

ASIA SERMKIJ LEASING PLC

Announcement no. 862

29 March 2012

Company Rating: BBB+

Outlook: Stable

Rating History:

Date	Company	Issue (Secured/ Unsecured)
07/10/08	BBB+/Sta	-

Rating Rationale

TRIS Rating affirms the company rating of Asia Sermkij Leasing PLC (ASK) at “BBB+”. The rating reflects the experience of the management team in the auto financing business and the company’s ability to maintain its market position by expanding its loan portfolio, despite intense competition and natural disasters. In addition, ASK’s strong positions in selected niche markets for commercial vehicles, support from major shareholders, efficient risk management systems, and long-term relationships with dealers support the rating. However, these strengths are partially offset by the nature of ASK’s auto loan portfolio, which is considered more vulnerable to adverse changes in economic conditions, despite generating higher returns. ASK has diversified its sources of funds to increase its financial flexibility. The company’s financial flexibility has been constrained by regulatory lending limits, which limit the amount of funds that its shareholder, Bangkok Bank PCL (BBL), can provide.

At the end of 2011, ASK’s consolidated loan portfolio comprised 84.6% retail auto financing loans held by ASK, almost equivalent to the proportions of 85.2% and 83.6% in 2010 and 2009, respectively. The proportions of leasing and factoring loans, held by its wholly-owned subsidiary, Bangkok Grand Pacific Lease PLC (BGPL), were 10.1% and 4.9%, respectively. Consolidated outstanding loans increased by 23.5% to Bt15,153 million in 2010 from Bt12,267 million in 2009, thanks to the growth of the domestic automobile market in 2010. In 2011, two natural disasters, the earthquake in Japan and the floods in Thailand, disrupted the supply of autos in the automobile market. Despite the troubles, ASK was able to expand its loan portfolio by 16.7% to Bt17,686 million at the end of 2011.

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 December 2011, ASK’s outstanding retail auto loans comprised loans for passenger cars and pick-up trucks (34.1%), vans (26.0%), big trucks (29.3%), taxis (8.8%), buses (0.5%), and refinancing loans (1.3%). 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 higher credit risk than other major auto financing companies which concentrate on loans for passenger cars and pick-up trucks. To mitigate the higher risk, ASK implemented a segmentation strategy and focuses on the less risky, specific sub-segments of each asset type and each target customer group.

Despite a seemingly riskier loan portfolio, the ratio of non-performing loans or NPLs (loans with more than three installments past due) to total loans is considered low, when compared with other auto financing companies. The experienced and capable management team, an efficient risk management system, and a conservative underwriting policy are the factors that help the company keep asset quality at a satisfactory level. The consolidated NPL ratio improved to 0.89% at the end of 2010, from 1.42% in 2009. The flood crisis during the last quarter of 2011 pushed the NPL ratio for retail auto loans to 0.61% at the end of 2011, from 0.43% in 2010. However, the NPL ratio of BGPL’s leasing and factoring businesses improved in 2011. The improvement helped ASK to maintain its consolidated NPL ratio at 0.88% at the end of 2011.

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Intensified competition in the auto financing industry has pressured the profitability of ASK and other major lenders, as interest rate rose during 2010 and 2011. Interest yields were constrained by competition, while the funding costs moved higher as market interest rates rose. However, ASK was able to maintain its funding costs because the company chose to fund its portfolio expansion by using more shorter-term borrowings. Operating expenses remained under control and provision expenses were lower in 2011, raising the company's profitability. The ratio of return on average assets (ROAA) improved substantially to 2.07% in 2010, from 1.58% in 2009. The ratio decreased slightly to 1.97% in 2011. The return on average equity (RoAE) also improved, rising to 15.48% in 2010 and 16.58% in 2011, from 11.00% in 2009.

As an affiliate of BBL, ASK has benefited in terms of funding support. However, this benefit has been constrained by the lending limits imposed by the Bank of Thailand (BOT). The limits apply to related entities of a financial institution. The regulation limits the amount of debt financing made from a commercial bank to any related company. Debt financing provided to related entities is capped at not over 5% of a commercial bank's capital funds or 25% of the borrower's liabilities, whichever is lower. The regulation limits ASK's financial flexibility and the ability to enjoy a secure source of funds from BBL. Therefore, ASK has diversified its funding sources to other financial institutions and the capital markets, including bills of exchange (B/Es) and debentures. An available credit line from BBL is kept as a financial cushion to mitigate ASK's liquidity risk. At the end of December 2011, B/Es comprised 27.08% of consolidated borrowings, up from 22.50% and 11.49% in 2010 and 2009, respectively. Using B/Es as a source of funds helped the company to control its overall funding costs. However, in general, funding through B/Es carries refinancing risk, because B/Es are categorized as market-sensitive financial instruments. However, the refinancing risk of ASK's B/Es can be mitigated by the monthly installment payments made by ASK's customers and the establishment of back-up credit facilities that completely cover ASK's funding needs. During the past two years, ASK has used more shorter-term borrowings in an attempt to control its funding costs, which has consequently created a mismatch in the duration of ASK's assets and liabilities. At the end of December 2011, the debts amounting to 44.39% of the company's total borrowings will mature in 2013. These maturing obligations are expected to be refinanced with long-term borrowings. The significant portfolio expansion during the past two years was mostly financed through borrowings. As a result, the ratio of shareholders' equity to total assets reduced to 11.23% in 2011 from 12.68% in 2010 and 14.29% in 2009. The company announced its recapitalization plan by issuing new shares. The recapitalization is expected to be completed by the middle of this year. The strengthened capital base provides flexibility and ASK can leverage the strengthened base to fund an expansion of the loan portfolio.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that ASK will be able to maintain its market positions in the niche markets for commercial vehicles. ASK's experienced and capable management team, plus efficient risk management and operating systems, will help the company control asset quality. The support from major shareholders is expected to continue. In addition, the company is expected to better match the tenors of its assets and liabilities by diversifying the maturities of its borrowings.

Asia Sermkij Leasing PLC (ASK)

Company Rating:

BBB+

Rating Outlook:

Stable

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