

CHAYO GROUP PLC

No. 199/2024
31 October 2024

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 12/10/23

Company Rating History:

Date	Rating	Outlook/Alert
25/03/22	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Chayo Group PLC (CHAYO) at “BB+” with a “stable” outlook. The rating reflects the company’s relatively modest operational scale (compared with other distressed asset management companies – DAMCs in Thailand), elevated financial leverage from increasing asset acquisition, concentrated asset portfolio, and tight liquidity position.

These factors are partially mitigated by the company’s experience in distressed asset management in the unsecured loans segment, which has been a key source of cash collection and moderate liquidity risk. While liquidity remains manageable over the medium term, the current weakness in property sector may extend asset disposition timeframes. Such delays could increase liquidity risk and potentially impact the rating.

KEY RATING CONSIDERATIONS

Modest operating scale

CHAYO’s operating scale remains relatively modest compared with other DAMCs in Thailand. This is despite its rapid asset growth at a compound annual growth rate (CAGR) of 49% in 2021-2023. CHAYO ranked eighth among DAMCs in Thailand at end-2023 with a market share in assets of 1.6%, indicating a growing but still developing market presence.

The company’s total assets amounted to THB9.3 billion as of December 2023, with loans to non-performing assets of THB4.6 billion. This was mostly secured assets—primarily lands and properties—acquired during 2021-2022. At the end of June 2024, the portfolio may face significant concentration risk, as the top 10 accounts represent 49.5% of the total secured portfolio.

In our view, the company’s relatively limited track record in managing secured distressed assets, compared with major industry peers, presents a key component. The lack of strong track record, coupled with Thailand’s property sector downturn, give rise to our concerns over increasing liquidity risk given the potentially extended timeframes required for asset liquidation.

Since 2023, the company has strategically shifted its focus toward unsecured assets in response to secured portfolio challenges. While this strategic realignment is expected to continue, we anticipate more moderate expansion over the next two years due to funding constraints.

Cash collection of secured assets remains uncertain

CHAYO’s cash collection in the first half of 2024 (1H24) fell short of our expectations. This was mainly due to unexpected delay in the sale of one large asset which we assumed to be finalized in 2024, based on management’s indication. We believe uncertainties in its cash collection for secured assets over the next one to two years are likely to continue amid the ongoing downturn in the property sector.

However, we expect the company’s strategic focus on unsecured assets to help support cash generation. We forecast CHAYO’s cash collection will gradually increase to around THB950 million in 2025 and THB1.7 billion in 2026, up from around THB900 million in 2024. This will be mainly driven by increased cash collection from unsecured assets and the sale of one large asset in 2026.

Financial leverage to remain high

CHAYO's financial leverage is likely to remain elevated through 2024-2026, driven by the extended 4-5 year collection cycle of secured assets acquired in recent years. The prolonged asset disposal timeframe necessitates continued reliance on debt financing.

We expect CHAYO's financial leverage (adjusted net debt to EBITDA) to decline modestly from 5 times at end-1H24 through 2024-2026. Our baseline projection assumes annual distressed asset acquisitions of THB500 million in 2024-2025, with unsecured assets comprising 80% of investments. We project the investment budget could expand to THB1.5 billion in 2026, contingent on the successful disposal of a large asset currently facing liquidation delays.

Liquidity position to remain weak in the medium term

Over the next 12 months, we expect CHAYO's liquidity to remain tight and needs to be closely monitored. CHAYO plans to invest in distressed assets of about THB500-1,000 million in 2025. The company also has outstanding debentures of THB1.6 billion maturing in November 2025 and THB1 billion in March 2026, both are planned to be largely refinanced by new debenture issues. The company's sources of funds comprised cash on hand of THB520 million as of June 2024. We project its cash collections in 2H24-2025 to be around THB1.5 billion. Other sources of funds include bank credit facilities, potential rights offering plan, warrant issuance, and sales of fixed assets. Successful disposal of the aforementioned major assets could improve the company's liquidity profile.

Gradual earnings recovery expected

CHAYO's net profit in 1H24 dropped by 33% year-over-year (y-o-y) to THB148 million. The decrease was due to a sharp rise in expected credit losses (ECL) provisions caused by the revaluation of both unsecured assets and secured assets. We project CHAYO's full-year net profit in 2024 to reach THB395 million. This is likely to be supported by loan portfolio expansion and expected decline in ECL provisions in 2H24. We estimate the company's net profit to grow by 9% annually in 2025-2026. This will be driven by the accelerated disposal of its secured assets and expansion of its loan portfolio.

Lending business to focus on quality improvement

Chayo Capital PLC (CCAP), a 71% owned subsidiary operating lending business, has been experiencing asset quality challenges over the past two years. These challenges arose from its aggressive growth strategy in 2022-2023 and high credit concentration. Nevertheless, the company's asset quality has shown signs of improvement, with NPLs falling to THB438 million at end-1H24, from THB491 million at end-2023, thanks to loan restructuring programs.

We expect CCAP to make gradual progress in resolving its asset quality challenges over the next 12 months. This is based on the company's ongoing loan restructuring initiatives and legal enforcement measures. Given its focus on asset quality improvement and resolving funding constraints, we expect CCAP's outstanding loans to remain flat at around THB1 billion over the next two years.

BASE-CASE ASSUMPTIONS

Our base-case assumptions for CHAYO during 2024-2026 are as follows:

- Cash collection from distressed asset management to range around THB900 million to THB1.7 billion per annum.
- Revenues from debt collection services to range around THB29-THB33 million per annum.
- Gains on sales of foreclosed assets to range around THB65-THB167 million per annum.
- Interest income from loan offering to range around THB135-THB145 per annum.
- Gross loans for loan offering business of around THB1 billion.
- New acquisitions of distressed assets of around THB0.5-THB1.5 billion per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CHAYO will continue to deliver operating performance in line with our base-case projections. We also expect cash collection to increase steadily over the medium term following its continuous distressed asset acquisition in recent years. We also expect the company to gradually reduce financial leverage, measured by net debt to EBITDA, from the current level.

RATING SENSITIVITIES

A rating and/or outlook upgrade could occur if the company is able to substantially enlarge its cash generation on a sustained basis, while meaningfully reducing financial leverage. Conversely, the rating and/or outlook could be revised downward if the company's financial leverage rises significantly above our baseline expectation. Also, increased liquidity concerns or refinancing risk could also negatively impact the rating and/or outlook.

COMPANY OVERVIEW

CHAYO, initially named “Khien and Clay Co., Ltd.”, was established on 11 March 1997 with paid-up capital of THB3 million to operate debt tracking and collection service business. In accordance with the restructuring plan in 2015, the company changed its name to Chayo Group Co., Ltd. (CHAYO). CHAYO was listed on the Market for Alternative Investment (MAI) in March 2018. As of October 2020, the Yasasin Family, the largest shareholder, held a 56.97% stake in CHAYO.

CHAYO now operates four main businesses including debt collection service business, distressed asset management business, lending business, and customer service business. The company had extensive experience in debt collection services before acquiring and managing its own distressed assets in 2014. In 2019, debt collection services generated around 20% of the company’s total revenue, while distressed asset management business accounted for around 80%.

CHAYO operates distressed asset management business through Chayo Asset Management Co., Ltd. (Chayo AMC), its wholly-owned subsidiary, who has the license granted from the BOT under Emergency Decree on Asset Management Company B.E. 2541.

The company expanded into the lending business in 2018 after establishing its subsidiary “Chayo Capital PLC” (CCAP) to provide both unsecured and secured loans. CHAYO holds 71% in CCAP, and the remaining stakes are held by the Boonmechote Family and Mr. Wiwat Kromadit.

CHAYO established Chayo JV Co., Ltd. with its partners to invest and/or jointly invest in asset management business and/or other relevant businesses in October 2020. CHAYO currently holds 55% voting power in Chayo JV.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total operating revenues	1,009	1,629	1,057	806	520
Earnings before interest and taxes (EBIT)	350	824	510	381	248
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	422	902	586	445	295
Adjusted funds from operations (FFO)	221	527	416	319	233
Interest expense	157	254	160	113	53
Capital expenditures	168	1,510	1,791	1,192	626
Total assets	9,566	9,331	7,203	5,090	2,811
Adjusted debt	4,797	4,698	3,146	1,494	1,604
Total equity	4,391	4,296	3,842	3,458	1,147
Adjusted Ratios					
EBITDA margin (%)	41.87	55.40	55.60	55.67	56.83
Pretax return on permanent capital (%)	8.04 **	10.32	8.54	9.81	11.44
EBITDA interest coverage (times)	2.70	3.55	3.66	3.94	5.59
Adjusted debt to EBITDA (times)	5.04 **	4.50	3.61	0.34	3.00
FFO to adjusted debt (%)	10.36 **	12.99	19.66	210.60	26.30

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Chayo Group PLC (CHAYO)

Company Rating:

BB+

Rating Outlook:

Stable

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