

BUY

Initiation

TP: Bt 53.00

Upside : 24.7%

4 JUNE 2021

Ngern Tid Lor Pcl (TIDLOR TB)

Strongest growth profile

We initiate coverage on TIDLOR with a BUY call. The stock also becomes our top sector pick with the strongest forecast growth at a three-year EPS CAGR of 26% and a lower risk profile in our view. On a 2022F DDM-based valuation, we value TIDLOR at Bt53.

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Our top pick in the finance sector

We initiate on TIDLOR, the second-largest listed micro-financing firm by market cap and loan value, with a BUY call and a DDM-based 12-month TP of Bt53. **First**, TIDLOR is a top player in the structurally sunrise micro-financing industry. **Second**, it has the strongest earnings growth outlook in the sector with a 26% three-year EPS CAGR in 2020-23F. **Third**, it has more diversified earnings factors than peers'. **Fourth**, its strong growth still comes with conservative lending criteria, leading to a low NPL ratio of 1.6% and a high coverage ratio of 276% by end 2021F. **Lastly**, we see TIDLOR's low-risk, strong EPS growth of 28% in 2021-22F justifying its 29x 2021F PE, which then falls to 23x in 2022F.

Strong, diversified earnings drivers

TIDLOR has diversified earnings drivers, including 1) 15% p.a. loan growth; 2) growing, highly profitable insurance fees at 14% of total income in 2023F from 8% in 2020; 3) falling cost of funds from an already low level as Bank of Ayudhya's (BAY TB, BUY, Bt32.75) affiliate; 4) a declining cost-to-income ratio now that its heavy capex cycle has passed; and 5) declining provisioning expenses because of an already high 329% coverage ratio and a low 1.5% NPL ratio in 1Q21.

An unconventional platform

Unlike most players in the sector where branches are still nearly the only key growth platform, TIDLOR uses an omni-channel platform. Its network includes 1,076 nationwide branches, referral networks (call centers, agent, dealers and BAY's branches) and online channels. The company has also been investing heavily in big data and IT and this is the reason for TIDLOR's heavier capex and cost base than peers'. However, it believes that this is the trend of the future. The platform also provides it with a large data pool for it to perform better credit scoring and pricing for each customer, thus enabling it to offer a higher loan-to-value (LTV) ratio. The platform and database also help TIDLOR to offer some differentiated products, such as revolving cash cards and a non-life insurance brokerage service.

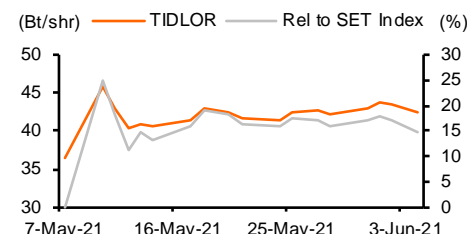
Superior balance sheet

With a bank as its major shareholder, TIDLOR has adopted a very stringent provisioning policy, setting aside Bt1bn in management overlay provisions. Though we expect it to release excess provisions over time, TIDLOR still has the highest loan-loss-coverage ratio of over 200% on our NPL ratio estimate of below 1.6% over 2021-23F. With an enlarged capital base post-IPO and the de-leveraging effect, TIDLOR's net D/E is also low at just 1.7x. Its average cost of funds is the lowest among peers at 3% with room to fall. From A-, TRIS Rating recently upgraded TIDLOR's credit rating to A, the highest of all microfinance firms.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Pre Provision Profit	3,609	4,410	5,826	7,403
Net profit	2,416	3,296	4,359	5,299
Consensus NP	—	3,207	4,053	5,085
Diff frm cons (%)	—	2.8	7.5	4.2
Norm profit	2,416	3,296	4,359	5,299
Prev. Norm profit	—	3,296	4,359	5,299
Chg frm prev (%)	—	0.0	0.0	0.0
Norm EPS (Bt)	1.1	1.5	1.9	2.3
Norm EPS grw (%)	9.7	28.2	28.0	21.6
Norm PE (x)	37.1	28.9	22.6	18.6
P/BV (x)	7.6	4.5	3.9	3.4
Div yield (%)	na	0.7	0.9	1.6
ROE (%)	22.9	19.5	18.3	19.3
ROA (%)	4.7	5.8	6.6	7.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 4-Jun-21 (Bt)	42.50
Market Cap (US\$ m)	3,163.2
Listed Shares (m shares)	2,319.0
Free Float (%)	44.5
Avg Daily Turnover (US\$ m)	148.5
12M Price H/L (Bt)	45.75/40.25
Sector	Finance
Major Shareholder	Bank of Ayudhya 30%

Sources: Bloomberg, Company data, Thanachart estimates



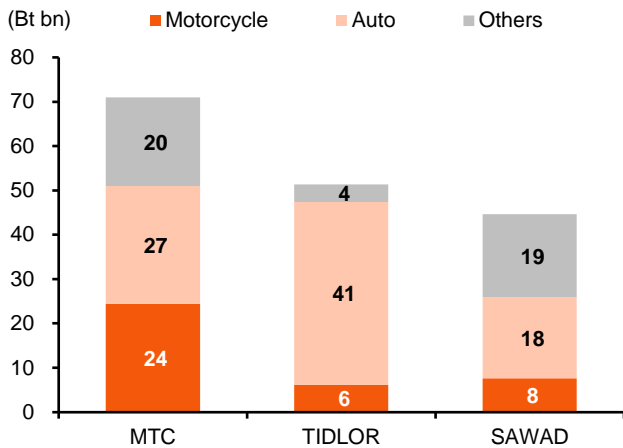
Our top pick in the finance sector

*TIDLOR uses an unconventional platform...
...and we see its strong growth coming with a lower risk profile than peers'*

We initiate coverage on Ngern Tid Lor Pcl (TIDLOR), the second-largest microfinance company in Thailand by market cap and loan value. We summarize TIDLOR's differentiated characteristics below:

- 1) TIDLOR was acquired by AIG in 2007 from Srisawad International (1991) before AIG was acquired by Bank of Ayudhya Pcl (BAY TB, BUY, Bt32.75) in 2009. TIDLOR became a professionally run microfinance firm. Similar to Muangthai Capital Pcl (MTC TB, BUY, Bt62.50), Srisawad Corp (SAWAD TB, BUY, Bt75.00) and Saksiam Leasing Pcl (SAK TB, BUY, Bt11.70), TIDLOR focuses on the unbanked, long tail segment, i.e. Thais with an average monthly income of less than Bt10k, estimated at around 80% of the total population. However, TIDLOR uses a different network expansion strategy, and it is also adopting a similar risk-management framework to that of BAY in our view. TIDLOR is one of the few title loan providers that is a member of and incorporates credit data from the National Credit Bureau (NCB) to analyze customer risk profiles.
- 2) Most of TIDLOR's loans are secured, i.e. 18% of motorcycle-title loans, 64% for cars and 24% for trucks and others. TIDLOR is the largest auto-title loan operator in Thailand. MTC's larger loan portfolio is because 20% of its loans are unsecured, i.e. personal loans and nanofinance. This is while around 40% of SAWAD's loan book comprises land-title loans.
- 3) Unlike most players in the sector where branches are still nearly the only key growth platform, TIDLOR uses an omni-channel platform. Its network includes 1,076 branches nationwide, referral networks (call centers, agents, dealers and BAY's branches) and online channels. The company has also been investing heavily in big data and IT and this is the reason for TIDLOR's heavier capex and cost base than peers'.
- 4) Thanks to TIDLOR's strong IT platform and database, the company can offer differentiated products, such as revolving cash cards and a non-life insurance brokerage service. The revolving cash helps to lower costs to serve small-ticket motorcycle-title loans and quickly respond to customer needs post-office hours. Starting in 2018, TIDLOR doubled its insurance premium sales to Bt4bn and it is now the third-largest insurance broker, with a 2% market share in non-life insurance.
- 5) As BAY's affiliate, TIDLOR uses bank loans as its main source of funds. Most long-term loans are fixed rate over a three-year tenor. Its average cost of funds is the lowest among peers at 3% and still has room to fall. From A-, TRIS Rating recently upgraded TIDLOR's credit rating to A, the highest among all microfinance firms.
- 6) With a bank as its major shareholder, TIDLOR has adopted a very stringent provisioning policy, setting aside Bt1bn of management overlay provisions on its books. TIDLOR's loan-loss-coverage ratio is the highest in the sector with a lower-than-sector average NPL ratio.

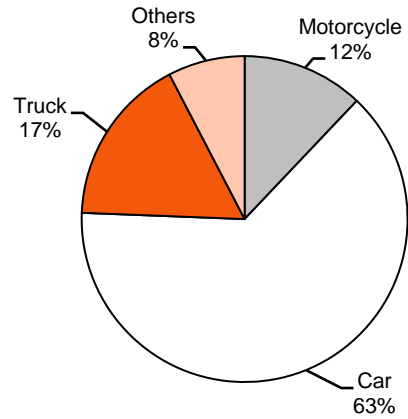
Ex 1: The 2nd Largest Loan Value As Of 2020



Source: Company data

Note: Auto = four-wheel and more vehicles; others include unsecured, land-title loans and motorcycle HP loans

Ex 2: TIDLOR's Loan Breakdown



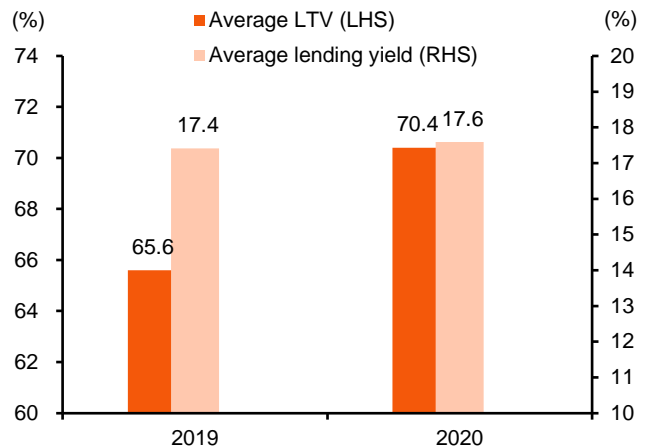
Source: Company data

Ex 3: TIDLOR's Distribution Platform

1. No. of branches	1,076.00
2. Agents (headcount)	5,132.00
3. Call centers (headcount)	519.00
- Outsourced	383.00
- In-house	136.00
4. Used-truck dealers	491.00
5. BAY's branches	638.00

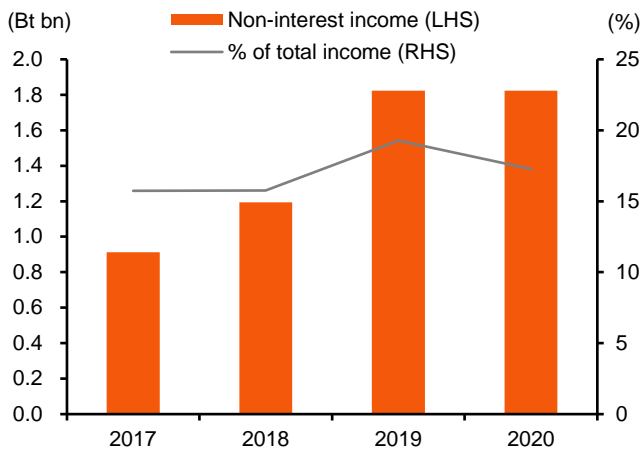
Sources: Company data

Ex 4: Average LTV And Lending Yield



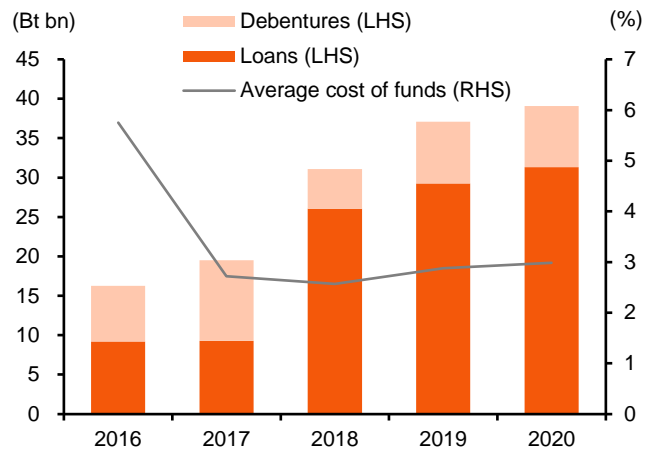
Source: Company data

Ex 5: Non-interest Income Contribution



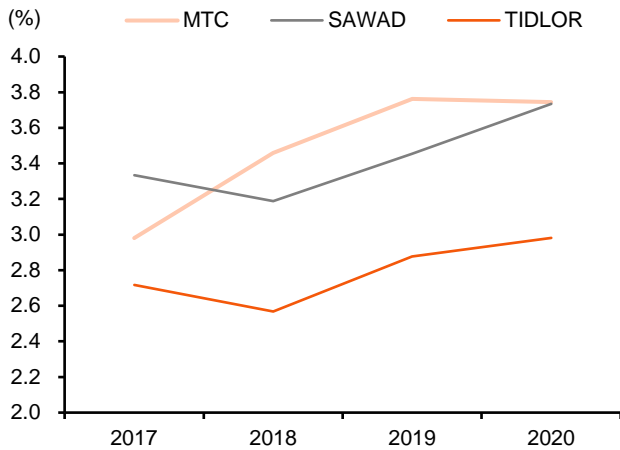
Source: Company data

Ex 6: Sources Of Funds And Average Funding Costs



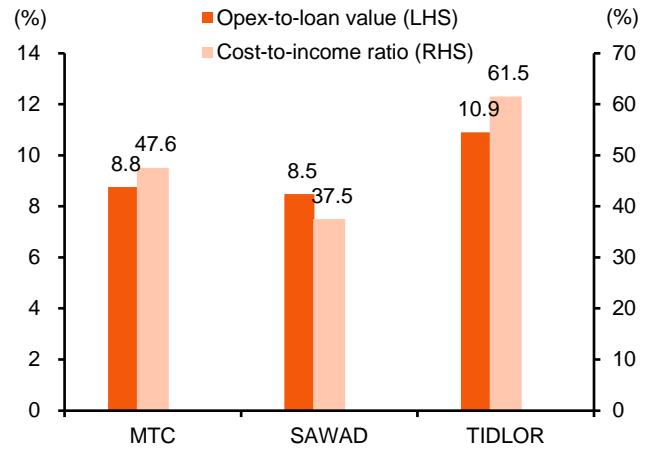
Sources: Company data, Thanachart estimates

Ex 7: Lowest Cost Of Funds



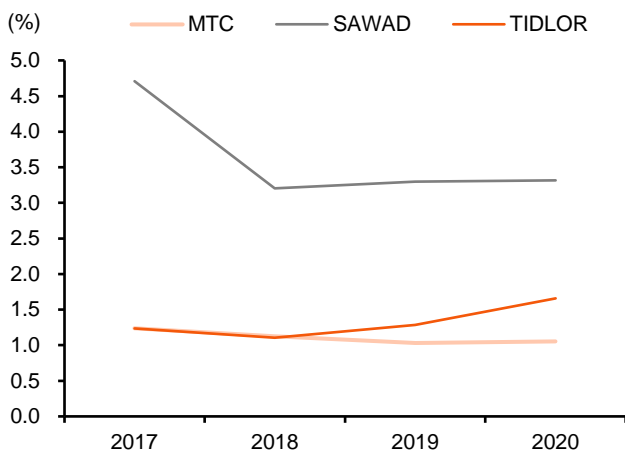
Source: Company data

Ex 8: Higher Costs On Higher IT Investment (2020)



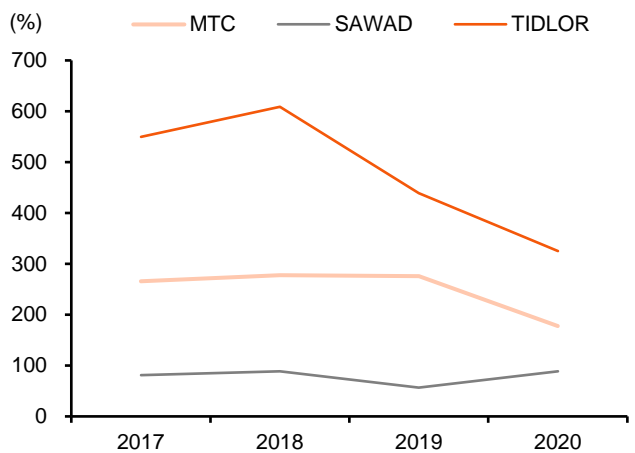
Source: Company data

Ex 9: NPL Ratio...



Source: Company data

Ex 10: ...And LLR Comparison



Source: Company data

We now like TIDLOR the most in the sector for the following reasons:

A top player in the right business

First, TIDLOR is a top player in the sunrise microfinance industry. Registered vehicles stood at 41m as of last year. Vehicle-title loans covered over 4m customers with estimated outstanding loans of over Bt300bn, more than double 2015’s level of Bt150bn. Filling the gap left by banks and as an alternative lending choice to loan sharks, with an estimated size of over Bt1tr according to research by Oliver Wyman, we expect the sector to sustain a mid-to-high teens growth rate per year for many years to come.

Strongest growth profile...

Second, backed by organic industry growth, rising penetration of new lending and insurance broker sales, the operating and financial leverage effects, and because of it cutting back on excess provisions, TIDLOR has the strongest growth outlook in the sector on our estimates at a 26% three-year EPS CAGR in 2020-23F.

...with more diversified earnings factors

Third, it has more diversified earnings drivers than peers’. We expect TIDLOR to grow insurance fees from 8% of total income last year to 14% in 2023. Based on our rough estimate, profit contribution from insurance sales stood at 7% in 2020 and we expect it increase to 10% in 2023F.

...and a low risk profile

Fourth, TIDLOR's strong growth is continuing despite its conservative lending criteria. We estimate its NPL ratio to hover around 1.5-1.6% over the next three years. Despite expecting it to release excess provisions, TIDLOR still has the highest loan-loss-coverage ratio of 276% in 2021F and 238% in 2022F.

End result = premium valuation vs. peers

Lastly, we see TIDLOR's low-risk, strong EPS growth of 28% in 2021-22F and 22% in 2023F justifying its 28.9x 2021F PE, which we then expect to fall to 22.6x in 2022F.

An unconventional platform

While operating in the same microfinance business with more than 80% of clients overlapping, TIDLOR's business platform is differentiated from peers'.

Distribution channels: prolific branch coverage vs. omni channel

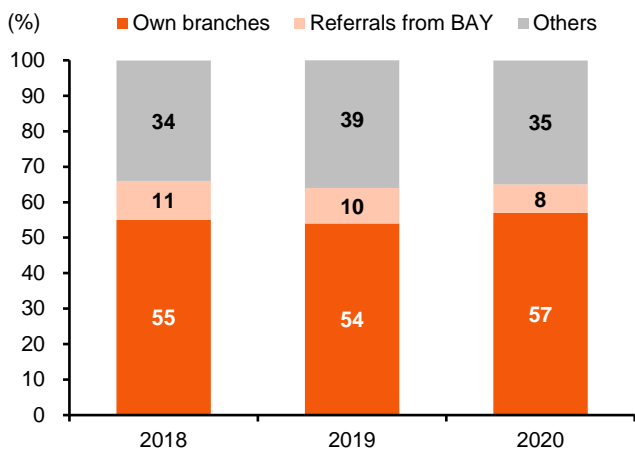
Omni distribution channel

Unlike most players in the sector where branches are still virtually the only key growth platform, TIDLOR uses an omni-channel platform. Its network includes:

- 1) 1,076 branches nationwide with a plan to add 500 branches in 2021-22.
- 2) Referral networks through 539 call centers (74% outsourced), 5,132 individual agents, 491 truck dealers and BAY's 638 branches nationwide.
- 3) Online platform. In addition to the TIDLOR application, it also uses social media engagement, i.e. Line and Facebook, with 751,000 users altogether thus far.

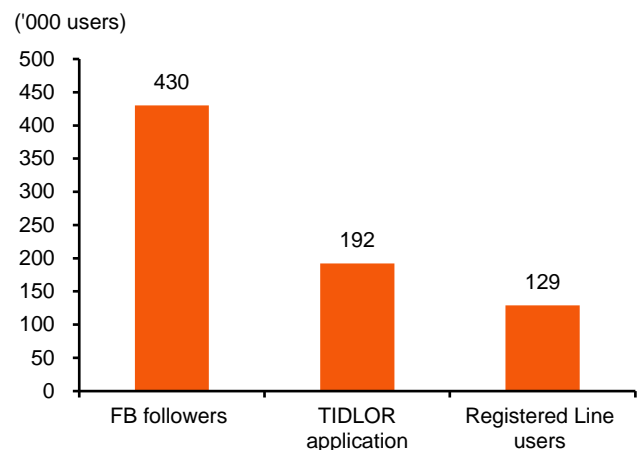
Over the past three years, TIDLOR extended more than 50% of its loans through its own branches, while 20% was from its online platform. Referrals from BAY's branches were at 8%, down from 10% in 2019. The rest was from the other channels mentioned above.

Ex 11: Loan Distribution Breakdown



Source: Company data

Ex 12: TIDLOR's Engagement With Customers



Source: Company data

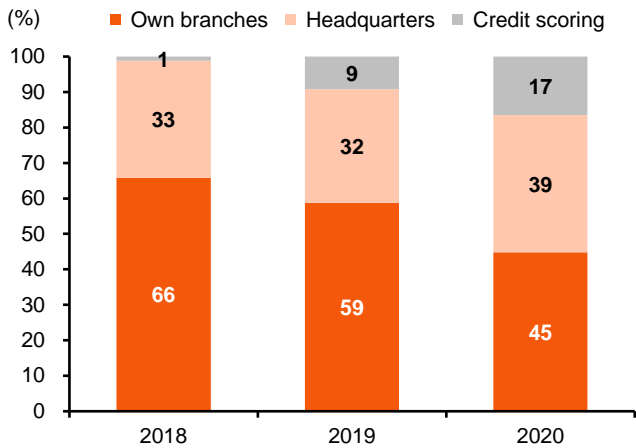
Credit-underwriting model: low loan-to-value (LTV) vs. data-analytics approach

Credit-scoring model lets TIDLOR offer higher-than-sector average LTV

The omni-channel platform and IT technology provide TIDLOR with a large data pool and the capability to develop its own proprietary credit-scoring model and improve its data-analytics skills. As of September last year, TIDLOR had over 80 data modelers, geo-data, dashboard creator and data advanced analysts. It is also one of the few title loan providers to be a member of and incorporate credit data from the National Credit Bureau (NCB) to analyze customer risk profiles. These factors allow it to able to perform better credit scoring and pricing for each customer, thus enabling to offer a higher loan-to-value (LTV) ratio. TIDLOR’s average LTV was 70% last year. This is against SAWAD and MTC’s average LTV of below 50%. Meanwhile, its prudent risk culture and effective risk management system have supported efficient collection and asset quality control. This answers the question of why TIDLOR has been able to maintain healthy asset quality, with a low NPL ratio of just 1.5% in 1Q21.

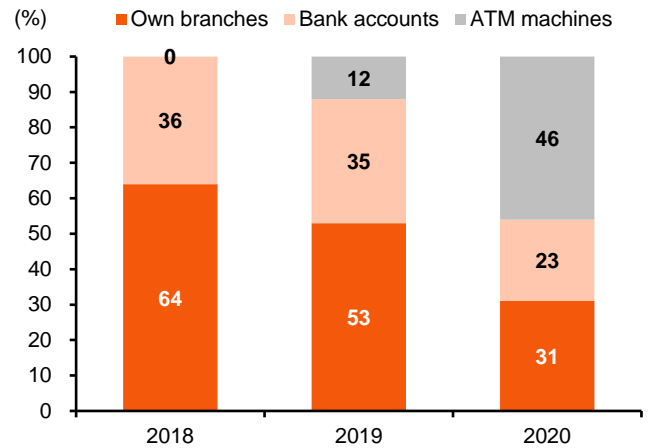
Undeniably, adopting a similar framework as that of a bank is the reason for TIDLOR’s heavier capex and cost base than peers’. However, it believes this is the trend of the future. Meanwhile, we see this as the right platform for TIDLOR to move into digital lending when the time is right.

Ex 13: Loan Breakdown By Approval Process



Source: Company data

Ex 14: Loan Breakdown By Disbursement

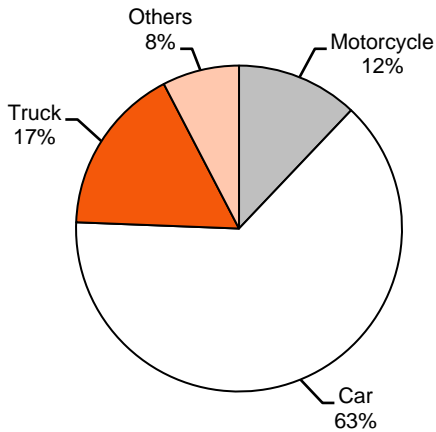


Source: Company data

Differentiated products

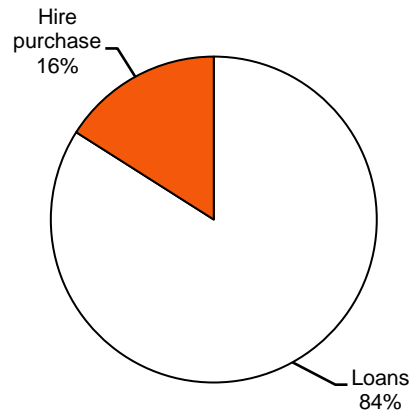
With a higher cost base and no capital constraints, TIDLOR focuses on high-ticket lending. Of its total loan book, motorcycle-title loans comprise only 12%. The rest consists of four-wheel vehicles and more which includes title loans, sales and leaseback as well as hire-purchase lending. Of total loans, 84% are title loans and 16% the latter.

Ex 15: Loan Mix By Product...



Source: Company data

Ex 16: ...By Type Of Contract



Source: Company data

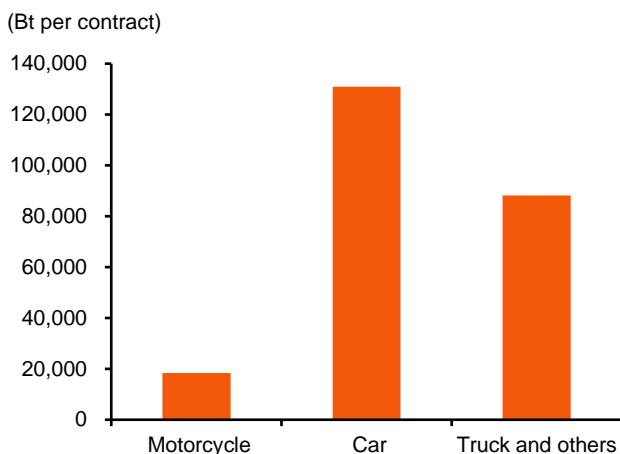
Introduced revolving cards in 2019

Having offered higher LTV and tier-pricing with interest charges of 14-21% p.a., TIDLOR commands the largest market share of car-title loans. TIDLOR also offers competitive interest rate of 9-15% for used-truck HP and truck-title loans. Therefore, its truck loan portfolio is sizable at around Bt10bn. This is comparable to THANI's used-truck lending portfolio of Bt11bn as of 1Q21.

Intending to raise its penetration of the mass motorcycle-title loan market, TIDLOR deployed its IT advantages to lower costs to serve by launching revolving cards in 2019. The cards act as a back-up credit line for customers so they do not have to borrow up to their credit line limit in one go. The minimum withdrawal is set at Bt500 and TIDLOR's customers can carry out the transactions at BAY's ATMs as well as TIDLOR's partner banks. TIDLOR issued 87,850 cards out of a total of 339,000 motorcycle-title loan customers last year. It targets to increase card issuance to more than 200,000 this year as it plans to launch the revolving credit line service for auto-title loans this month.

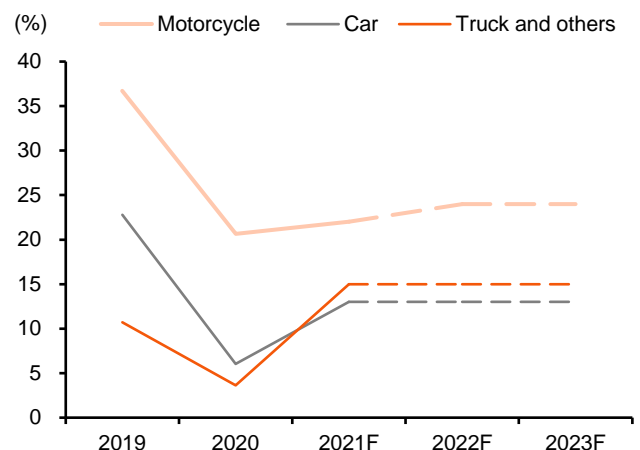
Having seen all the cards activated and many customers using them to withdraw money after office hours, TIDLOR believes the product helps alleviate customers' pain point and that it is the right product to have opted for. From 12%, TIDLOR aims to grow motorcycle-title loans to 20% of its loan book over the medium term.

Ex 17: TIDLOR's Average Loan Size



Source: Company data

Ex 18: Loan Growth By Product And Our Forecasts



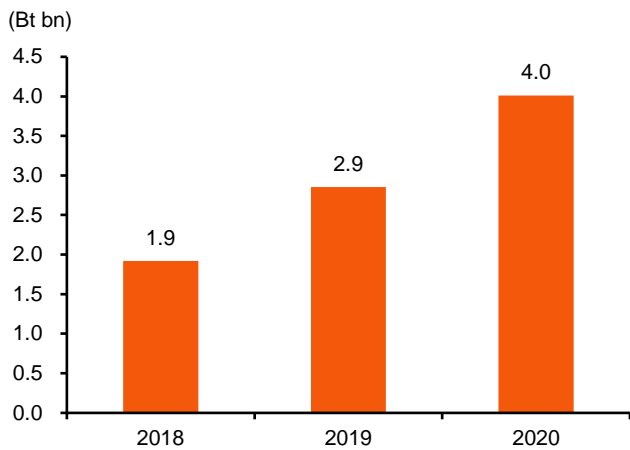
Sources: Company data, Thanachart estimates

Fast-growing insurance fees

Leveraging on its omni-channel, TIDLOR expanded into the non-life insurance brokerage business in 2017. It has established strong relationships with 18 insurance companies and has more than 4,000 licensed sales agents. TIDLOR’s platform allows customers to compare pricing and get real-time quotations. It was also the first broker to offer six-month, 0% installment plans. This is different to other brokers which can only offer installment plans to credit card holder customers. This feature equips TIDLOR with the ability to penetrate the underbanked segment where people would also like to buy insurance policies. Some 80% of TIDLOR’s insurance customers are on installment plans, 20% purchase products online and captive-lending customers comprise only 12%. This means 88% of its insurance customers reach out the company for insurance brokerage services.

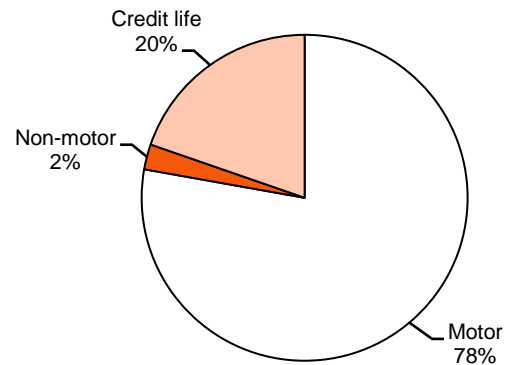
TIDLOR sells many insurance products, i.e. motor, PA and health, as well as credit life insurance. The company has been able to double its premium sales in two years. It has become the third-largest broker, with a 2% share of the non-life insurance market. From 5% of total income in 2019, TIDLOR grew insurance fees to 8% last year and it targets to boost these revenues to 15% of total income in 2023.

Ex 19: Premium Sales



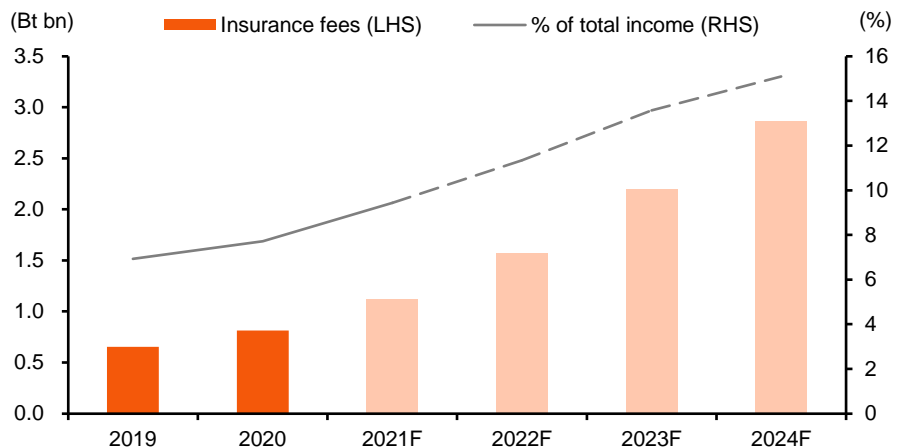
Source: Company data

Ex 20: Premium Sales Breakdown (9M20)



Source: Company data

Ex 21: Growing Insurance Fees



Sources: Company data, Thanachart estimates

Superior balance sheet

Cutting excess provisions

Having a bank as its major shareholder, TIDLOR has adopted a very stringent provisioning policy. Prior to BAY's 50% stake divestment in 2019, TIDLOR set provisioning to loans at a minimum of 6.25%. The company's cumulative provisions came to an average of 6.7% of total loans over 2016-18. The ratio dropped to 5.6% in 2019 and 5.4% in 2020. This is despite TIDLOR's NPL ratio having risen from 1.1% in 2018 to 1.7% in 2020. The move, in our view, reflects TIDLOR's change in provisioning policy. Having management overlay provisions of Bt1bn on its books with manageable NPLs, TIDLOR has guided for lower provisions. The company aims to release excess provisions and expects to lower provisions to loans to below 4%. Unlike MTC and SAWAD which hardly incur any losses from repossession activities given their low LTV underwriting approach, TIDLOR's repossession losses come to around 25-30% for cars and 12-16% for trucks. This is in line with bank players who offer a comparable LTV to the company for title loans. With its higher default losses, we don't expect TIDLOR to lower provisions to a level that brings its loan-loss-coverage ratio down to below 200%.

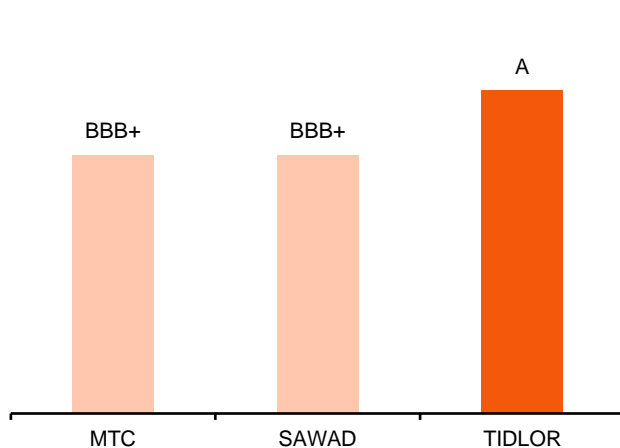
From an average of 1.2% in 2019-20, we model in credit costs of 0.5% this year, 0.6% next year and 1.1% from 2023F onward. Despite expecting it to release excess provisions over time, TIDLOR still has the highest loan-loss-coverage ratio of more than 200% based on our estimated NPL ratio of below 1.6% over 2021-23F.

Low D/E and highest credit rating in the sector

TIDLOR repaid short-term debts in 1Q21. With upcoming IPO proceeds of Bt7.7bn in 2Q21, it is looking to retire maturing long-term loans next year. With its enlarged capital base post-IPO and the de-leveraging effect, TIDLOR's net D/E ratio is also low at just 1.7% this year, from 3.4% in 2020.

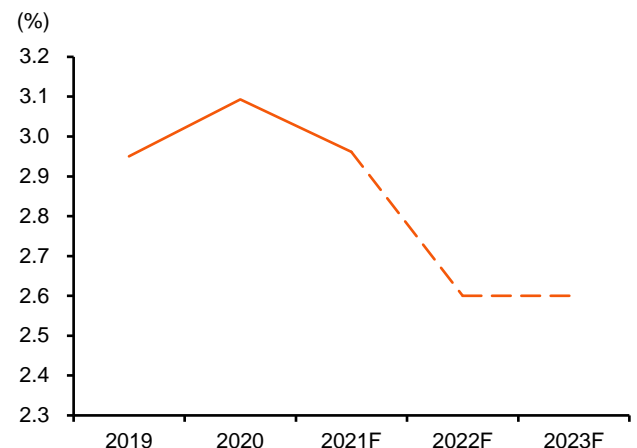
As BAY's affiliate with the highest credit rating among all microfinance companies, TIDLOR's average cost of funds was already the lowest in the sector at just 3.1% in 2020, pre-IPO. On 27 May 2021, TRIS Rating upgraded TIDLOR's credit rating from A- to A. The company plans to issue debentures late this year. A lower coupon rate and the de-leveraging effect lead to our expectation for a drop in average cost of funds from 3% in 2021 to 2.6% in 2022-23F.

Ex 22: Credit Rating Comparison



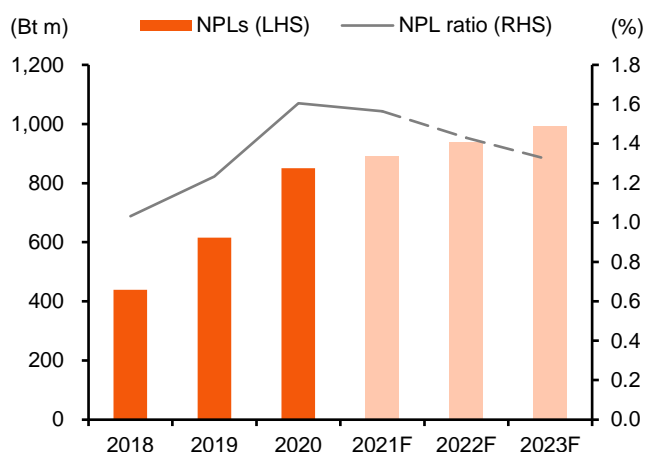
Source: Company data

Ex 23: Average Funding Costs



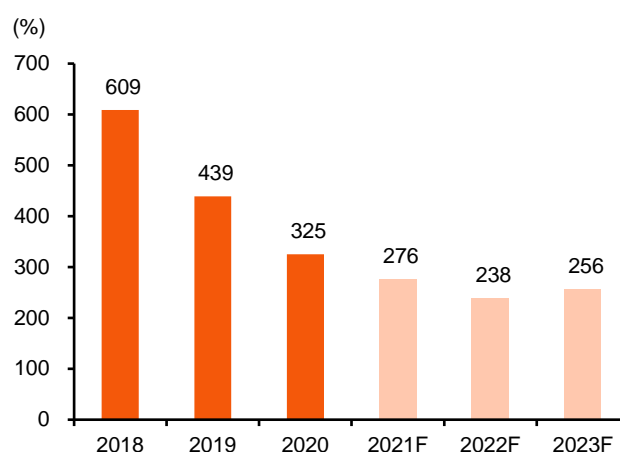
Sources: Company data, Thanachart estimates

Ex 24: NPLs



Sources: Company data, Thanachart estimates

Ex 25: Loan Loss Coverage



Sources: Company data, Thanachart estimates

End results = strong and diversified earnings drivers

We estimate TIDLOR's three-year EPS CAGR at 26% over 2020-23F. This is the highest earnings growth profile in the sector, based on our estimates. In addition, TIDLOR has many diversified earnings drivers as follows:

- 1) Average loan growth of 15% p.a. over the next three years. With the largest market share in car-title loans, we expect growth in this segment to come to around 13% p.a. We expect revolving cards to allow TIDLOR to successfully raise its penetration of the motorcycle-title loan market and forecast higher loan growth in this segment at 24% p.a. We also foresee bright prospects for used-truck and truck-title loans (around 19% of total loans in 1Q21). New truck sales grew by 30% y-y in 1Q21 thanks to growing imports/exports. There is also a truck supply shortage and, with lower purchasing power, we expect rising demand for used trucks. We estimate 15% growth p.a. in the truck segment.
- 2) With 4,000 licensed sales agent and its insuretech platform, we expect TIDLOR to be able to sustain its 40% premium growth rate p.a. over the next three years. This would boost its insurance fees from 8% of total income in 2020 to 13% in 2023F.
- 3) As BAY's affiliate with a high credit rating, TIDLOR's cost of funds is already lower than peers'. Of total sources of funds, 71% is from bank loans, with the rest from debentures. Loans from BAY stood at 33% of total funding in 2020, declining from 55% in 2019. With the average interest rate of bank loans at below 3% for fixed three-year tenors, TIDLOR has sourced funding mainly via banks. And it has total credit lines of Bt40bn with banks. TIDLOR plans to use its IPO proceeds of Bt7.7bn to repay maturing long-term loans next year. With its recent credit rating upgrade to A, the company plans to issue debentures in 4Q21. Putting the above into perspective, we foresee average cost of funds declining from 3% this year to 2.6% in 2022-23F.
- 4) After successfully laying out a solid IT platform, we expect TIDLOR's IT expenses to come down to Bt270m p.a. from over Bt400m five years ago. As its heavy capex has passed while revenue growth has increased, we estimate its cost-to-income ratio to drop from 62% last year to 59% in 2021F, 55% in 2022F and 51% in 2023F.
- 5) Declining provisioning expense because of an already high 329% coverage ratio and low 1.5% NPL ratio in 1Q21. We expect its credit costs to drop to 0.5-0.6% in 2021-22F, down from 1.2% in 2019-20.

We value TIDLOR at Bt53 on our 2022F DDM-based valuation

We use DDM methodology with a cost of equity of 10.5% to value TIDLOR. Using 2022F as our base year, we derive a 12-month TP for TIDLOR of Bt53. Our TP implies a PE multiple of 28x in 2022F. We see this being justified by TIDLOR's low-risk, strong EPS growth of 28% 2021-22F and 22% in 2023F. Exhibit 28 below shows our key assumptions.

Ex 26: Our Key Assumptions

	2020	2021F	2022F	2023F
Loan growth (%)	6.99	14.81	14.90	15.02
Average lending yield (%)	17.59	17.62	17.58	17.54
Average cost of fund (%)	2.98	2.87	2.53	2.54
Non-interest income growth (%)	0.05	21.54	24.39	26.29
Cost to income (%)	61.53	59.21	54.72	50.90
Credit costs (%)	1.17	0.52	0.60	1.07
NPL (%)	1.60	1.56	1.43	1.32

Sources: Company data, Thanachart estimates

Ex 27: 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	872	1,590	2,015	3,306	3,965	7,105	8,507	10,155	20,092	23,753	23,753
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	872	1,590	2,015	3,306	3,965	7,105	8,507	10,155	20,092	23,753	255,032
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	122,155										
No. of shares (m)	2,319										
Equity value / share (Bt)	53.00										

Sources: Company data, Thanachart estimates

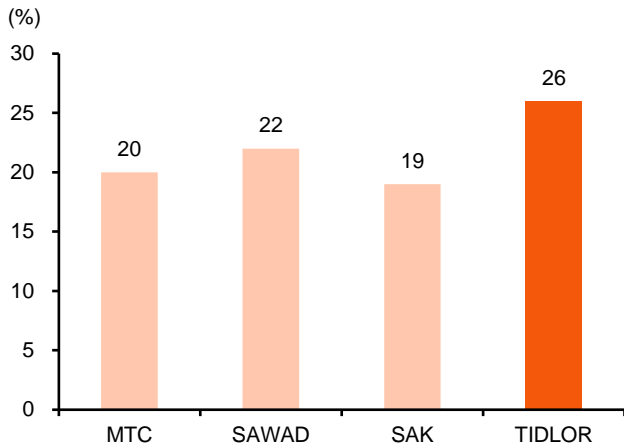
TIDLOR's valuation is more expensive than SAWAD and MTC's. TIDLOR's PE is at 28.9x in 2021, falling to 22.6x in 2022F, vs. 18.5/15.5x for SAWAD and 23/18.3x for MTC. We believe TIDLOR's premium valuation is justified because of the following reasons:

- 1) More diversified drivers, TIDLOR offers better earnings quality and the strongest earnings growth profile. We forecast TIDLOR's EPS growth of 28% pa in 2021-22F vs. 19% and 20% for SAWAD and just 11% and 26% respectively for MTC.

MTC is a volume play while it is coming off a high loan base given its largest outstanding loan amount of over Bt70bn. MTC's lowest pricing strategy is also being challenged by Fast Money, SAWAD's JV with the Government Savings Bank (GSB). SAWAD seems to have been hit by the COVID-19 third wave to a larger degree than peers judging from its subdued loan growth in 1H21. We expect the JV with GSB to

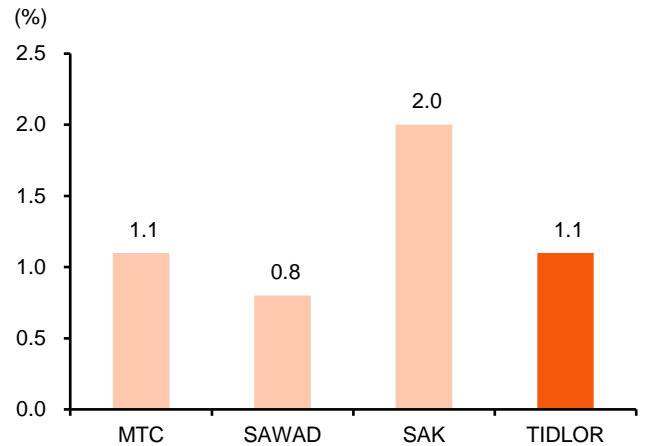
boost motorcycle-title loan volume, while SAWAD is enjoying synergistic cost-saving benefits from the JV. However, we only foresee this fully bearing fruit from 2022F.

Ex 28: Three-year EPS CAGR Comparison



Sources: Company data, Thanachart estimates

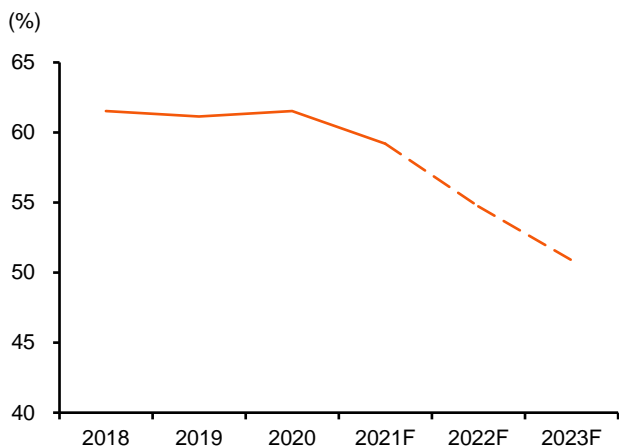
Ex 29: PE To Growth (PEG)



Sources: Company data, Thanachart estimates

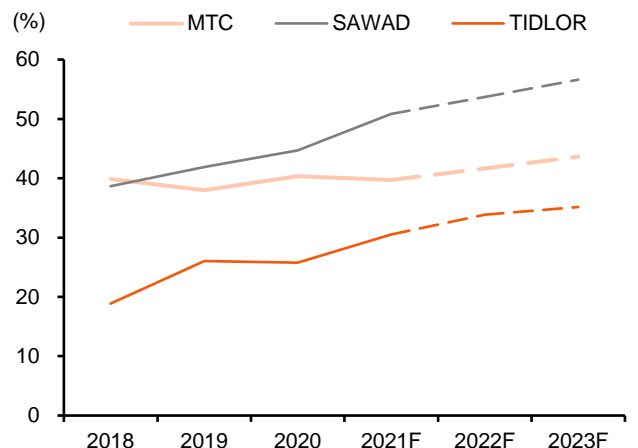
- 2) Though it comes with higher costs, we like TIDLOR's unconventional omni distribution platform and the use of a similar risk-management framework to that of banks. We see this as a more sustainable business model over the longer term. Meanwhile, with TIDLOR successfully increasing penetration of smaller-ticket loans and its growing insurance brokerage business, it is enjoying the operating leverage effect via a falling cost-to-income ratio.

Ex 30: Falling Cost-To-Income Ratio



Sources: Company data, Thanachart estimates

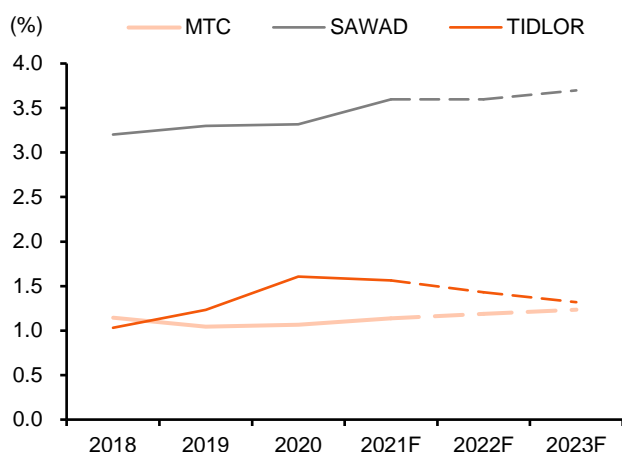
Ex 31: Narrowing NPM Gap



Sources: Company data, Thanachart estimates

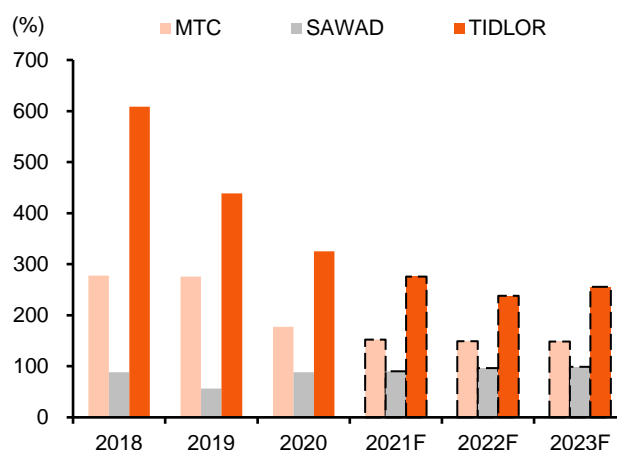
- 3) TIDLOR's balance sheet is stronger from almost every angle. TIDLOR's credit rating is two notches higher, i.e. A versus BBB+ for both SAWAD and MTC. So, its cost of funds is lower and it still has room to come down. TIDLOR's NPL ratio is 1.6% vs. 1.1% for MTC and over 3% for SAWAD in 2021. TIDLOR's loan-loss-coverage ratio is also much higher than peers' at 275% in 2021F and 238% in 2022F.

Ex 32: Low NPLs



Sources: Company data, Thanachart estimates

Ex 33: With Higher Loan Loss Coverage Ratio



Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 34: 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	312.8	13.9	12.9	(1.8)	4.2	0.0	0.0
Finvolution Group	FINV US	China	470.1	14.0	1.1	0.9	0.2	0.2	24.6	21.6	5.1	5.8
Mahindra & Mahindra Fin Secs	MMFS IN	India	4.6	89.3	23.0	12.2	1.3	1.2	5.2	11.2	1.1	1.9
Bajaj Finance Ltd	BAF IN	India	3.2	82.9	79.0	43.2	10.0	8.3	13.1	20.0	0.1	0.3
Manappuram Finance Ltd	MGFL IN	India	0.7	17.2	7.9	6.7	1.9	1.5	26.5	24.8	1.8	1.8
GMO Payment Gateway Inc.	3769 JP	Japan	9.0	27.1	110.7	87.1	25.5	21.8	25.2	27.7	0.4	0.6
Infomart Corp.	2492 JP	Japan	(16.8)	87.5	247.2	131.8	18.0	16.3	8.6	14.4	0.2	0.4
Ally Financial Inc	ALLY US	US	125.8	(3.8)	8.4	8.8	1.3	1.2	16.6	14.3	1.4	1.6
World Acceptance Corp	WRLD US	US	(16.2)	(32.0)	13.5	19.9	2.8	2.7	18.7	12.4	na	na
Navient Corp	NAVI US	US	94.3	(18.8)	4.5	5.5	1.1	0.9	41.1	26.5	3.5	3.5
SLM Corp	SLM US	US	34.3	(15.3)	6.6	7.8	2.9	2.8	39.4	29.5	0.6	0.6
Amanah Leasing	AMANA TH	Thailand	16.1	23.1	17.2	14.0	3.3	2.9	20.5	22.0	2.7	3.2
Krungthai Card *	KTC TH	Thailand	12.2	16.1	31.5	27.2	7.1	6.1	24.3	24.3	1.4	1.7
Muangthai Capital *	MTC TH	Thailand	10.7	25.6	22.9	18.3	5.2	4.1	24.9	25.1	0.7	0.8
Saksiam Leasing *	SAK TH	Thailand	(10.7)	42.9	37.2	26.1	5.0	4.5	14.0	18.1	1.1	1.5
Srisawad Corporation *	SAWAD TH	Thailand	18.9	19.7	18.5	15.5	4.1	3.7	23.2	25.0	2.8	3.2
Ratchthani Leasing *	THANI TH	Thailand	(1.6)	9.0	12.2	11.2	2.1	1.9	17.4	17.7	4.9	5.4
Ngern Tid Lor *	TIDLOR TH	Thailand	28.2	28.0	28.9	22.6	4.5	3.9	19.5	18.3	0.7	0.9
Average			47.2	24.0	40.1	44.1	6.2	5.5	20.1	19.9	1.7	2.0

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 4 June 2021 closing price

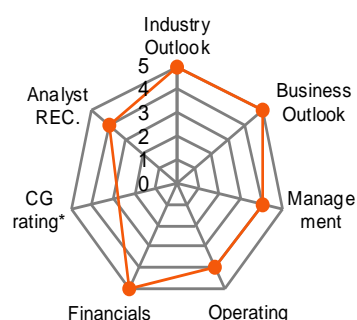
Thanachart Securities has an indirect financial interest in Ratchthani Leasing Pcl (THANI). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds more than 56% of the shareholding in Ratchthani Leasing Pcl (THANI).

COMPANY DESCRIPTION

Ngern Tid Lor Pcl (TIDLOR) was acquired by AIG in 2007 from Srisawad International (1991) before AIG was acquired by BAY in 2009. TIDLOR became a professionally run microfinance firm. Similar to MTC, SAWAD and SAK, TIDLOR focuses on the unbanked, long tail segment. However, TIDLOR uses a different network expansion strategy, and it is also adopting a similar risk-management framework to that of BAY in our view. TIDLOR is one of the few title loan providers that is a member of and incorporates credit data from the National Credit Bureau (NCB) to analyse customer risk profiles. Most of TIDLOR's loans are secured, i.e. 18% of motorcycle-title loans, 64% for cars and 24% for trucks and others. The company is the largest auto-title loan operator in Thailand.

Source: Thanachart

COMPANY RATING



Rating Scale

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

Source: Thanachart; * No CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Scale benefits.
- Well-recognized brand.
- Omni channel
- Low cost of funds

O — Opportunity

- New lending products.
- Growing insurance brokerage business
- M&A opportunities
- Expanding into neighbouring countries

W — Weakness

- Higher cost base than peers' due to unconventional platform.

T — Threat

- Changes in regulations
- Increasing penetration by commercial banks

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	48.40	53.00	10%
Net profit 21F (Bt m)	3,207	3,296	3%
Net profit 22F (Bt m)	4,053	4,359	8%
Consensus REC	BUY: 5	HOLD: 0	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in TIDLOR's funding cost savings and lower opex. We also use 2022F as valuation base year, and we think this is why our TP is higher.

RISKS TO OUR INVESTMENT CASE

- TIDLOR not sustaining its robust loan growth while maintaining strong asset quality represents the key downside risk to our call.
- Increases in TIDLOR's cost-to-income ratio and funding costs would present further downside risk to our earnings forecasts and TP.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

Rising lending yield due to end of promotional rates in November 2020

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Interest Income	7,635	8,735	9,713	11,132	12,771
Interest Expenses	1,006	1,178	1,120	1,024	1,176
Net Interest Income	6,630	7,557	8,593	10,109	11,595
% of total income	78.4%	80.6%	79.5%	78.6%	76.9%
Fee income	1,803	1,792	2,184	2,723	3,447
% of total income	21.3%	19.1%	20.2%	21.2%	22.9%
Other income	19	32	33	34	35
% of total income	0.2%	0.3%	0.3%	0.3%	0.2%
Non-interest Income	1,823	1,824	2,216	2,757	3,482
% of total income	21.6%	19.4%	20.5%	21.4%	23.1%
Total Income	8,452	9,381	10,810	12,866	15,077
Operating Expenses	5,168	5,772	6,400	7,040	7,674
Pre-provisioning Profit	3,284	3,609	4,410	5,826	7,403
Bad debt expenses	531	582	289	377	779
Pre-tax Profit	2,753	3,027	4,120	5,448	6,624
Income Tax	551	611	824	1,090	1,325
After Tax Profit	2,202	2,416	3,296	4,359	5,299
Equity Income	0	0	0	0	0
Minority Interest	0	0	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	2,202	2,416	3,296	4,359	5,299
Normalized Profit	2,202	2,416	3,296	4,359	5,299
EPS (Bt)	1.0	1.1	1.5	1.9	2.3
Normalized EPS (Bt)	1.0	1.1	1.5	1.9	2.3

BALANCE SHEET

Growing loans in all segments

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Cash and ST investments	446	1,265	1,000	1,000	1,000
Other current assets	697	700	664	689	714
Total current assets	1,143	1,965	1,664	1,689	1,714
Gross loans & accr. interest	49,947	52,973	57,050	65,553	75,397
Provisions	2,702	2,763	2,463	2,231	2,542
Net loans	45,277	48,568	56,472	65,488	75,345
Property Foreclosed - net	79	76	73	207	221
Right of use	618	1,302	1,408	1,476	1,536
Other assets	1,293	1,424	1,450	1,460	1,470
Total assets	48,411	53,336	61,066	70,321	80,287
Short term borrow ing	17,405	10,558	8,567	11,177	12,941
Other current payables	1,484	1,381	1,000	1,100	1,200
Other current liabilities	371	658	1,095	1,149	1,201
Long term borrow ing	19,688	28,507	28,000	31,000	35,340
Total borrow ings	37,093	39,065	36,567	42,177	48,281
Other L-T liabilities	73	437	873	915	952
Minority interest	0	0	0	0	0
Shareholders' equity	9,346	11,749	22,067	25,540	29,236
Total Liab. & Equity	48,411	53,336	61,066	70,321	80,287

Sources: Company data, Thanachart estimates

VALUATION

Premium valuation is justified in our view

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	40.7	37.1	28.9	22.6	18.6
Normalized PE - at target price (x)	50.7	46.2	36.1	28.2	23.2
PE (x)	40.7	37.1	28.9	22.6	18.6
PE - at target price (x)	50.7	46.2	36.1	28.2	23.2
P/PPP (x)	27.3	24.8	21.6	16.9	13.3
P/PPP - at target price (x)	34.0	31.0	27.0	21.1	16.6
P/BV (x)	1.0	7.6	4.5	3.9	3.4
P/BV - at target price (x)	1.2	9.5	5.6	4.8	4.2
Dividend yield (%)	3.3	na	0.7	0.9	1.6
Normalized EPS (Bt)	1.0	1.1	1.5	1.9	2.3
EPS (Bt)	1.0	1.1	1.5	1.9	2.3
DPS (Bt)	1.4	0.0	0.3	0.4	0.7
PPP/Share (Bt)	1.6	1.7	2.0	2.5	3.2
BV/share (Bt)	44.3	5.6	9.5	11.0	12.6
P/BV to ROE (x)	0.0	0.3	0.2	0.2	0.2

FINANCIAL RATIOS

Enjoying operating and financial leverage effects

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate (%)					
Net interest income (NII)	15.9	14.0	13.7	17.6	14.7
Non-interest income (Non-II)	52.8	0.1	21.5	24.4	26.3
Operating expenses	21.5	11.7	10.9	10.0	9.0
Pre-provisioning profit (PPP)	23.4	9.9	22.2	32.1	27.1
Net profit	68.6	9.7	36.4	32.2	21.6
Normalized profit growth	68.6	9.7	36.4	32.2	21.6
EPS	68.6	9.7	28.2	28.0	21.6
Normalized EPS	68.6	9.7	28.2	28.0	21.6
Dividend payout ratio	13.6	0.0	20.0	20.0	30.0
Loan - gross	17.3	6.1	7.7	14.9	15.0
Loan - net	22.2	7.3	16.3	16.0	15.1
Borrowings	19.4	5.3	(6.4)	15.3	14.5
NPLs	40.2	38.0	5.0	5.0	6.0
Total assets	20.8	10.2	14.5	15.2	14.2
Total equity	27.2	25.7	87.8	15.7	14.5
Operating Ratios (%)					
Net interest margin (NIM)	15.0	14.7	15.0	15.4	15.4
Net interest spread	14.5	14.5	14.7	15.0	14.9
Yield on earnings assets	17.2	17.4	17.4	17.4	17.4
Avg cost of fund	2.8	3.0	2.9	2.5	2.5
NII / operating income	78.4	80.6	79.5	78.6	76.9
Non-II / operating income	21.6	19.4	20.5	21.4	23.1
Fee Income / Opt Income	21.3	19.1	20.2	21.2	22.9
Norm Net Margin	26.0	25.8	30.5	33.9	35.1
Cost-to-income	61.1	61.5	59.2	54.7	50.9
Credit cost - provision exp / loans	1.2	1.2	0.5	0.6	1.1
PPP / total assets	7.4	7.1	7.7	8.9	9.8
PPP / total equity	39.4	34.2	26.1	24.5	27.0
Avg assets/avg equity (leverage)	5.3	4.8	3.4	2.8	2.7
ROA	5.0	4.7	5.8	6.6	7.0
ROE	26.4	22.9	19.5	18.3	19.3

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

	FY ending Dec	2019A	2020A	2021F	2022F	2023F
Liquidity and Quality Ratio (%)						
<i>Superior balance sheet</i>	Gross Loan / Borrow ings	134.7	135.6	156.0	155.4	156.2
	Net Loan / Borrow ings	122.1	124.3	154.4	155.3	156.1
	Net Loan / Assets	93.5	91.1	92.5	93.1	93.8
	Net Loan / Equity	484.5	413.4	255.9	256.4	257.7
	S-T / L-T Borrow ings	46.9	27.0	23.4	26.5	26.8
	Borrow ings / Liabilities	95.0	93.9	93.8	94.2	94.6
	Interest-bearing Debt / Equity	412.8	344.3	170.2	169.4	169.2
	Liabilities / Equity	418.0	354.0	176.7	175.3	174.6
	Equity/ Gross loans	18.7	22.2	38.7	39.0	38.8
	NPLs (Bt m)	615.7	849.9	892.4	937.1	993.3
	NPLs / Total Loans (NPL Ratio)	1.2	1.6	1.6	1.4	1.3
	Loan-Loss-Coverage (Provision / NPLs)	438.8	325.1	276.0	238.1	256.0

Sources: Company data, Thanachart estimates

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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).

Note: Thanachart Capital Public Company Limited (TCAP), TMB Bank Public Company Limited (TMB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 20.1% of the shareholding in TMB Bank Pcl.

Thanachart Capital Public Company Limited (TCAP), Ratchthani Leasing Public Company Limited (THANI), TMB Public Company Limited, MBK PUBLIC COMPANY LIMITED (MBK) and PATUM RICE MILL AND GRANARY PUBLIC COMPANY LIMITED (PRG) are related companies to Thanachart Securities Public Company Limited (TNS) . Since TNS covers those securities in research report, consequently TNS incurs conflicts of interest.

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Recommendation Structure:

Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

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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