

KRUNGTHAI CARD PLC

No. 51/2024
4 April 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 03/04/23

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 THB16 billion 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 robust market presence in the credit card and personal loan sectors, prudent credit risk management practices, and strong capital base. However, the rating is constrained by our concerns over its profitability due to higher funding costs and intense competition. The uncertain economic environment could also weaken asset quality leading to higher credit costs.

KEY RATING CONSIDERATIONS

Integration, support from KTB continues

TRIS Rating views KTC as a strategically important subsidiary of KTB, the majority shareholder with a 49.3% stake. As a retail lending arm of KTB, KTC has been vital to the bank. KTC focuses on unsecured products including credit card and personal loans, as well as secured lending such as auto title loans and auto leasing.

In terms of support, KTB provides substantial credit lines and business support to KTC. We believe such support that the bank’s strong, long-term commitment. We expect this to continue in the foreseeable future. We also believe it is highly likely KTB would provide KTC financial support in times of stress.

KTC’s business strategy and risk management are also integrated 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.

Around 35% of new credit card customers in the past few years have been acquired through KTB branches. In recent years, KTC has also acquired new customers via KTB’s mobile banking application KTB Next. KTB and KTC also co-own several entities within KTB Group.

Strong market position maintained

KTC has maintained its strong business position, thanks to effective marketing strategies and a well-established brand. In 2023, KTC’s market share in outstanding credit card receivables increased to 15%, marking a rise from the 12%-14% range observed in previous years. Also, KTC experienced 11% growth in credit card spending during the same period, surpassing the industry average, driven by proactive marketing efforts and expansion into higher-income customers.

Conversely, market share in unsecured personal loans declined slightly to 4% in 2023 from the pre-COVID range of 5%-6%. This resulted from a conservative

* 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.

strategy in the unsecured personal loan segment due to concerns regarding asset quality amidst economic challenges. By the end of 2023, KTC's total loan portfolio reached THB113 billion, an 8% increase year-on-year (y-o-y). Within this portfolio, credit card receivables accounted for 66%, followed by unsecured personal loans at 29%, with auto title loans and auto leasing comprising the remaining 5%.

Looking ahead to 2024-2026, we anticipate a 7%-8% expansion in KTC's loan portfolio annually, driven by new card acquisitions, unsecured personal loans, and auto title loans. In 2024, KTC plans to acquire 230,000 new cards, targeting higher-income clients. Also, from our base-case assumption, we estimate card spending to grow by 8%-10% annually in 2024-2026. This will be supported by marketing initiatives and strengthened collaborations with both existing and new credit card partners. In terms of unsecured personal loans, KTC aims to acquire 100,000 new accounts in 2024 driven by active marketing campaigns and online channel. KTC also focuses on increase credit utilization among current customers.

Gradual expansion in title loans and leasing amid challenges

KTC has expanded into title loans under the "KTC P Berm" brand since 2022. Outstanding loans reached THB2.3 billion, with new loans of THB2.6 billion being booked by the end of 2023, lower than the company's target and our expectation.

With the challenges from the economic headwinds, fierce competition, and the pressure on used car prices, we expect KTC to adopt a cautious growth strategy and gradually expand the new loans book in 2024 - 2026. From our base-case assumption of new loans in the THB3 billion to THB4 billion range in 2024-2026, we estimate outstanding loans to increase to about THB9 billion by 2026. In the long term, diversification should support ongoing business expansion and alleviate pressure on loan yields driven by a mix of relatively high yields from title loans.

Meanwhile, the auto leasing business is forecast to remain stagnant in 2024-2026. This is due to concerns regarding deteriorating asset quality as evidenced by the increase in credit costs resulting from higher repossessed car numbers and the decline in the price of used trucks.

Asset quality to remain strong

The company's asset quality remains robust compared to peers within the same industry, thanks to its prudent underwriting policies, enhancement of risk management strategies, and adequate loan loss reserves. At the end of 2023, the non-performing loan (NPL) ratio increased to 2.2% from 1.8% at the end of 2022, primarily driven by NPLs at KTB Leasing (KTBL). Despite this uptick, the NPL ratios for KTC's core products, namely credit card loans and personal loans, remained below the industry average, at 1.1% and 3.0%, respectively, at the end of 2023. Also, the total NPL formation ratio rose to 5.1% in 2023 from 4.4% in 2022.

Given the economic uncertainty and the increase in the credit card minimum payment of to 8% starting in January 2024, there may be pressure on asset quality. However, we anticipate that overall asset quality should remain manageable. Furthermore, the company expects that the Bank of Thailand (BOT)'s guidelines on responsible lending regarding persistent debt will not significantly impact its performance.

Based on our base-case assumption of a slight increase in the NPL formation ratio to 5.2% in 2024-2026, we estimate that KTC's NPL ratio will stay around 2.2% during the same period. We also anticipate that credit costs (provisions to average loans) will be maintained at 5.6% in 2024-2026, consistent with the level observed in 2023. As of the end of 2023, the ratio of allowance for Expected Credit Losses (ECL) to NPLs or NPL coverage remains healthy at 400%.

Earnings quality maintained

KTC's earnings capability measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) is assessed as 'moderate' with a ratio of 5.2% in 2023. The company's net profit increased 3% increase y-o-y, despite higher credit cost, lower spread. This was mainly driven by loan portfolio expansion. We expect its EBT/ARWA to stay flat around 5% in 2024-2026.

We expect interest spread to decline slightly to 11% from 12% in the past, primarily due to elevated funding costs. Operating expenses to total income are likely to increase moderately to 37% in 2024-2026 from 34% in previous years, owing to higher marketing expenditures. We anticipate a modest increase in credit costs as we assume an uptick in write-offs due to changes in the write-off policy and the fragile economic environment.

Strong capital position due to healthy profit

The capital strength of KTC is viewed as 'strong', with a risk-adjusted capital (RAC) ratio of 19.8% at the end of December 2023. The company's steady profit accretion and cautious dividend payout policy should gradually raise its capital position and support business expansion over the next three years. Our projections indicate that the RAC ratio throughout 2024-2026 will range persistently high between 21%-22%, factoring in assumptions of 7%-8% loan growth and a 40% dividend payout ratio.

Healthy funding and liquidity

KTC's financial standing and liquidity are satisfactory. The company has access to various funding sources, including debt and equity markets, as well as credit facilities from financial institutions, providing a solid support for growth. KTB has also extended substantial short-term and long-term credit lines to KTC, which help support the latter's liquidity needs. As of December 2023, KTB provided 74% of KTC's total THB40.4 billion credit facilities. In terms of funding structure, KTC's short-term debt constituted 33% of total debt by the end of December 2023.

As of April 2024, KTC's outstanding long-term debentures totaled THB44.9 billion, with THB3.3 billion expiring within 2024. The company has already prepared a refinancing plan for this amount.

Consumer loan operators continue to face challenges

The slower-than-expected recovery of the Thai economy, coupled with high household debt, has led to a slowdown in the growth of both credit card and personal loan consumer lending compared with the previous year. In 2023, personal loans declined by 1.9% y-o-y, compared with a growth rate of 14.0% in 2022. This is because operators tend to become more cautious in approving loans as asset quality deteriorates. The NPL ratio for personal loans, excluding auto title loans, increased to 5.5% at the end of 2023 from 3.4% at the end of 2022. We believe that asset quality could deteriorate further once debt relief measures end. In addition, non-banking financial institutions (NBFIs) continue to be pressured by the competitive environment, rising financing costs, and economic uncertainty. Diversifying into other businesses to generate revenue and relieve pressure from rising costs remains challenging.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KTC in 2024-2026 are as follows:

- Total outstanding loans to grow by 7%- 8% per annum.
- Loan yield to be around 14%-15%.
- Funding cost to range between 3.1%-3.3%.
- Expected credit loss to range around 5%.

RATING OUTLOOK

The "stable" outlook reflects our view that KTC is able to uphold its market standing in both the credit card and personal loan sectors. This outlook is underpinned by our anticipation that KTC will sustain robust capital and profitability, while also maintaining asset quality at a satisfactory 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. Change in KTC's SACP could also result in 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 BOT through the parent bank.

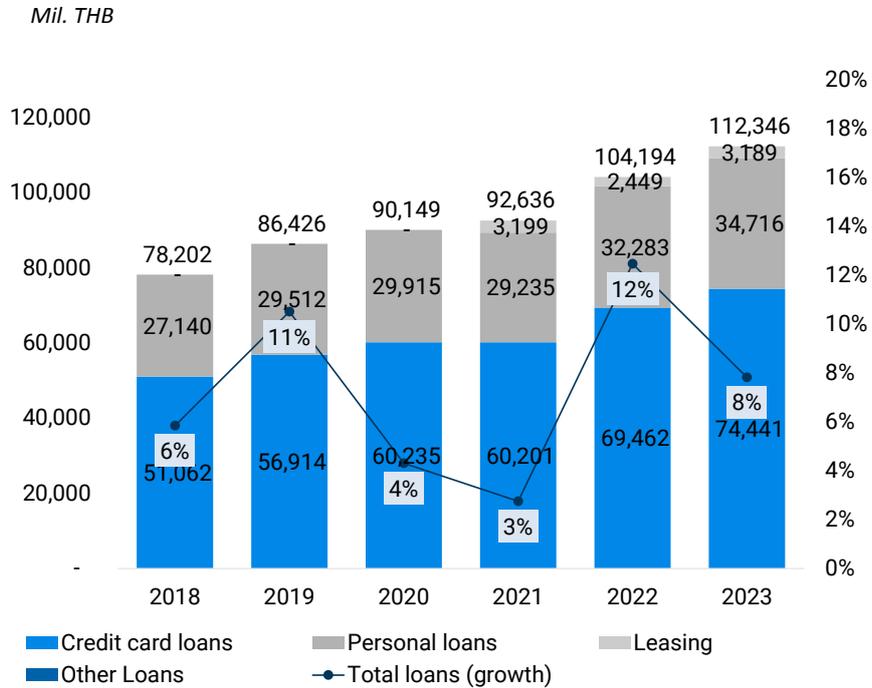
KTC acquired KTBL from KTB in 2021. Following completion of the transaction, KTC became the major shareholder of KTBL with a 75.05% stake with KTB holding the remainder. KTC aims to diversify into collateral-based loan services comprising hire purchase and leasing. At the end of December 2023, credit card receivables made up 66% of its loan portfolio, while unsecured personal loans made up another 29%, auto title loans and auto leasing represented the remaining 5%.

As of December 2023, KTC had 1,649 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 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.

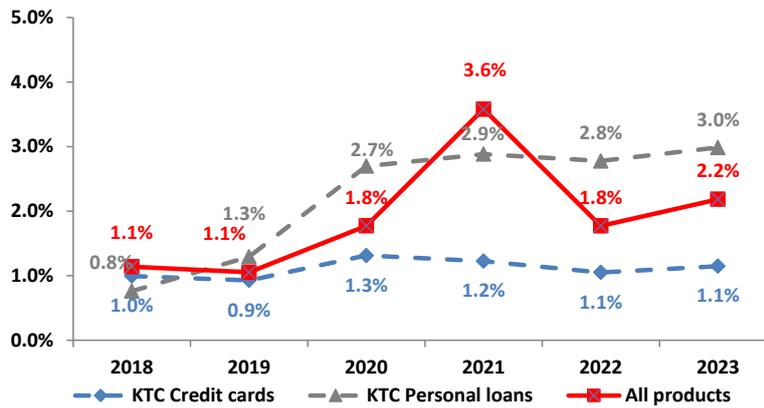
KEY OPERATING PERFORMANCE

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 -----				
	2023	2022	2021	2020	2019
Total assets	112,814	101,796	89,471	88,403	85,409
Total loans	112,346	104,194	92,636	90,149	86,426
Allowance for expected credit loss	9,763	8,792	9,691	7,355	5,670
Short-term debts	22,085	14,980	18,845	22,952	17,560
Long-term debts	45,360	47,533	36,453	35,436	40,493
Shareholders' equity	35,845	31,576	27,084	22,850	19,735
Net interest income	14,317	12,989	12,198	12,633	12,042
Expected credit loss	5,894	4,868	5,456	6,605	6,433
Non-interest income	9,446	8,850	7,828	7,888	9,018
Operating expenses	8,801	8,117	7,326	7,260	7,722
Earnings before taxes	9,068	8,871	7,255	6,656	6,904
Net income	7,250	7,054	5,789	5,332	5,524

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	13.34	13.58	13.71	14.54	14.59
Non-interest income/average assets	8.80	9.25	8.80	9.08	10.93
Operating expenses/total income	34.62	34.94	34.17	32.92	34.13
Operating profit/average assets	8.45	9.28	8.16	7.66	8.37
Earnings before taxes/average risk-weighted assets	5.18	5.59	4.89	4.54	5.00
Return on average assets	6.76	7.38	6.51	6.14	6.69
Return on average equity	21.51	24.05	23.18	25.04	30.61
Asset Quality					
Receivable in stage 3/total loans	2.19	1.78	3.60	1.78	1.06
Expected credit loss/average loans	5.44	4.95	5.97	7.48	7.82
Allowance for expected credit loss/Receivable in stage 3	400.29	476.34	292.17	460.28	622.25
Capitalization					
Risk-adjusted capital ratio	19.80	18.67	18.26	15.38	13.65
Debt/equity (times)	2.15	2.22	2.30	2.87	3.33
Funding and Liquidity					
Stable funding ratio	73.24	75.63	73.63	69.21	73.69
Liquidity coverage measure (times)	0.24	0.15	0.13	0.08	0.08
Short-term debts/total liabilities	28.69	21.33	30.21	35.01	26.74
Payment rate	39.62	38.88	36.32	37.60	42.27

* Consolidated financial statements

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Krungthai Card PLC (KTC)

Company Rating:	AA-
Issue Ratings:	
KTC247A: THB100 million senior unsecured debentures due 2024	AA-
KTC248A: THB1,000 million senior unsecured debentures due 2024	AA-
KTC240A: 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-
KTC258A: 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-
KTC265A: THB4,000 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-
KTC279A: THB1,000 million senior unsecured debentures due 2027	AA-
KTC270A: 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-
KTC292A: THB2,000 million senior unsecured debentures due 2029	AA-
KTC297A: THB1,500 million senior unsecured debentures due 2029	AA-
KTC290A: 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 THB16,000 million senior unsecured debentures due within 10 years	AA-
Rating Outlook:	Stable

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