

SUKHUMVIT ASSET MANAGEMENT CO., LTD.

No. 223/2023
16 November 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 02/11/22

Company Rating History:

Date	Rating	Outlook/Alert
24/11/21	AA+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Sukhumvit Asset Management Co., Ltd. (SAM) and the ratings on SAM's outstanding senior unsecured debentures at "AA+" with a "stable" rating outlook. The ratings reflect our view on the company's status as a "very important" government-related entity (GRE) that is "integral" to the Financial Institutions Development Fund (FIDF), a separate legal entity set up under Bank of Thailand (BOT) Act. In our view, the strong linkage and role imply a high likelihood of support from FIDF in times of need.

KEY RATING CONSIDERATIONS

Full ownership and supervision by FIDF

We continue to assess the linkage of SAM to FIDF as "integral", the highest level of linkage assessment according to our "Rating Methodology for Government-related Entities". SAM is wholly owned and controlled by FIDF. The company's operational policies, including business policies and directions, and financing policies are determined and closely monitored by board representatives from FIDF. The monitoring is undertaken through monthly board meetings and quarterly meetings with FIDF. Also, the company's board members comprise representatives from BOT, the Ministry of Finance, and other government entities, solidifying its strong ties to the government.

As a government-owned asset management company (AMC) with a public policy mandate, its business strategy and financial targets are focused more on business stability and social responsibility over profit maximization.

Strong policy role as national AMC

We assess the company as a "very important" GRE given SAM's importance to FIDF and BOT as an arm to execute important financial policies. Primarily, the company acts as BOT's tool in managing non-performing loans (NPL) in the banking system by supporting the debtors through long-term debt restructuring. In times of stress in the financial system, we believe SAM's role as a state-controlled vehicle to help stabilize the country's financial system will be even more prominent.

SAM also serves another distinct policy role as an intermediary in the BOT-initiated "Debt Clinic" scheme, which started in 2017. The program aims to support voluntary debt restructuring for retail borrowers and to improve loan loss recovery for financial institutions. The programs have undergone multiple revisions over the years to capture a wider group of debtors.

At the end of June 2023, the number of clients under the Debt Clinic scheme since inception increased steadily to around 41,000 from around 34,000 in 2022 and 23,000 in 2021. The cumulative principal debt obligation balance of clients under the program increase to THB8.2 billion at the end of June 2023, from THB 6.9 billion at the end of 2022 and THB5.4 billion at the end of 2021. While the outstanding debt obligations under the scheme totaled around THB6.3 billion at the end of June 2023, up from THB5.5 billion at the end of 2022.

We believe that SAM's role in the Debt Clinic scheme is unlikely to be performed by other entities due to its focus on social impact rather than profit. We view that the increase in the number of debtors participating in the scheme

reinforces the importance of SAM's role in helping BOT achieve its objectives in addressing the household debt issues.

Support from FIDF

We believe that FIDF has both the propensity and capacity to provide extraordinary support to SAM in times of stress, despite the lack of explicit support. Nonetheless, we view FIDF's zero-interest debt funding provided since inception and the generous repayment schedule granted by FIDF serves as an indirect funding support for the company to fulfill its policy role.

Over the past four years, FIDF and SAM have agreed on the debt repayment of THB1.5 billion per year. The amount was lowered from around THB5 billion in 2017 following FIDF's policy for SAM to continuously strengthen its business operation and financial position. Debt repayment to FIDF can be temporarily exempted if necessary.

In addition, there are no regulatory or policy restrictions that could prevent FIDF from providing financial support to the company. We also view that a default by the company will have severe impact on the reputation of FIDF due to SAM's status as a wholly owned subsidiary of FIDF.

Top three largest AMC

SAM remains among the top-three largest AMCs in terms of asset size in Thailand's distressed asset management industry. The majority of the company's portfolio comprises legacy NPLs transferred from Krungthai Bank PLC (KTB), Thai Asset Management Corporation (TAMC), and Petchburi Asset Management Co., Ltd. (PAM).

In response to the FIDF's policy, the company has acquired additional NPLs since 2006, albeit at a measured pace. With availability of funding from various financial institutions, its NPL acquisition has accelerated over the last few years. In 2022, SAM acquired NPLs totaling THB5.3 billion, up from THB2.8 billion in 2021. At the end of December 2022, net legacy NPL portfolio was around 24%, while net NPL portfolio from acquisitions was 76%.

The company's total assets amounted to THB50 billion at the end of December 2022, ranked second only to Bangkok Commercial Asset Management PLC (BAM, rated "A-/stable") whose assets totaled THB133 billion. Combined, BAM and SAM have accounted for over 60% of the industry's total assets over the past several years. Given its size compared to the total NPLs in the system of around THB500 billion, and support from FIDF, we believe that SAM's policy role as an only government owned AMC and financial system stabilizer cannot be substituted by other AMCs in the short to medium term.

Leverage remains low

SAM's funding sources consist of cash collections, credit lines from financial institutions, and debentures. Despite the recent issuance of THB2.5 billion debentures in December 2022, SAM's financial leverage measured by interest-bearing debt (excluding zero-coupon debt from FIDF) to equity remains low at 0.41 times at the end of 2022. With part of the proceeds from debentures being utilized for the repayment of bank loans in 2023, which helped reduce bank borrowings to THB2.8 billion, the ratio declined to 0.37 times at the end of June 2023.

Including the zero-coupon debt from FIDF, the ratio of interest-bearing debt to shareholders' equity was 2.7 times at the end of June 2023. Longer term, we expect the company's leverage level to remain relatively stable as cash collections will continue to be its main source of funding for NPL acquisition. This aligns with FIDF's policy to emphasize stability and sustainability over rapid growth.

Cash collection likely to remain weak

SAM's cash collection has weakened compared to the pre-Coronavirus Disease 2019 (COVID-19) period. Its cash collection fell from above THB11 billion prior to 2020 to THB5.8 billion in 2021 and THB6.8 billion in 2022. The decline was attributed to a change in the policy relating to NPL sales since 2021 and the persistently weak economic environment. Cash collection in the first half of 2022 (1H23) slightly improved to around THB2.4 billion, a 14% increase year-on-year (y-o-y). We believe the company's cash collection will continue to face pressure over the next 12 months as the economy remains uncertain.

Rising NPLs bode well for AMCs, but uncertain economy could weaken debt collections

The effects of the COVID-19 pandemic have widely impacted the Thai economy over the past two years. The debt servicing ability of debtors in vulnerable sectors has weakened considerably. Although continuous assistance measures have been implemented by the BOT to help alleviate the burden of debtors, NPLs in the financial sector, both Thai and foreign commercial banks, remained high at THB492 billion with an NPL ratio of 2.7% at the end of June 2023. We anticipate NPL disposal by financial institutions to rise as various assistance measures gradually come to an end this year. While this presents an opportunity for AMCs to acquire NPLs, we believe challenging economic conditions may impede debt collections, posing a significant risk for AMCs.

RATING OUTLOOK

The “stable” outlook reflects our expectation that SAM will retain its status as a GRE and maintain its “integral” linkage and “very important” role with FIDF and BOT.

RATING SENSITIVITIES

The ratings and/or outlook of the company could change if our view on the level of linkage with and importance to FIDF and BOT changes.

COMPANY OVERVIEW

SAM was established on 18 April 2000 following a cabinet resolution with the objective of taking over and managing the NPLs of KTB with the outstanding balance totaling THB519 billion. The company was wholly owned by FIDF, a separate legal entity under BOT with a registered and paid-up capital of THB25 million.

In 2001, the company was required to transfer its NPLs amounting to THB309 billion to TAMC as stipulated by the Emergency Decree on Asset Management Company A.D. 2001 (Emergency, TAMC).

On 7 May 2004, the FIDF passed a resolution requiring the company to acquire PAM. The resolution involved PAM selling all its restructured debts to Siam City Bank PLC (SCIB) and transferring its remaining assets, liabilities, and commitments to SAM.

Since 2006, the company has auctioned NPLs and non-performing assets (NPA) from other institutions. In 2012, the company also auctioned NPLs and NPAs from TAMC, which was closed down in 2011. The company currently has four provincial offices in Chiang Mai, Khon Kaen, Surat Thani, and Phitsanulok providing services to its clients.

In 2013, the company joined the International Public AMC Forum (IPAF), established in 2012, to seek business opportunities and international cooperation. An objective of the IPAF also includes the exchange of knowledge and training among national asset management companies.

In 2017, the company was assigned by the BOT to act as an intermediary in the BOT-initiated Consumer Debt Relief Program (CDRP) or Debt Clinic for the relief of household debt problems, especially non-collateralized debts. The program’s objective is to help individuals resolve their unsecured debts with various financial institutions with SAM acting as the main vehicle in the process.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2023	Year Ended 31 December			
		2022	2021	2020	2019
Total assets	49,847	50,184	48,196	47,576	44,951
Total managed assets	45,195	44,243	41,284	39,493	37,172
Loan purchased – net	31,852	31,264	29,152	28,762	26,602
Properties foreclosed – net	13,343	12,979	12,132	10,732	10,570
Total borrowings	34,734	34,458	33,808	33,267	238,375
Short-term borrowings	895	915	1,459	1,040	1,560
Long-term borrowings	33,839	33,543	32,349	32,227	236,815
Shareholder's equity	12,938	13,650	12,749	10,900	(194,752)
Total revenue	2,757	6,452	6,543	6,538	6,907
Interest expenses	831	1,622	1,633	1,611	83
Operating expenses	684	1,214	1,217	1,502	1,573
Net income	(711)	1,053	1,599	1,944	4,448

Unit: %

	Jan-Jun 2023	Year Ended 31 December			
		2022	2021	2020	2019
Profitability					
Operating income/average assets	7.70 *	9.82	10.23	10.65	15.51
Operating income/total income	69.86	74.86	75.01	75.35	98.80
Operating profit/average assets	4.97 *	7.35	7.69	7.40	11.93
Earnings before tax/ average assets	(2.81) *	2.17	3.37	4.23	10.17
Return on average assets	(2.84) *	2.14	3.34	4.20	10.11
Return on average equity	(10.70) *	7.98	13.52	(2.11)	(2.26)
Capitalization					
Debt/equity (times)	2.85	2.68	2.78	3.36	n.m.
Shareholders' equity/total managed assets	28.63	30.58	30.88	27.60	n.m.
Funding and Liquidity					
Stable funding ratio	32.83	33.81	33.61	32.96	33.18
Liquidity coverage measure (times)	3.30	4.67	3.42	6.10	4.13
Short-term borrowings/total liabilities	2.42	2.50	4.12	2.84	0.65
Total managed assets/total assets	90.67	88.16	85.66	83.01	82.70
Operating efficiency					
Operating expenses /operating income	35.50	25.14	24.84	30.49	23.05
NPL Cash collection to net NPL	8.69 *	14.56	10.14	19.59	29.76
NPA Cash collection to net NPA	12.70 *	19.15	22.45	26.83	40.07

* Annualized

n.m. = Not meaningful

RELATED CRITERIA

- Rating Methodology for Government-related Entities, 27 October 2023
- Issue Rating Criteria, 15 June 2021

Sukhumvit Asset Management Co., Ltd. (SAM)

Company Rating:	AA+
Issue Ratings:	
SAMAMC25DA: THB800 million senior unsecured debentures due 2025	AA+
SAMAMC27DA: THB1,000 million senior unsecured debentures due 2027	AA+
SAMAMC29DA: THB700 million senior unsecured debentures due 2029	AA+
Rating Outlook:	Stable

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