PHATRA LEASING PLC

No. 63/2017 15 June 2017

Company Rating: A-

Issue Ratings:
Senior unsecured A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
25/07/13	A-	Stable
30/03/11	A-	Positive
09/08/05	A-	Stable
12/07/04	BBB+	Stable
10/10/02	BBB+	-
23/08/00	BBB	-

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Rating Rationale

TRIS Rating affirms the company rating of Phatra Leasing PLC (PL) and the ratings of PL's senior unsecured debentures at "A-". The ratings reflect the company's strong market position in the automobile operating lease segment and the proven ability of the management team in its core business of automobile operating lease. The ratings also reflect PL's stringent credit risk management policies, which have enabled the company to maintain the quality of its assets despite the recent default of a major customer. However, the ratings have been pressured by weakened profitability arising from a significant provision from bad debt, intense competition, and an unfavorable economic situation.

PL has maintained its market-leading position as a provider of automobile operating leases. According to TRIS Rating's database, in terms of net assets for lease, PL is the largest lessor among the 30 large auto lease providers. The company renders both operating and financial leases to medium-sized and large companies. An unfavorable operating environment and intense competition, however, put more pressure on PL's business expansion. At the end of 2016, PL had total assets for lease (net assets for lease plus net financial receivables) of Bt12,041 million, increasing from Bt11,829 million at the end of 2015 or slightly up 1.8%. The portfolio dropped to Bt11,771 million at the end of March 2017.

PL's strong nationwide service network enhances its ability to service large customers. The reliance on large customers benefits PL because of economies of scale. However, relying on large customers means PL is exposed to customer concentration risks, both in terms of default risk and revenue dependency risk. The default risk has been mitigated by the relatively good credit quality of its large customers. PL has been trying to diversify its customer base. The progress of this effort can be measured by the percentage of business derived from PL's top 20 customers. However, net assets for lease (for operating leases) and outstanding loans (for financial leases), summed across the top 20 customers, comprised approximately 41% of PL's total portfolio as of March 2017. This is a high concentration level, when compared with peers.

Muangthai Life Assurance Co., Ltd. (MTL) became PL's major shareholder in 2006. Ever since, the representatives from MTL, through their presence on PL's board of directors, have implicitly supported PL's efforts to improve its risk management systems. PL's efforts to control its asset quality are supported by stringent risk management systems, especially when PL leases assets which carry higher risks than automobiles. The efforts to control asset quality have kept the ratio of non-performing loans (NPLs, or loans overdue more than 90 days) to total loans at a low level. Due to the default of one major customer, PL's asset quality deteriorated in 2016. A huge provision expense of Bt157 million has been set aside as a cushion for its asset quality problem.

During 2013-2015, PL's profitability has been constrained by lower prices of used cars. PL obtained smaller gains from liquidating its assets for lease. Demand for used cars slumped in 2013 because the government awarded tax incentives to first-time buyers of new cars. This program rapidly boosted the sale of new cars during 2012 and 2013, but it dampened demand for used cars, and consequently aggravated the decline of used car prices which began in 2013. Used car prices bottomed out in 2014 and have been gradually increasing until present. However, a recovery to the previously high level is still uncertain and may take time.

PL has managed to reduce the impact of lower used car prices. For example, PL postponed the liquidation of some vehicles with expired contracts by renewing the leases and using the vehicles for short-term rentals. Normally, PL would auction off vehicles with expired contracts. PL has started selling the vehicles through a retail sales channel so as to receive higher prices than selling the vehicles at auction. Despite these efforts, gains from such sales dropped to Bt49 million in 2013, and turned losses of Bt21 million in 2014 and Bt16 million in 2015. However, partly due to the result of improving used car market, PL turned a gain of Bt63 million in 2016.

Net profit dropped from Bt205 million in 2013 to Bt140 million in 2014, mainly due to a lower gross margin and loss from sales of assets for lease. In 2015, loss from sales of assets for lease still occurred, but low funding costs and recapitalization helped reduce interest expense and improved net profit to Bt171 million. Although PL set aside a significant portion for provision, gain on sales of expired assets and benefit from the tax privilege of a new law affecting PL's new investments in assets for lease helped improve its net profit in 2016. In 2016, PL reported its net profit at Bt220 million, rising 28.8% from the previous year. In the first quarter of 2017, PL reported net profit at Bt56 million, compared with Bt16 million in the same period of the previous year, or a 245% increase year-on-year (y-o-y). The substantial improvement was also mainly due to the tax benefit on the new investments in assets for lease.

PL's capitalization base has been strengthened after an increase of Bt447 million of new capital by rights offering in June 2015. This improved the ratio of debt to equity to be below 4 times, decreasing from 5 times at the end of 2014. The new capital helps support its business expansion.

Rating Outlook

The "stable" outlook is based on the expectation that PL's financial profile will recover after being affected by unsupportive factors in the domestic automobile market including unfavorable used car prices. The profitability is expected to improve from the maintenance of good portfolio and the control of the impact from losses on sales of assets for lease.

The ratings could be positive if PL could deliver sustained and stronger financial profile while also being market leader. On the contrary, the ratings could be negatively impacted should there be any factors which would cause a significant deterioration in PL's financial profile such as a substantial drop in rental margin, decrease in asset qualities, and aggressive debt-funded portfolio expansion.

Phatra Leasing PLC (PL)

Company Rating:	A-
Issue Ratings:	
PL179A: Bt500 million senior unsecured debentures due 2017	A-
PL182B: Bt500 million senior unsecured debentures due 2018	A-
PL185A: Bt500 million senior unsecured debentures due 2018	A-
PL18OA: Bt450 million senior unsecured debentures due 2018	A-
PL191A: Bt500 million senior unsecured debentures due 2019	A-
PL195A: Bt700 million senior unsecured debentures due 2019	A-
PL198A: Bt500 million senior unsecured debentures due 2019	A-
PL209A: Bt500 million senior unsecured debentures due 2020	A-
PL212A: Bt500 million senior unsecured debentures due 2021	A-
PL232A: Bt200 million senior unsecured debentures due 2023	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios

Unit: Bt million

	Jan-Mar 2017	-------------- Year Ended 31 December ------------ 2016	2015	2014	2013
Total assets	12,945	13,230	12,912	12,593	12,029
Short-term borrowings	3,582	4,230	3,696	3,710	4,254
Long-term borrowings	6,023	5,664	5,942	6,340	5,126
Shareholders' equity	2,809	2,752	2,640	2,094	2,087
Total income*	702	3,086	3,028	2,941	2,758
Gains (Loss) from sales of assets for lease	(5)	63	(16)	(21)	48
Operating expenses	61	420	235	226	218
Net income	56	220	171	140	205
Funds from operations (FFO)	485	2,205	1,982	1,902	1,829
Return on average assets (%)	0.43 ****	1.68	1.34	1.14	1.83
Return on average equity (%)	2.03 ****	8.17	7.22	6.70	9.89
Operating expenses/total income* (%)	8.68	13.62	7.73	7.70	7.92
Operating income before depreciation and amortization as % of sales (%)	77.09	78.09	79.20	79.29	80.00
Pretax return on permanent capital (%)	0.88 ****	3.44	5.31	4.83	5.47
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.49	7.02	6.51	5.93	6.70
FFO/total debt** (%)	5.07 ****	22.29	20.69	18.92	19.50
Total borrowings/capitalization (%)	77.37	78.24	78.50	82.76	81.80
Short-term borrowings/total borrowings (%)	37.29	42.75	38.35	36.92	45.35
Debt***/equity (times)	3.61	3.81	3.89	5.01	4.76

* *Total income = total income deducted by cost of sale of assets under operating lease contracts*
** *Total debt = interest bearing debt*
*** *Debt = total liabilities*
**** *Non-annualized*

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