

THITIKORN PLC

No. 123/2021
30 July 2021

FINANCIAL INSTITUTIONS

Company Rating: BBB+
Outlook: Stable

Last Review Date: 31/07/20

Company Rating History:

Date	Rating	Outlook/Alert
31/07/20	A-	Negative
31/03/10	A-	Stable
14/11/06	BBB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Thitikorn PLC (TK) to “BBB+” from “A-” and revises the rating outlook to “stable” from “negative”. The rating downgrade reflects a faltering market position in its core domestic business, motorcycle hire purchase. The rating, nonetheless, continues to reflect the company’s solid capital base, resilient profitability, and healthy liquidity.

The key rating constraint is a potentially significant decline in TK’s asset quality due to the relatively high credit risk of its customers who are susceptible to a weak economic environment. The rating also takes into account intense competition in the motorcycle hire purchase industry, particularly in the domestic market, which could limit margin improvement in the medium term.

KEY RATING CONSIDERATIONS

Faltering domestic market position

The rating downgrade was mainly driven by TK’s materially weakened domestic market position and customer base over the past few years. Its loan portfolio continued to contract more than our expectation by 37% year on year (y-o-y) to THB5.2 billion at the end of 2020. At the end of March 2021, outstanding loan contracted further to THB4.8 billion. This was mainly a result of its cautious growth strategy in response to the ongoing economic fallout from Coronavirus Disease 2019 (COVID-19) outbreaks. With the lingering uncertainty of the COVID-19 situation in Thailand, it will be a challenge for TK to regain market position this year. We believe the company is more likely to resume its expansionary mode starting from 2022 onwards.

Nevertheless, TK continues to be superior to its direct peers in terms of business diversity. Geographically, the company has a well-diversified loan portfolio across Thailand as well as countries in the CLMV region, including Kingdom of Cambodia, the Lao People’s Democratic Republic (Lao PDR), and Republic of the Union of Myanmar. The loan portfolio outside Thailand was around 21% of TK’s total loan portfolio at the end of 2020, an increase from 16% at the end of 2019. This was despite the overseas loan portfolio declining by 15% in 2020 to THB1.1 billion due to the COVID-19 impact.

Solid capital

Solid capital position remains TK’s credit strength given its stronger-than-peer capital. We assess TK’s capital position as very strong, with risk-adjusted capital (RAC) of 56.1% at the end of 2020, an increase from 34.5% in 2019. This was driven mainly by the shrinkage of the loan portfolio and profit accretion in the past few years. Despite the ratio’s potential fall in the future as the company starts to resume business expansion, we expect its capital position to remain strong. Its robust capital will provide a cushion to absorb credit cost that could potentially rise due to the economic fallout from the COVID-19 outbreak. By the same token, TK’s financial leverage remains low as measured by the debt to equity (D/E) ratio of 0.37 times at the end of 2020 improving from 0.72 times at the end of 2019 as most of its loan extension were funded by equity.

Overseas expansion provides growth impetus

In the medium term, TRIS Rating views that the expansion in the overseas market will be a growth catalyst for TK, given its cautious growth strategy in the home market due to fierce competition and a potential rise in credit risk. We

expect overseas lending to constitute about 30% of TK's total loan portfolio by 2023 with domestic loans continuing to constitute its core loan portfolio. The company's total overseas exposure to its total portfolio increased to 21% in 2020 from 18% and 10% in 2019 and 2018, respectively. Of this, 17% came from Cambodia and 4% from the Lao PDR.

The positive aspects of operations in the CLMV region are the lower competition and the better asset quality relatively to the Thai market. That said, the non-performing loans (NPLs, loans more than 90 days past due) of the overseas subsidiaries began to increase in 2019 and this continued in 2020. The total NPL ratio in foreign subsidiaries rose to 3.6% in 2020 from 2.8% and 0.7% in 2019 and 2018, respectively. This is compared with the NPL ratio of 10.5% in 2020 for its domestic loan portfolio. We view the NPL ratio to be within a manageable range. Despite the economic impact from the COVID-19, these overseas subsidiaries have controlled asset quality considerably well.

Adequate liquidity

Strong liquidity profile is another positive rating factor for TK. We believe this is likely to remain so over the next few years due to the conservative expansion plan. As of March 2021, TK's cash on hand was THB2 billion compared with pre-2018 where the average amount was around THB100-THB200 million.

The company relies more on long-term funding compared with its peers. However, due to the slowdown in TK's business, the need to refinance long-term borrowings has been low since 2019. The company's funding structure in 2020 comprised long-term obligations (7%), short-term obligations (15%), of which 13% were the current portion of long-term borrowings and equity (78%).

As of March 2021, the company had a positive liquidity gap. We expect TK to maintain a positive gap over the next 12 months. We estimate net cash inflows from customer loan repayments to amount to around THB160 million per month over the next 12 months.

Sign of improvement in asset quality amid challenging environments

The company's asset quality is weak but comparable to peers in the same industry. This remains one of the key constraints for the rating on the company. The company's NPL ratio rose considerably in 2020 to 9.2% from 4.5% in 2019. This was driven by a combination of asset quality deterioration following the COVID-19 outbreak in early 2020 as well as the loan portfolio contraction. However, there has been some improvement in recent quarters with NPL formation dropping below the average level of 10% thanks to the selective loan portfolio expansion strategy.

In 2020, the ratio of expected credit loss (ECL) provisions to average loans (credit cost) fell to 9.6% from an average of 10% in 2017-2018. This is because the company had already set aside large ECL provisions in 2019 in preparation for the TFRS9 standard implemented in 2020 coupled with loan portfolio contraction during 2020. In the first quarter of 2021, annualized credit cost declined further to 7.4% due to lower NPL formation. As of March 2021, the ratio of allowance for ECL to NPLs (NPL coverage) also improved to a healthy level of 130.4% from 118.3% at the end of 2020. While we observe some positive developments, the prolonged economic downturn could put pressure on the company's asset quality and hence profitability due to elevated credit cost.

New entrants to add pressure on yields and asset quality

The economic fallout from the COVID-19 has dented the motorcycle sales volume in Thailand, which dropped by 11.8% y-o-y in 2020. The lower sales volume resulted in outstanding motorcycle hire purchase loans of nine operators in TRIS Rating's database falling in aggregate by 2% in 2020. Despite encouraging growth of 17.2% y-o-y in the sales of motorcycle in the first five months of 2021, driven by 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 loan yields and asset quality of all players in the medium term.

BASE-CASE ASSUMPTIONS

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

- Outstanding portfolio to shrink in 2021 and to expand by 10%-20% per year in 2022-2023.
- RAC ratio to remain above 40%.
- Interest yield to remain around 30%.
- Credit cost to remain at about 10%-11% annually.
- Operating expense to total income ratio will be around 50%.

RATING OUTLOOK

The “stable” outlook is based on our expectation that TK will slowly regain its market position in the motorcycle hire purchase segment. The outlook is premised on our expectations that leverage will remain low, liquidity and profitability will stay strong, and asset quality will remain at an acceptable level.

RATING SENSITIVITIES

The rating upside is limited in the short-term while in the longer-term an upside could arise if the company can recover its status as a leading operator in the market while maintaining satisfactory financial performance and asset quality. However, the rating could be downgraded if the company’s market position weakens further, or its asset quality deteriorates continuously and results in a significant decline in profitability with its EBT/ARWA ratio falling below 1.5%, or leverage increases materially as indicated by a RAC ratio of less than 25%.

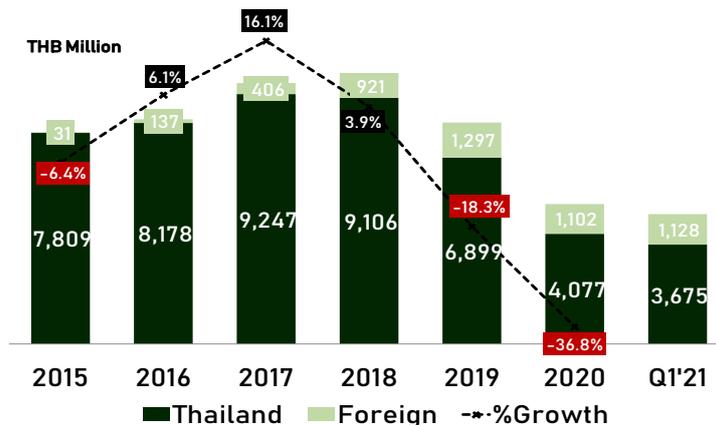
COMPANY OVERVIEW

TK was founded on 4 August 1972 by Dr. Chumpol and Dr. Anothai Phornprapha to provide motorcycle and automobile financing loans under hire purchase contracts. Currently, the company concentrates on the motorcycle financing segment. TK is more geographically diversified than its competitors. The company renders services through a branch network covering 56 provinces throughout Thailand. In addition, TK offers motorcycle loans in Cambodia and the Lao PDR through its subsidiaries, Suosdey Finance PLC and Sabaidee Leasing Co., Ltd., respectively, which were established in 2014.

As of March 2021, loans from TK comprised 72% of TK’s outstanding loans; 19% from Suosdey (Cambodia based subsidiary) and 4% from Sabaidee (Laos based subsidiary), and another 5% from other subsidiaries.

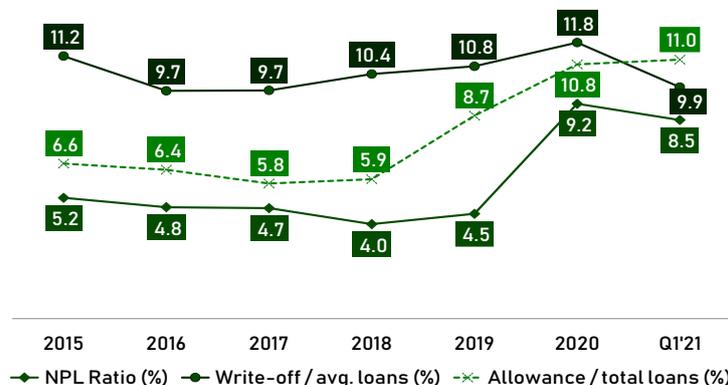
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: TK

Chart 2: Asset Quality



Source: TK

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

	----- Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
Total assets	6,796	7,357	9,163	10,578	10,018
Total loans	4,803	5,179	8,196	10,027	9,653
Allowance for expected credit loss	531	562	710	597	557
Short-term debts	456	1,096	2,251	2,436	976
Long-term debts	534	531	1,181	2,601	3,855
Shareholders' equity	5,478	5,356	5,324	5,078	4,785
Net interest income	361	1,934	2,858	3,063	2,802
Expected credit loss	92	640	1,094	1,067	903
Non-interest income	153	541	730	670	729
Operating expenses	287	1,361	1,862	2,154	2,024
Earnings before taxes	135	474	610	512	604
Net income	99	370	486	402	472

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	Jan-Mar 2021	2020	2019	2018	2017
Profitability					
Net interest income/average assets	20.43 **	23.41	28.96	29.74	30.08
Non-interest income/average assets	8.63 **	6.55	7.40	6.51	7.83
Operating expenses/total income	54.74	53.42	50.76	55.78	55.55
Operating profit/average assets	7.61 **	5.74	6.18	4.97	6.49
Earnings before taxes/average risk-weighted assets	5.85 **	3.81	3.54	2.72	3.55
Return on average assets	5.57 **	4.48	4.93	3.90	5.07
Return on average equity	7.27 **	6.95	9.39	8.14	10.12
Asset Quality					
Non-performing loans/total loans	8.47	9.17	4.47	4.03	4.71
Expected credit loss/average loans	7.40 **	9.57	12.01	10.84	10.05
Allowance for expected credit loss/non-performing loans	130.40	118.30	193.53	147.58	122.32
Capitalization					
Risk-adjusted capital ratio	61.72	56.11	34.50	26.48	26.04
Debt/equity (time)	0.24	0.37	0.73	1.08	1.09
Liquidity					
Stable funding ratio	294.42	276.97	175.98	151.37	165.11
Liquidity coverage measure (times)	4.87	2.09	0.45	0.18	0.20
Short-term debts/total liabilities	34.55	54.80	58.04	44.29	18.64

* Consolidated financial statements

** Annualized

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Thitikorn PLC (TK)

Company Rating:

BBB+

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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