

THITIKORN PLC

No. 127/2024
30 July 2024

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 27/07/23

Company Rating History:

Date	Rating	Outlook/Alert
30/07/21	BBB+	Stable
31/07/20	A-	Negative
31/03/10	A-	Stable
14/11/06	BBB+	Stable

Contacts:

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Pawin Thachasongtham
pawin@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 Thitikorn PLC (TK) to “BBB” from “BBB+” with a “stable” outlook. The downgrade reflects our view of increased credit risk due to the greater asset and earnings contribution from motorcycle hire purchase (HP) operations in Cambodia. This resulted from a continuous decline in its domestic market position over the last few years.

TK’s exceptionally strong capital position and healthy liquidity remain its credit strengths. The key rating constraints are the weakening of earnings capacity caused by contracted loan yield, higher funding cost, and surging credit cost. Other constraints are the weakening domestic market position and deterioration of overall asset quality.

KEY RATING CONSIDERATIONS

Increasing contribution from high-risk Cambodian operation

The rating downgrade reflects our assessment that TK’s overall risk exposure has escalated over recent years and is likely to persist at this elevated level in the medium term. This heightened risk profile stems primarily from the progressive increase in the asset and earnings contribution from TK’s motorcycle HP operations in Cambodia, a market we categorize as high-risk. In our view, the Cambodian market presents several challenges, including escalating private sector debt, intense competition in the financial sector, a high USD funding costs, and heightened credit risk.

The contribution of TK’s loan portfolio originating from Cambodia has experienced substantial growth, expanding from a pre-COVID-19 level of 14% of consolidated loans in 2019 to 33% by the end of the first quarter of 2024 (1Q24).

Given the company’s strategic decision to decelerate credit growth in its domestic market due to interest rate caps, while maintaining its market share in Cambodia, we anticipate the loan contribution from Cambodia will likely exceed 40% over the coming years.

Also, TK maintains operations in Laos, another market we consider high-risk. However, the loan contribution from this market remains minimal at 4% of total loans, and management has indicated no plans for active business expansion in Laos.

Eroded market position in Thailand

TK’s loan portfolio in Thailand has significantly contracted since 2020, with further shrinkage anticipated in 2024 due to the management’s strategic decision to temporarily halt new lending. As of 1Q24, TK’s loan portfolio diminished to THB1.8 billion, down from THB2.8 billion at the end of 1Q23.

Based on the current loan repayment rate, we project the domestic portfolio to further fail to about THB1 billion by the end of 2024. While we anticipate TK will resume new lending activities in 2025, our forecast suggests that outstanding loans are unlikely to surpass THB3 billion by the end of 2026.

Declining profitability

TK’s subdued financial performance in 2023 and 1Q24 has exerted downward pressure on the rating. Despite this, we maintain our assessment of its earnings capacity as “moderate”, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA). The company’s EBT/ARWA declined to 2.1% in

2023 from 5.8% in 2022, and further plummeted to -2.3% in 1Q24. This downturn primarily stems from the regulatory interest rate cap of 23% imposed on motorcycle HP loans since January 2023.

The net loss recorded in 1Q24 was further exacerbated by substantial provisions for expected credit losses (ECL), reflecting deteriorating asset quality and an aggressive write-off strategy. While TK's earnings are likely to remain under pressure throughout 2024, we project EBT/ARWA to a gradual recover and exceed 1.5% by 2026, which should continue to support our current earnings assessment. This forecast is predicated on our expectation that the company will successfully improve its asset quality and resume modest growth in the 2025-2026 period.

Solid capital remains key credit strength

We maintain our assessment of TK's capital position as "very strong". The company's capital strength, as measured by the risk-adjusted capital (RAC) ratio, has significantly improved, rising to 84.4% at the end of 1Q24 from 67.3% and 74.4% at the end of 2022 and 2023. This enhancement in capital position is primarily attributable to the ongoing contraction of the domestic loan portfolio. Given TK's prudent growth strategy, we anticipate that its capital position will be sustained at the "very strong" level over the medium term.

Funding and liquidity to stay healthy

We maintain our "strong" assessment of TK's funding and liquidity, underpinned by its robust cash position and substantial equity funding. These factors are projected to remain key credit strengths in the medium term, supported by the company's conservative financial policies and strategies.

As of March 2024, on a consolidated basis, TK held THB2.5 billion in cash and had debt obligations of THB365 million. We believe this excess liquidity should adequately support the company's business growth in the domestic market over coming years.

Furthermore, as of March 2024, TK had access to THB2.3 billion in domestic short-term credit lines from various financial institutions, providing additional liquidity buffer. The company's domestic operations are entirely equity-financed.

In overseas markets, TK's subsidiaries -- Suosdey Finance PLC in Cambodia and Sabaidee Leasing Co., Ltd. in Laos -- have access to short-term credit lines from Thai banks operating in both countries. These credit lines total around THB1.1 billion, with 66% remaining undrawn, positioning them well to meet their liquidity and funding needs.

Elevated credit risk but manageable

TK's asset quality has experienced a decline over the past two years, despite the company's conservative growth strategy. This deterioration continues to be a key factor constraining its earnings potential. By the end of 2023, non-performing loan (NPL) formation had escalated to THB577 million (13.4% of average loans), up from THB369 million (8.3%) at the close of 2022.

In response to the escalating credit risk and the implementation of interest rate caps, the company opted to suspend new lending in the domestic market for 2024 and implement an aggressive write-off strategy in 1Q24. This write-off approach led to a significant reduction in NPLs, which fell to THB199 million (5.7% of total loans) at the end of 1Q24, down from THB324 million (8%) at the end of 2023. With these strategic measures, we anticipate gradual improvement in the company's asset quality.

As for overseas operations in Cambodia and Laos, the company has maintained relatively stable asset quality despite uncertain economic environments. We believe TK should be able to manage risks in these overseas markets, given prudent growth strategy and the higher-yield nature of these markets, which should compensate for the higher risk exposure.

Motorcycle HP industry faces reduced profitability and increased risk

The motorcycle loan industry is facing significant challenges due to interest rate caps introduced in early 2023. Motorcycle sales declined by 3.6% in 2023 and contracted by 9.2% in the first five months of 2024. Despite this, outstanding loans from five operators in TRIS Rating's database grew strongly in 2023, driven by high loan-to-value ratios and reduced lending by major operators. In 2024, loan growth slowed as lenders tightened the approval processes due to lower yields and concerns over borrower repayment abilities. The industry's profitability has also sharply decreased, with average return on assets falling to below 2% from 5%-6%. Moving forward, we expect further tightening of underwriting criteria, which is likely to slow down sales and lending further.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TK's operations in 2024-2026 are:

- Outstanding portfolio to drop over 30% in 2024 and expand around 5% in 2025 and 40% in 2026.
- RAC ratio to remain above 60%.
- Interest yield to remain around 26.5%.
- Credit cost to be around 14% in 2024 and 9%-11% in 2025-2026.
- Operating expense to total income ratio to remain in 65%-70% range.

RATING OUTLOOK

The "stable" outlook is premised on our expectations that the company's capital will remain solid, with profitability and asset quality remaining in line with our base case.

RATING SENSITIVITIES

Rating upside is limited in the medium term. However, if the company can strengthen market position materially, and/or profitability and asset quality improve significantly, a rating upgrade would be possible.

We could lower the rating if TK fails to manage asset quality at an acceptable level given the new interest rate ceiling, so that its earnings capacity, as indicated by EBT/ARWA, falls below 1.5% on a sustained basis. The rating could also be lowered if there is substantial depletion of excess liquidity particularly in cash on hand.

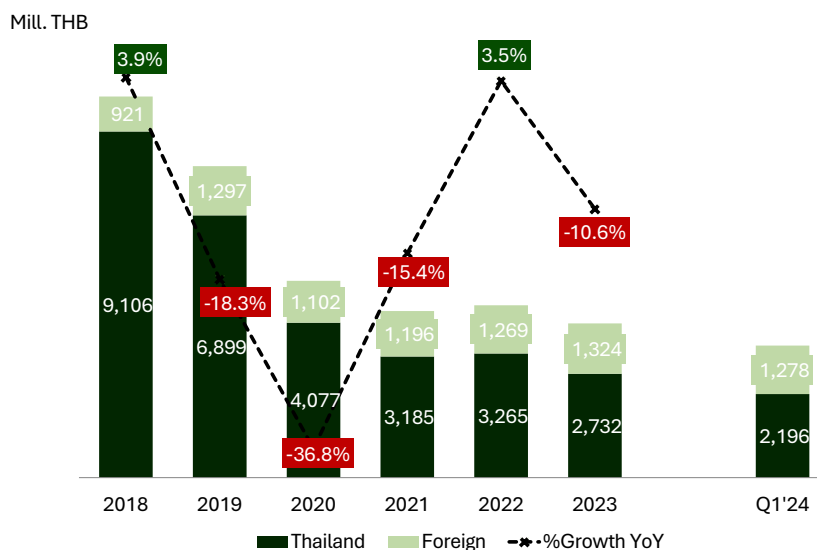
COMPANY OVERVIEW

TK was founded on 4 August 1972 by Dr. Chumpol and Dr. Anothai Phornprapha to provide motorcycle and automobile financing loans under HP contracts. Currently, the company concentrates on the motorcycle financing segment. TK is more geographically diversified than its competitors. The company renders services through a branch network covering 56 provinces throughout Thailand. In addition, TK offers motorcycle loans in Cambodia and Laos through its subsidiaries, Suosdey Finance and Sabaidee Leasing, respectively, which were established in 2014.

As of March 2023, loans from TK comprised 69% of TK's outstanding loans; 28% from Suosdey Finance (Cambodia-based subsidiary) and 3% from Sabaidee Leasing (Laos based subsidiary), and another 4% from other subsidiaries.

KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2024	Year Ended 31 December			
		2023	2022	2021	2020
Total assets	6,338	6,405	6,558	6,979	7,357
Total loans	3,474	4,056	4,534	4,381	5,179
Allowance for expected credit loss	279	368	344	372	562
Short-term debts	330	334	315	783	1,096
Long-term debts	158	209	154	192	531
Shareholders' equity	5,616	5,589	5,758	5,657	5,356
Net interest income	238	1,182	1,436	1,355	1,934
Expected credit loss	168	590	337	252	640
Non-interest income	97	401	462	582	541
Operating expenses	209	823	1,072	1,061	1,361
Earnings before taxes	(42)	169	489	624	474
Net income	(30)	95	369	474	370

* Consolidated financial statements

Unit: %

	Jan-Mar 2024	Year Ended 31 December			
		2023	2022	2021	2020
Profitability					
Net interest income/average assets	14.94**	18.24	21.22	18.90	23.41
Non-interest income/average assets	6.08**	6.18	6.82	8.12	6.55
Operating expenses/total income	60.72	50.16	55.57	53.81	53.42
Operating profit/average assets	(2.64)**	2.62	7.22	8.70	5.74
Earnings before taxes/average risk-weighted assets	(2.38)**	2.11	5.82	7.02	3.81
Return on average assets	(1.88)**	1.47	5.46	6.62	4.48
Return on average equity	(2.13)**	1.68	6.47	8.61	6.95
Asset Quality					
Non-performing loans/total loans	5.72	7.98	6.92	7.04	9.17
Expected credit loss/average loans	17.83**	13.74	7.56	5.28	9.57
Allowance for expected credit loss/non-performing loans	140.22	113.59	109.83	120.43	118.30
Capitalization					
Risk-adjusted capital ratio	84.41	74.40	67.08	68.79	56.11
Debt/equity (time)	0.13	0.15	0.14	0.23	0.37
Liquidity					
Stable funding ratio	316.20	286.63	241.04	263.09	276.97
Liquidity coverage measure (times)	7.57	6.53	7.07	3.49	2.09
Short-term debts/total liabilities	45.63	40.93	39.41	59.23	54.80

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

Thitikorn PLC (TK)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2024, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria