

Kasikornbank - KBANK

Downbeat outlook on unexpectedly high provision

Bloomberg | Reuters
KBANK TB | KBANK.BK



Phillip Securities Research Pte Ltd
2 October 2013

Report type: Company Preview

Company Overview

KBANK is Thailand's fourth biggest lender in terms of assets. Corporate, SME and retail businesses represent 39%, 20% and 30% of the bank's loan portfolio respectively.

- KBANK is expected to book Bt9.8bn net profit in 3QCY13, down q-q but up y-y.
- SME loan appears to short of target, but total loan seems to meet the target.
- NPL would increase slightly and KBANK plans to set higher provision in 3QCY13.
- We cut down our CY13-CY14 earnings projection to reflect higher provision outlook.
- Our price target is revised down to Bt213/share, but the stock price still offers a significant upside and thus we rate a 'BUY' call for KBANK.

What is the news?

We project 3QCY13 net profit to decline 11% q-q but to increase 7% y-y to Bt9.8bn.

At end-3QCY13, total loan is expected to increase by 7.1% from end-2012, which seems to be in line with the target. NPL would increase slightly but it remains under manageable level and KBANK plans to set high provision in the quarter.

How do we view this?

The increase in provision seems to dampen the Sep-quarter's earnings and this move is against our previous view on normal provision in the second half of year.

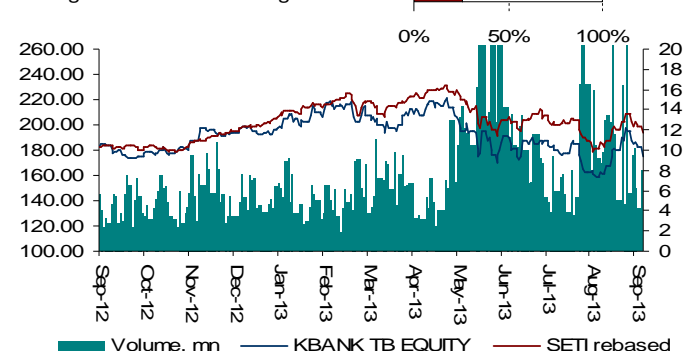
SME loan appears to be the only segment underperforming the bank's target. However, seasonally high demand during late year would drive the full-year loan to meet the target.

Investment Actions?

The downward revised earnings projection drags our price target lower to Bt213/share. However, the current share price continues to offer a significant upside, and thus we reiterate a 'BUY' rating on KBANK.

Kasikornbank Bank

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	213.00	
- Previous Target Price (Bt)	249.00	
Closing Price (Bt)	175.00	
Expected Capital Gains (%)	21.7%	
Expected Dividend Yield (%)	2.1%	
Expected Total Return (%)	23.9%	
Raw Beta (Past 2yrs weekly data)	1.12	
Market Cap. (USD mn)	13,381	
Enterprise Value (USD mn)	NA	
Market Cap. (Bt mn)	418,821	
Enterprise Value (Bt mn)	NA	
3M Average Daily T/O (mn)	10.4	
52 week range	158 - 225	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. Thai NVDR	26.8
2. STATE STREET BANK AND TRUST COMPANY	8.5
3. CHASE NOMINEES LIMITED 42	4.9

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btrm)	90,508	104,305	114,371	124,673
Net Profit (Btrm)	24,226	35,260	39,361	44,319
EPS (Bt)	10.12	14.73	16.45	18.52
Net Profit, adj. (Btrm)	24,226	35,260	39,361	44,319
EPS, adj. (Bt)	10.12	14.73	16.45	18.52
P/E (X),adj.	17.3	11.9	10.6	9.5
BVPS (Bt)	64.68	77.28	91.02	106.60
P/B (X)	2.7	2.3	1.9	1.6
DPS (Bt)	2.50	3.00	3.25	3.75
Div. Yield (%)	1.4	1.7	1.9	2.1

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/B'14 (2x)

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3QCY13 net profit to reach Bt9.8bn, down q-q but up y-y

KBANK's 3QCY13 net profit is projected to fall 11% q-q to Bt9.8bn. Net interest income is expected to increase in line with increased loan, but fee-based income would decline on lower commission tracking decreased volume in capital market amid higher expense. In the quarter, KBANK is expected to set high provision, likely dragging earnings down q-q. Compared to a year earlier, net profit would increase 7% y-y as NII seems to increase along with an increased loan as well as non-interest income, driven by higher fee-based income and revenue contribution from chain companies (i.e. insurance business).

SME loan short of target but total loan in line

According to KBANK's management, SME loan growth is expected to short of target. At end-August, SME loan grew as much as 5.2% from end-2012, well below CY13 target of 10%-12%. In the same period, corporate loan turned out to increase by 9%, exceeding target of 4%-6% this year, while retail loan increased 6.2% from the 10%-13% target. Overall, total loan is projected to grow by the range of 6%-8% in 3QCY13 compared to the whole-year target of 9%-11%. KBANK believes the loan growth target will be achievable as the bank expects SME to grow notable to meet the target during seasonally high demand in late year. We project SME loan to increase further by 2.2% at end-3QCY13, adding to 7.1% from end-2012.

NPL seen up slightly; KBANK set high provision in 3QCY13

NPL increased slightly q-q in 3QCY13 largely due to retail and SME loans. However, the notable increase in total loan appears to help maintain NPL to total loan at 2.1%. Nevertheless, KBANK intends to increase provision for the second half of year by 0.85% of total loan, from currently 0.65%. This move is against our previous view on normal provision in 2HCY13 since the bank already set high provision in 1QCY13 to curve any economic uncertainty and lowered provision to normal level in 2QCY14.

CY13-CY14 earnings outlook downgraded on high provision

To reflect high provision in 3QCY13, we trim our CY13-CY14 earnings outlook, cutting CY13 net profit down by 3% from earlier estimated Bt41bn (Bt16.94/share) to Bt39bn (or Bt16.45/share) and CY14 net profit down from Bt46bn (Bt19.06/share) to Bt44bn (Bt18.52/share). We however keep our estimated dividend payment unchanged at Bt3.25/share and Bt3.75/share over the same period.

Significant upside to revised Bt213 target price; 'BUY' rating

Rolling forward to CY14 earnings with derated P/BV of 2x (earlier 2.5x) on the downwardly revision of CY14 earnings outlook and higher economic downside risk, our price target arrives at Bt213/share. As the current share price still offers a significant upside, we thus rate KBANK a 'BUY' stance.

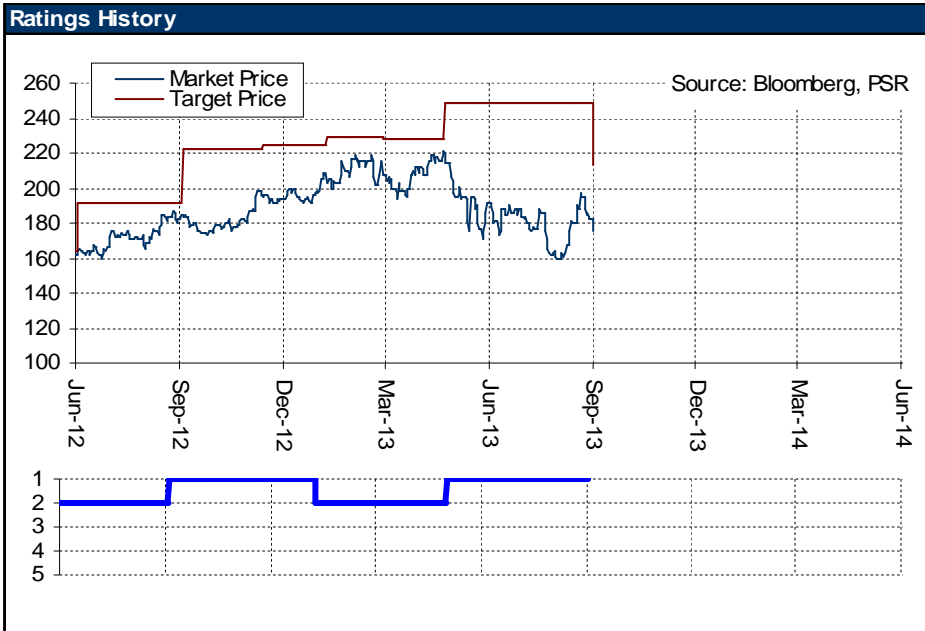
KBANK (Btmn)	3Q13F	2Q13	3Q12	y-y+/-	q-q+/-	9M13F	9M12	y-y+/-
Net interest income	18,393.12	17,931.31	16,203.95	13.51%	2.58%	53,529.51	46,587.36	14.90%
Net fee and service income	7,005.28	7,373.98	6,233.18	12.39%	-5.00%	21,515.49	17,707.55	21.50%
Other non-interest income	4,714.08	5,264.08	4,077.36	15.62%	-10.45%	14,339.55	12,864.85	11.46%
Total Income	30,112.48	30,569.37	26,514.50	13.57%	-1.49%	89,384.55	77,159.76	15.84%
Operating expense	13,538.64	13,037.49	11,543.61	17.28%	3.84%	38,063.76	33,229.40	14.55%
Impairment loss of loans and debt securities	3,079.00	2,199.75	2,017.65	52.60%	39.97%	8,803.52	5,742.14	53.31%
Profit from operating before income tax expense	13,494.84	15,332.13	12,953.23	4.18%	-11.98%	42,517.27	38,188.22	11.34%
Income tax expenses	2,698.97	3,334.80	3,009.78	-10.33%	-19.07%	8,776.35	8,613.77	1.89%
Pre provisioning profit	16,573.84	17,531.88	14,970.89	10.71%	-5.46%	51,320.79	43,930.36	16.82%
Net profit	9,879.39	10,979.01	9,212.18	7.24%	-10.02%	30,964.44	27,567.49	12.32%
EPS (Bt)	4.13	4.59	3.85	7.24%	-10.02%	12.94	11.52	12.32%
Yield from earning asset	5.13%	5.10%	5.28%	-2.84%	0.56%	5.13%	5.28%	-2.84%
Cost of fund	1.99%	1.92%	2.10%	-5.30%	3.75%	1.99%	2.10%	-5.30%
NIM	3.48%	3.51%	3.51%	-0.68%	-0.79%	3.48%	3.51%	-0.68%
Cost to income ratio	44.96%	42.65%	43.54%	3.27%	5.42%	44.96%	43.54%	3.27%
Balance sheet (Btmn)								
Assets	2,212,844.37	2,225,151.59	2,005,459.64	10.34%	-0.55%	2,212,844.37	2,005,459.64	10.34%
Liabilities	1,987,298.60	2,007,654.09	1,812,025.90	9.67%	-1.01%	1,987,298.60	1,812,025.90	9.67%
Paid-up (m shrs) - Par Bt10	23,932.60	23,932.60	23,932.60	0.00%	0.00%	23,932.60	23,932.60	0.00%
Equities	225,552.93	217,497.50	193,433.75	16.60%	3.70%	225,552.93	193,433.75	16.60%
Book value/share(Bt)	94.25	90.88	80.82	16.60%	3.70%	94.25	80.82	16.60%
Loan to deposit ratio(%)	94.79	95.34	92.61	2.35%	-0.58%	94.79	92.61	2.35%

FYE Dec	CY10	CY11	CY12	CY13F	CY14F
Valuation Ratios					
P/E (X), adj.	20.9	17.3	11.9	10.6	9.5
P/B (X)	3.1	2.7	2.3	1.9	1.6
Dividend Yield (%)	1.4	1.4	1.7	1.9	2.1
Per share data (Bt)					
EPS, reported	8.38	10.12	14.73	16.45	18.52
EPS, adj.	8.38	10.12	14.73	16.45	18.52
DPS	2.50	2.50	3.00	3.25	3.75
BVPS	56.38	64.68	77.28	91.02	106.60
Growth & Margins (%)					
Growth					
Net interest income	18.6	19.7	12.6	11.2	9.1
Net fee income	15.8	18.6	18.6	16.9	18.7
Non interest income	30.7	24.8	19.7	7.2	8.9
Pre provision operating profit	22.8	21.6	15.2	9.7	9.0
Operating income	22.8	21.6	15.2	9.7	9.0
Net income	34.6	20.8	45.5	11.6	12.6
Margins					
Net interest margin	3.5	3.7	3.6	3.4	3.5
Key Ratios					
ROE (%)	13.8	14.5	17.6	16.8	16.3
ROA (%)	1.3	1.4	1.7	1.8	1.8
Non-interest/total income ratio	36.6	37.6	39.0	38.2	38.1
Cost/income ratio	50.1	47.5	45.0	43.1	41.7
Loan/deposit ratio	98.1	98.0	95.9	96.8	97.7
NPL ratio	2.9	2.5	2.2	2.1	1.9
Income Statement (Bt mn)					
Net Interest Income	47,212	56,491	63,581	70,718	77,143
Net Fee Income	17,404	20,637	24,467	28,591	33,923
Other Non interest income	9,843	13,380	16,257	15,062	13,607
Total Non interest income	27,247	34,017	40,724	43,653	47,531
Total operating income	74,458	90,508	104,305	114,371	124,673
Operating expense	37,322	43,019	46,934	49,277	51,961
Pre provision operating profit	74,458	90,508	104,305	114,371	124,673
Provision	6,696	7,346	8,390	12,500	13,750
Profit Before Tax	30,440	40,144	48,981	52,594	58,962
Taxation	9,094	13,962	11,136	10,519	11,792
Profit After Tax	21,346	26,182	37,845	42,075	47,170
Non-controlling Interest	1,299	1,957	2,585	2,715	2,850
Net Income, reported	20,047	24,226	35,260	39,361	44,319

Source: PSR est.

FYE Dec	CY10	CY11	CY12	CY13F	CY14F
Balance Sheet (Bt mn)					
Cash	32,457	53,211	35,127	37,593	39,847
Total interbank and money market items	97,592	111,969	249,979	267,477	286,201
Claim on securities	0	0	0	0	0
Derivatives assets	8,445	26,726	22,112	28,746	37,369
Investment	251,080	264,133	382,163	401,272	421,335
Investment in Sub. & Ass. Comp.	138	162	167	175	184
Total loans and accrued interest receivable	1,080,930	1,219,502	1,336,901	1,470,592	1,617,651
Less loan loss reserves	36,832	46,906	51,592	60,261	69,858
Net loans and accrued interest receivables	1,044,098	1,172,596	1,285,310	1,410,330	1,547,792
Other assets	117,718	94,143	102,585	102,777	103,209
Total Assets	1,551,528	1,722,940	2,077,442	2,248,370	2,435,936
Deposits	1,100,036	1,242,229	1,391,380	1,516,604	1,653,099
Interbank and money market items	33,900	53,340	174,004	179,224	184,601
Liabilities payable on demand	21,622	11,598	16,347	17,165	18,023
Liability to deliver security	0	0	0	0	0
Derivatives liabilities	28,399	27,436	20,140	21,147	22,204
Borrowing	96,684	70,303	87,394	83,025	78,873
Other liabilities	125,399	151,067	187,356	196,702	206,514
Total liabilities	1,406,040	1,555,974	1,876,621	2,013,866	2,163,314
Share capital	42,036	42,036	42,036	42,036	42,036
Retained earnings	83,708	101,829	128,743	160,924	197,466
Other reserves	9,199	10,934	14,166	14,875	15,618
Shareholder Equity	134,943	154,799	184,946	217,835	255,120
Non-controlling interest	10,545	12,167	15,876	16,669	17,503
Total Equity	145,487	166,965	200,821	234,504	272,623

Source: PSR est.



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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