TRIS RATING
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CreditNews ข่าวเครดิต

PHATRA LEASING PLC

No. 113/2018
3 August 2018

CORPORATES

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

Company Rating History:

Date	Rating	Outlook/Alert
25/07/13	A-	Stable
30/03/11	A-	Positive
09/08/05	A-	Stable
12/07/04	BBB+	Stable
10/10/02	BBB+	-
23/08/00	BBB	-

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RATIONALE

TRIS Rating affirms the company rating on Phatra Leasing PLC (PL) and the ratings on PL's existing senior unsecured debentures at "A-". At the same time, TRIS Rating assigns the rating to PL's proposed issue of up to Bt500 million in senior unsecured debentures at "A-". The ratings reflect the company's leading market position in the automobile operating lease market segment, moderate asset quality and profitability, acceptable leverage, and a well-matched asset-liability structure. However, the ratings are pressured by PL's weakened profitability.

KEY RATING CONSIDERATIONS

Leading market position in automobile operating leases

We expect that PL will remain a leading provider of operating lease for autos in the next few years as we believe that the company will continue securing a sizable client base supported by its strong market reputation and comprehensive range of services. PL remains the largest of 30 large auto lease providers included in TRIS Rating's database. As of March 2018, the company served more than 1,300 clients and had the total assets tied to its operating lease business of Bt9,567 million at the end of 2017.

Improving asset quality

We believe that PL will be able to lower its non-performing loan (NPL) ratio from the current level, based on its stricter credit underwriting policies for new accounts. We also expect provision expenses will remain similar to the level in 2017, given the tightened credit policies. The company set aside Bt13 million for provisions in 2017, a sharp decline from the Bt157 million set aside in 2016.

Profitability under pressure

PL's return on average assets (ROAA) has improved steadily over the past few years to 1.7% in 2017 from 1.3% in 2015 due to lower provisions and tax benefits, but ROAA could weaken from the current level due to persistent pressure on gross margin of the operating lease (OL) business, which accounts for about 80.0% of PL's total portfolio. We also expect PL's funding cost to increase gradually in the next few years due to potential rise in interest rates.

To retain its current levels of gross margin and profitability, management intends to diversify its portfolio to other higher-yield assets, earn additional profits from short-term rentals of vehicles from expired contracts, and sell vehicles directly through the retail sales channel. However, we expect PL's profitability improvement to be gradual as it is likely to take time to diversify its portfolio.

Leverage to remain at acceptable level

We expect PL's leverage to remain at a moderate level, with debt to equity (D/E) ratio in the range of 3-4 times in 2018F-2020F. The company's debt to equity ratio continued to fall to 3.16 times at the end of March 2018 from 3.30 times at the end of 2017. This is a significant improvement from 4.80 times in 2014 as a result of a capital injection through rights offerings in 2015.

The current D/E is well below the financial covenant (7 times) of the debentures issued by the company. PL's ratio of debt to total capitalization also declined to 76.0% at end of March 2018 from 76.9% in 2017 as borrowings decreased while capital accretion from stable profitability continued. We anticipate that PL's capital base will remain adequate for its future business expansion.

Liquidity protection from a well-matched asset liability structure

PL's well-matched asset liability structure should help it guard against liquidity risk as the company has managed the duration of its debts by borrowing through long-term loans to match the lengths of its lease contracts, which mostly are three to four years. At the end of March 2018, the company's ratio of short-term borrowings to total debt was 34.7%, lower than 36.2% in 2017. In addition, PL's financial flexibility is considered sufficient as the company also has credit facilities from various local financial institutions and an access to both equity and debt capital markets.

RATING OUTLOOK

The "stable" outlook is based on the expectation that PL will maintain its leading market position. The profitability is expected to gradually improve from the maintenance of good portfolio and the control of the impact from losses on sales of assets for lease.

RATING SENSITIVITIES

The ratings could be revised upward if PL could deliver a stronger financial profile on a sustainable basis while also maintaining its market leading position. On the contrary, the ratings could be revised downward if PL's financial profile deteriorates significantly driven by persistent decline in gross margin.

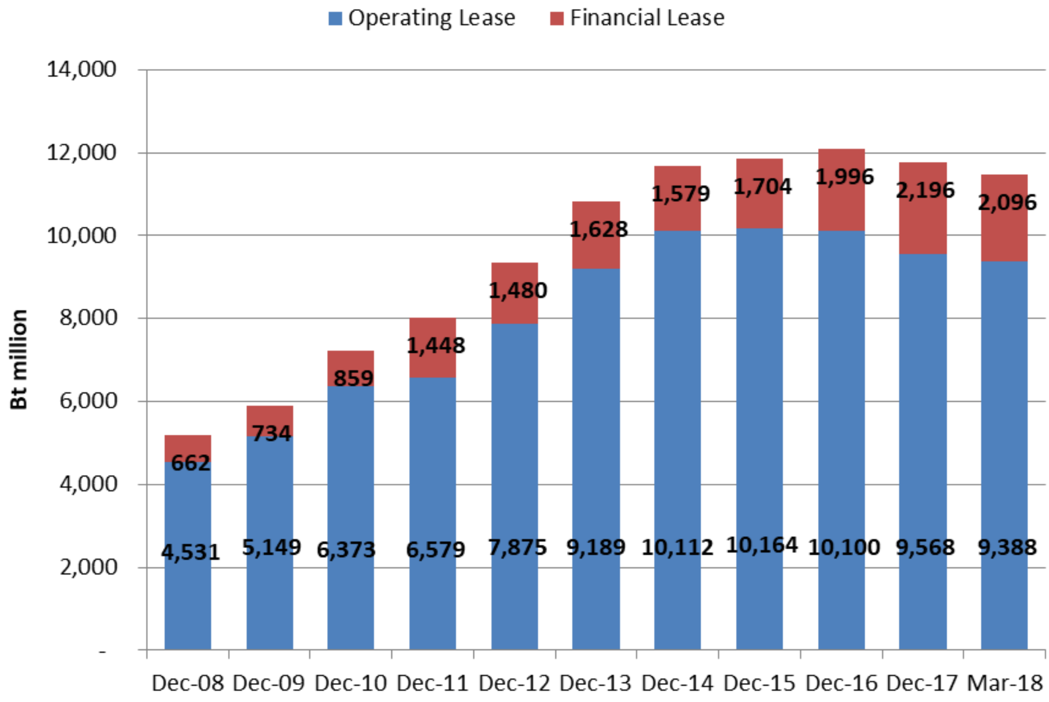
COMPANY OVERVIEW

PL was established in 1987 by the Lamsam family to offer automobile leases. In 1996, PL was listed on the Stock Exchange of Thailand (SET) after it increased its paid-up capital to Bt300 million. PL's shares were mainly held by KASIKORNBANK PLC (KBANK), Muang Thai Life Assurance PLC (MTL), Phatra Insurance PLC, and the Lamsam family. KBANK's stake was gradually reduced to 8.5% in 2006 before it sold all of its shares to MTL in January 2007. As a result, PL's shareholder structure changed, and MTL became the largest shareholder. Currently, the Muang Thai Group, which comprises MTL, Muang Thai Insurance PLC, and Muang Thai Holding Co., Ltd., holds 25.9% of PL's shares. In June 2015, PL raised Bt149 million in new equity capital through a rights offering. As a result, PL's equity capital increased from Bt447 million at the end of 2014 to Bt596 million at the end of June 2015.

PL focuses on the automobile operating lease segment, targeting corporate clients. The company currently provides long-term operating leases for various types of vehicles, including sedans, pick-up trucks, luxury cars, and multi-purpose vehicles. More and more corporations have decided to outsource automobile fleet maintenance, which has helped PL expand its operating lease fleet.

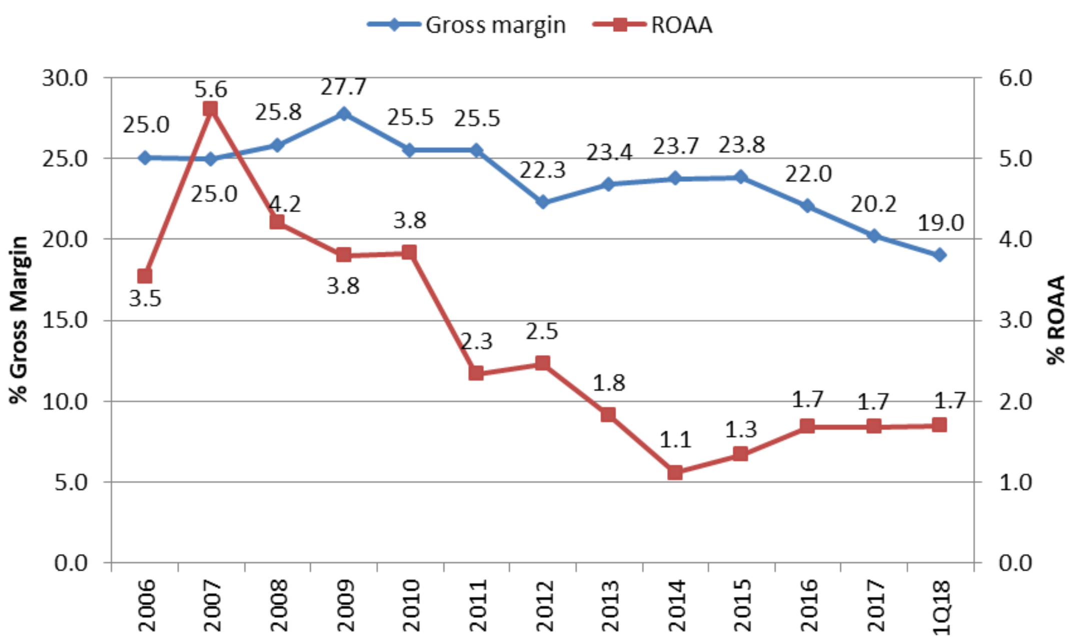
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Net Assets for Lease and Financial Lease Receivables



Source: PL

Chart 2: Return on Average Assets (ROAA) and Gross Margin



Source: PL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2018	---------------- Year Ended 31 December ---------- 2017	2016	2015	2014
Total assets	12,867	13,211	13,230	12,912	12,593
Short-term borrowings	3,197	3,455	4,230	3,696	3,710
Long-term borrowings	6,018	6,095	5,664	5,942	6,340
Shareholders' equity	2,916	2,862	2,752	2,640	2,094
Total income*	686	2,840	3,086	3,028	2,941
Gains (Loss) from sales of assets for lease	0	(11)	63	(16)	(21)
Operating expenses	67	265	420	235	226
Net income	54	222	220	171	140
Funds from operations (FFO)	377	1,727	1,956	2,005	1,896
Return on average assets (%)	1.70 ****	1.68	1.68	1.34	1.14
Return on average equity (%)	7.68 ****	7.90	8.17	7.22	6.70
Operating expenses/total income* (%)	9.77	9.32	13.62	7.73	7.70
Operating income before depreciation and amortization as % of sales (%)	74.90	76.29	72.99	79.17	79.29
Pretax return on permanent capital (%)	3.54 ****	3.60	3.44	5.31	4.83
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.90	7.60	7.02	6.51	5.93
FFO/total debt** (%)	16.38	18.08	19.77	20.80	18.86
Total borrowings/capitalization (%)	75.96	76.94	78.24	78.50	82.76
Short-term borrowings/total borrowings (%)	34.69	36.18	42.75	38.35	36.92
Debt***/equity (times)	3.41	3.62	3.81	3.89	5.01

*Note: * Total income = total income deducted by cost of sale of assets under operating lease contracts*
*** Total debt = interest bearing debt*
**** Debt = total liabilities*
***** Trailing 12 months*

Phatra Leasing PLC (PL)

Company Rating:	A-
Issue Ratings:	
PL18OA: Bt450 million senior unsecured debentures due 2018	A-
PL191A: Bt500 million senior unsecured debentures due 2019	A-
PL195A: Bt700 million senior unsecured debentures due 2019	A-
PL198A: Bt500 million senior unsecured debentures due 2019	A-
PL209A: Bt500 million senior unsecured debentures due 2020	A-
PL212A: Bt500 million senior unsecured debentures due 2021	A-
PL232A: Bt200 million senior unsecured debentures due 2023	A-
Up to Bt500 million senior unsecured debentures due within 3 years and 3 months	A-
Rating Outlook:	Stable

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