

MUANGTHAI CAPITAL PLC

No. 93/2022
6 June 2022

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 25/04/22

Company Rating History:

Date	Rating	Outlook/Alert
30/04/19	BBB+	Stable
19/08/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Muangthai Capital PLC (MTC) and the ratings on its outstanding senior unsecured debentures at “BBB+” with a “stable” outlook. The ratings take into consideration MTC’s superior market position in the title loan business and strong capital base. The ratings also reflect its earnings stability, as well as diversified and adequate funding sources, and sufficient liquidity. However, the ratings are weighed down by signs of deteriorating asset quality due to the weak economic environment.

KEY RATING CONSIDERATIONS

Continued top market position in title loans

MTC’s expertise in the title loan business and continuous branch network expansion should enable the company to maintain its top market position over the next few years. The company’s outstanding loans stood at THB91.8 billion at the end of 2021, an increase of 29% year-on-year (y-o-y), representing a stronger growth than peers in the industry. Its new loans extended in 2021 reached THB170.6 billion. At the end of March 2022, its outstanding loans increased by a further 7% year-to-date to THB98.6 billion. The growth was driven by its marketing strategy and increasingly dense branch network that provides convenience for customers. The number of branches reached 6,161 at the end of March 2022 with an aim of 6,500 branches by the end of 2022.

We assume that MTC’s loan portfolio will increase by 26% y-o-y in 2022 and 16%-18% per year in 2023-2024, backed mainly by title loans whose demand remains strong due to the weak economic environment. MTC also expects to continue to expand new motorcycle hire purchase (HP) loans via its subsidiary, Muangthai Leasing Co., Ltd. (MTLS), and “Buy Now Pay Later” (BNPL) financing for electric appliances and agricultural machinery via Muangthai Pay Later Co., Ltd. (MTPL). Outstanding loans for the two products reached around THB6 billion at the end of March 2022. We project the company’s loan assets to expand to THB9-THB13 billion in the next few years. In the longer term, we expect these businesses to support MTC’s loan growth and alleviate pressure on loan yields as competition in the title loan market becomes more severe.

Sustained profitability in a challenging environment

MTC should be able to maintain profitability over the next few years, despite higher provision expenses and lower interest spread compared with the past, as we expect the company will focus on controlling operating expenses. MTC reported a THB4.9 billion net profit in 2021, a 5% decline y-o-y. The weaker net profit was mainly due to higher provision expenses and operating expenses from branch opening as well as debt collection incentives for its staff.

The company’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), declined to 6.3% in 2021 from 8.5% in 2020, but still remained in the moderate range. For the first quarter of 2022 (1Q22), the annualized EBT/ARWA ratio improved modestly to 6.6%. Net profit in 1Q22 of THB1.37 billion was stable y-o-y. We estimate its EBT/ARWA to stay in the 5%-6% range during 2022-2024.

MTC’s loan yield fell to 18.7% in 2021 and 18.0% in 1Q22, from 21%-22% in the past due to intense competition in the title loan segment and an interest rate cap. However, the decline was consistent with the industry-wide profitability trend. We estimate its yield to sustain in the range of 18.0%-18.5% in the next few years,

thanks to the expansion of high-yielding new motorcycle HP and BNPL financing. This should help maintain its spread close to 15% as attained in 2021, even with potential rises in funding cost. We expect its operating costs to remain under control with the ratio of operating expenses to total income in the range of 42%-43% as future branch opening will be undertaken at lower costs. Although we anticipate its credit costs in 2022-2024 to be higher than in the past given the signs of asset quality deterioration, the company's net profit growth is still likely to be in the double-digit range, supported by robust revenue generation.

Asset quality weakens but remains manageable

MTC's asset quality slightly deteriorated in 2021 and weakened further in the first quarter of 2022. However, this trend is also being seen for most peers in the industry and is in line with our expectations, owing to the adverse economic environment and the cessation of debt relief measures in 2021. Its reported non-performing loans (NPL) or stage-3 receivables to total loans (NPL ratio) as well as NPL formation have been on an uptrend.

Its NPL ratio rose steadily to 1.39% at the end of 2021 and 1.65% at the end of 1Q22 from about 1% in the past, driven by increased delinquency in unsecured personal loans, nano finance, and new motorcycle HP. Nonetheless, the overall ratio remains lower than the peer average of 2.3%. For the longer term, the company aims to keep its NPL ratio within the target of 2%. This would be supported by more prudent loan approvals, efficient debt collections, and acceleration of NPL write-offs. With our assumption of higher NPL write-offs of 1.0%-1.2% to average loans in 2022-2024, compared with the level below 1% in the past, the NPL ratio is likely to stay within the target.

Expected credit loss (ECL) provisions to average loans (credit cost) rose back to 0.9% in 2021, close to its normalized level of about 1%, after an exceptionally low level of 0.4% in 2020, thanks to the debt moratorium and freezing of loan status at the start of the Coronavirus Disease 2019 (COVID-19) pandemic. In 2022-2024, with our assumptions of 2% NPL ratio and NPL coverage ratio marginally above 100%, MTC would need to raise its credit cost slightly above normalized level to about 1.5%, based on our estimate.

Capital position remains strong

MTC's capital is assessed as strong, with a risk-adjusted capital (RAC) ratio of 21.6% at the end of 1Q22. The company's healthy profits and conservative dividend payout policy have helped sustain its strong equity base despite robust credit growth. In the medium term, based on our assumption of double-digit growth in new loans and a 15% dividend payout, we expect its RAC to gradually decline to 19%-20%. Nevertheless, the RAC will likely still be in the strong range. Its debt to equity (D/E) ratio stood at 3 times at the end of March 2022 compared with the D/E covenant on its debt obligations of 4.5 times.

Adequate funding and liquidity profile

We assess the company will have an adequate funding and liquidity position. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide it with sufficient and diversified funding sources to support growth. As of March 2022, the company had available credit facilities from various financial institutions totalling THB29 billion, 24% of which were undrawn.

In terms of funding structure, at the end of March 2022, MTC's short-term debt accounted for 36% of total debt, a decrease from 39% in 2021. We expect MTC's well-established relationships with financial institutions and ample credit facilities will help mitigate liquidity risk. As of 6 June 2022, MTC had THB51.02 billion in outstanding long-term debentures. Of this amount, THB11.3 billion is scheduled to be redeemed in 2022, for which the company plans to refinance.

Competition in title loans continues to pressure earnings

Amidst vulnerable economic conditions, small and medium enterprises (SMEs) and households remain in need of liquidity for their businesses and consumption. This has led to continuous growth in title loans. In 2021, the average growth of outstanding loans for the three largest operators was 14%, a relatively high rate, in our view. Competitive interest rates and high LTV remain key strategies to attract customers as competition becomes more severe, caused by a combination of aggressive growth targets among existing operators and the emergence of small new operators. As competition intensifies, yields for title loans are likely to trend lower. Operators have therefore adapted by introducing new products such as motorcycle leasing, life and non-life insurance services, or "Buy Now Pay Later" (BNPL) for electrical appliances and IT gadgets to create new income streams to compensate for declining yields in their core businesses.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MTC's operations in 2022-2024 are as follows:

- New loans to grow in the range of 15%-30%.
- Interest yields to be in the range of 18.0%-18.5%.
- Credit cost to be around 1.5%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that MTC will maintain its market position in the title loan segment. The outlook also assumes that its profitability and capital stay strong, while asset quality remains at manageable levels.

RATING SENSITIVITIES

An upward revision on the ratings and/or outlook could occur if MTC's RAC rises well above 25% on a sustained basis while financial performance measured by EBT/ARWA remains sound, at around the current level. On the contrary, the ratings and/or outlook could be revised downward should there be significant deterioration in MTC's asset quality causing credit cost to rise above 3%, or if the company's capital position weakens materially, with the RAC ratio falling below 15% for an extended period.

COMPANY OVERVIEW

MTC was initially named D.S. Leasing Co., Ltd., and later Muangthai Leasing PLC. The company was founded by Mr. Chuchat Petaumpai and Mrs. Daonapa Petumpai and registered on the Stock Exchange of Thailand (SET) on 22 May 1992. With initial registered capital of THB2 million, the company mainly offered hire-purchase loans for both new and used motorcycles through dealers in Phitsanulok and other provinces in the lower northern region, such as Sukhothai, Kamphaeng Phet, and Pichit. Target customers comprised people with regular incomes, farmers, and self-employed individuals. The company subsequently expanded its product line and started offering vehicle title loans, automobile title loans, and agricultural vehicle title loans to serve different customer groups.

In August 2001, the company was renamed to Muangthai Leasing Co., Ltd. The company discontinued its HP business due to the intense market competition, as many motorcycle manufacturers and dealers began offering HP loans to their customers.

In 2006, the company submitted an application to launch a microfinance business under the supervision of the Bank of Thailand (BOT). On 31 August 2006, the company received a license from the Ministry of Finance (MOF) and has since provided microfinance services through its own branches.

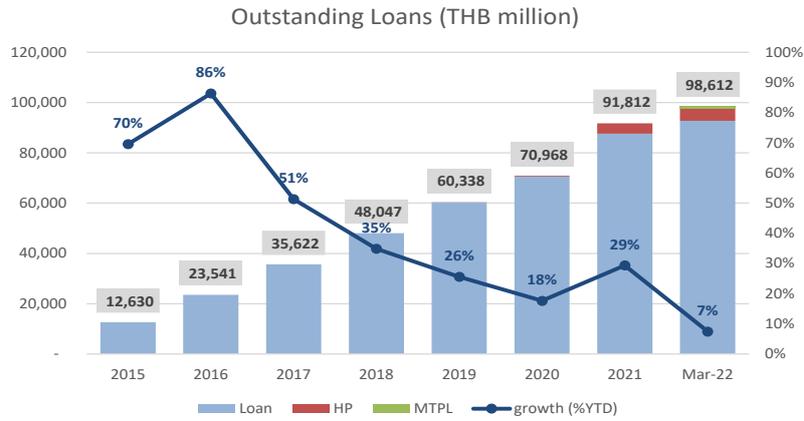
After receiving approval from the MOF on 26 May 2015, the company extended its product line once again to meet the differing needs of its customers for products such as nano-finance loans (retail loans for microenterprises under the BOT's supervision) and land title loans.

In 2016, the company began offering different loan payment channels via counter service or automatic payment machines as well as via Big C, Tesco Lotus, and AirPay in the following year. On 26 April 2018, the company changed its name from Muangthai Leasing PLC (MTLS, now is its subsidiary) to Muangthai Capital PLC (MTC). The company also launched a mobile application, "Muangthai Capital 4.0" for the iOS and Android smartphone systems in 2018.

In 2019, MTC launched a new credit product called "new motorcycle hire purchase" via its subsidiary, MTLS. In late 2021, the company set up Muangthai Pay Later Co., Ltd. (MTPL) and started a new business, BNPL loans for electric appliances and agricultural machinery in early 2022. These two new businesses were established to expand and strengthen the company's customer base.

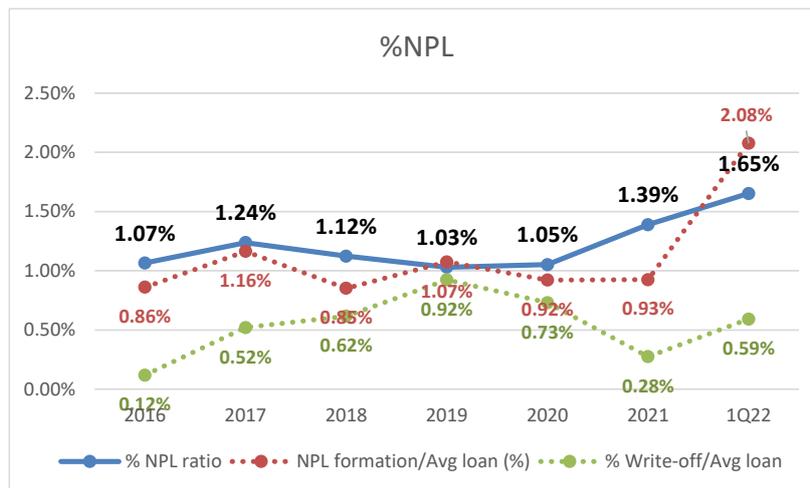
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Sources: MTC

Chart 2: MTC's NPL Ratio



Sources: MTC's financial statements

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

	Jan-Mar 2022	Year Ended 31 December			
		2021	2020	2019	2018
Total assets	105,811	98,390	77,222	61,872	49,146
Total loans	98,612	91,812	70,968	60,338	48,047
Allowance for expected credit loss	1,840	1,832	1,328	1,715	1,499
Short-term debts	31,242	29,661	20,081	14,689	11,042
Long-term debts	46,263	41,820	34,590	29,588	24,502
Shareholders' equity	26,244	24,869	20,682	15,972	12,299
Net interest income	3,682	13,068	12,145	10,353	8,444
Expected credit loss	149	748	291	554	586
Non-interest income	163	824	771	808	872
Operating expenses	1,963	6,961	6,144	5,314	4,103
Earnings before taxes	1,732	6,201	6,516	5,293	4,627
Net income	1,376	4,945	5,214	4,237	3,713

** Consolidated financial statements*
Unit: %

	Jan-Mar 2022	Year Ended 31 December			
		2021	2020	2019	2018
Profitability					
Net interest income/average assets	3.61	14.88	17.45	18.65	19.61
Non-interest income/average assets	0.58	0.88	1.04	1.30	1.85
Operating expenses/total income	44.13	43.46	41.70	41.88	39.39
Operating profit/average assets	6.79	7.06	9.36	9.54	10.75
Earnings before taxes/average risk-weighted assets	6.60	6.29	8.53	8.71	10.05
Return on average assets	5.39	5.63	7.49	7.63	8.63
Return on average equity	21.53	21.71	28.35	29.98	34.96
Asset Quality					
Receivable in stage 3/total loans	1.65	1.39	1.05	1.03	1.12
Expected credit loss/average loans	0.63	0.92	0.44	1.02	1.40
Allowance for expected credit loss/receivable in stage 3	112.90	143.57	177.74	275.94	277.71
Capitalization					
Risk-adjusted capital ratio	21.59	22.09	24.45	23.45	23.01
Debt/equity (times)	3.03	2.96	2.73	2.87	3.00
Funding and Liquidity					
Stable funding ratio	184.35	144.87	152.92	173.41	186.43
Liquidity coverage measure (times)	5.29	4.40	6.86	5.33	7.97
Short-term debts/total liabilities	39.26	40.34	35.52	32.00	29.97

** Consolidated financial statements*
RELATED CRITERIA

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

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC227B: THB2,043.30 million senior unsecured debentures due 2022	BBB+
MTC22NB: THB2,349.70 million senior unsecured debentures due 2022	BBB+
MTC22NC: THB2,163.40 million senior unsecured debentures due 2022	BBB+
MTC232C: THB1,514 million senior unsecured debentures due 2023	BBB+
MTC237A: THB1,756.70 million senior unsecured debentures due 2023	BBB+
MTC23NB: THB1,319.20 million senior unsecured debentures due 2023	BBB+
MTC23NC: THB2,836.60 million senior unsecured debentures due 2023	BBB+
MTC243B: THB2,486 million senior unsecured debentures due 2024	BBB+
MTC248A: THB1,641.80 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC25NA: THB1,598 million senior unsecured debentures due 2025	BBB+
MTC262A: THB1,391 million senior unsecured debentures due 2026	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC26NA: THB1,000 million senior unsecured debentures due 2026	BBB+
MTC272A: THB1,000 million senior unsecured debentures due 2027	BBB+
Up to THB5,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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