

SRISAWAD CORPORATION PLC

No. 86/2021
7 June 2021

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 10/06/20

Company Rating History:

Date	Rating	Outlook/Alert
28/06/19	BBB+	Stable
05/06/17	BBB	Stable
06/01/17	BBB	Alert Developing
26/12/14	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Srisawad Corporation PLC (SAWAD) at “BBB+” with a “stable” outlook. The rating reflects the company’s strong market presence in the title loan business; very strong capital, leverage, and earnings assessment; and adequate funding and liquidity profile. However, the rating is constrained by the fragile economic environment, intensifying competition, and the company’s relatively high exposure to risky property-backed loans.

KEY RATING CONSIDERATIONS

Strong market presence maintained

The company’s strong market presence as one of the major operators in the title loan business continues to support its business position. We expect the company’s market position to remain strong, despite stagnant loan growth in 2020 and the first quarter of 2021. The slower credit growth momentum stemmed from the adverse impacts of the Coronavirus Disease 2019 (COVID-19) pandemic. In the longer term, we expect the company’s loan growth will continue to be driven by expansion of its branch network, which reached 4,800 branches at the end of March 2021, an increase from 4,309 branches at the end of March 2020.

In November 2020, SAWAD entered into a joint investment with the Government Savings Bank (GSB, rated “AAA/Stable” by TRIS Rating) in Fast Money Co., Ltd. (FM), a former wholly owned subsidiary of SAWAD. The shareholding structure, with each party holding 49%, led to SAWAD’s deconsolidation of FM. This has caused the consolidated loan portfolio of SAWAD to shrink to THB32 billion at the end of March 2021, from THB39 billion at the end of December 2020. Nonetheless, in the long run, we believe that the collaboration with GSB will help SAWAD expand its client base and sustain its market position in the title loan business.

Strong capital and earnings

We expect the company’s very strong capital and leverage assessment to continue to support its credit profile. The company’s strong earnings capability and conservative dividend policy are expected to support its robust capital base over the medium term. We anticipate the company’s risk-adjusted capital ratio (RAC) will stay around 50% over the next few years. The ratio was 50.9% at the end of March 2021, one of the highest RACs among rated peers.

We expect the company’s earnings capacity to remain strong over the medium term, propelled by increased business diversity, despite intense competition. The recent diversification into the higher-yielding new motorcycle hire-purchase loan segment through S Leasing Co., Ltd. should partly compensate for the declining yields of title loans. The company’s focus on insurance brokerage business also helped generate strong fee income in 2020. This will likely continue to strengthen the company’s non-interest income. On the cost side, we expect operating costs to remain under control, thanks to SAWAD’s information technology (IT) system, which aims to enhance operating efficiency. Overall, we believe that the company should be able to sustain its earnings capacity with a ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs) of around 11% over the next few years.

Moderate risk profile

We expect the company's potential credit losses to remain under control over the next few years as the company has tightened its credit underwriting policies. These include, for example, lowering loan-to-value (LTV) ratios, especially during the economic downturn induced by the COVID-19 pandemic. We believe that the continuation of its debt relief program is likely to help alleviate the risk of a surge in non-performing loans (NPLs). We expect SAWAD's NPL ratio to hover around 4% over the next few years. The ratio was 4.1% at the end of March 2021, higher than rated peers. NPL coverage ratio, at 66.5% as of 31 March 2021, was also lower than peers' range of 170%-300%.

Adequate funding and liquidity profile

The company's solid equity base and use of long-term borrowings continue to support its funding profile. At the end of March 2021, the company's stable funding ratio (SFR) was at 289%, a high level compared with peers. This is mainly due to the company's lower reliance on short-term borrowings. At the end of March 2021, short-term borrowings accounted for 9% of total borrowings and shareholders' equity. The company also had THB22 billion in credit facilities from various financial institutions, 60% of which was available for use. The ability to access both equity and debt capital markets for funding also enhances the company's financial flexibility.

Property-related lending pressures risk profile

A significant expansion in property-related lending may put pressure on the company's business risk profile or outlook. Although the company's tightening of the LTV ratio may help limit credit loss, we view that foreclosing and liquidating the properties in the event of default generally take time and could lead to heightened liquidity risk. Moreover, the larger size of property loans also poses potential credit concentration risk. At the end of December 2020, loans backed by properties accounted for 41% of the company's total loan portfolio, a figure which rose to 48% at the end March 2021 due mainly to loan portfolio shrinkage from the deconsolidation of FM.

Growth in title loans continues despite yield pressure

Although the top-three operators' loan portfolio growth in 2020 declined by an average of 13% compared with 30%-40% in the previous years due to the city lockdown during the first wave of the COVID-19 outbreak, the weak economy induced by the ongoing outbreak is likely to continue to create demand for loans to support the businesses and daily life of vulnerable groups. This should help promote the growth of title loans in the longer term. Even though the Bank of Thailand (BOT) has set the interest rate ceiling for title loans at 24% per annum, the loan yield remains high compared with other types of loans. At the same time, overall asset quality remains manageable. These factors have enticed new operators to the market. The increased competition resulted in the average loan yield of the operators declining to a level below 20% in 2020. Nonetheless, operators have adapted by introducing new products with higher yields such as motorcycle leasing and fee income generators like insurance products to compensate for the yield reduction. These should help sustain their strong financial performance.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAWAD's operations in 2021-2023 are as follows:

- Outstanding portfolio to grow by 10%-15%.
- Interest spread to stay around 16%.
- NPL ratio to remain around 4%.
- NPL coverage ratio to stay around 65%-75%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAWAD will maintain its market position, financial performance, and asset quality at an acceptable level, while also maintaining capital strength.

RATING SENSITIVITIES

SAWAD's credit upside would materialize if the company's asset quality improves materially, while market position is maintained with no significant further growth in property-backed loans. On the contrary, the rating and/or outlook could be revised downward if asset quality weakens significantly or capital, leverage, and earnings position deteriorates materially with an RAC ratio falling below 25% and an EBT/RWAs below 8%.

COMPANY OVERVIEW

In 1979, the Kaewbootta family, the founder and current major shareholder of SAWAD, started providing secured personal loans. In 2007, the family sold the entire business, run by Srisawad International 1991 Co., Ltd. (SI), to a financial institution. The Kaewbootta family kept SI's loan portfolio.

In 2009, the family acquired Power 99 Co., Ltd., and again began offering secured loans. Power 99 also provided debt collection services to SI. The family renamed Power 99 to Srisawad Power Co., Ltd. (SP). In 2011, the entire loan portfolio was transferred from SP to SAWAD, an inactive company established by the Kaewbootta family in 2008, as P.V. and K.K. Service Co., Ltd.

Since 2011, SAWAD's core business has expanded. SAWAD offers asset-backed personal loans secured by motorcycles, automobiles, land, and properties. The expansion was fueled by SAWAD's nationwide branch network. In 2014, SAWAD became a public company and was listed on the Stock Exchange of Thailand (SET). After an initial public offering (IPO) in May 2014, paid-up capital climbed by THB250 million to THB1 billion. SAWAD used the IPO proceeds to pay off some debts and expand the loan portfolio.

SAWAD's major shareholder is the Kaewbootta family, holding approximately 50% of the company's shares. In addition, SAWAD has three active affiliates: FM, which provides unsecured personal loans; SWP Asset Management Co., Ltd., formerly Srisawad Asset Management Co., Ltd., which offers debt collection services, and purchases and manages distressed assets; and Srisawad International Holding Co., Ltd., a new subsidiary, established to invest in other loan providers. SAWAD, as the parent company, offers secured personal loans made against all kinds of vehicles (e.g., used motorcycles, cars, trucks, and other types of vehicles), land, or properties.

In 2019, Cathay Financial Holding Co., Ltd. injected THB2.6 billion and became SAWAD's strategic partner, holding 9.5% of the company's shares. SAWAD also increased its shareholding in Srisawad Finance PLC (BFIT) to 82% in 2019, from 45% in 2018.

In November 2020, the company increased its equity stake in Srisawad Capital Co., Ltd. (SCAP) to 65% from 5% with THB192.5 million investment to expand its personal loan business.

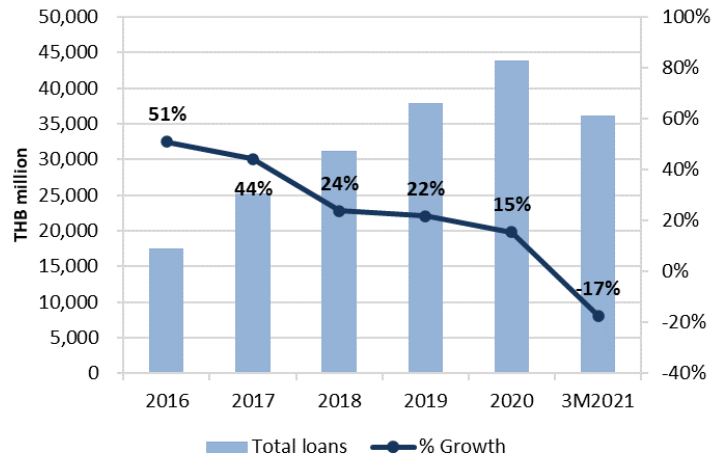
In February 2021, the company entered a joint investment with Noble Development PLC (NOBLE) in SWP Asset Management Co., Ltd. (SWP), which is a distressed asset management company that SAWAD previously owned 85%. After share purchase agreement was reached, NOBLE paid THB300 million to SAWAD for a 20% stake in SWP. The intention is to leverage NOBLE's expertise in real estate development to improve SWP's distressed asset management business.

In March 2021, the company entered a joint investment with GSB in FM, SAWAD's wholly-owned subsidiary, to operate auto title loan business. GSB invested THB1.5 billion (THB1.3 billion of newly issued shares and THB198.9 million of existing shares from SAWAD), while SAWAD also subscribed to the newly issued shares for THB1.3 billion. GSB and SAWAD currently hold 49% each, making FM no longer SAWAD's subsidiary.

Also, in March 2021, SCAP, SAWAD's subsidiary, acquired 85% of equity stake in S Leasing for THB42.5 million. Therefore, SCAP currently holds 90% in S Leasing from a prior stake of 5%. The purpose is to expand new motorcycle hire purchase business.

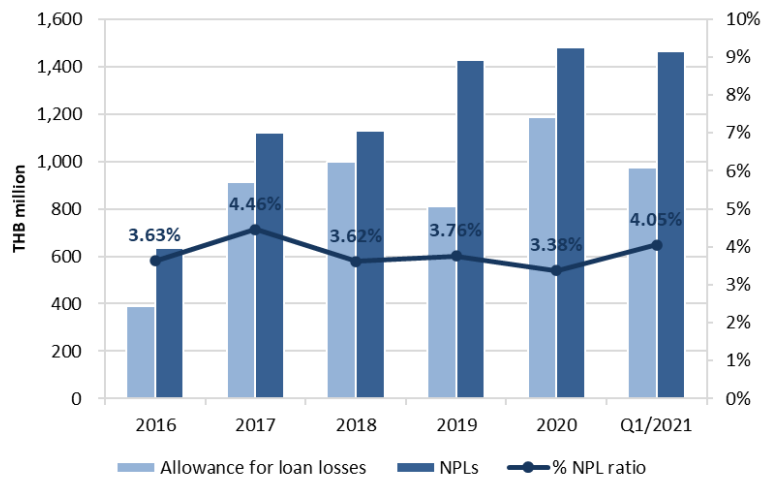
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: SAWAD

Chart 2: Asset Quality



Source: SAWAD

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	53,661	52,007	45,462	39,217	33,377
Total loans	36,156	43,809	37,967	31,171	25,179
Allowance for expected credit loss	974	1,188	809	997	912
Short-term debts	8,270	11,044	12,601	15,660	12,789
Long-term debts	16,772	14,927	11,271	8,441	8,340
Shareholders' equity	25,871	24,070	20,192	13,628	11,175
Net interest income	1,682	7,266	6,414	5,078	4,385
Expected credit loss	(174)	321	552	388	394
Non-interest income	905	2,825	2,551	2,082	2,005
Operating expenses	916	3,787	3,532	3,046	2,666
Earnings before taxes	1,845	5,983	4,881	3,726	3,331
Net income	1,422	4,791	3,929	3,001	2,715

Unit: %

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Profitability					
Net interest and dividend income/average assets	12.73	14.91	15.15	13.99	15.77
Non-interest income/average assets	6.85 *	5.80	6.03	5.74	6.85
Operating expenses/total income	32.66	34.45	36.06	38.65	38.09
Operating profit/average assets	13.97 *	12.28	11.53	10.26	11.61
Earnings before taxes/average risk-weighted assets	14.71 *	12.44	11.43	10.91	13.07
Return on average assets	10.77 *	9.83	9.28	8.27	9.76
Return on average equity	22.78 *	21.65	23.23	24.20	30.12
Asset Quality					
Non-performing loans/total loans	4.05	3.38	3.76	3.62	4.46
Expected credit loss/average loans	(1.74) *	0.79	1.60	1.38	1.85
Allowance for expected credit loss/total loans	2.70	2.71	2.13	3.20	3.62
Capitalization					
Risk-adjusted capital ratio	50.95	48.55	43.36	35.12	37.87
Debt/equity (times)	1.07	1.16	1.25	1.88	1.99
Funding and Liquidity					
Stable funding ratio	289.39	307.42	286.76	247.64	253.53
Liquidity coverage measure (times)	0.42	0.18	0.17	0.20	0.35
Short-term debts/total debts	29.76	39.53	49.87	61.20	52.11

** Annualized*
RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Srisawad Corporation PLC (SAWAD)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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