

GROUP LEASE PLC

No. 104/2017

22 August 2017

Issue Rating:

Partially guaranteed A-

Outlook:

Negative

Issue Rating History:

Date	Rating	Outlook/Alert
05/04/17	A-	Negative
05/02/14	A-	Stable

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Rating Rationale

TRIS Rating affirms the rating of the senior partially guaranteed debentures of Group Lease PLC (GL) at “A-” and maintains the “negative” outlook for GL’s debentures. The rating of the partially guaranteed debentures is based on the credit profiles of both the guarantor and the issuer (GL). Sixty-five percent (65%) of the sum of the outstanding principal plus interest is guaranteed by KASIKORNBANK PLC (KBANK), rated “BBB+” by S&P Global Ratings, with a “stable” outlook (international scale). The “negative” outlook for the debentures is determined by GL’s credit profile. GL’s credit profile reflects its short track record in markets abroad and business concentration risk derived from making large loans to few borrowers. The company also carries asset impairment risk as a result of a sizeable investment in Sri Lanka.

As of June 2017, GL’s assets were Bt18,277 million. The largest portion, or 37.52% of assets, comprised adjusted loans. Adjusted loans include four types of loans: hire purchase loans, asset-backed loans, microfinance loans, and consumer finance loans made to borrowers in Thailand, Cambodia, the Lao People’s Democratic Republic (Lao PDR), Myanmar, and Indonesia. GL has a fifth category of loans: small and medium enterprise (SME) loans. SME loans made up almost one-fifth or 16.96% of its assets. SME loans were made to two groups of borrowers. The two groups are companies registered in Cyprus and in Singapore. The company holds a large amount of cash and cash equivalents (19.65% of assets). The remainders were the investment in Commercial Credit and Finance PLC (CCF) operating in Sri Lanka (14.10%), investments in other companies in Singapore; Indonesia; and Myanmar (3.68%); and other assets (8.09%).

GL began to diversify abroad in 2013. Assets and investments abroad comprised around 50% of total assets at the end of March 2017. However, the company has a short track record of investing outside Thailand and faces higher risk in markets other than Thailand.

In 2013, GL started offering hire purchase loans in Cambodia through a wholly-owned subsidiary, GL Finance PLC (GLF). The company cooperates with Honda NCX, the sole authorized manufacturer and distributor of Honda motorcycles in Cambodia. At the end of March 2017, GLF’s loan portfolio comprised approximately 30% of GL’s consolidated outstanding loans.

In 2014, GL started operation in the Lao PDR through a subsidiary, GL Leasing (Lao) Co., Ltd. (GLL). GLL uses a business model similar to the approach GLF takes in Cambodia. GLL focuses on loans for agricultural machinery and motorcycles.

GL also expanded to Indonesia through a subsidiary, PT Group Lease Finance Indonesia (GLFI), a three-way joint venture between Group Lease Holdings Pte., Ltd. (GLH), GL’s wholly-owned subsidiary registered in Singapore as a holding company, J Trust Asia Pte., Ltd., and a local Indonesian company. GLFI received an official license from the Indonesian authorities (OJK) in July 2016.

To establish business linkage with motorcycle dealers in Cambodia, GL is exposed to large-sized client concentration risk. In the second half of 2015, GL started providing a substantial amount of loans, in US dollars, through GLH to two groups of borrowers: companies registered in Cyprus and in Singapore. The two groups of borrowers lent the money they received from GLH to motorcycle dealers in Cambodia. At the end of 2015, the outstanding loans to the two borrowers

totalled Bt2,758 million. The value of the loans grew considerably, increasing to Bt3,759 million at the end of 2016 (21.77% of GL's total assets). At the end of June 2017, the value decreased to Bt3,100 million (16.96% of total assets), reducing GL's business concentration risk but still remaining high. In 2016 and in the first half of 2017, the interest income from the loans made to these two large borrowers comprised 16.3% and 15.2%, respectively, of GL's total income.

GL expanded to Sri Lanka in December 2016 through GLH, by way of a Bt2,489 million equity investment in CCF. GL received 29.99% of the total share capital for its investment. The acquisition cost of the investment in CCF increased by Bt3.6 million to Bt2,493 million because of due diligence costs. The investment in Sri Lanka may bring new growth opportunities, but GL will also face asset impairment risk. Using the equity method, GL's balance sheet reflected the value of the investment in CCF at Bt2,545 million at the end of 2016 and at Bt2,576 million at the end of June 2017.

The quality of GL's portfolios of adjusted loans has improved significantly recently, even though the Thai economy is still growing slowly. The loan collection process has improved as well. As the result of the improvement in loan quality, looking only at adjusted loans, the ratio of non-performing loans (NPLs; loans overdue more than three months) to total loans dropped from 9.4% at the end of 2014 to 5.93% at the end of 2015 and 4.36% at the end of 2016. At the end of June 2017, the ratio rose slightly to 4.46%. TRIS Rating expects GL will maintain its effective underwriting and collection policies and continue to control the quality of the overall loan portfolio. However, the asset quality of loan portfolio in Cambodia has deteriorated and is a concern.

GL's financial performance improved considerably in 2015 and 2016. The ratio of provision expenses to average adjusted loans dropped to 5.4% in 2015 and 4.68% in 2016. The ratio of losses on repossessed motorcycles to average adjusted loans decreased to 5.38% in 2015 and 3.47% in 2016. Net profit surged to Bt583 million in 2015 and Bt1,063 million in 2016. Return on average assets (ROAA) sprang up to 6.46% in 2015 and 7.58% in 2016. In the first half of 2017, GL reported a net profit of Bt664 million, up 38.95% from the same period in 2016, and ROAA at 7.48% (annualized), down from 7.94% (annualized) in the same period of 2016.

GL financed the growth of its loan portfolio by issuing convertible debentures obtained through the financial support of its major shareholder, J Trust Asia Pte., Ltd. The ratio of shareholders' equity to total assets was 49.24% in 2016 and 45.41% at the end of June 2017. The capital base is adequate to support the high-risk nature of the motorcycle financing business and to finance the expansion of the loan portfolio. GL's larger capital base will serve two main purposes: give it a base from which to expand abroad, and serve as a cushion to protect against losses, given the risky nature of its target customers.

Rating Outlook

The "negative" outlook for GL's issue rating reflects the company's higher business risk. The business risk is higher due to three factors: exposure to markets with higher risk than Thailand, large loans made to just a few large borrowers, and the asset impairment risk of the investment in Sri Lanka. The support GL receives from its major shareholder is expected to continue. In addition, some related-party transactions remain rating concerns.

The downside case for the issue rating would emerge if any new uncertainties arise, if GL's asset quality or profitability deteriorates further than TRIS Rating's expectation, or if the creditworthiness of GL's guarantor weakens. The upside case is unlikely in the medium term.

Group Lease PLC (GL)

Issue Rating:

GL199A: Bt1,500 million partially guaranteed debentures due 2019

A-

Rating Outlook:

Negative

Financial Statistics*
Unit: Bt million

	----- Year Ended 31 December -----				
	Jan-Jun 2017	2016	2015	2014	2013
Total assets	18,277	17,266	10,765	7,272	5,497
Adjusted loans**	7,146	6,849	6,553	6,656	4,922
Total loans***	10,246	10,607	9,311	6,719	5,001
Allowance for doubtful accounts	288	271	365	560	391
Short-term borrowings	1,242	1,646	1,911	2,818	1,822
Long-term borrowings	8,240	6,172	998	1,800	1,289
Shareholders' equity	8,299	8,501	7,581	2,514	2,261
Net interest income	1,177	2,279	1,831	1,431	1,113
Bad debts and doubtful accounts	168	313	357	495	344
Non-interest income	360	419	391	181	213
Operating expenses	639	1,120	1,139	979	677
Net income	664	1,063	583	118	240

* Consolidated financial statements

** Adjusted loans include hire purchase loans, asset-backed loans, microfinance loans, and consumer finance loans.

*** Total loans include hire purchase loans, asset-backed loans, microfinance loans, consumer finance loans, and SME loan receivables.

Key Financial Ratios*

Unit: %

	Jan-Jun 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Profitability					
Net-interest income/average assets	6.62 **	16.26	20.30	22.41	24.78
Net-interest income/total income	66.62	76.71	73.55	76.84	75.61
Operating expenses/total income	36.15	37.69	45.78	52.59	46.02
Operating profit/average assets	4.11 **	9.02	8.05	2.16	6.79
Return on average assets	3.75 **	7.58	6.46	1.84	5.35
Return on average equity	7.93 **	13.22	11.55	4.93	12.49
Asset Quality					
Non-performing loans/adjusted loans***	4.46	4.36	5.93	9.40	9.56
Bad debts and doubtful accounts/average adjusted loans***	2.40 **	4.68	5.40	8.55	8.35
Allowance for doubtful accounts/adjusted loans***	4.03	3.96	5.56	8.42	7.94
Allowance for doubtful accounts/non-performing loans	90.46	90.75	93.78	89.61	82.98
Capitalization					
Shareholders' equity/total assets	45.41	49.24	70.43	34.57	41.14
Shareholders' equity/total loans****	80.99	80.14	81.43	37.41	45.21
Debt to equity (time)	1.20	1.03	0.42	1.89	1.43
Liquidity					
Short-term borrowings/total liabilities	12.44	18.77	60.03	59.21	56.32
Total loans****/total assets	56.06	61.44	86.49	92.39	90.98

* Consolidated financial statements

** Non-annualized

*** Adjusted loans include hire purchase loans, asset-backed loans, microfinance loans, and consumer finance loans.

**** Total loans include hire purchase loans, asset-backed loans, microfinance loans, consumer finance loans, and SME loan receivables.

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