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KEY HIGHLIGHTS

Update

Krungthai Card (KTC TB/BUY/Bt43.75/Target: Bt51.00)

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3Q23 results preview: Expect manageable increase in credit cost. Upgrade to BUY.

KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,451.25	3.95	0.27
SET50	886.30	0.63	0.07
Value (Btm) - SET	48,760		
Top 5 Sector			
BANK	388.50	3.25	0.84
PETRO	679.57	1.57	0.23
PROP	228.95	(0.96)	(0.42)
ENERG	20,409.48	96.46	0.47
ICT	159.19	0.45	0.28

Source: Bloomberg

TOP VOLUME

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
AOT	68.50	(2.14)	60,181.7
DELTA	83.75	(2.05)	19,776.7
PTT	32.25	(0.77)	52,158.5
CPALL	60.75	1.25	26,297.5
BDMS	27.50	2.80	57,675.4

TOP GAINERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
JCKH	0.05	25.00	566.3
KC	0.10	11.11	3,929.5
TFI	0.11	10.00	115.9
RP	1.98	10.00	9,383.6
GLOCON	0.47	9.30	18,081.6

TOP LOSERS

Symbol	Close (Baht)	+/-(% Chg)	5-day ADT (BTm)
TWZ	0.04	(20.00)	1,051.5
B	0.05	(16.67)	10,609.6
JPARK	4.24	(9.01)	157,040.1
NEW	82.50	(8.33)	0.2
GRAMMY	8.35	(8.24)	389.5

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	86.0	(3.8)	13.5	5.3
Dubai crude*	91.9	1.6	21.8	16.8
Baltic Dry Index	1,780.0	67.5	79.1	17.5
Gold Spot***	1,822.5	(5.4)	(4.8)	(0.1)

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

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
0.9	(136.9)	(4,663.5)	(8,634.1)

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 36.91

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

Thai Lending Rate (%)* - MLR = 7.10

COMPANY UPDATE

Krungthai Card (KTC TB)

3Q23 Results Preview: Expect Manageable Increase In Credit Cost

We expect KTC to post a 3Q23 net profit of Bt1,746m (-2% yoy, -3% qoq). The main drag will be higher credit cost due to a weakening economy. Meanwhile, increasing the minimum payment in the credit card business will be another concern as KTC needs to raise credit costs to cushion an unexpected bad loan. Due to a 9.8% mom correction in share price and widening upside to the target price, we upgrade to BUY with an unchanged target price of Bt51.00.

3Q23 RESULTS PREVIEW

Year to 31 Dec (Btm)	3Q23F	2Q23	3Q22	qoq chg (%)	yoy chg (%)
Total gross loans	108,280	104,920	96,390	3.2	12.3
Net interest income	3,664	3,557	3,337	3.0	9.8
Non-interest income	2,248	2,268	2,207	(0.9)	1.9
Loan loss provision	(1,603)	(1,438)	(1,276)	11.4	25.6
Non-Interest expenses	(2,144)	(2,135)	(2,056)	0.4	4.3
Pre-provision operating profit	3,768	3,690	3,487	2.1	8.0
Net income	1,746	1,806	1,773	(3.3)	(1.5)
EPS (Bt)	0.68	0.70	0.69	(3.3)	(1.5)
Ratio (%)					
NPL Ratio (%)	2.0	2.0	2.0		
Loan loss coverage ratio (%)	440	433	448		
Net interest margin (NIM %)	13.7	13.7	14.0		
Credit cost (bp)	601	554	535		
Cost to income (%)	36.3	36.7	37.1		

Source: KTC, UOB Kay Hian

WHAT'S NEW

- **Softening 3Q23 earnings growth.** We expect Krungthai Card (KTC) to report a 3Q23 net profit of Bt1,746m, down 2% yoy and 3% qoq due to elevated credit costs. The credit costs will remain higher given: a) a weakening economy outlook after the Bank of Thailand (BOT) adjusted down Thailand's GDP growth in 2023, and b) the increase in minimum payment for credit cards. In terms of pre-provision operating income (PPOP), we expect the company to post a growth of 8% yoy and 2% qoq.

KEY FINANCIALS

Year to 31 Dec (Btm)	2021	2022	2023F	2024F	2025F
Net interest income	9,257	9,986	11,123	12,200	13,260
Non-interest income	10,769	11,852	12,601	13,658	14,688
Net profit (rep./act.)	5,879	7,079	6,967	7,766	8,881
Net profit (adj.)	5,879	7,079	6,967	7,766	8,881
EPS (Bt)	2.3	2.7	2.7	3.0	3.4
PE (x)	19.3	16.0	16.3	14.6	12.8
P/B (x)	4.2	3.6	3.2	2.8	2.5
Dividend yield (%)	2.0	2.3	2.6	2.8	3.3
Net int margin (%)	13.4	13.3	13.3	13.4	13.6
Cost/income (%)	36.6	37.2	36.9	36.7	36.8
Loan loss cover (%)	292.2	476.4	440.0	480.0	505.0
Consensus net profit	-	-	7,403	8,044	8,907
UOBKH/Consensus (x)	-	-	0.94	0.97	1.00

Source: Krungthai Card Plc, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Upgraded)

Share Price	Bt43.75
Target Price	Bt51.00
Upside	+16.6%

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):	112,802.1
Market cap (US\$m):	3,044.8
3-mth avg daily t'over (US\$m):	8.4

Price Performance (%)

52-week high/low Bt60.50/Bt43.50

1mth	3mth	6mth	1yr	YTD
(9.3)	(11.6)	(18.6)	(23.2)	(25.8)

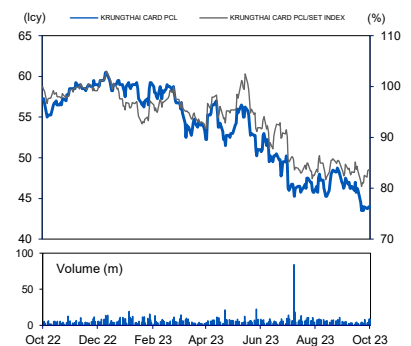
Major Shareholders

	%
Krungthai Bank (KTB)	49.3
Mongkol Prakitchaiwattana	10.0
Thai NVDR	8.8

FY23 NAV/Share (Bt) 13.71

FY23 Solvency Ratio (%)

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Expect KTC's 3Q23 loan growth to be stronger than peers'. We estimate the KTC's loan portfolio will expand by 12% yoy and 3% qoq. This growth is primarily driven by an increase in credit card spending activities. In contrast, the broader industry's credit card and personal loan outstanding balances have shown a more modest growth and even contraction. Specifically, the industry's credit card outstanding balance grew by just 1% yoy, while the personal loan outstanding balance contracted by 11% yoy as of Jul 23. Despite this, the industry's credit card spending has shown a robust performance, with an increase of 8.6% yoy in Jul 23.**
- Credit costs continue to increase in 3Q23.** Although we expect NPLs to be near their peak, we believe the credit cost will rise in 3Q23. The uneven economic recovery will be the key pressure that makes KTC increase credit cost. The increase in minimum payment on credit cards from 5% to 8%, effective in Jan 24, will be another key concern to make KTC raise the credit cost higher to guard against potential debt becoming bad debt. Nevertheless, we believe that KTC can handle the rise in credit costs smoothly. KTC had the highest LLC ratio among its peers at 433% in 2Q23. (MTC: 105%, SAWAD: 74% and TIDLOR: 266%).
- RL measure to cool down loan growth next year.** Apart from the Persistent Debt (PD) measure to mitigate the household debt problem, BOT reiterated that they would implement the Responsible Lending (RL) measure on Jan 24. The RL measure intends to protect new debtors from excessive promotion of borrowing. We believe the RL measure will have some impact on loan growth in 2024 due to less promotion and advertising on credit cards and personal loans. We maintain loan growth of 8.3% yoy in 2024 as we wait for more details on the household debt measures.
- New CEO to run the business.** There is some concern about the retirement of the current chief executive officer (CEO) at the end of this year that the business's direction and the way of doing business may change. According to the recent analyst meeting, KTC reaffirmed that the business' focus will be consistent under management by a new CEO. Meanwhile, the current management team remains to serve and drive the company. We believe KTC will maintain conservative lending and continue to improve asset quality.

EARNINGS REVISION/RISK

- No earnings revision.

VALUATION/RECOMMENDATION

- Upgrade to BUY with an unchanged target price of Bt51.00.** We use the Gordon Growth Model (cost of equity: 11.5%, long-term growth: 3%). Apart from the upside to the current share price, we upgrade KTC to BUY given: a) the highest loan loss coverage (LLC) ratio among the peers, which is adequate to cushion the unexpected bad debt, b) the peak of the rate hike cycle will lessen pressure on net interest margin (NIM) despite funding cost remaining escalated for a while, and c) the benefit from government stimulus such as minimum wage increase and digital cash payout policy to improve repayment on debt and better asset quality. The stock is trading at 15x 2023F PE, approximately -1SD to its five-year mean and trading at 2.9x 2023F P/B, almost -2SD to its five-year mean.

SHARE PRICE CATALYST

- A peak in NPLs.
- An improvement in asset quality due to government stimulus.
- A continuous recovery in the domestic economy.

PE BAND



P/B BAND



PROFIT & LOSS

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Interest income	11,379	12,883	14,395	15,615
Interest expense	(1,392)	(1,761)	(2,195)	(2,355)
Net interest income	9,986	11,123	12,200	13,260
Fees & commissions	7,976	8,990	9,902	10,655
Other income	3,876	3,611	3,756	4,033
Non-interest income	11,852	12,601	13,658	14,688
Total income	21,839	23,723	25,858	27,948
Staff costs	(7,872)	(8,500)	(9,214)	(9,985)
Other operating expense	(244)	(265)	(278)	(292)
Pre-provision profit	13,722	14,958	16,366	17,671
Loan loss provision	(4,868)	(6,318)	(6,855)	(6,651)
Other provisions	0	0	0	0
Associated companies	17	41	48	48
Other non-operating income	0	0	0	0
Pre-tax profit	8,871	8,682	9,558	11,068
Tax	(1,818)	(1,735)	(1,816)	(2,214)
Minorities	26	21	23	27
Net profit	7,079	6,967	7,766	8,881
Net profit (adj.)	7,079	6,967	7,766	8,881

BALANCE SHEET

Year to 31 Dec (Btm)	2022	2023F	2024F	2025F
Cash with central bank	2,182	4,372	4,737	5,026
Govt treasury bills & securities	0	0	0	0
Interbank loans	0	0	0	0
Customer loans	94,014	104,991	113,297	120,210
Investment securities	0	0	0	0
Derivative receivables	0	0	0	0
Associates & JVs	0	0	0	0
Fixed assets (incl. prop.)	348	372	409	443
Other assets	5,252	4,355	4,631	4,851
Total assets	101,796	114,090	123,074	130,529
Interbank deposits	0	0	0	0
Customer deposits	0	0	0	0
Derivative payables	0	0	0	0
Debt equivalents	45,456	48,041	52,050	55,227
Other liabilities	24,764	30,472	30,850	29,958
Total liabilities	70,220	78,513	82,900	85,185
Shareholders' funds	31,353	35,356	39,929	45,073
Minority interest - accumulated	223	221	245	271
Total equity & liabilities	101,796	114,090	123,074	130,529

OPERATING RATIOS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Capital Adequacy				
Total assets/equity (x)	3.2	3.2	3.1	2.9
Tangible assets/tangible common equity (x)	3.3	3.3	3.1	2.9
Asset Quality				
NPL ratio	1.8	2.0	1.9	1.8
Loan loss coverage	476.4	440.0	480.0	505.0
Loan loss reserve/gross loans	4.7	5.5	5.5	5.1
Increase in NPLs	(44.4)	24.0	2.9	0.5
Credit cost (bp)	497.9	579.9	575.3	520.8
Liquidity				
Loan/deposit ratio	167.0	163.6	168.4	174.6
Liquid assets/short-term liabilities	13.5	20.4	22.5	25.6
Liquid assets/total assets	2.1	3.8	3.8	3.9

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Growth				
Net interest income, yoy chg	7.9	11.4	9.7	8.7
Fees & commissions, yoy chg	10.3	12.7	10.1	7.6
Pre-provision profit, yoy chg	8.0	9.0	9.4	8.0
Net profit, yoy chg	20.4	(1.6)	11.5	14.4
Net profit (adj.), yoy chg	20.4	(1.6)	11.5	14.4
Customer loans, yoy chg	14.0	11.7	7.9	6.1
Profitability				
Net interest margin	13.3	13.3	13.4	13.6
Cost/income ratio	37.2	36.9	36.7	36.8
Adjusted ROA	7.4	6.5	6.5	7.0
Reported ROE	24.3	20.9	20.6	20.9
Adjusted ROE	24.3	20.9	20.6	20.9
Valuation				
P/BV (x)	3.6	3.2	2.8	2.5
P/NTA (x)	3.7	3.2	2.9	2.5
Adjusted P/E (x)	16.0	16.3	14.6	12.8
Dividend Yield	2.3	2.6	2.8	3.3
Payout ratio	36.4	42.9	41.1	42.1

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