

Srisawad Power 1979

SAWAD TB / SAWA.BK

FLASH NOTE

➤ **Market Cap**
US\$1,013m
THB36,210m

➤ **Avg Daily Turnover**
US\$2.51m
THB86.19m

➤ **Free Float**
29.5%
1,000.0 m shares

Current **THB35.50**
Target **THB44.00**
Prev. Target **THB44.50**
Up/Downside **23.9%**

STOCK RATING

ADD

HOLD

REDUCE

CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	5.4	0.7	89.6
Absolute	-4.1	-13.9	73.2
Major shareholders		% held	
Kaewbootta Family		60.0	

Gain from others' pain

Following our discussion with SAWAD's management, we trim our FY15-17 EPS forecasts by 1.8-3.8% as we cut our non-interest income growth assumptions. Its debt collection and bad-debt management businesses seem unlikely to achieve our previous estimates. However, we lift our loan growth from 25% to 40% for FY15 due to its stronger-than-expected branch expansion in 1H15. We lower our GGM-based target price from THB44.50 to THB44, based on 9.7x FY15 P/BV (assuming LT ROE of 31% and COE of 12.2%). Our Add rating is intact on the back of earnings CAGR of 38% in FY15-17.

What Happened»

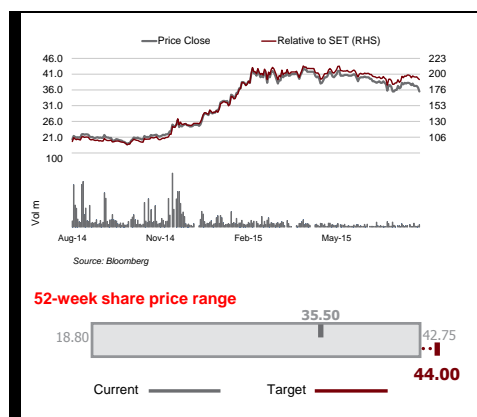
On 25 Aug, SAWAD's management updated us over the phone on its debt collection and bad-debt management businesses. The company provides debt collection services to two leasing companies and three banks (two commercial banks and one state-owned bank). It aims to acquire more customers and increase collection volume. However, fee contribution from this business is still small at THB9m in 1H15. SAWAD purchased an NPL portfolio at THB200m and expects to manage and fully recover it within 2-3 years. The company plans to buy an NPL portfolio of THB1bn which has land, fixed assets and vehicles as collateral in 2H15.

What We Think»

Previously, we anticipated fee income contribution from these new businesses at 5%/10%/15% of total income for FY15/16/17. However, SAWAD now seems unlikely to achieve these numbers. As such, we lower our FY15/16/17 EPS forecasts by 1.8%/2.4%/3.8% as we cut our non-interest income growth in FY15. We estimate revenue contribution from debt collection and bad-debt management services will be 1%/5%/8% for FY15/16/17. Yet, we raise our loan growth assumption from 25% to 40% for FY15 and finetune our provisions expenses given the lower-than-expected credit cost in 1H15. Note that its loan delinquency rate was stable qoq in 2Q15. We are confident in the company's risk management model although it penetrated SME loans which are risky exposure for commercial banks. SAWAD adopts stringent debt monitoring process to safeguard its healthy balance sheet during a period of slow economic recovery.

What You Should Do»

We reiterate our Add rating for SAWAD given that we forecast solid earnings CAGR of 38% and rising ROE in FY15-17.

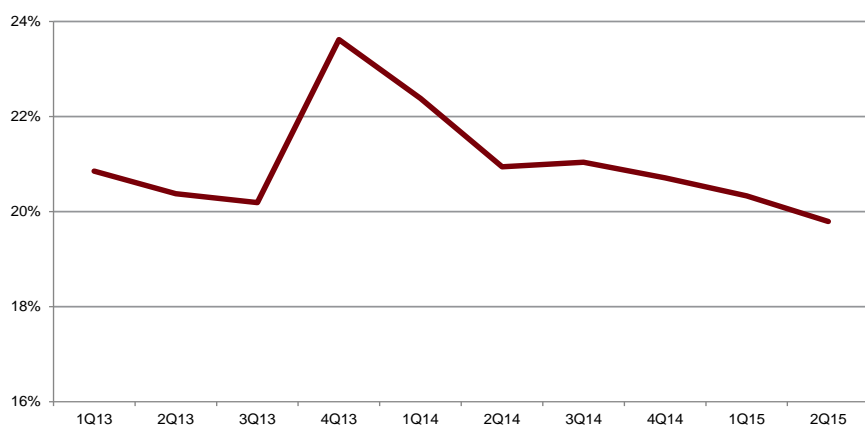


Financial Summary

	Dec-13A	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Net Interest Income (THBm)	1,216	1,736	2,507	3,303	4,159
Total Non-Interest Income (THBm)	491	735	1,049	1,708	2,537
Operating Revenue (THBm)	1,707	2,471	3,556	5,012	6,695
Total Provision Charges (THBm)	(131.6)	(188.8)	(262.5)	(369.3)	(461.4)
Net Profit (THBm)	575	855	1,242	1,748	2,363
Core EPS (THB)	1.04	0.98	1.23	1.71	2.32
Core EPS Growth	(28.6%)	(6.1%)	25.9%	39.3%	35.2%
FD Core P/E (x)	34.12	36.34	28.87	20.72	15.33
DPS (THB)	0.77	0.02	0.49	0.69	0.93
Dividend Yield	2.17%	0.06%	1.37%	1.93%	2.61%
BVPS (THB)	1.51	3.43	4.58	5.81	7.44
P/BV (x)	23.55	10.34	7.75	6.11	4.77
ROE	66.1%	37.5%	30.7%	33.0%	35.0%
% Change In Core EPS Estimates			(1.85%)	(2.44%)	(3.80%)
CIMB/consensus EPS (x)			1.04	1.08	1.01

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Percentage of special mention loans to total loans



SOURCE: CIMB RESEARCH, COMPANY

Figure 2: New forecast

	2013	2014	2015F	2016F	2017F
Loan growth	43.7%	36.6%	39.9%	25.1%	24.9%
Non-interest income growth	77.8%	49.7%	42.8%	62.8%	48.5%
Opex growth	31.2%	43.7%	42.7%	41.2%	33.5%
Net interest margin	25.0%	25.5%	26.6%	26.8%	27.0%
Cost to income	49.7%	49.4%	49.0%	49.0%	49.0%
NPLs/Total loans	5.5%	5.7%	6.2%	6.0%	6.0%
LLR/NPLs	58.2%	61.2%	57.2%	59.1%	59.0%
Provision/Total loans	2.7%	2.8%	2.8%	3.0%	3.0%
Tax rate	20.8%	19.5%	20.0%	20.0%	20.0%
Recurring net profit (THBm)	575	855	1,242	1,748	2,363
Recurring profit growth	42.1%	48.5%	45.3%	40.7%	35.2%
ROE	66.1%	37.5%	30.7%	33.0%	35.0%
BVPS (THB)	1.51	3.43	4.58	5.81	7.44

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Previous forecast

	2013	2014	2015F	2016F	2017F
Loan growth	43.7%	36.6%	25.0%	25.4%	25.3%
Non-interest income growth	77.8%	49.7%	69.5%	57.2%	48.3%
Opex growth	31.2%	43.7%	43.8%	33.9%	34.3%
Net interest margin	25.0%	25.5%	26.7%	26.9%	27.0%
Cost to income	49.7%	49.4%	48.7%	47.8%	47.5%
NPLs/Total loans	5.5%	5.7%	6.2%	6.0%	6.0%
LLR/NPLs	58.2%	61.2%	57.2%	59.0%	58.9%
Provision/Total loans	2.7%	2.8%	3.0%	3.0%	3.0%
Tax rate	20.8%	19.5%	20.0%	20.0%	20.0%
Recurring net profit (THBm)	575	855	1,265	1,791	2,456
Recurring profit growth	42.1%	48.5%	48.1%	41.6%	37.1%
ROE	66.1%	37.5%	31.1%	33.6%	35.9%
BVPS (THB)	1.51	3.43	4.60	5.86	7.57

SOURCE: CIMB RESEARCH, COMPANY

Profit & Loss

(THBm)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Net Interest Income	1,736	2,507	3,303	4,159
Total Non-Interest Income	735	1,049	1,708	2,537
Operating Revenue	2,471	3,556	5,012	6,695
Total Non-Interest Expenses	(1,220)	(1,741)	(2,458)	(3,281)
Pre-provision Operating Profit	1,251	1,815	2,554	3,415
Total Provision Charges	(189)	(262)	(369)	(461)
Operating Profit After Provisions	1,062	1,552	2,185	2,953
Pretax Income/(Loss) from Assoc.	0	0	0	0
Operating EBIT (incl Associates)	1,062	1,552	2,185	2,953
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	1,062	1,552	2,185	2,953
Exceptional Items	0	0	0	0
Pre-tax Profit	1,062	1,552	2,185	2,953
Taxation	(207)	(310)	(437)	(591)
Consolidation Adjustments & Others	0	0	0	0
Exceptional Income - post-tax	0	0	0	0
Profit After Tax	855	1,242	1,748	2,363
Minority Interests	0	0	0	0
Pref. & Special Div	0	0	0	0
FX And Other Adj.	0	0	0	0
Net Profit	855	1,242	1,748	2,363
Recurring Net Profit	855	1,242	1,748	2,363

Balance Sheet

(THBm)	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Gross Loans	7,816	10,937	13,678	17,088
Liquid Assets & Invest. (Current)	61	15	20	20
Other Int. Earning Assets	0	0	0	0
Total Gross Int. Earning Assets	7,878	10,952	13,698	17,108
Total Provisions/Loan Loss Reserve	(273)	(388)	(485)	(605)
Total Net Interest Earning Assets	7,604	10,564	13,213	16,503
Intangible Assets	0	0	0	0
Other Non-Interest Earning Assets	639	700	785	884
Total Non-Interest Earning Assets	639	700	785	884
Cash And Marketable Securities	348	184	128	139
Long-term Investments	0	0	0	0
Total Assets	8,592	11,448	14,126	17,526
Customer Interest-Bearing Liabilities	0	0	0	0
Bank Deposits	0	0	0	0
Interest Bearing Liabilities: Others	4,787	6,270	7,665	9,365
Total Interest-Bearing Liabilities	4,787	6,270	7,665	9,365
Bank's Liabilities Under Acceptances	0	0	0	0
Total Non-Interest Bearing Liabilities	373	507	539	575
Total Liabilities	5,160	6,777	8,204	9,940
Shareholders' Equity	3,432	4,671	5,922	7,586
Minority Interests	0	0	0	0
Total Equity	3,432	4,671	5,922	7,586

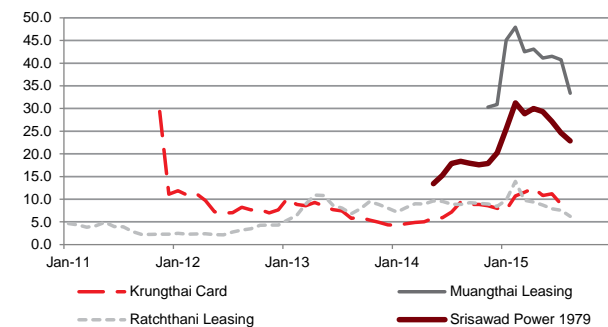
Balance Sheet Employment

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Gross Loans/Cust Deposits				
Avg Loans/Avg Deposits				
Avg Liquid Assets/Avg Assets	3.62%	3.03%	1.36%	0.97%
Avg Liquid Assets/Avg IEAs	3.89%	3.23%	1.41%	1.00%
Net Cust Loans/Assets	87.8%	92.1%	93.4%	94.0%
Net Cust Loans/Broad Deposits				
Equity & Provs/Gross Cust Loans	47.4%	46.3%	46.8%	47.9%
Asset Risk Weighting	0%	0%	0%	0%
Provision Charge/Avg Cust Loans	2.79%	2.80%	3.00%	3.00%
Provision Charge/Avg Assets	2.58%	2.62%	2.89%	2.92%
Total Write Offs/Average Assets	1.34%	1.47%	2.13%	2.16%

Key Ratios

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Total Income Growth	44.8%	43.9%	40.9%	33.6%
Operating Profit Growth	45.8%	45.1%	40.7%	33.7%
Pretax Profit Growth	46.2%	46.2%	40.7%	35.2%
Net Interest To Total Income	70.3%	70.5%	65.9%	62.1%
Cost Of Funds	4.62%	4.59%	4.75%	4.76%
Return On Interest Earning Assets	28.7%	29.3%	29.5%	29.6%
Net Interest Spread	24.1%	24.7%	24.7%	24.9%
Net Interest Margin (Avg Deposits)	N/A	N/A	N/A	N/A
Net Interest Margin (Avg RWA)	N/A	N/A	N/A	N/A
Provisions to Pre Prov. Operating Profit	15.1%	14.5%	14.5%	13.5%
Interest Return On Average Assets	23.7%	25.0%	25.8%	26.3%
Effective Tax Rate	19.5%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	2.2%	32.0%	32.0%	32.0%
Return On Average Assets	14.5%	15.5%	17.1%	18.7%

12-month Forward Rolling FD P/E (x)



Key Drivers

	Dec-14A	Dec-15F	Dec-16F	Dec-17F
Loan Growth (%)	36.6%	39.9%	25.1%	24.9%
Net Interest Margin (%)	25.5%	26.6%	26.8%	27.0%
Non Interest Income Growth (%)	49.7%	42.8%	62.8%	48.5%
Cost-income Ratio (%)	49.4%	49.0%	49.0%	49.0%
Net NPL Ratio (%)	5.7%	6.2%	6.0%	6.0%
Loan Loss Reserve (%)	61.2%	57.2%	59.1%	59.0%
GP Ratio (%)	0.0%	0.0%	0.0%	0.0%
Tier 1 Ratio (%)	N/A	N/A	N/A	N/A
Total CAR (%)	N/A	N/A	N/A	N/A
Deposit Growth (%)	N/A	N/A	N/A	N/A
Loan-deposit Ratio (%)	N/A	N/A	N/A	N/A
Gross NPL Ratio (%)	5.7%	6.2%	6.0%	6.0%
Fee Income Growth (%)	49.7%	42.8%	62.8%	48.5%

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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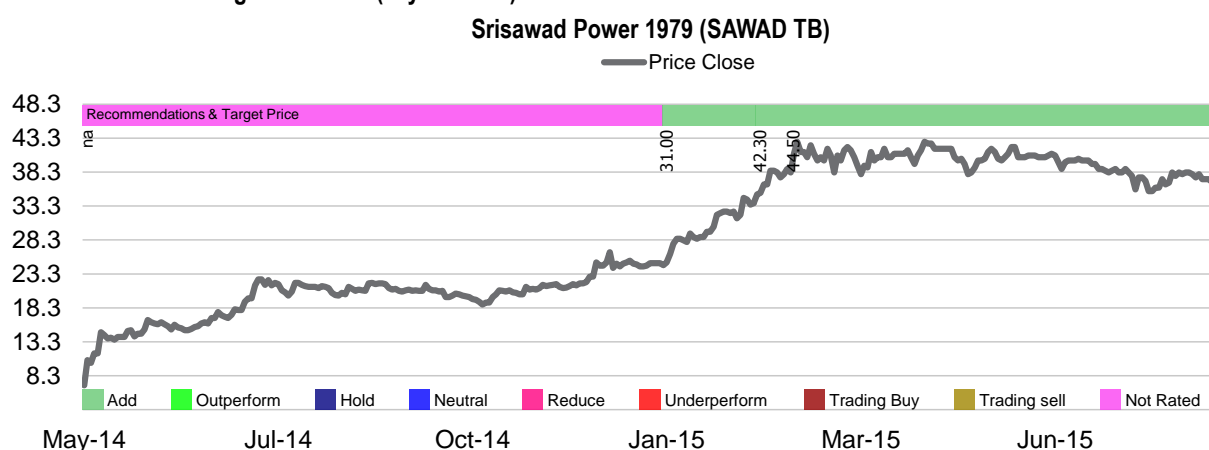
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2015		
1508 companies under coverage for quarter ended on 30 June 2015		
	Rating Distribution (%)	Investment Banking clients (%)
Add	56.5%	6.7%
Hold	30.7%	4.5%
Reduce	12.6%	1.7%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2014.

AAV – Very Good, ADVANC – Very Good, AEONTS – not available, AMATA – Good, ANAN – Very Good, AOT – Very Good, AP – Good, ASK – Very Good, ASP – Very Good, BANPU – Very Good, BAY – Very Good, BBL – Very Good, BCH – not available, BCP – Excellent, BEAUTY – Good, BEC – Good, BECL – Very Good, BGH – not available, BH – Good, BIGC – Very Good, BJC – Good, BLA – Very Good, BMCL – Very Good, BTS – Excellent, CCET – Good, CENTEL – Very Good, CHG – not available, CK – Very Good, CPALL – not available, CPF – Very Good, CPN – Excellent, DELTA – Very Good, DEMCO – Good, DTAC – Very Good, EA – Good, ECL – not available, EGCO – Excellent, GFPT – Very Good, GLOBAL – Good, GLOW – Good, GRAMMY – Excellent, HANA – Excellent, HEMRAJ – Very Good, HMPRO – Very Good, ICHI – not available, INTUCH – Excellent, ITD – Good, IVL – Excellent, JAS – not available, JUBILE – not available, KAMART – not available, KBANK – Excellent, KCE – Very Good, KGI – Good, KKP – Excellent, KTB – Excellent, KTC – Good, LH – Very Good, LPN – Very Good, M – not available, MAJOR – Good, MAKRO – Good, MBKET – Good, MC – Very Good, MCOT – Very Good, MEGA – Good, MINT – Excellent, OFM – Very Good, OISHI – Good, PS – Very Good, PSL – Excellent, PTT – Excellent, PTTEP – Excellent, PTTGC – Excellent, QH – Very Good, RATCH – Very Good, ROBINS – Very Good, RS – Very Good, SAMART – Excellent, SAPPE – not available, SAT – Excellent, SAWAD – not available, SC – Excellent, SCB – Excellent, SCBLIF – Good, SCC – Very Good, SCCC – Good, SIM – Excellent, SIRI – Good, SPALI – Excellent, STA – Very Good, STEC – Good, SVI – Very Good, TASCO – Good, TCAP – Very Good, THAI – Very Good, THANI – Very Good, THCOM – Very Good, THRE – not available, THREL – Good, TICON – Good, TISCO – Excellent, TK – Very Good, TMB – Excellent, TOP – Excellent, TRUE – Very Good, TTW – Very Good, TUF – Good, VGI – Very Good, WORK – not available.

CIMB Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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