

ASIA SERMKIJ LEASING PLC

No. 61/2013

7 August 2013

Company Rating: BBB+

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
07/10/08	BBB+/Sta	-

Rating Rationale

TRIS Rating affirms the company rating of Asia Sermkij Leasing PLC (ASK) at “BBB+”. The rating reflects the experience of the management team in the auto financing business and the company’s ability to maintain its market position by expanding its loan portfolio. In addition, ASK’s strong positions in selected niche markets for commercial vehicles, support from major shareholders, efficient risk management systems, and long-term relationships with dealers are supportive factors for the rating. However, these strengths are partially offset by the nature of ASK’s auto loan portfolio, which is considered more vulnerable to adverse changes in economic conditions, despite generating higher returns. ASK’s financial flexibility has been constrained by regulatory lending limits, which restrict the amount of funds that its shareholder, Bangkok Bank PCL (BBL), can provide. However, the company has been able to diversify its sources of funds to increase its financial flexibility.

At the end of March 2013, ASK’s consolidated loan portfolio comprised 85.4% of retail auto financing loans held by ASK, almost equivalent to the proportions of 84.6% and 85.2% in 2011 and 2010, respectively. The proportions of leasing and factoring loans, held by its wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), were 10.5% and 3.6%, respectively. Consolidated outstanding loans increased substantially by 28.8% to Bt22,786 million in 2012 from Bt17,686 million in 2011, after the flood disruption in 2011.

ASK’s overall customer concentration risk is considered low, due to the nature of retail auto financing loans. In addition, its diversified portfolio of retail auto loans helps reduce product concentration risk. At the end of March 2013, ASK’s outstanding retail auto loans comprised loans for passenger cars and pick-up trucks (33.2%), vans (23.8%), big trucks (34.9%), taxis (6.3%), buses (0.2%), and refinancing loans (1.6%). In general, loans for commercial vehicles, such as big trucks, vans, and taxis, generate higher returns. However, the composition of the assets in ASK’s loan portfolio causes the company to carry higher credit risk than other major auto financing companies which concentrate on loans for passenger cars and pick-up trucks. To mitigate the higher risk, ASK implemented a segmentation strategy and focuses on the less risky, specific sub-segments of each asset type and each target customer group.

Despite a seemingly riskier loan portfolio, the ratio of non-performing loans or NPLs (loans with more than three installments past due) to total loans is considered low, when compared with other auto financing companies. The experienced and capable management team, an efficient risk management system, and a conservative underwriting policy are the factors that help the company keep asset quality at a satisfactory level. The consolidated NPL ratio improved to 0.89% at the end of 2010, from 1.42% in 2009. The flood crisis during the last quarter of 2011 pushed the NPL ratio for retail auto loans to 0.61% at the end of 2011, from 0.43% in 2010. However, the NPL ratio of BGPL’s leasing and factoring businesses improved in 2011. The improvement helped ASK maintain its consolidated NPL ratio at 0.88% at the end of 2011. The consolidated NPL ratio dropped continuously to 0.83% at the end of 2012 and 0.79% at the end of March 2013. The drop was partly due to the substantial increase of loan portfolio during the previous year.

Intensified competition in the auto financing industry has pressured the profitability of ASK and other major lenders. Interest yields were constrained by competition. However, ASK was able to maintain its funding costs because the

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company chose to fund its portfolio expansion by using more short-term borrowings. In addition, operating expenses and provisioning expense remained under control, raising the company's profitability. The ratio of return on average assets (ROAA) improved substantially to 2.36% in 2012, from 1.97% in 2011. The return on average equity (ROAE) also increased to 17.61% in 2012 from 16.58% in 2011.

ASK has benefited from being an affiliate of BBL in terms of funding support. However, this benefit has been constrained by the lending limits imposed by the Bank of Thailand (BOT). The limits apply to related entities of a financial institution. The regulation limits ASK's financial flexibility and the ability to enjoy a secure source of funds from BBL. However, ASK has been able to diversify its funding sources to other financial institutions and the capital markets, including bills of exchange (B/Es) and debentures. An available credit line from BBL is kept as a financial cushion to mitigate ASK's liquidity risk. At the end of December 2012, B/Es comprised 40.2% of ASK's consolidated borrowings, up significantly from 27.1% in 2011. Using B/Es as a source of funds helped the company control its overall funding costs. However, in general, funding through B/Es carries refinancing risk, because B/Es are categorized as market-sensitive financial instruments. The refinancing risk of ASK's B/Es can be mitigated by the monthly installment payments made by ASK's customers and the establishment of back-up credit facilities that cover ASK's funding needs. TRIS Rating expects ASK to maintain its available back-up credit facilities to cover its outstanding B/Es.

During the past years, ASK used more short-term borrowings in an attempt to control its funding costs together with the large amount of long-term borrowings that will mature in 2013. This has consequently created a mismatch in the duration of ASK's assets and liabilities. At the end of December 2012, the short-term borrowings and current portions of long-term borrowings accounted for 91.1% of ASK's total borrowings. Although the maturing obligations will be refinanced with new long-term borrowings, TRIS Rating expects the company to more diversify the maturity of its long-term borrowings which will help the company better match its asset and liability and help mitigate the liquidity risk in the long run. The recapitalization in 2012 improved the ratio of shareholders' equity to total assets to 15.4% in 2012 from 11.6% in 2011. The strengthened capital base provides flexibility and enables ASK to leverage the strengthened capital base to fund an expansion of the loan portfolio.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that ASK will be able to maintain its market positions in the niche markets for commercial vehicles. ASK's experienced and capable management team, plus efficient risk management and operating systems, will help the company control asset quality. The support from major shareholders is expected to continue. In addition, the company is expected to better match the tenors of its assets and liabilities by diversifying the maturities of its borrowings.

Asia Sermkij Leasing PLC (ASK)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics*
Unit: Bt million

	Jan-Mar 2013	----- Year Ended 31 December -----			
		2012	2011	2010	2009
Total assets	24,430	23,163	18,215	15,395	12,565
Total loans	24,111	22,786	17,686	15,153	12,267
Allowance for doubtful accounts	237	221	190	181	172
Short-term borrowings	18,004	17,480	8,769	7,269	7,437
Long-term borrowings	2,348	1,698	6,999	5,879	3,100
Shareholders' equity	3,652	3,499	2,046	1,952	1,796
Net interest income	300	1,042	822	722	631
Bad debts and doubtful accounts	32	98	59	90	114
Non-interest income	72	277	210	183	143
Operating expenses	150	574	487	418	373
Net income	153	488	331	290	194

Key Financial Ratios*

Unit: %

	Jan-Mar 2013	----- Year Ended 31 December -----			
		2012	2011	2010	2009
Profitability					
Net-interest income/average assets	1.26 **	5.04	4.89	5.16	5.15
Net-interest income/total income	52.98	50.80	49.64	52.92	52.89
Operating expenses/total income	26.40	28.00	29.39	30.63	31.28
Operating profit/average assets	0.80 **	3.12	2.90	2.84	2.35
Return on average assets	0.64 **	2.36	1.97	2.07	1.58
Return on average equity	4.27 **	17.61	16.58	15.48	11.00
Asset Quality					
Non-performing loans/total loans	0.79	0.83	0.88	0.89	1.45
Bad debts and doubtful accounts/average loans	0.13 **	0.48	0.36	0.65	0.95
Allowance for doubtful accounts/total loans	0.98	0.97	1.07	1.19	1.40
Allowance for doubtful accounts/non-performing loans	123.98	117.33	121.66	133.95	98.60
Capitalization					
Shareholders' equity/total assets	14.95	15.11	11.23	12.68	14.29
Shareholders' equity/total loans	15.15	15.36	11.57	12.88	14.64
Debt to equity (time)	5.69	5.62	7.90	6.89	6.00
Liquidity					
Short-term borrowings/total liabilities	86.65	88.90	54.24	54.07	69.06
Total loans/total assets	98.70	98.38	97.09	98.43	97.63

* Consolidated financial statements

** Non-annualized

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