

KIATNAKIN PHATRA BANK PLC

No. 59/2023
25 May 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 18/04/23

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) at “A”, the ratings on KKP’s senior unsecured debentures at “A”, and the ratings on KKP’s Basel III Tier 2 subordinated debt at “BBB+”, with a “stable” outlook. The issue ratings on Basel III Tier 2 subordinated debt are two notches below the company rating based on TRIS Rating’s “Bank Hybrid Capital Rating Methodology”.

At the same time, TRIS Rating assigns the rating of “BBB+” to KKP’s proposed issue of up to THB3 billion Basel III Tier 2 subordinated debentures. The proceeds will be used for refinancing the outstanding issues and operation expansion.

The ratings continue to 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.

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 12.9% at the end of the first quarter of 2023 (1Q23), a drop from 13.3% at the end of 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.

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 return on average assets (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. 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.

KKP is likely to face some asset quality deterioration over the next 12 months, especially in the auto hire purchase segment due to its active growth strategy over the previous three years. Although the non-performing loan (NPL) ratio rose marginally to 3.4% at the end of 1Q23 from 3.3% at the end of 2022, stage-2 loans were stable at around 6% of total loans at the end of 1Q23. Nonetheless, we estimate KKP’s NPL ratio to stay below 4% in 2023-2025 given active NPL management.

KKP’s provisioning risk should be partly mitigated by KKP’s strong NPL coverage ratio, which stood at 151% at the end of 1Q23. We expect its NPL coverage to hover around 140% over the next few years.

Basel III-compliant Tier 2 securities rating

The “BBB+” rating assigned to KKP’s proposed issue of Basel III Tier 2 capital securities reflects the subordination of the securities and the non-viability loss absorption clause in the bond indenture. The principal of the securities can be written down in the event that the regulator deems the bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause.

The features of the securities comply with the Bank of Thailand’s (BOT) Basel III guidelines and the securities are qualified as Tier 2 capital. The securities are unsecured, non-deferrable, and non-convertible and subordinated to KKP’s depositors and senior unsecured debentures. The securities are callable by KKP prior to the maturity date, provided the call date is at least five years after issuance and that the bank receives approval from the BOT.

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.

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
Up to THB3,000 million Basel III Tier 2 capital securities due within 10 years	BBB+
Rating Outlook:	Stable

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