

MUANGTHAI CAPITAL PLC

No. 63/2019
30 April 2019

FINANCIAL INSTITUTIONS

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 03/01/19

Company Rating History:

Date	Rating	Outlook/Alert
19/08/15	BBB	Stable

Contacts:

Nattawadee Korsakul

nattawadee@trisrating.com

Sithakarn Tongphiphat, FRM

sithakarn@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating upgrades the company rating of Muangthai Capital PLC (MTC) and the ratings of its outstanding senior unsecured debentures to “BBB+” from “BBB”. The upgrade reflects the company’s sustainable track record as a market leader in its core secured personal loan products, consistently strong profitability, well-controlled asset quality, and more diversified funding sources as well as adequate liquidity. The “stable” outlook reflects our view that MTC will maintain its market position and deliver financial results in line with our expectations.

KEY RATING CONSIDERATIONS

Leading market position

Since having been listed on the Stock Exchange of Thailand (SET), MTC has proven a solid track record of growth. The size of the loan portfolio has grown from Bt7.45 billion at the end of 2014 to Bt48.05 billion at the end of 2018. In 2018 alone, the outstanding loans rose by 35% year-on-year (y-o-y).

MTC’s leading position stems from its thorough understanding of the market and extensive nationwide branch network covering Bangkok and its vicinity as well as sub-districts of the provincial areas. As at December 2018, the number of branches reached 3,279, increasing from 506 in 2014. This translates into a compound annual growth rate (CAGR) of 45%. With its plan to open about 600 branches and sub-branches per year, we expect MTC will maintain its market leading position in the microfinance segment over the next two to three years.

Strong profitability

We estimate MTC’s net income to continue to increase in a range of 20-30% and return on average assets (ROAA) to be around 8.5% in the next three years. The high yields on its loan products, which include secured personal loans, unsecured personal loans, and nano finance, as well as relatively low funding cost and sound asset quality have helped support MTC’s strong profit. MTC’s net income growth of 48% y-o-y in 2018 was higher than its peers.

Going forward we expect MTC will still maintain strong financial performance, despite some adverse impact from an increase in funding cost and operating expenses in addition to higher competition.

Well-controlled asset quality

We view MTC’s asset quality has been well-controlled and relatively resilient to weak economic environment as reflected by its low and stable ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans over the years. As at December 2018, the company’s NPL ratio declined to 1.1% from 1.2% the year earlier. Compared with peers, MTC’s NPL ratio has been the lowest over the past four years. The low NPL ratio is due to good risk management, specifically stringent credit approval policies and efficient debt collection processes. In addition, MTC has constantly diversified its portfolio and maintained the top 20 customer concentration ratio well below 1%, making the company less sensitive to single-name defaults.

Diversified funding and adequate liquidity

We assess MTC’s funding and liquidity to be sufficient due to its diversified funding sources, ranging from debentures (53%), long-term loans (22%),

promissory notes (18%) from banks, and bills of exchange (7%). As a listed company, MTC has financial flexibility given its access to equity market for funding. In addition, in February 2019, the company further improved its financial flexibility by issuing its first public offering (PO) bonds worth Bt4 billion. As of December 2018, MTC had available credit facilities of Bt7.18 billion, in addition to the expected cash inflows from customers' repayments. We expect MTC's funding and liquidity to be sufficient for business expansion and servicing of debt obligations over the next two to three years.

Acceptable degree of leverage

A key financial covenant for the credit lines extended by a group of financial institutions calls for the debt to equity ratio (D/E ratio) to stay below 4 times. The D/E ratio at the end of December 2018 was 3.0 times, slightly down from the previous year of 3.1 times. TRIS Rating expects that MTC will be able to comply with the covenant even as it continues to expand, given capital accretion from strong profitability and a conservative dividend policy.

BASECASE ASSUMPTIONS

- Outstanding portfolio will grow by 20%-30% per year during 2019-2021.
- ROAA will average 8.5% over the next three years.
- D/E ratio is expected to remain at approximately 3 times during 2019-2021.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that MTC will maintain its market position, deliver satisfactory performance, control the quality of the loan portfolio, and keep leverage at an acceptable level.

RATING SENSITIVITIES

The upside case for the rating and/or outlook is unlikely in the near term after the recent upgrade. However, the rating and/or outlook could be strengthened if leverage and financial performance improve significantly. In contrast, the rating and/or outlook could be revised downward should loan quality or profitability deteriorate which consequently impact the company's capital, leverage, financial performance, or risk position.

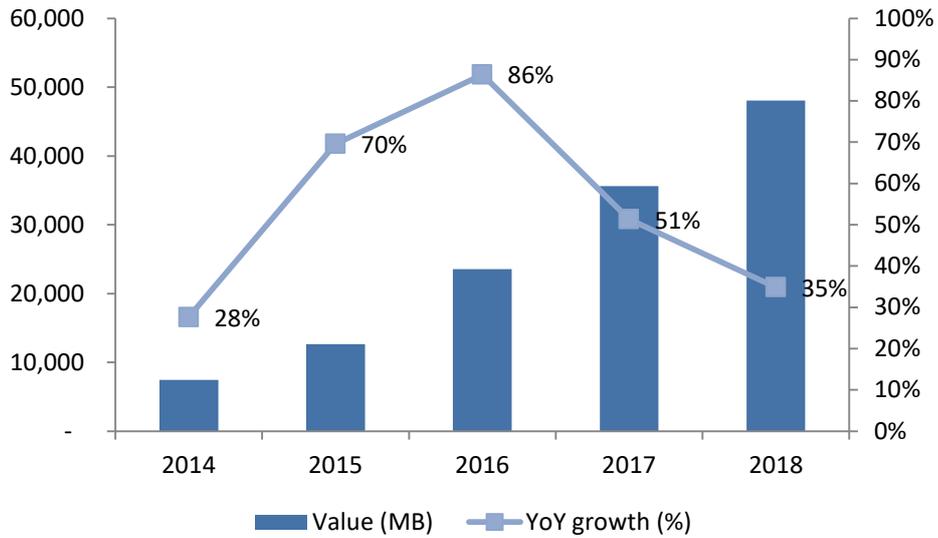
COMPANY OVERVIEW

In 1992, the Petaumpai family, the founder and current major shareholder of MTC, started the company to finance purchases of new and used motorcycles. The company began offering personal loans backed by used motorcycles in 1998, personal loans backed by used automobiles in 2003, and unsecured personal loans in 2006. MTC ceased providing hire purchase loans in 2001. In 2014, MTC was listed on the SET. Currently, MTC's major shareholder is the Petaumpai family, holding approximately 68% of the outstanding shares.

At the end of December 2018, loans secured by used motorcycles represented the major portion (35%) of outstanding loans. The remaining portion comprised loans secured by used cars and trucks (32%), agricultural vehicles (4%), and unsecured personal loans (10%). MTC introduced two new products in 2015: loans secured by land, and nano finance loans. As of December 2018, loans secured by land made up 14% of outstanding loans and nano finance loans comprised 5%.

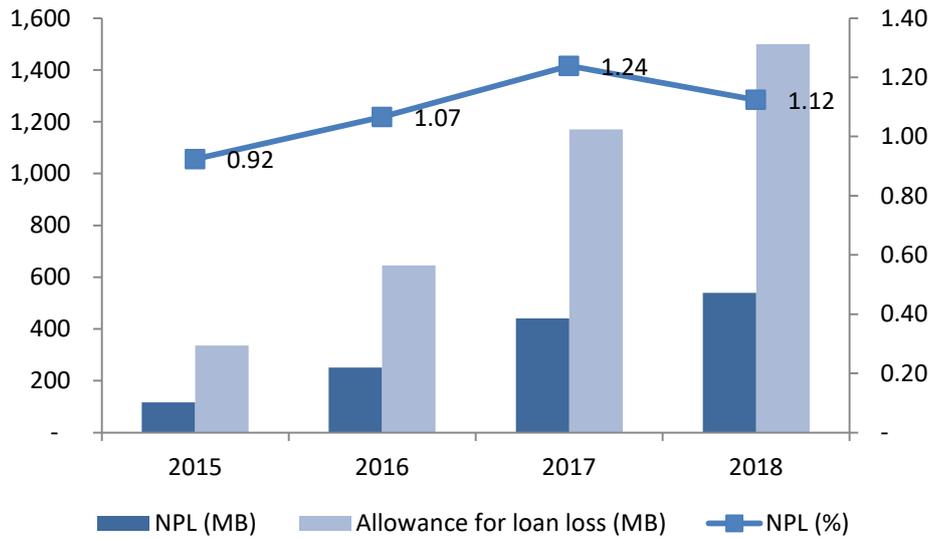
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: MTC

Chart 2: Asset Quality



Source: MTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	49,146	36,953	24,426	13,083	8,777
Total loans	48,047	35,623	23,541	12,630	7,448
Allowance for doubtful accounts	1,499	1,171	646	336	325
Short-term borrowings	11,042	10,482	12,650	3,787	3,117
Long-term borrowings	24,463	16,619	4,599	3,368	368
Shareholders' equity	12,299	8,943	6,692	5,652	5,106
Net interest income	8,444	6,122	3,691	1,998	1,301
Bad debts and doubtful accounts	586	679	332	25	14
Non-interest income	872	676	453	334	289
Operating expenses	4,103	3,013	2,000	1,275	896
Net income	3,713	2,501	1,464	825	544

* Consolidated financial statements

Unit: %

	----- Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Profitability					
Net-interest income/average assets	19.61	19.95	19.68	18.28	17.60
Net-interest income/total income	81.06	81.94	82.54	78.06	70.12
Operating expenses/total income	39.39	40.32	44.72	49.82	48.28
Operating profit/average assets	10.75	10.12	9.66	9.44	9.19
Return on average assets	8.63	8.15	7.81	7.55	7.36
Return on average equity	34.96	31.99	23.72	15.34	15.45
Asset Quality					
Non-performing loans/total loans	1.12	1.24	1.07	0.92	1.37
Provision for loan losses / average loans	1.40	2.30	1.83	0.25	0.21
Allowance for doubtful accounts/total loans	3.12	3.29	2.74	2.66	4.36
Bad debt written-off/average loans	0.18	0.12	0.12	0.14	0.16
Capitalization					
Shareholders' equity/total assets	25.03	24.20	27.40	43.20	58.18
Shareholders' equity/total loans	25.73	25.11	28.43	44.75	68.56
Debt to equity (time)	2.98	3.13	2.65	1.31	0.72
Liquidity					
Short-term borrowings/total liabilities	26.07	37.42	71.33	50.96	84.93
Total loans/total assets	97.76	96.40	96.38	96.54	84.86

* Consolidated financial statements

RELATED CRITERIA

- Nonbank Lending Company, 7 May 2018

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTLS19NA: Bt469 million senior unsecured debentures due 2019	BBB+
MTC222A: Bt1,650.30 million senior unsecured debentures due 2022	BBB+
MTC22NB: Bt2,349.70 million senior unsecured debentures due 2022	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria