

# MUANGTHAI CAPITAL PLC

No. 109/2023  
20 September 2023

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
Senior unsecured	BBB+
<b>Outlook:</b>	Stable

Last Review Date: 14/07/23

### 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 a rating of “BBB+” to MTC’s proposed issue of up to THB6 billion senior unsecured debentures due within four years and one month. The proceeds will be used for debt refinancing and loan portfolio expansion.

The ratings reflect MTC’s leading market position in the title loan business, strong capital base as well as diversified and adequate funding sources and liquidity. However, the strengths are weighed down by our concerns over the company’s deteriorating asset quality. This factor might constrain the company’s profitability over the next few years.

MTC’s long-standing expertise in the title loan business and steadily expanding branch network have helped secure its top market position. MTC’s loan portfolio stood at THB133 billion at the end of the second quarter of 2023 (2Q23), an increase of 24% year-on-year (y-o-y) and 6% year-to-date, in line with peers. We anticipate MTC’s overall loan portfolio will expand by 17% in 2023 and a high single-digit annual rate in 2024-2025, supported mainly by title loan growth.

MTC’s asset quality has deteriorated since the second half of 2022. The ratio of stage-3 loans (NPL) to total loans (NPL ratio) slightly increased to 3.3% at the end of 2Q23 from 3.2% at the end of 1Q23. This was mainly due to the weakening credit profile of its target customers that are vulnerable to uncertain economic environments. As a result, expected credit loss (ECL) provisions to average loans (credit cost) rose to 3.7% in 2Q23 (annualized) from 3.5% in 1Q23.

Nonetheless, we anticipate that the company will be able to stabilize its asset quality over the next 12 months, supporting our view of a “stable” rating outlook. In the longer term, the company still aims to keep its NPL ratio below 3.5%. The company plans to focus on title lending, whose delinquency remains lower than other products. In our view, given the trend of weakening asset quality, it would be prudent for MTC to maintain high NPL coverage. At the end of 2Q23, the company’s NPL coverage ratio was 105%.

For the first half of 2023 (1H23), MTC’s financial performance weakened moderately y-o-y. Net income decreased to THB2.3 billion, down 18% y-o-y, due to an increase in provisions and funding costs, despite strong revenue growth. We expect credit costs in 2023-2025 to remain elevated given signs of asset quality deterioration.

Its earnings capacity, measured by earnings before tax to average risk weighted assets (EBT/ARWA) stood at 3.7% in 1H23. If the EBT/ARWA ratio falls below 3.5% on a prolonged basis, the ratings on MTC could come under pressure. We project its EBT/ARWA to stay at around 4% in 2023-2025 despite higher provision expenses and a lower interest spread, on the basis that operating expenses will be well controlled with a cost-to-income ratio of around 40%.

In terms of capital, MTC’s risk-adjusted capital (RAC) ratio remains strong, at around 19% at the end of 2Q23. Its debt to equity (D/E) ratio stood at 3.7 times at the end of 2Q23 compared with the D/E covenant on its debt obligations of 4 times. We expect the company’s capital strength will be preserved by relatively stable earnings and a conservative dividend policy.

**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.

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. The proposed new debentures will be used to refinance maturing issues in 4Q23 and for business expansion. As of August 2023, the company had available credit facilities from various financial institutions totaling THB38.7 billion, 16% of which were undrawn.

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#### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that MTC will be able to improve its asset quality over the next 12 months, and credit cost will be on a declining trend. We also expect MTC to maintain its leading market position in the title loan segment while its capital position remains at a strong level.

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#### **RATING SENSITIVITIES**

A downward revision on the ratings and/or outlook could occur if there are no signs of improvement in MTC's asset quality, with credit cost remaining high and earnings capability as measured by EBT/ARWA falling well below 3.5%.

An upgrade in the ratings and/or outlook is unlikely in the near term. However, a rating upside could be supported by material improvement in the company's capital position, with the risk-adjusted capital (RAC) ratio rising well above 25%, while earnings capability and market position remain strong.

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#### **RELATED CRITERIA**

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

## Muangthai Capital PLC (MTC)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
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+
MTC248D: THB1,328.40 million senior unsecured debentures due 2024	BBB+
MTC240A: THB2,367 million senior unsecured debentures due 2024	BBB+
MTC24NA: THB1,902 million senior unsecured debentures due 2024	BBB+
MTC24NB: THB1,147.40 million senior unsecured debentures due 2024	BBB+
MTC252A: THB1,609 million senior unsecured debentures due 2025	BBB+
MTC253A: THB1,969.50 million senior unsecured debentures due 2025	BBB+
MTC256A: THB2,200 million senior unsecured debentures due 2025	BBB+
MTC256B: THB1,443.20 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+
MTC258C: THB1,767.90 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+
MTC263A: THB1,995.20 million senior unsecured debentures due 2026	BBB+
MTC264A: THB1,634.60 million senior unsecured debentures due 2026	BBB+
MTC266A: THB1,831.10 million senior unsecured debentures due 2026	BBB+
MTC266B: THB1,980.20 million senior unsecured debentures due 2026	BBB+
MTC268A: THB996.40 million senior unsecured debentures due 2026	BBB+
MTC268B: THB1,399.70 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+
MTC273A: THB927.70 million senior unsecured debentures due 2027	BBB+
MTC276A: THB933.20 million senior unsecured debentures due 2027	BBB+
MTC276B: THB1,519.20 million senior unsecured debentures due 2027	BBB+
MTC278A: THB1,332.40 million senior unsecured debentures due 2027	BBB+
MTC283A: THB1,121.10 million senior unsecured debentures due 2028	BBB+
Up to THB6,000 million senior unsecured debentures due within 4 years 1 month	BBB+
<b>Rating Outlook:</b>	Stable

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