

# ASIA SERMKIJ LEASING PLC

No. 141/2017

6 November 2017

**Company Rating:** BBB+

**Outlook:** Stable

## Company Rating History:

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

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## 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 business and financial risk profiles. Other factors that support the rating include ASK’s strong positions in selected niche markets for commercial vehicles, the support from its major shareholders, plus the company’s efficient risk management systems and long-term relationships with dealers. The rating also reflects ASK’s steady financial performance. However, these strengths are partly affected by concerns over intense competition and the deteriorating quality of the loan portfolio.

The Chailease Group from Taiwan holds a 48.18% stake in ASK through two subsidiaries: Chailease Finance Co., Ltd., holding 36.61%, and Chailease International (Malaysia) Co., Ltd., holding 11.57%. ASK is consolidated with Chailease Finance, based on the criteria of the power of control. In 2016, the revenue earned by ASK comprised 6.8% of the revenue of the Chailease Group.

At the end of June 2017, the majority (85.3%) of ASK’s consolidated loan portfolio comprised retail auto financing loans. This proportion has held steady since 2010. ASK’s wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), held machinery and equipment lease loans and factoring loans comprising 11% and 2.8%, respectively. From 2010 to 2013, consolidated outstanding loans grew at double-digit growth rates yearly. However, the loan portfolio grew more slowly during 2014-2016, rising by just 3%-5% per year. The recent weakness in the Thai economy coupled with intense competition, are the major reasons for the slower growth rate.

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 reduces product concentration risk. At the end of June 2017, ASK’s outstanding retail auto loans comprised loans for big trucks (58% of the portfolio value), passenger cars and pick-up trucks (22%), vans (8%), taxis (7%), and other vehicles (5%). In general, loans for commercial vehicles, such as big trucks, vans, and taxis, generate higher returns. However, the composition of the assets in the loan portfolio raises the credit risk of the portfolio. To mitigate the higher risk, ASK has implemented a segmentation strategy. ASK’s focuses on specific sub-segments of asset types and customer groups, choosing the less risky sub-segments.

In the past, ASK’s ratio of non-performing loans (NPLs, or loans with more than three installments past due) to total loans was lower than 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 ratio of NPLs to total loans (the NPL ratio; on a consolidated basis) increased from 1.7% at the end of 2014 to 3% at the end of 2015. The ratio continued to deteriorate, jumping to 4% at the end of 2016 and 4.2% in June 2017. ASK has steadily raised the allowance for loan losses. The allowance rose from 1% of total loans at the end of 2013 to 2.3% at the end of June 2017. However, the significant rise in NPLs caused the ratio of allowance for loan losses to NPLs (the NPL coverage ratio) to drop from 91.6% at the end of 2013 to 54.6% at the end of June 2017.

ASK's profits improved slightly in 2016. Net profit increased to Bt707 million in 2016, compared with Bt681 million in 2015. Net profit rose to Bt360 million for the first six months of 2017, compared with Bt356 million for the same period in 2016. ASK's profitability is stable. The return on average assets (ROAA) has held at around 2.4% since 2014. Profitability has been stable for several reasons. ASK has lower funding costs than its rivals and it chose to use more short-term borrowings to fund its portfolio expansion efforts. In addition, operating expenses have remained under control.

ASK's funding base spreads across many financial institutions and sources. For example, in addition to bank loans, ASK raises funds from the capital markets by issuing bills of exchange (B/Es) and debentures. ASK has an available credit line from its related bank, Bangkok Bank PLC (BBL), and other financial institutions. The credit line serves as a cushion and mitigates liquidity risk. During the past few years, ASK has used short-term borrowings in an attempt to keep its funding costs low. Once the consequence of this choice was a mismatch in the maturities of ASK's assets and liabilities. At the end of June 2017, short-term borrowings and the current portion of long-term borrowings accounted for 58% of total funding. 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. The short-term funding instruments carry refinancing risks. 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. ASK's capitalization is moderate. For example, the debt to equity ratio (D/E ratio) has held steady at around 6 times since 2014. According to the implementation of IFRS9, a new accounting standard, in 2019, the company's equity may be affected from additional provisions for loan losses.

#### 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 capable and experienced management team, plus its efficient risk management and operating systems, will help the company control the quality of loan portfolio at an acceptable level. Profitability is expected to be maintained at or near the current level. The support ASK receives from its major shareholders is expected to continue.

ASK's credit rating could be revised upward if the company can significantly improve its market position, maintain the quality of the loan portfolio, and deliver satisfactory financial performance. The rating could be negatively impacted if the company's market position weakens, or if the consolidated NPL ratio deteriorates to more than 5% and substantially affects profitability. An aggressive debt-funded portfolio expansion, which would weaken the capitalization measures, would also negatively affect the rating.

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#### Asia Sermkij Leasing PLC (ASK)

**Company Rating:**

BBB+

**Rating Outlook:**

Stable

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### Financial Statistics\*

Unit: Bt million

		----- Year Ended 31 December -----			
	Jan-Jun 2017	2016	2015	2014	2013
Total assets	32,608	31,707	30,249	29,465	28,397
Total loans	32,602	31,671	30,079	29,177	28,018
Allowance for doubtful accounts	752	681	495	367	291
Short-term borrowings	18,489	16,576	17,103	13,395	14,037
Long-term borrowings	8,924	9,773	8,098	11,251	9,948
Shareholders' equity	4,446	4,578	4,347	4,123	3,796
Net interest income	874	1,660	1,516	1,472	1,326
Bad debts and doubtful accounts	201	380	270	242	152
Non-interest income	172	326	302	286	285
Operating expenses	400	738	694	675	655
Net income	360	707	681	671	641

### Key Financial Ratios\*

Unit: %

	Jan-Jun 2017	2016	2015	2014	2013
<b>Profitability</b>					
Net-interest income/average assets	2.72**	5.36	5.08	5.09	5.14
Net-interest income/total income	61.01	58.94	55.71	54.84	53.89
Operating expenses/total income	27.96	26.20	25.51	25.14	26.62
Operating profit/average assets	1.38**	2.80	2.86	2.91	3.12
Return on average assets	1.12**	2.28	2.28	2.32	2.49
Return on average equity	7.98**	15.83	16.07	16.95	17.57
<b>Asset Quality</b>					
Non-performing loans/total loans	4.23	4.04	3.03	1.69	1.14
Bad debts and doubtful accounts/average loans	0.76**	0.91	0.91	0.85	0.60
Allowance for doubtful accounts/total loans	2.31	2.15	1.65	1.26	1.04
Allowance for doubtful accounts/non-performing loans	54.55	53.19	54.22	74.26	91.59
<b>Capitalization</b>					
Shareholders' equity/total assets	13.63	14.44	14.37	13.99	13.37
Shareholders' equity/total loans	13.64	14.46	14.45	14.13	13.55
Debt to equity (time)	6.33	5.93	5.96	6.15	6.48
<b>Liquidity</b>					
Short-term borrowings/total liabilities	65.65	61.10	66.03	52.85	57.06
Total loans/total assets	99.98	99.89	99.44	99.02	98.66

\* Consolidated financial statements

\*\* Non-annualized

### TRIS Rating Co., Ltd.

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