

# S 11 GROUP PLC

No. 124/2021

30 July 2021

## FINANCIAL INSTITUTIONS

Company Rating: **BBB-**  
 Outlook: **Stable**

Last Review Date: 31/07/20

### Company Rating History:

Date	Rating	Outlook/Alert
11/05/16	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on S11 Group PLC (S11) at “BBB-” with a “stable” rating outlook. The rating reflects its strong capital position, adequate market position in motorcycle hire purchase loans, and relatively strong profitability.

The key rating constraints are the high and rising level of bad debts and the significant proportion of short-term debt obligations. In addition, the rating is weighed down by the intense industry competition that may limit yield improvement. The high-risk credit profile of S11’s target customers also mean their debt servicing abilities are particularly susceptible to weak economies.

## KEY RATING CONSIDERATIONS

### Strong capital base and low leverage

S11’s strong capital base serves as a positive factor for its rating. Despite the strong and steady loan expansion over the past 10 years, the company has maintained strong capital base thanks to continuous profit accretion. At the end of March 2021, its capital measured by risk-adjusted capital (RAC) ratio was at 24.0%, improving from 22.9% and 20.4% in 2020 and 2019, respectively. The steady improvements were due to strong profitability as well as modest loan contraction since 2020 due to the economic impact from the Coronavirus Disease 2019 (COVID-19) outbreak.

In terms of financial leverage, the company manage to maintain its debt to equity (D/E) ratio below 2 times. At the end of March 2021, D/E ratio stood at 1.17 times down from 1.28 times and 1.56 times in 2020 and 2019, respectively. We expect the strong capital and low leverage to be maintained in the longer term, given reasonably high profitability, healthy loan growth, and moderate dividend pay-outs.

### Operating efficiency supports strong profitability

The strength of S11’s profitability lies in its ability to maintain operating expenses at a very low level compared with industry peers. The low operating expenses are mainly due to the company’s effective resource utilization, which we believe is sustainable. For example, at the end of December 2020, the total outstanding loans to total staff stood at THB12.6 million per staff member compared with THB12.8 million per staff member at the end of 2019, which is considered high among peers. In 2020, the operating expense to total income was 28.9% an improvement from 30.8% in 2019 and significantly lower than peers’ average of over 50%.

The high level of operating efficiency provides S11 with the ability to offset the higher expected credit loss (ECL) induced by the economic fallout from the COVID-19 pandemic in 2020. Net income in 2020 remained relatively stable at THB491 million, a 7% year-on-year (y-o-y) decrease from 2019. Its profitability as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) was 4.96% in 2020, a slight drop from 5.15% in 2019 mainly due to higher provisions for ECL. The ratio remains higher than other direct rated peers’ average EBT/ARWA of around 3%-3.5%.

### Weakening asset quality remains a concern

S11’s relatively weak asset quality is a key rating constraint. Even though its non-performing loans (NPL) ratio remained relatively stable at 10.4% at the end

of 2020 from 10.3% at the end of 2019, NPL formation rose to 9.5% in 2020 from 7.7% in 2019. However, this is similar to most motorcycle lenders in the market that face higher loss experience due to a weak credit environment. We expect S11's NPL formation in 2021 to be similar to the level seen in 2020, given the persistently fragile economy caused by the ongoing COVID-19 pandemic.

S11's ECL to average loans (credit cost) had risen to 9.9% in 2020 from 7.8% in 2018-2019 due to the adoption of TFRS9 and asset quality deterioration induced by the COVID-19. The annualized credit cost rose further to 12.3% in the first quarter of 2021, driven by the still-weak economy. A delay in economic recovery could exacerbate its weak asset quality and keep its ECL provisioning at an elevated level in the medium term. We project its credit cost to be around 9% in 2022-2023 based on our assumption that the economy starts to recover next year. Nevertheless, we expect its low-cost structure and relatively strong capital will continue to support its profitability and credit profile amidst these challenges. Meanwhile, allowance for ECL to NPL (NPL coverage ratio) was relatively healthy at 134% at the end of March 2021, an increase from 113% in 2019.

#### **Liquidity remains adequate despite high short-term debt obligations**

S11's funding profile is assessed as strong, with a stable funding ratio of 121% at end-March 2021. Although it currently has a high portion of debt obligations that will mature within one year, we believe liquidity risk over the next 12 months remains manageable. At the end of March 2021, short-term obligations accounted for 79.7% of total borrowings. Of total maturing obligations, the current portion of long-term borrowings comprise 69%, while short-term borrowings make up 31%.

We view S11's well-established relationship with financial institutions and ample credit facilities as significant mitigants against liquidity risk that may arise in this uncertain environment. As of March 2021, the one-year liquidity gap was positive. Based on the company's estimates, loan repayments from customers over the next 12 months will be approximately THB4 billion while the company's loan repayment obligations will be approximately THB2.1 billion. At the end of March 2021, S11 had around THB1.5 billion in available credit facilities with financial institutions.

#### **New entrants to add pressure on yields and asset quality**

The economic fallout from the COVID-19 has dented the motorcycle sales volume in Thailand, which dropped by 11.8% y-o-y in 2020. The lower sales volume resulted in outstanding motorcycle hire purchase loans of nine operators in TRIS Rating's database falling in aggregate by 2% in 2020. Despite encouraging growth of 17.2% y-o-y in the sales of motorcycle in the first five months of 2021, driven by strong demand for logistics services, existing lenders remain cautious due to concerns over the debt serviceability of motorcycle buyers. Nonetheless, new lending could be spurred by aggressive lending campaigns offered by new entrants enticed by attractive loan yields. The fierce competition is likely to put more pressure on loan yields and asset quality of all players in the medium term.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for S11's operations in 2021-2023 are:

- Outstanding portfolio will contract around 5% in 2021 and grow by 5% annually thereafter.
- RAC ratio will remain above 15%.
- Loan yield will remain around 26%.
- Credit cost will be above 10% in 2021 and will remain at about 9% annually thereafter.
- Operating expense to total income ratio will remain between 30%.

#### **RATING OUTLOOK**

The "stable" outlook is based on our expectation that S11 will at least maintain its market position, satisfactory financial performance, asset quality, and leverage.

#### **RATING SENSITIVITIES**

The rating and/or outlook upside hinges on S11's ability to improve its asset quality while maintaining a healthy financial profile that features moderate loan growth, sound operating performance, and a solid capital base. The rating and/or outlook could be revised downward should S11's asset quality continue to deteriorate, causing EBT/ARWA to fall below 1.5% or capital adequacy as measured by the RAC ratio to fall below 15% for a sustained period.

**COMPANY OVERVIEW**

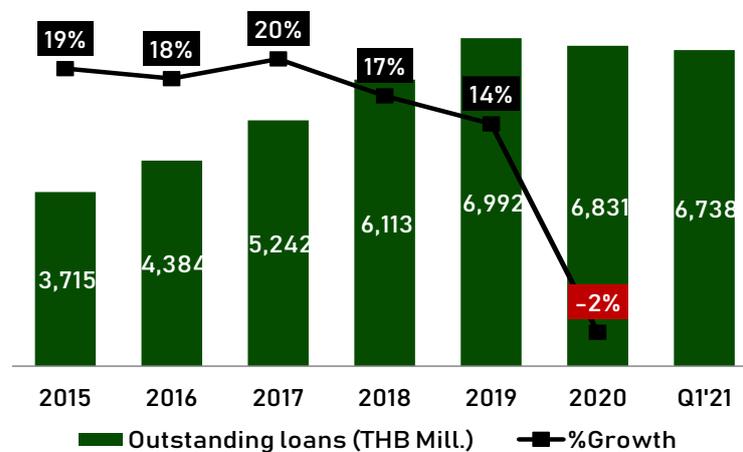
S11 was established in 2011. The company initially offered motorcycle hire purchase loans in Bangkok and the vicinity, and then expanded to provinces in the central and eastern regions of the country.

In 2015, S11 was listed on the Stock Exchange of Thailand (SET). The proceeds from the initial public offering (IPO) gave S11 a new route to the capital market and enabled S11 to expand its loan portfolio. Currently, S11’s major shareholders are S Charter Co., Ltd. (98% held by the Chiradamrong family, the co-founder of S11), holding 28.4% of the company’s shares, and foreign strategic investors holding 32%.

S11 has steadily expanded to provincial areas, especially in provinces in the eastern region of Thailand. The value of S11’s loan portfolio has climbed steadily, rising to THB6.8 billion in 2020 from THB618 million in 2011, a compound annual growth rate (CAGR) of 27.1%.

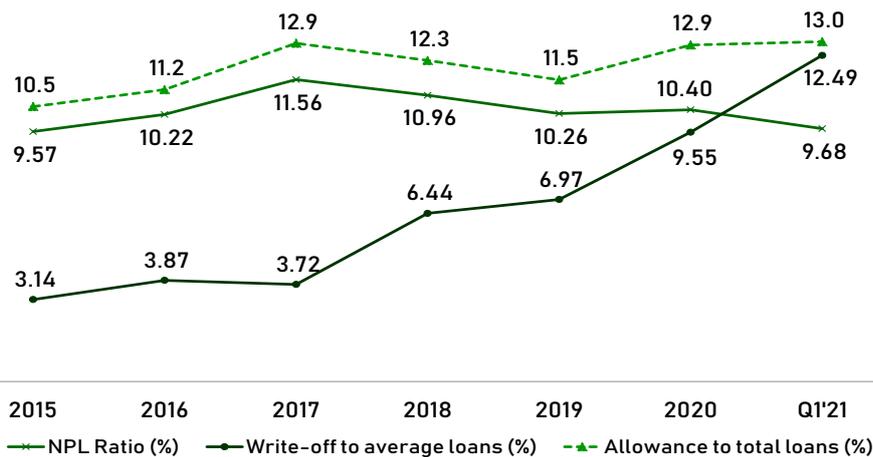
**KEY OPERATING PERFORMANCE**

**Chart 1: Outstanding Loans**



Source: S11

**Chart 2: Asset Quality**



Source: S11

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

Unit: Mil. THB

	----- Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
Total assets	6,342	6,445	6,710	5,846	5,017
Total loans	6,738	6,831	6,992	6,113	5,242
Allowance for expected credit loss	876	880	807	751	679
Short-term debts	2,516	2,626	2,536	2,370	1,824
Long-term debts	670	830	1,324	959	928
Shareholders' equity	2,920	2,832	2,620	2,333	2,096
Net interest income	407	1,761	1,654	1,450	1,254
Expected credit loss	208	683	513	438	368
Non-interest income	34	122	109	91	72
Operating expenses	124	587	589	553	464
Earnings before taxes	108	614	661	550	494
Net income	87	491	529	439	395

\* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	25.43 **	26.78	26.34	26.69	26.97
Non-interest income/average assets	2.12 **	1.86	1.74	1.68	1.55
Operating expenses/total income	26.34	28.94	30.75	33.10	32.27
Operating profit/average assets	6.76 **	9.33	10.53	10.12	10.62
Earnings before taxes/average risk-weighted assets	3.55 **	4.96	5.15	4.92	5.17
Return on average assets	5.41 **	7.47	8.43	8.09	8.50
Return on average equity	12.03 **	18.02	21.36	19.84	19.74
<b>Asset Quality</b>					
Non-performing loans***/total loans	9.68	10.40	10.26	10.96	11.56
Expected credit loss/average loans	12.27 **	9.88	7.82	7.72	7.64
Allowance for expected credit loss/non-performing loans***	134.35	123.85	112.54	112.17	112.04
<b>Capitalization</b>					
Risk-adjusted capital ratio	23.99	22.90	20.39	20.86	21.93
Debt/equity (time)	1.17	1.28	1.56	1.51	1.39
<b>Liquidity</b>					
Stable funding ratio	121.09	123.24	123.97	118.93	127.99
Liquidity coverage measure (times)	0.01	0.01	0.02	0.01	0.01
Short-term debts/total liabilities	73.52	72.68	62.00	67.49	62.45

\* Consolidated financial statements

\*\* Annualized

\*\*\* Loans with four or more installments past due (before 2020)

**RELATED CRITERIA**

- Nonbank Financial Institution Methodology, 17 February 2020

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**S 11 Group PLC (S11)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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