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CreditNews ข่าวเครดิต

THANACHART CAPITAL PLC

No. 119/2016 28 October 2016

Company Rating: A+

Issue Ratings:
Senior unsecured A+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
16/01/12	A+	Stable
12/03/10	A	Positive
14/07/05	A	Stable

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Rating Rationale

TRIS Rating affirms the company rating of Thanachart Capital PLC (TCAP) and the ratings of TCAP's senior unsecured debentures at "A+". The ratings are based on TCAP's position as the holding company of the Thanachart Group, its management control of Thanachart Bank PLC (TBANK) – the core bank subsidiary, through a 50.96% ownership stake, and the stable stream of dividends it receives from TBANK. The ratings take into consideration TBANK's strong franchise in auto hire-purchase lending and the support TBANK receives from its Canadian strategic partner, Bank of Nova Scotia (BNS), which holds a 49% stake in TBANK through Scotia Netherlands Holdings B.V. The current slowdown of the Thai economy and sluggish domestic auto sales remain the major factors which may limit TCAP's growth and profitability.

TCAP's company rating is one notch lower than the company rating of TBANK (AA-). The one notch difference reflects the structural subordination of TCAP's obligations to those of TBANK, TCAP's reliance on dividends from TBANK, and the supervisory barrier which may affect TBANK's ability to pay dividends.

Based on the consolidated asset size as of June 2016, TCAP was ranked sixth among all 18 Thai commercial banks, with a 6.4% market share in loans and a 6.2% market share in deposits. In terms of revenues, the banking segment contributed approximately 80% of the consolidated net operating income of TCAP. The remainder was from the operations of other segments, such as leasing, securities, fund management, and distressed asset management.

On a consolidated basis, TCAP remains the largest auto loan provider in Thailand, with an approximately 19% market share in auto loans as of December 2015. The auto hire-purchase lending remains the dominant loan segment, contributing half of the total loan portfolio. Housing loans shows a 12.6% year-on-year (y-o-y) growth between June 2015 and June 2016, making up 13.8% of the total loan portfolio. The composition of loans by segments remains largely unchanged between June 2015 and June 2016 with the retail segment representing two-thirds of the total loan and the corporate and SME segments combined representing one-third of the total.

TCAP's consolidated loan portfolio has contracted, as a result of the slowdown in the Thai economy and sluggish domestic auto sales. At the end of June 2016, TBANK's loans and receivables totaled Bt689.2 billion, down by 3.7% from December 2015. Since 2014, the negative growth in the auto loans has been consistent with an overall trend among the auto loan providers, as a result of weak car sales and weak economies. However, given the recoveries in certain segments in the auto hire purchases, TRIS Rating expects a mild pick-up for TCAP's consolidated loan portfolio in this segment next year.

TCAP business position is stabilising with an improving trend. The company had previously been constrained by a high level of non-performing loans (NPLs) that was, in part, a legacy of the acquisition of Siam City Bank PLC's (SCIB) commercial loan portfolio. However, TCAP has boosted the quality of its consolidated loan portfolio by restructuring, writing-off, and selling its NPLs. Having adopted the new Loan Origination System and the uses of analytics, the company is able to underwrite loans more prudently, preventing any further deterioration in its credit quality. As of June 2016, its NPLs declined to Bt19.5 billion, down from Bt29.3 billion in June 2015. The ratio of NPLs to total loans (NPL ratio) was 2.8% as of June 2016, compared with 4.1% in June 2015. The NPL formation rate is relatively low, reflecting stronger asset quality. To strengthen its buffer against loan losses, TCAP has continually added to its excess reserves for loan losses. As of June 2016, the company's NPL coverage ratio, excluding allowance for revaluation of restructured debt, increased to 115.3%, a significant improvement from 91.2% at the end of June 2015.

TCAP continued strengthening its capital position with its Tier-I capital ratio reaching 11.03% and its Tier-I plus Tier-II capital ratio of 15.39%, at the end of June 2016, both of which were slightly below those of its mid-sized bank peers. The pre-provision income of Bt19,885 million for 2015 and Bt9,459 million for the first half of 2016 provided ample buffer for loan losses.

Despite the improvements in these areas, TCAP's credit profile has been constrained by its business position as a mid-sized bank which lacks the strength in stable retail funding and diversified client bases that the large banks have. Although the company has achieved significant improvements in raising the proportion of its current account-savings account (CASA) funding – the key indicator of stable retail funding – and lowering its loan-to-deposit ratio, there is still a big gap between its current funding capability and those of the large banks. TCAP's funding costs have consistently been at the higher end among peers which may constrain its ability to expand into highly competitive segments. Its expense-to-income ratio has also been consistently on the high side compared with peers.

Rating Outlook

The "stable" outlook reflects the expectation that TBANK, as the major source of revenue for TCAP, will maintain its strong competitive position in its core line of business. The outlook is also based on the expectation that TBANK's loan quality will stay stable.

TCAP's credit profile could be negatively impacted if TCAP's business position and asset quality deteriorate significantly. Any credit rating upside is unlikely in the near term. However, positive rating actions depend on TCAP's ability to diversify its business and loan portfolios, and materially improve its cost efficiency.

Thanachart Capital PLC (TCAP)

Company Rating:	A+
Issue Ratings:	
TCAP18NA: Bt3,100 million senior unsecured debentures due 2018	A+
TCAP20NA: Bt2,900 million senior unsecured debentures due 2020	A+
TCAP22NA: Bt3,000 million senior unsecured debentures due 2022	A+
TCAP238A: Bt500 million senior unsecured debentures due 2023	A+
TCAP23OA: Bt1,300 million senior unsecured debentures due 2023	A+
TCAP258A: Bt900 million senior unsecured debentures due 2025	A+
Rating Outlook:	Stable

Financial Statistics*

Unit: Bt million

	Jan-Jun 2016	2015	2014	2013	2012	2011
		------------ Year Ended 31 December ------------				
Total assets	988,194	997,581	1,025,630	1,050,914	1,026,679	895,157
Investment in securities	202,327	186,915	164,735	150,075	152,456	154,184
Loans and receivables	689,170	715,295	756,444	792,190	756,403	638,084
Allowance for doubtful accounts	24,403	26,244	28,450	30,773	24,891	27,286
Deposits	669,711	669,454	696,949	715,931	693,421	435,865
Borrowings**	154,212	170,529	178,557	190,372	177,283	322,804
Shareholders' equity	116,398	111,323	104,276	95,439	85,234	75,681
Net interest income	14,033	27,730	27,465	26,493	23,295	24,315
Bad debts and doubtful accounts	3,175	8,600	7,084	11,420	2,900	2,077
Non-interest income	7,104	15,185	15,212	29,168	13,973	11,916
Operating expenses	11,678	23,029	22,599	23,303	23,383	22,246
Net income	5,967	11,060	10,436	17,004	9,838	8,772

* *Consolidated financial statements*
** *Including interbank and money market*

Key Financial Ratios*

Unit: %

		------------------------ Year Ended 31 December ---------------------				
	Jan-Jun 2016	2015	2014	2013	2012	2011
Profitability						
Net interest income/average assets	1.41 **	2.74	2.65	2.55	2.42	2.74
Non-interest income/average assets	0.72 **	1.50	1.47	2.81	1.45	1.34
Fees and service income***/total income	16.31	16.01	15.26	13.30	13.83	12.73
Operating expenses/total income	38.75	36.08	33.16	27.98	37.08	39.60
Operating profit/average assets	0.63 **	1.12	1.25	2.02	1.14	1.34
Return on average assets	0.60 **	1.09	1.01	1.64	1.02	0.99
Return on average equity	5.24 **	10.26	10.45	18.82	12.23	11.90
Asset Quality						
Non-performing loans/total loans	2.84	3.16	4.47	4.74	4.54	6.30
Non-performing assets/total assets	3.97	4.45	6.32	7.27	7.59	10.16
Bad debts and doubtful accounts/average loans	0.45 **	1.17	0.91	1.47	0.42	0.33
Allowance for doubtful accounts/total loans	3.54	3.67	3.76	3.88	3.29	4.28
Capitalization						
Shareholders' equity/total assets	11.78	11.16	10.17	9.08	8.30	8.45
Shareholders' equity/total loans	16.89	15.56	13.78	12.05	11.27	11.86
BIS ratio	15.39	14.71	13.59	14.31	12.07	12.53
Liquidity						
Total loans/deposits****	102.91	106.85	108.53	110.64	108.31	97.58
Deposits****/total liabilities	76.82	75.54	75.65	74.93	74.18	79.80
Total loans/total assets	69.74	71.70	73.75	75.38	73.67	71.28

* *Consolidated financial statements*
** *Non-annualized*
*** *Including net insurance premium/life insurance premium income*
**** *Including bills of exchange*

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