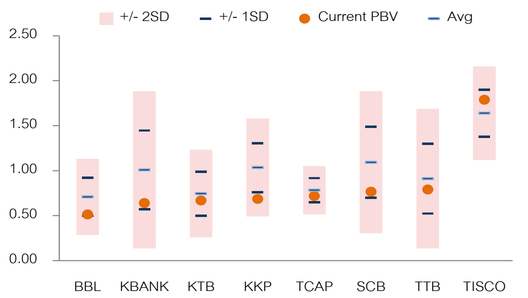
1 October 2024

Bank

Mixed 3Q24E Earnings Outlook: Lower Provisions Boost YoY, NIM & Investment Gain Contraction Drag QoQ

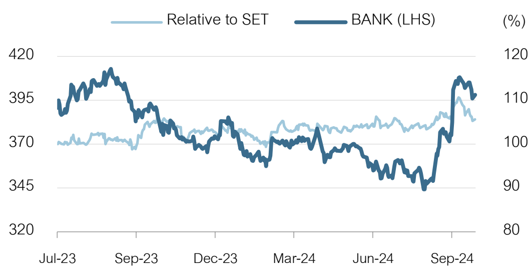
Recommendation	Overweight (maintained)

Banking sector stocks - 10-years PBV Band



10-year PBV

Price performance



Price performance	1M	3M	6M	12M
Absolute (%)	5.97	12.93	6.47	1.85
Relative to SET (%)	-0.84	1.35	1.11	3.19

Analyst: Saranrat Panthachotirat (Reg. No. 028916)

We maintain an "Overweight" weighting on the banking sector, driven by strong fundamentals of our covered bank stocks. Despite a mixed outlook for 3Q24E, we remain optimistic about the sector's long-term prospects. Our projections for 3Q24E aggregate net profit indicate a YoY increase of +3% to Bt52bn, primarily driven by tax benefits for TTB (approx. Bt1.1bn), higher fee-based income for KTB, and lower provisions for KBANK. However, a seasonal decline in investment gains is expected to lead to a QoQ decrease of -3%. SCB stands out with both YoY and QoQ profit growth (+5% YoY, +1% QoQ), primarily due to a Bt400mn gain from the disposal of Robinhood. TTB (+13% YoY), KBANK (+7%), and KTB (+6%) are also expected to deliver YoY profit growth, while TISCO (-10% YoY, -3% QoQ) and BBL (-3% YoY, -7% QoQ) are projected to face declines both YoY and QoQ due to reduced investment gains. Total loans are expected to contract slightly -2% YoY and -1% QoQ in 3Q24E due to repayments from large businesses and the government sector. Meanwhile, the NPL ratio is projected to rise slightly to 3.19% from 3.13% in 2Q24 but remains at a manageable level.

Our aggregate net profit estimates for 2024E and 2025E remain unchanged at Bt205bn (+5% YoY) and Bt217bn (+6%). Loan-loss provision is forecasted to decrease -10% compared to a +17% surge in 2023, while the policy rate is expected to reduce by 50 bps by 1H25E.

SETBANK has gained 6% and 13% over the past three and six months due to substantial funds flowing into Thai equities. Its current valuation of 0.7x 2024E PBV remains attractive, offering a discount of -1.0 SD compared to its 10-year historical average. Within the banking space, **KBANK (BUY, Target price: Bt176.00)** and **KTB (BUY, Bt23.00)** are our top picks. KBANK's improved asset quality and compelling valuation (0.65x vs. sector's 0.62x and SCB's 0.8x) make it attractive. KTB is expected to deliver the highest net profit growth of +15% YoY in 2024E, reaching Bt42bn, driven by lower provisioning and its focus on lower-risk state lending.

Event: 3Q24E Earnings Preview

- **3Q24E Net Profit Expected to Rise YoY Due to Lower Provisions, But Decline QoQ on Reduced NIM and Investment Gains**

We expect the banking sector's net profit for 3Q24E to reach Bt52bn, representing a +3% YoY growth but a -3% QoQ decline (Fig 2).

- The YoY profit increase is primarily supported by TTB, which benefits from a tax gain of around Bt1.1bn, compared to no such benefit last year. Additionally, KTB's net fee income improved through cross-selling activities within the group, while KBANK reduced its provisions, having set aside significant reserves in the previous year.
- The QoQ profit decline is attributed to lower dividend income from investments, in line with seasonal trends, as well as a reduction in NIM, which was impacted by the repricing of time deposits, particularly among smaller banks.

Among the banks, SCB is expected to post solid growth in both YoY and QoQ terms, with net profit increasing by +5% YoY and +1% QoQ, due to reduced provisions and a Bt400mn gain from the sale of Robinhood.

On a YoY basis, TTB is expected to achieve strong growth of +13% YoY, supported by tax benefits and a stronger focus on high-yielding retail loans. KBANK is projected to grow +7% YoY, benefiting from reduced provisions compared to the previous year, while KTB is expected to grow +6% YoY, driven by increased net fee income from cross-selling.

In contrast, TISCO is expected to report a net profit decline of -10% YoY and -3% QoQ due to higher provisions linked to an increase in high-yield lending, particularly from auto title loans. BBL is also forecasted to see a decline of -3% YoY and -7% QoQ, mainly due to lower investment gains.

- Loan Growth Expected to Decline in 3Q24E, with NPLs Gradually Rising but Remaining Manageable

We anticipate total loans in 3Q24E to contract by -2% YoY and -1% QoQ, driven by repayments from large corporates and the public sector. NPLs are expected to rise gradually but remain at manageable levels. The overall loan portfolio is forecasted to decline by -2% YoY and -1% QoQ (Fig 3), as large corporates and the government sectors continue to make repayments. Additionally, retail loans are expected to decrease, particularly in the auto loan segment, which is being impacted by challenges in the automotive industry and intense price competition.

For the full year 2024E, we maintain our loan growth forecast of +2% YoY (Fig 4). We expect to see a recovery in loan growth from large corporates, supported by public sector investment in 4Q24E. In terms of NPLs, we expect a steady rise rather than a sharp spike, as many banks have already disposed of a significant portion of their bad debt over the past two years. This leads us to estimate that NPLs will gradually increase to 3.19% in 3Q24E, up from 3.13% in 2Q24. For 2024E, we forecast NPLs to reach 3.25%, up from 2.92% in 2023E (Fig 7), which remains within a manageable range. However, the NPL trend could improve beyond our expectations, supported by government assistance measures. Additionally, many banks are starting to establish joint ventures with asset management companies (JV AMC) to accelerate the sale of bad debt at reasonable prices. For instance, KBANK recently announced a JV AMC with BAM in early September 2024 to expedite debt sales.

- 2024E Banking Sector Net Profit Forecast to Grow +5% YoY, Driven by Lower Provisions

We maintain our 2024E net profit estimate for the banking sector at Bt205bn, representing a +5% YoY increase, primarily driven by a reduction in provisions. For 2025E, we forecast net profit to grow further to Bt217bn, up +6% YoY (Fig 5). The decline in provisions is expected to be -10% YoY in 2024E, following a +17% YoY increase in 2023, as banks had already set aside significant reserves. Additionally, we anticipate the Bank of Thailand (BOT) will lower the policy interest rate by 50 bps between late 2024E and 1H25E (Fig 8), which may further support banking profitability in the coming periods.

Valuation/Catalyst/Risk

We maintain our "Overweight" rating on the banking sector, supported by continuous fund inflows and additional economic stimulus policies from the newly established government. Furthermore, the sector's profit growth outlook for 2024E-2025E remains robust, with an expected increase of +5-6% YoY. Despite this positive outlook, the sector's valuation remains attractive, trading at just 0.70x PBV, which is -1.00 SD below the 10-year average PBV. Our top picks continue to be KBANK and KTB.

- KBANK: We maintain a target price of Bt176.00, based on a 2025E PBV of 0.70x (-1.00 SD below the 10-year average PBV). The bank's asset quality is improving and is expected to improve further following its successful joint venture with BAM (JV AMC). Moreover, we anticipate YoY profit growth for 3Q24E due to reduced provisions. KBANK's valuation remains attractive, trading at just 0.65x PBV, which is cheaper than the sector's average of 0.70x PBV and significantly lower than SCB's 0.80x PBV.
- KTB: We set a target price of Bt23.00, based on a 2025E PBV of 0.85x (-0.75 SD below the 10-year average PBV). KTB is expected to post the highest net profit growth among peers, with a projected 2024E net profit of Bt42bn, representing a +15% YoY increase, driven by lower provisions. The bank will also focus on expanding government-related lending, which is considered low-risk. Additionally, the current share price does not yet reflect the bank's quarterly profit, which is expected to reach new highs.

Fig 1: Peer comparison

Stock	Rec	Price	Target	Upside	Net profit gwth (%)		Core profit gwth (%)		PER (x)		PBV (x)		Div. yield (%)		ROE (%)	
		30-Sep-24	price	(%)	24E	25E	24E	25E	24E	25E	24E	25E	24E	25E	24E	25E
BBL	BUY	150.50	186.00	23.6	4.3	6.4	4.3	6.4	6.6	6.2	0.5	0.5	4.8	5.1	8.0	8.0
KBANK	BUY	150.50	176.00	16.9	13.1	8.1	13.1	8.1	7.4	6.9	0.6	0.6	5.5	6.0	8.7	8.9
KKP	SELL	51.00	40.00	-21.6	-23.9	7.7	-23.9	7.7	10.4	9.7	0.7	0.7	4.4	4.8	6.7	7.0
KTB	BUY	20.70	23.00	11.1	14.8	4.9	14.8	4.9	6.9	6.6	0.7	0.6	4.8	5.0	10.1	9.9
SCB	HOLD	109.00	110.00	0.9	-9.0	5.6	-9.0	5.6	9.3	8.8	0.8	0.7	8.6	9.1	8.2	8.6
TCAP	BUY	50.25	60.00	19.4	6.2	5.7	6.2	5.7	7.5	7.1	0.7	0.7	6.8	7.2	9.8	9.8
TISCO	HOLD	96.75	96.00	-0.8	-7.0	0.3	-7.0	0.3	11.4	11.4	1.8	1.8	8.0	8.0	15.9	15.7
TTB	BUY	1.97	2.20	11.7	12.9	6.6	12.9	6.6	9.2	8.6	0.8	0.8	6.0	6.4	8.9	9.1
Sector					4.8	6.2	4.8	6.2	8.6	8.2	0.8	0.8	6.1	6.4	9.5	9.6

Source: DAOL

Fig 2: Estimated net profits, 3Q24E

Net profit (Bt mn)	3Q24E	3Q23	YoY	2Q24	QoQ	Announce Date(E)	Reason
BBL	11,043	11,350	-2.7%	11,807	-6.5%	21-Oct-24	-YoY due to a seasonal decrease in investment gains - QoQ due to NIM contractions from fixed deposit repricing
KBANK	12,012	11,282	6.5%	12,653	-5.1%	21-Oct-24	+YoY driven by a downward trend in provisioning -QoQ due to a seasonal decrease in investment gains
KKP	881	1,281	-31.2%	769	14.6%	18-Oct-24	-YoY due to NIM contractions from fixed deposit repricing + QoQ driven by lower provisioning and reduced losses from vehicle repossessions
KTB	10,933	10,282	6.3%	11,195	-2.3%	18-Oct-24	+YoY driven by higher fee-based income from cross-selling efforts -QoQ due to a seasonal decrease in dividend income
SCB	10,102	9,663	4.5%	10,014	0.9%	21-Oct-24	+YoY driven by a downward trend in provisioning + QoQ driven by a Bt400mn gain from the disposal of Robinhood
TISCO	1,691	1,874	-9.8%	1,749	-3.3%	15-Oct-24	-YoY due to higher provisioning following a focus to higher-yield loans -QoQ due to a seasonal decrease in dividend income
TTB	5,327	4,735	12.5%	5,355	-0.5%	21-Oct-24	+YoY driven by a Bt1.1bn gain from tax benefits - QoQ due to NIM contractions from fixed deposit repricing
Total	51,988	50,467	3.0%	53,542	-2.9%		

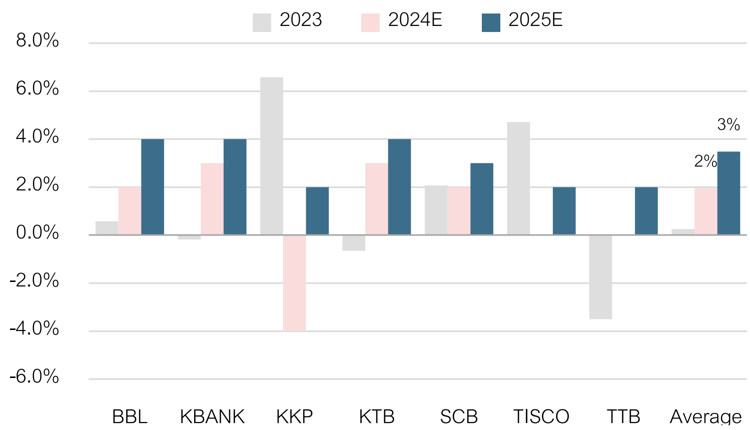
Source: Company, DAOL

Fig 3: Estimated loans, 3Q24E

Loan	3Q24E	3Q23	YoY	2Q24	QoQ	YTD	2024E	2023	YoY
BBL	2,638,389	2,736,371	-3.6%	2,719,989	-3.0%	-2.2%	2,752,123	2,698,306	2.0%
KBANK	2,475,155	2,438,026	1.5%	2,487,593	-0.5%	-0.6%	2,565,110	2,490,398	3.0%
KKP	385,636	400,360	-3.7%	391,509	-1.5%	-3.1%	382,079	397,999	-4.0%
KTB	2,535,941	2,630,944	-3.6%	2,561,557	-1.0%	-1.6%	2,653,811	2,576,516	3.0%
SCB	2,438,061	2,455,649	-0.7%	2,438,061	0.0%	0.5%	2,475,094	2,426,563	2.0%
TISCO	242,704	248,970	-2.5%	245,651	-1.2%	-1.9%	247,385	247,385	0.0%
TTB	1,286,332	1,362,578	-5.6%	1,296,706	-0.8%	-3.1%	1,327,964	1,327,964	0.0%
Total	12,002,219	12,272,898	-2.2%	12,141,066	-1.1%	-1.3%	12,403,566	12,165,131	2.0%

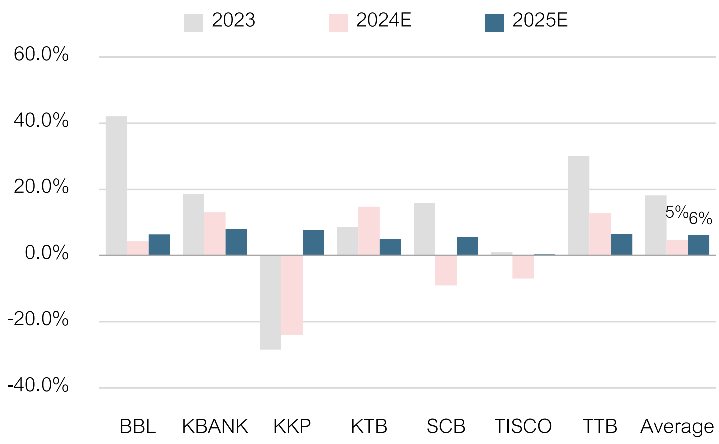
Source: Company, DAOL

Fig 4: Loan growth



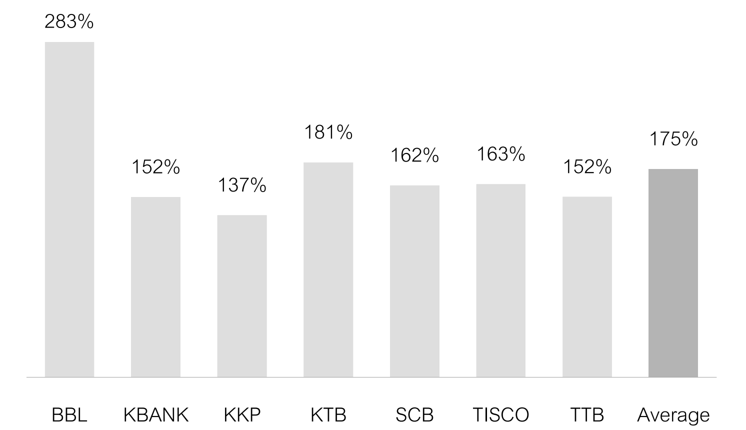
Source: Company, DAOL

Fig 5: Net profit growth (excl. TCAP)



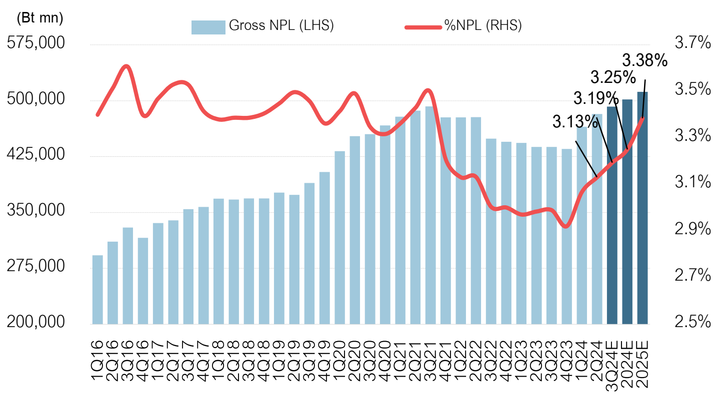
Source: Company, DAOL

Fig 6: Coverage ratio, 2Q24



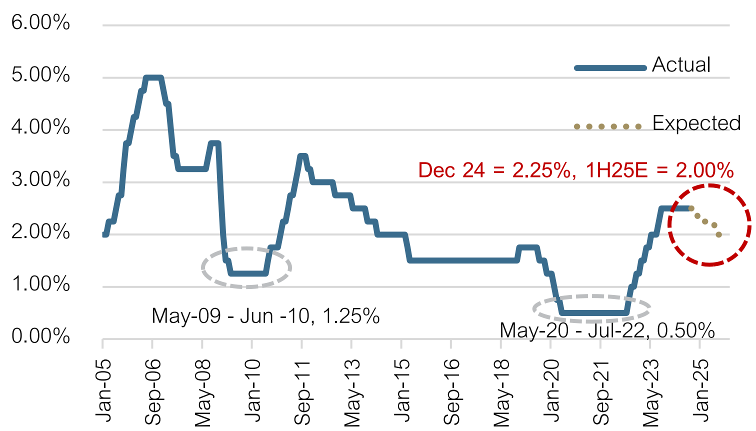
Source: Company, DAOL

Fig 7: Gross NPL & NPL Ratio



Source: Company, DAOL

Fig 8: Policy interest rate



Source: BoT, Bloomberg, DAOL

Fig 9: BBL 10 years PBV band

Source: Setsmart

Fig 10: KBANK 10 years PBV band

Source: Setsmart

Fig 11: KTB 10 years PBV band

Source: Setsmart

Fig 12: SCB 10 years PBV band

Source: Setsmart

Fig 13: TCAP 10 years PBV band

Source: Setsmart

Fig 14: TTB 10 years PBV band

Source: Setsmart

Fig 15: KKP 10 years PBV band

Source: Setsmart

Fig 16: TISCO 10 years PBV band

Source: Setsmart

Corporate governance report of Thai listed companies 2023

CG rating by the Thai Institute of Directors Association (Thai IOD)

Score	Symbol	Description	ความหมาย
90-100		Excellent	ดีเลิศ
80-89		Very Good	ดีมาก
70-79		Good	ดี
60-69		Satisfactory	ดีพอใช้
50-59		Pass	ผ่าน
< 50	No logo given	n.a.	n.a.

IOD disclaimer

The Corporate Governance Report (CGR) of Thai listed Companies is based on a survey and assessment of information that companies listed on the Stock Exchange of Thailand and the Market for Alternative Investment ("listed companies") disclose to the public. The CGR is a presentation of information from the perspective of outsiders on the standards of corporate governance of listed companies. It is not any assessment of the actual practices of the listed companies, and the CGR does not use any non-public information. The CGR is not therefore an endorsement of the practices of the listed companies. It is not a recommendation for investment in any securities of any listed companies or any recommendation whatsoever. Investors should exercise their own judgment to analyze and consider any information relating to the listed companies presented in this CGR report. No representation or warranty is made by the Institute of Directors or any of its personnel as to the completeness or accuracy of the CGR report or the information used.

DAOL SEC's stock rating definition

BUY	The stock presents a good buying opportunity as it appears undervalued and/or will appreciate in the medium term. A return of the stock, excluding dividend, is expected to exceed 10%.
HOLD	The stock lacks a catalyst in the medium to long term, and there is uncertainty regarding earnings growth. A return of the stock is expected to be between 0% and 10%.
SELL	The stock appears overvalued and/or will perform poorly in the medium to long term, while there is major challenge at a company.

Notes: The expected returns may be subject to change at any time without notice.

ESG rating (ESG: Environmental, Social, and Governance)

DAOL SEC believes environmental, social and governance (ESG) practices will help determine the sustainability and future financial performance of companies. We thus incorporate ESG into our valuation model.

- **Environmental** criteria consider how the company safeguards the environment and conserves natural resources. DAOL SECURITIES (THAILAND) calculates how much revenue derives from a business operation that can be harmful to the environment.
- **Social** criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. It also consists of employee welfare. DAOL SECURITIES (THAILAND) analyzes the company's non-financial statement reports (news and announcements), including NGO-related activities, retrieved from Bloomberg.
- **Governance** ensures a company uses accurate and transparent accounting method, internal controls, risk assessments, shareholder rights, and anti-corruption policies. DAOL SECURITIES (THAILAND) relates the IOD's CG rating system.

DAOL SECURITIES (THAILAND)'S ESG Scale of Ratings

Excellent (5)	Very Good (4)	Good (3)	Satisfactory (2)	Pass (1)

DAOL SECURITIES (THAILAND) assigns an "n.a." to notify an insufficient information.