

20 January 2021

Financial Services | Banks

## Kiatnakin Phatra Financial Group (KKP TB)

### Neutral (Maintained)

### Share Price Incorporates Strong Growth

Target Price (Return): THB56.0 (0.4%)  
 Price: THB55.80  
 Market Cap: USD1,572m  
 Avg Daily Turnover (THB/USD): 358m/11.8m

- Maintain NEUTRAL and THB56.00 TP, 0% upside.** Kaitnakin Phatra's (KKP) FY20 results met. Its underlying operations were strong as evident by the 18% YoY rise in PIOP, while ECL would have dipped 3% if not for the THB2.47bn in management overlay. Share price has re-rated by a strong 47% in the past three months, with valuation of 0.9x FY21F P/BV reverting close to its historical mean. Prefer TISCO Financial (TISCO TB, BUY, TP: THB108.00) for its stronger asset quality, robust capital, and conservative management.
- FY20 results in line.** KKP booked 4Q20 net profit of THB1,108m (-18% QoQ; -34% YoY) with FY20 earnings at THB5,123m (-14% YoY). FY20 earnings were in line with our and consensus estimates. FY20 ROE was 12% vs FY19's 13.1%. CET-1 ratio (bank only): 13.4%.
- 4Q20 PIOP up was a strong 28% QoQ** led by the 18% QoQ jump in operating income and positive JAWS from a milder 6% QoQ rise in operating expenses. NII was up 13% QoQ helped by robust loan growth (+12% YoY), progress in resolving credit-impaired loans and lower funding costs. Non-II rose 30% QoQ on higher gains from investments, brokerage income (+79% QoQ) and proceeds from sale of NPLs. Opex was lower mainly on CIR excluding loss from sale and revaluation of foreclosed assets was 37.4% (3Q20: 45.4%). With the rise in COVID-19 cases in Dec 2020, KKP booked another THB932m (3Q20: THB99m) in management overlay provisions that saw expected credit loss (ECL) +104% QoQ to THB2,077m. Credit cost: 317bps (3Q20: 162bps). As a result, pretax profit fell 19% QoQ.
- Asset quality stable.** Gross NPLs ticked up 2% QoQ to THB8,456m, but was 12% lower than a year ago. The YoY decline in retail and commercial NPLs reflected KKP's continued focus on asset quality management and expansion in loan base. NPL ratio was stable QoQ at 3.2% (4Q19: 4.0%) while LLR improved sequentially to 150.7% (2Q20: 135.2%). With expiry of Phase 1 of Bank of Thailand (BoT)-led relief measures, loans under debt forbearance have been declined to 11% of gross loans (3Q20: 34%; 2Q20: 40%) as at end-4Q20. These consists of mainly commercial customers.
- Robust 12.7% YoY loan growth.** Retail lending (63% of total loans) was up 16% YoY, led by hire-purchase (HP) (+18%) and housing loans (+17%). Management attributed the growth in HP loans to KKP's increased share of the new car financing market: 4.3% for 8M20 vs 2019's 2.2%. Corporate lending (12% of total loans) to public-listed entities and the financing of investment banking deals surged 41% YoY. With customer deposits up a sharp 46% YoY, LDR improved to 106.7% (Dec 2019: 137.7%).
- Earnings forecast.** With no negative surprises in 4Q20, we make no changes to our FY21F-22F earnings pending an analysts briefing scheduled for 22 Jan. Our TP of THB56.00 is based on GGM-derived P/BV of 0.94x (Figure 2). Key risks to our view are a sharp resurgence in COVID-19 cases that would result in re-imposition of lockdown measures and delays in the implementation of government policies.

#### Analysts

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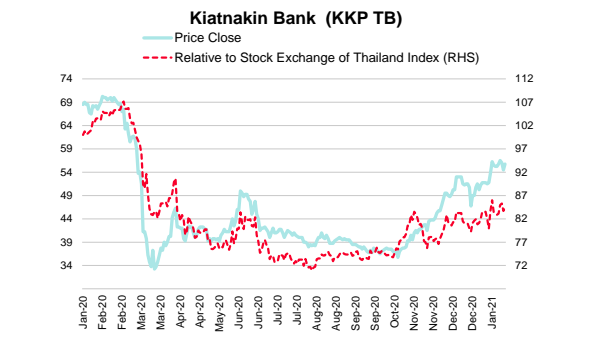


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.7	9.9	55.9	36.0	(17.4)
Relative	2.6	7.2	29.9	24.0	(12.5)
52-wk Price low/high (THB)	33.3 – 70.3				



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	5,988	5,123	5,303	5,758	6,441
Net profit growth (%)	(0.9)	(14.4)	3.5	8.6	11.9
Recurring net profit (THBm)	5,988	5,123	5,303	5,758	6,441
Recurring EPS (THB)	7.07	6.05	6.26	6.80	7.61
BVPS (THB)	51.85	54.94	59.10	62.91	66.80
DPS (THB)	4.25	2.00	2.50	3.25	3.75
Recurring P/E (x)	7.88	9.21	8.90	8.20	7.33
P/B (x)	1.08	1.01	0.94	0.89	0.83
Dividend Yield (%)	7.6	3.6	4.5	5.8	6.7
Return on average equity (%)	13.9	11.3	11.0	11.1	11.7

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	7.07	6.05	6.26	6.80	7.61
Financial Services	Recurring EPS	7.07	6.05	6.26	6.80	7.61
<b>Kiatnakin Phatra Financial Group</b>	DPS	4.25	2.00	2.50	3.25	3.75
KKP TB	BVPS	51.85	54.94	59.10	62.91	66.80
Neutral						
	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Valuation basis</b>	Recurring P/E (x)	7.88	9.21	8.90	8.20	7.33
Our GGM assumptions include:	P/B (x)	1.1	1.0	0.9	0.9	0.8
i. COE of 11.6%;	Dividend Yield (%)	7.6	3.6	4.5	5.8	6.7
ii. ROE of 11.0%;						
iii. Long-term growth of 2.0%						
	<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key drivers</b>	Interest income	18,036	19,584	20,256	22,078	23,997
Our forecasts are most sensitive to changes in:	Interest expense	(5,720)	(4,905)	(4,879)	(5,948)	(6,569)
i. Impairment allowance;	<b>Net interest income</b>	<b>12,316</b>	<b>14,679</b>	<b>15,377</b>	<b>16,130</b>	<b>17,428</b>
ii. Domestic car sales; and	Non interest income	6,012	5,660	4,860	4,878	5,164
iii. Stimulus measures would mitigate NPL risks and lift loan growth.	<b>Total operating income</b>	<b>18,328</b>	<b>20,339</b>	<b>20,237</b>	<b>21,008</b>	<b>22,591</b>
	Overheads	(9,355)	(9,758)	(10,295)	(10,683)	(11,252)
	<b>Pre-provision operating profit</b>	<b>8,973</b>	<b>10,581</b>	<b>9,942</b>	<b>10,325</b>	<b>11,339</b>
	Loan impairment allowances	(1,676)	(4,095)	(3,069)	(2,863)	(2,938)
	<b>Pre-tax profit</b>	<b>7,297</b>	<b>6,487</b>	<b>6,873</b>	<b>7,462</b>	<b>8,401</b>
	Taxation	(1,307)	(1,344)	(1,549)	(1,679)	(1,932)
	Minority interests	(1)	(20)	(21)	(25)	(28)
	<b>Reported net profit</b>	<b>5,988</b>	<b>5,123</b>	<b>5,303</b>	<b>5,758</b>	<b>6,441</b>
	<b>Recurring net profit</b>	<b>5,988</b>	<b>5,123</b>	<b>5,303</b>	<b>5,758</b>	<b>6,441</b>
	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Key risks</b>	Return on average assets (%)	1.9	1.5	1.4	1.4	1.5
Downside risks include:	Return on average equity (%)	13.9	11.3	11.0	11.1	11.7
i. Slower-than-expected economic recovery;	Return on IEAs (%)	6.2	6.3	5.8	5.9	5.9
ii. High household debt could dampen consumer spending; and	Cost of funds (%)	2.3	1.8	1.6	1.8	1.9
iii. A deterioration in loan quality resulting in higher-than-expected ECL.	Net interest spread (%)	3.9	4.4	4.2	4.0	4.0
The converse represents upside risks.	Net interest margin (%)	4.3	4.7	4.4	4.3	4.3
	Non-interest income / total income (%)	32.8	27.8	24.0	23.2	22.9
	Cost to income ratio (%)	51.0	48.0	50.9	50.9	49.8
	Credit cost (bps)	72.1	162.0	110.2	95.0	90.0
	<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
<b>Company Profile</b>	Total gross loans	237,139	268,440	288,500	314,326	338,594
Kiatnakin Phatra Bank (KKP) is a commercial bank that provides a full range of financial services. It is a major player in the auto financing segment, which accounts for 65% of total loans (mostly upcountry). It also provides residential project and corporate loan services. KKP merged with Phatra Financial Group in Sept 2012 under a share-swap deal.	Other interest earning assets	52,802	67,373	71,900	75,841	79,241
	Total gross IEAs	289,941	335,813	360,400	390,167	417,836
	Total provisions	(10,589)	(12,745)	(13,532)	(13,452)	(13,908)
	Net loans to customers	226,549	255,695	274,968	300,874	324,687
	Total net IEAs	279,352	323,068	346,868	376,715	403,928
	Total non-IEAs	32,338	40,343	39,992	38,922	40,999
	Total assets	311,690	363,411	386,860	415,637	444,927
	Customer deposits	172,174	251,526	261,760	285,318	310,997
	Other interest-bearing liabilities	73,132	39,000	49,070	49,385	48,984
	Total IBLs	245,305	290,526	310,830	334,703	359,981
	Total non-IBLs	22,373	26,259	25,870	27,546	28,265
	Total liabilities	267,679	316,785	336,700	362,250	388,246
	Share capital	8,468	8,468	8,468	8,468	8,468
	Shareholders' equity	43,902	46,517	50,047	53,273	56,563
	Minority interests	109	109	113	115	118
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	4.0	3.2	3.5	3.1	3.0
	Total provisions / reported NPLs (%)	110.8	156.5	133.0	136.1	138.2
	CET-1 ratio (%)	13.6	13.4	13.9	13.9	13.9
	Tier-1 ratio (%)	13.6	13.4	13.9	13.9	13.9
	Total capital ratio (%)	17.2	17.4	17.7	17.3	17.1

Source: Company data, RHB

## Results At a Glance

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

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments FY20 vs. FY19
NII	3,118	3,530	3,996	13	28	12,316	14,679	19	Up YoY on robust loan growth, progress in resolving credit-impaired loans and lower funding costs.
<i>NIM (%) - reported</i>	4.20%	4.10%	5.14%			4.09%	4.55%		NIM higher with change in income recognition under TFRS 9 to the "Effective Interest Rate" principle from the accrual of interest income of NPLs, cuts in FIDF fee, and effective management of funding costs.
Non-II	1,618	1,417	1,840	30	14	6,012	5,660	-6	Down YoY, as higher brokerage fee income (+28% YoY) and proceeds from sale of NPLs were offset by lower gains from investments and dividend income.
<i>Non-II/total income (%)</i>	34.2%	28.6%	31.5%			32.8%	27.8%		
Operating income	<b>4,736</b>	<b>4,947</b>	<b>5,836</b>	<b>18</b>	<b>23</b>	<b>18,328</b>	<b>20,339</b>	<b>11</b>	
Overhead expenses	(2,458)	(2,265)	(2,406)	6	-2	(9,355)	(9,758)	4	Overhead expenses were well controlled, with staff cost up 2% YoY while premise and equipment expenses declined 12% YoY. Key factor that bumped up opex: Loss from revaluation of foreclosed assets of THB849m.
<i>CIR (%)</i>	51.9%	45.8%	41.2%			51.04%	47.98%		
<b>PIOP</b>	<b>2,278</b>	<b>2,682</b>	<b>3,430</b>	<b>28</b>	<b>51</b>	<b>8,973</b>	<b>10,581</b>	<b>18</b>	
Impairment allowances	(208)	(1,017)	(2,077)	104	898	(1,676)	(4,095)	144	YoY increase was due to the adoption of ECL models under TFRS 9 and THB2,469m in additional allowance for the deterioration in economic outlook. Excluding the management overlay, ECL would be down 3% YoY.
<i>Annualised credit cost (bps)</i>	35	162	317			72	162		
<b>Pre-tax profit</b>	<b>2,070</b>	<b>1,665</b>	<b>1,352</b>	<b>-19</b>	<b>-35</b>	<b>7,297</b>	<b>6,487</b>	<b>-11</b>	
Tax	(391)	(310)	(235)			(1,307)	(1,344)		
<i>Effective tax rate (%)</i>	18.9%	18.6%	17.4%			17.9%	20.7%		
Minority interest	1	(8)	(10)			(1)	(20)		
<b>Net profit</b>	<b>1,680</b>	<b>1,347</b>	<b>1,108</b>	<b>-18</b>	<b>-34</b>	<b>5,988</b>	<b>5,123</b>	<b>-14</b>	
<b>Other key data and ratios</b>									
Gross loans (THBbn)	237,139	254,980	268,440	5	13				Up 13% YoY led by retail lending (+16% YoY) with HP loans expanding 18% and housing loans up 17%. Corporate loans surged by 41% YoY.
Customer deposits	172,174	242,032	251,526	4	46				Strong growth of 46% YoY driven by increases in savings (+105% YoY) and current account (+29.5% YoY) deposits. There was a 48.5% YoY reduction in higher cost Certificates of Deposits.
Non-performing loans	9,560	8,323	8,456	2	-12				Down 12% YoY, with improvements coming mainly from its retail portfolio (-33% YoY). Commercial NPL declined 8% YoY.
Total assets	311,690	357,660	363,411	2	17				
Shareholders' funds	43,902	44,987	46,517	3	6				
ROAA (%)	2.13	1.48	1.23			1.94	1.52		
ROAE (%)	15.5	12.2	9.7			13.9	11.3		
LDR (%)	137.7	105.3	106.7						
NPL ratio (%)	4.00	3.20	3.20						
Loan loss reserves (%)	110.8	135.2	150.7						
Tier-1 capital ratio (%)	13.61	14.64	13.38						
Total capital ratio	17.20	19.05	17.4						

Source: Company data, RHB

## Valuation

Our TP of THB56.00 is based on GGM-derived P/BV of 0.94x with the following key assumptions:

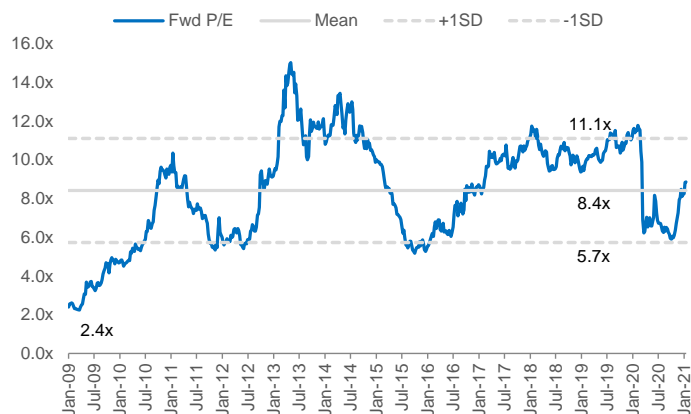
- i. Cost of equity raised to 11.55%;
- ii. ROE of 11%; and
- iii. Long term growth of 2.0%.

Figure 2: KKP – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	11.0
Risk free rate (%)	1.30	COE (%)	11.55
Equity premium (%)	8.40	Long-term growth (g)	2.0
Beta (x)	1.22	Implied P/BV (x)	0.94
Cost of equity - CAPM (%)	11.55	BVPS – FY21F average	THB59.03
		Target price	THB55.62
		<b>TP (rounded)</b>	<b>THB56.00</b>

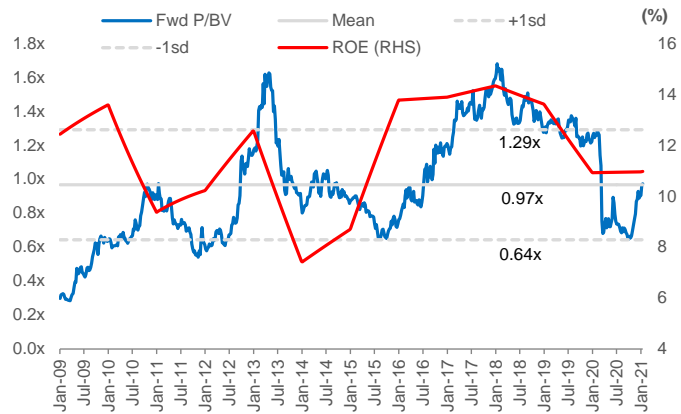
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Neutral	56.0	51.5
2020-10-20	Neutral	38.0	37.0
2019-10-29	Sell	56.0	63.8
2019-01-29	Sell	61.0	67.3
2018-11-05	Neutral	77.0	72.3
2018-08-02	Buy	85.0	73.8

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
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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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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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