

Thailand Banks

NEUTRAL

[Unchanged]

Nothing Seems to be Going Right

4Q17F: expect earnings -8% YoY/-1% QoQ

We expect Thai banks had another lacklustre quarter in 4Q17. An unfortunate combination of sluggish loan growth/margins and high provisions may have caused 4Q17 earnings (due mid-Jan'18) to decline by 1% QoQ/8% YoY, on average. If we are right, it should substantiate our dimmer-than-consensus 2018 outlook. We expect TISCO's results to be better following the completion of the acquisition of SCBT's retail portfolio. On the flip side, we expect SCB to record the worst results due to high provisions and opex.

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Slow loans + high provisions = weak earnings

Despite the pick-up in GDP, the aggregate loans of the nine banks under our coverage expanded by only 1.1% in Nov from Sep. As such, we estimate only 1.5% QoQ growth in loans in 4Q17, on average. Net interest margin may have shrunk slightly due to the change in loan mix towards low-yielding corporate loans, making net interest income lacklustre. In addition, non-interest income may have declined among the big banks due to lower gains from investments after profit-taking in 3Q17 and benign bancassurance income. The only likely respite is 4Q17 NPLs may have fallen by 10bps to 3.71% on average due to seasonal write-offs. However, preparation for IFRS9 (effective Jan-19) may have created a credit-cost overhang. This should especially be the case for the big banks (SCB/KTB/KBANK/BBL).

Small banks to continue to deliver better earnings

Small banks (TCAP/TISCO/KKP) should outperform big-bank peers due to better credit quality and lower provisions needed. As always, it is hard to project KKP's earnings as its income is volatile (high exposure to investment-related businesses) but we believe provisions returned to normal levels (0.80%) from the extraordinarily low level in 3Q17 (0.16%), making earnings decline QoQ. However, this set of results is unlikely to be that bad due to KKP's solid expansion in high-yield consumer loans, as well as its strong capital markets business franchise.

Sector is not cheap and earnings growth only gradual

The market has been optimistic about the banking sector, as reflected by the 16% increase in bank stocks on average in 2017. But in terms of the earnings outlook, it is not that upbeat, in our view due to lower net interest margins, slower non-interest income growth and stubbornly high provisions. If 4Q17 results are in line with our low expectations, we believe the market may de-rate the sector. As such, we maintain our NEUTRAL sector view. Our Top BUYs are TISCO and BBL due to their non-organic growth.

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							18E	19E	18E	19E	18E	19E
Kasikornbank	KBANK TB	17,555	Hold	237.00	200.00	(16)	14.0	12.1	1.5	1.3	1.4	1.7
Siam Comm. Ban	SCB TB	15,763	Hold	150.00	153.00	2	11.4	9.3	1.3	1.2	3.3	4.1
Bangkok Bank	BBL TB	12,111	Buy	205.00	227.00	11	10.7	8.7	0.9	0.9	4.1	4.1
Bank of Ayudhya	BAY TB	9,106	Buy	40.00	43.25	8	11.3	10.1	1.2	1.1	2.8	3.3
Krung Thai Bank	KTB TB	8,392	Hold	19.40	19.00	(2)	9.8	8.7	0.9	0.8	3.9	4.3
TMB Bank	TMB TB	4,179	Hold	3.08	2.68	(13)	13.6	11.8	1.4	1.3	2.2	2.5
TISCO Financial	TISCO TB	2,218	Buy	89.50	105.00	17	9.9	9.0	1.9	1.7	5.0	5.5
Thanachart Cap	TCAP TB	2,147	Hold	57.50	51.00	(11)	10.8	10.2	1.1	1.0	3.5	3.8
Kiatnakin Bank	KKP TB	2,077	Hold	79.25	72.00	(9)	11.1	10.7	1.5	1.5	6.3	6.6

4Q17E financial performance estimates - we expect smaller banks (TCAP/TISCO/KKP) to outperform large ones

Date	Bank	Net profit (THB m)		MKE estimate		Consensus*		NPL (%)		MKE's 4Q17E Loans (%)	
		4Q16	3Q17	4Q17E	%YoY	%QoQ	4Q17E	3Q17	MKE's 4Q17E	QoQ	YoY
12-Jan-18	TISCO	1,293	1,572	1,585	23	1	1,638	2.34	2.30	17.0	11.9
17-18 Jan-18	BAY	5,156	6,014	6,053	17	1	6,039	2.46	2.45	3.0	6.4
17-19-Jan-18	KKP	1,452	1,722	1,376	-5	-20	1,497	5.62	5.50	3.0	7.4
18-Jan-18	SCB	12,716	10,130	9,125	-28	-10	11,064	3.15	3.10	1.0	3.8
18-Jan-18	BBL	8,267	8,161	8,321	1	2	8,015	4.55	4.50	0.0	-0.1
18-Jan-18	KBANK	10,244	9,473	9,279	-9	-2	9,818	3.93	3.90	1.0	4.3
18-Jan-18	TMB	2,138	2,003	2,149	0	7	2,286	2.94	2.90	2.0	6.4
18-19 Jan-18	TCAP	1,694	1,788	1,943	15	9	1,779	2.35	2.35	1.0	2.1
18-19 Jan-18	KTB	7,440	5,872	6,525	-12	11	6,852	5.53	5.20	1.0	-0.5
	Total/AVG	50,400	46,737	46,357	-8	-1	48,988	3.81	3.71	1.5	3.0

Consensus numbers are from Bloomberg as of 29 Dec 2018 and subject to change

Source: Companies, Bloomberg, MKE-ISR

Loans/deposit/accrued interest receivables in Nov' 17 - Sluggish loan growth in Nov (+0.3% MoM) suggests weak 4Q17 loan number

Gross loans (THB b)									
	Nov-16	Dec-16	Sep-17	Oct-17	Nov-17	Chg YoY	Chg MoM	Chg YTD	Chg QTD
BBL	1,863	1,898	1,889	1,876	1,879	0.9%	0.1%	-1.0%	-0.6%
KTB	1,844	1,844	1,809	1,841	1,827	-0.9%	-0.8%	-0.9%	1.0%
KBANK	1,657	1,676	1,728	1,741	1,737	4.8%	-0.2%	3.6%	0.5%
SCB	1,922	1,931	1,980	1,985	2,001	4.1%	0.8%	3.6%	1.1%
BAY	1,323	1,338	1,374	1,383	1,397	5.6%	1.0%	4.4%	1.7%
TMB	606	594	620	620	629	3.7%	1.5%	5.8%	1.4%
TCAP	643	653	696	693	700	8.9%	1.1%	7.3%	0.7%
TISCO	222	222	215	248	250	12.6%	0.7%	12.6%	16.4%
KKP	179	179	187	190	192	7.1%	1.2%	7.0%	2.4%
Sector	10,259	10,336	10,498	10,577	10,611	3.4%	0.3%	2.7%	1.1%

Deposits (THB b)									
	Nov-16	Dec-16	Sep-17	Oct-17	Nov-17	Chg YoY	Chg MoM	Chg YTD	Chg QTD
BBL	2,106	2,117	2,244	2,245	2,230	-0.5%	-0.7%	5.4%	-0.6%
KTB	1,989	1,975	1,952	2,051	2,024	1.2%	-1.3%	2.5%	3.7%
KBANK	1,761	1,798	1,848	1,848	1,861	2.8%	0.7%	3.5%	0.7%
SCB	2,000	2,021	2,023	2,036	2,034	1.0%	-0.1%	0.6%	0.5%
BAY	1,093	1,103	1,194	1,266	1,306	13.8%	3.2%	18.4%	9.3%
TMB	595	599	607	602	606	0.2%	0.8%	1.2%	-0.2%
TCAP	666	678	703	697	724	1.5%	3.9%	6.8%	2.9%
TISCO	157	156	155	176	167	4.1%	-4.7%	7.3%	8.0%
KKP	109	110	131	127	129	-3.1%	1.5%	16.9%	-1.8%
Sector	10,476	10,558	10,859	11,046	11,081	2.4%	0.3%	5.0%	2.0%

Accrued interest receivables (THB m)									
	Nov-16	Dec-16	Sep-17	Oct-17	Nov-17	Chg YoY	Chg MoM	Chg YTD	Chg QTD
BBL	3,903	4,536	4,660	4,123	4,275	7.0%	3.7%	-5.8%	-8.3%
KTB	3,226	4,775	4,549	2,673	2,889	-2.5%	8.1%	-39.5%	-36.5%
KBANK	3,192	3,053	2,935	2,985	2,993	-4.0%	0.3%	-2.0%	2.0%
SCB	4,266	3,505	3,091	3,700	3,564	-1.3%	-3.7%	1.7%	15.3%
BAY	2,557	2,316	2,767	2,852	2,666	3.7%	-6.5%	15.1%	-3.6%
TMB	1,054	915	975	1,012	1,059	8.9%	4.6%	15.7%	8.6%
TCAP	667	620	604	609	678	11.9%	11.4%	9.3%	12.3%
TISCO	539	484	541	751	728	44.4%	-3.1%	50.3%	34.6%
KKP	967	927	988	1,049	1,026	0.2%	-2.2%	10.7%	3.9%
Sector	20,369	21,131	21,111	19,754	19,878	2.7%	0.6%	-5.9%	-5.8%

Source: Companies

TISCO: Good earnings to continue

TISCO completed SCBT's portfolio acquisition in Oct-10, boosting the topline from 4Q17 onwards. However, there were some costs incurred from the process and thus the bottom line may have risen only slightly (+0.8% QoQ).

TISCO: 4Q17E financial performance

Financial statement (THB m)	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet							
Loans	224,934	220,523	216,149	215,038	251,595	11.9%	17.0%
Deposits	155,068	155,999	155,862	154,965	165,813	6.9%	7.0%
Income statement							
Interest income	3,978	3,925	3,928	3,981	4,249	6.8%	6.7%
Interest expenses	-1,208	-1,161	-1,167	-1,208	-1,247	3.2%	3.2%
Net interest income	2,770	2,764	2,761	2,772	3,001	8.3%	8.3%
Net fee and service income	1,295	1,451	1,296	1,481	1,555	20.1%	5.0%
Non-interest income	1,516	1,636	1,468	1,706	1,791	18.1%	5.0%
Total operating income	4,286	4,400	4,229	4,478	4,792	11.8%	7.0%
Operating expenses	-1,718	-1,798	-1,808	-1,918	-2,110	22.8%	10.0%
Operating profit	2,568	2,602	2,420	2,560	2,683	4.5%	4.8%
Loan loss provisions	-964	-753	-542	-611	-583	-39.5%	-4.6%
Pre-tax profit	1,604	1,850	1,878	1,948	2,099	30.9%	7.7%
Tax	-306	-351	-370	-372	-420	37.2%	12.9%
Minority interest	-5	-8	-3	-4	-94		
Net profit	1,293	1,491	1,505	1,572	1,585	22.6%	0.8%
EPS	1.61	1.86	1.88	1.96	1.98	22.6%	0.8%
Key ratios							
Loans to deposits	145.1%	141.4%	138.7%	138.8%	151.7%		
Loans to deposits & borrowings	99.8%	101.0%	96.5%	96.6%	105.7%		
Net interest margin	4.14%	4.12%	4.12%	4.11%	4.10%		
Cost to income	40.1%	40.9%	42.8%	42.8%	44.0%		
NPL - gross (THBm)	5,710	5,220	5,199	5,030	5,787		
NPL/ Gross loans	2.54%	2.37%	2.41%	2.34%	2.30%		
LLR/ Gross loans	3.55%	3.88%	4.15%	4.35%	4.59%		
LLR/NPL	139.8%	164.0%	172.4%	186.2%	199.4%		
Credit cost (annualized)	1.71%	1.35%	0.99%	1.13%	1.00%		
ROA	1.9%	2.2%	2.2%	2.3%	2.4%		
ROE	16.9%	18.6%	18.8%	19.5%	18.7%		

Source: Company, MKE-ISR

BAY: High season for loan growth

BAY may have seen another solid loan growth number (+3.0%) QoQ, driven by consumer loans as fourth quarter is high season for consumer loans thanks to spending in the new year festival. However, BAY has been more aggressive in some segments such as auto loans/personal loans by offering attractive interest rates. This should have affected the net interest margin somewhat.

BAY: 4Q17E financial performance

Financial statement (THBm)	4Q16	1Q17	2Q17	3Q17	4Q17E	Chg YoY	Chg QoQ
Balance sheet							
Loans	1,403,285	1,384,728	1,427,364	1,445,857	1,489,660	6.2%	3.0%
Deposits	1,108,288	1,125,464	1,163,312	1,197,283	1,257,147	13.4%	5.0%
Income statement							
Interest income	22,489	22,763	23,424	23,974	24,510	9.0%	2.2%
Interest expenses	-6,338	-6,279	-6,485	-6,628	-6,875	8.5%	3.7%
Net interest income	16,151	16,483	16,938	17,346	17,635	9.2%	1.7%
Net fee income	4,722	4,669	4,638	5,038	5,139	8.8%	2.0%
Non-interest income	7,361	7,676	7,423	8,210	8,152	10.7%	-0.7%
Total operating income	23,513	24,159	24,361	25,556	25,787	9.7%	0.9%
Operating expenses	-11,730	-11,781	-11,507	-11,790	-12,026	2.5%	2.0%
Operating profit	11,782	12,378	12,854	13,766	13,762	16.8%	0.0%
Loan loss provisions	-5,371	-5,244	-5,439	-6,177	-6,075	13.1%	-1.7%
Pre-tax profit	6,411	7,135	7,415	7,589	7,687	19.9%	1.3%
Tax	-1,189	-1,405	-1,459	-1,480	-1,537	29.3%	3.9%
Minority interest	-67	-85	-85	-95	-96	44.0%	1.3%
Net profit	5,156	5,645	5,871	6,014	6,053	17.4%	0.7%
EPS	0.70	0.77	0.80	0.82	0.82	17.4%	0.7%
Key ratios							
Loans to deposits	130.7%	127.2%	126.8%	125.0%	122.6%		
LDR & borrowings	114.2%	110.2%	110.4%	111.2%	109.1%		
Net interest margin	3.69%	3.71%	3.78%	3.78%	3.74%		
Cost to income	49.89%	48.76%	47.23%	46.13%	46.63%		
NPL - gross	34,834	36,137	36,506	36,844	37,757		
NPL/ Gross loans	2.40%	2.52%	2.47%	2.46%	2.45%		
LLR/ Gross loans	3.41%	3.59%	3.53%	3.66%	3.63%		
LLR/NPL	142.0%	142.2%	142.7%	148.5%	148.2%		
Credit cost (annualized)	1.51%	1.46%	1.50%	1.66%	1.60%		
ROA	1.1%	1.2%	1.3%	1.3%	1.2%		
ROE	10.0%	10.7%	10.9%	11.0%	10.9%		

Source: Company, MKE-ISR

KKP: Earnings to remain volatile

After rising 45%QoQ in 3Q17, we expect earnings to fall 20% QoQ mainly due to higher provisions. 3Q17 provisions were unusually low (0.16%) and we expect it may have returned to a normalised level c.0.8%.

KKP: 4Q17E financial performance

Financial statement (THB m)	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet							
Loans	176,354	178,624	183,364	183,814	189,329	7.4%	3.0%
Deposits	109,923	127,721	133,858	130,734	128,120	16.6%	-2.0%
Income statement							
Interest income	3,666	3,591	3,678	3,820	3,718	1.4%	-2.7%
Interest expenses	-1,065	-1,045	-1,030	-1,043	-977	-8.2%	-6.4%
Net interest income	2,602	2,546	2,648	2,777	2,742	5.4%	-1.3%
Net fee and service income	1,014	928	931	1,028	1,058	4.4%	3.0%
Non-interest income	898	1,257	1,305	1,517	1,450	61.5%	-4.4%
Total operating income	3,500	3,803	3,953	4,294	4,192	19.8%	-2.4%
Operating expenses	-1,768	-1,767	-2,114	-2,123	-2,144	21.2%	1.0%
Operating profit	1,731	2,036	1,839	2,171	2,047	18.3%	-5.7%
Loan loss provisions	-100	-167	-456	-75	-373	272.8%	394.3%
Pre-tax profit	1,631	1,869	1,383	2,095	1,674	2.7%	-20.1%
Tax	-172	-337	-177	-373	-298	73.0%	-20.1%
Minority interest	-7	-7	-21	-1	-0	-93.2%	-20.1%
Net profit	1,452	1,524	1,185	1,722	1,376	-5.2%	-20.1%
EPS	1.71	1.80	1.40	2.03	1.63	-5.2%	-20.1%
Key ratios							
Loans to deposits	160.4%	139.9%	137.0%	140.6%	147.8%		
Loans to deposits & borrowings	106.3%	105.5%	106.7%	105.3%	110.1%		
Net interest margin	4.79%	4.58%	4.49%	4.66%	4.72%		
Cost to income	50.5%	46.5%	53.5%	49.4%	51.2%		
NPL - gross (THBm)	9,968	9,933	10,616	10,324	10,413		
NPL/ Gross loans	5.65%	5.56%	5.79%	5.62%	5.50%		
LLR/ Gross loans	6.22%	6.11%	6.05%	5.93%	5.77%		
LLR/NPL	110.0%	109.9%	104.5%	105.5%	105.0%		
Credit cost (annualized)	0.23%	0.38%	1.01%	0.16%	0.80%		
ROA	2.5%	2.6%	1.9%	2.7%	2.2%		
ROE	14.6%	14.8%	11.6%	17.2%	13.5%		

Source: Company, MKE-ISR

SCB: High credit cost to pressure earnings

Two things may have weakened the bottom line; first, the bank's Transformation program may have pushed opex higher (+5%). Second, SCB may have kept the credit cost at a high level owing to IFRS9 preparation. SCB could be one of the worst performers this earnings season.

SCB: 4Q17E financial performance

Financial statement (THBm)	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet							
Loan	1,939,048	1,951,898	1,970,408	1,993,565	2,023,469	4.4%	1.5%
Deposit	2,026,272	2,024,607	2,057,364	2,026,797	2,047,065	1.0%	1.0%
Income statement							
Interest income	31,331	30,844	31,096	31,513	31,290	-0.1%	-0.7%
Interest expenses	-8,527	-8,283	-8,309	-8,241	-8,096	-5.1%	-1.8%
Net interest income	22,804	22,561	22,788	23,272	23,194	1.7%	-0.3%
Net fee income	7,138	7,292	7,142	7,880	7,643	7.1%	-3.0%
Non-interest income	9,682	10,624	11,192	11,419	11,006	13.7%	-3.6%
Total operating income	32,486	33,185	33,980	34,692	34,200	5.3%	-1.4%
Operating expenses	-14,724	-13,462	-14,257	-14,522	-15,248	3.6%	5.0%
Operating profit	17,762	19,723	19,723	20,170	18,953	6.7%	-6.0%
Loan loss provisions	-1,994	-5,010	-5,010	-7,554	-7,532	277.7%	-0.3%
Pre-tax profit	15,768	14,713	14,713	12,616	11,421	-27.6%	-9.5%
Tax	-3,045	-2,788	-2,787	-2,472	-2,284	-25.0%	-7.6%
Minority interest	-7	-13	-15	-13	-12		
Net profit	12,716	11,912	11,911	10,130	9,125	-28.2%	-9.9%
EPS	3.74	3.50	3.50	2.98	2.68	-28.2%	-9.9%
Key ratios							
Loans to deposits	95.7%	96.4%	95.8%	98.4%	98.8%		
LDR & borrowings	90.9%	92.0%	91.4%	95.5%	96.0%		
Net interest margin	3.32%	3.21%	3.17%	3.23%	3.22%		
Cost to income	45.3%	40.6%	42.0%	41.9%	44.6%		
NPL - gross	57,593	59,649	61,151	62,760	62,728		
NPL/ Gross loans	2.97%	3.06%	3.10%	3.15%	3.10%		
LLR/ Gross loans	3.99%	4.08%	4.14%	4.29%	4.38%		
LLR/NPL	134.3%	133.4%	133.5%	136.4%	141.3%		
Credit cost (annualized)	0.41%	1.03%	1.02%	1.52%	1.50%		
ROA	1.78%	1.63%	1.61%	1.36%	1.23%		
ROE	15.42%	13.99%	13.74%	11.56%	10.17%		

Source: Company, MKE-ISR

BBL: Topline remain lackluster

4Q17 may have not yet been a good quarter for BBL. Topline may have remained lackluster (flat loan growth, slow non-interest income, etc.). However, lower provisions may have cushioned the earnings to grow 2% QoQ. Note that, we still see the earnings will improve significantly in 2018 thanks to strong loan demand from large corporates and solid fee income from the AIA deal.

BBL: 4Q17E financial performance

Financial statement (THBm)	4Q16	1Q17	2Q17	3Q17	4Q17E	Chg YoY	Chg QoQ
Balance sheet							
Loans	1,941,093	1,923,953	1,978,391	1,938,619	1,938,619	-0.1%	0.0%
Deposits	2,178,141	2,244,032	2,297,918	2,300,958	2,300,958	5.6%	0.0%
Income statement							
Interest income	25,521	25,649	26,214	26,753	26,720	4.7%	-0.1%
Interest expenses	-9,218	-9,372	-9,646	-9,928	-9,871	7.1%	-0.6%
Net interest income	16,303	16,277	16,568	16,825	16,850	3.4%	0.1%
Net fee and service income	6,255	6,719	6,372	6,599	6,665	6.5%	1.0%
Non-interest income	11,050	10,938	11,473	11,651	11,767	6.5%	1.0%
Total operating income	27,353	27,216	28,041	28,476	28,617	4.6%	0.5%
Operating expenses	-12,955	-11,082	-12,846	-11,938	-12,297	-5.1%	3.0%
Operating profit	14,398	16,134	15,195	16,537	16,320	13.4%	-1.3%
Loan loss provisions	-3,596	-5,806	-5,688	-6,259	-5,816	61.7%	-7.1%
Pre-tax profit	10,802	10,328	9,506	10,278	10,504	-2.8%	2.2%
Tax	-2,469	-1,951	-1,388	-2,036	-2,101	-14.9%	3.2%
Minority interest	-65	-72	-71	-81	-83	26.4%	2.2%
Net profit	8,267	8,305	8,047	8,161	8,321	0.6%	2.0%
EPS	4.33	4.35	4.22	4.28	4.36	0.6%	2.0%
Key ratios							
Loans to deposits	89.1%	85.7%	86.1%	84.3%	84.3%		
LDR & borrowings	83.8%	80.9%	81.4%	79.8%	79.8%		
Net interest margin	2.28%	2.23%	2.22%	2.22%	2.21%		
Cost to income	47.4%	40.7%	45.8%	41.9%	43.0%		
NPL - gross	68,841	77,772	85,947	88,231	87,238		
NPL/ Gross loans	3.55%	4.04%	4.34%	4.55%	4.50%		
LLR/ Gross loans	6.16%	6.47%	6.57%	7.01%	7.22%		
LLR/NPL	173.6%	160.0%	151.2%	154.0%	160.4%		
Credit cost (annualized)	0.75%	1.20%	1.17%	1.28%	1.20%		
ROA	1.15%	1.13%	1.08%	1.08%	1.09%		
ROE	8.82%	8.69%	8.36%	8.40%	8.38%		

Source: Company, MKE-ISR

KBANK: Credit cost to remain stubbornly high

In the 3Q17 meeting, management admitted that 2017 credit cost may be higher than the target of 200-225bps. Thus, we expect credit cost to remain high in 4Q17 (at 2.2%) which will make the full-year number come in at 2.30%. In light of gradual improvements in the topline, high provisions may have led to earnings contracting 2% QoQ.

KBANK: 4Q17E financial performance

Financial statement (THB m)	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet							
Loans	1,697,581	1,701,675	1,752,227	1,752,249	1,769,771	4.3%	1.0%
Deposits	1,794,835	1,795,072	1,839,067	1,844,427	1,862,871	3.8%	1.0%
Income statement							
Interest income	29,533	29,371	29,727	29,957	29,936	1.4%	-0.1%
Interest expenses	-6,529	-6,283	-6,383	-6,246	-6,281	-3.8%	0.6%
Net interest income	23,004	23,088	23,343	23,710	23,655	2.8%	-0.2%
Net fee and service income	9,888	10,085	10,215	10,642	10,749	8.7%	1.0%
Non-interest income	15,153	15,517	15,967	16,435	15,962	5.3%	-2.9%
Total operating income	38,157	38,605	39,310	40,145	39,618	3.8%	-1.3%
Operating expenses	-17,606	-15,224	-15,851	-16,338	-16,665	-5.3%	2.0%
Operating profit	20,551	23,381	23,459	23,807	22,953	11.7%	-3.6%
Loan loss provisions	-6,871	-9,132	-10,626	-10,405	-9,686	41.0%	-6.9%
Pre-tax profit	13,680	14,248	12,833	13,402	13,268	-3.0%	-1.0%
Tax	-2,342	-2,717	-2,455	-2,581	-2,654	13.3%	2.8%
Minority interest	-1,094	-1,360	-1,392	-1,348	-1,335	22.0%	-1.0%
Net profit	10,244	10,171	8,986	9,473	9,279	-9.4%	-2.1%
EPS	4.28	4.25	3.75	3.96	3.88	-9.4%	-2.1%
Key ratios							
Loans to deposits	94.6%	94.8%	95.3%	95.0%	95.0%		
Loans to deposits & borrowings	89.8%	91.1%	91.7%	91.5%	91.5%		
Net interest margin	3.47%	3.41%	3.43%	3.47%	3.44%		
Cost to income	46.1%	39.4%	40.3%	40.7%	42.1%		
NPL - gross (THBm)	65,087	65,393	66,843	68,873	69,021		
NPL/ Gross loans	3.83%	3.84%	3.81%	3.93%	3.90%		
LLR/ Gross loans	5.02%	5.19%	5.39%	5.53%	5.64%		
LLR/NPL	130.9%	134.9%	141.2%	140.7%	144.6%		
Credit cost (annualized)	1.63%	2.15%	2.46%	2.38%	2.20%		
ROA	1.6%	1.6%	1.5%	1.5%	1.5%		
ROE	13.0%	12.4%	10.8%	11.2%	10.7%		

Source: Company, MKE-ISR

TMB: Strong fee income to drive earnings

4Q17 is expected to be a good quarter for TMB's fee income thanks to its solid mutual fund/bancassurance business. The cooperation with Hong-Kong-based insurance company FWD may have enhanced this revenue further. We estimate earnings may have satisfactorily risen by 7%QoQ.

TMB: 4Q17E financial performance

Financial statement (THBm)	4Q16	1Q17	2Q17	3Q17	4Q17E	Chg YoY	Chg QoQ
Balance sheet							
Loans	569,268	574,259	592,269	594,672	606,839	6.6%	2.0%
Deposits	598,948	587,388	601,429	607,313	613,386	2.4%	1.0%
Income statement							
Interest income	8,777	8,560	8,687	8,753	8,904	1.4%	1.7%
Interest expenses	-2,386	-2,401	-2,489	-2,561	-2,555	7.1%	-0.2%
Net interest income	6,391	6,160	6,198	6,193	6,348	-0.7%	2.5%
Net fee income	2,205	2,034	2,827	2,791	3,015	36.7%	8.0%
Non-interest income	2,944	2,738	3,309	3,184	3,415	16.0%	7.3%
Total operating income	9,335	8,898	9,507	9,376	9,763	4.6%	4.1%
Operating expenses	-4,515	-4,104	-4,365	-4,446	-4,713	4.4%	6.0%
Operating profit	4,819	4,794	5,142	4,930	5,050	4.8%	2.4%
Loan loss provisions	-2,234	-2,241	-2,282	-2,391	-2,345	5.0%	-1.9%
Pre-tax profit	2,586	2,553	2,860	2,539	2,705	4.6%	6.6%
Tax	-441	-447	-518	-521	-541	22.7%	3.8%
Minority interest	-6	-9	-13	-14	-15	134.3%	6.6%
Net profit	2,138	2,096	2,330	2,003	2,149	0.5%	7.3%
EPS	0.05	0.05	0.05	0.05	0.05	0.4%	7.3%
Key ratios							
Loans to deposits	99.1%	101.9%	102.5%	101.9%	102.9%		
LDR & borrowings	92.9%	95.5%	97.0%	96.6%	97.5%		
Net interest margin	3.32%	3.20%	3.19%	3.10%	3.10%		
Cost to income	48.37%	46.12%	45.91%	47.42%	48.27%		
NPL - gross	17,605	17,588	18,208	18,209	18,313		
NPL/ Gross loans	2.97%	2.94%	2.95%	2.94%	2.90%		
LLR/ Gross loans	4.23%	4.22%	4.12%	4.10%	4.06%		
LLR/NPL	142.5%	143.8%	139.6%	139.5%	140.0%		
Credit cost (annualized)	1.51%	1.50%	1.50%	1.55%	1.50%		
ROA	1.1%	1.0%	1.1%	1.0%	1.0%		
ROE	10.3%	9.9%	10.9%	9.2%	9.7%		

Source: Company, MKE-ISR

TCAP: Still room to cut credit cost

Like small-bank peers, the balance sheet is already solid (low NPL with high coverage ratio) and therefore the bank can cut credit cost further. We look for 0.7% of credit cost this quarter (vs. 0.97% in 3Q17), which should boost earnings growth by 8.6% QoQ.

TCAP: 4Q17E financial performance

Financial statement (THB m)	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet							
Loans	692,046	683,209	696,333	699,751	706,748	2.1%	1.0%
Deposits	676,456	675,909	665,968	703,294	724,393	7.1%	3.0%
Income statement							
Interest income	10,990	10,849	11,092	11,485	11,524	4.9%	0.3%
Interest expenses	-3,839	-3,762	-3,858	-3,976	-3,965	3.3%	-0.3%
Net interest income	7,150	7,087	7,234	7,510	7,559	5.7%	0.7%
Net fee and service income	1,783	1,440	1,334	1,449	1,492	-16.3%	3.0%
Non-interest income	3,599	2,866	3,259	3,404	3,486	-3.1%	2.4%
Total operating income	10,750	9,953	10,493	10,913	11,045	2.7%	1.2%
Operating expenses	-5,493	-5,466	-5,515	-5,239	-5,448	-0.8%	4.0%
Operating profit	5,257	4,487	4,978	5,675	5,597	6.5%	-1.4%
Loan loss provisions	-1,358	-852	-1,369	-1,696	-1,231	-9.4%	-27.5%
Pre-tax profit	3,898	3,635	3,610	3,978	4,366	12.0%	9.7%
Tax	-347	-317	-196	-340	-393	13.3%	15.7%
Minority interest	-1,858	-1,715	-1,738	-1,850	-2,030	9.3%	9.7%
Net profit	1,694	1,602	1,675	1,788	1,943	14.7%	8.6%
EPS	1.40	1.33	1.39	1.48	1.61	14.7%	8.6%
Key ratios							
Loans to deposits	102.3%	101.1%	104.6%	99.5%	97.6%		
Loans to deposits & borrowings	93.8%	92.2%	95.2%	92.1%	90.3%		
Net interest margin	3.04%	3.04%	3.08%	3.16%	3.15%		
Cost to income	51.1%	54.9%	52.6%	48.0%	49.3%		
NPL - gross (THBm)	17,289	16,441	16,441	16,442	16,609		
NPL/ Gross loans	2.50%	2.41%	2.36%	2.35%	2.35%		
LLR/ Gross loans	3.63%	3.63%	3.34%	3.41%	3.41%		
LLR/NPL	145.5%	150.8%	141.6%	145.1%	145.1%		
Credit cost (annualized)	0.79%	0.50%	0.79%	0.97%	0.70%		
ROA	1.4%	1.4%	1.4%	1.5%	1.6%		
ROE	12.0%	11.1%	11.4%	12.0%	12.7%		

Source: Company, MKE-ISR

KTB: to improve gradually

After being hit by the default of EARTH (EARTH TB, not rated) in 2Q17, the earnings should improve gradually. However, low coverage ratio will continue to pressure the bank to keep credit cost at a relatively high level vs. historical standards.

KTB: 4Q17E financial performance

Financial statement (THBm)	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17E	YoY	QoQ
Balance sheet								
Loans	1,906,053	1,904,089	1,913,287	1,918,010	1,875,807	1,894,565	-0.5%	1.0%
Deposits	1,973,357	1,972,404	1,991,444	1,962,422	1,950,086	1,969,586	-0.1%	1.0%
Income statement								
Interest income	31,996	31,648	31,158	30,698	30,370	30,364	-4.1%	0.0%
Interest expenses	-10,401	-9,795	-9,338	-9,093	-9,112	-9,047	-7.6%	-0.7%
Net interest income	21,595	21,853	21,820	21,604	21,259	21,317	-2.5%	0.3%
Net fee and service income	5,593	5,909	5,716	5,761	5,808	6,098	3.2%	5.0%
Non-interest income	9,942	9,849	9,184	8,292	8,873	9,470	-3.9%	6.7%
Total operating income	31,538	31,702	31,004	29,897	30,132	30,787	-2.9%	2.2%
Operating expenses	-13,140	-13,036	-12,601	-11,687	-12,475	-12,599	-3.4%	1.0%
Operating profit (PPOP)	18,397	18,666	18,403	18,210	17,657	18,188	-2.6%	3.0%
Loan loss provisions	-7,636	-9,429	-7,460	-13,878	-9,918	-9,426	0.0%	-5.0%
Pre-tax profit	10,761	9,237	10,943	4,332	7,739	8,762	-5.1%	13.2%
Tax	-1,818	-1,474	-2,041	-713	-1,440	-1,752	18.9%	21.7%
Minority interest	-323	-324	-370	-398	-428	-484		
Net profit	8,620	7,440	8,532	3,222	5,872	6,525	-12.3%	11.1%
EPS	0.62	0.53	0.61	0.23	0.42	0.47	-12.3%	11.1%
Key ratios								
Loans to deposits	96.6%	96.5%	96.1%	97.7%	96.2%	96.2%		
LDR & borrowings	91.1%	91.0%	90.9%	92.2%	90.8%	90.8%		
Net interest margin	3.28%	3.40%	3.39%	3.36%	3.33%	3.32%		
Cost to income	41.7%	41.1%	40.6%	39.1%	41.4%	40.9%		
NPL - gross	98,421	91,128	100,382	99,078	103,709	98,517		
NPL/ Gross loans	5.16%	4.79%	5.25%	5.17%	5.53%	5.20%		
LLR/ Gross loans	5.45%	5.82%	5.88%	5.81%	6.38%	6.56%		
LLR/NPL	105.6%	121.6%	112.1%	112.5%	115.4%	126.2%		
Credit cost (annualized)	1.57%	1.98%	1.56%	2.90%	2.09%	2.00%		
ROA	1.30%	1.15%	1.32%	0.54%	0.94%	1.04%		
ROE	12.95%	10.92%	12.26%	4.63%	8.42%	9.09%		

Source: Company, MKE-ISR

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