

22 January 2020

Financial Services | Bank

Kasikornbank (KBANK TB)

Buy (Maintained)

Sticks With Cautious 2020 Guidance

Target Price (Return)	THB173.00 (+24%)
Price:	THB139.00
Market Cap:	USD10,943m
Avg Daily Turnover (THB/USD)	1,834m/60.3m

- Reiterate BUY with THB173.00 TP, 24% upside plus 3% yield.** FY19 results were in line with our and consensus expectations. Current valuation of 0.8x P/BV for ROE of 9% has priced in expectations of flattish FY20F earnings, in our view. We like that management has taken prudent measures to contain asset quality risks while its transformation strategy should result in ROE recovery in the longer term. Our TP is based on GGM-derived P/BV of 0.95x.
- FY19 earnings in line.** Kasikornbank posted net profit of THB8,802m (-12% QoQ, +25% YoY) for 4Q19 and THB38,727m (+1% YoY) for FY19. FY19 earnings were within our and consensus forecasts. FY19 ROE was 9.9%, down from 10.6% a year ago. Pretax profit dipped 2% YoY, mainly due to negative JAWS as opex growth of 6% YoY negated the 3% YoY rise in operating income, and the 4.5% YoY increase in impairment charges. Topline growth was supported mainly by the 4% YoY rise in NII as a 4.6% YoY expansion in loans (mortgages and SME lending) offset the 9bps NIM slippage.
- 4Q19 dented by higher opex.** Pretax profit fell 16% QoQ in 4Q19, impacted by the 19% QoQ rise in opex that pushed CIR to 50.7% (3Q19: 42.5%). Aside from seasonality, there were expenses for branding campaigns and marketing activities. Operating income was flat as a modest uptick in non-II (higher gains on investments offset by lower net premiums earned) was mitigated by the 2% drop in NII. Loans grew 2.7% QoQ (3Q19: +0.8% QoQ) but was offset by the 17bps drop in NIM (lower yields and marginally higher funding costs).
- Asset quality stress lingers.** Gross NPLs were up 6% QoQ and 13% YoY in 4Q19. This was mainly due to lower NPL sales as management expects better recoveries in the longer term, relapse of restructured SME loans (c.33% of total), while the challenging environment also led to new NPLs. Gross NPL ratio was a higher 3.65% (3Q19: 3.53%, 4Q18: 3.34%). Overall, asset quality remains manageable with the LLC ratio at a high 148.6%.
- Capital position solid.** KBANK's Tier-1 capital ratio remains healthy at 16.2% in Dec 2019 vs 15.9% in Dec 2018.
- 2020 guidance.** Reiterating its cautious view on industry prospects, management kept to its guidance for 2020 financial targets that were first shared in Oct 2019 (see Figure 2). Broadly, management expects loan growth to stay subdued at 4-6%, downside risk to NIM given expectations for one rate cut in 2020, credit cost to stay above normalised levels as management will remain vigilant on asset quality, and CIR to be elevated on investments in IT and campaigns to promote its digital offerings. Wide-range guidance on non-II reflects volatility in trading and investment gains and weak insurance business. With no surprise in 4Q results and guidance, we make no changes to our forecasts for FY20F-21F.

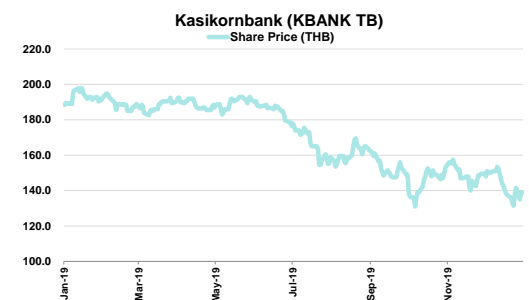
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	-7.9	-7.0	-6.7	-22.3	-26.5
Relative	-7.9	-5.6	-7.6	-18.2	-19.7
52-wk Price low/high (THB)	130.50-205.00				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Reported net profit (THBm)	34,338	38,459	38,727	38,102	39,094
Recurring net profit (THBm)	34,338	38,459	38,727	38,102	39,094
Recurring net profit growth (%)	(14.5)	12.0	0.7	(1.6)	2.6
Recurring EPS (THB)	14.35	16.07	16.18	15.92	16.33
BVPS (THB)	145.67	157.23	169.79	180.29	191.82
DPS (THB)	4.00	4.00	4.85	4.78	4.90
Recurring P/E (x)	9.7	8.6	8.6	8.7	8.5
P/B (x)	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	2.9	2.9	3.5	3.4	3.5
Return on average equity (%)	10.2	10.6	9.9	9.1	8.8
Return on average assets (%)	1.20	1.27	1.20	1.15	1.16

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Thailand	EPS (THB)	14.35	16.07	16.18	15.92	16.33
Financials	Core EPS (THB)	14.35	16.07	16.18	15.92	16.33
Kasikornbank	DPS (THB)	4.00	4.00	4.85	4.78	4.90
KBANK TB	BVPS (THB)	145.67	157.23	169.79	180.29	191.82

Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Valuation based on GGM with the following assumptions:	Recurring P/E (x)	9.7	8.6	8.6	8.7	8.5
i. COE of 9.4%;	P/B (x)	1.0	0.9	0.8	0.8	0.7
ii. ROE of 9.0%;	Dividend yield (%)	2.9	2.9	3.5	3.4	3.5
iii. 2.0% long-term growth.						

Key drivers	Balance sheet (THBm)	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Our FY20 forecasts are most sensitive to changes in:	Gross loans & advances	1,802,783	1,914,073	2,001,956	2,092,044	2,186,186
i. Net interest margin;	Loan impairment allowances	(103,434)	(119,486)	(124,879)	(131,628)	(141,698)
ii. Credit cost; and	Net loans & advances	1,702,740	1,797,974	1,879,907	1,963,972	2,048,204
iii. Loan growth.	Total assets	2,900,841	3,155,091	3,293,889	3,350,085	3,417,087
	Deposits from customers	1,878,672	1,995,001	2,072,049	2,113,175	2,164,540
	Total liabilities	2,513,018	2,737,269	2,840,174	2,868,883	2,906,802
	Shareholders' funds	348,625	376,298	406,358	431,477	459,067
	Total equity	387,822	417,822	453,715	481,202	510,284

Key risks	Income statement (THBm)	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
The downside risks include:	Net interest income	94,161	98,538	102,688	102,508	104,574
i. Prolonged period of slow economic growth;	Non-interest income	62,695	56,945	57,803	52,490	51,591
ii. Sharper-than-expected NIM compression due to rate cut and competition; and	Operating income	156,856	155,483	160,491	154,997	156,164
iii. Sharper-than-expected deterioration in asset quality.	Overhead expenses	(66,372)	(68,348)	(72,729)	(70,839)	(71,371)
	Pre-provision operating profit	90,484	87,135	87,762	84,159	84,793
	Loan impairment allowances	(41,810)	(32,532)	(34,012)	(30,705)	(29,948)
	Other impairment allowances	(4)	(3)	(2)	(1)	0
	Pretax profit	48,674	54,603	53,750	53,454	54,845
	Reported net profit	34,338	38,459	38,727	38,102	39,094
	Recurring net profit	34,338	38,459	38,727	38,102	39,094

Company Profile	Profitability	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Kasikornbank is Thailand's fourth-largest commercial bank by asset size. It has a balanced loan mix from the corporate (34%), small and medium enterprise (SME) (37%) and retail (25%) segments. The bank's strength in the SME segment has enabled it to build a strong CASA franchise (CASA ratio of 78%).	ROA (%)	1.20	1.27	1.20	1.15	1.16
	ROE (%)	10.2	10.6	9.9	9.1	8.8
	Yield on IEAs (%)	4.37	4.27	4.20	4.06	4.03
	Cost of funds (%)	1.22	1.19	1.23	1.21	1.20
	Net interest margin (%)	3.45	3.40	3.31	3.20	3.18
	Non-II / Total income (%)	36.5	37.8	38.7	38.8	38.8
	CIR (%)	42.3	44.0	45.3	45.7	45.7
	Credit cost (bps)	239	175	174	150	140
	PIOP growth (%)	1.0	(3.7)	0.7	(4.1)	0.8
	Net profit growth (%)	(14.5)	12.0	0.7	(1.6)	2.6

Asset quality	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Gross impaired loans/Gross loans (%)	3.30	3.34	3.65	3.85	3.87
Loan loss coverage ratio (%)	148.5	160.6	148.6	142.4	146.0
Gross impaired loans (THBm)	69,674	74,400	84,038	92,442	97,064

Liquidity	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
Loan growth (%)	6.2	6.2	4.6	4.5	4.5
Customer deposits growth (%)	4.7	6.2	3.9	2.0	2.4
LDR (%)	96.0	95.9	96.6	99.0	101.0

Capital	Dec-17	Dec-18	Dec-19	Dec-20F	Dec-21F
CET1 ratio (%)	15.7	15.9	16.2	15.9	16.8
Tier-1 ratio (%)	15.7	15.9	16.2	15.9	16.8
Total capital ratio (%)	18.0	17.3	18.5	19.4	20.3

Source: Company data, RHB

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Results At a Glance

Figure 1: KBANK's 4Q19 and FY19 results summary

FYE Dec (THBm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	2018	2019	YoY (%)	Comments – 4Q19 vs 3Q19
NII	25,471	26,096	25,570	(2.0)	0.4	98,538	102,688	4.2	Down QoQ on lower asset yields and slightly higher cost of funds.
<i>NIM (%) - reported</i>	3.41%	3.34%	3.26%			3.40%	3.31%		
Non-II	12,546	15,772	16,157	2.4	28.8	56,945	57,803	1.5	Net fee income was flat QoQ. Net gains from investments rose 62% QoQ. Net premium earned fell by THB1,565m due to lower insurance premium.
<i>Non-II/total income (%)</i>	33.0%	37.7%	38.7%			36.6%	36.0%		
Operating income	38,016	41,868	41,727	(0.3)	9.8	155,483	160,491	3.2	
Overhead expenses	(19,479)	(17,802)	(21,176)	19.0	8.7	(68,348)	(72,729)	6.4	Up QoQ on higher expenses on branding campaigns and marketing activities.
<i>CIR (%)</i>	51.2%	42.5%	50.7%			44.0%	45.3%		
PIOP	18,537	24,066	20,551	(14.6)	10.9	87,135	87,762	0.7	
Impairment allowances	(8,507)	(10,060)	(8,825)	(12.3)	3.7	(32,532)	(34,012)	4.5	
<i>Annualised credit cost (bps)</i>	181	207	179			94	150		
Pretax profit	10,030	14,006	11,726	(16.3)	16.9	54,603	53,750	(1.6)	
Tax	(1,809)	(2,674)	(2,304)			(10,395)	(10,309)		
<i>Effective tax rate (%)</i>	18.0%	19.1%	19.6%			19.0%	19.2%		
Minorities	(1,188)	(1,380)	(620)			(5,749)	(4,714)		
Net profit	7,033	14,798	5,506	(11.6)	25.1	38,459	38,727	0.7	
Other key data and ratios									
Gross loans	1,914,073	1,948,492	2,001,956	2.7	4.6				QoQ growth led by increase in lending for working capital, housing and credit card outstandings.
Customer deposits	1,995,001	1,998,886	2,072,049	3.7	3.9				
Gross impaired loans	74,400	79,368	84,038	5.9	13.0				
Total assets	3,155,091	3,240,134	3,293,889	1.7	4.4				
Shareholders' funds	376,298	401,045	406,358	1.3	8.0				
ROAA (%)	0.91	1.23	1.08			1.27	1.20		
ROAE (%)	6.8	8.9	7.8			10.6	9.9		
LDR (%)	95.9	97.5	96.6						
GIL ratio (%)	3.34	3.53	3.65						
Loan loss reserves (%)	160.6	153.6	148.6						
Tier-1 capital ratio (%)	15.9	15.5	16.2						
Total capital ratio	17.3	17.9	18.5						

Source: Company data, RHB

2020 Financial Targets

Figure 2: Management’s guidance and financial targets

	Achieved 2019	2019 targets	2020 targets
NIM	3.31%	3.3-3.5%	3.1-3.3%
Loan growth	4.59%	5-7%	4-6%
Non-II growth	+1.51%	-5% to -7%	-5% to -17%
CIR	45.3%	Low-to-mid 40%	Mid 40%
Credit cost	179bps	Up to 165bps	Up to 150bps
Gross NPL ratio	3.65%	3.3-3.7%	3.6-4.0%
ROE	9.9%	n.a.	n.a.

Source: Company data, RHB

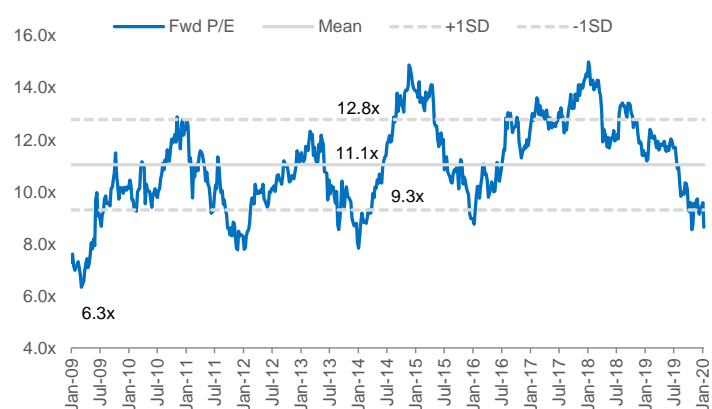
Valuation

Figure 3: KBANK – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	9.0
Risk free rate (%)	2.00	COE (%)	9.35
Equity premium (%)	9.0	Long-term growth (g)	2.0
Beta (x)	1.05	Implied P/BV (x)	0.95
Cost of equity - CAPM (%)	9.35	BVPS – FY20F	THB180.29
		Target price	THB171.70
		TP (rounded)	THB173.00

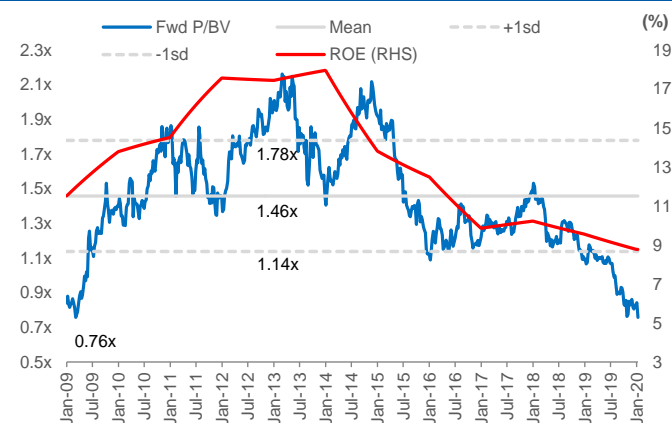
Source: Company data, RHB

Figure 4: KBANK’s 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: KBANK’s 12-month forward P/BV



Source: Bloomberg, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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- ได้รับการรับรอง CAC

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