



Thitikorn PCL

News Flag

TK TB Underperform

Fair price		Bt8.50
Close Price (01/03/2016)	Bt	10.30
Upside/Downside	%	-17.5
Valuation		PBV
Sector	Finance and Securities	
Anti-Corruption Indicator		3B

Analyst

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2 March 2016

Kasikorn Securities PCL

Not a good outlook for motorcycle sales

What's going on?

- ▶ We came away from yesterday's opportunity day with a neutral view of TK's outlook. Management maintained its 2016E loan growth target of 5% based on a 2% increase in domestic motorcycle sales. However we estimate lower loan growth of 4% to reflect weak farm incomes due to the drought and pressure from high household debt. We believe TK is too optimistic regarding regional expansion unless carried out via M&A's in larger markets. We also see no room to lower provisioning expense as it did in 2015. Thus, we expect a flat net profit of Bt425mn in 2016E vs Bt408mn in 2015.

Impact

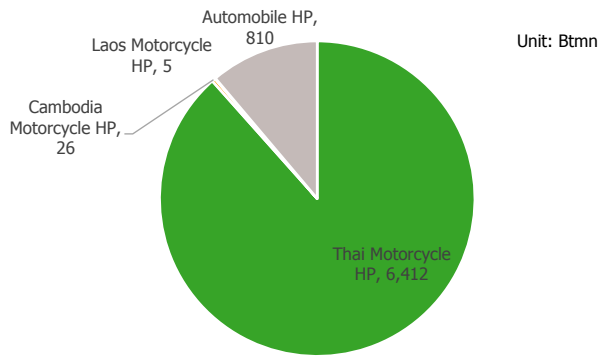
- ▶ **Good start on Jan 2016 sales, but a moderate outlook.** TK recorded net loans of Bt7.25bn in 4Q15, down 7% YoY and 0.7% QoQ. Loans contracted for the eighth consecutive quarter. Management expects loan growth of 5% for 2016E as it believes that the subdued motorcycle market during the past three years is over with expected sales in 2016 of 1.7mn units (+2%). Monthly motorcycle sales in January stood at 160,585 units (+12% YoY), and TK sees good momentum on 2M16 operations. However, we are more conservative with a loan growth estimate of 4% due to continued high household debt and the severe effect of drought that will depress agricultural product prices.
- ▶ **Too optimistic over regional expansion.** Management maintained its five-year target to shift its loan structure to a 50%/50% contribution from Thailand/overseas. As of 4Q15, TK's loans in Cambodia and Laos accounted for less than 1% of total loans. Given limited information provided by management, we believe that in order for TK to achieve the target, it should expand in larger markets in Asean such as Vietnam, Indonesia and Myanmar via M&As due to the company's slow standalone expansion. Its current low D/E ratio of 0.92x provides room for TK to increase gearing to finance M&As.
- ▶ **Quarterly provisions not lower from 2015 level.** TK's high profit growth of 100% in 2015 was supported by low provisioning expense mainly due to write-offs of bad debt in the past. Going forward, we believe TK will not be able to reduce provisioning expense lower than Bt200mn per quarter as in 2015.

Recommendation

- ▶ We maintain an Underperform rating on TK with a target price of Bt8.50 due to the moderate outlook for domestic motorcycle sales and slow regional expansion.
- ▶ The stock is current trading at a one-year forward PER of 11.9x and PBV of 1.1x

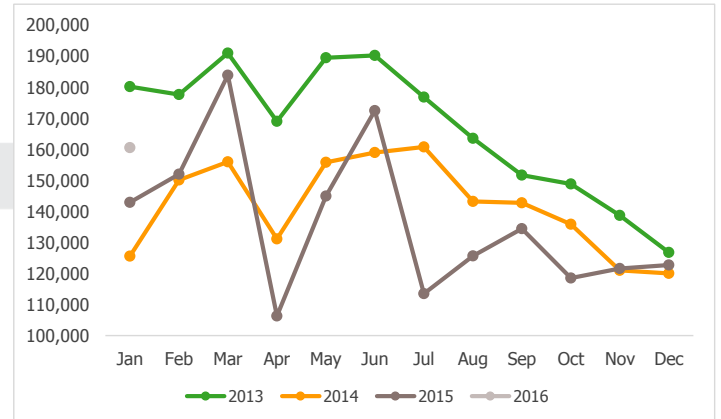


Fig 1 TK's 4Q15 loan structure



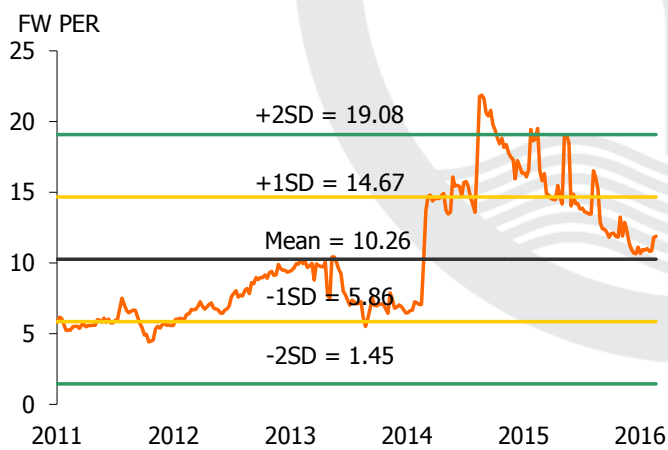
Source: TK

Fig 2 Monthly motorcycle sales – a good start in Jan



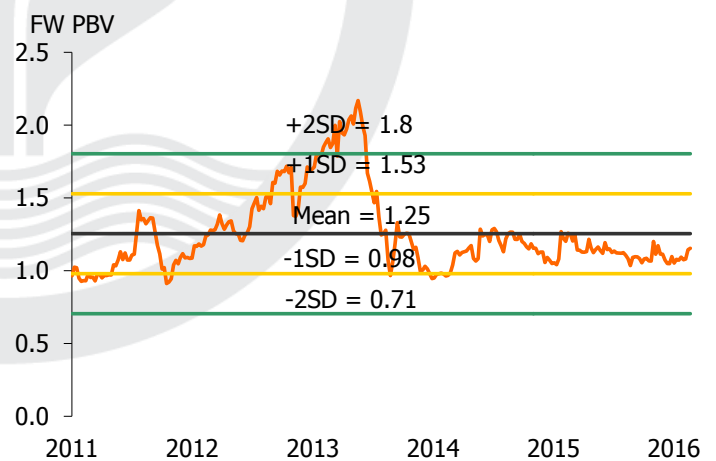
Source: Federal of Thai Industry (FTI), TK and KS

Fig 3 One-year forward PER



Source: Bloomberg and KS

Fig 4 One-year forward PBV



Source: Bloomberg and KS



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