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KRUNGTHAI CAR RENT & LEASE PLC

No. 213/2021
30 November 2021

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 23/11/20

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" rating outlook. The rating reflects the company's solid business position, sustained profitability, low leverage, strong cash flow, and sufficient funding and liquidity profile.

KEY RATING CONSIDERATIONS

Solid business position maintained

KCAR remains a mid-size operating lease provider. Nonetheless, as the company continues to enhance its service capability and quality to differentiate itself from competitors, its market position has gradually improved. The company's share of net leased assets increased to 6.4% in 2020, ranking seven among peers in the industry, compared with 5.7% in 2019 according to TRIS Rating's database.

Despite the prolonged Coronavirus Disease 2019 (COVID-19) pandemic that continues to hinder economic growth, the company managed to maintain its lease portfolio during 2020 and the first nine months of 2021 (9M21). Its outstanding portfolio declined by 1% in 2020, compared with an average contraction of 11% for the top-30 operators in the industry. We expect its operating lease portfolio to expand gradually as the company consistently improves service quality and operating efficiency to retain and attract new customers. The company's lease portfolio stood at THB4.1 billion at the end of September 2021.

KCAR's operational integration within the business network of its major shareholder and founder, which includes multiple automobile dealerships, continues to provide competitive advantage for the company. For example, it allows the company to purchase vehicles at relatively favorable prices, minimize operating costs and share resources among entities in the business network. KCAR can also sell retired vehicles with satisfactory profit margins to retail customers via Krungthai Automobile Co., Ltd. (KA), the company's used-car dealer subsidiary.

Sustained profitability

We expect the company to maintain its earnings capability over the next few years, with an estimated earnings before interest and tax (EBIT) margin in the range of 13%-14% in 2021-2023. We estimate the operating lease gross margin to be in the 12%-14% range over the medium term. This is a decline from about 16% in the past due to the extension of operating lease tenor. Its lease contracts have in recent years been extended to five years from three years, and we expect the tenor extension to continue. With the longer tenor, operating lease gross margins have declined due to the lower rental and service income being recognized each year. The gross margin was 13.5% for the first nine months of 2021.

Gross margins from used car sales are also expected to remain at high levels of around 28%-29% over the next few years, supported by the company's use of digital platforms and online marketing to reach retail customers. The gross margin was 28.7% for the first nine months of 2021.

Relatively low leverage

We expect the company's financial leverage to remain low over the next few years, with a debt to total capitalization ratio of around 54%-56% and debt to equity below 2 times, as we expect a gradual expansion of the lease portfolio. A decrease in dividend payouts since 2020 should also further strengthen its capital over the medium term. Debt to total capitalization was 55.6% while debt to equity was 1.5 times at the end of September 2021, well below the financial covenant on its debentures of not more than 3 times.

Robust cash flow protection

We expect the company's cash flow protection to remain robust over the next few years with an EBIT interest coverage ratio of around 3-4 times in 2021-2023, close to the 3.6 times recorded in 9M21. This is based on our expectation that the company will be able to sustain its earnings capability, financial leverage, and effective control of funding costs over the medium term. We forecast the company's funds from operations (FFO) to total debt ratio to also remain sound at around 40% in 2021-2023. The annualized ratio was 39.9% in 9M21.

Sufficient funding and liquidity profile

The company's appropriate asset-liability management continued to underpin its funding and liquidity profile as the company mainly relied on long-term borrowings as its source of funds to match the lease contract tenor. At the end of September 2021, long-term borrowings (including the portions due within one year) accounted for 98% of the company's total borrowings. The company had credit facilities from various financial institutions to enhance its financial flexibility, in addition to being able to access both equity and debt capital markets. At the end of September 2021, the company had credit lines totaling THB2.1 billion, 45% of which were undrawn, as well as hire-purchase credit lines of THB453 million, which serve as additional funding sources to cushion against liquidity shortfalls. Priority debt to total debt was 48%.

Car rental business pressured by lower volume and price competition

In 2020, the demand for operating lease dropped significantly as many businesses were affected by the economic fallout from the COVID-19 pandemic. As a result, the value of rental assets of the major operators decreased by approximately 10% on average at the end of 2020 from the end of 2019. Intense competition in rental pricing from new operators entering the market in recent years has also put pressure on the profitability of most operators in the industry. We expect the competitive pressure to continue. However, improved gains on sales of leased vehicles due to a decrease in supply and stronger demand for used cars should help support the earnings of operating lease firms to an extent.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KCAR in 2021-2024 are as follows:

- Total lease portfolio to grow by 0%-5%.
- Operating lease gross margin to be around 12%.
- Cost of funds to be around 3%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position as well as financial profile and performance. The outlook is also based on our expectation that KCAR will maintain low financial leverage and sound cash flow protection.

RATING SENSITIVITIES

KCAR's credit upside would materialize if the company's market position improved significantly, leading to stronger financial performance and cash flow protection for a sustained period. 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 weakens with EBIT interest coverage falling ratio 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 THB4 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.

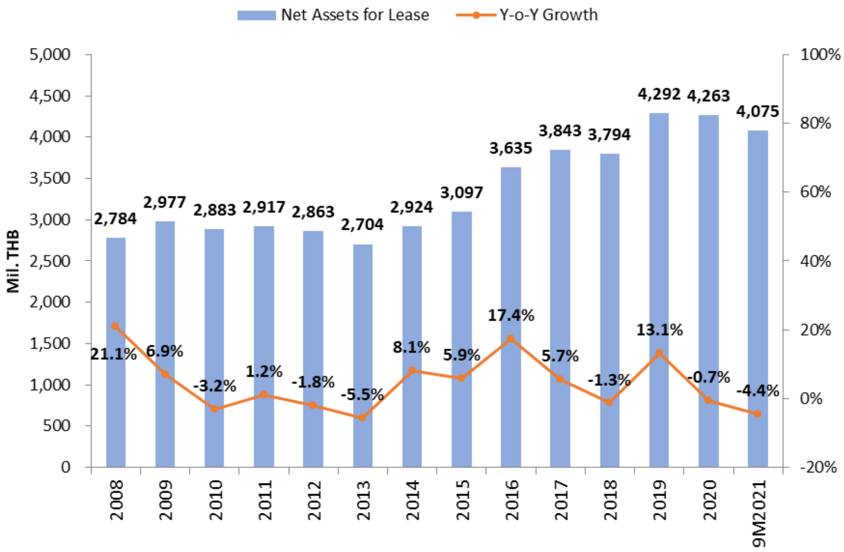
KCAR was listed on the Stock Exchange of Thailand (SET) in late 2005 and received THB212 million from the initial public offering (IPO). Since the SET listing, the Chantarasereekul family has remained the major shareholder, controlling a majority stake of approximately 73.5% in KCAR as of March 2020.

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. The company also provides replacement cars in case of accident, loss, or lengthy repair.

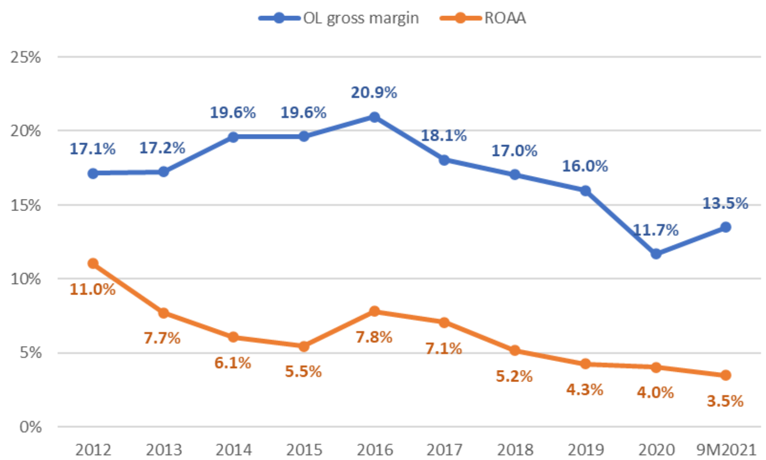
KEY OPERATING PERFORMANCE

Chart 1: KCAR's Net Assets for Lease



Source: KCAR

Chart 2: Operating Lease Gross margin and Return on Average Assets (ROAA)



Source: KCAR

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

		---------------Year Ended 31 December -----------			
	Jan-Sep 2021	2020	2019	2018	2017
Total operating revenues	1,571	2,193	1,967	2,081	2,091
Earnings before interest and taxes (EBIT)	217	273	259	296	395
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	888	1,165	1,103	1,057	1,116
Funds from operations (FFO)	812	1,113	1,065	1,014	1,062
Adjusted interest expense	61	90	90	86	82
Capital expenditures	563	974	1,718	834	1,301
Total assets	5,344	5,416	5,531	4,833	4,999
Adjusted debt	2,723	2,889	3,061	2,386	2,614
Adjusted equity	2,171	2,127	2,055	2,027	2,014
Adjusted Ratios					
EBIT margin (%)	13.83	12.46	13.19	14.23	18.87
Return on average assets (%)	3.50*	4.04	4.26	5.17	7.06
EBIT interest coverage (times)	3.55	3.03	2.87	3.44	4.83
FFO to debt (%)	39.87*	38.51	34.78	42.51	40.62
Debt to capitalization (%)	55.64	57.59	59.83	54.07	56.48

* *Annualized*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019

Company Rating:	A-
Rating Outlook:	Stable

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