

## Press Release

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### **TRIS Rating Affirms Company Rating and Outlook of "BSL" at "BBB/Stable"**

TRIS Rating has affirmed the company rating of BSL Leasing Co., Ltd. (BSL) at "BBB" with "stable" outlook. The rating reflects the company's experienced management team, acceptable risk management practices, and financial support from its major shareholders. However, these supporting factors are partly offset by the lack of an extensive network to service customers outside the central Bangkok area, which in turn exposes BSL to customer concentration risk. BSL's short-term growth prospect has been constrained by a weak economy and intense competition. In addition, BSL's profitability was pressured by higher credit costs, due to asset quality deterioration of a major customer.

The "stable" outlook is based on TRIS Rating's expectation that BSL will continue to obtain financial support from its major shareholders, while continuing to diversify its funding sources. The outlook also takes into account the expectation that the management team will maintain BSL's current market position, the capital base will remain strong enough to serve as a cushion against asset quality deterioration, and that BSL will deliver a financial performance in line with TRIS Rating's expectations.

The rating and/or outlook of BSL could be revised upward, though unlikely in the near term, especially if BSL became one of BBL's financial conglomerates under the consolidated supervision platform, the rating of BSL could be enhanced by additional support from the BBL Group. In contrast, the outlook and/or rating could be revised downward if there is further deterioration in its loan quality and/or business profile.

BSL was established in 1985 as a joint venture (JV) between Bangkok Bank PLC (BBL), including companies owned by and affiliated with BBL, and Sumitomo Mitsui Banking Corporation (SMBC) in Japan. BSL was established to provide industrial equipment financing services and vehicle financing services under lease and hire purchase contracts. BSL entered the factoring business in 2004. Currently, BSL's major shareholders are BBL, holding a 35.88% stake, the SMBC Group (40%), and JA Mitsui Leasing, Ltd. (10%). Both BBL and the SMBC Group provide supports to BSL in terms of credit facilities and some level of business referrals.

BSL's business is concentrated, as it operates only in the Bangkok Metropolitan Area (BMA) via its headquarters. In addition, BSL is exposed to customer concentration risk as the top 10 clients account for 35% of its loan portfolio as of December 2016.

Due to intense competition, BSL has gradually lost its market position in equipment financing leasing. Japanese lessors and leasing subsidiary lessors of other Thai banks used aggressive pricing strategy to build their market shares. The size of BSL's loan portfolio (only hire-purchase and financial leasing) slightly increased by 2.1% in 2016 to Bt5,608 million, from Bt5,492 million in 2015.

BSL's net revenue (adjusted for net operating lease revenue) was Bt592 million in 2016, down from Bt633 million in 2015. BSL's financial performance significantly declined in 2016 due mainly to a deterioration of asset quality. The company had to set a huge provision expense of Bt319 million. As a result, a net profit significantly dropped for 85.6% to Bt40 million in 2016 from the level in 2015. In the same way, the return on average equity (ROAE) and the return on average assets (ROAA) were 2.2% and 0.5% in 2016, respectively. The current economic slowdown and fierce competition will pose challenges as BSL strives to maintain market share and improve its financial performance with good asset quality.

BSL's ability to manage residual risk of its leased assets will add its non-interest income. As a result of dramatic drops in the prices of used cars, its gains on sale of the leased assets were down to Bt13 million in 2014. However, gains from the sale of expired assets picked up to Bt19 million in 2015, and to Bt28 million in 2016 after the prices of used cars bottomed out in 2014.

BSL was one of the companies with good asset quality. The ratio of non-performing loans (NPLs or loans overdue for more than three months) to total loans was below 1% from 2013 to 2015. However, BSL's asset quality somewhat deteriorated after having the problems with one major customer group in 2016, causing the ratio of non-performing loans to total loans to rise to 8.6%. Excluding the impact from this major customer, BSL's asset quality remained good with a relatively low NPL ratio. The company's business profile was not yet affected by this bad circumstance.

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BSL has a strong capital base. Low dividend payout ratios helped improve its capital base. Shareholders' equity has increased continuously, rising to Bt1,876 million in 2016, from Bt1,153 million in 2012. The ratio of shareholders' equity to total assets has improved continuously, to 23.5% in 2016 from 17.3% in 2012. This ratio is relatively strong, compared with peers. BSL has maintained a capital base strong enough to absorb downside risks. As of December 2016, the debt to equity ratio was maintained at 3.3 times, compared with 3.4 times in 2015.

In the past, BSL relied heavily on borrowings from BBL. Since 2009, BSL has diversified its funding sources by borrowing from other financial institutions as well as raising funds through the capital market. BSL began issuing bills of exchange (B/E) in 2010, senior unsecured debentures in 2011, and issued five tranches of Shogun bonds valued at US\$100 million during 2012-2016. BSL's available credit lines are sufficient to finance its current short-term liquidity gap. The steady cash flows BSL receives from customers' monthly installments give the company additional liquidity. BSL has secured a credit line from BBL, for use as a last resort if additional liquidity is needed.

**BSL Leasing Co., Ltd. (BSL)**

**Company Rating:**

BBB

**Rating Outlook:**

Stable

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