

ASIA SERMKIJ LEASING PLC

No. 92/2014

31 October 2014

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 the management team in the auto financing business and the company’s moderate financial risk profile. 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. However, these strengths are partially offset by the nature of ASK’s auto loan portfolio. ASK’s portfolio is considered more vulnerable to adverse changes in economic conditions, despite the fact that it can generate higher returns. ASK’s financial flexibility has been constrained by regulatory lending limits, which restrict the amount of funds that its shareholder, Bangkok Bank PLC (BBL), can provide. However, the company has been able to diversify its sources of funds to increase its financial flexibility.

At the end of June 2014, ASK’s consolidated loan portfolio comprised 86.4% of retail auto financing loans, almost equivalent to the proportions of 84.6% in 2012 and 86.2% in 2013. The proportions of leasing and factoring loans, held by its wholly-owned subsidiary Bangkok Grand Pacific Lease PLC (BGPL), were 10.1% and 3.2%, respectively. Consolidated outstanding loans increased substantially in 2013, rising by 23% to Bt28,018 million in 2013 from Bt22,786 million in 2012. However, at the end of June 2014, consolidated outstanding loans increased by only 3.5% to Bt28,985 million compared with at the end of 2013. The slower growth rate was due to recent economic slowdown.

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 2014, ASK’s outstanding retail auto loans comprised loans for passenger cars and pick-up trucks (28.8% of the portfolio value), vans (17.9%), big trucks (44.4%), taxis (5.9%), and others (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. Other major auto financing companies 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 its asset quality at a satisfactory level. The consolidated ratio of NPLs to total loans (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 maintain its consolidated NPL ratio at 0.88% at the end of 2011. The consolidated NPL ratio dropped slightly to 0.83% at the end of 2012 due partly to the substantial increase in the size of the loan portfolio during the previous year. However, the recent economic slowdown caused the consolidated NPL ratio to increase to 1.14% at the end of 2013 and to 1.34% at the end of June 2014. The challenge for the corporation going forward is to control asset quality. Asset quality is expected to

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deteriorate further in the second half of 2014. However, given the capability of ASK's management team, TRIS Rating expects the company will be able to control and improve the asset quality in the coming year.

Intensified competition and the problems in the auto financing industry at the present have reduced the loan growth rates and the profitability of ASK and other major lenders. Interest yields are constrained by competition. However, ASK has been able to keep its funding costs low, because it chose to use more short-term borrowings to fund its portfolio expansion efforts. In addition, operating expenses and loan loss provisions remain under control. Profitability has improved. The ratio of return on average assets (ROAA) rose to 2.49% in 2013, from 2.39% in 2012. The return on average equity (ROAE) was in high level at 17.57% in 2013, close to the value achieved in 2012.

ASK has benefited from being an affiliate of BBL because it can receive funding from BBL. However, this benefit has been constrained by the lending limits imposed by the Bank of Thailand (BOT). The limits apply to the related entities of financial institutions. The regulation limits ASK's financial flexibility and the ability to enjoy a secure source of funds from BBL. However, ASK has been able to diversify its funding sources to other financial institutions and the capital markets, including bills of exchange (B/Es) and debentures. ASK keeps available a credit line from BBL, to save as a financial cushion and mitigate ASK's liquidity risk. During the past few years, ASK has used more 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 December 2013, short-term borrowings and the current portion of long-term borrowings accounted for 58.6% 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. In addition, TRIS Rating expects ASK to maintain a sufficiently high level of back-up credit facilities so as to cover its outstanding short-term funding instruments through the capital markets such as B/Es and short-term debentures which carry refinancing risk.

A recapitalization in 2012 improved the ratio of shareholders' equity to total assets to 15.1% in 2012, from 11.2% in 2011. However, the ratio of shareholders' equity to total assets declined to 13.4% in 2013 and 12.9% at the end of June 2014 because the loan portfolio grew.

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 asset quality. The support ASK receives from its major shareholders is expected to continue.

Asia Sermkij Leasing PLC (ASK)

Company Rating:

BBB+

Rating Outlook:

Stable

Financial Statistics*

Unit: Bt million

	Jan-Jun 2014	----- Year Ended 31 December -----			
		2013	2012	2011	2010
Total assets	29,207	28,381	23,163	18,215	15,395
Total loans	28,985	28,018	22,786	17,686	15,153
Allowance for doubtful accounts	346	291	221	190	181
Short-term borrowings	14,366	14,096	17,480	8,769	7,269
Long-term borrowings	10,567	9,948	1,698	6,999	5,879
Shareholders' equity	3,777	3,796	3,499	2,046	1,952
Net interest income	731	1,326	1,042	822	722
Bad debts and doubtful accounts	128	152	79	59	90
Non-interest income	141	285	258	210	183
Operating expenses	336	655	574	487	418
Net income	325	641	495	332	290

Key Financial Ratios*

Unit: %

	Jan-Jun 2014	----- Year Ended 31 December -----			
		2013	2012	2011	2010
Profitability					
Net-interest income/average assets	2.54 **	5.15	5.03	4.89	5.16
Net-interest income/total income	55.17	53.89	51.27	49.64	52.92
Operating expenses/total income	25.41	26.62	28.22	29.38	30.63
Operating profit/average assets	1.41 **	3.12	3.12	2.90	2.84
Return on average assets	1.13 **	2.49	2.39	1.97	2.07
Return on average equity	8.58 **	17.57	17.72	16.58	15.48
Asset Quality					
Non-performing loans/total loans	1.34	1.14	0.83	0.88	0.89
Bad debts and doubtful accounts/average loans	0.45 **	0.60	0.39	0.36	0.65
Allowance for doubtful accounts/total loans	1.19	1.04	0.97	1.07	1.19
Allowance for doubtful accounts/non-performing loans	89.15	91.59	117.33	121.66	133.95
Capitalization					
Shareholders' equity/total assets	12.93	13.38	15.11	11.23	12.68
Shareholders' equity/total loans	13.03	13.55	15.36	11.57	12.88
Debt to equity (time)	6.73	6.48	5.62	7.90	6.89
Liquidity					
Short-term borrowings/total liabilities	56.49	57.34	88.90	54.24	54.07
Total loans/total assets	99.24	98.72	98.38	97.09	98.43

* Consolidated financial statements

** Non-annualized

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