

# THITIKORN PLC

No. 103/2017

22 August 2017

**Company Rating:** A-  
**Outlook:** Stable

**Company Rating History:**

Date	Rating	Outlook/Alert
31/03/10	A-	Stable
14/11/06	BBB+	Stable

**Contacts:**

Saowanit Woradit  
saowanit@trisrating.com

Siriwan Weeramethachai  
siriwan@trisrating.com

Taweechok Jiamsakunthum  
taweechok@trisrating.com

Raithiwa Naruemol  
raithiwa@trisrating.com

**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating of Thitikorn PLC (TK) at “A-”. The ratings reflect TK’s proven track record in the motorcycle financing business and its experienced management team. The rating also reflects the company’s ability to maintain its position as one of the leaders in the motorcycle financing business, wide market coverage and extensive branch network, and solid base of capital. However, the rating is constrained by business concentration risk. TK has one core product and the company’s target customers are highly vulnerable to any significant deterioration in the economy. In addition, the uncertainty surrounding the Thai economy and the high level of competition in the industry may limit TK’s expansion plans and profitability.

TK’s outstanding loans grew continuously between 2007 and 2013, rising from Bt5,196 million to Bt9,624 million, a compound annual growth rate (CAGR) of 10.8%. However, due to the recent economic slowdown, outstanding loans tumbled by 13.7% to Bt8,303 million in 2014 and by 6.4% to Bt7,771 million in 2015. Outstanding loans rebounded in 2016 and 2017. The size of the loan portfolio grew by 6.2% from the end of 2015 to Bt8,252 million at the end of 2016 and rose by 8.5% year-to-date to Bt8,953 million at the end of June 2017. As of March 2017, motorcycle loans comprised 91.4% of TK’s outstanding loans; 7.5% and 1% were automobile loans and personal loans, respectively. Despite the drops in the size of the portfolio in 2014 and 2015, the recent rebounds in lending meant TK could maintain its position as one of the leaders in the motorcycle financing segment. TK is more geographically diversified than its competitors. The company renders services through a branch network covering 54 provinces throughout Thailand. In addition, TK offers motorcycle loans in Cambodia and the Lao People’s Democratic Republic (Lao PDR) through its subsidiaries, Suosdey Finance PLC and Sabaidee Leasing Co., Ltd., respectively, which were established in 2014. In 2017, Suosdey Finance opened two additional branches in Cambodia. A strong domestic branch network enhances TK’s competitive advantage, as other lenders mostly focus on customers in the Greater Bangkok area. TK’s experienced management team and staff, extensive branch network, as well as efficient operating and collection systems, underpin the efforts to maintain its market position.

TK’s overall loan quality has been improving since 2016 after a steady decline from 2013 through 2015. The falls were caused by the slowing economy and the prolonged political uncertainty. Both factors affected the repayment ability of TK’s customers. The non-performing loan (NPL) ratio fell to 4.8% at the end of 2016 and held at 4.8% at the end of June 2017 from 5.2% at the end of 2015. TRIS Rating believes that TK will be able to control and steadily improve the quality of the loans in its portfolio by strengthening its stringent underwriting process and collection system.

Since 2013, the prices of used motorcycles have fallen because new motorcycle models continue to be released and because the economic slowdown cut demand for used motorcycles. As a result, motorcycle financing companies have faced higher losses on repossessed assets. TK’s ratio of operating expenses to total income increased steadily over the past four years. The ratio climbed from 47.2% in 2012 to 56.7% in 2016. In the first half of 2017, the ratio decreased slightly to 54.7%. Despite drops in the prices of used motorcycles, TK can sell the

repossessed motorcycles at prices higher than other firms because it has its own center to rebuild the used motorcycles before auctioning them off.

TK's net profit recovered substantially in 2015, soaring by 106.2% to Bt408 million from a low of Bt198 million in 2014. The net profit continued to rise in 2016, climbing to Bt430 million, up 5.3% from 2015. In the first half of 2017, TK's net profit improved by 3.9% to Bt224 million, compared with Bt216 million earned during the same period of the previous year. Similarly, return on average assets (ROAA) improved to 4.8% in 2015 and 5.1% in 2016, but decreased slightly to 5% (annualized) in the first half of 2017. Looking ahead, TRIS Rating expects the company to be able to control its credit cost and operating costs. As a result, TK's profitability will recover to the satisfactory levels it once enjoyed.

TK does not have any mismatch between assets and liabilities. Since 2005, long-term borrowings, including the current portion of long-term debt, have stayed above 60% of total borrowings, in order to reduce the gap in duration between assets and liabilities. Moreover, TK has been able to mitigate liquidity risk by diversifying sources of external funding: the capital market and financial institutions. Also, as is the nature for hire purchase lenders, steady cash flows from customers' monthly installment payments boost liquidity.

Despite the drop in financial performance in 2014, TK has maintained a strong capital base since profits were solid in earlier years. The capitalization ratio, measured as the ratio of shareholders' equity to total assets, remained high and held relatively steady for nearly a decade. Between 2007 and the end of June 2017, the capitalization ratio ranged between 40%-55%. TRIS Rating expects TK to maintain a strong capitalization ratio. Its strong capital base will serve as a cushion to absorb the high credit risk of the company's target customers. TK's customers are more vulnerable to adverse changes in the economy.

#### **Rating Outlook**

The "stable" outlook is based on the expectation that TK's capable and experienced management team, as well as its extensive branch network, will enable the company to maintain its market position as one of the leader operators and strengthen its financial position.

The rating or outlook upside hinges on significant improvements in TK's business profile and financial profile. The rating or outlook could be revised downward if TK's asset quality deteriorates significantly, and affects profitability and the capital base.

---

#### **Thitikorn PLC (TK)**

**Company Rating:**

A-

**Rating Outlook:**

Stable

**Financial Statistics\***
*Unit: Bt million*

	Jan-Jun 2017	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	9,222	8,611	8,284	8,767	10,267
Total loans	8,953	8,252	7,771	8,303	9,624
Allowance for doubtful accounts	584	528	518	535	565
Short-term borrowings	1,144	1,481	2,197	1,282	3,320
Long-term borrowings	3,213	2,204	1,328	3,120	2,520
Shareholders' equity	4,541	4,550	4,321	4,003	4,014
Net interest income	1,343	2,442	2,413	2,613	2,805
Bad debts and doubtful accounts	466	795	892	1,280	1,204
Non-interest income	379	789	796	834	824
Operating expenses	971	1,902	1,885	1,937	2,018
Net income	224	430	408	198	429

*\* Consolidated 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	15.06 **	28.90	28.30	27.45	28.21
Net-interest income/total income	75.65	72.86	71.76	71.43	72.84
Operating expenses/total income	54.70	56.74	56.05	52.94	52.41
Operating profit/average assets	3.19 **	6.33	5.07	2.42	4.09
Return on average assets	2.51 **	5.09	4.79	2.08	4.31
Return on average equity	4.93 **	9.69	9.81	4.93	10.97
<b>Asset Quality</b>					
Non-performing loans/total loans	4.79	4.79	5.20	4.97	4.38
Bad debts and doubtful accounts/average loans	5.42 **	9.92	11.10	14.28	12.85
Allowance for doubtful accounts/total loans	6.52	6.40	6.67	6.44	5.87
Allowance for doubtful accounts/non-performing loans	135.99	133.58	128.30	129.61	133.93
<b>Capitalization</b>					
Shareholders' equity/total assets	49.24	52.84	52.17	45.65	39.09
Shareholders' equity/total loans	50.72	55.14	55.61	48.21	41.71
Debt to equity (time)	1.03	0.89	0.92	1.19	1.56
<b>Liquidity</b>					
Short-term borrowings/total liabilities	24.43	36.46	55.45	26.91	53.09
Total loans/total assets	97.09	95.83	93.81	94.70	93.73

*\* Consolidated financial statements*
*\*\* Non-annualized*
**TRIS Rating Co., Ltd.**

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

© Copyright 2017, 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 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 [http://www.trisrating.com/en/rating\\_information/rating\\_criteria.html](http://www.trisrating.com/en/rating_information/rating_criteria.html).