

07 AUG 2023

Fitch Affirms Asia Sermkij Leasing at 'A(tha)'/Stable; Upgrades Short-Term Rating to 'F1+(tha)'

Fitch Ratings - Bangkok - 07 Aug 2023: Fitch Ratings (Thailand) has affirmed Asia Sermkij Leasing Public Company Limited's (ASK) National Long-Term Rating at 'A(tha)'. The Outlook is Stable. At the same time, the agency has upgraded the National Short-Term Rating to 'F1+(tha)', from 'F1(th)'.

The upgrade of the National Short-Term Rating is based on our re-assessment of ASK's short-term credit profile and on the ability of the parent, Taiwan-based Chailease Holding Company Limited (BBB-/Stable) to provide prompt support if necessary.

Key Rating Drivers

Shareholder Support Expectations: ASK's ratings are driven by Fitch's belief that Chailease would provide extraordinary support to the Thai subsidiary, in times of need.

Strategically Important Role: Fitch believes ASK plays an important role in the group's business strategy to expand in south-east Asia. ASK provides the group with a key footprint in Thailand, the second-largest economy in the region. It is Chailease's largest overseas subsidiary, contributing to around 7% of the group's total revenue in 1Q23. The company has built up its local franchise, particularly in the truck hire purchase segment, with a long-standing record of profitability and acceptable asset quality.

Substantial Linkages with Group: Chailease became ASK's major shareholder in 1997, and currently owns 50.4% of ASK with a significant level of management control and operational integration. ASK's operations, product development and risk management processes are closely supported and monitored by Chailease. There is also ongoing funding support, such as via shareholder loans and capital injections.

Near-Term Support Prospects Reassessed: The upgrade of the National Short-Term Rating reflects our positive re-assessment of the parent's ability and propensity to support ASK. We view shareholder support propensity to be more certain in the near term, per our criteria. We also believe that there are no major impediments to funding support to ASK from its parent, or any other limitations that could diminish Chailease's propensity to provide timely support.

Rapid Growth Poses Risks: ASK's asset quality has weakened in line with the disruptions of the Covid-19 pandemic, with the impaired-loan ratio rising to 3.8% in 1Q23 from 2.8% in 2021. Loan growth has been rapid (17.8% yoy in 1Q23, 21.1% in 2022) and could contribute to further pressure on asset

quality as the loans age, particularly if economic growth remains muted. Nevertheless, profitability has been broadly stable, with pre-tax profit-to-average assets at 2.9% in 1Q23 (3% in both 2022 and 2021).

Liquidity Aided by Group Ties: Fitch believes ASK's funding and liquidity profile is strengthened by being part of an international financial group. The Chailease group provides backup credit facilities, and ASK's position in the group also enhances its access to bank and wholesale market funding.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

ASK's National Long-Term Rating is sensitive to changes in Chailease's credit profile. For example, negative rating action on Chailease's Long-Term Issuer Default Rating (IDR) may indicate a reduced shareholder support ability, and lead to similar rating action at ASK. Any action would also take into account ASK's credit profile relative to other entities within Thailand's national rating universe.

A perceived weakening in Chailease's propensity to support ASK could also lead to negative action on the National Long-Term Rating. This may occur if the parent plans to reduce its stake to below 50%, combined with declining management control, operational links or business synergies. Prolonged underperformance of the subsidiary, such as weakened profitability, could also diminish Chailease's support propensity. However, Fitch does not expect any material changes in the shareholder's links and propensity to support ASK in the near to medium term.

ASK's National Short-Term Rating would be downgraded if its National Long-Term Rating is downgraded to below 'A(th)'.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

ASK's National Long-Term Rating could be upgraded if Chailease's credit profile strengthens, as reflected in an upgrade of its Long-Term IDR, indicating an increased ability to support the subsidiary. This assessment would also consider ASK's credit profile compared with other entities rated on our Thai national rating scale at the time.

The National Long-Term Rating may also be upgraded if Fitch believes that the parent's willingness to support its Thai subsidiary has increased. This may occur if ASK become a more significant and integral part of its parent. For example, this may be indicated by ASK starting to contribute over 20% of Chailease's earnings or assets, combined with a higher shareholding of above 75% and increased reputational linkages between Chailease and ASK, including common branding.

There is no upside to the National Short-Term Rating, as it is already at the top end of the National Rating scale.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

ASK's senior unsecured notes are rated at 'A(th)', the same level as its National Long-Term Rating, as

the instruments represent its unsecured and unsubordinated obligations and rank equally with other similar obligations.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

ASK's senior unsecured debt rating would move in tandem with its National Long-Term Rating.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

ASK's National Ratings are linked to Chailease's credit profile, as denoted by the shareholder's Long-Term IDR.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Asia Sermkij Leasing Public Company Limited	Natl LT	A(thai) 	Affirmed	A(thai) 
	Natl ST	F1+(thai)	Upgrade	F1(thai)
• senior unsecured	Natl LT	A(thai)	Affirmed	A(thai)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub.05 May 2023\) \(including rating assumption sensitivity\)](#)

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