TRIS RATING
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CreditNews ข่าวเครดิต

SINGER THAILAND PLC

No. 132/2018
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CORPORATES

Company Rating:	BBB-
Outlook:	Negative

Company Rating History:

Date	Rating	Outlook/Alert
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 at "BBB-", but revises the outlook to "negative" from "stable". The "negative" outlook reflects SINGER's weakening asset quality which impacts its business and financial profiles.

The rating continues to reflect SINGER's strengths. The company has 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. These strengths are offset by three factors. The ratings are, however, constrained by SINGER's target customers who are highly sensitive to changes in the economy. Next, leverage may rise as the company expands. Lastly, SINGER recently entered a new market: credit product secured by vehicle hire-purchase contracts. The credit risks of this new segment remain unproven.

KEY RATING CONSIDERATIONS

Volatile net profits

SINGER's profitability has weakened since 2017 due to deterioration in loan quality. SINGER set aside huge provisions for loan losses in 2017 and the first quarter of 2018. The provisions pushed down net profit. Provision expense was Bt372 million in 2017, up 102% from Bt184 million in the same period last year. Provisions rose because of a change in the customer payment system. SINGER now uses a Direct Payment System or DPS. With the new system, customer payments go directly to the company's accounts via payment agents. SINGER's salespersons no longer collect payments from customers as they did in the past. In TRIS Rating's view, this change is potentially not suit for the behavior of the company's target customers. The DPS system requires customers to change their payment habits. It will take time to demonstrate the efficiency of the new system.

SINGER reported a net loss of Bt184 million for the first quarter of 2018. Provisions amounted to Bt202 million in the first quarter of 2018 as the company wrote-off the restructured loans.

Performance turned around after changing the collection system to to the second phase of DPS which salesperson is responsible for debt collection and portfolio quality. The company reported Bt42 million in net income in the second quarter of 2018. However, there is an uncertainty in the success of the changed collection system and the impact from additional credit costs to absorb probable deterioration of loan quality.

Non-interest income comprised 14% of revenue in 2017 and the first half of 2018. Fee and service income increased. Income from other sources rose such as mobile airtime top-up service , commission as an agent for personal loan to J Fintech Co., Ltd., upfront fee of loans secured by vehicles and others.

We forecast net profit will grow for the remaining of the year, despite higher provision expenses on the first quarter of 2018. Interest income will rise as the loan portfolio grows.

Asset quality remains unstable

We are particularly concerned on the quality of the loans SINGER has made. The ratio of non-performing loans (NPLs, or loans overdue for more than three months) to total loans, or the NPL ratio, has jumped to 20.3% at the end of

2016 after the switch to the DPS. However, the NPL ratio dropped to 12% at the end of 2017 once a lot of large trouble accounts were restructured. The NPL ratio reversed back and increased to 17.2% in the first half of 2018 because the restructured debts performed poorly.

NPL coverage remains low. Loan loss reserves to NPLs stayed low at 58% at the end of June 2018. Most target customers are in the low-income group. As a result, the NPL coverage ratio should be higher so as to absorb the rising credit risk.

More diversified loan portfolio

SINGER now offers more credit products like multibrand products such as other electrical appliances. It introduced a new product, "Rod Tum Ngern", the loan secured by vehicles, in the last quarter of 2017.

Sales slipped in 2017. SINGER implemented a new operation system with stricter credit criteria. Revenue dropped to Bt1,376 million, an 18% drop in 2017 from Bt1,675 million in 2016. The value of outstanding hire-purchase loans held steady around Bt2,000 million during 2015-2017. Hire-purchase loans for mobile phone sales increased. Sales rebounded in the first half of 2018. Sales rose to Bt888 million, a 22% increase from the same period last year while hire-purchase loans for mobile phone sales decreased.

SINGER has a strong competitive position in its core business, the hire-purchase loans of home electrical appliance. Outstanding loans increased to Bt2,333 million at the end of June 2018, up 12.5% from the end of 2017. At the end of June 2018, outstanding hire-purchase loans for household appliances and commercial electrical appliances still represented the major portion (52%) of outstanding loans. The remaining portion comprised captive finance loans (21%) and loans secured by vehicles (27%). This new segment will be a major growth driver; as long as the company applies strict underwriting criteria.

In our view, the recent operational change yields several benefits. Operating efficiency increased, credit approvals are faster and more accurate, and SINGER now has real time monitoring and tracking of customer process. SINGER has a diverse customer base and well-trained sales staff. The sales force is familiar with the target customers, especially in rural areas or sub-districts of provincial areas. This strength will support SINGER's business expansion.

Rising leverage

SINGER has a strong capital base. SINGER must keep the interest-bearing debt to equity ratio below 3 times to comply with the financial covenant tied to its debt obligations. The interest-bearing debt to equity ratio was 1.5 times as of June 2018, increasing from 0.82 times at the end of 2017. At the current leverage level, the ratio is low enough for SINGER's additional debt-funded expansion. However, continued net loss will weaken the capital base.

RATING OUTLOOK

The "negative" outlook reflects a drop in SINGER's operating performance due to a decline in asset quality. If the loan portfolio continues to deteriorate, the rating will be affected.

RATING SENSITIVITIES

If the asset quality erodes further and operating performance keeps deteriorating, a rating downgrade becomes quite likely. The outlook could be revised to "stable" if asset quality, operating results, its financial profile all improve.

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 installment plans or hire-purchase contracts for the products it sells. Approximately 95% of the products were sold under the installment sale service program.

In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. Jaymart Mobile Co., Ltd. (Jaymart) became SINGER's new major shareholder, owning 24.99% of the outstanding shares, followed by the SAHAPAT Group (7%). The remaining 8.01% was purchased by other investors. The license for SINGER trademark has been extended.

Jaymart is a retailer and wholesaler of mobile phones and related products. SAHAPAT is the leading Thai distributor of consumer goods to Thai households nationwide. Jaymart utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers.

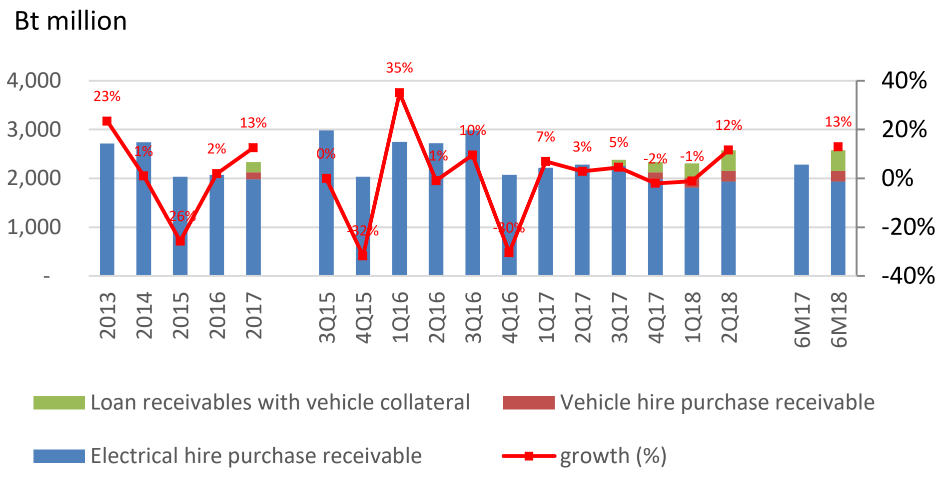
SINGER changed some top key executives in the second quarter of 2016. The new strategy focuses on modernizing SINGER's business practices and improving efficiency. In addition, the company has expanded to multi-brand products which are not SINGER's brands.

SINGER remains focus on its core business: sales of home electrical appliances. It has had a lengthy track record in this segment. The company expanded its product line to include the sale of income-generating products, commercial electrical appliances such as freezers and air time vending machines, and multibrand. In addition, SINGER introduced new products in the last quarter of 2017, “Rod Tum Ngern”, loans secured by vehicles.

SG Capital Co., Ltd., a wholly-owned subsidiary of SINGER, provides financing services for SINGER’s customers. The company 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 as an insurance agent. The company had an extensive network of 186 branches and approximately 3,500 salespersons, as of June 2018.

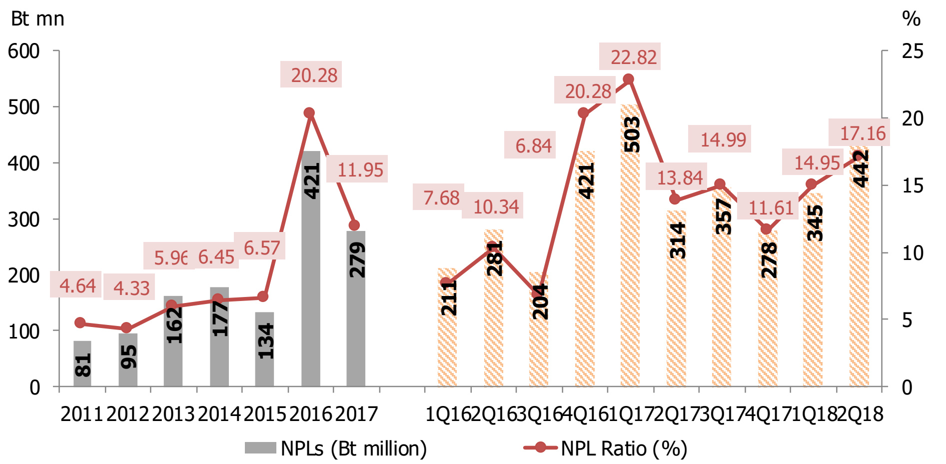
KEY OPERTING PERFORMANCE

Chart 1: SINGER’s Outstanding Loan Portfolio



Sources: SINGER and TRIS Rating

Chart 2: SINGER’s NPLs and NPL Ratio



Sources: SINGER and TRIS Rating

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Jun 2018	-------------Year Ended 31 December 2017	2016	2015	2014 -------------
Total operating revenues	1,340	2,363	2,546	3,395	3,549
Operating income	(47)	81	235	279	418
Earnings before interest and taxes (EBIT)	(81)	20	176	228	354
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	(47)	81	235	279	418
Funds from operations (FFO)	(108)	51	179	194	305
Adjusted interest expense	48	48	45	59	62
Capital expenditures	48	52	22	19	16
Total assets	4,306	3,501	3,145	3,342	3,356
Adjusted debt	1,761	1,223	769	1,003	993
Adjusted equity	1,436	1,578	1,626	1,578	1,578
Adjusted Ratios					
Operating income as % of total operating revenues (%)	(3.47)	3.42	9.22	8.22	11.77
Pretax return on permanent capital (%)	(1.70)	0.72	6.46	7.99	12.53
EBITDA interest coverage (times)	(0.98)	1.67	5.18	4.75	6.74
Debt to EBITDA (times)	194.36	15.12	3.28	3.59	2.38
FFO to debt (%)	(4.22)	4.16	23.28	19.34	30.70
Debt to capitalization (%)	55.09	43.66	32.10	38.85	38.61

* *Consolidated financial statements*
** *Annualized*

Singer Thailand PLC (SINGER)

Company Rating:	BBB-
Rating Outlook:	Negative

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