Muangthai Capital Pcl (MTC TB) - BUY, Price Bt63.25, TP Bt73

Results Comment

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Weaker-than-expected results

- MTC's 3Q21 profits came in weak of Bt1.2bn, down 10% y-y and 5% q-q. Results missed our forecast as well as consensus. We see downsides to our margin assumption but expect strong loan volume growth to continue driving the company's profits growth going to next year. Maintain BUY.
- Loans grew 28% y-y and 7% q-q. The volume growth was in-line but lending yield was lower than what we'd assumed.
- MTC's lending yield declined from 21.8% in 3Q20 and 19.2% in 2Q21 to 18.7% in the quarter. The lower-than-expected yield was because we underestimate a full quarter effect of the change in order of debt settlement. That is from an old method where repayments are due to settle late payment fees and interests in full and leaving the leftover, if any, for principal deduction.
- The new method, effective from July 2021, has led to a settlement of overdue loans as a priority. This results in lower interest receive and a cut in yield. Since the base has already been adjusted, we expect smaller impact in 4Q21.
- Opex increased along with all-time-high branch expansions. Number of branches were increased by 381 to 5,665 as of 3Q21. This was all-
- Cost to income ratio rose to 51% as income growth was slower than opex increased.
- NPL increased slower than previous quarter at 14% q-q, bringing NPL ratio to 1.17%.
- Provisions were up both y-y and q-q. Credit costs stood at 0.9% vs. 0.7% in 2Q21. Loan loss coverage ratio remained healthy at over 160%.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Interest income	3,555	3,690	3,585	3,684	3,844
Interest expense	467	470	477	507	557
Net interest income	**3,088**	**3,219**	**3,108**	**3,177**	**3,287**
Non-interest income	182	201	272	212	188
Total income	3,270	3,420	3,381	3,389	3,475
Operating expense	1,533	1,599	1,502	1,657	1,780
Pre-provisioning profit	**1,736**	**1,821**	**1,879**	**1,732**	**1,694**
Provision for bad&doubtful debt	52	116	145	137	189
Profit before tax	1,684	1,705	1,734	1,595	1,505
Tax	344	335	360	325	304
Profit after tax	1,340	1,370	1,374	1,270	1,201
Equity income	-	-	-	-	-
Minority interests	-	-	-	-	-
Extra items	-	-	-	-	-
Net profit	**1,340**	**1,370**	**1,374**	**1,270**	**1,201**
Normalized profit	**1,340**	**1,370**	**1,374**	**1,270**	**1,201**
PPP/share (Bt)	0.8	0.9	0.9	0.8	0.8
EPS (Bt)	0.6	0.6	0.6	0.6	0.6
Norm EPS (Bt)	0.6	0.6	0.6	0.6	0.6
BV/share (Bt)	9.1	9.8	10.4	10.6	11.2

Income Statement			9M as		
(Bt m)	q-q%	y-y%	% 2021F	2021F	2022F
Interest & dividend income	4	8	73	15,301	19,885
Interest expense	10	19	78	1,982	2,446
Net interest income	**3**	**6**	**72**	**13,319**	**17,438**
Non-interest income	(11)	3	75	900	912
Total income	3	6	72	14,218	18,351
Operating expense	7	16	74	6,636	7,631
Pre-provisioning profit	**(2)**	**(2)**	**70**	**7,583**	**10,720**
Provision for bad&doubtful debt	38	264	72	653	1,071
Profit before tax	(6)	(11)	70	6,930	9,649
Tax	(6)	(12)	71	1,386	1,930
Profit after tax	(5)	(10)	69	5,544	7,719
Equity income	neg	neg		-	-
Minority interests	neg	neg		-	-
Extra items	neg	neg		-	-
Net profit	**(5)**	**(10)**	**69**	**5,544**	**7,719**
Normalized profit	**(5)**	**(10)**	**69**	**5,544**	**7,719**
PPP/share (Bt)	(2)	(2)	70	5.1	6.6
EPS (Bt)	(5)	(10)	69	3.6	4.8
Norm EPS (Bt)	(5)	(10)	69	3.6	4.8
BV/share (Bt)	5	23	11	15.2	19.3

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21
Cash and cash equivalent	794	1,378	984	1,327	1,521
Other current assets	246	225	414	487	431
Total current assets	1,040	1,603	1,398	1,813	1,952
Gross loans and accrued interest	67,215	70,968	73,546	79,831	84,952
Provisions	1,345	1,328	1,314	1,436	1,597
Net loans	65,870	69,640	72,232	78,394	83,354
Fixed assets	2,009	1,928	1,951	1,979	2,021
Other assets	3,982	4,050	4,162	4,384	4,571
Total assets	**72,902**	**77,222**	**79,742**	**86,570**	**91,898**
Short term borrowing	3,339	2,397	1,100	4,177	1,999
Current portion of LT loans	13,865	16,846	16,737	16,886	24,138
Other current liabilities	2,246	2,707	2,600	2,309	2,189
Total current liabilities	19,449	21,950	20,437	23,372	28,326
Borrowings	5,305	6,166	6,824	7,515	4,348
Other liabilities	28,834	28,424	30,423	33,139	35,478
Minority interest	-	-	-	-	-
Shareholders' equity	**19,314**	**20,682**	**22,058**	**22,545**	**23,747**
Total Liabilities & Equity	**72,902**	**77,222**	**79,742**	**86,570**	**91,898**

Financial Ratios					
(%)	3Q20	4Q20	1Q21	2Q21	3Q21
Gross loan growth (YTD)	11.6	18.0	4.4	14.1	21.5
Gross loan growth (q-q)	6.3	5.7	4.4	9.3	6.5
Borrowing growth (YTD)	16.7	23.2	2.0	13.2	20.5
Borrowing growth (q-q)	2.8	5.5	2.0	11.0	6.4
Non-interest income (y-y)	(8.9)	(3.1)	35.7	13.0	3.3
Non-interest income (q-q)	(3.1)	10.6	35.4	(22.1)	(11.4)
Cost-to-income	46.9	46.8	44.4	48.9	51.2
Net interest margin	17.3	17.2	15.8	15.28	14.73
Credit cost	0.31	0.66	0.79	0.69	0.89
ROE	28.8	27.4	25.7	22.8	20.8
ROA	7.5	7.3	7.0	6.1	5.4
Loan-to-borrowing	125.4	125.5	127.5	124.7	124.7
Loan-to- total equity	341.1	336.7	327.5	347.7	351.0
NPLs (Btm)	674.4	747.4	708.9	882.4	997.0
NPL increase	13.7	72.9	(38.5)	173.5	114.6
NPL ratio (%)	1.00	1.05	0.96	1.11	1.17
Loan loss coverage ratio (%)	199.4	177.6	185.4	162.8	160.2

Sources: Company data, Thanachart estimates

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