

# RATCHTHANI LEASING PLC

No. 165/2019  
15 October 2019

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b> Senior unsecured	A-
<b>CreditAlert:</b>	Negative

**Last Review Date:** 01/10/19

### Company Rating History:

Date	Rating	Outlook/Alert
14/03/19	A-	Alert Negative
19/10/16	A-	Stable
25/01/12	BBB+	Stable

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## RATIONALE

The company rating and issue ratings on Ratchthani Leasing PLC (THANI) are on CreditAlert with “negative” implications. We expect to resolve the CreditAlert upon completion of a merger between TMB Bank PLC (TMB) and Thanachart Bank PLC (TBANK), or when available data is sufficient to enable us to make an in-depth analysis and conclusion on the ratings of THANI.

The ratings take into consideration the business and financial support THANI receives from its major shareholder, TBANK. THANI’s ratings are enhanced from its stand-alone rating.

The stand-alone ratings reflect sustained improvements in THANI’s market position and financial performance. The ratings also reflect THANI’s acceptable asset quality as a result of continuous developments in the company’s collection processes and risk management systems.

However, the strengths are weighed down by our concerns over intense competition and the company’s concentration on commercial truck loans, a sector which is quite sensitive to adverse changes in the economy. These factors might constrain the company’s future profitability.

## CREDIT ALERT

TRIS Rating has placed CreditAlert with a “negative” implication on the company rating and the senior unsecured debenture ratings of THANI since 14 March 2019. The CreditAlert follows the signing of a non-binding memorandum of understanding (MOU) by five parties, including: TMB, TBANK, Thanachart Capital PLC (TCAP), ING Groep N.V. (ING), and The Bank of Nova Scotia (BNS) on 26 February 2019 to proceed with a merger between TMB and TBANK.

The “negative” CreditAlert on THANI is due to TRIS Rating’s view that THANI’s ratings could be downgraded or remain unchanged from the current level. This is because THANI’s ratings may no longer benefit from the company’s relationship to TBANK as a majority-owned parent of THANI, once TBANK is amalgamated with TMB to form a new bank and/or THANI becomes a controlled subsidiary of TCAP. Once the group restructuring is completed, THANI’s ratings will depend largely on its stand-alone financial performance and profile and/or its relationship with TCAP, whose ratings have also been placed on CreditAlert with “negative” implication.

## KEY RATING CONSIDERATIONS

### Parent support may change

TRIS Rating believes that there is a high possibility that support from THANI’s major shareholder, TBANK, may change after the group restructuring. Our view on the support has been underpinning THANI’s ratings as THANI has benefited from TBANK’s financial and business support. TRIS Rating has less concern over THANI’s liquidity and financial flexibility as a strategically important subsidiary of TBANK. We believe that the credit facility that TBANK provides to THANI is sufficient to support THANI’s business expansion and liquidity needs. THANI’s debt to equity (D/E) ratio was 5.8 times at the end of June 2019. In terms of business support, TBANK has helped THANI develop its underwriting and collection processes to improve operational efficiency. THANI has also implemented a number of risk management policies to comply with the standards required by TBANK.

### Moderate business growth

The company has been able to improve its market position continuously, as shown by loan growth in the past few years. In 2018, outstanding loans increased by 20.4% year-on-year (y-o-y) to Bt48.5 billion. The key growth driver was its core business, truck loans, in which THANI has experience and expertise. At the end of June 2019, loans made to the truck segment constituted almost 70% of the company's total hire purchase loan portfolio, while the passenger car and "big bike" motorcycle segments accounted for the remaining 30% of the portfolio value. However, over the next few years we expect loan growth to slow down due to stiffer competition and weak economic conditions. This is already evidenced by a decline in credit expansion, with growth of 5.3% in the first half of 2019. TRIS Rating projects THANI's loan portfolio will grow in the range of 3%-12% annually in 2019-2021.

### Narrow spread may affect profitability

THANI has steadily improved its financial performance, thanks to loan expansion and declining provisioning expenses, and despite decreasing yields. In 2018, net profit was Bt1.6 billion, representing a compound annual growth rate (CAGR) of 24% from 2014. The return on average assets (ROAA) improved to 3.8% in 2018 from 3.1% in 2017. For the first half of 2019, net profit was Bt1 billion, a 33% increase y-o-y, while annualized ROAA improved to 4.1%. In the medium term, decreasing yields plus a potential rise in overall funding costs after the group restructuring could pose challenges to profitability. Nonetheless, we expect THANI's ROAA to continue to hover in the range of 3.5%-3.9% over the next three years, supported by an increased focus on high-yield products, such as used truck loans. The forecast is based on our assumptions that THANI's credit cost will be around 0.6%-0.7% and the interest rate spread will stay above 4.0% throughout 2021.

### Asset quality and reserves remain acceptable

THANI's asset quality is acceptable in our view, despite the relative vulnerability of its customers to credit risk. This is due to its stringent underwriting and collection processes. We expect THANI's asset quality to remain manageable with the ratio of non-performing loans (NPLs) to total loans staying below 4% in 2019-2021. The NPL ratio has decreased since 2015, dropping to 3.7% at the end of 2018 from 4.1% a year earlier as a result of loan write-offs and restructuring. Although the NPL ratio picked up slightly to 3.9% at the end of June 2019 due to the weakened credit profile of its customers in the commercial truck segment, TRIS Rating expects THANI to be able to maintain its asset quality as a result of prudent screening and close monitoring of customers.

The ratio of loan loss reserves to NPLs (NPL coverage) is comparable to peers, with a coverage ratio of 110% at the end of June 2019. We expect THANI to maintain a high coverage ratio over the next few years in preparation for the IFRS 9 implementation in 2020.

### BASE-CASE ASSUMPTIONS

- Outstanding loans to expand in the range of 3%-12% per annum in 2019-2021.
- Loan spread to be maintained at 4.7%-5.0% in 2019-2021.
- Credit cost to be around 0.6-0.7% in 2019-2021.

### COMPANY OVERVIEW

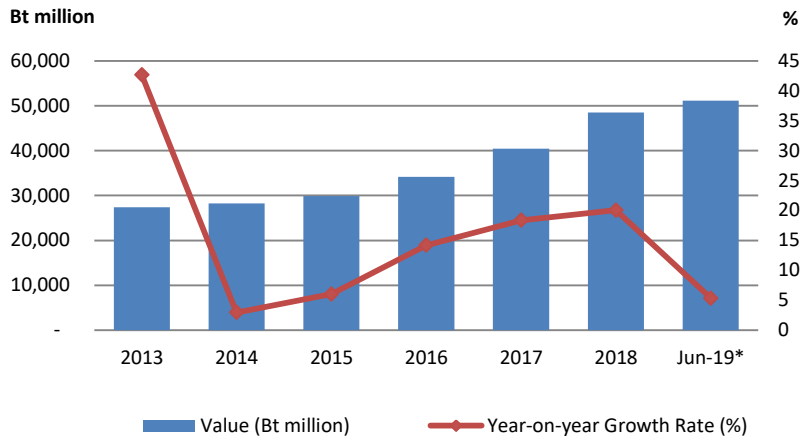
THANI was established in 1988 by two groups of co-founders, the Mitthaphap Songserm Kanlongthun Group and the Bua Luang Group, each holding a 50% stake. The Mitthaphap Songserm Kanlongthun Group represented a cooperative of Chinese businessmen in the Bang Kae district, while the Bua Luang Group was an experienced used car dealer. In late 2002, the company was listed on the Stock Exchange of Thailand (SET). In September 2006, THANI offered 265 million new common shares to Siam City Bank PLC (SCIB), making SCIB the largest shareholder with a 39.8% stake. SCIB's stake increased to 48.2% after it exercised some warrants in late 2009.

THANI's shareholding structure changed after the merger of SCIB and TBANK. THANI has been a subsidiary of TBANK since 2010, after SCIB and TBANK merged and undertook a recapitalization. TBANK now includes THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the Bank of Thailand's (BOT) consolidated supervision regulations. Although THANI's main line of business overlaps with TBANK's auto loan business, the two companies offer different products and target different market segments. TBANK intends to have THANI focus on the market segments which the bank has not yet penetrated.

THANI provides hire-purchase loans for used vehicles, with an emphasis on major vehicle brands in order to mitigate the liquidation risk inherent in selling repossessed vehicles. In 2005, THANI started providing hire-purchase loans for both new and used commercial trucks.

**KEY OPERATING PERFORMANCE**

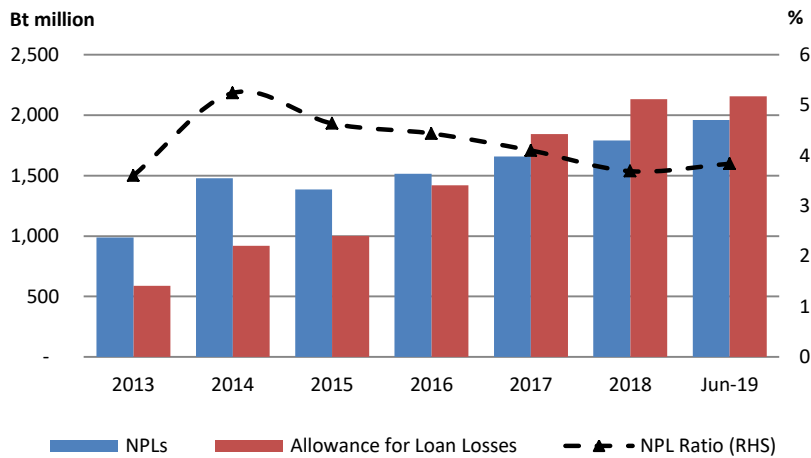
**Chart 1: Outstanding Loans**



Source: THANI

\* Year-to-date growth for Jun-19

**Chart 2: Asset Quality**



Source: THANI

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	50,047	47,531	39,492	33,365	29,505
Total loans	51,133	48,545	40,441	34,169	29,921
Allowance for doubtful accounts	2,157	2,134	1,843	1,421	1,000
Short-term borrowings	26,128	21,986	17,205	19,962	12,907
Long-term borrowings	15,420	17,309	15,896	7,722	11,393
Shareholders' equity	7,326	7,195	5,627	5,009	4,564
Net interest income	1,261	2,332	1,878	1,538	1,345
Bad debts and doubtful accounts	70	403	523	496	412
Non-interest income	347	625	547	501	420
Operating expenses	277	504	496	440	408
Net income	1,007	1,641	1,126	881	749

\* Consolidated financial statements

*Unit: %*

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
<b>Profitability</b>					
Net-interest income/average assets	5.17 **	5.36	5.16	4.89	4.69
Net-interest income/total income	60.28	60.94	56.79	51.50	48.35
Operating expenses/total income	13.26	13.16	14.99	14.73	14.67
Operating profit/average assets	5.17 **	4.71	3.86	3.51	3.30
Return on average assets	4.13 **	3.77	3.09	2.80	2.61
Return on average equity	27.75 **	25.59	21.17	18.41	17.73
<b>Asset Quality</b>					
Non-performing loans/total loans	3.84	3.69	4.10	4.44	4.64
Bad debts and doubtful accounts/average loans	0.28 **	0.90	1.40	1.55	1.42
Allowance for doubtful accounts/total loans	4.22	4.40	4.56	4.16	3.34
Allowance for doubtful accounts/non-performing loans	110.00	119.16	111.15	93.73	72.13
<b>Capitalization</b>					
Shareholders' equity/total assets	14.64	15.14	14.25	15.01	15.47
Shareholders' equity/total loans	14.33	14.82	13.91	14.66	15.25
Debt to equity (time)	5.83	5.61	6.02	5.66	5.46
<b>Liquidity</b>					
Short-term borrowings/total liabilities	61.16	54.51	50.81	70.40	51.75
Total loans/total assets	102.17	102.13	102.40	102.41	101.41

\* Consolidated financial statements

\*\* Annualized

**RELATED CRITERIA**

- Nonbank Lending Company, 7 May 2018

- Group Rating Methodology, 10 July 2015

## Ratchthani Leasing PLC (THANI)

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
THANI201A: Bt1,510 million senior unsecured debentures due 2020	A-
THANI203A: Bt1,450 million senior unsecured debentures due 2020	A-
THANI205A: Bt1,000 million senior unsecured debentures due 2020	A-
THANI206A: Bt2,000 million senior unsecured debentures due 2020	A-
THANI208A: Bt1,500 million senior unsecured debentures due 2020	A-
THANI209B: Bt665 million senior unsecured debentures due 2020	A-
THANI20DA: Bt1,400 million senior unsecured debentures due 2020	A-
THANI20DB: Bt600 million senior unsecured debentures due 2020	A-
THANI20DC: Bt2,500 million senior unsecured debentures due 2020	A-
THANI211A: Bt175 million senior unsecured debentures due 2021	A-
THANI212A: Bt1,800 million senior unsecured debentures due 2021	A-
THANI212D: Bt720 million senior unsecured debentures due 2021	A-
THANI221A: Bt2,070 million senior unsecured debentures due 2022	A-
THANI227A: Bt1,745.2 million senior unsecured debentures due 2022	A-
THANI237A: Bt486.3 million senior unsecured debentures due 2023	A-
THANI247A: Bt593.7 million senior unsecured debentures due 2024	A-
Up to Bt2,000 million senior unsecured debentures due within 3 years	A-
<b>CREDIT ALERT:</b>	Negative

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