KRUNGTHAI CAR RENT & LEASE PLC

No. 123/2017 2 October 2017

Company Rating: A-

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
15/05/08	BBB+	Stable

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Rating Rationale

TRIS Rating upgrades the company rating of Krungthai Car Rent & Lease PLC (KCAR) to "A-" from "BBB+". The rating upgrade reflects KCAR's ability to maintain a strong financial profile, even during unfavorable market conditions in the used car segment in 2014-2015. The upgrade also reflects the improvement in KCAR's market position and profitability, as well as a broader range of funding sources. In addition, the rating takes into consideration the company's experienced management team, the competitive advantage KCAR has from the vertical integration through a network of related companies, and adequate liquidity. Liquidity is supported by the stable cash flows from the portfolio of long-term leases, because customers pay rental fees monthly. However, the rating is moderated by intense competition and lingering economic uncertainty. These factors continue to weigh pressure on KCAR's profitability and expansion plans.

KCAR provides both long- and short-term automobile operating leases. Net leased assets of the company have held steadily at around Bt3,000 million for eight years since 2009. KCAR's implemented a conservative strategy to avoid price competition. In addition, other lessors expanded aggressively and have pushed KCAR down in the ranking of the 30 major companies in TRIS Rating's database. KCAR slipped from the fourth-largest by market share in 2009 to the seventh-largest in 2016. Price competition in the auto operating lease segment has been fierce, especially for large fleet contracts. KCAR's strategy is to emphasize the quality of service to retain customers and emphasize good financial performance instead of simply expanding the size of the portfolio (net leased assets).

On 18 April 2016, the Royal Decree No. 604 became law. The decree provided a temporary corporate tax deduction for expenditures incurred to add, alter, extend, or improve assets like property, plant, and equipment. The expenditures incurred between 3 November 2015 to 31 December 2016 were allowed to be deducted from taxable income. As a result, KCAR's net leased assets rose to Bt3,635 million in 2016 from Bt3,097 million in 2015, up 17% year-on-year (y-o-y) after staying flat for the past several years. In 2016, the company rented 8,226 automobiles, up substantially from 6,967 units rented in 2015.

KCAR has a competitive advantage over peers because it is vertically integrated through a network of related companies. More than half of its leased assets have been acquired through authorized car dealers owned by KCAR's founding shareholders, the Chantarasereekul family. Vertical integration benefits KCAR in several ways. For example, KCAR can get early and accurate information about special promotions offered by car manufacturers. KCAR can then acquire new cars at a lower cost. In addition to more than 800 outsourced automobile maintenance service centers nationwide, KCAR also has its own automobile maintenance service center. By having its own center, KCAR can reduce unnecessary maintenance expenses for its fleet of leased assets. After a lease contract expires, KCAR can liquidate all the leased assets through its subsidiary that is a used car trading company, Krungthai Automobile Co., Ltd. (KA). With KA's experienced management team and the certification of its used cars under the "Toyota Sure" program, KCAR is able to sell the cars at prices higher than the price obtained through channels such as traditional auction agents. KCAR has consistently recorded gains from the sales of leased assets.

KCAR has a strong financial profile. During the recent economic slowdown, some competitors faced losses. KCAR has delivered profits annually for the past 10 years, with profit ranging from Bt200-Bt400 million per year. In 2016, KCAR's net profit increased significantly to Bt331 million, from Bt203 million in 2015. The jump was due to gains on sales of assets and the tax benefit from the Royal Decree No. 604. The return on average assets (ROAA) stood at 7.8% in 2016 compared with 1.2% of industry-wide. KCAR's profitability ratios are higher than its peers. However, intense price competition still squeezes KCAR's profitability and fleet expansion plans.

KCAR funded most of its growth with new borrowings. KCAR borrowed from financial institutions, using hire- purchase and lease contracts to purchase the assets. In 2016, total borrowings peaked at Bt2,523 million, causing the ratio of debt to equity ratio to rise from 1.1 times in 2015 to 1.3 times in 2016. However, it was very low compared with peers at the industry average of 7.3 times. KCAR's current capital base is enough to fund its expansion plans in the medium term.

Some of KCAR's debts are secured borrowings under hire-purchase contracts. As a result, KCAR has less financial flexibility than its major direct competitors, which raise funds through unsecured borrowings. Moreover, KCAR's major direct competitors are affiliates of large financial institutions, which normally provide them with financial support. KCAR has recently started diversifying its funding sources. For example, it issued debentures in 2017. A wider range of funding sources gives KCAR greater financial flexibility. KCAR has some liquid assets from assets available for sale and unencumbered autos, if needed, to counter a liquidity crunch. The liquid assets could cover any short-term asset and liability mismatch, should a problem arise.

Rating Outlook

The "stable" outlook is based on TRIS Rating's expectation that KCAR will maintain its current market position and financial profile. The company is expected to retain its major customers and acquire new accounts, as well as deliver satisfactory financial performance.

The credit rating upside is limited in the near term after the recent upgrade. However, the rating could be revised upward again if KCAR can make substantial and sustainable improvements in market position and financial performance. In contrast, the rating could suffer should KCAR's market position or financial profile deteriorate significantly.

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

		------------ Fiscal Year Ended 31 December -----------			
	Jan-Jun 2017	2016	2015	2014	2013
Total assets	4,496	4,640	3,819	3,652	3,415
Short-term borrowings	895	1,279	827	843	783
Long-term borrowings	1,377	1,244	949	808	748
Shareholders' equity	1,964	1,982	1,787	1,708	1,622
Revenue***	802	1,557	1,544	1,458	1,596
Gains from sales of assets for lease	166	245	176	205	319
Operating expenses	91	173	170	170	174
Net profit	163	331	203	214	273
Funds from operations (FFO)	354 **	750	688	649	601
Return on average assets (%)	3.57 **	7.82	5.45	6.05	7.72
Return on average equity (%)	8.27 **	17.54	11.64	12.84	16.99
Operating expenses/total income (%)	10.50	10.58	10.58	11.16	10.39
Operating income before depreciation and amortization as % of sales	67.05	64.38	59.64	62.03	61.78
Pretax return on permanent capital (%)	4.69 **	9.92	9.27	10.17	12.73
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	15.22	15.79	14.31	15.22	14.22
FFO/total debt**** (%)	15.60 **	29.74	38.72	39.32	39.24
Total borrowings/capitalization (%)	53.62	56.00	49.86	49.15	48.57
Short-term borrowings/total borrowings	39.39	50.68	46.58	51.05	51.16
Debt*****/equity (times)	1.29	1.34	1.14	1.14	1.11

* *Consolidated financial statements*
** *Non-annualized*
*** *Revenue = income on car lease + income on sales of cars + gains from sales of assets for lease*
**** *Total debt = interest bearing debt*
***** *Debt = total liabilities*

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