

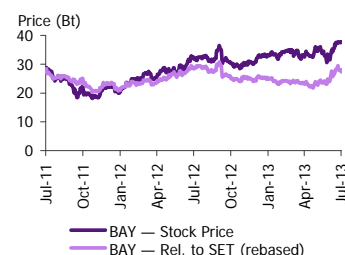
## BUY

## Stock Data

Last close (Jul 18) (Bt)	37.50
12-m target price (Bt)	42.00
Upside (Downside) to TP (%)	12.00
Mkt cap (Btbn)	227.78
Mkt cap (US\$mn)	7,312

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.80
Sector % SET	17.20
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 / 46
Free float (%)	74.7
Dividend policy (%)	≥ 30

## Price Performance



Source: SET, SCBS Investment Research

## Share performance

	1M	3M	12M
Absolute	18.1	13.6	18.1
Relative to SET	14.2	18.1	-3.7

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

(66-2) 949-1003

kittima.sattayapan@scb.co.th

## 2Q13A: Misses on large countercyclical provisions

- **2Q13A below expectations.** BAY reported 2Q13 net profit of Bt3.1bn (-24.5% YoY, -17.2% QoQ), below our forecast of Bt4.5bn. This was due to Bt2.6bn in extra provisions made as a countercyclical buffer. Helping to offset the Bt2.55bn in extra provisions were Bt550mn bad debt recovery from Dubai World Group and Bt1.1bn reversal of provisions for loss sharing with the TAMC. Excluding all these extra items gives a 2Q13 net profit of Bt3.7bn (+2% YoY, -25% QoQ).

## Key points:

1. Loan growth: As expected, at +3% QoQ, largely from retail loans (+5% QoQ), and specifically auto loans (+6% QoQ), followed by SME loans (2% QoQ) and corporate loans (+1% QoQ). 1H13 loan growth was 4.1%, far behind our 2013F loan growth of 13%. We thus cut 2013F loan growth to 11%, as we expect auto loans to simmer down now that the majority of the vehicles purchased in the first-car buyer scheme have been delivered and loans taken out.
2. Net interest margin: Better than expected, +3 bps QoQ to 4.18%, driven by both improved yield on earning assets (+1 bps QoQ) and lower funding cost (-2 bps QoQ).
3. Non-interest income: Beat at +12% QoQ, driven primarily by Bt550mn in bad debt recovery from Dubai World Group Finance's account. Net fee income was fairly stable QoQ.
4. Cost to income: Fell to 43.8% from 50.8% in 1Q13 on the back of a reversal of reserve for loss sharing with the TAMC.
5. Asset quality: Worse than expected, NPLs by amount leapt Bt914mn or 4% QoQ, despite a sale of NPLs worth Bt2.3bn. NPL inflow stemmed mainly from a single commercial customer with a Bt2.4bn loan facility. Provisions shot up far higher than expected at +92% QoQ to Bt5.9bn, as the bank set aside Bt2.55bn in extra provision as a countercyclical buffer. LLR coverage edged up to 151% from 147% at 1Q13.

- **Maintain Buy.** We maintain Buy on BAY on the back of potential upside from a merger with BTMU's Bangkok branch. We raised target price slightly to Bt42 (1.9x average 2013F and 2014F BVPS) from Bt39 as we roll valuation base over to mid-2014. This was partly offset by a 12% downward revision in 2013F earnings to reflect 2Q13A results.

## Forecasts and valuation

Year to 31 Dec	Unit	2011	2012	2013F	2014F	2015F
Pre-provision profit	(Bt mn)	21,478	26,010	30,931	33,888	37,603
Net profit	(Bt mn)	9,264	14,626	15,954	21,617	23,981
PPP/Sh	(Bt)	3.54	4.28	5.09	5.58	6.19
EPS	(Bt)	1.53	2.41	2.63	3.56	3.95
BVPS	(Bt)	16.87	18.66	20.59	23.36	26.24
DPS	(Bt)	0.70	0.80	0.79	1.07	1.18
PER	(x)	24.59	15.57	14.28	10.54	9.50
P/PPP	(x)	10.61	8.76	7.36	6.72	6.06
EPS growth	(%)	5.35	57.87	9.08	35.49	10.94
PBV	(x)	2.22	2.01	1.82	1.61	1.43
ROE	(%)	9.20	13.55	13.39	16.20	15.92
Dividend yields	(%)	1.87	2.13	2.10	2.85	3.16

Source: SCBS Investment Research

Figure 1: Quarterly results

P & L (Bt mn)	2Q12	3Q12	4Q12	1Q13	2Q13	%YoY ch	%QoQ ch	1H12	1H13	% YoY ch	% full year
Net interest income	10,053	10,220	10,300	10,602	10,993	9	4	19,433	21,595	11	49
Non-interest income	5,392	5,171	5,754	5,764	6,443	19	12	10,133	12,207	20	52
Operating expenses	7,645	7,727	8,419	8,312	7,631	(0)	(8)	14,652	15,943	9	48
Pre-provision profit	7,800	7,664	7,636	8,053	9,805	26	22	14,914	17,858	20	51
Less Provision	2,990	2,785	2,898	3,081	5,908	98	92	5,702	8,988	58	60
Pre-tax profit	4,810	4,879	4,738	4,972	3,898	(19)	(22)	9,212	8,870	(4)	45
Income tax	1,141	1,146	1,030	967	860	(25)	(11)	2,161	1,827	(15)	46
MI and Equity	29	9	47	40	1	(97)	(98)	78	41	(47)	NA
Net profit	3,699	3,742	3,755	4,045	3,039	(18)	(25)	7,129	7,084	(1)	44
EPS (Bt)	0.61	0.62	0.62	0.67	0.50	(18)	(25)	1.17	1.17	(1)	44
B/S (Bt mn)	2Q12	3Q12	4Q12	1Q13	2Q13	%YoY ch	%QoQ ch	1H12	1H13	%YoY ch	% full year
Gross loans	757,629	783,895	830,008	837,237	864,341	14	3	757,629	864,341	14	NM
Deposits	622,391	672,324	687,159	702,449	731,731	18	4	622,391	731,731	18	NM
BVPS (Bt)	17.75	17.96	18.66	19.35	19.66	11	2	17.75	19.66	11	NM
Ratios (%)	2Q12	3Q12	4Q12	1Q13	2Q13	%YoY ch*	%QoQ ch*	1H12	1H13	YoY ch*	% full year
Yield on earn. asset	6.83	6.79	6.74	6.63	6.64	(0.19)	0.01	6.81	6.64	(0.17)	NM
Cost of funds	2.89	2.93	2.92	2.81	2.79	(0.11)	(0.02)	2.93	2.79	(0.14)	NM
Net interest margin	4.27	4.20	4.16	4.16	4.18	(0.09)	0.03	4.21	4.17	(0.03)	NM
Cost to income	49.50	50.21	52.44	50.79	43.76	(5.73)	(7.03)	49.56	47.17	(2.39)	NM
NPLs/total loans	3.26	2.97	2.72	2.64	2.73	(0.53)	0.09	3.19	2.64	(0.55)	NM
LLR/NPLs	127.49	140.20	145.73	147.23	151.23	23.74	4.00	127.49	151.23	23.74	NM

Source: SCBS Investment Research

Note: \* Percentage points

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