

MUANGTHAI CAPITAL PLC

No. 104/2023
9 June 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 03/05/23

Company Rating History:

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

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Jantana Taveeratanasilp
jantana@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweekok Jiamsakunthum
taweekok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

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 leading market position in the title loan business, strong capital base as well as diversified and adequate funding sources and liquidity. However, the strengths are undermined by our concerns over its deteriorating asset quality. These factors might constrain the company’s profitability over the next few years.

KEY RATING CONSIDERATIONS

Maintained top market position in title loans

MTC’s long-standing expertise in the title loan business and steadily expanding branch network have helped secure its top market position. MTC’s loan portfolio reached THB126 billion at the end of the first quarter of 2023 (1Q23), an increase of 28% year-on-year (y-o-y) and 4% year-to-date, in line with peers.

The company’s loan growth has been driven largely by widened market coverage. The number of branches reached 6,962 at the end of 1Q23 with a target of 7,200 branches by the end of 2023.

In 2023-2025, we assume 600 new branches will be added each year. We also expect new loan growth to decline to the 5%-10% range from 20%-30% in the past due to a more cautious growth strategy. These assumptions translate into outstanding loan growth of 17% in 2023 and a high single-digit annual rate in 2024-2025. Despite the decelerating growth, MTC is likely to remain the largest title loan operator, thanks to the large gap between the company and its peers in terms of asset size and number of branches.

At the end of 1Q23, outstanding loan mix comprised 75% title loans, 18% unsecured loans, including unsecured personal loans and nano finance, and the remaining 7% new motorcycle hire purchase (HP) and Buy Now Pay Later (BNPL). Longer term, loan growth is still likely to be driven by its core title loan business. We expect MTC’s management to adopt a conservative growth strategy for other products.

Asset quality has deteriorated gradual improvement expected

MTC’s asset quality has deteriorated steadily since the second half of 2022, more than our anticipation. In our view, this could be the result of rapid expansion amid a weak economy over the last two years and the cessation of debt relief measures in 2022. Nonetheless, we anticipate that the company will be able to stabilize its asset quality over the next 12 months, supporting our view of a “stable” rating outlook.

The ratio of stage-3 loans (NPL) to total loans (NPL ratio) increased to 2.9% at the end of 2022 and 3.2% at the end of 1Q23. In addition to the increased delinquency in unsecured personal loans, nano finance, and new motorcycle HP, title loans have also shown signs of a moderate rise in NPLs. Accordingly, expected credit loss (ECL) provisions to average loans (credit cost) rose to 2.7% in 2022 and 3.5% in 1Q23 (annualized), from a normal level of 1% or lower.

In the longer term, the company still aims to keep its NPL ratio below 3.5%. To achieve that, the company would need to underwrite loans more prudently,

improve debt collection, and accelerate NPL write-offs. The company would also need to focus on title lending, whose delinquency remains lower than other products. As for new motorcycle HP, MTC plans to adopt more stringent loan-to-value (LTV) requirements. At the same time, it intends to maintain its policy to extend unsecured loans only to existing customers with good payment records.

With our assumption of an NPL formation ratio of 2%-3% in 2023-2025 and higher NPL write-offs to average loans of 2%, compared with less than 1% in the past, MTC's NPL ratio is likely to stay within its 3.5% target. Based on the company's conservative provisioning policy, we expect MTC would also have to raise its credit cost if it were to maintain NPL coverage of at least 100% over the next few years. We project credit cost to be in the 2%-3% range in 2023-2025. At the end of 1Q23, the company's NPL coverage ratio was 105%.

Earnings capability to remain stable

Even though MTC's earnings before taxes to average risk-weighted assets (EBT/ARWA) fell to 4.9% in 2022, the ratio remains in the range that supports a 'moderate' earnings capability assessment. We expect its EBT/ARWA to stay at around 4% in 2023-2025 despite higher provision expenses and a lower interest spread, provided that operating expenses are well controlled.

In terms of earnings, MTC's net profit of THB5 billion in 2022 was largely flat y-o-y, despite strong revenue growth. This was mainly due to a sharp increase in provisions. For 1Q23, financial performance weakened moderately y-o-y, also caused by high credit cost. We anticipate credit costs in 2023-2025 to remain elevated given signs of asset quality deterioration.

We expect MTC's net profit to drop slightly in 2023 before recovering strongly in 2024-2025. This is based on our assumption of a strong increase in loan volume and loan yield staying at the current level of about 17%-18% in 2023-2025, compared with the 20% range before 2021. The declining trend has been caused by intense competition and the company's strategic scale-down of its high-yielding loan portfolio, new motorcycle HP, unsecured loans and BNPL financing. This is likely to remain the case in the next 1-2 years. With potential rises in funding cost, we expect its spread to be around 13%. Nevertheless, operating costs are likely to remain under control with the ratio of operating expenses to total income in the range of 40%-41% as future branch openings will be undertaken at lower cost.

Sufficient funding and liquidity

We assess MTC to 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 sufficient and diversified funding sources to support growth. As of 1Q23, the company had available credit facilities from various financial institutions totalling THB41.3 billion, 16% of which were undrawn. In terms of funding structure, at the end of 1Q23, MTC's short-term debt accounted for 32% of total debt, a decrease from 41% in 2021. As of May 2023, MTC has THB68.8 billion in long-term debentures outstanding. Of this amount, THB12.9 billion are scheduled to be redeemed in 2023, for which the company already has a refinancing plan.

Challenges and risks remain for title loan operators

The robust growth of title loans is likely to continue in the medium term, supported by network expansion, the aggressive growth targets of existing operators, entry of new players, and strong loan demand. That said, we have observed a number of key developments and challenges that have impacted title loan operators and need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are pressuring profitability. Rising credit risk from aggressive growth strategies, coupled with the weaker credit profiles of target customers, has resulted in higher credit costs for most operators. Moreover, aggressive loan growth targets have also led to eroded capital for some operators, which, if continued, could adversely impact credit profiles.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MTC's operations in 2023-2025 are as follows:

- Outstanding loans to grow in the range of 7%-17%.
- Interest spread to be in the range of 13.8%-13.9%.
- Credit cost to be in the range of 2.5%-3.1%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MTC should be able to improve asset quality over the next 12 months, and credit cost will be on a declining trend. We also expect MTC to maintain its leading market position in the title loan segment while its capital position remains at a strong level.

RATING SENSITIVITIES

A downward revision on the ratings and/or outlook could occur if there are no signs of improvement in MTC's asset quality, with credit cost remaining high and earnings capabilities measured by EBT/ARWA falling well below 3.5%, the outlook and rating could be under pressure.

An upgrade in ratings and/or outlook is unlikely in the near term. However, a rating upside could be supported by material improvement in capital position, measured by the risk-adjusted capital (RAC) ratio that rises well above 25%, while earnings capabilities and market position remain strong.

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 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.

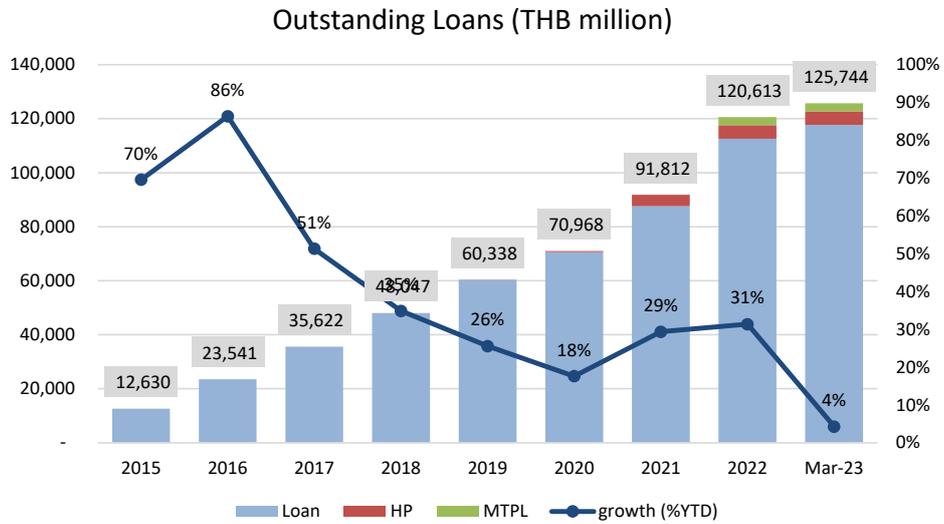
After receiving approval from the MOF on 26 May 2015, the company extended its product line once again to meet the differing needs of its customers for products such as nano-finance loans (retail loans for microenterprises under the BOT's supervision) and land title loans.

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 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.

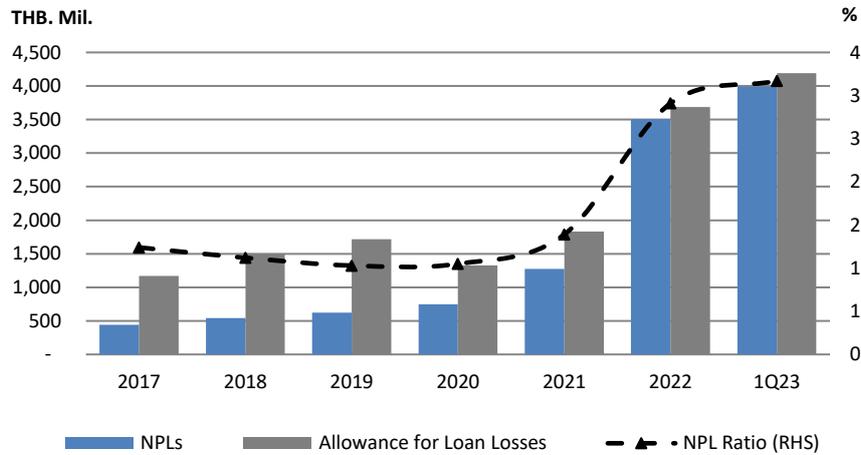
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Sources: MTC

Chart 2: MTC's NPLs and NPL Ratio



Sources: MTC's financial statements

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

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	131,802	128,066	98,390	77,222	61,872
Total loans	125,744	120,613	91,812	70,968	60,338
Allowance for expected credit loss	4,191	3,686	1,832	1,328	1,715
Short-term debts	31,223	32,718	29,661	20,081	14,689
Long-term debts	67,482	63,586	41,820	34,590	29,588
Shareholders' equity	30,142	29,091	24,869	20,682	15,972
Net interest income	4,549	16,386	13,068	12,145	10,353
Expected credit loss	1,066	2,827	728	255	554
Non-interest income	233	869	824	771	808
Operating expenses	2,352	8,069	6,961	6,144	5,314
Earnings before taxes	1,365	6,360	6,201	6,516	5,293
Net income	1,070	5,093	4,945	5,214	4,237

** Consolidated financial statements*
Unit: %

	Jan-Mar 2023	Year Ended 31 December			
		2022	2021	2020	2019
Profitability					
Net interest income/average assets	14.00 **	14.47	14.88	17.45	18.65
Non-interest income/average assets	0.72 **	0.77	0.94	1.11	1.46
Operating expenses/total income	41.77	40.21	43.46	41.70	41.88
Operating profit/average assets	4.20 **	5.62	7.06	9.36	9.54
Earnings before taxes/average risk-weighted assets	3.64 **	4.91	6.29	8.55	8.72
Return on average assets	3.29 **	4.50	5.63	7.49	7.63
Return on average equity	14.45 **	18.88	21.71	28.35	29.98
Asset Quality					
Receivable in stage 3/total loans	3.17	2.91	1.39	1.05	1.03
Expected credit loss/average loans	3.46 **	2.66	0.90	0.39	1.02
Allowance for expected credit loss/receivable in stage 3	105.00	105.11	143.57	177.74	275.94
Capitalization					
Risk-adjusted capital ratio	19.64	19.88	22.11	24.45	23.51
Debt/equity (times)	3.37	3.40	2.96	2.73	2.87
Funding and Liquidity					
Stable funding ratio	143.65	148.33	144.87	152.92	173.41
Liquidity coverage measure (times)	0.06	0.10	0.04	0.07	0.05
Short-term debts/total liabilities	30.71	33.06	40.34	35.52	32.00

** Consolidated financial statements*
*** Annualized*
RELATED CRITERIA

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

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
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+
MTC248C: THB2,728.20 million senior unsecured debentures due 2024	BBB+
MTC248D: THB1,328.40 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC24OA: THB2,367 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC253A: THB1,969.50 million senior unsecured debentures due 2025	BBB+
MTC256A: THB2,200 million senior unsecured debentures due 2025	BBB+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC258B: THB2,124.50 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+
MTC263A: THB1,995.20 million senior unsecured debentures due 2026	BBB+
MTC264A: THB1,634.60 million senior unsecured debentures due 2026	BBB+
MTC266A: THB1,831.10 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+
MTC273A: THB927.70 million senior unsecured debentures due 2027	BBB+
MTC276A: THB933.20 million senior unsecured debentures due 2027	BBB+
MTC283A: THB1,121.1 million senior unsecured debentures due 2028	BBB+
Up to THB10,000 million senior unsecured debentures due within 5 years 1 month	BBB+
Rating Outlook:	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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