

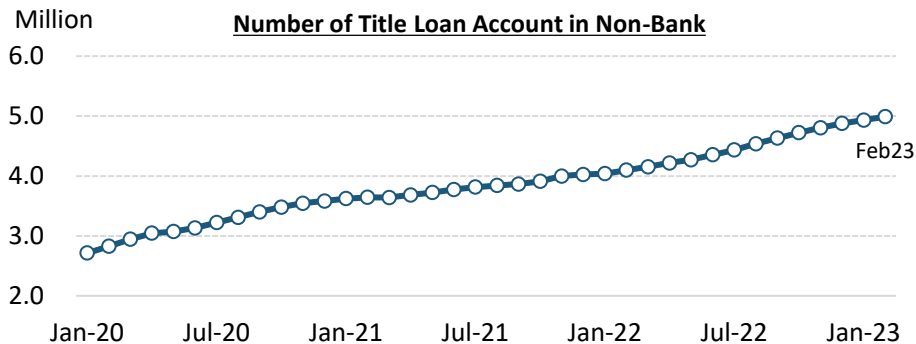
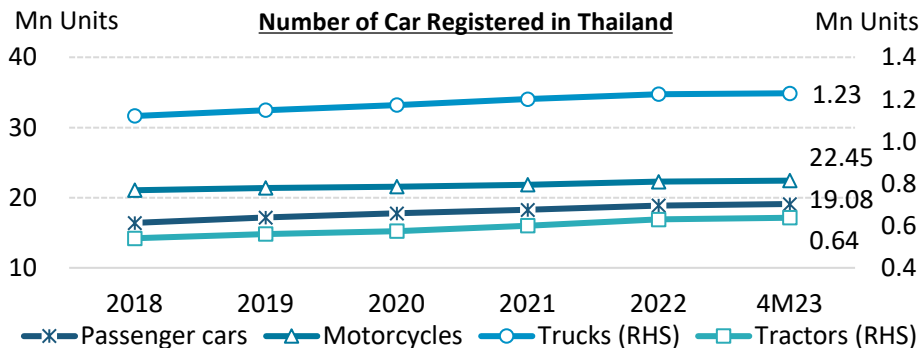
Thai Auto Loan Opportunity: Business & Outlook Update

Business Research

16 May 2023

Thai Auto Loan: Industry Outlook 2023

Thai auto loan (hire purchase loan & title loan) businesses are likely to improve going forward, supported by the recovery of domestic demand and the tourism sector. HP and Title loans tend to grow well in the situation when households still need liquidity during the start of economic recovery and high inflation.



+ Opportunity

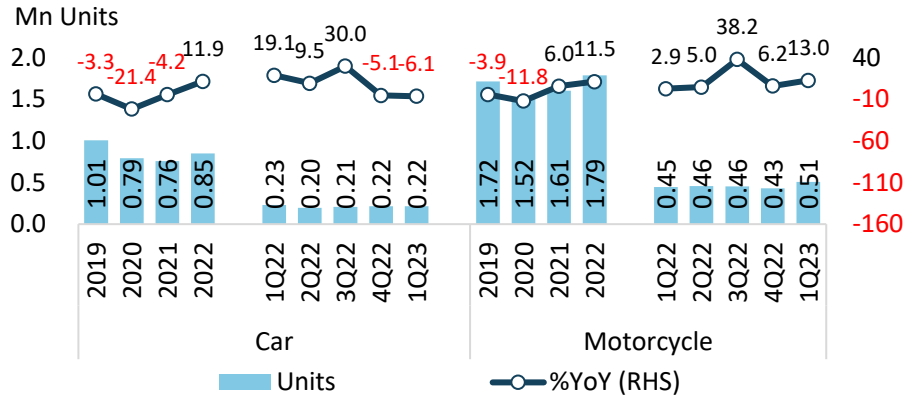
- **The continued recovery of domestic economy and the tourism sector** has boosted demand for new car sales and loan accounts.
- **Title loans are expected to grow well** due to the K-shaped economic recovery and rising cost of living, and households have increased liquidity needs, especially low-income groups.
- **The cumulative number of car and motorcycle registrations continues to grow** amid Thailand's economic recovery.

- Threat

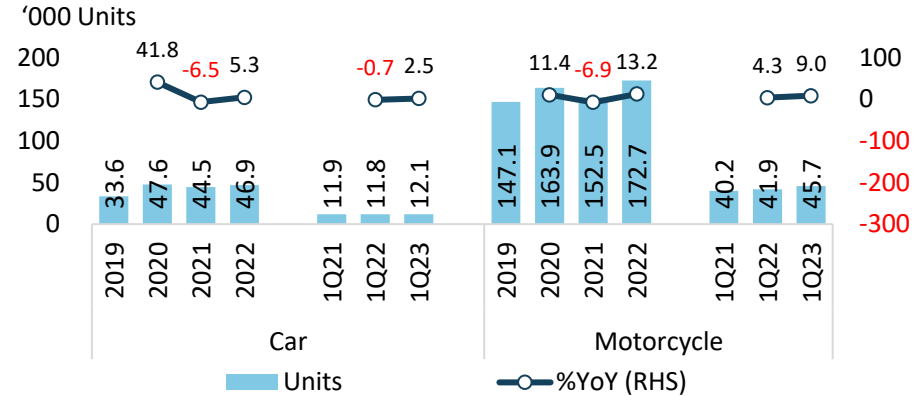
- **Lowering the interest rate ceiling hinders the expansion of new motorcycle hire-purchase loans** because lower interest rates on lending encourage the company to take less risks.
- **An increase in the cost of living, high oil prices, expected rise in interest rates and responsible lending rules** may decelerate the expansion of new car and motorcycle sales and loan growth.
- **The title loan market tends to compete more intensely from the entry of new players** and the rapid expansion of service branches of many leaders in the market.

Thai Domestic Car Market: Outlook and Situation Update

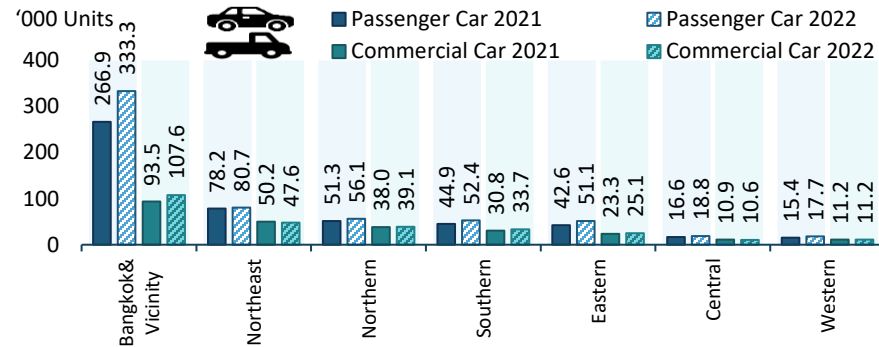
New Car and Motorcycle Sales in Thailand



Used Car and Motorcycle Registration in Thailand



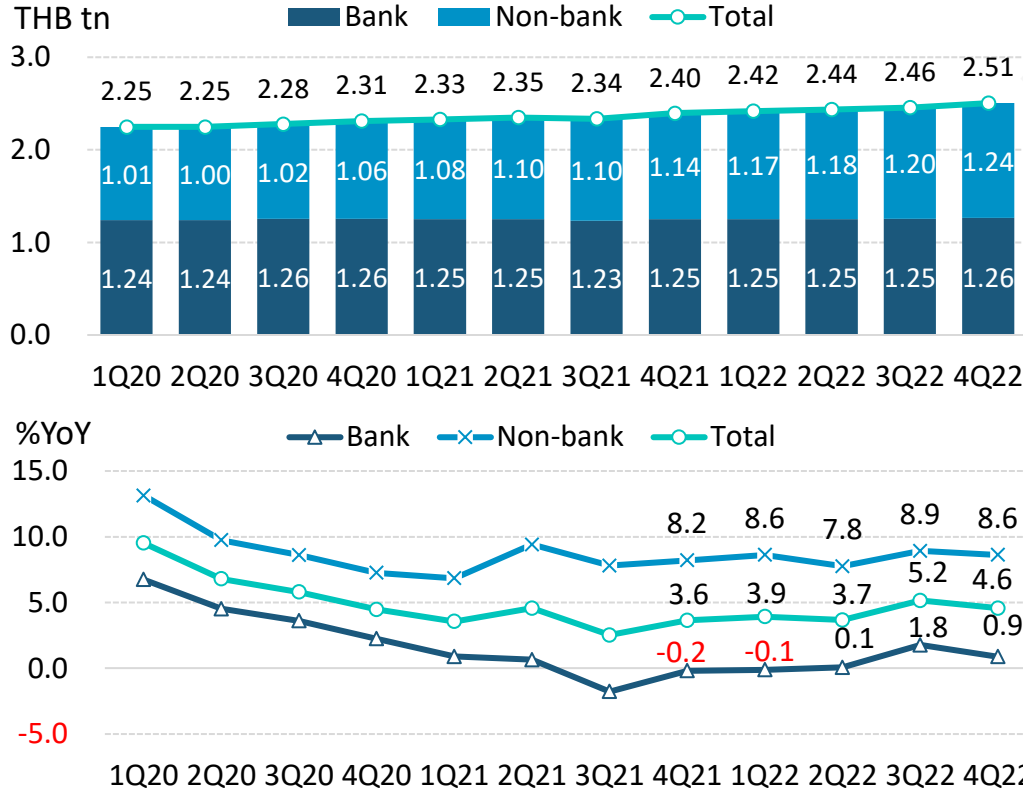
New Car Registration by Region



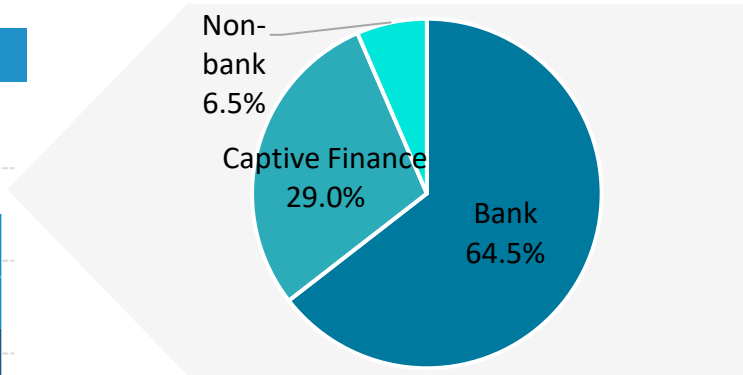
- In the first quarter of 2023, total new car sales were 217,073 units, down 6.1%YoY, due in part to the high base of last year and the acceleration of car deliveries by auto dealers in the prior period. **Going forward, we expect 2023 car sales growth at 3-5%YoY, slowing from 2022 growth of 11.9%YoY.****
- Looking at car sales by region in 2022, most sales were concentrated in the Bangkok and Vicinity region, both passenger cars and commercial cars, accounting for about 50% of the total car sales in the country.**
- As for the used car market in the first quarter of 2023, the used car market expanded in line with the new car market. However, during the economic slowdown (Covid-19 crisis 2020-2021), the used car market still grew moderately when compared with the new car market that experienced massive slowdown.**

Overview of Thai Auto Loan Market

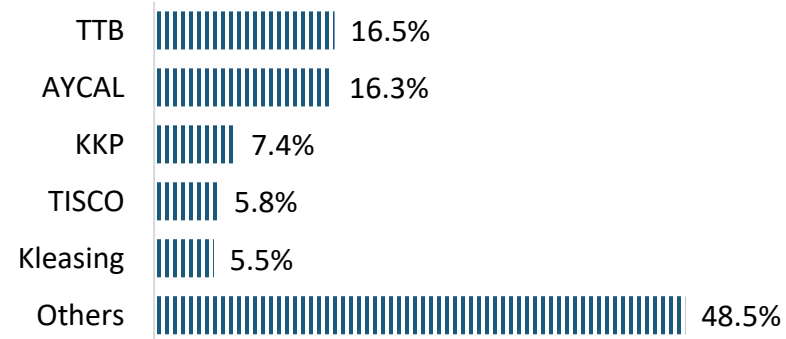
Auto Loan Outstanding (Hire-Purchase Loan + Title Loan)



Market Share Classified by Lender, 2018



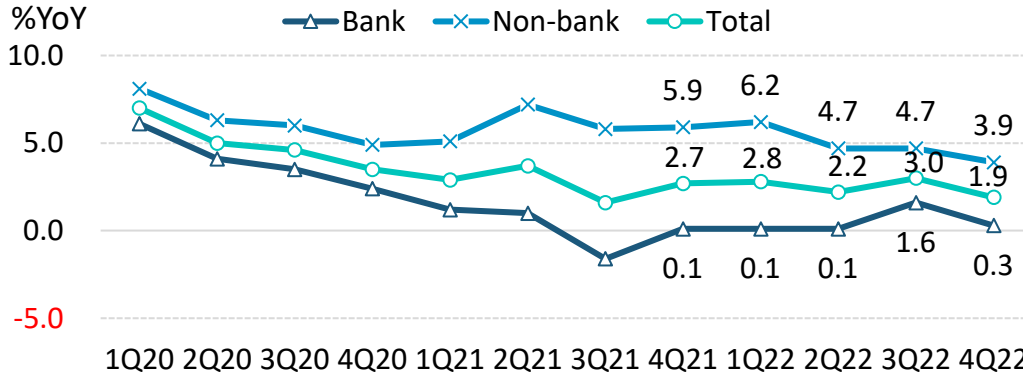
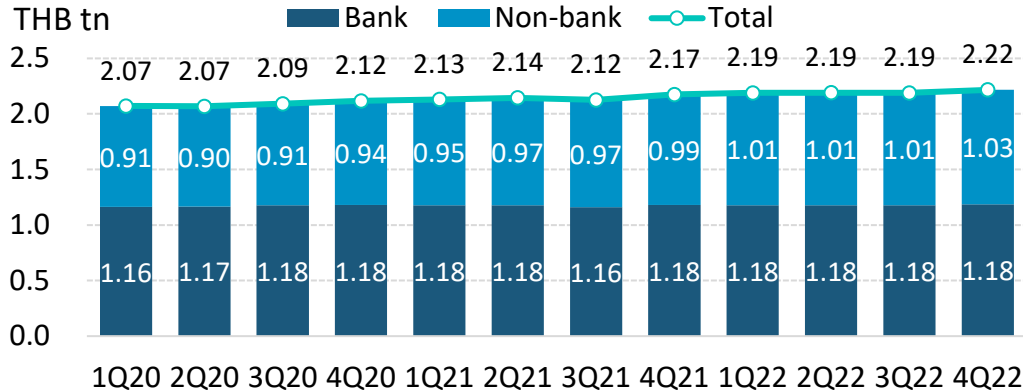
Market Share Classified by Notable Creditor, 2022



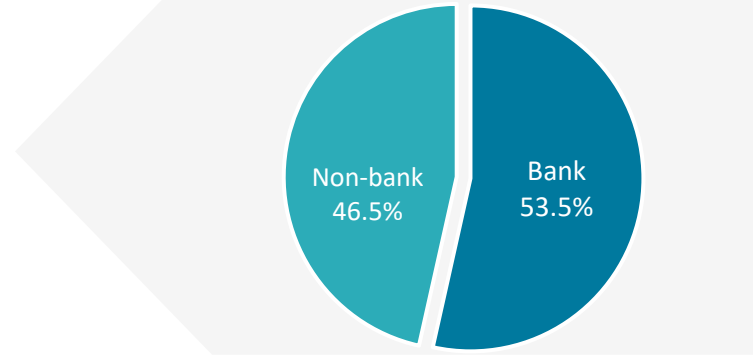
- At the fourth quarter of 2022, Thai auto loan outstanding stood at THB 2.51 trn. Banks dominate hire-purchase loan while non-banks dominate title loan market.

Auto Hire-Purchase Loan and Market Update

Auto Hire-Purchase Loan Outstanding



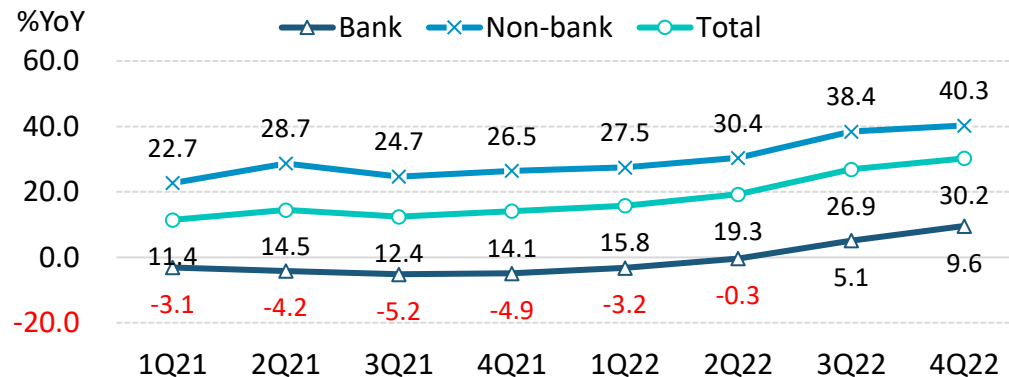
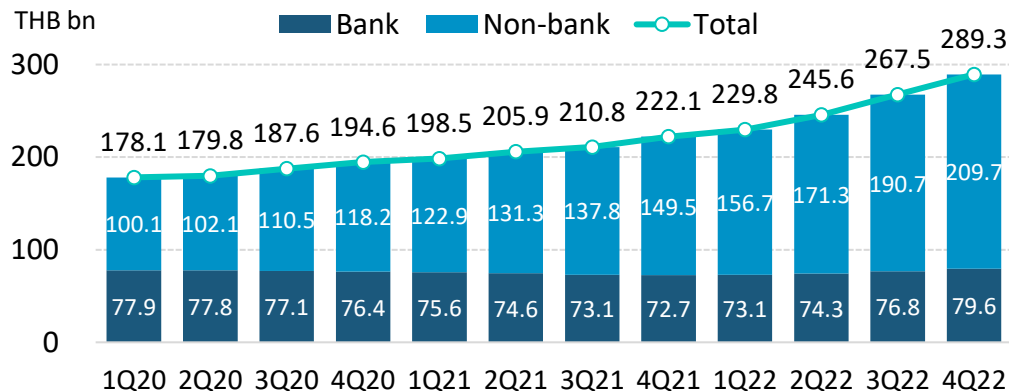
Market Share Classified by Lender, 2022



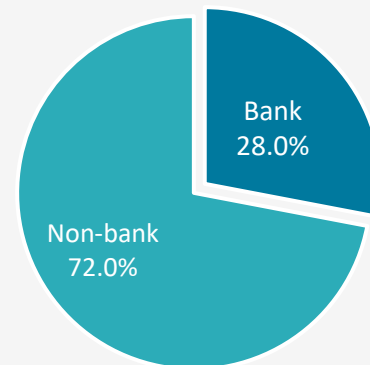
- At the end of 4Q2022, the outstanding balance of auto hire-purchase loan increased by 1.9%YoY, in line with the expansion of domestic car sales. Commercial banks still have the highest market share with 53.5%, while the remaining 46.5% belong to the non-bank group. **Going forward, we expect auto hire-purchase loan growth at around 2-5%YoY in 2023 compared to 1.9%YoY growth in 2022.**
- Commercial banks previously tended to reduce the volume of auto hire-purchase loans as a result of the deterioration in credit quality due to economic problems caused by the COVID-19 pandemic, but the number has gradually picked up in the recent quarters.

Auto Title Loan and Market Update

Auto Title Loan Outstanding

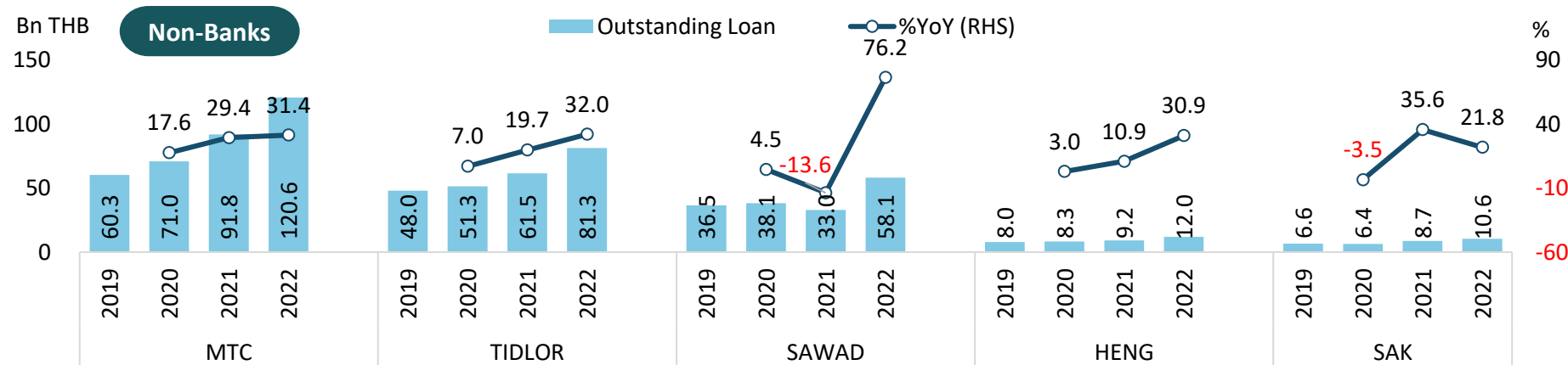
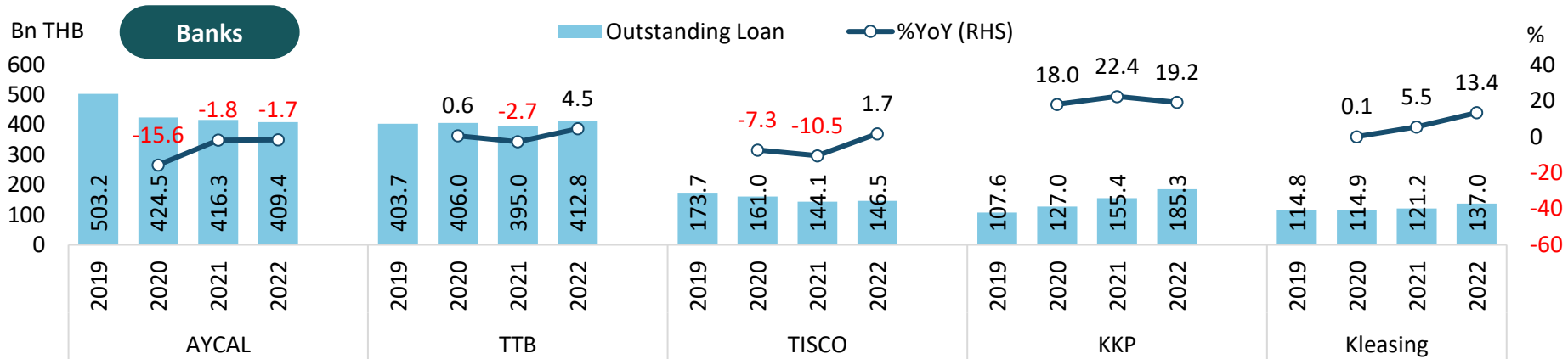


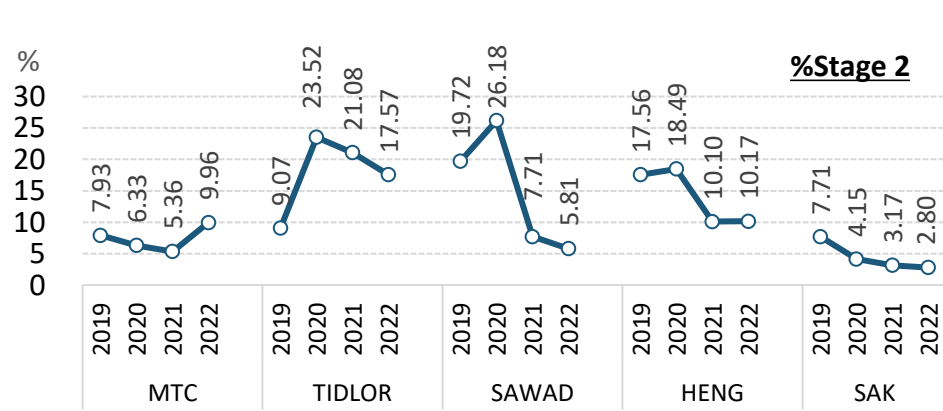
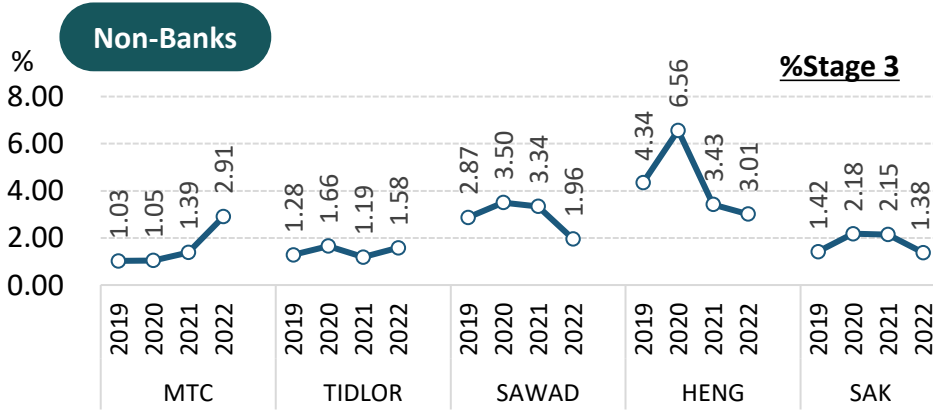
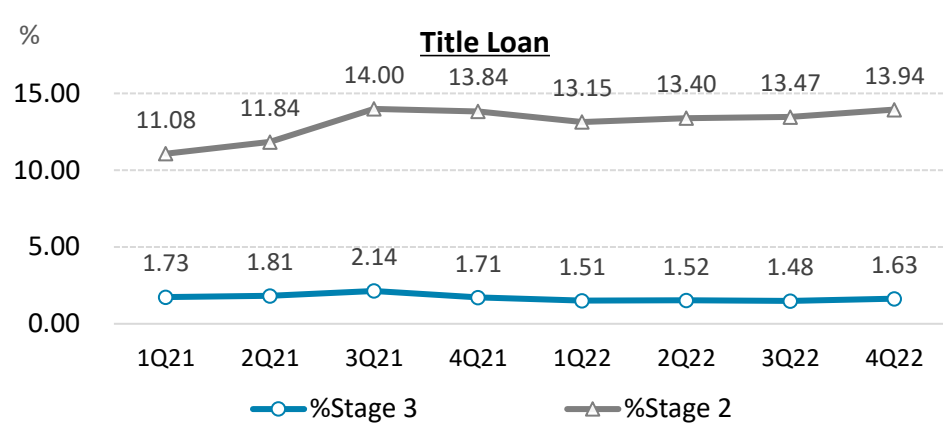
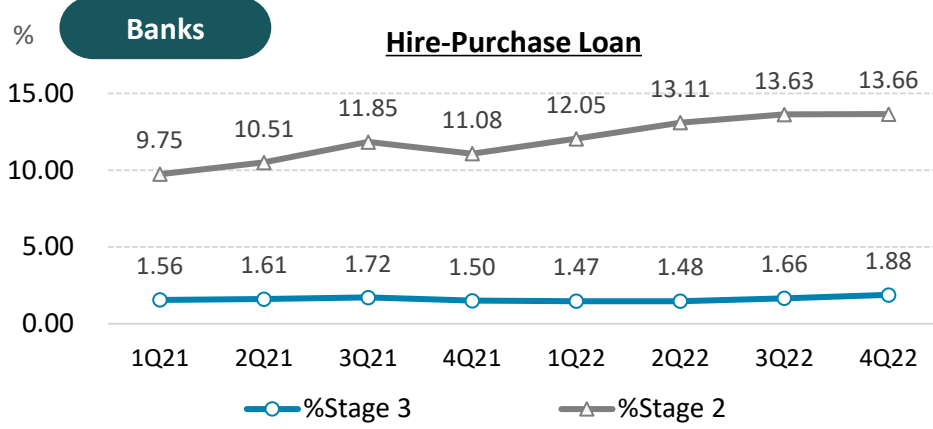
Market Share Classified by Lender, 2022



- Auto title loan accounted for approximately 10% of auto loan market in Thailand and most of the players in the title loan market are non-banks.
- At the end of 4Q2022, the outstanding balance of auto title loans increased by 30.2%YoY, mainly due to high growth in non-bank loans. **Going forward, we expect auto title loan growth at around 10-15%YoY in 2023 compared to 30.2%YoY growth in 2022.**
- Commercial banks**, seeing opportunities in a market with high growth potential and high yields, **continued to increase their outstanding loans in the third and fourth quarters of 2022 as they saw opportunities from the market that continues to grow well and provide high return.**

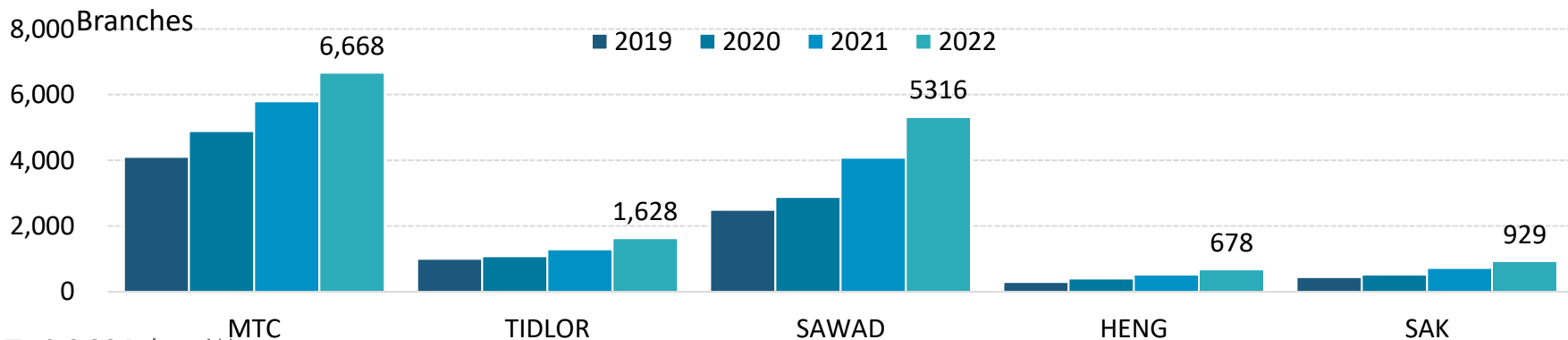
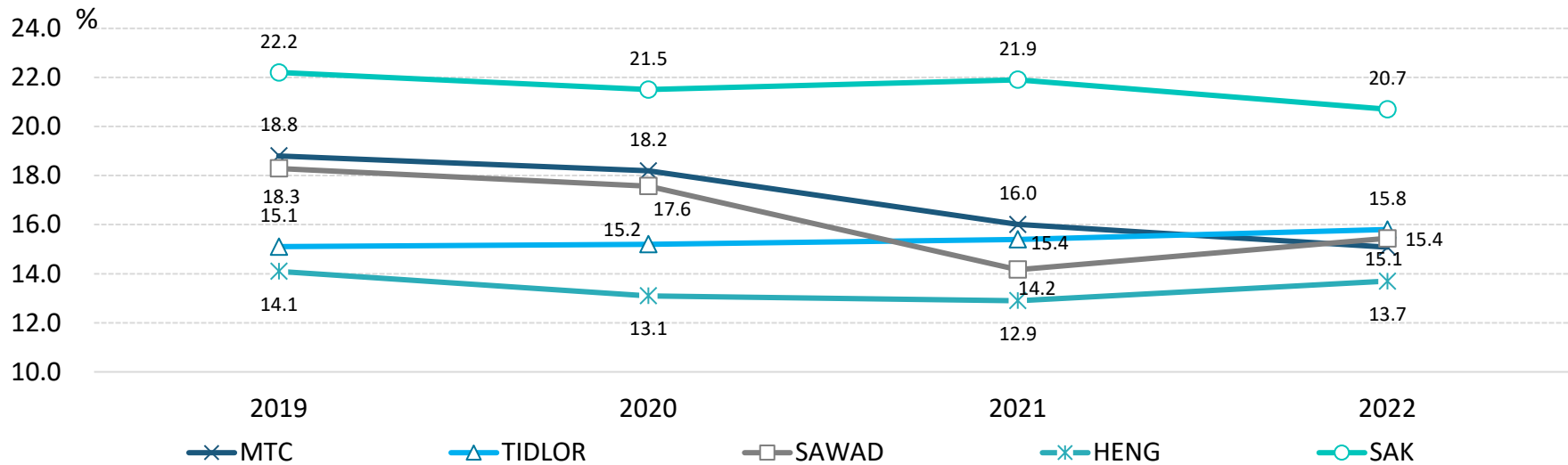
Outstanding (Hire-Purchase + Title) Loan by Lender (most players saw high loan growth in 2022)





Auto Loan Quality: The auto loan business has a high %stage 2 but a low %stage3 (NPL) because the operators are able to quickly seize collateral for auction by having a large number of branches spread across the country, and lending with a low LTV (up to 70% of appraised value), there is less concern about the loss of auction assets. In addition, some receivables have also been sold to an asset management company. Note that the auto loan business had an average %stage2 during the pre-Covid period of 7.56% (2013-2019) and during the epidemic period, the average %stage2 was 11.13% (2020-2022).

Net Interest Margin (NIM) and Number of Branches by Company (Non-Banks)



Source: LH Business Research analysis based on data from Company's Annual Report (as of Dec 2022)

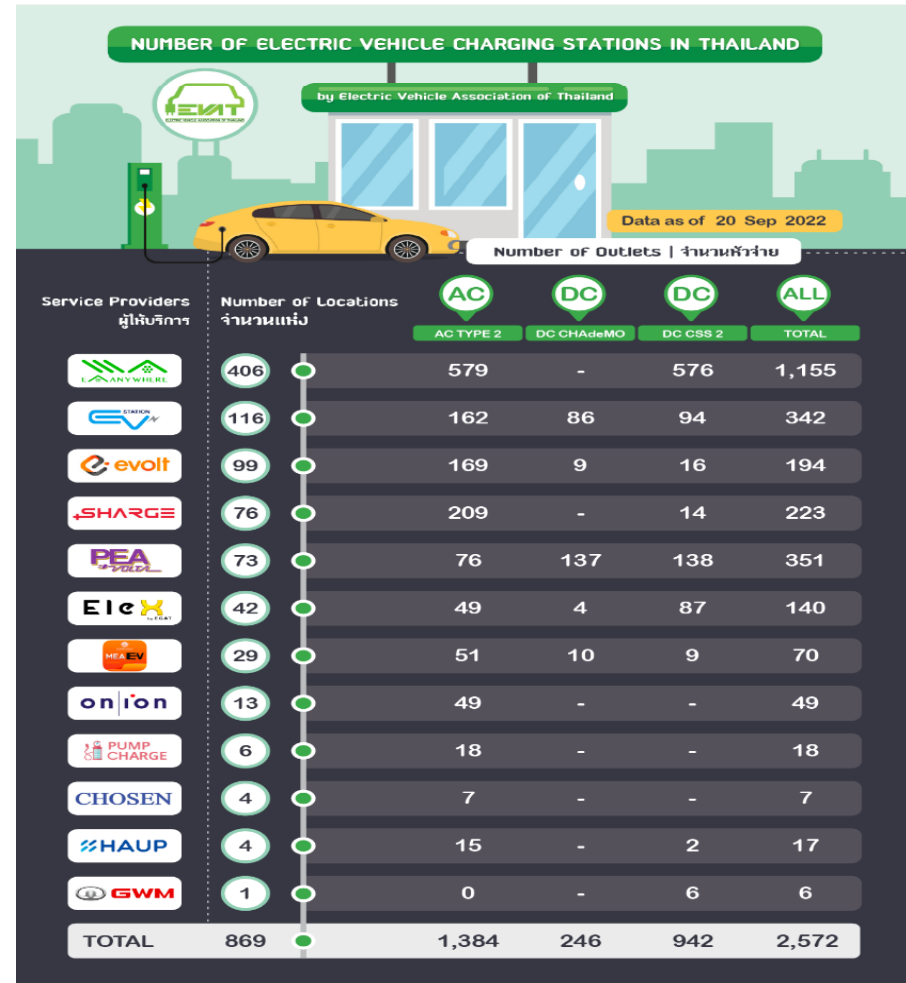
Potential Positive Impacts of EV in Hire-Purchase Market

Short-term impacts

- **No significant impacts** from EV on hire purchase market since the number of EV registered gradually increases due to supply shortage.
- Insufficient number of charger stations

Medium-term impacts

- **EV can be potential segment in hire purchase market** as government incentives for EV domestic production will continue to lower future EV prices and increase demand for EV.



The implementation of newly announced regulation to control the hire-purchase business (effective 10 Jan 2023) will not have an immediate and significant impact as most operators have already set interest rates within the new ceilings. However, some local operators in the motorcycle hire-purchase segment will be affected as they are currently charging interest rates that exceed the new ceiling. Going forward, a slower growth in the motorcycle hire-purchase business might be expected for small players as lower lending interest rates may encourage some players to take less risk.

Regulation to control hire-purchase businesses (effective in Jan 2023)

1 New interest rate ceiling (*old rates*)

- New cars not more than 10% per year (*old ≤ 15%*)
- Used cars not more than 15% per year (*old ≤ 20%*)
- Motorcycles not more than 23% per year (*old ≤ 30%*)

2 Give a discount in case of payment of all installments according to the remaining contract period.

Yield Breakdown by Creditor (data as of Dec 2022)

	MTC	SAWAD	TIDLOR	THANI	MICRO
Auto title	16 – 20%	20 – 24%	13 – 24%	-	-
Hire Purchase					
- Truck	-	-	11 – 15%	6 – 14%	15 – 17%
- Car	-	-	-	4 – 6%	-
- Motorcycle	22 – 24%	30 – 40%	-	-	30 – 31%

End of Presentation

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