TRIS RATING
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CreditUpdate เครดิตวาระ

SINGER THAILAND PLC

No. 61/2023
26 May 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Negative

Last Review Date: 28/02/23

Company Rating History:

Date	Rating	Outlook/Alert
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 "BBB" and at the same time revises the rating outlook to "negative" from "stable". The revision of the rating outlook to "negative" reflects SINGER's deteriorated asset quality and weakened financial performance that are substantially below TRIS Rating's expectations.

At the end of the first quarter of 2023 (1Q23), SINGER's asset quality deteriorated sharply, to a level substantially worse than anticipated. In our view, this was a result of rapid credit expansion amid a weak economy over the last two years, imprudent underwriting and aggressive marketing campaigns. The cessation of debt relief measures in 2022 also led to slippages and hence higher stage-3 loans or non-performing loan (NPL) formation. The ratio of NPLs to total loans (NPL ratio) increased to 13.8% at the end of 1Q23 from 4.6% at the end of 2022.

Given the rise in NPLs, expected credit loss (ECL) provisions to average loans (credit cost) rose to 25% in 1Q23 (annualized), from 2.8% in 2022. However, with management's shift of focus to improve asset quality by tightening lending policies, improving debt collection, and accelerating NPL write-offs, we expect SINGER's asset quality to improve gradually from the end of this year.

The company's financial performance weakened substantially in 1Q23, with a net loss of THB936 million. This was mainly caused by a sharp increase in provisions for expected credit losses and a large inventory write-down. We believe downward pressure on SINGER's profitability is likely to continue for the next one to two years.

We expect SINGER to report a net loss in 2023, and turnaround with positive earnings in 2024-2025. We forecast earnings before tax (EBT) to average risk-weighted assets (ARWA) to recover to about 2% in 2024-2025 compared with 4%-5% in the past. This will require more effective management of credit costs and operating expenses.

SINGER's sales of goods are forecast to drop by 50% in 2023 and to rise at a slower pace of 10% per annum in 2024-2025 due to the company's cautious marketing strategy. Gross profit margin on product sales is likely to be in the mid-30% range in 2024-2025. This will be supported by the launch of new home appliances and continuous expansion of the franchise network.

We assume that SINGER's loan portfolio will increase by 6% in 2023 and 16%-18% per annum in 2024-2025. This is based on our view that SINGER is likely to pursue a more conservative growth strategy, especially for home appliance hire purchase (HP).

To maintain growth momentum and strengthen overall asset quality, the company is likely to focus on auto title lending collateralized by truck fleets extended to small- and medium-sized enterprise customers, a segment whose demand remains strong and which still has low delinquency.

SINGER's capital position measured by the risk-adjusted capital (RAC) ratio remains its key credit strength. At the end of 1Q23, its RAC ratio stood at 67%, which is still assessed as 'very strong'. Its solid capital should help support the company's business expansion in the medium term. SINGER's debt to equity (D/E) ratio stood at 0.4 times as of 1Q23, well below its D/E covenant of 3 times.

Another factor that helps support the rating is our assessment of SINGER having adequate funding and liquidity over the next 12 months. As of 15 May 2023, SINGER's cash, short-term investments, and unused short-term credit facilities from financial institutions remained ample at THB5.1 billion, compared with THB1.8 billion obligations that will mature in the next 12 months. Its total interest-bearing debt obligations stood at THB6.7 billion.

RATING OUTLOOK

The "negative" outlook reflects the deterioration of SINGER's asset quality and weakening of profitability that are substantially below our expectations.

RATING SENSITIVITIES

The rating could be downgraded if there are no signs of recovery of its portfolio quality and financial profile over the next 12 months. Conversely, the outlook could be revised to "stable" if asset quality and operating performance improve on a sustained basis. We also expect SINGER to maintain its solid capital position.

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 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. The company offers instalment plans or HP contracts for the products it sells. Approximately 95% of the products are sold under the instalment sale service program.

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, maintaining 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, SG Capital PLC (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 2022, the company's sales network comprised around 209 branches, approximately 3,000 salespersons and 6,000 franchisees.

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Singer Thailand PLC (SINGER)

Company Rating:	BBB
Rating Outlook:	Negative

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