

KRUNGTHAI CAR RENT & LEASE PLC

No. xx/2018
2 November 2018

CORPORATES

Company Rating: A-
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
02/10/17	A-	Stable
15/05/08	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on Krungthai Car Rent & Lease PLC (KCAR) at “A-/Stable”. The rating reflects KCAR’s sustainably strong financial performance, competitive advantage from the vertical integration, maintained market position, low leverage, and sufficient liquidity. However, the rating is constrained by intense competition in the operating lease industry that continues to put pressure on KCAR’s profitability and lease portfolio expansion.

KEY RATING CONSIDERATIONS

Strong financial performance

TRIS Rating expects that KCAR will continue to deliver strong profitability thanks to a competitive advantage achieved through its network of related companies. KCAR’s performance has been proven by delivering net profit ranging Bt200-Bt400 million during the past decade even during the slump of used car prices in 2014-2015.

For the past few years, KCAR has enjoyed tax benefits, which have partly contributed to the company’s improving profitability. The company’s return on average assets (ROAA) remained high at 7.1% in 2017 compared with the industry average of 1.1%. Its annualized ROAA slightly dropped to 5.2% in 1H2018 from 7.1% in 1H2017 and 2017 from a decrease in units of vehicles from expired contracts sold. However, the company’s ROAA in 2016 and 2017 was high due to the number of off-fleet vehicles sold that were higher than usual. We forecast KCAR’s ROAA to be in the 5.5%-6.0% range for 2018-2021, assuming the number of retired vehicles sold returns to its normalized level.

Competitive advantage from the vertical integration of related companies

TRIS Rating expects that KCAR will be able to maintain its competitive advantage from the benefits of the vertical integration of its network of related companies. By purchasing more than half of its leased assets from authorized car dealers owned by the company’s founding shareholder, the Chantaraseruekul family, KCAR continues to achieve lower cost in acquiring new cars. KCAR also has its own automobile maintenance service centers, which help reduce unnecessary maintenance expenses. In addition, the company should continue to earn gains from sales of leased assets as it liquidates on an average of 90% of its leased assets from expired contracts to retail customers via Krungthai Automobile Co., Ltd. (KA), KCAR’s used car trading subsidiary. This allows the company to sell the cars at higher prices and secure higher margins compared with selling through other channels such as traditional auctions.

Maintained market position

KCAR’s net leased assets has increased gradually during the past few years to Bt3,843 million in 2017, from Bt3,097 in 2015, despite intense competition in the operating lease industry. The company has a market share of 5.6% in 2017, ranking as the 8th largest operator in the industry according to TRIS Rating’s database. KCAR’s strategy is to emphasize more on the quality of service to retain customers and focus more on good financial performance while balancing its asset growth, asset quality, and healthy business performance.

Low leverage

TRIS Rating expects that KCAR will continue to maintain a low level of leverage with a debt to equity (D/E) ratio of 1.0-1.5 times in 2018F-2021F. KCAR has also started issuing debentures in 2017 in addition to relying on bank loans and hire-purchase contracts as its sources of funds. KCAR's total borrowings increased to Bt2,836 million in 2017 from Bt2,523 million in 2016. Despite this increase, the company's debt to equity ratio remained low and was 1.5 times in 2017. Its ratio of debt to total capitalization was 58.5% in 2017, lower than the industry average of 81.3% with total shareholders' equity of Bt2,014 million. We anticipate that KCAR's capital base will remain sufficient for its future business expansion.

Adequate liquidity

KCAR has a well-matched asset liability structure that should help guard against liquidity shortfall since it has managed the duration of its borrowings, especially from hire-purchase contracts and debentures, to match the lengths of its lease contracts, which are mostly three to four years. At the end of June 2018, the company had a short-term borrowings to total debt ratio of 19.9%, lower than the 49.0% in 2017.

KCAR also has more financial flexibility since the company started to rely less on secured borrowings under hire-purchase contracts. This prompts the company to have more uncommitted assets available to enhance its financial flexibility should liquidity shortfalls arise. The proportion of borrowings under hire-purchase contracts to total borrowings has continued to decrease and was 9% at the end of June 2018, from 56% in 2015. In addition to a liquidity source from unencumbered vehicles, KCAR also has credit facilities from various local financial institutions at the ready and access to both equity and debt capital markets as alternative sources of liquidity.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that KCAR will maintain its current market position and financial profile. We expect KCAR to continue to retain its major customers and acquire new accounts, as well as continue to deliver satisfactory financial performance.

RATING SENSITIVITIES

The rating could be revised upward if KCAR's market position improves significantly while its financial profile is maintained. On the contrary, the rating could be revised downward if the company's market position deteriorates significantly or if its financial performance or leverage worsens.

COMPANY OVERVIEW

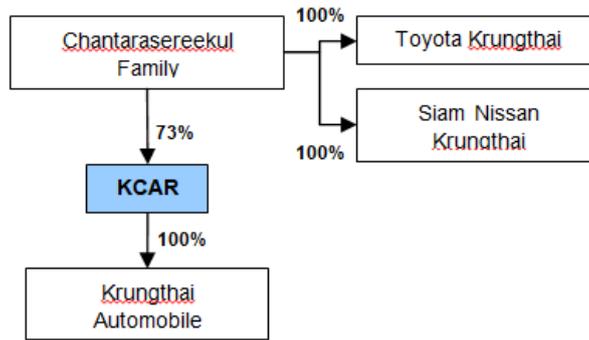
KCAR was established in 1992 by Mr. Paitoon Chantarasereekul. The company was set up to provide corporate clients with long-term automobile rentals under operating lease contracts. The company also offers short-term auto rentals to both corporate and individual clients. From a base of Bt4 million in 1992, the company's paid-up capital increased continuously as the business grew. In 2005, KCAR purchased a 95% stake in KA, a used car dealer, from the Chantarasereekul family. In 2012, KCAR acquired the remaining 5% stake in KA, which then became KCAR's wholly-owned subsidiary.

KCAR was listed on the Stock Exchange of Thailand (SET) in late 2005 and received Bt212 million from the initial public offering (IPO). After the SET listing, the Chantarasereekul family remained the major shareholder, controlling a majority stake of approximately 73.5% in KCAR as of August 2016.

KCAR provides rental services for various types of vehicles, including sedans, pick-up trucks, and vans. The company has a policy to concentrate on popular brands, especially Japanese cars, in order to reduce the risk of losses on retired assets. Preference is given to the Toyota brand, as the major shareholder owns a Toyota authorized dealership. KCAR also offers other brands, such as Honda, Isuzu, and Nissan. In addition, the company rents some European brands to meet customer demand.

KCAR offers a full range of services, such as comprehensive insurance coverage, car registration, and vehicle maintenance. KCAR provides 24-hour customer service for both normal and emergency needs through a call center. KCAR also provides replacement cars in case of accident, loss, or lengthy repair.

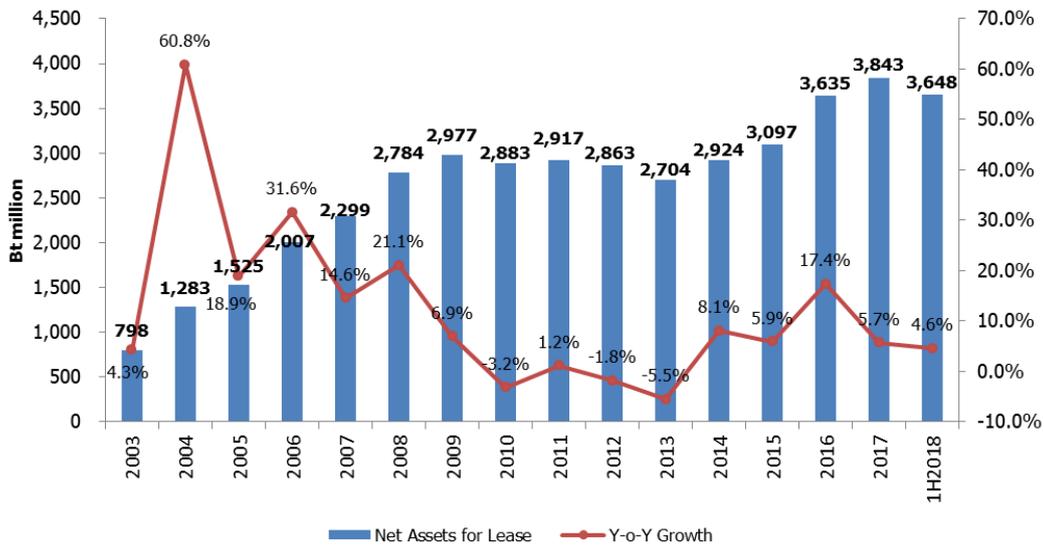
Chart 1: KCAR's Group Structure as of Jun 2018



Source: KCAR

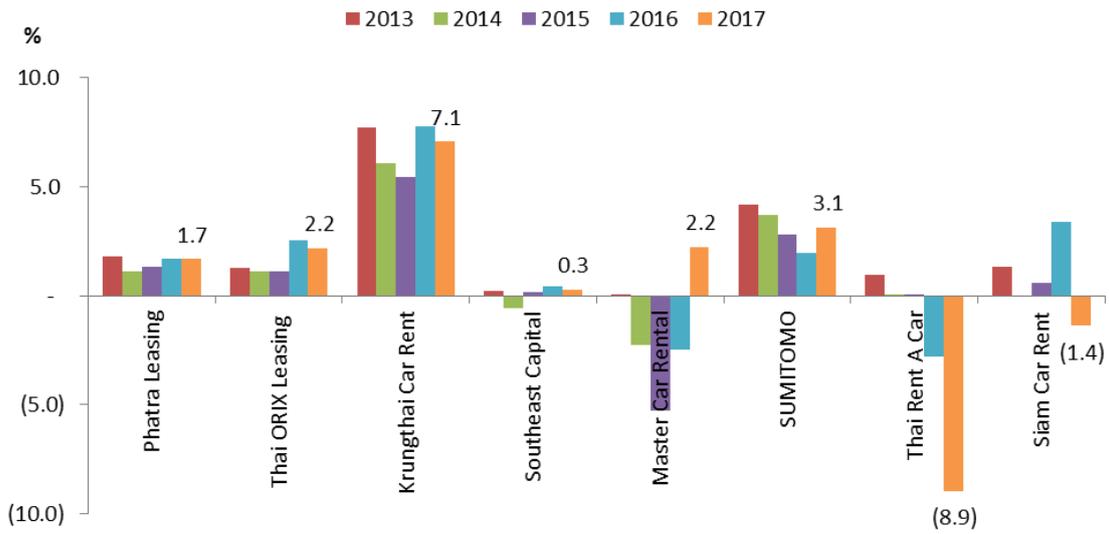
KEY OPERATING PERFORMANCE

Chart 2: KCAR's Net Assets for Lease



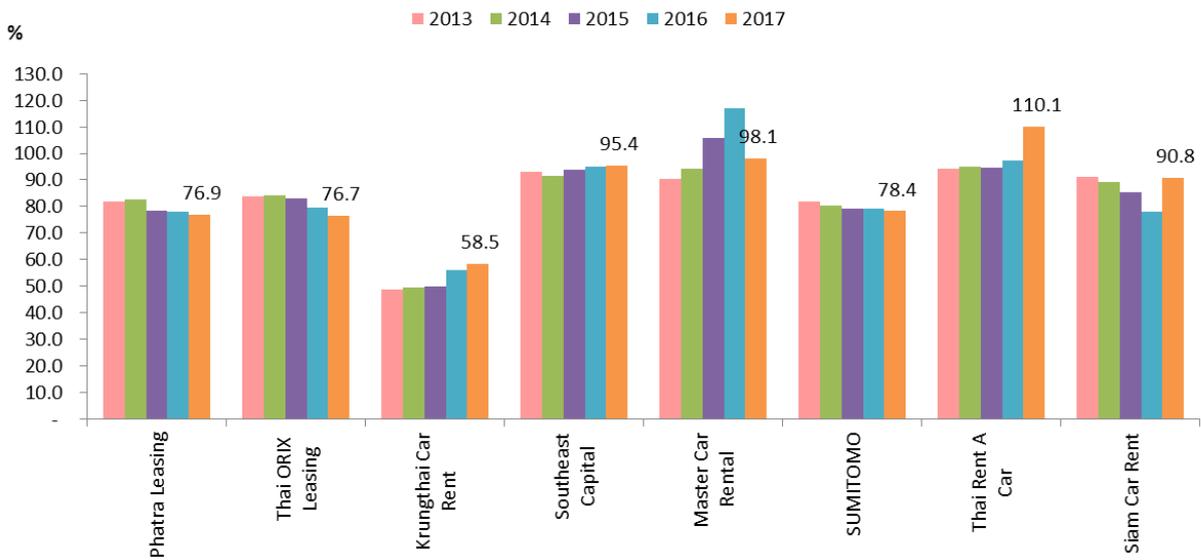
Source: KCAR

Chart 3: % ROAA



Source: TRIS Rating's database

Chart 4: % Debt to Total Capitalization



Source: TRIS Rating's database

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	4,792	4,999	4,640	3,819	3,652
Short-term borrowings	511	1,390	1,279	827	843
Long-term borrowings	2,060	1,445	1,244	949	808
Shareholders' equity	2,003	2,014	1,982	1,787	1,708
Revenue**	965	2,033	1,940	1,885	1,821
Gains (Loss) from sales of assets for lease	94	272	242	176	205
Operating expenses	102	175	170	170	170
Net income	126	340	331	203	214
Funds from operations (FFO)	459	976	964	854	878
Return on average assets (%)	5.2 ***	7.1	7.8	5.4	6.0
Return on average equity (%)	12.6 ***	17.0	17.5	11.6	12.8
Operating expenses/total income (%)	10.3	8.4	8.5	8.7	9.0
Operating income before depreciation and amortization as % of sales (%)	50.3	51.2	51.7	48.8	49.7
Pretax return on permanent capital (%)	6.2 ***	8.3	9.9	9.3	10.2
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	12.4	14.4	15.8	14.3	15.2
FFO/total debt**** (%)	35.7 ***	34.4	38.2	48.1	53.2
Total borrowings/capitalization (%)	56.2	58.5	56.0	49.9	49.1
Short-term borrowings/total borrowings (%)	19.9	49.0	50.7	46.6	51.1
Debt*****/equity (times)	1.4	1.5	1.3	1.1	1.1

* Consolidated financial statements

** Revenue = income on car lease + income on sales of cars + income on sales of assets for lease

*** Annualized

**** Total debt = interest bearing debt

***** Debt = total liabilities

Krungthai Car Rent & Lease PLC (KCAR)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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