

22 July 2021

Financial Services | Banks

TMBThanachart Bank (TTB TB)

Neutral (Maintained)

De-Risking Amidst Headwinds; Still NEUTRAL

Target Price (Return): THB1.00 (+1%)
 Price: THB0.99
 Market Cap: USD2,904m
 Avg Daily Turnover (THB/USD): 394m/12.4m

- **NEUTRAL, new TP of THB1.00 from THB1.26, 1% upside with 4.5% FY21F yield.** TMBThanachart Bank's 2Q21 lower-than-estimated earnings fell on a sharp decline in non-Il, and this could not be offset by its lower opex and stable provisions. We cut FY21-23F earnings to reflect a more conservative view against uncertainties stemming from the pandemic. With the bank's focus on integration and balance sheet preservation, we expect underlying operations to stay soft until the situation improves. At 0.4x FY21F P/BV, its risk-reward profile appears fair, given the slow ROE recovery.
- **Going into hibernation mode in 2H21.** Management expects the evolving situation to persist, at least until 1Q22, and is maintaining conservative strategies amid a prolonged pandemic. TTB will continue to focus on balance sheet optimisation under the merged banking entity, rather than on aggressive short-term growth. TTB is maintaining its FY21F targets, which points to stagnant 2H21 earnings on a HoH basis. This should come together with a higher CIR, due to a shift in integration costs towards 2H21 and higher human resource expenses. Net fees and NII trend should be stable or soften. Management also expects the Bank of Thailand to extend the 0.23% Financial Institutions Development Fund rate, which will expire at the end of the year. Once the pandemic ends, TTB should be ready to boost its growth thereafter.
- **2Q21 missed expectations.** TTB posted net profit of THB2,534m (-9% QoQ; -18% YoY). 1H21 earnings of THB5,316m (-27% YoY) missed our estimate (at 46% of our FY21F net profit), but beat the Street forecast. Annualised ROE was 4.9% (1Q21: 5.4%), while CET-1 ratio was at 19.6%.
- **Lower net fee income engulfed positive jaws.** Operating income fell 6% QoQ on a 22% QoQ drop in non-Il, as net fees income plunged in line with the slowdown in economic activity. NII dipped 1% QoQ, from a slight 2% QoQ decrease in loans, with a stable NIM of 2.98% (1Q21: 3.00%). Still, positive jaws led to a lower CIR of 46% vs 47% in 1Q21, due to its accelerating cost-saving strategies. A stable ECL, with a credit cost of 160bps (1Q21: 158bps), led pre-tax profit to drop by 12% QoQ.
- **Constant asset quality.** Gross NPLs were stable QoQ following write-offs of THB4.9bn and THB1.3bn in NPL sales. Still, TTB's NPL ratio ticked up to 2.89% (1Q21: 2.75%) due to the contraction in loans. Loans under relief programmes were stable at 14%, with c.85% of clients being able to repay their debts with full interest charges.
- **Higher LDR of 102.6% (1Q21: 99.7%).** Focusing on a defensive strategy, TTB's loans continued to drop 2% QoQ following a 1% QoQ dip in 1Q21. Deposits dropped by a further 4% QoQ, in line with the banking group's plan to reduce high-cost deposits.
- **Earnings revisions.** We cut our FY21-23F by an average of 18%, to reflect more conservative assumptions of lower loans growth, lower NIM, higher credit costs (see page 3 for more details).

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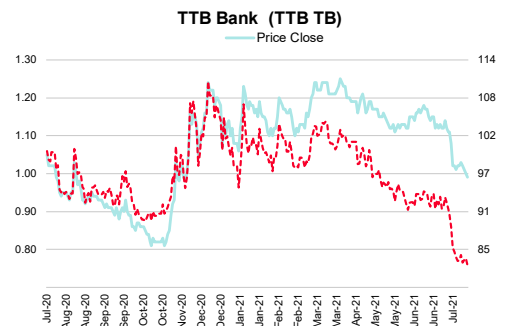


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.3)	(13.9)	(18.2)	(16.8)	(5.7)
Relative	(14.6)	(10.1)	(15.7)	(18.6)	(17.6)
52-wk Price low/high (THB)	0.81 – 1.25				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	7,222	10,112	9,642	10,772	12,414
Net profit growth (%)	(37.7)	40.0	(4.7)	11.7	15.2
Recurring net profit (THBm)	7,222	10,112	9,642	10,772	12,414
Recurring EPS (THB)	0.16	0.10	0.10	0.11	0.13
BVPS (THB)	2.02	2.12	2.18	2.24	2.31
DPS (THB)	0.02	0.05	0.05	0.05	0.06
Recurring P/E (x)	6.01	9.44	9.90	8.86	7.69
P/B (x)	0.49	0.47	0.45	0.44	0.43
Dividend Yield (%)	1.8	4.5	4.5	5.1	6.1
Return on average equity (%)	4.9	5.1	4.7	5.1	5.7

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	0.10	0.11	0.13
Financial Services	Recurring EPS	0.16	0.10	0.10	0.11	0.13
TMBThanachart Bank	DPS	0.02	0.05	0.05	0.05	0.06
TTB TB	BVPS	2.02	2.12	2.18	2.24	2.31
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	6.01	9.44	9.90	8.86	7.69
	P/B (x)	0.5	0.5	0.5	0.4	0.4
	Dividend Yield (%)	1.8	4.5	4.5	5.1	6.1
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Interest income	39,837	72,321	67,022	70,558	73,274
	Interest expense	(12,972)	(18,515)	(15,026)	(18,921)	(20,089)
	Net interest income	26,865	53,806	51,997	51,637	53,184
	Non interest income	12,956	14,986	15,890	16,468	17,181
	Total operating income	39,821	68,792	67,887	68,105	70,365
	Overheads	(20,674)	(31,623)	(32,122)	(33,130)	(34,196)
	Pre-provision operating profit	19,147	37,169	35,765	34,975	36,169
	Loan impairment allowances	(10,337)	(24,831)	(24,001)	(21,800)	(20,986)
	Pre-tax profit	8,810	12,338	11,764	13,175	15,183
	Taxation	(1,588)	(2,223)	(2,118)	(2,398)	(2,763)
	Minority interests	-	(3)	(5)	(5)	(6)
	Reported net profit	7,222	10,112	9,642	10,772	12,414
	Recurring net profit	7,222	10,112	9,642	10,772	12,414
	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Return on average assets (%)	0.5	0.6	0.5	0.6	0.6
	Return on average equity (%)	4.9	5.1	4.7	5.1	5.7
	Return on IEAs (%)	3.0	4.1	3.9	4.1	4.1
	Cost of funds (%)	1.1	1.2	1.0	1.2	1.2
	Net interest spread (%)	1.9	2.9	2.9	2.9	2.9
	Net interest margin (%)	2.0	3.0	3.0	3.0	3.0
	Non-interest income / total income (%)	32.5	21.8	23.4	24.2	24.4
	Cost to income ratio (%)	51.9	46.0	47.3	48.6	48.6
	Credit cost (bps)	99.5	178.3	175.0	160.0	150.0
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total gross loans	1,392,225	1,392,925	1,350,000	1,375,000	1,423,125
	Other interest earning assets	402,576	349,324	358,300	371,220	386,550
	Total gross IEAs	1,794,801	1,742,249	1,708,300	1,746,220	1,809,675
	Total provisions	(45,477)	(51,967)	(55,350)	(54,863)	(56,640)
	Net loans to customers	1,346,748	1,340,958	1,294,650	1,320,138	1,366,485
	Total net IEAs	1,749,324	1,690,282	1,652,950	1,691,357	1,753,034
	Total non-IEAs	115,354	118,050	202,142	223,404	252,316
	Total assets	1,864,678	1,808,332	1,855,092	1,914,761	2,005,350
	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	209,894	216,205	223,143
	Minority interests	30	37	38	40	40
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NPLs / gross cust loans (%)	2.7	2.9	3.7	3.5	3.3
	Total provisions / reported NPLs (%)	120.5	130.1	111.1	115.3	119.0
	CET-1 ratio (%)	13.6	14.4	16.2	16.9	17.5
	Tier-1 ratio (%)	14.6	15.5	16.2	16.9	17.5
	Total capital ratio (%)	18.9	19.6	20.2	20.8	21.2

Source: Company data, RHB

Results At a Glance

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

FYE Dec (THBm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments 1H21 vs 1H20
NII	13,046	12,872	12,782	-1	-2	27,060	25,654	-5	Down, as loans contracted after the bank put more focus on healthy loans.
NIM (%) - reported	2.98%	3.00%	2.98%			3.0%	3.0%		Stable, as the decrease in loan yields was offset by cost management and a well-managed deposits mix.
Non-II	3,523	3,971	3,117	-22	-12	7,705	7,088	-8	The decline was largely due to lower gains on investments, which outpaced a rebound in net fees income.
Non-II/total income (%)	21.3%	23.6%	19.6%			22.2%	21.6%		
Operating income	16,569	16,843	15,899	-6	-4	34,765	32,742	-6	
Overhead expenses	(7,776)	(7,928)	(7,402)	-7	-5	(16,108)	(15,330)	-5	Down, mainly on aggressive cost discipline policies (lower employee, premises and equipment costs) – which is in line with merged banks' strategies.
CIR (%)	46.9%	47.1%	46.6%			46.3%	46.8%		In line with management's FY21F CIR target of 47-49%.
PIOP	8,793	8,915	8,497	-5	-3	18,657	17,412	-7	
Expected credit loss	(4,972)	(5,480)	(5,491)	0	10	(9,732)	(10,971)	13	Higher, reflecting a forward-looking basis that takes in the prolonged uncertainties stemming from the COVID-19 pandemic.
Annualised credit cost (bps)	143	158	160			140	159		
Pre-tax profit	3,821	3,435	3,006	-12	-21	8,925	6,441	-28	
Tax	(724)	(653)	(471)			(1,664)	(1,124)		
Effective tax rate (%)	19.0%	19.0%	15.7%			18.6%	17.5%		
Minority interest	(1)	(0)	(1)			(2)	(1)		
Net profit	3,095	2,782	2,534	-9	-18	7,258	5,316	-27	
Other key data and ratios									
Gross loans (THBbn)	1,382	1,380	1,359	-2	-2				Declined 5% (annualised), mainly on a drop in corporate (-5% YTD), and retail lending (-1% YTD). In the meantime, SME loans remained stable, in line with its de-risk policy.
Customer deposits (THBbn)	1,443	1,384	1,324	-4	-8				Declined by 3.6% YTD, led by a fall in high-cost deposits – time deposits and certificate deposits (-22.8% YTD). Still, hybrid products, ie no-fixed and all-free deposits, increased 9.8% and 6.6% YTD.
Non-performing loans (THBbn)	39	43	44	0	12				
Total assets (THBbn)	1,893	1,794	1,748	-3	-8				
Shareholders' funds (THBbn)	201	208	206	-1	2				
ROAA (%)	0.65	0.62	0.57			0.77	0.60		
ROAE (%)	6.2	5.4	4.9			7.3	5.2		
LDR (%)	95.8	99.7	102.6						
NPL ratio (%)	2.34	2.75	2.89						
Loan loss reserves (%)	114.4	124.0	125.0						
Tier-1 capital ratio (%)	14.6	15.5	15.5						
Total capital ratio	18.6	19.5	19.6						

Source: Company data, RHB

Revisions to earnings estimates

We cut earnings forecasts by 17%, 19% and 19% for FY21-23. We also adjusted our main assumptions to reflect a more conservative view, in line with the prolonged COVID-19 pandemic. Our revisions are detailed below:

- i. Loan growth of -3% YoY, +2% YoY and +3.5% YoY (from +1.7% YoY, +3% YoY and +5% YoY) for FY21-23F, in line with 1H21 numbers – in view of TTB's passive strategies;
- ii. Lower NIM of 3% for 3 years (from 3.2%);
- iii. Higher credit costs of 175bps, 160bps, and 150bps (from 160bps, 147bps, and 13bps) for FY21-23F, reflecting the upper-bound of its credit cost guidance of 160-180bps.

Figure 2: TTB – revisions to our forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	11,590	9,642	-16.8	0.12	0.10	-16.8	0.05	0.05	0.0
2022F	13,323	10,772	-19.1	0.14	0.11	-19.1	0.06	0.05	-16.7
2023F	15,355	12,414	-19.2	0.16	0.13	-19.2	0.07	0.06	-14.3

Source: RHB

Valuation and TP

Our new TP is at THB1.00 (from THB1.26), as the downgrade in our earnings forecasts led to revisions in the following assumptions:

- i. Higher equity risk premium of 7.40%, from 6.90%;
- ii. Lower ROE of 5.75%, from 6.35%;
- iii. Lower BVPS of THB2.17 vs THB2.19 previously;
- iv. Higher CoE of 10.15% vs 9.55% previously.

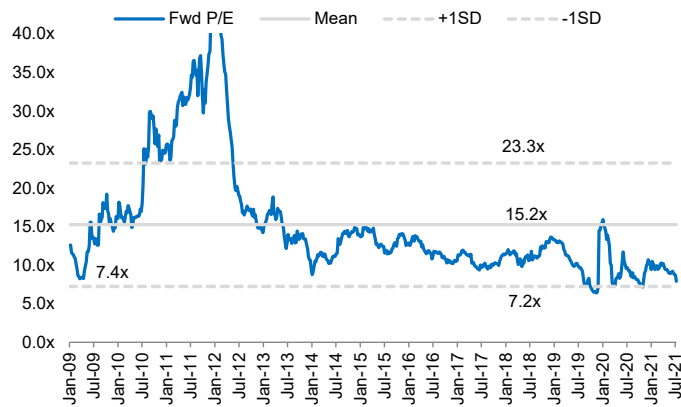
As a result, our GGM-derived P/BV falls to 0.46x (from 0.58x), which is below -1SD from its historical mean.

Figure 3: TMB – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	5.75
Risk free rate (%)	1.30	COE (%)	10.15
2	7.40	Long-term growth (g)	2.00
Beta (x)	1.20	Implied P/BV (x)	0.46
Cost of equity - CAPM (%)	10.15	BVPS – FY21F	THB2.17
		Target price	THB1.00
		TP (rounded)	THB1.00

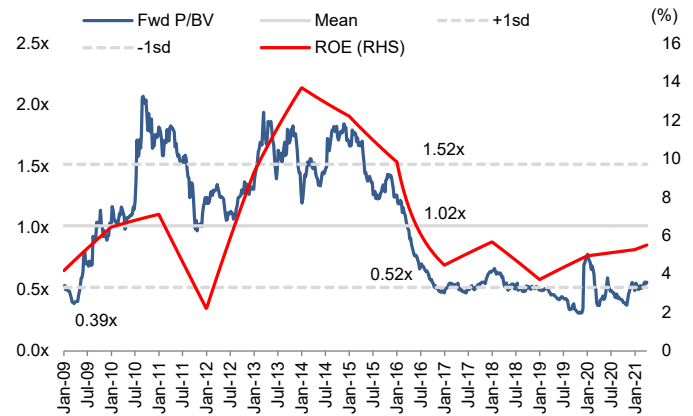
Source: Company data, RHB

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
2021-01-20	Neutral	1.26	1.15
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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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

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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- ได้รับการรับรอง CAC

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