

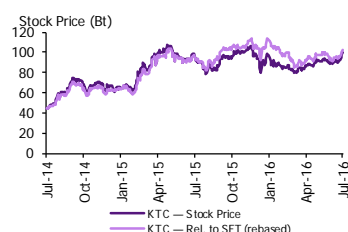
NEUTRAL

Stock Data

Last close (Jul 5) (Bt)	97.00
12-m target price (Bt)	102.00
Upside (Downside) to TP (%)	5.15
Mkt cap (Btbn)	25.01
Mkt cap (US\$mn)	711

Bloomberg code	KTC TB
Reuters code	KTC.BK
Risk rating	H
Mkt cap (%) SET	0.18
Sector % SET	2.04
Shares issued (mn)	258
Par value (Bt)	10.00
12-m high / low (Bt)	108 / 77
Avg. daily 6m (US\$mn)	2.18
Foreign limit / actual (%)	49 / 5
Free float (%)	42.0
Dividend policy (%)	30

Price Performance



Source: SET, SCBS Investment Research

Share performance

	1M	3M	12M
Absolute	9.6	11.8	6.0
Relative to SET	9.1	5.9	7.7

Source: SET, SCBS Investment Research

Gains, but with pain

KTC reports greater growth in credit card spending than anticipated, and we have raised our assumption accordingly – but this was at the expense of a big (and expensive) marketing campaign. NPLs are staying put while loan growth is stable. We roll valuation over to mid-2017, which raises target price to Bt102, but given the difficult road it faces, going head-to-head with banks, we keep it Neutral.

Accelerating growth in credit card spending. KTC reports a rise in credit card spending of 15-16% YoY (vs. 9% for the system) in 5M16 from 2015's 12% (same as the system), beating its full-year target of 15% and our assumption of stable growth of 12% in 2016F. To factor in the stronger-than-expected credit card spending and expectation of gradual recovery in private consumption (supported by a pickup in farm income and rising wages), we lift our forecast for 2016F credit card spending growth to 15% from 12% and bring our forecast on 2016F fee income growth up to 9% (same as 2015) from 7%, into which we had factored in the mandated cut in collection fee charges to Bt100/month in November last year which cut debt collection fee income by 47% or Bt20-25mn/month.

Big hike in marketing expenses to gain market share in credit cards. KTC has budgeted a huge Bt1.3bn for marketing in 2016, a jump of 36% YoY after slowing marketing down for the past three years (-40% in 2013, -20% in 2014 and +1% in 2015). Behind this is its determination to achieve a 15% growth in credit card spending and enlarge its credit card base, targeting adding 400,000 cards (21% of the 1.89mn at YE2015). This will, by our estimates, raise cost to income ratio to 41.6% in 2016F from 39.5% in 2015 and is the main reason we expect earnings growth to slow to 8% this year from 18% in 2015. This will, however, pay off and push earnings up 16% next year.

Sustainable loan growth. KTC plans to keep its loan growth at 10% for 2016, the same as 2015, with a 15% growth in personal loans. 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%.

Easing cost of funds and credit cost. 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.

Maintain Neutral, roll TP to mid-2017. We raised KTC's TP to Bt102 (2.4x average BVPS for 2016F and 2017F) after rolling valuation to mid-2017. We keep KTC as Neutral as it will require much marketing to sustain top line growth since it is positioned 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	7,738	8,726	9,682
Net profit	(Bt mn)	1,755	2,073	2,231	2,585	2,886
PPP/Sh	(Bt)	26.16	28.14	30.01	33.84	37.55
EPS	(Bt)	6.81	8.04	8.65	10.03	11.19
BVPS	(Bt)	28.58	33.87	39.27	45.84	53.02
DPS	(Bt)	2.75	3.25	3.46	4.01	4.48
PER	(x)	14.25	12.07	11.21	9.68	8.67
P/PPP	(x)	3.71	3.45	3.23	2.87	2.58
EPS growth	(%)	36.83	18.10	7.66	15.84	11.64
PBV	(x)	3.39	2.86	2.47	2.12	1.83
ROE	(%)	26.01	25.75	23.66	23.56	22.64
Dividend yields	(%)	2.84	3.35	3.57	4.13	4.62

Source: SCBS Investment Research

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Fundamental Investment

Analyst on Securities

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2014	2015	2016F	2017F	2018F
Interest & dividend income	6,181	6,513	7,026	7,811	8,703
Interest expense	1,764	1,621	1,546	1,772	2,033
Net interest income	4,416	4,893	5,480	6,039	6,670
Non-interest income	8,156	9,045	9,842	10,918	11,880
Non-interest expenses	5,377	6,139	7,026	7,586	8,147
Earnings before tax & provision	7,195	7,799	8,296	9,372	10,403
Tax	451	543	558	646	721
Equities & minority interest	0	0	0	0	0
Core pre-provision profit	6,744	7,256	7,738	8,726	9,682
Provision	4,989	5,183	5,507	6,141	6,796
Core net profit	1,755	2,073	2,231	2,585	2,886
Extra item	0	0	0	0	0
Net profit	1,755	2,073	2,231	2,585	2,886
EPS (Bt)	6.81	8.04	8.65	10.03	11.19
DPS (Bt)	2.75	3.25	3.46	4.01	4.48

Balance Sheet (Btmn)

FY December 31	2014	2015	2016F	2017F	2018F
Cash	735	941	936	983	973
Gross loans	55,007	60,686	66,747	74,888	82,877
Loan loss reserve	4,884	5,007	5,282	5,589	5,929
Net loans	50,123	55,679	61,465	69,299	76,948
Total assets	54,495	60,179	65,972	73,865	81,517
S-T borrowings	15,908	15,834	16,934	18,734	20,534
L-T borrowings	21,480	23,423	26,723	31,123	35,123
Total liabilities	47,127	51,446	55,846	62,046	67,846
Paid-up capital	2,578	2,578	2,578	2,578	2,578
Total Equities	7,368	8,733	10,126	11,819	13,670
BVPS (Bt)	28.58	33.87	39.27	45.84	53.02

Key Financial Ratios

	2014	2015	2016F	2017F	2018F
Yield on earn'g assets (%)	11.64	11.26	11.26	11.26	11.26
Cost on int-bear'g liab (%)	4.36	3.74	3.27	3.37	3.47
Spread (%)	7.28	7.52	7.99	7.89	7.79
Net interest margin(%)	8.32	8.46	8.60	8.53	8.46
Cost to income ratio (%)	37.51	39.46	41.65	40.50	39.58
Provision expense/Total loans (%)	9.07	8.54	8.25	8.20	8.20
NPLs (Bt mn)	1,341.84	1,251.97	1,377.17	1,514.88	1,666.37
NPLs/ Total Loans(%)	2.44	2.10	2.06	2.02	2.01
LLR/NPLs(%)	363.94	399.89	383.53	368.93	355.79
ROA (%)	3.30	3.61	3.54	3.70	3.71
ROE (%)	26.01	25.75	23.66	23.56	22.64

Profit and Loss Statement (Btmn)

FY December 31	1Q15	2Q15	3Q15	4Q15	1Q16
Interest & dividend income	1,568	1,605	1,642	1,699	1,729
Interest expense	422	418	389	392	383
Net interest income	1,146	1,187	1,253	1,307	1,346
Non-interest income	2,137	2,183	2,274	2,450	2,423
Non-interest expenses	1,433	1,434	1,579	1,693	1,652
Earnings before tax & provision	1,850	1,936	1,948	2,065	2,117
Tax	151	119	130	136	165
Equities & minority interest	0	0	0	0	0
Core pre-provision profit	1,698	1,817	1,819	1,929	1,952
Provision	1,124	1,353	1,319	1,387	1,317
Core net profit	574	464	499	542	635
Extra item	0	0	0	0	0
Net profit	574	464	499	542	635
EPS (Bt)	2.23	1.80	1.94	2.10	2.46

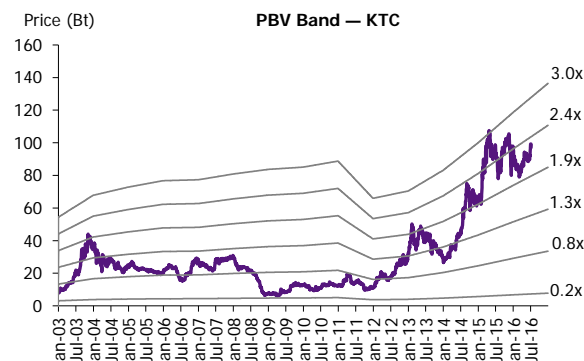
Balance Sheet (Btmn)

FY December 31	1Q15	2Q15	3Q15	4Q15	1Q16
Cash	559	673	602	941	670
Gross loans	53,359	54,709	55,803	60,686	59,149
Loan loss reserve	4,747	4,753	4,821	5,007	0
Net loans	48,612	49,956	50,982	55,679	54,137
Total assets	52,548	53,827	54,773	60,179	58,158
S-T borrowings	15,384	17,201	15,537	15,834	12,316
L-T borrowings	20,118	17,568	19,338	23,423	25,623
Total liabilities	44,606	46,130	46,576	51,446	48,791
Paid-up capital	2,578	2,578	2,578	2,578	2,578
Total Equities	7,942	7,698	8,197	8,733	9,368
BVPS (Bt)	30.80	29.86	31.79	33.87	36.33

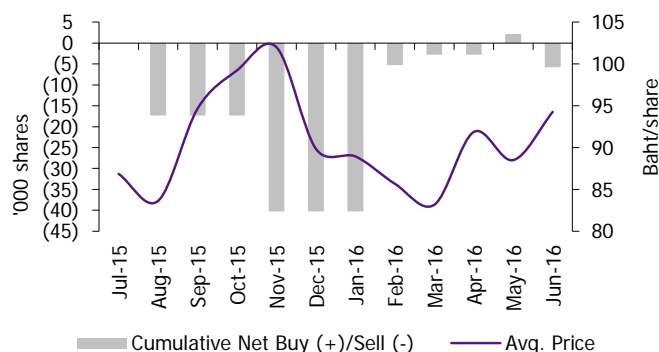
Key Financial Ratios

	1Q15	2Q15	3Q15	4Q15	1Q16
Yield on earn'g assets (%)	11.69	12.00	11.99	11.77	11.63
Cost on int-bear'g liab (%)	4.14	4.12	3.70	3.54	3.46
Spread (%)	7.54	7.88	8.29	8.23	8.17
Net interest margin(%)	8.54	8.87	9.16	9.05	9.05
Cost to income ratio (%)	38.69	37.85	40.32	40.79	39.79
Provision expense/Total loans (%)	8.43	9.89	9.46	9.14	2.23
NPLs (Bt mn)	1,267.50	1,209.79	1,219.68	1,251.97	NA.
NPLs/ Total Loans(%)	2.38	2.21	2.19	2.06	2.00
LLR/NPLs(%)	374.55	392.88	395.26	399.89	NA.
ROA (%)	4.29	3.49	3.68	3.77	0.00
ROE (%)	30.01	23.75	25.13	25.63	0.00

PBV Band Chart

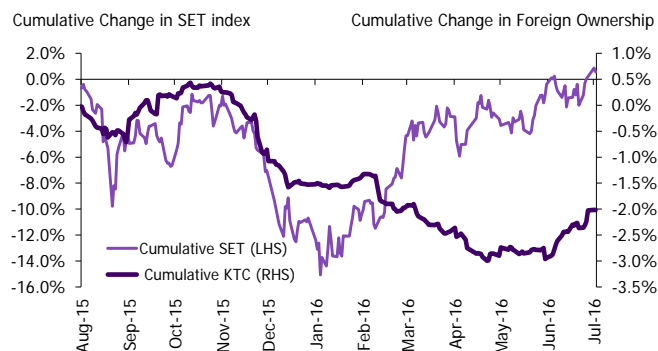


12-Month Cumulative directors trade



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 Jul 5, 2016)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					15A	16F	17F	15A	16F	17F	15A	16F	17F	15A	16F	17F	15A	16F	17F
AEONTS	Buy	97.00	115.0	22.4	9.9	9.1	8.2	1	9	10	2.0	1.8	1.5	22	21	20	3.6	3.9	4.3
KTC	Neutral	97.00	102.0	8.7	12.1	11.2	9.7	18	8	16	2.9	2.5	2.1	26	24	24	3.4	3.6	4.1
Average					11.0	10.1	8.9	10	9	13	2.4	2.1	1.8	24	22	22	3.5	3.7	4.2

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

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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, 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, SEAFECO, SFP, SIAM, SINGER, SIS, SITHAI, SMK, SMPC, 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, AUCTION, 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, IRPC, 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, MTLN, 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, SEAOIL, 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 (ขยายผลผู้ที่เกี่ยวข้อง)

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

Level 4: Certified (ได้รับการรับรอง)

ADVANC, AMANAH, ASP, AYUD, BAFS, BANPU, BAY, BBL, BKI, BLA, BTS, CFRESH, CIMBT, CNS, CSL, DCC, DRT, DTC, EASTW, ECL, EGCO, ERW, FSS, GCAP, HANA, HTC, IFEC, INTUCH, IRPC, IVL, KBANK, KCE, KGI, KKP, KTB, LANNA, LHBANK, MBKET, MFC, MINT, MTI, NKI, PPS, PSL, PTG, PTTEP, SABINA, SCB, SINGER, SIS, SNC, SNP, SSF, SSI, SSSC, SVI, TCAP, THCOM, THRE, THREL, TISCO, TMB, TMD, TNITY, TOG, TSTH

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

AAV, AHC, AIT, AKR, ARROW, ASK, BA, BDMS, BEC, BJCHI, CGH, CHG, CHOW, CIG, CITY, CK, CKP, COLOR, CWT, EARTH, EASON, EPG, F&D, FANCY, FIRE, FMT, FORTH, GENCO, GL, GOLD, GPSC, GRAMMY, HYDRO, IRPC, 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, SPORT, SSC, SST, STEC, STPI, SUC, SUTHA, T, TAE, TBSP, TCC, TFD, TGCI, TGPRO, THANA, THIP, TIW, TK, TMW, TNDT, TOPP, TPC, TPCH, TPIPL, TSR, TT, TYCN, UAC, UBIS, UEC, UMI, UP, UPF, UT, UV, VPO, WAVE, WINNER, YUASA

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

ABC, ACAP, AGE, AH, ANAN, AP, APCS, APURE, AS, ASIA, ASIAN, ASIMAR, BIGC, BROOK, BWG, CEN, CENTEL, 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, INOX, INSURE, IRC, JAS, JTS, JUBILE, KC, KTC, KYE, LHK, LPN, LRH, MAKRO, MC, MCOT, MFEC, MJD, MONO, MOONG, NBC, NDR, NINE, NMG, NSI, NTV, OGC, PACE, PCSGH, PDI, PG, PHOL, PLAT, PR, PRANDA, PREB, PS, QLT, RATCH, RML, ROBINS, ROJNA, RWI, SAMCO, SCCC, SCG, SEAOIL, SE-ED, SENA, SITHAI, SMK, SMPC, SPALI, SPC, SPCG, SPI, SRICHA, STANLY, SUPER, SYMC, SYNEX, SYNTEC, TASCO, TCMC, TFI, THAI, TICON, TKT, TLUXE, TMILL, TMT, TNL, TPCORP, TSTE, TTCL, TU, TVI, UOBKH, UREKA, VGI, VNT, WACOAL, WHA, ZMICO

Level 2: Declared (ประกาศเจตนารมณ์)

2S, ABICO, AF, AIRA, AKP, ALUCON, AMARIN, AMATA, AOT, APCO, BEAUTY, BFIT, BH, BKD, BLAND, BROCK, BRR, BSBM, BTNC, CCP, CI, CSC, CSR, CSS, EFORL, EPCO, ESTAR, FE, FER, FNS, FVC, GE, GLOBAL, GUNKUL, IEC, IFS, ILINK, INET, J, JMT, JUTHA, K, KASET, KBS, KCAR, KKC, KSL, KTECH, L&E, LALIN, LTX, M, MALEE, MBAX, MBK, MEGA, MILL, MK, MPG, MTLN, NCH, NCL, NNCL, NPP, OCC, OCEAN, PB, PCA, PDG, PRINC, PSTC, PYLON, QH, ROCK, ROH, RP, RPC, S & J, SGP, SIAM, SKR, SMG, SMIT, SORKON, SPACK, SPPT, SR, SUSCO, TAKUNI, TEAM, TF, TIC, TIP, TIPCO, TMC, TMI, TPA, TPP, TRT, TRU, TRUE, TSC, TSI, TTW, TVD, TVO, TVT, U, UKEM, UNIQ, UWC, VIBHA, VNG, WIH, WIN, XO

Level 1: Committed (ขยายผลผู้ที่เกี่ยวข้อง)

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