

# MUANGTHAI LEASING PLC

No. 57/2017

5 June 2017

**Company Rating:** BBB

**Outlook:** Stable

## Company Rating History:

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

## Rating Rationale

TRIS Rating affirms the company rating of Muangthai Leasing PLC (MTLS) and the rating of MTLS's senior unsecured debentures at "BBB". The ratings reflect the company's experience in making secured personal loans and its experienced management team. The ratings also take into consideration the growth of MTLS's loan portfolio during the past few years, as well as its impressive profitability, adequate capital, and extensive branch network. However, the ratings are limited by intense competition in the personal loan business, an unfavorable domestic economy, a high level of household debt nationwide, and the fact that MTLS's 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 making hire purchase financing loans 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 68% of the company's outstanding shares.

MTLS's strategy is to expand its market coverage by opening more branches to 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 506 at the end of 2014 to 1,874 at the end of March 2017. MTLS's loan portfolio grew at a similar pace, jumping from Bt7,448 million in 2014 to Bt23,541 million in 2016, a compound annual growth rate (CAGR) of 77.8%. Outstanding loans increased to Bt25,973 million at the end of March 2017, up 10.3% from the level at the end of 2016. At the end of March 2017, loans secured by used motorcycles still represented the major portion of MTLS's portfolio, comprising 41.9% of outstanding loans. The remaining portions were loans secured by used cars and trucks (33%), loans secured by agricultural vehicles (4.9%), and unsecured personal loans (5.1%). MTLS introduced two new products in 2015: loans secured by land and nano finance loans. As of March 2017, loans secured by land made up 12.8% of outstanding loans and nano finance loans contributed 2.3%.

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans has remained relatively low despite the 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 1.1% at the end of 2016 and at the end of March 2017. The good quality of MTLS's assets is a result of its prudent underwriting criteria, together with an efficient collection system.

MTLS's financial performance has been moving in a positive direction. Net income jumped from Bt544 million in 2014 to Bt1,464 million in 2016. Return on average assets (ROAA) rose from 7.4% in 2014 to 7.8% in 2016. Net income was Bt536 million for the first three months of 2017, a 91.5% rise from the same period in 2016. ROAA was 8.4% (annualized).

Steady profits over the past years brought steady increases in shareholders' equity. After the initial public offering (IPO) in November 2014, MTLS's capital base strengthened significantly. The ratio of shareholders' equity to total assets jumped

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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 declined to 27.4% at the end of 2016 and 27% at the end of March 2017 as the loan portfolio grew. Despite the recent drops, MTLs's capital base is considered strong enough to support a near-term expansion of its loan portfolio. The debt to equity ratio (D/E ratio) was at 2.7 times at the end of March 2017.

MTLS's target customers are in 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 MTLs will maintain its market position and deliver satisfactory performance. The loan quality is expected to be controlled at an acceptable level.

The ratings and/or outlook upside depend on continued growth, satisfactory financial performance, and high-quality loan portfolio on a sustained basis. In contrast, the ratings and/or outlook could be revised downward should MTLs's asset quality or competitive position deteriorate significantly.

### Muangthai Leasing PLC (MTLS)

<b>Company Rating:</b>	BBB
<b>Issue Rating:</b>	
MTLS19NA: Bt469 million senior unsecured debentures due 2019	BBB
<b>Rating Outlook:</b>	Stable

#### Financial Statistics\*

Unit: Bt million

	Jan-Mar 2017	Year Ended 31 December			
		2016	2015	2014	2013
Total assets	26,813	24,426	13,083	8,777	6,016
Total loans	25,973	23,541	12,630	7,448	5,835
Allowance for doubtful accounts	753	646	336	325	322
Short-term borrowings	12,052	12,650	3,787	3,117	3,292
Long-term borrowings	6,819	4,599	3,368	368	625
Shareholders' equity	7,228	6,692	5,652	5,106	1,937
Net interest income	1,293	3,691	1,998	1,301	1,087
Bad debts and doubtful accounts	146	332	25	14	156
Non-interest income	148	453	334	289	247
Operating expenses	628	2,000	1,275	896	738
Net income	536	1,464	825	544	351

\* Consolidated financial statements

Key Financial Ratios\*

Unit: %

	Jan-Mar 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
<b>Profitability</b>					
Net-interest income/average assets	5.05 **	19.68	18.28	17.60	20.13
Net-interest income/total income	82.69	82.54	78.06	70.12	70.23
Operating expenses/total income	40.16	44.72	49.82	48.28	47.68
Operating profit/average assets	2.61 **	9.66	9.44	9.19	8.15
Return on average assets	2.09 **	7.81	7.55	7.36	6.51
Return on average equity	7.70 **	23.72	15.34	15.45	19.96
<b>Asset Quality</b>					
Non-performing loans/total loans	1.09	1.07	0.92	1.37	1.99
Bad debts and doubtful accounts/average loans	0.59 **	1.83	0.25	0.21	2.94
Allowance for doubtful accounts/total loans	2.90	2.74	2.66	4.36	5.52
Allowance for doubtful accounts/non-performing loans	265.33	257.35	287.61	318.04	277.86
<b>Capitalization</b>					
Shareholders' equity/total assets	26.96	27.40	43.20	58.18	32.20
Shareholders' equity/total loans	27.83	28.43	44.75	68.56	33.20
Debt to equity (time)	2.71	2.65	1.31	0.72	2.11
<b>Liquidity</b>					
Short-term borrowings/total liabilities	61.54	71.33	50.96	84.93	80.70
Total loans/total assets	96.87	96.38	96.54	84.86	97.00

\* Consolidated financial statements

\*\* Non-annualized

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