

25 January 2021

Financial Services | Banks

Bangkok Bank (BBL TB)

Buy (Maintained)

Defensive Qualities At Undemanding Valuation

Target Price (Return): THB138.00 (+13%)
 Price: THB122.00
 Market Cap: USD7,763m
 Avg Daily Turnover (THB/USD) 1,276m/42.2m

- **Stay BUY, new THB138.00 TP from THB160.00, 13% upside with c.3% FY21F yield.** Bangkok Bank's FY20 results missed expectations on elevated credit cost, as management remained vigilant on asset quality. The downward revision in earnings forecasts point to a slower ROE recovery. Still, at its current 0.49x FY21F P/BV against a ROE of 4.9%, its valuation is undemanding – given its resilient asset quality, solid capital position and exposure to the expected pick-up in corporate loans.
- **FY20 results missed.** BBL reported net profit of THB2.4bn for 4Q20 (-40% QoQ; -70% YoY) and THB17.18bn for FY20 earnings (-52% YoY). Its FY20 results missed expectations, at 77% and 82% of our and Street full-year projections. The variance was mainly due to higher-than-expected opex and expected credit loss (ECL). Reported ROE was a lower 3.96%, vs 8.45% in FY19. Capital was healthy, with the consolidated CET-1 ratio at 14.9%.
- **Higher ECL, the drag in 4Q20.** ECL increased 27% QoQ to THB7.2bn, exceeding management's guidance of THB4-6bn for 4Q20 due to the resurgence in COVID-19 cases. This offset the 5% QoQ rebound in PIOP that was driven mainly by the 19% QoQ rise in non-II. BBL booked higher marked-to-market gains (+87% QoQ) and gains from asset sales (+609% QoQ) while net fee income was flat. NII fell 3% QoQ as NIM decreased 6bps QoQ to 2.12%, and loans were flat QoQ. Opex was up 4% QoQ (mainly for systems and seasonality expenses), resulting in a stable CIR of 65.8%.
- **Better asset quality.** Gross NPLs fell 3% QoQ, lowering the NPL ratio to 3.9% (3Q20: 4.1%). Still, it remained above 4Q19's 3.4%. LLR, which had declined from a higher 220.2% in 4Q19 following the consolidation of Bank Permata (Permata)(BNLI IJ, SELL, TP: IDR640) from May 2020, was a very comfortable 181.6%. Pre-emptive provisions for the COVID-19 pandemic kept credit cost elevated at 124bps in FY20 (FY19: 137bps). Judging from experiences of peer banks, we believe BBL's loans under debt relief measures would have declined from the <5% of total loans at end-3Q20.
- **Loans and deposits.** Excluding Permata, gross loans were up a subdued 2.7% YoY on increased lending to large corporate customers. This fell short of management's targeted loan growth of 4-6%. Customer deposits, excluding Permata, was up 7% YoY on increases in savings deposits.
- **Earnings and TP.** We cut FY21-22F earnings by 18.5% and 16%, mainly due to downward revisions in NIM and slightly higher credit costs (Figure 2). The earnings downgrade led to a lower TP of THB138.00 (from THB160.00), based on a GGM-derived P/BV of 0.56x (from 0.65x).
- **Key risks.** Downside risks to our view come from a sharp resurgence in COVID-19 cases that would derail the economic recovery, and downward pressure on asset quality. A strengthening THB would also negatively impact the country's exports recovery.

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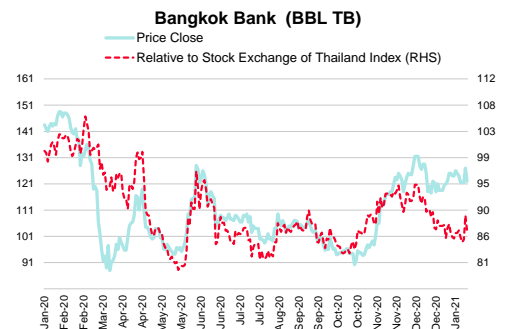


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.0	1.7	28.8	19.0	(19.2)
Relative	(0.3)	(3.5)	5.4	8.6	(14.3)
52-wk Price low/high (THB)	88.0 – 149				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	35,816	17,181	22,515	26,659	31,058
Net profit growth (%)	1.4	(52.0)	31.0	18.4	16.5
Recurring net profit (THBm)	35,816	17,181	22,515	26,659	31,058
Recurring EPS (THB)	18.76	9.00	11.79	13.97	16.27
BVPS (THB)	224.09	235.23	247.83	257.53	268.57
DPS (THB)	7.00	3.00	4.00	5.00	6.00
Recurring P/E (x)	6.50	13.55	10.34	8.74	7.50
P/B (x)	0.54	0.52	0.49	0.47	0.45
Dividend Yield (%)	5.7	2.5	3.3	4.1	4.9
Return on average equity (%)	8.5	3.9	4.9	5.5	6.2

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	11.79	13.97	16.27
Financial Services	Recurring EPS	18.76	9.00	11.79	13.97	16.27
Bangkok Bank	DPS	7.00	3.00	4.00	5.00	6.00
BBL TB	BVPS	224.09	235.23	247.83	257.53	268.57
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	6.50	13.55	10.34	8.74	7.50
Our GGM assumptions include:	P/B (x)	0.5	0.5	0.5	0.5	0.5
i. COE of 8.8%	Dividend Yield (%)	5.7	2.5	3.3	4.1	4.9
ii. ROE of 6.0%; and						
iii. 2.5% long term growth.						
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key drivers	Interest income	112,565	112,524	113,550	124,801	132,388
Our FY21 forecast is most sensitive to changes in:	Interest expense	(41,494)	(35,477)	(33,483)	(42,575)	(45,484)
i. Macroeconomic conditions that will impact asset quality and growth prospects; and	Net interest income	71,071	77,047	80,067	82,226	86,904
ii. Changes in policy rates which would impact the NIM outlook.	Non interest income	62,675	41,682	43,051	46,286	49,110
	Total operating income	133,746	118,729	123,118	128,512	136,014
	Overheads	(54,963)	(65,973)	(66,005)	(68,227)	(70,788)
	Pre-provision operating profit	78,783	52,756	57,113	60,285	65,226
	Loan impairment allowances	(32,351)	(31,196)	(28,973)	(27,037)	(26,557)
	Pre-tax profit	46,432	21,560	28,140	33,249	38,669
	Taxation	(10,219)	(4,014)	(5,234)	(6,184)	(7,192)
	Minority interests	(397)	(365)	(391)	(405)	(419)
	Reported net profit	35,816	17,181	22,515	26,659	31,058
	Recurring net profit	35,816	17,181	22,515	26,659	31,058
	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Return on average assets (%)	1.1	0.5	0.6	0.6	0.7
Downside risks include:	Return on average equity (%)	8.5	3.9	4.9	5.5	6.2
i. A resurgence in COVID-19 cases that would derail the 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; and	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	2.0	2.1
	Non-interest income / total income (%)	46.9	35.1	35.0	36.0	36.1
	Cost to income ratio (%)	41.1	55.6	53.6	53.1	52.0
	Credit cost (bps)	156	141	119	105	98
Company Profile	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Bangkok Bank is one of the largest banking groups in Thailand by asset size. Lending to corporates and large small and 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.	Total gross loans	2,061,309	2,363,338	2,506,000	2,643,830	2,776,022
	Other interest earning assets	1,120,046	1,335,454	1,413,000	1,492,430	1,555,817
	Total gross IEAs	3,181,355	3,698,792	3,919,000	4,136,260	4,331,838
	Total provisions	(174,276)	(174,236)	(218,000)	(224,726)	(226,246)
	Net loans to customers	1,887,033	2,189,102	2,288,000	2,419,104	2,549,776
	Total net IEAs	3,007,079	3,524,557	3,701,000	3,911,534	4,105,592
	Total non-IEAs	209,664	298,403	327,450	339,344	356,798
	Total assets	3,216,743	3,822,960	4,028,450	4,250,878	4,462,390
	Customer deposits	2,370,792	2,810,863	3,007,800	3,224,183	3,401,987
	Other interest-bearing liabilities	279,027	355,326	342,600	323,967	331,522
	Total IBLs	2,649,819	3,166,189	3,350,400	3,548,150	3,733,509
	Total non-IBLs	138,808	206,524	203,710	209,830	214,890
	Total liabilities	2,788,627	3,372,713	3,554,110	3,757,979	3,948,399
	Share capital	19,088	19,088	19,088	19,088	19,088
	Shareholders' equity	427,751	449,014	473,059	491,593	512,659
	Minority interests	365	1,233	1,280	1,306	1,331
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NPLs / gross cust loans (%)	3.8	4.4	4.9	4.8	4.6
	Total provisions / reported NPLs (%)	220.2	166.9	179.2	177.0	177.5
	CET-1 ratio (%)	17.0	14.9	15.4	14.9	14.6
	Tier-1 ratio (%)	17.0	15.7	15.4	14.9	14.6
	Total capital ratio (%)	20.0	16.2	15.8	15.4	15.0

Source: Company data, RHB

Results At a Glance

Figure 1: Bangkok Bank's 4Q20 and FY20 results summary

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments 4Q20 vs 3Q20
NII	17,193	19,852	19,263	-3	12	71,071	77,047	8	Down QoQ, mainly on lower NIM.
<i>NIM (%) - reported</i>	2.22%	2.18%	2.12%			2.27%	2.24%		NIM contracted by 6bps QoQ, mainly due to the lower interest rate to help customers in need. This outpaced the positive impact from the change in income recognition under TFRS 9 to the "Effective Interest Rate" principle from the accrual of interest income of NPLs, cuts in FIDF fees, and cost management efforts.
Non-Il	26,530	9,569	11,364	19	-57	62,675	41,682	-33	Up QoQ, mainly from huge investment gains as well as disposal on assets.
<i>Non-Il/total income (%)</i>	60.7%	32.5%	37.1%			46.9%	35.1%		
Operating income	43,723	29,421	30,627	4	-30	133,746	118,729	-11	
Overhead expenses	(15,988)	(19,427)	(20,144)	4	26	(54,963)	(65,973)	20	Up QoQ, as premise and equipment expenses rose by 22% QoQ. This offset the 1.2% QoQ dip in personal expenses.
<i>CIR (%)</i>	36.6%	66.0%	65.8%			41.1%	55.6%		
PIOP	27,736	9,994	10,483	5	-62	78,783	52,756	-33	
Impairment allowances	(16,342)	(5,668)	(7,203)	27	-56	(32,351)	(31,196)	-4	The QoQ increase was due to the adoption of ECL models under TFRS 9 and management overlay to cushion uncertainties, in line with BBL's conservative views.
<i>Annualised credit cost (bps)</i>	322	96	122			137	124		
Pre-tax profit	11,393	4,327	3,280	-24	-71	46,432	21,560	-54	
Tax	(3,290)	(212)	(799)			(10,219)	(4,014)		
<i>Effective tax rate (%)</i>	28.9%	4.9%	24.3%			22.0%	18.6%		
Minority interest	(101)	(97)	(84)			(397)	(365)		
Net profit	8,002	4,017	2,398	-40	-70	35,816	17,181	-52	
Other key data and ratios									
Gross loans (THBbn)	2,061	2,367	2,363	0	15				Robust YoY growth was mainly due to the consolidation of Bank Permata's loans. Excluding this, loans would rise 2.7% YoY, led by demand from corporate customers.
Customer deposits (THBbn)	2,371	2,822	2,811	0	19				Excluding Permata, deposits grew 7.3% YoY, boosted mainly by savings deposits.
Gross NPLs (THBbn)	79	108	104	-3	32				Jumped YoY due to the deterioration in the economy affected by COVID-19.
Total assets (THBbn)	3,217	3,811	3,823	0	19				
Shareholders' funds (THBbn)	428	440	449	2	5				
ROAA (%)	0.99	0.42	0.50			1.13	0.49		
ROAE (%)	7.5	3.7	4.4			8.52	3.92		
LDR (%)	86.9	83.9	84.1						
NPL ratio (%)	3.36	4.10	3.90						
Loan loss reserves (%)	220.2	170.0	181.6						
Tier-1 capital ratio (%)	17.0	15.1	15.7						
Total capital ratio	20.0	17.6	18.3						

Source: Company data, RHB

Revisions to earnings estimates

We lower our earnings forecasts by 18.5% for FY21, and by 16% for FY22, after making the following revisions in assumptions:

- i. Lower NIM of 2.10% (from 2.20%) for FY21F, and 2.04% (from 2.16%) for FY22F;
- ii. Upward revisions in non-II by c.3% for the two years; and
- iii. Higher credit cost of 101bps (from 97bps) for FY21F, and 87bps (from 85bps) for FY22F.

Our DPS is based on dividend payout ratios of 34% for FY21F and 36% for FY21F. This compared with a payout of 37% in FY19.

Figure 2: BBL – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	27,609	22,515	-18.5	14.46	11.79	-18.5	4.00	4.00	0.0
2022F	31,682	26,659	-15.9	16.60	13.97	-15.9	5.00	5.00	0.0
2023F	n.a.	31,058	new	n.a.	16.27	new	n.a.	6.00	new

Source: RHB

Valuation and TP

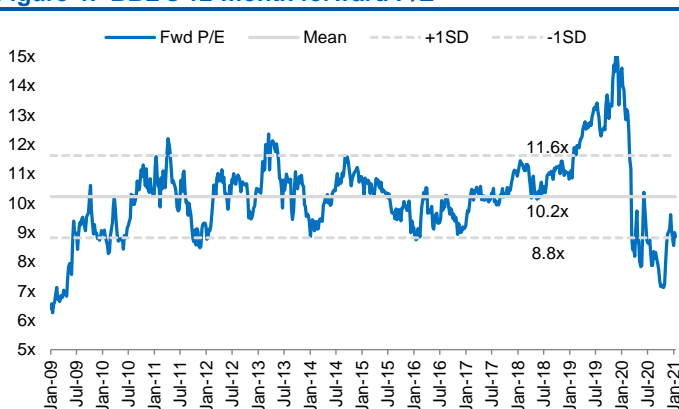
Our TP drops to THB138.00 from THB160.00, as we lowered assumptions on sustainable ROE to 6.0% (from 6.6%). As a result, our GGM-derived P/BV falls to 0.56x (from 0.65x), which is slightly above -2SD from its historical mean.

Figure 3: GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	6.0
Risk free rate (%)	1.30	COE (%)	8.81
Equity premium (%)	6.82	Long-term growth (g)	2.5
Beta (x)	1.10	Implied P/BV (x)	0.56
Cost of equity - CAPM (%)	8.81	BVPS – FY21F	THB247.83
		TP	THB137.55
		TP (rounded)	THB138.00

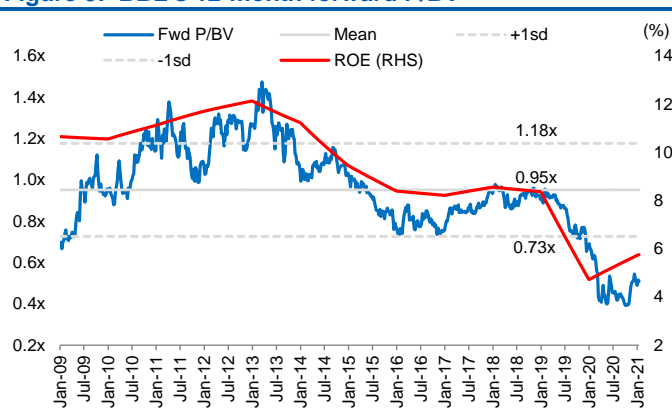
Source: Company data, RHB

Figure 4: BBL’s 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: BBL’s 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-01-08	Buy	245	207
2018-10-19	Buy	250	211

Source: RHB, Bloomberg

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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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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

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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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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