

T LEASING CO., LTD.

No. 228/2021
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FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

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RATIONALE

TRIS Rating assigns the company rating to T Leasing Co., Ltd. (TLS) at “BBB” with a “stable” rating outlook. The rating incorporates a one-notch enhancement from TLS’s stand-alone credit profile (SACP) assessed at “bbb-” level. The enhancement reflects our assessment of TLS’s status as a “strategic” subsidiary of MBK PLC (MBK, rated “A-/Stable” by TRIS Rating).

The rating reflects the company’s strong capital position and adequate market position in motorcycle hire purchase lending. The key rating constraints are the high level of bad debts in its motorcycle hire purchase business. This is due to the high-risk credit profile of target customers whose debt serviceability tends to be susceptible to the weak economy. In addition, the rating is pressured by TLS’s modest profitability compared to peers.

KEY RATING CONSIDERATIONS

A strategic subsidiary of MBK

The company rating on TLS incorporates a one-notch rating enhancement due to its status as a “strategic” subsidiary of MBK. TLS is a wholly owned subsidiary of MBK, which has direct control of TLS’s operations through the appointment of TLS’s board of directors, part of which comprises MBK’s senior executives. The monitoring of TLS’s operation and performance is performed through monthly board meetings.

TLS has been receiving financial support from MBK in terms of capital injection and intercompany loans to support the business growth of TLS. The company received capital injections of THB500 million in 2018 and THB2.5 billion in 2019. As of September 2021, outstanding loans from MBK to TLS stood at THB1.9 billion. We expect MBK’s financial support to continue in the foreseeable future, if needed.

Strong capital base and low leverage

TLS’s strong capital base serves as a positive factor for its rating. The company’s capital position strengthened significantly from the end of 2019 following a THB2.5 billion capital injection from MBK. The injection raised the risk adjusted capital (RAC) ratio to 26.1% at end-2019 from 9.9% at end-2018. At end-2020, the RAC ratio increased further to 29% (adjusted for related party transaction). The improvement was partly supported by loan portfolio contraction (-5% year-on-year (y-o-y) in 2020) and accumulation of profit. Despite the company’s plan to reduce its capital by THB1.1 billion by the end of 2021 as part of capital management, its capital will remain strong after the capital reduction. We project the RAC ratio following the capital reduction to be around 23%, taking into account its conservative growth strategy.

In terms of financial leverage, the capital injection in 2019 helped lower the company’s debt to equity (D/E) ratio to 0.99 times at the end of 2019 from 4.19 times at the end of 2018. At the end of 2020, the D/E ratio stood at a healthy level of 0.8 times. After the capital reduction, the D/E ratio is expected to be around 1.2 times at the end of 2021 which is lower than the debt covenant of 2 times.

Adequate business position

TLS's outstanding loan portfolio currently ranks among the top-five motorcycle hire purchase operators in TRIS Rating's database. TLS has been gradually and consistently expanding its loan portfolio over the past five years. At the end of 2020, outstanding loan portfolio was THB7.4 billion, a compound annual growth rate (CAGR) of 25.3% from THB3.0 billion at the end of 2016. The growth in 2017-2019 was mainly driven by high-engine capacity motorcycles (big bikes). In 2020, the company decided to change its strategy by focusing only on smaller engine motorcycles (normal bikes) and gradually winding down the big bike portfolio to enhance its loan yields. However, given the fierce competition in the normal bike segment, its normal bikes portfolio expanded only modestly by 3% y-o-y in 2020. At the end of September 2021, outstanding loans stood at around THB7.1 billion (unaudited), declining by 4% year-to-date (YTD) given the company's cautious strategy due to the uncertainty surrounding the Coronavirus Disease 2019 (COVID-19) pandemic. As for business diversification, TLS has relatively low geographic diversification, with 80% of the total loan portfolio underwritten in the Bangkok area.

Earnings capability to gradually improve

The company's earnings capability remains a major rating constraint. Its earnings capability was moderate, measured by the ratio of earnings before taxes to average risk-weighted assets (EBT/ARWA). Although TLS's EBT/ARWA improved to 2.2% in 2020 (adjusted with related party transaction) from 0.7% in 2019 and 1.6% in 2018, this remains relatively low compared with an average of 4% for direct peers. The company's lower earnings were the result of a lower average loan yield of 23% in contrast with the peers' average of 28%-30%. The lower yield was attributed to the larger mix of big bikes in its portfolio, which generates only 7%-8% average yields versus over 20% for normal bikes. The competitive pricing offered by lenders to customers in the Bangkok area, TLS's primary customer base, also pressures loan yields. In 2020 onwards, the company decided to focus on the higher-yielding normal bikes segment and wind down the big bike portfolio. Longer term, we expect the strategy to gradually improve the company's loan yields and earnings.

Sufficient funding support and liquidity

TLS has diversified its funding sources in recent years by establishing credit relationships with various financial institutions. At the end of September 2021, the total credit lines available with financial institutions amounted to THB1.2 billion. On the other hand, outstanding short-term loans provided by MBK stood at THB1.9 billion, a decrease from THB2.8 billion at the end of 2020. Although the intercompany loans from MBK are likely to decline in the future as TLS continues to diversify its funding, we expect MBK to remain a financial supporter of TLS in time of need. As of September 2021, the company had no priority debt.

We assess TLS to have adequate liquidity. We believe the current cash inflow and MBK's funding support should provide sufficient liquidity. Over the next 12 months, TLS's cash inflows based on the company's estimates are expected to be around THB300-THB400 million per month, more than sufficient to support cash outflows.

Higher provision expenses

Asset quality in the motorcycle hire purchase industry remains fragile and is a key constraint to the ratings of all rated motorcycle lenders, including TLS. The non-performing loan (NPL) ratio rose to 5.38% at the end of 2020 from 4.67% at the end of 2019. A further rise in the NPL ratio could come from the prolonged economic fallout from COVID-19 and the company's plan to focus on normal bikes, which typically have a higher inherent risk due to the weaker credit profile of customers compared to big bikes. That said, TLS has enhanced its credit scoring model and maintains its strategy to focus on Bangkok where the company has a strong franchise. We expect this will help contain deterioration in asset quality at least in the medium term. At the end of September 2021, the NPL ratio (unaudited) fell to 4.27% driven by the tightening of underwriting policy during the worsening COVID-19 situation.

Meanwhile, NPL coverage has strengthened with the allowance for expected credit loss (ECL) to NPLs increasing significantly to 171% at end-2020 from 106% at end-2019. The higher provisions were largely due to the implementation of the TFRS9 financial accounting standard, which led to an elevated required allowance. As a result, ECL provisions to average loans (credit cost) rose to 6.7% in 2020 from 5.2% in 2019. We expect NPL coverage to stay in the 170%-180% range over the next few years, based on our assumption of 7%-8% credit cost.

New entrants to add pressure on yields and asset quality

The economic fallout from COVID-19 dented the motorcycle sales volume in Thailand, which dropped by 11.8% y-o-y in 2020. The lower sales volume resulted in the outstanding motorcycle hire purchase loans of nine operators in TRIS Rating's database falling in aggregate by 2% in 2020. Despite encouraging growth of 7.9% y-o-y in motorcycle sales in the first eight months of 2021, driven by the strong demand for logistics services, existing lenders remain cautious due to concerns over the debt serviceability of motorcycle buyers. Nonetheless, new lending could be spurred by aggressive lending

campaigns offered by the new entrants enticed by attractive loan yields. The fierce competition is likely to put more pressure on the loan yields and asset quality of all players in the medium term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2021-2023 are:

- Outstanding portfolio to remain flat in 2021 and expand by around 5% per year in 2022-2023.
- RAC ratio to remain above 20%.
- Loan yield to gradually increase to around 20%.
- Credit cost to be around 7%-8%.
- Operating expense to total income ratio to be around 40%.

RATING OUTLOOK

The "stable" outlook is based on our expectation that TLS will maintain its market position, satisfactory financial performance, asset quality, and leverage.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on TLS's ability to improve its earnings capability while maintaining its healthy asset quality and solid capital base.

The rating and/or outlook could be revised downward should the SACP be downgraded due to EBT/ARWA falling below 1.5% or the RAC ratio dropping below 15% for a sustained period. In addition, any deterioration in the credit profile of MBK that leads to a multiple-notch downgrade of MBK's rating or a change in TRIS Rating's view that the status of TLS to MBK may have weakened could also lead to a rating downgrade.

COMPANY OVERVIEW

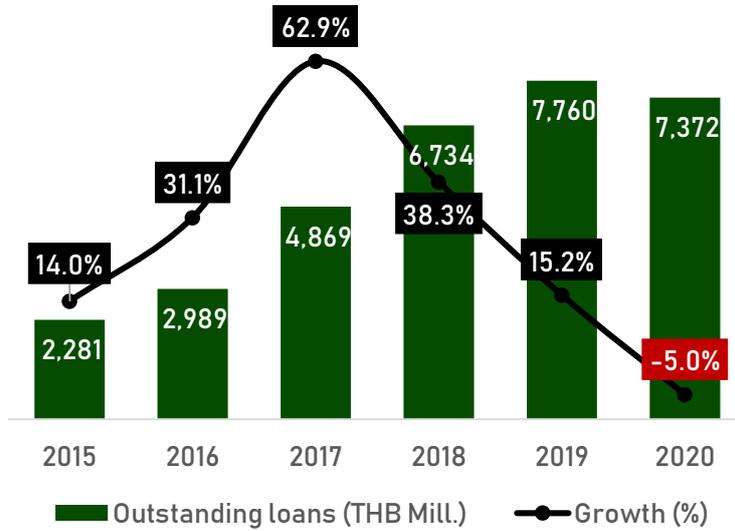
TLS was established in 1993 under the name Thanachart Leasing 2000. The company initially offered motorcycle hire purchase loans to customers in the Bangkok metropolitan area. The company was formerly owned by TBANK which later divested its shares to MBK. Since the divestiture, the company has been fully owned by MBK. In 2008, the company change its name to T-Leasing.

In May 2018, MBK inject THB500 million of capital into the company followed by a further THB2.5 million in December 2019, bringing the total shares in the company to 349.99 million shares. The two capital injections increased the total paid-up capital to THB3.5 billion, from THB500 million.

TLS has steadily expanded its motorcycle hire purchase loan portfolio. Currently, approximately 90% of the loan portfolio is from the Greater Bangkok area. The value of TLS's loan portfolio reached THB7.4 billion at the end of 2020 from THB2.0 billion in 2014, CAGR of 24.4%.

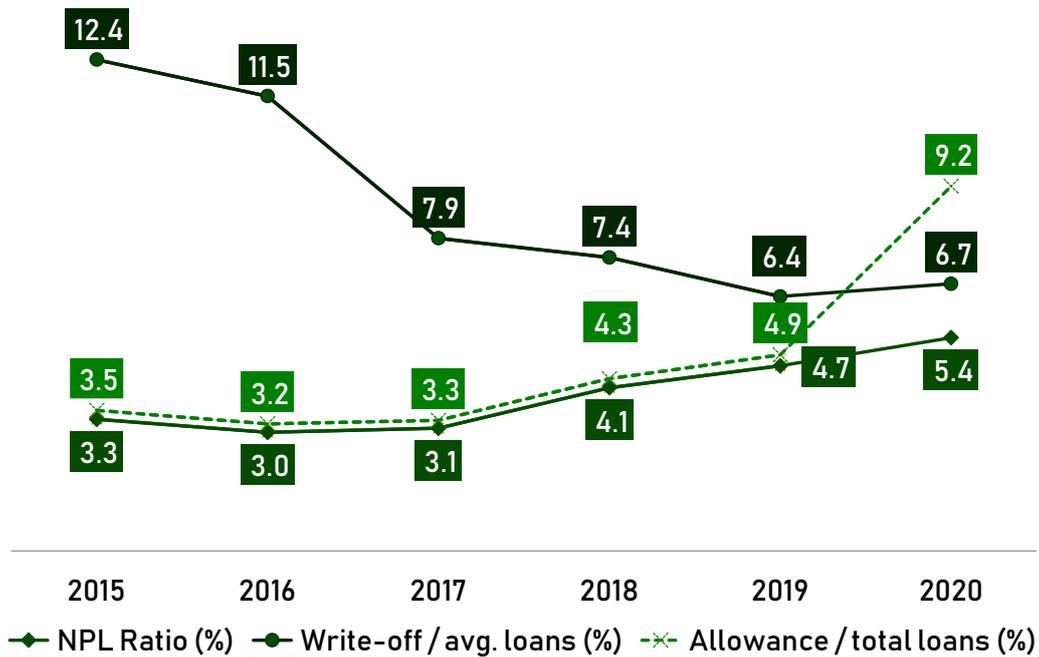
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TLS

Chart 2: Asset Quality



Source: TLS

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

	----- Year Ended 31 December -----					
	2020 **	2020	2019	2018	2017	2016
Total assets	7,522	10,711	7,747	6,790	5,000	3,080
Total loans	7,372	7,372	7,670	6,734	4,869	2,989
Allowance for expected credit loss	678	678	382	293	160	96
Short-term debts	2,841	6,346	3,620	5,276	4,108	2,256
Long-term debts	97	97	24	16	12	10
Shareholders' equity	4,013	4,013	3,956	1,308	702	673
Net interest income	1,131	1,085	858	899	723	606
Expected credit loss	510	510	379	365	223	196
Non-interest income	296	296	244	317	194	160
Operating expenses	600	600	622	670	479	386
Earnings before taxes	318	272	100	181	216	184
Net income	267	221	85	132	169	145

* Consolidated financial statements

** Adjusted with related party transaction

Unit: %

	----- Year Ended 31 December -----					
	2020 **	2020	2019	2018	2017	2016
Profitability						
Net interest income/average assets	15.04	11.70	11.73	15.24	17.90	22.35
Non-interest income/average assets	3.93	3.19	3.33	5.38	4.80	5.89
Operating expenses/total income	37.46	37.46	40.92	45.98	44.92	44.98
Operating profit/average assets	4.22	2.93	1.37	3.07	5.34	6.78
Earnings before taxes/average risk-weighted assets	2.19	1.67	0.71	1.58	2.77	3.53
Return on average assets	3.56	2.39	1.17	2.23	4.19	5.35
Return on average equity	6.71	5.55	3.25	13.09	24.60	19.83
Asset Quality						
Non-performing loans/total loans	5.38	5.38	4.67	4.12	3.09	2.99
Expected credit loss/average loans	6.74	6.74	5.23	6.29	5.67	7.44
Allowance for expected credit loss/non-performing loans	171.20	171.20	105.98	105.50	106.44	107.16
Capitalization						
Risk-adjusted capital ratio	29.01	23.14	26.13	9.91	7.27	11.38
Debt/equity (time)	0.80	1.67	0.98	4.19	6.12	3.58
Liquidity						
Stable funding ratio	107.42	56.07	95.46	32.84	25.39	44.11
Liquidity coverage measure (times)	0.02	0.01	0.02	0.01	0.01	0.03
Short-term borrowings/total liabilities	88.94	94.74	93.24	96.23	95.59	93.72

* Consolidated financial statements

** Adjusted with related party transaction

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

T Leasing Co., Ltd. (TLS)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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