TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

PHATRA LEASING PLC

No. 140/2024
14 August 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 15/07/24

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	-

Contacts:

Pawin Thachasongtham
pawin@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com

WWW.TRISRATING.COM

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 operating lease (OL) business, sustaining cash flow protection, moderate financial leverage, and sufficient liquidity. Continuous improvement in cash flow protection and profitability could be a positive factor for the company's credit profile.

KEY RATING CONSIDERATIONS

Continued leadership in the car rental business

We expect PL to retain its dominant position in the car rental industry. The company's advantages stem from extensive industry expertise, relatively large scale of operations and well-established relationships with major corporate clients and auto suppliers, proven track record, and robust data analysis capability.

PL's automobile lease portfolio resumed growth in 2023, following a five-year period of decline, helping underpin its market position. At the end of March 2024, the company's automobile lease portfolio stood at THB6.6 billion, a 15% increase from THB5.7 billion at the end of 2022. The growth was mainly driven by the large corporate segment.

With the rising popularity of electric vehicles (EVs), PL has gradually diversified its automotive lease business to cover hybrid and plug-in hybrid cars. At the end of March 2024, the new segment made up approximately 24% of the total automobile lease portfolio, up from 19% at the end of March 2023. We anticipate this trend will continue in the medium term.

Deteriorating cash flow protection but improvement likely

We anticipate PL's cash flow protection, measured by the EBIT interest coverage ratio, will remain sound over the next three years despite moderate weakness observed recently. The ratio fell to 1.24 times in the first quarter of 2024 (1Q24) from 1.67 times in 2023.

The decline primarily stemmed from increased funding costs due to a higher proportion of long-term borrowings, in alignment the company's strategy to secure stable funding amid economic uncertainties. Consequently, the company's funding costs rose to 3.8% in 1Q24, from 3.2% in 2023.

We project an EBIT interest coverage ratio of 1.3 times over the next three years. We anticipate a slight improvement in the ratio from the second half of 2024 (2H24), driven by the prospect of a gradual recovery in used car prices. We forecast the gross profit margin from retired asset sales to rebound to 10.0% in 2H24 from 8.8% in 1Q24. However, PL is likely to face persistently high funding costs, which we estimate at 4.0% in 2024 and 4.1% in 2025.

Moderate financial leverage

The company's financial leverage is likely to remain at a moderate level, with a net debt to capitalization ratio of 72.3% at the end of 1Q24. The ratio rose from 67.3% at the end of 2022, primarily due to increased debt funding from the OL portfolio expansion.

We project this ratio to remain within the 72%-73% range in 2024-2026, assuming a consistent 50% dividend payout ratio. This projection is based on our expectation of only marginal expansion in PL's total portfolio, negating the need for significant increase in borrowings. We believe the slight growth in the financial lease (FL) business will likely be counterbalanced by contraction in the OL business due to weak economic conditions. We also expect the company's interest-bearing debt-to-equity ratio (D/E) will stay below 3 times, compared with 2.6 times at the end of March 2024 and the bond covenant limit of 7 times.

Debt structure

As of March 2024, PL had total debt obligations of THB8.4 billion, inclusive of about THB30 million in financial lease. Long-term debt obligations constituted 88.6% of total debt obligations, with short-term obligations accounting for the remaining 11.4%. Notably, the company's priority debt ratio as of end-1Q24 was 0.3%.

We view PL's funding profile favorably, given the company's continued pursuit of a prudent debt structure. The company primarily relies on long-term funding to support its OL and FL businesses, which typically have tenors of three to five years. This conservative funding approach significantly mitigates the risk of asset-liability mismatches.

Adequate liquidity

At the end of March 2024, PL had credit lines readily available for drawdown totaling THB1.9 billion from various financial institutions. This should be sufficient to support liquidity needs over the next 12 months. PL's financial flexibility is supported by its ability to access the debt and equity capital markets, if needed.

Profitability to improve slightly

PL's profitability, as measured by the EBIT margin, has been trending upward, and we expect this improvement to continue over the next two years. In 1Q24, the company reported a 20.5% year-on-year (y-o-y) EBIT expansion, primarily due to a higher gross profit margin (GPM) in the OL business, which increased to 16.4% from 13.9% in 1Q23. As a result, the EBIT margin rose to 15.0% from 12.5% over the same period. This positive trend was slightly offset by a decrease in GPM from sales of retired assets, which fell to 8.8% from 10.4%.

We project PL's EBIT margin to gradually improve to 16% by 2026, driven by a continuous uptrend in OL business GPM and growth in the non-automobile FL business. We anticipate OL GPM to stabilize at around 17% in 2024-2025, up from 15% in 2023, supported by well-managed operating costs and enhanced utilization of retired assets through short-term rentals.

Additionally, we forecast a recovery of GPM on sales of retired assets to the 9.0%-10.5% range in 2024-2025, from 8.8% in 1Q24, based on our expectation of a gradual recovery in used car prices from 2H24.

Prudent risk management

PL's prudent risk management is evident in its pilot testing strategy for new markets and products, allowing for risk minimization and better understanding of customer needs. This approach has contributed to the company's consistently strong credit quality.

The company's strict underwriting policy is reflected in its low non-performing loan (NPL) ratio for the financial lease portfolio, which stood at 1.7% as of March 2024. We expect PL to maintain strong asset quality due to its rigorous credit approval process.

While concentration risk is high, with the 20 largest customers representing 52% of the total lease portfolio as of March 2024, this is mitigated by the good credit quality of these large corporate customers and diverse product range and customer segments.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2024-2026 include:

- Total portfolio to stay relatively flat
- OL gross margin to be around 17%
- Gross margin on sales of retired assets to stay at around 10%
- Cost of funds to range from 4.0%-4.2%

RATING OUTLOOK

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

RATING SENSITIVITIES

PL's credit upside would materialize if the company's cash flow protection, measured by the EBIT interest coverage ratio, rises well above 1.7 times for a sustained period, while EBIT improves 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 2024	2023	2022	2021	2020
Total operating revenues	656	2,699	2,967	3,237	3,625
Earnings before interest and taxes (EBIT)	98	406	340	313	317
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	384	1,580	1,605	1,756	1,995
Funds from operations (FFO)	305	1,337	1,407	1,543	1,734
Adjusted interest expense	79	243	198	212	262
Capital expenditures	258	3,304	1,532	1,281	1,545
Total assets	12,065	12,305	10,285	10,829	12,043
Adjusted debt	8,338	8,440	6,555	6,969	8,332
Adjusted equity	3,189	3,174	3,138	3,083	3,007
Adjusted Ratios					
EBIT margin (%)	14.99	15.04	11.58	9.68	8.74
Return on average assets (%)[1]	0.50	0.95	1.14	1.05	0.60
EBIT interest coverage (times)	1.24	1.33	1.73	1.48	1.21
FFO to debt (%)[1]	14.64	15.84	21.46	22.15	20.81
Debt to capitalization (%)	72.33	72.67	67.63	69.33	73.48

[1] *annualized*

RELATED CRITERIA

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

Phatra Leasing PLC (PL)

Company Rating:	BBB+
Issue Ratings:	
PL258A: THB600 million senior unsecured debentures due 2025	BBB+
PL262A: THB94.9 million senior unsecured debentures due 2026	BBB+
PL263A: THB500 million senior unsecured debentures due 2026	BBB+
PL268A: THB900 million senior unsecured debentures due 2026	BBB+
PL272A: THB440 million senior unsecured debentures due 2027	BBB+
PL272B: THB428.5 million senior unsecured debentures due 2027	BBB+
PL282A: THB560 million senior unsecured debentures due 2028	BBB+
Up to THB976.6 million senior unsecured debentures due within 3 years	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000