

# ASIA CAPITAL GROUP PLC

No. 81/2019  
31 May 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BB-  
**Outlook:** Negative

**Last Review Date:** 06/06/18

### Company Rating History:

Date	Rating	Outlook/Alert
12/06/17	BB	Stable

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## RATIONALE

TRIS Rating downgrades the company rating on Asia Capital Group PLC (ACAP) to “BB-” from “BB” and revises the outlook to “negative” from “stable”. The rating downgrade follows the company’s weaker-than-expected 2018 financial performance and deteriorating asset quality. The rating takes into account improvement in leverage. However, ACAP’s credit risk remains relatively high given loan concentration. Limited funding sources and uncertain cash flows could increase liquidity risk in the short term and constrain business growth potential in the medium term.

The “negative” outlook reflects our expectation that the risk that ACAP’s financial performance could deteriorate further in the next 12 months is likely to remain due to weakening economic environment.

## KEY RATING CONSIDERATIONS

### Improving leverage

We expect the debt to equity ratio (D/E ratio) of ACAP will fall in the next three years. ACAP’s D/E ratio dropped to 2.9 times in 2017 and 2018, down from 3.7 times in 2016. The drop is due to a significant decrease in liabilities and a rise in equity owing to strong profit accumulation in 2016 and 2017. The company has been in compliance with the debentures’ D/E covenant of 6 times. TRIS Rating expects the company will be able to comply with the covenant in the next three years as borrowing is assumed to be lower.

### Profitability could remain weak

In our view, ACAP’s profitability is likely to keep declining over the next couple of years, driven primarily by the drop in its core lending business income. We believe limited funding sources will likely deter portfolio growth and may increase funding cost, while vulnerable asset quality could put pressure on revenue recognition. Net income declined to Bt62 million in 2018 from Bt243 million in 2017, a 75% year-on-year (y-o-y) drop, due to significant contraction in interest income and slightly higher interest expense. We believe the probability of material profitability improvement in the near term remains low, particularly in a weakening economic environment.

### Undiversified funding sources

ACAP has less financial flexibility than its peers because it has limited sources of funds. At present, the company relies primarily on its equity base and the issuance of debentures and bills of exchange (B/Es) to small groups of investors through private placements. At the end of December 2018, the amount of outstanding debentures totaled Bt3.3 billion. B/Es, including short-term borrowings from a related party, were Bt418 million. The company has no credit lines from banks or other financial institutions. As a result, ACAP could face a liquidity shortage if the maturing debts are not refinanced on a timely basis. In addition, this will also limit the growth of ACAP’s loan portfolio and drive up funding cost in the near future.

### Limited growth in loan portfolio

We expect that ACAP will face a slower growth in loan portfolio in the next three years owing to limited funding. The company’s outstanding loan growth has remained stable since 2018 after declining by 7.0% in 2017. As of December 2018, the outstanding loan portfolio was Bt3.8 billion. Moreover, ACAP faces high competition. There are low barriers to entry if other lenders

want to pursue the customer segment ACAP focuses on.

### **Vulnerable asset quality and high loan concentration**

In our opinion, ACAP's asset quality is vulnerable because of weak credit profile of its customers. These customers are generally borrowers who face liquidity shortage and do not have access to bank credit. The high loan concentration of its loan portfolio exacerbates our asset quality concern. As of the end of 2018, top five customers accounted for half of ACAP's total portfolio. A few loan defaults could possibly translate into greater credit risk for the company. As of the end of December 2018, three borrowers turned non-performing. These accounts made up 24% of total loans and are currently in the legal process to settle the repayment to ACAP. Given that the legal process to foreclose assets tend to be time consuming, this could in turn adversely impact ACAP's liquidity management.

### **BASECASE ASSUMPTIONS**

- The outstanding loan growth of ACAP will shrink over the next three years.
- ACAP's D/E ratio will stay at approximately 1.3 times over the next three years.
- Expected average spread during 2019-2021 will be close to the level in 2018.

### **RATING OUTLOOK**

The "negative" outlook reflects our expectation that the risk that ACAP's financial performance could deteriorate further in the next 12 months is likely to remain due to weakening economic environment.

### **RATING SENSITIVITIES**

The outlook could be revised to "stable" if the financial performance shows signs of stability while funding risk is well managed over the next six to 12 months. The rating could be upgraded if ACAP is able to improve financial performance materially and diversify loan portfolio and funding sources. We could downgrade the rating if ACAP's profit and asset quality continue to decline considerably or liquidity position weakens further.

### **COMPANY OVERVIEW**

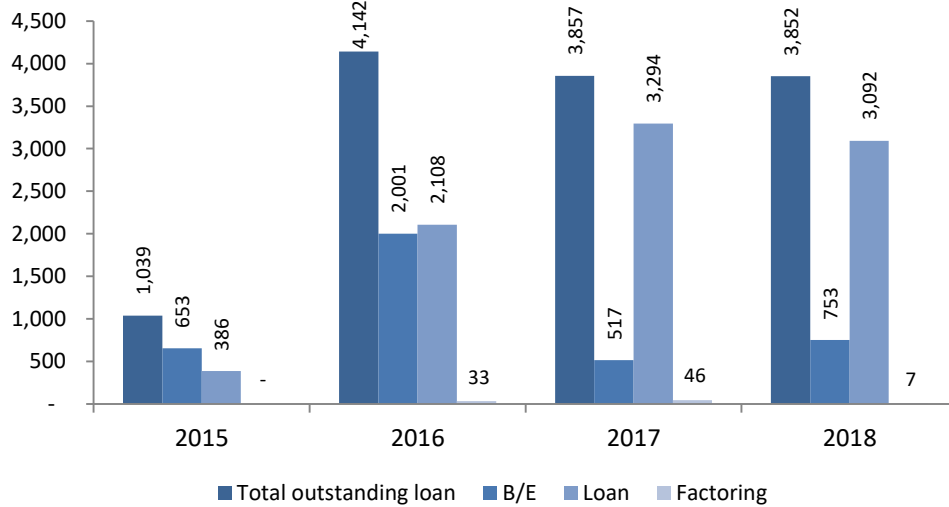
ACAP was established in 1998 as Asian Capital Advisers Co., Ltd., offering corporate finance and investment banking advisory services. In 2003, it became a public company and changed its name to ACAP Advisory PLC. The company was listed on the Market for Alternative Investment (MAI) in 2005. In 2015, Ms. Sugunya Sukjaroenkraisri became the major shareholder and chief executive officer (CEO). The company then entered a new business: making short-term loans. In 2016, the company became Asia Capital Group PLC. Currently, paid-up capital is Bt158 million and the major shareholder is the Sukjaroenkraisri family, holding approximately 15%.

ACAP chose a new core business in 2015: offering credit facilities to individuals and companies, especially small and medium enterprises (SMEs). The credit facilities are in the form of B/Es and short-term loans. ACAP also factors accounts receivable and operates a call center through a wholly-owned subsidiary, Global Service Center Co., Ltd. (GSC).

**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**

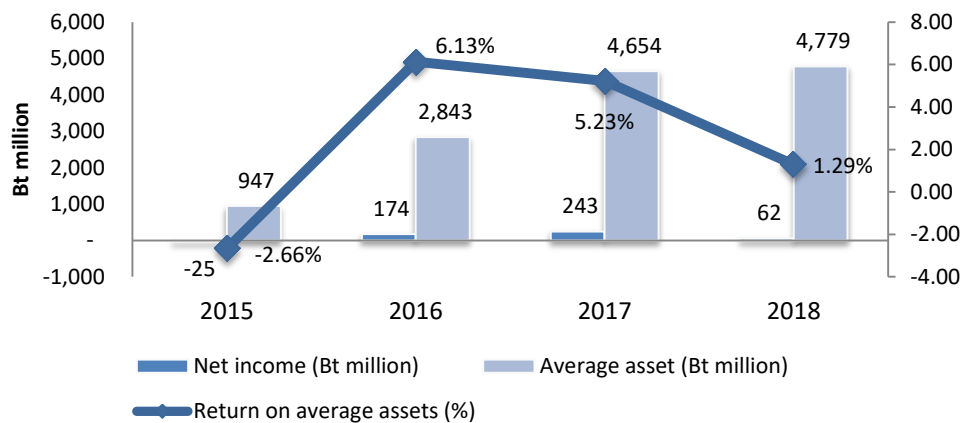
Unit: Bt million



Source: ACAP

**Chart 2: Return on Average Assets**

Unit: %



Source: ACAP

**Table 1: Shareholders**

Name	No. of Share	Holding (%)
Ms. Sugunya Sukjaroenkraisri	46,575,250	15
PP Prime	43,245,000	14
Others	226,586,735	72
<b>Total</b>	<b>316,406,985</b>	<b>100</b>

Source: ACAP

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Bt million

	-----Year Ended 31 December -----			
	2018	2017	2016	2015
Total assets	4,788	4,770	4,537	1,149
Total loans	3,852	3,857	4,149	1,039
Allowance for doubtful accounts	0	0	0	0
Short-term borrowings	418	45	1,093	451
Shareholders' equity	1,221	1,236	962	678
Interest income	363	541	271	35
Bad debt and doubtful accounts	0	0	0	0
Non-interest income	164	170	150	119
Operating expenses	201	191	175	178
Net income	62	243	174	(25)

\* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----			
	2018	2017	2016	2015
<b>Profitability</b>				
Net interest income/average assets	2.6	7.1	5.1	3.6
Net interest income/total income	23.7	46.6	34.1	21.9
Operating expenses/total income	38.2	26.9	41.6	115.6
Operating profit/average assets	1.8	6.7	4.2	(2.7)
Return on average assets	1.3	5.2	6.1	(2.7)
Return on average equity	5.0	22.2	21.3	(3.7)
<b>Capitalization</b>				
Shareholders' equity/total assets	25.5	25.9	21.2	59.0
Shareholders' equity/total loans	31.7	32.0	23.2	65.2
Debt to equity (time)	2.9	2.9	3.7	0.7
<b>Liquidity</b>				
Short-term borrowings/total liabilities	52.7	56.1	43.2	95.6
Total loans/total assets	80.4	80.9	91.5	90.4

\* Consolidated financial statements

**RELATED CRITERIA**

- Nonbank Lending Company, 7 May 2018

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Asia Capital Group PLC (ACAP)

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**Company Rating:**

BB-

**Rating Outlook:**

Negative

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**TRIS Rating Co., Ltd.**

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