TRIS RATING
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PHATRA LEASING PLC

No. 139/2022
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FINANCIAL INSTITUTIONS

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

Last Review Date: 09/08/21

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. The ratings reflect the company's leading market position in the car rental business and increasing portfolio diversification. The ratings also take into consideration the company's improving cash flow protection, moderate financial leverage, and adequate liquidity.

KEY RATING CONSIDERATIONS

Leading market position in car rental business

We expect PL will maintain its leading market position in the car rental business over the next three years. This is supported by its relatively large scale of operations and long-standing relationship with its major clients. PL is the second largest operating lease provider in Thailand, based on TRIS Rating's database. At the end of March 2022, PL's total lease portfolio reached THB9.6 billion, a 3.4% increase from the end of 2021. We forecast PL's total lease portfolio will increase gradually to THB9.7-THB10.3 billion in 2022-2024, supported by the recovery of its car rental business and further penetration into non-automobile segments.

PL's strength in scale is partly offset by its high customer concentration risk as a significant part of its customer base comprises large corporates that use automotive leasing services. Nevertheless, the risk is mitigated by the good credit quality of large corporate customers and the company's exposure to a diverse range of products and customer segments. At the end of March 2022, the company's top 20 customers comprised approximately 46% of its total portfolio.

Improving product diversity

We view PL's ongoing efforts to diversify its portfolio into non-automobile products while maintaining a manageable risk profile as a positive development, which is likely to continue in the medium term. The company's non-automobile portfolio includes watercraft, heavy industrial equipment, and other specialized lease assets. The company mainly offers non-automobile leasing services under financial lease contracts to mitigate the risk of declining asset value and enhance its overall returns.

Over the next three years, we expect the share of non-automobile segments will gradually increase to around 40% of the company's total lease portfolio from 31.1% at the end of March 2022. Watercraft, heavy industrial equipment, and new specialized lease assets will provide the main growth impetus.

As for the automobile operating lease business, we expect PL will continue to diversify its portfolio into eco-friendly cars (eco cars), including hybrid cars and electric vehicles (EV), over the next three years. We expect the proportion to gradually increase over the next three years, buoyed by the increasing popularity of eco cars.

Higher profitability

PL's profitability has improved from the bottom in 2020 and will likely continue over the next one to two years. We forecast PL's earnings before interest and tax (EBIT) margin to range between 11.5%-13.3% during 2022-2024, compared with the lowest level of 8.7% in 2020 and 9.7% in 2021. This will be mainly supported by higher gross margin on sales of retired assets, thanks to improved used car prices and the company's retail-focused sales strategy via its "SA-BUY CAR" platform. We forecast the gross margin on sales of retired assets to increase to 3.1% during 2022-2024 from 2.5% in 2021. We believe the price of used car will likely remain high given strong demand and the global semiconductor shortage that has impacted supply of new cars. We also expect PL will continue to increase direct sales of its retired assets through "SA-BUY CAR", which should help increase sales volume and gross margin. PL also intends to reduce its operating costs through digitalization and lower its auto maintenance expenses and insurance costs.

Improved cashflow protection

PL's cash flow protection, measured by the ratio of EBIT interest coverage ratio, improved to 1.8 times in the first quarter of 2022 (1Q22) from 1.2-1.5 times in 2020-2021. The improvement was the result of the company's selective growth strategy and well-controlled operating costs. We expect its EBIT interest coverage ratio to be sustained at around 1.5-1.7 times over the next three years, supported by the company's increased focus on higher-return specialized lease assets, while it continues to trim down its operating costs.

Moderate financial leverage

We expect PL's financial leverage to remain at an intermediate level over the next few years, with a debt to total capitalization ratio in the range of 70%-71%. The ratio declined to 69.3% at the end of 2021 from the pre-COVID-19 level of 75.9% at the end of 2019, following the portfolio contraction over the past two years which required lower use of debt funding. However, with the stronger growth in non-automobile leasing, the ratio rose back to 70.1% at the end of March 2022. We also anticipate its debt-to-equity ratio (D/E) to stay at around 3 times over the medium term, well below its bond covenant of 7 times. The company's D/E ratio stood at 2.5 times at the end of March 2022, the same level as December 2021.

Strong funding profile and sufficient liquidity

We consider PL's funding profile as strong on the back of its low-risk asset-liability management. The company uses long-term borrowings as its main sources of funding, to match with the duration of its lease contracts. Long-term borrowings (including the portions due within one year) accounted for 83.2% of total borrowings at the end of March 2022. PL had available credit lines of THB980 million from various financial institutions at the end of March 2022, which we believe are sufficient to support liquidity needs over the next 12 months. PL's financial flexibility is also enhanced by its ability to access the debt and equity capital markets, if needed.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2022-2024 include:

- Total lease portfolio to grow by 2.6%-4.1%
- Operating lease gross margin to be around 12%
- Gross margin on sales of retired assets to stay at around 3.1%
- Cost of funds to range from 2.9%-3.3%

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 cashflow 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 ratings and/or outlook could be revised downward if the company's profitability or cashflow protection declines from the current level, with EBIT interest coverage ratio falling 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 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		----------------Year Ended 31 December -------------			
	Jan-Mar 2022	2021	2020	2019	2018
Total operating revenues	754	3,237	3,625	3,879	3,832
Earnings before interest and taxes (EBIT)	86	313	317	358	402
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	424	1,756	1,995	2,149	2,105
Funds from operations (FFO)	368	1,562	1,754	1,961	1,928
Adjusted interest expense	48	212	262	272	257
Capital expenditures	485	1,281	1,545	2,357	3,451
Total assets	11,047	10,829	12,043	13,395	14,066
Adjusted debt	7,305	6,969	8,332	9,538	10,239
Adjusted equity	3,113	3,083	3,007	3,037	2,981
Adjusted Ratios					
EBITDA margin (%)	11.39	9.68	8.74	9.23	10.49
Return on average assets (%)	1.10	1.05	0.60	1.24	1.64
EBITDA interest coverage (times)	1.78	1.48	1.21	1.32	1.56
FFO to debt (%)	20.94	22.42	21.05	20.56	18.83
Debt to capitalization (%)	70.12	69.33	73.48	75.85	77.45

RELATED CRITERIA

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

Phatra Leasing PLC (PL)

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

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