

ผลตอบแทนไม่เหมาะสมกับความเสียง

- ด้วยคุณภาพสินทรัพย์ที่ดีขึ้น MTC จะมุ่งเน้นไปที่สินเชื่อประเภทมีหลักทรัพย์ค้ำประกันในปี 2023 เพื่อลดการก่อตัวใหม่ของสินเชื่อชั้น 2-3
- ต้นทุนในการระดมเงินทุนที่สูงขึ้นและผลตอบแทนสินเชื่อที่ลดลงอาจกระทบส่วนต่าง (Spreads) ในช่วง 2H23
- เราเริ่มจัดทำบทวิเคราะห์ MTC ด้วยคำแนะนำถือที่ราคาเป้าหมาย 37 บาท (GGM)

TARGET PRICE	THB37.00
CLOSE	THB34.75
UP/DOWNSIDE	+6.5%
TP vs CONSENSUS	+0.1%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Operating profit	6,360	5,731	7,246	9,146
Net profit	5,093	4,585	5,796	7,317
EPS (THB)	2.40	2.16	2.73	3.45
vs Consensus (%)	-	(6.0)	(4.2)	(4.4)
Recurring net profit	5,093	4,585	5,796	7,317
Core EPS (THB)	2.40	2.16	2.73	3.45
EPS growth (%)	3.0	(10.0)	26.4	26.2
Core P/E (x)	14.5	16.1	12.7	10.1
Dividend yield (%)	2.7	2.5	3.1	3.9
Price/book (x)	2.5	2.3	2.1	1.8
ROE (%)	18.9	15.1	17.2	19.1
ROA (%)	4.5	3.3	3.6	3.8

มุ่งเน้นไปในด้านคุณภาพสินเชื่อมากขึ้นในปี 2023

สินเชื่อประเภทมีหลักทรัพย์ค้ำประกัน อาทิเช่น สินเชื่อทะเบียนยานยนต์ (รถจักรยานยนต์ รถยนต์ กระบะ รถยนต์เพื่อการเกษตร) และสินเชื่อจำนองโฉนดที่ดินยังคงเป็นเป้าหมายหลักของ MTC ในปี 2023 อย่างไรก็ตามสินเชื่อเช่าซื้อรถจักรยานยนต์อาจชะลอตัวในปีนี้ส่วนมากจากคุณภาพสินทรัพย์ที่ตกต่ำ สำหรับสินเชื่อทะเบียนยานยนต์ MTC จะมุ่งเน้นไปที่รถกระบะซึ่งมีขนาดสินเชื่อสูงและมีผลตอบแทนเท่ากับสินเชื่อรถยนต์แต่ความเสี่ยงต่ำกว่า นอกจากนี้ MTC อาจได้ประโยชน์จากขนาดที่ใหญ่ของสินเชื่อจำนองโฉนดที่ดินเพื่อกระตุ้นการเติบโตของสินเชื่อจากการให้กู้ที่มีความเสี่ยงต่ำ (สัดส่วนสินเชื่อต่อมูลค่าสินทรัพย์ (LTV) ที่ 70%) แม้ว่าผลตอบแทนจะต่ำกว่า

ผลตอบแทนที่ลดลงประกอบกับต้นทุนในการระดมทุนที่สูงขึ้นกดดัน Spreads

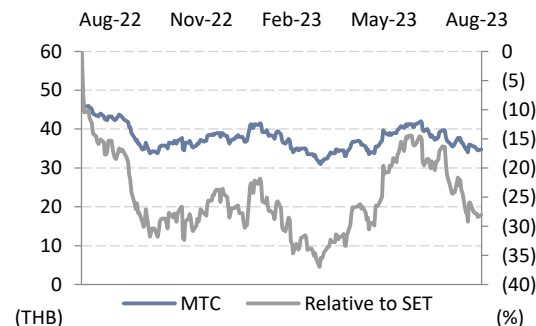
Spreads ของ MTC ค่อย ๆ ปรับตัวลดลงมาตั้งแต่ 3Q20 สอดคล้องกับผลตอบแทนสินเชื่อที่ลดลง (จากการแข่งขันที่ดุเดือดในอุตสาหกรรม) และต้นทุนในการระดมทุนที่สูงขึ้น (หลังค่าใช้จ่ายดอกเบี้ยค่อย ๆ เพิ่มขึ้นตามการขึ้นอัตราดอกเบี้ยตลาดที่สูงขึ้นตั้งแต่ 3Q22) เราคาดว่า Spreads ในช่วง 2H23 จะอ่อนตัวลดลงต่อเนื่องจาก 14.49% ที่คาดไว้ในช่วง 1H23 พร้อม Spread ปี 2023 ที่คาดว่าจะลดลงเหลือ 14.22% เมื่อพิจารณาจากการที่บริษัท มุ่งเน้นไปที่การกู้ยืมประเภทมีหลักทรัพย์ค้ำประกันโดยเฉพาะอย่างยิ่งสินเชื่อจำนองโฉนดที่ดินซึ่งให้ผลตอบแทน 15% ต่อปีซึ่งต่ำกว่าสินเชื่อประเภทอื่นอยู่มาก

หนี้ต่อคุณภาพ (NPL) ยังไม่แตะระดับสูงสุดทำให้ยังจำเป็นต้องตั้งสำรอง (Credit cost) ในระดับสูงในระดับสูง

NPL และการตกชั้นของสินเชื่อไปขึ้นที่ 2 ของ MTC ยังไม่กลับเป็นปกติแม้ว่าจะมีสัญญาณเชิงบวกว่าแนวโน้มดังกล่าวกำลังเพิ่มในระดับที่ลดลงจากคุณภาพสินเชื่อใหม่ที่ดีขึ้น สัดส่วนการปล่อยสินเชื่อประเภทมีหลักทรัพย์ค้ำประกันที่เพิ่มขึ้นและการปล่อยสินเชื่อที่ไม่มีหลักทรัพย์ค้ำประกันลดลง MTC คาดว่าสัดส่วน NPL จะลดลงต่ำกว่า 3% ภายในกลางปี 2024 จาก 3.28% ใน 1Q23 ซึ่งเราเห็นว่าเป็นเรื่องยาก เราคาดว่า Credit cost ในปี 2023 จะเพิ่มต่อเนื่องเป็น 3.40% เรายังคงคาด Credit cost ใน 2024-25 ไว้สูงที่ 3.20% และ 3.00% ตามลำดับเมื่อเทียบกับเป้าเชิงบวกของ MTC ที่ไม่เกิน 2.50%

เริ่มจัดทำบทวิเคราะห์ด้วยคำแนะนำถือ ผลตอบแทนไม่เหมาะสมกับความเสียงในปัจจุบัน

เริ่มเราเริ่มจัดทำบทวิเคราะห์ MTC ด้วยคำแนะนำถือที่ราคาเป้าหมายปี 2023 ที่ 37 บาท (GGM) คิดเป็นค่า P/BV ที่ 2.2x



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(6.1)	(2.1)	(31.2)
Relative to country (%)	(8.7)	(2.1)	(28.1)
Mkt cap (USD m)	2,114		
3m avg. daily turnover (USD m)	11.9		
Free float (%)	21		
Major shareholder	Petaumpai Family (67%)		
12m high/low (THB)	51.00/30.75		
Issued shares (m)	2,120		

Sources: Bloomberg consensus; FSSIA estimates



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Investment thesis

We initiate coverage of MTC with a HOLD call at the current price due to:

- 1) Pressure from the uneven recovery of the Thai economy on MTC's asset quality. This has led the company to focus on credit quality, resulting in lower loan yields and a rising cost of funds, both of which have affected MTC's interest spreads.
- 2) The rise in credit costs needed to tackle the increasing number of stage 2 loans and non-performing loans (NPLs).
- 3) A rising debt-to-equity (D/E) ratio approaching the covenant level of no more than four times could cause the company to accelerate capital management strategies such as reducing the dividend payout ratio, paying stock dividends, or increasing capital in the next 1-2 years.
- 4) A potential 2023E return of 8.5% p.a. (6% potential upside plus an expected dividend yield of 2.5% p.a.).

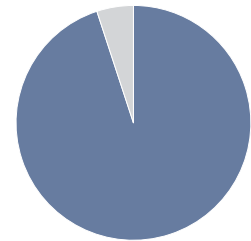
Company profile

MTC has provided lending services since 1992, focusing on motorcycle title loans, and commands the highest market share in Thailand. The company has also expanded its business to personal and other title loans such as car, agricultural and land title loans.

www.muangthaicap.com

Principal activities (revenue, 2022)

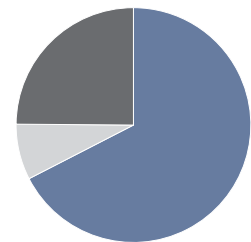
- Net interest income - 95.0 %
- Non-interest income - 5.0 %



Source: Muangthai Capital

Major shareholders

- Petaumpai Family - 67.5 %
- Thai NVDR Co., Ltd. - 7.7 %
- Others - 24.9 %



Source: Muangthai Capital

Catalysts

- 1) A faster-than-expected economic recovery in Thailand;
- 2) A faster-than-expected new government formation;
- 3) Upcoming economic stimulus from the new government.

Risks to our call

Downside risks to our GGM-based TP include 1) a further weakening of asset quality that could potentially hit both loan yield and credit cost; and 2) changes in financial regulations by the Bank of Thailand and the Office of the Consumer Protection Board. Upside risks to our TP include 1) a better asset quality control; and 2) an increase interest rate charge to clients.

Event calendar

Date	Event
8 August 2023	2Q23 results announcement

Key assumptions

	2023E	2024E	2025E
	(%)	(%)	(%)
Net profit (THB m)	4,585	5,796	7,317
Net profit growth (%)	(10.0)	26.4	26.2
Spread (%)	14.2	14.3	14.5
Loan growth (%)	19.0	19.0	19.4
Net interest income growth (%)	19.2	19.8	20.7
Fee growth (%)	9.9	4.0	4.0
Credit cost (%)	3.4	3.2	3.0
Cost to income (%)	47.0	47.0	47.0

Source: FSSIA estimates

Earnings sensitivity

		----- 2023E -----		
Loan growth	±2ppt	17.0%	19.0%	21.0%
% change in net profit		(1)	-	+1
Spread (%)	±10bp	14.12%	14.22%	14.32%
% change in net profit		(1)	-	+1
Credit cost (bp)	±10bp	3.30%	3.40%	3.50%
% change in net profit		+2	-	(2)

Source: FSSIA estimates

Greater focus on loan quality in 2023

MTC's third medium-term plan is set during 2021-23. In 2021, MTC delivered 29% y-y loan growth, higher than its target of 25% and the industry's 26%. In 2022, MTC achieved 31% loan growth, in line with its target of 30% but below the industry's 41%. Providing 1Q23 loan growth of 4% q-q and 28% y-y, which appeared to exceed its target despite the 1H low season, we are positive that MTC can achieve its 2023 target of 20% y-y.

The main driver for the recent considerable loan growth was MTC's aggressive branch openings, which rose from 5,799 branches in 2021 to 6,962 branches at the end of 1Q23 (18% CAGR). MTC is on track to slightly exceed its target of 7,200 branches in 2023 (+600 branches from 2022). MTC disclosed in its 1Q23 analyst meeting in May 2023 that its total number of branches is close to the 2023 target, but whether it would continue at the same pace in 1H23 will be based on the market environment and the success rate of the opened branches.

As for loans in each segment, loan receivables (95% of total loans) grew at an impressive 27% CAGR during 2021-22, whereas hire purchase loans (5% of total loans) delivered robust growth at a 295% CAGR. This trend also continued in 1Q23 for loan receivables, up 4.0% q-q and 23.1% y-y, mainly pushed by growth in land title loans, which offer lower risk with a lower yield. This contrasts with hire purchase loans, which contracted by 4.3% q-q and 11.1% y-y, mainly due to MTC's tightened credit policy in this segment due to potential asset quality problems.

Secured loans such as vehicle title loans for motorcycles, cars, pick-up trucks, agricultural vehicles) and land title loans will remain its priority focus in 2023, as motorcycle hire-purchase loans are reined in this year mainly due to their weaker asset quality. For vehicle title loans, MTC will focus more on pick-up trucks, which in addition to their higher ticket sizes and yield equivalent to auto title loans, offer lower risk as a vehicle group that customers can use to generate income. Also, trucks have a more stable market price than cars (based on the results from MTC's auctions). MTC could also benefit from the large ticket size of land title loans to boost loan growth with low risk given their typical LTV of 70%. However, such loans offer a lower yield in line with the reduced risk.

Exhibit 1: Personal consumption and spending in Thailand

	2018	2019	2020	2021	2022	1Q 3
Household debt to GDP (%)	82.7	84.1	94.2	94.7	91.4	90.6
Household monthly spending (THB)	21,346	20,742	21,329	21,616	22,372	n/a
Thailand personal consumption (THB b)	10,268	10,849	11,276	11,656	12,087	12,141

Sources: Bank of Thailand; FSSIA's compilation

Exhibit 2: Thailand's vehicle registrations

	Motorcycle	Car	Others	Bus & truck	Total	Change
	(m)	(m)	(m)	(m)	(m)	(y-y)
2018	21.1	16.5	0.7	1.3	39.6	3.2%
2019	21.4	17.3	0.7	1.3	40.7	2.9%
2020	21.6	17.9	0.7	1.3	41.5	1.9%
2021	21.8	18.4	0.8	1.3	42.3	2.0%
2022	22.3	19.0	0.8	1.4	43.4	2.6%
1H23	22.5	19.4	0.7	1.4	44.0	1.3%+

+ % change year-to-date

Sources: Department of Land Transport; FSSIA's compilation

Exhibit 3: Thailand's vehicle title loans, 2019-1Q23

	Vehicle title loans	NPL	% of NPL
	(THB b)	(THB b)	(%)
2019	90.557	0.863	1.0%
2020	118.196	2.046	1.7%
2021	149.189	2.173	1.5%
2022	209.704	4.137	2.0%
3yr CAGR	32.3%	68.6%	
1Q23	226.772	4.368	1.9%

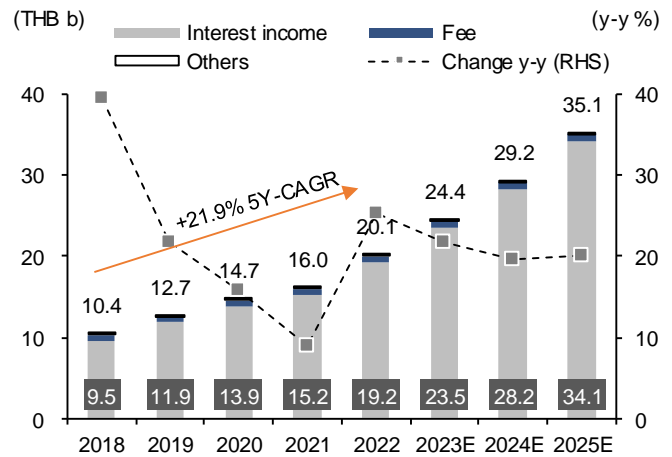
Source: Bank of Thailand

Exhibit 4: Product range vs regulated interest rate

Loans type	Credit line (THB)	Max tenor (month)	Regulated interest rate	Regulator*
Vehicle title	≤ 500,000	80	24%	BoT
Land title	≤ 400,000	80	15%	CCC
Personal loan	≤ 20,000	36	25%	BoT
Nano finance	≤ 40,000	50	33%	BoT
Motorcycle HP	≤ 100,000	72	23%	CCC
Muangthai Pay Later	≤ 50,000	60	25%	BoT

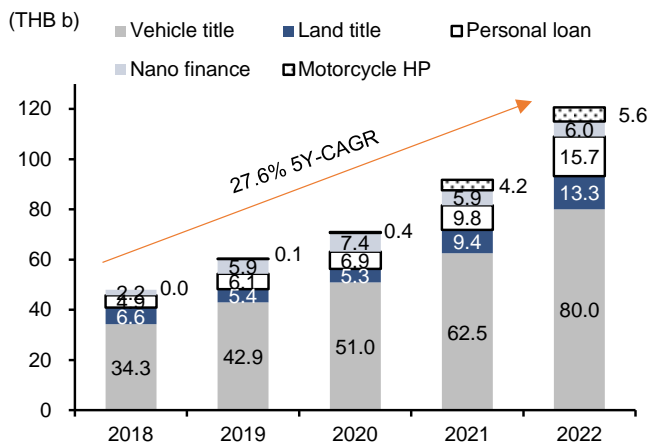
*BoT stands for Bank of Thailand, CCC stands for Civil and Commercial Code
Source: MTC

Exhibit 5: MTC's revenue breakdown, 2018-2025E



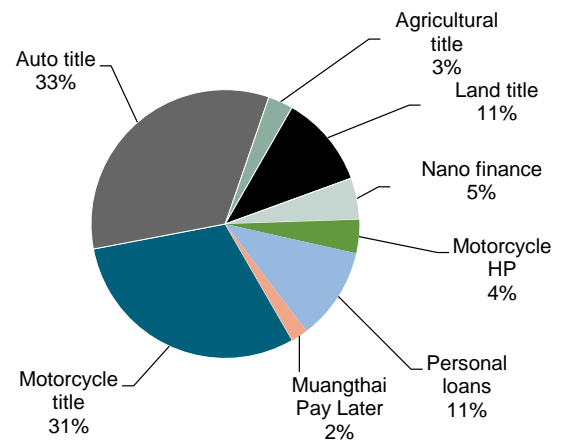
Sources: MTC; FSSIA's compilation

Exhibit 6: Loan portfolio breakdown 2018-2022



Sources: MTC; FSSIA's compilation

Exhibit 7: Loan portfolio breakdown, 1Q23



Source: MTC

Spreads under pressure from the rising cost of funds

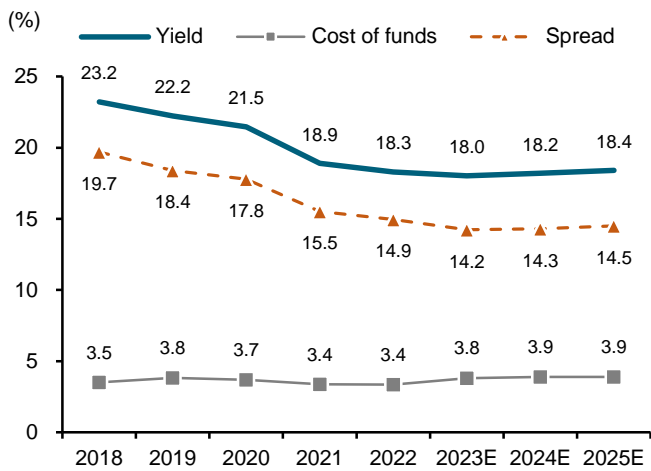
Pressure from the continuous increase in interest costs for three quarters since 3Q22 drove MTC's cost of funds to 3.53% in 1Q23, with a further rise expected in 2Q23 to 3.57%, in line with rising market interest rates. This was also coupled with the restructuring of funding sources to match the new focus on long-term loans, and the issuance of debentures with a greater proportion of fixed interest rates (as of 1Q23, the short-term to long-term debt ratio was 5:95, up from 8:92 at the end of 2022). In our view, even if this causes interest costs to rise, it should help mitigate the impact to some extent.

On the interest income side, due to the predominance of fixed interest rates, MTC cannot adjust prices in line with its own higher interest costs, mainly due to 1) the fierce competition in the industry; and 2) regulated interest rates for most of its loans. Although some of MTC's loans are still offered at rates that are lower than the specified interest rate ceiling, for example, motorcycle hire purchase loans (average yield of 17%, below the 23% cap), the company has chosen to maintain its interest rate. (Note that in 2022 there was a 1% increase in MTC's motorcycle hire purchase interest rate, but this has not affected growth in this group of loans because the customers tend to focus more on their satisfaction with the credit services provided.)

As a result, MTC's spreads have been steadily decreasing since 3Q20 in line with lower loan yields. This reflects the impact of the industry's fierce competition, even as interest expenses have steadily increased since 3Q22 in line with market interest rate hikes.

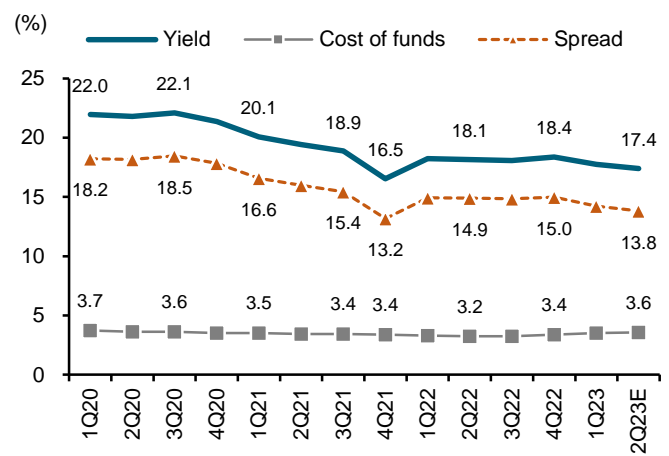
As for the 2H23 spread, we expect it to weaken from 1H23E's 14.49%, with the full-year 2023 spread dipping to 14.22%, given MTC's emphasis on collateralised lending, especially for land title loans, which at 15% p.a. yield much lower than other loan groups.

Exhibit 8: Yields, cost of funds, and spreads (2018-2025E)



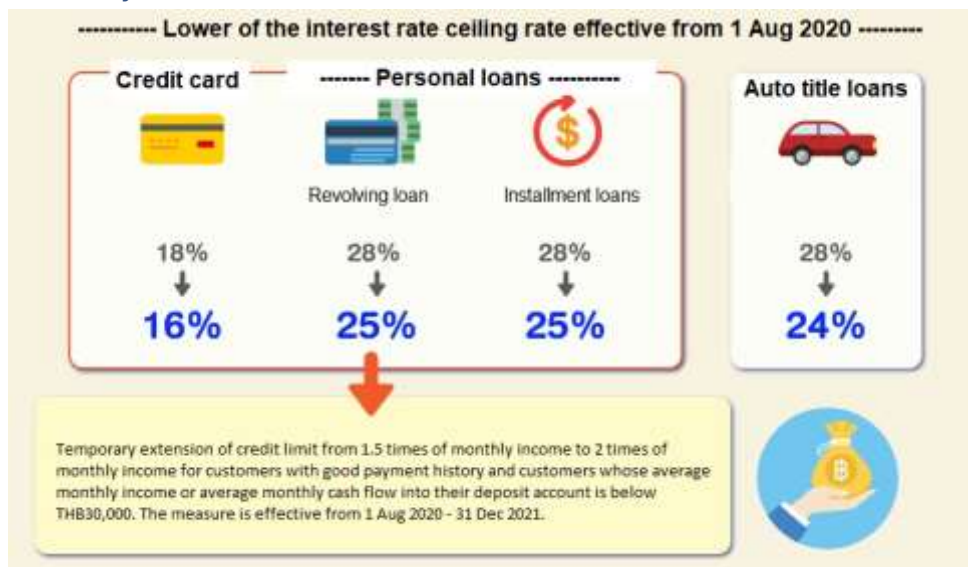
Sources: MTC; FSSIA estimates

Exhibit 9: Yields, cost of funds, and spreads (1Q20-2Q23E)



Sources: MTC; FSSIA estimates

Exhibit 10: Bank of Thailand's phase two relief measures to help retail customers affected by the Covid-19 outbreak

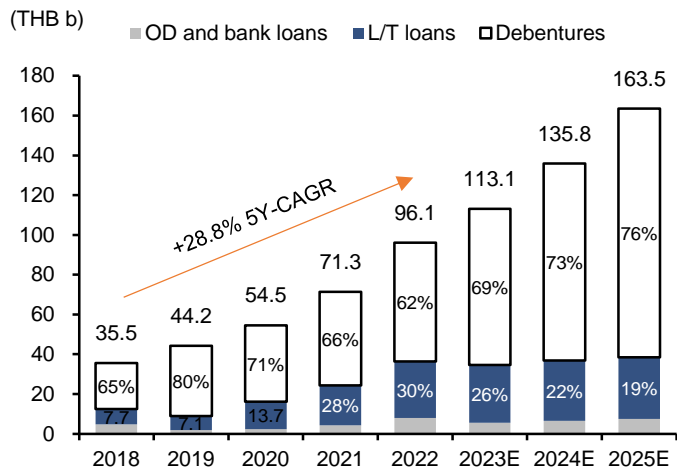


Source: [Bank of Thailand](http://www.bot.or.th)

D/E ratio to tighten in 2023-25; capital management is essential

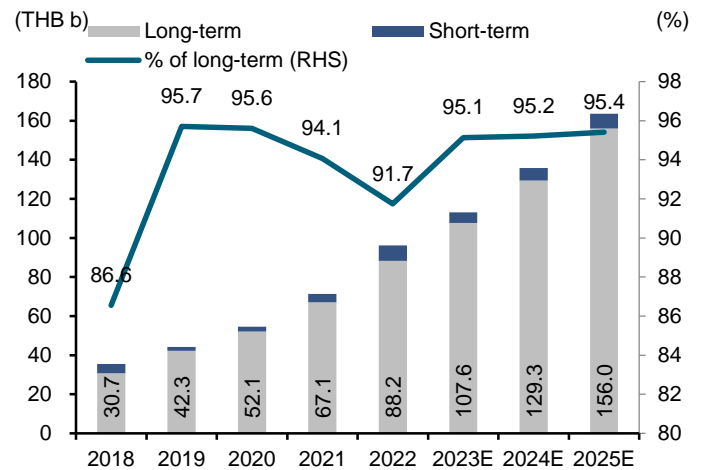
Regarding MTC's financial position, we think there is cause for concern at present. At the end of 1Q23, its debt-to-equity ratio was 3.37x while the interest-bearing debt-to-equity ratio was 3.27x. We expect the debt-to-equity ratio and the interest-bearing debt-to-equity ratio to continually increase to 4.13x and 4.01x in 2025, respectively, approaching the debt covenant ceiling of 4.0x. Hence, the potential for capital increases is our main concern. Alternatively, MTC may choose other capital management methods amid poor stock market conditions, such as reducing the dividend payout ratio (from 40% in 2022, resulting in a lower dividend yield) or paying stock dividends instead of cash dividends (causing EPS dilution).

Exhibit 11: Breakdown of MTC's funding sources, 2018-2025E



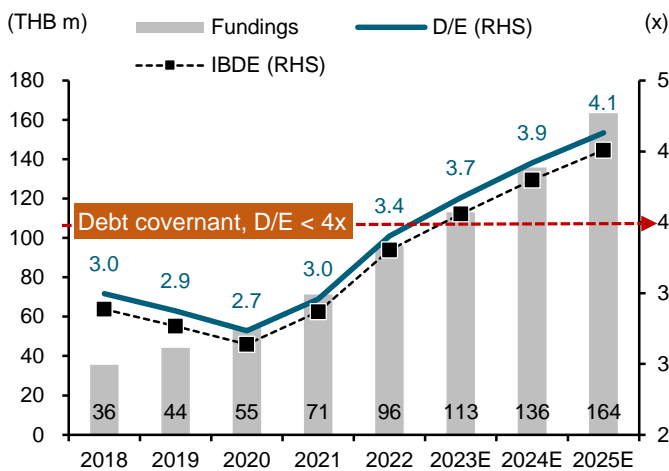
Sources: MTC; FSSIA estimates

Exhibit 12: Short-term vs long-term funding, 2018-2025E



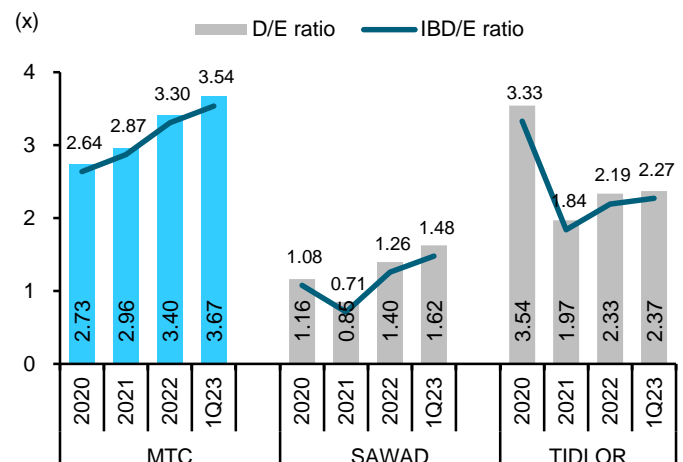
Sources: MTC; FSSIA estimates

Exhibit 13: Funding vs IBDE and D/E, 2018-2025E



Sources: MTC; FSSIA estimates

Exhibit 14: Comparison of D/E and IBDE ratios of MTC, SAWAD, and TIDLOR, as of 1Q23



Source: Company data

NPLs have not yet peaked; higher credit costs imminent

MTC's NPL ratio (stage 3 loans) has increased significantly to 2.94% in 2022 and 3.28% in 1Q23, up from 1.41% in 2021. The impact of the Covid-19 situation combined with the slow pace of Thailand's economic recovery has affected the purchasing power of the household sector, which is MTC's target market. What is even more worrying in our view is that the number of stage 2 loans (30-90 days overdue) has soared from an average of 5-6% of total loans during 2020-21 to 8-10% of total loans during 2022-1Q23, mainly for loan receivables and motorcycle hire purchase receivables.

Exhibit 15: MTC's staged loans with allowances for ECL and coverage ratio (%) 2020-1Q23

	2020	2021	2022	1Q23	2020	2021	2022	1Q23
	(THB m)	(THB m)	(THB m)	(THB m)	(%)	(%)	(%)	(%)
Loans and accrued interest					Staged loans % of total loans			
Stage 1	65,372	81,837	105,097	109,369	92.6	93.4	87.1	87.0
Stage 2	4,489	4,578	12,009	12,383	6.4	5.2	10.0	9.8
Stage 3	747	1,187	3,506	3,991	1.1	1.4	2.9	3.2
Total	70,607	87,602	120,613	125,743	100.0	100.0	100.0	100.0
Expected credit loss (ECL)					ECL % of staged loans			
Stage 1	538	709	767	876	40.6	39.7	20.8	20.9
Stage 2	307	349	682	874	23.1	19.5	18.5	20.8
Stage 3	481	729	2,237	2,442	36.3	40.8	60.7	58.3
Total	1,326	1,788	3,686	4,191	100.0	100.0	100.0	100.0
LLR / Loans	(%)	(%)	(%)	(%)				
Stage 1	0.8	0.9	0.7	0.8				
Stage 2	6.8	7.6	5.7	7.1				
Stage 3	64.4	61.4	63.8	61.2				
Total	1.9	2.0	3.1	3.3				
	(%)	(%)	(%)	(%)				
NPL/TL	1.1	1.4	2.9	3.2				
NPLs vs stage 2 loans/total loans	7.4	6.6	12.9	13.0				
LLR/NPL	177.5	150.6	105.1	105.0				
LLR/(NPLs vs stage 2 loans)	25.3	31.0	23.8	25.6				

Sources: MTC; FSSIA's compilation

Exhibit 16: SAWAD's staged loans with allowances for ECL and coverage ratio (%) 2020-1Q23

	2020	2021	2022	1Q23	2020	2021	2022	1Q23
	(THB m)	(THB m)	(THB m)	(THB m)	(%)	(%)	(%)	(%)
Loans and accrued interest					Staged loans % of total loans			
Stage 1	26,914	29,562	50,271	58,683	68.2	87.7	91.0	90.8
Stage 2	11,064	2,879	3,614	4,323	28.0	8.5	6.5	6.7
Stage 3	1,480	1,249	1,385	1,606	3.8	3.7	2.5	2.5
Total	39,459	33,689	55,270	64,612	100.0	100.0	100.0	100.0
Expected credit loss (ECL)					ECL % of staged loans			
Stage 1	249	73	171	199	20.9	12.1	26.1	26.1
Stage 2	785	369	238	261	66.1	60.7	36.3	34.3
Stage 3	154	166	247	302	13.0	27.2	37.7	39.6
Total	1,188	609	656	761	100.0	100.0	100.0	100.0
LLR / Loans	(%)	(%)	(%)	(%)				
Stage 1	0.9	0.2	0.3	0.3				
Stage 2	7.1	12.8	6.6	6.0				
Stage 3	10.4	13.3	17.9	18.8				
Total	3.0	1.8	1.2	1.2				
	(%)	(%)	(%)	(%)				
NPL/TL	3.75	3.71	2.51	2.49				
NPL vs stage 2 loans/total loans	31.79	12.25	9.05	9.18				
LLR/NPL	80.25	48.76	47.37	47.38				
LLR/(NPLs vs stage 2 loans)	9.47	14.75	13.12	12.83				

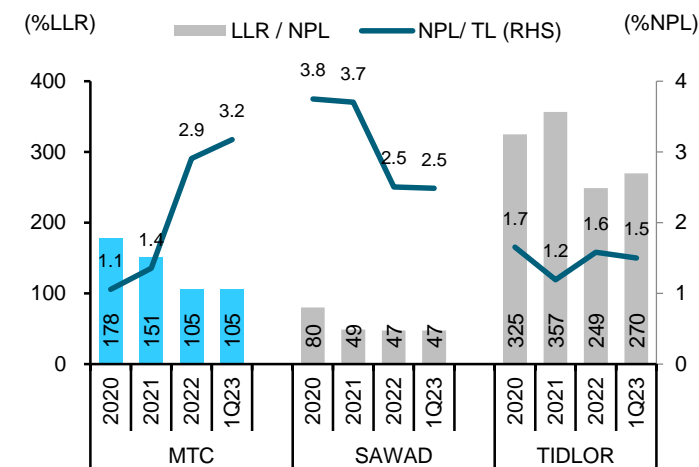
Sources: SAWAD; FSSIA's compilation

Exhibit 17: TIDLOR's staged loans with allowances for ECL and coverage ratio (%) 2020-1Q23

	2020	2021	2022	1Q23	2020	2021	2022	1Q23
	(THB m)	(THB m)	(THB m)	(THB m)	(%)	(%)	(%)	(%)
Loans and accrued interest					Staged loans % of total loans			
Stage 1	38,410	47,769	65,700	66,999	74.8	77.7	80.8	80.7
Stage 2	12,072	12,957	14,280	14,793	23.5	21.1	17.6	17.8
Stage 3	850	732	1,285	1,247	1.7	1.2	1.6	1.5
Total	51,331	61,458	81,265	83,040	100.0	100.0	100.0	100.0
Expected credit loss (ECL)					ECL % of staged loans			
Stage 1	997	934	1,075	1,131	36.1	35.8	33.6	33.6
Stage 2	1,034	1,086	1,311	1,428	37.4	41.6	41.0	42.4
Stage 3	732	591	813	805	26.5	22.6	25.4	23.9
Total	2,763	2,611	3,199	3,363	100.0	100.0	100.0	100.0
LLR / Loans	(%)	(%)	(%)	(%)				
Stage 1	2.6	2.0	1.6	1.7				
Stage 2	8.6	8.4	9.2	9.7				
Stage 3	86.1	80.7	63.2	64.5				
Total	5.4	4.2	3.9	4.1				
	(%)	(%)	(%)	(%)				
NPL/TL	1.66	1.19	1.58	1.50				
NPL vs stage 2 loans/total loans	25.17	22.27	19.15	19.32				
LLR/NPL	325.07	356.57	248.90	269.67				
LLR/(NPLs vs stage 2 loans)	21.38	19.07	20.55	20.97				

Sources: TIDLOR; FSSIA's compilation

Exhibit 18: Comparative NPLs/loans and LLR/NPL



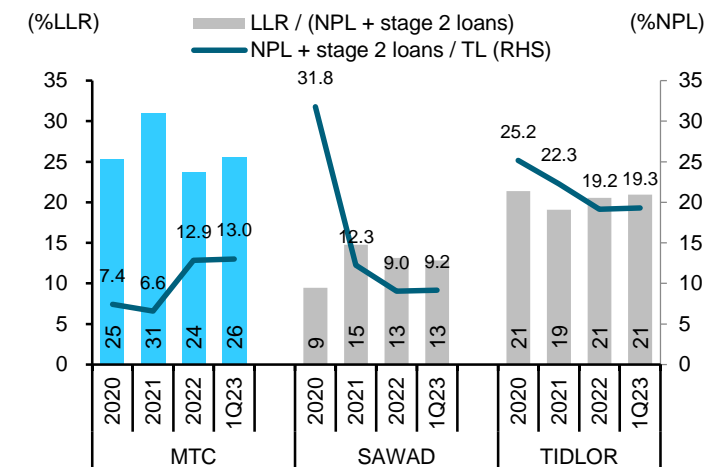
Sources: Company data; FSSIA's compilation

MTC views that the pace of NPL formation and loan slippage to the stage 2 designation has yet to return to normal, despite emergent positive signs that the rate of increase is at a slower rate, mainly due to the better quality of new loans from the increase in secured loans and the reduced proportion of unsecured loans (nano finance and personal loans). MTC expects the NPL ratio to fall below 3% by mid-2024, which is too optimistic in our view. In contrast, we conservatively forecast its NPL ratios for 2023-24 at 3.41% and 3.43%, respectively.

The company has assisted debtors facing problems in accordance with the relief measures announced by the Bank of Thailand (effective 1 January 2022 - 31 December 2023) consisting of 1) debt restructuring by reducing interest rates and extending the repayment period; and 2) debt restructuring by extending the repayment period only.

For debtors facing deteriorated credit risk in general due to the fragile economy, the company has taken proactive measures including debt restructuring, bad debt write-offs, and NPL sales. In addition, MTC has set up two more car auction centres in Roi Et and

Exhibit 19: NPLs + stage 2/loans and LLR/NPLs + stage 2



Sources: Company data; FSSIA's compilation

Surat Thani provinces. It now has a total of eight car auction centres covering major cities to improve flexibility and reduce transportation costs in managing repossessed vehicles.

Despite its proactive asset quality management and provisioning according to the TFRS9 model, MTC's credit cost has risen significantly from 1.89% in 2Q22 to 3.57% in 1Q23. We expect its credit cost to reach 3.40% in 2023. We maintain our conservative credit cost forecast for 2024-25 at 3.20% and 3.00%, respectively, compared to MTC's optimistic target of not exceeding 2.50%.

Exhibit 20: MTC – asset quality

	1Q22	2Q22	3Q22	4Q22	1Q23
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
Total NPL	1,630	2,104	2,611	3,506	3,991
- Title loan	1,357	1,753	2,213	3,098	3,520
- HP	272	352	398	409	471
NPL/TL	1.67%	1.99%	2.33%	3.00%	3.28%
- Title loan	1.48%	1.75%	2.06%	2.73%	2.97%
- HP	4.76%	5.97%	6.83%	7.25%	8.61%
Stage 2	6,747	9,033	10,143	12,009	12,383
- Title loan	6,185	8,242	9,250	11,110	11,549
- HP	563	791	893	900	834
Stage 2 / Loan	6.9%	8.5%	9.0%	10.1%	10.0%
- Title loan	6.7%	8.2%	8.6%	9.8%	9.7%
- HP	9.8%	13.4%	15.3%	16.0%	15.3%
Total LLR	1,840	2,025	2,671	3,686	4,191
- Title loan	1,704	1,898	2,483	3,307	3,716
- HP	136	127	188	379	475
LLR/TL	1.9%	1.9%	2.4%	3.1%	3.4%
- Title loan	1.9%	1.9%	2.3%	2.9%	3.1%
- HP	2.4%	2.2%	3.2%	6.7%	8.7%
Coverage ratio (LLR/NPL)	112.9%	96.3%	102.3%	105.1%	105.0%
- Title loan	125.5%	108.3%	112.2%	106.8%	105.6%
- HP	49.8%	36.1%	47.2%	92.7%	100.9%

Sources: MTC; FSSIA's compilation

2Q23 net profit to rise despite poor asset quality

We expect MTC to report a 2Q23 net profit of THB1.17b, up 9.6% q-q but down 15.0% y-y. We estimate its 2Q23 pre-provisioning operating profit (PPOP) at THB2.61b, up 7.6% q-q and 18.0% y-y. The q-q net profit growth should come mainly from slight increases in net interest income (NII) and fee income as operating expenses contract by 4.3% q-q. Typically, MTC's operating expenses rise in 1Q due to annual employee salary increases, but in 1Q23 this was combined with the exceptional impact of a jump in commissions paid for debt collections and an increase in expected credit losses (ECL).

The y-y dive in net profit was primarily due to the significant jump in ECL, which offset the increases in NII, fees, and other income. Regarding MTC's asset quality in 2Q23, we do not expect a significant improvement during the quarter given our expectations of an NPL ratio of 3.35% (from 3.28% in 1Q23) and expected credit cost of 3.54% (from 3.50% in 1Q23).

Overall, we forecast 1H23 net profit at THB2.24b, down 18.6% y-y and accounting for 49% of our 2023 forecast. As for the 2H23 outlook, we have a more favorable view of its PPOP due primarily to the upcoming lending high season, which could offset the weaker NIM. Net profit tends to rise in line with a stronger PPOP, which could offset the rising credit cost.

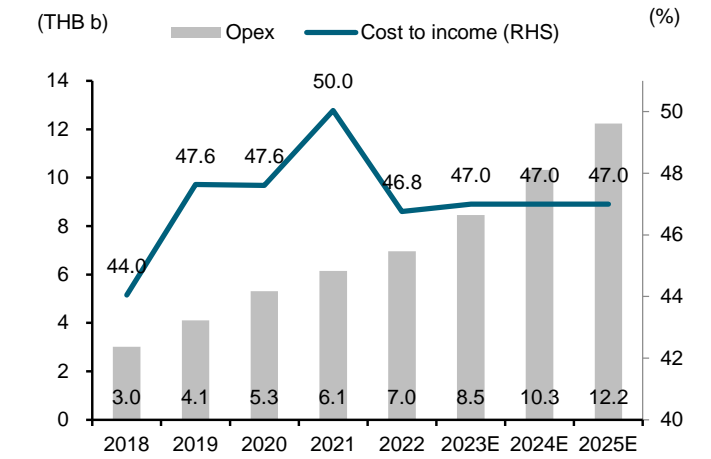
Regarding our 2023-25 net profit forecast, we expect a 10.0% drop y-y in 2023, followed by gains of 26.4% y-y in 2024 and 26.2% y-y in 2025. In 2023, ROE should drop to 15.1%, then rebound to an estimated 17.2% and 19.1% in 2024-25. Excluding the ECL expenses, we think PPOP should increase by 18.1% y-y, 19.1% y-y, and 20.0% y-y in 2023-25, respectively, based on the following key assumptions: 1) loan growth of c19% p.a.; 2) a slight increase in spreads during 2023-25; 3) a more stable cost-to-income ratio of 47%; 4) a decline in credit cost from 3.40% in 2023E to 3.00% in 2025E; 5) a slight increase in the NPL ratio from 3.41% in 2023E to 3.45% in 2025E; and 6) a stable coverage ratio of c105% p.a.

Exhibit 21: 2Q23 earnings preview

	2Q22	3Q22	4Q22	1Q23	2Q23E	----- Change -----		1H23E	Change	% of	2023E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(y-y%)
Interest income	4,617	4,959	5,338	5,397	5,500	1.9	19.1	10,897	22.4	46	23,503	22.4
Interest expense	(663)	(737)	(810)	(848)	(900)	6.2	35.8	(1,748)	38.0	44	(3,976)	41.3
Net interest income	3,955	4,222	4,528	4,549	4,600	1.1	16.3	9,149	19.8	47	19,527	19.2
Other income	208	226	273	233	264	13.2	27.3	498	34.4	53	935	7.5
Total income	4,162	4,448	4,801	4,783	4,864	1.7	16.9	9,647	20.5	47	20,462	18.6
Operating expenses	(1,946)	(2,008)	(2,152)	(2,352)	(2,250)	(4.3)	15.6	(4,602)	17.7	48	(9,617)	19.2
Pre-provision operating profit	2,216	2,440	2,649	2,431	2,614	7.6	18.0	5,045	23.1	47	10,845	18.1
Expected credit loss	(481)	(923)	(1,274)	(1,066)	(1,120)	5.1	133.1	(2,186)	247.2	48	(4,564)	87.6
Profit after ECL	1,735	1,517	1,375	1,365	1,494	9.5	(13.9)	2,859	(17.5)	46	6,281	(7.0)
Gain (loss) from asset disposals	0	0	0	0	0	n/a	n/a	0	n/a	0	(550)	39.7
Operating profit	1,735	1,517	1,375	1,365	1,494	9.5	(13.9)	2,859	(17.5)	50	5,731	n/a
Income tax	(355)	(312)	(243)	(295)	(321)	8.9	(9.4)	(616)	(13.4)	54	(1,146)	(9.5)
NCI	0	0	0	0	0	n/a	n/a	0	n/a	n/a	0	n/a
Net profit	1,381	1,205	1,132	1,070	1,173	9.6	(15.0)	2,243	(18.6)	49	4,585	(10.0)
EPS (THB)	0.65	0.57	0.53	0.50	0.55	9.6	(15.0)	1.06	(18.6)	49	2.16	(10.0)
Loans	106,153	113,231	119,084	124,200	128,685	3.6	21.2	128,685	21.2		141,713	19.0
Interest bearing debt	86,946	93,232	96,143	98,536	103,531	5.1	19.1	103,531	19.1		113,110	17.6
Key ratios	2Q22	3Q22	4Q22	1Q23	2Q23E	(q-q)	(y-y)	1H23E	(y-y)		2023E	Change
	(%)	(%)	(%)	(%)	(%)	(ppt)	(ppt)	(%)	(ppt)		(THB m)	(y-y%)
Yield on loans	18.14	18.08	18.38	17.75	17.40	(0.3)	(0.7)	18.82	0.6		18.02	(0.3)
Cost of funds	3.24	3.25	3.39	3.53	3.57	0.0	0.3	3.67	0.3		3.80	0.4
Spread	14.91	14.84	14.99	14.21	13.83	(0.4)	(1.1)	14.49	(0.3)		14.22	(0.7)
Cost to Income	46.76	45.14	44.82	49.18	46.26	(2.9)	(0.5)	50.11	2.1		47.00	0.2
Credit cost	1.90	3.40	4.45	3.57	3.62	0.0	1.7	3.33	1.8		3.40	0.7
NPL / Loan	1.99	2.33	3.00	3.28	3.35	0.1	1.4	3.35	1.4		3.41	0.5
LLR / Loan	1.92	2.38	3.15	3.44	3.40	(0.0)	1.5	3.40	1.5		3.58	0.5
Coverage ratio	96.26	102.29	105.11	105.00	101.42	(3.6)	5.2	101.42	5.2		105.04	(0.1)
D/E (x)	3.32	3.40	3.40	3.37	3.65			3.65				
IDBE (x)	3.24	3.33	3.30	3.27	3.54			3.54				
S/T debt/total debt (x)	6.74	7.61	8.26	4.94	3.86			3.86				
Loan growth q-q	8.9	6.7	5.2	4.3	3.6							
Loan growth y-y	35.3	35.7	32.2	27.5	21.2			21.2				
Loan growth YTD	17.9	25.7	32.2	4.3	8.1			8.1				
						(%)	(%)		(%)			(%)
Branch (no)	6,475	6,547	6,668	6,962	7,162	2.9	10.6	7,162	10.6		7,200	8.0
Increase from prior period (no)	314	72	121	294	200			687			532	
Loans per branch (THB m)	16.39	17.30	17.86	17.84	17.97	0.7	9.6	17.97	9.6		19.68	10.2
Net profit per branch (THB m)	0.21	0.18	0.17	0.15	0.16	6.6	(23.2)	0.63	(26.4)		0.64	(16.6)

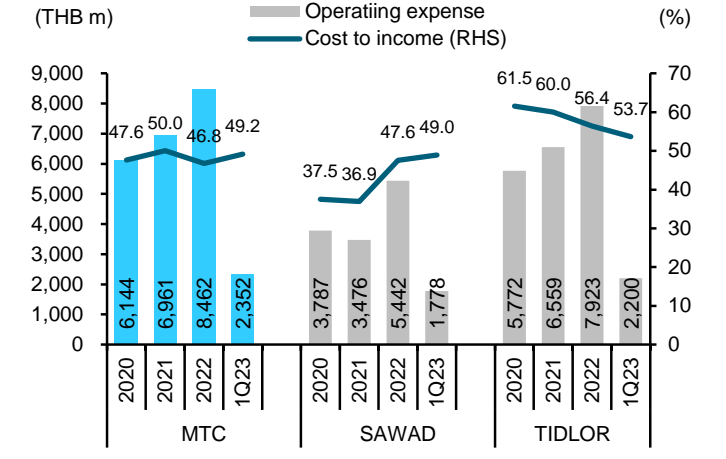
Sources: MTC; FSSIA estimates

Exhibit 22: Operating expenses vs CIR, 2018-2025E



Sources: MTC; FSSIA estimates

Exhibit 23: Comparison of OPEX and CIR



Sources: Company data; FSSIA's compilation

Exhibit 24: Comparison of operating performance

	MTC				SAWAD				TIDLOR			
	2020	2021	2022	1Q23	2020	2021	2022	1Q23	2020	2021	2022	1Q23
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
Loan	70,098	90,701	119,084	124,200	44,628	39,416	66,717	78,110	51,331	61,458	81,265	81,693
Net profit	5,168	4,945	5,093	1,070	4,508	4,722	4,476	1,200	2,416	3,169	3,640	955
Branch (no.)	4,884	5,799	6,668	6,962	4,750	4,910	5,316	5,354	1,076	1,286	1,628	1,629
<i>Increase (no.)</i>	777	915	869	294	670	160	406	38	n/a	210	342	1
Loan per branch	14.35	15.64	17.86	17.84	9.40	8.03	12.55	12.58	7.37	8.83	11.67	11.73
Net profit per branch	1.06	0.85	0.76	0.15	0.95	0.96	0.84	0.22	2.25	2.46	2.24	0.59
Vehicle title loans	49,069	63,491	78,595	81,972	20,483	12,694	16,812	22,652	42,317	51,426	69,323	71,151
<i>Market share (%)</i>	41.5	42.6	37.5	36.1	17.3	8.5	8.0	10.0	35.8	34.5	33.1	31.4
Loan growth y-y (%)	17.8	29.4	31.3	27.5	5.4	(11.7)	69.3	84.3	7.0	19.7	32.2	26.6
Yields (%)	21.5	18.9	18.3	17.7	20.6	18.0	18.9	19.8	17.7	17.7	17.9	17.7
Cost of funds (%)	3.7	3.4	3.4	3.5	3.6	3.5	3.1	3.5	3.1	3.1	3.1	2.8
Interest spread (%)	17.8	15.5	14.9	14.2	17.0	14.5	15.8	16.4	14.7	14.6	14.8	14.9
Operating expense	6,144	6,961	8,462	2,352	3,787	3,476	5,442	1,778	5,772	6,559	7,923	2,200
<i>Cost to income (%)</i>	47.6	50.0	46.8	49.2	37.5	36.9	47.6	49.0	61.5	60.0	56.4	53.7
ECL	291	748	2,433	1,066	321	(455)	78	208	583	625	944	467
<i>Credit cost (%)</i>	0.45	0.93	2.70	3.40	0.81	(1.34)	0.14	1.32	1.18	0.75	2.26	3.14
Net profit	5,168	4,945	5,093	1,070	4,508	4,722	4,476	1,200	2,416	3,169	3,640	955
<i>ROE (%)</i>	28.2	21.7	18.9	14.5	22.3	20.2	17.8	18.3	22.9	18.6	15.2	14.8
D/E ratio (x)	2.73	2.96	3.40	3.67	1.16	0.85	1.40	1.62	3.54	1.97	2.33	2.37
IBD/E ratio (x)	2.64	2.87	3.30	3.54	1.08	0.71	1.26	1.48	3.33	1.84	2.19	2.27

Sources: Company data; FSSIA's compilation

Initiate with a HOLD call; unjustified risk-reward at present

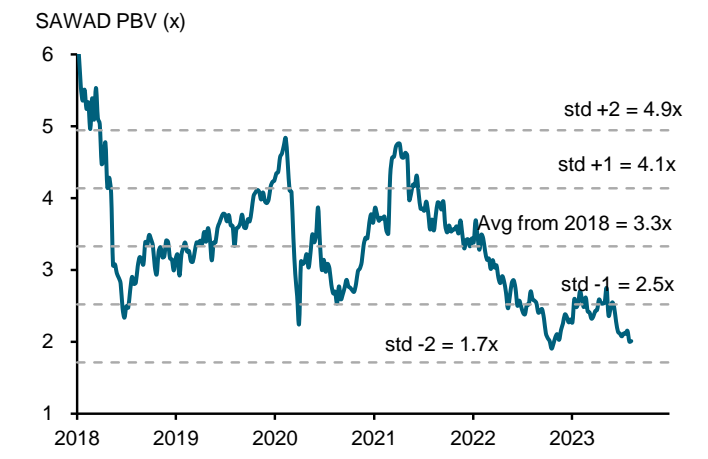
We initiate coverage of MTC with a HOLD call at the current price. Our 2023 GGM-based TP of THB37 implies a P/BV of 2.2x. Given the 2023E potential return of 8.5% p.a., with a 6% potential upside plus an expected dividend yield of 2.5% p.a., MTC is not worth its credit quality risks, in our view.

Exhibit 25: GGM-derived TP, 2023E

Target price	THB 37.0
Sustainable ROE	17.1%
g	4.6%
ROE-g	12.5%
Beta	1.29
Risk free rate	2.5%
Risk premium	6.0%
COE	10.2%
COE-g	5.6%
ROE-g/COE-g (P/BV)	2.2x

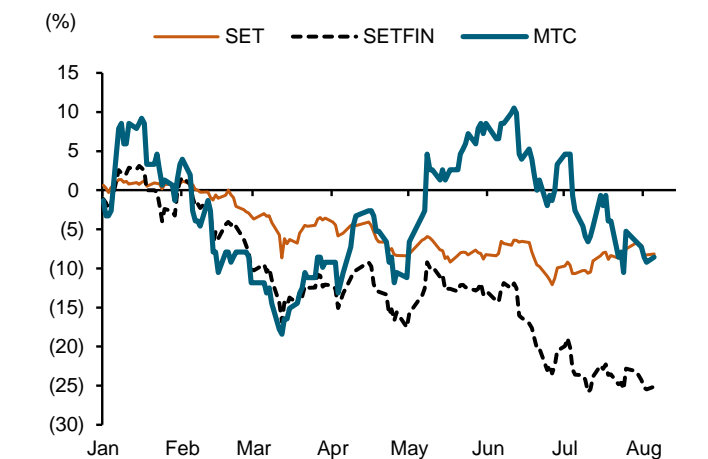
Source: FSSIA estimates

Exhibit 27: SAWAD – one-year prospective PBV band



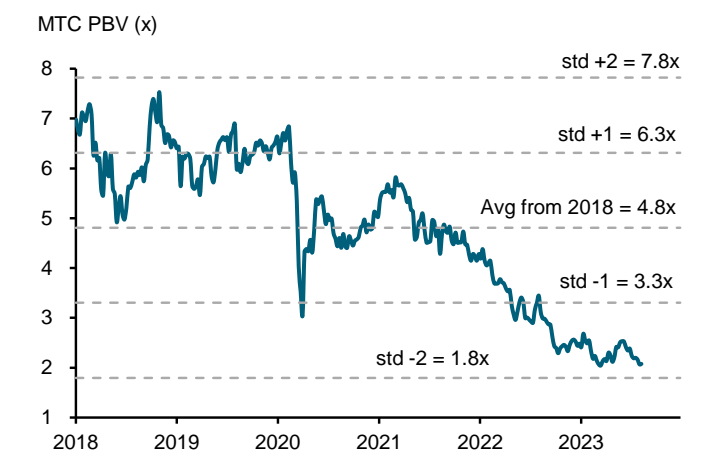
Source: Bloomberg consensus

Exhibit 29: Price performance year-to-7 Aug 2023



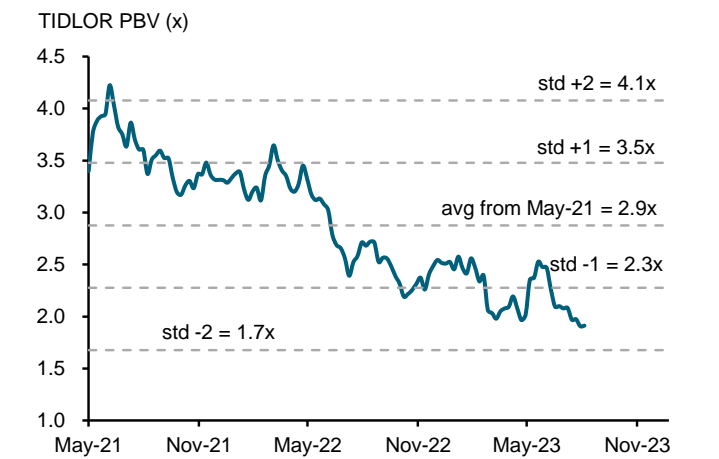
Sources: Bloomberg; FSSIA's compilation

Exhibit 26: MTC – one-year prospective PBV band



Sources: Bloomberg; FSSIA estimates

Exhibit 28: TIDLOR – one year prospective PBV band



Source: Bloomberg consensus

Exhibit 30: Price performance year-to-7 Aug 2023

Price Performance					
BBG	1M	3M	6M	1Y	YTD
	(%)	(%)	(%)	(%)	(%)
MTC TB	(6.1)	(2.1)	(6.1)	(31.2)	(8.6)
SAWAD TB	(2.2)	(18.8)	(18.0)	(15.0)	(6.7)
TIDLOR TB	(7.0)	(2.3)	(18.8)	(20.1)	(18.8)
SET Index	2.8	(0.1)	(8.8)	(4.3)	(8.2)
SETFIN Index	3.8	6.6	3.7	9.0	3.4

Sources: Bloomberg; FSSIA's compilation

Corporate Governance and ESG – MTC

Board structure, 2022

Independent Directors (ID)	4/7 of board members, 3 female
Percentage of IDs on the board	57.1%
ID attendance at board meetings	100%
ID in audit/remuneration committee	3/3 in audit committee and 2/3 in remuneration committee
ID terms	Nine consecutive years

Additional information: The chairman of the board is an independent director and the chairman of the remuneration committee.

Compensation and remuneration

Directors' remuneration vs earnings/ROE/share performance	THB8.5m, 0.17% of 2022 net profit
Changes/stability in senior management	None
Incidents of termination of senior management	None
Track record on insider sales	None

ESG and sustainability management

MTC's aim is to be a responsible microfinance loan service provider. The company believes that access to financial services helps reduce inequality in the country. At the end of 1Q23, MTC had 6,962 branches located in 75 provinces nationwide.

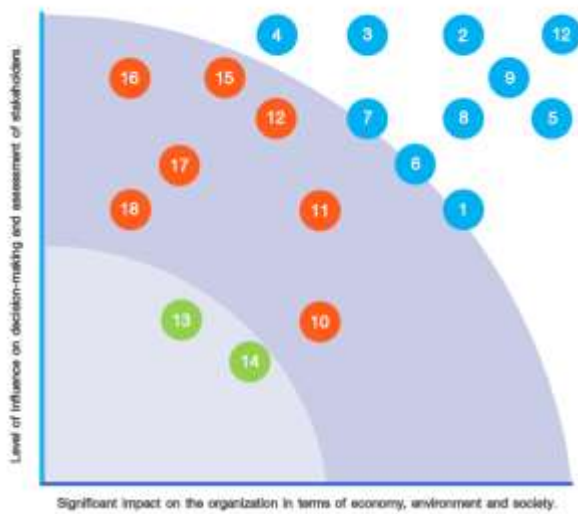
Audit Practices

Auditor	KPMG Phoomchai Audit Ltd.
Length of service	More than five years
Reporting incidents	None
Fee track record	THB4.8m in 2022, THB4.33m in 2021
Policy on change of audit firm	To be reviewed every five years

Additional information: None

Shareholders' rights

Practice	Activity
Communication - shareholder participation in AGMs/EGMs	AGM once annually, EGM when appropriate and in accordance with SEC guidelines
Related party transactions	In accordance with SEC guidelines
Voting issues - policies, incidents of rejected proposals	None



High stakeholders interests

1. Understanding of sustainable organizational development of personnel in the organization
2. Good corporate governance
3. Risk Management
4. Meeting stakeholder expectations
5. Anti-corruption
6. Human resource management
7. Promote social projects (CSR)
8. Air pollution, greenhouse gas emissions
9. Development of ESG performance to international level
12. Provide funding sources

Medium stakeholders interests

10. Employee Satisfaction
11. Customer Satisfaction
15. Development of financial products
16. Disclosures
17. Human Rights
18. Occupational health

Low stakeholders interests

13. Use resources efficiently
14. Training to provide knowledge to employees

E/S/G	Materiality matrix	Achievement
Economic & Governance	To follow good corporate governance standards, conduct business with good governance and comprehensive risk management, encourage innovation, and consistently achieve value for the business.	
	Risk management	At end-2022, the company had a total of 3,234,042 customers, with an average age of 40-50 years through 6,668 branches. Customer occupations include government officials (average age 44 years); merchants and business owners (average age 45 years); office workers (average age 39 years); temporary workers (average age 46 years); farmers and livestock producers (average age 48 years).
		MTC assesses risks in two dimensions: likelihood of risk to occur from one week to 6-12 months, and impacts in terms of damage valued from THB50,000 to THB1m. It has established four types of controls: preventive, detective, directive, and corrective.
	Corruption	The company has put in place strict measures to prevent damage such as continually reviewing the causes and rates of corruption, implementing the SAP operating system, and training to develop morality and ethics.
	Innovation and cyber threats	Develop technology for online debtors and a work system that is improved at least twice a month; recruiting third parties with specific expertise to ensure that customers can access services with ease. In 2022, there were no cyber-attack incidents.
	Interest rate risk	In 2022, MTC charged interest at a rate lower than the level set by the Bank of Thailand which allowed flexibility in adjusting its ceiling rate to align with costs. In addition, the company has increased the proportion of debentures in its funding sources in a bid to lessen rate rise risk.
	Competition and new competitors	As MTC's main target customers are low income, underprivileged, and have low exposure to technology, the company is focused on providing a fair interest rate and the most extensive customer coverage via aggressive branch expansion to serve customers in nearby areas. The company plans to expand to every village in Thailand, except for the three southernmost border provinces. To tackle unconventional competitors such as FINTECH, the company is developing the Muangthai Capital 4.0 application to further expand its retail portfolio of loan products. Before being listed on the Stock Exchange of Thailand (SET), the company only offered motorcycle registration loans. After listing on the SET, the company added vehicle title loans, vehicle title loans for agriculture, land title deed loans, unsecured personal loans, and Nano finance loans. The company recently expanded to offer motorcycle hire purchase loans to existing customers who have a good record of payment.
Social	Human resource management	Turnover was 17% of the 20% targeted rate. MTC provides marriage allowances, childbirth financial support, and a shared fund to help employees suffering from the loss of family members, etc.
	Human rights	In 2022, female employees were 10.9% of total, while female employees at the head office were 39.4%. Females in management positions with a revenue-generating function accounted for 17.6%. MTC has three disabled employees. To provide opportunities for Thai youth, MTC offers a paid-internship program for treasury positions at its branches with monthly compensation.
	Occupational health	MTC offers accommodation at its branch buildings and a dormitory with a fitness facility at its head office. Employee activities include New Year parties, sporting events, and an annual company trip. There were eight cases of work-related injury in 2022 compared with five in 2021.
	Employee training	The company encourages employees to develop skills and the knowledge necessary to perform their work with maximum efficiency and effectiveness through training and an internal learning platform called "MTC University", a digital library which all employees can access to enhance their working knowledge.
	Customer satisfaction	The most recent satisfaction assessment result was 83.59%, with 80% the target.
	Social projects (CSR)	In 2022, MTC designed, built, and donated its third Chitmetta Chuchat Daonapha Building worth THB30m in a small village in the north to serve as a dental and administrative centre. The building was designed to have high ceilings for adequate ventilation, electricity savings, and hygiene. The company also built 20 modified motorcycles worth more than THB2.4m for villagers in 20 sub-districts to allow convenient commutes to access public health services. MTC also provided THB2m in financial support for courses offering beekeeping technology training, product development, as well as financial and marketing knowledge to over 650 farmers.
Environment	Air pollution, greenhouse gas emissions	The company reduced energy consumption to loans issued to 2.07, down from 2.38 in 2021, as part of its efforts to lower energy and water consumption and cut greenhouse gas emissions. The company operates with environmental considerations in mind by choosing partners who use environmentally friendly products and setting policies and guidelines for the most efficient use of resources.
Awards and recognitions	Development of world-class ESG performance	
	MSCI ESG Ratings	Rated "AA" on ESG performance in the Consumer Finance sector
	Sustainable Development Goals	Applied the Sustainable Development Goals (SDGs) in accordance with United Nations policies and guidelines
	S&P Global	Participated in the ESG rating by S&P Global
	The Disclosure Insight Action for Sustainable Economy (CDP)	Received "D Level" rating for environmental disclosure and performance ^{a)}
	Thai Investors Association	Rated "very good" with a full 100 score for quality assessment at the 2022 AGM ^{b)}
	Collective Action Coalition: Action Against Corruption (CAC)	Certified by Thailand's Private Sector CAC
	Thailand Sustainable Investment (THSI)	The first microfinance listed in THSI, listed for the fourth consecutive year in 2022
	Thai Institute of Directors (IOD)	Rated "Excellent" (five stars) for the fifth consecutive year in CG assessment of SET-listed companies in 2022

^{a)} CDP's D-score or "Disclosure Level" indicates an extensive set of disclosed information and is deemed the starting point for organisations that want to demonstrate that they have begun their environmental journey; ^{b)} Annual General Meeting of shareholders

Additional information: [MTC's sustainability report, 2022](#)

Source: FSSIA compilation

Financial Statements

Muangthai Capital

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Interest Income	15,195	19,199	23,503	28,241	34,055
Interest expense	(2,127)	(2,813)	(3,976)	(4,855)	(5,837)
Net interest income	13,068	16,386	19,527	23,387	28,218
Net fees & commission	769	792	870	905	941
Foreign exchange trading income	-	-	-	-	-
Securities trading income	-	-	-	-	-
Dividend income	20	0	0	0	0
Other income	55	78	65	70	80
Non interest income	843	869	935	975	1,021
Total income	13,911	17,255	20,462	24,361	29,239
Staff costs	(6,961)	(8,069)	(9,617)	(11,450)	(13,742)
Other operating costs	-	-	-	-	-
Operating costs	(6,961)	(8,069)	(9,617)	(11,450)	(13,742)
Pre provision operating profit	6,949	9,187	10,845	12,912	15,497
Expected credit loss	(748)	(2,433)	(4,564)	(4,966)	(5,551)
Other provisions/expenses	-	(394)	(550)	(700)	(800)
Operating profit	6,201	6,360	5,731	7,246	9,146
Recurring non operating income	0	0	0	0	0
Associates	0	0	0	0	0
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	6,201	6,360	5,731	7,246	9,146
Tax	(1,257)	(1,267)	(1,146)	(1,449)	(1,829)
Profit after tax	4,945	5,093	4,585	5,796	7,317
Non-controlling interest	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	4,945	5,093	4,585	5,796	7,317
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	4,945	5,093	4,585	5,796	7,317
Per share (THB)					
Recurring EPS *	2.33	2.40	2.16	2.73	3.45
Reported EPS	2.33	2.40	2.16	2.73	3.45
DPS	0.37	0.95	0.86	1.08	1.36
Growth					
Net interest income (%)	8.0	25.4	19.2	19.8	20.7
Non interest income (%)	4.4	3.1	7.5	4.3	4.7
Pre provision operating profit (%)	2.8	32.2	18.1	19.1	20.0
Operating profit (%)	(4.2)	2.6	(9.9)	26.4	26.2
Reported net profit (%)	(4.3)	3.0	(10.0)	26.4	26.2
Recurring EPS (%)	(4.3)	3.0	(10.0)	26.4	26.2
Reported EPS (%)	(4.3)	3.0	(10.0)	26.4	26.2
Income Breakdown					
Net interest income (%)	93.9	95.0	95.4	96.0	96.5
Net fees & commission (%)	5.5	4.6	4.3	3.7	3.2
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	-	-	-	-	-
Dividend income (%)	0.1	-	-	-	-
Other income (%)	0.4	0.5	0.3	0.3	0.3
Operating performance					
Gross interest yield (%)	18.90	18.30	18.02	18.20	18.40
Cost of funds (%)	3.38	3.36	3.80	3.90	3.90
Net interest spread (%)	15.52	14.94	14.22	14.30	14.50
Net interest margin (%)	16.30	15.60	15.00	15.10	15.30
Cost/income (%)	50.0	46.8	47.0	47.0	47.0
Credit cost (%)	0.93	2.70	3.40	3.20	3.00
Effective tax rate (%)	20.3	19.9	20.0	20.0	20.0
Dividend payout on recurring profit (%)	15.9	39.5	39.5	39.5	39.5
ROE (%)	21.7	18.9	15.1	17.2	19.1
ROE - COE (%)	10.9	8.1	4.3	6.4	8.3
ROA (%)	5.6	4.5	3.3	3.6	3.8
RORWA (%)	-	-	-	-	-

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Muangthai Capital; FSSIA estimates

Financial Statements

Muangthai Capital

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Gross customer loans	90,701	119,084	141,713	168,664	201,410
Allowance for expected credit loss	(1,832)	(3,686)	(5,071)	(6,085)	(7,302)
interest in suspense	1,200	1,675	1,970	2,364	2,837
Net customer loans	90,069	117,073	138,612	164,943	196,945
Bank loans	-	-	-	-	-
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	0	0	0	0	0
Cash & equivalents	1,306	3,213	1,587	1,491	1,662
Other interesting assets	-	-	-	-	-
Tangible fixed assets	2,054	2,037	2,241	2,465	2,712
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	4,961	5,743	6,118	7,010	8,043
Total assets	98,390	128,066	148,558	175,909	209,362
Customer deposits	-	-	-	-	-
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	71,325	96,143	113,110	135,840	163,502
Non interest bearing liabilities	2,197	2,833	3,662	4,300	5,067
Hybrid Capital	-	-	-	-	-
Total liabilities	73,521	98,976	116,773	140,140	168,569
Share capital	2,120	2,120	2,120	2,120	2,120
Reserves	22,749	26,971	29,665	33,648	38,673
Total equity	24,869	29,091	31,785	35,768	40,793
Non-controlling interest	-	-	-	-	-
Total liabilities & equity	98,390	128,066	148,558	175,909	209,362
Supplementary items					
Risk weighted assets (RWA)	n/a	n/a	n/a	n/a	n/a
Average interest earning assets	80,400	104,892	130,398	155,188	185,037
Average interest bearing liabilities	62,931	83,734	104,627	124,475	149,671
CET 1 capital	n/a	n/a	n/a	n/a	n/a
Total capital	0	0	0	0	0
Gross non performing loans (NPL)	1,276	3,507	4,828	5,793	6,952
Per share (THB)					
Book value per share	11.73	13.72	14.99	16.87	19.24
Tangible book value per share	11.73	13.72	14.99	16.87	19.24
Growth					
Gross customer loans	29.4	31.3	19.0	19.0	19.4
Average interest earning assets	24.1	30.5	24.3	19.0	19.2
Total asset (%)	27.4	30.2	16.0	18.4	19.0
Risk weighted assets (%)	-	-	-	-	-
Customer deposits (%)	-	-	-	-	-
Leverage & capital measures					
Customer loan/deposits (%)	-	-	-	-	-
Equity/assets (%)	25.3	22.7	21.4	20.3	19.5
Tangible equity/assets (%)	25.3	22.7	21.4	20.3	19.5
RWA/assets (%)	-	-	-	-	-
CET 1 CAR (%)	-	-	-	-	-
Total CAR (%)	-	-	-	-	-
Asset Quality (FSSIA's calculation)					
Change in NPL (%)	70.8	174.8	37.7	20.0	20.0
NPL/gross loans (%)	1.4	2.9	3.4	3.4	3.5
Allowance for ECL/gross loans (%)	2.0	3.1	3.6	3.6	3.6
Allowance for ECL/NPL (%)	143.6	105.1	105.0	105.0	105.0
Valuation					
Recurring P/E (x) *	14.9	14.5	16.1	12.7	10.1
Recurring P/E @ target price (x) *	15.9	15.4	17.1	13.5	10.7
Reported P/E (x)	14.9	14.5	16.1	12.7	10.1
Dividend yield (%)	1.1	2.7	2.5	3.1	3.9
Price/book (x)	3.0	2.5	2.3	2.1	1.8
Price/tangible book (x)	3.0	2.5	2.3	2.1	1.8
Price/tangible book @ target price (x)	3.2	2.7	2.5	2.2	1.9

Sources: Muangthai Capital; 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)¹

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).

Corporate Governance Report Disclaimer

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 companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). 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 data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. **FSSIA** does not confirm nor certify the accuracy of such survey result.

AGM Checklist by the Thai Investors Association (TIA)²

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)³

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)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. 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: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (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 Indices⁵ (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:

¹ 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.

² 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.

³ 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.

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

⁵ 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

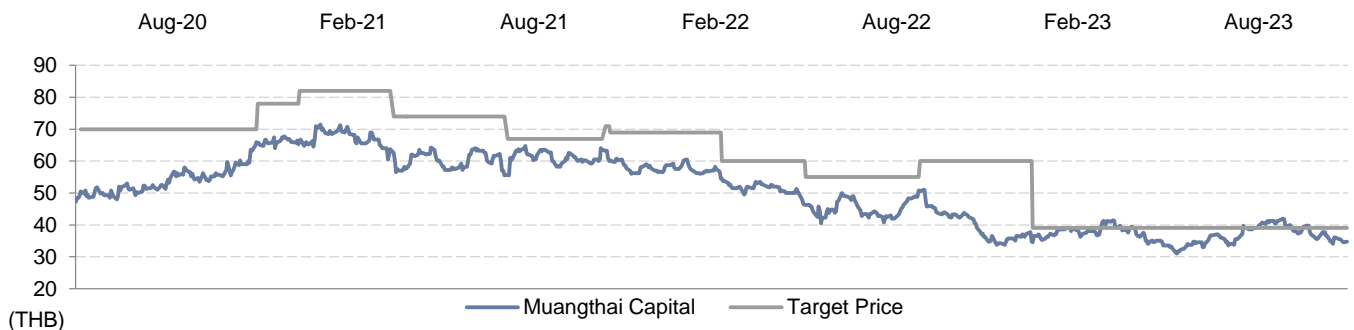
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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History of change in investment rating and/or target price

Muangthai Capital (MTC TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
13-Aug-2020	BUY	70.00	13-Aug-2021	BUY	67.00	28-Apr-2022	BUY	55.00
12-Jan-2021	BUY	78.00	05-Nov-2021	BUY	71.00	04-Aug-2022	BUY	60.00
17-Feb-2021	BUY	82.00	11-Nov-2021	BUY	69.00	09-Nov-2022	HOLD	39.00
07-May-2021	BUY	74.00	15-Feb-2022	BUY	60.00			

Usanee Liurut, CISA started covering this stock from 8-Aug-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Muangthai Capital	MTC TB	THB 34.75	HOLD	Downside risks to our GGM-based TP include 1) a further weakening of asset quality that could potentially hit both loan yield and credit cost; and 2) changes in financial regulations by the Bank of Thailand and the Office of the Consumer Protection Board. Upside risks to our TP include 1) better asset quality control; and 2) an increase in the interest rate charged to clients.

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 07-Aug-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.