

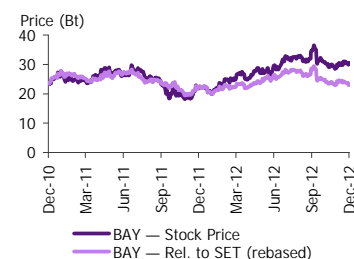
BUY

Stock Data

Last close (Dec 21) (Bt)	32.00
12-m target price (Bt)	35.00
Upside (Downside) to TP (%)	9.38
Mkt cap (Btbn)	194.37
Mkt cap (US\$mn)	6,352

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.67
Sector % SET	18.77
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	37 / 19.8
Avg. daily 6m (US\$mn)	14.19
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	7.6	-9.9	42.9
Relative to SET	0.2	-15.6	8.4

Source: SET, SCBS Investment Research

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The show will go on

- **Maintain Buy.** We maintain Buy on BAY with an unchanged target price of Bt35 (1.7x 2013F BVPS), underpinned by its 2013F strong ROE improvement driven by easing credit cost and cost to income ratio. The potential departure of GE has kept BAY slightly undervalued.
- **Commitment still on, despite departure of GE.** Although GE is in the process of selling its remaining 25.3% stake in BAY to a new strategic partner, BAY's new CEO (formerly the CFO), Mrs. Janice Rae Van Ekeren, confirms that the management team still has a strong commitment to the three-year target to get into the top three in terms of ROE, with ROE of 15-18% by 2013, plus the goal of a 50:50 mix between retail and corporate & SME loans. GE has equipped BAY with a strong retail banking platform, efficient risk management and innovative IT system and it recently put GE's Australian credit card system in place.
- **2013 target confirms easing credit cost and cost to income ratio.** BAY's 2013 target confirms lower credit cost and cost to income ratio, paving the road to a better ROE. For 2013, BAY plans to slow loan growth down to 11% from ~15% in 2012F, keep NIM stable at 4.3%, growth fee income by 15-16%, normalize credit cost to 1.3% from 1.4% for 2012 and cut cost to income ratio to 48-49% from 50-51% in 2012 after completing the branch revamp in 2012. To facilitate loan growth, BAY will begin "retail" SMEs (i.e. mom and pop shops) and the under-banked market.

	BAY's 2013 target	SCBS forecast	
		2012F	2013F
Loan growth	11%	15%	11%
Net interest margin	> 4.3%	4.3%	4.3%
Fee income growth	15-16%	18%	15%
Cost to income ratio	48-49%	51%	49%
Provision/Total loans	1.30%	1.40%	1.30%
NPLs/Total loans	2.50%	2.8%	3.0%

Source: SCBS Investment Research

- **Last chunk of NPLs sold.** BAY completed the sale of Bt2.8bn NPLs on Friday, which will bring the amount of NPLs by 12% and the NPL ratio down to 2.6% from 2.97% at 3Q12. The bank says this will be the last NPL sale, as it has finished cleaning out the 1997 legacy NPLs. Completing the balance sheet clean-up will allow it to bring credit cost to a normal level in 2013.
- **4Q12F preview.** We forecast 4Q12 net profit to increase 678% YoY and be stable QoQ at Bt3.7bn. BAY is expected to end 2012 with ~15% loan growth, stronger than our original forecast of 12%. This translates to accelerating QoQ loan growth to 5% in 4Q12 from 3.5% for 3Q12, driven by the return to positive growth for corporate loans and continued strong auto loans. Fee income is expected to beat its 16% full-year target, suggesting QoQ sustainable fee income. Provisions are on the way to meeting the full-year target at 1.4% of total loans, translating to a QoQ slight increase in provisions. Cost to income ratio is expected to seasonally increase QoQ.

Forecasts and valuation

FY Dec	Unit	2010	2011	2012F	2013F	2014F
Pre-provision profit	(Bt mn)	21,183	21,478	26,174	30,205	33,338
Net profit	(Bt mn)	8,793	9,264	14,602	18,277	21,226
PPP/Sh	(Bt)	3.49	3.54	4.31	4.97	5.49
EPS	(Bt)	1.45	1.53	2.40	3.01	3.49
BVPS	(Bt)	16.28	16.87	18.53	20.57	22.87
DPS	(Bt)	0.57	0.70	0.96	1.20	1.40
PER	(x)	22.10	20.98	13.31	10.63	9.16
P/PPP	(x)	9.18	9.05	7.43	6.44	5.83
EPS growth	(%)	32.05	5.35	57.61	25.17	16.13
PBV	(x)	1.97	1.90	1.73	1.56	1.40
ROE	(%)	9.19	9.20	13.58	15.39	16.09
Dividend yields	(%)	1.78	2.19	3.00	3.76	4.37

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	65,470	71,074	77,729
Interest expense	12,648	18,963	24,954	25,641	28,209
Net interest income	34,627	37,465	40,517	45,433	49,521
Non-interest income	16,754	17,807	20,370	22,222	24,337
Non-interest expenses	26,796	27,477	30,553	33,123	35,517
Earnings before tax & provision	24,586	27,795	30,334	34,531	38,340
Tax	3,524	6,310	4,315	4,521	5,246
Equities & minority interest	(121)	7	(155)	(195)	(243)
Core pre-provision profit	21,183	21,478	26,174	30,205	33,338
Provision	12,390	12,214	11,573	11,928	12,111
Core net profit	8,793	9,264	14,602	18,277	21,226
Extra item	0	0	0	0	0
Net profit	8,793	9,264	14,602	18,277	21,226
EPS (Bt)	1.45	1.53	2.40	3.01	3.49
DPS (Bt)	0.57	0.70	0.96	1.20	1.40

Balance Sheet (Btmn)

FY December 31	2010	2011	2012F	2013F	2014F
Cash	22,461	25,165	25,760	26,464	26,673
Interbank assets	74,527	81,818	94,090	108,204	124,435
Investments	79,089	81,974	90,171	90,171	90,171
Gross loans	648,960	719,507	826,611	917,538	1,009,291
Accrued interest receivable	1,724	1,859	1,859	1,859	1,859
Loan loss reserve	33,953	31,279	44,385	57,847	71,493
Net loans	616,731	690,087	784,084	861,549	939,658
Total assets	869,834	947,797	1,063,299	1,156,032	1,251,041
Deposits	576,479	560,540	768,500	879,548	960,643
Interbank liabilities	43,788	23,741	23,741	23,741	23,741
Borrowings	99,365	208,263	110,254	79,502	79,502
Total liabilities	770,730	845,102	950,551	1,030,853	1,111,948
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	112,535	124,972	138,887
BVPS (Bt)	16.28	16.87	18.53	20.57	22.87

Key Assumptions and Financial Ratios

	2010	2011	2012F	2013F	2014F
Growth					
YoY loan growth	7.53	10.87	14.89	11.00	10.00
YoY fee & insurance income growth	61.22	7.02	18.00	15.00	12.00
Profitability					
Yield on earn'g assets (%)	6.19	6.68	6.88	6.66	6.62
Cost on int-bear'g liab (%)	1.84	2.51	2.94	2.72	2.76
Spread (%)	4.35	4.17	3.94	3.94	3.87
Net interest margin(%)	4.53	4.43	4.26	4.26	4.22
ROE (%)	9.19	9.20	13.58	15.39	16.09
Asset Quality					
NPLs/Total Loans(%)	5.88	4.11	2.62	2.77	2.97
LLR/NPLs(%)	89.00	105.90	204.87	227.88	238.53
Provision expense/Total loans (%)	1.91	1.70	1.40	1.30	1.20
Liquidity					
Loans/Deposits & borrowings (%)	96.02	93.59	94.07	95.67	97.03
Efficiency					
Cost to income ratio (%)	52.41	50.46	50.85	49.25	48.35
Capital Fund					
Capital adequacy ratio(%)	14.90	16.28	15.04	15.05	15.16
Tier-1(%)	10.85	11.85	11.72	12.01	12.36
Tier-2(%)	4.04	4.44	3.32	3.04	2.80

Profit and Loss Statement (Btmn)

FY December 31	3Q11	4Q11	1Q12	2Q12	3Q12
Interest & dividend income	14,879	14,959	15,362	16,068	16,512
Interest expense	5,146	5,813	5,982	6,015	6,292
Net interest income	9,733	9,146	9,380	10,053	10,220
Non-interest income	4,652	4,298	4,741	5,392	5,171
Non-interest expenses	7,544	6,368	7,007	7,645	7,727
Earnings before tax & provision	6,840	7,077	7,114	7,800	7,664
Tax	1,241	2,819	1,020	1,141	1,146
Equities & minority interest	(31)	40	(49)	(29)	(9)
Core pre-provision profit	5,631	4,217	6,143	6,688	6,527
Provision	2,624	3,740	2,713	2,990	2,785
Core net profit	3,007	477	3,430	3,699	3,742
Extra item	0	0	0	0	0
Net profit	3,007	477	3,430	3,699	3,742
EPS (Bt)	0.50	0.08	0.56	0.61	0.62
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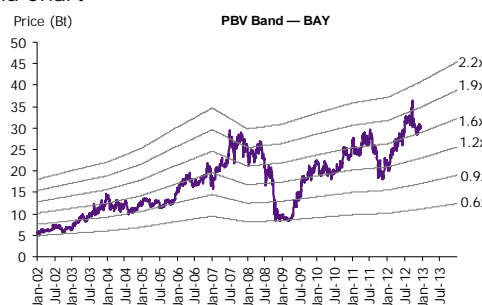
Balance Sheet (Btmn)

FY December 31	3Q11	4Q11	1Q12	2Q12	3Q12
Cash	20,112	25,165	23,142	22,787	22,075
Interbank assets	74,886	81,818	65,782	99,571	83,617
Investments	88,582	81,974	102,347	89,567	91,956
Gross loans	697,091	719,507	742,001	757,629	783,895
Accrued interest receivable	1,838	1,859	1,868	1,973	2,110
Loan loss reserve	32,196	31,279	31,711	30,823	31,497
Net loans	666,734	690,087	712,158	728,778	754,508
Total assets	914,368	947,797	976,104	1,034,541	1,040,424
Deposits	536,120	560,540	572,538	622,391	672,324
Interbank liabilities	23,141	23,741	32,055	34,054	44,749
Borrowings	209,872	208,263	205,328	197,639	144,979
Total liabilities	813,070	845,102	869,914	926,594	931,145
Minority interest	198	207	133	150	163
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	101,100	102,489	106,057	107,797	109,116
BVPS (Bt)	16.64	16.87	17.46	17.75	17.96

Financial Ratios

	3Q11	4Q11	1Q12	2Q12	3Q12
YoY loan growth	14.01	10.87	12.74	12.92	12.45
YoY fee & insurance income growth	(1.11)	6.77	14.03	15.68	17.41
Yield on earn'g assets (%)	6.88	6.84	6.82	6.83	6.79
Cost on int-bear'g liab (%)	2.68	2.98	2.99	2.89	2.93
Net interest margin(%)	4.50	4.18	4.16	4.27	4.20
Cost to income ratio (%)	52.45	47.36	49.62	49.50	50.21
NPLs/Total Loans(%)	4.87	4.24	3.91	3.26	2.97
LLR/NPLs(%)	98.55	105.90	112.84	127.49	140.20
Provision expense/Total loans (%)	1.51	2.08	1.46	1.58	1.42

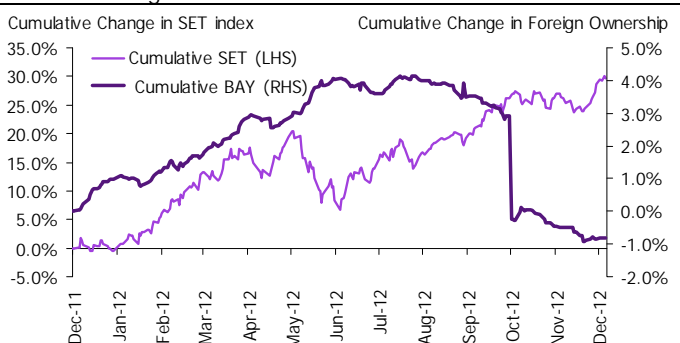
PBV Band Chart



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, ADT, BANPU, BAY, BBL, BCP, BMCL, CSL, EGCO, ERW, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PSL, PTT, PTTEP, QH, RATCH, ROBINS, SAT, SCB, SCC, TISCO, TMB, TOP
★★★★	AMATA, AP, ASP, BEC, BECL, BH, BKG, BLA, BVS, CENTEL, CK, CPALL, CPF, DELTA, DRY, DTAC, GPPT, GLOW, HANA, HMPRO, INTUCH, KCE, KEST, LH, IOL, MAJOR, MAKRO, MINT, OISHI, PHATRA, SCC, SMT, SPALL, SIRI, STANLY, STEC, SVI, TCAP, THAI, THCOM, TRUE, TTA, TTW
★★★	AEON'S, AH, CCET, DCC, ESSO, GUNKUL, ITD, BCH, KTC, RCL, ROJNA, TICON, TPIPL
★★	AXY, BGI, BLS, CPNIF, LIBANK, POPF, QHP, SAMART, SAMTEL, SSL TRUND, TLOGIS, WHA, WHAPF
★	PTTGC is the merged entity of PTTC and PTAR

Corporate Governance Report disclaimer

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