

# KRUNGTHAI CARD PLC

No. 43/2020  
2 April 2020

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	Stable

**Last Review Date:** 04/04/19

### Company Rating History:

Date	Rating	Outlook/Alert
29/03/16	A+	Stable
02/04/15	A-	Stable
11/05/09	BBB+	Stable
30/04/09	BBB+	Alert Developing
24/04/09	A-	Alert Developing
08/11/05	A-	Stable
09/02/05	A-	Positive
12/07/04	A-	Stable
26/06/03	A-	-

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## RATIONALE

TRIS Rating affirms the company rating on Krungthai Card PLC (KTC) and the ratings on KTC's outstanding senior unsecured debentures at "A+". At the same time, TRIS Rating assigns a "A+" rating to KTC's proposed senior unsecured debentures of up to Bt12 billion due within 10 years.

KTC's stand-alone rating takes into account its solid business position, backed by strong market position in unsecured retail lending and prudent credit risk management that has helped support its good asset quality over the past several years. The issuer rating is enhanced by its status as a strategically important subsidiary of Krung Thai Bank PLC (KTB), its parent bank. The issuer rating is, however, constrained by potential rise in risk position due to the economic slowdown. The rating on its senior unsecured debentures is equivalent to the issuer rating.

## KEY RATING CONSIDERATIONS

### Strong market position

KTC's business position is underpinned mainly by its revenue stability due to solid market position. We expect KTC to maintain its market position in its core businesses, the credit card and personal loan segments, despite the weakening economy. This is largely the result of an effective marketing strategy and strong brand.

KTC has maintained a 12% market share in outstanding credit card receivables and a 6% market share in personal loans over the past three years. KTC has also achieved 10% annual growth in credit card spending which is similar to the industry growth rate.

KTC's loan portfolio reached Bt85.8 billion at the end of 2019, representing a 10% growth rate from the end of 2018. Credit card receivables accounted for 66% of its loan portfolio, while personal loans constituted the remaining 34%. We expect KTC's loan portfolio to expand in the range of 6%-8% annually in 2020-2022. This will be driven by new card acquisitions and an expanding personal loan base. In 2020 KTC is targeting 350,000 new cards and 10% growth in total loans. We anticipate increased online spending may partly offset the potential weakness in off-line spending due to economic slowdown and the effects of the COVID-19 outbreak. Meanwhile, new credit products, including secured personal loan (title loans) and pico finance, have been pre-launched to a limited group of customers.

### Continuous support from KTB

We view KTC as a strategically important subsidiary of KTB, which owns a 49.1% stake in KTC. TRIS Rating is of the view that KTC will continue to receive both financial and business support from KTB. We believe there is high probability that KTB would be willing and able to provide financial support to KTC, if required. This is despite the limited capacity for capital injection by KTB, mainly due to KTB's strategy to maintain KTC's as a privately-owned subsidiary.

In terms of business cooperation, KTC has aligned its business strategy with that of the KTB Group. KTC leverages the bank's nationwide branch network to expand its client base and for loan payments and other services. KTC and KTB also collaborate on marketing campaigns and share the same brand. For example, average of 37% for new credit card customers in the past few years

came through referrals from KTB. KTC's risk management system is also integrated as part of KTB's risk management platform.

### **Moderate earnings capability**

In TRIS Rating view, KTC will retain solid profitability over the next three years. The main reasons are maintaining spread, lower credit costs and controllable and stable operating expenses.

We assess KTC's earnings capability as moderate. We use pre-tax earnings (or earnings before taxes -- EBT) to average risk-weighted assets (RWA) and return on average assets (ROAA) as key measurements of earnings capability. KTC's 2019 net profit increased to Bt5.52 billion, up by 7% from 2018. Loan loss provision expenses rose by 13%, but these were, offset by stronger revenue. We expect KTC's operating performance to continue to improve over the next few years. We forecast the three-year (2020-2022) average ratio of EBT to RWA at 5.4% and ROAA at 7.2%.

In the longer-term, we expect KTC's profit to remain strong, despite the change in accounting standards that will impact the company. A notable change is the stricter rule on bad debt write-offs. Base on the TFRS9, starting January 2020 the non-performing loans (NPLs) can be written off after 24 months or once proven that debt collection is highly unlikely, instead of the six-month delinquent status previously used for loan write-offs. Thus we expect non-interest income from bad debt recovery, which accounted 15% of total revenue in 2019, is likely fall gradually starting 2021. Nonetheless, we expect its profit in 2020 to remain strong, supported by income from bad debt recovery from loans written off in previous years and the lower required provision expenses suggested by its TFRS9-based credit risk model. We also believe the potentially decline in funding cost and cost control activities will also help support profitability.

### **Strong risk position**

We hold the view that KTC's risk position will likely remain healthy due to the company's prudent underwriting policies and ongoing enhancement of its risk management platform. Up to 2019, KTC reported a total gross NPL ratio of about 1.1%. Adding back the NPL write-offs, its NPL ratio would be in the range of 8.9%-11.0% for the period 2015-2019. During the next two years, its gross NPL including write-off ratio may rise. This is because part of the NPLs will be written off at a slower pace due to the change in accounting standard relating to the loan write-off policy rather than actual decline in credit quality. After the transition period, we expect the NPL ratio including write-offs to decline as the write-off cycle normalizes.

### **Strengthened capital base and low financial leverage**

In TRIS Rating views, KTC's capital base, measured by the risk-adjusted capital (RAC) ratio, is considered relatively strong. We believe its capital base should remain sufficient to support the company's expansion plan in the medium term. TRIS Rating expects KTC's equity base to strengthen further over the next two to three years due to healthy profits and the conservative dividend payout policy. We forecast a three-year average (2020-2022) RAC ratio of 17.8%. At the same time, KTC's financial leverage remains low, with debt to equity (D/E) ratio of 3.3 times at the end of 2019, compared with its debt covenant of 10 times. Combining its moderate earnings capability cited above, we assess its capital, leverage and earnings (CLE) to be at an adequate level.

### **Funding and liquidity**

In TRIS Rating's view, KTC's liquidity and funding are both adequate. We do not have major concerns over its liquidity, despite the weak liquidity coverage measure (LCM) ratio. This is due to KTB's on-going liquidity support provided to KTC in the form of committed credit facilities. KTC receives credit line from KTB of Bt18 billion, of which 19% was utilized as of December 2019. The credit facilities from KTB accounted for about 61% of the total credit lines provided by various financial institutions. KTC also has access to the capital market via bond issuances, which are generally well subscribed by institutional investors. As of 2 April 2020, KTC has Bt47.2 billion of long-term debentures outstanding, of which Bt6.19 billion are schedule to be redeemed in 2020. The company has a refinancing plan to support the redemption. As of the end of 2019, KTC's stable funding ratio stood at 73.6%, which is adequate, in our view. Total funding comprised 20% borrowings and 80% debentures, of which 31% are short-term and 69% long-term.

### **BASE-CASE ASSUMPTIONS (2020 – 2022)**

- Credit card loans and personal loans to grow by 6-8% per annum.
- Loan yield to be in the range of 16%-17%
- Credit cost to be in the range of 13%-17%.
- Funding cost to be in the range of 2.7%-3.2%.

## RATING OUTLOOK

The “stable” outlook reflects our expectation that KTC will continue to deliver strong financial performance while maintaining a leading market position and strong franchise through effective marketing strategies. We also expect KTC to uphold good asset quality and a healthy capital position. The rating is further underpinned by our expectation that KTB would provide financial support to KTC in times of need.

## RATING SENSITIVITIES

The credit upside would arise if KTC further improves profitability and/or market position for a sustained period, while keeping asset quality under control as it gradually enters higher-yielding and riskier segments. The ratings or outlook could be revised downward if asset quality deteriorates to the point that it significantly affects KTC’s financial performance and capital position.

Any change in the degree of support KTB provides to KTC, or a change in KTC’s status as a strategically important subsidiary, may also affect the ratings and/or outlook.

## COMPANY OVERVIEW

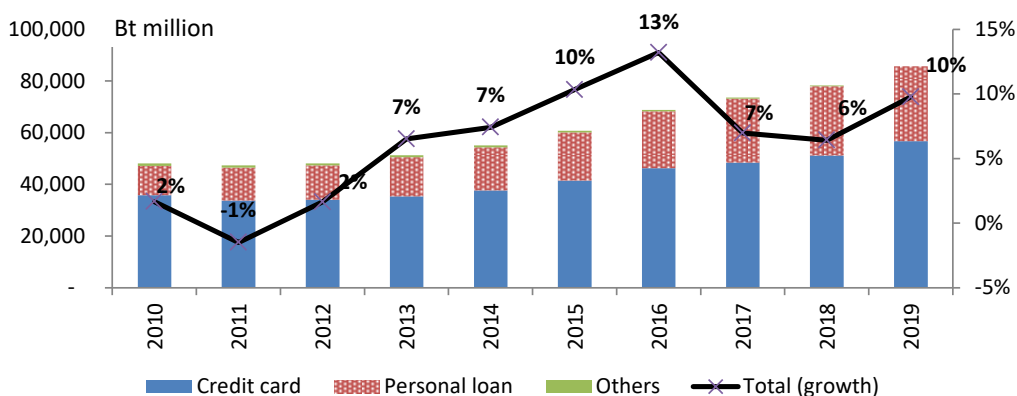
KTC was established in 1996 as a wholly-owned subsidiary of KTB, responsible for all the credit cards and debit cards issued by the KTB Group. In order to allow KTC to operate more efficiently as a separate consumer finance company, KTB spun off its credit card business and listed KTC on the Stock Exchange of Thailand (SET) in 2002. KTB transferred its credit card portfolio to KTC. After the listing, KTB held a 49% stake in KTC. The remaining 51% is held by the general public.

KTC has a history of launching new products, such as personal loans, loans for entrepreneurs, and credit cards. KTC has continued to develop and implement new operating systems, such as risk management and IT systems, and digital banking. The company is closely supervised and monitored by its parent bank and is indirectly controlled by the Bank of Thailand through the parent bank.

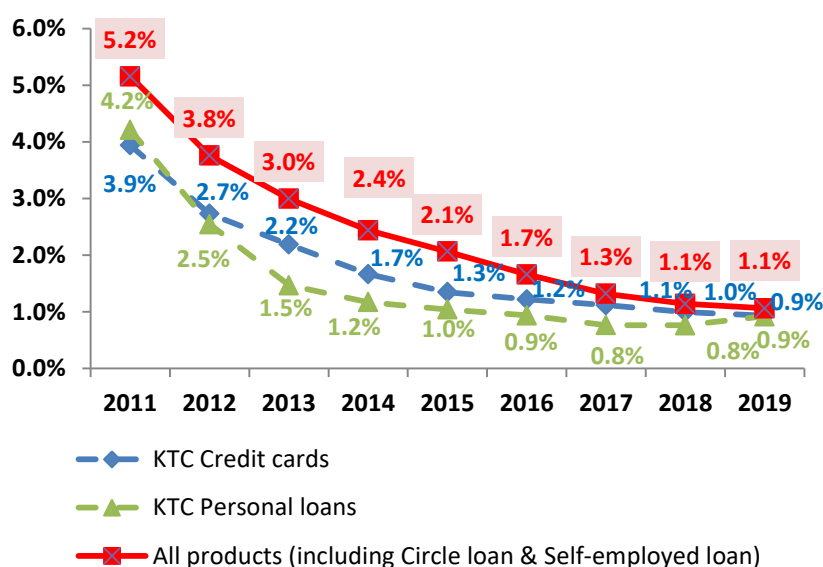
As of December 2019, KTC provided services through 1,580 staff and 19 KTC Touch points. The services offered at these branches include accepting payments, receiving applications for credit cards and personal loans, and responding to customer inquiries. Apart from the KTC Touch points, KTC also utilizes KTB’s nationwide branch network and the networks of co-branded alliances as channels to provide services to its customers.

## KEY OPERATING PERFORMANCE

Chart 1: Gross Credit Card and Personal Loan Receivables



Sources: KTC & TRIS Rating

**Chart 2: NPL Ratio (Over 90 Days Past Due)**


Sources: KTC & TRIS Rating

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	85,409	79,648	73,636	68,297	60,179
Total loans (ending gross receivables)	85,834	78,202	73,488	68,697	60,686
Allowance for doubtful accounts	5,650	5,489	5,699	5,394	5,007
Short-term borrowings	17,560	14,072	17,338	19,233	21,364
Long-term borrowings	39,980	40,050	36,085	31,855	23,423
Shareholders' equity	19,735	16,352	12,577	10,322	8,733
Net interest income *	12,041	11,085	10,331	9,348	8,012
Provision for bad debt and doubtful accounts	6,433	5,703	6,627	6,070	5,183
Non-interest income **	5,522	5,215	4,711	4,352	3,889
Operating expenses	7,722	7,524	7,143	6,902	6,139
Earnings before taxes	6,904	6,416	4,127	3,126	2,616
Net income	5,524	5,140	3,304	2,495	2,073

\* Consolidated financial statements

\* Including credit usage fee

\*\* Excluding credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
<b>Profitability</b>					
Net interest and dividend income/average assets	14.59	14.46	14.56	14.55	13.97
Fees and services income/average assets	6.69	6.80	6.64	6.77	6.78
Operating expenses/total income	34.13	35.49	36.58	39.26	39.46
Operating profit/average assets	8.37	8.37	5.81	4.87	4.56
Earnings before taxes/average risk-weighted assets	5.01	5.05	3.48	2.90	2.72
Return on average assets	6.69	6.71	4.66	3.88	3.61
Return on average equity	30.61	35.53	28.86	26.19	25.75
<b>Asset Quality</b>					
Non-performing loans/total loans	1.06	1.14	1.32	1.66	2.06
Provision for bad debts and doubtful accounts/average loans	7.84	7.52	9.32	9.38	8.96
Allowance for doubtful accounts/total loans	6.58	7.02	7.76	7.85	8.25
<b>Capitalization</b>					
Risk-adjusted capital ratio	13.69	12.44	10.24	9.01	8.65
Debt/equity (times)	3.33	3.87	4.85	5.62	5.89
<b>Funding and Liquidity</b>					
Stable funding ratio	73.57	76.47	70.71	65.62	56.87
Liquidity coverage measure (times)	0.08	0.19	0.10	0.06	0.04
Short-term borrowings/total borrowings	30.52	26.00	32.45	37.65	48.01
Payment rate	42.27	41.41	39.74	39.59	38.28

#### RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

## Krungthai Card PLC (KTC)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
KTC208A: Bt600 million senior unsecured debentures due 2020	A+
KTC208B: Bt3,585 million senior unsecured debentures due 2020	A+
KTC200A: Bt2,000 million senior unsecured debentures due 2020	A+
KTC212A: Bt800 million senior unsecured debentures due 2021	A+
KTC213A: Bt1,500 million senior unsecured debentures due 2021	A+
KTC215A: Bt1,500 million senior unsecured debentures due 2021	A+
KTC217A: Bt3,000 million senior unsecured debentures due 2021	A+
KTC218A: Bt1,350 million senior unsecured debentures due 2021	A+
KTC21NA: Bt630 million senior unsecured debentures due 2021	A+
KTC223A: Bt1,000 million senior unsecured debentures due 2022	A+
KTC224A: Bt1,500 million senior unsecured debentures due 2022	A+
KTC226A: Bt2,500 million senior unsecured debentures due 2022	A+
KTC22NA: Bt700 million senior unsecured debentures due 2022	A+
KTC22OA: Bt2,000 million senior unsecured debentures due 2022	A+
KTC232A: Bt1,000 million senior unsecured debentures due 2023	A+
KTC23DA: Bt600 million senior unsecured debentures due 2023	A+
KTC23NA: Bt1,140 million senior unsecured debentures due 2023	A+
KTC247A: Bt100 million senior unsecured debentures due 2024	A+
KTC24NA: Bt415 million senior unsecured debentures due 2024	A+
KTC259A: Bt1,000 million senior unsecured debentures due 2025	A+
KTC25NA: Bt1,000 million senior unsecured debentures due 2025	A+
KTC262A: Bt200 million senior unsecured debentures due 2026	A+
KTC262B: Bt300 million senior unsecured debentures due 2026	A+
KTC269A: Bt200 million senior unsecured debentures due 2026	A+
KTC26DA: Bt2,500 million senior unsecured debentures due 2026	A+
KTC26NA: Bt3,030 million senior unsecured debentures due 2026	A+
KTC278A: Bt1,500 million senior unsecured debentures due 2027	A+
KTC278B: Bt1,000 million senior unsecured debentures due 2027	A+
KTC27NA: Bt2,000 million senior unsecured debentures due 2027	A+
KTC27OA: Bt1,000 million senior unsecured debentures due 2027	A+
KTC282A: Bt1,250 million senior unsecured debentures due 2028	A+
KTC288A: Bt2,065 million senior unsecured debentures due 2028	A+
KTC297A: Bt1,500 million senior unsecured debentures due 2029	A+
KTC29OA: Bt1,700 million senior unsecured debentures due 2029	A+
KTC301A: Bt1,000 million senior unsecured debentures due 2030	A+
Up to Bt12,000 million senior unsecured debentures due within 10 years	A+
<b>Rating Outlook:</b>	Stable

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