

SELL

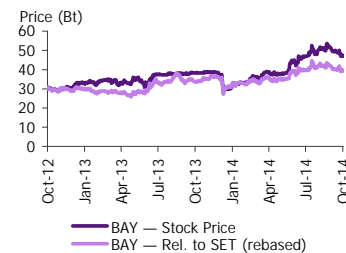
3Q14: Good top line recovery but rising NPLs

Stock Data

Last close (Oct 17) (Bt)	44.75
12-m target price (Bt)	30.00
Upside (Downside) to TP (%)	(32.96)
Mkt cap (Btbn)	271.82
Mkt cap (US\$mn)	8,397

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.96
Sector % SET	17.24
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	54.3 / 27.5
Avg. daily 6m (US\$mn)	0.66
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	-9.6	-4.8	16.2
Relative to SET	-6.3	-4.5	12.9

Source: SET, SCBS Investment Research

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- 3Q14: assets were worse than expected, though net profit was in line, down 8% YoY and flat QoQ to Bt3.5bn. 3Q14 reflected good loan growth recovery, small NIM improvement, recovery in non-interest income and sharp deterioration in asset quality.

Key points:

1. Loan growth: Good recovery at 3% QoQ (vs. +0.7% QoQ for 2Q14), mainly driven by corporate loans (+5.2% QoQ), followed by SME loans (+3.8% QoQ) and retail loans (+1.5% QoQ, mainly housing loans). Its YTD loan growth was 3.3%, in line with our full-year forecast of 5%
2. Net interest margin: As expected, +2 bps QoQ to 4.2%. Both yield on earning assets and cost of funds rose 5 bps QoQ. BAY expects some downward pressure on NIM in 4Q14 on rising deposit competition.
3. Non-interest income: Better than expected, +10% YoY, +9% QoQ, mainly stemming from investment gain and fee income. Fee income grew 5% both YoY and QoQ, driven by loan-related, bancassurance, mutual fund and securities fees. We expect fee income to further increase in 4Q14 as it is the high season for credit card business. 9M14 fee income (flat YoY) accounted for merely 71% of our full-year forecast of 5%.
4. Cost to income ratio: Down 373 bps YoY and 180 QoQ to 47.5%, reflecting its work to control costs. BAY has been 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: Worse than expected, NPLs by amount rose 14% or Bt4.5bn QoQ, mainly from loans to the SME segment and the reclassification of one corporate account on a qualitative basis. Provisions were up 15% QoQ, equivalent to credit cost of 200 bps. There is a risk that full-year credit cost will exceed the bank's target and our forecast of 170 bps, if provisions do not step back in 4Q14. LLR coverage fell to 122% from 133% at 2Q14.

Figure 1: Quarterly results

P & L (Bt mn)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch	%QoQ ch	9M13	9M14	%YoY ch	% full year
Interest income	18,078	18,939	18,275	18,352	18,937	5	3	52,442	55,564	6	75
Interest expense	6,832	6,841	6,778	6,476	6,730	(1)	4	19,601	19,984	2	76
Net interest income	11,246	12,099	11,497	11,876	12,207	9	3	32,841	35,580	8	75
Non-interest income	5,283	5,959	5,028	5,302	5,797	10	9	17,491	16,127	(8)	73
Operating expenses	8,475	9,196	8,306	8,476	8,559	1	1	24,418	25,341	4	71
Pre-provision profit	8,055	8,861	8,219	8,702	9,446	17	9	25,913	26,366	2	78
Less Provision	3,148	6,822	4,084	4,255	4,889	55	15	12,136	13,227	9	79
Pre-tax profit	4,907	2,039	4,135	4,447	4,557	(7)	2	13,777	13,139	(5)	77
Income tax	1,126	989	894	1,005	1,036	(8)	3	2,953	2,934	(1)	86
MI and equity	13	(61)	25	18	(14)	(207)	(180)	54	29	(46)	NA
Net profit	3,794	989	3,266	3,460	3,507	(8)	1	10,878	10,234	(6)	75
EPS (Bt)	0.62	0.16	0.54	0.57	0.58	(8)	1	1.79	1.68	(6)	75
B/S (Bt mn)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch	%QoQ ch	9M13	9M14	%YoY ch	% full year
Gross loans	889,207	943,502	939,843	946,023	974,898	10	3	889,207	974,898	10	NM
Deposits	736,439	764,050	780,597	783,779	806,182	9	3	736,439	806,182	9	NM
BVPS (Bt)	19.81	19.98	20.60	20.84	21.08	6	1	19.81	21.08	6	NM
Ratios (%)	3Q13	4Q13	1Q14	2Q14	3Q14	%YoY ch*	%QoQ ch*	9M13	9M14	YoY ch*	% full year
Yield on earn. asset	6.72	6.87	6.50	6.47	6.52	(0.20)	0.05	6.67	6.48	(0.19)	NM
Cost of funds	2.88	2.81	2.73	2.59	2.64	(0.24)	0.05	2.83	2.65	(0.18)	NM
Net interest margin	4.18	4.39	4.09	4.19	4.20	0.02	0.02	4.18	4.15	(0.03)	NM
Cost to income	51.3	50.9	50.3	49.3	47.5	(3.73)	(1.80)	48.51	49.01	0.49	NM
NPLs/total loans	2.82	2.77	3.20	3.20	3.54	0.72	0.34	2.82	3.54	0.72	NM
LLR/NPLs	142.1	149.2	133.7	133.2	121.9	(20.23)	(11.38)	142.1	121.9	(20.23)	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

FY Dec	Unit	2012	2013	2014F	2015F	2015F
Pre-provision profit	(Bt mn)	26,010	30,825	30,479	32,746	36,730
Net profit	(Bt mn)	14,625	11,867	13,638	16,400	19,795
PPP/Sh	(Bt)	4.28	5.07	5.02	5.39	6.05
EPS	(Bt)	2.41	1.95	2.25	2.70	3.26
BVPS	(Bt)	18.66	19.98	21.43	23.45	25.90
DPS	(Bt)	0.80	0.80	0.67	0.81	0.98
PER	(x)	18.59	22.91	19.93	16.57	13.73
P/PPP	(x)	10.45	8.82	8.92	8.30	7.40
EPS growth	(%)	57.87	(18.86)	14.93	20.25	20.70
PBV	(x)	2.40	2.24	2.09	1.91	1.73
ROE	(%)	13.55	10.11	10.84	12.03	13.21
Dividend yields	(%)	1.79	1.79	1.51	1.81	2.18

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	26,214	28,404	31,476
Net interest income	39,953	44,939	47,383	51,170	56,628
Non-interest income	21,058	23,449	22,085	24,540	27,309
Non-interest expenses	30,798	33,614	35,599	38,917	42,353
Earnings before tax & provision	30,213	34,774	33,869	36,793	41,584
Tax	4,337	3,942	3,406	4,089	4,930
Equities & minority interest	(134)	7	(16)	(43)	(75)
Core pre-provision profit	26,010	30,825	30,479	32,746	36,730
Provision	11,385	18,959	16,842	16,346	16,935
Core net profit	14,625	11,867	13,638	16,400	19,795
Extra item	0	0	0	0	0
Net profit	14,625	11,867	13,638	16,400	19,795
EPS (Bt)	2.41	1.95	2.25	2.70	3.26
DPS (Bt)	0.80	0.80	0.67	0.81	0.98

Balance Sheet (Btmn)

FY December 31	2012	2013	2014F	2015F	2016F
Cash	25,079	28,216	28,813	29,615	30,268
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	1,228,722	1,334,404	1,469,720
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	130,148	142,457	157,331
BVPS (Bt)	18.66	19.98	21.43	23.45	25.90

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	2.57	2.59	2.62
Spread (%)	3.91	3.93	3.84	3.83	3.80
Net interest margin(%)	4.23	4.24	4.12	4.13	4.13
ROE (%)	13.55	10.11	10.84	12.03	13.21
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	51.62	51.74	50.76
Capital Fund					
Capital adequacy ratio(%)	16.97	14.69	14.79	14.32	13.76
Tier-1(%)	10.96	10.17	10.42	10.28	10.09
Tier-2(%)	6.01	4.52	4.37	4.03	3.67

Profit and Loss Statement (Btmn)

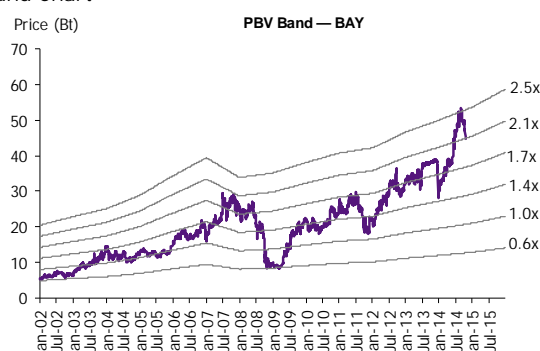
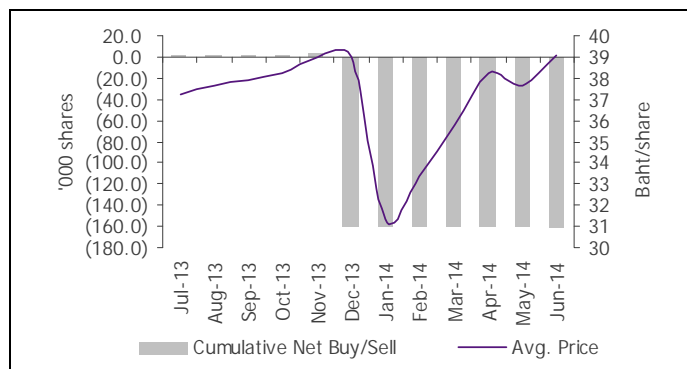
FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Interest & dividend income	18,078	18,939	18,275	18,352	18,937
Interest expense	6,832	6,841	6,778	6,476	6,730
Net interest income	11,246	12,099	11,497	11,876	12,207
Non-interest income	5,283	5,959	5,028	5,302	5,797
Non-interest expenses	8,475	9,196	8,306	8,476	8,559
Earnings before tax & provision	8,055	8,861	8,219	8,702	9,446
Tax	1,126	989	894	1,005	1,036
Equities & minority interest	(13)	61	(25)	(18)	14
Core pre-provision profit	6,942	7,811	7,350	7,715	8,396
Provision	3,148	6,822	4,084	4,255	4,889
Core net profit	3,794	989	3,266	3,460	3,507
Extra item	0	0	0	0	0
Net profit	3,794	989	3,266	3,460	3,507
EPS (Bt)	0.62	0.16	0.54	0.57	0.58

Balance Sheet (Btmn)

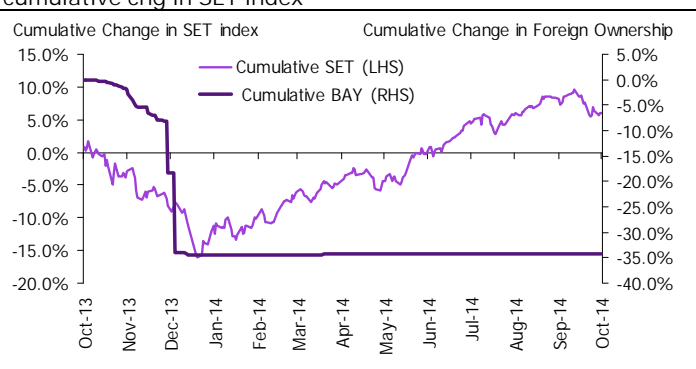
FY December 31	3Q13	4Q13	1Q14	2Q14	3Q14
Cash	23,818	28,216	26,793	26,091	24,288
Interbank assets	88,003	87,027	91,246	99,086	103,242
Investments	84,486	74,333	77,368	76,588	77,112
Gross loans	889,207	943,502	939,843	946,023	974,898
Accrued interest receivable	2,465	2,648	2,552	2,587	2,666
Loan loss reserve	35,654	38,986	40,157	40,312	42,049
Net loans	856,018	907,164	902,239	908,298	935,515
Total assets	1,145,167	1,179,582	1,185,669	1,194,586	1,237,174
Deposits	736,439	764,050	780,597	783,779	806,182
Interbank liabilities	63,501	55,497	63,943	56,288	75,590
Borrowings	151,862	174,605	146,309	166,585	151,412
Total liabilities	1,024,582	1,057,934	1,060,242	1,067,659	1,108,705
Minority interest	260	279	315	356	403
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	120,325	121,369	125,112	126,571	128,066
BVPS (Bt)	19.81	19.98	20.60	20.84	21.08

Financial Ratios

	3Q13	4Q13	1Q14	2Q14	3Q14
YoY loan growth	13.43	13.67	12.26	9.45	9.64
YoY fee & insurance income growth	11.18	9.53	(4.41)	(1.90)	4.94
Yield on earn'g assets (%)	6.72	6.87	6.50	6.47	6.52
Cost on int-bear'g liab (%)	2.88	2.81	2.73	2.59	2.64
Net interest margin(%)	4.18	4.39	4.09	4.19	4.20
Cost to income ratio (%)	51.27	50.93	50.26	49.34	47.54
NPLs/Total Loans(%)	2.82	2.77	3.20	3.20	3.54
LLR/NPLs(%)	142.09	149.15	133.71	133.24	121.86
Provision expense/Total loans (%)	1.42	2.89	1.74	1.80	2.01

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 1: Valuation summary (Closing price as of Oct 17, 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	44.75	30.0	(31.5)	22.9	19.9	16.6	(19)	15	20	2.2	2.1	1.9	10	11	12	1.8	1.5	1.8
BBL	Buy	192.00	245.0	31.3	10.2	10.1	9.1	9	1	11	1.2	1.1	1.0	13	12	12	3.4	3.7	4.1
KBANK	Buy	223.00	250.0	13.9	12.9	11.3	9.7	17	15	16	2.4	2.1	1.8	20	20	20	1.6	1.8	2.2
KKP	Buy	41.50	50.0	24.7	7.9	11.8	8.2	29	(33)	44	1.0	1.0	0.9	13	8	11	6.5	4.2	6.1
KTB	Buy	23.30	25.0	11.0	9.6	10.2	8.9	45	(6)	14	1.6	1.4	1.3	17	15	15	3.8	3.7	4.3
LHBANK	Sell	1.77	1.2	(30.3)	25.2	20.7	20.3	23	22	2	1.5	1.5	1.4	6	7	7	3.3	1.9	2.0
TCAP	Buy	35.25	40.0	16.9	4.9	8.7	7.4	68	(44)	17	1.0	0.9	0.8	20	11	11	4.5	3.4	3.4
TISCO	Buy	44.75	50.0	16.2	8.4	8.7	7.5	4	(3)	17	1.6	1.4	1.2	21	17	18	4.5	4.5	4.7
TMB	Sell	3.00	2.6	(11.4)	22.8	15.5	13.3	354	47	17	2.1	1.9	1.7	10	13	14	1.3	1.9	2.3
Average					13.7	12.7	11.0	22	5	15	1.7	1.5	1.4	15	13	14	3.4	3.1	3.5

Source: SCBS Investment Research

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▲▲▲ A, AAV, AEC, AEDVIS, AIC, AGE, AH, AI, AJ, AKR, ALLCON, ANAN, ANIP, 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, HPT, HTECH, HYDRO, IFS, IHL, ILJIN, INOX, IRC, IRCP, IT, JMART, JMT, JTS, JUTHA, KASEI, KC, KCAR, KDH, KTG, KWH, LALIN, LEE, MATCH, MATI, MBAX, MDX, PRINC, MID, MK, MOONG, MPC, MSC, NC, NIPPON, NNCL, NTV, OSK, PAE, PATO, PICO, PL, POST, PRECHA, PRIN, Q-CON, QLT, RCI, RCL, ROJINA, RPC, SCBLIF, SCP, SENA, SF, SGP, SIMAT, SLK, SMIT, SMK, SOLAR, SPG, SPG, SRICHA, SSC, STA, SUPER, SVDA, SWC, SYNEX, TBSP, TCCC, TEAM, TGC, TIC, TIES, TNS, TWS, TMC, TMD, TMI, TNDT, NNPC, TOPP, TPA, TPP, TR, TTI, TTD, TVI, TVZ, UBIS, UEC, UOBKH, UPF, UWC, VARO, VTE, WAVE, WG, WIN, WORK

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