

August 16, 2004

BANKING SECTOR

NEW : OVERWEIGHT
PREVIOUS : OVERWEIGHT

BOT governor dispels negative rumours

Sentiment towards the banking sector may remain negative in the near-term due to market concerns about NPLs, the Bank of Thailand's provisioning requirements and slowing economic growth prospects with high oil prices and rising interest rates. The sector has been further affected by numerous unfounded rumours, such as the Financial Institution Development Fund (FIDF) selling Krung Thai Bank (KTB) and Siam City Bank (SCIB) shares and the possible replacement of the Bank of Thailand (BOT) governor.

Over the weekend, BOT governor MR Pridiyathorn Devakula came out to clearly deny that the FIDF is selling banking shares and that he still has the full support of Finance Minister Somkid Jatusripitak and Prime Minister Thaksin Shinawatra. Furthermore, he stressed that KTB's capital is sufficient despite the increase in NPLs from adopting the more stringent asset classification system and the adoption of the new classification may not significantly increase the NPLs at other banks.

In our view, the fundamentals of the banking sector are still strong and the many stocks in the sector are now under-priced. As a result, we are maintaining our "OVERWEIGHT" recommendation on the banking sector.

The bank sectorial index has dropped 13.7% from 230.0 on July 22 after the announcement of 2Q04 earnings to 198.8 last Friday, August 13. Among the top losers, KTB lost 20%, BAY 21.4% and SCIB 16.5%. BBL and SCB, on the other hand, were less sensitive, dropping 9.8% and 11.6%, respectively. We believe that this is due to strong fundamental factors as the loan loss reserve to non-performing loan ratios for these two banks are quite high at 69.1% and 73.7%, respectively.

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Banking sector: Price change after 2Q04 earning results

	Jul-22	Aug-13	% change
BBL	97.00	87.50	-9.8%
KTB	9.75	7.80	-20.0%
KBANK	49.75	42.50	-14.6%
SCB	47.50	42.00	-11.6%
BAY	12.60	9.90	-21.4%
SCIB	25.50	21.30	-16.5%
TMB	3.58	3.04	-15.1%
PEBANK	10.42	8.86	-15.0%
SET	650.12	588.87	-9.4%
SETBANK	230.33	198.82	-13.7%

Source: Reuters

A major negative factor driving down banking stocks is concerns about rising NPLs after the BOT implements more stringent debt classification measures. However, the BoT governor commented that these measures may not result in additional NPLs for other commercial banks. Top management of several banks also commented that the measure is actually positive for the sector as it will help detect problem loans earlier and provide more transparency than the current system. Furthermore, the banking sector's profitability would not be affected as borrowers continue to fully service their debt. We agree with this view.

The BoT governor also completely denied the rumour that the FIDF would sell its stake in KTB and SCIB. He also commented that KTB's financial status is still strong and has sufficient capital to make necessary provisions to cover the Bt46bn increase in NPLs under the new classification system.

The market is also worrying about slowing economic growth due to rising interest rates and high oil prices. Even if the BOT raises its 14-day repurchase rate later this month, we still believe that Thai banks will be much slower in raising lending and deposit rates due to the excess liquidity in the Thai banking system. However, the BOT's move would still have an impact on the short-term money and bond markets. We don't believe that an eventual increase in interest rates would hurt banking sector margins as average lending rates tend to be adjusted upwards more quickly than average deposit rates, especially in this period of excess liquidity.

There are some positives, as well. One is that the Vayupak fund may invest part of its current cash surplus of Bt20bn in the banking sector. Furthermore, the valuations of the sector are looking very attractive. We have the banking sector on an average PER of 8.86x this year and 8.34x in 2005 and P/BV of 1.44x in 2004 and 1.27x in 2005.

Taking a long term view, we reiterate our OVERWEIGHT recommendation on this sector as we believe that banking financial status is sound and earnings growth prospects remain unchanged.

For stock recommendations, we have BUY ratings on BBL and SCB due to their attractive pricing and relatively high provisioning levels. We recommend LONG-TERM BUY for KTB and ACCUMULATE for SCIB as their prices have already dropped to attractive levels.

Banking sector: Recommendation and fair value estimates

	Recommendation	Current price Aug 13	Target price	2004F EPS	2004F PER	2004F P/BV
BBL	BUY	87.50	133.00	7.48	11.7	1.47
KTB	LONG -TERM BUY	7.80	13.75	1.13	6.9	1.06
KBANK	LONG -TERM BUY	42.50	65.00	6.24	6.8	1.75
SCB	BUY	42.00	62.00	5.62	7.5	1.52
BAY	ACCUMULATE	9.90	16.25	1.89	5.2	0.89
SCIB	ACCUMULATE	21.30	30.70	2.85	7.5	1.24
TMB	HOLD	3.04	4.60	0.22	13.6	1.17

Source: KELIVE Research estimates

Banking Sector: Earning summary

2004F	BBL	KTB	KBANK	SCB	BAY	SCIB	TMB
PPP (Btmn)	17,160	19,944	16,278	20,178	7,573	7,146	5,422
Net profit (Btmn)	16,422	12,658	14,678	17,767	5,393	6,023	3,422
PPP/Share (Bt)	8.99	1.78	6.91	6.38	2.66	3.38	0.35
EPS (Bt)	7.48	1.13	6.24	5.62	1.89	2.85	0.22
BVPS (Bt)	59.58	7.38	24.33	27.64	11.16	17.16	2.60
DPS (Bt)	2.24	0.45	2.49	2.27	0.76	1.16	0.00
P/PPP (x)	9.7	4.4	6.1	6.6	3.7	6.3	8.6
P/E (x)	11.7	6.9	6.8	7.5	5.2	7.5	13.6
P/B (x)	1.47	1.06	1.75	1.52	0.89	1.24	1.17
Dividend yield	2.6%	5.8%	5.9%	5.4%	7.6%	5.5%	0.0%

Source: KELIVE Research estimates

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