PHATRA LEASING PLC

No. 123/2019
7 August 2019

CORPORATES

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

Last Review Date: 03/08/18

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 outstanding senior unsecured debentures at "A-". The rating outlook is revised to "negative" from "stable".

The ratings assigned reflect the company's leading market position in the automobile operating lease market segment, continuously improving asset quality, acceptable level of leverage, and a well-matched asset-liability structure. The outlook revision reflects the company's weakened cash flow protection and profitability.

KEY RATING CONSIDERATIONS

Leading market position in automobile operating leases

We expect that PL will maintain its leading market position as an operating lease provider for autos in the next few years as we believe that the company will continue to secure sizable client base, especially from big corporates, supported by the company's reputable brand and comprehensive range of services. PL remains one of the largest of auto lease providers according to TRIS Rating's database. As of March 2019, the company served more than 1,400 clients, with 78 clients added over the past year, with total operating lease assets of Bt10.18 billion at the end of 2018.

Asset quality improves steadily

We expect PL's non-performing loan (NPL) ratio, which reflects receivables that are 90-days past due, to continue to decline over the next few years , thanks to tightened credit underwriting policies for new lease contracts, which includes using additional credit information from the National Credit Bureau (NCB) for clients' credit assessment. The company's NPL ratio declined steadily to 1.4% at the end of March 2019 from 1.9% at the end of 2017, also partly due to the bad debt recovery of its major client. The improved underwriting should help to limit the risk of customer defaults and bad debts over the next few years. We expect bad debt provisions to remain relatively steady in the medium term.

Leverage to maintain at acceptable level

We expect PL's leverage to remain at a moderate level. The ratio of adjusted debt to total capitalization has remained relatively stable over the past few years at 77.3% at the end of March 2019. This is despite a slight increase in borrowings in 2018 and the first quarter of 2019 (Q1/2019) and declining profitability. In terms of equity base, we believe that PL's capital is strong enough to support its future business expansion. We estimate its debt to equity (D/E) ratio to be in the range of 3-4 times in 2019-2021. The company's D/E ratio stayed at 3.4 times at the end of March 2019, similar to the level seen in 2017 and 2018 and well below its bond covenant of 7 times. This was an improvement from 4.8 times in 2014 following a rights offering in 2015.

A well-matched asset liability structure

PL has a well-matched asset liability structure that should help to mitigate liquidity risks. The company has managed the duration of its debts to match the tenors of its lease contracts, which are mostly three to four years by using long-term borrowings as its main source of funds. The company's ratio of short-term borrowings to total debt was 42.2% at the end of March 2019. In addition, PL has sufficient financial flexibility as the company has both credit facilities from various local financial institutions and an access to both equity and debt capital markets.

Pressure on profitability and cash flow protection

PL has continued to experience pressure on its gross margin of operating lease business as a result partly of a price competition from new entrants in the industry and partly of an adjustment to the company's pricing policy, starting in the fourth quarter of 2018. The ratio has gradually declined to 17.2% at the end of March 2019 from 18.8% in 2018 and 20.2% in 2017.

PL's return on average assets (ROAA) in 2018 was at 1.6%, remaining approximately the same level as in 2016-2017 thanks to provision reversal and tax benefits. However, its annualized ROAA fell to 1.1% in the first three months of 2019 due largely to losses from sales of expired vehicles. We expect PL's performance to improve gradually in the medium term, supported by management's strategy: diversification towards higher-yielding assets; increase of vehicle sales through retail channels; and utilizing vehicles from expired contracts to earn additional income through short-term rentals.

PL's cash flow protection, measured by earnings before interest and taxes (EBIT) interest coverage (EBIT/interest expenses), remains sufficient but has a declining trend to 1.6 times in 2018 from 1.8 times in 2013. We believe that the company's EBIT could be under pressure if gross margin of the operating lease (OL) business which accounts for around 80.0% of PL's total portfolio continues to tighten. This could be due to limited yield improvement in the short term given competition and the challenge in sustaining gains on disposals of its leased assets.

BASE-CASE ASSUMPTIONS IN 2019-2021

- Gross margin to be approximately 17%
- Return on assets to range between 1.3%-1.5%
- The ratio of total debt to total capitalization to be approximately 77%

RATING OUTLOOK

The "negative" outlook reflects PL's weakened profitability and cash flow protection as indicated by ROAA and EBIT interest coverage, respectively.

RATING SENSITIVITIES

The outlook could be revised to "stable" if PL's profitability and cash flow protection improve from the current level. On the contrary, the ratings could be revised downward if PL's profitability or cash flow protection continues to decline from the current level.

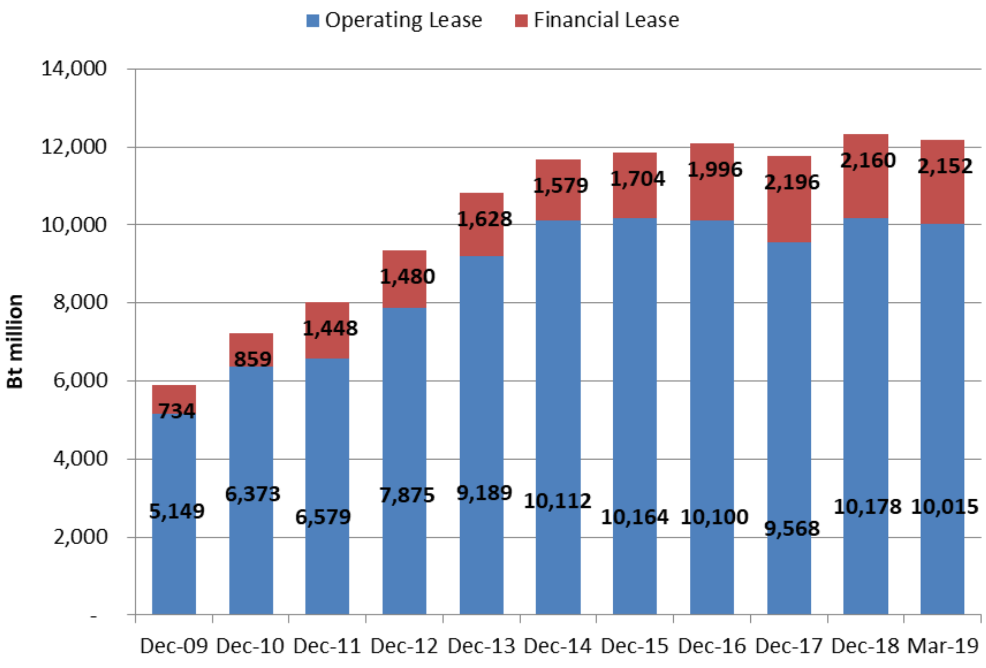
COMPANY OVERVIEW

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.

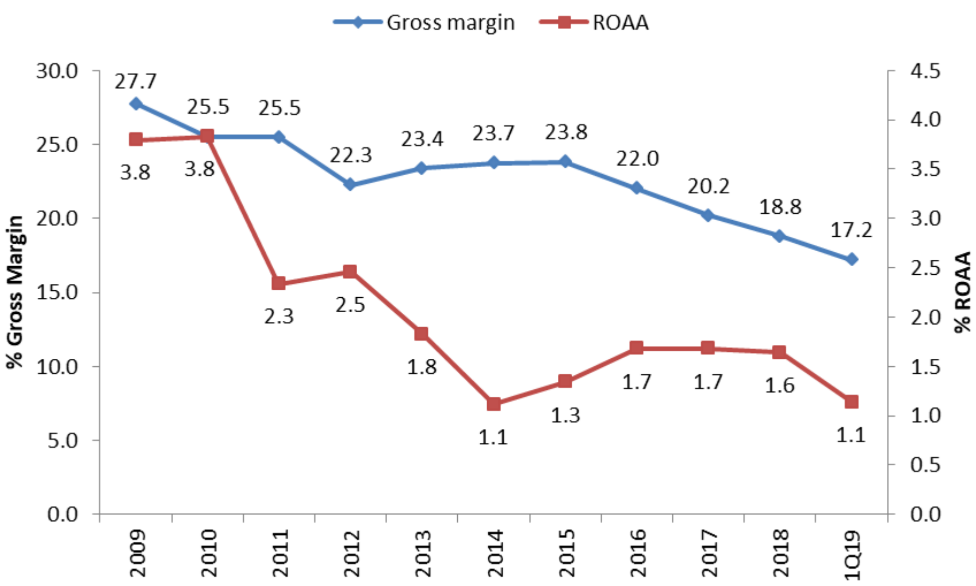
KEY OPERATING PERFORMANCE

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

		-------------Year Ended 31 December -----------			
	Jan-Mar 2019	2018	2017	2016	2015
Total operating revenues	694	2,765	2,840	3,085	3,028
Earnings before interest and taxes (EBIT)	79	402	452	430	587
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	522	2,105	2,179	2,258	2,403
Funds from operations (FFO)	478	1,928	1,949	2,048	1,987
Adjusted interest expense	67	257	286	322	369
Capital expenditures	648	3,451	2,630	2,803	2,731
Total assets	14,069	14,066	13,211	13,230	12,912
Adjusted debt	10,224	10,239	9,466	9,956	9,691
Adjusted equity	3,016	2,981	2,862	2,752	2,640
Adjusted Ratios					
EBIT margin (%)	11.41	14.54	15.92	13.95	19.40
Return on average assets (%)	1.52 *	1.64	1.68	1.68	1.34
EBIT interest coverage (times)	1.19	1.56	1.58	1.34	1.59
FFO to debt (%)	18.93 *	18.83	20.59	20.57	20.50
Debt to capitalization (%)	77.22	77.45	76.78	78.34	78.59

* *Annualized with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019

Phatra Leasing PLC (PL)

Company Rating:	A-
Issue Ratings:	
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-
PL21NA: Bt500 million senior unsecured debentures due 2021	A-
PL232A: Bt200 million senior unsecured debentures due 2023	A-
Rating Outlook:	Negative

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