

T LEASING CO., LTD.

No. 139/2024
9 August 2024

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Negative

Last Review Date: 17/08/23

Company Rating History:

Date	Rating	Outlook/Alert
28/12/21	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on T Leasing Co., Ltd. (TLS) at “BBB”. The rating incorporates a one-notch enhancement from TLS’s stand-alone credit profile (SACP) assessed at “bbb-”. The enhancement reflects our assessment of TLS’s status as a “strategic” subsidiary of MBK PLC (MBK, rated “A-/Stable”).

At the same time, we revise the rating outlook to “negative” from “stable”. The revision reflects the company’s underperformance due to revenue constraints from the regulatory ceiling on interest rates for motorcycle hire purchase (HP) and increased credit costs from deteriorating asset quality. The outlook may be revised back to stable if earnings and asset quality improve in line with our base-case scenario.

On a stand-alone basis, the rating reflects the company’s strong capital position, adequate funding and liquidity, and moderate business position underpinned by a sound market position in motorcycle HP lending.

KEY RATING CONSIDERATIONS

Continued status as strategic subsidiary of MBK

A one-notch enhancement from the company’s SACP reflects TLS’s status as a “strategic” subsidiary of MBK. TLS is wholly owned by MBK and is controlled through board representatives from MBK. The board of directors of TLS comprises six senior executives from MBK, one independent director, and TLS’s chief executive officer. TLS’s operations and performance are monitored through monthly board meetings.

TLS’s business is integral to MBK group’s strategy to diversify away from its core real estate-related businesses. MBK provides financial support to TLS in the form of capital injections and intercompany loans to support TLS’s business growth. As of March 2024, outstanding loans from MBK to TLS stood at THB 3.8 billion. We believe MBK will continue providing financial support to TLS through credit facilities to fund the company’s growth plan.

Weaker earning capability likely to recover

The company’s performance fell short of expectations, primarily due to the interest rate ceiling implemented in early 2023. Also, the intense competition that led to higher dealer commissions also pressured net yield.

TLS’s net yield declined to 15.3% in 2023 and further dropped to 14.5% in the first quarter of 2024 (1Q24) (annualized and unaudited figures), compared with our projected net yield of 16%-17%. We do not anticipate further erosion of net yield. We therefore estimate net yield to stay around 14%-15% over the next three years. This assumption is based on the observed decline in TLS’s dealer commissions in 2024, driven by easing competition, which should help stabilize the net yield.

In addition to the yield constraint, the increase in credit cost in 2023 weighed on TLS’s profitability. Its earning capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) fell from 2.9% in 2022 to 0.7% in 2023, compared with our base-case projection of about 2% for 2023.

Nevertheless, its EBT/ARWA recovered to 1.1% (annualized and unaudited) in 1Q24, and we expect the ratio to rebound further to 1.5%-1.6% in 2025-2026.

The recovery is expected to be driven by the lower credit cost following gradual improvement in asset and the stabilization of net yield.

Asset quality expected to continue improving

The deterioration in asset quality in 2023 exceeded our expectation, causing credit cost to increase and pressure earnings. Nonetheless, we observe signs of positive development in 1Q24, thanks to continuous efforts to tighten underwriting policy. Non-performing loan (NPL) formation fell to 6.8% in 1Q24 from 8.6% in 2023, resulting in credit cost declining to 7.9% in 1Q24 from 9.1% in 2023. We forecast the credit cost to continue trending downward, potentially falling below 7% in 2025-2026. However, the persistently weak economy and vulnerability of TLS's customer base could pose significant challenges to achieving our forecast. Meanwhile, TLS's strong NPL coverage is viewed favorably. At the end of 1Q24, NPL coverage stood at 283%, and we project it to stay at a similar level over the next two years.

Capital position remains strong

TLS's capital strength, measured by risk adjusted capital (RAC) ratio declined to 21.5% at the end of 2023 from 24.5% at the end of 2022. However, its capital position continues to be assessed as 'strong' and remains a key credit factor supporting the SACP. The decline in the RAC ratio followed the combination of loan expansion and higher dividend payment in 2023. We expect the company's RAC ratio to hover above 19% over the next few years under our base-line assumptions that new lending is likely to decelerate as the company prioritize asset quality over loan growth.

Funding and liquidity support from MBK

TRIS Rating assessed TLS's funding and liquidity as 'adequate'. Our assessment of adequate funding is underpinned by the ongoing financial support from its parent, MBK. At the end of March 2024, TLS had outstanding borrowings with MBK of around THB 3.8 billion, up from THB 2.4 billion at the end of March 2023. The increase in MBK's funding resulted from the company's efforts to reduce costs, as MBK offers lower funding cost compared to financial institutions and debentures. Therefore, TLS will likely rely more on MBK for funding. We believe the company should have sufficient liquidity and financial support from MBK to operate its future business.

Maintain moderate business position

The company maintains its position as one of the top six motorcycle hire purchase operators within TRIS Rating's database. As of March 2024, the company's loan portfolio stood at THB7.7 billion (unaudited), up from THB 6.6 billion at the end of 2022. We expect the growth momentum to slow in the next few years as the company focuses on quality and selectively captures growth opportunities.

In terms of business diversity, TLS has relatively less geographic diversification compared to its peers, with focus mainly on Bangkok and the central region. We do not expect significant improvements in product or geographic diversification as the company's strategy will remain focused on motorcycle hire purchase by partnering with existing dealers, similar to its strategy over the past few years.

Motorcycle HP industry faces reduced profitability and increased risk

The motorcycle loan industry is facing significant challenges due to interest rate caps introduced in early 2023. Motorcycle sales declined by 3.6% in 2023 and contracted by 9.2% in the first five months of 2024. Despite this, outstanding loans from five operators in TRIS Rating's database grew strongly in 2023, driven by high loan-to-value ratios and reduced lending by major operators. In 2024, loan growth slowed as lenders tightened the approval processes due to lower yields and concerns over borrower repayment abilities. The industry's profitability has also sharply decreased, with average return on assets falling to below 2% from 5%-6%. Moving forward, we expect further tightening of underwriting criteria, which is likely to slow down sales and lending further.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2024-2026 are:

- Outstanding portfolio to grow around 3%-5% per annum.
- RAC ratio to remain above 19%.
- Net loan yield¹ to remain around 14%-15%.
- Credit cost to be around 6%-7%.
- Operating expense to total income ratio to be at 38%.

¹ Net loan yield = Gross yield – Commission expenses

RATING OUTLOOK

The “negative” outlook reflects the weaker-than-expected earnings capacity, measured by earnings before tax to average risk weighted assets (EBT/ARWA), compared with our base-case projection. The outlook is also based on our view that there is downside risk on earnings capacity with EBT/ARWA likely to stay below 1.5% in the near term.

RATING SENSITIVITIES

A rating upgrade is unlikely in the medium term. However, the outlook may be revised back to stable if earnings capacity and asset quality improve in line with our base-case scenario, while the company maintains market position and strong capital.

The rating could be downgraded if asset quality and/or market position weaken materially or capital strength, measured by RAC ratio, drops below 15% on a prolonged basis, or TLS’s earnings capacity fails to improve or deteriorates further, with EBT/ARWA falling below 1.5% on a sustained basis.

Also, the rating could be downgraded if the credit profile of MBK deteriorates such that it leads to a multiple-notch downgrade of MBK’s rating, or TRIS Rating views the degree of importance of TLS to MBK has weakened.

COMPANY OVERVIEW

TLS was established in 1993 under the name Thanachart Leasing 2000. The company initially offered motorcycle hire purchase loans to customers in the Bangkok metropolitan area. The company was formerly owned by TBANK which later divested its shares to MBK. Since the divestiture, the company has become fully owned by MBK. In 2008, the company changed its name to T-Leasing.

In May 2018, MBK injected THB500 million in capital into the company followed by a further THB2.5 billion in December 2019, bringing the total shares in the company to 349.99 million. The two capital injections increased the total paid-up capital to THB3.5 billion, from THB500 million. In December 2021, the company decreased its capital by THB1.1 billion in 2021, lowering the capital to THB2.4 billion.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2023	2022	2021	2020	2019
Total assets	7,394	6,566	6,887	7,249	7,838
Total loans	7,458	6,637	6,894	7,372	7,670
Allowance for expected credit loss	521	491	490	678	384
Short-term debts	1,011	1,511	2,025	2,846	3,620
Long-term debts	3,042	1,656	1,849	97	24
Shareholders' equity	3,067	3,105	2,795	4,061	3,956
Net interest income	946	1,109	1,205	1,131	858
Expected credit loss	640	497	504	693	555
Non-interest income	349	359	251	296	244
Operating expenses	561	595	439	418	446
Earnings before taxes	95	375	512	316	100
Net income	73	287	443	266	85

* Consolidated financial statements

Unit: %

	Year Ended 31 December				
	2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	13.55	16.49	17.04	15.00	11.73
Non-interest income/average assets	5.00	5.33	3.55	3.92	3.33
Operating expenses/total income	39.28	37.55	28.15	26.10	29.36
Operating profit/average assets	1.35	5.58	7.25	4.19	1.37
Earnings before taxes/average risk-weighted assets	0.70	2.91	3.79	2.18	0.71
Return on average assets	1.05	4.27	6.60	3.52	1.17
Return on average equity	2.38	9.70	13.56	6.63	3.25
Asset Quality					
Non-performing loans/total loans	2.82	3.20	2.93	5.38	4.67
Expected credit loss/average loans	9.08	7.34	7.07	9.16	7.66
Allowance for expected credit loss/non-performing loans	247.82	230.96	242.77	171.02	105.98
Capitalization					
Risk-adjusted capital ratio	21.49	24.53	21.30	29.31	26.13
Debt/equity (time)	1.41	1.11	1.46	0.78	0.98
Liquidity					
Stable funding ratio	154.06	148.86	139.51	116.88	98.18
Liquidity coverage measure (times)	0.08	0.05	0.04	0.04	0.02
Short-term debts/total liabilities	23.25	43.68	49.75	89.27	93.24

* Consolidated financial statements

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022

T Leasing Co., Ltd. (TLS)

Company Rating:	BBB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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