

**HOLD** (From: BUY)**TP: Bt 163.00** (From: Bt 150.00)**26 SEPTEMBER 2024**

Change in Recommendation

Upside : 4.5%

# KASIKORN BANK Pcl (KBANK TB)

## Limited upside

Following an aggressive balance sheet clean-up, KBANK's strategic shift away from high-risk loan segments positions it well to navigate through the normalized credit cost cycle. However, with only 5% potential upside to our new TP, which already accounts for higher fees and lower operating expenses, we downgrade KBANK to HOLD.

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### Reaping low-hanging fruits

KBANK has successfully outperformed its major bank peers, delivering stronger earnings growth while maintaining better control over NPLs and asset quality. This was achieved through 1) A lighter balance sheet clean-up following significant NPL write-offs and sales, totaling Bt131bn in 2022 and another Bt92.6bn in 2023; 2) lower credit costs, down from 2.08% p.a. in 2022-23 to 1.89% in 1H24; 3) a slower decline in transaction fees, alongside growth in card-related and fund management fees, driven by the bank's enhanced wealth management platform; and 4) improved profit contributions from the insurance business, benefiting from lower policy reserves after the expiry of legacy endowment life policies.

### Reduced risk-taking capacity

However, the improvement in asset quality has come at the expense of slower loan growth and reduced lending yields. Loans contracted by 0.1% YTD, despite a slower pace of NPL write-offs and sales — Bt24.5bn in 1H24 vs. Bt56.3bn in 1H23. This reflects the bank's cautious approach, driven by stricter underwriting standards for the SME and unsecured retail segments, which saw YTD loan contractions of 5% and 10% in 2Q24. Meanwhile, corporate loans grew strongly by 4% from 2023, with their contribution to total loans rising from 36% in 2022 and 38% in 2023 to 39% in 2Q24. Despite a stable interest rate environment, lending yields have declined from an average of 6.16% in 2H23 to 6.13% in 1Q24 and 6.09% in 2Q24.

### Stronger growth factored in

We raise our earnings for KBANK by 5.3% this year and 0.4% p.a. over 2025-26F, reflecting higher fees, non-interest income, and lower operating expenses. We now expect 16% earnings growth this year, followed by 9% p.a. in 2025F and 2026F. Additionally, we have rolled forward our base year to 2025F, and our DDM-based 12-month TP, using a 13% cost of equity, is raised by 9% to Bt163 from a previous Bt150.

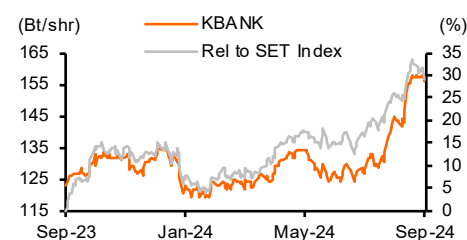
### Downgrading to HOLD with higher TP of Bt163

KBANK has been one of the best-performing Thai banks, with a YTD share price outperformance of 10.4% relative to the sector and 12.4% vs. the SET. However, KBANK is now the second most expensive bank, and its PBV-to-ROE premium of 16.3% over KTB and 10.2% over BBL appears less compelling to us. KBANK's leading retail deposit franchise will no longer be fully leveraged as it shifts its banking platform towards a more corporate-focused structure, similar to BBL. Meanwhile, KBANK's ROE is comparable to BBL's but 1.5% lower than KTB's, despite KBANK's significantly lower provisioning buffer than both banks.

### COMPANY VALUATION

Y/E Dec (Bt m)	2023A	2024F	2025F	2026F
Pre Provision Profit	107,721	111,093	111,198	115,653
Net profit	42,405	49,184	53,808	58,629
Consensus NP	—	47,399	49,710	52,298
Diff frm cons (%)	—	3.8	8.2	12.1
Norm profit	42,405	49,184	53,808	58,629
Prev. Norm profit	—	46,717	53,545	58,415
Chg frm prev (%)	—	5.3	0.5	0.4
Norm EPS (Bt)	17.7	20.6	22.5	24.5
Norm EPS grw (%)	18.6	16.0	9.4	9.0
Norm PE (x)	8.8	7.6	6.9	6.4
P/BV (x)	0.7	0.7	0.6	0.6
Div yield (%)	4.2	4.8	5.4	6.1
ROE (%)	8.2	9.0	9.2	9.4
ROA (%)	1.0	1.1	1.2	1.3

### PRICE PERFORMANCE



### COMPANY INFORMATION

Price: as of 25-Sep-24 (Bt)	156.00
Market Cap (US\$ m)	11,307
Listed Shares (m shares)	2,369.3
Free Float (%)	81.5
Avg. Daily Turnover (US\$ m)	46.8
12M Price H/L (Bt)	158.00/119.00
Sector	BANK
Major Shareholder	Thai NVDR 16.26%

Sources: Bloomberg, Company data, Thanachart estimates

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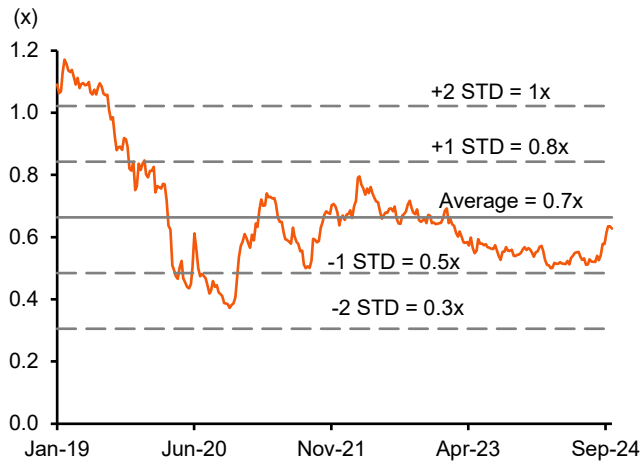


## Ex 1: Earnings Revision

	2019	2020	2021	2022	2023	2024F	2025F	2026F
<b>Net profits (Bt bn)</b>								
- New	38.73	29.49	38.05	35.77	42.41	49.18	53.81	58.63
- Old						46.72	53.54	58.41
- Change (%)						5.28	0.49	0.37
<b>Loans growth (%)</b>								
- New	4.59	12.13	7.88	3.03	(0.19)	0.58	2.81	3.11
- Old						2.42	3.23	3.56
- Change (ppt)						(1.84)	(0.42)	(0.45)
<b>NIM (%)</b>								
- New	3.18	3.14	3.08	3.19	3.48	3.47	3.40	3.44
- Old						3.48	3.41	3.41
- Change (ppt)						(0.01)	(0.01)	0.03
<b>Provisioning expenses (Bt bn)</b>								
- New	34.01	43.55	40.33	51.92	51.84	47.34	41.20	39.83
- Old						47.19	39.50	38.18
- Change (%)						0.32	4.32	4.33
<b>Net fee income (Bt bn)</b>								
- New	36.74	33.00	35.32	32.88	31.18	33.50	34.56	36.20
- Old						32.09	33.08	34.62
- Change (%)						4.38	4.47	4.56
<b>Non-interest income (Bt bn)</b>								
- New	57.76	46.06	44.65	40.14	44.25	48.77	51.25	53.00
- Old						47.10	50.99	54.48
- Change (%)						3.55	0.52	(2.71)
<b>OPEX (Bt bn)</b>								
- New	72.73	70.00	71.04	74.75	84.97	87.99	90.99	93.89
- Old						88.18	91.16	93.94
- Change (%)						(0.22)	(0.19)	(0.05)

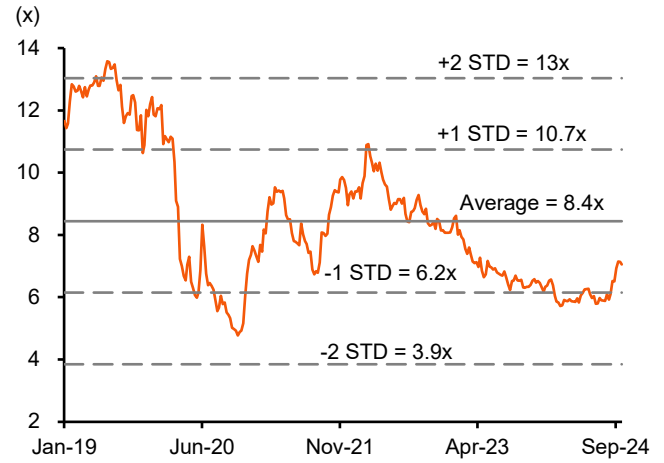
Sources: Company data, Thanachart estimates

**Ex 2: STD P/BV**



Sources: Bloomberg, Thanachart estimates

**Ex 3: STD PE**



Sources: Bloomberg; Thanachart estimates

**Ex 4: 12-month DDM-based TP Calculation Using A Base Year Of 2025F**

(Bt m)	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F	Terminal Value
Dividend of common shares	17,949	20,343	22,736	24,997	32,208	33,204	41,099	49,474	72,886	75,075	75,075
Dividend payment	17,949	20,343	22,736	24,997	32,208	33,204	41,099	49,474	72,886	75,075	665,884
PV of dividend	17,949	15,931	15,757	15,326	17,475	15,943	16,932	17,952	23,301	21,146	212,880
Risk-free rate (%)	3.0										
Market risk premium (%)	8.0										
Beta	1.3										
WACC (%)	13.0										
Cost of equity	13.0										
Terminal growth (%)	2.0										
Equity value	390,594										
No. of shares (m)	2,393										
<b>Equity value / share (Bt)</b>	<b>163.00</b>										

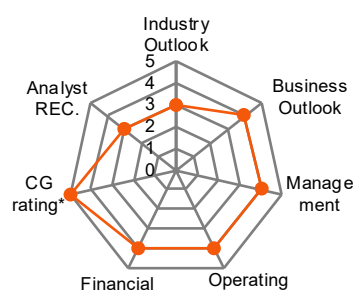
Sources: Company data, Thanachart estimates

## COMPANY DESCRIPTION

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

Source: Thanachart

## COMPANY RATING



### Rating Scale

<b>Excellent</b>	<b>5</b>
<b>Good</b>	<b>4</b>
<b>Fair</b>	<b>3</b>
<b>Weak</b>	<b>2</b>
<b>Very Weak</b>	<b>1</b>
<b>None</b>	<b>0</b>

Source: Thanachart; \*CG Rating

## THANACHART'S SWOT ANALYSIS

### S — Strength

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

### O — Opportunity

- Wealth management
- Regional expansions
- Digital ventures

### W — Weakness

- Legacy high NPLs from SMEs and digital lending have reduced its risk-taking capacity.
- Limited growth in loan related fees given declining exposures to SME and retail loans.

### T — Threat

- Global economic recession
- Changes in accounting standards and regulations

## CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
<b>Target price (Bt)</b>	158.60	163.00	3%
<b>Net profit 24F (Bt m)</b>	47,399	49,184	4%
<b>Net profit 25F (Bt m)</b>	49,710	53,808	8%
<b>Consensus REC</b>	<b>BUY: 20</b>	<b>HOLD: 5</b>	<b>SELL: 2</b>

## HOW ARE WE DIFFERENT FROM THE STREET?

- We believe we are ahead of the Bloomberg consensus in factoring in a turnaround of fee income and asset quality.
- Our earnings forecasts and TP are consequently higher.

Sources: Bloomberg consensus, Thanachart estimates

## RISKS TO OUR INVESTMENT CASE

- We see potential downside to our earnings forecasts and our HOLD call if KBANK cannot contain asset quality risks as we presently assume.
- Slower economic momentum than we currently anticipate would present the key downside risk to our earnings.
- A greater ability to pursue stronger loan growth while keeping NPLs at bay would present a potential upside risk to our earnings forecasts and HOLD recommendation.

Source: Thanachart



## INCOME STATEMENT

*Falling provisions with a fee income turnaround*

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
Interest and Dividend Income	151,333	183,608	191,765	189,882	194,929
Interest Expenses	18,334	35,164	41,449	38,950	38,383
<b>Net Interest Income</b>	<b>132,998</b>	<b>148,444</b>	<b>150,316</b>	<b>150,932</b>	<b>156,546</b>
% of total income	76.8%	77.0%	75.5%	74.7%	74.7%
Gain on Investment	(130)	(588)	100	100	100
Fee Income	32,882	31,181	33,500	34,560	36,202
Gain on Exchange	5,053	12,123	13,000	13,000	13,000
Others	(1,106)	(2,041)	(1,502)	(178)	(170)
<b>Non-interest Income</b>	<b>40,145</b>	<b>44,245</b>	<b>48,768</b>	<b>51,251</b>	<b>53,001</b>
% of total income	23.2%	23.0%	24.5%	25.3%	25.3%
<b>Total Income</b>	<b>173,143</b>	<b>192,689</b>	<b>199,084</b>	<b>202,184</b>	<b>209,547</b>
Operating Expenses	74,753	84,968	87,991	90,986	93,894
<b>Pre-provisioning Profit</b>	<b>98,390</b>	<b>107,721</b>	<b>111,093</b>	<b>111,198</b>	<b>115,653</b>
Provisions	51,919	51,840	47,342	41,204	39,830
<b>Pre-tax Profit</b>	<b>46,470</b>	<b>55,880</b>	<b>63,750</b>	<b>69,994</b>	<b>75,823</b>
Income Tax	8,633	10,778	12,113	13,299	14,406
After Tax Profit	37,838	45,102	51,638	56,695	61,417
Equity Income	115	(35)	900	1,000	1,100
Minority Interest	(2,183)	(2,662)	(3,354)	(3,887)	(3,887)
Extraordinary Items	0	0	0	0	0
<b>NET PROFIT</b>	<b>35,769</b>	<b>42,405</b>	<b>49,184</b>	<b>53,808</b>	<b>58,629</b>
<b>Normalized Profit</b>	<b>35,769</b>	<b>42,405</b>	<b>49,184</b>	<b>53,808</b>	<b>58,629</b>
EPS (Bt)	14.9	17.7	20.6	22.5	24.5
Normalized EPS (Bt)	14.9	17.7	20.6	22.5	24.5

## BALANCE SHEET

*Slow asset growth*

FY ending Dec (Bt m)	2022A	2023A	2024F	2025F	2026F
<b>ASSETS:</b>					
<b>Liquid Items</b>	<b>559,651</b>	<b>617,698</b>	<b>638,000</b>	<b>637,000</b>	<b>637,000</b>
cash & cash equivalents	57,115	48,690	45,000	43,000	41,000
interbank & money market	502,536	569,008	593,000	594,000	596,000
Securities under resale agreeme	0	0	0	0	0
Investments	982,177	974,585	1,005,484	1,037,250	1,069,909
<b>Net loans</b>	<b>2,377,774</b>	<b>2,371,492</b>	<b>2,395,529</b>	<b>2,476,669</b>	<b>2,557,354</b>
Gross and accrued interest	2,511,303	2,505,368	2,522,892	2,593,731	2,674,416
Provisions for doubtful	133,529	133,876	127,363	117,062	117,062
Fixed assets - net	111,105	114,698	118,086	121,833	126,025
Other assets	215,662	205,084	218,000	220,180	222,382
<b>Total assets</b>	<b>4,246,369</b>	<b>4,283,556</b>	<b>4,375,098</b>	<b>4,492,932</b>	<b>4,612,669</b>
<b>LIABILITIES:</b>					
<b>Liquid Items</b>	<b>2,928,812</b>	<b>2,909,888</b>	<b>2,971,000</b>	<b>3,038,330</b>	<b>3,106,661</b>
Deposit	2,748,685	2,699,562	2,760,000	2,826,600	2,895,198
Interbank & money market	155,240	179,207	184,000	185,000	185,000
Liability payable on demand	24,887	31,119	27,000	26,730	26,463
Borrow ings	67,897	81,572	70,042	70,800	70,032
Other liabilities	682,581	695,261	700,000	710,000	720,000
<b>Total liabilities</b>	<b>3,679,289</b>	<b>3,686,721</b>	<b>3,741,042</b>	<b>3,819,130</b>	<b>3,896,693</b>
Minority interest	63,810	64,551	67,904	71,792	75,679
<b>Shareholders' equity</b>	<b>503,270</b>	<b>532,285</b>	<b>566,152</b>	<b>602,010</b>	<b>640,297</b>
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	36,439	33,115	33,115	33,115	33,115
Retained earnings	425,035	457,373	491,001	526,859	565,146
<b>Liabilities &amp; equity</b>	<b>4,246,369</b>	<b>4,283,556</b>	<b>4,375,098</b>	<b>4,492,932</b>	<b>4,612,669</b>

Sources: Company data, Thanachart estimates

## VALUATION

FY ending Dec	2022A	2023A	2024F	2025F	2026F
Normalized PE (x)	10.4	8.8	7.6	6.9	6.4
Normalized PE - at target price (x)	10.9	9.2	7.9	7.2	6.7
PE (x)	10.4	8.8	7.6	6.9	6.4
PE - at target price (x)	10.9	9.2	7.9	7.2	6.7
P/PPP (x)	3.8	3.5	3.4	3.4	3.2
P/PPP - at target price (x)	4.0	3.6	3.5	3.5	3.4
P/BV (x)	0.7	0.7	0.7	0.6	0.6
P/BV - at target price (x)	0.8	0.7	0.7	0.6	0.6
Dividend yield (%)	2.6	4.2	4.8	5.4	6.1
Market cap / net loans (x)	0.2	0.2	0.2	0.1	0.1
Market cap / deposit (x)	0.1	0.1	0.1	0.1	0.1
<b>(Bt)</b>					
Normalized EPS	14.9	17.7	20.6	22.5	24.5
EPS	14.9	17.7	20.6	22.5	24.5
DPS	4.0	6.5	7.5	8.5	9.5
PPP/Share	41.1	45.0	46.4	46.5	48.3
BV/Share	210.3	222.4	236.6	251.5	267.5

*Less compelling  
valuation matrix*

## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Growth Rate (%)</b>					
Net interest income (NII)	11.4	11.6	1.3	0.4	3.7
Non-interest income (Non-II)	(10.1)	10.2	10.2	5.1	3.4
Operating expenses	5.2	13.7	3.6	3.4	3.2
Pre-provisioning profit (PPP)	5.8	9.5	3.1	0.1	4.0
Net profit	(6.0)	18.6	16.0	9.4	9.0
Normalized profit growth	(6.0)	18.6	16.0	9.4	9.0
EPS	(6.0)	18.6	16.0	9.4	9.0
Normalized EPS	(6.0)	18.6	16.0	9.4	9.0
Dividend payout ratio	26.8	36.7	36.5	37.8	38.8
Loan - gross	3.0	(0.2)	0.6	2.8	3.1
Loan - net	3.7	(0.3)	1.0	3.4	3.3
Deposit	5.8	(1.8)	2.2	2.4	2.4
NPLs	(11.1)	1.8	(1.3)	2.0	2.0
Total assets	3.5	0.9	2.1	2.7	2.7
Total equity	5.6	5.8	6.4	6.3	6.4
<b>Operating Ratios (%)</b>					
Net interest margin (NIM)	3.2	3.5	3.5	3.4	3.4
Net interest spread	4.7	5.4	5.3	5.2	5.3
Yield on earnings assets	3.8	4.6	4.7	4.6	4.6
Avg cost of fund	0.6	1.2	1.4	1.3	1.2
NII / operating income	76.8	77.0	75.5	74.7	74.7
Non-II / operating income	23.2	23.0	24.5	25.3	25.3
Fee income / operating income	19.0	16.2	16.8	17.1	17.3
Normalized net margin	20.7	22.0	24.7	26.6	28.0
Cost-to-income	43.2	44.1	44.2	45.0	44.8
Credit cost - provision exp / loans	2.1	2.1	1.9	1.6	1.5
PPP / total assets	2.4	2.5	2.6	2.5	2.5
PPP / total equity	20.1	20.8	20.2	19.0	18.6
ROA	0.9	1.0	1.1	1.2	1.3
ROE	7.3	8.2	9.0	9.2	9.4

*Falling lending yield  
ahead of interest rate  
cuts*

Sources: Company data, Thanachart estimates

## FINANCIAL RATIOS

FY ending Dec	2022A	2023A	2024F	2025F	2026F
<b>Liquidity and Quality Ratio (%)</b>					
Loan-to-deposit	90.8	92.3	90.8	91.1	91.7
Loan-to-deposit & S-T borrowing	90.8	92.3	90.8	91.1	91.7
Net loan / assets	56.0	55.4	54.8	55.1	55.4
Net loan / equity	472.5	445.5	423.1	411.4	399.4
Investment / assets	23.1	22.8	23.0	23.1	23.2
Deposit / liabilities	74.7	73.2	73.8	74.0	74.3
Liabilities / equity	731.1	692.6	660.8	634.4	608.6
Net interbank lender (Bt m)	347,296	389,802	409,000	409,000	411,000
Tier 1 CAR	16.8	17.4	18.2	19.1	20.0
Tier 2 CAR	2.0	2.0	2.1	2.0	2.0
Total CAR	18.8	19.4	20.3	21.1	21.9
NPLs (Bt m)	92,536	94,241	93,000	94,860	96,757
NPLs / Total loans (NPL Ratio)	3.7	3.8	3.7	3.7	3.6
Loan-Loss-Coverage	144.3	142.1	136.9	123.4	121.0

*Good containment of  
NPLs*

Sources: Company data, Thanachart estimates

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Currently, long-term investment guidelines abroad are beginning to focus on investing in companies that have sustainable business practices. which considers environmental, social and governance factors (Environmental, Social and Governance or ESG) of the company in making investment decisions along with analyzing the company's financial data.

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Score range	Description
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BB - BBB - A	<b>AVERAGE :</b> A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers
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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

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90-100	▲▲▲▲▲	Excellent
80-89	▲▲▲▲	Very Good
70-79	▲▲▲	Good
60-69	▲▲	Satisfactory
50-59	▲	Pass
Below		N/A

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