KRUNGTHAI CAR RENT & LEASE PLC

No. 191/2019
13 November 2019

CORPORATES

Company Rating:	A-
Outlook:	Stable

Last Review Date: 02/11/18

Company Rating History:

Date	Rating	Outlook/Alert
02/10/17	A-	Stable
15/05/08	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Krungthai Car Rent & Lease PLC (KCAR) at "A-" with a "stable" outlook. The rating reflects KCAR's moderate and stable market position in the operating lease business, low financial leverage, and adequate liquidity. However, the rating is constrained by intense competition in the operating lease industry that continues to put pressure on KCAR's profitability.

KEY RATING CONSIDERATIONS

Market position to stay moderate

The company has continued to gradually expand its portfolio of leased assets over the past five years, despite intense competition. Its net leased assets increased to Bt4.3 billion as of September 2019, from Bt2.9 billion at the end of 2014, as the company successfully secured new clients in both the private sector and state-owned enterprises. The company is considered a mid-sized operator with a market share of 5.0% in 2018, ranking as the 7th largest operator in the industry according to TRIS Rating's database. Its market share declined from 5.6% in 2017 due to KCAR's strategy to avoid competing on price as a way to expand its client base. Instead, the company differentiates itself through the provision of superior services to maintain its gross margins and client base. We expect KCAR's market position to remain moderate due to its less competitive pricing strategy and its focus on motor vehicles.

Pressure on profitability

The company has experienced downward pressure on the gross margin of its operating lease business over the past few years due partly to pricing competition. This was exacerbated by the extension of the lease term for new contracts from three years to 4-5 years due to a change in demand, which led to lower annual lease income. As a result, the company's gross margin in operating leases contracted to 15.5% for the first nine months of 2019, from 17.0% in 2018 and 18.1% in 2017.

The company also experienced a decline in profitability over the past year as seen from a downward trend in the earnings before interest and taxes (EBIT) margin. The company's EBIT margin decreased to 13.0% for the first nine months of 2019, from 14.2% in 2018 and 18.9% in 2017, as the tighter operating lease gross margin took effect and as fewer cars were sold over the past year compared with 2016-2017. Nonetheless, the company was still able to maintain the gross margin of car sales at approximately 30%. This was achieved by selling over 90% of retired cars through Krungthai Automobile Co., Ltd. (KA), its used car trading subsidiary, which allows the company to earn relatively high and stable margins compared with selling through wholesale channels such as traditional auctions. Recently, the company also expanded its car sales through on-line channels to broaden its customer base and reduce marketing costs.

Low leverage supports rating

Although profitability has been deteriorating, KCAR's low financial leverage, measured by its debt to equity (D/E) ratio, helps underpin its rating. The company's D/E ratio remains modest at 1.7 times at the end of September 2019, despite increased borrowings. As of September 2019, KCAR's outstanding debt totaled Bt3.0 billion. In the longer term, based on management's indication, management intends to keep D/E ratio between 2.0-2.5 times, which is below the company's bond covenant of 3.0 times.

Strong cash flow protection

KCAR's cash flow protection, measured by EBIT interest coverage (EBIT/interest expenses), is considered to remain sufficient despite a declining trend. The company's EBIT interest coverage declined to 2.9 times for the first nine months of 2019, from 4.8 times in 2017, as its EBIT has continued to be under pressure. However, we expect the company's EBIT interest coverage to remain around 3-4 times in 2019-2022, as we believe the company will be able to sustain its EBIT level while maintaining its leverage and funding costs over the next few years. The company's ratio of funds from operations (FFO) to total debt is considered relatively strong. Its annualized ratio of FFO to total debt was 35.5% for the first nine months of 2019.

Sufficient liquidity

We assess KCAR to have adequate liquidity as its sources of liquidity are expected to be approximately 2.2 times its uses for the year 2019. The company's sources of liquidity include cash on hand, funds from operations (FFO) of around Bt1 billion, and credit facilities that are currently available; its uses include debt repayments of less than Bt1 billion, capital expenditures of around Bt1.7 billion, and dividend payments to shareholders. In addition, the company also has access to both equity and debt capital markets, which should further help enhance the financial flexibility of the company.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KCAR's operations in 2019-2022 are as follows:

- Operating lease gross margin to remain at approximately 15%.
- EBIT margin to range between 13%-14%.
- Capital expenditures to be approximately Bt1.5-Bt1.7 billion.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that KCAR will maintain its market position and financial profile. The outlook is also based on our expectation that KCAR will maintain its low financial leverage and sound cash flow protection, as well as continue to deliver satisfactory financial performance.

RATING SENSITIVITIES

KCAR's credit upside would materialize if KCAR's market position improves significantly while maintaining its financial performance and cash flow protection on a sustainable basis. On the contrary, the rating and/or outlook could be revised downward if the company's market position deteriorates significantly or if its financial performance or cash flow protection worsens with EBIT interest coverage falling below 2 times.

COMPANY OVERVIEW

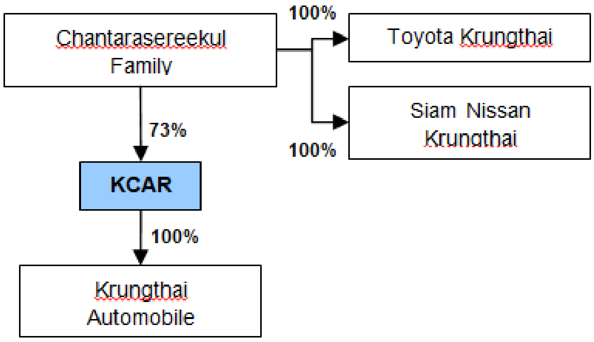
KCAR was established in 1992 by Mr. Paitoon Chantarasereekul. The company was set up to provide corporate clients with long-term automobile rentals under operating lease contracts. The company also offers short-term auto rentals to both corporate and individual clients. From a base of Bt4 million in 1992, the company's paid-up capital increased continuously as the business grew. In 2005, KCAR purchased a 95% stake in KA, a used car dealer, from the Chantarasereekul family. In 2012, KCAR acquired the remaining 5% stake in KA, which then became KCAR's wholly-owned subsidiary.

KCAR was listed on the Stock Exchange of Thailand (SET) in late 2005 and received Bt212 million from the initial public offering (IPO). After the SET listing, the Chantarasereekul family remained the major shareholder, controlling a majority stake of approximately 73.5% in KCAR as of August 2016.

KCAR provides rental services for various types of vehicles, including sedans, pick-up trucks, and vans. The company has a policy to concentrate on popular brands, especially Japanese cars, in order to reduce the risk of losses on retired assets. Preference is given to the "Toyota" brand, as the major shareholder owns a Toyota authorized dealership. KCAR also offers other brands, such as "Honda", "Isuzu", and "Nissan". In addition, the company rents some European brands to meet customer demand.

KCAR offers a full range of services, such as comprehensive insurance coverage, car registration, and vehicle maintenance. KCAR provides 24-hour customer service for both normal and emergency needs through a call center. KCAR also provides replacement cars in case of accident, loss, or lengthy repair.

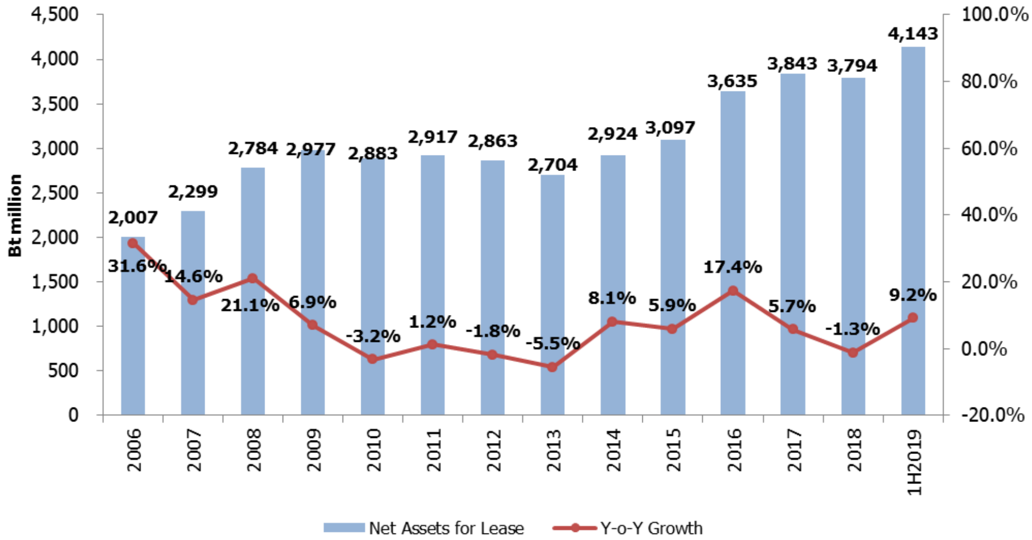
Chart 1: KCAR's Group Structure as of Jun 2019



Source: KCAR

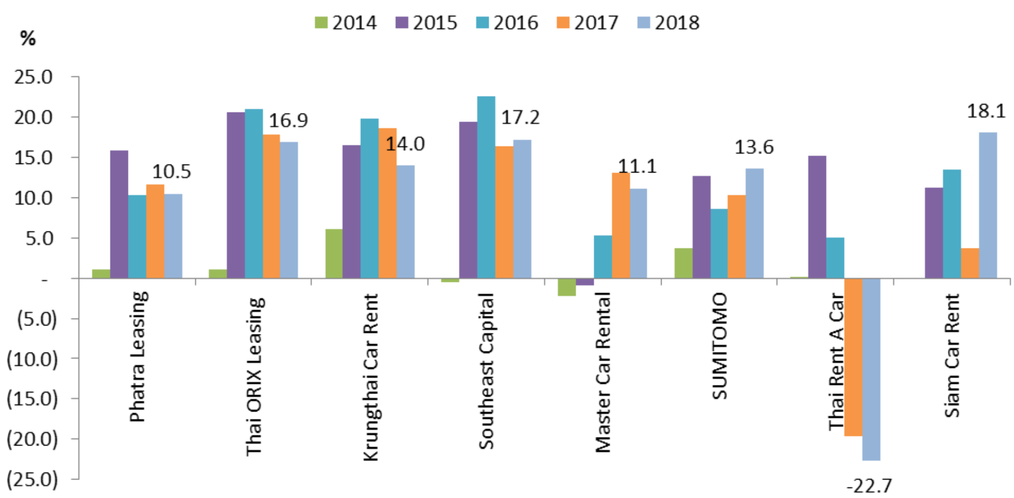
KEY OPERATING PERFORMANCE

Chart 2: KCAR's Net Assets for Lease



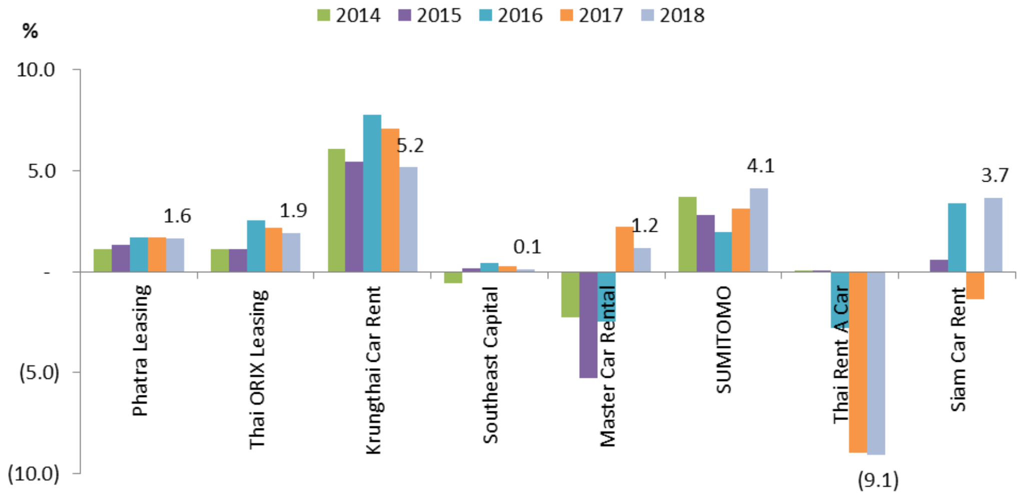
Source: KCAR

Chart 3: Percentage of EBIT Margin



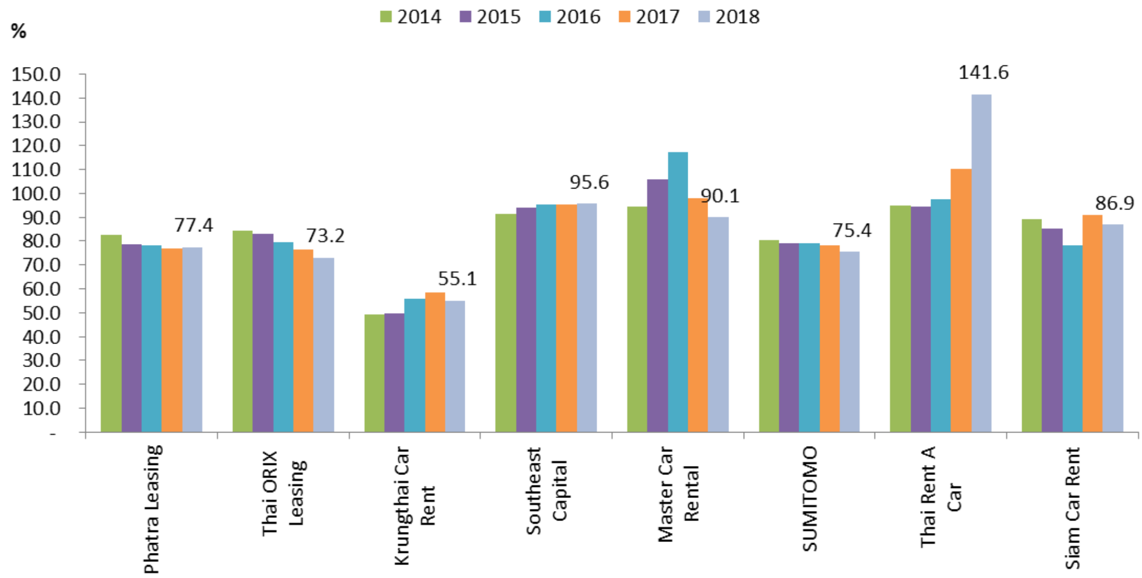
Source: TRIS Rating's database

Chart 4: Percentage of ROAA



Source: TRIS Rating's database

Chart 5: Percentage of Debt to Total Capitalization



Source: TRIS Rating's database

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Sep 2019		Year Ended 31 December 2018	2017	2016	2015
Total operating revenues	1,481		2,081	2,091	2,002	1,944
Earnings before interest and taxes (EBIT)	193		296	395	404	323
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	814		1,057	1,116	1,081	997
Funds from operations (FFO)	786		1,014	1,062	1,008	877
Adjusted interest expense	66		86	82	71	71
Capital expenditures	1,322		834	1,301	1,548	603
Total assets	5,493		4,833	4,999	4,640	3,819
Adjusted debt	2,964		2,408	2,614	2,337	1,650
Adjusted equity	2,002		2,027	2,014	1,982	1,787
Adjusted Ratios						
EBIT margin (%)	13.04		14.23	18.87	20.16	16.61
Return on average assets (%)	4.66	*	5.17	7.06	7.82	5.46
EBIT interest coverage (times)	2.93		3.44	4.83	5.69	4.56
FFO to debt (%)	35.48	*	42.12	40.62	43.12	53.15
Debt to capitalization (%)	59.68		54.29	56.48	54.10	48.01

* *Annualized with trailing 12 months*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

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