

BUY (Unchanged)

Change in Numbers

TP: Bt 170.00 (From: Bt 178.00)

Upside : 18.1%

2 FEBRUARY 2023

KASIKORNBANK Pcl (KBANK TB)

A glass half full

Despite moving more aggressively to clean up its balance sheet from the COVID loan legacy, KBANK remains on a clear business recovery course from loan growth, normalizing margin, and a bottoming-out of non-NII. While the clean-up is no longer news, credit costs look to have peaked. We reaffirm our BUY call with a new TP of Bt170.



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Step-by-step earnings recovery

Although we cut our earnings estimates for KBANK by 10% p.a. in 2023-25F to reflect the bank's more aggressive balance sheet clean-up in 4Q22, we still expect its earnings recovery to continue at 11% this year and accelerate to 20% p.a. in 2024-25F. This year, rising interest income and fee income bottoming out should offset spillover provisioning from the bank's last leg of its balance sheet clean-up efforts. We then expect all growth drivers, including falling credit costs, to work fully from 2024F. We estimate ROE to trend up from 7.7/8.6% in 2023-24F to c.10% in 2025-26F. We reaffirm BUY with a new DDM-based 12-month TP (2023F base year) of Bt170 (from Bt178).

Passage to normalized provisioning cycle

KBANK believes its credit costs peaked last year with its heavy balance sheet clean-up process scheduled to end this year. Most of the clean-up is focused on reducing the bank's provisioning exposure to COVID-19 restructured loans, which stood at 7% of total loans in 4Q22 (vs. 40% in 3Q20). Note that the Bank of Thailand's (BOT) COVID loan-staging treatment will end in 4Q23. Also, factoring in KBANK's planned heavy NPL sales and the high NPL ratio of its digital lending business, we estimate credit costs to fall from 2.1/2.0% in 2022-23F to 1.7% in 2024F and normalize at below 1.6% from 2025F onwards.

Pre-crisis margin resuming

With 82% of loans being immediately repriced and the highest CASA portion of 83%, KBANK is a prime beneficiary of the interest rate upcycle. We thus see the bank's flat NIM guidance as being too conservative. Mainly used for transactional purposes, KBANK's CASA is very sticky, so we see a limited risk of the CASA rate rising to 0.5% (from 0.25% now) in 2023. This, together with the bank's cleaner book, prompt us to project net interest spread to recover to the pre-crisis level of 5%-plus in 2023F. We also expect NIM to expand by 1/3/4bps in 2023-25F.

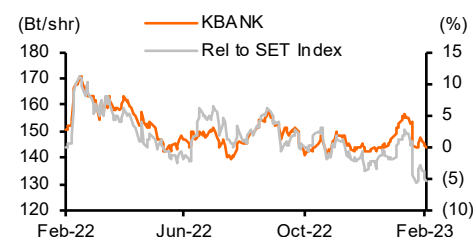
Non-NII bottoming out

KBANK is nearing the end of its structural fee income downturn. We expect a rise in credit-card and loan-related fees to offset a slower decline in transaction fees on maturing digital adoption. Mutual fund and wealth management fees are subject to market conditions. With the low base effect, KBANK expects assets under management (AUM) to grow by 38% and 20% respectively, in 2023. Hit by the expiry of lumpy savings insurance policies over the past five years, KBANK expects its insurance business to turn around via improved sales of protection policies. From contractions of 7% and 10% in 2022, we project net fee income and non-NII growth of 1/8% in 2023 and 4/5% in 2024F.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	98,390	103,299	107,766	115,351
Net profit	35,769	39,786	47,783	57,132
Consensus NP	—	42,581	47,060	52,633
Diff frm cons (%)	—	(6.6)	1.5	8.5
Norm profit	35,769	39,786	47,783	57,132
Prev. Norm profit	—	48,272	53,880	58,406
Chg frm prev (%)	—	(17.6)	(11.3)	(2.2)
Norm EPS (Bt)	14.9	16.6	20.0	23.9
Norm EPS grw (%)	(6.0)	11.2	20.1	19.6
Norm PE (x)	9.6	8.7	7.2	6.0
P/BV (x)	0.7	0.6	0.6	0.6
Div yield (%)	2.3	3.5	4.9	6.6
ROE (%)	7.3	7.7	8.6	9.7
ROA (%)	0.9	0.9	1.1	1.2

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 2-Feb-23 (Bt)	144.00
Market Cap (US\$ m)	10,398
Listed Shares (m shares)	2,369.3
Free Float (%)	79.9
Avg. Daily Turnover (US\$ m)	66.5
12M Price H/L (Bt)	170.50/139.00
Sector	BANK
Major Shareholder	Thai NVDR 19.36%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P12

Step-by-step earnings recovery

Despite a more aggressive balance sheet clean-up, KBANK remains on a clear business recovery path

KASIKORNBANK Pcl's (KBANK) overshooting provisions with credit costs of 3.7% in 4Q22 led to very weak profits in the quarter. Full-year credit costs checked in at 2.1%, exceeding the bank's guidance of up to 1.6%. This led to material earnings downside and we revise down our earnings estimates for KBANK by 18% in 2023F, 11% in 2024F and 2% in 2025F.

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	38.73	29.49	38.05	35.77	39.79	47.78	57.13
- Old					48.27	53.88	58.41
- Change (%)					(17.58)	(11.32)	(2.18)
Loan growth (%)							
- New	4.59	12.13	7.88	3.03	4.87	6.32	4.59
- Old					6.28	6.13	5.91
- Change (pp)					(1.41)	0.20	(1.32)
NIM (%)							
- New	3.18	3.14	3.08	3.19	3.20	3.23	3.27
- Old					3.05	3.05	3.08
- Change (pp)					0.16	0.18	0.19
Net fee income (Bt bn)							
- New	50.58	45.70	48.63	48.35	49.31	51.28	53.85
- Old					48.93	50.88	53.43
- Change (%)					0.79	0.79	0.79
Non-NII (Bt bn)							
- New	57.76	46.06	44.65	40.14	43.53	45.84	48.76
- Old					41.91	44.20	46.52
- Change (%)					3.87	3.71	4.81
Credit costs (%)							
- New	1.70	1.94	1.67	2.08	2.00	1.70	1.50
- Old					1.40	1.30	1.30
- Change (pp)					0.60	0.40	0.20
Opex (Bt bn)							
- New	72.73	70.00	71.04	74.75	78.31	82.85	86.84
- Old					76.98	80.87	84.79
- Change (%)					1.72	2.45	2.42

Sources: Company data, Thanachart estimates

Along with our earnings cuts, we lower our DDM-based 12-month TP, using a 2023F base year, to Bt170/share from Bt178 previously.

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

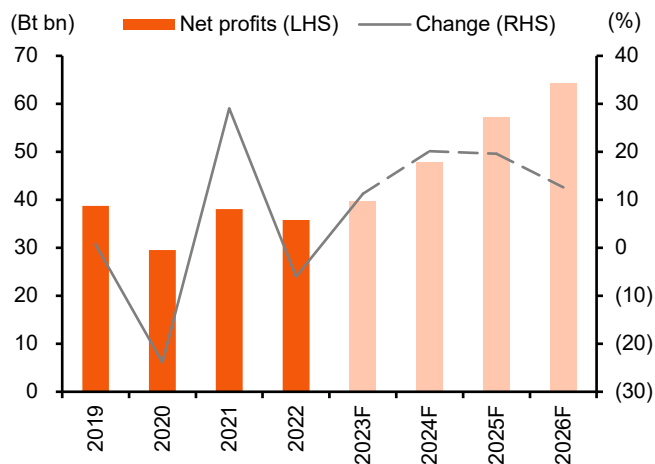
(Bt m)	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	7,778	11,936	16,724	22,853	25,722	34,691	52,317	55,966	85,452	91,207	97,247	97,247
Dividend payment	7,778	11,936	16,724	22,853	25,722	34,691	52,317	55,966	85,452	91,207	97,247	862,536
PV of dividend	7,778	9,428	11,587	14,011	13,956	16,652	22,223	21,038	27,319	25,681	24,125	213,979
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.3											
WACC (%)	12.5											
Cost of equity	12.5											
Terminal growth (%)	2.0											
Equity value	407,777											
No. of shares (m)	2,393											
Equity value / share (Bt)	170.00											

Sources: Company data, Thanachart estimates

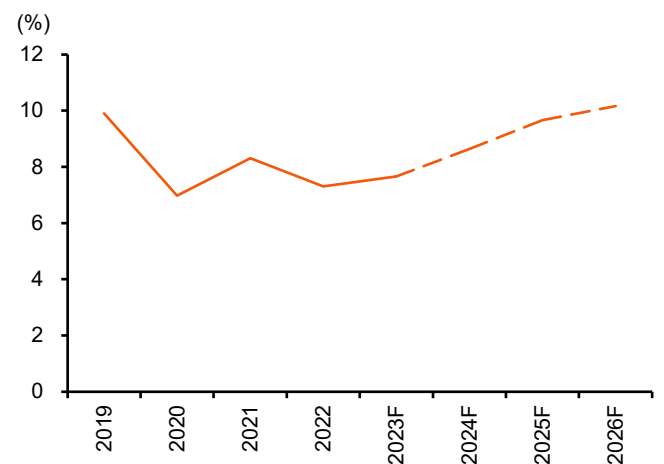
Although we cut our earnings estimates for KBANK, as mentioned earlier, we still expect KBANK's earnings recovery to continue at 11% this year before accelerating to 20% p.a. in 2024-25F. While rising interest income and a bottoming-out of fee income should offset spillover provisioning from the last leg of the bank's balance sheet clean-up efforts this year, we expect all growth drivers, including falling credit costs, to be working fully from 2024F. We estimate ROE to trend up from 7.7/8.6% in 2023-24F to c.10% in 2025-26F.

In summary, our key assumptions for KBANK's stronger earnings growth course are as follows:

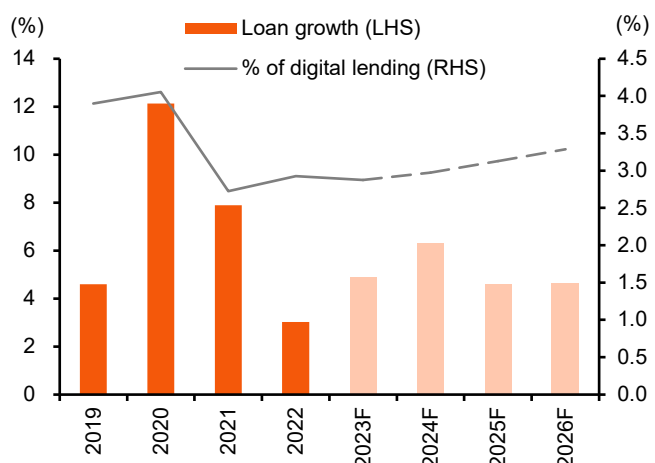
- 1) Loan growth of 5/6/5% over 2023-25F, driven by corporate and credit card loans. We expect growing loan demand in the hospitality-related sector as it is a beneficiary of China's reopening. Along with improving consumption and KBANK's largest credit card spending share, we expect growing credit card loans to offset slowing growth in digital loans. Experiencing a sharp rise in NPLs, KBANK is revisiting its digital lending underwriting model to ensure its risk-reward profile is justified while the bank is still keen to grow this high-yield segment in the future.
- 2) NIM expansion of 1-4bps over the period.
- 3) An end to the bank's fee income contraction as we expect an increase in credit-card and loan-related fees to offset a slower decline in transaction fees due to maturing digital adoption. KBANK also expects a turnaround of its insurance business via improving sales of protection policies.
- 4) Falling provisions from credit costs of 2.1% last year to 2% this year, 1.7% in 2024F and normalizing at below 1.6% from 2025F onwards.
- 5) Manageable opex with our forecast of a 43% cost-to-income ratio over the period.

Ex 3: Clear Earnings Recovery Course

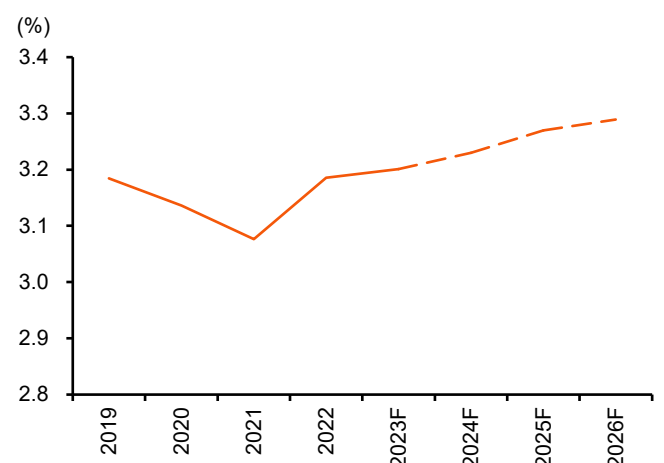
Sources: Company data, Thanachart estimates

Ex 4: Double-digit ROE Resuming

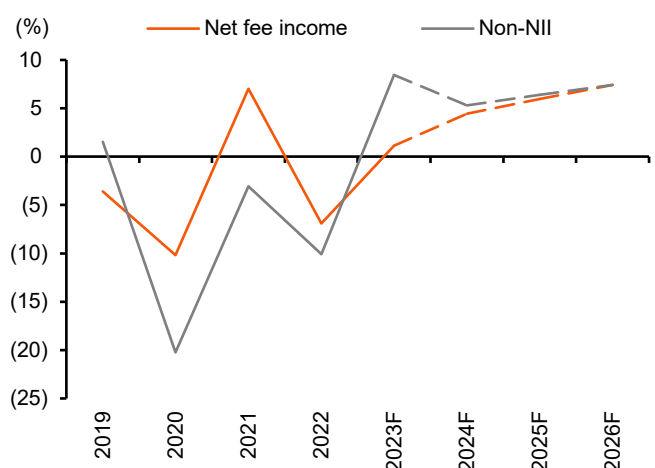
Sources: Company data, Thanachart estimates

Ex 5: Loan Growth

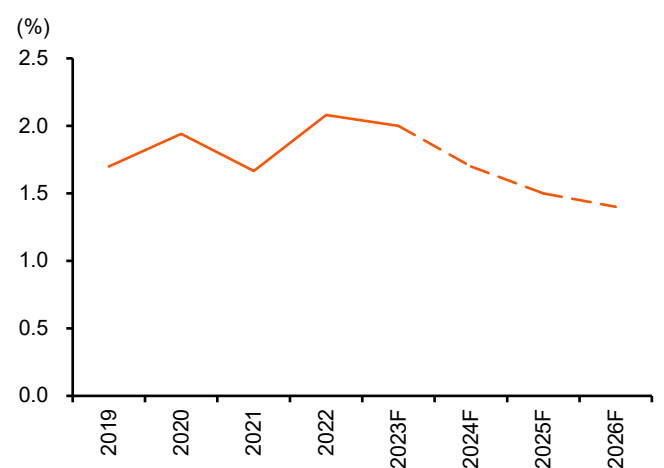
Sources: Company data, Thanachart estimates

Ex 6: NIM

Sources: Company data, Thanachart estimates

Ex 7: Net Fee And Non-NII Growth

Sources: Company data, Thanachart estimates

Ex 8: Falling Credit Costs

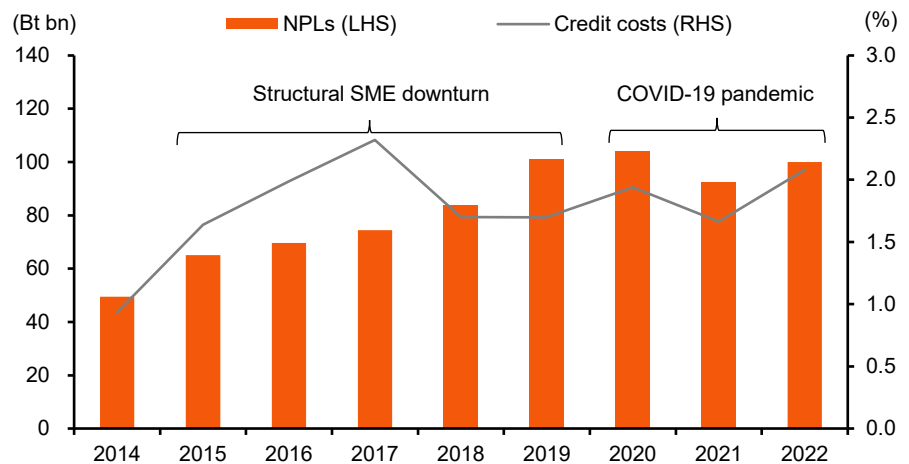
Sources: Company data, Thanachart estimates

Passage to normalized provisioning cycle

KBANK believes its credit costs peaked last year with its heavy balance sheet clean-up ending this year

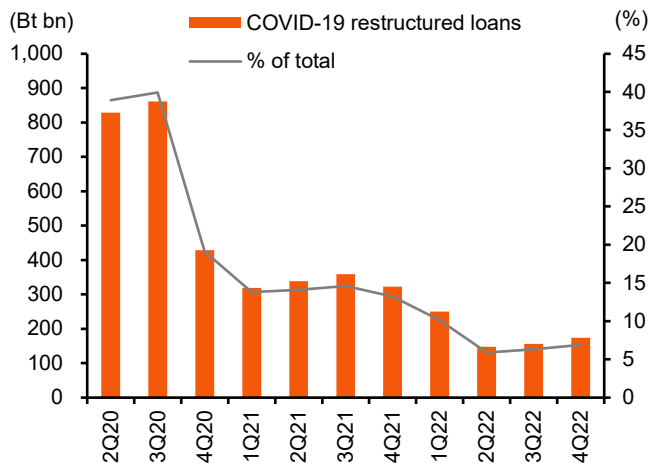
Having been hit by a structural downturn in SMEs and the COVID-19 pandemic, KBANK has been in a delinquency bubble since 2016. The bank's NPL ratio increased from 3.8% in 2016 to 4.2% in 2019 before rising further to 4.5% and 4.3% during the heavy COVID-19 outbreak years in 2020-21. From a peak of 40% in 3Q20, loans under the COVID-19 forbearance program declined to 19% of total loans in 4Q20 and 13% in 2021.

Ex 9: KBANK's Delinquency Bubble



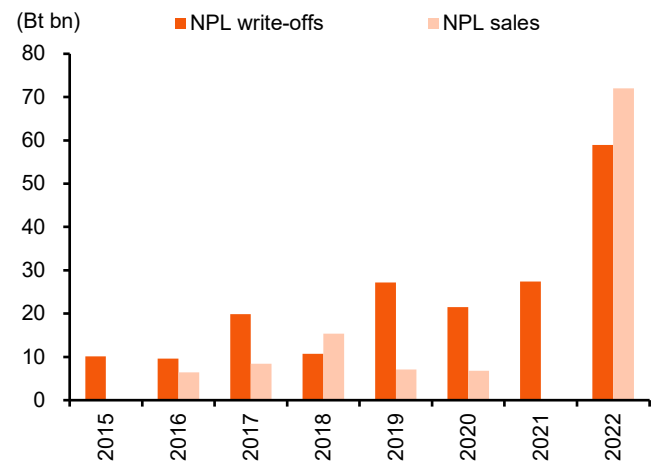
Source: Company data

Ex 10: COVID-19 Restructured Loans



Source: Company data

Ex 11: Accelerating NPL Outflows



Source: Company data

More aggressive balance sheet clean-up after JK set-up completion in 2Q22

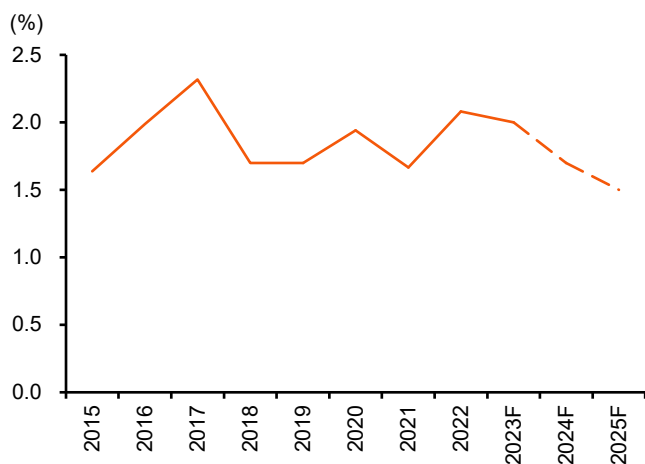
Having JK, a JVAMC with JMT, a leading AMC, in place since 2Q22, KBANK has been accelerating NPL outflow management. From an average of Bt24bn p.a. in 2020-21, KBANK's NPL write-offs rose to Bt59bn in 2022. The bank also achieved record-high NPL sales of Bt72bn, equal to a reduction in NPLs of Bt35bn from its book in 2022. Of the total increase in gross NPLs estimated at Bt82.5bn in 2022, 20% was from legacy SME loans, 50% from COVID-19 restructured loans, 20% from digital lending, and 10% from its normal business. To support write-offs and sales, KBANK's credit costs rose sharply from 1.7% in 2021 to 3.7% in 4Q22 and an average of 2.1% in 2022.

KBANK believes its credit costs peaked last year with its heavy balance sheet clean-up process to end this year. The bank is still keen to do a further clean-up of loans under Covid-19 restructuring programs. We believe the move is to ensure no repercussion NPLs or provisioning impacts after the Bank of Thailand's COVID loan-staging treatment measures end in 4Q23. Having reduced COVID-19 restructured loans to 7% from 40% of total loans in 2Q20, the clean-up should not be as heavy as last year. Meanwhile, we expect the ability to repay these loans to improve with China's reopening.

We expect KBANK to take two years to lower credit costs to a normalized level

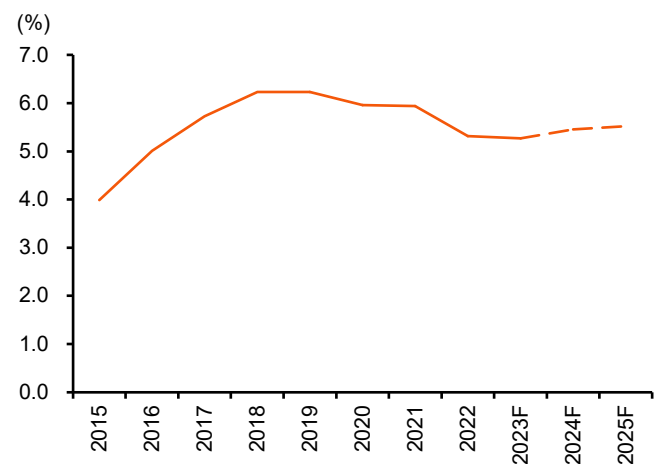
KBANK foresees smaller NPL write-offs but still expects to sell a similar magnitude of NPLs as it did last year. Factoring in KBANK's planned heavy NPL sales and the high NPL ratio of its digital lending business, we estimate credit costs to fall from 2.1% in 2022 to 2.0% in 2023F, 1.7% in 2024F and normalize at below 1.6% from 2025F onwards.

Ex 12: Credit Costs



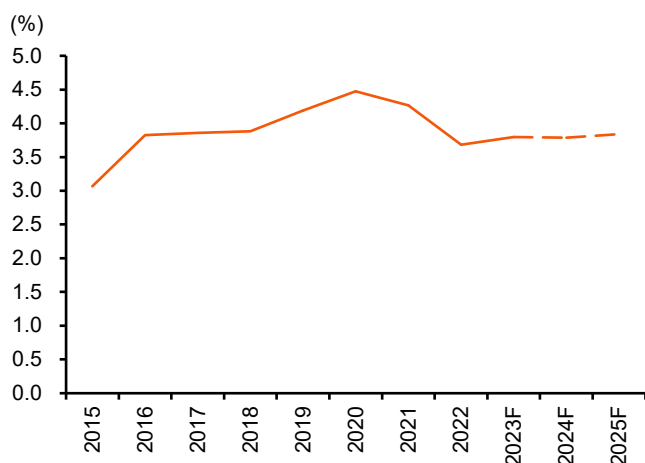
Sources: Company data, Thanachart estimates

Ex 13: Provisions To Loans



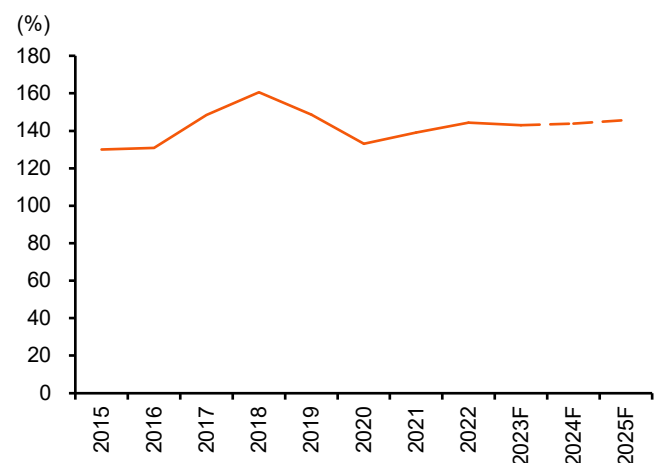
Sources: Company data, Thanachart estimates

Ex 14: NPL Ratio



Sources: Company data, Thanachart estimates

Ex 15: Loan Loss Coverage Ratio



Sources: Company data, Thanachart estimates

Pre-crisis margin resuming

*Most loans on floating rates
with bank's strong deposit
franchise and cleaner book*

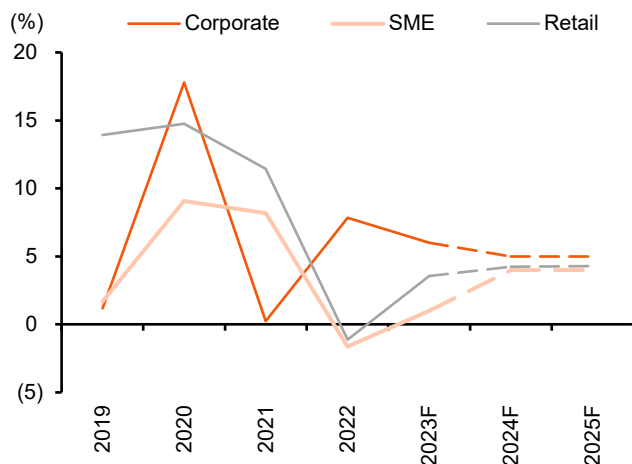
With 82% of loans being immediately repriced and having the highest CASA portion of 83%, KBANK is a prime beneficiary of the interest rate upcycle. With a series of lending rate hikes, higher growth in high-yield retail loans, and lower NPLs, KBANK's NIM widened by 7bps and 27bps q-q in 3Q22 and 4Q22, respectively.

With the end to the 50% cut in the financial Institutions Development Fee (FIDF) fee from 1 January 2023 being taken care of by increasing lending rates by an average of 40bps from early January, we don't foresee any headwinds hindering the bank's upward NIM expansion trend. We, therefore, see the bank's flat NIM guidance as being too conservative. Mainly used for transactional purposes, KBANK's CASA is very sticky. Therefore, we see only a limited risk of the CASA rate rising to 0.5% (from 0.25% currently) in 2023.

Along with our in-house expectation of another policy rate hike to 1.75%, we expect a further 20bps increase in lending rates this year. On the funding side, we model in the CASA rate rising to 0.3% in 2024F and for the bank's average deposit costs to increase from 0.29% in 2021 to 0.35% this year and 0.44% in 2024F.

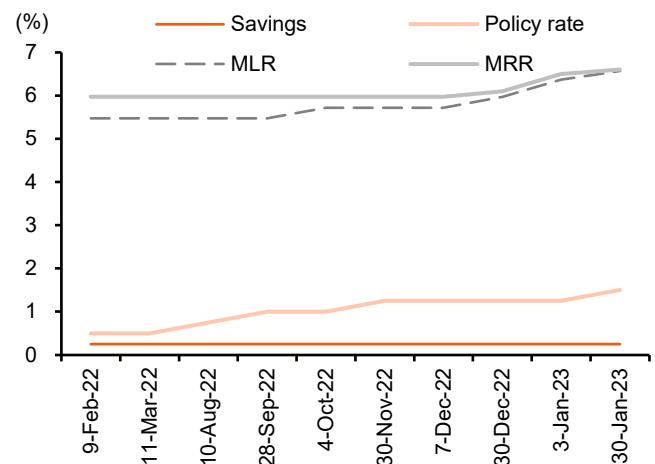
This, together with the bank's cleaner book, leads us to estimate net interest spread to recover to the pre-crisis level of over 5% in 2023F. Meanwhile, we foresee NIM expansion of 1/3/4bps in 2023-25F. We don't expect any more rate hikes in 2024F. Our expectation of further NIM expansion in 2024F and 2025F is premised on our estimate for high-yield retail loans to rise from 3% in 2022 to 3% in 2024F and 3.1% in 2025F. Given that this is still below the bank's target of 10%, we don't expect KBANK's normalized credit costs to be as high as the high-end range of 1.6%. Our credit cost assumption for 2025F is 1.5%, while it is flat at 1.4% from 2026F onward.

Ex 16: KBANK's Loans



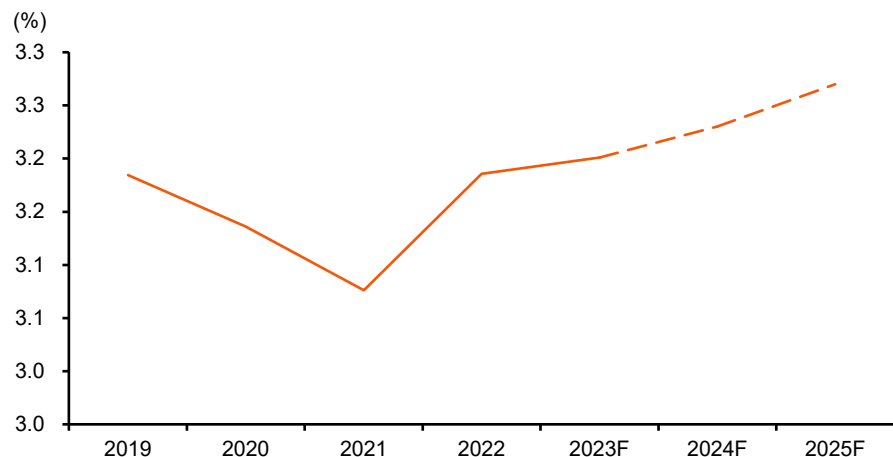
Sources: Company data, Thanachart estimates

Ex 17: KBANK's Lending Rates Vs. Funding Costs



Source: Bank of Thailand

Ex 18: NIM Expansion Trend



Sources: Company data, Thanachart estimates

Non-NII bottoming out

KBANK is coming to the end of its structural downturn in fee income

KBANK has experienced a structural fee income downturn since 2015. Starting with slower loan-related and bancassurance fees along with the bank's reduced exposure to SME loans to limit NPL risks, the waiver of online banking fees in March 2018 led to a slump in the bank's recurring lumpy transaction fees. From double-digit growth pre-2015, fee income growth has come down to 9/5/6% over 2015-17. The bank's fee income peaked at Bt52bn in 2017 and came down by 7% to Bt48bn last year.

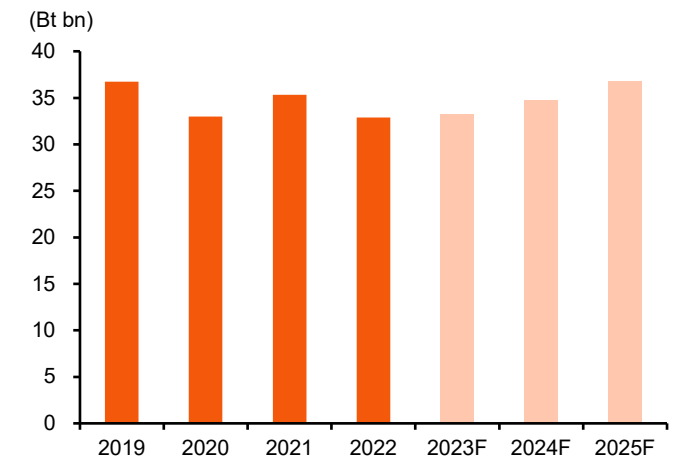
We believe 2022 marked the end of KBANK's fee income contraction. We expect a gradual fee income recovery of 2/4/5% over 2023-25F, and our belief is backed by:

- 1) Transaction fees have come down by 58% from 2018 as digital adoption is growing. With less than 5% of transactions taking place at bank branches, we foresee limited potential downside to transfer fees. The leftover headwind to the bank's transaction fees is falling annual debit card fees due to the growing trend of a cashless society. Meanwhile, depositors can use mobile devices to withdraw cash at ATM machines. We still expect a drop in transactions but by a smaller extent than in past years.
- 2) Along with improving consumer sentiment and an economic recovery, we expect increased credit card spending and higher fees for KBANK as it commanded the largest share of this business at 23% in 9M22.
- 3) The bank's growing exposures to high-yield retail loans should also lead to higher loan-related fees to offset the slowdown of these fees from the SME segment.
- 4) Coming off a low base with improving market sentiment given China's reopening, KBANK is positive on mutual fund and wealth business expansion, and it targets assets under management (AUM) to grow by 38% and 20%, respectively in 2023.

Insurance sales are another part of KBANK's non-NII that suffered with the bank's very strong growth during 2011-15, driven by booming savings insurance and the cross-selling of credit life insurance to SME and mortgage borrowers. With the BOT's stricter market oversight, SME growth slowing down, and lower interest rates, the bank hasn't been able to grow new insurance policies enough to offset the expiry of old policies and benefit payments. Net insurance premium has been in negative territory since 2018. KBANK expects a turnaround of its insurance business via improving sales of protection policies.

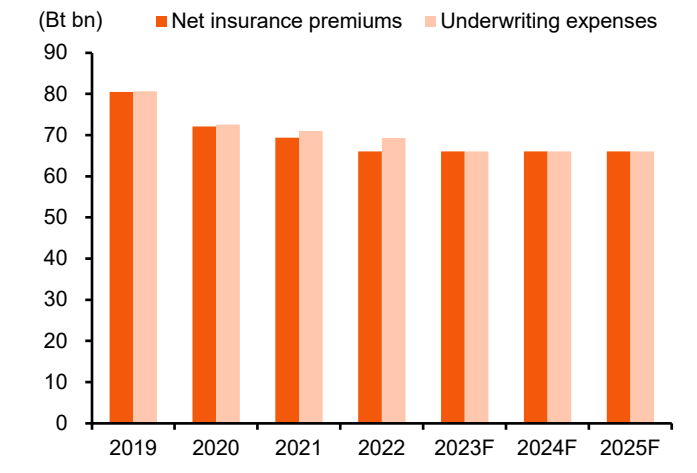
From 7% and 10% contractions in 2022, we project net fee income and non-NII growth of 1/8% in 2023F and 4/5% in 2024F.

Ex 19: Improving Fees...



Sources: Company data, Thanachart estimates

Ex 20: ...No Losses In Net Insurance Sales



Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 21: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		— ROE —		— Div. Yield —	
			23F (%)	24F (%)	23F (x)	24F (x)	23F (x)	24F (x)	23F (%)	24F (%)	23F (%)	24F (%)
BOC Hong Kong Holdings	2388 HK	Hong Kong	57.8	8.4	7.7	7.1	0.9	0.8	11.2	11.7	6.7	7.3
Bank of East Asia	23 HK	Hong Kong	9.1	26.3	6.1	4.8	0.3	0.3	4.5	5.6	7.2	8.7
China Citic Bank Corp	998 HK	Hong Kong	14.7	6.5	3.1	2.9	0.3	0.3	10.6	10.7	8.8	9.5
Hang Seng Bank	11 HK	Hong Kong	32.8	11.3	13.0	11.7	1.3	1.2	10.0	10.3	4.9	5.3
Industrial & Commercial Bk	1398 HK	Hong Kong	9.7	6.8	4.0	3.7	0.4	0.4	11.1	11.0	7.7	8.2
Axis Bank	AXSB IN	India	50.4	12.5	12.5	11.1	2.1	1.8	17.0	16.0	1.7	2.0
ICICI Bank	ICICIB IN	India	na	na	na	na	2.8	2.4	17.0	17.2	0.8	0.9
State Bank of India	SBIN IN	India	39.0	16.0	9.5	8.2	1.4	1.3	15.2	15.5	1.8	2.1
Bank Central Asia	BBCA IJ	Indonesia	10.6	10.3	23.1	21.0	4.2	3.8	19.0	18.9	2.2	2.5
Bank Danamon	BDMN IJ	Indonesia	127.1	12.1	7.6	6.8	0.5	0.5	8.2	8.7	4.1	na
Bank Internasional	BNII IJ	Indonesia	na	na	na	na	na	na	na	na	na	na
Bank Mandiri	BMRI IJ	Indonesia	10.4	9.7	10.0	9.1	1.8	1.7	18.8	19.1	5.4	5.8
Bank Pan	PNBN IJ	Indonesia	56.5	7.0	12.2	11.4	0.8	0.7	6.5	6.5	na	na
Bank Rakyat	BBRI IJ	Indonesia	54.4	11.7	12.5	11.2	2.1	2.0	17.1	18.1	5.6	6.0
Bank Negara	BBNI IJ	Indonesia	17.3	13.0	7.9	7.0	1.1	1.0	14.8	15.2	3.5	4.4
CIMB Group Holdings	CIMB MK	Malaysia	44.0	6.6	9.2	8.7	0.9	0.9	9.9	10.1	5.7	6.1
Hong Leong Bank	HLBK MK	Malaysia	15.6	6.7	11.1	10.4	1.3	1.2	11.9	11.8	3.3	3.6
Malayan Banking	MAY MK	Malaysia	17.1	5.0	10.7	10.2	1.1	1.1	10.8	10.9	7.2	7.5
Public Bank	PBKF MK	Malaysia	22.5	4.5	na	na	na	na	13.3	13.1	na	na
Industrial Bank of Korea	024110 KS	S Korea	26.9	(0.2)	2.8	2.8	0.3	0.3	10.0	9.4	9.6	9.7
DBS Group Holdings	DBS SP	Singapore	43.4	4.3	9.2	8.8	1.4	1.3	16.0	15.9	5.2	5.5
Oversea-Chinese Banking	OCBC SP	Singapore	46.9	3.2	8.2	7.9	1.0	0.9	12.7	12.5	5.6	5.9
United Overseas Bank	UOB SP	Singapore	38.0	7.3	9.0	8.4	1.1	1.0	12.5	12.8	5.3	5.6
Bank of Ayudhya	BAY TB*	Thailand	0.9	15.8	7.6	6.6	0.6	0.6	8.8	9.4	2.6	3.0
Bangkok Bank	BBL TB*	Thailand	16.7	12.1	9.0	8.0	0.6	0.5	6.5	6.9	3.3	3.7
KASIKORNBANK	KBANK TB*	Thailand	11.2	20.1	8.7	7.2	0.6	0.6	7.7	8.6	3.5	4.9
Kiatnakin Phatra Bank	KKP TB*	Thailand	10.1	12.6	6.9	6.2	1.0	0.9	14.1	14.8	5.8	8.1
Krung Thai Bank	KTB TB*	Thailand	(0.5)	14.3	7.4	6.5	0.6	0.6	8.6	9.2	4.7	5.4
SCB X	SCB TB*	Thailand	13.9	12.3	8.3	7.4	0.7	0.7	9.0	9.4	4.8	6.8
Tisco Financial Group	TISCO TB*	Thailand	7.0	8.1	10.6	9.8	1.8	1.8	17.8	18.6	8.0	8.7
TMBThanachart Bank	TTB TB*	Thailand	4.6	16.7	9.4	8.1	0.6	0.6	6.6	7.4	4.8	6.2
Average			27.9	10.4	9.2	8.3	1.2	1.1	11.9	12.2	5.0	5.7

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

Based on 2 Feb 2023 closing prices

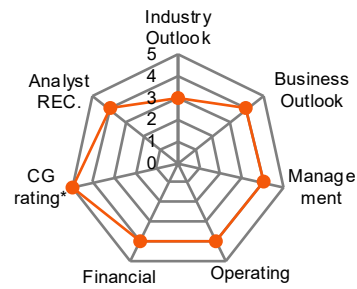
Note: Thanachart Capital Public Company Limited (TCAP), TMBThanachart Bank Public Company Limited (TTB), are related companies to Thanachart Securities Public Company Limited (TNS). Thanachart Securities Pcl is a subsidiary of Thanachart Capital Pcl (TCAP) which holds 24.33% of the shareholding in TMBThanachart Bank Pcl.

COMPANY DESCRIPTION

KASIKORNBANK Pcl (KBANK) provides commercial banking services including personal and commercial banking, international trade, as well as investment banking services, to its customers throughout Thailand. The bank has foreign branches in Los Angeles, Hong Kong, the Cayman Islands, and Shenzhen, and representative offices in Shanghai, Beijing, and Kunming.

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

- Leading main-bank status
- Highest CASA portion
- Healthy balance sheet

O — Opportunity

- Rising penetration of unsecured/digital or machine lending
- Online banking
- Expanding into markets abroad

W — Weakness

- Exposure to SMEs which are highly sensitive to economic fluctuations
- High operating expenses

T — Threat

- Digital disruption
- Global economic recession
- Changes in accounting standards and regulations

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	171.71	170.00	-1%
Net profit 23F (Bt m)	42,581	39,786	-7%
Net profit 24F (Bt m)	47,060	47,783	2%
Consensus REC	BUY: 17	HOLD: 7	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are more aggressive than the Bloomberg consensus in our credit cost assumptions.
- Given that we expect KBANK's provisions to fall drastically from 2024F, our TP is therefore in line.

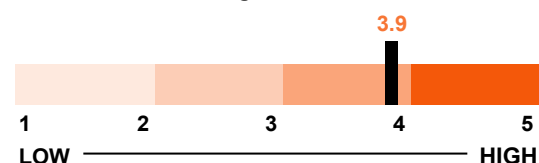
Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Slower economic momentum than we currently anticipate would present the key downside risk to our earnings.
- There is downside risk to our earnings forecasts should there be any circumstances that delay the completion of KBANK's heavy balance sheet clean-up from this year.

Source: Thanachart

KASIKORNBANK conducts its business under the principles of a Bank of Sustainability, backed by good corporate governance values, as well as appropriate risk and cost management. In light of the bank's solid ESG actions and measures, we assign a score of 3.92.

Thanachart ESG Rating


	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	Arabesque S-Ray (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
KBANK	YES	YES	YES	AA	60.78	69.16	85.46	46.0	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, Arabesque S-Ray®, Refinitiv ESG Information, S&P Global Market Intelligence, Moody's ESG Solutions, Thai IOD (CG rating)

Note: Please see third party on "term of use" in the following back page.

Factors
Our Comments
ENVIRONMENT

- Environmental Policies & Guidelines
- Energy Management
- Carbon Management
- Water Management
- Waste Management

- KBANK says it is committed to supporting Thailand and its clients in regional economies on their decarbonization journeys. The bank plans to contribute to the global effort to transition to net-zero emissions by 2050 and align with the Paris Agreement goals.
- The bank is committed to being the leading sustainable bank in Thailand, allocating at least Bt100bn-200bn in sustainable financing and investments by 2030 and pioneering green banking products.
- The bank has committed to becoming net zero in its own operations (Scope 1, 2) by 2030, and to achieve net zero in its financed portfolio in line with Thailand's aspirations, accelerating this journey where possible.

SOCIAL

- Human Rights
- Staff Management
- Health & Safety
- Product Safety & Quality
- Social Responsibility

- KBANK aims to boost financial inclusion and financial literacy. The bank extends credit support to new customers who have difficulty in accessing financial services, with the number of customers targeted to grow by 3x from 2021 over the next five years.
- The bank has received no complaints about discriminatory labor treatment or violence leading to lawsuits. Sixty-one percent of female staff are in leadership positions.
- The bank undertakes human rights risk assessments in all of its business activities: 100% of KBANK and joint ventures.
- The number of employee volunteer hours equaled 210,937 with the number of beneficiaries from its CSR projects reaching 714,965 in 2021.

**GOVERNANCE &
SUSTAINABILITY**

- Board
- Ethics & Transparency
- Business Sustainability
- Risk Management
- Innovation

- KBANK has 18 board members: six independent directors, five executive directors, and seven non-executive directors. The director age limit is 72 years and the term limit of the directorship for independent directors is no longer than nine consecutive years
- KBANK is reviewing its practices under Thai IOD, ASEAN CG Scorecard, and Dow Jones Sustainability Indices (DJSI) criteria.
- It is implementing a strategic plan for CG activities to enhance compliance by directors, executives, and staff with CG principles, the code of conduct, and its anti-corruption policy.
- Employees and executives have had to sign to acknowledge compliance with the code of conduct for 2022 via an electronic system and LINE KONNECT+, and the bank is reviewing its knowledge and understanding.

Sources: Company data, Thanachart

INCOME STATEMENT

*Clear earnings recovery
course*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	135,415	151,333	167,781	177,612	187,970
Interest Expenses	16,024	18,334	29,707	32,827	34,539
Net Interest Income	119,390	132,998	138,074	144,785	153,431
% of total income	72.8%	76.8%	76.0%	76.0%	75.9%
Gain on Investment	817	(130)	400	400	400
Fee Income	35,316	32,882	33,249	34,722	36,786
Gain on Exchange	5,539	5,053	4,000	4,500	5,000
Others	(330)	(1,106)	2,335	2,568	2,825
Non-interest Income	44,653	40,145	43,530	45,836	48,757
% of total income	27.2%	23.2%	24.0%	24.0%	24.1%
Total Income	164,043	173,143	181,604	190,621	202,187
Operating Expenses	71,044	74,753	78,305	82,854	86,837
Pre-provisioning Profit	92,999	98,390	103,299	107,766	115,351
Provisions	40,332	51,919	52,333	47,297	43,648
Pre-tax Profit	52,667	46,470	50,966	60,470	71,702
Income Tax	9,729	8,633	9,480	11,187	13,265
After Tax Profit	42,939	37,838	41,486	49,283	58,437
Equity Income	(694)	115	300	400	500
Minority Interest	(4,192)	(2,183)	(2,000)	(1,900)	(1,805)
Extraordinary Items	0	0	0	0	0
NET PROFIT	38,053	35,769	39,786	47,783	57,132
Normalized Profit	38,053	35,769	39,786	47,783	57,132
EPS (Bt)	15.9	14.9	16.6	20.0	23.9
Normalized EPS (Bt)	15.9	14.9	16.6	20.0	23.9

BALANCE SHEET

*We expect its heavy
balance sheet clean-up
to end this year*

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	480,466	559,651	529,000	535,000	584,000
cash & cash equivalents	59,972	57,115	55,000	55,000	55,000
interbank & money market	420,494	502,536	474,000	480,000	529,000
Securities under resale agreeme	0	0	0	0	0
Investments	1,034,372	982,177	1,016,377	1,048,454	1,081,433
Net loans	2,293,640	2,377,774	2,493,889	2,644,476	2,762,483
Gross and accrued interest	2,438,412	2,511,303	2,632,651	2,797,149	2,923,886
Provisions for doubtful	144,772	133,529	138,762	152,673	161,403
Fixed assets - net	97,185	111,105	115,550	120,613	126,371
Other assets	197,736	215,662	225,662	235,662	245,662
Total assets	4,103,399	4,246,369	4,380,479	4,584,206	4,799,949
LIABILITIES:					
Liquid Items	2,810,429	2,928,812	3,005,783	3,151,594	3,304,620
Deposit	2,598,630	2,748,685	2,831,145	2,972,702	3,121,337
Interbank & money market	186,449	155,240	150,000	154,500	159,135
Liability payable on demand	25,350	24,887	24,638	24,392	24,148
Borrow ings	103,886	67,897	70,788	70,957	71,460
Other liabilities	652,409	682,581	702,581	722,581	742,581
Total liabilities	3,566,724	3,679,289	3,779,152	3,945,132	4,118,662
Minority interest	59,961	63,810	65,810	67,710	69,515
Shareholders' equity	476,714	503,270	535,517	571,364	611,773
Preferred capital	-	-	-	-	-
Paid-in capital	23,693	23,693	23,933	23,933	23,933
Share premium	18,103	18,103	18,103	18,103	18,103
Surplus/ Others	39,104	36,439	36,439	36,439	36,439
Retained earnings	395,813	425,035	457,043	492,890	533,298
Liabilities & equity	4,103,399	4,246,369	4,380,479	4,584,206	4,799,949

Sources: Company data, Thanachart estimates

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	9.1	9.6	8.7	7.2	6.0
Normalized PE - at target price (x)	10.7	11.4	10.2	8.5	7.1
PE (x)	9.1	9.6	8.7	7.2	6.0
PE - at target price (x)	10.7	11.4	10.2	8.5	7.1
P/PPP (x)	3.7	3.5	3.3	3.2	3.0
P/PPP - at target price (x)	4.4	4.1	3.9	3.8	3.5
P/BV (x)	0.7	0.7	0.6	0.6	0.6
P/BV - at target price (x)	0.9	0.8	0.8	0.7	0.7
Dividend yield (%)	2.3	2.3	3.5	4.9	6.6
Market cap / net loans (x)	0.1	0.1	0.1	0.1	0.1
Market cap / deposit (x)	0.1	0.1	0.1	0.1	0.1
(Bt)					
Normalized EPS	15.9	14.9	16.6	20.0	23.9
EPS	15.9	14.9	16.6	20.0	23.9
DPS	3.3	3.3	5.0	7.0	9.5
PPP/Share	38.9	41.1	43.2	45.0	48.2
BV/Share	199.2	210.3	223.8	238.7	255.6

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	9.5	11.4	3.8	4.9	6.0
Non-interest income (Non-II)	(3.1)	(10.1)	8.4	5.3	6.4
Operating expenses	1.5	5.2	4.8	5.8	4.8
Pre-provisioning profit (PPP)	9.3	5.8	5.0	4.3	7.0
Net profit	29.0	(6.0)	11.2	20.1	19.6
Normalized profit growth	29.0	(6.0)	11.2	20.1	19.6
EPS	29.0	(6.0)	11.2	20.1	19.6
Normalized EPS	29.0	(6.0)	11.2	20.1	19.6
Dividend payout ratio	20.4	21.7	30.0	35.0	40.0
Loan - gross	7.9	3.0	4.9	6.3	4.6
Loan - net	8.1	3.7	4.9	6.0	4.5
Deposit	10.8	5.8	3.0	5.0	5.0
NPLs	3.0	(11.1)	4.8	9.5	4.3
Total assets	12.2	3.5	3.2	4.7	4.7
Total equity	8.4	5.6	6.4	6.7	7.1
Operating Ratios (%)					
Net interest margin (NIM)	3.1	3.2	3.2	3.2	3.3
Net interest spread	4.4	4.7	5.0	5.0	5.1
Yield on earnings assets	3.7	3.8	4.1	4.2	4.3
Avg cost of fund	0.6	0.6	1.0	1.0	1.0
NII / operating income	72.8	76.8	76.0	76.0	75.9
Non-II / operating income	27.2	23.2	24.0	24.0	24.1
Fee income / operating income	21.5	19.0	18.3	18.2	18.2
Normalized net margin	23.2	20.7	21.9	25.1	28.3
Cost-to-income	43.3	43.2	43.1	43.5	42.9
Credit cost - provision exp / loans	1.7	2.1	2.0	1.7	1.5
PPP / total assets	2.4	2.4	2.4	2.4	2.5
PPP / total equity	20.3	20.1	19.9	19.5	19.5
ROA	1.0	0.9	0.9	1.1	1.2
ROE	8.3	7.3	7.7	8.6	9.7

Sources: Company data, Thanachart estimates

Slower earnings growth
turnaround being priced
in

Widening NIM

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	93.2	90.8	92.4	93.6	93.2
Loan-to-deposit & S-T borrow ing	93.2	90.8	92.4	93.6	93.2
Net loan / assets	55.9	56.0	56.9	57.7	57.6
Net loan / equity	481.1	472.5	465.7	462.8	451.6
Investment / assets	25.2	23.1	23.2	22.9	22.5
Deposit / liabilities	72.9	74.7	74.9	75.4	75.8
Liabilities / equity	748.2	731.1	705.7	690.5	673.2
Net interbank lender (Bt m)	234,044	347,296	324,000	325,500	369,865
Tier 1 CAR	16.5	16.8	17.0	17.5	18.2
Tier 2 CAR	2.3	2.0	2.0	2.0	1.9
Total CAR	18.8	18.8	19.0	19.5	20.0
NPLs (Bt m)	104,036	92,536	97,007	106,183	110,735
NPLs / Total loans (NPL Ratio)	4.3	3.7	3.7	3.8	3.8
Loan-Loss-Coverage	139.2	144.3	143.0	143.8	145.8

Sources: Company data, Thanachart estimates

Room to increase
dividends

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2. Arabesque S-Ray (0-100)
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5. Moody's ESG Solutions (0-100)

SET THSI Index (SETTHSI)

Nowadays, long-term investment tends to be more focused on sustainable companies. The financial statement performance and the consideration in environmental, social and governance (ESG) perspective are keys aspects for analysis.

SET has created a Thailand Sustainability Investment (THSI) list since 2015 for using as an alternative investment in the high performance ESG stocks for investors while, supporting the sustainable Thai companies. SET defines the sustainable companies as the companies that embrace risk management, supply chain management and innovations together with responsibility for environmental, social and governance aspects

As a result, SET has created the SETTHSI for the purpose of indicating the price of these sustainable companies that pass the market capital size and liquidity criteria.

Arabesque S-Ray®

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Score range	Description
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BB - BBB - A	AVERAGE : A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
AA - AAA	LEADER: A company leading its industry in managing the most significant ESG risks and opportunities

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The Dow Jones Sustainability Indices (DJSI) are a family of best-in-class benchmarks for investors who have recognized that sustainable business practices are critical to generating long-term shareholder value and who wish to reflect their sustainability convictions in their investment portfolios. The family was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Created jointly by S&P Dow Jones Indices and SAM, the DJSI combine the experience of an established index provider with the expertise of a specialist in Sustainable Investing to select the most sustainable companies from across 61 industries. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for investors who wish to encourage companies to improve their corporate sustainability practices.

S&P Global Market Intelligence

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ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. We identify five categories of ESG risk severity that could impact a company's enterprise value

Moody's ESG Solutions

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