



Krung Thai Bank

Krung Thai Bank
Public Company Limited

KTB

Bloomberg KTB.TB
Reuters KTB.BK

Top pick for rate hike and inflation cycle

After the analyst meeting, we keep our Outperform rating and TP of Bt18 in view of its cheap valuation, top benefit from rate hikes, lower asset quality risk than peers and the strongest earnings growth of 40% in 2022F. The bank has raised its loan growth target and anticipates HoH higher provisions, NIM and fee income in 2H22.

Raises loan growth target. KTB has raised its loan growth target to 4-5% from 3-4% to fine tune with YTD loan growth of 2.5% in 1H22. This target excludes government-related loans, where growth is for liquidity management. 1H22 loan growth came from large corporate loans (+3.9% YTD) and retail loans (+2.3% YTD) with stagnant SME loans. Government-related loans fell 8.1% YTD. We maintain our 2022F loan growth at 5%.

Expect HoH rise in provisions. In 2H22, KTB expects to raise provisions HoH as a precaution against economic headwinds but not hugely. We cautiously maintain our 2022F credit cost at 1% vs. 0.85% in 1H22. The bank aims at LLR coverage of 160-170% at YE2022 vs. 168% at 2Q22. Amidst inflationary headwinds, we believe KTB has the lowest asset quality risk as it has the largest exposure to the government sector (19%) as well as to salaried and government employees (50% of housing loans and 80% of personal loans).

Expect HoH improvement in NIM. KTB anticipates HoH improvement in NIM in 2H22 and continues to expect stable NIM at 2.5% in 2022, which lines up with our assumptions. In 2H22, yield on earning assets will benefit from policy rate hikes. Its net interbank assets (~8% of earning assets at 2Q22) are repriced in line with policy rate and the bank expects a 75 bps hike in policy rate in each of 2H22 and 2023, bringing policy rate to 1.25% at YE2022 and 2% at YE2023. Due to its high 85% proportion of CASA, KTB is poised to benefit most from interest rate hikes. It recently issued a Bt18bn subordinated debenture, carrying cost of 3.25%, to replace its Bt20bn subordinated debenture, which carries cost of 3.4%.

Expect flattish fee income. KTB targets 2022 fee income growth of zero to low-single digits, suggesting a HoH and YoY rise in 2H22. The bank expects fee income from the "Paotang" application to be immaterial against total fee income despite the strong momentum, particularly after the initiation of a digital lottery. We maintain our 2022F net fee income growth at 1%.

Easing cost to income ratio. KTB maintains its cost to income ratio target at the low to mid 40% in 2022 vs. 46.2% in 2021, which is in line with our forecast of 43.4%. It expects a fall in personnel expenses to be offset by a rise in IT expenses.

2H22 outlook. We expect 2H22 earnings to be higher YoY (higher NII, lower provisions, lower opex) but lower HoH due to higher provisions. In 2022, we expect KTB to have the strongest earnings growth among peers at 40%.

Forecasts and valuation

Year to 31 Dec	Unit	2020	2021	2022F	2023F	2024F
Pre-provision profit	(Bt mn)	61,634	54,112	57,066	60,171	64,651
Net profit	(Bt mn)	16,732	21,588	30,120	33,160	36,019
PPP/Sh	(Bt)	4.41	3.87	4.08	4.30	4.62
EPS	(Bt)	1.20	1.54	2.15	2.37	2.58
BVPS	(Bt)	24.57	25.75	26.28	27.90	29.65
DPS	(Bt)	0.28	0.42	0.75	0.83	0.90
P/PPP	(x)	3.65	4.16	3.94	3.74	3.48
PPP growth	(%)	16.08	(12.20)	5.46	5.44	7.44
P/E	(x)	13.45	10.43	7.47	6.79	6.25
EPS growth	(%)	(42.86)	29.03	39.52	10.10	8.62
P/BV	(x)	0.66	0.63	0.61	0.58	0.54
ROE	(%)	4.91	6.14	8.28	8.75	8.95
Dividend yield	(%)	1.71	2.60	4.68	5.16	5.60

Source: SCBS Investment Research

Tactical: OUTPERFORM (3-month)

Stock data

Last close (Aug 22) (Bt)	16.10
Target price (Bt)	18.00
Mkt cap (Btbn)	225.01
Mkt cap (US\$mn)	6,236

Beta	L
Mkt cap (%) SET	1.15
Sector % SET	9.12
Shares issued (mn)	13,976
Par value (Bt)	5.15
12-m high / low (Bt)	16.5 / 10.5
Avg. daily 6m (US\$mn)	18.89
Foreign limit / actual (%)	25 / 11
Free float (%)	44.9
Dividend policy (%)	≤ 40

2021 Sustainability / ESG Score

Sustainability Index (THSI)	Included
ESG Bloomberg Score	48.18
Environmental Score	23.32
Social Score	33.74
Governance Score	87.36

Source: Bloomberg Finance L.P.

Share performance

(%)	1M	3M	12M
Absolute	3.9	8.1	47.7
Relative to SET	(0.2)	9.4	44.6

Source: SET, SCBS Investment Research

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Value proposition

KTB is a state-owned bank with the sector's third largest consolidated assets. Loan breakdown shows 40% retail loans, 28% corporate loans, 19% government-related loans and 12% SME loans. Its deposit mix is comprised of 85% current & savings deposits and 15% term deposits. It has an NPL ratio of 4% (based on SCBS calculations), LLR coverage of 168% and a capital adequacy ratio of 20% (16% tier 1).

Business outlook

We expect decent 40% earnings recovery in 2022, underpinned by easing credit cost, cautious 5% loan growth, stable NIM, modest non-NII growth and easing cost to income ratio.

Bullish views	Bearish views
1. Lower asset quality risk than peers with an ease in credit cost.	1. Sluggish fee income growth.
2. Easing cost to income ratio from tighter opex and better toplines.	2. Stable NIM.

Key catalysts

Factor	Event	Impact	Comment
NPL surge	The end of the relief program in 2022	Negative	We expect the rise in NPLs to be manageable in 2022.
End of reduction in FIDF cost	The reduction of FIDF cost from 0.46% to 0.23% will end at YE2023.	Negative	We believe there is potential for a hike in lending rate to offset the rise in FIDF cost.

Sensitivity analysis

Factor	Earnings impact	TP impact
1ppt change in loan growth	1.6%	Bt0.1/sh.
5 bps change in NIM	5.8%	Bt0.5/sh.
10 bps change in credit cost	9.8%	Bt1/sh.

ESG Disclosure Score

	2020	2021
ESG Disclosure Score	48.79	48.18
Environment	23.32	23.32
Total GHG Emissions (thousands of metric tonnes)	n.a.	n.a.
Total Water Use (thousands of cubic meters)	487.03	419.96
Hazardous Waste (thousands of metric tonnes)	n.a.	n.a.
Total Waste (thousands of metric tonnes)	n.a.	n.a.
Social	35.55	33.74
Number of Employees	20,262.00	18,937.00
Workforce Accidents	n.a.	n.a.
Lost Time from Accidents	n.a.	n.a.
Fatalities - Contractors	n.a.	n.a.
Fatalities - Employees	n.a.	n.a.
Fatalities - Total	n.a.	n.a.
Community Spending	150.68	310.68
Governance	87.36	87.36
Size of the Board	12.00	12.00
Indep Directors	6.00	6.00
% Indep Directors	50.00	50.00
Board Duration (Years)	3.00	3.00
# Board Meetings	26.00	23.00
Board Mtg Attendance (%)	97.29	100.00

Source: Bloomberg Finance L.P.

Disclaimer

Bloomberg ESG Disclosure Scores rate companies on their level of disclosure of ESG data. Bloomberg offers four disclosure scores, for overall ESG, as well as Environmental, Social, and Governance such as energy consumption, board composition, and workforce accidents

Company ESG reporting has evolved since our ESG Disclosure Score was originally created in 2010. In order to reflect the evolution in corporate reporting, in early 2022 Bloomberg updated its ESG disclosure scores methodology. The methodology changes were implemented for all years of data for all companies in the ESG Coverage universe.

To review the fully transparent methodology, calculate disclosure scores for any company, and compare a company's scores vs its peers, see ESG Disclosure Score Model in Bloomberg

Financial statement

Profit and Loss Statement

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Interest & dividend income	(Btmn)	122,507	119,770	122,972	112,837	104,832	111,805	131,261	138,513
Interest expense	(Btmn)	36,729	36,081	34,655	24,494	21,460	23,453	37,908	39,289
Net interest income	(Btmn)	85,778	83,689	88,316	88,343	83,372	88,352	93,352	99,224
Non-interest income	(Btmn)	35,095	32,403	35,917	31,844	31,368	31,069	31,291	31,516
Non-interest expenses	(Btmn)	49,396	53,088	62,474	53,465	52,731	51,623	52,981	53,883
Pre-provision profit	(Btmn)	71,477	63,004	61,759	66,722	62,009	67,798	71,663	76,857
Provision	(Btmn)	44,833	26,192	23,814	44,903	32,524	26,947	27,011	28,631
Pre-tax profit	(Btmn)	26,643	36,812	37,946	21,819	29,485	40,851	44,652	48,226
Tax	(Btmn)	4,797	6,852	7,233	4,441	5,975	8,170	8,930	9,645
Equities & minority interest	(Btmn)	(594)	1,468	1,429	647	1,921	2,561	2,561	2,561
Core net profit	(Btmn)	22,440	28,491	29,284	16,732	21,588	30,120	33,160	36,019
Extra item	(Btmn)	0	0	0	0	0	0	0	0
Net profit	(Btmn)	22,440	28,491	29,284	16,732	21,588	30,120	33,160	36,019
EPS	(Bt)	1.60	2.04	2.09	1.20	1.54	2.15	2.37	2.58
DPS	(Bt)	0.61	0.72	0.75	0.28	0.42	0.75	0.83	0.90

Balance Sheet

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Cash	(Btmn)	73,573	68,878	68,434	68,161	63,544	62,317	63,767	65,671
Interbank assets	(Btmn)	559,827	372,514	338,771	519,631	469,216	469,216	469,216	469,216
Investments	(Btmn)	228,246	240,167	426,174	360,112	382,055	382,055	382,055	382,055
Gross loans	(Btmn)	1,938,082	2,024,205	2,089,874	2,331,998	2,628,963	2,760,411	2,926,036	3,101,598
Accrued interest receivable	(Btmn)	5,212	5,424	5,155	16,199	20,579	20,579	20,579	20,579
Loan loss reserve	(Btmn)	125,381	133,754	135,268	150,523	173,322	184,248	200,232	217,252
Net loans	(Btmn)	1,817,912	1,895,874	1,959,761	2,197,674	2,476,220	2,596,743	2,746,383	2,904,925
Total assets	(Btmn)	2,864,373	2,739,203	3,012,216	3,327,780	3,556,745	3,679,202	3,833,533	3,997,302
Deposits	(Btmn)	2,070,875	2,039,602	2,155,865	2,463,225	2,614,747	2,729,796	2,861,509	3,000,864
Interbank liabilities	(Btmn)	228,691	157,396	215,823	274,566	296,344	296,344	296,344	296,344
Borrowings	(Btmn)	110,626	95,206	96,841	86,564	133,817	133,817	133,817	133,817
Total liabilities	(Btmn)	2,570,149	2,425,062	2,663,890	2,972,717	3,182,633	3,297,682	3,429,395	3,568,750
Minority interest	(Btmn)	6,358	8,266	10,039	11,561	14,059	14,059	14,059	14,059
Paid-up capital	(Btmn)	72,005	72,005	72,005	72,005	72,005	72,005	72,005	72,005
Total Equities	(Btmn)	287,867	305,875	338,287	343,503	360,053	367,461	390,080	414,493
BVPS	(Bt)	20.59	21.88	24.20	24.57	25.75	26.28	27.90	29.65

Key Assumptions and Financial Ratios

FY December 31	Unit	2017	2018	2019	2020	2021	2022F	2023F	2024F
Growth									
YoY loan growth	(%)	1.79	4.44	3.24	11.59	12.73	5.00	6.00	6.00
YoY non-NII growth	(%)	1.37	(7.67)	10.85	(11.34)	(1.50)	(0.95)	0.71	0.72
Profitability									
Yield on earn'g assets	(%)	4.55	4.39	4.40	3.68	3.13	3.15	3.55	3.58
Cost on int-bear'g liab	(%)	1.56	1.53	1.46	0.93	0.73	0.76	1.18	1.17
Spread	(%)	2.99	2.86	2.94	2.75	2.40	2.40	2.38	2.41
Net interest margin	(%)	3.19	3.07	3.16	2.88	2.49	2.49	2.53	2.57
ROE	(%)	7.99	9.60	9.09	4.91	6.14	8.28	8.75	8.95
ROA	(%)	0.81	1.02	1.02	0.53	0.63	0.83	0.88	0.92
Asset Quality									
NPLs/Total Loans	(%)	5.30	5.24	4.90	4.55	4.03	3.99	3.97	3.94
LLR/NPLs	(%)	121.71	125.74	131.76	140.49	162.27	167.10	172.45	177.62
Provision expense/Total loans	(%)	2.33	1.32	1.16	2.03	1.31	1.00	0.95	0.95
Liquidity									
Loans/Deposits & borrowings	(%)	88.84	94.82	92.77	91.46	95.65	96.40	97.69	98.94
Efficiency									
Cost to income ratio	(%)	41.18	45.90	46.10	43.55	44.42	42.40	41.71	40.45
Capital Fund									
Capital adequacy ratio	(%)	17.20	18.22	19.00	19.11	20.12	18.30	18.30	18.32
Tier-1	(%)	13.48	14.47	15.24	15.79	16.86	15.46	15.61	15.76
Tier-2	(%)	3.72	3.74	3.76	3.32	3.26	2.83	2.69	2.56

Financial statement

Profit and Loss Statement

FY December 31	Unit	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Interest & dividend income	(Btmn)	27,212	25,842	25,297	26,349	26,419	26,767	26,209	27,260
Interest expense	(Btmn)	5,610	5,523	5,328	5,433	5,277	5,423	5,123	5,441
Net interest income	(Btmn)	21,602	20,320	19,969	20,916	21,142	21,345	21,086	21,818
Non-interest income	(Btmn)	7,659	7,758	8,404	7,598	6,979	8,386	8,212	7,446
Non-interest expenses	(Btmn)	13,702	13,936	12,688	12,235	13,093	14,714	12,244	12,517
Earnings before tax & provision	(Btmn)	15,559	14,142	15,685	16,279	15,028	15,017	17,053	16,747
Provision	(Btmn)	12,414	9,254	8,058	8,097	8,137	8,233	5,470	5,669
Pre-tax profit	(Btmn)	3,145	4,888	7,627	8,183	6,891	6,784	11,583	11,079
Tax	(Btmn)	482	1,257	1,519	1,657	1,382	1,418	2,317	1,996
Equities & minority interest	(Btmn)	(394)	179	530	515	454	422	485	724
Core net profit	(Btmn)	3,057	3,452	5,578	6,011	5,055	4,944	8,780	8,358
Extra item	(Btmn)	0	0	0	0	0	0	0	0
Net profit	(Btmn)	3,057	3,452	5,578	6,011	5,055	4,944	8,780	8,358
EPS	(Bt)	0.22	0.25	0.40	0.43	0.36	0.35	0.63	0.60

Balance Sheet

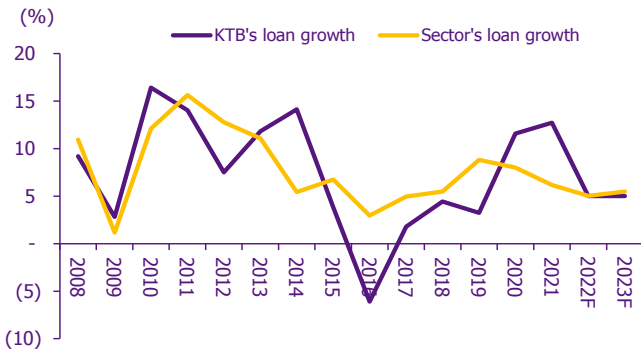
FY December 31	Unit	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Cash	(Btmn)	54,409	68,161	56,556	55,337	56,737	63,544	54,669	55,511
Interbank assets	(Btmn)	378,050	519,631	590,082	519,541	484,588	469,216	576,551	542,875
Investments	(Btmn)	361,573	360,112	317,479	294,962	332,602	382,055	286,376	275,294
Gross loans	(Btmn)	2,281,483	2,331,998	2,360,013	2,485,898	2,559,985	2,628,963	2,658,758	2,634,917
Accrued interest receivable	(Btmn)	13,358	16,199	16,085	16,876	19,118	20,579	20,583	20,639
Loan loss reserve	(Btmn)	145,221	150,523	155,827	163,414	167,201	173,322	177,008	174,969
Net loans	(Btmn)	2,149,620	2,197,674	2,220,271	2,339,360	2,411,902	2,476,220	2,502,333	2,480,587
Total assets	(Btmn)	3,137,914	3,327,780	3,371,667	3,404,847	3,497,160	3,556,745	3,581,447	3,565,046
Deposits	(Btmn)	2,312,538	2,463,225	2,438,992	2,493,121	2,582,228	2,614,747	2,712,691	2,603,600
Interbank liabilities	(Btmn)	221,601	274,566	294,859	267,143	248,699	296,344	226,663	259,142
Borrowings	(Btmn)	88,631	86,564	131,697	131,899	133,069	133,817	131,638	155,545
Total liabilities	(Btmn)	2,788,164	2,972,717	3,017,970	3,048,986	3,129,823	3,182,633	3,205,018	3,195,111
Minority interest	(Btmn)	10,877	11,561	12,426	12,622	13,290	14,059	14,932	14,548
Paid-up capital	(Btmn)	72,005	72,005	72,005	72,005	72,005	72,005	72,005	72,005
Total Equities	(Btmn)	338,873	343,503	341,270	343,239	354,047	360,053	361,497	355,387
BVPS	(Bt)	24.24	24.57	24.41	24.55	25.32	25.75	25.86	25.42

Financial Ratios

FY December 31		3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Growth									
YoY loan growth	(%)	9.05	11.59	10.70	8.77	12.21	12.73	12.66	5.99
YoY non-NII growth	(%)	(13.05)	(27.35)	9.03	(12.86)	(8.87)	8.09	(2.29)	(2.00)
Profitability									
Yield on earn'g assets	(%)	3.57	3.32	3.12	3.21	3.17	3.12	2.99	3.13
Cost on int-bear'g liab	(%)	0.85	0.81	0.75	0.75	0.72	0.72	0.67	0.71
Spread	(%)	2.72	2.51	2.37	2.45	2.44	2.40	2.32	2.41
Net interest margin	(%)	2.83	2.61	2.47	2.55	2.53	2.49	2.41	2.50
ROE	(%)	3.61	4.05	6.52	7.03	5.80	5.54	9.73	9.33
ROA	(%)	0.39	0.41	0.66	0.71	0.58	0.56	0.98	0.94
Asset Quality									
NPLs/Total Loans	(%)	4.85	4.59	4.49	4.25	4.15	4.06	4.01	3.96
LLR/NPLs	(%)	131.23	140.49	147.03	154.55	157.19	162.27	166.13	167.54
Provision expense/Total loans	(%)	2.17	1.60	1.37	1.34	1.29	1.27	0.83	0.86
Liquidity									
Loans/Deposits & borrowings	(%)	95.02	91.46	91.80	94.70	94.28	95.65	93.48	95.50
Efficiency									
Cost to income ratio	(%)	46.83	49.63	44.72	42.91	46.56	49.49	41.79	42.77
Capital Fund									
Capital adequacy ratio	(%)	18.42	19.11	19.23	19.35	19.42	20.12	19.67	20.13
Tier-1	(%)	15.01	15.79	15.88	15.99	16.10	16.86	16.34	15.98
Tier-2	(%)	3.41	3.32	3.35	3.36	3.32	3.26	3.33	4.15

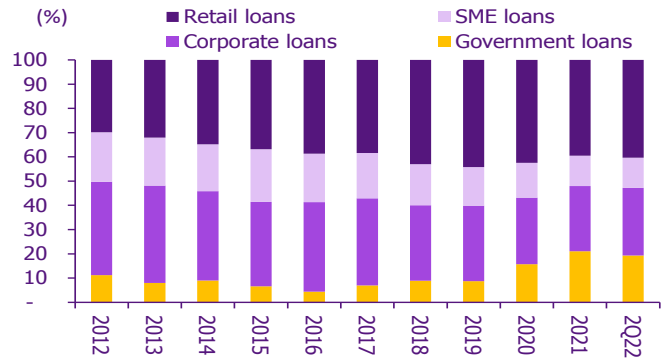
Appendix

Figure 1: Loan growth



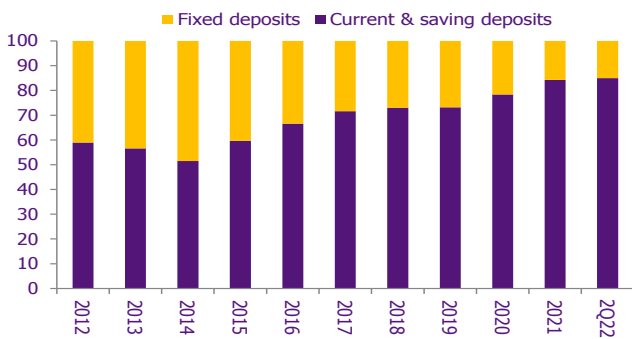
Source: Banks and SCBS Investment Research

Figure 2: Loan breakdown



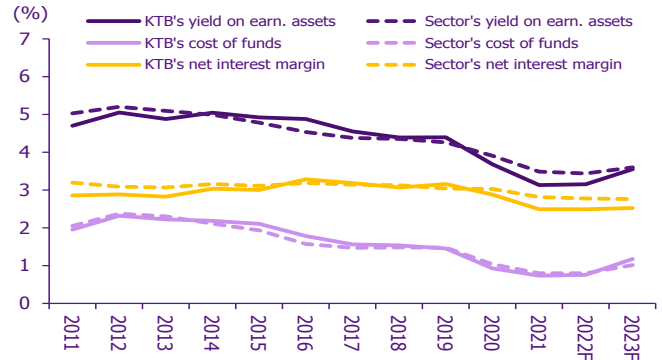
Source: Banks and SCBS Investment Research

Figure 3: Deposit mix



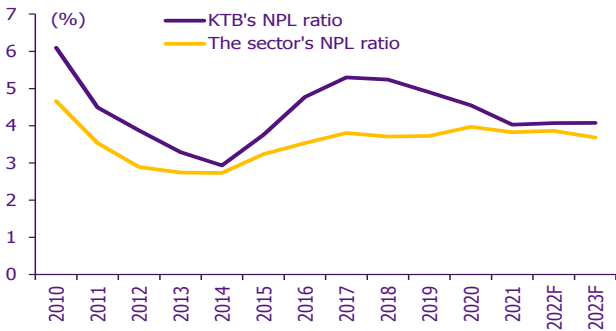
Source: Banks and SCBS Investment Research

Figure 4: NIM, yield on earning assets, cost of funds



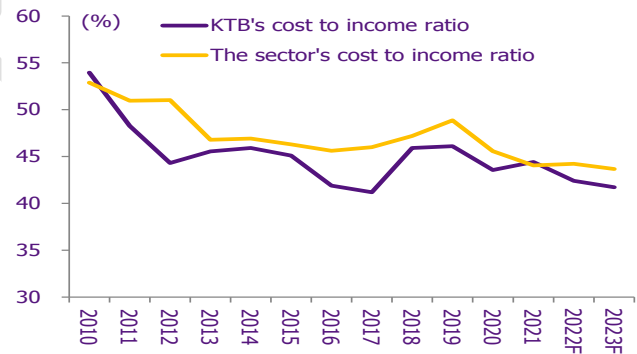
Source: Banks and SCBS Investment Research

Figure 5: Non-NII and fee income growth



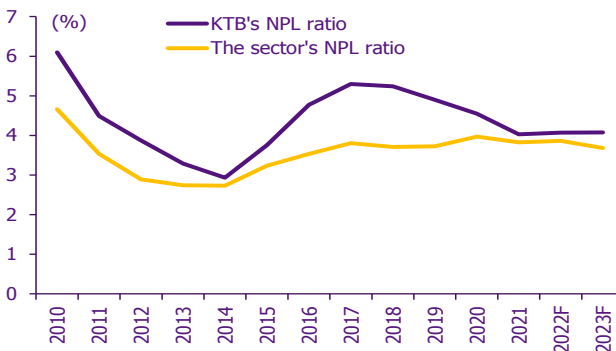
Source: Banks and SCBS Investment Research

Figure 6: Cost to income ratio



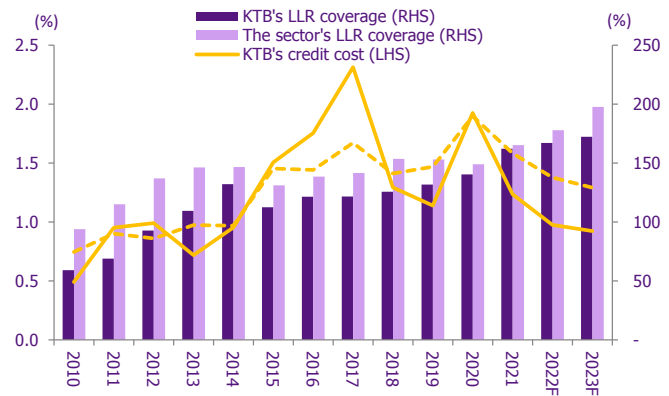
Source: Banks and SCBS Investment Research

Figure 7: NPL ratio



Source: Banks and SCBS Investment Research

Figure 8: LLR coverage



Source: Banks and SCBS Investment Research