

S 11 GROUP PLC

No. 41/2016

11 May 2016

Company Rating: BBB-
Outlook: Stable

Rating Rationale

TRIS Rating assigns the company rating of S 11 Group PLC (S11) at “BBB-”. The rating reflects the company’s capable and experienced management team, impressive financial performance despite an unfavorable economy, and strong capitalization. However, the rating is limited by the company’s geographic concentration of loan portfolio, intense industry competition, a weak domestic economy, a high level of household debt nationwide, and the fact that its target customers are highly sensitive to volatile economic conditions that may affect their ability to repay their loans. In addition, the rating takes into consideration the ongoing deterioration in loan quality and the rapid growth of its loan portfolio. These points mean the company needs time to prove it can grow steadily and maintain satisfactory financial performance.

S11 was established in 2011 with registered capital of Bt5 million. The company started offering motorcycle hire purchase loans in Bangkok and vicinity, then expanded to provincial areas in the Central and Eastern regions of the country. S11’s registered capital has continued to rise since its inception. In 2015, S11 was listed on the Stock Exchange of Thailand (SET). The initial public offering (IPO) raised paid-up capital by Bt80 million to Bt613 million. The proceeds enabled S11 to expand its loan portfolio and gain a new route to the capital market. Currently, S11’s major shareholders are S Charter Co., Ltd. (97% held by the Chiradamrong family, the co-founder of S11), holding 28.4% of the company’s shares, and foreign strategic investors, holding 38.6% of the company’s shares. Although S11 is a young company, its top management team has extensive experience in the motorcycle financing business spanning more than 20 years.

S11 has steadily expanded to provincial areas, especially in provinces in the Eastern region of Thailand. S11’s loan portfolio jumped from Bt618 million in 2011 to Bt3,715 million in 2015, a compound annual growth rate (CAGR) of 56.6%. At the end of 2015, hire purchase loans for new motorcycles comprised 98.9% of outstanding loans. The rest were hire purchase loans for used motorcycles.

The ratio of non-performing loans (or NPLs, loans more than 90 days past due) to total loans steadily increased over the past few years, a difficult time for the industry. S11’s NPL ratio rose from 7.4% at the end of June 2014, two years after the establishment, to 8.4% at the end of 2014 and 9.6% at the end of 2015. The rise developed during an economic slowdown. However, the loss on repossessed motorcycles has been steadily lower since 2013, unlike some other competitors. The steady drop has mitigated the negative effects of deteriorating asset quality on profitability.

S11’s target customers are a high credit-risk group who are more vulnerable to adverse changes in the economy. The company’s stringent credit approval policies and efficient debt collection processes are its key strategies to limit the risks related to lending to its high-risk target customers. However, due to its short track record and rapid growth, S11 needs time to demonstrate its ability to handle its sizeable loan portfolio and maintain an acceptable level of loan quality on a sustainable basis.

S11’s financial performance has been improving. Net income jumped from Bt11 million in 2011 to Bt75 million in 2012, and rose by 54.9% to Bt116 million in 2013. In 2014, profits leaped by 83.2% to Bt213 million. In 2015, profits rose again,

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soaring by 65.7% to Bt353 million. Likewise, the return on average assets (ROAA) was increased, rising from 6.1% in 2012 to 10.5% in 2015.

Steady profits over the past four years brought steady increases in shareholders' equity. After its February 2015 IPO, S11's capital base strengthened significantly. The ratio of shareholders' equity to total assets jumped from 34% at the end of 2014 to 47.2% at the end of 2015. TRIS Rating considers S11's capital base to be strong enough to support its expansion plans over the next three years. The debt to equity ratio (D/E ratio) was considered low at 1.1 times at the end of 2015. TRIS Rating also expects S11 to diversify its sources of external funding to improve its financial flexibility.

Rating Outlook

The "stable" outlook is based on the expectation that S11's capable and experienced management team will enable the company to maintain its market position and deliver stable and satisfactory financial performance, as well as maintain a strong financial position. TRIS Rating expects that S11's loan quality will not decline markedly to the point of substantially affecting its financial profile.

The rating or outlook upside hinges on S11's track record and the stability of its financial profile that features high profitability and a strong capital base. The rating or outlook could be revised downward if S11's asset quality deteriorates significantly, affecting its profitability and capital base.

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Financial Statistics

Unit: Bt million

	Year Ended 31 December				
	2015	2014	2013	2012	2011
Total assets	3,644	3,100	2,525	1,751	703
Total loans	3,715	3,128	2,479	1,665	618
Allowance for doubtful accounts	391	294	182	66	11
Short-term borrowings	1,411	1,155	952	590	88
Long-term borrowings	391	803	651	555	130
Shareholders' equity	1,720	1,054	841	560	461
Net interest income	931	749	592	332	70
Bad debts and doubtful accounts	205	210	190	103	11
Non-interest income	66	47	28	12	2
Operating expenses	352	319	282	142	46
Net income	353	213	116	75	11

Key Financial Ratios

Unit: %

	Year Ended 31 December				
	2015	2014	2013	2012	2011
Profitability					
Net-interest income/average assets	27.62	26.64	27.70	27.04	n/a
Net-interest income/total income	82.07	80.21	80.55	82.88	92.71
Operating expenses/total income	30.99	34.17	38.29	35.51	61.54
Operating profit/average assets	13.08	9.46	6.98	8.05	n/a
Return on average assets	10.47	7.57	5.44	6.12	n/a
Return on average equity	25.45	22.48	16.61	14.72	n/a
Asset Quality					
Non-performing loans/total loans	9.57	8.43	6.33	2.99	0.73
Bad debts and doubtful accounts/average loans	5.98	7.51	9.16	8.98	n/a
Allowance for doubtful accounts/total loans	10.53	9.40	7.33	3.95	1.73
Allowance for doubtful accounts/non-performing loans	110.02	111.53	115.74	132.15	236.32
Capitalization					
Shareholders' equity/total assets	47.20	34.00	33.31	31.98	65.51
Shareholders' equity/total loans	46.29	33.70	33.93	33.62	74.56
Debt to equity (time)	1.12	1.94	2.00	2.13	0.53
Liquidity					
Short-term borrowings/total liabilities	73.37	56.46	56.54	49.51	36.10
Total loans/total assets	101.97	100.89	98.17	95.10	87.87

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