Small Cap Research

BUY (From: HOLD)

Change in Recommendation

TP: Bt 5.40 (From: Bt 3.80)

Upside : 18.9%

18 JUNE 2021

Ratchthani Leasing Pcl (THANI TB)

Turning around

Despite the third COVID wave, THANI enjoyed a 30%-plus increase in new loan drawdowns in 5M21. With the country's reopening in sight, we see clear turnaround signs and expect a strong earnings growth turnaround from 2Q21. Upgrade to BUY with a higher TP of Bt5.4.

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Thanachart Securities

Upgrading to BUY

We upgrade THANI to BUY from Hold with a new DDM-based 12-month TP (2022F base year) of Bt5.4 from Bt3.8. THANI is a niche HP play, with 68% exposure to trucks, 24% luxury cars and the rest motorcycle, taxis and others. We turn more positive on THANI for five reasons. 1) We see clear turnaround signs for the company's operations and profitability. 2) THANI is an early economic recovery play and a prime beneficiary of the country's reopening as private consumption and tourism are major growth drivers for trucks. 3) Earnings bottomed in 1Q21 and we expect a strong earnings growth turnaround from 2Q21F. 4) THANI is subject to lower regulatory risks as loans are under HP contracts that have no interest rate ceiling. 5) THANI looks cheap to us trading on 2021F PE of 14x begore falling to 12x in 2022F.

Clear turnaround signs

As truck demand is one of the leading economic indicators, THANI suffered badly last year with net loans falling by 6%, the first contraction since 2012. In light of strong imports and exports and growing border trade, THANI reported a 20% y-y rise in new loan drawdowns in 1Q21. Despite the COVID third wave, THANI has not seen any disruption to its business. From an average of Bt1.9bn per month in 1Q21, new loan drawdowns were close to Bt2bn during April to May. We also expect a chain-reaction effect on fee income via growing insurance sales volume. Last but not the least, funding and liquidity are now moving in the company's favor. THANI has Bt7bn-plus of undrawn credit lines and recently issued Bt3bn of three-year debentures at just a 2% coupon rate.

Raising our 2022-25F earnings

We trim our 2021F earnings by 3% to reflect higher provisions. However, we lift our estimates by an average of 7% over 2022-25F to reflect higher loans, fees, lower cost of funds and opex. From 7% and 5% EPS declines in 2020-21, we project 15% growth next year and 12% in 2023-24F. Growth drivers are 1) loan growth of 5% this year and 10% p.a. in 2022-23F, 2) an average of 14% higher fee income over 2022-24F, 3) cost of funds falling to 2.45%, and 4) lower opex as we expect lower repossession losses because of rising demand for used trucks.

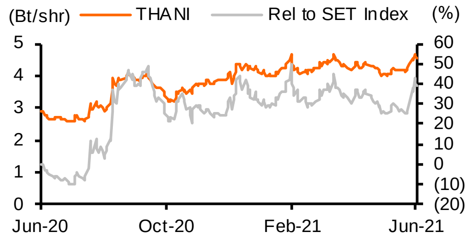
Manageable asset quality

From around 10%, loans in the relief plan stood at only 2% as of 1Q21. Some customers have been asking for assistance but THANI said the situation now is more manageable than it was in 2Q20. Also, with favorable used-car prices, THANI aims to speed up the NPL resolution process and believes it can contain its NPL ratio at below 4% from 3.35% in 1Q21. We factor credit costs of 0.75-0.8% into our model and expect THANI to keep its loan-loss-coverage ratio at over 75%.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	2,662	2,796	3,148	3,528
Net profit	1,860	1,887	2,165	2,433
Consensus NP	—	1,962	2,160	2,385
Diff frm cons (%)	—	*(3.9)*	*0.3*	*2.0*
Norm profit	1,860	1,887	2,165	2,433
Prev. Norm profit	—	1,954	2,130	2,318
Chg frm prev (%)	—	*(3.4)*	*1.6*	*5.0*
Norm EPS (Bt)	0.4	0.3	0.4	0.4
Norm EPS grw (%)	(6.8)	(5.0)	14.8	12.4
Norm PE (x)	12.9	13.6	11.9	10.6
P/BV (x)	2.4	2.2	2.1	1.9
Div yield (%)	3.7	4.4	5.1	5.7
ROE (%)	20.1	16.9	18.0	18.8
ROA (%)	3.7	3.8	4.1	4.1

PRICE PERFORMANCE



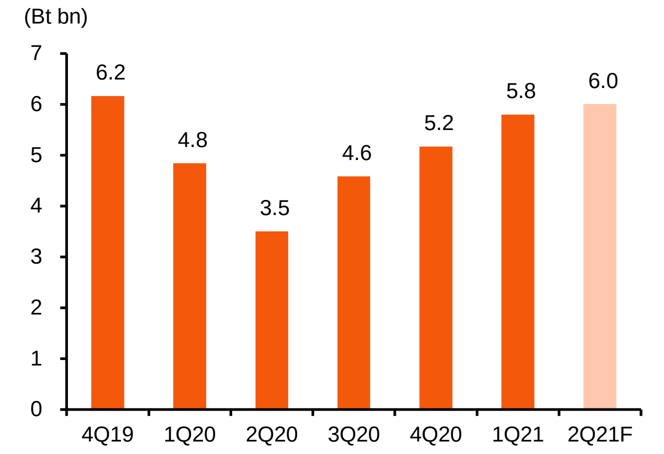
COMPANY INFORMATION

Price *as of* 18-Jun-21 (Bt)	4.54
Market Cap (US$ m)	817.5
Listed Shares (m shares)	5,663.0
Free Float (%)	30.8
Avg Daily Turnover (US$ m)	7.6
12M Price H/L (Bt)	4.68/2.56
Sector	Finance
Major Shareholder	Thanachart SPV1 55.73%

Sources: Bloomberg, Company data, Thanachart estimates

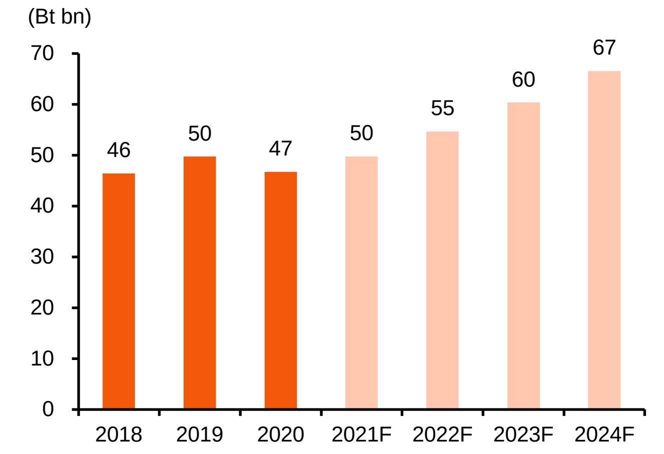
Note: Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

Ex 1: New Loan Drawdowns



Sources: Company data, Thanachart estimates

Ex 2: Loan Growth Turning Around



Sources: Company data, Thanachart estimates

Ex 3: Earnings Revisions

	2021F	2022F	2023F	2024F	2025F
Net loan growth (%)					
- New	6.42	9.85	10.43	10.27	9.92
- Old	3.72	7.10	7.78	7.75	7.53
- Change (pp)	*2.69*	*2.75*	*2.65*	*2.52*	*2.39*
Average funding costs (%)					
- New	2.45	2.45	2.45	2.45	2.45
- Old	2.60	2.60	2.60	2.60	2.60
- Change (pp)	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
Non-interest income (Bt m)					
- New	768.67	905.99	1,013.94	1,132.99	1,261.84
- Old	826.61	925.11	1,008.33	1,098.72	1,195.95
- Change (%)	(7.01)	(2.07)	0.56	3.12	5.51
Operating expenses (Bt m)					
- New	542.99	548.42	553.90	559.44	565.04
- Old	542.99	553.85	570.46	587.58	605.21
- Change (%)	0.00	(0.98)	(2.90)	(4.79)	(6.64)
Credit costs (%)					
- New	0.80	0.75	0.75	0.75	0.75
- Old	0.60	0.60	0.60	0.60	0.70
- Change (pp)	0.20	0.15	0.15	0.15	0.05

Source: Thanachart estimates

Ex 4: 12-month DDM-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal value
Dividend of common shares	1,299	1,458	1,636	1,830	2,036	2,253	2,477	4,048	4,371	4,692	4,692
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	1,299	1,458	1,636	1,830	2,036	2,253	2,477	4,048	4,371	4,692	50,382

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	1.0
WACC (%)	10.5
Cost of equity	10.5
Terminal growth (%)	2.0
Equity value	30,510
No. of shares (m)	5,663
Equity value / share (Bt)	**5.40**

Source: Thanachart estimates

Valuation Comparison

Ex 5: Valuation Comparison With Regional Peers

			EPS growth		—— PE ——		—— P/BV ——		—— ROE ——		— Div. yield —	
Name	**BBG code**	**Country**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**	**21F**	**22F**
Afterpay Ltd	APT AU	Australia	na	na	na	385.2	16.9	15.6	(1.9)	4.1	0.0	0.0
Finvolution Group	FINV US	China	472.2	14.0	1.3	1.1	0.3	0.2	24.6	21.6	4.1	4.6
Mahindra & Mahindra Fin Secs	MMFS IN	India	4.6	85.2	21.7	11.7	1.3	1.2	5.2	11.2	1.2	2.0
Bajaj Finance Ltd	BAF IN	India	3.2	71.2	80.1	46.8	10.1	8.4	13.1	19.1	0.1	0.2
Manappuram Finance Ltd	MGFL IN	India	0.7	17.2	7.8	6.7	1.9	1.5	26.5	24.8	1.8	1.8
GMO Payment Gateway Inc.	3769 JP	Japan	9.7	26.2	121.2	96.0	24.9	21.7	25.0	25.5	0.4	0.5
Infomart Corp.	2492 JP	Japan	(16.8)	87.5	256.4	136.8	18.7	16.9	8.6	14.4	0.2	0.4
Ally Financial Inc	ALLY US	US	125.8	(4.0)	7.7	8.0	1.2	1.1	16.7	14.4	1.6	1.7
World Acceptance Corp	WRLD US	US	(16.2)	(28.8)	14.6	20.5	3.0	2.9	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)	6.4	7.7	2.9	2.8	39.4	29.5	0.7	0.6
Amanah Leasing	AMANAH TB	Thailand	16.1	23.1	17.2	14.0	3.3	2.9	20.5	22.0	2.7	3.2
Krungthai Card *	KTC TB	Thailand	12.2	16.1	28.5	24.6	6.4	5.5	24.3	24.3	1.6	1.8
Muangthai Capital *	MTC TB	Thailand	10.7	25.6	22.1	17.6	5.0	4.0	24.9	25.1	0.7	0.9
Saksiam Leasing *	SAK TB	Thailand	(10.7)	42.9	34.4	24.1	4.6	4.1	14.0	18.1	1.2	1.7
Srisawad Corporation *	SAWAD TB	Thailand	18.9	19.7	18.0	15.1	4.0	3.6	23.2	25.0	2.9	3.3
Ratchthani Leasing *	THANI TB	Thailand	(5.0)	14.8	13.6	11.9	2.2	2.1	16.9	18.0	4.4	5.1
Ngern Tid Lor *	TIDLOR TB	Thailand	28.2	28.0	29.6	23.1	4.6	3.9	19.5	18.3	0.7	0.9
Average			**47.2**	**23.5**	**41.0**	**49.0**	**6.3**	**5.6**	**20.0**	**19.8**	**1.7**	**1.9**

Source: Bloomberg
Note: * Thanachart estimates using normalized EPS growth
Based on 18 June 2021 closing price

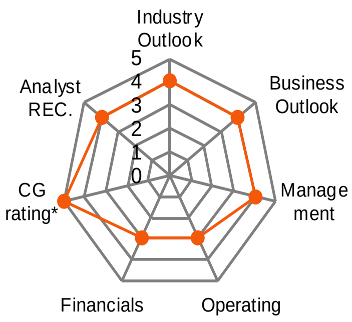
Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

COMPANY DESCRIPTION

Ratchthani Leasing Public Company Limited (THANI) provides hire-purchase and leasing services for used automobiles to businesses and retail consumers in Thailand. The company specializes in commercial-truck hire purchases, with the highest market share in used-commercial truck hire purchase, and it recently expanded into high-end motorcycle and high-end car hire purchases.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; * CG Awards

THANACHART'S SWOT ANALYSIS

S — Strength

- Leading truck hire-purchase company.
- Expertise and substantial experience in running its business.

W — Weakness

- Reliant on external funding.

O — Opportunity

- Additional hire-purchase products to promote growth.
- Expanding into neighboring countries.

T — Threat

- Weak economy.
- Increasing penetration by commercial banks.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	4.57	5.40	18%
Net profit 21F (Bt m)	1,962	1,887	-4%
Net profit 22F (Bt m)	2,160	2,165	0%
Consensus REC	**BUY: 4**	**HOLD: 2**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our TP is higher than the Bloomberg consensus number, likely as we incorporate a brighter medium- to long-term growth outlook for THANI.
- We believe we are ahead of the market in trimming our earnings forecast for this year to reflect higher provisions.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- THANI not being able to grow truck loans or keeping asset quality at bay as planned would present the key downside risks to our call.
- Increases in funding costs and cost-to-income ratio would present a secondary downside risk to our earnings and TP.

Source: Thanachart

Growing loans

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Interest Income	3,539	3,516	3,487	3,774	4,157
Interest Expenses	1,011	1,063	917	983	1,089
Net Interest Income	**2,527**	**2,452**	**2,570**	**2,791**	**3,068**
% of total income	78.3%	76.7%	77.0%	75.5%	75.2%
Fee income	328	316	365	413	470
% of total income	10%	10%	11%	11%	12%
Other income	371	431	404	493	544
% of total income	12%	13%	12%	13%	13%
Non-interest Income	**700**	**747**	**769**	**906**	**1,014**
% of total income	21.7%	23.3%	23.0%	24.5%	24.8%
Total Income	**3,227**	**3,199**	**3,339**	**3,697**	**4,081**
Operating Expenses	570	538	543	548	554
Pre-provisioning Profit	**2,657**	**2,662**	**2,796**	**3,148**	**3,528**
Bad debt expenses	194	338	438	442	486
Pre-tax Profit	**2,463**	**2,324**	**2,358**	**2,707**	**3,041**
Income Tax	500	464	472	541	608
After Tax Profit	1,964	1,860	1,887	2,165	2,433
Equity Income	0	0	0	0	0
Minority Interest	(0)	(0)	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	**1,964**	**1,860**	**1,887**	**2,165**	**2,433**
Normalized Profit	**1,964**	**1,860**	**1,887**	**2,165**	**2,433**
EPS (Bt)	0.4	0.4	0.3	0.4	0.4
Normalized EPS (Bt)	0.4	0.4	0.3	0.4	0.4

Solid balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Cash and Interbank	429	1,044	300	300	300
Other current assets	113	137	151	166	181
Total current assets	**543**	**1,181**	**451**	**466**	**481**
Gross loans & accr. interest	58,000	53,285	56,107	61,632	68,050
Provisions	2,225	1,228	1,359	1,492	1,637
Net loans	**49,709**	**46,748**	**49,748**	**54,648**	**60,348**
Fixed assets	251	147	98	88	81
Right of use - net	0	20	40	57	71
Other assets	378	422	450	494	546
Total assets	**50,881**	**48,518**	**50,787**	**55,754**	**61,527**
Short term borrowing	14,837	5,372	9,132	10,045	11,050
Due to related parties	68	0	0	0	0
Current LT portion	14,185	5,628	3,339	6,031	7,310
Other current liabilities	970	958	1,000	1,100	1,200
Long term borrowing	13,151	25,742	25,761	26,163	28,586
Total borrowings	**27,987**	**31,114**	**34,893**	**36,208**	**39,636**
Other L-T liabilities	0	0	0	0	0
Minority interest	0	0	0	0	0
Shareholders' equity	7,671	10,819	11,573	12,439	13,413
Total Liab. & Equity	**50,881**	**48,518**	**50,787**	**55,754**	**61,527**

Sources: Company data, Thanachart estimates

Cheapest financing company, on our estimates

Falling cost of funds

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	12.1	12.9	13.6	11.9	10.6
Normalized PE - at target price (x)	14.3	15.4	16.2	14.1	12.6
PE (x)	12.1	12.9	13.6	11.9	10.6
PE - at target price (x)	14.3	15.4	16.2	14.1	12.6
P/PPP (x)	8.9	9.0	9.2	8.2	7.3
P/PPP - at target price (x)	10.6	10.8	10.9	9.7	8.7
P/BV (x)	3.1	2.4	2.2	2.1	1.9
P/BV - at target price (x)	3.7	2.8	2.6	2.5	2.3
Dividend yield (%)	7.0	3.7	4.4	5.1	5.7
Normalized EPS	0.4	0.4	0.3	0.4	0.4
EPS	0.4	0.4	0.3	0.4	0.4
DPS	0.3	0.2	0.2	0.2	0.3
PPP/Share	0.5	0.5	0.5	0.6	0.6
BV/share	1.5	1.9	2.0	2.2	2.4
P/BV to ROE	0.1	0.1	0.1	0.1	0.1

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	8.4	(3.0)	4.8	8.6	9.9
Non-interest income (Non-II)	11.9	6.8	2.9	17.9	11.9
Operating expenses	13.2	(5.7)	1.0	1.0	1.0
Pre-provisioning profit (PPP)	8.3	0.2	5.0	12.6	12.0
Net profit	19.7	(5.3)	1.4	14.8	12.4
Normalized profit growth	19.7	(5.3)	1.4	14.8	12.4
EPS	18.8	(6.8)	(5.0)	14.8	12.4
Normalized EPS	18.8	(6.8)	(5.0)	14.8	12.4
Dividend payout ratio	61.5	51.8	60.0	60.0	60.0
Loan - gross	6.6	(8.1)	5.3	9.8	10.4
Loan - net	7.1	(6.0)	6.4	9.8	10.4
Borrowings	7.4	(13.1)	4.0	10.4	11.1
NPLs	14.2	(26.6)	15.8	11.5	12.0
Total assets	7.0	(4.6)	4.7	9.8	10.4
Total equity	6.6	41.0	7.0	7.5	7.8
Operating Ratios (%)					
Net interest margin (NIM)	5.1	4.9	5.2	5.2	5.2
Net interest spread	4.6	4.4	4.6	4.6	4.6
Loan yield	7.0	7.0	7.0	7.0	7.0
Borrowing cost	2.4	2.6	2.5	2.5	2.5
Yield on earnings assets	7.0	7.0	7.0	7.0	7.0
Avg cost of fund	2.5	2.7	2.5	2.5	2.5
NII / operating income	78.3	76.7	77.0	75.5	75.2
Non-II / operating income	21.7	23.3	23.0	24.5	24.8
Normalized net margin	60.9	58.1	56.5	58.6	59.6
Cost-to-income	17.7	16.8	16.3	14.8	13.6
Credit cost - provision exp / loans	0.3	0.6	0.8	0.8	0.8
PPP / total assets	5.4	5.4	5.6	5.9	6.0
PPP / total equity	35.7	28.8	25.0	26.2	27.3
Avg assets/avg equity (leverage)	6.6	5.4	4.4	4.4	4.5
ROA	4.0	3.7	3.8	4.1	4.1
ROE	26.4	20.1	16.9	18.0	18.8

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Manageable asset quality

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	375.6	411.1	335.5	342.1	350.4
Net Loan / Borrow ings	321.9	360.7	297.5	303.3	310.8
Net Loan / Assets	97.7	96.4	98.0	98.0	98.1
Net Loan / Equity	648.0	432.1	429.9	439.3	449.9
S-T / L-T Borrow ings	96.1	41.4	54.6	55.8	56.9
Borrow ings / Liabilities	35.7	34.4	42.6	41.6	40.4
Interest-bearing Debt / Equity	550.0	339.0	329.6	338.6	348.9
Liabilities / Equity	563.3	348.5	338.8	348.2	358.7
Equity to Gross Loan	13.2	20.3	20.6	20.2	19.7
NPLs	2,045.0	1,500.4	1,737.6	1,936.8	2,169.5
NPLs / Total Loans (NPL Ratio)	3.9	3.1	3.4	3.5	3.5
Loan-Loss-Coverage (Provision / NPLs)	108.8	81.9	78.2	77.0	75.5

Sources: Company data, Thanachart estimates

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For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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