

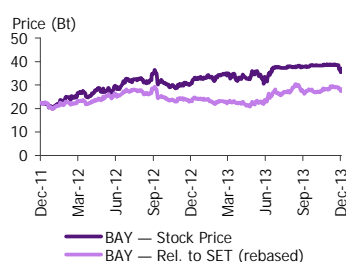
NEUTRAL

Stock Data

Last close (Dec 20) (Bt)	36.00
12-m target price (Bt)	39.00
Upside (Downside) to TP (%)	8.33
Mkt cap (Btbn)	218.67
Mkt cap (US\$mn)	6,710

Bloomberg code	BAY TB
Reuters code	BAY.BK
Risk rating	L
Mkt cap (%) SET	1.85
Sector % SET	16.92
Shares issued (mn)	6,074
Par value (Bt)	10
12-m high / low (Bt)	38.8 / 28.5
Avg. daily 6m (US\$mn)	23.61
Foreign limit / actual (%)	25 / 25
Free float (%)	74.7
Dividend policy (%)	≥ 30

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	-7.1	-5.3	12.5
Relative to SET	-4.8	1.4	15.1

Source: SET, SCBS Investment Research

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Undervalued, but still faces downside risk

- 4Q13 preview.** Management guided to 2013 loan growth of ~11% (vs. 8.7% 11M13 YTD), below the bank's target of 12%, but higher than our original forecast of 9%. In 4Q13, loan growth came primarily from corporate loans, with a negative growth in auto loans and net interest margin (NIM) narrowed slightly QoQ on the back of a higher proportion of low-yield corporate loans. 2013 fee income growth is estimated at 14-15%, in line with target. Cost to income ratio is estimated at ~49% in 2013, above the 48% target. Provisions are expected to remain prudent. NPLs are expected to be stable or ease QoQ on the back of a Bt1.5bn sale of NPLs. We forecast a 4% YoY and 3% QoQ rise in 4Q13 earnings to Bt3.9bn.
- 2014 preliminary targets.** BAY's management provided preliminary 2014 top line targets. Loan growth target is 9%, with management estimating sector 2014 loan growth of 8-9%. We believe this target is too optimistic and maintain our forecast of 7%. Management expects NIM to slip, with fee income growth in the low teens. Note that the targets may be fine-tuned later by the new CEO, Mr. Noriaki Goto, who will join the bank on January 2, 2014.
- Merging with BTMU Bangkok.** The Bank of Tokyo-Mitsubishi UFJ Limited (BTMU) successfully acquired 72.01% of BAY through a voluntary tender offer (VTO), which was completed on Dec 13, 2013. The next step is the merger with the Bangkok branch of BTMU, which is expected to complete at the end of 2014. BAY will issue up to 1.5bn new shares priced at Bt39 in exchange for the assets of the Bangkok branch of BTMU. Based upon the latest due diligence, management believes BAY will need to issue 1.1bn shares for this purpose.
- S-T ROE dilution.** BTMU Bangkok had assets of Bt571bn (50% of BAY's assets) and loans of Bt218bn (~24% of BAY's loan portfolio), as of October, 2013. As of FY2012 (ending March 2013), BTMU Bangkok NIM was ~2%, below BAY's 4.2%, as it has high exposure to low-risk corporate loans and interbank assets. BTMU Bangkok FY2012 net profit was Bt4.2bn, equal to 28% of BAY's 2013F earnings. We preliminarily estimate that this will dilute ROE to ~13% from 15-16% now for at least 1-2 years. Longer term, we believe synergy with BTMU will offset any dilution.
- Will not de-list.** Current BAY shareholder structure: 72.01% by BTMU, 25% by the Ratanarak group and 3% by minority shareholders. Though the free float is only 3% and does not meet the free float requirement, BAY expects to remain qualified for SET listing, as the holding by the Ratanarak group is divided into several related entities. The BoT also gives a 3-year waiver for not meeting free float requirement. BAY has no intention of de-listing.
- Maintain Neutral.** We maintain Neutral on BAY with unchanged target price of Bt39 (1.8x average 2013F and 2014F BVPS). BAY is slightly undervalued, but we still see some downside risk from the slowing economy as a result of political unrest.

Forecasts and valuation

FY Dec	Unit	2011	2012	2013F	2014F	2015F
Pre-provision profit	(Bt mn)	21,478	26,010	30,153	31,300	33,560
Net profit	(Bt mn)	9,264	14,626	14,790	18,542	20,842
PPP/Sh	(Bt)	3.54	4.28	4.96	5.15	5.53
EPS	(Bt)	1.53	2.41	2.43	3.05	3.43
BVPS	(Bt)	16.87	18.66	20.40	22.65	25.17
DPS	(Bt)	0.70	0.80	0.80	0.92	1.03
PER	(x)	23.60	14.95	14.78	11.79	10.49
P/PPP	(x)	10.18	8.41	7.25	6.99	6.52
EPS growth	(%)	5.35	57.87	1.13	25.37	12.40
PBV	(x)	2.13	1.93	1.76	1.59	1.43
ROE	(%)	9.20	13.55	12.47	14.18	14.35
Dividend yields	(%)	1.94	2.22	2.22	2.54	2.86

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	71,163	75,453	81,418
Interest expense	18,963	24,687	26,715	28,114	30,719
Net interest income	37,465	39,953	44,449	47,339	50,699
Non-interest income	17,807	21,058	23,320	24,899	27,257
Non-interest expenses	27,477	30,798	33,802	36,472	39,419
Earnings before tax & provision	27,795	30,213	33,967	35,766	38,538
Tax	6,310	4,337	3,907	4,602	5,164
Equities & minority interest	7	(134)	(93)	(135)	(186)
Core pre-provision profit	21,478	26,010	30,153	31,300	33,560
Provision	12,214	11,385	15,362	12,758	12,718
Core net profit	9,264	14,626	14,790	18,542	20,842
Extra item	0	0	0	0	0
Net profit	9,264	14,626	14,790	18,542	20,842
EPS (Bt)	1.53	2.41	2.43	3.05	3.43
DPS (Bt)	0.70	0.80	0.80	0.92	1.03

Profit and Loss Statement (Btmn)

FY December 31	3Q12	4Q12	1Q13	2Q13	3Q13
Interest & dividend income	16,512	16,698	16,918	17,446	18,078
Interest expense	6,292	6,398	6,316	6,453	6,832
Net interest income	10,220	10,300	10,602	10,993	11,246
Non-interest income	5,171	5,754	5,764	6,443	5,283
Non-interest expenses	7,727	8,419	8,312	7,631	8,475
Earnings before tax & provision	7,664	7,636	8,053	9,805	8,055
Tax	1,146	1,030	967	860	1,126
Equities & minority interest	(9)	(47)	(40)	(1)	(13)
Core pre-provision profit	6,527	6,653	7,126	8,946	6,942
Provision	2,785	2,898	3,081	5,908	3,148
Core net profit	3,742	3,755	4,045	3,039	3,794
Extra item	0	0	0	0	0
Net profit	3,742	3,755	4,045	3,039	3,794
EPS (Bt)	0.62	0.62	0.67	0.50	0.62

Balance Sheet (Btmn)

FY December 31	2011	2012F	2013F	2014F	2014F
Cash	25,165	25,079	26,089	27,097	27,875
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	917,159	981,360	1,059,869
Accrued interest receivable	1,859	2,257	2,257	2,257	2,257
Loan loss reserve	31,279	31,029	42,391	52,696	62,764
Net loans	690,087	801,236	877,024	930,921	999,361
Total assets	947,797	1,071,965	1,167,878	1,240,410	1,331,421
Deposits	560,540	687,159	769,275	828,124	903,856
Interbank liabilities	23,741	48,821	48,821	48,821	48,821
Borrowings	208,263	154,629	159,629	159,629	159,629
Total liabilities	845,102	958,479	1,043,819	1,102,668	1,178,400
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	123,895	137,578	152,857
BVPS (Bt)	16.87	18.66	20.40	22.65	25.17

Balance Sheet (Btmn)

FY December 31	3Q12	4Q12	1Q13	2Q13	3Q13
Cash	22,075	25,079	24,137	24,486	23,818
Interbank assets	83,617	79,390	99,337	109,446	88,003
Investments	91,596	79,249	82,393	78,604	84,486
Gross loans	783,895	830,008	837,237	864,341	889,207
Accrued interest receivable	2,110	2,257	2,341	2,359	2,465
Loan loss reserve	31,497	31,029	32,247	34,505	35,654
Net loans	754,508	801,236	807,331	832,195	856,018
Total assets	1,040,424	1,071,965	1,102,777	1,130,156	1,145,167
Deposits	672,324	687,159	702,449	731,731	736,439
Interbank liabilities	44,749	48,821	62,193	53,002	63,501
Borrowings	144,979	154,629	143,668	159,558	151,862
Total liabilities	931,145	958,479	985,083	1,010,533	1,024,582
Minority interest	163	164	190	228	260
Paid-up capital	60,741	60,741	60,741	60,741	60,741
Total Equities	109,116	113,322	117,504	119,394	120,325
BVPS (Bt)	17.96	18.66	19.35	19.66	19.81

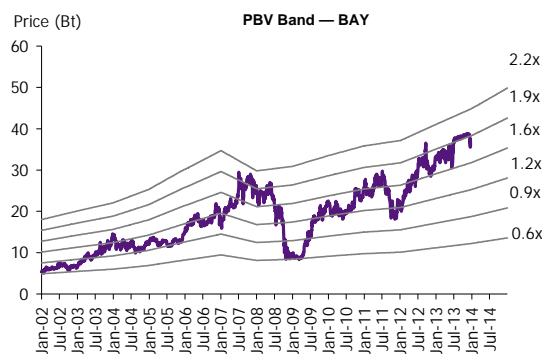
Key Assumptions and Financial Ratios

	2011	2012F	2013F	2014F	2014F
Growth					
YoY loan growth	10.87	15.36	10.50	7.00	8.00
YoY fee & insurance income growth	7.02	18.06	15.00	12.00	12.00
Profitability					
Yield on earn'g assets (%)	6.68	6.84	6.74	6.57	6.57
Cost on int-bear'g liab (%)	2.51	2.93	2.86	2.79	2.86
Spread (%)	4.17	3.91	3.88	3.78	3.71
Net interest margin(%)	4.43	4.23	4.21	4.12	4.09
ROE (%)	9.20	13.55	12.47	14.18	14.35
Asset Quality					
NPLs/Total Loans(%)	4.11	2.57	2.74	2.74	2.74
LLR/NPLs(%)	105.90	145.73	168.94	196.27	216.46
Provision expense/Total loans (%)	1.70	1.37	1.68	1.30	1.20
Liquidity					
Loans/Deposits & borrowings (%)	93.59	98.60	98.74	99.35	99.66
Efficiency					
Cost to income ratio (%)	50.46	51.15	50.40	50.98	51.02
Capital Fund					
Capital adequacy ratio(%)	16.28	16.94	16.96	16.84	16.57
Tier-1(%)	11.85	10.94	11.45	11.63	11.70
Tier-2(%)	4.44	6.00	5.51	5.22	4.87

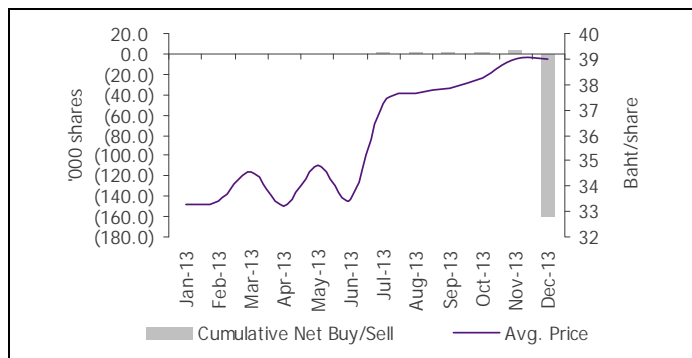
Financial Ratios

	3Q12	4Q12	1Q13	2Q13	3Q13
YoY loan growth	12.45	15.36	12.84	14.09	13.43
YoY fee & insurance income growth	17.41	24.96	25.60	12.24	11.18
Yield on earn'g assets (%)	6.79	6.74	6.63	6.64	6.72
Cost on int-bear'g liab (%)	2.93	2.92	2.81	2.79	2.88
Net interest margin(%)	4.20	4.16	4.16	4.18	4.18
Cost to income ratio (%)	50.21	52.44	50.79	43.76	51.27
NPLs/Total Loans(%)	2.87	2.57	2.62	2.64	2.82
LLR/NPLs(%)	140.20	145.73	147.23	151.23	142.09
Provision expense/Total loans (%)	1.42	1.40	1.47	2.73	1.42

PBV Band Chart

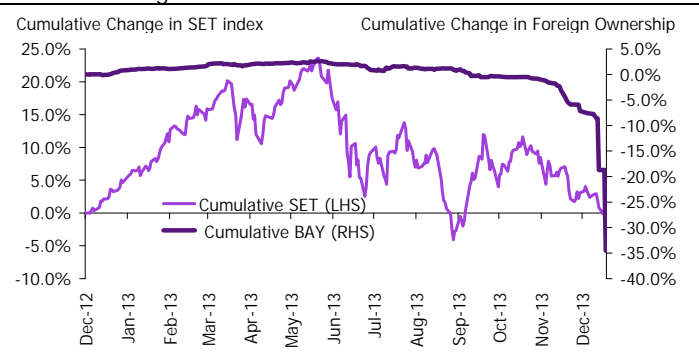


12-Month Cumulative directors trade



Source: SEC

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



Source: SET, SCBS Investment Research

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