SINGER THAILAND PLC

No. 108/2017 31 August 2017

Company Rating: BBB-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
22/10/15	BBB	Stable
12/06/15	BBB	Alert Developing
03/05/13	BBB	Stable
29/11/12	BBB	Alert Developing
20/01/12	BBB	Stable

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Rating Rationale

TRIS Rating downgrades the company rating of Singer Thailand PLC to “BBB-” from “BBB”. The downgrade reflects continual deterioration in SINGER’s business and financial profiles during 2014 to the first half of 2017. The rating downgrade also considers transition risks from recent changes in the implementation of new operational systems and a significant weakness in SINGER’s asset quality.

The rating continues to reflect SINGER’s strong brand name in the electrical home appliance market, nationwide branch and sales distribution networks, and a proven track record in financing electrical home appliance purchases. SINGER has a diverse customer base and well-trained sales staff, who are familiar with the target customers. However, its business growth prospects are limited by an unfavorable domestic economy, high household debt, and the fact that SINGER’s target customers are highly sensitive to changes in economic conditions.

Currently, SINGER has Jay Mart PLC (Jaymart) as a major shareholder, owning 24.99% of its outstanding shares, followed by SAHAPAT Group (8%). Jaymart is a retailer and wholesaler of mobile phones and related products. SAHAPAT is the leading Thai distributor of consumer goods to Thai households nationwide. Jaymart utilizes SINGER’s direct sales channel to distribute its products, such as mobile phones, to SINGER’s customers. SINGER may be able to generate another source of fee-based income by utilizing its own network to sell its products. SINGER changed some top key executives in the second quarter of 2016. The new management’s strategy has focused on modernizing SINGER’s business practices and improving staff efficiency. In addition, the company has expanded to multi-brand products.

SINGER has focused its efforts on its core business, sales of home electrical appliances. It has had a lengthy track record in this segment. The company expanded its market coverage to include the sale of income-generating products, commercial electrical appliances such as freezers and air time vending machines. SG Capital Co., Ltd., a wholly-owned subsidiary of SINGER, provides financing services for SINGER’s customers. In addition, the company has two other subsidiaries; SG Service Plus Co., Ltd., who provides maintenance services to SINGER’s customers and SG Broker Co., Ltd., who acts as an insurance agent. The company had an extensive network of 183 branches and approximately 2,000 salespersons, as of June 2017.

Revenue from sales slipped due to stricter credit criteria during the current economic slowdown. Revenue from sales of household appliances and commercial electrical appliances were 51% and 49% in the first quarter of 2017, respectively. The outstanding hire-purchase declined due to a decrease in sales from Bt2,000 million during 2013-2015 to Bt1,500 million in 2016, and continued to drop in the first quarter of 2017. However, the company maintained total hire-purchase at around Bt2,200 million, as of June 2017; as a result of the increase in hire-purchase from mobile phone sales. Revenue from sales of mobile phones, which are a consignment product, is recorded in other incomes.

The economic slowdown pushed the non-performing loan (NPL) ratio up to 6% in 2013-2015, from 4.3% in 2012. However, the NPL ratio has increased noticeably to 10.3% since the end of June 2016 and to 13.8% in the first half of 2017 due to a change in the customer payment system to Direct Payment System (DPS). DPS payment goes directly to the company’s accounts via the payment agents without involvement of SINGER’s salespersons. In TRIS Rating’s view, this may not suit the behavior of the company's target customers. In addition, the company's new payment system needs time to prove efficiency and requires customers to change their habits.

SINGER's profitability weakened due to deterioration in loan quality, as well as being impacted by slow recovery in domestic demand, lower prices of agriculture products, and higher household debt in the rural areas where SINGER's target customers are based. The decrease in revenue from sales and higher provision expenses have caused net profit to continuously decrease since 2013. Non-interest income has contributed significantly to revenue through higher income from mobile airtime top-up service and income from consignment products such as mobile phones. Fee and service income increased significantly to Bt267 million in 2016 and Bt156 million for the first half of 2017, compared with Bt15 million in 2013.

SINGER has a strong capital base. According to its financial covenant, SINGER has to keep its interest-bearing debt to equity ratio below 2 times. The interest-bearing debt to equity ratio was 0.67 times as of June 2017, slightly increasing from 0.47 times at the end of 2016. At the current level, the ratio is considered sufficient to support expansion in its loan portfolio.

The ratio of funds from operations (FFO) to total debt was around 20.49% in 2016 and 10.32% for the first half of 2017, annualized with trailing 12 months. The ratio of earnings before interest, tax, depreciation, and amortization (EBITDA) to interest coverage was sustained at around 5 times during 2015-2016 and decreased to 3.8 times in the first half of 2017. SINGER's short-term liquidity adds further concerns to the rating. The company's risk exposure to roll over a major portion of the outstanding bills of exchange (B/E) of about Bt300 million coming due from August to December 2017 indicates a higher refinancing risk in the event of debt market distress.

Rating Outlook

The "stable" outlook reflects the expectation that SINGER will be able to improve it asset quality, business position, and financial performance as planned. The rating and/or outlook could be revised downward if the asset quality further erodes with no sign of improvement. TRIS Rating is also concerned with SINGER's higher exposure to the B/E refinancing risk in the event of debt market distress.

The rating and/or outlook could be revised upside if the new management strategies are fully implemented and improve asset quality and profitability. In addition, the rating could increase if SINGER's management team is able to implement its marketing strategies to stabilize the company's market position as planned during the transition of SINGER's business model modification.

Singer Thailand PLC (SINGER)

Company Rating:	BBB-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Jun 2017	------------- Year Ended 31 December ----------- 2016	2015	2014	2013
Revenues from sale of goods	729	1,675	2,494	2,531	2,851
Interest income from hire-purchase	298	603	741	822	773
Gross interest expense	16	37	51	58	55
Net income from operations	(12)	120	143	241	321
Funds from operations (FFO)	65	155	202	298	377
Capital expenditures	17	8	12	11	37
Total assets	3,345	3,145	3,342	3,356	3,256
Total debts	1,063	759	1,024	1,057	1,145
Shareholders' equity	1,576	1,626	1,578	1,578	1,432
Operating income before depreciation and amortization as % of sales***	(0.78)	6.42	5.83	9.35	11.32
Pretax return on permanent capital (%)***	1.28 **	5.22	6.47	11.22	16.96
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	3.80	5.18	4.86	6.47	8.49
FFO/total debt (%)	10.32 **	20.49	19.74	28.23	32.89
IBD to equity (times)	0.67	0.47	0.65	0.67	0.80

* *Consolidated financial statements*
** *Annualized with trailing 12 months*
*** *Including interest expense*

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