

23 April 2021

Financial Services | Banks

Siam Commercial Bank (SCB TB)

Neutral (from Buy)

Positives Priced In; D/G To NEUTRAL

Target Price (Return): THB107 (0.0%)
 Price: THB107.50
 Market Cap: USD11,533m
 Avg Daily Turnover (THB/USD) 1,180m/38.7m

- **Downgrade to NEUTRAL, from Buy, with unchanged THB107.00 TP, 0% upside and c.3% yield.** New waves of COVID-19 cases have led to downgrade in GDP forecast and renewed concerns over income growth recovery and asset quality. Given the uncertainties, we are keeping our FY21-23F earnings for now. We like Siam Commercial Bank's proactive management of asset quality, improvement in cost structure, and growth of its wealth management business. Still, with the 21% YTD rally in share price, risk-reward appears balanced at the current P/BV of 0.8x against FY21-22F ROE of c.7%.
- **GDP forecast lowered.** New waves of COVID-19 cases – second wave from Dec 2020 to Feb 2021, while the third wave started in Apr 2021 – have led to a revision in SCB's 2021 GDP forecast down to 1.8-2.2% from 2.6%. Its economist believes Thailand's growth will only recover to pre-pandemic levels in mid-2023. With the renewed economic uncertainty, management makes no changes to its FY21F financial targets despite the strong 1Q21 showing (See [Siam Commercial Bank: 1Q21 Beat On Lower ECL And Opex](#), 22 Apr 2020).
- **Better clarity on asset quality in 2Q21.** Management expects to have a better picture of asset quality impact from the third wave in 2Q21. NPL ratio is expected to trend higher but stay within guidance of 4-4.5% (1Q21: 3.79%). Qualitative downgrade of accounts to prevent potential cliff effect on expiry of relief programmes in Dec 2021, would likely keep provisions elevated. Still, management remains comfortable with its FY21F credit cost target of <200bps as it believes provisions peaked in 2020.
- **NIM to stabilise.** Loan yields fell a sharp 19bps QoQ in 1Q21 as retail loan yields compressed 18bps QoQ due to (i) refinancing of quality customers to fend off competition; (ii) flight to quality strategy that led to lower mortgages yields from quality developers and higher mix of hire purchase loans for new cars; and (iii) relief assistance for affected customers. Management believes 1Q21 NIM can be sustained as SCB raised LDR to 97% from 93% in 4Q20 and 90% in 3Q20, and cut deposit rates in Feb-Mar 2021.
- **Structural improvements in opex.** SCB is making good progress in efforts to drive costs lower. We believe structural improvements from right sizing of branch network (809 from 913 in 1Q20) and staff headcount (22,900 from 25,300 in 1Q20) will become more evident in quarters ahead. Still, management was careful to add that reinvestments for future growth may likely mitigate some of the cost reductions.
- **Other highlights.** Strong non-II growth in 1Q21 may not be sustainable as a rise in COVID-19 cases led to a softening in the bancassurance and wealth management businesses. Without confirming news reports that SCB may be interested to acquire Citibank (Thailand)'s retail operations, management commented that SCB is always on the lookout for inorganic growth opportunities. With CET-1 ratio at a high 17.1%, SCB has the capacity to undertake M&As. Banks have yet to hear from Bank of Thailand on whether the cap on dividend payout and interim distribution would be lifted for FY21.

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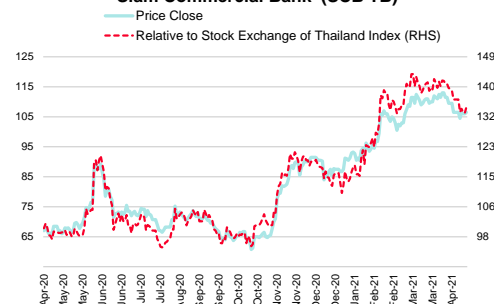
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.7	(2.7)	12.7	63.8	59.0
Relative	13.5	(2.8)	8.0	34.6	34.7
52-wk Price low/high (THB)	60.8 – 113				

Siam Commercial Bank (SCB TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	40,436	27,218	29,222	31,550	38,739
Net profit growth (%)	0.9	(32.7)	7.4	8.0	22.8
Recurring net profit (THBm)	40,436	27,218	29,222	31,550	38,739
Recurring EPS (THB)	11.90	8.01	8.60	9.28	11.40
BVPS (THB)	117.78	121.04	129.94	135.93	142.99
DPS (THB)	5.50	2.50	3.00	3.50	4.50
Recurring P/E (x)	8.95	13.30	12.39	11.47	9.35
P/B (x)	0.90	0.88	0.82	0.78	0.74
Dividend Yield (%)	5.2	2.3	2.8	3.3	4.2
Return on average equity (%)	10.4	6.7	6.9	7.0	8.2

Source: Company data, RHB

23 April 2021

Financial Services | Banks

Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	11.90	8.01	8.60	9.28	11.40
Financial Services	Recurring EPS	11.90	8.01	8.60	9.28	11.40
Siam Commercial Bank	DPS	5.50	2.50	3.00	3.50	4.50
SCB TB	BVPS	117.78	121.04	129.94	135.93	142.99
Neutral						
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Our GGM assumptions include:	Recurring P/E (x)	8.95	13.30	12.39	11.47	9.35
i. COE of 8.1%;	P/B (x)	0.9	0.9	0.8	0.8	0.7
ii. ROE of 7.0%; and	Dividend Yield (%)	5.2	2.3	2.8	3.3	4.2
iii. 2.5% long term growth						
Key drivers	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Our FY21 forecast is most sensitive to changes in:	Interest income	135,025	118,371	125,502	133,174	141,994
i. Credit cost;	Interest expense	(35,624)	(21,472)	(24,236)	(30,307)	(33,207)
ii. Net interest margin; and	Net interest income	99,401	96,899	101,266	102,867	108,788
iii. Fee income from bancassurance and wealth management.	Non interest income	66,697	47,869	45,825	47,447	50,210
	Total operating income	166,098	144,768	147,091	150,314	158,998
	Overheads	(70,538)	(64,330)	(66,851)	(69,329)	(71,992)
	Pre-provision operating profit	95,560	80,438	80,240	80,985	87,006
	Loan impairment allowances	(36,211)	(46,649)	(43,578)	(41,398)	(38,688)
	Pre-tax profit	59,349	33,788	36,662	39,587	48,318
	Taxation	(19,098)	(6,794)	(7,552)	(8,115)	(9,664)
	Minority interests	185	224	112	78	85
	Reported net profit	40,436	27,218	29,222	31,550	38,739
	Recurring net profit	40,436	27,218	29,222	31,550	38,739
Key risks	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Downside risks include:	Return on average assets (%)	1.3	0.9	0.9	0.9	1.1
i. Slower-than-expected economic recovery post-COVID-19;	Return on average equity (%)	10.4	6.7	6.9	7.0	8.2
ii. Sharper-than-expected deterioration in asset quality; and	Return on IEAs (%)	4.5	4.0	3.9	4.0	4.0
iii. Weaker-than-expected growth in loans and recurring fee income.	Cost of funds (%)	1.5	0.8	0.9	1.0	1.1
The converse represents upside risks.	Net interest spread (%)	3.1	3.1	3.1	2.9	2.9
	Net interest margin (%)	3.3	3.2	3.2	3.1	3.1
	Non-interest income / total income (%)	40.2	33.1	31.2	31.6	31.6
	Cost to income ratio (%)	42.5	44.4	45.4	46.1	45.3
	Credit cost (bps)	170	214	191	175	155
Company Profile	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Siam Commercial Bank is Thailand's third-largest commercial bank by asset size. It provides a full range of financial services, including corporate and personal lending, retail and wholesale banking, foreign currency operations, international trade financing, cash management, custodial services, credit and charge card services, and investment banking services	Total gross loans	2,113,787	2,255,242	2,307,900	2,423,295	2,568,693
	Other interest earning assets	745,575	859,300	968,780	1,008,973	1,050,185
	Total gross IEAs	2,859,362	3,114,542	3,276,680	3,432,268	3,618,878
	Total provisions	(114,272)	(139,442)	(135,244)	(138,824)	(144,173)
	Net loans to customers	2,002,637	2,117,924	2,174,780	2,286,595	2,424,520
	Total net IEAs	2,745,090	2,975,100	3,141,436	3,293,443	3,474,705
	Total non-IEAs	218,656	303,284	284,380	283,807	268,316
	Total assets	2,963,746	3,278,383	3,425,816	3,577,250	3,743,021
	Customer deposits	2,159,425	2,420,455	2,593,146	2,722,803	2,854,103
	Other interest-bearing liabilities	235,592	275,993	261,018	261,980	269,098
	Total IBLs	2,395,018	2,696,448	2,854,164	2,984,784	3,123,201
	Total non-IBLs	167,882	170,106	129,553	129,991	133,346
	Total liabilities	2,562,900	2,866,554	2,983,717	3,114,775	3,256,547
	Share capital	33,992	33,992	33,992	33,992	33,992
	Shareholders' equity	400,358	411,430	441,693	462,060	486,060
	Minority interests	489	399	407	415	415
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NPLs / gross cust loans (%)	4.0	4.5	4.1	3.9	3.5
	Total provisions / reported NPLs (%)	134.1	0.0	0.0	0.0	0.0
	CET-1 ratio (%)	17.0	17.2	16.5	16.4	16.3
	Tier-1 ratio (%)	17.0	17.2	16.5	16.4	16.3
	Total capital ratio (%)	18.1	18.2	17.5	17.3	17.2

Source: Company data, RHB

23 April 2021

Financial Services | Banks

Management guidance

Figure 1: SCB – management guidance and financial targets

	2020 Achieved	2021 Targets	1Q21 Actual
Loan growth (YoY)	+6.7%	3-5%	+1.0% YTD
NIM	3.23%	3.0-3.2%	3.01%
Non-II growth (YoY)	-28% (+12% excluding gain from sale of SCB Life)	Flat	+21%
CIR	44%	Low-to-mid 40%	40.0%
NPLs (gross)	3.68%	4.0-4.5%	3.79%
Credit cost (bps)	214	<200	177
Coverage ratio	141%	≥ 130%	139.6%

Source: Company data, RHB

Valuation and TP

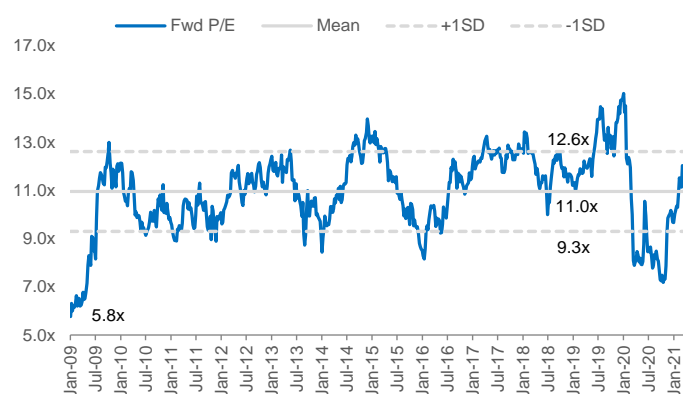
Our TP of THB107.00 is based on a GGM-derived P/BV of 0.8x, which is below -1SD from its historical mean.

Figure 2: SCB – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.0
Risk free rate (%)	1.30	COE (%)	8.09
Equity premium (%)	6.46	Long-term growth (g)	2.50
Beta (x)	1.05	Implied P/BV (x)	0.81
Cost of equity - CAPM (%)	8.09	BVPS – FY21F average	THB133.26
		Target price	THB107.34
		TP (rounded)	THB107.00

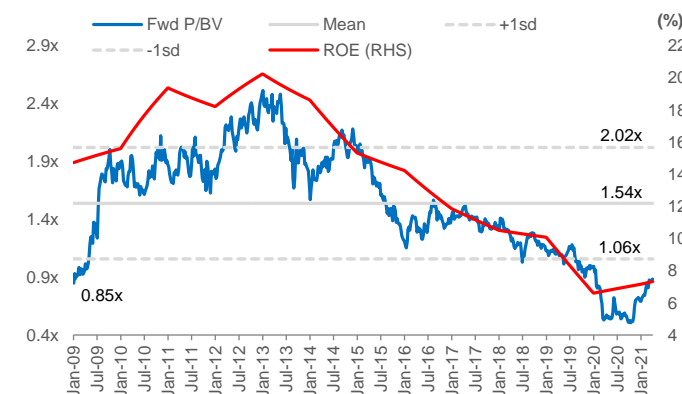
Source: Company data, RHB

Figure 3: SCB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: SCB's 12-month forward P/BV



Source: Bloomberg, RHB

23 April 2021

Financial Services | Banks

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Buy	107	91
2020-10-21	Buy	73	65
2020-07-22	Buy	87	73
2020-04-20	Buy	92	72
2019-10-24	Buy	140	107
2019-09-18	Buy	141	121
2019-07-22	Neutral	148	141
2019-01-18	Neutral	137	129
2018-10-26	Buy	161	138

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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