

Krungthai Bank - KTB

4QCY12 profit seen down q-q on higher provisioning charges

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Company Overview

KTB is Thailand's second biggest lender in terms of assets, accounting for 17% of the industry's total assets. Its loan portfolio comprises (1) corporate loans at 38%, (2) loans to state agencies/SOE at 13%, (3) SME loans at 20% and (4) retail loans at 29%.

- We forecast KTB to post a 4QCY12 net profit of Bt5.37bn, down 39.6% q-q as a result of higher provisioning charges. In y-y terms, 4QCY12 profit is expected to be up to 567.2% better than 4QCY11 due to the absence of flooding impact. The forecast is based on assumptions of a 1.5% q-q loan growth and loan-loss provisions of Bt5bn.
- The sale of Krungthai Panich Insurance and Krungthai AXA Life Insurance to KTB Capital Holding is unlikely to affect dividend income in the future. However, our preliminary forecast shows the bank will see a loss from the sale of both insurance firms.
- We see a positive outlook for KTB in CY13 after a successful capital raise, which boosts the bank's capital base, paving the way for further business expansion. We rate KTB shares a 'BUY' with a CY13 target price of Bt24.70/share.

What is the news?

Loan growth is expected to be satisfactory in 4QCY12. Full-year loan growth is likely to exceed target. NIM should improve due to a lower proportion of loans to the public sector. Fee income is also expected to meet target. Consideration is still underway as to whether the bank will take higher loan-loss provisions than normal and to which amount it will book. From management's perspective, the bank's asset quality is not a cause for concern. Extra provision is part of the bank's efforts to bring its coverage ratio on par with the industry's average.

On Dec 27, 2012, KTB said in a filing to the stock exchange that it sold shares of Krungthai Panich Insurance and Krungthai AXA Life Insurance to its 49%-owned KTB Capital Holding as part of shareholding restructuring in compliance with Life and Non-Life Insurance Acts B.E. 2535 (Amendments). Management notes that the above sale is unlikely to affect dividend income that KTB will receive from both companies in the future.

Looking ahead into CY13, the outlook for loan growth remains positive. Management has guided for CY13 loan growth of around 1.5 times GDP with focus on small commercial lending to push up loan yields. For non interest income, the focus will be on debt capital market services, cross selling and cash management.

How do we view this?

In y-y terms, we expect 4QCY12 to be another banner quarter for KTB driven by retail loans. Fee income growth is likely to meet full-year target of 15%. Extra provisions are estimated to be Bt3.50bn, taking total provisions in 4QCY12 to Bt5.00bn. On this basis, we forecast the bank to post a 4QCY12 net profit of Bt5.37bn. Full-year profit is estimated to be Bt28.03bn, up 64.6% y-y.

The above forecast excludes the divestment of both insurance firms. Our preliminary forecast however shows the bank will see a loss from the sale of both insurance companies but we are still awaiting confirmation from the bank.

Investment Actions?

We maintain our CY13 target price of Bt24.70/share for KTB based on a P/B multiple of 1.7x. We rate KTB shares a 'BUY.'

Valuation Method

P/B 1.70x (ROE=14.25%, g=8.6%)

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