

MUANGTHAI CAPITAL PCL

No. 78/2020
29 May 2020

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 30/04/20

Company Rating History:

Date	Rating	Outlook/Alert
30/04/19	BBB+	Stable
19/08/15	BBB	Stable

Contacts:

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Muangthai Capital PCL (MTC) and the rating on its outstanding senior unsecured debentures at “BBB+” with a “stable” outlook. The ratings reflect the company’s leading market position in the title loan business and strong capital and leverage. The ratings also take into account healthy earnings and relatively stable asset quality, as well as a diversified funding and adequate liquidity profile. The ratings are, however, constrained by potential adverse impacts on its asset quality and financials from the coronavirus (COVID-19) pandemic, which has induced severe economic downturn.

KEY RATING CONSIDERATIONS

Leading market position in title loans

The company’s market position in the title loan business is expected to remain strong over the medium term. We believe that the company will continue to leverage on its expertise in this niche market and keep expanding its branch network as well as client base. At the end of March 2020, the company’s outstanding loans increased by 24% year-on-year (y-o-y) to Bt62.7 billion. The company also opened over 800 additional branches over the past year in an effort to cover a wider region and expand its client base. The number of branches reached 4,294 at the end of March 2020, from 3,279 at the end of 2018. The company targets 4,700 branches by the end of 2020.

Strong capital, leverage, and earnings assessment to maintain

The company’s capitalization is expected to remain strong over the next few years with a 5-year average risk-adjusted capital ratio (RAC) of around 24%. We expect the company’s consistent capital accretion from its ongoing profitability and conservative dividend policy to continue to strengthen its capital base. Therefore, we expect the company to be able to comply with its debt covenants which limit the debt to equity ratio (D/E) to below 4 times. We project its D/E ratio at around 3 times over the next few years. At the end of March 2020, the company’s RAC ratio and debt-to-equity ratio were 22.7% and 2.9 times, respectively.

The company’s adequate earning capability should continue to support its strong capital, leverage, and earnings assessment. We expect the impact on its revenues and earnings in 2020 to be limited despite the company’s debt relief measures amid the pandemic. We estimate its five-year average ratio of earnings before taxes to average risk-weighted assets (EBT/ARWAs) to stay around 7.9%. The company should be able to largely sustain its profitability over the next few years by effectively managing its funding costs and operating expenses.

Asset quality to remain sound

We anticipate a decline in asset quality, resulting from a sluggish economy induced by the COVID-19 pandemic. Nonetheless, we assess the weaker asset quality to be manageable and to have limited impact on the company’s risk profile. We expect the company to maintain its prudent credit policies and efficient debt collection processes that should help control potential credit losses. The company anticipates approximately 10% of its total loan portfolio to be directly impacted by the economic disruption caused by the pandemic. These mainly include factory workers and tourism-related employees. Nonetheless, we believe that the company will be able to achieve its target of

below 2% for its non-performing loans (NPL, loans more than 90 days past due) ratio. At the end of March 2020, the company's NPL ratio slightly increased to 1.2%, from 1.0% in 2019, partly due to a change in the Thai Financial Reporting Standard 9 (TFRS9) of loan staging. Nonetheless, this NPL level is considered low compared with peers in the same industry.

We also anticipate the company to maintain its conservative loan loss provisioning policies with an NPL coverage ratio at around its target of 200% during the next few years. At the end of March 2020, the company's NPL coverage ratio fell to 201% from 275% in 2019, due to a reversal of excess loan loss reserves from the first-time adoption of TFRS9.

Adequate funding and liquidity profile

We assess the company to have adequate funding and liquidity position over the next 12 months. The assessment takes into account its strong stable funding ratio (SFR) of 169% despite a weak liquidity coverage metric (LCM) of 0.1 times on a 2-year average. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provides a variety of available funding sources that help enhance its funding and liquidity profile. At the end of March 2020, the company had available credit facilities from various financial institutions totaling Bt17 billion, 50% of which were undrawn. The company is also eligible for soft loans to be provided by the Government Savings Bank to help support its debt relief measures. The funding should help alleviate any potential stress on its cash flows and mitigate the yield impact.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MTC's operations in 2020-2022 are as follows:

- Outstanding portfolio to grow by 15%-20%
- Interest spread to maintain around 18%
- NPL ratio to remain below 2%
- NPL coverage ratio to remain around 200%

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that MTC will maintain its market position, deliver satisfactory performance, control the quality of the loan portfolio, and keep its risk-adjusted capital at an acceptable level.

RATING SENSITIVITIES

The upside case for the rating and/or outlook is limited in the near term. However, the rating and/or outlook could be strengthened if the risk-adjusted capital ratio rises well above 25%, while financial performance remains strong with the ratio of earning before tax to risk-weighted assets above 8% for a sustained period. On the contrary, the rating and/or outlook could be revised downward should loan quality or profitability deteriorates, leading to a significantly weaker capital position and heightened refinancing risk or liquidity risk.

COMPANY OVERVIEW

Muangthai Capital PCL was formerly named D.S. Leasing Co., Ltd. and later changed to Muangthai Leasing PCL. The company was founded by Mr. Chuchat Petaumpai and Mrs. Daonapa Petumpai and registered on 22 May 1992. At the beginning, the company had registered capital of Bt2 million with its main operations offering hire purchase loans to both new and used motorcycles through dealers in Phisanulok and other provinces in the lower northern region, such as Sukhothai, Kamphaeng Phet, and Pichit. Target customers were people with regular incomes, farmers, and self-employed individuals. The company then expanded its product lines and started offering vehicle title loans, automobile title loans, and agricultural vehicle title loans to serve different groups of customers.

In August 2001, the company's name was changed to Muangthai Leasing Co., Ltd. The company then discontinued its hire purchase business due to the highly-competitive market, as many motorcycle manufacturers and dealers started offering hire purchase loans to their customers.

In 2006, the company submitted an application to launch its microfinance business under the supervision of the Bank of Thailand. On 31 August 2006, the company received a license certificate from the Ministry of Finance and has since provided microfinance services through its own branches since.

After receiving approval from the Ministry of Finance on 26 May 2015, the company extended its product lines to meet different needs of its customers, such as nano-finance loans (retail loans for microenterprises under the BOT's supervision) and land title loans.

In 2016, the company offered different loan payment channels via counter service or automatic payment machines and added more channels for customers through Big C, Tesco Lotus, and AirPay in 2017.

On 26 April 2018, the company changed its name from Muangthai Leasing PCL (MTLS) to Muangthai Capital PCL (MTC). The company also launched a mobile application "Muangthai Capital 4.0" for iOS and Android systems in 2018. In 2019, MTC launched a new credit product called "new motorcycle hire and purchase" in order to expand and strengthen its customer base.

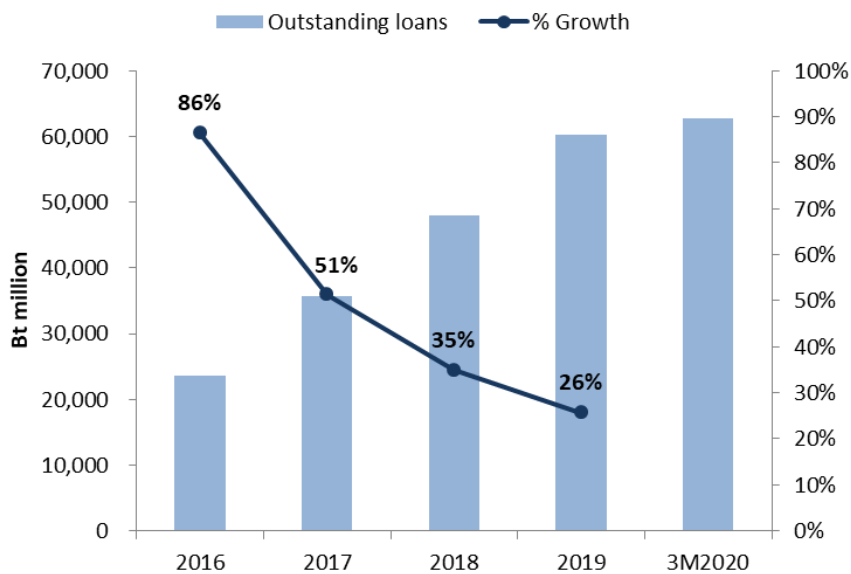
Chart 1: Group Structure



Source: MTC

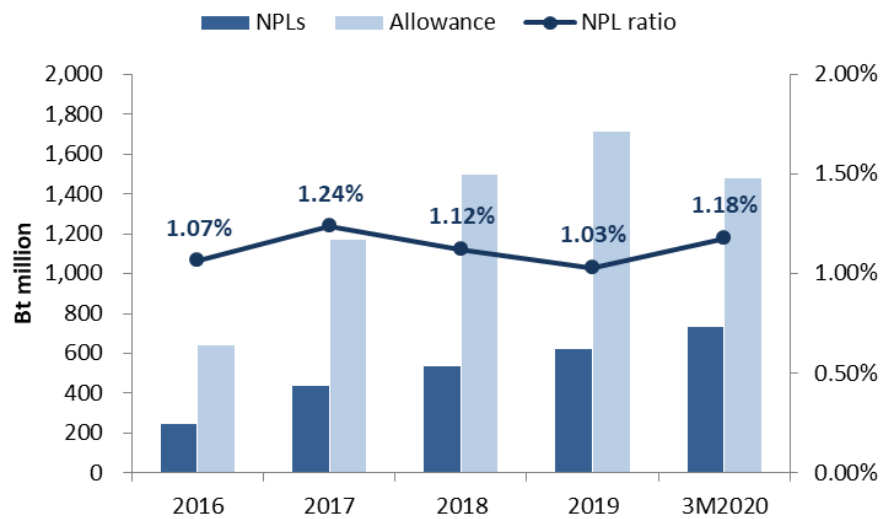
KEY OPERATING PERFORMANCE

Chart 1: Outstanding loans



Source: MTC

Chart 2: Asset quality



Source: MTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS****

Unit: Bt million

	Jan-Mar 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total assets	68,013	61,872	49,146	36,953	24,426
Total loans (ending gross receivables)	62,674	60,338	48,047	35,623	23,541
Allowance for doubtful accounts***	1,484	1,715	1,499	1,171	646
Short-term borrowings	18,109	14,689	11,042	10,482	12,650
Long-term borrowings	30,781	29,494	24,463	16,619	4,599
Shareholders' equity	17,339	15,972	12,299	8,943	6,692
Net interest income	2,900	10,353	8,444	6,122	3,691
Provision for bad debt and doubtful accounts**	62	554	586	679	332
Non-interest income	208	808	872	676	453
Operating expenses	1,491	5,314	4,103	3,013	2,000
Earnings before taxes	1,554	5,293	4,627	3,106	1,812
Net income	1,237	4,237	3,713	2,501	1,464

Unit: %

	Jan-Mar 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Profitability					
Net interest and dividend income/average assets	17.86	18.65	19.61	19.95	19.68
Fees and services income/average assets	1.17 *	1.30	1.85	2.09	2.33
Operating expenses/total income	42.13	41.88	39.39	40.32	44.72
Operating profit/average assets	9.57	9.54	10.75	10.12	9.66
Earnings before taxes/average risk-weighted assets	8.15 *	8.46	9.74	9.48	9.24
Return on average assets	7.62	7.63	8.63	8.15	7.81
Return on average equity	29.72	29.98	34.96	31.99	23.72
Asset Quality					
Non-performing loans/total loans	1.18	1.03	1.12	1.24	1.07
Provision for bad debts and doubtful accounts**/average loans	0.41 *	1.02	1.40	2.30	1.83
Allowance for doubtful accounts***/total loans	2.37	2.84	3.12	3.29	2.74
Capitalization					
Risk-adjusted capital ratio	22.73	22.81	22.31	22.44	26.09
Debt/equity (times)	2.92	2.87	3.00	3.13	2.65
Funding and Liquidity					
Stable funding ratio	157.5	173.4	186.4	184.4	132.3
Liquidity coverage measure (times)	0.05	0.05	0.08	0.11	0.04
Short-term borrowings/total borrowings	37.04	33.25	31.10	38.68	73.34

* Annualized

** Expected credit losses under TFRS 9

*** Allowance for impairment losses under TFRS 9

**** Consolidated financial statement

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Muangthai Capital PCL (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC217A: Bt1,200 million senior unsecured debentures due 2021	BBB+
MTC222A: Bt1,650.30 million senior unsecured debentures due 2022	BBB+
MTC227B: Bt2,043.30 million senior unsecured debentures due 2022	BBB+
MTC22NB: Bt2,349.70 million senior unsecured debentures due 2022	BBB+
MTC237A: Bt1,756.70 million senior unsecured debentures due 2023	BBB+
Up to Bt6,000 million senior unsecured debentures due within 4 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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