

# SUKHUMVIT ASSET MANAGEMENT CO., LTD.

No. 203/2020  
30 November 2020

## FINANCIAL INSTITUTIONS

**Company Rating:** AA+  
**Outlook:** Stable

## RATIONALE

TRIS Rating assigns the company rating on Sukhumvit Asset Management Co., Ltd. (SAM) at “AA+” with a “stable” outlook. The rating reflects our view on the company’s status as a “very important” government-related entity (GRE) that is “integral” to the Financial Institutions Development Fund (FIDF), a separate legal entity under the Bank of Thailand (BOT). In our view, the strong linkage and role imply a high likelihood of support from the FIDF and BOT in time of needs.

## KEY RATING CONSIDERATIONS

### Full ownership and control by FIDF

We believe SAM continues to maintain a solid linkage with the FIDF, a separate legal entity under the BOT. We assess the linkage as “integral”, which is the highest level based on full ownership and control as well as SAM’s role as an arm of the FIDF/ BOT.

The FIDF holds 100% shares in SAM and exercises tight control over SAM’s operations and funding. Its board of directors comprises representatives from the BOT, FIDF, and other government entities. The FIDF supervises SAM’s operations by approving its business strategy and setting financial targets. However, the key operating indicators (KPIs) set by the FIDF for SAM do not focus on profitability but instead on financial leverage.

In terms of repayment of debt obligations owed to the FIDF (in the form of zero-coupon promissory notes (P/N)), the FIDF sets repayment schedules that accommodate to SAM’s liquidity position and allows the company to allocate part of its profits to fund business expansion. This funding policy helps strengthen its ability to serve as a national asset management company (AMC).

### Strong policy role as national AMC

SAM functions as an arm of the BOT in executing some of the BOT’s policies. Essentially, it undertakes an important role as Thailand’s only national AMC that helps preserve stability in the financial system by purchasing non-performing loans (NPLs) unloaded from financial institutions. SAM’s policy role is most prominently illustrated during times of surges in non-performing assets (NPAs) in the banking system. Therefore, disruption in SAM’s operations could have systemic impacts on the financial system.

We also believe SAM’s policy role cannot be substituted by other AMCs in the short- to medium-term, given its size, expertise, and funding support from the FIDF. SAM is the second largest AMC in Thailand with an asset size of THB45 billion, ranked second to Bangkok Commercial Asset Management PLC (BAM, rated “A-/Stable” by TRIS Rating). BAM and SAM together have accounted for over 60% of the industry’s total assets over the past several years.

In addition to NPL management, SAM has another distinct policy role as an intermediary in the BOT-initiated “Debt Clinic” scheme to support voluntary debt restructuring for retail borrowers that had debt servicing problems (before 1 July 2020) and to improve loan loss recovery for financial institutions.

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## Potential support from FIDF

We believe in the high likelihood that the FIDF will provide extraordinary support to SAM in times of stress. Although the company has not received extraordinary financial supports from the FIDF or BOT, apart from the FIDF's zero-interest debt funding provided since the company's early stage of establishment, there are no regulatory or policy restrictions that could prevent the FIDF from doing so if needed. For example, according to the Bank of Thailand Act B.E 2485 sections 42 and 43, upon approval of the Cabinet, the FIDF has the power to undertake measures e.g. granting loans to financial institutions in situations where the stability of the economic and monetary system is at risk.

Lastly, we view that a default by the company could cause potentially severe damage to the credibility and reputation of the BOT since the FIDF has full ownership and control of the company.

## Second largest AMC

As of December 2019, the company was the second largest of 61 AMCs in terms of asset size in Thailand's distressed asset management industry. The company's net NPL portfolio stood at THB25.4 billion with an outstanding principal balance (OPB) of THB340 billion at the end of June 2020.

The majority of its portfolio comprises legacy NPLs transferred from Krungthai Bank PLC (KTB), Thai Asset Management Corporation (TAMC), and Petchchaburi Asset Management Co., Ltd. (PAMC). However, the company has over the last few years acquired additional NPLs each year in larger volumes in response to the FIDF's policy for SAM to maintain its portfolio size.

In 2019, the company acquired NPLs at the cost of THB8 billion, an increase from THB4 billion acquired in 2018. The company's policies are to purchase only the collateralized NPLs of mainly corporates and small and medium enterprises (SMEs). The company's NPAs remained at THB10 billion over the past few years, increasing modestly to THB11 billion at the end of June 2020.

## Cash collection and credit lines as sources of fund

Cash collection and credit lines from financial institutions serve as the company's main funding sources for portfolio expansion. The company's cash collection from NPLs and NPAs amounted to THB11 billion each over the past few years. For the first six months of 2020, the company's total cash collection was THB3 billion, with 78% from NPLs and 22% from NPAs. Available credit lines from financial institutions totaled THB3.3 billion at the end of June 2020.

## Equity returned to positive territory

The company's shareholders' equity reverted to a positive figure of THB9.6 billion at the end of June 2020 from negative THB194.8 billion at the end of 2019 following the adoption of the TFRS9 accounting standard. The standard allowed the company to realize through its retained earnings the gain from revaluation of the zero-coupon P/Ns owed to the FIDF, from which SAM is expected to benefit over the life of the instruments.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that SAM will maintain its status as a GRE and maintain its 'integral' linkage and 'very important' role with the FIDF and BOT.

## RATING SENSITIVITIES

The rating and/or outlook of the company could change if our view on the level of linkage with and importance to the FIDF and BOT changes.

## COMPANY OVERVIEW

SAM was established on 18 April 2000 following a cabinet resolution with the objective of taking over and managing the NPLs of KTB with the OPB totaling THB519 billion. The company was wholly owned by the Financial Institutions Development Fund (FIDF), a separate legal entity under the Bank of Thailand (BOT) with a registered and paid-up capital of THB25 million.

In 2001, the company was required to transfer its NPLs amounting to THB309 billion to TAMC as stipulated by the Emergency Decree on Asset Management Company A.D. 2001 (Emergency, TAMC).

On 7 May 2004, the FIDF made a resolution requiring the company to acquire PAMC. The resolution involved PAMC selling all its restructured debts to Siam City Bank PLC (SCIB) and transferring its remaining assets, liabilities, and commitments to SAM.

Since 2006, the company has started auctioning for NPLs and NPAs from other institutions. In 2012, the company also auctioned for NPLs and NPAs from TAMC, which was closed down in 2011. The company currently has four provincial offices in Chiang Mai, Khon Kaen, Surat Thani, and Phitsanulok providing services to its clients.

In 2013, the company joined the International Public AMC Forum (IPAF), established in 2012, to seek business opportunities and international cooperation. An objective of the IPAF also includes the exchange of knowledge and training among national asset management companies.

In 2017, the company was assigned by the BOT to act as an intermediary in the BOT-initiated scheme called Consumer Debt Relief Program (CDRP) or Debt Clinic for the relief of household debt problems, especially non-collateralized debts. The program's objective was to help individuals resolve their unsecured debts with various financial institutions with SAM as the main vehicle centering the process.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2020	----- Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	44,812	44,951	43,056	35,511	34,139
Total managed assets	36,411	37,172	34,210	32,810	32,390
Loan purchased – net	25,432	26,602	23,305	21,861	22,286
Properties foreclosed – net	10,978	10,570	10,904	10,948	10,104
Total borrowings	33,136	238,375	237,691	237,823	242,634
Short-term borrowings	1,865	1,560	1,044	500	537
Long-term borrowings	31,271	236,815	236,647	237,323	242,097
Shareholder's equity	9,553	(194,752)	(199,209)	(204,247)	(211,911)
Total revenue	2,887	6,988	7,403	9,628	6,879
Interest expenses	801	83	52	24	22
Operating expenses	823	1,595	1,401	1,375	1,249
Net income	597	4,448	5,038	7,620	6,383

Unit: %

	Jan-Jun 2020	Year Ended 31 December			
		2019	2018	2017	2016
<b>Profitability</b>					
Operating income/average assets	9.30 *	15.69	18.71	27.58	20.09
Operating income/total income	72.27	98.81	99.29	99.75	99.68
Operating profit/average assets	5.63 *	12.07	15.15	23.63	16.43
Earnings before tax/ average assets	2.69 *	10.16	12.86	21.92	18.71
Return on average assets	2.66 *	10.11	12.82	21.88	18.70
Return on average equity	(1.29) *	(2.26)	(2.50)	(3.66)	(3.01)
<b>Capitalization</b>					
Debt/equity (times)	3.69	n.m.	n.m.	n.m.	n.m.
Shareholders' equity/total managed assets	26.24	n.m.	n.m.	n.m.	n.m.
<b>Funding and Liquidity</b>					
Short-term borrowings/total liabilities	5.63	0.65	0.44	0.21	0.22
Total managed assets/total assets	81.25	82.70	79.45	92.39	94.88
<b>Operating efficiency</b>					
Operating expenses /operating income	39.45	23.10	19.06	14.32	18.21
Recovery rate on net non-performing loan (NPL)	18.24 *	29.76	31.20	34.32	-
Recovery rate on net non-performing asset (NPA)	11.96 *	40.07	39.65	37.20	-

\* Annualized

n.m. = Not meaningful

## RELATED CRITERIA

- Government-Related-Entity Rating Methodology, 30 July 2020

## Sukhumvit Asset Management Co., Ltd. (SAM)

<b>Company Rating:</b>	AA+
<b>Rating Outlook:</b>	Stable

### TRIS Rating Co., Ltd.

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