

19 July 2012

Bank of Ayudhya

2Q12 results as expected

Bank
Overweight

EARNINGS RESULTS

Profit in line with our number: BAY posted a 2Q12 profit of Bt3.7bn, up by 8% QoQ and 24% YoY. The result was in line with our estimate and the consensus. Pre-provisioning operating profit (PPOP) grew by 10% YoY and 5% QoQ to Bt7.5bn. 1H12 earnings represent 49% of our FY12 forecast.

Results highlights: Lending expanded by 2.2% QoQ and 13% YoY—in line with our estimate. The retail portfolio increased 4.6% QoQ, driven by HP and credit card & personal loans. Net interest margin (NIM) was 4.31%, up 12 bps QoQ (but down 20 bps YoY, due mainly to the BOT's blanket 0.47% levy on deposits, debentures and B/Es).

BAY reported 2Q12 fee income of Bt3.6bn, up by 19% YoY and 11% QoQ. Likewise, OPEX rose by 14% YoY and 9% QoQ to Bt7.6bn. The cost/income ratio increased slightly to 50.6% in 2Q12 from 49.6% in the first-quarter. BAY's 2Q12 loan loss provisions dipped 4% YoY but rose 10% QoQ to Bt3bn, as expected. The NPLs/gross loans ratio declined further to 2.9% at end-June from 3.6% at end-March, while the loan loss coverage ratio jumped to 129% at end-June from 114% at end-March.

Outlook: We expect BAY to sustain good numbers into 3Q12 and beyond, driven by retail lending. Our NIM assumptions are 4.3% for FY12 and 4.2% for FY13.

What's changed? Our FY12 profit forecast stands unchanged at Bt14.6bn, up 58% YoY.

Recommendation: We have a BUY rating on BAY, premised on: 1) a robust retail growth profile with scope for upside, 2) improving asset quality with NPL sales, 3) rising efficiency and 4) a substantial CAR of 16%, enabling both organic and in-organic business expansion during FY12-13 without need for capital-raising. Our YE12 target price is Bt33.50, pegged to a PBV of 1.78x.

BUALUANG RESEARCH

Suwat Bumrungchatudom
suwat@bualuang.co.th
+662 618 1341

BUY

 (maintained)

Target Price: Bt33.50
Price (18/07/12): Bt32.00
BAY TB / BAY.BK

Key Ratios & Statistics

Market cap	Bt194.37bn		
12-mth price range	Bt17.80/Bt33.25		
12-mth avg daily volume	Bt344.75m		
# of shares (m)	6,074.1		
Est. free float (%)	67.1		
Foreign limit (%)	47.2		
Share price perf. (%)	1M	3M	12M
Relative to SET	5.5	19.8	2.8
Absolute	10.3	24.3	15.3

Financial summary

FY Ended 31 Dec	2010	2011	2012E	2013E
Revenues(Btm)	48,728	56,428	60,926	66,882
Net profit(Btm)	8,793	9,264	14,600	18,100
EPS (Bt)	1.45	1.53	2.40	2.98
BLS/Consensus(x)	n.m.	n.m.	1.06	1.08
EPS Consensus(Bt)	n.m.	n.m.	2.27	2.76
EPS growth(%)	+32.0%	+5.4%	+57.6%	+24.0%
Core profit(Btm)	18,485	20,697	24,809	27,156
Core EPS(Bt)	3.04	3.41	4.08	4.47
Core EPS growth(%)	+17.2%	+12.0%	+19.8%	+9.4%
PER (x)	20.0	19.0	12.1	9.7
Core PER(x)	9.5	8.5	7.1	6.5
P/PPOP (x)	8.0	6.5	6.1	5.6
PBV (x)	1.8	1.7	1.5	1.4
Dividend(Bt)	0.57	0.52	0.83	1.03
Dividend yield(%)	2.0	1.8	2.9	3.5
ROE (%)	8.9	9.2	13.5	15.1

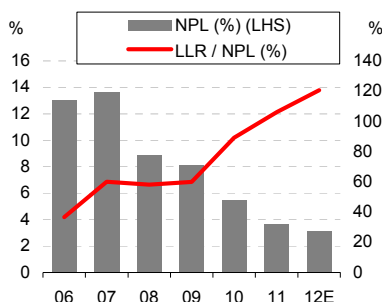
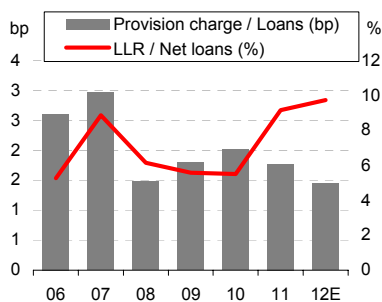
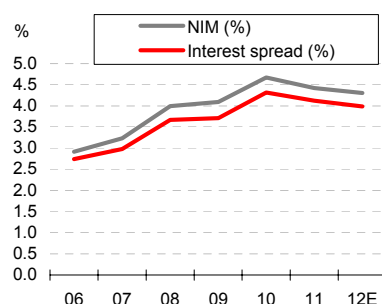
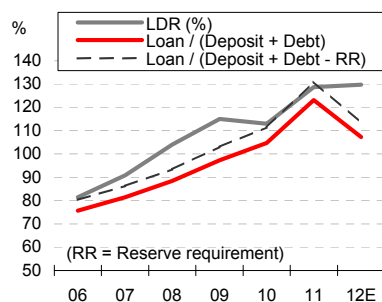
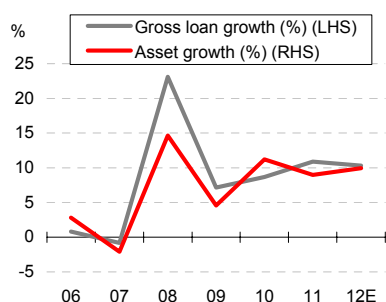
CG Rating - 2011



Figure 1: 2Q12 results

	2Q12	2Q11	YoY %	1Q12	QoQ %	6M12	6M11	YoY %	
Income Statement									
Interest Income	16,067	13,714	17	15,362	5	31,429	26,590	18	
Interest Expense	6,015	4,319	39	5,982	1	11,997	8,005	50	
Net interest income	10,052	9,394	7	9,380	7	19,432	18,585	5	• NII inched up QoQ and YoY, in line with loan growth
Fee & service income	3,640	3,060	19	3,266	11	6,906	5,843	18	
Total non-interest income	5,043	4,046	25	4,735	7	9,778	8,197	19	• Fee income jumped by 19% YoY and 11% QoQ
Operating expenses	7,645	6,678	14	7,007	9	14,652	13,565	8	
Operating profit before provisioning charges	7,451	6,762	10	7,108	5	14,559	13,217	10	• Fee income jumped by 19% YoY and 11% QoQ
Provisioning charges	2,990	3,099	(4)	2,713	10	5,702	5,849	(3)	
Operating profit after provisioning charges	4,461	3,664	22	4,395	2	8,856	7,368	20	
Exceptional items	394	504	(22)	67	492	461	684	(33)	• LLPs dipped YoY
Profit before tax	4,856	4,168	17	4,462	9	9,317	8,052	16	
Tax	1,141	1,186	(4)	1,020	12	2,161	2,251	(4)	
Minority Interest	(16)	(10)	<i>nm</i>	(12)	<i>nm</i>	(28)	(22)	28	
Net profit (loss)	3,699	2,972	24	3,430	8	7,129	5,780	23	
EPS	0.61	0.49	24	0.56	8	1.17	0.95	23	
Key ratios									
Asset Yield/Avg Assets (%)	6.39	6.14	0.25	6.39	0.00	6.39	6.03		
Funding Cost (%)	2.39	1.94	0.46	2.49	(0.09)	2.44	1.81		
Interest Spread (%)	4.00	4.21	(0.21)	3.90	0.10	3.95	4.22		
Tax rate (%)	23.5	28.5	(4.96)	22.86	0.63	23.49	28.45		
Net Interest Margin (%)	4.31	4.51	(0.20)	4.18	0.12	4.25	4.53		• 2Q12 NIM rose 12 bps QoQ
Assets to Equities (X)	9.6	9.1		9.20		9.6	9.1		
Cost to Income (%)	50.6	49.7		49.64		50.6	49.7		
Est CAR (%)	16.0	16.6		16.33		16.0	16.6		
Balance Sheet									
Cash & Equivalent	22,787	19,596	16	23,142	(2)				
Net Loan & accrued interests	728,778	639,440	14	712,158	2				• HP & other retail drove lending up by 2.2% QoQ & 13% YoY
ST debts, REPO & current po	231,693	216,304	7	237,384	(2)				
Long-term debt	1	0	0	0	0				
Total liabilities	926,594	814,288	14	869,913	7				
Retained earnings	26,244	20,199	30	24,614	7				
Shareholders equity	107,797	100,563	7	106,057	2				
Minority interests	150	206	(27)	133	12				
BV (Bt)	17.7	16.6	7	17.5	2				

Source: Company data



PROFIT & LOSS (Btm)	2009	2010	2011	2012E	2013E
Interest income	39,457	48,728	56,428	60,926	66,882
Interest expense	-11,040	-12,647	-18,963	-21,266	-24,934
Net interest income	28,417	36,081	37,465	39,660	41,948
Fee & service income	10,187	13,748	12,065	13,593	15,292
Total non-interest income	12,669	16,660	17,019	19,170	21,581
Operating income	41,087	52,741	54,484	58,830	63,529
Operating expenses	-23,811	-30,686	-27,477	-29,725	-31,860
Operating profit before provision	17,276	22,055	27,007	29,105	31,670
Provisioning charges	-10,216	-12,391	-12,214	-11,000	-10,000
Operating profit after provision	7,060	9,664	14,794	18,105	21,670
Exceptional items	1,101	2,676	820	750	900
Tax	-1,504	-3,524	-6,310	-4,296	-4,514
Minority interest	2	23	39	41	44
Net profit (loss)	6,659	8,793	9,343	14,600	18,100
Reported EPS	1.10	1.45	1.54	2.40	2.98
Fully diluted EPS	1.10	1.45	1.54	2.40	2.98
Core net profit	15,772	18,485	20,697	24,809	27,156
Core EPS	2.60	3.04	3.41	4.08	4.47
PPOP	17,276	22,055	27,007	29,105	31,670

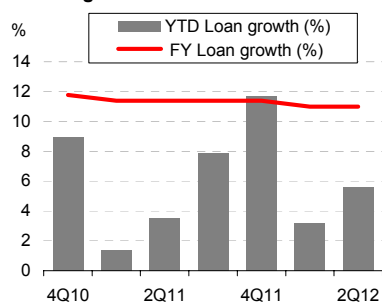
KEY RATIOS	2009	2010	2011	2012E	2013E
Revenue Growth (%)	0.27	25.85	9.63	8.80	10.27
PPOP Growth (%)	18.41	27.66	22.45	7.77	8.81
EPS Growth (%)	54.89	32.05	6.26	56.24	23.95
Gross Loan Growth (%)	8.33	11.78	11.39	11.00	10.00
Cum. LLRs to Net loans (%)	5.58	5.51	9.15	9.73	10.20
Provision charge to loans (%)	1.80%	2.01%	1.77%	1.44%	1.20%
Yield on Average Assets (%)	5.15%	5.82%	6.21%	6.12%	6.17%
Cost of Funds (%)	1.44%	1.51%	2.09%	2.14%	2.30%
Interest Spread (%)	3.71%	4.31%	4.12%	3.99%	3.87%
Net Interest Margin: NIM (%)	4.09%	4.67%	4.42%	4.30%	4.22%
Effective tax rate (%)	18.43%	28.56%	40.41%	22.78%	20.00%
Asset growth (%)	4.57%	11.23%	8.96%	9.95%	7.90%

BALANCE SHEET (Btm)	2009	2010	2011	2012E	2013E
Cash & Equivalent	20,090	22,461	25,165	38,500	36,500
Interbank & securities	53,668	92,387	90,497	70,000	70,001
Investment in securities	68,064	79,089	81,974	90,000	90,000
Net Loan & accrued interests	567,050	616,731	690,087	762,020	834,747
Other assets	73,169	59,167	60,075	81,579	93,178
Total assets	782,040	869,834	947,797	1,042,099	1,124,426
Deposits	520,515	576,479	560,540	613,791	659,825
ST debts, REPO & current portion	49,167	45,280	25,391	53,506	53,508
Long-term debt	45,596	0	0	75,000	100,000
Other liabilities	74,177	148,971	259,170	185,528	184,557
Total liabilities	689,455	770,730	845,102	927,825	997,890
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Share premium	14,202	14,202	14,202	14,202	14,202
Retained earnings	12,793	19,225	22,442	33,337	45,597
Shareholders equity	92,414	98,915	102,489	113,383	125,643
Minority interests	172	189	207	891	892
Total Liab.&Shareholders' equity	782,040	869,834	947,797	1,042,099	1,124,426
		(0.0)	0.0	(0.0)	0.0

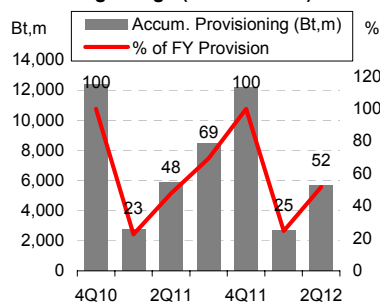
Asset quality	2009	2010	2011	2012E	2013E
Loan loss reserve (net write-off)	31,668	33,988	31,366	33,866	36,366
Average interest earnings assets	695,219	772,142	847,403	922,123	993,586
Average interest bearing liabilities	683,351	761,239	810,377	936,551	1,020,313
BV per share	15.24	16.32	16.91	18.81	20.83
ABV per share	17.17	18.24	18.83	20.73	22.75
NPL amounts	52,798	38,149	29,536	28,059	26,656
NPL (%)	8.1%	5.5%	3.7%	3.1%	2.7%
Equity/loans	16.30%	16.04%	14.85%	14.88%	15.05%
Equity/NPLs	175.0%	259.3%	347.0%	404.1%	471.3%

Sources: Company data, Bualuang Research estimates

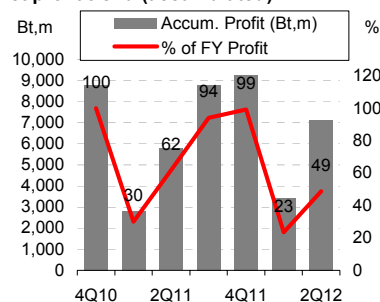
Net loan growth trend



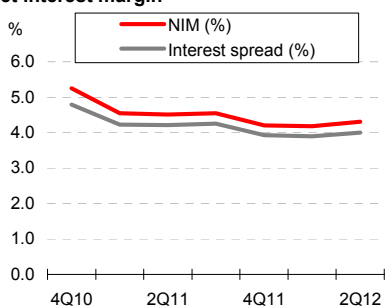
Provisioining charge (accumulated)



Net profit trend (accumulated)



Net interest margin



QUARTERLY PROFIT & LOSS (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Interest Income	13,714	14,879	14,959	15,362	16,067
Interest Expense	4,319	5,146	5,812	5,982	6,015
Net interest income	9,394	9,733	9,147	9,380	10,052
Fee & service income	3,060	3,110	3,112	3,266	3,640
Other income & MI	986	902	1,096	1,468	4,453
Total non-interest income	4,046	4,012	4,208	4,735	5,043
Operating income	13,440	13,745	13,355	14,114	15,096
Operating expenses	6,678	7,544	6,368	7,007	7,645
Operating profit before provision	6,762	6,201	6,987	7,108	7,451
Provisioning charges	3,099	2,624	3,740	2,713	2,990
Operating profit after provision	3,664	3,577	3,247	4,395	4,461
Exceptional items	504	674	64	67	394
Profit before tax	4,168	4,250	3,311	4,462	4,856
Tax	1,186	1,241	2,819	1,020	1,141
Minority Interest	(10)	(3)	(14)	(12)	(16)
Net profit (loss)	2,972	3,007	478	3,430	3,699
EPS	0.49	0.49	0.08	0.56	0.61
Core profit	6,752	6,197	6,973	7,096	7,435
Core EPS	1.11	1.02	1.15	1.17	1.22

KEY RATIOS

	2Q11	3Q11	4Q11	1Q12	2Q12
Asset Yield/Avg Assets (%)	6.14	6.51	6.43	6.39	6.39
Funding Cost (%)	1.94	2.25	2.50	2.49	2.39
Interest Spread (%)	4.21	4.26	3.93	3.90	4.00
Net Interest Margin (%)	4.51	4.55	4.20	4.18	4.31
Fee income/total operating income (%)	22.8	22.6	23.3	23.1	24.1
BV (Bt)	16.56	16.64	16.87	17.46	17.75
ROE (%)	12.01	11.90	1.87	12.94	13.72
ROA (%)	1.33	1.31	0.21	1.41	1.43
Assets to Equities (X)	9.10	9.04	9.25	9.20	9.60
Cost to Income (%)	49.69	52.58	47.68	49.64	50.64
Est CAR (%)	16.58	16.28	16.29	16.33	16.00

QUARTERLY BALANCE SHEET (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Cash & Equivalent	19,596	20,112	25,165	23,142	22,787
Interbank & securities	113,292	74,886	81,818	65,782	99,571
Investment in securities	74,110	88,582	81,974	102,347	89,567
Net Loan & accrued interests	639,440	666,734	690,087	712,158	728,778
Other assets	68,621	64,055	68,754	72,676	93,837
Total assets	915,058	914,368	947,797	976,104	1,034,541
Deposits	551,775	536,120	560,540	572,538	622,391
ST debts, REPO & current portion	216,304	233,014	232,003	237,384	231,693
Long-term debt	0	0	0	0	1
Other liabilities	46,209	43,937	52,559	59,992	72,508
Total liabilities	814,288	813,070	845,102	869,913	926,594
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Share premium	13,802	13,802	13,802	13,802	13,802
Retained earnings	20,199	21,087	21,126	24,614	26,244
Shareholders equity	100,563	101,100	102,489	106,057	107,797
Minority interests	206	198	207	133	150
Total Liab.&Shareholders' equity	915,058	914,368	947,797	976,104	1,034,541
			0	0	0

Asset quality

Loan loss reserve (net write-off)	33,367	31,722	31,366	31,941	31,067
Average interest earnings assets	833,226	856,344	870,884	896,565	933,272
Average interest bearing liabilities	808,642	854,645	890,394	906,800	935,956
BV per share	16.56	16.64	16.87	17.46	17.75
ABV per share	17.65	17.74	18.83	19.40	20.00
NPL amounts	35,864	32,671	29,536	28,103	24,177
NPL (%)	4.7	4.3	3.7	3.6	2.9
Equity/loans	14.9	14.5	14.2	14.3	14.2
Equity/NPLs	2.80	3.09	3.47	3.77	4.46

Sources: Company data, Bualuang Research estimates

BUALUANG SECURITIES PUBLIC COMPANY LIMITED – DISCLAIMER

BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED MAY BE IN RELATIONSHIP WITH THE SECURITIES IN THIS REPORT. "Opinions, projections and other information contained in this report are based upon sources believed to be accurate including the draft prospectus, but no responsibility is accepted for any loss occasioned by reliance placed upon the contents hereof. Bualuang Securities Public Company Limited may from time to time perform investment, advisory or other services for companies mentioned in this report, as well as dealing (as principal or otherwise) in, or otherwise being interested in, any securities mentioned herein. This report does not constitute a solicitation to buy or sell any securities". Investors should carefully read details in the prospectus before making investment decision.

BUALUANG SECURITIES PUBLIC COMPANY LIMITED IS OR MAY BE A CO-UNDERWRITER IN RESPECT OF THE INITIAL PUBLIC OFFERING ("IPO") OF SECURITIES OF SRIRACHA CONSTRUCTION PUBLIC COMPANY LIMITED. "Opinions, projections and other information contained in this report are based upon sources believed to be accurate including the draft prospectus, but no responsibility is accepted for any loss occasioned by reliance placed upon the contents hereof. Bualuang Securities Public Company Limited may from time to time perform investment, advisory or other services for companies mentioned in this report, as well as dealing (as principal or otherwise) in, or otherwise being interested in, any securities mentioned herein. This report does not constitute a solicitation to buy or sell any securities". Investors should carefully read details in the prospectus before making investment decision.






BUALUANG SECURITIES PUBLIC COMPANY LIMITED ACTS AS MARKET MAKER AND ISSUER OF DERIVATIVE WARRANTS on the securities ADVANC, AOT, BANPU, BAY, BCP, BEC, BGH, BH, BIGC, BJC, BLA, BTS, CPALL, CPF, DTAC, EGCO, ESSO, GLOW, HMPRO, HEMRAJ, INTUCH, IRPC, IVL, KBANK, KTB, LH, MINT, PS, PTT, PTTEP, PTTGC, SCB, SCC, SPALI, STA, TCAP, THAI, TISCO, TOP, TMB, TPIPL, TRUE, TUF. Before making an investment decision over a derivative warrant, a potential investor should carefully read the prospectus for the details of the said derivative warrant.

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

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.