

Finance Sector – Overweight

News update

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Beneficiaries of interest rate cut

- **BoT's MPC voted 5 to 2 to reduce policy rate to 2.25%.**
 - **This is faster than our house view's.**
 - **SAK is an immediate beneficiary.**
 - **While we prefer microfinance to other finance segments.**
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- BoT's MPC voted 5 to 2 to cut the policy rate by 0.25% to 2.25%, earlier than our December 2024 forecast. Finance companies, with mostly fixed-rate loans, benefit from the rate cut.
 - We analyze the benefits of each segment below.-
 - 1) Microfinance players i.e. MTC, SAWAD, TIDLOR and SAK. Given that these loans typically carry fixed interest rates, fluctuations in funding costs directly impact the net lending spread and the NIM.

MTC, SAWAD and TIDLOR primarily leverage debentures over loans at a 70:30 ratio. TIDLOR's funding sources are more diversified at a 50:50 ratio. SAK sources funding majorly from bank loans which interest charge is based on MLR. The reduction in the MLR, along with the policy rate in the future, should also immediately benefit SAK's cost of funds. The others look set to benefit from declining interest rates on their new debenture issuances and we expect their funding costs to fall in 2025.
 - 2) Truck leasing companies like ASK and THANI secure funding through debentures, so they will benefit from lower rates on new issuances. However, we remain cautious about this segment due to weak truck sales and ongoing balance sheet clean-up. Between the two, we prefer THANI over ASK.
 - 3) KTC's main lending products—credit cards and personal loans—have fixed interest rates capped at 16% and 25%, respectively, and are funded through debentures. Along with its unattractive valuation, KTC faces potential yield reductions from BoT's Persistent Debt policy and interest rate rebates if credit card holders make minimum payments above 8% in 2025.
 - 4) AMCs like BAM and JMT charge interest at floating rates and secure funding through debentures and bank loans. Lower interest rates should reduce their funding costs, though not as directly as for the previously mentioned lenders. We anticipate a strong earnings turnaround for JMT and modest growth for BAM, with HOLD recommendations on both stocks.
 - We prefer microfinance-focused lenders (SAK, MTC, SAWAD, and TIDLOR) over truck leasing, credit card and AMC companies and maintain an OVERWEIGHT rating on the microfinance sector.

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