

KRUNGTHAI CARD PLC

No. 53/2023
3 April 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 04/04/22

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 outstanding 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 THB15 billion in senior unsecured debentures due within 10 years. The proceeds from the new debentures will be used for debt refinancing, business expansion, investments, or funding for its subsidiaries.

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”*)).

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 its profitability due to a potential rise in funding cost, intense competition, and an uneven economic recovery.

KEY RATING CONSIDERATIONS

Integration and support from KTB continues

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 lending business comprising credit card loans, unsecured personal loans, auto title loans and auto leasing. KTB’s provision of credit lines and business support to KTC demonstrates the bank’s 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.

KTC’s business strategy and risk management also integrate with those of KTB. In addition to collaboration on marketing campaigns and shared branding, KTC continues to leverage the bank’s nationwide branch network to cross sell products and services to the group’s clients. KTC also acquires new customers via KTB’s mobile banking application called “KTB Next”. Around 35% of new credit card customers in the past few years have been acquired through referrals from KTB. KTB and KTC also co-own several entities within KTB Group.

Strong market position

KTC has maintained a solid position in its core businesses, including credit cards and unsecured personal loans, as the results of effective marketing strategies and a strong brand. KTC’s market share in outstanding credit card receivables in 2022 was 14%, up from 12% over the past few years. KTC also achieved 22% growth in credit card spending in 2022, in line with industry trends. The growth was driven by active marketing campaigns and expansion into higher-income groups. For unsecured personal loans, KTC’s market share fell marginally to 5% in 2022 from 6% in 2019 given concerns over asset quality during the Coronavirus Disease 2019 (COVID-19) pandemic.

Ongoing portfolio expansion

KTC’s loan portfolio reached THB104 billion at the end of 2022, a 12% growth year-on-year (y-o-y). Credit card receivables accounted for 67% of its loan

* 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.

portfolio. Unsecured personal loans made up another 30%, while auto title loans and auto leasing represented the remaining 3%.

We expect KTC's loan portfolio to expand by 6%-12% annually in 2023-2025, driven by new card acquisitions, unsecured personal loans, and auto title loans. In 2023, KTC plans to add 270,000 new cards by targeting higher-income customers. We also expect card spending to grow by 7%-10% annually in 2023-2025, supported by the recovery of the domestic economy and increased collaboration with existing and new credit card partners. In terms of unsecured personal loans, KTC intends to acquire 90,000 new accounts in 2023, also focusing on the higher-income segment and increased credit usage among existing customers.

Meanwhile, KTC's new product, auto title loans under the "KTC P Berm" brand launched in 2022, has started off at a significantly slower pace than expected. Cross-sales of the product via KTB's branch network have been sluggish, with THB1 billion of new loans booked in 2022 compared to KTC's own target of THB10 billion. Nonetheless, we view the gradual expansion in a positive light as we believe it has helped the company avoid heightened credit risk that could have arisen from intense competition. Starting from 2023, the company aims to expand its portfolio more actively. Our base-case assumption projects outstanding loans to increase gradually to THB9 billion by 2025. In the meantime, the auto leasing business operated under KTB Leasing Co., Ltd. (KTBL), which focuses on commercial loans and truck loans, is projected to grow by 10%-15% per year in 2023-2025.

Asset quality likely to remain relatively healthy

In our view, KTC's risk position will likely remain sound due to the company's prudent underwriting policies, ongoing enhancement of its risk management policies, and adequate loan loss reserves. The ratio of total non-performing or stage-3 loans (NPL) to total loans (NPL ratio) fell to 1.8% at the end of 2022, from 3.6% at the end of 2021, driven by the write-offs of legacy NPLs at KTBL. At the end of 2022, The NPL ratio of its core products, credit card loans and unsecured personal loans, remains below industry average with NPL ratio at the end of 2022 were 1.1% and 2.8%, respectively. The total NPL formation ratio fell to 4.4% in 2022 from 5.5% in 2021.

However, the cessation of debt relief measures ending 2023 could lead to slippages and hence higher NPL formation. With our assumption of an NPL formation ratio rising back to 5%-6% in 2023-2025, we estimate KTC's NPL ratio will increase gradually to about 3% in 2024-2025. We estimate credit cost (provisions to average loans) to be maintained at 5%-6% in 2023-2025, the same level as in 2021-2022, compared with the pre-TFRS9 and pre-COVID-19 level of above 7%. NPL coverage should thus decline to around 200% in 2024-2025 from the range of 400%-600% seen in the past.

Stable earnings capability expected

KTC reported THB7 billion in net profit in 2022, a 22% increase y-o-y due to lower provision expenses and higher interest income and fee income thanks to loan portfolio expansion. We expect KTC to sustain its profitability by effectively managing provision expenses, interest spread, and operating expenses. 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 5.6% in 2022. We expect its EBT/ARWA to be in the range of 4%-5% in 2023-2025. We anticipate the company's expansion into higher-yielding auto title loans to partly offset the potential rise in funding costs with spread projected to drop slightly to 11% from 12.2% in 2022. In terms of costs, we estimate KTC's operating expenses will be equivalent to around 36% of total income in 2023-2025, higher than 33%-35% over the past few years, on the back of increased marketing expenditure.

Capital position to remain strong

We believe KTC's capital will remain robust and continue to support the company's business expansion plans over the next three years. KTC's capital is assessed as solid, with a risk-adjusted capital (RAC) ratio of 18.7% at the end of December 2022. Strong profits and conservative dividend payout should help strengthen KTC's equity base further. We forecast the RAC ratio in 2023-2025 to still be in a high range of 18%-20%, based on our assumptions of 6%-12% loan growth and a 40% dividend pay-out ratio.

Sufficient funding and liquidity profile

KTC's funding position and liquidity are assessed as adequate. 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 has also provided short-term and long-term sizeable credit lines to KTC to help mitigate its liquidity risk. At the end of December 2022, 70% of a total THB34.3 billion in credit facilities were provided by KTB. In terms of funding structure, at the end of December 2022, KTC's short-term debt accounted for 24% of total debt. As of April 2023, KTC has about THB43 billion in long-term debentures outstanding. Of this amount, THB2.4 billion are scheduled to be redeemed in 2023, for which the company already has a refinancing plan.

Pressure from intense competition continues

As a result of the gradual easing of COVID-19 restrictive measures since late 2021, the Thai economy has gradually recovered, with consumer spending improving to a great extent. Consumer loans, both credit cards and personal loans, have increased significantly. This was reflected in the volume of credit card spending of THB2.0 trillion in 2022, up 21.5% y-o-y, with outstanding credit card loans rising by 5.3% y-o-y. However, there have been signs of weakening asset quality over the past year. While the overall NPL ratio for credit cards increased only slightly, rising to 2.0% at the end of 2022 from 1.8% at the end of 2021, the NPL ratio for unsecured personal loans rose strongly to 5.3% from 3.1%. Overall asset quality in the industry is likely to deteriorate further after the debt relief measures expire. The fierce competition, ceiling rate caps, potential rises in funding costs, and economic uncertainty also remain major challenges for consumer lenders.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KTC in 2023-2025 are as follows:

- Total outstanding loans to grow by 6%-12% per annum.
- Loan yield to be around 14.8%.
- Funding cost to be in the 3.1%-3.5% range.
- Expected credit loss to be in the 5.1%-6.2% 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 based on our expectations that KTC's 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 at a level above 25% for a sustained period. Conversely, the SACP could be revised downward if KTC's RAC falls below 12%, or if there is a significant deterioration in its asset quality with expected credit loss rising above 10% of average loans. A change in KTC's SACP could also result in a change in its company rating.

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.

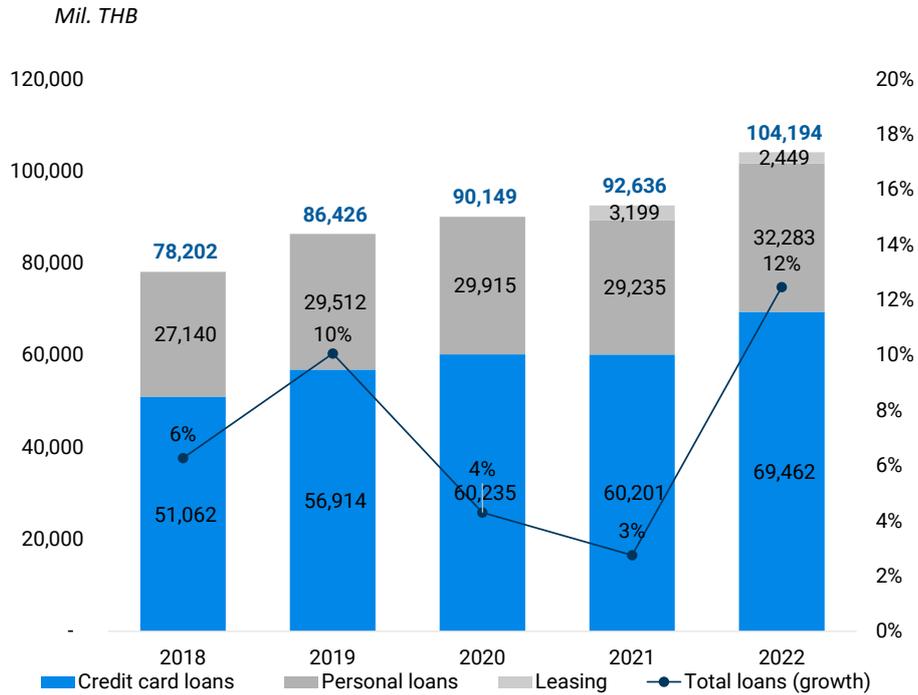
KTC has a history of launching new products, such as personal loans, loans for entrepreneurs, and credit cards. KTC has continued to develop and implement new operating systems, such as risk management and information technology (IT) systems, and digital banking. The company is closely supervised and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

KTC acquired KTBL from KTB in 2021. After completion of the transaction, KTC became the major shareholder of KTBL with a 75.05% stake with KTB holding the remainder. KTC aims to diversify into collateral-based loan services comprising hire purchase and leasing. At the end of December 2022, credit card receivables made up 67% of its loan portfolio, while unsecured personal loans made up another 30%, auto title loans and auto leasing represented the remaining 3%.

As of December 2022, KTC had 1,566 staff and 12 "KTC Touch" 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, 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

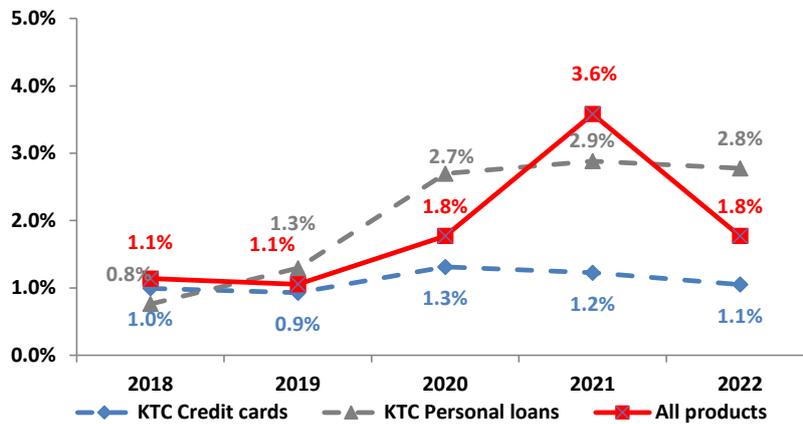
Chart 1: Gross Credit Card and Personal Loan Receivables



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 stage 3.

*** All products include leasing from KTBL.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	101,796	89,471	88,403	85,409	79,648
Total loans	104,194	92,636	90,149	86,426	78,202
Allowance for expected credit loss	8,792	9,691	7,355	5,670	5,489
Short-term debts	14,980	18,845	22,952	17,560	14,072
Long-term debts	47,533	36,453	35,436	40,493	40,459
Shareholders' equity	31,576	27,084	22,850	19,735	16,352
Net interest income	12,989	12,198	12,633	12,042	11,086
Expected credit loss	4,868	5,456	6,605	6,433	5,703
Non-interest income	8,850	7,828	7,888	9,018	8,557
Operating expenses	8,117	7,326	7,260	7,722	7,524
Earnings before taxes	8,871	7,266	6,657	6,904	6,416
Net income	7,054	5,789	5,332	5,524	5,140

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	13.58	13.71	14.54	14.59	14.46
Non-interest income/average assets	9.25	8.80	9.08	10.93	11.16
Operating expenses/total income	34.94	34.17	32.92	34.13	35.49
Operating profit/average assets	9.28	8.16	7.66	8.37	8.37
Earnings before taxes/average risk-weighted assets	5.59	4.89	4.54	5.00	5.05
Return on average assets	7.38	6.51	6.14	6.69	6.71
Return on average equity	24.05	23.18	25.04	30.61	35.53
Asset Quality					
Receivable in stage 3/total loans	1.78	3.60	1.78	1.06	1.14
Expected credit loss/average loans	4.95	5.97	7.48	7.82	7.52
Allowance for expected credit loss/Receivable in stage 3	476.34	292.17	460.28	622.25	615.82
Capitalization					
Risk-adjusted capital ratio	18.67	18.26	15.38	13.65	12.44
Debt/equity (times)	2.22	2.30	2.87	3.33	3.87
Funding and Liquidity					
Stable funding ratio	75.63	73.63	69.21	73.69	77.02
Liquidity coverage measure (times)	0.15	0.13	0.08	0.08	0.19
Short-term debts/total liabilities	21.33	30.21	35.01	26.74	22.23
Payment rate	38.88	36.32	37.60	42.27	41.41

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Krungthai Card PLC (KTC)

Company Rating:	AA-
Issue Ratings:	
KTC239A: THB700 million senior unsecured debentures due 2023	AA-
KTC23NA: THB1,140 million senior unsecured debentures due 2023	AA-
KTC23DA: THB600 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-
KTC24OA: THB830 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-
KTC259B: THB4,000 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-
KTC26NA: THB3,030 million senior unsecured debentures due 2026	AA-
KTC26NB: THB2,100 million senior unsecured debentures due 2026	AA-
KTC26DA: THB2,500 million senior unsecured debentures due 2026	AA-
KTC277A: THB1,232 million senior unsecured debentures due 2027	AA-
KTC278A: THB1,500 million senior unsecured debentures due 2027	AA-
KTC278B: THB1,000 million senior unsecured debentures due 2027	AA-
KTC27OA: THB1,000 million senior unsecured debentures due 2027	AA-
KTC27NA: THB2,000 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 THB15,000 million senior unsecured debentures due within 10 years	AA-
Rating Outlook:	Stable

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