KRUNGTHAI CAR RENT & LEASE PLC

No. 236/2023
30 November 2023

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 28/11/22

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 market position in the car rental business, healthy profitability, low leverage, sound cash flow protection, as well as its sufficient funding and liquidity profile.

KEY RATING CONSIDERATIONS

Car rental market position remains solid

KCAR holds a strong market presence in the car rental business in Thailand. The company has a large and diverse vehicle fleet of more than 9,000 units, including a wide range of sedans, sport utility vehicles (SUVs), pickup trucks, and vans. KCAR is well-recognized by Thai and multinational companies across various industries. This is supported by its extensive 40-year track record and high-quality service.

According to TRIS Rating's database, KCAR ranked eighth among industry peers in 2022, with a 6.4% market share in terms of net leased assets. This was a slight decrease from the 6.8% share in 2021, primarily attributed to aggressive expansion by the major operators. As of June 2023, KCAR's net leased assets remained steady at THB4.3 billion, unchanged from the level at the end of 2022.

We expect minimal growth in KCAR's net leased assets in the second half of 2023 (2H23) given the company's tightened underwriting policies. Nonetheless, we anticipate KCAR to accelerate its growth over coming years due to the scheduled retirement of a large number of its vehicle fleet in 2024-2025. The growth will also be fueled by recovery in demand from both private and public customers in a diverse range of industries. We project the company's net leased assets to expand to about THB5 billion by 2025.

Maintaining strong competitive edge

KCAR's competitive edge is its ability to provide high-quality, comprehensive services, which help the company avoid pricing competition. We expect this to continue over the longer term. Also, KCAR leverages the network of its major shareholder and founder, which includes several automobile dealerships. This enables the company to achieve cost optimization and operational synergies within the group. For example, the cooperation allows KCAR to purchase vehicles at relatively favorable prices. Additionally, KCAR manages its own maintenance service centers, helping to control maintenance costs and service quality.

Also, KCAR operates its own used-car dealership under the "Toyota Sure" brand, through its wholly-owned subsidiary, Krungthai Automobile Co., Ltd. (KA). As a result, KCAR can directly sell its retired vehicles to retail customers at higher margins, further improving profitability. KCAR also has strong relationships with key automotive manufacturers, insurance companies, and commercial banks. These relationships provide KCAR with access to a wider range of resources and expertise at competitive prices, contributing to its strengthened market position.

Increased car sale revenues to help support rental income pressures

We expect KCAR's financial performance to improve moderately over the next three years. We forecast its earnings before interest and taxes (EBIT) to reach the THB330-THB380 million range in 2023-2025, an increase from THB311 million in 2022. We expect KCAR’s earnings growth to be propelled by increased revenue from the sale of retired vehicles. Retired vehicles are expected to surge to 3.3 thousand units in 2024 from an average 1.3 thousand units per annum over the past five years, caused by the expiration of rental service provided to some major customers. We assume the company’s car sales volume will be spread over the next two years. Hence, we estimate its car sales revenues to increase to about THB1 billion in 2024-2025, compared with the normalized level of THB800 million per annum.

Despite higher car sales volume, we estimate KCAR’s EBIT margin to improve modestly to about 15% in 2023-2025, up from 13.8% in 2022. We expect car sales revenue to be partially offset by the decline in gross margin from operating lease. We predict annual rental income will remain low, following the extension of operating lease tenor to 4-5 years from three years to support the cost cutting strategy of some customers. As a result, the gross margin from the rental service has fallen gradually to 12% in the first nine months of 2023, compared with the levels of around 16%-18% in 2017-2019. We expect the gross margin to still be pressured by the lengthened lease tenor, with the margin estimated to range between 10%-12% in 2023-2025.

Low financial leverage to continue

We expect KCAR to maintain its low financial leverage, measured by debt to capitalization ratio, over the next three years. Following the company’s prudent portfolio expansion strategy, we project this ratio to be around 50%-54% in 2023-2025, compared with 53.6% in 2022. We also estimate the company’s debt to equity (D/E) ratio to be below 2 times. As of September 2023, its D/E was also low, at 1.3 times, well below the financial covenant on its debentures of not more than 3 times.

As of September 2023, KCAR’s consolidated interest-bearing debt was THB2.7 billion, of which THB2.2 billion was considered priority debt, comprising its own secured debt. The priority debt to total debt ratio was 83%, suggesting that KCAR’s unsecured creditors are significantly disadvantaged to the priority debt holders with respect to claims against the company’s assets. Its high priority debt to total debt ratio was due to the nature of its business which uses hire purchase borrowings as a source of funding. The company’s recent increase of hire purchase borrowings was driven by its intention to effectively manage funding cost.

Cash flow protection remains solid

We anticipate KCAR’s cash flow protection, measured by EBIT interest coverage ratio, to remain solid over the next three years. This is supported by its steady stream of cash flow, sound profitability, and low leverage. KCAR's lease contracts mostly have a duration of three to five years, ensuring a steady flow of cash inflow. The company’s strong profitability serves as a buffer against unexpected expenses and helps maintain its cash flow protection. Also, its low financial leverage provides financial flexibility to expand its business and withstand economic downturns.

We estimate KCAR’s EBIT interest coverage ratio will remain strong in the 3-4 times range in 2023-2025, similar to the 2022 level. We expect the company to maintain healthy profitability, relatively low financial leverage, and well-managed funding cost over the medium term. We also expect KCAR’s ratio of funds from operations (FFO) to debt to remain sound at 37%-46% % in 2023-2025, following an annualized ratio of 44% in the first nine months of 2023.

Maintaining sound funding profile, with adequate liquidity position

In our view, KCAR's funding profile is sound as the company mainly relies on long-term borrowings, aligning with the duration of its operating lease contracts. As of September 2023, long-term borrowings (including the portions due within one year) constituted 93% 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, enhancing its financial flexibility. As of October 2023, the company had credit lines totaling THB3.4 billion, with 51% remaining undrawn, and hire-purchase credit lines of THB1 billion, serving as additional funding sources to cushion against liquidity shortfalls.

Car rental business gradually recovering

In 2023, demand for operating leases slightly increased in line with the economic recovery. Demand has been stronger since the Coronavirus Disease 2019 (COVID-19) situation eased. The lifting of international travel restrictions has supported the recovery of the tourism sector and related service businesses. The value of the rental assets of the major operating lease companies in 2022 increased 7% from the end of 2021. However, 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 in the medium term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KCAR in 2023-2025 are as follows:

- Total lease portfolio to grow by 2%-13% per annum.
- Operating lease gross margin to range around 10%-12%.
- Cost of funds to reach around 3%-3.5%.

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 vehicles, including sedans, SUVs, 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 2023		2022	2021	2020	2019
			------------Year Ended 31 December ---------			
Total operating revenues	1,679		2,280	2,206	2,193	1,967
Earnings before interest and taxes (EBIT)	269		314	339	274	259
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	931		1,217	1,239	1,165	1,103
Funds from operations (FFO)	868		1,133	1,152	1,073	1,011
Adjusted interest expense	63		81	84	91	90
Capital expenditures	396		923	675	974	1,718
Total assets	5,399		5,596	5,703	5,416	5,531
Adjusted debt	2,627		2,687	2,923	2,917	3,061
Adjusted equity	2,353		2,329	2,257	2,127	2,055
Adjusted Ratios						
EBIT margin (%)	16.03		13.76	15.35	12.48	13.19
Return on average assets (%)	3.25	*	3.24	4.07	4.04	4.26
EBIT interest coverage (times)	4.29		3.86	4.04	3.02	2.87
FFO to debt (%)	43.84	*	42.19	39.40	36.79	33.02
Debt to capitalization (%)	52.76		53.57	56.43	57.83	59.83

* *Annualized*

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

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