

# Thai Consumer Finance

**NEUTRAL** [Unchanged]

## Year Ahead 2023: Strong loan growth, falling NIM

### NEUTRAL until rates peak in 2Q23; Top picks are ASK and TIDLOR

We expect the sector's NIM to contract on higher cost of funds from the anticipated interest rate uptrend in 2023. The sector should outperform after the Bank of Thailand's (BoT) policy interest rate peaks and improving asset quality in 2Q23. Our Top Picks remain ASK and TIDLOR as both should deliver robust earnings growth of 18-20% in 2023E. Key risk is weaker-than-expected asset quality. Maintain SELL on SAWAD as we see asset quality risk in its balance sheet and the lowest NPL coverage in our universe.

### Decent loan growth but narrowing NIM

We expect loan demand to improve in 4Q22 and FY23 due to the economic reopening and high inflation. Loans are expected to grow 22% and 14% in FY22-23E. The decent loan growth should support insurance brokerage income growth, especially for TIDLOR and ASK that focus on both life and non-life insurance revenue. We forecast TIDLOR and ASK to see non-NII growth of 15-16% YoY vs the sector average of 6% in FY23. On a negative note, sector NIM should decline 60bps YoY to 15.8% in 2023 as funding costs rise on higher interest rates while most lending rates are fixed.

### Credit costs to stay elevated on weak asset quality

As high inflation hurts low income earners' (the sector's main customers) ability to repay debt, we expect the sector's NPL ratio to rise 21bps YoY to 3.11% in 2023. Therefore, credit cost should remain elevated at 3.7% in 2023 vs 3.6% in 2022. Credit cost should peak in 2Q23 and decline in 2H23. KTC's and TIDLOR's asset quality remain better than the sector average, thanks to their high loan loss reserves (LLR) to NPLs. We are concerned about SAWAD's asset quality due to increasing high risk, high yield motorcycle hire purchase (HP) loans and provision reversals. Its NPL coverage and LLR to NPL ratios were the lowest in the sector at 51% and 1.4% in 3Q22 (See Fig 6).

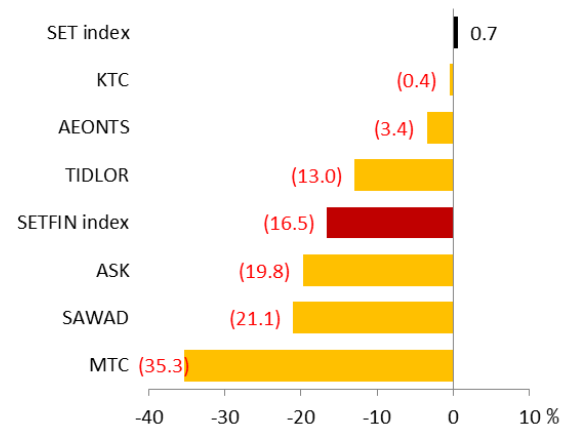
### Expect earnings to grow 12% YoY in 2023

We expect sector earnings to grow 11% YoY in 2022 and 12% in 2023-24E from strong loan and NII growth. SAWAD's earnings are expected to grow at the slowest pace of 7% due to rising credit costs. Sector ROE should drop to c.19% in 2022-23E from 20-27% in 2018-21 due to lower NIM and weaker asset quality. We see low regulatory risk for the finance sector after the BoT capped lending rates for all types of consumer loans in the past three years.

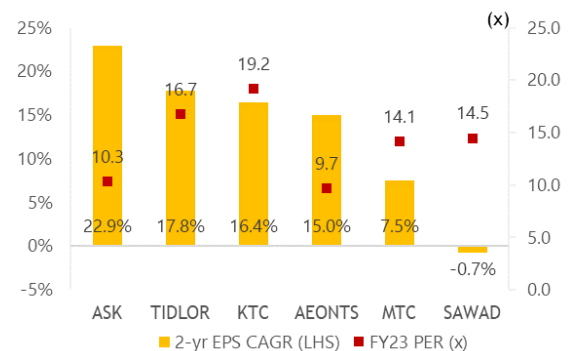
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#### Share-price performances in 2022



#### ASK's and AEONTS's valuations look attractive with lower PERs than peers



Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
KrungThai Card	KTC TB	4,365	Buy	58.25	68.00	17	20.8	18.9	4.8	4.2	2.1	2.3
Muangthai Cap.	MTC TB	2,264	Hold	36.75	38.00	3	15.5	13.7	2.7	2.3	1.0	1.1
Ngern Tid Lor	TIDLOR TB	2,196	Buy	30.25	32.00	6	20.3	17.2	3.0	2.6	1.5	1.7
Srisawad Corp	SAWAD TB	1,830	Sell	47.50	40.00	(16)	15.2	14.1	2.6	2.4	3.8	3.5
AEON Thana Sins	AEONTS TB	1,362	Buy	187.50	240.00	28	11.2	10.0	2.1	1.8	2.7	3.0
Asia Sermkij	ASK TB	525	Buy	34.25	48.00	40	12.0	10.0	1.8	1.7	4.2	5.0

## NEUTRAL until rates peak in 2Q23; Top Picks remain ASK and TIDLOR

### ASK our Top Pick in the consumer finance sector

ASK is targeting a THB100b loan portfolio in 2024 from THB55.7b in 2021, implying 21% loan growth pa in 2022-24E. Growth should be supported by HP truck and truck title loans. As of 3Q22, loans jumped 24% YoY to THB65.2b.

ASK's share price has fallen 20% and underperformed the SET by 21% in 2022. Its current valuation looks attractive at 10.3x FY23E PER and 1.7x PBV vs industry average of 18.1x PER and 2.3x P/BV. We see a buying opportunity emerging and expect earnings to grow 18-26% in 2022-24E. Our TP is THB48, implying 14x FY23E PER, 17.4% ROE and 2.3x P/BV.

### Prefer TIDLOR in title loan business

Among the title loan operators, we like TIDLOR for its stronger FY23E EPS growth of 18% (vs 7-13% for MTC and SAWAD), lower regulatory risk and higher earnings visibility given its above-sector NPL coverage of 254% in 3Q22 (vs 102% for MTC and 51% for SAWAD). **BUY TIDLOR with a TP of THB32** (2.8x FY23E P/BV, 18x P/E and 17.2% ROE).

Although we like MTC for its strong loan growth with higher market share, **weakness in asset quality could lead to higher credit cost in 4Q22 and 1H23** as MTC targets to maintain its NPL coverage at c.100% in FY23E. We expect MTC's ROE to decline from 21.7% in FY21 to 18-19% in FY22-24E on rising credit and funding costs. **HOLD with a TP of THB38** (2.4x FY23E P/BV, 14x P/E and 19.0% ROE).

**SAWAD is likely to trade at a discount vs peers** given high asset-quality risk with the lowest NPL coverage in the sector. Its balance sheet looks ill-equipped, in our view, given its small reserves and rising proportion of high-risk, high-yield lending. **SELL with a TP of THB40** (2.0x FY23E P/BV, 12x P/E and 17.5% ROE).

### BUY AEONTS and KTC

We are positive on better credit card spending as this should support both AEONTS's and KTC's revenue and earnings growth. Moreover, we expect economic reopening and rising tourism-related activities to improve asset quality. On a negative note, the impact of rising inflation and floods is still to be felt in 4Q22.

KTC's loan portfolio looks more diversified as it aims to add auto title loans and HP truck loans in 2023-2024. We like KTC for its **solid asset quality and clear earnings visibility** given its low NPL ratio of 2.0% and high NPL coverage of 448% in 3Q22. **BUY with a TP of THB68** (4.9x FY23E P/BV, 22x P/E 24.0% ROE).

We like AEONTS for its cheap valuation (trading at 1.7x FY23E P/BV and 9.7x PER) and expect improving asset quality and earnings to be a re-rating catalyst. **BUY with TP of THB240**, implying 2.3x FY23E P/BV, 12.8x P/E and 18.4% ROE.

Fig 1: TPs and stock recommendations

	Rating	Target price (THB)	BVPS	FY23F valuation on new TP		
				LT ROE (%)	P/BV (x)	P/E (x)
ASK	BUY	48.0	20.7	17.2	2.3	14.0
MTC	HOLD	38.0	16.1	18.2	2.4	14.2
TIDLOR	BUY	32.0	11.5	17.2	2.8	18.1
SAWAD	SELL	40.0	20.1	17.5	2.0	11.9
KTC	BUY	68.0	13.9	24.1	4.9	22.1
AEONTS	BUY	240.0	103.8	18.4	2.3	12.8

Source: Companies, MST

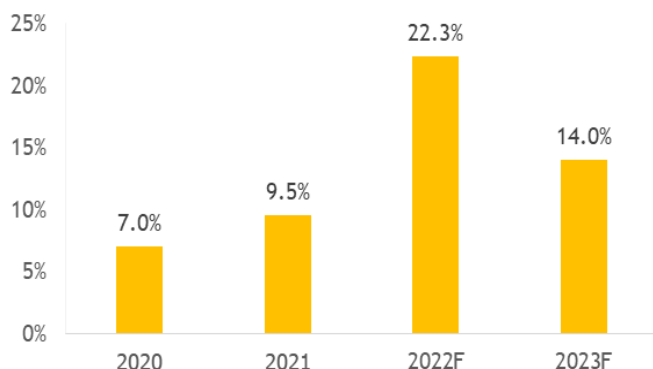
## 2023 outlook: Strong loan growth, lower NIM

### High inflation leads to strong loan demand

We expect high inflation to increase cost of living and demand for consumer loans, especially for low income earners. We forecast aggregated loans for consumer finance operators under our coverage to grow 22% YoY and 14% YoY for FY22-23E.

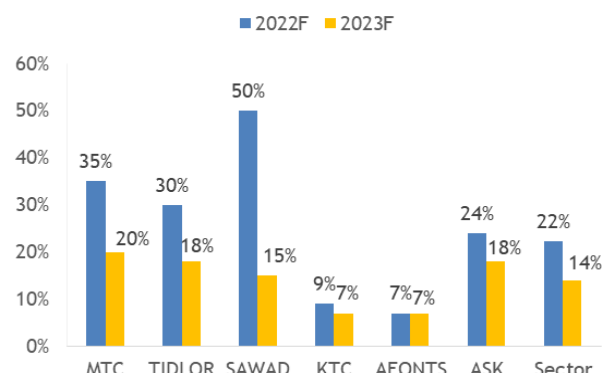
Looking into 2023, most consumer finance firms remain bullish and MTC, TIDLOR, SAWAD and ASK have set aggressive loan growth targets of c.20%. On the other hand, KTC and AEONTS, which focus on unsecured lending, are more conservative with loan growth targets of 10-15% YoY.

Fig 2: Expect sector loan growth of 22%/14% YoY (FY22/23E)



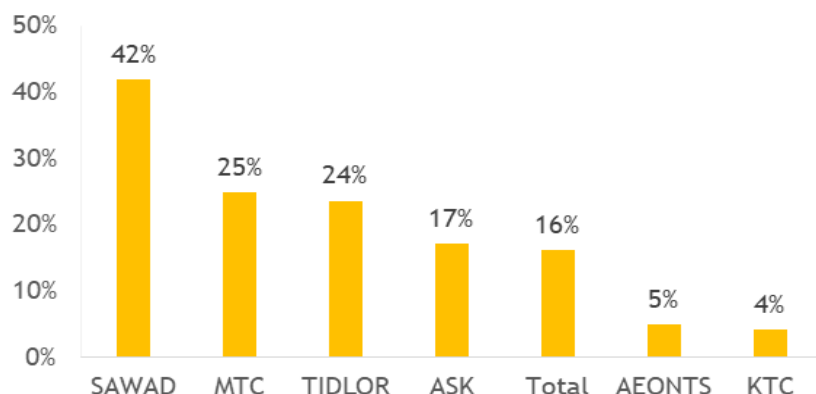
Source: Company, MST

Fig 3: Loan growth by company



Source: Company, MST

Fig 4: SAWAD had the highest loan growth YTD due to decent growth in HP motorcycle loans in 3Q22



Source: Company, MST

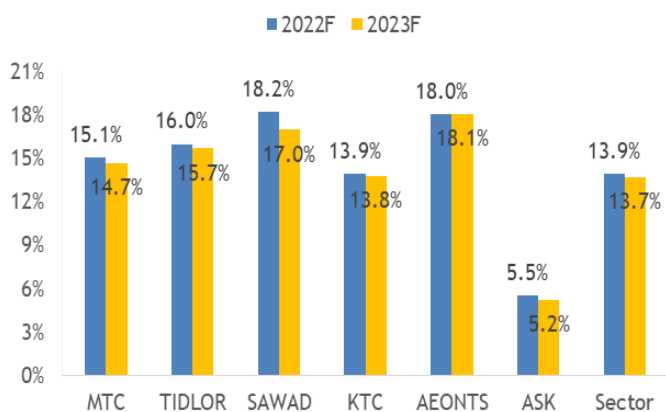
### NIM to gradual decline over the year on rising cost of funds

Our economist expects Thailand’s policy interest rate to increase by 25bps to 1.5% in 2023 after it rose 75bps in 2022. This will increase the cost of funds and reduce NIMs for all finance operators. Note that most lending rates for consumer loans (credit card, personal, title and HP loans) are fixed.

We expect sector NIMs to decline 60bps YoY to 15.8% in 2023. ASK’s cost of funds should increase at a slower rate vs peers as the benefit of the 2-notch credit upgrade from ‘BBB+’ to ‘A’ will kick in once it issues new debentures.

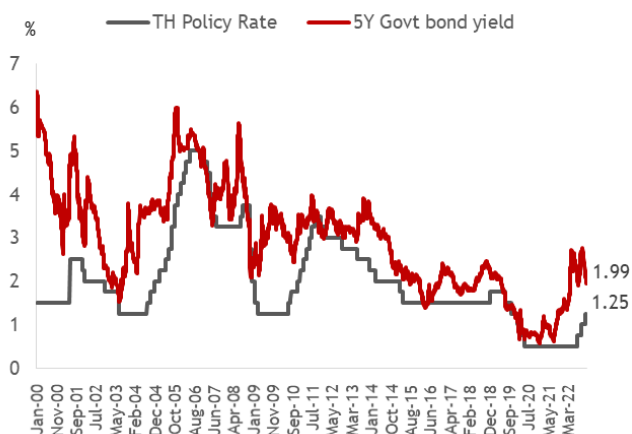
Note that KTC has the highest credit rating at ‘AA-’ followed by ASK and TIDLOR at rating ‘A’, AEONTS at rating ‘A-’, MTC and SAWAD at rating ‘BBB+’.

Fig 5: Expect sector NIM to decline in 2023



Source: Company, MST

Fig 6: Thailand policy interest rate and government bond yield



Source: Company, MST

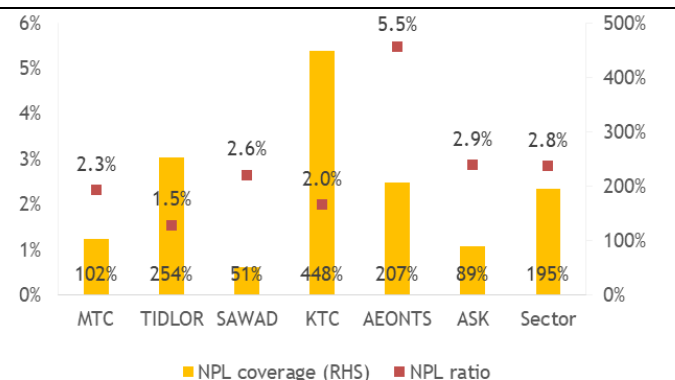
### Rising NPLs and elevated credit costs

As high inflation has reduced disposable income and the ability of low income earners (the sector’s main customers) to repay debt, we expect the sector’s NPL ratio to increase 21bps YoY to 3.11% in 2023. Therefore, credit costs should rise to 3.7% in 2023 from 3.6% in 2022. We expect credit costs to peak in 2Q23 and decline in 2H23.

KTC’s and TIDLOR’s asset quality remain better than the sector average, thanks to high loan loss reserves (LLR) to NPLs. We are concerned on SAWAD’s asset quality given its increasing high risk, high-yield HP motorcycle loans (29% of loans in 3Q22 vs 12% in 2021) and its reversal of provisions in 2022. SAWAD’s NPL coverage and LLR to NPL ratios have been the sector’s lowest at 51% and 1.4% in 3Q22 (See Fig 7).

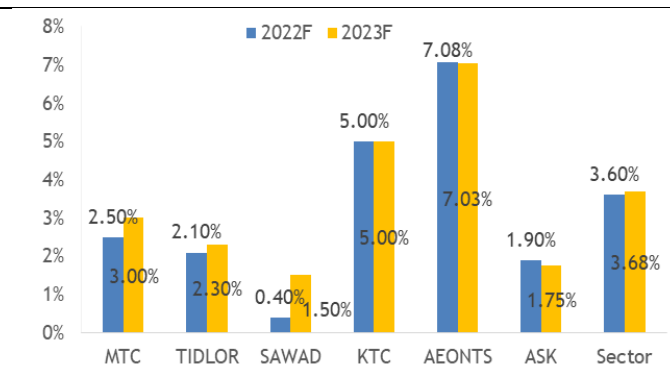
According to the Bank of Thailand, NPL ratio for credit card loans fell QoQ to 2.46% from 2.68% in 2Q22 while Stage 2 loans (loans with significant increase in credit risk) stayed at 6.1% in 3Q22. The NPL ratio for personal loans dropped QoQ to 2.22% from 2.35% in 2Q22 while Stage 2 loans stayed at 4.98% in 3Q22.

**Fig 7: KTC & TIDLOR have higher NPL coverage than peers**



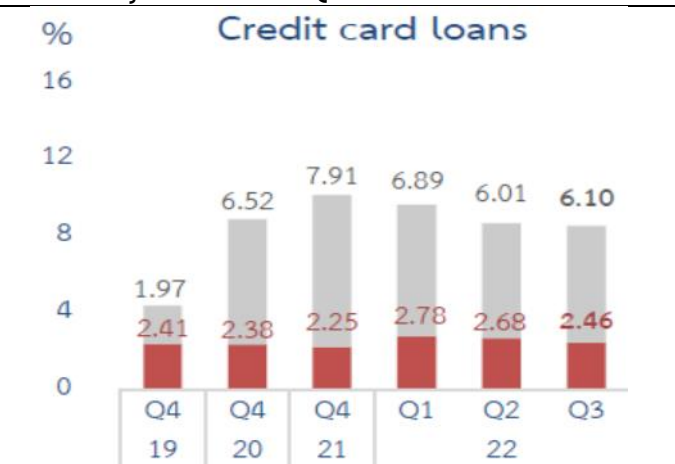
Source: Companies, MST

**Fig 8: Credit cost to stay elevated in FY22-23E**



Source: Companies, MST

**Fig 9: Credit card NPL ratio fell QoQ to 2.46% while Stage 2 loans stayed at 6.1% in 3Q22**



Source: BoT, MST

**Fig 10: NPL ratio for personal loans dropped QoQ to 2.22% while Stage 2 loans stayed at 4.98% in 3Q22**



Source: BoT, MST

**Fig 11: Loan breakdown by finance operator**

Loan breakdown	TIDLOR	MTC	SAWAD	KTC	AEONTS	ASK
Auto	64%	32%	32%			8%
Motorcycle	12%	31%				
Land		11%	34%			
Truck	24%					63%
Credit card				64%	43%	
Unsecured		16%	5%	32%	50%	8%
HP new motorcycle		5%	29%			
Machine						10%
Others		5%		4%	7%	11%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, MST

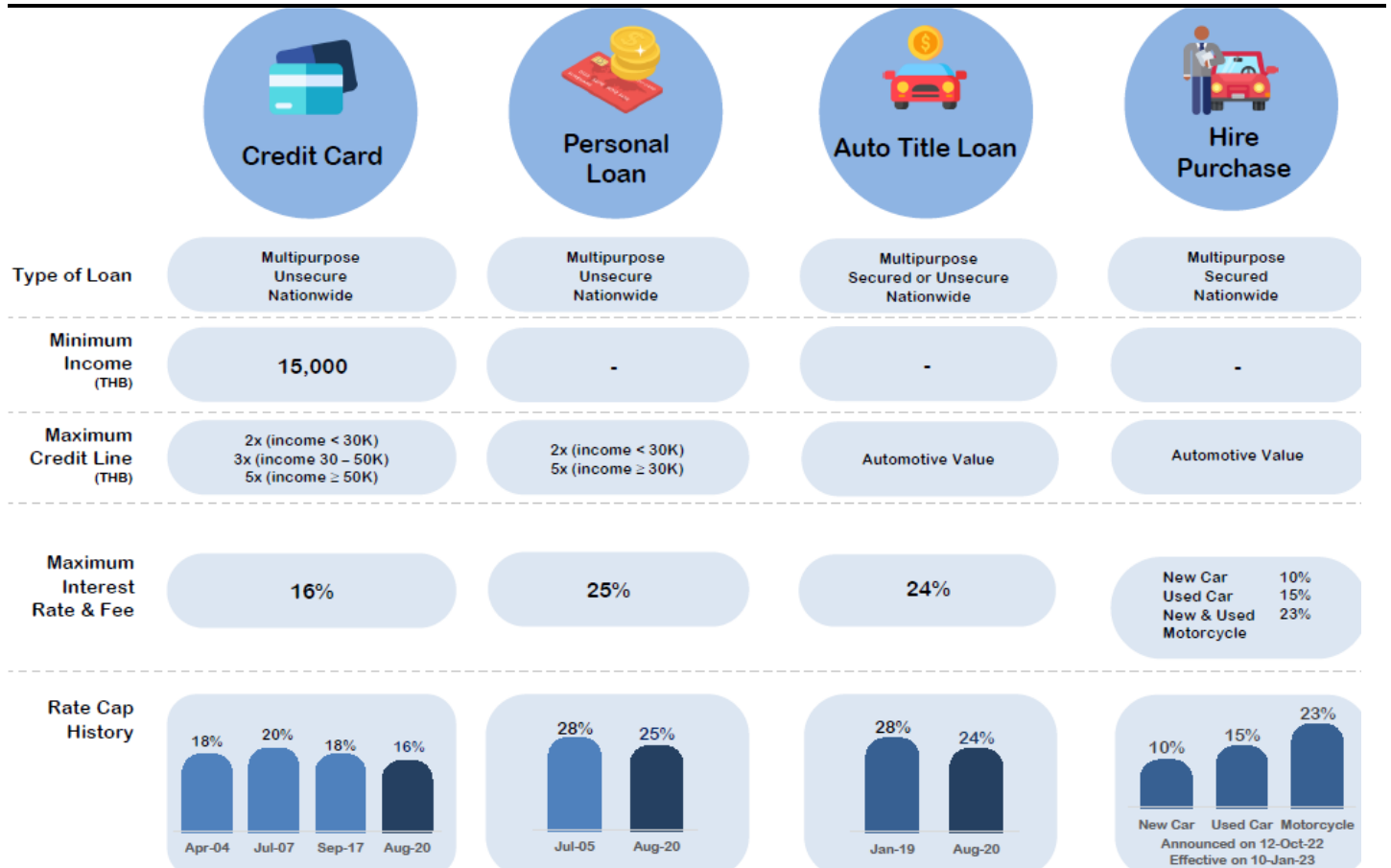
**See limited downside risks on interest rate cap**

We see low regulatory risk for the finance sector after the Bank of Thailand capped lending rates for all types of consumer loans (credit card, personal loan, title loan and HP loan) in the past three years.

Amid the Covid pandemic in Aug-20, the BoT cut its credit card loan interest rate cap to 16% from 18%; personal loan cap to 25% from 28%; and that for auto title loans to 24% from 28%. More recently, it capped rates for HP lending rates for new and used cars at 10-15% and HP motorcycles at 23%, effective 10-Jan-23 (See Fig 11).

We expect SAWAD’s loan yield to stay high in 2023 as the new rate caps will not be retroactive. However, its loan yield should gradually decline once new loans (HP motorcycle loans subject to 23% interest rate cap from the BoT) replace current loans that have no rate cap (SAWAD currently earns 30-35% interest rates for its HP motorcycle loans).

Fig 12: Rules and regulations for unsecured lending



Source: BoT, OCPB, KTC

**Expect 2022-24E earnings to grow 11-12% YoY**

We expect earnings of the six stocks under our coverage to grow 11-12% YoY in 2022-24E (which is faster than the market growth of 8% in 2023E) from strong loan and NII growth and lower credit costs. **ASK and TIDLOR should register solid earnings growth of 18-20% in 2023E** on robust loan and fee income growth.

MTC’s earnings growth should recover to a double-digit YoY rate in 2023E due to its low base effect in 2022 following rising credit cost and NPLs. SAWAD’s FY23E earnings are expected to grow at the slowest rate of 7% due to higher credit costs. Note that SAWAD had provisioning reversal of THB455m in 2021 and THB70m in 9M22.

For those focused on unsecured lending, we forecast **KTC and AEONTS to report slower earnings growth of 10-12% in 2023E**, supported by higher loan demand and income from bad debt recovery.

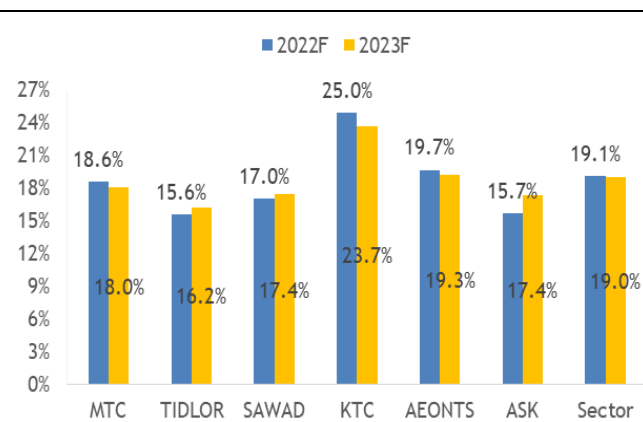
Sector ROE should decline to c.19% in 2022-23E from 20-27% in 2018-21 due to lower NIM and weaker asset quality.

**Fig 13: Our earnings forecasts vs Bloomberg consensus (THBm)**

	Our forecasts			Growth			Bloomberg			Diff vs MST		
	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F	2022F	2023F	2024F
ASK	1,511	1,817	2,135	26%	20%	18%	1,514	1,818	2,102	0%	0%	2%
MTC	5,033	5,696	6,597	2%	13%	16%	5,265	6,155	7,182	-4%	-7%	-8%
TIDLOR	3,730	4,400	4,962	18%	18%	13%	3,702	4,503	5,399	1%	-2%	-8%
SAWAD	4,301	4,622	5,201	-9%	7%	13%	4,465	5,058	5,578	-4%	-9%	-7%
KTC	7,225	7,941	8,743	23%	10%	10%	7,066	7,775	8,468	2%	2%	3%
AEONTS	4,198	4,696	5,176	18%	12%	10%	4,258	4,729	5,048	-1%	-1%	3%
Total	25,999	29,172	32,813	11%	12%	12%	26,270	30,038	33,777	-1%	-3%	-3%

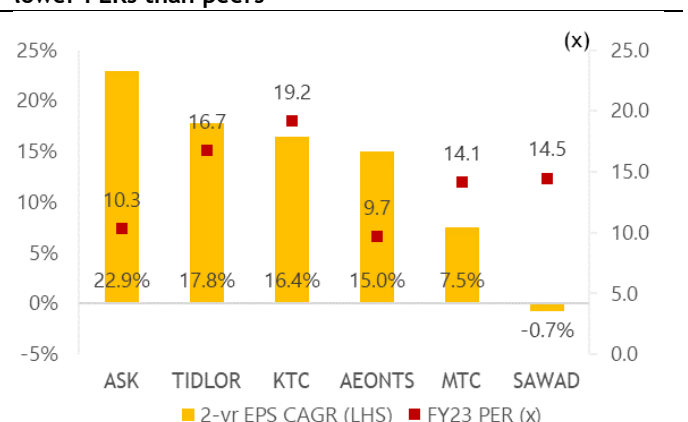
Source: Bloomberg, MST

**Fig 14: Expect sector ROE to stay at 19% in 2022-23E**



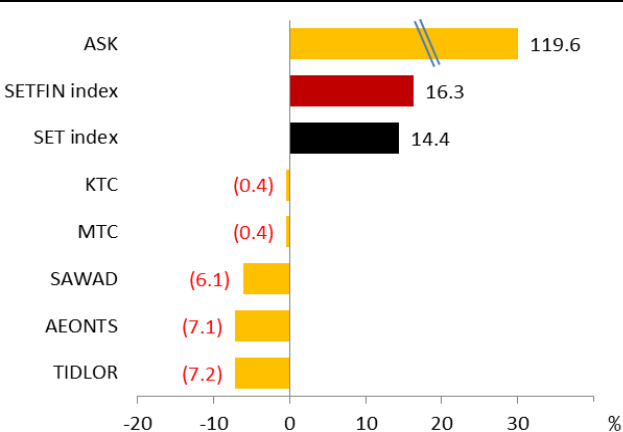
Source: Companies, MST

**Fig 15: ASK's and AEONTS's valuations look attractive with lower PERs than peers**



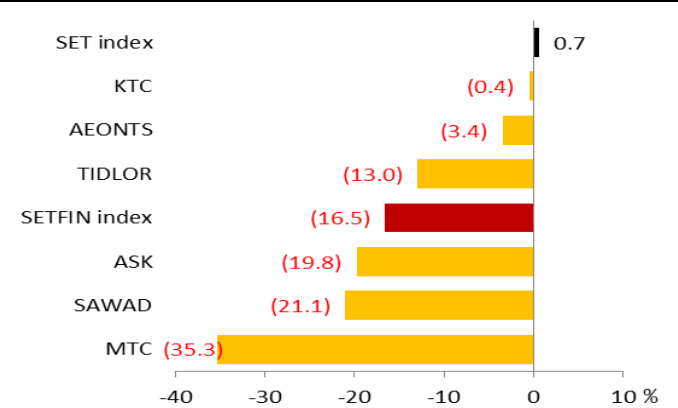
Source: Companies, MST

**Fig 16: Stock performances in 2021...**



Source: SET, MST

**Fig 17: ... and in 2022**



Source: SET, MST

## Recap of 3Q22 and 9M22 results

For the six stocks under our coverage, 3Q22 earnings rose 17% YoY (on strong loan growth) but fell 6% QoQ (due to higher credit costs). KTC, AEONTS and ASK reported strong earnings growth YoY, thanks to strong loan and net interest income growth in 3Q22. On a negative note, MTC's and TIDLOR's asset quality weakened QoQ amid rising NPL ratios and higher credit costs.

### 3Q22 earnings rose 17% YoY on strong revenue growth but eased 6% QoQ on higher credit costs

(THB m)	3Q21	2Q22	3Q22	Chg YoY	Chg QoQ	9M21	9M22	Chg YoY
ASK	314	359	391	25%	9%	859	1,101	28%
AEONTS	678	1,115	903	33%	-19%	3,011	2,929	-3%
KTC	1,317	1,894	1,773	35%	-6%	4,631	5,414	17%
MTC	1,201	1,381	1,205	0%	-13%	3,844	3,961	3%
SAWAD	1,112	1,042	1,186	7%	14%	3,579	3,263	-9%
TIDLOR	813	981	901	11%	-8%	2,374	2,823	19%
Total	5,434	6,771	6,359	17%	-6%	18,297	19,491	7%

Source: Company data, MST

### MTC, TIDLOR and ASK reported strong PPOP growth on growing loan books and good cost control

(THB m)	3Q21	2Q22	3Q22	Chg YoY	Chg QoQ	9M21	9M22	Chg YoY
ASK	611	759	823	35%	9%	1,626	2,311	42%
AEONTS	2,916	3,013	3,021	4%	0%	7,956	8,821	11%
KTC	2,943	3,419	3,487	18%	2%	9,464	10,131	7%
MTC	1,696	2,260	2,476	46%	10%	5,318	6,637	25%
SAWAD	1,404	1,461	1,425	1%	-2%	4,532	4,243	-6%
TIDLOR	1,163	1,507	1,634	40%	8%	3,265	4,454	36%
Total	10,734	12,418	12,865	20%	4%	32,161	36,597	14%

Source: Company data, MST

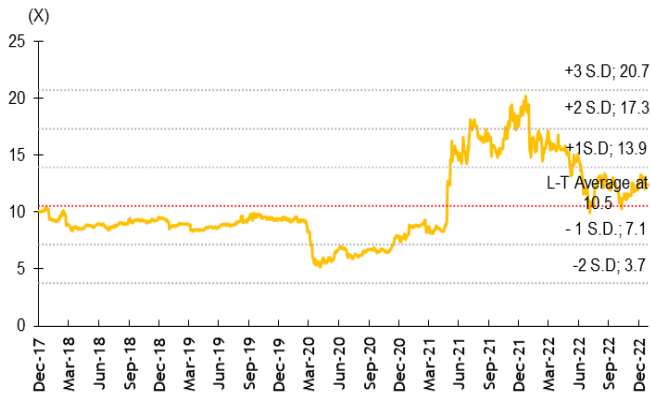
### SAWAD reversed provisions to support earnings growth in 9M22

(THB m)	3Q21	2Q22	3Q22	Chg YoY	Chg QoQ	9M21	9M22	Chg YoY
ASK	215	309	333	55%	8%	548	932	70%
AEONTS	2,005	1,564	1,851	-8%	18%	4,114	5,033	22%
KTC	1,293	1,039	1,277	-1%	23%	3,623	3,360	-7%
MTC	191	524	959	401%	83%	485	1,652	241%
SAWAD	(101)	31	(121)	20%	-491%	(323)	(70)	-78%
TIDLOR	151	284	513	239%	81%	304	937	208%
Total	3,755	3,750	4,811	28%	28%	8,751	11,844	35%

Source: Company data, MST

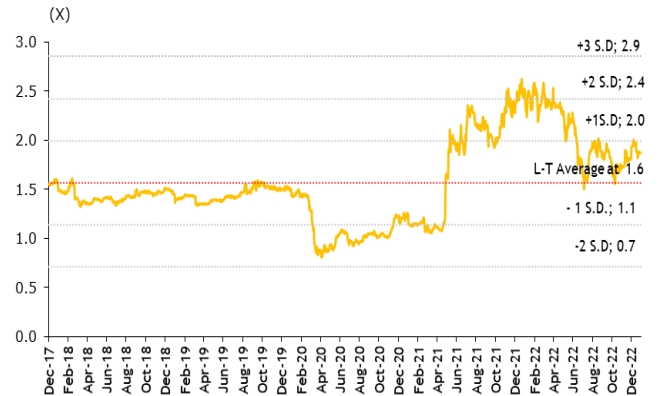


**ASK: PER band**



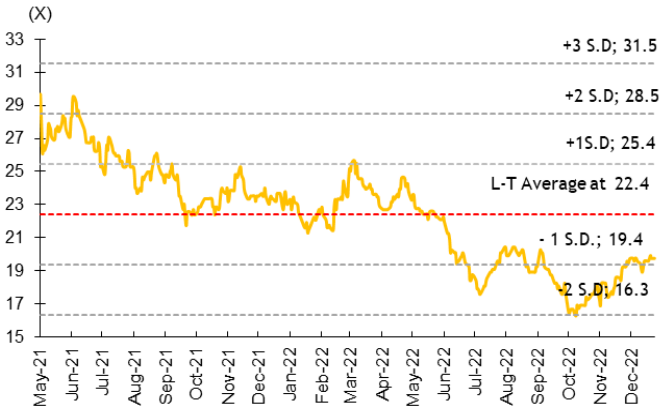
Source: Bloomberg, MST

**ASK: PBV band**



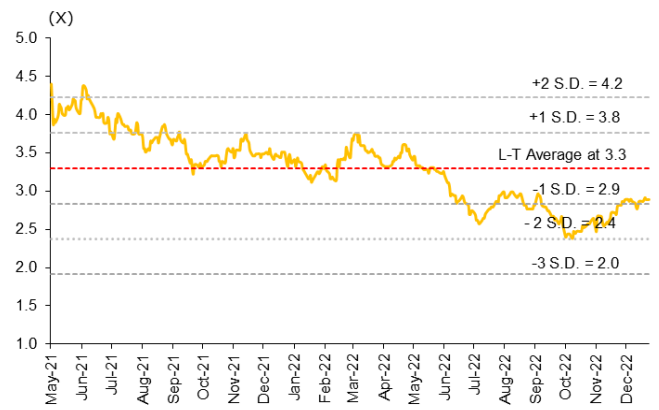
Source: Bloomberg, MST

**TIDLOR: PER band**



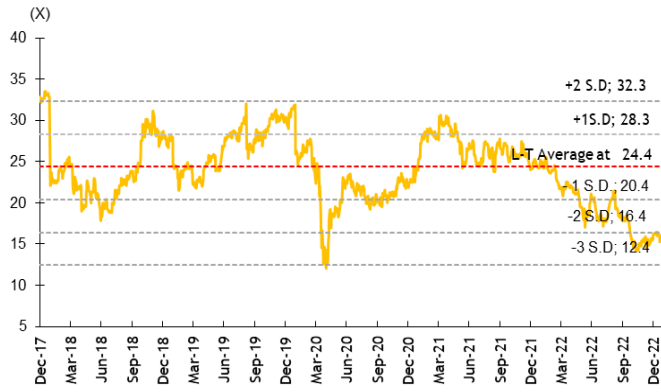
Source: Bloomberg, MST

**TIDLOR: PBV band**



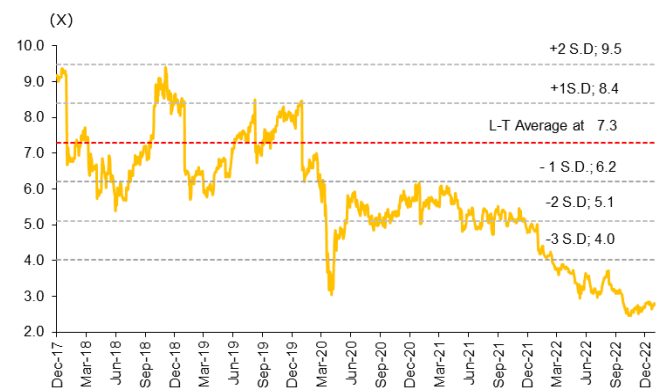
Source: Bloomberg, MST

**MTC: PER band**



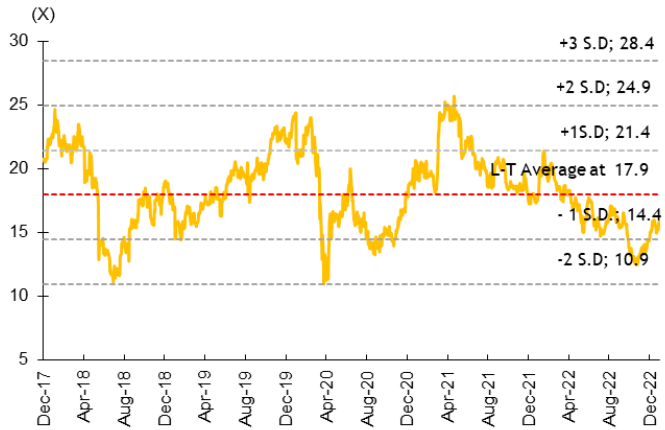
Source: Bloomberg, MST

**MTC: PBV band**



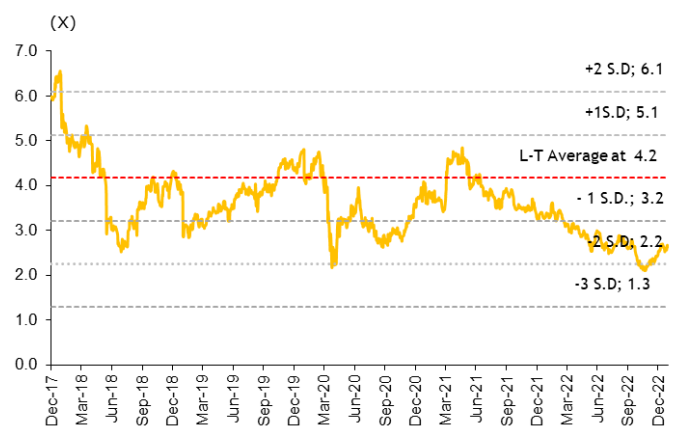
Source: Bloomberg, MST

**SAWAD: PER band**



Source: Bloomberg, MST

**SAWAD: PBV band**



Source: Bloomberg, MST

**KTC: PER band**



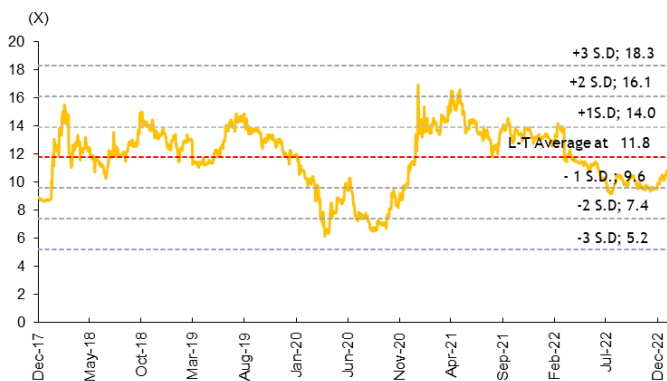
Source: Bloomberg, MST

**KTC: PBV band**



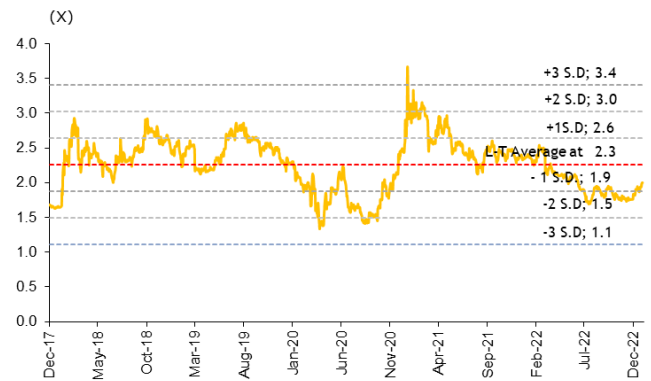
Source: Bloomberg, MST

**AEONTS: PER band**



Source: Bloomberg, MST

**AEONTS: PBV band**



Source: Bloomberg, MST

Peer comparison

Ticker	Name	P/E (x)		P/BV (x)		ROE (%)		Yield (%)	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
AEONTS TB	AEON THANA SINSAP THAILAND	10.8	9.6	2.0	1.7	19.7	19.0	2.9	3.3
ASK TB	ASIA SERMKIJ LEASING PCL	12.3	10.4	1.9	1.7	15.7	17.4	4.0	4.9
KTC TB	KRUNGTHAI CARD PCL	21.6	19.6	4.9	4.2	24.5	22.9	1.9	2.2
MICRO TB	MICRO LEASING PCL	39.1	32.3	2.0	1.9	6.2	7.7	0.8	0.9
MTC TB	MUANGTHAI CAPITAL PCL	15.3	13.1	2.7	2.3	19.4	18.7	1.0	1.1
SAK TB	SAKSAM LEASING PCL	18.9	15.3	2.4	2.2	13.6	15.1	2.4	3.2
SAWAD TB	SRISAWAD CORP PCL	14.9	13.2	2.5	2.3	17.4	18.1	3.4	3.8
SINGER TB	SINGER THAILAND PUB CO LTD	22.9	17.9	1.5	1.4	7.0	7.6	2.1	2.8
THANI TB	RATCHTHANI LEASING PCL	12.8	11.5	1.9	1.8	15.7	16.0	4.5	4.8
TIDLOR TB	NGERN TID LOR PCL	19.6	16.4	2.9	2.5	15.4	16.3	1.2	1.5
JMT TB	JMT NETWORK SERVICES PCL	52.2	37.6	4.4	4.1	9.0	11.2	1.3	1.8
BAM TB	BANGKOK COMMERCIAL ASSET MAN	17.6	14.4	1.2	1.2	6.8	8.1	4.3	5.2
CHAYO TB	CHAYO GROUP PCL	30.0	23.9	2.4	2.1	9.9	10.4	1.2	1.3
<b>Average - Bloomberg consensus</b>		<b>22.1</b>	<b>18.1</b>	<b>2.5</b>	<b>2.3</b>	<b>13.9</b>	<b>14.5</b>	<b>2.4</b>	<b>2.8</b>

Source: Bloomberg

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