

21 July 2021

Financial Services | Banks

## Bangkok Bank (BBL TB)

**Buy** (Maintained)

### 2Q21: Underlying Operations Stable, ECL Higher

Target Price (Return): THB153.00 (47.1%)  
 Price: THB104.00  
 Market Cap: USD6,019m  
 Avg Daily Turnover (THB/USD) 1,062m/33.6m

- **Maintain BUY and THB153.00 TP, 47% upside and 4% yield.** Bangkok Bank's 2Q21 results were within expectations. Underlying operations were stable, but higher-than-expected credit loss (ECL) on prudent assessment of asset quality weighed on the bottomline. While we see downside risks to earnings due to the new wave of infections, we believe that a potential rise in provisions will be manageable.
- **2Q21 results in line.** BBL's 2Q21 net profit of THB6.36bn (-8% QoQ, +105% YoY) was within our expectation. 1H21 earnings of THB13.28bn (+23% YoY) were 51% of our and Street's FY21 estimates. Annualised 1H21 ROE was 5.8% vs 5.1% in 1H20.
- **2Q21 PIOP was up 16% QoQ**, mainly on higher non-ll. Operating income increased 10% QoQ, aided by a 24% QoQ jump in non-ll and sustained 2% QoQ rise in NII. Non-ll rose on higher dividend income (+54% QoQ) and gains on financial instruments measured at fair value (+185% QoQ). These mitigated the 6% QoQ decline in net fee and service income. NII was supported by the 2% QoQ loan growth, while NIM narrowed 9bps to 2.08%, mainly on lower yield on assets. Opex was up a smaller 3% QoQ, moderated by a 5% QoQ drop in personnel expenses. The positive JAWs led to a lower CIR of 48.2% (1Q21: 51.1%).
- **Pre-tax profit fell 12% QoQ on higher ECL.** ECL, which was 12% lower QoQ in 1Q21, jumped 55% QoQ to THB9.81bn in 2Q21. Cautious over the economic uncertainty, management set aside additional provisions. The ECL of THB16.14bn in 1H21 was 73% of management's ECL guidance of c.TH22bn for FY21.
- **Asset quality steady.** Gross NPLs edged up 2.4% QoQ and 6.4% YTD to THB111bn. Gross NPL ratio was stable at 3.7% (1Q21: 3.7%), while LLR was slightly higher at 190.3% (1Q21: 187.3%, 4Q20: 186.8%). NPL ratio remains lower than management's guidance of c.4.5% by end 2021.
- **Loan and deposit growth.** Loans, which had been flat for three consecutive quarters, rose a moderate 2% QoQ. Growth was driven by lending to business customers and regional operations. A loan growth of 2.2% YTD, or an annualised 4.4% in June, is within management's FY21 loan growth target of 3-4%. Deposits rose 5% QoQ, lifted mainly by the 5% QoQ increase in savings deposits and 6% QoQ growth in fixed deposits. LDR ratio slipped to 79.4% (1Q21: 81.6%, 4Q20: 84.3%).
- **Capital position strong.** Group CET-1 ratio was stable at 15%, while total capital ratio was 18.4%.
- **Earnings and TP.** We make no changes to our earnings forecasts for now. That said, the balance of risk is now tilted to the downside. We think prolonged mobility restrictions will exert pressure on asset quality and credit cost. Our THB153.00 TP is based on a GGM-derived P/BV of 0.6x.

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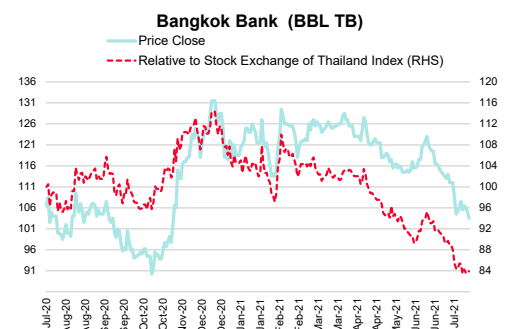


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.7)	(13.4)	(18.8)	(14.8)	(2.8)
Relative	(18.9)	(8.8)	(16.2)	(16.3)	(16.1)
52-wk Price low/high (THB)	90.3 – 132				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	35,816	17,181	25,832	29,564	34,426
Net profit growth (%)	1.4	(52.0)	50.4	14.4	16.4
Recurring net profit (THBm)	35,816	17,181	25,832	29,564	34,426
Recurring EPS (THB)	18.76	9.00	13.53	15.49	18.04
BVPS (THB)	224.09	235.23	249.56	260.79	273.60
DPS (THB)	7.00	3.00	4.00	5.00	6.00
Recurring P/E (x)	5.52	11.50	7.65	6.68	5.74
P/B (x)	0.46	0.44	0.41	0.40	0.38
Dividend Yield (%)	6.8	2.9	3.9	4.8	5.8
Return on average equity (%)	8.5	3.9	5.6	6.1	6.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	18.76	9.00	13.53	15.49	18.04
Financial Services	Recurring EPS	18.76	9.00	13.53	15.49	18.04
<b>Bangkok Bank</b>	DPS	7.00	3.00	4.00	5.00	6.00
BBL TB	BVPS	224.09	235.23	249.56	260.79	273.60
Buy						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	5.52	11.50	7.65	6.68	5.74
Our GGM assumptions include:	P/B (x)	0.5	0.4	0.4	0.4	0.4
i. COE of 8.45%	Dividend Yield (%)	6.8	2.9	3.9	4.8	5.8
ii. ROE of 6.15%;						
iii. 2.5% long term growth.						
	<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key drivers</b>	Interest income	112,565	112,524	113,550	121,492	130,004
Our FY21 forecast is most sensitive to changes in:	Interest expense	(41,494)	(35,477)	(33,433)	(39,188)	(42,064)
i. Macroeconomic conditions that will impact asset quality and growth prospects;	<b>Net interest income</b>	<b>71,071</b>	<b>77,047</b>	<b>80,117</b>	<b>82,305</b>	<b>87,939</b>
ii. Changes in policy rates, which would impact NIM outlook.	Non interest income	62,675	41,682	42,090	45,256	48,058
	<b>Total operating income</b>	<b>133,746</b>	<b>118,729</b>	<b>122,207</b>	<b>127,560</b>	<b>135,997</b>
	Overheads	(54,963)	(65,973)	(65,925)	(68,142)	(70,722)
	<b>Pre-provision operating profit</b>	<b>78,783</b>	<b>52,756</b>	<b>56,282</b>	<b>59,418</b>	<b>65,275</b>
	Loan impairment allowances	(32,351)	(31,196)	(24,067)	(22,601)	(22,468)
	<b>Pre-tax profit</b>	<b>46,432</b>	<b>21,560</b>	<b>32,216</b>	<b>36,817</b>	<b>42,807</b>
	Taxation	(10,219)	(4,014)	(5,992)	(6,848)	(7,962)
	Minority interests	(397)	(365)	(391)	(405)	(419)
	<b>Reported net profit</b>	<b>35,816</b>	<b>17,181</b>	<b>25,832</b>	<b>29,564</b>	<b>34,426</b>
	<b>Recurring net profit</b>	<b>35,816</b>	<b>17,181</b>	<b>25,832</b>	<b>29,564</b>	<b>34,426</b>
	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Return on average assets (%)	1.1	0.5	0.7	0.7	0.8
Downside risks include:	Return on average equity (%)	8.5	3.9	5.6	6.1	6.7
i. A resurgence in COVID-19 cases that would derail economic recovery and exert pressure on asset quality;	Return on IEAs (%)	3.6	3.3	3.0	3.1	3.1
ii. A strengthening THB that may impede exports recovery;	Cost of funds (%)	1.6	1.2	1.0	1.2	1.2
iii. Execution risks related to Bank Permata's operations.	Net interest spread (%)	2.0	2.1	2.0	1.9	1.9
	Net interest margin (%)	2.3	2.2	2.1	2.1	2.1
	Non-interest income / total income (%)	46.9	35.1	34.4	35.5	35.3
	Cost to income ratio (%)	41.1	55.6	53.9	53.4	52.0
	Credit cost (bps)	156	141	100	90	85
	<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Company Profile</b>	Total gross loans	2,061,309	2,363,338	2,450,000	2,572,500	2,713,988
BBL is one of the largest banking groups in Thailand by asset size. Lending to corporates and large small & medium enterprises make up c.60% of loans while its international operations account for another 16%. Its retail loan book is the smallest among the large Thai banks.	Other interest earning assets	1,120,046	1,335,454	1,428,000	1,508,300	1,581,851
	Total gross IEAs	3,181,355	3,698,792	3,878,000	4,080,800	4,295,839
	Total provisions	(174,276)	(174,236)	(218,000)	(218,663)	(221,190)
	Net loans to customers	1,887,033	2,189,102	2,232,000	2,353,838	2,492,798
	Total net IEAs	3,007,079	3,524,557	3,660,000	3,862,138	4,074,649
	Total non-IEAs	209,664	298,403	325,367	332,298	340,810
	Total assets	3,216,743	3,822,960	3,985,367	4,194,436	4,415,459
	Customer deposits	2,370,792	2,810,863	2,960,000	3,137,195	3,319,862
	Other interest-bearing liabilities	279,027	355,326	344,000	348,290	357,125
	Total IBLs	2,649,819	3,166,189	3,304,000	3,485,485	3,676,988
	Total non-IBLs	138,808	206,524	203,710	209,830	214,890
	Total liabilities	2,788,627	3,372,713	3,507,710	3,695,315	3,891,878
	Share capital	19,088	19,088	19,088	19,088	19,088
	Shareholders' equity	427,751	449,014	476,377	497,815	522,250
	Minority interests	365	1,233	1,280	1,306	1,331
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	3.8	4.4	5.5	5.1	4.7
	Total provisions / reported NPLs (%)	220.2	166.9	162.1	165.9	172.1
	CET-1 ratio (%)	17.0	14.9	15.7	15.3	15.1
	Tier-1 ratio (%)	17.0	15.7	15.7	15.3	15.1
	Total capital ratio (%)	20.0	16.2	16.1	15.8	15.5

Source: Company data, RHB

## Results At a Glance

Figure 1: BBL's 2Q21 and 1H21 results summary

FYE Dec (THBm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments 1H21 vs 1H20
NII	18,110	19,707	20,027	2	11	37,930	39,734	5	Higher mainly on consolidation of Bank Permata's income from May 2020.
<i>NIM (%) - reported</i>	2.13%	2.17%	2.08%			2.31%	2.12%		
Non-II	14,175	11,166	13,796	24	-3	20,749	24,962	20	Increased led by the 19% YoY growth in net fee income and gains from financial instruments (+50% YoY).
<i>Non-II/total income (%)</i>	43.9%	36.2%	40.8%			35.4%	38.6%		
Operating income	<b>32,285</b>	<b>30,873</b>	<b>33,823</b>	<b>10</b>	<b>5</b>	<b>58,679</b>	<b>64,696</b>	<b>10</b>	
Overhead expenses	(15,026)	(15,761)	(16,289)	3	8	(26,403)	(32,050)	21	Higher mainly on consolidation of Bank Permata's opex from May 2020 and amortisation of intangible assets.
<i>CIR (%)</i>	46.5%	51.1%	48.2%			45.0%	49.5%		
<b>PIOP</b>	<b>17,259</b>	<b>15,112</b>	<b>17,534</b>	<b>16</b>	<b>2</b>	<b>32,276</b>	<b>32,646</b>	<b>1</b>	
Expected credit loss	(13,238)	(6,326)	(9,810)	55	-26	(18,325)	(16,136)	-12	Declined, largely due to substantial frontloaded provisions in FY20 and 1Q21. Still, 1H21 ECL is at 73% of management's guidance of THB22bn for FY21.
<i>Annualised credit cost (bps)</i>	237	107	164			166	135		
<b>Pre-tax profit</b>	<b>4,021</b>	<b>8,786</b>	<b>7,724</b>	<b>-12</b>	<b>92</b>	<b>13,951</b>	<b>16,510</b>	<b>18</b>	
Tax	(834)	(1,747)	(1,263)			(3,003)	(3,010)		
<i>Effective tax rate (%)</i>	20.7%	19.9%	16.4%			21.5%	18.2%		
Minority interest	(92)	(116)	(104)			(183)	(220)		
<b>Net profit</b>	<b>3,095</b>	<b>6,923</b>	<b>6,357</b>	<b>-8</b>	<b>105</b>	<b>10,765</b>	<b>13,280</b>	<b>23</b>	
<b>Other key data and ratios</b>									
Gross loans (THBbn)	2,354	2,369	2,420	2	3				Up 2% YTD, mainly on higher lending to manufacturing (+2.7% YTD), utilities & services (+6% YTD), and agriculture & mining (+13% YTD).
Customer deposits (THBbn)	2,852	2,904	3,047	5	7				Increased 8% YTD on a 37% YTD surge in current account deposits and 6% YTD growth in savings deposits.
Non-performing loans (THBbn)	109	108	111	2	2				
Total assets (THBbn)	3,806	3,953	4,122	4	8				
Shareholders' funds (THBbn)	438	460	468	2	7				
ROAA (%)	0.34	0.70	0.64			0.61	0.67		
ROAE (%)	2.9	6.0	5.5			5.0	5.8		
LDR (%)	82.5	81.6	79.4						
NPL ratio (%)	4.10	3.70	3.70						
Loan loss reserves (%)	170.5	187.3	190.3						
Tier-1 capital ratio (%)	14.0	15.9	15.9						
Total capital ratio	16.6	18.4	18.4						

Source: Company data, RHB

## Valuation and TP

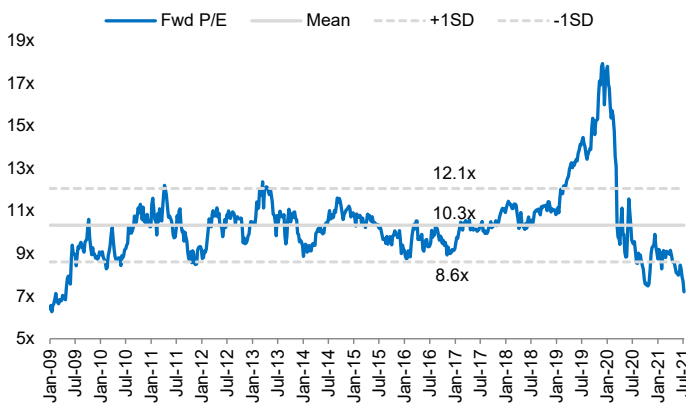
Our THB153.00 TP is based on a GGM-derived P/BV of 0.6x, which is below -1SD from its historical mean. This is based on the following assumptions:

**Figure 2: GGM valuation**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	6.15
Risk free rate (%)	1.30	COE (%)	8.45
Equity premium (%)	6.50	Long-term growth (g)	2.50
Beta (x)	1.10	Implied P/BV (x)	0.61
Cost of equity - CAPM (%)	8.45	BVPS – FY21F	THB249.56
		TP	THB152.99
		<b>TP (rounded)</b>	<b>THB153.00</b>

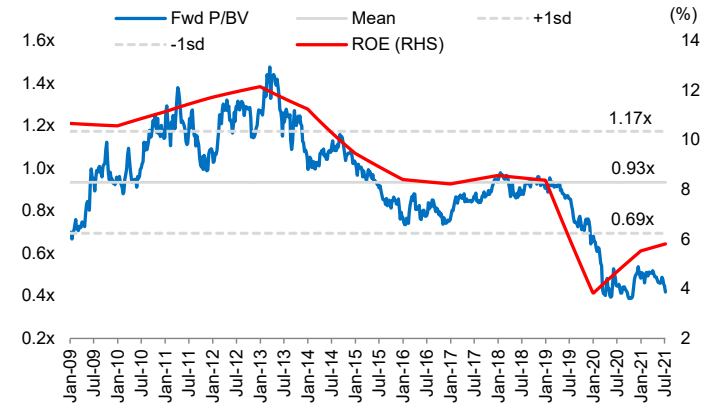
Source: Company data, RHB

**Figure 3: BBL's 12-month forward P/E**



Source: Bloomberg, RHB

**Figure 4: BBL's 12-month forward P/BV**



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-07	Buy	153	123
2021-01-24	Buy	138	122
2020-12-17	Buy	160	129
2020-10-28	Buy	119	96
2020-08-05	Buy	132	102
2020-04-22	Buy	138	105
2019-10-24	Buy	205	164
2019-07-31	Buy	227	182
2019-02-08	Buy	241	211
2019-01-21	Buy	245	205

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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