

BANK OF AYUDHYA PLC

No. 171/2022
7 October 2022

FINANCIAL INSTITUTIONS

Company Rating:	AAA
Issue Rating:	
Senior unsecured	AAA
Outlook:	Stable

Last Review Date: 08/09/21

Company Rating History:

Date	Rating	Outlook/Alert
23/12/13	AAA	Stable
08/07/13	AA-	Positive
17/04/09	AA-	Stable
04/04/08	A+	Positive
23/11/04	A	Stable
12/07/04	A-	Positive
07/10/03	A-	-

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RATIONALE

TRIS Rating affirms the company rating on Bank of Ayudhya PLC (BAY) at “AAA” and affirms the ratings on BAY’s senior unsecured debentures under the THB20 billion debenture program due within three years at “AAA”, with a “stable” outlook. The ratings incorporate an enhancement from its stand-alone credit profile (SACP), which has been revised upward to ‘aa’ from ‘aa-’. The company rating reflects BAY’s status as a highly strategic member of Mitsubishi UFJ Financial Group (MUFG Group), the largest financial group in Japan. In addition, the ratings consider the ongoing business and financial support and the expected extraordinary support in times of stress from the MUFG Group. BAY is a subsidiary of MUFG Bank Ltd. (MUFG Bank) (rated “A/Stable” by S&P Global Ratings) which is a wholly-owned subsidiary and a core member of the MUFG Group (rated “A/Positive” by S&P Global Ratings).

The revision of BAY’s SACP takes into account the bank’s strengthened capital, well-diversified loan mix, and strong franchise in the retail and Japanese corporate banking segments. However, BAY’s moderate funding profile relative to other large Thai banks constrain its standalone-credit profile to some extent.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of MUFG Group

We assess BAY as a highly strategic subsidiary of the MUFG Group. BAY is 76.88% owned by MUFG Bank Ltd, which in turn is wholly owned by the MUFG Group. We believe the MUFG Group has a strong and long-term commitment to provide financial and business support to BAY as well as extraordinary support in times of financial distress.

BAY plays a crucial role in the group’s strategic expansion in the higher-margin, stronger-growth Southeast Asia region. This is especially true for the retail segment which is BAY’s strength. A linkage has been established between BAY and the group’s reputation due to BAY’s close business collaborations with the MUFG Group. These include cross-border businesses, client referrals by leveraging client relations from MUFG Group’s network, supply-chain financing, and wealth management. The MUFG Group is also actively involved at the board and management levels. Four of the seven non-independent members of BAY’s board of directors were appointed by the MUFG group.

Well-established franchise, diversified loan portfolio

BAY’s strong and well-established banking franchise underpins our assessment of the bank’s SACP. BAY is the fifth largest Thai commercial bank, based on a total asset size of THB2.6 trillion at the end of June 2022. BAY is one of Thailand’s six Domestic Systemically Important Banks (D-SIBs) with loan and deposit market shares of 13.7% and 12.3%, respectively, among the nine listed Thai commercial banks.

BAY still maintains a leading position in the retail segment across key products despite conservative growth strategy in recent years. As of the end of March 2022, BAY had market shares of 26% in personal loans, 15% in credit card, and 29% in auto hire purchase loans. Given its close collaboration with the MUFG Group, the bank also has competitive advantage in the Japanese corporate banking segment.

Over the past three years, BAY has expanded its loan book at a slower pace and more selectively, especially for the consumer segment. This follows the heightened credit risk induced by the COVID-19 pandemic. The bank recorded moderate loan growth of 3.1% year-on-year (y-o-y) in 2021 and 3.1% year-to-date (y-t-d) in the first six months of 2022, driven by corporate and SME segments while retail loans grew at a slower pace. At the end of June 2022, retail loans made up the largest portion of 47% of total loans, with corporate and SME at 37% and 16% of total loans, respectively.

BAY's revenue structure was relatively diversified. Net interest income (NII) accounted for about 71% of total revenue in the first half of 2022 (1H22), relatively on par with that of other Thai banks. Net fee income represented 15%, while other non-interest income was 14%. We believe BAY's continuous regional investments in non-bank financial institutions should help further diversify its earnings over the medium term. At home, its conservative growth strategy and asset quality control should also support business stability and earnings over the next few years.

Strong capital to support growth

The revision of SACP is based on our re-assessment of BAY's capital position to 'strong' from 'adequate'. Its capital position, measured by consolidated common equity tier-1 (CET-1), has strengthened over the past few years, thanks to conservative growth strategy, healthy profit accumulation, and enlarged equity and retained earnings at its subsidiaries. The bank's consolidated CET-1 ratio has steadily risen to 15.15% at the end of June 2022 from 14.26% at the end of 2020 and 13.05% at the end of 2019. The quality of capital is moderate, with CET-1 capital representing 77% of total capital as of June 2022.

We estimate its CET-1 ratio to stay in the 15%-16% range over the next three years. This is based on our assumptions of 3%-5% loan growth and a 25% dividend pay-out ratio. We also take into account BAY's potential investments in Capital Nomura Securities PCL in Thailand and SHB Finance in Vietnam.

Profitability to gradually improve

BAY's profitability compares satisfactorily with that of other major Thai banks. We expect its profitability to improve gradually over the next two years with the return on average assets (ROAA) in the range of 1.0%-1.2%, assuming moderate loan growth and credit cost in the range of 1.5%-1.7%. We expect net interest margin (NIM) to trend moderately upward moderately on the back of rate hikes and to range between 3.2%-3.4%. We forecast the cost-to-income ratio to stay at about 43% over the same period due to effective cost control.

BAY's ROAA improved to 1.01% in 2021 from 0.94% in 2020, on par with the industry average of 1.00% in 2021. This excludes one-time gains on the sales of its stake in Ngern Tid Lor PCL (TIDLOR) in 2021. Annualized ROAA in 1H22 continued to rise to 1.20% due to lower credit cost and funding cost, together with stable operating expenses. Cost-to-income ratio was 42.9% in 1H22, a healthy level by Thai banking standards.

Asset quality within manageable level

We expect BAY to manage overall asset quality efficiently and maintain healthy provisions despite the slow economic recovery and the gradual expiration of the Bank of Thailand's (BOT) debt relief measures. The bank's non-performing loan (NPL) ratio stood at 2.48% at the end of June 2022, below the peer average of 2.88%, largely supported by debt relief programs and write-offs. Thanks to its conservative provisioning policy over the past few years, NPL coverage ratio rose consistently to 189.2% at the end of June 2022 from 163.8% at the end of 2019. This was higher than the peer average of 166.6%.

Despite the debt relief measures being due to expire, we expect the bank's NPL ratio to rise only moderately over the next few years given its cautious underwriting particularly in the retail segment and selective growth strategy. With our credit cost assumption of 1.5%-1.7%, we estimate NPL coverage to range between 150%-180% in 2022-2024.

Average funding profile

BAY's funding profile is assessed as average compared to peers. Customer deposits declined by 3.0% in 2021 but increased by 2.2% y-t-d in 1H22. The loan-to-deposit ratio rose slightly to 107.1% at the end of June 2022, remaining above overall large Thai commercial banks' average of 93.1%, from 106.2% at the end of December 2021. Although this is due to BAY's reliance on interbank funding from MUFG Group, we view this part of interbank funding as a stable wholesale funding source.

Positive developments are seen in higher current account savings account (CASA) and lower cost of funds. CASA deposits to total deposits rose to 66.6% at the end of June 2022 from 63.4% at the end of December 2021. This was driven mainly by deposits from corporate customers with excess liquidity. BAY's cost of funds also declined steadily to 0.92% in 1H22, compared with 1.02% in 1H21, thanks to the bank's cost management effort, declining interest rates and the lower base of fixed deposits. Nonetheless, its overall funding cost remains higher than large Thai commercial banks' average of 0.71%, mainly due to the need to acquire more term deposits and use higher mix of wholesale funding for the purpose of asset-liability duration management.

Adequate liquidity

We assess BAY's liquidity profile on a stand-alone basis as adequate, the same as that of other mid-sized Thai banks. The bank's liquidity coverage ratio (LCR) stood at 139% at the end of December 2021, well above the regulatory requirement of 100% but lower than the average LCR of 188% of Thai commercial banks. BAY's liquid assets to total deposits were at a decent 32.4% level at the end of June 2022. In our view, available credit facilities and the supports the bank receives from the MUFG group provide solid back-up for its liquidity

BASE-CASE ASSUMPTIONS (For 2022-2024)

- Loan growth: 3%-5%
- Credit cost: 1.5%-1.7%
- NPL to gross loans: 2.6%-3.3%
- CET-1 ratio: 15%-16%
- Risk-adjusted NIM: 2.0%-2.2%

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that BAY will remain a highly strategic subsidiary of the MUFG Group and continue to receive strong support from its parent bank.

RATING SENSITIVITIES

The credit ratings and/or outlook of BAY could change if the credit profile of the MUFG Group changes or if TRIS Rating's view of the strategic importance of BAY to the group changes. The bank's SACP could be revised down if its CET-1 ratio falls below 11.8%.

COMPANY OVERVIEW

BAY was established in 1945 and listed on the Stock Exchange of Thailand (SET) in 1977. Following the 1997 Asian financial crisis, BAY set up the Asset Quality Improvement Department in 1999. It established Krungsri Ayudhya AMC Ltd. (KAMC; formerly Ayudhya Asset Management Co., Ltd.) in 2000 to resolve its troubled loans. In 2001, BAY joined GE Capital Thailand Co., Ltd. (GECT) to enter the credit card business by setting up Krungsri Ayudhya Card Co., Ltd. (KCC). BAY also invested in a fund management company, Krungsri Asset Management Co., Ltd. (KSAM; formerly Ayudhya Fund Management Co., Ltd. and AJF Asset Management Ltd.). In 2005, BAY increased its stake in Ayudhya Development Leasing Co., Ltd. (ADLC) and raised its ownership stake in Krungsri Factoring Co., Ltd. (KSF; formerly Ayudhya Factoring Co., Ltd.). In the same year, BAY purchased 86% of the shares of Krungsri Securities PLC (KSS; formerly Ayudhya Securities PLC). In 2006, to seize opportunities in the hire purchase (HP) lending segment, BAY established two wholly-owned subsidiaries. Ayudhya Capital Lease Co., Ltd. (AYCL) was created to offer new car financing and inventory finance, while Ayudhya Auto Lease PLC (AYAL) was established to make hire-purchase auto loans.

In 2007, GE Capital International Holding Corporation (GECIH) became the new major shareholder of BAY, taking a 34.9% stake. GECIH's stake was diluted to 32.9% in 2008 after warrant-holders exercised the last lot of warrants. In 2008, BAY established a new subsidiary, Ayudhya Hire Purchase Co., Ltd. (AYHP), to make HP loans on a sale and leaseback basis. In addition, BAY acquired all the ordinary shares of Ayudhya Capital Auto Lease PLC (AYCAL; formerly GE Capital Auto Lease PLC) from General Electric Capital Asia Investment, Inc. (GECAL) and other shareholders. On the transfer date, AYCAL had outstanding loans of THB75.3 billion. After acquiring AYCAL, BAY restructured its auto HP subsidiaries into a single subsidiary to offer one-stop total solutions. AYCAL merged all the auto HP activities from its three subsidiaries: AYCL, AYAL, and AYHP. In 2009, BAY completed the acquisitions of AIG Retail Bank PLC (AIGRB) and AIG Card (Thailand) Co., Ltd. (AIGCC), for a combined price of THB1.6 billion. In November 2009, BAY acquired GE Money Thailand (GEMT), which had a retail loan portfolio of THB45.8 billion. In the first quarter of 2012, BAY successfully acquired and integrated the Thai retail banking business of Hongkong and Shanghai Banking Corporation Ltd. (HSBC). HSBC had a loan portfolio of THB13.9 billion and deposits of THB9.6 billion.

In September 2012, GECIH reduced its stake in BAY to 25.33% by selling the shares it held in block trades. In July 2013, GECIH and MUFG Bank signed a Share Tender Agreement regarding GECIH's shareholding in BAY. The agreement called for MUFG Bank to make a voluntary tender offer for all BAY's shares at THB39 per share. GECIH participated in the offer and tender for its entire shareholding. The tender offer was completed in December 2013. MUFG Bank became BAY's strategic shareholder, holding a 72.01% stake.

In accordance with the one-presence policy of the Bank of Thailand (BOT), MUFG Bank, Bangkok branch was integrated with BAY in January 2015. BAY issued new common shares to MUFG Bank in exchange for the assets, liabilities, and all the

commercial operations of MUFG Bank, Bangkok. As a result, MUFG Bank's shareholding in BAY increased to 76.88% from 72.01%. The founding family, the Ratanarak Group, remains a key partner, owning approximately 20% of BAY's shares.

In September 2016, BAY completed a 100% acquisition of Hattha Kaksekar Ltd. (HKL), a micro-finance institution in Cambodia, with a 100% shareholding. On 26 August 2020, HKL obtained regulatory approvals to operate as a commercial bank, under the name Hattha Bank PLC (HTB). According to BAY, HTB contributed around 2% of BAY's total loan portfolio as of June 2020. On 28 February 2019, BAY sold 50% of its interest in its subsidiary, TIDLOR. In the first half of 2019, BAY recognised gains on the sale of investments in subsidiaries of THB8.63 billion, based on its consolidated financial statements.

On 22 July 2019, BAY renamed the company name of KSF to Krungsri Nimble Co., Ltd. (KSN), and ceased its former factoring services. Since 1 November 2019, KSN has provided information technology services to BAY and all companies in BAY's Financial Business Group.

On 20 October 2020, BAY acquired a 50% stake of ownership in SB Finance Company, Inc. (SBF), a consumer finance subsidiary of Security Bank Corporation (SBC). This followed a Share Purchase Agreement announced on 8 August 2020.

On 9 June 2021, BAY reduced its stake in TIDLOR to 30% from 50% post the initial public offering (IPO) of shares and the listing of the company's ordinary shares on the SET on 10 May 2021.

On 25 August 2021, BAY announced the planned acquisition of business through the purchase and receipt the transfer of 100% of charter capital in SHBank Finance Company Limited, which operates consumer finance business in Vietnam, from Saigon Hanoi Commercial Joint Stock Bank (SHB Finance).

On 27 July 2022, BAY announced the plan to acquire 100% shares of Capital Nomura Securities PCL which operates securities business in Thailand from Nomura Asia Investment (Singapore) (99.1%) and minority (0.9%).

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022 ²	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	2,599,139	2,499,109	2,609,374	2,359,592	2,173,622
Average assets	2,549,124	2,554,241	2,484,483	2,266,607	2,131,197
Investment in securities	164,144	197,904	177,251	130,292	137,369
Loans and receivables	1,960,416	1,901,229	1,842,030	1,822,361	1,676,344
Allowance for doubtful accounts	88,352	84,360	76,407	67,384	61,360
Deposits	1,819,012	1,779,139	1,834,505	1,566,885	1,426,348
Borrowings ³	354,038	321,127	389,689	427,788	399,747
Shareholders' equities	328,154	318,237	289,179	272,116	243,718
Average equities	323,195	303,708	280,647	257,917	234,853
Net interest income	40,415	77,980	81,304	76,423	75,329
Non-interest income ⁴	16,448	44,926	32,683	45,185	34,251
Total revenue	56,863	122,906	113,987	121,608	109,580
Operating expenses ⁵	24,397	48,954	48,465	52,169	51,741
Pre-provision operating profit (PPOP)	32,465	73,952	65,522	69,439	57,839
Impairment losses on loans and securities	13,350	31,604	36,644	28,203	26,180
Net income	15,342	34,054	23,340	33,131	25,192
Net fee and service income	8,435	16,851	17,564	21,777	21,248
Gains on investments	(40)	10,925	109	9,232	374

1 Consolidated financial statements

2 Non-annualised and unaudited

3 Including interbank and money market

4 Net of fees and service expense

5 Excluding fees and service expense

Unit: %

	Jan-Jun 2022 ⁶	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Earnings					
Return on average assets ⁶	1.20	1.01	0.94	1.46	1.18
Net interest margins ⁶	3.28	3.16	3.40	3.54	3.75
Risk-adjusted net interest margin ⁶	2.20	1.88	1.87	2.23	2.45
Net interest income/average assets ⁶	3.17	3.05	3.27	3.37	3.53
Non-interest income ⁷ /average assets ⁶	1.29	1.76	1.32	1.99	1.61
Net fee and service income/total revenue	14.83	13.71	15.41	17.91	19.39
Cost-to-income	42.91	39.83	42.52	42.90	47.22
Capitalisation					
CET-1 ratio	15.15	15.52	12.85	13.05	12.46
Tier-1 ratio	15.23	15.60	12.85	13.26	12.52
BIS ratio	19.55	20.08	17.92	17.81	16.15
CET-1/BIS ratio	77.49	77.29	71.74	73.29	77.17
Asset Quality					
Credit costs ⁶	139.09	169.76	2.01	1.62	1.62
Non-performing loans/total loans ⁸	2.48	2.51	2.49	2.27	2.30
Allowance for loan losses/non-performing loans	189.19	184.22	175.12	163.82	160.77
Funding & Liquidity					
CASA/total deposit	66.60	63.56	49.50	40.67	43.93
Loan/total deposits	107.13	106.25	99.91	116.02	117.22
Deposits/total liabilities	80.10	81.58	79.07	75.06	73.91
Liquid assets/total deposits ⁹	28.55	28.25	34.48	26.59	24.84
Liquid assets/total assets	22.68	22.39	27.46	20.50	19.09

⁶ Annualised

⁷ Net of fee and service expenses

⁸ Excluding interbank and accrued interests

⁹ Including interbank borrowing

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Banks Rating Methodology, 3 March 2020

Bank of Ayudhya PLC (BAY)

Company Rating:	AAA
Issue Rating:	
BAY233A: THB4,100 million senior unsecured debentures due 2023	AAA
Rating Outlook:	Stable

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