

MICRO LEASING PLC

No. 3/2025
30 January 2025

FINANCIAL INSTITUTIONS

Company Rating: BB
Outlook: Negative

Last Review Date: 25/01/24

Company Rating History:

Date	Rating	Outlook/Alert
25/01/24	BB	Stable
03/04/23	BB+	Negative
08/04/21	BB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Micro Leasing PLC (MICRO) at “BB”. The rating outlook is revised to “negative” from “stable”. The negative outlook reflects a slower-than-expected recovery in earnings and continued deterioration in earnings capacity and asset quality.

The rating on MICRO is constrained by a moderate market position in used truck and new motorcycle hire purchase. Although capital remains very strong, and funding and liquidity are sufficient, the significant decline in earnings could negatively impact the rating.

KEY RATING CONSIDERATIONS

Slow earnings recovery

The “negative” outlook reflects MICRO’s slower-than-expected earnings recovery and the potential for continued weak financial performance due to economic challenges affecting the company’s small and medium enterprises (SMEs) and retail truck users.

Several factors contributed to the negative earnings results in 2023 and the first nine months of 2024 (9M24): significant losses from sales of repossessed assets due to high repossession rates and a continual decline in used truck prices; increased credit costs; and reduced interest and fee revenues due to a contracting loan portfolio.

In the medium term, these factors are expected to continue impacting earnings capacity. Losses on sales of repossessed assets are likely to continue due to weak demand for trucks. Credit costs are anticipated to remain high in 2024 due to the ongoing weak economy and necessary non-performing loan (NPL) write-offs to remain within covenant limits. Revenues will also remain under pressure due to loan contraction stemming from MICRO’s cautious lending approach and limited funding.

However, MICRO’s earnings are expected to gradually improve over the next one to two years, with a return to positive earnings projected by 2026. We estimate its five-year (2022-2026) average of earnings before taxes to average risk-weighted assets (EBT/ARWA) will remain negative at -1.3%, influenced by weak performance from 2023 to 2025.

Asset quality remains weak but on an improving trend

MICRO’s asset quality has deteriorated since 2022, caused by rapid credit growth and lax lending during 2021-2022. The challenging economic environment, high oil prices, weak exports, and delayed government budget disbursements in 2022-2023 significantly reduced demand for truck usage, resulting in borrowers relinquishing their trucks and discontinuing payments.

As a result, the company experienced a notable increase in NPLs and asset repossessions in 2022-2023. This led to elevated credit costs and losses associated with the sale of these assets, which were further aggravated by declining used truck prices. Losses on repossessed assets increased to 7.3% of average loans in 9M24 from 6.1% in 2023 and 4.0% in 2022.

Notably, stage-2 loans also increased significantly, rising to 24.3% at end-September 2024 from 19.0% at end-2023, primarily driven by an increase in restructured loans. A deterioration of stage 2 loans could potentially lead to higher future losses on repossessed assets. Despite persistent asset quality

challenges, MICRO's NPL ratio was relatively stable at 4.9% at the end of September 2024, compared with 4.7% in 2023. Consequently, credit costs improved significantly, declining to 3.0% in 9M24 from 4.2% in 2023.

Although asset quality remains a concern, we expect MICRO to keep its NPL ratio below 5.0% as this level is a covenant limit stipulated by its bank lenders. To achieve this, MICRO plans to implement various measures including a centralized underwriting and tightened credit policies, robust loan restructuring, and improved debt collection. The company also aims to expedite the litigation process and asset repossession.

Weakened market position from cautious lending and sluggish demand for trucks

MICRO's market share in both the used truck and new motorcycle hire purchase (HP) segments remains modest compared to its competitors. This is largely due to the company's cautious lending strategy, following rapid growth in the past, as it focuses on conserving liquidity for bond repayments and asset quality. The company's new loan market share in used trucks has declined significantly, contracting to 1.9% in 9M24 from 4.9% in 2023.

At the end of September 2024, the company's outstanding loan balance declined by 21% year-on-year (y-o-y) to THB3.7 billion. This sharp decline was primarily driven by the contraction in used truck HP loans, while motorcycle HP loans remained relatively stable. Personal loans, introduced by Micro Fin Co., Ltd. in the second quarter of 2023 (2Q23), grew from a low base and remains small.

We expect MICRO's loan balance to contract further in 2024 and 2025 and resume growth in 2026. While its cautious growth strategy may be regarded as prudent, a considerable weakening of MICRO's loan portfolio and market position could affect its business operations and credit rating.

Further weakening of earnings could pressure rating

MICRO's high risk-adjusted capital ratio (RAC) continues to support its "strong" capital and earnings position, despite its "weak" earnings capacity. At the end of September 2024, MICRO's RAC ratio increased to 41.3% from 38.2% at the end of December 2023 (a level above 25% is assessed as "very strong"). The increase in the RAC ratio was driven by a contraction of the used truck HP loan portfolio, but was partly offset by a net loss of THB83 million in 9M24.

We project the RAC to remain comfortably above 25% throughout 2024-2026, assuming new loan originations drop by 40% in 2024, contract by 10% in 2025, and expand by 15% in 2026. However, if earnings capacity, measured by average of EBT/ARWA, falls below our base-line projection, we may reassess the capital and earnings positions, potentially leading to downward rating pressure on the rating.

Conservative funding profile and adequate liquidity

MICRO's funding profile is considered conservative due the company's reliance on long-term funding through bond issuance. However, with uncertain sentiment in the bond market potentially affecting the company's ability to raise funds through bond issuance, additional funding to support asset growth may be limited.

We believe the company has sufficient liquidity to service debt as it prioritizes timely repayment of debt obligations over loan expansion. Its liquidity sources, including cash on hand, cash flows from monthly loan repayments, and credit facilities of THB889 million, are expected to be sufficient to meet short- to medium-term liquidity needs.

As of September 2024, short-term borrowings, including the current portion of long-term debt amounted to THB1.36 billion, which include debentures of THB479 million due in April 2025, THB303 million due in September 2025, and THB269 million due in October 2025. Secured debt currently represents a low proportion of 17% of total debt.

Vehicle sales to recover gradually

Domestic vehicle sales have declined in tandem with the economic downturn. In 11M24, total vehicle sales dropped by 26.7%, with commercial vehicles seeing a 28.6% decrease. Truck sales fell by 37% compared to the same period in 2023, continuing the downward trend from the previous year. The drop in vehicle sales is partly due to the cautious lending practices adopted by financial institutions amid weaker debt servicing capacity and slower economic activities. Nevertheless, sales of commercial vehicles, including trucks, are anticipated to improve as the construction sector recovers, driven by increased government spending on infrastructure projects, along with a resurgence in exports, cross-border transportation, and trade.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for MICRO's operations in 2024-2026 are as follows:

- New loans to contract by around 40% in 2024 and 5% in 2025, and subsequently expand by 20% in 2026.
- Interest spread to hold at around 10%.
- NPL ratio to hover around 4.5%-5.0%

RATING OUTLOOK

The "negative" outlook reflects a slower-than-expected recovery in earnings and continued deterioration in earnings capacity and asset quality. If this continues, it could impact the company's capital and earnings position in the future.

RATING SENSITIVITIES

The rating could be downgraded if the company's business position significantly weakens, or if asset quality and profitability deteriorate further, resulting in a declining RAC ratio for an extended period.

A credit upside, with outlook revised back to "stable", could materialize if the company improves its earnings capacity and asset quality over an extended period while retaining its strength its capital strength with the RAC ratio maintained at a level above 25%.

COMPANY OVERVIEW

The company was established on 7 November 1994 with a registered capital of THB1 million, building upon the management's experience of over 25 years in the auto parts trading business, to provide financing for commercial trucks used for transportation in the logistics, construction, and agricultural sectors. As of June 2020, 93% of the company's outstanding loans were used-truck hire purchase loans, with mostly 6-, 10-, and 12-wheel trucks as collateral.

The company set up its first office in Nakorn Pathom. Since 2002, the company has opened branches across the Central region. Over the years, MICRO has continuously increased its registered and paid-up capital and expanded its branch network across the Northeastern and Eastern regions. The company currently has 12 branches and over 350 dealers in its network. In September 2019, the company became a public limited company and changed its name to "Micro Leasing Public Company Limited" in preparation for its initial public offering on the SET in 2020.

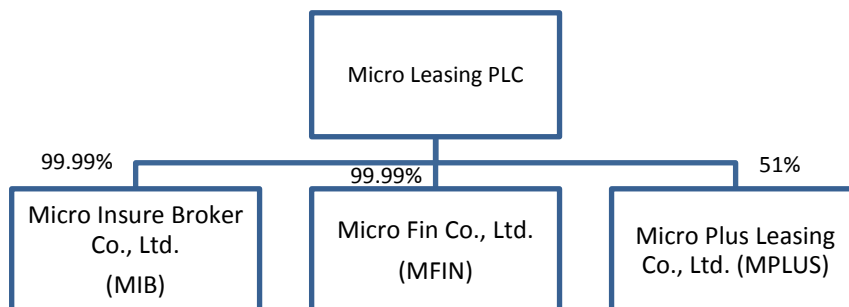
In September 2020, the company sold 235 million of its registered shares at THB2.65 per share through an initial public offering and successfully raised THB622 million. The company's registered and paid-up capital subsequently increased to THB935 million from THB700 million. Following the initial public offering, the Auchyawat family remained the majority shareholder with a total stake of 57%.

In October 2021, the company set up a new subsidiary under the name "MICRO Insure Broker Co., Ltd." with the registered capital of THB3 million to undertake the life and non-life insurance brokerage business. MICRO holds a 99.99% stake in the company.

In January 2022, the company set up another subsidiary under the name "MICRO FIN Co., Ltd." with registered capital of THB50 million to engage in the secured and unsecured personal loan under supervision business. MICRO also holds 99.99% of the company.

In March 2022, the company established a joint venture under the name "MICRO Plus Leasing Co., Ltd." (MPlus) with registered capital of THB400 million to engage in the motorcycle hire purchase business. The shareholders consist of MICRO (51%), Mr. Thammasak Auchyawat (9%), and Mr. Thaveepol Charoenkitkhunpaisal and partners (19%). Later in Mar 2023, MPlus increased its registered capital to THB800 million. MICRO maintains its 51% shareholding.

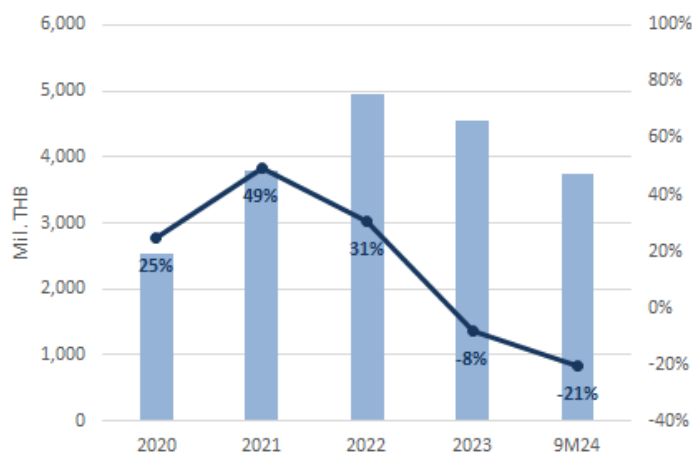
Chart 1: Company Structure



Source: MICRO

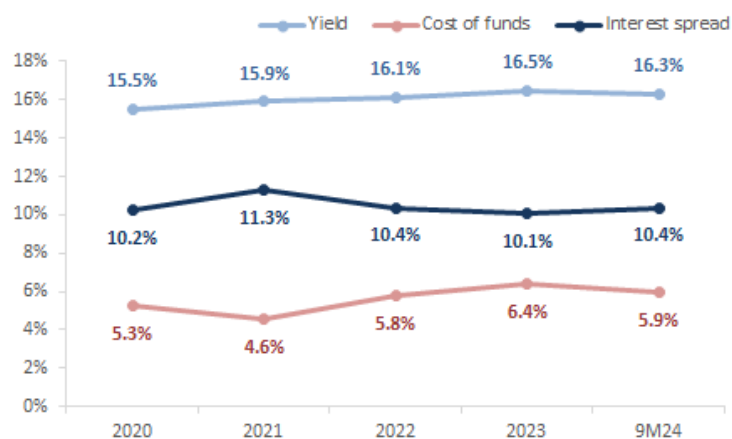
KEY OPERATING PERFORMANCE

Chart 2: Outstanding Loans



Source: MICRO

Chart 3: Interest Spread



Source: MICRO

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	4,941	5,374	5,511	4,034	2,755
Total loans	3,749	4,548	4,957	3,796	2,542
Allowance for expected credit loss	205	227	232	162	98
Short-term debts	1,769	1,247	989	477	678
Long-term debts	1,040	1,866	2,195	1,462	151
Shareholders' equity	2,048	2,132	2,148	1,958	1,823
Net interest income	376	582	559	441	308
Expected credit loss	94	201	160	112	27
Non-interest income	77	135	148	128	89
Operating expenses	234	322	292	186	153
Earnings before taxes	(102)	(98)	82	227	176
Net income	(83)	(80)	65	187	135

Unit: Mil. THB

	Jan-Sep 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Profitability					
Net interest and dividend income/average assets	9.72	10.69	11.72	12.98	12.63
Non-interest income/average assets	2.00	2.49	3.09	3.78	3.65
Operating expenses/total income	78.84	66.82	54.49	36.33	43.57
Operating profit/average assets	(2.65)	(1.81)	1.71	6.70	7.23
Earnings before taxes/average risk-weighted assets	(2.60)	(1.77)	1.73	7.10	7.64
Return on average assets	(2.15)	(1.47)	1.36	5.52	5.54
Return on average equity	(5.30)	(3.74)	3.17	9.92	9.31
Asset Quality					
Non-performing loans/total loans	4.85	4.69	4.56	3.47	3.82
Expected credit loss/average loans	3.02	4.24	3.66	3.54	1.17
Allowance for expected credit loss/non-performing loans	112.78	106.46	102.55	122.87	100.89
Capitalization					
Risk-adjusted capital ratio	40.98	38.23	38.27	51.05	70.36
Debt/equity (times)	1.41	1.52	1.57	1.06	0.51
Funding and Liquidity					
Stable funding ratio	127.62	129.87	130.06	131.08	114.46
Liquidity coverage measure (times)	0.47	0.34	0.29	0.30	0.19
Short-term debts/total debts	62.98	40.06	31.06	24.60	81.78

RELATED CRITERIA

- Financial Institution Rating Methodology, 25 September 2024

Micro Leasing PLC (MICRO)

Company Rating:	BB
Rating Outlook:	Negative

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