TRIS RATING
A Strategic Partner of S&P Global

CreditNews ข่าวเครดิต

LEASE IT PLC

No. 188/2023
29 September 2023

FINANCIAL INSTITUTIONS

Company Rating: BB-
Outlook: Stable

Last Review Date: 30/09/22

Company Rating History:

Date	Rating	Outlook/Alert
30/09/22	BB	Negative
23/09/21	BB+	Stable
23/11/20	BBB-	Negative
12/11/19	BBB-	Stable

Contacts:

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com

WWW.TRISRATING.COM

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 “stable” from “negative”.

The rating downgrade reflects the continued deterioration of asset quality caused by the high credit concentration and weak credit profile of its target customers. These include mainly underserved small- and medium-sized enterprises (SMEs) that have been adversely impacted by the COVID-19 pandemic.

The rating is also weighed down by the company’s weaker-than-expected financial performance caused by falling revenues over the past two years as well as moderate funding and liquidity position. Nevertheless, the company’s strong capital position remains the key credit strength.

KEY RATING CONSIDERATIONS

Continued deterioration of asset quality

TRIS rating revises LIT’s risk position to ‘weak’ from ‘moderate’ given greater-than-expected credit losses. At the end of 2022, the non-performing loan (NPL) ratio surged to 54.6% from 29.5% at the end of 2021. Although asset quality appears to be stabilizing in 2023, with absolute NPLs falling slightly to THB1.05 billion as of June 2023 from THB1.07 billion at the end of 2022, credit risk remains high, in our view.

Aside from the high credit concentration of its loan portfolio with top-20 loans accounting for 56% of total loans, LIT has notable exposure to the ailing construction industry, which has been severely impacted by the COVID-19 pandemic. The lockdowns of worksites, which led to cost overruns due to project delays, and escalating inflation have contributed to financial losses and weak liquidity for LIT’s customers. At the end of June 2023, NPLs stemming from the construction industry accounted for 59% of its total NPLs.

We view that the pace of business turnaround largely depends on the effectiveness of NPLs management. One key company strategy is to expedite loan collections and litigation process. These include: 1) categorizing NPL accounts in greater detail to apply more specific remedies; 2) setting up a special task force to manage the loan collection process systematically; 3) recruiting more legal staff to support litigation proceedings.

Given the absence of a write-off plan, the prevailing weak economic conditions, and uncertain legal process, we view that most of NPL management activities could take a long time to resolve. This will likely continue to place significant burden on the company's financial performance.

Weakened financial performance

We expect LIT’s financial performance to remain under pressure in the medium term, primarily due to the lingering asset quality issues and uncertain business prospects. Nevertheless, we believe its performance is likely to bottom out in 2023 and gradually improve from 2024 onwards as the company tackles the asset quality issue and revamp business strategy.

LIT reported net losses of THB100 million in 2022 and THB52 million in the first half of 2023 (1H23) due mainly to increased credit cost. In terms of revenues, high NPLs have put pressure on interest income and the slowdown in new lending has also resulted in lower fee income. As a result, LIT's earnings capability as measured by earnings before taxes to average risk weighted assets (EBT/ARWA) turned negative at -4.7% in 2022 and -5.7% (annualized) in 1H23. Based on our baseline assumptions of the gradual expansion of the loan portfolio, improving loan yield, and lower credit cost, we expect its EBT/ARWA to recover to about 2% in 2025. However, a potential downside risk could come from higher-than-expected credit cost due to further decline in asset quality or more conservative provisioning policy and slower revenue generation.

Weak business position

LIT's business position remains 'weak' and continues to be a rating constraint. As of June 2023, the company's outstanding loans dropped steadily to THB1.9 billion from a THB2.7 billion peak in 2020. The contraction was largely due to tighter underwriting following deterioration of asset quality. Although the company has outlined new business strategies that we believe could help support future revenue generation, we view business prospects as remaining uncertain and, hence, credit expansion is likely to be at a measured pace.

Moderate funding and liquidity

We continue to assess LIT's funding and liquidity as 'moderate'. In terms of capital structure, as of June 2023, debt accounted for 29% while the remaining 71% was equity. In terms of debt funding, LIT uses credit lines from various financial institutions as well as issues bills of exchange (B/E) and debentures.

At the end of June 2023, the company had unused short-term credit lines of around THB500 million that can be used to support liquidity needs. LIT has outstanding debentures of THB400 million due in June 2024. We believe repayment plan of the debentures is manageable. The company plans to exercise call option partially by redeeming about THB100 million debentures at the end of September 2023 as a part of liquidity and cost management strategy. The remaining THB300 million will be refinanced with new debentures. Moreover, the potential source of additional liquidity will come from debt collection that can be used for debt repayment and credit expansion.

Strong capital base

LIT's strong capital remains the key factor supporting the credit profile. Capital strength measured by the risk adjusted capital (RAC) ratio increased to 53.2% as of June 2023, compared with the lowest level of 29.8% at the end of 2019. The strengthened capital was due to the combination of the capital increase from a rights offering at the beginning of 2022 with proceeds of THB236 million and the contraction of loan assets over the past few years. We believe the company's selective growth strategy is likely to help maintain strong capital in the medium term.

Expect a new income stream from new businesses

With the appointment of new management team, LIT plans to diversify into new businesses beginning in the fourth quarter of 2023 (4Q23) to improve the income stream. New products include hire-purchase (HP) loans for electric motorcycles, personal loans via buy-now-pay-later platform, secured loans backed by real estate, and micro loans for SMEs.

We believe that the successful introduction of retail loan products such as motorcycle HP and buy-now-pay-later, may help mitigate the risk from credit concentration to some extent. At the same time, the secured loans backed by real estate could also provide additional risk mitigation as we expect loan-to-value to be around 60%-70%. Based on LIT's target, total outstanding loans from the new products are expected to reach THB350 million by 2025.

We remain hopeful that the experience and expertise of new management should guide the company in a more positive direction. A downside risk to our view could stem from rising credit risk due to the aggressive expansion of new businesses amid the still-weak economy that has adversely impacted the retail sector.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2023-2025:

- New loans to contract in 2023 and expand by around 5%-10% per year thereafter.
- RAC ratio to stay above 40%.
- Overall asset yield to remain in the 3%-7% range.
- Credit cost to be around 4% in 2023 and 1% per year thereafter.
- Operating expenses to total income to remain high at 80% in 2023 and decline to about 60% in 2024 and 50% in 2025.

RATING OUTLOOK

The "stable" outlook reflects expectation that financial performance is likely to bottom out in 2023 while capital remains strong and liquidity risk should be manageable in the next 12 months.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on the company's ability to turnaround its business with stable source of revenue and control of its asset quality, while preserving capital strength with RAC maintained well above 25%, and with no concern on refinancing risk.

The rating could be revised downward if asset quality continues deteriorating further than our forecast, resulting in a significant rise in credit costs and the RAC ratio falling below 25% on a sustained basis or the inability to turnaround its business.

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.

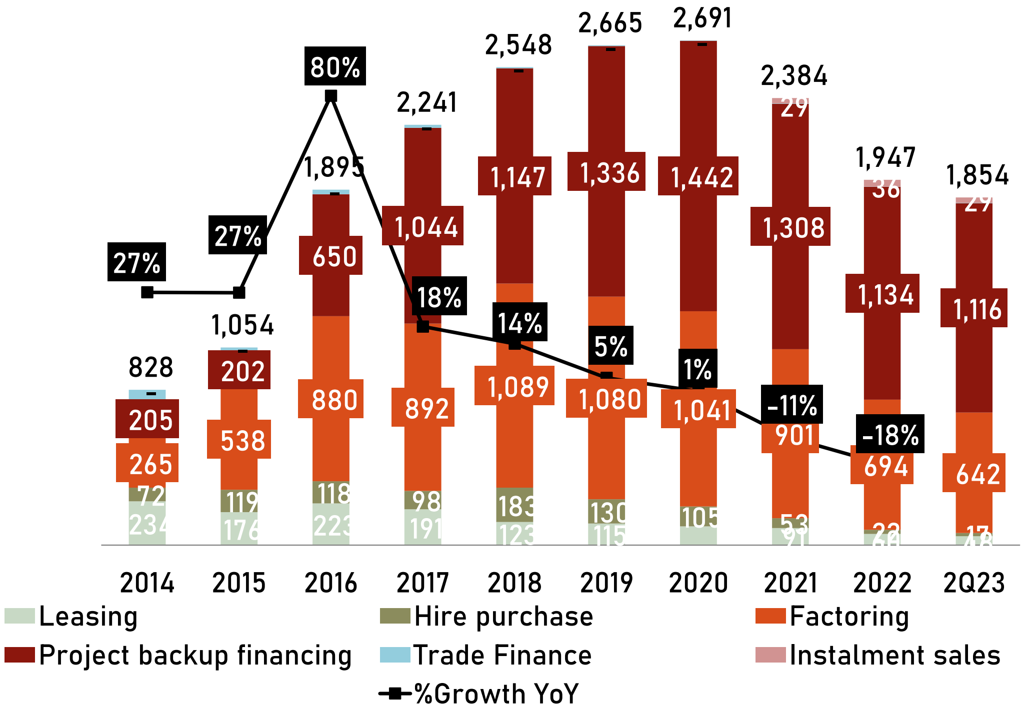
On 25 March 2014, LIT became a public company under the name "Lease IT PLC". The company was subsequently listed on the Market for Alternative Investment (MAI), with THB200 million in registered and paid-up capital. In 2017, the company offered to sell warrants (LIT-W1) to the company's existing shareholders 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 the 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.

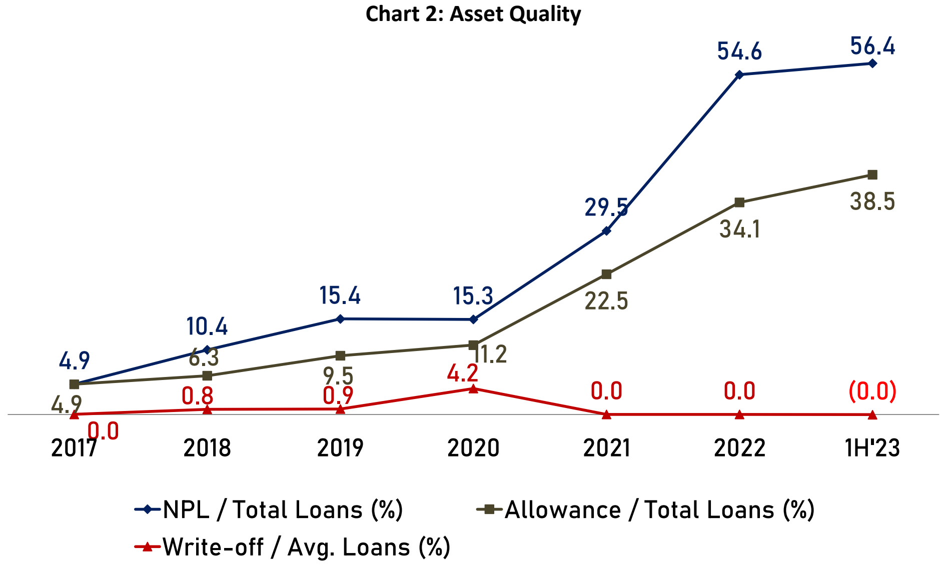
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: LIT

Chart 2: Asset Quality



Source: LIT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------ Year Ended 31 December ----------			
	Jan-Jun 2023	2022	2021	2020	2019
Total assets	1,552	2,017	2,157	2,645	3,551
Total loans	1,852	1,946	2,386	2,695	2,696
Allowance for expected credit loss	714	663	537	300	252
Short-term debts	430	447	715	1,034	1,173
Long-term debts	6	402	404	405	1,119
Shareholders' equity	1,057	1,108	940	1,075	1,133
Net interest income	12	49	129	186	225
Expected credit loss	50	127	237	66	111
Non-interest income	26	58	115	124	148
Operating expenses	48	103	126	126	131
Earnings before taxes	(60)	(123)	(119)	118	131
Net income	(52)	(100)	(95)	71	103

* *Consolidated financial statement*

Unit: %

		----------- Year Ended 31 December ----------			
	Jan-Jun 2023	2022	2021	2020	2019
Profitability					
Net-interest income/average assets	1.37 **	2.33	5.39	5.23	6.66
Net-interest income/total income	20.34	31.03	39.04	40.88	45.32
Operating expenses/total income	79.93	65.93	37.97	31.67	28.63
Operating profit/average assets	(6.75) **	(5.91)	(4.97)	3.81	4.23
Earnings before taxes/average risk-weighted assets	(5.75) **	(4.73)	(3.50)	3.11	3.48
Return on average assets	(5.81) **	(4.79)	(3.98)	2.30	3.32
Return on average equity	(9.58) **	(9.77)	(9.48)	6.45	9.24
Asset Quality					
Non-performing loans***/total loans	56.44	54.62	29.45	15.25	15.17
Expected credit loss/average loans	5.31 **	5.87	9.37	2.47	4.25
Allowance for expected credit loss/non-performing loans***	68.27	62.38	76.38	73.04	61.52
Capitalization					
Risk-adjusted capital ratio	53.21	50.36	31.14	28.33	29.75
Debt to equity (times)	0.47	0.82	1.30	1.46	2.14
Liquidity					
Stable funding ratio	102.74	149.49	139.49	204.92	398.27
Liquidity coverage measure (times)	0.33	1.06	0.10	0.05	0.88
Short-term debts/total liabilities	86.84	49.15	58.74	65.87	48.49

* *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:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000