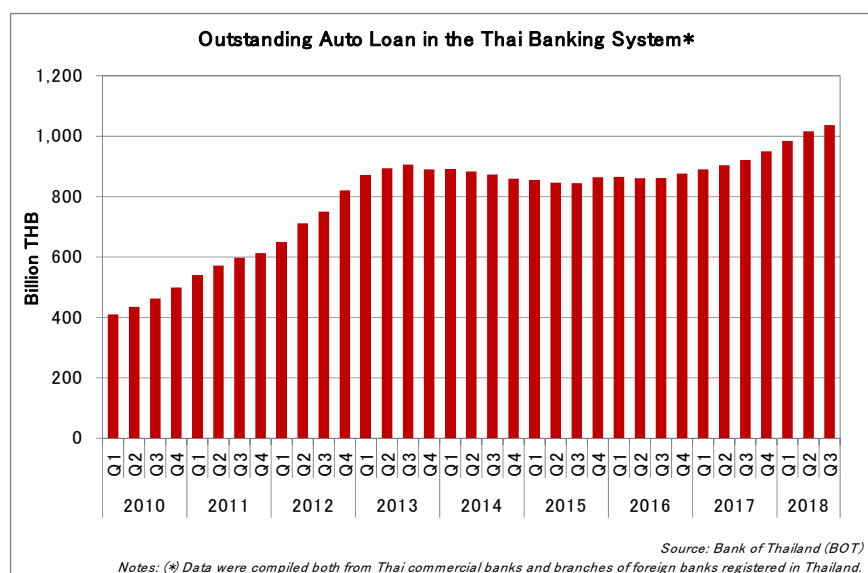


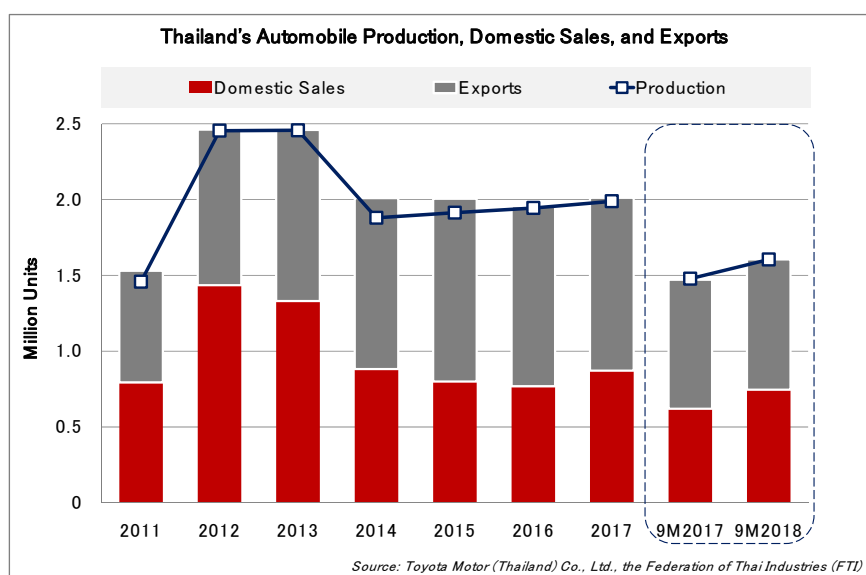
## Hire Purchase and Leasing of Automobiles in Thailand

### Overview and Performance of the Hire Purchase Market

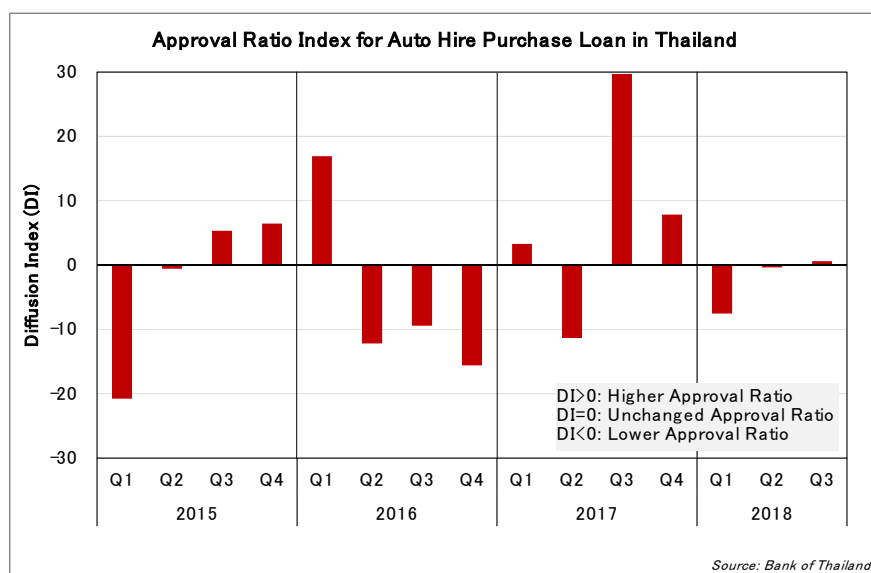
- Auto hire purchase is one of the most common ways to finance a car purchase. According to Tisco Financial Group, around 80% of new vehicle sales in Thailand was made through loans in 2017 and is anticipated to increase to 85% by the end of 2018 as car buyers take advantage of affordable interest rates.
- As of August 2018, the outstanding amount of auto loans in the Thai banking system was 1,037 billion baht, expanding year-on-year at 12.5%. This growth was driven by improved domestic car sales, which has been showing signs of rebound since the last quarter of 2016.



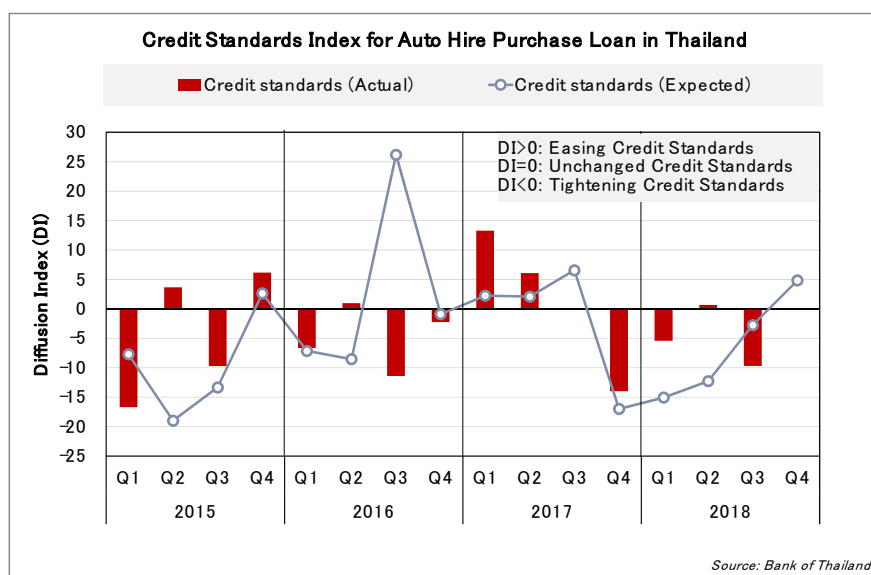
- Following consecutive years of decline, the Thai automobile industry is finally on a recovery path. Official figures from the Federation of Thai Industries (FTI) revealed that domestic demand for cars has gradually increased thanks to healthy sentiment in the country and the end of first-time car buyer scheme<sup>1</sup>, as the incentives created a temporary sales boom at the beginning, but depressed demand in the following years of the campaign.



<sup>1</sup> The first-time car buyer scheme was initiated by Yingluck Shinawatra's Government in September 2011, offering tax rebates of up to 100,000 baht to first-time buyers who bought passenger cars with an engine capacity not exceeding 1,500 cc. or pickup trucks of unlimited engine capacity but priced less than one million baht. However, one of the conditions included that buyers were not allowed to transfer their ownership of such vehicles for a period of five years.



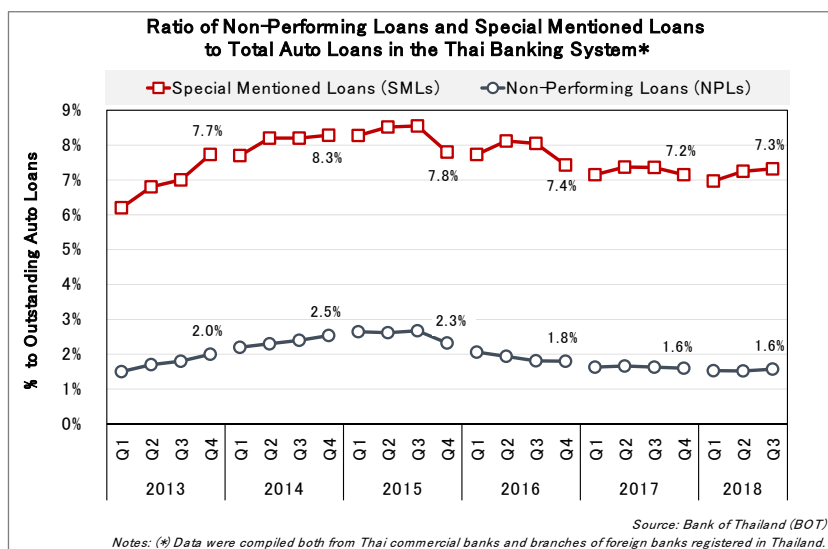
- On the supply side, based on a quarterly survey conducted by the Bank of Thailand (BOT), which reviews opinions of senior loan officers from financial institutions that are under BOT supervision, the approval ratio on auto hire purchase applications has continued to move up towards positive trends since the beginning of 2018, while credit standards were tightened during the third quarter of 2018. Concerns over the credibility of borrowers and collateral were said to be the major factors that caused financial institutions to remain conscious of their lending.



- Regarding loan quality, the percentage of Non-Performing Loans (NPLs)<sup>2</sup> and Special-Mentioned Loans (SMLs)<sup>3</sup> to total outstanding auto hire purchase loans as of August 2018 were both lower than the same period in 2017, indicating development in loan quality of the auto hire purchase sector. Nonetheless, when looking at the quarter-over-quarter growth, both NPLs and SMLs showed signs of financial vulnerability as the share of NPLs and SMLs to total outstanding auto hire loans has continued to build up since the beginning of 2018.

<sup>2</sup> Non-Performing Loans (NPLs): loan overdue at least 90 days.

<sup>3</sup> Special-Mentioned Loans (SMLs): loan overdue between 30-89 days.



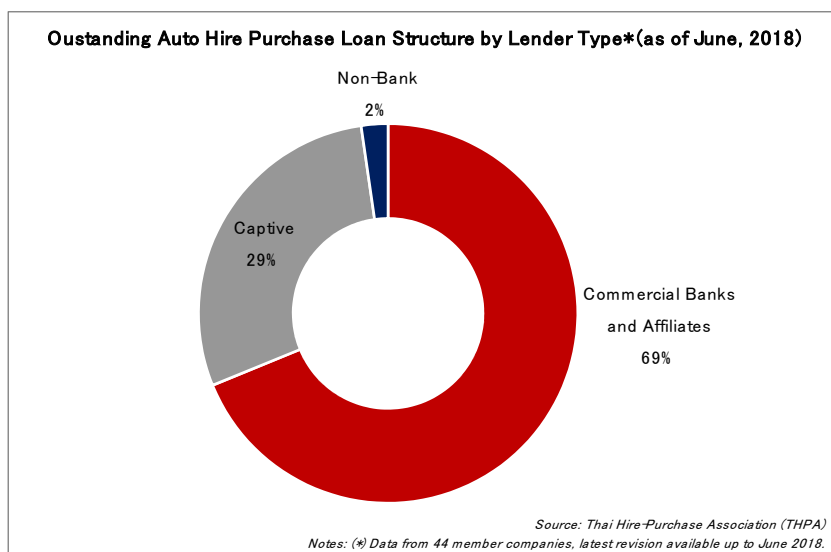
- Car makers and related associations such as the FTI forecasted an optimistic outlook for Thailand's automotive industry with a production of 2.08 million units in 2018. Domestic sales are projected to reach 960,000-980,000 units, supported by introduction of new car models together with aggressive promotional campaigns from the distributors.
- According to the BOT, credit standards are expected to be more relaxed due to high competition, however lenders will remain cautious on account of concerns on loan quality.
- Japanese automobile brands are still the most popular brands, gaining over two-third of the market share in the Thai automotive industry thanks to their affordability and quality.
- New regulations governing car and motorcycle hire-purchase contracts has been issued and became effective from 1 July 2018, applies only to private-used vehicles, not for commercial vehicles. These new regulations are said to provide more protections and rights for car buyers, but an increased burden on lenders. As a result, several financial institutions have already begun to raise their lending rates slightly to cover the expenses that lenders must bear from the new hire purchase laws.
- Some of the changes in the new regulations are a reduction of maximum interest rates imposed on overdue payments, a discount on interest rates for early debt settlement, an obligation to inform borrowers listing details of every repayment they are required to make under the contract, e.g. the instalment amount breakdown, number of installments, payment due dates, and so on, similar to what is shown in mortgage loan contracts. Flat rate interest rates are still chargeable; however, the lenders must also disclose the effective rates as reference.

### Major Players of the Hire Purchase Market







- There are a few different types of auto lenders in the market: banks, non-banks<sup>4</sup>, and captive lenders<sup>5</sup>. Based on the information provided by the Thai Hire Purchase Association (THPA), financial institutions and their affiliates make up the largest portion of outstanding auto hire purchase loans, both for new and used vehicles, at around 69% at the end of June 2018, followed by captive lenders and non-banks, respectively.
- Banks' roles in the hire purchase and leasing businesses have broadened after the BOT permitted financial institutions and their affiliates to officially conduct the businesses in 2004. Captive lenders started to play an active role in the Thai auto hire purchase market during the sluggish sales periods from the first-time car buyer scheme in 2011.

<sup>4</sup> Non-banks: Leasing companies that also provide auto loans.

<sup>5</sup> Captive lenders: Finance subsidiary set up solely to offer auto loans to buyers of a particular dealership or car company.



- Major players operating the auto loan business are listed in the table below, ranked by total assets:

Financial Institutions	Year	Total Assets (Billion Baht)	Total Loans (Billion Baht)	Auto Loans (Billion Baht)	Gross NPL Ratio (%)	Auto NPL Ratio (%)
<b>Siam Commercial Bank</b> 	2016	2,913.02	1,939.05	168.68	2.67%	1.83%
	2017	3,024.03	2,034.73	179.93	2.83%	1.82%
	9M2018	3,096.81	2,103.76	195.72	2.80%	1.71%
<b>Kasikorn Bank</b> 	2016	2,843.28	1,697.58	90.70	3.32%	1.65%
	2017	2,900.84	1,802.78	97.05	3.30%	1.52%
	9M2018	3,053.80	1,848.85	102.90	3.30%	1.35%
<b>Bank of Ayudhya</b> 	2016	1,883.19	1,448.88	292.27	2.21%	n/a
	2017	2,088.77	1,550.40	217.10	2.05%	1.50%
	9M2018	2,093.28	1,666.88	371.67	2.12%	1.70%
<b>Thanachart Bank</b> 	2016	950.51	690.91	345.49	2.29%	n/a
	2017	1,009.56	711.68	371.15	2.30%	n/a
	9M2018	1,001.98	735.96	403.12	2.42%	n/a
<b>Tisco Financial Group</b> 	2016	271.27	224.93	138.57	2.54%	2.95%
	2017	303.39	251.38	129.72	2.32%	2.56%
	9M2018	306.36	240.05	129.07	2.70%	2.64%
<b>Kiatnakin Bank</b> 	2016	233.78	176.47	113.05	5.6%	1.9%
	2017	259.34	192.92	103.93	5.0%	2.1%
	9M2018	295.88	220.14	107.80	4.2%	2.1%

Source: Company Investor Relation Materials

Captive Lenders	Total Asset (Billion Baht)
Toyota Leasing (Thailand) Co., Ltd.**	338.49
Tri Petch Isuzu Leasing Co., Ltd.**	76.72
Honda Leasing (Thailand) Co., Ltd.**	61.19
Nissan Leasing (Thailand) Co., Ltd.**	40.92
Mercedes-Benz Leasing (Thailand) Co., Ltd.*	40.77

Source: Ministry of Commerce (MOC)

Note: (\*) Fiscal year ended December 2017

(\*\*) Fiscal year ended March 2018

Non-Banks	Total Asset (Billion Baht)
Asia Sermkij Leasing Plc.*	31.57
Summit Capital Leasing Co., Ltd.**	8.41
Nim See Seng Leasing Co., Ltd.*	4.58
Krung Thai Auto Lease Co., Ltd.*	4.14
Orico Auto Leasing (Thailand) Co., Ltd.**	4.13

Source: Ministry of Commerce (MOC)

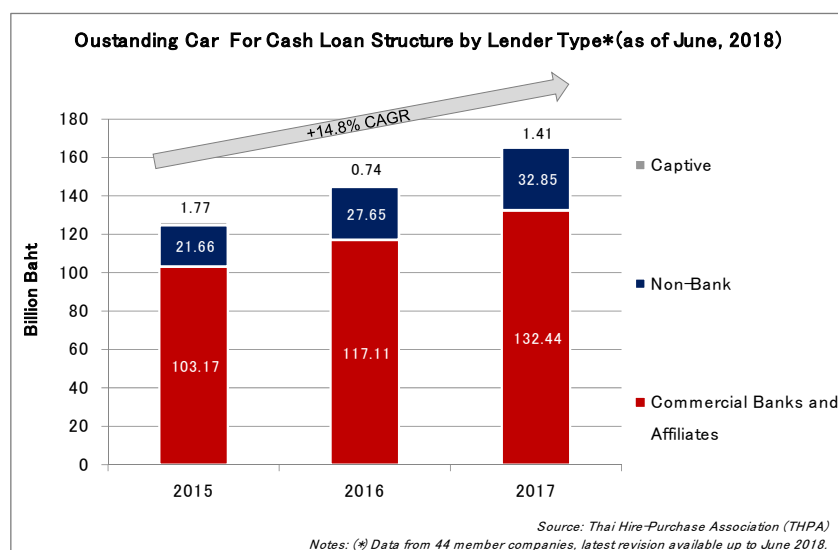
Note: (\*) Fiscal year ended December 2017

(\*\*) Fiscal year ended March 2018

- During the sluggish sales growth period, a couple of new products were introduced by lenders to maintain their income and attract new customers. Examples of these products are 'balloon loan

that allows buyers to pay lower instalments over the finance period and pay a lump sum payment, so-called balloon payment, at the end of the period. This kind of auto loan is popular to finance luxury cars. Floor plan finance is also another product that was launched over the last couple of years, allowing auto dealers to purchase high-cost inventory.

- Auto refinance or car-for-cash, another financing scheme, of which borrowers use their vehicles as collateral for loans, has gained popularity with double digit growth during the past years targeting those who cannot secure loans from banks or want a quick source of liquidity compared to other forms of credit. A regulation regarding refinance businesses has recently been enforced in November 2018 by the Bank of Thailand (BOT), which aims to create fair practices for consumers.



## Overview and Performance of the Leasing Market

- According to Synergetic Auto Performance Pcl., one of the major car rental companies in Thailand under the 'ASAP' brand, an approximate value of the Thai car rental market was 42.5 billion baht in 2017, growing steadily at the rate of 15% CAGR between 2006 and 2017, with around 180,000 cars in total. Leasing or long-term rentals accounted for 70% of the car rental market, driven by the corporate sector, while short-term rentals made up the rest of the share by individuals.

	2017		2018F	
	Market Value (Billion Baht)	Growth (%)	Market Value (Billion Baht)	Growth (%)
Long-term rentals	29.3	7%	31.2-31.8	7-9%
Short-term rentals	13.2	13%	13.8-14.1	5-7%
<b>Total</b>	<b>42.5</b>	<b>9%</b>	<b>45.0-45.9</b>	<b>6-8%</b>

Source: Kasikorn Research Center (KRC)

Note: (F) stands for 'forecast'

- While hire purchase agreements are commonly used by individuals or the household sector to finance a purchase, leasing, operating leases in particular, have been gaining momentum in the corporate sector.
- Businesses are gradually shifting from owning assets to operating leases due to several reasons including tax advantages, reduction in administrative costs, convenience, as well as a growing demand from the logistics market to serve fast growing e-commerce businesses.
- Competition in the long-term auto rental market is not as stiff as the short-term rental market since there are fewer players in the market. Newcomers have attempted to enter the market to capture growth opportunities. Based on ASAP's report, top players already dominate over half or around 70% of the total market share, while the rest of the market is still fragmented. Some of these companies were established to support and focus on internal usage, for example, Phatra Leasing Pcl., True Leasing Co., Ltd., and South East Capital Co., Ltd.
- Unlike the short-term auto rental market where pricing is one of the key factors to boost revenues, long-term auto rental or leasing companies can outperform their competitors with better fleet management and strong relationships with their customers.

- Major players of the operating lease market in Thailand includes:

	Year	Total Revenue (Million Baht)	YoY Growth (2017/2016)
Thai Orix Leasing Co., Ltd.	2016	3,621.08	6.9%
	2017	3,870.38	
Phatra Leasing Pcl.	2016	4,174.43	-7.6%
	2017	3,857.05	
South East Capital Co., Ltd.	2016	1,958.97	52.8%
	2017	2,992.51	
True Leasing	2016	2,434.16	2.3%
	2017	2,491.01	
Synergetic Auto Performance Pcl.	2016	1,459.44	46.8%
	2017	2,141.91	
Krungthai Car Rent and Lease Pcl.	2016	1,800.76	4.2%
	2017	1,877.08	
Master Car Rental Co., Ltd.	2016	1,621.42	-2.0%
	2017	1,588.64	
Siam Car Rent Co., Ltd.	2016	1,506.89	1.4%
	2017	1,527.33	
Thai Rent A Car (1978) Co., Ltd.	2016	1,349.37	-1.7%
	2017	1,326.01	
Worldclass Rent A Car Co., Ltd.	2016	1,051.61	6.2%
	2017	1,116.91	

Source: Ministry of Commerce (MOC)

- The auto leasing market is forecasted to improve with the support of the booming logistics industry for the leasing sector as well as tourism for short-term rentals, by Kasikorn Research Center (KRC), with the expected market value of leasing to reach 45-45.9 billion baht by the end of 2018.

## Conclusion and Outlook

- With the Thai auto loan sector picking up its pace in 2017 and 2018, the market is projected to continue to perform well in 2019, in line with domestic car sales, both new and used. However, growth may not be as strong as the previous year due to an anticipated interest rate hike as well as growing household debt, which may cause lenders to impose more stringent checks on borrowers.
- Meanwhile, competition among lenders is expected to remain competitive whilst digital technologies and platforms have been incorporated into the overall marketing strategy to improve customer's experience. Several players are now expanding their services to auto refinance or car registration loans to capture and increase their customer base.
- Regarding the leasing market, both short and long-term rental sectors are also expected to maintain positive outlook for 2019, supported by a rapid growth in tourism and innovative transportation services like car-sharing services for short-term rentals. The domestic corporate sector such as logistics and e-commerce will be one of the driving factors for the expansion of the long-term rental sector due to cost management and convenience that this kind of service offers to customers.
- Even though the competition in the Thai leasing market is high, the market is still considered fragmented when compared to the auto loan sector, which provides more opportunities for both existing and new players.

-----