

T LEASING CO., LTD.

No. 154/2023
17 August 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 11/08/22

Company Rating History:		
Date	Rating	Outlook/Alert
28/12/21	BBB	Stable

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RATIONALE

TRIS Rating affirms 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”).

On a stand-alone basis, the rating reflects the company’s strong capital position, adequate funding and liquidity, and adequate business stability underpinned by a sound market position in motorcycle hire purchase (HP) lending. The key rating constraints are the weakening of earnings capacity driven by the impact of the interest rate ceiling for motorcycle HP and intense competition. Weakening of asset quality that leads to lower earnings from higher credit cost could also put pressure on the rating.

KEY RATING CONSIDERATIONS

Maintaining status as a strategic subsidiary of MBK

A one-notch enhancement from the company’s SACP reflects TLS’s status as a “strategic” subsidiary of MBK. The company is wholly owned by MBK and is controlled through board representatives from MBK. TLS’s board of directors comprises MBK’s six senior executives and three independent directors. The monitoring of TLS’s operation and performance is performed through monthly board meetings. TLS’s business serves as part of MBK group’s strategy to diversify away from its core real estate-related businesses.

MBK provides financial support to TLS in the form of capital injection and intercompany loans to support TLS’s business growth. As of March 2023, outstanding loans from MBK to TLS stood at THB2.5 billion. Given a delayed in the initial public offering (IPO) plan, we believe MBK will continue to hold a 100% share in TLS for the next few years and provide support in the form of credit facilities which should be sufficient to fund its growth plan.

Strong capital position

TLS’s capital position is assessed as ‘strong’. The company’s capital, measured by risk adjusted capital (RAC) ratio rose to 24.6% at the end of 2022 from 21.3% at the end of 2021. The higher RAC was a combination of loan contraction, profit accumulation, and zero dividend payout in 2022. At the end of first quarter 2023 (1Q23, unaudited), RAC stood at 24.1%. With TLS postponing its IPO plan, originally scheduled for 2023, we estimate RAC ratio to be around 22%-23% in 2023-2025. This is based on our base-line assumptions of 8%-10% growth in outstanding loans and 40% dividend pay-out ratio.

Sufficient funding support and liquidity

TRIS Rating assessed TLS’s funding and liquidity as ‘adequate’ which should be sufficient for its expansion plan. TLS has a stable funding ratio of 200% at the end of 2022, indicating prudent funding management given a large long-term funding base. Our assessment of adequate funding is underpinned by the ongoing financial support from its parent, MBK.

In addition to parent support, the company has established credit relationship with several financial institutions. At the end of March 2023, TLS had outstanding long-term credit lines of THB485 million, outstanding debentures of THB400 million, and loans provided by MBK of THB2.5 billion. Despite the

delayed IPO plan, we believe TLS should still be able to expand its business as MBK will remain the key funding provider for TLS as long as it needs.

Gradual portfolio expansion supports business position

TLS's business position is assessed as 'adequate'. The company currently ranks among the top-six motorcycle hire purchase operators within TRIS Rating's database. As of March 2023, the company's loan portfolio stood at THB6.9 billion (unaudited). Although this is a modest increase from THB6.6 billion at the end of 2022, we expect the growth momentum to continue over the next few years, following the steady portfolio contraction since 2019. We project outstanding loans to increase to about THB8.5 billion by 2025.

As for business diversity, TLS has relatively less geographic diversification compared to its peers. Nevertheless, we've seen gradual improvement with loan portfolio underwritten outside of the Bangkok area increasing to around 24% in 1Q23 from 19% in 2021. We anticipate that TLS will continue to cautiously capture growth opportunities in Thailand's upcountry over next few years.

Weakened earnings capacity

TRIS Rating expect TLS's earnings capacity to be weakened, along with its peers, following the introduction of the regulatory ceiling on interest rates for motorcycle HP loans at 23% in January 2023. The company's earnings measured by earnings before taxes to average risk weighted assets (EBT/ARWA) dropped to 1.9% in the 1Q23 (annualized and unaudited) from around the 3% range in the past.

In terms of impact from rising funding costs, we anticipate a more gradual increase for TLS given access to borrowings from MBK whose credit terms and condition are more favorable than borrowings from commercial banks. We estimate TLS's funding costs to remain within the 4% range and interest spread to be between 12%-13% during 2023-2025, moderately lower than 13.4% in 1Q23 (unaudited) and 14.8% in 2022.

Given our base-case assumptions, we expect EBT/ARWA to be around 2% in 2023-2025, which still supports the current rating. Looking forward, we view that asset quality should be the key area that the company needs to focus on to achieve better earnings. At the same time, the "stable" outlook is premised on our view that TLS will be able to strike the right balance between quality versus growth. We also expect that the company will be able to adapt to the new regulatory environment and remain competitive.

Heightened credit risk but manageable

Asset quality is a key rating constraint for TLS, similar to other motorcycle lenders, given the rising trend in non-performing loans (NPL). This is owing to the uncertain economic environment and inflation that have impaired the borrowers' debt serviceability. Heightened credit risk can be observed through the increased in the NPL ratio to 3.2% at the end of 2022 from 2.9% at the end of 2021, which was also in part down to the shrinking loan portfolio. Meanwhile, provisions for expected credit loss (ECL) to average loans (credit cost) also rose moderately to 8.4% in 1Q23 (annualized and unaudited) from 7.3% in 2022.

Following the weakening of asset quality, the company has tightened its underwriting policy since the beginning of 2023. Early indicator such as first instalment defaults of new bookings in 2023 started to show an improving trend. In the medium term, we anticipate TLS's asset quality and credit cost to be manageable, helping to partly mitigate the earnings impact from the yield cap in coming years. Meanwhile, TLS's allowance for ECL remained relatively stable over the past two years within the 7% range, and we expect the level to be maintained in 2023-2025. We estimate NPL coverage to be around 200% for the same period, based on a 7.0%-8.0% credit cost assumption.

Reshaping motorcycle HP industry from regulatory oversight

The introduction of interest rate ceilings in the beginning of 2023 resulted in an acceleration in lending activities ahead of the enforcement for some of the lenders. As a result, motorcycle sales grew by 12% in 2022 and 11% in the first five months of 2023. The outstanding motorcycle loans from the eight operators in TRIS Rating's database increased by 17% in 2022.

With the asset quality of motorcycle HP industry being one of the weakest among non-bank financial institutions under our radar and a key rating constraint for most rated companies, we expect operators in the 2H23 and 2024 will likely prioritize controlling their asset quality and optimizing their profitability by slowing down loan growth.

Forthcoming regulatory oversight by the Bank of Thailand (BOT) is expected to address market conduct and potentially introduce loan to value (LTV) guidelines. This may exert pressure on the future growth of motorcycle financing in coming years. Striking a balance between consumer fairness, ensuring financial inclusion and managing economic risk will remain a key challenge for BOT as it increases its regulatory oversight on the leasing industry.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2023-2025 are:

- Outstanding portfolio to grow around 8%-10% per annum.
- RAC ratio to remain above 20%.
- Net loan yield¹ to remain around 19%.
- Credit cost to be around 7%-8%.
- Operating expense to total income ratio to be around 37%-38%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TLS will maintain its market position and strong capital position. The outlook also reflects our anticipation that its profitability will remain in line with our base-line projections.

RATING SENSITIVITIES

The rating and/or outlook upside is unlikely in the near term. In the longer term, a rating upgrade is possible should TLS steadily improve market position as well as strengthens its asset quality and operating performance, while maintaining a solid capital base.

The rating and/or outlook could be revised downward should TLS's market position weaken continuously, or asset quality continues to deteriorate, causing credit cost to rise and EBT/ARWA to fall below 1.5%, or capital adequacy as measured by RAC ratio to fall below 15% for a sustained basis. In addition, any deterioration in the credit profile of MBK that leads to a multiple-notch downgrade of MBK's rating, could impact the rating support from MBK.

If there are material changes in TRIS Rating's view on the degree of importance of TLS to the MBK, the rating could also be revised to reflect the view.

COMPANY OVERVIEW

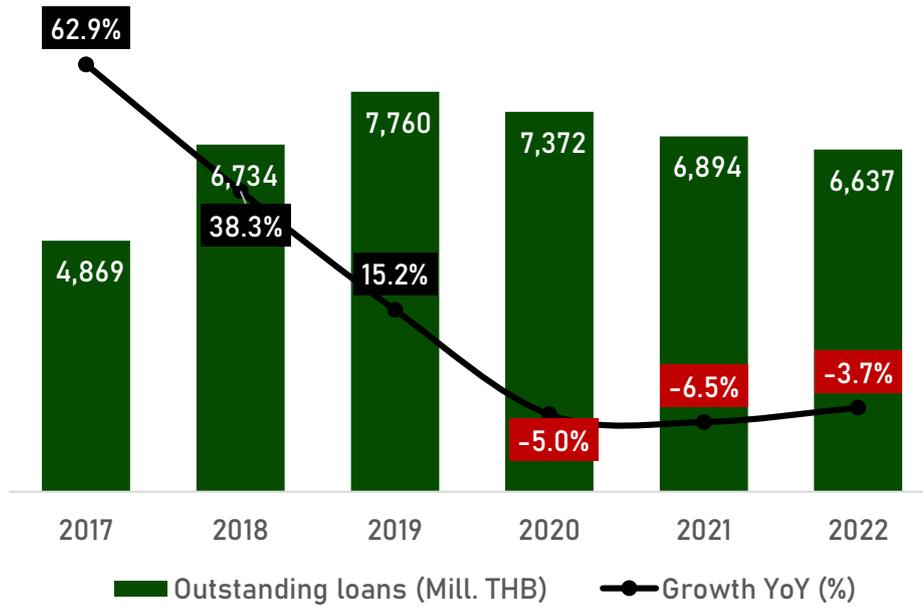
TLS was established in 1993 under the name Thanachart Leasing 2000. The company initially offered motorcycle hire purchase loans to customers in the Bangkok metropolitan area. The company was formerly owned by TBANK which later divested its shares to MBK. Since the divestiture, the company has become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

In May 2018, MBK injected 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. 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.

¹ Net loan yield = Gross yield – Commission expenses

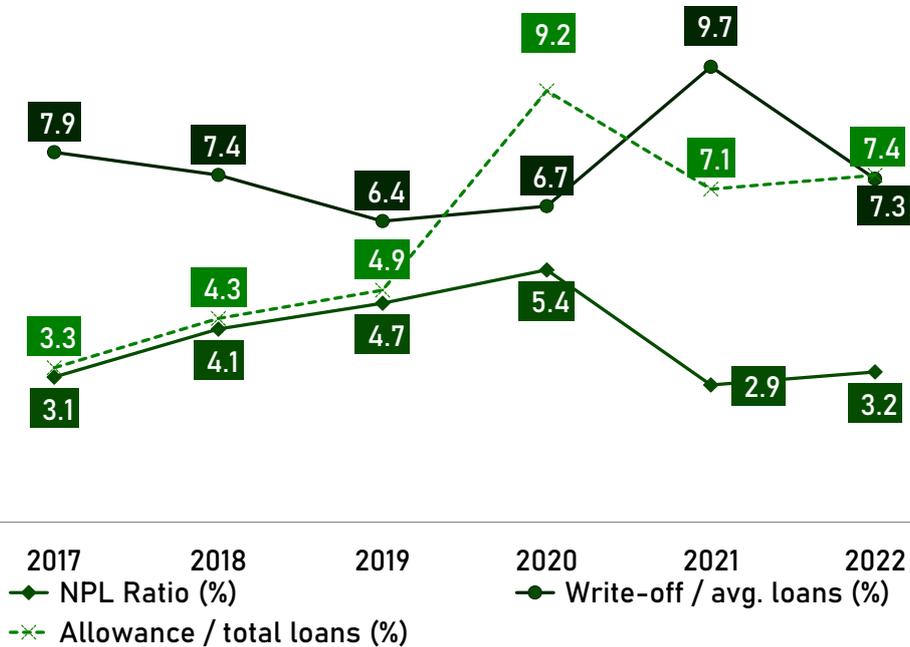
KEY OPERATING PERFORMANCE

Chart 1: Outstanding loans



Source: TLS

Chart 2: Asset quality



Source: TLS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	6,566	6,887	7,249	7,838	6,790
Total loans	6,637	6,894	7,372	7,670	6,734
Allowance for expected credit loss	491	490	678	384	293
Short-term debts	1,511	2,025	2,846	3,620	5,276
Long-term debts	1,656	1,849	97	24	16
Shareholders' equity	3,105	2,795	4,061	3,956	1,308
Net interest income	1,109	1,205	1,131	858	899
Expected credit loss	497	504	693	555	365
Non-interest income	359	251	296	244	317
Operating expenses	595	439	418	446	473
Earnings before taxes	375	512	316	100	181
Net income	287	443	266	85	132

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	16.49	17.04	15.00	11.73	15.24
Non-interest income/average assets	5.33	3.55	3.92	3.33	5.38
Operating expenses/total income	37.55	28.15	26.10	29.36	32.46
Operating profit/average assets	5.58	7.25	4.19	1.37	3.07
Earnings before taxes/average risk-weighted assets	2.90	3.79	2.18	0.71	1.58
Return on average assets	4.27	6.60	3.52	1.17	2.23
Return on average equity	9.70	13.56	6.63	3.25	13.09
Asset Quality					
Non-performing loans/total loans	3.20	2.93	5.38	4.67	4.12
Expected credit loss/average loans	7.34	7.07	9.16	7.66	6.29
Allowance for expected credit loss/non-performing loans	230.96	242.77	171.02	105.98	105.50
Capitalization					
Risk-adjusted capital ratio	24.57	21.16	29.34	26.13	9.91
Debt/equity (time)	1.11	1.46	0.78	0.98	4.19
Liquidity					
Stable funding ratio	200.21	132.66	108.69	95.46	32.84
Liquidity coverage measure (times)	0.03	0.03	0.03	0.02	0.01
Short-term debts/total liabilities	43.68	49.75	89.27	93.24	96.23

* Consolidated financial statements

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- 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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