

RATCHTHANI LEASING PLC

No. 10/2018

7 February 2018

FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
19/10/16	A-	Stable
25/01/12	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating of Ratchthani Leasing PLC (THANI) and affirms the ratings of THANI's outstanding senior unsecured debentures at "A-". At the same time, TRIS Rating assigns a "A-" rating to THANI's proposed issue of up to Bt2,400 million in senior unsecured debentures.

The ratings reflect THANI's business profile, underpinned by sustained improvements in market position and financial performance. The ratings also reflect the extensive experience THANI's management team has in financing used cars and commercial trucks, plus the continuous improvements THANI has made in its operating processes and risk management systems. The ratings have taken into consideration the business and financial supports THANI receives from its major shareholder, Thanachart Bank PLC (TBANK). The ratings of THANI are enhanced from its stand-alone rating because TRIS Rating holds the view that the company is a strategically important subsidiary of TBANK. However, the strengths are weighted down by concerns over intense competition, the quality of THANI's loan portfolio, and a heavy reliance on the income from loans for commercial trucks.

THANI has been focusing its efforts on the commercial truck segment since 2006. Loans made to this segment constituted almost 70% of the company's entire hire-purchase loan portfolio. THANI is one of market leaders in this segment. However, the heavy emphasis on commercial truck loans increases business concentration risk. From the 2017 unaudited operating results, THANI's outstanding loans grew by 18% to Bt40,451 million at the end of 2017.

The company's financial results have improved steadily during the past three years. In 2017, net profit (unaudited) was Bt1,126 million, up 28% from 2016. The return on average assets (ROAA) improved continuously from 2.8% in 2016 to 3.1% in 2017. The improvement was partly due to a wider interest spread, resulting from a drop in funding costs.

THANI's asset quality is still under control. The ratio of non-performing loans (loans overdue more than three months) to total loans was 4.1% at the end of 2017, down from 4.4% in 2016. As a strategic subsidiary of TBANK, TRIS Rating has less concern over the company's liquidity and financial flexibility.

RATING OUTLOOK

The "stable" outlook reflects the expectation that THANI will maintain its market position in the target market segments. The experienced management team, improving operating efficiency, and the support received from its parent bank will help it achieve these goals. Loan quality is expected to be controlled and maintained at an acceptable level. In addition, profitability is expected to hold steady. The support THANI receives from its parent bank, such as the provision of credit facilities, is expected to continue.

RATING SENSITIVITIES

The possible credit upside case is contingent on significant improvements in THANI's business and financial profiles. In contrast, THANI's ratings or outlook

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

could be revised downward if the market position or loan quality weakens steadily or if the risk position and the level of capitalization deteriorate substantially. Any change in the degree of support TBANK provides to THANI or any change in the degree of strategic importance of THANI to TBANK would also affect the company's future ratings and/or outlook.

FINANCIAL STATISTICS

Unit: Bt million

	Jan-Sep 2017	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	38,177	33,365	29,505	27,864	27,293
Total loans	39,184	34,169	29,921	28,224	27,421
Allowance for doubtful accounts	1,682	1,421	1,000	920	588
Short-term borrowings	18,400	20,151	12,907	8,560	9,010
Long-term borrowings	11,422	7,533	11,393	14,814	14,408
Shareholders' equity	5,308	5,009	4,564	3,879	3,223
Net interest income	1,366	1,538	1,345	1,325	1,194
Bad debts and doubtful accounts	407	496	412	432	269
Non-interest income	404	501	420	357	286
Operating expenses	355	440	408	353	255
Net income	806	881	749	704	754

KEY FINANCIAL RATIOS

Unit: %

	Jan-Sep 2017	Year Ended 31 December			
		2016	2015	2014	2013
Profitability					
Net interest income/average assets	3.82 *	4.89	4.69	4.81	5.13
Net-interest income/total income	56.01	51.50	48.35	48.13	49.81
Operating expenses/total income	14.57	14.73	14.67	12.80	10.66
Operating profit/average assets	2.82 *	3.51	3.30	3.25	4.11
Return on average assets	2.25 *	2.80	2.61	2.55	3.24
Return on average equity	15.62 *	18.41	17.73	19.83	36.31
Asset Quality					
Non-performing loans/total loans	4.29	4.44	4.64	5.24	3.60
Bad debts and doubtful accounts/average loans	1.11 *	1.55	1.42	1.55	1.15
Allowance for doubtful accounts/total loans	4.47	4.16	3.34	3.26	2.14
Allowance for doubtful accounts/non-performing loans	104.31	93.73	72.13	62.20	59.50
Capitalization					
Shareholders' equity/total assets	13.90	15.01	15.47	13.92	11.81
Shareholders' equity/total loans	13.55	14.66	15.25	13.74	11.75
Debt to equity (time)	6.19	5.66	5.46	6.18	7.47
Liquidity					
Short-term borrowings/total liabilities	55.98	71.07	51.75	35.69	37.43
Total loans/total assets	102.64	102.41	101.41	101.29	100.47

* Non-annualized

Ratchthani Leasing PLC (THANI)

Company Rating:	A-
Issue Ratings:	
THANI185A: Bt2,000 million senior unsecured debentures due 2018	A-
THANI193A: Bt2,000 million senior unsecured debentures due 2019	A-
THANI201A: Bt1,510 million senior unsecured debentures due 2020	A-
THANI203A: Bt1,450 million senior unsecured debentures due 2020	A-
THANI205A: Bt1,000 million senior unsecured debentures due 2020	A-
THANI206A: Bt2,000 million senior unsecured debentures due 2020	A-
THANI208A: Bt1,500 million senior unsecured debentures due 2020	A-
THANI20DA: Bt1,400 million senior unsecured debentures due 2020	A-
Up to Bt2,400 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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