

# MUANGTHAI CAPITAL PLC

No. 51/2024  
21 June 2024

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

Last Review Date: 10/06/24

### Company Rating History:

Date	Rating	Outlook/Alert
30/04/19	BBB+	Stable
19/08/15	BBB	Stable

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## RATIONALE

TRIS Rating assigns a rating of “BBB+” to Muangthai Capital PLC’s (MTC) proposed issue of up to THB4 billion senior unsecured debentures due within two years. The proceeds will be used for debt refinancing and loan portfolio expansion.

At the same time, TRIS Rating affirms the company rating on MTC and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” rating outlook.

The ratings factor in MTC’s superior market position in the title loan business and strong capital base. The ratings also reflect its well diversified and adequate funding sources, as well as sufficient liquidity. However, the ratings are constrained by asset quality deterioration that caused credit costs to increase and the steady decline in earnings capacity due to higher credit costs and narrower interest spread.

MTC has maintained a strong position in its primary business, the title loan sector, boasting the largest market share by asset size and number of branches. The solid market position is backed by MTC’s extensive expertise in title loans and a consistently expanding branch network, which has reinforced its market leadership. At the end of the first quarter of 2024 (1Q24), the company’s outstanding loans reached THB147.6 billion, marking a 17% year-on-year (y-o-y) increase and a 3% rise year-to-date (YTD).

We anticipate MTC’s loan portfolio to continue growing, projecting an annual increase of 5%-15% in 2024-2026, driven by branch expansion and improving efficiency. In the long term, loan growth will continue to be propelled by the core title loan business as MTC’s management intends to focus on asset quality and hence adopt a conservative growth approach for other products.

We continue to assess MTC’s capital as “strong”, with a risk-adjusted capital (RAC) ratio of 19.4% at the end of 1Q24. Over the medium term, assuming a 5%-15% growth per annum in outstanding loans and a 15% cash dividend payout, we anticipate the company to maintain its RAC ratio at 21%-22% in the next three years. At the end of 1Q24, its debt to equity (D/E) ratio was 3.6 times, compared with the D/E covenant on its debt obligations of 4 times.

MTC’s asset quality has shown signs of improvement since 3Q23-1Q24. Non-performing loan (NPL) formation peaked at 3.4% at the end of 2Q23 and gradually declined to 2.5% at the end of 1Q24. The NPL ratio also steadily decreased to 3.0% at the end of 1Q24 from 3.6% at the end of 2Q23, aligning with the company’s targets. As a result, credit cost fell to 2.5% (annualized) in 1Q24 from 3.3% in 2023. All these developments were attributed to the company’s improved loan collections.

We expect its asset quality metrics to stabilize in 2024-2026. NPL formation will likely be contained as the company aims to emphasize title lending, which has better asset quality than other products. Meanwhile, NPL coverage ratio is likely to stay at a healthy level of over 100%. As of March 2024, NPL coverage ratio stood at 121%. Sustained asset quality improvement would be positive for its ratings.

In the longer term, we expect the company’s earnings capability to recover gradually and remain within the “moderate” range. We forecast MTC’s earnings before taxes to average risk-weighted assets (EBT/ARWA) to recover to around 4.0%-4.6% in 2024-2026 from the low of 3.9% in 2023. This is based on lower

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expenses for credit costs, maintenance of interest spread, and operating expenses. We expect credit costs to range between 2.8%-3.2% in 2024-2026. The interest spread is likely to stay around 13%, remaining flat due to intense competition. Operating expenses are also expected to stay under control, at below 40% of total income as future branch openings will focus on small-size shops.

We assess the company's funding and liquidity position as adequate. The company's access to both debt and equity capital markets as well as credit facilities from local financial institutions and foreign financial institutions provide it with sufficient and diversified funding sources to support growth and mitigate liquidity risk. At the end of 1Q24, the company had available credit facilities totaling THB40 billion, of which 7% are readily available for drawdown. We view that the expected cash inflow from customers combined with credit lines from financial institutions should be sufficient to meet the company's liquidity needs.

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#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that MTC should maintain its leading market position in the title loan segment while capital and earnings positions stay at strong levels and its asset quality remains under control.

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#### **RATING SENSITIVITIES**

A downward revision on the ratings and/or outlook could occur if the company's asset quality deteriorates and/or operating performance weakens materially with EBT/ARWA falling below 3.5%. An upgrade in ratings and/or outlook could be supported by material improvement in capital position, measured by an RAC ratio that rises well above 25%, while earnings capabilities and market position remain strong.

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#### **RELATED CRITERIA**

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021

## Muangthai Capital PLC (MTC)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
MTC248A: THB1,641.80 million senior unsecured debentures due 2024	BBB+
MTC248C: THB2,728.20 million senior unsecured debentures due 2024	BBB+
MTC248D: THB1,328.40 million senior unsecured debentures due 2024	BBB+
MTC240A: THB2,367 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC24NB: THB1,147.40 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC253A: THB1,969.50 million senior unsecured debentures due 2025	BBB+
MTC254A: THB3,630 million senior unsecured debentures due 2025	BBB+
MTC256A: THB2,200 million senior unsecured debentures due 2025	BBB+
MTC256B: THB1,443.20 million senior unsecured debentures due 2025	BBB+
MTC256C: THB1,235.10 million senior unsecured debentures due 2025	BBB+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC258B: THB2,124.50 million senior unsecured debentures due 2025	BBB+
MTC258C: THB1,767.90 million senior unsecured debentures due 2025	BBB+
MTC25NA: THB1,598 million senior unsecured debentures due 2025	BBB+
MTC25NB: THB1,158.30 million senior unsecured debentures due 2025	BBB+
MTC262A: THB1,391 million senior unsecured debentures due 2026	BBB+
MTC263A: THB1,995.20 million senior unsecured debentures due 2026	BBB+
MTC263B: THB1,042.30 million senior unsecured debentures due 2026	BBB+
MTC264A: THB1,634.60 million senior unsecured debentures due 2026	BBB+
MTC264B: THB2,620 million senior unsecured debentures due 2026	BBB+
MTC266A: THB1,831.10 million senior unsecured debentures due 2026	BBB+
MTC266B: THB1,980.20 million senior unsecured debentures due 2026	BBB+
MTC266C: THB592.20 million senior unsecured debentures due 2026	BBB+
MTC266D: THB2,107.70 million senior unsecured debentures due 2026	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC268B: THB1,399.70 million senior unsecured debentures due 2026	BBB+
MTC26NA: THB1,000 million senior unsecured debentures due 2026	BBB+
MTC26NB: THB1,064.40 million senior unsecured debentures due 2026	BBB+
MTC272A: THB1,000 million senior unsecured debentures due 2027	BBB+
MTC273A: THB927.70 million senior unsecured debentures due 2027	BBB+
MTC273B: THB1,999.70 million senior unsecured debentures due 2027	BBB+
MTC273C: THB250 million senior unsecured debentures due 2027	BBB+
MTC274A: THB250 million senior unsecured debentures due 2027	BBB+
MTC276A: THB933.20 million senior unsecured debentures due 2027	BBB+
MTC276B: THB1,519.20 million senior unsecured debentures due 2027	BBB+
MTC276C: THB2,842.80 million senior unsecured debentures due 2027	BBB+
MTC278A: THB1,332.40 million senior unsecured debentures due 2027	BBB+
MTC27NA: THB812.70 million senior unsecured debentures due 2027	BBB+
MTC283A: THB1,121.10 million senior unsecured debentures due 2028	BBB+
MTC283B: THB958 million senior unsecured debentures due 2028	BBB+
MTC283C: THB250 million senior unsecured debentures due 2028	BBB+
MTC286A: THB2,170.50 million senior unsecured debentures due 2028	BBB+
Up to THB4,000 million senior unsecured debentures due within 2 years	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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