SINGER THAILAND PLC

No. 30/2022
18 March 2022

FINANCIAL INSTITUTIONS

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 22/09/21

Company Rating History:

Date	Rating	Outlook/Alert
22/09/21	BBB-	Positive
31/08/20	BBB-	Stable
12/09/18	BBB-	Negative
31/08/17	BBB-	Stable
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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RATIONALE

TRIS Rating upgrades the company rating on Singer Thailand PLC (SINGER) to "BBB" from "BBB-", with a "stable" outlook. The upgrade reflects the significantly stronger capital position after a capital injection in December 2021. The company rating continues to reflect SINGER's continuous improvement in market position, operating performance, and asset quality of consumer loans extended through its subsidiary, SG Capital PLC. (SGC).

However, the rating is constrained by the intense competition in retail consumer finance and auto lending, and the weak economy induced by successive outbreaks of the Coronavirus Disease 2019 (COVID-19), which could pose a challenge to SINGER's ability to maintain its profitability and asset quality.

KEY RATING CONSIDERATIONS

Solid capital base

SINGER's solid capital base serves as a positive factor for its rating. At the end of December 2021, as its capital measured by the risk-adjusted capital (RAC) ratio, rose strongly to 56.4% from 27.3% at the end of 2020. The strengthened capital was due to a THB10.1 billion capital injection in December 2021 from U City and a rights offering from Jaymart PLC (JMART) and other existing shareholders. This should help support business expansion in the medium term.

We expect SINGER's capitalization to remain robust over the next 2-3 years. We forecast an RAC ratio in the range of 47%-56% in 2022-2024. Despite our strong loan growth assumption and a 60% dividend pay-out ratio, we believe consistent profit accumulation should help maintain the company's solid capital position.

In terms of financial leverage, its debt to equity (D/E) ratio decreased to 0.6 times at the end of December 2021 from 2.3 times at the end of December 2020 and has remained in compliance with its D/E ratio covenant of 3 times. We expect the strong capital and low leverage to be maintained in the longer term, despite vigorous loan growth targets and a relatively high dividend payout ratio, thanks to reasonably high profitability.

Strengthening of market position to continue

The constant loan portfolio expansion, through SGC, has helped SINGER improve its market position steadily. Outstanding loans increased by 64% year-on-year (y-o-y) to THB11 billion at the end of December 2021, following a robust growth of 85% y-o-y in 2020, despite weak economy induced by the COVID-19. The rapid expansion is being driven by an aggressive marketing strategy and expansion into auto title loans.

We expect SINGER's loan portfolio to expand progressively, with assumptions of 40% growth in 2022 and 25%-30% per annum in 2023-2024. At the end of December 2021, the company's loan mix comprised auto title loans (55%), home and commercial appliance loans (41%), and others (4%). We anticipate auto title loans will account for 70% of total loans by 2024. We believe the company's strategy via direct sales and continuous expansion of geographic coverage by increasing the number of its franchisees should help support loan growth. The number of franchisees reached around 3,000 at the end of 2021 with a target of 7,000 by the end of 2022.

Sound asset quality to be maintained

SINGER has progressively improved its credit risk management over the past few years. We expect its sound asset quality to continue, thanks to efficient debt collection and stringent credit policies to help control potential credit losses. In addition, a move into auto title lending, which still has lower delinquency compared to other types of consumer lending, has helped strengthen overall asset quality.

The ratio of receivables in stage-3 loans to total loans (NPL ratio) of the entire loan portfolio fell to 3.9% at the end of 2021, from 4.4% at the end of 2020. As for auto title loans, the quality has remained relatively stable over the past two years with the NPL ratio staying below 1% at the end of 2021. The NPL formation ratio (NPL formation) fell to 3.4% in 2021 from 5.6% in 2020. The ratio of expected credit loss (ECL) to average loans also declined, to 1.7% in 2021 from 3.8% in 2020.

We expect the company's cautious credit policy, improved loan collection, and adequate loan loss reserves will help support its moderate risk position in spite of the still-weak credit environment amid the COVID-19 pandemic. We estimate the NPL ratio will stay below 3% in 2022-2024 given the strong loan portfolio expansion, with NPL formation expected to decrease slightly to 2.5%-3.2%. We made the conservative assumption that the ratio of ECL to average loans will increase slightly to the range of 2.4%-2.6% in 2022-2024. Based on our estimation of credit costs, the NPL coverage ratio should be in the range of 76%-78% over the next few years. At the end of December 2021, the company's NPL coverage ratio was 65%.

Continuous earnings improvement

We expect SINGER to sustain sound profitability over the next few years. The company reported net profit of THB701 million in 2021, a 58% increase compared with the same period of the previous year. The improvement was driven by strong loan portfolio growth, high gross margin and loan yield, low credit costs, and effective management of operating expenses. The company's earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), was 5.6% in 2021, up from 5.3% in 2020. We anticipate that the company should be able to sustain its EBT/ARWA in the range of 6.1%-7.0% during 2022-2024. This is based on our assumption that the company will maintain its gross margin at around 46%. We estimate a 5%-8% increase in sales revenue and 25%-41% loan growth per annum in 2022-2024, mainly supported by an aggressive marketing strategy with the launch of new products such as small appliances and expanded market coverage with an increased number of franchisees. This is despite the interest rate ceiling and intense competition in the auto title loan segment that has led to falling loan yields.

We estimate SINGER's interest yield will decline slightly to 16% over the next few years, from the current level of 17%. We believe the expansion into auto title loans will help support profitability, despite lower yields compared to loans for electrical appliances, because of a stronger increase in loan volume. We expect operating costs to remain under control with the ratio of operating expenses to total income at 32% in the next few years as the company aims to expand its franchise network, which requires relative low investment costs.

Strong funding with ample liquidity

The recently injected capital and additional credit lines from financial institutions help support the company's funding and liquidity profile. We believe SINGER should have sufficient funding and liquidity over the next 12 months. SINGER had a strong stable funding ratio (SFR) of 312% at the end of 2021, compared with 160% at the end of 2020. The increase was mainly due to the higher reserves of cash and short-term investments resulting from the capital injection at the end of 2021. SINGER also has cash inflows from customer loan repayments. At the end of December 2021, SINGER's unused short-term credit facilities from financial institutions remained sufficient at THB1.59 billion.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SINGER in 2022-2024 are as follows:

- Outstanding loans to expand by 40% in 2022 and 25%-31% per annum in 2023–2024.
- Loan yield to be around 16%.
- Credit cost to be in the range of 2.4%-2.6% per annum.

RATING OUTLOOK

The "stable" outlook is based on our expectation that SINGER will maintain its solid capital position after the capital injections, which should help support strong business expansion in the medium term. We also expect SINGER to maintain strong asset quality and sound financial performance.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on SINGER's ability to improve its market position on a sustained basis while controlling its asset quality and maintaining strong capital. The rating could be revised downward should asset quality deteriorate and credit cost increase to the point where EBT/ARWA falls below 3.5% on a sustained basis or there is rapid debt-funded expansion, which would lead to a significant weakening in its capital base.

COMPANY OVERVIEW

SINGER was established in 1969 and listed on the Stock Exchange of Thailand (SET) in 1984. SINGER distributes products under the "SINGER" trademark. The company offers instalment plans or hire-purchase contracts for the products it sells. Approximately 95% of the products are sold under the instalment sale service program.

The company has a strong brand name in the electrical home appliance market, nationwide branch and sales distribution networks, and a proven track record of financing electrical home appliance purchases.

In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. JMART became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark has been extended. JMART is a retailer and wholesaler of mobile phones and related products. JMART utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers.

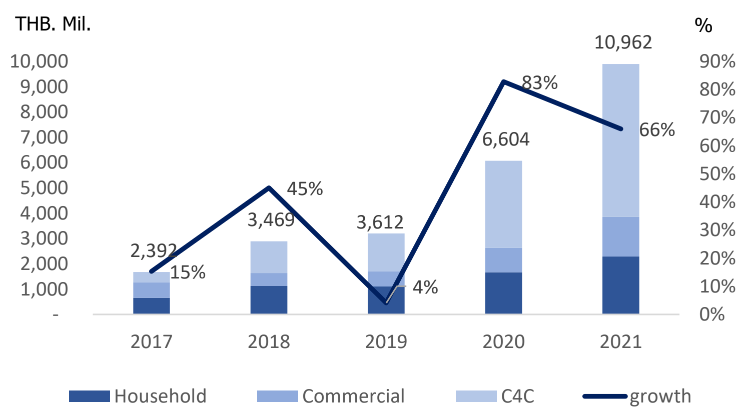
SINGER remains focused on its core business; sales of home electrical appliances, maintaining a lengthy track record in this segment. The company subsequently expanded its product line to include the sale of income-generating products and commercial electrical appliances, such as freezers and air-time vending machines. SINGER introduced another product to its line-up in 2017, "Rod Tum Ngern" loans, secured by vehicles.

SGC, a wholly-owned subsidiary of SINGER, provides financing services for SINGER's customers. The company has two other subsidiaries, SG Service Plus Co., Ltd. and SG Broker Co., Ltd. SG Service Plus provides maintenance services to SINGER's customers while SG Broker is an insurance agent. The company had an extensive network of around 190 branches, approximately 4,000 salespersons and 3,000 franchisees, as of December 2021.

At the end of 2021, the private placement of U City and rights offering (RO) to JMART, and existing shareholders raised THB10.65 million for the company. After the capitalization, JMART remained a major shareholder with 25.8% and U city 24.3% of the outstanding shares in SINGER

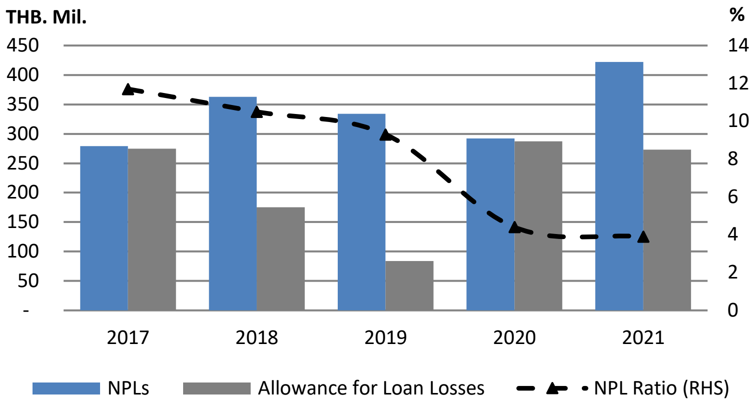
KEY OPERATING PERFORMANCE

Chart 1: SINGER's Outstanding Loan Portfolio



Source: SINGER

Chart 2: SINGER's NPLs and NPL Ratio



Sources: SINGER's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	------------------- Year Ended 31 December -------------------				
	2021	**2020**	**2019**	**2018**	**2017**
Total assets	24,201	9,255	5,907	5,093	3,501
Total loans	10,962	6,693	3,612	3,469	2,391
Allowance for expected credit loss	273	287	84	175	275
Short-term debts	1,101	400	400	1,451	86
Long-term debts	4,262	2,450	2,450	1,350	1,200
Shareholders' equity	14,839	2,810	2,344	1,524	1,578
Net interest income	1,074	781	590	540	594
Expected credit loss	152	194	409	446	372
Non-interest income	132	131	328	364	352
Operating expenses	1,446	1,387	1,063	1,250	1,097
Earnings before taxes	902	439	155	(49)	(28)
Net income	701	443	166	(81)	(10)

* *Consolidated financial statements*

Unit: %

	------------------ Year Ended 31 December ----------------				
	2021	**2020**	**2019**	**2018**	**2017**
Profitability					
Net interest income/average assets	7.34	10.30	10.73	12.57	17.88
Non-interest income/average assets	0.90	1.73	5.96	8.48	10.60
Operating expenses/total income	32.88	38.63	40.74	43.29	46.40
Operating profit/average assets	9.06	8.75	5.79	1.35	0.39
Earnings before taxes/average risk-weighted assets	5.62	5.34	3.23	(1.16)	(0.85)
Return on average assets	4.78	5.85	3.02	(1.88)	(0.29)
Return on average equity	8.56	17.20	8.58	(5.21)	(0.61)
Asset Quality					
Receivable in stage 3/total loans	3.85	4.36	9.25	10.47	11.66
Expected credit loss/average loans	1.72	3.77	11.55	15.23	16.67
Allowance for expected credit loss/Receivable in stage 3	64.54	98.27	25.21	48.19	98.79
Capitalization					
Risk-adjusted capital ratio	56.41	27.29	38.13	27.41	45.38
Debt/equity (times)	0.63	2.29	1.52	2.34	1.22
Funding and Liquidity					
Stable funding ratio	311.61	160.64	194.26	119.56	256.85
Liquidity coverage measure (times)	7.45	0.99	2.18	0.20	3.87
Short-term debts/total liabilities	11.75	6.21	11.23	40.66	4.48

* *Consolidated financial statements*

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Singer Thailand PLC (SINGER)

Company Rating:	BBB
Rating Outlook:	Stable

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