

# ASIA SERMKIJ LEASING PLC

No. 153/2018  
10 October 2018

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB+  
**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
07/10/08	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Asia Sermkij Leasing PLC (ASK) at “BBB+” with a “stable” outlook. The rating reflects ASK’s steady growth and operating results, as well as the business support and financial support it receives from its major shareholders.

The key rating concerns are downward pressure on profitability, intense competition, and a growing reliance on one segment: truck loans. Its target customers are especially susceptible to economic downturns.

## KEY RATING CONSIDERATIONS

### Loan portfolio growing steadily

TRIS rating projects ASK’s consolidated loan portfolio will expand steadily with an annual growth rate above 4% over the next three years. During 2014-2017, the loan portfolio grew by approximately 5% per year. At the end of June 2018, outstanding loans increased to Bt34,576 million, a 2.5% year-to-date rise.

We believe that auto financing loans will mainly drive the growth, followed by an increase in inventory financing, which generates higher interest yields than auto loans. At the end of June 2018, approximately 85% of the consolidated loan portfolio comprised retail auto financing loans. This proportion has held steady since 2010. ASK’s wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), held machinery and equipment lease loans (11%) and other loans (4%).

### Loan quality improves

ASK’s loan quality has recovered since 2017. The ratio of non-performing loans (NPLs) to total loans fell to 3.6% at the end of 2017 and dropped continuously to 3.2% at the end of June 2018 due to loan write-offs, more stringent underwriting loan standards, and an attempt to improve the collection process. We expect the NPL ratio to remain below 4% over the next three years.

The ratio of loan loss reserves to NPLs (NPL coverage) is also increasing. However, ASK’s NPL coverage remains slightly lower than peers. The coverage ratio rose steadily to 80.3% at the end of June 2018, from 53.2% at the end of 2016. We expect the coverage ratio to keep climbing steadily to meet the new accounting standard requirement, IFRS 9, and to be in line with industry standard, assuming the credit cost stays lower than 1.6% through 2020.

### Financial supports from major shareholders mitigate liquidity risk

TRIS Rating expects ASK to maintain a level of back-up credit facilities sufficient to cover the outstanding short-term funding instruments it has issued through the capital markets.

During the past few years, ASK has used short-term borrowings in an attempt to keep its funding costs low. The consequence of this funding strategy was a mismatch in the maturities of ASK’s assets and liabilities. At the end of June 2018, short-term borrowings, including the current portion of long-term borrowings, accounted for approximately 60% of total borrowings. The short-term funding instruments carry refinancing risks.

However, ASK has credit lines from the related bank, Bangkok Bank PLC (BBL), and other financial institutions. The credit lines serve as a cushion and mitigate liquidity risk.

ASK's capitalization is moderate. The debt to equity ratio (D/E ratio) has held steady at around 6 times since 2014. According to the IFRS9, the new accounting standard to be implemented in 2020, the company's equity could potentially be affected by the required additional provisions for loan losses.

### Challenge in profitability

We forecast ASK's return on average assets (ROAA) will remain above 2.0% throughout 2020, assuming the credit cost ranges between 1.4%-1.6% and the interest rate spread stays above 4.5%. The company's ROAA has dropped slightly since 2014 mainly due to the rising credit cost. The company's operating expenses have been higher than peers. However, ASK has lower funding costs than its rivals. Rising interest rates and intense competition in certain vehicle segments will pose challenges to profitability.

### Concentration in truck loans

At the end of June 2018, ASK's outstanding retail auto loans comprised loans for big trucks (62% of the portfolio value), passenger cars and pick-up trucks (19%), vans (6%), taxis (6%), and other vehicles (7%). Loans for commercial vehicles, such as big trucks, vans, and taxis, generate higher returns, but also come with higher credit risk.

To mitigate the higher risk, ASK has implemented a segmentation strategy. ASK focuses on specific sub-segments of asset types and customer groups, choosing the less risky sub-segments. In addition, ASK's diversified portfolio of retail auto loans reduces the company's concentration risk on the truck financing segment.

### RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that ASK will be able to maintain its positions in the chosen niche markets for commercial vehicles. ASK's capable and experienced management team, plus its efficient risk management and operating systems, will keep the quality of the loan portfolio at an acceptable level. Profitability is expected to stay at or near the current level. The support ASK receives from its major shareholders is expected to continue.

### RATING SENSITIVITIES

ASK's credit rating could be revised upward if the company's market position improves significantly, as long as the quality of the loan portfolio holds steady and the financial performance is satisfactory. The rating could be revised downward if ASK's market position weakens, or if the company funds its growth efforts by relying heavily on debt. The capitalization measures would weaken as a result. A substantial deterioration in the NPL ratio or an interest spread that is lower than expected would hurt profitability and negatively affect the rating.

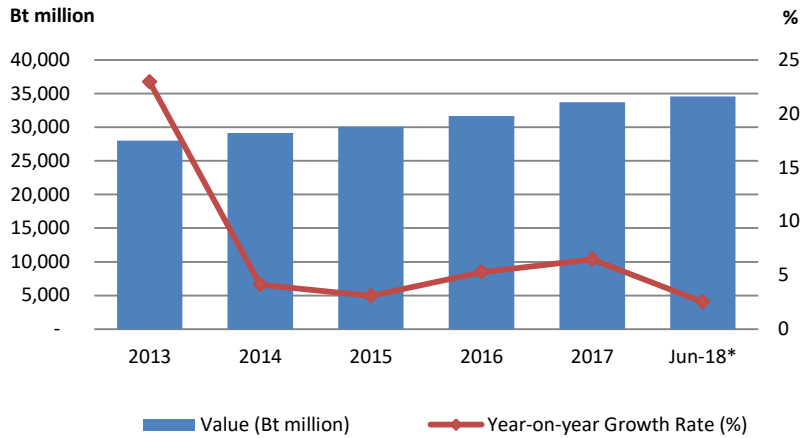
### COMPANY OVERVIEW

ASK was established by the Bangkok Bank Group (BBL Group) in 1984, as an auto hire- purchase lender. ASK became a wholly-owned subsidiary of BGPL. BGPL, which concentrates on leasing loans for machinery and equipment (M&E) and factoring loans to corporate clients, was established in 1989 by the BBL Group and Chailease Finance from Taiwan. ASK and its parent company, BGPL, both provided hire purchase loans. To eliminate this conflict of interest, ASK's shareholding was restructured. BGPL became a wholly-owned subsidiary of ASK. BGPL's shareholders became ASK's shareholders. In 2005, ASK was listed on the Stock Exchange of Thailand (SET).

The Chailease Group from Taiwan holds a 48.18% stake in ASK through two subsidiaries: Chailease Finance Co., Ltd., holding 36.61%, and Chailease International (Malaysia) Co., Ltd., holding 11.57%. ASK is consolidated with Chailease Finance, based on the criteria of the power of control. Presently, the Chailease Group designates six directors to ASK's board and supports ASK's liquidity needs. The BBL Group, whose shareholding was diluted after the 1997 financial crisis, now supports ASK as a creditor rather than as an owner.

**KEY OPERATING PERFORMANCE**

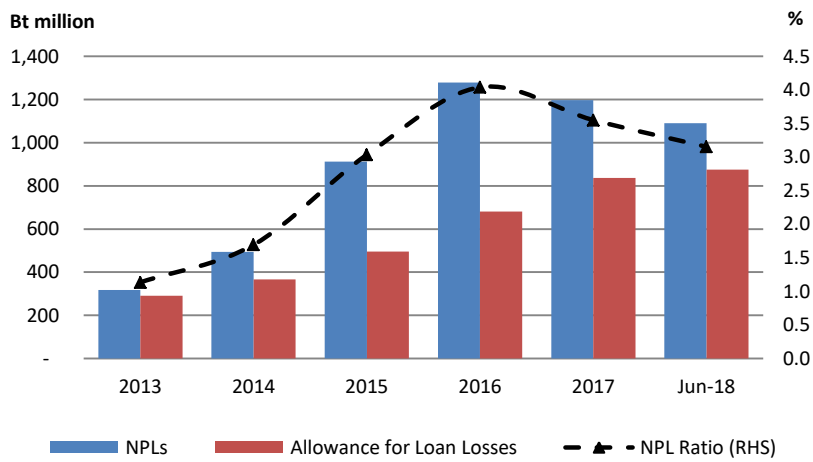
**Chart 1: Outstanding Loans**



Source: ASK

\* Year-to-date growth for Jun-18

**Chart 2: Asset Quality**



Source: ASK

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

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	34,859	33,999	31,707	30,249	29,465
Total loans	34,576	33,724	31,671	30,079	29,177
Allowance for doubtful accounts	876	837	681	495	367
Short-term borrowings	16,609	17,178	16,576	17,103	13,395
Long-term borrowings	12,594	11,139	9,773	8,098	11,251
Shareholders' equity	4,682	4,831	4,578	4,347	4,123
Net interest income	929	1,792	1,660	1,516	1,472
Bad debts and doubtful accounts	242	464	380	270	242
Non-interest income	202	369	326	302	286
Operating expenses	432	777	738	694	675
Net income	372	745	707	681	671

\* Consolidated financial statements

Unit: %

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
<b>Profitability</b>					
Net-interest income/average assets	5.39 **	5.46	5.36	5.08	5.09
Net-interest income/total income	61.59	61.09	58.94	55.71	54.84
Operating expenses/total income	28.62	26.50	26.20	25.51	25.14
Operating profit/average assets	2.66 **	2.80	2.80	2.86	2.91
Return on average assets	2.16 **	2.27	2.28	2.28	2.32
Return on average equity	15.65 **	15.84	15.84	16.07	16.95
<b>Asset Quality</b>					
Non-performing loans/total loans	3.15	3.55	4.04	3.03	1.69
Bad debts and doubtful accounts/average loans	1.42 **	1.42	1.23	0.91	0.85
Allowance for doubtful accounts/total loans	2.53	2.48	2.15	1.65	1.26
Allowance for doubtful accounts/non-performing loans	80.34	69.90	53.19	54.22	74.26
<b>Capitalization</b>					
Shareholders' equity/total assets	13.43	14.21	14.44	14.37	13.99
Shareholders' equity/total loans	13.54	14.32	14.46	14.45	14.13
Debt to equity (time)	6.44	6.04	5.93	5.96	6.15
<b>Liquidity</b>					
Short-term borrowings/total liabilities	55.04	58.89	61.10	66.03	52.85
Total loans/total assets	99.19	99.19	99.89	99.44	99.02

\* Consolidated financial statements

\*\* Annualized

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**Asia Sermkij Leasing PLC (ASK)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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