SAKSIAM LEASING PLC

No. 251/2023
27 December 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 15/06/23

Company Rating History:

Date	Rating	Outlook/Alert
15/06/23	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Saksiam Leasing PLC (SAK) at "BBB" with a "stable" outlook. The rating reflects the company's ability to maintain its market position, strong capital base, and sound financial performance.

However, the strengths are weighed down by the weakening of earnings capacity caused by higher funding costs and intense competition in the title loan market. Other constraints include a potential rise in credit risk due to the weak economy.

KEY RATING CONSIDERATIONS

Gradual portfolio expansion supports business position

SAK's business position is assessed as 'moderate'. The company currently ranks among the top-five title loan operators within TRIS Rating's database. SAK's outstanding loans reached THB10.9 billion at the end of 2022, an increase of 25% year-on-year (y-o-y) following rapid expansion in 2021. As of September 2023 (the third quarter of 2023 -- 3Q23), the company's loan portfolio stood at THB12.2 billion, an increase of 15% y-o-y or 12% year-to-date due to its cautious growth strategy resulting from concerns over asset quality.

Growth in 2022-3Q23 was driven by its marketing strategy and increasing market coverage to enhance convenience for customers. In terms of product diversification, the company has started offering land title loans and solar rooftop loans this year, which still accounts for less than 3% of total portfolios.

The number of branches reached 1,029 at the end of 3Q23, an increase of 100 branches from 2022. SAK plans to expand its network at a slower pace, with a target of 50 branches in 2024 with greater focus on operating efficiency.

We assume SAK's outstanding loans to increase by 15% per year in 2023-2025. The growth estimate is backed mainly by strong loan demand, expanding branch network and improvement in existing branch competence.

Solid capital remains key credit strength

SAK's very strong capital base is the key supporting factor for the rating. The company's capital, measured by the risk adjusted capital (RAC) ratio, stood at 39% at the end of 3Q23. Its financial leverage, measured by the debt to equity (D/E) ratio, was 1.3 times, compared with the D/E ratio covenant on its debt obligations of 2 times.

Even though the risk-adjusted capital (RAC) ratio is likely to gradually decline owing to the company's growth plan, we estimate its RAC ratio to remain above 30% in 2023-2025. This is based on our base-line assumptions of 15% growth in outstanding loans and 40% dividend pay-out ratio. The RAC level above 25% still supports the current rating.

Asset quality deteriorating but still manageable

SAK's asset quality has shown a slight weakening trend in recent years similar to other operators. However, overall asset quality remains healthier than peers given its more conservative growth strategy. At the end of September 2023, its non-performing loan (NPL) ratio stood at 2.5% compared with the average of peers in the auto title loan segment of 3.2%. Although there is a tendency for asset quality to decline further due to the weak credit environment, we expect the company to be able to manage overall credit quality.

SAK's NPL formation ratio rose to 1.4% in 2022 from 0.9% in 2021. In the first nine months of 2023 (9M23), NPL formation slightly increased to 1.5% (annualized). The higher NPL formation was driven by deterioration in some products, namely unsecured personal loans and nano finance. Management is slowing down the growth of these products and plans to focus more on the core title loan business.

Longer term, the company aims to expand its business more cautiously and keep its NPL ratio within the target of 2.5%, compared with the 3% and 5% thresholds set under the loan covenants. This would need to be supported by more prudent loan approvals, efficient debt collections, and acceleration of NPL write-offs. With our assumptions of NPL formation rising to the 1.5%-1.7% range and higher NPL write-offs of 1.2%-1.3% to average loans, compared with the level below 0.5% in the past, the company should be able to maintain the NPL ratio within the target. As of September 2023, NPL coverage stood at 103%, moderately lower than the peer average of 123%. Management plans to maintain NPL coverage of at least 100% in 2023-2025.

Earnings capacity under pressure

TRIS Rating expect SAK's earnings capacity, measured by earnings before taxes to average risk weighted assets (EBT/ARWA) to continue to weaken. Its EBT/ARWA dropped to 6.6% in the 9M23 (annualized), from 7.5% in 2022. The decline was caused by rising funding costs, higher credit costs, and increased operating expenses from opening more branches. In 9M23, the interest spread was 18.3%, lower than about 20% in the past due to elevated funding cost and intense competition. The ECL provision also increased to 1.3% in 2022 and 1.4% in 9M23 (annualized) from 0.8% in 2021 owing to asset quality deterioration amid the weak economic environment.

In our base-case assumptions, we expect EBT/ARWA to be maintained at around 6% in 2023-2025, which still supports the current rating. This is despite the funding costs being likely to remain high in the medium term and a potential rise in credit costs. This is backed mainly by gradual credit expansion, stable interest spread, a modest increase in credit cost as well as management of operating costs.

Moderate funding, adequate liquidity

We view SAK's funding structure to have improved with long-term obligations accounting for 62% of total debts, increasing from 30% over the past few years. Of the total short-term debt of THB3 billion, 93% was in the form of promissory notes (P/Ns) funded by Bangkok Bank PLC (BBL), which currently holds a 7% stake through the bank's venture capital fund, Bualuang Ventures. In the future, the company plans to support loan growth by using more long-term borrowings and issuing debentures.

As for liquidity, we expect the company to be able to refinance its short-term borrowings given its well-established relationships with financial institutions and funding support from major shareholders. Based on the company's financial statement, current receivables over the next 12 months (October 2023-September 2024) will be around THB7.4 billion. This is significantly higher than the debt obligations of around THB4.9 billion. The company has outstanding bonds with no issue rating of THB362.6 million due in August 2026. Over the next 12 months, we expect the company to have sufficient liquidity backed by available credit facilities of about THB1 billion from various financial institutions at the end of September 2023.

However, SAK's priority debt ratio is considered high. As of 3Q23, the company's priority debt to total debt ratio was 96%. This is due to the requirement for most of its bank borrowings to be secured by receivables, which implies that SAK's ability to secure additional credit facilities in the future could be limited in a stress scenario. The high priority debt ratio suggests a significant subordination risk for the company's unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

Challenges and risks remain for title loan operators

In 9M2023, the aggregate loan growth of the eight title loan operators rated by TRIS Rating stood at 23% year-to-date (y-t-d). This robust growth is likely to continue in the medium term, supported by branch network expansion, the aggressive growth targets of existing operators, entry of new players, and strong loan demand. That said, we have observed several key developments and challenges that have impacted title loan operators and need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are squeezing profitability. Rising credit risk from aggressive growth strategies, coupled with the weaker credit profiles of customers, has resulted in higher credit costs for most operators. Moreover, aggressive loan growth targets have also led to eroded capital, which, if continued, could impact the credit profile of the rated companies.

BASE-CASE ASSUMPTIONS

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

- Outstanding loan growth of around 15% per annum.
- Spread of around 17%-18% per annum.
- Credit cost in the 1.5%-1.6% range of average loans.
- Operating expense to total income ratio to be around 50%.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. In the longer term, an upward revision of the rating and/or outlook could occur if the company's market position improves over a sustained period while its asset quality, capital, and earnings remain healthy and in line with our base-case scenario.

The rating could be downgraded if the company's capital position weakens materially, with the RAC ratio falling below 25% for a prolonged period or asset quality or profitability deteriorates, leading to weaker earnings capacity with an EBT/ARWA falling below 3.5%.

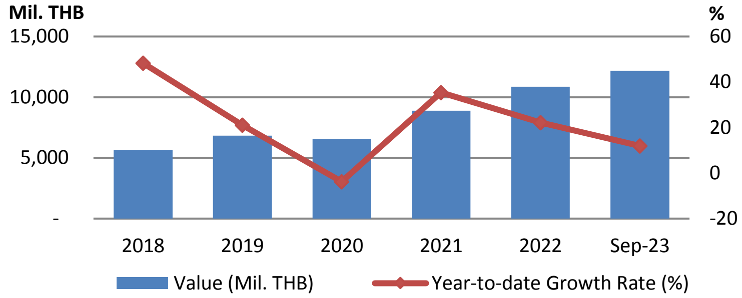
COMPANY OVERVIEW

SAK was initially named Saksiam Panich Leasing Co., Ltd., and later Saksiam Leasing PLC. The company was founded by Mr. Phoonsak Boonsali and Mrs. Jintana Boonsali to offer debt-collection services and later expanded into auto-title loans. It also started nano finance and an HP business for new motorcycles in 2019. SAK registered on the Stock Exchange of Thailand (SET) on 8 December 2020. SAK started to sell and provide loans through Saksiam Maker Drone Co., Ltd., with a 70% stake, for drone equipment and agriculture drones in 2021. As of December 2022, the Boonsali family was the major shareholder with a 67.5% stake while Bualuang Ventures Ltd. held a 7.2% stake. In early 2023, SAK established Saksiam TC Energy Co., Ltd., holding a 49% stake, to operate the solar cell business.

As of September 2023, the company's loan portfolio comprised title loans (82% of total loans), nano finance (10%), HP (5%), personal loans (2%) and others (1%). Secured lending included loans for pick-up (46%), motorcycles (20%), agricultural vehicles (17%), passenger cars (11%), trucks (3%), and other collaterals (3%).

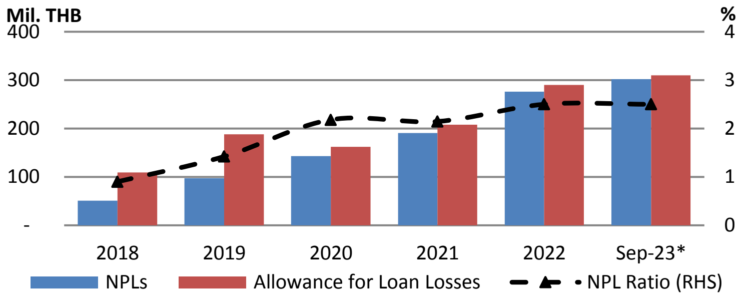
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: SAK's financial statements
** Year-to-date growth for March 202318*

Chart 2: Asset Quality



Source: SAK's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

		------------- Year Ended 31 December ------------			
	Jan-Sep 2023	2022	2021	2020	2019
Total assets	13,105	11,624	9,530	8,778	7,158
Total loans	12,167	10,867	8,893	6,568	6,825
Allowance for expected credit loss	310	290	208	162	188
Short-term debts	4,928	4,402	3,729	3,304	3,809
Long-term debts	2,396	1,637	692	826	374
Shareholders' equity	5,631	5,376	4,907	4,508	2,776
Net interest income	1,742	2,137	1,731	1,476	1,416
Expected credit loss	123	131	64	(6)	115
Non-interest income	43	22	13	7	29
Operating expenses	985	1,139	922	788	899
Earnings before taxes	678	888	758	700	432
Net income	542	710	607	562	346

* *Consolidated financial statements*

Unit: %

		----------- Year Ended 31 December -----------			
	Jan-Sep 2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	18.79 **	20.21	18.91	18.52	21.65
Non-interest income/average assets	0.47 **	0.20	0.14	0.08	0.45
Operating expenses/total income	48.98	48.88	49.90	48.81	56.02
Operating profit/average assets	7.19 **	8.40	8.28	8.79	6.60
Earnings before taxes/average risk-weighted assets	6.61 **	7.84	8.29	9.25	6.29
Return on average assets	5.84 **	6.71	6.64	7.05	5.29
Return on average equity	13.13 **	13.81	12.90	15.43	14.08
Asset Quality					
Receivable in stage 3/total loans	2.49	2.54	2.15	2.18	1.42
Expected credit loss/average loans	1.42 **	1.33	0.82	(0.09)	1.85
Allowance for expected credit loss/receivable in stage 3	102.6	105.00	108.91	113.27	193.84
Capitalization					
Risk-adjusted capital ratio	39.44	41.22	45.89	59.32	36.84
Debt/equity (times)	1.33	1.16	0.94	0.95	1.58
Funding and Liquidity					
Stable funding ratio	156.86	152.66	156.30	207.02	127.83
Liquidity coverage measure (times)	0.08	0.06	0.08	0.58	0.07
Short-term debts/total liabilities***	65.94	70.46	80.65	77.39	86.92

** *Annualized*
*** *Short-term debts including current portion of long-term debts*

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021

Saksiam Leasing PLC (SAK)

Company Rating:	BBB
Rating Outlook:	Stable

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