

# THANACHART CAPITAL PLC

No. 110/2015

2 November 2015

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
Senior unsecured	A+
<b>Outlook:</b>	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. However, the ratings are partially offset by TCAP's weak but improving asset quality, and the current slowdowns in the auto lending segment and the Thai economy.

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 consolidated asset size as of June 2015, TCAP was ranked sixth among all 18 Thai commercial banks, with a 6.5% market share in loans and a 5.9% 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.

Due to the sluggish domestic auto sales and a weak economy, TCAP's consolidated loans dropped by 4% in 2014. As of June 2015, TCAP's loans and receivables amounted to Bt719.8 billion, contracting by 5% from the December 2014 level. However, TCAP has a plan to add more loans in other segments, especially the small and medium-sized enterprise (SME) segment, so as to mitigate the decrease in auto loans.

TCAP's risk profile is still handicapped by a high level of non-performing loans (NPLs). Some of the NPLs came to TBANK when it bought SCIB's (Siam City Bank PLC) loan portfolio. TCAP has managed its NPLs by steadily restructuring, writing-off, and selling bad loans. TCAP also grants new loans more prudently to prevent further deterioration in the quality of the portfolio. As a result, the consolidated amount of NPLs has fallen to Bt29.3 billion (4.1% of total loans) at the end of June 2015. However, the NPL formation rate may remain high as there is no recovery in sight for the Thai economy. TCAP has set aside additional provisions for loan losses so as to strengthen its cushion of reserves. As of June 2015, TCAP's loan loss reserves, as a percentage of NPLs (NPL coverage ratio), increased to 98%. Despite the increase, TCAP's ratio is still lower than the industry average. TCAP faces a continuing challenge to control its new NPLs and to add to its cushion of reserves for loan losses.

TCAP's profitability remains weak compared with its peers. In 2014, TCAP's return on average assets (ROAA) was 1.0%, lower than the industry average. Due to the unfavorable economic conditions at present, TCAP's profitability may fall if its loan portfolio shrinks and causes a decline in revenue, or if a deterioration in the quality of the loan portfolio causes its credit costs to increase.

TCAP has a sufficient capital base to support its expansion efforts over the next few years. On a fully consolidated basis as of June 2015, TCAP reported a Tier 1 capital ratio of 9.82% and a total capital ratio of 14.27%. These two ratios were above the minimum requirements set by the Bank of Thailand (BOT) of 6.00% and 8.50%, respectively.

#### 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 TCAP's loan quality will stay under control and not deteriorate significantly.

TCAP's credit profile could be negatively impacted if TCAP's profitability declines substantially as its loan portfolio shrinks and its credit costs rise. Any credit rating upside is unlikely in the near term because of the limited prospects for auto loan segment and the current slowdown in the Thai economy.

#### Thanachart Capital PLC (TCAP)

<b>Company Rating:</b>	A+
<b>Issue Ratings:</b>	
TCAP161A: Bt500 million senior unsecured debentures due 2016	A+
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+
<b>Rating Outlook:</b>	Stable

**Financial Statistics\***

Unit: Bt million

		----- Year Ended 31 December -----				
	Jan-Jun 2015	2014	2013	2012	2011	2010
Total assets	967,254	1,025,630	1,050,914	1,026,679	895,157	882,757
Investment in securities	134,012	164,735	150,075	152,456	154,184	147,615
Loans and receivables	719,840	756,444	792,190	756,403	638,084	610,602
Allowance for doubtful accounts	28,741	28,450	30,773	24,891	27,286	27,959
Deposits	660,558	696,949	715,931	693,421	435,865	532,382
Borrowings**	153,284	178,557	190,372	177,283	322,804	225,262
Shareholders' equity	105,552	104,276	95,439	85,234	75,681	71,720
Net interest income	13,803	27,465	26,493	23,295	24,315	23,029
Bad debts and doubtful accounts	5,179	7,084	11,420	2,900	2,077	1,653
Non-interest income	7,981	15,212	29,168	13,973	11,916	11,400
Operating expenses	11,460	22,599	23,303	23,383	22,246	17,630
Net income	5,499	10,436	17,004	9,838	8,772	10,302

\* Consolidated financial statements

\*\* Including interbank and money market

### Key Financial Ratios\*

Unit: %

	Jan-Jun 2015	Year Ended 31 December				
		2014	2013	2012	2011	2010
<b>Profitability</b>						
Net interest income/average assets	1.39**	2.65	2.55	2.42	2.74	3.43
Non-interest income/average assets	0.80**	1.47	2.81	1.45	1.34	1.70
Fees and service income*** /total income	15.28	15.26	13.30	13.83	12.73	12.39
Operating expenses/total income	34.93	33.16	27.98	37.08	39.60	37.97
Operating profit/average assets	0.52**	1.25	2.02	1.14	1.34	2.26
Return on average assets	0.55**	1.01	1.64	1.02	0.99	1.53
Return on average equity	5.24**	10.45	18.82	12.23	11.90	17.30
<b>Asset Quality</b>						
Non-performing loans/total loans	4.07	4.47	4.74	4.54	6.30	6.50
Non-performing assets/total assets	5.67	6.32	7.27	7.59	10.16	9.16
Bad debts and doubtful accounts/average loans	0.70**	0.91	1.47	0.42	0.33	0.37
Allowance for doubtful accounts/total loans	3.99	3.76	3.88	3.29	4.28	4.58
<b>Capitalization</b>						
Shareholders' equity/total assets	10.91	10.17	9.08	8.30	8.45	8.12
Shareholders' equity/total loans	14.66	13.78	12.05	11.27	11.86	11.75
BIS ratio	14.27	13.59	14.31	12.07	12.53	13.08
<b>Liquidity</b>						
Total loans/deposits****	108.97	108.53	110.64	108.31	97.58	90.87
Deposits****/total liabilities	76.66	75.65	74.93	74.18	79.80	82.85
Total loans/total assets	74.42	73.75	75.38	73.67	71.28	69.17

\* Consolidated financial statements

\*\* Non-annualized

\*\*\* Including net insurance premium/life insurance premium income

\*\*\*\* Including bills of exchange

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