

Press Release

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TRIS Rating Assigns "A-/Stable" Rating to Senior Unsecured Debt Worth Up to Bt700 Million of "PL"

TRIS Rating has assigned a rating of "A-" to the proposed issue of up to Bt700 million in senior unsecured debentures of Phatra Leasing PLC (PL). At the same time, TRIS Rating has affirmed the company rating of PL and the ratings of PL's current senior unsecured debentures at "A-". The outlook remains "stable". The ratings reflect the company's strong market position in the automobile operating lease segment and the proven ability of the management team in its core business of automobile operating lease. The ratings also reflect PL's stringent credit risk management policies, which have enabled the company to maintain the quality of its assets, despite a default of one major customer recently. However, the ratings have been pressured by weakened profitability arising from a significant provision from bad debt, an intense competition, and unfavorable economic situation.

The "stable" outlook is based on the expectation that PL's financial profile will recover after being affected by unsupportive factors in the domestic automobile market including unfavorable used car prices. The profitability is expected to improve from the maintenance of good portfolio and the control of the impact from losses on sales of assets for lease.

The credit upside is limited in the short to medium terms. On the contrary, the ratings could be negatively impacted should there be any factors which would cause a significant deterioration in PL's financial profile such as a substantial drop in rental margin, decrease in asset qualities, and aggressive debt-funded portfolio expansion.

PL has maintained its market-leading position as a provider of automobile operating leases. According to TRIS Rating's database, in terms of net assets for lease, PL is the largest lessor among the 30 large auto lease providers. The company renders both operating and financial leases to medium-sized and large companies. Unfavorable operating environment, however, put pressure on PL's business expansion. At the end of 2014, PL had net assets for lease of Bt10,111 million, rising from Bt9,188 million at the end of 2013, and slightly increased to Bt10,164 million at the end of 2015. The amount of outstanding financial lease receivables also decreased to Bt1,582 million at the end of 2014 from Bt1,631 million in 2013 and increased to Bt1,704 million at the end of 2015. At the end of September 2016, the portfolio in terms of net assets for lease has been maintained at nearly the same level in 2015, while the portfolio in terms of financial lease receivables has grown around 10%.

PL's strong nationwide service network enhances its ability to service large customers. The reliance on large customers benefits PL because of economies of scale. However, relying on large customers means PL is exposed to customer concentration risks, both in terms of default risk and revenue dependency risk. The default risk has been mitigated by the relatively good credit quality of its large customers. PL has been trying to diversify its customer base. The progress of this effort can be measured by the percentage of business derived from PL's top 20 customers. However, net assets for lease (for operating leases) and outstanding loans (for financial leases), summed across the top 20 customers, comprised approximately 42% of PL's total portfolio as of March 2016. It represents a sizeable drop from 56% in 2009, a high concentration level when compared with peers.

Muangthai Life Assurance Co., Ltd. (MTL) became PL's major shareholder in 2006. Ever since, the representatives from MTL, through their presence on PL's board of directors, have implicitly supported PL's efforts to improve its risk management systems. PL's efforts to control its asset quality are supported by stringent risk management systems, especially when PL leases assets which carry higher risks than automobiles. The efforts to control asset quality have kept the ratio of non-performing loans (NPLs, or loans overdue more than 90 days) to total loans at low levels. Due to the economic slowdown, PL's asset quality deteriorated in the first nine months of 2016. A provision expense of Bt128 million has been set aside as a cushion for its asset quality problem.

During 2013-2015, PL's profitability has been constrained by lower prices of used cars. PL obtained smaller gains from liquidating its assets for lease. Demand for used cars slumped in 2013 because the government awarded tax incentives to first-time buyers of new cars. This program rapidly boosted the sale of new cars during 2012 and 2013, but it dampened demand for used car, and consequently aggravated the decline of used car prices which began in 2013. The used car prices bottomed out in 2014, and have been gradually increasing until present. However, a recovery to their previously high level is still uncertain and may take time.

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PL has managed to reduce the impact of lower used car prices. For example, PL postponed the liquidation of some vehicles with expired contracts by renewing the leases and using the vehicles for short-term rentals. Normally, PL would auction off vehicles with expired contracts. PL has started selling the vehicles through a retail sales channel so as to receive higher prices than selling the vehicles at auction. Despite these efforts, gains from such sales dropped to Bt49 million in 2013, and turned losses of Bt21 million in 2014 and Bt16 million in 2015. However, from the result of improving used car market, PL turned gain of Bt58 million in the first nine months of 2016.

Net profit dropped from Bt205 million in 2013 to Bt140 million in 2014, mainly due to a lower gross margin and loss from sales of assets for lease. In 2015, loss from sales of assets for lease still occurred but low funding costs and recapitalization helped reduce the interest expense and improved net profit to Bt171 million. For the first nine months of 2016, PL reported its net profit at Bt147 million, compared with Bt139 million in the same period of 2015. Although PL had set aside for a significant portion for provision, gain on sales of expired asset and benefit from the tax privilege of new law from PL's new investments in assets for lease, helped improve its net profit in the first nine months of 2016.

PL's capitalization base has been strengthened after an increase of Bt447 million of new capital by rights offering in June 2015. This improved the ratio of debt to equity to be below 4 times, decreasing from 5 times at the end of 2014. The new capital helps support its business expansion.

Phatra Leasing PLC (PL)

Company Rating:

A-

Issue Ratings:

PL179A: Bt500 million senior unsecured debentures due 2017	A-
PL182B: Bt500 million senior unsecured debentures due 2018	A-
PL185A: Bt500 million senior unsecured debentures due 2018	A-
PL180A: Bt450 million senior unsecured debentures due 2018	A-
PL191A: Bt500 million senior unsecured debentures due 2019	A-
PL198A: Bt500 million senior unsecured debentures due 2019	A-
PL209A: Bt500 million senior unsecured debentures due 2020	A-
PL212A: Bt500 million senior unsecured debentures due 2021	A-
PL232A: Bt200 million senior unsecured debentures due 2023	A-
Up to Bt700 million senior unsecured debentures due within 2019	A-

Rating Outlook:

Stable

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