

MICRO LEASING PLC

No. 50/2022
4 April 2022

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 08/04/21

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+” with a “stable” outlook. The rating reflects the company’s modest market position in the used truck hire purchase (HP) business, solid capital base, adequate earnings capacity, and moderate funding and liquidity profile. The rating also takes into account the uncertain economic environment that could give rise to asset quality deterioration as well as intense competition in the leasing industry.

KEY RATING CONSIDERATIONS

Modest but expanding market position

MICRO expanded its loan portfolio strongly in 2021. At the end of December 2021, the company’s outstanding loans stood at THB3.8 billion, a 49% increase from end-2020. Despite the increase, its market position remains moderate compared to peers in the used truck leasing segment. We expect the company to continuously expand its loan portfolio over the next few years, which could help strengthen its business stability. This will be supported by branch network expansion and wider geographic coverage.

The company recently diversified into new motorcycle hire purchase (HP) through its newly established subsidiary, Micro Plus Leasing Co., Ltd. (MPLUS). MICRO will hold 51% share in MPLUS, while 19% will be held by an individual partner that has extensive and long-standing experience in the motorcycle business. Although this new venture could potentially increase business diversity and enhance loan yield for MICRO, successful operation hinges solely on the expertise of the partner. Over the longer term, a sizeable expansion and well-managed asset quality would be positive for MICRO’s credit profile.

Solid capital base and adequate earnings capacity

The company’s rating continues to be supported by its very strong capital and leverage position. We expect the company’s capital base to remain robust, assuming 20% growth in new loans and a 40% dividend payout ratio. We estimate the risk-adjusted capital ratio (RAC) to stay around 35%-45% in 2022-2024. At the end of December 2021, its RAC ratio remained strong at 51.1% but has declined from a peak of 70.4% at the end of 2020 due to the strong credit growth in 2021. We also expect the company’s debt to equity ratio (D/E) to stay below 2 times over the medium term, below the debt covenant of not more than 3 times.

We assess the company’s earnings capacity as adequate, with an expectation that the ratio of earnings before taxes to average risk-weighted assets (EBT/ARWAs) would gradually improve to 8% by 2024 from 7.1% in 2021. We anticipate the company to maintain the interest spread close to 11% as seen in 2021, while effectively managing its operating costs and asset quality to sustain its profitability. Its fee-based income, mainly insurance brokerage income, has helped diversify the revenue structure, contributing 20% of total revenue in 2021, up from 13% in 2017. We expect the proportion of fee income to expand further. The recently established subsidiary, Micro Insure Broker Co., Ltd., should enable MICRO to broaden the range of insurance product offerings and enhance its fee income.

Weakened asset quality

We view the company's risk position as moderate compared with peers. We believe MICRO is continuing to maintain its prudent credit underwriting criteria as well as improve its debt collection and asset repossession process. However, its asset quality deteriorated notably in 2021. We believe the primary reason for this to be the weakened credit profile of its target customers, most of whom are individual buyers of used trucks that have been adversely impacted by the prolonged Coronavirus Disease (COVID-19) pandemic and remain susceptible to the weak economic conditions. This has led to a strong increase in non-performing loans (NPL). The NPL formation to average loans ratio increased to 3.1% in 2021 from 2.5% in 2020, while provisions for expected credit loss (ECL) to average loans (credit cost) also rose to 4.0% in 2021 from 1.6% in 2020. The higher credit cost raised its NPL coverage ratio to 123% at the end of 2021 from 101% at the end of 2020, which we consider a positive trend as it helps mitigate the risk of further rises in credit cost. That said, the development of MICRO's asset quality remains uncertain should the company continue to actively expand its portfolio, which we view as the major rating constraint.

Moderate funding and liquidity profile

We assess the company's funding and liquidity profile as moderate. The company's funding profile improved despite some asset-liability duration gap remaining, thanks to less reliance on short-term funding. At the end of 2021, short-term borrowings (excluding current portions) accounted for 11% of total borrowings, a decrease from 48% in 2020, due to the company's strategic shift to long-term funding through both bank loans and debenture issuance. Credit facilities from financial institutions also helped enhance its liquidity profile. However, they all required assets to be pledged as collateral. We therefore view that there could be some constraint on the company's ability to access additional bank loans for portfolio expansion in the future. In the short- to medium-term, the credit facilities help support liquidity needs. At the end of December 2021, the company had credit lines totaling THB2.2 billion, 69% of which remained undrawn. The company's financial flexibility is enhanced by its ability to access both equity and debt capital markets for funding needs.

Limited impact from COVID-19 on commercial truck loans

Thailand's total vehicle sales have been affected by a new wave of the COVID-19 epidemic. As a result, car sales in the second half of 2021 slowed down more than in the first half of the year with a contraction of 4.2% in 2021. However, sales of commercial vehicles declined at a lower rate, compared with passenger cars. Sales of commercial vehicles declined by 1.9%, while sales of passenger cars contracted by 8.4% in 2021. The lower impact on sales of commercial vehicles compared with passenger cars reflects the resilient demand for commercial vehicles due to increased logistics and export activities during the city lockdown. The number of new truck registrations also increased by 6% in 2021. Nonetheless, the overall impact on the auto industry combined with lending institutions' increasingly stringent credit underwriting criteria caused outstanding loans of listed auto lenders to remain flat in 2021, compared with a 1.9% growth in 2020. We expect an economic recovery in 2022 to help improve the performance of both the auto manufacturers and the auto lenders.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MICRO in 2022-2024 are as follows:

- New loans to expand by 20% per year.
- Interest spread to hold at around 11%.
- NPL ratio to hover around 3.5%-4.0%

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its market position, financial performance, and leverage level while keeping its asset quality under control.

RATING SENSITIVITIES

MICRO's credit upside would materialize if the company continued to improve its market position over an extended period while maintaining its asset quality and strength in capital and earnings. On the contrary, the rating and/or outlook could be revised downward if the company's asset quality and profitability deteriorate materially with provisions for expected credit loss over 6% of average loans and EBT/ARWAs below 5% for an extended period.

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.

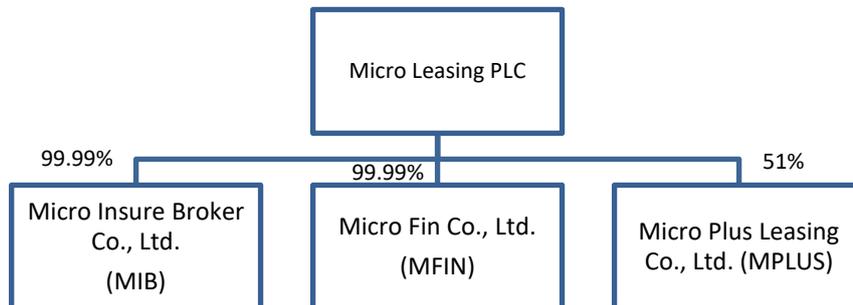
In September 2020, the company sold 235 million of its registered shares at THB2.65 per share through an initial public offering and successfully raised THB622 million. The company’s registered and paid-up capital subsequently increased to THB935 million from THB700 million. Following the initial public 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 and partners (30%), and Mr. Thaveepol Charoenkitkhunpaisal and partners (19%).

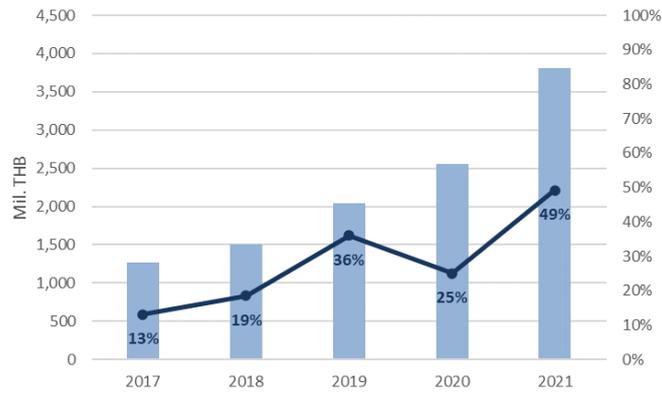
Chart 1: Company Structure



Source: MICRO

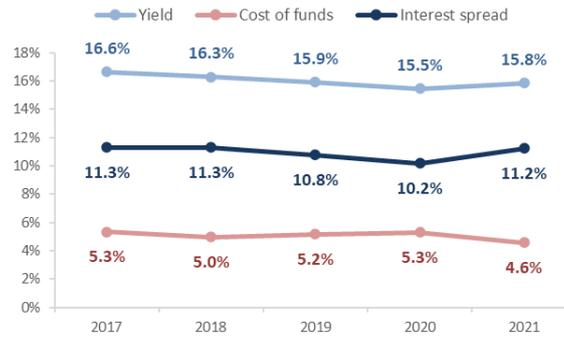
KEY OPERATING PERFORMANCE

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 -----				
	2021	2020	2019	2018	2017
Total assets	4,034	2,755	2,118	1,537	1,309
Total loans	3,810	2,555	2,043	1,502	1,267
Allowance for expected credit loss	162	98	112	110	102
Short-term debts	477	678	686	102	2
Long-term debts	1,452	145	301	422	586
Shareholders' equity	1,958	1,823	1,080	969	678
Net interest income	441	308	243	198	169
Expected credit loss	128	36	4	9	45
Non-interest income	101	58	29	22	14
Operating expenses	186	153	129	95	59
Earnings before taxes	227	176	139	116	78
Net income	187	135	111	90	61

Unit: %

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Profitability					
Net interest and dividend income/average assets	12.98	12.63	13.31	13.89	13.54
Non-interest income/average assets	3.53	3.20	2.22	2.07	2.13
Operating expenses/total income	30.76	36.97	41.64	38.26	27.77
Operating profit/average assets	6.70	7.23	7.59	8.17	6.30
Earnings before taxes/average risk-weighted assets	7.09	7.62	7.89	8.39	6.50
Return on average assets	5.52	5.54	6.06	6.32	4.88
Return on average equity	9.92	9.31	10.82	10.92	9.38
Asset Quality					
Non-performing loans/total loans	3.46	3.80	4.45	5.732	12.25
Expected credit loss/average loans	4.04	1.58	0.21	0.63	3.76
Allowance for expected credit loss/non-performing loans	122.87	100.89	123.02	127.92	65.53
Capitalization					
Risk-adjusted capital ratio	51.13	70.42	53.09	65.26	52.70
Debt/equity (times)	1.06	0.51	0.96	0.59	0.93
Funding and Liquidity					
Stable funding ratio	123.63	107.72	91.73	134.59	150.41
Liquidity coverage measure (times)	0.30	0.19	0.07	0.51	13.17
Short-term debts/total debts	24.73	82.41	69.49	19.45	0.29

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Micro Leasing PLC (MICRO)

Company Rating:	BB+
Rating Outlook:	Stable

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