MUANGTHAI CAPITAL PLC

No. 75/2022
12 July 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 06/06/22

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 ratings on its outstanding senior unsecured debentures at "BBB+" with a "stable" rating outlook. At the same time, TRIS Rating assigns the rating of "BBB+" to MTC's proposed issue of up to THB7.5 billion in senior unsecured debentures due within five years. The proceeds from the new debentures will be used for debt refinancing and loan portfolio expansion.

The ratings reflect MTC's superior market position in the title loan business and strong capital base. The ratings also consider its earnings stability, as well as diversified and adequate funding sources, and sufficient liquidity. However, the ratings are weighed down by signs of deteriorating asset quality due to the weak economic environment.

We expect MTC's expertise in the title loan business and continuous branch network expansion should enable the company to maintain its top market position over the next few years. At the end of March 2022, its outstanding loans increased by a further 7% year-to-date to THB98.6 billion. The growth was driven by its marketing strategy and increasingly dense branch network that provides convenience for customers.

We assume that MTC's loan portfolio will increase by 26% year-on-year (y-o-y) in 2022 and 16%-18% per year in 2023-2024, backed mainly by title loans whose demand remains strong due to the weak economic environment. MTC also expects to continue to expand new motorcycle hire purchase (HP) loans via its subsidiary, Muangthai Leasing Co., Ltd. (MTLS), and "Buy Now Pay Later" (BNPL) financing for electric appliances and agricultural machinery via Muangthai Pay Later Co., Ltd. (MTPL). We project the company's loan assets to expand to THB9-THB13 billion in the next few years. In the longer term, we expect these businesses to support MTC's loan growth and alleviate pressure on loan yields as competition in the title loan market becomes more severe.

We anticipate a slight decline in MTC's asset quality due to the weak economy. However, it should be manageable and have immaterial impact on the company's risk position. Its non-performing loans (NPL) or stage-3 receivables to total loans (NPL ratio) rose to 1.65% at the end of the first quarter of 2022 (1Q22) from about 1% in the past, driven by increased delinquency in unsecured personal loans, nano finance, and new motorcycle HP. Nonetheless, the overall ratio remains lower than the peer average of 2.3%. The company aims to keep its NPL ratio below 2%. This would be supported by more prudent loan approvals, efficient debt collections, and acceleration of NPL write-offs. With our assumption of higher NPL write-offs of 1.0%-1.2% to average loans in 2022-2024, the NPL ratio is likely to stay within the target.

Expected credit loss (ECL) provisions to average loans (credit cost) rose to 0.9% in 2021, close to normal level of about 1%. In 2022-2024, with our assumptions of a 2% NPL ratio and an NPL coverage ratio marginally above 100%, MTC would need to raise its credit cost slightly above the normal level to about 1.5%, based on our estimate.

We anticipate MTC should be able to maintain its profitability over the next few years, despite higher provision expenses and a lower interest spread compared with the past, as we expect the company will focus on controlling operating expenses. The company's earnings capability, measured by earnings before taxes

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to average risk-weighted assets (EBT/ARWA) remained moderate. For 1Q22, the annualized EBT/ARWA ratio was 6.6% while the net profit of THB1.37 billion was stable y-o-y. We estimate its EBT/ARWA will stay in the 5%-6% range during 2022-2024.

MTC's capital is assessed as strong, with a risk-adjusted capital (RAC) ratio of 21.6% at the end of 1Q22. The company's healthy profits and conservative dividend payout policy have helped sustain its strong equity base despite robust credit growth. Its debt to equity (D/E) ratio stood at 3 times at the end of March 2022 compared with the D/E covenant on its debt obligations of 4.5 times.

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 financial institutions provide it with sufficient and diversified funding sources to support growth and will help mitigate liquidity risk. As of March 2022, the company had available credit facilities from various financial institutions totaling THB29 billion, 24% of which were undrawn.

RATING OUTLOOK

The "stable" outlook is based on our expectation that MTC will maintain its market position in the title loan segment. The outlook also assumes that its profitability and capital stay strong, while asset quality remains manageable.

RATING SENSITIVITIES

An upward revision on the ratings and/or outlook could occur if MTC's RAC rises well above 25% on a sustained basis while financial performance measured by EBT/ARWA remains sound, at around the current level. On the contrary, the ratings and/or outlook could be revised downward should there be significant deterioration in MTC's asset quality causing credit cost to rise above 3%, or if the company's capital position weakens materially, with the RAC ratio falling below 15% for an extended period.

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC22NB: THB2,349.70 million senior unsecured debentures due 2022	BBB+
MTC22NC: THB2,163.40 million senior unsecured debentures due 2022	BBB+
MTC232C: THB1,514 million senior unsecured debentures due 2023	BBB+
MTC237A: THB1,756.70 million senior unsecured debentures due 2023	BBB+
MTC23NB: THB1,319.20 million senior unsecured debentures due 2023	BBB+
MTC23NC: THB2,836.60 million senior unsecured debentures due 2023	BBB+
MTC243B: THB2,486 million senior unsecured debentures due 2024	BBB+
MTC248A: THB1,641.80 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC256A: THB2,200 million senior unsecured debentures due 2025	BBB+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC25NA: THB1,598 million senior unsecured debentures due 2025	BBB+
MTC262A: THB1,391 million senior unsecured debentures due 2026	BBB+
MTC266A: THB1,831.1 million senior unsecured debentures due 2026	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC26NA: THB1,000 million senior unsecured debentures due 2026	BBB+
MTC272A: THB1,000 million senior unsecured debentures due 2027	BBB+
MTC276A: THB933.2 million senior unsecured debentures due 2027	BBB+
Up to THB7,500 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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