

21 January 2021

Financial Services | Banks

## TMB Bank (TMB TB)

## Neutral (Maintained)

### Still Busy With Integration And Clean-Up

Target Price (Return): THB1.26 (9.6%)  
 Price: THB1.15  
 Market Cap: USD3,693m  
 Avg Daily Turnover (THB/USD) 869m/28.8m

- **Maintain NEUTRAL with a lower THB1.26 TP from THB1.30, 10% upside and c.4% yield.** TMB Bank's FY20 results were within expectations. PIOP rebounded in 4Q20, but this was driven by gains from investments and sale of foreclosed properties – sources that can be volatile. Asset quality appears to be under some pressure with the NPL up 8% QoQ despite write-offs and sales. Its P/BV multiple has re-rated to 0.5x from a very depressed 0.38x in Oct 2020. That said, we believe the risk-reward ratio is balanced at this point.
- **FY20 in line.** TMB posted a net profit of THB1,235m (-24% QoQ and YoY) for 4Q20, with FY20 earnings at THB10.11bn (+40% YoY). Its FY20 net profit was in line with our and consensus forecasts. Reported FY20 ROE was 5.1% (FY19: 4.9%), while CET-1 ratio improved to 14.4% (FY19: 13.6%). FY20 results are not comparable to those from FY19 as the acquisition of Thanachart Bank was completed on 3 Dec 2019.
- **Higher expected credit loss (ECL) the key drag in 4Q20.** Operating income rose 10% QoQ, boosted by the 44% surge in non-II. TMB booked net gains of THB803m from trading and investments (3Q20: THB72m net loss) and THB156m from sale of foreclosed properties while net fee income +13% QoQ. NII was up 2% QoQ on consecutive QoQ NIM recovery to 3.06% (+14bps; 3Q20: +4bps). PIOP grew as slightly stronger 11% QoQ as milder opex growth of 9% QoQ led to positive JAWs and CIR dipping to 45.4% (3Q20: 45.8%). With ECL rising to a quarterly high of THB8.24bn, net profit contracted 24% QoQ to a low of THB1.24bn. Credit cost was 239bps vs 200bps in 3Q20.
- **Further clean-up of loan book.** In 4Q20, TMB wrote-off THB4.1bn of NPLs (3Q20: THB2.2bn) with another THB0.3bn sold (3Q20: THB2.0bn). Still, NPLs rose 7.7% QoQ, pushing its NPL ratio higher to 2.50% (3Q20: 2.33%). Allowance for ECL was raised another 9.5% QoQ (3Q20: +9% QoQ) as additional pre-emptive provisions were set aside. We estimate an LLR ratio at 133.8% vs 131.6% in 3Q20. As at end-Dec 2020, loans under forbearance declined to 15% of total loans (3Q20: 20%; 2Q20: 42%). Commercial customers under forbearance stood at 25% (3Q20: 39%) of total commercial loans while 9% of retail loans (3Q20: 10%) were under relief programmes.
- **Loans flattish YoY.** Consistent with management's efforts to de-risk the enlarged bank's exposure to low yield segments, TMB's loans portfolio was flat YoY at end-4Q20. Retail loans (56% of total loans) contracted 0.6% YoY, corporate loans (37%) grew 2% YoY but loans from SMEs (7%) fell. Customer deposits declined 2% YoY, nudging LDR higher to 101.4%.
- **Earnings and TP revisions.** We lowered our FY21F-22F earnings by 3-4% after taking into account lower non-II and higher opex (Figure 2). Our TP is revised to THB1.26 (from THB1.30) with a GGM-derived P/BV at 0.58x, reflecting the downward revision in earnings (Figure 3).

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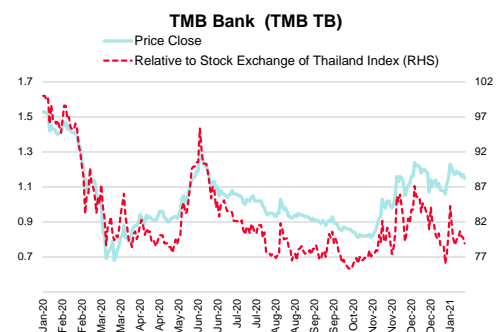


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.5	(2.6)	42.0	10.6	(23.9)
Relative	1.9	(4.8)	16.8	(1.0)	(19.3)
52-wk Price low/high (THB)	0.68 – 1.53				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	7,222	10,112	11,590	13,323	15,355
Net profit growth (%)	(37.7)	40.0	14.6	15.0	15.2
Recurring net profit (THBm)	7,222	10,112	11,590	13,323	15,355
Recurring EPS (THB)	0.16	0.10	0.12	0.14	0.16
BVPS (THB)	2.02	2.12	2.19	2.27	2.37
DPS (THB)	0.07	0.04	0.05	0.06	0.07
Recurring P/E (x)	6.98	10.96	9.57	8.32	7.22
P/B (x)	0.57	0.54	0.52	0.51	0.49
Dividend Yield (%)	6.4	3.0	3.9	5.2	6.1
Return on average equity (%)	4.9	5.1	5.6	6.2	6.9

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	0.16	0.10	0.12	0.14	0.16
Financial Services	Recurring EPS	0.16	0.10	0.12	0.14	0.16
<b>TMB Bank</b>	DPS	0.07	0.04	0.05	0.06	0.07
TMB TB	BVPS	2.02	2.12	2.19	2.27	2.37
Neutral						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Recurring P/E (x)	6.98	10.96	9.57	8.32	7.22
	P/B (x)	0.6	0.5	0.5	0.5	0.5
	Dividend Yield (%)	6.4	3.0	3.9	5.2	6.1
	<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>
	Interest income	39,837	72,321	71,135	76,130	80,035
	Interest expense	(12,972)	(18,515)	(15,342)	(18,921)	(20,393)
	<b>Net interest income</b>	<b>26,865</b>	<b>53,806</b>	<b>55,793</b>	<b>57,209</b>	<b>59,642</b>
	Non interest income	12,956	14,986	13,940	14,773	15,409
	<b>Total operating income</b>	<b>39,821</b>	<b>68,792</b>	<b>69,733</b>	<b>71,982</b>	<b>75,052</b>
	Overheads	(20,674)	(31,623)	(33,122)	(34,418)	(35,793)
	<b>Pre-provision operating profit</b>	<b>19,147</b>	<b>37,169</b>	<b>36,611</b>	<b>37,564</b>	<b>39,259</b>
	Loan impairment allowances	(10,337)	(24,831)	(22,471)	(21,271)	(20,480)
	<b>Pre-tax profit</b>	<b>8,810</b>	<b>12,338</b>	<b>14,140</b>	<b>16,294</b>	<b>18,779</b>
	Taxation	(1,588)	(2,223)	(2,545)	(2,965)	(3,418)
	Minority interests	-	(3)	(5)	(5)	(6)
	<b>Reported net profit</b>	<b>7,222</b>	<b>10,112</b>	<b>11,590</b>	<b>13,323</b>	<b>15,355</b>
	<b>Recurring net profit</b>	<b>7,222</b>	<b>10,112</b>	<b>11,590</b>	<b>13,323</b>	<b>15,355</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>
	Return on average assets (%)	0.5	0.6	0.6	0.7	0.8
	Return on average equity (%)	4.9	5.1	5.6	6.2	6.9
	Return on IEAs (%)	3.0	4.1	4.0	4.2	4.3
	Cost of funds (%)	1.1	1.2	1.0	1.2	1.2
	Net interest spread (%)	1.9	2.9	3.1	3.0	3.1
	Net interest margin (%)	2.0	3.0	3.2	3.2	3.2
	Non-interest income / total income (%)	32.5	21.8	20.0	20.5	20.5
	Cost to income ratio (%)	51.9	46.0	47.5	47.8	47.7
	Credit cost (bps)	99.5	178.3	160.0	148.0	137.0
	<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>
	Total gross loans	1,392,225	1,392,925	1,416,000	1,458,420	1,531,368
	Other interest earning assets	402,576	349,324	358,300	371,220	386,550
	Total gross IEAs	1,794,801	1,742,249	1,774,300	1,829,640	1,917,918
	Total provisions	(45,477)	(52,978)	(53,950)	(55,128)	(57,426)
	Net loans to customers	1,346,748	1,339,947	1,362,050	1,403,292	1,473,942
	Total net IEAs	1,749,324	1,689,271	1,720,350	1,774,512	1,860,491
	Total non-IEAs	115,354	119,061	136,158	143,253	149,839
	Total assets	1,864,678	1,808,332	1,856,509	1,917,764	2,010,330
	Customer deposits	1,398,112	1,373,408	1,420,000	1,476,800	1,558,024
	Other interest-bearing liabilities	198,844	168,768	161,060	155,423	155,809
	Total IBLs	1,596,955	1,542,176	1,581,060	1,632,223	1,713,833
	Total non-IBLs	72,915	61,406	64,100	66,293	68,334
	Total liabilities	1,669,870	1,603,582	1,645,160	1,698,516	1,782,167
	Share capital	91,541	91,589	91,589	91,589	91,589
	Shareholders' equity	194,777	204,713	211,311	219,208	228,124
	Minority interests	30	37	38	40	40
	<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 (%)	2.7	2.9	2.8	2.7	2.7
	Total provisions / reported NPLs (%)	120.5	132.6	134.8	137.7	137.7
	CET-1 ratio (%)	13.6	15.7	16.9	17.9	18.7
	Tier-1 ratio (%)	14.6	15.7	16.9	17.9	18.7
	Total capital ratio (%)	18.9	20.0	21.2	22.1	22.7

Source: Company data, RHB

## Results At a Glance

Figure 1: TMB's 4Q20 and FY20 results summary

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments 4Q20 vs. 3Q20
NII	8,079	13,227	13,519	2	67	26,865	53,806	100	Up QoQ on NIM expansion.
<i>NIM (%) – reported</i>	2.69%	2.92%	3.06%			2.21%	3.04%		Management attributed the 14bps YoY NIM expansion to higher asset yields and lower funding costs.
Non-II	3,637	2,984	4,297	44	18	12,956	14,986	16	Up QoQ mainly on higher gains from investment securities and sale of foreclosed properties. Net fee income was lifted by bancassurance fees.
<i>Non-II/total income (%)</i>	31.0%	18.4%	24.1%			32.5%	21.8%		
Operating income	<b>11,716</b>	<b>16,212</b>	<b>17,816</b>	<b>10</b>	<b>52</b>	<b>39,821</b>	<b>68,792</b>	<b>73</b>	
Overhead expenses	(6,596)	(7,429)	(8,086)	9	23	(20,674)	(31,623)	53	QoQ rise was led by higher marketing expense, software rental expense and business promotion for the auto business.
<i>CIR (%)</i>	56.3%	45.8%	45.4%			51.9%	46.0%		
<b>PIOP</b>	<b>5,120</b>	<b>8,783</b>	<b>9,730</b>	<b>11</b>	<b>90</b>	<b>19,147</b>	<b>37,169</b>	<b>94</b>	
Impairment allowances	(3,114)	(6,863)	(8,237)	20	165	(10,337)	(24,831)	140	Up QoQ on additional provisions for the deteriorating economic conditions.
<i>Annualised credit cost (bps)</i>	119	200	239			99	178		
<b>Pretax profit</b>	<b>2,006</b>	<b>1,920</b>	<b>1,493</b>	<b>-22</b>	<b>-26</b>	<b>8,810</b>	<b>12,338</b>	<b>40</b>	
Tax	(391)	(301)	(258)			(1,588)	(2,223)		
<i>Effective tax rate (%)</i>	19.5%	15.7%	17.3%			18.0%	18.0%		
Minority interest	0	(0)	(0)			0	(3)		
<b>Net profit</b>	<b>1,615</b>	<b>1,619</b>	<b>1,235</b>	<b>-24</b>	<b>-24</b>	<b>7,222</b>	<b>10,112</b>	<b>40</b>	
<b>Other key data and ratios</b>									
Gross loans (THBbn)	1,392,225	1,363,162	1,392,925	2.2	0.1				Flat YoY despite corporate loans +2.2% YoY (36% of total loans), retail loans -0.6% YoY, as well as a continuing decrease in SME in YoY due to weak environment.
Customer deposits	1,398,112	1,406,434	1,373,408	-2.3	-1.8				Down slightly YoY mainly on lower Time Deposit and Certificates of Deposit (-55.4% YoY). Although hybrid products TMB No-Fixed +42.6% YoY and Ultra savings +23.1% YoY.
Non-performing loans	37,746	36,747	39,594	7.7	4.9				
Total assets	1,858,190	1,840,853	1,808,332	-1.8	-2.7				
Shareholders' funds	194,777	202,891	204,713	0.9	5.1				
ROAA (%)	0.47	0.35	0.27			0.52	0.55		
ROAE (%)	4.3	3.2	2.4			4.9	5.1		
LDR (%)	99.6	96.9	101.4						
NPL ratio (%)	2.35	2.33	2.50						
Loan loss reserves (%)	120.5	131.6	133.8						
Tier-1 capital ratio (%)	14.6	15.2	15.4						
Total capital ratio	18.9	19.2	19.5						

Source: Company data, RHB

### Revisions to earnings

We tweaked our net profit down by 3-4% for FY21F and FY22F mainly on the following revisions:

- i. Lower non-IT on expectations of lower gains from investment securities; and
- ii. Higher overhead expenses with CIR at 47.5% (from 46.6%) and 47.8% (from 46.5%) for the two years respectively.

Figure 2: TMB – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	12,039	11,590	-3.7	0.12	0.12	-3.8	0.05	0.05	0.0
2022F	13,736	13,323	-3.0	0.14	0.14	-3.1	0.06	0.06	0.0
2023F	n.a.	15,355	new	n.a.	0.16	new	n.a.	0.07	new

Source: RHB

### Valuation

**TP lowered slightly.** Our TP is revised to THB1.26 from THB1.30 – in line with the downgrade in earnings forecasts.

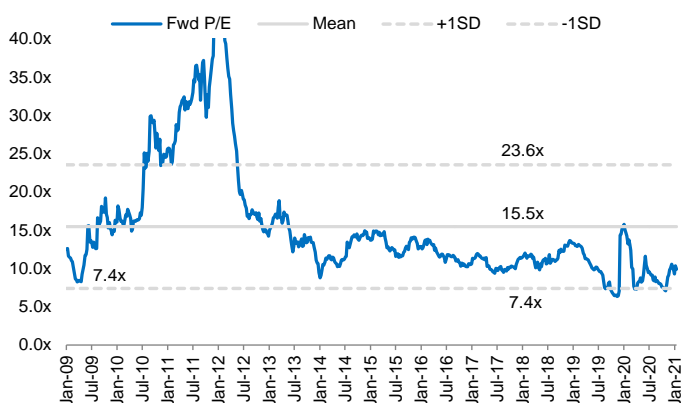
Our TP is based on a GGM-derived P/BV of 0.58x, which is below -1SD from its historical mean.

Figure 3: TMB – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	6.35
Risk free rate (%)	1.30	COE (%)	9.55
Equity premium (%)	6.90	Long-term growth (g)	2.0
Beta (x)	1.20	Implied P/BV (x)	0.58
Cost of equity - CAPM (%)	9.55	BVPS – FY21F	THB2.19
		Target price	THB1.26
		<b>TP (rounded)</b>	<b>THB1.26</b>

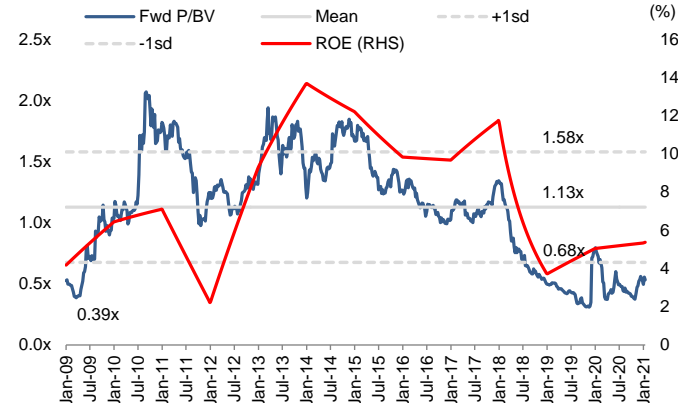
Source: Company data, RHB

Figure 4: TMB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: TMB's 12-month forward P/BV



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Neutral	1.30	1.19
2020-10-20	Neutral	0.87	0.81
2020-04-23	Neutral	1.01	0.92
2019-12-04	Neutral	1.66	1.51
2019-11-04	Neutral	1.54	1.44
2019-07-23	Neutral	1.96	1.76
2019-04-22	Neutral	2.14	1.90
2019-01-23	Neutral	2.38	2.03
2018-10-19	Buy	2.60	2.07
2018-07-24	Neutral	na	2.05
2018-07-23	Neutral	2.35	1.99

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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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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