

MIDA LEASING PLC

No. 34/2018
30 March 2018

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

Contacts:

Saowanit Woradit
saowanit@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Raithiwa Naruemol
raithiwa@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of Mida Leasing PLC (ML) at “BBB-”. The rating reflects ML’s status as a consolidated subsidiary of Mida Assets PLC (MIDA), an electrical home appliance hire purchase lender and real estate developer. The rating takes into consideration ML’s stable earnings and proven track record of financing used autos. The rating also reflects ML’s extensive, nationwide branch network and the strong relationships it has with its business partners. However, these strengths are mitigated by some important factors. ML’s asset quality has deteriorated steadily. Moreover, ML faces intense competition in the auto financing segment. In addition, it has a relatively low competitive advantage, in terms of expensive funding costs, and is in a relatively weak market position, in terms of outstanding loans, compared with major competitors.

KEY RATING CONSIDERATIONS

Proven record of managing the loan portfolio

Since its founding in 2000, ML’s core business, which is considered as one key source of profits, is offering hire purchase loans for used cars that are over five years old. ML calls these cars “third-hand automobiles”. ML earns significantly higher yields from this market segment than its peers earn on making loans for new autos or for autos that are not as old.

During 2010-2015, the size of ML’s loan portfolio barely grew. Total outstanding loans remained steady at Bt2,526 million at the end of 2010 and Bt2,591 million at the end of 2015. Growth resumed in 2016. The amount of outstanding automobile loans grew by 10.3% in 2016 and 9.6% in 2017, to Bt2,859 million and Bt3,132 million, respectively.

As of December 2017, ML’s portfolio of automobile loans consisted of hire-purchase loans (93%) and floor plan loans (7%). The low rate at which the loan portfolio grows, plus a lack of barriers to entry, leave ML in a weak position in the industry. However, ML’s historical performance shows it does have the ability to maintain profitable operations amid difficult circumstances.

Nationwide branch network

As of December 2017, ML owned a headquarters office in Bangkok and 16 branches in select provinces, such as Ubon Ratchathani, Surat Thani, and Nakhon Pathom. The newest branch, in Surin province, opened in 2015. The network of branches covers every region of the country. The locations of the branches are consistent with ML’s policy to penetrate the market in rural areas, where its target customers live. Loans made to customers near the Bangkok head office accounted for 9.8% of total outstanding loans in 2017. The head office originated 8.9% of the new loans made in 2017.

Yield spread widens

Although the size of the loan portfolio has not been growing remarkably, ML’s net interest spread was wider than peers. Despite a slight drop in 2016, the yield on the loan portfolio recovered to 16% in 2017. The net interest spread rose to 11.2%, up from 10.8% in 2016. However, net profit decreased slightly to Bt113 million in 2017, from Bt118 million in 2016. Similarly, the return on average assets (ROAA) fell to 3.2% in 2017, from 3.7% in 2016. The drop in

profitability in 2017 resulted from a rise in operating expenses. Also, non-interest income declined in 2017 because ML had no extraordinary gains on securities trading, which it had realized in 2016.

High costs mitigate competitive advantage

Regarding intense competition in auto financing segment, players with cheap funding cost and low operating expenses have competitive advantage. They make a profit by offering low yield loans to customers with acceptable credit risk. Thus, they have more opportunities to expand loan portfolio comprising good quality of assets and paying lower commission expense. In contrast, ML has been expanding its loan portfolio with limited growth, high operating expenses and high exposure to credit risk from offering high yield loans to customers with low credit profiles.

Deteriorating loan quality

ML's target customers have weaker credit profiles than the customer groups targeted by many other auto hire purchase lenders. As a result, ML's non-performing loan (NPL) ratio is normally higher than the NPL ratios of its peers.

ML's NPL ratio oscillated in the range of 2.3% to 3.6% during 2010-2013. ML wrote off some bad debts during the second half of 2014, reducing the NPL ratio to 3.2% at the end of 2014. Despite the write-offs, the NPL ratio continued to deteriorate, climbing to 3.7% at the end of 2015, 4.3% at the end of 2016, and 4.6% at the end of 2017.

ML's NPL coverage ratio, or the ratio of allowance for doubtful loans to NPLs, averaged approximately 80% during the last five years. A new accounting standard will take effect in 2019. If the new standard means ML needs to reserve higher allowance for doubtful loans, the bottom line could be affected.

No mismatch between assets and liabilities

The proportion of long-term debt to total capital funds has increased since 2016, after ML issued new debentures. At the end of 2017, approximately 88% of ML's total borrowings were long-term borrowings. ML's funding structure matches the structure of the hire purchase loan portfolio. The cash inflows ML expects to receive yearly are still much higher than the scheduled debt repayments. The average maturity of the loan portfolio typically ranges from three to five years. However, a lot of debentures mature in 2019, which has resulted in refinancing risk.

ML has a weak market position and no secure sources of funds. In contrast, its major competitors are affiliated with larger financial institutions and have easier access to funds. ML will face a challenge if the loan portfolio expands substantially. TRIS Rating expects ML will get new access to credit. More sources of credit would give ML greater financial flexibility.

Adequate capital base

The proportion of equity in ML's capital base is greater than that of its competitors. Equity comprises almost 50% of total capital funds, a level considered very strong. Profits and the recent recapitalisations have bolstered shareholders' equity. The ratio of shareholders' equity to total assets, as of December 2017, was high at 48.6%, but slightly less than in the past few years.

ML could boost the growth rate of the loan portfolio by using more debt capital to fund an expansion. However, TRIS Rating assumes the company will maintain its strong capital base. A strong capital base serves as a cushion to absorb the risk from ML's customers. ML's customers have higher credit risk than other customer groups because they are more vulnerable to adverse changes in the economy.

According to a key financial covenant of its debentures, ML has to maintain a debt to equity ratio below 3 times. The debt to equity ratio at the end of 2017 was 1.1 times. ML was in compliance with the financial covenants. TRIS Rating believes that the company will easily stay in compliance for the medium terms according to its regular growth plan.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that ML can maintain its market position and financial performance while keeping the capital base strong.

RATING SENSITIVITIES

The credit upside case could arise if ML improves its market position and competitive position while still delivering strong financial results on a sustainable basis. The rating could be revised downward should asset quality deteriorate. A drop in asset quality would substantially affect profitability and the company's financial profile.

COMPANY OVERVIEW

ML was founded on 4 October 2000 under the name of Star Ranium Auto Leasing Co., Ltd. The company was renamed

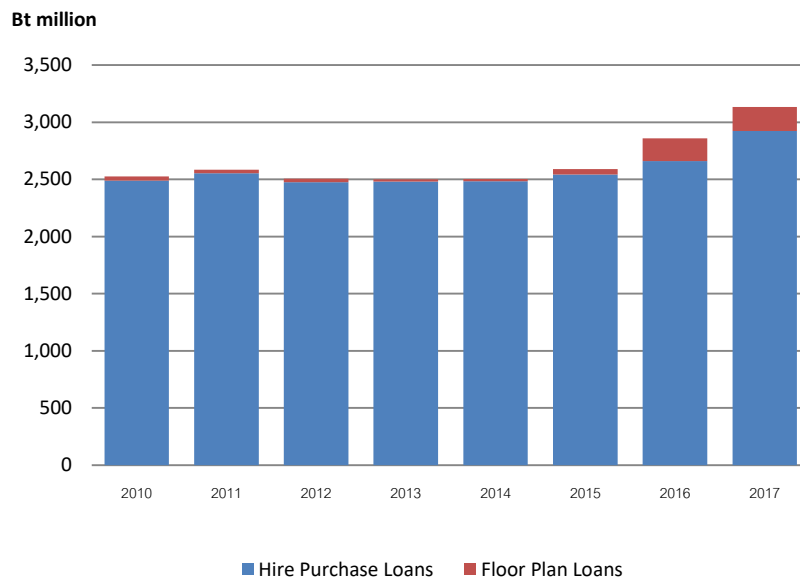
Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 31 December 2017, ML's major shareholders were MIDA and members of the Ieosivikul and Diloksakayaviton families. These two families are the founders and the major shareholders of MIDA. In addition, more than half of ML's board members also sit on the board of MIDA or are a top executive at MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was Bt90 million when the company was founded. Currently, ML's paid-up capital is Bt532 million.

ML's main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, and focuses its marketing efforts in provincial areas. Most of ML's target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country.

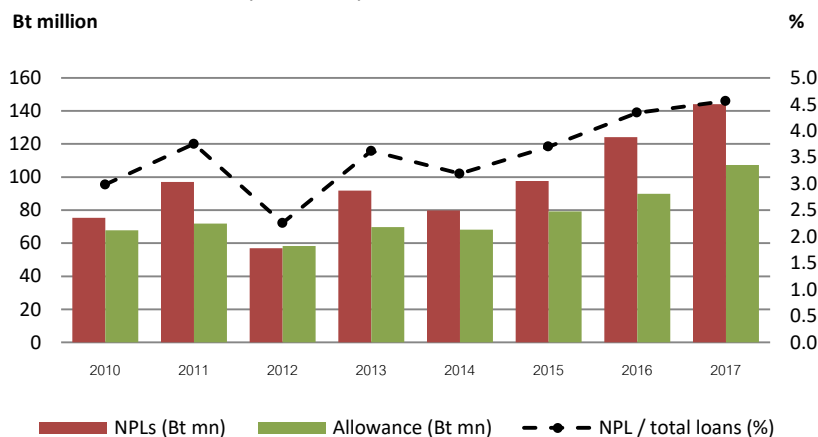
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Automobile Loans



Source: ML

Chart 2: NPLs, NPL Ratio, and Allowance for Doubtful Loans



Source: ML

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Total assets	3,599	3,493	2,948	2,690	2,655
Total loans	3,158	2,859	2,640	2,503	2,536
Allowance for doubtful accounts	107	90	79	68	70
Short-term borrowings	210	605	645	456	201
Long-term borrowings	1,481	1,090	629	635	962
Shareholders' equity	1,750	1,653	1,566	1,468	1,384
Net interest income	401	357	365	342	328
Bad debts and doubtful accounts	62	51	46	52	37
Non-interest income	103	118	86	71	69
Operating expenses	299	276	276	250	219
Net income	113	118	103	87	112

* Consolidated financial statements

Unit: %

	Year Ended 31 December				
	2017	2016	2015	2014	2013
Profitability					
Net-interest income/average assets	11.31	11.09	12.96	12.79	12.35
Net-interest income/total income	68.12	65.43	71.19	70.29	68.57
Operating expenses/total income	50.73	50.51	53.80	51.37	45.81
Operating profit/average assets	4.03	4.60	4.56	4.14	5.31
Return on average assets	3.17	3.67	3.65	3.26	4.23
Return on average equity	6.61	7.34	6.78	6.11	8.46
Asset Quality					
Non-performing loans/total loans	4.56	4.34	3.70	3.19	3.62
Bad debts and doubtful accounts/average loans	2.08	1.85	1.80	2.07	1.46
Allowance for doubtful accounts/total loans	3.40	3.14	3.00	2.72	2.75
Capitalization					
Shareholders' equity/total assets	48.62	47.33	53.12	54.58	52.13
Shareholders' equity/total loans	55.41	57.83	59.31	58.64	54.58
Debt to equity (time)	1.06	1.11	0.88	0.83	0.92
Liquidity					
Short-term borrowings/total liabilities	11.35	32.91	46.71	37.36	15.83
Total loans/total assets	87.74	81.84	89.57	93.08	95.51

* Consolidated financial statements

Mida Leasing PLC (ML)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2018, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria