

# THITIKORN PLC

No. 134/2023  
27 July 2023

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB+  
**Outlook:** Stable

**Last Review Date:** 27/07/22

### 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 of Thitikorn PLC (TK) at “BBB+” with a “stable” outlook. The rating continues to reflect the company’s very strong capital position and healthy liquidity. The key rating constraints are the weakening of earnings capacity driven by the regulatory cap on interest rate, rising funding costs, and intense competition. Other constraints are weakening market position and relatively weak asset quality. Moreover, aggressive expansion in high-risk overseas market could become a concern.

## KEY RATING CONSIDERATIONS

### Solid capital remains key credit strength

TRIS Rating assesses TK’s capital position as ‘very strong’ and expects this to remain in the medium term. Its solid capital is still one of the key credit strengths of the company. The capital position measured by risk-adjusted capital (RAC) ratio stood at 69.7% at the end of first quarter of 2023 (1Q23), improving from 67.1% at the end of 2022. The improvement resulted from management policy to scale back its loan expansion, following the regulatory cap on the interest rate at 23% for motorcycle leasing imposed in January 2023.

We expect the company to resume credit growth once there is a clearer direction of the regulatory guidelines on leasing business to be announced by the Bank of Thailand (BOT). Although stronger credit growth could result in declining RAC ratio, the impact on the rating is unlikely in 2023-2025, given its exceptionally strong capital level.

### Funding and liquidity to stay healthy

We revised our assessment on the funding and liquidity profile of TK to ‘strong’ from ‘adequate’, thanks to a solid cash position and low financial leverage. These factors will likely continue to be the company’s key credit strengths in 2023-2025 due to the company’s conservative financial policy and business strategy. As of March 2023, on a consolidated basis the company had cash on hand of THB2.1 billion and debt obligations of THB353 million. We believe TK’s liquidity position should be sufficient to support its business growth in the domestic market over the next few years.

As of March 2023, the company had THB3.8 billion of short-term credit lines with various financial institutions which helps provide additional liquidity. Currently, TK’s domestic business is fully financed by equity. In the overseas market, its subsidiaries, Suosdey Finance PLC in Cambodia and Sabaidee Leasing Co., Ltd. in Laos, have access to short-term credit lines from Thai banks operating in both countries to support their liquidity and funding needs.

### Earnings capacity under pressure

TK’s earnings capacity is likely to weaken drastically in 2023 and forms a new baseline going forward. This will likely be driven mainly by the interest rate cap in Thailand on new loans and higher funding cost of overseas subsidiaries. Its interest spread came down to 22.8% in 1Q23 from 28.5% in 2022. With the lower yields on new loans and still-rising funding cost, we believe TK’s spread could fall further.

Given our base-case assumptions, we expect earnings capacity measured by earnings before taxes to average risk weighted assets (EBT/ARWA) to fall to

about 2% in 2023-2025. While this remains in the ‘moderate’ range and has no impact on its current rating, the probability of a rating downgrade is higher. In our view, TK’s ability to manage credit costs and operating costs will be key to sustaining its earnings capacity.

### **Expect a gradual market share expansion in the domestic market**

Pressure on TK’s rating has come from its weakening business position as its conservative strategy has resulted in a significant decline in market share in the domestic motorcycle leasing market, based on the TRIS Rating database. At the end of 1Q23, its total motorcycle loan portfolio excluding overseas operations stood at THB2.8 billion, compared to its peak of THB8.5 billion at the end of 2017. With the persistently intense competition given the increased number of operators and regulatory changes that remain uncertain in Thailand, we expect TK to remain cautious this year and gradually expand its loan book in 2024-2025. Based on our base-case assumption of outstanding loan growth of 15%-20% per year in 2024-2025, we estimate its outstanding loans in the domestic market to rise to about THB3.1 billion by 2025.

### **Credit risk likely to increase but manageable**

We view asset quality improvement as one of the key factors that will help support earnings capacity and hence the rating on TK. Although the cautious growth strategy is negative to business position assessment, its selective growth strategy has resulted in better asset quality. Such improvement was clearly evidenced in 2021 following the steady contraction of new motorcycle hire purchase (HP) loans in 2019-2021 to around THB4 billion from a normalized level of THB8-THB10 billion in the past. Non-performing loan (NPL) formation fell to THB276 million in 2021 from THB800-THB900 million in 2018-2020. We believe management’s cautious growth strategy since 4Q22 should help maintain company’s asset quality for the rest of 2023. As for 2024-2025, we expect NPL formation to remain high on account of the weakening credit profile of its target customers, but overall asset quality should be manageable.

In terms of NPL coverage, the ratio of allowance for expected credit loss (ECL) to NPLs (NPL coverage) dropped to 105.3% in 1Q23 from 120.4% at the end of 2021, thanks partly to lower provisioning requirements due to improved loan loss recovery. Nonetheless, we view that the relatively lower NPL coverage compared to TK’s peers results from the company’s maintaining a more conservative average loan-to-value (LTV) for its loan portfolio.

### **Overseas operations: Higher return, higher risk**

TRIS Rating expects TK’s overseas business to remain a key growth driver for TK in the next few years despite increasing risk factors. TK’s overseas loan portfolio accounted for 30% of TK’s total loan portfolio at the end of 2022, an increase from a 10% at the end of 2018, largely driven by its Cambodian operation. We note increasing risks in the Cambodian market, including high competition, a surge in USD funding cost, and rising private sector debt. However, we do not expect exponential growth in overseas operations, given TK’s conservative strategy and higher funding costs. Longer term, we believe that despite the rising risk, the profitability should still be better than the domestic market due to higher returns in both yields and fee incomes that help offset the risks.

We do not have major concerns over the asset quality of its loan books originating in Cambodia and Laos at this point, but we remain vigilant. We view the macro environment as well as regulatory standard of loan classification and provisioning of these countries as being weaker compared to Thailand. Therefore, a significant increase in loan contribution from Cambodia and Laos could potentially pressure TK’s credit profile if not well managed.

### **Reshaping motorcycle HP industry from regulatory oversight**

The introduction of interest rate ceilings in the beginning of 2023 resulted in an acceleration in lending activities ahead of the enforcement for some of the lenders. As a result, motorcycle sales grew by 12% in 2022 and 11% in the first five months of 2023. The outstanding motorcycle loans from the eight operators in TRIS Rating’s database increased by 17% in 2022.

With the asset quality of motorcycle HP industry being one of the weakest among non-bank financial institutions under our radar and a key rating constraint for most rated companies, we expect operators in second half of 2023 (2H23) and 2024 will likely prioritize controlling their asset quality and optimizing their profitability by slowing down loan growth.

Forthcoming regulatory oversight by the BOT is expected to address market conduct and potentially introduce LTV guidelines. This may exert pressure on the future growth of motorcycle financing in coming years. Striking a balance between consumer fairness, ensuring financial inclusion and managing economic risk will remain a key challenge for the BOT as it increases its regulatory oversight on the leasing industry.

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## BASE-CASE ASSUMPTIONS

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TRIS Rating's base-case assumptions for TK's operations in 2023-2025 are:

- Outstanding portfolio to dropped 9% in 2023 and expand around 15%-20% per year in 2024-2025.
- RAC ratio to remain above 50%.
- Interest yield to drop to around 27% in 2023 and 25% thereafter.
- Credit cost to remain at about 8%-10% annually.
- Operating expense to total income ratio will remain in 55%-60% range.

## RATING OUTLOOK

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The "stable" outlook reflects our expectation that TK will be able to gradually regain market share in the motorcycle HP segment over the next few years. The outlook is also premised on our expectations that its capital will remain solid, with profitability and asset quality remaining in line with our base case.

## RATING SENSITIVITIES

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The rating upside is limited in the medium term. A downgrade could occur if the company's market position continues to weaken relative to peers', or the EBT/ARWA ratio falls below 1.5%, or capital position as indicated by the RAC ratio drops below 25% on a sustained basis.

## COMPANY OVERVIEW

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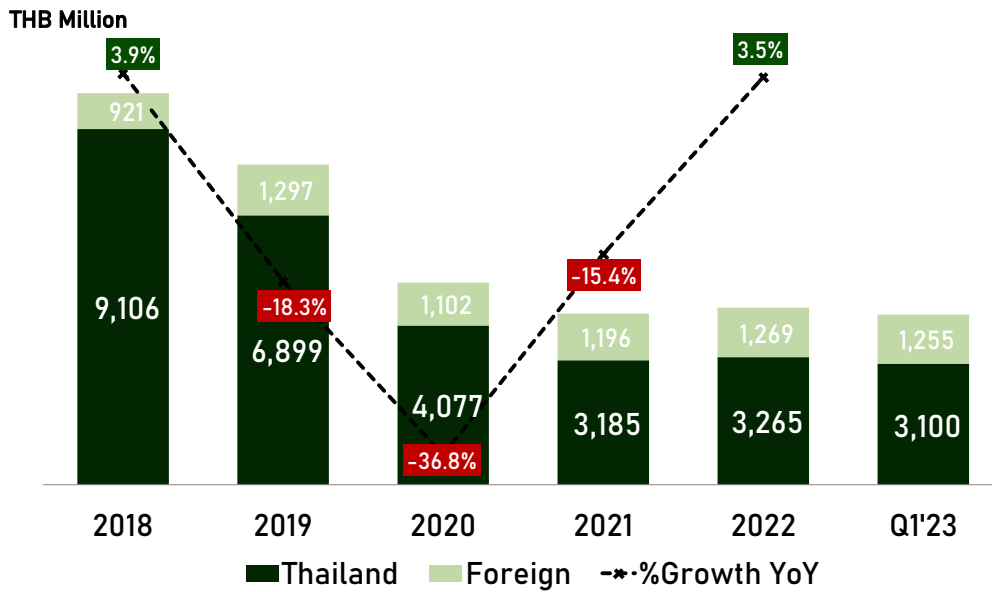
TK was founded on 4 August 1972 by Dr. Chumpol and Dr. Anothai Phornprapha to provide motorcycle and automobile financing loans under HP contracts. Currently, the company concentrates on the motorcycle financing segment.

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 2023, loans from TK comprised 69% of TK's outstanding loans; 28% from Suosdey (Cambodia-based subsidiary) and 3% from Sabaidee (Laos based subsidiary), and another 4% from other subsidiaries.

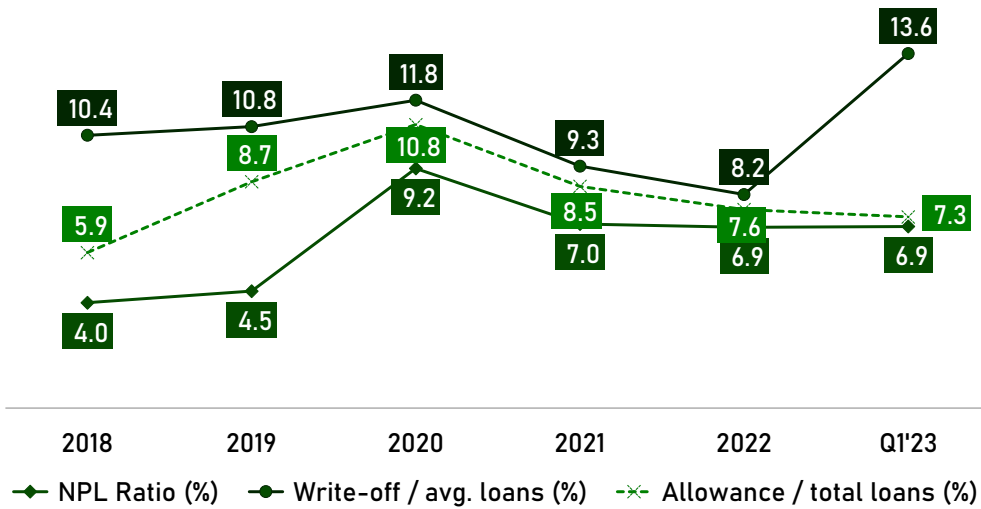
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TK

Chart 2: Asset Quality



Source: TK

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	6,540	6,558	6,979	7,357	9,163
Total loans	4,355	4,534	4,381	5,179	8,196
Allowance for expected credit loss	318	344	372	562	710
Short-term debts	293	315	783	1,096	2,251
Long-term debts	186	154	192	531	1,181
Shareholders' equity	5,764	5,758	5,657	5,356	5,324
Net interest income	313	1,436	1,355	1,934	2,858
Expected credit loss	125	337	252	640	1,094
Non-interest income	93	462	582	541	730
Operating expenses	210	1,072	1,061	1,361	1,862
Earnings before taxes	71	489	624	474	610
Net income	43	369	474	370	486

\* Consolidated financial statements

*Unit: %*

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
<b>Profitability</b>					
Net interest income/average assets	19.12 **	21.22	18.90	23.41	28.96
Non-interest income/average assets	5.67 **	6.82	8.12	6.55	7.40
Operating expenses/total income	50.95	55.57	53.81	53.42	50.76
Operating profit/average assets	4.32 **	7.22	8.70	5.74	6.18
Earnings before taxes/average risk-weighted assets	3.36 **	5.82	7.02	3.81	3.54
Return on average assets	2.61 **	5.46	6.62	4.48	4.93
Return on average equity	2.97 **	6.47	8.61	6.95	9.39
<b>Asset Quality</b>					
Non-performing loans/total loans	6.81	6.92	7.04	9.17	4.47
Expected credit loss/average loans	11.23 **	7.56	5.28	9.57	12.01
Allowance for expected credit loss/non-performing loans	105.26	109.83	120.43	118.30	193.53
<b>Capitalization</b>					
Risk-adjusted capital ratio	69.72	67.08	68.79	56.11	34.50
Debt/equity (time)	0.13	0.14	0.23	0.37	0.73
<b>Liquidity</b>					
Stable funding ratio	256.27	241.04	263.09	276.97	175.98
Liquidity coverage measure (times)	8.25	7.07	3.49	2.09	0.45
Short-term debts/total liabilities	37.81	39.41	59.23	54.80	58.04

\* Consolidated financial statements

\*\* Annualized

**RELATED CRITERIA**

- Nonbank Financial Institution Methodology, 17 February 2020

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**THITIKORN PLC (TK)**

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<b>Company Rating:</b>	BBB+
<b>Rating Outlook:</b>	Stable

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