

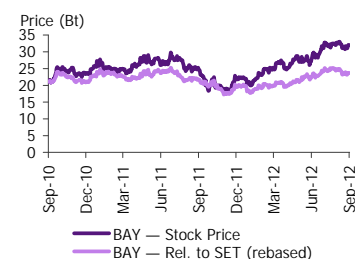
Sell

Stock Data

Last close (Sep 12) (Bt)	34.00
12-m target price (Bt)	31.00
Upside (Downside) to TP (%)	(8.82)
Mkt cap (Btbn)	206.52
Mkt cap (US\$mn)	6,656

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.98
Sector % SET	18.79
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	34 / 17.8
Avg. daily 6m (US\$mn)	10.23
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	4.6	15.3	41.1
Relative to SET	1.9	5.9	15.5

Source: SET, SCBS Investment Research

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Downgrade to Sell on M&A speculation rally

Event – M&A news. According to Bloomberg, General Electric Co. is considering a sale of its 33% stake in BAY. GE may contact potential buyers including Malayan Banking Bhd., said a source who asked not to be identified. GE Capital said in an e-mailed response to questions from Bloomberg News that it regularly evaluates its strategic options for investments and in the meantime, it continues to work closely with BAY to strengthen its business franchise.

Our comment. This is not the first time there has been M&A news for BAY, and is definitely sentimentally positive to share price as the stock will get the M&A price premium. If GE does sell its 33% in BAY, it would trigger a tender offer for minority shareholders. At this time it is far too early to evaluate the impact. As BAY is in a growth stage brought by GE, we see no need for GE to sell BAY - unless the offer is too good to pass up. If – and this is a big if – there is an M&A, we would guess a potential acquisition price of 1.6-2x PBV, translating to Bt30-37. Historical M&A cases for banks were done at 1.4 -3x PBV.

Figure 1: Past M&A cases

Banks	Acquirer	Timing	Acquisition price (Bt)	PBV (x) at acquisition	BVPS (Bt) at acquisition	Stake acquired
BAY*	GE	1Q07	16	1.1	14.91	33%
TBANK	Novascotia	1Q07, 1Q09	16	1.6	10.00	49%
TMB	ING	4Q07	1.6	1.6	1.01	30%
CIMBT	CIMB	2Q08	2.1	3.0	0.70	42%
ACL	ICBC	2Q10	11.5	1.4	8.25	97%
SCIB	TBANK	2Q10	32.5	1.6	20.42	100%

Note: * Acquisition of newly issued shares.

Source: SCBS Investment Research

Figure 2: Potential acquisition price, if there is an M&A

PBV (x)	Potential acquisition price (Bt)
1.60	29.74
1.70	31.59
1.80	33.45
1.90	35.31
2.00	37.17

Source: SCBS Investment Research

Our action: Downgrade to Sell. This news prompted a 6% jump in share price yesterday - pricing in the M&A potential even though this is still wholly speculative. We thus downgrade BAY to Sell.

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	18.58	20.50	22.55
DPS	(Bt)	0.57	0.70	0.98	1.16	1.28
PER	(x)	23.49	22.29	13.81	11.73	10.60
P/PPP	(x)	9.75	9.62	7.86	6.99	6.36
EPS growth	(%)	32.05	5.35	61.42	17.74	10.69
PBV	(x)	2.09	2.02	1.83	1.66	1.51
ROE	(%)	9.19	9.20	13.89	14.83	14.91
Dividend yields	(%)	1.68	2.06	2.90	3.41	3.77

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
Net interest income	34,627	37,465	40,534	44,318	47,768
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
Core net profit	8,793	9,264	14,954	17,607	19,488
Extra item	0	0	0	0	0
Net profit	8,793	9,264	14,954	17,607	19,488
EPS (Bt)	1.45	1.53	2.46	2.90	3.21
DPS (Bt)	0.57	0.70	0.98	1.16	1.28

Balance Sheet (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Cash	22,461	25,165	26,223	27,233	27,983
Interbank assets	74,527	81,818	94,090	108,204	124,435
Investments	79,089	81,974	81,974	81,974	81,974
Gross loans	648,960	719,507	807,825	880,530	959,777
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
Net loans	616,731	690,087	765,565	824,808	889,539
Total assets	869,834	947,7971	1,037,0451	1,118,8621	1,194,036
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
Total liabilities	770,730	845,102	923,951	987,1431	1,056,871
Minority interest	189	207	207	207	207
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	98,915	102,489	112,887	124,512	136,958
BVPS (Bt)	16.28	16.87	18.58	20.50	22.55

Key Assumptions and Financial Ratios

	2010	2011	2012F	2013F	2014F
Growth					
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
Profitability					
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	13.89	14.83	14.91
Asset Quality					
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
Liquidity					
Loans/Deposits & borrowings (%)	96.02	93.59	94.80	96.20	97.43
Efficiency					
Cost to income ratio (%)	52.41	50.46	49.88	48.87	48.08
Capital Fund					
Capital adequacy ratio(%)	14.90	16.28	15.41	15.58	15.70
Tier-1(%)	10.85	11.85	12.02	12.42	12.76
Tier-2(%)	4.04	4.44	3.39	3.16	2.94

Profit and Loss Statement (Btmn)

For the year ended 31 December 2011	2011	2010	2009	2008	2007
Interest & dividend income	13,714	14,879	14,959	15,362	16,068
Interest expense	4,319	5,146	5,813	5,982	6,015
Net interest income	9,395	9,733	9,146	9,380	10,053
Non-interest income	4,533	4,652	4,298	4,741	5,392
Non-interest expenses	6,678	7,544	6,368	7,007	7,645
Earnings before tax & provision	7,250	6,840	7,077	7,114	7,800
Tax	1,186	1,241	2,819	1,020	1,141
Equities & minority interest	(7)	(31)	40	(49)	(29)
Core pre-provision profit	6,071	5,631	4,217	6,143	6,688
Provision	3,099	2,624	3,740	2,713	2,990
Core net profit	2,972	3,007	477	3,430	3,699
Extra item	0	0	0	0	0
Net profit	2,972	3,007	477	3,430	3,699
EPS (Bt)	0.49	0.50	0.08	0.56	0.61

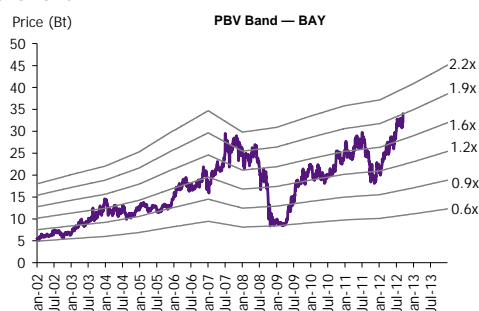
Balance Sheet (Btmn)

FY December 31	2011	3Q11	4Q11	1Q12	2Q12
Cash	19,596	20,112	25,165	23,142	22,787
Interbank assets	113,292	74,886	81,818	65,782	99,571
Investments	74,110	88,582	81,974	102,347	89,567
Gross loans	670,953	697,091	719,507	742,001	757,629
Accrued interest receivable	1,796	1,838	1,859	1,868	1,973
Loan loss reserve	33,309	32,196	31,279	31,711	30,823
Net loans	639,440	666,734	690,087	712,158	728,778
Total assets	912,915	914,368	947,797	976,104	1,034,541
Deposits	551,775	536,120	560,540	572,538	622,391
Interbank liabilities	47,168	23,141	23,741	32,055	34,054
Borrowings	169,137	209,872	208,263	205,328	197,639
Total liabilities	812,146	813,070	845,102	869,914	926,594
Minority interest	206	198	207	133	150
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	100,563	101,100	102,489	106,057	107,797
BVPS (Bt)	16.56	16.64	16.87	17.46	17.75

Financial Ratios

	2Q11	3Q11	4Q11	1Q12	2Q12
YoY loan growth	8.41	14.01	10.87	12.74	12.92
YoY fee & insurance income growth	20.71	(1.11)	6.77	14.03	15.68
Yield on earn'g assets (%)	6.51	6.88	6.84	6.82	6.83
Cost on int-bear'g liab (%)	2.32	2.68	2.98	2.99	2.89
Net interest margin(%)	4.46	4.50	4.18	4.16	4.27
Cost to income ratio (%)	47.95	52.45	47.36	49.62	49.50
NPLs/Total Loans(%)	5.35	4.87	4.24	3.91	3.26
LLR/NPLs(%)	92.88	98.55	105.90	112.84	127.49
Provision expense/Total loans (%)	1.85	1.51	2.08	1.46	1.58

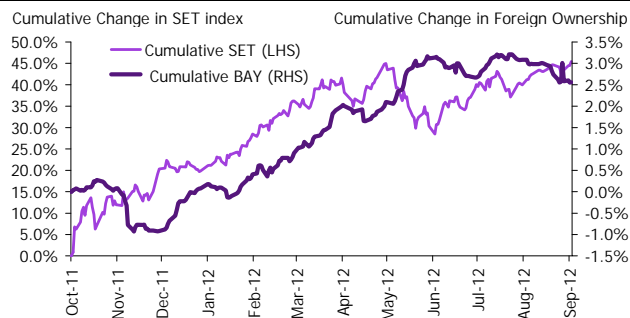
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research