

20 January 2020

Financial Services | Bank

## Siam Commercial Bank (SCB TB)

**Buy** (Maintained)

### Feeling Effects Of Slowing Economic Growth

Target Price (Return) THB140.00 (+20%)  
 Price: THB117.00  
 Market Cap: USD13,071m  
 Avg Daily Turnover (THB/USD) 1,056m/34.8m

- Maintain BUY with THB140.00 TP, 20% upside plus 5% yield.** FY19 results missed expectations mainly due to higher-than-expected impairment charges. Operations have softened in 4Q19, but successful execution of government stimulus plans should revive the bank's prospects. A special interim dividend of THB0.75/share, which has been approved and is to be paid on 14 Feb, will provide support to share price.
- FY19 earnings missed expectations.** Siam Commercial Bank (SCB) reported net profit of THB5,506m (-63% QoQ, -22% YoY) for 4Q19 and THB40,436m (+1% YoY) for FY19. FY19 earnings were c.9% below our and consensus forecasts, mainly due to higher-than-expected impairment charges in 4Q19. FY19 ROE was 10.4% vs 10.8% a year ago. Key standouts in FY19 are the 13bps YoY NIM improvement on strategy to drive growth of higher margin loans (SME and retail) and very robust Tier-1 ratio of 17% (+190bps YoY) with uplift from divestment of SCB Life Assurance (SCB Life).
- 4Q19 momentum softened.** Reflecting the build-up in economic headwinds in 2H19, SCB's loan portfolio contracted 1.7% QoQ and 1.3% YoY in 4Q19. Corporate loans fell 5.4% QoQ mainly on repayments, while the bank's SME and retail loans were flat QoQ. SCB had a loan growth target of 5-7% for 2019. NIM was also impacted by the cuts in policy rate – 25bps each in August and November – contracting 13bps QoQ on a normalised basis. The resulting 12% QoQ decline in NII and 5% QoQ rise in operating expenses negated the 18% QoQ increase in underlying non-IL leading to a 12% QoQ fall in core PIOP (see Figure 1 for details).
- Asset quality slipped.** Gross NPLs increased 10.4% QoQ in 4Q19, and a sharper 21.1% YoY with deterioration across all segments. Management attributed this to the intensification of economic headwinds in 2H19 and the bank's more prudent classification of some corporate and SME accounts. Gross NPL ratio ended the year at 3.41% vs 2.85% in Dec 2018. That said, conservative loan provisioning, which kept credit cost at an elevated 180bps in 4Q19, helped maintain LLC comfortably at 134.1%.
- Capital position robust.** SCB's Tier-1 capital ratio improved to 17% in Dec 2019 vs 15.1% in Dec 2018, boosted by capital release on completion of the divestment of SCB Life in Sep 2019.
- Downside risks to earnings.** We make no changes to our earnings forecasts pending SCB's results briefing on Monday, 20 Jan at 2pm. We see downside risks to our projected net profit of THB44,499m for FY20F coming from weaker-than-expected loan growth prospects and higher-than-expected credit costs. On the flipside, successful execution of government strategies to lift the sluggish economy would lead to a rebound in earnings growth prospects.

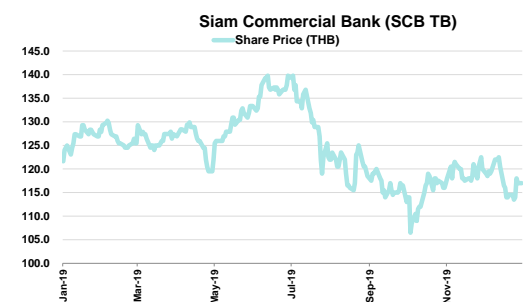
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	-4.1	-2.5	0.4	-17.3	-8.9
Relative	1.8	-3.6	1.1	-16.6	-2.8
52-wk Price low/high (THB)	104.50-146.50				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Reported net profit (THBm)	43,152	40,068	40,436	44,499	47,443
Recurring net profit (THBm)	43,152	40,068	40,436	44,499	47,443
Recurring net profit growth (%)	(9.4)	(7.1)	0.9	10.0	6.6
Recurring EPS (THB)	12.69	11.79	11.90	13.09	13.96
BVPS (THB)	106.93	111.80	117.78	126.42	134.02
DPS (THB)	5.50	5.50	6.25	6.22	6.63
Recurring P/E (x)	9.2	9.9	9.8	8.9	8.4
P/B (x)	1.1	1.0	1.0	0.9	0.9
Dividend yield (%)	4.7	4.7	5.3	5.3	5.7
Return on average equity (%)	12.4	10.8	10.4	10.7	10.7
Return on average assets (%)	1.45	1.29	1.31	1.46	1.52

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Thailand	EPS (THB)	12.69	11.79	11.90	13.09	13.96
Financials	Core EPS (THB)	12.69	11.79	11.90	13.09	13.96
<b>Siam Commercial Bank</b>	DPS (THB)	5.50	5.50	6.25	6.22	6.63
SCB TB	BVPS (THB)	106.93	111.80	117.78	126.42	134.02
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Valuation based on GGM with the following assumptions:	Recurring P/E (x)	9.2	9.9	9.8	8.9	8.4
i. COE of 9.7%;	P/B (x)	1.1	1.0	1.0	0.9	0.9
ii. ROE of 10.5%;	Dividend yield (%)	4.7	4.7	5.3	5.3	5.7
iii. 2.0% long-term growth.						
<b>Key drivers</b>	<b>Balance sheet (THBm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Our FY20 forecasts are most sensitive to changes in:	Gross loans & advances	2,034,732	2,140,561	2,113,787	2,292,969	2,384,687
i. Net interest margin;	Loan impairment allowances	(89,990)	(103,273)	(114,272)	(131,351)	(142,740)
ii. Credit cost; and	Net loans & advances	1,944,742	2,037,288	1,999,515	2,161,617	2,241,948
iii. Loan growth.	Total assets	3,024,032	3,187,340	2,963,746	3,085,982	3,147,702
	Deposits from customers	2,092,457	2,159,631	2,159,425	2,304,491	2,361,076
	Total liabilities	2,660,269	2,806,357	2,562,900	2,655,558	2,691,328
	Shareholders' funds	363,464	380,027	400,358	429,736	455,548
	Total equity	363,763	380,983	400,846	430,424	456,374
<b>Key risks</b>	<b>Income statement (THBm)</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
The downside risks include:	Net interest income	92,310	96,369	99,401	99,793	102,857
i. Prolonged period of slow economic growth;	Non-interest income	43,903	41,855	66,697	44,110	47,218
ii. Sharper-than-expected NIM compression due to rate cut and competition; and	Operating income	136,212	138,225	166,098	143,903	150,075
iii. Sharper-than-expected deterioration in asset quality.	Overhead expenses	(57,650)	(64,639)	(70,538)	(66,533)	(68,174)
	Pre-provision operating profit	78,562	73,586	95,560	77,371	81,901
	Loan impairment allowances	(25,067)	(24,023)	(36,211)	(22,489)	(23,388)
	Other impairment allowances	0	0	0	0	0
	Pretax profit	53,496	49,563	59,349	54,882	58,513
	Reported net profit	43,152	40,068	40,436	44,499	47,443
	Recurring net profit	43,152	40,068	40,436	44,499	47,443
<b>Company Profile</b>	<b>Profitability</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
Siam Commercial Bank is Thailand's third-largest commercial bank by asset size. It provides a full range of financial services, including corporate and personal lending, retail and wholesale banking, foreign currency operations, international trade financing, cash management, custodial services, credit and charge card services, and investment banking services.	ROA (%)	1.5	1.3	1.3	1.46	1.52
	ROE (%)	12.4	10.8	10.4	10.7	10.7
	Yield on IEAs (%)	4.4	4.3	4.5	4.6	4.6
	Cost of funds (%)	1.4	1.4	1.5	1.4	1.4
	Net interest margin (%)	3.2	3.2	3.3	3.4	3.4
	Non-II / Total income (%)	32.2	30.3	40.2	30.7	31.5
	CIR (%)	42.3	46.8	42.5	46.2	45.4
	Credit cost (bps)	126.2	115.1	170.2	100.0	100.0
	PIOP growth (%)	(3.8)	(6.3)	29.9	(19.0)	5.9
	Net profit growth (%)	(9.4)	(7.1)	0.9	10.0	6.6
	<b>Asset quality</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Gross impaired loans/Gross loans (%)	2.83	2.85	3.17	3.07	3.10
	Loan loss coverage ratio (%)	137.3	146.7	147.6	161.6	167.2
	Gross impaired loans (THBm)	65,560	70,389	77,428	81,299	85,364
	<b>Liquidity</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	Loan growth (%)	4.9	5.2	(1.3)	8.5	4.0
	Customer deposits growth (%)	3.3	3.2	(0.0)	6.7	2.5
	LDR (%)	97.2	99.1	97.9	99.5	101.0
	<b>Capital</b>	<b>Dec-17</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>
	CET1 ratio (%)	15.7	15.1	17.2	17.8	18.6
	Tier-1 ratio (%)	15.7	15.1	17.2	17.8	18.6
	Total capital ratio (%)	17.7	17.1	19.3	19.9	20.7

Source: Company data, RHB

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## Results At A Glance

Figure 1: SCB's 4Q19 and FY19 results summary

FYE Dec (THBm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	2018	2019	YoY (%)	Comments – 4Q19 vs. 3Q19
NII	24,798	26,191	22,961	-12.3	-7.4	96,369	99,401	3.1	Sharp QoQ decline due to lower interest income from investments following divestment of SCB Life, contraction in loans, and policy rate cut in Nov 2019.
<i>NIM (%) - reported</i>	3.26%	3.68%	3.20%			3.21%	3.34%		
Non-II	8,983	34,260	12,074	-64.8	34.4	41,855	66,697	59.4	Excluding THB24.02bn gain from sale of SCB Life in 3Q19, non-II would be up 18% QoQ on higher net fee income, and net gains on trading and FX transactions.
<i>Non-II/total income (%)</i>	26.6%	56.7%	34.5%			30.3%	40.2%		
Operating income	<b>33,782</b>	<b>60,452</b>	<b>35,035</b>	<b>-42.0</b>	<b>3.7</b>	<b>138,225</b>	<b>166,098</b>	<b>20.2</b>	Excluding one-time gain in 3Q19, operating income declined 3.8% QoQ on lower NII.
Overhead expenses	(16,129)	(17,563)	(18,483)	5.2	14.6	(64,639)	(70,538)	9.1	Up QoQ led by higher personnel costs and other expenses.
<i>CIR (%)</i>	47.7%	29.1%	52.8%			46.8%	42.5%		
PIOP	<b>17,653</b>	<b>42,889</b>	<b>16,552</b>	<b>-61.4</b>	<b>-6.2</b>	<b>73,586</b>	<b>95,560</b>	<b>29.9</b>	Core PIOP is down 12% QoQ vs. THB18.85bn in 3Q19. This is due to weaker topline and negative JAWS.
Impairment allowances	(8,871)	(15,273)	(9,608)	-37.1	8.3	(24,023)	(36,211)	50.7	Impairment charge of THB9.61bn in 4Q19 is higher than normalised provisions of THB5.4-6.2bn in earlier quarters.
<i>Annualised credit cost (bps)</i>	167	284	180			115	170		
Pretax profit	<b>8,782</b>	<b>27,616</b>	<b>6,944</b>	<b>-74.9</b>	<b>-20.9</b>	<b>49,563</b>	<b>59,349</b>	<b>19.7</b>	
Tax	(1,704)	(12,877)	(1,536)	-88.1	-9.9	(9,468)	(19,098)	101.7	
<i>Effective tax rate (%)</i>	19.4%	46.6%	22.1%			19.1%	32.2%		
Net profit	6	59	98			(28)	185		
Core Net profit	<b>7,084</b>	<b>14,798</b>	<b>5,506</b>	<b>-62.8</b>	<b>-22.3</b>	<b>40,068</b>	<b>40,436</b>	<b>0.9</b>	
<b>Other key data and ratios</b>									
Gross loans	2,140,561	2,150,050	2,113,787	-1.7	-1.3				
Customer deposits	2,159,631	2,193,822	2,159,425	-1.6	0.0				
Gross impaired loans	70,389	77,207	85,212	10.4	21.1				Broad-based deterioration in loan quality due to challenging business environment.
Total assets	3,187,340	2,981,218	2,963,746	-0.6	-7.0				
Shareholders' funds	380,027	395,472	400,358	1.2	5.3				
ROAA (%)	0.90	1.90	0.74			1.29	1.31		
ROAE (%)	7.5	15.0	5.5			10.8	10.4		
LDR (%)	99.1	98.0	97.9						
GIL ratio (%)	2.85	3.00	3.41						
Loan loss reserves (%)	146.7	143.8	134.1						
Tier-1 capital ratio (%)	15.1	16.9	17.0						
Total capital ratio	17.1	18.0	18.1						

Source: Company data, RHB

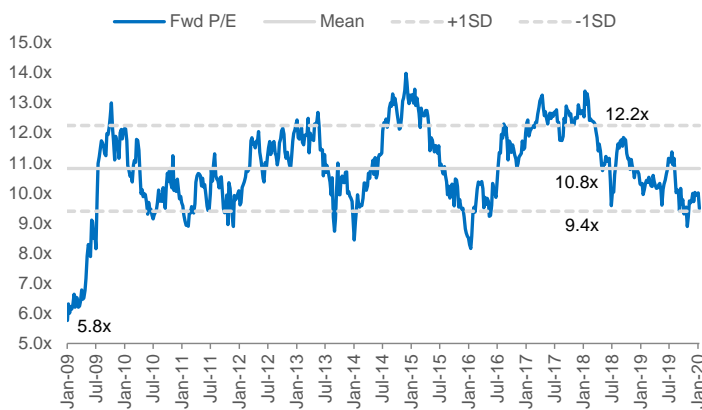
## Valuation

Figure 1: SCB – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	10.5
Risk free rate (%)	2.00	COE (%)	9.7
Equity premium (%)	9.0	Long-term growth (g)	2.0
Beta (x)	1.1	Implied P/BV (x)	1.1
Cost of equity - CAPM (%)	9.7	BVPS – FY20F	THB124.30
		Target price	THB137.20
		<b>TP (rounded)</b>	<b>THB140.00</b>

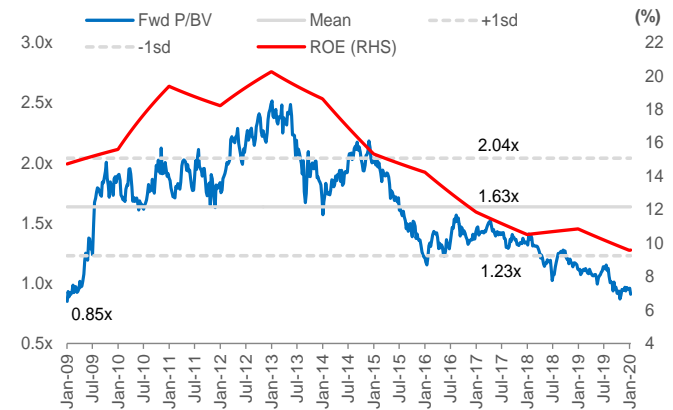
Source: Company data, RHB

Figure 2: SCB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: SCB's 12-month forward P/BV



Source: Bloomberg, RHB

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	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

ประกาศเจตนาธรรม 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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