

MUANGTHAI CAPITAL PLC

No. 83/2021
31 May 2021

FINANCIAL INSTITUTIONS

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

Last Review Date: 16/12/20

Company Rating History:

Date	Rating	Outlook/Alert
30/04/19	BBB+	Stable
19/08/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating on Muangthai Capital PLC (MTC) and the rating on its outstanding senior unsecured debentures at “BBB+” with a “stable” outlook. The ratings reflect the company’s leading market position in the title loan business and strong capital underpinnings. The ratings also take into account the company’s healthy earnings and relatively stable asset quality, as well as its diversified funding profile and adequate liquidity. The ratings are, however, constrained by the weak economic environment and intensifying competition in the title loan segment.

KEY RATING CONSIDERATIONS

Leading market position in title loan to continue

We expect MTC to maintain its solid market position in the title loan business over the next few years. We believe the company will continue to leverage its expertise in this niche market and keep expanding its branch network as well as client base. At the end of March 2021, the company’s outstanding loans stood at THB73.5 billion, an increase of 17% year-on-year (y-o-y), through intensified marketing efforts and wider market coverage with new branches. The number of branches reached 5,005 at the end of March 2021 with a target of 5,500 branches by the end of 2021. We project new loan growth of 10%-20% per annum in 2021-2023, driven mainly by auto title loans whose demand remains robust due to the liquidity squeeze induced by the adverse economic environment.

MTC recently diversified its business by providing new motorcycle hire purchase (HP) loans for old or existing borrowers with good repayment track records via its subsidiary, Muangthai Leasing Co., Ltd. We expect the new business to help support MTC’s loan growth and yield in the long term amid the intense competition. At the end of March 2021, new motorcycle hire purchase loans stood at THB1.2 billion. The company aims to increase this figure to THB5 billion by the end of 2021.

Adequate profitability in a challenging environment

We expect MTC to maintain earnings quality over the next few years. MTC’s 2020 operating results remained sound despite the impact of the economic downturn induced by the Coronavirus Disease 2019 (COVID-19). The company’s earnings capability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), was at 8.5% in 2020.

For the first quarter of 2021, the annualized EBT/ARWA ratio was stable at 8.5%, with a net profit of THB1.37 billion, rising 11% y-o-y. The increase in net income was driven by higher net interest income and well controlled operating expenses.

We expect EBT/ARWA to remain around 6%-8% in 2021-2023. The earnings forecast is supported by our expectation that MTC will be able to maintain its strong competitive position and control its expected credit loss (ECL) provision and operating expenses. This is despite intense competition in the auto title loan segment that has led to eroding yields. We estimate MTC’s interest yield will decline to 19% over the next few years, from the current level of 19.9%. We believe the expansion into new motorcycle loans will help support profitability. We also expect the ratio of operating expenses to total income to stay in the 40%-43% range in 2021-2023 assuming the efficiency of

branch operations is maintained. However, we anticipate credit costs in 2021-2023 to be slightly higher than in the past due to the adverse economic environment and the potential asset deterioration after the cessation of debt relief measures in 2021.

Manageable asset quality

We expect the company to maintain its prudent credit policies and efficient debt collection processes to contain potential credit losses, particularly amid a weakening economy. The ratio of stage-3 loans (non-performing loan -- NPL) to total loans has remained stable at around 1% over the past few years, lower than the company's direct peers. In terms of loan loss provisioning, credit cost in 2020 was 0.4%, falling from 1% in 2019. However, annualized credit cost slightly increased to 0.8% in the first quarter of 2021. We expect ECL provision expenses to be in the range of 1.1%-1.2% of average loans in 2021-2023. Based on our estimation of credit costs, the NPL coverage ratio should remain in the range of 160%-170% over the next few years. At the end of March 2021, the company's NPL coverage ratio stood at 184%.

Adequate funding and liquidity

We assess MTC to have adequate liquidity for the next 12 months. For 2021, MTC's cash inflows are projected to be around THB3 billion per month, more than sufficient to support cash outflows.

In terms of funding, MTC has various sources of funds from large financial institutions and through issuance of debentures and bills of exchange (B/Es). At the end of March 2021, the company had credit facilities totaling THB28.9 billion, 44% of which were undrawn. In 2020, the company also received soft loans of THB5 billion from the Government Savings Bank (GSB) to help support cash flow in relation to the debt relief program.

As of the end of March 2021, MTC's stable funding ratio remained strong at 154.1% as the company relies more on long-term funding compared with its peers. The company's funding structure as of March 2021 comprised 67% long-term borrowings and 33% short-term borrowings.

Capital remains strong

MTC's capitalization is considered strong compared with its rated peers, as measured by the risk-adjusted capital (RAC) ratio. At the end of March 2021, the company's RAC ratio was 24.2%. Its capital level is assessed to be commensurate with the current rating and sufficient to support the company's expansion plan in the medium term. We expect MTC's equity base to strengthen further over the next two to three years, supported by its healthy profits and conservative dividend payout policy. We forecast RAC ratio in 2021-2023 to be in a range of 23.6%-24.8%.

Given our expectation of moderate loan growth of 10%-15% annually during the next three years, we expect MTC to remain in compliance with its debt covenants even as it continues to expand. Its debt to equity (D/E) ratio stood at 2.6 times at the end of March 2021 compared with the D/E covenant on its debt obligations of 4.5 times.

Growth in title loans continues despite yield pressure

Although the top-three operators' loan portfolio growth in 2020 declined by an average of 13% compared to 30%-40% in the previous years due to the city lockdown during the first wave of the COVID-19 outbreak, the weak economy induced by the ongoing outbreak is likely to continue to create demand for loans to support the businesses and daily life of vulnerable groups. This should help promote the growth of title loans in the longer term. Even though the Bank of Thailand (BOT) has set the interest rate ceiling for title loans at 24% per annum, the loan yield remains high compared to other types of loans. At the same time, overall asset quality remains manageable. These factors have enticed new operators to the market. The increased competition resulted in the average loan yield of the operators declining to a level below 20% in 2020. Nonetheless, operators have adapted by introducing new products with higher yields such as motorcycle leasing and fee income generators like insurance products to compensate for the yield reduction. These should help sustain strong financial performance.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MTC's operations in 2021-2023 are as follows:

- New loans to grow in the range of 10%-20%.
- Interest yields to be maintained at 19%.
- Credit cost to be in the range of 1.1%-1.2%.

RATING OUTLOOK

The “stable” outlook is based on our expectation that MTC will maintain its market position in the title loan segment. The outlook is premised on our expectations that its profitability will stay strong, while asset quality and leverage will remain at acceptable levels.

RATING SENSITIVITIES

An upward revision on the rating and/or outlook could occur if MTC’s financial performance remains strong with an EBT/ARWA above 8% and a RAC ratio well above 25% for a sustained period. On the contrary, the rating and/or outlook could be revised downward should there be a significant deterioration in loan asset quality or a drop in interest spread materially below our expectation.

COMPANY OVERVIEW

Muangthai Capital PLC was initially named D.S. Leasing Co., Ltd. and later Muangthai Leasing PLC. The company was founded by Mr. Chuchat Petaumpai and Mrs. Daonapa Petumpai and registered on the Stock Exchange of Thailand (SET) on 22 May 1992. With initial registered capital of THB2 million, the company mainly offered hire-purchase loans for both new and used motorcycles through dealers in Phitsanulok and other provinces in the lower northern region, such as Sukhothai, Kamphaeng Phet, and Pichit. Target customers comprised people with regular incomes, farmers, and self-employed individuals. The company subsequently expanded its product line and started offering vehicle title loans, automobile title loans, and agricultural vehicle title loans to serve different customer groups.

In August 2001, the company’s name was changed to Muangthai Leasing Co., Ltd. The company discontinued its hire purchase business due to the intense market competition, as many motorcycle manufacturers and dealers began offering hire purchase loans to their customers.

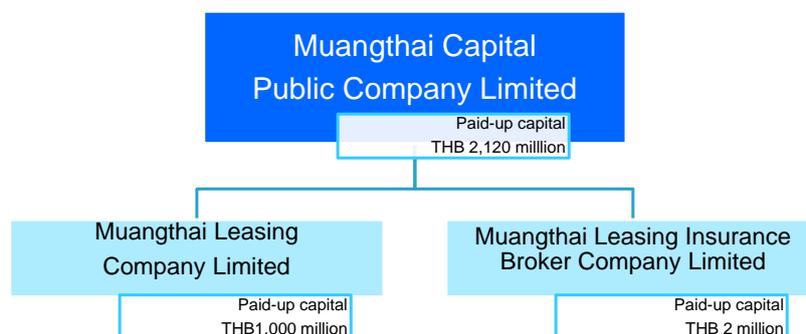
In 2006, the company submitted an application to launch a microfinance business under the supervision of the BOT. On 31 August 2006, the company received a license from the Ministry of Finance (MOF) and has since provided microfinance services through its own branches.

After receiving approval from the MOF on 26 May 2015, the company extended its product line once again to meet the differing needs of its customers for products such as nano-finance loans (retail loans for microenterprises under the BOT’s supervision) and land title loans.

In 2016, the company began offering different loan payment channels via counter service or automatic payment machines as well as via Big C, Tesco Lotus, and AirPay in 2017.

On 26 April 2018, the company changed its name from Muangthai Leasing PLC (MTLS) to Muangthai Capital PLC (MTC). The company also launched a mobile application “Muangthai Capital 4.0” for the iOS and Android systems in 2018. In 2019, MTC launched a new credit product called “new motorcycle hire purchase” in order to expand and strengthen its customer base.

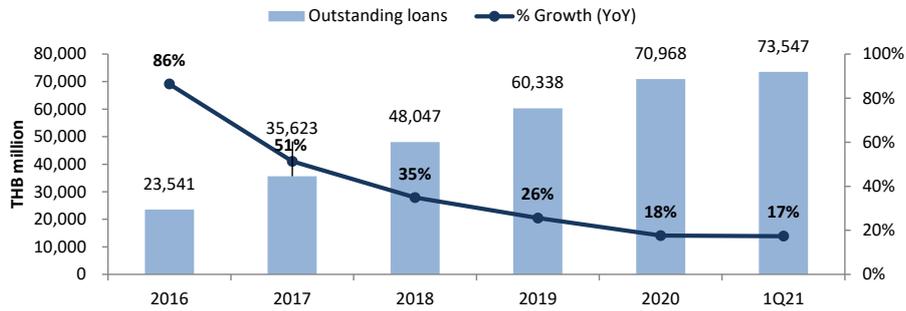
Chart 1: Group Structure



Source: MTC

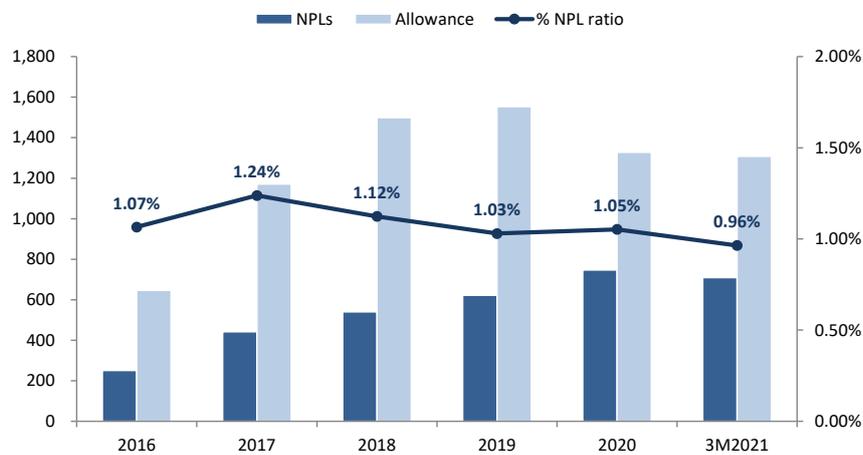
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: MTC

Chart 2: Asset Quality



Source: MTC

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

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	79,742	77,222	61,872	49,146	36,953
Total loans	73,547	70,968	60,338	48,047	35,623
Allowance for expected credit loss	1,308	1,328	1,715	1,499	1,171
Short-term debts	18,625	20,081	14,689	11,042	10,482
Long-term debts	37,247	34,590	29,588	24,502	16,660
Shareholders' equity	22,058	20,682	15,972	12,299	8,943
Net interest income	3,108	12,145	10,353	8,444	6,122
Expected credit loss	145	291	554	586	679
Non-interest income	272	807	808	872	676
Operating expenses	1,502	6,144	5,314	4,103	3,013
Earnings before taxes	1,734	6,516	5,293	4,627	3,106
Net income	1,374	5,214	4,237	3,713	2,501

* Consolidated financial statements

Unit: %

	Jan-Mar 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Profitability					
Net interest income/average assets	15.84 **	17.45	18.65	19.61	19.95
Non-interest income/average assets	1.34 **	1.04	1.30	1.85	2.09
Operating expenses/total income	38.93	41.70	41.88	39.39	40.32
Operating profit/average assets	8.84 **	9.36	9.54	10.75	10.12
Earnings before taxes/average risk-weighted assets	8.50 **	8.53	8.71	10.05	9.77
Return on average assets	7.00 **	7.49	7.63	8.63	8.15
Return on average equity	25.71 **	28.35	29.98	34.96	31.99
Asset Quality					
Receivable in stage 3/total loans	0.96	1.05	1.03	1.12	1.24
Expected credit loss/average loans	0.81 **	0.44	1.02	1.40	2.30
Allowance for expected credit loss/total loans	1.78	1.87	2.84	3.12	3.29
Capitalization					
Risk-adjusted capital ratio	24.90	24.45	23.45	23.01	23.17
Debt/equity (times)	2.62	2.73	2.87	3.00	3.13
Funding and Liquidity					
Stable funding ratio	154.10	152.92	173.41	186.43	184.45
Liquidity coverage measure (times)	5.28	6.86	5.33	7.97	11.01
Short-term debts/total liabilities	32.29	35.52	32.00	29.97	37.42

** Annualized

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Muangthai Capital PLC (MTC)

Company Rating:	BBB+
Issue Ratings:	
MTC217A: THB1,200 million senior unsecured debentures due 2021	BBB+
MTC21NC: THB2,680.80 million senior unsecured debentures due 2021	BBB+
MTC222A: THB1,650.30 million senior unsecured debentures due 2022	BBB+
MTC227B: THB2,043.30 million senior unsecured debentures due 2022	BBB+
MTC22NB: THB2,349.70 million senior unsecured debentures due 2022	BBB+
MTC22NC: THB2,163.40 million senior unsecured debentures due 2022	BBB+
MTC232C: THB1,514 million senior unsecured debentures due 2023	BBB+
MTC237A: THB1,756.70 million senior unsecured debentures due 2023	BBB+
MTC23NB: THB1,319.20 million senior unsecured debentures due 2023	BBB+
MTC23NC: THB2,836.60million senior unsecured debentures due 2023	BBB+
MTC243B: THB2,486 million senior unsecured debentures due 2024	BBB+
Rating Outlook:	Stable

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