

The Siam Commercial Bank - SCB

1QCY12 profit seen up 27.9% q-q

Report type: Trade Flash

Company Overview

SCB is Thailand's third biggest lender in terms of assets, accounting for 15.7% of the industry's total assets. Wholesale, SME and retail banking businesses represent 41.9%, 18.4% and 39.7% of the bank's loan portfolio respectively.

- SCB is expected to post a 1QCY12 net profit of Bt8.62bn, up 27.9% q-q on the back of strong loan and fee income growth but down y-y, reflecting a huge exceptional gain of up to Bt5.10bn from SCB Life in 1QCY11.
- The bank has raised its bond issue size by another Bt100bn and it also announced a 2HCY11 dividend of Bt2.50/share. The stock will trade ex-dividend (XD) on Apr 17, 2012.
- We rate SCB shares an 'ACCUMULATE' with a CY12 target price of Bt154.70/share.

What is the news?

SCB Chairman Vichit Suraphongchai said the bank's loans showed signs of improving in 1QCY12 after being hit by floods in 4QCY11 and full-year loans are expected to grow in double digits. The bank aims for a loan growth target of 12%-14% this year, a slowdown from growth of up to 22.1% last year.

The bank also raised its bond issue size by another Bt100bn from the previous Bt150bn to Bt250bn to give it enough liquidity to meet robust loan growth especially in SME and wholesale banking segments. The above bond issue is not sub-debts that could be used to strengthen the bank's capital base.

Moreover, the bank announced a 2HCY11 dividend of Bt2.50/share, bringing the full-year dividend to Bt3.50/share. The bank paid an interim dividend of Bt1/share in 1HCY11. The stock will trade ex-dividend (XD) on Apr 17 and the dividend is scheduled to be paid on May 4, 2012.

How do we view this?

In 2MCY12, the bank's net loans grew 3.5% YTD. SCB was the top performer among big banks in terms of loan growth in 2MCY12. For all of 1QCY12, we expect the bank to achieve loan growth of 5.0% YTD boosted by broad-based lending growth in all segments. Retail loan growth is likely to be driven by hire purchase and personal loans. Net interest margin (NIM) is forecast to rise from 3.14% in 4QCY11 to 3.22% and loan-loss provisions are expected to return to normalized levels of Bt1.50bn, down 51.2% comparing to Bt3.07bn q-q.

Fee income should follow loan growth higher but non-interest income is expected to be flat q-q but down y-y due to lower dividend income from Vayupak Fund (VAYU) and the absence of huge exceptional gain of up to Bt5.10bn from SCB Life as recorded in 1QCY11. The bank's cost to income ratio is estimated to be 43.0%, down from 48.7% from 4QCY11 but up from 32.9% in 1QCY11. For the quarter, average effective tax rate is put at 23.0%. Overall we expect the bank to post a 1QCY12 net profit of Bt8.62bn, up 27.9% q-q on the back of strong loan and fee income growth but down y-y, reflecting a huge exceptional gain of up to Bt5.10bn from SCB Life in 1QCY11.

In our view, full-year loan growth target of 12-14% remains within reach amid continued aggressive expansion. The bank's bottom-line should also get a boost from loan and fee income growth, additional insurance income following full-year consolidation of SCB Life and the government's corporate income tax cuts to 23%.

Investment Actions?

We rate SCB shares an 'ACCUMULATE'. The latest closing price of Bt141.50/share offers another 9.3% upside remaining from our CY12 target price of Bt154.70/share based on a P/B of 2.5x. The bank's 2HCY11 dividend of Bt2.50/share, which was Bt0.50/share higher than a year ago also translates into an un-annualized yield of 1.8%.

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