

SG CAPITAL PLC

No. 118/2023
4 October 2023

FINANCIAL INSTITUTIONS

Company Rating: BB+
Outlook: Stable

Last Review Date: 26/05/23

Company Rating History:

Date	Rating	Outlook/Alert
26/05/23	BBB	Negative
28/02/23	BBB	Stable

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechoek Jiamsakunthum
taweechoek@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on SG Capital PLC (SGC) to “BB+/stable” from “BBB/negative”. The rating revision follows the same rating action on SINGER Thailand (SINGER, rated “BB+/stable”).

According to TRIS Rating’s “Group Rating Methodology”, the rating and outlook on SGC are equivalent to and move in tandem with those on SINGER, given SGC’s status as a core subsidiary of SINGER. SINGER is currently the largest shareholder of SGC with a 75%, and the businesses of the two companies are highly integrated. SGC’s business strategy is directly controlled by SINGER. The company is also involved in business referrals and cross-selling activities among companies within the SINGER Group.

Risk policies and the management of credit risk are also aligned with the group risk management. 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.

SGC receives ongoing financial support from SINGER in the form of credit lines, which remained at THB10 billion as of the end of the second quarter of 2023 (2Q23). This support helps underpin SGC’s funding and liquidity profile and enhances its business expansion. SINGER also has a track record of injecting capital into SGC. The capital injections underscore 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.

On a stand-alone basis, SGC continues to enhance its market position, as shown in the constant growth of its loan portfolio over the past few years. SGC operates its own auto title loan services collateralized mainly by truck fleets extended 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.

The rapid credit expansion amid a weak economy, imprudent underwriting, and inadequate operational control within the group over the last two years have resulted in the weakening of SGC’s asset quality. The cessation of debt relief measures in 2022 also led to slippages as seen in the significantly higher stage-3 loans or non-performing loans (NPL). All these factors led to a sharp increase in the NPL ratio to 12.5% at the end of 2Q23, from 4.6% at the end of 2022. Expected credit loss (ECL) provisions to average loans (credit cost) rose to 47% in the first half of 2023 (1H23) (annualized), from 3% in 2022.

Although SGC has been able to contribute meaningful revenue of around 40% for the group over the past few years, its financial performance weakened substantially in 1Q23 and 2Q23. The company reported a net loss of THB2.3 billion in 1H23, mainly caused by a sharp increase in credit costs.

Its outstanding loans comprised 73% title loans for truck fleets and 27% hire purchase (HP) loans for electrical appliances. Total outstanding loans dropped by 7.4% year-to-date (y-t-d) to THB13.8 billion at the end of 2Q23. This was mainly driven by a large contraction of HP loans that fell by 39% y-t-d, while

auto title loans were down by 4.4% y-t-d. The shrinking portfolio was mainly due to the write-off of stage-3 HP loans as part of the company's effort to clean up its loan portfolio.

In our view, the company is likely to pursue a more conservative growth strategy going forward, driven by concerns over the risk of deteriorating asset quality. Based on the company's plans to revamp its operation system, tighten lending policies, and improve debt collections, we expect SGC's performance to gradually recover over the next few years.

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 on SINGER, given its status as a core subsidiary of SINGER. The rating can also be downgraded if TRIS Rating views the degree of importance of the company to SINGER to be materially weakening or if 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., 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 THB1.45 billion. In 2016, the company changed its name to SG Capital Co., Ltd. and then SG Capital PLC in 2022. The company received a capital injection of THB1 billion in June 2021. 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.

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:	BB+
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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