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ALPHA CAPITAL PARTNERS GROUP PLC

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FINANCIAL INSTITUTIONS

Company Rating:	BB+
Outlook:	Stable

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RATIONALE

TRIS Rating assigns a company rating of "BB+" with a "stable" outlook to Alpha Capital Partners Group PLC (ACPG). The rating reflects the company's long-standing experience in distressed asset management, low leverage level, sound risk management, and moderate earnings capacity.

The rating, however, is constrained by the company's modest market position as well as undiversified funding sources and moderate liquidity profile. The rating also takes into consideration the company's nature of business which is subject to risks relating to pricing and disposals of real estate collaterals.

KEY RATING CONSIDERATIONS

Long-standing experience with modest market shares

ACPG's business position is currently assessed as "moderate" given a combination of modest asset size and extensive management experience. That said, the company's ability to expand its business steadily through consistent asset acquisitions and cash collections over a sustained period could be positive to its credit profile.

In terms of market position in 2022, while the company was ranked fifth among distressed asset management companies (AMCs) in Thailand, it had a modest market share of 2.2% by asset size. Its total assets stood at THB5.9 billion at the end of 2022, compared with the industry's aggregate asset of THB273 billion. Inconsistent asset acquisitions given a series of changes of ownership have largely been the reason for the company's stagnant asset growth in the past.

Nevertheless, its business position is partly supported by relatively stable cash collections even with inconsistent asset purchases. We also view positively the company's extensive experience and the expertise of its top management, who have been in the business for more than twenty years. These factors have enabled the company to maintain good relationships with commercial banks which are the main sources of distressed assets.

We also believe the company's operational systems and data management are sufficiently efficient to support future growth and mitigate the risks inherent in the distressed asset management business.

Low financial leverage

We assess ACPG's current capital and leverage position as "strong", measured by the debt to equity (D/E) ratio, despite its active growth plans. We estimate the company's five-year weighted average D/E ratio at 1.17 times, compared with 0.71 times at the end of 2022. Its interest-bearing debt to equity (IBD/E) ratio was 0.67 times at the end of 2022, substantially lower than its loan covenant requirement of less than 2.0 times.

The company plans to acquire distressed assets at a cost of about THB1.5-THB4.0 billion per year in 2023-2025. To support its growth aspiration, ACPG is filing for an initial public offering (IPO) and listing on the Stock Exchange of Thailand (SET), scheduled for late this year.

Given the asset acquisition plan, our base-case projected D/E ratio of ACPG without the IPO would still be below 2 times and continue to support our "strong" assessment of the company's capital and leverage. With the IPO proceeds assumed at THB2-THB3 billion and a dividend pay-out ratio of 40% in

2024-2025, the D/E ratio is likely to fall well below 1 times. Although this could lead to its capital and leverage being assessed at a higher level as “very strong”, a rating upgrade may not be imminent as that would also hinges on improved business stability evidenced by consistent acquisition of new assets over the next 12 months.

Moderate earnings capability with potential upside

ACPG’s earnings capability, based on return on average assets (ROAA), is assessed as “moderate”. We expect its earnings in 2023-2025 to improve gradually despite a potential rise in operating cost in line with the increased asset acquisitions. The company’s ROAA was 4.0% in 2022. We estimate the company’s ROAA to range between 4% and 5% in 2023-2025.

In 2022, ACPG’s net income increased to THB223 million from THB1million in 2021 following an improvement in the non-performing loan (NPL) and non-performing asset (NPA) businesses. Total revenues rose strongly by 53% year-on-year (y-o-y) to THB894 million. This was driven mainly by revenues from NPL management, which comprised interest income and gain from NPLs. Revenues from NPLs represented 75% of its total revenue, up 58% y-o-y. Revenues from NPA management accounted for 21% of the total, 67% higher y-o-y. We expect its cash collections to reach about THB2.5 billion in 2025, from THB1.5 billion in 2022, premised on our assumption of a cash collection to average assets ratio of 22%-25% in 2023-2025.

On the cost side, ACPG’s operating expenses to total income has been in the range of 30%-40%, relatively in line with the industry average reported by the Bank of Thailand (BOT). For ACPG, interest expenses on debt obligations, personnel expenses, and legal fees form the major part of operating expenses. Legal fees have risen substantially in recent years due to increased complexity and NPL resolution activities. We forecast its operating expenses to decline gradually to 30% in 2025 from 38% in 2022, supported by stronger revenues as the company acquires more assets.

Undiversified funding sources with moderate liquidity profile

We assess ACPG’s funding and liquidity position as “moderate”. The company only recently established lending relationships with financial institutions as, in the past, it has relied more on equity and shareholder loans as sources of fund for asset acquisitions. The company has used credit lines from fewer banks than major peers that tend to use a combination of bank borrowings, debentures, and promissory notes (P/Ns) as the primary sources of funds for their asset purchases.

The company has debt obligations of approximately THB1.7 billion maturing during the next 12 months. It has credit facilities totalling THB800 million and long-term debentures of THB1.6 billion, issued by its subsidiary, Wireless Asset Management Co., Ltd. (WAMC), that will mature in June 2023. The company plans to refinance WAMC’s debentures with new debentures to be issued by ACPG.

Meanwhile, we view that ACPG is exposed to some degree of asset-liability mismatch. As of December 2022, roughly 77% of its total debt obligations were short-term compared with an average duration of five to seven years for its assets. Note that 69% of this short-term funding is the current portion of long-term debentures. Nonetheless, we believe its liquidity remains manageable. Cash collections from NPL and NPA management and proceeds from sales of NPAs can be used for liquidity needs as well as for repayment of other debt obligations, if needed. ACPG’s IPO plan will also likely enhance its financial flexibility in the future.

Sound risk management tempered by concentration risk

We view ACPG’s risk position as “moderate”, in line with other AMCs rated by TRIS Rating. We believe ACPG has adopted a prudent risk management framework, with adequate database management and operational systems. The operating platform has been developed largely from the systems adopted by Alpha Capital Asset Management Co., Ltd. (ALPHA), an operating subsidiary of ACPG, since its inception as GE Capital’s NPL management platform in 1998. The risk management system, which has been adapted to fit with the current market environment, coupled with an extensive database and experienced staff, is expected to help mitigate the risks associated with distressed asset management. These include asset valuation, pricing, and disposal.

However, our positive view of ACPG’s risk management is tempered by its NPL portfolio concentration risk with the top-20 NPLs accounting for 54% of its total NPLs at cost at the end of 2022. Given that the two largest accounts represent 40% of the total, a significant liquidity risk could arise should liquidation of these assets takes longer than expected. Nevertheless, other than these two large accounts, the remaining NPLs are much smaller in size at not more than THB50 million each, and are relatively well diversified in terms of type and location of properties.

The concentration risk is also partially mitigated by the company’s low acquisition cost compared with the appraised value of collateral and potential appreciation of collateral value over time. Furthermore, we expect the portfolio concentration risk to gradually lessen as the company plans to focus more on acquiring smaller-sized NPLs.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for 2023-2025 are:

- New NPL investments of THB1.5-THB4.0 billion per year.
- D/E ratio to remain at about 2 times.
- Total cash collection to average assets ratio at around 24%.
- Funding cost at about 7%.
- Operating expenses to total income ratio at around 35%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that ACPG will continue to maintain its strong capital position and financial performance. We also expect the company to maintain its financial leverage at an acceptable level.

RATING SENSITIVITIES

A rating and/or outlook upgrade could occur if the company is able to demonstrate business stability by acquiring new assets in a more consistent manner and improving its funding profile, while maintaining its earnings capability and keeping its D/E ratio below 1.0 times on a sustained basis.

The rating and/or outlook could be revised downward if the company's D/E ratio increases significantly above our base case scenario of 1.5 times or its ROAA drops well below 3.50% for a prolonged period.

COMPANY OVERVIEW

Alpha Capital Partners Group Company Limited (ACPG) was established on 4 October 2021 with a registered capital of THB5 million as a holding company to combine two distressed asset management companies (DAMC), namely Alpha Capital Asset Management Company ("ALPHA") and Wireless Asset Management Company ("WAMC"). Its subsidiaries were licensed by the BOT to operate asset management business. The principal activities of the company and its subsidiaries are managing substandard assets purchased or transferred from financial institutions and other AMCs, as well as debt management and debt collection.

ACPG is one of the largest private AMCs in Thailand, with a focus on secured NPLs. ACPG's core business is distressed asset management which includes NPLs, acquired from financial institutions, and NPAs, mainly transferred from NPLs. ACPG'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 an average payback period of five to seven years.

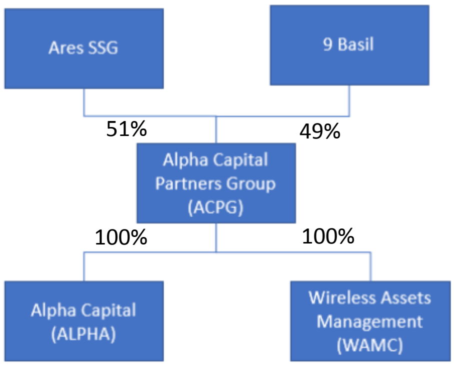
The major shareholders of the company are Pacific Investment Management (Mauritius) Ltd. (51% shareholding) and 9 Basil Pte. Ltd. (9 Basil). Pacific Investment Management (Mauritius) is 100% owned by Ares SSG Capital Management Ltd. (SSG), which is an Asia-Pacific asset management subsidiary of Ares Management Corp. (ARES), a leading global alternative investment fund.

ALPHA was reestablished in 2008 as GE Capital's new NPL platform along with the Ratanarak Group. GE Capital and Goldman Sachs Group Inc. formed a joint venture in 1998 to acquire and manage distressed assets under an entity called Bangkok Capital Alliance Co., Ltd. (BCA) and Alpha Capital AMC (previous entity of ALPHA). In 2016, SSG acquired 100% shares of ALPHA from GE Capital. In 2019, SSG formed a strategic partnership with 9 Basil which came in as a 49% shareholder.

WAMC was established in 2017 as a joint venture between Lone Star Funds and SSG Capital Holdings Ltd. In 2021, SSG and 9 Basil acquired ownership in WAMC from Lone Star Funds with SSG and 9 Basil holding 51% and 49% shares, respectively.

In the 4th quarter of 2021 (4Q2021), ACPG increased its share capital to THB1.2 billion by issuing 119.07 million shares at par value of THB10 to acquire ALPHA through a share swap. In 2Q2022, ACPG increased its share capital to THB3.1 billion by issuing 190.22 million shares at a par value of THB10 to acquire WAMC through a share swap. In 3Q2022, ACPG increased its capital to THB3.5 billion by issuing 37.29 million new shares at a par value of THB10. The group restructuring was completed in 2022 with ACPG holding 100% shares in ALPHA and WAMC.

Picture 1: ACPG's Ownerships in Subsidiaries



Source: ACPG

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Total assets	5,920	5,177	1,451	1,381	1,525
Total managed assets	4,533	4,071	879	875	1,109
Loan purchased – net	2,502	2,583	587	502	678
Properties foreclosed – net	2,030	1,488	292	373	431
Total borrowings	2,313	3,373	-	-	157
Short-term borrowings	1,593	-	-	-	157
Long-term borrowings	720	2,680	-	-	-
Shareholder's equity	3,470	1,602	1,391	1,252	1,233
Total revenue	894	583	381	557	557
Interest expenses	166	108	1	9	26
Operating expenses	337	241	152	199	169
Earnings before interest and taxes (EBIT)	442	113	138	359	426
Net income	223	1	138	246	326

Unit: %

	Year Ended 31 December				
	2022	2021	2020	2019	2018
Profitability					
Operating income/average assets	13.12	14.33	27.96	37.74	30.90
Operating income/total income	81.41	81.45	99.86	98.37	95.38
Operating profit/average assets	7.05	7.05	16.26	24.05	21.06
Earnings before taxes/average assets	4.98	0.13	9.70	24.11	23.25
Return on average assets	4.03	0.03	9.78	16.96	18.94
Return on average equity	8.81	0.07	10.48	19.84	27.59
Capitalization					
Debt/equity (times)	0.71	2.23	0.04	0.10	0.24
Shareholders' equity/total managed assets	76.56	39.34	158.22	143.03	111.18
Funding and Liquidity					
Stable funding ratio	161.32	166.16	226.06	235.19	164.38
Liquidity Coverage Measures (times)					
Short-term borrowings/total liabilities	72.69	-	-	-	53.64
Total managed assets/total assets	76.57	78.63	60.59	63.38	72.70
Operating Efficiency					
Operating expenses/operating income	46.25	50.80	41.84	36.26	31.84
Non-performing loan (NPL) cash collection to net NPL	35.45	16.28	19.43	57.80	87.27
Non-performing asset (NPA) cash collection to net NPA	30.33	22.31	73.53	138.87	121.56

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020

Alpha Capital Partners Group PLC (ACPG)

Company Rating:	BB+
Rating Outlook:	Stable

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