

SAKSAM LEASING PLC

No. 107/2023
15 June 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweekchok Jiamsakunthum
taweekchok@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating to Saksiam Leasing PLC (SAK) at “BBB” with a “stable” outlook. The rating reflects the company’s moderate market position in the title loan business, solid capital base, and adequate earnings capability. The rating is also underpinned by SAK’s manageable asset quality as well as a moderate funding profile and adequate liquidity position.

However, the rating is constrained by our concerns over intense competition in the title loan market and rising funding costs, which could put pressure on the company’s margins. The uncertain economic environment could also weaken its asset quality leading to higher credit costs.

KEY RATING CONSIDERATIONS

Moderate business position with expertise in title loans

SAK has long-standing experience in the title loan business. However, we consider its market presence to be moderate compared to direct peers (title loan operators) within TRIS Rating’s database. This may be partly due to its branch network that is concentrated in focused markets, mainly in the central, northern and northeastern regions. The company intends to open more branches to expand its loan portfolio over the next few years. By the end of the first quarter of 2023 (1Q23), the company had already achieved this year’s target of 1,029 branches.

SAK’s outstanding loans stood at THB11.1 billion at the end of 1Q23, an increase of 20% year-on-year (y-o-y) or 2.4% year-to-date, in line with peers. Growth decelerated from the 32% surge in 2021 after the company’s initial public offering in late 2020. We assume SAK’s outstanding loan growth will remain at around 20% annually over next few years, backed mainly by strong loan demand, the company’s marketing strategy, and an expanding branch network.

Stable growth underpins robust capital

SAK’s capital is assessed as “very strong” and is likely to remain so in 2023-2025. Its risk-adjusted capital (RAC) ratio at the end of 1Q23 was 45%. We anticipate the company’s stable growth strategy over the next few years, healthy profits, and conservative dividend payout policy at 40% will help sustain its strong equity base.

Its financial leverage, measured by the debt to equity (D/E) ratio, also remained moderate at 1.2 times at the end of 1Q23 compared with the D/E covenant on its debt obligations of 2 times.

Manageable costs to support strong earnings capacity

We assess the company’s earnings capacity as “adequate”. SAK reported a THB175 million net profit in 1Q23, a 6% increase y-o-y. The stronger net profit was mainly due to portfolio expansion that helped generate strong revenue growth while provision expenses, interest spread, and operating expenses were well controlled.

Its earnings capacity measured by annualized earnings before taxes to average risk-weighted assets (EBT/ARWA) was 7.2% in 1Q23. We anticipate its EBT/ARWA will remain in the 5%-6% range over the next few years. This is based on our assumption of rising funding costs as well as declining loan yields,

which are likely to bring the company's interest spread down to the range of 18%-19% from 21% over the past few years.

On the cost side, although we anticipate SAK's credit costs will trend upward given the signs of asset quality deterioration, they should remain manageable, thanks to the company's adequate NPL coverage. Operating expenses are also likely to remain under control at about 50% of total income due to the measured pace of the branch network expansion.

Asset quality remains a challenge amidst an uncertain environment

The company's overall asset quality is relatively sound, compared to direct peers, despite notable deterioration seen in a few products. The non-performing loan (NPL) ratio rose moderately, to 2.5% at the end of 2022 from 2.1% at the end of 2021. The higher NPLs were driven by increased delinquency in unsecured personal loans, nano finance, and HP loans for new motorcycles and used cars. In 1Q23, NPL formation for these types of loans remained elevated, but we believe overall asset quality is still manageable as altogether they account for less than 20% of total loans. Moreover, management is slowing down growth in these areas and instead plans to focus more on the core title loan business.

As for the future trend of asset quality, we expect SAK's NPL ratio to remain relatively stable. According to its loan covenant, the company is required to keep its NPL ratio below 3%. To keep the ratio within target, it will need to introduce more prudent loan approvals, improve the efficiency of debt collections, and accelerate NPL write-offs. With our base-case scenario for NPL formation at 1.5% and for NPL write-offs at 0.5%-1.0% of average loans, we estimate the company's NPL ratio will average 2.6% in 2023-2025. Also, to maintain the NPL coverage ratio marginally above 100%, SAK will need to raise its credit cost slightly, to about 1.5%. At the end of 1Q23, the company's NPL coverage ratio stood at 105%.

Stable funding position undermined by high priority debt

We assess the company's funding profile as "moderate" due to a mix of positive and negative factors. On the positive side, we view SAK's funding position as relatively strong, with a stable funding ratio (available stable funding to stable funding needs) of 189% at the end of 1Q23. This was supported by a strong capital base, despite high reliance on short-term borrowings which accounted for 49% of total debt or 26% of total capital.

On the negative front, SAK's priority debt is very high. This is due to the requirement for most of its bank borrowings to be secured by receivables, which signals that SAK's ability to secure additional credit facilities in the future could be limited in a stress scenario. The high priority debt also reflects a subordination risk for the company's unsecured obligations, according to TRIS Rating's "Issue Rating Criteria".

Strong cash flows and credit lines from BBL support liquidity

We believe SAK's liquidity position is "adequate". At the end of 1Q23, the company had available credit facilities from financial institutions totaling THB7.7 billion, 20% of which were undrawn. Based on the company's estimates, loan repayments from customers over the next 12 months will be approximately THB2.8 billion while the company's loan repayment obligations will be approximately THB1.4 billion, excluding THB2.8 billion of borrowings from its shareholder, Bangkok Bank PLC (BBL). In the future, the company plans to support loan growth by using more long-term borrowings and issuing debentures.

Challenges and risks remain for title loan operators

The robust growth of the title loan industry is likely to continue in the medium term, supported by network expansion, the active growth targets of existing operators, entry of new players, and strong loan demand. That said, we have observed a number of key developments and challenges that have impacted title loan operators and that need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are squeezing profitability. Rising credit risk from aggressive growth strategies, coupled with the weaker credit profile of customers, has also resulted in higher credit costs for most operators this year. Besides, aggressive loan expansion has led to eroded capital for certain operators, which, if continued, could impact the credit profile of rated companies.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for SAK's operations in 2023-2025 are as follows:

- Outstanding loan growth of around 20% per annum.
- Spread in the 18%-20% range.
- Credit cost at 1.5% of average loans.

RATING OUTLOOK

The "stable" outlook reflects an expectation that the company will maintain its capital strength, market position, and financial performance, while keeping its asset quality under control.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. In longer term, an upward revision of the rating and/or outlook could occur if the company's market position improves over a sustained period while its asset quality, capital, and earnings remain healthy and in line with our base-case scenario.

The rating could be downgraded if the company's capital position weakens materially, with the RAC ratio falling below 25% for a prolonged period or asset quality or profitability deteriorates, leading to weaker earnings capacity with an EBT/ARWA below 3.5%.

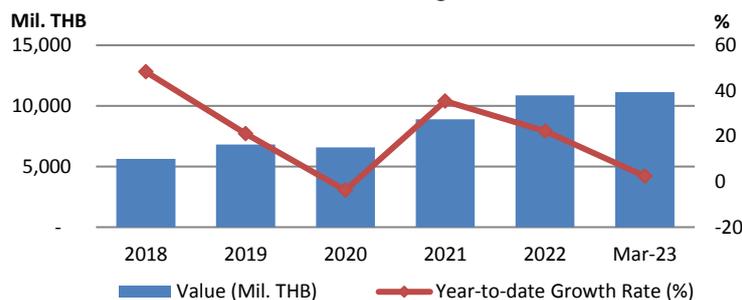
COMPANY OVERVIEW

SAK was initially named SAK Panich Leasing Co., Ltd., and later SAK Leasing PLC. The company was founded by Mr. Phoosak Boonsali and Mrs. Jintana Boonsali to offer debt-collection services and later expanded into auto-title loans. It also started nano finance and an HP business for new motorcycles in 2019. SAK registered on the Stock Exchange of Thailand (SET) on 8 December 2020. SAK started to sell and provide loans through Saksiam Maker Drone Co., Ltd., with a 70% stake, for drone equipment and agriculture drone in 2021. As of December 2022, the Boonsali family was the major shareholder with a 67.5% stake while Bualuang Ventures Ltd. held a 7.2% stake. In early 2023, SAK established SAK TC Energy Co., Ltd., holding a 35% stake, to operate the solar cell business.

As of March 2022, the company's loan portfolio comprised title loans (81% of total loans), nano finance (11%), HP (5%), and personal loans (3%). Secured lending included loans for pick-up (47%), motorcycles (21%), agricultural vehicles (15%), passenger cars (12%), trucks (3%), and other collaterals (2%).

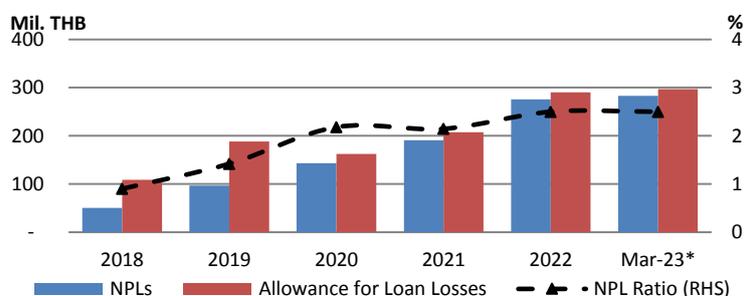
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: SAK's financial statements
* Year-to-date growth for March 2023

Chart 2: Asset Quality



Source: SAK's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Mar 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	11,983	11,624	9,530	8,778	7,158
Total loans	11,127	10,867	8,893	6,568	6,825
Allowance for expected credit loss	297	290	208	162	188
Short-term debts	4,661	4,402	3,729	3,304	3,809
Long-term debts	1,546	1,637	692	826	374
Shareholders' equity	5,551	5,376	4,907	4,508	2,776
Net interest income	560	2,137	1,731	1,476	1,416
Expected credit loss	32	131	64	(6)	115
Non-interest income	9	22	13	7	29
Operating expenses	318	1,139	922	788	899
Earnings before taxes	219	888	758	700	432
Net income	175	710	607	562	346

* Consolidated financial statements

Unit: %

	Jan-Mar 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Net interest income/average assets	18.99 **	20.21	18.91	18.52	21.65
Non-interest income/average assets	0.31 **	0.20	0.14	0.08	0.45
Operating expenses/total income	50.17	48.88	49.90	48.81	56.02
Operating profit/average assets	7.42 **	8.40	8.28	8.79	6.60
Earnings before taxes/average risk-weighted assets	7.22 **	7.84	8.29	9.25	6.29
Return on average assets	5.91 **	6.71	6.64	7.05	5.29
Return on average equity	12.78 **	13.81	12.90	15.43	14.08
Asset Quality					
Receivable in stage 3/total loans	2.54	2.54	2.15	2.18	1.42
Expected credit loss/average loans	1.17 **	1.33	0.82	(0.09)	1.85
Allowance for expected credit loss/receivable in stage 3	105.00	105.00	108.91	113.27	193.84
Capitalization					
Risk-adjusted capital ratio	45.29	44.90	45.89	59.32	36.84
Debt/equity (times)	1.16	1.16	0.94	0.95	1.58
Funding and Liquidity					
Stable funding ratio	188.88	152.66	156.30	207.02	127.83
Liquidity coverage measure (times)	0.07	0.06	0.08	0.58	0.07
Short-term debts/total liabilities***	72.46	70.46	80.65	77.39	86.92

** Annualized

*** Short-term debts including current portion of long-term debts

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021

- Nonbank Financial Institution Methodology, 17 February 2020

Saksiam Leasing PLC (SAK)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria