

# MUANGTHAI LEASING PLC

No. 58/2016

10 November 2016

<b>Company Rating:</b>	BBB
<b>Issue Rating:</b>	
Senior unsecured	BBB
<b>Outlook:</b>	Stable

**Company Rating History:**

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

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**WWW.TRISING.COM****Rating Rationale**

TRIS Rating affirms the company rating of Muangthai Leasing PLC (MTLS) at “BBB”. At the same time, TRIS Rating assigns the rating of “BBB” to MTLS’s proposed issue of up to Bt500 million in senior unsecured debentures. The ratings reflect the company’s lengthy operation in the secured personal loan business and its experienced management team. The ratings also take 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 ratings are limited by an intense competitive environment of the personal loan business, an unfavorable domestic economy, high household debts, and the fact that its target customers are highly sensitive to volatile economic conditions that will affect their ability to repay debts.

In 1992, the Petaumpai family, the founder and current major shareholder of MTLS, started financing the purchase of new and used motorcycles. 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 2014, MTLS was listed on the Stock Exchange of Thailand (SET). Currently, MTLS’s major shareholder is the Petaumpai family, holding approximately 70% of the company’s shares.

MTLS’s strategy is to expand its market coverage areas by opening more branches to reach and serve its target customers. MTLS has steadily added new branches, especially in the rural areas or sub-districts of provincial areas. The number of branches surged from 343 at the end of 2011 to 940 at the end of 2015. MTLS’s loan portfolio grew at a similar pace, jumping from Bt3,945 million in 2011 to Bt12,630 million in 2015, a compound annual growth rate (CAGR) of 33.8%. At the end of 2015, loans secured by used motorcycles still represented the major portion of MTLS’s portfolio, comprising 59.6% of outstanding loans. The remaining portions were loans secured by used cars and trucks (30.6%), loans secured by agricultural vehicles (4.3%), and unsecured personal loans (2.7%). MTLS introduced new products in 2015, comprising loans secured by land and Nano Finance loans. As of December 2015, loans secured by lands made up 2% of outstanding loans and Nano Finance loans contributed 0.9%. Outstanding loans increased to Bt20,513 million at the end of September 2016.

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans has remained relatively low. This is despite difficult times for the industry, the result of domestic political uncertainty and an economic slowdown. The NPL ratio dropped continuously from 2% at the end of 2013 to 0.9% at the end of 2015. The ratio moved up slightly to 1% at the end of September 2016. The good quality of MTLS’s assets is a result of its prudential underwriting criteria, together with the company’s efficient collection system.

MTLS’s financial performance has been moving in a positive direction. Net income jumped from Bt107 million in 2011 to Bt351 million in 2013. Profits leaped by 54.8% to Bt544 million in 2014 and surged by another 51.6% to Bt825 million in 2015. The return on average assets (ROAA) jumped from 4% in 2011 to 7.1% in 2012 but dropped slightly to 6.5% in 2013. ROAA rebounded to 7.4% in 2014 and grew further to 7.6% in 2015. Net income was Bt981 million for the first nine

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months of 2016, a 67.8% rise from the same period in 2015. ROAA was 7.6% (annualized).

Steady profits over the past years brought steady increases in shareholders' equity. After its initial public offering (IPO) in November 2014, MTL'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 to 43.2% at the end of 2015 and 29.3% at the end of September 2016 due to MTL's active loan growth. Despite the recent drops, MTL'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 at 2.4 times at the end of September 2016.

MTL'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.

### Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that MTL 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 MTL could continuously expand the business and maintain satisfactory levels of financial performance while the company's asset quality is kept at a high level on a sustainable basis. On the contrary, the rating and/or outlook could be revised downward should MTL's asset quality and competitive position deteriorate significantly.

### Muangthai Leasing PLC (MTL)

<b>Company Rating:</b>	BBB
<b>Issue Rating:</b>	
Up to Bt500 million senior unsecured debentures due within 2019	BBB
<b>Rating Outlook:</b>	Stable

### Financial Statistics\*

Unit: Bt million

	Jan-Sep 2016	----- Year Ended 31 December -----			
		2015	2014	2013	2012
Total assets	21,175	13,083	8,777	6,016	4,789
Total loans	20,513	12,630	7,448	5,835	4,776
Allowance for doubtful accounts	559	336	325	322	170
Short-term borrowings	8,461	3,787	3,117	3,292	1,487
Long-term borrowings	6,181	3,368	368	625	1,484
Shareholders' equity	6,209	5,652	5,106	1,937	1,585
Net interest income	2,523	1,998	1,301	1,087	911
Bad debts and doubtful accounts	240	25	14	156	128
Non-interest income	321	334	289	247	191
Operating expenses	1,392	1,275	896	738	573
Net income	981	825	544	351	308

\* Consolidated financial statements

**Key Financial Ratios\***

Unit: %

	Jan-Sep 2016	----- Year Ended 31 December -----			
		2015	2014	2013	2012
<b>Profitability</b>					
Net-interest income/average assets	14.73 **	18.28	17.60	20.13	20.82
Net-interest income/total income	82.17	78.06	70.12	70.23	72.90
Operating expenses/total income	45.34	49.82	48.28	47.68	45.85
Operating profit/average assets	7.08 **	9.44	9.19	8.15	9.15
Return on average assets	5.73 **	7.55	7.36	6.51	7.05
Return on average equity	16.54 **	15.34	15.45	19.96	21.75
<b>Asset Quality</b>					
Non-performing loans/total loans	0.95	0.92	1.37	1.99	1.01
Bad debts and doubtful accounts/average loans	1.45 **	0.25	0.21	2.94	2.93
Allowance for doubtful accounts/total loans	2.73	2.66	4.36	5.52	3.56
Allowance for doubtful accounts/non-performing loans	286.64	287.61	318.04	277.86	351.47
<b>Capitalization</b>					
Shareholders' equity/total assets	29.32	43.20	58.18	32.20	33.09
Shareholders' equity/total loans	30.27	44.75	68.56	33.20	33.18
Debt to equity (time)	2.41	1.31	0.72	2.11	2.02
<b>Liquidity</b>					
Short-term borrowings/total liabilities	56.54	50.96	84.93	80.70	46.40
Total loans/total assets	96.87	96.54	84.86	97.00	99.74

\* Consolidated financial statements

\*\* Non-annualized

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