

HOLD (From: BUY)
Change in Recommendation

TP: Bt 65.00
Upside : 8.3%

(From: Bt 80.00)
24 AUGUST 2023

Small Cap Research

Kiatnakin Phatra Bank (KKP TB)

Waiting to exhale

We expect it to take at least two to three quarters from now for KKP to unwind its asset quality problems. This prompts us to cut our earnings forecast for the bank by an average of 17% over three years to reflect higher losses on sales. With only 8% potential upside to our new, lower TP of Bt65, we downgrade KKP to HOLD.



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Cutting our earnings and TP to Bt65

In light of higher NPLs, KKP's provisions and repossession losses have been higher than we'd expected. We raise expenses by 30/29/14% over 2023-25F, leading to cuts in our earnings estimates by 23%, 21% and 8%, respectively. Although we roll over our base year to 2024F, with the earnings cuts impact, we lower our DDM-based 12-month TP by 19% to Bt65 from Bt80.

Ongoing process of resolving asset quality

KKP took note of signs of deterioration in its auto HP loans and undertook measures to tighten its loan underwriting criteria beginning from the second half of 2022. This strategic shift led to a deceleration in loan growth, transitioning from 7% q-q in 3Q22 to 3.8% in 4Q22 and subsequently stabilizing at 3% in both the first and second quarters of 2023. This allowed the bank to enhance the overall quality of loans extended during this period. That being said, the bank has still suffered from the poor quality of vintage loans from 2022. KKP believes it is now reaching the final phase of its asset-quality bubble. The expectation is for NPLs to continue their upward trajectory for the next two quarters, gradually reaching a plateau in the first half of 2024 and then returning to pre-2022 levels from the latter half of the same year.

Quite resilient profits from capital markets

Amidst lackluster equity trading and market sentiment, KKP still made solid profits of Bt309m and Bt413m in 1Q-2Q23 from its capital market operations. The average daily turnover in the Thai equity market saw a 35% decline when compared to the same period in 2022. Despite facing a decrease in brokerage fees, KKP has maintained its leading market share at 18%. This decline has been countered by the robust performance of its equity and derivative trading activities, leveraging on the market's heightened volatility. With a diverse range of capital market income sources, KKP looks resilient in the face of downturns, and we see it poised to outshine its peers once market conditions turn more favorable.

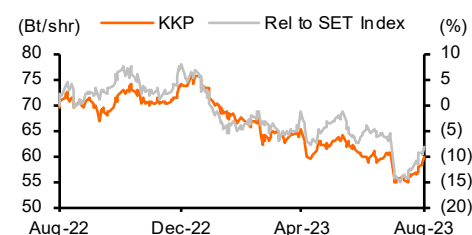
Downgrading to HOLD

KKP's share price fell to YTD low of Bt54.25, but it has since recovered by 11% within a month. Despite sharing the market's view that the bank's profits already bottomed in 2Q23, an additional two to three quarters will be needed to effectively address and resolve its asset quality concerns. We expect the bank's earnings growth trajectory to be subdued going to 1Q24. In the meantime, the bank's dividend yield of 4-5% is just in line with the industry norm. With potential upside of only 8% to our new TP, which has been cut by 19% to reflect poorer asset quality and higher provisions, we downgrade to HOLD from Buy.

COMPANY VALUATION

Y/E Dec (Bt m)	2022A	2023F	2024F	2025F
Pre Provision Profit	14,526	14,643	15,380	16,789
Net profit	7,602	6,383	7,371	9,009
Consensus NP	—	7,611	8,276	8,915
Diff frm cons (%)	—	(16.1)	(10.9)	1.0
Norm profit	7,602	6,383	7,371	9,009
Prev. Norm profit	—	8,322	9,330	9,784
Chg frm prev (%)	—	(23.3)	(21.0)	(7.9)
Norm EPS (Bt)	9.0	7.5	8.7	10.6
Norm EPS grw (%)	20.3	(16.0)	15.5	22.2
Norm PE (x)	6.7	8.0	6.9	5.6
P/BV (x)	0.9	0.8	0.8	0.7
Div yield (%)	5.4	4.3	5.0	7.1
ROE (%)	14.0	10.7	11.5	12.9
ROA (%)	1.6	1.2	1.3	1.5

PRICE PERFORMANCE



COMPANY INFORMATION

Price: as of 23-Aug-23 (Bt)	60.00
Market Cap (US\$ m)	1,449
Listed Shares (m shares)	846.8
Free Float (%)	92.6
Avg. Daily Turnover (US\$ m)	8.5
12M Price H/L (Bt)	75.75/54.75
Sector	BANK
Major Shareholder	Thai NVDR 7.94%

Sources: Bloomberg, Company data, Thanachart estimates

ESG Summary Report P42

Ex 1: Earnings Revisions

	2019	2020	2021	2022	2023F	2024F	2025F
Net profits (Bt bn)							
- New	5.99	5.12	6.32	7.60	6.38	7.37	9.01
- Old					8.32	9.33	9.78
- Change (%)					(23.31)	(21.00)	(7.92)
Loan growth (%)							
- New	4.06	11.65	15.91	21.68	11.16	8.92	6.88
- Old					12.68	9.70	7.52
- Change (ppt)					(1.52)	(0.78)	(0.64)
NIM (%)							
- New	3.99	4.35	3.93	4.04	4.07	3.97	4.02
- Old					3.92	3.93	3.90
- Change (ppt)					0.15	0.04	0.12
Non-NII (Bt bn)							
- New	6.85	6.55	8.55	8.46	7.54	7.80	8.11
- Old					8.70	8.62	8.98
- Change (%)					(13.31)	(9.46)	(9.73)
Provisions (Bt bn)							
- New	1.68	4.09	5.20	5.04	6.64	6.14	5.50
- Old					5.64	5.44	5.50
- Change (%)					17.73	12.87	(0.00)
Loss from repossessed cars (Bt bn)							
- New	1.42	1.31	2.09	1.84	4.04	3.89	3.44
- Old					2.55	2.31	2.33
- Change (%)					58.66	68.31	47.27
All-in credit costs (%)							
- New	1.31	2.04	2.38	1.84	2.57	2.22	1.85
- Old					1.95	1.68	1.58
- Change (ppt)					0.63	0.54	0.27
NPLs (Bt bn)							
- New	9.56	8.26	10.64	13.95	17.00	18.10	18.29
- Old					16.80	18.00	18.77
- Change (%)					1.21	0.59	(2.57)

Sources: Company data, Thanachart estimates

Ex 2: 12-month DDM-based TP Calculation Using A Base Year Of 2024F

(Bt m)	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal Value
Dividend of common shares	2,371	3,072	3,867	4,329	4,675	5,005	5,390	5,810	6,266	7,243	7,243
Dividend payment	2,371	3,072	3,867	4,329	4,675	5,005	5,390	5,810	6,266	7,243	86,912
PV of dividend	2,377	2,492	2,826	2,851	2,773	2,674	2,594	2,431	2,350	2,436	29,238
Risk-free rate (%)	2.5										
Market risk premium (%)	8.0										
Beta	1.0										
WACC (%)	10.5										
Cost of equity	10.5										
Terminal growth (%)	2.0										
Equity value	55,044										
No. of shares (m shares)	847										
Equity value / share (Bt)	65.0										

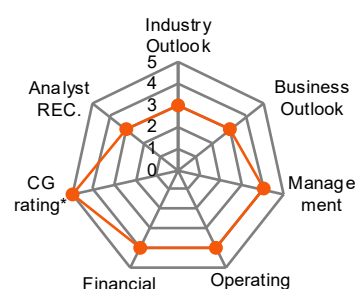
Source: Thanachart estimates

COMPANY DESCRIPTION

Kiatnakin Phatra Bank Pcl (KKP) provides commercial banking services, including commercial, developmental, consumer, hire-purchase, and mortgage financing, to its customers in Thailand. The bank also offers securities brokerage and investment advisory services.

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

- Strong footing in auto HP, particularly upcountry.
- Expertise in loan restructuring management.
- Abundant Tier-I capital.

O — Opportunity

- Fee-based income expansion.
- M&As.

W — Weakness

- Small branch network.
- Relatively weak deposit franchise.
- High concentration in a few lending segments.

T — Threat

- Global economic recession.
- New accounting standards and regulations.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	64.41	65.00	1%
Net profit 23F (Bt m)	7,611	6,383	-16%
Net profit 24F (Bt m)	8,276	7,371	-11%
Consensus REC	BUY: 7	HOLD: 10	SELL: 2

HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in incorporating higher repossession losses and provisions for KKP.
- As a result, our earnings forecasts are lower than the Street's.

Sources: Bloomberg consensus, Thanachart estimates

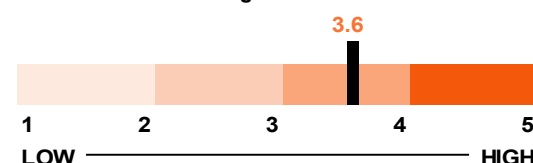
RISKS TO OUR INVESTMENT CASE

- Weaker economic momentum that drags down asset quality to a greater extent than we have currently factored in presents the key downside risk to our assumptions for KKP's credit costs.
- A weaker capital markets performance than we have assumed represents another downside risk to our earnings forecasts.
- Upside to our HOLD call emerges should KKP be able to contain NPL and provisions greater than what we'd assumed.

Source: Thanachart

KKP is a small-sized bank which plans to continue considering environmental, social, and governance (ESG) factors to drive sustainable social and environmental changes. We assign an ESG score of 3.6 to KKP.

Thanachart ESG Rating



	SETTHSI Index	THSI Index	DJSI Index	MSCI (CCC-AAA)	ESG Book (0-100)	Refinitiv (0-100)	S&P Global (0-100)	Moody's (0-100)	CG Rating (0-5)
KKP	YES	YES	-	BBB	53.26	78	26.00	-	5.0

Sources: SETTRADE, SETTHSI Index, Thailand Sustainability Investment (THSI), The Dow Jones Industrial Average (DJSI), MSCI ESG Research LLC, ESG Book, 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

- KKP has completed the renovation of its headquarters tower in conformity with LEED standards (Leadership in Energy & Environmental Design), which involved switching to LED bulbs to save energy, using eco-friendly glass that absorbs heat from the sun but allows light to pass through, and an air-conditioning system that circulates clean air for consistent cooling.
- Due to greater fuel consumption as employees returned from working from home, KKP's carbon dioxide emissions were up 5.6% for Scope 1 and 32.44% for Scope 2 in 2022. Electricity consumption also increased by 36.1% in 2022.
- The bank has provided credit facilities for environmentally friendly projects of Bt2.7bn.

SOCIAL

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

- KKP respects human rights in accordance with the United Nation Guiding Principles on Business and Human Rights and complies with human rights laws.
- KKP strives to enhance responsible banking by providing training in financial literacy to clients, employees, and communities to enable them to properly manage their money and debts, build saving discipline, and develop investment skills, which are key to achieving long-term financial stability and a better quality of life.
- It donated Bt13m for social contribution activities, with 206 employee volunteers working a total of 1,720 volunteer hours.

GOVERNANCE &
SUSTAINABILITY

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

- The bank's board of directors is comprised of 12 members, of whom three are non-executives and four are independent directors.
- The board of directors reviews and revises the corporate governance policy on an annual basis and constantly improves practices in several areas to upgrade the governance level of the group.
- KKP was selected as one of 170 companies to be named by the Stock Exchange of Thailand on the list of Thailand Sustainability Investment 2022 for the eighth consecutive year. It was also one of the 100 companies on the ESG100 list for 2022, as determined by the ESG Rating Unit of the Thaipat Institute for the seventh consecutive year.
- KKP Dime Company Limited (DIME) was founded with the aim of providing digital financial and investment services to enable more consumers to access financial opportunities.

Sources: Company data, Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
Interest and Dividend Income	19,489	23,671	29,435	31,988	34,304
Interest Expenses	3,788	4,589	7,858	9,435	10,021
Net Interest Income	15,701	19,081	21,576	22,553	24,283
% of total income	64.8%	69.3%	74.1%	74.3%	75.0%
Gain on Investment	(10)	(4)	0	50	50
Fee Income	6,074	6,165	5,893	6,176	6,449
Gain on Exchange	1,152	1,789	1,100	1,000	1,000
Others	1,329	507	550	578	606
Non-interest Income	8,545	8,457	7,543	7,803	8,105
% of total income	35.2%	30.7%	25.9%	25.7%	25.0%
Total Income	24,246	27,539	29,119	30,356	32,388
Operating Expenses	11,248	13,013	14,476	14,976	15,599
Pre-provisioning Profit	12,998	14,526	14,643	15,380	16,789
Provisions	5,201	5,036	6,640	6,140	5,500
Pre-tax Profit	7,797	9,490	8,003	9,240	11,289
Income Tax	1,442	1,873	1,601	1,848	2,258
After Tax Profit	6,355	7,616	6,403	7,392	9,031
Equity Income	0	0	0	0	0
Minority Interest	(37)	(14)	(20)	(21)	(22)
Extraordinary Items	0	0	0	0	0
NET PROFIT	6,318	7,602	6,383	7,371	9,009
Normalized Profit	6,318	7,602	6,383	7,371	9,009
EPS (Bt)	7.5	9.0	7.5	8.7	10.6
Normalized EPS (Bt)	7.5	9.0	7.5	8.7	10.6

BALANCE SHEET

FY ending Dec (Bt m)	2021A	2022A	2023F	2024F	2025F
ASSETS:					
Liquid Items	56,480	46,733	55,000	47,000	51,000
cash & cash equivalents	1,242	1,000	1,000	1,000	1,000
interbank & money market	55,238	45,732	54,000	46,000	50,000
Securities under resale agreeme	0	0	0	0	0
Investments	16,840	31,848	28,663	30,096	31,601
Net loans	299,148	364,871	402,608	438,657	466,179
Gross and accrued interest	315,653	383,839	425,104	464,128	494,250
Provisions for doubtful	16,505	18,969	22,496	25,471	28,071
Fixed assets - net	7,483	13,200	13,553	14,077	14,786
Other assets	56,172	50,986	52,092	55,192	58,292
Total assets	436,123	507,637	551,917	585,023	621,858
LIABILITIES:					
Liquid Items	305,715	351,979	364,234	391,717	421,381
Deposit	288,382	331,464	340,534	367,777	397,199
Interbank & money market	16,664	20,175	23,000	23,230	23,462
Liability payable on demand	669	340	700	710	720
Borrow ings	43,805	61,354	85,645	85,248	85,459
Other liabilities	35,441	36,192	40,000	41,000	42,000
Total liabilities	384,961	449,526	489,880	517,965	548,841
Minority interest	116	288	308	329	351
Shareholders' equity	51,046	57,824	61,729	66,729	72,666
Preferred capital	-	-	-	-	-
Paid-in capital	8,468	8,468	8,468	8,468	8,468
Share premium	9,356	9,356	9,356	9,356	9,356
Surplus/ Others	(286)	2,010	2,010	2,010	2,010
Retained earnings	33,508	37,990	41,896	46,896	52,833
Liabilities & equity	436,123	507,637	551,917	585,023	621,858

Sources: Company data, Thanachart estimates

Hit by higher provisions
and repossession losses

Loan growth has slowed
down but it's still higher
than the industry's

VALUATION

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Normalized PE (x)	8.0	6.7	8.0	6.9	5.6
Normalized PE - at target price (x)	8.7	7.2	8.6	7.5	6.1
PE (x)	8.0	6.7	8.0	6.9	5.6
PE - at target price (x)	8.7	7.2	8.6	7.5	6.1
P/PPP (x)	3.9	3.5	3.5	3.3	3.0
P/PPP - at target price (x)	4.2	3.8	3.8	3.6	3.3
P/BV (x)	1.0	0.9	0.8	0.8	0.7
P/BV - at target price (x)	1.1	1.0	0.9	0.8	0.8
Dividend yield (%)	4.9	5.4	4.3	5.0	7.1
Market cap / net loans (x)	0.2	0.1	0.1	0.1	0.1
Market cap / deposit (x)	0.2	0.2	0.1	0.1	0.1
(Bt)					
Normalized EPS	7.5	9.0	7.5	8.7	10.6
EPS	7.5	9.0	7.5	8.7	10.6
DPS	3.0	3.3	2.6	3.0	4.3
PPP/Share	15.4	17.2	17.3	18.2	19.8
BV/Share	60.3	68.3	72.9	78.8	85.8

A recent rebound looks to price in an expectation of KKP's profits has reached bottom in 2Q23

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Growth Rate (%)					
Net interest income (NII)	7.0	21.5	13.1	4.5	7.7
Non-interest income (Non-II)	30.4	(1.0)	(10.8)	3.5	3.9
Operating expenses	5.6	15.7	11.2	3.5	4.2
Pre-provisioning profit (PPP)	22.8	11.8	0.8	5.0	9.2
Net profit	23.3	20.3	(16.0)	15.5	22.2
Normalized profit growth	23.3	20.3	(16.0)	15.5	22.2
EPS	23.3	20.3	(16.0)	15.5	22.2
Normalized EPS	23.3	20.3	(16.0)	15.5	22.2
Dividend payout ratio	39.5	36.2	34.5	34.5	40.0
Loan - gross	15.9	21.7	11.2	8.9	6.9
Loan - net	15.6	22.0	10.3	9.0	6.3
Deposit	14.7	14.9	2.7	8.0	8.0
NPLs	28.9	31.1	21.9	6.5	1.0
Total assets	20.0	16.4	8.7	6.0	6.3
Total equity	9.7	13.3	6.8	8.1	8.9
Operating Ratios (%)					
Net interest margin (NIM)	3.9	4.0	4.1	4.0	4.0
Net interest spread	5.5	5.7	5.6	5.4	5.3
Yield on earnings assets	5.4	5.6	6.1	6.1	6.1
Avg cost of fund	1.2	1.2	1.8	2.0	2.0
NII / operating income	64.8	69.3	74.1	74.3	75.0
Non-II / operating income	35.2	30.7	25.9	25.7	25.0
Fee income / operating income	25.1	22.4	20.2	20.3	19.9
Normalized net margin	26.1	27.6	21.9	24.3	27.8
Cost-to-income	46.4	47.3	49.7	49.3	48.2
Credit cost - provision exp / loans	1.7	1.3	1.6	1.4	1.1
PPP / total assets	3.3	3.1	2.8	2.7	2.8
PPP / total equity	26.6	26.7	24.5	23.9	24.1
ROA	1.6	1.6	1.2	1.3	1.5
ROE	13.0	14.0	10.7	11.5	12.9

Easing NIM pressure from 2024F

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2021A	2022A	2023F	2024F	2025F
Liquidity and Quality Ratio (%)					
Loan-to-deposit	106.4	112.7	121.9	122.9	121.7
Loan-to-deposit & S-T borrow ing	106.4	112.7	121.7	122.9	121.5
Net loan / assets	68.6	71.9	72.9	75.0	75.0
Net loan / equity	586.0	631.0	652.2	657.4	641.5
Investment / assets	3.9	6.3	5.2	5.1	5.1
Deposit / liabilities	74.9	73.7	69.5	71.0	72.4
Liabilities / equity	754.1	777.4	793.6	776.2	755.3
Net interbank lender (Bt m)	38,574	25,557	31,000	22,770	26,538
Tier 1 CAR	13.6	13.3	13.0	13.4	13.9
Tier 2 CAR	3.7	3.3	3.0	2.8	2.7
Total CAR	17.4	16.6	16.0	16.2	16.5
NPLs (Bt m)	10,638	13,947	17,004	18,101	18,287
NPLs / Total loans (NPL Ratio)	3.4	3.6	4.0	3.9	3.7
Loan-Loss-Coverage	155.2	136.0	132.3	140.7	153.5

Sources: Company data, Thanachart estimates

Two to three more
quarters to resolve poor
asset quality issues

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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.

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Score range	Description
CCC - B	LAGGARD: A company lagging its industry based on its high exposure and failure to manage significant ESG risks
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

The Dow Jones Sustainability Indices (DJSI)

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.

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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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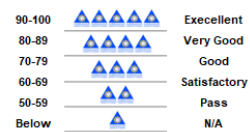
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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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