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### KEY HIGHLIGHTS

Sector

#### Finance

Consumer finance: The market is overly concerned about SCB X.

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### KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,633.44	(5.97)	(0.36)
SET50	982.45	(3.26)	(0.33)
Value (Btm) - SET	73,825		
<b>Top 5 Sector</b>			
BANK	391.21	(3.45)	(0.87)
PETRO	1,188.26	(2.72)	(0.23)
PROP	230.26	(1.29)	(0.56)
ENERG	24,712.49	(0.56)	(0.00)
ICT	165.09	0.19	0.12

Source: Bloomberg

### TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
TRUE	4.30	4.88	1,134,207.4
KBANK	138.50	(1.07)	32,455.3
STARK	4.54	(14.34)	883,859.5
BANPU	13.60	0.74	201,842.1
PTT	40.00	0.63	58,294.2

### TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
SOLAR	2.70	29.81	158,985.3
MONO	1.90	19.50	774,442.7
AF	1.32	14.78	91,429.5
KKC	1.68	13.51	120,748.7
T	0.65	12.07	553,086.0

### TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
UBIS	13.60	(29.53)	11,464.5
PLANET	2.92	(18.44)	15,975.8
SVT	5.60	(17.04)	262,935.6
NEWS	0.05	(16.67)	278,188.8
STARK	4.54	(14.34)	883,859.5

### KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	83.5	15.6	14.6	64.5
Dubai crude*	82.1	16.6	11.7	63.4
Baltic Dry Index	5,526.0	43.0	67.5	304.5
Gold Spot***	1,752.1	(2.0)	(3.0)	(7.7)

\*(US\$/bbl), \*\*\* (US\$/toz)

### FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(5.7)	129.0	(2,348.1)	8,524.7

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 33.68

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)\* - MLR = 5.25

### SECTOR UPDATE

## Finance – Thailand

Consumer Finance: The Market Is Overly Concerned About SCB X

**We believe the market is overly concerned about the establishment of SCB X, which has led consumer finance share prices to fall from the fear of SCB X's market penetration. However, we believe that this is an overreaction as it is very challenging to penetrate the consumer finance market. The sector is trading close to its 5-year mean of 19.7x 2022F PE. We reiterate our MARKET WEIGHT rating and recommend investors to selectively buy stocks with a strong earnings growth outlook.**

### WHAT'S NEW

- The market is overly concerned about SCB X.** The consumer finance share prices under our coverage have fallen 7-15% after Siam Commercial Bank (SCB) announced the establishment of SCB X Public Company (SCB X). The market concerns that the existing consumer finance operators might lose market share to SCB X's new growth businesses, which are auto-title lending (run by Auto X) and digital lending (run by AISC, Monix, and SCB Abacus). However, we believe that the market is overreacting as SCB X's management has yet to provide concrete business strategies for their new businesses. Also, we believe that market penetration in the auto-title lending business is not easy.
- Barrier of entry to auto-title lending business.** One of the key success factors in the auto-title lending business is accessibility. Muangthai Capital (MTC) and Srisawad Corporation (SAWAD) have extensive loan stores with over 4,500 stores across Thailand. Therefore, it is very difficult for Auto X to catch up in terms of loan store count. Auto X could use a business model similar to Ngern Tid Lor (TIDLOR), which is using digital platforms to gain access to customers. However, TIDLOR has spent many years developing its IT infrastructure, and TIDLOR's cost to income ratio was very high at the beginning before it could scale up its business and gain economy of scale. Consequently, Auto X would face similar difficulties as TIDLOR did if Auto X decides to operate auto-title lending through digital platforms.
- Long way to go for digital lending.** While the market is very enthusiastic about the prospect of digital lending businesses and believes it could disrupt traditional consumer loans, we believe digital lending has a long way to go to be successful in Thailand. Firstly, the alternative data from third parties that digital lending operators use to assess borrowers' credit risk is very scattered in Thailand. This could lead to inaccurate credit risk evaluation. Secondly, digital lending in Thailand has failed to address one of the fundamental factors in credit risk management, which is the willingness to pay. Digital lending is an online platform that provides unsecured loans targeting customers that do not have solid proof of their income. Also, bad records in National Credit Bureau (NCB) would not affect digital lending's customers much as most of them are unbanked. Hence, digital lending's customers have a high probability of defaulting, and the operators do not have effective tools to incentivise customers to pay their loans. According to the Department of Business Development Ministry of Commerce (DBD) data, all of the digital lending operators except Kasikorn Line have total assets of less than Bt1b, and their earnings were negative in 2020.

### PEER COMPARISON

Company	Ticker	Rec.	Last Price 11 Oct 21 (Bt)	Target Price (Bt)	Upside Downside (%)	Market Cap (US\$m)	PE 2020 (x)	PE 2021F (x)	PE 2022F (x)	EPS CAGR 2021-23F (%)	PEG 2021F (x)	P/B 2021F (x)	Yield 2021F (%)	ROE 2021F (%)
Muangthai Capital	MTC TB	BUY	61.75	73.0	18.2	3,920	25.4	24.5	20.1	15.7	1.6	5.2	0.6	23.5
Srisawad Corporation	SAWAD TB	BUY (Upgrade)	63.75	75.0	17.6	2,641	19.6	18.2	16.7	8.9	2.0	3.6	2.8	20.9
Ngern Tid Lor	TIDLOR TB	BUY	34.75	53.0	52.5	2,367	30.1	23.8	19.2	26.3	0.9	2.9	0.9	16.4
Krungthai Card	KTC TB	SELL	56.25	45.0	(20.0)	4,310	27.3	23.6	21.8	9.1	2.6	5.4	1.6	24.8
<b>Sector</b>						<b>13,238</b>	<b>25.7</b>	<b>22.9</b>	<b>19.8</b>	<b>13.7</b>	<b>1.8</b>	<b>4.5</b>	<b>1.4</b>	<b>22.1</b>

Source: Respective companies, UOB Kay Hian

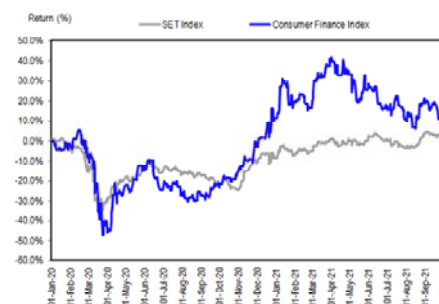
## MARKET WEIGHT (Maintained)

### OUR TOP PICK

Company	Ticker	Rec	Current Price (Bt)	Target Price (Bt)
Ngern Tid Lor	TIDLOR	BUY	34.75	53.00

Source: Respective companies, UOB Kay Hian

### RETURN: CONSUMER FINANCE VS SET



Source: UOB Kay Hian

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### DIGITAL LENDING OPERATORS' HISTORICAL PERFORMANCES

Companies	Type of Loans	Total Assets			Net Profit		
		2018	2019	2020	2018	2019	2020
Ascend Nano	Digital personal loan/Nano Finance	1,048	1,071	998	(26)	(128)	(180)
GFIN Service (T)	Digital personal loan/Nano Finance	178	916	999	3	(21)	(18)
Kasikorn Line	Personal Loan/Nano Finance	178	2,319	5,047	(1)	(36)	(723)
Monix	Nano Finance	n.a.	n.a.	661	n.a.	n.a.	(88)
SCB Abacus	Nano Finance	150	407	610	96	8	(166)
SEAMONEY Captial	Digital personal loan/Nano Finance	137	132	660	(4)	1	(12)
<b>Total</b>		<b>1,692</b>	<b>4,844</b>	<b>8,974</b>	<b>68</b>	<b>(177)</b>	<b>(1,186)</b>

Source: Department of Business Development Ministry of Commerce, UOB Kay Hian

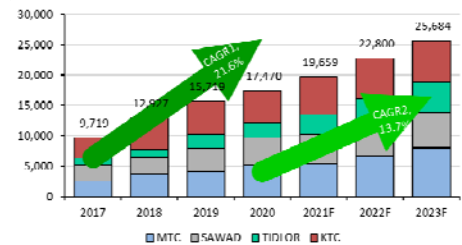
### ACTION

- **Maintain MARKET WEIGHT.** The sector is trading at 19.7x 2022F PE, which is equivalent to its 5-year mean. We reiterate our MARKET WEIGHT rating and recommend that investors selectively buy stocks that have a strong earnings growth outlook.
- **Our top pick is TIDLOR.** We like TIDLOR because it has the strongest earnings outlook with a 26.5% CAGR over 2021-23 (vs the sector's 13.7% during the same period), supported by: a) rapid growth in the insurance brokerage business, b) decent loan growth outlook driven by TIDLOR cards rollout, c) lower provision expenses on the company's robust asset quality, and d) improvement in cost-to-income on normalisation of IT investment and economies of scale. We believe TIDLOR's share price is trading at a deep discount as the share price is now below the IPO price of Bt36.50.

### ESSENTIALS

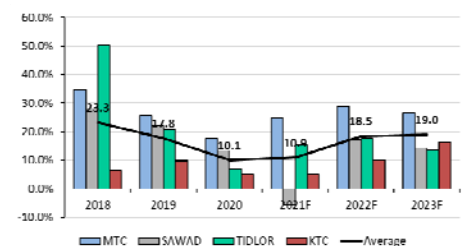
- **Unexciting 3Q21 earnings.** We expect consumer finance companies under our coverage to report a combined net profit of Bt4.8b, up 4% yoy and flat qoq in 3Q21. The unexciting earnings growth in 3Q21 was mainly due to weak NIM. Meanwhile, we expect decent loan growth of 11% yoy (excluding the transferring of motor-title loans worth around Bt7.4b from SAWAD to Fast Money (FM), the loan growth in 3Q21 should be 14.0% yoy). Asset quality should remain healthy thanks to continued rollout in Debt Relief Programmes (DRP) with an average NPL ratio of 2.9% (vs. 2Q21: 2.8%) and loan loss coverage (LLC) ratio of 192% (vs. 2Q21: 196%).
- **Spillover effect from price war put pressure on 3Q21 NIM outlook.** While the price war in the auto-title lending business has softened considerably compared to 1H21, the spill-over effect will continue to put pressure on the sector's NIM in 3Q21. This is because around 50% of MTC's motorcycle-title loans have not been renewed to the new interest rate of 16% yet (the previous interest rate was 18% in 4Q20). MTC's management expects 80-90% of the motorcycle-title loans to complete new contracts in 3Q21. Moreover, consumer finance operators provided DRP, which waived two instalments in Jul-Aug 21 for customers who were severely impacted by the fourth wave of the COVID-19 outbreak. Overall, we expect the sector's NIM to drop 120bp yoy in 3Q21.
- **Customer credit card spending declined 11-15% yoy in Jul-Aug 21.** According to the Bank of Thailand (BOT)'s report on 8 Oct 21, the industry's customer credit card spending declined 11% yoy in Jul 21 and 15% yoy in Aug 21. The soft customer credit card spending was due to the second round of lockdown measures and weak domestic consumption.

### SECTOR'S EARNINGS OUTLOOK



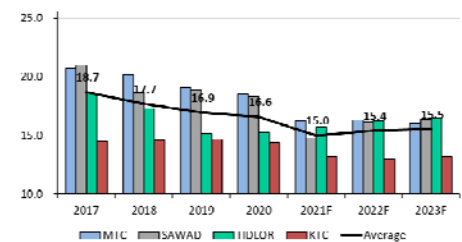
Source: UOB Kay Hian

### SECTOR'S LOAN GROWTH OUTLOOK



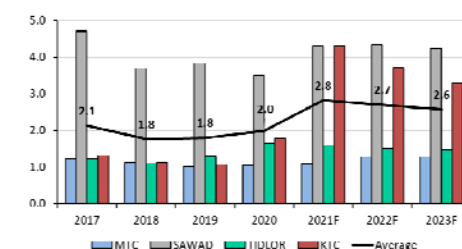
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### SECTOR'S NIM OUTLOOK



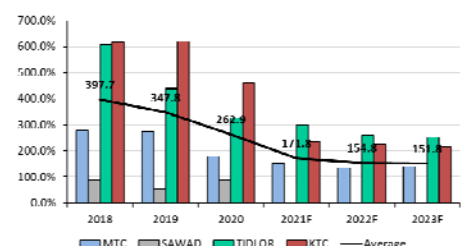
Source: UOB Kay Hian

### SECTOR'S NPL OUTLOOK



Source: UOB Kay Hian

### SECTOR'S LLC OUTLOOK



Source: UOB Kay Hian

### 3Q21 EARNINGS PREVIEW

	3Q21F	2Q21	3Q20	qoq (%)	yoy (%)	2021F	2020	yoy (%)
<b>Net profit (Btm)</b>								
MTC	1,353	1,270	1,340	6.5	0.9	5,398	5,214	3.5
SAWAD	1,153	1,106	1,204	4.2	(4.2)	4,896	4,508	8.6
TIDLOR	812	777	811	4.4	0.1	3,212	2,416	32.9
KTC	1,435	1,680	1,221	(14.6)	17.5	6,153	5,332	15.4
<b>Total</b>	<b>4,752</b>	<b>4,834</b>	<b>4,576</b>	<b>(1.7)</b>	<b>3.9</b>	<b>19,659</b>	<b>17,470</b>	<b>12.5</b>

	3Q21F	2Q21	3Q20	qoq (%)	yoy (%)	2021F	2020	yoy (%)
<b>Total loans (Btm)</b>								
MTC	85,672	79,831	67,215	7.3	27.5	91,714	70,968	29.2
SAWAD	36,942	35,734	42,091	3.4	(12.2)	39,888	42,266	(5.6)
TIDLOR	56,481	54,857	48,691	3.0	16.0	59,168	51,331	15.3
KTC	89,534	89,444	84,347	0.1	6.1	94,719	90,150	5.1
<b>Total</b>	<b>268,629</b>	<b>259,866</b>	<b>242,343</b>	<b>3.4</b>	<b>10.8</b>	<b>285,489</b>	<b>254,715</b>	<b>12.1</b>

	3Q21F	2Q21	3Q20	qoq (%)	yoy (%)	2021F	2020	yoy (%)
<b>NIM (%)</b>								
MTC	16.2	16.6	18.9	(2.1)	(14.2)	16.2	18.5	(12.2)
SAWAD	16.0	16.1	16.6	(0.6)	(3.7)	14.8	18.3	(19.0)
TIDLOR	15.7	15.6	16.2	0.6	(3.2)	15.7	15.2	3.2
KTC	13.5	13.9	14.8	(2.9)	(8.7)	13.2	14.4	(7.8)
<b>Average</b>	<b>15.4</b>	<b>15.5</b>	<b>16.6</b>	<b>(1.2)</b>	<b>(7.7)</b>	<b>15.0</b>	<b>16.6</b>	<b>(9.6)</b>

	3Q21F	2Q21	3Q20	qoq (%)	yoy (%)	2021F	2020	yoy (%)
<b>NPL ratio (%)</b>								
MTC	1.1	1.1	1.0	(0.5)	9.6	1.1	1.1	4.5
SAWAD	4.4	4.3	4.2	3.2	5.6	4.3	3.5	22.4
TIDLOR	1.4	1.6	1.2	(10.0)	15.8	1.6	1.7	(3.4)
KTC	4.5	4.4	1.8	2.5	143.9	4.3	1.8	142.6
<b>Average</b>	<b>2.9</b>	<b>2.8</b>	<b>2.1</b>	<b>0.8</b>	<b>38.5</b>	<b>2.8</b>	<b>2.0</b>	<b>41.4</b>

	3Q21F	2Q21	3Q20	qoq (%)	yoy (%)	2021F	2020	yoy (%)
<b>Loan loss coverage ratio (%)</b>								
MTC	156.0	162.8	199.4	(4.2)	(21.8)	152.0	177.6	(14.4)
SAWAD	63.0	68.9	74.8	(8.5)	(15.8)	58.0	88.7	(34.6)
TIDLOR	310.0	306	469	1.3	(34.0)	300.0	325.1	(7.7)
KTC	240.0	248.0	451.8	(3.2)	(46.9)	235.0	460.3	(48.9)
<b>Average</b>	<b>192.3</b>	<b>196.4</b>	<b>298.9</b>	<b>(2.1)</b>	<b>(35.7)</b>	<b>186.3</b>	<b>262.9</b>	<b>(29.2)</b>

Source: Respective companies, UOB Kay Hian

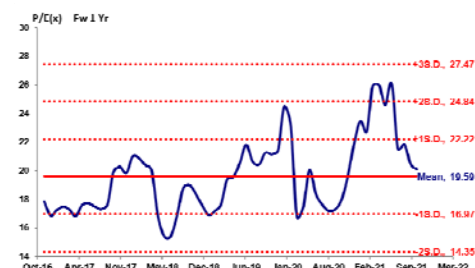
### EARNINGS REVISION

- No earnings revision.

### RISKS

- Higher-than-expected credit risk resulting from a weaker-than-expected economy.
- Lower-than-expected NIM outlook if there is escalation in the price war.

### SECTOR PE BAND



Source: UOB Kay Hian

### SECTOR P/B BAND



Source: UOB Kay Hian

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