TRIS RATING
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CreditNews ข่าวเครดิต

SINGER THAILAND PLC

No. 23/2023
28 February 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 18/03/22

Company Rating History:

Date	Rating	Outlook/Alert
18/03/22	BBB	Stable
22/09/21	BBB-	Positive
31/08/20	BBB-	Stable
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 “stable” outlook. The rating reflects the company’s solid capital base and continuous improvement in market position in consumer loans extended through its subsidiary, SG Capital PLC (SGC), rated” BBB/Stable”. The rating also takes into consideration the company’s ability to maintain sound operating performance in line with our expectation.

However, the rating is pressured by our concerns over the intense competition in retail consumer finance and auto title loans, as well as uneven economic recovery which could constrain the company’s profitability and weaken its asset quality.

KEY RATING CONSIDERATIONS

Capital position remains robust

Capital remains a key credit strength for SINGER. At the end of December 2022, the company’s risk-adjusted capital (RAC) ratio stood at 71%, a major improvement from 58% from a year earlier. The strengthened capital was due mainly to the proceeds from the recent initial public offering (IPO) of SGC and a capital injection from Rabbit Holdings PLC (previously U City PLC) and a rights offering from Jaymart PLC (JMART) and other existing shareholders in late 2021. As a result, SINGER’s debt to equity (D/E) ratio declined to 0.4 times as of end-2022 from 0.6 times at end-2021, well below its D/E covenant of 3 times.

We project SINGER’s RAC to gradually decline to 46%-58% in 2023-2025 based on our expectation of moderately strong loan growth over the next few years and a 50% dividend pay-out ratio. However, the RAC will likely still be in the very strong range, which should help support the company’s business expansion in the medium term.

Strengthening market position

The company continues to strengthen its market position, as shown in the constant growth of its loan portfolio through SGC over the past few years. At the end of December 2022, outstanding loans had increased by 36% year-on-year (y-o-y) to THB14.9 billion. The growth was driven by an aggressive marketing strategy, mainly targeting auto title loans. As of end-2022, the company’s loan mix comprised auto title loans (65%), home and commercial appliance loans (32%), and others (3%).

We assume that SINGER’s loan portfolio will increase by 20%-27% per annum in 2023-2025, decelerating from the past few years. This is due to its conservative growth strategy driven by concerns over the risk of deteriorating asset quality, especially for home appliance hire purchase (HP). Growth will still be driven mainly by auto title loans, predominantly collateralized by truck fleets extended to small- and medium-sized customers whose demand remains strong. We expect auto title loans to account for 75% of total loans by 2025.

The company’s strategy of direct sales and continuous expansion of geographic coverage by increasing the number of its franchisees should help support loan growth. The number of franchisees reached around 6,000 at the end of 2022, below target but still an impressive growth rate from about 3,000 at the end of 2021.

Deteriorating asset quality

In 2022, SINGER's asset quality weakened more than anticipated. In our view, this could be the result of rapid credit expansion amid a weak economy over the last two years. The cessation of debt relief measures in the first half of 2022 also led to slippages and hence higher non-performing loan (NPL) formation. This trend is being seen for most direct peers given the high-risk credit profiles of their target customers.

The ratio of stage-3 loans (NPL) to total loans (NPL ratio) increased to 4.6% at the end of 2022, a similar level to that seen in 2020, after a decline to 3.9% at the end of 2021. The increase in NPLs was driven mainly by delinquency in HP loans for home appliances, including mobile phones. As for auto title loans, the quality has remained relatively stable over the past few years with the NPL ratio staying below 1% at the end of 2022. Given the rise in NPLs, expected credit loss (ECL) provisions to average loans (credit cost) rose to 2.8% in 2022, from 1.7% in 2021.

In the longer term, the company aims to keep its NPL ratio below 5%. To achieve that, the company would need to underwrite loans more prudently, improve debt collection, and accelerate NPL write-offs. The company would also need to focus on auto title lending, which still has lower delinquency, to strengthen overall asset quality.

With our assumption of an NPL formation ratio of 3.0%-3.3% in 2023-2025 and higher NPL write-offs to average loans of 1.8%-2.0%, SINGER's NPL ratio is likely to stay within the target. We expect SINGER would also have to raise its credit cost slightly if it were to maintain NPL coverage at the same level over the next few years. We project credit cost to be in the 2.7%-3.0% range in 2023-2025. At the end of December 2022, the company's NPL coverage ratio was 73%.

Earnings capability to remain stable

SINGER's earnings capability in 2022 was moderate compared to peers, as measured by a ratio of earnings before taxes to average risk-weighted assets (EBT/ARWA) of 4.6%. We expect the company to sustain its EBT/ARWA at around 4% despite higher provision expenses. However, this will require effective management of spread and focus on controlling operating expenses.

In terms of earnings, SINGER reported a net profit of THB941 million in 2022, a 34% increase y-o-y. The higher net profit was the result of strong loan growth, improved gross profit margin on product sales and loan yields, together with effective management of operating expenses. SINGER's loan yield fell to 18% in 2022, from 21%-22% in the past, after it diversified into auto title loans, which produce lower yields compared to HP loans for electrical appliances. Nonetheless, a strong increase in loan volume has helped support net profit and is likely to continue in the medium term.

In 2023-2025, we expect SINGER's net profit to rise at a slower pace, based on our estimate of a 10% increase in sales revenue from electrical appliances and a slower loan growth of 20%-27% per annum. The slower growth is partly due to the company's more cautious marketing strategy following the deterioration in asset quality. The company aims to maintain its gross profit margin on product sales at around 44%, supported by the launch of smaller, higher-margin appliances and through continuous expansion of the franchise network. We project SINGER's interest yield to decline slightly to 16% over the next few years from the current level of 18% because of intense competition in the auto title loan segment. Nonetheless, lower funding costs from the refinancing of debentures at lower coupon rates than the pre-Coronavirus Disease 2019 (COVID-19) levels should help maintain the interest spread above 10%.

Sound funding and liquidity position

We believe SINGER should have sufficient funding and liquidity over the next 12 months. SINGER's stable funding ratio (SFR) was high at around 300% in 2021-2022 thanks to the capital injections in 2021-2022 and the use of long-term funding. The injected capital and additional credit lines from financial institutions help support the company's funding and liquidity profile. SINGER also has cash inflows from customers' loan repayments of around THB0.5 billion per month. At the end of December 2022, SINGER's cash, short-term investments, and unused short-term credit facilities from financial institutions remained sufficient at THB7.7 billion. As of December 2022, the company's priority debt to total debt ratio was 1%.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SINGER's operations in 2023-2025 are as follows:

- Outstanding loans to expand by 20%-27% per annum.
- Interest spread to remain above 10%.
- Credit cost to be in the range of 2.7%-3% per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that SINGER will maintain its solid capital position after the capital injections, which should help support business expansion in the medium term. We also expect SINGER to control its asset quality and continue its sound financial performance.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on SINGER's ability to improve its market position on a sustained basis while controlling its asset quality and maintaining solid capital. The rating could be revised downward should its asset quality deteriorate and credit cost increase to the point where EBT/ARWA falls below 3.5% for an extended period.

COMPANY OVERVIEW

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 instalment plans or HP contracts for the products it sells. Approximately 95% of the products are sold under the instalment sale service program.

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.

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

SINGER remains focused on its core business; sales of home electrical appliances, maintaining a lengthy track record in this segment. The company had also expanded its product line to include the sale of income-generating products and commercial electrical appliances, such as freezers and air-time vending machines. SINGER introduced another product to its line-up in 2017, "Rod Tum Ngern" loans, secured by vehicles through its subsidiary, SGC.

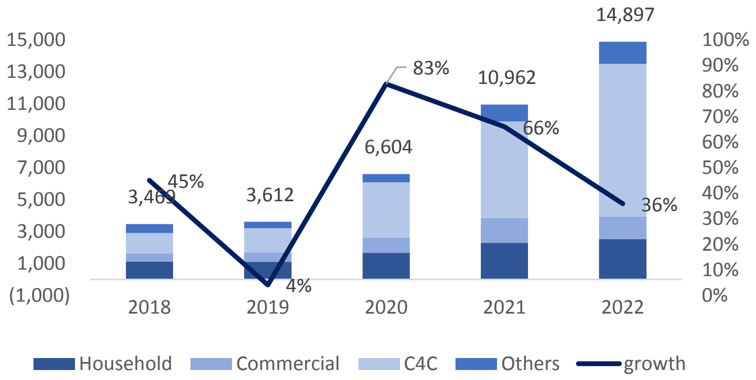
SGC, provides financing services for SINGER's customers. SGC was listed on the stock exchange of Thailand on 13 December 2022 with SINGER remaining the company's largest shareholder with a 75% stake. SINGER has two other subsidiaries, SG Service Plus Co., Ltd. and SG Broker Co., Ltd. SG Service Plus provides maintenance services to SINGER's customers while SG Broker is an insurance agent.

In 2021, the private placement of rabbit holdings and rights offering (RO) to Jaymart PLC (JMART), and existing shareholders raised THB1.65 billion for the company. After the capitalization, JMART remained a major shareholder with 25.4% and Rabbit Holdings 23.7% of the outstanding shares of SINGER (as of 1 November 2022)

As of December 2022, the company's sales network comprised around 209 branches, approximately 3,000 salespersons and 6,000 franchisees.

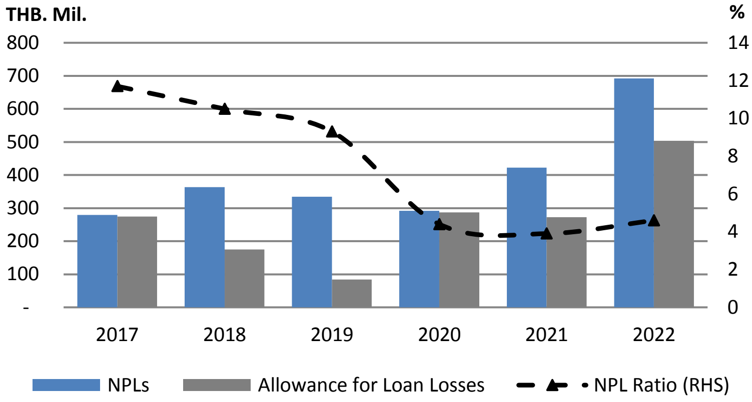
KEY OPERATING PERFORMANCE

Chart 1: SINGER's Outstanding Loan Portfolio



Source: SINGER

Chart 2: SINGER's NPLs and NPL Ratio



Sources: SINGER's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	---------------------- Year Ended 31 December ---------------------				
	2022	2021	2020	2019	2018
Total assets	25,894	24,201	9,255	5,907	5,093
Total loans	14,897	10,962	6,693	3,612	3,469
Allowance for expected credit loss	504	273	287	84	175
Short-term debts	1,510	1,101	400	400	1,451
Long-term debts	6,459	4,262	2,450	2,450	1,350
Shareholders' equity	18,308	14,839	2,810	2,344	1,524
Net interest income	1,854	1,074	781	590	540
Expected credit loss	356	152	194	409	446
Non-interest income	179	132	131	328	364
Operating expenses	1,688	1,446	1,387	1,063	1,250
Earnings before taxes	1,193	902	439	155	(49)
Net income	941	701	443	166	(81)

* *Consolidated financial statements*

Unit: %

	---------------------- Year Ended 31 December ---------------------				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	7.40	6.42	10.30	10.73	7.40
Non-interest income/average assets	0.71	0.79	1.73	5.96	0.71
Operating expenses/total income	32.43	32.88	38.63	40.74	32.43
Operating profit/average assets	6.60	8.59	8.75	5.79	6.60
Earnings before taxes/average risk-weighted assets	4.63	5.04	5.44	2.75	4.63
Return on average assets	3.76	4.19	5.85	3.02	3.76
Return on average equity	5.68	7.94	17.20	8.58	5.68
Asset Quality					
Receivable in stage 3/total loans	4.64	3.85	4.36	9.25	4.64
Expected credit loss/average loans	2.75	1.72	3.77	11.55	2.75
Allowance for expected credit loss/Receivable in stage 3	72.83	64.54	98.27	25.21	72.83
Capitalization					
Risk-adjusted capital ratio	71.03	57.68	27.90	39.14	71.03
Debt/equity (times)	0.63	0.41	2.29	1.52	0.63
Funding and Liquidity					
Stable funding ratio	229.91	311.61	160.64	194.26	229.91
Liquidity coverage measure (times)	3.84	7.45	0.99	2.18	3.84
Short-term debts/total liabilities	19.90	11.75	6.21	11.23	19.90

* *Consolidated financial statements*

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Singer Thailand PLC (SINGER)

Company Rating:	BBB
Rating Outlook:	Stable

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