

CHAYO GROUP PLC

No. 194/2023
12 October 2023

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 19/10/22

Company Rating History:		
Date	Rating	Outlook/Alert
25/03/22	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Chayo Group PLC (CHAYO) at “BB+” with a “stable” outlook. The rating continues to reflect the company’s long-standing track record in managing unsecured distressed assets, improved market position, and manageable liquidity. However, the development is offset by its elevated financial leverage, uncertainty in cash collection from secured distressed assets, and portfolio concentration risk.

KEY RATING CONSIDERATIONS

Rapid growth in secured assets, still takes time to prove success

CHAYO’s assets expanded at a remarkable compound annual growth rate (CAGR) of 58% in 2020-2022, outpacing the industry’s CAGR of 5%. This resulted from its aggressive asset acquisition strategy in recent years, especially for secured distressed assets.

However, it will still take time for CHAYO’s asset size to scale up to the point of positively impacting its business position assessment, given the wide gap between CHAYO and the major distressed asset management companies. Its asset size of THB7.2 billion at the end of 2022 represented a 2.6% market share in Thailand. Of the total assets, THB5.5 billion were booked at Chayo Asset Management Co., Ltd. (Chayo AMC) and THB1.8 billion at Chayo JV Asset Management Co., Ltd. (Chayo JV).

At the end of June 2023, secured distressed assets accounted for 65% of its gross distressed assets, and unsecured assets accounted for 35%. We anticipate the mix to be maintained over the next three years. This is because the majority of its investment budget will be allocated to secured distressed assets.

We view CHAYO as having strong expertise in managing unsecured distressed assets, including both fee-based debt collection services and its own unsecured debt acquisitions. The company’s experienced management team and strong relationships with financial institutions have helped secure relatively steady cashflows over the years. However, we view its track record in managing secured distressed assets as still relatively limited. Its ability to generate sizeable cashflows in this segment remains to be tested.

Cash collection for secured assets remains uncertain

We expect CHAYO’s cash collection will be in the THB700 million to THB1.7 billion range in 2023-2025. Of this amount, cash collection from secured distressed assets is estimated at 50%-75% of total cash collection, compared with 40% in 2022. This is based on our assumption that the sale of one large asset will be finalized in 2024. That said, there could be a downside risk to our cash collection estimates as the asset sale depends largely on the legal procedures and economic conditions.

In 2022, CHAYO reported a marginal contraction of 3% year-on-year (y-o-y) in total cash collection from the management of unsecured assets and sales of secured assets. In the first half of 2023 (1H23) overall cash collection was relatively flat y-o-y. This was because the strong growth of 35% y-o-y in cash collection from unsecured assets was offset by the 41% y-o-y drop in cash collection from the sale of secured assets, owing to the delayed auction process of one large asset.

Portfolio concentration risk remains high

We expect CHAYO's portfolio concentration risk to remain high over the next three years. Its portfolio concentration, measured by the top-10 investments in secured distressed assets, increased to 66% at the end of June 2023 from 37% at the end of June 2022. The increase was due to the acquisition of one large asset in late 2022. Although the portfolio concentration risk is partially mitigated by the company's low acquisition cost and appreciation of collateral value over time, slower-than-expected sales of assets could result in heightened liquidity risk if cashflows are not well managed.

Elevated financial leverage to continue

We expect CHAYO's financial leverage will continue to rise in 2023-2025. In our view, the company is likely to remain in an expansion phase over the next three years, given the potential increase in non-performing loan (NPL) supply in the market following the end of financial institution debt relief programs by the end of this year.

We estimate CHAYO's financial leverage, as measured by the adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), to be in the 3.7-4.2 times range in 2023-2025 from 2.8 times at the end of June 2023. This is based on our baseline assumption of THB1.5 billion new acquisitions of distressed assets per year, 70% of which are allocated to secured distressed asset. Also, we anticipate outstanding loans of Chayo Capital Co., Ltd. (CCAP) to reach THB1.5 billion by 2025.

Lending business to face asset quality challenges

CHAYO's lending business via CCAP, a 71% owned subsidiary, has been expanding loans exponentially over the past two years and, hence, is facing asset quality challenges. CCAP's NPLs surged to THB244 million or 35% of total loans at the end of June 2023. Nonetheless, with loan restructuring programs and continuous loan portfolio expansion, we anticipate CCAP's NPL ratio to decline over the next 12 months.

The deterioration in asset quality in 1H23 was partly attributed to high credit concentration. The outstanding loans held by the top-5 customers accounted for 56.6% of the total portfolio at the end of June 2023. That said, the low loan-to-value (LTV) ratio of 40%-60% has helped minimize its credit cost. Moreover, the company mainly focuses on locations which are urban areas with potential economic growth.

Tight but manageable liquidity

CHAYO's liquidity is tight, largely due to the uncertainties surrounding the timing of legal processes involved in the disposals of secured distressed assets, which tends to be lengthy and uncertain. At the same time, its leverage level is expected to accelerate due to the debt-funded nature of secured distressed asset acquisition. However, in our view, CHAYO's liquidity remains manageable over the next 12 months.

CHAYO's sources of funds comprised cash on hand of THB1.7 billion as of June 2023. Its cash collections from managing distressed assets in 2H23 and 2024 are projected to be around THB460 million and THB1.7 billion, respectively. These should cover its planned investments of THB1.5 billion and debentures of THB1.1 billion maturing in 2024. However, CHAYO also has outstanding debentures of THB1.8 billion maturing in November 2025. Therefore, the sources of repayment will need to be closely monitored.

Increased NPL supply provides growth opportunity for distressed AMCs

The effects of the Coronavirus Disease 2019 (COVID-19) pandemic has widely impacted the Thai economy over the past two years. The debt servicing ability of debtors in vulnerable sectors has weakened considerably. Although continuous assistance measures have been implemented by the Bank of Thailand (BOT) to help alleviate the burden of debtors, NPLs in the financial sector, both Thai and foreign commercial banks, remained high at THB492 billion with an NPL ratio of 2.7% at the end of June 2023. We anticipate NPL disposal by financial institutions to rise as various assistance measures gradually come to an end this year.

BASE-CASE ASSUMPTIONS

Our base-case assumptions for CHAYO during 2023-2025 are as follows:

- Cash collection from distressed asset management to range around THB700 million to THB1.7 billion per annum.
- Revenues from debt collection services to range around THB37-THB39 million per annum.
- Gains on sales of foreclosed assets to range THB160-THB270 million per annum.
- Interest income from loan offering to range around THB100-THB200 per annum
- Gross loans for loan offering business of around THB1.0-THB1.5 billion per annum.
- New acquisitions of distressed assets of around THB1.5 billion per annum.

RATING OUTLOOK

The “stable” outlook reflects our expectation that CHAYO will continue to deliver satisfactory operating performance and strong cash collection growth over the medium term following its continuous distressed asset acquisition in recent years. We also expect the company to maintain its financial leverage at acceptable levels.

RATING SENSITIVITIES

A rating and/or outlook upgrade could occur if the company is able to enlarge its cash flow on a sustained basis, while maintaining its financial leverage at acceptable levels. Conversely, the rating and/or outlook could be revised downward if the company’s net debt to EBITDA ratio rises significantly above our expectation.

COMPANY OVERVIEW

CHAYO, initially named “Khien and Clay Co., Ltd.”, was established on 11 March 1997 with paid-up capital of THB3 million to operate debt tracking and collection service business. In accordance with the restructuring plan in 2015, the company changed its name to Chayo Group Co., Ltd. (CHAYO). CHAYO was listed on the Market for Alternative Investment (MAI) in March 2018. As of October 2020, the Yasasin Family, the largest shareholder, held a 56.97% stake in CHAYO.

CHAYO now operates four main businesses including debt collection service business, distressed asset management business, lending business, and customer service business. The company had extensive experience in debt collection services before acquiring and managing its own distressed assets in 2014. In 2019, debt collection services generated around 20% of the company’s total revenue, while distressed asset management business accounted for around 80%.

CHAYO operates distressed asset management business through Chayo AMC, its wholly-owned subsidiary, who has the license granted from the BOT under Emergency Decree on Asset Management Company B.E. 2541.

The company expanded into the lending business in 2018 after establishing its subsidiary “Chayo Capital Co., Ltd.” to provide both unsecured and secured loans. CHAYO holds 71% in Chayo Capital, and the remaining stakes are held by the Boonmechote Family and Mr. Wiwat Kromadit.

CHAYO established Chayo JV with its partners to invest and/or jointly invest in asset management business and/or other relevant businesses in October 2020. CHAYO currently holds 55% voting power in Chayo JV.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	807	1,057	806	520	318
Earnings before interest and taxes (EBIT)	392	510	381	248	149
Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA)	421	586	445	295	190
Adjusted funds from operations (FFO)	249	416	319	233	152
Interest expense	114	160	113	53	9
Capital expenditures	137	1,791	1,192	626	644
Total assets	8,453	7,203	5,090	2,811	1,825
Adjusted debt	4,122	3,146	1,494	1,604	585
Total equity	4,086	3,842	3,458	1,147	1,002
Adjusted Ratios					
EBITDA margin (%)	52.11	55.60	55.67	56.83	60.21
Pretax return on permanent capital (%)	10.25 **	8.54	9.81	11.44	12.50
EBITDA interest coverage (times)	3.70	3.66	3.94	5.59	20.71
Adjusted debt to EBITDA (times)	2.83 **	3.61	0.34	3.00	0.73
FFO to adjusted debt (%)	18.99 **	19.66	210.60	26.30	108.93

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

Chayo Group PLC (CHAYO)

Company Rating:	BB+
Rating Outlook:	Stable

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