

COMPANY RESULTS

Srisawad Corporation (SAWAD TB)

3Q22: Results Slightly Above Expectation

SAWAD posted a 3Q22 net profit of Bt1,186m (+7% yoy, +14 qoq). The results were slightly above market expectation by 6%. The company reversed its provision expenses amounting to Bt121m. However, its LLC ratio declined to an all-time low at 44%. We believe SAWAD's provisioning is inadequate. Maintain HOLD. Target price: Bt49.00.

3Q22 RESULTS

Year to 31 Dec (Btm)	3Q22	2Q22	3Q21	qoq chg (%)	yoy chg (%)
Total gross loan	51,478	44,635	36,986	15.3	39.2
Net interest income	2,072	1,734	1,436	19.5	44.3
Non-interest income	971	830	841	17.0	15.4
Loan loss provision	-121	31	-101	(490.8)	20.0
Operating expenses	1,642	1,118	863	46.9	90.3
Pre-provision operating income	1,425	1,461	1,404	(2.4)	1.5
Net income	1,186	1,042	1,112	13.8	6.7
EPS (Bt)	0.86	0.76	0.81	13.8	6.7
Ratio (%)					
Net interest margin (NIM %)	17.2	16.5	15.8	76bp	145bp
Credit cost (bp)	-101	29	-111	-130bp	10bp
Cost to income (%)	54.0	43.6	37.9	1038bp	1608bp
NPL ratio (%)	2.6	2.8	4.4	-18bp	-174bp
Loan loss coverage ratio (%)	44	53	55	-9ppt	-11ppt

Source: SAWAD, UOB Kay Hian

RESULTS

• **3Q22 results slightly above expectation.** Srisawad Corporation (SAWAD) posted a 3Q22 net profit of Bt1,186m, up 7% yoy and 14% qoq. The results were slightly above consensus forecast by 6%, resulting from an unexpected reversal in provision expenses. The company recorded extraordinary gains and losses in 3Q22, including: a) gains of Bt184.5m from the additional acquisition in Srisawad Vietnam Liability, and b) losses of Bt223m from an impairment in its subsidiary's finance licences. Although the company's net interest income (NII) grew decently, it was offset by the spike in operating expenses. As a result, SAWAD's pre-provision operating profit (PPOP) in 3Q22 was flat yoy and qoq at around Bt1.4b.

KEY FINANCIALS

Year to 31 Dec (Btm)	2020	2021	2022F	2023F	2024F
Net interest income	7,263	6,065	7,078	8,579	10,047
Non-interest income	2,827	3,376	3,303	3,394	3,509
Net profit (rep./act.)	4,508	4,722	4,151	4,783	5,683
Net profit (adj.)	4,508	4,722	4,151	4,783	5,683
EPS (Bt)	3.3	3.4	3.0	3.5	4.1
PE (x)	13.0	12.6	14.3	12.4	10.5
P/B (x)	2.7	2.4	2.3	2.1	1.9
Dividend yield (%)	3.3	4.2	4.2	3.7	4.6
Cost/income (%)	37.5	36.8	42.3	40.5	39.5
Loan loss cover (%)	88.7	58.9	60.0	63.0	68.5
Consensus net profit	-	-	4,536	5,138	5,762
UOBKH/Consensus (x)	-	-	0.92	0.93	0.99

Source: Srisawad Corp, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt43.25
Target Price	Bt49.00
Upside	+13.3%
(Previous TP)	Bt54.00)

COMPANY DESCRIPTION

The Company provides motorcycle, commercial/passenger cars, agriculture cars, and title deed, personal, and nano loan to individuals.

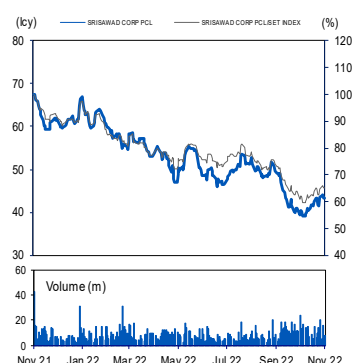
STOCK DATA

GICS sector				Financials
Bloomberg ticker:				SAWAD TB
Shares issued (m):				1,373.2
Market cap (Btm):				59,388.8
Market cap (US\$m):				1,666.4
3-mth avg daily t'over (US\$m):				12.4
Price Performance (%)				
52-week high/low				Bt67.50/Bt39.00
1mth	3mth	6mth	1yr	YTD
5.5	(16.4)	(8.0)	(31.6)	(30.0)

Major Shareholders

	%
Kaewbootta's family	34.00
Thai NVDR	9.73
South East ASIA UK (TYPE A) Nominees	4.76
FY22 NAV/Share (Bt)	19.12

PRICE CHART



Source: Bloomberg

ANALYST(S)

Kwanchai Atiphopchai, CFA
+662 659 8030
kwanchai@uobkayhian.co.th

- NII grew 44% yoy and 20% qoq.** The company reported NII at Bt2,072m, growing 44% yoy and 20% qoq, backed by the robust loan growth of 39% yoy. SAWAD added another 144 network stores in 3Q22, bringing its total store count to 5,187. Moreover, the company's NIM increased 70bp qoq to 17.2% in 3Q22 thanks to a higher qoq loan mix in motorcycle hire-purchase (HP), which provided an average loan yield of 30%.
- Opex surged drastically.** Despite excluding impairment losses, SAWAD's operating expenses in 3Q22 remained very high at Bt1.4b (+64% yoy, +27% qoq), implying a recurring cost-to-income of 47% (+9ppt yoy, +9ppt qoq). Management revealed that the higher operating expenses were due to an increase in marketing expenses and the massive staff recruitment & training programme, where it would take around nine months for the newly-employed credit analysts to perform their jobs properly. Hence, SAWAD's operating expenses will remain high in 4Q22.
- Reversal of provisioning at the expense of lower loan loss reserves.** While other consumer finance operators encountered deterioration in asset quality because of the inflation crisis and global economic slowdown, SAWAD's NPL ratio fell 20bp qoq to 2.6%. According to management guidance, the company's NPL ratio in motorcycle HP in 3Q22 was less than 2% (vs the industry's NPL ratio of 12-15%). Management claimed its resilient asset quality was due to its superior credit approval procedure and its vast expertise in motorcycle HP. As a result, SAWAD reversed its provisioning amounting to Bt121m in 3Q22. However, we believe SAWAD's provisioning is inadequate as it has geared its loans towards high loan-to-value (LTV) loans such as motorcycle HP and unsecured personal loans, but the company's loan loss coverage (LLC) declined from 53% in 2Q22 to 44% in 3Q22. Also, SAWAD's LLC ratio is far below its competitors' (MTC: 102%, TIDLOR: 254%).

STOCK IMPACT

- New market in Vietnam.** SAWAD is expanding its auto-title loans to Vietnam, operating under its new subsidiary, Srisawad Vietnam Liability. Currently, the company limits its lending to motorcycle-title loans only but will offer car-title loans in the future. Management guided that loans outstanding was Bt100m-200m, and store count stood at 114 in 3Q22. SAWAD is charging an interest rate of 60%. Aside from that, management has yet to provide its business strategy and financial targets. We have excluded the Vietnam operation from our model.

EARNINGS REVISION/RISK

- No earnings revision.

VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of Bt49.00** as we roll over our target price to 2023 and raise the cost of equity assumption from 11.5% to 12.5%, given the high volatility of SAWAD's share price and its thin LLC ratio. Our target price implies 14x 2023F PE, which is -1SD to its five-year mean.

SHARE PRICE CATALYST

- No short-term price catalyst.

PE BAND



Source: SAWAD, UOB Kay Hian

P/B BAND



Source: SAWAD, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Interest income	6,855	7,907	9,606	11,199
Interest expense	(791)	(830)	(1,028)	(1,151)
Net interest income	6,065	7,078	8,579	10,047
Fees & commissions	3,376	3,303	3,394	3,509
Non-interest income	3,376	3,303	3,394	3,509
Total income	9,440	10,381	11,973	13,557
Staff costs	(3,285)	(4,067)	(4,634)	(5,105)
Other operating expense	(190)	(326)	(216)	(244)
Pre-provision profit	5,964	5,989	7,124	8,208
Loan loss provision	455	(466)	(784)	(694)
Associated companies	(29)	1	20	43
Other non-operating income	0	0	0	0
Pre-tax profit	6,390	5,524	6,360	7,557
Tax	(1,352)	(1,062)	(1,272)	(1,511)
Minorities	(316)	(311)	(305)	(363)
Net profit	4,722	4,151	4,783	5,683
Net profit (adj.)	4,722	4,151	4,783	5,683

BALANCE SHEET

Year to 31 Dec (Btm)	2021	2022F	2023F	2024F
Cash with central bank	2,689	7,758	6,709	7,431
Govt treasury bills & securities	1,711	0	0	0
Customer loans	36,614	46,467	52,947	59,917
Investment securities	2,384	3,321	3,795	4,302
Associates & JVs	1,470	1,479	1,479	1,479
Fixed assets (incl. prop.)	2,447	1,363	1,381	1,493
Other assets	2,653	3,950	4,425	4,931
Total assets	49,967	64,339	70,737	79,553
Interbank deposits	3,755	11,295	11,336	13,094
Customer deposits	170	474	542	615
Debt equivalents	14,073	17,876	20,429	23,156
Other liabilities	4,993	6,113	6,986	7,918
Total liabilities	22,992	35,758	39,293	44,782
Shareholders' funds	24,698	26,248	28,805	31,771
Minority interest - accumulated	2,277	2,332	2,638	3,000
Total equity & liabilities	49,967	64,339	70,737	79,553

OPERATING RATIOS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Capital Adequacy				
Total assets/equity (x)	2.0	2.5	2.5	2.5
Tangible assets/tangible common	2.0	2.5	2.5	2.5
Asset Quality				
NPL ratio	3.3	3.4	3.7	3.7
Loan loss coverage	58.9	60.0	63.0	68.5
Loan loss reserve/gross loans	2.0	2.1	2.3	2.5
Increase in NPLs	(15.6)	29.9	24.3	11.2
Credit cost (bp)	(114.3)	110.0	154.3	120.0
Liquidity				
Loan/deposit ratio	195.2	153.7	160.9	159.9
Liquid assets/short-term liabilities	86.9	59.7	50.6	48.6
Liquid assets/total assets	8.8	12.1	9.5	9.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Net interest income, yoy chg	(16.5)	16.7	21.2	17.1
Fees & commissions, yoy chg	19.4	(2.1)	2.8	3.4
Pre-provision profit, yoy chg	(5.4)	0.4	19.0	15.2
Net profit, yoy chg	4.7	(12.1)	15.2	18.8
Net profit (adj.), yoy chg	4.7	(12.1)	15.2	18.8
Customer loans, yoy chg	(10.6)	26.9	13.9	13.2
Customer deposits, yoy chg	(96.8)	179.2	14.3	13.3
Profitability				
Cost/income ratio	36.8	42.3	40.5	39.5
Adjusted ROA	9.3	7.3	7.1	7.6
Reported ROE	20.2	16.3	17.4	18.8
Adjusted ROE	20.2	16.3	17.4	18.8
Valuation				
P/BV (x)	2.4	2.3	2.1	1.9
P/NTA (x)	2.5	2.3	2.1	1.9
Adjusted P/E (x)	12.6	14.3	12.4	10.5
Dividend Yield	4.2	4.2	3.7	4.6
Payout ratio	52.3	59.5	46.5	47.8

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