,157	56,157	65,157
Average interest earnings asse	1,351,524	1,631,122	1,773,863	1,972,740	2,151,538
Average interest bearing liabilit	1,299,971	1,553,404	1,692,203	1,866,458	2,006,711
BV per share	10.06	11.25	11.60	12.36	13.73
ABV per share	9.37	10.27	11.26	12.57	13.95
NPL amounts	88,350	83,933	64,185	60,976	57,927
NPL (%)	6.50	5.31	4.00	3.65	3.33
Equity/loans	10.87	9.61	9.37	9.11	9.23
Equity/NPLs	127.37	138.12	202.24	226.68	265.20

Sources: Company data, Bualuang Research estimates

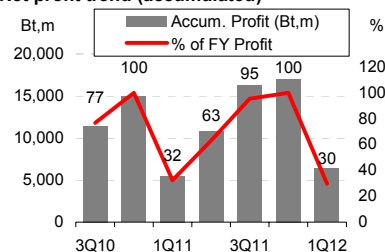
Net loan growth trend



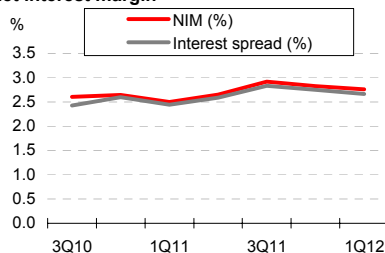
Provisoining charge (accumulated)



Net profit trend (accumulated)



Net interest margin



QUARTERLY PROFIT & LOSS (Btm)

	1Q11	2Q11	3Q11	4Q11	1Q12
Interest Income	18,149	19,917	21,910	22,962	23,521
Interest Expense	6,784	7,586	8,573	9,611	9,802
Net interest income	11,365	12,330	13,338	13,351	13,718
Fee & service income	3,284	3,580	3,660	3,662	3,844
Other income & MI	2,041	537	1,725	150	2,041
Total non-interest income	5,325	4,117	5,386	3,812	4,901
Operating inc	16,690	16,448	18,723	17,163	18,620
Operating expenses	7,896	7,614	8,398	9,283	8,872
Operating profit before provision	8,794	8,834	10,325	7,881	9,747
Provisioning charges	1,514	1,513	3,012	7,505	1,527
Operating profit after provision	7,280	7,321	7,312	375	8,221
Exceptional items	(2)	129	93	278	126
Profit before tax	7,279	7,449	7,406	653	8,346
Tax	1,790	2,208	1,913	(137)	1,970
Minority interest	(0.00)	0.00	0.00	0.00	(0.00)
Net profit (loss)	5,489	5,241	5,492	790	6,377
EPS	0.49	0.47	0.49	0.07	0.57
Core profit	7,004	6,625	8,411	8,017	7,777
Core EPS	0.63	0.59	0.75	0.72	0.70

KEY RATIOS

	1Q11	2Q11	3Q11	4Q11	1Q12
Asset Yield/Avg Assets (%)	3.90	4.19	4.65	4.73	4.57
Funding Cost (%)	1.46	1.59	1.82	1.98	1.90
Interest Spread (%)	2.44	2.59	2.83	2.75	2.66
Net Interest Margin (%)	2.50	2.65	2.92	2.83	2.76
Fee income/total operating income (%)	19.7	21.8	19.5	21.3	20.6
BV (Bt)	10.96	10.90	11.23	11.61	12.16
ROE (%)	17.7	17.2	17.8	2.5	19.2
ROA (%)	1.2	1.1	1.2	0.2	1.2
Assets to Equities (X)	16.0	15.2	15.3	15.1	15.8
Cost to Income (%)	53.9	47.9	49.4	54.6	50.5
Est CAR (%)	15.3	13.9	14.1	13.7	13.0

QUARTERLY BALANCE SHEET (Btm)

	1Q11	2Q11	3Q11	4Q11	1Q12
Cash & Equivalent	27,176	30,907	30,179	37,331	29,631
Interbank & securities	336,764	188,522	243,940	198,203	254,905
Investment in securities	187,121	232,625	246,623	226,496	261,393
Net Loan & accrued interests	1,267,543	1,295,670	1,282,807	1,384,715	1,451,517
Other assets	139,225	101,524	114,983	118,251	155,797
Total assets	1,957,829	1,849,248	1,918,532	1,964,996	2,153,242
Deposits	1,295,485	1,312,387	1,269,009	1,285,390	1,460,582
ST debts, REPO & current portion	433,328	346,438	427,008	161,503	467,408
Long-term debt	0	0	0	308,934	0
Other liabilities	106,424	68,556	96,960	79,361	89,199
Total liabilities	1,835,237	1,727,381	1,792,977	1,835,187	2,017,189
Paid-up capital	57,583	57,584	57,585	57,586	57,587
Share premium	1	1	1	1	1
Retained earnings	50,721	50,255	55,747	56,537	62,062
Shareholders equity	122,592	121,867	125,555	129,809	136,054
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	1,957,829	1,849,248	1,918,532	1,964,996	2,153,242

Sources: Company data, Bualuang Research

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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.