

SUKHUMVIT ASSET MANAGEMENT CO., LTD.

No. 204/2022
2 November 2022

FINANCIAL INSTITUTIONS

Company Rating:	AA+
Issue Rating:	
Senior unsecured	AA+
Outlook:	Stable

Last Review Date: 24/11/21

Company Rating History:

Date	Rating	Outlook/Alert
24/11/21	AA+	Stable

Contacts:

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Pawin Thachasongtham

pawin@trisrating.com

Taweechook Jiamsakunthum

taweechook@trisrating.com

Narumol Chamchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Sukhumvit Asset Management Co., Ltd. (SAM) at “AA+” with a “stable” rating outlook. At the same time, we assign a “AA+” rating to SAM’s proposed issue of up to THB2.5 billion in senior unsecured debentures due within seven years. The ratings reflect our view on the company’s status as a “very important” government-related entity (GRE) that is “integral” to the Financial Institutions Development Fund (FIDF), a separate legal entity set up under Bank of Thailand (BOT) Act. In our view, the strong linkage and role imply a high likelihood of support from FIDF in times of need.

KEY RATING CONSIDERATIONS

Full ownership and supervision by FIDF

We maintain our view of SAM’s linkage to FIDF as “integral”, the highest level of linkage assessment according to our “Government-related Entities Rating Methodology” considering the full ownership and control by FIDF. As SAM is wholly owned by FIDF, the company’s operational policies, including business policies and directions, and financing policies are determined and closely monitored by board representatives from FIDF. The monitoring is undertaken through monthly board meetings and quarterly meetings with FIDF. In addition to board representatives from FIDF, the company’s board members comprise representatives from BOT, the Ministry of Finance, and other government entities, reinforcing its close link with the government. Given SAM’s public policy mandate as a national asset management company (AMC), its business strategy and financial targets are focused more on business stability and social responsibility than profitability.

Strong policy role as national AMC

SAM’s linkage and importance to FIDF and BOT is supported by its function as an arm of BOT to execute important policies of the central bank. Primarily, the company undertakes an important role as Thailand’s only national AMC that functions as a state-controlled vehicle to stabilize the country’s financial system by purchasing non-performing loans (NPLs) unloaded from financial institutions including specialized financial institutions. SAM’s policy role serves as a tool in managing NPLs in the banking system by focusing on debt restructuring.

In addition to NPL management, SAM also serves another distinct policy role as an intermediary in the BOT-initiated “Debt Clinic” scheme. The program aims to support voluntary debt restructuring for troubled retail borrowers and to improve loan loss recovery for financial institutions. In 2021, the Debt Clinic program extended the cut-off date for re-entry applicants, the age requirement to 70 years old, and relaxed the qualifications relating to income which led to a greater public participation.

At the end of December 2021, the number of clients under the Debt Clinic scheme had increased substantially to around 23,000, from around 11,000 in 2020 and 3,000 in 2019. The cumulative principal debt obligation balance of clients under the program increase to THB4.7 billion at the end of December 2021, from THB 2.5 billion at the end of 2020 and THB760 million at the end of 2019. The continued increase in clients under program signifying the importance of SAM’s role in helping BOT achieve its objectives.

Support from FIDF

We believe it is highly likely that FIDF would provide extraordinary support to SAM in times of stress. Although explicit support is not provided to the company apart from FIDF's zero-interest debt funding provided since inception, we view that the generous repayment schedule granted by FIDF serves as an indirect funding support for the company to fulfill its policy role. FIDF has agreed upon a repayment amount of THB1.5 billion each year which, when compared with the company's yearly cash collection of over THB10 billion in the past and THB5 billion in 2021, enables the company to retain the cash collected for use in business expansion. The yearly repayment of THB1.5 billion in 2019-2021 was a decrease from around THB5 billion in 2017, following FIDF's policy for SAM to continuously strengthen its business operation and financial position in anticipation of NPLs upsurge in the next few years.

In addition, there are no regulatory or policy restrictions that could prevent FIDF from providing financial support to the company if needed. We also view that a default by the company could potentially affect the reputation of FIDF due to a SAM's status as a wholly owned subsidiary of FIDF.

Second largest AMC

SAM remains the second largest of 62 AMCs in terms of asset size in Thailand's distressed asset management industry. The majority of the company's portfolio comprises legacy NPLs transferred from Krungthai Bank PLC (KTB), Thai Asset Management Corporation (TAMC), and Petchburi Asset Management Co., Ltd. (PAM). Since 2006, the company has acquired additional NPLs in response to the FIDF's policy for SAM to remain active and maintain its portfolio size. At the end of December 2021, net legacy NPL portfolio was around 33%, while net NPL portfolio from acquisitions was 67%.

The company's total assets amounted to THB48 billion at the end of December 2021, ranked second only to Bangkok Commercial Asset Management PLC (BAM, rated "A-/Stable" by TRIS Rating) whose assets totaled THB126 billion. BAM and SAM together have accounted for over 60% of the industry's total assets over the past several years. Given its size compared to the total NPLs in the system of over THB500 billion, and support from FIDF, we believe that SAM's policy role as a national AMC and financial system stabilizer cannot be substituted by other AMCs in the short to medium term.

Low leverage

One of the key ratios FIDF monitors is interest-bearing debt (excluding zero-coupon debt from FIDF) compared with shareholders' equity. The figure at the end of June 2022 was 0.31 times, down from 0.36 times at the end of 2021. Including the zero-coupon debt from FIDF, the ratio of interest-bearing debt to shareholders' equity was 2.6 times at the end of June 2022. The newly proposed debenture issuance of up to THB2.5 billion will provide funding for additional asset acquisitions in early 2023. Including the new issuance, SAM's interest-bearing debt to shareholders' equity ratio is estimated to rise to at 2.8 times (excluding debt repayments). We expect the company's leverage level to increase as the company is likely to rely more on debt as a funding source for the purchase of NPLs over the next few years.

Cash collection and credit facilities as funding sources

SAM's funding is similar to other AMCs where cash collection and credit lines from financial institutions serve as the company's main funding sources for business expansion. The company's cash collection fell significantly to THB8.3 billion in 2020, from about THB11 billion prior to 2020 because of the lower economic activities induced by the Coronavirus Disease 2019 (COVID-19). The company's total cash collection declined further to THB5.5 billion in 2021 as the company changed its policy on NPL sales. Cash collection in the first half of 2022 (1H22) from both NPLs and non-performing assets (NPAs) was also weaker compared to (1H21). We expect cash collection in 2023 to improve in line with the economic recovery but is likely to remain under pressure. This means the company will need to rely more on debt funding for NPL acquisition which could lead to higher borrowings and leverage in the next few years. In terms of credit facilities, at the end of July 2022, the company had total credit lines of THB10.7 billion, 38% of which were undrawn.

Opportunity for AMCs as NPL supply increases

The COVID-19 pandemic over the last two years has had a far-reaching impact on the Thai economy. Borrowers' ability to pay off their debts remains weak, despite a series of debt-relief programs from BOT. NPLs from Thai and foreign financial institutions as well as finance companies rose to THB530 billion at the end of 2021, from THB465 billion at the end of 2019. We expect financial institutions to dispose of more NPLs as a way to manage their asset quality after all the debt-relief programs ended in 2021. This is reflected in the BOT's initiative to allow the establishment of joint ventures (JVs) between financial institutions and AMCs to solve the NPL problem. The rising NPL supply presents an excellent opportunity for AMCs to acquire distressed assets and enhance their revenue streams. However, we believe the slower pace of debt collection during the weak economy remains a major challenge for all.

RATING OUTLOOK

The “stable” outlook reflects our expectation that SAM will retain its status as a GRE and maintain its “integral” linkage and “very important” role with FIDF and BOT.

RATING SENSITIVITIES

The rating and/or outlook of the company could change if our view on the level of linkage with and importance to FIDF and BOT changes.

COMPANY OVERVIEW

SAM was established on 18 April 2000 following a cabinet resolution with the objective of taking over and managing the NPLs of KTB with the outstanding balance totaling THB519 billion. The company was wholly owned by FIDF, a separate legal entity under BOT with a registered and paid-up capital of THB25 million.

In 2001, the company was required to transfer its NPLs amounting to THB309 billion to TAMC as stipulated by the Emergency Decree on Asset Management Company A.D. 2001 (Emergency, TAMC).

On 7 May 2004, the FIDF passed a resolution requiring the company to acquire PAM. The resolution involved PAM selling all its restructured debts to Siam City Bank PLC (SCIB) and transferring its remaining assets, liabilities, and commitments to SAM.

Since 2006, the company has auctioned NPLs and NPAs from other institutions. In 2012, the company also auctioned NPLs and NPAs from TAMC, which was closed down in 2011. The company currently has four provincial offices in Chiang Mai, Khon Kaen, Surat Thani, and Phitsanulok providing services to its clients.

In 2013, the company joined the International Public AMC Forum (IPAF), established in 2012, to seek business opportunities and international cooperation. An objective of the IPAF also includes the exchange of knowledge and training among national asset management companies.

In 2017, the company was assigned by the BOT to act as an intermediary in the BOT-initiated Consumer Debt Relief Program (CDRP) or Debt Clinic for the relief of household debt problems, especially non-collateralized debts. The program’s objective was to help individuals resolve their unsecured debts with various financial institutions with SAM acting as the main vehicle in the process.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total assets	48,988	48,196	47,576	44,951	43,056
Total managed assets	43,495	41,284	39,493	37,172	34,210
Loan purchased – net	30,523	29,152	28,762	26,602	23,305
Properties foreclosed – net	12,971	12,132	10,732	10,570	10,904
Total borrowings	33,965	33,808	33,267	238,375	237,691
Short-term borrowings	1,542	1,459	1,040	1,560	1,044
Long-term borrowings	32,422	32,349	32,227	236,815	236,647
Shareholder's equity	12,865	12,749	10,900	(194,752)	(199,209)
Total revenue	2,744	6,543	6,538	6,907	7,403
Interest expenses	802	1,633	1,611	83	52
Operating expenses	463	1,217	1,502	1,573	1,401
Net income	69	1,599	1,944	4,448	5,038

Unit: %

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Profitability					
Operating income/average assets	7.99 *	10.23	10.65	15.51	18.71
Operating income/total income	70.77	75.01	75.35	98.80	99.29
Operating profit/average assets	6.09 *	7.69	7.40	11.93	15.15
Earnings before tax/ average assets	0.31 *	3.37	4.23	10.17	12.86
Return on average assets	0.28 *	3.34	4.20	10.11	12.82
Return on average equity	1.07 *	13.52	(2.11)	(2.26)	(2.50)
Capitalization					
Debt/equity (times)	2.81	2.78	3.36	n.m.	n.m.
Shareholders' equity/total managed assets	29.58	30.88	27.60	n.m.	n.m.
Funding and Liquidity					
Stable funding ratio	32.89	33.61	32.96	33.18	29.56
Liquidity coverage measure (times)	2.28	3.42	6.10	4.13	7.52
Short-term borrowings/total liabilities	4.27	4.12	2.84	0.65	0.43
Total managed assets/total assets	88.79	85.66	83.01	82.70	79.45
Operating efficiency					
Operating expenses /operating income	23.83	24.84	30.49	23.05	19.06
NPL Cash collection to net NPL	8.84 *	10.14	19.59	29.76	31.20
NPA Cash collection to net NPA	11.93 *	22.45	26.83	40.07	39.65

* Annualized

n.m. = Not meaningful

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Government-Related Entities Rating Methodology, 30 July 2020

Sukhumvit Asset Management Co., Ltd. (SAM)

Company Rating:	AA+
Issue Rating:	
Up to THB2,500 million senior unsecured debentures due within 7 years	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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