Finance Sector – Overweight

Earnings Preview

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3Q22F preview

- **Loan growth remains strong…**
- **…but with higher NPLs for most fincos.**
- **Rising but manageable funding costs.**
- **Undervalued due to unsettled headwinds.**

Ex 1: 3Q22F Preview

(Bt m)	3Q21	1Q22	2Q22	3Q22F	% change y-y	% change q-q	% of 2022F
ASK	314.34	351.04	359.02	380.00	20.89	5.85	70.8
BAM	576.33	311.84	830.62	830.00	44.02	(0.08)	60.5
JMT	351.69	366.96	433.31	430.00	22.27	(0.76)	59.7
KTC	1,316.94	1,747.27	1,893.75	1,920.00	45.79	1.39	88.2
MTC	1,200.77	1,375.56	1,380.61	1,328.00	10.60	(3.81)	76.1
SAWAD	1,111.61	1,035.95	1,041.62	1,200.00	7.95	15.21	74.1
SAK	166.44	164.91	166.38	176.00	5.75	5.78	72.1
TIDLOR	812.72	940.36	981.41	933.54	14.87	(4.88)	75.8
THANI	400.95	455.05	492.34	496.00	23.71	0.74	73.8
Sector	**6,251.78**	**6,748.94**	**7,579.05**	**7,693.54**	**23.06**	**1.51**	**75.0**

Sources: Company data, Thanachart estimates

- We did preview for eight finance stocks under our coverage. In a nutshell, we expect strong earnings growth y-y in light of higher loan growth. Funding costs are rising but still manageable due to some leftover refinancing benefits. The cost of funds will elevate next year but we have already factored these in our numbers. Meanwhile, a drop of earnings q-q is mainly due to higher provisions.
- BAM and JMT also sees good earnings growth y-y though we don't expect strong pick-up in cash collection as comparing to 2Q22.
- To us, asset quality is a key factor to watch. For those who were aggressive during severe Covid-19 outbreak are still struggling with rising NPLs. The unsettled asset quality situation would remain an overhang capping share price in addition to rising interest rate headwinds.
- As for regulatory risks, HP law has already been finalized and new capped interest rates will come in effect from 12th January 2023. New motorcycle HP loans will be hit the most from the new law. And SAWAD has larger exposure to this segment. However, we already factored in lower interest rate of 24% in our numbers so downsides to our forecast appears to be very limited. Meanwhile, SAWAD looks to grow loan volume to offset lower interest rate.
- Finance stocks have plunged drastically YTD. The pullbacks are due to unsettled headwinds. With steepening yield curve, still fluid asset quality situation, we see no clear catalysts to push up finance share prices over near term.
- Our BUY calls are premised on valuation as the sector has already been de-rated while regulatory overhang has been removed.

- We continue to like AMCs while TIDLOR and THANI are our preferred finance stocks. SAWAD is also overly punished as we expect it to grow loans volume and lower some costs to mitigate lower interest charge according to new regulation.

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