

# EASTERN COMMERCIAL LEASING PLC

No. 146/2018  
4 October 2018

## FINANCIAL INSTITUTIONS

Company Rating: BBB-

Outlook: Stable

### Company Rating History:

Date	Rating	Outlook/Alert
21/11/17	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Eastern Commercial Leasing PLC (ECL) at “BBB-”. The rating reflects ECL’s continued improvement in loan portfolio and earnings and strong capital base. However, these strengths are hindered by some important risk factors. The company’s ability to control the quality of the loan portfolio needs time to demonstrate success and maintain satisfactory financial performance, especially after the recent rapid growth in the size of the portfolio.

In addition, ECL faces intense competition in the auto financing segment. It also has a relatively weak market position in terms of outstanding loans and financial flexibility compared with major competitors.

## KEY RATING CONSIDERATIONS

### Focus on used passenger car and big bike loan portfolio

ECL’s outstanding loans have climbed steadily, rising to Bt3,949 million at the end of December 2017 from Bt2,457 million at the end of December 2016, an increase of 61%. The hire-purchase of used “big bikes” has grown rapidly. At the end of June 2018, the value of the outstanding loans grew by 21% year-to-date to Bt4,761 million. The loan portfolio at the end of June 2018 comprised loans for used passenger vehicles (44%), “big bike” motorcycles (39%), trucks and others vehicles (16%), and floor plan loans (1%). ECL has a relatively weak market position in terms of outstanding loans, compared with major competitors, according to TRIS Rating’s database, amid intense competition in the auto financing industry.

ECL is less geographically diversified than its competitors. The company renders services through its headquarters office and five branches, covering only the Greater Bangkok area and the eastern region of Thailand. In the first quarter of 2018, ECL started to provide loans secured by land, which is a less liquid type of security compared to vehicles. TRIS Rating expects ECL will apply prudent underwriting criteria and expand conservatively.

### Asset quality needs time to be proven

The rating is based on our expectation that asset quality will hold at an acceptable level. Due to the rapid growth of the loan portfolio, the ratio of non-performing loans (NPLs) to total hire-purchase loans decreased to 2.5% at the end of June 2018, from 2.8% at the end of December 2017. Despite the drop, we still have a concern on the loan quality because of the short track record and rapid growth in the big bike segment. ECL needs time to demonstrate its ability to manage, on a sustained basis, its sizeable loan portfolio and maintain an acceptable level of loan quality.

### Low loan loss provision coverage ratio

ECL’s NPL coverage ratio, or the ratio of allowance for loan losses to NPLs, is lower than peers, with an average over 50%. ECL’s NPL coverage ratio was around 27% as of June 2018. We view that the NPL coverage ratio of ECL was too small to serve as an effective cushion for any adverse changes in the operating environment. However, ECL’s capital base is strong and sufficient to absorb this risk. The incremental loan loss reserve in preparation for the new accounting standards may also affect ECL’s financial position.

### Improved Profitability

TRIS Rating expects ECL's profitability will remain strong. ECL's financial performance has markedly improved driven by the portfolio that has grown. Net profit rose to Bt129 million in 2017, 90% higher compared with Bt68 million in 2016 (excluding a loss from a private placement of ordinary shares, made to Premium Financial Services Co., Ltd. (PFS), amounting to Bt42.75 million). ECL reported a net profit of Bt62 million in the first half of 2018. The return on average assets (ROAA) has improved steadily to 3.9% in 2017 from 3% in 2016 and slightly decreased to 2.5% (annualized) for the first half of 2018. TRIS Rating expects the company to be able to control its funding costs, credit costs, and operating costs. As a result, we expect ECL's profitability will continue to improve.

### Liquidity remains moderate with weak financial flexibility

We expect ECL's liquidity position to remain moderate over the next few years. ECL's funding structure matches the structure of the hire purchase loan portfolio. The cash inflows ECL expects to receive yearly are still much higher than the scheduled debt repayments. As of August 2018, the one-year asset-liability duration gap was positive. Loan repayments from customers will be about Bt2,000 million while the company's loan repayment obligations will be approximately Bt1,500 million over the next 12 months.

ECL has various sources of funds from large financial institutions. However, ECL will face a challenge if the loan portfolio expands substantially. Since most of the debts are secured by hire-purchase receivables, ECL has less financial flexibility than its major direct competitors to some extent, particularly if facing a liquidity crunch.

### Rising Leverage

The total debt level has risen considerably to fund the portfolio expansion. The debt to equity ratio stood at 1.98 times at the end of June 2018, below the covenant limit of 3 times. ECL's current capital base is sufficient to fund its expansion plans in the medium term. TRIS Rating expects the company to keep its capital base strong. An aggressive expansion of the loan portfolio would pose a major challenge for ECL.

### RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that ECL can maintain its market position, deliver stable and satisfactory financial performance, and keep its capital base strong. TRIS Rating also expects that the quality of the loan portfolio will be controlled at an acceptable level.

### RATING SENSITIVITIES

The rating or outlook upside is limited in the medium term due to the recent rapid growth in loan portfolio, particularly in the big bike segment. However, the rating or outlook would rise if ECL can strengthen its business profile and deliver strong financial results. The rating or outlook could be revised downward if asset quality deteriorates significantly, which would affect the company's profitability and capital base.

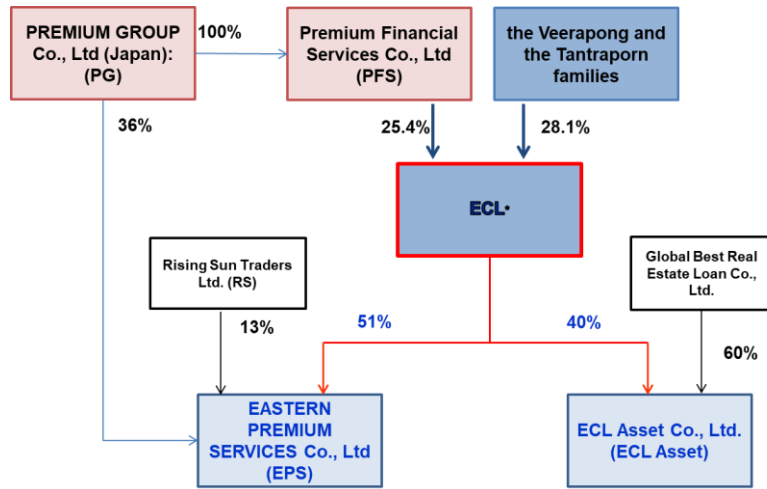
### COMPANY OVERVIEW

ECL was established by the Veerapong and Tantraporn families in 1984 and listed on the Stock Exchange of Thailand (SET) in 2004. Since it was established, ECL has focused on financing the purchase of used automobiles through hire-purchase loans and car loans or floor plan loans for vehicle dealers. As of July 2018, the Veerapong and Tantraporn families remained the largest shareholders, owning a combined 28.1% stake of ECL, followed by PFS, which owned a 25.4% stake. PFS is a major originator of used auto financing and used car parts warranty in Japan. The know-how and support from PFS will help ECL improve operating efficiency and yield more fee-based income from the auto maintenance and repair segment.

In February 2018, ECL formed a new joint venture company, ECL Asset Co., Ltd. (ECL Asset). ECL Asset is held by ECL (40%) and Global Best Real Estate Loan Co., Ltd. (60%). ECL Asset was formed as an operating business loans to secure land property on a registered mortgage or sale with the right of redemption basis as collateral.

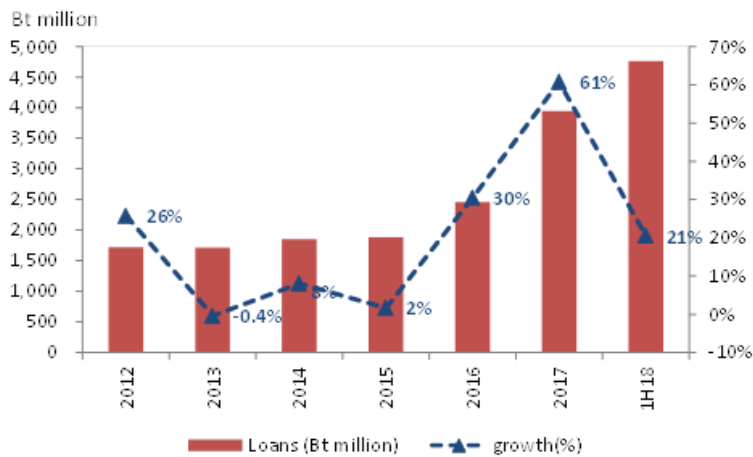
**KEY OPERATING PERFORMANCE**

**Chart 1: ECL's Group Structure as of Sep 2018**



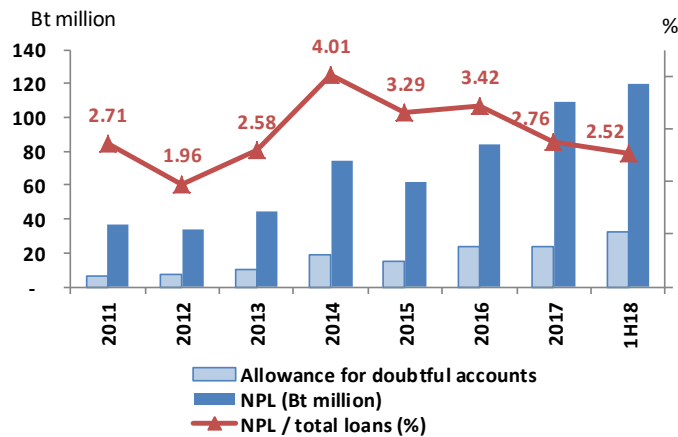
Source: ECL

**Chart 2: ECL's Outstanding Loans**



Source: ECL

**Chart 3: NPLs, NPL Ratio, and Allowance for Doubtful Loans**



Sources: ECL's financial statements

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

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016 **	2015	2014
Total assets	5,006	4,075	2,543	1,953	1,914
Total loans	4,761	3,949	2,457	1,883	1,852
Allowance for doubtful accounts	32	24	24	15	19
Short-term borrowings	1,348	1,177	750	692	734
Long-term borrowings	1,872	1,437	635	489	460
Shareholders' equity	1,677	1,381	1,104	736	686
Net interest income	160	247	174	150	133
Bad debts and doubtful accounts	44	29	33	35	20
Non-interest income	83	142	80	61	58
Operating expenses	123	199	135	112	102
Net income	62	129	68	50	55

\* Consolidated financial statements

\*\* Excluding a loss from a private placement of ordinary shares, made to PFS, amounting to Bt42.75 million in 2016

*Unit: %*

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016 **	2015	2014
<b>Profitability</b>					
Net-interest income/average assets	7.03 *	7.46	7.76	7.74	7.05
Net-interest income/total income	51.79	50.84	56.70	55.09	52.82
Operating expenses/total income	39.82	40.96	44.02	41.08	40.43
Operating profit/average assets	3.38 *	4.84	3.81	3.33	3.65
Return on average assets	2.73 *	3.89	3.02	2.57	2.89
Return on average equity	8.12 *	10.36	7.37	7.00	8.03
<b>Asset Quality</b>					
Non-performing loans/total loans	2.52	2.76	3.42	3.29	4.01
Bad debts and doubtful accounts/average loans	2.00 *	0.92	1.52	1.88	1.11
Allowance for doubtful accounts/total loans	0.67	0.60	0.98	0.81	1.04
<b>Capitalization</b>					
Shareholders' equity/total assets	33.51	33.89	43.43	37.66	35.84
Shareholders' equity/total loans	35.23	34.96	44.96	39.07	37.03
Debt to equity (time)	1.98	1.95	1.30	1.66	1.79
<b>Liquidity</b>					
Short-term borrowings/total liabilities	40.49	43.68	52.12	56.85	59.79
Total loans/total assets	95.10	96.92	96.61	96.40	96.76

\* Annualized

\*\* Excluding a loss from a private placement of ordinary shares, made to PFS, amounting to Bt42.75 million in 2016

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**Eastern Commercial Leasing PLC (ECL)**

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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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