

BSL LEASING CO., LTD.

No. 15/2021
25 February 2021

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 25/09/20

Company Rating History:

Date	Rating	Outlook/Alert
25/09/20	BBB+	Stable
04/02/09	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on BSL Leasing Co., Ltd. (BSL) at “BBB+” with a “stable” outlook. The rating on BSL incorporates a rating enhancement from the stand-alone rating as we view BSL as a strategic subsidiary of Bangkok Bank PLC (BBL). The standalone rating reflects the company’s strong capital base, low leverage, diversified funding, and adequate liquidity position. The asset-liability mismatch is mitigated by continuous funding support from its shareholders. However, these supporting factors are offset by BSL’s deteriorating asset quality and high credit concentration. In addition, intense competition may constrain the company’s profitability.

KEY RATING CONSIDERATIONS

Strategic subsidiary of BBL

We view BSL as a strategic subsidiary of BBL. With the increase in BBL’s ownership in the company to 90% in late 2020, we expect the business and financial support from BBL to BSL will gradually increase from 2021 onwards. More importantly, as BSL becomes a part of BBL’s prudentially regulated financial group, and a fully consolidated subsidiary, BBL is likely to exert control over BSL’s strategy and operations more closely. We expect the alignment of business and risk management framework with BBL will help enhance BSL’s operations, especially the expected increased customer referrals from BBL in the future.

Solid capital base

We believe that BSL’s capital will remain sufficiently robust to support the company’s business plans over the next three years. The strong capital base is supported by a low dividend payout ratio, conservative loan growth, and relatively consistent profit generation.

BSL’s capital measured by risk adjusted capital (RAC) ratio, has gradually improved over the years. The RAC ratio increased to 19.96% in 2020 from 17.78% and 16.55% in 2019 and 2018, respectively. BSL’s RAC ratio is highest among equipment leasing companies rated by TRIS Rating. We expect the company’s RAC ratio to remain above 20% over the next three years.

Shareholders’ funding support ensures sufficient liquidity

We believe that the financial support from the shareholders, BBL and Sumitomo Mitsui Banking Corporation (SMBC), will continue such that BSL is able to maintain its operating performance and meet its debt repayment obligations. Apart from shareholders’ funding, BSL also has a range of funding sources from other financial institutions.

As of September 2020, BSL had total credit lines of THB1.2 billion and THB2.1 billion from BBL and SMBC, respectively. We expect BBL to provide more credit lines and reduce lending rates for BSL as the company became part of the BBL Group.

Yield preservation limits portfolio expansion

We expect the level of competition in the equipment leasing segment will remain high, pressuring the upside in yields for leasing companies. This is because many leasing operators tend to have funding support from their parent banks and Japanese finance companies. Therefore, these operators

are able to sustain lower yields due to lower funding costs pass through from their parents. For BSL to preserve its loan spread given its relatively higher funding costs, the company has been expanding business selectively, causing its loan portfolio to expand only modestly in the last few years. At the end of 2020, BSL's loans contracted by 7% year-on-year. Nonetheless, this strategy has helped BSL prevent its yield from declining rapidly and sustain its loan spread, which remained at 3.7% in 2020 compared with a range of 3.3%-3.6% in 2017-2019. BSL's loan yield is still comparatively higher than peers. As the leasing industry continues to face yield pressure from competition for the foreseeable future, we expect BSL to be more competitive should BBL reduce its lending rates for BSL in the future.

Asset quality remains a key concern

BSL's asset quality remains our main concern. High customer concentration is the key risk factor causing the spike in non-performing loans (NPLs). As of December 2020, BSL's top-10 clients accounted for 32% of the loan portfolio, an increase from 27% in 2019. In 2016, the delinquency from one customer led to a surge in NPL ratio to 8.7% at the end of 2016. Nonetheless, BSL already made full provisions for this account in 2017. Over the last few years, NPL ratio has been on an upward trend. At the end of 2020, BSL's NPL ratio rose to 12.7%.

The escalated NPL ratio was partly caused by the company's preference not to write-off or dispose NPLs. Nonetheless, judging from NPL formation, the new NPLs emerged in 2020 was considerably smaller than in the past few years. Going forward, we believe BSL's NPL ratio will remain high as long as the NPL accounts remain unresolved. We note that the weak economy could lead to higher NPLs, which may put pressure on BSL's risk position, if not well managed.

Asset-liability mismatch

BSL has a maturity mismatch in its asset-liability structure. BSL has relied on short-term borrowing to keep its funding cost low. At the end of 2020, the short-term borrowings to total borrowings were approximately 88%. Nevertheless, we are not overly concerned with the asset-liability mismatch as we believe BSL has sufficient funding support in the form of credit lines from shareholders, both BBL and SMBC, to finance the short-term liquidity gap, if required. The company's average loan duration is more than a year, approximately 68% has maturity of more than one year at the end of 2020.

Asset quality and competition put a pressure on profitability of equipment leasing companies

Equipment leasing industry has been negatively impacted by the weakened investment demand of private sector, particularly during the city lockdown in 2020 due to the Coronavirus Disease 2019 (COVID-19). Although loan demand has started to recover after the announcement of relief measures and normalization of business operations in the second half of 2020, the pace of full recovery is still influenced by a number of variables. One metric of business activity often referred to in the equipment leasing industry is the Private Investment Index (PII). PII (seasonally adjusted) improved to 135.67 in December 2020 from the dip in May 2020 of 112.66 but remains slightly lower than the past. The slower economy that has impacted the asset quality and led to higher provision expenses, coupled with intense competition from major captive leasing companies, will continue to limit lenders' profitability.

BASECASE ASSUMPTIONS

TRIS Rating's base-case assumptions for the period 2021-2023 are:

- New loans in hire-purchase and financial lease will be around THB2 billion in 2021 and will grow to 5% per year thereafter.
- New loans in operating lease will remain stable.
- RAC ratio will remain above 20% per year.
- Overall spread will be around 3.5% per year.
- Credit cost will be below 1.5% per year.
- Operating expense to total income ratio will remain between 45%-50% per year.

RATING OUTLOOK

The "stable" outlook is based on our expectation that the capital base of BSL will remain strong enough to cushion against significant deterioration in asset quality, and BSL's financial performance will be in line with our expectations.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if the company's stand-alone credit profile improves significantly. This includes strengthening of market position while financial performance and asset quality are at satisfactory levels. The rating could also be upgraded if we view that BSL's group status as part of BBL has strengthened further.

On the contrary, the rating and/or outlook could be revised downward if there is a significant deterioration in the

company's stand-alone profile, i.e., a deterioration of capital position, financial performance, or asset quality.

COMPANY OVERVIEW

BSL was established in 1985 as Bangkok Commercial Leasing Co., Ltd. through a 50:50 joint venture between BBL and SMBC, a Japanese bank, and related companies. In 2001, the company changed the name to BSL Leasing Co., Ltd. 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 35.9% 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 business referrals.

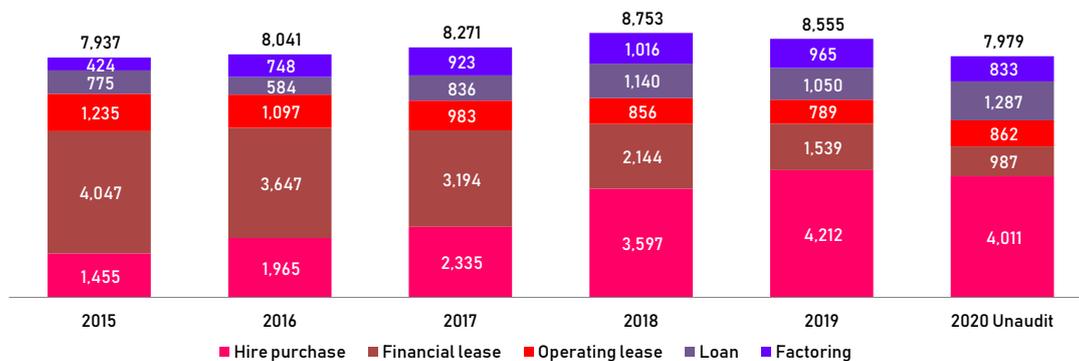
As of September 2020, BBL acquired the stake in BSL, increasing the ownership to 90% from 35.9%, from other shareholders. BSL's shareholders are BBL, 90% stake, and SMBC, 10% stake. With 90% ownership from BBL, BSL became a full consolidated member in the BBL Group and has no longer limited funding from BBL and will need to comply under consolidated supervision of Bank of Thailand (BOT).

As of December 2020, the largest portion (50%) of BSL's loan portfolio comprised hire purchase. Financial lease loans comprised 12% of the portfolio, while operating leases, factoring, and other loans were 11%, 10%, and 16%, respectively.

KEY OPERATING PERFORMANCE

Chart 1: BSL's Outstanding Loans

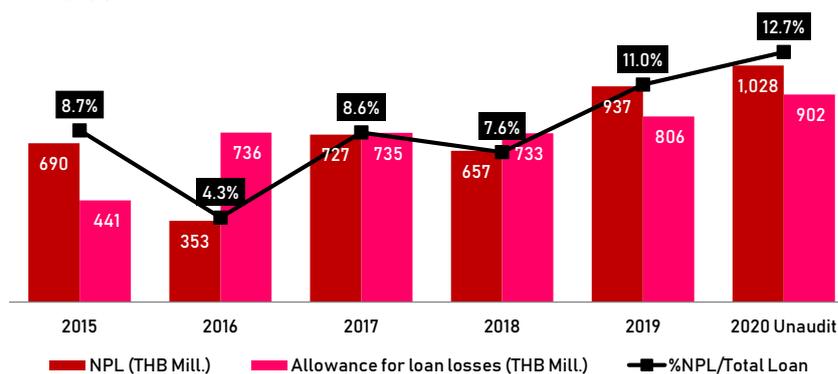
Unit: Mil. THB



Source: BSL

Chart 2: BSL's NPL Ratio

Unit: Mil. THB and %



Source: BSL

Table 1: Shareholders of BSL

Shareholders	%
Bangkok Bank PLC and affiliates	90.00
Sumitomo Mitsui Banking Corporation Group	10.00
Total	100.00

Source: BSL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2020 *	2019	2018	2017	2016
Total assets	7,895	8,572	8,757	8,160	7,988
Total loans (including net operating lease assets)	8,113	8,500	8,645	8,260	7,991
Allowance for doubtful accounts	902	806	733	736	441
Short-term borrowings	4,730	6,138	5,710	4,200	4,953
Long-term borrowings	673	0	651	1,656	699
Shareholders' equity	2,291	2,200	2,096	1,858	1,876
Net interest income	637	628	670	668	743
Bad debts and doubtful accounts net of bad debt recovery	902	806	733	736	441
Non-interest income	68	47	50	55	47
Operating expenses	371	374	403	430	459
Net income	142	153	289	37	40

* Unaudited financial statement

Unit: %

	Year Ended 31 December				
	2020 *	2019	2018	2017	2016
Profitability					
Net interest income/average assets	7.74	7.25	7.92	8.27	9.23
Net interest income/total income	76.45	73.72	74.85	74.87	76.78
Operating expenses/total income**	19.03	19.38	17.82	18.85	16.68
Operating profit/average assets	1.98	1.83	3.72	(0.01)	0.16
Earnings before taxes/average risk-weighted assets	1.36	1.26	2.57	(0.01)	0.11
Return on average assets	1.72	1.77	3.41	0.45	0.50
Return on average equity	6.31	7.15	14.60	1.97	2.18
Asset Quality					
Non-performing loans/total loans	12.67	11.02	7.60	4.28	8.70
Bad debts and doubtful accounts/total loans	2.12	1.69	0.02	3.56	4.02
Allowance for doubtful accounts/total loans	11.12	9.48	8.48	8.91	5.56
Allowance for doubtful accounts/non-performing loans	87.75	86.07	111.62	208.25	63.95
Capitalization					
Risk-adjusted capital ratio	19.96	17.78	16.55	15.66	16.06
Debt/equity (times)	2.45	2.90	3.18	3.39	3.26
Shareholders' equity/total loans	28.24	25.88	24.25	22.49	23.65
Liquidity					
Stable funding ratio	65.81	45.82	60.16	72.07	55.49
Liquidity coverage measure (times)	0.01	0.01	0.01	0.01	0.01
Short-term borrowings/total liabilities	84.40	96.31	85.72	66.63	81.04
Total loans/total assets	102.76	99.15	98.71	101.22	99.28

* Unaudited financial statement

** Total income nets cost of operating

RELATED CRITERIA

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

BSL Leasing Co., Ltd. (BSL)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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