TRIS RATING
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HENG LEASING AND CAPITAL PLC

No. 95/2025
20 June 2025

FINANCIAL INSTITUTIONS

Company Rating:	BBB-
Outlook:	Stable

Last Review Date: 11/07/24

Company Rating History:

Date	Rating	Outlook/Alert
17/07/23	BBB	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Heng Leasing and Capital PLC (HENG) to "BBB-" from "BBB" with a "stable" outlook maintained. The rating downgrade reflects the company's weaker-than-anticipated financial performance, primarily due to a significant increase in expected credit loss (ECL) provisions, losses on repossessed assets, and funding costs, which have pressured its earnings.

Nevertheless, the company's strong capital position continues to serve as a key positive credit factor. HENG's sufficient funding sources and adequate liquidity position provide further support to the rating.

KEY RATING CONSIDERATIONS

Weakened asset quality

HENG's asset quality deteriorated significantly in 2024, following its aggressive credit expansion during 2022-2023 amid a fragile economic environment. This resulted in a notable increase in non-performing loans (NPLs) and asset repossessions, which in turn led to elevated credit costs and losses from the disposal of repossessed assets.

The expiration of the Bank of Thailand's (BOT) debt relief measures caused HENG's NPL ratio to rise steadily to 6.3% at the end of 2024 and to 7.4% by the end of the first quarter of 2025 (1Q25), compared to levels below 3.4% in previous years. NPL formation, relative to average loans, surged to 6.3%-6.4% (annualized) during 2024 and the first three months of 2025 (3M25).

Stage-2 loans also increased to 20% at the end of 2024 and 1Q25, from around 10% in prior years. Consequently, the company's credit cost (ECL provisions to average loans) climbed to 6.1% in 2024, up from below 3.0% historically. Although credit costs declined to 4.7% in 1Q25, the increasing trend of NPL write-offs is expected to keep credit costs elevated.

HENG aims to maintain its NPL ratio below 5.0%, a level required by its bank lenders under loan covenants. To meet this objective, the company is tightening underwriting standards, including reducing loan-to-value (LTV) ratios and loan tenors, updating car market prices monthly, and accelerating the debt collection process. Nevertheless, in the medium term we expect its asset quality deterioration to continue given the weak credit environment. This could still exert downward pressure on the company's earnings.

Deteriorating earnings capacity

While we anticipate HENG's financial performance to gradually recover from the lowest level in 2024, the company's future earnings are likely to remain well below its normalized range of THB300-THB400 million. In 2024, the company's net profit dropped to THB73 million, with earnings before taxes to average risk-weighted assets (EBT/ARWA) falling to 0.6%, from 3.8% in 2023. This decline was largely attributed to high credit costs and operating expenses from branch expansion and losses on sale of repossessed vehicles. In 1Q25, the ratio increased slightly to 2.1% (annualized).

Going forward, effective credit risk management and cost control will be critical to improve the company's profitability, especially as interest and fee income are expected to decline due to a slowdown in new lending. Our base-case projections estimate HENG's EBT/ARWA at around 1% in 2025, improving to 2% in 2026-2027. This level remains supportive of the current rating but remains below its past earnings capacity.

Improving loan yield supports earnings

A key earnings driver is the interest spread, which has been relatively stable over the last few years despite rising funding costs. The spread stability results from higher loan yields from the company's strategic shift towards title loans, which generates higher yields compared to hire purchase loans.

The company has also recently expanded towards higher-yielding nanofinance products. We expect the interest spread to gradually improve to 14% in 2026-2027, up from the 12%-13% range, as the company focuses on high-yield products. The company's funding costs also improved due to the gradual repayment of high-interest loans. We also expect management's plan to slow branch expansion and reduce losses on repossessed assets to help lower the operating expense-to-total income ratio to around 50%.

Solid capital base maintained

HENG's robust capital position continues to be a key pillar supporting its credit profile. As of 1Q25, the company's risk-adjusted capital (RAC) ratio stood at 42.3%, a steady increase from 35.2% at the end of 2023, primarily due to slower credit growth. This level of capital is assessed as very strong and sufficient to support the company's future expansion plans.

We forecast HENG's RAC ratio in the next few years to remain strong, over 40%, under the assumptions of modest loan contraction in 2025-2026 and an 8% loan growth in 2027. This projection also assumes dividend payments during 2025-2027 will remain consistent with 2024 levels. In terms of financial leverage, the debt-to-equity (D/E) ratio was 1.3 times at the end of 1Q25, well below the covenant limit of 4 times.

While the company's selective growth strategy is expected to preserve its capital strength, a sustained decline in earnings below our base-case assumptions may pressure HENG's capital and earnings position and the rating.

Modest market position despite conservative lending

HENG is expected to maintain a modest market position over the next few years as it pursues a cautious lending strategy focused on improving asset quality and preserving liquidity for bond repayments due in November 2025.

The company's loan portfolio has contracted significantly to THB12.5 billion at the end of 1Q25 from THB13.1 billion at year-end 2024, reflecting a deliberate shift toward conservative growth after achieving an approximate 30% expansion during 2022-2023. As of 1Q25, the loan mix comprised 73% title loans, 23% used car hire purchase loans, and 4% nano-finance products, with 82% of loans secured by pick-up trucks and passenger cars.

HENG operates 928 branches as of 1Q25. Management plans to slow new branch openings in 2025-2026 to enhance efficiency. We expect its loan portfolio to decline through 2026 due to strategic reductions in auto hire purchase loans, but modest recovery is anticipated in 2027 with cautious expansion into "Buy Now, Pay Later" financing for electrical appliances.

While this conservative approach shows prudent risk management, further contraction of HENG's loan portfolio or market position could negatively impact its operations and credit profile.

Moderate funding profile

We access HENG's funding profile as moderate. As of 1Q25, the company had access to credit facilities totaling THB6.5 billion from various financial institutions, of which THB0.7 billion remained available for immediate drawdown. Its established relationships with lenders, including strategic partner, Kasikorn Bank PLC (KBANK), are expected to support its measured growth plans over the medium term.

The funding structure as of 1Q25 comprised 84% long-term and 16% short-term borrowings. In our view, it is a conservative funding strategy. However, as HENG's borrowings need to be secured by loan receivables, we view this as lower financial flexibility compared to larger peers.

Notably, HENG's priority debt ratio stood at 89% as of 1Q25. According to TRIS Rating's "Issue Rating Criteria," a priority debt ratio exceeding 50% indicates substantial subordination risk for unsecured obligations. Furthermore, the company's NPL covenant may constrain its ability to raise additional funding in the near term.

Satisfactory liquidity position

HENG's liquidity position remains adequate to meet its short- to medium-term obligations. Liquidity sources include cash on hand, monthly repayments from customers, and available credit facilities.

The company estimates monthly customer loan repayments will be about THB500-THB600 million during April 2025 to March 2026. These projections suggest that the company has sufficient liquidity to meet upcoming debt obligations. As of

March 2025, HENG's short-term borrowings, including the current portion of long-term debt, amounted to THB6 billion, with THB614 million in debentures maturing in November 2025.

Challenges and risks remain for title loan operators

In 2023, the aggregate outstanding loans of title loan operators under the supervision of the BOT continued to grow strongly by 36%. However, the growth rate has clearly slowed down since 2024. At the end of 2024, aggregate loans of title loan operators reported by the BOT expanded by 11% and by 0.2% year to date (YTD) or 8% year on year (YOY) at 1Q25, following the stricter underwriting policies of lenders.

With the uneven economic recovery and weakened debt serviceability of borrowers, we expect credit expansion in 2025 to decelerate from previous years. At the same time, the financial performance of title loan operators has also been pressured by intense competition and weaker asset quality, resulting in higher credit costs and narrower interest spreads. These negative factors will likely remain the major challenges facing title loan operators in the medium term.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for HENG's operations in 2025-2027 are as follows:

- Outstanding loans to decline 14% in 2025, 4% in 2026, and to grow by 8% in 2027.
- Spread in the 13%-14% range.
- Credit cost of around 6%.
- Operating expenses to total income to be around 50%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will gradually improve its financial performance and asset quality, while maintaining its market position and solid capital position.

RATING SENSITIVITIES

A rating upgrade will be materialized if the company improves its asset quality and earnings capacity with the EBT/ARWA rising well above 3.5% over an extended period while maintaining its strength in capital position.

Conversely, the rating and/or outlook could be revised downward if the company's asset quality deteriorates further such that profitability, measured by EBT/ARWA, falling well below 1.5% for an extended period.

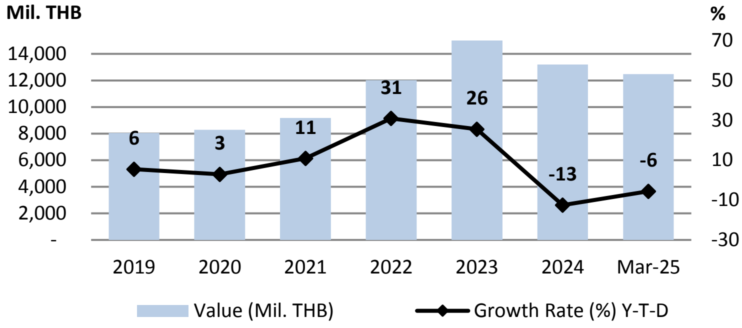
COMPANY OVERVIEW

HENG was founded in 2015 by the Suphasathitkul Family, the Pantharat Family, and the Patong Family, with initial registered capital of THB5 million to provide auto hire purchase, mainly operating in the northern region of Thailand. The Paisanteerakorn Family and the Ratanasirisap Family subsequently invested in the company in 2016. HENG's co-founders were experienced in the auto loan and used car businesses. The company also started nano finance and personal loan operations in 2019.

HENG was registered on the Stock Exchange of Thailand (SET) on 19 October 2021 with registered capital of THB3.8 billion. KBANK became a strategic partner on the first trading day with a 10% stake. As of March 2025, the Suphasathitkul Family and the Pantharat Family were the major shareholders with a combined stake of 37%, while the Patong Family held a 10% stake, the Ratanasirisap Family held an 8% stake, KBANK held a 10% stake, and others held 35%.

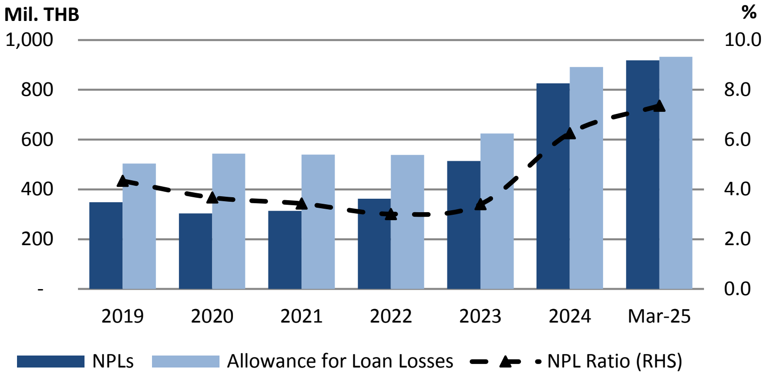
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Sources: HENG's financial statements

Chart 2: Asset Quality



Sources: HENG's financial statements

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2025	------------- Year Ended 31 December ---------- 2024	2023	2022	2021
Total assets	12,341	13,088	15,673	12,264	9,702
Total loans	12,478	13,206	15,100	12,020	9,180
Allowance for expected credit loss	932	892	625	539	540
Short-term debts	6,001	4,499	4,292	3,191	3,251
Long-term debts	907	3,221	5,718	3,592	1,466
Shareholders' equity	5,293	5,240	5,416	5,244	4,815
Net interest income	473	2,153	2,114	1,642	1,287
Expected credit loss	151	857	413	230	178
Non-interest income	24	175	322	263	173
Operating expenses	280	1,380	1,498	1,100	842
Earnings before taxes	66	90	525	575	440
Net profit	52	73	422	461	354

Unit: %

	Jan-Mar 2025	------------ Year Ended 31 December ---------- 2024	2023	2022	2021
Profitability					
Net interest income/average assets	14.89 *	14.97	15.14	14.96	14.34
Non-interest income/average assets	0.74 *	1.21	2.31	2.39	1.93
Operating expenses/total income	46.80	48.26	52.07	51.80	51.18
Operating profit/average assets	2.07 *	0.63	3.76	5.24	4.91
Earnings before taxes/average risk-weighted assets	2.05 *	0.63	3.77	5.19	4.82
Return on average assets	1.65 *	0.51	3.02	4.20	3.94
Return on average equity	3.98 *	1.37	7.92	9.17	8.54
Asset Quality					
Non-performing loans (NPL)/total loans	7.36	6.26	3.40	3.01	3.43
Expected credit loss/average loans	4.70 *	6.06	3.05	2.17	2.04
Allowance for expected credit loss/NPL	101.47	107.47	121.62	148.67	171.83
Capitalization					
Risk-adjusted capital ratio	42.35	39.27	35.20	41.95	49.71
Debt to equity (times)	1.33	1.50	1.89	1.34	1.01
Funding and Liquidity					
Stable funding ratio	79.33	99.66	104.32	100.35	99.66
Liquidity coverage measure (times)	0.02	0.02	0.11	0.05	0.16
Short-term debts/total liabilities	85.14	57.33	41.84	45.46	66.53

* *Annualized*

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

Heng Leasing and Capital PLC (HENG)

Company Rating:	BBB-
Rating Outlook:	Stable

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