

ASIA SERMKIJ LEASING PLC

No. 140/2016

24 November 2016

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 business and financial risk profiles. 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, despite an unfavorable economy. However, these strengths are partly affected by concerns over intense competition and the quality of ASK’s loan portfolio

Chailease Group holds a 48.18% stake in ASK through two subsidiaries. Chailease Finance Co., Ltd. holds 36.61% and Chailease International (Malaysia) Co., Ltd. holds 11.57% in ASK. ASK is consolidated with Chailease Finance, based on the criteria of the power of control. In 2015, in terms of total revenue, ASK contributed 6.9% to the Group.

At the end of September 2016, the majority (84.9%) of ASK’s consolidated loan portfolio comprised retail auto financing loans, almost the same proportion since 2010. ASK’s wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), held leasing 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 recent weak Thai economy caused outstanding loans to increase by only 4.1% in 2014 and 3.1% in 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 2016, ASK’s outstanding retail auto loans comprised loans for big trucks at 53% of the portfolio value, passenger cars and pick-up trucks (24%), vans (11%), taxis (7%), and others (5%). 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 a higher credit risk. To mitigate the higher risk, ASK implemented a segmentation strategy and has focused on the less risky, specific sub-segment of each asset type and each target customer group.

In the past, the ratio of ASK’s non-performing loans (NPLs, loans with more than three installments past due) to total loans had 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 1.1% in 2013 and 0.8% in 2012. The economic slowdown caused the consolidated NPL ratio to increase to 3% and 3.6% at the end of 2015 and September 2016, respectively. Although the company has continuously raised its allowance for loan losses from 1% of total loans at the end of 2013 to 1.8% at the end of September 2016, the significantly higher NPLs caused the ratio of allowance for loan losses to NPLs (NPL Coverage ratio) to drop from 91.6% at the end of 2013 to 50.1% at the end of September 2016.

ASK’s profit improved slightly in 2015. Net profit increased to Bt681 million in 2015, compared with Bt671 million in 2014. Net profit rose to 545 million for the first nine months of 2016, up 5.8% from the same period in 2015. However, ASK’s profitability was considered to be stable. The return on average assets (ROAA) has

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been maintained at around 2.3%-2.4% since 2014. The stabilized profitability was partly a result of lower funding costs. In addition, ASK chose to use more short-term borrowings to fund its portfolio expansion efforts and its operating expenses have remained under control.

ASK's funding base has been diversified to many financial institutions, involving fund raising from the capital markets through bills of exchange (B/Es) and debentures. ASK has an available credit line from its related bank, Bangkok Bank PLC (BBL), to serve as a cushion and to mitigate its liquidity risk. During the past few years, ASK has used 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 September 2016, short-term borrowings and the current portion of long-term borrowings accounted for 58% 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. 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 risks. ASK's capitalization has been moderate with the debt to equity (D/E ratio) at around 6 times since 2014.

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 its loan quality. Profitability is expected to be maintainable. The support ASK receives from its major shareholders is also expected to continue.

ASK's credit rating could be revised upward if the company can significantly improve its market position while still maintaining acceptable loan quality and delivering satisfactory financial performance. The rating could be negatively impacted if the company's market position weakens, or if its loan quality deteriorates to substantially affect profitability. An aggressive debt-funded portfolio expansion that weakens the capitalization can also negatively affect the rating.

Asia Sermkij Leasing PLC (ASK)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics*

Unit: Bt million

	Jan-Sep 2016	Year Ended 31 December			
		2015	2014	2013	2012
Total assets	31,434	30,249	29,465	28,397	23,163
Total loans	31,288	30,079	29,177	28,018	22,786
Allowance for doubtful accounts	561	495	367	291	221
Short-term borrowings	15,319	17,103	13,395	14,037	17,480
Long-term borrowings	11,003	8,098	11,251	9,948	1,698
Shareholders' equity	4,417	4,347	4,123	3,796	3,499
Net interest income	1,223	1,516	1,472	1,326	1,042
Bad debts and doubtful accounts	235	270	242	152	79
Non-interest income	241	302	286	285	258
Operating expenses	560	694	675	655	574
Net income	545	681	671	641	495

Key Financial Ratios*

Unit: %

	Jan-Sep 2016	Year Ended 31 December			
		2015	2014	2013	2012
Profitability					
Net-interest income/average assets	3.97 **	5.08	5.09	5.14	5.03
Net-interest income/total income	58.28	55.71	54.84	53.89	51.27
Operating expenses/total income	26.67	25.51	25.14	26.62	28.22
Operating profit/average assets	2.17 **	2.86	2.91	3.12	3.12
Return on average assets	1.77 **	2.28	2.32	2.49	2.39
Return on average equity	12.45 **	16.07	16.95	17.57	17.72
Asset Quality					
Non-performing loans/total loans	3.57	3.03	1.69	1.14	0.83
Bad debts and doubtful accounts/average loans	0.76 **	0.91	0.85	0.60	0.39
Allowance for doubtful accounts/total loans	1.79	1.65	1.26	1.04	0.97
Allowance for doubtful accounts/non-performing loans	50.26	54.22	74.26	91.59	117.33
Capitalization					
Shareholders' equity/total assets	14.05	14.37	13.99	13.37	15.11
Shareholders' equity/total loans	14.12	14.45	14.13	13.55	15.36
Debt to equity (time)	6.12	5.96	6.15	6.48	5.62
Liquidity					
Short-term borrowings/total liabilities	56.70	66.03	52.85	57.06	88.90
Total loans/total assets	99.54	99.44	99.02	98.66	98.38

* Consolidated financial statements

** Non-annualized

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