

MUANGTHAI CAPITAL PLC

No. 79/2020
22 October 2020

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 29/05/20

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Muangthai Capital PLC (MTC) and the rating on its outstanding senior unsecured debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating assigns the rating on MTC’s proposed issue of up to THB5 billion in senior unsecured debentures at “BBB+”. The proceeds from the new debentures will be used for debt refinancing and loan portfolio expansion.

The ratings reflect the company’s leading market position in the title loan business and strong capital. The ratings also take into consideration the company’s healthy earnings and relatively stable asset quality, as well as diversified funding and adequate liquidity profile. The ratings are, however, constrained by potential adverse impacts on the company’s asset quality and financials from the Coronavirus Disease 2019 (COVID-19) pandemic, which has induced a severe economic downturn.

The company’s market position in the title loan business is expected to remain strong over the medium term. We believe that the company will continue to leverage its expertise in this niche market and keep expanding its branch network as well as client base. At the end of June 2020, the company’s outstanding loans increased by 16% year-on-year (y-o-y) to THB63.3 billion. Over the first six months of 2020, the company opened 461 additional branches to cover a wider region and expand its client base. The number of branches reached 4,568 branches at the end of June 2020 with a target of 4,700 branches by the end of 2020.

We expect the company’s capitalization to remain strong over the next few years with a 5-year average risk-adjusted capital ratio (RAC) of around 24%. Strong profitability and low dividend payout should support continuous capital accumulation. The company should be able to comply with the covenants of its debt obligations which limit its debt to equity ratio (D/E) to below 4 times. We project its D/E ratio to stay around 3 times over the next few years. At the end of June 2020, the company’s RAC ratio and D/E ratio were 23.7% and 2.9 times, respectively.

The company’s adequate earnings capability should also continue to support its strong capital, leverage, and earnings assessment. We estimate the five-year average ratio of earnings before taxes to average risk-weighted assets (EBT/ARWAs) to be around 7.9%. For the first six months of 2020, EBT/ARWAs was 8.7%. This was a similar level to that recorded in 2019, thanks to minimal provisioning requirements given the Bank of Thailand’s relief measures. The company’s annualized credit cost was 0.3% for the first six months of 2020, while its non-performing loans (NPL; loans with more than 90 days past due) coverage ratio remained high at 212%. The company should largely be able to sustain its profitability over the next few years by effectively managing its funding costs and operating expenses.

We anticipate a slight decline in asset quality after the Bank of Thailand’s debt relief measures expire. Nonetheless, we believe it should be manageable and have immaterial impact on the company’s risk position. The company’s prudent credit policies and efficient debt collection processes should help contain potential credit losses. The company’s loans under debt relief measures, which

at the end of June 2020, included grace periods and debt restructuring schemes and constituted around 9% of total loan portfolio at the end of June 2020. Approximately 80% of these accounts have been able to service their debt obligations. Therefore, we believe that the company should be able to achieve its target of below 2% for its NPL ratio. At the end of June 2020, the company's NPL ratio was 1.0%, the same level as in 2019.

The company's adequate funding and liquidity profile is supported by its access to both debt and equity capital markets as well as credit facilities from financial institutions, which help provide a variety of available funding sources. At the end of September 2020, the company had available credit facilities from various financial institutions totaling THB9.7 billion.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that MTC will maintain its market position, deliver satisfactory performance, control the quality of its loan portfolio, and keep its risk-adjusted capital at an acceptable level.

RATING SENSITIVITIES

The upside case for the rating and/or outlook is limited in the near term. However, the rating and/or outlook could be revised upward if the risk-adjusted capital ratio rises well above 25% while financial performance remains strong, with the ratio of EBT/ARWAs at a level above 8% for a sustained period. On the contrary, the rating and/or outlook could be revised downward should loan quality or profitability deteriorate, leading to a significantly weaker capital position and heightened refinancing risk or liquidity risk.

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC217A: THB1,200 million senior unsecured debentures due 2021	BBB+
MTC21NC: THB2,680.80 million senior unsecured debentures due 2021	BBB+
MTC222A: THB1,650.30 million senior unsecured debentures due 2022	BBB+
MTC227B: THB2,043.30 million senior unsecured debentures due 2022	BBB+
MTC22NB: THB2,349.70 million senior unsecured debentures due 2022	BBB+
MTC237A: THB1,756.70 million senior unsecured debentures due 2023	BBB+
MTC23NB: THB1,319.20 million senior unsecured debentures due 2023	BBB+
Up to THB5 billion senior unsecured debentures due within 4 years	BBB+
Rating Outlook:	Stable

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