TRIS RATING
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SINGER THAILAND PLC

No. 23/2024
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
18/03/22	BBB	Stable
22/09/21	BBB-	Positive
31/08/20	BBB-	Stable
12/09/18	BBB-	Negative
31/08/17	BBB-	Stable
22/10/15	BBB	Stable
12/06/15	BBB	Alert Developing
03/05/13	BBB	Stable
29/11/12	BBB	Alert Developing
20/01/12	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on SINGER Thailand PLC (SINGER) at "BB+", with a "stable" outlook. The rating reflects the company's solid capital base and sufficient funding and liquidity. However, the rating is pressured by the prolonged material deterioration of the company's asset quality, heightened operational risk, and slower pace of recovery in earnings capacity.

KEY RATING CONSIDERATIONS

Capital position remains solid

SINGER's capital position remains robust and is likely to remain a key rating strength. The risk-adjusted capital (RAC) ratio is assessed as 'very strong', standing at 66% at the end of 2023. The capital is expected to facilitate business growth and absorb potential losses over an extended period.

SINGER's financial leverage, as measured by its debt to equity (D/E) ratio, was at 0.4 times at the end of 2023. This is well below the covenant on its debt obligations of 3 times. Based on our expectation of relatively weaker credit growth than in the past, we project the RAC ratio to remain very strong, likely hovering within the 64%-67% range in 2024-2026.

Market position maintained, other product lines expected

Following SINGER's aggressive sales strategy and insufficient operational control that resulted in large impairment charges in the first half of 2023 (1H23), the company intends to implement a more cautious marketing strategy and tighten its operational process and system. Sales declined sharply by 72% year-on-year (y-o-y) to THB0.8 billion in 2023, with the sales mix consisting of home and commercial appliances (45%), mobile phones (43%), inventory (10%), and other items (2%).

TRIS Rating forecasts that SINGER's sales revenue, including inventory sales, will reach THB1.3 billion in 2024 and stabilize at around THB1 billion annually in 2025-2026. This anticipated improvement will likely be driven by the introduction of new home appliances, expansion of the sales network, and increased cash sales through SINGER outlets and online platforms. Also, the company plans to expand into other product brands such as electric vehicle (EV) bikes and EV motorcycles.

Title loans drive overall portfolio growth.

SINGER extends loans through its subsidiary, SG Capital PLC. (SGC), with outstanding loans remaining unchanged y-o-y at THB14.9 billion by the end of December 2023. This stability reflects SINGER's cautious growth approach driven by concerns about potential deterioration in asset quality, particularly in home appliance hire purchase (HP).

Future growth will primarily hinge on auto title loans, predominantly secured by truck fleets and targeted at small- and medium-sized customers. The company is likely to remain cautious in this segment as well. While the auto title loan segment could soften compared to the past, it should still be able to offset the large contractions that we expect for home appliance HP.

Accordingly, we anticipate overall outstanding loans to remain relatively flat in 2024-2026, marking a deceleration from the past few years. At the end of 2023, the company's loan portfolio consisted of auto title loans (77%), home and commercial appliance loans (18%), and other loans (5%).

Meanwhile, the company plans to gradually venture into personal loans for debt consolidation, which it views as having lower credit risk, to help improving overall asset quality. SGC also intends to introduce high-yield products, such as title loans for agricultural products, to enhance overall loan yield.

Managing asset quality remains a challenge

In our view, the company's effective asset quality management remains the key challenge. This is based on our view of SINGER's heightened operational risk during the rapid credit expansion and elevated credit risk from imprudent underwriting in 2021-2022. These factors have contributed to a sharp deterioration in financial performance, evidenced by a net loss of THB3.8 billion in 2023, primarily driven by a significant increase in provisions for expected credit losses and substantial inventory write-downs.

Regarding asset quality, the cessation of debt relief measures in 2022 has led to slippages and a notable rise in stage-3 loans or non-performing loans (NPL). The NPL ratio surged to 20.9% by the end of 2023, significantly surpassing the 3%-4% levels observed in the past. Annualized credit costs spiked to 53% (annualized) in the first half of 2023 before decreasing to 5% (annualized) in the latter half.

With SINGER's current emphasis on asset quality management through tightened lending policies, enhanced debt collection efforts, and accelerated NPL write-offs, we anticipate a gradual recovery in asset quality. The company will also need to concentrate on auto title lending and other loans, which tend to have lower delinquency rates, to enhance overall asset quality. However, the persistently high provisions, attributed to uncertain economic conditions that may compromise the debt serviceability of its target customers still pose a challenge, in our view.

Based on our assumption of a 5%-7% NPL formation ratio and higher NPL write-offs averaging 9%-12% in 2024-2026, we project credit costs to range from 6%-7% during this period. Also, NPL coverage is expected to range from 60%-70%. At the end of December 2023, the company's NPL coverage ratio stood at 76%.

Earnings capability to recover at measured pace

We expect SINGER's earnings capability, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA), to gradually improve. Its EBT/ARWA plunged from 4.6% in 2022 to -15.6% in 2023, subsequently leading to the earnings capability being reassessed from 'adequate' to 'weak'. In 2024-2026, we anticipate EBT/ARWA to improve to around 1%. This turnaround in net profit could be attributed to improved gross profit margins on product sales and loan yields, coupled with effective management of operating expenses. We expect SINGER's gross profit margin on product sales to improve from -1% in 2023 to 22% in 2024, followed by 34% in 2025-2026. This shift is likely to be driven by a product mix expansion into other brands with lower gross margins. We assume operating expenses to total income ratio to be around 35%.

SINGER's loan yield decreased to 14% in 2023 from over 20% previously. This was primarily due to diversification into auto title loans which yield lower returns compared to HP loans for electrical appliances. Over the next few years, we expect its loan yield to decline to 13%.

Sound funding and liquidity position

Another factor supporting the rating is SINGER's funding and liquidity position, which we assess as 'adequate'. At the end of 2023, SINGER's reserves in cash, short-term investments, and untapped short-term credit facilities from financial institutions remained ample at around THB4 billion. It has outstanding long-term debentures set to mature in 2024, with THB1 billion maturing in March and THB2 billion in September.

We anticipate that SINGER will maintain sufficient funding and liquidity over the next 12 months. The stable funding ratio (SFR) for SINGER was notably high at around 160% in 2023, primarily due to its robust capital position. Also, SINGER benefits from a steady stream of cash inflows stemming from customers' loan repayments, averaging around THB0.5 billion per month.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SINGER's operations in 2024-2026 are as follows:

- Sales revenue will reach THB1.3 billion in 2024 and stabilize at around THB1 billion annually in 2025 -2026.
- Outstanding loans to remain flat.
- Gross margin to range between 22%-34%
- Loan yield to be around 13% per annum.
- Credit cost to be range between 6%-7% per annum.
- Operating expenses to total income ratio to be around 35%

RATING OUTLOOK

The "stable" outlook reflects the company's solid capital base to absorb losses and sufficient funding and liquidity.

RATING SENSITIVITIES

The rating could be upgraded if asset quality and operating performance improve materially on a sustained basis. We also expect SINGER to maintain its solid capital position. The rating could be downgraded if the company's asset quality deteriorates and/or operating performance weaken further for an extended period.

COMPANY OVERVIEW

SINGER was established in 1969 and listed on the Stock Exchange of Thailand (SET) in 1984. SINGER distributes products under the "SINGER" trademark. The company offers instalment plans or HP contracts for the products it sells. Around 95% of the products are sold under the instalment sale service program.

The company has a strong brand name in the electrical home appliance market, nationwide branch and sales distribution networks, and a proven track record of financing electrical home appliance purchases.

In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. JMART became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark was extended. JMART is a retailer and wholesaler of mobile phones and related products. JMART utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers.

SINGER remains focused on its core business; sales of home electrical appliances, with a lengthy track record in this segment. The company had also expanded its product line to include the sale of income-generating products and commercial electrical appliances, such as freezers and air-time vending machines. SINGER introduced another product to its line-up in 2017, "Rod Tum Ngern" loans, secured by vehicles through its subsidiary, SGC.

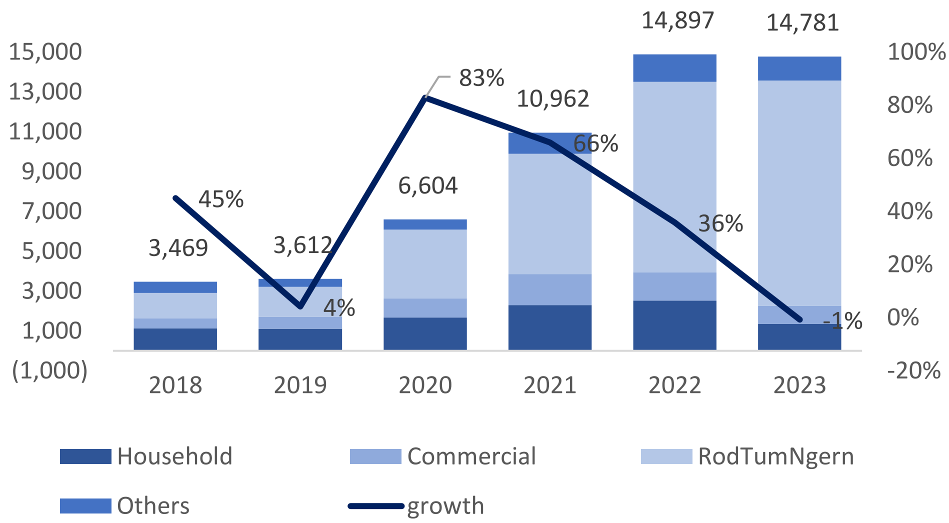
SGC, provides financing services for SINGER's customers. SGC was listed on the stock exchange of Thailand on 13 December 2022 with SINGER remaining the company's largest shareholder with a 75% stake. SINGER has two other subsidiaries, SG Service Plus Co., Ltd. and SG Broker Co., Ltd. SG Service Plus provides maintenance services to SINGER's customers while SG Broker is an insurance agent.

In 2021, the private placement of rabbit holdings and rights offering (RO) to Jaymart PLC (JMART), and existing shareholders raised THB1.65 billion for the company. After the capitalization, JMART remained a major shareholder with 25.4% and Rabbit Holdings 23.7% of the outstanding shares of SINGER (as of 1 November 2022)

As of December 2023, the company's sales network comprised around 140 branches with roughly 900 salespersons.

KEY OPERATING PERFORMANCE

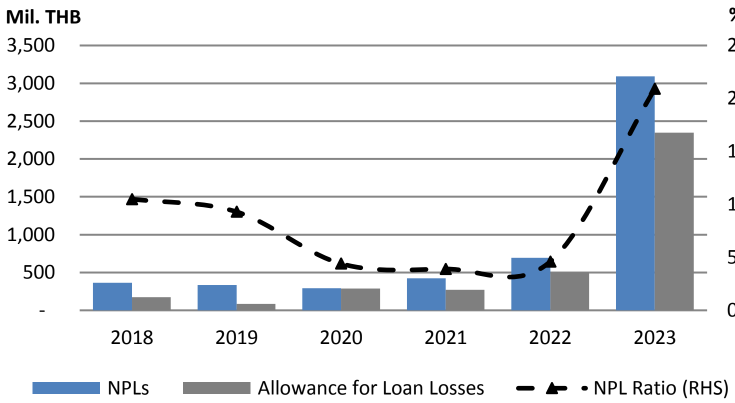
Chart 1: SINGER's Outstanding Loan Portfolio



Source: SINGER

Others including mobile phone loans, personal loans, and loans to Burirum Sugar PLC.

Chart 2: SINGER's NPLs and NPL Ratio



Sources: SINGER's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	------------------- Year Ended 31 December -----------------				
	2023	2022	2021	2020	2019
Total assets	19,181	25,894	24,201	9,255	5,907
Total loans	14,781	14,897	10,962	6,693	3,612
Allowance for expected credit loss	2,348	507	273	287	84
Short-term debts	3,071	2,059	2,088	1,451	669
Long-term debts	1,827	4,879	6,661	4,512	2,626
Shareholders' equity	13,951	18,308	14,839	2,810	2,344
Net interest income	2,446	2,777	1,924	1,230	590
Expected credit loss	4,175	356	152	194	409
Non-interest income	192	179	132	131	328
Operating expenses	1,400	1,688	1,446	1,387	1,063
Earnings before taxes	(4,506)	1,193	902	439	155
Net income	(3,780)	941	701	443	166

* *Consolidated financial statements*

Unit: %

	------------------- Year Ended 31 December -----------------				
	2023	2022	2021	2020	2019
Profitability					
Net interest income/average assets	10.85	11.09	11.50	16.22	10.73
Non-interest income/average assets	0.85	0.71	0.79	1.73	5.96
Operating expenses/total income	46.06	32.43	32.88	38.63	40.74
Operating profit/average assets	(19.99)	4.76	5.39	5.79	2.83
Earnings before taxes/average risk-weighted assets	(19.20)	4.62	5.04	5.44	2.75
Return on average assets	(16.77)	3.76	4.19	5.85	3.02
Return on average equity	(23.44)	5.68	7.94	17.20	8.58
Asset Quality					
Receivable in stage 3/total loans	20.91	4.64	3.85	4.36	9.25
Expected credit loss/average loans	28.13	2.75	1.72	3.77	11.55
Allowance for expected credit loss/Receivable in stage 3	75.95	73.33	64.54	98.27	25.21
Capitalization					
Risk-adjusted capital ratio	66.20	70.81	57.68	27.90	39.14
Debt/equity (times)	0.37	0.41	0.63	2.29	1.52
Funding and Liquidity					
Stable funding ratio	160.52	229.91	311.61	160.64	194.26
Liquidity coverage measure (times)	1.21	3.84	7.45	0.99	2.18
Short-term debts/total liabilities	58.72	27.14	22.30	22.52	18.79

* *Consolidated financial statements*

RELATED CRITERIA

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

Singer Thailand PLC (SINGER)

Company Rating:	BB+
Rating Outlook:	Stable

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