

SINGER THAILAND PLC

No. 132/2020
31 August 2020

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Last Review Date: 11/09/19

Company Rating History:

Date	Rating	Outlook/Alert
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 revises the outlook to “stable” from “negative”. The outlook revision reflects SINGER’s improved asset quality, revenue stability, and earnings quality. The rating also incorporates its relatively strong capital. However, its modest franchise and exposure to relatively high-risk segment of retail consumer finance and commercial lending for small- and medium-sized enterprises (SMEs) constrain its rating.

KEY RATING CONSIDERATIONS

Improved risk position

TRIS Rating’s assessment reflects continued improvements of SINGER’s risk position. Substantial write-offs of past legacies and improved collection systems helped lowered the company’s overall non-performing loans (NPLs). The increased loan loss provisions also helped raise its coverage ratio, while a move into auto-title lending with lower delinquency has strengthened overall asset quality and diversified business.

NPL ratio fell to 6.5% at the end of June 2020, from 12.2% a year earlier, with NPL outstanding declining 24%. NPL formation also fell to 9.6% in the first half of 2020 from 19.1% in the first half of 2019. Additional provision of THB339 million required under day-1 implementation of TFRS9 further strengthened the NPL coverage ratio to 93% at the end of June 2020. The figure rose from a pre-TFRS9 level of 25% at the end of 2019.

Despite asset quality improvement, we expect SINGER to be exposed to asset quality headwinds from the weak economy caused by the Coronavirus Disease (COVID-19) fallout, similar to other lenders. We expect NPL ratio in a range of 7%-8%, and credit cost of 8%-9% in 2020-2022, taking into account potential rise of delinquency in HP lending, given its Stage-2 loans and payment overdues have shown some signs of increase during the first half of 2020. That said, asset quality for auto-title loans has remained relatively stable over the past two years with NPL ratio at 0.9% at the end of June 2020.

Improved earnings quality

We expect improvement in SINGER’s earnings quality over the next few years. Competitive dealer pricing policies should continue to be effective in sustaining the company’s gross margins. At the same time, its retail business with diversified geography, and a recent move into auto-title lending should help generate more stable loan yields on a risk-adjusted basis. We also expect the company’s business growth by expanding its franchise network to help maintain low operating expenses.

We forecast SINGER’s profitability, as measured by earnings before taxes over average risk-weighted assets (EBT/ARWA) around 5.3% in 2020 and 4.1% in 2021-2022. SINGER has been able to improve its earnings since 2019 as EBT/ARWA rose to 2.7%, from -1.1% in 2018. Lower credit costs as well as improved gross margins and operating efficiencies were key drivers for the improvements.

More diversified business

SINGER has moderate business position with relatively small franchise in instalment sales of home electrical appliances and auto-title lending targeting

small-sized commercial clients with asset size of THB6.9 billion as of June 2020. Even with the recent expansion into commercial-based auto title loans, SINGER remains focused on retail-based hire purchase which helps maintain low concentration of customer revenue and credit. An expanding nationwide network of 175 branches, 1,360 franchisees and over 3,800 sales staffs support SINGER's relatively diversified geographical coverage. SINGER's key revenue sources are from sale of electrical goods (around 60% of total revenue in 2019), followed by interest income (around 40%). Top-20 auto-title loans remained manageable at 25% at the end of June 2020.

Capital remains strong

We expect SINGER's capitalisation to remain strong over the next 2-3 years. We forecast a risk-adjusted capital (RAC) ratio to be in a range of 17%-22% in 2020-2022, despite strong loan growth. We factor in 40%-50% increase in sales revenue and loan growth for 2020, followed by 10%-20% growth in 2021-2022. The strong growth will be driven by sales revenue of electrical appliances and auto-title loans. We also take into account the company's dividend pay-out ratio at 60%. SINGER set aside additional provision for TFRS9 of THB339 million via a reduction of retained earnings at the beginning of 2020. Accordingly, RAC ratio fell to 26.7% at the end of March 2020, from 33.0% at the end of 2019. The company's financial leverage remains moderate. According to a key financial covenant of its debentures, SINGER is required to maintain D/E ratio below 3 times.

Adequate funding and liquidity profiles

SINGER's adequate funding reflects ample stable funding sources to meet its long-term funding needs. We forecast a stable funding ratio (SFR) to average around 100% in 2019-2020, which is a healthy level. As of June 2020, SINGER has outstanding debenture of THB3.6 billion, around two-thirds of which has maturity date beyond one year. We also expect sufficient liquidity sources and cash inflows from receivables to meet debt repayments over the next 12 months. SINGER had THB466 million of unused committed facilities from financial institutions at the end of June 2020.

BASE-CASE ASSUMPTIONS (2020-2022)

- Outstanding loans to expand by 40% in 2020 and 17%-18% per annum in 2021-2022
- Loan spread to be around 13%-13.5%
- Credit cost to be around 7%-8% per annum

RATING OUTLOOK

The "stable" outlook reflects our expectation that SINGER's improvement in asset quality will be sustained, while the company maintains strong capitalisation and healthy earnings quality over the medium term. We also expect the company to well-manage its debt maturity profiles and maintain sufficient liquidity sources.

RATING SENSITIVITIES

We could revise a rating/outlook downward if SINGER's asset quality materially deteriorates and/or capitalisation significantly weakens. We could also downgrade the rating if there is material deterioration in SINGER's funding and liquidity profiles.

A credit upside case is limited in the short term.

COMPANY OVERVIEW

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.

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 hire-purchase 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. Jaymart Mobile Co., Ltd. (Jaymart) became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark has been extended. Jaymart is a retailer and wholesaler of mobile phones and related products. Jaymart utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers. As of June 2019, JMART remained a major shareholder with 30% of the outstanding shares.

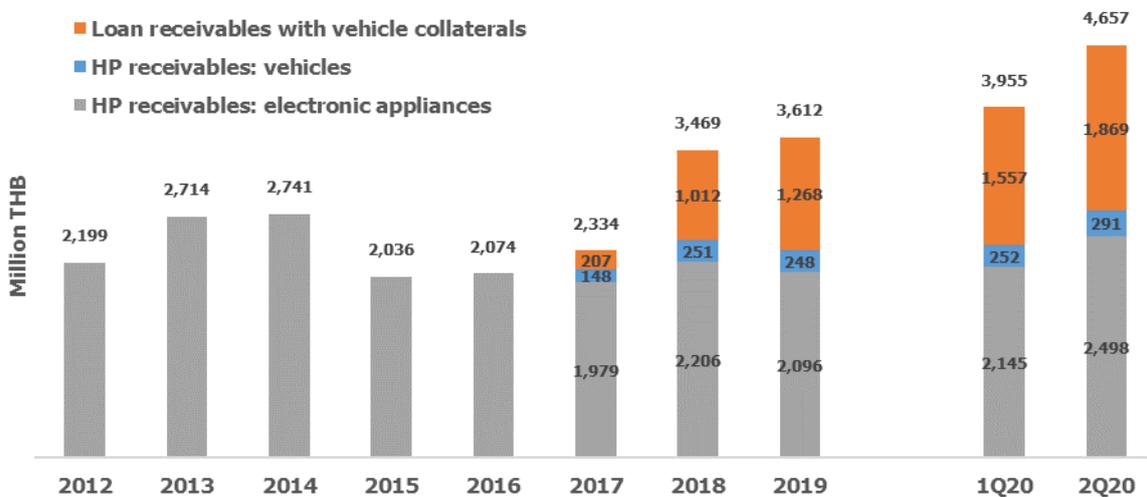
SINGER changed some top key executives in the second quarter of 2016. The new strategy focuses on modernizing SINGER’s business practices and improving efficiency. In addition, the company has expanded to multi-brand products which are not SINGER’s brands.

SINGER remains focused 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 multibrands. In addition, SINGER introduced a new product 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 an insurance agent. The company had an extensive network of 175 branches, approximately 3,800 salespersons and 1,360 franchisees, as of June 2020.

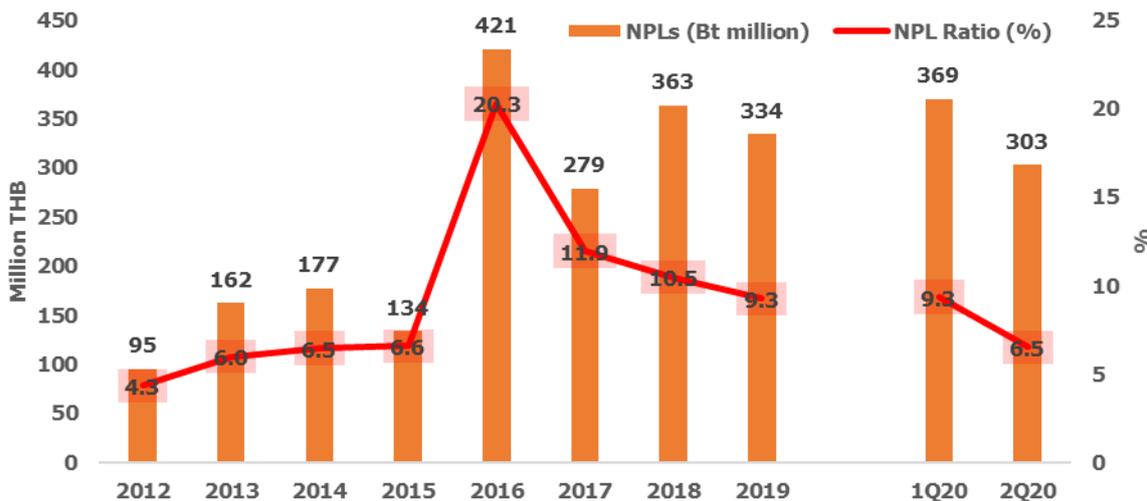
KEY OPERATING PERFORMANCE

Chart 1: SINGER’s Outstanding Loan Portfolio



Sources: SINGER’s financial statements

Chart 2: SINGER’s NPLs and NPL Ratio



Sources: SINGER’s financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Jun 2020	Year Ended 31 December			
		2019	2018	2017	2016
Total assets	6,903	5,907	5,093	3,501	3,145
Total loans	4,657	3,612	3,469	2,391	2,074
Allowance for doubtful accounts	(275)	(84)	(178)	(276)	(124)
Short-term borrowings	1,350	400	1,451	86	259
Long-term borrowings	2,278	2,450	1,350	1,200	500
Shareholders' equity	2,279	2,344	1,524	1,578	1,626
Net interest income	341	590	540	594	566
Bad debts and doubtful accounts	81	409	446	372	184
Non-interest income	117	328	364	352	267
Operating expenses	684	1,063	1,250	1,097	992
Net income	202	166	(81)	(10)	120

* Consolidated financial statements

Unit: %

	Jan-Jun 2020	Year Ended 31 December			
		2019	2018	2017	2016
Profitability					
Net-interest income/average assets*	10.64	10.73	12.57	17.88	17.46
Net-interest income/total income	19.79	22.61	18.69	25.14	22.25
Operating expenses/total income	39.75	40.74	43.29	46.40	28.96
Operating profit/average assets*	9.88	5.79	1.35	0.39	5.15
Earnings before tax/average risk-weighted assets*	6.52	2.71	(1.09)	(0.84)	4.18
Return on average assets*	6.29	3.02	(1.88)	(0.29)	3.69
Return on average equity*	17.44	8.58	(5.21)	(0.61)	7.48
Asset Quality					
Non-performing loans/total loans	6.46	9.25	10.47	11.66	20.28
Bad debts and doubtful accounts/average loans*	1.95	13.63	15.23	16.67	8.93
Allowance for doubtful accounts/total loans	5.97	2.33	5.13	11.54	5.97
Capitalisation					
Risk-adjusted capital	23.3	33.0	22.8	35.6	43.6
Shareholders' equity/total assets	33.01	39.68	29.92	45.07	51.70
Shareholders' equity/total loans	48.62	64.88	43.92	65.98	78.41
Debt to equity (time)	2.00	1.52	2.34	1.22	0.93
Funding & Liquidity					
Stable funding ratio	94.7	121.2	77.1	111.1	91.4
Liquidity coverage measure	0.6	2.2	0.2	3.9	0.7
Short-term borrowings/total liabilities	29.55	11.23	40.66	4.48	17.02
Total loans/total assets	67.90	61.15	68.13	68.31	65.94

* Annualised

RELATED CRITERIA

- Nonbank Financial Institutions Rating Methodology, 17 Feb 2020

Singer Thailand PLC (SINGER)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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