

16 May 2017

Financial Services | Banks

Banks

Overweight (Under review)

Rate Cuts Pressure Earnings Growth

Stocks Covered: 8

Ratings (Buy/Neutral/Sell): 4 / 3 / 1

Last 12m Earnings Revision Trend: Negative

We anticipate a slower earnings growth rebound among the large banks. This is given the negative impact from the recent lending rate cuts. Average NIMs among such banks are likely to be lower than our estimates, up to 5-9bps for 2017 and 8-14bps for 2018. Moreover, the rate cuts are likely to slow down our eight covered banks' earnings growth by up to 3-5% from our earnings forecasts of 6.5-8.5% for 2017-2018 respectively. On a positive note, these cuts are likely to alleviate financial stresses and shore up demand for loans among SMEs and retail customers. We opine that KTB might have the largest impact from the rate cuts. This is given its higher proportion in consumer and small SME loans, and its lowest non-II among the large banks. We think that smaller banks, eg KKP and TISCO, are likely to have minimal impact from the rate cuts. This is given their high proportion in fixed rate auto HP loans.

The rate cuts. Large banks, including Bangkok Bank (BBL), Kasikornbank (KBANK), Krung Thai Bank (KTB) and Siam Commercial Bank (SCB), have announced that they are cutting lending rates to alleviate the financial stress faced by some small and medium enterprises (SMEs) and consumer borrowers (Figure 1). Banks do not lower deposit rates at this round. Moreover, the banks are planning to launch new proactive lending measures – eg SME package loans with low interest rates – to stimulate new demand for loans and support the economic recovery.

NIMs to be pressured from the rate cuts. Given that the rate cuts are effective today, the impact would immediately affect those lending with floating rates that, subsequently, pressure banks' NIMs and cap the earnings growth rebound ahead. From our estimates, we expect that such NIMs might decrease by up to 5-9bps for 2017 and 8-14bps for 2018. The negative impact to the banks' earnings is expected to have a partial effect in 2017, with the full impact expected to occur in 2018 (Figure 2).

KTB is likely to experience the largest impact, BBL the least. We expect KTB might have the largest impact, ie up to 5.5-8.5% from our earnings projections for 2017-2018, from the rate cuts. This is given its higher proportion in consumer and small SME loans, and its lowest non-II among the large banks. On the other hand, BBL is expected to have the least impact. This is given its lower proportion in retail and small SME loans (Figure 2). However, the negative impact might be less than our estimates, given that the banks could grow more loans growth and increase non-II (ie fee and services income, investment gains, and trading and forex gains) to mitigate the negative impact.

Ripple effect to small- and mid-sized banks. The lending competition could be more intense, particularly among mortgage and SME loans. We think that small and mid-sized banks might have to lower the lending rates to stay in competition and maintain market shares. Small banks like Kiatnakin Bank (KKP) and Tisco Financial Group (TISCO) are likely to have minimal affects from the rate cuts. This is because the majority of loans are fixed rate auto hire purchase (HP) loans. Moreover, Thanachart Capital (TCAP) is expected to have the least impact among mid-sized banks. This is given that 70% of its total loans are fixed rate auto HP (51%) and corporate (19%) loans.

Maintain higher loan growth outlook. We think the rate cuts could ease customers' financial stresses, which might lead to higher consumer and corporate spending in the future. Given the ongoing infrastructure investments to spur higher loan demand in 2H17, we maintain our aggregate loan growth projections of 4.7-4.2% YoY for 2017-F-2018F when compared with a 1.3% rise in 2016.

Under review. Given some negative impact to banks' future earnings and pending for more details on their plans for new lending campaigns, we see downside risks for earnings projections. It is likely that sector earnings growth rebounds might be 3-5% slower than our estimates of 6.5-8.5% for 2017-2018 respectively. Given lesser impacts from the rate cuts, we recommend a BUY call on TISCO and TCAP. This is given the lesser impact the two have felt from the rate cuts, stronger earnings growth rebounds ahead and attractive dividend payments.

Figure 1: Summary of the rate cuts

	MLR	New MLR	Change	MOR	New MOR	Change	MRR	New MRR	Change	Loans to be affected from the rate cuts
BBL	6.250%	6.250%	0.000%	7.375%	7.125%	(0.250%)	7.625%	7.125%	(0.500%)	Mortgage, small SMEs
KBANK	6.250%	6.250%	0.000%	7.120%	7.120%	0.000%	7.620%	7.120%	(0.500%)	Mortgage, micor and SMEs
KTB	6.275%	6.275%	0.000%	7.120%	7.120%	0.000%	7.620%	7.120%	(0.500%)	Consumer, small SMEs
SCB	6.275%	6.025%	(0.250%)	7.120%	6.870%	(0.250%)	7.620%	7.370%	(0.250%)	All types of loans

Note: MLR = minimum loan rate, MOR = minimum overdraft rate, MRR = minimum retail rate

Source: Company data, RHB

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-17F	P/B (x) Dec-17F	Yield (%) Dec-17F
Bangkok Bank	BUY	THB179.50	THB196.00	9.2	9.7	0.9	3.7
Siam Commercial Bank	BUY	THB152.00	THB176.00	15.8	10.0	1.4	3.9
Thanachart Capital	BUY	THB46.75	THB54.00	15.5	8.3	0.9	4.7
TISCO Financial Group	BUY	THB74.25	THB79.00	6.4	10.1	1.8	5.4
Kasikornbank	NEUTRAL	THB185.00	THB197.00	6.5	11.1	1.3	2.2
Kiatnakin Bank	NEUTRAL	THB67.50	THB69.00	2.2	9.9	1.4	7.1
Krung Thai Bank	NEUTRAL	THB18.70	THB20.00	7.0	7.6	0.9	5.0
TMB Bank	SELL	THB2.18	THB1.97	(9.6)	11.1	1.1	2.5

Source: Company data, RHB

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Banks with highest exposure in mortgage and small SMEs to have the largest impact

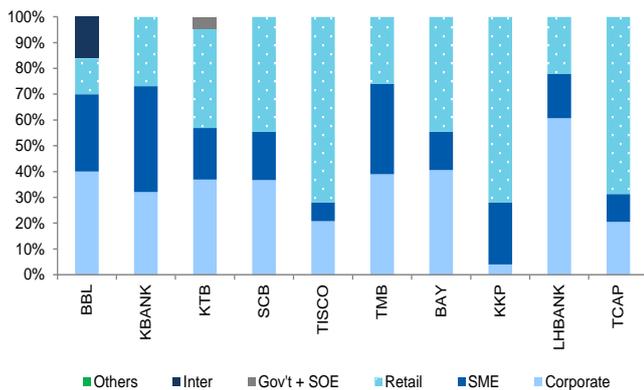
Given the high household debt and fragile economic recovery, banks are cautiously lending to small SMEs and retail borrowers to prevent new NPLs. The recent lending rate cuts are likely to help ease the financial stresses among such borrowers, who have weaker financial statuses when compared with large corporates. We think that the lending rate cuts are likely to have the largest effect to those banks with a high proportion in mortgage and small SME loans. Among large the banks, SCB has the highest exposure in mortgage loans, ie roughly 31% of its total loans in Dec 2016. Moreover, KBANK is likely to have the highest exposure for small SMEs, accounting for 17% of its total loans in Dec 2016. Although SCB and KBANK look likely to have experience the largest impact from the rate cuts, both banks have high non-II ratio (ie non-II/total operating income) to help mitigate the negative impact.

Figure 2: A summary of the expected impact to the banks

	Interest income (THBm)		Expected impacts to interest income		Net interest margin (NIM)		Expected impacts from the rate cuts		Earnings forecasts (THBm)		Expected impacts from the rate cuts	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
BBL	105,609	114,213	-1.4%	-2.2%	2.29%	2.33%	-0.05%	-0.08%	35,310	39,139	-3.4%	-5.1%
KBANK	120,381	127,552	-1.4%	-2.2%	3.44%	3.43%	-0.06%	-0.10%	39,786	43,882	-3.5%	-5.2%
KTB	128,914	136,416	-1.8%	-2.8%	3.37%	3.37%	-0.09%	-0.14%	34,254	36,855	-5.5%	-8.5%
SCB	131,156	139,691	-1.7%	-2.6%	3.32%	3.33%	-0.08%	-0.12%	51,907	54,960	-3.4%	-5.3%

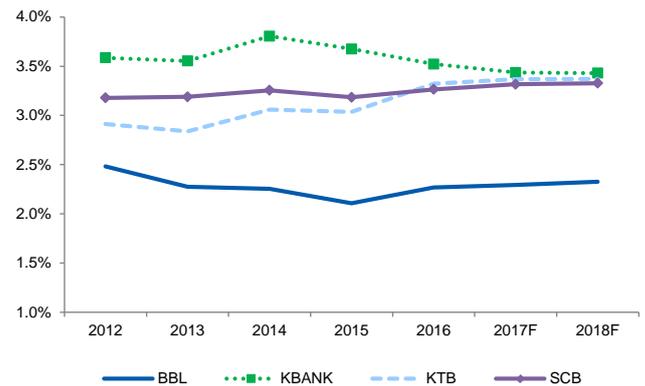
Source: Companies data, RHB

Figure 3: Banks' exposures to loans



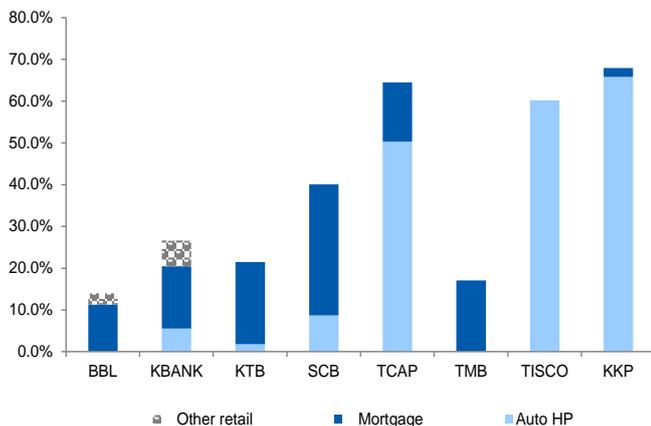
Source: Companies data, RHB

Figure 4: Large banks' NIM trends before the rate cuts



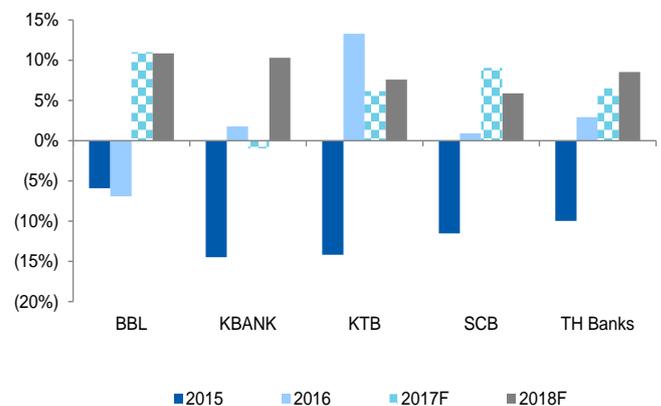
Source: Companies data, RHB

Figure 5: Banks' retail to total loans portfolio



Source: Companies data, RHB

Figure 6: Aggregate earnings growth might be 3-5% lower than our expectations of 6.5-8.5% for 2017-2018



Source: Companies data, RHB

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