

COMPANY UPDATE

Krungthai Card (KTC TB)

Cushion Against Credit Risk Smaller Than Expected

According to KTC's management, under the TFRS9 accounting standard, NPL reporting would need to include write-offs as well. Although KTC's earnings outlook would not change as the company's provisioning is already in compliance with TFRS9 standards, its cushioning against credit risk is smaller than we had expected. Downgrade to HOLD with a new target price of Bt45.00. Entry price: Bt38.00.

WHAT'S NEW

- NPLs to surge under the new TFRS9 standards.** Krungthai Card Plc's (KTC) management guided that under the TFRS9 accounting standards, NPL financial reports would be required to include write-offs recorded during the period being reported on as well. As a result, the company's current NPL ratio (based on the TFRS9 accounting standard) would jump to 8.0-8.5% (vs 1.1% under the current accounting standard, IAS39).
- Cushion against credit risk is diminishing.** Management also guided that current allowance for doubtful accounts is sufficient in terms of its compliance with the TFRS9 accounting standards, and provision expenses after the implementation of TFRS9 would not change much as the company has already set provision expenses based on TFRS9 calculations (probability of default (PD) x loss given default (LGD) x exposure at default (EAD)). However, the cushion against the credit risk has dropped significantly as KTC's LLC ratio (under TFRS9) which represents asset quality would plunge to 100-200% (vs 641% under the current accounting standard, IAS39).
- Strong credit card spending.** The company's 9M19 credit card spending remained strong as it had increased by 10.4% yoy, higher than the industry's growth rate of 9.1%. Also, in terms of market share, KTC's credit card spending has edged up to 11.3% in 3Q19 (2018: 11.2%).
- Roll-out of new products would take time.** KTC is developing new products, which are auto title loans that use cars or motorcycles as collateral under Pico Loan (personal loans) and Nano Finance licences (unsecured loans). Management guided that these new products would take around 24 months to make a significant contribution to the company's bottom-line.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net interest income	6,464	7,240	8,044	8,907	9,690
Non-interest income	11,433	12,402	13,421	14,642	15,876
Net profit (rep./act.)	3,304	5,140	6,321	7,257	8,139
Net profit (adj.)	3,304	5,140	6,321	7,257	8,139
EPS (Bt)	1.3	2.0	2.5	2.8	3.2
PE (x)	31.8	20.4	16.6	14.5	12.9
P/B (x)	8.4	6.4	5.1	4.1	3.5
Dividend yield (%)	1.0	1.3	1.9	2.5	3.0
Net int margin (%)	14.5	14.6	14.7	14.7	14.8
Cost/income (%)	39.9	38.3	35.6	35.1	34.8
Loan loss cover (%)	588.6	615.8	630.0	645.0	660.0
Consensus net profit	-	-	6,003	6,690	7,487
UOBKH/Consensus (x)	-	-	1.05	1.08	1.09

Source: Krungthai Card Plc, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	Bt41.50
Target Price	Bt45.00
Upside	+8.4%
(Previous TP)	Bt47.00

COMPANY DESCRIPTION

The company provides unsecured financial products, credit card products and services, and personal loans to consumers in Thailand.

STOCK DATA

GICS sector	Financials
Bloomberg ticker:	KTC TB
Shares issued (m):	2,578.3
Market cap (Btm):	105,067.1
Market cap (US\$m):	3,465.4
3-mth avg daily t'over (US\$m):	17.5

Price Performance (%)

52-week high/low	Bt47.75/Bt27.75				
1mth	3mth	6mth	1yr	YTD	
(5.8)	3.2	3.8	13.2	33.6	

Major Shareholders

	%
-Krungthai Bank Plc	49.75
-Mongkol Prakitchaiwattana	16.80
-Thai NVDR	5.11

FY19 NAV/Share (Bt)	7.65
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PRICE CHART



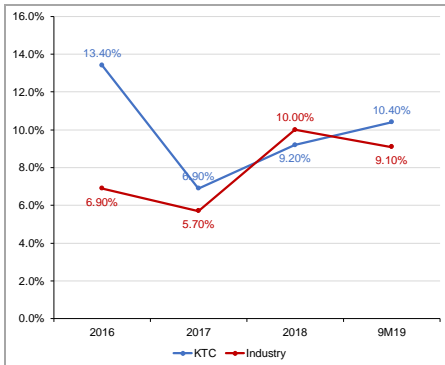
Source: Bloomberg

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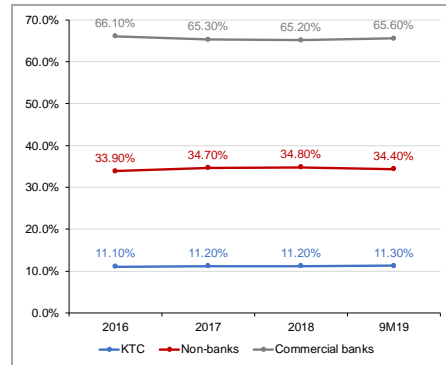
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CREDIT CARD SPENDING GROWTH



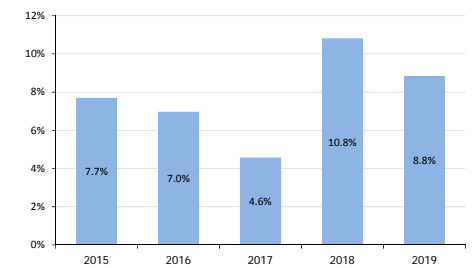
Source: Krungthai Card, UOB Kay Hian

CREDIT SPENDING MARKET SHARE



Source: Krungthai Card, UOB Kay Hian

CREDIT CARD SPENDING GROWTH (JAN-AUG 19)



Source: Krungthai Card, UOB Kay Hian

STOCK IMPACT

- **Decent 4Q19 earnings outlook.** We expect KTC's 4Q19 earnings to grow 11% yoy and 5% qoq. The decent earnings growth should be driven by: a) large-scale online and offline "shopping festivals", b) high travel season in December, and c) low interest environment which would keep the company's cost of funds low. For credit cost, we expect it to increase slightly to 859bp (3Q19: 845bp) to reflect the rising NPL trend.

EARNINGS REVISION/RISK

- No earnings forecast revisions.

VALUATION/RECOMMENDATION

- **Downgrade to HOLD.** Although the change in NPL reporting would not impact KTC's earnings outlook as the company's provisioning is already in compliance with the TFRS9 standard, the cushion against credit risk is smaller than we had expected. Therefore, we discount the stock's terminal P/B multiple in our GGM methodology down to 2.80x pegged at -0.25SD of its mean (previously 3.00x). Downgrade to HOLD with a new target price of Bt45.00.

SHARE PRICE CATALYST

- None.

PE BAND



Source: Krungthai Card, UOB Kay Hian

P/B BAND



Source: Krungthai Card, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Interest income	8,796	9,682	10,627	11,472
Interest expense	(1,555)	(1,638)	(1,720)	(1,781)
Net interest income	7,240	8,044	8,907	9,690
Fees & commissions	8,640	9,248	10,097	10,943
Other income	3,762	4,173	4,544	4,933
Non-interest income	12,402	13,421	14,642	15,876
Total income	19,642	21,465	23,548	25,566
Staff costs	(7,311)	(7,426)	(8,029)	(8,654)
Other operating expense	(212)	(215)	(235)	(256)
Pre-provision profit	12,119	13,824	15,283	16,657
Loan loss provision	(5,703)	(5,926)	(6,212)	(6,484)
Pre-tax profit	6,416	7,898	9,072	10,173
Tax	(1,277)	(1,578)	(1,814)	(2,035)
Net profit	5,140	6,321	7,257	8,139
Net profit (adj.)	5,140	6,321	7,257	8,139

OPERATING RATIOS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Capital Adequacy				
Total assets/equity (x)	4.9	4.3	3.8	3.4
Tangible assets/tangible common equity (x)	5.0	4.3	3.8	3.5
Asset Quality				
NPL ratio	1.1	1.0	1.0	1.0
Loan loss coverage	615.8	630.0	645.0	660.0
Loan loss reserve/gross loans	7.0	6.2	6.2	6.3
Increase in NPLs	(8.0)	(3.2)	5.2	7.5
Credit cost (bp)	751.9	716.6	683.4	660.8
Liquidity				
Loan/deposit ratio	144.5	150.3	156.7	162.6
Liquid assets/short-term liabilities	31.1	22.6	41.8	108.5
Liquid assets/total assets	3.4	1.7	2.1	2.9

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Cash with central bank	2,722	1,526	1,993	3,015
Govt treasury bills & securities	9	9	9	9
Customer loans	72,713	81,757	88,730	95,201
Investment securities	0	0	0	0
Fixed assets (incl. prop.)	529	593	655	717
Other assets	3,674	4,120	4,427	4,719
Total assets	79,648	88,005	95,813	103,660
Customer deposits	8,787	6,787	4,787	2,787
Debt equivalents	45,335	51,225	55,567	59,711
Other liabilities	9,174	9,303	10,091	10,844
Total liabilities	63,296	67,315	70,446	73,343
Shareholders' funds	16,352	20,689	25,367	30,317
Total equity & liabilities	79,648	88,005	95,813	103,660

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Growth				
Net interest income, yoy chg	12.0	11.1	10.7	8.8
Fees & commissions, yoy chg	6.4	7.0	9.2	8.4
Pre-provision profit, yoy chg	12.7	14.1	10.6	9.0
Net profit, yoy chg	55.5	23.0	14.8	12.1
Net profit (adj.), yoy chg	55.5	23.0	14.8	12.1
Customer loans, yoy chg	7.3	12.4	8.5	7.3
Customer deposits, yoy chg	(12.7)	(22.8)	(29.5)	(41.8)
Profitability				
Net interest margin	14.6	14.7	14.7	14.8
Cost/income ratio	38.3	35.6	35.1	34.8
Adjusted ROA	6.7	7.5	7.9	8.2
Reported ROE	35.5	34.1	31.5	29.2
Adjusted ROE	35.5	34.1	31.5	29.2
Valuation				
P/BV (x)	6.4	5.1	4.1	3.5
P/NTA (x)	6.6	5.2	4.2	3.5
Adjusted P/E (x)	20.4	16.6	14.5	12.9
Dividend Yield	1.3	1.9	2.5	3.0
Payout ratio	26.6	31.4	35.5	39.2

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