

MUANGTHAI CAPITAL PLC

No. 74/2018
8 June 2018

FINANCIAL INSTITUTIONS

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
19/08/15	BBB	Stable

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RATIONALE

TRIS Rating affirms the company rating of Muangthai Capital PLC (MTC) and the rating of its outstanding senior unsecured debentures at “BBB”. The ratings reflect the company’s track record of providing secured personal loans and its strong market position. The ratings also take into consideration other strengths such as solid profitability, adequate loan loss reserves, and an extensive branch network. However, the ratings are constrained by intense competition in the personal loan market, and the fact that MTC’s target customers are in the high risk segment. In addition, forthcoming regulations will cover all non-bank financial institutions. Because the regulations are not yet in force, there remains a significant amount of uncertainty surrounding the effect that the regulations will have on interest rates, fees, and market conduct.

KEY RATING CONSIDERATIONS

Extensive branch network drives growth

MTC has a strategy to expand its market coverage by opening more branches to serve its target customers. To this end, MTC has steadily added new branches, especially in rural areas or sub-districts of provincial areas. The number of branches surged from 506 at the end of 2014 to 2,638 at the end of March 2018.

MTC’s loan portfolio grew at a similar pace, jumping from Bt7,448 million in 2014 to Bt35,623 million in 2017, a compound annual growth rate (CAGR) of 68.5%. Outstanding loans increased to Bt38,012 million at the end of March 2018, up 6.7% from the level at the end of 2017.

At the end of March 2018, loans secured by used motorcycles still represented the major portion (36.4%) of outstanding loans. The remaining portion comprised loans secured by used cars and trucks (32.8%), agricultural vehicles (4.7%), and unsecured personal loans (9.0%). MTC introduced two new products in 2015: loans secured by land, and nanofinance loans. As of March 2018, loans secured by land made up 13.9% of outstanding loans and nanofinance loans comprised 3.2%.

Loan quality holds steady and loan loss coverage stays high

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans has remained relatively low despite the recent economic slowdown. The NPL ratio has climbed steadily over the past two years, from 1.1% at the end of 2016 to 1.2% at the end of 2017 and 1.3% at the end of March 2018. Despite the recent rise, the ratio is lower than many peers. MTC has effective credit approval policies and effective debt collection processes, which help keep the ratio low.

The allowance for doubtful accounts is twice the balance of NPLs. At the end of March 2018, the ratio of allowance for doubtful accounts to NPLs, or the NPL coverage ratio, was 260.9%. This value is neither excessive nor too small, and was higher than the average of competitors in the microfinance segment.

Strong profitability

MTC’s financial performance has been moving in a positive direction. Net income jumped from Bt544 million in 2014 to Bt2,501 million in 2017. Return

on average assets (ROAA) rose from 7.4% in 2014 to 8.1% in 2017. Net income was Bt834 million for the first three months of 2018, a 55.5% rise from the same period in 2017. ROAA was 8.8% (annualized) for the first three months of 2018.

New regulations have been proposed for non-bank financial institutions. However, the exact content and the resultant effects on the industry are not yet known. The regulations may have a significant effect on interest rates, fees, and market conduct.

Asset/liability mismatch now better managed

MTC's funding structure has positive duration gap and the company has sufficient liquidity. At the end of March 2018, approximately 30% of liabilities were short-term borrowings, down from approximately 70% at the end of 2016. MTC intends to maintain the proportion of short-term borrowings at around 30%. The average duration of MTC's loan portfolio is approximately 18 months.

As of March 2018, MTC had available credit facilities of Bt7,330 million to fund its expansion plans. The credit facilities will add extra liquidity in excess of the expected cash inflows when customers repay their loans. MTC has sufficient liquidity to cover all its loan repayment obligations.

MTC's financial flexibility has improved recently, because it has obtained funding from a greater number of financial institutions. MTC also can access the capital market when it needs to raise funds.

Adequate capital

The capital ratio, or the ratio of shareholders' equity to total assets, declined from 27.4% at the end of 2016 to 24.2% at the end of 2017. The loan portfolio grew at a faster rate than the capital base. The ratio recovered slightly to 25.2% at the end of March 2018. Despite the recent fluctuations, MTC has a capital base stronger than peers. The capital base is adequate to support the near-term plans to enlarge the loan portfolio.

MTC's target customers are in a high credit risk group and are more vulnerable to adverse changes in the economy. A strong capital base will help mitigate the risks of lending to these high-risk target customers.

Acceptable degree of leverage in medium-term

A key financial covenant for the credit lines extended by a group of financial institutions calls for the debt to equity ratio (D/E ratio) to stay below four times. The D/E ratio at the end of March 2018 was three times. TRIS Rating expects that MTC will comply with the covenant even as it expands. A strong capital base, based on strong profitability and a conservative dividend policy, is the reason.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that MTC will maintain its market position, deliver satisfactory performance, control the quality of the loan portfolio, and keep leverage at an acceptable level.

RATING SENSITIVITIES

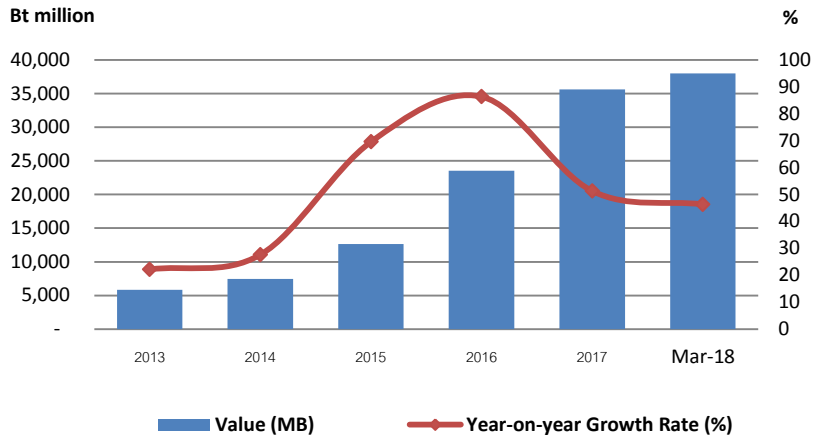
The upside case for the ratings and/or outlook would be strengthened if the forthcoming regulations affect loan growth, financial performance, and the quality of the loan portfolio in a manner consistent with TRIS Rating's expectation. In contrast, the ratings and/or outlook could be revised downward should leverage rise steadily, or if asset quality or MTC's competitive position deteriorate significantly.

COMPANY OVERVIEW

In 1992, the Petaumpai family, the founder and current major shareholder of MTC, started the company to finance purchases of new and used motorcycles. The company began offering personal loans backed by used motorcycles in 1998, personal loans backed by used automobiles in 2003, and unsecured personal loans in 2006. MTC ceased providing hire purchase loans in 2001. In 2014, MTC was listed on the Stock Exchange of Thailand (SET). Currently, MTC's major shareholder is the Petaumpai family, holding approximately 68% of the outstanding shares.

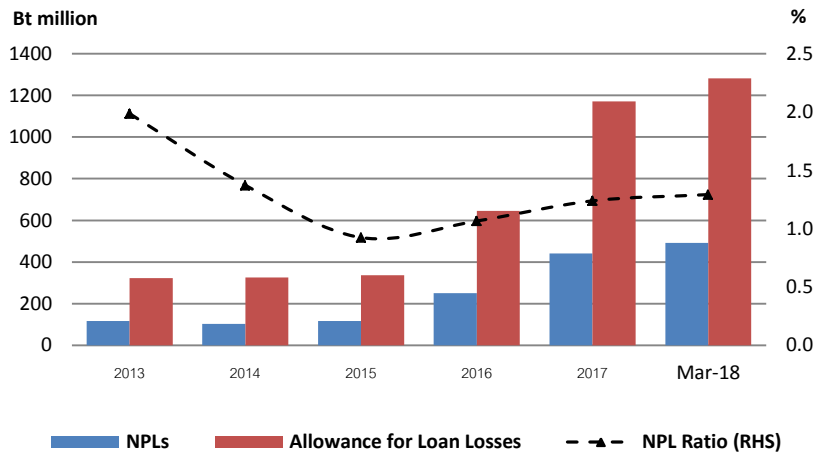
KEY OPERATING PERFORMANCE

Chart 1: Outstanding Loans



Source: MTC

Chart 2: Asset Quality



Source: MTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Bt million

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	38,882	36,953	24,426	13,083	8,777
Total loans	38,012	35,623	23,541	12,630	7,448
Allowance for doubtful accounts	1,282	1,171	646	336	325
Short-term borrowings	7,585	10,482	12,650	3,787	3,117
Long-term borrowings	20,473	16,619	4,599	3,368	368
Shareholders' equity	9,780	8,943	6,692	5,652	5,106
Net interest income	1,910	6,122	3,691	1,998	1,301
Bad debts and doubtful accounts	156	679	332	25	14
Non-interest income	208	676	453	334	289
Operating expenses	920	3,013	2,000	1,275	896
Net income	834	2,501	1,464	825	544

* Consolidated financial statements

Unit: %

	Jan-Mar 2018	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Profitability					
Net-interest income/average assets	20.14 **	19.95	19.68	18.28	17.60
Net-interest income/total income	81.32	81.94	82.54	78.06	70.12
Operating expenses/total income	39.17	40.32	44.72	49.82	48.28
Operating profit/average assets	10.99 **	10.12	9.66	9.44	9.19
Return on average assets	8.79 **	8.15	7.81	7.55	7.36
Return on average equity	35.62 **	31.99	23.72	15.34	15.45
Asset Quality					
Non-performing loans/total loans	1.29	1.24	1.07	0.92	1.37
Bad debts and doubtful accounts/average loans	1.70 **	2.30	1.83	0.25	0.21
Allowance for doubtful accounts/total loans	3.37	3.29	2.74	2.66	4.36
Allowance for doubtful accounts/non-performing loans	260.93	265.41	257.35	287.61	318.04
Capitalization					
Shareholders' equity/total assets	25.15	24.20	27.40	43.20	58.18
Shareholders' equity/total loans	25.73	25.11	28.43	44.75	68.56
Debt to equity (time)	2.98	3.13	2.65	1.31	0.72
Liquidity					
Short-term borrowings/total liabilities	26.07	37.42	71.33	50.96	84.93
Total loans/total assets	97.76	96.40	96.38	96.54	84.86

* Consolidated financial statements

** Annualized

Muangthai Capital PLC (MTC)

Company Rating: BBB**Issue Rating:**

MTLS19NA: Bt469 million senior unsecured debentures due 2019 BBB

Rating Outlook: Stable

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