

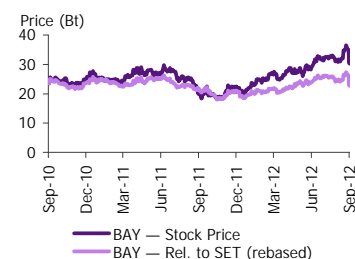
NEUTRAL

Stock Data

Last close (Sep 28) (Bt)	31.25
12-m target price (Bt)	33.00
Upside (Downside) to TP (%)	5.60
Mkt cap (Btbn)	189.82
Mkt cap (US\$mn)	6,155

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.76
Sector % SET	18.88
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	37 / 17.8
Avg. daily 6m (US\$mn)	14.07
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	0.0	5.9	53.9
Relative to SET	-6.1	-4.4	9.8

Source: SET, SCBS Investment Research

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3Q12F: Operational improvements continuing

■ **Maintain Neutral with a slight rise in TP.** Following the 3Q12 preview meeting, we raised target price to Bt33 (1.7x average 2012F and 2013F BVPS) from Bt31 as we raised 2012F-2014F by 2-5%, mainly on non-interest income (non-NII). We maintain Neutral on BAY. We view that the fall in share price following the news of GE's sale of 7.6% of its stake in BAY has to some extent already discounted the possible exit of GE and we see BAY as slightly undervalued at the current 2013F PBV of 1.5x relative to 15.4% 2013F ROE.

■ **If no GE, then what?** Concerns on BAY's fate should GE exit completely have risen after GE Group sold 7.6% of its stake in BAY at a price of Bt31.3/share on September 26. This shrinks GE's stake in BAY from 32.9% to 25.3%, on par with the Rattanak family's holding. We believe that if GE does indeed take the exit, though there may be a hiccup in operational improvement, this will not be substantial. Key top management brought in by GE includes the CEO, the CFO, Chief of Retail Banking and Chief of Risk Management; additionally, ~5,000 of BAY's employees came from GE group. We note also that the main driver for ROE improvement over 2012-2014 is a reduction in credit cost and cost to income ratio after completing the operational integration with GE Money Thailand (which was acquired by BAY in 2009) – an area that should not be affected by the departure of GE. What may be affected is its business expansion, as it would no longer have access to GE's product and marketing innovation. We believe that if there is a new strategic partner, it would continue to focus on consumer banking, which is BAY's strength. On this point, however, we note that BAY's organic growth under the GE-appointed management team has not outperformed peers, thus the departure of GE may not have substantial effect.

■ **3Q12F preview.** We forecast 3Q12 net profit to increase 32% YoY and 7% QoQ to Bt3.97bn. Key takeaways from the preview guidance are: 1) 8% 8M12 loan growth vs. 5.3% 6M12 loan growth, mainly driven by retail loans (auto, home and credit card) followed by SME loans, with a negative growth in corporate loans; 2) QoQ stable NIM at ~4.3%; 3) continued strong fee income growth at 15% YoY for 8M12; and 4) QoQ stable cost to income ratio at 48-49%. It gave no guidance on provisions, but we expect a slight fall in provisions to be in line with the original 2012 target to ease credit cost to 1.4% from 1.5% in 1H12.

■ **Raised non-NII forecast.** We raise fee income forecast to 17% from 12% for 2012F to fine tune with 8M12 YoY growth of 15%. We expect fee income to accelerate in 4Q12, mainly from the high season for credit card activities, mutual fund and bancassurance. The stronger-than-expected fee income was mainly from the acquisition of HSBC's retail business at the end of March.

Forecasts and valuation

FY Dec	Unit	2010	2011	2012F	2013F	2014F
Pre-provision profit	(Bt mn)	21,183	21,478	26,495	29,839	32,751
Net profit	(Bt mn)	8,793	9,264	15,188	18,412	20,669
PPP/Sh	(Bt)	3.49	3.54	4.36	4.91	5.39
EPS	(Bt)	1.45	1.53	2.50	3.03	3.40
BVPS	(Bt)	16.28	16.87	18.62	20.65	22.84
DPS	(Bt)	0.57	0.70	1.00	1.21	1.36
PER	(x)	21.59	20.49	12.50	10.31	9.18
P/PPP	(x)	8.96	8.84	7.16	6.36	5.80
EPS growth	(%)	32.05	5.35	63.94	21.23	12.26
PBV	(x)	1.92	1.85	1.68	1.51	1.37
ROE	(%)	9.19	9.20	14.09	15.43	15.65
Dividend yields	(%)	1.82	2.24	3.20	3.88	4.36

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	23,826	25,017	27,327
Net interest income	34,627	37,465	40,873	44,749	48,252
Non-interest income	16,754	17,807	19,838	21,484	23,527
Non-interest expenses	26,796	27,477	29,888	32,041	34,172
Earnings before tax & provision	24,586	27,795	30,823	34,192	37,608
Tax	3,524	6,310	4,489	4,553	5,105
Equities & minority interest	(121)	7	(161)	(201)	(249)
Core pre-provision profit	21,183	21,478	26,495	29,839	32,751
Provision	12,390	12,214	11,307	11,427	12,082
Core net profit	8,793	9,264	15,188	18,412	20,669
Extra item	0	0	0	0	0
Net profit	8,793	9,264	15,188	18,412	20,669
EPS (Bt)	1.45	1.53	2.50	3.03	3.40
DPS (Bt)	0.57	0.70	1.00	1.21	1.36

Balance Sheet (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Cash	22,461	25,165	25,896	26,360	26,962
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	57,081	70,697
Net loans	616,731	690,087	765,565	825,308	890,939
Total assets	869,834	947,797	1,036,718	1,111,489	1,194,414
Deposits	576,479	560,540	766,333	859,519	929,140
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	923,390	985,824	1,055,445
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	113,121	125,458	138,763
BVPS (Bt)	16.28	16.87	18.62	20.65	22.84

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	17.00	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	2.86	2.76	2.81
Spread (%)	4.35	4.17	4.04	4.01	3.92
Net interest margin(%)	4.53	4.43	4.36	4.34	4.30
ROE (%)	9.19	9.20	14.09	15.43	15.65
Asset Quality					
NPLs/Total Loans(%)	5.88	4.11	4.20	4.31	4.42
LLR/NPLs(%)	89.00	105.90	129.95	150.25	166.76
Provision expense/Total loans (%)	1.91	1.70	1.40	1.30	1.26
Liquidity					
Loans/Deposits & borrowings (%)	96.02	93.59	94.86	96.34	97.57
Efficiency					
Cost to income ratio (%)	52.41	50.46	49.72	48.67	47.87
Capital Fund					
Capital adequacy ratio(%)	14.90	16.28	15.43	15.67	15.86
Tier-1(%)	10.85	11.85	12.04	12.51	12.92
Tier-2(%)	4.04	4.44	3.39	3.16	2.94

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
Net interest income	9,191	9,395	9,733	9,146	9,380
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
Core net profit	2,808	2,972	3,007	477	3,430
Extra item	0	0	0	0	0
Net profit	2,808	2,972	3,007	477	3,430
EPS (Bt)	0.46	0.49	0.50	0.08	0.56

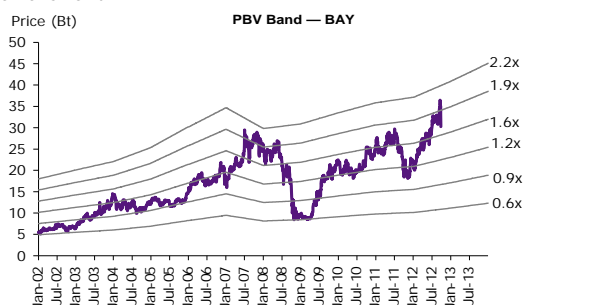
Balance Sheet (Btmn)

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
Gross loans	658,149	670,953	697,091	719,507	742,001
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
Net loans	626,347	639,440	666,734	690,087	712,158
Total assets	870,410	912,915	914,368	947,797	976,104
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
Total liabilities	770,474	812,146	813,070	845,102	869,914
Minority interest	196	206	198	207	133
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	99,739	100,563	101,100	102,489	106,057
BVPS (Bt)	16.42	16.56	16.64	16.87	17.46

Financial Ratios

	1Q11	2Q11	3Q11	4Q11	1Q12
YoY loan growth	8.44	8.41	14.01	10.87	12.74
YoY fee & insurance income growth	3.44	20.71	(1.11)	6.77	14.03
Yield on earn'g assets (%)	6.35	6.51	6.88	6.84	6.82
Cost on int-bear'g liab (%)	2.04	2.32	2.68	2.98	2.99
Net interest margin(%)	4.54	4.46	4.50	4.18	4.16
Cost to income ratio (%)	50.96	47.95	52.45	47.36	49.62
NPLs/Total Loans(%)	5.54	5.35	4.87	4.24	3.91
LLR/NPLs(%)	91.91	92.88	98.55	105.90	112.84
Provision expense/Total loans (%)	1.67	1.85	1.51	2.08	1.46

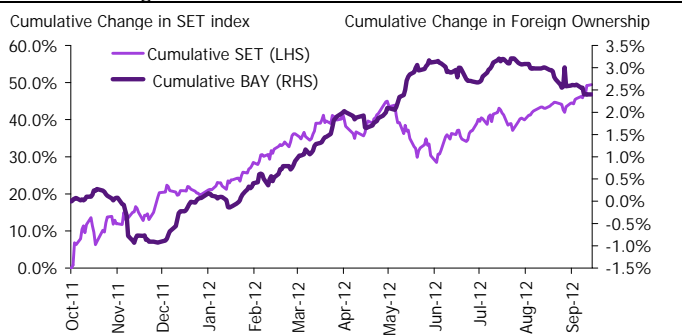
PBV Band Chart



12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

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

★★★★	ADVANC, AOT, BANPU, BAY, BBL, BCP, BML, CPF, CSC, EGO, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PTT, PTTEP, QH, RATCH, ROBINS, SAT, SCB, SCC, TISCO, TMB, TOP
★★★★	AMATA, AP, ASP, BEC, BECL, BH, BGC, BIA, BTS, CK, CPALL, DELTA, DRT, DTAC, GPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IWL, MAJOR, MAKRO, OISHI, PHATRA, SECC, SMT, SPALI, SIRI, STANLY, STEC, SVL, TCAP, THAI, THCOM, TRUE, TTA, TTW
★★★★	AEONTS, AH, CCET, DCC, ESSO, GUNKUL, ITD, KH, KTC, RCL, ROJNA, TICON, TPIPL
★★★	AAV, BGH, BLS, CPNRF, LHBANK, POPF, QHPF, SAMART, SAMTEL, SSI, TRUND, TLOGIS, WHAPF
★★	PTTGC is the merged entity of PTTC and PTTR

Corporate Governance Report disclaimer

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