

MUANGTHAI CAPITAL PLC

No. 4/2022
13 January 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 05/10/21

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” rating outlook. At the same time, TRIS Rating assigns the rating of “BBB+” to MTC’s proposed issue of up to THB4 billion in senior unsecured debentures due within five years. The proceeds from the new debentures will be used for debt refinancing and loan portfolio expansion.

The ratings reflect the company’s leading market position in the auto title loan business and strong capital underpinnings. The ratings also take into account the company’s healthy earnings and relatively stable asset quality, as well as its diversified funding profile and adequate liquidity. The ratings are, however, constrained by the weak economic environment and intensifying competition in the auto title loan segment.

We anticipate MTC will maintain its solid market position in the auto title loan business over the next few years. We believe the company will continue to leverage its expertise in this niche market and keep expanding its branch network as well as client base. At the end of September 2021, MTC’s outstanding loans grew continuously by 20% year-to-date to THB85 billion. We project its new loan growth of 10%-20% per annum in the next few years, driven mainly by auto title loans. Demand for auto title loans remains robust due to the liquidity squeeze induced by the adverse economic environment. We also expect the new business, new motorcycle hire purchase (HP) loans, to support MTC’s loan growth and yields in the long term amid intense competition.

We expect a slight decline in MTC’s asset quality due to the weak economy. Nonetheless, we believe it should be manageable and have immaterial impact on the company’s risk position. The company’s prudent credit policies and efficient debt collection processes should help contain potential credit losses. Therefore, we believe that the company should be able to achieve its targeted ratio of non-performing or stage-3 loans to total loans (NPL ratio) of below 2%. At the end of September 2021, the company’s NPL ratio was 1.2%, up slightly from 1.1% at the end of 2020. The annualized credit cost was 1.2% in the first nine months of 2021 (9M21) and the company’s NPL coverage ratio stood at 160% at the end of September 2021. We anticipate the company’s expected credit loss (ECL) provision expenses to be in the range of 1.1%-1.2% of average loans in 2021-2023, and the NPL coverage ratio should remain in the range of 160%-170% over the next few years.

We anticipate MTC to maintain earnings quality over the next few years. For 9M21, the company’s annualized earnings before taxes to average risk-weighted assets (EBT/ARWA) ratio was stable at 7.1%, with a net profit of THB3.8 billion, the same level as in 9M20. The increase in net income was driven by higher net interest income and well controlled operating expenses.

The company should largely be able to sustain its profitability over the next few years by effectively managing its funding costs and operating expenses. This is despite intense competition in the auto title loan segment that has led to eroding yields. We believe the expansion into new motorcycle loans will support its profitability. We estimate MTC’s loan yield will decline to 19% over the next few years, from the current level of 19.5%.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

The company's adequate funding and liquidity profile is supported by its access to both debt and equity capital markets as well as credit facilities from financial institutions, thereby providing a variety of available funding sources. At the end of December 2021, the company had available credit facilities from various financial institutions totaling THB3.95 billion.

We anticipate the company's capitalization to remain strong with the risk-adjusted capital (RAC) ratio in 2021-2023 in the range of 23.6%-24.8%. Strong profitability and low dividend payout should support continuous capital accumulation. The company should be able to comply with the covenants on its debt obligations which limit its debt-to-equity ratio (D/E) below 4.5 times. At the end of September 2021, the company's RAC and D/E ratios were 23.7% and 2.9 times, respectively.

RATING OUTLOOK

The "stable" outlook is based on our expectation that MTC will maintain its market position in the auto title loan segment. The outlook is premised on our expectations that its profitability will stay strong, while asset quality and leverage will remain at acceptable levels.

RATING SENSITIVITIES

An upward revision on the ratings and/or outlook could occur if MTC's financial performance remains strong with an EBT/ARWA ratio above 8% and an RAC ratio well above 25% for a sustained period. However, the ratings and/or outlook could be revised downward should there be a significant deterioration in its loan asset quality or a drop in its interest spread materially below our expectation.

RELATED CRITERIA

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

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC222A: THB1,650.30 million senior unsecured debentures due 2022	BBB+
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+
MTC258A: THB1,361.80 million senior unsecured debentures due 2025	BBB+
MTC25NA: THB1,598 million senior unsecured debentures due 2025	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC26NA: THB1,000 million senior unsecured debentures due 2026	BBB+
Up to THB4,000 million senior unsecured debentures due within 5 years	BBB+
Rating Outlook:	Stable

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