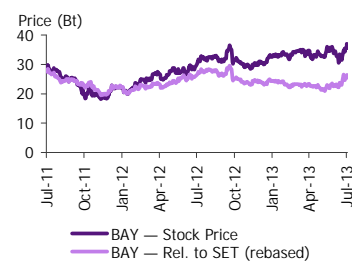


## BUY

## Stock Data

Last close (Jul 4) (Bt)	37.00
12-m target price (Bt)	40.00
Upside (Downside) to TP (%)	8.11
Mkt cap (Btbn)	224.74
Mkt cap (US\$mn)	7,215
Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.82
Sector % SET	17.31
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	37.8 / 28
Avg. daily 6m (US\$mn)	19.07
Foreign limit / actual (%)	47 / 47
Free float (%)	74.7
Dividend policy (%)	≥ 30

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	9.6	14.7	16.5
Relative to SET	16.7	19.4	-2.1

Source: SET, SCBS Investment Research

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## 2Q13F: Good, with upside risk from BTMU

■ **2Q13F preview.** We forecast BAY's 2Q13F earnings to increase 21% YoY and 11% QoQ to Bt4.5bn. BAY's 2Q13F guidance:

- 1) Loan growth: Accelerating to 2-3% QoQ from 1% QoQ for 1Q13, mainly driven by retail loans (auto, credit card and personal loans).
- 2) Net interest margin: Expected to be stable QoQ.
- 3) Non-interest income: There will be extra income of ~Bt1bn from a write-back of provision for loans transferred to the TAMC. Fee income is expected to fall slightly QoQ, mainly that related to the capital market.
- 4) Cost to income ratio: If the provision write-back is excluded, its cost to income ratio is estimated to be ~49%, in line with the full-year guidance.
- 5) Provision: In line with full-year target at 130 bps of total loans.
- 6) NPLs: Bt3bn sale of NPLs.

■ **Partial tender offer by BTMU?** Bank of Tokyo-Mitsubishi UFJ (BTMU) will make a voluntary tender offer (VTO) for all of BAY shares at Bt39/share, targeted to begin in November and close in December. GE capital will sell its entire 25.33% stake in BAY to BTMU and with the Ratanarak family expected to maintain its 25% holding in BAY, BTMU will tender for 75% of BAY. However, there is still uncertainty regarding the tender offer. To take the majority stake in a Thai bank, BTMU must gain approval from both the BoT and MoF: BAY's foreign holding limit is 47.2%, according to the SET database.

■ **Merger with BTMU's Bangkok branch = Recapitalization risk?** We see it as highly possible that the Bangkok branch of Bank of Tokyo-Mitsubishi UFJ (BTMU) will merge with BAY, due to the one-presence rule. BTMU's Bangkok branch had assets of Bt602bn (55% of BAY's assets) and loans of Bt208bn (~26% of BAY's loan portfolio), as of April, 2013. Based on FY2011 (ending March 2012), BTMU's Bangkok branch's NIM was ~2%, below BAY's 4.2%, as it has high exposure to low-risk corporate loans and interbank assets. BTMU's Bangkok branch's FY2011 net profit was Bt3.2bn, accounting for 18% of BAY's 2013F earnings. The merger could bring up a recapitalization risk for BAY. If BTMU's Bangkok branch's loans are transferred to BAY, BAY's tier-1 capital adequacy ratio, which is 9%, would be a bit tight. However, we believe the earnings contribution from BTMU and synergy with MUFG will be more than sufficient to offset any dilution effect.

■ **Maintain Buy.** We maintain Buy on BAY with a positive view towards this deal, with upside risk from the merger with BTMU's Bangkok branch.

## Forecasts and valuation

FY Dec	Unit	2011	2012	2013F	2014F	2015F
Pre-provision profit	(Bt mn)	21,478	26,010	30,390	35,105	40,795
Net profit	(Bt mn)	9,264	14,626	18,197	22,387	26,423
PPP/Sh	(Bt)	3.54	4.28	5.00	5.78	6.72
EPS	(Bt)	1.53	2.41	3.00	3.69	4.35
BVPS	(Bt)	16.87	18.66	20.98	23.77	27.02
DPS	(Bt)	0.70	0.80	0.90	1.11	1.31
PER	(x)	24.26	15.37	12.35	10.04	8.51
P/PPP	(x)	10.46	8.64	7.40	6.40	5.51
EPS growth	(%)	5.35	57.87	24.42	23.03	18.03
PBV	(x)	2.19	1.98	1.76	1.56	1.37
ROE	(%)	9.20	13.55	15.11	16.47	17.13
Dividend yields	(%)	1.89	2.16	2.43	2.99	3.53

Source: SCBS Investment Research

## Financial statement

## Profit and Loss Statement (Btmn)

FY December 31	2011	2012F	2013F	2014F	2014F
Interest & dividend income	56,428	64,640	71,616	80,681	90,848
Interest expense	18,963	24,687	26,795	30,420	34,581
Net interest income	37,465	39,953	44,821	50,262	56,267
Non-interest income	17,807	21,058	23,512	26,762	30,489
Non-interest expenses	27,477	30,798	33,606	36,587	39,684
Earnings before tax & provision	27,795	30,213	34,727	40,437	47,072
Tax	6,310	4,337	4,507	5,544	6,540
Equities & minority interest	7	(134)	(169)	(212)	(263)
Core pre-provision profit	21,478	26,010	30,390	35,105	40,795
Provision	12,214	11,385	12,193	12,718	14,371
Core net profit	9,264	14,626	18,197	22,387	26,423
Extra item	0	0	0	0	0
Net profit	9,264	14,626	18,197	22,387	26,423
EPS (Bt)	1.53	2.41	3.00	3.69	4.35
DPS (Bt)	0.70	0.80	0.90	1.11	1.31

## Balance Sheet (Btmn)

FY December 31	2011	2012F	2013F	2014F	2014F
Cash	25,165	25,079	25,692	26,416	27,043
Interbank assets	81,818	79,390	98,046	115,204	136,517
Investments	81,974	79,249	79,249	79,249	79,249
Gross loans	719,507	830,008	937,909	1,059,837	1,197,616
Accrued interest receivable	1,859	2,257	2,257	2,257	2,257
Loan loss reserve	31,279	31,029	43,222	55,940	70,311
Net loans	690,087	801,236	896,944	1,006,154	1,129,562
Total assets	947,797	1,071,965	1,187,401	1,314,962	1,460,790
Deposits	560,540	687,159	790,233	900,866	1,026,987
Interbank liabilities	23,741	48,821	48,821	48,821	48,821
Borrowings	208,263	154,629	154,629	154,629	154,629
Total liabilities	845,102	958,479	1,059,777	1,170,410	1,296,531
Minority interest	207	164	164	164	164
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	102,489	113,322	127,460	144,388	164,095
BVPS (Bt)	16.87	18.66	20.98	23.77	27.02

## Key Assumptions and Financial Ratios

	2011	2012F	2013F	2014F	2014F
Growth					
YoY loan growth	10.87	15.36	13.00	13.00	13.00
YoY fee & insurance income growth	7.02	18.06	15.00	15.00	15.00
Profitability					
Yield on earn'g assets (%)	6.68	6.84	6.72	6.73	6.74
Cost on int-bear'g liab (%)	2.51	2.93	2.84	2.90	2.96
Spread (%)	4.17	3.91	3.88	3.83	3.78
Net interest margin(%)	4.43	4.23	4.21	4.19	4.18
ROE (%)	9.20	13.55	15.11	16.47	17.13
Asset Quality					
NPLs/Total Loans(%)	4.11	2.57	2.71	2.84	2.95
LLR/NPLs(%)	105.90	145.73	170.16	185.91	198.68
Provision expense/Total loans (%)	1.70	1.37	1.30	1.20	1.20
Liquidity					
Loans/Deposits & borrowings (%)	93.59	98.60	99.26	100.41	101.35
Efficiency					
Cost to income ratio (%)	50.46	51.15	49.47	47.75	45.95
Capital Fund					
Capital adequacy ratio(%)	16.28	16.94	16.86	16.08	15.40
Tier-1(%)	11.85	10.94	11.45	11.22	11.03
Tier-2(%)	4.44	6.00	5.41	4.87	4.37

## Profit and Loss Statement (Btmn)

FY December 31	1Q12	2Q12	3Q12	4Q12	1Q13
Interest & dividend income	15,362	16,068	16,512	16,698	16,918
Interest expense	5,982	6,015	6,292	6,398	6,316
Net interest income	9,380	10,053	10,220	10,300	10,602
Non-interest income	4,741	5,392	5,171	5,754	5,764
Non-interest expenses	7,007	7,645	7,727	8,419	8,312
Earnings before tax & provision	7,114	7,800	7,664	7,636	8,053
Tax	1,020	1,141	1,146	1,030	967
Equities & minority interest	(49)	(29)	(9)	(47)	(40)
Core pre-provision profit	6,143	6,688	6,527	6,653	7,126
Provision	2,713	2,990	2,785	2,898	3,081
Core net profit	3,430	3,699	3,742	3,755	4,045
Extra item	0	0	0	0	0
Net profit	3,430	3,699	3,742	3,755	4,045
EPS (Bt)	0.56	0.61	0.62	0.62	0.67
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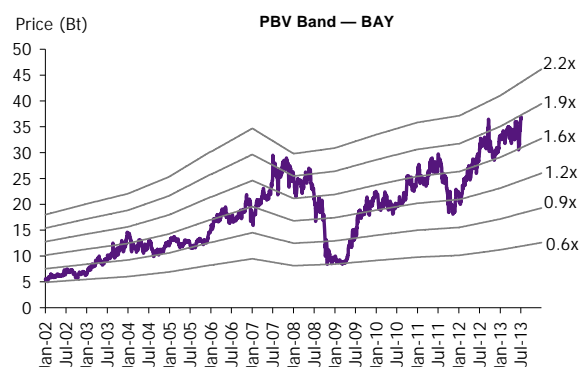
## Balance Sheet (Btmn)

FY December 31	1Q12	2Q12	3Q12	4Q12	1Q13
Cash	23,142	22,787	22,075	25,079	24,137
Interbank assets	65,782	99,571	83,617	79,390	99,337
Investments	102,347	89,567	91,596	79,249	82,393
Gross loans	742,001	757,629	783,895	830,008	837,237
Accrued interest receivable	1,868	1,973	2,110	2,257	2,341
Loan loss reserve	31,711	30,823	31,497	31,029	32,247
Net loans	712,158	728,778	754,508	801,236	807,331
Total assets	976,104	1,034,541	1,040,424	1,071,965	1,102,777
Deposits	572,538	622,391	672,324	687,159	702,449
Interbank liabilities	32,055	34,054	44,749	48,821	62,193
Borrowings	205,328	197,639	144,979	154,629	143,668
Total liabilities	869,914	926,594	931,145	958,479	985,083
Minority interest	133	150	163	164	190
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	106,057	107,797	109,116	113,322	117,504
BVPS (Bt)	17.46	17.75	17.96	18.66	19.35

## Financial Ratios

	1Q12	2Q12	3Q12	4Q12	1Q13
YoY loan growth	12.74	12.92	12.45	15.36	12.84
YoY fee & insurance income growth	14.03	15.68	17.41	24.96	25.60
Yield on earn'g assets (%)	6.82	6.83	6.79	6.74	6.63
Cost on int-bear'g liab (%)	2.99	2.89	2.93	2.92	2.81
Net interest margin(%)	4.16	4.27	4.20	4.16	4.16
Cost to income ratio (%)	49.62	49.50	50.21	52.44	50.79
NPLs/Total Loans(%)	3.91	3.26	2.97	2.72	2.64
LLR/NPLs(%)	112.84	127.49	140.20	145.73	147.23
Provision expense/Total loans (%)	1.46	1.58	1.42	1.40	1.47

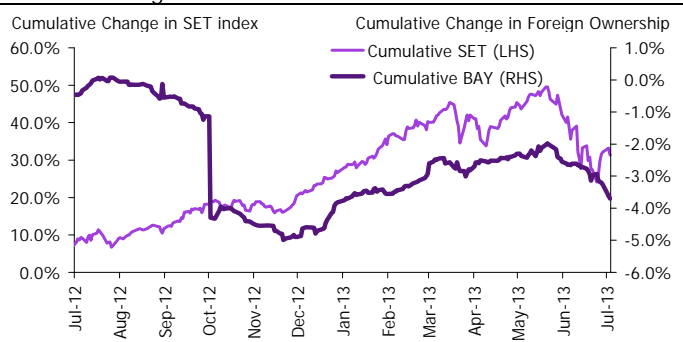
## PBV Band Chart



## 12-Month Cumulative directors trade

NA

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



Source: SET, SCBS Investment Research

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★★★★	AMATA, AP, ASP, BEC, BH, BIGC, CENTEL, CK, CPALL, CPF, DCC, DELTA, DTAC, ESSO, GPPT, GLOW, GUINKUL, HANA, HMPRO, INTUCH, ITD, IVL, KCE, LH, MAKRO, MBKET, MINT, OISHI, PM, SCCG, SMT, SPALI, STANLY, STEC, SVI, TCAP, THCOM, THRE, TICON, TRUE, TTW
★★★	AEON'S, AH, BIA, CCET, JMART, KTC, LHBANK, MAJOR, RCL, ROJANA, SIBI, TPIPL
★★	N/A
★	AAY, BCI, BSH, CPNBT, MOK, NWR, POPF, QHPT, SSI, TFUND, TLOGIS, WHA, WHAF

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