

29 Jan 2021

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Recommendation:

Buy

Target Price: Bt80.00

Price (Bt)	64.00
Market Value (Bt mn)	135,680
Date Established	29 Jan 2021
Average Daily Value (Bt mn)	560.58
Free Float (%)	32.11

Upgrade to Buy, new PO of Bt80

We upgrade MTC to Buy from Neutral with a new PO of Bt80 from Bt46 as we raised our earnings forecast and roll over our valuation base to end-2021. We raise our earnings forecast by 12-23% for 2021E-2022E to incorporate expected higher loan growth of 23% in 2021E and 18% in 2022E versus the company's target of 20-25% p.a. and 17% in 2020E. Even with concerns on higher competition in auto-backed loans, we expect MTC to generate high loan growth of above 20% in order to offset the impact from the tactical lower yield. With immediate loan contribution and expected one-year breakeven period for new branches, MTC should gain further economy of scale. We now forecast net profit growth of 23% for three-year CAGR (2020-2022).

Time to resume loan growth

MTC has tactically cut its lending rate for auto-backed loans to around 18% p.a. since December 2020 in order to boost volume and compete with Fast Money (a new JV of SAWAD and the Government Savings Bank, GSB). It means MTC is maintaining its strategy of enlarging its customer base with motorcycles as a priority. We believe mid-sized operators with high yield to customers (more than 23% p.a.) would face a higher negative impact as the savings from lower repayment are more significant compared to large operators (yield range of 18-20%). Despite slower demand from the concerns of COVID-19 in 2020, MTC's loans per branch should stabilize at Bt14.0mn (-5% from its peak). With less stringent measures for COVID-19, we believe the demand for loans could resume and MTC could benefit on the back of competitive yield to customers, large branch network of 5,000 branches and 600 new branches.

Asset quality buoyed by contribution from agriculture and small ticket size

With customer contribution from the agricultural sector and daily wage freelancers (switchable among both) at more than 50% combined, we believe MTC's portfolio is more resilient to the economic impact from the new COVID-19 outbreak. Moreover, given the characteristics of small loan ticket size, the public cash handout program is positive for MTC's asset quality as customers can use the handout to repay their debt.

4Q20 preview: New high net profit of Bt1.38bn

We expect MTC to report another new high net profit of Bt1.38bn in 4Q20 (+22% YoY and +3% QoQ). The strong net profit is driven by the recovery of loan growth at 17% YoY and 5% QoQ, mainly from the agricultural sector. Asset quality remains intact with an NPL ratio of 1.05% and high reserve coverage of 182%.

Valuation

Our new PO of Bt80 implies a respective P/E and P/BV of 27.1x and 6.5x for 2021E. We remain positive on MTC's premium valuation on the back of a competitive position, strong growth momentum and expected ROAE above 25% for 2020-2022.

Estimates (Dec)

(Bt)	2018A	2019A	2020E	2021E	2022E
Net Income (report - mn)	3,713	4,237	5,197	6,181	7,840
EPS	1.75	2.00	2.45	2.92	3.70
EPS Change (YoY)	48.5%	14.1%	22.6%	18.9%	26.8%
DPS	0.26	0.30	0.37	0.44	0.55
BVS	5.80	7.53	9.69	12.23	15.49

Valuation (Dec)

	2018A	2019A	2020E	2021E	2022E
P/E	36.5	32.0	26.1	22.0	17.3
P/B	11.03	8.50	6.61	5.23	4.13
Dividend Yield	0.4%	0.5%	0.6%	0.7%	0.9%
ROE	35.0%	30.0%	28.5%	26.6%	26.7%
ROE/PBV	3.17	3.53	4.31	5.09	6.46

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Income Statement Data (Dec)	2018A	2019A	2020E	2021E	2022E
(Bt Millions)					
Net Interest Income	8,444	10,353	12,145	14,319	17,331
% Change	37.9%	22.6%	17.3%	17.9%	21.0%
Net Fee Income	796	723	724	1,002	1,109
Securities Gains / (Losses)	-	-	-	-	-
Other Income	-	-	-	-	-
Non-interest income	872	808	803	1,097	1,222
Gross income	9,316	11,161	12,947	15,416	18,553
Operating Expenses	4,103	5,314	6,169	6,976	7,879
% Change	36.2%	29.5%	16.1%	13.1%	13.0%
Provisions Expense	586	554	283	714	874
Pre-Tax Income	4,627	5,293	6,496	7,726	9,799
Net Income	3,713	4,237	5,197	6,181	7,840
% Change	48.5%	14.1%	22.6%	18.9%	26.8%
Balance Sheet Data (Dec)	2018A	2019A	2020E	2021E	2022E
(Bt Millions)					
Total Assets	49,146	61,872	73,475	90,000	105,789
Average Interest Earning Assets	41,835	54,193	65,486	78,605	94,173
Total Gross Customer Loans	48,047	60,338	70,634	86,576	101,770
% Change	34.9%	25.6%	17.1%	22.6%	17.5%
Total Customer Deposits	NA.	NA.	NA.	NA.	NA.
% Change	NA.	NA.	NA.	NA.	NA.
Tangible Equity	12,273	15,946	20,469	25,857	32,754
Common Shareholders' Equity	12,299	15,972	20,532	25,934	32,846
Key Metrics (Dec)	2018A	2019A	2020E	2021E	2022E
Net Interest Margin	20.2%	19.1%	18.5%	18.2%	18.4%
Effective Tax Rate	19.7%	19.9%	20.0%	20.0%	20.0%
Loan / Deposit Ratio	NA.	NA.	NA.	NA.	NA.
Tangible Common Equity / Assets	25.0%	25.8%	27.9%	28.7%	31.0%
Net profit ROAA	8.6%	7.6%	7.7%	7.6%	8.0%
Net profit ROAE	35.0%	30.0%	28.5%	26.6%	26.7%
Dividend Payout Ratio	14.8%	15.0%	15.0%	15.0%	15.0%
Efficiency Ratio (Cost / Income Ratio)	44.0%	47.6%	47.6%	45.2%	42.5%
Quality of Earnings (Dec)	2018A	2019A	2020E	2021E	2022E
Total Non-Interest Inc / Operating Inc	9.4%	7.2%	6.2%	7.1%	6.6%
NPLs as a % of gross loans	1.1%	1.0%	1.0%	1.2%	1.3%
Loan Loss Reserves / NPLs	277.7%	275.9%	182.3%	157.5%	148.2%
Loan Loss Reserves / Total Loans	3.1%	2.8%	1.9%	1.9%	2.0%

Room to lower cost of fund

We also see MTC as having an upside risk from lower cost of funds as Bt12.9bn of its debentures (28% of total funding) will mature in 2021, implying ~2% earnings upside. We expect the new debenture interest rate for MTC at around 3.0-3.4% which is favorable in our view. The further upside risk for MTC's cost of fund is a credit rating improvement from "BBB."

Demand could carry on into 1Q21 with tactical loan yield

Overall demand for loans is still strong in 4Q20, driven by the agricultural segment and seasonal effect and could carry on until 1Q21 (1Q is normally the low season) given no bonuses expected. So far, its operation remains normal. The group of five provinces where the latest outbreak of COVID-19 hit the hardest (Samut Sakhon and the eastern region) contributes 7.8% to total loans.

MTC has tactically cut its lending rate for auto-backed loans to around 18% p.a. EIR since December 2020 and it could last beyond 1Q21 (depending on market conditions). This cut aims to boost loan volume. MTC maintains its strategy of enlarging its customer base with motorcycles as a priority. A lower auto-backed loan yield of less than 18% would pose a downside risk for the sector if operators cannot drive their volume growth as much as the target (MTC's growth target is at 20-25% vs our estimate of 23% for 2021E).

In the worst case scenario of fierce competition, we expect loan yield to drop to 19.7% from our base assumption of 20.72%. This could result in a 10% earnings downside.

Key focus in 2021

The key focus for MTC's operations are 1) pushing bike hire-purchase or HP product more aggressively from Bt220mn in order to stabilize overall loan yield, 2) maintaining asset quality during the COVID era with normalized ECL of around 60 to 80bp and NPL level at no more than 1.5% and 3) preparing for higher competition. We see the increasing competition as not an extreme concern because MTC is an existing operator and the key cutting point is controlling asset quality.

Bike HP is another growth opportunity for MTC as the company has 1.5mn motorcycles in its portfolio with a 10% depletion rate. MTC can exploit the benefit from the demand for new motorcycles (roughly at 10,000 units per annum). Moreover, the new HP business will generate a better yield at 24% p.a. We see the HP rate by MTC as attractive compared to the industry yield at above 30% p.a. We expect MTC to push HP products for its existing customers with a strong track record first, in order to control asset quality. The company targets new HP at 24,000 units per year or new lending at around Bt1bn. We conservatively project new HP at Bt600mn in 2021E.

Figure 1: MTC - Profit and Loss

(Bt mn)	3Q19A	4Q19A	1Q20A	2Q20A	3Q20A	4Q20E	%QoQ	% YoY
Interest income	3,105	3,248	3,332	3,385	3,555	3,715	4.5	14.4
Interest expense	408	425	433	447	467	470	0.6	10.5
Net interest income	2,697	2,822	2,900	2,938	3,088	3,245	5.1	15.0
Non-interest income	200	207	208	180	182	203	11.6	-2.1
Non-interest expenses	1,428	1,500	1,491	1,520	1,533	1,575	2.7	5.0
Pre-provision profits	1,469	1,530	1,616	1,598	1,736	1,873	7.9	22.4
Provisioning expense	116	132	62	25	52	144	176.1	8.8
Profit before tax	1,352	1,398	1,554	1,573	1,684	1,729	2.7	23.7
Tax expense	272	267	316	307	344	346	0.4	29.7
Net profit	1,080	1,131	1,237	1,267	1,340	1,383	3.2	22.3
EPS (Bt)	0.51	0.53	0.58	0.60	0.63	0.65	3.2	22.3

Source: MTC, KKPS estimates

Figure 2: MTC – Key drivers and ratios

%, unless stated	3Q19A	4Q19A	1Q20A	2Q20A	3Q20A	4Q20E	ppt, QoQ	ppt, YoY
Gross loans (Bt mn)	57,681	60,338	62,674	63,342	67,215	70,374	4.7%	16.6%
Yield on loans	22.15	22.01	21.67	21.49	21.78	21.60	-0.18	-0.41
Cost of funds	3.89	3.90	3.86	3.87	3.92	3.79	-0.13	-0.11
Net interest margin	19.25	19.13	18.86	18.65	18.92	18.87	-0.05	-0.26
Cost-to-income ratio	49.30	49.51	47.99	48.75	46.89	45.68	-1.21	-3.83
Credit cost	0.83	0.90	0.41	0.16	0.32	0.84	0.52	-0.06
NPL ratio	0.98	1.03	1.18	1.04	1.00	1.05	0.05	0.02
NPL coverage	295.85	275.94	200.98	211.70	199.45	182.05	-17.39	-93.89

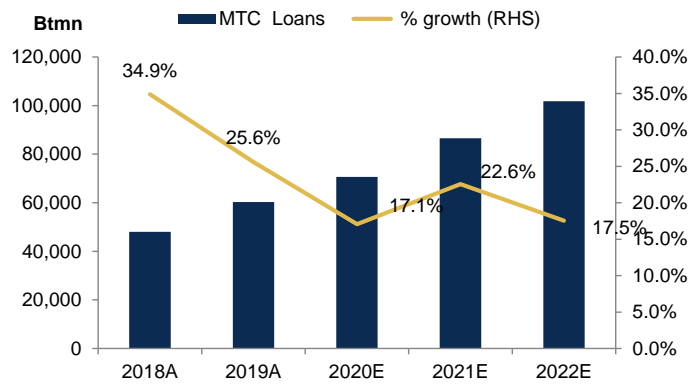
Source: MTC, KKPS estimates

Figure 3: Earnings revision

(Bt mn)		2020E	2021E	2022E
Net interest income	Previous	12,362	14,368	16,468
	Current	12,145	14,319	17,331
	% change	-2%	0%	5%
Non-interest income	Previous	946	1,088	1,232
	Current	803	1,097	1,222
	% change	-15%	1%	-1%
PPOP	Previous	6,717	7,680	8,773
	Current	6,779	8,440	10,674
	% change	1%	10%	22%
Net profit	Previous	4,913	5,540	6,384
	Current	5,197	6,181	7,840
	% change	6%	12%	23%
NIM (%)	Previous	18.9	19.0	19.0
	Current	18.5	18.2	18.4
	ppt change	-0.4	-0.7	-0.6
Cost to income (%)	Previous	49.5	50.3	50.4
	Current	47.6	45.2	42.5
	ppt change	-1.9	-5.1	-8.0
Credit cost (%)	Previous	0.9	1.0	0.9
	Current	0.4	0.9	0.9
	ppt change	-0.4	-0.1	0.0
Loan growth (%)	Previous	16.6	15.3	13.4
	Current	17.1	22.6	17.5
	ppt change	0.4	7.2	4.2

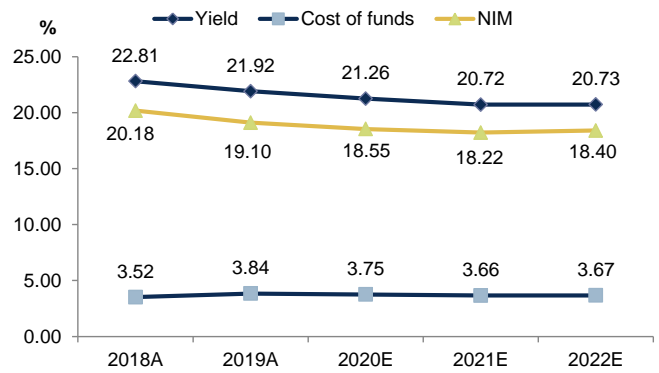
Source: KKPS estimates

Figure 4: MTC's loan growth



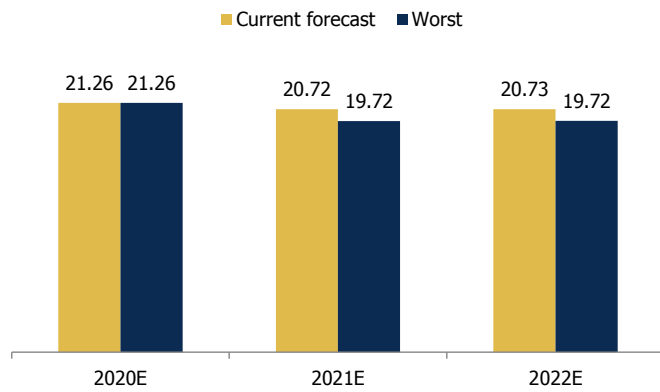
Source: MTC, KKPS estimates

Figure 5: Yield, cost of funds and NIM



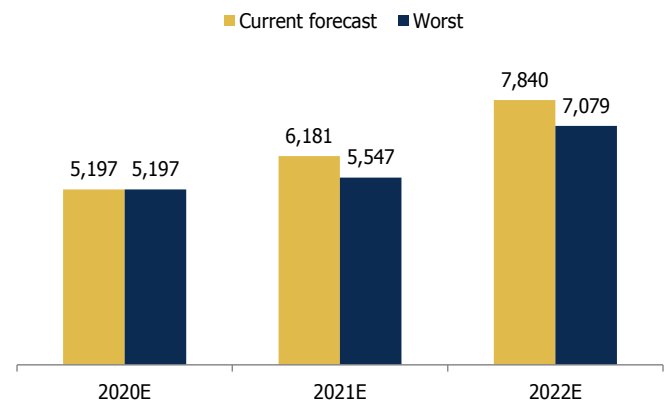
Source: MTC, KKPS estimates

Figure 6: Worst case scenario on yield from fierce competition



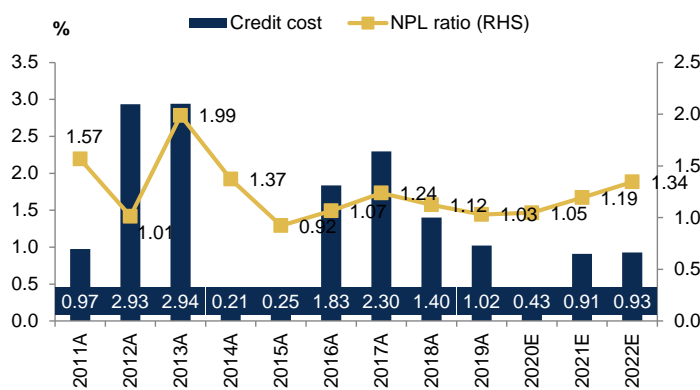
Source: MTC, KKPS estimates

Figure 7: The case suggests a 10% downside to earnings



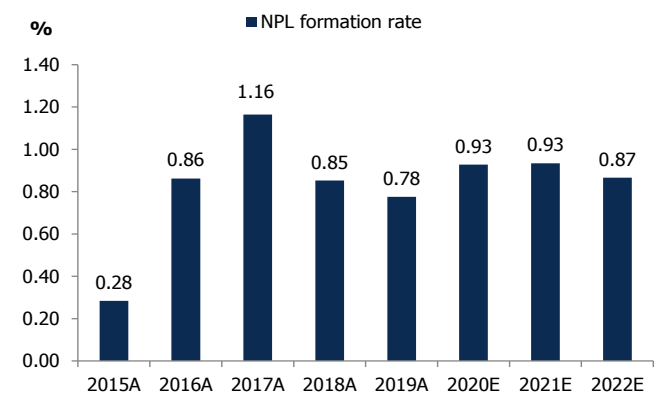
Source: MTC, KKPS estimates

Figure 8: Benign credit cost and NPL ratio...



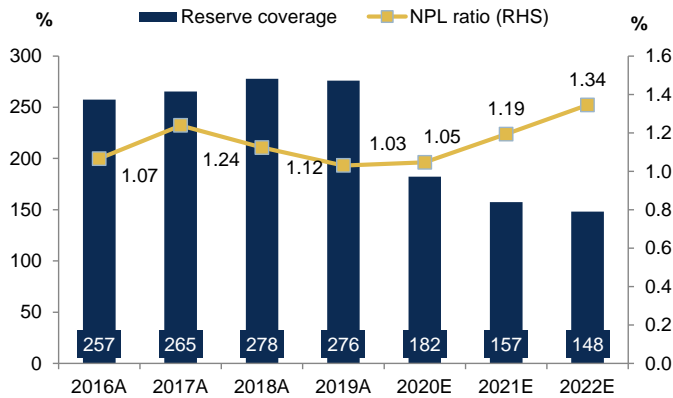
Source: MTC, KKPS estimates

Figure 9: ...Thanks to low NPL formation rate



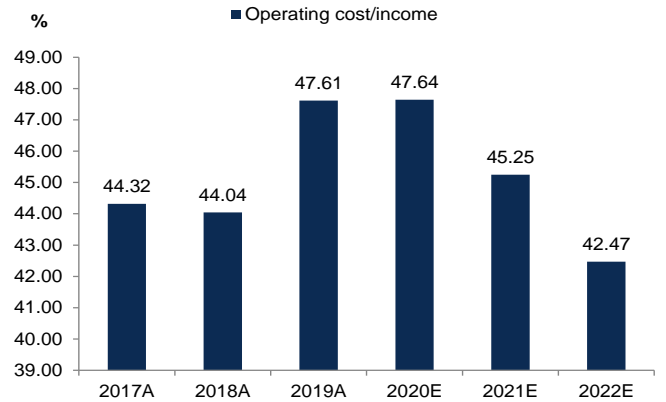
Source: MTC, KKPS estimates

Figure 10: High coverage buffer for MTC



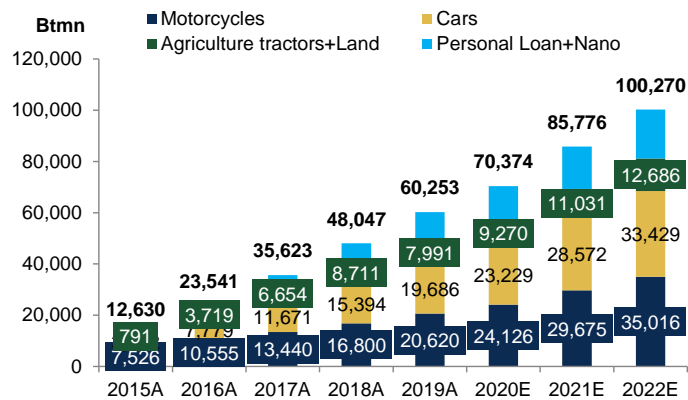
Source: MTC, KKPS estimates

Figure 11: Economy of scale is another supportive driver



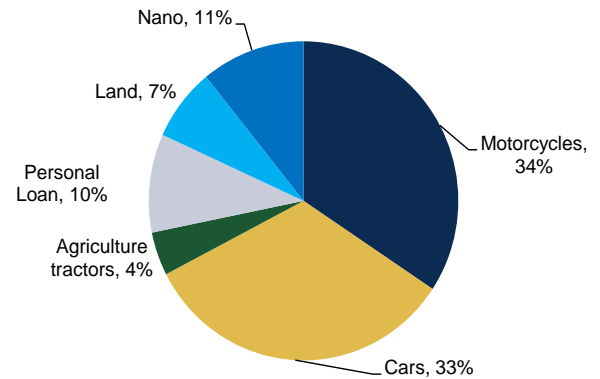
Source: MTC, KKPS estimates

Figure 12: MTC's loan breakdown by collateral



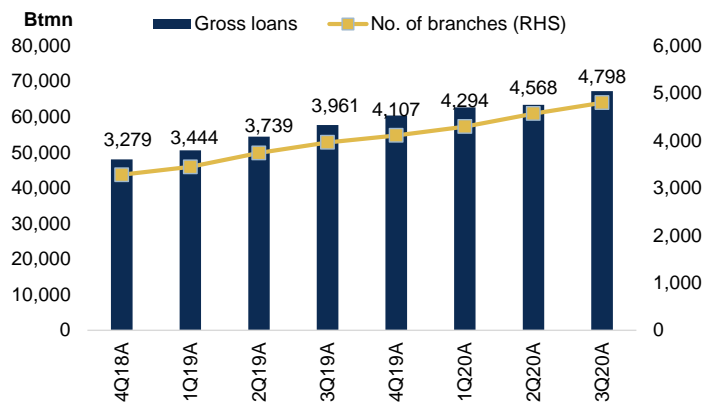
Source: MTC, KKPS estimates

Figure 13: MTC's loan breakdown by collateral



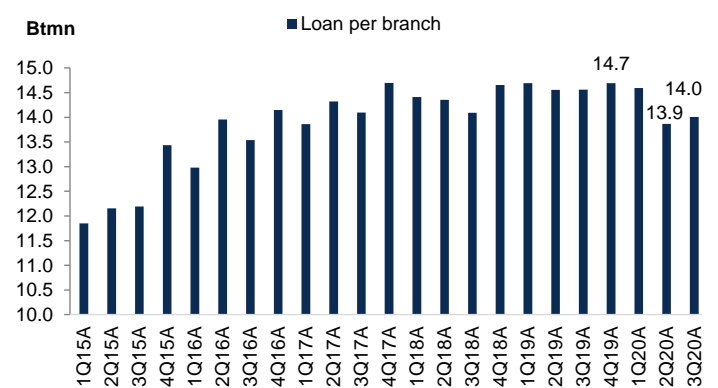
Source: MTC, KKPS estimates

Figure 14: Gross loans and branch network



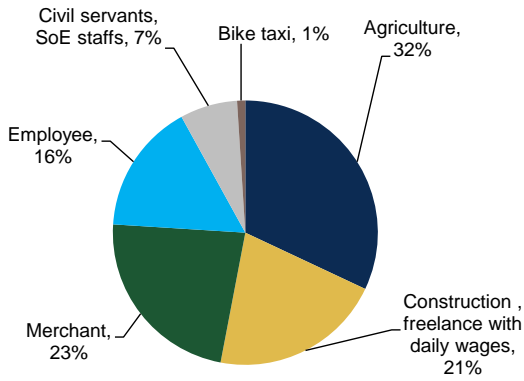
Source: MTC, KKPS estimates

Figure 15: Maintain loan per branch at Bt14mn



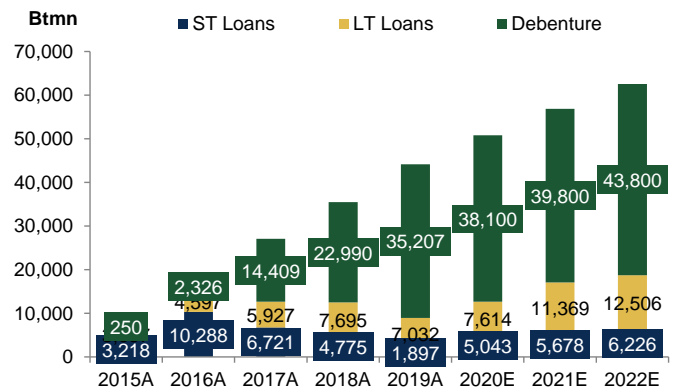
Source: MTC, KKPS estimates

Figure 16: MTC's customer profile



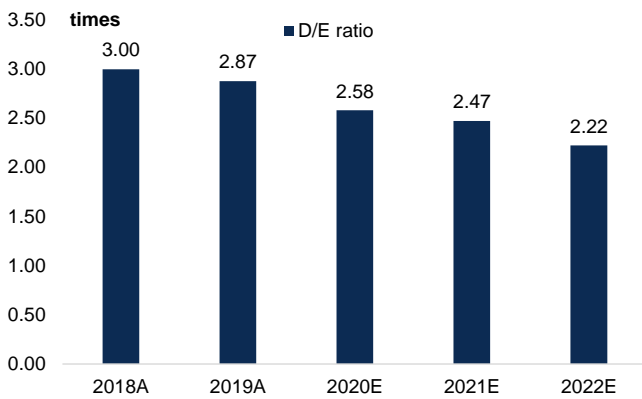
Source: MTC, KKPS estimates

Figure 17: Funding structure



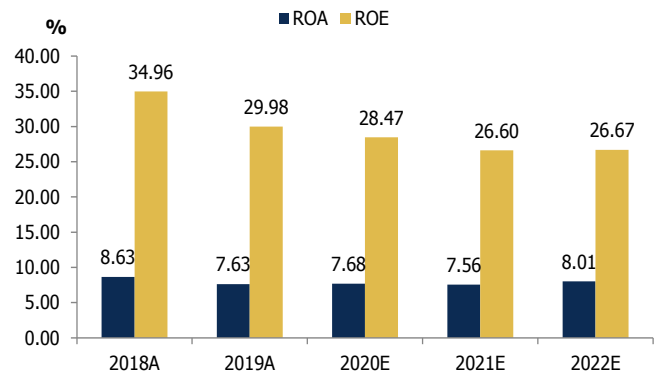
Source: MTC, KKPS estimates

Figure 18: D/E well below 4x covenant



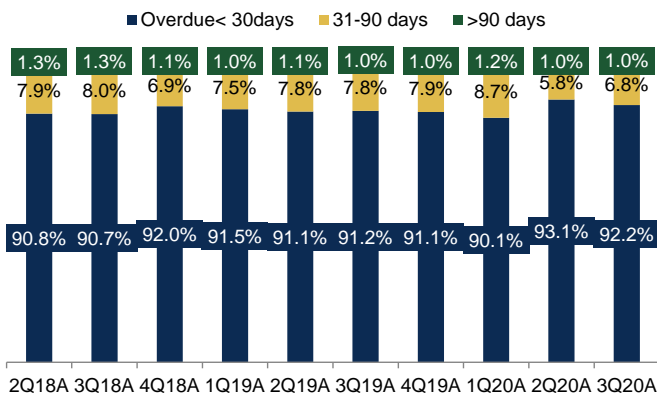
Source: MTC, KKPS estimates

Figure 19: RoAE to be above 26%



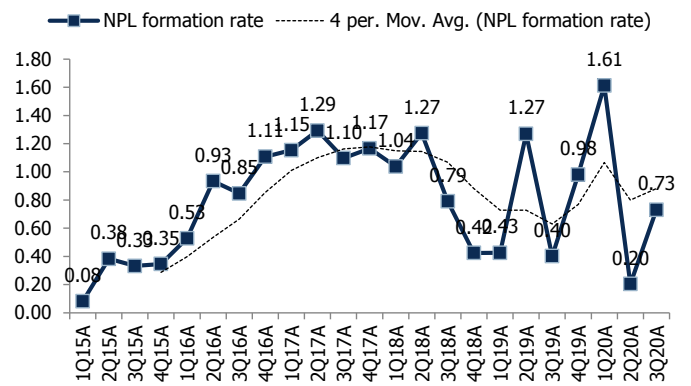
Source: MTC, KKPS estimates

Figure 20: Loan by age



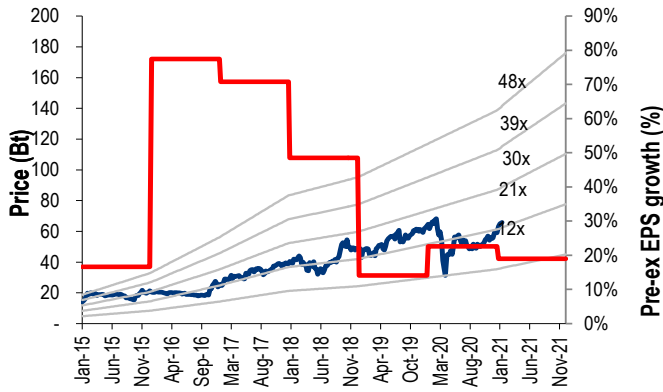
Source: MTC, KKPS estimates

Figure 21: NPL formation



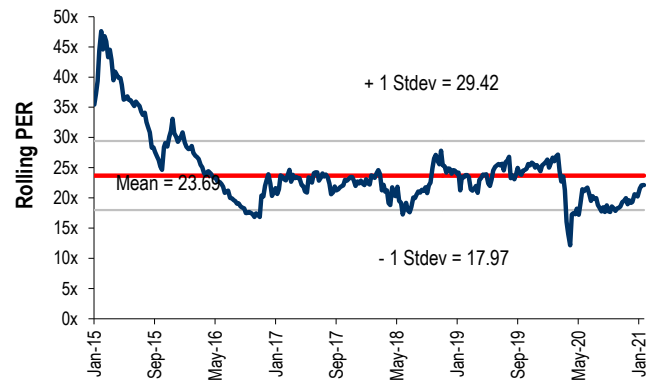
Source: MTC, KKPS estimates

Figure 22: MTC's P/E band



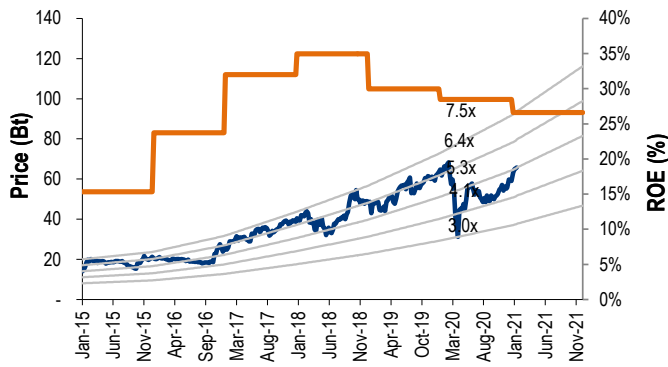
Source: Bloomberg, KKPS estimates

Figure 23: MTC's forward P/E



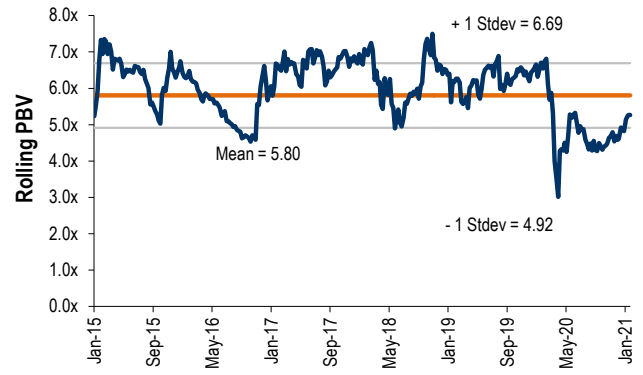
Source: Bloomberg, KKPS estimates

Figure 24: MTC's P/BV band



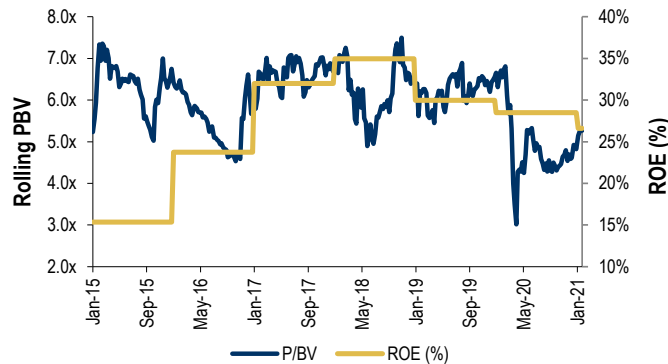
Source: Bloomberg, KKPS estimates

Figure 25: MTC's forward P/BV



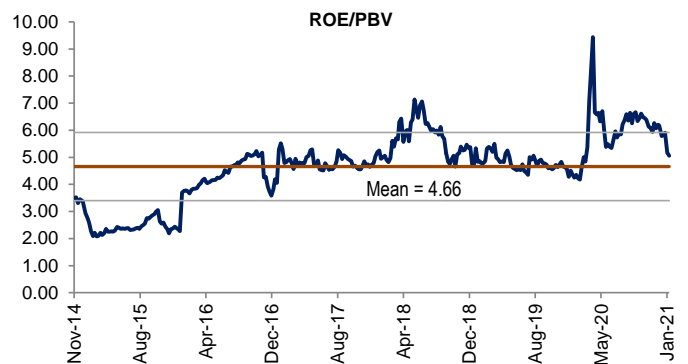
Source: Bloomberg, KKPS estimates

Figure 26: MTC's P/BV vs RoE



Source: Bloomberg, KKPS estimates

Figure 27: RoE/PBV



Source: Bloomberg, KKPS estimates

Price objective basis and risk

Our PO of Bt80 is based on the Gordon Growth Methodology (GGM) with an appropriate ROE of 26%, cost of equity of 13.5% and medium-term growth rate of 11%. The key downside risks are: (1) lower-than-expected loan growth, (2) funding insufficiency from rapid loan growth, (3) deteriorating asset quality after the credit boom period and (4) regulatory risk. The key upside risks are (1) an increase in borrowing covenant, (2) an improvement in credit rating, (3) strong penetration in the provincial loan market and (4) new business leveraging from the large network.

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