

# BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

No. 42/2022

29 March 2022

## FINANCIAL INSTITUTIONS

Company Rating:	A-
Issue Ratings:	
Senior unsecured	A-
Outlook:	Stable

Last Review Date: 22/11/21

### Company Rating History:

Date	Rating	Outlook/Alert
17/02/20	A-	Stable

### Contacts:

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Taweechok Jiamsakunthum

taweechok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Bangkok Commercial Asset Management PLC (BAM) and the ratings on BAM's outstanding senior unsecured debentures at "A-" with a "stable" outlook. The ratings reflect the company's long experience and dominant market position as the top ranked distressed asset management company (AMC). The ratings also take into consideration BAM's moderate financial leverage and earnings capability together with diversified funding sources.

BAM's ratings are partly constrained by the risk factors, including pricing risk, macro risk, and concentration risk, all of which relate to its real estate exposure. These risks could impact its financial performance if not well managed. However, we view that BAM's expertise in asset pricing, selective investment strategy, and diversification in terms of types and locations of assets help mitigate these risks to some extent.

## KEY RATING CONSIDERATIONS

### Dominant market position

The company's strong business position reflects its status as the market leader in the distressed asset management industry with expertise in secured assets. Its top market position is secured by its strong relationships with various banks. Years of experience in asset pricing and valuation as well as an extensive database that support asset selection and optimal pricing, are also the company's key strengths.

Although BAM's total assets declined by 5% to THB126 billion at the end of 2021, the company still controls the largest market share by asset size of around 51% among distressed AMCs in Thailand. Its gross managed assets included non-performing loans (NPLs) of THB81.7 billion, foreclosed properties (referred to as non-performing assets -- NPAs) of THB37.9 billion, and instalment sale receivables of THB2.2 billion.

### Selective investments stabilize financial leverage

In 2021, BAM adopted a selective strategy in debt acquisition both in terms of pricing and quality of assets. The strategy has caused the total cost of debt acquisition during the year to drop by 68.5% to THB3.7 billion. We view this as a conservative approach given the heightened uncertainty in collecting debt repayments during a period of weak economy. With fewer assets being acquired, there was less need to source debt financing to fund asset purchases. BAM's leverage, as measured by the debt to equity (D/E) ratio thus remained at comfortable levels. At the end of 2021, its D/E ratio stood at 1.94 times, a decrease from 2.16 times in 2020.

Going forward, BAM intends to pursue an asset-light business model where fewer assets need to be loaded onto its balance sheet. The company plans to adopt the joint venture (JV) model initiated by the Bank of Thailand (BOT), where financial institutions and AMCs set up JVs to jointly manage NPLs. With this model, debt funding will be borne by the JVs, which are not consolidated to JV partners' balance sheets.

Moreover, our assumption of cash collections of THB16-THB18 billion per year should help contain its D/E ratio as part of the received cash inflows and can also be utilized for asset acquisitions, reducing the need to raise new debt. We therefore expect the company to maintain its D/E ratio below 2 times over the next three years.

### **Performance recovery mainly from NPA sales**

The company's performance appears to significantly correlate with the economic cycle. This was evidenced by its cash collections from restructured NPLs in 2020 that have diminished amid the weak credit environment induced by the Coronavirus Disease 2019 (COVID-19) pandemic. The cash collection from NPLs in 2021 recovered modestly by 3.8% year-on-year (y-o-y) to THB8.7 billion due to the persistently weak economic condition. Nonetheless, we expect the improvement in cash collections to gain stronger momentum in the next few years, assuming that the economy gradually recovers leading to improved debt serviceability of debtors.

Meanwhile, cash collections from NPA sales were a key support for earnings recovery in 2021. The improvement in NPA sales was the result of the following strategies: 1) zero transfer fee; 2) discount pricing strategy, 3) greater emphasis on retail customers; and 4) increased sales through online platforms. The NPA cash collection increased by 54.9% to THB7.3 billion in 2021, boosting total cash collections to THB16 billion, an increase of 22% compared with 2020.

Revenue from NPLs (interest income and gain from NPLs) excluding accrued interest increased by 2.5% y-o-y to THB4.9 billion in 2021. The revenue from NPAs (gains from properties sales, interest income, and gains from instalment receivables), on the contrary, showed a stronger growth of 50.9% y-o-y to THB3.8 billion.

Combining the financial results from both NPL and NPA management, BAM's net income increased by 41.3% to THB2.6 billion in 2021, with a return on average assets (ROAA) of 2.02%, up from 1.46% in 2020. The higher earnings substantiate our view that BAM has passed the worst of the downcycle in 2020. We expect further improvement in NPL business, which is likely to be the earnings driver in 2022, while NPA's performance to remain strong with similar levels of performance as in 2021.

### **Diversified funding sources with financial flexibility**

BAM's funding profile is assessed as adequate, given the stable credit facilities from various financial institutions, most of which are banks that sell NPLs to BAM. The company has about THB43 billion long-term committed credit lines from financial institutions, with THB14.5 billion remaining unused as of December 2021. The company also has about THB11 billion of unused short-term credit facilities. The outstanding promissory notes (P/N), which have been issued by BAM to banks for the payment of assets, stood at about THB3.8 billion. In addition, BAM has accessed to the capital market. As a listed company, BAM may raise new capital, if needed. It has also been a frequent debenture issuer. As of December 2021, its outstanding debentures amounted to THB62 billion.

On funding and liquidity, BAM has no major asset-liability mismatch issues. As of December 2021, roughly 78% of its total debt obligations were long-term, with an average duration of six years compared with an average duration of six to eight years for its assets. The company has debt obligations of approximately THB16.7 billion that will mature within December 2022, THB6.4 billion of which are debentures obligations. We expect the obligations to be met by cash inflows from NPL repayment collections and NPA management, as well as bond issuance.

### **Risk from high exposure to property sector mitigated by diversification**

BAM is exposed to concentration risk due to its exposure to the property sector, as the collaterals securing NPLs that the company invests in comprise mainly properties. Therefore, the condition of the property market tends to have a direct impact on BAM's financial performance as it affects property prices and the ability to sell enforced properties. Nonetheless, we believe the company's diversification in terms of types and locations of enforced properties should help mitigate this risk to some extent.

Additionally, the ability to pursue discount pricing strategy due to low acquisition costs has helped accelerate NPA sales during the weak macro environment. As of December 2021, 20% of BAM's properties were land and 34% were single detached houses (cost basis), while the remainder was well spread out across various property types. In terms of locations, about 41% of its properties are located in Bangkok and vicinity, and 17% in the central region. The remainder is spread out across different regions. Moreover, BAM reappraises its property values annually, which helps align its asset prices closely to the market.

### **Opportunity for AMCs as NPL supply increases**

The COVID-19 pandemic in the last two years has widely impacted the Thai economy. The borrowers' ability to pay off their debts remains weak, despite series of debt relieve programs from the BOT to help impacted debtors. The NPLs from financial institutions including both Thai and foreign financial institutions as well as finance companies rose to THB530 billion at the end of 2021 from THB465 billion at the end of 2019. We expect financial institutions to dispose more NPLs as a way to manage their asset quality after all the debt relieve programs ended in 2021. This has been reflected in the BOT's initiation to allow for the establishment of JVs between financial institutions and AMCs to solve the NPL problem. This will be a great

opportunity for AMCs to acquire assets and enhance their revenue streams. However, we believe the slower pace of debt collections during this weak economy remains a major challenge for all.

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#### BASE-CASE ASSUMPTIONS

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

- New NPL investments of THB9 billion per year.
- D/E ratio to remain below 2 times.
- Total cash collection of THB16-THB18 billion per year.
- Funding cost of about 3.0%-3.5%.
- Operating expense to total income ratio of around 31%-32%.

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#### RATING OUTLOOK

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The "stable" outlook is based on TRIS Rating's expectation that BAM will maintain its strong financial performance and moderate financial leverage.

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#### RATING SENSITIVITIES

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The ratings and/or outlook could be revised upward if BAM's financial performance improves steadily, with the D/E ratio falling below 1.5 times for a sustained period.

The ratings and/or outlook could be revised downward if BAM's leverage increases significantly due to aggressive expansion, with the D/E ratio rising above 2.75 times for a sustained period or a prolonged deterioration in financial performance with ROAA falling below 1.5% on a long-term basis.

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#### COMPANY OVERVIEW

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On 7 January 1999, BAM was founded under the Financial Institutional Development Plan of the Ministry of Finance (MOF) to acquire and manage NPAs from Bangkok Bank of Commerce PLC (BBC). In 2002, BAM was approved by the BOT to register as a limited company and expanded its scope to manage NPAs of other financial institutions under the Financial Institution Asset Management Decree (2001).

In 2005 under a Cabinet resolution, BAM merged with Financial Institution Asset Management Corporation (AMC). As a result, BAM received the transfer of AMC's distressed assets portfolio including NPLs and NPAs as well as the personnel of AMC. The combined resources enhanced the scale and efficiency of BAM's business in terms of customer reach, with 25 branches and over 1,200 staff.

In 2012, the privatization of BAM was a result of the strategic initiative of the Financial Institutions Development Fund (FIDF) approved by the MOF. The privatization was completed in late 2019 with a reduction of the FIDF shareholding to 46% from 100%.

BAM's core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, transferred from NPLs or acquired from financial institutions. BAM's business is counter-cyclical in nature, acquiring large amount of distressed assets during economic downturns and turning those assets into high-margin income during economic upcycles. The business is capital intensive due to long breakeven periods of around 5-10 years.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	125,904	132,070	119,919	107,653	99,933
Total managed assets	103,905	106,532	101,923	96,738	91,262
Loan purchased – net	73,406	77,726	77,375	75,434	72,886
Properties foreclosed – net	29,666	28,078	23,899	20,596	17,735
Total borrowings	80,154	87,421	75,688	57,709	56,868
Short-term borrowings	17,539	22,537	20,245	19,059	18,147
Long-term borrowings	62,615	64,884	55,443	38,650	38,722
Shareholder's equity	42,765	41,797	41,196	41,849	41,059
Total revenue	13,306	12,427	12,236	9,751	7,626
Interest expenses	2,559	2,391	2,132	1,769	1,622
Operating expenses	2,727	2,641	3,757	2,935	2,520
Earnings before interest and taxes (EBIT)	5,814	4,586	8,344	6,979	6,131
Net income	2,600	1,840	10,679	5,202	4,501

*Unit: %*

	----- Year Ended 31 December -----				
	2021	2020	2019	2018	2017
<b>Profitability</b>					
Operating income/average assets	8.33	7.97	8.88	7.69	6.20
Operating income/total income	80.77	80.76	82.57	81.85	78.73
Operating profit/average assets	6.22	5.87	5.58	4.86	3.60
Earnings before taxes/ average assets	2.52	1.74	5.46	5.02	4.66
Return on average assets	2.02	1.46	9.39	5.01	4.65
Return on average equity	6.15	4.43	25.72	12.55	11.03
<b>Capitalization</b>					
Debt/equity (times)	1.94	2.16	1.91	1.57	1.43
Shareholders' equity/total managed assets	32.5	32.1	35.0	38.0	39.4
<b>Funding and Liquidity</b>					
Stable funding ratio	84.75	86.94	87.61	76.65	79.93
Liquidity coverage measure (times)	0.22	0.36	0.07	0.06	0.07
Short-term borrowings/total liabilities	21.09	24.97	25.72	28.96	30.82
Total managed assets/total assets	82.53	80.66	84.99	89.86	91.32
<b>Operating efficiency</b>					
Operating expenses/operating income	25.37	26.32	37.19	36.77	41.97
Non-performing loan (NPL) cash collection to net NPL	11.54	10.83	18.40	14.55	12.83
Non-performing asset (NPA) cash collection to net NPA	24.83	17.82	24.75	29.12	24.88

**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

**Bangkok Commercial Asset Management PLC (BAM)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
BAM224A: THB2,000 million senior unsecured debentures due 2022	A-
BAM226A: THB1,400 million senior unsecured debentures due 2022	A-
BAM227A: THB3,000 million senior unsecured debentures due 2022	A-
BAM234A: THB1,000 million senior unsecured debentures due 2023	A-
BAM235A: THB4,050 million senior unsecured debentures due 2023	A-
BAM239A: THB3,800 million senior unsecured debentures due 2023	A-
BAM23DA: THB1,100 million senior unsecured debentures due 2023	A-
BAM244A: THB1,000 million senior unsecured debentures due 2024	A-
BAM246A: THB1,400 million senior unsecured debentures due 2024	A-
BAM247A: THB4,500 million senior unsecured debentures due 2024	A-
BAM24DA: THB500 million senior unsecured debentures due 2024	A-
BAM256A: THB370 million senior unsecured debentures due 2025	A-
BAM259A: THB3,200 million senior unsecured debentures due 2025	A-
BAM25NA: THB5,370 million senior unsecured debentures due 2025	A-
BAM264A: THB6,000 million senior unsecured debentures due 2026	A-
BAM26DA: THB1,300 million senior unsecured debentures due 2026	A-
BAM276A: THB1,500 million senior unsecured debentures due 2027	A-
BAM279A: THB5,000 million senior unsecured debentures due 2027	A-
BAM284A: THB1,300 million senior unsecured debentures due 2028	A-
BAM286A: THB2,400 million senior unsecured debentures due 2028	A-
BAM28DA: THB1,200 million senior unsecured debentures due 2028	A-
BAM297A: THB5,000 million senior unsecured debentures due 2029	A-
BAM304A: THB700 million senior unsecured debentures due 2030	A-
BAM30NA: THB580 million senior unsecured debentures due 2030	A-
BAM317A: THB3,500 million senior unsecured debentures due 2031	A-
BAM347A: THB1,000 million senior unsecured debentures due 2034	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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