

SAKSIAM LEASING PLC

No. 239/2024
25 December 2024

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 27/12/23

Company Rating History:

Date	Rating	Outlook/Alert
15/06/23	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Saksiam Leasing PLC (SAK) at “BBB” with a “stable” outlook. The rating reflects the company's robust capital base, moderate market position, and strong financial performance.

However, these strengths are offset by a decline in SAK’s earnings capacity due to lower interest spreads, high credit risk stemming from the weak economy, and intense competition in the title loan market.

KEY RATING CONSIDERATIONS

Solid capital remains key credit strength

SAK’s robust capital is a crucial credit factor supporting the assigned rating. At the end of the third quarter of 2024 (3Q24), the company’s risk-adjusted capital (RAC) ratio stood at 37%. Although a steady decline from about 40% over the past few years, it remains sufficient to support future growth.

We expect the RAC ratio to remain in the 37%-38% range in 2024-2026. A RAC ratio level above 25% will continue to support the current rating. This expectation is based on our baseline assumptions of a 17% growth in outstanding loans in 2024, 8%-9% growth in 2025-2026, and a 40% dividend payout ratio.

The company’s financial leverage, indicated by the debt to equity (D/E) ratio of 1.5 times is at a healthy level, compared to the D/E ratio covenant of 2 times on its debt obligations.

Gradual portfolio expansion due to asset quality concerns

Despite SAK’s modest market position compared to major peers, the company plans to strengthen its business position over the next few years by increasing its loan portfolio size in line with the expansion of its branch network.

At the end of December 2023, the loan portfolio reached THB12.4 billion. Although representing decent growth of 14% year-on-year (y-o-y), the growth rate has notably decelerated from the robust expansion of 21% in 2022 and 35% in 2021. This is due to cautious strategy prompted by concerns over asset quality. By the end of September 2024, the loan portfolio reached THB14.3 billion, a 16% year-to-date (YTD) increase.

Long-term loan growth is expected to be driven by the core title loan business. SAK plans to gradually expand its land title loans, a new venture started in late 2023, with emphasis on asset quality and conservative growth for other products.

We estimate SAK’s outstanding loans to increase by 17% in 2024 and 8%-9% per annum in 2025-2026, supported mainly by high loan demand, an expanding branch network, and improvements in the efficiency of existing branches.

As of the end of 3Q24, the company’s branch network comprised 1,029 branches. Our projections include the opening of 50 new branches in 2025 and an additional 100 branches in 2026.

At the end of 3Q24, SAK’s loan portfolio comprised vehicle title loans (77% of total loans), land title loans (7%), nanofinance (9%), hire purchase (HP) (4%), personal loans (2%), and others (1%).

Manageable asset quality

SAK's cautious growth strategy and stringent underwriting policy resulted in relatively more stable asset quality, compared to peers. The ratio of stage-3 loans (NPLs) remained at 2.5% from the end of 2022 to 3Q24, lower than direct peer average of 4.0%. However, NPL formation rose to about 1.4% during 2022 to the first nine months of 2024 (9M24), up from less than 1% in the past. This increase mainly resulted from the weak credit environment and deterioration in personal loans and nano finance.

SAK aims to maintain an NPL ratio of 2.5%, below the 3%-5% loan covenant thresholds. The company will focus on prudent loan approvals, efficient debt collections, and accelerated NPL write-offs. We expect the company to achieve this target, given our assumptions of a 1.4% NPL formation and 1.0%-1.3% NPL write-offs. Management plans to keep it above 100% from 2024-2026. As of 3Q24, NPL coverage was at 101%.

Consistent revenue growth amid conservative expansion

We anticipate SAK will sustain its earnings within the "adequate" assessment range over the next two to three years, despite experiencing weaker earnings in 2023 and 9M24. In 2023, SAK's earnings capacity, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), decreased to 6.9% from 7.5% in 2022. This downward trend persisted into 9M24, with the annualized EBT/ARWA dropping to 6.6%. The decline was attributed to a narrower interest spread, resulting from lower yields and increased funding costs, as well as a rise in expected credit losses.

We expect EBT/ARWA to remain at 6.5% in 2024-2026, driven by credit growth, stable interest spreads, and cost management. We project interest spread of around 17% during the same period, down from 18% in 2023 and early 2024 given a shift towards lower-yielding land title loans despite declining funding costs. We also assume credit costs to stay at 1.4% and the operating expenses to total income to be in the 48%-49% range, with new branches opening in 2025-2026.

Moderate funding position

We continue to assess SAK's funding profile as "moderate" even though the company has substantial available credit lines, and its funding structure has significantly improved. The company's long-term obligations now account for 72% of total debts, up from 30% in previous years. As of 3Q24, SAK secured THB11.5 billion in credit facilities from various financial institutions, with THB1.6 billion remaining available for drawdown. However, the credit facilities need to be secured by receivables, which could limit the company's ability to secure additional credit facilities in a stress scenario.

Meanwhile, SAK's priority debt ratio stands at 92% as of 3Q24. A priority debt ratio above 50% indicates notable subordination risk for the company's unsecured obligations, which generally results in a one-notch downgrade of issue rating from the issuer rating, according to TRIS Rating's "Issue Rating Criteria".

Strong cash flows support liquidity

SAK's liquidity is assessed as "adequate". The company anticipates refinancing its short-term borrowings due to its established relationships with financial institutions and backing from major shareholders. Of the THB3 billion in short-term debt, 92% consists of promissory notes (PNs) funded by Bangkok Bank PLC (BBL), which currently holds a 7% stake in SAK through its venture capital fund, Bualuang Ventures Ltd.

SAK projects cash inflows of around THB8.1 billion from receivables over the next 12 months (October 2024-September 2025), which will comfortably cover debt obligations of about THB3.1 billion. Also, the company has THB363 million in bonds due in August 2026. We believe monthly cash inflows should suffice to repay bondholders. We expect the company's liquidity to remain adequate over the next 12 months, supported by available credit facilities.

Challenges and risks remain for title loan operators

In 2023, the outstanding loans of title loan operators under the supervision of the Bank of Thailand (BOT) grew by 36% y-o-y. However, growth has slowed in 2024. At the end of 3Q24, loans were up by only 10% YTD due to tightened underwriting. Factors such as an uneven economic recovery, weakened debt serviceability, and high interest rates are expected to slow credit expansion further in 2024. Intense competition and weaker asset quality have strained financial performance of the title loan operators, pushing up credit costs and reducing interest spreads. These challenges will likely persist in the medium term.

BASE-CASE ASSUMPTIONS

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

- Outstanding loan growth of 17% in 2024 and 8%-9% per annum in 2025-2026.
- Spread of around 17% per annum.
- Credit cost of around 1.4% of average loans.

- Operating expense to total income ratio to be in the 48%-49% range.

RATING OUTLOOK

The "stable" outlook indicates that the company is expected to sustain its strong capital base, market standing, and financial performance, while effectively managing its asset quality.

RATING SENSITIVITIES

A rating upgrade is unlikely in the short term. However, in the long run, the rating and/or outlook could be revised upward if the company's market position improves consistently while maintaining healthy asset quality, capital, and earnings in line with our base-case scenario.

Conversely, the rating could be downgraded if the company's capital position significantly weakens, with the RAC ratio dropping below 25% for an extended period, or if asset quality or profitability declines, resulting in weaker earnings capacity with an EBT/ARWA falling below 3.5%

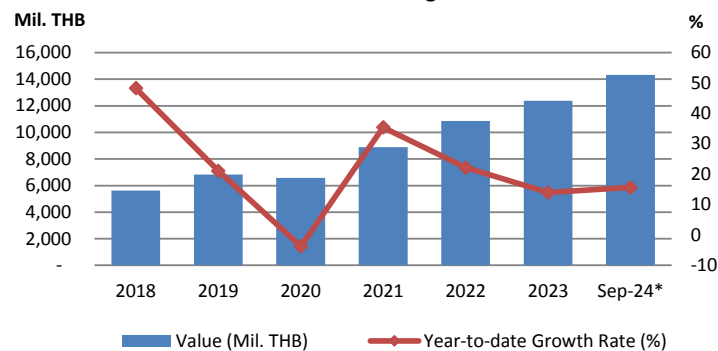
COMPANY OVERVIEW

SAK was initially named Saksiam Panich Leasing Co., Ltd., and later Saksiam Leasing PLC. The company was founded by Mr. Phoosak Boonsali and Mrs. Jintana Boonsali to offer debt-collection services and later expanded into auto-title loans. It also started nano finance and an HP business for new motorcycles in 2019. SAK registered on the Stock Exchange of Thailand (SET) on 8 December 2020. SAK started to sell and provide loans through Saksiam Maker Drone Co., Ltd., with a 70% stake, for drone equipment and agriculture drones in 2021. As of December 2022, the Boonsali Family was the major shareholder with a 67.5% stake while Bualuang Ventures held a 7.2% stake. In October 2024, SAK established Saksiam Solar Energy Co., Ltd., holding a 100% stake, to operate the solar cell business.

As of September 2024, the company's loan portfolio comprised vehicle title loans (77% of total loans), land title loans (7%), nano finance (9%), HP (4%), personal loans (2%), and others (1%). Secured lending included loans for pick-up (42%), motorcycles (16%), agricultural vehicles (18%), passenger cars (11%), land (8%), trucks (3%), and other collaterals (2%).

KEY OPERATING PERFORMANCE

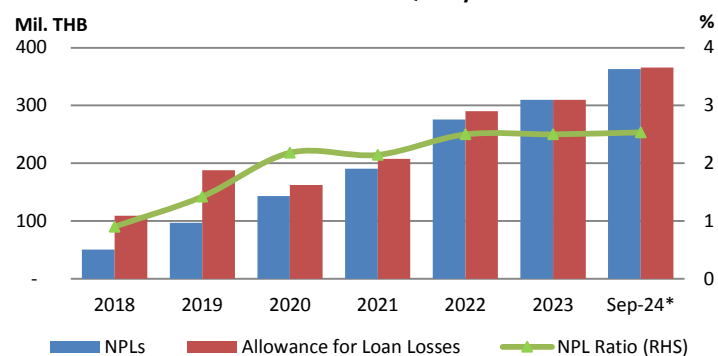
Chart 1: Outstanding Loans



Source: SAK's financial statements

* Year-to-date growth for September 2024

Chart 2: Asset Quality



Source: SAK's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2024	Year Ended 31 December			
		2023	2022	2021	2020
Total assets	15,119	13,184	11,624	9,530	8,778
Total loans	14,317	12,380	10,867	8,893	6,568
Allowance for expected credit loss	365	310	290	208	162
Short-term debts	5,475	4,634	4,402	3,729	3,304
Long-term debts	3,345	2,511	1,637	692	826
Shareholders' equity	6,126	5,832	5,376	4,907	4,508
Net interest income	1,949	2,357	2,137	1,731	1,476
Expected credit loss	145	151	131	64	(6)
Non-interest income	42	48	22	13	7
Operating expenses	1,085	1,318	1,139	922	788
Earnings before taxes	761	936	888	758	700
Net income	608	749	710	607	562

* Consolidated financial statements

Unit: %

	Jan-Sep 2024	Year Ended 31 December			
		2023	2022	2021	2020
Profitability					
Net interest income/average assets	18.37 **	19.01	20.21	18.91	18.52
Non-interest income/average assets	0.40 **	0.39	0.20	0.14	0.08
Operating expenses/total income	47.60	48.45	48.88	49.90	48.81
Operating profit/average assets	7.15 **	7.55	8.40	8.28	8.79
Earnings before taxes/average risk-weighted assets	6.64 **	6.86	7.53	8.33	9.29
Return on average assets	5.73 **	6.04	6.71	6.64	7.05
Return on average equity	13.57 **	13.37	13.81	12.90	15.43
Asset Quality					
Receivable in stage 3/total loans	2.54	2.50	2.54	2.15	2.18
Expected credit loss/average loans	1.45 **	1.30	1.33	0.82	(0.09)
Allowance for expected credit loss/receivable in stage 3	100.65	105.05	105.00	108.91	113.27
Capitalization					
Risk-adjusted capital ratio	36.78	39.81	40.81	45.63	59.16
Debt/equity (times)	1.47	1.26	1.16	0.94	0.95
Funding and Liquidity					
Stable funding ratio	152.12	158.15	152.77	156.30	207.02
Liquidity coverage measure (times)	0.05	0.06	0.06	0.08	0.58
Short-term debts/total liabilities***	60.89	63.03	70.46	80.65	77.39

** Annualized

*** Short-term debts including current portion of long-term debts

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024
- Issue Rating Criteria, 15 June 2021

Saksiam Leasing PLC (SAK)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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