TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

KRUNGSRIAYUDHYA CARD CO., LTD.

No. 180/2019
31 October 2019

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Ratings:	
Senior unsecured	AAA
Outlook:	Stable

Last Review Date: 19/08/19

Company Rating History:

Date	Rating	Outlook/Alert
15/11/16	AAA	Stable

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Annop Supachayanont, CFA
annop@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Krungsriayudhya Card Co., Ltd. (KCC) and the ratings on KCC's senior unsecured debentures at "AAA" with a "stable" rating outlook. The ratings are enhanced from KCCs stand-alone rating, given its status as a core subsidiary of Bank of Ayudhya PLC (BAY), rated "AAA" with a "stable" outlook by TRIS Rating. The stand-alone rating reflects its steadily strong financial performance, improving asset quality, leading position in the credit card business, and solid equity base.

KEY RATING CONSIDERATIONS

A core subsidiary of BAY

TRIS Rating believes that KCC will continue to receive business and funding support from BAY given its status as a core member of the BAY Group. KCC is a wholly-owned subsidiary of BAY, positioned as the bank's principal credit card unit under the "Krungsri" brand. KCC closely collaborates and is aligned with the "Krungsri Consumer" Group, which comprises a group of companies that manages various credit card businesses.

In terms of business cooperation, KCC's operations are fully integrated with BAY's. KCC leverages the bank's extensive branch network as the primary channel to acquire new cardholders and to facilitate payments and services. The majority of credit card acquisitions have come from BAY's branches, contributing around 50% of new cards over the past few years. BAY also supports KCC with centralized and standardized systems for risk management, internal controls, and information technology (IT). Since 2016, KCC developed a mobile application for credit card holders under Krungsri Consumer, dubbed as "UChoose", that allows customers to manage their card spending.

In terms of financial support, as a solo-consolidated subsidiary, KCC receives adequate ongoing financial support from BAY in the form of credit facilities. In addition, KCC has the ability to access other funding sources, including issuance of debentures in the capital markets. In TRIS Rating's view, KCC's financial liquidity and flexibility are not a concern in a short term.

Continued strong profitability is expected

KCC has maintained solid financial performance over the past few years. Its performance in 2018 was relatively stable, with net profit of Bt1.68 billion, down 1.5% year-on-year (y-o-y). The return on average assets (ROAA) was 3.3% in 2018, a modest decline from 3.6% in 2017. Loans continued to expand moderately, while provisioning expenses have been declining steadily. The factors that put pressure on earnings were declining loan yields and higher operating expenses. The lower yield in the credit card business was due to the implementation of a new regulation by the Bank of Thailand (BOT) in late 2017, which lowered the interest rate cap on credit card loans to 18% from 20%. Meanwhile, operating expenses to total income rose to 54% in 2018 from 49% in 2017 due to development costs for digital platforms.

TRIS Rating expects KCC's profitability to remain strong over the next three years. We forecast KCC's return on average assets (ROAA) will remain in the 3.3%-3.4% range in 2019-2021, supported by a stable interest spread and a decrease in operating expenses. This is based on our assumptions that KCC's interest rate spread will stay above 7.0% throughout 2021 due to greater focus on high-yield products such as, personal loans, and management of funding costs. We also assume credit cost to stay in the 3.2% - 3.4% range in 2019-2021. With lower operating expenses, we also expect the ratio of operating expenses to total income to be lower than in the past at around 51% for the period 2019-2021. This will be attributable to greater cost efficiency from digital platforms.

Solid market position in credit card business

KCC has a leading market position among credit card companies, with an 11% market share in outstanding receivables. The strong position, underpinned by steady loan growth, has been one of the key positive credit factors for the company. KCC's loan portfolio grew continuously at a compound annual growth rate (CAGR) of 8% to Bt49.2 billion in 2018 from Bt29.5 billion in 2012. The growth resulted from an effective marketing campaign and collaboration with BAY. We estimate that KCC's loan portfolio will continue to expand in the range of 3%-5% annually in 2019-2021. A new growth impetus in recent years came with the launch of "Krungsri JCB" cards which have gained popularity among target customers due to attractive promotions when shopping in Japan, a popular destination for Thai tourists.

Superior asset quality and conservative provisioning

The ratings are based on our expectation that KCC's asset quality will remain sound, with the ratio of non-performing loans (NPLs) to total loans staying below 1.2% in the next three years. This will be supported by prudent loan underwriting standards, an efficient risk management system, and our assumption of NPL write-off in the range of 2.8%-3.2% per year in 2019-2021. KCC has improved its loan quality continuously in recent years. The NPL ratio declined to 0.8% at the end of 2018 from 1.0% at the end of 2017 and is lower than the credit card industry average at 1.9% due to the stronger credit profiles of its customers, thanks to stringent underwriting policies and the on-going enhancement of credit scoring models.

Another positive credit factor is KCC's strong loan loss reserve. KCC has maintained a very conservative provisioning policy, in our view, due to the integration of its risk management policies with those of the BAY Group's. The ratio of loan loss reserve to NPLs (NPL coverage) has been higher than the industry average. NPL coverage rose to 740% at the end of 2018, compared with 619% at the end of 2017. We hold the view that KCC will maintain a high coverage ratio over the next few years as a cushion for any adverse changes in the quality of loans. We believe the coverage ratio at the current level will be sufficient to absorb any additional reserve requirements under the TFRS 9 to be implemented in 2020.

Low leverage and strengthened equity base

TRIS Rating believes that the strong capital base will be maintained and sufficient to support the company's expansion plan in the medium term. The strong operating results and zero dividend pay-out have substantially strengthened the equity base. The ratio of shareholders equity to total assets has been on an upward trend, rising steadily to 25.6% at the end of 2018 from 19%-23% in the previous three years. KCC's strong capital base also provides a cushion to absorb credit cost that may arise due to the economic situation.

After Mitsubishi UFJ Financial Group (MUFG) became BAY's major shareholder, KCC's corporate status changed to that of a foreign company. Under the Foreign Business Act, requires KCC to maintain sufficient paid-up capital to ensure that its total liabilities are equal to or no more than 7 times its paid-up capital. The total liability to paid-up capital ratio was 5.2 times at the end of 2018. The interest-bearing debt (IBD) to equity ratio was 3.2 times at the end of 2018, still lower than the limit of the financial covenant of 6 times. We expect KCC's leverage to remain at a comfortable level over the next few years as it continues to expand, assuming a conservative dividend pay-out policy and continuously improving profitability.

BASE-CASE ASSUMPTIONS

- Receivables of KCC to grow by around 3%-5% per annum on average in 2019-2021.
- Credit cost to stay below 3.2%-3.4% in 2019-2021.
- Spread to range between 3.2%-3.7% in 2019-2021.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that KCC will maintain its status as a core subsidiary of the BAY Group and will continue to receive strong support from BAY.

RATING SENSITIVITIES

KCC's credit profile could be revised downward if the BAY Group's credit profile changes or TRIS Rating sees any change regarding the importance of KCC to the BAY Group or the degree of support provided by BAY to KCC.

COMPANY OVERVIEW

KCC was established in 1996 and later became a joint venture between BAY and GE Capital (Thaliand) Ltd. (GE Capital). In 2001, it was responsible for all credit card businesses of the BAY Group. KCC became a wholly-owned subsidiary of BAY in 2010 after BAY acquired all consumer loan businesses from GE Money in 2009. In April 2009, BAY completed the acquisition of AIG Retail Bank PLC (AIGRB) and AIG Card (Thailand) Co., Ltd. (AIGCC). BAY's acquisition of both entities resulted in an increase of approximately 222,000 million credit cards which were transferred to Ayudhya Card Services Co., Ltd. (AYCS). AYCS transferred its entire business to KCC on 24 July 2013 having already registered its dissolution. In March 2012, BAY completed its acquisition of the retail business from HSBC, Bangkok branch, after which BAY received the transfer of personal loan, home loan, deposit, and bill of exchange businesses. Through BAY, KCC received the transfer of HSBC's credit card business. The acquisition of HSBC accelerated the growth of KCC's portfolio.

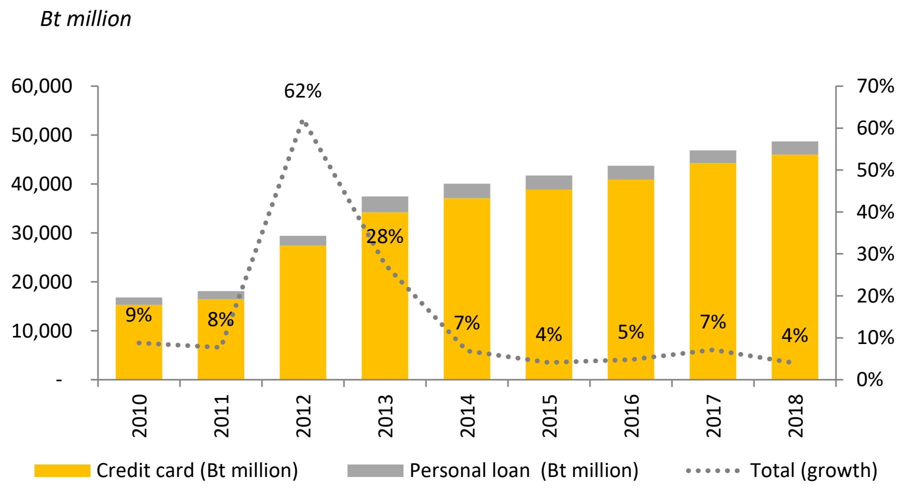
At the beginning of 2014, some major changes were made to the company's business model after Mitsubishi UFJ Bank, Ltd. (MUFG Bank) became the major shareholder of BAY instead of GE Capital. According to the Krungsri Group's business strategy, KCC held the largest credit card portfolio of "Krungsri Consumer".

KCC is BAY's core subsidiary in the "Krungsri Consumer" Group assigned to act as the flagship for providing credit card services in BAY's retail loan business. KCC's credit cards are issued under the name "Krungsri Card" and co-branded with Home Product Center PLC (HMPRO) under the name "HomePro Card", AIA Thailand under the name "AIA card", and Manchester United Thailand under the name "MANU card". In 2016, KCC launched Krungsri JCB Platinum in response to the lifestyle needs of its target customers, who enjoy travelling, particularly to Japan. KCC has gained competitiveness in terms of strategic partners in Japan thanks to leverage from its ultimate major shareholder, MUFG.

KCC utilizes BAY's nationwide branch network and the networks of its co-brand alliances as channels to acquire new cardholders and provide services to its clients. As of June 2019, the company had 295 full-time employees providing services through a number of BAY's channels including the Bangkok head office and 701 branches.

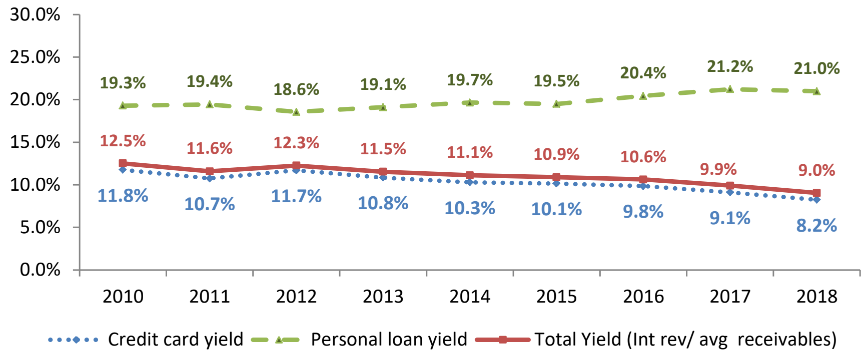
KEY OPERATING PERFORMANCE

Chart 1: Gross Credit Card and Personal Loan Receivables



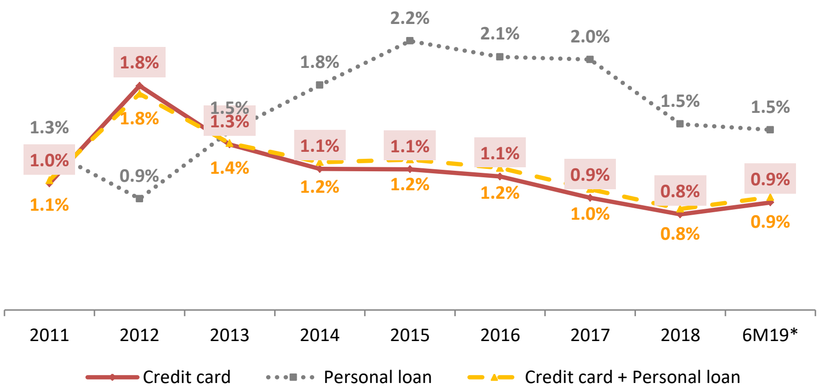
Sources: KCC & TRIS Rating

Chart 2: KCC's Yield (%)



Sources: KCC & TRIS Rating

Chart 3: NPL Ratio (Over 90 Days Past Due)



Sources: KCC & TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Total assets	51,719	49,467	45,974	43,708	42,354
Total loans (ending gross receivables)	49,055	47,203	44,054	42,065	40,393
Allowance for doubtful accounts	2,982	2,866	2,768	2,590	2,324
Short-term borrowings	19,479	28,499	27,296	24,470	28,284
Long-term borrowings	11,265	3,326	3,525	2,797	2,659
Shareholders' equity	13,250	11,563	9,862	8,440	7,228
Net interest income *	3,800	3,897	3,929	3,733	3,446
Provision for bad debt and doubtful accounts	1,353	1,630	1,764	1,802	1,617
Non-interest income **	3,708	3,488	3,163	2,979	2,419
Operating expenses	4,773	4,284	4,068	3,850	3,478
Net income	1,675	1,700	1,427	1,213	989

* *Including credit usage fee*
** *Excluding credit usage fee*

Unit: %

	Year Ended 31 December				
	2018	2017	2016	2015	2014
Profitability					
Net interest and dividend income/average assets	7.51	8.17	8.76	8.68	8.31
Fees and services income/average assets	7.33	7.31	7.05	6.92	5.83
Operating expenses/total income	54.04	49.13	48.94	48.82	47.68
Operating profit/average assets	4.27	4.57	4.10	3.65	3.14
Return on average assets	3.31	3.56	3.18	2.82	2.38
Return on average equity	13.50	15.87	15.60	15.48	18.37
Asset Quality					
Non-performing loans/total loans	0.82	0.98	1.15	1.22	1.20
Provision for bad debts and doubtful accounts/average loans	2.81	3.57	4.10	4.37	4.14
Allowance for doubtful accounts/total loans	6.08	6.07	6.28	6.16	5.75
Capitalization					
Debt/equity (times)	2.86	3.28	3.66	4.18	4.86
Shareholders’ equity/total assets	25.62	23.38	21.45	19.31	17.07
Shareholders’ equity/total loans	27.01	24.50	22.39	20.06	17.89
Liquidity					
Total loans/total borrowings	159.56	148.32	142.94	138.98	130.54
Payment rate	40.78	39.29	39.22	38.81	37.59

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

Krungsriayudhya Card Co., Ltd. (KCC)

Company Rating:	AAA
Issue Ratings:	
KCC203A: Bt8,000 million senior unsecured debentures due 2020	AAA
KCC209A: Bt2,900 million senior unsecured debentures due 2020	AAA
KCC209B: Bt4,000 million senior unsecured debentures due 2020	AAA
KCC213A: Bt365 million senior unsecured debentures due 2021	AAA
KCC219A: Bt6,000 million senior unsecured debentures due 2021	AAA
KCC229A: Bt3,000 million senior unsecured debentures due 2022	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000