

THANACHART CAPITAL PLC

No. 55/2022
27 May 2022

FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 15/10/21

Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A	Stable
14/03/19	A+	Alert Negative
16/01/12	A+	Stable
12/03/10	A	Positive
14/07/05	A	Stable

Contacts:

Pawin Thachasongtham

pawin@trisrating.com

Siriwan Weeramethachai

siriwan@trisrating.com

Jittrapan Pantaleard

jittrapan@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Thanachart Capital PLC (TCAP) and the ratings on TCAP's outstanding senior unsecured debentures at "A" with a "stable" rating outlook. At the same time, TRIS Rating assigns a "A" rating to TCAP's proposed senior unsecured debentures under the 2022 medium-term note program (MTN) of up to THB10.2 billion due within ten years. The company intends to use the proceeds from the proposed debenture issue for debt refinancing and business expansion.

The ratings reflect the company's diversified sources of earnings, low financial leverage, and sound risk position. The ratings also take into consideration the strong market positions of TCAP's key subsidiaries in their respective businesses.

TCAP's business strength is anchored by its diversified sources of earnings. These encompass commercial banking and other financial businesses including leasing, asset-based financing, securities brokerage, insurance, and distressed asset management. TCAP has three key subsidiaries, Ratchathani Leasing PLC (THANI), Thanachart Securities PLC (TNS), and Thanachart Insurance PLC (TNI). The banking business is represented by its 23.3% equity stake in TMBThanachart Bank PLC (TTB), the sixth largest commercial bank in Thailand. Recently, TCAP established a new wholly-owned subsidiary engaged in asset-based financing business, named Thanachart Plus Co., Ltd. in May 2021. The company is involved mainly in lending to small and medium enterprises (SMEs) using land and properties as collateral.

One of TCAP's key credit strengths is its low financial leverage, as measured by the debt to equity (D/E) ratio. At the end of March 2022, TCAP's D/E ratio was 0.99 times, compared with 0.93 times at the end of 2021. We expect that TCAP will continue to maintain its D/E ratio below 1.50 times on a consolidated basis. This is based on our assumptions that TCAP's total outstanding debentures will be around THB12-THB15 billion over the next two years with the continuation of its progressive dividend payout policy.

TCAP has delivered resilient earnings, propelled by its diversified business structure. The company's capital market, leasing, and non-life insurance businesses have continued to provide good sources of revenue. In our view, these businesses have maintained strong market positions in their respective industries and prudent risk management. TCAP's normalized return on average assets (ROAA) in 2021 recovered to 4.7% from 3.2% in 2020, supported by the broad-based recovery of its key subsidiaries and associated companies.

We expect TCAP's ROAA to stay in the range of 4.1%-4.6% in 2022-2024. Assuming the gradual recovery of the overall economy over the next two years, we forecast loan growth will gradually accelerate and credit costs will trend downwards for TTB and THANI. We also expect TNI to deliver reasonably sound financial performance, despite some cost pressure from information technology (IT) investments over the next few years.

In our view, TCAP's prudent risk culture continues to underpin its adequate risk profile. TTB and THANI have been able to manage the credit risks induced by the prolonged Coronavirus Disease 2019 (COVID-19) pandemic. We believe both TTB and THANI passed the worst of the economic downturn in 2020-2021 and are likely to report stronger performance in 2022 as the economy gradually

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recovers. For TNS, the ability to manage risk from its margin loan portfolio is evidenced by the zero credit loss from margin loan business during the past two years. TNI also pursues selective growth strategy by avoiding the high-risk segment. At the end of December 2021, TNI's capital adequacy ratio was 1,292%, way above the regulatory minimum requirement of 140% starting in 2022.

We expect TCAP to maintain its funding profile at an adequate level over the next 12 months. We take into account its 5-year average stable funding ratio (SFR) of 125%. At the end of December 2021, stable funding needs (SFN) consisted of investments in subsidiaries and associated companies (61%), the non-current portion of loans (34%), and foreclosed assets (5%). Equity made up around 74% of TCAP's available stable funding, while the remainder comprised long-term debentures with a diversified maturity profile. On a stand-alone basis, TCAP's short-term funding sources comprised interbank borrowings, while on a long-term basis, it had outstanding debentures of THB13.7 billion at the end of March 2022.

The company's priority debt to total debt was at 75% as of March 2022. A priority debt ratio of over 50% generally triggers a notch-down of senior unsecured issue ratings from the company rating, according to TRIS Rating's "Issue Rating Criteria". However, we view TCAP's substantial investment in TTB has significantly improved the recovery prospects of its senior unsecured obligations. Therefore, the company is exempt from the notch-down requirement on the ratings assigned to its senior unsecured debentures.

We assess TCAP will have adequate liquidity over the next 12 months. We forecast the liquidity coverage measure (LCM) on a consolidated basis to average around 135% for the 5-year period (2020-2024). At the end of March 2022, TCAP's broad liquid assets comprising short-term government and state enterprise securities, corporate bonds, and interbank lending totaled around THB5.1 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TCAP will be able to maintain low financial leverage, sound risk management, diversified sources of revenue, and healthy funding and liquidity profiles.

RATING SENSITIVITIES

The prospect for a rating upgrade is limited in the near term. However, a rating downgrade could happen if TCAP's leverage, as well as funding and liquidity profile deteriorate significantly.

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Thanachart Capital PLC (TCAP)

Company Rating:	A
Issue Ratings:	
TCAP22NA: THB3,000 million senior unsecured debentures due 2022	A
TCAP238A: THB500 million senior unsecured debentures due 2023	A
TCAP230A: THB1,300 million senior unsecured debentures due 2023	A
TCAP258A: THB900 million senior unsecured debentures due 2025	A
Up to THB10,200 million senior unsecured debentures under medium-term note program in 2022	A
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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