

Thailand Unsecured Consumer Finance

Stagnating growth, quality remains in focus

- The credit card industry is in a contracting trend, while the personal loan sector is slowing down, affected by the disappointing economic recovery.
- We expect operators to achieve moderate loan growth in 2023 while sustaining their efforts to control bad debt, i.e., huge loan loss provisions and write-offs.
- We initiate coverage of AEONTS and KTC with HOLD calls from our negative short-term view of the industry.

Unpleasant loan growth for 2023 weighed down by macro factors

Regarding the Bank of Thailand (BoT)'s 3Q23 economic overview, the Thai economy continued to expand from the previous quarter on the back of private consumption and a recovery in the service sector. In addition, merchandise exports slightly increased, consistent with activities in the manufacturing sector. However, private investment decreased and public spending contracted compared to 3Q22. Hence, the growth situation for credit cards and personal loans noticeably slowed in 9M23, in line with the overall economic trend, causing financial institutions to adjust credit policies by emphasizing quality rather than growth. 9M23 loan contraction for the domestic credit industry was generally concentrated in commercial banks, with a 5.61% YTD decline. Meanwhile, non-bank operators also showed a decline but at a lesser magnitude of 2.38% YTD. The personal loans industry, as of 9M23, was concentrated within non-bank operators with a growth rate of 4.20% YTD, while commercial banks saw a 9.21% decline in growth, pushing overall loan growth to contract 1% YTD.

Expect emphasis on quality to persist in 4Q23-2024

With disappointing signs that the domestic economy is still sluggish, we do not expect operators to be aggressive with their loan growth policies. Instead, they will likely continue to put emphasis on credit quality and prolong their active bad debt management via setting up provisions and write-offs. We estimate that the trend will continue until at least 1H24 or until signs of a meaningful economic recovery are imminent, i.e., the rebound of exports, tourism, and government spending.

Initiate coverage of AEONTS and KTC with a muted growth outlook for 2023

We initiate coverage of AEONTS and KTC, two major consumer finance operators. We estimate loan growth for FY2023 at 4.5% y-y for AEONTS and 6.22% y-y for KTC, noting the unimpressive industry overview, while deteriorating household spending should also be reflected in increased pressure on asset quality. This should cause a ramping-up of provisions for NPLs, thus muting bottom-line growth in 2023. We forecast a prolonged rising trend for NPL ratios (6.5% for AEONTS and 2.49% for KTC), which would come with increasing credit costs (810 bps for AEONTS and 547 bps for KTC).

We have HOLD recommendations on KTC and AEONTS

We have a HOLD recommendation on both AEONTS and KTC at our GGM-based TPs of THB169 and THB49, implying P/BV ratios of 1.6x and 3.11x, respectively. We expect the share prices of both companies to finish below their long-term average valuations to reflect the industry's muted outlook. Despite trading at an extreme discount from long-term multiples, we do not expect a valuation re-rating in the near term due to sustained pressures from growth and asset quality along with the economic trend.



Usanee Liurut, CISA

Fundamental Investment Analyst on Capital Market;
License no. 017928
usanee.l@fssia.com, +66 2646 9967

Maeta CherdSATIRAKUL

Research Assistant
maeta.c@fssia.com, +66 2646 9971

The Chairman Of The Board of Finansia Syrus Securities PCL is also AEONTS's Director.

Contents

Uneven economic recovery, sluggish domestic consumption.....	3
Credit card and personal loan growth under prudent strategy.....	5
Credit cards: red ocean business with negative loan growth foreseen in 2024.5	
Personal loan growth continuing with a more prudent strategy.....	8

Company Report

AEON Thana Sinsap (Thailand) (AEONTS TB, HOLD, TP THB169.00)
Krungthai Card (KTC TB, HOLD, TP THB49.00)

Uneven economic recovery, sluggish domestic consumption

Regarding the BoT's 3Q23 economic overview, the Thai economy continued to expand from the previous quarter on the back of private consumption and a recovery in the service sector, which improved in line with the number of Thai and foreign tourists. In addition, merchandise exports, excluding gold, slightly increased from automobile and petroleum exports, which were consistent with activities in the manufacturing sector. However, after accelerating in the preceding period, private investment decreased from lower machinery and equipment investments. Public spending, excluding transfer payments, also showed a contraction compared to 3Q22 from current and capital expenditures. Headline inflation fell from lower fresh food prices and lower core inflation. Hence, the 9M23 GDP expanded by only a mere 1.9%, still lower than the BoT's 2023 GDP forecast of 2.8%, leading to the possibility of another round of GDP forecast reductions at the next MPC committee meeting (29 November 2023).

Exhibit 1: Macroeconomic projections as of September 2023

Annual percentage change	2022*	2023	2024
GDP growth	2.6	2.8 (3.6)	4.4 (3.8)
Domestic demand	4.1	3.2 (2.5)	4.1 (3.2)
Private consumption	6.3	6.1 (4.4)	4.6 (2.9)
Private investment	5.1	1.0 (1.7)	4.9 (4.9)
Government consumption	0.2	-3.1 (-2.8)	1.4 (1.1)
Public investment	-4.9	1.3 (2.5)	4.8 (6.8)
Exports of goods and services	6.8	3.8 (7.3)	6.7 (6.7)
Import of goods and services	4.1	-0.1 (0.9)	6.3 (5.5)
Current account (billion, U.S. dollar)	-14.7	5.0 (6.0)	10.0 (12.5)
Value of merchandise exports (%YoY)	5.4	-1.7 (-0.1)	4.2 (3.6)
Value of merchandise imports (%YoY)	14.0	-0.1 (0.7)	4.1 (4.2)
Number of foreign tourists (million persons)	11.2	28.5 (29.0)	35.0 (35.5)
Dubai crude oil price (U.S. dollar per barrel)	96.5	83.0 (86.0)	85.0 (90.0)
Headline inflation	6.1	1.6 (2.5)	2.6 (2.4)
Core inflation	2.5	1.4 (2.0)	2.0 (2.0)

Notes: * Outturns
() Previous projection in Monetary Policy Report Q2/2023

Exhibit 2: Private consumption indicators

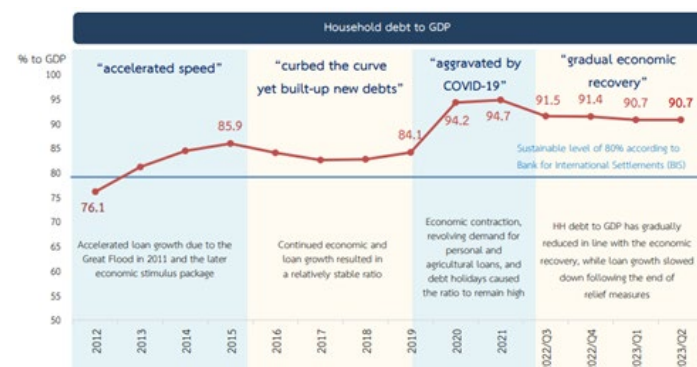
Indices	2022	2022		2023					m-m%
		1H	2H	1Q	2Q	3Q	Aug	Sep	
Non-durables	2.1	0.0	4.4	1.9	2.3	1.4	2.0	0.3	-1.0
Semi-durables	1.1	0.6	1.6	0.7	-0.5	-0.1	-0.1	-0.3	-0.9
Durables	7.5	6.7	8.2	2.6	4.5	-0.6	-1.8	-2.6	0.0
Services	22.9	18.4	27.2	25.1	20.3	16.8	16.6	15.9	0.7
(less) Net tourist expenditure	1,065.6	495.8	1,528.0	382.3	262.2	61.3	38.8	35.3	7.5
PCI	8.4	7.2	9.7	7.0	6.9	7.0	7.0	6.3	-0.5

Sources: BoT; FSSIA's compilation

Note: 1) 3Q23 and Sep-23 data points are preliminary data which could be subject to adjustments by the BoT; and 2) m-m% calculations are adjusted for seasonal influences by the BoT
Sources: BoT; FSSIA's compilation

For the 2024 GDP outlook, BoT expects GDP growth of 4.4% (initially 3.8%) from the latest MPC committee meeting (September 2023), an acceleration from 2023E of 2.8%. Tourism is also a vital recovery driver, but the momentum should slow. Meanwhile, the export sector should grow positively, including the government stimulus projects to boost the economy. Those are slated to come into effect in 2024, and should be an essential supporting factor to help expand domestic consumption.

Exhibit 3: Household debt to GDP



Source: BoT

Exhibit 4: Credit assistance from financial institutions



Note: Dark colours represent banks and non-banks, while light colours represent SFIs.

Source: BoT

However, household debt problems and signs of bad debt continue to increase. According to data from the National Credit Bureau (NCB), debt classified as special mention loans (SM), or stage 2 loans, in 3Q23 reached THB492b, increasing significantly by 21.4% y-y. These consisted of hire-purchase loans worth THB210b (+17.5% y-y), housing loans worth THB136b (+37% y-y), credit card loans worth THB9.5b (+6.5% y-y), and personal loans (+17% y-y). It is a critical factor, and we have a cause for concern about the overall asset quality of the consumer finance operators if economic growth continues at a slow pace since it would cause stage 2 loans to flow into a higher volume of NPLs, affecting purchasing power and consumption in the country.

Credit card and personal loan growth under prudent strategy

The growth situation for credit cards and personal loans noticeably slowed in 9M23, in line with the overall economic downturn and high levels of household debt, causing financial institutions to adjust credit policies by emphasizing quality rather than growth.

Exhibit 5: Thailand credit card and personal loan retrospective growth

	2016	2017	2018	2019	2020	2021	2022	Sep 23	----- Change -----		2022		
Credit card loans	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(% ytd)	(% y-y)	3Y CAGR	7Y CAGR	(% y-y)
Commercial banks	218	236	253	279	273	279	242	229	-5.61	-15.98	-4.66	2.41	-13.14
Non-banks	142	158	165	178	177	179	241	235	-2.38	28.05	10.67	9.38	34.24
Total	360	394	419	457	450	458	483	464	-4.00	1.76	1.85	5.43	5.41
Personal loans	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(% ytd)	(% y-y)	3Y CAGR	7Y CAGR	(% y-y)
Commercial banks	156	156	167	221	193	206	200	181	-9.21	-20.33	-3.25	3.43	-2.77
Non-banks	177	199	216	235	237	247	316	329	4.20	25.98	10.34	10.15	27.97
Total	333	354	383	456	430	452	516	510	-1.00	4.41	4.20	7.13	14.00
Auto title loans				(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(% ytd)	(% y-y)	3Y CAGR		(% y-y)
Commercial banks				34	32	32	38	43	13.99	20.34	4.01		19.43
Non-banks				91	118	149	210	273	30.08	43.02	32.30		40.56
Total				124	150	181	248	316	27.62	39.43	25.86		36.86
Total p-loans				(THB b)	(THB b)	(THB b)	(THB b)	(THB b)	(% ytd)	(% y-y)	3Y CAGR		(% y-y)
Commercial banks				254	225	237	238	225	-5.52	-14.80	-2.23		0.19
Non-banks				326	355	396	525	602	14.53	33.17	17.30		32.72
Total				580	580	633	763	826	8.28	15.50	9.58		20.53
Common-size				(%)	(%)	(%)	(%)	(%)					
Credit cards				44.1	43.7	42.0	38.8	35.9					
Personal loans				43.9	41.7	41.4	41.4	39.6					
Auto title				12.0	14.6	16.6	19.9	24.5					
Total				100.0	100.0	100.0	100.0	100.0					

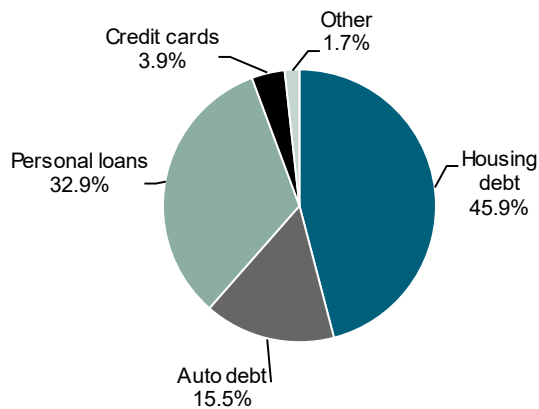
Sources: BoT; FSSIA's compilation

Credit cards: red ocean business with negative loan growth foreseen in 2024

9M23 loan contraction for the domestic credit industry was generally concentrated in commercial banks, with a 5.61% YTD decline in their outstanding loans. Meanwhile, credit card loans for non-bank operators also showed a decline but at a lesser magnitude of 2.38% YTD, leading the overall decrease in the industry figure of 4% YTD against a long-term average growth rate of 5.43% 7Y CAGR, and even lower to 1.85% at a 3Y CAGR. This reflects the conservative stance by industry players amid the high level of household debt and deteriorating personal purchasing capability. Under our expectation that the economic gloom will persist and could be prolonged throughout 2024, we do not expect a marked recovery for the credit card industry in 4Q23-2024.

As of 3Q23, credit card loans made up the fourth most significant contribution in the pool of Thai household debts at 3.9% of total after housing, personal loans, and auto loans – 45.9%, 32.9%, and 15.5%, respectively. The regulation of the credit card industry has changed frequently, especially during the Covid years (2020-22). In 2017, the BoT changed the credit lending limit to 1.5-5x of monthly income, from no more than 5x, depending on monthly salary ranges, with a lower interest rate ceiling from 20% to 18%. In 2020, as a measure to support Covid-affected households, the BoT imposed a regulation to allow for a higher lending limit from 1.5-2x in the low-income group (less than THB30k per month), with the minimum payment slashed from 10% to 5% while allowing outstanding credit card debts to be converted to fixed term loans, repaid in installments. Meanwhile, the regulator also lowered the interest rate ceiling to 16%. By 2024-25, according to the policy guidance, the minimum repayment level will gradually normalize back to 8% and 10%, respectively, putting pressure on customers' repayment ability in the future.

Exhibit 6: Thailand household debt breakdown in 3Q23



Sources: BoT; FSSIA's compilation

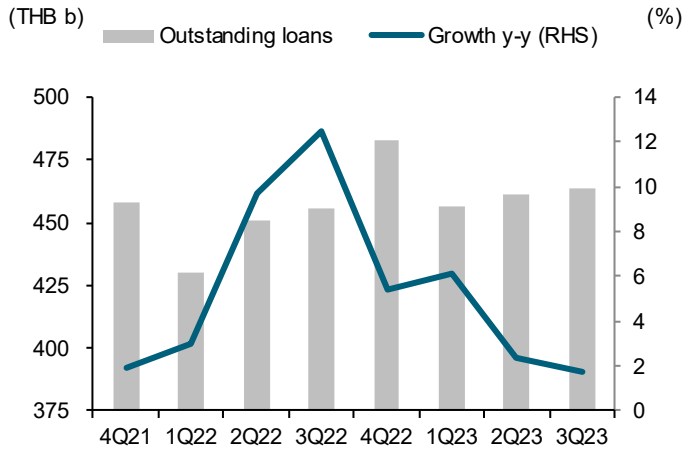
Exhibit 7: Regulated credit limit and interest rate ceilings

Years	Pre-2017	2018-2019	2020	2023	2024E	2025E
Interest rate (%)	20	18	18	16	16	16
Minimum repayment (%)	10	10	5	5	8	10
Credit limit	< THB 30k					
	THB 30k-50k	5x income	1.5x income	2x income	1.5x income	
	> THB 50k		3x income	5x income	3x income	5x income

Source: BoT

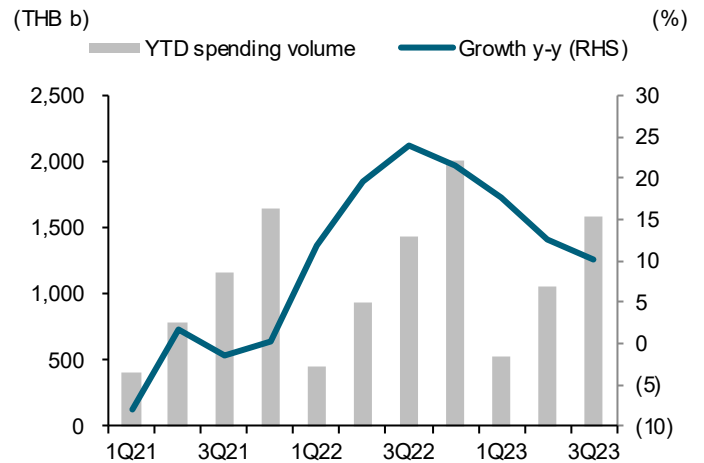
In 2021, commercial banks were the main contributors to credit card loans and the card trading volume at 60.9% and 65.4%, respectively. However, the ejection of credit card lending from SCB bank to SCBX and its re-classification as a non-bank institution means that the majority of loans within the industry have meaningfully shifted toward non-banks, ending 3Q23 at a 50.7% proportion. The spending volume from non-banks increased from 34.6% at the end of 2021 to 44.1% in 3Q23. In contrast, non-bank operators' credit customer accounts have consistently exceeded their bank counterparts due to banks' stricter creditworthiness criteria and non-banks' strategic move to target more broad-based low-income customers, having looser credit approval policies and offering supplementary cards to stimulate spending.

Exhibit 8: Industry loans and growth, 4Q21-3Q23



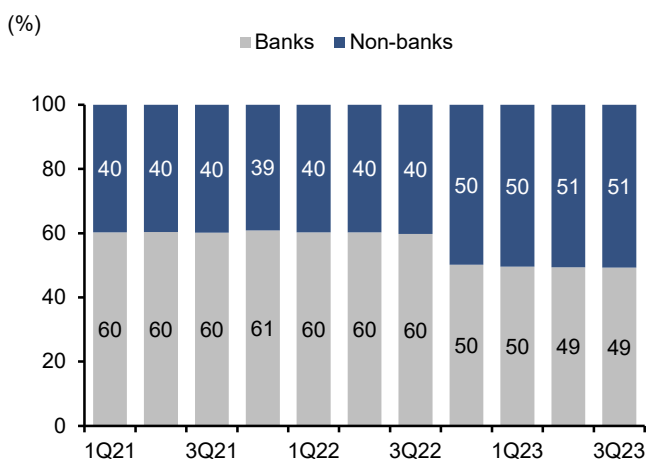
Sources: BoT; FSSIA's compilation

Exhibit 9: Spending volume growth



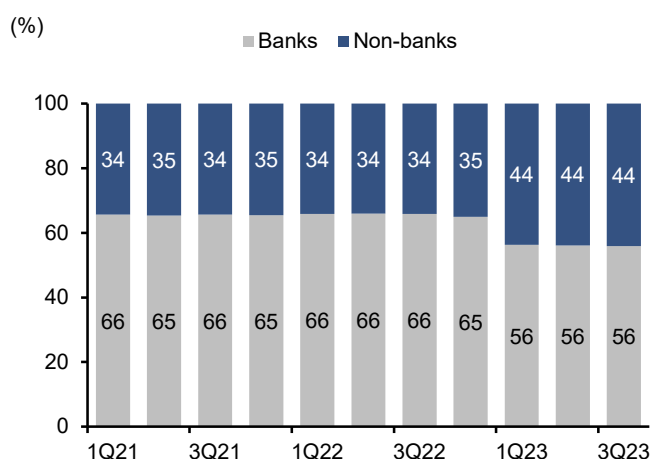
Sources: BoT; FSSIA's compilation

Exhibit 10: Credit card loan contributions, 1Q21-3Q23



Sources: BoT; FSSIA's compilation

Exhibit 11: Card spending contributions, 1Q21-3Q23

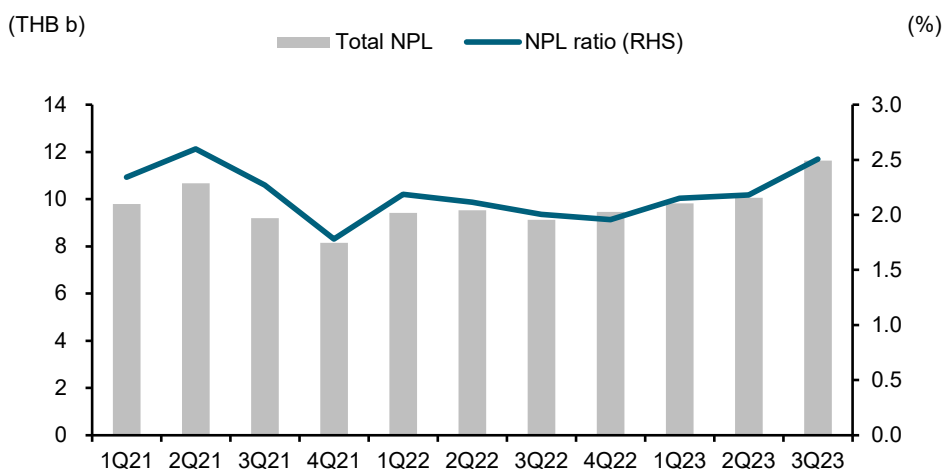


Sources: BoT; FSSIA's compilation

In 2023, the overall credit card industry had a good start in 1H23 and ended the half with 12.6% y-y growth in spending volume, despite following a performing year in 2022. However, as the slowdown in domestic purchasing ability became apparent, the 9M23 figures portrayed muted signs of loan growth and a slowdown in trading volume in the same period. As of 3Q23, the industry's total loans increased by 1.76% y-y, a deceleration from 12.48% y-y in 3Q22, while the trading volume grew by a mere 3.64% y-y against 22.19% in the prior year, showing signs of the weaker purchasing capability of households over the softening economic activity.

Following the decelerating backdrop in loan growth, the asset quality of the industry also showed signs of weakening, with the 3Q23 NPL ratio reaching 2.51%, constantly increasing from 1.96% in 4Q22 and 2.18% in 2Q23 amid the higher tension from a plateaued level of household debt. We expect operators, especially non-banks targeting low-income customers, to remain cautious about growth this year and focus more on lending quality, limiting the growth capability in 2023. This should be prolonged until there is meaningful momentum in the domestic economic recovery, possibly in 2H24 or 2025, which we expect to come from government spending and the global economic recovery. Meanwhile, we estimate the impact of the deteriorating purchasing power of Thai households to prompt industry players to proactively manage bad debt, leading to a higher level of NPL write-offs and thicker layers of provisions, putting pressure on companies' bottom-line growth in 2023.

Exhibit 12: Industry NPL ratio



Sources: BoT; FSSIA's compilation

Personal loan growth continuing with a more prudent strategy

The growth of Thailand's personal loan industry as of 9M23 was concentrated within non-bank operators with a growth rate of 4.20% YTD, while commercial banks saw a 9.21% decline in growth, pushing overall loan growth to contract by 1.00% YTD.

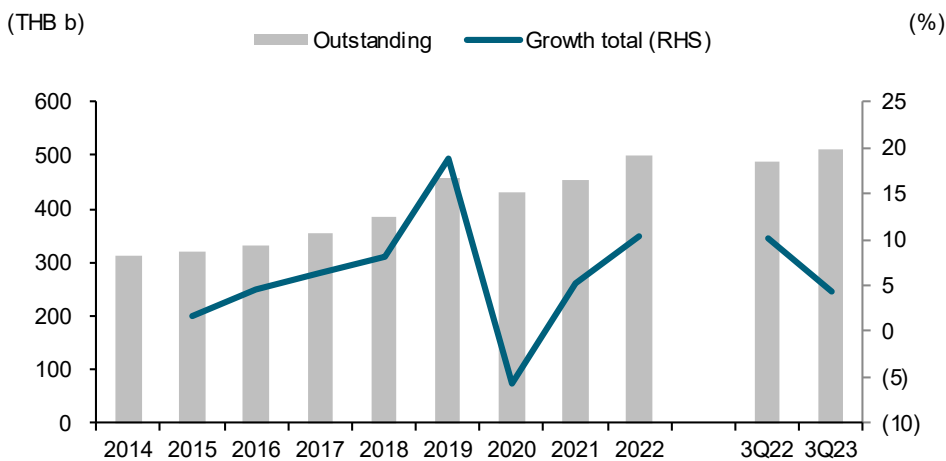
Thailand's personal loan industry comprises unsecured products (62% of total), while the rest is secured products, i.e., auto, motor, and housing title loans. In August 2020, the BoT reduced the interest rate ceiling to 25% from 28% p.a. for unsecured loans while reducing the interest rate on auto title loans to 24% from 28% p.a.

Following the Covid-19 pandemic, the overall growth of the industry was relatively dimmer compared to the years before 2019. However, in 2022, the market expectation of an economic recovery led operators to gain more confidence in growth, resulting in a 20.53% y-y growth rate for outstanding personal loans (including title loans), which was primarily concentrated in the title loan segment (36.86% y-y growth), serving the low-income group, while unsecured loans grew relatively softer at 14% y-y.

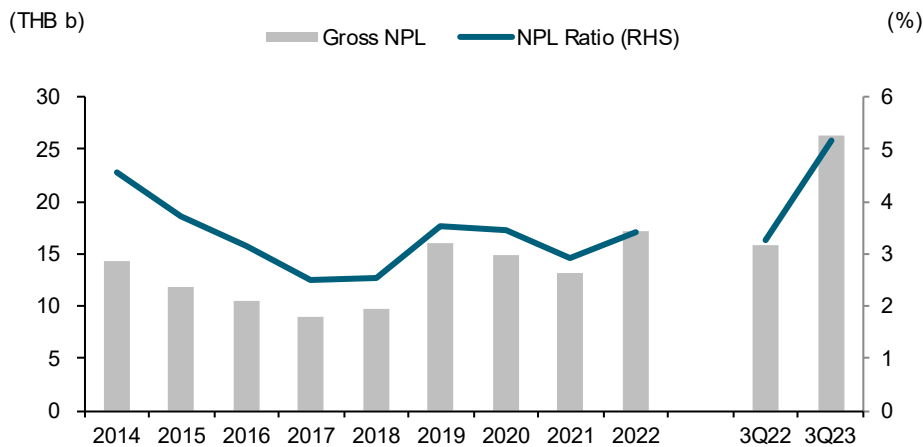
With a narrower margin for returns, operators shifted to focus on risks via increasing profitability and reducing bad debt formation to offset regulation setbacks. This can be observed from the declining number in the loan per account figure, which has declined from its peak of THB33.7k per account in 2019 to THB28.9k per account as of 3Q23 (falling by 2% CAGR).

However, with the debt relief program terminating at year's end in 2023, this should lead to a spike in the overall level of NPL debtors, requiring industry players to perform aggressive debt write-offs and bad debt provisioning as countermeasures. We expect a higher level of pressure from the plateaued household debt, which has led to higher regulatory risks from the BoT, coupled with slowing macroeconomic momentum to weigh on the industry's growth capacity in the future. Given this backdrop, we expect fiercer competition within the auto and land title segments as operators will likely seek to limit their downsides in growing their secured loan segment.

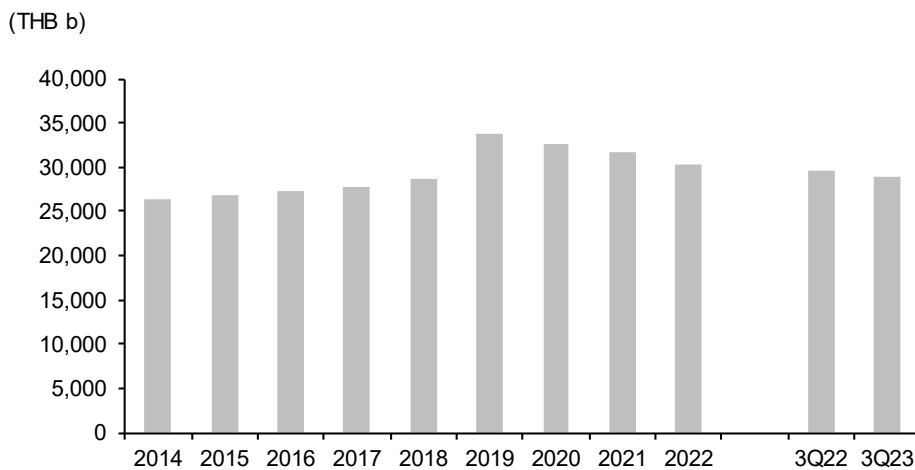
Exhibit 13: Industry loan and growth rate, 2014-3Q23



Sources: BoT; FSSIA's compilation

Exhibit 14: Gross NPLs and NPL ratio, 2014-3Q23

Sources: BoT; FSSIA's compilation

Exhibit 15: Loans per account, 2014-3Q23

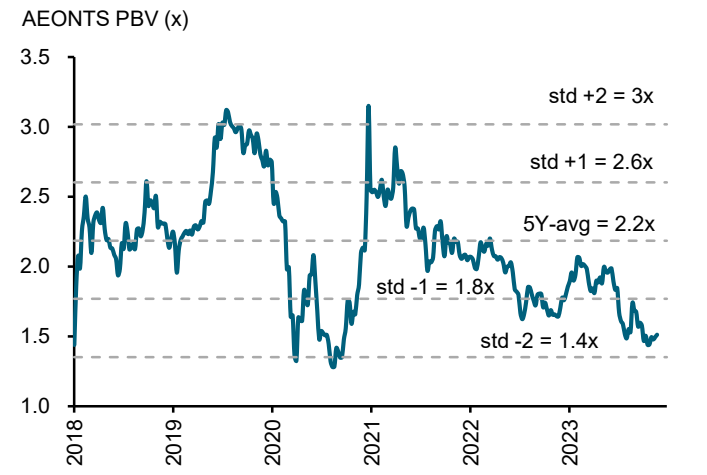
Sources: BoT; FSSIA's compilation

Exhibit 16: Peers comparison, as of 27 November 2023

Company name	code	Rec	Share price (LCY)	Target price (LCY)	Up side (%)	PE		PBV		ROE		Div yld	
						23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)
Thailand													
Krungthai Card	KTC TB	HOLD	46.25	49.00	6	16.4	15.1	3.3	2.9	21.7	20.7	2.4	2.4
AEON Thana Sinsap (Thailand)	AEONTS TB	HOLD	156.00	169.00	8	12.5	11.6	1.6	1.5	13.1	13.2	3.5	4.0
Muangthai Capital	MTC TB	BUY	43.00	44.00	2	19.1	14.9	2.9	2.4	15.6	17.7	0.8	1.0
Srisawad Corp	SAWAD TB	BUY	43.75	54.00	23	11.2	9.5	2.1	1.9	19.7	20.7	4.1	4.6
Ngern Tid Lor	TIDLOR TB	BUY	22.60	28.00	24	16.6	13.8	2.2	2.0	14.2	15.2	1.2	1.5
Average						15.2	13.0	2.4	2.1	16.9	17.5	2.4	2.7

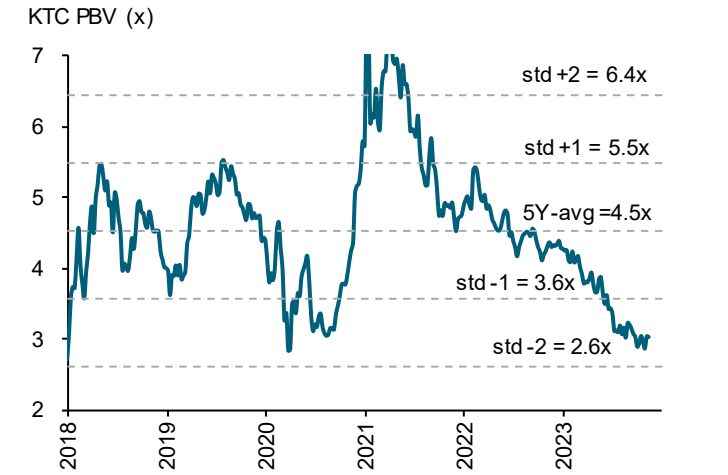
Sources: Bloomberg; FSSIA estimates

Exhibit 17: AEONTS – one-year prospective P/BV band



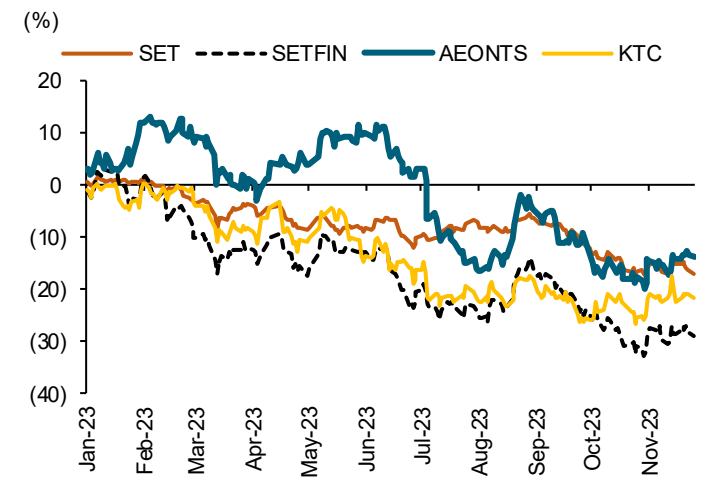
Sources: Bloomberg; FSSIA estimates

Exhibit 18: KTC – one-year prospective P/BV band



Sources: Bloomberg; FSSIA estimates

Exhibit 19: Price performance year-to-27 Nov 2023



Sources: Bloomberg; FSSIA's compilation

Exhibit 20: Price performance year-to-27 Nov 2023

BBG	Price performance				
	1M	3M	6M	1Y	YTD
AEONTS	4.67	4.67	4.67	4.67	4.67
KTC	3.98	3.98	3.98	3.98	3.98
SET Index	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
SETFIN Index	2.82	2.82	2.82	2.82	2.82

Sources: Bloomberg; FSSIA's compilation

AEON THANA SINSAP (THAILAND)

THAILAND / FINANCE & SECURITIES

AEONTS TB

HOLD

Continued strong headwinds in 2024/25

- We have a negative view on the credit card and personal loan segments due to headwinds continuing in FY24.
- We expect FY24-25 net profit to grow just 7.2% p.a. CAGR.
- We initiate coverage with a HOLD call; our FY24 GGM-based TP is THB169.

TARGET PRICE	THB169.00
CLOSE	THB156.00
UP/DOWNSIDE	+8.3%
TP vs CONSENSUS	-6.1%

KEY STOCK DATA

YE Feb (THB m)	2022	2023E	2024E	2025E
Operating profit	4,950	4,022	4,338	4,618
Net profit	3,815	3,113	3,360	3,578
EPS (THB)	15.26	12.45	13.44	14.31
vs Consensus (%)	-	-	-	-
Recurring net profit	3,815	3,113	3,360	3,578
Core EPS (THB)	15.26	12.45	13.44	14.31
EPS growth (%)	7.4	(18.4)	7.9	6.5
Core P/E (x)	10.2	12.5	11.6	10.9
Dividend yield (%)	3.5	3.5	4.0	4.5
Price/book (x)	1.7	1.6	1.5	1.4
ROE (%)	17.9	13.1	13.2	13.1
ROA (%)	4.3	3.3	3.4	3.4

Business tightened during economic fluctuations

The FY23 (Mar-23 to Feb-24) business strategy remains unchanged from the past few years. AEONTS' loan growth for each category during 1HFY23 was relatively flat. Apart from its desire to protect its asset quality from deteriorating further, significant loan write-offs put critical pressure on loans during the same period. We expect FY24-25 loans to grow by 6.2% p.a. under the assumption of continued credit stringency.

Asset quality continued deteriorating; high credit costs imminent

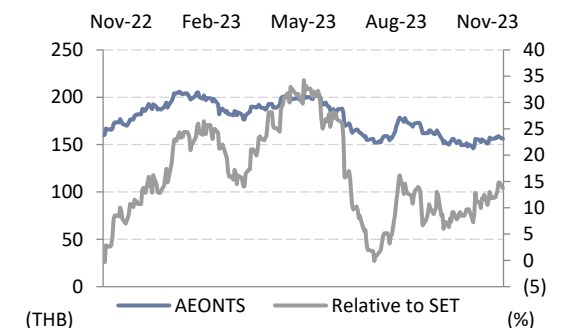
The 1HFY23 NPL ratio stood at 6.18%, whereas the NPL coverage ratio declined to 173.58%. Although the company reaffirmed that its credit costs had already passed their peak of 9.50% in 1QFY23 to 8.88% in 2QFY23, it was still a significant amount to support a large number of average write-offs; THB1.96b-2.31b per quarter. We expect the FY23 NPL ratio to accelerate to 6.50% then decline to 5.50% and 5.00% in FY24-25, respectively. We also project FY23 credit costs to remain at a high level of 8.10%, then slightly decline to 7.90% and 7.80% in FY24-25, respectively, since we are concerned about the BoT's regulation changes that will lift the minimum payment for credit cards to 8% in 2024 and 10% in 2025, from 5% at present.

3QFY23 profit expected to decline and bounce back in 4QFY23

We expect a 3QFY23 net profit of THB751m, slipping by 10.8% q-q and 32.0% y-y, mainly dragged by the reduction in gains on sales of written-off accounts receivable, of which we predict none in this quarter (THB167m in 2QFY23). Typically, 4Q is the high season of spending, which should bode well for AEONTS' net profit. For FY23, we expect AEONTS to have a net profit of THB3.11b, decreasing by 18.4% y-y, mainly dragged by rising interest expenses and credit costs. Regarding FY24-25, we project the net profit to post an average growth rate of 7.2% p.a. CAGR, from a continued prudent strategy on loan growth and imminent credit cost expected.

Initiate coverage with HOLD; prudent strategy in FY24-25

We initiate coverage of AEONTS with a HOLD call at the current price due mainly to our slightly negative view on the credit card and personal loan segments. Our FY24 GGM-based TP of THB169 implies a P/BV of 1.60x, with an FY24E potential return of merely 11.9%.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	4.0	(12.6)	(2.5)
Relative to country (%)	3.6	(2.1)	13.4
Mkt cap (USD m)	1,110		
3m avg. daily turnover (USD m)	0.9		
Free float (%)	41		
Major shareholder	AEON Financial Service Co Ltd (32%)		
12m high/low (THB)	208.00/145.00		
Issued shares (m)	250		

Sources: Bloomberg consensus; FSSIA estimates



Usanee Liurut, CISA

Fundamental Investment Analyst on Capital Market;
License no. 017928
usanee.l@fssia.com, +66 2646 9967

Maeta Cherdsatirakul

Research Assistant
maeta.c@fssia.com, +66 2646 9971

The Chairman Of The Board of Finansia Syrus Securities PCL is also AEONTS' Director.

Investment thesis

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

- 1) We have a negative view on the credit card and personal loan segments due to headwinds continuing in FY24.
- 2) We expect the FY23 NPL ratio to accelerate to 6.50%. We also project FY23 credit costs to remain at a high level of 8.10%. We are concerned about the BoT's regulation changes that will lift the minimum payment for credit cards to 8% in 2024 and 10% in 2025.
- 3) We expect FY24-25 net profit to grow just 7.2% p.a. CAGR.

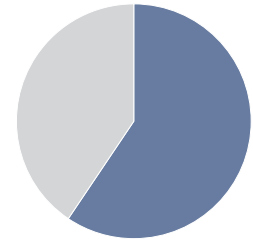
Company profile

AEONTS's main business activity is providing a variety of retail finance services, including credit cards, personal loans, hire purchase, a life-insurance broker business, non-life insurance broker business, debt collection and others. As of 28 February 2023, AEONTS has a total of 104 branches, of which 31 branches are in Bangkok and the vicinity while the remaining are distributed nationwide. As of 31 August 2023, the company has 3.33 million ready-to-use credit cards and 6.61 million membership cards for personal loans.

www.aeon.co.th

Principal activities (revenue, 1H23)

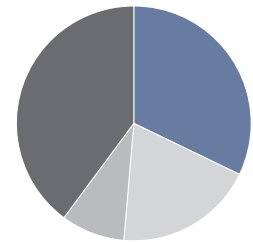
- Net interest income - 59.4 %
- Non-interest income - 40.6 %



Source: Aeon Thana Sinsap (Thailand)

Major shareholders

- AEON Financial Service Co Ltd - 32.2 %
- ACS Capital Corp Co Ltd - 19.2 %
- Aeon Holding Thailand Co Ltd - 8.8 %
- Others - 39.9 %



Source: Aeon Thana Sinsap (Thailand)

Catalysts

- 1) Better-than-expected loan growth.
- 2) Better-than-expected spread.
- 3) Lower-than-expected NPLs and credit cost.
- 4) Lower-than-expected operating expenses

Risks to our call

Downside risks are: 1) regulatory actions to curb industry growth; 2) a higher-than-expected policy rate; and 3) deteriorating asset quality. Upside risks are: 1) better-than-estimated economic improvement; 2) stronger-than-estimated improvement in the overall asset quality; and 3) less pressure from the market yield and cost of funds.

Event calendar

Date	Event
11 Jan 2024	3QFY23 results announcement

Key assumptions

	2023E	2024E	2025E
	(%)	(%)	(%)
Loan growth	4.50	6.20	6.15
Interest spread	16.73	16.73	16.78
Net fee income growth	1.00	3.00	3.00
Cost to income	36.82	36.82	36.81
Credit cost (bp)	810	790	780
NPL ratio	6.50	5.50	5.00
ROE	13.14	13.20	13.13
ROA	3.22	3.30	3.28

Source: FSSIA estimates

Earnings sensitivity

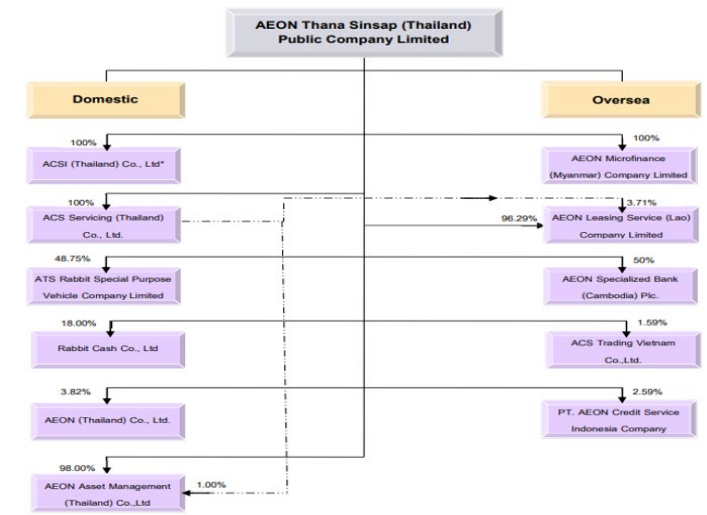
		----- 2024E -----		
Loan growth (%)	±2ppt	4.20	6.20	8.20
<i>% change in net profit</i>		(2.4)		2.4
Spread (%)	±10bp	16.63	16.73	16.83
<i>% change in net profit</i>		(1.6)		1.6
Credit cost (bp)	±10bp	780	790	800
<i>% change in net profit</i>		+2.5		(2.5)

Source: FSSIA estimates

Business tightened during economic fluctuations

AEONTS’ competitive advantage in the lending business comes from having a Japanese parent company – AEON group, which holds 63.12% – with a powerful business brand. Creating brand awareness among consumers is relatively easy in the intensely competitive environment of the industry. AEONTS’ retail finance base is currently spread domestically and overseas – Cambodia, Myanmar, and Laos – via its investments in subsidiaries and affiliated companies.

Exhibit 21: AEONTS’ group structure



Source: AEONTS

Exhibit 22: AEONTS’ top ten major shareholders, as of 28 February 2023

	Name of Shareholders	No. of Shares	%
1	AEON Financial Service Co., Ltd. / Japan	87,800,000	35.12
2	ACS Capital Corporation Limited	48,000,000	19.20
3	AEON Holdings (Thailand) Co., Ltd.	22,000,000	8.80
4	Thai NVDR Co., Ltd.	19,354,963	7.74
5	Mr. Chatchaval Jiaravanon ¹	7,700,000	3.08
6	MORGAN STANLEY & CO. INTERNATIONAL PLC ¹	5,500,000	2.20
7	STATE STREET EUROPE LIMITED	5,064,117	2.02
8	SOUTH EAST ASIA UK (TYPE C) NOMINEES LIMITED	4,906,400	1.96
9	SE ASIA (TYPE B) NOMINEES LLC	2,585,020	1.03
10	THAI LIFE INSURANCE PUBLIC COMPANY LIMITED	2,441,600	0.97

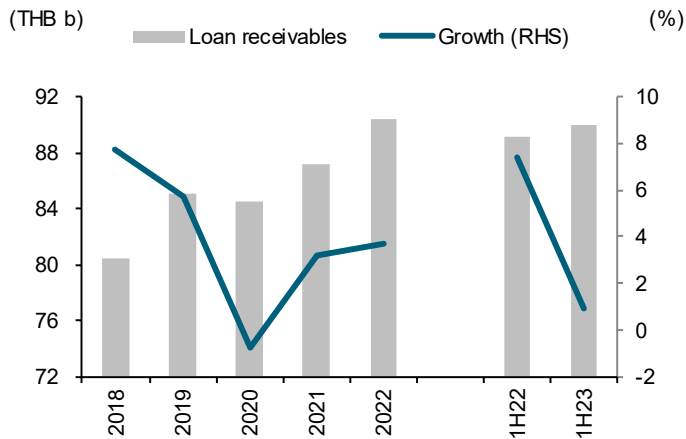
Source: AEONTS

The consumer finance industry has continued to expand as consumption spending demand and consumer confidence has been high for a prolonged period. Credit card receivables as of September 2023 totaled THB463b, up 1.8% y-y. The total volume of credit card spending was THB1.69t, up by 12.2% y-y during the same period. Meanwhile, personal loan receivables (excluding auto title loans) amounted to THB510b, up 4.4% y-y, and auto title loans increased significantly by 39.4% y-y. Compared to the industry, AEONTS’ market share of credit card receivables as of August 2023 (2QFY23) stood at 9.5%, relatively stable y-y. As for personal loan receivables (excluding auto title loans), AEONTS’ market share was at 6.2% during the same period.

AEONTS’ loans have slowed down in the post-Covid period, growing at a mere 3.7% p.a. CAGR during FY21-22, dragged by a decline in hire purchase loans and personal loans, which were relatively stable compared to the industry’s average growth of 15.5% p.a. during the same period. Only credit card loans grew at an average of 2.90% p.a., much lower than the industry’s average 16.7% growth. Key drags came mainly from the unfavorable economic situation and the high level of household debt, leading to asset quality problems.

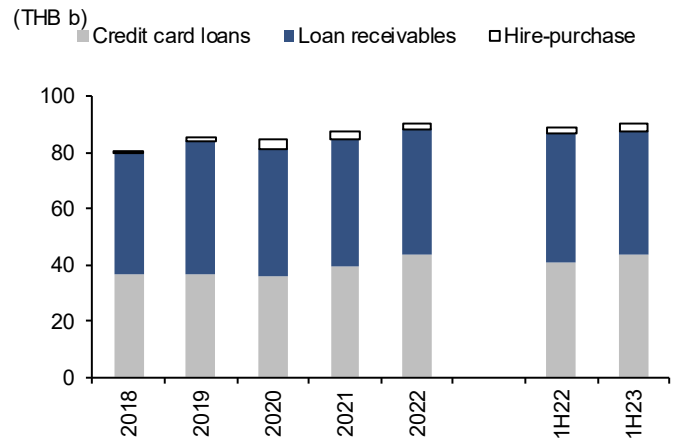
Meanwhile, its revenue structure over the past three years (FY20-22) has seen changes that reflect the economic picture. In addition, the modification of the credit card and personal loan interest rate ceiling by the Bank of Thailand (BoT) has also impacted its revenue structure. The highest proportion of income from the personal loan business, the high-risk segment, decreased to 54% of total revenue in FY22 from 60% of total in FY20, with the loan share falling to 48% of total loans at the end of FY22 from 52% of total in FY20.

Exhibit 23: Loan and loan growth during FY18-1H23



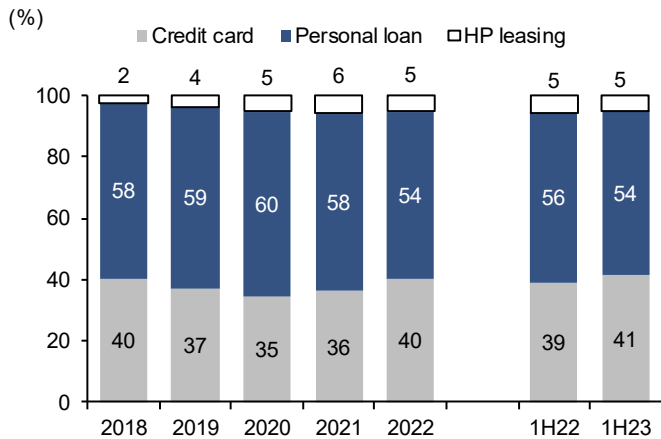
Sources: Company data, FSSIA's compilation

Exhibit 24: Loan breakdown, as of 1HFY23



Sources: Company data, FSSIA's compilation

Exhibit 25: Revenue breakdown during FY18-1HFY23



Sources: Company data, FSSIA's compilation

Exhibit 26: Regulated interest rate by products

	Pre-adjustment (% p.a.)	Aug 20 onwards (% p.a.)	Regulator
Credit cards	18	16	Bank of Thailand
Revolving personal loans	28	25	
Auto title loans	28	24	
Nano finance	36	33	Ministry of Finance
PICO finance	36	33	
Hire-purchase	n/a	23	Office of The Consumer Protection Board
New car	n/a	10	
Used car	n/a	15	
Motorcycle	n/a	23	

Sources: FSSIA's compilation

The FY23 business strategy remains unchanged from the past few years. AEONTS' loan growth for each category during 1HFY23 was relatively flat. Apart from its desire to protect its asset quality from deteriorating further, significant loan write-offs of cTHB4b put critical pressure on loans during the same period. We expect FY24-25 loans to grow at an average of 6.2% p.a. under the assumption of continued credit stringency.

Exhibit 27: AEONTS' branches, ATMs, and network

	FY18	FY19	FY20	FY21	FY22	1HFY23
No. of branches	104	105	103	101	104	104
% Bangkok	31	30	29	30	31	30
% Province	69	70	71	70	73	70
No. ATMs	440	413	411	389	146	141
Affiliated dealers	4,851	6,631	6,463	6,328	5,846	5,646

Sources: Company data, FSSIA's compilation

Exhibit 28: AEONTS' FY23 guidance and FSSIA's forecast

	AEONTS (%)	FSSIA (%)
Loan growth	5-6	4.5
NPL	5.5	6.5
Credit cost (bps)	750-770	810
Cost of funds	3.2-3.3	3.4
Cost-to-income	~36	36.8

Sources: Company; FSSIA estimates

Although the trend of business growth may slow down, AEONTS is still focused on developing its systems to achieve digitalization under the “Digitalization Roadmap” in every dimension since 2021. This includes the development of digital products and services, online distribution and repayment channels, and online stakeholders to replace the use of paper documents and branches, such as BTS Group Holdings (BTS TB, not rated), and the leaders of e-commerce platforms, e.g., Shopee and Lazada.

In addition, the company has also enhanced the efficiency of the lending process with the adoption of AI innovations and the use of other data combined with customer income data to enhance convenience, speed, and approval accuracy. This has resulted in better efficiency for its operations and a better risk level for customers. Moreover, for the debt collection process, AEONTS has also developed a model to improve the effectiveness of debt collection to reduce administrative and credit costs, reflected in the continued reduction of the 1HFY23 cost-to-income ratio to 38.8% from FY17-18 at 43.7%.

The BoT’s new persistent debt measure under its responsible lending policy targets revolving personal loans, which intersects with AEONTS’ product lines. However, the firm has declared that less than 5% of total loans are with revolving personal loan customers with a monthly salary lower than THB10k. In addition, if we account for 1) the opt-in condition by the BoT; and 2) the sub-group where repayments were not deducted from their loan principals, the proportion should be meaningfully lower. This leads us to expect an insignificant impact from the policy on AEONTS’ operations.

Strong international businesses but minimal impacts on the group’s profit

AEONTS emphasizes overseas investments, especially in the CLM countries, Cambodia, Laos, and Myanmar – a group of economies with growth potential at an expected average economic growth rate in 2023 of 2.5-6% p.a. The working population aged 20-30 has a relatively high demand for financial loans. Therefore, the company sees it as an excellent opportunity to expand to the CLM countries. Thus, affiliates’ business is likely to continue growing in the future.

There was economic volatility from several pressure points in 2022, such as financial market volatility and the global economic slowdown from rising interest rates; inflation; energy price crises; challenges in business operations due to the Covid-19 pandemic situation; and political tensions affecting the growth of the global economy and the economy of the CLM countries. The 1HFY23 revenue contributions from AEONTS’ overseas businesses accounted for 7%, whereas the net profit contributions were merely 4.5%. Hence, we do not expect any meaningful recovery in the earnings of AEONTS’ overseas subsidiaries in FY23-25.

Exhibit 29: Shareholding structure in subsidiaries and affiliated companies Title

Company	Business Type	Ownership (%)
Subsidiaries - Domestic		
1. ATS Rabbit Special Purpose Vehicle Company Limited ¹	Special purpose vehicles (SPV)	48.75
2. ACSI (Thailand) Co., Ltd. (formerly AEON Insurance Service (Thailand) Company Limited) ²	Life / Non-life insurance brokerage services	100.00
3. ACS Servicing (Thailand) Co., Ltd	Debt Collection services	100.00
4. AEON Asset Management (Thailand) Co.,Ltd ³	Non-performing assets management	98.00
Subsidiaries - Overseas		
5. AEON Specialized Bank (Cambodia) PLC	Specialized Bank in Cambodia	50.00
6. AEON Microfinance (Myanmar) Co., Ltd	Microfinance business in Myanmar	100.00
7. AEON Leasing Service (Lao) Co., Ltd ³	Leasing business in Laos	96.29
Other Affiliated Companies		
8. AEON (Thailand) Co., Ltd.	Retail Department Store	3.82
9. PT. AEON Credit Service Indonesia	Microfinance business in Indonesia	2.59
10. ACS Trading Vietnam Co., Ltd ⁴	Installments service in Vietnam	1.59
11. Rabbit Cash Co., Ltd ⁵	Provide lending services through digital platform	18.00

Source: Company data

Exhibit 30: Operating performances of AEONTS’ overseas businesses

(THB m)	FY	2018	2019	2020	2021	2022	1H22	1H23
Cambodia	Turnover	3,309	5,630	4,749	4,371	4,713	2,046	2,692
	Revenue	504	914	1,129	1,134	1,175	584	568
Myanmar	Turnover	2,119	2,944	1,369	223	45	12	37
	Revenue	272	402	325	34	17	2	52
Laos	Turnover	390	368	353	398	410	184	117
	Revenue	102	113	114	113	112	57	61
Total account receivables		3,627	5,850	5,542	5,542	5,072	5,184	5,463

Sources: Company data, FSSIA’s compilation

Cambodia: AEON Specialized Bank (Cambodia) Plc. ("ASB Cambodia"), established in 2011, is a specialized bank providing credit cards, personal loans, hire purchases, and car and motorcycle hire purchases. The company holds 50% of its share, and AEON Financial Service Co., Ltd. holds another 50%. At present, ASB Cambodia has 14 branches located in Phnom Penh, Stueng Mean Chey, Siem Reap, Battambang, AEON Mall Phnom Phen, Kampong Cham, Takeo, Banteay Mean Chey, Pochentong, Sihanoukville, AEON Mall Sen Sok, Chbar Ampov, Kampong Speu and AEON Mall Mean Chey. Aeon Mall Mean Chey, officially opened in December 2022, is a large shopping mall; the third Aeon Mall in Cambodia. It is ready to serve over 250 tenants and provide complete entertainment services to customers under the concept of "Edutainment Mall."

For FY22, ASB Cambodia generated revenue of THB1.18b, which increased by 4% y-y, and a net profit of THB124m, which rose over 41x y-y. For 1HFY23, the company reported total revenue of THB584m, decreasing by 3% y-y, and a net profit of THB69m, significantly decreasing by 35% y-y.

Myanmar: AEON Microfinance (Myanmar) Co., Ltd. ("AEON Myanmar") started to operate in 2013 with 100% of its shares held by AEONTS. Its head office is in Yangon City, a commercial hub and logistics center in Myanmar. For FY22, AEON Myanmar was continually impacted by the Covid-19 situation and the political tension in the country, resulting in the cessation of lending for new loans, but the company continues to collect outstanding debts as usual.

In FY22, AEON Myanmar generated revenue of merely THB17m, which decreased by 50% y-y, and a net loss of THB80m. For 1HFY23, the company reported total revenue of THB52m, a significant decrease y-y, and a thin net profit of THB9m, which fell by 36% y-y.

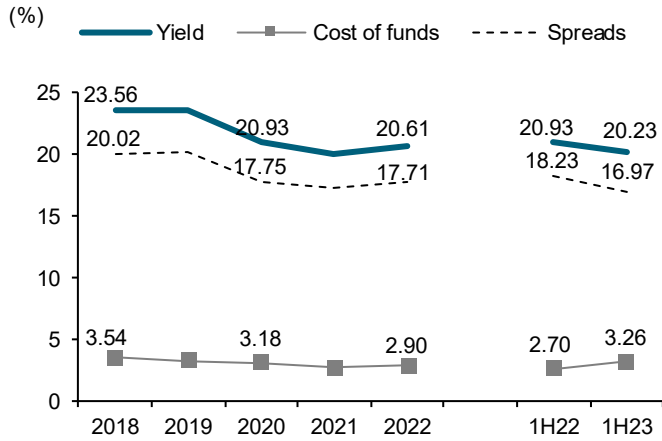
Laos: AEON Leasing Service (Lao) Co., Ltd. ("ALSL") has operated a hire purchase business since 2013 with 100% of its shares held by AEONTS. ALSL provides diversified hire purchase products, e.g., cars, motorcycles, gold, electric appliances, etc. At present, ALSL has two service branches in Vientiane and Pakse. For FY22, ALSL generated revenue of THB112m, down by 1% y-y, and a net profit of THB13m, up 3x from last year's net profit. For 1HFY23, the company reported total revenue of THB61m, increase by 7% y-y, and a thin net profit of THB11m, which rose by 38% y-y.

Rising cost of funds pressured short-term interest spread

Thanks to the group's policy of making interest rate swap contracts for all borrowings and debentures carrying floating interest rates by exchanging the difference between fixed and floating rate interest amounts calculated on agreed principal notional amounts, AEONTS mitigates the risk of changing interest rates. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows at the reporting date and the credit risk inherent in the contract. However, due to the rising market interest rate, AEONTS could inevitably be exposed to an increasing cost of funds. 1HFY23 cost of funds accelerated to 3.26% from 2.90% in FY22, pressuring its 1HFY23 spread to decline to 16.97% from 17.71% in FY22. Primary sources of funds are from bank loans (86% of total), while the rest are from debentures. We forecast the bank loan proportion could range from 81-84% during FY23-25, with the rest from debentures.

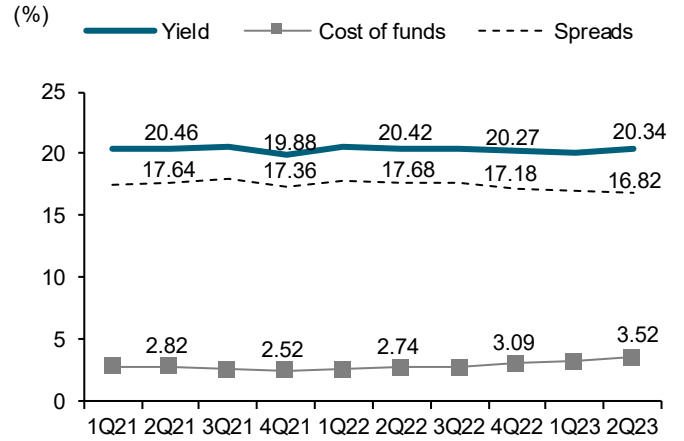
We expect a continued rise in cost of funds during FY23-25, but at a lower magnitude of increase in FY24-25, aligning with the market interest rate trend. However, we expect AEONTS to manage its interest spread to stabilize at c16.73-16.78% by raising some product yields to offset the impacts during the same period.

Exhibit 31: Yields, cost of funds, and spread during FY18-1HFY23



Sources: AEONTS, FSSIA's compilation

Exhibit 32: Yields, cost of funds, and spread during 1QFY20-2QFY23



Sources: AEONTS, FSSIA's compilation

Exhibit 33: AEONTS' outstanding and maturity of debentures and borrowings

	Outstanding in debentures			
	1Q	2Q	3Q	4Q
	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	9,193	8,767	8,342	10,916
2024/25	15,241	14,815	13,390	11,964
2025/26	18,047	17,913	16,306	14,472
2026/27	10,588	10,500	10,500	10,500
2027/28	4,500	4,500	4,500	4,500

	Outstanding in debentures			
	1Q	2Q	3Q	4Q
	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	52,065	49,009	52,953	49,897
2024/25	46,841	43,785	40,729	53,673
2025/26	50,617	47,561	44,505	55,949
2026/27	52,893	49,836	46,780	56,224
2027/28	54,668	53,112	51,556	50,000

	Outstanding in debentures			
	1Q	2Q	3Q	4Q
	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	61,258	57,777	61,295	60,814
2024/25	62,082	58,600	54,119	65,637
2025/26	68,664	65,474	60,811	70,421
2026/27	63,481	60,336	57,280	66,724
2027/28	59,168	57,612	56,056	54,500

	Maturity during period				
	1Q	2Q	3Q	4Q	Total
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	426	426	426	426	1,702
2024/25	426	426	1,426	1,426	3,702
2025/26	417	134	1,607	4,334	6,492
2026/27	134	88	-	3,000	3,222
2027/28	-	-	-	3,000	3,000

	Maturity during period				
	1Q	2Q	3Q	4Q	Total
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	3,056	3,056	3,056	3,056	12,224
2024/25	3,056	3,056	3,056	3,056	12,224
2025/26	3,056	3,056	3,056	3,056	12,224
2026/27	3,056	3,056	3,056	3,056	12,224
2027/28	3,056	3,056	3,056	3,056	12,224

	Maturity during period				
	1Q	2Q	3Q	4Q	Total
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)
2023/24	3,482	3,482	3,482	3,482	13,926
2024/25	3,482	3,482	4,482	4,482	15,926
2025/26	3,473	3,190	4,663	7,390	18,716
2026/27	3,190	3,144	3,056	6,056	15,446
2027/28	3,056	3,056	3,056	6,056	15,224

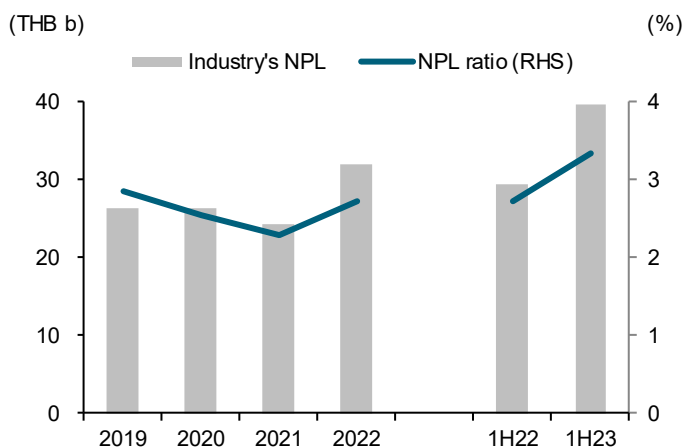
Sources: AEONTS; FSSIA's compilation

Asset quality continued deteriorating; high credit costs imminent

The 1HFY23 NPL ratio stood at 6.18%, rising for seven consecutive quarters, whereas the NPL coverage ratio declined to 173.58%, the lowest since end of FY19. Although the company reaffirmed that its credit costs had already passed their peak of 9.50% in 1QFY23 to 8.88% in 2QFY23, it was still a significant amount to support a large number of average write-offs; THB1.96b-2.31b per quarter.

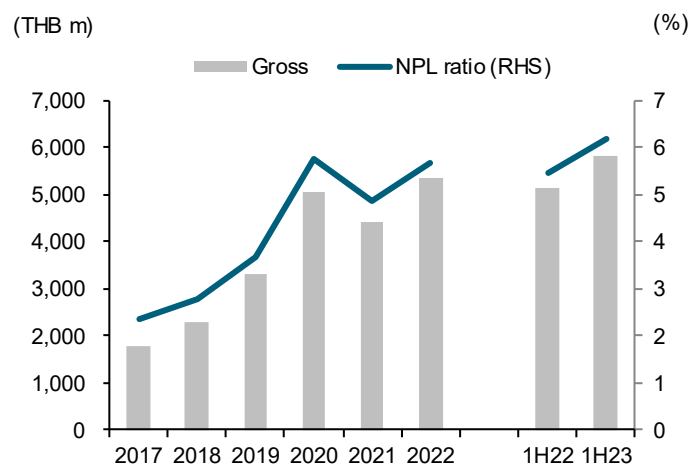
There was a considerable increase in the NPL ratio of the company, with higher figures than the average during the Covid-19 pandemic of 4.51-5.71%; in addition, the stage 2 loan ratio continued to increase to 4.10% at the end of 1H23. The aggressive increase in the NPL ratio and stage 2 loans were much higher than its peer, Krung Thai Card (KTC TB; HOLD), due to the company’s conservative policy by allowing NPLs to flow naturally for debtors who show signs of worsening debt repayment, such as not paying the total amount or not paying every installment, then aggressively writing them off. Therefore, the company recorded an average bad debt recovery of approximately THB400m per quarter over the past seven quarters, up from an average of THB200m-300m per quarter during FY19-20.

Exhibit 34: Industry’s NPLs and NPL ratio during FY18-1HFY23



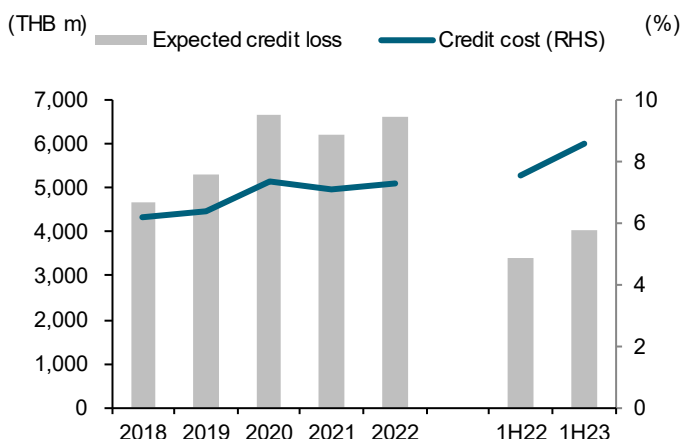
Sources: Company data, FSSIA's compilation

Exhibit 35: AEONTS’ NPLs and NPL ratio during FY18-1HFY23



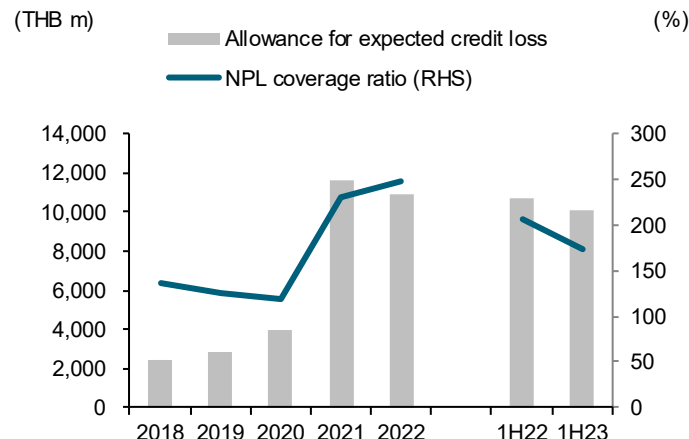
Sources: Company data, FSSIA's compilation

Exhibit 36: AEONTS’ ECL and credit cost during FY18-1HFY23



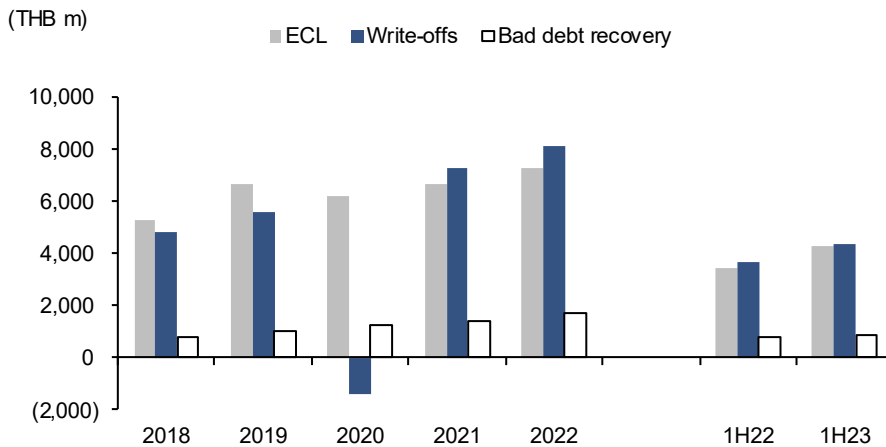
Sources: Company data, FSSIA's compilation

Exhibit 37: AEONTS’ allowance for ECL and NPL coverage ratio during FY18-1HFY23



Sources: Company data, FSSIA's compilation

Exhibit 38: ECL, debt write-offs, and bad debt recovery, FY18-1HFY23



Sources: AEONTS; FSSIA's compilation

Exhibit 39: Staged loans with allowance for ECL and coverage ratio (%), FY20-1HFY23

	FY20 (THB m)	FY21 (THB m)	FY22 (THB m)	1HFY23 (THB m)	FY20 (THB m)	FY21 (THB m)	FY22 (THB m)	1HFY23 (THB m)
Loans and accrued interest					Staged loans % of total loans			
Stage 1	79,447	82,899	85,032	85,422	90.9	91.1	90.5	89.7
Stage 2	2,944	3,702	3,565	3,900	3.4	4.1	3.8	4.1
Stage 3	5,042	4,427	5,340	5,950	5.8	4.9	5.7	6.2
Total	87,433	91,028	93,937	95,272	100.0	100.0	100.0	100.0
Allowance for expected credit losses (ECL)					Allowance for ECL % of loans			
Stage 1	5,969	5,564	4,398	4,041	7.5	6.7	5.2	4.7
Stage 2	1,579	1,917	1,658	1,684	53.6	51.8	46.5	43.2
Stage 3	4,045	3,470	4,069	4,361	80.2	78.4	76.2	73.3
Total	11,593	10,951	10,125	10,086	13.3	12.0	10.8	10.6
% Allowance for ECL to totals								
Stage 1	7.51	6.71	5.17	4.73				
Stage 2	53.63	51.80	46.51	43.17				
Stage 3	80.23	78.38	76.20	73.30				
Total	13.26	12.03	10.78	10.59				
NPL / TL	5.77	4.86	5.69	6.25				
LLR / NPL	230	247	190	170				
NPLs + stage 2 loans/ total loans	9.13	8.93	9.48	10.34				
LLR/(NPLs + stage 2 loans)	145	135	114	102				

Sources: AEONTS; FSSIA's compilation

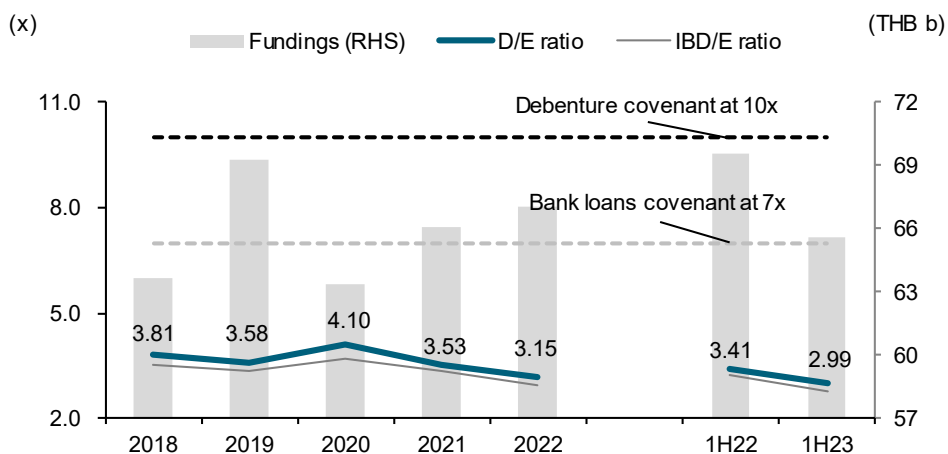
We expect the FY23 NPL ratio to accelerate to 6.50% then decline to 5.50% and 5.00% in FY24-25, respectively. Meanwhile, we expect bad debt recovery to be at THB1.75b-1.80b per year during FY23-25. We also project 2023 credit costs to remain at a high level of 8.10%, then slightly decline to 7.90% and 7.80% in FY24-25, respectively, since we are concerned about the impact from the BoT's regulation change to lift the minimum payment for credit cards to 8% in 2024 and 10% in 2025, from 5% at present. AEONTS clarified that 1) c10% of total credit card customers normally pay at the full amount, while the rest pay at an average of 8-9% (more than 50% pay above the 5% minimum) of credit outstanding; and 2) a credit card loan exposure of c200m would slip to stage 3 once the 3% additional payment is implemented. However, the company has already set aside ECL of the same amount in its management overlay portion. Hence, there would be no need to set up extra ECL over this issue.

Solid financial position with ample room for leveraging to support future growth

There is no cause for concern about AEONTS' financial position. The 1HFY23 debt-to-equity ratio (D/E) stood at merely 2.99x, whereas interest bearing debt to equity (IBD/E) was 2.78x, much lower than its debt covenant (D/E) of not exceeding 7x for bank loans and 10x for debentures. We expect its FY23-25 IBD/E to stay at a comfortable level ranging from 2.77-2.78x, with ample room for leveraging more debts to support future growth and roll over its matured portion each year.

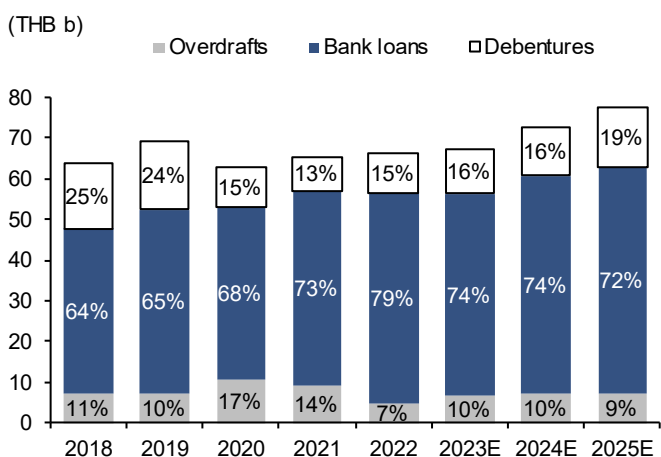
By FY24, there are debts due for redemption totaling THB15.9b, consisting of loans from financial institutions worth THB12.2b, with the remainder being debentures. The company is considering funding sources, and we estimate that loans from financial institutions will still be the primary source of funds.

Exhibit 40: AEONTS – D/E and IBD/E ratios



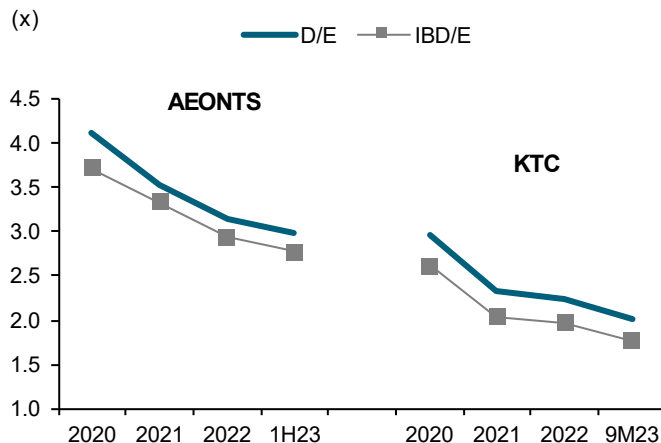
Sources: AEONTS; FSSIA's compilation

Exhibit 41: AEONTS' breakdown of funding sources, FY18-25E



Sources: AEONTS; FSSIA estimates

Exhibit 42: Comparison of D/E and IBDE ratios of AEONTS and KTC



Sources: AEONTS; FSSIA's compilation

3QFY23 profit expected to decline and bounce back in 4QFY23

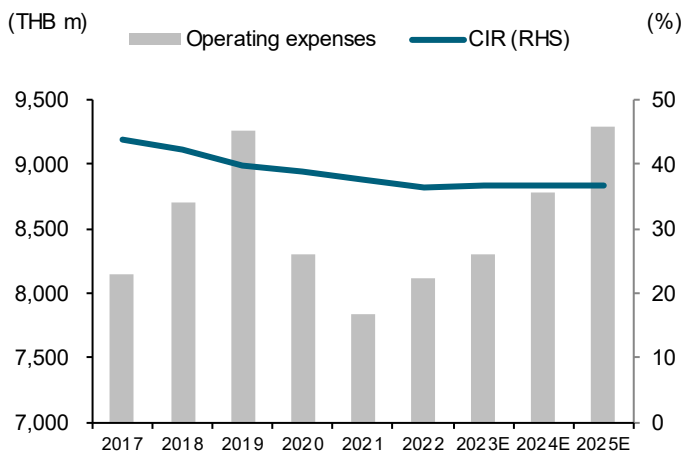
We expect a 3QFY23 net profit of THB751m, down by 10.8% q-q and 32.0% y-y. Meanwhile, 3QFY23 PPOP should decrease by 4.4% q-q and 12.3% y-y to THB2.9b, mainly dragged by a reduction in gains on sales of written-off account receivables, of which we predict none in this quarter compared to THB167m in 2QFY23. Net interest income should be relatively stable q-q but decrease by 2.8% y-y, due mainly to projected sluggish q-q loan growth, but still decrease by 1.4% y-y. For the interest spread, we project it to be flat q-q at 16.84% despite a rising cost of funds estimated at 19bp to 3.71% (9MFY23E is 3.39%). The increasing yields, mainly from the personal and credit card segments, should offset the impact. We also expect the cost-to-income ratio to be at 36.98%, still below 37% regarding its FY23 guidance.

For asset quality, we expect the 3QFY23 NPL ratio to continue to rise to 6.34% compared to 6.19% in 2QFY23. However, we project credit costs to slip by 65bp to 8.23%, based on AEONTS' guidance that its credit cost has already passed its peak since 2QFY23. Hence, the NPL coverage ratio should decline to 167.89% from 173.58% in 2QFY23.

9MFY23E net profit should increase to THB2.21b, dropping by 29.2% y-y and accounting for 71% of our full-year forecast. Typically, 4Q is the high season for spending, which should bode well for AEONTS' net profit in 4QFY23.

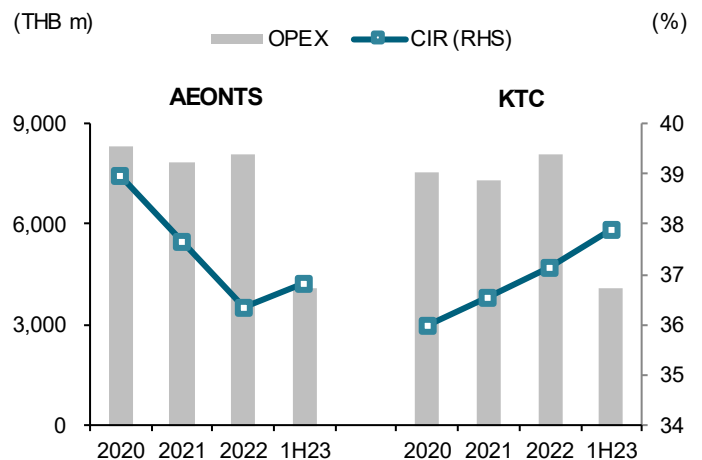
For FY23, we expect AEONTS' net profit to be at THB3.11b, the lowest in the past six years, decreasing by 18.4% y-y, mainly dragged by rising interest expenses and credit costs. Regarding FY24-25, we project the net profit to post an average growth rate of 7.2% p.a. CAGR, aligning with 1) the expected loan growth at an average of 6.2% p.a.; 2) interest spreads of 16.73% and 16.78%, respectively; 3) the cost-to-income ratio at an average of 36.8%; and 4) credit-costs of 7.90% and 7.80%, respectively.

Exhibit 43: Operating expenses vs CIR, FY18-25E



Sources: AEONTS, FSSIA estimates

Exhibit 44: Comparison of OPEX and CIR of AEONTS and KTC



Sources: Company data, FSSIA's calculation

Exhibit 45: AEONTS – operations summary and 3QFY23E

AEONTS	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23E	----- Change -----		9MFY23E	Change	% of	FY23E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(%)
Interest income	4,803	4,786	4,726	4,770	4,818	1.0	0.3	14,313	0.3	74	19,338	1.5
Interest expense	476	523	527	574	610	6.2	28.3	1,711	23.9	75	2,269	19.2
Net interest income	4,328	4,263	4,199	4,196	4,208	0.3	(2.8)	12,602	(2.2)	74	17,068	-0.5
Non-interest income	1,016	766	734	907	752	(17.0)	(26.0)	2,392	(4.7)	74	3,230	-1.4
Operating income	5,344	5,029	4,932	5,102	4,960	(2.8)	(7.2)	14,994	(2.6)	74	20,298	-0.6
Operating expenses	2,039	2,155	2,033	2,071	2,061	(0.5)	1.1	6,166	1.8	74	8,310	2.4
PPOP	3,305	2,874	2,899	3,031	2,899	(4.4)	(12.3)	8,828	(5.5)	74	11,988	-2.6
Expected credit loss	1,884	1,964	2,094	1,949	1,930	(1.0)	2.5	5,973	12.7	75	7,951	9.5
Profit before tax	1,421	909	805	1,082	969	(10.5)	(31.8)	2,856	(29.3)	71	4,022	-18.7
Income tax expense	286	181	161	218	196	(10.4)	(31.5)	575	(29.5)	71	809	-18.7
Net profit	1,104	693	617	842	751	(10.8)	(32.0)	2,210	(29.2)	71	3,113	-18.4
EPS (THB)	4.42	2.77	2.47	3.37	3.00	(10.8)	(32.0)	8.84	(29.2)	71	12.45	-18.4
Key balance sheet highlights												
NPL	5,340	5,340	5,541	5,810	5,950	2.4	11.4	5,950	11.43		6,381	19.5
Loan - gross	95,026	93,864	93,721	93,886	93,663	(0.2)	(1.4)	93,663	(1.43)		98,163	4.5
Interest bearing debt	68,556	67,057	64,701	65,621	65,956	0.5	(3.8)	65,956	(3.79)		68,087	1.5
Leverage ratio	(x)	(x)	(x)	(x)	(x)			(x)			(x)	
IBD/E (x)	3.15	2.94	2.77	2.78	2.78			2.78			2.77	
D/E (x)	3.39	3.15	3.02	2.99	2.98			2.98			2.98	
Asset quality ratio	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Gross NPLs (THB m)	5,340	5,340	5,541	5,810	5,950	2.4	11.4	5,950	11.4		6,381	19.5
NPL ratio	5.61	5.69	5.91	6.19	6.34			6.34			6.50	
Coverage ratio - LLR/ NPLs	196	190	184	174	168			168			165	
Credit cost	7.98	8.32	9.50	8.88	8.23			8.44			8.10	
LLR/TL	11.01	10.78	10.87	10.73	10.49			10.49			10.69	
Profitability ratios	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Cost-to-income ratio	35.04	37.10	37.16	36.46	36.98			36.87			36.82	
Yield on loans	20.34	20.27	20.15	20.34	20.55			20.23			20.13	
Cost of funds	2.75	3.09	3.20	3.52	3.71			3.39			3.40	
Spreads	17.59	17.18	16.95	16.82	16.84			16.84			16.73	
Net interest margin (NIM)	18.33	18.05	17.91	17.89	17.95			17.81			17.77	
ROE	20.40	12.44	10.70	14.34	12.68			12.95			13.14	
ROA	4.61	2.90	2.61	3.56	3.16			3.08			3.22	
Loan growth	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Loan growth q-q	1.21	-1.22	-0.15	0.18	-0.24							
y-y	6.24	3.25	1.17	-0.01	-1.43			-1.43			4.50	
YTD	4.53	3.25	-0.15	0.02	-0.21			-0.21				

Sources: AEONTS; FSSIA estimates

Exhibit 46: Comparison of operating performance

	AEONTS					KTC				
	FY20	FY21	FY22	2QFY23	3QFY23E	2020	2021	2022	3Q23	4Q23E
Loan	87,424	91,012	93,932	93,886	93,663	94,908	92,635	104,194	106,700	110,671
Net profit	3,690	3,553	3,815	842	751	5,333	5,879	7,079	1,857	1,747
Credit card loans	36,088	39,324	43,474	43,879	44,000	60,235	60,201	69,462	69,225	72,939
Market share	8.66	9.08	9.40	9.50		13.39	13.14	14.38	14.93	
Personal loans	45,332	45,695	44,878	43,999	43,400	29,617	28,895	31,886	34,106	34,550
Market share	7.75	7.11	5.78	5.36		5.10	4.56	4.18	4.13	
Loan growth y-y (%)	-3.10	4.11	3.21	-0.01	-1.43	9.81	-2.39	12.48	9.98	6.22
Yields (%)	20.93	20.07	20.61	20.34	20.55	15.63	14.52	14.61	15.44	15.16
Cost of funds (%)	3.18	2.73	2.90	3.52	3.71	2.66	2.47	2.39	2.79	2.84
Interest spread (%)	17.75	17.34	17.71	16.82	16.84	12.96	12.04	12.23	12.65	12.31
Operating expense	8,303	7,832	8,117	2,070	2,060	7,523	7,326	8,117	2,252	2,272
Cost to income (%)	38.98	37.67	36.35	36.46	36.98	36.01	36.56	37.14	37.33	37.89
ECL	6,210	6,629	7,263	1,949	1,930	6,489	5,456	4,868	1,477	1,555
Credit cost (%)	7.10	7.28	7.73	8.88	8.23	7.32	5.84	4.98	5.60	5.76
Net profit	3,690	3,553	3,815	842	751	5,333	5,879	7,079	1,857	1,747
ROE (%)	19.53	19.23	17.87	14.34	12.68	25.09	23.69	24.33	22.51	20.05
D/E ratio (x)	4.10	3.53	3.15	2.99	2.98	2.96	2.32	2.24	2.08	2.01
IBD/E ratio (x)	3.72	3.32	2.94	2.78	2.78	2.62	2.04	1.98	1.86	1.77

Sources: Company data; FSSIA's compilation

Initiate coverage with a HOLD call; continuing prudent strategy in FY24-25

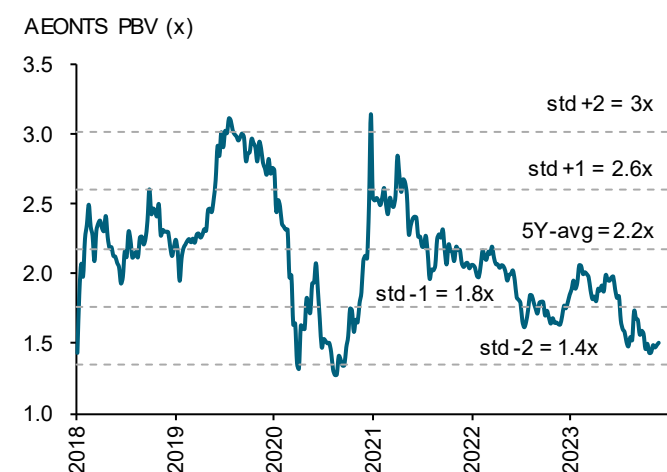
We initiate coverage of AEONTS with a HOLD call at the current price due mainly to our slightly negative view on consumer finance, especially the credit card and personal loan segments, which should have headwinds continuing throughout the year in 2024 in terms of limited business growth to protect its asset quality and stricter credit card business regulations. Our FY24 GGM-based TP of THB169 implies a P/BV of 1.60x. It has an FY24E potential return of merely 11.9% with a 8.3% potential upside plus an expected dividend yield of 4.0% p.a.

Exhibit 47: GGM-based, FY24 TP

Target price	THB169
Sustainable ROE	13.5%
g	3.0%
ROE-g	10.50%
Beta	1.09
Risk free rate	3.0%
Risk premium	6.0%
COE	9.55%
COE-g	6.55%
ROE-g/COE-g (P/BV)	1.60x

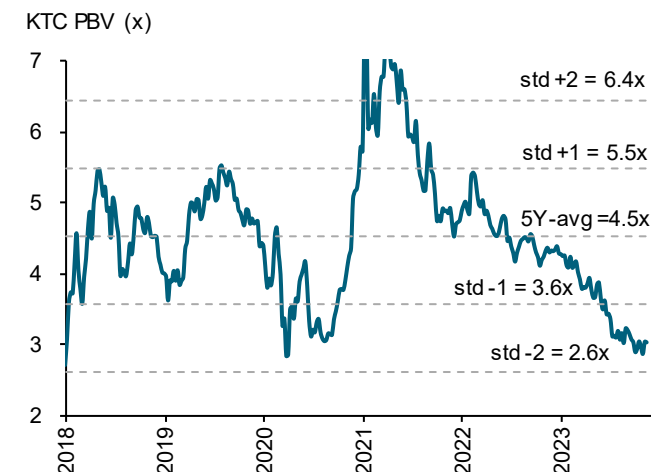
Sources: FSSIA estimates

Exhibit 48: AEONTS – one-year prospective P/BV band



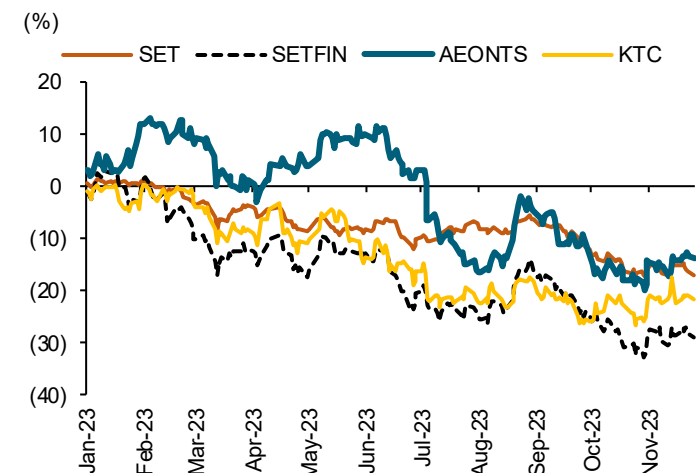
Source: Bloomberg; FSSIA estimates

Exhibit 49: KTC – one-year prospective P/BV band



Source: Bloomberg; FSSIA estimates

Exhibit 50: Price performance year-to-27 Nov 2023



Sources: Bloomberg; FSSIA's compilation

Exhibit 51: Price performance year-to-27 Nov 2023

BBG	Price performance				
	1M	3M	6M	1Y	YTD
AEONTS	4.67	4.67	4.67	4.67	4.67
KTC	3.98	3.98	3.98	3.98	3.98
SET Index	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)
SETFIN Index	2.82	2.82	2.82	2.82	2.82

Sources: Bloomberg; FSSIA's compilation

Exhibit 52: Peers comparison, as of 27 November 2023

Company name	code	Rec	Share price (LCY)	Target price (LCY)	Up side (%)	PE		PBV		ROE		Div yld	
						23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)
Thailand													
Krungthai Card	KTC TB	HOLD	46.25	49.00	6	16.4	15.1	3.3	2.9	21.7	20.7	2.4	2.4
AEON Thana Sinsap (Thailand)	AEONTS TB	HOLD	156.00	169.00	8	12.5	11.6	1.6	1.5	13.1	13.2	3.5	4.0
Muangthai Capital	MTC TB	BUY	43.00	44.00	2	19.1	14.9	2.9	2.4	15.6	17.7	0.8	1.0
Srisawad Corp	SAWAD TB	BUY	43.75	54.00	23	11.2	9.5	2.1	1.9	19.7	20.7	4.1	4.6
Ngern Tid Lor	TIDLOR TB	BUY	22.60	28.00	24	16.6	13.8	2.2	2.0	14.2	15.2	1.2	1.5
Average						15.2	13.0	2.4	2.1	16.9	17.5	2.4	2.7

Sources: Bloomberg; FSSIA estimates

Financial Statements

Aeon Thana Sinsap (Thailand)

Profit and Loss (THB m) Year Ending Feb	2021	2022	2023E	2024E	2025E
Interest Income	17,903	19,055	19,338	20,519	21,911
Interest expense	(1,745)	(1,904)	(2,269)	(2,480)	(2,709)
Net interest income	16,158	17,151	17,068	18,039	19,203
Net fees & commission	2,635	3,015	2,966	3,048	3,081
Foreign exchange trading income	-	-	-	-	-
Securities trading income	-	-	-	-	-
Dividend income	-	-	-	-	-
Other income	254	261	264	267	269
Non interest income	2,888	3,277	3,230	3,314	3,350
Total income	19,047	20,428	20,298	21,353	22,553
Staff costs	(7,671)	(7,962)	(8,124)	(8,580)	(9,094)
Other operating costs	(172)	(253)	(200)	(200)	(209)
Operating costs	(7,844)	(8,215)	(8,325)	(8,780)	(9,304)
Pre provision operating profit	11,203	12,213	11,973	12,574	13,249
Expected credit loss	(6,629)	(7,263)	(7,951)	(8,236)	(8,631)
Other provisions	-	-	-	-	-
Operating profit	4,574	4,950	4,022	4,338	4,618
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	4,574	4,950	4,022	4,338	4,618
Tax	(1,000)	(996)	(809)	(873)	(929)
Profit after tax	3,574	3,954	3,213	3,465	3,689
Non-controlling interest	(21)	(139)	(100)	(105)	(110)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	3,553	3,815	3,113	3,360	3,578
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	3,553	3,815	3,113	3,360	3,578
Per share (THB)					
Recurring EPS *	14.21	15.26	12.45	13.44	14.31
Reported EPS	-	-	-	-	-
DPS	5.15	5.50	5.50	6.25	7.00
Growth					
Net interest income (%)	(2.0)	6.1	(0.5)	5.7	6.5
Non interest income (%)	6.4	13.4	(1.4)	2.6	1.1
Pre provision operating profit (%)	2.9	9.0	(2.0)	5.0	5.4
Operating profit (%)	(2.1)	8.2	(18.7)	7.9	6.4
Reported net profit (%)	(4.4)	7.4	(18.4)	7.9	6.5
Recurring EPS (%)	(4.4)	7.4	(18.4)	7.9	6.5
Reported EPS (%)	-	-	-	-	-
Income Breakdown					
Net interest income (%)	84.8	84.0	84.1	84.5	85.1
Net fees & commission (%)	13.8	14.8	14.6	14.3	13.7
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	-	-	-	-	-
Dividend income (%)	-	-	-	-	-
Other income (%)	1.3	1.3	1.3	1.2	1.2
Operating performance					
Gross interest yield (%)	20.07	20.61	20.13	20.27	20.39
Cost of funds (%)	2.73	2.90	3.40	3.54	3.61
Net interest spread (%)	17.34	17.71	16.73	16.73	16.78
Net interest margin (%)	18.11	18.55	17.77	17.82	17.87
Cost/income(%)	37.67	36.35	36.82	36.82	36.81
Cost/assets(%)	8.8	8.8	8.6	8.6	8.5
Effective tax rate (%)	20.2	20.5	20.0	20.0	20.0
Dividend payout on recurring profit (%)	36.2	36.0	44.2	46.5	48.9
ROE (%)	19.2	17.9	13.1	13.2	13.1
ROE - COE (%)	9.7	8.3	3.6	3.7	3.6
ROA (%)	4.0	4.3	3.3	3.4	3.4
RORWA (%)	-	-	-	-	-

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Aeon Thana Sinsap (Thailand); FSSIA estimates

Financial Statements

Aeon Thana Sinsap (Thailand)

Balance Sheet (THB m) Year Ending Feb	2021	2022	2023E	2024E	2025E
Gross customer loans	91,555	94,462	98,904	105,059	111,516
Allowance for expected credit loss	(10,951)	(10,125)	(10,498)	(9,595)	(9,320)
interest in suspense	(644)	(598)	(810)	(881)	(925)
Net customer loans	79,959	83,739	87,597	94,583	101,271
Bank loans	44	218	173	208	249
Government securities	0	0	0	0	0
Trading securities	-	-	-	-	-
Investment securities	-	-	-	-	-
Cash & equivalents	4,236	3,816	3,029	3,146	3,008
Other interesting assets	117	73	73	73	73
Tangible fixed assets	-	-	-	-	-
Associates	0	0	0	0	0
Goodwill	-	-	-	-	-
Other intangible assets	1,531	1,816	1,539	1,392	1,275
Other assets	4,438	5,400	5,934	6,208	6,526
Total assets	90,469	95,207	98,344	105,610	112,402
Customer deposits	-	-	-	-	-
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	66,127	67,057	68,087	73,306	78,002
Non interest bearing liabilities	4,078	4,802	5,128	5,319	5,522
Hybrid Capital	-	-	-	-	-
Total liabilities	70,205	71,859	73,215	78,625	83,525
Share capital	-	-	-	-	-
Reserves	19,161	22,093	23,822	25,620	27,448
Total equity	19,889	22,821	24,550	26,348	28,176
Non-controlling interest	375	527	579	637	701
Total liabilities & equity	90,469	95,207	98,344	105,610	112,402
Supplementary items					
Risk weighted assets (RWA)	-	-	-	-	-
Average interest earning assets	-	-	-	-	-
Average interest bearing liabilities	-	-	-	-	-
CET 1 capital	-	-	-	-	-
Total capital	0	0	0	0	0
Gross non performing loans (NPL)	-	-	-	-	-
Per share (THB)					
Book value per share	79.55	91.29	98.20	105.39	112.71
Tangible book value per share	-	-	-	-	-
Growth					
Gross customer loans	3.9	3.2	4.7	6.2	6.1
Average interest earning assets	-	-	-	-	-
Total asset (%)	3.5	5.2	3.3	7.4	6.4
Risk weighted assets (%)	-	-	-	-	-
Customer deposits (%)	-	-	-	-	-
Leverage & capital measures					
Customer loan/deposits (%)	-	-	-	-	-
Equity/assets (%)	22.0	24.0	25.0	24.9	25.1
Tangible equity/assets (%)	20.3	22.1	23.4	23.6	23.9
RWA/assets (%)	-	-	-	-	-
CET 1 CAR (%)	-	-	-	-	-
Total CAR (%)	-	-	-	-	-
Asset Quality (FSSIA's calculation)					
Change in NPL (%)	-	-	-	-	-
NPL/gross loans (%)	-	-	-	-	-
Allowance for ECL/gross loans (%)	12.0	10.7	10.6	9.1	8.4
Allowance for ECL/NPL (%)	-	-	-	-	-
Valuation					
Recurring P/E (x) *	11.0	10.2	12.5	11.6	10.9
Recurring P/E @ target price (x) *	11.9	11.1	13.6	12.6	11.8
Reported P/E (x)	-	-	-	-	-
Dividend yield (%)	3.3	3.5	3.5	4.0	4.5
Price/book (x)	2.0	1.7	1.6	1.5	1.4
Price/tangible book (x)	-	-	-	-	-
Price/tangible book @ target price (x)	-	-	-	-	-

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Aeon Thana Sinsap (Thailand); FSSIA estimates

AEON Thana Sinsap (Thailand) (AEONTS TB)

FSSIA ESG rating

★★

33.86 /100

Exhibit 53: FSSIA ESG score implication

Rating	Score	Implication
★★★★★	>79-100	Leading its industry peers in managing the most significant ESG risks which not only better cost efficiency but also lead to higher profitability.
★★★★☆	>59-79	A mixed track record of managing the most significant ESG risks and opportunities relative to industry peers.
★★★☆☆	>39-59	Relevant ESG materiality matrix has been constructively addressed, well-managed and incorporated into day-to-day operations, in which targets and achievements are evaluated annually.
★★☆☆☆	>19-39	Relevant ESG materiality matrix has been identified with key management in charge for progress to be followed up on and to provide intensive disclosure. Most targets are conventional and achievable.
★☆☆☆☆	1-19	The company has adopted the United Nations Sustainable Development Goals (UN SDGs), established sustainability management guidelines and fully complies with regulations or ESG suggested guidance from related organizations such as the SET and SEC.

Source: FSSIA estimates

Exhibit 54: ESG – peer comparison

	FSSIA ESG score	Domestic ratings						Global ratings						Bloomberg	
		DJSI	SET THSI	THSI	CG score	AGM level	Thai CAC	Morningstar ESG risk	ESG Book	MSCI	Moody's	Refinitiv	S&P Global	ESG score	Disclosure score
SET100	69.20	5.34	4.40	4.40	4.76	4.65	3.84	Medium	51.76	BBB	20.87	58.72	63.91	3.72	28.17
Coverage	67.12	5.11	4.15	4.17	4.83	4.71	3.53	Medium	52.04	BB	16.97	56.85	62.09	3.40	31.94
AEONTS	33.86	--	--	--	4.00	3.00	--	Medium	40.10	BBB	--	27.64	17.00	--	--
BAM	55.19	--	Y	Y	5.00	4.00	Certified	Medium	47.11	B	--	49.29	14.00	2.88	51.77
JMT	35.60	--	--	--	4.00	5.00	Declared	Medium	--	BBB	--	12.70	13.00	--	39.90
KTC	71.80	--	Y	Y	5.00	5.00	Certified	Low	57.22	A	--	64.48	59.00	4.96	57.09
SAWAD	46.52	--	Y	Y	4.00	5.00	--	Medium	43.97	BB	--	20.18	13.00	1.93	40.04

Sources: SETTRADE.com; FSSIA's compilation

Exhibit 55: ESG disclosure from the company's one report

FY ending Dec 31	FY 2022	FY ending Dec 31	FY 2022
Environmental		Governance	
Climate change policy	--	Board size / Independent directors (ID) / Female	12 / 4 / 2
Climate change opportunities discussed	--	No. of board meetings for the year / % attendance	12 / 98.61%
GHG scope 2 location-based policy	Yes	Company conducts board evaluations	Yes
Biodiversity policy	--	Number of non-executive directors on board	2
Energy efficiency policy	Yes	Director share ownership guidelines	No
Electricity used	Yes	Board age limit	No
Fuel used - crude oil/diesel	--	Age of the youngest / oldest director	61 / 75
Waste reduction policy	Yes	Number of executives / female	11 / 3
Water policy	Yes	Executive share ownership guidelines	No
Water consumption	1,133.13	Size of audit committee / ID	3 / 3
Social		Audit committee meetings	10
Human rights policy	Yes	Audit committee meeting attendance (%)	100
Policy against child labor	--	Size of compensation committee	--
Quality assurance and recall policy	Yes	Number of compensation committee meetings	--
Consumer data protection policy	Yes	Compensation committee meeting attendance (%)	--
Equal opportunity policy	Yes	Size of nomination committee / ID	--
Gender pay gap breakout	--	Number of nomination committee meetings	--
Pct women in workforce	Yes	Nomination committee meeting attendance (%)	--
Business ethics policy	Yes	Board compensation (THB m)	24.21
Anti-bribery ethics policy	Yes	Auditor fee (THB m)	7.59
Health and safety policy	Yes	(Deloitte Touche Tohmatsu Jaiyos Audit Company Limited)	
Lost time incident rate - employees	--		
Training policy	Yes		
Fair remuneration policy	Yes		
Number of employees - CSR	--		
Total hours spent by firm - employee training	324		
Social supply chain management	--		

Source: FSSIA's compilation

KRUNGTHAI CARD KTC TB

THAILAND / FINANCE & SECURITIES

HOLD

Unjustified valuation on risk-reward

- We expect moderate profit and loan growth for KTC under its cautious mode in 2023, and estimate some acceleration in 2024-25.
- We expect growth drivers in 2024-25 to be improving asset quality along with loan growth and a smaller drag from KTBL.
- We initiate our coverage on KTC with a HOLD recommendation.

TARGET PRICE	THB49.00
CLOSE	THB46.25
UP/DOWNSIDE	+5.9%
TP vs CONSENSUS	-8.0%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Operating profit	8,871	9,056	9,834	10,724
Net profit	7,079	7,285	7,912	8,629
EPS (THB)	2.75	2.83	3.07	3.35
vs Consensus (%)	-	(1.1)	(0.6)	0.1
Recurring net profit	7,079	7,285	7,912	8,629
Core EPS (THB)	2.75	2.83	3.07	3.35
EPS growth (%)	20.4	2.9	8.6	9.1
Core P/E (x)	16.8	16.4	15.1	13.8
Dividend yield (%)	2.2	2.4	2.4	2.7
Price/book (x)	3.8	3.3	2.9	2.6
ROE (%)	24.3	21.7	20.7	19.9
ROA (%)	7.4	6.9	7.0	7.0

Cautious loan growth in 2023 and some acceleration in 2024-25E

We estimate KTC's total portfolio to finish at THB110.67b in 2023, implying 6.22% y-y growth – a slowdown from 12.48% y-y in 2022 due to the effort to focus on lending quality. We see credit card loans expanding by 5.01% for the year (-0.34% YTD), pushed by the spending season in Nov-Dec. Meanwhile, we expect personal loans to grow by 7.02% in 2023 (+5.73% YTD), as we expect the moderate growth momentum in both KTC PROUD and KTC P Berm to persist. KTC has ceased new lease underwriting since August 2023 due to asset quality issues, leading us to expect a q-q drop in 4Q23. For 2024-25, the growth driver should come from reduced concern over its asset quality along with more clarity in economic improvements. This should prompt KTC to allow for a higher loan approval rate and loan growth, leading to a larger card spending volume and top-line growth.

Slightly weaker asset quality from the macro backdrop

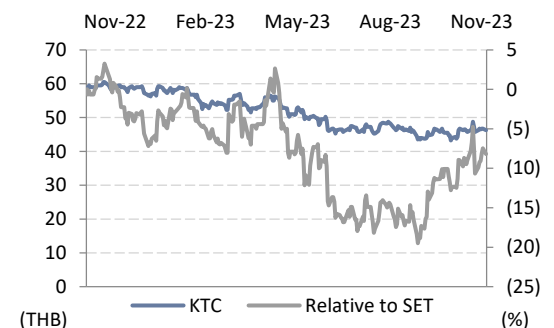
In 3Q23, the firm's asset quality was pressured as the NPL ratio rose 31 bp to 2.33%, along with a declining coverage ratio at 382%, down significantly from 433% in 2Q23. The firm's leasing business caused the most asset quality concerns. We expect KTBL's NPLs to peak in 2024. Our estimates suggest a slightly weaker trend for overall asset quality in 4Q23, following the economic and industry directions, with the NPL ratio finishing at 2.49%, resulting in more provisions for loan losses. We expect a 2023 credit cost of 547 bp, rising from 498 bp in 2022, with a coverage ratio of 353%.

Peak season in 4Q23 from credit cards and fee income

We expect a 4Q23 net profit at THB1.75b (-5.71% q-q, +5.08% y-y). Revenue should rise on interest and fee income during the credit card peak season. However, OPEX generally peaks in 4Q, mainly from higher fee expenses and employee pay raises, resulting in cost-to-income of 37.89%.

Initiate coverage of KTC with a HOLD call

We initiate coverage of KTC with a HOLD call. Our GGM-based 2024 TP of THB49 implies a P/BV of 3.11x, lower than the current multiple of 3.47x as we expect the share price is trading at a slightly tight valuation vs industry peers. Despite trading near -2 SD of its 5Y average P/BV, we do not expect a mean reversion for KTC in the near term mainly due to its muted 2023-24 growth outlook and NPL overhangs. Our valuation is based on an estimated sustainable ROE of 18% and a terminal growth rate of 3.25% p.a.



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	5.1	(4.6)	(21.6)
Relative to country (%)	4.7	6.8	(8.8)
Mkt cap (USD m)	3,395		
3m avg. daily turnover (USD m)	4.9		
Free float (%)	21		
Major shareholder	Krung Thai Bank (49%)		
12m high/low (THB)	60.75/40.50		
Issued shares (m)	2,578		

Sources: Bloomberg consensus; FSSIA estimates



Usanee Liurut, CISA

Fundamental Investment Analyst on Capital Market; License no. 017928
 usanee.l@fssia.com, +66 2646 9967

Maeta CherdSATIRAKUL

Research Assistant
 maeta.c@fssia.com, +66 2646 9971

Investment thesis

We have a HOLD recommendation on KTC from:

- 1) We expect the overall consumer finance industry to experience a certain degree of asset quality pressure, weakening spending power, and slowing economic backdrops.
- 2) We estimate operators to put their focus on credit quality and active bad debt management, which should weigh on loan bottom-line growth in 2023.
- 3) We estimate slightly weaker asset quality in 4Q23 but at a controllable level, and do not expect the firm to have an unusual trend in provisions for loan losses.
- 4) Our GGM-based TP for 2024 of THB49 implies an upside of 7.1% and a P/BV ratio of 3.11x.

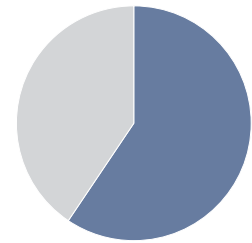
Company profile

The company provides consumer financial products in Thailand, including credit cards, personal loans, auto-title loans, and leasing products.

www.ktc.co.th

Principal activities (revenue, 2022)

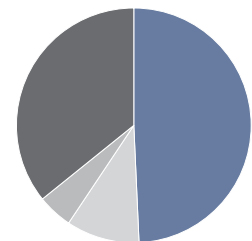
- Net interest income - 59.4 %
- Non-interest income - 40.6 %



Source: Krungthai Card

Major shareholders

- Krung Thai Bank - 49.3 %
- Mongkol Prakitchaiwatthana - 10.1 %
- Chantana Jirattiphat - 4.8 %
- Others - 35.8 %



Source: Krungthai Card

Catalysts

- 1) Stronger-than-expected momentum of economic recovery and card spending;
- 2) Better-than-estimated loan growth;
- 3) Lower-than-estimated new NPL formation;
- 4) A significant acceleration in the auto title loan segment.

Risks to our call

Downside risks are: 1) regulatory actions to curb industry growth; 2) a higher-than-expected policy rate; and 3) deteriorating asset quality. Upside risks are: 1) better-than-estimated economic improvement; 2) stronger-than-estimated improvement in the overall asset quality; and 3) less pressure from the market yield and cost of funds.

Event calendar

Date	Event
26-29 Feb 2023	2023 results announcement

Key assumptions

	2023E	2024E	2025E
Net profit (THB m)	7,285	7,912	8,629
Net profit growth	2.9	8.6	9.1
NIM	13.0	12.9	12.9
Loan growth	6.2	7.7	7.9
Fee growth	10.0	10.0	10.0
Non-NII growth	-3.2	12.5	1.0
Credit cost (bp)	547	542	539
Cost to income	36.7	37.1	36.5

Source: FSSIA estimates

Earnings sensitivity

		----- 2024E -----		
Loan growth	±1ppt	6.7	7.7	8.7
% change in net profit		(0.5)	-	0.6
NIM (%)	±10bp	12.8	12.9	13.0
% change in net profit		(1.3)	-	1.3
Credit cost (bps)	±10bp	5.3	5.4	5.5
% change in net profit		1.2	-	(1.2)

Source: FSSIA estimates

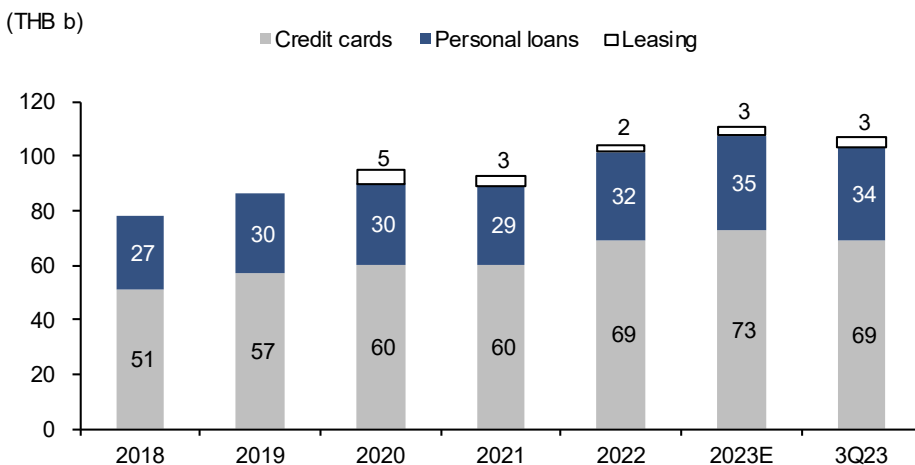
Moderate growth; remain cautious on quality in 2023

In 2022, KTC achieved 12.48% growth in its total loan portfolio, finishing strongly compared to a mild contraction of 2.39% in 2021. Credit cards has the most outstanding growth at 15.38% y-y, followed by a 10.35% y-y expansion in personal loans. This went against the leasing portfolio, which experienced a massive 23.45% contraction due to a large write-off during the year, as KTC attempted to clean up the vintage bad debt pre-consolidation of KTB Leasing (KTBL). For 2023, KTC expects 15% y-y growth for its total portfolio, with an expansion in credit card spending at 10% y-y and 7% y-y in personal loan receivables, close to the impressive expansion achieved in 2022.

As of 3Q23, KTC's portfolio amounted to THB106.7b in total, consisting of 65% credit card, 32% personal loan, and 3% leasing receivables. In the past five years, the composition of the mix has been quite stable. Historically, the firm had 7.55% 5Y CAGR growth in its total loan receivables (6.91% if excluding the consolidated KTBL portfolio) with the credit card portfolio as the leading growth contributor at 8% CAGR, followed by the personal loan portfolio at 4.74% CAGR. In contrast, the leasing segment shrank dramatically due to asset quality issues, mostly from pre-consolidated truck and machinery loans.

We estimate KTC's total portfolio to finish at THB110.67b in 2023, implying 6.22% y-y growth – a slowdown from 12.48% y-y in 2022 due to the effort to focus on lending quality. We see credit card loans expanding by 5.01% for the year (-0.34% YTD), pushed by the spending season in Nov-Dec. Meanwhile, we expect personal loans to grow by 7.02% in 2023 (+5.73% YTD), as we expect the moderate growth momentum in both KTC PROUD and KTC P Berm to persist. KTC has ceased new lease underwriting since August 2023 due to asset quality issues, leading us to expect a q-q drop in 4Q23. For 2024-25, the growth driver should come from reduced concern over its asset quality along with more clarity in economic improvements. This should prompt KTC to allow for a higher loan approval rate and loan growth, leading to a larger card spending volume and top-line growth.

Exhibit 56: KTC – portfolio breakdown



Sources: KTC; FSSIA's compilation

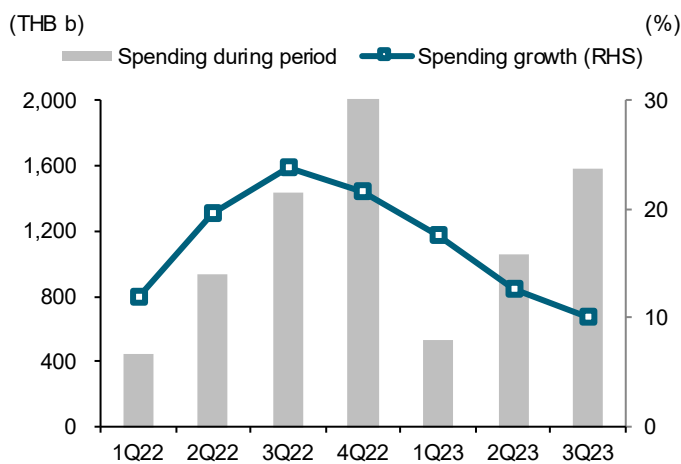
Credit card segment

From a macro view of Thailand's credit card industry, it had been performing well in 1H23 until showing signs of a slowdown in 3Q23. As of 9M23, according to the latest data from the Bank of Thailand (BoT), the YTD total credit card purchasing volume finished at THB1.58t, rising 10.1% y-y. The momentum came with deteriorating signs of asset quality as the overall NPL ratio had an upward trend (from 1.96% in 3Q22 to 2.51% in 3Q23). We expect operators to sustain their efforts in managing NPLs and focus more on the credit quality of newly acquired customers until a meaningful sign of economic improvement is imminent, leading to pressure on credit costs and bottom-line results.

KTC's 9M23 spending volume was THB192.27b, showing 13.75% y-y growth – slightly higher spending growth relative to the industry. Meanwhile, the company claimed to retain a high inactive card-purging rate of around 4-5% of the total each year as a prudent measure to control customer quality. The narrative is reflected in its stable y-y market share regarding the number of credit cards at 10% of the market.

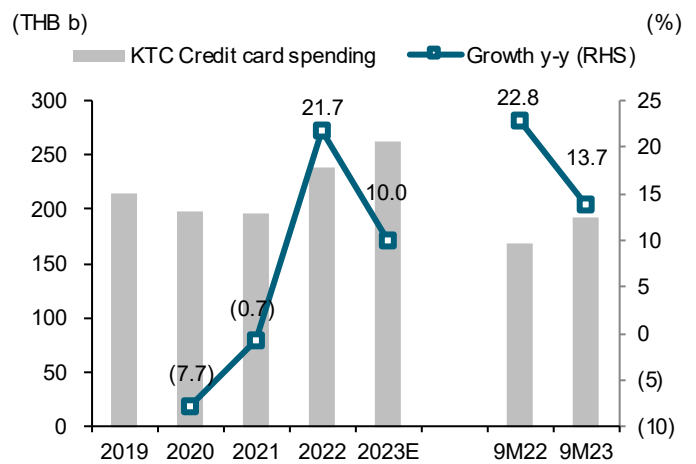
We expect deteriorations in the purchasing power of households to put a specific limit on the 4Q23 spending volume. Our estimates suggest a transaction volume via KTC's credit cards in 4Q23 at THB69.81b (+8.03% q-q, +0.85% y-y), with the peak season in Nov-Dec to contribute the most toward whole-year growth. This should end the year at THB262.083b, showing a growth rate of 10%, slowing down from 9M23. We expect the firm's credit card loans to finish at THB72.94b (+5.01% y-y).

Exhibit 57: Industry credit card spending and growth



Sources: Bank of Thailand (BoT); FSSIA's compilation

Exhibit 58: KTC's credit card spending and growth



Sources: KTC; FSSIA's compilation

By the end of this year, the BoT will enforce a normalizing policy of raising the minimum credit card repayment percent from 5% to 8% starting in January 2024, and to 10% at the pre-Covid level by 2025. We expect the policy shift to lead industry players to set up an additional layer of up-front provisions to brace for this regulatory impact. However, we estimate the proportion of KTC's minimum repayment customers for credit cards to range around 20-25% on average, meaning the regulation would have an insignificant impact on the firm's performance. Our sensitivity analysis suggests that a mere 0.8% in 2024 and 1.3% in 2025 would be the downside risks for KTC's credit card interest income, while the NPL ratio could rise by 49 bp and 83 bp in 2024 and 2025, respectively, under the assumption that the 25% transactional portion could not repay the additional 3% and 5% repayment floor.

Exhibit 59: Expected impact from the 3-5% rise in regulated minimum payment in 2024-25

	----- Base estimates -----		----- What if -----		----- Change -----	
	2024E (THB m)	2025E (THB m)	2024E (THB m)	2025E (THB m)	2024E (%)	2025E (%)
Total interest income	17,068	18,532	17,003	18,415	(0.4)	(0.6)
Credit card Int. income	8,344	9,157	8,280	9,040	(0.8)	(1.3)
	(%)	(%)	(%)	(%)	(%)	(%)
NPL ratio	2.16	2.10	2.65	2.93	0.49	0.83
Assumptions			(%)	(%)		
Increase in regulated minimum payment from 2023			3	5		
Portion of transactional credit card usage			25	25		

Source: FSSIA estimates

Personal loan segment

KTC's personal loan segment can be broken down into two sub-genres: 1) KTC PROUD – a cash advance card; and 2) KTC P Berm – an auto title loan portfolio. As of 9M23, KTC had 5.65% YTD and 8.19% y-y growth for the whole segment with a market share of 6.68% (excluding hire-purchase and leasing loans), which slightly improved from 6.47% at the end of 2022 from the growth within its auto title loan segment.

Cash advance: The 8M23 domestic usage of cash advance cards finished at THB561b, increasing by 21.2% y-y, with an average usage per card of THB8.2k, rising 4.87% y-y, which showed solid demand in 2023 following an impressive year in 2022. KTC PROUD's loans in 3Q23 have shown a moderate 6.2% y-y expansion, and we expect the segment to continue its pace of growth in 4Q23, going into a strong quarter.

Auto title loans: KTC expects P Berm to be the main growth driver in 2024-25 and targets new bookings worth THB9b for the segment in 2023. KTB branches are to be the main channel, leading to greater product recognition and loan growth and enhancing the firm's average loan yield. This should benefit KTC's bottom-line development within the next 2-3 years.

As of 3Q23, KTC's P Berm portfolio was at THB 2.06b, accounting for a mere 2% of the total loan value, while the 9M23 new bookings finished at just THB1.93b. Our estimate only considers 30-45% p.a. growth for P Berm in 2024-25 (ending at a mere 3.41-4.12% of total loans), meaning it only has a marginal influence on the overall loan yield. Given our expectations on the domestic economy, we expect more operators to steer into secured lending products, especially in the auto title loan industry (high-yield and collateral-backed), and hence we expect KTC to encounter fierce competition over customer acquisition. Meanwhile, through KTB counters, P Berm, with a mere 900+ locations vs other non-bank peers with many times more (MTC, SAWAD, and TIDLOR), should give the firm a disadvantaged position for market penetration. The consistently lower-than-targeted growth in the past 1-2 years should be the indicator to support our thesis.

However, we believe meaningful improvement in the segment's growth could provide an upside to our estimate and tilt KTC toward healthier asset quality due to the product nature and higher average loan yield. We have performed a sensitivity analysis to illustrate a scenario where loan growth in P Berm is 10% higher than our base case in 2023-25. The impact on KTC's net profit would be a 0.1%, 0.5%, and 0.6% increase, respectively, all else being equal. Meanwhile, it would benefit the overall yield by 1-3 bps and the NIM by 3-8 bps.

Exhibit 60: P Berm – sensitivity analysis (if loan growth is 10% higher than our estimate)

	Base estimates			What if			Change		
	2023E (THB m)	2024E (THB m)	2025E (THB m)	2023E (THB m)	2024E (THB m)	2025E (THB m)	2023E (%)	2024E (%)	2025E (%)
P Berm portfolio	2,605	3,778	4,909	2,866	4,155	5,400	10.0	10.0	10.0
New booking	2,625	2,079	2,411	2,886	2,264	2,627	9.9	8.9	9.0
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(%)	(%)	(%)
Total interest income	15,990	17,068	18,532	16,021	17,144	18,636	0.2	0.4	0.6
Personal loan - interest income	7,853	8,454	9,092	7,884	8,531	9,196	0.4	0.9	1.1
Net income	7,285	7,912	8,629	7,289	7,950	8,685	0.1	0.5	0.6
	(%)	(%)	(%)	(%)	(%)	(%)	(bp)	(bp)	(bp)
Yield	14.88	14.85	14.96	14.89	14.87	14.99	1	2	3
NIM	12.99	12.89	12.95	13.02	12.95	13.02	3	6	8

Source: FSSIA estimates

The BoT’s new persistent debt measure under its responsible lending policy targets revolving personal loans, which intersects with both of KTC’s product lines. For this matter, KTC has disclosed a limited negative impact on its revenue from the regulation (a maximum of THB18m per month), as the repayment behavior of KTC’s customers do not fit into the policy criteria. Hence, we do not expect the measure to have a meaningful effect on KTC’s performance.

Exhibit 61: KTC’s personal loan market share



Sources: BoT; KTC; FSSIA’s compilation

Exhibit 62: KTC vs FSSIA growth targets

	2022 (%)	KTC 2023E (%)	FSSIA 2023E (%)
Portfolio growth	12.45	15.00	6.21
Credit card spending growth	21.73	10.00	10.00
Personal loan growth	10.35	7.00	7.00
P Berm Car for cash			
New bookings (THB m)	1,055	9,000	2,625

Sources: KTC; FSSIA estimates

Exhibit 63: KTC – loan growth by segment, 2021-23E

	2021 (%)	2022 (%)	2023E (%)	9M23 (%YTD)
Credit cards	(0.06)	15.38	5.01	(0.33)
Personal loans	(2.44)	10.35	7.02	5.73
Leasing	(37.15)	(23.45)	30.00	37.58
Total portfolio growth	(2.80)	12.45	6.22	2.43
ex KTBL	(0.85)	13.74	5.64	1.58

Sources: KTC; FSSIA estimates

Expect increasing volatility in cost of funds and spreads

The regulation by the BoT to lower the interest rate ceilings on financial products (effective since August 2020) has put pressure on KTC's profitability. The yield on loans was 16.53% in 2019, which trended downward ever since and reached 14.61% by the end of 2022; a decrease of 192 bps. The movement of yields on credit card receivables was relatively stable within a 10.80-11.59% range from 2019-22. Since, on average, 20-25% of KTC's credit card spending volume is transactional – fully paid down and not subject to interest charges – this caused the yield to stay lower than the 16% regulated ceiling. In contrast, the yield on its personal loan portfolio was at 23.47% in 2022, decreasing by 254 bps from 2019, and was most severely hit among all segments. Lastly, the yield on KTBL's portfolio was at 3.90% in 2022. The unattractively low yield on the leasing portfolio was due to the vintage underwritings during the low-yield environment prior to the consolidation to KTC's balance sheet and the asset quality issue, leading many leasing debtors to pay at a low interest rate under the TDR program. During 2022, KTC had a massive THB1.8b write-off in the segment. We expect KTBL's yield to promptly normalize and finish 2023 at 8.30%.

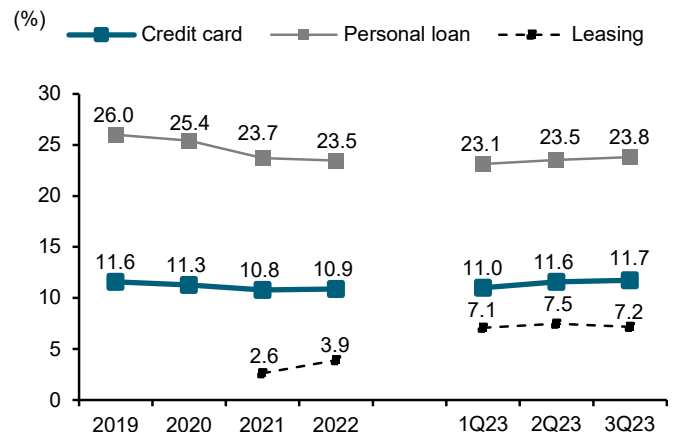
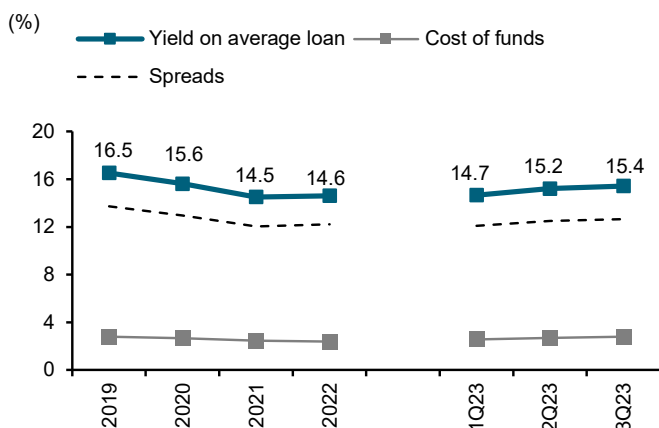
For funding, KTC had a policy to maintain a long-term funding source at more than 80% of the total interest-bearing liability to secure the cost of funds and reduce volatility in its profitability. At the end of 3Q23, long-term financing of KTC contributed 87.1% of the total mix. However, the weighted average duration of the company's debentures has been showing a shortening trend from 4.4 years in 2019 to 3.4 years in 2022, and falling further to 2.8 years in 3Q23. As the company expects the RP rate to have passed its peak, KTC will continue to shorten the duration of future issues.

We expect the firm's cost of funds to exhibit a higher correlation with the market rate, causing it to possess a higher degree of volatility. We expect the consequences of a higher RP rate to be reflected in a rising cost of funds, where we estimate the cost of new funding to rise by 25 bp in 4Q23 from 3Q23 and plateau after that. When accompanied by the maturity of low-cost vintage funding, this should lead KTC's cost of funds to grow and reach 2.71%, 2.85%, and 3.02% by the end of 2023-25, respectively. During 4Q23, KTC has THB1.74b in maturing debentures. We express no concern about the firm's financing activity as it currently possesses around THB15b in untapped term loans from commercial banks, while we expect KTC to be able to issue new debentures as well.

The effect of securing long-term funding so far has provided KTC with the ability to preserve its profitability to a certain degree. From 2019-22, the spread fell just 150 bps (vs 192 bps for loan yield) and finished at 12.23%, while the NIM was at 14.27% in 2019 before dropping to 12.88% in 2022, decreasing by 139 bps. We expect both spreads and NIM to continue narrowing, mainly from the rising cost of funds, and finish 2023 at 12.18% and 12.99%, respectively.

Exhibit 64: Yield, spreads, NIM, and cost of funds, 2019-3Q23

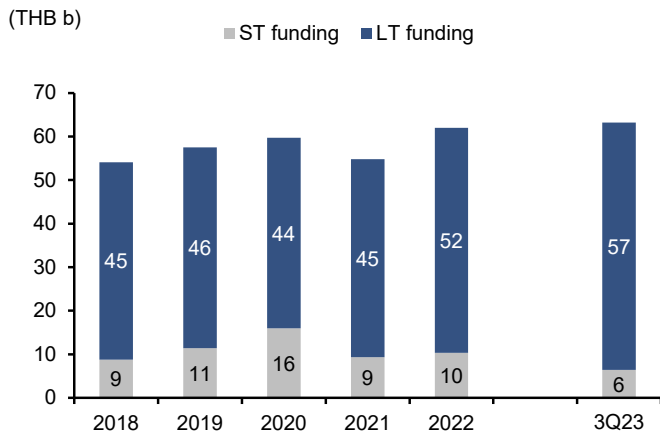
Exhibit 65: Yield by segment, 2019-3Q23



Sources: KTC; FSSIA's compilation

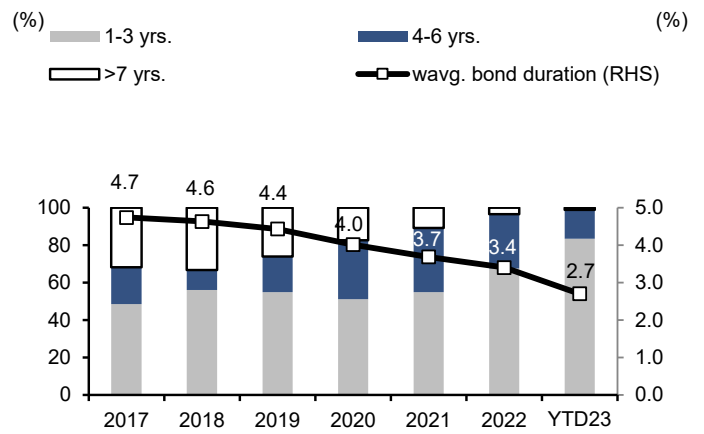
Sources: KTC; FSSIA's compilation

Exhibit 66: ST vs LT funding source, 2018-3Q23



Sources: KTC; FSSIA's compilation

Exhibit 67: Debenture duration, 2017-11M23



Sources: KTC; FSSIA's compilation

Exhibit 68: KTC's outstanding debentures, interest, and cost of debt as of 11M23

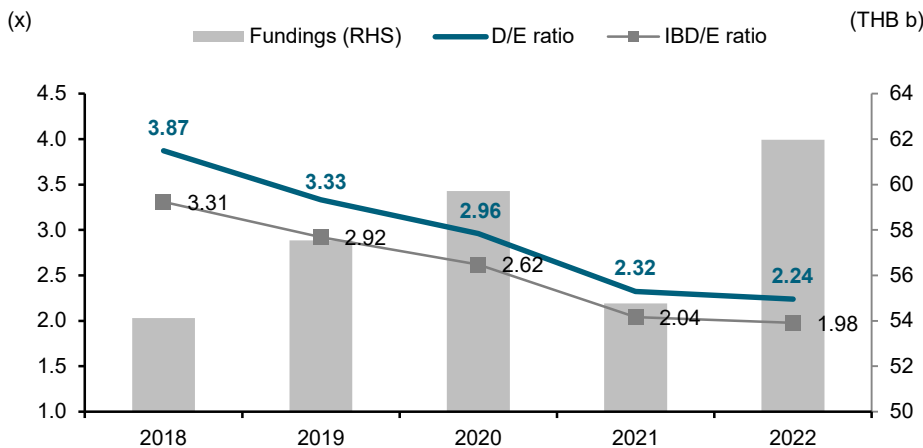
	Interest expenses				Outstanding debentures				Cost of debentures			
	1Q (THB m)	2Q (THB m)	3Q (THB m)	4Q (THB m)	1Q (THB m)	2Q (THB m)	3Q (THB m)	4Q (THB m)	1Q (bp)	2Q (bp)	3Q (bp)	4Q (bp)
2023	317	325	352	355	45,562	47,362	49,362	48,662	278	280	291	290
2024	331	325	326	317	46,922	42,922	42,922	41,822	277	290	304	299
2025	306	298	291	251	39,577	37,577	36,577	30,577	301	309	314	299
2026	234	224	208	186	28,077	27,577	23,577	23,377	320	322	325	317
2027	129	131	110	76	15,747	15,747	15,747	11,015	265	332	281	227
2028	59	54	45	34	8,015	6,765	6,765	4,700	249	291	264	240

Sources: ThaiBMA; FSSIA's compilation

Comfortable financial position

As of 3Q23, the D/E ratio dwindled to 2.08x from 2.24x at the end of 2022. Currently, KTC's debt covenant is at 10x, which puts the firm in a comfortable spot regarding business expansion. However, the company's effort to focus on asset quality and be more conservative with growth this year leads us to expect that this trend will be prolonged until at least 1H24 due to the sluggish economic atmosphere. Our assumptions suggest that KTC does not have an urgent demand for financing and should finish at a D/E ratio of 2.01x and 1.90x by the end of 2023 and 2024, respectively.

Exhibit 69: D/E and IBD/E ratios, 2018-22



Sources: KTC; FSSIA estimates

Slightly weaker asset quality from the macro backdrop

In 2021, KTC's NPL ratio was at 3.58% before being reduced to 1.77% in 2022 as a result of 1) proactive NPL management (write-offs and high provisions for loan losses), especially within the leasing segment; and 2) a softer pace of new NPL formation within the credit card and personal loan segments.

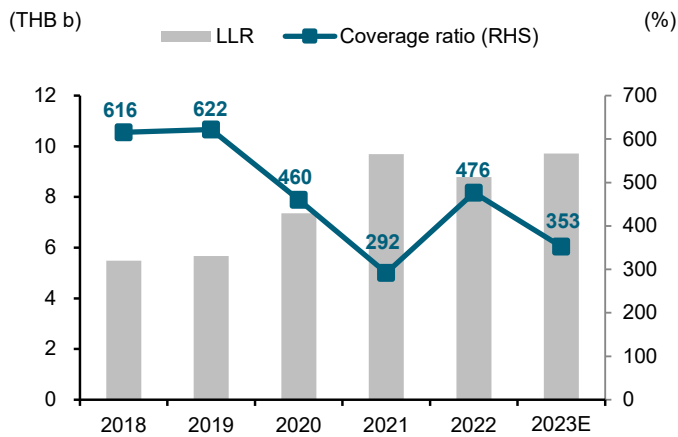
In 3Q23, the firm's asset quality was pressured as the NPL ratio rose 31 bp to 2.33%, along with a declining coverage ratio at 382%, down significantly from 433% in 2Q23. The firm's leasing business caused the most asset quality concerns. As a response, KTC has ceased its generation of new lease bookings since August 2023. We estimate that KTBL's NPLs will peak in 2024. Our estimates suggest a slightly weaker trend for overall asset quality in 4Q23, following the economic and industry directions, with the NPL ratio finishing at 2.49%, resulting in more provisions for loan losses. We expect a 2023 credit cost of 547 bp, rising from 498 bp in 2022, with a coverage ratio of 353%.

More NPLs from the end of Covid measures

The termination of the Covid debtor relief measure, ending in 2023, will bring firms back into strict compliance with the TFRS9 standard. The effect on companies' balance sheets will lead to a suddenly higher amount of NPLs as, under relaxed rules, operators were allowed to restage specific debtors upward to Stages 1 and 2, depending on the repayment behavior of the debtor. After the reversal, the company expects the amount of NPLs to nearly double and the NPL ratio to spike significantly to around 3.80% in 2024. Meanwhile, KTC has expressed no need to set up a higher provision amount as the current level of loan loss allowance already covers both the principal and accrued interest of those bad debts. In the future, the firm plans to reduce ECL to align with its view on asset quality as usual.

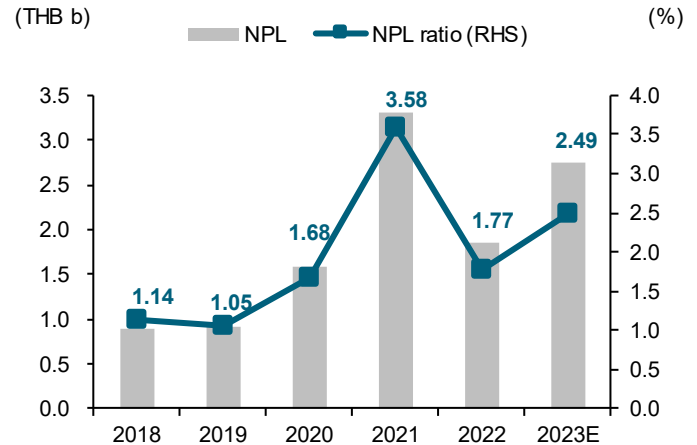
However, KTC expects the NPLs above to saturate after being held on its book for 180 days, and will be ready to be written-off by 2Q24, reducing the amount of NPLs. Hence, in 1Q24, we expect the firm's NPL ratio to jump to 4.46%, bringing the coverage ratio to 207%, and start declining by 45-80 bps per quarter until reaching a 2.16% level by year-end.

Exhibit 70: Allowance for ECL and coverage ratio, 2018-23E



Sources: KTC; FSSIA estimates

Exhibit 71: NPLs and NPL ratio, 2018-23E



Sources: KTC; FSSIA estimates

Exhibit 72: Loans and provisions by stage, 2020-3Q23

	2020 (THB m)	2021 (THB m)	2022 (THB m)	3Q23 (THB m)
Loans and accrued interest				
Stage 1	77,020	76,929	87,743	86,930
Stage 2	10,989	10,338	11,690	12,643
Stage 3	1,598	1,581	1,627	1,807
Expected credit loss (ECL)				
Stage 1	3,865	3,918	4,247	4,191
Stage 2	2,445	2,365	2,782	3,081
Stage 3	1,046	1,066	1,139	1,266
	(%)	(%)	(%)	(%)
NPL / TL	1.8	1.8	1.6	1.8
LLR / NPL	460.3	464.8	502.1	472.4
NPL + S2 / TL	14.0	13.4	13.2	14.3
LLR / (NPL + S2)	58.4	61.7	61.3	59.1

	2020 (THB m)	2021 (THB m)	2022 (THB m)	3Q23 (THB m)
Stage loans % of total loans				
	86.0	86.6	86.8	85.7
	12.3	11.6	11.6	12.5
	1.8	1.8	1.6	1.8
ECL % of stage loans				
	5.0	5.1	4.8	4.8
	22.2	22.9	23.8	24.4
	65.5	67.4	70.0	70.0

Note: Calculation excludes contribution from KTBL
Sources: KTC; FSSIA's compilation

Exhibit 73: NPLs by product segmentation, 2019-3Q23

NPL by segment	2019 (THB m)	2020 (THB m)	2021 (THB m)	2022 (THB m)	1Q23	2Q23	3Q23
Credit cards							
NPL	529	791	738	730	739	833	919
LLR	3,406	4,218	4,127	4,431	4,455	4,600	4,700
NPL / TL (%)	0.93	1.32	1.23	1.06	1.10	1.22	1.33
LLR / TL (%)	644	533	559	607	603	552	511
Personal loans							
NPL	382	807	843	896	902	975	1,048
LLR	2,264	3,138	3,222	3,736	3,778	3,937	4,020
NPL / TL (%)	1.31	2.72	2.92	2.81	2.82	2.95	3.11
LLR / TL (%)	593	389	382	417	419	404	384
HP Leasing							
NPL	n/a	n/a	1,736	219	290	322	514
LLR	n/a	n/a	2,343	624	701	688	749
NPL / TL (%)	n/a	n/a	54.27	8.95	8.79	9.10	15.26
LLR / TL (%)	n/a	n/a	135	285	242	214	146

Sources: KTC; FSSIA estimates

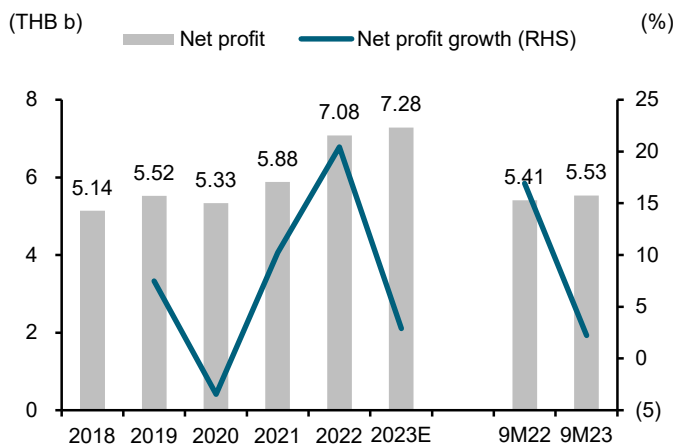
Moderate growth outlook for 2023 to improve in 2024

On average (2018-19), KTC’s net profit margin ranged between 26.17-32.39%, with interest income normally contributing 66% of total revenue while fee income accounted for 24%. The company’s cost-to-income ratio has been steady, averaging 36.94%.

KTC has had a trend of hitting new highs in its bottom-line results along with growth in its loan and spending volumes, except for a slight hiccup in 2020 where the industry had a 17.5% drop in spending volume. The 5Y CAGR growth in net profit until 2022 was 16.5% p.a. We estimate the net result of the company to be THB7.28b / THB7.91b / THB8.63b for 2023-25, with a y-y growth rate of 2.9%, 8.62%, and 9.06%, respectively. Our rationale is formed mainly from the estimated loan growth of 6.22%, 7.72%, and 7.88%, while we expect the credit cost and the cost-to-income ratio to be stable within the range of 539-547 bps and 36.47-37.05%, respectively.

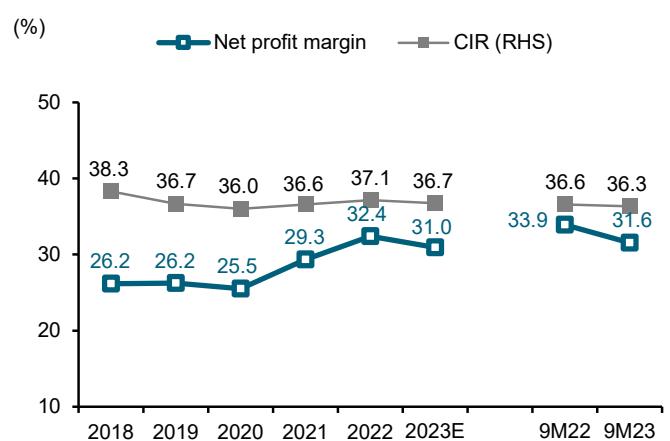
We expect a 4Q23 net profit at THB1.75b, down 5.71% q-q but up 5.08% y-y. We forecast its 4Q23 pre-provision operating profit (PPOP) at THB3.72b, down 1.45% q-q but increasing by 3.22% y-y from the revenue, which we expect to be flat q-q and but increase 1.9% y-y, pushed by both interest and fee income during the credit card peak season (Nov-Dec). However, this should go against the rising OPEX, which generally peaks in 4Q, mainly from higher fee and service expenses along with the rising transaction volume and employee pay raises, resulting in a cost-to-income ratio of 37.89%, more than 37.33% in 3Q23.

Exhibit 74: KTC – annual net profit



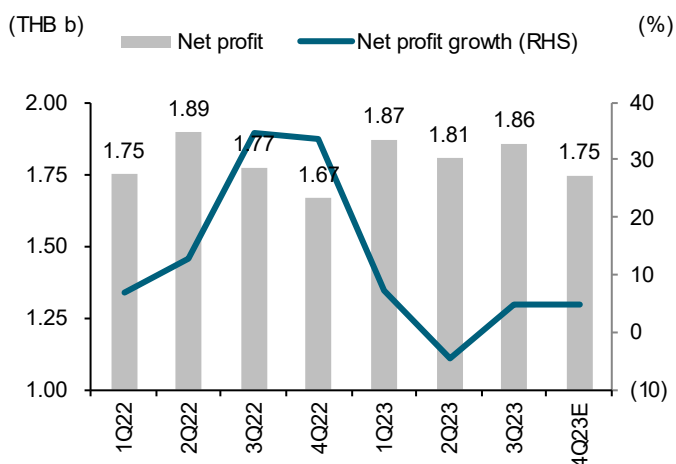
Sources: KTC; FSSIA estimates

Exhibit 75: Profitability metrics



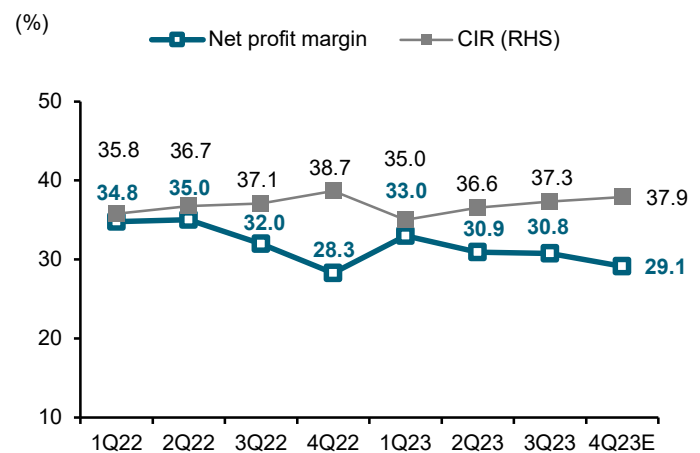
Sources: KTC; FSSIA estimates

Exhibit 76: KTC – quarterly net profit



Sources: KTC; FSSIA estimates

Exhibit 77: Profitability metrics; quarterly



Sources: KTC; FSSIA estimates

Exhibit 78: KTC results summary and 4Q23 estimates

KTC	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	--- Change ---		9M23	Change	% of	2023E	Change
	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(THB m)	(q-q%)	(y-y%)	(THB m)	(y-y%)	23E	(THB m)	(%)
Interest income	3,680	3,832	3,803	3,972	4,096	4,119	0.56	7.48	11,871	12.5	74	15,990	11.2
Interest expense	343	378	390	415	441	450	1.91	18.99	1,247	22.9	73	1,697	21.8
Net interest income	3,337	3,454	3,413	3,557	3,655	3,669	0.39	6.22	10,624	11.4	74	14,293	10.0
Non-interest income	2,974	3,228	3,047	3,091	3,208	3,137	(2.20)	(2.81)	9,346	8.1	75	12,483	5.2
Operating income	5,543	5,885	5,670	5,837	6,031	5,997	(0.57)	1.90	17,538	9.8	75	23,535	7.7
Operating expenses	2,056	2,276	1,985	2,135	2,252	2,272	0.90	(0.18)	6,371	9.1	74	8,643	6.5
PPOP	3,487	3,609	3,685	3,702	3,780	3,725	(1.45)	3.22	11,167	10.2	75	14,892	8.4
Expected credit loss	1,276	1,508	1,367	1,438	1,477	1,555	5.26	3.11	4,282	27.4	73	5,836	19.9
Profit before tax	2,210	2,101	2,319	2,263	2,303	2,170	(5.75)	3.29	6,884	1.7	76	9,056	2.1
Income tax expense	447	456	452	463	464	434	(6.49)	(4.79)	1,380	1.3	76	1,811	-0.4
Net profit	1,773	1,666	1,872	1,806	1,857	1,750	(5.71)	5.08	5,534	2.2	76	7,285	2.9
EPS (THB)	0.69	0.65	0.73	0.70	0.72	0.68	(5.71)	5.08	2.15	2.2	76	2.83	2.9
Key balance sheet highlights													
NPL	1,917	1,845	1,931	2,130	2,481	2,753	11.0	49.2	2,481	29.4		2,753	49.2
Loan - gross	97,016	104,194	103,312	105,588	106,700	110,671	3.7	6.2	106,700	10.0		110,671	6.2
Loans - net	88,418	95,402	94,378	96,364	97,232	100,959	3.8	5.8	97,232	10.0		100,959	5.8
Interest bearing debt	57,528	61,972	59,547	63,351	63,213	63,345	0.2	2.2	63,213	9.9		63,345	2.2
Earnings assets	90,127	97,689	96,194	98,342	100,111	103,754	3.6	6.2	100,111	11.1		113,503	6.6
Leverage ratio	(x)	(x)	(x)	(x)	(x)	(x)			(x)			(x)	
IBD/E (x)	1.94	1.98	1.79	1.98	1.86	1.77			1.86			1.77	
D/E (x)	2.16	2.24	2.01	2.19	2.08	2.01			2.08			2.01	
Asset quality ratio	(%)	(%)	(%)	(%)	(%)	(%)			(%)	(%)		(%)	
Gross NPLs (THB m)	1,917	1,845	1,931	2,130	2,481	2,753	11.0	49.2	2,481	29.4		2,753	49.2
NPL ratio	1.98	1.77	1.87	2.02	2.33	2.49			2.33			2.49	
Coverage ratio - LLR/ NPLs	449	476	463	433	382	353			382			353	
Credit cost (bp)	535	609	530	554	560	576			561			547	
LLR/TL	8.86	8.44	8.65	8.74	8.87	8.78						8.78	
Profitability ratios	(%)	(%)	(%)	(%)	(%)	(%)			(%)			(%)	
Cost-to-income ratio	37.10	38.68	35.01	36.58	37.33	37.89			36.33			36.73	
Yield on loans	15.33	15.24	14.66	15.21	15.44	15.16			17.05			14.88	
Cost of funds	2.42	2.53	2.57	2.70	2.79	2.84			2.75			2.71	
Spreads	12.91	12.70	12.09	12.51	12.65	12.31			13.89			12.18	
Net interest margin (NIM)	13.66	13.47	12.90	13.38	13.46	13.16			14.89			12.99	
ROE	24.63	21.84	23.19	22.13	22.51	20.09			23.21			21.71	
ROA	7.67	6.81	7.41	7.12	7.17	6.59			7.43			6.95	
Loan growth	(%)	(%)	(%)	(%)	(%)	(%)						(%)	
Loan growth y-y	11.48	12.48	14.53	11.06	9.98	6.22			9.98			6.22	
q-q	2.05	7.40	-0.85	2.20	1.05	3.72							

Sources: KTC; FSSIA estimates

Initiate coverage with a HOLD call; slightly tight valuation

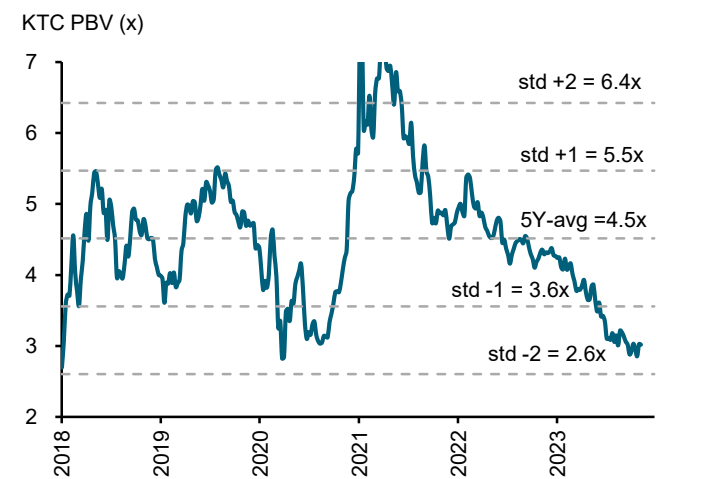
We initiate coverage of KTC with a HOLD call. Our GGM valuation yields a 2024 TP of THB49, implying a P/BV of 3.11x, lower than the current multiple of 3.47x as we expect the share price is trading at a slightly tight valuation when compared to industry peers. Meanwhile, despite trading near -2 SD of its 5Y average P/BV, we do not expect a mean reversion for KTC in the near term mainly due to its muted 2023-24 growth outlook and NPL overhangs. Our valuation is based on an estimated sustainable ROE of 18% and a terminal growth rate of 3.25% p.a.

Exhibit 79: GGM-derived 2024 valuation specifications

	2024E (%)
ROE - sustainable	18.00
Terminal growth rate	3.25
Cost of equity	8.00
Risk-free	3.00
Expected market return	8.00
Market risk premium	5.00
Beta	1.00
Target PBV	3.11
BVS	15.78
Fair price	49.00

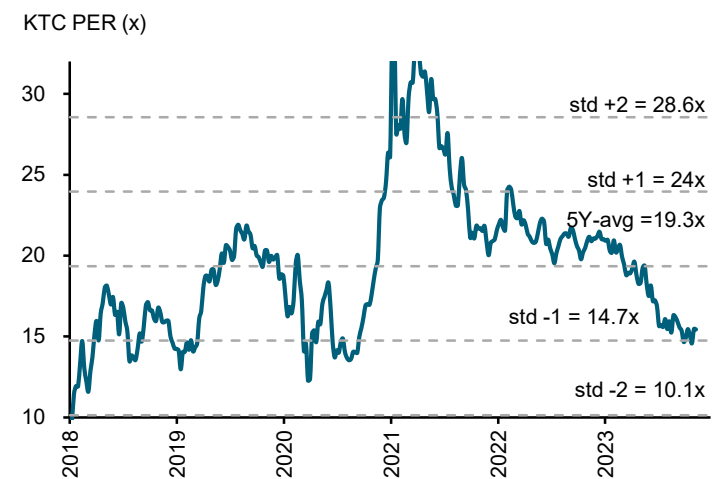
Sources: FSSIA estimates

Exhibit 80: KTC – one-year prospective P/BV band



Sources: Bloomberg; FSSIA estimates

Exhibit 81: KTC – one-year prospective PER band



Sources: Bloomberg; FSSIA estimates

Exhibit 82: Peers comparison, as of 27 November 2023

Company name	code	Rec	Share price (LCY)	Target price (LCY)	Up side (%)	PE		PBV		ROE		Div yld	
						23E (x)	24E (x)	23E (x)	24E (x)	23E (%)	24E (%)	23E (x)	24E (x)
Thailand													
Krungthai Card	KTC TB	HOLD	46.25	49.00	6	16.4	15.1	3.3	2.9	21.7	20.7	2.4	2.4
AEON Thana Sinsap (Thailand)	AEONTS TB	HOLD	156.00	169.00	8	12.5	11.6	1.6	1.5	13.1	13.2	3.5	4.0
Muangthai Capital	MTC TB	BUY	43.00	44.00	2	19.1	14.9	2.9	2.4	15.6	17.7	0.8	1.0
Srisawad Corp	SAWAD TB	BUY	43.75	54.00	23	11.2	9.5	2.1	1.9	19.7	20.7	4.1	4.6
Ngern Tid Lor	TIDLOR TB	BUY	22.60	28.00	24	16.6	13.8	2.2	2.0	14.2	15.2	1.2	1.5
Average						15.2	13.0	2.4	2.1	16.9	17.5	2.4	2.7

Sources: Bloomberg; FSSIA estimates

Financial Statements

Krungthai Card

Profit and Loss (THB m) Year Ending Feb	2021	2022	2023E	2024E	2025E
Interest Income	13,614	14,381	15,990	17,068	18,532
Interest expense	(1,416)	(1,392)	(1,697)	(1,879)	(2,109)
Net interest income	12,198	12,989	14,293	15,188	16,422
Net fees & commission	4,293	4,974	5,471	6,018	6,620
Foreign exchange trading income	-	-	-	-	-
Securities trading income	-	-	-	-	-
Dividend income	11	17	35	35	35
Other income	3,534	3,876	3,736	4,206	4,247
Non interest income	7,838	8,868	9,242	10,259	10,902
Total income	20,036	21,856	23,535	25,447	27,324
Staff costs	(7,064)	(7,872)	(8,379)	(9,152)	(9,681)
Other operating costs	(262)	(244)	(264)	(277)	(286)
Operating costs	(7,326)	(8,117)	(8,643)	(9,429)	(9,966)
Pre provision operating profit	12,711	13,740	14,892	16,018	17,358
Expected credit loss	(5,456)	(4,868)	(5,836)	(6,184)	(6,634)
Other provisions	-	-	-	-	-
Operating profit	7,255	8,871	9,056	9,834	10,724
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	7,255	8,871	9,056	9,834	10,724
Tax	(1,467)	(1,818)	(1,811)	(1,967)	(2,145)
Profit after tax	5,789	7,054	7,245	7,867	8,579
Non-controlling interest	90	26	40	45	50
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	5,879	7,079	7,285	7,912	8,629
Non recurring items & goodwill (net)	-	-	0	0	0
Recurring net profit	5,879	7,079	7,285	7,912	8,629
Per share (THB)					
Recurring EPS *	2.28	2.75	2.83	3.07	3.35
Reported EPS	2.28	2.75	2.83	3.07	3.35
DPS	0.88	1.00	1.10	1.13	1.23
Growth					
Net interest income (%)	(3.2)	6.5	10.0	6.3	8.1
Non interest income (%)	(5.4)	13.1	4.2	11.0	6.3
Pre provision operating profit (%)	(4.9)	8.1	8.4	7.6	8.4
Operating profit (%)	5.5	22.3	2.1	8.6	9.0
Reported net profit (%)	10.2	20.4	2.9	8.6	9.1
Recurring EPS (%)	10.2	20.4	2.9	8.6	9.1
Reported EPS (%)	10.2	20.4	2.9	8.6	9.1
Income Breakdown					
Net interest income (%)	60.9	59.4	60.7	59.7	60.1
Net fees & commission (%)	21.4	22.8	23.2	23.7	24.2
Foreign exchange trading income (%)	-	-	-	-	-
Securities trading income (%)	-	-	-	-	-
Dividend income (%)	0.1	0.1	0.1	0.1	0.1
Other income (%)	17.6	17.7	15.9	16.5	15.5
Operating performance					
Gross interest yield (%)	14.15	14.26	14.53	14.49	14.61
Cost of funds (%)	2.47	2.39	2.71	2.85	3.02
Net interest spread (%)	11.68	11.87	11.82	11.64	11.59
Net interest margin (%)	12.7	12.9	13.0	12.9	12.9
Cost/income(%)	36.6	37.1	36.7	37.1	36.5
Cost/assets(%)	8.1	8.5	8.2	8.3	8.1
Effective tax rate (%)	20.2	20.5	20.0	20.0	20.0
Dividend payout on recurring profit (%)	38.6	36.4	38.9	36.8	36.7
ROE (%)	23.7	24.3	21.7	20.7	19.9
ROE - COE (%)	12.9	13.5	10.9	9.9	9.1
ROA (%)	6.4	7.4	6.9	7.0	7.0
RORWA (%)	-	-	-	-	-

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Krungthai Card; FSSIA estimates

Financial Statements

Krungthai Card

Balance Sheet (THB m) Year Ending Feb	2021	2022	2023E	2024E	2025E
Gross customer loans	92,047	103,509	109,934	118,411	127,737
Allowance for expected credit loss	(9,692)	(8,792)	(9,712)	(8,035)	(8,810)
interest in suspense	588	685	738	805	878
Net customer loans	82,943	95,402	100,959	111,181	119,804
Bank loans	-	-	-	-	-
Government securities	-	-	-	-	-
Trading securities	-	-	-	-	-
Investment securities	83	106	111	117	122
Cash & equivalents	2,363	2,182	2,684	2,756	2,805
Other interesting assets	-	-	-	-	-
Tangible fixed assets	419	348	313	282	254
Associates	-	-	-	-	-
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Other assets	3,663	3,758	3,829	3,904	3,982
Total assets	89,471	101,796	107,897	118,240	126,968
Customer deposits	0	0	0	0	0
Bank deposits	-	-	-	-	-
Other interest bearing liabilities	54,769	61,972	63,345	68,435	71,436
Non interest bearing liabilities	7,617	8,248	8,535	8,835	9,149
Hybrid Capital	-	-	-	-	-
Total liabilities	62,387	70,220	71,881	77,270	80,585
Share capital	2,578	2,578	2,578	2,578	2,578
Reserves	24,258	28,775	33,188	38,141	43,555
Total equity	26,836	31,353	35,766	40,719	46,134
Non-controlling interest	248	223	250	250	250
Total liabilities & equity	89,471	101,796	107,897	118,240	126,968
Supplementary items					
Risk weighted assets (RWA)	n/a	n/a	n/a	n/a	n/a
Average interest earning assets	96,197	100,823	110,012	117,814	126,850
Average interest bearing liabilities	57,240	58,371	62,659	65,890	69,936
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)	3,317	1,846	2,753	2,571	2,698
Per share (THB)					
Book value per share	10.41	12.16	13.87	15.79	17.89
Tangible book value per share	10.41	12.16	13.87	15.79	17.89
Growth					
Gross customer loans	(2.8)	12.5	6.2	7.7	7.9
Average interest earning assets	4.0	4.8	9.1	7.1	7.7
Total asset (%)	(2.3)	13.8	6.0	9.6	7.4
Risk weighted assets (%)	-	-	-	-	-
Customer deposits (%)	nm	nm	nm	nm	nm
Leverage & capital measures					
Customer loan/deposits (%)	-	-	-	-	-
Equity/assets (%)	30.0	30.8	33.1	34.4	36.3
Tangible equity/assets (%)	30.0	30.8	33.1	34.4	36.3
RWA/assets (%)	-	-	-	-	-
CET 1 CAR (%)	-	-	-	-	-
Total CAR (%)	-	-	-	-	-
Asset Quality (FSSIA's calculation)					
Change in NPL (%)	107.6	(44.4)	49.2	(6.6)	4.9
NPL/gross loans (%)	3.6	1.8	2.5	2.2	2.1
Allowance for ECL/gross loans (%)	10.5	8.5	8.8	6.8	6.9
Allowance for ECL/NPL (%)	292.2	476.3	352.8	312.5	326.5
Valuation					
Recurring P/E (x) *	20.3	16.8	16.4	15.1	13.8
Recurring P/E @ target price (x) *	21.5	17.8	17.3	16.0	14.6
Reported P/E (x)	20.3	16.8	16.4	15.1	13.8
Dividend yield (%)	1.9	2.2	2.4	2.4	2.7
Price/book (x)	4.4	3.8	3.3	2.9	2.6
Price/tangible book (x)	4.4	3.8	3.3	2.9	2.6
Price/tangible book @ target price (x)	4.7	4.0	3.5	3.1	2.7

* Pre-exceptional, pre-goodwill and fully diluted

Sources: Krungthai Card; FSSIA estimates

Krungthai Card PCL (KTC TB)

FSSIA ESG rating

71.80 /100
Exhibit 83: FSSIA ESG score implication

Rating	Score	Implication
★★★★★	>79-100	Leading its industry peers in managing the most significant ESG risks which not only better cost efficiency but also lead to higher profitability.
★★★★★	>59-79	A mixed track record of managing the most significant ESG risks and opportunities relative to industry peers.
★★★	>39-59	Relevant ESG materiality matrix has been constructively addressed, well-managed and incorporated into day-to-day operations, in which targets and achievements are evaluated annually.
★★	>19-39	Relevant ESG materiality matrix has been identified with key management in charge for progress to be followed up on and to provide intensive disclosure. Most targets are conventional and achievable.
★	1-19	The company has adopted the United Nations Sustainable Development Goals (UN SDGs), established sustainability management guidelines and fully complies with regulations or ESG suggested guidance from related organizations such as the SET and SEC.

Sources: FSSIA estimates

Exhibit 84: ESG – peer comparison

	FSSIA ESG score	Domestic ratings						Global ratings						Bloomberg	
		DJSI	SET THSI	THSI	CG score	AGM level	Thai CAC	Morningstar ESG risk	ESG Book	MSCI	Moody's	Refinitiv	S&P Global	ESG score	Disclosure score
SET100	69.20	5.34	4.40	4.40	4.76	4.65	3.84	Medium	51.76	BBB	20.87	58.72	63.91	3.72	28.17
Coverage	67.12	5.11	4.15	4.17	4.83	4.71	3.53	Medium	52.04	BB	16.97	56.85	62.09	3.40	31.94
AEONTS	33.86	--	--	--	4.00	3.00	--	Medium	40.10	BBB	--	27.64	17.00	--	--
KTC	71.80	--	Y	Y	5.00	5.00	Certified	Low	57.22	A	--	64.48	59.00	4.96	57.09
SAK	45.28	--	Y	Y	4.00	4.00	Certified	High	40.10	--	--	43.87	--	2.02	36.23
MTC	68.21	--	Y	Y	5.00	5.00	Certified	Low	42.19	AA	--	58.09	42.00	3.31	--
SAWAD	46.52	--	Y	Y	4.00	5.00	--	Medium	43.97	BB	--	20.18	13.00	1.93	40.04
TIDLOR	36.71	--	--	--	4.00	4.00	Certified	Medium	37.03	--	--	23.69	19.00	1.66	--
SAWAD	46.52	--	Y	Y	4.00	5.00	--	Medium	43.97	BB	--	20.18	13.00	1.93	40.04

Sources: [SETTRADE.com](https://www.settrade.com); FSSIA's compilation
Exhibit 85: ESG score by Bloomberg

FY ending Dec 31	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
ESG financial materiality scores - ESG score	2.10	2.55	3.27	3.49	4.11	5.79	5.74	4.96
BESG environmental pillar score	0.00	2.90	3.74	4.41	3.84	3.95	3.64	3.88
BESG social pillar score	0.92	1.20	2.21	2.32	3.33	6.29	6.49	4.89
BESG governance pillar score	5.97	5.35	5.19	5.47	5.66	5.64	5.31	5.48
ESG disclosure score	35.95	37.11	41.95	49.07	49.92	58.07	56.76	57.09
Environmental disclosure score	0.91	4.38	10.90	27.88	27.88	33.77	29.84	31.80
Social disclosure score	25.70	25.70	33.71	38.12	40.69	59.28	59.28	58.28
Governance disclosure score	81.10	81.10	81.10	81.10	81.10	81.10	81.10	81.10
Environmental								
Emissions reduction initiatives	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Climate change policy	No	No	No	Yes	Yes	Yes	Yes	Yes
Climate change opportunities discussed	No	No	No	No	No	No	No	No
Risks of climate change discussed	No	No	No	No	No	No	No	No
GHG scope 1	—	—	—	1	1	0	0	0
GHG scope 2 location-based	—	2	2	1	1	1	1	1
GHG Scope 3	—	—	0	0	0	0	0	0
Carbon per unit of production	—	—	—	—	—	—	—	—
Biodiversity policy	No	No	No	No	No	No	No	No
Energy efficiency policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Total energy consumption	—	—	—	—	—	—	—	—
Renewable energy use	—	—	—	—	—	—	—	—
Electricity used	—	3	3	2	2	2	2	3
Fuel used - natural gas	—	—	—	—	—	—	—	—

Sources: Bloomberg; FSSIA's compilation

Exhibit 86: ESG score by Bloomberg (cont.)

FY ending Dec 31	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Fuel used - crude oil/diesel	No	No	No	No	No	No	No	No
Waste reduction policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hazardous waste	—	—	—	—	—	0	—	—
Total waste	—	—	—	—	—	0	—	0
Waste recycled	—	—	—	—	—	0	0	0
Waste sent to landfills	—	—	—	—	—	—	—	—
Environmental supply chain management	No	No	No	Yes	Yes	Yes	Yes	Yes
Water policy	No	No	No	Yes	Yes	Yes	Yes	Yes
Water consumption	—	—	—	—	—	—	—	—
Social								
Human rights policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Policy against child labor	No	No	No	No	No	Yes	Yes	Yes
Quality assurance and recall policy	No	No	No	No	No	No	No	No
Consumer data protection policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Equal opportunity policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Gender pay gap breakout	No	No	No	No	No	No	No	No
Pct women in workforce	63	63	64	65	66	65	66	66
Pct disabled in workforce	—	—	—	—	—	1	1	1
Business ethics policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Anti-bribery ethics policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Health and safety policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lost time incident rate - employees	—	—	—	0	0	0	0	0
Total recordable incident rate - employees	—	—	—	0	0	0	0	0
Training policy	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fair remuneration policy	No	No	No	No	No	Yes	Yes	Yes
Number of employees – CSR	1,489	1,804	1,741	1,763	1,778	1,744	1,705	1,695
Employee turnover pct	—	—	—	—	14	9	10	17
Total hours spent by firm - employee training	47,082	50,425	56,709	39,980	72,732	83,151	99,420	108,744
Social supply chain management	No	No	No	Yes	Yes	Yes	Yes	Yes
Governance								
Board size	8	8	8	8	8	8	8	8
No. of independent directors (ID)	3	4	4	4	4	4	4	5
No. of women on board	4	2	2	2	2	2	2	1
No. of non-executive directors on board	7	7	7	7	7	7	7	7
Company conducts board evaluations	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of board meetings for the year	13	12	12	13	15	16	19	15
Board meeting attendance pct	96	92	96	96	87	95	96	98
Board duration (years)	3	3	3	3	3	3	3	3
Director share ownership guidelines	No	No	No	No	No	No	No	No
Age of the youngest director	33	34	35	43	44	39	40	40
Age of the oldest director	63	64	65	66	65	66	67	68
No. of executives / company managers	15	13	13	14	10	11	13	12
No. of female executives	6	5	5	3	3	3	5	5
Executive share ownership guidelines	No	No	No	No	No	No	No	No
Size of audit committee	3	3	3	3	3	3	3	3
No. of ID on audit committee	3	3	3	3	3	3	3	3
Audit committee meetings	7	6	8	12	11	11	12	13
Audit meeting attendance %	90	89	87	89	88	100	97	85
Size of compensation committee	3	3	3	3	3	3	3	3
No. of ID on compensation committee	1	1	1	1	1	1	1	2
No. of compensation committee meetings	6	7	9	8	10	7	7	8
Compensation meeting attendance %	89	92	100	100	86	100	94	96
Size of nomination committee	3	3	3	3	3	3	3	3
No. of nomination committee meetings	6	7	9	8	10	7	7	8
Nomination meeting attendance %	89	92	100	100	86	100	94	96
Sustainability governance								
Verification type	No	No	No	No	No	No	No	No

Sources: Bloomberg; FSSIA's compilation

Disclaimer for ESG scoring

ESG score	Methodology	Rating																			
The Dow Jones Sustainability Indices (DJSI) By S&P Global	The DJSI World applies a transparent, rules-based component selection process based on the companies' Total Sustainability Scores resulting from the annual S&P Global Corporate Sustainability Assessment (CSA). Only the top-ranked companies within each industry are selected for inclusion.	Be a member and invited to the annual S&P Global Corporate Sustainability Assessment (CSA) for DJSI. Companies with an S&P Global ESG Score of less than 45% of the S&P Global ESG Score of the highest scoring company are disqualified. The constituents of the DJSI indices are selected from the Eligible Universe.																			
Sustainability Investment List (THSI) by The Stock Exchange of Thailand (SET)	THSI quantifies responsibility in Environmental and Social issues by managing business with transparency in Governance, updated annually. Candidates must pass the preemptive criteria, with two crucial conditions: 1) no irregular trading of the board members and executives; and 2) free float of >150 shareholders, and combined holding must be >15% of paid-up capital. Some key disqualifying criteria include: 1) CG score of below 70%; 2) independent directors and free float violation; 3) executives' wrongdoing related to CG, social & environmental impacts; 4) equity in negative territory; and 5) earnings in red for > 3 years in the last 5 years.	To be eligible for THSI inclusion , verified data must be scored at a minimum of 50% for each indicator, unless the company is a part of DJSI during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality. SETTHSI Index is extended from the THSI companies whose 1) market capitalization > 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.																			
CG Score by Thai Institute of Directors Association (Thai IOD)	An indicator of CG strength in sustainable development, measured annually by the Thai IOD, with support from the Stock Exchange of Thailand (SET). The results are from the perspective of a third party, not an evaluation of operations.	Scores are rated in six categories: 5 for Excellent (90-100), 4 for Very Good (80-89), 3 for Good (70-79), 2 for Fair (60-69), 1 for Pass (60-69), and not rated for scores below 50. Weightings include: 1) the rights; 2) and equitable treatment of shareholders (weight 25% combined); 3) the role of stakeholders (25%); 4) disclosure & transparency (15%); and 5) board responsibilities (35%).																			
AGM level By Thai Investors Association (TIA) with support from the SEC	It quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and information is transparent and sufficiently disclosed. All form important elements of two out of five the CG components to be evaluated annually. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). <i>(The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating 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.)</i>	The scores are classified into four categories: 5 for Excellent (100), 4 for Very Good (90-99), 3 for Fair (80-89), and not rated for scores below 79.																			
Thai CAC By Thai Private Sector Collective Action Against Corruption (CAC)	The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. The Certification is good for three years. <i>(Companies deciding to become a CAC certified member start by submitting a Declaration of Intent to kick off an 18-month deadline to submit the CAC Checklist for Certification, including risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.)</i>	The document will be reviewed by a committee of nine professionals. A passed Checklist will move for granting certification by the CAC Council approvals whose members are twelve highly respected individuals in professionalism and ethical achievements.																			
Morningstar Sustainalytics	The Sustainalytics' ESG risk rating provides an overall company score based on an assessment of how much of a company's exposure to ESG risk is unmanaged. <i>Sources to be reviewed include corporate publications and regulatory filings, news and other media, NGO reports/websites, multi-sector information, company feedback, ESG controversies, issuer feedback on draft ESG reports, and quality & peer reviews.</i>	A company's ESG risk rating score is the sum of unmanaged risk. The more risk is unmanaged, the higher ESG risk is scored. <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>NEGL</th> <th>Low</th> <th>Medium</th> <th>High</th> <th>Severe</th> </tr> </thead> <tbody> <tr> <td>0-10</td> <td>10-20</td> <td>20-30</td> <td>30-40</td> <td>40+</td> </tr> </tbody> </table>	NEGL	Low	Medium	High	Severe	0-10	10-20	20-30	30-40	40+									
NEGL	Low	Medium	High	Severe																	
0-10	10-20	20-30	30-40	40+																	
ESG Book	The ESG score identifies sustainable companies that are better positioned to outperform over the long term. The methodology considers the principle of financial materiality including information that significantly helps explain future risk-adjusted performance. Materiality is applied by over-weighting features with higher materiality and rebalancing these weights on a rolling quarterly basis.	The total ESG score is calculated as a weighted sum of the features scores using materiality-based weights. The score is scaled between 0 and 100 with higher scores indicating better performance.																			
MSCI	MSCI ESG ratings aim to measure a company's management of financially relevant ESG risks and opportunities. It uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. <table border="1" style="margin-left: auto; margin-right: auto;"> <tbody> <tr> <td>AAA</td> <td>8.571-10.000</td> <td rowspan="3">Leader:</td> <td rowspan="3">leading its industry in managing the most significant ESG risks and opportunities</td> </tr> <tr> <td>AA</td> <td>7.143-8.570</td> </tr> <tr> <td>A</td> <td>5.714-7.142</td> </tr> <tr> <td>BBB</td> <td>4.286-5.713</td> <td rowspan="3">Average:</td> <td rowspan="3">a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</td> </tr> <tr> <td>BB</td> <td>2.857-4.285</td> </tr> <tr> <td>B</td> <td>1.429-2.856</td> </tr> <tr> <td>CCC</td> <td>0.000-1.428</td> <td>Laggard:</td> <td>lagging its industry based on its high exposure and failure to manage significant ESG risks</td> </tr> </tbody> </table>	AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities	AA	7.143-8.570	A	5.714-7.142	BBB	4.286-5.713	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers	BB	2.857-4.285	B	1.429-2.856	CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks
AAA	8.571-10.000	Leader:	leading its industry in managing the most significant ESG risks and opportunities																		
AA	7.143-8.570																				
A	5.714-7.142																				
BBB	4.286-5.713	Average:	a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers																		
BB	2.857-4.285																				
B	1.429-2.856																				
CCC	0.000-1.428	Laggard:	lagging its industry based on its high exposure and failure to manage significant ESG risks																		
Moody's ESG solutions	Moody's assesses the degree to which companies take into account ESG objectives in the definition and implementation of their strategy policies. It believes that a company integrating ESG factors into its business model and relatively outperforming its peers is better positioned to mitigate risks and create sustainable value for shareholders over the medium to long term.																				
Refinitiv ESG rating	Designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes, based on publicly available and auditable data. The score ranges from 0 to 100 on relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly. <i>(Score ratings are 0 to 25 = poor; >25 to 50 = satisfactory; >50 to 75 = good; and >75 to 100 = excellent.)</i>																				
S&P Global	The S&P Global ESG Score is a relative score measuring a company's performance on and management of ESG risks, opportunities, and impacts compared to its peers within the same industry classification. The score ranges from 0 to 100.																				
Bloomberg	ESG Score	Bloomberg score evaluating the company's aggregated Environmental, Social and Governance (ESG) performance. The score is based on Bloomberg's view of ESG financial materiality. The score is a weighted generalized mean (power mean) of Pillar Scores, where the weights are determined by the pillar priority ranking. Values range from 0 to 10; 10 is the best.																			
Bloomberg	ESG Disclosure Score	Disclosure of a company's ESG used for Bloomberg ESG score. The score ranges from 0 for none to 100 for disclosure of every data point, measuring the amount of ESG data reported publicly, and not the performance on any data point.																			

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**; 2) **AGM Level**; 3) **Thai CAC**; and 4) **THSI**. The ratings are updated on an annual basis. FSSIA does not confirm nor certify the accuracy of such ratings.

Source: FSSIA's compilation

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

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

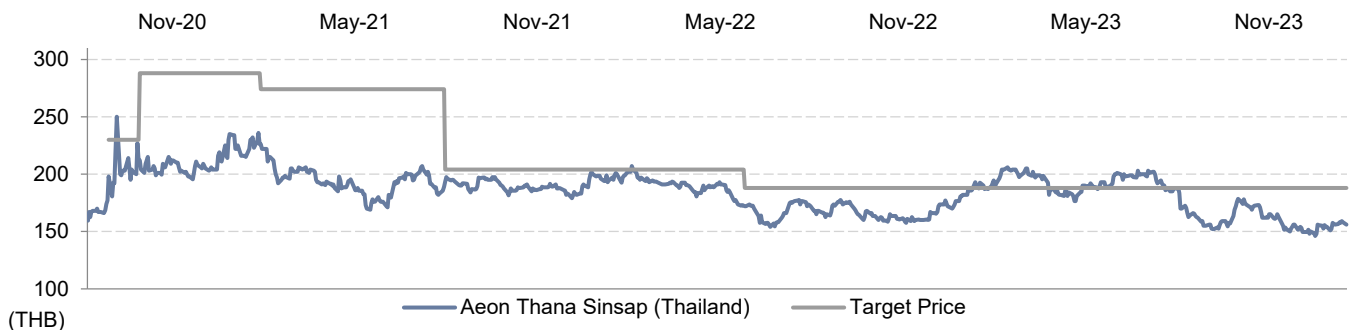
The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s)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

This report has been prepared by FSS International Investment Advisory Securities Company Limited (FSSIA). The information herein has been obtained from sources believed to be reliable and accurate; however FSSIA makes no representation as to the accuracy and completeness of such information. Information and opinions expressed herein are subject to change without notice. FSSIA has no intention to solicit investors to buy or sell any security in this report. In addition, FSSIA does not guarantee returns nor price of the securities described in the report nor accept any liability for any loss or damage of any kind arising out of the use of such information or opinions in this report. Investors should study this report carefully in making investment decisions. All rights are reserved.

This report may not be reproduced, distributed or published by any person in any manner for any purpose without permission of FSSIA. Investment in securities has risks. Investors are advised to consider carefully before making investment decisions.

History of change in investment rating and/or target price

Aeon Thana Sinsap (Thailand) (AEONTS TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
17-Dec-2020	BUY	230.00	28-Apr-2021	BUY	274.00	22-Jun-2022	HOLD	188.00
13-Jan-2021	BUY	288.00	05-Oct-2021	HOLD	204.00			

Usanee Liurut, CISA started covering this stock from 28-Nov-2023

Price and TP are in local currency

Source: FSSIA estimates

Krungthai Card (KTC TB)



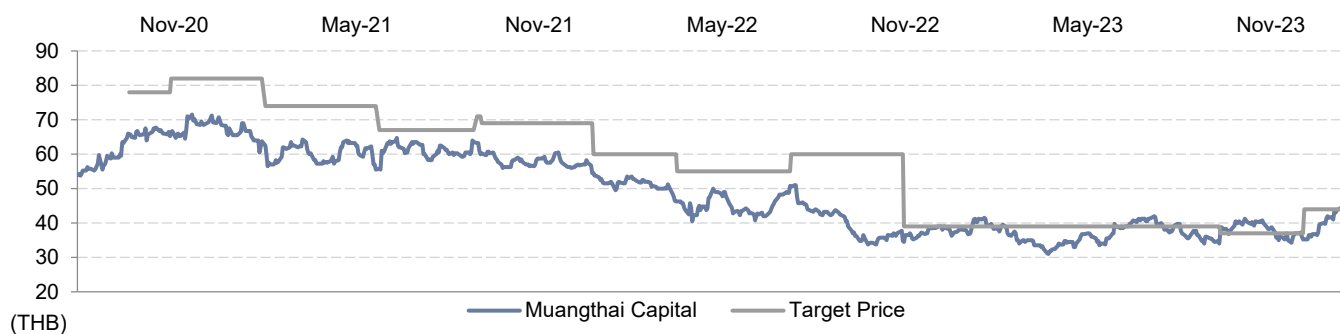
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
19-Jan-2021	REDUCE	50.00	18-Oct-2021	HOLD	52.00	22-Jun-2022	HOLD	60.00
19-Jul-2021	HOLD	73.00	11-Apr-2022	REDUCE	52.00	12-Oct-2022	BUY	65.00

Usanee Liurut, CISA started covering this stock from 28-Nov-2023

Price and TP are in local currency

Source: FSSIA estimates

Muangthai Capital (MTC TB)



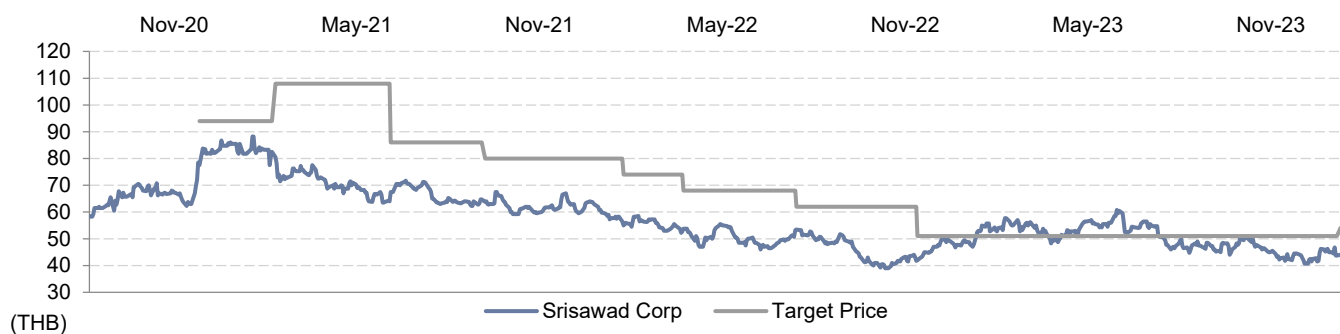
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
12-Jan-2021	BUY	78.00	05-Nov-2021	BUY	71.00	04-Aug-2022	BUY	60.00
17-Feb-2021	BUY	82.00	11-Nov-2021	BUY	69.00	09-Nov-2022	HOLD	39.00
07-May-2021	BUY	74.00	15-Feb-2022	BUY	60.00	08-Aug-2023	HOLD	37.00
13-Aug-2021	BUY	67.00	28-Apr-2022	BUY	55.00	19-Oct-2023	BUY	44.00

Usanee Liurut, CISA started covering this stock from 08-Aug-2023

Price and TP are in local currency

Source: FSSIA estimates

Srisawad Corp (SAWAD TB)



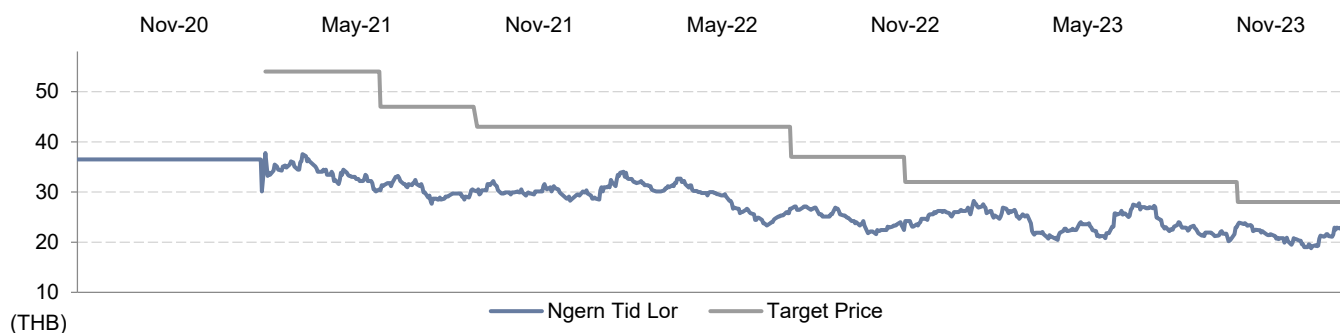
Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
04-Mar-2021	BUY	94.00	05-Nov-2021	BUY	80.00	04-Aug-2022	BUY	62.00
07-May-2021	BUY	108.00	07-Mar-2022	BUY	74.00	17-Nov-2022	BUY	51.00
17-Aug-2021	BUY	86.00	28-Apr-2022	BUY	68.00	17-Nov-2023	BUY	54.00

Usanee Liurut, CISA started covering this stock from 11-Oct-2023

Price and TP are in local currency

Source: FSSIA estimates

Ngern Tid Lor (TIDLOR TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
07-May-2021	BUY	54.00	05-Nov-2021	BUY	43.00	10-Nov-2022	BUY	32.00
16-Aug-2021	BUY	47.00	04-Aug-2022	BUY	37.00	23-Aug-2023	BUY	28.00

Usanee Liurut, CISA started covering this stock from 23-Aug-2023

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Aeon Thana Sinsap (Thailand)	AEONTS TB	THB 156.00	HOLD	Downside risks are: 1) regulatory actions to curb industry growth; 2) a higher-than-expected policy rate; and 3) deteriorating asset quality. Upside risks are: 1) better-than-estimated economic improvement; 2) stronger-than-estimated improvement in the overall asset quality; and 3) less pressure from the market yield and cost of funds.
Krungthai Card	KTC TB	THB 46.25	HOLD	Downside risks are: 1) regulatory actions to curb industry growth; 2) a higher-than-expected policy rate; and 3) deteriorating asset quality. Upside risks are: 1) better-than-estimated economic improvement; 2) stronger-than-estimated improvement in the overall asset quality; and 3) less pressure from the market yield and cost of funds.
Muangthai Capital	MTC TB	THB 43.00	BUY	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 Consumer Protection Board.
Srisawad Corp	SAWAD TB	THB 43.75	BUY	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 Consumer Protection Board.
Ngern Tid Lor	TIDLOR TB	THB 22.60	BUY	Downside risks to our GGM-based TP include 1) the expansion into auto-title loans by the Government Savings Bank and Auto X (subsidiary of SCB X); 2) further weakening asset quality could potentially hit both loan yield and credit cost; and 3) tighter supervision from related regulators.

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 Finansia Syrus Securities Public Company Limited.

All share prices are as at market close on 27-Nov-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.