

RATCHTHANI LEASING PLC

No. 163/2020
12 October 2020

FINANCIAL INSTITUTIONS

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

Last Review Date: 11/05/20

Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A-	Stable
14/03/19	A-	Alert Negative
19/10/16	A-	Stable
25/01/12	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Ratchthani Leasing PLC (THANI) and the ratings on its senior unsecured debentures at “A-”, with a “stable” outlook. The ratings on THANI incorporates an enhancement from its stand-alone rating as TRIS Rating holds the view that the company is a strategically important subsidiary of Thanachart Capital PLC (TCAP) based on THANI’s strong revenue and cashflow contributions to TCAP. THANI also receives business and financial support from TCAP.

The stand-alone rating on THANI reflects its strong niche-market position in the hire-purchase loan market, focusing on the commercial truck and luxury car segments. The rating also takes into account the company’s ability to maintain sound financial performance.

However, the strengths are weighed down by concerns over intense competition in the commercial truck loan market and deteriorating asset quality due to the weak economic environment. These factors might constrain the company’s profitability over the next few years.

KEY RATING CONSIDERATIONS

Stable support from TCAP

TRIS Rating views THANI as a strategically important subsidiary of TCAP. We believe it is highly likely that TCAP will maintain its majority shareholding in THANI as THANI has become TCAP’s major revenue and cash flow contributor after the group restructuring. In terms of business support, TCAP oversees THANI’s overall strategy, including risk management, through its representatives on THANI’s board. TCAP is also helping strengthen THANI’s capital base, through a capital injection of around THB1.1 billion in October 2020, to support business expansion and provide a cushion against potential losses while the economy remains weak. For the long term, we believe THANI will continue to benefit from TCAP’s funding support, and the company can look to TCAP as a lender of last resort in times of need.

Continued strong market position

THANI’s market position is expected to remain strong over the medium term. THANI’s loan portfolio has grown strongly over the past few years, reach THB51.9 billion at the end of 2019 from THB29.5 billion at the end of 2016, a compound annual growth rate (CAGR) of 15%. The growth of the company’s loan portfolio has largely been driven by its marketing efforts. However, at the end of June 2020, outstanding loans declined by 3% year-to-date to THB50.1 billion. This was mainly the result of its conservative growth strategy due to concerns over asset quality during the Coronavirus Disease 2019 (COVID-19) pandemic.

In terms of new loans, we forecast loans booked in 2020 to fall by 25% to THB17.6 billion from THB23.4 billion booked in 2019. However, we believe new loan bookings should have bottomed out in the first half of 2020 and that expansion will slowly return starting from the second half of 2020 through 2022. We expect THANI will maintain its market position over the next few years as the slower business volume should be in line with the industry as a whole. We estimate that THANI’s loan portfolio will shrink by 25% in 2020, before growing by 5%-10% per year in 2021-2022, driven mainly by truck loans in the logistics segment and luxury car loans, which are the company’s main

areas of expertise.

Asset quality weakens but remains manageable

We also anticipate a moderate deterioration in THANI's asset quality, with the non-performing loan (NPL) ratio estimated to rise to 5%-7% from 5.1% at the end of June 2020 due to economic fallout from the COVID-19 outbreak. Nonetheless, in view of the company's prudent credit policy, improved loan collection, and adequate loan loss reserves, the weaker asset quality should remain manageable.

In terms of loan loss provisioning, we expect a rise in provision expenses to the range of 0.8%-1.2% of average loans in 2020-2022. Based on our estimation of credit costs, the NPL coverage ratio should remain at around 100% during the next few years. At the end of June 2020, the company's NPL coverage ratio stood at 92%.

Moderate profitability in a challenging environment

We expect THANI to sustain moderate profitability over the next few years by effectively managing its provision expenses, interest spread, and operating expenses. We measure its earnings capability using the ratio of earnings before tax (EBT) to average risk-weighted assets (ARWA) and estimate an average ratio of 4.2% during 2020-2022.

THANI reported THB908 million net profit in the first six months of 2020, a 10% decline year-on-year. The weaker net profit was mainly due to higher provision expenses. We expect the company to record a moderate decline in profitability in 2020 caused by a rise in credit costs due to economic fallout from the COVID-19. THANI's loan spread in the first half of 2020 fell to below 4.5%. We expect its spread to slip further in the second half of 2020 through 2021, despite the downward trend in interest rates that would have benefited THANI in terms of lower funding costs. The narrower spread can be attributed to its strategy to expand fleet loans for corporate customers, which generate lower yields, to mitigate credit risks during a time of high economic uncertainty.

Strengthened capital base and lower leverage

THANI's stronger capital base and low financial leverage serve as positive factors for its rating. The company's capitalization is expected to remain strong over the next few years with a 5-year average risk-adjusted capital ratio (RAC) of around 19.9%. At the end of June 2020, the company's RAC ratio was 16.2%. The company's capital position has strengthened significantly in 2020 with a THB2 billion capital injection expected in October 2020. This should provide strong impetus for growth over the next 2-3 years.

At the same time, THANI's financial leverage remains moderate as measured by its debt to equity (D/E) ratio of 5.6 times at the end of June 2020. We expect the company's consistent capital accumulation from its ongoing profitability and conservative dividend policy to continue to bolster its capital base. We expect the company to have ample headroom to stay in compliance with its debt covenants, which limit the D/E to below 10 times. We project its D/E ratio to average 3.6 times over the next few years.

Adequate funding and liquidity profile

We assess the company to have an adequate funding and liquidity position despite a stable funding ratio (SFR) of 79.3% and a weak liquidity coverage metric (LCM) of 0.02 times on a 2-year average. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provides a variety of available funding sources that enhance its funding and liquidity profile. As of September 2020, the company had available credit facilities from various financial institutions totalling THB18.7 billion, 79% of which were undrawn. At the end of September 2020 outstanding revolving short-term loans provided by TMB Bank PLC (TMB) stood at THB8 billion. The company is also eligible for soft loans from the Government Savings Bank (GSB) to help support its debt relief measures. The funding should help alleviate any potential stress on cash flows and mitigate the yield impact.

We assess THANI to have adequate liquidity for the next 12 months. For 2020, THANI's cash inflows are projected to be around THB2 billion per month, more than sufficient to support cash outflows due to the conservative expansion plan.

In terms of funding structure, THANI has a high proportion of short-term debt obligations. Despite it being a declining trend, short-term debt remains high compared with the company's direct peers. At the end of September 2020, short-term borrowings accounted for 49% of total borrowings, a decline from 62.7% in 2019. This improving trend was a result of the management's strategy to gradually increase long-term funding to 60% or more of total funding. Despite the company's high proportion of short-term debt obligations, we expect THANI's well-established relationship with financial institutions and ample credit facilities will help mitigate liquidity risk.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the performance of THANI during 2020-2022 are as follows:

- Outstanding portfolio to shrink by 25% 2020 and to grow by 5%-10% annually in 2021-2022.
- Loan spread to be maintained at 4.1%-4.2% in 2020-2022.
- Credit cost to be in the 0.8%-1.2% range in 2020-2022.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that THANI will maintain its strong positions in its niche markets and continue to strengthen its earnings capability. The outlook also takes into consideration our anticipation that the company's asset quality will remain manageable amidst the weak credit environment.

RATING SENSITIVITIES

The ratings or outlook could be revised upward if THANI's stand-alone credit profile improves significantly. This entails a materially stronger capital base, with the RAC ratio hovering at a level above 25% for a sustained period, and a material change in funding structure that emphasises longer-term funding. The ratings or outlook could be revised downward if the capital position weakens materially, with the RAC ratio falling below 15% for a protracted period, or if asset quality deteriorates substantially to the point of affecting profitability and capital.

COMPANY OVERVIEW

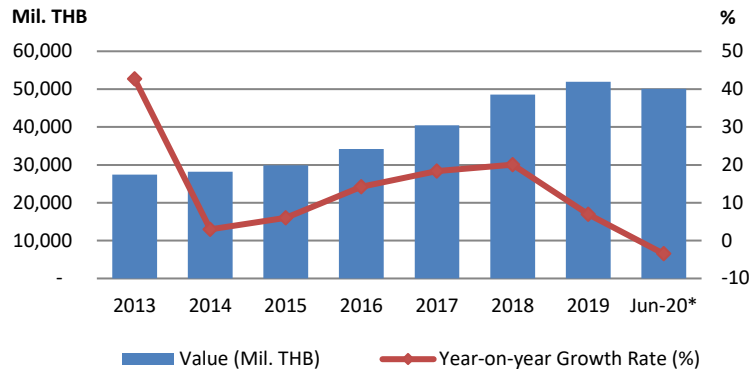
THANI was established in 1988 and listed on the Stock Exchange of Thailand (SET) in 2002. THANI provides hire-purchase loans for both new and used commercial trucks.

In 2006, Siam City Bank PLC (SCIB) was the company's largest shareholder with a 39.8% stake. THANI's shareholding structure changed after the merger of SCIB and Thanachart Bank PLC (TBANK) in 2010. TBANK included THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the Bank of Thailand's (BOT) consolidated supervision regulations. After the merger of TMB and TBANK in 2019, TCAP became a major shareholder with 57.5% as of June 2020, 55.5% through Thanachart SPV1 Co., Ltd., and 2% by TCAP.

THANI's loan portfolio stood at THB50.1 billion at the end of June 2020, 70% of which was made up of commercial truck loans and the remaining 30% of luxury passenger car and high-CC motorcycle loans

KEY OPERATING PERFORMANCE

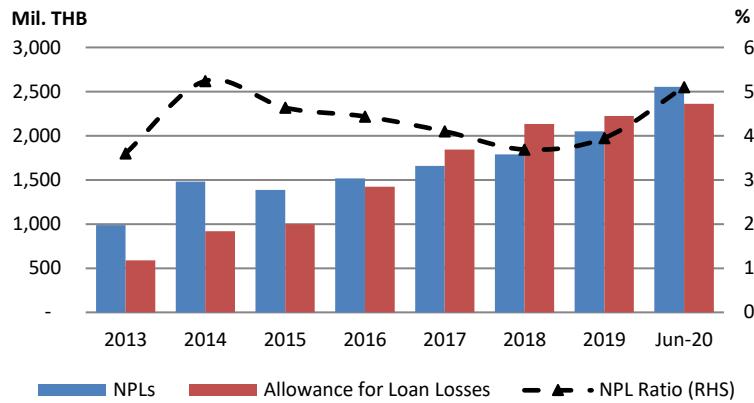
Chart 1: Outstanding Loans



Source: THANI

* Year-to-date growth for Jun-19

Chart 2: Asset Quality



Source: THANI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	52,560	50,881	47,531	39,492	33,365
Total loans	50,123	51,933	48,545	40,441	34,169
Allowance for doubtful accounts	2,363	2,225	2,134	1,843	1,421
Short-term borrowings	21,283	29,089	21,986	17,205	19,962
Long-term borrowings	22,151	13,102	17,309	15,896	7,722
Shareholders' equity	7,975	7,671	7,195	5,627	5,009
Net interest income	1,237	2,527	2,332	1,878	1,538
Bad debts and doubtful accounts	205	194	403	523	496
Non-interest income	383	700	625	547	501
Operating expenses	267	570	504	496	440
Net income	908	1,964	1,641	1,126	881

* Consolidated financial statements

Unit: %

	Jan-Jun 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Profitability					
Net-interest income/average assets	4.78 **	5.14	5.36	5.16	4.89
Net-interest income/total income	57.36	59.63	60.94	56.79	51.50
Operating expenses/total income	12.39	13.45	13.16	14.99	14.73
Operating profit/average assets	4.44 **	5.01	4.71	3.86	3.51
Earnings before taxes/average risk-weighted assets	4.56 **	4.95	4.65	3.80	3.49
Return on average assets	3.51 **	3.99	3.77	3.09	2.80
Return on average equity	23.22 **	26.42	25.59	21.17	18.41
Asset Quality					
Non-performing loans/total loans	5.10	3.95	3.69	4.10	4.44
Bad debts and doubtful accounts/average loans	0.80 **	0.39	0.90	1.40	1.55
Allowance for doubtful accounts/total loans	4.71	4.28	4.40	4.56	4.16
Capitalization					
Risk-adjusted capital ratio	15.17	15.08	15.14	14.25	15.01
Shareholders' equity/total loans	15.91	14.77	14.82	13.91	14.66
Debt to equity (times)	5.59	5.63	5.61	6.02	5.66
Liquidity					
Stable funding ratio	100.85	64.78	80.12	85.66	61.35
Liquidity coverage measure (times)	0.19	0.01	0.01	0.01	0.01
Short-term borrowings/total liabilities	47.74	67.32	54.51	50.81	70.40
Total loans/total assets	95.36	102.07	102.13	102.40	102.41

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI20DA: THB1,400 million senior unsecured debentures due 2020	A-
THANI20DB: THB600 million senior unsecured debentures due 2020	A-
THANI20DC: THB2,500 million senior unsecured debentures due 2020	A-
THANI211A: THB175 million senior unsecured debentures due 2021	A-
THANI212A: THB1,800 million senior unsecured debentures due 2021	A-
THANI212D: THB720 million senior unsecured debentures due 2021	A-
THANI210A: THB145 million senior unsecured debentures due 2021	A-
THANI221A: THB2,070 million senior unsecured debentures due 2022	A-
THANI227A: THB1,745.2 million senior unsecured debentures due 2022	A-
THANI220A: THB1,200 million senior unsecured debentures due 2022	A-
THANI237A: THB486.3 million senior unsecured debentures due 2023	A-
THANI23NA: THB3,439 million senior unsecured debentures due 2023	A-
THANI247A: THB593.7 million senior unsecured debentures due 2024	A-
THANI254A: THB1,000 million senior unsecured debentures due 2025	A-
THANI255A: THB593 million senior unsecured debentures due 2025	A-
THANI264A: THB700 million senior unsecured debentures due 2026	A-
THANI274A: THB1,300 million senior unsecured debentures due 2027	A-
Rating Outlook:	Stable

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