



Chalie Kueyen
 66 2862 9745
 chalie.ku@th.oskgroup.com

Company Update

TMB Bank

Buy ↔ **THB**
 Target THB2.90

Price THB2.44

Banks

The Bank engages in universal banking business with 52% of lending in wholesale, 30% in SME, and the rest in retail.

Stock Statistics

Bloomberg Ticker	TMB TB
Market Cap	THB106,262m
	USD3,557m
52 wk H/L price (THB)	2.44 1.40
3m ADT	THB488m
YTD Returns	31.2%
Beta (x)	1.11

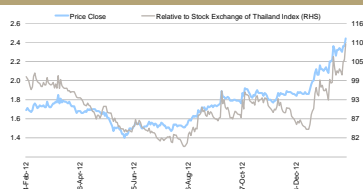
Major Shareholders (%)

Ministry of Finance	26.1%
ING	25.2%
Thai VNDR	5.9%

Share Performance (%)

Month	Absolute	Relative
1m	18.4	13
3m	30.5	15.5
6m	61.6	39.5
12m	41.9	8.1

6-month Share Price Performance



Source: Bloomberg

Set For Growth Acceleration

We are bullish on TMB's earnings turnaround and significant ROE improvement, which may prompt a PBV multiple re-rating. After years of revamping its structure, TMB is starting to deliver accelerated revenue growth from both NII and non-NII. Its competitive advantage on having low funding cost will allow the bank to grow its loan book and fee based loans. In view of its optimistic outlook, we are assigning a premium on the stock's PBV, at 1.95, to derive a THB2.9 FV.

Better-than-peer earnings: Apart from sector forward earnings of 17%, we expect TMB's earnings to expand at 24% each year for FY13F and FY14F, with its LLP/loan normalizing at 70bps as NIM continues to improve while fee-based income accelerate from a low base. Thus, the bank's ROE should re-rate from 9% to 12.7%/14% for FY13f/FY14f, which may then spark a PBV multiple re-rating.

Low funding cost boosts loan growth acceleration. TMB's funding cost has improved significantly from 70bps to 100bps above the big banks' three to five years ago to almost equal with the big players currently. This has enabled it to grow loans in all of its segments. Furthermore, given its expertise in SME lending, TMB has been able to expand its high-yield SME loans and in the process fetch better margins. For FY-13f/FY14f, we are assuming loan growth of 14.5% for each year and NIM of 2.7%, which is relatively conservative as it is still below the bank's historical NIM of 2.85% in 2H12.

Major shareholder's exit strategy a risk as well as opportunity. TMB has two major shareholders: MOF with 26% equity interest and ING with 25%. MOF wishes to exit TMB by selling its entire shareholding to ING or potential investors. However, this deal is complicated because ING has the right of first refusal to buy MOF's shares. Should ING drag its feet, MOF will find it difficult to push the deal through. Meanwhile, ING Group has its share of financial problems and its hands are tied with regard to new acquisitions. Thus, any potential acquisition in TMB may continue to be mired in controversy. Note that cost of MOF's investment in TMB was THB3.56 per share vs ING's THB1.6 purchase price.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Net interest income (THBm)	10,646	14,236	17,065	19,339	21,948
Net income to ord equity (THBm)	3,202	4,009	919	6,940	8,070
Net profit growth	64.7%	25.2%	(77.1%)	654.9%	16.3%
Recurrent net profit (THBm)	3,202	4,009	919	6,940	8,070
EPS (THB)	0.07	0.09	0.02	0.16	0.19
Return on average equity	6.6%	7.9%	1.7%	12.7%	14.0%
Return on average assets	0.6%	0.6%	0.1%	0.9%	1.0%
P/E (x)	33	26	116	15	13
P/B (x)	2.13	2.04	1.98	1.90	1.77

Source: Company data, OSK Research estimates

FINANCIALS

Profit & Loss (THBm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Interest income	18,499	26,146	30,678	35,523	40,681
Interest expense	(7,853)	(11,910)	(13,613)	(16,184)	(18,734)
Net interest income	10,646	14,236	17,065	19,339	21,948
Non interest income	5,506	6,580	6,941	8,432	9,463
Total other income	5,506	6,580	6,941	8,432	9,463
Total operating income	16,152	20,816	24,006	27,771	31,411
Total costs x depn & amortn	(11,308)	(13,641)	(14,275)	(15,458)	(17,157)
Operating EBITDA	4,844	7,176	9,732	12,313	14,254
Total costs	(11,308)	(13,641)	(14,275)	(15,458)	(17,157)
Operating profit	4,844	7,176	9,732	12,313	14,254
Total provision charges	(1,654)	(3,104)	(8,751)	(3,639)	(4,166)
Post-provision operating profit	3,190	4,072	981	8,675	10,087
Income from associates	36	-	-	-	-
Pre-tax profit	3,225	4,072	981	8,675	10,087
Taxation	(14)	(40)	(36)	(1,735)	(2,017)
Profit after tax	3,211	4,031	945	6,940	8,070
Minority interests	(9)	(22)	(26)	-	-
Profit after tax & minorities	3,202	4,009	919	6,940	8,070
Net income to ord equity	3,202	4,009	919	6,940	8,070
Recurring net profit	3,202	4,009	919	6,940	8,070
Balance Sheet (THBm)	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total gross loans	447,802	535,739	548,987	652,645	734,415
Securities - total	94,538	113,660	109,147	118,252	120,617
Total gross interest earning assets	542,339	649,399	658,134	770,897	855,033
Total provisions	(20,546)	(21,755)	(24,923)	(26,708)	(25,208)
Net loans to customers	342,631	375,842	427,797	490,536	567,036
Total net interest earning assets	521,794	627,644	633,211	744,189	829,824
Cash & accrued interest	15,279	13,994	15,554	15,005	15,331
Tangible fixed assets	12,116	11,859	11,533	10,359	9,859
Other assets	40,404	65,146	51,849	30,576	31,836
Total non-interest earning assets	67,799	90,999	78,936	55,940	57,026
Total assets	589,592	718,643	712,147	800,129	886,851
Broad deposits	413,115	452,316	496,158	533,241	598,227
Other interest-bearing liabilities	85,595	144,487	109,301	90,098	114,549
Total interest-bearing liabilities	498,711	596,803	605,459	623,340	712,776
Other non-interest bearing liabilities	41,027	69,559	53,019	120,985	114,236
Total non-interest bearing liabilities	41,027	69,559	53,019	120,985	114,236
Total liabilities	539,737	666,362	658,478	744,325	827,012
Share capital	41,352	41,352	41,372	41,352	41,352
Retained earnings reserve	3,517	5,959	6,847	9,067	13,102
Other reserves	4,903	4,867	5,384	5,384	5,384
Shareholders' equity	49,772	52,177	53,604	55,804	59,839
Minority interests	83	104	65	-	-
Other equity	(0)	(0)	0	-	-
Total equity	49,855	52,282	53,669	55,804	59,839
Total liabilities & shareholders' equity	589,592	718,643	712,147	800,129	886,851

Balance Sheet Employment	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Net cust loans/assets	58.1%	52.3%	60.1%	61.3%	63.9%
Net earning assets / assets	88.5%	87.3%	88.9%	93.0%	93.6%
Non-earning assets/assets	11.5%	12.7%	11.1%	7.0%	6.4%
Net cust loans/cust deposits	82.9%	83.1%	86.2%	92.0%	94.8%
Equity / assets	8.4%	7.3%	7.5%	7.0%	6.7%
Equity / gross cust loans	13.7%	13.1%	11.8%	10.8%	10.1%
Equity & provns / gross cust loans	13.7%	13.1%	11.8%	10.8%	10.1%
Liquid funds / cust deposits	46.9%	58.6%	44.3%	49.9%	46.0%
Provision charge / avg cust loans	0.5%	0.8%	2.1%	0.8%	0.8%
Provision charge / avg assets	0.3%	0.5%	1.2%	0.5%	0.5%

Source : OSK, Bloomberg

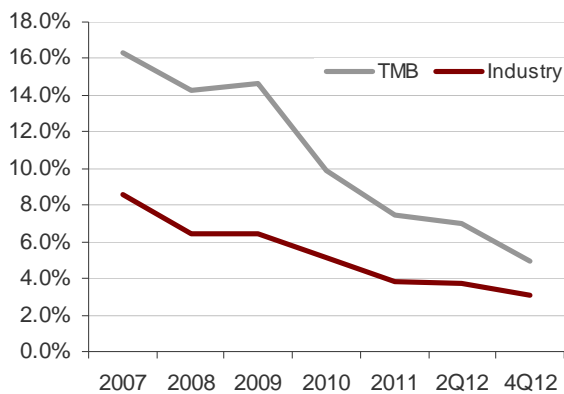
OUTLOOK

Turning around faster than expected

Balance sheet more solid and competitive advantage sharpened

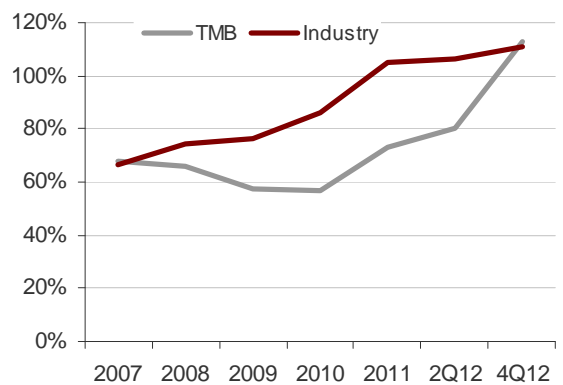
Under TMB's transformation programme implemented in 2009, the bank has put in a lot of work to improve its back office operations, clean up its balance sheet, and finetune its banking culture and staff attitude. The key achievements so far are in: i) making its funding cost more competitive, ii) cleaning up its bad debts and raising its NPL coverage to a solid 111% to match the industry level, and iii) improving margins from 2% to 2.8% and outshining BBL's 2.6% margin. Currently, TMB is ready to take a leap and reap the potential gains from the economic upturn.

Figure 1: TMB's NPL ratio



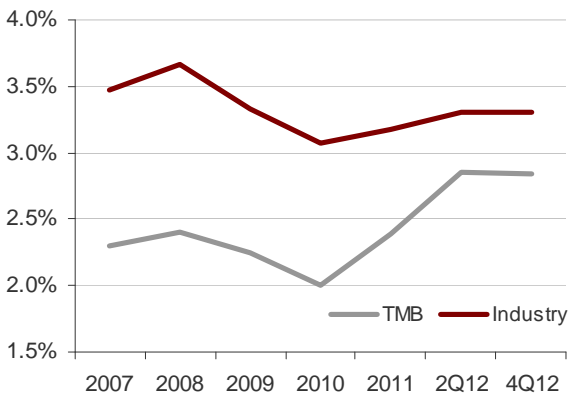
Source: OSK

Figure 2: TMB's NPL coverage



Source: OSK

Figure 3: TMB's NIMs improve significantly



Source: OSK

Figure 4: TMB's funding is lower than its peers'

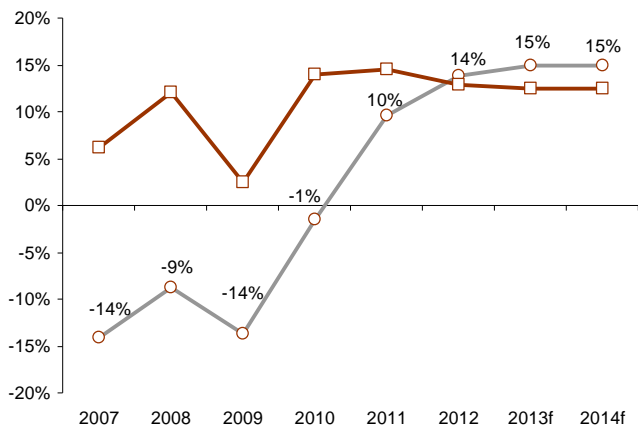


Source: OSK

Fast revenue growth on high yield loans and fee incomes

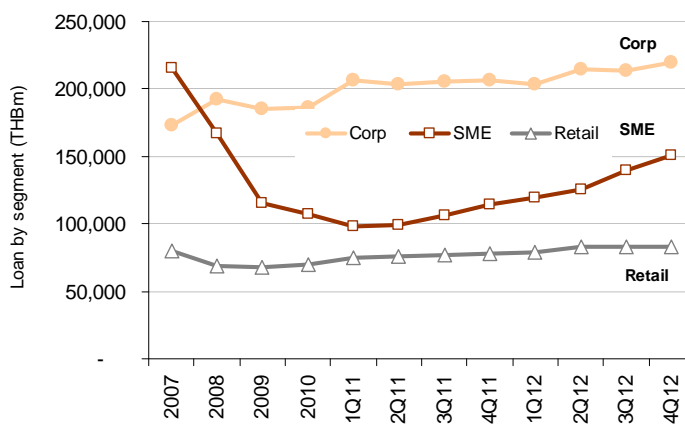
As a specialist in SME loans, TMB started to aggressively boost its SME loans in early 2012, as a result of which this segment expanded by 33% in FY12 (vs +6% in FY11), against the bank's overall loan growth of 14% (vs the industry average of 13%). We believe that after cleaning up its balance sheet and making its funding more competitive, TMB would embark on a more aggressive strategy to grow this loan segment and boost margins.

Figure 5: TMB embarked on aggressive loan growth in 2012



Source: OSK

Figure 6: TMB's funding is lower than its peers'



Source: OSK

Apart from the forecast loans growth of 14.5% for each of the categories set out below from FY13-FY14, we see TMB's loan growth charging ahead at a 15% growth rate.

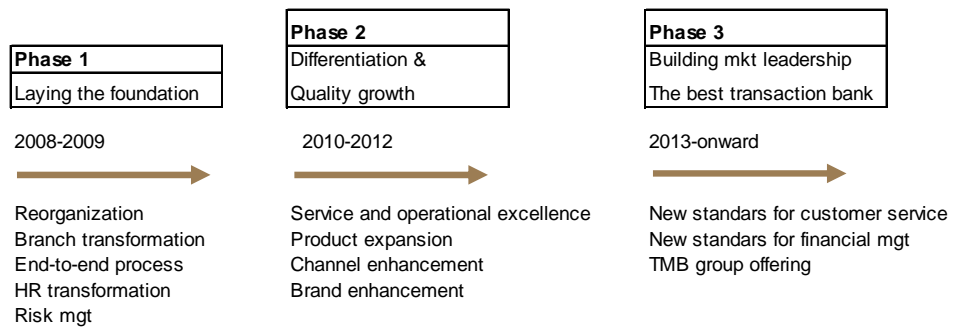
Figure 7: TMB's loan growth by segment - SME segment on aggressive growth path

	2011	2012	2013F	2014f
Corp	11%	6%	12%	12%
SME	6%	33%	18%	18%
Retail	12%	7%	14%	14%
Total	10%	14%	15%	15%

Source: Company data, OSK Research

Three phases of transformation - more room to improve fee income/revenue
 In the 1st and 2nd phases of transformation from 2008-2011, TMB rolled out a new front-end system to drive service and sales. It centralized its administrative functions to better enable staff to generate revenue while streamlining processes to reduce turnaround time and revamping as well as relocating its branches to better serve customers. The aim was to get the service proposition up and running, and then roll out new products to drive sales. Currently, the bank has new asset and liability products to tap the corporate loan segment. To ride on its SME clients and to serve their supply chains, it has also launched products that are linked with loans for this customer segment. All these moves will enable TMB to improve its current fee income/revenue ratio of only 33% (vs the industry's 40%).

Figure 8: TMB's three-phase transformation into the best transactional bank



Source: Company data, OSK research

Meanwhile, we expect the fee income growth of 15% in FY12 to persist over the next two years and bolster TMB's fee income/revenue ratio to 38%.

Major shareholder's exit both a risk and an opportunity

MOF's investment cost in TMB is about THB3.6 per share

Thailand's Ministry of Finance became TMB's major shareholder after buying preferred shares amounting to THB19.9bn @ THB10 apiece under a financial bailout program in 2000. The ministry has also continued to maintain its equity stake in TMB even after the bank sought recapitalization several times in the past 10 years. Following TMB's recapitalization exercises, MOF had subscribed for its rights offering at prices ranging from THB10 in 2000 and THB1.4 in 2008. Beyond recapitalization, MOF's total investment cost in TMB is around THB3.56/share.

ING's cost of investment in TMB is THB1.6 a share

TMB has undergone changes many times since the bank merged with DBS & IFCT, after which DBS became its major shareholder. Owing to DBS' inability to resolve the bank's bad debts arising mainly from IFCT, the former could not revive TMB, which led to the latter having to seek the injection of new capital for bad debt provisions. In 2007-2008, TMB again changed major shareholder when ING bought new shares in the company at THB1.6 per share.

Acquisition will continue to be mired in controversy

Currently, MOF wants to exit TMB and sell its entire share portion to ING or potential investors. However, this deal is more complicated than meets the eye since as ING has the right of first refusal to buy MOF's shares. Should ING keep silent or does not act on the offer, MOF would not be able to push the deal through. Meanwhile, ING Group has its share of financial problems and is unable to make new acquisitions. Thus, any acquisition of MOF's TMB shares will continue to be mired in controversy.

Figure 9: MOF's investment cost in TMB through share subscription

	No. of shares (m sh)	Price (THB/sh)	Amount (THBm)
2000 (preferred sh)	1,992	10.0	19,920
2004	2,780	3.5	9,730
2007	1,005	3.0	3,015
2008	5,587	1.4	7,821
Total	11,364	3.56	40,486

Source: Company data, OSK Research

Valuation: Buy, with FV THB2.9 (PBV 1.95x)

Re-rate ROE to 12.7%/14% for FY13f/FY14f (up from historical 8% base)

In our forecasts for TMB's FY13f/FY14f earnings, we are assuming NIM of 2.7%/2.7% on LDRs of 83%/83% respectively. Given that TMB's LLP is similar to the industry's, we are assuming normalized provisioning expenses of 70bps for FY13f-FY14f, down substantially from FY12 at 200bps. As for expiry of its tax exemption, TMB will be paying 20% tax on its earnings going forward. Beyond this, we see TMB as one of Thailand's three banks that will make a strong turnaround with significant ROE improvement from 9% to 12.7%/14% for FY13f/FY14f.

Key earnings upside/downside heavily dependent on NIM, opex growth

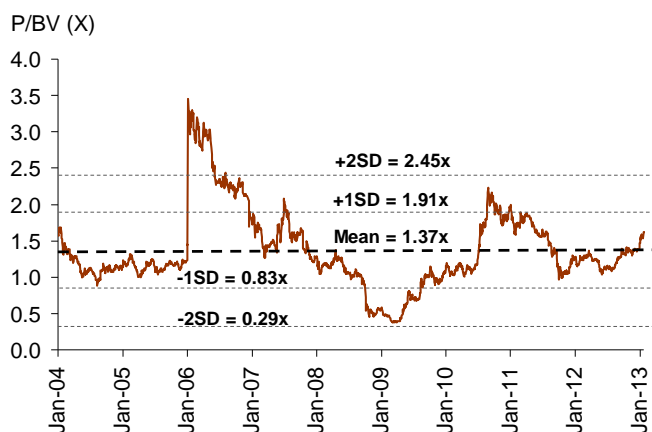
As TMB's earnings are heavily dependent on NIM and operating expense growth, based on our key assumptions, a 10bps change in NIM will affect its earnings by 8% while a 5% change in operating expenses will result in a 9% change in its earnings. Notably, our earnings forecast is not too aggressive as it is based on a 2.7% NIM, below the company's historical NIM of 2.85% in 2H12.

Figure 10: TMB's earnings sensitive to changes in key assumptions on NIM and opex growth changes

	Net profit change
NIM assumption (2.7% for FY13f-FY14f)	
Impact of each 10bps change	8.1%
Loan growth (14.5% for FY13f-FY14f)	
Impact of each 5% change	2.4%
Non-NII (+12% FY13f-FY14f)	
Impact of each 5% change	8.5%
Opex (+10% FY13f-FY14f)	
Impact of each 5% change	9.2%
Provisioning expense/loan (0.7% FY13f-FY14f)	
Impact of each 10bps change	6.0%

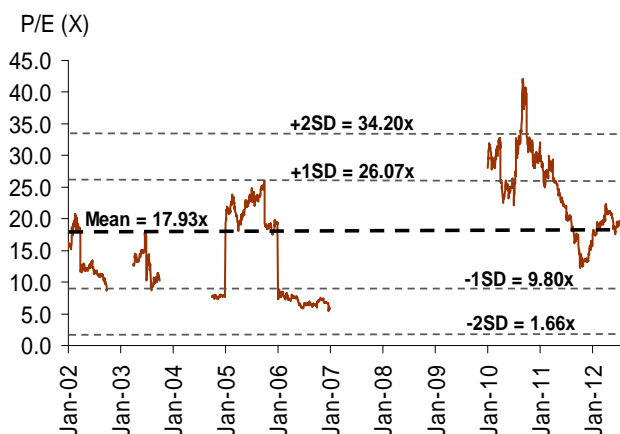
Source: Company data, OSK Research

Figure 10: TMB – forward PBV



Source: OSK

Figure 11: TMB – forward P/E



Source: OSK

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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OSK Securities (Thailand) PCL 10th Floor, Sathorn Square Office Tower, 98, North Sathorn Road, Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		