

THITIKORN PLC

No. 127/2022
27 July 2022

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 30/07/21

Company Rating History:

Date	Rating	Outlook/Alert
30/07/21	BBB+	Stable
31/07/20	A-	Negative
31/03/10	A-	Stable
14/11/06	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thitikorn PLC (TK) at “BBB+” with a “stable” outlook. The rating continues to reflect the company’s very strong capital base, resilient profitability, healthy liquidity, and diverse revenue sources from Cambodia and Laos. The key rating constraint is a potentially significant decline in TK’s asset quality due to the relatively high credit risk of its customers who are susceptible to a weak economic environment. The rating also takes into account intense competition in the motorcycle hire purchase industry, particularly in the domestic market, which could limit loan growth and margin improvement in the medium term. In addition, an upcoming interest rate ceiling remains a key challenge which is likely to impact the company’s profitability.

KEY RATING CONSIDERATIONS

Capital remains very strong

TK’s capital position is assessed as ‘very strong’ and remains a key credit strength of the company given its stronger-than-peer capital. At the end of 2021, the company’s risk-adjusted capital (RAC) was 68.8%, an increase from 56.1% in 2020. This was driven mainly by the shrinkage of the loan portfolio and profit accretion over the past few years. We expect the ratio to start falling as the company resume business expansion from 2022 onwards. TK’s current level of capital should be able to support business expansion for many years without pressuring its capital strength. Its robust capital also provides a cushion to absorb credit cost that could potentially rise due to the weakening economy and deteriorating customer credit profiles.

Weakened domestic market position

With the management’s cautious growth strategy and following the outbreak of the Coronavirus Disease 2019 (COVID-19), the company’s outstanding loans have declined for three consecutive years, reaching THB4.4 billion at the end of 2021 from about THB10 billion at the end of 2018. The domestic loan portfolio, at THB3.2 billion, remained lower than peers. Nonetheless, the company has resumed its business growth in the past two quarters with a growth of 6.5% in outstanding loans, comparing outstanding loans at the end of March 2022 with the lowest level at the end of September 2021. We believe the company will continue its expansionary mode both in the domestic and foreign markets from 2022 onwards.

In terms of business diversity, TK continues surpass its direct peers. Geographically, the company has a more diversified branch network and loan portfolio across Thailand with expansion in the CLMV region (Cambodia, Laos, Myanmar, and Vietnam), particularly Cambodia and Laos. Overseas loans accounted for 27% of TK’s total loan portfolio at the end of 2021, an increase from 21% at the end of 2020. We expect the overseas business to be a key growth driver for TK in the next few years.

Improved asset quality amid challenging environments

Asset quality remains one of the key rating constraints for the company and most of its peers. The asset quality of motorcycle hire purchase loans is weaker than other types of lending, with higher non-performing loan (NPL) ratios and write-offs. TK has therefore pursued a cautious growth strategy over the past three years, which has led to a steady improvement in asset quality. The company’s NPL ratio dropped considerably to 6.1% at the end of first quarter

2022 (1Q22) from the peak of 9.2% at the end of 2020. This was driven by a material decline in NPL formation, dropping to a range of 4%-5% in 2021 and 1Q22 from an average of 10% in the past, given its selective growth strategy. However, NPL formation may rise in the next few years if the company continues to expand business more actively in an environment of intense competition and a weak economy.

The improved asset quality is also evident in the decline in the ratio of expected credit loss (ECL) provisions to average loans (credit cost), which fell to 3.2% (annualized) in 1Q22 and 5.3% in 2021 from an average of over 10% in the past. This was the result of lower NPL formation and the reversal of allowance for ECL, which caused a drop in the ratio of allowance for ECL to total loans to 7.2% at the end of 1Q22 and 8.5% at the end of 2021. As of March 2022, the ratio of allowance for ECL to NPLs (NPL coverage) dropped slightly to 118.2% from 120.4% at the end of 2021. While we observe some positive developments, the prolonged economic downturn could put pressure on the company's asset quality and hence profitability if credit cost were to rise.

Adequate funding and liquidity

A strong funding and liquidity profile is another positive rating factor for TK. We believe this is likely to remain so over the next few years due to the company's conservative expansion plan. As of March 2022, TK's cash on hand was THB2.5 billion compared with an average of around THB100-THB200 million pre-2018. The cash on hand should be sufficient for the company's expansion over the next 18 months without issuing new debts.

Notwithstanding the strong cash position, the need to refinance long-term borrowings has been low since 2019 due to the slowdown in TK's business over the past three years. The company mostly relies on equity to fund its business and loan repayments. As of March 2022, domestically, outstanding debt obligations comprised only THB400 million of debentures maturing this year, which should be comfortably supported by the cash on hand. The company's funding structure in 2021 comprised long-term obligations (2%), short-term obligations (11%), of which 10% were the current portion of long-term borrowings, and equity (86%). The company estimates net cash inflows from customer loan repayments to amount to around THB120 million per month over the next 12 months.

High competition and interest rate ceiling could impact loan growth and profitability

Motorcycle sales and leasing recovered moderately in 2021, following the economic fallout from COVID-19 that caused motorcycle sales and hire purchase (HP) loans to fall by 11.8% and 1.7%, respectively, in 2020. In 2021, motorcycle sales grew by 6% year-on-year (y-o-y), while loan growth for the eight largest operators in our database was flat. Although demand for motorcycles remains strong this year, supply shortages caused sales to grow by only 3% y-o-y in the first five months of 2022. On the lending side, tightened loan approvals due to weaker customer credit profiles have contributed to the slowdown in lending as well.

Moreover, several new players have entered the market because of the still-high loan yield compared to other types of consumer lending, leading to heightened competition in the motorcycle segment. That said, to help protect consumers, the regulator is pushing for an interest rate cap on motorcycle HP loans. The new regulation that is soon to be announced is likely to cap the interest rate at not more than 30%. This could put additional pressure on the loan growth and profitability of the motorcycle HP lenders.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TK's operations in 2022-2024 are:

- Outstanding portfolio to expand by 15%-20% per year in 2022-2024.
- RAC ratio to remain above 40%.
- Interest yield to drop below 29%.
- Credit cost to remain at about 8%-9% annually.
- Operating expense to total income ratio will be above 55%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TK will slowly regain its market position in the motorcycle hire purchase segment. The outlook is premised on our expectations that leverage will remain low, liquidity and profitability will stay strong, and asset quality will remain at an acceptable level.

RATING SENSITIVITIES

The rating upside is limited in the short-term while in the longer-term an upside could arise if the company can recover its status as a leading operator in the market while maintaining satisfactory financial performance and asset quality. However, the rating could be downgraded if the company's market position weakens further, or the company's asset quality

deteriorates continuously. A downgrade could also occur if, the interest rate ceiling results in a significant decline in profitability with the company’s earnings before taxes and average risk weighted assets (EBT/ARWA) ratio falling below 1.5%, or leverage increasing materially as indicated by a RAC ratio of less than 25%.

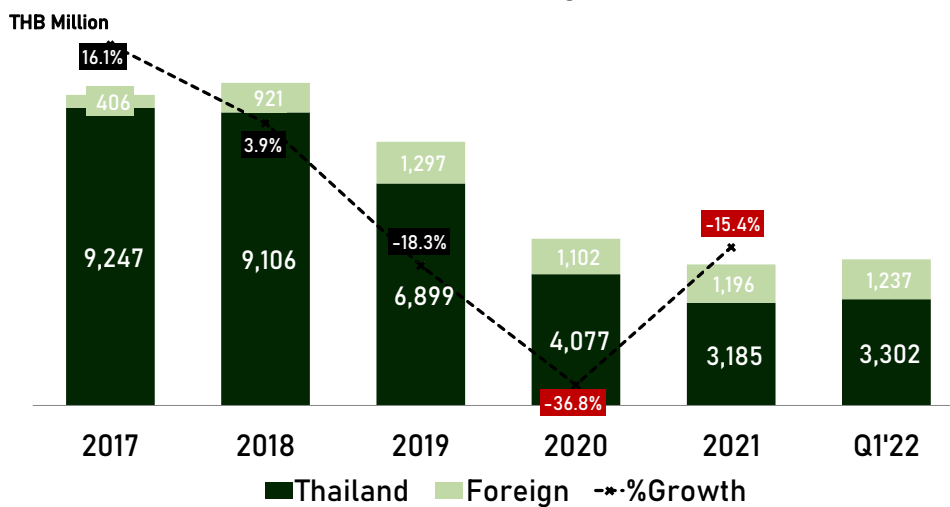
COMPANY OVERVIEW

TK was founded on 4 August 1972 by Dr. Chumpol and Dr. Anothai Phornprapha to provide motorcycle and automobile financing loans under hire purchase contracts. Currently, the company concentrates on the motorcycle financing segment. TK is more geographically diversified than its competitors. The company renders services through a branch network covering 56 provinces throughout Thailand. In addition, TK offers motorcycle loans in Cambodia and the Lao PDR through its subsidiaries, Suosdey Finance PLC and Sabaidee Leasing Co., Ltd., respectively, which were established in 2014.

As of March 2022, loans from TK comprised 68% of TK’s outstanding loans; 24% from Suosdey (Cambodia-based subsidiary) and 4% from Sabaidee (Laos based subsidiary), and another 4% from other subsidiaries.

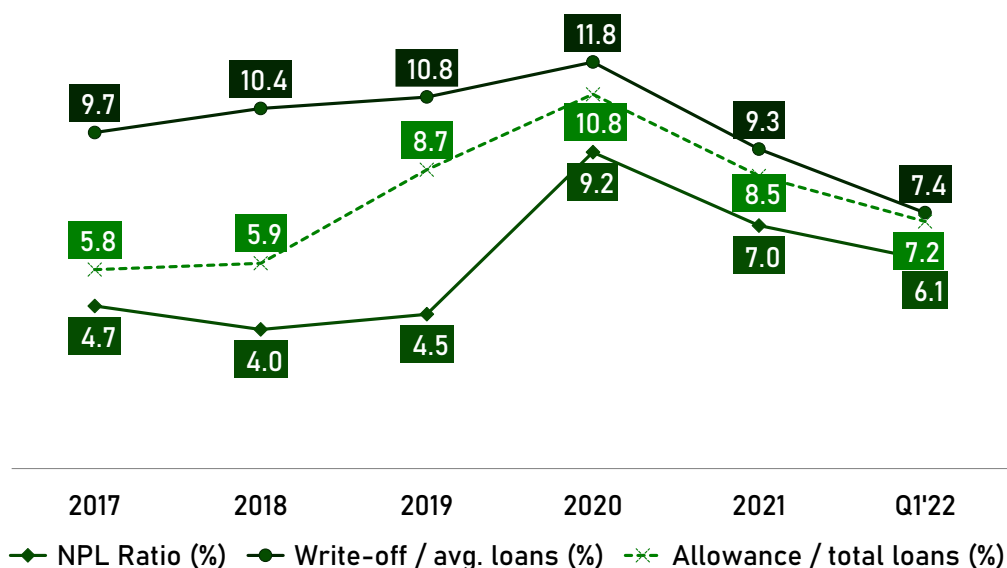
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TK

Chart 2: Asset Quality



Source: TK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Mar 2022	----- Year Ended 31 December -----			
	2021	2020	2019	2018	
Total assets	7,094	6,979	7,357	9,163	10,578
Total loans	4,539	4,381	5,179	8,196	10,027
Allowance for expected credit loss	325	372	562	710	597
Short-term debts	775	783	1,096	2,251	2,436
Long-term debts	219	192	531	1,181	2,601
Shareholders' equity	5,786	5,657	5,356	5,324	5,078
Net interest income	343	1,355	1,934	2,858	3,063
Expected credit loss	36	252	640	1,094	1,067
Non-interest income	141	582	541	730	670
Operating expenses	275	1,061	1,361	1,862	2,154
Earnings before taxes	173	624	474	610	512
Net income	135	474	370	486	402

* Consolidated financial statements

Unit: %

	Jan-Mar 2022	----- Year Ended 31 December -----			
	2021	2020	2019	2018	
Profitability					
Net interest income/average assets	19.48 **	18.90	23.41	28.96	29.74
Non-interest income/average assets	8.02 **	8.12	6.55	7.40	6.51
Operating expenses/total income	56.02	53.81	53.42	50.76	55.78
Operating profit/average assets	9.81 **	8.70	5.74	6.18	4.97
Earnings before taxes/average risk-weighted assets	8.19 **	7.02	3.81	3.54	2.72
Return on average assets	7.70 **	6.62	4.48	4.93	3.90
Return on average equity	9.47 **	8.61	6.95	9.39	8.14
Asset Quality					
Non-performing loans/total loans	6.05	7.04	9.17	4.47	4.03
Expected credit loss/average loans	3.22 **	5.28	9.57	12.01	10.84
Allowance for expected credit loss/non-performing loans	118.24	120.43	118.30	193.53	147.58
Capitalization					
Risk-adjusted capital ratio	67.06	68.79	56.11	34.50	26.48
Debt/equity (time)	0.23	0.23	0.37	0.73	1.08
Liquidity					
Stable funding ratio	244.08	263.09	276.97	175.98	151.37
Liquidity coverage measure (times)	3.40	3.49	2.09	0.45	0.18
Short-term debts/total liabilities	59.28	59.23	54.80	58.04	44.29

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

THITIKORN PLC (TK)

Company Rating:	BBB+
Rating Outlook:	Stable

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