

# KIATNAKIN BANK KKP TB

THAILAND / BANKING

## HOLD

  
 UNCHANGED

## 2Q23 results at first glance

TARGET PRICE	THB65.00
CLOSE	THB60.50
UP/DOWNSIDE	+7.4%
TP vs CONSENSUS	-16.3%

### 2Q23 results were significantly lower than estimates

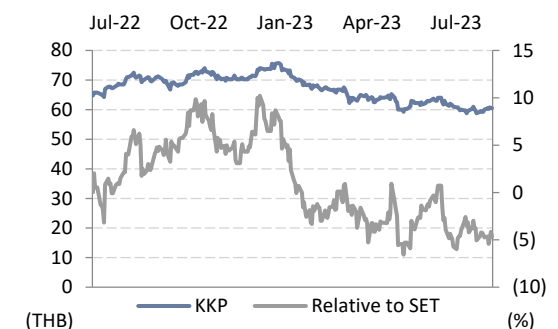
KKP posted a 2Q23 net profit of THB1.41b, diving by 32% q-q and 31% y-y, significantly lower than our estimate by 19% and Bloomberg's consensus projection by 24%, due to the negative impacts from the commercial banking business (mainly losses from the sale of repossessed cars). Continued weakening asset quality resulted in a considerable credit cost in this period. We have KKP on a HOLD call, given the concern about its asset quality in 2023-24, which could create negative sentiment for the share price. Our 2023 GGM-based TP of THB65 implies a P/BV of 0.88x.

### 2Q23 highlights

- (+) **Net interest income** was up 6% q-q and 23% y-y, in line with our expectation, supported by a better-than-expected NIM, which rose by 17bp to 4.55% in 2Q23, thanks to the multiple increases in the policy rate during the period, and loan portfolio growth. The 1H23 NIM was 4.59% – higher than our 2023 forecast of 4.40%.
- (+) **Loans** expanded in line with expectations, up 2.8% q-q, 17.3% y-y, and 5.6% YTD in 2Q23. The YTD loan growth in 1H23 was led by retail loans (+5.6% YTD), including hire purchase (48% of total loans, with new cars to used cars at 40:60), personal loans, micro SME, and housing loans.
- (+) **Non-interest income** was better than expected, driven mainly by: 1) higher fees from the investment banking business and bancassurance; and 2) higher gains on financial instruments measured at fair value through profit or loss (FVTPL).
- (-) **Operating expenses** jumped higher than expected by 17% q-q and 35% y-y, pressured by massive losses from the sale of repossessed cars totalling THB978m (slightly dropping from THB1.12b in 1Q23). KKP disclosed that this was from a higher number of repossessed cars sold from the expanded loan portfolio size and its proactive measures in managing the outstanding repossessed cars, which pressured the used car prices. If excluding this item, the 2Q23 cost-to-income ratio would decrease to 37.9% from 51.1%.
- (-) **Asset quality:** the NPL ratio showed a five consecutive quarter increase to 3.78% in 2Q23 from 3.56% in 1Q23, leading to a significant increase in credit cost to 294bp (including losses from the sale of repossessed cars), up 60bp from 1Q23. The coverage ratio dropped to 137% from 143% in 1Q23. KKP disclosed that its total allowance for ECL of THB19.8b comprises a management overlay of merely 3%, implying the prolonged setting up of massive credit costs amid the rising NPLs.

### KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Operating profit	9,490	9,372	10,536	11,530
Net profit	7,602	7,482	8,414	9,203
EPS (THB)	8.98	8.84	9.94	10.87
vs Consensus (%)	-	(4.1)	(0.2)	1.9
Recurring net profit	7,602	7,482	8,414	9,203
Core EPS (THB)	8.98	8.84	9.94	10.87
EPS growth (%)	20.3	(1.6)	12.5	9.4
Core P/E (x)	6.7	6.8	6.1	5.6
Dividend yield (%)	5.4	5.4	6.3	6.9
Price/book (x)	0.9	0.8	0.7	0.7
ROE (%)	14.0	12.4	12.8	12.9
ROA (%)	1.6	1.4	1.5	1.5



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	0.4	(7.3)	(4.0)
Relative to country (%)	(0.1)	(5.5)	(2.9)
Mkt cap (USD m)	1,488		
3m avg. daily turnover (USD m)	6.5		
Free float (%)	93		
Major shareholder	Thai NVDR (8%)		
12m high/low (THB)	76.25/58.00		
Issued shares (m)	847		

Sources: Bloomberg consensus; FSSIA estimates



Usanee Liurut, CISA

Register no. 017928

usanee.l@fssia.com, +66 2646 9967

**Concerns over asset quality**

KKP's NPL ratio showed a five consecutive quarter increase to 3.78% in 2Q23 from 3.56% in 1Q23, driven by retail lending in the hire purchase segment and the corporate lending segment, which KKP had already provisioned for. As such, the 2Q23 credit cost significantly increased to 294bp (including losses from the sale of repossessed cars), up 60bp from 1Q23, driven by the expanded loan portfolio and weakening loan quality amid the uneven economic recovery.

On the other hand, the coverage ratio dropped to 137% from 143% in 1Q23, reflecting KKP proactively managing its loan portfolio quality through debt restructuring and write-offs. KKP disclosed that its total allowance for ECL of THB19.8b comprises a management overlay of merely 3%, implying the prolonged setting up of massive credit costs amid the rising NPLs.

**Exhibit 1: Loans by stage, 2Q23**

	2Q22	1Q23	2Q23	---- Change ----	
Loans & accrued interest	(THB b)	(THB b)	(THB b)	(q-q%)	(y-y%)
Stage 1 - Performing	313.3	355.5	364.4	3	16
Stage 2 - Under-performing	20.2	23.6	24.7	5	22
Stage 3 - Non-performing	11.6	14.7	16.0	9	39
Purchased credit-impaired assets	0.9	1.0	1.0	3	10
<b>Total</b>	<b>346.0</b>	<b>394.7</b>	<b>406.2</b>	<b>3</b>	<b>17</b>
Allowance for ECL	(THB b)	(THB b)	(THB b)	(q-q%)	(y-y%)
Stage 1 - Performing	8.3	8.5	8.5	0	2
Stage 2 - Under-performing	3.4	4.1	4.3	5	25
Stage 3 - Non-performing	4.7	6.3	7.0	10	49
Purchased credit-impaired assets	0.0	0.1	0.1	0	132
<b>Total</b>	<b>16.4</b>	<b>18.9</b>	<b>19.8</b>	<b>5</b>	<b>21</b>
Excess reserves	0.9	0.7	0.6	(14)	(40)
<b>Total allowance for ECL</b>	<b>17.4</b>	<b>19.6</b>	<b>20.4</b>	<b>4</b>	<b>17</b>
% of ECL to loans	(%)	(%)	(%)		
Stage 1 - Performing	2.7	2.4	2.3		
Stage 2 - Under-performing	16.8	17.2	17.3		
Stage 3 - Non-performing	40.5	43.1	43.5		
Purchased credit-impaired assets	3.3	7.1	6.9		
<b>Total</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>		

Sources: KKP; FSSIA's compilation

**Exhibit 2: KKP – 2Q23 operations summary**

Year end Dec 31	2Q22	1Q23	2Q23	---- Change ----		1H23	Change	% of	2022	2023E	Change
	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y %)	23E	(THB m)	(THB m)	(y-y %)
Net interest income	4,475	5,223	5,521	6	23	10,744	22	50	19,081	21,337	12
Non-interest income	1,672	1,718	1,902	11	14	3,620	(5)	49	8,457	7,434	(12)
Fee income - net	1,396	1,343	1,464	9	5	2,807	(5)	51	6,165	5,465	(11)
<b>Total operating income</b>	<b>6,147</b>	<b>6,941</b>	<b>7,423</b>	<b>7</b>	<b>21</b>	<b>14,364</b>	<b>14</b>	<b>50</b>	<b>27,539</b>	<b>28,772</b>	<b>4</b>
Total operating expenses	2,818	3,239	3,791	17	35	7,030	25	48	13,013	14,499	11
<b>PPOP before tax</b>	<b>3,329</b>	<b>3,702</b>	<b>3,632</b>	<b>(2)</b>	<b>9</b>	<b>7,334</b>	<b>5</b>	<b>51</b>	<b>14,526</b>	<b>14,273</b>	<b>(2)</b>
Expected credit loss	812	1,097	1,878	71	131	2,975	58	61	5,036	4,901	(3)
Income tax	481	517	342	(34)	(29)	859	(14)	46	1,873	1,874	0
Non-controlling interest	2	3	3	(5)	41	6	(24)	40	14	16	12
<b>Net profit</b>	<b>2,033</b>	<b>2,085</b>	<b>1,408</b>	<b>(32)</b>	<b>(31)</b>	<b>3,493</b>	<b>(15)</b>	<b>47</b>	<b>7,602</b>	<b>7,482</b>	<b>(2)</b>
EPS (THB)	2.40	2.46	1.66	(32)	(31)	4.13	(15)	47	8.98	8.84	(2)
Key ratios	2Q22	1Q23	2Q23	---- Change ----		1H23	Change		2022	2023E	Change
Asset quality ratio	(%)	(%)	(%)	(q-q%)	(y-y%)	(THB m)	(y-y %)		(%)	(%)	(y-y %)
<b>Gross NPLs (THB m)</b>	<b>10,951</b>	<b>13,660</b>	<b>14,928</b>	<b>9</b>	<b>36</b>	<b>14,928</b>	<b>36</b>		<b>13,031</b>	<b>13,943</b>	<b>7</b>
Change (% from prior period)	7.7	4.8	9.3			36.3			27.9	7.0	
NPL ratios (%) - reported	3.20	3.50	3.70			3.70			3.40		
NPL ratio (%)*	3.26	3.56	3.78			3.78			3.49	3.39	
Coverage ratio (%) - reported	169	152	143			143			154		
Coverage ratio (%)*	159	143	137			137			146	158	
Credit cost (bp) +	138	234	294			278			202	230	
Profitability ratio	(%)	(%)	(%)			(%)			(%)	(%)	
Cost to income ratio	45.8	46.7	51.1			48.9			47.3	50.4	
Average yield (%)	5.06	5.86	6.16			6.18			5.43	5.91	
Cost of funds (%)	1.12	1.68	1.82			1.80			1.20	1.72	
NIM (%)*	4.08	4.38	4.55			4.59			4.38	4.40	
Non-interest income/total income (%)	27.2	24.7	25.6			25.2			30.7	25.8	
Liquidity ratio	(%)	(%)	(%)			(%)			(%)	(%)	
Loan to deposit	104.8	111.2	118.2			118.2			112.7	115.1	
Loan to deposit & borrowing (LDBR)	88.3	93.3	96.9			96.9			95.1	98.0	
Capital adequacy ratio (Bank only)	(%)	(%)	(%)			(%)			(%)	(%)	
CAR	15.4	14.7	14.8			14.8			16.6	16.1	
CET 1/ Risk assets	11.8	11.4	11.6			11.6			13.3	12.9	
Tier 2 / Risk assets	3.6	3.3	3.2			3.2			3.3	3.2	
Loan growth	(%)	(%)	(%)			(%)			(%)	(%)	
q-q	2.9	2.8	2.8			2.8					
y-y	19.2	17.4	17.3			17.3			21.7	10.0	
Year-to-date	9.6	2.8	5.6			5.6					

\* FSSIA's calculation; + includes losses from repossessed cars; Sources: KKP; FSSIA estimates

## Financial Statements

Kiatnakin Bank

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Interest Income	19,489	23,671	28,672	31,566	34,560
Interest expense	(3,788)	(4,589)	(7,335)	(8,328)	(9,109)
Net interest income	15,701	19,081	21,337	23,238	25,451
Net fees & commission	6,074	6,165	5,465	5,848	6,164
Foreign exchange trading income	(158)	831	584	886	886
Securities trading income	(10)	(4)	0	0	0
Dividend income	1,329	507	520	530	541
Other income	1,309	958	865	908	954
Non interest income	8,545	8,457	7,434	8,172	8,544
Total income	24,246	27,539	28,772	31,410	33,995
Staff costs	(6,428)	(6,954)	(7,163)	(7,378)	(7,820)
Other operating costs	(4,820)	(6,058)	(7,336)	(8,105)	(8,713)
Operating costs	(11,248)	(13,013)	(14,499)	(15,483)	(16,534)
Pre provision operating profit	12,998	14,526	14,273	15,928	17,461
Expected credit loss	(5,201)	(5,036)	(4,901)	(5,391)	(5,931)
Other provisions	-	-	-	-	-
Operating profit	7,797	9,490	9,372	10,536	11,530
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	7,797	9,490	9,372	10,536	11,530
Tax	(1,442)	(1,873)	(1,874)	(2,107)	(2,306)
Profit after tax	6,355	7,616	7,498	8,429	9,224
Non-controlling interest	(37)	(14)	(16)	(15)	(21)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	6,318	7,602	7,482	8,414	9,203
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	6,318	7,602	7,482	8,414	9,203
<b>Per share (THB)</b>					
Recurring EPS *	7.46	8.98	8.84	9.94	10.87
Reported EPS	7.46	8.98	8.84	9.94	10.87
DPS	2.95	3.25	3.25	3.80	4.20
<b>Growth</b>					
Net interest income (%)	7.0	21.5	11.8	8.9	9.5
Non interest income (%)	30.4	(1.0)	(12.1)	9.9	4.5
Pre provision operating profit (%)	22.8	11.8	(1.7)	11.6	9.6
Operating profit (%)	20.2	21.7	(1.2)	12.4	9.4
Reported net profit (%)	23.3	20.3	(1.6)	12.5	9.4
Recurring EPS (%)	23.3	20.3	(1.6)	12.5	9.4
Reported EPS (%)	23.3	20.3	(1.6)	12.5	9.4
<b>Income Breakdown</b>					
Net interest income (%)	64.8	69.3	74.2	74.0	74.9
Net fees & commission (%)	25.1	22.4	19.0	18.6	18.1
Foreign exchange trading income (%)	(0.7)	3.0	2.0	2.8	2.6
Securities trading income (%)	0.0	0.0	-	-	-
Dividend income (%)	5.5	1.8	1.8	1.7	1.6
Other income (%)	5.4	3.5	3.0	2.9	2.8
<b>Operating performance</b>					
Gross interest yield (%)	5.31	5.43	5.91	6.02	6.03
Cost of funds (%)	1.19	1.20	1.72	1.81	1.82
Net interest spread (%)	4.12	4.23	4.19	4.21	4.21
Net interest margin (%)	4.3	4.4	4.4	4.4	4.4
Cost/income(%)	46.4	47.3	50.4	49.3	48.6
Cost/assets(%)	2.8	2.8	2.8	2.8	2.7
Effective tax rate (%)	18.5	19.7	20.0	20.0	20.0
Dividend payout on recurring profit (%)	39.5	36.2	36.8	38.2	38.6
ROE (%)	13.0	14.0	12.4	12.8	12.9
ROE - COE (%)	2.2	3.2	1.6	2.0	2.1
ROA (%)	1.6	1.6	1.4	1.5	1.5
RORWA (%)	2.1	2.2	2.0	2.1	2.1

\* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kiatnakin Bank; FSSIA estimates

## Financial Statements

### Kiatnakin Bank

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Gross customer loans	306,910	373,436	410,780	451,858	497,043
Allowance for expected credit loss	(16,505)	(18,969)	(22,070)	(25,862)	(30,192)
interest in suspense	8,743	10,403	11,338	12,471	13,718
<b>Net customer loans</b>	<b>299,148</b>	<b>364,871</b>	<b>400,047</b>	<b>438,467</b>	<b>480,569</b>
Bank loans	55,238	45,732	48,019	50,420	52,941
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	39,227	50,571	41,745	45,125	48,803
Cash & equivalents	1,242	1,000	1,286	1,172	1,199
Other interesting assets	-	-	-	-	-
Tangible fixed assets	7,483	13,200	14,438	15,826	17,000
Associates	-	-	-	-	-
Goodwill	3,066	3,066	3,066	3,066	3,066
Other intangible assets	1,533	1,670	1,670	1,670	1,670
Other assets	29,187	27,527	27,589	28,538	29,843
<b>Total assets</b>	<b>436,123</b>	<b>507,637</b>	<b>537,861</b>	<b>584,285</b>	<b>635,092</b>
Customer deposits	288,382	331,464	356,987	393,042	433,133
Bank deposits	16,664	20,175	20,579	21,196	21,832
Other interest bearing liabilities	43,805	61,354	61,968	65,066	68,319
Non interest bearing liabilities	36,110	36,532	35,372	36,242	36,957
Hybrid Capital	-	-	-	-	-
<b>Total liabilities</b>	<b>384,961</b>	<b>449,526</b>	<b>474,905</b>	<b>515,547</b>	<b>560,241</b>
Share capital	8,468	8,468	8,468	8,468	8,468
Reserves	42,579	49,356	54,186	59,954	66,050
<b>Total equity</b>	<b>51,046</b>	<b>57,824</b>	<b>62,654</b>	<b>68,421</b>	<b>74,517</b>
Non-controlling interest	116	288	302	317	333
<b>Total liabilities &amp; equity</b>	<b>436,123</b>	<b>507,637</b>	<b>537,861</b>	<b>584,285</b>	<b>635,092</b>
<b>Supplementary items</b>					
Risk weighted assets (RWA)	313,428	374,621	386,544	419,907	456,420
Average interest earning assets	366,771	435,557	485,142	523,973	573,095
Average interest bearing liabilities	319,492	380,922	426,263	459,419	501,294
CET 1 capital	42,676	49,906	49,906	41,438	41,438
Total capital	54,380	62,299	62,299	53,832	53,832
Gross non performing loans (NPL)	10,191	13,031	13,943	15,337	16,871
<b>Per share (THB)</b>					
Book value per share	60.28	68.29	73.99	80.80	88.00
Tangible book value per share	54.85	62.69	68.40	75.21	82.41
<b>Growth</b>					
Gross customer loans	15.9	21.7	10.0	10.0	10.0
Average interest earning assets	17.9	18.8	11.4	8.0	9.4
Total asset (%)	20.0	16.4	6.0	8.6	8.7
Risk weighted assets (%)	8.7	19.5	3.2	8.6	8.7
Customer deposits (%)	14.7	14.9	7.7	10.1	10.2
<b>Leverage &amp; capital measures</b>					
Customer loan/deposits (%)	103.7	110.1	112.1	111.6	111.0
Equity/assets (%)	11.7	11.4	11.6	11.7	11.7
Tangible equity/assets (%)	10.7	10.5	10.8	10.9	11.0
RWA/assets (%)	71.9	73.8	71.9	71.9	71.9
CET 1 CAR (%)	13.6	13.3	12.9	9.9	9.1
Total CAR (%)	17.4	16.6	16.1	12.8	11.8
<b>Asset Quality (FSSIA's calculation)</b>					
Change in NPL (%)	20.5	27.9	7.0	10.0	10.0
NPL/gross loans (%)	3.3	3.5	3.4	3.4	3.4
Allowance for ECL/gross loans (%)	5.4	5.1	5.4	5.7	6.1
Allowance for ECL/NPL (%)	162.0	145.6	158.3	168.6	179.0
<b>Valuation</b>					
Recurring P/E (x) *	8.1	6.7	6.8	6.1	5.6
Recurring P/E @ target price (x) *	8.7	7.2	7.4	6.5	6.0
Reported P/E (x)	8.1	6.7	6.8	6.1	5.6
Dividend yield (%)	4.9	5.4	5.4	6.3	6.9
Price/book (x)	1.0	0.9	0.8	0.7	0.7
Price/tangible book (x)	1.1	1.0	0.9	0.8	0.7
Price/tangible book @ target price (x)	1.2	1.0	1.0	0.9	0.8

\* Pre-exceptional, pre-goodwill and fully diluted

Sources: Kiatnakin Bank; FSSIA estimates

## Public disclosures related to sustainable development evaluation of Thai listed companies

[Rating](#) regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) **Sustainability Investment List (THSI)** by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

### CG Score by the Thai Institute of Directors Association (Thai IOD) <sup>1</sup>

The [CG Score](#) indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The [five underlying categories and weighting](#) used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

### AGM Checklist by the Thai Investors Association (TIA) <sup>2</sup>

The "[AGM Checklist](#)" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The [Checklist](#) contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

### CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC) <sup>3</sup>

A [CAC certified member](#) is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member [start with](#) by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the [CAC Council](#) for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

### Sustainability Investment (THSI) <sup>4</sup> by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment ([THSI](#)) quantifies responsibility in **E**nvironmental, and **S**ocial issues, by managing business with transparency in **G**overnance. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **E**conomic (CG, risk management, customer relation management, supply chain management, and innovation); **E**nvironmental (environmental management, eco-efficiency, and climate risk); **S**ocial (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices<sup>5</sup> (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the [THSI list](#), the SET further developed a sustainability [SETTHSI Index](#) in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

#### Disclaimer:

<sup>1</sup> Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

<sup>2</sup> Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

<sup>3</sup> Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

<sup>4</sup> Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

<sup>5</sup> Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

**GENERAL DISCLAIMER**

**ANALYST(S) CERTIFICATION**

Usanee Liurut, CISA FSS International Investment Advisory Securities Co., Ltd

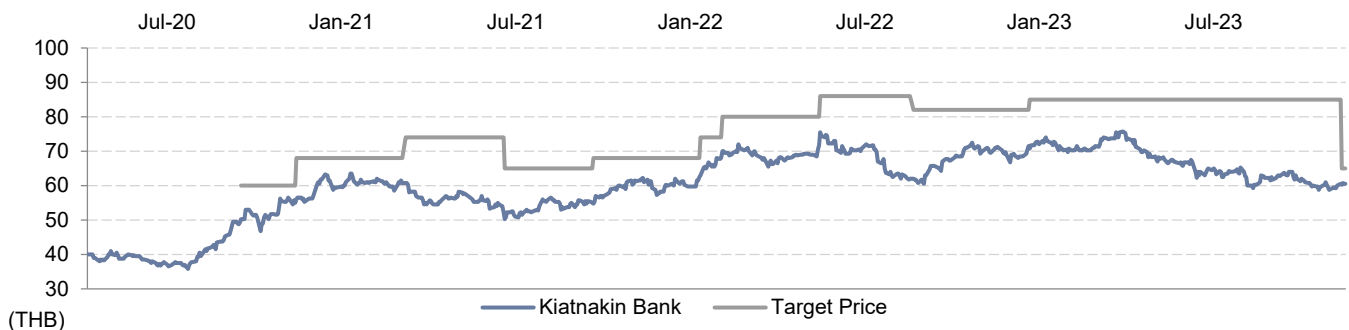
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**History of change in investment rating and/or target price**

**Kiatnakin Bank (KKP TB)**



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
03-Dec-2020	BUY	60.00	05-Oct-2021	BUY	68.00	08-Jul-2022	BUY	82.00
20-Jan-2021	BUY	68.00	06-Jan-2022	BUY	74.00	19-Oct-2022	BUY	85.00
23-Apr-2021	BUY	74.00	25-Jan-2022	BUY	80.00	17-Jul-2023	HOLD	65.00
20-Jul-2021	BUY	65.00	20-Apr-2022	BUY	86.00			

Usanee Liurut, CISA started covering this stock from 17-Jul-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Kiatnakin Bank	KKP TB	THB 60.50	HOLD	Downside risks to our GGM-based target price include weakening asset quality and lower fee income and upside risks include better capital market conditions, higher used car price, and strengthening asset quality.

Source: FSSIA estimates

**Additional Disclosures**

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finasia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 21-Jul-2023 unless otherwise stated.

## RECOMMENDATION STRUCTURE

### Stock ratings

Stock ratings are based on absolute upside or downside, which we define as  $(\text{target price}^* - \text{current price}) / \text{current price}$ .

**BUY (B).** The upside is 10% or more.

**HOLD (H).** The upside or downside is less than 10%.

**REDUCE (R).** The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

### Industry Recommendations

**Overweight.** The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

**Neutral.** The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

**Underweight.** The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

### Country (Strategy) Recommendations

**Overweight (O).** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral (N).** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight (U).** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.