

BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

No. 24/2021
11 March 2021

FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 27/10/20

Company Rating History:

Date	Rating	Outlook/Alert
17/02/20	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Commercial Assets Management PLC (BAM) and the ratings on BAM's outstanding senior unsecured debentures at "A-" with a "stable" outlook. At the same time, TRIS Rating assigns the rating of "A-" to BAM's proposed issue of up to THB15 billion in senior unsecured debentures due within nine years. The ratings reflect the company's expertise and dominant market position in the distressed asset management industry. The ratings also take into account BAM's moderate leverage, moderate earnings capability, and well diversified funding sources.

Those strengths are partly offset by the risk factors, primarily pricing risk, macro risk and concentration risk, related to its real estate exposure. Nonetheless, we believe BAM's expertise in asset pricing and diversification in terms of type and location of assets help mitigate such risk to a large extent.

KEY RATING CONSIDERATIONS

Largest and experienced distressed asset manager

BAM's rating is premised on the company's strong business position. BAM has a solid market position as the largest distressed asset manager with expertise in secured assets. Its top market position is secured by its strong relationships with various banks. Years of experience in asset pricing and valuation as well as an extensive database support the company in term of asset selection and optimal pricing. At the end of 2020, the company's total assets amounted to THB132 billion, equivalent to a 54% market share among distressed asset management companies in Thailand. Its gross managed assets included non-performing loans (NPLs) of THB85.9 billion, foreclosed properties (referred to as non-performing assets, NPAs) of THB36.6 billion and instalment sale receivables of THB2.5 billion. We expect the company to slowly expand its NPL portfolio by around 3% per year.

Financial leverage remains moderate

BAM's leverage, as measured by the debt to equity (D/E) ratio is considered moderate. At the end of 2020, its D/E ratio stood at 2.16 times, an increase from 1.91 times in 2019. We expect the company to maintain its D/E ratio below 2.5 times over the next three years as its loan covenant limits D/E at 3 times. Moreover, the cash collections of THB14-17 billion per year should help contain its D/E ratio as the cash inflows can be used to purchase new assets, reducing the need to raise new debts.

Gradual recovery in performance expected

BAM's earnings in 2020 have been impacted by the Coronavirus Disease 2019 (COVID-19). The city lockdown and the closure of the Legal Execution Department in April-May 2020 led to a significant drop in NPA sale and NPL settlement transactions. Additionally, BAM also provided a debt moratorium program for its debtors during April-August 2020 as the weak economy has hampered the debt serviceability of its debtors. These factors combined to cause revenue and cash collection from NPLs and NPAs to decline in 2020. Nonetheless, BAM still managed to report total cash collections of THB13.1 billion, close to its normal annual level of THB14-17 billion seen in 2016-2018.

In 2020, revenue from NPLs (interest income and gain from NPLs) excluding accrued interest contracted by 47% year-on-year (y-o-y) to THB4.8 billion.

Apart from the impact of COVID-19, the large drop in revenue partly attributed to the extra revenue from one large debt settlement of around THB5.3 billion in 2019. If this large settlement is excluded, the revenue from NPLs (excluding accrued interest) would have fallen by 19%. Meanwhile, revenue from NPAs (gain from properties for sale, interest income and gain from instalment receivables) decreased by 19% y-o-y to THB2.5 billion.

We believe the worst has passed for BAM as there has already been some recovery in revenues in the fourth quarter of 2020, especially from NPA sales, thanks to the company's pricing strategy and promotional campaigns. We expect the improvement to continue in 2021 as the debt relief program and the partial city lockdown have already ended. However, revenue and cash collection from NPLs could take another year to return to the normal level as the economy remains relatively fragile. As for NPAs, we expect sales momentum to pick up as investors' risk appetite gradually improves.

Diversified funding sources with financial flexibility

BAM has diverse and stable funding from various financial institutions, most of which are banks that sell NPLs to BAM. Although the assets being financed are largely illiquid, most of the borrowings are long-term. The company has about THB45 billion in long-term committed credit lines from financial institutions. As of December 2020, outstanding promissory notes (P/N) stood at about THB5.5 billion. The company also has about THB11 billion in short-term credit lines, 68% of which remained unused as of December 2020. In addition, BAM has access to the capital market in which it has been a frequent bond issuer. As of December 2020, outstanding bonds amounted to THB70 billion.

Adequate liquidity

The company had THB7.6 billion in unused short-term credit facilities from banks as of December 2020. BAM has no major asset-liability mismatch issues. As of December 2020, roughly 97% of total debt obligations were long-term, with an average duration of six years compared to an average duration of six to eight years for its assets. The company has the remaining debt obligations of approximately THB13 billion that will mature within December 2021, THB4 billion of which are debentures obligations. We expect the obligations will be repaid with cash collection from NPL and NPA management and bond issuance.

Risk from high exposure to property sector mitigated by diversification

BAM is exposed to concentration risk due to its exposure to the property sector, as the collaterals securing NPLs that the company invests in comprise mainly properties. Therefore, the condition of the property market tends to have a direct impact on BAM's financial performance as it affects property prices and the ability to sell enforced properties. Nonetheless, we believe the company's diversification in terms of type and location of enforced properties should help mitigate this risk to some extent. As of December 2020, 22% of properties were land and 33% were single detached houses (cost basis), while the remainder was well spread out across various property types. In terms of location, about 44% of properties are located in Bangkok and its vicinity, and 17% in the central region. The remainder is spread out across different regions. Moreover, BAM reappraises its property values annually, which helps align its asset prices closely to the market.

Distressed asset management continues grow

The influx of NPLs into the market over the past five years has provided an opportunity for distressed asset management companies (DAMCs) to acquire more distressed assets. The number of DAMCs has also increased from 39 companies at the end of 2015 to 54 at the end of 2020. Aggregate assets of DAMCs have also expanded at a compound annual growth rate (CAGR) of 9.69% in 2015-2020. The COVID-19 that has negatively impacted the Thai economy and resulted in non-performing loans (NPLs) of financial institutions (including Thai and foreign commercial banks and finance companies) rising from THB465 billion at the end of 2019 to THB523 billion at the end of 2020. NPL ratio increased from 2.98% at the end of 2019 to 3.12% at the end of 2020. While the asset warehousing concept could lead to lower amount of distressed assets to be divested, we expect there are still vast opportunities for DAMCs to expand their assets.

BASECASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2021-2023 are:

- New NPL investments of THB10-13 billion per year
- D/E ratio to remain below 2.5 times.
- Total cash collection of THB15-17 billion per year
- Funding cost of about 3%
- Operating expense to total income ratio of around 32%.

RATING OUTLOOK

The “stable” outlook is based on TRIS Rating’s expectation that BAM will maintain its strong financial performance and moderate financial leverage.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if financial performance improves steadily, while the D/E ratio falls below 1.5 times for a sustained period.

The rating and/or outlook could be revised downward if leverage increases significantly due to aggressive expansion, with D/E rising above 2.75 times for a sustained period or a sustained deterioration in financial performance.

COMPANY OVERVIEW

On 7 January 1999, BAM was founded under the MOF Financial Institutional Development plan to acquire and manage non-performing assets from the Bangkok Bank of Commerce (BBC). In 2002, BAM was approved by the BOT to register as a limited company and expanded its scope to manage non-performing assets of other financial institutions under the Financial Institution Asset Management Decree (2001).

In 2005 under a cabinet resolution, BAM merged with Financial Institution Asset Management Corporation (AMC). As a result, BAM received the transfer of AMC’s distressed assets portfolio including NPLs and NPAs as well as the personnel of AMC. The combined resources enhanced the scale and efficiency of BAM’s business in terms of customer reach, with 25 branches and over 1,200 staff.

In 2012, the privatization of BAM was a result of the FIDF’s strategic initiative approved by the Ministry of Finance (MOF). The privatization was completed in late 2019 with a reduction of the FIDF shareholding to 46% from 100%.

BAM’s core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, transferred from NPLs or acquired from financial institutions. BAM’s business is counter-cyclical in nature, acquiring large amount of distressed assets during economic downturns and turning those assets into high-margin income during economic upcycles. The business is capital intensive due to long breakeven periods of around 5-7 years.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	132,070	119,919	107,653	99,933	93,637
Total managed assets	106,532	101,923	96,738	91,262	86,531
Loan purchased – net	77,726	77,375	75,434	72,886	69,887
Properties foreclosed – net	28,078	23,899	20,596	17,735	15,082
Total borrowings	87,421	75,688	57,709	56,868	50,329
Short-term borrowings	22,537	20,245	19,059	18,147	25,721
Long-term borrowings	64,884	55,443	38,650	38,722	24,608
Shareholder’s equity	41,797	41,196	41,849	41,059	40,523
Total revenue	12,444	12,236	9,751	7,626	8,763
Interest expenses	2,391	2,132	1,769	1,622	1,244
Operating expenses	2,658	3,757	2,935	2,520	2,582
Net income	1,840	10,679	5,202	4,501	4,904

Unit: %

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Profitability					
Operating income/average assets	7.98	8.88	7.69	6.20	8.58
Operating income/total income	80.79	82.57	81.85	78.73	85.80
Operating profit/average assets	5.87	5.58	4.86	3.60	5.63
Earnings before tax/ average assets	1.74	5.46	5.02	4.66	5.61
Return on average assets	1.46	9.39	5.01	4.65	5.60
Return on average equity	4.43	25.72	12.55	11.03	13.13
Capitalization					
Debt/equity (times)	2.16	1.91	1.57	1.43	1.31
Shareholders' equity/total managed assets	32.1	35.0	38.0	39.4	40.6
Funding and Liquidity					
Stable funding ratio	86.94	87.61	76.65	79.93	67.26
Liquidity coverage measure (times)	0.36	0.07	0.06	0.07	0.07
Short-term borrowings/total liabilities	24.97	25.72	28.96	30.82	48.43
Total managed assets/total assets	80.66	84.99	89.86	91.32	92.41
Operating efficiency					
Operating expenses /operating income	26.44	37.19	36.77	41.97	34.347
NPL Cash collection to net NPL	10.83	18.40	14.55	12.83	13.32
NPA Cash collection to net NPA	17.97	24.75	29.12	24.88	31.83

RELATED CRITERIA

- Nonbank Financial Institutions, 17 February 2020

Bangkok Commercial Asset Management PLC (BAM)

Company Rating:	A-
Issue Ratings:	
BAM216A: THB3,000 million senior unsecured debentures due 2021	A-
BAM219A: THB1,000 million senior unsecured debentures due 2021	A-
BAM226A: THB1,400 million senior unsecured debentures due 2022	A-
BAM227A: THB3,000 million senior unsecured debentures due 2022	A-
BAM235A: THB4,050 million senior unsecured debentures due 2023	A-
BAM239A: THB3,800 million senior unsecured debentures due 2023	A-
BAM23DA: THB1,100 million senior unsecured debentures due 2023	A-
BAM246A: THB1,400 million senior unsecured debentures due 2024	A-
BAM247A: THB4,500 million senior unsecured debentures due 2024	A-
BAM256A: THB370 million senior unsecured debentures due 2025	A-
BAM259A: THB3,200 million senior unsecured debentures due 2025	A-
BAM25NA: THB5,370 million senior unsecured debentures due 2025	A-
BAM276A: THB1,500 million senior unsecured debentures due 2027	A-
BAM279A: THB5,000 million senior unsecured debentures due 2027	A-
BAM286A: THB2,400 million senior unsecured debentures due 2028	A-
BAM297A: THB5,000 million senior unsecured debentures due 2029	A-
BAM30NA: THB580 million senior unsecured debentures due 2030	A-
BAM317A: THB3,500 million senior unsecured debentures due 2031	A-
BAM347A: THB1,000 million senior unsecured debentures due 2034	A-
Up to THB15,000 million senior unsecured debentures due within 9 years	A-
Rating Outlook:	Stable

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