

# SINGER THAILAND PLC

No. 106/2021  
2 July 2021

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 31/08/20

### Company Rating History:

Date	Rating	Outlook/Alert
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

### Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Singer Thailand PLC (SINGER) at “BBB-” with a “stable” outlook. The rating reflects the company’s continuously strengthening market position and asset quality of consumer loans extended via its subsidiary, SG Capital Co., Ltd. (SG Capital). The rating also takes into account SINGER’s steady improvement in consolidated operating performance and solid capital base. However, the rating is constrained by its exposure to a relatively high-risk segment of retail consumer finance and commercial lending for small- and medium-sized enterprises (SMEs). The weak economy induced by successive outbreaks of Coronavirus 2019 (COVID-19) could pose a challenge to SINGER’s ability to maintain its operating performance and asset quality.

## KEY RATING CONSIDERATIONS

### Modest market position but improving

SINGER’s modest market position in the lending business through its subsidiary, SG Capital, has been a rating constraint. That said, it has steadily and rapidly expanded its loan portfolio over the last few years. Outstanding loans surged by 83% year-on-year (y-o-y) to THB6.6 billion at the end of December 2020, thanks to the company’s active marketing efforts and its strategic shift into the auto title loans business since 2017.

In the first quarter of 2021, loan growth continued at a fast pace, increasing by 14% year-to-date to THB7.5 billion at the end of March 2021, despite the still-weak economic environment. The growth was mainly driven by expansion in auto title loans. We expect its loan portfolio to continue to expand, with our assumptions of 27% growth in 2021 and 18% in 2022-2023. We believe the company’s focus on borrowers in the logistics and agriculture-related segments that are less vulnerable during events like the COVID-19 outbreak should help sustain strong loan demand.

As of the end of March 2021, the company’s loan mix comprised auto title loans (54%), home and commercial appliance loans (39%), and others (7%). We expect auto title loans to continue to support growth, particularly loans secured by trucks in the logistics segment, whose demand remains robust despite the economic slowdown. We anticipate title loans will account for 60% of total loans by 2023. We also expect strong loan growth in the home and commercial appliance segment over the next few years as SINGER continues to expand geographic coverage by increasing the number of its franchisees. The company aims to increase loans in this segment to THB4 billion by the end of 2021, from THB3.5 billion currently.

### Strong earnings to continue

We expect the company to continue to deliver strong performance over the next 2-3 years. In 2020, net income grew by 267% to THB443 million, from THB166 million in 2019. The improvement has been supported by consistent growth in loan portfolio, increased gross margin, lower provision expenses, and effective management of operating expenses. The company’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), is still considered moderate but has improved progressively with EBT/ARWA of 5.4% in 2020, up from 3.2% in 2019. For the first quarter of 2021, SINGER’s annualized EBT/ARWA ratio was 6.5%, with a net profit of

THB140 million.

We estimate EBT/ARWA to stay around 5%-7% during 2021-2023. This is supported by our expectation that the company will maintain its gross margin at around 46% while keeping its credit cost and operating expenses under control. We factor in a 5%-8% increase in sales revenue and 18%-27% loan growth per annum in 2021-2023. The company's strategy to maintain high margins should continue to support its strong performance. We also expect the company's expansion of its franchise network to help contain operating expenses under 40% of total income. This is despite the interest rate ceiling and intense competition in the auto title loan segment that has led to falling loan yields. We estimate SINGER's blended loan yield will decline to 17.5%-18.0% over the next few years, from 18.2% in the first quarter of 2021. We believe the company's expansion into auto loans will help sustain profitability. However, we expect credit costs in 2021-2023 to be slightly higher due to the adverse impacts of COVID-19 on the economy and the potential asset deterioration after the cessation of debt relief measures in 2021.

#### **Asset quality remains under control**

SINGER has a significantly improved risk position compared with the past. Its asset quality and credit cost, despite the impact of COVID-19, were better than expected. This was due mainly to a move into auto title lending that still has lower delinquency, which has helped strengthened overall asset quality. In our view, the quality of auto title loans has remained relatively stable over the past two years with the ratio of stage-3 loans (non-performing loans or NPLs) to total loans staying below 1% at the end of March 2021. This helped lower the company's overall NPL ratio to 4.4% at the end of 2020 from 9.3% a year earlier. As of the end of the first quarter of 2021, the NPL ratio remained stable at 4.2%. NPL formation of the overall portfolio also dropped, to 4.6% in 2020 from 13.3% in 2019. Credit cost also declined, to 2.8% in 2020 from 17.6% in 2019.

Despite asset quality improvement, we project the company will still be impacted by the potential deterioration of asset quality resulting from the weak economy, with our estimate of credit cost at around 1.6%-2.4% and NPL ratio in the range of 3.7%-3.9%, in 2021-2023. With the company's cautious credit policy, improved loan collection, and adequate loan loss reserves, we believe asset quality should remain manageable. Based on our estimation of credit costs, the NPL coverage ratio should average around 86% during the next few years.

#### **Solid capital base**

The company's capitalization is expected to remain strong over the next few years with a risk-adjusted capital (RAC) ratio in the range of 24%-27% in 2021-2023. Despite our strong loan growth assumption and a 60% dividend pay-out ratio, we believe consistent profit accumulation should support the company's robust capital position. With RAC in the high-end range, at 28.9% at the end of March 2021, the company's capital base remains sufficient to support business expansion in the medium term. At the same time, SINGER's financial leverage remains moderate as measured by its debt to equity (D/E) ratio of 2.2 times at the end of March 2021. SINGER has remained in compliance with its D/E ratio covenant of 3 times.

#### **Adequate funding and liquidity profiles**

We believe SINGER should have sufficient funding and liquidity over the next 12 months. SINGER estimates cash inflows from customer loan repayments to be about THB4.2 billion over the next 12 months. There are no debentures maturing in this period. As of June 2021, SINGER has outstanding debentures of THB6.3 billion, with maturity beyond one year. At the end of June 2021, SINGER has THB596 million of credit facilities from financial institutions, most of which are short-term. Although there are no immediate concerns over the liquidity position, additional credit lines from financial institutions for future funding needs and liquidity management would help support the company's funding and liquidity profile.

#### **Growth in title loans continues despite yield pressure**

Although the top-three operators' loan portfolio growth in 2020 declined by an average of 13% compared to 30%-40% in the previous years due to the city lockdown during the first wave of the COVID-19 outbreak, the weak economy induced by the ongoing outbreak is likely to continue to create demand for loans to support the businesses and daily life of vulnerable groups. This should help promote the growth of the auto title loans in the longer term. Even though the Bank of Thailand (BOT) has set the interest rate ceiling for the auto title loans at 24% per annum, the loan yield remains high compared to other types of loans. At the same time, overall asset quality remains manageable. These factors have enticed new operators to the market. The increased competition resulted in the average loan yield of the operators declining to a level below 20% in 2020. Nonetheless, operators have adapted by introducing new products with higher yields such as motorcycle leasing and fee income generators like insurance products to compensate for the yield reduction. These should help sustain strong financial performance.

---

## BASE-CASE ASSUMPTIONS

---

TRIS Rating's base-case assumptions for SINGER in 2021-2023 are as follows:

- Outstanding loans to expand by 27% in 2021 and 18% per annum in 2022–2023.
- Loan yield to be around 17.5%-18.0%.
- Credit cost to be around 1.6%-2.4% per annum.

## RATING OUTLOOK

---

The “stable” outlook is based on our expectation that SINGER will continue to improve its market position, deliver satisfactory financial performance, and maintain asset quality and capital position.

## RATING SENSITIVITIES

---

The rating and/or outlook upside hinges on SINGER's ability to improve its market position on a sustained basis while controlling its asset quality and maintaining strong financial performance and a solid capital base. The rating and/or outlook could be revised downward should asset quality deteriorate and credit cost increase to the point where EBT/ARWA falls below 2.5%, which would indicate a significant weakening in its capital base.

## 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.

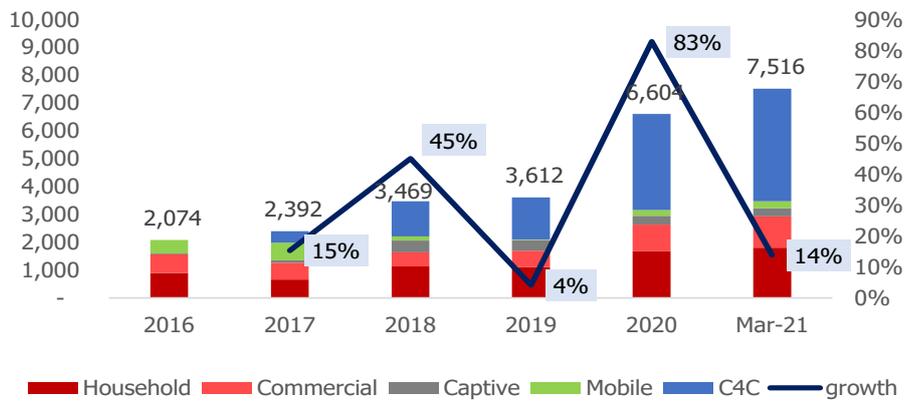
In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. Jaymart PLC (JMART) became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark has been extended. JMART is a retailer and wholesaler 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. As of March 2021, JMART remained a major shareholder with 32.6% of the outstanding shares in SINGER.

SINGER remains focused on its core business; sales of home electrical appliances, maintaining a lengthy track record in this segment. The company subsequently 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.

SG Capital, 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 213 branches, approximately 4,000 salespersons and 2,000 franchisees, as of March 2021.

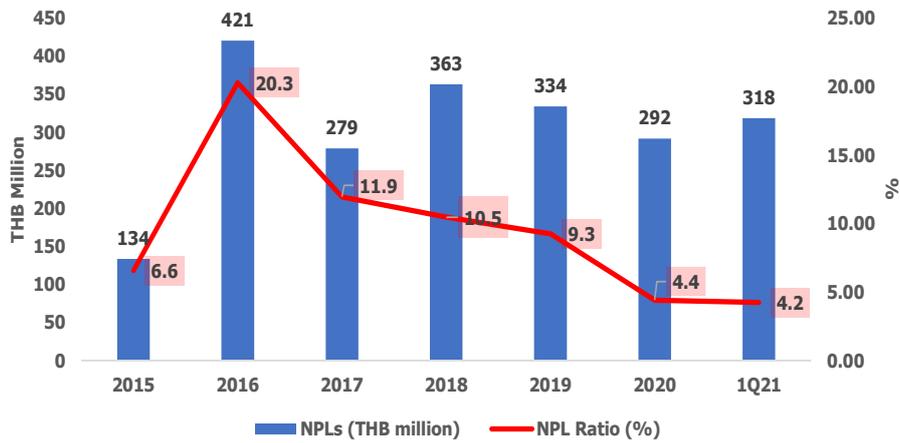
KEY OPERATING PERFORMANCE

Chart 1: SINGER's Outstanding Loan Portfolio



Source: SINGER

Chart 2: SINGER's NPLs and NPL Ratio



Sources: SINGER's financial statements

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: Mil. THB

	Jan-Mar 2021	Year Ended 31 December			
		2020	2019	2018	2017
Total assets	10,912	9,247	5,907	5,093	3,501
Total loans	7,516	6,604	3,612	3,469	2,391
Allowance for expected credit loss	(274)	(287)	(84)	(175)	(275)
Short-term debts	0	400	400	1,451	86
Long-term debts	6,244	2,450	2,450	1,350	1,200
Shareholders' equity	3,448	2,810	2,344	1,524	1,578
Net interest income *	238	748	590	540	594
Expected credit loss	0	141	409	446	372
Non-interest income **	39	231	328	364	352
Operating expenses	405	1,508	1,063	1,250	1,097
Earnings before taxes	180	439	155	(49)	(28)
Net income	140	443	166	(81)	(10)

\* Consolidated financial statements

Unit: %

	Jan-Mar 2021	Year Ended 31 December			
		2020	2019	2018	2017
<b>Profitability</b>					
Net interest income/average assets	9.43 **	9.87	10.73	12.57	17.88
Non-interest income/average assets	1.55 **	3.05	5.96	8.48	10.60
Operating expenses/total income	40.40	41.21	40.74	43.29	46.40
Operating profit/average assets	10.41 **	8.75	5.79	1.35	0.39
Earnings before taxes/average risk-weighted assets	6.54 **	5.36	3.23	(1.16)	(0.85)
Return on average assets	5.54 **	5.85	3.02	(1.88)	(0.29)
Return on average equity	17.85 **	17.20	8.58	(5.21)	(0.61)
<b>Asset Quality</b>					
Receivable in stage 3/total loans	4.24	4.42	9.25	10.47	11.66
Expected credit loss/average loans	0.02 **	2.76	11.55	15.23	16.67
Allowance for expected credit loss/total loans	3.65	4.34	2.33	5.04	11.52
<b>Capitalization</b>					
Risk-adjusted capital ratio	28.90	27.43	38.13	27.41	45.38
Debt/equity (times)	2.16	2.29	1.52	2.34	1.22
<b>Funding and Liquidity</b>					
Stable funding ratio	197.91	163.33	194.26	119.56	256.85
Liquidity coverage measure (times)	31.66	0.99	2.18	0.20	3.87
Short-term debts/total liabilities	0.00	6.21	11.23	40.66	4.48

\* Consolidated financial statements

\*\* Annualized

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

---

**Singer Thailand PLC (SINGER)**

---

<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

© Copyright 2021, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)