

Thailand Company Update

Muangthai Capital

Bloomberg: MTC TB | Reuters: MTC.BK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Nov 2020

BUY

Last Traded Price (18 Nov 2020): Bt56.00 (SET : 1,364.59)
Price Target 12-mth: Bt73.00 (30% upside) (Prev Bt58.00)

Analyst

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What's New

- 3Q20 results beat estimates and marked another record high
- Market yields likely to fall going forward
- GSB entering the auto-title loan market not a threat
- Maintain BUY with higher TP of Bt73.00

Price Relative



Forecasts and Valuation

FY Dec (Btm)	2018A	2019A	2020F	2021F
Pre-prov. Profit	5,213	5,847	6,731	8,134
Net Profit	3,713	4,237	5,185	5,968
Net Pft (Pre Ex.)	3,713	4,237	5,185	5,968
Net Pft Gth (Pre-ex) (%)	48.5	14.1	22.3	15.1
EPS (Bt)	1.75	2.00	2.45	2.82
EPS Pre Ex. (Bt)	1.75	2.00	2.45	2.82
EPS Gth Pre Ex (%)	48	14	22	15
Diluted EPS (Bt)	1.75	2.00	2.45	2.82
PE Pre Ex. (X)	32.0	28.0	22.9	19.9
Net DPS (Bt)	0.26	0.30	0.36	0.40
Div Yield (%)	0.5	0.5	0.6	0.7
ROAE Pre Ex. (%)	35.0	30.0	28.3	25.7
ROAE (%)	35.0	30.0	28.3	25.7
ROA (%)	8.6	7.6	6.9	6.4
BV Per Share (Bt)	5.80	7.53	9.74	12.2
P/Book Value (x)	9.7	7.4	5.7	4.6

Earnings Rev (%):
Consensus EPS (Bt):
Other Broker Recs:

B: 12 S: 2 H: 6

Source of all data on this page: Company, DBSVTH, Bloomberg Finance L.P.

Once the leader, always the leader

Investment Thesis

Robust position in the motorcycle- and auto-title loan market. MTC is the No.1 motorcycle-title loan provider in Thailand, with the largest customer base and branch network nationwide.

Promising growth prospect. Amid the sluggish economy, banks are reluctant to lend, especially to small retail borrowers, who do not have financial credentials. This should thus pave the way for a non-bank, like MTC, to capture such opportunities and expand its loan portfolio.

Strong earnings growth to continue. We expect MTC's earnings to grow 22.3%/15.1% in FY20F/21F, driven by strong credit demand and continuing branch expansion.

Valuation:

Maintain BUY with higher TP of Bt73.00. As we roll over our valuation base to FY21F, our TP increases to Bt73.00 (from Bt58.00). Our TP is pegged at 6.0x FY21F PBV, i.e. 1.5SD below its 5-year average PBV.

Where we differ:

We believe the street underestimates MTC's loan growth and spread. We estimate MTC's earnings to grow 22.3%/15.1% in FY20F/21F, backed by its strong loan expansion (19%/20%) and relatively stable spread (17.8%/18.0%).

Key Risks to Our View:

Prolonged slow economy. MTC's target customers are low-income earners who do not have a fixed monthly salary, but their incomes vary on a daily basis. This segment is sensitive to an abrupt change in economic conditions, which could lead to a deterioration of the quality of its loan portfolio.

At A Glance

Issued Capital (m shrs)	2,120
Mkt. Cap (Btm/US\$m)	118,720 / 3,936
Major Shareholders (%)	
Petaumpai's Family	67.5
Thai NDVR	5.3
South East Asia Uk (Type C) Nominees Limited	2.5
Free Float (%)	32.1
3m Avg. Daily Val (US\$m)	13.6
GIC Industry : Financial / Banks	



Live more, Bank less

WHAT'S NEW

Strong growth momentum to continue

3Q20 results beat estimates and marked another record high. 3Q20 net profit came in at Bt1,340m (+24.0% y-o-y; +5.8% q-o-q), beating consensus's estimate and ours by 5% and marking another record high. Lower-than-expected provision (due to the release of excess reserve) was the key reason behind the surprising results.

The y-o-y increase was thanks to strong loan expansion, lower cost-to-income ratio, and lower provision. Meanwhile, the q-o-q increase was attributed to continuing loan expansion, improving yield and spread, and lower cost-to-income ratio, despite higher provision. Its 9M20 earnings accounted for 74% of our FY20F forecast.

Loans expanded 16.6% y-o-y and 6.1% q-o-q. MTC's loan outstanding reached Bt67.2bn at end-3Q20. This was thanks to its continual branch expansion (+230 branches in 3Q20 or 691 branches in 9M20, bringing the total number of branches to 4,798 at end-3Q20, already exceeding 4,700 targeted by end-2020) and the better performance of branches opened earlier.

Management believes the total number of branches could reach 5,000 at end-FY20F and is confident that loan growth of 20-25% would be achievable in FY20F.

Average yield and spread improved q-o-q in 3Q20. The average yield increased 29bps q-o-q to 21.8%. The increase was thanks to (i) the higher number of days in 3Q20, vs. 2Q20's, and (ii) the end of the company's 3-ppt reduction in interest rate charged on personal loans (i.e. from 25% p.a. to 22% p.a.) during Apr and Jun (i.e. in 2Q20) to help relieve customers' debt burden.

Meanwhile, its cost of fund remained relatively stable in 3Q20, thanks to the use of low-cost funding (i.e. Bt2bn at 2.0% p.a.) from the Government Housing Bank (GSB). With that, its spread improved by 25bps to 17.9% in 3Q20.

Note that the remaining Bt3bn soft loan from GSB is expected to be drawn down in 4Q20F, implying that low funding cost will continue for another quarter.

Market yields likely to fall going forward. With the recent (regulated) rate caps (i.e. 25% p.a. for personal loans and 24% p.a. for auto-title loans, effective 1 Aug 2020) and the increasing competition in the auto-title loan market, market yields have declined and are likely to fall further.

MTC foresees this trend and thus has gradually adjusted its interest rates downward, while gradually increasing the proportion of higher-yield loans in its portfolio.

Specifically, MTC has reduced its interest rates charged for (new) vehicle title-loan contracts by 25-150bps, (i) to 21.25% for 2-wheel vehicles and (ii) to 19.00% for 4-wheel vehicles, since June 2020. Recently, it has further cut interest rate on (4-wheel) auto-title loans to 19.98% for every new auto-title loan contract, starting 16 Nov 2020. Meanwhile, it currently charges 15% for land-title loans and 25% for unsecured loans.

To compensate for lower auto-title loan yields, MTC plans to grow more loan volume and, at the same time, to gear more towards higher-yield loans, i.e. (new motorcycle) hire purchase (HP) and unsecured loans. Management revealed that it currently charges only 21% for motorcycle HP, while the market rate can be as high as 27%.

In terms of loan breakdown at end-3Q20, motorcycle-title loans accounted for 34.3%, car (4-wheel) 33.1%, land 7.4%, tractor 4.4%, and unsecured loans 20.8%.

At this point, HP loans accounted for only 0.5% of MTC's total portfolio, and all those 6,000 HP loan contracts were for the company's good old customers. In the future, MTC may provide HP loans to referred customers and then to new customers. The company targets to double its HP portfolio in FY2021F.

Fee income decreased y-o-y and q-o-q. MTC's fee income derives mainly from collection activities and depends on the number and types of vehicles collected. Besides, it normally does not collect any upfront fee. The decline in fee income in 3Q20 was due to the slower collection activities during the quarter.

Cost-to income ratio lower y-o-y and q-o-q. This was thanks to the company's overall operating cost reduction (partly due to the impact of the COVID-19 pandemic) and staff management programme that resulted in higher loans/employee and higher loans/branch in 3Q20.

We believe that its cost-to-income ratio will gradually go down, as the company's branch expansion has become less aggressive (percentage wise). Besides, with its on-going addition of larger ticket-size products (i.e. new motorcycle HP) to its portfolio, its efficiency should improve in tandem.

NPL remained in check at 1.0%. Recall that, for clients participating in the BOT's COVID-19 relief programmes, their credit status at the National Credit Bureau (NCB) will remain normal and will be frozen at Stage 1 at the financial institutions, during such programmes. However, such programmes mainly already ended in 2Q20.

For customers that were in the 3-month debt holidays in 2Q20, 80% have already returned to their previous payment schedules (i.e. remaining in Stage 1). Meanwhile, those that were in the (pre-emptive) loan restructuring programme have paid normally with their new restructured loans.

With that, its NPL ratio (Stage 3) remained relatively stable at 1.0% in 3Q20, while Stage 2 loans picked up a bit (but still below its normal level) as some customers have been overdue 1-30 days. Management expects its loan staging to gradually move back to normal levels, i.e. 90-92% of loans in Stage 1 and 6-8% in Stage 2.

Credit cost remained low. Expected credit loss (ECL) in 3Q20 (net of reversal) was low at Bt52m, i.e. a credit cost of 32bps. The reversal was attributed to the actual asset quality post-relief measures that was better than expected.

Given that the impact of the relief measures on the company's loan staging should gradually subside over time (unless the COVID-19 situation gets worse), its credit cost and coverage ratio should normalise at 100bps and c.200%, respectively, by FY22F.

GSB entering the auto-title loan market not a threat. Recall that on 17 Nov 2020, Srisawad Corporation (SAWAD) announced a joint investment between itself ($\geq 49\%$) and GSB ($\leq 49\%$) in Fast Money Co., Ltd. (FM), SAWAD's wholly-owned subsidiary, to operate the auto-title loan business. The joint investment, based on the publicly available information, will have two key conditions, (i) interest rate for loans must be reduced to 18% p.a., and (ii) the size of the auto-title loans, including cars and motorcycles, must not be larger than Bt200K per contract.

Based on the currently available information, regarding the business structure, target segment, etc., of the GSB and SAWAD's investment, MTC believes this is not a threat to the company. Besides, management has already expected rising competition, as well as lower interest rates, in the market, and thus it has been preparing itself for that situation.

Currently, MTC charges approx. 19% for auto-title loans. If it has to cut the rate further to 18%, it will do so to keep its market share. However, given MTC's normally small-ticket loans, and as such instalments, the difference in instalments in baht terms should not be significant for customers, thus it is not worth switching to another loan provider with such a marginal rate differential.

Maintain BUY with higher TP of Bt73.00. As we roll over our valuation base to FY21F, our TP increases to Bt73.00 (from Bt58.00). Our TP is pegged at 6.0x FY21F PBV, i.e. 1.5SD below its 5-year average PBV. MTC is currently trading lower than 2SD below its 5-year average PBV, while its fundamentals and growth outlook remain solid. We believe the stock will be able to trade at a high multiple again, once the overall market sentiment improves. Reiterate BUY.

Company Background

Muangthai Capital (MTC) offers three types of vehicle title loans (i.e. a loan extended to an individual, with a vehicle as collateral), including motorcycle, car, and agricultural vehicle, as well as (agricultural) land-backed loans (i.e. a loan extended to an individual, with a piece of land as collateral). MTC also provides personal loan services but only to an existing customer who has or had received a vehicle title loan from the company and has a good payment history. In the meantime, the company provides Nano-finance loans to small business owners to support their operations.

MTC: 3Q20 results summary

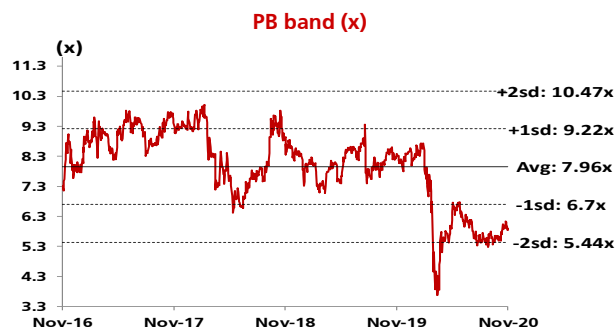
Bt m	3Q20	3Q19	y-o-y (%)	2Q20	q-o-q (%)
Interest income	3,555	3,105	14.5	3,385	5.0
Interest expense	467	408	14.6	447	4.5
Fee and services income	172	183	(5.7)	175	(1.3)
SG&A	1,533	1,428	7.4	1,520	0.9
Provision	52	116	(55.2)	25	110.9
Operating income	1,502	1,153	30.3	1,393	7.8
Other income (expense)	182	200	(8.9)	180	0.8
Net profit	1,340	1,080	24.0	1,267	5.8
EPS (Bt)	0.63	0.51	24.0	0.60	5.8
Loans	67,215	57,647	16.6	63,342	6.1
Percent	3Q20	3Q19	y-o-y (ppts)	2Q20	q-o-q (ppts)
Spread (bps)	17.9	18.3	(41.2)	17.6	24.9
Cost-to-income ratio	43.1	46.0	(2.9)	44.9	(1.8)
Credit cost	0.3	0.8	(0.5)	0.2	0.2
Operating margin	45.1	40.9	4.1	44.1	0.9
Net margin	35.9	32.7	3.2	35.5	0.3
ROE	28.8	30.2	(1.4)	28.7	0.1
ROA	7.5	7.5	(0.0)	7.3	0.2
NPL	1.0	1.0	0.0	1.0	(0.0)
Coverage ratio	199.4	295.8	(96.3)	211.7	(12.2)
D/E (x)	2.8	3.0	(0.2)	2.9	(0.1)

Source of all data: Company, DBSVTH

PE and PB band



Source: Bloomberg Finance L.P., DBSVTH estimates



Source: Bloomberg Finance L.P., DBSVTH estimates

Key Assumptions

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross Loans Growth	51.3	34.9	25.4	19.1	20.4
Customer Deposits Growth	N/A	N/A	N/A	N/A	N/A
Yld. On Earnings Assets	23.7	23.6	22.6	21.7	21.3
Avg Cost Of Funds	3.0	3.5	3.8	3.4	2.9

Income Statement (Btm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Net Interest Income	6,122	8,444	10,353	12,204	14,667
Non-Interest Income	652	869	808	753	740
Operating Income	6,774	9,313	11,161	12,956	15,406
Operating Expenses	(2,989)	(4,100)	(5,314)	(6,226)	(7,272)
Pre-provision Profit	3,785	5,213	5,847	6,731	8,134
Provisions	(679)	(586)	(554)	(243)	(674)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	3,106	4,627	5,293	6,487	7,460
Taxation	(605)	(913)	(1,056)	(1,303)	(1,492)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	2,501	3,713	4,237	5,185	5,968
Net Profit bef Except	2,501	3,713	4,237	5,185	5,968
Growth (%)					
Net Interest Income Gth	65.8	37.9	22.6	17.9	20.2
Net Profit Gth	70.8	48.5	14.1	22.3	15.1
Margins, Costs & Efficiency (%)					
Spread	20.7	20.0	18.8	18.3	18.4
Net Interest Margin	21.4	20.8	19.7	18.9	18.9
Cost-to-Income Ratio	44.0	43.0	44.7	44.4	44.0
Business Mix (%)					
Net Int. Inc / Opg Inc.	90.4	90.7	92.8	94.2	95.2
Non-Int. Inc / Opg inc.	9.6	9.3	7.2	5.8	4.8
Fee Inc / Opg Income	9.5	8.6	6.5	5.5	4.6
Oth Non-Int Inc/Opg Inc	0.2	0.8	0.8	0.3	0.2
Profitability (%)					
ROAE Pre Ex.	32.0	35.0	30.0	28.3	25.7
ROAE	32.0	35.0	30.0	28.3	25.7
ROA Pre Ex.	8.1	8.6	7.6	6.9	6.4
ROA	8.1	8.6	7.6	6.9	6.4

Source: Company, DBSVTH

Quarterly / Interim Income Statement (Btm)

FY Dec	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020
Net Interest Income	2,697	2,822	2,900	2,938	3,088
Non-Interest Income	200	207	208	180	182
Operating Income	2,897	3,030	3,108	3,118	3,270
Operating Expenses	(1,428)	(1,500)	(1,491)	(1,520)	(1,533)
Pre-Provision Profit	1,469	1,530	1,616	1,598	1,736
Provisions	(116)	(132)	(62.3)	(24.7)	(52.0)
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Pretax Profit	1,352	1,398	1,554	1,573	1,684
Taxation	(272)	(267)	(316)	(307)	(344)
Minority Interests	0.0	0.0	0.0	0.0	0.0
Net Profit	1,080	1,131	1,237	1,267	1,340

Growth (%)

Net Interest Income Gth	7.9	4.6	2.7	1.3	5.1
Net Profit Gth	5.8	4.7	9.4	2.4	5.8

Balance Sheet (Btm)

FY Dec	2017A	2018A	2019A	2020F	2021F
Cash/Bank Balance	1,154	880	783	10,922	5,963
Government Securities	0.0	0.0	0.0	0.0	0.0
Inter Bank Assets	0.0	0.0	0.0	0.0	0.0
Total Net Loans & Adv.	34,452	46,548	58,539	70,473	84,667
Investment	0.0	0.0	0.0	0.0	0.0
Associates	1,023	1,269	1,778	2,039	2,164
Fixed Assets	0.0	0.0	0.0	3,496	3,496
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Assets	325	449	771	952	952
Total Assets	36,953	49,146	61,872	87,882	97,242
Customer Deposits	0.0	0.0	0.0	0.0	0.0
Inter Bank Deposits	0.0	0.0	0.0	0.0	0.0
Debts/Borrowings	7,042	11,112	15,785	61,901	66,055
Others	20,967	25,735	30,115	5,327	5,327
Minorities	0.0	0.0	0.0	0.0	0.0
Shareholders' Funds	8,943	12,299	15,972	20,654	25,859
Total Liab& S/H's Funds	36,953	49,146	61,872	87,882	97,242

Source: Company, DBSVTH

Financial Stability Measures (%)

FY Dec	2017A	2018A	2019A	2020F	2021F
Balance Sheet Structure					
Loan-to-Deposit Ratio	0.0	0.0	0.0	0.0	0.0
Net Loans / Total Assets	93.2	94.7	94.6	80.2	87.1
Investment / Total Assets	0.0	0.0	0.0	0.0	0.0
Cust. Dep./Int. Bear. Liab.	0.0	0.0	0.0	0.0	0.0
Interbank Dep / Int. Bear.	0.0	0.0	0.0	0.0	0.0
Asset Quality					
NPL / Total Gross Loans	1.2	1.1	1.0	1.1	1.2
NPL / Total Assets	1.2	1.1	1.0	0.9	1.1
Loan Loss Reserve Coverage	265.4	277.7	275.8	161.8	169.7
Provision Charge-Off Rate	1.9	1.2	0.9	0.3	0.8
Capital Strength					
Total CAR	0.0	0.0	0.0	0.0	0.0
Tier-1 CAR	0.0	0.0	0.0	0.0	0.0

Source: Company, DBSVTH

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Feb 20	67.50	78.00	BUY
2:	21 Feb 20	61.50	78.00	BUY
3:	26 Mar 20	34.25	58.00	BUY
4:	07 Apr 20	35.25	58.00	BUY
5:	15 Apr 20	44.75	58.00	BUY
6:	08 May 20	45.00	58.00	BUY
7:	11 May 20	47.00	58.00	BUY
8:	22 Jun 20	53.75	58.00	BUY
9:	14 Aug 20	50.50	58.00	BUY
10:	18 Aug 20	50.75	58.00	BUY
11:	29 Oct 20	53.25	58.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBSVTH

Analyst: Thaninee SATIRAREUNGCHAI, CFA

THAI-CAC (as of Jun 2019)






Corporate Governance CG Rating (as of Oct 2019)

Certified



THAI-CAC is Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of May 2018) are categorised into:

Corporate Governance CG Rating is based on Thai Institute of Directors (IOD)'s annual assessment of corporate governance practices of listed companies. The assessment covers 235 criteria in five categories including board responsibilities (35% weighting), disclosure and transparency (20%), role of stakeholders (20%), equitable treatment of shareholders (10%) and rights of shareholders (15%). The IOD then assigns numbers of logos to each company based on their scoring as follows:

Score	Description	
Declared	Companies that have declared their intention to join CAC	
Certified	Companies certified by CAC.	
Score	Range Number of Logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	No logo given	N/A

DBSVTH recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBSVTH unless otherwise specified.

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