

# S 11 GROUP PLC

No. 101/2017

18 August 2017

**Company Rating:** BBB-  
**Outlook:** Stable

**Company Rating History:**

Date	Rating	Outlook/Alert
11/05/16	BBB-	Stable

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**Rating Rationale**

TRIS Rating affirms the company rating of S 11 Group PLC (S11) at “BBB-”. The rating reflects the company’s capable and experienced management team, impressive financial performance despite an unfavorable economy, and strong base of capital. However, the rating is limited by the geographic concentration of the loan portfolio, intense industry competition, a weak domestic economy, a high level of household debt nationwide, and the fact that its target customers are highly sensitive to volatile economic conditions that may affect their ability to repay their loans. In addition, the rating takes into consideration an ongoing deterioration in loan quality and the recent rapid growth of its loan portfolio. These points mean the company needs time to prove it can grow steadily and maintain satisfactory financial performance.

S11 was established in 2011 with registered capital of Bt5 million. The company initially offered motorcycle hire purchase loans in Bangkok and the vicinity, then expanded to provincial areas in the Central and Eastern regions of the country. S11’s registered capital has continued to rise since its inception. In 2015, S11 was listed on the Stock Exchange of Thailand (SET). The proceeds from the initial public offering (IPO) gave S11 a new route to the capital market and enabled S11 to expand its loan portfolio. Currently, S11’s major shareholders are S Charter Co., Ltd. (97% held by the Chiradamrong family, the co-founder of S11), holding 28.4% of the company’s shares, and foreign strategic investors, holding 34.4%. Although S11 is a young company, its top management team has more than 20 years of experience in the motorcycle financing business.

S11 has steadily expanded to provincial areas, especially in provinces in the Eastern region of Thailand. The value of S11’s loan portfolio has climbed steadily, rising from Bt618 million in 2011 to Bt4,384 million in 2016, a compound annual growth rate (CAGR) of 48%. At the end of June 2017, the value of the outstanding loans grew by 8.7% year-to-date to Bt4,765 million. Nearly all (99%) of the outstanding loans are hire purchase loans for new motorcycles; the remainder are hire purchase loans for used motorcycles.

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans increased continuously over the past few years. S11’s NPL ratio rose from 7.4% at the end of June 2014, two years after the establishment of the company, to 8.4% at the end of 2014. The ratio has continued to rise, climbing to 11.1% at the end of June 2017. The rise developed during an economic slowdown. Despite the rise in NPLs, losses on repossessed motorcycles had fallen steadily since 2013. The steady drop mitigated the negative effect that deteriorating asset quality has on profitability. However, losses on repossessed motorcycles rose slightly in the first half of 2017.

S11’s target customers are a high credit-risk group who are more vulnerable to adverse changes in the economy. The company’s stringent credit approval policies and efficient debt collection processes are its key strategies to limit the risks related to lending to its high-risk target customers. However, due to its short track record, rapid growth, and deteriorating loan quality, S11 needs time to demonstrate its ability to handle its sizeable loan portfolio and maintain an acceptable level of loan quality on a sustained basis.

S11’s financial performance has been improving. Net income jumped continuously for the past five years, climbing from Bt11 million in 2011 to Bt353

million in 2015. In 2016, profits rose again, increasing by 19.4% to Bt421 million. In the first half of 2017, S11's net income declined by 7.7% to Bt191 million, from Bt207 million during the same period last year, due to higher provision expense and operating expenses. The changes in the return on average assets (ROAA) mirrored the changes in net income. ROAA increased from 6.1% in 2012 to 10.6% in 2016, but dropped to 8.6% (annualized) in the first half of 2017.

Steady profits over the past four years brought steady increases in shareholders' equity. The February 2015 IPO strengthened S11's capital base significantly. The ratio of shareholders' equity to total assets jumped from 34% at the end of 2014 to 47.2% at the end of 2015. The ratio declined slightly to 44.6% at the end of 2016 and 42.5% at the end of June 2017. TRIS Rating considers S11's capital base strong enough to support its expansion plans over the next three years. The debt to equity ratio (D/E ratio) was 1.4 times at the end of June 2017.

### Rating Outlook

The "stable" outlook is based on the expectation that S11's capable and experienced management team will enable the company to maintain its market position and deliver stable and satisfactory financial performance, as well as maintain a strong financial position. TRIS Rating expects that S11's loan quality will not decline markedly to the point of substantially affecting its financial profile.

The rating or outlook upside hinges on S11's track record and the stability of its financial profile that features high profitability and a strong capital base. The rating or outlook could be revised downward if S11's asset quality deteriorates significantly, affecting its profitability and capital base.

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### S 11 Group PLC (S11)

**Company Rating:**

BBB-

**Rating Outlook:**

Stable

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### Financial Statistics

Unit: Bt million

	Jan-Jun 2017 *	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	4,612	4,283	3,644	3,100	2,525
Total loans	4,765	4,384	3,715	3,128	2,479
Allowance for doubtful accounts	584	490	391	294	182
Short-term borrowings	1,209	1,103	1,411	1,155	952
Long-term borrowings	1,233	1,129	391	803	651
Shareholders' equity	1,959	1,909	1,720	1,054	841
Net interest income	600	1,088	931	749	592
Bad debts and doubtful accounts	180	256	205	210	190
Non-interest income	35	102	66	47	28
Operating expenses	217	408	352	319	282
Net income	191	421	353	213	116

\* Equity-method financial statements

### Key Financial Ratios

Unit: %

	Jan-Jun 2017 *	Year Ended 31 December			
		2016	2015	2014	2013
<b>Profitability</b>					
Net-interest income/average assets	13.50 **	27.45	27.62	26.64	27.70
Net-interest income/total income	87.20	83.05	82.07	80.21	80.55
Operating expenses/total income	31.48	31.12	30.99	34.17	38.29
Operating profit/average assets	5.37 **	13.29	13.08	9.46	6.98
Return on average assets	4.29 **	10.63	10.47	7.57	5.44
Return on average equity	9.88 **	23.23	25.45	22.48	16.61
<b>Asset Quality</b>					
Non-performing loans/total loans	11.07	10.22	9.57	8.43	6.33
Bad debts and doubtful accounts/average loans	3.93 **	6.32	5.98	7.51	9.16
Allowance for doubtful accounts/total loans	12.26	11.17	10.53	9.40	7.33
Allowance for doubtful accounts/non-performing loans	110.78	109.29	110.02	111.53	115.74
<b>Capitalization</b>					
Shareholders' equity/total assets	42.48	44.56	47.20	34.00	33.31
Shareholders' equity/total loans	41.11	43.53	46.29	33.70	33.93
Debt to equity (time)	1.35	1.24	1.12	1.94	2.00
<b>Liquidity</b>					
Short-term borrowings/total liabilities	45.56	46.43	73.37	56.46	56.54
Total loans/total assets	103.32	102.35	101.97	100.89	98.17

\* Equity-method financial statement

\*\* Non-annualized

### TRIS Rating Co., Ltd.

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