

LEASE IT PLC

No. 169/2022
30 September 2022

FINANCIAL INSTITUTIONS

Company Rating: BB
Outlook: Negative

Last Review Date: 23/09/21

Company Rating History:

Date	Rating	Outlook/Alert
23/09/21	BB+	Stable
23/11/20	BBB-	Negative
12/11/19	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Lease IT PLC (LIT) to “BB” from “BB+” and, at the same time, revises the rating outlook to “negative” from “stable”. The rating downgrade reflects the company’s weakened market position due to stagnant growth and deteriorating financial performance caused by the heightened credit risk of its target customers that are mainly underserved small- and medium-sized enterprises (SMEs). The rating is also weighed down by the company’s high credit concentration, which tends to lead to a steep rise in non-performing loans (NPLs) during a weak economy. Nevertheless, the company’s solid capital position remains a key credit strength.

The “negative” outlook conveys our view that the recovery of LIT’s financial performance remains uncertain in the medium term while refinancing risk may emerge if funding is not well managed.

KEY RATING CONSIDERATIONS

Faltered market position

The rating downgrade reflects a downward revision of our business stability assessment. The revision was driven by the decrease of LIT’s market position denoted by new loans that have contracted significantly to THB2.2 billion in the first half of 2022 (1H22), compared with about THB10 billion per year in 2017-2019. The contraction was largely due to tighter underwriting following a steep rise in NPLs since 2021 caused by Coronavirus Disease 2019 (COVID-19). Given the company aims to gradually rebuild its market position, the prospect of credit expansion in the short- to medium-term remains uncertain, in our view. At the end of June 2022, the company’s outstanding loans remained modest at THB2.1 billion.

Declining asset quality exacerbated by credit concentration

LIT’s NPL ratio has steadily increased, reaching 38.7% at the end of June 2022, from 15.3% at the end of 2020. The rise was induced by lockdowns during the surge in COVID-19 cases in 2021, which caused disruptions to construction activities that affected LIT’s customers. At the end of June 2022, NPLs from the construction industry accounted for 51% of its total NPLs. At the same time, the high credit concentration remains a rating constraint, putting pressure on the company’s risk position. At the end of June 2022, top-20 customers accounted for 58% of its outstanding loans.

Following the deterioration in asset quality, the company has tightened its credit policy by focusing more on secured lending and reducing exposure to the construction sector. While it remains to be seen whether its credit policy will help strengthen the quality of new bookings, the company’s main task at hand is to manage the existing NPLs efficiently to improve the company’s performance in the medium term.

Weakened financial performance

We expect LIT’s financial performance to remain under pressure in the medium term. The company reported a net loss of THB95 million in 2021 due to the credit cost spike. In 1H22, the company’s bottom line continued to be negatively impacted by the high NPLs that led to lower interest income and above-average credit costs. Fee income also declined due to the slowdown in new lending and bid bond offering.

As a result, LIT's earnings capability as measured by earnings before taxes to average risk weighted assets (EBT/ARWA) turned negative at -3.5% in 2021 and -3.7% (annualized) in 1H22, compared with 3.1% in 2020. We believe the company's ability to rebuild its business and manage credit risk will be vital to its future financial performance.

Meanwhile, LIT's provisioning policy is improving, with the coverage ratio rising above 70% from about 60% in the past. Allowance for under-performing (stage 2) loans rose above 25% from the low- to mid-teen level, but overall provisioning remains under pressure considering the high credit risk of its target SME customers amid a weak economy and rising inflation. We believe the company's reserve will remain at a high level and continue to pressure its profitability in the medium term.

Strong capital base maintained

LIT's strong capital remains the key factor supporting the credit profile. Capital strength measured by the risk adjusted capital (RAC) ratio stood at 45.8% as of June 2022, a healthy level compared with 31.2% at the end of 2021. The strong capital was due to the slower pace of credit growth combined with a capital increase from a right offering at the beginning of 2022 that generated proceeds of THB236 million. While we believe the company's selective growth strategy is likely to help maintain strong capital in the medium term, persistent weak financial performance could undermine its capital strength over time.

Sufficient funding and liquidity with modest near-term refinancing risk

We view that LIT has sufficient funding and liquidity considering its conservative growth plan. In terms of capital structure as of June 2022, debt accounted for 40% while the remaining 60% was equity. In terms of debt funding, LIT has credit lines from various financial institutions as well as ability to issue bills of exchange (B/E) and debentures. At the end of June 2022, the company had unused short-term credit lines of THB635 million that can be used to support liquidity needs.

LIT has outstanding debentures of THB393 million due in December 2022 and THB394 million due in March 2023. The company plans to redeem the debentures due in December 2022 with cash on hand and cash flows from business. The debentures due in March 2023 are expected to be refinanced with new debentures to be issued at the end of 2022. Although we are of the view that the repayment plan for the THB393 million debentures is manageable, there remains refinancing risk for the debentures due in March 2023.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2022-2024:

- New loans to contract in 2022 and expand by around 5% per year thereafter.
- RAC ratio to stay above 40%.
- Overall asset yield to remain in the range of 5%-7%.
- Credit cost to remain at around 3%-4%.
- Operating expense to average loan ratio to stay around 5.5%.

RATING OUTLOOK

The "negative" outlook reflects our view of the uncertain recovery of LIT's financial performance due to persistent pressure from high credit costs and emerging refinancing risk.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on the company's ability to improve its market position, asset quality, and financial performance, while preserving capital strength with RAC maintained well above 25%.

The rating could be revised downward if asset quality continues deteriorating, resulting in a significant rise in credit costs and the RAC ratio falling below 25% on a sustained basis or heightening refinancing risk.

COMPANY OVERVIEW

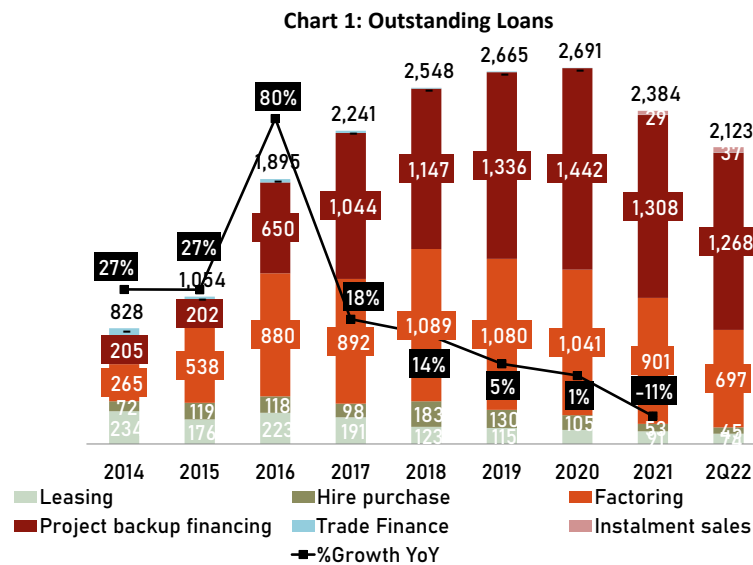
LIT was established in 2006 as Lease IT Co., Ltd., 99.99% owned by SVOA PLC (SVOA). LIT was initially established as a financial arm to provide the leasing and hire purchase of SVOA's products to its customers. The company also provided factoring financing to help SVOA's customers manage working capital. In 2009-2010, the company started to diversify its business outside of SVOA's circle of customers and introduced other products such as trade finance, bid bond, and project back-up finance. In 2015-2016, the company introduced two more new products -- letter of credit (L/C) and supply chain finance.

On 25 March 2014, LIT became a public company under the name “Lease IT PLC”. The company was subsequently listed on the Market for Alternative Investment (MAI), with THB200 million in registered and paid-up capital. In 2017, the company offered to sell warrants (LIT-W1) to the company’s existing shareholders by way of a rights issue, totaling 160 million units of warrants at an offering price of THB2.5. The issue of the warrants enabled the company to increase its equity by THB400 million.

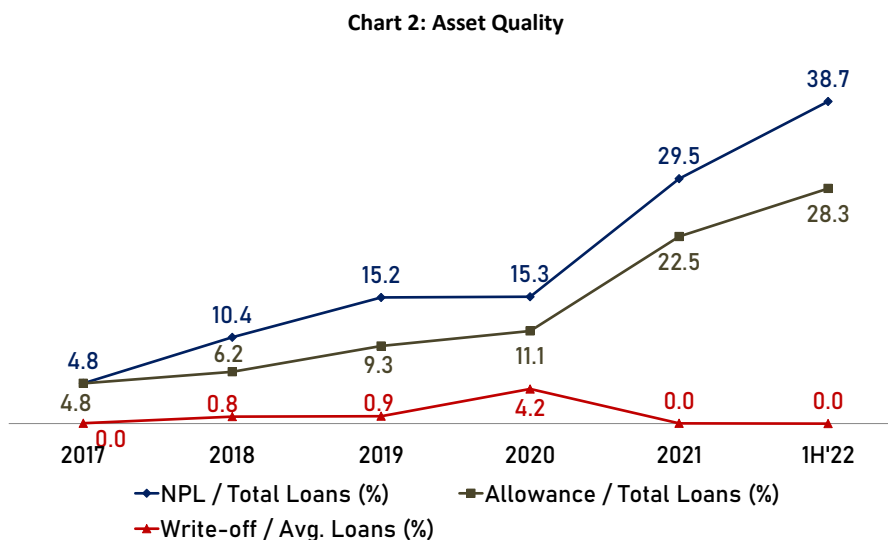
In May 2018, the company established “LIT Service Management Co., Ltd.” with registered capital of THB5 million. The company’s principal business operations are providing data information and credit analysis services for LIT. The subsidiary was established to segregate the roles between credit analysis and underwriter/approval.

In October 2020, LIT set up a new subsidiary “Ulite Digital Co., Ltd.” (Ulite) with THB10 million registered capital. Ulite provides short-term financing under the buy-now-pay-later concept. The financing products are generally for electrical appliances. In initial stage, Ulite’s target customers are university students.

KEY OPERATING PERFORMANCE



Source: LIT



Source: LIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total assets	2,043	2,157	2,645	3,551	2,663
Total loans	2,124	2,386	2,695	2,696	2,550
Allowance for expected credit loss	601	537	300	252	159
Short-term debts	788	715	1,034	1,173	644
Long-term debts	9	404	405	1,119	741
Shareholders' equity	1,161	940	1,075	1,133	1,100
Net interest income	34	129	186	225	215
Expected credit loss	64	237	66	111	71
Non-interest income	29	115	124	148	161
Operating expenses	50	126	126	131	113
Earnings before taxes	(51)	(119)	118	131	192
Net income	(45)	(95)	71	103	149

* Consolidated financial statement

Unit: %

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Profitability					
Net-interest income/average assets	3.21 **	5.39	5.23	6.66	7.51
Net-interest income/total income	38.55	39.04	40.88	45.32	42.23
Operating expenses/total income	57.05	37.97	31.67	28.63	25.48
Operating profit/average assets	(4.88) **	(4.97)	3.81	4.23	7.66
Earnings before taxes/average risk-weighted assets	(3.69) **	(3.50)	3.11	3.48	5.40
Return on average assets	(4.27) **	(3.98)	2.30	3.32	5.94
Return on average equity	(8.54) **	(9.48)	6.45	9.24	14.05
Asset Quality					
Non-performing loans***/total loans	38.74	29.45	15.25	15.17	10.38
Expected credit loss/average loans	5.65 **	9.35	2.45	4.21	2.94
Allowance for expected credit loss/non-performing loans***	72.99	76.38	73.04	61.52	60.04
Capitalization					
Risk-adjusted capital ratio	45.82	31.20	28.33	29.75	29.31
Debt to equity (times)	0.76	1.30	1.46	2.14	1.42
Liquidity					
Stable funding ratio	107.87	139.49	204.92	398.27	473.07
Liquidity coverage measure (times)	0.35	0.10	0.05	0.88	0.18
Short-term debts/total liabilities	89.22	58.74	65.87	48.49	41.22

* Consolidated financial statement

** Annualized

*** Definition was changed in 2020 to staging from aging.

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

LEASE IT PLC (LIT)

Company Rating:	BB
Rating Outlook:	Negative

TRIS Rating Co., Ltd.

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