SINGER THAILAND PLC

No. 117/2023
4 October 2023

FINANCIAL INSTITUTIONS

Company Rating:	BB+
Outlook:	Stable

Last Review Date: 26/05/23

Company Rating History:

Date	Rating	Outlook/Alert
26/05/23	BBB	Negative
18/03/22	BBB	Stable
22/09/21	BBB-	Positive
31/08/20	BBB-	Stable
12/09/18	BBB-	Negative
31/08/17	BBB-	Stable
22/10/15	BBB	Stable
12/06/15	BBB	Alert Developing
03/05/13	BBB	Stable
29/11/12	BBB	Alert Developing
20/01/12	BBB	Stable

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RATIONALE

TRIS Rating downgrades the company rating on Singer Thailand PLC (SINGER) to “BB+/stable” from “BBB/negative”. The rating downgrade reflects a prolonged material deterioration of the company’s asset quality, heightened operational risk and weaker-than-expected earnings capacity. The rating, however, continues to reflect the company’s solid capital base and sufficient funding and liquidity.

We revised down our assessment of the company’s risk position to ‘weak’ from ‘adequate’. This is based on our view of SINGER’s heightened operational risk during the rapid credit expansion and elevated credit risk from imprudent underwriting over the last two years. These factors have resulted in a further weakening of financial performance with a net loss of THB2.8 billion in the second quarter of 2023 (2Q23), which was substantially below our forecast. The losses were mainly caused by a sharp increase in provisions for expected credit losses and a large inventory write-down. In the first half of 2023 (1H23) SINGER reported a net loss of THB3.8 billion.

Earnings capability, as measured by earnings before tax to average risk-weighted assets (EBT/ARWA) dropped to -37% in 1H23 from 4%-5% in the past. Its earnings in 2H23 and the next one to two years are likely to recover, albeit at a slow pace, given high provisions due to uncertain economic conditions that could undermine the debt serviceability of its target customers. We project EBT/ARWA to gradually improve to the 1%-2% range in 2024-2025. This will require more effective management of asset quality and is based on our assumption of operating expenses to total income being in the range of 35%-40%.

As for asset quality, the cessation of debt relief measures in 2022 has led to slippages and hence a significant increase in stage-3 loans or non-performing loans (NPL). The NPL ratio increased to 13.8% at the end of 1Q23. Although the ratio fell marginally to 12.5% at the end of 2Q23, it remains significantly higher than the 3%-4% seen in the past. Consequently, credit cost rose to 53% in 1H23 (annualized) from a low single-digit range. With the company’s present focus on asset quality management by tightening lending policies, improving debt collection, and accelerating NPL write-offs, we expect SINGER’s asset quality to recover gradually.

Following SINGER’s aggressive sales strategy and insufficient operational control that resulted in large impairment charges in 1H23, the company intends to implement a more cautious marketing strategy and tighten its operational process and system. TRIS Rating forecast SINGER’s revenue from sales to drop by 70% in 2023 and to increase by 30% per annum in 2024-2025.

In terms of gross profit margin on product sales, we expect it to fall to the teen level this year before recovering to about 30% in 2024-2025, from over 40% in the past. The improvement should be backed by the launch of new home appliances, expansion of the sales network and an increase in cash sales through SINGER shops and online platforms.

For the credit growth outlook, SINGER is likely to pursue a more conservative growth strategy for both home appliance hire purchase (HP) and auto title loans. While the auto title loan segment could soften from the past, it should still be able to offset the large contractions that we expect for home appliance HP. We therefore project that overall outstanding loans will remain relatively flat in 2023-2025. As of 2Q23, total outstanding loans stood at about THB14 billion.

As for capital position, TRIS Rating expects capitalization to remain SINGER's key rating strength, indicated by a 'very strong' risk-adjusted capital (RAC) ratio. Its RAC ratio stood at 70% at the end of 2Q23. The solid capital should help support business expansion and absorb losses in the longer term. SINGER's financial leverage, measured by the debt to equity (D/E) ratio stood at 0.45 times as of 2Q23, well below its D/E covenant of 3 times. Based on our expectation of relatively weaker credit growth than in the past, its RAC ratio is likely to stay above 70% in 2023-2025.

Another factor that helps support the rating is SINGER's funding and liquidity position, which we assess as 'adequate'. As of September 2023, SINGER's cash, short-term investments, and unused short-term credit facilities from financial institutions remained ample at THB4 billion, compared with long-term debentures that will mature within 2024 (THB1 billion in March 2024 and THB2 billion in September 2024).

RATING OUTLOOK

The "stable" outlook reflects the company's solid capital base to absorb losses and sufficient funding and liquidity.

RATING SENSITIVITIES

The rating could be upgraded if asset quality and operating performance improve on a sustained basis. We also expect SINGER to maintain its solid capital position which should help support business expansion in the medium term. Further deterioration in its portfolio quality and further weakening of its financial profile could lead to a downward revision of the rating and/or outlook.

COMPANY OVERVIEW

SINGER was established in 1969 and listed on the Stock Exchange of Thailand (SET) in 1984. SINGER distributes products under the "SINGER" trademark. The company has a strong brand name in the electrical home appliance market, nationwide branch and sales distribution networks, and a proven track record of financing electrical home appliance purchases. The company offers instalment plans or HP contracts for the products it sells. Approximately 95% of the products are sold under the instalment sale service program.

In mid-2015, SINGER's major shareholder, SINGER (THAILAND) B.V., sold its entire 40% stake in SINGER on the SET. JMART became SINGER's new major shareholder, owning 24.99% of the outstanding shares. The license for SINGER's trademark was extended. JMART is a retailer and wholesaler of mobile phones and related products. JMART utilizes SINGER's direct sales channel to distribute its products, such as mobile phones, to SINGER's customers.

SINGER remains focused on its core business; sales of home electrical appliances, maintaining a lengthy track record in this segment. The company had also expanded its product line to include the sale of income-generating products and commercial electrical appliances, such as freezers and air-time vending machines. SINGER introduced another product to its line-up in 2017, "Rod Tum Ngern" loans, secured by vehicles through its subsidiary, SG Capital PLC (SGC).

SGC, provides financing services for SINGER's customers. SGC was listed on the stock exchange of Thailand on 13 December 2022 with SINGER remaining the company's largest shareholder with a 75% stake. SINGER has two other subsidiaries, SG Service Plus Co., Ltd. and SG Broker Co., Ltd. SG Service Plus provides maintenance services to SINGER's customers while SG Broker is an insurance agent.

In 2021, the private placement of rabbit holdings and rights offering (RO) to Jaymart PLC (JMART), and existing shareholders raised THB1.65 billion for the company. After the capitalization, JMART remained a major shareholder with 25.4% and Rabbit Holdings 23.7% of the outstanding shares of SINGER (as of 1 November 2022)

As of December 2022, the company's sales network comprised around 209 branches, approximately 3,000 salespersons and 6,000 franchisees.

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Singer Thailand PLC (SINGER)

Company Rating:	BB+
Rating Outlook:	Stable

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