

Next Capital Pcl (NCAP TB)

Riding the wave

Having spent three years enhancing its foundations and building a new platform for growth, NCAP plans to raise its penetration of the growing motorcycle HP market and improve its collection process as it moves more online. We estimate fully diluted EPS growth of 21% p.a. over 2020-23F and derive an equity value of Bt2.53bn.



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Ready, set, grow

With COM7 Pcl (COM7 TB, BUY, Bt42.75) and Synnex (Thailand) Pcl (SYNEX TB, Not rated) as new shareholders with an experienced new management team, we see NCAP transforming from a conservative motorcycle captive-financing firm into a fully equipped hire-purchase player using a state-of-the-art online platform to enhance its selling, service and collection capabilities. Despite building up its foundations in 2017-19, NCAP was able to grow its loan portfolio at an average 39% clip p.a. In light of its branch and dealer partnership expansion plans, swifter service turnaround time and more focused marketing campaigns, we project net loan growth of 23%, 18% and 13% over 2021-23F with the new motorcycle penetration rate rising from 2.7% in 2020F to 3.5% in 2021F and 3.6% in 2022-23F.

Growth outlook

We estimate a fully diluted EPS decline of 5% in 2021F before growth of 52% in 2022F and 21% in 2023F. Drivers are industry growth (recovering after the COVID-19 crisis amid rising motorcycle demand along with the growing delivery and logistics business), market share gains, higher bad debt recovery, digitalization cutting paperwork and improving debt collection. We see decent potential for NCAP to expand its hire-purchase business beyond motorcycle sales in light of its shareholders' extensive distribution channels and strong customer base. We have yet to incorporate all this into our numbers.

Solid balance sheet

NCAP funds its business expansion via bank loans and internal cash flow. Average loan duration is 33 months and the portions of short-term and long-term loans were 13% and 87% as of 1H20. With a Bt1bn back-up line from shareholders at a 4% interest rate and leveraging on its strong connections with banks, NCAP has been able to lower its cost of funds from 4.6% in 2019 to 4.2% in 1H20. We believe NCAP is planning to tap the bond market post-IPO and this should help keep its funding costs below 4%. NCAP is keen to contain NPLs and asset quality is one of its key KPI. The company's NPL ratio of 2.3% in 1H20 was significantly below the industry average of 4.7-14.5%. Along with growing loans, we estimate its NPL ratio at 3.7-4.5% over 2021-23F.

Plans to issue 300m new shares via IPO

NCAP plans to issue 300m new shares via its IPO, bringing the total number of shares to 900m. The IPO proceeds would be used to upgrade its IT infrastructure, repay loans and support business growth. Using DDM methodology with a cost of equity of 10.5%, we derive an equity value of Bt2.53bn.

COMPANY VALUATION

Y/E Dec (Bt m)	2019A	2020F	2021F	2022F
Pre Provision Profit	549	630	750	955
Net profit	126	167	220	335
Norm profit	126	167	220	335
Net profit gr (%)	40.4	32.4	31.9	51.9
Norm profit gr (%)	40.4	32.4	31.9	51.9
ROE (%)	12.8	11.6	11.6	16.0
ROA (%)	3.3	3.8	4.4	5.7

Sources: Company data, Thanachart estimates

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Who is NCAP?

NCAP is a motorcycle hire-purchase play with a rising industry penetration rate

Originally named BAF (Thailand) Co., Ltd (BAF), the company was established on 17 August 2004 by Mitsui & Co., Ltd (MITSUI) with Bt8m of paid-up capital to offer captive financing for the hire-purchase of Yamaha motorcycle. It expanded to other brands, i.e. Honda, Vespa, Kawasaki and Suzuki in 2014. In 2017, MITSUI group in Japan underwent a business restructuring and decided to divest its stake in BAF to 25% before selling its entire holding in the company in March 2019.

At the end of 2019, COM7 Pcl (COM7 TB, BUY, Bt42.75) and Synnex (Thailand) Pcl (SYNEX TB, Not rated) became major shareholders, with each raising their holding in the company from 28% to 40%. It plans to become a listed company and it has raised its registered capital from Bt600m to Bt900m to support its IPO plan.

Ex 1: NCAP's Key Milestones

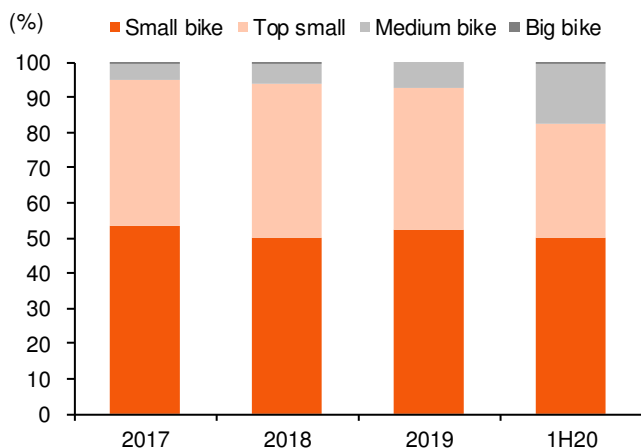
2004	Established as BAF (Thailand) by Mitsui Corporation
2014	Opens more branches and expands from the Yamaha captive brand to all brands
2017	Increases paid-up capital to Bt300m with COM7 and SYNEX becoming major shareholders
2019	Changes company name to Next Capital
2020	Increases registered capital to Bt900m at Bt0.5 par value, preparing for its IPO

Sources: Company data, Thanachart estimates

NCAP is a non-bank so it is not under the Bank of Thailand's (BoT) supervision. The company acquires motorcycles from dealers to offer them for hire purchase to customers who do not want to settle payment upfront in cash while also providing an alternative funding choice for customers who cannot access commercial bank services.

NCAP's main business i.e. 98% involves new motorcycles. For used motorcycles, it currently only supports the auction of repossessed assets. In line with the industry, 90% of NCAP's loan portfolio comprises small and so-called top small bikes. It has over 600 dealers. The company provides services nationwide but it has a relatively high penetration rate in the South. Of total motorcycle sales of 2.0m units in 2017, 1.95m units in 2018 and 1.88m in 2019, NCAP's penetration rate stood at 1.65%, 2.23% and 2.36% respectively.

Ex 2: Loan Breakdown By Type Of Motorcycle



Sources: Company data

Ex 3: Credit Limit Vs. Flat Interest Rate

	Credit limit	Interest rate per month
Small bike	Bt30-60k	1.59%-1.99%
Top small	Bt80-100k	
Medium bike	Bt100-200k	0.50-0.75%
Big bike	Bt200k-1.5m	

Sources: Company data

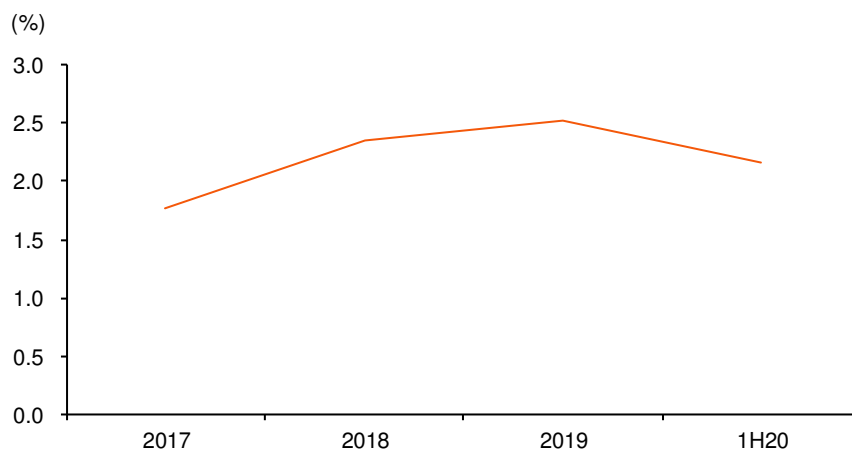
Ex 4: NCAP's New Motorcycle Penetration Rate

	2017	2018	2019	6M20
Number of registered red-label motorcycles (vehicles)	1,810,856	1,792,570	1,723,370	733,808
Number of new contracts that NCAP lends to (vehicles)	32,088	42,124	43,279	15,882
% new NCAP contracts per registered amount	1.77%	2.35%	2.51%	2.16%

By region	2017	2018	2019	6M20
All	1.77%	2.35%	2.51%	2.16%
Bangkok	0.97%	1.70%	1.36%	0.95%
Central	5.28%	6.40%	7.57%	8.41%
Eastern	1.48%	2.13%	2.84%	2.14%
Northeast	0.62%	0.77%	1.56%	1.25%
North	0.80%	0.78%	0.71%	0.53%
Western	2.21%	3.32%	2.59%	2.57%
South	5.18%	6.76%	6.40%	6.24%

Source: Company data

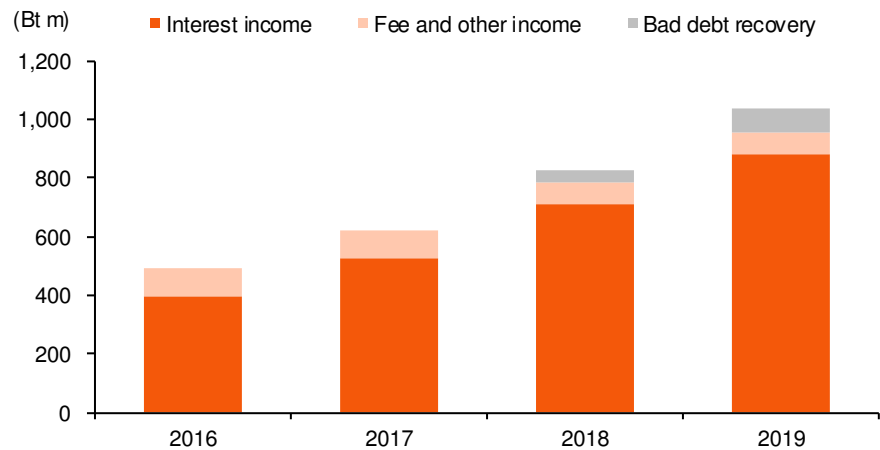
Ex 5: NCAP's Overall Penetration Rate



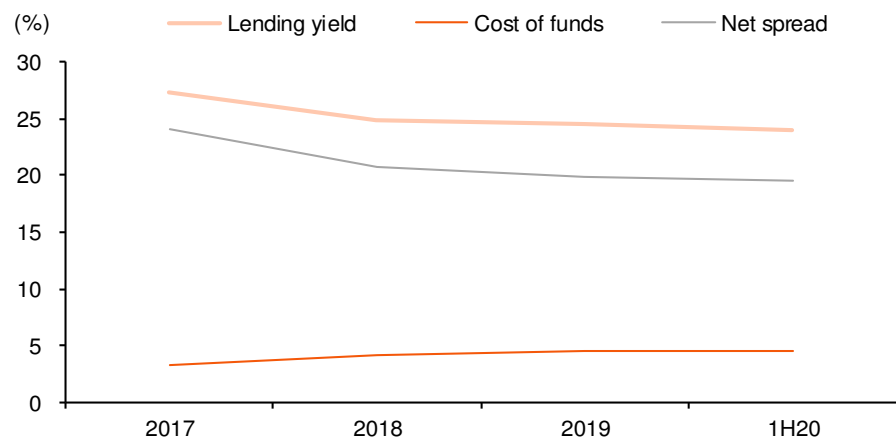
Source: Company data

Most income comes from receiving interest income

Around 85% of revenues come from interest income. The rest comprises loan-related fees and bad debt recovery. Exhibit 6 below shows NCAP's revenue structure over 2017-19. There is no ceiling interest rate regulation on hire-purchase loans. The business charges flat rates by nature. NCAP's funding is mostly sourced from bank loans. However, COM7 and SYNEX provide a back-up credit facility of Bt1bn at an interest rate of 4%. NCAP's funding structure was 17% short-term and 83% long-term debt as of 1H20. Lending yield stood at 27% in 2017 and 25% in 2018-19 and NCAP's net interest spread was 24%, 21% and 20% respectively. Major operating costs are staff expenses (63% of the total).

Ex 6: Revenue Breakdown

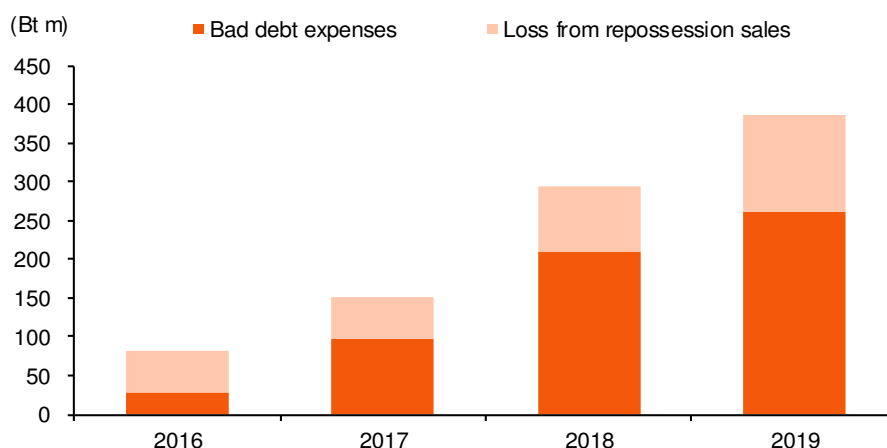
Source: Company data

Ex 7: Yield Vs. Cost Of Funds Vs. Net Spread

Source: Company data

Prior to the TFRS9 accounting treatment, NCAP set aside provisions based on the age of loans. NPL classification takes place when loans are overdue for more than three months while it sets aside 100% provisions for loans that are overdue for over six months. NCAP adopted TFRS9 on 1 January 2020. Based on 1H20 data, expected credit loss was 6.1% of net loans. It had loss from repossessed sales of Bt126m in 2019 while it booked a gain of Bt4m in 1H20. As of 1H20, loans under stage one and two comprised 97.7% of total loans while stage-three loans or NPLs came to Bt82m and accounted for 2.3% of total loans.

Ex 8: Bad Debt Expenses And Loss From Repossession Sales



Source: Company data

Motorcycle hire-purchase is a fragmented market. Motorcycle dealers provide financing themselves while they also recommend financing firms to motorcycle buyers. Pricing competition is intense with incentives for dealers while quick approval turnaround times also play a major role in driving hire-purchase volume. Players can be categorized into three groups as follows:

- 1) Banks' subsidiaries which have advantages in funding and capital.
- 2) Captive finance, i.e. the financing arms of motorcycle producers which have good relationships with dealers.
- 3) Non-banks such as NCAP.

Exhibit 10 shows the financial highlights of NCAP's peers, both listed and non-listed ones.

Ex 9: NCAP's Peers

	Next Capital	Group Lease Pcl	S11 Pcl	Thitikorm Pcl	Summit Capital Leasing	T Leasing	WorldLease	Hi-Way	Ayudhya Capital Auto Lease
Year of establishment	2004	1986	2011	1972	1994	1993	1994	1978	1995
Paid-up capital (Bt m)	300.00	762.77	613.00	500.00	150.00	3,500.00	600.00	600.00	25,545.00
Total income in 2019 (Bt m)	1,033.58	2,512.82	1,914.65	3,719.14	3,356.83	1,513.00	1,721.00	2,000.00	9,715.00
Loans outstanding (Bt m)	3,836.00	6,098.00	6,185.00	7,439.00	8,184.00	7,288.00	5,442.00	4,156.00	47,263.00
Business overview	Motorcycle hire purchase	Hire purchase, Auto-title loans	Motorcycle hire purchase	Hire purchase	Motorcycle hire purchase and personal loans	Motorcycle hire purchase	Motorcycle hire purchase	Motorcycle hire purchase	Hire purchase and financial lease

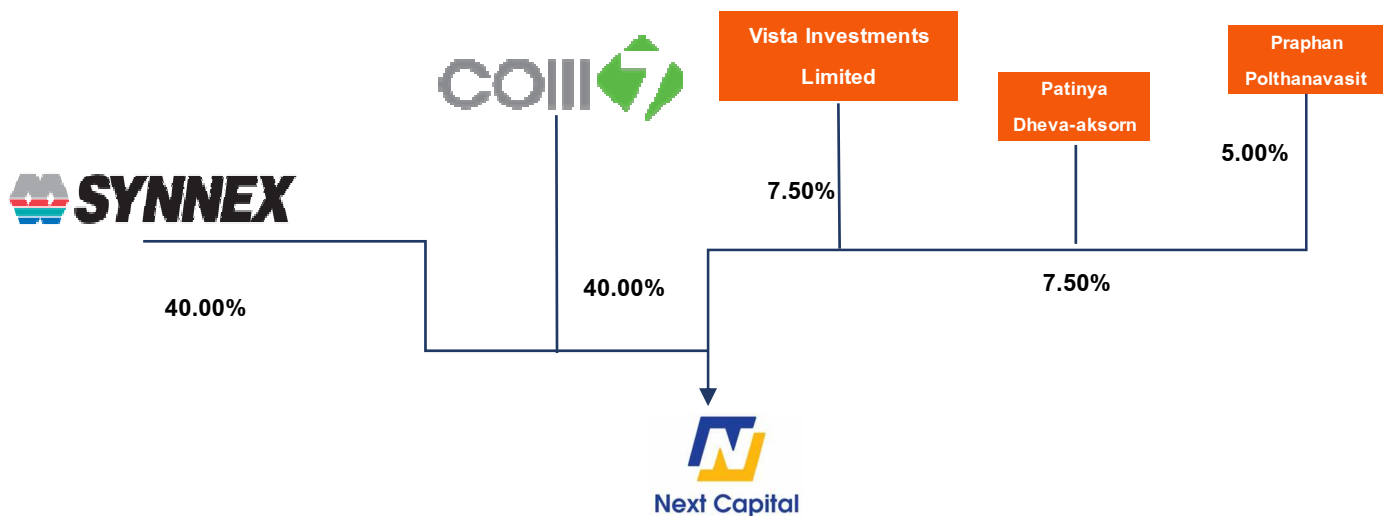
Source: Company data, Thanachart compilation

Plans to issue 300m new shares via IPO

NCAP plans to issue 300m new shares via its IPO, bringing its total number of shares to 900m from 600m presently. The IPO proceeds would be used for the following activities:

- 1) 5% to invest in IT infrastructure.
- 2) 15% to repay loans to financial institutions.
- 3) 80% for working capital.

Ex 10: Pre-IPO Shareholding Structure



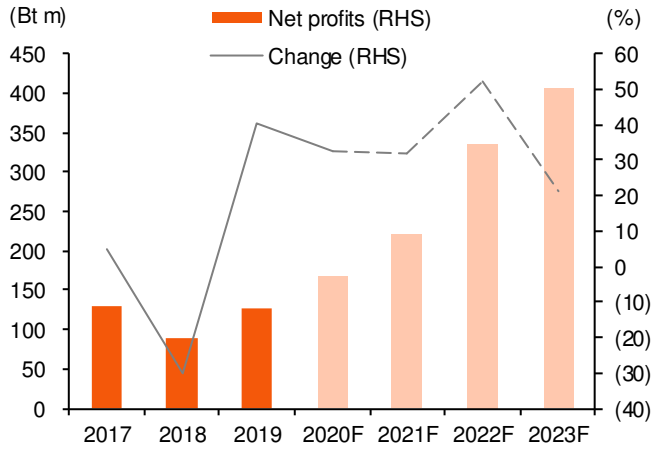
Source: Company data

We see NCAP offering the following investment qualities

- 1) NCAP has 16 years of experience in the motorcycle hire-purchase business with its strength in the Yamaha brand along with its strong foothold in the southern part of Thailand.
- 2) It is transforming from conventional captive financing into a fully equipped hire-purchase play, with full support from its major shareholders, i.e. COM7 and SYNNEX, which are leaders in IT retail outlets and wholesale IT distribution.
- 3) The company's move toward an online platform will likely further strengthen its sales, services and collection capabilities. Along with its branch and dealer partnership expansion plans, we expect NCAP to gain more market share and enjoy improving efficiency.
- 4) We estimate a fully diluted EPS decline of 5% in 2021F before growth of 52% in 2022F and 21% in 2023F. Drivers are industry growth (recovering after the COVID-19 crisis and rising motorcycle demand along with the growth of the delivery and logistics businesses), market share gains, higher bad debt recovery, digitalization cutting paperwork and improving debt collection.
- 5) NCAP's balance sheet is solid with a decent funding structure and manageable NPLs. We expect the firm's listing to allow it to tap cheaper funding in the future.

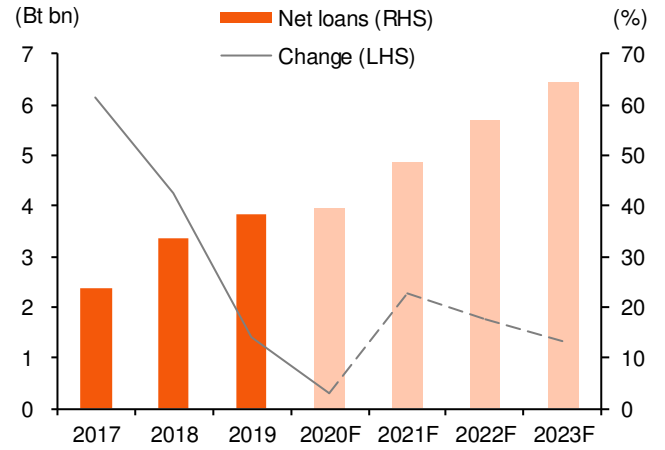
- 6) We foresee strong potential for NCAP to expand its hire-purchase business beyond motorcycle sales in light of its shareholders' extensive distribution channels and solid customer bases but we leave this as potential upside to our forecasts.

Ex 11: Net Profit Growth



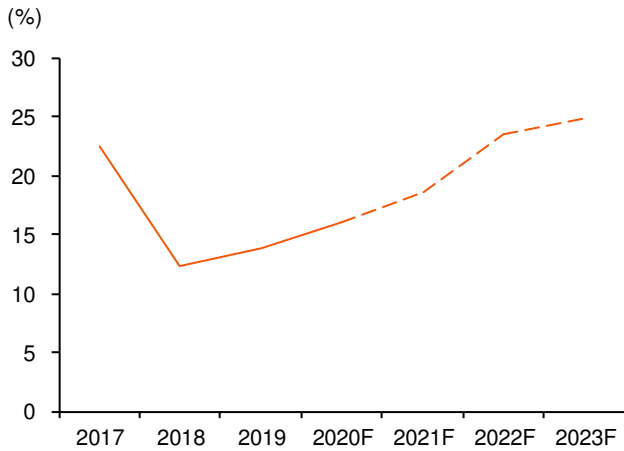
Sources: Company data, Thanachart estimates

Ex 12: Net Loan Growth



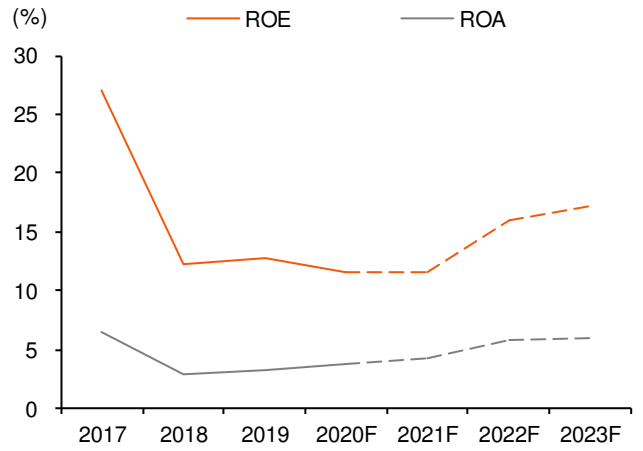
Sources: Company data, Thanachart estimates

Ex 13: High Margin...



Sources: Company data, Thanachart estimates

Ex 14: ...And Profitability



Sources: Company data, Thanachart estimates

Ready, set, grow

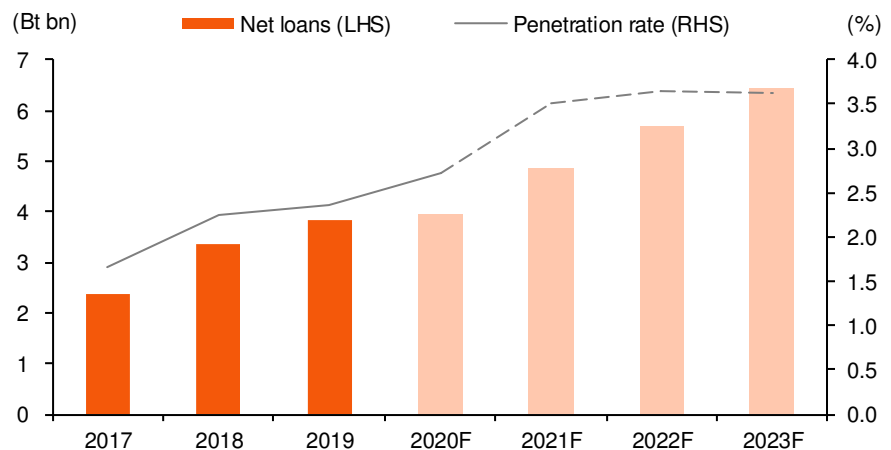
From a conventional captive financing firm to a fully equipped HP play

Motorcycles are the most affordable means of mechanized transport on the roads and a big industry for a developing country like Thailand. Honda is the most popular brand with a market share of over 75%. From captive financing of Yamaha with Mitsui Corporation as a major shareholder, NCAP has transformed into a non-exclusive motorcycle hire-purchase play with COM7 and SYNEX becoming major shareholders in 2017.

Since then, NCAP has strengthened its business foundations, bringing in a new management team with lengthy experience in the hire-purchase business. Over the foundation built-up phase in 2017-19, NCAP expanded active dealer partnerships. The company has 24 branches nationwide with a strong foothold in the southern part of Thailand. NCAP's market shares in areas where it has already established a footprint have increased markedly over the past three years. From Bt1.47bn in 2016, NCAP was able to grow loans at an average of a 39% clip p.a. over 2017-19.

As key success factors in the business are dealership connections, swift loan approval turnaround times and good debt collection practices, we believe that with the help of good advice from its shareholders, NCAP is upgrading its IT infrastructure, moving online via the use of business intelligence solutions to pursue a data-analytics business growth approach. It is also setting up a credit-scoring system and using a mobile application to enhance credit-underwriting capabilities, speeding up loan approval times and lowering the cost of paperwork. The move from conventional to the online platform from the end of 2020 will likely boost NCAP's capability to compete in the market. We estimate net loan growth of 23% in 2021F, 18% in 2022F and 13% in 2023F. Under our assumption for new motorcycle sales of 1.5m in 2020, rising to 1.8m units in 2023, we foresee NCAP's penetration of the motorcycle hire-purchase market increasing from 2.7% in 2020F to 3.5% in 2021F and 3.6% in 2022-23F.

Ex 15: Net Loan Growth And Penetration Rate



Sources: Company data, Thanachart estimates

Growth outlook

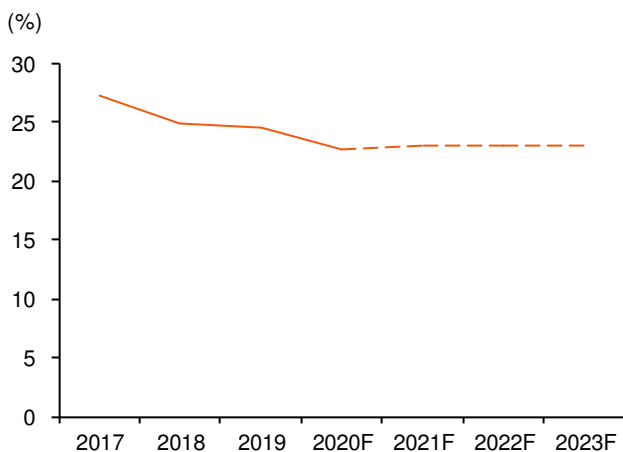
Growing volume with a stable yield of 24%

Interest income is NCAP’s major revenue contributor, making up over 80% of the total. Therefore, loan volume growth is the company’s main growth driver. In light of our assumption for the number of branches to expand from 24 in 2020 to 30 in 2021-23F along with the number of new loan applications growing by 23%, 14% and 17% over the same period, we estimate new loan growth of 38%, 10% and 6% respectively. Note that with the use of IT solutions we expect NCAP to be able to screen applications more quickly and raise its loan approval rate to 64% in 2021F and 66% in 2022F from 63% in 2019.

As for lending yield, which is in line with the industry, NCAP’s portfolio focuses on small and top small motorcycles where interest rate charges are higher than for bigger models. However, pricing competition has intensified and we conservatively assume a lending yield of 23% from 2021F onward in our model. Note that the sharp lending yield drop to 22.7% in 2020 from 24.5% in 2019 was due to a net one-off accounting impact from the recalculation of commissions paid to dealers and a recategorizing of marketing expenses to revenues.

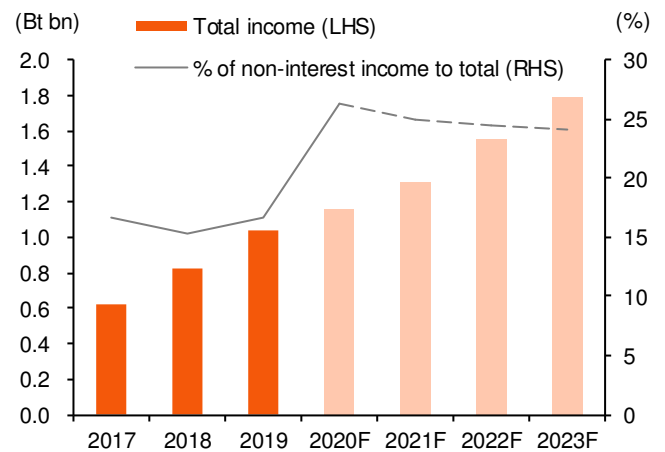
NCAP’s fee income comprises registration and insurance service income. This grows in tandem with new loans while we expect the strength of momentum of the bad debt recovery to continue. As a consequence, we forecast growth in total income of 13% in 2021, 19% in 2022 and 15% in 2023.

Ex 16: Lending Yield



Sources: Company data, Thanachart estimates

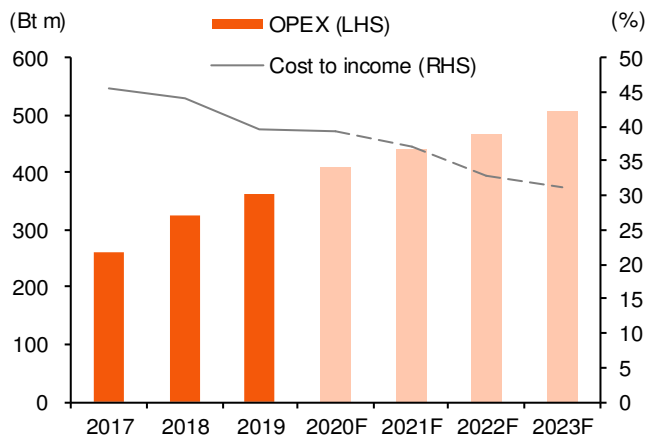
Ex 17: Income Growth And Breakdown



Sources: Company data, Thanachart estimates

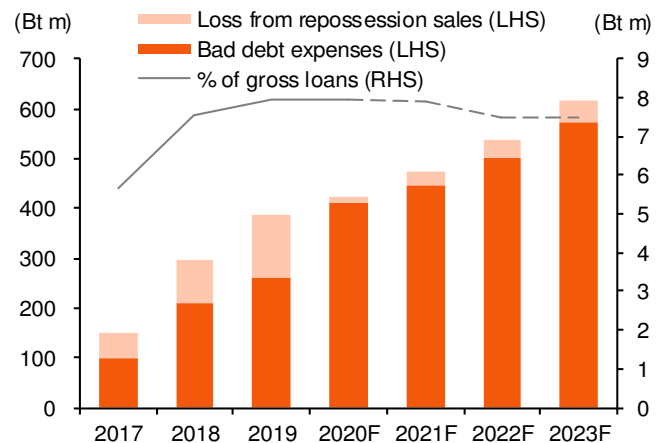
On the cost side, we expect a drop in cost of funds from 4.57% in 2019 and 4.2% in 2020F to 4% in 2021-23F. Thanks to its growing business size and digitalization benefits, we expect NCAP to enjoy positive operating leverage and we estimate a drop in cost to income from 39% in 2020F to 37% in 2021F, 33% in 2022F and 31% in 2023F. We model expected loss expenses of around 7% of gross loans. As the shortage of new motorcycle subsidies as motorcycle makers resume normal operations, we foresee lower prices for used motorcycles and expect an increase in repossession sale losses from 2021F.

Ex 18: OPEX And Cost To Income



Sources: Company data, Thanachart estimates

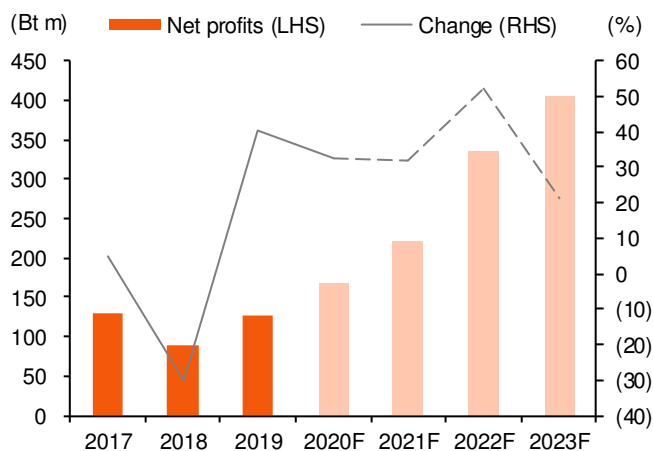
Ex 19: Expected Credit Loss As % Of Gross Loans



Sources: Company data, Thanachart estimates

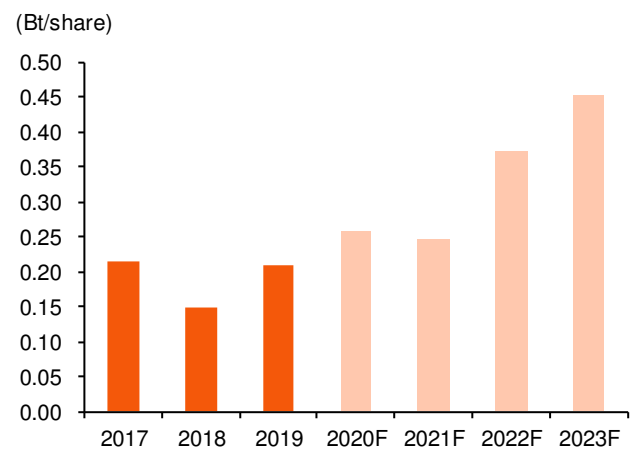
We estimate NCAP to deliver net profit growth of 32% in 2021F, 52% in 2022F and 21% in 2023F. Factoring in IPO share dilution, we project a fully diluted EPS decline of 5% in 2021F, before turning positive at 52% in 2022F and 21% in 2023F.

Ex 20: Net Profit Growth



Sources: Company data, Thanachart estimates

Ex 21: Fully Diluted EPS



Sources: Company data, Thanachart estimates

In a nutshell, we see NCAP's growth drivers as follows:

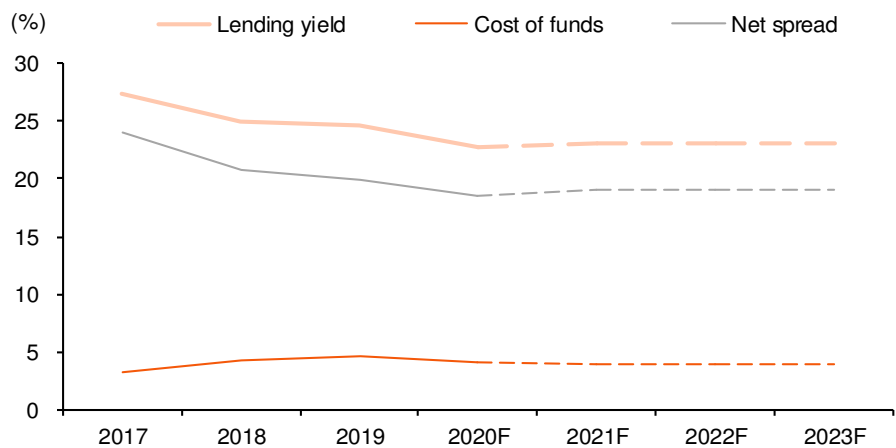
- 1) A recovery of motorcycle sales after production disruption during the country lockdown in 2Q20. We estimate new motorcycle sales growth of 6% p.a. over 2021-23F.
- 2) NCAP's rising new motorcycle penetration and a sustainable high lending yield of 23%.
- 3) A growing proportion of non-interest income from 12% of total income in 2020 to 15% in 2022F and 18% in 2023F thanks to improving bad debt recovery and growing loan-related fees.
- 4) Lower cost of funds in light of support from shareholders and listing benefits.
- 5) Improving operating efficiency as a result of larger scale and growing digitalization.

Solid balance sheet

Most funding consists of long-term loans

NCAP funds its business expansion via bank loans and internal cash flow. Average loan duration is around 33 months and the proportions of short- and long-term loans were 13% and 87% as of 1H20. The rise in funding costs from 3.3% in 2017 to 4.2% in 2018 and 4.6% in 2019 was because of no support from Japanese banks after MITSUI's divestment in 2017. Since COM7 and SYNEX are cash-rich companies, they have set up a backup credit facility of Bt1bn at a 4% interest charge. The policy is for NCAP to rely on itself but they are willing to provide full funding support if NCAP's borrowing costs rise significantly above 4%. Given this policy, banks are offering more attractive interest rates to NCAP so it was able to lower cost of funds from 4.6% in 2019 to 4.2% in 1H20. We believe NCAP is planning to tap the bond market post-IPO and this should help contain funding costs below 4%.

Ex 22: Yield Vs. Cost Of Funds And Net Spread

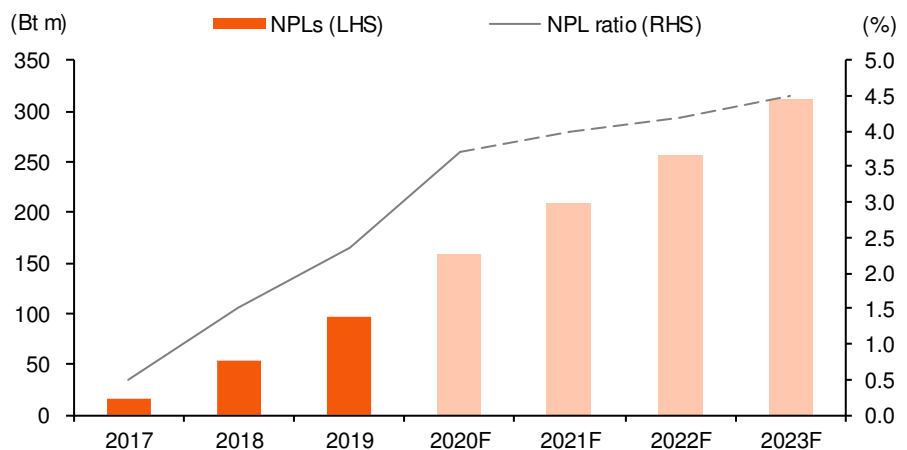


Sources: Company data, Thanachart estimates

NPLs look manageable

NCAP is keen to contain NPLs so having decent asset quality is one of its key KPI. Loans are underwritten prudently and it invests in IT solutions to improve debt collection. The company's NPL ratio of 2.3% in 1H20 was significantly below the industry average of 4.7-14.5%. Along with growing loans, we estimate NPLs to rise by an average of 18% p.a. over 2021-23F. This would raise its NPL ratio to 3.7-4.5% over the period.

Ex 23: NPLs And NPL Ratio



Sources: Company data, Thanachart estimates

We value NCAP at Bt2.53bn

Based on DDM methodology, we value NCAP at Bt2.53bn

We use a dividend discount model (DDM) with a cost of equity of 10.5% to calculate NCAP's fair value. Using a base year of 2021F and assuming a 2% terminal growth rate for NCAP, we derive an equity value for the company of Bt2.53bn. Our fair price implies a PE multiple of 11x on 2021F earnings which we don't see as being out of range compared with what market has assigned for NCAP's peers as shown in Exhibit 26 at the end of this report. NCAP's dividend policy is set at a minimum 40% of its net profits. Using the minimum payout, we estimate a DPS of Bt0.1 in 2021F.

Ex 24: Summary Of Our Key Assumptions

	2020F	2021F	2022F	2023F
Net loan growth (%)	2.84	22.64	17.65	13.31
Lending yield (%)	22.70	23.00	23.00	23.00
Cost of funds (%)	4.20	4.00	4.00	4.00
Bad debt recovery (Bt m)	175.00	157.50	185.31	209.97
Cost to income (%)	39.27	37.00	32.85	31.10
Expected credit loss (Bt m)	421.52	474.49	535.97	614.33

Source: Thanachart estimates

Ex 25: 12-month DDM-based TP Calculation Using A Base Year Of 2021F

(Bt m)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal value
Dividend of common shares	67	88	134	163	188	209	228	249	307	373	421	421
Dividend of preferred shares	—	—	—	—	—	—	—	—	—	—	—	—
Dividend payment	67	88	134	163	188	209	228	249	307	373	421	4,523
Risk-free rate (%)	2.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	10.5											
Cost of equity	10.5											
Terminal growth (%)	2.0											
Equity value	2,532											

Sources: Company data, Thanachart estimates

Ex 26: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		ROE		Div. yield	
			20F	21F	20F	21F	20F	21F	20F	21F	20F	21F
Afterpay Ltd	APT AU	Australia	na	na	na	na	28.3	14.4	(2.6)	1.8	0.0	0.0
Money3 Corp. Ltd.	MNY AU	Australia	16.9	21.4	14.8	12.2	na	na	11.7	13.1	4.0	4.8
SG Fleet Group Ltd.	SGF AU	Australia	34.2	10.6	9.1	8.3	1.6	1.6	16.7	18.0	6.0	7.0
Eclix Group Ltd.	ECX AU	Australia	na	7.3	14.0	13.1	1.1	1.1	8.4	8.5	0.0	1.8
Finvolution Group	FINV US	China	211.6	(11.8)	0.4	0.5	0.1	0.1	17.9	13.5	12.5	8.6
SIXT Leasing SE	LNSX GR	Germany	na	170.7	37.4	13.8	1.1	0.9	3.1	8.0	2.6	3.5
Mahindra & Mahindra Fin Secs	MMFS IN	India	31.6	(47.8)	9.4	17.9	1.1	1.1	11.7	6.3	2.4	1.7
Bajaj Finance Ltd	BAF IN	India	6.0	(23.7)	35.0	45.8	6.0	5.5	20.8	12.9	0.3	0.3
Manappuram Finance Ltd	MGFL IN	India	(7.5)	9.4	10.3	9.4	2.5	2.0	26.7	23.1	1.8	1.9
BFI Finance Indonesia TBK PT	BFIN IJ	Indonesia	(13.3)	55.2	9.5	6.1	0.9	0.8	10.1	14.2	2.9	3.8
Resurs Houding AB	RESURS SS	Sweden	(13.9)	5.3	9.4	8.9	1.3	1.3	14.1	14.2	6.6	8.7
Ally Financial Inc	ALLY US	US	na	111.6	19.0	9.0	0.7	0.7	2.9	7.5	2.7	2.8
Navient Corp	NAVI US	US	13.6	(2.5)	3.2	3.3	0.8	0.6	22.1	20.1	6.7	6.7
SLM Corp	SLM US	US	(23.3)	42.9	8.7	6.1	1.9	1.5	18.1	23.1	1.4	1.5
World Acceptance Corp	WRLD US	US	22.6	32.9	23.4	17.6	2.2	2.0	3.3	10.4	na	na
Horizon Technology Finance	HRZN US	US	(12.1)	0.8	10.1	10.0	1.1	1.1	10.1	11.1	9.5	9.3
Thitikorn	TK TB	Thailand	(68.0)	na	21.8	na	3.8	na	19.3	na	2.1	na
S 11 Group	S11 TB	Thailand	(14.0)	24.3	9.1	7.3	1.4	1.3	16.5	18.8	5.5	6.9
Next Capital	NCAP TB	Thailand	22.3	(4.8)	na	na	na	na	11.6	11.6	na	na
Average			(19.9)	9.8	15.4	7.3	2.6	1.3	15.8	15.2	3.8	6.9

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

Based on 12 Oct 2020 closing price

COMPANY DESCRIPTION

Originally named BAF (Thailand) Co., Ltd (BAF), the company was established on 17 August 2004 by Mitsui & Co., Ltd (MITSUI) with Bt8m of paid-up capital to be a captive finance player for the hire-purchase of Yamaha motorcycles. It since expanded to other brands, i.e. Honda, Vespa, Kawasaki and Suzuki in 2014. In 2017, MITSUI group in Japan underwent a business restructuring and then decided to divest its stake in BAF to 25% before selling its entire holding in March 2019.

By the end of 2019, COM7 Pcl (COM7) and Synnex (Thailand) Pcl (SYNEX) had become major shareholders, each raising their holding in the company from 28% to 40%. It has become a listed company and raised registered capital from Bt600m to Bt900m to support its IPO plan.

Source: Thanachart

THANACHART'S SWOT ANALYSIS

S — Strength

- Strong shareholders.
- Veteran management team.
- Strong footprint in the southern part of Thailand.

W — Weakness

- Small business scale.

O — Opportunity

- Increasing new-car penetration rate.
- Digital lending and expansion beyond motorcycle hire purchase.

T — Threat

- Economic recession.
 - New rules and regulations.
-

INCOME STATEMENT

Boosted by volume growth and bad debt recovery

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Interest Income	712	882	884	1,010	1,211
Interest Expenses	91	123	118	117	137
Net Interest Income	622	759	765	893	1,074
% of total income	84.8%	83.4%	73.7%	75.0%	75.6%
Fee income	68	64	90	132	154
% of total income	9%	7%	9%	11%	11%
Other income	43	88	183	166	193
% of total income	6%	10%	18%	14%	14%
Non-interest Income	112	151	273	297	347
% of total income	15.2%	16.6%	26.3%	25.0%	24.4%
Total Income	733	911	1,038	1,191	1,422
Operating Expenses	324	362	408	441	467
Pre-provisioning Profit	410	549	630	750	955
Bad debt expenses	209	261	422	474	536
Pre-tax Profit	116	162	209	276	419
Income Tax	26	35	42	55	84
After Tax Profit	90	126	167	220	335
Equity Income	0	0	0	0	0
Minority Interest	0	0	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	90	126	167	220	335
Normalized Profit	90	126	167	220	335

BALANCE SHEET

Strong loan growth on branch expansion and faster loan approval turnaround time

FY ending Dec (Bt m)	2018A	2019A	2020F	2021F	2022F
Cash and Interbank	6	7	300	10	10
Other current assets	133	149	240	170	194
Total current assets	139	156	540	180	204
Gross loans & accr. interest	4,554	5,202	5,418	6,595	7,698
Provisions	180	229	310	368	415
Net loans	3,363	3,838	3,947	4,840	5,694
Fixed assets	31	31	106	167	217
Right of use	0	0	90	98	104
Other assets	33	52	71	82	92
Total assets	3,566	4,076	4,753	5,367	6,311
Short term borrowing	1,200	2,370	1,068	1,141	1,507
Due to related parties	116	111	1	108	124
Others current liabilities	17	34	78	90	101
Total LT debt	1,304	505	1,783	2,051	2,355
Others LT liabilities	3	3	3	3	4
Minority interest	0	0	0	0	0
Shareholders' equity	926	1,053	1,820	1,974	2,221
Total Liab. & Equity	3,566	4,076	4,753	5,367	6,311

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2018A	2019A	2020F	2021F	2022F
Growth Rate (%)					
Net interest income (NII)	30.6	22.2	0.8	16.7	20.3
Non-interest income (Non-II)	17.9	35.5	80.3	8.9	16.8
Operating expenses	24.8	11.8	12.7	8.0	6.0
Pre-provisioning profit (PPP)	31.6	34.0	14.8	19.0	27.3
Net profit	(30.1)	40.4	32.4	31.9	51.9
Normalized profit growth	(30.1)	40.4	32.4	31.9	51.9
Dividend payout ratio	0.0	0.0	40.0	40.0	40.0
Loan - gross	41.0	14.2	4.1	21.7	16.7
Loan - net	42.4	14.1	2.8	22.6	17.7
Borrowings	36.6	13.9	(7.1)	15.7	21.1
NPLs	83.1	80.9	64.1	32.3	23.2
Total assets	44.0	14.3	16.6	12.9	17.6
Total equity	71.6	13.7	72.8	8.4	12.5
Operating Ratios (%)					
Net interest margin (NIM)	20.6	19.9	17.3	17.7	18.4
Net interest spread	20.6	19.9	18.5	19.0	19.0
Yield on earnings assets	23.6	23.2	21.2	21.4	21.4
Avg cost of fund	4.0	4.4	4.1	3.9	3.9
NII / operating income	84.8	83.4	73.7	75.0	75.6
Non-II / operating income	15.2	16.6	26.3	25.0	24.4
Fee income / operating income	9.3	7.0	8.7	11.1	10.8
Normalized net margin	12.3	13.9	16.1	18.5	23.6
Cost-to-income	44.1	39.7	39.3	37.0	32.9
Credit cost - provision exp / loans	9.8	10.2	7.9	7.9	7.5
PPP / total assets	13.6	14.4	14.3	14.8	16.3
PPP / total equity	55.9	55.5	43.9	39.5	45.5
Avg assets/avg equity (leverage)	4.1	3.9	3.1	2.7	2.8
ROA	3.0	3.3	3.8	4.4	5.7
ROE	12.3	12.8	11.6	11.6	16.0

*Strong profit growth with
NPLs looking
manageable*

FINANCIAL RATIOS

FY ending Dec	2018A	2019A	2020F	2021F	2022F
Liquidity and Quality Ratio (%)					
Gross Loan / Borrowings	216.9	264.1	262.0	275.2	279.4
Net Loan / Borrowings	160.2	194.8	190.9	202.0	206.7
Net Loan / Assets	94.3	94.2	83.0	90.2	90.2
Net Loan / Equity	363.1	364.4	216.8	245.2	256.4
S-T / L-T Borrowings	38.1	74.6	17.8	18.4	18.4
Borrowings / Liabilities	79.5	65.2	70.5	70.6	67.4
Interest-bearing Debt / Equity	282.5	283.1	152.1	162.3	174.7
Liabilities / Equity	285.1	287.0	161.1	171.9	184.2
CAR	20.3	20.2	33.6	29.9	28.8
NPLs	53.1	96.0	157.5	208.3	256.6
NPLs / Total Loans (NPL Ratio)	1.5	2.4	3.7	4.0	4.2
Loan-Loss-Coverage (Provision / NPLs)	339.1	238.6	196.9	176.6	161.8

Sources: Company data, Thanachart estimates

*Solid balance sheet,
based on our forecasts*

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For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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