

BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

No. 49/2023
31 March 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 07/03/23

Company Rating History:

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

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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 diversified funding sources.

BAM's ratings are partly constrained by several risk factors. Apart from macro risk and uncertain cashflow, other key risks are related to the company's real estate exposure including asset pricing risk and concentration risk. These risks could have a significant impact on 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

Largest AMC in Thailand

TRIS Rating continues to assess BAM's business position as strong, reflecting its status as the largest distressed AMC in Thailand with expertise in secured distress assets. The company controls the largest market share among distressed AMCs in Thailand with a share of around 49% by asset size. BAM's total assets increased by 5.5%, reaching THB132.8 billion at the end of 2022. Its gross managed assets included non-performing loans (NPLs) of THB80.8 billion, foreclosed properties (referred to as non-performing assets -- NPAs) of THB40.4 billion, and instalment sale receivables of THB2.5 billion.

The company's strong market position is secured by the long-term relationships with financial institutions. Moreover, accumulated experience in asset pricing and valuation coupled with an extensive database have served as the cornerstone for its success in asset selection and pricing. These key strengths have cemented the company's leading position in the industry.

Manageable financial leverage as investment resumes

In 2022, BAM acquired assets at a total cost of THB8.3 billion, 124% higher year-over-year (y-o-y), thanks to the increased supply of distressed assets in the market. Of the total acquisition cost, 62% was acquired in the fourth quarter of 2022 as NPL acquisition picked up momentum after the slow pace in the first nine months.

Looking ahead, we anticipate the supply of NPLs to continue to rise, driven by the expiration of debt relief measures that allow relaxation of bank loan classification until the end of 2023. As a result, commercial banks are likely to dispose of NPLs more rapidly in the second half of 2023 and through 2024, which should support BAM's asset acquisition plan.

Although BAM is resuming active asset acquisitions in 2023-2025, we expect its financial leverage to remain at a level commensurate with the current rating on BAM. This is in view of our base-case assumption of asset acquisition of about THB9 billion and cash collection in the range of THB17-THB19 billion per year. At the end of 2022, BAM's leverage, as measured by the debt to equity (D/E) ratio, stood at 2.04 times, an increase from 1.94 times in 2021. We estimate its D/E ratio to be around 2 times over the next three years.

Continued recovery of cash collection from NPL business

In 2022, BAM's financial performance was slightly below our forecast but strengthened from 2021, largely thanks to the improvement in the NPL business. Net income increased by 4.8% to THB2.7 billion in 2022, with a return on average assets (ROAA) of 2.1%, up slightly from 2.0% in 2021.

Revenue from NPLs (interest income and gain from NPLs) excluding accrued interest improved significantly, rising by 26.2% y-o-y to THB6.0 billion. Cash collection from the NPL business also recovered after the slump in 2020-2021. This was partly attributed to its strategy to increase cash flow from the restructuring of NPL accounts since 2020. Another contributor was BAM's proactive effort to expedite the auction process and retrieve accrued income from the Legal Execution Department (LED). Accrued income owed by LED amounted to THB12.3 billion at the end of 2022.

Total cash collection from the NPL business (both NPL restructuring and accrued income from LED) rose 16% y-o-y. We expect improving cash collection from NPL restructuring to continue given the company's strategy to increase the number of restructuring accounts. One caveat is that the debt serviceability of debtors may weaken due to economic uncertainty, potentially resulting in lower-than-expected cash collection.

The revenue from NPAs (gains from properties sales, interest income, and gains from instalment receivables), on the contrary, experienced a decline of 23.2% y-o-y to THB2.9 billion. Cash collection from NPAs in 2022 dropped by 6% y-o-y to THB6.8 billion. The lower sales of NPAs were the result of a less aggressive pricing strategy and more selective promotional activities compared with 2021. In 2023, we believe the recovery of property market in Thailand should lead to a recovery in demand from both domestic and foreign buyers which should bode well for BAM's cash collection over the next few years.

Future financial performance challenged by rising funding costs

The upcycle of interest rates could pose a challenge to BAM's future financial performance due to a potential rise in funding costs as interest expense accounts for a significant proportion of overall expenses. Nevertheless, we believe the impact could be partly alleviated by the fact that 80% of BAM's outstanding borrowings are long-term. We estimate BAM's funding cost will increase by 15 basis points (bps) to 20 bps in 2023, which translates into 7% higher interest expenses, based on our projection. Nevertheless, we expect continuous improvement in revenue and cash collection from both NPLs and NPAs, which should allow the company to manage the increased cost of funds and maintain profitability.

Diversified funding sources with financial flexibility

BAM's funding profile is assessed as adequate, supported by stable credit facilities from various financial institutions, primarily banks that sell NPLs to BAM. The long-standing relationship between BAM and financial institutions have resulted in mutually beneficial partnerships, which serve as a key strength for the company. The company also has access to capital markets given its status as a listed company and a frequent bond issuer.

At the end of 2022, BAM's total borrowings amounted to THB85.6 billion, 80% of which was long-term. This included THB9.2 billion in long-term credit lines from financial institutions, THB2.5 billion in promissory notes issued to banks for payment of assets, and THB73 billion in long-term debentures. We believe the payment of debentures is manageable given that the maturity dates are spread out over several years. BAM also has credit lines of THB33 billion, most of which are long-term and committed, to support liquidity needs.

Opportunity for distressed AMCs as NPL supply on the rise

The Coronavirus Disease 2019 (COVID-19) pandemic in the last two years has widely impacted the Thai economy. The debt servicing ability of debtors in some vulnerable sectors has weakened considerably, particularly businesses related to tourism. Although continuous assistance measures have been implemented by the Bank of Thailand (BOT) to help alleviate the burden of debtors, NPLs in the financial sector, among both Thai and foreign commercial banks, remain high at THB499 billion with an NPL ratio of 2.73% at the end of 2022. We anticipate NPL disposal from financial institutions to rise as various assistance measures gradually come to an end. While this presents an opportunity for distressed AMCs to acquire NPLs, we believe that the challenging economic conditions may impede debt collections, posing a significant risk for distressed AMCs.

BASE-CASE ASSUMPTIONS

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

- New NPL investments of THB9 billion per year.
- D/E ratio to remain around 2 times.
- Total cash collection of THB17-THB19 billion per year.
- Funding cost of around 3.4%-3.8%.
- Operating expense to total income (excluding accrued interest income) ratio of around 31%-32%.

RATING OUTLOOK

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

RATING SENSITIVITIES

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 sustained basis.

COMPANY OVERVIEW

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, BAM was privatized under 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 amounts 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 -----				
	2022	2021	2020	2019	2018
Total assets	132,804	125,904	132,070	119,919	107,653
Total managed assets	105,313	103,905	106,532	101,923	96,738
Loan purchased – net	72,384	73,406	77,726	77,375	75,434
Properties foreclosed – net	32,026	29,666	28,078	23,899	20,596
Total borrowings	85,552	80,154	87,421	75,688	57,709
Short-term borrowings	17,059	17,539	22,537	20,245	19,059
Long-term borrowings	68,493	62,615	64,884	55,443	38,650
Shareholder’s equity	43,708	42,765	41,797	41,196	41,849
Total revenue	12,781	13,306	12,427	12,236	9,751
Interest expenses	2,637	2,559	2,391	2,132	1,769
Operating expenses	2,888	2,727	2,641	3,757	2,935
Earnings before interest and taxes (EBIT)	5,844	5,814	4,586	8,344	6,979
Net income	2,725	2,600	1,840	10,679	5,202

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Operating income/average assets	7.84	8.33	7.97	8.88	7.69
Operating income/total income	79.37	80.77	80.76	82.57	81.85
Operating profit/average assets	5.61	6.22	5.87	5.58	4.86
Earnings before taxes/ average assets	2.48	2.52	1.74	5.46	5.02
Return on average assets	2.11	2.02	1.46	9.39	5.01
Return on average equity	6.30	6.15	4.43	25.72	12.55
Capitalization					
Debt/equity (times)	2.04	1.94	2.16	1.91	1.57
Shareholders' equity/total managed assets	41.5	41.1	39.2	40.4	43.3
Funding and Liquidity					
Stable funding ratio	105.40	100.29	99.03	93.67	82.15
Liquidity coverage measure (times)	0.42	0.22	0.36	0.07	0.06
Short-term borrowings/total liabilities	19.15	21.09	24.97	25.72	28.96
Total managed assets/total assets	79.30	82.53	80.66	84.99	89.86
Operating efficiency					
Operating expenses/operating income	28.47	25.37	26.32	37.19	36.77
Non-performing loan (NPL) cash collection to net NPL	13.87	11.54	10.83	18.40	14.55
Non-performing asset (NPA) cash collection to net NPA	21.81	24.83	17.82	24.75	29.12

RELATED CRITERIA

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

Bangkok Commercial Asset Management PLC (BAM)

Company Rating:	A-
Issue Ratings:	
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-
BAM244B: THB3,750 million senior unsecured debentures due 2024	A-
BAM245A: THB650 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-
BAM251A: THB1,845 million senior unsecured debentures due 2025	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-
BAM25NB: THB1,000 million senior unsecured debentures due 2025	A-
BAM264A: THB6,000 million senior unsecured debentures due 2026	A-
BAM267A: THB405 million senior unsecured debentures due 2026	A-
BAM26DA: THB1,300 million senior unsecured debentures due 2026	A-
BAM274A: THB2,545 million senior unsecured debentures due 2027	A-
BAM276A: THB1,500 million senior unsecured debentures due 2027	A-
BAM279A: THB5,000 million senior unsecured debentures due 2027	A-
BAM27NA: THB850 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-
BAM294A: THB1,065 million senior unsecured debentures due 2029	A-
BAM297A: THB5,000 million senior unsecured debentures due 2029	A-
BAM304A: THB700 million senior unsecured debentures due 2030	A-
BAM307A: THB1,050 million senior unsecured debentures due 2030	A-
BAM30NA: THB580 million senior unsecured debentures due 2030	A-
BAM30NB: THB2,000 million senior unsecured debentures due 2030	A-
BAM317A: THB3,500 million senior unsecured debentures due 2031	A-
BAM324A: THB2,140 million senior unsecured debentures due 2032	A-
BAM347A: THB1,000 million senior unsecured debentures due 2034	A-
Up to THB3,000 million senior unsecured debentures due within 10 years	A-
Rating Outlook:	Stable

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