

Press Release

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TRIS Rating Affirms Senior Partially Guaranteed Debt Rating of "GL" at "A-" and Revises Outlook to "Negative" from "Stable"

TRIS Rating has affirmed the rating of "A-" for the outstanding senior partially guaranteed debentures of Group Lease PLC (GL), and has revised the outlook of the debentures to "negative" from "stable".

The rating of the partially guaranteed debentures is based on the credit profiles of both the guarantor and the issuer (GL). Sixty-five percent (65%) of the outstanding principal and interest of the debentures is guaranteed by KASIKORNBANK PLC (KBANK), rated "BBB+" by S&P Global Ratings, with a "stable" outlook (international scale). The negative outlook for the debentures is determined by GL's credit profile. GL's credit profile reflects the elevated business risk GL carries due to its exposure to markets with higher risk and from concentration risk, derived from making large loans to a few borrowers. The company also carries asset impairment risk as a result of sizeable investment in Sri Lanka.

The "negative" outlook for GL's issue rating reflects the company's higher business risk. The business risk is higher due to three factors: exposure to markets with higher risk than its home markets, large loans made to just a few large borrowers, and the asset impairment risk of the investment in Sri Lanka. The support GL receives from its major shareholder is expected to continue. In addition, TRIS Rating expects GL to maintain its market position, and control and improve the overall quality of the loan portfolio, as well as enhance its financial performance.

The downside case for the issue rating would emerge if any new uncertainties arise, if GL's asset quality or profitability deteriorates further than TRIS Rating's expectation, or if the creditworthiness of GL's guarantor weakens. The upside case is unlikely in the medium term.

As of December 2016, GL's assets were Bt17,266 million. The largest portion, or 38.1% of assets, comprised motorcycle and agricultural machinery hire purchase and asset-backed loans made to borrowers in Thailand, Cambodia, Laos, and Indonesia. About one-fifth (21.77%) of assets were loans made to two groups of borrowers registered in Cyprus and Singapore. The remainder was an investment in Commercial Credit and Finance PLC (CCF) operating in Sri Lanka (14.74%), investments in other companies in Singapore and Indonesia (2.76%), cash and cash equivalents (14.78%), and other assets (7.86%).

GL began to diversify into other countries in Indochina in 2013. The company started offering hire purchase loans in Cambodia through a wholly-owned subsidiary, GL Finance PLC (GLF). The company cooperates with Honda NCX, the sole authorized manufacturer and distributor of Honda motorcycles in Cambodia. At the end of March 2016, GLF's loan portfolio comprised approximately 30% of GL's consolidated outstanding loans.

In 2014, GL started operating in the Lao People's Democratic Republic (Lao PDR) through a subsidiary, GL Leasing (Lao) Co., Ltd. (GLL). GLL uses a business model similar to the approach GLF takes in Cambodia. GLL focuses on loans for agricultural machinery and motorcycles. GL plans to expand to Indonesia through a subsidiary, PT Group Lease Finance Indonesia (GLFI), a three-way joint venture between Group Lease Holdings Pte., Ltd. (GLH), GL's wholly-owned subsidiary registered in Singapore as a holding company, J Trust Asia Pte., Ltd., and a local Indonesian company. GLFI received an official license from the Indonesian authorities (OJK) in July 2016.

In the second half of 2015, GL started providing through GLH a substantial amount of loans in US dollars to two groups of borrowers. The two groups of borrowers registered in Cyprus and Singapore. The two groups of borrowers lent the money they received from GLH to motorcycle dealers in Cambodia. At the end of 2015, the outstanding loans to the two borrowers totaled Bt2,758 million. The value of the loans grew considerably by the end of 2016, rising to Bt3,759 million, or 21.77% of GL's total assets. This amount is significant, and increases GL's business risk. Given the large amount of outstanding loans placed with these two borrowers, GL has a higher exposure to markets with higher risk and GL has loan concentration risk.

GL expanded to Sri Lanka in December 2016, by way of a Bt2,489 million equity investment in CCF. GL received 29.99% of the total share capital for its investment. The investment in Sri Lanka may bring new growth opportunities, but GL will also face asset impairment risk. At the end of 2016, GL's balance sheet reflected the value of the investment in CCF at Bt2,545 million, on the equity method.

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The quality of GL's portfolios of hire purchase loans and asset-backed loans has improved significantly recently, even though the Thai economy is still growing slowly. The loan collection process has improved as well. As the result of these improvement efforts, the ratio of non-performing loans (NPLs; loans overdue more than three months) to total hire purchase and asset-backed loans dropped from 9.4% at the end of 2014 to 5.93% at the end of 2015 and 4.36% at the end of 2016. TRIS Rating expects GL will maintain its effective underwriting and collection policies and continue to control the quality of the overall loan portfolio.

GL's financial performance improved in 2015 and 2016. The ratio of provision expenses to average hire purchase and asset-backed loans dropped to 5.4% in 2015 and 4.68% in 2016. The ratio of losses on repossessed motorcycles to average hire purchase and asset-backed loans decreased to 5.38% in 2015 and 3.47% in 2016. Net profit surged to Bt583 million in 2015 and Bt1,063 million in 2016. Return on average assets (ROAA) sprang up to 6.46% in 2015 and 7.58% in 2016.

GL's financial flexibility has been enhanced after the shareholding structure changed in 2007. The company financed the growth of its loan portfolio with borrowings obtained through the financial support of its creditworthy major shareholder. At the end of 2016, the ratio of shareholders' equity to total assets declined to 49.24%, from 70.43% in 2015, as a result of an advance received from J Trust Asia Pte., Ltd. The advance covers the issuance of convertible debentures. The ratio is adequate to support the high-risk nature of the motorcycle financing business and to finance the expansion of GL's loan portfolio. TRIS Rating expects GL to maintain a capital base larger than other vehicle financing companies which primarily finance passenger cars and pick-up trucks. GL's larger capital base will serve two main purposes: give it a base from which to expand into markets in other member nations of the Association of Southeast Asian Nations (ASEAN), and serve as a cushion to protect against losses, given the risky nature of its target customers.

Group Lease PLC (GL)

Issue Rating:

GL199A: Bt1,500 million senior partially guaranteed debentures due 2019

A-

Rating Outlook:

Negative

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