

THITIKORN PLC

No. 119/2018
10 August 2018

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
31/03/10	A-	Stable
14/11/06	BBB+	Stable

Contacts:

Saowanit Woradit
saowanit@trisrating.com

Siriwan Weeramethachai
siriwan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Raithiwa Naruemol
raithiwa@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Thitikorn PLC (TK) at “A-” with a “stable” outlook. The rating reflects the company’s high profits, solid capital base, low leverage, and strong liquidity. TK has a number of funding sources and uses a significant amount of long-term borrowings.

The key rating concerns are intense competition and potential rise in credit risk. Its target customers are especially susceptible to economic downturns.

KEY RATING CONSIDERATIONS

Strong capital base, low leverage

TRIS Rating expects the company’s capital position to remain at an appropriate level, given the high credit risk of its business. The ratio of shareholders’ equity to total assets has exceeded 45.0% for the past four years, compared with peers average of above 20.0%. The ratio dropped slightly to 45.7% at the end of June 2018, from 47.8% at the end of 2017.

The debt to equity (D/E) ratio stayed below 1.2 times during the past five years. At the end of June 2018, the D/E ratio was 1.2 times.

Strong liquidity with financial flexibility

Liquidity is a positive rating factor for TK. We believe this is likely to remain so over the next few years due to its conservative funding policy.

TK, unlike its peers, relies more on long-term funding. As of June 2018, its funding mix comprised long-term borrowings (75%) and short-term obligations (25%), including the current portion of long-term funding.

As of June 2018, the company had a positive asset-liability duration gap. We expect the gap to hold over the next 12 months. We estimate cash inflows from customer loan repayment to run Bt200-Bt300 million per month over the next 12 months. Cash outflows for debt repayments will be significantly lower, at around Bt100 million per month in average.

TK can tap the fixed income market for funding. In addition, a listing on the Stock Exchange of Thailand (SET) adds financial flexibility for the company. TK can access the equity market if additional funding is needed.

Profits will remain solid

Profitability recovered during 2015 and 2017. Consolidated net income increased to Bt472 million in 2017, rising at a 7.6% compound annual growth rate (CAGR) since 2015. Return on average assets (ROAA) rose to 5.1% in 2017 from 4.8% in 2015. Net income for the first six months of 2018 was Bt215 million, a 5.3% lower year-on-year (y-o-y). An increase in net interest income was smaller than a rise in provisioning and operating expenses.

Net profit will remain strong as the loan portfolio continues to expand and funding costs stay low. ROAA will be at least 3.5% through 2020.

Target customers have weak credit profiles

TK’s asset quality is comparable to peers. Asset quality declined from 2013 through 2015 because of an economic slowdown but started to recover in 2016. The non-performing loan (NPL) ratio fell to 4.8% at the end of 2016 and

4.7% at the end of 2017, from 5.2% at the end of 2015. The ratio rose to 4.9% at the end of June 2018. We expect NPL ratio to inch up from the current level but still remain within an acceptable range of 5%-6%.

The ratio of loan loss reserve to NPLs (NPL coverage) is comparable to peers. The coverage ratio was 119.5% at the end of June 2018. We expect the coverage ratio to remain at a similar level over the next few years, assuming credit cost holds at 11% through 2020.

RATING OUTLOOK

The “stable” outlook is based on our expectation that TK will maintain its market position in the motorcycle hire purchase segment. The outlook is also premised on our expectations that leverage will remain low, liquidity and profitability will stay strong, and asset quality will remain at an acceptable level.

RATING SENSITIVITIES

The rating or outlook upside hinges on significant improvements in TK’s business profile and a strong financial profile. The rating or outlook could be revised downward if asset quality deteriorates, which would affect profitability or leverage.

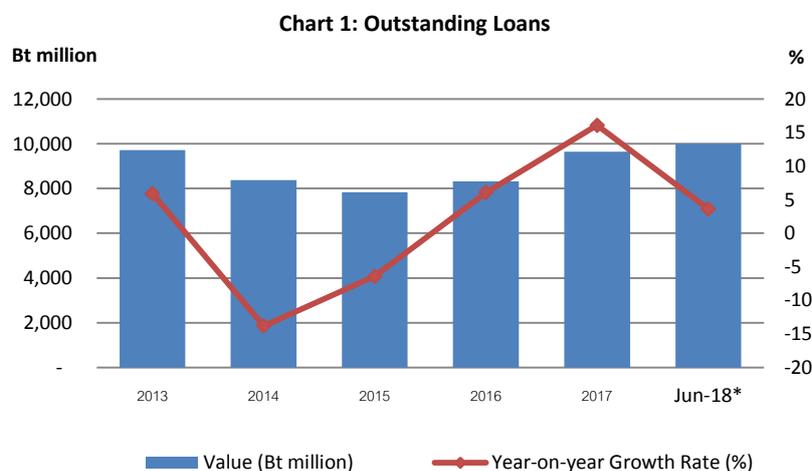
COMPANY OVERVIEW

TK was founded on 4 August 1972 by Dr. Chumpol and Dr. Anothai Phornprapha to provide motorcycle and automobile financing loans under hire purchase contracts. Currently, the company concentrates on the motorcycle financing segment.

TK is more geographically diversified than its competitors. The company renders services through a branch network covering 56 provinces throughout Thailand. In addition, TK offers motorcycle loans in Cambodia and the Lao People’s Democratic Republic (Lao PDR) through its subsidiaries, Suosdey Finance PLC and Sabaidee Leasing Co., Ltd. respectively, which were established in 2014.

As of March 2018, motorcycle loans comprised 93.8% of TK’s outstanding loans; 5.3% and 0.9% were automobile loans and personal loans, respectively.

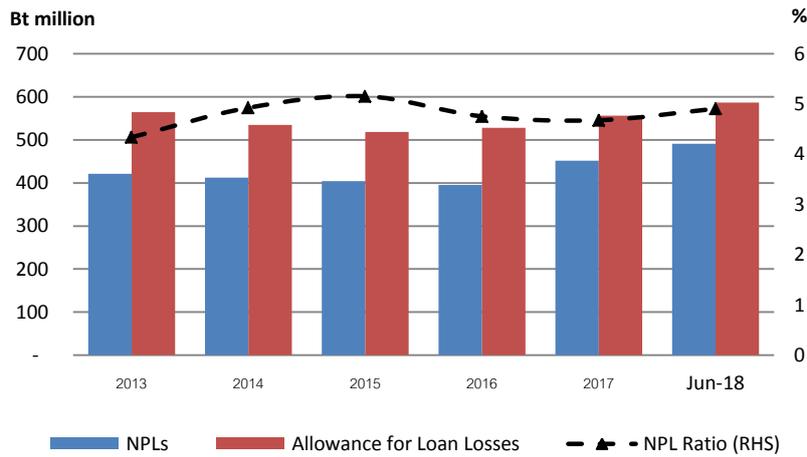
KEY OPERATING PERFORMANCE



Source: TK

* Year-to-date growth for Mar-18

Chart 2: Asset Quality



Source: TK

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	10,356	10,018	8,611	8,284	8,767
Total loans	10,003	9,653	8,315	7,839	8,376
Allowance for doubtful accounts	587	557	528	518	535
Short-term borrowings	1,250	976	1,481	2,197	1,282
Long-term borrowings	3,828	3,812	2,204	1,328	3,120
Shareholders' equity	4,734	4,785	4,550	4,321	4,003
Net interest income	1,521	2,802	2,442	2,413	2,613
Bad debts and doubtful accounts	495	903	795	892	1,280
Non-interest income	336	729	789	796	834
Operating expenses	1,090	2,024	1,902	1,885	1,937
Net income	215	472	430	408	198

* Consolidated financial statements

Unit: %

	Jan-Jun 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Profitability					
Net-interest income/average assets	29.86 **	30.08	28.90	28.30	27.45
Net-interest income/total income	79.29	76.91	72.86	71.76	71.43
Operating expenses/total income	56.82	55.55	56.74	56.05	52.94
Operating profit/average assets	5.35 **	6.49	6.33	5.07	2.42
Return on average assets	4.21 **	5.07	5.09	4.78	2.08
Return on average equity	9.01 **	10.12	9.70	9.79	4.93
Asset Quality					
Non-performing loans/total loans	4.91	4.68	4.76	5.16	4.93
Bad debts and doubtful accounts/average loans	10.07 **	10.05	9.84	11.00	14.15
Allowance for doubtful accounts/total loans	5.87	5.77	6.35	6.61	6.38
Allowance for doubtful accounts/non-performing loans	119.55	123.24	133.58	128.30	129.61
Capitalization					
Shareholders' equity/total assets	45.71	47.77	52.84	52.17	45.65
Shareholders' equity/total loans	47.33	49.57	54.72	55.13	47.78
Debt to equity (time)	1.19	1.09	0.89	0.92	1.19
Liquidity					
Short-term borrowings/total liabilities	22.24	18.64	36.46	55.45	26.91
Total loans/total assets	96.59	96.35	96.56	94.63	95.54

* Consolidated financial statements

** Annualized

Thitikorn PLC (TK)

Company Rating:

A-

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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