

LEASE IT PLC

No. 167/2024
27 September 2024

FINANCIAL INSTITUTIONS

Company Rating: BB-
Outlook: Stable

Last Review Date: 29/09/23

Company Rating History:

Date	Rating	Outlook/Alert
29/09/23	BB-	Stable
30/09/22	BB	Negative
23/09/21	BB+	Stable
23/11/20	BBB-	Negative
12/11/19	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Lease IT PLC (LIT) at “BB-” with a “stable” outlook. The rating reflects the weak business and risk position displayed by deteriorating revenue generation capacity and steadily declining asset quality.

The rating is also weighed down by the company’s negative operating performance over the past three years as well as a moderate funding and liquidity position. The company’s strong capital position remains its key credit strength supporting the rating.

However, despite the strong capital, the rating could face downward pressure if there are no signs of improvement in revenues, operating performance, and asset quality over the next 12 months.

KEY RATING CONSIDERATIONS

Risk position remains weak

LIT’s risk position remains ‘weak’ due to its elevated non-performing loan (NPL) ratio, which rose from 54.6% at end-2022 to 75.4% at end-June 2024, and consistently high credit costs. The higher NPL ratio stems primarily from aggressive expansion in government-related project finance loans for SMEs during 2018-2021, particularly in the construction sector. These loans were severely impacted by the COVID-19 pandemic and delayed government budget disbursements. Loan concentration also contributed, with the top 20 NPLs accounting for 63% of total loans as of June 2024.

However, new loan bookings since 2022 show improved quality, evidenced by significantly lower NPL formation in 2023. While resolving legacy NPLs will take time due to economic weakness and legal uncertainties, the company is expected to maintain better quality in new loans.

LIT plans more active write-offs for uncollectable cases, with a surge expected in 2025, including one large account of about THB500 million. Provisions for this account’s expected credit loss will be set aside in the second half of 2024 (2H24), likely causing credit costs to peak this year.

Expect operating performance to bottom out in 2024

LIT reported net losses of THB62 million in 1H24, following THB118 million losses in 2023. These financial challenges stemmed from lower revenue due to rising NPLs and decreased new lending, and higher credit costs. As a result, LIT’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), remains negative at -7.4% (annualized) in 1H24 compared with -6.8% in 2023.

In 2H24, LIT plans to set aside a large sum of provisions for a major NPL account to prepare for its write-off in 2025. This legacy NPL resolution strategy will likely result in significant losses in 2024 as part of its portfolio clean-up efforts.

LIT’s successful operational turnaround hinges on three critical factors: effective NPL collection, stable revenue generation through prudent credit expansion, and maintaining new loan quality. Failure to grow and manage the quality of new loans could pressure the company’s rating downwards.

Strong capital base

We assess LIT's capital position as 'very strong,' which continues to be a key rating factor supporting its credit profile despite prolonged weak operating performance. The risk-adjusted capital (RAC) ratio stood at 52.6% as of June 2024, down from 54.6% at the end of 2023 due to net losses posted in 1H24. We believe the company will maintain very strong capital over the next three years, despite our base case assumption that the company will continue to incur net losses in 2024-2026.

Weak business position

LIT's business position remains 'weak' and continues to constrain its rating. The company is one of the smallest non-bank financial institutions rated by TRIS Rating. As of June 2024, the company's outstanding loans steadily declined to THB1.7 billion from a peak of THB2.7 billion in 2020. As of the end of 1H24, the company's outstanding loans expanded modestly from the end of 2023. However, we do not expect significant business expansion in the medium term, as the company remains cautious given the still-weak credit profile of SMEs, its target customers. The company is pursuing new businesses, such as SME term loans, home equity loans, and unsecured personal loans, aiming to diversify away from project loans. However, successful revenue generation from these new products remains to be proven.

Moderate funding and liquidity

We assess LIT's funding and liquidity as 'moderate'. As of June 2024, the company's capital structure comprised 28% debt and 72% equity. All of the company's debt obligations take the form of debentures, with outstanding amount totaling THB354 million. Of these, THB54 million maturing in March 2025 will be refinanced with bank borrowings. The remaining THB300 million will be due in February 2026. We believe LIT can manage its liquidity and meet its debt obligations over the next 12 months.

As of the end of June 2024, the company had unused short-term credit lines totaling around THB100 million to support liquidity needs. Also, potential liquidity could be sourced from loan repayment from customers, which can be used for debt repayment. The company estimates that should it cease booking new loans, cash inflows from customers' loan repayments could be around THB300 million within three months.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2024-2026:

- Outstanding loans to stay flat in 2024, declined around 30% in 2025 and flat in 2026.
- RAC ratio to stay above 35%.
- Overall asset yield to be flat in 2024 and increase to 7% in 2026.
- Credit cost to be around 20% in 2024 and 3%-4% per year thereafter.
- Operating expenses to total income to remain high at 90% in 2024 and decline to about 70% in 2025 and 60% in 2026.

RATING OUTLOOK

The "stable" outlook reflects the expectation that the asset quality of new lending will remain well controlled while capital remains very strong, and the liquidity risk is well managed in the next 12 months.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on the company's ability to turnaround its business with stable source of revenue and material asset quality improvement, while RAC ratio is maintained substantially above 25% and liquidity risk is well managed.

The rating and/or outlook could be revised downward if there were no signs of asset quality, revenue and earnings recovery or the RAC ratio fell below 25% on a sustained basis.

COMPANY OVERVIEW

LIT was established in 2006 as Lease IT Co., Ltd., 99.99% owned by SVOA PLC (SVOA). LIT was initially established as a financial arm to provide the leasing and hire purchase of SVOA's products to its customers. The company also provided factoring financing to help SVOA's customers manage working capital. In 2009-2010, the company started to diversify its business outside of SVOA's circle of customers and introduced other products such as trade finance, bid bond, and project back-up finance. In 2015-2016, the company introduced two more new products -- letter of credit (L/C) and supply chain finance.

On 25 March 2014, LIT became a public company under the name "Lease IT PLC". The company was subsequently listed on the Market for Alternative Investment (MAI), with THB200 million in registered and paid-up capital. In 2017, the company

offered to sell warrants (LIT-W1) to the company's existing shareholders by way of a rights issue, totaling 160 million units of warrants at an offering price of THB2.5. The issue of the warrants enabled the company to increase its equity by THB400 million.

In May 2018, the company established "LIT Service Management Co., Ltd." with registered capital of THB5 million. The company's principal business operations are providing data information and credit analysis services for LIT. The subsidiary was established to segregate the roles between credit analysis and underwriter/approval.

In October 2020, LIT set up the new subsidiary "Ulite Digital Co., Ltd." (Ulite) with THB10 million registered capital. Ulite provides short-term financing under the buy-now-pay-later concept. The financing products are generally for electrical appliances.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	1,343	1,424	2,017	2,157	2,645
Total loans	1,738	1,719	1,946	2,386	2,695
Allowance for expected credit loss	759	729	663	537	300
Short-term debts	56	302	447	715	1,034
Long-term debts	301	58	402	404	405
Shareholders' equity	929	991	1,108	940	1,075
Net interest income	11	24	49	129	186
Expected credit loss	52	105	127	237	66
Non-interest income	24	49	58	115	124
Operating expenses	47	97	103	126	126
Earnings before taxes	(64)	(130)	(123)	(119)	118
Net income	(62)	(118)	(100)	(95)	71

* Consolidated financial statement

Unit: %

	Jan-Jun 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Profitability					
Net-interest income/average assets	1.62 **	1.38	2.33	5.39	5.23
Net-interest income/total income	21.55	21.57	31.03	39.04	40.88
Operating expenses/total income	91.24	88.30	65.93	37.97	31.67
Operating profit/average assets	(9.21) **	(7.55)	(5.91)	(4.97)	3.81
Earnings before taxes/average risk-weighted assets	(7.38) **	(6.75)	(4.73)	(3.50)	3.11
Return on average assets	(8.96) **	(6.83)	(4.79)	(3.98)	2.30
Return on average equity	(12.92) **	(11.21)	(9.77)	(9.48)	6.45
Asset Quality					
Non-performing loans***/total loans	75.35	65.01	54.62	29.45	15.25
Expected credit loss/average loans	5.98 **	5.74	5.87	9.37	2.47
Allowance for expected credit loss/non-performing loans***	57.99	65.21	62.38	76.38	73.04
Capitalization					
Risk-adjusted capital ratio	52.55	54.57	50.36	31.14	28.33
Debt to equity (times)	0.45	0.44	0.82	1.30	1.46
Liquidity					
Stable funding ratio	254.33	212.52	263.76	216.77	256.29
Liquidity coverage measure (times)	0.98	0.30	1.06	0.10	0.05
Short-term debts/total liabilities	13.48	69.67	49.15	58.74	65.87

* Consolidated financial statement

** Annualized

*** Definition was changed in 2020 to staging from aging

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

Lease IT PLC (LIT)

Company Rating:	BB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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