

## SECTOR UPDATE

### Banking – Thailand

High Household Debt Level Continues To Pressure The Sector

Thailand's household debt is a significant concern. During the Thailand Focus event, many speakers expressed their concerns about the high household debt level. NaCGA is expected to make formal credit more accessible and reduce the reliance on high-interest informal loans. The high household debt level is likely to be a prominent challenge to economic recovery and might contribute to a deterioration in asset quality for the banking sector in 2H25.

#### WHAT'S NEW

- **High household debt level to persist.** Thailand's household debt is a significant concern. While the total debt amount is stabilising, the number of loan accounts continues to grow, with housing and personal loans making up the largest share. Household debt to GDP peaked at 96% in early-21 due to the COVID-19 pandemic but has since fallen to 87.4%. The Bank of Thailand (BOT) aims to reduce this ratio to below 80% in the medium term.
- **All stakeholders putting in special effort to address this problem at its root.** The Thai Bankers' Association has a three-part plan to tackle financial issues:
  - a) **In the short term:** To offer immediate help through programmes like "You Fight, We Help".
  - b) **In the medium term:** To strengthen social safety nets, with a focus on a "negative income tax" by 2027 to provide targeted support.
  - c) **In the long term:** To promote sustainable income growth by having banks and other industries work together.

The National Credit Bureau (NCB) also stressed the need for better data, including alternative sources, to improve risk management and financial access. The overall goal is to address the core problems of low income and limited access to formal finance.

- **Enhancing debt resolution capacity of AMCs.** Bangkok Commercial Asset Management's (BAM) CEO, the representative for asset management companies (AMC) at the Thailand Focus event, said he was confident the NPL issue can be resolved. Moreover, BAM has proposed increasing AMCs' debt resolution capacity beyond Bt100b/year with soft loans and new regulations. This would cut the time needed to resolve NPLs from 7-10 years down to 4-5 years.
- **Gloomy economic outlook the key challenge in high household debt problem.** Many banks and research houses are expecting Thailand to report a technical recession in 2H25 due to the frontloading of exports in 1H25. Hence, we foresee an increase in credit cost and deterioration in asset quality in 2H25 due to the impact of the US tariffs as well as the worsening economic conditions. The high household debt level is expected to be a prominent challenge to economic recovery and could contribute to a deterioration in the banking sector's asset quality.

#### PEER COMPARISON

Company	Rec.	Last Price 29 Aug	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	Net Profit		PE		Net EPS Growth 2025F(%)	P/B 2025F (x)	Yield 2025F (%)	ROE 2025F (%)
						2025F (Btm)	2026F (Bt m)	2025F (x)	2026F (x)				
BBL TB	HOLD	155.50	154.00	(1.0)	8,973	41,351	43,986	7.2	6.7	(8.5)	0.5	5.1	7.2
KBANK TB	BUY	168.50	192.00	13.9	12,069	46,748	47,975	8.5	8.3	(4.3)	0.7	6.1	8.1
KKP TB	HOLD	59.50	50.00	(16.0)	1,523	4,510	4,826	11.0	10.2	(8.5)	0.8	6.2	7.0
KTB TB	BUY	24.60	30.00	22.0	10,393	48,504	44,496	7.1	7.7	7.9	0.7	7.1	10.7
SCB TB	HOLD	128.50	134.00	4.3	13,080	42,325	41,575	10.2	10.4	(3.7)	0.9	7.8	8.6
TISCO TB	HOLD	101.00	96.00	(5.0)	2,445	6,217	6,706	13.0	12.1	(9.8)	1.9	6.9	14.4
TTB TB	HOLD	1.90	1.95	2.6	5,595	19,599	20,435	9.4	9.0	(7.5)	0.7	6.4	8.1
<b>Banking</b>					<b>54,077</b>	<b>209,255</b>	<b>210,000</b>	<b>8.5</b>	<b>8.5</b>	<b>(3.1)</b>	<b>0.8</b>	<b>6.6</b>	<b>8.8</b>

Source: UOB Kay Hian

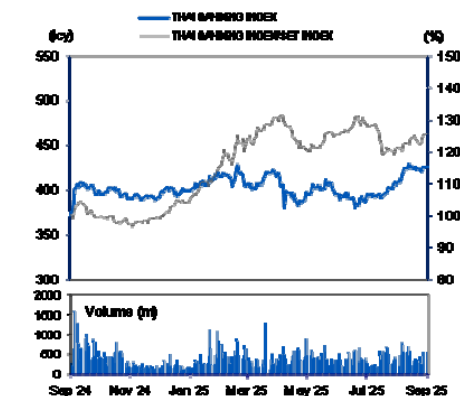
## MARKET WEIGHT (Maintained)

#### OUR TOP PICKS

Company	Ticker	Rec	Current Price 29 Aug	Target Price (Bt)
Kasikorn Bank	KBANK	BUY	168.50	192.00
Krungthai Bank	KTB	BUY	24.60	30.00

Source: Respective companies, UOB Kay Hian

#### RETURNS: BANKS VS THE SET



Source: UOB Kay Hian

#### BANK PERFORMANCE YTD (29 AUG 25)



Source: Bloomberg, UOB Kay Hian

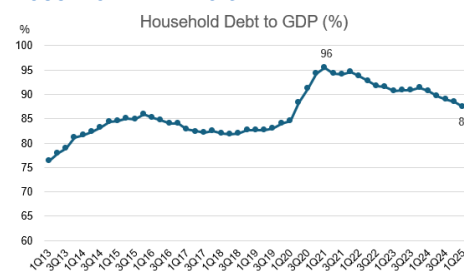
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## ESSENTIALS

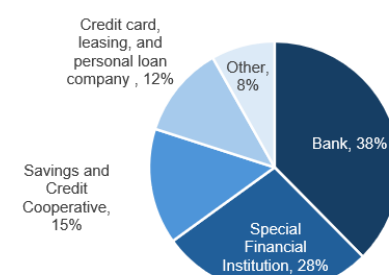
- Possible root cause of persistently high household debt level.** According to information from the Thailand Focus event on 27 Aug 25, only 1% of firms contribute to 65% of GDP. In contrast, SMEs employ 70% of the workforce but contribute only 30% of GDP. This leads to low income and high inequality, limiting the economy's resilience to external shocks. The core issues include low financial literacy, a lack of data and transparency, slow economic growth, an unfavourable demographic structure, and insufficient social safety nets. The outstanding household debt in the formal sector is approximately Bt13.5t. While the total amount is stabilising, loan accounts continue to grow. Housing loans make up the largest share of debt, followed by personal loans.
- Household debt has surged since the COVID-19 outbreak.** Thai household debt accounted for 80-83% of GDP during the pre-COVID-19 period (1Q13-4Q19). However, this skyrocketed after 1Q20 due to the widespread impact of the pandemic, peaking at around 96% in 1Q21. Although the household debt-to-GDP ratio has gradually decreased to 87.4% as of 1Q25, BOT intends to reduce the ratio to below 80% in the medium term.
- Informal debt is a crucial challenge in the high household debt problem.** During the Thailand Focus event, it was mentioned that 38% of the Thai population hold formal household debt, with the average amount being Bt500,000 per person. However, informal sector debt is significantly higher and largely unaccounted for. A significant portion of Thailand's economy (48%) and labour force (53%) is informal. A top priority, therefore, is to transition people with informal debt into the formal financial system. This is being addressed through new initiatives like the Your Data Project and virtual banks, which are specifically designed to serve the financially underserved population.
- Private consumption contributes the most to bank loans.** According to the BOT, a report on bank loan exposure revealed that private consumption accounts for the highest proportion at 29% of the total. Meanwhile, the financial and insurance sector makes up 28% of the total bank loan portfolio, with the manufacturing sector contributing 11%. The private consumption sector also generates the highest gross NPLs at 34%.
- Residential property is the largest contributor to gross NPL.** We found that residential property contributes the highest gross NPLs within private consumption, at 21%. A potential reason for this is the high amount of collateral value tied to these properties. We have seen a continuous increase in gross NPLs in the residential property sector since 1Q13. The second-largest contributor to gross NPLs in private consumption is car loans, at 4%. The gross NPLs for car loans have decreased slightly since 2H24 due to banks tightening their credit policies after experiencing losses on the sale of repossessed cars.
- NPL trended up from 2013 to 1H24, but has stopped since 2H24.** We have observed an uptrend in gross NPLs. However, the increase has eased significantly since 2H24. This is because banks have implemented more stringent lending policies and have become more aggressive in writing off NPLs. Additionally, household debt resolution measures, such as the You Fight, We Help measure, have helped to freeze the formation of new NPLs.
- COVID-19 pandemic caused a structural change in loan staging in the banking system.** Performing loans (at stage 1) were around 95% in the pre-COVID-19 period (1Q13-4Q19). However, we have seen a significant decline in stage 1 loans, with the ratio currently at around 90%. Meanwhile, NPLs (stage 3) have remained relatively stable, rising slightly from 2.7% before the pandemic to around 3.0% currently. This is due to banks becoming more aggressive in writing off NPLs.
- Special mention loans have spiked since the pandemic; a gradual increase has been seen recently.** Special mention loans (stage 2) stood at around 2.5% in the pre-COVID-19 period (1Q13-4Q19). However, we have seen a significant spike in Stage 2, with the current ratio being more than double at 7%. During the COVID-19 period, debtors who were unable to repay their debts periodically and entered into debt restructuring programmes were downgraded to stage 2, which prevented their loans from becoming NPLs. Nevertheless, we have observed a resurgence in stage 2 loans since 2H24, which has raised concerns for us and the market as it could lead to a deterioration in the banking sector's asset quality in the upcoming period.

## HOUSEHOLD DEBT TO GDP



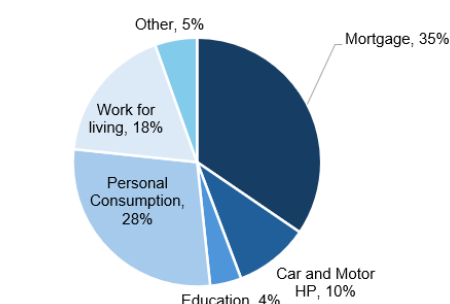
Source: BOT, UOB Kay Hian

## LENDERS OF HOUSEHOLD DEBT



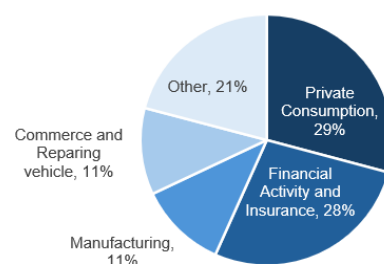
Source: BOT, UOB Kay Hian

## HOUSEHOLD DEBT BY ACTIVITY



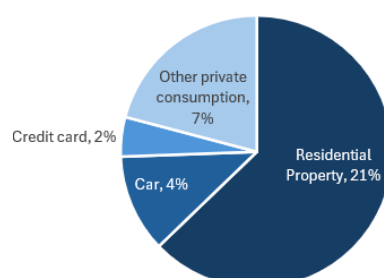
Source: BOT, UOB Kay Hian

## BANK LOAN BY BUSINESS



Source: BOT, UOB Kay Hian

## GROSS NPL IN PRIVATE CONSUMPTION



Source: BOT, UOB Kay Hian

• **AMC expected to be a crucial player in tackling high household debt and NPL levels.** AMCs have proposed expanding their collective debt resolution capacity (with a current maximum capacity of Bt100b/year) through soft loans and regulatory adjustments. This initiative aims to reduce the time required to resolve existing NPLs from 7-10 years to just 4-5 years.

• **NaCGA to help unlock credit tightening and partly solve household debt problem.** The establishment of NaCGA of Thailand is a strategic move to address a fundamental and long-standing problem in the Thai financial system – the limited access to credit for SMEs. The current system, primarily led by the Thai Credit Guarantee Corporation (TCG), has several limitations. A significant challenge for SMEs is their lack of verifiable credit history and collateral. The NaCGA is designed to act as a central data infrastructure, requiring data submissions from various state and private agencies. This will enable more accurate and holistic credit risk modelling.

NaCGA's funding model is designed to be more sustainable than the previous one, which relied heavily on government subsidies. NaCGA will be funded by a combination of: a) government contributions, b) guarantee fees from borrowers, and c) annual contributions from financial institutions (banks and non-banks), making it more resilient and less of a burden on the state budget. The new system is also designed to help smaller entities, including freelance workers and micro-enterprises.

• **Leveraging data and technology to enhance debt resolution.** NCB emphasised the importance of comprehensive data to improve risk management and financial inclusion. This includes exploring alternative data sources beyond traditional credit information. The solution lies in a well-coordinated effort to address the root causes of the problem – low income and lack of formal financial access.

## ACTION

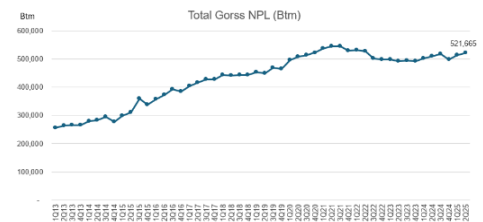
• **Stick to big banks with positive catalysts.** Amid a worsening economic outlook and pressure from the effects of US tariffs, we favour large banks with positive catalysts, specifically Kasikorn Bank (KBANK) and Krungthai Bank (KTB). KBANK has announced an increase in its dividend payout policy from 25% to 50%. Meanwhile, we anticipate that KTB will realise a market-to-market gain on its investment in Thai Airways International (THAI) equity, recognised at fair value through profit or loss. This is expected to result in a gain of Bt9.9b in 3Q25. Furthermore, we expect both KBANK and KTB to announce share buyback programmes in the foreseeable future.

• **Maintain MARKET WEIGHT on the banking sector.** The sector's P/B is 0.7x, implying +1SD to its five-year mean. Our top picks are KBANK and KTB.

## RISKS

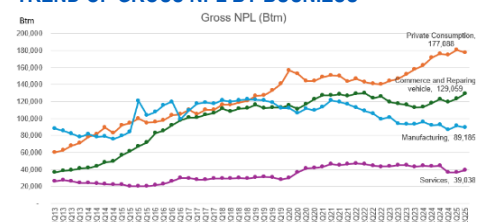
- The worsening economic outlook.
- The political instability.
- The policy rate cuts exerting pressure on interest income for big banks.

## TREND OF GROSS NPL



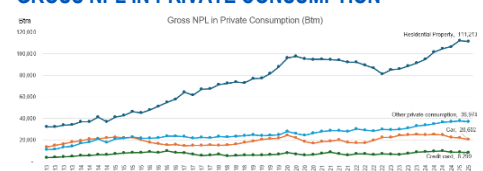
Source: BOT, UOB Kay Hian

## TREND OF GROSS NPL BY BUSINESS



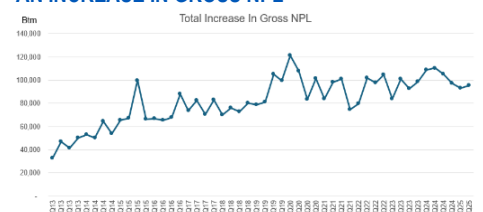
Source: BOT, UOB Kay Hian

## GROSS NPL IN PRIVATE CONSUMPTION



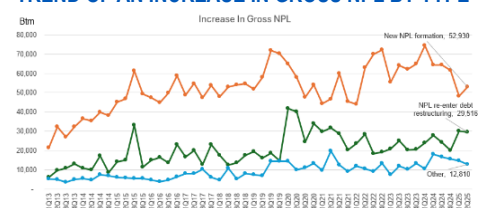
Source: BOT, UOB Kay Hian

## AN INCREASE IN GROSS NPL



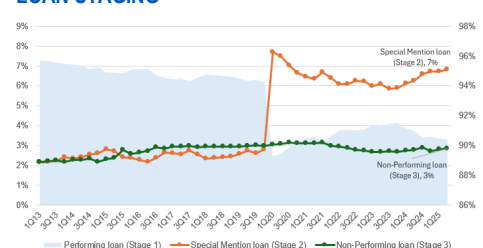
Source: BOT, UOB Kay Hian

## TREND OF AN INCREASE IN GROSS NPL BY TYPE



Source: BOT, UOB Kay Hian

## LOAN STAGING



Source: BOT, UOB Kay Hian

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