

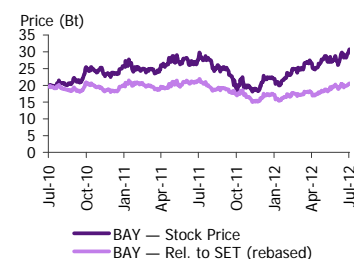
## Neutral

## Stock Data

Last close (Jul 4) (Bt)	30.75
12-m target price (Bt)	31.00
Upside (Downside) to TP (%)	0.81
Mkt cap (Btbn)	186.78
Mkt cap (US\$mn)	5,933

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.88
Sector % SET	18.64
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	31.3 / 17.8
Avg. daily 6m (US\$mn)	10.73
Foreign limit / actual (%)	47 / 47
Free float (%)	67.1
Dividend policy (%)	≥ 30

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	18.3	23.0	4.2
Relative to SET	8.9	21.8	-5.3

Source: SET, SCBS Investment Research

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## 2Q12F: Earnings growth to beat sector's

**Maintain Neutral.** Following the 2Q12F preview meeting, we stay Neutral with a small rise in target price from Bt29 to Bt31 (1.6x average 2012F and 2013F BVPS, based on 14.5% L-T ROE, 11% cost of equity and 5% L-T growth) brought by a 7% raise in 2012F earnings to reflect a hike in fee income and NIM forecast and inclusion of Bt300mn gain on sale of investment in Ayudhya Allianz C.P. Life (AACP). Its share price already largely incorporates the expected strong ROE improvement from easing credit cost and cost to income ratio after completing operational integration with GE Money Thailand.

**2Q12F, strongest growth.** We forecast BAY's 2Q12F earnings at Bt3.9bn, growing 31% YoY and 13% QoQ, the highest in the bank sector. Guidance included: 1) loan growth of ~2% QoQ vs. 3% QoQ in 1Q12; 2) 10 bps QoQ NIM improvement; 2) QoQ rise in fee income; 3) Bt300mn gain from sale of 8.5% in AACP; and 4) QoQ rise in opex with cost to income ratio no higher than 49% - from 400 new employees from HSBC, Bt80-90mn amortization of intangible assets from HSBC and branch re-branding.

**Raised 2012F fee income.** We raised 2012F fee income growth forecast from 12% to 15% in response to the potentially stronger-than-expected 2Q12F fee income, guided to by management. Management said 2Q12 fee income growth continued good, leading 1H12F fee income growth to beat its 12% full-year target. The major drivers are bancassurance and credit cards.

**Strongest NIM recovery in 2Q12F.** BAY expects a recovery in net interest margin (NIM) of ~10 bps QoQ in 2Q12, the strongest improvement among peers. This is mainly a result of: 1) no repeat of the ~5 bps negative distortion by the acquisition of HSCB's Bt13.4bn loans booked at the end of 1Q12 but with no income until 2Q12; 2) no repeat of the ~5 bps negative implication from the floods. BAY also expects a slight fall in cost of funds in 2Q12 as it aggressively raised deposits to replace bills of exchange and debentures. It has successfully raised more than Bt50bn from the campaign for a special savings deposit rate of 2.9% launched in June. We minimally raised 2012F NIM by 3 bps due to the potential for a stronger-than-expected 2Q12 NIM. We forecast an 11 bps squeeze to 4.32% for 2012.

**NPL sales lifted LLR coverage.** BAY completed the sale of NPLs worth Bt4.2bn (15% of total NPLs and 0.57% of total loans at 1Q12) at a price of ~60% of face value in June. This lifted its loan loss reserve (LLR) coverage to ~120% from 113% at 1Q12. BAY is keeping its provisioning policy at 140 bps against total loans for 2012F (vs. 170 bps for 2011) but guided that selling NPLs could lead to an easing in future provisioning. We cut our credit cost forecast for 2013-2016 by 5 bps to 135 bps.

**On track loan growth.** BAY's consolidated YTD loan growth was ~5% as of mid-June, on track to meet our 2012F of 12%. 1H12 loan growth was mainly from retail loans (>10% for auto loans, credit card and personal loans and >5% for housing loans) followed by SMEs (>5%, mainly soft loans for flood victims). Meanwhile, corporate loan growth was still negative. 2Q12 loan growth was ~2% QoQ vs. 3% QoQ for 1Q12 (1.9% from the acquisition of HSBC's retail loans).

## Forecasts and valuation

FY Dec	Unit	2010	2011	2012F	2013F	2014F
Pre-provision profit	(Bt mn)	21,183	21,478	26,261	29,534	32,470
Net profit	(Bt mn)	8,793	9,264	14,954	17,607	19,488
PPP/Sh	(Bt)	3.49	3.54	4.32	4.86	5.35
EPS	(Bt)	1.45	1.53	2.46	2.90	3.21
BVPS	(Bt)	16.28	16.87	18.63	20.55	22.60
DPS	(Bt)	0.57	0.70	0.98	1.16	1.28
PER	(x)	21.24	20.16	12.49	10.61	9.58
P/PPP	(x)	8.82	8.70	7.11	6.32	5.75
EPS growth	(%)	32.05	5.35	61.42	17.74	10.69
PBV	(x)	1.89	1.82	1.65	1.50	1.36
ROE	(%)	9.19	9.20	13.87	14.80	14.87
Dividend yields	(%)	1.85	2.28	3.20	3.77	4.17

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Interest & dividend income	47,275	56,428	64,699	69,766	75,579
Interest expense	12,648	18,963	24,164	25,448	27,811
<b>Net interest income</b>	<b>34,627</b>	<b>37,465</b>	<b>40,534</b>	<b>44,318</b>	<b>47,768</b>
Non-interest income	16,754	17,807	19,659	21,175	23,186
Non-interest expenses	26,796	27,477	29,674	31,808	33,922
Earnings before tax & provision	24,586	27,795	30,519	33,685	37,032
Tax	3,524	6,310	4,419	4,352	4,810
Equities & minority interest	(121)	7	(161)	(201)	(249)
Core pre-provision profit	21,183	21,478	26,261	29,534	32,470
Provision	12,390	12,214	11,307	11,927	12,982
<b>Core net profit</b>	<b>8,793</b>	<b>9,264</b>	<b>14,954</b>	<b>17,607</b>	<b>19,488</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>8,793</b>	<b>9,264</b>	<b>14,954</b>	<b>17,607</b>	<b>19,488</b>
<b>EPS (Bt)</b>	<b>1.45</b>	<b>1.53</b>	<b>2.46</b>	<b>2.90</b>	<b>3.21</b>
<b>DPS (Bt)</b>	<b>0.57</b>	<b>0.70</b>	<b>0.98</b>	<b>1.16</b>	<b>1.28</b>

## Balance Sheet (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Cash	22,461	25,165	26,526	27,537	28,287
Interbank assets	74,527	81,818	94,090	108,204	124,435
Investments	79,089	81,974	81,974	81,974	81,974
<b>Gross loans</b>	<b>648,960</b>	<b>719,507</b>	<b>807,825</b>	<b>880,530</b>	<b>959,777</b>
Accrued interest receivable	1,724	1,859	1,859	1,859	1,859
Loan loss reserve	33,953	31,279	44,120	57,581	72,097
<b>Net loans</b>	<b>616,731</b>	<b>690,087</b>	<b>765,565</b>	<b>824,808</b>	<b>889,539</b>
<b>Total assets</b>	<b>869,834</b>	<b>947,797</b>	<b>1,037,348</b>	<b>1,112,166</b>	<b>1,194,340</b>
Deposits	576,479	560,540	766,894	860,838	930,566
Interbank liabilities	43,788	23,741	23,741	23,741	23,741
Borrowings	99,365	208,263	85,254	54,502	54,502
<b>Total liabilities</b>	<b>770,730</b>	<b>845,102</b>	<b>923,951</b>	<b>987,143</b>	<b>1,056,871</b>
Minority interest	189	207	207	207	207
Paid-up capital	60,741	60,741	60,741	60,741	60,741
<b>Total Equities</b>	<b>98,915</b>	<b>102,489</b>	<b>113,191</b>	<b>124,816</b>	<b>137,262</b>
<b>BVPS (Bt)</b>	<b>16.28</b>	<b>16.87</b>	<b>18.63</b>	<b>20.55</b>	<b>22.60</b>

## Key Financial Ratios

	2010	2011	2012F	2013F	2014F
<b>Growth</b>					
YoY loan growth	7.53	10.87	12.27	9.00	9.00
YoY fee & insurance income growth	61.22	7.02	15.00	12.00	12.00
<b>Profitability</b>					
Yield on earn'g assets (%)	6.19	6.68	6.90	6.77	6.73
Cost on int-bear'g liab (%)	1.84	2.51	2.90	2.80	2.86
Spread (%)	4.35	4.17	4.00	3.96	3.88
Net interest margin(%)	4.53	4.43	4.32	4.30	4.26
ROE (%)	9.19	9.20	13.87	14.80	14.87
<b>Asset Quality</b>					
NPLs/Total Loans(%)	5.88	4.11	4.20	4.31	4.42
LLR/NPLs(%)	89.00	105.90	129.95	151.56	170.06
Provision expense/Total loans (%)	1.91	1.70	1.40	1.35	1.35
<b>Liquidity</b>					
Loans/Deposits & borrowings (%)	96.02	93.59	94.80	96.20	97.43
<b>Efficiency</b>					
Cost to income ratio (%)	52.41	50.46	49.88	48.87	48.08
<b>Capital Fund</b>					
Capital adequacy ratio(%)	14.90	16.28	15.44	15.61	15.73
Tier-1(%)	10.85	11.85	12.05	12.45	12.79
Tier-2(%)	4.04	4.44	3.39	3.16	2.94

## 12-Month Cumulative directors trade

NA

## Profit and Loss Statement (Btmn)

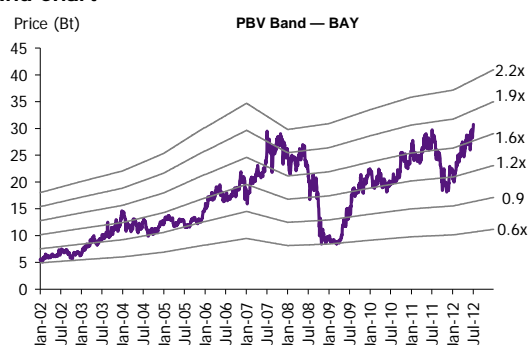
FY December 31	1Q11	2Q11	3Q11	4Q11	1Q12
Interest & dividend income	12,876	13,714	14,879	14,959	15,362
Interest expense	3,685	4,319	5,146	5,813	5,982
<b>Net interest income</b>	<b>9,191</b>	<b>9,395</b>	<b>9,733</b>	<b>9,146</b>	<b>9,380</b>
Non-interest income	4,325	4,533	4,652	4,298	4,741
Non-interest expenses	6,887	6,678	7,544	6,368	7,007
Earnings before tax & provision	6,629	7,250	6,840	7,077	7,114
Tax	1,065	1,186	1,241	2,819	1,020
Equities & minority interest	5	(7)	(31)	40	(49)
Core pre-provision profit	5,559	6,071	5,631	4,217	6,143
Provision	2,750	3,099	2,624	3,740	2,713
<b>Core net profit</b>	<b>2,808</b>	<b>2,972</b>	<b>3,007</b>	<b>477</b>	<b>3,430</b>
Extra item	0	0	0	0	0
<b>Net profit</b>	<b>2,808</b>	<b>2,972</b>	<b>3,007</b>	<b>477</b>	<b>3,430</b>
<b>EPS (Bt)</b>	<b>0.46</b>	<b>0.49</b>	<b>0.50</b>	<b>0.08</b>	<b>0.56</b>

## Balance Sheet (Btmn)

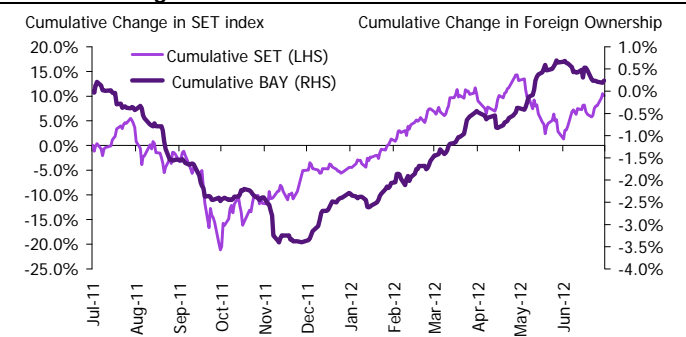
FY December 31	1Q11	2Q11	3Q11	4Q11	1Q12
Cash	19,367	19,596	20,112	25,165	23,142
Interbank assets	84,844	113,292	74,886	81,818	65,782
Investments	70,842	74,110	88,582	81,974	102,347
<b>Gross loans</b>	<b>658,149</b>	<b>670,953</b>	<b>697,091</b>	<b>719,507</b>	<b>742,001</b>
Accrued interest receivable	1,707	1,796	1,838	1,859	1,868
Loan loss reserve	33,509	33,309	32,196	31,279	31,711
<b>Net loans</b>	<b>626,347</b>	<b>639,440</b>	<b>666,734</b>	<b>690,087</b>	<b>712,158</b>
<b>Total assets</b>	<b>870,410</b>	<b>912,915</b>	<b>914,368</b>	<b>947,797</b>	<b>976,104</b>
Deposits	572,270	551,775	536,120	560,540	572,538
Interbank liabilities	33,708	47,168	23,141	23,741	32,055
Borrowings	117,854	169,137	209,872	208,263	205,328
<b>Total liabilities</b>	<b>770,474</b>	<b>812,146</b>	<b>813,070</b>	<b>845,102</b>	<b>869,914</b>
Minority interest	196	206	198	207	133
Paid-up capital	60,741	60,741	60,741	60,741	60,741
<b>Total Equities</b>	<b>99,739</b>	<b>100,563</b>	<b>101,100</b>	<b>102,489</b>	<b>106,057</b>
<b>BVPS (Bt)</b>	<b>16.42</b>	<b>16.56</b>	<b>16.64</b>	<b>16.87</b>	<b>17.46</b>

## Main Assumptions

## PBV Band Chart



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



Source: SET, SCBS Investment Research

## CG Rating 2011 Companies with CG Rating under SCBS's Coverage

ADVANC, AOT, BANPU, BAY, BBL, BCP, BMCL, CPF, CSL, EGO, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PSL, PTT, PTTEP, OH, RATCH, SAT, SCB, SCC, TISCO, TMB, TOP
AMATA, AP, ASP, BEC, BECL, BH, BIGC, BLA, BLS, CK, CPALL, DELTA, DRY, DTAC, GPPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IVL, MAJOR, MAKRO, OISHI, PHATRA, SCCC, SMT, SPALI, SIRI, STANLY, STEC, SVI, TCAP, THAI, TRUE, TTA, TTW
AEONTS, AH, CCET, DCC, ESSO, ITD, KH, KTC, RCL, ROJNA, TICON, TPIPL
AAV, BGH, BLS, CPNRF, LHBANK, POPF, QHPF, SAMART, SAMTEL, SSI, TFUND, TLOGIS, WHAPF
PTTGC is the merged entity of PTTC and PTTAR

## Corporate Governance Report disclaimer

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