

BSL LEASING CO., LTD.

No. 13/2020

20 February 2020

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 06/02/19

Company Rating History:

Date	Rating	Outlook/Alert
04/02/09	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on BSL Leasing Co., Ltd. (BSL) at “BBB” with a “stable” outlook. The rating reflects the company’s strong capital base, low leverage, and financial support from its major shareholders. However, these supporting factors are offset by BSL’s deteriorating asset quality, high credit concentration, and an asset-liability mismatch. In addition, intense competition limits the company’s profitability.

KEY RATING CONSIDERATIONS

Solid capital base

TRIS Rating believes that BSL’s current capital will remain sufficiently robust to support the company’s business plans over the next three years. The strong capital base is supported by a low dividend payout ratio, conservative loan growth, and consistent profit generation.

BSL’s debt to equity ratio, a measure of capital strength, has stayed moderate and continually declined over the past five years. It is the lowest among its peers in TRIS Rating’s database. The ratio fell to 2.8 times, from 3.2 times as of September 2019 and December 2018, compared with peers’ average of about 10 times.

Shareholders’ funding support ensures sufficient liquidity

We believe that the financial support from the major shareholders as well as a range of funding sources from other financial institutions will let BSL maintain its operations and meet its debt repayment obligations.

As of September 2019, BSL had available credit lines of Bt1.18 billion and Bt2.11 billion from Bangkok Bank PLC (BBL) and Sumitomo Mitsui Banking Corporation (SMBC), respectively. Nevertheless, BSL does not rely heavily on borrowings from BBL as these are mostly used as back-up funding for liquidity management. In September 2019, the used credit lines from BBL amounted to only 2.0% of BSL’s total liabilities.

Competition limits profitability

The intense competition has put limits on BSL’s asset growth and loan yield. The yield has continued to trend downwards over the past 3 years, from 6.8% to 6.4%. Despite the aforementioned, BSL’s yield is still comparatively higher than peers; this higher yield limits BSL’s competitive position in the market.

TRIS Rating believes that the level of competition in the equipment leasing segment will remain high. This is because many leasing operators tend to have funding support from their parent banks and Japanese finance companies. Therefore, these operators are able to absorb lower yields due to lower funding costs pass through from their parent. Thus, the industry will continue to face yield pressure for the foreseeable future.

Asset quality deteriorates further

BSL’s asset quality remains our main concern. High customer concentration is the key risk factor causing the spike in non-performing loans (NPLs). Since 2016, only one customer group has led to a surge in NPL ratio to 8.7% in 2016. Nonetheless, BSL already made full provisions for this account in 2017.

At the end of 2019, BSL’s asset quality deteriorated further, with the NPL ratio rising to 11%. Excluding the legacy NPLs in 2016, the NPL ratio was at

4.1%, a strong increase from 0.69% at the end of 2018, compared on the same basis. Going forward, we believe BSL's asset quality will remain weak as long as the NPL accounts remain unresolved as the company has no policy to write off or dispose of NPLs. As of December 2019, BSL's top-10 clients accounted for 27% of the loan portfolio. We view that the weakening economy could lead to higher NPLs, if not well managed.

Asset-liability mismatch

BSL has a maturity mismatch in its asset-liability structure. The company's average loan duration is between 42 to 48 months, but BSL relies on short-term borrowing to keep its funding cost low. Nevertheless, we are not overly concerned with the asset-liability mismatch as we believe BSL has sufficient funding support in the form of credit lines from major shareholders to finance the short-term liquidity gap, if required.

BASECASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2020-2022 are:

- New loans in hire-purchase and financial lease will grow by 5%-10% per year
- New loans in operating lease will remain stable
- Debt to equity ratio will remain below 3 times
- Overall yield will remain between 6%-7%
- Credit cost will be approximately 3% in 2020 (to support TFRS9) and below 1%, thereafter
- Operating expenses to total income ratio remains between 42%-44%

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that BSL will continue to receive financial support from its major shareholders and maintain its diversified funding sources. The outlook also includes the expectation that the capital base will remain strong enough to cushion against any deterioration in asset quality, and BSL's financial performance will be in line with TRIS Rating's expectations.

RATING SENSITIVITIES

The rating and/or outlook could be revised downward if there is a significant deterioration in the company's capital base, leverage, or risk position. A downgrade could happen if, for instance, BSL's debt to equity ratio rises substantially or asset quality deteriorates significantly.

The rating and/or outlook could be revised upward provided that the company's market position and/or financial performance improve significantly. We could also upgrade the rating should there be any changes in BSL's shareholder structure. For example, if BSL becomes part of BBL's financial conglomerate under the consolidated supervision platform of the Bank of Thailand (BOT), BSL's rating could be enhanced by group support.

COMPANY OVERVIEW

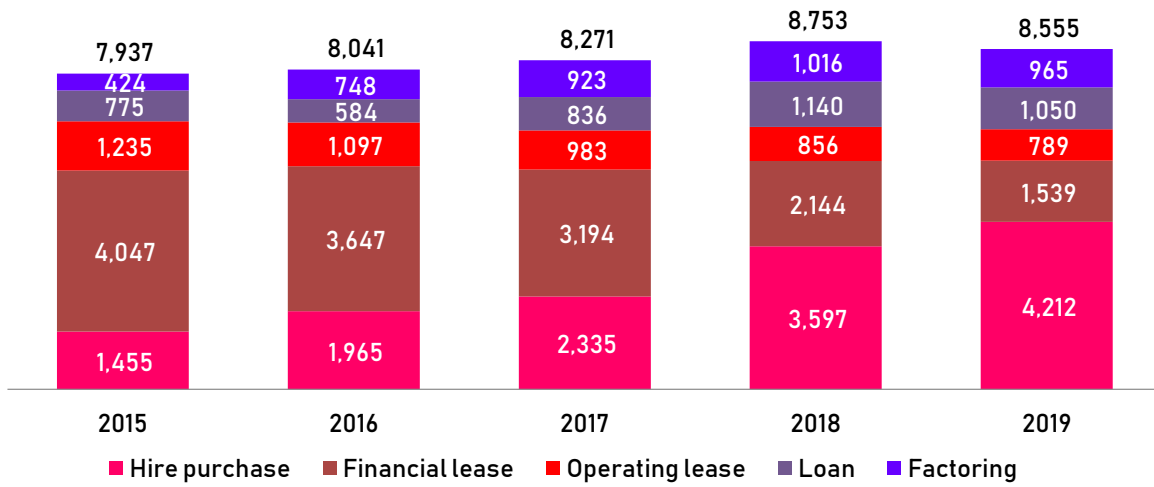
BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 joint venture between BBL and SMBC, a Japanese bank, and related companies. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. Currently, BSL's major shareholders are BBL, holding a 35.9% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide supports to BSL in terms of credit facilities and business referrals. The BOT has given BBL formal approval to maintain its shareholding stake (35.9%) in BSL. Despite the approval, BSL and BBL must still comply with a regulation that limits the amount of money a commercial bank may lend to a related company.

As of September 2018, the largest portion (39%) of BSL's loan portfolio comprised hire purchase. Financial lease loans comprised 27% of the portfolio, while operating leases, factoring, and other loans were 11%, 10%, and 14%, respectively. In terms of assets for lease, industrial equipment constituted 32% of the total, followed by automobiles at 22% and others at 46%.

KEY OPERATING PERFORMANCE

Chart 1: BSL's Outstanding Loans

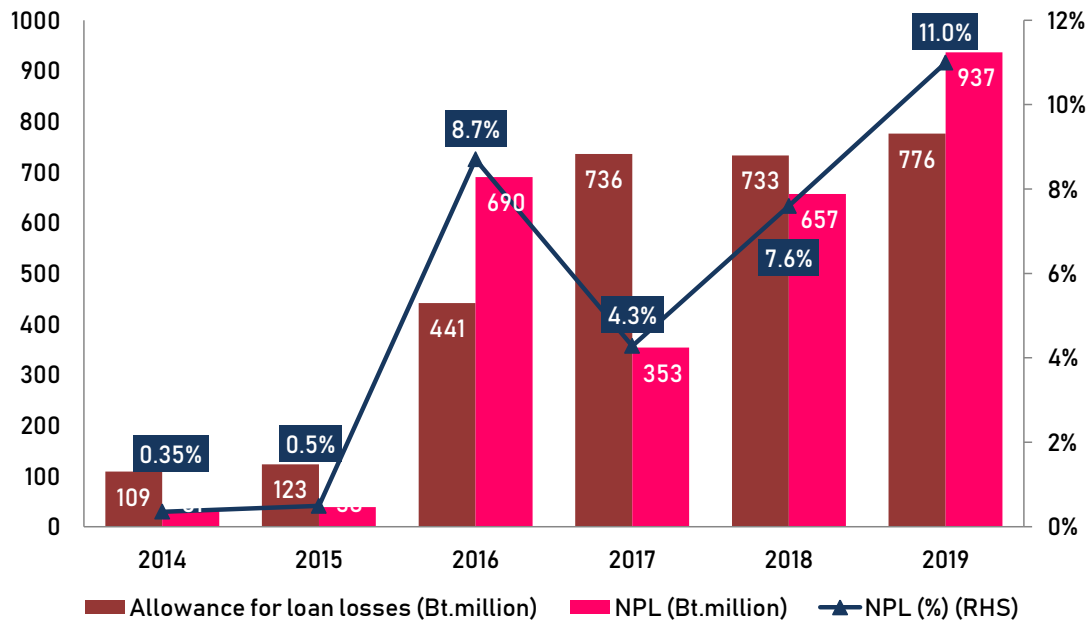
Unit: Bt million



Source: BSL

Chart 2: BSL's NPL Ratio

Unit: Bt million and %



Source: BSL

Table 1: Shareholders of BSL

Shareholders	%
Bangkok Bank PLC and affiliates	50.00
Bangkok Bank PLC	35.88
Jatubhut Holding Co., Ltd.	11.30
Others	2.82
Sumitomo Mitsui Banking Corporation Group	40.00
Sumitomo Mitsui Banking Corporation	10.00
SBCS Co., Ltd.	25.00
Others	5.00
JA Mitsui Leasing, Ltd.	10.00
Total	100.00

Source: BSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Year Ended 31 December				
	2019 *	2018	2017	2016	2015
Total assets	8,689	8,757	8,160	7,988	8,106
Total loans (including net operating lease assets)	8,521	8,645	8,260	7,991	7,826
Allowance for doubtful accounts	776	733	736	441	123
Short-term borrowings	4,841	5,710	4,200	4,953	4,039
Long-term borrowings	1,300	651	1,656	699	1,718
Shareholders' equity	2,289	2,096	1,858	1,876	1,841
Total revenues	852	895	892	968	1,028
Net revenues **	574	575	544	592	633
Gain from sales of assets for lease	28	27	30	28	19
Operating expenses	110	107	107	102	96
Net income	243	289	37	40	264

* Unaudited financial statement

** Net revenue = Net operating lease revenue + interest income from hire purchase, financial lease, factoring and other loans + gain from sales of assets for lease

Unit: %

	----- Year Ended 31 December -----				
	2019 *	2018	2017	2016	2015
Profitability					
Net interest income/average assets	7.20	7.92	8.27	9.23	9.16
Net interest income/total income	73.72	74.85	74.87	76.78	76.28
Operating expenses/total income**	18.54	17.82	18.85	16.68	14.82
Operating profit/average assets	2.96	3.72	(0.01)	0.16	3.85
Return on average assets	2.78	3.41	0.45	0.50	3.08
Return on average equity	11.06	14.60	1.97	2.18	15.40
Asset Quality					
Non-performing loans/total loans	10.95	7.60	4.28	8.70	0.71
Bad debts and doubtful accounts/total loans	0.57	0.02	3.56	4.02	0.19
Allowance for doubtful accounts/total loans	8.48	9.11	8.91	5.56	1.57
Capitalization					
Debt/equity (times)	3.18	2.80	3.39	3.26	3.40
Shareholders' equity/total assets	26.34	23.94	22.76	23.48	22.72
Shareholders' equity/total loans	26.86	24.25	22.49	23.65	23.53
Liquidity					
Short-term borrowings/total liabilities	75.64	85.72	66.63	81.04	64.48
Total loans/total assets	98.07	98.71	101.22	99.28	96.54
Total loans/short-term borrowings	176.02	151.40	196.67	160.11	193.74

* Unaudited financial statement

** Total income nets cost of operating

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

BSL Leasing Co., Ltd. (BSL)

Company Rating:

BBB

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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