BUY (Unchanged) | **TP: Bt 5.60** (From: Bt 4.80)

Change in Numbers | **Upside : 22.3%** | **30 MAY 2022**

Small Cap Research

Ratchthani Leasing Pcl (THANI TB)

Faster and stronger

SARACHADA SORNSONG
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Given improving macro conditions and better balance sheet quality, THANI is ready to resume robust loan growth with a clearer product expansion plan. This leads us to lift our earnings by 8% on average and we expect a higher 2021-24F EPS CAGR of 15%. Reaffirm BUY.

Thanachart Securities

Record drawdowns

Having been too conservative, in our view, since COVID-19 emerged in 2020, THANI lost market share in truck hire-purchase (HP) loans with new drawdowns falling to Bt18bn in 2020 from Bt24bn in 2019. The run rate recovered last year but it was still below the pre-COVID level. As the disease has started to subside while the country is reopening, THANI has greater lending appetite and has cleaned up its balance sheet at the same time. Supported by stronger truck demand, THANI achieved record loan drawdowns of Bt6.9bn in 1Q22. Momentum is even higher in 2Q22 and THANI has revised up its new loan growth target to over 20% y-y, ie, from Bt26.4bn to over-Bt28bn in 2022.

New lending products

In addition to truck and luxury car HP, THANI expanded to used-passenger car HP and floor-plan loans, ie, inventory financing to super-car dealers. It plans to launch truck title loans from July after the system is put in place. Starting in February this year, floor-plan loans came to Bt48m in 1Q22. THANI sees these three new products enhancing its loan portfolio growth from 2023. Including strong growth of truck HP loans, we expect higher loan growth of 12% this year and 13% in 2023-24F.

Better balance sheet quality

Making efforts to beef up collection and repossession activities, THANI lowered NPLs from Bt2.1bn in 3Q21 to Bt1.9bn in 4Q21 and Bt1.5bn in 1Q22. Increasing legal activity has led to higher operating expenses but this seems worth doing as THANI has been able to lower its NPL ratio to below 3%. Having accumulated management provisions totaling Bt270m as of now with loan-loss-coverage ratio far exceeding its comfort level of 80%, we see greater room for provision cuts. Credit costs were 0.9% in 1Q22 and we forecast 0.8% in 2023 and 0.7% in 2024.

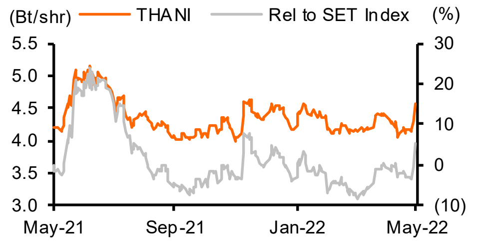
Lifting our earnings and TP to Bt5.6; BUY

In light of higher loans, higher insurance sales along with growing new loans and lower provisions, we raise our earnings by 7/8/9% for 2022-24F and expect a higher three-year EPS CAGR of 15% from 12% previously. Note that THANI is able to contain funding costs as it still relies heavily on short-term borrowings, ie, 40% of THANI's total funding is still short term. We conservatively bake in cost of funds rising from 2.4% in 2021 to 2.5% in 2022F, 2.65% in 2023F and 2.7% in 2024F to factor in rising interest rates and the long-term funding portion increasing to over 60%. THANI looks very inexpensive to us at 13x PE in 2022F, falling to 11x in 2023F. We lift our DDM-based 12-month TP to Bt5.6 from Bt4.8 due to our earnings upgrades and the rollover of our base year to 2023F. With its brighter growth outlook and stronger balance sheet, we see 22% potential upside and reaffirm our BUY rating.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	2,729	3,029	3,364	3,792
Net profit	1,709	2,006	2,273	2,619
Consensus NP	—	1,929	2,093	2,279
Diff frm cons (%)	—	*4.0*	*8.6*	*14.9*
Norm profit	1,709	2,006	2,273	2,619
Prev. Norm profit	—	1,874	2,113	2,394
Chg frm prev (%)	—	*7.1*	*7.6*	*9.4*
Norm EPS (Bt)	0.3	0.4	0.4	0.5
Norm EPS grw (%)	(13.9)	17.4	13.3	15.2
Norm PE (x)	15.2	12.9	11.4	9.9
P/BV (x)	2.2	2.1	2.0	1.8
Div yield (%)	3.7	4.6	5.3	6.1
ROE (%)	15.3	16.8	17.7	19.0
ROA (%)	3.5	3.9	3.9	4.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 30-May-22 (Bt)	4.58
Market Cap (US$ m)	761.1
Listed Shares (m shares)	5,663.0
Free Float (%)	29.9
Avg Daily Turnover (US$ m)	4.3
12M Price H/L (Bt)	5.15/4.00
Sector	Finance
Major Shareholder	Thanachart SPV1 56.39%

Sources: Bloomberg, Company data, Thanachart estimates

Note: 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.

Raising our earnings

Stronger loan growth with improving balance sheet quality

We attended Ratchthani Leasing Pcl's (THANI) opportunity day and came away with a more positive view on the company. We revise up our earnings forecasts by 7% this year, 8% in 2023 and 9% in 2024. The upward revisions reflect the following:

1) Supported by stronger truck demand, THANI achieved record loan drawdowns of Bt6.9bn in 1Q22. The momentum is even higher in 2Q22 as it experienced the best April ever this year. Therefore, THANI has revised up its new loan growth target to over 20% y-y, ie, from Bt26.4bn to over-Bt28bn in 2022.

2) Higher insurance sales along with higher new loans.

3) Lower provisions. Making efforts to beef up collection and repossession activity, THANI lowered NPLs from Bt2.1bn in 3Q21 to Bt1.9bn in 4Q21 and Bt1.5bn in 1Q22. Having accumulated management provisions totaling Bt270m as of now with the loan-loss-coverage ratio far exceeding its comfort level of 80%, we foresee greater leeway for provisioning cuts. Credit costs stood at 0.9% in 1Q22 and we forecast 0.8% in 2023 and 0.7% in 2024.

Ex 1: THANI's Revised Business Plan For 2022

THANI's business plan for 2022	1Q22	2022F	
		New	Old
New drawdown (Bt bn)	6.93	>28.00	26.40
Ending net loans (Bt bn)	49.10	>50.00	50.00
NPL ratio (%)	2.99	<3.0	<4.0
Credit costs (%)	1.02	<1.0	<1.0
D/E ratio (x)	3.21	<4.0	<4.0

Source: Company data

Ex 2: Earnings Revisions

	2020	2021	2022F	2023F	2024F
Net profits (Bt bn)					
- New	1.86	1.71	2.01	2.27	2.62
- Old			1.87	2.11	2.39
- Change (%)			*7.06*	*7.59*	*9.43*
Net loans (Bt bn)					
- New	46.75	47.91	53.54	60.72	68.82
- Old			51.06	55.62	60.97
- Change (%)			*4.86*	*9.18*	*12.88*
Non-interest income (Bt m)					
- New	746.98	796.24	967.55	1,109.93	1,271.01
- Old			796.24	884.14	976.69
- Change (%)			*21.51*	*25.54*	*30.13*
Cost of funds (%)					
- New	2.70	2.58	2.50	2.65	2.70
- Old			2.45	2.45	2.45
- Change (pp)			*0.05*	*0.20*	*0.25*

Sources: Company data, Thanachart estimates

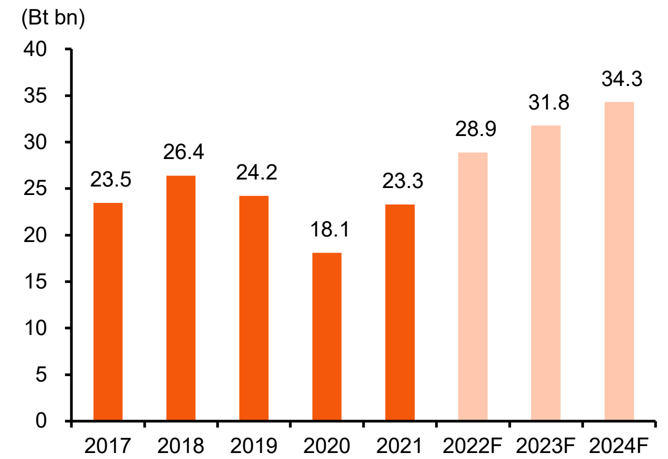
Ex 2: Earnings Revisions *(Con't)*

	2020	2021	2022F	2023F	2024F
Credit costs (%)					
- New	0.61	1.08	0.90	0.80	0.70
- Old			1.00	0.90	0.80
- Change (pp)			*(0.10)*	*(0.10)*	*(0.10)*
NPL ratio (%)					
- New	3.13	3.77	2.90	2.90	2.90
- Old			3.80	3.70	3.70
- Change (pp)			*(0.90)*	*(0.80)*	*(0.80)*
Operating expenses (Bt m)					
- New	537.61	584.62	689.85	758.83	834.72
- Old			602.16	620.22	638.83
- Change (%)			*14.56*	*22.35*	*30.66*

Sources: Company data, Thanachart estimates

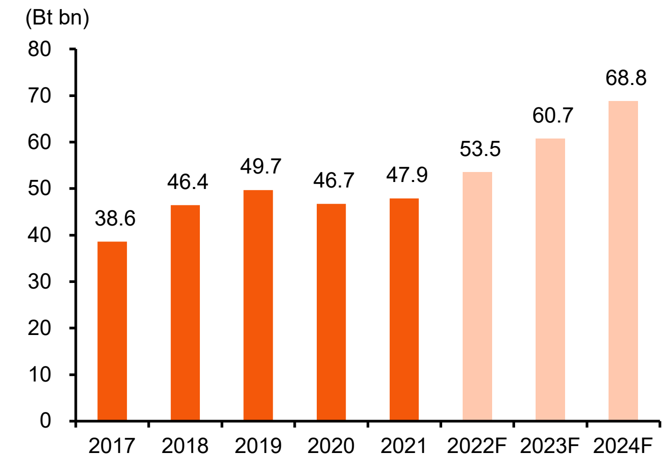
THANI issued Bt3bn worth of debentures under 2.5 and three-year tenors at coupon rates of 1.8% and 2%, respectively. The company's proportion of short-term borrowing has declined slightly from 45% in 4Q21 to 40%. THANI is still in a wait-and-see mode and might look to lengthen its liability duration further in 2H22. We conservatively bake in the cost of funds rising from 2.4% in 2021 to 2.5% in 2022F, 2.65% in 2023F and 2.7% in 2024F to factor in rising interest rates and its long-term funding portion increasing to over 60%. Even so, we still look for a higher three-year EPS CAGR of 15% from 12% previously.

Ex 3: New Drawdowns



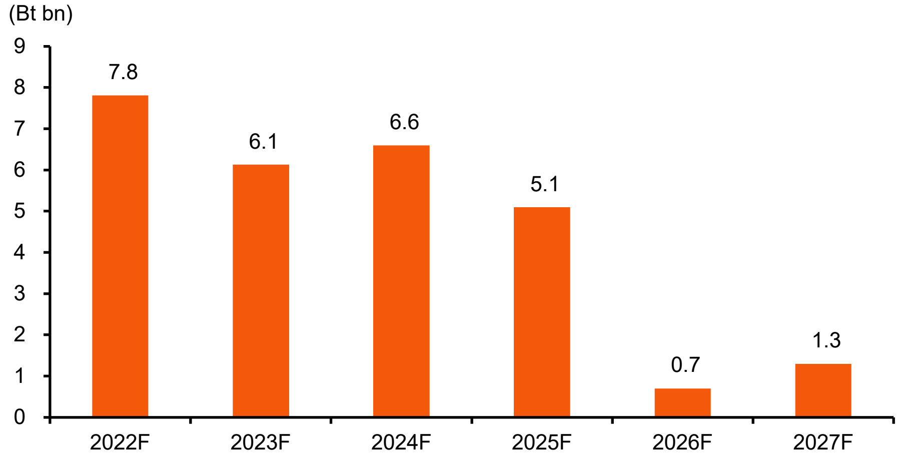
Sources: Company data, Thanachart estimates

Ex 4: Net Loans



Sources: Company data, Thanachart estimates

Ex 5: Debentures Come To Maturity Through To 2027F



Source: Thanachart estimates

Reaffirming our BUY call with a higher TP of Bt5.6

Attractive valuation with healthy dividend yields

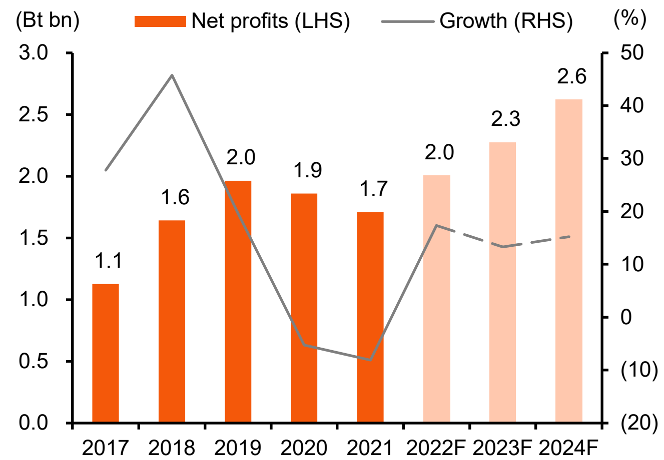
On the back of our earnings hikes and rolling over our base year to 2023F, we raise our DDM-based 12-month TP, using a 9.7% cost of equity, to Bt5.6 from Bt4.8 previously. THANI is still a BUY and we are now more bullish on the counter.

1) THANI looks ready to resume its robust growth with a clearer product expansion plan. Besides stronger growth of existing truck and luxury car HP loans, THANI has launched used-car HP and floor-plan loans while it plans to offer truck title loans from July.

2) THANI looks very attractive to us trading on 2022F PE of 13x, before falling to 11x in 2023F. This is versus our forecast for a higher three-year EPS CAGR of 15%.

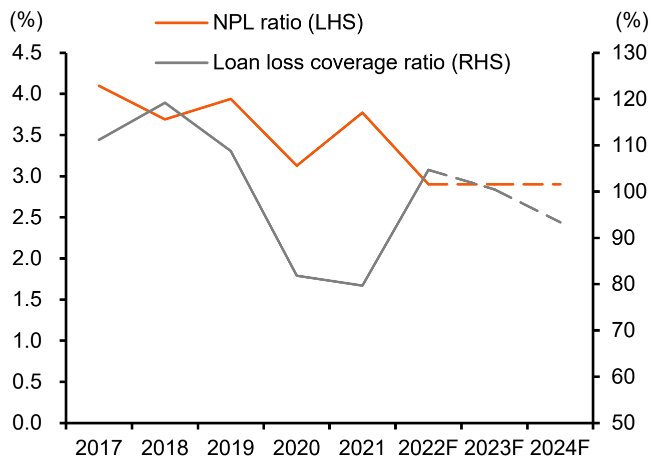
3) Its balance sheet is stronger than before with lower NPLs and a higher loan-loss-coverage ratio. THANI's net D/E is still low at less than 4x while it pays good dividends with more than a 4% dividend yield.

Ex 6: Higher Growth…



Sources: Company data, Thanachart estimates

Ex 7: …With A Stronger Balance Sheet



Sources: Company data, Thanachart estimates

Ex 8: 12-month DDM-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal value
Dividend of common shares	1,364	1,572	1,771	1,981	2,203	2,435	2,679	2,936	4,003	4,349	4,349
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	1,364	1,572	1,771	1,981	2,203	2,435	2,679	2,936	4,003	4,349	46,498

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	31,767
No. of shares (m)	5,663
Equity value / share (Bt)	**5.60**

Source: Thanachart estimates

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

			EPS growth		PE		P/BV		ROE		Div. yield	
Name	**BBG code**	**Country**	**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	375.6	10.2	0.5	0.5	0.1	0.1	21.1	18.8	19.2	36.9
Mahindra & Mahindra Fin Secs	MMFS IN	India	(28.5)	127.2	27.2	12.0	1.4	1.3	5.7	10.7	0.8	2.1
Bajaj Finance Ltd	BAF IN	India	(0.5)	52.1	52.6	34.6	8.6	7.0	17.4	21.7	0.2	0.3
Manappuram Finance Ltd	MGFL IN	India	1.2	7.9	5.9	5.5	1.0	0.8	17.2	16.5	3.1	3.4
GMO Payment Gateway Inc.	3769 JP	Japan	79.9	(16.6)	50.8	60.9	12.3	11.1	24.2	19.5	0.6	0.8
Infomart Corp.	2492 JP	Japan	na	201.7	664.1	220.1	10.2	9.8	2.0	5.5	0.1	0.2
Ally Financial Inc	ALLY US	US	(7.5)	(0.1)	5.5	5.5	0.9	0.8	17.3	16.5	2.8	3.0
World Acceptance Corp	WRLD US	US	30.8	(48.3)	12.7	24.6	2.2	2.2	17.3	8.4	na	na
Navient Corp	NAVI US	US	(23.3)	(6.5)	5.0	5.3	0.8	0.7	17.4	13.8	4.0	4.0
SLM Corp	SLM US	US	(20.6)	7.4	6.7	6.2	2.6	2.3	38.1	35.6	2.3	2.2
Amanah Leasing	AMANAH TB	Thailand	7.7	17.6	15.9	13.6	2.8	2.5	18.5	19.4	3.0	3.7
Asia Sermkij Leasing *	ASK TB	Thailand	18.3	36.7	14.5	10.6	2.3	2.1	16.3	20.3	3.4	4.7
Bangkok Commercial Asset Mgt.*	BAM TB	Thailand	25.3	17.6	18.6	15.9	1.4	1.3	7.5	8.6	3.8	4.4
Chayo Group	CHAYO TB	Thailand	106.2	(12.5)	27.8	31.8	3.5	2.8	15.2	10.6	0.9	0.8
JMT Network Services *	JMT TB	Thailand	24.6	49.6	57.0	38.1	4.9	4.7	9.6	12.6	1.4	2.1
Krungthai Card *	KTC TB	Thailand	7.2	16.0	24.9	21.5	5.1	4.5	22.0	22.3	1.8	2.1
Muangthai Capital *	MTC TB	Thailand	19.0	30.6	18.0	13.8	3.6	2.9	21.5	23.2	0.9	1.2
Saksiam Leasing *	SAK TB	Thailand	36.1	35.5	21.3	15.7	3.3	2.9	16.1	19.5	1.9	2.5
Srisawad Corporation *	SAWAD TB	Thailand	16.1	28.0	13.8	10.8	2.7	2.3	20.3	23.1	3.6	4.6
Ratchthani Leasing *	THANI TB	Thailand	17.4	13.3	12.9	11.4	2.1	2.0	16.8	17.7	4.6	5.3
Ngern Tid Lor *	TIDLOR TB	Thailand	15.9	27.4	22.2	17.4	3.3	2.9	15.8	17.6	0.9	1.1
Average			**35.0**	**28.3**	**51.3**	**27.4**	**3.6**	**3.2**	**16.2**	**16.8**	**3.0**	**4.3**

Source: Bloomberg
Note: * Thanachart estimates using normalized EPS growth
Based on 30 May 2022 closing price

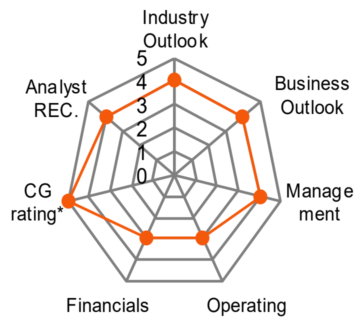
Our major shareholder TCAP (Thanachart Capital Pcl) holds 50.96% of Thanachart Securities. TCAP also holds 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd holds 60% stake in THANI and is the major shareholder of THANI.

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)	4.79	5.60	17%
Net profit 22F (Bt m)	1,929	2,006	4%
Net profit 23F (Bt m)	2,093	2,273	9%
Consensus REC	**BUY: 6**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in stronger loan growth and lower NPLs for THANI.
- As a consequence, our earnings and TP are higher.

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 the cost-to-income ratio would present secondary downside risks to our earnings and TP.

Source: Thanachart

Higher loan volume

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Interest Income	3,516	3,430	3,661	4,122	4,665
Interest Expenses	1,063	913	910	1,109	1,310
Net Interest Income	**2,452**	**2,517**	**2,752**	**3,013**	**3,355**
% of total income	76.7%	76.0%	74.0%	73.1%	72.5%
Fee income	316	380	478	555	643
% of total income	10%	11%	13%	13%	14%
Other income	431	417	490	555	628
% of total income	13%	13%	13%	13%	14%
Non-interest Income	**747**	**796**	**968**	**1,110**	**1,271**
% of total income	23.3%	24.0%	26.0%	26.9%	27.5%
Total Income	**3,199**	**3,313**	**3,719**	**4,123**	**4,626**
Operating Expenses	538	585	690	759	835
Pre-provisioning Profit	**2,662**	**2,729**	**3,029**	**3,364**	**3,792**
Bad debt expenses	338	586	522	522	517
Pre-tax Profit	**2,324**	**2,143**	**2,507**	**2,841**	**3,274**
Income Tax	464	434	501	568	655
After Tax Profit	1,860	1,709	2,006	2,273	2,619
Equity Income	0	0	0	0	0
Minority Interest	(0)	(0)	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	**1,860**	**1,709**	**2,006**	**2,273**	**2,619**
Normalized Profit	**1,860**	**1,709**	**2,006**	**2,273**	**2,619**
EPS (Bt)	0.4	0.3	0.4	0.4	0.5
Normalized EPS (Bt)	0.4	0.3	0.4	0.4	0.5

Stronger balance sheet

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Cash and Interbank	1,044	476	400	400	400
Other current assets	137	182	227	272	317
Total current assets	**1,181**	**658**	**627**	**672**	**717**
Gross loans & accr. interest	53,285	54,786	61,237	69,370	78,458
Provisions	1,228	1,485	1,676	1,823	1,916
Net loans	**46,748**	**47,911**	**53,536**	**60,723**	**68,823**
Fixed assets	147	165	141	132	125
Right of use - net	20	13	12	12	11
Other assets	422	476	480	544	617
Total assets	**48,518**	**49,223**	**54,797**	**62,083**	**70,293**
Short term borrowing	5,372	9,403	9,403	10,343	11,377
Due to related parties	0	0	0	0	0
Current LT portion	5,628	5,814	5,977	5,302	5,315
Other current liabilities	958	3,561	3,661	3,761	3,861
Long term borrowing	25,742	18,879	23,392	29,404	35,418
Total borrowings	**31,114**	**28,281**	**32,795**	**39,747**	**46,796**
Other L-T liabilities	0	0	0	0	0
Minority interest	0	0	0	0	0
Shareholders' equity	10,819	11,567	12,369	13,278	14,326
Total Liab. & Equity	**48,518**	**49,223**	**54,797**	**62,083**	**70,293**

Sources: Company data, Thanachart estimates

Attractive valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	13.1	15.2	12.9	11.4	9.9
Normalized PE - at target price (x)	16.0	18.6	15.8	14.0	12.1
PE (x)	13.1	15.2	12.9	11.4	9.9
PE - at target price (x)	16.0	18.6	15.8	14.0	12.1
P/PPP (x)	9.1	9.5	8.6	7.7	6.8
P/PPP - at target price (x)	11.2	11.6	10.5	9.4	8.4
P/BV (x)	2.4	2.2	2.1	2.0	1.8
P/BV - at target price (x)	2.9	2.7	2.6	2.4	2.2
Dividend yield (%)	3.7	3.7	4.6	5.3	6.1
Normalized EPS	0.4	0.3	0.4	0.4	0.5
EPS	0.4	0.3	0.4	0.4	0.5
DPS	0.2	0.2	0.2	0.2	0.3
PPP/Share	0.5	0.5	0.5	0.6	0.7
BV/share	1.9	2.0	2.2	2.3	2.5
P/BV to ROE	0.1	0.1	0.1	0.1	0.1

Rising interest rates factored in

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	(3.0)	2.6	9.3	9.5	11.4
Non-interest income (Non-II)	6.8	6.6	21.5	14.7	14.5
Operating expenses	(5.7)	8.7	18.0	10.0	10.0
Pre-provisioning profit (PPP)	0.2	2.5	11.0	11.0	12.7
Net profit	(5.3)	(8.1)	17.4	13.3	15.2
Normalized profit growth	(5.3)	(8.1)	17.4	13.3	15.2
EPS	(6.8)	(13.9)	17.4	13.3	15.2
Normalized EPS	(6.8)	(13.9)	17.4	13.3	15.2
Dividend payout ratio	51.8	56.3	60.0	60.0	60.0
Loan - gross	(8.1)	2.8	11.8	13.3	13.1
Loan - net	(6.0)	2.5	11.7	13.4	13.3
Borrowings	(13.1)	(7.2)	13.7	16.2	15.7
NPLs	(26.6)	24.2	(14.1)	13.3	13.1
Total assets	(4.6)	1.5	11.3	13.3	13.2
Total equity	41.0	6.9	6.9	7.4	7.9
Operating Ratios (%)					
Net interest margin (NIM)	4.9	5.2	5.3	5.2	5.1
Net interest spread	4.4	4.6	4.5	4.4	4.3
Loan yield	7.0	7.0	7.0	7.0	7.0
Borrowing cost	2.6	2.4	2.5	2.7	2.7
Yield on earnings assets	7.0	7.0	7.0	7.0	7.0
Avg cost of fund	2.7	2.6	2.5	2.7	2.7
NII / operating income	76.7	76.0	74.0	73.1	72.5
Non-II / operating income	23.3	24.0	26.0	26.9	27.5
Normalized net margin	58.1	51.6	53.9	55.1	56.6
Cost-to-income	16.8	17.6	18.5	18.4	18.0
Credit cost - provision exp / loans	0.6	1.1	0.9	0.8	0.7
PPP / total assets	5.4	5.6	5.8	5.8	5.7
PPP / total equity	28.8	24.4	25.3	26.2	27.5
Avg assets/avg equity (leverage)	5.4	4.4	4.3	4.6	4.8
ROA	3.7	3.5	3.9	3.9	4.0
ROE	20.1	15.3	16.8	17.7	19.0

Sources: Company data, Thanachart estimates

Low gearing

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrowings	411.1	478.6	534.9	560.0	584.5
Net Loan / Borrowings	360.7	418.5	467.7	490.2	512.8
Net Loan / Assets	96.4	97.3	97.7	97.8	97.9
Net Loan / Equity	432.1	414.2	432.8	457.3	480.4
S-T / L-T Borrowings	41.4	82.1	82.1	83.5	84.8
Borrowings / Liabilities	34.4	30.4	27.0	25.4	24.0
Interest-bearing Debt / Equity	339.0	294.4	313.0	338.7	363.2
Liabilities / Equity	348.5	325.6	343.0	367.6	390.7
Equity to Gross Loan	20.3	21.1	20.2	19.1	18.3
NPLs	1,500.4	1,863.4	1,601.2	1,813.8	2,051.4
NPLs / Total Loans (NPL Ratio)	3.1	3.8	2.9	2.9	2.9
Loan-Loss-Coverage (Provision / NPLs)	81.9	79.7	104.7	100.5	93.4

Sources: Company data, Thanachart estimates

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