

SELL

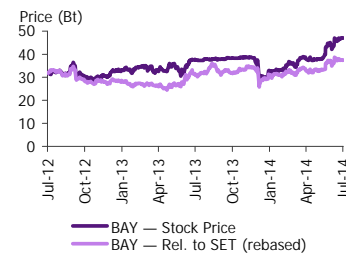
2Q14: Modest recovery as expected

Stock Data

Last close (Jul 21) (Bt)	47.25
12-m target price (Bt)	30.00
Upside (Downside) to TP (%)	(36.51)
Mkt cap (Btbn)	287.00
Mkt cap (US\$mn)	8,989

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	2.08
Sector % SET	17.47
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	48.3 / 27.5
Avg. daily 6m (US\$mn)	0.67
Foreign limit / actual (%)	25 / 25
Free float (%)	28.0
Dividend policy (%)	≥ 30

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	9.9	26.0	26.0
Relative to SET	4.9	15.9	23.9

Source: SET, SCBS Investment Research

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■ **As expected, 2Q14 showed a modest recovery**, with a 14% YoY and 9% QoQ rise in net profit to Bt3.5bn, slightly above our forecast of Bt3.3bn. In 2Q14 results we see evidence of mild loan growth recovery, good NIM expansion, with a small recovery in fee income and rising provisions to keep LLR coverage stable. 1H14 earnings account for 47% of our full-year forecast but we expect slightly better profit in 2H14.

Key points:

1. Loan growth: In line with estimates, +0.7% QoQ, 0.3% YTD. Growth in SME loans (+1.8% QoQ, +2% YTD) and retail loans (+1.8% QoQ, +1.5% YTD) was mostly offset by a contraction in corporate loans (-2.2% QoQ, -3.2% YTD). BAY affirmed its 2014 target of 7-9% loan growth vs. SCBS forecast of 5%.
2. Net interest margin: Better than expected, +10 bps QoQ to 4.19%. QoQ, a 14 bps fall in cost of funds exceeded a 3 bps slip in yield on earning assets. BAY expects some downward pressure on NIM in 2H14 on rising deposit competition.
3. Non-interest income: -18% YoY (on fee income and one-off items), +5% QoQ (mainly on fee and other income), as expected. BAY cut its fee income growth target to 7-9% but this is still more optimistic than our forecast of 5%.
4. Cost to income ratio: Up YoY but down slightly QoQ to 49.3%. BAY plans to be selective in its capex spend this year, with a focus on branch automation, E-business and integration with BTMU's Bangkok branch.
5. Asset quality: BAY sold Bt1.26bn NPLs in 2Q14, keeping NPLs stable at 3.2% of total loans. Provisions were up 4% QoQ, equivalent to credit cost of 180 bps. BAY raised credit cost target for 2014 to 170 bps (vs. 176 bps for 1H14), in line with our forecast. LLR coverage was stable at 133%.

Figure 1: Quarterly results

P & L (Bt mn)	2Q13	1Q14	2Q14	%YoY ch	%QoQ ch	1H13	1H14	%YoY ch	% full year
Interest income	17,446	18,275	18,352	5	0	34,364	36,627	7	50
Interest expense	6,453	6,778	6,476	0	(4)	12,769	13,254	4	50
Net interest income	10,993	11,497	11,876	8	3	21,595	23,373	8	49
Non-interest income	6,443	5,028	5,302	(18)	5	12,207	10,330	(15)	46
Operating expenses	7,631	8,306	8,476	11	2	15,943	16,782	5	48
Pre-provision profit	9,805	8,219	8,702	(11)	6	17,858	16,921	(5)	49
Less Provision	5,908	4,084	4,255	(28)	4	8,988	8,339	(7)	50
Pre-tax profit	3,898	4,135	4,447	14	8	8,870	8,582	(3)	48
Income tax	860	894	1,005	17	12	1,827	1,899	4	53
MI and equity	1	25	18	1,781	(31)	41	43	5	NA
Net profit	3,039	3,266	3,460	14	6	7,084	6,726	(5)	47
EPS (Bt)	0.50	0.54	0.57	14	6	1.17	1.11	(5)	47
B/S (Bt mn)	2Q13	1Q14	2Q14	%YoY ch	%QoQ ch	1H13	1H14	%YoY ch	% full year
Gross loans	864,341	939,843	946,023	9	1	864,341	946,023	9	NM
Deposits	731,731	780,597	783,779	7	0	731,731	783,779	7	NM
BVPS (Bt)	19.66	20.60	20.84	6	1	19.66	20.84	6	NM
Ratios (%)	2Q13	1Q14	2Q14	%YoY ch*	%QoQ ch*	1H13	1H14	YoY ch*	% full year
Yield on earn. asset	6.64	6.50	6.47	(0.17)	(0.03)	6.64	6.49	(0.16)	NM
Cost of funds	2.79	2.73	2.59	(0.19)	(0.14)	2.79	2.66	(0.13)	NM
Net interest margin	4.18	4.09	4.19	0.00	0.10	4.17	4.14	(0.03)	NM
Cost to income	43.8	50.3	49.3	5.58	(0.92)	47.17	-	(47.17)	NM
NPLs/total loans	2.64	3.20	3.20	0.56	0.00	2.64	3.20	0.56	NM
LLR/NPLs	151.2	133.7	133.2	(17.98)	(0.47)	151.2	133.2	(17.98)	NM

Source: SCBS Investment Research

Note: * Percentage points

- **Maintain Sell.** We maintain Sell on BAY, which is trading at an overly high valuation of 17x 2015F PER and 2x PBV relative to 13% 2015F ROE, due to the small free float. BAY's ROE is expected to be diluted after the merger with the Bank of Tokyo-Mitsubishi UFJ Limited (BTMU)'s Bangkok branch. With only 3% free float, the stock should also be discounted for poor trading liquidity.

Forecasts and valuation

Year to 31 Dec	Unit	2012	2013	2014F	2015F	2015F
Pre-provision profit	(Bt mn)	26,010	30,825	31,068	33,350	37,344
Net profit	(Bt mn)	14,625	11,867	14,227	17,004	20,409
PPP/Sh	(Bt)	4.28	5.07	5.11	5.49	6.15
EPS	(Bt)	2.41	1.95	2.34	2.80	3.36
BVPS	(Bt)	18.66	19.98	21.52	23.62	26.14
DPS	(Bt)	0.80	0.80	0.70	0.84	1.01
PER	(x)	19.62	24.19	20.17	16.88	14.06
P/PPP	(x)	11.03	9.31	9.24	8.61	7.69
EPS growth	(%)	57.87	(18.86)	19.89	19.52	20.03
PBV	(x)	2.53	2.36	2.20	2.00	1.81
ROE	(%)	13.55	10.11	11.29	12.40	13.50
Dividend yields	(%)	1.69	1.69	1.49	1.78	2.13

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Interest & dividend income	64,640	71,381	73,597	79,574	88,105
Interest expense	24,687	26,442	26,333	28,534	31,622
Net interest income	39,953	44,939	47,264	51,040	56,482
Non-interest income	21,058	23,449	22,664	25,122	27,896
Non-interest expenses	30,798	33,614	35,323	38,614	42,025
Earnings before tax & provision	30,213	34,774	34,605	37,548	42,353
Tax	4,337	3,942	3,553	4,240	5,084
Equities & minority interest	(134)	7	(16)	(43)	(75)
Core pre-provision profit	26,010	30,825	31,068	33,350	37,344
Provision	11,385	18,959	16,842	16,346	16,935
Core net profit	14,625	11,867	14,227	17,004	20,409
Extra item	0	0	0	0	0
Net profit	14,625	11,867	14,227	17,004	20,409
EPS (Bt)	2.41	1.95	2.34	2.80	3.36
DPS (Bt)	0.80	0.80	0.70	0.84	1.01

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	25,079	28,216	29,402	30,631	31,717
Interbank assets	79,390	87,027	102,257	121,175	149,348
Investments	79,249	74,333	74,333	74,333	74,333
Gross loans	830,008	943,502	990,678	1,089,745	1,209,617
Accrued interest receivable	2,257	2,648	2,648	2,648	2,648
Loan loss reserve	31,029	38,986	53,351	66,973	80,883
Net loans	801,236	907,164	939,975	1,025,420	1,131,382
Total assets	1,071,965	1,179,582	1,229,311	1,335,420	1,471,169
Deposits	687,159	764,050	819,061	912,434	1,032,876
Interbank liabilities	48,821	55,497	55,497	55,497	55,497
Borrowings	154,629	174,605	174,605	174,605	174,605
Total liabilities	958,479	1,057,934	1,098,295	1,191,668	1,312,110
Minority interest	164	279	279	279	279
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	113,322	121,369	130,737	143,473	158,781
BVPS (Bt)	18.66	19.98	21.52	23.62	26.14

Key Assumptions and Financial Ratios

	2012	2013	2014F	2015F	2016F
Growth					
YoY loan growth	15.36	13.67	5.00	10.00	11.00
YoY fee & insurance income growth	18.06	14.26	5.00	14.00	14.00
Profitability					
Yield on earn'g assets (%)	6.84	6.73	6.40	6.42	6.42
Cost on int-bear'g liab (%)	2.93	2.81	2.58	2.60	2.63
Spread (%)	3.91	3.93	3.83	3.82	3.79
Net interest margin(%)	4.23	4.24	4.11	4.12	4.12
ROE (%)	13.55	10.11	11.29	12.40	13.50
Asset Quality					
NPLs/Total Loans(%)	2.57	2.77	2.86	2.86	2.86
LLR/NPLs(%)	145.73	149.15	188.03	214.58	233.46
Provision expense/Total loans (%)	1.37	2.01	1.70	1.50	1.40
Liquidity					
Loans/Deposits & borrowings (%)	98.60	100.52	99.70	100.25	100.18
Efficiency					
Cost to income ratio (%)	51.83	50.54	51.25	51.37	50.40
Capital Fund					
Capital adequacy ratio(%)	16.97	14.69	14.82	14.37	13.83
Tier-1(%)	10.96	10.17	10.46	10.34	10.16
Tier-2(%)	6.01	4.52	4.37	4.03	3.67

Profit and Loss Statement (Btmn)

FY December 31	2Q13	3Q13	4Q13	1Q14	2Q14
Interest & dividend income	17,446	18,078	18,939	18,275	18,352
Interest expense	6,453	6,832	6,841	6,778	6,476
Net interest income	10,993	11,246	12,099	11,497	11,876
Non-interest income	6,443	5,283	5,959	5,028	5,302
Non-interest expenses	7,631	8,475	9,196	8,306	8,476
Earnings before tax & provision	9,805	8,055	8,861	8,219	8,702
Tax	860	1,126	989	894	1,005
Equities & minority interest	(1)	(13)	61	(25)	(18)
Core pre-provision profit	8,946	6,942	7,811	7,350	7,715
Provision	5,908	3,148	6,822	4,084	4,255
Core net profit	3,039	3,794	989	3,266	3,460
Extra item	0	0	0	0	0
Net profit	3,039	3,794	989	3,266	3,460
EPS (Bt)	0.50	0.62	0.16	0.54	0.57
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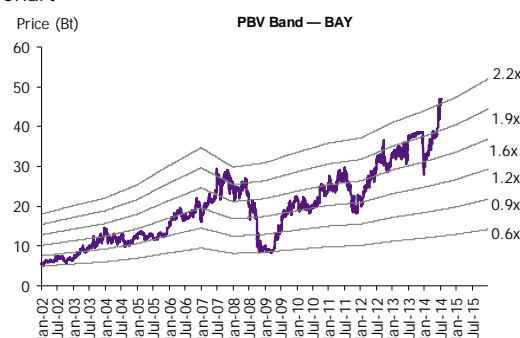
Balance Sheet (Btmn)

FY December 31	2Q13	3Q13	4Q13	1Q14	2Q14
Cash	24,486	23,818	28,216	26,793	26,091
Interbank assets	109,446	88,003	87,027	91,246	99,086
Investments	78,604	84,486	74,333	77,368	76,588
Gross loans	864,341	889,207	943,502	939,843	946,023
Accrued interest receivable	2,359	2,465	2,648	2,552	2,587
Loan loss reserve	34,505	35,654	38,986	40,157	40,312
Net loans	832,195	856,018	907,164	902,239	908,298
Total assets	1,130,156	1,145,167	1,179,582	1,185,669	1,194,586
Deposits	731,731	736,439	764,050	780,597	783,779
Interbank liabilities	53,002	63,501	55,497	63,943	56,288
Borrowings	159,558	151,862	174,605	146,309	166,585
Total liabilities	1,010,533	1,024,582	1,057,934	1,060,242	1,067,659
Minority interest	228	260	279	315	356
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	119,394	120,325	121,369	125,112	126,571
BVPS (Bt)	19.66	19.81	19.98	20.60	20.84

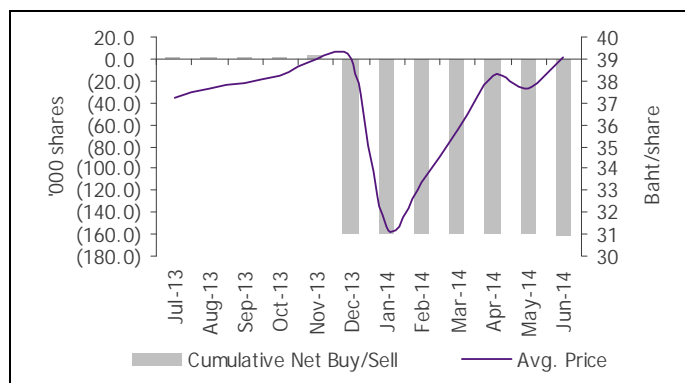
Financial Ratios

	2Q13	3Q13	4Q13	1Q14	2Q14
YoY loan growth	14.09	13.43	13.67	12.26	9.45
YoY fee & insurance income growth	12.24	11.18	9.53	(4.41)	(1.90)
Yield on earn'g assets (%)	6.64	6.72	6.87	6.50	6.47
Cost on int-bear'g liab (%)	2.79	2.88	2.81	2.73	2.59
Net interest margin(%)	4.18	4.18	4.39	4.09	4.19
Cost to income ratio (%)	43.76	51.27	50.93	50.26	49.34
NPLs/Total Loans(%)	2.64	2.82	2.77	3.20	3.20
LLR/NPLs(%)	151.23	142.09	149.15	133.71	133.24
Provision expense/Total loans (%)	2.73	1.42	2.89	1.74	1.80

PBV Band Chart

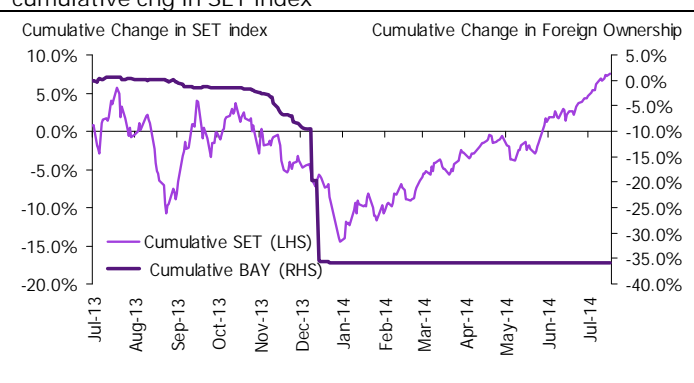


12-Month Cumulative directors trade



Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 2: Valuation summary (price as of Jul 21, 2014)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F	13A	14F	15F
BAY	Sell	47.25	30.0	(35.0)	24.2	20.2	16.9	(18.9)	19.9	19.5	2.36	2.20	2.00	10.1	11.3	12.4	1.7	1.5	1.8
BBL	Buy	197.00	245.0	28.1	10.5	10.2	9.0	8.7	2.7	13.6	1.27	1.13	1.04	12.6	11.7	12.1	3.4	3.7	4.2
KBANK	Buy	216.00	250.0	17.6	12.5	11.0	9.6	17.2	13.5	14.3	2.36	1.99	1.71	20.4	19.6	19.1	1.6	1.9	2.3
KKP	Buy	46.00	50.0	12.6	8.7	12.7	9.1	29.3	(31.3)	40.1	1.10	1.06	0.99	13.0	8.5	11.3	5.9	3.9	5.5
KTB	Buy	22.40	25.0	15.4	9.2	9.9	8.6	45.2	(6.9)	15.3	1.52	1.39	1.25	17.4	14.6	15.3	3.9	3.8	4.4
LHBANK	Sell	1.72	1.2	(28.5)	24.5	23.7	22.0	23.3	3.2	7.7	1.46	1.44	1.38	6.1	6.1	6.4	3.4	1.7	1.8
TCAP	Buy	35.50	40.0	16.1	4.9	8.8	7.3	68.4	(44.0)	20.9	0.96	0.89	0.82	20.5	10.5	11.7	4.5	3.4	3.4
TISCO	Buy	41.75	50.0	24.6	7.9	8.3	6.6	4.3	(4.9)	24.5	1.45	1.31	1.16	20.6	16.7	18.5	4.8	4.8	5.3
TMB	Sell	2.86	2.6	(7.0)	21.7	14.6	12.6	354.3	48.6	16.2	2.02	1.82	1.65	9.6	13.1	13.7	1.4	2.1	2.4
Average					13.6	13.1	11.1	21.6	4.4	15.7	1.70	1.54	1.39	15.2	13.3	14.2	3.4	3.0	3.5

Source: SCBS Investment Research

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★★★	A, AAV, AEC, AEONTS, AFC, AGE, AH, AJ, AKR, ALUCON, ANAN, ARIIP, AS, BAT-3K, BCH, BEAUTY, BGT, BLAND, BOL, BROCK, BSBM, CHARAN, CHUO, CI, CIG, CITY, CMR, CNS, CPL, CRANE, CSP, CSR, CTW, DEMCO, DNA, DRACO, EA, EARTH, EASON, EMC, EPCC, F&D, FNS, FOCUS, FPI, FSS, GENCO, GFM, GJS, GLOBAL, HFT, HTECH, HYDRO, IFS, IHL, ILINK, INOX, IRC, IRCP, IT, JMART, JMT, JTS, JUTHA, KASET, KC, KCAR, KDH, KTC, KWH, LALIN, LEE, MATCH, MATI, MBAX, MDX, PRINC, MJD, MK, MOONG, MPIC, MSC, NC, NIPPON, NNCL, NTV, OSK, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCI, RCL, ROJINA, RPC, SCLIF, SCP, SENA, SF, SGP, SIMAT, SLG, SMIT, SMK, SOLAR, SPC, SPG, SRICHA, SSC, STA, SUPER, SVOA, SWC, SYNEK, TBSP, TCCC, TEAM, TGO, TIC, TIES, TIW, TKS, TMC, TMD, TMI, TNDT, TNPC, TOPP, TPA, TPP, TR, TTI, TVD, TVI, TWZ, UBIS, UEC, UOBKH, UPF, UWC, VARO, VTE, WAVE, WG, WIN, WORK

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