

# S 11 GROUP PLC

No. 117/2019  
24 July 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 10/08/18

### Company Rating History:

Date	Rating	Outlook/Alert
11/05/16	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on S11 Group PLC (S11) at “BBB-” with a “stable” outlook. The rating reflects its solid capital base, continuous expansion of loan portfolio and relatively strong profitability.

The key rating concerns are the high and rising level of bad debts and high level of short-term obligations. In addition, the rating of S11, like other motorcycle hire purchase lenders, is constrained by the intense competition in the industry that may limit yield improvement. In addition, the weak credit profile of S11’s target customers are typically susceptible to changes in economic conditions.

## KEY RATING CONSIDERATIONS

### Solid capital base

We expect S11’s capital base to remain strong over the next few years, despite the high credit risk of their customers. This view is based on our estimate that loan will grow by about 12% per year and estimated 50% dividend payout of net profit. We also expect the company’s debt to equity (D/E) ratio to stay below 2 times in the next three years. The D/E ratio has been below 1.6 times over the past three years. At the end of March 2019, the company’s D/E ratio was at 1.46 times, compared with peer average of more than 2.2 times.

### Operating efficiency supports strong profitability

TRIS Rating expects S11’s to continue delivering a high level of profitability. We forecast the return on average assets (ROAA) staying above 6% every year for the next 3 years. Although the company’s ROAA fell to 8.1% in 2018 from 8.5% in 2017, it remained higher than the average of non-bank financial institutions rated by TRIS Rating. The lower ROAA in 2018 was attributed largely to lower yields due to intense competition.

The strength of S11’s profitability lies in its ability to control operating expenses at a very low level compare to peers. The high level of operating efficiency should provide S11 with cushions to absorb both the impact from higher provisions due to weakening asset quality and lower interest yield from higher competition.

We expect the company to continue delivering an average growth rate in net income higher than 4% in the next three years. Net income for the first three months of 2019 was Bt135 million, 20.2% higher year-on-year (y-o-y). This rise was driven by higher revenue due to continuous loan portfolio expansion while maintaining its cost from operational efficiency.

### Liquidity remains manageable despite high short-term debt obligations

A key credit concern for S11, in our view, is its high proportion of short-term obligations compared with its direct peers. At the end of March 2019, short-term borrowings, including the current portion of long-term borrowings, increased steadily to 71.4% of total borrowings. After the renewing of its fixed term loan with financial institutions in 2019, the company’s long term funding will be 65% of total borrowing. This is in line with management’s funding strategy of 50% or more long-term funding structure.

Despite the company’s high proportion of short-term debt obligations, we expect S11’s liquidity risk to remain manageable over the next few years. As of March 2019, the one-year asset-liability duration gap was positive. Based on

company estimates, loan repayments from customers over the next 12 months will be approximately Bt4.8 billion while the company's loan repayment obligations will be approximately Bt2.0 billion. S11 had around Bt2.2 billion in available credit facilities with financial institution at the end of March 2019. The credit facilities provide extra liquidity to meet any shortfall of cash inflows from customer loan repayments.

#### **Sufficient loan loss reserves offset weak asset quality**

TRIS Rating expects S11's asset quality to remain weak, given the high credit risk of its target customers coupled with weakening economic conditions. The non-performing loans (NPL) ratio (loans with 4 or more installments past due divided by total loans) has risen steadily, climbing to 10.96% at the end of December 2018 from 6.33% at the end of 2013. Including write-offs, the ratio rose to 18.24% at the end of 2018. We expect NPL ratio, excluding write-offs, to be on a rising trend over the next three years, although at a slower pace.

To compensate for the weak asset quality, the company has been maintaining high loan loss reserves. At the end of 2018, S11's allowance for doubtful account to total loans was 12.3%, highest among the rated peers. We expect the S11's credit cost or provision expenses to average total loans to be maintained between 7%-8% in the next three years. The company's allowance for doubtful account to NPL (NPL coverage ratio) stood at 112.2% in 2018, improving from 109.3% in 2016.

#### **Continuous improvements in market position**

TRIS Rating projects S11's loan portfolio will grow by 10%-13% annually during the next three years. The company has been able to improve its market position continuously, as shown by the continued growth in the loan portfolio, with 19.8% CAGR in the past 5 years.

In 2018, outstanding loans increased by 16.6% y-o-y to Bt6,113 million. At the end of March 2019, outstanding loans increased to Bt6,348 million, a 3.9% year-to-date rise. The growth is attributed to continuous expansion in dealer relationship to other nearby provinces network. For example, the provinces coverage expanded from 12 provinces in 2017 to 18 provinces as of March 2019.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions in 2019-2021 are:

- Outstanding portfolio will grow by 10%-13% per year
- D/E ratio will remain below 2 times
- Interest rate yield will remain above 26%
- Credit cost will remain at about 7%-8%
- Operating expenses to total income ratio stays between 34%-36%

#### **RATING OUTLOOK**

The "stable" outlook is based on our expectation that S11 will continue to improve its market position, maintain satisfactory financial performance, asset quality, and leverage.

#### **RATING SENSITIVITIES**

The rating and/or outlook upside hinges on S11's ability to at least stabilize or improve its asset quality while maintaining a financial profile that features continuous loan growth, sound operating performance and a solid capital base. The rating and/or outlook could be revised downward should asset quality deteriorate continuously, which would affect profitability or leverage significantly.

#### **COMPANY OVERVIEW**

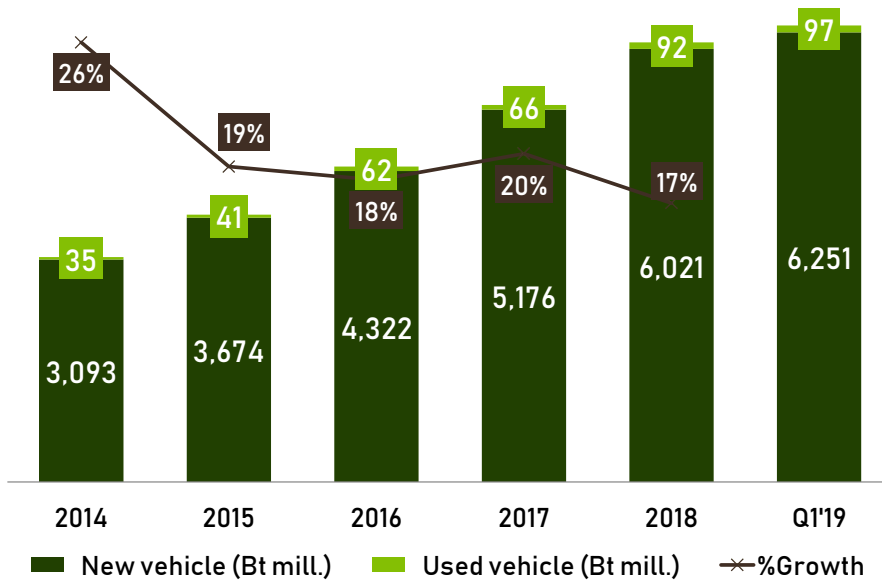
S11 was established in 2011. The company initially offered motorcycle hire purchase loans in Bangkok and the vicinity, and then expanded to provinces in the Central and Eastern regions of the country.

In 2015, S11 was listed on the Stock Exchange of Thailand (SET). The proceeds from the initial public offering (IPO) gave S11 a new route to the capital market and enabled S11 to expand its loan portfolio. Currently, S11's major shareholders are S Charter Co., Ltd. (98% held by the Chiradamrong family, the co-founder of S11), holding 28.4% of the company's shares, and foreign strategic investors, holding 32.0%.

S11 has steadily expanded to provincial areas, especially in provinces in the Eastern region of Thailand. The value of S11's loan portfolio has climbed steadily, rising from Bt618 million in 2011 to Bt6,113 million in 2018, a compound annual growth rate (CAGR) of 38.7%.

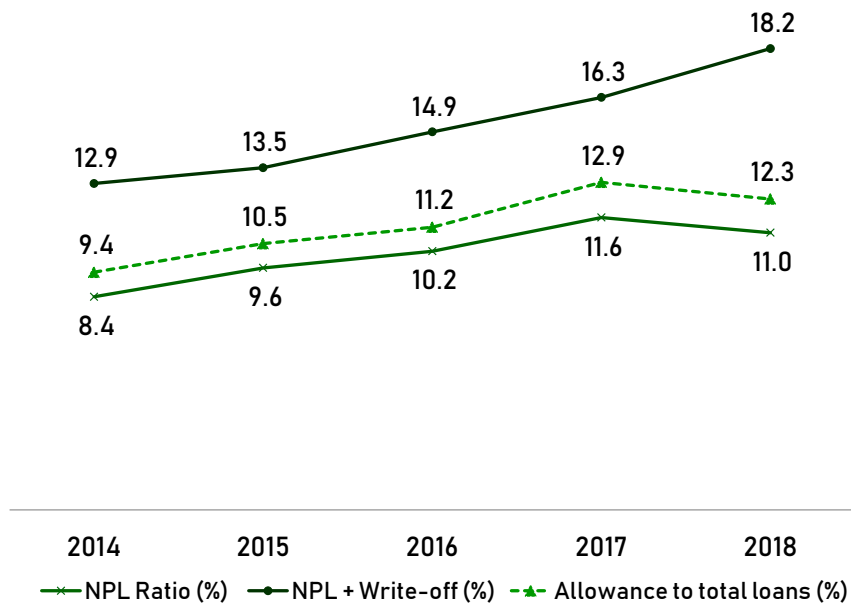
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: S11

Chart 2: Asset Quality



Source: S11

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	6,069	5,846	5,017	4,283	3,644
Total loans	6,348	6,113	5,242	4,384	3,715
Allowance for doubtful accounts	759	751	679	490	391
Short-term borrowings	2,342	2,370	1,824	1,103	1,411
Long-term borrowings	968	948	919	1,129	391
Shareholders' equity	2,467	2,333	2,096	1,909	1,720
Net interest income	392	1,450	1,254	1,088	931
Bad debts and doubtful accounts	113	438	368	256	205
Non-interest income	28	91	72	102	66
Operating expenses	139	553	464	408	352
Net income	135	439	395	421	353

\* Consolidated financial statements

Unit: %

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
<b>Profitability</b>					
Net-interest income/average assets	26.34 **	26.69	26.97	27.45	27.62
Net-interest income/total income	86.26	86.75	87.17	83.05	82.07
Operating expenses/total income	30.48	33.10	32.27	31.12	30.99
Operating profit/average assets	11.33 **	10.12	10.62	13.29	13.08
Return on average assets	9.07 **	8.09	8.50	10.63	10.47
Return on average equity	22.50 **	19.84	19.74	23.23	25.45
<b>Asset Quality</b>					
Non-performing loans***/total loans	10.63	10.96	11.56	10.22	9.57
Bad debts and doubtful accounts/average loans	7.26 **	7.72	7.64	6.32	5.98
Allowance for doubtful accounts/total loans	11.95	12.29	12.95	11.17	10.53
Allowance for doubtful accounts/non-performing loans***	112.39	112.17	112.04	109.29	110.02
<b>Capitalization</b>					
Shareholders' equity/total assets	40.65	39.91	41.77	44.56	47.20
Shareholders' equity/total loans	38.86	38.17	39.98	43.53	46.29
Debt to equity (time)	1.46	1.51	1.39	1.24	1.12
<b>Liquidity</b>					
Short-term borrowings/total liabilities	65.01	67.49	62.45	46.45	73.37
Total loans/total assets	104.60	104.57	104.49	102.35	101.97

\* Consolidated financial statements

\*\* Annualized

\*\*\* Loans with four or more installments past due

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**RELATED CRITERIA**

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- Nonbank Lending Company, 7 May 2018

**S 11 Group PLC (S11)**

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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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