5 July 2021

Financial Services | Banks

Kasikornbank (KBANK TB)

Buy (Maintained)

Strengthening Ties With MTL; Still BUY

Target Price (Return):	THB160.00 (+34%)
Price:	THB119.00
Market Cap:	USD8,714m
Avg Daily Turnover (THB/USD)	3,370m/107m

- **Maintain BUY and THB160 TP, 34% upside with c.2% FY21F yield.** Kasikornbank is augmenting its collaboration with Muang Thai Life Assurance (MTL) via a new exclusivity bancassurance agreement (BA). Although the near-term uplift to earnings should be small, we believe this forms part of KBank's strategy to tap new wealth customers through more complete product offerings.
- **Signs new BA with MTL.** On 2 Jul, KBank announced that it has entered into a 10-year BA with MTL, which will begin on 1 Jan 2022. Although shareholder approval is not required, KBank's board of directors will submit the transaction for consideration in an EGM scheduled for 26 Aug. This is done for transparency and good corporate governance, as the BA is a related party transaction – KBank has an effective 38.25% stake in MTL through its 51% interest in Muang Thai Group. This new BA will supersede the previous BA that has been in place since Nov 2009.
- **Terms of the BA.** The BA may be terminated earlier if business performance targets are achieved, and may be extended for up to two years if the target is not achieved. KBank will be given exclusive rights to distribute MTL's life insurance products as well as health and critical illness insurance products via the distribution channels of the former and its five subsidiaries – Kasikorn Leasing, Kasikorn Asset Management, Kasikorn Securities, Kasikorn Factory and Equipment, and Progress Multi Insurance Broker. KBank will receive a payment of THB12.7bn (to be amortised at THB1.27bn pa) and a performance bonus.
- **Rationale for a new BA.** Management believes the new BA will be highly beneficial for KBank. First, it will be paid an exclusivity fee and performance bonus – both of which were not included in the previous BA. Management also see this as an opportunity to augment its co-operation with MTL, which has the second-largest market share of life insurance product sales via bancassurance. Ultimately, a stronger partnership will further increase KBank's shareholding value in MTL.
- **Financial impact.** The new BA will lift non-II at the bank level by THB1.27bn pa, plus a performance bonus. At the group level, there will be a reduction in profits attributable to minorities, since KBank consolidates MTL's financials in group reporting. Without taking into account the performance bonus, the new BA would result in an estimated THB627m reduction in minority interests – which should nudge KBank's net profit upwards by c.2%.
- **Reversing downtrend in MTL's premium.** Between 2017 and 2020, MTL's total premium has declined from THB102.7bn to THB75.3bn. KBank believes that, with closer collaboration, MTL's premium income can recover. This would come with ramped-up efforts to tap the bank's high net worth customers, where KBank currently has only a 6% banca share of wallet, as well as aligning banca products to customers' needs.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	38,727	29,488	32,006	35,751	40,328
Net profit growth (%)	0.7	(23.9)	8.5	11.7	12.8
Recurring net profit (THBm)	38,727	29,488	32,006	35,751	40,328
Recurring EPS (THB)	16.18	12.32	13.37	14.94	16.85
BVPS (THB)	169.79	185.57	197.17	209.11	221.90
DPS (THB)	5.00	2.50	2.75	3.50	4.50
Recurring P/E (x)	7.32	9.62	8.86	7.93	7.03
P/B (x)	0.70	0.64	0.60	0.57	0.53
Dividend Yield (%)	4.2	2.1	2.3	3.0	3.8
Return on average equity (%)	9.9	7.0	7.1	7.4	7.9

Source: Company data, RHB

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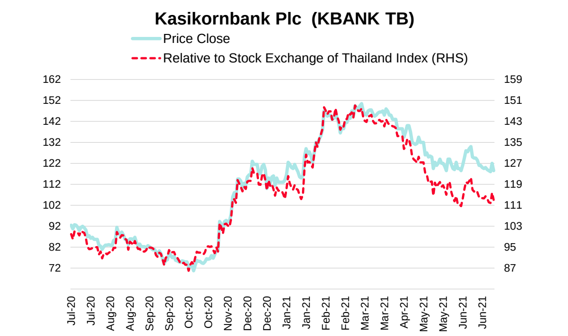
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	4.9	(0.8)	(19.4)	4.9	24.4
Relative	(4.0)	1.6	(18.3)	(4.0)	9.5
52-wk Price low/high (THB)					70.8 – 151



Source: Bloomberg

Financial Exhibits

Asia
Thailand
Financial Services
Kasikornbank
KBANK TB
Buy

Valuation basis

Our GGM assumptions include:
i. COE of 8.66%
ii. ROE of 7.4%; and
iii. 2.0% long term growth.

Key drivers

Our FY21 forecast is most sensitive to changes in:
i. Credit cost, given the still-evolving macroeconomic conditions; and
ii. Operating income from changes in NIM and fee income.

Key risks

Downside risks to our investment thesis include:
i. Sharper-than-expected rise in credit cost;
ii. Sharper-than-expected NIM compression; and
iii. Slower-than-expected economic recovery.

Company Profile

Kasikornbank is Thailand's fourth-largest commercial bank by asset size. It has a balanced loan mix from the corporate (34%), small and medium enterprise (SME) (34%) and retail (28%) segments. The bank's strength in the SME segment has enabled it to build a strong CASA franchise (CASA ratio of 78%).

Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
EPS	16.18	12.32	13.37	14.94	16.85
Recurring EPS	16.18	12.32	13.37	14.94	16.85
DPS	5.00	2.50	2.75	3.50	4.50
BVPS	169.79	185.57	197.17	209.11	221.90

Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Recurring P/E (x)	7.32	9.62	8.86	7.93	7.03
P/B (x)	0.7	0.6	0.6	0.6	0.5
Dividend Yield (%)	4.2	2.1	2.3	3.0	3.8

Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Interest income	130,178	127,592	127,560	150,300	159,634
Interest expense	(27,490)	(18,570)	(15,613)	(30,979)	(33,206)
Net interest income	**102,688**	**109,022**	**111,947**	**119,321**	**126,428**
Non interest income	57,803	45,870	47,902	49,634	51,897
Total operating income	**160,491**	**154,892**	**159,849**	**168,955**	**178,325**
Overheads	(72,729)	(69,997)	(71,548)	(76,104)	(79,662)
Pre-provision operating profit	**87,762**	**84,895**	**88,301**	**92,851**	**98,664**
Loan impairment allowances	(34,012)	(43,548)	(43,717)	(43,487)	(43,335)
Pre-tax profit	**53,750**	**41,347**	**44,584**	**49,365**	**55,329**
Taxation	(10,309)	(7,656)	(8,248)	(9,132)	(10,374)
Minority interests	(4,714)	(4,203)	(4,329)	(4,481)	(4,627)
Reported net profit	**38,727**	**29,488**	**32,006**	**35,751**	**40,328**
Recurring net profit	**38,727**	**29,488**	**32,006**	**35,751**	**40,328**

Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Return on average assets (%)	1.2	0.8	0.9	0.9	1.0
Return on average equity (%)	9.9	7.0	7.1	7.4	7.9
Return on IEAs (%)	4.2	3.8	3.6	4.0	4.0
Cost of funds (%)	1.2	0.8	0.6	1.1	1.2
Net interest spread (%)	3.0	3.1	3.0	2.8	2.9
Net interest margin (%)	3.3	3.3	3.1	3.2	3.2
Non-interest income / total income (%)	36.0	29.6	30.0	29.4	29.1
Cost to income ratio (%)	45.3	45.2	44.8	45.0	44.7
Credit cost (bps)	174	205	190	180	170

Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total gross loans	2,001,956	2,244,821	2,357,000	2,474,850	2,623,341
Other interest earning assets	1,160,580	1,239,825	1,323,800	1,389,990	1,461,998
Total gross IEAs	3,162,536	3,484,646	3,680,800	3,864,840	4,085,339
Total provisions	(124,879)	(134,393)	(167,479)	(175,107)	(176,768)
Net loans to customers	1,877,077	2,110,428	2,189,521	2,299,743	2,446,573
Total net IEAs	3,037,657	3,350,253	3,513,321	3,689,733	3,908,571
Total non-IEAs	256,232	308,545	312,256	344,030	328,434
Total assets	3,293,889	3,658,798	3,825,577	4,033,763	4,237,005
Customer deposits	2,072,049	2,344,998	2,460,000	2,615,000	2,758,825
Other interest-bearing liabilities	185,132	183,631	191,330	194,202	197,163
Total IBLs	2,257,181	2,528,629	2,651,330	2,809,202	2,955,988
Total non-IBLs	582,994	638,883	654,688	675,799	701,122
Total liabilities	2,840,174	3,167,512	3,306,018	3,485,000	3,657,110
Share capital	23,933	23,693	23,693	23,693	23,693
Shareholders' equity	406,358	439,670	467,169	495,455	525,762
Minority interests	47,357	51,616	52,391	53,307	54,134

Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported NPLs / gross cust loans (%)	4.2	4.5	4.9	4.8	4.6
Total provisions / reported NPLs (%)	148.6	133.1	146.0	147.8	147.3
CET-1 ratio (%)	14.9	14.3	15.1	15.3	15.7
Tier-1 ratio (%)	14.9	14.3	15.1	15.3	15.7
Total capital ratio (%)	18.5	17.1	17.8	17.8	18.1

Source: Company data, RHB

How does KBank-MTL's BA compare with past deals?

The BA value of THB 1.27bn per year is at the lower end of the THB1.18-1.63bn values seen in the three exclusivity bancassurance deals between 2017 and 2020. This reflects the currently less favourable economic conditions and low interest rate environment.

Figure 1: Exclusive bancassurance deals since 2017

Year	Parties	Duration (years)	Deal value (THbn)	Deal value per year (THBbn)
2021	KBank-MTL	10	12.7	1.27
2020	TMBThanachart Bank - Prudential Life Assurance (Thailand)	15	20.8	1.39
2019	Siam Commercial Bank - FWD Group Financial Services	15	17.7	1.18
2017	TMB Bank - FWD Life Insurance	15	20.0	1.33

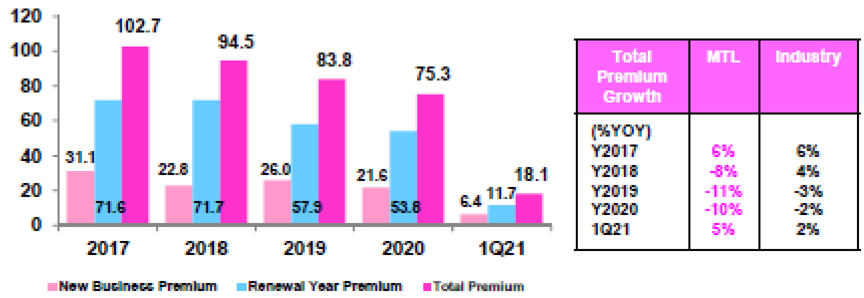
Source: Company data, RHB

MTL – background information

Ranks fourth in the life insurance industry. According to the Thai Life Assurance Association, MTL ranks fourth by total premiums in life insurance, with a market share of 11.8% in Mar 2021. MTL's market share has fallen from 13.7% in 2019 to 12.6% in 2020 and 11.8% in Mar 2021. This is reflected in the decline in its total premiums over the past few years.

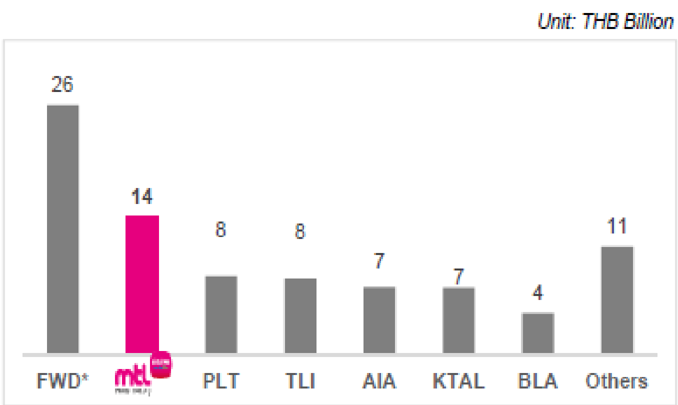
AIA is the leader, with a 24.0% market share in March, vs 23.1% in 2019.

Figure 2: MTL's total premiums have been on gradual decline



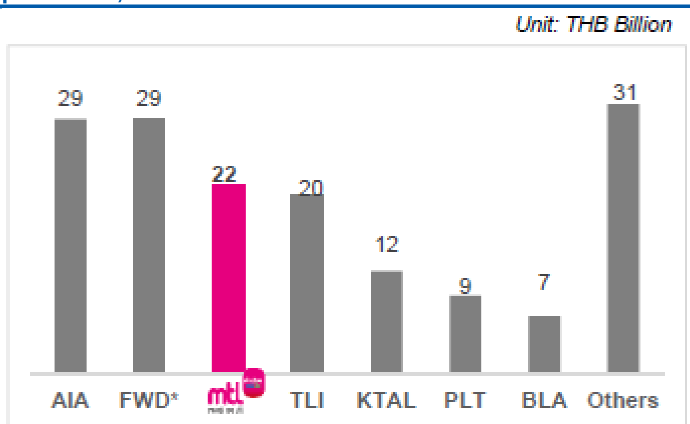
Source: Company data, RHB

Figure 3: MTL is ranked second in bancassurance new business premiums, with a 16.5% market share in 2020



Source: The Thai Life Assurance Association, KBank

Figure 4: MTL is ranked third in life insurance new business premiums, with a 13.8% market share in 2020



Source: The Thai Life Assurance Association, KBank

Optimistic BA will reverse the decline in premiums. Over the past two years, KBank booked net premium incomes of THB80.49bn in FY19 and THB72.13bn in FY20. Bancassurance accounts for 61% of total premiums. KBank's management believes the new BA will lead to a recovery in MTL's premium income.

KBank sees growth opportunities coming from the bank's high net worth customers, where it currently has only a 6% banca share of wallet. This compared to the share of wallet of 20% and 18% for its affluent and mass customers. Efforts will be made to better align the banca products with customer needs. Management estimates that a 1ppt increase in banca share of wallet in the high net worth segment would increase MTL's premium by approximately THB70bn.

Figure 5: Snapshot of MTL's financials

FYE Dec	2018	2019	2020
(THB'm)			
Total assets	479,544	531,057	556,279
Total liabilities	421,552	464,533	483,439
Total equity	57,993	66,524	72,841
Net premiums earned	91,436	80,515	72,162
Total revenue	110,383	100,893	93,588
Net profit	9,278	7,720	7,877

Source: Company data, RHB

Valuation and TP

Our TP of THB160.00 is based on a GGM-derived P/BV of 0.81x, below -1SD from its historical mean.

Figure 6: KBANK – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.40
Risk free rate (%)	1.30	COE (%)	8.66
Equity premium (%)	6.40	Long-term growth (g)	2.00
Beta (x)	1.15	Implied P/BV (x)	0.81
Cost of equity - CAPM (%)	8.66	BVPS – FY20F	THB197.43
		TP	THB159.97
		TP (rounded)	**THB160.00**

Source: Company data, RHB

Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-01	Buy	160	132
2020-12-17	Buy	141	122
2020-10-25	Neutral	82	75
2020-07-21	Neutral	91	88
2020-04-21	Buy	124	97
2019-10-25	Buy	173	137
2019-10-22	Buy	191	149
2019-01-21	Buy	222	188
2018-10-30	Buy	242	197
2018-10-22	Buy	244	207

Source: RHB, Bloomberg

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