Aeon Thana Sinsap (Thailand) Public Company Limited

Full Rating Report

Ratings

National	
Long-Term Rating	BBB+(tha)
Short-Term Rating	F2(tha)
Sovereign Risk	
Long-Term Foreign Currency IDR	BBB+
Long-Term Local Currency IDR	A-

Outlooks

National Long-Term Rating	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Aeon Thana Sinsap (Thailand) Public Company Limited

(Consolidated)	20 Feb 13	20 Feb 12
Total assets (THBbn)	51.0	44.0
Total equity (THBbn)	7.3	6.1
Net income (THBbn)	1.8	0.2
ROA (%)	3.7	0.6
ROE (%)	26.2	3.9
Equity/asset (%)	14.2	13.9

Key Rating Drivers

Stronger Metrics; Proven Resilience: Fitch Ratings has revised the Outlook on Aeon Thana Sinsap (Thailand) Public Company Limited's (AEONTS) National Long-Term Rating to Positive from Stable. This reflects the agency's view that AEONTS may improve its profitability and capital ratios over the medium term. Fitch also believes AEONTS' growth plans are supported by its satisfactory record, having kept delinquency rates manageable and capital ratios adequate during several stressed situations.

Continued Improvement in Performance: Fitch expects further improvement in net profit in the financial year ending February 2014 (FY14) due to healthy lending prospects, manageable provisioning costs, and expanding fee-based income. AEONTS' profitability in FY13 rebounded strongly year-on-year, driven by loan growth and lower provisioning. It set aside THB1.3bn in extra provisioning in FY12, as some customers were affected by major flooding in late 2011.

Likely to Achieve Strategy: AEONTS will continue to use its established market position to expand its existing consumer lending business and further move into regional areas without necessarily taking undue risks. Growth expectations are predicated on Thailand's benign economic conditions and growing market potential as the overall population's income improves. However, competition will remain intense, including from banks.

AEONTS will increase its focus on fee-based income using insurance brokerages and servicer subsidiaries it acquired in mid-2012. Company plans to expand its business into neighbouring low-income economies may pose risks, but its experience gives Fitch comfort that contributions in this area will be positive, albeit modest, in the near term.

Capital Ratios may Improve: Fitch expects improved capital ratios partly through profit retention and growth in fee-based business. The agency also believes that AEONTS' existing capital provides adequate buffer against deterioration in the operating environment. Strong profit recovery was used to support asset growth and dividend payment, leading to only a modest increase in AEONTS' equity/asset ratio to 14.2% at FYE13.

Adequate Funding and Liquidity: AEONTS' operational cash outflow is matched by internal cash generation, supported by short-term asset maturity. It tends to roll over most of its borrowings. AEONTS also raises funds via securities issuance in capital markets. Reliance on wholesale borrowing may pose risks to funding stability through cycles. However, liquidity risk has been reduced due to a committed facility from its parent and high liquid assets.

Rating Sensitivities

Improvement in Financial Profile: A sustained improvement in profitability and asset quality − or a meaningful and sustained improvement in capital ratios − could lead to an upgrade in the National Long-Term Rating. This could be achieved through the successful execution of AEONTS' growth strategy without increasing risk appetite, including weathering any negative changes in the operating environment.

Weakening Credit Quality: Imprudent execution of its growth strategy or capital improvement efforts within the next 12 months may result in the revision of its Outlook to Stable. Heightened risk in future deterioration in asset quality or a weakening in capital or the liquidity profile (including a reduction in ordinary financial support sourced through its parent) could result in negative rating action.

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Profile

AEONTS' was established in Thailand in 1992. Its main businesses are retail finance services for the low- to middle-income segment (monthly income of THB15,000-20,000). Key products include personal loans (cash loans and purpose loans), credit-card loans and hire-purchase loans. Personal loans accounted for 58% of receivables at FYE13, followed by credit-card receivables (40%), and hire-purchase receivables and others (2%).

AEONTS' growth strategy is focused on untapped upcountry areas; this has led to its established position in an expanding upcountry market, where customers tend to be more loyal. AEONTS is a leading non-bank operator in the retail finance segment, with about an 8% market share in credit-card industry, and about an 11% market share in personal-loan sector. The company's competitive advantages include its extensive network, experience in servicing the low- to middle-income market, and strong origination and collection capability.

Thailand's GDP growth was almost zero in 2011 because of the impact of major flooding; however, borrowing demand came from a sound economy prior to the flooding. AEONTS also increased the credit limit for borrowers with good credit records in March 2010 and March 2011, due to an improved economy. Borrowing demand in 2012 was driven by post-flooding spending and reconstruction, a sound domestic economy, and an improvement in overall incomes, supported by a salary increase for civil servants. Personal loans have had the strongest growth among AEONTS' three key products over the past few years. This is because of less stringent criteria for applicants than credit cards, and the policy − from early 2011 − to engage in consumer-product financing under personal-loan services rather than hire-purchase loans.

AEONTS operates through a nationwide network of 100 branches, 382 ATMs, and 15,750 dealers (February 2013). It has been expanding its cash outlets for revolving personal loans since 2012 by adding the ATMs of four commercial banks and counter services of 7-Eleven stores. It has also added cash transfer services for its revolving personal loans at post offices since early 2013. It launched new co-branded platinum credit cards with Thai Airways to attract higher-income customers in 2012, and recently joined with a leading beauty clinic to launch new co-branded credit card targeting customers in that segment.

The AEON Group of Japan holds a 63.1% stake in AEONTS through its subsidiaries, AEON Financial Service Co., Ltd. (formerly AEON Credit Service), ACS Capital Corporation Limited (Thailand), and AEON Holding (Thailand) Co., Ltd. The major business of AEON Financial is to provide credit cards, hire purchase, personal loans, and other financial services. AEON Financial has an extensive network in Asia, including Hong Kong, Thailand, Malaysia, Taiwan, China and Indonesia. AEONTS forms an important part of the group's overseas operations, accounting for about 55% of AEON Financial's overseas revenue for 9MFY13. The company also acts as an investment arm of AEON Financial by expanding into neighboring countries, including Cambodia, Laos, and Myanmar.

AEON Group exercises control over AEONTS' board of directors, while the company's senior management are seconded from the parent group. AEONTS' board of directors comprises 12 members: four independent directors, four representatives from the parent group (three of whom are also executive directors), three executive directors, and one director who is also a major shareholder. There was a change in the board of directors in mid-2012, when two AEON Group directors resigned due to rotation, and two new directors from the parent group were appointed.

Related Criteria

Global Financial Institutions Rating Criteria (August 2012)

Financial and Leasing Companies Criteria (December 2012)

National Rating Criteria (January 2011)

Growth Strategy

AEONTS will continue to take advantage of its established position in the low- to middle-income segment, and in upcountry areas. The company has a target of 12%-15% lending growth in FY14, supported by its efforts to increase the spending of existing customers, acquire

new customers, and introduce more co-branded cards. The company plans to update the profiles of its customers in mid-2013 to reassess credit limits. AEONTS plans to increase credit limits of customers whose income has increased, so long as other conditions meet company requirements. AEONTS will also continue its promotional campaigns and introduce an e-commerce business model (to increase convenience and accessibility of its services and to lower operating expense) in FY14.

The expectation of a benign economy (Fitch forecasts Thai GDP to grow 5% in 2013 and 4.5% in 2014), changes in income structure due to an increased minimum wage and increasing urbanisation, reflected by the rapid expansion of department stores upcountry, should continue to be positive factors for AEONTS' lending growth in FY14 and FY15.

AEONTS is following the group's business model of increasing fee-based income. It has acquired a collection servicer, ACS Servicing, a company that provides debt collection service to AEONTS and other consumer finance operators. AEONTS also acquired a life insurance brokerage and a non-life insurance brokerage in mid-2012. It acquired these companies from ACS Capital (one of its major shareholders) with total investment costs of THB325m. The acquisitions are also intended to increase operational flexibility by sharing information, and using AEONTS' branch network and member stores to cross-sell group products. All three subsidiaries have been operating at a profit during the past three years. Their combined net profit was equivalent to 7% of AEONTS's standalone net profit in FY13. ACS Servicing may expand its business to acquire its own non-performing loan (NPL) portfolios.

AEONTS expects its operations in Cambodia to become profitable in 2013 after beginning business there in 2011. AEON Microfinance (Cambodia) operates a retail finance business, mainly consumer product hire-purchase loans, similar to AEONTS when it began operations in Thailand. AEON Group plans to open a shopping mall in Cambodia in 2014. This should further enhance retail finance activities in the country. The company expects its retail finance operations in Myanmar and Laos to receive approvals in the near future; their main activities will also be consumer product hire-purchase loans.

Performance

The company has been able to keep its net interest margin (including fee income) high at 24%-25% over the past three years. Its net income in FY13 recovered strongly from a weak result in FY12 because of higher revenues from increased lending, ability to maintain high margins, and much lower provisioning costs.

AEONTS set high provisions at 12.3% of average gross receivables in FY12 (versus 9.5% in FY11) due to major flooding in late 2011, but this was covered by its high margins. Its provisioning level declined to 7.4% in FY13 as the impact from the flooding was temporary and manageable. Its cost/income ratio increased to 47.5% in FY13 (FY11 to FY12: about 44%) due to higher marketing cost. In FY13 personal loans contributed 50% of total revenue, followed by credit card business (38%) and hire purchase and others (12%). Fitch believes that AEONTS' established market position, expertise in credit origination and strong collection capacity, and its policy to expand fee-based income, put it in a good position to benefit from growing consumer lending market.

Risk Management

Strong Origination and Collection

AEONTS's credit risk mainly comes from its major products − unsecured personal loans and credit-card loans. The company continuously improves its origination and collection system to keep delinquencies manageable; this has allowed it to weather several economic shocks in the past. Fitch considers AEONTS' origination and collection ability as satisfactory for a consumer finance company.

AEONTS' origination policies are adjusted from time to time to keep up with changing market and economic conditions. AEONTS tightens its credit-control limit during economic stresses, while it increases credit limits to customers with good payment histories during favourable economic conditions. It also occasionally restricts lending to certain groups of customers if their risk profiles increase. The company introduced a new credit scoring system in mid-2011 to better reflect customer behaviour and information from the National Credit Bureau (NCB). AEONTS uses a credit-scoring system to set credit limits for approved applicants. It plans to start an annual credit review with NCB in 2013 to improve the delinquency predictability of its credit scoring.

AEONTS has established risk-management collection operations using a large customer database. The company divides its collection staff into three categories based on their experience, with the most experienced collectors assigned to complicated accounts. It uses ACS Servicing to handle highly delinquent customers. AEONTS has a service and collection centre in each part of Thailand's four regions to maintain an upcountry presence, increase flexibility, and achieve high efficiency.

Having four centres has reduced the risk of operational disruption as workloads can be allocated among the centres. The Bangkok collection centre handles about 35% of total billings (down from more than 50% at end-2007), while the remaining billings are collected by centres in the north eastern (23%), the south (23%) and the north (19%). AEONTS intends to further lower the collection workload at its Bangkok centre and increase collection at its regional hubs as regional hubs are more cost efficient and there is less staff turnover.

Loan Book Development

AEONTS's consolidated gross receivables (including securitised portfolios) increased by 12% yoy to THB49.6bn at FYE13, mainly supported by strong growth in personal loans and credit-card loans. Its impaired loan plus write-offs ratio (defined as the aggregate of loans more than 90 days past due and write-offs divided by the aggregate of gross receivables and write-offs) was relatively stable at around 10%-11%. The company's adjusted reserve coverage ratio (with write-offs added back to both the numerator and denominator) was at 1.1x at end-FY13, which Fitch believes is sufficient.

Limited Risk on Subordinated Loan Provided to SPV

AEONTS has provided subordinated loans to special purpose vehicles (SPVs) as credit enhancements to its securitised transactions. These subordinated loans are first-loss absorption pieces under the transactions. The performance of its securitised portfolios has been satisfactory, and AEONTS has never written down its subordinated loans. AEONTS had outstanding subordinated loans provided to SPV of THB1.4bn at FYE13, which it is due to repay in 2013. The company launched a new credit-card securitisation transaction in May 2013, and it has provided subordinated loans to a new SPV in FY14. The subordinated loans are on AEONTS' balance sheet.

Funding and Liquidity

AEONTS's funding policy is to fully hedge foreign exchange and interest-rate exposure using swap agreements. It focuses on long-term funding sources, with long-term borrowings accounting for the majority of total borrowings. It also diversifies funding sources using loan facilities from local and foreign banks, capital market fund raising (issuance of debentures and ABS papers), as well as utilising guarantees from the Japan Bank for International Cooperation. Its parent provides support in the form of a THB3bn committed liquidity facility, which equalled 22% of short-term borrowings at FYE13. The company has uncommitted short-term credit lines of THB7.8bn from local and foreign banks, and high-quality liquid assets (mainly cash and cash equivalent), which should also help mitigate liquidity risk. Its liquid asset/short-term-borrowing ratio was 27% at FYE13.

Long-term borrowings accounted for 66% of total borrowings at FYE13. Its borrowing portfolio breakdown was loans from banks (86%), corporate bond issuance (7%), and ABS papers (7%). The company had THB10.2bn current-portion of long-term loans, of which 65% are expected to be rolled-over. The remaining 35% will be refinanced by a cross-border syndicated loan, of which part of the proceeds will be used to expand AEONTS' business. Additional fund raising measures for FY14 includes the launch of its fifth credit-card securitisation transaction, which raised almost THB3bn in May 2013, planned corporate bonds issuance, and possibly another securitisation transaction in early 2014.

Capitalisation

AEONTS plans to improve capital ratios and lower leverage ratios in the medium term, partly through its effort to improve profitability of existing business, and increasing focus on fee-based business (which requires less capital). Consolidated equity increased to THB7.3bn at FYE13 (FYE12: THB6.4bn) due to strong recovery in net profit. Its equity/asset ratio improved only slightly to 14.2% at FYE13 (FYE12:13.9%) because of strong asset growth and continued dividend payments.

AEONTS' dividend has a pay-out policy of not less than 30% of profit. It also takes into account dividend yields to shareholders in its dividend payment decisions. Fitch views the company's intention to improve capital ratios and lower leverage ratios positively. The agency also believes that AEONTS' existing capital ratios remain adequate to buffer against a weak operating environment. The success of capital-ratio improvement is a positive rating trigger.

Figure 1

AEON Thana Sinsap (Thailand) Public Company Limited

(THBm)	FY13 (20 Feb 13)	FY12 (20 Feb 12)	FY11 (20 Feb 11)	FY10 (20 Feb 10)
Balance sheet				
Assets				
Cash & short-term investments	3,737	2,026	1,874	1,520
Account receivables (Net)	44,016	36,671	33,827	33,593
Other current assets	104	264	805	779
Equipment	534	548	456	407
Loans to SPVs	1,438	2,031	2,232	961
Other assets	433	1,516	530	892
Total assets	51,013	43,985	40,571	39,143
Liabilities & shareholders' equity				
Loans from banks	3,401	610	630	4,846
Current portion of long-term loans	10,234	9,735	5,987	7,983
Current portion of long-term debentures	0	998	553	1,296
Other current liabilities	1,697	1,067	805	630
Long-term loans	23,256	22,572	23,611	16,194
Long-term debentures	3,087	1,664	1,595	1,535
Total liabilities	43,755	37,604	34,339	33,287
Shareholders' equity	7,258	6,125	6,233	5,856
Total liabilities and equity	51,013	43,985	40,571	39,143

Source : AEON Thana Sinsap (Thailand) Plc

Figure 2

AEON Thana Sinsap (Thailand) Public Company Limited (Con.)

(THBm)	FY13 (20 Feb 13)	FY12 (20 Feb 12)	FY11 (20 Feb 11)	FY10 (20 Feb 10)
Income statement				
Interest income	5,926	5,118	4,958	4,645
Interest expenses	1,781	1,658	1,654	1,691
Net interest income	**4,146**	**3,460**	**3,305**	**2,954**
Non-interest income	6,306	5,781	5,113	4,756
Total revenue (after interest expense)	**10,452**	**9,241**	**8,418**	**7,710**
Provision for loan losses	3,129	4,530	3,309	2,803
Non-interest expense	4,968	4,140	3,706	3,518
Total non-interest expense	**8,097**	**8,670**	**7,015**	**6,321**
Income before taxes	2,355	571	1,402	1,389
Taxes	598	332	443	405
Net income	**1,756**	**238**	**959**	**984**

Source : AEON Thana Sinsap (Thailand) Plc

Figure 3

AEON Thana Sinsap (Thailand) Public Company Limited (Con.)

	FY13 (20 Feb 13)	FY12 (20 Feb 12)	FY11 (20 Feb 11)	FY10 (20 Feb 10)
Performance measures				
Profitability (%)				
ROAA	3.7	0.6	2.4	2.5
ROAE	26.2	3.9	15.9	17.5
Net interest margin	9.9	9.4	9.5	9.0
Net interest margin (including fees)	24.9	25.1	24.2	23.4
Provision/total revenue	25.6	41.6	32.9	29.8
Operating expense/average managed receivables	15.2	9.8	9.3	9.3
Cost to income	47.5	44.8	44.0	45.6
Net profit margin	14.4	2.2	9.5	10.5
Liquidity (%)				
Liquid assets/total borrowings	9.3	5.7	5.8	4.8
Liquid assets/short-term borrowings	27.4	17.9	26.1	10.8
Leverage (%, unless stated otherwise)				
Internal capital generation	16.4	-4.6	7.4	8.5
Debt/equity (x)	5.5	5.8	5.2	5.4
Equity/receivables (net)	16.6	16.9	18.4	17.4
Equity/asset	14.2	13.9	15.4	15.0
Short-term borrowing/gross receivable	30.0	29.3	20.5	41.0
Dividend payout ratio	42.7	220.1	54.7	53.3
Asset quality (%)				
Impaired Loans/gross receivables	2.6	3.5	1.9	2.3
Impaired Loans + write offs/ gross receivables + write offs	10.5	10.9	9.7	9.5
Net Charge-offs/ Average Gross Loans	9.5	8.7	8.7	8.5
Provision/average gross receivables	7.4	12.3	9.5	8.5
Provision + write-off/average gross receivables	15.8	19.7	17.2	16.0
Reserve/Average gross receivables	3.9	6.8	3.3	2.7
Reserves for Impaired Loans + write offs/ Impaired Loans + write offs	108.6	125.1	113.9	102.9
Reserves for Impaired Loans/ Impaired Loans	137.9	184.5	178.8	113.5
Funding (%)				
Short-term borrowings/total borrowings	34.1	31.9	22.1	44.3

Source : AEON Thana Sinsap (Thailand) Plc

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