

# MUANGTHAI LEASING PLC

No. 73/2015

19 August 2015

**Company Rating:** BBB  
**Outlook:** Stable

## Rating Rationale

TRIS Rating assigns the company rating of Muangthai Leasing PLC (MTLS) at “BBB”. The rating reflects the company’s lengthy operation in secured personal loan business and its experienced management team. The rating also takes into consideration the company’s rapid growth of loan portfolio during the past few years, impressive profitability, adequate capital, and its widespread branch network. However, the rating is limited by intense competitive environment of personal loan business, unfavorable domestic economy, high household debts, and the fact that its target customers are highly sensitive to volatile economic conditions that will affect ability to repay debts. In addition, the stability of business growth and the continuous delivery of satisfactory financial performance need time to prove.

In 1992, the Petaumpai (or Petampai) family, the founder and current major shareholder of MTLS, started financing the purchase of new and used motorcycles. D.S. Leasing Co., Ltd. which was renamed Maungthai Leasing Co., Ltd. in 2001, began with Bt2 million in registered capital. The company began offering used motorcycle-backed personal loans in 1998, used automobile-backed personal loans in 2003, and unsecured personal loans in 2006. MTLS ceased its hire purchase financing business in 2001. In 2011, MTLS acquired Muangthai Leasing Insurance Broker Co., Ltd. as its wholly-owned subsidiary and started providing insurance brokerage services.

MTLS’s registered capital has continued to rise since its inception. In 2014, MTLS was listed on the Stock Exchange of Thailand (SET). The initial public offering (IPO) raised paid-up capital by Bt545 million to Bt2,120 million. The proceeds enabled MTLS to expand its loan portfolio with a focus on personal loans secured by used motorcycles. Currently, MTLS’s major shareholder is the Petaumpai (or Petampai) family, holding approximately 70% of the company’s shares.

MTLS has steadily added new branches, especially in provincial areas, the home of its target customers. The number of branches surged from 343 at the end of 2011 to 715 at the end of June 2015. MTLS’s loan portfolio grew at a similar pace, jumping from Bt3,945 million in 2011 to Bt7,448 million in 2014, a compound annual growth rate (CAGR) of 23.6%. At the end of 2014, loans secured by used motorcycles comprised 79.2% of outstanding loans, followed by loans secured by used cars and trucks (17.6%), and loans secured by agricultural vehicles (2.7%). Unsecured personal loans made up 0.5% of outstanding loans. Outstanding loans increased to Bt9,347 million at the end of June 2015, up 25.5% from the level at the end of 2014.

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans remained relatively low even during difficult times of the industry. MTLS’ NPL ratio fell from 1.6% at the end of 2011, the year of Thailand’s flood crisis, to 1% at the end of 2012. However, the ratio climbed slightly to 2% at the end of 2013. The rise was partially due to the changes in restructuring policies which has been more stringent. MTLS’s NPL ratio remains low, despite the recent small rise due to domestic political uncertainty and an economic slowdown. The NPL ratio dropped to 1.4% at the end of 2014 and went down further to 1.1% at the end of June 2015. The good quality of MTLS’s assets is a result of its conservative underwriting criteria, together with the company’s efficient collection system.

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MTLS's financial performance has been moving in a positive direction. Net income jumped from Bt107 million in 2011 to Bt308 million in 2012, and rose by 14% to Bt351 million in 2013. In 2014, profits rose again, leaping by 54.8% to Bt544 million. The return on average assets (ROAA) jumped from 4% in 2011 to 7.1% in 2012 but dropped slightly to 6.5% in 2013. In 2014, the ROAA rebounded to 7.4%. Net income was Bt365 million for the first half of 2015 and the ROAA was 3.9% (non-annualized).

Steady profits over the past four years brought steady increases in shareholders' equity. After its November 2014 IPO, MTLS's capital base strengthened significantly. The ratio of shareholders' equity to total assets jumped from 32.2% at the end of 2013 to 58.2% at the end of 2014. However, the ratio dropped slightly to 53.3% at the end of June 2015 due to MTLS's active loan growth in the first half of the year. MTLS's capital base is considered strong enough to support a near-term expansion in its loan portfolio. The debt to equity ratio (D/E ratio) was considered low at 0.9 times at the end of June 2015.

MTLS's target customers are a high credit risk group and are more vulnerable to adverse changes in the economy. The company's stringent credit approval policies, efficient debt collection processes, and strong capital base will absorb and limit the risks of lending to its high-risk target customers. Because it has been growing rapidly, MTLS needs time to demonstrate its ability to handle its sizeable loan portfolio, deliver impressive financial performance, and maintain acceptable loan quality on a sustainable basis.

### Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that MTLS will maintain its market position and deliver satisfactory performance. Loan quality is expected to be controlled at an acceptable level.

The rating and/or outlook upside include the case that MTLS could continuously expand the business and maintain satisfactory levels of profitability while the company's asset quality is kept at a high level. On the contrary, the rating and/or outlook could be revised downward should MTLS's asset quality and competitive position deteriorate significantly.

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### Muangthai Leasing PLC (MTLS)

**Company Rating:**

BBB

**Rating Outlook:**

Stable

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Financial Statistics\*

Unit: Bt million

	Jan-Jun 2015	----- Year Ended 31 December -----			
		2014	2013	2012	2011
Total assets	9,750	8,777	6,016	4,789	3,967
Total loans	9,347	7,448	5,835	4,776	3,945
Allowance for doubtful accounts	303	325	322	170	43
Short-term borrowings	4,302	3,110	3,286	1,483	770
Long-term borrowings	41	357	613	1,480	1,821
Shareholders' equity	5,195	5,106	1,937	1,585	1,251
Net interest income	845	1,301	1,087	911	437
Bad debts and doubtful accounts	(16)	14	156	128	38
Non-interest income	162	289	247	191	155
Operating expenses	568	896	738	573	414
Net income	365	544	351	308	107

\* Consolidated financial statements

### Key Financial Ratios\*

Unit: %

	Jan-Jun 2015	----- Year Ended 31 December -----			
		2014	2013	2012	2011
<b>Profitability</b>					
Net-interest income/average assets	9.13 **	17.60	20.13	20.82	16.14
Net-interest income/total income	75.75	70.12	70.23	72.90	65.93
Operating expenses/total income	50.92	48.28	47.68	45.85	62.42
Operating profit/average assets	4.92 **	9.19	8.15	9.15	5.16
Return on average assets	3.94 **	7.36	6.51	7.05	3.95
Return on average equity	7.08 **	15.45	19.96	21.75	11.14
<b>Asset Quality</b>					
Non-performing loans/total loans	1.14	1.37	1.99	1.01	1.57
Bad debts and doubtful accounts/average loans	(0.19) **	0.21	2.94	2.93	1.44
Allowance for doubtful accounts/total loans	3.24	4.36	5.52	3.56	1.10
Allowance for doubtful accounts/non-performing loans	284.71	318.04	277.86	351.47	69.92
<b>Capitalization</b>					
Shareholders' equity/total assets	53.29	58.18	32.20	33.09	31.54
Shareholders' equity/total loans	55.58	68.56	33.20	33.18	31.72
Debt to equity (time)	0.88	0.72	2.11	2.02	2.17
<b>Liquidity</b>					
Short-term borrowings/total liabilities	94.46	84.73	80.55	46.28	28.37
Total loans/total assets	95.87	84.86	97.00	99.74	99.44

\* Consolidated financial statements

\*\* Non-annualized

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