

BANGKOK COMMERCIAL ASSET MANAGEMENT PLC

No. 35/2024
22 March 2024

FINANCIAL INSTITUTIONS

| | |
|------------------|--------|
| Company Rating: | A- |
| Issue Ratings: | |
| Senior unsecured | A- |
| Outlook: | Stable |

Last Review Date: 24/08/23

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 17/02/20 | A- | Stable |

Contacts:

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Pawin Thachasongtham
pawin@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Bangkok Commercial Asset Management PLC (BAM) and the ratings on BAM's outstanding senior unsecured debentures at "A-" with a "stable" outlook. At the same time, TRIS Rating assigns a rating of "A-" to BAM's proposed issue of up to THB3 billion senior unsecured debentures with over-allotment option of up to THB3 billion maturing within 10 years. The proceeds will be used for debt repayment, funding its operation, and business expansion.

The ratings reflect the company's long experience and dominant market position as the top ranked distressed asset management company (AMC). The ratings also take into consideration BAM's moderate financial leverage and diversified funding sources.

BAM's ratings are partly constrained by several risk factors. Apart from macro risk and uncertain cashflow, other key risks are related to the company's real estate exposure including asset pricing risk and concentration risk. These risks could have a significant impact on the company's financial performance if not well managed. However, BAM's expertise in asset pricing, selective investment strategy, and diversification in terms of types and locations of assets help mitigate these risks to some extent, in our view.

KEY RATING CONSIDERATIONS

Earnings pressure in 2024 alleviated by economic recovery

In 2023, BAM's financial performance fell below our forecast as it faced significant challenges amid a tough economic environment. Debtors have been burdened by financial strain, exacerbated by a weak economy, rising interest rates, and escalating living costs. These factors collectively hindered debt serviceability and diminished the purchasing power of buyers of non-performing assets (NPAs). As a result, cash collections and earnings significantly declined. BAM reported net profit of THB1.5 billion in 2023, declining 44% year-on-year (y-o-y). The return on average assets (ROAA) dropped to 1.14% in 2023 from 2.11% in 2022.

Looking ahead to 2024, TRIS Rating anticipates moderate improvement in BAM's financial performance, driven by economic recovery and a down trend in the interest rate cycle. While cash collections could improve, earnings may be pressured by elevated funding costs due to the refinancing of expiring debts at a higher rate. We project the company's net profit to be in the range of THB2.5 -THB3 billion in 2024-2026.

Expected recovery in cash collection

BAM's revenues consist mainly of cash collections from two sources: non-performing loan (NPL) management and NPA (or foreclosed properties) management.

In 2023, cash collections from the NPL management business declined 16.4% y-o-y. The primary reason was weaker debt serviceability of debtors caused by rising household debt, sluggish economy, and the rising interest rate. At the same time, cash collection from the Legal Execution Department also fell from 2022.

Cash collections from the NPA management business totaled THB6.7 billion in 2023. These include mainly collection from outright sales and installment receivables of properties for sales. The collections from NPA were relatively

flat compared to 2022 and below our forecast. The weak economy and rising interest rates in 2023 prompted financial institutions to adopt stringent underwriting standards, thereby limiting the sale of NPAs to some extent.

Over the next few years, we foresee an improvement in cash collection. This is to be driven by the strategies to actively promote NPA sales and focus on personalized debt restructuring contracts for debtors. BAM will also focus more on upfront settlements to expedite the NPL cash collection and NPA acquisition in 2024. Moreover, we expect the company's performance in 2025-2026 to gradually benefit from an anticipated improvement in the economic environment over time. However, note that if the recovery is prolonged it could potentially have adverse implications for the ratings.

Strong market position

TRIS Rating assesses BAM's business position as strong, supported by its ranking as Thailand's largest distressed AMC commanding approximately 49% of the market by asset in 2023. BAM's total assets increased by 3.4%, reaching THB137.3 billion at the end of 2023. Its gross managed assets included NPLs with outstanding principal balance of THB86.6 billion, NPAs of THB43.4 billion, and installment sale receivables of THB2.2 billion.

The company's strong market position is underpinned by experience of over 20 years in distressed asset management. The knowhow and database coupled with the established network with financial institutions play a key role in effective strategies for asset selection and pricing. Furthermore, longstanding relationships with legal execution departments further bolster its competitive edge. These key strengths have cemented the company's leading position in the industry.

Current financial leverage still supports ratings

BAM's financial leverage measured by debt to equity (D/E) ratio rose to 2.15 times at the end of 2023 from 2.04 at the end of 2022. The increase was driven by the higher-than-average NPL acquisitions in 2023, with total cost of THB14.4 billion, 73.4% higher y-o-y due, compared to THB10 billion or less in the past. The increase in acquisition was driven by a surge in NPL supply from banking institutions. BAM secured nearly half of the auctioned NPLs in 2023, benefiting from attractive pricing, which is evidenced by the ratio of collateral appraisal value to investment balance of 43% compared to 52% in 2021-2022.

While NPL supply is likely to remain high in 2024 primarily due to the potential slippages of special mention loans (stage-2 loans) and loans under TDR programs, the company plans to be more selective in acquisitions. With our base-case assumptions of THB10 billion of NPL acquisition and THB17 billion to THB19 billion of cash collection per year in 2024-2026, we estimate BAM's D/E to be at a similar level as in 2023. A higher level of NPL acquisition than our base-case scenario could result in D/E ratio trending upward. A D/E ratio higher than 2.75 times could pressure the rating.

Diversified funding sources with financial flexibility

BAM's funding profile is assessed as adequate, underpinned by credit facilities from diverse financial institutions. Part of the credit lines are from commercial banks that offload NPLs to BAM. In our view, this is a mutual benefit to both parties. The company also has access to capital markets given its status as a listed company and a frequent bond issuer.

At the end of 2023, BAM's total borrowings amounted to THB90.5 billion, 74% of which were long-term. This included THB8.6 billion in long-term credit lines from financial institutions, THB8.5 billion in short term borrowings from financial institutions, and THB73.5 billion in long-term debentures.

The company's debenture repayment obligations, although sizeable, are considered manageable as the maturity dates are spread out over several years. The company has THB11.8 billion debentures maturing in 2024, which will likely be refinanced by new issues. As of December 2023, BAM had total credit lines of THB34.7 billion from financial institutions with outstanding debts amounting to THB15.5 billion. Of this, THB8.9 billion remains unused and can be utilized to support liquidity needs.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for BAM's operations in 2024-2026 are:

- New NPL investments of THB10 billion per year.
- D/E ratio to remain around 2.2 times.
- Total cash collection of THB17-THB19 billion per year.
- Funding cost of around 3.5%.
- Operating expense to total income (excluding accrued interest income) ratio of around 32%.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that BAM will recover its cash collection in 2024, maintaining its strong financial performance and moderate financial leverage.

RATING SENSITIVITIES

The ratings and/or outlook could be revised upward if BAM's financial performance improves steadily, with the D/E ratio falling below 1.5 times for a sustained period.

The ratings and/or outlook could be revised downward if BAM's leverage increases significantly due to aggressive expansion, with the D/E ratio rising above 2.75 times for a sustained period or a prolonged deterioration in financial performance with ROAA falling below 1.5% on a sustained basis.

COMPANY OVERVIEW

On 7 January 1999, BAM was founded under the Financial Institutional Development Plan of the Ministry of Finance (MOF) to acquire and manage NPAs from Bangkok Bank of Commerce PLC (BBC). In 2002, BAM was approved by the Bank of Thailand (BOT) to register as a limited company and expanded its scope to manage NPAs of other financial institutions under the Financial Institution Asset Management Decree (2001).

In 2005 under a Cabinet resolution, BAM merged with Financial Institution Asset Management Corporation (AMC). As a result, BAM received the transfer of AMC's distressed assets portfolio including NPLs and NPAs as well as the personnel of AMC. The combined resources enhanced the scale and efficiency of BAM's business in terms of customer reach, with 25 branches and over 1,200 staff.

In 2012, BAM was privatized under strategic initiative of the Financial Institutions Development Fund (FIDF) approved by the MOF. The privatization was completed in late 2019 with a reduction of the FIDF shareholding to 46% from 100%.

BAM's core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, transferred from NPLs or acquired from financial institutions. BAM's business is counter-cyclical in nature, acquiring large amounts of distressed assets during economic downturns and turning those assets into high-margin income during economic upcycles. The business is capital intensive due to long breakeven periods of around 5-10 years.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

| | -----Year Ended 31 December ----- | | | | |
|---|-----------------------------------|---------|---------|---------|---------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Total assets | 137,315 | 132,804 | 125,904 | 132,070 | 119,919 |
| Total managed assets | 113,648 | 105,313 | 103,905 | 106,532 | 101,923 |
| Loan purchased – net | 77,959 | 72,384 | 73,406 | 77,726 | 77,375 |
| Properties foreclosed – net | 34,947 | 32,026 | 29,666 | 28,078 | 23,899 |
| Total borrowings | 90,518 | 85,552 | 80,154 | 87,421 | 75,688 |
| Short-term borrowings | 23,687 | 17,059 | 17,539 | 22,537 | 20,245 |
| Long-term borrowings | 66,831 | 68,493 | 62,615 | 64,884 | 55,443 |
| Shareholder's equity | 43,629 | 43,708 | 42,765 | 41,797 | 41,196 |
| Total revenue | 12,004 | 12,781 | 13,306 | 12,427 | 12,236 |
| Interest expenses | 2,908 | 2,637 | 2,559 | 2,391 | 2,132 |
| Operating expenses | 3,028 | 2,888 | 2,727 | 2,641 | 3,757 |
| Earnings before interest and taxes (EBIT) | 4,751 | 5,844 | 5,814 | 4,586 | 8,344 |
| Net income | 1,534 | 2,725 | 2,600 | 1,840 | 10,679 |

Unit: %

| | ----- Year Ended 31 December ----- | | | | |
|---|------------------------------------|--------|--------|-------|-------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| Profitability | | | | | |
| Operating income/average assets | 6.73 | 7.84 | 8.33 | 7.97 | 8.88 |
| Operating income/total income | 75.78 | 79.37 | 80.77 | 80.76 | 82.57 |
| Operating profit/average assets | 4.49 | 5.61 | 6.22 | 5.87 | 5.58 |
| Earnings before taxes/ average assets | 1.36 | 2.48 | 2.52 | 1.74 | 5.46 |
| Return on average assets | 1.14 | 2.11 | 2.02 | 1.46 | 9.39 |
| Return on average equity | 3.51 | 6.30 | 6.15 | 4.43 | 25.72 |
| Capitalization | | | | | |
| Debt/equity (times) | 2.15 | 2.04 | 1.94 | 2.16 | 1.91 |
| Shareholders' equity/total managed assets | 38.4 | 41.5 | 41.1 | 39.2 | 40.4 |
| Funding and Liquidity | | | | | |
| Stable funding ratio | 96.19 | 105.40 | 100.29 | 99.03 | 93.67 |
| Liquidity coverage measure (times) | 0.09 | 0.42 | 0.22 | 0.36 | 0.07 |
| Short-term borrowings/total liabilities | 25.28 | 19.15 | 21.09 | 24.97 | 25.72 |
| Total managed assets/total assets | 82.76 | 79.30 | 82.53 | 80.66 | 84.99 |
| Operating efficiency | | | | | |
| Operating expenses/operating income | 33.29 | 28.47 | 25.37 | 26.32 | 37.19 |
| Non-performing loan (NPL) cash collection to net NPL | 11.24 | 13.87 | 11.54 | 10.83 | 18.40 |
| Non-performing asset (NPA) cash collection to net NPA | 19.74 | 21.81 | 24.83 | 17.82 | 24.75 |

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Nonbank Financial Institution Methodology, 17 February 2020

Bangkok Commercial Asset Management PLC (BAM)

| | |
|---|--------|
| Company Rating: | A- |
| Issue Ratings: | |
| BAM244A: THB1,000 million senior unsecured debentures due 2024 | A- |
| BAM244B: THB3,750 million senior unsecured debentures due 2024 | A- |
| BAM245A: THB650 million senior unsecured debentures due 2024 | A- |
| BAM246A: THB1,400 million senior unsecured debentures due 2024 | A- |
| BAM247A: THB4,500 million senior unsecured debentures due 2024 | A- |
| BAM24DA: THB500 million senior unsecured debentures due 2024 | A- |
| BAM251A: THB1,845 million senior unsecured debentures due 2025 | A- |
| BAM256A: THB370 million senior unsecured debentures due 2025 | A- |
| BAM259A: THB3,200 million senior unsecured debentures due 2025 | A- |
| BAM25OA: THB1,334 million senior unsecured debentures due 2025 | A- |
| BAM25NA: THB5,370 million senior unsecured debentures due 2025 | A- |
| BAM25NB: THB1,000 million senior unsecured debentures due 2025 | A- |
| BAM264A: THB6,000 million senior unsecured debentures due 2026 | A- |
| BAM265A: THB3,200 million senior unsecured debentures due 2026 | A- |
| BAM267A: THB405 million senior unsecured debentures due 2026 | A- |
| BAM26OA: THB209 million senior unsecured debentures due 2026 | A- |
| BAM26DA: THB1,300 million senior unsecured debentures due 2026 | A- |
| BAM274A: THB2,545 million senior unsecured debentures due 2027 | A- |
| BAM276A: THB1,500 million senior unsecured debentures due 2027 | A- |
| BAM279A: THB5,000 million senior unsecured debentures due 2027 | A- |
| BAM27NA: THB850 million senior unsecured debentures due 2027 | A- |
| BAM284A: THB1,300 million senior unsecured debentures due 2028 | A- |
| BAM285A: THB350 million senior unsecured debentures due 2028 | A- |
| BAM286A: THB2,400 million senior unsecured debentures due 2028 | A- |
| BAM28OA: THB903 million senior unsecured debentures due 2028 | A- |
| BAM28DA: THB1,200 million senior unsecured debentures due 2028 | A- |
| BAM294A: THB1,065 million senior unsecured debentures due 2029 | A- |
| BAM297A: THB5,000 million senior unsecured debentures due 2029 | A- |
| BAM304A: THB700 million senior unsecured debentures due 2030 | A- |
| BAM305A: THB300 million senior unsecured debentures due 2030 | A- |
| BAM307A: THB1,050 million senior unsecured debentures due 2030 | A- |
| BAM300A: THB670 million senior unsecured debentures due 2030 | A- |
| BAM30NA: THB580 million senior unsecured debentures due 2030 | A- |
| BAM30NB: THB2,000 million senior unsecured debentures due 2030 | A- |
| BAM317A: THB3,500 million senior unsecured debentures due 2031 | A- |
| BAM324A: THB2,140 million senior unsecured debentures due 2032 | A- |
| BAM335A: THB1,700 million senior unsecured debentures due 2033 | A- |
| BAM33OA: THB1,734 million senior unsecured debentures due 2033 | A- |
| BAM347A: THB1,000 million senior unsecured debentures due 2034 | A- |
| Up to THB3,000 million senior unsecured debentures with over-allotment option of up to THB3,000 million due within 10 years | A- |
| Rating Outlook: | Stable |

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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