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BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

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FINANCIAL INSTITUTIONS

Company Rating:	A-
Outlook:	Stable

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RATIONALE

TRIS Rating assigns the company rating to Bangkok Commercial Assets Management PLC (BAM) at "A-" with a "stable" outlook. The rating reflects the company's expertise and dominant market position in the distressed asset management industry. The rating also takes into account BAM's relatively strong and stable core earnings, low leverage and well diversified funding sources.

Those strengths are partly offset by the risk factors, primarily pricing risk and concentration risk, related to its real estate exposure. Nonetheless, we believe BAM's expertise in asset pricing and diversification in terms of type and location of assets help mitigate such risk to a large extent.

KEY RATING CONSIDERATIONS

Largest and experienced distressed asset manager

BAM's stand-alone rating is premised on its strong business position. BAM has a solid market position as the largest distressed asset manager, underpinned by its long-standing business and funding relationships with various banks. It also has an extensive database and experienced management and staff to help with the pricing and management of distressed assets. These factors have helped the company consistently expand its portfolio of managed assets over the years. BAM's managed assets comprise non-performing loans (NPLs), installment sale receivables and foreclosed properties (referred to as non-performing assets, NPAs). BAM's revenues are also relatively stable. In 2018, about 65% of cash collections—a proxy for BAM's financial performance—were derived from management of NPLs.

Low financial leverage

BAM's leverage is low, as measured by the debt to equity (D/E) ratio. At the end of September 2019, its D/E ratio stood at 1.79 times. The post-IPO D/E ratio is expected to slightly increase due to the pre-IPO dividend payment of Bt13 billion to the Financial Institutions Development Fund (FIDF). As the company continues to expand its business amid the economic downturns, using debt to fund its investments in distressed assets, we expect D/E to increase. That said, in the long run its D/E ratio should remain below 2.5 times. This will be supported by consistent flows of cash collection that can be used to repay part of the debt obligations as well as the incremental capital accretion from profits. Moreover, BAM's leverage is controlled by the D/E covenant of less than 2.5 times set by its lenders. In the meantime, the provisioning shortfall resulting from the implementation of the TFRS9 financial reporting standard will be deducted from retained earnings, but the impact on its capital is immaterial.

Solid core earnings

The core earnings of BAM are earned from the cash collections from management of NPLs and NPAs. As of September 2019, revenues from NPLs comprised 85% of total revenue, while 14% were derived from NPAs. The majority of the revenues were collected from assets acquired five years ago or longer. Based on the company's track record, it takes about seven years for BAM to start making a profit from NPL management and five years for NPA management.

BAM's operating expenses include mainly interest expenses on debt obligations and personnel expenses. In the first nine months of 2019 (9M19), each made up approximately 17% of total gross income. Annualized return on average assets (ROAA) was 5.7% for 9M19. After the IPO, we expect ROAA to be below 5% as the company will be required to pay corporate taxes. We also expect the company to face some pressure from higher funding costs. Nonetheless, BAM's core earnings should remain sound.

Diversified funding sources with financial flexibility

BAM has diverse and stable funding from various financial institutions, most of which are banks that sell NPLs to BAM. Although the assets being financed are largely illiquid, most of the borrowings are long-term. The company has about Bt54 billion in long-term credit lines to support portfolio expansion. BAM uses promissory notes (P/N) to pay for part of its NPL purchases as well. As of December 2019, outstanding P/N stood at about Bt3 billion. The company also has about Bt29 billion in short-term credit lines, 70% of which remained unused as of December 2019. In addition, BAM has access to the capital market in which it has been a frequent bond issuer. As of December 2019, outstanding bonds amounted to Bt45 billion.

Adequate liquidity

BAM's liquidity position is adequate, in our view. The company had Bt20 billion in unused short-term credit lines from banks as of December 2019. Apart from this, the company can divest part of the distressed assets that have become performing assets to other financial institutions, although this needs to be planned in advance as it could take on average 60-72 months to receive cash flow.

BAM has no major asset-liability mismatch issues. As of September 2019, roughly 77% of total debt obligations were long-term, with an average duration of six years compared with an average duration of six to eight years for its assets. The company has debt obligations of approximately Bt25 billion that will mature over the next 12 months, which will be repaid with cash collection from NPL and NPA management. We expect most of the short-term debt obligations can be rolled over.

Risk from high exposure to property sector mitigated by diversification

BAM is exposed to significant concentration risk due to its exposure to the property sector, as the collaterals securing NPLs that the company invests in comprise mainly immovable properties. Therefore, the condition of the property market may have a direct impact on BAM's financial performance as it affects property pricing and the ability to sell enforced properties. Nonetheless, we believe the company's diversification in terms of type and location may help mitigate this risk to some extent. As of June 2019, 29% of properties were land and 27% single detached houses (based on cost), while the remainders were well spread out across various property types. In terms of location, about 45% of properties are located in Bangkok and its vicinity, and 20% in the central region. The remainder is spread out across different regions. Moreover, BAM reappraises its property values annually, which helps align its asset prices more closely to the market.

BASECASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2020-2022 are:

- New NPL investments between Bt11-Bt13 billion per year
- D/E ratio to remain about 2 times.
- Total cash collection to average assets ratio at around 13.5%
- Funding cost to be about 3%
- Operating expense to total income ratio at around 30%.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that BAM will maintain strong financial performance and low financial leverage.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward if financial performance improves steadily, while the D/E ratio falls below 1.5 times for a sustained period.

The rating and/or outlook could be revised downward if leverage increases significantly due to aggressive expansion, with D/E rising above 2.75 times for a sustained period or with financial performance deteriorating.

COMPANY OVERVIEW

On 7 January 1999, BAM was founded under the MOF Financial Institutional Development plan to acquire and manage non-performing assets from the Bangkok Bank of Commerce (BBC). In 2002, BAM was approved by Bank of Thailand (BOT) to register as a limited company and expanded its scope to manage non-performing assets of other financial institutions under the Financial Institution Asset Management Decree (2001).

In 2005 under the cabinet resolution, BAM merged with Financial Institution Asset Management Corporation (AMC). As a result BAM received the transfer of AMC's distressed assets portfolio including NPLs and NPAs as well as the personnel of AMC. The combined resources enhanced the scale and efficiency of BAM's business in terms of customer reach, with 25 branches and over 1,200 staff.

In 2012, the privatization of BAM was a result of the FIDF's strategic initiative approved by the MOF. The privatization was completed in late 2019 with a reduction of the FIDF shareholding to 46% from 100%.

BAM's core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, transferred from NPLs or acquired from financial institutions. BAM's business is counter-cyclical in nature, acquiring large amount of distressed assets during economic downturns and turning those assets into high-margin income during economic upcycles. The business is capital intensive due to long breakeven periods of around 5-7 years.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

		-------------- Year Ended 31 December ------------			
	Jan-Sep 2019	2018	2017	2016	2015
Total assets	121,701	107,653	99,933	93,637	81,649
Total managed assets	103,057	96,738	91,262	86,531	77,243
Loan purchased – net	79,136	75,434	72,886	69,887	60,942
Properties foreclosed – net	23,245	20,596	17,735	15,082	14,029
Total borrowings	75,060	57,709	56,868	50,329	42,118
Short-term borrowings	17,344	19,059	18,147	25,721	13,800
Long-term borrowings	57,716	38,650	38,722	24,608	28,318
Shareholder's equity	43,575	41,849	41,059	40,523	34,173
Total revenue	9,206	9,751	7,626	8,763	10,736
Interest expenses	1,525	1,769	1,622	1,244	999
Operating expenses	2,588	2,935	2,520	2,582	2,445
Net income	4,882	5,202	4,501	4,904	6,403

Unit: %

	Jan-Sep 2019		------------- Year Ended 31 December ------------ 2018	2017	2016	2015
Profitability						
Operating income/average assets	6.70		7.69	6.20	8.58	11.94
Operating income/total income	83.44		81.85	78.73	85.80	90.69
Operating profit/average assets	5.92	*	4.86	3.60	5.63	8.94
Earnings before tax/ average assets	5.68	*	5.02	4.66	5.61	7.87
Return on average assets	5.68	*	5.01	4.65	5.60	7.85
Return on average equity	15.24	*	12.55	11.03	13.13	19.45
Capitalization						
Debt/equity (times)	1.79		1.57	1.43	1.31	1.39
Shareholders' equity/total managed assets	36.8		38.0	39.4	40.6	35.3
Funding and Liquidity						
Short-term borrowings/total liabilities	22.20		28.96	30.82	48.43	29.07
Total managed assets/total assets	84.68		89.86	91.32	92.41	94.60
Operating efficiency						
Operating expenses /operating income	33.69		36.77	41.97	34.347	25.12
Recovery rate on net NPL	20.55	*	14.55	12.83	13.32	-
Recovery rate on net NPA	16.16	*	29.12	24.88	31.83	-

* *Annualized*

RELATED CRITERIA

- Nonbank Financial Institutions, 17 February 2020

Bangkok Commercial Asset Management PLC (BAM)

Company Rating:	A-
Rating Outlook:	Stable

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