

Finance Sector – Overweight

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News Update

Share price pullback overdone

- Funding cost pressures are not new
- We expect cost of fund to peak in 2025
- No change to double-digit earnings growth
- Maintain OW with MTC being top pick

Microfinance share prices have declined significantly in recent weeks. We believe this reflects market concerns over the sector's earnings outlook amid a weak economic backdrop. Additionally, despite a faster-than-expected policy rate cut, the benefits of lower interest rates have not materialized as quickly as the market had anticipated.

We believe these concerns are overdone. The recent pullback has brought the sector's valuation down to 10x PE, compared to our forecasted earnings growth of 14% in 2025 and 17% in 2026. We maintain our Overweight (OW) rating on the sector, with MTC as our top pick.

■ Funding Cost Pressure Already Priced In

Rising funding costs are not new. Both MTC and TIDLOR have guided for a 10–20bps increase in funding costs, which is already reflected in our forecasts. The rise is because many debentures maturing this year were issued during a low interest rate environment and carry lower coupon rates than new issuances. As a result, we expect funding costs to continue rising in the near term, peaking this year before easing in 2026.

■ Earnings Growth Intact Despite Cost Pressures

The upward trend in funding costs does not alter the sector's growth trajectory. We project earnings growth of 14% in 2025, accelerating to 17% in 2026. Key earnings drivers include loan growth of 11%, declining credit costs (down 29bps), and positive operating leverage.

■ Provisions and Opex Help Offset Higher Funding Costs

Provisions and operating expenses combined account for 11% of total assets. Their sizable weight allows room to absorb increased funding costs without derailing earnings momentum. (Please refer to the table on Ex 1.)

Ex 1: Weighting To Total Assets

% to total asset	MTC		SAWAD		SAK		TIDLOR	
	2024	2025F	2024	2025F	2024	2025F	2024	2025F
Interest income	15.78	15.54	16.71	16.24	20.25	20.30	17.24	17.34
Non-NII	0.55	0.44	2.80	2.91	0.14	0.12	3.56	3.66
Interest expenses	3.01	3.13	2.95	2.53	2.55	2.54	2.28	2.32
Opex	6.32	6.02	8.64	8.44	9.72	9.58	10.36	10.80
Provisions	2.72	2.42	1.77	1.56	1.27	1.19	3.21	2.83

Sources: Company data, Thanachart estimates

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