

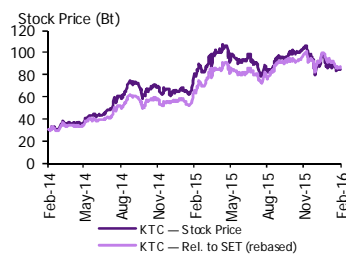
NEUTRAL

Stock Data

Last close (Feb 16) (Bt)	86.75
12-m target price (Bt)	86.00
Upside (Downside) to TP (%)	(0.86)
Mkt cap (Btbn)	22.37
Mkt cap (US\$mn)	627

Bloomberg code	KTC TB
Reuters code	KTC.BK
Risk rating	H
Mkt cap (%) SET	0.18
Sector % SET	2.13
Shares issued (mn)	258
Par value (Bt)	10.00
12-m high / low (Bt)	111 / 77
Avg. daily 6m (US\$mn)	2.14
Foreign limit / actual (%)	49 / 6
Free float (%)	41.9
Dividend policy (%)	30

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	(0.6)	(17.8)	11.6
Relative to SET	(4.0)	(11.3)	37.4

Source: SET, SCBS Investment Research

Kittima Sattayapan, CFA

Fundamental Investment

Analyst on Securities

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Growth going off-line in 2016

KTC's earnings growth is expected to take a break in 2016 as it spends heavily on marketing with the goal of gaining market share, as well as shouldering extra expenses related to a reengineering program and full materialization of the mandated cut in debt collection fees. We cut 2016F by 5% and lowered TP to Bt86 (2.2 x 2016F BVPS). Maintain Neutral.

Aggressive marketing and reengineering to keep 2016 earnings flat. KTC expects little growth in 2016 earnings as top line growth will be offset by higher opex from its reengineering program and a 20% jump in marketing expenses. KTC is determined to gain market share, particularly in the number of credit cards. In 2015, KTC had an 8.7% market share in credit card numbers, 10.5% in credit card spending and 12.3% in credit card loans. It is also planning a reengineering program to enhance its efficiency in 2016. KTC calculates the higher marketing expenses plus the lower collection charges will lift cost to income ratio to 41-42% from 39-40% in 2015F.

Sustainable loan growth. KTC targets to sustain its loan growth at 10% for 2016, the same as 2015. It keeps its growth target for personal loans and credit card spending at 15% in 2016. Though missing target in 2015, its growth in personal loans and credit card spending was still well over sector average: its credit card spending rose 12% vs. the sector average of 7% and its personal loans grew 12% vs. the sector average of 4%.

Cut in debt collection fee, another earnings drag. The mandated cut in collection fee charges from Bt250/month to Bt180/month in May and then to Bt100/month in November will hit 2016 in full. The cut to Bt100/month is expected to slash fee income by Bt20-25mn/month. We thus expect collection fee income to fall Bt300mn YoY in 2016, flattening 2016 profit growth.

Easing credit cost with best asset quality. Despite the slow economy, KTC reports a steady fall in NPL ratio since 3Q13, in contrast to the industry. NPLs were at 2.1% of total loans at 4Q15, the sector's lowest. It plans to keep NPLs stable in 2016. KTC also had the highest loan loss reserve coverage of 400% at 4Q15, allowing it to reduce credit cost in 2016. We forecast credit cost to ease to 8.2% in 2016F from 8.6% in 2015.

Cut 2016F earnings. We cut earnings by 6% in 2016F and 3% in 2017F as we increase marketing expenses to fine tune with the latest guidance. Target price is cut to Bt86 (2.2x 2016F BVPS).

Maintain Neutral. We see KTC as fully valued at 10.6x 2016F PER and 2.2x 2016F PBV in view of the expected slowdown in earnings growth to 2% in 2016F and a slip in ROE to ~23%. KTC must exert special effort in terms of marketing in order to sustain top line growth as it has placed itself in the nearly saturated middle- to high-income consumer finance segment where competition from commercial banks is high.

Forecasts and valuation

FY Dec	Unit	2014	2015	2016F	2017F	2018F
Pre-provision profit	(Bt mn)	6,744	7,256	7,554	8,324	9,080
Net profit	(Bt mn)	1,755	2,073	2,119	2,393	2,703
PPP/Sh	(Bt)	26.16	28.14	29.30	32.28	35.22
EPS	(Bt)	6.81	8.04	8.22	9.28	10.48
BVPS	(Bt)	28.58	33.87	38.87	44.87	51.64
DPS	(Bt)	2.75	3.22	3.29	3.71	4.19
PER	(x)	12.74	10.79	10.55	9.35	8.27
P/PPP	(x)	3.32	3.08	2.96	2.69	2.46
EPS growth	(%)	36.83	18.10	2.24	12.95	12.93
PBV	(x)	3.04	2.56	2.23	1.93	1.68
ROE	(%)	26.01	25.75	22.60	22.17	21.73
Dividend yields	(%)	3.17	3.71	3.79	4.28	4.83

Source: SCBS Investment Research

Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2014	2015	2016F	2017F	2018F
Interest & dividend income	6,181	6,513	7,006	7,692	8,445
Interest expense	1,764	1,621	1,764	1,982	2,225
Net interest income	4,416	4,893	5,242	5,710	6,220
Non-interest income	8,156	9,045	9,706	10,616	11,489
Non-interest expenses	5,377	6,139	6,863	7,404	7,953
Earnings before tax & provision	7,195	7,799	8,084	8,922	9,756
Tax	451	543	530	598	676
Equities & minority interest	0	0	0	0	0
Core pre-provision profit	6,744	7,256	7,554	8,324	9,080
Provision	4,989	5,183	5,435	5,930	6,377
Core net profit	1,755	2,073	2,119	2,393	2,703
Extra item	0	0	0	0	0
Net profit	1,755	2,073	2,119	2,393	2,703
EPS (Bt)	6.81	8.04	8.22	9.28	10.48
DPS (Bt)	2.75	3.22	3.29	3.71	4.19

Balance Sheet (Btmn)

FY December 31	2014	2015	2016F	2017F	2018F
Cash	735	941	1,094	1,143	1,247
Gross loans	55,007	60,514	66,282	72,763	79,711
Loan loss reserve	4,884	5,007	5,278	5,575	5,894
Net loans	50,123	55,507	61,003	67,188	73,817
Total assets	54,495	60,007	65,669	71,915	78,660
S-T borrowings	15,908	15,834	17,034	18,734	20,534
L-T borrowings	21,480	23,423	26,423	29,423	32,623
Total liabilities	47,127	51,446	55,646	60,346	65,346
Paid-up capital	2,578	2,578	2,578	2,578	2,578
Total Equities	7,368	8,733	10,023	11,569	13,314
BVPS (Bt)	28.58	33.87	38.87	44.87	51.64

Key Financial Ratios

	2014	2015	2016F	2017F	2018F
Yield on earn'g assets (%)	11.64	11.28	11.28	11.28	11.28
Cost on int-bear'g liab (%)	4.36	3.74	3.74	3.84	3.94
Spread (%)	7.28	7.54	7.54	7.44	7.34
Net interest margin(%)	8.32	8.47	8.27	8.21	8.16
Cost to income ratio (%)	37.51	39.46	41.07	40.44	39.90
Provision expense/Total loans (%)	9.07	8.57	8.20	8.15	8.00
NPLs (Bt mn)	1,342	1,252	1,290	1,328	1,368
NPLs/ Total Loans(%)	2.44	2.10	1.95	1.83	1.72
LLR/NPLs(%)	364	400	409	420	431
ROA (%)	3.30	3.62	3.37	3.48	3.59
ROE (%)	26.01	25.75	22.60	22.17	21.73

Profit and Loss Statement (Btmn)

FY December 31	4Q14	1Q15	2Q15	3Q15	4Q15
Interest & dividend income	1,607	1,568	1,605	1,642	1,699
Interest expense	440	422	418	389	392
Net interest income	1,166	1,146	1,187	1,253	1,307
Non-interest income	2,224	2,137	2,183	2,274	2,450
Non-interest expenses	1,487	1,433	1,434	1,579	1,693
Earnings before tax & provision	1,903	1,850	1,936	1,948	2,065
Tax	109	151	119	130	136
Equities & minority interest	0	0	0	0	0
Core pre-provision profit	1,794	1,698	1,817	1,819	1,929
Provision	1,369	1,124	1,353	1,319	1,387
Core net profit	425	574	464	499	542
Extra item	0	0	0	0	0
Net profit	425	574	464	499	542
EPS (Bt)	1.65	2.23	1.80	1.94	2.10

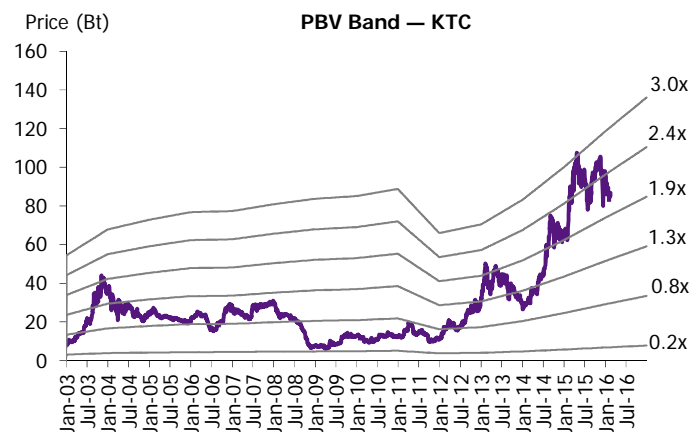
Balance Sheet (Btmn)

FY December 31	4Q14	1Q15	2Q15	3Q15	4Q15
Cash	735	559	673	602	941
Gross loans	55,007	53,359	54,709	55,803	60,514
Loan loss reserve	4,884	4,747	4,753	4,821	5,007
Net loans	50,123	48,612	49,956	50,982	55,507
Total assets	54,495	52,548	53,827	54,773	60,007
S-T borrowings	15,908	15,384	17,201	15,537	15,834
L-T borrowings	21,480	20,118	17,568	19,338	23,423
Total liabilities	47,127	44,606	46,130	46,576	51,446
Paid-up capital	2,578	2,578	2,578	2,578	2,578
Total Equities	7,368	7,942	7,698	8,197	8,733
BVPS (Bt)	28.58	30.80	29.86	31.79	33.87

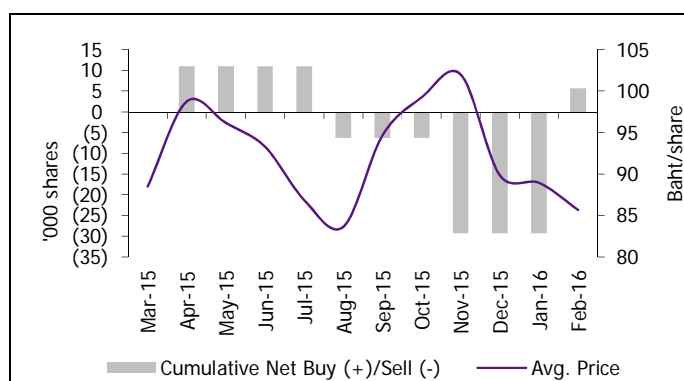
Key Financial Ratios

	4Q14	1Q15	2Q15	3Q15	4Q15
Yield on earn'g assets (%)	12.16	11.69	12.00	11.99	11.79
Cost on int-bear'g liab (%)	4.27	4.14	4.12	3.70	3.54
Spread (%)	7.90	7.54	7.88	8.29	8.25
Net interest margin(%)	8.83	8.54	8.87	9.16	9.07
Cost to income ratio (%)	38.83	38.69	37.85	40.32	40.79
Provision expense/Total loans (%)	9.96	8.43	9.89	9.46	9.17
NPLs (Bt mn)	1,342	1,268	1,210	1,220	NA.
NPLs/ Total Loans(%)	2.44	2.38	2.21	2.19	2.10
LLR/NPLs(%)	364	375	393	395	400
ROA (%)	3.23	4.29	3.49	3.68	3.78
ROE (%)	23.74	30.01	23.75	25.13	25.63

PBV Band Chart

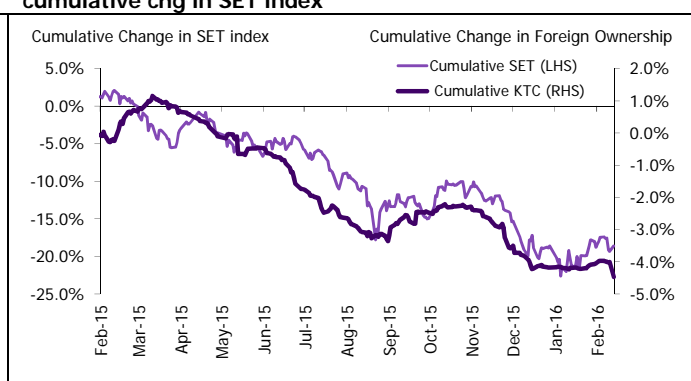


12-Month Cumulative directors trade



Source: SEC

12 Month cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 1: Valuation summary (Closing price as of Feb 16, 2016)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F
AEONTS	Buy	90.50	117.0	33.2	9.4	9.0	8.3	(3)	4	8	2.2	1.9	1.6	25	22	21	3.8	3.9	4.2
KTC	Neutral	86.75	86.0	2.8	12.7	10.8	10.6	37	18	2	3.0	2.6	2.2	26	26	23	3.2	3.7	3.8
Average					11.1	9.9	9.4	17	11	5	2.6	2.2	1.9	25	24	22	3.5	3.8	4.0

Source: SCBS Investment Research

CG Rating 2015 Companies with CG Rating

★★★★★

ADVANC, BAFS, BCP, BIGC, BTS, CK, CPN, DRT, DTAC, DTC, EASTW, EGCO, GRAMMY, HANA, HMPRO, INTUCH, IRPC, IVL, KBANK, KCE, KKP, KTB, LHBANK, LPN, MCOT, MINT, MONO, NKI, PHOL, PPS, PS, PSL, PTT, PTTEP, PTTGC, QTC, RATCH, ROBINS, SAMART, SAMTEL, SAT, SC, SCB, SCC, SE-ED, SIM, SNC, SPALI, THCOM, TISCO, TKT, TMB, TOP, VGI, WACOAL

★★★★☆

AAV, ACAP, AGE, AHC, AKP, AMATA, ANAN, AOT, APCS, ARIP, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BDMS, BEM, BKI, BLA, BOL, BROOK, BWG, CENTEL, CFRESH, CHO, CIMBT, CM, CNT, COL, CPF, CPI, CSL, DCC, DELTA, DEMCO, ECF, EE, ERW, GBX, GC, GFPT, GLOBAL, GUNKUL, HEMRAJ, HOTPOT, HYDRO, ICC, ICHI, INET, IRC, KSL, KTC, LANNA, LH, LOXLEY, LRH, MACO, MBK, MC, MEGA, MFEC, NBC, NCH, NINE, NSI, NTV, OCC, OGC, OISHI, OTO, PAP, PDI, PE, PG, PJW, PM, PPP, PR, PRANDA, PREB, PT, PTG, Q-CON, QH, RS, S & J, SABINA, SAMCO, SCG, SEAFCO, SFP, SIAM, SINGER, SIS, SITHAI, SMK, SMP, SMT, SNP, SPI, SSF, SSI, SSSC, SST, STA, STEC, SVI, SWC, SYMC, SYNTEC, TASCO, TBSP, TCAP, TF, TGCI, THAI, THANA, THANI, THIP, THRE, THREL, TICON, TIP, TIPCO, TK, TKS, TMI, TMILL, TMT, TNDT, TNITY, TNL, TOG, TPC, TPCORP, TRC, TRU, TRUE, TSC, TSTE, TSTH, TTA, TTCL, TTW, TU, TVD, TVO, TWPC, UAC, UT, UV, VNT, WAVE, WINNER, YUASA, ZMICO

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2S, AEC, AEONTS, AF, AH, AIRA, AIT, AJ, AKR, AMANAH, AMARIN, AP, APCO, AQUA, AS, ASIA, AUCT, AYUD, BA, BEAUTY, BEC, BFIT, BH, BIG, BJC, BJCHI, BKD, BTNC, CBG, CGD, CHG, CHOW, CI, CITY, CKP, CNS, CPALL, CPL, CSC, CSP, CSS, CTW, DNA, EARTH, EASON, ECL, EFORL, ESSO, FE, FIRE, FOCUS, FORTH, FPI, FSMART, FSS, FVC, GCAP, GENCO, GL, GLAND, GLOW, GOLD, GYT, HTC, HTECH, IEC, IFEC, IFS, IHL, IRCP, ITD, JSP, JTS, JUBILE, KASET, KBS, KCAR, KGI, KKC, KTIS, KWC, KYE, L&E, LALIN, LHK, LIT, TT, LST, M, MAJOR, MAKRO, MATCH, MATI, MBKET, M-CHAI, MFC, MILL, MJD, MK, MODERN, MOONG, MPG, MSC, MTI, MTL, NC, NOK, NUSA, NWR, NYT, OCEAN, PACE, PATO, PB, PCA, PCSGH, PDG, PF, PICO, PL, PLANB, PLAT, PPM, PRG, PRIN, PSTC, PTL, PYLON, QLT, RCI, RCL, RICHY, RML, RPC, S, SALEE, SAPPE, SAWAD, SCCC, SCN, SCP, SEAOL, SIRI, SKR, SMG, SOLAR, SORKON, SPA, SPC, SPCG, SPPT, SPVI, SRICHA, SSC, STANLY, STPI, SUC, SUSCO, SUTHA, SYNEX, TAE, TAKUNI, TCC, TCCC, TCJ, TEAM, TFD, TFI, TIC, TIW, TLUXE, TMC, TMD, TOPP, TPCH, TPIPL, TRT, TSE, TSR, UMI, UP, UPF, UPOIC, UREKA, UWC, VIBHA, VIH, VPO, WHA, WIN, XO

Corporate Governance Report

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. SCB Securities Company Limited does not conform nor certify the accuracy of such survey result.

Anti-corruption Progress Indicator 2015**Level 5: Extended (ขยายผลสู่ผู้ที่เกี่ยวข้อง)**

BCP, CPN, GYT, PE, PM, PPP, PT, PTT, PTTGC, SAT, SCC, THANI, TOP

Level 4: Certified (ได้รับการรับรอง)

ASP, BAFS, BANPU, BAY, BBL, BKI, BLA, CIMBT, CNS, CSL, DCC, DRT, DTC, EASTW, ECL, EGCO, ERW, FSS, GCAP, HANA, HTC, INTUCH, IRPC, IVL, KBANK, KCE, KGI, KKP, KTB, LANNA, LHBANK, MTI, NKI, PSL, PTG, PTTEP, SABINA, SCB, SNC, SNP, SSF, SSSC, TCAP, THCOM, TISCO, TMB, TMD, TNITY, TOG

Level 3B: Established by Commitment and Policy (มีมาตรการป้องกัน ตามคำมั่นและนโยบาย)

AAV, AHC, AIT, AKR, ARROW, ASK, BA, BDMS, BEC, BJCHI, BUI, CGH, CHG, CHOW, CIG, CITY, CK, CKP, COLOR, CWT, EARTH, EASON, EPG, F&D, FANCY, FIRE, FMT, FORTH, GENCO, GL, GOLD, GPSC, GRAMMY, HYDRO, IRCP, IT, JCT, KCM, KWC, LH, LIT, LOXLEY, MACO, MANRIN, MATI, MODERN, MSC, NOBLE, NOK, NPK, NUSA, OISHI, OTO, PAF, PAP, PATO, PF, PJW, PLANB, PLE, POLAR, PRG, PTL, Q-CON, QTC, RCI, S11, SALEE, SAM, SAMART, SAMTEL, SAPPE, SC, SCP, SFP, SIM, SLP, SMT, SPA, SPC, SPCG, SPPT, SPVI, SRICHA, SSC, STANLY, SUPER, SVI, SYMC, SYNEX, SYNTEC, TASCO, TCMC, TFI, THAI, THRE, THREL, TK, TMW, TNDT, TOPP, TPC, TPCH, TPIPL, TRT, TYCN, UAC, UBIS, UEC, UMI, UP, UPF, UT, UV, VPO, WAVE, WINNER, YUASA

Level 3A: Established by declaration of intent (มีมาตรการป้องกัน ตามคำประกาศเจตนารมณ์)

ABC, ACAP, ADVANC, AGE, AH, AMANAH, ANAN, AP, APCS, APURE, AS, ASIA, ASIAN, ASIMAR, BIGC, BROOK, BTS, BWG, CEN, CENTEL, CFRESH, CHARAN, CHO, CHOTI, CM, CNT, COL, CPF, CPI, CPL, DELTA, DEMCO, DIMET, DNA, DTAC, EA, ECF, EE, EVER, FPI, GBX, GC, GFPT, GLOW, HMPRO, HOTPOT, ICC, ICHI, IFEC, INOX, INSURE, IRC, JAS, JTS, JUBILE, KC, KTC, KYE, LHK, LPN, LRH, MAKRO, MC, MCOT, MFC, MFEC, MINT, MJD, MONO, MOONG, NBC, NDR, NINE, NMG, NSI, NTV, OGC, PACE, PCSGH, PDI, PG, PHOL, PLAT, PPS, PR, PRANDA, PREB, PS, QLT, RATCH, RML, ROBINS, ROJNA, RWI, SAMCO, SCCC, SCG, SEAOL, SE-ED, SENA, SINGER, SITHAI, SMK, SMP, SPALI, SPC, SPCG, SPI, SRICHA, SSI, STANLY, SUPER, SVI, SYMC, SYNEX, SYNTEC, TASCO, TCMC, TFI, THAI, THRE, THREL, TICON, TKT, TLUXE, TMILL, TMT, TNL, TPCORP, TSTE, TSTH, TTCL, TU, TVI, UOBKH, UREKA, VGI, VNT, WACOAL, WHA, ZMICO

Level 2: Declared (ประกาศเจตนารมณ์)

2S, ABICO, AF, AKP, AMARIN, AMATA, AOT, APCO, AYUD, BEAUTY, BFIT, BH, BKD, BLAND, BTNC, CCP, CI, CSR, CSS, EFORL, EPCO, FE, FNS, FVC, GEL, GLOBAL, HEMRAJ, IEC, IFS, INET, JUTHA, KASET, KCAR, KKC, KSL, L&E, LALIN, LTX, M, MALEE, MBK, MBKET, MEGA, MK, MPG, MTL, NCH, NCL, NPP, OCC, OCEAN, PB, PCA, PRINC, QH, ROCK, RPC, S & J, SGP, SIAM, SIS, SKR, SMG, SMT, SORKON, SUSCO, TAKUNI, TEAM, TF, TIC, TIP, TIPCO, TMC, TMI, TPP, TRT, TRU, TRUE, TSC, TSI, TTW, TVD, TVO, UKEM, UNIO, UWC, VNG, WIIR, WIN, XO

Level 1: Committed (ขยายผลสู่ผู้ที่เกี่ยวข้อง)

AEONTS, AFC, AIRA, AJ, ALUCON, AMC, AQUA, ARIP, AUCT, BAT-3K, BIG, BJC, BOL, BRR, BSBM, CBG, CCET, CCN, CGD, CMR, CPH, CSC, CSP, CTW, DCON, DRACO, DSGT, DTCL, E, EMC, ESSO, FOCUS, FSMART, GIFT, GLAND, GRAND, GREEN, GUNKUL, HFT, HTECH, IHL, ILINK, ITD, JSP, KDH, KTIS, KTP, LEE, LST, MAJOR, MATCH, MAX, M-CHAI, MDX, MIDA, ML, MPIC, NC, NEP, NNCL, NWR, OHTL, PICO, PK, PL, PPM, PRAKIT, PRECHA, PRIN, PSTC, PYLON, RAM, RICH, RS, SANKO, SAUCE, SAWAD, SAWANG, SCN, SEAFCO, SF, SHANG, SIRI, SMART, SMM, SOLAR, SPACK, SPG, SPPT, SPVI, STA, STAR, SVH, SVOA, SWC, TAPAC, TC, TCCC, TCJ, TCOAT, TH, TKS, TNH, TNPC, TPA, TPAC, TPOLY, TRC, TRUBB, TSE, TTA, TTI, TTL, TTTM, TWP, TWZ, U, UMS, UPA, UPOIC, UTP, UVAN, VARO, VI, VIBHA, VIH, VTE, WG

Anti-corruption Progress Indicator

The disclosure of the Anti-Corruption Progress Indicators of a listed company on the Stock Exchange of Thailand, which is assessed by Thaipat Institute, is made in order to comply with the policy and sustainable development plan for the listed companies of the Office of the Securities and Exchange Commission. Thaipat Institute made this assessment based on the information received from the listed company, as stipulated in the form for the assessment of Anti-Corruption which refers to the Annual Registration Statement (Form 56-1), Annual Report (Form 56-2), or other relevant documents or reports of such listed company. The assessment result is therefore made from the perspective of Thaipat Institute that is a third party. It is not an assessment of operations and is not based on any inside information. Since this assessment is only the assessment result as of the date appearing in the assessment result, it may be changed after that date or when there is any change to the relevant information. Nevertheless, SCB Securities Company Limited does not confirm, verify, or certify the accuracy and completeness of the assessment result.

Reference

Level 5: Extended – Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases

Level 4: Certified – Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)

Level 3: Established – Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes

Level 3A: Established by declaration of intent, Level 3B: Established by Commitment and Policy

Level 2: Declared – Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives

Level 1: Committed – Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws