

SG CAPITAL PLC

No. 24/2024
14 March 2024

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 04/10/23

Company Rating History:

Date	Rating	Outlook/Alert
04/10/23	BB+	Stable
26/05/23	BBB	Negative
28/02/23	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on SG Capital PLC (SGC) at “BB+” with a “stable” outlook. The rating on SGC is underpinned by our assessment of the company’s group status as a core subsidiary of Singer Thailand PLC (SINGER), its parent company. According to TRIS Rating’s “Group Rating Methodology”, the rating on SGC as a core subsidiary is equivalent to the company rating on SINGER (rated “BB+/Stable”).

KEY RATING CONSIDERATIONS

Core subsidiary of SINGER

TRIS Rating views SGC as a core subsidiary of SINGER, the company’s largest shareholder with a 75% stake. SGC primarily operates auto title loan services, secured mainly by truck fleets, catering to small- and medium-sized clients. Also, it facilitates financing for hire purchases (HP) of home and commercial appliance products for SINGER’s retail customers.

SGC’s business is highly integrated with that of SINGER. The company’s business strategy and risk management policy are aligned with SINGER. SGC benefits from business referrals and cross-selling activities among companies within SINGER Group, which also includes SINGER Service Plus Co., Ltd. And SINGER Broker Co., Ltd. These collaborations are reinforced through SINGER’s marketing efforts and leveraging of its branch network for loan extension and selling insurance products to customers of both SINGER and SGC.

SGC has consistently met the financial targets and strategic goals aligned with SINGER, contributing significantly to the group’s revenue and earnings. As a core subsidiary of SINGER, it benefits from financial backing in the form of a credit facility from the parent company, ensuring a stable, long-term source of funds.

Earnings contribution to group key to SGC’s group status

We assess SGC’s consistent and improving financial performance as remaining a key factor in affirming its position as a core entity within the SINGER Group. SGC has contributed around 50%-70% to the group’s revenue in recent years. In 2023, SGC’s revenue accounted for 70% of SINGER’s consolidated revenue. However, its financial performance deteriorated sharply in 2023 when the company incurred a net loss of THB2.3 billion, primarily due to a surge in credit expenses. We expect SGC’s ability to improve earnings contribution to support our continued assessment of ‘core’ status.

Moderate business position

On a stand-alone basis, SGC has consistently bolstered its market standing, evidenced by the steady expansion of its loan portfolio in recent years. In addition to the focus on auto title loan services, SGC also extends financing to SINGER’s retail customers for purchases of home and commercial appliance products.

SGC’s outstanding loans slightly dropped by 3% year-on-year (y-o-y) to THB14.5 billion by the end of December 2023. Despite that, SGC’s market position remains moderate compared to its major peers rated by TRIS Rating. The decline in loan portfolio was mainly due to a significant fall in HP loans, down 47% y-o-y, while auto title loans increased by 18% y-o-y.

This contraction in the portfolio was due to the write-off of stage-3 HP loans as part of company efforts to improve the quality. At the end of 2023, the

company's loan portfolio consisted of auto title loans (78%), home and commercial appliance loans (18%), and other loans (4%).

We anticipate the company to continue to adopt prudent expansion in the future, with plans to improve its operational systems, tighten lending policies, and enhance debt collection efforts. Hence, if successfully executed, we expect SGC's performance to gradually recover in coming years.

Risk management aligned to group

The risk policies and credit risk management practices are harmonized with the group's overall risk management strategy. SINGER has outlined a strategy to grow its business more cautiously and SGC has implemented a more conservative credit policy. Thus, SGC's loan portfolio will likely experience slower expansion in the coming years.

SGC's asset quality deteriorated significantly in 2023, owing to heightened operational risk during the rapid credit expansion and elevated credit risk from imprudent underwriting in 2021-2022. The NPL ratio surged to 21% by the end of 2023, leaping from the 3%-4% levels in the past. Annualized credit costs spiked to 47% in the first half of 2023 (1H23) before decreasing to 5% in 2H23. With SGC refocusing on asset quality management through tightened lending policies, enhanced debt collection efforts, and accelerated NPL write-offs, a gradual recovery in asset quality is anticipated.

Ongoing financial support from SINGER

SGC continues to benefit from consistent financial backing from SINGER through credit lines, which were maintained at THB10 billion at the end of 2023. This ongoing support plays a vital role in supporting SGC's funding and liquidity position, facilitating its business expansion efforts. Additionally, SINGER has a history of injecting capital into SGC, highlighting the pivotal role of SGC as a consumer finance arm in SINGER's corporate strategy. We are confident in SINGER's enduring commitment and capacity to provide exceptional support to SGC, particularly under challenging circumstances.

Challenges risks remain for title loan operators

In 2023, the average growth of outstanding title loans for the three largest operators of title loans stood at 25%. Credit growth is likely to continue in the medium term, supported by network expansion and sustained demand for loans. However, we expect overall loan growth of the rated title loan operators to decelerate from the past. Indeed, the growth has slowed down since the third quarter of 2023 with average loan growth of 16% year-to-date (y-t-d) in the first nine months of 2023 (9M23) compared to 32% growth in 2022. This has been driven by the operators' focus on asset quality.

Meanwhile, we observe several key developments and challenges that have impacted title loan operators and need to be monitored. First, there's been a noticeable decline in interest spreads due to competitive pricing strategies and increased funding costs, resulting in diminished profitability. Additionally, heightened credit risk stemming from aggressive growth strategies, coupled with the deteriorating credit profiles of borrowers, has led to increased credit costs for most operators.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that SGC will remain a core subsidiary of SINGER.

RATING OUTLOOK

The "stable" outlook reflects the outlook of the rating on SINGER and our expectation that SGC will maintain its status as a core subsidiary of SINGER and continue to receive strong support from its parent company.

RATING SENSITIVITIES

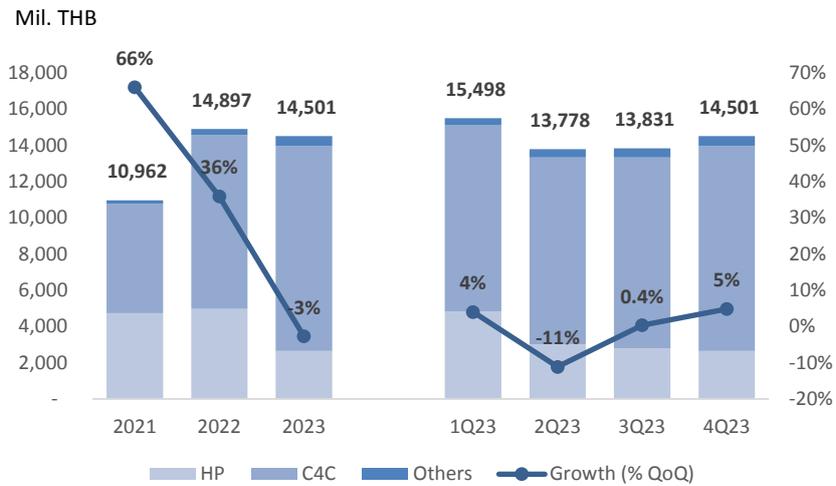
The rating and outlook on SGC are equivalent to and move in tandem with those on SINGER, given its status as a core subsidiary of SINGER. The rating can also be downgraded if TRIS Rating views the degree of importance of the company to SINGER to be materially weakening or if there is any indication of significantly reduced support from SINGER, although we consider such a scenario to be highly unlikely in the next few years.

COMPANY OVERVIEW

SG Capital PLC (SGC) initially started business under the name Singer leasing (Thailand) Co., Ltd. (Singer leasing) as a wholly-owned subsidiary of SINGER, to provide financing services for SINGER's customers. The company was set up on 27 June 2012 with a registered capital of THB1 million. In 2016, Singer leasing changed its name to SG Capital Co., Ltd. and then SG Capital PLC in 2022. SGC was listed on the Stock Exchange of Thailand (SET) on 13 December 2022. SINGER remained the company's largest shareholder with a 75% stake. The company had around 300 relationship managers at SINGER branches, as of December 2023, with broad geographical coverage.

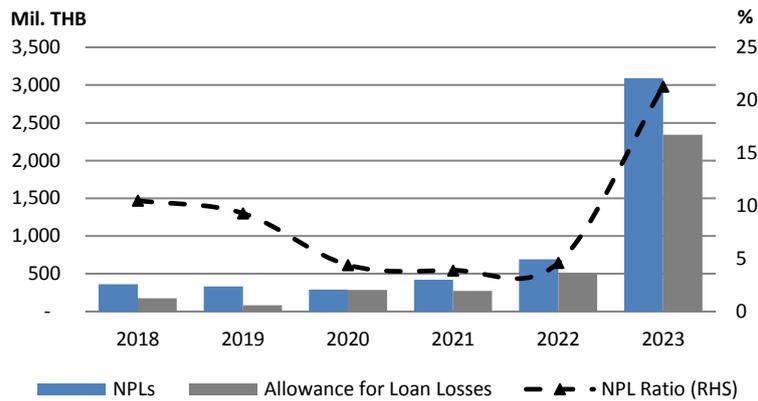
KEY OPERATING PERFORMANCE

Chart 1: SGC's Outstanding Loan Portfolio



Source: SGC

Chart 2: SGC's NPLs and NPL Ratio



Sources: SGC's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	13,455	17,783	11,430	7,003	3,999
Total loans	14,501	14,897	10,962	6,694	3,612
Allowance for expected credit loss	2,341	504	307	287	84
Short-term debts	2,368	74	17	4,778	2,611
Long-term debts	7,749	11,213	7,505	26	15
Shareholders' equity	3,121	5,751	2,414	820	658
Net interest income	1,497	1,799	1,383	1,103	614
Expected credit loss	3,771	395	211	191	395
Non-interest income	80	40	46	65	265
Operating expenses	641	642	492	470	391
Earnings before taxes	(2,835)	802	726	508	94
Net income	(2,275)	667	593	417	102

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	9.58	12.32	15.00	20.05	15.96
Non-interest income/average assets	0.57	0.27	0.50	1.19	6.88
Operating expenses/total income	29.52	26.31	27.59	34.47	38.37
Operating profit/average assets	(18.15)	5.49	7.87	9.23	2.44
Earnings before taxes/average risk-weighted assets	(14.92)	4.85	6.55	7.91	2.20
Return on average assets	(14.57)	4.57	6.43	7.57	2.65
Return on average equity	(51.29)	16.34	36.67	56.37	18.02
Asset Quality					
Receivable in stage 3/total loans	21.30	4.64	3.85	4.36	9.25
Expected credit loss/average loans	25.65	3.06	2.39	3.71	11.14
Allowance for expected credit loss/receivable in stage 3	75.78	72.83	72.63	98.33	25.22
Capitalization					
Risk-adjusted capital ratio	16.67	29.83	17.50	9.79	14.74
Debt/equity (times)	3.31	2.09	3.74	7.54	5.08
Funding and Liquidity					
Stable funding ratio	56.91	105.14	56.00	30.85	32.05
Liquidity coverage measure (times)	6.50	4,169.66	2,243.77	3.26	6.53
Short-term debts/total liabilities	22.92	0.62	0.19	77.29	78.14

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021

SG Capital PLC (SGC)

Company Rating:	BB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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