

KIATNAKIN PHATRA BANK PLC

No. 59/2023
18 April 2023

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Basel III Tier 2 Subordinated	BBB+
Outlook:	Stable

Last Review Date: 28/03/23

Company Rating History:

Date	Rating	Outlook/Alert
26/04/19	A	Stable
25/04/18	A-	Positive
31/03/15	A-	Stable
31/03/11	A-	Positive
30/11/04	A-	Stable
12/07/04	BBB+	Positive
21/05/02	BBB+	-
21/06/00	BBB	-
06/03/00	BBB	Alert Negative
25/11/99	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Kiatnakin Phatra Bank PLC (KKP) and the ratings on its senior unsecured debentures at “A”, and the ratings on its Basel III Tier 2 subordinated debentures at “BBB+”, with a “stable” outlook. The ratings reflect KKP’s strengthening commercial banking franchise and strong competitive position in capital market businesses. The ratings also reflect well-diversified sources of revenue, adequate capital position, and solid earnings. However, the ratings are constrained by the potential deterioration of asset quality as well as its market position and funding profile remaining relatively weaker than those of domestic systemically important banks (DSIBs) despite improving trends.

KEY RATING CONSIDERATIONS

Strengthening retail lending

KKP has continued to strengthen its auto hire purchase (HP) franchise by expanding its loan book more actively over recent years. We expect KKP to maintain its strong loan growth in the retail segment over the next three years. Secured lending, including auto loans and home loans, will remain its key loan growth drivers.

In 2022, the bank reported above-industry growth in outstanding loan of 21.7% year-on-year (y-o-y), following a strong 15.6% in 2021. Such growth was propelled by the significant expansion of used car HP, followed by housing loans and new car HP. Its new car HP penetration rate in 2022 more than doubled to 5.3%, compared with 2.2% in 2019. This was mainly due to its improved onboarding process and expansion into low-risk brands and new business segments. In the medium to long term, KKP aims to leverage its enlarged customer base in the new car segment to cross-sell auto cash loans under its newly revamped brand, “Rod Riak Ngerm”.

Capital injection to support growth

We expect KKP to maintain its adequate capital position over the next three years. KKP’s consolidated common equity tier-1 (CET-1) ratio stood at 13.3% at the end of 2022, a drop from 14.3% at the end of 2020 following strong credit growth in 2021-2022. In a base-case scenario, we project KKP’s CET-1 ratio to be in the 12% range in 2023-2025, which still supports the current ratings.

Strengthening of capital, with consolidated CET-1 rising above 12%, could come from capital increase due to the potential exercise of warrants, which the bank expects could reach a maximum of THB14.3 billion over the next four years. Our base-case scenario assumes moderate loan growth of 10%-15% per annum, dividend payout of 50% and does not include warrant exercise.

Solid earnings capacity to support capital generation

KKP’s operating performance in 2022 exceeded our expectation, with a reported net profit of THB7.6 billion, a significant increase of 19.8% compared with the previous year. The strong profit growth was attributed to its high credit growth, well-controlled costs, and lower provisioning expenses that helped offset the weaker capital market activities. The bank’s return on average assets (ROAA) in 2022 remained stable at 1.61%, well above the industry average of 1.01% over the same period. KKP effectively manages its operational expenses, with a cost-to-income ratio of 41.1%, the lowest among Thai commercial banks.

We expect KKP will continue to maintain its healthy profitability over the next three years, despite some pressure on funding costs and provisioning expenses. We project ROAA to fall slightly to the 1.25%-1.37% range in 2023-2025. Our base-case scenario assumes that KKP's net interest margin (NIM) will be in the 3.8%-4.0% range in 2023-2025, slightly lower than 4.4% in 2022. The decrease factors in the resumption of The Financial Institutions Development Fund (FIDF) fee charged on deposits rising back to the normal level and an increase in funding costs. We estimate KKP's credit cost to range within 1.8%-2.2% over the next three years, taking into account its potential asset quality deterioration.

Pressure on asset quality

In our view, KKP is likely to face some asset quality deterioration over the next 12 months, especially in the auto hire purchase segment. This is due to its aggressive growth strategy over the previous three years. Although the non-performing loan (NPL) ratio rose slightly to 3.3% at the end of 2022 from 3.1% at the end of 2021, stage-2 loans showed a stronger increase to 6.1% of total loans at the end of 2022 from 5.6% at the end of 2021. Nonetheless, we estimate KKP's NPL ratio to stay below 4% in 2023-2025 given active NPL management. The provisioning risk should be partly mitigated by KKP's strong NPL coverage ratio, which stood at 154% at the end of 2022. We expect its NPL coverage to hover around 140% over the next few years.

Meanwhile, there is risk that KKP's earnings could be pressured by the losses on sale of repossessed cars as its inventory has risen significantly during the past few quarters. Moreover, a potential increase in the supply of used cars from repossession following the end of relief programs and stronger demand for new cars given the easing of supply chain constraints could result in higher losses from the sale of repossessed cars per contract.

Improved deposit franchise

Although KKP's funding profile remains below average compared to DSIBs, we view KKP's deposit franchise over the past few years as having positive developments. The introduction of new deposit products, including settlement saving accounts for investors, corporate deposit accounts, and e-saving accounts, resulted in a continuous decrease in funding costs and the diversification of the bank's deposit mix. Its partnership with various businesses also enables the bank to expand its depositor base. The bank's current account and savings account (CASA) deposits to total deposits stood at 59.1% at the end of 2022, the highest among non-DSIB banks.

In terms of deposit costs, the gap between KKP's deposit costs versus industry average has narrowed to 0.5% in 2022 from 0.9% in 2018-2020. With the lower funding cost, together with well-managed operating expenses, KKP is in a better position to compete with its peers in new car financing and home loans.

Sufficient liquidity

We expect KKP's liquidity to remain sound over the next 12 months. The bank's liquidity coverage ratio (LCR) stood at an average of 139% at the end of the second quarter of 2022, above the regulatory requirement albeit weaker than the average for Thai banks of 197% reported by the Bank of Thailand (BOT). As of the end of 2022, liquid assets made up 29.4% of total assets and 1.5 times of short-term borrowings.

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions for KKP in 2023-2025:

- Loan growth: 10%-15%
- Net interest margin: 3.8%-4.0%
- Cost-to-income: 40%
- Credit cost: 1.8%-2.2%
- NPL ratio (excluding purchased or originated credit impaired (POCI) and interbank assets): 3.6%-3.8%
- CET-1 ratio: 12.3%-12.6%

RATING OUTLOOK

The "stable" outlook reflects our expectation that KKP will maintain its adequate capital, asset quality at acceptable levels, and further synergies with its capital market and wealth management units to sustain healthy financial performance and revenue diversification.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if KKP strengthens its capital position significantly, with the CET-1 ratio staying well above 15% for a sustained period, while continuing to improve its asset quality and commercial banking franchise. We could revise the ratings downward if capital, asset quality and/or earnings capacity weakens materially.

COMPANY OVERVIEW

KKP, formerly known as Kiatnakin Finance and Securities Co., Ltd., was established by the Wattanavekin family in 1971. KKP was listed on the Stock Exchange of Thailand (SET) in 1988 and became a public company in 1993. In August 1997, KKP was one of 57 financial institutions with operations suspended due to the Asian financial crisis. After submitting and receiving regulatory approval for a rehabilitation plan, KKP resumed operations in April 1998. In July 1999, KKP’s finance and securities business was split into two separate companies: Kiatnakin Finance PLC, operating the finance business, and Kiatnakin Securities Co., Ltd., operating the securities business.

Following the financial crisis, KKP began a new business, distressed asset management, by purchasing portfolios of troubled loans from the Financial Sector Restructuring Authority and other financial institutions. In 2000, KKP started to expand by offering residential property development project loans to small and medium enterprise (SME) real estate developers.

In December 2004, the Ministry of Finance (MOF) granted KKP a commercial banking license. KKP commenced universal banking operations in October 2005, and later changed its name to “Kiatnakin Bank PLC”. In order to expand the scope of its business to include fund management, KKP purchased 60% of the shares of Kiatnakin Phatra Asset Management Co., Ltd. (KKPAM, formerly named Siam City Asset Management Co., Ltd.) in July 2011, and acquired the remaining 40% stake in September 2012.

Table 1: KKP’s Group Structure



Source: KKP’s information (as of 28 March 2023)

As a part of its growth strategy, KKP merged with KKP Capital Co., Ltd. (KKP CAPITAL) in September 2012, and later created a new brand name for the Group: “Kiatnakin Phatra Financial Group” (KKP). KKP’s shareholding structure changed after the merger. KKP and its subsidiaries reorganized their businesses based on three strategic focuses: (i) Credit Business, (ii) Private Banking, and (iii) Investment Banking.

To streamline its business operations, KKP later sold all its shares in KKTRADE, which operated securities business for retail clients to Yuanta Securities (Thailand) Co., Ltd. in July 2016.

As of April 2021, KKP held 99.9% shares on KKP CAPITAL, while KKP CAPITAL held shares of Kiatnakin Phatra Securities PLC (KKPS) and Kiatnakin Phatra Asset Management (KKPAM). KKP Tower, another subsidiary of KKP, operates the office rental and property management business for the bank and subsidiary companies.

In November 2021, KKP Capital established new subsidiary under the name “KKP Dime Company Limited”. KKP Dime’s main objectives are to provide financial and investment services through digital channels. Kiatnakin Phatra Financial Group through KKP Capital Public Company Limited holds 100% of the total shares of KKP Dime.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS¹

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	507,637	436,123	363,411	311,690	306,329
Average assets	471,880	399,767	337,551	309,010	282,832
Interbank and money market items	45,732	55,238	32,771	11,982	28,200
Investments	50,551	39,205	34,603	39,201	29,781
Loans and receivables	383,839	315,653	271,951	238,267	229,066
Loan loss reserves	19,082	16,620	13,234	10,589	10,760
Deposits	331,464	288,382	251,526	172,174	181,694
Borrowings ²	85,086	62,169	39,504	76,253	63,358
Shareholders' equities	58,111	51,162	46,626	44,011	42,341
Average equities	54,637	48,894	45,318	43,176	41,944
Net interest income	19,081	15,701	14,679	12,316	11,262
Net fees and service income	6,165	6,074	4,336	4,604	4,579
Non-interest income ³	8,760	9,131	6,969	7,436	7,544
Total revenue	27,842	24,831	21,648	19,752	18,806
Operating expenses ⁴	11,472	9,745	9,758	9,355	9,232
Pre-provision operating profit (PPOP)	16,369	15,087	11,890	10,397	9,574
Expected credit loss	6,880	7,290	5,404	3,099	2,186
Net income	7,616	6,355	5,143	5,990	6,044

- 1 Consolidated financial statements
- 2 Including interbank and money market
- 3 Net of fee and service expenses
- 4 Excluding fee and service expenses

Unit: %

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Earnings					
Return on average assets	1.61	1.59	1.52	1.94	2.14
Net interest margins	4.38	4.28	4.73	4.28	4.27
Risk-adjusted net interest margins	2.80	2.29	2.99	3.20	3.44
Net interest income/average assets	4.04	3.93	4.35	3.99	3.98
Non-interest income ⁵ /average assets	1.86	2.28	2.06	2.41	2.67
Net fees and service income/total revenue	22.14	24.46	20.03	23.31	24.35
Cost-to-income	41.07	39.00	41.16	46.73	47.80
Capitalization					
CET-1 ratio	13.32	13.62	14.33	13.61	13.56
Total capital ratio	16.63	17.35	18.28	17.20	17.26
CET-1/Total capital	80.11	78.48	78.38	79.12	78.53
Asset Quality					
Credit costs	2.02	2.55	2.15	1.33	1.04
Non-performing loans/total loans ⁷	3.31	3.09	2.93	4.03	4.13
Loan loss reserves/non-performing loans ⁷	154.36	174.98	170.74	110.77	114.42
Funding & Liquidity					
CASA/total deposit ⁸	59.15	59.06	52.49	37.54	38.36
Loan/total deposits ⁸	112.66	106.42	105.27	137.73	125.43
Deposits ⁸ /total liabilities	73.74	74.91	79.40	64.32	68.83
Liquidity coverage ratio	N.A.	147	141	119	115
Liquid assets/total assets	19.16	21.94	18.95	16.78	19.95
Liquid assets/total deposits ⁹	27.67	31.37	26.30	27.59	31.36

5 Net of fee and service expenses

6 Bank-only

7 Based on reported NPL, excluding accrued interests and interbank assets

8 Excluding bills of exchange and interbank borrowing

9 Including bills of exchange and interbank borrowing

RELATED CRITERIA

- Bank Rating Methodology, 20 March 2023
- Bank Hybrid Capital Rating Methodology, 24 December 2021

Kiatnakin Phatra Bank PLC (KKP)

Company Rating:	A
Issue Ratings:	
KKP30NA: THB2,000 million Basel III Tier 2 capital securities due 2030	BBB+
KKP314A: THB2,852 million Basel III Tier 2 capital securities due 2031	BBB+
KKP230A: THB5,000 million senior unsecured debentures due 2023	A
KKP244A: THB1,300 million senior unsecured debentures due 2024	A
KKP244B: THB2,400 million senior unsecured debentures due 2024	A
KKP244C: THB500 million senior unsecured debentures due 2024	A
KKP240A: THB2,300 million senior unsecured debentures due 2024	A
KKP240B: THB5,300 million senior unsecured debentures due 2024	A
KKP24NA: THB5,000 million senior unsecured debentures due 2024	A
Up to THB3,200 million senior unsecured debentures due within 3 years	A
Rating Outlook:	Stable

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