

22 January 2021

Financial Services | Banks

Kasikornbank (KBANK TB)

Buy (Maintained)

Asset Quality Concerns Dialed Down; Keep BUY

Target Price (Return):	THB141 (12.8%)
Price:	THB125
Market Cap:	USD9,880m
Avg Daily Turnover (THB/USD)	3,351m/108m

- Reiterate BUY with THB141.00 TP offering 13% upside with c.2% yield.** Kasikornbank's FY20 beat expectations on the surprising 94% QoQ drop in expected credit loss (ECL) in 4Q20. We see upside risk to our FY21F-22F earnings as management signals for potentially lower credit cost as asset quality issues are not as dire as feared. Share price has surged 65% in the past three months. Prospects of lower provisions and gradual economic recovery on rollout of vaccines will support continued positive re-rating.
- FY20 beat on lower ECL in 4Q20.** KBANK's net profit of THB13.26bn in 4Q20 (+99% QoQ; +51% YoY), lifted FY20 earnings to THB29.49bn (-24% YoY) – surpassing our (THB22.9bn) and Street's (THB21.7bn) forecasts. ROE was 7.1% vs 9.9% in FY19 and the CET-1 ratio a robust 16.1%. Key reason for the variance was the lower-than-expected provisions in 4Q20.
- 4Q20 PIOP down 8% QoQ.** Operating income rose 6% QoQ as non-II jumped 30% QoQ on higher net fee income (+6% QoQ), marked-to-market and realised investment gains (+4x) and other income (+82%). Opex growth of 24% QoQ (mainly IT and seasonal expenses) offset the higher topline. CIR was 52% (44.8% in 3Q20). NII fell 2% QoQ as lower loans yields from rate cuts, reduced rates in COVID-19 relief measures, and deterioration in asset quality saw NIM narrow 9bps QoQ.
- A key surprise in 4Q20 was the 94% QoQ drop in ECL** to THB669m that saw FY20 credit cost at 205bps (9M20: 275bps), vs guidance that credit cost would exceed FY17's peak of 239bps and our assumption of 255bps. Management explained that better-than-expected debt repayments following expiry of relief measures provided comfort that asset quality concerns are not as dire as expected. A reassessment of the bank's loan book found the THB42.88bn ECL booked for 9M20 to be sufficient. The more sanguine view also reflects KBANK's revised 2020 GDP forecast of -6.7% vs earlier projections of -8 to -10%.
- Asset quality concerns eased.** In 4Q20, gross NPLs remained on an upward trajectory, rising 4.4% QoQ. Still, NPL ratio stayed manageable at 3.93% (4Q19: 3.86%) with LLR stable at 149.2% (4Q19: 148.6%). The bigger positive, in our view, was the meaningful drop in loans under relief programmes – from 40% of total loans in 3Q20 to 19% in 4Q20. The reduction came mainly from its customers in retail (-31.5%) and SME (-70% to THB149bn). Management estimates that THB46.0bn (2% of loans) remains vulnerable and may require further assistance, down from THB71bn (3.3% of loans) at end-3Q20.
- Earnings and TP.** We make no changes to our forecasts pending KBANK's annual analyst and fund management meeting on 29 Feb. We see upside risk to our FY21F-22F earnings given indications that FY21F credit cost would likely be lower YoY. We had pencilled in credit cost of 240bps for FY21F. Our current THB141.00 TP is based on an GGM-derived P/BV of 0.75x.

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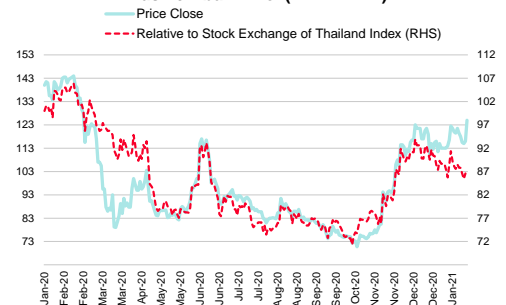
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.6	13.6	65.0	42.9	(10.1)
Relative	6.0	5.5	40.4	32.8	(6.3)
52-wk Price low/high (THB)	70.8 – 144				

Kasikornbank Plc (KBANK TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Reported net profit (THBm)	38,459	38,727	29,488	26,422	29,477
Net profit growth (%)	12.0	0.7	(23.9)	(10.4)	11.6
Recurring net profit (THBm)	38,459	38,727	29,488	26,422	29,477
Recurring EPS (THB)	16.07	16.18	12.32	11.04	12.32
BVPS (THB)	157.23	169.79	185.57	187.99	197.57
DPS (THB)	4.00	5.00	2.25	2.75	3.25
Recurring P/E (x)	7.78	7.72	10.15	11.32	10.15
P/B (x)	0.80	0.74	0.67	0.66	0.63
Dividend Yield (%)	3.2	4.0	1.8	2.2	2.6
Return on average equity (%)	10.6	9.9	7.0	6.0	6.5

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Thailand	EPS	16.07	16.18	12.32	11.04	12.32
Financial Services	Recurring EPS	16.07	16.18	12.32	11.04	12.32
Kasikornbank	DPS	4.00	5.00	2.25	2.75	3.25
KBANK TB	BVPS	157.23	169.79	185.57	187.99	197.57
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	7.78	7.72	10.15	11.32	10.15
Our GGM assumptions include:	P/B (x)	0.8	0.7	0.7	0.7	0.6
i. COE of 8.1%	Dividend Yield (%)	3.2	4.0	1.8	2.2	2.6
ii. ROE of 6.6%; and						
iii. 2.0% long term growth.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
Key drivers	Interest income	123,922	130,178	127,592	141,925	152,584
Our FY21 forecast is most sensitive to changes in:	Interest expense	(25,384)	(27,490)	(18,570)	(23,237)	(30,702)
i. Credit cost given the still evolving macroeconomic conditions; and	Net interest income	98,538	102,688	109,022	118,688	121,882
ii. Operating income from changes in NIM and fee income.	Non interest income	56,945	57,803	45,870	45,308	47,214
	Total operating income	155,483	160,491	154,892	163,996	169,096
	Overheads	(68,348)	(72,729)	(69,997)	(71,632)	(74,846)
	Pre-provision operating profit	87,135	87,762	84,895	92,364	94,249
	Loan impairment allowances	(32,532)	(34,012)	(43,548)	(54,784)	(52,583)
	Pre-tax profit	54,603	53,750	41,347	37,580	41,667
	Taxation	(10,395)	(10,309)	(7,656)	(6,829)	(7,708)
	Minority interests	(5,749)	(4,714)	(4,203)	(4,329)	(4,481)
	Reported net profit	38,459	38,727	29,488	26,422	29,477
	Recurring net profit	38,459	38,727	29,488	26,422	29,477
	Profitability ratios	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Return on average assets (%)	1.3	1.2	0.8	0.7	0.8
	Return on average equity (%)	10.6	9.9	7.0	6.0	6.5
	Return on IEs (%)	4.3	4.2	3.8	4.0	4.1
	Cost of funds (%)	1.2	1.2	0.8	0.9	1.1
	Net interest spread (%)	3.1	3.0	3.1	3.1	3.0
	Net interest margin (%)	3.4	3.3	3.3	3.3	3.3
	Non-interest income / total income (%)	36.6	36.0	29.6	27.6	27.9
	Cost to income ratio (%)	44.0	45.3	45.2	43.7	44.3
	Credit cost (bps)	175	174	205	240	220
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Total gross loans	1,914,073	2,001,956	2,244,821	2,320,500	2,459,730
	Other interest earning assets	1,123,643	1,160,580	1,239,825	1,317,750	1,373,059
	Total gross IEs	3,037,715	3,162,536	3,484,646	3,638,250	3,832,789
	Total provisions	(119,486)	(124,879)	(134,393)	(153,000)	(167,000)
	Net loans to customers	1,794,587	1,877,077	2,110,428	2,167,500	2,292,730
	Total net IEs	2,918,229	3,037,657	3,350,253	3,485,250	3,665,789
	Total non-IEs	236,862	256,232	308,545	287,874	293,185
	Total assets	3,155,091	3,293,889	3,658,798	3,773,124	3,958,973
	Customer deposits	1,995,001	2,072,049	2,344,998	2,442,632	2,583,750
	Other interest-bearing liabilities	224,058	185,132	183,631	203,934	195,457
	Total IBLs	2,219,059	2,257,181	2,528,629	2,646,565	2,779,207
	Total non-IBLs	518,210	582,994	638,883	628,756	658,361
	Total liabilities	2,737,269	2,840,174	3,167,512	3,275,321	3,437,568
	Share capital	23,933	23,933	23,693	23,693	23,693
	Shareholders' equity	376,298	406,358	439,670	445,413	468,098
	Minority interests	41,524	47,357	51,616	52,391	53,307
	Asset quality and capital	Dec-18	Dec-19	Dec-20	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	3.9	4.2	4.6	4.8	4.9
	Total provisions / reported NPLs (%)	160.6	148.6	131.2	136.0	139.2
	CET-1 ratio (%)	14.8	14.9	14.3	15.1	15.1
	Tier-1 ratio (%)	14.8	14.9	14.3	15.1	15.1
	Total capital ratio (%)	17.3	18.5	17.1	17.8	17.7

Source: Company data, RHB

Results At a Glance

Figure 1: KBANK's 4Q20 and FY20 results summary

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments FY20 vs. FY19
NII	25,570	27,255	26,603	-2	4	102,688	109,022	6	Up YoY on strong loan growth and slightly lower NIM.
<i>NIM (%) - reported</i>	3.25%	3.17%	3.08%			3.31%	3.28%		Down YoY due to policy rate cuts and lower interest rates to help customers impacted by COVID-19. These offset the positive impact from change in income recognition under TFRS 9 (to the "Effective Interest Rate" principle from the accrual of interest income of NPLs), and lower funding cost from the cut in FIDF and cost management.
Non-Il	16,157	9,498	12,308	30	-24	57,803	45,870	-21	Down YoY mainly due to lower loan-related fees and high volatility in gain (loss) from financial instruments.
<i>Non-Il/total income (%)</i>	38.7%	25.8%	31.6%			36.0%	29.6%		
Operating income	41,727	36,753	38,911	6	-7	160,491	154,892	-3	
Overhead expenses	(21,176)	(16,447)	(20,272)	23	-4	(72,729)	(69,997)	-4	Personnel costs down 3.4% YoY, while premises and equipment expenses fell 5.8% YoY.
<i>CIR (%)</i>	50.7%	44.7%	52.1%			45.3%	45.2%		
PIOP	20,551	20,306	18,639	-8	-9	87,762	84,895	-3	
Impairment allowances	(8,825)	(10,815)	(669)	-94	-92	(34,012)	(43,548)	28	Higher due to the adoption of ECL models under TFRS 9 as well as management overlay for deterioration in economic variables.
<i>Annualised credit cost (bps)</i>	179	202	12			174	205		
Pre-tax profit	11,726	9,491	17,970	89	53	53,750	41,347	-23	
Tax	(2,304)	(2,048)	(3,358)			(10,309)	(7,656)		
<i>Effective tax rate (%)</i>	19.6%	21.6%	18.7%			19.2%	18.5%		
Minority interest	(620)	(765)	(1,353)			(4,714)	(4,203)		
Net profit	8,802	6,678	13,259	99	51	38,727	29,488	-24	
Other key data and ratios									
Gross loans (THBbn)	2,002	2,157	2,245	4	12				Up YoY, mainly from an increase in commercial loans and housing loans as well as additional funding for SMEs affected by the pandemic.
Customer deposits (THBbn)	2,072	2,274	2,345	3	13				Up YoY, largely because of higher in saving deposits and repayment holiday.
Gross impaired loans (THBbn)	84	97	101	4	20				
Total assets (THBbn)	3,294	3,546	3,659	3	11				
Shareholders' funds (THBbn)	4,064	4,087	4,397	8	8				
ROAA (%)	1.08	0.75	1.47			1.20	0.85		
ROAE (%)	7.8	5.9	11.2			9.9	7.0		
LDR (%)	96.6	94.8	95.7						
GIL ratio (%)	3.65	3.95	3.93						
Loan loss reserves (%)	148.6	141.8	133.1						
Tier-1 capital ratio (%)	16.2	15.7	14.9						
Total capital ratio	18.5	17.3	17.7						

Source: Company data, RHB

Valuation and TP

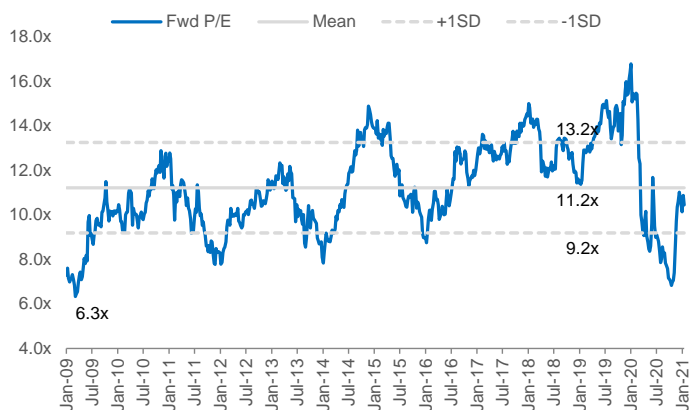
Our TP of THB141.00 is based on a GGM-derived P/BV of 0.75x, below -1SD from its historical mean.

Figure 2: KBANK – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	6.60
Risk free rate (%)	1.30	COE (%)	8.13
Equity premium (%)	6.15	Long-term growth (g)	2.00
Beta (x)	1.11	Implied P/BV (x)	0.75
Cost of equity - CAPM (%)	8.13	BVPS – FY20F-21F average	THB188.18
		TP	THB141.20
		TP (rounded)	THB141.00

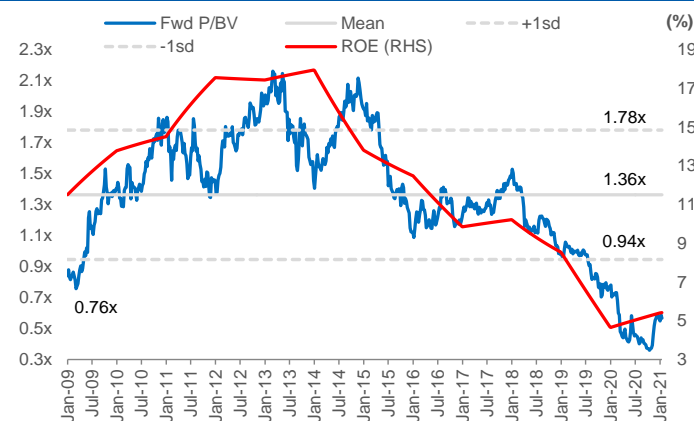
Source: Company data, RHB

Figure 3: KBANK's 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: KBANK's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Buy	141	122
2020-10-25	Neutral	82	75
2020-07-21	Neutral	91	88
2020-04-21	Buy	124	97
2019-10-25	Buy	173	137
2019-10-22	Buy	191	149
2019-01-21	Buy	222	188
2018-10-30	Buy	242	197
2018-10-22	Buy	244	207
2018-07-23	Buy	240	213

Source: RHB, Bloomberg

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Analyst	Company
-	-

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ช่วงคะแนน Score	สัญลักษณ์ Rang Number of Logo	ความหมาย	Description
90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	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

ประกาศเจตนาธรรม 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

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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