

SELL (From: BUY)**TP: Bt 58.00**

(From: Bt 43.00)

1 JULY 2021**Change in Recommendation****Downside : 15.3%**

Krungthai Card Pcl (KTC TB)

Overvalued

Given lower provisions and operating expenses, we lift KTC's three-year EPS CAGR to 20% and raise our TP to Bt58. But we believe these are priced in while we see slow progress in KTC creating a new S-curve via growing secured lending. With a very pricey PE of 26x along with 15% downside to our new TP, we downgrade KTC to SELL.

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Raising our earnings and TP to Bt58

Thanks to efficient cost control and prudent lending leading to better asset quality and lower provisions, KTC is mitigating the adverse impact of interest rate cuts on profitability better than we'd expected. Its successful targeted campaigns and growing online penetration have also raised its market share. Credit card spending has outgrown the industry's and recovered to approach the pre-COVID level of 2019. We also see a limited hit from the recent semi-lockdown. Putting all this into perspective, we raise our earnings for KTC by an average of 17% over 2021-25F. As we also roll forward our valuation base year to 2022F, we lift our DDM-based 12-month TP to Bt58, from Bt43 previously.

Slow progress of new business

Given lower unsecured lending returns, KTC has expanded its secured lending business since 2018. It launched auto-title loans (Pi Beum) late last year and recently acquired KTB Leasing (hire purchase and leasing loans) from Krung Thai Bank (KTB TB, BUY, Bt10.70). Amid fierce title loan rivalry, KTC is growing the business only slowly. Despite the consolidation of KTB Leasing in 2Q21, the secured lending portion will likely only account for 1% of KTC's loans in 2021F. Even assuming KTC successfully grows this segment six-fold by 2024F, the contribution would not be meaningful at just 6% of its existing unsecured business.

Downgrading to SELL

Post-earnings upgrades, we expect a stronger earnings growth turnaround from -3% in 2020 to 27% in 2021F and 17% in 2022-23F. Yet, the share price seems to have fully discounted the good news as KTC is still trading at a demanding PE of 26x in 2021F. PEG of 1.3x is also the second highest among the finance stocks we cover. With 15% potential downside to our new TP where we already factor in the turnaround story of its existing business and the growing secured lending contribution, we downgrade KTC to SELL from Buy. Note that the government is mulling lowering the ceiling interest rates for retail lending further and this would present downside to our current forecasts.

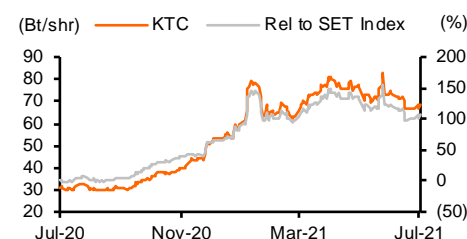
Our view on the Citibank acquisition

With fewer overlapping customers and support from KTB which is interested in its deposits and wealth franchise, KTC is keen to bid for Citibank's retail business in Thailand. We see decent synergistic benefits but are concerned about KTC's acquisition capability. According to BoT data, Citibank's retail lending part is a sizable Bt90bn vs. KTC's existing loans outstanding of Bt80bn and shareholder equity of Bt24bn as of 1Q21. As there are many financial institutions interested in the deal, the acquisition price may not be at a bargain to create good accretive value to KTC.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	13,261	14,003	15,581	17,500
Net profit	5,333	6,782	7,957	9,289
Consensus NP	—	6,210	7,084	7,528
Diff frm cons (%)	—	9.2	12.3	23.4
Norm profit	5,333	6,782	7,957	9,289
Prev. Norm profit	—	5,986	6,948	7,856
Chg frm prev (%)	—	13.3	14.5	18.2
Norm EPS (Bt)	2.1	2.6	3.1	3.6
Norm EPS grw (%)	(3.4)	27.2	17.3	16.7
Norm PE (x)	33.1	26.0	22.2	19.0
P/BV (x)	7.7	6.5	5.5	4.7
Div yield (%)	1.3	1.7	2.0	2.4
ROE (%)	25.1	27.1	26.7	26.5
ROA (%)	6.1	7.6	8.5	9.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 1-Jul-21 (Bt)	68.50
Market Cap (US\$ m)	5,508.9
Listed Shares (m shares)	2,578.3
Free Float (%)	40.5
Avg Daily Turnover (US\$ m)	37.8
12M Price H/L (Bt)	83.00/29.50
Sector	Finance
Major Shareholder	Krung Thai Bank 49.29%

Sources: Bloomberg, Company data, Thanachart estimates



Downgrading to SELL

KTC has done well in alleviating the adverse impact of interest rate cuts

Krungthai Card Pcl (KTC) has done well in controlling costs and assuring solid asset quality, in our view. This along with its proactive and targeted marketing campaigns have led the company to outgrow the industry and it has been gaining credit card spending market share. Its loan book has slowed down mainly because of seasonality and also KTC's stricter underwriting criteria as its risk-reward profile is not as attractive as before given the 2-3% interest charge reduction for credit card and personal loans to 16% and 25% respectively. But this has led to improving asset quality, thereby lowering provisioning expenses.

Despite experiencing the full impact of the interest rate cuts, 1Q21 profits were strong at Bt1.6bn, flat y-y and up 24% q-q. Even with the partial lockdown in 2Q21, we expect earnings momentum to remain strong and grow by more than 30% y-y in the quarter. The stricter one-month lockdown prohibiting dining in at restaurants and eateries from 28 June will adversely impact KTC, but we don't expect a slump in spending and rising NPLs like what happened in 2Q20.

Putting all this into perspective, we raise our earnings estimates for KTC by 13% in 2021F, 15% in 2022F and 18% in 2023F. We summarize in Exhibit 1 below our key assumption changes.

Ex 1: Key Assumption Changes

	2021F	2022F	2023F	2024F	2025F
Net profits (Bt bn)					
- New	6.78	7.96	9.29	10.59	12.03
- Old	5.99	6.95	7.86	8.84	9.92
- Change (%)	13.31	14.53	18.24	19.86	21.25
Net receivables (Bt bn)					
- New	96.13	105.48	115.15	124.62	134.40
- Old	98.70	108.26	118.14	127.81	137.80
- Change (%)	(2.60)	(2.57)	(2.53)	(2.50)	(2.47)
Cost of funds (%)					
- New	2.62	2.60	2.55	2.55	2.55
- Old	2.62	2.62	2.62	2.62	2.62
- Change (pp)	0.00	(0.02)	(0.07)	(0.07)	(0.07)
Operating expenses (Bt bn)					
- New	6.90	7.07	7.25	7.43	7.62
- Old	7.43	7.67	7.86	8.07	8.27
- Change (%)	(7.11)	(7.80)	(7.84)	(7.88)	(7.92)
Credit costs (%)					
- New	6.00	5.80	5.60	5.40	5.20
- Old	7.00	7.00	7.00	7.00	7.00
- Change (pp)	(1.00)	(1.20)	(1.40)	(1.60)	(1.80)

Source: Thanachart estimates

In light of our earnings upgrades and rolling forward our valuation base year to 2022F, we raise our DDM-based 12-month TP for KTC to Bt58/share from Bt43 previously.

Ex 2: 12-month DDM-based Valuation Using A Base Year Of 2022F

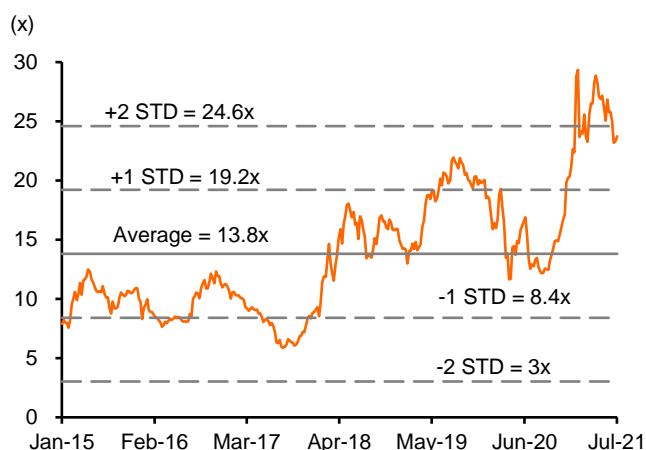
(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal value
Dividend of common shares	3,052	3,581	4,180	5,296	7,217	10,804	15,045	16,707	18,460	20,358	20,358
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	3,052	3,581	4,180	5,296	7,217	10,804	15,045	16,707	18,460	20,358	253,228
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	0.9										
WACC (%)	9.7										
Cost of equity	9.7										
Terminal growth (%)	2.0										
Equity value	149,773										
No. of shares (m)	2,578										
Equity value / share (Bt)	58.00										

Source: Thanachart estimates

Despite revising up our earnings significantly and factoring in substantial medium- to long-term growth for the company, our TP still suggests 15% potential share price downside. We therefore downgrade our rating on KTC to SELL from Buy for the following reasons:

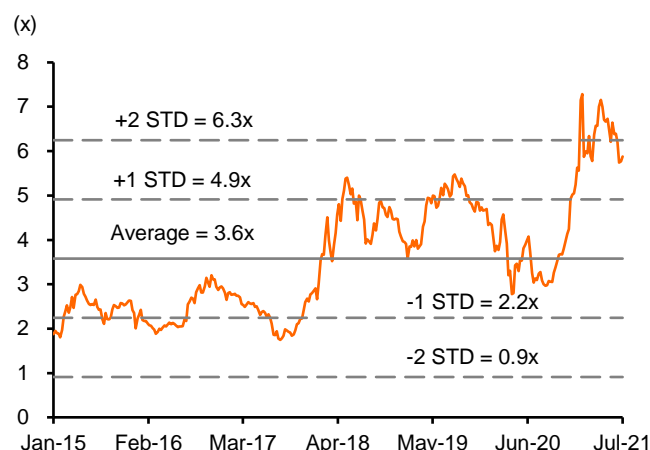
- 1) KTC's share price rose by 47% to a peak of Bt83 in May. Despite dropping by 19% from the peak on growing regulatory risks, KTC is still trading on what we regard as a demanding PE of 26x in 2021F, before falling to 22x in 2022F. Accordingly, we believe KTC's strong earnings growth turnaround with a three-year EPS CAGR of 20% over 2020-23F is already fully priced in.
- 2) We foresee slow progress with KTC's plan to create a new S-curve via growing its secured lending business. The company launched auto-title loans (Pi Beum) late last year and recently acquired KTB Leasing (hire purchase and leasing loans) from Krung Thai Bank (KTB TB, BUY, Bt10.70). Amid intensifying competition in title loans, KTC is growing the business only slowly. Despite the consolidation of KTB Leasing in 2Q21, the secured lending portion will likely only account for 1% of KTC's loans in 2021F. Even assuming KTC successfully grows this segment six-fold by 2024F, the contribution would not be meaningful at just 6% of its existing unsecured business.
- 3) We foresee rising regulatory risks as the government is considering whether to lower the ceiling interest rates for retail lending further. Though we have yet to factor this into our forecasts, we estimate a 1% cut in the interest rates from July 2021 would lower KTC's profits by 5% this year and 11% in 2022F.
- 4) We believe it is premature to factor in an inorganic growth premium. With fewer overlapping customers and support from KTB which is interested in Citibank's deposit and wealth franchise, KTC is keen to bid for Citibank's retail business in Thailand. We see decent synergistic benefits but we are concerned about KTC's acquisition capabilities. According to Bank of Thailand data, Citibank's retail lending portfolio is sizable at Bt90bn. This is versus KTC's existing loans outstanding of Bt80bn and shareholder equity of Bt24bn as of 1Q21. Meanwhile, as there are many other financial institutions interested in the deal, the acquisition price may not be at much of a bargain in order to create good accretive value for KTC.

Ex 3: STD PE



Sources: Company data, Bloomberg, Thanachart estimates

Ex 4: STD P/BV



Sources: Company data, Bloomberg, Thanachart estimates

Valuation Comparison

Ex 5: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		ROE		Div. yield	
			21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
Afterpay Ltd	APT AU	Australia	na	na	na	330.7	17.6	16.3	(2.0)	4.1	0.0	0.0
Finvolution Group	FINV US	China	472.2	14.0	1.2	1.1	0.3	0.2	24.6	21.6	4.3	4.9
Mahindra & Mahindra Fin Secs	MMFS IN	India	4.6	85.2	21.3	11.5	1.2	1.1	5.2	11.2	1.2	2.0
Bajaj Finance Ltd	BAF IN	India	3.2	71.2	78.7	46.0	9.9	8.3	13.1	19.1	0.1	0.3
Manappuram Finance Ltd	MGFL IN	India	0.7	17.2	8.1	6.9	2.0	1.6	26.5	24.8	1.7	1.7
GMO Payment Gateway Inc.	3769 JP	Japan	9.7	26.1	123.5	97.9	25.4	22.1	25.0	25.5	0.4	0.5
Infomart Corp.	2492 JP	Japan	(22.2)	79.5	266.6	148.5	18.1	16.7	7.7	12.4	0.2	0.3
Ally Financial Inc	ALLY US	US	125.8	(4.0)	7.6	8.0	1.2	1.1	16.5	14.3	1.6	1.8
World Acceptance Corp	WRLD US	US	(16.2)	(28.8)	14.1	19.7	2.9	2.8	18.7	12.4	na	na
Navient Corp	NAVI US	US	93.9	(19.1)	4.7	5.8	1.1	0.9	41.1	26.5	3.3	3.3
SLM Corp	SLM US	US	36.0	(16.4)	6.8	8.1	3.1	2.9	39.4	29.5	0.6	0.6
Amanah Leasing	AMANA TH	Thailand	16.1	23.1	16.5	13.4	3.2	2.8	20.5	22.0	2.8	3.4
Krungthai Card *	KTC TB	Thailand	27.2	17.3	26.0	22.2	6.5	5.5	27.1	26.7	1.7	2.0
Muangthai Capital *	MTC TB	Thailand	10.7	25.6	21.2	16.9	4.8	3.8	24.9	25.1	0.7	0.9
Saksiam Leasing *	SAK TB	Thailand	(10.7)	42.9	31.7	22.2	4.3	3.8	14.0	18.1	1.3	1.8
Srisawad Corporation *	SAWAD TB	Thailand	18.9	19.7	17.4	14.6	3.9	3.4	23.2	25.0	3.0	3.4
Ratchthani Leasing *	THANI TB	Thailand	(5.0)	14.8	15.2	13.2	2.5	2.3	16.9	18.0	4.0	4.5
Ngern Tid Lor *	TIDLOR TB	Thailand	28.2	28.0	28.4	22.2	4.4	3.8	19.5	18.3	0.7	0.9
Average			47.8	23.0	41.3	46.3	6.3	5.6	20.1	19.8	1.7	2.0

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 1 July 2021 closing price

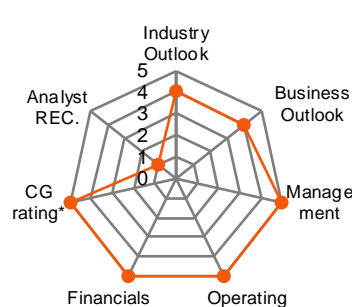
Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

COMPANY DESCRIPTION

Krungthai Card Pcl (KTC) provides credit card services and personal loans, and it is Krungthai Bank's (KTB) credit card business arm. KTB's holding in KTC stands at 49.29%. As of April 2021, the company's market shares of credit card spending and credit card loans stood at 11.7% and 13.5% respectively. Meanwhile, KTC had also captured a 5% personal loan market share. The company's revenue breakdown was 58% credit cards, 42% personal loans. Of total receivables, credit cards made up 66% and personal loans 34%.

Source: Thanachart

COMPANY RATING



Rating Scale

Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; * CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well-recognized brand.
- Very strong financial position.
- High flexibility with innovative marketing campaigns and promotions.

O — Opportunity

- Rising credit card penetration.
- Expansion into secured lending business
- New sources of non-interest income.

W — Weakness

- Standalone operation.

T — Threat

- Weak economy.
- Aggressive competition from commercial banks.
- Changes in rules and regulations.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	57.26	58.00	1%
Net profit 21F (Bt m)	6,210	6,782	9%
Net profit 22F (Bt m)	7,084	7,957	12%
Consensus REC	BUY: 4	HOLD: 2	SELL: 11

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in improved cost control. As a consequence, we believe our earnings forecasts and TP are higher.

RISKS TO OUR INVESTMENT CASE

- In any circumstances where growth in KTC's credit card spending and receivables were to be higher than we currently expect, we would see upside risk to our earnings forecasts and TP.
- In the wake of KTC being able to lower costs and credit costs higher than we assume, this would also present upside to our earnings forecasts and TP.
- If KTC were to strongly execute inorganic growth, this would also present risks to our SELL call.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Greater cost control</i>						
Interest Income		13,607	14,167	13,708	14,661	15,971
Interest Expenses		1,566	1,534	1,474	1,444	1,482
Net Interest Income		12,041	12,633	12,234	13,216	14,489
% of total income		57%	62%	59%	59%	59%
Bad debts recovery		3,496	3,119	3,840	4,071	4,315
Fee and service income		5,032	4,478	4,568	5,024	5,527
Gain on exchange rate - net		149	45	14	27	33
Others		340	246	246	246	246
Non-interest Income		9,017	7,889	8,668	9,369	10,121
% of total income		43%	38%	41%	41%	41%
Total Income		21,058	20,522	20,902	22,585	24,610
Operating Expenses		7,722	7,260	6,899	7,004	7,110
Pre-provisioning Profit		13,336	13,261	14,003	15,581	17,500
Provisions		6,433	6,605	5,525	5,635	5,888
Pre-tax Profit		6,903	6,656	8,478	9,946	11,612
Income Tax		1,380	1,325	1,696	1,989	2,322
After Tax Profit		5,523	5,332	6,782	7,957	9,289
Equity Income		0	1	0	0	0
Minority Interest		0	1	0	0	0
Extraordinary Items		0	0	0	0	0
NET PROFIT		5,523	5,333	6,782	7,957	9,289
Normalized Profit		5,523	5,333	6,782	7,957	9,289
EPS (Bt)		2.1	2.1	2.6	3.1	3.6
Normalized EPS (Bt)		2.1	2.1	2.6	3.1	3.6

BALANCE SHEET

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Solid balance sheet</i>						
ASSETS:						
Cash & cash equivalents		1,348	1,914	1,200	1,200	1,200
Other receivables		580	459	0	0	0
L-T loan to other parties - net		4	0	0	0	0
subsidiaries/associates		0	0	0	0	0
Net loans		80,756	82,794	86,361	92,093	101,044
Gross and accrued interest		86,426	90,149	94,033	100,274	110,020
Provisions for doubtful		5,670	7,355	7,709	7,828	7,666
Fixed assets - net		495	481	442	404	367
Right of use		0	457	422	384	343
Other assets		2,226	2,299	2,302	2,305	2,308
Total assets		85,409	88,403	90,726	96,385	105,262
LIABILITIES:						
Borrowings		57,540	57,900	54,601	56,505	59,742
S-T loans		11,375	13,959	6,980	7,678	8,829
Current portion of L-T loans		6,185	8,780	9,030	6,456	2,285
L-T loans-net current portion		0	0	0	0	0
L-T Debenture		39,980	34,700	38,170	41,987	48,285
Current portion of lease liabilities		0	213	69	69	69
Lease liabilities		0	248	353	315	274
Other liabilities		8,134	7,653	8,762	7,612	7,543
Total liabilities		65,674	65,553	63,363	64,117	67,285
Minority interest		27	51	51	51	51
Shareholders' equity		19,708	22,799	27,312	32,217	37,926
Preferred capital		0	0	0	0	0
Paid-in capital		2,578	2,578	2,578	2,578	2,578
Share premium		1,892	1,892	1,892	1,892	1,892
Surplus/ Others		0	0	0	0	0
Retained earnings		15,238	18,329	22,842	27,747	33,455
Liabilities & equity		85,409	88,403	90,726	96,385	105,262

Sources: Company data, Thanachart estimates

VALUATION*Valuation looks demanding to us*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	32.0	33.1	26.0	22.2	19.0
Normalized PE - at target price (x)	27.1	28.0	22.1	18.8	16.1
PE (x)	32.0	33.1	26.0	22.2	19.0
PE - at target price (x)	27.1	28.0	22.1	18.8	16.1
P/PPP (x)	13.2	13.3	12.6	11.3	10.1
P/PPP - at target price (x)	11.2	11.3	10.7	9.6	8.5
P/BV (x)	9.0	7.7	6.5	5.5	4.7
P/BV - at target price (x)	7.6	6.6	5.5	4.6	3.9
Market cap / net loans (x)	2.2	2.1	2.0	1.9	1.7
Market cap / borrowings (x)	3.1	3.1	3.2	3.1	3.0
Dividend yield (%)	1.3	1.3	1.7	2.0	2.4
Normalized EPS (Bt)	2.1	2.1	2.6	3.1	3.6
EPS (Bt)	2.1	2.1	2.6	3.1	3.6
DPS (Bt)	0.9	0.9	1.2	1.4	1.6
PPP/Share (Bt)	5.2	5.1	5.4	6.0	6.8
BV/share (Bt)	7.6	8.8	10.6	12.5	14.7

FINANCIAL RATIOS*Falling credit costs*

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	8.6	4.9	(3.2)	8.0	9.6
Non-interest income (Non-II)	5.4	(12.5)	9.9	8.1	8.0
Operating expenses	2.6	(6.0)	(5.0)	1.5	1.5
Pre-provisioning profit (PPP)	10.0	(0.6)	5.6	11.3	12.3
Net profit	7.5	(3.4)	27.2	17.3	16.7
Normalized profit growth	7.5	(3.4)	27.2	17.3	16.7
EPS	7.5	(3.4)	27.2	17.3	16.7
Normalized EPS	7.5	(3.4)	27.2	17.3	16.7
Dividend payout ratio	41.1	42.5	45.0	45.0	45.0
Loan - gross	10.5	4.3	4.3	6.6	9.7
Loan - net	11.1	2.5	4.3	6.6	9.7
Borrowings	6.3	0.6	(5.7)	3.5	5.7
NPLs	2.2	75.4	18.5	5.3	11.4
Total assets	7.2	3.5	2.6	6.2	9.2
Total equity	20.5	15.7	19.8	18.0	17.7
Operating Ratios (%)					
Net interest margin (NIM)	14.6	14.5	13.7	14.1	14.4
Net interest spread	12.9	13.1	12.0	12.0	12.0
Yield on earnings assets	16.5	16.0	14.9	15.1	15.2
Avg cost of fund	2.8	2.7	2.6	2.6	2.6
NII / operating income	57.2	61.6	58.5	58.5	58.9
Non-II / operating income	42.8	38.4	41.5	41.5	41.1
Fee income / operating income	23.9	21.8	21.9	22.2	22.5
Normalized net margin	26.2	26.0	32.4	35.2	37.7
Bad Debt Recovery	387.9	248.6	220.0	209.4	204.7
Cost-to-income	34.1	32.9	30.8	29.1	27.2
Credit cost - provision exp / loans	7.4	7.5	6.0	5.8	5.6
PPP / total assets	16.2	15.3	15.6	16.7	17.4
PPP / total equity	74.0	62.4	55.9	52.3	49.9
Avg assets/avg equity (leverage)	4.58	4.09	3.57	3.14	2.87
ROA	6.7	6.1	7.6	8.5	9.2
ROE	30.6	25.1	27.1	26.7	26.5

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	150.2	155.7	172.2	177.5	184.2
Net Loan / Borrow ings	140.3	143.0	158.2	163.0	169.1
Net Loan / Assets	94.6	93.7	95.2	95.5	96.0
Net Loan / Equity	409.8	363.1	316.2	285.9	266.4
S-T / L-T Borrow ings	28.5	40.2	18.3	18.3	18.3
Borrow ings / Liabilities	87.6	88.3	86.2	88.1	88.8
Interest-bearing Debt / Equity	292.0	254.0	199.9	175.4	157.5
Liabilities / Equity	333.2	287.5	232.0	199.0	177.4
CAR	22.8	25.3	29.0	32.1	34.5
NPLs	911	1,598	1,893	1,995	2,222
NPLs / Total Loans (NPL Ratio)	1.1	1.8	2.0	2.0	2.0
Loan-Loss-Coverage (Provision /	622.2	460.3	407.1	392.5	345.0

*Rising NPLs mainly from
KT Leasing's
consolidation*

Sources: Company data, Thanachart estimates

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