Muangthai Capital Pcl (MTC TB) - BUY, Price Bt51.00, TP Bt56.00

Results Comment

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Slightly missed on provisions

- MTC's 2Q22 profits slightly missed our estimate on higher provisions despite lower funding costs. NPLs rose faster than expected, driven mainly by new motorcycle HP loans.
- Pre-provisioning profits were strong growing 28% y-y and 18% q-q and came in slightly better than our expectation.
- 1H22 profits made up 48% of our full-year forecast. There is less than 10% upside to our TP. Since we need to revise up NPLs and credit cost assumptions, we will re-visit our projection and a BUY recommendation.
- Loans grew nicely 35% y-y and 17% YTD. The growth was mainly from titled loans. While motorcycle HP loans grew at slower pace q-q i.e. from 36% in 1Q22 to just 3% in 2Q22.
- Yield came down slightly while cost of fund held up. As a result, NII grew at slow pace than volume growth but was still strong at 24% y-y and 7% q-q.
- Opex rose 17% y-y on increase in number of branches by 23% y-y to 6,475 branches. The expenses were pretty much stable q-q so cost to income ratio fell to 47% from 51% in 1Q22.
- The concern was on asset quality. NPLs rose 29% q-q to almost 2% of total loans. NPL ratio was rising to 1.7% for titled loans and 6% for motorcycle HP. We did expect NPL to rise but the magnitude was larger.
- In light of rising NPLs, provisions rose 250% y-y and 223% q-q. 2Q22's credit costs were 1.78% vs 0.6% in 1Q22. MTC's LLR fell from 113% to 96% in 2Q22.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Interest income	3,684	3,844	4,082	4,285	4,617
Interest expense	507	557	587	604	663
Net interest income	**3,177**	**3,287**	**3,495**	**3,682**	**3,955**
Non-interest income	212	188	151	163	208
Total income	3,389	3,475	3,647	3,844	4,162
Operating expense	1,657	1,780	2,023	1,963	1,946
Pre-provisioning profit	**1,732**	**1,694**	**1,624**	**1,881**	**2,216**
Provision for bad&doubtful debt	137	189	256	149	481
Profit before tax	1,595	1,505	1,368	1,732	1,735
Tax	325	304	268	357	355
Profit after tax	1,270	1,201	1,100	1,376	1,381
Equity income	-	-	-	-	-
Minority interests	-	-	-	-	-
Extra items	-	-	-	-	-
Net profit	**1,270**	**1,201**	**1,100**	**1,376**	**1,381**
Normalized profit	**1,270**	**1,201**	**1,100**	**1,376**	**1,381**
PPP/share (Bt)	0.8	0.8	0.8	0.9	1.0
EPS (Bt)	0.6	0.6	0.5	0.6	0.7
Norm EPS (Bt)	0.6	0.6	0.5	0.6	0.7
BV/share (Bt)	10.6	11.2	11.7	12.4	12.7

Income Statement			6M as		
(Bt m)	q-q%	y-y%	% 2022F	2022F	2023F
Interest & dividend income	8	25	48	18,608	24,232
Interest expense	10	31	44	2,893	4,312
Net interest income	**7**	**24**	**49**	**15,715**	**19,919**
Non-interest income	28	(2)	54	680	721
Total income	8	23	49	16,395	20,640
Operating expense	(1)	17	48	8,145	9,774
Pre-provisioning profit	**18**	**28**	**50**	**8,250**	**10,866**
Provision for bad&doubtful debt	223	250	60	1,050	1,769
Profit before tax	0	9	48	7,200	9,097
Tax	(1)	9	49	1,440	1,819
Profit after tax	0	9	48	5,760	7,278
Equity income	neg	neg		-	-
Minority interests	neg	neg		-	-
Extra items	neg	neg		-	-
Net profit	**0**	**9**	**48**	**5,760**	**7,278**
Normalized profit	**0**	**9**	**48**	**5,760**	**7,278**
PPP/share (Bt)	18	28	50	5.1	6.5
EPS (Bt)	0	9	48	3.4	4.3
Norm EPS (Bt)	0	9	48	3.4	4.3
BV/share (Bt)	2	19	13	16.9	20.6

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	2Q21	3Q21	4Q21	1Q22	2Q22
Cash and cash equivalent	1,327	1,521	1,306	1,652	2,879
Other current assets	487	431	397	425	442
Total current assets	1,813	1,952	1,703	2,077	3,321
Gross loans and accrued interest	79,831	84,952	91,812	98,612	107,401
Provisions	1,436	1,597	1,832	1,840	2,025
Net loans	78,394	83,354	89,981	96,773	105,376
Fixed assets	1,979	2,021	2,054	2,098	2,107
Other assets	4,384	4,571	4,652	4,863	5,019
Total assets	**86,570**	**91,898**	**98,390**	**105,811**	**115,822**
Short term borrowing	4,177	1,999	4,235	3,504	5,863
Current portion of LT loans	16,886	24,138	24,558	26,866	27,125
Other current liabilities	2,309	2,189	2,908	2,934	2,759
Total current liabilities	23,372	28,326	31,702	33,304	35,748
Borrowings	7,515	4,348	5,930	7,637	8,104
Other liabilities	33,139	35,478	35,890	38,626	45,130
Minority interest	-	-	-	-	-
Shareholders' equity	**22,545**	**23,747**	**24,869**	**26,244**	**26,840**
Total Liabilities & Equity	**86,570**	**91,898**	**98,390**	**105,811**	**115,822**

Financial Ratios					
(%)	2Q21	3Q21	4Q21	1Q22	2Q22
Gross loan growth (YTD)	14.1	21.5	31.6	7.8	17.2
Gross loan growth (q-q)	9.3	6.5	8.4	7.8	8.7
Borrowing growth (YTD)	13.2	20.5	30.0	8.2	21.0
Borrowing growth (q-q)	11.0	6.4	7.9	8.2	11.8
Non-interest income (y-y)	13.0	3.3	(24.7)	(40.2)	(2.1)
Non-interest income (q-q)	(22.1)	(11.4)	(19.4)	7.4	27.6
Cost-to-income	48.9	51.2	55.5	51.1	46.8
Net interest margin	15.3	14.7	14.7	14.42	14.27
Credit cost	0.69	0.89	1.11	0.60	1.78
ROE	22.8	20.8	18.1	21.5	20.8
ROA	6.1	5.4	4.6	5.4	5.0
Loan-to-borrowing	124.7	124.7	124.9	123.9	120.7
Loan-to- total equity	347.7	351.0	361.8	368.7	392.6
NPLs (Btm)	882.4	997.0	1,275.9	1,629.6	2,104.0
NPL increase	173.5	114.6	278.9	353.6	474.4
NPL ratio (%)	1.11	1.17	1.39	1.65	1.96
Loan loss coverage ratio (%)	162.8	160.2	143.6	112.9	96.3

Sources: Company data, Thanachart estimates

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