

RATCHTHANI LEASING PLC

No. 75/2017

20 November 2017

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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Rating Rationale

TRIS Rating affirms the company rating of Ratchthani Leasing PLC (THANI) and the ratings of THANI's existing senior unsecured debentures at "A-". At the same time, TRIS Rating assigns a "A-" rating to THANI's proposed issue of up to Bt3,000 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 support and financial support 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 commercial trucks loans. These factors might affect profitability.

THANI has been a subsidiary of TBANK since 2010, after Siam City Bank PLC (SCIB) and TBANK merged and undertook a recapitalization. TBANK now includes THANI as one of its subsidiaries on a non-solo consolidation basis, consistent with the consolidated supervision regulations issued by the Bank of Thailand (BOT). Like THANI, TBANK also makes auto loans. Although THANI's main line of business overlaps with TBANK's auto loan business, the two entities offer different products and target different market segments. TBANK intends to have THANI focus on the market segments which TBANK has not yet penetrated. TBANK has helped THANI develop its underwriting and collection processes to improve operational efficiency. THANI has implemented a number of risk management policies to comply with the standards required by TBANK. THANI has been closely supervised by its parent bank and is indirectly supervised by the BOT through the parent bank.

THANI gained more financial flexibility after it became TBANK's subsidiary. THANI can now receive business and financial support from the parent bank. The support it receives has enhanced its competitive position and boosted its expansion efforts. THANI has been able to continuously improve its market position, as shown by the continued growth in the loan portfolio. Outstanding loans grew at double-digit rates annually from 2007 to 2013, the equivalent of a six-year compound annual growth rate (CAGR) of 45%. Outstanding loans rose from Bt2,854 million in 2007 to Bt27,421 million in 2013. However, the growth rate slipped after 2014 because the economy has remained weak. In addition, THANI's management team has paid more attention to focus on asset quality. As a result, outstanding loans grew by only 3% in 2014 and 6% in 2015. In 2016, outstanding loans increased significantly again to Bt34,169 million, up 14% from 2015. At the end of September 2017, outstanding loans continued to increase to Bt39,184 million, a 15% year-to-date rise.

THANI has been focusing its efforts on the commercial truck segment since 2006. Loans made to this segment constituted 67% of the entire hire-purchase loan portfolio at the end of June 2017. THANI is one of market leaders in this segment. However, the heavy emphasis on commercial truck loans increases

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business concentration risk. In addition, the commercial truck hire-purchase lending segment is quite sensitive to adverse changes in the economy. THANI compensates for the increased risk in this segment by charging higher interest rates, requiring high down payments, and calling for post-dated payment cheques. A decade of steady growth, coupled with satisfactory results from the commercial truck loan portfolio, demonstrate the ability of THANI's management team in this particular segment.

The ratio of non-performing loans (NPLs) to total loans fell almost every year from 2008 through 2012. The ratio dropped from 4.9% in 2008 to 2.3% as of December 2012. However, the ratio increased to 3.6% in 2013, and peaked at 5.2% in 2014, due to the economic slowdown. In 2015, the ratio decreased to 4.6% due to loan write-offs, the sale of bad loans, the restructuring of some loans, and a more stringent collection process. The ratio slid further to 4.4% at the end of 2016 and held at 4.3% as of September 2017. However, as long as economic conditions remain fragile, TRIS Rating remains focus on the quality of the loan portfolio.

THANI's financial results have improved steadily during the past three years. The company has continued to add to existing loan loss reserves ahead of the implementation of IFRS9, a new accounting standard, in 2019. Despite the boost to reserves, THANI's financial performance improved. In 2016, net profit was Bt881 million, up 17.7% from 2015. Return on average assets (ROAA) improved to 2.8% in 2016 from 2.6% in 2015.

As the strategic subsidiary of TBANK, TRIS Rating has less concern over the company's liquidity and financial flexibility. THANI paid a stock dividend in 2013, in an effort to increase its base of equity capital. However, the stock dividend was not enough to maintain the ratio of shareholders' equity to total assets because the loan portfolio had grown rapidly. The ratio dropped to 11.8% at the end of 2013 from 13.1% at the end of 2012. In 2014, THANI paid another stock dividend although the loan portfolio grew at a slower rate. The ratio of shareholders' equity to total assets increased to 13.9% in 2014 and 15.5% in 2015. The ratio is around 14% at present. This level, taking into account the forecast financial performance and THANI's dividend policy, is adequate, given that the loan portfolio will grow by approximately 10%-15% annually during the next three years. If growth exceeds the forecast, a new capital may be needed to maintain the adequacy of the capital base.

Rating Outlook

The "stable" outlook reflects the expectation that THANI's experienced management team, improving operating efficiency, and the support from its parent company will help it expand the loan portfolio and maintain its market position in the target market segments. 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 is expected to continue, especially the provision of credit facilities.

The possible credit upside case is contingent on significant improvements in THANI's business and financial profiles. In contrast, THANI's ratings or outlook could be revised downward if the business position and loan quality weaken steadily or if the risk position and 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 future ratings and/or outlook.

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-
Up to Bt3,000 million senior unsecured debentures due within 3 years	A-
Rating Outlook:	Stable

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	26.31
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

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