

THITIKORN PLC

No. 116/2019
24 July 2019

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 10/08/18

Company Rating History:

Date	Rating	Outlook/Alert
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 “A-” with a “stable” outlook. The rating and outlook reflect the company’s solid market position, strong capital base, resilient profitability, and healthy liquidity.

However, the key rating constraint is the potential rise in credit risk due to the high credit risk of its customers that are susceptible to weakening economic environment. The rating also takes into account intense competition in the motorcycle hire purchase industry, particularly in the domestic market, that could limit margin improvement in the medium-term.

KEY RATING CONSIDERATIONS

Low leverage and strong capital base

TRIS Rating expects the company’s debt to equity ratio (D/E) to remain below 1.2 times over the next few years. The company’s D/E dropped to 1.09 times at the end of March 2019, from 1.12 times at the end of 2018, compared with peer average of above 2.2 times over the same period. TK’s strong capital base provides a cushion to absorb relatively high credit cost that may arise due to the high credit risk of its customers.

Profits to remain solid

TRIS Rating expects TK to maintain return on average assets (ROAA) at about 4% in the next three years. The company’s profitability has recovered since 2015 from a setback due to high credit cost in 2013-2014. The key to TK’s strong profitability lies in the ability to maintain a high level of spread (high yield with low funding cost); the spread is higher than 27% for the past 10 years.

In 2018, the consolidated net income, however, decreased to Bt408 million from Bt472 million in 2017. The lower profit was attributed to increased provision expenses and loss from sales of repossessed assets. Return on average assets (ROAA) fell to 4.0% in 2018 from 5.1% in 2017. We still expect provision expenses to be on a rising trend from the weakening economic environment while loss from sales of repossessed assets to stabilize below the level in 2018.

Strong liquidity with financial flexibility

Liquidity is a positive rating factor for TK. We believe this is likely to remain so over the next few years due to TK’s conservative funding policy. The company relies more on long-term funding compare to its peers. The company’s funding proportion in 2018 comprised long-term borrowings (51%) and short-term obligations, including the current portion of long-term funding (49%).

As of March 2019, the company had a positive asset-liability duration gap. We expect TK to maintain a positive gap over the next 12 months. We estimate cash inflows from customer loan repayments to amount to Bt300-350 million per month over the next 12 months. Cash outflows for debt repayments will be less than inflows, at around Bt250-300 million per month on average.

Strong market position despite slower growth pace

Market position and geographic diversification serve as positive factors for TK’s rating. The loan portfolio, however, has been expanding at a slower pace in recent years, with outstanding loans expanding by 2.3% year on year to Bt9,878

million at the end of 2018. This drop in the growth rate was mainly due to the cautious strategy chosen by the management team, given concerns over the sluggish growth of the Thai and global economies.

Despite the modest growth, the company's market position remains relatively strong, and is still one of the largest companies in the motorcycle hire purchase segment. TK's market position is underpinned by the extensive branch network and strong relationships with motorcycle dealers. Although TRIS Rating expects the growth of TK's domestic loan portfolio to remain modest in 2019, the extensive branch network should help to support stronger growth potential when the management team resumes growth strategy in the future.

Overseas expansion provides growth impetus

In the medium-term, expansion in overseas market will be a growth catalyst for TK, given its cautious growth strategy at home market due to fierce competition and a potential rise in credit risk. Our forecast estimates overseas lending will constitute about 20%-30% of TK's total loan portfolio in the next two to three years. The company has continuously expanded its business units in CLMV markets, including Cambodia, Laos, and recently Myanmar. As of the end of 2018, the company's total overseas exposure to TK's total portfolio is at 10%, of this figure about 8% was in Cambodia and 2% was in Laos. The company expects to double its loan portfolio through branch network expansion in the new cities. The target branch network in the next two years for Cambodia is 15 branches from the current 6 branches (at present); Laos is 6 branches from the current 3 branches (at present); and Myanmar 3 branches.

We believe overseas operation will play the key roles in TK's financial performance in the future. Operations abroad give higher yields and have better asset quality than the domestic market. The overall yield on overseas loans is higher than the loans originated domestically. For example, in 2018, the yield on loans originated in Cambodia and Laos were 38% and 46%, respectively, compared with an average of 32% for loans originated in Thailand. The asset quality of these overseas subsidiaries is still very healthy. The non-performing loans (NPL) ratio (loans more than 90 days past due) remained below 1% in 2018. Although we believe that asset quality of overseas loans may deteriorate from current level, however, we expect the asset quality of overseas loans will still be better than its domestic loans.

Conservative provision policy mitigates high credit risk

TK has maintained a conservative provisioning policy to compensate for its weak asset quality. We hold the view that the company's provisioning is sufficient to cover both the write-off and NPL of the current year. For example, over the past 10 years, the NPL coverage ratio has consistently been over 110%. In 2018, the ratio of allowance for doubtful accounts to NPLs (NPL coverage ratio) was 147.6%. We expect the coverage ratio to remain at a similar level over the next few years, assuming the credit cost ranges from 9.5%-11.0% through 2021.

The company's asset quality is weak but comparable to peers. The weak asset quality is caused in part by the low credit profiles of the target customers which are largely agricultural and factory workers, most of which are considered non-bankable. We expect TK to maintain the ratio of non-performing loan including write-offs to average outstanding loans to be below 15% over the next few years. In 2018, the ratio of NPLs plus write-offs was 14.7%, compared to 14.6% and 14.8% in 2016 and 2017, respectively.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions in 2019-2021 are:

- Outstanding portfolio expands by 3% per year on average
- D/E ratio remains below 1.2 times
- Interest yield remains above 31%-33%
- Credit cost remains at about 10%
- Operating expenses to total income ratio will range from 55%-60%

RATING OUTLOOK

The "stable" outlook is based on our expectation that TK will maintain 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. However, the rating or outlook could be revised downward if asset quality deteriorates to the extent that profitability falls significantly or leverage increases markedly as measured by D/E ratio of more than 2 times.

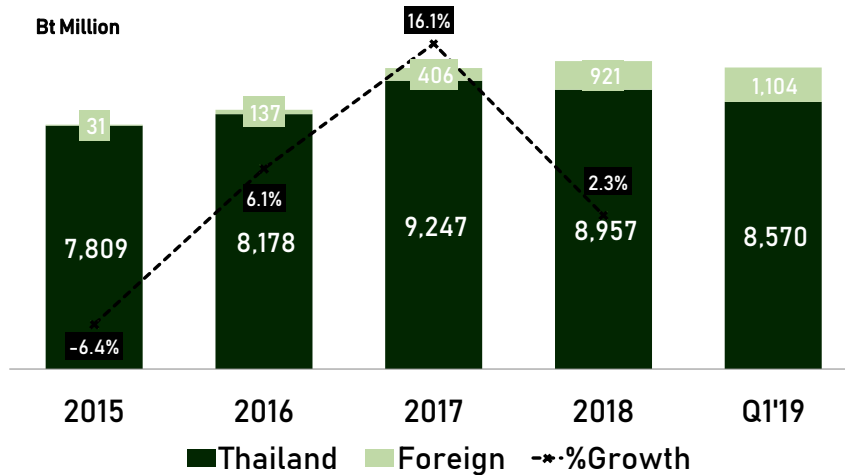
COMPANY OVERVIEW

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 People’s Democratic Republic (Lao PDR) through its subsidiaries, Suosdey Finance PLC and Sabaidee Leasing Co., Ltd. respectively, which were established in 2014.

As of March 2019, motorcycle loans comprised 95% of TK’s outstanding loans; 4% and 1% were automobile loans and personal loans, respectively.

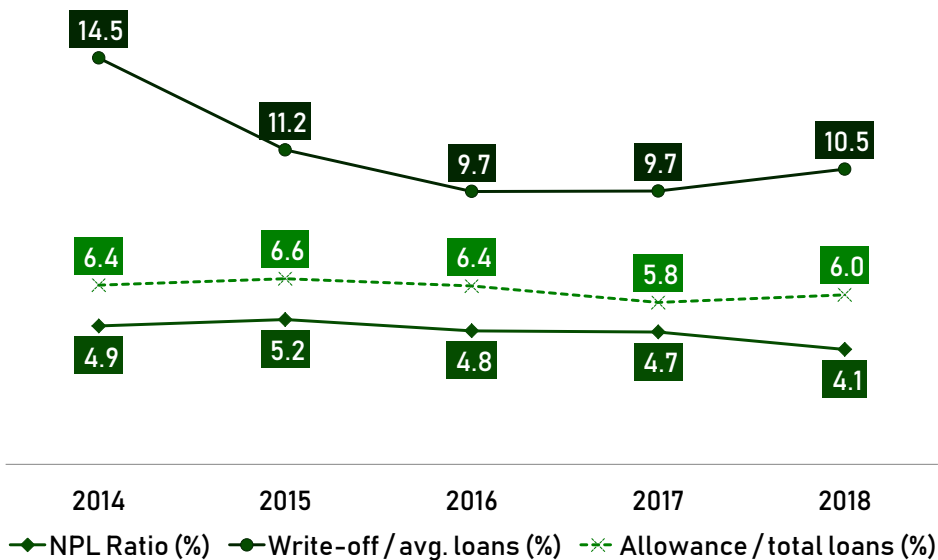
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TK

Chart 2: Asset Quality



Source: TK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	10,560	10,430	10,018	8,611	8,284
Total loans	9,674	9,878	9,653	8,315	7,839
Allowance for doubtful accounts	619	597	557	528	518
Short-term borrowings	3,525	2,436	976	1,481	2,197
Long-term borrowings	1,597	2,569	3,812	2,204	1,328
Shareholders' equity	5,049	4,929	4,785	4,550	4,321
Net interest income	777	3,069	2,802	2,442	2,413
Bad debts and doubtful accounts	261	1,067	903	795	892
Non-interest income	167	670	729	789	796
Operating expenses	541	2,154	2,024	1,902	1,885
Net income	114	408	472	430	408

* Consolidated financial statements

Unit: %

	Jan-Mar 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Profitability					
Net-interest income/average assets	29.59 **	30.02	30.08	28.90	28.30
Net-interest income/total income	79.45	79.33	76.91	72.86	71.76
Operating expenses/total income	55.30	55.69	55.55	56.74	56.05
Operating profit/average assets	5.39 **	5.07	6.49	6.33	5.07
Return on average assets	4.33 **	3.99	5.07	5.09	4.78
Return on average equity	9.10 **	8.40	10.12	9.70	9.79
Asset Quality					
Non-performing loans/total loans	4.55	4.09	4.68	4.76	5.16
Bad debts and doubtful accounts/average loans	10.69 **	10.92	10.05	9.84	11.00
Allowance for doubtful accounts/total loans	6.40	6.04	5.77	6.35	6.61
Allowance for doubtful accounts/non-performing loans	140.77	147.58	123.24	133.58	128.30
Capitalization					
Shareholders' equity/total assets	47.81	47.26	47.77	52.84	52.17
Shareholders' equity/total loans	52.19	49.90	49.57	54.72	55.13
Debt to equity (time)	1.09	1.12	1.09	0.89	0.92
Liquidity					
Short-term borrowings/total liabilities	63.96	44.29	18.64	36.46	55.45
Total loans/total assets	91.60	94.71	96.35	96.56	94.63

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

Thitikorn PLC (TK)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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