

ASIA CAPITAL GROUP PLC

No. 71/2018
6 June 2018

FINANCIAL INSTITUTIONS

Company Rating: BB
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
12/06/17	BB	Stable

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RATIONALE

TRIS Rating affirms the company rating of Asia Capital Group PLC (ACAP) at "BB". The rating reflects the company's risk profile as a small, non-depository lender providing mostly secured short-term loans to small and medium-sized enterprises (SMEs). The rating is constrained by its short track record as a lender, high concentration risk, high leverage, and the potential rises in funding risk and liquidity risk.

KEY RATING CONSIDERATIONS

High loan concentration

ACAP offers short-term loans to SMEs and individuals with a temporary need for funds. The company provides loans in two ways: a direct loan or through the purchase of bills of exchange (B/Es) issued by a borrower. Target customers typically have higher credit risk and face a liquidity shortage, especially when the economy is weak. Because ACAP has a limited number of customers, just a few loan defaults could translate into greater credit risk for the company, compared to lenders with a more diversified customer base.

Liquidity risk from potential asset-liability mismatch

ACAP could face a liquidity shortage in the future because it has a small base of borrowers and limited sources of funds. A negative gap in its assets and liabilities may arise should some of its large customers fail to make loan payments or if it takes a long time for ACAP to liquidate the collateral given by the borrowers. At the end of March 2018, assets and liabilities still showed a positive gap. Total assets were Bt5,617 million, compared with total borrowings of Bt4,187 million. About two-thirds of borrowings are due within one year. As of March 2018, ACAP did not have any available credit facilities to cover a potential mismatch in assets and liabilities.

Undiversified funding sources

ACAP has less financial flexibility than its peers due to limited sources of funds. At present, the company relies primarily on its equity base and the issuance of debentures and B/Es to small groups of investors through private placements. At the end of March 2018, the amount of outstanding debentures was Bt3,787 million. B/Es, including short-term borrowings from a related party, were Bt400 million. The company has no credit lines from banks or other financial institutions. Apart from liquidity risk, the limited sources of funding drive up the funding cost. A potential rise in funding cost could narrow the net interest spread.

Potential rise in credit risk

Since ACAP started the lending operation, two borrowers failed to repay their loans. The borrowers promptly transferred collateral worth Bt326 million in aggregate to ACAP to settle of Bt305 million in outstanding loans. The bad loans from these two customers accounted for approximately 7% of total loans at the end of March 2018. As of March 2018, ACAP wrote off the loans and recorded the assets taken as collateral as investments in property. Under the current accounting standards, ACAP has not been required to classify the loans or set aside any loan loss provisions.

However, TRIS Rating believes that if ACAP starts classifying loans and reporting delinquent loans, it may eventually need to follow the provisioning standards which apply to more established non-bank lenders. Due to its short track record, ACAP needs time to demonstrate it has the ability to handle a growing loan portfolio and maintain an acceptable level of loan quality.

Erratic growth in loan portfolio

ACAP reported strong loan growth in 2016, but the growth appeared to be short-lived. The loan portfolio jumped to Bt4,117 million in 2016 from Bt1,039 million in 2015, or a year-on-year rise of 296.2%. However, outstanding loans shrank by 6.9% to Bt3,831 million at the end of 2017 and Bt3,816 million at the end of March 2018. The erratic growth was due to two reasons: cautiousness and limited funding. Moreover, ACAP faces high competition. There are low barriers to entry if other lenders also want to pursue the customer segment ACAP focuses on. Competition could limit ACAP's ability to grow and bring price-based competition. Therefore, TRIS Rating holds the view that ACAP's growth prospects remain uncertain. ACAP will need more time to prove it can grow.

Subsidiary boosts profits

ACAP's financial performance rebounded substantially in 2016 and 2017. A net loss of Bt25 million in 2015 reversed to a net profit of Bt174 million in 2016. Profit climbed to Bt255 million in 2017. Return on average assets (ROAA) rose from -2.7% in 2015 to 6.1% in 2016, but dropped slightly to 5.5% in 2017. ACAP reported net income of Bt44 million for the first three months of 2018 and a ROAA of 3.4% (annualized).

The turnaround was due in part to the improved financial performance of a subsidiary, Global Service Center Co., Ltd. (GSC). GSC provides call center and debt collection services. GSC has expanded continuously, built a sizeable client base, and reached break-even in 2016. Currently, GSC contributes around 20% of ACAP's total revenue. TRIS Rating expects that GSC will make a growing contribution in the future.

High leverage

TRIS Rating holds the view that ACAP is highly leveraged. The debt to equity ratio (D/E ratio) at the end of March 2018 was 3.3 times. The company has been in compliance with the debentures' financial covenant that requires it to keep the D/E ratio below 6 times. TRIS Rating believes the company will be able to comply with the covenant for the next 12 to 18 months. However, a rapid rise in borrowing to fund new opportunities will push leverage higher. The higher D/E ratio shows that ACAP has only a small cushion of capital to absorb any unexpected downside risks.

The ratio of shareholders' equity to total assets has decreased significantly. The ratio sank from 59.0% at the end of 2015 to 21.2% at the end of 2016 and 25.9% at the end of 2017. At the end of March 2018, the ratio was 23.0%. ACAP needs to maintain a stronger capital base as a cushion to absorb loan losses. During 2016 and 2017, ACAP issued warrants to existing shareholders. The final exercise date is 31 July 2018 for ACAP-W1 and 28 May 2019 for ACAP-W2. If the warrants are exercised, ACAP's share capital will rise by approximately Bt440 million. However, it is unknown if the warrant holders will exercise the warrants.

RATING OUTLOOK

The "stable" outlook is based on the expectation that ACAP's financial performance will gradually improve. The outlook also takes into consideration that ACAP's funding and leverage profile will not deteriorate, and the quality of the loan portfolio and capital base are maintained at acceptable levels.

RATING SENSITIVITIES

The rating and/or outlook upside are limited in the medium term because ACAP has a short track record. ACAP needs time to cement its business model and improve its financial profile. For example, ACAP must demonstrate strong profitability, a diversified funding base, moderate leverage, and a strong capital base. The rating and/or outlook could be revised downward if ACAP's leverage and liquidity metrics weaken materially or asset quality deteriorates significantly.

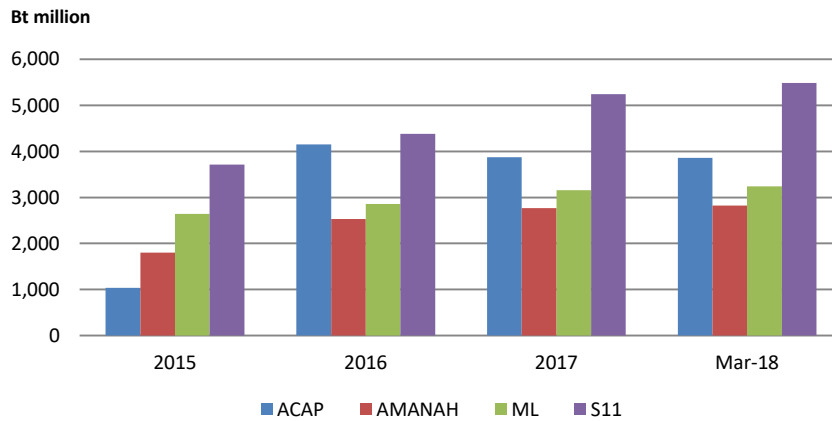
COMPANY OVERVIEW

ACAP was established in 1998 as Asian Capital Advisers Co., Ltd., offering corporate finance and investment banking advisory services. In 2003, it became a public company and changed its name to ACAP Advisory PLC. The company was listed on the MAI in 2005. In 2015, Ms. Sugunya Sukjaroenkraisri became the major shareholder and CEO. The company then entered a new business: making short-term loans. In 2016, the company became Asia Capital Group PLC. Currently, paid-up capital is Bt158 million and the major shareholder is the Sukjaroenkraisri family, holding approximately 14%.

ACAP chose a new core business in 2015: offering credit facilities to individuals and companies, especially SMEs. The credit facilities are in the form of B/E's and short-term loans. ACAP also factors accounts receivable and operates a call center through a wholly-owned subsidiary, Global Service Center Co., Ltd. (GSC).

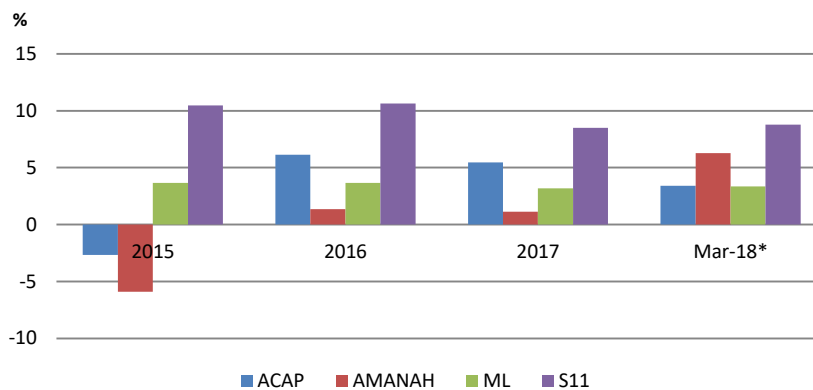
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



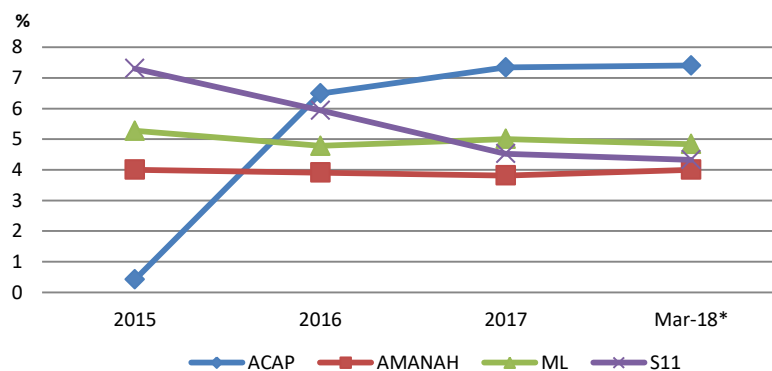
Sources: ACAP and financial statements of some listed companies (including Amanah Leasing PLC (AMANAH), Mida Leasing PLC (ML), and S 11 Group PLC (S11))

Chart 2: Return on Average Assets



Sources: ACAP and financial statements of some listed companies
* Annualized

Chart 3: Cost of Funds



Sources: ACAP and financial statements of some listed companies
* Annualized

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	5,617	4,808	4,537	1,149	744
Total loans	3,861	3,877	4,149	1,039	100
Allowance for doubtful accounts	0	0	0	0	0
Short-term borrowings	2,791	1,981	1,543	451	0
Long-term borrowings	1,396	1,455	1,929	0	0
Shareholders' equity	1,292	1,247	962	678	697
Net interest income	69	343	144	34	0
Bad debt and doubtful accounts	0	0	0	0	0
Non-interest income	43	170	150	119	167
Operating expenses	54	191	175	178	208
Net income	44	255	174	(25)	(41)

* Consolidated financial statements

Unit: %

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Profitability					
Net interest income/average assets	5.27 **	7.35	5.06	3.57	0.00
Net interest income/total income	37.68	44.76	34.15	21.90	0.00
Operating expenses/total income	29.36	24.91	41.65	115.59	124.30
Operating profit/average assets	4.46 **	6.89	4.16	(2.66)	(5.33)
Return on average assets	3.40 **	5.47	6.13	(2.66)	(5.39)
Return on average equity	13.98 **	23.12	21.26	(3.66)	(5.76)
Asset Quality					
Non-performing loans/total loans	0.00	0.00	0.00	0.00	0.00
Bad debts and doubtful accounts/average loans	0.00 **	0.00	0.00	0.00	0.00
Allowance for doubtful accounts/total loans	0.00	0.00	0.00	0.00	0.00
Capitalization					
Shareholders' equity/total assets	23.00	25.95	21.20	58.96	93.68
Shareholders' equity/total loans	33.46	32.18	23.19	65.22	696.69
Debt to equity (time)	3.35	2.85	3.72	0.70	0.07
Liquidity					
Short-term borrowings/total liabilities	64.53	55.64	43.16	95.64	0.00
Total loans/total assets	68.74	80.63	91.45	90.40	13.45

* Consolidated financial statements

** Annualized

Asia Capital Group PLC (ACAP)

Company Rating:

BB

Rating Outlook:Stable

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