

T LEASING CO., LTD.

No. 137/2022
11 August 2022

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 28/12/21

Company Rating History:

Date	Rating	Outlook/Alert
28/12/21	BBB	Stable

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RATIONALE

TRIS Rating affirm the company rating on T Leasing Co., Ltd. (TLS) at “BBB” with a “stable” rating outlook. The rating incorporates a one-notch enhancement from TLS’s stand-alone credit profile (SACP) assessed at “bbb-”. The enhancement reflects our assessment of TLS’s status as a “strategic” subsidiary of MBK PLC (MBK, rated “A-/Stable” by TRIS Rating).

The rating reflects the company’s strong capital position, adequate market position in motorcycle hire purchase (HP) lending, and adequate funding and liquidity position. The key rating constraints are the high level of bad debts in its motorcycle hire purchase business. This is due to the high-risk credit profile of target customers whose debt serviceability may worsen amid the still-weak economy and high inflation. The upcoming regulations on the interest rate ceiling for motorcycle HP will likely be a key challenge which could impact the company’s profitability to some extent.

KEY RATING CONSIDERATIONS

Strategic subsidiary of MBK

TLS remains a “strategic” subsidiary of MBK, justifying a one-notch enhancement from the company’s standalone credit profile. The company is wholly owned by MBK, which has direct control of TLS’s operations through the appointment of TLS’s board of directors. TLS’s board of directors comprises MBK’s senior executives and independent directors. The monitoring of TLS’s operation and performance is performed through monthly board meetings. TLS provides revenue diversification benefit for MBK group during a time when real estate-related businesses have been negatively impacted by the Coronavirus Disease 2019 (COVID-19) pandemic.

MBK provides financial support to TLS in the form of capital injection and intercompany loans to support TLS’s business growth. The company received a total capital injection of around THB3 billion between 2018-2019. In 2021, the company reduced capital by THB1.1 billion in preparation for the initial public offering (IPO) plan scheduled for early 2023. As of March 2022, outstanding loans from MBK to TLS stood at THB2.3 billion. After the IPO, we expect MBK to maintain control over TLS through majority ownership and continue to provide financial support in times of need.

Strong capital base and low leverage

As part of its pre-IPO capital management strategy, TLS reduced capital by THB1.1 billion and paid THB610 million in special dividend in 2021. Its capital, measured by risk adjusted capital (RAC) ratio fell to 21.2% in 2021 from 29.3% in 2020. In terms of financial leverage, debt to equity (D/E) ratio rose to 1.46 times at the end of 2021 from 0.78 times at the end of 2020.

TLS expects to receive IPO proceeds in 2023. Based on our assumptions of 5%-10% growth in outstanding loans and 40% dividend pay-out ratio after IPO, we estimate RAC to rise above 30% and D/E ratio to fall to 0.7 times by the end of 2023. We expect the strong capital and low leverage to be maintained over the longer term, which should continue to serve as a positive rating factor for TLS.

Adequate business position

TLS’s outstanding loan portfolio currently ranks among the top-five motorcycle hire purchase operators in TRIS Rating’s database. TLS’s loan portfolio has contracted in the past two years following the company’s cautious growth

strategy due to the COVID-19 pandemic since 2020. As of March 2022, the company's loan portfolio stood at THB6.7 billion, a decline from the peak of THB7.8 billion at the end of 2019. Another reason for the contraction was the strategy to wind-down the high-engine capacity motorcycles (big bikes) segment and focus on the higher-yielding small motorcycles. As a result, big bike portfolio mix declined to 11% at the end of March 2022 from a peak of 30% in 2019, while its net yield (net by hire purchase expense) rose to 18.9% in the first quarter of 2022 (1Q22) from 17.6% in 2019. As for business diversity, TLS has relatively low geographic diversification compared to its peers, with 80% of the total loan portfolio underwritten in the Bangkok area.

Sufficient funding support and liquidity

TLS's funding and liquidity is assessed as adequate and sufficient for its business expansion. The company has credit relationship with several financial institutions in addition to credit support from MBK, its parent. At the end of March 2022, TLS had long-term outstanding credit lines of THB1.7 billion with financial institutions and loans provided by MBK of THB2.3 billion. Although the intercompany loans from MBK are likely to decline in the future as TLS continues to diversify its funding, we expect MBK to remain a financial supporter of TLS in times of need. We believe the current cash inflow and MBK's funding support should provide sufficient liquidity. The company estimates cash inflows from customer loan repayments to amount to around THB450 million per month over the next 12 months. As of March 2022, the company had no priority debt.

Stabilizing provision expenses

Asset quality in the motorcycle hire purchase industry remains fragile and is a key constraint for the ratings of all rated motorcycle lenders, including TLS. Nonetheless, TLS managed to improve its asset quality in 2021. Its non-performing loan (NPL) ratio dropped significantly to 2.9% at the end of 2021 from 5.4% at the end of 2020. The decline was the result of cautious growth strategy and portfolio clean-up via large NPL write-offs in 2021, with write-offs to average loans increasing to 9.7% from 6.7% in 2020. In the medium term, asset quality is likely to remain under pressure given the weak economy and rising inflation which may weaken the credit profile of its target customers. That said, given the company's cautious growth strategy, we expect the company to be able to contain deterioration in asset quality.

TLS's provisions for expected credit loss (ECL) declined in 2021 after the large provisions in 2020 based on the TFRS9 financial accounting standard. In 2021, ECL provision to average loans (credit cost) was 7.1%, down from 9.2% in 2020. This was the result of the portfolio clean-up done in 2021 that helped reduce NPLs. Allowance for expected credit loss (ECL) to NPLs (NPL coverage) thus improved to 243% at the end of 2021 from 171% at the end of 2020. We expect NPL coverage to stay above 200% over the next few years, based on our assumption of 8%-9% credit cost.

High competition and interest rate ceiling could impact loan growth and profitability

Motorcycle sales and leasing recovered moderately in 2021, following the economic fallout from COVID-19 that caused motorcycle sales and HP loans to fall by 11.8% and 1.7%, respectively, in 2020. In 2021, motorcycle sales grew by 6% year-on-year (y-o-y), while loan growth for the eight largest operators in our database was flat. Although demand for motorcycles remains strong this year, supply shortages caused sales to grow by only 3% y-o-y in the first five months of 2022. On the lending side, tightened loan approvals due to weaker customer credit profiles have contributed to the slowdown in lending as well.

Moreover, several new players have entered the market because of the still-high loan yield compared to other types of consumer lending, leading to heightened competition in the motorcycle segment. That said, to help protect consumers, the regulator is pushing for an interest rate cap on motorcycle HP loans. The new regulation that is soon to be announced is likely to cap the interest rate at not more than 30%. This could put additional pressure on the loan growth and profitability of the motorcycle HP lenders.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2022-2024 are:

- Outstanding portfolio to remain flat in 2022 and expand by around 5%-10% per year in 2023-2024.
- RAC ratio to remain above 30% in 2023-2024.
- Loan yield to remain around 19%.
- Credit cost to be around 8%-9%.
- Operating expense to total income ratio to be around 30%.

RATING OUTLOOK

The “stable” outlook is based on our expectation that TLS will maintain its market position, satisfactory financial performance, asset quality, and leverage.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on TLS’s ability to improve its market position while maintaining its healthy asset quality and solid capital base. On the other hand, an upside could arise if the capital injection from the IPO significantly increases the company’s capital position.

The rating and/or outlook could be revised downward should the SACP be downgraded due to EBT/ARWA falling below 1.5% and the RAC ratio dropping below 25% for a sustained period. In addition, any deterioration in the credit profile of MBK that leads to a multiple-notch downgrade of MBK’s rating or a change in TRIS Rating’s view that the status of TLS to MBK may have weakened could also lead to a rating downgrade.

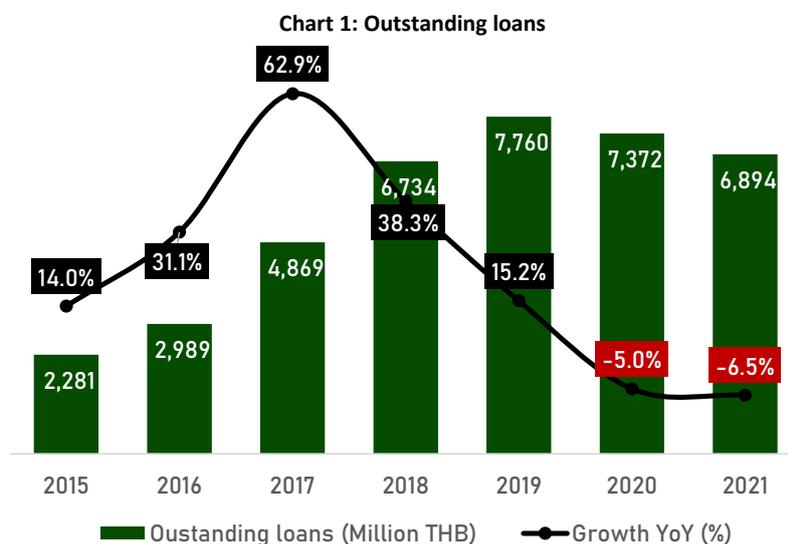
COMPANY OVERVIEW

TLS was established in 1993 under the name Thanachart Leasing 2000. The company initially offered motorcycle hire purchase loans to customers in the Bangkok metropolitan area. The company was formerly owned by TBANK which later divested its shares to MBK. Since the divestiture, the company has become fully owned by MBK. In 2008, the company changed its name to T-Leasing.

In May 2018, MBK inject THB500 million in capital into the company followed by a further THB2.5 billion in December 2019, bringing the total shares in the company to 349.99 million shares. The two capital injections increased the total paid-up capital to THB3.5 billion, from THB500 million. In December 2021, the company decreased its capital by THB1.1 billion in 2021, lowering the capital to THB2.4 billion. The company plans to be listed on the stock exchange in early 2022.

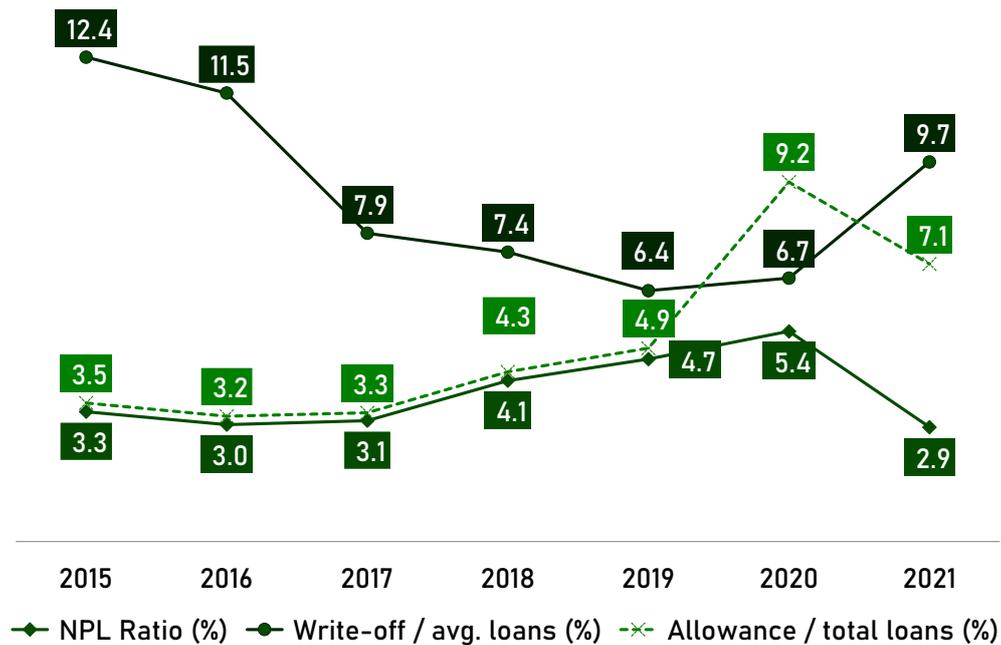
TLS has steadily expanded its motorcycle hire purchase loan portfolio. Currently, approximately 80% of the loan covers the Greater Bangkok area.

KEY OPERATING PERFORMANCE



Source: TLS

Chart 2: Asset quality



Source: TLS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Year Ended 31 December				
	2021	2020	2019	2018	2017
Total assets	6,887	7,249	7,838	6,790	5,000
Total loans	6,894	7,372	7,670	6,734	4,869
Allowance for expected credit loss	490	678	384	293	160
Short-term debts	2,025	2,846	3,620	5,276	4,108
Long-term debts	1,849	97	24	16	12
Shareholders' equity	2,795	4,061	3,956	1,308	702
Net interest income	1,205	1,131	858	899	723
Expected credit loss	504	693	555	365	223
Non-interest income	251	296	244	317	194
Operating expenses	439	418	446	473	327
Earnings before taxes	512	316	100	181	216
Net income	443	266	85	132	169

* Consolidated financial statements

Unit: %

	Year Ended 31 December				
	2021	2020	2019	2018	2017
Profitability					
Net interest income/average assets	17.05	15.00	11.73	15.24	17.90
Non-interest income/average assets	3.55	3.92	3.33	5.38	4.80
Operating expenses/total income	28.15	26.10	29.36	32.46	30.69
Operating profit/average assets	7.25	4.19	1.37	3.07	5.34
Earnings before taxes/average risk-weighted assets	3.79	2.18	0.71	1.58	2.77
Return on average assets	6.27	3.52	1.17	2.23	4.19
Return on average equity	12.94	6.63	3.25	13.09	24.60
Asset Quality					
Non-performing loans/total loans	2.93	5.38	4.67	4.12	3.09
Expected credit loss/average loans	7.07	9.16	7.66	6.29	5.67
Allowance for expected credit loss/non-performing loans	242.77	171.02	105.98	105.50	106.44
Capitalization					
Risk-adjusted capital ratio	21.16	29.34	26.13	9.91	7.27
Debt/equity (time)	1.46	0.78	0.98	4.19	6.12
Liquidity					
Stable funding ratio	132.00	108.69	95.46	32.84	25.39
Liquidity coverage measure (times)	0.03	0.03	0.02	0.01	0.01
Short-term debts/total liabilities	49.48	89.27	93.24	96.23	95.59

* Consolidated financial statements

RELATED CRITERIA

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

T Leasing Co., Ltd. (TLS)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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