

MIDA LEASING PLC

No. 38/2019
29 March 2019

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Last Review Date: 30/03/18

Company Rating History:

Date	Rating	Outlook/Alert
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 “BBB-”. The rating reflects a capital base that is adequate to support business expansion and absorb losses from any adverse changes. However, the rating is constrained by deteriorating asset quality and an increase in liquidity risk. Profitability has weakened in past years but should remain relatively stable over the next few years. ML’s market position in terms of outstanding loans remains weak compared with peers but is likely to expand gradually. Meanwhile, intense competition in the auto financing industry continues to put some pressure on loan expansion and profitability.

KEY RATING CONSIDERATIONS

Adequate capital and moderate leverage

In TRIS Rating’s view, ML’s capital level is appropriate considering the high credit risk of its target group of auto loans. ML’s customers have higher credit risk than other customer groups because they are more vulnerable to adverse changes in the economy. The proportion of equity in ML’s capital base is considered stronger than that of its competitors. The ratio of shareholders’ equity to total assets was high, around 48% in the past few years.

According to a key financial covenant of its debentures, ML has to maintain a debt to equity ratio below 3 times. The debt to equity ratio at the end of 2018 was 1.1 times. TRIS Rating believes that the strong capital base will be maintained in the next three years according to the loan portfolio expansion target.

Deteriorated loan quality

The rating is based on our expectation that asset quality, despite having deteriorated over the past few years, is unlikely to weaken further from its current level. The non-performing loan (NPL) ratio (loans more than 90 days past due divided by total loans) has risen steadily, rising to 6.01% at the end of 2018 from 4.56% at the end of 2017. The quality of ML’s loan portfolio has declined due to the weak credit profile of the company’s target customers. However, we expect that ML will be able to keep its NPL ratio below 6.25% over the next few years as the company improves its loan collection and underwriting system.

ML’s reserve coverage has been lower than its direct peers, at 67% at the end of 2018. Nonetheless, we believe this is adequate given the average loan-to-value (LTV) of its loan portfolio which remains low at 70-80%. We expect its reserve coverage to gradually increase over the next three years due to the implementation of TFRS 9 in 2020, which means ML may need to set aside higher loan loss provision.

High loan spread supports profitability

TRIS Rating expects ML’s profitability will remain stable over the next three years after a moderate decline. In 2018, ML’s net profit declined by 15% year-on-year (y-o-y) due mainly to a 24% increase in provision expenses and a 10% decline in non-interest income. The return on average assets (ROAA) fell to 2.6% in 2018 from 3.2% in 2017.

We expect ML to be able to maintain a strong loan spread of about 11%, despite higher funding cost, because of the high yield of about 16% generated from ML’s core business, “third-hand automobiles” hire purchase (i.e. loans

for used cars that are over 20 years old). The solid spread and expanding loan portfolio will continue to support its profitability even as credit cost may trend upward.

Rising liquidity risk from high short-term debt obligations

We believe ML could face increased liquidity risk and higher funding cost in 2019. Although liquid assets are likely to remain adequate compared with short-term borrowings, the liquidity gap is relatively narrow. ML's expected cash inflows from customer loan repayments will be about Bt1.49 billion while the company's loan repayment obligations will be approximately Bt1.48 billion over the next 12 months. Short-term borrowings accounted for 89% of total borrowings at the end of 2018. The majority of the short-term obligations are the current portion of long-term debentures that will mature in 2019. We expect ML should be able to roll over a majority portion of the outstanding debentures due to adequate demand for its debentures, albeit at a higher cost. Longer term, TRIS Rating expects to see the company diversify its funding sources and debt maturity schedule, which will mitigate the liquidity and refinancing risk. More sources of credit would give ML greater financial flexibility. The ability to obtain additional credit facilities from more diversified sources would be a positive factor for the rating.

BASE-CASE ASSUMPTIONS OVER THE NEXT THREE YEARS

- New loans to expand by around 2% per annum
- Loan spread to be maintained at 10%-11%
- Credit cost to be in a range of 2.2%-2.6%

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that ML can maintain its liquidity position, market position, and financial performance while keeping its capital base strong.

RATING SENSITIVITIES

A credit upside case could arise if ML improves its market position and competitive position while still delivering strong financial results on a sustainable basis. The rating could be revised downward should asset quality deteriorate to the point where it substantially affects profitability and the company's financial profile.

The rating and/or outlook of ML could be revised downward should there be any adverse changes in the credit profile of ML's largest shareholder, MIDA Asset PLC (MIDA). In contrast, the credit upside for ML is limited, based on the current credit profile of MIDA.

COMPANY OVERVIEW

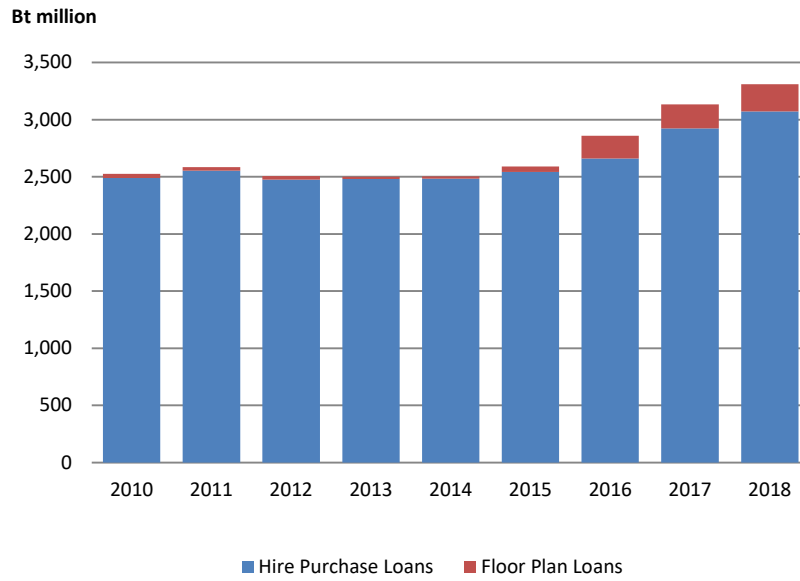
ML was founded on 4 October 2000 under the name of Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 31 December 2018, ML's major shareholders were MIDA and members of the Ieosivikul and Diloksakayavitoon families. 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 Bt90 million when the company was founded. Currently, ML's paid-up capital is Bt532 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 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 10% of total outstanding loans in 2018. As of December 2018, ML's portfolio of automobile loans consisted of hire-purchase loans (93%) and floor plan loans (7%).

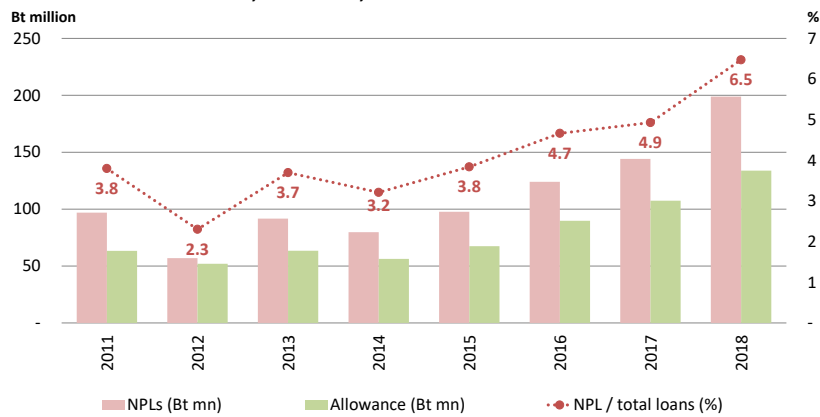
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Automobile Loans



Source: ML

Chart 2: NPLs, NPL Ratio, and Allowance for Doubtful Loans



Source: ML

Note: Only hire-purchase outstanding loans

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	3,730	3,599	3,493	2,948	2,690
Total loans	3,309	3,158	2,859	2,640	2,503
Allowance for doubtful accounts	136	107	90	79	68
Short-term borrowings	1,599	210	605	645	456
Long-term borrowings	190	1,481	1,090	629	635
Shareholders' equity	1,793	1,750	1,653	1,566	1,468
Net interest income	423	401	357	365	342
Bad debts and doubtful accounts	77	62	51	46	52
Non-interest income	90	103	118	86	71
Operating expenses	312	299	276	276	250
Net income	96	113	118	103	87

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Profitability					
Net-interest income/average assets	11.54	11.31	11.09	12.96	12.79
Net-interest income/total income	70.25	68.12	65.43	71.19	70.29
Operating expenses/total income	51.86	50.73	50.51	53.80	51.37
Operating profit/average assets	3.38	4.03	4.60	4.56	4.14
Return on average assets	2.63	3.17	3.67	3.65	3.26
Return on average equity	5.44	6.61	7.34	6.78	6.11
Asset Quality					
Non-performing loans/total loans	6.01	4.56	4.34	3.70	3.19
Bad debts and doubtful accounts/average loans	2.37	2.08	1.85	1.80	2.07
Allowance for doubtful accounts/total loans	4.12	3.40	3.14	3.00	2.72
Capitalization					
Shareholders' equity/total assets	48.07	48.62	47.33	53.12	54.58
Shareholders' equity/total loans	54.18	55.41	57.83	59.31	58.64
Debt to equity (time)	1.08	1.06	1.11	0.88	0.83
Liquidity					
Short-term borrowings/total liabilities	82.56	11.35	32.91	46.71	37.36
Total loans/total assets	88.71	87.74	81.84	89.57	93.08

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

Mida Leasing PLC (ML)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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