

August 24, 2004

BANKING SECTOR**NEW : NEUTRAL**
PREVIOUS : OVERWEIGHT**Oil price surge to hurt loan growth**

We are downgrading our banking sector rating from OVERWEIGHT to **NEUTRAL** due to an expected slowdown in loan growth in 2H04 as a result of surging oil prices and higher interest rates. Bank lending slipped 0.4% mom in July to Bt3,965,071bn but was still up 3.9% YTD.

Among major banks, SCB's loans net of allowance for doubtful debt fell 1% mom in July while loans for KBANK and KTB declined 0.5% and 0.6% respectively. BBL's loan book, however, rose 1.0%.

We expect banks to adopt a more cautious policy in credit extension over the next few months due to a slowdown in economic growth as surging oil prices crimp consumer and corporate spending. Rising energy costs will also reduce the capability of corporate clients to service their debts, leading to a possible increase in new NPLs and delays in debt restructuring for existing NPL accounts. Also many new investment projects will need to be revised to take into account higher operating costs, another factor likely to slow loan growth in 2H04.

Since the beginning of July, the banking sub-index has fallen 4.5%, slightly outperforming the SET index, which fell 6%. On Wednesday the Bank of Thailand's Monetary Policy Committee is widely expected to raise its 14-day repo rate by 0.25% from a record low of 1.25%.

Given the huge excess liquidity in the financial system, we don't expect commercial banks to raise their loan or deposit rates in the short-term. Nonetheless, the trend towards higher domestic interest rates is already being seen in the bond and money markets. Last week SCB raised fixed-term mortgage rates by 25-50 basis points to cope with higher interest costs, a move other banks may follow. SCB's new one-year mortgage rate now stands at 3.25%, with the two-year and three-year rates at 4.25% and 5.50% respectively

Despite our downgrade, we believe bank stocks remain attractive for long-term investors. The 12 banks on our coverage list are trading at P/BVPS of 0.9-1.8x. Moreover, several major banks, including KTB, KBANK, SCB and BAY, offer prospective dividends for 2004 earnings of more than 5%.

Our top picks in the sector remain BBL and SCB. We like BBL given its leading market position and its above-average loan growth while SCB is transforming itself into a universal bank, which will generate higher income over the long-term.

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Banking sector: Target price and recommendation

	Current price 20/8/04	Target price	Recommendation
BBL	90.50	133.00	BUY
KTB	8.05	13.75	BUY
KBANK	44.50	65.00	LONG -TERM BUY
SCB	45.25	56.00	BUY
BAY	10.30	16.25	ACCUMULATE
SCIB	22.10	30.70	ACCUMULATE
TMB	3.24	4.60	HOLD

Source: Bank of Thailand

Banking sector: July shareholder equity

	Jul-04	Jun-04	MOM (%)	Dec-03	YTD (%)	MOM(Btmn)	YTD(Btmn)
BBL	107,537	106,505	1.0%	102,229	5.2%	1,032	5,308
KTB	73,511	73,104	0.6%	74,927	-1.9%	407	-1,416
KBANK	56,506	55,306	2.2%	48,458	16.6%	1,200	8,048
SCB	78,252	73,179	6.9%	75,524	3.6%	5,074	2,728
BAY	31,271	30,617	2.1%	28,573	9.4%	654	2,698
SCIB	32,879	32,647	0.7%	32,632	0.8%	232	247
TMB	46,502	28,990	60.4%	27,527	68.9%	17,512	18,975
BT	7,064	6,461	9.3%	6,685	5.7%	603	379
BOA	15,241	14,960	1.9%	14,597	4.4%	281	643
UOBR	7,230	4,175	73.2%	4,153	74.1%	3,055	3,077
NBANK	8,663	8,672	-0.1%	8,766	-1.2%	-9	-102
SCNB	4,816	4,687	2.7%	4,339	11.0%	129	477
Total	469,470	439,304	6.9%	428,409	9.6%	30,167	41,061

Source: Bank of Thailand

Banking sector: July Loan (net of allowance for the doubtful accounts)

	Jul-04	Jun-04	MOM (%)	Dec-03	YTD (%)	MOM(Btmn)	YTD(Btmn)
BBL	770,667	768,634	0.3%	713,480	8.0%	2,034	57,187
KTB	930,795	936,238	-0.6%	919,572	1.2%	-5,444	11,222
KBANK	506,706	509,031	-0.5%	480,773	5.4%	-2,324	25,933
SCB	485,110	490,033	-1.0%	433,941	11.8%	-4,923	51,170
BAY	391,577	388,159	0.9%	374,131	4.7%	3,418	17,446
SCIB	291,544	289,332	0.8%	310,822	-6.2%	2,212	-19,278
TMB	273,059	274,328	-0.5%	274,358	-0.5%	-1,269	-1,300
BT	100,470	98,925	1.6%	96,151	4.5%	1,545	4,319
BOA	102,850	103,201	-0.3%	90,438	13.7%	-351	12,413
UOBR	47,121	46,483	1.4%	45,384	3.8%	638	1,736
NBANK	29,591	31,305	-5.5%	31,521	-6.1%	-1,715	-1,930
SCNB	35,580	44,963	-20.9%	44,270	-19.6%	-9,383	-8,690
Total	3,965,071	3,980,634	-0.4%	3,814,841	3.9%	-15,563	150,230

Source: Bank of Thailand

Banking sector: 2004 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)	10.1	4.5	6.4	7.1	3.9	6.5	9.2
P/E (x)	12.1	7.1	7.1	8.1	5.4	7.8	14.5
P/B (x)	1.52	1.09	1.83	1.64	0.92	1.29	1.24
Dividend yield	2.5%	5.6%	5.6%	5.0%	7.3%	5.3%	0.0%
ROE	15.2%	16.1%	25.6%	21.8%	17.9%	17.5%	8.6%

Source: KELIVE Research estimates

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