

MUANGTHAI CAPITAL PLC

No. 78/2023
14 July 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 09/06/23

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 the rating of “BBB+” to MTC’s proposed issue of up to THB8 billion senior unsecured debentures due within four 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 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 reached THB126 billion at the end of the first quarter of 2023 (1Q23), an increase of 28% year-on-year (y-o-y) and 4% year-to-date, in line with peers. We assume MTC’s overall loan portfolio will increase by 17% in 2023 and a high single-digit annual rate in 2024-2025, backed mainly by title loan growth.

MTC’s asset quality has deteriorated steadily since the second half of 2022. The ratio of stage-3 loans (NPL) to total loans (NPL ratio) increased to 2.9% at the end of 2022 and 3.2% at the end of 1Q23. In addition to the increased delinquency in unsecured personal loans, nano finance, and new motorcycle hire purchase (HP), title loans have also shown signs of a moderate rise in NPLs. Accordingly, expected credit loss (ECL) provisions to average loans (credit cost) rose to 2.7% in 2022 and 3.5% in 1Q23 (annualized), from a normal level of 1% or lower.

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%. To achieve that, the company would need to underwrite loans more prudently, improve debt collection, and accelerate NPL write-offs. The company would also need to focus on title lending, whose delinquency remains lower than other products. Based on the company’s conservative provisioning policy, we expect MTC would also have to raise its credit cost if it were to maintain NPL coverage of at least 100% over the next few years. We project credit cost to be in the 2%-3% range in 2023-2025. At the end of 1Q23, the company’s NPL coverage ratio was 105%.

In terms of earnings, MTC’s net profit of THB5 billion in 2022 was largely flat y-o-y, despite strong revenue growth. This was mainly due to a sharp increase in provisions. For 1Q23, MTC’s financial performance weakened moderately y-o-y, also caused by high credit cost. We anticipate credit costs in 2023-2025 to remain elevated given signs of asset quality deterioration. We expect its EBT/ARWA to stay at around 4% in 2023-2025 from 4.9% in 2022 despite higher provision expenses and a lower interest spread, provided that operating expenses are well controlled.

In terms of capital, MTC’s risk-adjusted capital (RAC) ratio remains strong, hovering at around 20% at the end of 1Q23. Its debt to equity (D/E) ratio stood at 3.4 times at the end of 1Q23 compared with the D/E covenant on its debt

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obligations of 4 times. We expect the company's earnings and conservative dividend payout policy will support its stable equity base despite robust credit growth.

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 expiring issues in 3Q23, totaling THB4.26 billion. The remainder will likely be used for business expansion. As of 2Q23, the company had available credit facilities from various financial institutions totaling THB40.5 billion, 17% of which were undrawn.

RATING OUTLOOK

The "stable" outlook reflects our expectation that MTC should be able to improve 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.

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 earning capabilities measured by EBT/ARWA falling well below 3.5%, the outlook and ratings could be under pressure.

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 that rises well above 25%, while earning capabilities and market position remain strong.

RELATED CRITERIA

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

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
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+
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+
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+
MTC283A: THB1,121.10 million senior unsecured debentures due 2028	BBB+
Up to THB8,000 million senior unsecured debentures due within 4 years	BBB+
Rating Outlook:	Stable

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