

22 April 2020

Financial Services | Banks

Kasikornbank (KBANK TB)

Buy (Maintained)

Proactive In Managing Asset Quality; BUY

Target Price (Return): THB124.00 (27.8%)
 Price: THB97.00
 Market Cap: USD7,074m
 Avg Daily Turnover (THB/USD) 1,683m/53.1m

- Maintain BUY with lower THB124.00 TP from THB173.00, 28% upside with c.4% yield.** KBank's 1Q20 earnings missed will dampen share price performance in the near term. With stock price down 36% YTD and current P/BV at 0.5x, we believe much of the risks are priced-in. Bank of Thailand's relief measures coupled with management's pre-emptive actions to assist borrowers, should help preserve asset quality. Our TP values the stock at 0.7x P/BV, which is -2SD its historical mean.
- 1Q20 missed expectations.** Kasikornbank (KBank) reported net profit of THB6,582m (-25% QoQ, -34.5% YoY), accounting for 22% of consensus FY20F earnings of THB29,946m. The weaker-than-expected results can be attributed to marked-to-market (MTM) losses of THB2,898bn on investment instruments and higher impairment charges. ROAE declined to 6.5% vs 10.5% in 1Q19. Tier-1 capital ratio was a healthy 15.2%.
- PIOP down on lower non-II and sharp opex growth.** PIOP fell 16% YoY as the MTM losses knocked non-II down by 40% YoY. The 9% YoY rise in opex resulted in negative JAWS that pushed CIR to 49.3% (1Q19: 42.7%). These overshadowed the healthy 11% YoY growth in NII that was underpinned by the 17bps YoY NIM expansion and moderate loan growth. (See Figure 1 for details)
- Higher credit cost accentuated fall in net profit.** Like its peers, KBank added a management overlay to its expected credit loss (ECL) models under the Thai Financial Reporting Standard 9 (TFRS 9). The additional provisions raised its credit cost to 235bps, which would otherwise be less than 150bps. This caused earnings to fall by a sharper 34.5% YoY.
- Expects rise in NPLs to remain manageable.** Gross NPL ratio ticked up to 3.87% (4Q19: 3.65%) with early signs of COVID-19 impact seen in late 1Q20. Management estimates tourism-related exposure (mainly SME customers) at THB400bn or c.20% of the bank's loan portfolio. Currently, KBank is already extending assistance to 50% of the THB400bn. Management is hopeful asset quality will remain manageable given the pre-emptive actions taken, coupled with relief measures by Bank of Thailand. The bump up in LLC ratio to 182% provides added comfort, in our view.
- Revisions in earnings and TP.** After factoring in assumptions of higher credit cost, our projected net profit is trimmed by 16% for FY20F and 14% for FY21F. Our TP is revised to THB124.00 from THB173.00, based on GGM-derived P/BV of 0.71x, which is at -2SD its historical mean.

Analyst

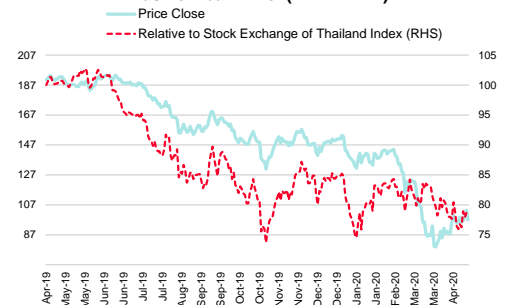
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(35.8)	4.3	(30.2)	(35.3)	(49.0)
Relative	(16.0)	(8.0)	(10.6)	(13.4)	(24.6)
52-wk Price low/high (THB)	79.0 – 194				

Kasikornbank Plc (KBANK TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (THBm)	38,459	38,727	31,927	34,283	38,424
Net profit growth (%)	12.0	0.7	(17.6)	7.4	12.1
Recurring net profit (THBm)	38,459	38,727	31,927	34,283	38,424
Recurring EPS (THB)	16.07	16.18	13.34	14.33	16.06
BVPS (THB)	157.23	169.79	175.36	185.19	196.16
DPS (THB)	4.00	5.00	4.00	5.01	5.50
Recurring P/E (x)	6.04	5.99	7.27	6.77	6.04
P/B (x)	0.62	0.57	0.55	0.52	0.49
Dividend Yield (%)	4.1	5.2	4.1	5.2	5.7
Return on average equity (%)	10.6	9.9	7.7	7.9	8.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	EPS	16.07	16.18	13.34	14.33	16.06
Financial Services	Recurring EPS	16.07	16.18	13.34	14.33	16.06
Kasikornbank	DPS	4.00	5.00	4.00	5.01	5.50
KBANK TB	BVPS	157.23	169.79	175.36	185.19	196.16
Buy						
	Valuation basis	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Our GGM assumptions include:	Recurring P/E (x)	6.04	5.99	7.27	6.77	6.04
i. COE of 11.2%	P/B (x)	0.6	0.6	0.6	0.5	0.5
ii. ROE of 8.5%; and	Dividend Yield (%)	4.1	5.2	4.1	5.2	5.7
iii. 2.0% long term growth.						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Our FY20 forecast is most sensitive to changes:	Interest income	123,922	130,178	133,282	144,363	156,375
i. Credit cost given current the still evolving macroeconomic conditions; and	Interest expense	(25,384)	(27,490)	(20,829)	(28,733)	(36,126)
ii. Government's stimulus measures that should help prop up asset quality and contain credit costs.	Net interest income	98,538	102,688	112,452	115,630	120,249
	Non interest income	56,945	57,803	38,300	44,371	47,057
	Total operating income	155,483	160,491	150,753	160,001	167,306
	Overheads	(68,348)	(72,729)	(69,032)	(71,965)	(75,029)
	Pre-provision operating profit	87,135	87,762	81,721	88,036	92,277
	Loan impairment allowances	(32,532)	(34,012)	(44,924)	(44,925)	(43,903)
	Pre-tax profit	54,603	53,750	36,797	43,111	48,374
	Taxation	(10,395)	(10,309)	(6,992)	(8,191)	(9,288)
	Minority interests	(5,749)	(4,714)	2,121	(636)	(662)
	Reported net profit	38,459	38,727	31,927	34,283	38,424
	Recurring net profit	38,459	38,727	31,927	34,283	38,424
	Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Return on average assets (%)	1.3	1.2	0.9	0.9	1.0
	Return on average equity (%)	10.6	9.9	7.7	7.9	8.4
	Return on IEAs (%)	4.3	4.2	4.1	4.3	4.4
	Cost of funds (%)	1.2	1.2	0.9	1.1	1.4
	Net interest spread (%)	3.1	3.0	3.3	3.1	3.0
	Net interest margin (%)	3.4	3.3	3.5	3.4	3.4
	Non-interest income / total income (%)	36.6	36.0	25.4	27.7	28.1
	Cost to income ratio (%)	44.0	45.3	45.8	45.0	44.8
	Credit cost (bps)	175	174	220	210	195
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total gross loans	1,914,073	2,001,956	2,082,034	2,196,546	2,306,373
	Other interest earning assets	1,123,643	1,160,580	1,191,318	1,250,884	1,302,392
	Total gross IEAs	3,037,715	3,162,536	3,273,351	3,447,429	3,608,764
	Total provisions	(119,486)	(124,879)	(168,127)	(213,052)	(256,956)
	Net loans to customers	1,794,587	1,877,077	1,913,907	1,983,493	2,049,417
	Total net IEAs	2,918,229	3,037,657	3,105,224	3,234,377	3,351,809
	Total non-IEAs	236,862	256,232	447,735	501,245	570,594
	Total assets	3,155,091	3,293,889	3,552,959	3,735,622	3,922,403
	Customer deposits	1,995,001	2,072,049	2,238,746	2,336,751	2,445,783
	Other interest-bearing liabilities	224,058	185,132	213,614	217,326	223,111
	Total IBLs	2,219,059	2,257,181	2,452,360	2,554,077	2,668,894
	Total non-IBLs	518,210	582,994	638,287	694,442	739,270
	Total liabilities	2,737,269	2,840,174	3,090,646	3,248,519	3,408,164
	Share capital	23,933	23,933	23,933	23,933	23,933
	Shareholders' equity	376,298	406,358	419,691	443,203	469,461
	Minority interests	41,524	47,357	42,621	43,900	44,778
	Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	3.9	4.2	4.4	4.4	4.4
	Total provisions / reported NPLs (%)	160.6	148.6	181.9	219.5	252.1
	CET-1 ratio (%)	14.8	14.9	14.8	14.9	15.2
	Tier-1 ratio (%)	14.8	14.9	14.8	14.9	15.2
	Total capital ratio (%)	17.3	18.5	18.1	18.0	18.1

Source: Company data, RHB

Results At a Glance

Figure 1: KBank's 1Q20 results summary

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments: 1Q20 vs 1Q19
NII	25,252	25,570	28,082	9.8	11.2	Sharp YoY increase due to loan growth and higher interest income as income recognition under TFRS 9 was changed to the "Effective Interest Rate" principle. Improved funding cost due to BOT's temporary reduction in FIDF contribution rate.
<i>NIM (%) - reported</i>	3.32%	3.25%	3.49%			Up 17bps QoQ on higher interest income and lower cost of funds.
Non-II	12,241	16,157	7,372	-54.4	-39.8	Down sharply YoY mainly on lower investment income due to volatility in money market and capital market and TFRS 9 impact on reclassification and measurement of investments.
<i>Non-II/total income (%)</i>	32.6%	38.7%	20.8%			
Operating income	37,493	41,727	35,454	-15.0	-5.4	
Overhead expenses	(16,010)	(21,176)	(17,481)	-17.4	9.2	Higher YoY on 11% due to higher spending in debt management expenses, IT related expenditure and marketing expenses.
<i>CIR (%)</i>	42.7%	50.7%	49.3%			
PIOP	21,482	20,551	17,973	-12.5	-16.3	Negative JAWS due to sharp YoY rise in operating expenses.
Impairment allowances	(7,579)	(8,825)	(11,872)	34.5	56.6	Markedly higher impairment charges likely due to the adoption of ECL models under TFRS 9.
<i>Annualised credit cost (bps)</i>	158	179	235			
Pretax profit	13,903	11,726	6,101	-48.0	-56.1	
Tax	(2,641)	(2,304)	(824)			
<i>Effective tax rate (%)</i>	19.0%	19.6%	13.5%			
Minority interest	(1,218)	(620)	1,305			
Net profit	10,044	8,802	6,582	-25.2	-34.5	
Other key data and ratios						
Gross loans	1,914,835	2,001,956	2,043,093	2.1	6.7	Expanded QoQ mainly on increase in working capital loans and commercial loans.
Customer deposits	1,978,837	2,072,049	2,202,112	6.3	11.3	Mainly from 8.9% QoQ expansion in saving deposits.
Gross impaired loans	76,880	84,038	92,442	10.0	20.2	Higher due to the adoption of ECL models under TFRS 9.
Total assets	3,150,641	3,293,889	3,483,527	5.8	10.6	
Shareholders' funds	391,898	406,358	406,789	0.1	3.8	
ROAA (%)	1.27	1.08	0.78			
ROAE (%)	9.4	7.8	5.8			
LDR (%)	96.8	96.6	92.8			
GIL ratio (%)	3.44	3.65	3.90			
Loan loss reserves (%)	158.8	148.6	161.0			
Tier-1 capital ratio (%)	15.7	16.2	15.7			
Total capital ratio	18.1	18.5	18.1			

Source: Company data, RHB

Management guidance

Figure 2: KBANK – management guidance and financial targets

	2019 Achieved	2020 Targets	1Q20 Actual
NIM	3.31%	3.1-3.3%	3.49%
Loan growth (YoY)	4.59%	4-6%	6.7%
Non-II growth	+1.51%	-5% to -17%	-39.8%
CIR	45.3%	Mid 40%	49.3%
Credit cost	179bps	Up to 150bps	235bps
Gross NPL ratio	3.65%	3.6-4.0%	3.87%
ROE	9.9%	n.a.	5.8%

Source: Company data, RHB

Earnings revisions

We revised our net profit down by 16% for FY20F and 14% for FY21F mainly due to the revision in credit cost assumption to a higher 200-210bps vs 140-150bps previously.

Figure 3: KBANK – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	7,900	6,640	-15.9	9.87	8.29	-15.9	7.89	6.64	-15.9
2021F	8,265	7,087	-14.3	10.32	8.85	-14.3	8.26	7.35	-11.0
2022F	n.a.	7,674	n.m.	n.a.	9.58	n.m.	n.a.	8.15	n.m.

Source: RHB

Valuation and TP

Our TP is revised to THB124.00 (from THB173.00) as our cost of equity is revised to 11.2% (from 9.4%) after including our in-house adjustment in equity risk premium, and ROE assumption is lowered to 8.5% (from 9.1%) in line with the downgrade in earnings forecasts.

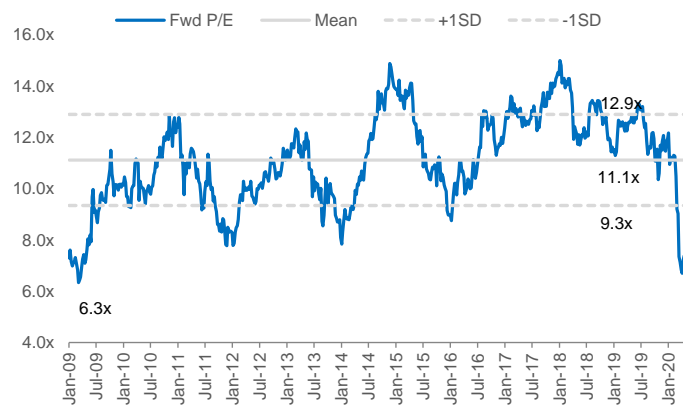
Our TP is based on a GGM-derived P/BV of 0.71x, which is at -2SD historical mean of 0.7x.

Figure 4: KBANK – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	8.50
Risk free rate (%)	1.40	COE (%)	11.2
Equity premium (%)	9.35	Long-term growth (g)	2.0
Beta (x)	1.05	Implied P/BV (x)	0.71
Cost of equity - CAPM (%)	11.2	BVPS – FY20F	THB175.36
		Target price	THB123.66
		TP (rounded)	THB124.00

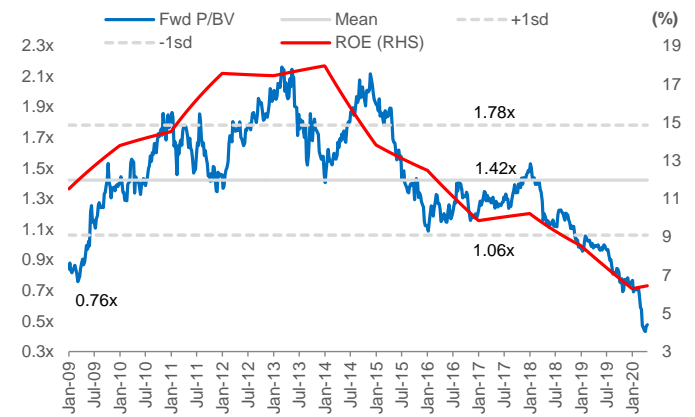
Source: Company data, RHB

Figure 5: KBANK's 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: KBANK's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-22	Buy	173	140
2019-10-25	Buy	173	137
2019-10-22	Buy	191	149
2019-07-22	Buy	222	179
2019-04-22	Buy	222	191
2019-01-21	Buy	222	188
2018-10-30	Buy	242	197
2018-10-22	Buy	244	207
2018-09-26	Buy	240	213

Source: RHB, Bloomberg

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Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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Analyst	Company
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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

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- ได้รับการรับรอง CAC

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