

MUANGTHAI CAPITAL PLC

No. 103/2022
21 September 2022

FINANCIAL INSTITUTIONS

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

Last Review Date: 12/07/22

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

Taweechok Jiamsakunthum

taweechok@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” rating outlook. At the same time, TRIS Rating assigns the rating of “BBB+” to MTC’s proposed issue of up to THB6 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 MTC’s superior market position in the title loan business and strong capital base. The ratings also reflect the company’s earnings stability, as well as its diversified and adequate funding sources, and sufficient liquidity. However, the ratings are constrained by signs of its deteriorating asset quality due to the weak economic environment.

MTC’s expertise in the title loan business and continuous branch network expansion should enable the company to maintain its top market position over the next few years. At the end of June 2022, its outstanding loans increased by 17% year-to-date to THB107 billion. We assume that MTC’s overall loan portfolio will increase by 26% year-on-year (y-o-y) in 2022 and 16%-18% per year in 2023-2024, backed mainly by title loans whose demand remains strong due to the weak economic environment.

In terms of overall asset quality, MTC’s non-performing loans (NPL) or stage-3 receivables to total loans (NPL ratio) gradually increased to 1.96% at the end of the second quarter of 2022 (2Q22) from 1.65% at the end of 1Q22. The deterioration in asset quality was driven by increased delinquency in unsecured personal loans, nano finance, and new motorcycle hire purchase (HP) lendings. Although asset quality remains manageable and has an immaterial impact on the company’s risk position, further deterioration could put pressure on the ratings.

MTC’s expected credit loss (ECL) provisions to average loans (credit cost) rose to 1.34% in the first half of 2022 from about 1% in the past, but this is still in line with our assumptions of a 1.5% credit cost in 2022-2024.

MTC’s new businesses, which include new motorcycle HP lending via its subsidiary, Muangthai Leasing Co., Ltd. (MTLS), and “Buy Now Pay Later” (BNPL) financing for electric appliances and agricultural machinery via Muangthai Pay Later Co., Ltd. (MTPL), have shown signs of a rapid decline in asset quality. MTC is thus likely to expand its new businesses more cautiously going forward. This means that it may take longer for these businesses to support overall credit growth and loan yields than we expected.

MTC should be able to maintain its profitability over the next few years, despite higher provision expenses and a lower interest spread compared with the past, as we expect the company will focus on controlling operating expenses. The company’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA) remained moderate. For the first half of 2022, the annualized EBT/ARWA ratio was 6.1%, while net profit increased by 4% y-o-y to THB2.76 billion. We estimate its EBT/ARWA will stay in the 5%-6% range during 2022-2024.

MTC’s capital is considered strong, with a risk-adjusted capital (RAC) ratio of 20.4% at the end of 2Q22. The company’s healthy earnings and conservative dividend payout policy have helped support its strong equity base despite robust credit

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growth. Its debt to equity (D/E) ratio stood at 3.3 times at the end of June 2022 compared with the D/E covenant on its debt obligations of 4.5 times.

We assess the company's funding and liquidity position as adequate. The company's access to both debt and equity capital markets as well as credit facilities from financial institutions provide it with sufficient and diversified funding sources to support growth and mitigate liquidity risk. At the end of August 2022, the company had available credit facilities from various financial institutions totaling THB31 billion, 21% of which were undrawn.

RATING OUTLOOK

The "stable" outlook is based on our expectation that MTC will maintain its market position in the title loan segment. The outlook also assumes that its profitability and capital stay strong, while asset quality remains manageable.

RATING SENSITIVITIES

An upward revision on the ratings and/or outlook could occur if MTC's RAC rises well above 25% on a sustained basis while financial performance measured by EBT/ARWA remains sound, at around the current level. On the contrary, the ratings and/or outlook could be revised downward should there be significant deterioration in MTC's asset quality causing credit cost to rise above 3%, or if the company's capital position weakens materially, with the RAC ratio falling below 15% for an extended period.

RELATED CRITERIA

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

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
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+
MTC248C: THB2,728.20 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 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+
MTC266A: THB1,831.1 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+
MTC276A: THB933.2 million senior unsecured debentures due 2027	BBB+
Up to THB6,000 million senior unsecured debentures due within 5 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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