

Downside risk to loan growth largely priced in

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- Slowing loan growth in July.** Nearly every bank saw a sharp slowdown in MoM loan growth in July, with the slowing extending across three segments – corporate, SME and retail. July was the high season for repayment of corporate loans, leading to a negative loan growth for BBL, BAY and LHBANK. Auto loan growth braked sharply upon the absence of impetus from the first-car buyer scheme. July loan growth was mainly supplied by SME and retail loans. Note that, as usual, KTB is the only bank that has not supplied July figures. KK was the only bank showing sustainable loan growth in July, mainly supported by real estate loans.

Figure 1: Loan growth

	MoM Change (Btbn)			MoM Growth			YoY	YTD	2013F
	May-13	Jun-13	Jul-13	May-13	Jun-13	Jul-13	Growth	Growth	
BBL	13.9	58.4	(5.1)	0.9%	3.7%	-0.3%	8.4%	3.6%	7%
KTB	9.7	27.2	NA.	0.6%	1.7%	NA.	NA.	NA.	12%
KBANK	17.6	13.6	6.3	1.3%	1.0%	0.5%	9.6%	5.1%	10%
SCB	11.8	31.1	7.6	0.7%	1.9%	0.5%	16.0%	7.2%	14%
BAY	(0.7)	15.1	(9.5)	-0.1%	2.1%	-1.3%	10.2%	0.7%	9%
TMB	3.6	8.0	2.6	0.8%	1.8%	0.6%	12.2%	3.2%	8%
TCAP	2.3	11.0	1.4	0.3%	1.4%	0.2%	14.8%	4.5%	8%
TISCO	5.1	4.9	0.8	1.9%	1.8%	0.3%	29.9%	13.3%	18%
KKP	1.7	1.9	2.1	0.9%	1.0%	1.1%	19.3%	9.5%	15%
LHBANK	1.7	2.1	(1.0)	1.8%	2.3%	-1.1%	40.3%	9.0%	20%
Total	66.6	173.3	NA.	0.8%	2.0%	NA.	NA.	NA.	11%

Source: Banks and SCBS Investment Research

- BoT's survey suggests weakening loan demand in 3Q13.** The BoT's credit condition survey suggests weakening demand for both business (corporate & SMEs) and consumer loans and tightening credit standards by banks in 3Q13. This is in line with the widespread downgrades in 2013F GDP forecasts. The most recent cut was made by the NESDB, which now expects 2013F GDP at 3.8-4.3%, down from 4.2-5.2%.

Figure 2: Demand for corporate loans

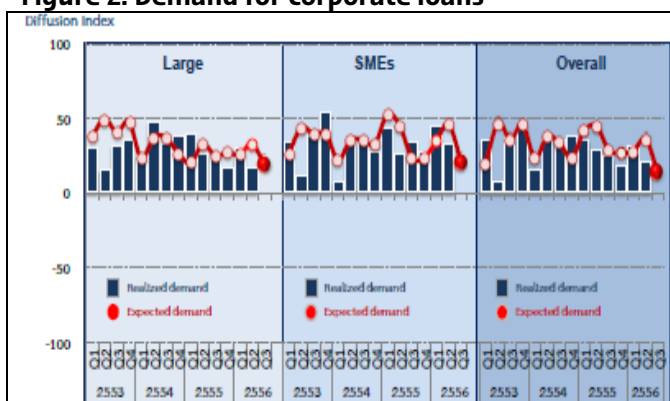


Figure 3: Demand for consumer loans

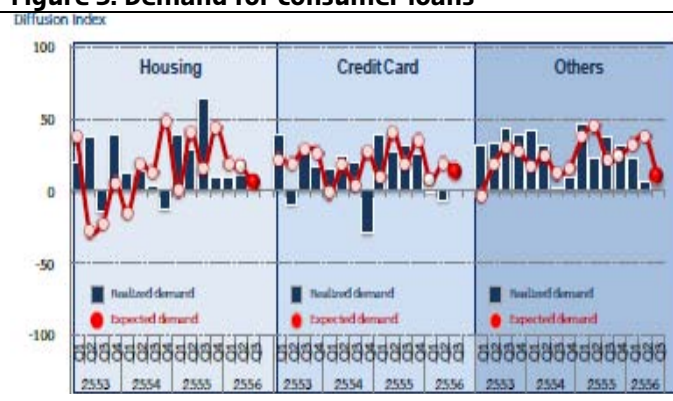


Figure 4: Credit standard for consumer loans

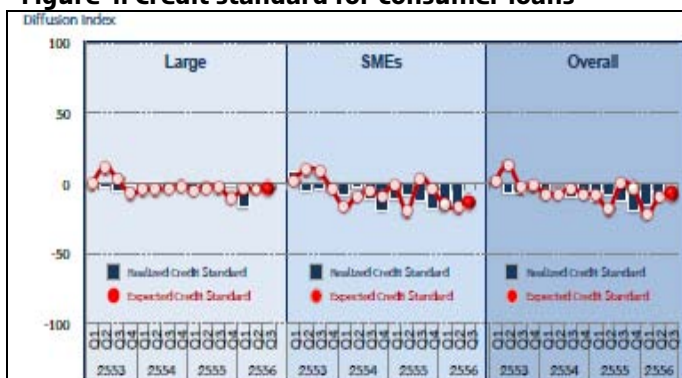
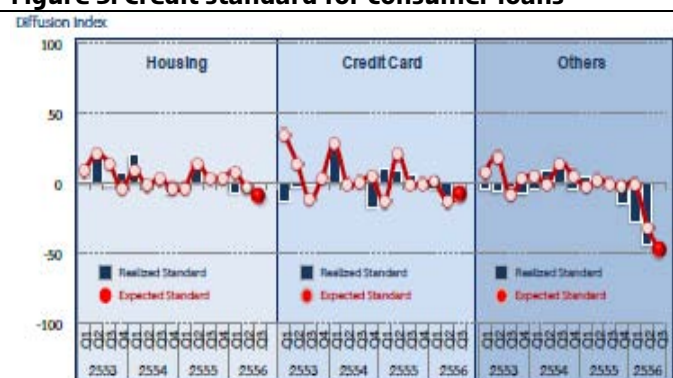


Figure 5: Credit standard for consumer loans



Source: BoT and SCBS Investment Research

- **Cut loan growth forecast.** We cut the sector's loan growth by 1-2 percentage points to 11% from 13% for 2013F and to 10% from 11% for 2014F to reflect the downgrades of 2013F GDP, the lower-than-expected 2Q13 GDP (+2.8% YoY, -0.3% QoQ), a delay in the flood protection scheme loan drawdown and the downside risk on the Bt2trn infrastructure project bill. We expect 2H13F loan growth to slow down HoH to a more moderate level after the good 6% for 1H13.

Figure 6: Loan growth

	Actual	Bank target	SCBS' new forecast		SCBS' old forecast	
	2012	2013	2013F	2014F	2013F	2014F
BBL	9.1%	6-8%	7%	7%	9%	8%
KTb	7.2%	7-10%	12%	10%	14%	13%
SCB	19.7%	12-15%	14%	11%	16%	13%
KBANK	9.6%	9-11%	10%	10%	12%	12%
TMB	13.9%	10-15%	8%	8%	14%	13%
BAY	15.4%	12.0%	9%	9%	11%	11%
TCAP	18.6%	10.0%	8%	8%	10%	10%
TISCO	34.2%	15-18%	18%	16%	19%	14%
KKP	24.5%	19.0%	15%	15%	17%	15%
LHBANK	56.7%	25-30%	20%	20%	25%	25%
Total	13.5%	10-12%	11%	10%	13%	11%

Source: Banks and SCBS Investment Research

- **Raised credit cost forecast for HP banks.** We also raised our credit cost forecast for banks that focus on auto loans (TCAP, TISCO and KK) due to rising concern about asset quality of used car loans following a sharp 30-40% fall in used car prices as a result of the negative impact from the first-car buyer tax incentive scheme.
- **Cut TP; Keep BBL and KTB as top picks; Upgrade TISCO to Buy.** We cut target price (TP) of most banks by 4% on average to reflect our reduction in loan growth forecast and raise in credit cost forecast. We believe the recent sharp share price correction already discounts the downside risk on loan growth. We keep TPs of BAY and TMB unchanged as theirs are mainly supported by their M&A stories. Note that BAY's TP has upside risk from the merger with the Bangkok branch of Bank of Tokyo-Mitsubishi UFJ (BTMU). We maintain our preference for large banks with focus on business loans rather than small banks with focus on retail loans. We are more optimistic on loan growth for corporate and SME loans than consumer loans, particularly auto loans and are also more concerned about the asset quality of consumer loans than business given the high household debt at 80% of GDP. BBL and KTB remain our top picks as investment cycle plays. We upgrade TISCO to Buy from Neutral due to its well-undervalued position after a recent sharp share price correction.

Figure 7: Target price cut

	Rating		Target price (Bt)			Target	L-T
	New	Old	New	Old	Ch	PBV (x)	ROE
BBL	Buy	Buy	250	255	-2%	1.60	12.3%
KTb	Buy	Buy	26	27	-4%	1.70	16.2%
KBANK	Buy	Buy	225	230	-2%	2.25	19.9%
TMB	Sell	Sell	2.2	2.2	0%	1.60	11.0%
BAY	Buy	Buy	42	42	0%	1.90	15.2%
TCAP	Neutral	Neutral	36	40	-10%	0.90	13.2%
TISCO	Buy	Neutral	46	50	-8%	1.60	17.7%
KKP	Neutral	Neutral	48	56	-14%	1.10	12.4%
LHBANK	Sell	Sell	1.2	1.3	-8%	1.00	5.9%
Average			75	78	-5%	1.61	15.4%

Source: SCBS Investment Research

Valuation summary

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					12A	13F	14F	12A	13F	14F	12A	13F	14F	12A	13F	14F	12A	13F	14F
BAY	Buy	37.75	42.00	13.3	15.7	14.4	10.6	57.9	9.1	35.5	2.02	1.83	1.62	13.6	13.4	16.2	2.1	2.1	2.8
BBL	Buy	189.00	250.00	35.8	10.9	10.0	8.8	20.8	9.4	13.5	1.32	1.25	1.13	12.8	12.9	13.5	3.4	3.5	4.0
KBANK	Buy	165.50	225.00	38.1	11.2	9.5	8.0	45.5	18.3	18.6	2.14	1.81	1.52	20.8	20.7	20.6	1.8	2.1	2.5
KKP	Neutral	41.50	48.00	22.3	10.2	7.6	7.4	(9.7)	34.7	1.7	1.05	0.98	0.93	12.1	13.4	12.9	5.8	6.6	6.7
KTb	Buy	17.70	26.00	51.7	10.5	8.3	7.2	10.5	26.7	15.1	1.37	1.23	1.11	15.2	15.7	16.2	4.5	4.8	5.5
LHBANK	Sell	1.40	1.20	(12.0)	24.6	17.4	15.2	31.9	41.4	14.2	1.18	1.14	1.09	5.0	6.8	7.3	2.4	2.3	2.6
TCAP	Neutral	32.25	36.00	16.3	7.5	4.6	7.1	14.4	63.5	(35.5)	0.96	0.83	0.77	13.5	19.5	11.3	4.3	4.7	5.0
TISCO	Buy	36.75	46.00	31.8	7.2	7.2	6.7	13.4	(0.1)	8.1	1.47	1.33	1.20	21.5	20.2	18.9	6.5	6.7	6.8
TMB	Sell	2.46	2.20	(9.2)	66.7	22.5	12.5	(60.0)	195.9	79.7	2.00	1.88	1.67	3.0	8.6	14.1	1.3	1.3	2.4
Average					17.7	11.2	9.2	19.5	20.7	16.8	1.58	1.43	1.28	13.7	15.2	15.2	3.5	3.8	4.3

Source: SCBS Investment Research

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