

MIDA LEASING PLC

No. 47/2020
10 April 2020

FINANCIAL INSTITUTIONS

Company Rating: BB+
CreditAlert: Negative

Last Review Date: 29/03/19

Company Rating History:

Date	Rating	Outlook/Alert
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Mida Leasing PLC (ML) to “BB+” from “BBB-” and places the rating on CreditAlert with “negative” implication. The rating downgrade follows the rating actions on MIDA Asset PLC (MIDA), which holds a 46.98% stake in ML. ML’s rating is capped by MIDA’s rating, which represents the group credit profile of MIDA Group.

ML’s stand-alone rating reflects its solid capital position and stable profitability. However, the rating is constrained by its moderate market position and declining asset quality. Although ML’s business and capital position has not been significantly affected by the economic fallout from the coronavirus (COVID-19) pandemic, the CreditAlert addresses prospective refinancing risk ML could be facing due to the liquidity stress in the bond market.

CREDIT ALERT

The CreditAlert with “negative” implication on ML is placed following the “negative” CreditAlert placed on MIDA, its major shareholder.

KEY RATING CONSIDERATIONS

Solid capital base and low financial leverage

TRIS Rating assesses ML’s capital position as very strong, with the 5-year average risk-adjusted capital (RAC) estimated at 59.7%, compared with 51.9% at the end of 2019. The capital position is stronger than peers and appropriate for the credit risk profile of its target customers in the used car segment.

At the same time, ML’s financial leverage remains low measured by debt to equity (D/E) ratio of 0.95 times at the end of 2019, improving from 1.1 times at the end of 2018. The current D/E ratio is lower than the 3-time covenant imposed by its debenture obligations. TRIS Rating expects ML’s capital to remain strong in the medium term due to the business slowdown amid the weakening economy, the company’s low dividend payout policy, and sustained profitability in spite of the anticipated setback this year.

Moderate market position

The rating on ML is pressured by its modest market position. ML provides loans in the niche market with a focus on used pick-up trucks. The majority are small ticket-sized loans ranging from Bt50,000 – Bt300,000. Outstanding loans were Bt3.3 billion at the end of 2019. The portfolio is likely to expand at a measured pace owing to the weak economy and limited funding.

Heightened asset quality concerns

ML’s deterioration in asset quality could weaken further in 2020 given the economic fallout from the COVID-19 breakout. The non-performing loan (NPL) ratio (loans of more than 90 days past due divided by total loans) has improved to 5.3% in 2019 from 6% in 2018. However, this is higher than the 3%-4% range in the past, which has been our key concern. The NPL ratio could rise back to the previous levels if the pandemic prolongs. Despite the weakening asset quality, we view that ML’s current level of loan loss provisions based on the IFRS9 standard is sufficient.

Waning profitability in the medium term

TRIS Rating expects ML's profitability to decline over the next two years and resume its normal level thereafter. The return on average assets (ROAA) is estimated to stay slightly below 2% in 2020-2021 from 2.7% in 2019 and recover to above 3% thereafter. We also forecast earnings before tax (EBT) to average risk-weighted assets (ARWA) to fall below 2.5% in 2020-2022 and rise to over 3.5% after 2022. The decline in profitability is likely to be driven by lower interest spread and the higher credit costs.

ML's loan spread in 2019 has fallen below its normalized level of 10%-11%. We expect its spread to slip further in 2020-2021, despite the downward trend in interest rates that would have benefited ML in terms of lower funding cost. The narrower spread could be a combination of less interest income due to the debt relief measures ML may provide to some customers and the prospective increase in funding cost following the downgrade of the rating on ML. Nevertheless, we believe in the longer run, ML's loan spread should recover once the situation normalizes.

Rising liquidity risk

In our view, the current liquidity stress in the bond market has heightened refinancing risk for ML. Based on ML's estimates, cash inflows and outflows for the remaining of this year appear to be well matched. The cash inflows from customer loan repayments are expected to be about Bt930 million from April to November 2020, while the company's debt obligations of about Bt160 million are scheduled for repayment in September and Bt770 million in November 2020. However, ML's cash flows from debt collections could be disrupted if its borrowers face financial difficulties or enter the debt relief program. On a positive note, the company has so far received more credit facilities from financial institution, secured by its loan portfolios, which should help mitigate liquidity risk for ML to some extent.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period of 2020-2022 are:

- Negative growth in new loans in 2020 and 5% growth thereafter.
- Loan spread to be in a range of 9%-10%.
- Credit cost to be in a range of 2.0%-2.5%.
- RAC ratio to be around 60%.
- Operating expenses¹ to total income ratio to be around 55%.

COMPANY OVERVIEW

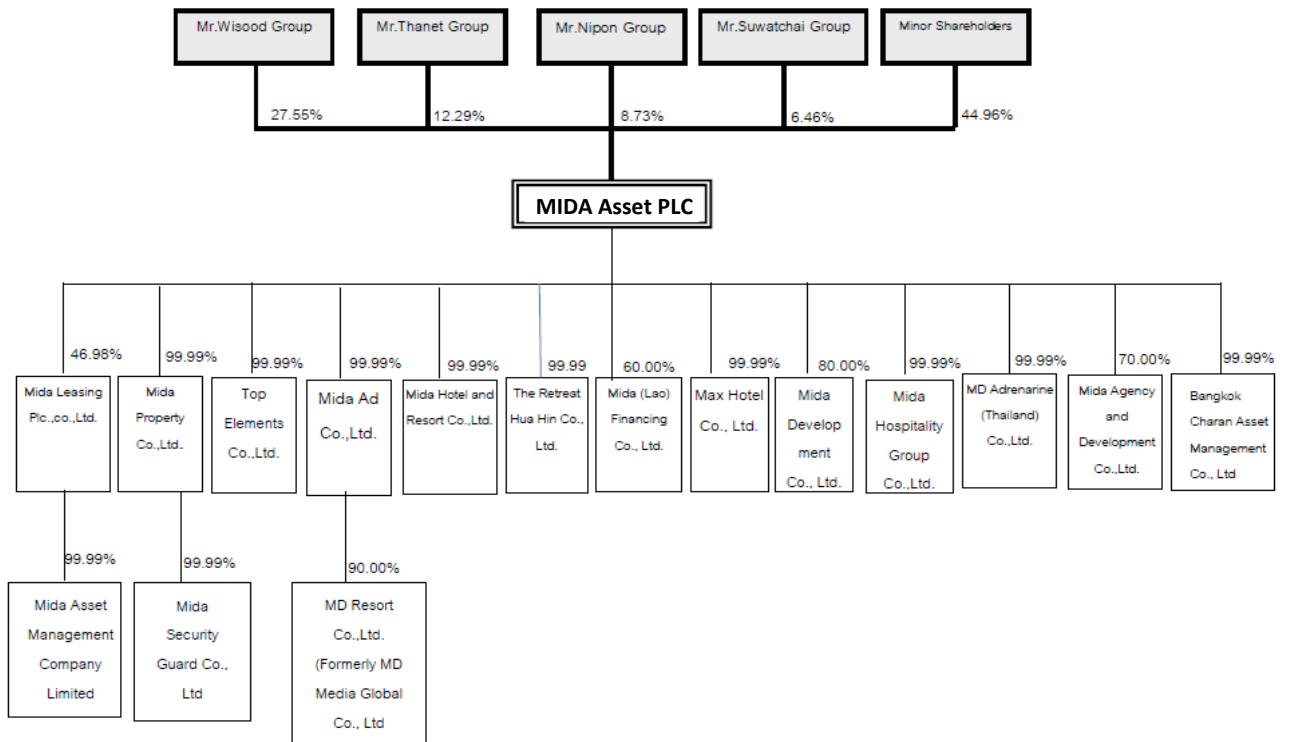
ML was founded on 4 October 2000 under the name of Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 31 December 2018, ML's major shareholders were MIDA and members of the leosivikul and Diloksakayavitoon families. These two families are the founders and major shareholders of MIDA. In addition, half of ML's board members also sit on the board of MIDA or are top executives at MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was Bt90 million when the company was founded. Currently, ML's paid-up capital is Bt532 million.

ML's main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, and focuses its marketing efforts in provincial areas. Most of ML's target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country. The network of branches covers every region of the country. The locations of the branches are consistent with ML's policy to penetrate the market in rural areas where its target customers live. Loans made to customers near the Bangkok head office accounted for 8% of total outstanding loans in 2019. As of December 2019, ML's portfolio of automobile loans consisted of hire-purchase loans (86.1%), floor plan loans (7.4%), and related party lending (6.5%).

¹ Excluding loss on repossession of assets

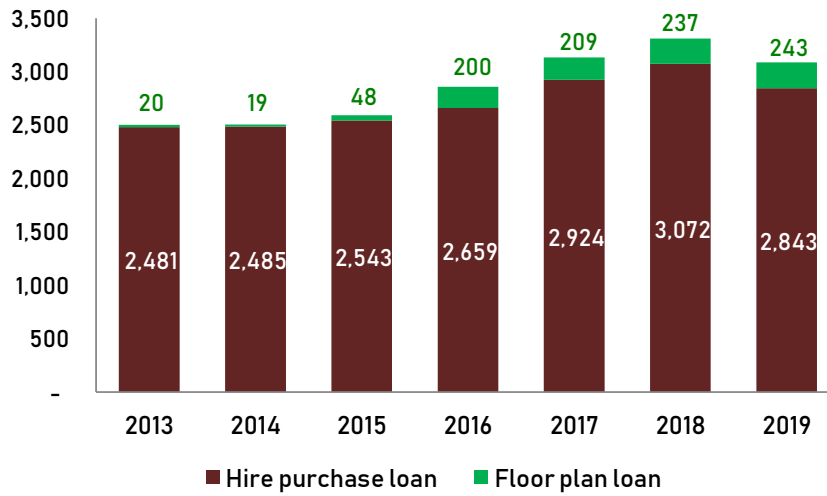
Table 1: MIDA Group Structure



Source: ML

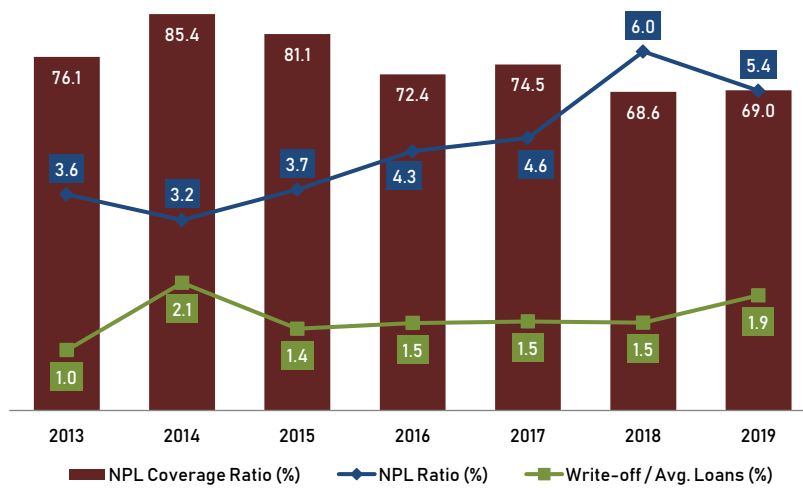
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Automobile Loans



Source: ML

Chart 2: NPLs, NPL Ratio, and Allowance for Doubtful Loans



Source: ML

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	3,695	3,730	3,599	3,493	2,948
Total loans	3,302	3,309	3,158	2,859	2,640
Allowance for doubtful accounts	122	136	107	90	79
Short-term borrowings	977	1,599	210	605	645
Long-term borrowings	712	190	1,481	1,090	629
Shareholders' equity	1,896	1,793	1,750	1,653	1,566
Net interest income	402	423	401	357	365
Bad debts and doubtful accounts	49	77	62	51	46
Non-interest income	87	90	103	118	86
Operating expenses	312	312	299	276	276
Net income	99	96	113	118	103

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Profitability					
Net-interest income/average assets	10.82	11.54	11.31	11.09	12.96
Net-interest income/total income	68.98	70.25	68.12	65.43	71.19
Operating expenses/total income	53.63	51.86	50.73	50.51	53.80
Operating profit/average assets	3.44	3.38	4.03	4.60	4.56
Earnings before taxes/average risk-weighted assets	3.47	3.42	4.11	4.70	4.62
Return on average assets	2.66	2.63	3.17	3.67	3.65
Return on average equity	5.36	5.44	6.61	7.34	6.78
Asset Quality					
Non-performing loans/total loans	5.35	6.01	4.56	4.34	3.70
Bad debts and doubtful accounts/average loans	1.49	2.37	2.08	1.85	1.80
Allowance for doubtful accounts/total loans	3.69	4.12	3.40	3.14	3.00
Capitalization					
Risk-adjusted capital ratio	51.92	48.53	49.20	48.67	53.78
Shareholders' equity/total loans	57.41	54.18	55.41	57.83	59.31
Debt to equity (time)	0.95	1.08	1.06	1.11	0.88
Liquidity					
Stable funding ratio	84.49	62.31	103.13	92.26	81.84
Liquidity coverage measure (times)	1.24	0.88	5.78	2.08	1.88
Short-term borrowings/total liabilities	54.34	78.46	11.35	32.91	46.71
Total loans/total assets	89.38	88.71	87.74	81.84	89.57

RELATED CRITERIA

- Nonbank Financial Institution Rating Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

Mida Leasing PLC (ML)

Company Rating:

BB+

CreditAlert:

Negative

TRIS Rating Co., Ltd.

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