PHATRA LEASING PLC

No. 128/2021
9 August 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 07/08/20

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" rating outlook. The ratings reflect the company's ability to maintain its business position, improving level of cash flow protection, moderate financial leverage, and adequate liquidity.

KEY RATING CONSIDERATIONS

Securing market position via diversification

We expect the company's portfolio diversification into non-automobile financial lease to help offset the deceleration in its automobile operating lease portfolio and support PL's plan to retain its leading market position over the next few years. We estimate the company's total lease portfolio to remain at around THB10-11 billion in 2021-2023, which is the level seen in the past two years. The proportion of non-automobile financial lease to total lease assets is expected to increase over the medium term. The proportion was 24% of total lease assets at the end of March 2021.

As for the automobile operating lease business, we assume modest portfolio growth in line with the company's prudent expansion. Nonetheless, we believe that PL's ability to provide superior service quality and its strong brand equity will continue to help the company secure customers with high credit quality over the medium term.

Improved cash flow protection anticipated

Cash flow protection, measured by the ratio of EBIT interest coverage (earnings before interest and tax, or EBIT, to interest expenses), has improved in the most recent quarter. We expect this trend to continue in the longer term. EBIT interest coverage rose to 1.4% in the first quarter of 2021 (1Q21) from 1.2%-1.3% in 2019-2020, thanks to the company's selective growth strategy since 2020. The focus on portfolios that generate higher operating margin such as specialized lease assets as well as control of direct costs, has also prevented gross margin on operating lease from declining further.

Meanwhile, gross margin on sales of retired assets started turning positive in 1Q21, owing to the shift in strategy since 2020 to focus on sales to retail buyers and to lower the salvage values of lease assets. As a result, the gross margin improved to 2.3% in 1Q21 from -1.3% in 2020 and -1.8% in 2019. Given this strategy, we anticipate that the company will at least achieve break-even in sales of assets over the medium term. Based on our assumption of continued recovery of gross margins on operating lease and sales of retired assets, we expect the improvement in EBIT interest coverage to be sustained over the next few years.

Leverage to rise but remain manageable

We expect the company's leverage to remain at an intermediate level over the next few years, with its debt to total capitalization ratio in the 73%-75% range. The ratio has declined steadily to 71.8% at the end of March 2021, from 73.5% and 75.9% at the end of 2020 and 2019, respectively. This was due to portfolio contraction in 2020, which reduced the need to borrow to fund its business. However, as the company plans to regain its market position, we expect the ratio to rise back to the previous level. We also anticipate its debt-to-equity ratio (D/E) to stay around 3 times over the medium term, well below its bond covenant of 7 times. The company's D/E ratio stood at 2.8 times at the end of March 2021, a decline from 3.0 times as of December 2020.

Prudent funding structure and sufficient liquidity

The company's funding profile is supported by well-controlled asset-liability management. To match the three- to five-year duration of its lease contracts, the company relies mostly on long-term funding. Long-term borrowings (including the portions due within one year) accounted for 98% of total borrowings at the end of March 2021. All of the company's borrowings are unsecured, which means the company's issue rating is not subject to a trigger for the rating notch-down according to TRIS Rating's issue rating criteria. We expect the company to have sufficient liquidity backed by THB2.3 billion in credit facilities available from various financial institutions at the end of March 2021. Its financial flexibility is further enhanced by its ability to access the debt and equity capital markets.

Growth of car rental business pressured by COVID-19

In 2020, the demand for operating lease dropped significantly as businesses became affected by the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic. As a result, the value of rental assets of major operators decreased by approximately 10% at the end of 2020 from the end of 2019.

Intense competition in rental pricing from new operators entering the market in recent years has put pressure on the profitability of most operators in the industry. We expect the competitive pressure to continue. However, improved gain on sales of leased vehicles due to a decrease in supply and stronger demand for used cars should help support the earnings of operating lease firms.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2021-2023 include:

- Total lease portfolio to grow by 0%-8%.
- Operating lease gross margin to be around 17%.
- Gross margin on sales of retired assets to stay around 2.3%
- Cost of funds to range from 2%-3%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its competitive position, earnings capacity, and profitability in its core business to support its financial performance and cash flow protection at the current levels.

RATING SENSITIVITIES

PL's credit upside would materialize if the company's profitability and cash flow protection improve, with its EBIT interest coverage ratio rising above 1.7 times for a sustained period. On the contrary, the rating and/or outlook could be revised downward if the company's profitability or cash flow protection declines from the current level i.e., EBIT interest coverage falls below 1.3 times for an extended period.

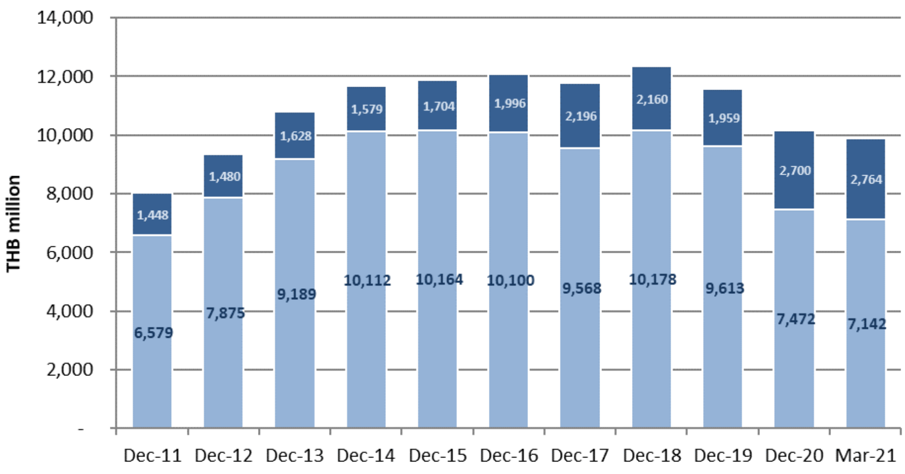
COMPANY OVERVIEW

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), 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 a 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 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. 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.

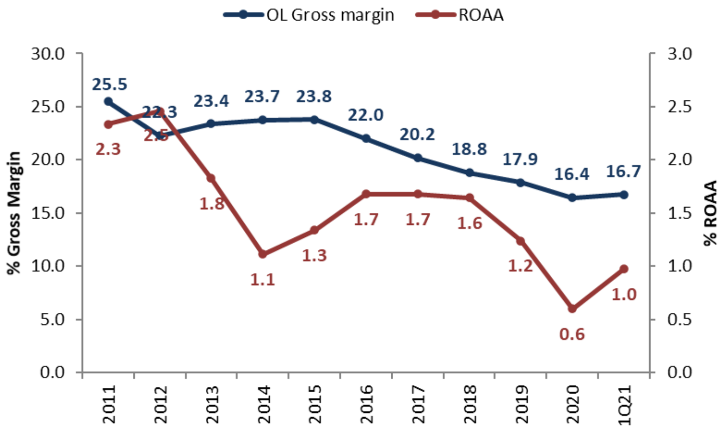
KEY OPERATING PERFORMANCE

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: Mil. THB

	Jan-Mar 2021		---------------Year Ended 31 December ------------		
		2020	2019	2018	2017
Total operating revenues	786	3,625	3,879	3,832	3,857
Earnings before interest and taxes (EBIT)	82	317	358	402	452
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	454	2,006	2,149	2,105	2,179
Funds from operations (FFO)	401	1,765	1,961	1,928	1,949
Adjusted interest expense	57	262	272	257	286
Capital expenditures	264	1,545	2,357	3,451	2,630
Total assets	11,479	12,043	13,395	14,066	13,211
Adjusted debt	7,742	8,332	9,538	10,239	9,466
Adjusted equity	3,036	3,007	3,037	2,981	2,862
Adjusted Ratios					
EBIT margin (%)	10.41	8.76	9.23	10.49	11.72
Return on average assets (%)	0.97 *	0.60	1.24	1.64	1.68
EBIT interest coverage (times)	1.44	1.21	1.32	1.56	1.58
FFO to debt (%)	21.91 *	21.18	20.56	18.83	20.59
Debt to capitalization (%)	71.83	73.48	75.85	77.45	76.78

* *Annualized*

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

Phatra Leasing PLC (PL)

Company Rating:	BBB+
Issue Ratings:	
PL21NA: THB500 million senior unsecured debentures due 2021	BBB+
PL232A: THB200 million senior unsecured debentures due 2023	BBB+
Rating Outlook:	Stable

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