

# BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

No. 10/2020  
21 February 2020

## FINANCIAL INSTITUTIONS

<b>Company Rating:</b>	A-
<b>Issue Rating:</b>	
Senior unsecured	A-
<b>Outlook:</b>	Stable

Last Review Date : 17/02/20

### Company Rating History:

Date	Rating	Outlook/Alert
17/02/20	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Bangkok Commercial Assets Management PLC (BAM) at “A-” with a “stable” outlook. At the same time, TRIS Rating assigns the issue rating of “A-” to BAM’s outstanding senior unsecured debentures of Bt44.97 billion. The ratings reflect the company’s expertise and dominant market position in the distressed asset management industry. The ratings also take into account BAM’s relatively strong and stable core earnings, low leverage and well diversified funding sources.

Those strengths are partly offset by the risk factors, primarily pricing risk and concentration risk, related to its real estate exposure. Nonetheless, we believe BAM’s expertise in asset pricing and diversification in terms of type and location of assets help mitigate such risk to a large extent.

BAM has a solid market position as the largest distressed asset manager, underpinned by its long-standing business and funding relationships with various banks. It also has an extensive database and experienced management and staff to help with the pricing and management of distressed assets. These factors have helped the company consistently expand its portfolio of managed assets over the years. BAM’s managed assets comprise non-performing loans (NPLs), instalment sale receivables and foreclosed properties (referred to as non-performing assets, NPAs). BAM’s revenues are also relatively stable. In 2018, about 65% of cash collections, a proxy for BAM’s financial performance, were derived from management of NPLs.

BAM’s leverage is low, as measured by the debt to equity (D/E) ratio. At the end of September 2019, its D/E ratio stood at 1.79 times. The post-IPO D/E ratio is expected to slightly increase due to the pre-IPO dividend payment of Bt13 billion to the Financial Institutions Development Fund (FIDF). As the company continues to expand its business amid the economic downturns, using debt to fund its investments in distressed assets, we expect the D/E ratio to increase. That said, in the long run its D/E ratio should remain below 2.5 times. This will be supported by consistent flows of cash collection that can be used to repay part of the debt obligations as well as the incremental capital accretion from profits. Moreover, BAM’s leverage is controlled by the D/E covenant of less than 2.5 times set by its lenders. In the meantime, the provisioning shortfall resulting from the implementation of the TFRS9 financial reporting standard will be deducted from retained earnings, but the impact on its capital is immaterial.

The core earnings of BAM are earned from the cash collections from management of NPLs and NPAs. As of September 2019, revenues from NPLs comprised 85% of total revenue, while 14% were derived from NPAs. The majority of the revenues were collected from assets acquired five years ago or longer. Based on the company’s track record, it takes about seven years for BAM to start making a profit from NPL management and five years for NPA management.

BAM’s operating expenses include mainly interest expenses on debt obligations and personnel expenses. In the first nine months of 2019 (9M19), each made up approximately 17% of total gross income. Annualized return on average assets (ROAA) was 5.7% for 9M19. After the IPO, we expect ROAA to be below 5% as the company will be required to pay corporate taxes. We also expect the company to face some pressure from higher funding costs. Nonetheless, BAM’s

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Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

core earnings should remain sound.

BAM has diverse and stable funding from various financial institutions, most of which are banks that sell NPLs to BAM. Although the assets being financed are largely illiquid, most of the borrowings are long-term. The company has about Bt54 billion in long-term credit lines to support portfolio expansion. BAM uses promissory notes (P/N) to pay for part of its NPL purchases as well. As of December 2019, outstanding P/N stood at about Bt3 billion. The company also has about Bt29 billion in short-term credit lines, 70% of which remained unused as of December 2019. In addition, BAM has access to the capital market in which it has been a frequent bond issuer. As of December 2019, outstanding bonds amounted to Bt45 billion.

BAM's liquidity position is adequate, in our view. The company had Bt20 billion in unused short-term credit lines from banks as of December 2019. Apart from this, the company can divest part of the distressed assets that have become performing assets to other financial institutions, although this needs to be planned in advance as it could take on average 60-72 months to receive cash flow.

BAM has no major asset-liability mismatch issues. As of September 2019, roughly 77% of total debt obligations were long-term, with an average duration of six years compared with an average duration of six to eight years for its assets. The company has debt obligations of approximately Bt25 billion that will mature over the next 12 months, which will be repaid with cash collection from NPL and NPA management. We expect most of the short-term debt obligations can be rolled over.

BAM is exposed to significant concentration risk due to its exposure to the property sector, as the collaterals securing NPLs that the company invests in comprise mainly immovable properties. Therefore, the condition of the property market may have a direct impact on BAM's financial performance as it affects property pricing and the ability to sell enforced properties. Nonetheless, we believe the company's diversification in terms of type and location may help mitigate this risk to some extent. As of June 2019, 29% of properties were land and 27% single detached houses (based on cost), while the remainders were well spread out across various property types. In terms of location, about 45% of properties are located in Bangkok and its vicinity, and 20% in the central region. The remainder is spread out across different regions. Moreover, BAM reappraises its property values annually, which helps align its asset prices more closely to the market.

#### **RATING OUTLOOK**

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The "stable" outlook is based on TRIS Rating's expectation that BAM will maintain strong financial performance and low financial leverage.

#### **RATING SENSITIVITIES**

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The rating and/or outlook could be revised upward if financial performance improves steadily, while the D/E ratio falls below 1.5 times for a sustained period.

The rating and/or outlook could be revised downward if leverage increases significantly due to aggressive expansion, with D/E rising above 2.75 times for a sustained period or with financial performance deteriorating.

#### **RELATED CRITERIA**

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- Nonbank Financial Institutions, 17 February 2020

**Bangkok Commercial Asset Management PLC (BAM)**

<b>Company Rating:</b>	A-
<b>Issue Ratings:</b>	
BAM206A: Bt800 million senior unsecured debentures due 2020	A-
BAM211A: Bt3,000 million senior unsecured debentures due 2021	A-
BAM216A: Bt3,000 million senior unsecured debentures due 2021	A-
BAM219A: Bt1,000 million senior unsecured debentures due 2021	A-
BAM226A: Bt1,400 million senior unsecured debentures due 2022	A-
BAM227A: Bt3,000 million senior unsecured debentures due 2022	A-
BAM239A: Bt3,800 million senior unsecured debentures due 2023	A-
BAM23DA: Bt1,100 million senior unsecured debentures due 2023	A-
BAM246A: Bt1,400 million senior unsecured debentures due 2024	A-
BAM247A: Bt4,500 million senior unsecured debentures due 2024	A-
BAM256A: Bt370 million senior unsecured debentures due 2025	A-
BAM259A: Bt3,200 million senior unsecured debentures due 2025	A-
BAM276A: Bt1,500 million senior unsecured debentures due 2027	A-
BAM279A: Bt5,000 million senior unsecured debentures due 2027	A-
BAM286A: Bt2,400 million senior unsecured debentures due 2028	A-
BAM297A: Bt5,000 million senior unsecured debentures due 2029	A-
BAM317A: Bt3,500 million senior unsecured debentures due 2031	A-
BAM347A: Bt1,000 million senior unsecured debentures due 2034	A-
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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