

KRUNGTHAI CARD PLC

No. 51/2022
4 April 2022

FINANCIAL INSTITUTIONS

Company Rating:	AA-
Issue Ratings:	
Senior unsecured	AA-
Outlook:	Stable

Last Review Date: 02/04/21

Company Rating History:

Date	Rating	Outlook/Alert
02/04/21	AA-	Stable
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
26/03/03	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Krungthai Card PLC (KTC) and the ratings on its existing senior unsecured debentures at “AA-”, with a “stable” outlook. At the same time, TRIS Rating assigns a “AA-” rating to KTC’s proposed issue of up to THB12 billion senior unsecured debentures due within 10 years. The company rating on KTC incorporates a rating enhancement from its stand-alone credit profile (SACP) of “a-” to reflect the company’s status as a “strategically important” entity of Krungthai Bank PLC (KTB, rated “AA+/Stable” by TRIS Rating*).

The SACP of KTC reflects its strong business position in the credit card and personal loan segments, prudent credit risk management, and strong capital base. However, the rating is constrained by pressure on profitability due to a lower interest rate ceiling, potential rise in funding cost, intense competition, and the weak economy.

KEY RATING CONSIDERATIONS

Increasing integration with KTB

TRIS Rating views KTC as a strategically important subsidiary of KTB, which holds a controlling stake of 49.3% in the company. KTC plays a principal role in KTB’s retail credit business comprising consumer credit products of credit card loans, personal loans, auto title loans and auto leasing. KTB’s provision of credit lines and business support to KTC demonstrates strong long-term commitment, which we expect to continue in the foreseeable future. We also believe there is high likelihood of KTB providing financial support to KTC in times of stress. This is despite the limited capacity of capital injection by KTB, mainly due to the group strategy to maintain KTC’s status as a privately-owned subsidiary.

KTC’s business strategy and risk management also integrate with those of KTB. In addition to collaboration on marketing campaigns and shared brand, KTC continues to leverage the bank’s nationwide branch network to cross sell products and services to the group’s clients. In 2021, KTC started to acquire new customers via KTB’s mobile banking application called KTB Next. KTB and KTC also co-own several entities within KTB group. These include KTB Leasing Co., Ltd. (KTBL), KTC Pico (Bangkok) Co., Ltd., KTC Nano Co., Ltd., and KTC Prepaid Co., Ltd. KTC also has a 24% shareholding in Krungthai Advisory Co., Ltd., which fully owns Infinitas by Krungthai Co., Ltd., a financial technology unit under KTB.

Maintain strong market position

KTC has a strong business position. This is likely to continue given its solid market position in the core businesses, credit cards and personal loans, thanks to its strength in marketing and strong brand. The past two years has seen stagnant growth in credit card loans and unsecured personal loans. However, KTC still maintains a solid market share of around 13% in outstanding credit card receivables and a 5% in unsecured personal loans exclude auto title loans at the end of 2021.

The company’s outstanding loans increased slightly to THB92.6 billion at the end of 2021, up 3% year-on-year (y-o-y). This was mainly due to the extension of auto hire purchase (HP) loans of THB 3.2 billion, while credit card loans were stable, and personal loans declined by 2% y-o-y. The company tightened

* The rating assigned to KTB is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of KTB. The rating is assigned without participation from KTB.

its underwriting criteria, given concerns over asset quality since the COVID-19 pandemic emerged. In 2021, KTC's credit card spending totaled THB195.7 billion (12% of Thailand's total card spending), relatively flat in line with industry due to the still-low consumer confidence.

KTC intends to expand its loan portfolio more actively starting in 2022 through marketing efforts and acquisition of new customers. The company plans to acquire 250,000 new credit cards in 2022, targeting higher-income customers. We also expect spending will pick up, with an estimated growth rate of 8% annually in 2022-2024, backed by the recovery prospects of the domestic economy and collaboration with more partners to induce spending. For personal loans, KTC will focus on the higher-income segment and existing clients with available unused credit limits. KTC aims to acquire 106,000 new accounts in 2022.

Diversifying portfolio mix

Since 2020, the company has started to diversify its loan product mix by expanding into auto title loans under the brand "KTC P Berm". After two years of cautious lending to ensure proper credit risk control, KTC plans to expand its auto title loans more progressively starting in 2022. In our base-case assumption, we assume new lending of THB5 billion in 2022 on top of outstanding loans of THB500 million at the end of 2021. We believe this could be achieved through cross selling at around KTB's 950 branches nationwide as of December 2021. We also assume the strong growth will be sustained at 20%-50% per annum in 2023-2024. Meanwhile, auto leasing business operated under KTBL could be another area of diversification for KTC in the long run. Even though there has been no new lending since KTC's acquisition of a 75% stake in the company from KTB in 2021 in a business reorganization, should KTC pursue stronger growth for KTBL, business diversity could be further enhanced. In the near-term, we expect modest growth of 5%-10% in 2022-2024 in outstanding loans for KTBL as part of auto title loans extended by KTC P Berm to be booked at KTBL.

Prudent risk management supports healthy asset quality

We expect KTC's asset quality to remain healthy, thanks to tightened credit policy and efficient debt collection. At the end of December 2021, stage-3 loans to total loans (NPL ratio) of the entire loan portfolio increased to 3.6%, from 1.8% in 2020, mainly due to the KTBL acquisition. NPL ratios of credit card loans and personal loans were 1.2% and 2.9%, respectively, remaining below the industry average. We estimate overall NPL ratio will fall below 3% in 2022-2024, partly because of the strong loan portfolio expansion. The NPL ratio of HP loans at KTBL was high at 54% as carried from the acquisition but is likely to improve over time with better quality loan assets from new lending. In the meantime, KTC's NPL coverage ratio fell to 292% at the end of December 2021 from 460% at the end of 2020 given KTBL's high NPL. In 2021, credit cost (expected credit loss (ECL) provisions to average loans) fell to 6% from an average of 7.6% in 2018-2020 due to improved asset quality of credit cards and personal loans. We assume credit cost to remain stable at 6% in 2022-2024, which should maintain NPL coverage above 300%.

Yield enhancement and cost control support earnings

We expect KTC to sustain moderate profitability by effectively managing its ECL, interest spread, and operating expenses. KTC reported THB5.79 billion net profit in 2021, a 9% increase y-o-y, driven by lower ECL provisions despite the declining loan yield resulting from the regulatory cap on interest rates and competition. The company's earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), is assessed as moderate with a ratio of 4.9% in 2021, up from 4.5% in 2020. We estimate EBT/ARWA will be in the 4.6%-4.8% range in 2022-2024. We also expect interest spreads to decline marginally, despite rising funding cost, as we expect expansion into the higher-yielding auto title loans to enhance loan yields from the level of 14.9% in 2021. In terms of costs, we estimate operating expenses to total income to stay in the 34%-35% range in 2022-2024 due to efficient utilization of the marketing budget.

Capital position to remain strong

KTC has strong capitalization, as measured by the risk-adjusted capital (RAC) ratio. At the end of December 2021, the company's RAC ratio was 18.2%. In our view, the capital level is sufficient to support the company's expansion plan in the medium term. Healthy profits and conservative dividend payout should help strengthen KTC's equity base further. We forecast the RAC ratio in 2022-2024 to be between 18.1%-20.6%, based on assumptions of 6%-11% loan growth and about 40% dividend payout. Its debt to equity (D/E) ratio stood at 2.3 times at the end of December 2021 compared with the D/E covenant on its debt obligations of 10 times.

Sufficient funding and liquidity

We assess KTC to have an adequate funding and liquidity position. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide sufficient and diversified funding sources to support growth. KTB also provides ample credit lines to help mitigate liquidity risk. At the end of December 2021, 71% of a total THB33.7 billion credit facilities were provided by KTB. In terms of funding structure, at the end of December 2021, KTC's short-term debt accounted for 34% of total debt, a decrease from 39% in 2020. As of 4 April 2022, KTC has THB45.9 billion

in long-term debentures outstanding. Of this amount, THB8.5 billion are scheduled to be redeemed in 2022, for which the company already has a refinancing plan.

Challenging environment continues

Despite the revival of economic activity and improving consumer confidence following the easing of COVID-19 restrictive measures since late 2021, the unsecured consumer loan business, mainly credit cards and personal loans, has not recovered materially as both consumers and lenders remain cautious. Credit card spending remained flat in 2021, totaling THB1.65 trillion, following a steep decline by 12.8% in 2020. Credit card receivables in the system also increased negligibly by 1.9% in 2021.

Asset quality of credit card and personal loans appears resilient. The industry's NPL ratio for credit cards dipped to 1.8% at the end of 2021 from 1.9% at the end of 2020. The NPL ratio for personal loans excludes title loans also dropped to 3.1% from 3.5% during the same period. However, this was aided by the on-going debt relief measures for the consumer loans. We view overall asset quality as remaining fragile and potentially deteriorating after the debt relief measures expire. Moreover, unsecured loan operators are likely to remain pressured by fierce competition, loan yield cap, potential rise in funding cost, and economic uncertainty. Diversification to other business lines, while possibly helping mitigate revenue pressure, remains a challenge.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KTC in 2022-2024 are as follows:

- Total outstanding loans to grow by 6%-11% per annum.
- Loan yield to be in the 14.8%-14.9% range.
- Funding cost to be in the 2.5%-2.8% range.
- Expected credit loss to be in the 6%-6.3% range.

RATING OUTLOOK

The "stable" outlook reflects our view that KTC will maintain its market position in the credit card and personal loan segments. The outlook is premised on our expectations that capital and profitability will stay strong, and asset quality will remain at an acceptable level.

RATING SENSITIVITIES

KTC's SACP could be revised upward if its capital base is materially strengthened, with the RAC ratio hovering at a level above 25% for a sustained period. On the other hand, the SACP could be revised downward if KTC's RAC falls below 12%, if there is a significant deterioration in asset quality with expected credit loss rising above 10% of average loans.

Any change in the degree of support KTB provides to KTC, or a change in our view on KTC's status as a strategically important subsidiary of KTB, 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. 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 49.29% stake in KTC, with the remaining 50.71% held by the general public.

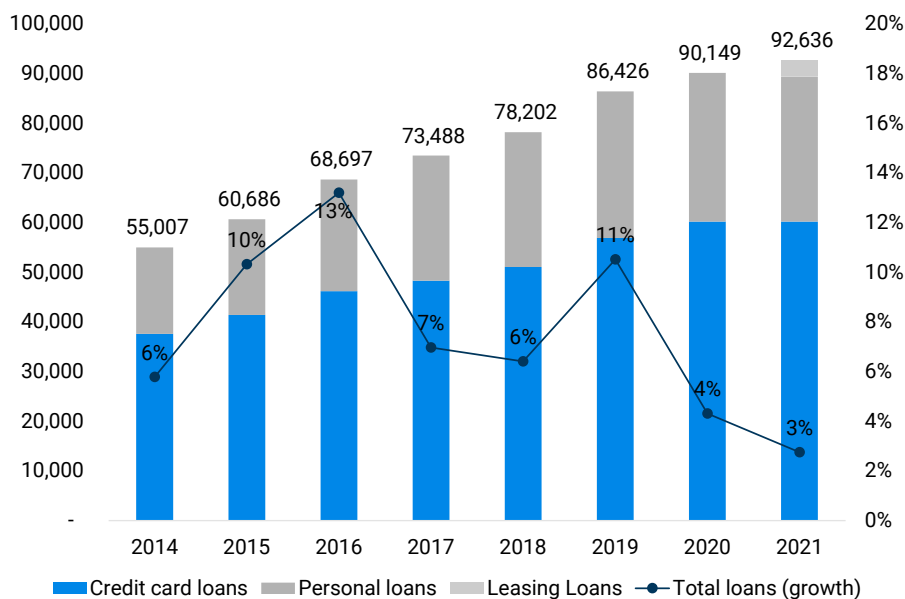
KTC has a history of launching new products, such as personal loans, loans for entrepreneurs, and credit cards. KTC has continued to develop and implement new operating systems, such as risk management and IT systems, and digital banking. The company is closely supervised and monitored by its parent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

KTC acquired KTBL from KTB in 2021. After completion of the transaction, KTC became the major shareholder with a 75.05% stake with KTB holding the remainder. KTC will diversify into collateral-based loan services comprising hire purchase and leasing. At the end of December 2021, credit card receivables made up 65% of its loan portfolio, while personal loans constituted 32% and the leasing business 3%.

As of December 2021, KTC had around 1,570 staff and 15 "KTC Touch Points" to provide services. 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

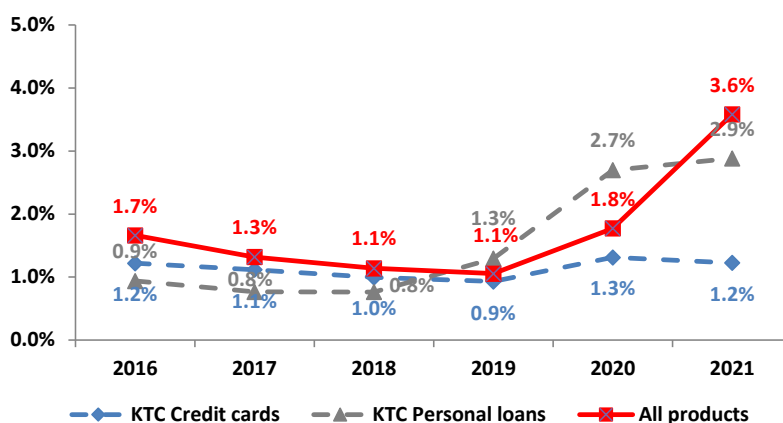
Chart 1: Gross Credit Card and Personal Loan Receivables



Sources: KTC & TRIS Rating

* Personal loans include auto title loans

Chart 2: NPL Ratio



Sources: KTC & TRIS Rating

* Personal loans include auto title loans

** Since 2020, NPL has been based on receivables in stage3.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	89,471	88,403	85,409	79,648	73,636
Total loans	92,636	90,149	86,426	78,202	73,488
Allowance for expected credit loss	9,691	7,355	5,670	5,489	5,699
Short-term debts	18,845	22,952	17,560	14,072	17,338
Long-term debts	36,453	35,436	40,493	40,459	36,405
Shareholders' equity	27,084	22,850	19,735	16,352	12,577
Net interest income	12,198	12,633	12,042	11,086	10,331
Expected credit loss	5,456	6,605	6,433	5,703	6,627
Non-interest income	7,839	7,889	9,018	8,557	7,565
Operating expenses	7,326	7,260	7,722	7,524	7,143
Earnings before taxes	7,266	6,657	6,904	6,416	4,127
Net income	5,789	5,332	5,524	5,140	3,304

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Profitability					
Net interest income/average assets	13.71	14.54	14.59	14.46	14.56
Non-interest income/average assets	8.81	9.08	10.93	11.16	10.66
Operating expenses/total income	34.17	32.92	34.13	35.49	36.58
Operating profit/average assets	8.17	7.66	8.37	8.37	5.81
Earnings before taxes/average risk-weighted assets	4.89	4.54	5.00	5.05	3.48
Return on average assets	6.51	6.14	6.69	6.71	4.66
Return on average equity	23.18	25.04	30.61	35.53	28.86
Asset Quality					
Receivable in stage 3/total loans	3.60	1.78	1.06	1.14	1.32
Expected credit loss/average loans	5.97	7.48	7.82	7.52	9.32
Allowance for expected credit loss/Receivable in stage 3	292.17	460.28	622.25	615.82	588.57
Capitalization					
Risk-adjusted capital ratio	18.20	15.38	13.65	12.44	10.24
Debt/equity (times)	2.30	2.87	3.33	3.87	4.85
Funding and Liquidity					
Stable funding ratio	73.63	69.21	73.69	77.02	71.17
Liquidity coverage measure (times)	0.13	0.08	0.08	0.19	0.10
Short-term debts/total liabilities	30.21	35.01	26.74	22.23	28.40
Payment rate	36.32	37.60	42.27	41.41	39.74

* Consolidated financial statements

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Krungthai Card PLC (KTC)

Company Rating:	AA-
Issue Ratings:	
KTC224A: THB1,500 million senior unsecured debentures due 2022	AA-
KTC226A: THB2,500 million senior unsecured debentures due 2022	AA-
KTC229A: THB1,800 million senior unsecured debentures due 2022	AA-
KTC22NA: THB700 million senior unsecured debentures due 2022	AA-
KTC22OA: THB2,000 million senior unsecured debentures due 2022	AA-
KTC232A: THB1,000 million senior unsecured debentures due 2023	AA-
KTC233A: THB200 million senior unsecured debentures due 2023	AA-
KTC233B: THB1,000 million senior unsecured debentures due 2023	AA-
KTC239A: THB700 million senior unsecured debentures due 2023	AA-
KTC23DA: THB600 million senior unsecured debentures due 2023	AA-
KTC23NA: THB1,140 million senior unsecured debentures due 2023	AA-
KTC241A: THB3,000 million senior unsecured debentures due 2024	AA-
KTC243A: THB1,000 million senior unsecured debentures due 2024	AA-
KTC247A: THB100 million senior unsecured debentures due 2024	AA-
KTC248A: THB1,000 million senior unsecured debentures due 2024	AA-
KTC24NA: THB415 million senior unsecured debentures due 2024	AA-
KTC24NB: THB1,000 million senior unsecured debentures due 2024	AA-
KTC253A: THB2,000 million senior unsecured debentures due 2025	AA-
KTC254A: THB1,000 million senior unsecured debentures due 2025	AA-
KTC259A: THB1,000 million senior unsecured debentures due 2025	AA-
KTC25NA: THB1,000 million senior unsecured debentures due 2025	AA-
KTC25NB: THB1,500 million senior unsecured debentures due 2025	AA-
KTC262A: THB200 million senior unsecured debentures due 2026	AA-
KTC262B: THB300 million senior unsecured debentures due 2026	AA-
KTC269A: THB200 million senior unsecured debentures due 2026	AA-
KTC26DA: THB2,500 million senior unsecured debentures due 2026	AA-
KTC26NA: THB3,030 million senior unsecured debentures due 2026	AA-
KTC278A: THB1,500 million senior unsecured debentures due 2027	AA-
KTC278B: THB1,000 million senior unsecured debentures due 2027	AA-
KTC27NA: THB2,000 million senior unsecured debentures due 2027	AA-
KTC27OA: THB1,000 million senior unsecured debentures due 2027	AA-
KTC282A: THB1,250 million senior unsecured debentures due 2028	AA-
KTC288A: THB2,065 million senior unsecured debentures due 2028	AA-
KTC297A: THB1,500 million senior unsecured debentures due 2029	AA-
KTC29OA: THB1,700 million senior unsecured debentures due 2029	AA-
KTC301A: THB1,000 million senior unsecured debentures due 2030	AA-
KTC318A: THB500 million senior unsecured debentures due 2031	AA-
Up to THB12,000 million senior unsecured debentures due within 10 years	AA-
Rating Outlook:	Stable

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