BUY (Unchanged)

Change in Numbers

TP: Bt 5.30 (From: Bt 5.60)

Upside : 26.2%

5 AUGUST 2022

Small Cap Research

Ratchthani Leasing Pcl (THANI TB)

Solid recovery

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Thanachart Securities

Given cautious lending during the COVID crisis and proactive repossession activity, THANI is bucking the sector's rising NPL trend. Lower provisions help to offset rising funding costs and we trim our earnings by only 2% over five years. THANI looks inexpensive to us, at 11x PE vs. our forecasted three-year EPS CAGR of 13%. Still a BUY.

Good NPL control

Thanks to its cautious and stricter loan underwriting during the COVID-19 crisis in 2020-21 and proactive repossession activity, THANI has been able to contain NPL risks amid rising diesel and inflationary pressure. We expect its NPLs to continue heading south with the NPL ratio coming down to below 3% in 2Q22F. Repossession activity has increased legal expenses and impairment losses. Operating expenses are on the rise but are well offset by lower provisions. From 1.1% last year, we expect credit costs of 0.74% this year and 0.7% in 2023-24F. Loan-loss-coverage ratio wise, THANI looks comfortable at over 90% and we assume 101% this year, 98% in 2023F and 95% in 2024F.

Higher funding costs factored in

In response to faster interest rate hikes, THANI has lengthened its liability duration. It issued 3.5-year debentures worth Bt2bn at a coupon rate of 3.26% in June and plans to issue four-year debentures worth Bt3bn in August. The coupon rates are higher than its past issuances and we lift our cost of funds by 5-10bps over 2022-24F. THANI plans to gradually pass on rising funding costs to truck borrowers but follow the market trend in the competitive luxury car segment which makes up 25% of total loans. THANI foresees the luxury car interest rate rising after a policy rate hike takes place, expected in August this year.

Trimming our earnings but turnaround intact

As we cut our provisions but raise our cost of funds, we trim our earnings estimates by an average of 2.4% over 2022-26F. Despite our earnings cuts, we see no disruption to THANI's earnings growth turnaround story. Earnings bottomed out in 3Q21 and we expect stronger earnings growth momentum in 2Q22F. Driven by higher loans and lower provisions, we estimate 2Q22F profits of Bt487m, increasing 14% y-y and q-q. With higher loan drawdowns in 2H because of the seasonal effect, we project 16% EPS growth this year, 13% in 2023F and 12% in 2024F.

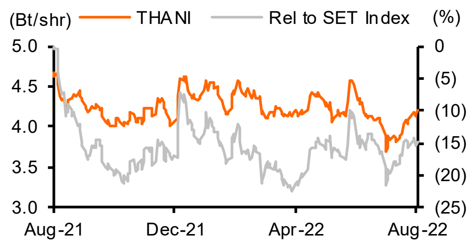
Reaffirm BUY call with a lower TP of Bt5.3

In light of our earnings downgrades, we trim our DDM-derived 12-month TP to Bt5.3 (from Bt5.6). Our TP implies 13x PE on 2023F earnings which we believe is justified by THANI's three-year EPS CAGR of 13%. There is hefty 26% potential upside to our TP and we continue to rate THANI as a BUY. 1) Amid concerns of worsening asset quality given rising diesel prices, THANI has contained NPLs and lowered its NPL ratio to below 3%. 2) Its prudent underwriting criteria have not disrupted its loan growth and earnings turnaround story. 3) Rising interest rates are negative for THANI but we have baked in higher funding costs along with the company's plan to lift its long-term funding portion.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Pre Provision Profit	2,729	2,900	3,252	3,633
Net profit	1,709	1,980	2,246	2,506
Consensus NP	—	1,921	2,103	2,310
Diff frm cons (%)	—	*3.1*	*6.8*	*8.5*
Norm profit	1,709	1,980	2,246	2,506
Prev. Norm profit	—	2,006	2,273	2,619
Chg frm prev (%)	—	*(1.3)*	*(1.2)*	*(4.3)*
Norm EPS (Bt)	0.3	0.3	0.4	0.4
Norm EPS grw (%)	(13.9)	15.8	13.4	11.6
Norm PE (x)	13.9	12.0	10.6	9.5
P/BV (x)	2.1	1.9	1.8	1.7
Div yield (%)	4.0	5.0	5.7	6.3
ROE (%)	15.3	16.6	17.5	18.2
ROA (%)	3.5	3.8	3.9	3.9

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 5-Aug-22 (Bt)	4.20
Market Cap (US$ m)	668.7
Listed Shares (m shares)	5,663.0
Free Float (%)	29.9
Avg Daily Turnover (US$ m)	2.3
12M Price H/L (Bt)	4.68/3.70
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.

Ex 1: Earnings Revisions

	2020	2021	2022F	2023F	2024F
Net profits (Bt bn)					
- New	1.86	1.71	1.98	2.25	2.51
- Old			2.01	2.27	2.62
- Change (%)			*(1.30)*	*(1.21)*	*(4.32)*
Net loans (Bt bn)					
- New	46.75	47.91	52.60	58.77	66.37
- Old			53.54	60.72	68.82
- Change (%)			*(1.74)*	*(3.22)*	*(3.56)*
Non-interest income (Bt m)					
- New	746.98	796.24	961.65	1,086.94	1,241.63
- Old			967.55	1,109.93	1,271.01
- Change (%)			*(0.61)*	*(2.07)*	*(2.31)*
Cost of funds (%)					
- New	2.70	2.58	2.60	2.70	2.80
- Old			2.50	2.65	2.70
- Change (%)			*0.10*	*0.05*	*0.10*
Credit costs (%)					
- New	0.61	1.08	0.74	0.70	0.70
- Old			0.90	0.80	0.70
- Change (%)			*(0.16)*	*(0.10)*	—

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2023F

(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
Dividend of common shares	1,347	1,504	1,709	1,944	2,167	2,415	2,700	2,997	3,327	3,692	4,098	4,098
Dividend payment	1,347	1,504	1,709	1,944	2,167	2,415	2,700	2,997	3,327	3,692	4,098	47,607
PV of Dividend	1,347	1,247	1,274	1,314	1,328	1,342	1,361	1,369	1,323	1,325	1,328	15,425

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	29,984
No. of shares (m)	5,663
Equity value / share (Bt)	**5.30**

Source: Thanachart estimates

Valuation Comparison

Ex 3: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 22F	EPS growth 23F	PE 22F	PE 23F	P/BV 22F	P/BV 23F	ROE 22F	ROE 23F	Div. yield 22F	Div. yield 23F
Afterpay Ltd	APT AU	Australia	na	na	na	na	na	na	(0.4)	6.6	na	na
Finvolution Group	FINV US	China	346.3	11.5	0.6	0.5	0.1	0.1	19.9	18.1	16.6	31.8
Mahindra & Mahindra Fin Secs	MMFS IN	India	(28.5)	280.5	29.6	7.8	1.5	1.3	5.7	10.1	0.7	1.9
Bajaj Finance Ltd	BAF IN	India	(0.5)	53.7	62.9	40.9	10.2	8.3	17.4	22.2	0.2	0.3
Manappuram Finance Ltd	MGFL IN	India	1.2	7.2	6.8	6.3	1.1	1.0	17.2	16.7	2.7	2.8
GMO Payment Gateway Inc.	3769 JP	Japan	136.3	(37.0)	41.7	66.2	12.4	11.4	25.7	17.7	0.6	0.7
Infomart Corp.	2492 JP	Japan	(47.5)	159.9	405.6	156.1	10.2	9.5	2.6	7.6	0.1	0.3
Ally Financial Inc	ALLY US	US	(13.9)	(4.6)	4.5	4.7	0.8	0.7	16.6	15.8	3.7	3.9
World Acceptance Corp	WRLD US	US	30.8	na	10.5	36.8	1.8	1.9	17.3	3.5	na	na
Navient Corp	NAVI US	US	(19.2)	(12.1)	4.7	5.4	0.7	0.6	17.6	12.8	4.0	4.0
SLM Corp	SLM US	US	(27.1)	6.2	5.7	5.4	2.2	2.1	40.6	39.1	2.9	3.1
Amanah Leasing	AMANAH TB	Thailand	7.7	20.7	13.6	11.2	2.4	2.1	18.4	19.9	3.6	4.4
Asia Sermkij Leasing *	ASK TB	Thailand	18.3	36.7	12.7	9.3	2.0	1.8	16.3	20.3	3.9	5.4
Bangkok Commercial Asset Mgt.*	BAM TB	Thailand	25.3	17.6	17.0	14.4	1.3	1.2	7.5	8.6	4.1	4.9
Chayo Group	CHAYO TB	Thailand	108.8	(13.6)	23.4	27.1	3.0	2.4	15.1	10.8	0.8	0.8
JMT Network Services *	JMT TB	Thailand	24.6	49.6	55.9	37.4	4.8	4.6	9.6	12.6	1.4	2.1
Krungthai Card *	KTC TB	Thailand	7.2	16.0	23.9	20.6	4.9	4.3	22.0	22.3	1.9	2.2
Muangthai Capital *	MTC TB	Thailand	16.5	26.3	18.6	14.7	3.6	3.0	21.1	22.2	0.9	1.1
Saksiam Leasing *	SAK TB	Thailand	36.1	35.5	19.0	14.0	2.9	2.6	16.1	19.5	2.1	2.8
Srisawad Corporation *	SAWAD TB	Thailand	16.1	28.0	13.4	10.5	2.6	2.3	20.3	23.1	3.7	4.8
Ratchthani Leasing *	THANI TB	Thailand	15.8	13.4	12.0	10.6	1.9	1.8	16.6	17.5	5.0	5.7
Ngern Tid Lor *	TIDLOR TB	Thailand	15.9	27.4	19.7	15.5	2.9	2.5	15.8	17.6	1.0	1.3
Average			**31.9**	**36.1**	**38.2**	**24.5**	**3.5**	**3.1**	**16.3**	**16.6**	**3.0**	**4.2**

Source: Bloomberg
Note: * Thanachart estimates using normalized EPS growth
Based on 5 Aug 2022 closing price

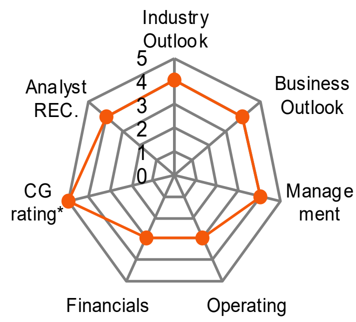
Our major shareholder TCAP (Thanachart Capital Pcl) holds 50.96% of Thanachart Securities. TCAP also holds 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd holds 60% stake in THANI and is the major shareholder of THANI.

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)	5.01	5.30	6%
Net profit 22F (Bt m)	1,921	1,980	3%
Net profit 23F (Bt m)	2,103	2,246	7%
Consensus REC	**BUY: 5**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in lower credit costs for THANI on the back of its solid asset quality.
- As a consequence, our earnings and DDM-derived 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	3,574	4,014	4,506
Interest Expenses	1,063	913	934	1,091	1,297
Net Interest Income	**2,452**	**2,517**	**2,640**	**2,923**	**3,209**
% of total income	76.7%	76.0%	73.3%	72.9%	72.1%
Fee income	316	380	481	550	636
% of total income	10%	11%	13%	14%	14%
Other income	431	417	481	537	606
% of total income	13%	13%	13%	13%	14%
Non-interest Income	**747**	**796**	**962**	**1,087**	**1,242**
% of total income	23.3%	24.0%	26.7%	27.1%	27.9%
Total Income	**3,199**	**3,313**	**3,601**	**4,010**	**4,451**
Operating Expenses	538	585	702	758	818
Pre-provisioning Profit	**2,662**	**2,729**	**2,900**	**3,252**	**3,633**
Bad debt expenses	338	586	425	445	500
Pre-tax Profit	**2,324**	**2,143**	**2,475**	**2,807**	**3,133**
Income Tax	464	434	495	561	627
After Tax Profit	1,860	1,709	1,980	2,246	2,506
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**	**1,980**	**2,246**	**2,506**
Normalized Profit	**1,860**	**1,709**	**1,980**	**2,246**	**2,506**
EPS (Bt)	0.4	0.3	0.3	0.4	0.4
Normalized EPS (Bt)	0.4	0.3	0.3	0.4	0.4

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	60,103	67,095	75,709
Provisions	1,228	1,485	1,585	1,728	1,886
Net loans	**46,748**	**47,911**	**52,605**	**58,766**	**66,374**
Fixed assets	147	165	138	127	119
Right of use - net	20	13	12	12	11
Other assets	422	476	480	536	606
Total assets	**48,518**	**49,223**	**53,862**	**60,113**	**67,828**
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	5,054	3,354	2,917
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	12,358	13,257	14,259
Total Liab. & Equity	**48,518**	**49,223**	**53,862**	**60,113**	**67,828**

Sources: Company data, Thanachart estimates

Attractive valuation, in our view

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	12.0	13.9	12.0	10.6	9.5
Normalized PE - at target price (x)	15.1	17.6	15.2	13.4	12.0
PE (x)	12.0	13.9	12.0	10.6	9.5
PE - at target price (x)	15.1	17.6	15.2	13.4	12.0
P/PPP (x)	8.4	8.7	8.2	7.3	6.5
P/PPP - at target price (x)	10.6	11.0	10.4	9.2	8.3
P/BV (x)	2.2	2.1	1.9	1.8	1.7
P/BV - at target price (x)	2.8	2.6	2.4	2.3	2.1
Dividend yield (%)	4.0	4.0	5.0	5.7	6.3
Normalized EPS	0.4	0.3	0.3	0.4	0.4
EPS	0.4	0.3	0.3	0.4	0.4
DPS	0.2	0.2	0.2	0.2	0.3
PPP/Share	0.5	0.5	0.5	0.6	0.6
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

FINANCIAL RATIOS

Faster pace of rate hikes factored in

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate (%)					
Net interest income (NII)	(3.0)	2.6	4.9	10.7	9.8
Non-interest income (Non-II)	6.8	6.6	20.8	13.0	14.2
Operating expenses	(5.7)	8.7	20.0	8.0	8.0
Pre-provisioning profit (PPP)	0.2	2.5	6.3	12.1	11.7
Net profit	(5.3)	(8.1)	15.8	13.4	11.6
Normalized profit growth	(5.3)	(8.1)	15.8	13.4	11.6
EPS	(6.8)	(13.9)	15.8	13.4	11.6
Normalized EPS	(6.8)	(13.9)	15.8	13.4	11.6
Dividend payout ratio	51.8	56.3	60.0	60.0	60.0
Loan - gross	(8.1)	2.8	9.7	11.6	12.8
Loan - net	(6.0)	2.5	9.8	11.7	12.9
Borrowings	(13.1)	(7.2)	11.0	13.9	15.3
NPLs	(26.6)	24.2	(15.7)	11.6	12.8
Total assets	(4.6)	1.5	9.4	11.6	12.8
Total equity	41.0	6.9	6.8	7.3	7.6
Operating Ratios (%)					
Net interest margin (NIM)	4.9	5.2	5.1	5.1	5.0
Net interest spread	4.4	4.6	4.3	4.3	4.2
Loan yield	7.0	7.0	6.9	7.0	7.0
Borrowing cost	2.6	2.4	2.6	2.7	2.8
Yield on earnings assets	7.0	7.0	6.9	7.0	7.0
Avg cost of fund	2.7	2.6	2.6	2.7	2.8
NII / operating income	76.7	76.0	73.3	72.9	72.1
Non-II / operating income	23.3	24.0	26.7	27.1	27.9
Normalized net margin	58.1	51.6	55.0	56.0	56.3
Cost-to-income	16.8	17.6	19.5	18.9	18.4
Credit cost - provision exp / loans	0.6	1.1	0.7	0.7	0.7
PPP / total assets	5.4	5.6	5.6	5.7	5.7
PPP / total equity	28.8	24.4	24.2	25.4	26.4
Avg assets/avg equity (leverage)	5.4	4.4	4.3	4.4	4.6
ROA	3.7	3.5	3.8	3.9	3.9
ROE	20.1	15.3	16.6	17.5	18.2

Sources: Company data, Thanachart estimates

Low gearing

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrow ings	411.1	478.6	525.0	541.6	564.1
Net Loan / Borrow ings	360.7	418.5	459.5	474.4	494.5
Net Loan / Assets	96.4	97.3	97.7	97.8	97.9
Net Loan / Equity	432.1	414.2	425.7	443.3	465.5
S-T / L-T Borrow ings	41.4	82.1	82.1	83.5	84.8
Borrow ings / Liabilities	34.4	30.4	27.6	26.4	25.1
Interest-bearing Debt / Equity	339.0	294.4	305.8	324.6	348.0
Liabilities / Equity	348.5	325.6	335.8	353.5	375.7
Equity to Gross Loan	20.3	21.1	20.6	19.8	18.8
NPLs	1,500.4	1,863.4	1,571.5	1,754.3	1,979.6
NPLs / Total Loans (NPL Ratio)	3.1	3.8	2.9	2.9	2.9
Loan-Loss-Coverage (Provision / NPLs)	81.9	79.7	100.9	98.5	95.3

Sources: Company data, Thanachart estimates

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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.

Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 23% of the shareholding in TMBThanachart Bank Pcl.

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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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