

# EASTERN COMMERCIAL LEASING PLC

No. 158/2017

21 November 2017

**Company Rating:** BBB-  
**Outlook:** Stable

## Rating Rationale

TRIS Rating assigns the company rating of Eastern Commercial Leasing PLC (ECL) at “BBB-”. The rating reflects ECL’s proven track record of management team as an originator of hire-purchase loans for used autos, continual improvement in earnings, and strong base of capital. However, the rating is limited by the geographic concentration of the loan portfolio and intense competition in the auto financing industry. In addition, ECL has a relatively small market position, in terms of outstanding loans, compared with major competitors. The company’s ability to control the quality of the portfolio needs time to demonstrate success, especially after the recent rapid growth in the size of the portfolio. It will take time for the company to prove it can grow steadily and maintain satisfactory financial performance.

ECL was established by the Veerapong and the Tantraporn families in 1984 and listed on the Stock Exchange of Thailand (SET) in 2004. Since it was established, ECL has focused on financing the purchase of used automobiles through hire-purchase loans and car loans or floor plan loans for vehicle dealers. As of September 2017, the Veerapong and the Tantraporn families remained the largest shareholder, owning a combined 32.3% stake of ECL, followed by Premium Financial Services Co., Ltd. (PFS), which owned a 25.5% stake. PFS is a major originator of used auto financing and used car part warranty in Japan. The know-how and support from PFS will help ECL improve operating efficiency and yield more fee-based income from the auto maintenance and repair segment. However, it will take time to see the success of the efforts in these new areas.

ECL’s outstanding loans have climbed steadily, rising from Bt837 million in 2009 to Bt1,883 million in 2015, a compound annual growth rate (CAGR) of 14%. One of the company’s new segment has grown rapidly: financing for the purchase of used “big bikes”. As a result, ECL’s outstanding loans rose by 30% to Bt2,457 million in 2016. At the end of September 2017, the value of the outstanding loans grew by 50% year-to-date to Bt3,653 million. The loan portfolio at the end of September 2017 comprised loans for used passenger vehicles (54%), “big bike” motorcycles (35%), trucks and others vehicles (10%), and floor plan loans (1%). ECL is less geographically diversified than its competitors. The company renders services through a headquarters office and four branches, covering only the Greater Bangkok area and the eastern region of Thailand.

As a result of the recent economic slowdown, the quality of ECL’s hire-purchase loan portfolio deteriorated in 2013 and 2014. The ratio of non-performing loans (NPLs) to total hire-purchase loans climbed from 1.96% in 2012 to 2.58% in 2013 and 4.01% in 2014. ECL wrote off some bad debts in 2015, reducing the NPL ratio to 3.29% at the end of 2015. The ratio rose again to 3.42% at the end of 2016 but improved to 2.40% at the end of September 2017. The recent improvement in the NPL ratio was due in part to the rapid growth of the loan portfolio. Due to the short track record and rapid growth in the big bike segment, ECL needs time to demonstrate its ability to handle, on a sustained basis, its sizeable loan portfolio and maintain an acceptable level of loan quality. ECL’s allowance for loan losses is lower than peers. The NPL coverage ratio, or the ratio of allowance for loan losses to NPLs, was around 31% as of September 2017. For comparison, the ratio averaged more than 50% at peers. In TRIS Rating’s view, the allowance for loan losses of ECL was too small to serve as an effective cushion for

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any adverse changes in the operating environment. However, ECL's capital base is strong and sufficient to absorb this risk.

ECL's financial performance has gradually increased. Profit grew as the interest spread widened, the result of the satisfactory funding costs and the operating costs got under control during the past few years. ECL reported a net profit of around Bt50 million annually during 2013-2015. Net profit rose to Bt68 million in 2016 (excluding a loss from a private placement of ordinary shares, made to PFS, amounting to Bt42.75 million) and Bt103 million in the first nine months of 2017. Net profit in the first nine months of 2017 was 106% higher compared with the same period in 2016. The return on average assets (ROAA) has improved steadily since 2013, rising from 2.5% to 4.3% (annualized) for the first nine months of 2017. The return on average equity (ROAE) was 11.1% (annualized) for the first nine months of 2017. TRIS Rating expects the company to be able to control its funding costs, credit costs, and operating costs. As a result, ECL's profitability will continue to improve.

ECL's equity capital base was strengthened through a Bt313.5 million capital increase during May 2016. Shareholders' equity rose to Bt1,104 million at the end of 2016, up 50% from Bt736 million a year earlier. As a result, the ratio of shareholders' equity to total assets rose to 43.4% in 2016 from 37.7% in 2015. The recent rapid growth of the loan portfolio, funded through external financing, pushed the ratio down to 35.6% at the end of September 2017. The debt to equity ratio stood at 1.81 times at the end of September 2017, below the covenant limit of 3 times. ECL's current capital base is enough to fund its expansion plans in the medium term. The strong capital base will serve as a cushion to absorb the high credit risk of the company's target customers. ECL's customers are vulnerable to adverse changes in the economy. Therefore, TRIS Rating expects the company to keep its capital base strong. An aggressive expansion of the loan portfolio would pose a major challenge for ECL. Since most of the debts are secured by hire-purchase receivables, ECL has less financial flexibility than its major direct competitors to some extent, particularly if facing a liquidity crunch.

#### Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that ECL can maintain its market position, deliver stable and satisfactory financial performance, and keep its capital base strong. TRIS Rating also expects that the quality of the loan portfolio will be controlled at an acceptable level.

The rating or outlook upside is limited in the medium term due to the recent rapid growth in the loan portfolio, particularly in the big bike segment. However, the rating or outlook would rise if ECL can strengthen its business profile by generating more cash from the auto maintenance and repair segment and deliver strong financial results. The rating or outlook could be revised downward if asset quality deteriorates significantly, which would affect the company's profitability and capital base.

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#### Eastern Commercial Leasing PLC (ECL)

<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Stable

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### Financial Statistics

Unit: Bt million

	Jan-Sep 2017	Year Ended 31 December			
		2016 *	2015	2014	2013
Total assets	3,820	2,543	1,953	1,914	1,873
Total loans	3,653	2,457	1,883	1,852	1,714
Allowance for doubtful accounts	27	24	15	19	10
Short-term borrowings	1,112	750	692	734	654
Long-term borrowings	1,281	635	489	460	512
Shareholders' equity	1,358	1,104	736	686	679
Net interest income	176	174	150	133	114
Bad debts and doubtful accounts	18	33	35	20	14
Non-interest income	100	80	61	58	46
Operating expenses	130	135	112	102	88
Net income	103	68	50	55	46

\* Financial statements in which the equity method is applied

\*\* Excluding a loss from a private placement of ordinary shares, made to PFS, amounting to Bt42.75 million in 2016

### Key Financial Ratios

Unit:

	Jan-Sep 2017	Year Ended 31 December			
		2016	2015	2014	2013
<b>Profitability</b>					
Net-interest income/average assets	5.54 *	7.76	7.74	7.05	6.25
Net-interest income/total income	51.41	56.70	55.09	52.82	50.00
Operating expenses/total income	37.99	44.02	41.08	40.43	38.40
Operating profit/average assets	4.00 *	3.81	3.33	3.65	3.17
Return on average assets	3.23 *	3.02	2.57	2.89	2.51
Return on average equity	8.34 *	7.37	7.00	8.03	7.94
<b>Asset Quality</b>					
Non-performing loans/total loans	2.40	3.42	3.29	4.01	2.58
Bad debts and doubtful accounts/average loans	0.60 *	1.52	1.88	1.11	0.82
Allowance for doubtful accounts/total loans	0.73	0.98	0.81	1.04	0.59
<b>Capitalization</b>					
Shareholders' equity/total assets	35.55	43.43	37.66	35.84	36.22
Shareholders' equity/total loans	37.18	44.96	39.07	37.03	39.59
Debt to equity (time)	1.81	1.30	1.66	1.79	1.76
<b>Liquidity</b>					
Short-term borrowings/total liabilities	45.14	52.12	56.85	59.79	54.72
Total loans/total assets	95.61	96.61	96.40	96.76	91.49

\* Non-Annualized

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