

BANK OF AYUDHYA PLC

No. 12/2020
10 March 2020

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Rating:	
Senior unsecured	AAA
Outlook:	Stable

Last Review Date: 29/11/19

Company Rating History:

Date	Rating	Outlook/Alert
23/12/13	AAA	Stable
08/07/13	AA-	Positive
17/04/09	AA-	Stable
04/04/08	A+	Positive
23/11/04	A	Stable
12/07/04	A-	Positive
07/10/03	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Bank of Ayudhya PLC (BAY) at “AAA” with a “stable” outlook. At the same time, TRIS Rating assigns the rating of “AAA” to BAY’s proposed issue of up to Bt20,000 million in senior unsecured debentures due within 3 years.

The ratings reflect BAY’s status as a highly strategic member of Mitsubishi UFJ Financial Group (MUFG Group), the largest financial group in Japan. The ratings also take into account the business and financial support the MUFG Group has provided to the bank and the expected support from its parent group in times of financial distress. BAY is a subsidiary of MUFG Bank Ltd. (MUFG Bank). MUFG Bank is a wholly-owned subsidiary and a core member of the MUFG Group (rated “A/Positive” by S&P Global Ratings).

BAY’s stand-alone credit profile reflects its well-diversified business mix and franchise strengths in the retail and Japanese corporate banking segments. However, BAY’s moderately strong capital and somewhat above-average reliance on wholesale funding relative to large Thai banks constrain its standalone-credit profile.

BAY’s rating is underpinned by its solid banking franchise. The bank was designated as one of Thailand’s five Domestic Systematically Important Banks (D-SIBs) in 2017. Its loan market share continues to expand, as it sustained strong loan growth relative to peers over the recent years. The market share was 14.4% among 10 listed Thai commercial banks at end-2019.

TRIS Rating expects retail banking to remain a primary earnings driver of BAY over the next three years. Retail businesses (including proceeds from sale of 50% stake in Ngern Tid Lor Co., Ltd. (NTL)) contributed around 55% of BAY’s profit before tax in 2019. Consumer finance businesses generate the majority of fee income, with around 80% of total fees coming from credit card, bancassurance, and transaction- and loan-related fees.

Relatively high operating expenses are the major factors behind BAY’s moderate profitability. Nonetheless, a risk-adjusted net interest margin (NIM) remains healthy at 2.2% in 2019, above that of several major Thai banks. The cost-to-income ratio, excluding sale of NTL, stood at 45.1%. Return on average assets (ROAA), excluding sale of NTL, was 1.2% in 2019, near Thai banks average.

We estimate BAY’s CET-1 ratio should remain at around 12%-13% over the next three years. Our estimate of CET-1 assumed 7% loan growth and a 25% dividend pay-out ratio over the same period. BAY’s CET-1 ratio at end-2019 was 13.05%.

BAY has been able to maintain good asset quality, with an NPL ratio at 1.92% at end-2019, a relatively low figure for Thai banks. The bank continues to build up its provision, as reflected by credit costs at 1.62% during 2019. The resulting NPL coverage ratio at end-2019 stood at 163%, a healthy figure.

We consider BAY’s funding profile to be fairly strong and diversified. BAY has a 12.2% market share in deposits across Thai commercial banks at end-2019. Deposits expanded 9.9% in 2019, mainly from term deposits. The bank has higher reliance on wholesale funding and higher-cost term deposits relative to

major Thai banks. In our opinion, this remains appropriate, given fixed-rate hire-purchase (HP) lending making up around a quarter of BAY's total loan portfolio. As a result, deposits made up 79% of BAY's total funding at the same period, below the Thai commercial bank average of 87%. Current account-savings account (CASA) stood at 41% of total deposits at end-2019, below the Thai commercial bank average of around 60%. Funding cost stood at an annualised 1.8% during 2019, above that of other large Thai banks.

BAY has adequate liquidity on a stand-alone basis; its liquidity profile is on par with other mid-sized Thai banks. We view available credit facilities and the support the bank receives from the MUFG Group to be strong back-up for its liquidity. At end-2019, BAY's liquid assets to total deposits were at a satisfactory 31% level. The bank's liquidity coverage ratio (LCR) is below the Thai commercial bank average of 180% but remains fairly healthy at 136% at the end of the first half of 2019 and well above the regulatory requirement of 90%.

RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that BAY will remain a highly strategic subsidiary of the MUFG Group and continue to receive strong support from its parent bank.

RATING SENSITIVITIES

The credit rating and/or outlook of BAY could change if the credit profile of the MUFG Group changes or if TRIS Rating's view of the strategic importance of BAY to the Group changes.

RELATED CRITERIA

- Banks Rating Methodology, 3 March 2020
- Group Rating Methodology, 10 July 2015

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Issue Rating:	
Up to Bt20,000 million senior unsecured debentures due within 3 years	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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