

ALPHA CAPITAL PARTNERS GROUP PLC

No. 75/2024
7 May 2024

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 09/05/23

Company Rating History:

Date	Rating	Outlook/Alert
09/05/23	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Alpha Capital Partners Group PLC (ACPG) at “BB+” with a “stable” rating outlook. The rating incorporates the company’s extensive experience in distressed asset management, low financial leverage, prudent risk management practices, and moderate earnings capacity.

ACPG’s rating is partly constrained by the company’s modest business position as well as restricted, undiversified funding sources, and moderate liquidity profile. The rating also considers the risks relating to asset pricing and disposals of real estate collaterals and concentration risks.

KEY RATING CONSIDERATIONS

More consistent asset acquisition with growth potential

TRIS Rating assesses ACPG business position as “moderate”, reflecting the relatively inconsistent growth of assets due mainly to ownership changes in the past. Nonetheless, we view the extensive experience of the management team, long-standing relationship with commercial banks, and comprehensive operational systems and data management should help support its future growth.

In terms of market position in 2023, the company ranked sixth among distressed asset management companies (AMCs) in Thailand with a market share of 2.3% by asset size in 2023. Its total assets stood at THB6.5 billion at the end of 2023, compared with the industry’s aggregate asset of THB281 billion.

In 2022-2023, the company’s asset acquisition started to show better consistency. Its cash collection has also been relatively more stable compared to peers. These factors, if continuing over the medium term, could be positive for ACPG’s credit profile.

Low financial leverage

ACPG’s low financial leverage is one of its credit strengths. We assess ACPG’s capital and leverage position as “strong”, measured by the debt to equity (D/E) ratio. As of December 2023, ACPG’s D/E ratio stood at 0.78 times, a slight increase from 0.71 times as of December 2022.

The company plans to acquire distressed assets at a cost of THB2.5-THB3.5 billion per year in 2024-2026. To support its expansion strategies, ACPG plans an initial public offering (IPO) on the Stock Exchange of Thailand (SET) in 2024.

Based on its asset acquisition plan and our assumption of THB1.5-THB2.5 billion in annual cash collection in 2024-2026, we estimate the company’s five-year weighted average D/E ratio to be at 1.03 times. The ratio is expected to fall significantly below 1 times if the estimated IPO proceeds of THB1.5-THB2 billion and a dividend pay-out ratio of 40% in 2024-2026 are considered.

While such improved financial leverage would be positive for its rating, sustained operational stability as evidenced by consistent asset acquisition activities over the next 12 months would also be critical for a potential rating upgrade.

Moderate earnings capability; likely to improve

ACPG demonstrates a “moderate” level of profitability, as measured by its return on average assets (ROAA) of 3.4% in 2023. We anticipate this metric to improve gradually, moving closer to 4% in 2024-2026, driven by increased cash collection corresponding to an expanded asset base. Looking ahead, we expect its cash collections to reach about THB2.5 billion in 2026, from THB1.5 billion in 2023, premised on our assumption of a cash collection to average assets ratio of 22%-23% in 2024-2026. On the cost side, we forecast its operating expenses to decline gradually to 30% of total revenue in 2026 from 40% in 2023, supported by cost control and strong revenue growth.

In 2023, ACPG’s net income increased moderately to THB215 million from THB203 million in 2022. This was thanks to the reversal of expected credit losses (ECL) due to better-than-anticipated cash collection and higher gains on non-performing asset (NPA) sales. However, total revenue declined 11% year-on-year (y-o-y) to THB758 million in 2023 given the absence of large non-performing loan (NPL) sale gains experienced in 2022. At the same time, we observe a shift in revenue structure in 2024, with revenue from NPLs representing 66% of total revenue and revenue from NPA contributing 31% from 75% and 22% in 2022, respectively. This was the result of higher gains on NPA sales and lower gains on NPL.

Constrained funding sources with moderate liquidity profile

We continue to assess ACPG’s funding and liquidity position as “moderate”. In the past, it has relied more on equity and shareholder loans as sources of funding for asset acquisitions. The company only recently established lending relationships with financial institutions and initiated the issuance of bonds to the public. However, it still relies on a limited number of bank credit facilities compared to peers.

At the end of 2023, ACPG’s total borrowings included bank credit facilities totalling THB1 billion, long-term debentures of THB787 million, and short-term loans and debentures issued by its subsidiary, Wireless Asset Management Co., Ltd. (WAMC). ACPG has debt obligations of around THB 1.0 billion maturing within the next 12 months. The company plans to utilize cash collections to repay these maturing obligations. Also, ACPG intends to refinance WAMC's debentures with new debentures to be issued by ACPG itself.

ACPG remains exposed to some degree of asset-liability mismatch, but the situation has improved compared to 2022. As of December 2023, 35% of their total debt obligations are short-term compared with 69% as of December 2022, while the average duration of their assets was five to seven years.

We believe its liquidity remains manageable. Cash collections from NPL and NPA management, together with proceeds from NPA sales, can support liquidity needs as well as debt repayment. Also, ACPG’s upcoming IPO is likely to further enhance its financial flexibility in the future.

Risk management remains sound despite concentration risk

TRIS Rating evaluates ACPG's risk profile as “moderate”, on par with other AMCs under TRIS’s coverage. This reflects ACPG's well-structured risk management framework, built upon a robust database and operational systems. The operating platform has been developed largely from the systems adopted by Alpha Capital Asset Management Co., Ltd. (ALPHA), an operating subsidiary of ACPG, since its inception as GE Capital’s NPL management unit in 1998. ACPG's continuously evolving risk management system, supported by comprehensive data and experienced staff helps mitigate risks associated with distressed asset valuation, pricing, and disposal.

While our assessment of ACPG's risk management framework is positive, we acknowledge a concentration risk within their NPL portfolio. As of year-end 2023, the top 20 NPLs account for 41% of their total NPLs, with the two largest exposures alone representing about 30% of total NPLs. This concentration raises the potential for liquidity issues if the liquidation of these assets becomes protracted. Nevertheless, other than these two large accounts, the remaining NPLs are much smaller in size at not more than THB50 million each and are relatively well diversified in terms of type and location of properties. Going forward we expect lower concentration risks as ACPG implements strategies to shift towards smaller retail based NPLs.

BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for 2024-2026 are:

- New NPL investments of THB2.5-THB3.5 billion per year.
- Total cash collection to average assets ratio at around 23%.
- Funding cost at about 7%.
- Operating expenses to total income ratio at around 35%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that ACPG will continue to maintain its strong capital position and financial performance. We also expect the company to maintain its financial leverage at an acceptable level.

RATING SENSITIVITIES

A rating and/or outlook upgrade could occur if the company is able to demonstrate business stability by acquiring new assets in a more consistent manner and improving its funding profile, while maintaining its earnings capability and keeping its D/E ratio well below 1.5 times on a sustained basis.

The rating and/or outlook could be revised downward if the company’s D/E ratio increases significantly above our base case scenario of 1.5 times or its ROAA drops well below 3.50% for a prolonged period.

COMPANY OVERVIEW

ACPG was established on 4 October 2021 with a registered capital of THB5 million as a holding company to combine two distressed asset management companies (DAMC), namely Alpha Capital Asset Management Company (ALPHA) and Wireless Asset Management Company (WAMC). Its subsidiaries were licensed by the Bank of Thailand (BOT) to operate asset management business. The principal activities of the company and its subsidiaries are managing substandard assets purchased or transferred from financial institutions and other AMCs, as well as debt management and debt collection.

ACPG is one of the largest private AMCs in Thailand, with a focus on secured NPLs. ACPG’s core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, mainly transferred from NPLs. ACPG’s business is counter-cyclical in nature, acquiring large amounts of distressed assets during economic downturns and turning those assets into high-margin income during economic upcycles. The business is capital intensive due to an average payback period of five to seven years.

The major shareholders of the company are Pacific Investment Management (Mauritius) Ltd. (51% shareholding) and 9 Basil Pte. Ltd. (9 Basil). Pacific Investment Management (Mauritius) is 100% owned by Ares SSG Capital Management Ltd. (SSG), which is an Asia-Pacific asset management subsidiary of Ares Management Corp. (ARES), a leading global alternative investment fund.

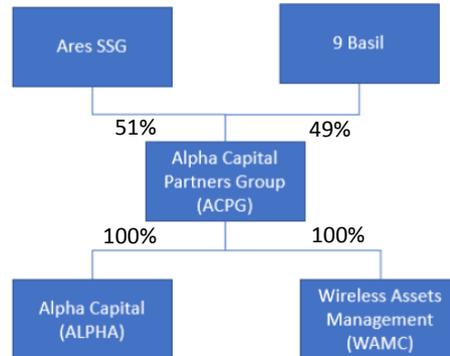
ALPHA was reestablished in 2008 as GE Capital’s new NPL platform along with the Ratanarak Group. GE Capital and Goldman Sachs Group Inc. formed a joint venture in 1998 to acquire and manage distressed assets under an entity called Bangkok Capital Alliance Co., Ltd. (BCA) and Alpha Capital AMC (previous entity of ALPHA). In 2016, SSG acquired 100% shares of ALPHA from GE Capital. In 2019, SSG formed a strategic partnership with 9 Basil which came in as a 49% shareholder.

WAMC was established in 2017 as a joint venture between Lone Star Funds and SSG Capital Holdings Ltd. In 2021, SSG and 9 Basil acquired ownership in WAMC from Lone Star Funds with SSG and 9 Basil holding 51% and 49% shares, respectively.

In the fourth quarter of 2021 (4Q2021), ACPG increased its share capital to THB1.2 billion by issuing 119.07 million shares at par value of THB10 to acquire ALPHA through a share swap. In 2Q2022, ACPG increased its share capital to THB3.1 billion by issuing 190.22 million shares at a par value of THB10 to acquire WAMC through a share swap. In 3Q2022, ACPG increased its capital to THB3.5 billion by issuing 37.29 million new shares at a par value of THB10. The group restructuring was completed in 2022 with ACPG holding 100% shares in ALPHA and WAMC.

KEY OPERATING PERFORMANCE

Picture 1: ACPG's Ownerships in Subsidiaries



Source: ACPG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	6,554	5,920	5,191	1,451	1,381
Total managed assets	5,524	4,533	3,940	879	875
Loan purchased – net	3,490	2,502	2,453	587	502
Properties foreclosed – net	2,035	2,030	1,488	292	373
Total borrowings	2,286	2,313	3,373	-	-
Short-term borrowings	793	1,593	-	-	-
Long-term borrowings	1,494	720	2,680	-	-
Shareholder's equity	3,688	3,470	1,622	1,391	1,252
Total revenue	758	852	585	396	557
Interest expenses	176	166	108	1	9
Operating expenses	305	321	221	166	199
Earnings before interest and taxes (EBIT)	458	416	120	138	359
Net income	215	203	7	138	246

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Operating income/average assets	9.34	12.35	14.36	27.96	37.74
Operating income/total income	76.81	80.49	81.51	99.86	98.37
Operating profit/average assets	4.45	6.58	7.70	16.26	24.05
Earnings before taxes/average assets	4.53	4.50	0.35	9.70	24.11
Return on average assets	3.45	3.65	0.20	9.78	16.96
Return on average equity	6.01	7.96	0.45	10.48	19.84
Capitalization					
Debt/equity (times)	0.78	0.71	2.20	0.04	0.10
Shareholders' equity/total managed assets	66.76	76.56	41.17	158.22	143.03
Funding and Liquidity					
Short-term borrowings/total liabilities	27.65	65.02	0.00	-	-
Total managed assets/total assets	84.29	76.56	75.91	60.59	63.38
Operating Efficiency					
Operating expenses/operating income	52.31	46.74	46.37	41.84	36.26
Non-performing loan (NPL) cash collection to net NPL	27.48	35.45	17.14	19.43	57.80
Non-performing asset (NPA) cash collection to net NPA	32.61	30.33	22.31	73.53	138.87

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

Alpha Capital Partners Group PLC (ACPG)

Company Rating:	BB+
Rating Outlook:	Stable

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