

KRUNGTHAI CAR RENT & LEASE PLC

No. 216/2022

28 November 2022

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 30/11/21

Company Rating History:

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

Contacts:

Pawin Thachasongtham
pawin@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

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 robust business position as a leader in the car rental business, sustained profitability, low leverage, solid cash flow protection, and a sufficient funding and liquidity profile.

KEY RATING CONSIDERATIONS

Strengthened market position

KCAR’s market position has gradually strengthened despite the challenging market environment. During 2019-2021, the company expanded its operating lease portfolio by 13%, compared with a 10% contraction for the top-10 industry operators during the same period. This was due to the company’s high-quality service and strong relationship with its customers. According to TRIS Rating’s database, the company’s market share in net leased assets increased to 6.7% in 2021, compared with 6.2% in 2020. KCAR’s lease portfolio stood at THB4.2 billion at the end of September 2022, ranking sixth among industry peers. Given its selective growth strategy, we expect KCAR to gradually expand its lease portfolio by 3%-5% per annum over the next three years.

Competitive advantage supports profitability

KCAR’s competitive advantage stems from its operational integration within the business network of its major shareholder and founder including multiple automobile dealerships. Such integration allows the company to purchase vehicles at relatively favorable prices. KCAR also has its own maintenance service centers and hence lower maintenance costs for leased vehicles which support its margins. The company can also sell retired vehicles at sound profit margins directly to retail customers via Krungthai Automobile Co., Ltd. (KA), the company’s wholly-owned used-car dealer subsidiary.

Satisfactory operating performance to continue

KCAR’s profitability in recent years has been hampered by the extension of the operating lease tenor to 4-5 years from three years. The extension resulted from the cost control strategy implemented by its customers. This extension led to rental and service income being spread over a longer period, hence the decline in gross margin for the operating lease in each year. The gross margin reached 13.4% in 2021, compared with around 16%-18% in 2017-2019. We anticipate the gross margin to remain in the 12%-14% range over the medium term, accounting for the impact of the lengthened lease tenor.

Nevertheless, we expect KCAR to maintain a satisfactory operating performance overall. This will be supported by the higher gross margin from used car sales, which has ranged between 28%-30%. However, the gross margin fell to 27.1% for the first nine months of 2022, compared with 29.3% in 2021. This drop is likely temporary given the greater portion of sales of used cars purchased from auction centers, which generate lower margins. We estimate KCAR’s gross margin from used car sales to remain at high levels of around 27%-30% over the next few years. This will be supported by the company’s use of lower-cost digital platforms and online marketing to expand its customer base.

For the first nine months of 2022, the company's earnings before interest and tax (EBIT) margin declined to 13.5% from 13.8% during the same period in 2021. Nonetheless, we estimated the EBIT margin to improve to the 14% range in 2022-2024 due to the higher portion of revenue from used car sales.

Low financial leverage

We expect KCAR to maintain its low financial leverage over the next few years, with a debt to total capitalization ratio of around 52%-54% and debt to equity (D/E) ratio below 2 times. The debt to total capitalization ratio was 53.8% at the end of September 2022. Its D/E was also low, at 1.4 times, well below the financial covenant on its debentures of not more than 3 times. In our base case scenario, we forecast a gradual expansion of the lease portfolio by 3%-5% per annum over the next three years, in line with the company's selective growth strategy. Lower dividend payouts since 2020 should also further strengthen its capital over the medium term.

Solid cash flow protection

We expect KCAR's cash flow protection, measured by EBIT interest coverage ratio, to remain solid over the next few years. We estimate the company's EBIT interest coverage ratio to reach 3-4 times in 2022-2024, close to the 4.2 times in 2021. We expect the company to maintain its sound profitability, relatively low financial leverage, and well-managed funding cost over the medium term. The company's ratio of funds from operations (FFO) to total debt should remain sound at around 40% in 2022-2024. The annualized ratio was 42% in the first nine months of 2022.

Sufficient funding and liquidity profile

KCAR relies on long-term borrowings as its main source of funding to match the duration of its lease contracts. At the end of September 2022, long-term borrowings (including the portions due within one year) accounted for 98% of the company's total borrowings. KCAR has credit facilities from various financial institutions. The company can also access both equity and debt capital markets, which help increase its financial flexibility. At the end of June 2022, the company had credit lines totaling THB2.7 billion, 66% of which were undrawn, as well as hire-purchase credit lines of THB1 billion, which serve as additional funding sources to cushion against liquidity shortfalls.

Car rental business pressured by Coronavirus Disease 2019 (COVID-19)

In 2022, demand for operating leases slightly increased in line with the economic recovery. Demand has been stronger from the transportation sector thanks to the revival in consumption. However, the value of the rental assets of the major operating lease companies has been declining due to the contractions of the lease portfolios among a few operators. At the end of the first half of 2022 rental assets fell by 7% from the end of 2021, a further decline from the 15% decrease in 2021. Also, intense competition in rental prices from new operators entering the market in recent years has put pressure on the profitability of most operators in the industry. We expect this intense competition 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 2022-2024 are as follows:

- Total lease portfolio to grow by 3%-5%.
- Operating lease gross margin to range around 12%-14%.
- Cost of funds to reach around 2.8%-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

A credit upside could materialize if the company's market position improved significantly, leading to stronger financial performance and cash flow protection for a sustained period. Conversely, 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 the EBIT interest coverage ratio 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 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 vehicle, 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep	-----Year Ended 31 December -----			
	2022	2021	2020	2019	2018
Total operating revenues	1,713	2,206	2,193	1,967	2,081
Earnings before interest and taxes (EBIT)	232	339	274	259	296
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	912	1,239	1,165	1,103	1,057
Funds from operations (FFO)	850	1,152	1,073	1,011	969
Adjusted interest expense	60	84	91	90	86
Capital expenditures	821	675	974	1,718	834
Total assets	5,500	5,703	5,416	5,531	4,833
Adjusted debt	2,655	2,923	2,917	3,061	2,386
Adjusted equity	2,281	2,257	2,127	2,055	2,027
Adjusted Ratios					
EBIT margin (%)	13.56	15.35	12.48	13.19	14.23
Return on average assets (%)	3.25 *	4.07	4.04	4.26	5.17
EBIT interest coverage (times)	3.87	4.04	3.02	2.87	3.44
FFO to debt (%)	44.02 *	39.40	36.79	33.02	40.62
Debt to capitalization (%)	53.79	56.43	57.83	59.83	54.07

* Annualized

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2022, 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 manner 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 www.trisrating.com/rating-information/rating-criteria