

SUKHUMVIT ASSET MANAGEMENT CO., LTD.

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FINANCIAL INSTITUTIONS

Company Rating: AA+
Outlook: Stable

Contacts:

Preeyaporn Kosakam
preeyaporn@trisrating.com

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating to Sukhumvit Asset Management Co., Ltd. (SAM) at “AA+” with a “stable” rating 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 set up under Bank of Thailand Act. In our view, the strong linkage and role imply a high likelihood of support from FIDF in times of need.

KEY RATING CONSIDERATIONS

Full ownership and supervision by FIDF

We assess SAM’s linkage to FIDF as “integral”, the highest level of linkage assessment according to our “Government-related Entities Rating Methodology” considering the full ownership and control by FIDF. As SAM is wholly owned by FIDF, the company’s operational policies, including business policies and directions and financing policies are determined and closely monitored by board representatives. In addition to board representatives from FIDF, the company’s board members comprise representatives from BOT, the Ministry of Finance, and other government entities, reinforcing its close link with the government. The company’s business strategy and financial targets are also focused more on business stability than profitability.

Strong policy role as national AMC

The company’s linkage and importance to FIDF and BOT is supported by its function as an arm of BOT to execute important policies of the central bank. Primarily, the company undertakes an important role as Thailand’s only national asset management company (AMC) that functions as a state-controlled vehicle to stabilize the country’s financial system by purchasing non-performing loans (NPLs) unloaded from financial institutions. SAM’s policy role serves an important part of the infrastructure that is essential in handling surges in NPLs in the banking system. Therefore, we view that a disruption in SAM’s operations could have systemic impacts on the overall financial system.

In addition to NPL management, SAM also serves another distinct policy role as an intermediary in the BOT-initiated “Debt Clinic” scheme. The program aims to support voluntary debt restructuring for troubled retail borrowers and to improve loan loss recovery for financial institutions. At the end of December 2020, the number of clients under the Debt Clinic scheme increased substantially to around 11,000 from around 3,000 in 2019 as the company has consistently extended conditions for client qualification to allow greater public participation. The proportion of NPLs under the program to the total NPLs of credit card and unsecured personal loans in the system also increased to 9.9% in 2020 from 2.1% in 2019, signifying the importance of the company’s role in helping BOT achieve its objective. Outstanding loans under the program stood at THB3.3 billion at the end of December 2020, increasing from THB660 million in 2019.

Support from FIDF

We believe it highly likely that FIDF would provide extraordinary support to SAM in times of stress. Although explicit support is not provided to the company apart from FIDF’s zero-interest debt funding provided since

inception, we view that the generous repayment schedule granted by FIDF serves as an indirect funding support for the company to fulfill its policy role. FIDF has agreed upon a repayment amount of THB1.5 billion each year which, when compared with the company's yearly cash collection of around THB10 billion, enables the company to retain the cash collected for use in business expansion. The yearly repayment of THB1.5 billion in 2019-2020 was a decrease from around THB5 billion in 2017, following FIDF's policy for SAM to continuously strengthen its business in preparation to serve its policy role when it is called for. The repayment amount is set to be renegotiated with FIDF every three years starting from 2020.

In addition, there are no regulatory or policy restrictions that could prevent FIDF from providing financial support to the company if needed. We also view that a default by the company could potentially affect the reputation of FIDF due to FIDF's status as SAM's shareholder.

Second largest AMC

The company was the second largest of 59 AMCs in terms of asset size in Thailand's distressed asset management industry. The company's net NPL portfolio stood at THB28.9 billion with an outstanding principal balance (OPB) of THB352 billion at the end of June 2021. Given its size, expertise in the business, and funding support from FIDF, we believe that SAM's policy role as a financial system stabilizer cannot be substituted by other AMCs in the short- to medium-term. The company's total asset size was THB48 billion at the end of December 2020, ranked second only to Bangkok Commercial Asset Management PLC (BAM, rated "A-/Stable" by TRIS Rating) whose asset size was THB132 billion. BAM and SAM together have accounted for over 60% of the industry's total assets over the past several years.

Low leverage

The company's leverage monitored by FIDF is measured by interest-bearing debts (excluding zero-coupon debt from FIDF) compared with shareholders' equity. The figure at the end of June 2021 was 0.4 times. The company's equity base now appears healthier thanks partly to the adoption of the TFRS9 accounting standard in 2020, which allowed the company to revalue its debt obligations owned to FIDF and realized the revaluation difference as a part of the company's shareholders' equity. At the end of June 2021, the company's shareholders' equity was THB12 billion, while the shareholders' equity was negative THB194.8 billion at the end of 2019. The company's ratio of total liabilities to total shareholders' equity was 3.1 times at the end of June 2021.

Cash collection and credit facilities as funding sources

Cash collection and credit lines from financial institutions serve as the company's main funding sources for portfolio expansion. Prior to 2020, the company's yearly cash collection from NPLs and non-performing assets (NPAs) was approximately THB12 billion. However, the company's cash collection decreased by 29% from 2019 to around THB8 billion in 2020 due to the economic strain caused by the Coronavirus Disease 2019 (COVID-19) pandemic. Nonetheless, the company also had available credit facilities with several financial institutions as additional funding sources. At the end of July 2021, the company had total credit lines of THB9.5 billion, 21% of which were undrawn.

Distressed asset management continues to grow

The number of distressed asset management companies (DAMC) has increased from 39 companies at the end of 2015 to 59 at the end of 2020. The aggregate assets of DAMC have also expanded at a compound annual growth rate (CAGR) of 9.69% during 2015-2020. The severe impacts of the pandemic on the Thai economy resulted in a significant rise of NPLs of financial institutions (including Thai and foreign commercial banks and finance companies) from THB465 billion at the end of 2019 to THB545 billion at the end of the second quarter of 2021. The NPL ratio increased from 2.98% at the end of 2019 to 3.09% in the second quarter of 2021. The expected influx of NPLs into the market after the debt relief programs expire in 2021 should provide an opportunity for DAMC to acquire more distressed assets at reasonable prices.

RATING OUTLOOK

The "stable" outlook reflects our expectation that SAM will retain its status as a GRE and maintain its "integral" linkage and "very important" role with 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 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 Krungthai Bank PLC (KTB) with the OPB totaling THB519 billion. The company was wholly owned by FIDF, a separate legal entity under 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 Thai Asset Management Corporation (TAMC) as stipulated by the Emergency Decree on Asset Management Company A.D. 2001 (Emergency, TAMC).

On 7 May 2004, the FIDF passed a resolution requiring the company to acquire Petchburi Asset Management Co., Ltd. (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 auctioned NPLs and NPAs from other institutions. In 2012, the company also auctioned 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 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 acting as the main vehicle in the process.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
Total assets	48,989	47,576	44,951	43,056	35,511
Total managed assets	40,090	39,493	37,172	34,210	32,810
Loan purchased – net	28,940	28,762	26,602	23,305	21,861
Properties foreclosed – net	11,150	10,732	10,570	10,904	10,948
Total borrowings	35,267	33,267	238,375	237,691	237,823
Short-term borrowings	1,502	1,040	1,560	1,044	500
Long-term borrowings	33,765	32,227	236,815	236,647	237,323
Shareholder's equity	12,038	10,900	(194,752)	(199,209)	(204,247)
Total revenue	3,507	6,538	6,907	7,403	9,628
Interest expenses	808	1,611	83	52	24
Operating expenses	627	1,502	1,573	1,401	1,375
Net income	949	1,944	4,448	5,038	7,620

Unit: %

	Jan-Jun 2021	Year Ended 31 December			
		2020	2019	2018	2017
Profitability					
Operating income/average assets	11.18 *	10.65	15.51	18.71	27.58
Operating income/total income	76.94	75.35	98.80	99.29	99.75
Operating profit/average assets	8.58 *	7.40	11.93	15.15	23.63
Earnings before tax/ average assets	3.96 *	4.23	10.17	12.86	21.92
Return on average assets	3.93 *	4.20	10.11	12.82	21.88
Return on average equity	16.55 *	(2.11)	(2.26)	(2.50)	(3.66)
Capitalization					
Debt/equity (times)	3.07	3.36	n.m.	n.m.	n.m.
Shareholders' equity/total managed assets	30.03	27.60	n.m.	n.m.	n.m.
Funding and Liquidity					
Stable funding ratio	34.58	32.96	33.18	29.56	24.94
Liquidity coverage measure (times)	4.69	6.10	4.13	7.52	4.15
Short-term borrowings/total liabilities	4.06	2.84	0.65	0.43	0.21
Total managed assets/total assets	81.83	83.01	82.70	79.45	92.39
Operating efficiency					
Operating expenses /operating income	23.24	30.49	23.05	19.06	14.32
NPL Cash collection to net NPL	9.98 *	19.59	29.76	31.20	34.32
NPA Cash collection to net NPA	30.90 *	26.83	40.07	39.65	37.20

* Annualized

n.m. = Not meaningful

RELATED CRITERIA

- Government-Related Entities Rating Methodology, 30 July 2020

Sukhumvit Asset Management Co., Ltd. (SAM)

Company Rating:	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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