

# MUANGTHAI CAPITAL PLC

No. 7/2024

29 January 2024

## FINANCIAL INSTITUTIONS

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

Last Review Date: 20/09/23

### 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 THB7.5 billion senior unsecured debentures due within five years. 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 by our concerns over the company’s declining 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 outstanding loan portfolio stood at THB139 billion at the end of the third quarter of 2023 (3Q23), an increase of 21% year-on-year (y-o-y) and 15% year-to-date. MTC’s overall loan portfolio by the end of 2023 is likely to expand more than our forecast of 17%. We estimate its loan growth to remain in a high single-digit rate in 2024-2025, supported mainly by auto title loans.

MTC’s asset quality is likely to remain fragile despite some stability in 3Q23 due to the weak credit environment. Its stage-3 loans (NPL) to total loans (NPL ratio) slightly decreased to 3.2% at the end of 3Q23 from 3.4% at the end of 2Q23. The expected credit loss (ECL) provisions to average loans (credit cost) were still in the high range of 3.7%-3.8% in 2Q23-3Q23 (annualized) an increase from 3.5% in 1Q23.

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 stays 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 3Q23, the company’s NPL coverage ratio was 110%.

For the first nine months of 2023 (9M23), MTC’s financial performance weakened moderately y-o-y. Net income decreased to THB3.6 billion, down 10% 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 4.2% in 9M23. 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 21% at the end of 3Q23. Its debt to equity (D/E) ratio stood at 3.8 times at the end of 3Q23 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. As of December 2023, the company had available credit facilities from various financial institutions totaling THB43.4 billion, 8% of which were undrawn. MTC also obtained the additional credit lines from foreign financial institutions which will be drawn in 1Q24.

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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**

- Financial Institution Rating Methodology, 24 November 2023
- Issue Rating Criteria, 15 June 2021

## Muangthai Capital PLC (MTC)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
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+
MTC256C: THB1,235.10 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+
MTC25NB: THB1,158.3 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+
MTC266C: THB592.2 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+
MTC26NB: THB1,064.4 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+
MTC27NA: THB812.7 million senior unsecured debentures due 2027	BBB+
MTC283A: THB1,121.10 million senior unsecured debentures due 2028	BBB+
Up to THB7,500 million senior unsecured debentures due within 5 years	BBB+
<b>Rating Outlook:</b>	Stable

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