

KOLAO HOLDINGS SINGAPORE PTE. LTD.

No. 96/2017

8 August 2017

Issue Rating:

Guaranteed

BBB-

Outlook:

Stable

Rating Rationale

TRIS Rating assigns the rating to the proposed issue of up to US\$50 million in guaranteed debentures of Kolao Holdings Singapore Pte. Ltd. (KHS) at “BBB-”. The debentures are jointly and severally guaranteed by Kolao Holdings (KOLAO, the Group) and Kolao Developing Co., Ltd. (KDC). The issue rating reflects the credit worthiness of KOLAO and KDC. KOLAO is rated “BBB-” with “stable” outlook by TRIS Rating. KDC, a wholly-owned subsidiary of KOLAO, is classified as a “core” subsidiary of KOLAO. Thus, KDC’s rating is equivalent to KOLAO’s rating, or the Group’s rating.

Under the guarantee agreement, KOLAO and KDC will jointly and severally provide unconditional and irrevocable guarantee on all amounts due under the debentures, including the principal amount of up to US\$50 million and any interest accrued thereon and other related expenses. The guaranteed debentures will rank at least equally with all other unsecured and unsubordinated obligations of KOLAO and KDC. The proceeds from the debentures will be used as capital to support KDC’s operations, KOLAO’s overseas business expansion, refinancing of maturing bonds, as well as general corporate purposes.

KHS was incorporated in 2013 as a wholly-owned subsidiary of KOLAO. KHS, through its subsidiaries, sells automobiles in Myanmar. As KHS’s business is rather small, the sources of interest and principal repayments to the debenture holders will come from the interest and principal repayments received from KOLAO under the inter-company loan agreement between KHS and KOLAO.

The ratings of both guarantors (KOLAO and KDC) reflect the Group’s proven track record in the automotive industry in the Lao People’s Democratic Republic (Lao PDR), solid competitive position, high operating efficiency, and acceptable financial profile. These strengths are partially offset by heightened competition, the cyclical nature of the automotive industry, and the evolving regulatory framework in the Lao PDR, of which sovereign rating is “BBB+” with “negative” outlook.

KOLAO has a long track record in the Lao automotive industry. KOLAO, through its subsidiary KDC, started business as an importer of used automobiles from South Korea in 1997, before expanding to the new automobile distribution in 2000 and automobile production in 2003. KOLAO was listed on the Korea Exchange (KRX) in 2010. Mr. Sei-Young OH, the founder, has been the chief executive officer (CEO) and chairman of KOLAO since inception. He is also the major shareholder, holding about 44% of KOLAO as of March 2017.

Currently, KOLAO is the sole distributor of Hyundai and Kia vehicles in the Lao PDR. The majority of products KOLAO sells under the two brands are passenger cars. KOLAO is also the sole distributor of KR motorcycles. The motorcycles are produced by KR Motors Co., Ltd., a Korean-listed company, in which KOLAO owned about 25% as of March 2017. In addition, KOLAO has one in-house motorcycle brand, KOLAO, and one in-house pickup truck and truck brand, DAEHAN. KOLAO imports auto parts, mainly from South Korea and China, in completely knocked down (CKD) forms, and assembles automobiles for its in-house brands at its plants in Savannakhet province. The long presence in the market creates KOLAO’s strong brand awareness in the Lao PDR.

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Rating Outlook

The “stable” outlook reflects the creditworthiness of KOLAO and KDC and the expectation that they will maintain their competitive positions in the Lao automotive market, while keeping their financial profiles at the current levels. The issue rating and/or outlook could be changed if the ratings and/or outlooks of the two guarantors change.

Kolao Holdings Singapore Pte. Ltd. (KHS)

Issue Rating:

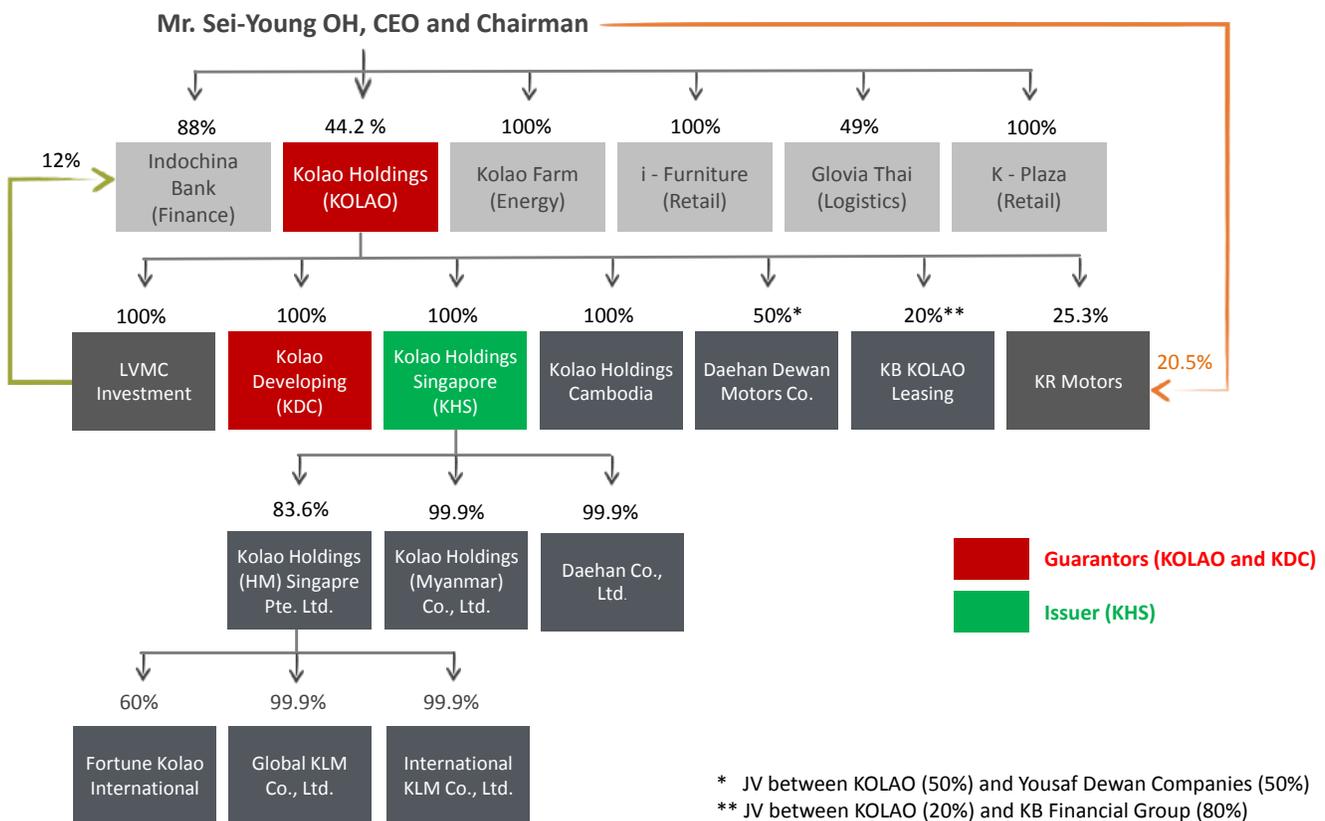
Up to US\$50 million guaranteed debentures due within 3 years

BBB-

Rating Outlook:

Stable

The KOLAO's Group Structure



Source: KOLAO

Financial Statistics and Key Financial Ratios *
Kolao Holdings (KOLAO)

Unit: US\$ million

	Jan-Mar 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	77	338	393	361	305
Gross interest expense	6	10	5	5	4
Net income from operations	8	36	41	40	25
Funds from operations (FFO)	4	21	34	22	31
Capital expenditures	1	9	13	25	24
Total assets	583	571	512	416	325
Total debts	157	142	136	101	52
Shareholders' equity	369	362	329	290	258
Operating income before depreciation and amortization as % of sales ***	11.2	14.9	12.1	10.9	11.5
Pretax return on permanent capital (%)	10.1 **	9.8	9.3	10.8	14.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	2.8	5.7	7.9	7.2	7.5
FFO/Total debt (%)	17.0 **	18.0	27.9	24.5	61.6
Total debt/capitalization (%)	29.8	28.1	29.3	25.9	16.9
Total debt/capitalization (%) ****	29.0	26.6	27.1	24.0	14.0

Note: All ratios are operating lease adjusted
 * Consolidated financial statements
 ** Annualized with trailing 12 months
 *** Including net interest income from installment sales
 **** Excluding capitalized annual leases

Financial Statistics and Key Financial Ratios *
Kolao Developing Co., Ltd. (KDC)

Unit: US\$ million

	Jan-Mar 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Revenue	74	326	388	350	303
Gross interest expense	3	8	4	4	2
Net income from operations	14	51	44	37	29
Funds from operations (FFO)	6	30	41	27	30
Capital expenditures	0	9	12	18	21
Total assets	485	483	421	329	226
Total debts	161	159	167	136	79
Shareholders' equity	281	267	216	172	135
Operating income before depreciation and amortization as % of sales ***	16.9	17.2	14.0	12.7	11.5
Pretax return on permanent capital (%)	14.8**	14.8	14.4	16.1	18.8
Earnings before interest, tax, depreciation, and amortization (EBITDA)	7.2	8.4	11.3	9.7	11.5
interest coverage (times)					
FFO/Total debt (%)	21.4**	21.4	26.8	21.7	40.4
Total debt/capitalization (%)	36.4	37.3	43.6	44.1	36.8
Total debt/capitalization (%) ****	35.5	35.7	41.4	42.3	33.7

Note: All ratios are operating lease adjusted

* Consolidated financial statements

** Annualized with trailing 12 months

*** Including net interest income from installment sales

**** Excluding capitalized annual leases

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