

HATTHA BANK PLC

No. 10/2023
23 January 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 06/01/23

Company Rating History:

Date	Rating	Outlook/Alert
07/05/18	BBB+	Stable

Contacts:

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Annop Supachayanont, CFA
annop@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on Hattha Bank PLC (HTB) and its existing senior unsecured debentures at “BBB+” with a “stable” outlook. At the same time, TRIS Rating assigns the “BBB+” rating to HTB’s proposed issue of up to THB1.3 billion in senior unsecured debentures maturing within three years. The new issue rating replaces the issue rating previously assigned on 6 January 2023, following HTB’s request to increase the issue size to up to THB1.3 billion, from up to THB1 billion. The company intends to use the proceeds from the proposed debenture issue for business expansion and fund its operation.

The company rating remains constrained by the sovereign rating on the Kingdom of Cambodia (Cambodia, rated “BBB+/stable”). We assess HTB’s credit profile (excluding Cambodia sovereign risk) that incorporates a rating enhancement at “a-”. The enhancement is based on our assessment of the bank’s status as a “strategically important” subsidiary of Bank of Ayudhya PLC (BAY, rated “AAA/stable”).

HTB’s credit profile reflects its strong market position in the retail credit market in Cambodia, adequate capital position, and prudent risk management. However, the credit profile is weighed down by its mid-sized banking franchise and the assessed high risk of the Cambodian banking industry.

The company’s performance in the first nine months of 2022 (9M22, unaudited) is on track to meet our expectation. At the end of 9M22, HTB’s outstanding loan portfolio increased to USD1.95 billion, a 17.6% growth year-to-date (YTD). Net income was USD57.1 million, compared with USD44.6 million in 2021. The increase was driven mainly by higher interest income from an expanded loan book and fee income. The company’s solvency ratio dropped to 18.4% but remained above the minimum regulatory requirement of 17.5%.

The non-performing loan¹ (NPL) ratio rose slightly to 1.77% at the end of September 2022 from 1.45% at the end of 2021, while NPL coverage ratio declined to 69%, from 99% at the end of 2021 based on CIFRS accounting standard; the ratio declined to 123% from 424% based on Cambodian Accounting Standards (CAS). Looking ahead, we anticipate a moderate increase in HTB’s NPL ratio due to the expiration of debt relief measures at the end of June 2022.

We assess HTB’s funding position at “average” level. At the end of 9M22, the company’s deposit increased to USD1.23 billion, a 18.6% growth YTD following the company’s core strategy to enhance its deposit franchise. Loan to deposit ratio fell to 158% from 159% at the end of 2021. Customer deposits accounted for 68.4%, an increase from 65% of its total funding at the end of 2021.

RATING OUTLOOK

The “stable” outlook reflects our expectation of HTB’s continued satisfactory operating performance over the next few years, and our view of its status as a strategically important subsidiary of BAY will remain unchanged. However, as the rating on HTB is capped by the sovereign rating assigned to Cambodia, changes in the sovereign rating outlook could result in the same change in the rating outlook on HTB.

1 Contractual balance and NBC definition

RATING SENSITIVITIES

An upward revision of our assessment on Cambodia's sovereign risk could result in a rating upgrade on HTB as it is currently capped by the sovereign rating. An upgrade on HTB's credit profile (excluding Cambodia sovereign risk) could happen if there is material improvement in HTB's business position, as indicated by a materially improved market position as well as diversification of business and revenue, with asset quality and capital maintained at the current levels.

A downward revision of our assessment on Cambodia sovereign risk could result in a downward revision of the rating on HTB. A downgrade on HTB's credit profile (excluding Cambodia sovereign risk) by two notches or more or a material change in HTB's group status that leads to a reduction in credit enhancement could also lead to a rating downgrade.

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Sovereign Rating Methodology, 26 August 2022
- Issue Rating Criteria, 15 June 2021
- Banks Rating Methodology, 3 March 2020

Hattha Bank PLC (HTB)

Company Rating:	BBB+
Issue Ratings:	
HTB25OA: THB1,500 million senior unsecured debentures due 2025	BBB+
Up to THB1,300 million senior unsecured debentures due within 3 years	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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