

RATCHTHANI LEASING PLC

No. 156/2024
16 September 2024

FINANCIAL INSTITUTIONS

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

Last Review Date: 31/01/24

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 company rating on THANI incorporates a one-notch rating enhancement from its stand-alone credit profile (SACP) at “bbb+” to reflect the company’s status as a “strategically important” entity of Thanachart Capital PLC (TCAP), rated “A/Stable”. The enhancement reflects THANI’s strong equity, net profit, and asset contributions to TCAP. THANI also receives ongoing business and financial support from TCAP.

The SACP on THANI reflects its strong position in the commercial truck and luxury car hire-purchase (HP) loan market. The rating also takes into consideration the company’s strong capital base and sufficient funding and liquidity.

However, these supporting factors are offset by our concerns over weak asset quality and high losses on sales of repossessed vehicles that are likely to continue in the medium term. In addition, lower yields together with rising funding costs are putting pressure on the company’s earnings capacity.

KEY RATING CONSIDERATIONS

Continuous support from TCAP

TRIS Rating continues to consider THANI a “strategically important” subsidiary of TCAP. The company rating on THANI therefore incorporates a rating enhancement from its stand-alone credit profile (SACP) at “bbb+”. We typically incorporate a three-notch enhancement to the SACP of a “strategically important” entity (SACP+3). However, the rating enhancement is only one notch as the rating on THANI is capped at one notch below the group credit profile (GCP) of Thanachart Group, which is assessed at “a”.

We anticipate that TCAP will likely retain its majority stake in THANI, which stood at 61.1% as of June 2024. Among TCAP’s major subsidiaries constituting Thanachart Group’s GCP, THANI is the largest contributor in terms of equity, net profit, and assets, which we expect to continue in the coming years. In the first half of 2024 (1H24), THANI’s net profit accounted for 29% of TCAP’s, up from 23% year-on-year (y-o-y).

Regarding business support, TCAP influences THANI’s overall strategy, including risk management, through its board representatives. Longer term, we expect THANI to still benefit from TCAP’s financial support and rely on TCAP as a lender of last resort if necessary.

Strong market position to continue despite credit contraction

We expect THANI to maintain a strong position in the market for HP loans on commercial trucks, even with our anticipation that total outstanding loans are likely to drop below THB50 billion over the next two to three years.

As of December 2023, THANI’s outstanding loans stood at THB54.1 billion, stable y-o-y. Outstanding loans declined to THB51.1 billion as of the end of second quarter 2024 (2Q24), a 5% contraction year-to-date (YTD). This decline aligns with industry trends and is attributed to a conservative growth strategy aimed at controlling asset quality. As of 2Q24, the composition of its outstanding loans was 70% truck HP, 25% luxury car HP, 4% other vehicle HP, and 1% other loans.

The contraction in new truck HP stemmed from lower demand for new trucks. This was due to reduced activities in the construction segment as the property sector faces a downturn while the government also delayed budget disbursement for infrastructure projects. A decline in prices of used trucks in 2023 through 2Q24 has also hindered the demand of new trucks, hitting THANI's core business. In tandem, title loans for used trucks offered to existing customers also declined 10% YTD to THB657 million at the end of 2Q24 as the company remained cautious due to concern over asset quality in the title loan segment.

For the luxury car segment, floor-plan loans for dealers also contracted. Luxury car HP, on the other hand, portrayed a mixed picture, with new cars on a downward trend, while used cars exhibited steady growth, driven by stronger demand given attractive market prices of used luxury cars.

We view THANI's cautious approach positively as it demonstrates a prudent management of asset quality amidst economic uncertainty. We forecast a 25% y-o-y contraction in new loans in 2024 and a 10% annual growth in 2025-2026. Our assumptions are based on the sharp drop in sales and registrations of new trucks this year coupled with our anticipation of a gradual recovery in the next few years.

Capital position remains strong

We continue to assess THANI's capital as "strong" reflecting ongoing profit accumulation and a prudent dividend policy. In 2023, the company distributed stock dividends instead of cash dividends to preserve capital. The zero cash dividend, coupled with loan portfolio contraction, resulted in the company's risk-adjusted capital (RAC) ratio rising to 25.8% at the end of 2Q24 from 23.8% at end-2023. Although our base-case projection expects THANI's capital to strengthen further, given our conservative growth assumptions, stronger-than-expected credit growth could put pressure on its capital. In terms of financial leverage, its debt to equity (D/E) ratio stood at 3 times at the end of 2Q24, well below the D/E covenant on its debt obligations of 10 times.

Funding and liquidity profile to stay healthy

We anticipate THANI's funding and liquidity position to remain "adequate." The company has accessed a diverse range of funding sources, including both debt and equity capital markets and credit facilities from financial institutions, which we believe are sufficient for its future growth strategy. Additionally, THANI benefits from credit lines provided by TCAP that can be utilized to address any potential shortfalls.

At the end of June 2024, THANI had credit facilities totaling THB6 billion from various financial institutions, of which THB3 billion were from TMB Thanachart Bank PLC (TTB). Of this, 50% remained undrawn. The company's debt profile at the end of 2Q24 comprised 45% short-term obligations and 55% long-term commitments.

THANI projects that customer loan repayments will amount around THB2.3 billion per month on average over the next 12 months (July 2024 - June 2025), which should sufficiently cover monthly loan servicing requirements. The significant backup credit facilities from financial institutions further mitigate liquidity risk. Meanwhile, long-term debentures totaling THB3.55 billion, from a total of THB29 billion outstanding as of September 2024, are due in 2024. We expect the company will successfully refinance these maturing obligations. As of June 2024, the company had no priority debt.

Credit risk likely to be contained

In 2023, the deterioration in THANI's asset quality was more severe than anticipated. The ratio of stage-3 loans (non-performing loans or NPL) formation to average loans rose to 2.4% in 2023 and 2.0% in 1H24, compared with the level below 1.2% in the past few years. The NPL ratio increased to 3.4% at the end of 2Q24 from 3.2% at end-2023.

The deterioration was primarily due to a weakening of debt serviceability, a higher number of repossessed trucks, and a decline in used truck prices. All these factors resulted in a significant rise in credit costs and losses on sale of repossessed trucks, similar to other lenders.

We anticipate THANI's asset quality to gradually improve starting in 2H24, supported by its ongoing efforts to tighten its underwriting policies, active debt collections, and accelerated NPL write-offs. The company aims to reduce its NPL ratio to 3.2% or below by the end of this year. As of June 2024, the NPL coverage ratio stood at 92%.

Higher credit costs pressure earnings

We still assess THANI's earnings capacity as "moderate", despite a potential decline in profits. The company's earnings capacity, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), declined significantly to 3.1% in 2023 and 2.9% (annualized) in 1H24 from 4.3% in 2022. The reduction was largely attributed to a narrower interest spread, given lower yield and higher funding cost, as well as an increase in expected credit losses.

The lower yield was the result of heightened market competition and the company's focus on low-credit risk customers that tend to generate lower loan yields. THANI's funding cost also rose steadily to 3.1% in 1H24 from 2.4% in 2022. Consequently, the interest spread fell to 3.4% in 1H24 from 4.4% in 2022.

As for credit cost, the ratio rose to 1.7% and 1.9% in 2023 and 1H24, compared to a range of 0.7%-1.2% in 2020-2022. The operating expense to total income ratio also trended upward to the 16%-17% range in 2022-1H24, from 12%-13% in prior periods, primarily due to higher litigation costs associated with managing NPLs.

Looking ahead, we anticipate EBT/ARWA to remain in the 2.4%-2.8% range in 2024-2026, a level that still supports THANI's ratings. This is based on our assumption of a 3.5% interest spread, operating expenses to total income of 17%, and 2% credit costs.

Truck sales and HP volume likely to recover gradually

Truck sales have been impacted by the sluggish economy, with weakness seen particularly in the construction sector. During the first seven months of 2024 (7M24), new truck sales fell by 39% y-o-y while registrations were 30% lower. Consequently, outstanding auto loans for truck lenders listed on the Stock Exchange of Thailand (SET) contracted by 5.4% in 1H24, down from a 2.7% growth in 2023. With the appointment of a new government and potential acceleration of budget disbursement, we anticipate demand for new trucks in 2025-2026 to be boosted by a recovery of the construction sector and solid demand in the retail, energy, and agriculture sectors.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the performance of THANI during 2024-2026 are as follows:

- Outstanding portfolio to contract by 3%-10% per annum in 2024-2025 and expand by 3% in 2026.
- Loan spread to remain at around 3.5%.
- Credit cost in the range of 2.0%-2.3%.
- Operating expense to total income ratio of around 17%.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that THANI will maintain its market position, capital position, and earnings capability. The outlook also takes into consideration our anticipation that the company's asset quality will remain manageable.

RATING SENSITIVITIES

THANI's SACP could be revised upward if its capital base is materially strengthened, with the RAC ratio rising well above 25% for a sustained period, while market position is at least maintained, and earnings capacity and asset quality improve steadily.

The SACP could be revised downward if the company's capital position weakens materially, with the RAC ratio falling below 12% and/or asset quality deteriorating substantially to the extent that EBT/ARWA falls below 1.5%.

The issuer credit rating (ICR) on THANI could be upgraded if the rating on TCAP is upgraded. A rating downgrade on TCAP could also pressure THANI's ratings.

COMPANY OVERVIEW

THANI was established in 1988 and listed on SET in 2002. THANI provides HP 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 TCAP 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 of THANI with a 61% stake as of June 2024, 56.8% through TCAP SPV1 Co., Ltd., and 4.2% through TCAP.

THANI's loan portfolio stood at THB51.1 billion at the end of June 2024, 70% of which comprised commercial truck loans, 25% luxury passenger car, and the remaining 5% other loans.

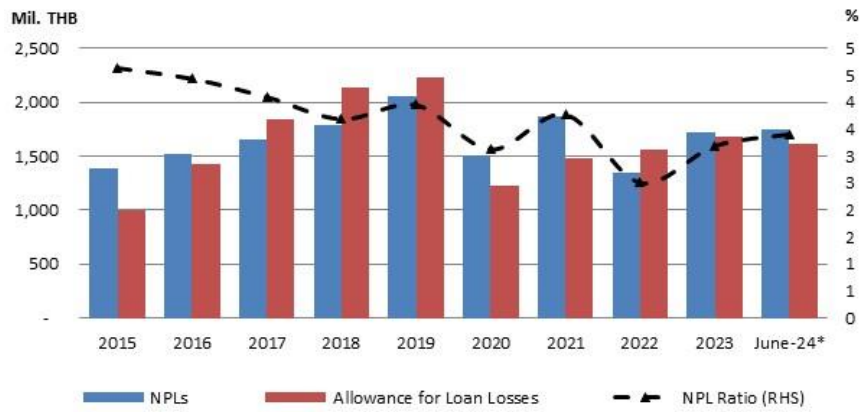
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: THANI's financial statements
* Year-to-date growth for June 2024

Chart 2: Asset Quality



Source: THANI's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Jun 2024	Year Ended 31 December			
		2023	2022	2021	2020
Total assets	52,183	55,260	53,909	49,223	48,518
Total loans	51,096	54,061	53,660	49,396	47,976
Allowance for expected credit loss	1,609	1,678	1,558	1,485	1,228
Short-term debts	17,158	17,146	16,396	17,802	11,000
Long-term debts	20,842	24,635	24,504	18,879	25,742
Shareholders' equity	13,169	12,685	12,361	11,567	10,819
Net interest income	1,107	2,496	2,585	2,517	2,452
Expected credit loss	440	1,048	555	586	338
Non-interest income	453	929	933	796	747
Operating expenses	353	734	774	585	538
Earnings before taxes	768	1,641	2,189	2,143	2,324
Net income	598	1,287	1,753	1,709	1,860

* Consolidated financial statements

Unit: %

	Jan-Jun 2024	Year Ended 31 December			
		2023	2022	2021	2020
Profitability					
Net interest income/average assets	4.12 **	4.57	5.01	5.15	4.93
Non-interest income/average assets	1.72 **	1.73	1.81	1.64	1.50
Operating expenses/total income	16.17	16.02	17.41	13.83	12.61
Operating profit/average assets	2.86 **	3.01	4.25	4.38	4.68
Earnings before taxes/average risk-weighted assets	2.95 **	3.08	4.28	4.43	4.68
Return on average assets	2.23 **	2.36	3.40	3.50	3.74
Return on average equity	9.25 **	10.28	14.65	15.27	20.12
Asset Quality					
Receivable in stage 3/total loans	3.41	3.19	2.51	3.77	3.13
Expected credit loss/average loans	1.67 **	1.95	1.08	1.20	0.68
Allowance for expected credit loss/receivable in stage 3	92.46	97.21	115.70	79.69	81.86
Capitalization					
Risk-adjusted capital ratio	25.76	23.78	23.16	23.55	22.62
Debt/equity (times)	2.96	3.36	3.36	3.26	3.48
Funding and Liquidity					
Stable funding ratio	117.99	109.63	108.37	101.85	126.13
Liquidity coverage measure (times)	0.07	0.08	0.04	0.03	0.09
Short-term debts/total liabilities	43.98	40.27	38.80	47.27	29.18

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI240A: THB3,000 million senior unsecured debentures due 2024	A-
THANI24DA: THB500 million senior unsecured debentures due 2024	A-
THANI251B: THB1,000 million senior unsecured debentures due 2025	A-
THANI254A: THB1,000 million senior unsecured debentures due 2025	A-
THANI255A: THB593 million senior unsecured debentures due 2025	A-
THANI25DA: THB2,000 million senior unsecured debentures due 2025	A-
THANI25DB: THB1,000 million senior unsecured debentures due 2025	A-
THANI262A: THB1,000 million senior unsecured debentures due 2026	A-
THANI262B: THB1,000 million senior unsecured debentures due 2026	A-
THANI264A: THB700 million senior unsecured debentures due 2026	A-
THANI265A: THB2,500 million senior unsecured debentures due 2026	A-
THANI268A: THB2,000 million senior unsecured debentures due 2026	A-
THANI26NA: THB1,100 million senior unsecured debentures due 2026	A-
THANI271A: THB651.1 million senior unsecured debentures due 2027	A-
THANI271B: THB2,000 million senior unsecured debentures due 2027	A-
THANI272A: THB1,000 million senior unsecured debentures due 2027	A-
THANI274A: THB1,300 million senior unsecured debentures due 2027	A-
THANI27NA: THB900 million senior unsecured debentures due 2027	A-
THANI282A: THB1,000 million senior unsecured debentures due 2028	A-
Rating Outlook:	Stable

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