



Thitikorn PCL

Earnings Review – 4Q15 earnings boosted mainly by low provisions

Ticker: TK TB (Bt10.30, Underperform, Fair price Bt8.50, Downside: 17.5%)

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Anti-Corruption Indicator: 3B

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Performance highlights

- **High net profit boosted by lower-than-expected provisions.** TK reported a 4Q15 net profit of Bt130mn, up 61% YoY and 101% QoQ. The profit jump YoY was mainly due to lower-than-expected provisioning expense. The strong QoQ growth was due to absence of loss on the impairment of goodwill from a subsidiary of Bt84mn that was recorded in 3Q15. 2015 earnings of Bt408mn doubled from Bt198mn in 2014 and exceeded our estimate by 19% due to a significant drop in provisioning expense.
- **Loans contracted for the 8th consecutive quarter.** TK recorded net loans of Bt7.25bn in 4Q15, down 7% YoY and 0.7% QoQ. This was mainly due to weak sales of domestic motorcycles during the quarter. TK continues to be heavily affected by the weak Thai economy, which has resulted in loans contracting since 1Q14.
- **PPOP was lower.** NIM stood at 30.87% with a continued low cost of funds of 3.92%. Net interest income of Bt601mn fell 5% YoY but was flat QoQ due to a lower level of outstanding loans. The cost-to-income ratio stood at 56.4%, up 40 bps QoQ. PPOP totalled 346mn, down 9% YoY and 4% QoQ.
- **Lower provisions due to large debt write-offs in the past.** TK booked lower provisioning expense of Bt214mn vs Bt203mn in 3Q15 and Bt289mn in 4Q14. The lower expense was due mainly to TK's write-off of bad debt in the past, which resulted in a cleaner asset quality. The NPL ratio stood at 5.2% vs 5.14 in 3Q15 with an NPL coverage ratio of 128.3%.
- **Announced DPS of Bt0.40, but a sluggish outlook ahead.** TK announced a dividend for 2015 of Bt0.40 per share with XD on 2 March. This is equivalent to a dividend yield of 3.9%. Despite strong 4Q15 earnings growth, we foresee weak prospects ahead given a weak motorcycle sales outlook this year (expected sales 1.67mn units, flat YoY) with no room to lower provisioning expense as it did in 2015. Maintain Underperform and target price of Bt8.50. We will revisit our forecast after a fuller review with management.

Fig 1 Earnings Review

	4Q14A	1Q15A	2Q15A	3Q15A	4Q15A	%YoY	%QoQ	2014A	2015A	% change
Financials										
Net interest income (Btmn)	635	608	603	600	601	-5.3	0.2	2,613	2,413	-7.7
Non-interest income (Btmn)	208	205	211	219	192	-8.0	-12.6	855	828	-3.1
PPOP (Btmn)	379	344	357	361	346	-8.8	-4.1	1,510	1,408	-6.8
Bad debt and provisions (Btmn)	289	223	251	203	214	-25.8	5.5	1,280	892	-30.3
Net profit (Btmn)	80	107	108	64	130	61.2	101.4	198	408	106.3
Net EPS (Bt)	0.16	0.21	0.22	0.13	0.26	61.2	101.4	0.40	0.82	106.3
Performance Drivers										
Net loans (Btmn)	7,768	7,565	7,404	7,301	7,252	-6.6	-0.7	7,768	7,252	-6.6
Cost to income (%)	55.02	57.75	56.08	56.00	56.40			56.46	56.56	0.2
D/E (x)	1.19	1.08	1.04	0.97	0.92			1.19	0.92	-23.0
Ratios										
						Change		2014A	2015A	Change
Yield on loans (%)	31.94	31.71	32.10	32.44	32.69	0.8	0.3	31.51	31.93	0.4
Cost of funds (%)	3.86	3.83	3.97	4.04	3.92	0.1	-0.1	4.13	3.88	-0.3
Net interest margin (%)	29.83	29.73	30.12	30.49	30.87	1.0	0.4	29.15	30.02	0.9
Credit cost (%)	13.58	10.90	12.55	10.33	11.01	-2.6	0.7	14.28	11.10	-3.2
NPL ratio (%)	4.97	4.81	5.34	5.14	5.20	0.2	0.1	4.97	5.20	0.2
NPL Coverage (%)	129.61	129.58	125.70	127.45	128.30	-1.3	0.8	129.61	128.30	-1.3
ROAE (%)	8.13	10.51	10.45	6.19	12.19	4.1	6.0	4.94	9.81	4.9

Source: TK and KS



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