TRIS RATING
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PHATRA LEASING PLC

No. 146/2023
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FINANCIAL INSTITUTIONS

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

Last Review Date: 08/03/23

Company Rating History:

Date	Rating	Outlook/Alert
07/08/20	BBB+	Stable
07/08/19	A-	Negative
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 "BBB+" with a "stable" outlook. At the same time, TRIS Rating assigns a rating of "BBB+" to PL's proposed issue of up to THB1.5 billion senior unsecured debentures due within three years. The company plans to use the proceeds from the new debenture issuance for debt repayment and/or working capital.

The ratings reflect the company's decent market position in the operating lease (OL) business and increasing portfolio diversification into non-automobile financial leasing. The diversification helps mitigate the impact of increasing popularity of electric vehicle (EV) cars. The ratings also factor in moderate financial leverage and sufficient liquidity. The ratings are, however, constrained by its cash flow protection, intense competition in OL, and high customer concentration risk.

KEY RATING CONSIDERATIONS

Selective growth in operating lease

We view that PL can still retain its strengths in the OL business, which stem from the large scale of operations and well-established relationships with its key clients and suppliers. These strengths are also bolstered by its extensive expertise, long-standing track record, and strong data analysis capability. However, its OL portfolio growth has therefore been uneven over the past few years due to the company's strategy to maintain profitability amid intense competition and cautious growth.

At the end of March 2023, PL's OL portfolio amounted to THB6.2 billion, compared with THB5.7 billion at the end of 2022. We expect PL to maintain its OL portfolio in the THB5.7-5.9 billion range over the next three years due to intense competition and its selective growth strategy in the automobile segment.

For the automobile segment, PL will continue to diversify into hybrid car and EV cars, which accounted for 21% of the company's automobile lease portfolio at the end of March 2023, an increase from 18% at the end of April 2022. We expect the expansion to continue in the medium term.

Diversification to non-automobile products is a positive move

PL has been expanding into non-automobile products, most of which are based on financial lease (FL) contracts. We view the diversification as a positive move as it should help enhance its overall profitability and mitigate the risk of declining asset value.

PL's FL portfolio has gradually expanded to THB3.2 billion, accounting for 34% of the total lease portfolio at the end of March 2023, double the 17% in 2018-2019. The growth was mainly driven by industrial machinery, medical equipment, and watercraft. On top of these products, PL will expand further into environment-friendly products, such as solar panels and waste sorting machines. We expect PL to maintain the growth of around 7% per annum over the next three years.

Good credit quality overall despite high concentration risk

We maintain the view that PL has a prudent risk culture, considering its selective growth strategy and robust credit approval process. This reflects in its strong asset quality with the non-performing loans (NPL) of its newly extended FL portfolio over the past few years being near-zero. The company's NPL ratio (for FL portfolio) was 1.7% at the end of March 2023. With its strict credit approval policy, we expect PL to maintain strong asset quality over the next few years.

In terms of concentration risk, its 20-largest customers represented 52.7% of its total lease portfolio as of the end of March 2023, a slight increase from 50.6% at the end of 2022. Despite the high concentration risk, in our view, we believe the risk is mitigated by the good credit quality of its large corporate customers and diverse product range and customer segments.

Improving profitability

We expect PL's profitability will continue to strengthen over the next three years. The company's earnings before interest and tax (EBIT) margin reached 11.6% in 2022 and 11.4% in the first quarter of 2023 (1Q23). This was a gradual improvement from 8%-10% in 2019-2021, supported by the higher contribution of non-automobile products and better gross margin on OL and sales of retired assets. The gross margin on OL rose to 13.9% from 12.4% in 2022, backed by well-managed operating costs and efficient utilization of retired assets through short-term rentals. At the same time, the gross margin on sales of retired assets increased to 10.4% from 7.0% in 2022, thanks to its retail-focused sales strategy.

We forecast PL's EBIT margin to range between 12%-13% over the next three years, driven by the continuously improving gross margin on OL and strong growth of non-automobile FL. We expect the gross margin on OL to gradually increase to 15% in 2025. This will be underpinned by well-managed operating costs and improved utilization of retired assets through short-term rentals. We forecast PL's gross margin on sales of retired assets in the 8.5%-9.0% range in 2023-2025, slightly lower from around 10% in 1Q23. The margin contraction will be caused by the decline in used car prices due to the higher volume of repossessed cars in the market.

Cash flow protection on the mend; still room for improvement

PL's cash flow protection is likely to remain sound over the next three years. The ratio of EBIT interest coverage ratio improved to 1.7 times in 1Q23 from 1.2-1.5 times in 2020-2021 as a result of its selective growth strategy and well-controlled operating costs.

Over the next two years, we expect the company to maintain its EBIT interest coverage ratio at around 1.7 times. This will be supported by the company's increasing focus on higher-return non-automobile assets, while it continues to trim down its operating costs. However, we project the EBIT interest coverage ratio to slightly decline to 1.5 times in 2025 due to our expectation of lower gains from sales of retired assets, as the OL portfolio gradually contracted over the past years, which could result in lower sale units.

Moderate financial leverage

PL's financial leverage has been declining over the past three years. This was primarily due to the lower need for debt funding as the OL portfolio contracted over the past three years. The ratio of debt to capitalization dropped to 68.9% at the end of March 2023 from the pre-COVID-19 level of 75.9% at the end of 2019.

We expect PL to maintain its financial leverage at the moderate level over the next three years. We project the debt to capitalization ratio to stay in the 66%-68% range in 2023-2025, assuming a 50% dividend payout ratio. We also estimate the company's debt-to-equity ratio (D/E) to stay below 3 times, compared with 2.2 times at the end of March 2023. Its bond D/E covenant is currently 7 times.

Strong funding profile, adequate liquidity

We assess PL's funding profile as relatively conservative given the high proportion of long-term borrowings (including the current portions), accounting for 85% of total borrowings at the end of March 2023. We believe this helps mitigate asset-liability mismatch to an extent.

We also assess PL's liquidity as adequate over the next 12 months (April 2023-April 2024). This is backed by its established relationships with financial institutions and its capacity to access the debt and equity capital markets, if needed. At the end of March 2023, available credit lines totaling THB1.2 billion from various financial institutions should be sufficient to support liquidity needs.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2023-2025 include:

- Total lease portfolio to grow by an average of 3.4% per annum
- OL gross margin to be around 13%-15%
- Gross margin on sales of retired assets to stay at around 8%-9%
- Cost of funds to range between 3.0%-3.3%

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position and financial performance as well as cashflow protection at the current levels.

RATING SENSITIVITIES

PL's credit upside would materialize if the company's cash flow protection, measured by EBIT interest coverage ratio rises well above 1.7 times for a sustained period, with financial performance, measured by EBIT, improving in tandem. Conversely, the ratings and/or outlook could be revised downward if the company's EBIT interest coverage ratio falls below 1.3 times for an extended duration.

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 THB300 million. PL's shares were mainly held by KASIKORNBANK PLC (KBANK), Muang Thai Life 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 THB149 million in new equity capital through rights offering. As a result, PL's equity capital increased to THB596 million at the end of June 2015 from THB447 million at the end of 2014.

PL focuses on the automobile OL segment, targeting corporate clients. The company currently provides long-term OL 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 OL fleet. The company also offers finance lease for more specialized asset types, which helps diversify its exposure to a particular type of asset in the portfolio.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		-----------Year Ended 31 December ---------			
	Jan-Mar 2023	2022	2021	2020	2019
Total operating revenues	661	2,967	3,237	3,625	3,879
Earnings before interest and taxes (EBIT)	82	340	313	317	358
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	361	1,605	1,756	1,995	2,149
Funds from operations (FFO)	305	1,382	1,562	1,754	1,961
Adjusted interest expense	50	198	212	262	272
Capital expenditures	948	1,532	1,281	1,545	2,357
Total assets	10,831	10,285	10,829	12,043	13,395
Adjusted debt	7,020	6,555	6,969	8,332	9,538
Adjusted equity	3,164	3,138	3,083	3,007	3,037
Adjusted Ratios					
EBITDA margin (%)	12.54	11.58	9.68	8.74	9.23
Return on average assets (%)	1.01	1.14	1.05	0.60	1.24
EBIT interest coverage (times)	1.67	1.74	1.48	1.21	1.32
FFO to debt (%)	17.36	21.08	22.42	21.05	20.56
Debt to capitalization (%)	68.93	67.63	69.33	73.48	75.85

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Issue Rating Criteria, 15 June 2021

Phatra Leasing PLC (PL)

Company Rating:	BBB+
Issue Ratings:	
PL263A: THB500 million senior unsecured debentures due 2026	BBB+
Up to THB1,500 million senior unsecured debentures due within 3 years	BBB+
Rating Outlook:	Stable

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