

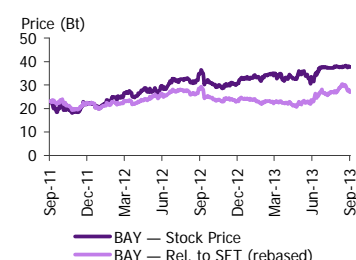
NEUTRAL

Stock Data

Last close (Sep 18) (Bt)	37.75
12-m target price (Bt)	39.00
Upside (Downside) to TP (%)	3.31
Mkt cap (Btbn)	229.30
Mkt cap (US\$mn)	7,347

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.83
Sector % SET	17.57
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	38.3 / 28
Avg. daily 6m (US\$mn)	28.71
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	0.0	18.9	3.4
Relative to SET	-2.8	18.8	-7.6

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

(66-2) 949-1003

kittima.sattayapan@scb.co.th

Green light for BTMU deal = Limited upside

- **Gets green light for BTMU deal.** The BoT has given BAY the okay for a foreign shareholding level of over 49% and it is now proceeding with its plans, which will involve recapitalization to buy Bank of Tokyo-Mitsubishi UFJ (BTMU)'s Bangkok branch, which it will do to comply with the BoT's one presence policy. It will issue no more than 1.50bn new shares to Bank of Tokyo-Mitsubishi UFJ Limited. This lines up with analysts' expectations.
- **Two tranches.** The capital raising comprises two tranches: 1) a ceiling of 1.50bn new shares (20% of total shares) at Bt39/share and 2) the shares left over from the first tranche to be exchanged for the business of the Bangkok branch BTMU. The allocation to BTMU will be determined by the Board of Directors using a specific formula for asset valuation, i.e. the asset valuation of Bank of Tokyo-Mitsubishi UFJ Limited, Bangkok Branch and the valuation of the bank's shares. All of this will be put to shareholders at an extraordinary general meeting scheduled for Oct. 31.
- **Voluntary tender offer on track = Limited upside.** This will allow BTMU to go ahead with 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. We expect most minority shareholders to take the tender offer, which will mean little activity in BAY's listed shares and probable eventual de-listing. This limits the upside for BAY share price to Bt39, the tender offer price.
- **Diluted ROE in S-T post BTMU deal.** The merger with Bangkok branch of Bank of Tokyo-Mitsubishi UFJ (BTMU) will lead to a dilution in ROE for 1-2 years. For the longer term, however, we believe earnings from BTMU and synergy with MUFG will be more than sufficient to offset any dilution. The recapitalization of Bt58.5bn (if all 1.5bn shares are issued and priced at Bt39) is slightly larger than expected, as it surpasses the Bt49bn in equity for BTMU's Bangkok branch as of July, 2013. BTMU's Bangkok branch had assets of Bt604bn (53% of BAY's assets) and loans of Bt213bn (~26% of BAY's loan portfolio), as of July, 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, equal to 20% of BAY's 2013F earnings.

	Current			Post BTMU deal		
	2013F	2014F	2015F	2013F	2014F	2015F
Net profit (Btmn)	15,973	21,513	23,785	15,973	25,713	28,615
Equities (Btmn)	125,078	141,732	159,063	125,078	200,232	217,563
No. of shares (mn)	6,074	6,074	6,074	6,074	7,574	7,574
ROE	13%	16%	16%	13%	16%	14%

- **Downgrade to Neutral on limited upside.** We downgrade BAY to Neutral as we see only limited upside at the tender offer price of Bt39, translating to only 3.3% return. We cut BAY's target price to Bt39, based on the tender offer price.

Forecasts and valuation

FY Dec	Unit	2011	2012	2013F	2014F	2015F
Pre-provision profit	(Bt mn)	21,478	26,010	30,734	33,347	36,684
Net profit	(Bt mn)	9,264	14,626	15,973	21,513	23,785
PPP/Sh	(Bt)	3.54	4.28	5.06	5.49	6.04
EPS	(Bt)	1.53	2.41	2.63	3.54	3.92
BVPS	(Bt)	16.87	18.66	20.59	23.33	26.19
DPS	(Bt)	0.70	0.80	0.80	1.06	1.17
PER	(x)	24.75	15.68	14.36	10.66	9.64
P/PPP	(x)	10.68	8.82	7.46	6.88	6.25
EPS growth	(%)	5.35	57.87	9.21	34.69	10.56
PBV	(x)	2.24	2.02	1.83	1.62	1.44
ROE	(%)	9.20	13.55	13.40	16.13	15.81
Dividend yields	(%)	1.85	2.12	2.12	2.81	3.11

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2011	2012	2013F	2014F	2015F
Interest & dividend income	56,428	64,640	70,334	76,556	83,283
Interest expense	18,963	24,687	26,362	28,986	31,912
Net interest income	37,465	39,953	43,972	47,570	51,371
Non-interest income	17,807	21,058	23,646	25,695	28,644
Non-interest expenses	27,477	30,798	33,032	34,733	37,643
Earnings before tax & provision	27,795	30,213	34,586	38,531	42,372
Tax	6,310	4,337	3,965	5,340	5,895
Equities & minority interest	7	(134)	(113)	(155)	(206)
Core pre-provision profit	21,478	26,010	30,734	33,347	36,684
Provision	12,214	11,385	14,761	11,834	12,899
Core net profit	9,264	14,626	15,973	21,513	23,785
Extra item	0	0	0	0	0
Net profit	9,264	14,626	15,973	21,513	23,785
EPS (Bt)	1.53	2.41	2.63	3.54	3.92
DPS (Bt)	0.70	0.80	0.80	1.06	1.17

Balance Sheet (Btmn)

FY December 31	2011	2012	2013F	2014F	2015F
Cash	25,165	25,079	25,751	26,337	27,171
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	904,709	986,132	1,074,884
Accrued interest receivable	1,859	2,257	2,257	2,257	2,257
Loan loss reserve	31,279	31,029	45,790	57,624	70,522
Net loans	690,087	801,236	861,175	930,766	1,006,619
Total assets	947,797	1,071,965	1,151,691	1,239,495	1,337,975
Deposits	560,540	687,159	756,906	828,055	909,205
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	1,026,450	1,097,599	1,178,749
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	125,078	141,732	159,063
BVPS (Bt)	16.87	18.66	20.59	23.33	26.19

Key Assumptions and Financial Ratios

	2011	2012	2013F	2014F	2015F
Growth					
YoY loan growth	10.87	15.36	9.00	9.00	9.00
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	6.71	6.69	6.67
Cost on int-bear'g liab (%)	2.51	2.93	2.85	2.91	2.98
Spread (%)	4.17	3.91	3.86	3.78	3.69
Net interest margin(%)	4.43	4.23	4.19	4.15	4.11
ROE (%)	9.20	13.55	13.40	16.13	15.81
Asset Quality					
NPLs/Total Loans(%)	4.11	2.57	2.81	3.03	3.24
LLR/NPLs(%)	105.90	145.73	180.28	192.57	202.34
Provision expense/Total loans (%)	1.70	1.37	1.63	1.20	1.20
Liquidity					
Loans/Deposits & borrowings (%)	93.59	98.60	99.25	100.35	101.04
Efficiency					
Cost to income ratio (%)	50.46	51.15	49.14	47.67	47.28
Capital Fund					
Capital adequacy ratio(%)	16.28	16.94	17.26	17.03	16.74
Tier-1(%)	11.85	10.94	11.67	11.83	11.91
Tier-2(%)	4.44	6.00	5.58	5.20	4.82

Profit and Loss Statement (Btmn)

FY December 31	2Q12	3Q12	4Q12	1Q13	2Q13
Interest & dividend income	16,068	16,512	16,698	16,918	17,446
Interest expense	6,015	6,292	6,398	6,316	6,453
Net interest income	10,053	10,220	10,300	10,602	10,993
Non-interest income	5,392	5,171	5,754	5,764	6,443
Non-interest expenses	7,645	7,727	8,419	8,312	7,631
Earnings before tax & provision	7,800	7,664	7,636	8,053	9,805
Tax	1,141	1,146	1,030	967	860
Equities & minority interest	(29)	(9)	(47)	(40)	(1)
Core pre-provision profit	6,688	6,527	6,653	7,126	8,946
Provision	2,990	2,785	2,898	3,081	5,908
Core net profit	3,699	3,742	3,755	4,045	3,039
Extra item	0	0	0	0	0
Net profit	3,699	3,742	3,755	4,045	3,039
EPS (Bt)	0.61	0.62	0.62	0.67	0.50

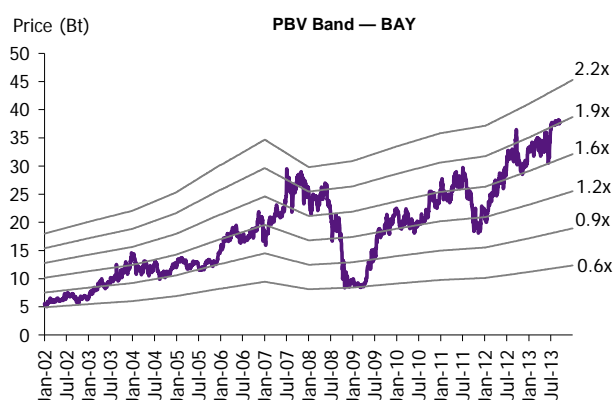
Balance Sheet (Btmn)

FY December 31	2Q12	3Q12	4Q12	1Q13	2Q13
Cash	22,787	22,075	25,079	24,137	24,486
Interbank assets	99,571	83,617	79,390	99,337	109,446
Investments	89,567	91,596	79,249	82,393	78,604
Gross loans	757,629	783,895	830,008	837,237	864,341
Accrued interest receivable	1,973	2,110	2,257	2,341	2,359
Loan loss reserve	30,823	31,497	31,029	32,247	34,505
Net loans	728,778	754,508	801,236	807,331	832,195
Total assets	1,034,541	1,040,424	1,071,965	1,102,777	1,130,156
Deposits	622,391	672,324	687,159	702,449	731,731
Interbank liabilities	34,054	44,749	48,821	62,193	53,002
Borrowings	197,639	144,979	154,629	143,668	159,558
Total liabilities	926,594	931,145	958,479	985,083	1,010,533
Minority interest	150	163	164	190	228
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	107,797	109,116	113,322	117,504	119,394
BVPS (Bt)	17.75	17.96	18.66	19.35	19.66

Financial Ratios

	2Q12	3Q12	4Q12	1Q13	2Q13
YoY loan growth	12.92	12.45	15.36	12.84	14.09
YoY fee & insurance income growth	15.68	17.41	24.96	25.60	12.24
Yield on earn'g assets (%)	6.83	6.79	6.74	6.63	6.64
Cost on int-bear'g liab (%)	2.89	2.93	2.92	2.81	2.79
Net interest margin(%)	4.27	4.20	4.16	4.16	4.18
Cost to income ratio (%)	49.50	50.21	52.44	50.79	43.76
NPLs/Total Loans(%)	3.19	2.87	2.57	2.62	2.64
LLR/NPLs(%)	127.49	140.20	145.73	147.23	151.23
Provision expense/Total loans (%)	1.58	1.42	1.40	1.47	2.73

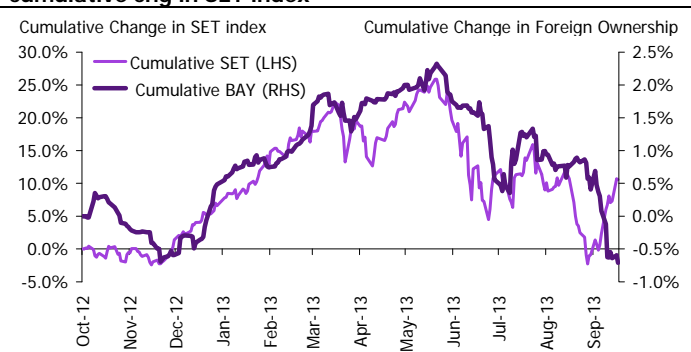
PBV Band Chart



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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★★★	AEONIS, AH, BIA, CCET, JMART, KTC, LHBANK, MAJOR, RCL, ROJANA, SIBI, TPIPL
N/A	AAY, BCH, BSH, CPNBT, MOK, NWR, POPF, QHPF, SSI, TFUND, TLOGIS, WHA, WHAF

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