

SELL (Unchanged)
Change in Numbers

TP: Bt 53.00
Downside : 13.8%

(From: Bt 56.00)

22 MARCH 2022

Krungthai Card Pcl (KTC TB)

Still overvalued

In light of the weak 4Q21 results, we cut KTC's earnings by 17% over 2022-24F. We believe KTC has passed the worst but the share price still looks expensive to us. At a forward PE of 25x vs. a 13% three-year EPS CAGR, we re-affirm SELL.



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Cut earnings by 17%, reaffirm SELL

Hit by lockdowns along with its cautious mindset, KTC's credit card spending, fees and loan growth came in below our expectation in 4Q21. Profit growth of 10% y-y in 2021 was backed by lower provisions on improving NPLs of credit cards and personal loans. In light of weak 4Q21 profits, we cut our earnings estimates for KTC by 17% in 2022, 18% in 2023F and 16% in 2024F. Our DDM-based 12-month TP, using a 2022 base year, is cut by 5% to Bt53 from Bt56. With 13.8% potential share price downside, we reaffirm our SELL rating on KTC.

Recovery being priced in

KTC is a beneficiary of the country reopening and the government's tax-rebate shopping campaign. Credit card spending has rebounded nicely from flat growth y-y in 1Q21 to high single-digit growth over January and February this year. With the end of the campaign in February and rising Omicron infections, the run rate has slowed down in March but is still much better than it was last year. We expect a knock-on effect on credit card loans and foresee 10% growth this year. There is no change to KTC's strict approval rate for personal loans but the company has received more applications. So, personal loans could turn from a 2% contraction last year to 5% growth this year.

Challenging target for title loans

Looking to leverage on its parent bank, KTB's franchise and network, KTC targets to boost leasing and title loans to Bt11.5bn, bringing total loans to over Bt100bn. KTC is still in the process of training KTB's branch staff so loan booking thus far is still far from achieving the company's target. KTB acts as KTC's referral agent and KTC takes care of applications and underwriting while it can approve loans within two hours. We generously bake in Bt10bn of title loans at an average lending yield of 20%. We expect secured lending to make up 9% of KTC's total loans in 2022, before rising to 11-12% over 2023-24F.

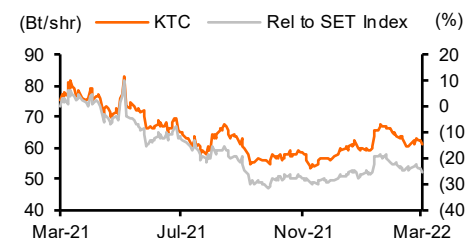
Less room for provisioning cuts

KTC has lowered credit costs from 9% in 2017 to less than 8% over 2018-20. Despite setting aside additional provisions related to its acquisition of KTB Leasing (KTBL) of Bt539m in 3Q21, average credit costs still fell to 6% last year. The reduction in credit costs came on the back of better asset quality of KTC's credit card and personal loans and excess provisions on its book. We continue to expect credit costs to decline to 5.5% this year and 5% from 2023F. We see limited room for further provision cuts as KTC is looking to aggressively grow personal loans and title loans. This is while its loan-loss-coverage ratio is down from over 600% in 2019 to 292% in 2021.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	12,701	13,411	14,900	17,012
Net profit	5,879	6,304	7,312	8,484
Consensus NP	—	6,752	7,486	8,209
Diff frm cons (%)	—	(6.6)	(2.3)	3.3
Norm profit	5,879	6,304	7,312	8,484
Prev. Norm profit	—	7,579	8,874	10,138
Chg frm prev (%)	—	(16.8)	(17.6)	(16.3)
Norm EPS (Bt)	2.3	2.4	2.8	3.3
Norm EPS grw (%)	10.3	7.2	16.0	16.0
Norm PE (x)	27.0	25.2	21.7	18.7
P/BV (x)	5.9	5.2	4.5	3.9
Div yield (%)	1.6	1.8	2.1	2.4
ROE (%)	23.7	22.0	22.3	22.5
ROA (%)	6.5	6.5	6.6	7.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 22-Mar-22 (Bt)	61.50
Market Cap (US\$ m)	4,729.0
Listed Shares (m shares)	2,578.3
Free Float (%)	40.7
Avg Daily Turnover (US\$ m)	15.2
12M Price H/L (Bt)	83.00/53.50
Sector	Finance
Major Shareholder	Krung Thai Bank 49.29%

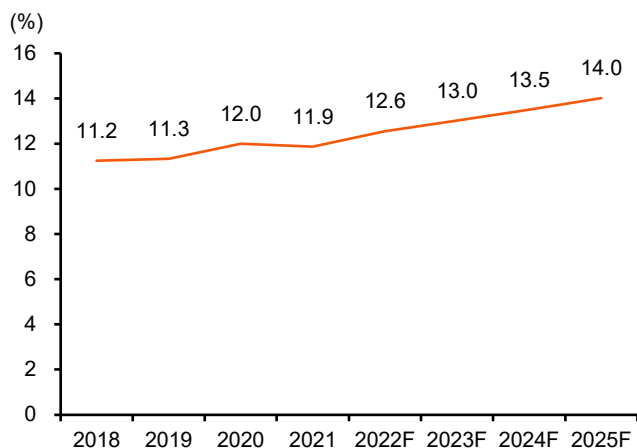
Sources: Bloomberg, Company data, Thanachart estimates

Cutting earnings by 17%

We cut our earnings to reflect the weak core operation last year

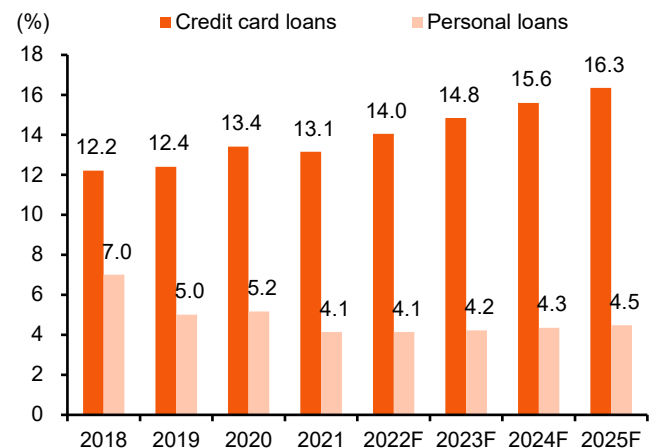
Hit by lockdowns along with its cautious mindset, Krungthai Card Pcl's (KTC) credit card spending, fees and loan growth came in below our expectations in 4Q21. The company lost market share slightly in its core credit card and personal loan businesses as shown in Exhibits 1-2 below.

Ex 1: Credit Card Spending Market Share



Sources: Company data, Thanachart estimates

Ex 2: Credit Card And Personal Loan Market Shares



Sources: Company data, Thanachart estimates

Despite lower provisions, KTC's 4Q21 profits came in lower than we had expected. We cut our earnings estimates for KTC by 17% in 2022, 18% in 2023F and 16% in 2024F. The cuts are to reflect lower spending, NIM and fee income. Factoring in KTC's aggressive growth target for new secured lending, i.e. leasing and title loans, we raise our loan assumptions by 4%, 5% and 9% respectively.

Ex 3: Earnings Revisions

	2020A	2021A	2022F	2023F	2024F
Net profits (Bt m)					
- New	5.33	5.88	6.30	7.31	8.48
- Old			7.58	8.87	10.14
- Change (%)			(16.82)	(17.60)	(16.32)
Net receivables (Bt bn)					
- New	89.61	92.05	109.55	121.36	135.48
- Old			105.48	115.15	124.62
- Change (%)			3.86	5.39	8.72
Credit card spending (Bt m)					
- New	197.18	195.73	215.30	236.83	260.51
- Old			227.74	245.96	263.18
- Change (%)			(5.46)	(3.71)	(1.01)
Non-interest income (Bt m)					
- New	8.10	7.83	8.20	8.68	9.37
- Old			9.37	10.12	10.94
- Change (%)			(12.52)	(14.28)	(14.32)

Sources: Company data, Thanachart estimates

Ex 3: Earnings Revisions (Con't)

	2020A	2021A	2022F	2023F	2024F
NIM (%)					
- New	14.45	13.47	13.14	12.62	12.66
- Old			13.62	13.86	13.80
- Change (pp)			(0.49)	(1.24)	(1.14)
Provisions (Bt m)					
- New	6.49	5.46	5.54	5.77	6.42
- Old			5.63	5.89	6.21
- Change (%)			(1.62)	(1.96)	3.34
OPEX (Bt m)					
- New	7.52	7.33	7.55	7.67	7.77
- Old			7.00	7.11	7.22
- Change (%)			7.74	7.88	7.73

Sources: Company data, Thanachart estimates

Reaffirm SELL with a lower Bt53 TP

Over the worst but market reaction is too positive in our view

In light of our earnings cuts, we lower our DDM-based 12-month TP, using a 2022F base year, by 5% to Bt53 from Bt56. With 13.8% potential share price downside, we reaffirm our SELL rating on KTC.

- 1) We believe KTC has passed the worst but KTC still looks expensive to us, trading at a forward PE of 25x.
- 2) With slower provision cuts and rising new business expenses, we forecast 7% earnings growth this year, rising to 16% in 2023-24F. The current share price implies a PEG of almost 2x, which is the most expensive among all the finance stocks we cover.
- 3) We generously factor in a jump in title loans to Bt10bn this year. This is despite the booking run rate YTD being far from achieving the company's target of Bt11.5bn.
- 4) Applying a higher pay-out ratio of 45%, dividend yield is still low at less than 2%.

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

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
Dividend of common shares	2,578	2,837	3,291	3,818	4,913	6,699	11,263	12,677	14,869	18,625	22,971	22,971
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	2,578	2,837	3,291	3,818	4,913	6,699	11,263	12,677	14,869	18,625	22,971	269,314
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	136,702											
No. of shares (m)	2,578											
Equity value / share (Bt)	53.00											

Source: Thanachart estimates

Valuation Comparison

Ex 5: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		ROE		Div. yield	
			22F	23F	22F	23F	22F	23F	22F	23F	22F	23F
Afterpay Ltd	APT AU	Australia	na	na	na	na	na	na	(0.4)	6.6	na	na
Finvolution Group	FINV US	China	371.4	9.5	0.5	0.4	0.1	0.1	22.1	20.3	16.8	38.2
Mahindra & Mahindra Fin Secs	MMFS IN	India	(6.1)	147.7	24.4	9.9	1.3	1.1	6.1	12.3	0.8	2.1
Bajaj Finance Ltd	BAF IN	India	58.0	50.5	60.0	39.9	9.8	8.1	17.4	21.8	0.2	0.3
Manappuram Finance Ltd	MGFL IN	India	(19.9)	19.6	7.1	6.0	1.2	1.0	17.6	18.3	2.5	2.9
GMO Payment Gateway Inc.	3769 JP	Japan	18.6	24.7	79.8	64.0	13.7	12.2	18.6	20.0	0.6	0.7
Infomart Corp.	2492 JP	Japan	(38.6)	105.3	480.0	233.8	13.7	13.0	3.6	7.1	0.1	0.2
Ally Financial Inc	ALLY US	US	(9.7)	5.1	5.7	5.5	0.9	0.8	16.2	15.4	2.7	3.0
World Acceptance Corp	WRLD US	US	(17.1)	(9.2)	16.3	17.9	2.8	2.6	17.3	12.6	na	na
Navient Corp	NAVI US	US	(27.7)	3.1	5.6	5.5	0.9	0.8	17.3	15.9	3.7	3.7
SLM Corp	SLM US	US	(19.8)	7.1	6.2	5.8	2.4	2.1	38.4	35.8	2.4	2.5
Amanah Leasing	AMANA TH	Thailand	7.7	16.7	15.4	13.2	2.7	2.4	18.6	19.4	3.4	3.9
Asia Sermkij Leasing *	ASK TB	Thailand	21.4	32.2	14.7	11.1	2.4	2.1	16.7	20.1	3.4	4.5
Krungthai Card *	KTC TB	Thailand	7.2	16.0	25.2	21.7	5.2	4.5	22.0	22.3	1.8	2.1
Muangthai Capital *	MTC TB	Thailand	18.0	31.4	19.2	14.6	3.7	3.1	21.3	23.1	0.8	1.0
Saksiam Leasing *	SAK TB	Thailand	36.1	35.5	23.6	17.4	3.6	3.2	16.1	19.5	1.7	2.3
Srisawad Corporation *	SAWAD TB	Thailand	16.0	28.1	14.2	11.1	2.8	2.4	20.3	23.1	3.5	4.5
Ratchthani Leasing *	THANI TB	Thailand	9.6	12.8	12.6	11.2	1.9	1.8	15.7	16.6	4.7	5.4
Ngern Tid Lor *	TIDLOR TB	Thailand	15.9	27.4	25.6	20.1	3.8	3.3	15.8	17.6	0.8	1.0
Average			24.5	31.3	46.4	28.3	4.0	3.6	16.9	18.3	2.9	4.6

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 22 Mar 2022 closing price

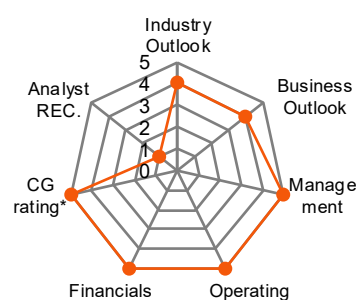
Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

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 February 2022, 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)	59.58	53.00	-11%
Net profit 22F (Bt m)	6,752	6,304	-7%
Net profit 23F (Bt m)	7,486	7,312	-2%
Consensus REC	BUY: 5	HOLD: 2	SELL: 9

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings estimates and TP are lower than the Bloomberg consensus numbers, which we attribute to us being more conservative on KTC's business growth prospects.

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.
- If KTC is able to lower costs and if credit costs come in higher than we currently 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

Rising loan volumes

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Interest Income	14,351	13,614	14,230	15,586	17,215
Interest Expenses	1,560	1,416	1,468	1,691	1,801
Net Interest Income	12,791	12,198	12,761	13,894	15,414
% of total income	61%	61%	61%	62%	62%
Bad debts recovery	3,203	3,266	3,397	3,397	3,567
Fee and service income	4,568	4,294	4,509	4,960	5,456
Gain on exchange rate - net	45	22	44	53	64
Others	284	246	246	266	286
Non-interest Income	8,101	7,828	8,196	8,676	9,372
% of total income	39%	39%	39%	38%	38%
Total Income	20,891	20,027	20,957	22,570	24,786
Operating Expenses	7,523	7,326	7,547	7,670	7,774
Pre-provisioning Profit	13,368	12,701	13,411	14,900	17,012
Provisions	6,489	5,456	5,544	5,773	6,421
Pre-tax Profit	6,879	7,245	7,867	9,127	10,591
Income Tax	1,372	1,467	1,573	1,825	2,118
After Tax Profit	5,507	5,779	6,294	7,302	8,473
Equity Income	1	11	11	11	11
Minority Interest	(175)	90	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	5,333	5,879	6,304	7,312	8,484
Normalized Profit	5,333	5,879	6,304	7,312	8,484
EPS (Bt)	2.1	2.3	2.4	2.8	3.3
Normalized EPS (Bt)	2.1	2.3	2.4	2.8	3.3

BALANCE SHEET

Baking in substantial growth in new title loans

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Cash & cash equivalents	2,197	2,363	2,000	2,000	2,000
Other receivables	486	437	400	400	400
L-T loan to other parties - net	0	0	0	0	0
subsidiaries/associates	0	0	0	0	0
Net loans	84,947	82,944	98,713	109,354	122,083
Gross and accrued interest	90,149	92,636	108,919	120,688	134,775
Provisions for doubtful	5,202	9,692	9,210	8,672	9,674
Fixed assets - net	496	415	425	437	453
Right of use	486	360	315	268	217
Other assets	2,981	2,952	2,955	2,958	2,961
Total assets	91,594	89,471	104,809	115,417	128,115
LIABILITIES:					
Borrow ings	59,710	54,769	67,602	73,326	76,719
S-T loans	15,739	9,130	13,695	14,928	15,674
Current portion of L-T loans	8,780	9,500	10,965	9,334	8,801
L-T loans-net current portion	0	1,500	1,500	1,500	0
L-T Debenture	34,700	34,273	41,128	47,297	52,026
Current portion of lease liabilities	227	215	69	69	69
Lease liabilities	263	152	246	199	148
Other liabilities	7,772	7,617	7,896	8,305	10,917
Total liabilities	67,482	62,387	73,999	80,131	87,636
Minority interest	1,313	248	248	248	248
Shareholders' equity	22,799	26,836	30,562	35,038	40,231
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	424	424	424	424
Retained earnings	18,329	21,943	25,668	30,144	35,337
Liabilities & equity	91,594	89,471	104,809	115,417	128,115

Sources: Company data, Thanachart estimates

VALUATION

Expensive valuation in
our view

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	29.7	27.0	25.2	21.7	18.7
Normalized PE - at target price (x)	25.6	23.2	21.7	18.7	16.1
PE (x)	29.7	27.0	25.2	21.7	18.7
PE - at target price (x)	25.6	23.2	21.7	18.7	16.1
P/PPP (x)	11.9	12.5	11.8	10.6	9.3
P/PPP - at target price (x)	10.2	10.8	10.2	9.2	8.0
P/BV (x)	7.0	5.9	5.2	4.5	3.9
P/BV - at target price (x)	6.0	5.1	4.5	3.9	3.4
Market cap / net loans (x)	1.9	1.9	1.6	1.5	1.3
Market cap / borrowings (x)	2.7	2.9	2.3	2.2	2.1
Dividend yield (%)	1.4	1.6	1.8	2.1	2.4
Normalized EPS (Bt)	2.1	2.3	2.4	2.8	3.3
EPS (Bt)	2.1	2.3	2.4	2.8	3.3
DPS (Bt)	0.9	1.0	1.1	1.3	1.5
PPP/Share (Bt)	5.2	4.9	5.2	5.8	6.6
BV/share (Bt)	8.8	10.4	11.9	13.6	15.6

FINANCIAL RATIOS

Manageable cost of funds

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	6.2	(4.6)	4.6	8.9	10.9
Non-interest income (Non-II)	(10.2)	(3.4)	4.7	5.9	8.0
Operating expenses	(2.6)	(2.6)	3.0	1.6	1.3
Pre-provisioning profit (PPP)	0.2	(5.0)	5.6	11.1	14.2
Net profit	(3.5)	10.3	7.2	16.0	16.0
Normalized profit growth	(3.5)	10.3	7.2	16.0	16.0
EPS	(3.5)	10.3	7.2	16.0	16.0
Normalized EPS	(3.5)	10.3	7.2	16.0	16.0
Dividend payout ratio	42.5	43.9	45.0	45.0	45.0
Loan - gross	4.3	2.8	17.6	10.8	11.7
Loan - net	5.2	(2.4)	19.0	10.8	11.6
Borrowings	3.8	(8.3)	23.4	8.5	4.6
NPLs	75.4	107.6	12.6	6.0	6.7
Total assets	7.2	(2.3)	17.1	10.1	11.0
Total equity	15.7	17.7	13.9	14.6	14.8
Operating Ratios (%)					
Net interest margin (NIM)	14.5	13.5	13.1	12.6	12.7
Net interest spread	13.4	12.3	10.6	10.4	10.3
Yield on earnings assets	16.3	14.9	14.1	13.6	13.5
Avg cost of fund	2.7	2.5	2.4	2.4	2.4
NII / operating income	61.2	60.9	60.9	61.6	62.2
Non-II / operating income	38.8	39.1	39.1	38.4	37.8
Fee income / operating income	21.9	21.4	21.5	22.0	22.0
Normalized net margin	25.5	29.4	30.1	32.4	34.2
Bad Debt Recovery	255.3	132.9	96.3	88.2	87.1
Cost-to-income	33.5	34.2	33.7	31.6	29.2
Credit cost - provision exp / loans	7.2	6.0	5.5	5.0	5.0
PPP / total assets	15.1	14.0	13.8	13.5	14.0
PPP / total equity	62.9	51.2	46.7	45.4	45.2
Avg assets/avg equity (leverage)	4.16	3.65	3.38	3.36	3.24
ROA	6.0	6.5	6.5	6.6	7.0
ROE	25.1	23.7	22.0	22.3	22.5

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

Solid balance sheet

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	150.1	168.1	162.0	165.5	176.6
Net Loan / Borrow ings	142.3	151.4	146.0	149.1	159.1
Net Loan / Assets	92.7	92.7	94.2	94.7	95.3
Net Loan / Equity	372.6	309.1	323.0	312.1	303.5
S-T / L-T Borrow ings	45.4	25.5	32.1	30.6	30.1
Borrow ings / Liabilities	88.5	87.8	91.4	91.5	87.5
Interest-bearing Debt / Equity	261.9	204.1	221.2	209.3	190.7
Liabilities / Equity	296.0	232.5	242.1	228.7	217.8
CAR	25.4	29.2	27.9	28.9	29.7
NPLs	1,598	3,317	3,736	3,962	4,226
NPLs / Total Loans (NPL Ratio)	1.8	3.6	3.4	3.3	3.1
Loan-Loss-Coverage (Provision /	325.5	292.2	246.5	218.9	228.9

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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