

KIATNAKIN PHATRA BANK PLC

No. 18/2021
2 March 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 23/09/20

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 rating on KKP's senior unsecured debentures at "A", and the rating on KKP's Basel III Tier 2 subordinated debt at "BBB+" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "BBB+" to KKP's proposed issue of up to THB3 billion Basel III Tier 2 subordinated debentures.

The ratings continue to reflect the bank's diversified sources of revenue and strengthening integration between its well-established capital market operations and commercial banking operations. The ratings also take into consideration its adequate capital position and sound earnings capacity. However, the ratings are constrained by the bank's relatively modest commercial banking franchise and weaker funding profile than those of larger Thai commercial banks.

We anticipate KKP to maintain its adequate capitalization with a projected core equity tier-1 (CET-1) ratio around 14.8%-15.3% over the next three years. This is supported by the bank's moderate loan growth, sound earnings capacity, and prudent capital policy. The CET-1 ratio as of the end of September 2020 was 14.6%, slightly higher than 13.6% as of the end of 2019. At the same time, CET-1 made up 76.9% of total capital, indicating an average quality of capital.

In our view, KKP's earnings should continue to benefit from its well-diversified business lines. The bank has been able to generate above-peer financial performance in 2020, on the back of upbeat capital markets, high credit growth, low funding cost, and strong yields from distressed asset management. This is despite the severe economic impact arising from the Coronavirus Disease (COVID-19) fallout. This demonstrates the strength of KKP's diversified sources of revenue, which should serve the bank well during the economic downturn. The bank's earnings in 2020 fell by 14.2% from the previous year, the lowest drop among listed Thai commercial banks. The bank's return on average assets (ROA) fell to 1.52% in 2020 from 1.94% in 2019 but remained far better than the industry average of 0.92%. In 2021-2023, we expect the bank's earnings to gradually recover propelled by moderate loan growth, lower expected credit loss (ECL), and continuous cost savings on funding.

We expect to see a gradual deterioration in KKP's asset quality, with NPLs rising at a manageable pace following the expiration of the Bank of Thailand (BOT)'s debt relief measures, in line with the industry trend. At the end of 2020, KKP's non-performing loans (NPL) ratio (excluding Purchased or Originated Credit Impaired -- POCI) dropped to 2.9% from 4.0% as of the end of 2019. This was mainly due to the regulatory forbearance announced by the BOT and the bank's proactive management of distressed assets. At the same time, the NPL coverage ratio significantly improved to 170.7% from 110.8% as of the end of 2019. We forecast KKP's NPL ratio (excluding POCI) to be 3.0-3.8% over the next three years. We expect the bank to continue to prudently set up provisions at high levels in 2021 given challenging operating environment.

KKP's funding profile remains weaker than those of larger Thai commercial banks. However, we take a more positive view on the bank's funding profile as the bank has made good progress in shifting its funding mix towards more deposits. As of the end of 2020, the bank's customer deposits to total funding

reached 79.4%, a level similar to the average of listed Thai commercial banks. Current account and savings account (CASA) ratio also rose considerably to 52.5%, the highest level among small banks, from 37.5% as of the end of 2019. This significant increase in 2020 reflects the bank's efforts to grow CASA following the launch of its settlement deposit accounts for its wealth clients (KKPSS), corporate CASA products, and cash management solutions for its corporate clients.

Basel III-compliant Tier 2 securities rating

The “BBB+” rating assigned to KKP’s proposed issue of Basel III Tier 2 capital securities reflects the subordination of the securities and the non-viability loss absorption clause in the bond indenture. The principal of the securities can be written down in the event that the regulator deems the bank to be non-viable and decides to provide financial support to the bank, in accordance with the non-viability clause. The features of the securities comply with Basel III guidelines and the securities are qualified as Tier 2 capital under the Bank of Thailand’s (BOT) criteria. The securities are subordinated, unsecured, non-deferrable, and non-convertible. The securities are also callable by KKP prior to the maturity date, if the call date is at least five years after issuance and as long as the bank gets approval from the BOT. The holders of the securities are subordinated to KKP’s depositors and holders of KKP’s senior unsecured debentures.

RATING OUTLOOK

The “stable” outlook reflects our expectation that KKP will continue strengthening its capital, improving its asset quality, and further cultivating synergies with its capital market and wealth management units to further improve its financial performance.

RATING SENSITIVITIES

A rating upgrade will depend on KKP’s ability to expand its commercial bank franchise and/or improve its funding. We could revise a rating downward if capital, asset quality, or liquidity weakens materially. A rating downgrade could also be triggered by materially weakened earnings capacity, due to deterioration in asset quality or unexpected large losses from capital market-related business.

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020
- Hybrid Tier 2 Capital Securities, 30 April 2014

Kiatnakin Phatra Bank PLC (KKP)

Company Rating:	A
Issue Ratings:	
KK218A: THB4,000 million senior unsecured debentures due 2021	A
KKP30NA: THB2,000 million Basel III Tier 2 capital securities due 2030	BBB+
Up to THB3,000 million Basel III Tier 2 capital securities due within 10 years	BBB+
Rating Outlook:	Stable

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