

KRUNGTHAI CARD PLC

No. 39/2018

9 April 2018

FINANCIAL INSTITUTIONS

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

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 of Krungthai Card PLC (KTC) and the ratings of its existing senior unsecured debentures at "A+". At the same time, TRIS Rating assigns a "A+" rating to KTC's proposed issue of up to Bt16,000 million in senior unsecured debentures due within 10 years. The ratings reflect an enhancement from KTC's stand-alone rating, as a strategically important subsidiary of its parent bank, Krung Thai Bank PLC (KTB).

KTC's stand-alone rating has been supported by continual improvements in operating performance and asset quality during the past few years, which substantially strengthened the company's financial profile. The ratings are, however, constrained by intense competition and tightening new regulations in the consumer finance industry which might affect KTC's profitability.

KEY RATING CONSIDERATIONS

Support from KTB

KTC, a 49.45% subsidiary of KTB, has received substantial support from its parent bank. As a company in the KTB Group, KTC has collaborated with KTB to align its business strategy with the KTB Group. In terms of business cooperation, KTC continues to utilize the bank's nationwide branch network to expand its client base and as channels for loan payments and other services. KTC and KTB collaborate on marketing campaigns. KTC uses KTB's branches to reach wider customer base. Around 46% of the new credit card customers in 2015-2017 came through referrals from KTB, up from 25% over the last few prior years.

KTC also receives ongoing financial support from KTB in the form of credit facilities. This strong level of support has enhanced the status of KTC within the KTB Group. The enhancement reflects the probability that KTB would provide extraordinary support to KTC if required.

Established position in the credit card industry

As a result of marketing efforts, KTC has maintained its leading market position in the credit card business with approximately 13% market share in outstanding credit card receivables and around 6% market share in personal loan receivables over the past three years. KTC's credit card spending excluding cash advance also continuously increased with an 8% growth, higher than the industry growth of 6% in 2017.

KTC's loan portfolio grew continuously from Bt48,080 million in 2012 to Bt73,488 million in 2017, a compound annual growth rate (CAGR) of 9%. At the end of December 2017, outstanding loans comprised 65.8% credit card loans, followed by personal loans at 33.7% and other loans at 0.5%. The challenge for KTC's management team is to grow the loan portfolio while maintaining asset quality.

Good asset quality and conservative provisioning policy

KTC has strong underwriting and collection systems as evidenced by its ratio of non-performing loans (or NPLs, meaning loans more than 90 days past due) to total loans (NPL ratio). KTC maintained its NPL ratio for credit cards at 1.1% at the end of 2017, lower than the industry average of 1.9%. Similar to personal

loans, KTC reported an NPL ratio for personal loans at 0.8% at the end of 2017, lower than the industry average of 2.5%. The company maintains a conservative provisioning policy by setting the ratio of the allowance for loan losses against total loans at 7.8% as of December 2017. As a result, the NPL coverage ratio (the ratio of the allowance for doubtful accounts to NPLs) rose to 589% at the end of 2017.

Despite the recent drop in NPLs, the charge-off rate rose from 9% in 2015 to 9.3% in 2017. However, the recovery ratio increased to 50.2% in 2017 from 44.3% in 2015. TRIS Rating expects an outsourcing company should achieve a high collection rate while maintaining a high quality of service at a controllable cost.

Profitability continuously improves

The growth in profit was driven by a higher interest spread, resulting from manageable funding costs, getting operating costs under control, and the recovery of a larger amount of bad debts during the past few years. As a result, net income rose continuously. Net profit was Bt3,304 million in 2017, a 32% increase compared with the same period in 2016. The return on average assets (ROAA) improved continuously to 4.7% in 2017.

Credit line from KTB enhances financial flexibility

With its ability to access a diversified funding base, plus financial support from KTB, short-term liquidity is not a major concern for KTC. Its portfolio is funded by borrowings from many financial institutions and by debentures with a wide range of maturities. No loan from a single financial institution represents a significant portion of its overall borrowings.

As of 31 December 2017, total borrowings were Bt53,423 million. Of the total, 32%, or Bt17,338 million, were due within one year. However, KTC's credit lines are sufficient to mitigate short-term liquidity risk. KTC has a credit line worth Bt18,030 million from KTB. The line remained unutilized as of December 2017. The financial support KTC receives from KTB has enhanced KTC's financial flexibility.

Adequate equity base

The improved operating results substantially strengthened KTC's equity base, lowering the debt to equity ratio to 4.9 times at the end of 2017. Given KTC's modest dividend payout policy and future prospects, TRIS Rating expects KTC's equity base to be maintained at this level over the next two to three years. However, the planned growth in the loan portfolio may boost borrowings and cause the leverage ratio to rise.

Regulatory risks

The ratings are, however, pressured by the intensely competitive environment in the consumer loan industry and moderate improving economic conditions which might affect KTC's credit quality and profitability. In addition, the implementation of a new regulation by the Bank of Thailand (BOT) on 1 September 2017 might limit business growth and profitability.

RATING OUTLOOK

The "stable" outlook reflects the expectation that KTC will be able to maintain its market position and strong franchise, asset quality, and leverage level at the current positions through an effective marketing strategy, efficient debt collections, and a strict underwriting policy. TRIS Rating also expects KTB will continue to provide financial support to KTC.

RATING SENSITIVITIES

A credit upside case would arise if KTC maintains ROAA at the current level on a sustainable basis, maintains its market position, and keeps an appropriate NPL coverage ratio under the challenging competitive pressure in the consumer finance industry. KTC's ratings or outlook could be revised downward if the company's financial profile is affected by a significant deterioration in asset quality or any negative regulatory changes.

Any change in TRIS Rating's view on the degree of support KTB provides to KTC or change in the strategic importance of KTC to KTB would also affect the ratings and/or outlook.

COMPANY OVERVIEW

KTC was established in 1996 as a wholly-owned subsidiary of KTB, responsible for all credit cards and debit cards within the KTB Group. In order to allow KTC to operate more efficiently as a separate consumer finance company and not as a regulated commercial bank, 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, including all delinquent accounts, except those accounts for which legal proceedings had already begun. After the listing, KTB held a 49% stake in KTC. The remaining 51% was held by the

general public. KTB's stake increased slightly to 49.45%, in 27 February 2017.

In 2003, KTC launched "KTC Cash", a personal loan program, in 2003. In September 2004, KTC launched a new product, self-employed loans, which is a type of unsecured loan for micro-entrepreneurs. However, the product was terminated due to excessive deterioration in asset quality. In 2006, KTC was the first card issuer to launch the Titanium card, licensed by MasterCard. KTC also launched the "Cash Revolving Product Program", providing clean loans for customers needing financial flexibility for a specific period of time.

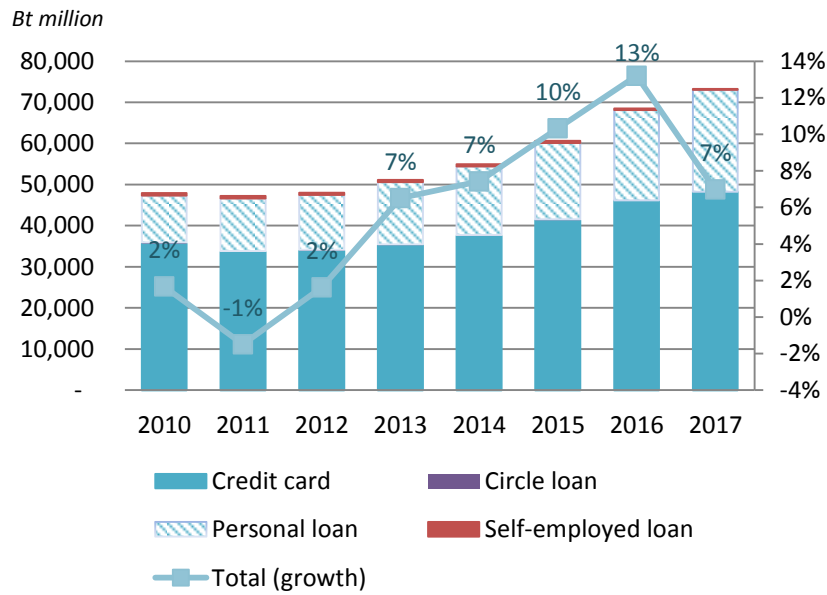
KTC has continuously developed and implemented its operating systems since 2012, including risk management and IT systems. The company has been closely supervised and monitored by its parent bank and is indirectly controlled by the BOT through the parent bank.

During 2016-2017, KTC was moving forward into a cashless society. KTC focuses on offering services through a digital platform to satisfy customers using TapKTC mobile application and QR Code payments.

As of December 2017, KTC provided services through 1,514 staff and 21 KTC Touch points. The services offered at these branches include applications for personal loans and credit cards, answering customer inquiries, and payment services. Apart from these KTC Touch points, KTC also utilizes KTB's nationwide branch network and network of co-branded alliances as channels to provide services to its clients.

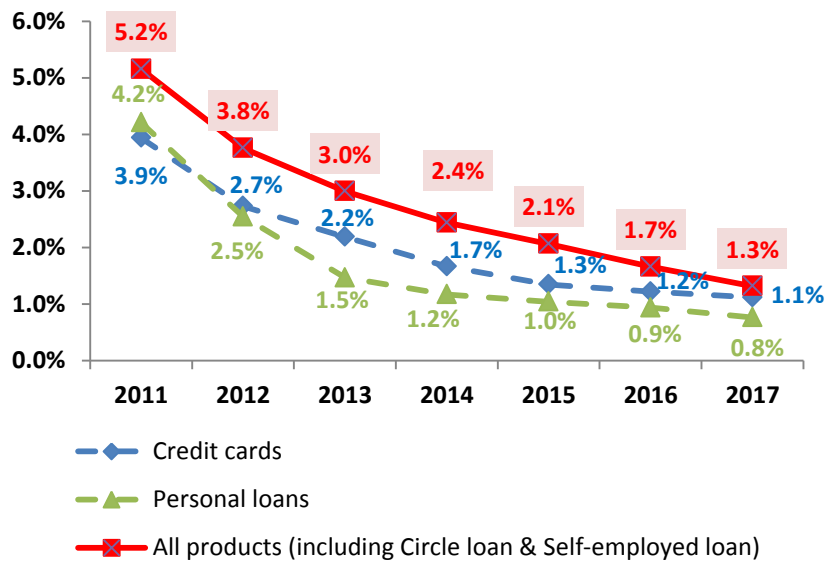
KEY OPERATING PERFORMANCE

Chart 1: Gross Credit Card and Personal Loan Receivables



Source: KTC & TRIS Rating

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



Source: KTC & TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Total assets	73,636	68,297	60,179	54,495	51,905
Total loans (ending gross receivables)	73,488	68,697	60,686	55,007	51,208
Allowance for doubtful accounts	5,699	5,394	5,007	4,884	4,494
Short-term borrowings	17,338	19,233	21,364	20,108	19,008
Long-term borrowings	36,085	31,855	23,423	21,480	20,400
Shareholders' equity	12,577	10,322	8,733	7,368	6,128
Net interest income *	10,331	9,348	8,012	7,271	6,431
Provision for bad debt and doubtful accounts	6,627	6,070	5,183	4,989	5,090
Non-interest income **	4,711	4,352	3,889	3,535	3,601
Operating expenses	7,143	6,902	6,139	5,377	4,750
Net income	3,304	2,495	2,073	1,755	1,283

* Including credit usage fee

** Excluding credit usage fee

Unit: %

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Profitability					
Net interest and dividend income/average assets	14.56	14.55	13.97	13.67	12.73
Fees and services income/average assets	6.64	6.77	6.78	6.64	7.13
Operating expenses/total income	36.58	39.26	39.46	37.51	35.60
Operating profit/average assets	5.82	4.87	4.56	4.15	3.24
Return on average assets	4.66	3.88	3.61	3.30	2.54
Return on average equity	28.86	26.19	25.75	26.01	22.66
Asset Quality					
Non-performing loans/total loans	1.32	1.66	2.06	2.44	3.00
Provision for bad debts and doubtful accounts/average loans	9.32	9.38	8.96	9.39	10.25
Allowance for doubtful accounts/total loans	7.76	7.85	8.25	8.88	8.78
Capitalization					
Debt/equity (times)	4.85	5.62	5.89	6.40	7.47
Shareholders' equity/total assets	17.08	15.11	14.51	13.52	11.81
Shareholders' equity/total loans	17.11	15.03	14.39	13.39	11.97
Liquidity					
Total loans/total borrowings	137.56	134.47	134.69	132.26	129.94
Payment rate	39.74	39.59	38.28	37.63	37.55

Krungthai Card PLC (KTC)

Company Rating:	A+
Issue Ratings:	
KTC187A: Bt1,120 million senior unsecured debentures due 2018	A+
KTC188A: Bt800 million senior unsecured debentures due 2018	A+
KTC188B: Bt4,000 million senior unsecured debentures due 2018	A+
KTC18NA: Bt550 million senior unsecured debentures due 2018	A+
KTC192A: Bt400 million senior unsecured debentures due 2019	A+
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+
KTC200A: Bt2,000 million senior unsecured debentures due 2020	A+
KTC212A: Bt800 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+
KTC21NA: Bt630 million senior unsecured debentures due 2021	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+
KTC220A: 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+
KTC270A: Bt1,000 million senior unsecured debentures due 2027	A+
KTC282A: Bt1,250 million senior unsecured debentures due 2028	A+
Up to Bt16,000 million senior unsecured debentures due within 10 years	A+
Rating Outlook:	Stable

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