

# AEON Thana Sinsap (Thailand) Public Company Limited

## Key Rating Drivers

**Sustainable Business Profile and Performance:** The ratings of AEON Thana Sinsap (Thailand) Public Company Limited (AEONTS) reflect a well-established franchise in Thailand's consumer finance sector, a record of through-the-cycle profitability, and acceptable loan-loss provision and capital loss-absorption buffers, which have helped to cushion the credit profile against ongoing asset-quality pressure since the Covid-19 pandemic. The rating also incorporates the company's dependence on wholesale funding.

**Some Challenges in Operating Environment:** Thai consumer finance companies remain hampered by a relatively slow economic recovery from the pandemic. Household debt is likely to remain high (91% of GDP as of September 2023), which reduces growth opportunities for the sector and leads to continued regulatory focus and risks. Fitch Ratings expects business opportunities to remain constrained over the next year, which, combined with the continued cap on retail lending rates, could limit earnings upside for the sector.

**Meaningful Market Presence:** AEONTS is one of Thailand's largest non-bank affiliated consumer finance companies, with an established presence in the unsecured retail lending segment. We estimate it has a market share of 8%-9% in the credit card and personal loan segments. The company has a well-recognised brand, and Fitch believes its franchise is sustainable through the cycle despite intense competition.

AEONTS is diversifying into related areas in consumer finance, but we expect credit cards and personal loans – which accounted for around 81% of total revenue as of November 2023 – to remain the predominant business lines in the near term.

**Adequate Capital Buffer:** AEONTS's debt-to-tangible equity ratio continued to improve to 3.1x in November 2023 from 3.3x in February 2023 and 3.9x in February 2022. The improvement in leverage is underpinned by profit accumulation and slower asset growth. We believe the risk profile and business model are more susceptible to economic cycles, but it has adequate capitalisation to cushion against unexpected disruptions.

**Near-Term Pressure on Profitability:** The company continues to face some pressure on profitability, with pre-tax income/average assets falling to 3.9% in November 2023 from 5.3% in February 2023. Nonetheless, this remains commensurate with the rating, and we expect such challenges to be manageable. Net interest margins and credit costs have remained resilient despite the pressure on lending rates and funding costs. We expect profitability to recover gradually as funding costs stabilise and provisioning requirements ease.

**Impaired Loans Remain Elevated:** AEONTS's impaired-loan ratio has remained high since the start of the pandemic, reaching 6.3% in November 2023. We expect the company to lower the ratio over time, supported by a stable-to-slightly-improving economy. Further improvement may be slow due to lingering headwinds in the retail lending segment. Nevertheless, AEONTS's reserve coverage buffers (152% of impaired loans as of November 2023) provide acceptable mitigation against significant downside risks.

**Wholesale Funding Dependence:** AEONTS depends on wholesale markets for funding and refinancing. Nevertheless, Fitch views its funding sources as diversified relative to that of other non-bank institutions in the Thai market. The company has numerous banking relationships, including Japanese banks, and a record of consistent access to the local debt market.

## Ratings

### National Rating

National Long-Term Rating	A-(tha)
National Short-Term Rating	F2(tha)

### Outlook

National Long-Term Rating	Stable
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## Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2024)

National Scale Rating Criteria (December 2020)

## Related Research

Fitch Affirms AEON Thana Sinsap at 'A-(tha)'; Outlook Stable (February 2024)

APAC Emerging-Market Finance and Leasing Companies Outlook 2024 (November 2023)

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Negative rating action could arise from further material deterioration in asset-quality metrics, leading to weakened buffers against downside risks. This could be evident from debt/tangible equity exceeding 5x, loan-loss allowance coverage below 100% (November 2023: 152%), or a significant decline in earnings. Further severe asset-quality deterioration could also lead to a re-assessment of the business model and risk profile, which may result in negative rating action.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Fitch may take positive rating action if we assess the company's franchise as enabling it to sustain stronger through-the-cycle financial performance, while maintaining a consistent risk appetite, relative to similarly rated entities on the national rating scale. This could be indicated by a gradual improvement in the impaired-loan ratio to pre-pandemic levels, pre-tax profit/average assets sustained above 4%, and steady internal capital generation supporting a moderate debt/tangible equity ratio below 4x.

This is provided there are no adverse shifts in AEONTS's risk profile or other balance-sheet buffers as it expands.

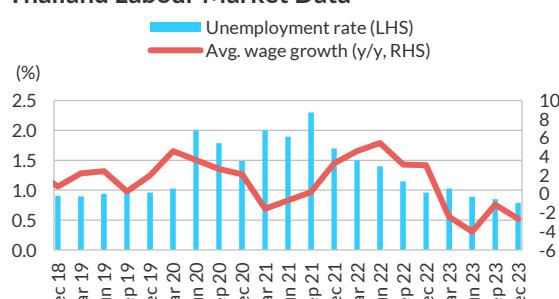
## Key Qualitative Factors

### Operating Environment

Thailand's economic activity over the last few years has remained muted, with real GDP growth of 2.5% in 2022 and 1.9% in 2023. This is also reflected in labour markets – while unemployment levels have recovered, average wage growth has remained low. This environment limits growth opportunities for financial institutions, and means that leverage levels in the private sector remain high. There are some signs of improvement in economic growth, but in the near term Fitch expects business prospects for consumer finance companies to remain constrained.

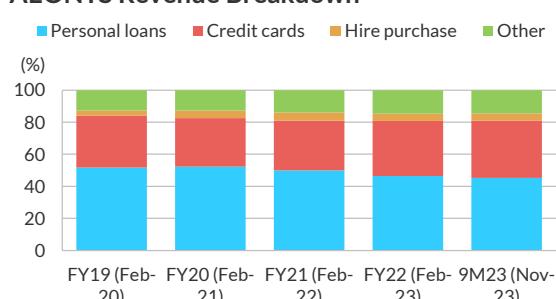
Regulators remain focused on the high household debt in the system, and on supporting vulnerable debtors. Several measures instituted during the pandemic, such as the reduced interest rate caps on retail lending, appear likely to be maintained. Over the longer term, initiatives such as the proposed introduction of virtual banks may lead to more intense competition in the retail segment. Nevertheless, these regulatory risks are incorporated into Fitch's view of the operating environment for consumer finance companies.

### Thailand Labour Market Data



Source: Fitch Ratings, National Statistics Office, Bank of Thailand

### AEONTS Revenue Breakdown



Source: Fitch Ratings, Fitch Solutions, AEONTS

### Business Profile

AEONTS has operated in Thailand's consumer finance segment since 1992, and has built up its franchise in unsecured retail lending over the course of several industry cycles. Aside from its core credit card and personal loan business, the company has diversified into the hire-purchase segment. It has also established subsidiaries focused on retail lending in Cambodia, Laos and Myanmar, with overseas revenue making up around 6% of total revenue. Nevertheless, we expect that unsecured retail lending in Thailand will remain the core business of AEONTS in the near to medium term.

## Financial Profile

The challenging environment over the past several years has affected AEONTS's financial figures, with asset quality in particular being broadly weak and the impaired-loans ratio remaining under pressure. Nevertheless, the company has been consistently profitable and loss-absorption buffers intact, and Fitch believes there is some headroom on the core metrics for earnings and capitalisation at current rating levels. AEONTS's pre-tax income/average assets has consistently been above 4% over the cycle, and the company has a record of internal capital generation that supports debt-to-tangible equity. In our base case scenario, we expect the company to retain these buffers over the medium term.

## Debt Ratings

### Debt Ratings: AEON Thana Sinsap (Thailand) Public Company Limited

Rating level	Rating	Outlook
Senior unsecured	A-(tha)	

Source: Fitch Ratings

AEONTS's senior debt is rated at the same level as the company's National Long-Term Rating, as it represents the borrower's unsubordinated and unsecured obligations.

### Debt Rating Sensitivities

AEONTS's senior debt rating would move in line with the company's National Long-Term Rating.

## Financials

### Income Statement

	30 Nov 23		28 Feb 23	28 Feb 22	28 Feb 21
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(THBm)	(THBm)	(THBm)	(THBm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Revenue</b>					
Net operating lease & rental income	n.a.	n.a.	n.a.	n.a.	n.a.
Interest income on loans	384	13,408.0	18,026.3	16,751.5	17,572.7
Other interest income	n.a.	n.a.	n.a.	n.a.	n.a.
Finance lease income	21	737.2	1,028.5	1,073.2	1,014.3
Total gross operating revenues	473	16,540.6	20,042.1	19,131.2	19,614.4
Total interest expense	46	1,612.3	1,903.8	1,744.7	2,096.3
Total net operating revenues	427	14,928.3	18,138.3	17,386.5	17,518.1
Memo: net interest income	359	12,532.9	17,151.0	16,080.0	16,490.8
<b>Expenses</b>					
Total operating expenses	178	6,214.3	8,023.7	7,595.7	8,120.0
Pre-impairment/provision operating profit	249	8,714.0	10,114.6	9,790.8	9,398.2
Impairment charges (reversals) on loans & finance leases	170	5,942.0	7,262.7	6,629.1	6,209.8
Securities and other credit impairment charges	0	4.3	n.a.	0.3	-0.2
Operating profit	79	2,767.7	2,851.8	3,161.4	3,188.6
Pre-tax income	79	2,767.7	4,950.0	4,573.8	4,647.1
Net income (incl. non-controlling interests)	63	2,217.7	3,954.1	3,573.9	3,680.0
Fitch comprehensive income	67	2,345.6	4,377.3	4,189.2	4,167.4
Adjusted EBITDA	131	4,579.1	7,371.4	7,417.5	7,866.2
<b>Income statement trailing twelve months (TTM)</b>					
Total gross operating income (TTM)	613	21,409.6	20,042.1	19,131.2	19,614.4
Depreciation of lease & rental assets (TTM)	n.a.	n.a.	n.a.	n.a.	n.a.
Net gains on loans & leased assets sold (TTM)	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expense (TTM)	61	2,135.3	1,903.8	1,744.7	2,096.3
Net interest income (TTM)	481	16,795.8	17,151.0	16,080.0	16,490.8
Impairment charges (reversals) on loans & finance leases (TTM)	226	7,906.2	7,262.7	6,629.1	6,209.8
Pre-tax income (TTM)	105	3,677.1	4,950.0	4,573.8	4,647.1
Adjusted EBITDA (TTM)	187	6,529.1	7,371.4	7,417.5	7,866.2
Exchange rate	USD1 = THB34.9445		USD1 = THB35.136	USD1 = THB32.723	USD1 = THB30.0434

Source: Fitch Ratings, Fitch Solutions, AEONTS

## Balance Sheet

	30 Nov 23		28 Feb 23	28 Feb 22	28 Feb 21
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (THBm)	Year end (THBm)	Year end (THBm)	Year end (THBm)
<b>Assets</b>					
<b>Loans and leases</b>					
Gross loans & finance leases	2,669	93,262.2	93,376.5	90,118.4	86,395.4
Less: loss allowances for loans, leases and receivables	254	8,881.6	9,625.4	10,159.0	10,720.7
Net loans and finance leases	2,415	84,380.6	83,751.1	79,959.5	75,674.7
Net operating lease & rental assets	n.a.	n.a.	n.a.	n.a.	n.a.
Total interest earning assets	2,452	85,691.2	85,636.1	80,488.6	75,681.3
Total assets	2,700	94,333.5	95,206.7	90,469.4	87,388.5
<b>Liabilities and equity</b>					
<b>Debt and deposits</b>					
Total customer deposits	n.a.	n.a.	n.a.	n.a.	n.a.
Short-term borrowings (maturing in the next 12 months)	662	23,141.3	17,766.1	30,061.0	17,374.5
Long-term borrowings (maturing after 12 months)	1,213	42,398.6	49,206.6	35,357.1	45,251.6
Subordinated Debt - LT	2	84.1	84.1	84.1	84.1
Hybrid capital accounted for as debt	n.a.	n.a.	n.a.	n.a.	n.a.
Total borrowings	1,878	65,624.0	67,056.8	65,502.2	62,710.2
Total debt and deposits	1,878	65,624.0	67,056.8	65,502.2	62,710.2
Total liabilities	2,004	70,014.0	71,858.6	70,205.4	70,008.8
Total equity excl. hybrid capital accounted for as equity	696	24,319.4	23,348.1	20,264.0	17,379.7
Total equity	696	24,319.4	23,348.1	20,264.0	17,379.7
Total liabilities and equity	2,700	94,333.5	95,206.7	90,469.4	87,388.5
Exchange rate	USD1 = THB34.9445		USD1 = THB35.136	USD1 = THB32.723	USD1 = THB30.0434

Source: Fitch Ratings, Fitch Solutions, AEONTS

## Summary Analytics

	30 Nov 23 9 months - 3rd quarter	28 Feb 23 Year end	28 Feb 22 Year end	28 Feb 21 Year end
<b>Asset quality ratios (%)</b>				
Impaired loans & finance leases/gross loans & finance leases	6.3	5.7	4.9	5.8
Growth of gross loans & finance leases YoY	-1.3	3.6	4.3	-4.1
Loss allowances/impaired loans & finance leases	151.7	180.2	229.5	212.6
Impaired loans & finance leases less loss allowances/tangible equity	-14.4	-21.3	-34.3	-41.9
Net charge-offs/avg. gross loans & finance leases	8.0	7.4	7.1	5.5
Residual value gains (losses)/book value of assets sold	n.a.	n.a.	n.a.	n.a.
<b>Earnings and profitability ratios (%)</b>				
Pre-tax income/average assets	3.9	5.3	5.2	5.2
Pre-tax income/average assets (TTM)	3.9	5.3	5.1	5.1
Adj. EBITDA/total revenue	27.7	36.8	38.8	40.1
Adj. EBITDA/total revenue (TTM)	30.5	36.8	38.8	40.1
Operating expenses/total net revenue	41.6	44.2	43.7	46.4
Pre-tax income/average equity	15.4	22.6	24.4	27.5
Impairment charges/pre-impairment op. profit	68.2	71.8	67.7	66.1
Depreciation expense/total revenue	n.a.	n.a.	n.a.	n.a.
Residual value gains (losses)/pre-tax income	n.a.	n.a.	n.a.	n.a.
<b>Capitalisation and leverage ratios (% unless stated otherwise)</b>				
(Debt + deposits)/tangible equity (X)	3.1	3.3	3.9	4.6
(Debt + deposits)/adj. EBITDA (X)	10.8	9.1	8.8	8.0
(Debt + deposits)/adj. EBITDA (X) (TTM)	10.1	9.1	8.8	8.0
Tangible equity/tangible assets	23.1	21.8	19.2	16.2
(Net income - dividends - share repurchases)/beginning equity	n.a.	13.1	13.2	12.1
<b>Funding, liquidity and coverage ratios (% unless stated otherwise)</b>				
Unsecured debt/(total debt + deposits)	98.9	98.6	99.1	98.9
Adj. EBITDA/interest expense (X)	2.8	3.9	4.3	3.8
Adj. EBITDA/interest expense (X) (TTM)	3.1	3.9	4.3	3.8
(Liquid assets + undrawn committed facilities)/Short-term funding (X)	0.4	0.6	0.3	0.6
(Liquid assets + undrawn committed facilities + Adj. EBITDA)/short-term funding (X)	0.7	1.0	0.6	1.1
(Short-term debt + deposits)/(total debt + deposits)	35.3	26.5	45.9	27.7
Unencumbered assets/unsecured debt (X)	1.4	1.4	1.4	1.4
Dividends/net income	33.3	32.9	36.0	30.6

Source: Fitch Ratings, Fitch Solutions, AEONTS

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