KRUNGTHAI CAR RENT & LEASE PLC

No. 218/2024
25 November 2024

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 30/11/23

Company Rating History:

Date	Rating	Outlook/Alert
02/10/17	A-	Stable
15/05/08	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Krungthai Car Rent & Lease PLC (KCAR) at "A-" with a "stable" rating outlook. The rating reflects the company's strong market position in the car rental business, low leverage, and sound cash flow protection. The rating also considers the company's well-matched funding and adequate liquidity.

KEY RATING CONSIDERATIONS

Strong market position with competitive edge

Despite intense competition, KCAR maintains its position as the sixth-largest car rental operator in terms of assets as of the end of 2023, holding a 6.8% market share, according to TRIS Rating's database. The ability to maintain market position is attributed to its full range of services, including long-term leasing, short-term rentals, and comprehensive value-added services and variety of product offerings including sedan, sport utility vehicles (SUVs), pick-up trucks, and vans.

KCAR's competitive advantage stems from its strong relationship with financial institutions as well as car dealerships, some of which are owned by its major shareholder and founder. This enables the company to purchase vehicles at relatively favorable prices and financing terms. The company also operates in-house maintenance service centers, which helps manage cost effectively as well as selling its retired vehicles under the 'Toyota Sure' brand directly to retail customers at reasonable profit margins.

Expect leased assets to recover

KCAR's net leased assets grew 8.7% year-on-year (y-o-y) in 2023, driven by strong new origination from state-owned banks. However, origination weakened in the first nine months of 2024 (9M24) due to softer demand. We project a 2% decline in net leased assets in the fourth quarter of 2024 (4Q24) from September 2024 levels due to scheduled fleet vehicle retirements.

We expect net leased assets to recover 5% to THB4.8 billion by end-2025, supported by broader economic recovery driving both private and public sector demand. KCAR plans to expand selectively by focusing on quality customers while diversifying into pickup trucks and major electric vehicle (EV) brands.

Earnings pressure in 2024, recovery ahead

While KCAR's 2023 performance met our projections, 9M24 results fell short of expectations, with net profit and EBIT declining 58% and 38% y-o-y, respectively. This was primarily due to weaker used vehicle sales performance, both in terms of volume and margins.

The company delayed vehicle disposals in response to unfavorable market prices, causing inventory levels to surge to THB432 million from the THB150-170 million range maintained over the previous five years.

Car rental business margins also faced pressure in 9M24. Overall EBIT margin contracted to 10.6% from 15.1% in 2023, while rental service gross margin decreased to 9.9% from 11.0%. This was impacted by extended lease tenors that led to higher maintenance costs. The used vehicle sales gross margin similarly declined to 31.2% from 36.9%, reflecting unfavorable market conditions.

We expect gradual recovery in 2024-2026, with the EBIT margin improving to 12%-13% and rental service gross margins stabilizing at 10%-11%. Recovery will be supported by increased used vehicle sales revenue of THB900-THB1,000 million in 2025-2026. We project EBIT to reach THB270-310 million in 2025-2026, up from THB215 million in 2024.

Modest leverage despite recent uptick

As of September 2024, KCAR's total interest-bearing debt was THB3.2 billion, of which THB2.4 billion (75%) represented priority debt through secured borrowings. This high priority debt ratio, primarily driven by hire purchase borrowings, means unsecured creditors have subordinated claims on company assets.

We expect KCAR to maintain conservative leverage despite modest increases projected for 2024-2026. Net debt to capitalization is forecast to rise slightly to 57%-59% from 56.6% in September 2024. Similarly, the debt-to-equity ratio is expected to edge up from 1.5 times to 1.6 times by end-2026, driven by portfolio expansion but remaining well below the bond covenant of 3.0 times.

Weakening cash flow metrics, not yet affecting the rating

KCAR's cash flow protection, measured by EBIT interest coverage ratio, declined to 2.1 times in 9M24 from 3.9 times in 2023 given the lower sales volume and gross margin of retired vehicles. While this represents a considerable decrease, the ratio still indicates a reasonably healthy ability to meet interest obligations, in our view.

We project KCAR's EBIT interest coverage ratio to improve to the 2.4-2.7 times range in 2025-2026. This will come primarily from our anticipated increase in the sales volume of retired vehicles. We also forecast KCAR's ratio of funds from operations (FFO) to debt to remain sound at around 30% in 2024-2025, a slight decrease from 33% in 9M24.

Well-matched funding profile, adequate liquidity

KCAR maintains funding duration that matches its four- to five-year lease terms, with long-term borrowings comprising 99% of total debt as of September 2024. The company has diversified its funding sources through increased use of hire purchase contracts for rental assets, which now represent 57% of total borrowings and help stabilize funding costs. Overall funding cost remained steady at 3.3% since the 4Q23.

The company's liquidity outlook remains adequate for the next three years, supported by steady rental cash flows, balanced debt maturity profile, and established relationships with financial institutions. As of September 2024, KCAR had THB1.8 billion in available credit lines and THB1.2 billion in hire-purchase facilities.

Car rental business faced slowdown

The vehicle operating lease industry has shown tepid performance over the past two years, reflecting sluggish domestic economic recovery. Major operators reported only marginal growth in net leased assets during 2023. Profits from vehicle disposals declined y-o-y due to oversupply in the used car market, further compounded by tighter lending standards across financial institutions that constrained buyer demand.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KCAR in 2024-2026 are as follows:

- Total lease portfolio to be THB4.5-THB5.3 billion.
- Operating lease gross margin to range around 10%-11%.
- Cost of funds to reach around 3.3%-3.4%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will continue to maintain its market position and deliver operating performance in line with our base-case projections. We also expect the company to gradually improve its cash flow protection, measured by the EBIT interest coverage ratio, from the current level.

RATING OUTLOOK

A credit upside could materialize if the company's market position improved significantly, leading to stronger financial performance and cash flow protection for a sustained period. Conversely, the rating and/or outlook could be revised downward if the company's market position deteriorates significantly or if its financial performance or cash flow protection weaken with the EBIT interest coverage ratio falling below 2 times on a sustained basis.

COMPANY OVERVIEW

KCAR was established in 1992 by Mr. Paitoon Chantarasereekul. The company was set up to provide corporate clients with long-term automobile rentals under operating lease contracts. The company also offers short-term auto rentals to both corporate and individual clients. From a base of THB4 million in 1992, the company's paid-up capital increased continuously as the business grew. In 2005, KCAR purchased a 95% stake in KA, a used car dealer, from the Chantarasereekul Family. In 2012, KCAR acquired the remaining 5% stake in KA, which then became KCAR's wholly-owned subsidiary.

KCAR was listed on the Stock Exchange of Thailand (SET) in late 2005 and received THB212 million from the initial public offering (IPO). Since the SET listing, the Chantarasereekul Family has remained the major shareholder, controlling a majority stake of approximately 73.5% in KCAR as of March 2020.

KCAR provides rental services for various types of vehicles, including sedans, SUVs, pick-up trucks, and vans. The company has a policy to concentrate on popular brands, especially Japanese cars, in order to reduce the risk of losses on retired assets. Preference is given to the "Toyota" brand, as the major shareholder owns a Toyota authorized dealership. KCAR also offers other brands, such as "Honda", "Isuzu", and "Nissan". In addition, the company rents some European brands to meet customer demand.

KCAR offers a full range of services, such as comprehensive insurance coverage, car registration, and vehicle maintenance. KCAR provides 24-hour customer service for both normal and emergency needs through a call center. The company also provides replacement cars in case of accident, loss, or lengthy repair.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

			-------------Year Ended 31 December ----------			
	Jan-Sep 2024		2023	2022	2021	2020
Total operating revenues	1,555		2,172	2,280	2,206	2,193
Earnings before interest and taxes (EBIT)	166		328	311	339	274
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	848		1,202	1,196	1,229	1,165
Funds from operations (FFO)	770		1,115	1,116	1,143	1,073
Adjusted interest expense	77		85	78	81	91
Capital expenditures	646		6	923	675	974
Total assets	5,895		5,882	5,596	5,703	5,416
Adjusted debt	3,127		3,073	2,641	2,876	2,889
Adjusted equity	2,402		2,381	2,329	2,257	2,127
Adjusted Ratios						
Adjusted EBIT margin (%)	10.65		15.08	13.62	15.23	12.48
Return on average assets (%)	1.57	*	3.36	3.24	4.07	4.04
EBIT interest coverage (times)	2.14		3.87	3.97	4.14	3.02
FFO to debt (%)	32.97	*	36.29	42.26	39.75	37.15
Debt to capitalization (%)	56.56		56.34	53.14	56.03	57.59

* *Annualized*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

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