

SG CAPITAL PLC

No. 24/2023
28 February 2023

FINANCIAL INSTITUTIONS

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Stable

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating assigns the company rating to SG Capital PLC (SGC) and the issue rating on SGC's proposed senior unsecured debentures of up to THB3 billion due within 2 years and 11 months at "BBB" with a "stable" outlook. The rating on SGC is underpinned by the company's status as a core subsidiary of Singer Thailand PLC (SINGER), its parent company. According to TRIS Rating's "Group Rating Methodology", the rating on SGC as a core subsidiary is equivalent to the company rating on SINGER (rated "BBB/stable").

KEY RATING CONSIDERATIONS

A core subsidiary of SINGER

TRIS Rating views SGC as a core subsidiary of SINGER, the company's largest shareholder with a 75% stake. SGC operates its own auto title loan services collateralized mainly by truck fleets to small- and medium-sized customers. SGC also serves SINGER's retail customers by providing financing for purchases of SINGER's home and commercial appliance products.

SGC's business is highly integrated with that of SINGER. The company's business strategy and risk management policy directly controlled by SINGER. Business referrals and cross-selling activities occur among companies within SINGER Group, which also includes SG Service Plus Co., Ltd. and SG Broker Co., Ltd. The business collaborations among the various entities are linked through SINGER's marketing campaigns and utilize SINGER's branch network as points of sale and service for loans and insurance products to customers of SINGER and SGC.

SGC has been able to achieve the financial targets and strategic objectives set by SINGER and has generated a meaningful revenue and earnings contribution for the group. As a core subsidiary of SINGER, the company also receives funding support from its parent company in the form of a credit facility that serves as a long-term source of funds.

Significant earnings contribution to the group

In our view, SGC's strong and constantly improving financial performance is an important factor in reinforcing its status as a core member of the SINGER Group. SGC has generated around 40% of SINGER's consolidated revenue over the past few years, which we view as a crucial contribution. In 2022, the company's total revenue accounted for 48% of SINGER's consolidated revenue.

In terms of profitability, SGC generated about 71% of SINGER's consolidated net profit in 2022. We expect SGC's earnings to remain strong, underpinned by business expansion as well as well-controlled operating costs and asset quality. For the year 2022, the company's ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) stood at a moderate 8.5%.

Moderate business position

SGC continues to enhance its market position, as shown in the constant growth in its loan portfolio over the past few years. At the end of December 2022, its outstanding loans had increased by 36% year-on-year (y-o-y) to THB14.9 billion. Despite the increase, its market position remains moderate compared to major peers rated by TRIS Rating. The growth was driven by an active marketing strategy and the expansion into auto title loans. At the end of

December 2022, the company's loan mix comprised auto title loans (65%), home and commercial appliance hire purchase (HP) loans (32%), and others (3%).

Risk management aligned to group

SGC's risk management policies are aligned with those of SINGER Group. Risk policies and management of credit risk are monitored by the group risk management committee. The company also adopts SINGER's credit scoring and underwriting criteria for its customers.

SGC's asset quality started to deteriorate in 2022, owing to aggressive expansion of its loan portfolio amid the weak economy. The ratio of receivables in stage-3 loans (NPL) to total loans (NPL ratio) of the entire loan portfolio rose to 4.6% at the end of 2022, from 3.9% a year earlier. In the longer term, the company expects to keep its NPL ratio below 5%, an acceptable level, in our view. Given the challenge of managing asset quality, SINGER's strategy is to expand its own business more cautiously as well as impose a more prudent credit policy on SGC's lending activities. This is likely to result in SGC's loan portfolio expanding at a slower pace in the next few years.

Ongoing financial support from SINGER

SGC receives ongoing financial support from SINGER in the form of credit lines, which amounted to THB11 billion as of the end of December 2022. This support helps underpin SGC's funding and liquidity profile and enhances its business expansion. SINGER also had injected capital into the company. The capital increase underscores the crucial role of SGC as a financial arm of SINGER. We believe SINGER has a strong long-term commitment as well as propensity and capability to provide extraordinary support to SGC in a stress scenario.

Challenges and risks remain for the title loan operators

In the first nine months of 2022, the average growth of outstanding title loans for the three largest operators remained high at 31% y-o-y. This robust growth is likely to continue in the medium term, as supported by network expansion, aggressive growth targets of existing operators, entrance of new players, and strong loan demand. That said, we observe several key developments and challenges that have impacted title loan operators and need to be monitored. Firstly, declining interest spreads due to competitive pricing and higher funding costs are squeezing profitability. The rising credit risk from aggressive growth strategies, coupled with the weaker credit profiles of customers, has resulted in higher credit costs for most operators. Moreover, aggressive loan growth targets have led to eroded capital, which, if continued, could impact the credit profile of rated companies.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that SGC will remain a core subsidiary of SINGER.

RATING OUTLOOK

The "stable" outlook reflects the outlook of the rating on SINGER and our expectation that SGC will maintain its status as a core subsidiary of SINGER and continue to receive strong support from its parent company.

RATING SENSITIVITIES

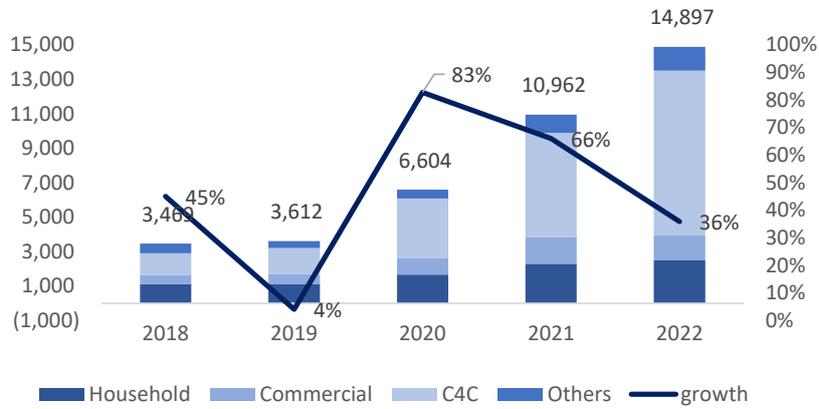
The ratings and outlook on SGC are equivalent to and move in tandem with those of SINGER, given its status as a core subsidiary of SINGER. The ratings can also be downgraded if TRIS Rating views the degree of importance of the company to SINGER to be materially weakening or there is any indication of significantly reduced support from SINGER, although we consider such a scenario to be highly unlikely in the medium term.

COMPANY OVERVIEW

SG Capital PLC (SGC) initially started business under the name Singer Leasing (Thailand) Co., Ltd. (Singer Leasing), which was a wholly-owned subsidiary of SINGER, to provide financing services for SINGER's customers. The company was set up on 27 June 2012 with a registered capital of THB1 million. In 2016, Singer Leasing changed its name to SG Capital Co., Ltd. and then SG Capital PLC in 2022. SGC was listed on the Stock Exchange of Thailand (SET) on 13 December 2022. SINGER remained the company's largest shareholder with a 75% stake. The company had over 370 relationship managers at SINGER branches, as of December 2022, with broad geographical coverage.

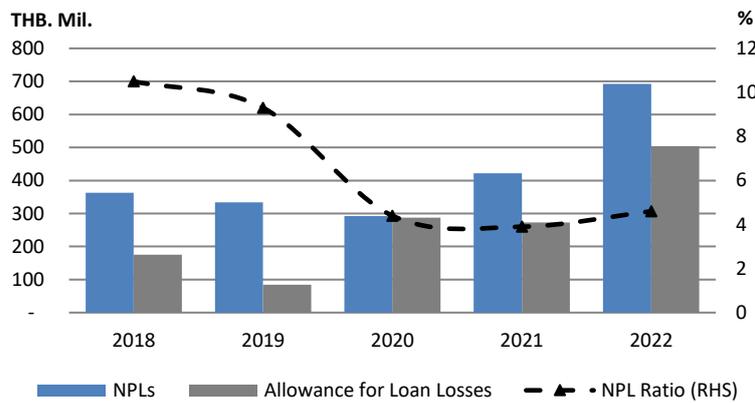
KEY OPERATING PERFORMANCE

Chart 1: SGC's Outstanding Loan Portfolio



Source: SGC

Chart 2: SGC's NPLs and NPL Ratio



Sources: SGC's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	17,783	11,430	7,003	3,999	3,699
Total loans	14,897	10,962	6,694	3,612	3,469
Allowance for expected credit loss	504	307	287	84	175
Short-term debts	74	17	4,778	2,611	2,951
Long-term debts	11,213	7,505	26	15	11
Shareholders' equity	5,751	2,414	820	658	476
Net interest income	1,799	1,383	1,103	614	567
Expected credit loss	395	211	191	395	432
Non-interest income	40	46	65	265	150
Operating expenses	642	492	470	391	461
Earnings before taxes	802	726	508	94	(176)
Net income	667	593	417	102	(176)

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Net interest income/average assets	12.32	15.00	20.05	15.96	18.83
Non-interest income/average assets	0.27	0.50	1.19	6.88	4.99
Operating expenses/total income	26.31	27.59	34.47	38.37	57.86
Operating profit/average assets	5.49	7.87	9.23	2.44	(5.86)
Earnings before taxes/average risk-weighted assets	8.50	9.73	10.94	5.44	(2.99)
Return on average assets	4.57	6.43	7.57	2.65	(5.86)
Return on average equity	16.34	36.67	56.37	18.02	(31.24)
Asset Quality					
Receivable in stage 3/total loans	4.64	3.85	4.36	9.25	10.34
Expected credit loss/average loans	3.06	2.39	3.71	11.14	14.88
Allowance for expected credit loss/receivable in stage 3	72.83	72.63	98.33	25.22	48.79
Capitalization					
Risk-adjusted capital ratio	29.96	17.50	9.79	14.74	11.63
Debt/equity (times)	2.09	3.74	7.54	5.08	6.76
Funding and Liquidity					
Stable funding ratio	105.14	56.00	30.85	32.05	24.06
Liquidity coverage measure (times)	4,169.66	2,243.77	3.26	6.53	3.60
Short-term debts/total liabilities	0.62	0.19	77.29	78.14	91.55

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

SG Capital PLC (SGC)

Company Rating:	BBB
Issue Rating: Up to THB3,000 million senior unsecured debentures due within 2 years 11 months	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

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