

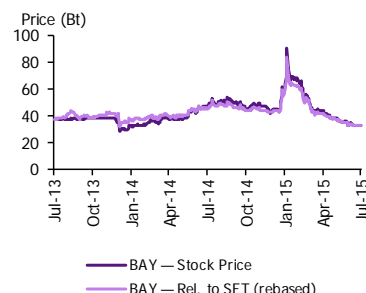
SELL

Stock Data

Last close (Jul 21) (Bt)	32.25
12-m target price (Bt)	30.00
Upside (Downside) to TP (%)	(6.98)
Mkt cap (Btbn)	237.22
Mkt cap (US\$mn)	6,882

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.72
Sector % SET	14.67
Shares issued (mn)	7,356
Par value (Bt)	10
12-m high / low (Bt)	104 / 31.8
Avg. daily 6m (US\$mn)	4.65
Foreign limit / actual (%)	25 / 25
Free float (%)	23.1
Dividend policy (%)	≥ 30

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	(5.8)	(24.6)	(32.1)
Relative to SET	(2.2)	(19.1)	(28.7)

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA
Fundamental Investment
Analyst on Securities
(66-2) 949-1003
kittima.sattayapan@scb.co.th

2Q15: Beat on asset quality and non-NII

Exceeding expectations on asset quality and non-NII, 2Q15 earnings rose 26% YoY and 1% QoQ to Bt4.3bn, above our forecast of Bt3.8bn. Asset quality surprisingly improved (though only a little), with QoQ stable provisions, stable NPLs (net of Bt1.4bn NPL sales) and a rise in LLR coverage to 141% from 138% at 1Q15. Pre-provision profit was stable QoQ as a 4% QoQ rise in non-NII (mainly trading gain) was offset by a 2% QoQ increase in opex. In line with the sector, net interest income was stagnant QoQ as its 1% QoQ loan growth was offset by a 52 bps QoQ slice off NIM.

Figure 1: Quarterly results

P & L (Bt mn)	2Q14	1Q15	2Q15	%YoY ch	%QoQ ch	1H14	1H15	%YoY ch	% full year
Interest income	18,352	20,776	20,401	11	(2)	36,627	41,177	12	50
Interest expense	6,476	6,920	6,606	2	(5)	13,254	13,526	2	51
Net interest income	11,876	13,857	13,794	16	(0)	23,373	27,651	18	50
Non-interest income	5,302	6,156	6,420	21	4	10,330	12,576	22	51
Operating expenses	8,476	9,321	9,554	13	2	16,782	18,875	12	48
Pre-provision profit	8,702	10,692	10,661	23	(0)	16,921	21,353	26	52
Less Provision	4,255	5,253	5,217	23	(1)	8,339	10,470	26	51
Pre-tax profit	4,447	5,439	5,444	22	0	8,582	10,883	27	52
Income tax	1,005	1,166	1,115	11	(4)	1,899	2,281	20	55
MI and equity	18	53	21	18	(61)	43	74	71	NA
Net profit	3,460	4,326	4,349	26	1	6,726	8,675	29	52
EPS (Bt)	0.57	0.59	0.59	4	1	1.11	1.18	7	52
B/S (Bt mn)	2Q14	1Q15	2Q15	%YoY ch	%QoQ ch	1H14	1H15	%YoY ch	% full year
Gross loans	946,023	1,234,762	1,244,870	32	1	946,023	1,244,870	32	NM
Deposits	783,779	1,010,484	1,007,315	29	(0)	783,779	1,007,315	29	NM
BVPS (Bt)	20.84	24.78	24.98	20	1	20.84	24.98	20	NM
Ratios (%)	2Q14	1Q15	2Q15	%YoY ch*	%QoQ ch*	1H14	1H15	YoY ch*	% full year
Yield on earn. asset	6.47	6.12	5.27	(1.19)	(0.85)	6.49	5.81	(0.67)	NM
Cost of funds	2.59	2.31	1.94	(0.65)	(0.37)	2.66	2.16	(0.50)	NM
Net interest margin	4.19	4.08	3.57	(0.62)	(0.52)	4.14	3.90	(0.24)	NM
Cost to income	49.3	46.6	47.3	(2.08)	0.69	49.79	46.92	(2.87)	NM
NPLs/total loans	3.20	2.60	2.55	(0.65)	(0.04)	3.20	2.55	(0.65)	NM
LLR/NPLs	133.2	137.9	140.8	7.52	2.84	133.2	140.8	7.52	NM

Source: SCBS Investment Research

Note: * Percentage points

Lower guidance. BAY lowered its 2015F loan growth target to 4-6% from 6-8% and raised its 2015F credit cost target to 150 bps from 140 bps. We cut our 2015F organic loan growth to 4% from 6% vs. 0% YTD organic loan growth. We raised credit cost forecast by 10 bps to 160 bps in 2015F and 150 bps in 2016F. This led to a 2% reduction in our earnings forecast for 2015 and 7% for 2016F and thus a cut in TP to Bt30 (1.1x mid-2016F BVPS) from Bt32.

Maintain Sell. We maintain Sell on BAY, which is trading at an unattractive valuation of 12x PER and 1.1x PBV with low 9% ROE. Its ROE will be diluted in 2015 and 2016 by the recapitalization to support the merger with BTMU Bangkok early this year.

Forecasts and valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Pre-provision profit	(Bt mn)	30,825	32,276	37,282	38,150	40,403
Net profit	(Bt mn)	11,867	14,170	16,706	19,065	21,264
PPP/Sh	(Bt)	5.07	5.31	5.07	5.19	5.49
EPS	(Bt)	1.95	2.33	2.27	2.59	2.89
BVPS	(Bt)	19.98	21.60	26.59	28.50	30.61
DPS	(Bt)	0.80	0.70	0.68	0.78	0.87
PER	(x)	16.51	13.82	14.20	12.44	11.16
P/PPP	(x)	6.35	6.07	6.36	6.22	5.87
EPS growth	(%)	(18.86)	19.41	(2.64)	14.12	11.54
PBV	(x)	1.61	1.49	1.21	1.13	1.05
ROE	(%)	10.11	11.22	10.22	9.41	9.78
Dividend yields	(%)	2.48	2.17	2.11	2.41	2.69

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Interest & dividend income	71,381	74,609	82,409	88,953	95,690
Interest expense	26,442	26,665	26,622	29,813	32,849
Net interest income	44,939	47,943	55,787	59,140	62,841
Non-interest income	23,449	22,658	24,707	26,724	29,304
Non-interest expenses	33,614	34,300	39,155	43,131	46,684
Earnings before tax & provision	34,774	36,301	41,338	42,733	45,461
Tax	3,942	4,031	4,152	4,730	5,264
Equities & minority interest	7	(6)	(96)	(146)	(206)
Core pre-provision profit	30,825	32,276	37,282	38,150	40,403
Provision	18,959	18,107	20,577	19,085	19,139
Core net profit	11,867	14,170	16,706	19,065	21,264
Extra item	0	0	0	0	0
Net profit	11,867	14,170	16,706	19,065	21,264
EPS (Bt)	1.95	2.33	2.27	2.59	2.89
DPS (Bt)	0.80	0.70	0.68	0.78	0.87

Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Cash	28,216	31,155	32,213	33,618	35,013
Interbank assets	87,027	80,364	170,000	203,150	240,733
Investments	74,333	61,790	113,500	113,500	113,500
Gross loans	943,502	1,012,761	1,286,043	1,363,206	1,472,262
Accrued interest receivable	2,648	2,636	2,636	2,636	2,636
Loan loss reserve	38,986	39,776	47,492	52,945	57,362
Net loans	907,164	975,621	1,241,187	1,312,897	1,417,537
Total assets	1,179,582	1,214,268	1,645,316	1,752,093	1,896,233
Deposits	764,050	837,556	1,065,790	1,158,514	1,287,109
Interbank liabilities	55,497	46,612	240,000	240,000	240,000
Borrowings	174,605	151,805	80,000	80,000	80,000
Total liabilities	1,057,934	1,082,598	1,449,298	1,542,022	1,670,617
Minority interest	279	460	460	460	460
Paid-up capital	60,741	60,741	73,558	73,558	73,558
Total Equities	121,369	131,210	195,558	209,611	225,157
BVPS (Bt)	19.98	21.60	26.59	28.50	30.61

Key Assumptions and Financial Ratios

	2013	2014	2015F	2016F	2017F
Growth					
YoY loan growth	13.67	7.34	26.98	6.00	8.00
YoY fee & insurance income growth	14.26	1.50	16.00	10.00	12.00
Profitability					
Yield on earn'g assets (%)	6.73	6.57	6.05	5.48	5.46
Cost on int-bear'g liab (%)	2.81	2.63	2.20	2.08	2.13
Spread (%)	3.93	3.94	3.85	3.39	3.33
Net interest margin(%)	4.24	4.22	4.10	3.64	3.58
ROE (%)	10.11	11.22	10.22	9.41	9.78
Asset Quality					
NPLs/Total Loans(%)	2.86	2.96	2.52	2.52	2.52
LLR/NPLs(%)	144.32	132.64	146.62	154.20	154.69
Provision expense/Total loans (%)	2.01	1.79	1.60	1.40	1.30
Liquidity					
Loans/Deposits & borrowings (%)	100.52	102.37	112.24	110.07	107.69
Efficiency					
Cost to income ratio (%)	50.54	49.92	49.57	51.12	51.50
Capital Fund					
Capital adequacy ratio(%)	14.71	14.69	15.74	15.61	15.39
Tier-1(%)	10.19	10.98	13.15	13.16	13.12
Tier-2(%)	4.52	3.71	2.59	2.45	2.27

Profit and Loss Statement (Btmn)

FY December 31	2Q14	3Q14	4Q14	1Q15	2Q15
Interest & dividend income	18,352	18,937	19,045	20,776	20,401
Interest expense	6,476	6,730	6,681	6,920	6,606
Net interest income	11,876	12,207	12,364	13,857	13,794
Non-interest income	5,302	5,797	6,530	6,156	6,420
Non-interest expenses	8,476	8,559	8,959	9,321	9,554
Earnings before tax & provision	8,702	9,446	9,935	10,692	10,661
Tax	1,005	1,036	1,097	1,166	1,115
Equities & minority interest	(18)	14	23	(53)	(21)
Core pre-provision profit	7,715	8,396	8,815	9,579	9,567
Provision	4,255	4,889	4,879	5,253	5,217
Core net profit	3,460	3,507	3,936	4,326	4,349
Extra item	0	0	0	0	0
Net profit	3,460	3,507	3,936	4,326	4,349
EPS (Bt)	0.57	0.58	0.65	0.59	0.59

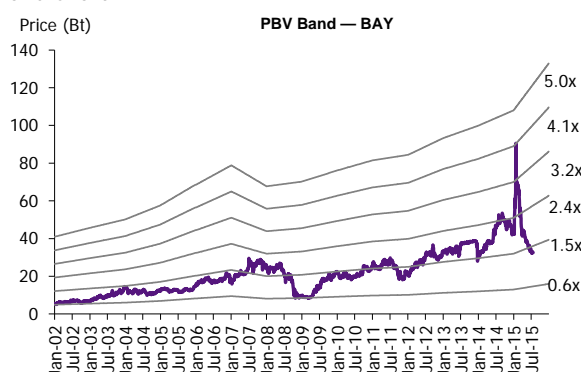
Balance Sheet (Btmn)

FY December 31	2Q14	3Q14	4Q14	1Q15	2Q15
Cash	26,091	24,288	31,155	26,916	27,667
Interbank assets	99,086	103,242	80,364	190,591	180,566
Investments	76,588	77,112	61,790	113,406	110,498
Gross loans	946,023	974,898	1,012,761	1,234,762	1,244,870
Accrued interest receivable	2,587	2,666	2,636	3,840	3,709
Loan loss reserve	40,312	42,049	39,776	44,212	44,728
Net loans	908,298	935,515	975,621	1,194,390	1,203,851
Total assets	1,194,586	1,237,174	1,214,268	1,632,828	1,612,310
Deposits	783,779	806,182	837,556	1,010,484	1,007,315
Interbank liabilities	56,288	75,590	46,612	213,948	270,056
Borrowings	166,585	151,412	151,805	138,074	81,297
Total liabilities	1,067,659	1,108,705	1,082,598	1,450,061	1,428,002
Minority interest	356	403	460	513	572
Paid-up capital	60,741	60,741	60,741	73,558	73,558
Total Equities	126,571	128,066	131,210	182,254	183,736
BVPS (Bt)	20.84	21.08	21.60	24.78	24.98

Financial Ratios

	2Q14	3Q14	4Q14	1Q15	2Q15
YoY loan growth	9.45	9.64	7.34	31.38	31.59
YoY fee & insurance income growth	(1.90)	4.94	7.31	24.49	17.43
Yield on earn'g assets (%)	6.47	6.52	6.51	6.12	5.27
Cost on int-bear'g liab (%)	2.59	2.64	2.58	2.31	1.94
Net interest margin(%)	4.19	4.20	4.22	4.08	3.57
Cost to income ratio (%)	49.34	47.54	47.42	46.58	47.26
NPLs/Total Loans(%)	3.20	3.54	2.96	2.60	2.55
LLR/NPLs(%)	133.24	121.86	132.64	137.93	140.77
Provision expense/Total loans (%)	1.80	2.01	1.93	1.70	1.68

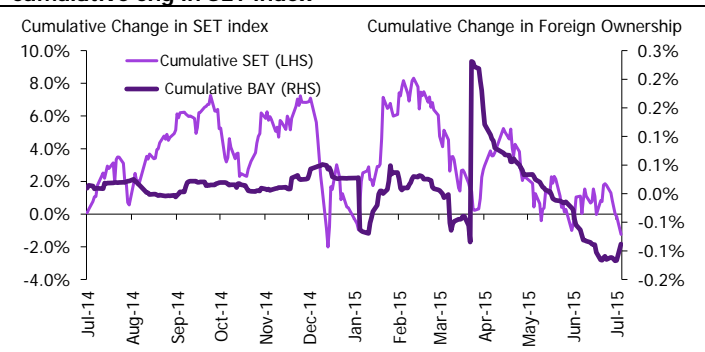
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

Figure 2: Valuation summary (Closing price as of Jul 21, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F
BAY	Sell	32.25	30.0	(4.9)	13.8	14.2	12.4	19	(3)	14	1.5	1.2	1.1	11	10	9	2.2	2.1	2.4
BBL	Buy	173.00	205.0	22.3	9.1	10.0	9.3	1	(9)	7	1.0	0.9	0.9	12	10	10	3.8	3.8	4.0
KBANK	Buy	181.50	225.0	26.4	9.4	10.5	8.3	12	(11)	27	1.7	1.5	1.3	19	15	17	2.2	2.5	2.8
KKP	Neutral	33.25	36.0	13.2	10.6	10.1	9.4	(41)	5	8	0.8	0.8	0.7	7	8	8	4.7	4.9	5.3
KTB	Buy	16.80	22.0	35.7	7.1	7.8	6.9	(2)	(9)	13	1.0	0.9	0.9	15	13	13	5.4	4.8	5.4
LHBANK	Sell	1.75	1.3	(23.9)	19.2	16.9	16.7	30	14	1	1.4	1.3	1.3	8	8	8	0.2	1.8	1.8
TCAP	Buy	32.75	42.0	33.1	8.2	7.3	7.1	(45)	12	3	0.8	0.8	0.7	10	11	10	4.9	4.9	4.9
TISCO	Buy	44.25	53.0	24.3	8.3	7.8	7.4	0	7	5	1.4	1.2	1.1	17	17	16	4.5	4.5	4.6
TMB	Sell	2.28	2.4	7.7	10.4	12.3	10.1	66	(15)	21	1.4	1.3	1.2	15	11	12	2.9	2.4	3.0
Average					10.6	10.7	9.6	3	(7)	15	1.3	1.2	1.1	13	12	12	3.5	3.6	3.9

Source: SCBS Investment Research

CG Rating 2014 Companies with CG Rating

AAAAA	BAT, BCP, BJS, DPN, EGO, GRAMMY, HANA, INTUCH, IRPC, IWL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTEC, SAMART, SAMTEL, SAT, SC, SOB, SE-ED, SIM, SPALI, TISCO, TMB, TOP
AAAAA	AAY, ACAP, ADVANC, AHA, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BEC, BIGC, BII, BLA, BMCL, BROOK, CENTEL, CFRESH, CMBI, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFPT, GUNKUL, HEMRAJ, HMPRO, IC, KCE, KSL, LANINA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOT, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAP, PE, PG, PHOL, PJW, PIA, PPS, PR, PRANDA, PS, PT, OH, RATCH, ROBINS, RS, S & J SAMCO, SOC, SINGER, SIS, SITHAI, SNC, SNP, SSF, SSI, SSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPOD, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSTE, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WAOAL
AAA	ZS, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APCO, APC, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFT, BH, BJC, BICI, BOL, BTNC, BWG, OCET, CGD, GGS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTPRO, HTC, HTECH, HYDRO, IFS, IHL, INET, IRC, IRCP, ITD, KBS, KGC, KTC, L&E, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFEC, MJD, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NYT, OGC, OISHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, QLT, QTC, RCL, SABINA, SALEE, SOBLIF, SOCC, SCG, SEAFOD, SEAOIL, SPP, SJAM, SIRI, SKR, SMG, SMK, SMPC, SMT, SOLAR, SP, SPG, SPPT, SST, STANLY, STEC, STPI, SUC, SWC, SYMC, SYNEX, SYNTec, TASC, TBSP, TEAM, TFD, TFI, THANA, THIP, THREL, TIC, TICON, TIW, TKS, TLUXE, TMI, TMT, TNDI, TPC, TPCORP, TRT, TRU, TSC, TTCL, TUF, TVD, TWFP, UMI, UP, UPE, UPOIC, UT, UV, UVIC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMGO

Corporate Governance Report disclaimer

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