TRIS RATING
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MICRO LEASING PLC

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FINANCIAL INSTITUTIONS

Company Rating:	BB+
Outlook:	Stable

RATIONALE

TRIS Rating assigns the company rating on Micro Leasing PLC (MICRO) at "BB+" with a "stable" outlook. The rating reflects the company's very strong capital base, adequate earnings capacity, and acceptable risk profile. However, the rating is constrained by the company's modest market position in the used truck hire purchase (HP) business and its moderate funding and liquidity profile.

KEY RATING CONSIDERATIONS

Modest market position

The rating on MICRO is partly constrained by its modest market presence relative to peers in the used truck HP segment. At the end of December 2020, the company's outstanding loans stood at THB2.5 billion (+25% year-on-year). Nonetheless, its loan book has been growing steadily by around 20% per annum in the past few years. We expect the growth momentum to sustain over the next few years as it continues to expand its branch network and increase geographic coverage. At the end of December 2020, the company operated 12 branches across the central region, which links to over 230 active used-truck dealers.

The company's business position is also affected by its moderate business diversity. As a mono-liner with a focus on HP of used commercial trucks, the company's business line diversification is limited, compared with peers that provide loans for a broader range of assets. Nevertheless, the company's diverse retail client base helps mitigate the risk of potential losses from major clients.

Solid capital base and adequate earnings capacity

A positive credit factor for the rating is its very strong capital and low leverage. In September 2020, the company successfully raised THB622 million through an initial public offering (IPO) that helped strengthen its capital base and boost its risk-adjusted capital ratio (RAC) to 70.4% at the end of 2020 from 53.1% at the end of 2019. We expect the company's capital base to remain strong over the next few years with RAC declining to the 50%-60% range, assuming loan growth of 20% per year in 2021-2023. Despite the strong loan growth, we believe consistent profit accumulation and appropriate dividend payout will support the company's strong capital position. We also expect the company's debt to equity ratio (D/E) to stay around 1 time over the medium term compared to the debt covenant of not more than 2 times.

We expect the company's adequate earnings capacity to continue to support its robust capital, leverage, and earnings (CLE) position with the ratio of earnings before taxes to average risk-weighted assets (EBT/ARWAs) of around 7%-8% over the next few years. The company's plans to focus more on HP of older used trucks, which generate higher yields, should help support profitability. Its effective management of funding costs, operating expenses, and asset quality should also help sustain earnings capacity over the medium term.

Acceptable risk profile

MICRO's risk profile at present is viewed as moderate compared with peers. However, this represents a significant improvement from the past. The ratio

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of stage-3 loans (non-performing loans (NPL) or over 90-day delinquent loans) fell to 3.8% at the end of 2020 from 12.2% at the end of 2017, in line with peers' range of 3%-4%. The credit quality improvement was driven by: (1) more prudent credit underwriting policies, with the use of an enhanced credit scoring model and National Credit Bureau Co., Ltd.'s (NCB) credit status in addition to cash flow analysis for loan approvals; and (2) an expedited debt collection and asset repossession process since mid-2017.

The company experienced a slight decline in asset quality during 2020 due to the economic downturn caused by the Coronavirus Disease 2019 (COVID-19) pandemic. NPL formation increased to 2.5% in 2020 from 0.4% in 2019. Credit cost also rose to 1.6% in 2020 from 0.2% in 2019. Loans under debt relief measures accounted for around 7% of outstanding loans at the end of December 2020, 80% of which have already resumed payments. We expect the company's asset quality to remain under control over the next few years with an estimated NPL ratio of around 4% over the medium term, thanks to economic recovery and continuous improvement in credit policies.

We view the company's increasing focus on older trucks (6-15 years) could pose a significant downside risk. Older collateral, despite generating stronger loan yields, exposes the company to the risk of higher losses on the sale of repossessed assets. Nevertheless, we believe that such risk is mitigated by the company's expertise in valuation of used trucks which should help limit its potential credit losses. Although its retail client base could be vulnerable to weak economic environment, many of its clients tend to have steady income streams from long-term contracts for transportation service that can support debt serviceability.

Moderate funding and liquidity profile

The company's funding and liquidity profile is moderate but has been pressured by its reliance on short-term funding, which exposes the company to asset-liability mismatches and refinancing risk. At the end of 2020, the company's short-term borrowings accounted for 82% of total borrowings. In addition, the company's sources of funding and liquidity are somewhat limited as it has credit lines from relatively few financial institutions. At the end of December 2020, the company had credit facilities totaling THB1.3 billion, 39% of which remained unused. Nevertheless, we expect the company's funding and liquidity profile to remain manageable over the medium term as its listing on the stock exchange is likely to enhance its financial flexibility. More than half of the company's debts (bank loans) are secured debts, accounting for 59% of total debt as of December 2020.

Limited impact from COVID-19 on commercial truck loans

The COVID-19 outbreak materially impacted the automobile industry, causing a 21.4% drop in car sales in 2020. However, the impact on the sales of commercial vehicles was significantly less than that on the sales of passenger cars, reflecting a stronger demand for commercial vehicles driven by increased logistics activities during the city lockdown. The number of new truck registrations also increased by 2% in 2020. Nonetheless, the overall impact on the auto industry combined with lending institutions' more stringent credit underwriting criteria limited the increase in outstanding loans of listed lenders to only 1.9% in 2020, down from a growth rate of 7.2% in 2019. We expect the economic recovery in 2021 to help improve performance of both the auto and the auto loan industry, while weakened asset quality in 2020-2021 is likely to be temporary and manageable.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MICRO in 2021-2023 are as follows:

- Outstanding loans to grow by approximately 20% per year.
- Interest spread to maintain at around 11%.
- NPL ratio to hover around 4%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position, financial performance, and leverage level while keeping its asset quality under control.

RATING SENSITIVITIES

A rating upgrade will hinge on the company's ability to significantly improve its market position over a sustained period while maintaining its asset quality and strength in capital and earnings. On the contrary, the rating and/or outlook could be revised downward if the company's asset quality or profitability deteriorate materially, leading to a significantly weakened earnings capacity and capital position.

COMPANY OVERVIEW

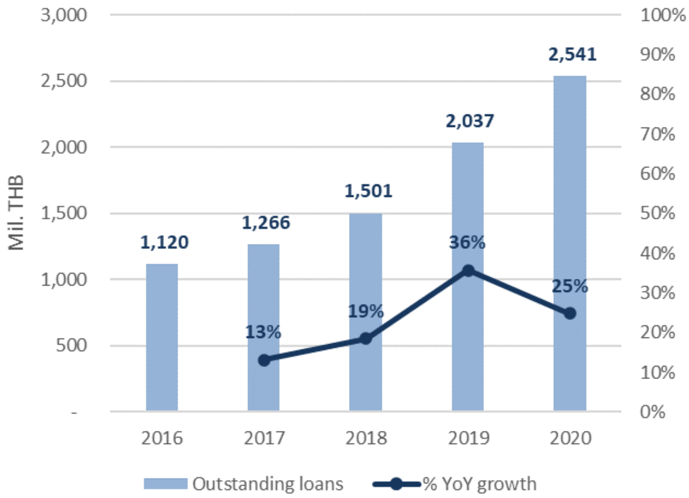
The company was established on 7 November 1994 with a registered capital of THB1 million, building upon the management's experience over 25 years in the auto parts trading business, to provide financing for commercial trucks used for transportation in the logistics, construction, and agricultural sectors. As of June 2020, 93% of the company's outstanding loans were used-truck hire purchase loans, with mostly 6-, 10-, and 12-wheel trucks as collateral.

The company set up its first office in Nakorn Pathom. Since 2002, the company has opened branches across the central region. Over the years, MICRO has continuously increased its registered and paid-up capital and expanded its branch network across the Northeastern and Eastern regions. The company currently has 12 branches and over 350 dealers in its network. In September 2019, the company became a public limited company and changed its name to "Micro Leasing Public Company Limited" in preparation for its initial public offering on the Stock Exchange of Thailand (SET) in 2020.

In September 2020, the company sold 235 million of its registered shares at THB2.65 per share through an initial public offering and successfully raised THB622 million. The company's registered and paid-up capital subsequently increased to THB935 million from THB700 million. Following the initial public offering, the Auchyawat family remained the majority shareholder with a total stake of 57%.

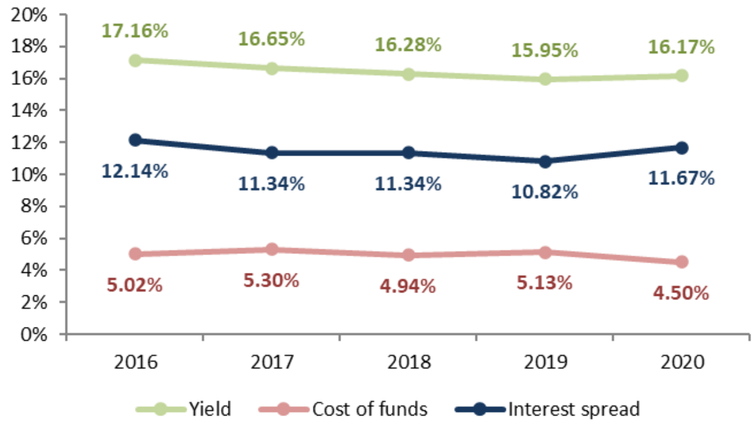
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: MICRO

Chart 2: Interest Spread



Source: MICRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	---------------------- Year Ended 31 December				-----------------------
	2020	2019	2018	2017	2016
Total assets	2,755	2,118	1,537	1,309	1,183
Total loans	2,542	2,037	1,501	1,266	1,120
Allowance for expected credit loss	98	112	110	102	61
Short-term debts	678	686	102	2	3
Long-term debts	151	306	424	593	530
Shareholders' equity	1,823	1,080	969	678	619
Net interest income	308	243	198	169	135
Expected credit loss	36	4	9	45	36
Non-interest income	116	55	22	14	12
Operating expenses	153	129	95	59	47
Earnings before taxes	176	139	116	78	64
Net income	135	111	90	61	50

Unit: %

	--------------------- Year Ended 31 December				--------------------
	2020	2019	2018	2017	2016
Profitability					
Net interest and dividend income/average assets	12.63	13.31	13.89	13.54	14.52
Non-interest income/average assets	3.20	2.22	2.07	2.13	1.79
Operating expenses/total income	32.38	38.43	38.26	27.77	28.74
Operating profit/average assets	7.23	7.59	8.17	6.30	6.85
Earnings before taxes/average risk-weighted assets	7.62	7.89	8.39	6.50	7.12
Return on average assets	5.54	6.06	6.32	4.88	5.34
Return on average equity	9.31	10.82	10.92	9.38	8.37
Asset Quality					
Non-performing loans/total loans	3.82	4.47	5.73	12.25	14.88
Expected credit loss/average loans	1.59	0.21	0.63	3.77	4.13
Allowance for expected credit loss/total loans	3.85	5.50	7.33	8.03	5.41
Capitalization					
Risk-adjusted capital ratio	70.4	53.1	65.3	52.7	55.0
Debt/equity (times)	0.51	0.96	0.59	0.93	0.91
Funding and Liquidity					
Stable funding ratio	105.76	91.69	134.34	150.88	154.18
Liquidity coverage measure (times)	0.19	0.07	0.51	13.17	20.13
Short-term debts/total debts	81.78	69.15	19.34	0.29	0.53

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Micro Leasing PLC (MICRO)

Company Rating:	BB+
Rating Outlook:	Stable

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