

ASIA SERMKIJ LEASING PLC

No. 115/2015

9 November 2015

Company Rating: BBB+
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
07/10/08	BBB+	Stable

Rating Rationale

TRIS Rating affirms the company rating of Asia Sermkij Leasing PLC (ASK) at “BBB+”. The rating reflects the experience of ASK’s management team in the auto financing industry and the company’s moderate financial risk profile. In addition, ASK’s strong positions in selected niche markets for commercial vehicles, support from its major shareholders, efficient risk management systems, and long-term relationships with dealers are factors supporting the rating. The rating also reflects ASK’s steady financial performance and business profile, despite an unfavorable economy. However, these strengths are mitigated by concerns over intense competition and the quality of ASK’s loan portfolio, now that ASK chose to focus on hire-purchase loans for commercial trucks. This type of loan is more sensitive to adverse changes in the economy.

Chailease Group holds a 48.18% stake in ASK through two subsidiaries. Chailease Finance (Taiwan) holds 36.61% and Chailease International (Malaysia) holds 11.57% in ASK. ASK is consolidated with Chailease Holding (Taiwan) because Chalease Holding has the power to control ASK. Presently, Chailease Group designates five directors to be on ASK’s board and also supports ASK’s liquidity needs. In 2014, in terms of asset, ASK contributed 5.8% to the group, and in terms of net profit, ASK contributed 4.2% to the group.

At the end of June 2015, the majority (85%) of ASK’s consolidated loan portfolio comprised retail auto financing loans, almost the same proportion (85.3%) as in 2014. ASK’s wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), held leasing loans and factoring loans comprising 11.1% and 3.6%, respectively. From 2010 to 2013, consolidated outstanding loans grew at double-digit growth rates yearly. However, the weak Thai economy caused outstanding loans to increase by only 4.1% in 2014 and 1.6% year-to-date in the first half of 2015.

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 June 2015, ASK’s outstanding retail auto loans comprised loans for big trucks (41.5%) of the portfolio value), passenger cars and pick-up trucks (26.6%), vans (18.8%), taxis (8.9%), and others (4.2%). 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. Other major auto financing companies 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.

In the past, the ratio of ASK’s non-performing loans (or NPLs, loans with more than three installments past due) to total loans has been low when compared with other auto financing companies. ASK’s ratio was low due to its experienced and capable management team, an efficient risk management system, and a conservative underwriting policy. However, the consolidated ratio of NPLs to total loans (NPL ratio) increased to 1.7% at the end of 2014, from 0.8% in 2012. The recent economic slowdown caused the consolidated NPL ratio to increase to 2.8% at the end of June 2015.

ASK’s profitability improved significantly in 2012 and 2013. Net profit increased 49.1% to Bt495 million in 2012 and increased 29.5% to Bt641 million in 2013. In 2014, amidst the current economic slowdown, ASK had to set aside a huge

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loan loss of provision of Bt242 million. However, ASK has been able to keep its funding costs low. It chose to use more short-term borrowings to fund its portfolio expansion efforts and its operating expenses have remained under control. Profitability has improved slightly. ASK reported a net profit of Bt671 million in 2014, up 4.7% from 2013. For the first half of 2015, net profit was Bt339 million, compared with the amount of Bt325 million it earned in the same period last year. The company faces a challenge as it tries to maintain its asset quality and profitability during the weak economy.

ASK has benefited from being an affiliate of Bangkok Bank PLC (BBL) because it can receive funding from BBL. However, this benefit has been constrained by the lending limits imposed by the Bank of Thailand (BOT). The limits apply to the related entities of financial institutions. 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. ASK keeps an available credit line from BBL, to serve as a cushion and mitigate its liquidity risk. During the past few years, ASK has used more short-term borrowings in an attempt to control its funding costs. This has consequently created a mismatch in the maturity of ASK's assets and liabilities. At the end of June 2015, short-term borrowings and the current portion of long-term borrowings accounted for 59.9% of ASK's total borrowings. However, the negative short-term maturity gap between ASK's assets and liabilities can be mitigated by the monthly installment payments made by the company's customers and the establishment of back-up credit facilities that cover ASK's funding needs. In addition, TRIS Rating expects ASK to maintain a sufficiently high level of back-up credit facilities so as to cover the outstanding short-term funding instruments issued through the capital markets, such as B/Es and short-term debentures. The short-term funding instruments carry refinancing risk.

Recapitalizations in 2012 and 2014 improved ASK's ratio of shareholders' equity to total assets. At the end of June 2015, the ratio of shareholders' equity to total assets of the company was 13.4%, compared with 11.2% in 2011.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that ASK will be able to maintain its market positions in its chosen niche markets for commercial vehicles. ASK's experienced and capable management team, plus its efficient risk management and operating systems, will help the company control asset quality. The support ASK receives from its major shareholders is expected to continue.

ASK's credit rating could be revised upward if the company can improve its market position, financial performance, and asset quality. The rating could be negatively impacted if the company's market position weakens, or if its loan quality deteriorates and significantly affects its financial profile.

Asia Sermkij Leasing PLC (ASK)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics*
Unit: Bt million

	Jan-Jun 2015	----- Year Ended 31 December -----			
		2014	2013	2012	2011
Total assets	29,842	29,465	28,397	23,163	18,215
Total loans	28,646	29,177	28,018	22,786	17,686
Allowance for doubtful accounts	439	367	291	221	190
Short-term borrowings	15,055	13,395	14,037	17,480	8,769
Long-term borrowings	10,082	11,251	9,948	1,698	6,999
Shareholders' equity	4,005	4,123	3,796	3,499	2,046
Net interest income	740	1,472	1,326	1,042	822
Bad debts and doubtful accounts	110	242	152	79	59
Non-interest income	144	286	285	258	210
Operating expenses	350	675	655	574	487
Net income	339	671	641	495	332

Key Financial Ratios*

Unit: %

	Jan-Jun 2015	Year Ended 31 December			
		2014	2013	2012	2011
Profitability					
Net-interest income/average assets	2.50 **	5.09	5.14	5.03	4.89
Net-interest income/total income	54.94	54.84	53.89	51.27	49.64
Operating expenses/total income	25.96	25.14	26.62	28.22	29.38
Operating profit/average assets	1.43 **	2.91	3.12	3.12	2.90
Return on average assets	1.14 **	2.32	2.49	2.39	1.97
Return on average equity	8.34 **	16.95	17.57	17.72	16.58
Asset Quality					
Non-performing loans/total loans	2.77	1.69	1.14	0.83	0.88
Bad debts and doubtful accounts/average loans	0.37 **	0.85	0.60	0.39	0.36
Allowance for doubtful accounts/total loans	1.48	1.26	1.04	0.97	1.07
Allowance for doubtful accounts/non-performing loans	53.41	74.26	91.59	117.33	121.66
Capitalization					
Shareholders' equity/total assets	13.42	13.99	13.37	15.11	11.23
Shareholders' equity/total loans	13.51	14.13	13.55	15.36	11.57
Debt to equity (time)	6.45	6.15	6.48	5.62	7.90
Liquidity					
Short-term borrowings/total liabilities	58.27	52.85	57.06	88.90	54.24
Total loans/total assets	99.34	99.02	98.66	98.38	97.09

* Consolidated financial statements

** Non-annualized

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