TRIS RATING
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KIATNAKIN PHATRA BANK PLC

No. 62/2021
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FINANCIAL INSTITUTIONS

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

Last Review Date: 05/03/21

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 ratings take into account KKP's well-diversified sources of revenue, adequate capital supported by solid profitability, and manageable asset quality. The ratings are, however, constrained by its relatively modest commercial banking franchise.

KEY RATING CONSIDERATIONS

Modest but gradually strengthening banking franchise

Our assessment of KKP's business position reflects its relatively modest commercial banking franchise compared with other Thai commercial banks. KKP has strong market position in the investment banking and private banking businesses. According to TRIS Rating's database of auto hire purchase lenders, KKP commanded a medium-sized market shares of 5.9% at the end of 2019. At the end of 2020, the bank's loan and deposit market shares stood at 2.1% and 1.7% respectively among Thai commercial banks.

In recent years, KKP's commercial banking franchise has gradually strengthened. This was propelled by an increase in business collaborations between its commercial banking operations and its strong capital market businesses. These include provisions of banking and capital market solutions, customer referrals within the group, and an offering of deposit accounts at KKP to wealth clients of its securities subsidiary (Kiatnakin Phatra Securities) for settlement of investment transactions.

Resilient performance supported by well-diversified earnings mix

KKP has delivered better performance compared to its peers since the start of the Coronavirus Disease 2019 (COVID-19) pandemic. In 2020, the bank's earnings fell by 14.2%, the lowest impact among other listed Thai commercial banks. This was mainly attributed to its diversified sources of earnings and well-controlled operating costs. KKP's commercial banking business accounted for 66% of the bank's consolidated earnings in 2020, followed by capital market business (26%) and debt restructuring business (8%). This demonstrates the benefit of KKP's diversified sources of earnings, which has helped alleviate the impact from the economic downturn.

We view the bank's capital market business positively as it provides a good source of revenue diversification. However, it could also give rise to earnings volatility. Revenues and earnings from the capital market business generally are impacted by domestic market conditions and investor sentiment. In recent years, the bank has pursued a strategy to expand product offering to its wealth clients via direct investments in offshore markets and private equity funds. Although this may help diversify the risks in the longer term, we view that it could take time to scale up to have a positive impact on its revenue structure.

Sufficient capital supported by solid profitability

We expect KKP to maintain an adequate capital position with a projected core equity tier-1 (CET-1) ratio in the range of 15.6%-16.1% over the next three years. This reflects the bank's proactive capital management and strong internal capital generation. We assume the bank will grow its loan portfolio by 5% annually over the next three years. The CET-1 ratio as of the end of 2020 was 14.3%, slightly higher than 13.6% as of the end of 2019. At the same time, CET-1 made up 78.4% of total capital, indicating an average quality of capital. In our view, KKP's capitalization is sufficient to cope with the adverse economic and market conditions that may arise in the future.

We anticipate KKP to maintain solid profitability to support its capital accretion over the next three years. We forecast the bank's earnings in 2021-2023 to gradually recover with return on average assets (ROA) in the range of 1.6%-1.8%, assuming moderate loan growth over the next three years, lower credit cost, and continuous cost savings on funding. The bank's ROA in 2020 fell to 1.52% from 1.94% in 2019 but remained far better than the industry average of 0.92% during the same period.

Manageable asset quality

We expect KKP's asset quality to gradually deteriorate at a manageable pace as the debt relief period ends in 2021, similar to the industry trend. As of the end of 2020, the bank's non-performing loans (NPL) ratio (excluding Purchased or Originated Credit Impaired (POCI) or distressed assets) dropped to 2.9% from 4.0% as of the end of 2019. This was mainly due to the regulatory forbearance announced by the Bank of Thailand (BOT) and the bank's proactive management of distressed assets. We forecast KKP's NPL ratio (excluding POCI) to range between 3.4%-4.2% over the next three years. We expect the bank to continue to prudently set loan loss provisions at high levels in 2021 given the challenging operating environment.

KKP's loans under the debt relief program as of the end of 2020 were down to around 11% of total loans from around 40% as of the end of June 2020. The remaining customers in the program are all in the commercial lending segment, which is mostly secured by apartments or hotels. In our view, KKP's loan exposure to apartment and hotel businesses, which have been hit hard by COVID-19, remains manageable due to low loan-to-value of about 50%.

Improving funding mix

We note a positive development of KKP's funding profile over the past year as the bank has made good progress in improving its funding mix. The bank's current account and savings account (CASA) deposits to total deposits rose substantially to 52.5%, the highest level among smaller banks, from 37.5% as of the end of 2019. This was a result of the bank's efforts to grow CASA deposits via its offering of deposit accounts to wealth clients for settlement of investment transactions (KKP Smart Settlement or KKPSS). KKP's enlarged deposit base enabled the bank to lower its funding costs to 1.8% in 2020 (1.7% for monthly average basis) from 2.3% in 2019. However, the bank's funding costs remained slightly above the industry average of 1.4% in 2020. Moreover, we are of the view that the bank's settlement deposit accounts expose the bank to funding concentration risk due to the larger average size of deposits. At the end of 2020, its loans-to-deposits ratio of 105.3% was also higher than the industry average of 96.8%. Looking forward, we expect the decline in funding cost to continue given the bank's plan to further expand its deposit base over the coming years. This will be led by KKPSS and its newly introduced e-saving accounts.

Adequate liquidity

We view KKP's liquidity position as adequate over the next 12 months. As of the end of 2020, liquid assets made up 22.9% of total deposits, sufficient and above our cautionary threshold of 20%. On a positive note, the bank's liquidity coverage ratio (LCR) improved considerably to an average of 182.9% during the second quarter of 2020, in line with the industry.

Thai banking system remained resilient with strong capital base and high level of provisioning buffer

Thai commercial banks still registered strong loan growth of 5.1% in 2020 despite the impact of COVID-19. This was mainly driven by the surge in loan assets in the large corporate segment. Meanwhile, overall asset quality weakened but remained manageable, partly supported by BOT's forbearance measures. The NPL ratio of commercial banks rose to 3.12% as of the end of 2020 from 2.98% as of the end of 2019.

In our view, the impacts of increased credit costs on profitability and capital after the expiration of debt relief measures should be manageable given the high level of provisioning buffer and strong capital base of Thai commercial banks. Moreover, the high liquidity in the banking system provides a strong funding base to support the economic recovery in coming years.

BASE-CASE ASSUMPTIONS

The following are our base-case assumptions for KKP during 2021-2023:

- Loan growth: 5% per annum
- Credit cost: 1.4%-2.0% of average loans
- NPL ratio (excluding POCI): 3.4%-4.2%
- CET-1 ratio: 15.6%-16.1%
- Risk-adjusted NIM: 2.9%-3.2%

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade will depend on KKP's ability to further improve commercial banking and deposit franchise while continuing to improve asset quality, and revenue diversification as well as strengthen capital position. We could revise the ratings downward if capital, asset quality or earnings capacity weakens materially.

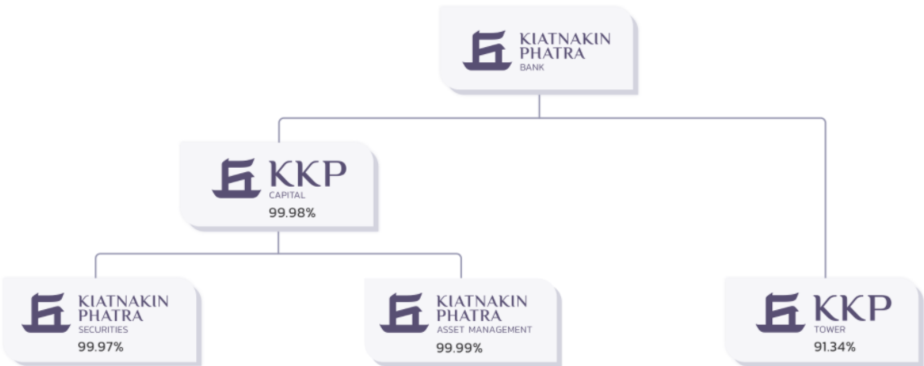
COMPANY OVERVIEW

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: KK's Group Structure



Source: KKP's information (as of 16 April 2021)

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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS[1]

Unit: Mil. THB

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Total assets	363,411	311,690	306,329	259,335	233,777
Average Assets	337,551	309,010	282,832	246,556	234,961
Investment in securities	34,603	39,201	29,781	34,048	28,365
Loans and receivables	271,951	238,267	229,066	193,087	177,277
Allowance for doubtful accounts	13,234	10,589	10,760	10,576	10,966
Deposits	251,526	172,174	181,694	132,878	109,923
Borrowings[2]	38,607	76,253	63,358	64,947	64,414
Shareholders' Equities	46,626	44,011	42,341	41,548	40,517
Average Equities	45,318	43,176	41,944	41,032	39,336
Net interest income	14,679	12,316	11,262	10,628	10,433
Non-interest income[3]	6,969	7,436	7,544	6,173	6,911
Total revenue[4]	21,648	19,752	18,806	16,802	17,345
Operating expenses[5]	9,758	9,355	9,232	8,369	7,897
Pre-provision operating profit (PPOP)	11,890	10,397	9,574	8,432	9,447
Expected credit loss[6]	5,404	3,099	2,186	1,476	2,957
Net income	5,143	5,990	6,044	5,766	5,611
Net fee and service income	4,336	4,604	4,579	4,055	3,707
Gains on investments	50	568	390	178	203

1 *Consolidated financial statements*
2 *Including interbank and money market*
3 *Net of fee and service expenses; including gains from sales of foreclosed assets*
4 *Including gains from sales of foreclosed assets*
5 *Excluding fee and service expenses*
6 *Including losses from sales of repossessed cars*

Unit: %

	Year Ended 31 December				
	2020	2019	2018	2017	2016
Earnings					
Return on average assets	1.52	1.94	2.14	2.34	2.39
Net interest margins	4.73	4.28	4.27	4.63	4.84
Risk-adjusted net interest margins	2.99	3.20	3.44	3.98	3.47
Net interest income/average assets	4.35	3.99	3.98	4.31	4.44
Non-interest income[7]/average assets	2.06	2.41	2.67	2.50	2.94
Net fee and service income/total revenue	20.03	23.31	24.35	24.14	21.37
Cost-to-income	45.08	47.36	49.09	49.81	45.53
Capitalization					
CET-1 ratio[8]	14.33	13.61	13.56	14.61	15.59
Tier-1 ratio[8]	14.33	13.61	13.56	14.61	15.59
BIS ratio[8]	18.28	17.20	17.26	17.69	18.96
CET-1/BIS ratio[8]	78.38	79.12	78.53	82.59	82.23
Asset Quality					
Credit costs	2.12	1.33	1.04	0.80	1.66
Non-performing loans/total loans[9]	2.85	4.03	4.13	5.02	5.65
Allowance for expected credit loss/total loans[9]	4.87	4.47	4.72	5.51	6.22
Allowance for expected credit loss/non-performing loans	170.74	110.77	114.42	109.60	110.00
Funding & Liquidity					
CASA/total deposits	52.49	37.54	38.36	40.55	53.65
Loan/total deposits	105.27	137.73	125.43	145.31	161.14
Deposits/total liabilities	79.40	64.32	68.83	61.01	56.93
Liquid assets/total deposits[10]	26.30	27.59	31.36	34.92	37.56

7 Net of fee and service expenses; including gains from sales of foreclosed assets
8 Consolidated basis
9 Based on reported NPL, excluding interbank assets
10 Including interbank borrowing

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020

Kiatnakin Phatra Bank PLC (KKP)

Company Rating:	A
Issue Ratings:	
KK218A: THB4,000 million senior unsecured debentures due 2021	A
KKP224A: THB1,000 million senior unsecured debentures due 2022	A
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+
Rating Outlook:	Stable

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