

KRUNGTHAI CARD PLC

No. 42/2019
4 April 2019

FINANCIAL INSTITUTIONS

Company Rating:	A+
Issue Ratings:	
Senior unsecured	A+
Outlook:	Stable

Last Review Date: 09/04/18

Company Rating History:

Date	Rating	Outlook/Alert
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
26/06/03	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Krungthai Card PLC (KTC) and the ratings on KTC's outstanding senior unsecured debentures at "A+". At the same time, TRIS Rating assigns a "A+" rating on KTC's proposed issue of up to Bt12 billion in senior unsecured debentures due within 10 years. The ratings are enhanced from KTC's stand-alone rating, given its status as a strategically important subsidiary of Krung Thai Bank PLC (KTB), its parent bank.

KTC's stand-alone rating takes into account a strengthening of its financial position over the past few years, underpinned by steady improvements in operating performance and asset quality. The ratings are, however, constrained by potential rise in credit risk. KTC plans to venture into new lending businesses by tapping customers in the sub-prime segments.

KEY RATING CONSIDERATIONS

Strong linkage to KTB

TRIS Rating views KTC as a strategically important subsidiary of KTB. KTB owns 49.45% of KTC and provides it with financial and business support. We believe the strong support reflects the probability that KTB would provide financial support to KTC if required. Nonetheless, KTB's shareholding in KTC is likely to remain below 50%. As long as KTB owns less than 50%, KTC qualifies as a non-state enterprise.

In terms of business cooperation, KTC has aligned its business strategy with the KTB Group. KTC leverages the bank's nationwide branch network to expand its client base. The nationwide network also serves as a channel for loan payments and other services. KTC and KTB collaborate on marketing campaigns and share the same brand. For example, around 42% of the new credit card customers in 2016-2018 came through referrals from KTB. KTC's risk management system is also integrated as part of KTB's risk management platform.

On the financial front, KTC receives ongoing support from KTB in the form of credit facilities. Credit facilities from KTB accounted for about 62% of the total credit lines KTC received from various banks at the end of 2018.

Profitability improves steadily

TRIS Rating forecasts KTC's profitability will remain robust over the next three years. Several factors support our view: high loan yields, low funding cost, stable credit cost, and stable operating expenses.

KTC's net profit improved significantly to Bt5.14 billion in 2018, up by 56% from 2017. The sharp rise was due mainly to a 17% increase in bad debt recovery and a 14% decline in loan loss provision expenses. The return on average assets (ROAA) improved to 6.7% in 2018 from 4.7% in 2017. KTC recently made a strategic decision to be a more selective lender. Tighter regulations on credit card loans and personal loans results lowered provision expenses. Profitability was also enhanced because funding costs and other operating expenses were carefully controlled.

Solid market position

We expect KTC to maintain its strong market position in both the credit card and personal loan segments over the longer term because KTC has an effective marketing strategy. The strategy has enabled KTC to maintain a 12%

market share in outstanding credit card receivables and a 7% market share in personal loan receivables over the past three years. Credit card spending by KTC customers, excluding cash advances, also continuously increased with a 10% growth similar to industry growth rate at 10% in 2018.

KTC's loan portfolio grew continuously to Bt78.20 billion in 2018 from Bt48.08 billion in 2012, a compound annual growth rate (CAGR) of 8%. At the end of December 2018, outstanding loans comprised 65% of its credit card loans, followed by personal loans at 34% and other loans at 1%. The success of KTC's management team has demonstrated its ability to increase the size of the loan portfolio while maintaining good asset quality.

Good asset quality and conservative provision policy

TRIS Rating expects KTC's asset quality will likely remain high. We believe the company's underwriting and collection systems are strong, as evidenced by a low ratio of non-performing loans (or NPLs, meaning loans with more than 90 days past due) to total loans (NPL ratio). The NPL ratio for credit cards remained at 1.0% at the end of 2018, below the industry average of 1.8%. The performance of the personal loan segment was similar. KTC reported an NPL ratio for personal loans at 0.8% at the end of 2018, lower than the industry average of 2.5%.

The company maintains a conservative provisioning policy. The ratio of the allowance for loan losses to total loans was 7.0% as of December 2018. As a result, the NPL coverage ratio (the ratio of the allowance for doubtful accounts to NPLs) rose to 616% at the end of 2018, up from 589% at the end of 2017. TRIS Rating takes a positive view of KTC's conservative provision policy as it provides a cushion for any adverse changes in the quality of loans.

The bad debt recovery rate generally moves in tandem with the charge-off rate. However, in KTC's case, the situation was reversed. The company's recovery ratio increased to 52.9% in 2018 from 47.4% in 2016, despite the charge-off rate falling to 7.5% in 2018 from 9.4% in 2016, thanks to the high-quality service at a controllable cost of the outsourced debt collection company.

Credit line from KTB provides financial flexibility

In TRIS Rating's view, KTC's short-term liquidity is not a major concern. KTC has the ability to access diverse funding sources, including credit facilities from various financial institutions. The company can also issue debentures with a wide range of maturities and at reasonable costs.

KTC had an Bt18 billion credit line from KTB, of which 18% was utilized as of December 2018. Credit facility from each of other financial institutions was an insignificant portion of overall borrowings. As of the end of December 2018, total borrowings were Bt54.12 billion, of which 26%, or Bt14.07 billion, were due within one year. KTC has credit lines from financial institutions sufficient to mitigate short-term liquidity risk. In our view, the credit facilities from KTB provides additional financial flexibility for KTC.

Adequate capital

We believe that KTC's capital base is adequate for its expansion plans over the next two to three years. The improved operating results have substantially strengthened the equity base. The ratio of shareholders' equity to total assets was 20.5% at the end of 2018, increasing from 17.1% at the end of 2017. Given KTC's modest dividend payout policy and improving profitability, TRIS Rating expects the equity base of KTB will strengthen further over the next two to three years.

Low financial leverage in medium term

KTC's leverage should remain at a comfortable level over the next few years. KTC has been in compliance with its debt to equity (D/E) covenant of 10 times. Its D/E ratio was at 3.9 times at the end of 2018. Rapid growth in the loan portfolio may cause borrowings to rise. However, TRIS Rating expects that KTC's capital base will remain strong, given robust profitability and a conservative dividend policy. KTC should remain in compliance with the debt covenants even as it continues to expand.

BASE-CASE ASSUMPTIONS

- Receivables of KTC will grow by 7% per annum on average in the forecast years during 2019-2021.
- Credit cost will stay below 8% in 2019-2021.
- Funding cost will range between 3.2%-3.7% in 2019-2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that KTC will continue to deliver its strong financial performance while maintaining its leading market position, strong franchise, high asset quality, and low leverage through effective marketing strategies, efficient debt collections, and a strict underwriting policy. TRIS Rating also believes KTB will provide financial

support to KTC in times of need.

RATING SENSITIVITIES

The credit upside case would arise if ROAA improves from the current level, as long as KTC maintain its leading market position and high NPL coverage ratio. The ratings or outlook could be revised downward if the financial profile, such as ROAA, is affected by a significant deterioration in asset quality or any negative regulatory changes. KTC plans to introduce new credit products, such as secured personal loan (title loans), and Nano finance and Pico finance. The credit risk of these new products, targeted at customers with higher credit risks, remain unproven.

Any change in the degree of support KTB provides to KTC, or a change of KTC's status as a strategically important subsidiary, may also affect the ratings and/or outlook.

COMPANY OVERVIEW

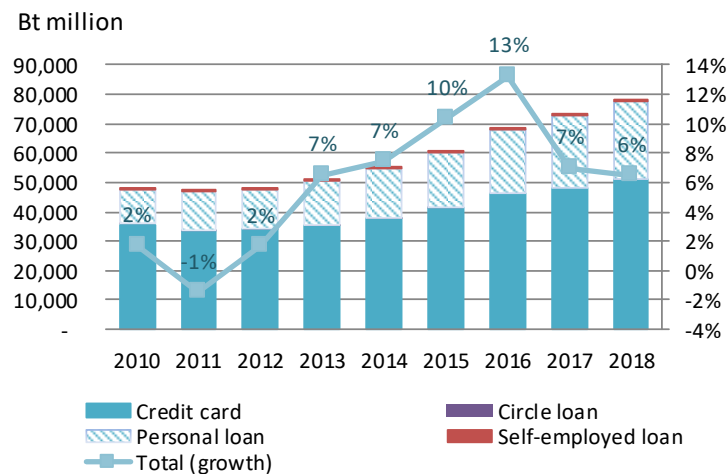
KTC was established in 1996 as a wholly-owned subsidiary of KTB, responsible for all the credit cards and debit cards issued by the KTB Group. In order to allow KTC to operate more efficiently as a separate consumer finance company, KTB spun off its credit card business and listed KTC on the Stock Exchange of Thailand (SET) in 2002. KTB transferred its credit card portfolio to KTC. After the listing, KTB held a 49% stake in KTC. The remaining 51% is held by the general public. KTB's stake increased slightly to 49.45% in early February 2017.

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 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 through the parent bank.

As of December 2018, KTC provided services through 1,548 staff and 21 KTC Touch points. The services offered at these branches include taking payments, receiving applications for credit cards and personal loans, and responding to customer inquiries. Apart from the KTC Touch points, KTC also utilizes KTB's nationwide branch network and networks of co-branded alliances as channels to provide services to its clients.

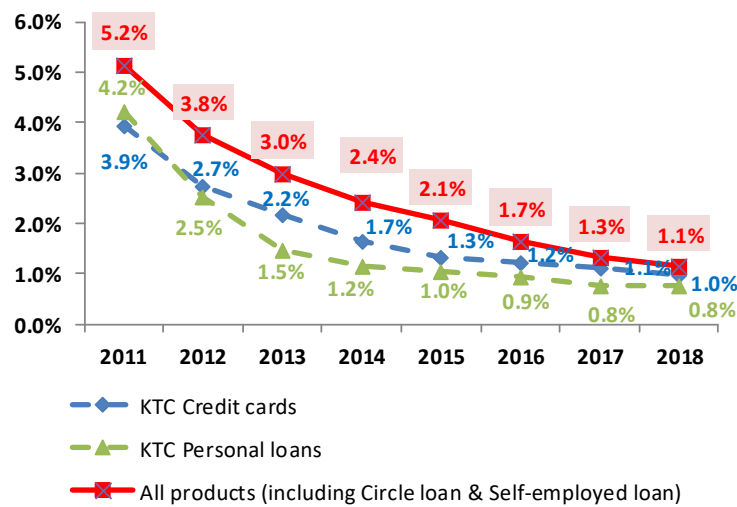
KEY OPERATING PERFORMANCE

Chart 1: Gross Credit Card and Personal Loan Receivables



Sources: KTC & TRIS Rating

Chart 2: NPL Ratio (Over 90 Days Past Due)



Sources: KTC & TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	79,648	73,636	68,297	60,179	54,495
Total loans (ending gross receivables)	78,202	73,488	68,697	60,686	55,007
Allowance for doubtful accounts	5,489	5,699	5,394	5,007	4,884
Short-term borrowings	14,072	17,338	19,233	21,364	20,108
Long-term borrowings	40,050	36,085	31,855	23,423	21,480
Shareholders' equity	16,352	12,577	10,322	8,733	7,368
Net interest income *	11,085	10,331	9,348	8,012	7,271
Provision for bad debt and doubtful accounts	5,703	6,627	6,070	5,183	4,989
Non-interest income **	5,215	4,711	4,352	3,889	3,535
Operating expenses	7,524	7,143	6,902	6,139	5,377
Net income	5,140	3,304	2,495	2,073	1,755

* 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	14.46	14.56	14.55	13.97	13.67
Fees and services income/average assets	6.80	6.64	6.77	6.78	6.64
Operating expenses/total income	35.49	36.58	39.26	39.46	37.51
Operating profit/average assets	8.37	5.82	4.87	4.56	4.15
Return on average assets	6.71	4.66	3.88	3.61	3.30
Return on average equity	35.53	28.86	26.19	25.75	26.01
Asset Quality					
Non-performing loans/total loans	1.14	1.32	1.66	2.06	2.44
Provision for bad debts and doubtful accounts/average loans	7.52	9.32	9.38	8.96	9.39
Allowance for doubtful accounts/total loans	7.02	7.76	7.85	8.25	8.88
Capitalization					
Debt/equity (times)	3.87	4.85	5.62	5.89	6.40
Shareholders' equity/total assets	20.53	17.08	15.11	14.51	13.52
Shareholders' equity/total loans	20.91	17.11	15.03	14.39	13.39
Liquidity					
Total loans/total borrowings	144.49	137.56	134.47	134.69	132.26
Payment rate	41.41	39.74	39.59	38.28	37.63

RELATED CRITERIA

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

Krungthai Card PLC (KTC)

Company Rating:	A+
Issue Ratings:	
KTC195A: Bt2,500 million senior unsecured debentures due 2019	A+
KTC198A: Bt2,000 million senior unsecured debentures due 2019	A+
KTC198B: Bt385 million senior unsecured debentures due 2019	A+
KTC208A: Bt600 million senior unsecured debentures due 2020	A+
KTC208B: Bt3,585 million senior unsecured debentures due 2020	A+
KTC200A: Bt2,000 million senior unsecured debentures due 2020	A+
KTC212A: Bt800 million senior unsecured debentures due 2021	A+
KTC213A: Bt1,500 million senior unsecured debentures due 2021	A+
KTC215A: Bt1,500 million senior unsecured debentures due 2021	A+
KTC217A: Bt3,000 million senior unsecured debentures due 2021	A+
KTC218A: Bt1,350 million senior unsecured debentures due 2021	A+
KTC21NA: Bt630 million senior unsecured debentures due 2021	A+
KTC223A: Bt1,000 million senior unsecured debentures due 2022	A+
KTC224A: Bt1,500 million senior unsecured debentures due 2022	A+
KTC226A: Bt2,500 million senior unsecured debentures due 2022	A+
KTC22NA: Bt700 million senior unsecured debentures due 2022	A+
KTC22OA: Bt2,000 million senior unsecured debentures due 2022	A+
KTC232A: Bt1,000 million senior unsecured debentures due 2023	A+
KTC23DA: Bt600 million senior unsecured debentures due 2023	A+
KTC23NA: Bt1,140 million senior unsecured debentures due 2023	A+
KTC247A: Bt100 million senior unsecured debentures due 2024	A+
KTC259A: Bt1,000 million senior unsecured debentures due 2025	A+
KTC25NA: Bt1,000 million senior unsecured debentures due 2025	A+
KTC262A: Bt200 million senior unsecured debentures due 2026	A+
KTC262B: Bt300 million senior unsecured debentures due 2026	A+
KTC269A: Bt200 million senior unsecured debentures due 2026	A+
KTC26DA: Bt2,500 million senior unsecured debentures due 2026	A+
KTC26NA: Bt3,030 million senior unsecured debentures due 2026	A+
KTC278A: Bt1,500 million senior unsecured debentures due 2027	A+
KTC278B: Bt1,000 million senior unsecured debentures due 2027	A+
KTC27NA: Bt2,000 million senior unsecured debentures due 2027	A+
KTC27OA: Bt1,000 million senior unsecured debentures due 2027	A+
KTC282A: Bt1,250 million senior unsecured debentures due 2028	A+
KTC288A: Bt2,065 million senior unsecured debentures due 2028	A+
Up to Bt12,000 million senior unsecured debentures due within 10 years	A+
Rating Outlook:	Stable

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