

KRUNGTHAI CARD PLC

No. 49/2021
2 April 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 02/04/20

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
26/03/03	A-	-

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RATIONALE

TRIS Rating upgrades the company rating on Krungthai Card PLC (KTC) and the ratings on KTC's existing senior unsecured debentures to "AA-" from "A+". At the same time, TRIS Rating assigns the "AA-" rating to KTC's proposed issue of up to THB12 billion in senior unsecured debentures due within 10 years. The rating on KTC incorporates a rating enhancement due to its status as a strategically important subsidiary of its parent bank, Krungthai Bank PLC (KTB). The rating is mainly the result of our view of the increased integration between KTC with KTB Group, given KTC's more distinct role as the Group's main consumer lending business operator.

The company's stand-alone credit profile continues to reflect its strong business position in the credit card and personal loan segments, prudent credit risk management that has helped support its asset quality over the past several years, and solid equity base. However, the strengths are weighed down by the pressure on profitability due to a lower interest rate ceiling, intense competition, and the fragile economy.

KEY RATING CONSIDERATIONS

A strategically important subsidiary of KTB

We view KTC as a strategically important subsidiary of KTB. KTB currently owns a 49.29% equity interest in KTC. The company is the flagship subsidiary of the KTB Group in the consumer lending business, mainly credit card loans, personal loans, and auto title loans. Following a recent group restructuring in which KTC will acquire a 75.05% stake in KTB Leasing Co., Ltd. (KTBL) to undertake the hire-purchase (HP) and leasing businesses, KTC's importance to the Group will be further reinforced.

We expect KTC will continue to receive both financial and business supports from KTB. We view there is high likelihood of KTB in providing financial support to KTC in times of stress. This is despite the limited capacity for capital injection by KTB, mainly due to the group strategy to maintain KTC's status 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 cross sell products and services to their clients. For example, around 40% of new credit card customers in the past few years came through referrals from KTB. KTC and KTB also collaborate on marketing campaigns and share the same brand. KTC's risk management system is also integrated into KTB's risk management platform. In terms of financial support, KTB provides on-going liquidity support to KTC in the form of committed credit facilities

Strong market position

We expect KTC will continue to maintain a robust market position in its core businesses, namely credit cards and personal loans, over the next 2-3 years. This is largely the result of the company's strength in marketing and strong brand.

KTC maintained a 13% market share in outstanding credit card receivables and a 7% market share in personal loans excluding auto title loans in 2020. Despite the impact from the city lockdown due to the Coronavirus Disease 2019 (COVID-19) pandemic in 2020, KTC's credit card spending declined by only 8% year-on-year (y-o-y) in 2020, less than the industry's contraction of

13%, thanks to its effective marketing campaigns.

KTC's outstanding loans rose to THB90.15 billion at the end of December 2020, up 4% from the same period of the previous year. Credit card loans increased by 6% y-o-y, while personal loans rose by 1% y-o-y. Credit card receivables accounted for 67% of its loan portfolio, while personal loans constituted the remaining 33%.

We project KTC's loan portfolio to expand in the range of 5%-8% annually in 2021-2023. This will be backed by its marketing efforts and new credit card customers. The company plans to acquire 200,000 new credit card customers in 2021. We also expect spending will pick up, with an estimated growth rate of 5% annually in 2021-2023, backed by the recovery prospects of the domestic economy. For personal loans, KTC will focus more on existing clients with available unused credit limits, and aims to acquire 130,000 new accounts in 2021. The company recently launched a new auto title loan business. However, the expansion of this credit product will likely be cautious and only through KTB branches in strategic locations, targeting a narrow group of customers.

Earnings capability maintained

We expect KTC will maintain its earnings performance over the next few years by effectively managing its expected credit loss (ECL), interest spread, and operating expenses. The company's earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), was a moderate 4.5% in 2020. KTC's 2020 net profit was THB5.3 billion, down by 3% from 2019. The lower net profit was mainly due to the higher ECL and the lower bad debt recovery income due to the TFRS9-based credit risk model and the weak economy. Fee income also declined due to lower credit card spending. Nonetheless, the higher ECL was partly offset by strong revenue from the continuous expansion of outstanding receivables, stable spread of around 13.4% despite lower yields, and well-managed operating expenses. The ratio of operating expenses to total income decreased to 32.9% in 2020, from 34.1% in 2019, due to lower marketing expenses.

We expect EBT/ARWA to stay at around 4.5% on average in 2021-2023. Our earnings estimate is based on our view that KTC will be able to maintain its strong competitive position and control ECL and operating expenses. We assume ECL will be slightly lower than in the past due to more stringent underwriting. We also expect the ratio of operating expenses to total income to stay in the 33%-35% range in 2021-2023. We estimate KTC's interest spread will decline to 12%-12.6% over the next few years, from the current level of 13.4%, due to the lower interest rate ceiling (to 16% from 18%) applied to outstanding credit card loans following the Bank of Thailand's (BOT) debt relief programs introduced in August 2020. We believe the management of expected credit loss and cost control activities will compensate for the declining interest income and help support profitability.

Asset quality to remain strong despite potential deterioration

In our view, KTC's risk position will likely remain healthy due to the company's prudent underwriting policies, ongoing enhancement of its risk management platform, and adequate loan loss reserves. At the end of December 2020, the company's non-performing loan (NPL) ratio based on TFRS9 increased only slightly to 1.8%, from 1.1% in 2019, remaining lower than those of peers. This is partly attributed to the debt relief programs which lowered the minimum payment for credit cards and personal loans. Even though asset quality could deteriorate further this year amid the ongoing economic fallout from the COVID-19, we believe it should remain manageable. At the end of December 2020, the company's NPL coverage ratio stood at 460%. Loan loss provisioning or ECL in 2020 was at 7.5% of average loans. We expect provision expenses to fall to a range of 6.6%-7.4% of average loans per annum in 2021-2023 due to improved asset quality from stricter underwriting of new loans. Approval rates for credit cards dropped to 30% in late 2020 from around 40% in early 2020, and to 20% from around 30% for personal loans. Based on our estimation of expected credit cost, KTC's NPL coverage ratio should remain at around 500% during the next few years.

Robust capital position

We expect KTC's capital position to remain relatively strong over the next few years with a 5-year average risk-adjusted capital ratio (RAC) of around 16.7%. At the end of December 2020, the company's RAC ratio was 15.4%. Its capital base remains sufficient to support its expansion plans in the medium term. At the same time, KTC's financial leverage remains low as measured by its debt to equity (D/E) ratio of 2.9 times at the end of December 2020. We expect the company's consistent capital accumulation from its ongoing profitability and conservative dividend policy to continue to strengthen its capital base. We expect the company to have sufficient capital to stay in compliance with its debt covenants, which limit the D/E ratio to below 10 times.

Sufficient funding and liquidity

We assess the company's funding and liquidity position as adequate. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide a variety of available funding sources that enhance its funding and liquidity profile. As of December 2020, credit facilities of THB18 billion were provided by KTB, 58% of which

were undrawn, providing additional financial flexibility. The credit facilities from KTB accounted for about 60% of the total credit lines provided by various financial institutions.

In terms of funding structure, at the end of December 2020, KTC's short-term debt accounted for 39% of total debt, an increase from 30% in 2019. As of 2 April 2021, KTC has THB46.4 billion in long-term debentures outstanding. Of this amount, THB6.5 billion are scheduled to be redeemed in 2021, for which the company already has a refinancing plan.

Loans and credit card spending to recover

The credit card and personal loan segments inevitably bore the brunt of the economic fallout from the city lockdown due to the COVID-19. Credit card spending fell sharply by 30% in the second quarter of 2020 and recovered in the third and fourth quarter of 2020, thanks to the lifting of city lockdowns and the implementation of government measures to stimulate spending. For the year 2020, card spending fell by 13% y-o-y. The lower interest rate ceiling applied to credit card loans and personal loans announced by the BOT in August 2020 has also put pressure on the profitability of loan operators in 2020. Nevertheless, asset quality has remained relatively stable, aided by the debt relief programs. The industry's NPL ratio for credit cards declined slightly to 1.91% at the end of 2020, from 1.93% at the end of 2019. For personal loans, NPLs remained stable at 3.45% at the end of 2020, from 3.51% at the end of 2019. The anticipated economic recovery will likely help support credit card spending and loan growth in 2021, while extension of debt relief programs should help mitigate asset quality deterioration. However, the ability to stimulate spending and generate non-interest income to compensate for the lower yields is likely to be a major challenge facing all operators.

BASE-CASE ASSUMPTIONS (2021-2023)

- Total outstanding loans to grow by 5-8% per annum.
- Loan yield to be in the range of 15%-15.2%
- Funding cost to be in the range of 2.7%-2.9%.
- Expected credit loss to be in the range of 6.6%-7.4%.

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

The prospect of a rating upgrade is limited in the medium term. On the other hand, we might consider a downward revision of the rating and/or outlook 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, or if the interest spread remains below our expectations for a prolonged period.

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.

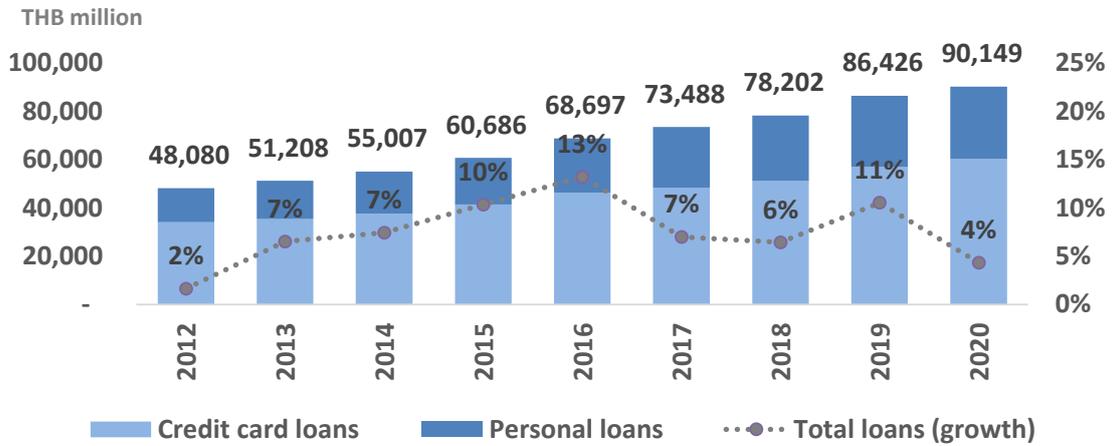
As of December 2020, KTC had around 1,500 staff and 17 "KTC Touch Points" to provide services. The services offered at these branches include accepting payments, receiving applications for credit cards and personal loans, and responding to customer inquiries. Apart from the KTC Touch Points, KTC also utilizes KTB's nationwide branch network and the networks of co-branded alliances as channels to provide services to its customers.

In 2021, KTC plans to acquire KTBL from KTB. After completion of the transaction, KTC will become the major shareholder with a 75.05% stake and KTB will hold the rest. KTC will diversify into collateral-based loan services comprising hire

purchase and leasing.

KEY OPERATING PERFORMANCE

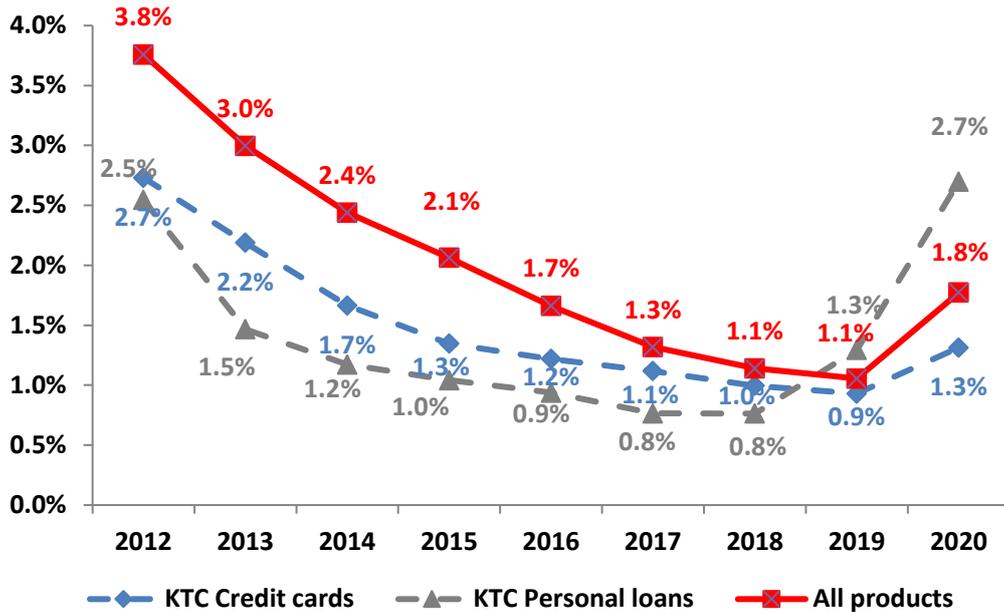
Chart 1: Gross Credit Card and Personal Loan Receivables



Sources: KTC & TRIS Rating

* Personal loans include auto title loans

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



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 -----				
	2020	2019	2018	2017	2016
Total assets	88,403	85,409	79,648	73,636	68,297
Total loans (ending gross receivables)	90,149	86,426	78,202	73,488	68,697
Allowance for expected credit loss	7,355	5,670	5,489	5,699	5,394
Short-term debts	22,952	17,560	14,072	17,338	19,233
Long-term debts	35,436	40,493	40,459	36,405	32,128
Shareholders' equity	22,850	19,735	16,352	12,577	10,322
Net interest income *	12,633	12,041	11,085	10,331	9,348
Expected credit loss	6,605	6,433	5,703	6,627	6,070
Non-interest income **	7,888	9,018	8,557	7,565	6,750
Operating expenses	7,260	7,722	7,524	7,143	6,902
Earnings before taxes	6,656	6,904	6,416	4,127	3,126
Net income	5,332	5,524	5,140	3,304	2,495

* Including credit usage fee

** Excluding credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Profitability					
Net interest income/average assets	14.54	14.59	14.46	14.56	14.55
Non-interest income/average assets	9.08	10.93	11.17	10.66	10.51
Operating expenses/total income	32.92	34.13	35.49	36.58	39.26
Operating profit/average assets	7.66	8.37	8.37	5.81	4.87
Earnings before taxes/average risk-weighted assets	4.54	5.00	5.05	3.48	2.90
Return on average assets	6.14	6.69	6.71	4.66	3.88
Return on average equity	25.04	30.61	35.53	28.86	26.19
Asset Quality					
Receivable in stage 3/total loans	1.78	1.06	1.14	1.32	1.66
Expected credit loss/average loans	7.48	7.82	7.52	9.32	9.38
Allowance for expected credit loss/total loans	8.16	6.56	7.02	7.76	7.85
Capitalization					
Risk-adjusted capital ratio	15.38	13.65	12.44	10.24	9.01
Debt/equity (times)	2.87	3.33	3.87	4.85	5.62
Funding and Liquidity					
Stable funding ratio	69.21	73.69	77.02	71.17	66.04
Liquidity coverage measure (times)	0.08	0.08	0.19	0.10	0.06
Short-term debts/total liabilities	35.01	26.74	22.23	28.40	33.17
Payment rate	37.60	42.27	41.41	39.74	39.59

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Krungthai Card PLC (KTC)

Company Rating:	AA-
Issue Ratings:	
KTC215A: THB1,500 million senior unsecured debentures due 2021	AA-
KTC217A: THB3,000 million senior unsecured debentures due 2021	AA-
KTC218A: THB1,350 million senior unsecured debentures due 2021	AA-
KTC21NA: THB630 million senior unsecured debentures due 2021	AA-
KTC223A: THB1,000 million senior unsecured debentures due 2022	AA-
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-
KTC24NA: THB415 million senior unsecured debentures due 2024	AA-
KTC259A: THB1,000 million senior unsecured debentures due 2025	AA-
KTC25NA: THB1,000 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-
Up to THB12,000 million senior unsecured debentures due within 10 years	AA-
Rating Outlook:	Stable

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