

PHATRA LEASING PLC

No. 120/2020
7 August 2020

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 07/08/19

Company Rating History:

Date	Rating	Outlook/Alert
07/08/19	A-	Negative
25/07/13	A-	Stable
30/03/11	A-	Positive
09/08/05	A-	Stable
12/07/04	BBB+	Stable
10/10/02	BBB+	-
23/08/00	BBB	-

Contacts:

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Taweekok Jiamsakunthum
taweekok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on Phatra Leasing PLC (PL) and the ratings on PL's outstanding senior unsecured debentures to "BBB+" from "A-" with a "stable" rating outlook to reflect the gradual deterioration of the company's financial performance. The ratings also take into consideration the company's relatively strong competitive position, acceptable level of leverage, and adequate liquidity resulting from its well-managed asset-liability structure.

KEY RATING CONSIDERATIONS

Market position remains strong despite contraction

PL's extensive services and geographic coverage have helped the company retain its major clients over the years, as evidenced by the consistent contract renewals of corporate clients, which constitute a significant proportion of the company's portfolio. Despite a gradual contraction of PL's portfolio in recent years, we believe the company's positive brand equity will continue to support its competitive position as one of Thailand's leading operating lease companies according to TRIS Rating's database. Its outstanding portfolio of operating lease at the end of March 2020 stood at THB9.4 billion in value. Including financial lease, the portfolio value was THB11.4 billion, a 7.1% decrease from March 2019. The portfolio contraction in recent years has been due mainly to the company's strategy to avoid price competition and to selectively diversify into higher-yielding motor and non-motor lease assets. Over the medium term, we expect the company's total lease portfolio to hover in the THB11-THB12 billion range.

The company's relatively broad range of products and services also underpins its competitive position. At the end of March 2020, land vehicles (passenger cars, pick-up trucks, vans, and supercars) accounted for about 70% of the portfolio. Watercraft, medical equipment, heavy equipment, trucks, and trailers accounted for the remainder. With the support of one of its major shareholders, Muang Thai Life Assurance PLC (MTL), the company's market position is bolstered by prudent risk management policies and cautious credit underwritings that should help limit the risk of client defaults over the medium term.

Pressured by declining profitability

TRIS Rating's rating action is driven mainly by PL's weakening cash flow protection and profitability over the past few years. We measure cash flow protection using the EBIT (earnings before interest and tax) interest coverage ratio (EBIT to interest expenses), which declined to 1.2 times in the first three months of 2020 from 1.6 times in 2017-2018. The EBIT margin also declined to 8.6% in the first three months of 2020, from 10%-11% in 2016-2018. Intense price competition has limited PL's ability to raise the prices of new contracts in recent years, resulting in gross margin compression. We expect the EBIT interest coverage ratio to remain around 1.3-1.4 times and the EBIT margin to be about 9% over the next few years. We believe that the price competition and the company's policy to lower salvage value to reduce losses from asset disposals could lead to higher depreciation expenses, putting more pressure on its gross margin and EBIT over the medium term.

Higher losses from disposals of retired assets (mainly passenger cars), which have been partly affected by the market downturn in used-car prices, have

also put pressure on the company's profitability. In an effort to reduce losses from asset disposals, the company has been trying to increase the proportion of assets sold to retail customers, which generally yield better prices. In 2019, 42% of retired assets were sold directly to retail customers, up from 39% in 2018.

Leverage should remain moderate

We expect the company's leverage, measured by the ratio of debt to capital, to hold at a moderate level of 75%-76% over the next few years. At the end of March 2020, the ratio was at 75.4%. We believe that gradual portfolio expansion will reduce the need for borrowings to fund new business over the medium term. We project PL's debt to equity ratio (D/E) will hold in the range of 3-4 times over the next few years, significantly lower than its bond covenant of 7 times. The company's D/E ratio stood at 3.4 times at the end of March 2020.

Funding and liquidity profile are positive rating attributes

The company's adequate liquidity is supported by its well-matched asset-liability structure. The company uses long-term borrowings as the main sources of funds to match the duration of its lease contracts, which are mostly three to four years. As of March 2020, short-term borrowings comprised 37% of the company's total borrowings. In addition, the company has considerable financial flexibility, given its access to debt and equity capital markets as well as credit facilities from various financial institutions. As of June 2020, the company had available credit lines totaling THB2 billion, which should be sufficient to cover liquidity shortfalls should they occur.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for PL's operations during 2020-2022 include:

- Total lease portfolio to grow by 0%-5%.
- Operating lease gross margin to be around 17%.
- Cost of funds to range between 2%-3%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its competitive position, earnings capacity, and profitability in its core business to support its financial performance and cash flow protection at the current level.

RATING SENSITIVITIES

The credit upside would materialize if the company's profitability and cash flow protection improve, with its EBIT interest coverage ratio rising above 1.7 times for a sustained period. On the contrary, the ratings and/or outlook could be revised downward if the company's profitability or cash flow protection continues to decline from the current level.

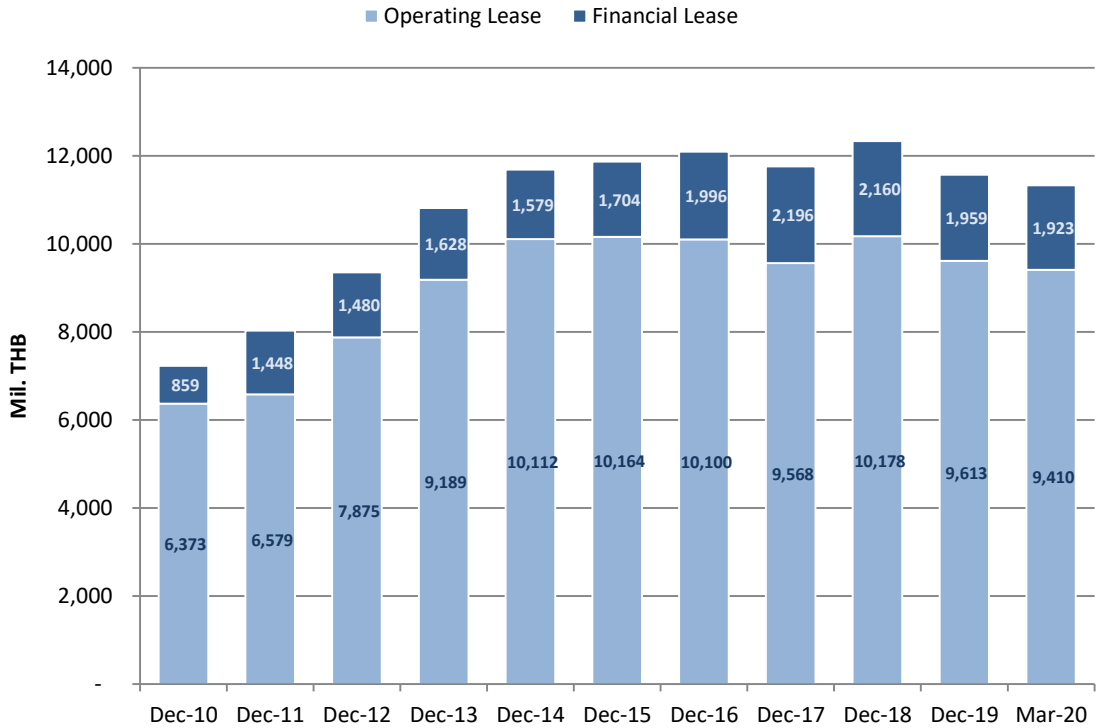
COMPANY OVERVIEW

PL was established in 1987 by the Lamsam family to offer automobile leases. In 1996, PL was listed on the Stock Exchange of Thailand (SET) after it increased its paid-up capital to THB300 million. PL's shares were mainly held by KASIKORNBANK PLC (KBANK), MTL, Phatra Insurance PLC, and the Lamsam family. KBANK's stake was gradually reduced to 8.5% in 2006 before it sold all of its shares to MTL in January 2007. As a result, PL's shareholder structure changed, and MTL became the largest shareholder. Currently, the Muang Thai Group, which comprises MTL, Muang Thai Insurance PLC, and Muang Thai Holding Co., Ltd., holds 25.9% of PL's shares. In June 2018, PL raised THB149 million in new equity capital through a rights offering. As a result, PL's equity capital increased to THB596 million at the end of June 2015 from THB447 million at the end of 2014.

PL focuses on the automobile operating lease segment, targeting corporate clients. The company currently provides long-term operating leases for various types of vehicles, including sedans, pick-up trucks, luxury cars, and multi-purpose vehicles. More and more corporations have decided to outsource automobile fleet maintenance, which has helped PL expand its operating lease fleet. The company also offers finance lease for more specialized asset types, which helps diversify its exposure to a particular type of asset in the portfolio.

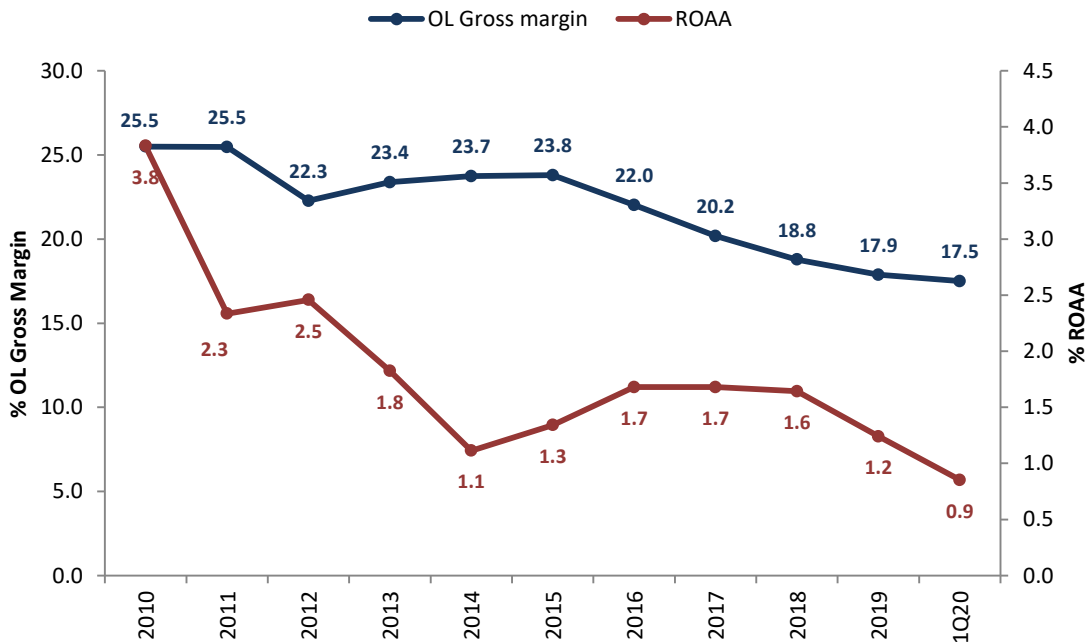
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Net Assets for Lease and Financial Lease Receivables



Source: PL

Chart 2: Return on Average Assets (ROAA) and Gross Margin



Source: PL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	923	3,879	3,832	3,857	4,172
Earnings before interest and taxes (EBIT)	80	358	402	452	430
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	521	2,149	2,105	2,179	2,258
Funds from operations (FFO)	470	1,961	1,928	1,949	2,048
Adjusted interest expense	65	272	257	286	322
Capital expenditures	487	2,357	3,451	2,630	2,803
Total assets	13,403	13,395	14,066	13,211	13,230
Adjusted debt	9,333	9,538	10,239	9,466	9,956
Adjusted equity	3,047	3,037	2,981	2,862	2,752
Adjusted Ratios					
EBIT margin (%)	8.63	9.23	10.49	11.72	10.31
Return on average assets (%)	0.85 *	1.24	1.64	1.68	1.68
EBIT interest coverage (times)	1.23	1.32	1.56	1.58	1.34
FFO to debt (%)	20.92 *	20.56	18.83	20.59	20.57
Debt to capitalization (%)	75.39	75.85	77.45	76.78	78.34

* Annualized with trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019

Phatra Leasing PLC (PL)

Company Rating:	BBB+
Issue Ratings:	
PL209A: THB500 million senior unsecured debentures due 2020	BBB+
PL212A: THB500 million senior unsecured debentures due 2021	BBB+
PL21NA: THB500 million senior unsecured debentures due 2021	BBB+
PL232A: THB200 million senior unsecured debentures due 2023	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2020, 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