

18 July 2012

# Kiatnakin Bank

## Profit overshoot estimate

Bank  
Overweight

EARNINGS RESULTS

**Earnings exceeded estimate by 29%:** KK posted a 2Q12 profit of Bt818m, up by 8% YoY and 42% QoQ. The result was 29% higher than our estimate and 34% above the consensus, attributable to a fatter NIM than expected (we modeled for 3.10%; KK posted 3.53%, boosted by 14% YTD loan growth for 1H12). Hence, 2Q12 pre-provision operating profit jumped 34% YoY to Bt1.2m. 1H12 earnings represent 54% of our earlier FY12 forecast.

**Results highlights:** Lending grew by 6.1% QoQ and 28% YoY to Bt173.7bn (driven by HP, mortgages and SME business); our estimate was 5%. Additionally, KK's NIM soared 60 bps QoQ to 3.53% in 2Q12, driven by strong HP and SME lending growth and better QoQ funding cost management. The B/E proportion of KK's funding mix fell to 26% at end-June 2012 from 44% at YE11.

The bank set loan loss provisions of Bt560m for 2Q12, up 162% YoY and much higher than our estimate of Bt350m. Its NPLs/loans ratio dipped to 3.4% at end-June from 3.5% at end-March. KK increased its loan loss coverage ratio to 106.9% from 102.1% at end-March.

**Outlook:** The bank's 1H12 lending growth out-performance prompted us to upgrade our FY12 loan growth forecast to 25% from 17% formerly. But we maintain our FY12 and FY13 NIM forecasts at 3.11% and 3.10%, respectively. We expect deposit mobilization competition to intensify further in 2H12.

**What's changed?** Because of our expanded expectations for loan growth, we have raised our FY12-13 earnings projections by 9% and 7%, respectively, to Bt2.87bn and Bt3.35bn.

**Recommendation:** Our revised up FY12 profit forecast means that our YE12 target price rises by 25% to Bt41.50, pegged to a justified PBV of 1.06x (re-rated from 0.8x to factor a higher ROE assumption). We, thus, have upgraded our KK rating from SELL to HOLD. There would be scope for upside to earnings if the planned KK-PHATRA merger were to deliver greater synergistic benefits than we currently assume. In the meantime, we regard KK as essentially a dividend play.

## BUALUANG RESEARCH

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# HOLD (upgraded)

Target Price: Bt41.50  
Price (17/07/12): Bt38.25  
KK TB / KK.BK

### Key Ratios & Statistics

Market cap	Bt24.36bn		
12-mth price range	Bt25.75/Bt38.75		
12-mth avg daily volume	Bt85.99m		
# of shares (m)	636.8		
Est. free float (%)	69.8		
Foreign limit (%)	44.0		
<b>Share price perf. (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Relative to SET	4.1	(14)	(0.4)
Absolute	9.3	4.1	12.5

### Financial summary

FY Ended 31 Dec	2010	2011	2012E	2013E
Revenues (Btm)	8,841	11,296	13,257	16,157
Net profit (Btm)	2,840	2,859	2,870	3,350
EPS (Bt)	4.57	4.51	4.53	5.28
BLS/Consensus (x)	n.m.	0.87	0.83	0.71
EPS Consensus (Bt)	n.m.	5.16	5.44	7.44
EPS growth (%)	+27.4%	+7%	+4%	+16.7%
Core profit (Btm)	2,100	2,574	2,201	2,671
Core EPS (Bt)	3.38	4.06	3.47	4.21
Core EPS growth (%)	-6.7%	+20.3%	-14.5%	+21.3%
PER(x)	8.4	8.48	8.4	7.2
Core PER(x)	11.3	9.4	11.0	9.1
P/PPPOP (x)	7.1	7.7	8.4	6.9
PABV (x)	1.0	1.05	1.0	0.9
Dividend (Bt)	2.40	2.40	2.00	2.40
Dividend yield (%)	6.3	6.3	5.2	6.3
ROE (%)	13.6	12.1	11.4	12.4

CG Rating - 2011



**Figure 1: 2Q12 results**

FY Ended 31 Dec (Btm)	2Q12	2Q11	YoY %	1Q12	QoQ %	6M12	6M11	YoY %
<b>Income Statement</b>								
Interest Income	3,741	2,687	39	3,013	24	6,754	5,144	31
Interest Expense	1,820	1,033	76	1,586	15	3,406	1,904	79
Net interest income	1,921	1,655	16	1,427	35	3,348	3,240	3
Fee & service income	443	349	27	462	(4)	905	648	40
Total non-interest income	502	402	25	508	(1)	1,011	765	32
Operating expenses	1,262	1,191	6	1,256	0	2,518	2,310	9
Operating profit before provisio	1,161	866	34	679	71	1,840	1,695	9
Provisioning charges	560	284	97	213	162	773	440	76
<b>Operating profit after provis</b>	<b>601</b>	<b>582</b>	<b>3</b>	<b>466</b>	<b>29</b>	<b>1,067</b>	<b>1,256</b>	<b>(15)</b>
Exceptional items	362	382	(5)	236	53	598	568	5
Profit before tax	963	964	(0)	702	37	1,666	1,824	(9)
<b>Tax</b>	<b>143</b>	<b>199</b>	<b>(28)</b>	<b>119</b>	<b>19</b>	<b>262</b>	<b>431</b>	<b>(39)</b>
Minority interest	(3)	(7)	<i>nm</i>	(6)	<i>nm</i>	(9)	(11)	(20)
<b>Net profit (loss)</b>	<b>818</b>	<b>758</b>	<b>8</b>	<b>577</b>	<b>42</b>	<b>1,395</b>	<b>1,382</b>	<b>1</b>
<b>EPS</b>	<b>1.29</b>	<b>1.19</b>	<b>8</b>	<b>0.91</b>	<b>42</b>	<b>2.20</b>	<b>2.19</b>	<b>1</b>
<b>Key ratios</b>								
Asset Yield/Avg Assets (%)	7.03	6.57	0.46	6.16	0.87	6.59	6.25	
Funding Cost (%)	3.42	2.52	0.90	3.24	0.18	3.33	2.31	
Interest Spread (%)	3.61	4.04	(0.44)	2.92	0.69	3.61	3.93	
Tax rate (%)	14.8	20.6		17.0		14.8	20.6	
Net Interest Margin (%)	3.53	3.82	(0.29)	2.93	0.60	3.23	3.87	
Assets to Equities (X)	(0.2)	6.4		0.5		(0.2)	6.4	
Cost to Income (%)	52.1	57.9		64.9		57.8	57.7	
Est CAR (%)	14.0	16.3		14.4		14.0	16.3	
<b>Balance Sheet</b>								
Cash & Equivalent	666	337	97	493	35			
<b>Net Loan &amp; accrued interest</b>	<b>149,351</b>	<b>118,235</b>	<b>26</b>	<b>140,954</b>	<b>6</b>			
ST debts, REPO & current po	86,285	78,873	9	93,718	(8)			
Long-term debt	0	0	100	0	0			
<b>Total liabilities</b>	<b>199,044</b>	<b>150,482</b>	<b>32</b>	<b>177,214</b>	<b>12</b>			
Retained earnings	12,457	10,341	20	12,530	(1)			
<b>Shareholders equity</b>	<b>24,436</b>	<b>22,308</b>	<b>10</b>	<b>24,522</b>	<b>(0)</b>			
Minority interests	385	245	57	221	74			
BV (Bt)	38.7	35.2	10	36.6	6			

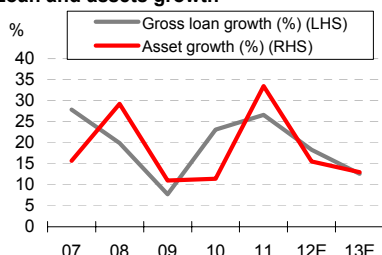
- Heavier YoY LLPs

- NIM rose, due to strong HP and SME lending growth

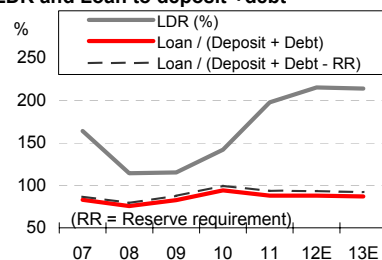
- Net loan growth beat our estimate, driven by SME and HP

Source: Company data

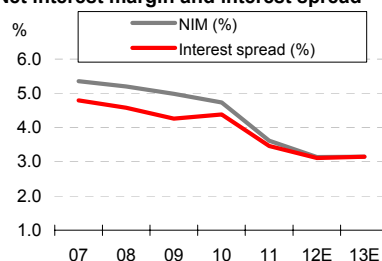
## Loan and assets growth



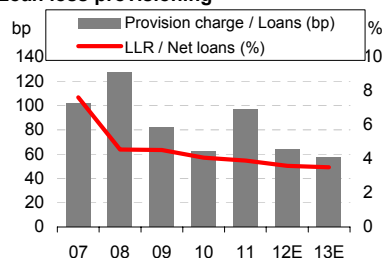
## LDR and Loan to deposit +debt



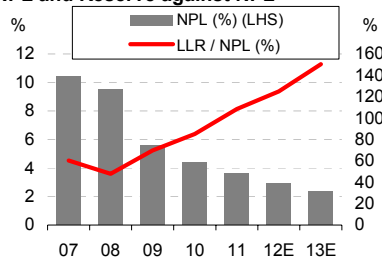
## Net interest margin and interest spread



## Loan loss provisioning



## NPL and Reserve against NPL



	2009	2010	2011	2012E	2013E
<b>PROFIT &amp; LOSS (Btm)</b>					
Interest income	8,376	8,841	11,296	13,257	16,157
Interest expense	-3,039	(2,942)	(4,821)	(6,790)	(8,574)
<b>Net interest income</b>	<b>5,337</b>	<b>5,900</b>	<b>6,476</b>	<b>6,467</b>	<b>7,583</b>
Fee & service income	962	1,257	1,408	1,642	1,763
<b>Total non-interest income</b>	<b>1,097</b>	<b>1,440</b>	<b>1,630</b>	<b>1,908</b>	<b>2,069</b>
<b>Operating income</b>	<b>6,434</b>	<b>7,340</b>	<b>8,105</b>	<b>8,376</b>	<b>9,652</b>
Operating expenses	-3,318	(3,974)	(4,941)	(5,483)	(6,117)
<b>Operating profit before provision</b>	<b>3,116</b>	<b>3,365</b>	<b>3,164</b>	<b>2,892</b>	<b>3,535</b>
Provisioning charges	-684	-647	-1,278	-1,000	-1,000
<b>Operating profit after provision</b>	<b>2,431</b>	<b>2,719</b>	<b>1,886</b>	<b>1,892</b>	<b>2,535</b>
Exceptional items	666	1,361	1,535	1,650	1,650
Tax	-866	-1,213	-535	-654	-806
Minority interest	2	26	27	19	29
<b>Net profit (loss)</b>	<b>2,229</b>	<b>2,840</b>	<b>2,859</b>	<b>2,870</b>	<b>3,350</b>
Reported EPS	3.59	4.57	4.51	4.53	5.28
Fully diluted EPS	3.60	4.57	4.51	4.53	5.28
<b>Core net profit</b>	<b>2,245</b>	<b>2,100</b>	<b>2,574</b>	<b>2,201</b>	<b>2,671</b>
Core EPS	3.62	3.38	4.06	3.47	4.21
<b>PPOP</b>	<b>3,116</b>	<b>3,365</b>	<b>3,164</b>	<b>2,892</b>	<b>3,535</b>

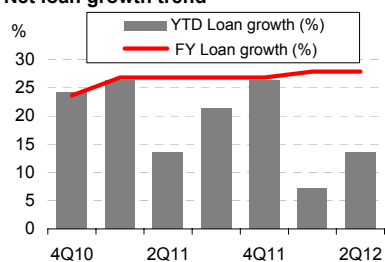
	2009	2010	2011	2012E	2013E
<b>KEY RATIOS</b>					
Revenue Growth (%)	8.55	8.15	25.80	17.28	20.27
PPOP Growth (%)	16.44	8.01	(5.99)	(8.58)	22.21
EPS Growth (%)	19.30	26.73	(1.24)	0.39	16.72
Net Loan Growth (%)	7.76	23.64	26.78	27.85	12.68
Cum. LLRs to Net loans (%)	4.53	4.09	3.91	3.34	3.26
Provision charge to loans (%)	(0.82)	(0.62)	(0.97)	(0.60)	(0.53)
Yield on Average Assets (%)	6.69	6.57	6.04	6.31	6.57
Cost of Funds (%)	2.43	2.19	2.58	3.23	3.49
Interest Spread (%)	4.26	4.38	3.46	3.08	3.09
Net Interest Margin: NIM (%)	4.98	4.73	3.62	3.11	3.08
Effective tax rate (%)	27.96	29.51	15.64	18.46	19.26
Asset growth (%)	11.00	11.42	33.42	21.99	12.81

	2009	2010	2011	2012E	2013E
<b>BALANCE SHEET (Btm)</b>					
<b>Cash &amp; Equivalent</b>	<b>229</b>	<b>282</b>	<b>382</b>	<b>750</b>	<b>1,000</b>
Interbank & securities	11,017	7,912	16,081	10,000	12,500
Investment in securities	22,820	19,349	32,123	40,500	46,000
Net Loan & accrued interests	83,842	103,664	131,427	168,035	189,336
Other assets	9,446	10,692	9,314	11,679	11,724
<b>Total assets</b>	<b>127,354</b>	<b>141,900</b>	<b>189,327</b>	<b>230,965</b>	<b>260,560</b>
Deposits	76,109	75,932	69,040	87,000	98,000
ST debts, REPO & current portion	22,377	25,350	86,013	95,000	110,000
Long-term debt	7,334	13,442	0	13,500	14,000
Other liabilities	3,587	6,265	10,679	10,250	11,500
<b>Total liabilities</b>	<b>109,408</b>	<b>120,989</b>	<b>165,731</b>	<b>205,750</b>	<b>233,500</b>
Paid-up capital	5,232	5,658	6,343	6,343	6,343
Share premium	2,656	3,062	3,062	3,062	3,062
Retained earnings	8,319	9,927	11,224	12,825	14,653
<b>Shareholders equity</b>	<b>17,912</b>	<b>20,671</b>	<b>23,216</b>	<b>24,818</b>	<b>26,645</b>
Minority interests	34	241	379	397	415
<b>Total Liab.&amp;Shareholders' equity</b>	<b>127,354</b>	<b>141,900</b>	<b>189,327</b>	<b>230,965</b>	<b>260,560</b>
	(0.0)	(0.0)	0.0	(0.0)	(0.0)

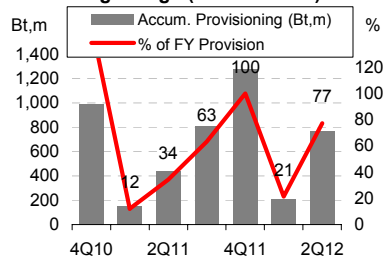
	2009	2010	2011	2012E	2013E
<b>Asset quality</b>					
Loan loss reserve	3,796	4,235	5,133	5,620	6,170
Average interest earnings assets	107,070	124,661	179,049	208,274	245,975
Average interest bearing liabilities	84,283	86,409	152,198	175,276	208,750
BV per share	28.86	36.53	36.60	39.14	42.03
ABV per share	29.05	36.71	36.78	39.33	42.21
NPL amounts	5,442	4,976	4,727	4,500	4,100
NPL (%)	5.60	4.40	3.60	2.68	2.17
Equity/loans	21.4	19.9	17.7	14.8	14.1
Equity/NPLs	329.2	415.4	491.1	551.5	649.9
Loan loss reserve/NPL	60.6	68.1	108.6	124.9	150.5

Sources: Company data, Bualuang Research estimates

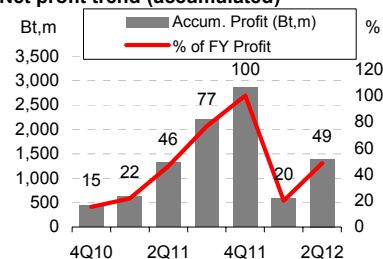
## Net loan growth trend



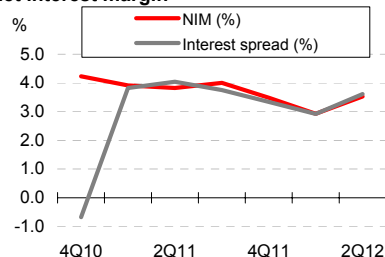
## Provisioning charge (accumulated)



## Net profit trend (accumulated)



## Net interest margin



QUARTERLY PROFIT & LOSS (Btm)	2Q11	3Q11	4Q11	1Q12	2Q12
Interest Income	2,687	3,061	3,091	3,013	3,741
Interest Expense	1,033	1,384	1,532	1,586	1,820
<b>Net Interest Inc</b>	<b>1,655</b>	<b>1,676</b>	<b>1,559</b>	<b>1,427</b>	<b>1,921</b>
Fee & service income	349	340	420	462	443
Other income & MI	53	57	47	46	60
<b>Total non-int inc</b>	<b>402</b>	<b>397</b>	<b>468</b>	<b>508</b>	<b>502</b>
<b>Operating inc</b>	<b>2,057</b>	<b>2,073</b>	<b>2,027</b>	<b>1,935</b>	<b>2,423</b>
Operating expenses	1,191	1,059	1,572	1,256	1,262
<b>Opt profit pre LLP</b>	<b>866</b>	<b>1,014</b>	<b>455</b>	<b>679</b>	<b>1,161</b>
Provisioning charges	284	372	466	213	560
<b>Opt profit post LLP</b>	<b>582</b>	<b>642</b>	<b>-11</b>	<b>466</b>	<b>601</b>
Exceptional items	382	463	504	236	362
<b>Profit before tax</b>	<b>964</b>	<b>1,104</b>	<b>493</b>	<b>702</b>	<b>963</b>
Income tax	199	215	-111	119	143
Minority Interest	(7.1)	(14.7)	-2	-6	-3
<b>Net Profit</b>	<b>758</b>	<b>874</b>	<b>603</b>	<b>577</b>	<b>818</b>
<b>EPS</b>	<b>1.19</b>	<b>1.38</b>	<b>0.95</b>	<b>0.91</b>	<b>1.29</b>
Core profit	659	784	564	554	1,015
<b>Core EPS</b>	<b>1.04</b>	<b>1.24</b>	<b>0.89</b>	<b>0.87</b>	<b>1.60</b>

KEY RATIOS	2Q11	3Q11	4Q11	1Q12	2Q12
Asset Yield/Avg Assets (%)	6.57	6.84	6.61	6.16	7.03
Funding Cost (%)	2.52	3.09	3.28	3.24	3.42
Interest Spread (%)	4.04	3.75	3.33	2.92	3.61
Net Interest Margin (%)	3.82	4.01	3.48	2.93	3.53
Fee income/total operating income (%)	17.0	16.4	20.7	23.9	18.3
BV (Bt)	35.17	35.33	36.60	36.60	38.66
ROE (%)	13.43	31.22	11.23	9.86	14.81
ROA (%)	1.85	2.02	1.29	1.20	1.55
Assets to Equities (X)	6.4	7.0	0.5	6.7	-0.2
Cost to Income (%)	57.9	51.1	77.6	64.9	52.1
Est CAR (%)	16.30	14.8	15.42	14.4	14.01

QUARTERLY BALANCE SHEET (Btm)	2Q11	3Q11	4Q11	1Q12	2Q12
<b>Cash &amp; Equivalent</b>	<b>337</b>	<b>394</b>	<b>382</b>	<b>493</b>	<b>666</b>
Interbank & securities	17,891	20,928	16,081	8,064	7,130
Investment in securities	24,948	27,365	32,123	41,902	56,963
Net Loan & accrued interests	118,235	126,210	131,427	140,954	149,351
Other assets	11,624	10,023	9,314	10,544	9,756
<b>Total assets</b>	<b>173,035</b>	<b>184,921</b>	<b>189,327</b>	<b>201,957</b>	<b>223,865</b>
Deposits	65,267	68,316	69,040	77,875	106,614
ST debts, REPO & current portion	78,873	88,333	91,233	93,718	86,285
Long-term debt	0	0	0	0	1
Other liabilities	9,751	9,752	9,753	5,620	6,144
<b>Total liabilities</b>	<b>150,482</b>	<b>162,135</b>	<b>165,731</b>	<b>177,214</b>	<b>199,044</b>
Paid-up capital	6,343	6,343	6,343	6,343	6,343
Share premium	3,715	3,715	3,715	3,715	3,715
Retained earnings	10,341	10,581	11,224	12,530	12,457
<b>Shareholders equity</b>	<b>22,308</b>	<b>22,410</b>	<b>23,216</b>	<b>24,522</b>	<b>24,436</b>
Minority interests	245	375	379	221	385
<b>Total Liab.&amp;Shareholders' equity</b>	<b>173,035</b>	<b>184,921</b>	<b>189,327</b>	<b>201,957</b>	<b>223,865</b>
	0	0	0	(0)	0

## Asset quality

Loan loss reserve (net write-off)	4,351	4,641	5,133	5,169	5,581
Average interest earnings assets	173,085	167,262	179,049	195,491	218,736
Average interest bearing liabilities	144,349	141,495	152,198	160,088	173,709
BV per share	35.17	35.33	36.60	36.60	38.66
ABV per share	35.35	35.51	36.78	36.78	38.84
NPL amounts	4,679	4,867	4,727	5,063	5,223
NPL (%)	3.80	3.70	3.60	3.50	3.40
Equity/loans	16.58	15.66	17.66	15.04	14.22
Equity/NPLs	482.00	468.17	491.12	488.70	475.22

Sources: Company data, Bualuang Research estimates

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Score Range	Number of Logo	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.