

8 March 2021

Financial Services | Banks

## Krung Thai Bank (KTB TB)

**Buy** (Maintained)

Slow And Steady; Stay BUY

Target Price (Return): THB14.30 (+17%)  
 Price: THB12.20  
 Market Cap: USD5,590m  
 Avg Daily Turnover (THB/USD) 494m/16.5m

- **Maintain BUY and THB14.30 TP, 17% upside and c.4% yield.** Krung Thai Bank's operations remain stable despite the challenging environment. Loan growth will be supported by the retail and SOE segments, while impact from rate cuts starts to tail off. Lower credit cost should cushion soft topline in FY21F, and help drive stronger growth in FY22F. Current FY21F P/BV of 0.48x is undemanding vs our GGM-derived multiple of 0.56x.
- **Still plays key role in supporting the Government.** In a meeting with analysts last Friday, management reiterated that although KTB is no longer classified as a state-owned enterprise (SOE), the bank remains committed to supporting the implementation of government policies. This includes the use of its Paotang G-wallet to support the Government's efforts to boost domestic consumption and travel during the COVID-19 pandemic. Management sees opportunities to leverage on its digital platform to cross-sell more products in the future.
- **Loans under relief.** Management shared that loans under COVID-19 relief programmes have halved to THB201bn or 9% of gross loans in 4Q20 (3Q20: THB413bn or 18%). Of the total, c.THB162.8bn or 7.3% of loans were from the corporate and SME segments, with the balance THB38.2bn or 1.7% from its retail customers. A majority of customers exiting relief measures have been able to repay their loans, which were restructured.
- **Guidance and financial targets.** Management also shared its outlook and the bank's financial targets for 2021:
  - Normalised NIM**, which excludes income from auction of mortgaged guarantee assets, is expected to compress by 10-20bps on full-year impact from 2020's rate cuts. In FY20, NIM fell 31bps YoY to 2.76%;
  - Loans growth** of 3%, in line with industry average. The increase would come from retail (43% of loans), and the Government and SOEs (16%). Management expects lending to the Government and SOEs to be sustained at FY20's growth of 100.7% YoY given planned public investments. Lending to SMEs (14% of loans) would remain subdued, with the bank staying prudent and focused on low-risk customers;
  - Credit cost** to decline YoY (FY20: +87bps YoY, 203bps). Aside from its resilient asset quality, the reduction would come from non-recurrence of the full provisions taken for its holding of Thai Airways' (THAI TB, NR) debentures. LLR is expected to be c.130%;
  - Other highlights.** CIR would be at a high 40% (FY: 45.5% normalised) due to continued IT spending. CET-1 is expected to be stable at 15%.
- **Earnings forecasts.** We fine-tune our assumptions post analyst briefing. Still, our projected net profit for FY21F-22F is relatively unchanged. We expect KTB's earnings to grow a modest 4% in FY21F but a stronger 19% in FY22F. Key investment risks: Resurgence in COVID-19 infections, delays in vaccination programmes, and postponement of government investments and stimulus plans.

### Analysts

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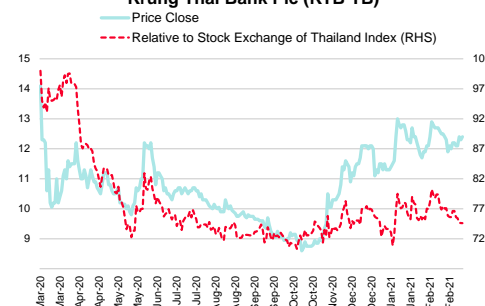
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.9	0.0	8.0	27.7	(14.7)
Relative	3.4	(3.2)	1.5	10.0	(25.7)
52-wk Price low/high (THB)	8.40 – 13.9				

### Krung Thai Bank Plc (KTB TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	29,284	16,731	17,353	20,589	25,505
Net profit growth (%)	2.8	(42.9)	3.7	18.6	23.9
Recurring net profit (THBm)	29,284	16,731	17,353	20,589	25,505
Recurring EPS (THB)	2.09	1.20	1.24	1.47	1.82
BVPS (THB)	24.20	24.57	25.64	26.61	27.81
DPS (THB)	0.92	0.40	0.45	0.55	0.65
Recurring P/E (x)	5.82	10.20	9.83	8.28	6.69
P/B (x)	0.50	0.50	0.48	0.46	0.44
Dividend Yield (%)	7.6	3.3	3.7	4.5	5.3
Return on average equity (%)	9.1	4.9	4.9	5.6	6.7

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (THB)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Thailand	EPS	2.09	1.20	1.24	1.47	1.82
Financial Services	Recurring EPS	2.09	1.20	1.24	1.47	1.82
<b>Krung Thai Bank</b>	DPS	0.92	0.40	0.45	0.55	0.65
KTB TB	BVPS	24.20	24.57	25.64	26.61	27.81
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Our GGM assumptions include:	Recurring P/E (x)	5.82	10.20	9.83	8.28	6.69
i. COE of 8.83%;	P/B (x)	0.5	0.5	0.5	0.5	0.4
ii. ROE of 5.8%;	Dividend Yield (%)	7.6	3.3	3.7	4.5	5.3
iii. Long-term growth of 2%.						
<b>Key drivers</b>	<b>Income statement (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Our FY21F are most sensitive to changes in:	Interest income	122,971	112,837	109,901	116,886	125,068
i. Infrastructure investments that should boost loan demand;	Interest expense	(34,655)	(24,494)	(23,107)	(27,825)	(30,988)
ii. Stimulus measures should minimise NPL risks and shore up loan growth.	<b>Net interest income</b>	<b>88,316</b>	<b>88,343</b>	<b>86,794</b>	<b>89,061</b>	<b>94,080</b>
	Non interest income	37,342	33,905	34,763	37,017	38,745
	<b>Total operating income</b>	<b>125,658</b>	<b>122,248</b>	<b>121,558</b>	<b>126,078</b>	<b>132,824</b>
	Overheads	(62,474)	(53,466)	(56,604)	(58,966)	(61,247)
	<b>Pre-provision operating profit</b>	<b>63,184</b>	<b>68,782</b>	<b>64,953</b>	<b>67,112</b>	<b>71,577</b>
	Loan impairment allowances	(23,814)	(44,903)	(40,338)	(38,440)	(36,719)
	<b>Pre-tax profit</b>	<b>39,370</b>	<b>23,879</b>	<b>24,615</b>	<b>28,672</b>	<b>34,859</b>
	Taxation	(7,233)	(4,441)	(4,480)	(5,190)	(6,344)
	Minority interests	(2,854)	(2,707)	(2,783)	(2,894)	(3,010)
	<b>Reported net profit</b>	<b>29,284</b>	<b>16,731</b>	<b>17,353</b>	<b>20,589</b>	<b>25,505</b>
	<b>Recurring net profit</b>	<b>29,284</b>	<b>16,731</b>	<b>17,353</b>	<b>20,589</b>	<b>25,505</b>
<b>Key risks</b>	<b>Profitability ratios</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Downside risks:	Return on average assets (%)	1.0	0.5	0.5	0.6	0.7
i. Softer-than-expected economic recovery that will dampen loan demand;	Return on average equity (%)	9.1	4.9	4.9	5.6	6.7
ii. Sharper-than-expected NIM compression; and	Return on IEAs (%)	4.5	3.8	3.4	3.4	3.5
iii. Sharper-than-expected deterioration in loan quality.	Cost of funds (%)	1.5	0.9	0.8	0.9	1.0
	Net interest spread (%)	3.1	2.8	2.6	2.5	2.5
	Net interest margin (%)	3.2	2.9	2.7	2.6	2.6
	Non-interest income / total income (%)	29.7	27.7	28.6	29.4	29.2
	Cost to income ratio (%)	49.7	43.7	46.6	46.8	46.1
	Credit cost (bps)	116	203	170	155	140
<b>Company Profile</b>	<b>Balance sheet (THBm)</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
Krungthai Bank (KTB) is Thailand's second-largest commercial bank and the largest state-owned bank by asset size. Traditionally a corporate lender, the bank is diversifying into small & medium enterprise (SME) and retail lending. It is also growing its non-II via offerings of remittances services, cards, bancassurance, and FX product.	Total gross loans	2,089,873	2,331,998	2,413,618	2,546,367	2,699,149
	Other interest earning assets	733,999	836,619	898,000	948,330	996,761
	Total gross IEAs	2,823,872	3,168,617	3,311,618	3,494,697	3,695,910
	Total provisions	(135,268)	(150,523)	(166,998)	(175,819)	(179,105)
	Net loans to customers	1,954,605	2,181,475	2,246,620	2,370,548	2,520,044
	Total net IEAs	2,688,604	3,018,094	3,144,620	3,318,878	3,516,804
	Total non-IEAs	323,612	309,686	317,837	320,940	319,105
	Total assets	3,012,216	3,327,780	3,462,456	3,639,818	3,835,909
	Customer deposits	2,155,865	2,463,225	2,574,070	2,718,218	2,881,311
	Other interest-bearing liabilities	317,408	365,863	378,320	392,077	402,861
	Total IBLs	2,473,273	2,829,088	2,952,390	3,110,295	3,284,172
	Total non-IBLs	190,617	143,629	139,100	144,289	148,951
	Total liabilities	2,663,890	2,972,717	3,091,490	3,254,584	3,433,123
	Share capital	72,005	72,005	72,005	72,005	72,005
	Shareholders' equity	338,287	343,503	358,481	371,999	388,891
	Minority interests	10,039	11,561	12,485	13,234	13,896
	<b>Asset quality and capital</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21F</b>	<b>Dec-22F</b>	<b>Dec-23F</b>
	Reported NPLs / gross cust loans (%)	4.9	4.6	5.0	5.1	4.9
	Total provisions / reported NPLs (%)	131.8	140.5	138.3	136.5	136.1
	CET-1 ratio (%)	14.8	15.3	14.2	14.0	13.8
	Tier-1 ratio (%)	14.8	15.3	14.2	14.0	13.8
	Total capital ratio (%)	18.7	18.8	17.2	16.8	16.5

Source: Company data, RHB

## Valuation and TP

Our GGM-based TP of THB14.30 (unchanged), is based on the following key assumptions  
– ROE of 5.80, COE of 8.83% and long term growth of 2.0%.

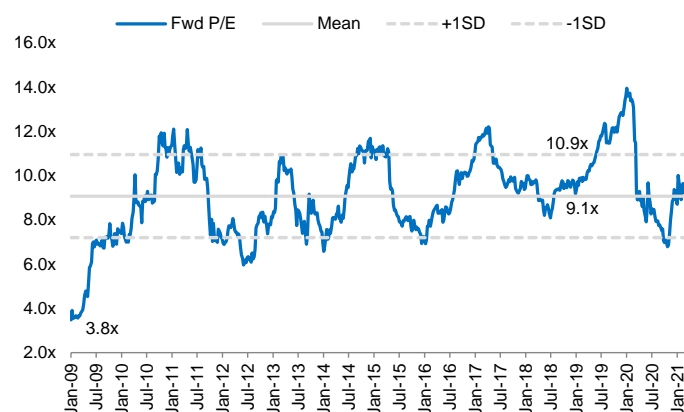
Our TP is based on a GGM-derived P/BV of 0.56x, below -1SD from its historical mean.

Figure 1: KTB – GGM valuation

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	5.80
Risk free rate (%)	1.30	COE (%)	8.83
Equity premium (%)	6.90	Long-term growth (g)	2.0
Beta (x)	1.09	Implied P/BV (x)	0.56
Cost of equity - CAPM (%)	8.83	BVPS – FY21F	THB25.66
		TP	THB14.29
		<b>TP (rounded)</b>	<b>THB14.30</b>

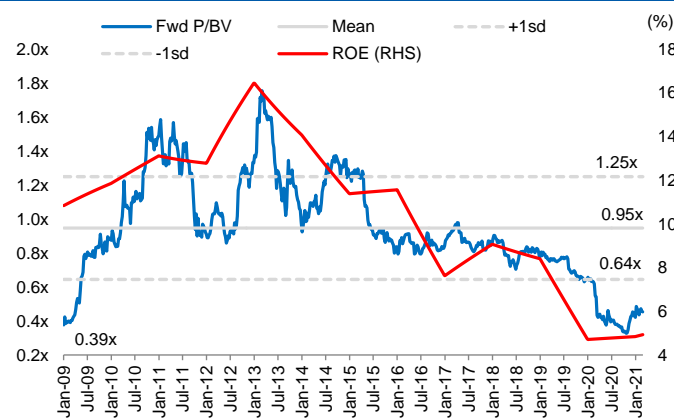
Source: Company data, RHB

Figure 2: KTB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 3: KTB's 12-month forward P/BV



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-01-24	Buy	14.3	12.2
2020-12-17	Buy	14.6	11.9
2019-11-07	Neutral	17.5	16.7
2019-09-04	Neutral	18.0	16.7
2019-05-13	Sell	16.9	18.6
2019-04-23	Sell	17.5	18.8
2018-11-05	Neutral	21.5	20.0
2018-10-22	Buy	23.0	19.8
2018-07-26	Buy	21.5	19.0

Source: RHB, Bloomberg

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<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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