

# MIDA LEASING PLC

No. 153/2022  
31 August 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** BB  
**Outlook:** Stable

**Last Review Date:** 31/08/21

### Company Rating History:

Date	Rating	Outlook/Alert
31/08/21	BB	Negative
11/08/20	BB+	Negative
10/04/20	BB+	Alert Negative
21/04/16	BBB-	Stable
27/05/15	BBB-	Developing
11/03/15	BBB-	Alert Developing
05/09/14	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Mida Leasing PLC (ML) at “BB” and revises the rating outlook to “stable” from “negative”. The company’s rating is capped by the rating on Mida Asset PLC (MIDA, rated “BB/Stable” by TRIS Rating), which represents the group credit profile of the MIDA group. We view ML as a “strategically important” subsidiary of MIDA. The revision of rating outlook to “stable” mirrors the change in rating outlook on MIDA, which reflects the alleviated concern over MIDA’s refinancing risk. We expect MIDA’s core business to continue to recover following Thailand’s reopening to foreign visitors.

Our assessment of ML’s standalone credit profile (SACP) remains at “bbb-”, taking into account its solid capital position and stable profitability. However, the rating is constrained by its moderate business position and funding profile.

## KEY RATING CONSIDERATIONS

### Strategically important subsidiary of MIDA

The rating assigned to ML is capped by the rating assigned to MIDA according to TRIS Rating’s “Group Rating Methodology”. MIDA’s group credit profile (GCP) of “bb” is lower than the company’s SACP of “bbb-”. ML is a 46.98% owned subsidiary of MIDA. MIDA has direct control of ML’s operations through the appointment of ML’s board of directors, part of which is composed of MIDA’s senior executives.

The funding management between the two entities has been closely interrelated. There has been evidence of reciprocal financial supports over the past few years, as exemplified by the intercompany lending from ML to MIDA and the use of MIDA’s fixed assets to secure ML’s bank loans. As of June 2022, the company’s loan to MIDA was THB792 million.

From the group perspective, ML serves to fulfill MIDA group’s diversification strategy. ML’s more stable leasing business has helped support the group’s performance to a certain extent as MIDA’s cyclical businesses, mainly property and hotel, have been severely impacted by the Coronavirus Disease 2019 (COVID-19) pandemic since 2020. Although we expect ML’s leasing portfolio to grow back to its pre-COVID level in the next one to two years, the group’s overall performance remains pressured by MIDA’s slower recovery. As of the first half of 2022 (1H22), ML contributed 37.8% of total assets, 60.1% of total shareholder equity, and 28.8% of total revenue to MIDA’s consolidated financial statements.

### Solid capital base and low financial leverage

ML’s capital position remains a key rating strength which we assess as very strong. The company’s capital measured by risk-adjusted capital (RAC) ratio was 50.8% at the end of June 2022, compared with 51.3% at the end of 2021. The ratio slightly drops as company resumes growth in loan portfolio in the fourth quarter of 2021 like most peers. In our view, ML has a stronger capital position than peers and is appropriate for the high credit risk profile of its target customers in the used car segment.

At the same time, ML’s financial leverage remains low as measured by a debt to equity (D/E) ratio of 0.98 times at the end of June 2022, improving slightly from 1.02 times at the end of 2021. The current D/E ratio is well below the limit of 3 times required by the debenture covenant. The company’s prudent

capital structure policy is evidenced by the low D/E ratio of around 1 times over the past 10 years. We expect the company to maintain its solid capital base with a RAC ratio of around 50% over the next few years based on our moderate loan growth assumption.

### **Market position remains moderate despite growth resumption**

The rating on ML is constrained by its moderate market position. ML extends loans to a niche market with a focus on used pick-up trucks. The majority are small ticket-sized loans ranging from THB50,000-THB300,000. Similar to peers, the company slows down its new lending, leading to outstanding hire purchase loans dropping from the peak of THB3.1 billion at the end of 2018 to THB2.5 billion at the end of 2021. As the company resumes its growth momentum since the fourth quarter of 2021, outstanding loans expanded 2% year-to-date (YTD). We expect the portfolio to continue to expand with outstanding hire purchase loans growing by 5%-10% in 2022-2024.

### **Stable profit**

ML has maintained stable net profit of around THB100 million per annum over the past 12 years. The company's performance remains in line with our expectations, with reported net profit of THB103 million in 2021. The 1H22 earnings dropped 11% year-on-year (y-o-y) due to higher operating expenses from portfolio expansion and cost of fund. Profit generating capabilities, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) have been moderate compared to peers, averaging 3.3%-3.5% in 2018-2021. We expect the company to maintain EBT/RWA around 3.0% over the next three years. This is based on our assumption that the company will be able to slowly expand outstanding loans to about THB3.6-3.8 billion and that its cost to income ratio would be maintained at around 45%-47% in 2022-2024. We also expect the company to retain its loan spread above 7%. ML's loan spread fell to 7.4% in 1H22 from 8.3% in 2021. The decline was from the result of a higher mix of loans to MIDA which generate lower return than hire purchase portfolio and higher funding costs.

### **Asset quality likely to weaken amidst uncertain environments**

The company's asset quality remains a key rating constraint given a high-risk credit profile of target customers and considerably lower provisioning policy compared to peers. Despite some improvement in 2021, we expect its asset quality to deteriorate from this year onwards in line with peers, given the still-weak economy and rising inflation. At the end of June 2022, the non-performing loan (NPL) ratio for hire purchase receivable rose to 4.3% from 3.6% at the end of 2021 along with the rising NPL formation to 3.0% (annualized) in the second quarter of 2022 (2Q22) from 0.7% in 2021.

Meanwhile, provisions for expected credit loss (ECL) to average loans (credit cost) has been relatively stable at about 2.2% in 2020-2021. Although credit cost declined to 1.3% (annualized) in 1H22, we expect it to accelerate in the 2H22 and remain above 2% like in the past. At the end of June 2022, allowance for ECL to NPLs (NPL coverage) was 89.7%. Even though the level is higher than 70% seen in the past, it remains lower than peers.

### **Liquidity risk is manageable**

We believe ML should be able to refinance its debt obligations, despite sizeable debentures maturing over the next 12-18 months. Currently, ML has outstanding debentures of THB725 million due in April 2023 and THB325 million due in December 2023. The company plans to refinance the obligations with a combination of borrowings from financial institutions and issuance of new debentures. In addition, based on ML's estimate, cash inflow from customer repayments are expected to accumulate to about THB1.2 billion from August 2022 to June 2023, providing another source of funds to help mitigate liquidity risk.

### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for the period 2022-2024 are:

- New hire purchase loans to grow around 5%-10% annually.
- Loan spread to be around 7%-8%.
- Credit cost to be around 2%.
- RAC ratio to be around 50%.
- Operating expense to total income ratio to be around 46%.

### **RATING OUTLOOK**

The "stable" outlook mirrors the rating outlook on ML's parent, MIDA.

**RATING SENSITIVITIES**

ML’s rating/outlook could be revised upward/downward following a rating action on MIDA.

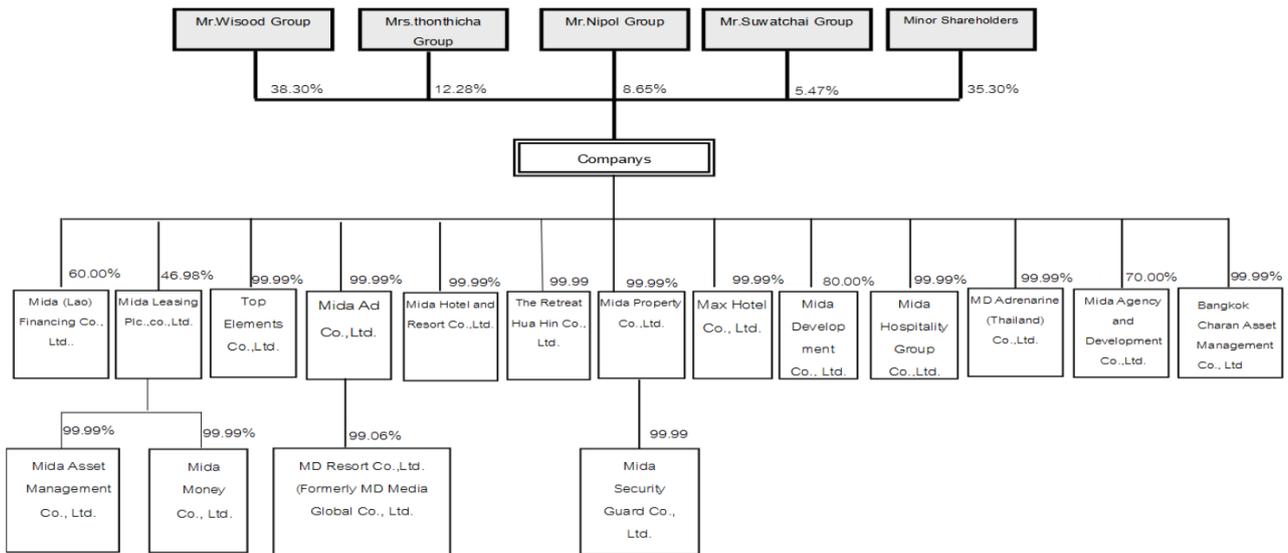
**COMPANY OVERVIEW**

ML was founded on 4 October 2000 under the name Star Ranium Auto Leasing Co., Ltd. The company was renamed Mida Leasing Co., Ltd. in 2001, taking the name of its parent company, MIDA. MIDA is still the largest shareholder of ML. As of 11 June 2020, ML’s major shareholders were MIDA with a 46.98% stake, members of the leosivikul family with 8%, and the Panyajirawut family with 7.8%. These two families are also the founders and major shareholders of MIDA. In addition, half of ML’s board members also sit on the board of MIDA or are top executives of MIDA. This close relationship between ML and MIDA reflects the harmonization of the business policies of the two firms.

ML was listed on the Stock Exchange of Thailand (SET) and became a public company in 2004. Registered capital was THB90 million when the company was founded. Currently, ML’s paid-up capital is THB532 million.

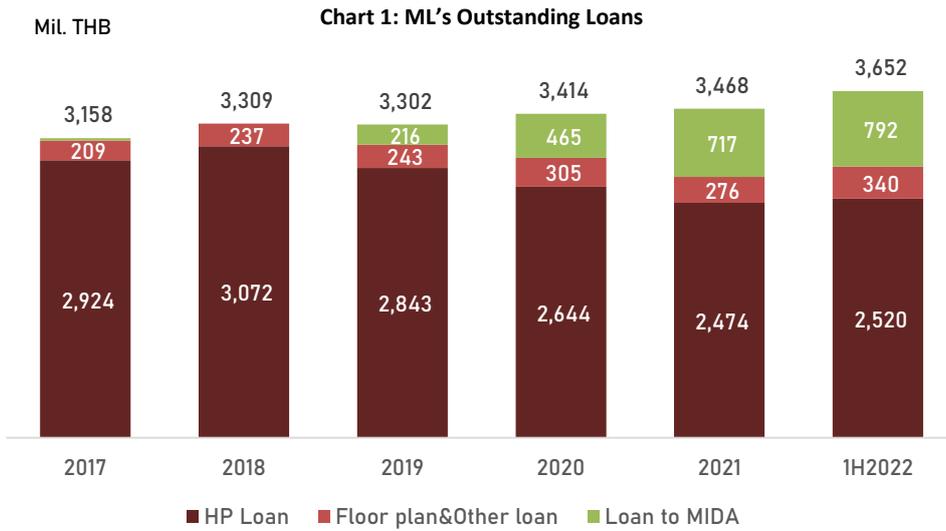
ML’s main line of business has always been hire purchase loans for used automobiles. ML finances used automobiles, especially pick-up trucks, focusing its marketing efforts in provincial areas. Most of ML’s target customers, such as farmers, have incomes at or below the national average. The company has a headquarters office in Bangkok and 16 branches in key provinces in every region of the country. The locations of the branches are consistent with ML’s policy to penetrate markets in rural areas where its target customers live. As of December 2021, ML’s portfolio of automobile loans consisted of hire-purchase loans (71%), floor plan loans (8%), and related party lending (21%).

**Table 1: MIDA Group Structure**

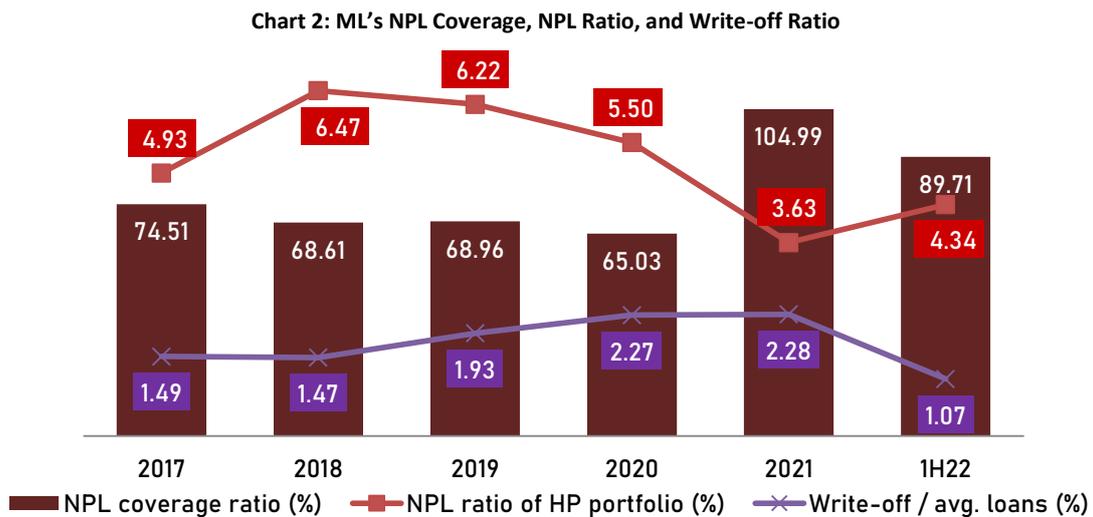


Source: ML

**KEY OPERATING PERFORMANCE**



Source: ML



Source: ML

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total assets	4,154	4,102	4,127	3,695	3,730
Total loans	3,652	3,468	3,414	3,302	3,309
Allowance for expected credit loss	98	94	95	122	136
Short-term debts	1,427	1,124	1,178	978	1,520
Long-term debts	517	845	881	728	285
Shareholders' equity	2,094	2,029	1,981	1,896	1,793
Net interest income	179	363	368	402	423
Expected credit loss	23	78	71	49	77
Non-interest income	54	89	97	87	90
Operating expenses	127	244	270	312	312
Earnings before taxes	83	130	125	128	124
Net income	65	103	99	99	96

\* Consolidated financial statements

Unit: %

	Jan-Jun 2022	Year Ended 31 December			
		2021	2020	2019	2018
<b>Profitability</b>					
Net-interest income/average assets	8.65 **	8.82	9.42	10.82	11.54
Net-interest income/average assets	2.62 **	2.17	2.49	2.35	2.45
Operating expenses/total income	43.94	43.50	47.18	53.63	51.86
Operating profit/average assets	4.01 **	3.15	3.19	3.44	3.38
Earnings before taxes/average risk-weighted assets	4.10 **	3.35	3.36	3.47	3.42
Return on average assets	3.15 **	2.50	2.52	2.66	2.63
Return on average equity	6.31 **	5.13	5.09	5.36	5.44
<b>Asset Quality</b>					
Non-performing loans/total loans***	4.34	3.63	5.50	6.22	6.47
Expected credit loss/average loans	1.28 **	2.27	2.12	1.49	2.37
Allowance for expected credit loss/non-performing loans	89.71	104.99	65.03	68.96	68.61
<b>Capitalization</b>					
Risk-adjusted capital ratio	50.82	51.32	52.29	51.92	48.53
Debt to equity (time)	0.98	1.02	1.08	0.95	1.08
<b>Liquidity</b>					
Stable funding ratio	131.95	150.03	151.90	135.30	97.61
Liquidity coverage measure (times)	0.02	0.13	0.29	0.04	0.02
Short-term debts/total liabilities	69.30	54.21	54.91	54.35	78.99

\* Consolidated financial statements

\*\* Annualized

\*\*\* Only hire purchase loan receivable

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**RELATED CRITERIA**

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- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

**Mida Leasing PLC (ML)**

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<b>Company Rating:</b>	BB
<b>Rating Outlook:</b>	Stable

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