

MICRO LEASING PLC

No. 54/2023
3 April 2023

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Negative

Last Review Date: 04/04/22

Company Rating History:

Date	Rating	Outlook/Alert
08/04/21	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Micro Leasing PLC (MICRO) at “BB+”. The rating outlook is revised to “negative” from “stable”, reflecting the company’s weaker-than-expected asset quality and operating performance, which has pressured its capital and earnings position. Its capital position, although still assessed as ‘very strong’, has weakened as a result of strong credit growth over the past few years.

The rating on MICRO reflects its strong capital base. However, the modest market position in the used truck hire purchase (HP) and new motor hire purchase businesses, moderate earnings capacity, as well as moderate funding and liquidity profile continue to constrain its rating. The rating also factors in the uncertainty in the economic environment and intense competition in the leasing industry which could pressure the company’s asset quality.

KEY RATING CONSIDERATIONS

Market position improves, remains modest

In the next few years, we expect MICRO to continue to steadily expand its loan portfolio, which would further strengthen its business stability. Although a positive impact on the rating is likely to take time, a sizeable expansion and well-managed asset quality of new businesses would still be positive for MICRO’s credit profile.

MICRO’s loan portfolio grew strongly in 2022 to THB5.0 billion at the end of December 2022, a 31% increase from end-2021. This was driven by used truck HP which grew 17% year-on-year (y-o-y) and the newly launched new motorcycle loans under Micro Plus Leasing Co., Ltd. (MPLUS). This was supported by the branch network expanding to 25 branches from 19 in 2022.

MPLUS started operating in June 2022 via eight branches shared with MICRO. Despite the strong credit expansion, its market position remains modest compared to peers in the new motorcycle HP segments. In 2023, the company plans to boost the growth of its new motorcycle HP loans and customer base to cross-sell other products such as insurance and personal loans. Also, the company aims to increase market share by leveraging its extensive and long-standing experience in the motorcycle business and relationship with the dealers of its strategic partner.

Strong capital position

We continue to assess the company’s capital and leverage position as ‘very strong’. We estimate the risk-adjusted capital ratio (RAC) to hover around 25% in 2023-2025, assuming 5%-10% growth in new loans and a 40% dividend payout ratio.

Notably, MICRO’s RAC ratio declined sharply to 38.4% at the end of December 2022 from 51.1% as at December 2021 due to a surge in credit growth, especially that of new motorcycle HP. The strong expansion, if continuing at similar pace, could accelerate the depletion of its RAC.

Weakening earnings generation

We assess the company’s earnings capacity as moderate, with an expectation that the ratio of earnings before taxes to average risk-weighted assets (EBT/ARWAs) will be around 2%-3% in 2023-2025. This is based on our assumptions of the credit cost ranging between 3%-5% as a result of elevated

non-performing loan (NPL) formation and an interest spread of 10%, a slight decline from 2022 from the rise in the cost of funding.

Our 'negative' outlook also reflects the substantially decline in EBT/ARWAs to 1.7% in 2022 from 7.1% in 2021. This was due to the surge of loss from assets foreclosed and higher expected credit loss resulting from the weak economic environment and higher oil price adversely impacting borrowers. Also, operating expenses increased from higher personnel expenses on new recruits joining MPLUS, branch expansion, and higher collection expenses.

Its fee income, mainly insurance brokerage income, contributed 16% of total revenue in 2022, down slightly from 19% in 2021. The company plans to increase the range of insurance product offerings at its subsidiary, Micro Insure Broker Co., Ltd. The more diversified revenue source can strengthen the company's business stability profile.

Deteriorating asset quality

The company's risk position is assessed as moderate compared to peers. Like capital and earnings, MICRO's asset quality deteriorated considerably following the aggressive credit growth over the past few years. The higher oil prices in 2022 exacerbated the still-weak economic conditions, particularly the exports segment which most of its customers as individual buyers of used trucks depend on. Non-performing loans (NPLs) and number of repossessed cars rose notably as a result.

The NPL ratio increased to 4.5% at end-2022 from 3.5% at end-2021, with the majority from used trucks. NPL formation also rose to 4.9% of average loans in 2022 from 3.1% in 2021. This resulted in credit cost (provisions for expected credit loss or ECL to average loans) to rise to 4.4% in 2022 from 4.0% in 2021. Consequently, the NPL coverage ratio declined to 103% from 123% at the end of 2021. Meanwhile, the higher number of repossessed cars resulted in losses on asset foreclosed spiking to 3.2% of average loans in 2022 from 0.9% in 2021.

To address its asset quality issue, MICRO has implemented stricter underwriting policies and several measures as well as accelerated its debt collection process since the mid-2022. These should gradually result in improved of asset quality over the medium term. That said, the expansion of new motorcycle HP loans, whose credit risk tends to be higher in nature, could worsen its asset quality if not well managed. The continued deterioration of asset quality could pressure its rating.

Moderate funding, and liquidity status

We assess the company's funding and liquidity profile as moderate. The company's borrowings comprise mainly of debentures which accounted for 84% of its total borrowings at end-2022. The company has closed its asset-liability duration gap by lengthening its borrowing tenor. Short-term borrowings (excluding current portions of long-term debts) accounted for only 1% of total borrowings, a decrease from 11% in 2021.

In terms of liquidity, MICRO has credit facilities in the form of bank loans from various financial institutions, but the credit facilities declined to THB1.5 billion at end-2022 from THB2.2 billion at end-2021, 77% of which remained undrawn. In the short- to medium-term, we view that the credit facilities should be sufficient to help support liquidity needs. Also, the company has financial flexibility given its ability to access both equity and debt capital markets for funding needs. Longer term, since bank loans all required assets to be pledged as collateral, there could be some constraint on the company's ability to access additional bank loans for further portfolio expansion further.

Declining exports, high oil prices weigh on truck sales.

Total car sales in 2022 recovered in line with the gradual economic recovery following the easing of Coronavirus Disease 2019 (COVID-19) regulations. The relaxation of foreign tourist travel restrictions and the full city reopening resulted in the recovery of the tourism industry. This helped total domestic car sales to grow 11.9% y-o-y in 2022. Commercial vehicles and passenger cars sales increased by 15.2% and 5.3% respectively from the previous year. However, contraction of exports from weakening counterpart countries and high oil prices, caused by the Russia-Ukraine conflict, resulted in flattish truck sales in 2022, compared to growth of 36% in 2021. As a result of the car sales growth in 2022, combined outstanding auto loans of listed companies rose by 5.6%, an improvement from 0.5% in 2021. However, overall asset quality deteriorated in 2022. This remains a key risk factor that needs to be continuously monitored in the future.

BASE-CASE ASSUMPTIONS

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

- New loans to expand by 5%-10% per year.
- Interest spread to hold at around 10%.
- NPL ratio to hover around 4.5%-5.0%

RATING OUTLOOK

The “negative” outlook reflects the company weakened capital and earnings capability and asset quality which could materially impact the company’s capital and earnings position in the future.

RATING SENSITIVITIES

The rating could be downgraded if the company’s asset quality and profitability deteriorate materially or if the capital position weakens resulting in the RAC ratio falling below 25% for an extended period. A credit upside, with outlook revised back to “stable”, could materialize if the company improves its earnings capacity and asset quality over an extended period while maintaining its strength in capital position with the RAC ratio maintained at above 25%.

COMPANY OVERVIEW

The company was established on 7 November 1994 with a registered capital of THB1 million, building upon the management’s experience of over 25 years in the auto parts trading business, to provide financing for commercial trucks used for transportation in the logistics, construction, and agricultural sectors. As of June 2020, 93% of the company’s outstanding loans were used-truck hire purchase loans, with mostly 6-, 10-, and 12-wheel trucks as collateral.

The company set up its first office in Nakorn Pathom. Since 2002, the company has opened branches across the Central region. Over the years, MICRO has continuously increased its registered and paid-up capital and expanded its branch network across the Northeastern and Eastern regions. The company currently has 12 branches and over 350 dealers in its network. In September 2019, the company became a public limited company and changed its name to “Micro Leasing Public Company Limited” in preparation for its initial public offering on the Stock Exchange of Thailand (SET) in 2020.

In September 2020, the company sold 235 million of its registered shares at THB2.65 per share through an initial public offering and successfully raised THB622 million. The company’s registered and paid-up capital subsequently increased to THB935 million from THB700 million. Following the initial public offering, the Auchyawat family remained the majority shareholder with a total stake of 57%.

In October 2021, the company set up a new subsidiary under the name “MICRO Insure Broker Co., Ltd.” with the registered capital of THB3 million to undertake the life and non-life insurance brokerage business. MICRO holds a 99.99% stake in the company.

In January 2022, the company set up another subsidiary under the name “MICRO FIN Co., Ltd.” with registered capital of THB50 million to engage in the secured and unsecured personal loan under supervision business. MICRO also holds 99.99% of the company.

In March 2022, the company established a joint venture under the name “MICRO Plus Leasing Co., Ltd.” with registered capital of THB400 million to engage in the motorcycle hire purchase business. The shareholders consist of MICRO (51%), Mr. Thammasak Auchyawat (9%), and Mr. Thaveepol Charoenkitkhunpaisal and partners (19%).

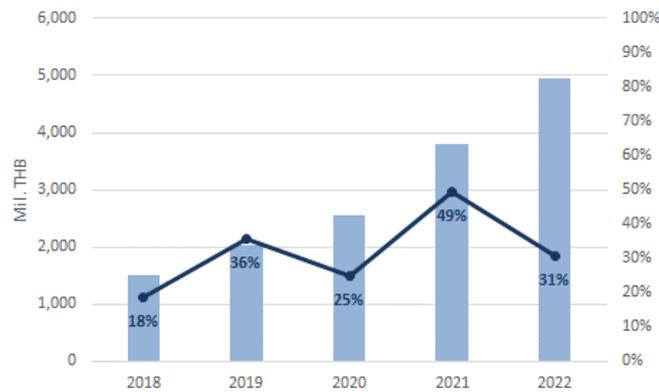
Chart 1: Company Structure



Source: MICRO

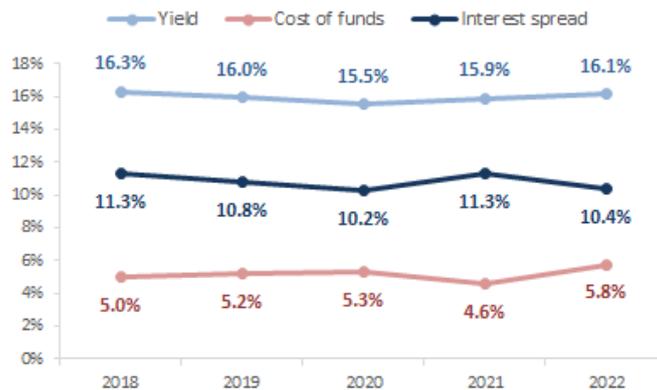
KEY OPERATING PERFORMANCE

Chart 2: Outstanding Loans



Source: MICRO

Chart 3: Interest Spread



Source: MICRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Total assets	5,511	4,034	2,755	2,118	1,537
Total loans	5,003	3,810	2,555	2,043	1,502
Allowance for expected credit loss	232	162	98	112	110
Short-term debts	989	477	678	686	102
Long-term debts	2,181	1,452	145	301	422
Shareholders' equity	2,148	1,958	1,823	1,080	969
Net interest income	559	441	308	243	198
Expected credit loss	192	128	36	4	9
Non-interest income	148	101	58	29	22
Operating expenses	292	186	153	129	95
Earnings before taxes	82	227	176	139	116
Net income	65	187	135	111	90

Unit: %

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Profitability					
Net interest and dividend income/average assets	11.72	12.98	12.63	13.31	13.89
Non-interest income/average assets	2.94	3.53	3.20	2.22	2.07
Operating expenses/total income	40.94	30.76	36.97	41.64	38.26
Operating profit/average assets	1.71	6.70	7.23	7.59	8.17
Earnings before taxes/average risk-weighted assets	1.73	7.09	7.62	7.89	8.39
Return on average assets	1.37	5.52	5.54	6.06	6.32
Return on average equity	3.18	9.92	9.31	10.82	10.92
Asset Quality					
Non-performing loans/total loans	4.56	3.46	3.80	4.45	5.73
Expected credit loss/average loans	4.38	4.04	1.58	0.21	0.63
Allowance for expected credit loss/non-performing loans	102.55	122.87	100.89	123.02	127.92
Capitalization					
Risk-adjusted capital ratio	38.37	51.13	70.42	53.09	65.26
Debt/equity (times)	1.57	1.06	0.51	0.96	0.59
Funding and Liquidity					
Stable funding ratio	117.20	123.63	107.72	91.73	134.59
Liquidity coverage measure (times)	0.29	0.30	0.19	0.07	0.51
Short-term debts/total debts	31.20	24.73	82.41	69.49	19.45

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Micro Leasing PLC (MICRO)

Company Rating:	BB+
Rating Outlook:	Negative

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