

BUY (From: HOLD)**TP: Bt 80.00**

(From: Bt 73.00)

12 AUGUST 2021

Change in Recommendation

Upside : 40.4%

Muangthai Capital Pcl (MTC TB)

Bigger fish

We upgrade MTC to BUY after the 23% plunge in its share price vs. a higher forecast three-year EPS CAGR of 31% on bottoming NIM and market share gains. Thanks to its competitive interest charges, we see MTC being least hit by any potential price controls.

**SARACHADA SORNSONG**

662 – 779 9106

sarachada.sor@thanachartsec.co.th

Short-term pain, long-term gain

MTC's aggressive pricing has led to a decline in its lending yield of 237bps over the past 12 months. This should continue into 4Q21 due to rollover effect of high-yield contracts (40-50% of the total) to lower rates of 15% for motorcycle and 18% for auto-backed loans. That being said, its campaigns have been very well received as MTC has seen new customers rise from a 10% run rate previously to 20% YTD. Market share gains result in a larger customer base, increasing loan demand and boosting capability to cross-sell motorcycle hire-purchase and unsecured loans. This answers the question of why MTC is confident in lifting its loan growth target from 20-25% to 30-35% for 2021F and also 2022F. Meanwhile, the company sees current interest charges as already at the bottom. It has no intention of cutting rates further while a rise in interest rate charges in the market has begun.

Taking off

In light of the bigger yield decline, albeit higher loans, we have to lower our earnings estimate by 4% in 2021F. But we revise up them by an average of 15% over 2022-25F to reflect stronger loans and higher fees. We see 2021 as a transition year for MTC with our forecast for earnings growth of just 7%. Given our expectation for bottoming yield and NIM in 4Q21F and MTC's loan growth of 30% in 2022F, 19/16% in 2023-24F and scale benefits, we estimate a stronger three-year EPS CAGR of 31% over 2021-24F. After raising our earnings, we lift our DDM-based 12-month TP (2022F base year), to Bt80 from Bt73 previously.

Limited regulatory risks

Positioning itself as a simple operator with a volume growth strategy, MTC has been offering competitive interest rates and does not charge any loan-related fees. At present, MTC's interest charges are 6-9% lower than the current ceiling of 24% for auto-backed loans and 6% below the capped nanofinance rate of 33%. The company's blended yield of 19% is also at the low end of the industry average. Therefore, we see MTC being least hit by a potential 1-2% cut in the ceiling rate for consumer finance loans, the plan for which we believe is now in the hearing process.

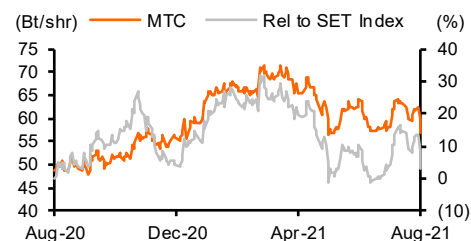
Upgrading to BUY

We turn more positive on MTC as its share price has fallen by 23% from its March peak of Bt73.75. We upgrade MTC to BUY from Hold. 1) We expect 4Q21F to mark the end of MTC's falling margins and expect a higher three-year EPS CAGR of 31% on stronger loans from market share gains and a normalized margin base of 15%. 2) The NPL rise in 2Q21 was because the resolution process was held back to boost collection. Asset quality remains manageable with an NPL ratio of below 1.5%. 3) Attractive 2022F PE of 16x and the sector's lowest PEG of 0.5x.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	6,771	7,583	10,720	14,019
Net profit	5,214	5,544	7,719	10,153
Consensus NP	—	5,743	6,937	8,532
Diff frm cons (%)	—	(3.5)	11.3	19.0
Norm profit	5,214	5,544	7,719	10,153
Prev. Norm profit	—	5,774	7,028	8,586
Chg frm prev (%)	—	(4.0)	9.8	18.3
Norm EPS (Bt)	2.5	2.6	3.6	4.8
Norm EPS grw (%)	23.0	6.3	39.2	31.5
Norm PE (x)	23.2	21.8	15.7	11.9
P/BV (x)	5.8	4.7	3.8	2.9
Div yield (%)	0.6	0.7	1.0	1.3
ROE (%)	28.4	24.0	26.7	27.8
ROA (%)	7.5	6.3	6.8	7.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 11-Aug-21 (Bt)	57.00
Market Cap (US\$ m)	3,623.4
Listed Shares (m shares)	2,120.0
Free Float (%)	32.1
Avg Daily Turnover (US\$ m)	18.5
12M Price H/L (Bt)	71.50/48.00
Sector	Finance
Major Shareholder	Petaumpai Family 67.45%

Sources: Bloomberg, Company data, Thanachart estimates

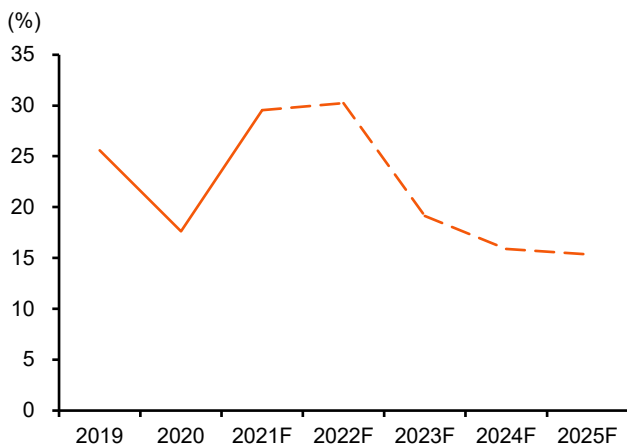


Ex 1: Earnings Revisions

	2019	2020	2021F	2022F	2023F	2024F	2025F
Net profits (Bt bn)							
- New	4.24	5.21	5.54	7.72	10.15	12.37	14.65
- Old	4.24	5.21	5.77	7.03	8.59	10.56	12.70
- Change (%)	—	—	(3.98)	9.83	18.26	17.11	15.39
Net loans (Bt bn)							
- New	58.62	69.64	90.33	117.65	139.93	162.04	186.76
- Old	58.62	69.64	85.88	102.13	119.69	139.67	160.89
- Change (%)	—	—	5.19	15.20	16.91	16.02	16.08
Fee income (Bt m)							
- New	723	726	857	857	900	945	992
- Old	723	726	763	801	841	883	927
- Change (%)	—	—	12.38	7.03	7.03	7.03	7.03
Lending yield (%)							
- New	22.59	21.77	19.13	19.12	19.09	19.06	19.05
- Old	22.59	21.77	20.24	19.99	19.98	20.03	20.06
- Change (pp)	—	—	(1.11)	(0.87)	(0.89)	(0.96)	(1.01)
Credit costs (%)							
- New	1.02	0.39	0.80	1.00	1.00	1.00	1.00
- Old	1.02	0.39	0.70	0.85	0.80	0.80	0.80
- Change (pp)	—	—	0.10	0.15	0.20	0.20	0.20

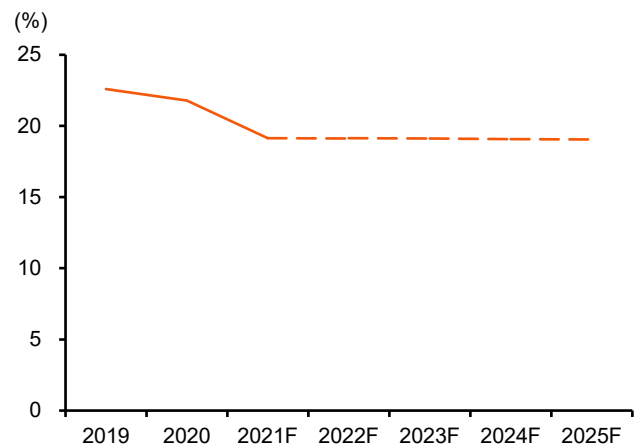
Sources: Company data, Thanachart estimates

Ex 2: Loan Growth



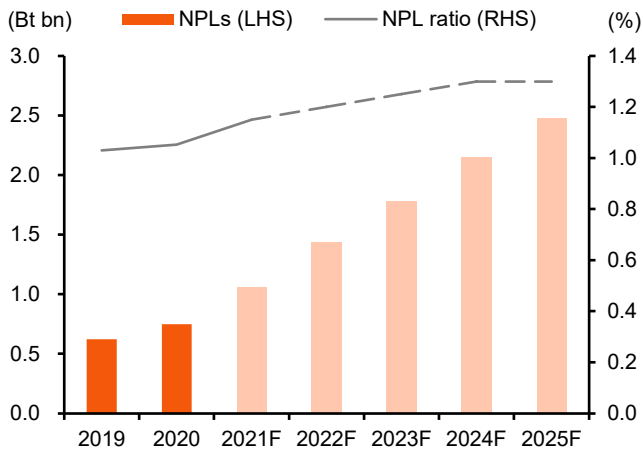
Sources: Company data, Thanachart estimates

Ex 3: Lending Yield



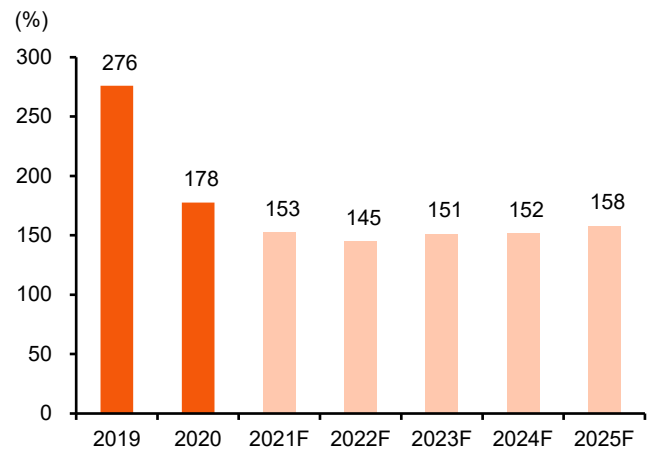
Sources: Company data, Thanachart estimates

Ex 4: NPLs



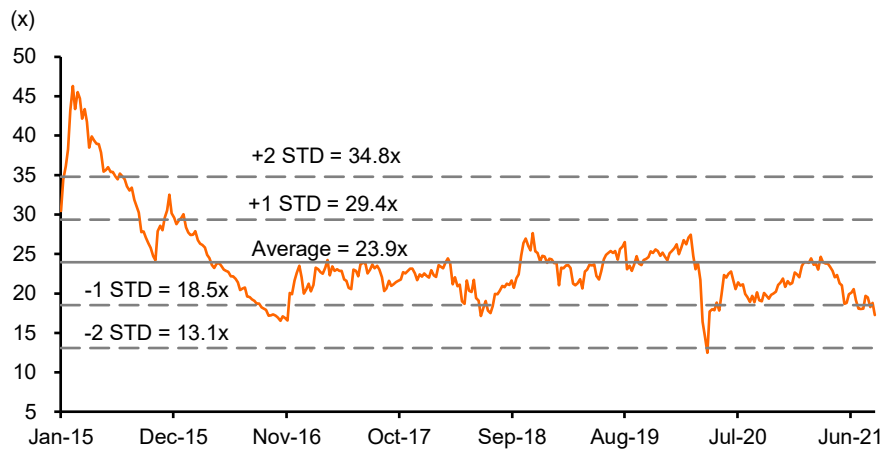
Sources: Company data, Thanachart estimates

Ex 5: Loan Loss Coverage Ratio



Sources: Company data, Thanachart estimates

Ex 6: PE STD



Sources: Company data, Bloomberg, Thanachart estimates

Ex 7: 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	1,158	1,523	1,855	7,325	10,195	13,684	15,774	18,169	26,880	30,979	30,979
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	1,158	1,523	1,855	7,325	10,195	13,684	15,774	18,169	26,880	30,979	332,613
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	10.7										
Cost of equity	10.7										
Terminal growth (%)	2.0										
Equity value	170,292										
No. of shares (m)	2,120										
Equity value / share (Bt)	80.00										

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: 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	401.2	21.3	18.4	(1.9)	3.7	0.0	0.0
Finvolution Group	FINV US	China	488.1	14.5	0.8	0.7	0.2	0.1	25.6	23.2	8.4	9.5
Mahindra & Mahindra Fin Secs	MMFS IN	India	4.6	39.7	21.1	15.1	1.2	1.1	5.2	7.1	1.2	1.4
Bajaj Finance Ltd	BAF IN	India	3.1	57.9	81.3	51.5	10.3	8.6	13.1	17.8	0.1	0.2
Manappuram Finance Ltd	MGFL IN	India	0.2	12.0	8.2	7.3	2.0	1.6	26.4	23.7	1.7	1.9
GMO Payment Gateway Inc.	3769 JP	Japan	7.9	26.2	119.1	94.4	22.7	19.9	24.2	24.2	0.4	0.5
Infomart Corp.	2492 JP	Japan	(23.5)	81.3	279.6	154.2	18.7	17.2	7.6	12.3	0.2	0.3
Ally Financial Inc	ALLY US	US	180.8	(14.8)	6.6	7.8	1.2	1.1	19.7	14.7	1.6	1.9
World Acceptance Corp	WRLD US	US	(16.2)	(1.8)	16.0	16.3	3.3	3.3	18.7	15.9	na	na
Navient Corp	NAVI US	US	99.7	(24.5)	5.1	6.7	1.3	1.1	26.7	19.2	3.0	3.0
SLM Corp	SLM US	US	41.8	(18.5)	5.9	7.2	2.9	2.8	47.4	35.4	0.6	0.6
Amanah Leasing	AMANA TH	Thailand	16.1	23.1	14.3	11.6	2.7	2.4	19.7	22.2	3.2	3.9
Krungthai Card *	KTC TH	Thailand	25.0	13.7	22.4	19.7	5.5	4.7	26.7	25.7	2.0	2.3
Muangthai Capital *	MTC TH	Thailand	6.3	39.2	21.8	15.7	4.7	3.8	24.0	26.7	0.7	1.0
Saksiam Leasing *	SAK TH	Thailand	(17.3)	34.2	29.6	22.0	3.7	3.4	13.0	16.0	1.4	1.8
Srisawad Corporation *	SAWAD TH	Thailand	10.2	16.1	16.9	14.6	3.5	3.2	21.7	23.0	3.1	3.4
Ratchthani Leasing *	THANI TH	Thailand	(5.0)	11.9	13.2	11.8	2.1	2.0	16.8	17.6	4.6	5.1
Average			28.2	26.3	25.2	19.9	3.9	3.4	19.5	18.1	0.8	1.0

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 11 Aug 2021 closing price

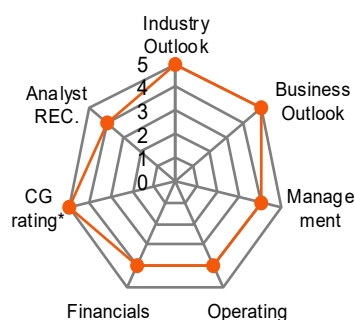
Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

COMPANY DESCRIPTION

Muangthai Capital Pcl (MTC), originally D.S. Leasing, was founded by Mr. Chuchart Petampai and Mrs. Daonapa Petampai in 1992. MTC started off as a motorcycle hire-purchase company in northern Thailand, and later expanded into the micro-financing business as a supplementary service to its customers. By 1998, MTC had shifted its focus to be a pure micro-financing firm. It operates as a commercial lending bank, offering collateral-backed auto loans and personal unsecured loan services, with the focus being motorcycle title loans.

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

- Scale benefits.
- Well-recognized brand.
- Expertise and substantial experience in running its business.

O — Opportunity

- New lending products.
- Expanding into neighbouring countries.

W — Weakness

- Reliant on external funding.

T — Threat

- Changes in regulations.
- Increasing penetration by commercial banks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	70.07	80.00	14%
Net profit 21F (Bt m)	5,743	5,544	-3%
Net profit 22F (Bt m)	6,937	7,719	11%
Consensus REC	BUY: 13	HOLD: 7	SELL: 1

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in trimming this year's earnings to reflect soft 2Q21 results.
- We also think we are ahead of the market in incorporating MTC's stronger loans, leading to our higher TP.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Downside risk would emerge if MTC fails to grow its loan book by a large enough extent to offset declining yields.
- MTC not sustaining its robust loan growth while maintaining strong asset quality represents the key downside risk to our call.
- Increases in MTC's cost-to-income ratio and funding costs would present further downside risks to our earnings forecasts and TP.

Source: Thanachart

INCOME STATEMENT

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Stronger loans to offset declining yield</i>	Interest Income	11,880	13,962	15,301	19,885	24,590
	Interest Expenses	1,527	1,817	1,982	2,446	2,916
	Net Interest Income	10,353	12,145	13,319	17,438	21,674
	% of total income	92.8%	94.0%	93.7%	95.0%	95.7%
	Fee income	723	726	857	857	900
% of total income	6.5%	5.6%	6.0%	4.7%	4.0%	
Other income	85	45	43	55	68	
% of total income	0.8%	0.3%	0.3%	0.3%	0.3%	
Non-interest Income	808	771	900	912	968	
% of total income	7.2%	6.0%	6.3%	5.0%	4.3%	
Total Income	11,161	12,916	14,218	18,351	22,642	
Operating Expenses	5,314	6,144	6,636	7,631	8,623	
Pre-provisioning Profit	5,847	6,771	7,583	10,720	14,019	
Bad debt expenses	554	255	653	1,071	1,327	
Pre-tax Profit	5,293	6,516	6,930	9,649	12,692	
Income Tax	1,056	1,303	1,386	1,930	2,538	
After Tax Profit	4,237	5,214	5,544	7,719	10,153	
Equity Income	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Extraordinary Items	0	0	0	0	0	
NET PROFIT	4,237	5,214	5,544	7,719	10,153	
Normalized Profit	4,237	5,214	5,544	7,719	10,153	
EPS (Bt)	2.0	2.5	2.6	3.6	4.8	
Normalized EPS (Bt)	2.0	2.5	2.6	3.6	4.8	

BALANCE SHEET

	FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
<i>Solid balance sheet, based on our forecasts</i>	Cash and ST investments	783	1,378	1,000	1,000	1,000
	Other current assets	210	225	250	280	310
	Total current assets	993	1,603	1,250	1,280	1,310
	Gross loans & accr. interest	59,471	70,152	93,002	121,114	144,270
	Provisions	1,715	1,328	1,613	2,084	2,698
Net loans	58,623	69,640	90,333	117,654	139,932	
Fixed assets	1,778	1,928	1,921	5,329	5,939	
Other assets	478	4,050	4,309	4,427	4,406	
Total assets	61,872	77,222	97,812	128,690	151,587	
Short term borrow ing	14,669	19,243	15,314	21,108	22,617	
A/P & notes payables	891	1,075	1,175	1,275	1,375	
Other current liabilities	752	1,633	5,829	14,507	16,578	
Long term borrow ing	29,467	31,732	46,981	56,378	66,526	
Total borrowings	44,136	50,975	62,295	77,486	89,143	
Other L-T liabilities	121	2,858	2,993	3,214	3,526	
Minority interest	0	0	0	0	0	
Shareholders' equity	15,972	20,682	25,521	32,208	40,965	
Total Liab. & Equity	61,872	77,222	97,812	128,690	151,587	

Sources: Company data, Thanachart estimates

VALUATION

Attractive valuation in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	28.5	23.2	21.8	15.7	11.9
Normalized PE - at target price (x)	40.0	32.5	30.6	22.0	16.7
PE (x)	28.5	23.2	21.8	15.7	11.9
PE - at target price (x)	40.0	32.5	30.6	22.0	16.7
P/PPP (x)	20.7	17.8	15.9	11.3	8.6
P/PPP - at target price (x)	29.0	25.0	22.4	15.8	12.1
P/BV (x)	7.6	5.8	4.7	3.8	2.9
P/BV - at target price (x)	10.6	8.2	6.6	5.3	4.1
Dividend yield (%)	0.5	0.6	0.7	1.0	1.3
Normalized EPS (Bt)	2.0	2.5	2.6	3.6	4.8
EPS (Bt)	2.0	2.5	2.6	3.6	4.8
DPS (Bt)	0.3	0.4	0.4	0.5	0.7
PPP/Share (Bt)	2.8	3.2	3.6	5.1	6.6
BV/share (Bt)	7.5	9.8	12.0	15.2	19.3
P/BV to ROE (x)	0.3	0.2	0.2	0.1	0.1

FINANCIAL RATIOS

Normalizing NIM

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	22.6	17.3	9.7	30.9	24.3
Non-interest income (Non-II)	(7.3)	(4.6)	16.7	1.4	6.1
Operating expenses	29.6	15.6	8.0	15.0	13.0
Pre-provisioning profit (PPP)	12.1	15.8	12.0	41.4	30.8
Net profit	14.1	23.0	6.3	39.2	31.5
Normalized profit growth	14.1	23.0	6.3	39.2	31.5
EPS	14.1	23.0	6.3	39.2	31.5
Normalized EPS	14.1	23.0	6.3	39.2	31.5
Dividend payout ratio	15.1	15.0	15.0	15.0	15.0
Loan - gross	25.9	18.0	32.6	30.2	19.1
Loan - net	25.9	18.8	29.7	30.2	18.9
Borrowings	7.4	8.8	50.3	20.8	18.0
NPLs	15.1	20.3	41.5	35.9	24.1
Total assets	25.9	24.8	26.7	31.6	17.8
Total equity	29.9	29.5	23.4	26.2	27.2
Operating Ratios (%)					
Net interest margin (NIM)	18.7	18.7	15.2	15.4	15.5
Net interest spread	18.8	17.9	15.6	15.6	15.6
Yield on earnings assets	21.9	21.2	18.8	18.8	18.7
Avg cost of fund	3.8	3.7	3.4	3.4	3.4
NII / operating income	92.8	94.0	93.7	95.0	95.7
Non-II / operating income	7.2	6.0	6.3	5.0	4.3
Fee Income / Opt Income	6.5	5.6	6.0	4.7	4.0
Norm Net Margin	38.0	40.4	39.0	42.1	44.8
Cost-to-income	47.6	47.6	46.7	41.6	38.1
Credit cost - provision exp / loans	1.0	0.4	0.8	1.0	1.0
PPP / total assets	10.5	9.7	8.7	9.5	10.0
PPP / total equity	41.4	36.9	32.8	37.1	38.3
Avg assets/avg equity (leverage)	3.9	3.8	3.8	3.9	3.8
ROA	7.6	7.5	6.3	6.8	7.2
ROE	30.0	28.4	24.0	26.7	27.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	189.6	205.6	181.3	195.4	197.2
Net Loan / Borrow ings	186.9	204.1	176.1	189.8	191.3
Net Loan / Assets	94.7	90.2	92.4	91.4	92.3
Net Loan / Equity	367.0	336.7	354.0	365.3	341.6
S-T / L-T Borrow ings	6.0	7.0	8.4	9.0	9.0
Borrow ings / Liabilities	68.3	60.4	71.0	64.2	66.1
Interest-bearing Debt / Equity	281.9	251.7	248.7	244.5	221.0
Liabilities / Equity	287.4	273.4	283.3	299.6	270.0
Equity/ Gross loans	26.9	29.5	27.4	26.6	28.4
NPLs	621.5	747.4	1,057.4	1,436.9	1,782.9
NPLs / Total Loans (NPL Ratio)	1.0	1.1	1.1	1.2	1.2
Loan-Loss-Coverage (Provision / NPLs)	275.9	177.6	152.5	145.1	151.3

Asset quality looks manageable

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

Tel: 662-779-9199

pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance, Insurance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom

Auto, Industrial Estate, Media, Prop. Fund

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical, Paper

Tel: 662-779-9104

chak.reu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthananarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th