

Preview 2Q16F: This will be the worst

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2Q16F: The worst is here. We expect most banks to report a YoY and QoQ fall in 2Q16F, slogging through a continued deterioration in asset quality, weak loan growth, a sharp fall in NIM and softer non-NII. We expect KBANK to report the largest YoY fall. Key preview takeaways are summarized below.

- 1) **NPLs:** These continued to rise QoQ, but to less of an extent than in 1Q16, with inflow beginning to show some easing. Peak for NPLs is expected in 2H16.
- 2) **Provisions:** Overall stable QoQ as banks are sustaining or rebuilding their LLR coverage.
- 3) **Loan growth:** Picked up QoQ but still weak, with most from corporate loans and most of those M&A-related. The sector's YTD loan growth was 0.6% in 5M16 vs.-0.3% for 1Q16. We maintain our 2016F loan growth at 5%, expecting a pick-up in 2H16 from rising public investment, recovering consumption and seasonality.
- 4) **NIM:** NIM is expected to shrink QoQ by 10-20 bps QoQ for large banks as a result of a 25 bps cut in lending rate and a rising proportion of low-yield corporate loans.
- 5) **Non-NII:** Softer QoQ, mainly fee income. This is partly mitigated by a seasonal QoQ rise in dividend income.
- 6) **Cost to income:** Mostly continued to tighten.

2H16F: Modest recovery. We expect a modest recovery in 2H16, maintaining our forecast of flattish earnings in 2016 (vs. -7% for 2015). On an HoH basis, we expect lower provisions – though still large – on the back of slowing NPL inflow, a moderate pick-up in loan growth to achieve a full-year loan growth of 5% vs. ~1% YTD in 6M16, stable NIM after a squeeze in 2Q16, higher fee income and a seasonal rise in opex. NPLs are expected to peak in 2H16.

2017F: Moderate recovery. We expect a moderate earnings recovery in 2017F with growth of 11%, arising primarily out of lower provisions. We forecast credit cost to ease to 1.14% in 2017F from 1.29% in 2016F. We expect a gradual pick up in loan growth to 6% in 2017 from 5% in 2016. Eroded by the implementation of the National e-Banking program, we expect a slow 5% growth in non-NII in 2017F.

Factoring in the impact of National e-Payment. We brought our 2017-2018 forecasts down 2-3% for large and mid-sized banks (BBL, KTB, BBL, KBANK, BAY, and TMB) to factor in the potential hit to fee income from the implementation of national e-payment. Effective at the end of October, the BoT is kicking this plan off with a new money transfer system called "PromptPay" which will allow money transfer by individuals via e-banking by using the registered ID or phone number that is tied to a selected deposit account instead of deposit account number. The transaction fees for the "PromptPay" system of no more than Bt10 are well below fees on normal transactions of up to Bt120.

Roll over TP to mid-2017F; Keep TCAP as the sector's pick. After earlier rolling over TP for BBL, KTB and KANK, we have rolled over TPs for other banks to mid-2017. TCAP is the sector's top pick as we expect it to outperform its sector in terms of asset quality, plus it will use the huge tax loss carried forward to enhance its LLR coverage and ROE.

Valuation summary

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					15A	16F	17F	15A	16F	17F	15A	16F	17F	15A	16F	17F	15A	16F	17F
BAY	Sell	38.00	30.0	(18.9)	15.0	14.1	12.5	9	7	13	1.5	1.4	1.3	12	10	11	2.0	2.1	2.4
BBL	Buy	161.50	186.0	19.2	9.0	9.0	8.4	(6)	(0)	7	0.9	0.8	0.8	10	9	9	4.0	4.0	4.3
KBANK	Buy	175.00	198.0	15.4	10.6	10.9	9.2	(14)	(2)	19	1.5	1.3	1.2	15	13	14	2.3	2.3	2.6
KKP	Neutral	47.75	48.0	7.6	12.2	9.9	8.9	25	24	11	1.1	1.0	1.0	9	11	11	6.3	7.1	7.9
KTB	Buy	16.50	20.0	25.7	8.1	8.2	7.2	(14)	(1)	14	0.9	0.8	0.8	12	11	11	4.6	4.5	5.1
LHBANK	Sell	1.76	1.6	(7.5)	14.5	18.8	16.9	33	(23)	11	1.3	1.0	1.0	10	7	6	1.9	1.6	1.8
TCAP	Buy	38.00	45.0	23.2	8.9	8.2	7.4	6	9	10	0.9	0.9	0.8	10	11	11	4.7	4.7	4.7
TISCO	Neutral	50.50	55.0	13.7	9.5	8.2	7.8	0	16	5	1.4	1.3	1.2	16	17	16	4.8	4.8	5.0
TMB	Neutral	2.28	2.6	16.9	10.7	10.4	9.4	(2)	3	11	1.3	1.2	1.1	13	12	12	2.8	2.9	3.2
Average					10.9	10.8	9.8	(7)	3	11	1.2	1.1	1.0	12	11	12	3.7	3.8	4.1

Source: SCBS Investment Research

Important note: SCBS is a wholly-owned subsidiary of SCB. Any information related to SCB is for sector comparison purposes.

Figure 1: 2Q16F earnings preview

Btmn	2Q15	1Q16	2Q16F	YoY ch	QoQ ch	Comment
BBL	8,035	8,317	8,023	0%	-4%	Continued worsening asset quality with QoQ stable provisions; loan growth picking up; QoQ NIM squeeze; QoQ ease in non-NII; and QoQ decrease in opex on absence of provisions for letter of guarantee issued to Thai TV.
KTB	8,449	7,540	7,147	-15%	-5%	Continued worsening asset quality with QoQ lower provisions; mute loan growth; QoQ sharp NIM fall; and QoQ decrease in opex on absence of bonus.
SCB	13,218	10,546	11,390	-14%	8%	Only bank with good QoQ earnings growth due to the absence of SCB Life's extra life policy reserve. Lifting L/D ratio by draining out excess liquidity should help ease the negative impact from lending interest rate cuts.
KBANK	11,479	9,646	9,046	-21%	-6%	Continued worsening asset quality with QoQ lower provisions; accelerating loan growth; NIM down QoQ; QoQ fall in non-NII and QoQ rise in opex.
BAY	4,349	5,150	4,991	15%	-3%	Continued high provisions; pick-up in loan growth; narrowing NIM
TMB	2,260	2,092	2,091	-7%	0%	Continued moderate loan growth, narrowing NIM, stable provisions
TCAP	1,393	1,351	1,399	0%	4%	Continued loan contraction, NIM slightly lower QoQ, stable provisions on a steady improvement in asset quality, and exceptionally low effective tax rate.
TISCO	1,004	1,255	1,235	23%	-2%	Continued loan contraction, QoQ stable NIM, stable non-NII; continued improving asset quality.
KKP	749	1,107	986	32%	-11%	Expect a return to positive QoQ growth from corporate loans; stable NIM, improving non-NII on favorable capital market and improving asset quality but higher provisioning to lift LLR coverage.
LHBANK	420	571	448	7%	-22%	Accelerating loan growth; easing NIM; rising fee income and stable asset quality.
Total	51,355	47,575	46,757	-9%	-2%	

Source: SCBS Investment Research

Figure 2: Loan growth

	MoM Change (Btbn)			MoM Growth			YoY Growth	YTD Growth	2016F
	Mar-16	Apr-16	May-16	Mar-16	Apr-16	May-16			
BBL	10.9	(6.2)	30.7	0.6%	-0.3%	1.7%	7.7%	1.7%	4%
KTB	(21.3)	(12.4)	1.6	-1.1%	-0.6%	0.1%	0.2%	-2.3%	4%
KBANK	(1.3)	2.7	31.5	-0.1%	0.2%	2.0%	4.7%	2.3%	6%
SCB	17.5	3.9	13.1	1.0%	0.2%	0.7%	1.7%	1.3%	5%
BAY	1.2	15.4	12.6	0.1%	1.3%	1.0%	8.3%	2.2%	5%
TMB	(1.4)	5.3	(0.6)	-0.2%	0.9%	-0.1%	8.5%	1.5%	8%
TCAP	(6.8)	1.6	(3.4)	-1.0%	0.2%	-0.5%	-4.2%	-2.2%	0%
TISCO	(1.3)	(2.9)	(1.2)	-0.5%	-1.2%	-0.5%	-9.5%	-3.8%	0%
KKP	(1.2)	(2.9)	4.3	-0.7%	-1.6%	2.4%	-0.5%	-0.3%	7%
LHBANK	4.3	0.0	3.0	3.2%	0.0%	2.1%	14.8%	5.8%	15%
Total	0.7	4.5	91.5	0.0%	0.0%	0.9%	3.5%	0.6%	5%

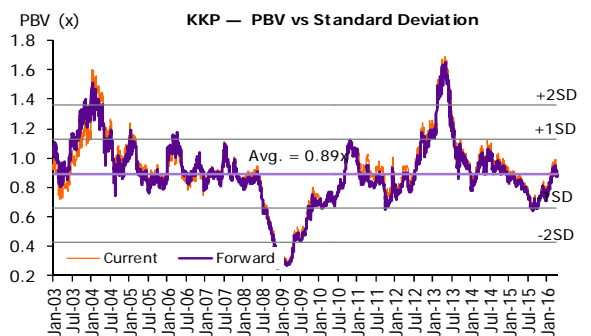
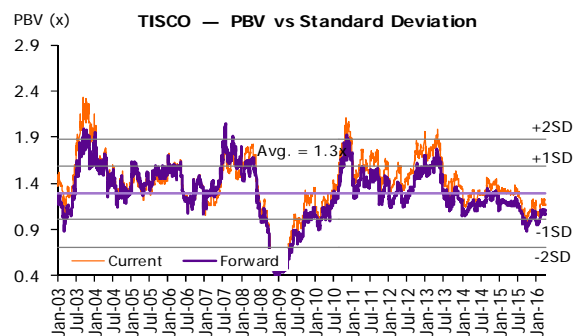
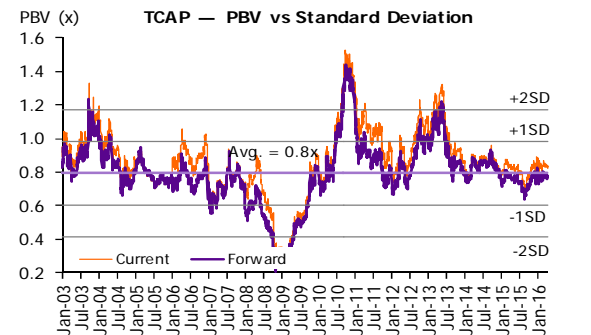
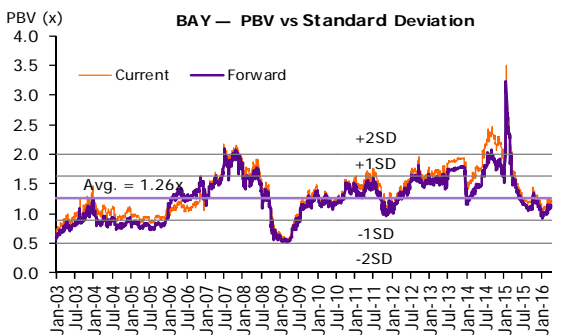
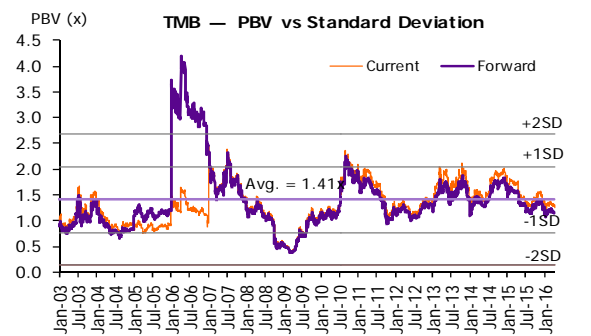
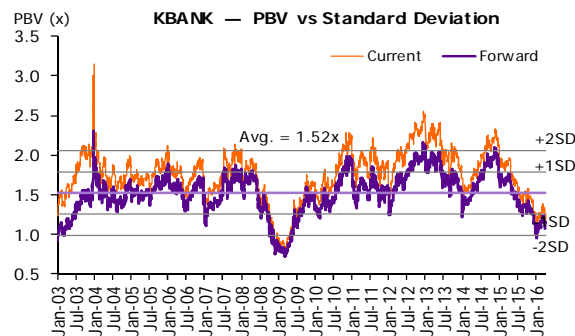
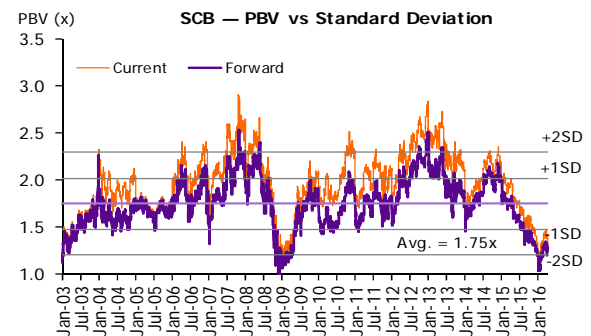
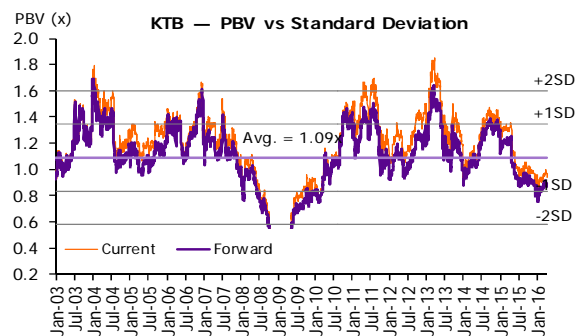
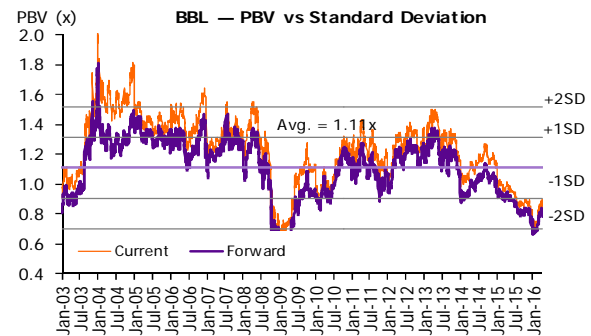
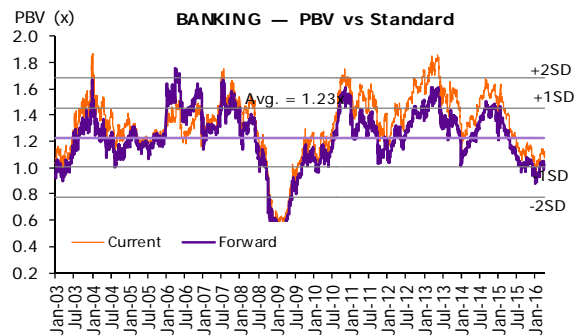
Source: SCBS Investment Research

Figure 3: TP change

	Target price (Bt)			BVPS (Bt)		Target PBV (x)	L-T ROE
	New	Old	Change	2016F	2017F		
BBL	186	186	0%	201.0	213.8	0.90	9.2%
KTB	20	20	0%	19.5	21.1	1.00	11.6%
KBANK	198	198	0%	133.4	148.5	1.40	14.1%
BAY	30	29	3%	27.8	30.1	1.05	10.7%
TMB	2.6	2.5	4%	1.9	2.1	1.30	12.2%
TCAP	45	42	7%	44.1	47.4	1.00	10.9%
TISCO	55	48	15%	36.7	40.6	1.40	15.3%
KKP	48	42	14%	46.9	48.8	1.00	11.5%
LHBANK	1.6	1.5	7%	1.7	1.8	0.90	6.9%

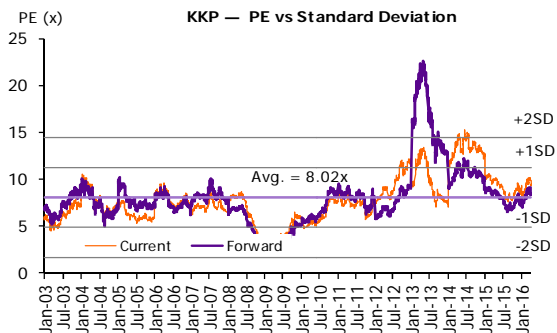
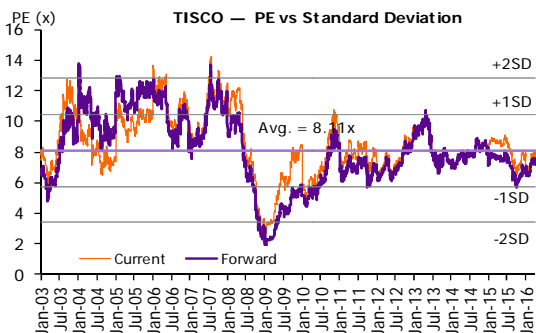
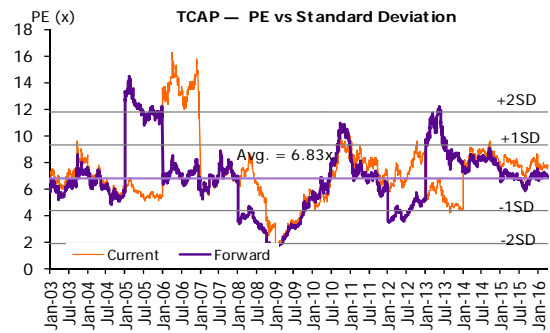
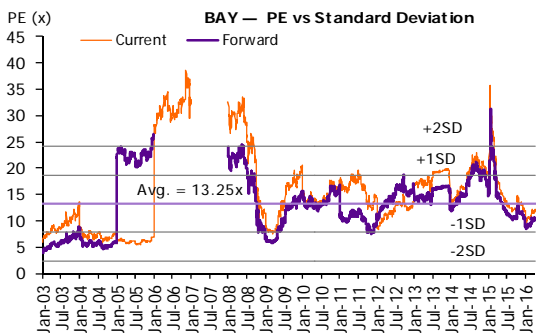
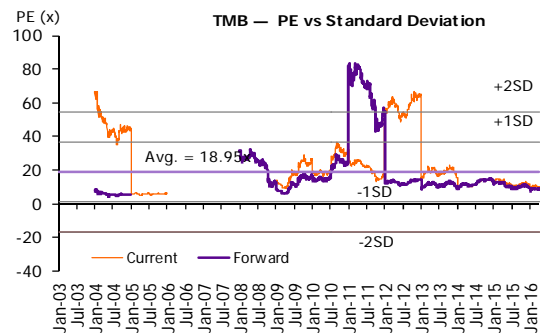
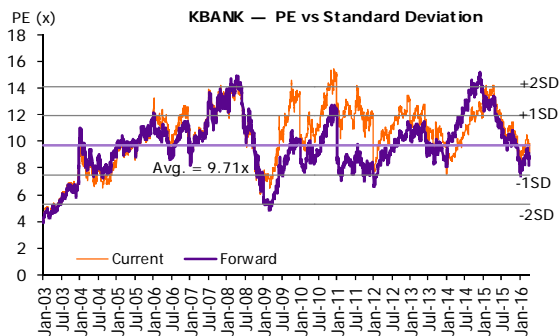
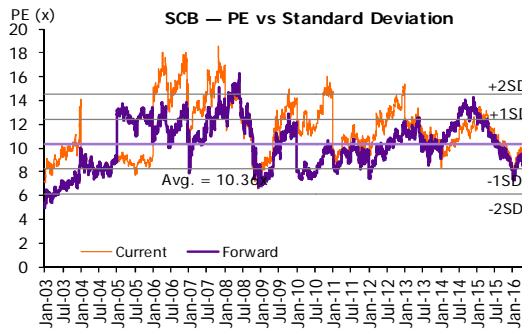
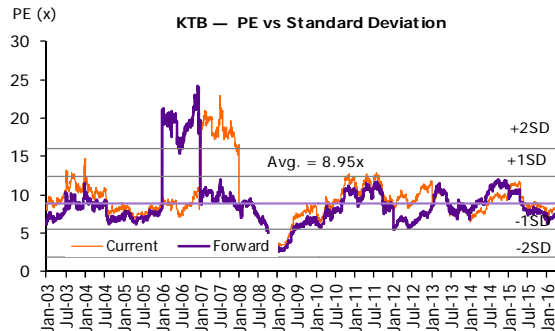
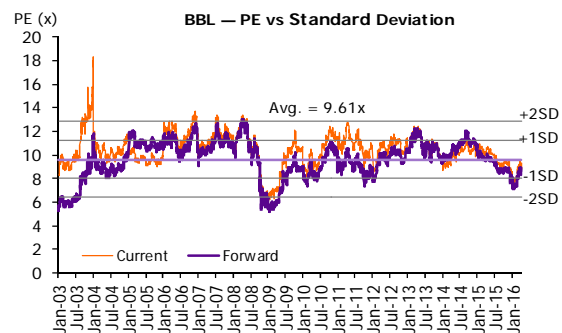
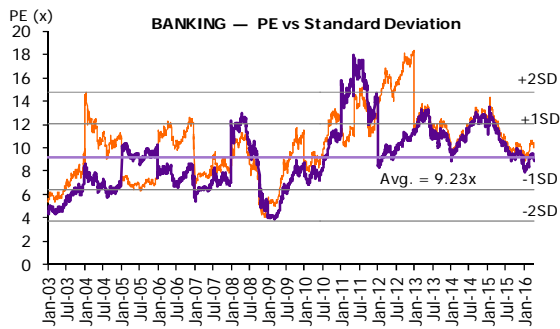
Source: SCBS Investment Research

PBV vs. Standard Deviation



Source: SCBS Investment Research

PE vs. Standard Deviation



Source: SCBS Investment Research

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