

SINGER THAILAND PLC

No. 143/2019
11 September 2019

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Negative

Last Review Date: 12/09/18

Company Rating History:

Date	Rating	Outlook/Alert
12/09/18	BBB-	Negative
31/08/17	BBB-	Stable
22/10/15	BBB	Stable
12/06/15	BBB	Alert Developing
03/05/13	BBB	Stable
29/11/12	BBB	Alert Developing
20/01/12	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Singer Thailand PLC (SINGER) at “BBB-” with a “negative” outlook. The rating reflects SINGER’s still-weak asset quality, moderate improvement in operating performance, as well as modest market position. However, the rating also takes into account a stronger capital position after recapitalization. SINGER’s plan to expand its new business further is a positive move, but for this to have a positive impact on its rating/outlook, asset quality needs to be well controlled while operating results should recover steadily for a sustainable period of time.

KEY RATING CONSIDERATIONS

Asset quality remains key credit concern

SINGER’s asset quality is still our key concern as its non-performing loan (NPL) ratio remains higher than peers and has been the main reason for net losses in the past. We start to see some encouraging developments of SINGER in recent years, with the NPL ratio falling significantly to 10.5% at the end of 2018, from 17.2% at the end of June 2018, after a change in the loan collection system and expansion into auto title loans, which is a new business for SINGER. Asset quality of the new business is in good condition so far. However, for this to have a positive impact on the rating or outlook, the quality of new loans needs to be maintained, while the improvement in the quality of its conventional business should be sustained in the medium term.

Meanwhile, SINGER’s reserve coverage at 32% at the end of June 2019 is too low, considering the high credit risk profile of its customer base. Nonetheless, the implementation of TFRS 9 in 2020 will likely force the company to set aside more provisions to ensure sufficient coverage of credit risk.

Expect profit to gradually recover

TRIS Rating expects SINGER’s 2019 performance will turn around with positive earnings and gradually improve further in 2020-2021. We expect SINGER’s return on average asset (ROAA) to be in a range of 2.7%-3.1% in 2019-2021. This is a result of our estimate of a 5% growth in total revenues per annum. The sector that we expect to drive revenue growth is auto title loans, which is SINGER’s new business operated since its corporate restructuring in 2017.

In 2018, the company reported Bt81 million of net losses due largely to a huge loan loss provision that led to the Bt184 million losses in the first quarter of 2018. The high provision expense is due to the rising NPLs resulting from the new loan collection system. After realizing the problem, the company switched back to its previous loan collection method. This, together with revamping of its operating system, has led to a gradual net profit recovery since the second quarter of 2018.

Loan portfolio shift: positive for asset quality; negative for yield

We view that SINGER’s strategic change of business direction towards auto title loans is a positive move, given better asset quality, compared with its conventional hire-purchase (HP) portfolio. The NPL ratio of new loans was at 0.3% at the end of first half 2019, compared with 14.5% for the conventional portfolio. As the company continues to gradually increase the mix of new loans, we expect the blended NPL ratio to decline slowly, which should help

reduce credit cost in the future.

Conversely, the overall yield may trend downwards due to the lower yield of the new business which is at mid-teen level, compared with over 20% for the conventional HP portfolio. Even so, we believe steady loan growth, increased operating efficiency, and lower credit costs should help support its earnings over the next few years. As of the end of 2018, HP loans accounted for about 70% of total loans, whereas new business took up the rest. Based on our assumption of modest growth in HP loans and 60% growth for title loans in 2019, we expect the mix of title loans to rise to about 40% of total loans by the end of 2019, and trend upwards steadily.

Recapitalization increased scope for debt funding

SINGER's capital base was strengthened following a capital increase in June 2019. This has helped reduce the debt to equity (D/E) ratio to 1.2 times compared with 2.2 times before the recapitalization. The lower leverage should help support the company's business expansion plan through debt funding to some extent. According to a key financial covenant of its debentures, SINGER has to keep the D/E ratio maintained below 3 times.

BASE-CASE ASSUMPTIONS (2019-2021)

- Outstanding loans to expand by an average of 15% per annum
- Loan spread to be maintained at 9.5%-10.5%
- Credit cost to average 10% per annum

RATING OUTLOOK

The "negative" outlook reflects TRIS Rating's view that SINGER's asset quality remains a key credit concern, while the recovery of operating results needs to be sustained in the medium term. At the same time, we expect its financial leverage to be maintained at an acceptable level while the capital base remains strong.

RATING SENSITIVITIES

A credit upside case is limited in the short term. For the outlook to be revised to "stable" or the rating to be upgraded, asset quality needs to be well managed while operating results continue to recover for a sustainable period of time.

The rating on SINGER could be downgraded if the asset quality erodes further or operating performance keeps deteriorating or its financial leverage breaches its covenant level.

COMPANY OVERVIEW

The company has a strong brand name in the electrical home appliance market, nationwide branch and sales distribution networks, and a proven track record of financing electrical home appliance purchases.

SINGER was established in 1969 and listed on the Stock Exchange of Thailand (SET) in 1984. SINGER distributes products under the "SINGER" trademark. The company offers installment plans or hire-purchase contracts for the products it sells. Approximately 95% of the products are sold under the installment sale service program.

In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. Jaymart Mobile Co., Ltd. (Jaymart) became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark has been extended. Jaymart is a retailer and wholesaler of mobile phones and related products. Jaymart utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers. As of June 2019, JMART remained a major shareholder with 30% of the outstanding shares.

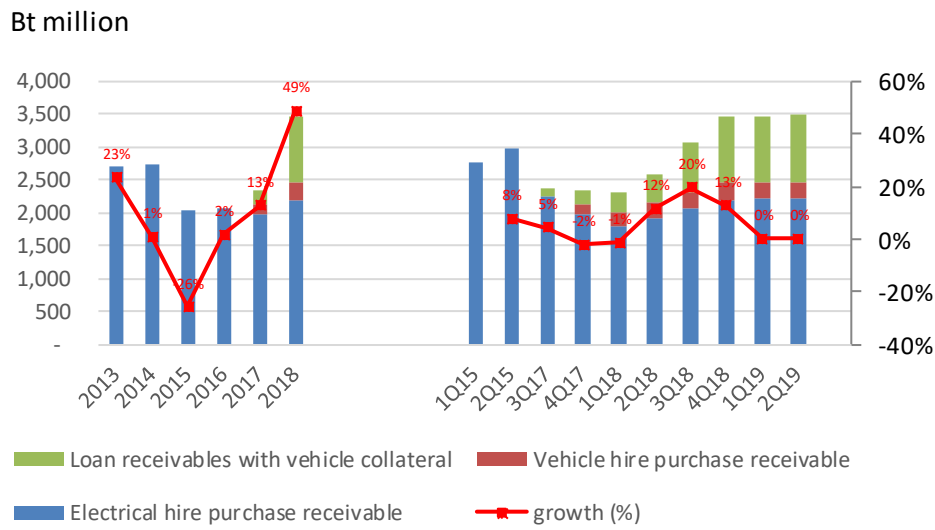
SINGER changed some top key executives in the second quarter of 2016. The new strategy focuses on modernizing SINGER's business practices and improving efficiency. In addition, the company has expanded to multi-brand products which are not SINGER's brands.

SINGER remains focused on its core business: sales of home electrical appliances. It has had a lengthy track record in this segment. The company expanded its product line to include the sale of income-generating products, commercial electrical appliances such as freezers and air time vending machines, and multibrands. In addition, SINGER introduced a new product in the last quarter of 2017, "Rod Tum Ngern", loans secured by vehicles.

SG Capital Co., Ltd., a wholly-owned subsidiary of SINGER, provides financing services for SINGER's customers. The company has two other subsidiaries, SG Service Plus Co., Ltd. and SG Broker Co., Ltd. SG Service Plus provides maintenance services to SINGER's customers while SG Broker is an insurance agent. The company had an extensive network of 180 branches and approximately 3,500 salespersons, as of June 2019.

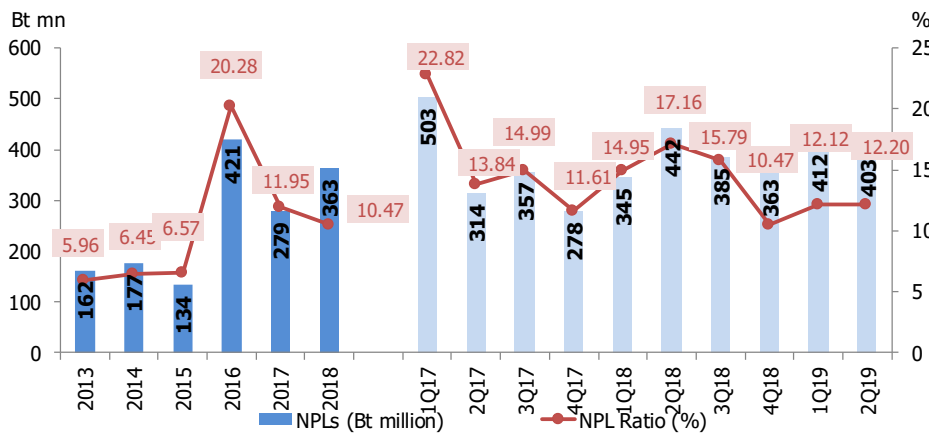
KEY OPERATING PERFORMANCE

Chart 1: SINGER's Outstanding Loan Portfolio



Sources: SINGER's financial statements

Chart 2: SINGER's NPLs and NPL Ratio



Sources: SINGER's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	4,986	5,093	3,501	3,145	3,342
Total loans	3,302	3,469	2,391	2,074	2,036
Allowance for doubtful accounts	(130)	(178)	(276)	(124)	(86)
Short-term borrowings	824	1,451	86	259	865
Long-term borrowings	1,350	1,350	1,200	500	158
Shareholders' equity	2,268	1,524	1,578	1,626	1,578
Net interest income	306	540	594	566	691
Bad debts and doubtful accounts	176	446	372	184	100
Non-interest income	163	364	352	267	159
Operating expenses	571	1,250	1,097	992	1,408
Net income	93	(81)	(10)	120	143

** Consolidated financial statements*
Unit: %

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Profitability					
Net-interest income/average assets*	12.13	12.57	17.88	17.46	20.63
Net-interest income/total income	23.80	18.69	25.14	22.25	20.35
Operating expenses/total income	43.09	43.29	46.40	28.96	41.48
Operating profit/average assets*	6.33	1.35	0.39	5.15	6.57
Return on average assets*	3.67	(1.88)	(0.29)	3.69	4.27
Return on average equity*	9.76	(5.21)	(0.61)	7.48	9.07
Asset Quality					
Non-performing loans/total loans	12.16	10.47	11.66	20.28	6.57
Bad debts and doubtful accounts/average loans*	10.41	15.23	16.67	8.93	4.87
Allowance for doubtful accounts/total loans	3.93	5.13	11.54	5.97	4.20
Capitalization					
Shareholders' equity/total assets	45.49	29.92	45.07	51.70	47.22
Shareholders' equity/total loans	68.69	43.92	65.98	78.41	77.50
Debt to equity (time)	1.20	2.34	1.22	0.93	1.12
Liquidity					
Short-term borrowings/total liabilities	30.33	40.66	4.48	17.02	49.07
Total loans/total assets	66.23	68.13	68.31	65.94	60.93

** Annualized*
RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

Singer Thailand PLC (SINGER)

Company Rating:	BBB-
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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