

# KBANK

## Kasikornbank

Current	Previous	Close	2017 TP	Exp Return	THAI CAC	CG 2016
<b>BUY</b>	BUY	193.50	240.00	+ 24%	Certified	5

### Consolidated earnings

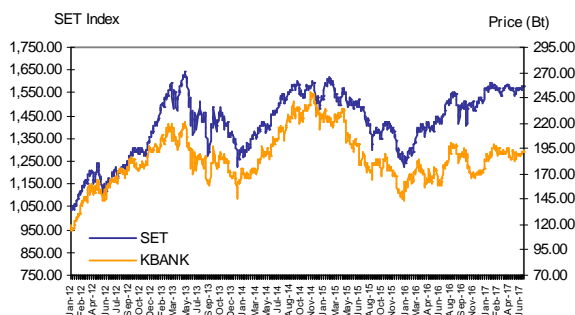
BT (mn)	2015	2016	2017E	2018E
Loans (Bt bn)	1,620	1,707	1,810	1,918
Growth (%)	5	5	6	6
PPOP	80,859	89,548	92,507	95,408
Growth (%)	5	11	3	3
Net profit	39,474	40,174	41,381	42,820
EPS (Bt)	16.49	16.79	17.29	17.89
EPS (Bt) - fully diluted	16.49	16.79	17.29	17.89
Growth (%)	-14	2	3	3
PE (x)	11.7	11.5	11.2	10.8
PE (x) - fully diluted	11.7	11.5	11.2	10.8
DPS (Bt)	4.00	4.00	4.25	4.30
Yield (%)	2.1	2.1	2.2	2.2
BVPS (Bt)	119.42	134.44	147.73	161.37
P/BV (x)	1.6	1.4	1.3	1.2
Par (Bt)	10	10	10	10

Source: Company data, FSS estimates

### Share data

Close (21/06/2017)	193.50
SET Index	1,577.01
Foreign limit/actual (%)	48.98/48.98
Paid-up shares (mn)	2,393.26
Free float (%)	66.50
Market cap (Bt mn)	463,095.85
Avg daily T/O (Bt mn) (2017 YTD)	1,020.21
Hi, lo, avg (Bt) (2017 YTD)	201.00, 179.50, 189.78

Source: Setsmarts



Source: SET

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## Positive sign in business loan

KBANK reported higher loans in May. To elaborate, they increased more than expected thanks to long-term business loans. Moreover, 2H17 loan outlook is better than that in the first half. Hence, it is likely that KBANK will be the first in the banking sector to revise up its loan growth target for this year. In the near term, our 2Q17 profit forecast does not offer totally positive view because it is clouded by negative impact from seasonal factor and the cut in MRR in May. Nonetheless, we anticipate loans to grow at higher rate in 2H17, which will help offset such negative impact. Hence, we predict 2H17 net profit to increase H-H amid improved asset quality brought on by write-off, sales and loan growth. Of large banks, we view that KBANK is most attractive and retain our BUY rating on the counter at our 2017 TP of Bt240.

### Wholesale loan beats estimate in May

KBANK's loans increased at a higher-than-expected rate of 1.6% M-M or by about Bt25.6bn in May, helping the bank's 5M17 loans to increase by 2.3%. Most of the gain was business loans. They comprised both working capital and term loans, the latter of which should relate to M&A deals. Looking ahead, KBANK estimate that wholesale loan should continue to grow strong in 2H17 thanks to state policies and loans for new investment. Currently, the bank's growth target for wholesale loan is at 4-6% or about Bt20-30bn, at which KBANK already nearly achieves even by just 1H17 loans. In the meantime, SME loans only inched up, while retail ones decreased.

### Expect 2Q17 net profit to decrease and loan yield to narrow

For 2Q17, our forecast calls for KBANK's net profit to amount to about Bt10bn (-1.2% Q-Q, +6.6% Y-Y). The Q-Q decrease is likely to be attributed to MRR which decreased by 0.5% in May. The rate is applied to SME and mortgage loans, which together account for about 30% of total loans of ~Bt500bn. In this regard, we expect the cut to narrow NIM by -0.05-0.08% from 3.5% to 3.22-3.25% and slash net profit by roughly 2%. Nonetheless, we anticipate part of it to be offset by loans which grew strongly in 2Q17. Specifically, we project that loans will be up by 2% Q-Q in this quarter (vs. nearly flat Q-Q in 1Q17). The Y-Y gain should be made possible by a decline in operating expense. In this regard, we assume cost-to-income ratio of 40%. It's down from the 41.5% in 2Q16 and in line with the bank's plan to impose stricter control on operating cost. Moreover, we assume NIM of 3.36% (vs. 3.41% in 1Q17) and credit cost of 2.08% (vs. 2.14% in 1Q17).

### Maintain BUY rating at 2017 TP of Bt240

We believe NPL will continue to rise in 2Q17. However, the rate of gain should not be a concern. Specifically, we expect it at -Bt5-7bn, which is quite acceptable. Furthermore, we anticipate NPL ratio to steady at about 3.3% as KBANK is about to enter a phase when loans grow at a higher rate than NPL. If the bank fully classifies EARTH's default of its loans of roughly Bt2bn as NPL, such rate should increase by 0.3%. However, we believe it will be dealt with in 2H17 and impact should be less than expected because the loans are fully backed by collaterals. Assuming in-line 2Q17 net profit, net profit in 1H17 is enough to secure 49% of our full-year estimate. Since we maintain our 2017E net profit at Bt41bn (+3% Y-Y), this also means that we expect 2H17 net profit to increase H-H. Given all that, we retain our BUY rating on KBANK as well as our 2017 TP of Bt240.

*Risks: a decline in interest rate, deterioration in asset quality, and subdued economy*

Income Statement (Consolidated)						Important Ratios (Consolidated)					
(Bt mn)	2014	2015	2016	2017E	2018E		2014	2015	2016	2017E	2018E
Interest and dividend	113,578	114,354	115,873	122,297	128,387	<b>Growth (%)</b>					
Interest costs	30,446	29,341	26,195	27,402	30,270	Gross loans	6.1	5.4	5.4	6.0	6.0
Net interest income	83,132	85,012	89,678	94,895	98,117	Total assets	4.3	7.0	11.4	0.1	3.9
Non-interest income	33,944	37,526	38,943	40,850	42,893	Net interest income	14.2	2.3	5.5	5.8	3.4
Operating Income	138,656	147,515	153,403	161,481	167,879	Non-interest income	15.3	10.6	3.8	4.9	5.0
Operating costs	61,419	66,656	63,854	68,973	72,471	Operating costs	16.1	8.5	-4.2	8.0	5.1
PPOP	77,237	80,859	89,548	92,507	95,408	Provision costs	21.3	85.2	28.0	3.7	2.9
Provision	14,243	26,377	33,753	35,000	36,000	Pre-Provision profit	13.5	4.7	10.7	3.3	3.1
Optg. Profit after						Net profit	11.7	-14.5	1.8	3.0	3.5
Provns.	62,994	54,482	55,796	57,507	59,408	<b>Profitability (%)</b>					
Net non-operating items	1	2	3	4	5	Operating cost / income	44.3	45.2	41.6	42.7	43.2
Pre-tax profit	62,994	54,482	55,796	57,507	59,408	Gross loans / deposits	94.3	95.0	95.1	95.1	95.1
Tax charge	12,692	10,527	10,456	10,926	11,288	Average earnings yield	5.2	4.9	4.5	4.5	4.6
Profit after tax	50,302	43,955	45,340	46,581	48,120	Average funding cost	1.7	1.6	1.3	1.3	1.4
Extraordinary items						Net interest margin	3.8	3.7	3.5	3.5	3.5
Net profit	46,153	39,474	40,174	41,381	42,820	Fee income / Revenue	0.0	0.0	0.0	0.0	0.0
						Non interest inc. / Income	49.9	53.6	54.9	52.7	51.9
						Optg. income/Total					
						Assets	5.8	5.8	5.4	5.7	5.7
						Optg. Costs/Total Assets	1.3	1.1	0.9	1.0	1.0
						ROA	1.9	1.5	1.4	1.5	1.4
						ROE	19.4	14.5	13.2	12.3	11.6
						<b>Asset quality (%)</b>					
						NPLs / Total loans	2.2	2.7	2.7	3.3	3.1
						NPLs / Total assets	1.5	1.9	1.7	2.1	2.0
						Provision expense / Loans	1.0	1.7	2.0	2.0	1.9
						Loan Loss Reserves / NPLs	141.4	130.0	130.0	141.7	141.7
						<b>Capitalization (%)</b>					
						Tier 1	12.0	14.5	15.2	15.5	15.4
						Tier 2	3.2	3.5	3.7	3.2	3.1
						Total CAR	15.3	18.0	18.8	18.7	18.5
						<b>Per share data (Bt/share)</b>					
						Shares in issue (million)	2,393	2,393	2,393	2,393	2,393
						Reported EPS	19.28	16.49	16.79	17.29	17.89
						Pre-Provision EPS	32.27	33.79	37.42	38.65	39.87
						BVPS	107.41	119.42	134.44	147.73	161.37
						DPS	4.00	4.00	4.00	4.25	4.30
						DPS/EPS (%)	20.75	24.26	23.82	24.58	24.03
						<b>Valuations (x)</b>					
						P/E	10.0	11.7	11.5	11.2	10.8
						Normalized P/E	6.0	5.7	5.2	5.0	4.9
						P/BV	1.8	1.6	1.4	1.3	1.2
						Dividend yield (%)	2.1	2.1	2.1	2.2	2.2

Source: Company data, FSS research

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Nakornratchasima

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Aumphoe Meung, Pattane

**Recommendation Definitions**

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

*Note: The expected return may change as market risks increase or decline.*

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**Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2016**

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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**Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)**

1 CG Score 2016 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors

(as of October 28, 2016) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.