

POLICE GENERAL HOSPITAL SAVING AND CREDIT COOPERATIVE LTD.

No. 179/2024

10 October 2024

FINANCIAL INSTITUTIONS

Issuer Rating: BBB+
Outlook: Stable

Last Review Date: 29/08/23

Issuer Rating History:		
Date	Rating	Outlook/Alert
27/07/12	BBB+	Stable

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RATIONALE

TRIS Rating affirms the issuer rating on Police General Hospital Saving and Credit Cooperative Ltd. (PHSC) at “BBB+” with a “stable” outlook. The rating reflects PHSC’s adequate assessment of business position, as well as capital and earnings, and liquidity position. However, the rating is constrained by moderate funding and key-person risk.

KEY RATING CONSIDERATIONS

Savings cooperatives enjoy privileges

Savings cooperatives and their members are exempt from major taxes such as savings interest tax, value-added tax, and investment income tax. The law also stipulates that a savings cooperative has priority claim over any other creditors to receive interest and repayments from its debtors. The priority claim privilege is an important competitive advantage of savings cooperatives over other lending institutions.

Most loans provided to ordinary members of savings cooperatives are conducted under agreements with employers or affiliated entities, allowing for the deduction of interest or principal payments from members’ salaries. This arrangement results in most savings cooperatives having good credit quality and low credit costs.

Adequate business position

TRIS Raing assesses PHSC’s business position as “adequate”, underpinned by three factors: scale and scope; strengths, support and control from the affiliated entity; and membership stability and support.

PHSC’s strength in scale and scope is evidenced by its THB18.6 billion asset size as of fiscal year 2023 (FY2023) (year-ended 30 September 2023). This substantial asset size stems from a large membership base, built over two decades of operations. PHSC’s scale facilitates operational efficiency and the continuous strengthening of its capital and funding base.

PHSC’s operations benefit from the strength, support, and control of its affiliated entities, which include the Police General Hospital (PGH) and related institutions. As a public hospital under the Royal Thai Police, PGH is connected to various entities including, for example, the Police Nursing College, Police Medical Bureau, and Institute of Forensic Medicine. This network provides a solid foundation for PHSC’s membership, as most key personnel are police officers or government employees.

PGH and its affiliates offer consistent management and operational support to PHSC, while encouraging employee participation in savings cooperative activities. This relationship has been instrumental in stabilizing and promoting PHSC’s long-term growth.

The high job security and stable income of PGH and related entities’ employees contribute to PHSC’s membership stability and robust debt repayment capacity. Moreover, PHSC’s policy requiring ordinary members to make monthly share purchases also ensures steady growth in its paid-up share capital.

Adequate capital and earnings

PHSC’s capital and earnings are assessed as “adequate”. Its capital, measured by risk-adjusted capital (RAC) ratio, stood at 10% at the end of FY2023.

PHSC's paid-up share capital grew steadily to THB2.2 billion at the end of FY2023 from THB0.9 billion at the end of FY2015, reflecting a compound annual growth rate (CAGR) of 19%. We project PHSC's RAC ratio to remain adequate at 10%-12% over the next three years, based on these assumptions: paid-up share growth of 13%-15% in FY2024-FY2026; loans expansion of 32% in FY2024, followed by an average of 3% per annum in FY2025-FY2026; and investment growth of 5% annually in FY2024-FY2026. Given PHSC's investment policy, we do not expect an increase in exposure to risky assets.

PHSC's earnings capacity, measured by net profit to average risk-weighted assets (NP/ARWA), was around 1% in FY2023. This relatively weak profitability is typical for savings cooperatives, which generally do not prioritize profit maximization. We project PHSC's earnings to remain between 1%-1.5% over the next few years, assuming an interest spread of around 1% and well-managed operating expenses and credit costs.

Adequate risk position

We assess PHSC's risk position as "adequate". In TRIS Rating's view, PHSC is poised to increase exposure to market risk due to its aggressive investment activities, which may weaken its capital base in adverse market conditions. The ratio of investments to total assets stood at more than 66% at the end of FY2022-FY2023, increasing from 37% at the end of FY2021.

PHSC's investment portfolio, totaling THB13.2 billion as of end-FY2023, comprised mainly 66% corporate bonds and 19% equities. The remaining 15% were investments in other assets, such as government bonds, shares of the Federation of Savings and Credit Cooperatives of Thailand Ltd. (FSCT), and the North Bangkok Power Plant Block 1 Infrastructure Fund Electricity Generating Authority of Thailand (EGATIF). The unrealized losses from its bond and equity investments in FY2023 were about 5%, which have dented its capital base to some extent.

At the end of March 2024, PHSC had exposure of THB695 million in senior unsecured debentures of Thai Airways International PLC (THAI), equivalent to 4% of its total assets and 25% of its total equity. PHSC has also set aside partial reserves for impairment to absorb potential losses, as recommended by the Cooperative Auditing Department. THAI is currently submitting its restructuring plan to the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) and is in the process of exiting its business rehabilitation.

PHSC is exposed to loan concentration risk. Loans made to the 10 largest cooperatives constituted 55% of total savings cooperative borrowings as of March 2024. This was due to large credit exposure to other cooperatives which exceeds the amount of loans extended to its members. PHSC primarily lends the excess funds to other savings cooperatives rather than to members, as the yields generated from loans to other cooperatives are high.

In terms of credit risk, we expect PHSC's asset quality to remain healthy. PHSC has had zero non-performing loans (NPLs, loans of more than 90 days overdue) since FY2007. We expect PHSC will continue to maintain its prudent credit risk policies.

Moderate funding due to reliance on affiliate members' deposits

We assess PHSC's funding as "moderate". Its funding comprises mainly member deposits, representing 93% of total deposits. PHSC has two types of members: ordinary members and affiliated members. By law, the ordinary members are employees of PGH and its related entities. Affiliated members are either related to ordinary members or have some form of affiliation with PHSC.

To expand the deposit base in the past, PHSC previously adopted lenient criteria, attracting a large number of affiliated members with higher deposit rates. This policy resulted in deposits from affiliated members rising steadily to peak at 91% of total member deposits in 2019. The level has gradually declined to 82% as of March 2024, caused by stricter membership rules under the new regulations.

Unlike ordinary members who receive various benefits from their membership, which helps secure their deposit base, most affiliated members will likely maintain their deposits only if PHSC continues to offer attractive returns. The still-high proportion of deposits from affiliate members therefore remains a concern over the stability of PHSC's deposit base in the long run. TRIS Rating also views deposits from other savings cooperatives, which accounted for 7% of total deposits, as similarly less stable.

Adequate liquidity

We assess PHSC to have sufficient liquidity over the next 12 months to cover any temporary liquidity shortfalls at the current scale of operations. Available credit facilities from several financial institutions totaled THB2.8 billion as of March 2024. Of this, 36% were undrawn. Furthermore, PHSC has maintained sizable liquid assets (cash and investments), which accounted for 75% of total assets as of March 2024 to mitigate liquidity risk. Its liquidity ratio at the end of March 2024 was 12%, well above the current liquidity reserve requirement of 1%.

Developing standardized procedures to reduce key-person risk

Key-person risk is one rating factor that impacts the risk position of PHSC as its financial position and performance have been largely orchestrated by one key member of the management team. To mitigate the risk, PHSC has been developing and implementing standardized operating procedures, as well as applying other tools to support operations.

Coping and complying effectively with new regulations

Thailand's 2019 law tightening control over savings cooperatives' activities aims to enhance the long-term stability of these crucial financial institutions. PHSC, a savings cooperative, is expected to comply effectively with the new regulations without major operational concerns. However, the law may limit growth opportunities and slightly weaken PHSC's financial performance due to stricter investment criteria and reserve requirements. These changes are likely to reduce investment flexibility and lower asset returns, though the impact on PHSC's overall financial profile should be minimal.

Despite this progress, savings cooperatives in Thailand still lack the rigorous supervision applied to banks, which remains a significant weakness in their credit standing. While the law provides a framework for tighter controls, effective enforcement through regular, thorough examinations is unlikely in the near term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PHSC's performance during FY2024-FY2026 are as follows:

- Loans to grow by 32% in FY2024 and 3% per annum on average in FY2025-FY2026.
- Investments to grow by 5% per annum.
- Paid-up share to grow by 13%-15% per annum.
- Spread of around 1% per annum.

RATING OUTLOOK

The "stable" outlook reflects our expectation that PHSC will continue to perform satisfactorily in generating acceptable returns for its ordinary members. We also expect PHSC to cope well and comply with the current regulations.

RATING SENSITIVITIES

The prospect of a rating upgrade is constrained by the lack of close supervision and rigorous examination of savings cooperatives in general.

In contrast, a downgrade scenario could arise should there be indications of PHSC's more aggressive investment policies, especially with respect to excessive equity investment over paid-up capital and legal reserve. More aggressive operating and financial policies that lead to deterioration in the financial profile, asset quality, or a material loss on investment would also negatively impact the rating. Any regulatory change that erodes the tax and priority claim privileges currently enjoyed by savings cooperatives could also negatively affect the rating.

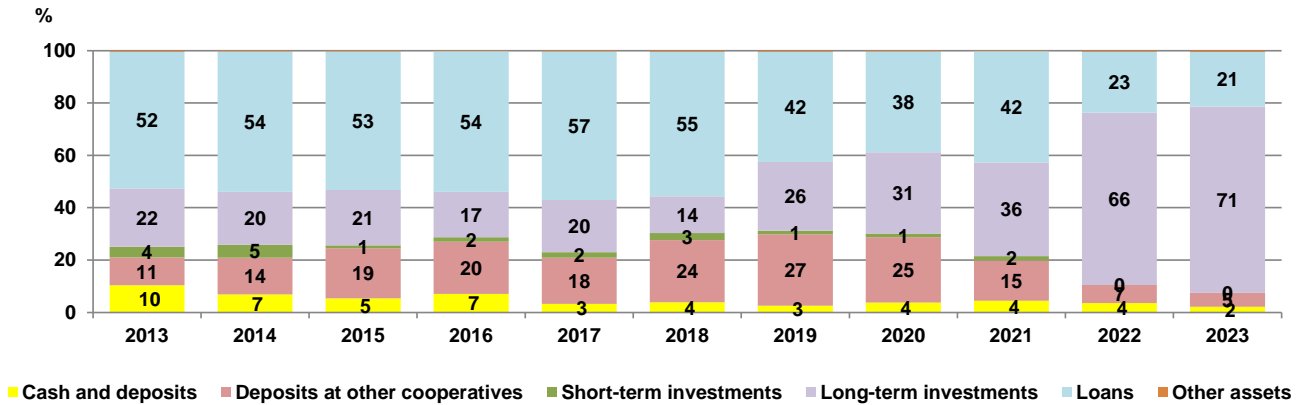
ORGANIZATION OVERVIEW

PHSC was established in 2002 through the initiative of the top management of PGH. Before establishing PHSC, the PGH staff who sought the benefits and services of a savings cooperative were obliged to be members of the Saving and Credit Cooperative of Royal Thai Police Headquarters, Ltd.

At the end of FY2023, PHSC had 2,170 ordinary members and 3,459 affiliate members and its total assets were worth THB18.4 billion. PHSC is classified as a large savings cooperative, ranking in the top 50 of around 1,400 savings cooperatives in Thailand.

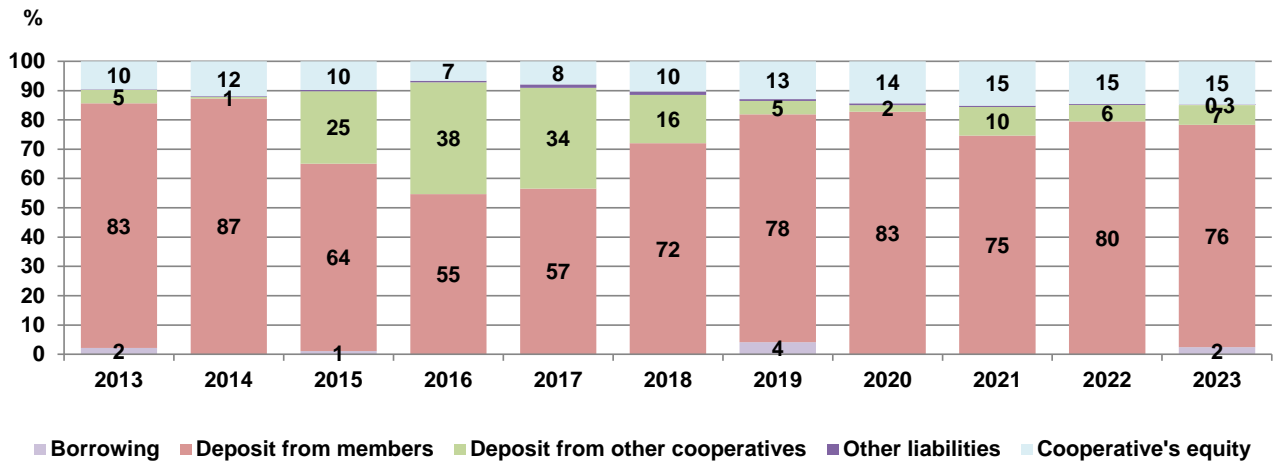
KEY OPERATING PERFORMANCE

Chart 1: PHSC's Asset Structure



Source: PHSC

Chart 2: PHSC's Funding Structure



Source: PHSC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 30 September-----				
	2023	2022	2021	2020	2019
Total assets	18,617	16,871	17,576	15,648	18,327
Total loans	3,895	3,929	7,463	6,023	7,713
Total investment in securities	13,952	11,760	6,722	5,319	4,834
Allowance for doubtful accounts	0	0	0	0	0
Deposits	15,376	14,367	14,842	13,312	15,095
Borrowings	450	0	0	0	760
Equity	2,742	2,449	2,660	2,243	2,371
Net interest and dividend income	258	219	171	184	173
Bad debts and doubtful accounts	0	0	0	0	0
Non-interest income	69	76	93	41	84
Operating expenses*	12	14	11	12	10
Net income	279	274	219	213	246

* Excluding THB34 million in provision to cover losses from investing in the senior unsecured debentures of THAI

Unit: %

	-----Year Ended 30 September-----				
	2023	2022	2021	2020	2019
Profitability					
Net-interest and dividend income/average assets	1.45	1.27	1.03	1.08	0.99
Non-interest income/average assets	0.39	0.44	0.56	0.24	0.48
Operating expenses*/total income	7.61	3.89	8.42	1.90	1.52
Return on average assets	1.57	1.59	1.32	1.25	1.42
Return on average equity	10.76	10.74	8.93	9.22	12.12
Net profit/average risk-weighted assets	0.98	1.06	0.90	0.98	1.28
Asset Quality					
Non-performing loans/total loans	0	0	0	0	0
Bad-debts and doubtful accounts/average loans	0	0	0	0	0
Allowance for doubtful accounts/total loans	0	0	0	0	0
Allowance for doubtful accounts/non-performing loans	0	0	0	0	0
Capitalization					
Risk-adjusted capital ratio	8.89	9.38	10.27	9.92	11.42
Debt/equity (times)	5.79	5.89	5.61	5.98	6.73
Funding and Liquidity					
Stable funding ratio	114.11	120.14	147.76	131.33	147.48
Liquidity coverage measure (times)	3.11	n.m.	n.m.	n.m.	7.18

* Operating expenses excluding THB34 million in provision to cover losses from investing in the senior unsecured debentures of THAI.
n.m. = Not meaningful

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

Police General Hospital Saving and Credit Cooperative Ltd. (PHSC)

Issuer Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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