

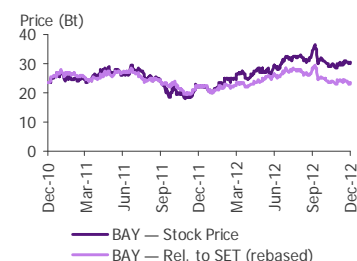
BUY

Stock Data

| | |
|-----------------------------|--------|
| Last close (Dec 24) (Bt) | 32.75 |
| 12-m target price (Bt) | 35.00 |
| Upside (Downside) to TP (%) | 6.87 |
| Mkt cap (Btbn) | 198.93 |
| Mkt cap (US\$mn) | 6,501 |

| | |
|----------------------------|-----------|
| Bloomberg code | BAY TB |
| Reuters code | BAY.BK |
| Risk rating | L |
| Mkt cap (%) SET | 1.71 |
| Sector % SET | 18.73 |
| Shares issued (mn) | 6,074 |
| Par value (Bt) | 10 |
| 12-m high / low (Bt) | 37 / 19.8 |
| Avg. daily 6m (US\$mn) | 14.64 |
| 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 | 7.4 | -1.5 | 48.2 |
| Relative to SET | 0.7 | -7.8 | 11.2 |

Source: SET, SCBS Investment Research

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New strategic partner

- **Event – New strategic partner.** Mitsubishi UFJ Financial Group will acquire 25% in BAY from GE Capital, according to local market daily *Kao Hoon*. The acquisition price is expected to be no less than Bt36/share. Of the 25%, Mitsubishi UFJ Financial Group will hold 15% and Mitsubishi Holding 10%.
- **Tender offer?** If the acquisition price of no less than Bt36/share (1.9x 2012F BVPS), as reported in the paper, is really this high, it will spur price performance. However, we believe there is unlikely to be a full tender offer in this case due to the foreign holding limit. There could be a partial tender offer, however.
- **Increased focus on corporate?** Mitsubishi UFJ Financial Group is the largest bank in Japan and its primary strength is corporate lending with only 25-30% exposure to retail lending. This may lead BAY to a higher proportion of corporate loans, but we expect BAY to maintain its focus on consumer lending, which is its strength. The 2006 entry of GE Capital, an expert in consumer banking, has brought the proportion of retail loans in BAY up to 49%.
- **Merger with the Bank of Tokyo-Mitsubishi UFJ Bangkok branch?** We see it as highly possible that the Bangkok branch of Bank of Tokyo-Mitsubishi UFJ will merge with BAY, due to the one presence rule, i.e. the BoT does not allow a single entity to run two banks. Bank of Tokyo-Mitsubishi UFJ's Bangkok branch had assets of Bt450bn (43% of BAY's assets) and loans of Bt213bn (around 28% of BAY's loans, as of October. Based on FY2011 (ending March 2012), Bank of Tokyo-Mitsubishi UFJ's Bangkok branch's net interest margin was ~ 2%, below BAY's 4.3%, as it has high exposure to low-risk corporate loans and interbank assets. Bank of Tokyo-Mitsubishi UFJ's Bangkok branch's net profit was Bt3.2bn, accounting for 18% of BAY's 2013F.
- **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. There is upside risk from the possibility of a merger with the Bank of Tokyo-Mitsubishi UFJ Bangkok branch.

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) | 22.62 | 21.47 | 13.62 | 10.88 | 9.37 |
| P/PPP | (x) | 9.39 | 9.26 | 7.60 | 6.59 | 5.97 |
| EPS growth | (%) | 32.05 | 5.35 | 57.61 | 25.17 | 16.13 |
| PBV | (x) | 2.01 | 1.94 | 1.77 | 1.59 | 1.43 |
| ROE | (%) | 9.19 | 9.20 | 13.58 | 15.39 | 16.09 |
| Dividend yields | (%) | 1.74 | 2.14 | 2.94 | 3.68 | 4.27 |

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 |
| | - | - | - | - | - |

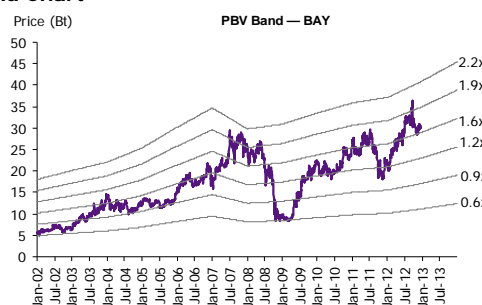
Balance Sheet (Btmn)

| 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 | 91,596 |
| 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 |

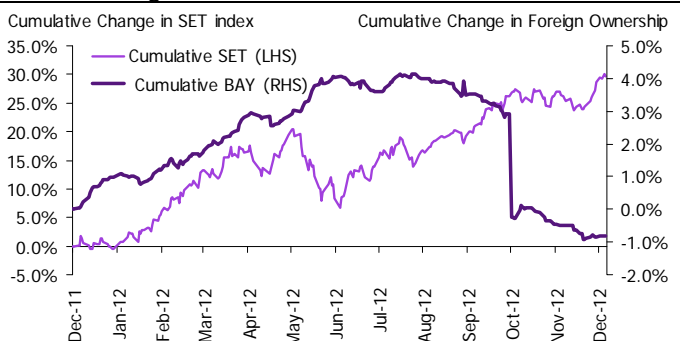
PBV Band Chart



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

| | |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ★★★★★ | ADYANC, ADI, BANPU, BAY, BBL, BCP, BMCL, CSL, EGCO, ERW, HEMRAJ, IRPC, KBANK, KK, KTB, LPN, MCOT, PS, PSL, PTT, PTTEP, QH, RATCH, ROBINS, SAT, SCB, SCL, 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, SPALI, SIRI, STANLEY, STEC, SVI, TCAP, THAI, THCOM, TRUE, TTA, TTVW |
| ★★★ | AEONIS, AH, CCET, DCC, ESSO, GUNKUL, ITD, BCH, KTC, RCL, ROJNA, TICON, TPIPL |
| ★★ | AXY, BGI, BLS, CPNIB, 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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