

Muangthai Capital PCL (MTC TB)

All systems go

Raised earnings and TP on stronger loan growth; BUY

We are less concerned about the intense competition as the title-loan market is large and offers huge growth potential. MTC has 2m motorcycle loans in its portfolio vs 21m registered motorcycles in Thailand. Raised FY21-22E earnings by 2-4% to reflect stronger loan growth and lower credit cost. Maintain BUY and raised TP to THB77 (6.3x FY21E P/BV, 26.6x P/E and 25.9% LT ROE) from THB68. Key risks are weaker-than-expected loan growth, NIM and asset quality.

Estimate 4Q20 earnings grew 22% YoY

We expect MTC to report 4Q20E earnings of THB1.38b, up 22% YoY and 3% QoQ due to strong loan growth, lower credit cost and good cost control. This should have led to a 23% YoY earnings growth in FY20E. Loans should have grown 17% YoY and 5% QoQ to THB71b in 4Q20 due to the recovery in demand as a result of the harvest season. MTC increased the number of branches to 4,883 (+19% YoY) in 2020 from 4,107 in 2019. 4Q20 NIM should have declined 43bps QoQ to 18.5% as MTC reduced interest rate charges for auto and motorcycle title loans to 18% (from 19%) in Dec-20. MTC will announce 4Q20 and FY20 results on 16 Feb and hold an analyst meeting on 17 Feb.

Good cost control, stable asset quality

We estimate 4Q20 opex grew a slower rate of 6% YoY, vs revenue growth of 12% YoY for the same period, thanks to good cost control. As a result, we estimate the cost-to-income fell to 46.9% in 4Q20 from 49.5% in 4Q19 while PPOp should have grown to 17% YoY in 4Q20. We assume credit loss of THB69m or 40bps credit cost vs 90bps in 4Q19. The NPL ratio should have remained flat QoQ at 1.0% in 4Q20. As MTC focuses on customers in the agricultural sector, we expect its asset quality to remain strong due to: (i) higher farm income; (ii) low exposure to the SME sector; (iii) government cash handouts; and (iv) small loan sizes and low loan to value ratio.

Expect solid loan growth to support EPS to grow 18-22% in FY20-22E

We expect MTC to expand its loan portfolio and increase branch efficiency to offset decline in loan yield. Management plans to increase motorcycle HP loans (24% loan yield) to offset lower loan yield in title loans (18%). We assume HP loans to account for 3% of the loan book in FY21E, vs 0.5% in FY20E, and revised up our FY21-22F earnings forecasts by 2-4% after raising our loan growth assumption to 20% YoY and cut credit cost assumption to 50bps from 60bps. MTC will issue THB4b of debentures (BBB+) with a coupon rate of 2.95-3.23% for 2-3 year terms vs its funding cost of 3.65% as at 3Q20. The repricing of bonds would lead to a lower funding cost of 3.53% this year.

FYE Dec (THB m)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating income	9,316	11,161	13,030	15,397	18,044
Pre-provision profit	5,213	5,847	6,812	8,061	9,607
Core net profit	3,713	4,237	5,187	6,143	7,247
Core EPS (THB)	1.8	2.0	2.4	2.9	3.4
Core EPS growth (%)	48.5	14.1	22.4	18.4	18.0
Net DPS (THB)	0.3	0.3	0.4	0.4	0.5
Core P/E (x)	28.0	31.9	27.6	23.3	19.7
P/BV (x)	8.4	8.5	7.0	5.5	4.4
Net dividend yield (%)	0.5	0.5	0.5	0.6	0.8
Book value (THB)	5.80	7.53	9.68	12.22	15.21
ROAE (%)	35.0	30.0	28.4	26.5	24.9
ROAA (%)	8.6	7.6	7.7	7.6	7.6
Consensus net profit	-	-	5,208	6,050	6,998
MKE vs. Consensus (%)	-	-	(0.4)	1.5	3.6

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BUY

Share Price	THB 67.50
12m Price Target	THB 77.00 (+14%)
Previous Price Target	THB 68.00

Company Description

Largest provider of motorcycle loans in Thailand with sizeable car and land-title loans, personal loans and nano finance

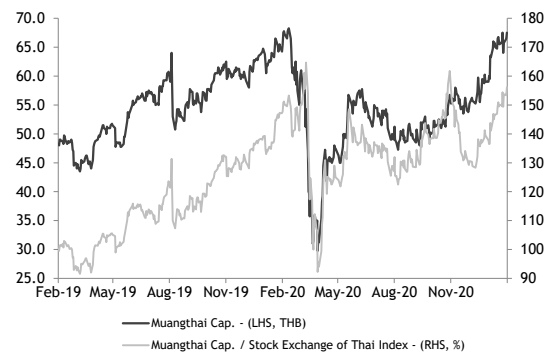
Statistics

52w high/low (THB)	68.25/29.75
3m avg turnover (USDm)	24.9
Free float (%)	32.1
Issued shares (m)	2,120
Market capitalisation	THB143.1B USD4.8B

Major shareholders:

Petampai Daonapa	34.0%
Petaumpai Chuchat	33.5%
Thai NVDR Co Ltd	5.3%

Price Performance



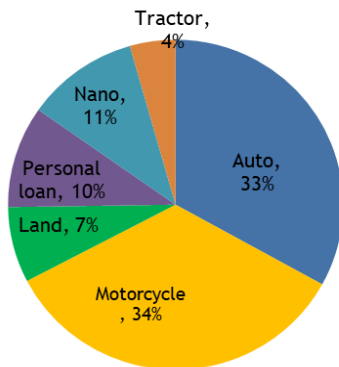
	-1M	-3M	-12M
Absolute (%)	14	19	5
Relative to index (%)	12	(2)	6

Source: FactSet

Value Proposition

- Motorcycle and auto title loans account for 34% and 33% of loans, while personal loans, land title loans and nano finance loans account for 9-10% each. With this loan exposure, NIM would benefit from low interest rates.
- Plans to gain more market share and grow loans by 20% in 2020E vs our forecast of 18%.
- One of the highest earnings growth and ROEs in Thai consumer finance sector.
- Long-term ROE at 25.9% vs 10.9% cost of capital.

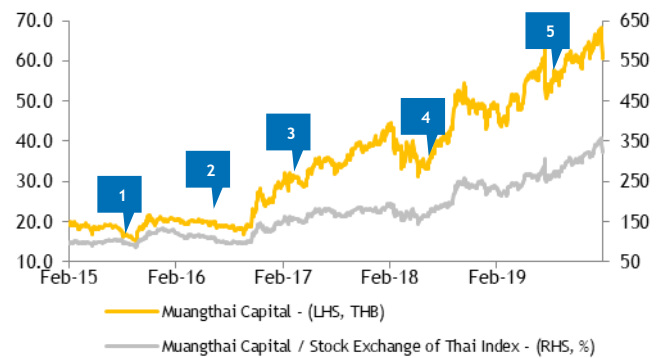
Loan types



Source: Company

Price Drivers

Historical share price trend



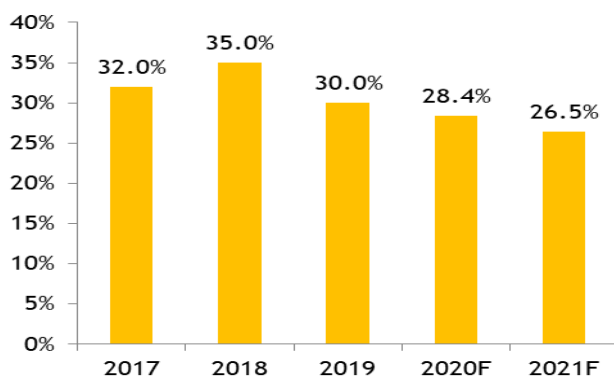
Source: Company, Maybank Kim Eng

- Strong EPS growth from an aggressive branch expansion
- Strong loan growth with market share gaining Strong earnings growth and NIM expansion from growing personal and nano finance lending
- The Bank of Thailand has introduced new regulation on auto refinancing in November with 28% interest rate cap
- Concerned on weaker loan growth and NIM
- Concerned on weak asset quality

Financial Metrics.

- Loan growth of 18% in 2020 and 20% in 2021 on the back of aggressive branch network expansion.
- NIM to decline due to lower loan yield as a result of intense competition
- Expect NPL ratio to increase from 1.03% in 2019 to 1.04% in 2020.
- Strong asset quality, and NPL coverage remains high at 199% in 3Q20.
- Forecast cost-to-income ratio of 47.7% for 2020E (47.6% for 2019) due to expenses from incentives for debt collection.
- ROE to decline to 26-29% for 2020-21E.

Return on equity



Source: Company

Swing Factors

Upside

- Better-than-expected loan growth.
- Economic recovery leading to improved asset quality and lower provisions.
- Better NIMs due to lower funding cost.

Downside

- Asset-quality deterioration.
- Fee-income disappointments.
- Weaker-than-expected NIM from increase in interest rates.
- Slow loan demand due to weak economic growth.

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Business Model & Industry Issues

- MTC is targeting to be the “Leader in Thailand’s Microfinance” industry in all aspects, especially in terms of the best customer service standards with fairness, transparency and accountability.
- MTC is the largest consumer finance provider with the highest market share in motorcycle-title loans. Management has a policy to provide opportunities for communities so MTC charges the lowest interest rate and fees in the industry.
- MTC was selected as a sustainable stock in Thailand’s Sustainability Investment Index or THSI by the Stock Exchange of Thailand in 2019 as the company operates in a business concerning the environment, society and corporate governance.

Material E issues

- MTC will move to a new headquarter; a green building that has been certified by the LEED Institute.
- MTC began waste classification (paper, cardboard, plastic, plastic bottle) in its office buildings to increase environmental awareness among employees.
- MTC is storing internal documents on electronic formats to reduce paper use in the office.
- MTC has an energy conservation project “Turn-off for a Change” for all employees to be aware of the importance of energy conservation and reduce electricity usage. In 2019, the company reduced energy consumption by 27,398 kg Co2.

Material S issues

- MTC has been carrying out CSR activities since 2011 by focusing on creating opportunities for communities.
- For eight years, MTC has been operating the child development centre project named “My New House”, to serve children of special needs and lacking access to development services. In 2019, MTC had arranged to build four more centres with a budget of THB4.2m.
- MTC launched the “Muang Thai Donate Blood” project with Thai Red Cross. 6,325 employees donated 1.9m cc of blood in 2019.
- MTC participated in the Kathin ceremony and gave THB5.56m to the temple to support and preserve cultural traditions in 2019.

Key G metrics and issues

- MTC has 8 board members, of which 5 are independent (3 in audit committee), which is 62% of the total number of directors.
- There are 3 women on the board, whom one is a director and two are independent directors from the audit committee.
- MTC employed 9,877 staff in 2019, of which 10% are female.
- Total compensation for 13 executives amounted to THB46.1m or 1.1% of 2019 net profit.
- Current auditor is KPMG Thailand.
- MTC was awarded the “Outstanding Company Performance Award” and the “Outstanding CEO Awards” in 2019.
- In 2019, MTC was awarded the Bronze “Board of the Year Awards” from the Thai Institute of Director as the company achieved efficiency and effective performance while adhering to transparency, fairness and responsibility to all stakeholders.
- MTC received an A-rating for sustainability and it’s included in the MSCI Global Sustainability Index and the MSCI Global Standard Indexes by Morgan Stanley Capital International.

Fig 1: 4Q20 results preview

Financial statement (THBm)	4Q19	1Q20	2Q20	3Q20	4Q20F	Chg YoY	Chg QoQ
Balance sheet							
Gross loans	60,337	62,674	63,234	67,214	70,776	17%	5%
Bank loan and debentures	44,182	48,890	50,456	52,024	54,937	24%	6%
Income statement							
Interest income	3,248	3,332	3,385	3,555	3,674	13%	3%
Interest expenses	(425)	(433)	(447)	(467)	(481)	13%	3%
Net interest income	2,822	2,900	2,938	3,088	3,193	13%	3%
Non-interest income	207	208	180	182	195	-6%	7%
Operating income	3,030	3,108	3,118	3,270	3,387	12%	4%
Operating expenses	(1,500)	(1,492)	(1,520)	(1,533)	(1,590)	6%	4%
Operating profit	1,530	1,616	1,598	1,736	1,797	17%	4%
Loan loss provisions	(132)	(62)	(25)	(52)	(69)	-48%	33%
Pre-tax profit	1,398	1,554	1,574	1,684	1,728	24%	3%
Tax	(267)	(316)	(307)	(344)	(346)	30%	0%
Net profit	1,131	1,237	1,267	1,340	1,383	22%	3%
EPS	0.53	0.58	0.60	0.63	0.65	22%	3%
Key ratios							
Loans to borrowings	1.37	1.28	1.25	1.29	1.29		
Net interest margin (%)	19.1	18.9	18.7	18.9	18.5		
Cost to income (%)	49.5	48.0	48.7	46.9	46.9		
Gross NPL (THBm)	621	738	661	674	701		
NPL to total loans (%)	1.03	1.18	1.04	1.00	0.99		
Credit cost (%)	0.90	0.41	0.16	0.32	0.40		
NPL coverage (%)	276	201	212	199	195		

Source: Company data, MKE-ISR

Fig 2: Revised up FY21-22 forecasts after raising loan growth and lowering provisions assumptions

	New			Previous
	2021F	2022F	2020F	2021F
Loan growth	20%	18%	19%	18%
Loan book (THBb)	85.4	100.8	84.7	100.0
NIM	18.5%	18.2%	18.5%	18.2%
OPEX growth	18.0%	15.0%	18.0%	15.0%
Cost to income	47.6%	46.8%	47.7%	47.3%
Provision (THBb)	392	559	468	646
Earnings (THBb)	6,143	7,247	6,050	6,998
Chg in earnings	1.5%	3.6%		
ROE	26.5%	24.9%	26.1%	24.2%

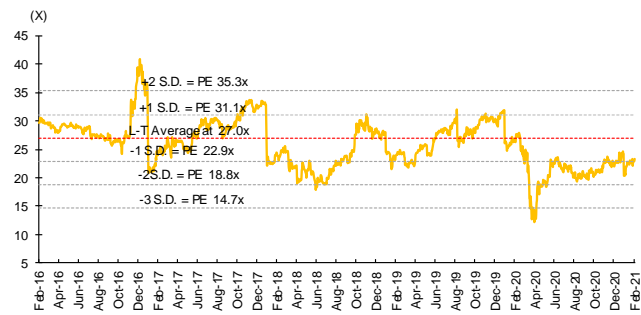
Source: Company, MKE-ISR

Fig 3: Gordon Growth Model valuation

Sustainable ROE (%)	25.9	Risk free rate (%)	2.0
Cost of equity (%)	10.9	Equity premium (%)	8.0
Long-term nominal growth (g)	8.0	Equity Beta (x)	1.1
Target PBV (x)	6.3	Cost of equity (%)	10.9
Target PE (x)	26.6		
2021 BV (THB)	12.2		
Fair value (THB/share)	77.0		

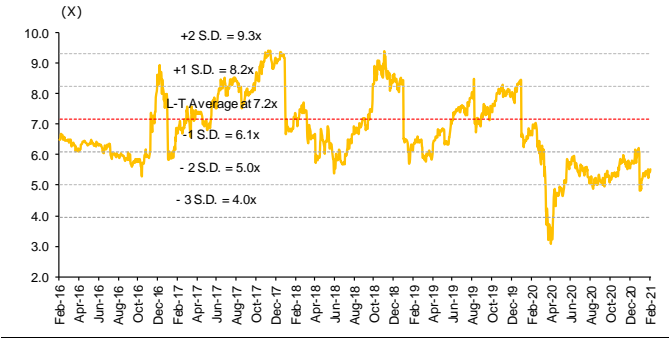
Source: Company, MKE-ISR

Fig 4: PER band



Source: Bloomberg, MKE-ISR

Fig 5: PBV band



Source: Bloomberg, MKE-ISR

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Core P/E (x)	28.0	31.9	27.6	23.3	19.7
Core FD P/E (x)	28.0	31.9	27.6	23.3	19.7
P/BV (x)	8.4	8.5	7.0	5.5	4.4
P/NTA (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.5	0.5	0.5	0.6	0.8

INCOME STATEMENT (THB m)

Interest income	9,544.3	11,879.7	14,022.5	16,408.6	19,092.2
Interest expense	(1,100.3)	(1,526.6)	(1,785.1)	(1,947.6)	(2,150.9)
Net interest income	8,444.0	10,353.2	12,237.4	14,461.0	16,941.3
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	796.4	723.2	730.4	861.9	1,017.1
Other income	75.8	85.0	62.1	74.5	85.6
Total non-interest income	872.1	808.2	792.5	936.4	1,102.7
Income from depositors' funds	0.0	0.0	0.0	0.0	0.0
Income from shareholders' fund:	0.0	0.0	0.0	0.0	0.0
Income distributable to depositors	0.0	0.0	0.0	0.0	0.0
Operating income	9,316.2	11,161.4	13,029.9	15,397.3	18,044.0
Staff costs	(4,100.5)	(5,314.2)	(6,217.6)	(7,336.8)	(8,437.3)
Other operating expenses	(2.8)	0.0	0.0	0.0	0.0
Operating expenses	(4,103.3)	(5,314.2)	(6,217.6)	(7,336.8)	(8,437.3)
Pre-provision profit	5,212.9	5,847.2	6,812.3	8,060.6	9,606.7
Loan impairment allowances	(586.2)	(554.2)	(328.8)	(391.6)	(558.8)
Other allowances	0.0	0.0	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
Pretax profit	4,626.7	5,293.0	6,483.4	7,669.0	9,047.9
Income tax	(913.3)	(1,055.5)	(1,296.7)	(1,526.1)	(1,800.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,713.4	4,237.5	5,186.7	6,142.8	7,247.4
Core net profit	3,713.4	4,237.5	5,186.7	6,142.8	7,247.4

BALANCE SHEET (THB m)

Cash & deposits with banks	880.2	783.2	1,202.2	958.1	862.3
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	0.0	0.0	0.0	0.0	0.0
Available-for-sale securities	0.0	0.0	0.0	0.0	0.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	46,548.3	58,622.7	69,582.0	83,625.7	98,725.0
Financing and advances	0.0	0.0	0.0	0.0	0.0
Central bank deposits	0.0	0.0	0.0	0.0	0.0
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,268.5	1,778.3	1,973.9	2,270.0	2,565.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other assets	449.1	687.2	762.8	877.2	991.2
Total assets	49,146.1	61,871.4	73,521.0	87,731.0	103,143.7
Deposits from customers	0.0	0.0	0.0	0.0	0.0
Deposits from banks & FIs	0.0	0.0	0.0	0.0	0.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	22,989.5	35,207.4	40,488.5	46,966.6	53,542.0
Other borrowings	7,644.7	5,954.5	6,966.8	8,220.8	9,536.1
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	6,212.8	4,737.8	5,543.2	6,641.5	7,827.7
Total liabilities	36,847.0	45,899.7	52,998.5	61,828.9	70,905.7
Share capital	2,120.0	2,120.0	2,120.0	2,120.0	2,120.0
Reserves	10,179.1	13,851.7	18,402.5	23,782.1	30,117.9
Shareholders' funds	12,299.1	15,971.7	20,522.5	25,902.1	32,237.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	12,299.1	15,971.7	20,522.5	25,902.1	32,237.9
Total liabilities & equity	49,146.1	61,871.4	73,521.0	87,731.0	103,143.7

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth (%)					
Net interest income	37.9	22.6	18.2	18.2	17.2
Non-interest income	29.0	(7.3)	(1.9)	18.2	17.8
Operating expenses	36.2	29.5	17.0	18.0	15.0
Pre-provision profit	37.7	12.2	16.5	18.3	19.2
Core net profit	48.5	14.1	22.4	18.4	18.0
Gross loans	34.9	25.6	18.0	20.0	18.0
Customer deposits	na	na	na	na	na
Total assets	33.0	25.9	18.8	19.3	17.6
Profitability (%)					
Non-int. income/Total income	9.4	7.2	6.1	6.1	6.1
Average lending yields	22.81	21.92	21.32	20.95	20.50
Average financing yields	0.00	0.00	0.00	0.00	0.00
Average cost of funds	3.52	3.83	3.75	3.53	3.38
Net interest margin	20.18	19.10	18.61	18.46	18.19
Cost/income	44.0	47.6	47.7	47.6	46.8
Liquidity (%)					
Loans/customer deposits	nm	nm	nm	nm	nm
Asset quality (%)					
Net NPL	0.0	0.0	0.0	0.0	0.0
Gross NPL	1.1	1.0	1.0	1.2	1.2
Net NPF	0.0	0.0	0.0	0.0	0.0
Gross NPF	0.0	0.0	0.0	0.0	0.0
(SP+GP)/average gross loans	3.1	2.8	2.3	2.1	2.1
(SP+GP)/average gross financing	0.0	0.0	0.0	0.0	0.0
Loan loss coverage	277.7	275.8	218.2	178.1	167.2
Capital adequacy (%)					
CET1	0.0	0.0	0.0	0.0	0.0
Tier 1 capital	0.0	0.0	0.0	0.0	0.0
Risk-weighted capital	0.0	0.0	0.0	0.0	0.0
Returns (%)					
ROAE	35.0	30.0	28.4	26.5	24.9
ROAA	8.6	7.6	7.7	7.6	7.6
Shareholders equity/assets	25.0	25.8	27.9	29.5	31.3

Source: Company; Maybank

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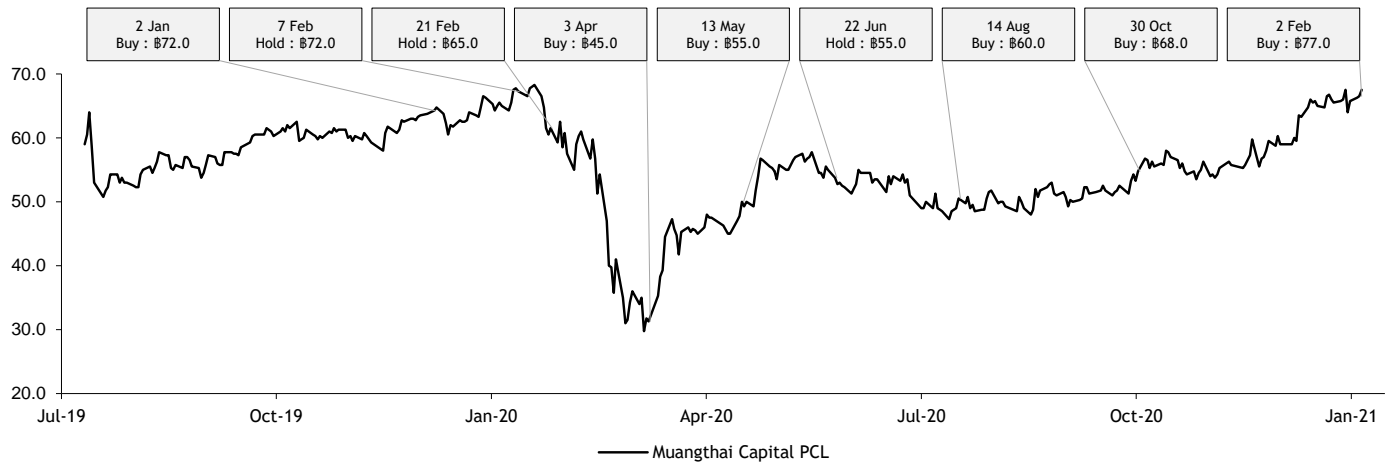
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