

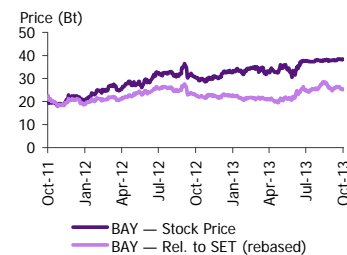
NEUTRAL

Stock Data

Last close (Oct 17) (Bt)	38.25
12-m target price (Bt)	39.00
Upside (Downside) to TP (%)	1.96
Mkt cap (Btbn)	232.34
Mkt cap (US\$mn)	7,490

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.82
Sector % SET	17.15
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	38.5 / 28
Avg. daily 6m (US\$mn)	27.64
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	1.3	2.0	26.4
Relative to SET	-0.7	3.3	12.9

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

(66-2) 949-1003

kittima.sattayapan@scb.co.th

3Q13A: Finally feeling the heat of used car NPLs

- 3Q13A below expectations.** BAY's 3Q13 net profit rose 1% YoY and 25% QoQ to Bt3.79bn, below SCBS forecast of Bt4.9 and consensus of Bt4.7bn. Missing the mark were provisions, non-interest income (specifically other income) and opex. 3Q13A results reflected for the first time a material deterioration in its auto loans.

Key points:

1. Loan growth: Beat, at +2.9% QoQ, slowing from 3.2% QoQ in 2Q13. A strong acceleration in corporate loans (+4% QoQ) contributed to a positive surprise in 3Q13 loan growth, bringing YTD growth in corporate loans to positive territory, though just barely, at 1%. Auto loan growth braked to 2% QoQ from 5.6% QoQ for 2Q13, in line with peers. Loan growths in other segments (SME, mortgage, credit card and personal loans) were sustainable QoQ. 9M13 loan growth is 7.1%, beating our 2013F loan growth of 9%. We do not change our forecast, however, given the unpredictability of corporate loan growth and continued slowdown in auto loans.
2. Net interest margin: As expected, stable QoQ at 4.18%. Yield on earning assets was up 8 bps QoQ. Cost of funds was up 10 bps QoQ.
3. Non-interest income: Below expectations, -18% QoQ after last quarter's booking of Bt550mn in bad debt recovery from Dubai World Group Finance and lower-than-expected gain on NPA sales. Net fee income slipped 2% QoQ.
4. Cost to income: Higher than expected, with a rise to 51.3% from 43.8% in 2Q13, without last quarter's reversal of reserve for loss sharing with the TAMC plus a substantial rise in other expenses, mainly Bt245mn impairment loss on other assets.
5. Asset quality: Worse than expected, NPLs by amount leapt Bt2.3bn or 10% QoQ, despite a Bt2bn write-off. NPL inflow stemmed mainly from commercial accounts of its leasing subsidiary and used car loans as a result of a sharp 30-40% fall in used car prices led by the tax incentive scheme for first-car buyers. This came as quite a surprise since others with large auto loan portfolios, specifically HP banks, had been reporting this deterioration since 1Q13. Provisions eased to a normalized level at a credit cost of 1.42%, higher than the guidance of 1.3%. LLR coverage fell substantially to 142% from 151% at 2Q13.

- Maintain Neutral.** We stay Neutral on BAY as we see only limited upside at the tender offer price of Bt39, which is also our target price.

Forecasts and valuation

Year to 31 Dec	Unit	2011	2012	2013F	2014F	2015F
Pre-provision profit	(Btmn)	21,478	26,010	29,731	31,238	34,070
Net profit	(Btmn)	9,264	14,626	14,770	19,512	21,407
PPP/Sh	(Bt)	3.54	4.28	4.89	5.14	5.61
EPS	(Bt)	1.53	2.41	2.43	3.21	3.52
BVPS	(Bt)	16.87	18.66	20.39	22.81	25.37
DPS	(Bt)	0.70	0.80	0.80	0.96	1.06
PER	(x)	24.91	15.78	15.63	11.83	10.78
P/PPP	(x)	10.75	8.87	7.76	7.39	6.77
EPS growth	(%)	5.35	57.87	0.99	32.11	9.71
PBV	(x)	2.25	2.04	1.86	1.67	1.50
ROE	(%)	9.20	13.55	12.45	14.87	14.63
Dividend yields	(%)	1.84	2.11	2.11	2.54	2.78

Source: SCBS Investment Research

Figure 1: Quarterly results

P & L (Bt mn)	3Q12	4Q12	1Q13	2Q13	3Q13	%YoY ch	%QoQ ch	9M12	9M13	% YoY ch	% full year
Net interest income	10,220	10,300	10,602	10,993	11,246	10	2	29,653	32,841	11	75
Non-interest income	5,171	5,754	5,764	6,443	5,283	2	(18)	15,304	17,491	14	75
Operating expenses	7,727	8,419	8,312	7,631	8,475	10	11	22,379	24,418	9	72
Pre-provision profit	7,664	7,636	8,053	9,805	8,055	5	(18)	22,578	25,913	15	78
Less Provision	2,785	2,898	3,081	5,908	3,148	13	(47)	8,487	12,136	43	81
Pre-tax profit	4,879	4,738	4,972	3,898	4,907	1	26	14,091	13,777	(2)	75
Income tax	1,146	1,030	967	860	1,126	(2)	31	3,307	2,953	(11)	81
MI and Equity	9	47	40	1	13	43	1,304	87	54	(38)	NA
Net profit	3,742	3,755	4,045	3,039	3,794	1	25	10,870	10,878	0	74
EPS (Bt)	0.62	0.62	0.67	0.50	0.62	1	25	1.79	1.79	0	74
B/S (Bt mn)	3Q12	4Q12	1Q13	2Q13	3Q13	%YoY ch	%QoQ ch	9M12	9M13	%YoY ch	% full year
Gross loans	783,895	830,008	837,237	864,341	889,207	13	3	783,895	889,207	13	NM
Deposits	672,324	687,159	702,449	731,731	736,439	10	1	672,324	736,439	10	NM
BVPS (Bt)	17.96	18.66	19.35	19.66	19.81	10	1	17.96	19.81	10	NM
Ratios (%)	3Q12	4Q12	1Q13	2Q13	3Q13	%YoY ch*	%QoQ ch*	9M12	9M13	YoY ch*	% full year
Yield on earn. asset	6.79	6.74	6.63	6.64	6.72	(0.06)	0.08	6.82	6.67	(0.15)	NM
Cost of funds	2.93	2.92	2.81	2.79	2.88	(0.05)	0.10	2.94	2.83	(0.11)	NM
Net interest margin	4.20	4.16	4.16	4.18	4.18	(0.02)	(0.00)	4.22	4.18	(0.04)	NM
Cost to income	50.21	52.44	50.79	43.76	51.27	1.06	7.50	49.78	48.51	(1.27)	NM
NPLs/total loans	2.87	2.57	2.62	2.64	2.82	(0.04)	0.18	2.87	2.82	(0.04)	NM
LLR/NPLs	140.20	145.73	147.23	151.23	142.09	1.89	(9.13)	140.20	142.09	1.89	NM

Source: SCBS Investment Research

Note: * Percentage points

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