

# MIDA LEASING PLC

No. 122/2020  
11 August 2020

## FINANCIAL INSTITUTIONS

**Company Rating:** BB+  
**Outlook:** Negative

**Last Review Date:** 10/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	BB+	Alert Negative
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Mida Leasing PLC (ML) at “BB+”. At the same time, TRIS Rating removes the “CreditAlert” with “negative” implication on ML and replaces it with a “negative” rating outlook. The rating on ML is currently capped by the rating on MIDA Assets PLC (MIDA), its parent company. The “negative” rating outlook mirrors the rating outlook on MIDA which reflects our view that MIDA’s operating performance will continue to be under pressure over the next 12 months amid the fallout from the Coronavirus Disease 2019 (COVID-19) pandemic.

ML’s stand-alone rating reflects its solid capital position and stable profitability. However, the rating is constrained by its moderate market position and declining asset quality.

## KEY RATING CONSIDERATIONS

### Solid capital base and low financial leverage

TRIS Rating assesses ML’s capital position as very strong, with the 5-year average risk-adjusted capital (RAC) estimated at 59.7%, compared with 51.9% at the end of 2019. The capital position is stronger than peers and appropriate for the credit risk profile of its target customers in the used car segment.

At the same time, ML’s financial leverage remains low measured by debt to equity (D/E) ratio of 0.94 times at the end of March 2020, improving from 1.1 times at the end of 2018. The current D/E ratio is lower than the 3-time covenant imposed by its debenture obligations. TRIS Rating expects ML’s capital to remain strong in the medium term due to the business slowdown amid the weakening economy, the company’s low dividend payout policy, and sustained profitability in spite of the anticipated setback this year.

### Moderate market position

The rating on ML is constrained by its moderate market position. ML provides loans in the niche market with a focus on used pick-up trucks. The majority are small ticket-sized loans ranging from THB50,000-THB300,000. Outstanding loans were THB3.4 billion at the end of March 2020. The portfolio is likely to expand at a measured pace owing to the weak economy and limited funding.

### Heightened asset quality concerns

ML’s asset quality could deteriorate further in 2020 given the economic fallout from the COVID-19 breakout. The non-performing loan (NPL) ratio (loans of more than 90 days past due divided by total loans) has increased to 5.7% at the end of March 2020 from 5.3% at the end of 2019. Moreover, this is higher than the 3%-4% range in the past, which has been our key concern. The NPL ratio could rise further if the pandemic prolongs.

Despite the weakening asset quality, we view that ML’s current level of loan loss provisions based on the TFRS9 standard is sufficient as the company has reversed THB18.2 million in loan loss provision in the first quarter of 2020.

### Waning profitability in the medium term

TRIS Rating expects ML’s profitability to decline over the next two years and resume its normal level thereafter. The return on average assets (ROAA) is estimated to stay slightly below 2% in 2020-2021 from 2.7% in 2019 and

recover to above 3% thereafter. We also forecast earnings before tax (EBT) to average risk-weighted assets (ARWA) to fall below 2.5% in 2020-2022 and rise to over 3.5% after 2022. The decline in profitability is likely to be driven by lower interest spread and the higher credit costs.

ML's loan spread in 2019 has fallen below its normalized level of 10%-11%. We expect its spread to slip further in 2020-2021, despite the downward trend in interest rates that would have benefited ML in terms of lower funding cost. The narrower spread could be a combination of less interest income due to the debt relief measures ML may provide to some customers and the prospective increase in funding cost following the downgrade of the rating on ML. Nevertheless, we believe in the longer run, ML's loan spread should recover once the situation normalizes.

### Liquidity risk remains

Although the bond market condition has improved tremendously, we maintain our cautious view that refinancing risk could remain for ML and its parent, MIDA, given some degree of uncertainties surrounding the repayment plan of its outstanding debentures this year. That said, based on ML's estimates, cash inflows and outflows for the remainder of this year appear to be well matched. The cash inflows from customer loan repayments are expected to be about THB930 million from April to November 2020, while the company's debt obligations of about THB160 million are scheduled for repayment in September and THB770 million in November 2020. However, ML's cash flows from debt collections could be disrupted if its borrowers face financial difficulties or enter the debt relief program. On a positive note, the company has so far received more credit facilities from financial institution, secured by its loan portfolios, which should help mitigate liquidity risk for ML to some extent.

### BASE-CASE ASSUMPTIONS

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

- Negative growth in new loans in 2020 and 5% growth thereafter.
- Loan spread to be in a range of 9%-10%.
- Credit cost to be in a range of 2%-2.5%.
- RAC ratio to be around 60%.
- Operating expense<sup>1</sup> to total income ratio to be around 55%.

### RATING OUTLOOK

The "negative" outlook mirrors the rating outlook on ML's parent, MIDA, which reflects our expectation of a material deterioration in MIDA's operating performance throughout 2020 and our concern over the tightened refinancing risk of the company and its subsidiary's maturing bonds amid the COVID-19 induced risk-off sentiment in the capital market.

### RATING SENSITIVITIES

ML's rating/outlook could be revised upward/downward following a rating action on MIDA.

### COMPANY OVERVIEW

ML was founded on 4 October 2000 under the name of Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 11 June 2020, ML's major shareholders were MIDA with 46.98% holding and members of the leosivikul family with 8% holding and Panyajirawut family with 7.8% holding. These two families are the founders and major shareholders of MIDA. In addition, half of ML's board members also sit on the board of MIDA or are top executives at MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

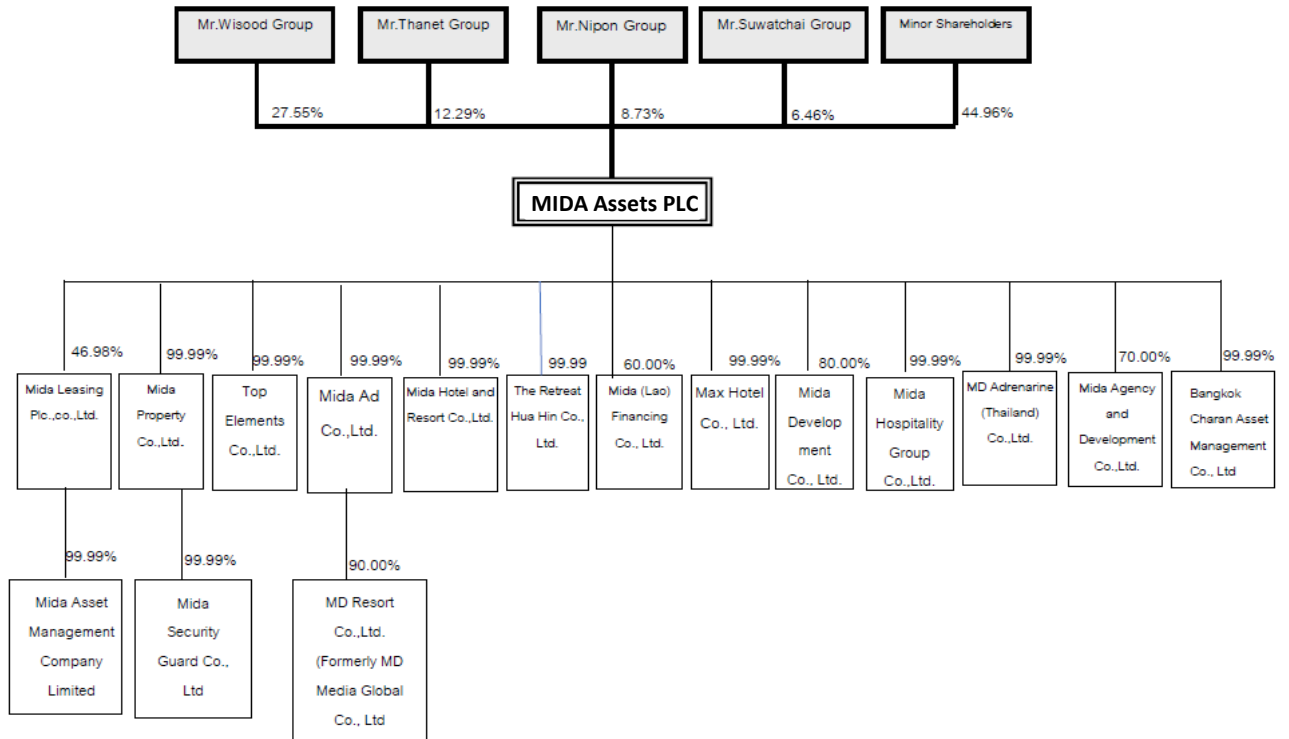
ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was THB90 million when the company was founded. Currently, ML's paid-up capital is THB532 million.

ML's main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, and focuses on its marketing efforts in provincial areas. Most of ML's target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country. The network of branches covers every region of the country. The locations of the branches are consistent with ML's policy to penetrate the market in rural areas where its target customers live. Loans made to customers near the Bangkok head office accounted for 8% of total outstanding loans in 2019. As of

<sup>1</sup> Excluding loss on repossession of assets

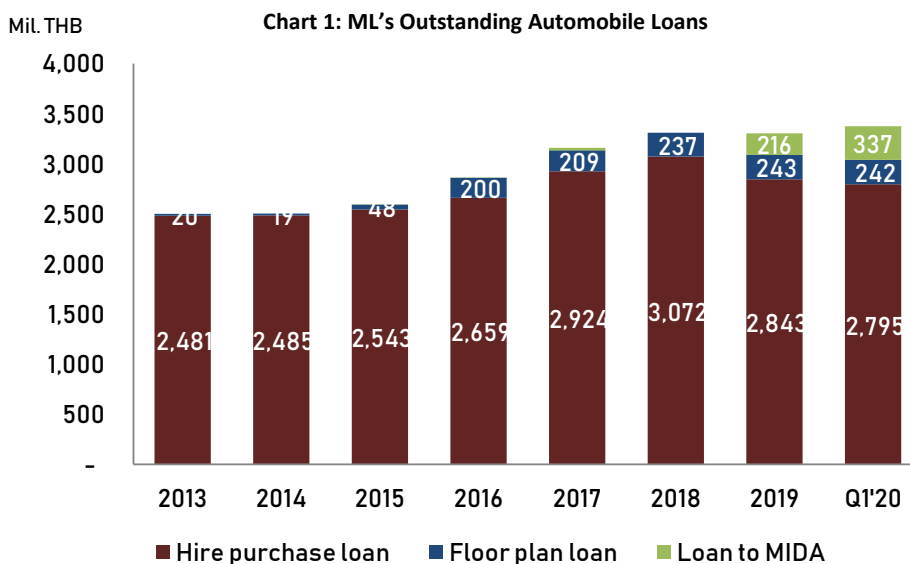
December 2019, ML's portfolio of automobile loans consisted of hire-purchase loans (86.1%), floor plan loans (7.4%), and related party lending (6.5%).

**Table 1: MIDA Group Structure**



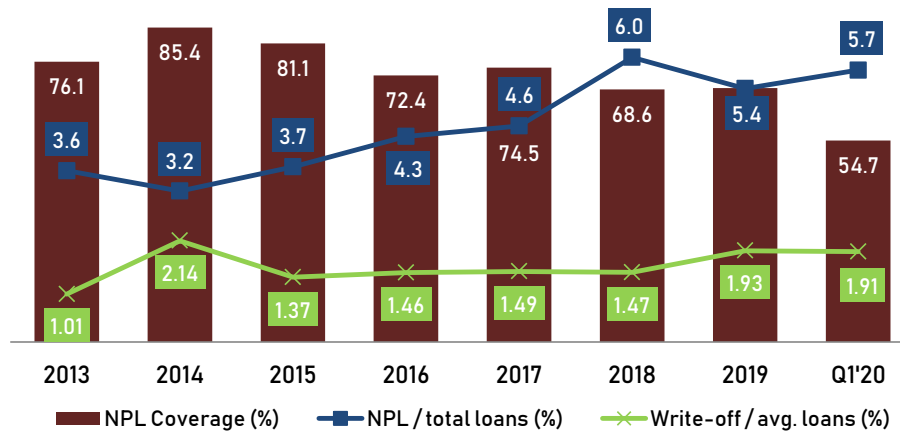
Source: ML

**KEY OPERATING PERFORMANCE**



Source: ML

Chart 2: ML's NPL Coverage, NPL Ratio, and Write-off Ratio



Source: ML

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Mil. THB

	Jan-Mar 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total assets	3,761	3,695	3,730	3,599	3,493
Total loans	3,374	3,302	3,309	3,158	2,859
Allowance for doubtful accounts	106	122	136	107	90
Short-term borrowings	979	977	1,599	210	605
Long-term borrowings	735	712	190	1,481	1,090
Shareholders' equity	1,934	1,896	1,793	1,750	1,653
Net interest income	98	402	423	401	357
Bad debts and doubtful accounts	18	49	77	62	51
Non-interest income	26	87	90	103	118
Operating expenses	80	312	312	299	276
Net income	20	99	96	113	118

\* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	Jan-Mar 2020	2019	2018	2017	2016
<b>Profitability</b>					
Net-interest income/average assets	10.53	10.82	11.54	11.31	11.09
Net-interest income/total income	66.14	68.98	70.25	68.12	65.43
Operating expenses/total income	53.70	53.63	51.86	50.73	50.51
Operating profit/average assets	2.78	3.44	3.38	4.03	4.60
Earnings before taxes/average risk-weighted assets	2.80	3.47	3.42	4.11	4.70
Return on average assets	2.17	2.66	2.63	3.17	3.67
Return on average equity	4.22	5.36	5.44	6.61	7.34
<b>Asset Quality</b>					
Non-performing loans/total loans	5.74	5.35	6.01	4.56	4.34
Bad debts and doubtful accounts/average loans	2.18	1.49	2.37	2.08	1.85
Allowance for doubtful accounts/total loans	3.14	3.69	4.12	3.40	3.14
<b>Capitalization</b>					
Risk-adjusted capital ratio	51.78	51.92	48.53	49.20	48.67
Shareholders' equity/total loans	57.33	57.41	54.18	55.41	57.83
Debt to equity (time)	0.94	0.95	1.08	1.06	1.11
<b>Liquidity</b>					
Stable funding ratio	87.89	84.49	62.31	103.13	92.26
Liquidity coverage measure (times)	1.07	1.24	0.88	5.78	2.08
Short-term borrowings/total liabilities	53.61	54.34	78.46	11.35	32.91
Total loans/total assets	89.73	89.38	88.71	87.74	81.84

#### RELATED CRITERIA

- Nonbank Financial Institution Rating Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

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**Mida Leasing PLC (ML)**

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<b>Company Rating:</b>	BB+
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

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