

THAILAND PRIVATE CREDIT - INNOVATION IN CORPORATE FINANCING II

Last April, we published a commentary highlighting the trends in Thailand’s private credit market. In this report, we have updated the key datapoints.

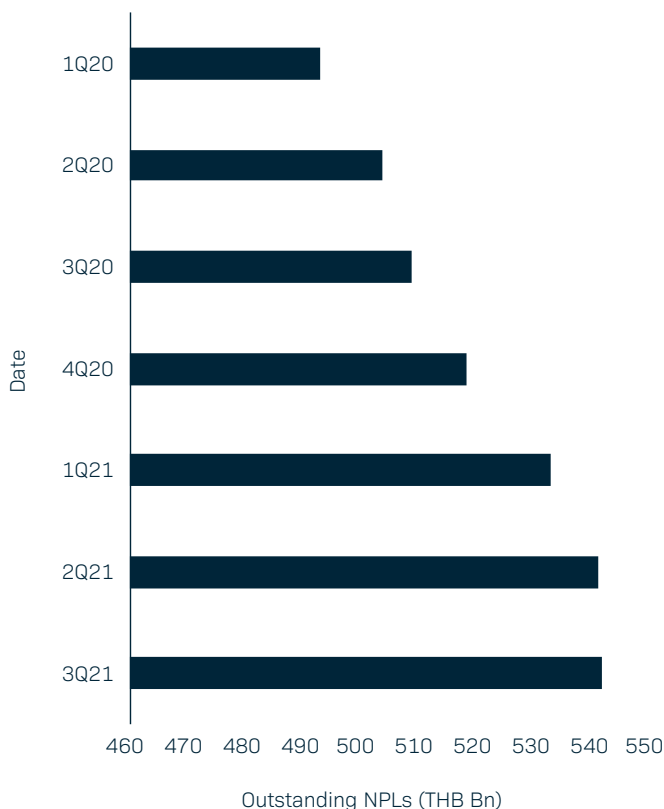
KEY TAKEAWAYS

- Due to the lack of support from the traditional banking sector and the increased cost of capital in the bonds market, share pledge financing has become an attractive channel to access capital in Thailand
 - The demand for share-backed financing is constantly increasing since 1Q20 (implied by the growth in margin loans)
- Thailand is a key market for EquitiesFirst which has been operating in the region since 2014
 - Among Thai listed companies, 468 (56%) are eligible for EquitiesFirst’s financing, as of 13 Feb 2022 according to Bloomberg
- We also note that there is a financing disparity between large and small cap companies in Thailand

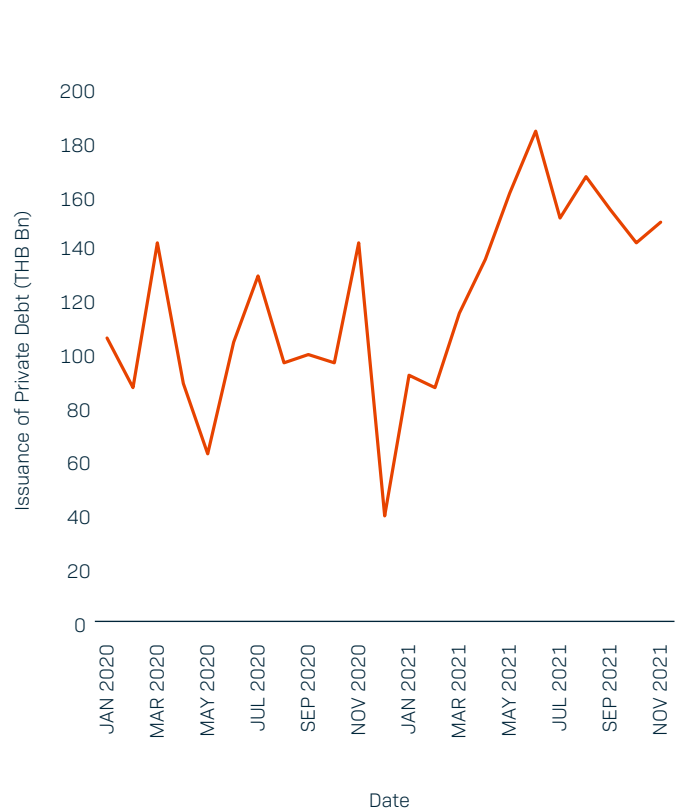
INCREASE IN OUTSTANDING NON-PERFORMING LOAN

Due to the pandemic, there is an increase in non-performing loans (NPLs). Thai banks therefore become more reluctant to lend, especially to the companies with higher risks. Consequently, borrowers shift from the banks to other sources. This includes the issuance of private debt, which has increased 50% from around THB 100 billion to around THB 150 billion from Jan 2020 to Nov 2021.

VALUE OF OUTSTANDING NON-PERFORMING LOANS (NPLs) OF COMMERCIAL BANKS IN THAILAND IN THB

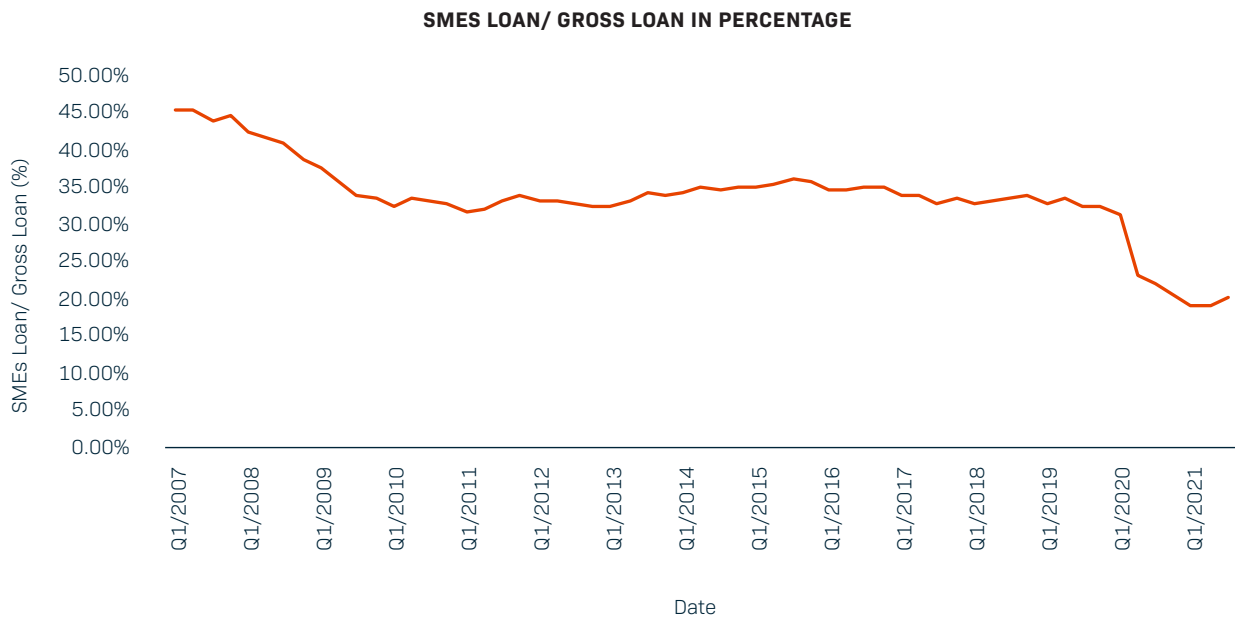


NEW ISSUANCE OF PRIVATE DEBT SECURITIES IN THB



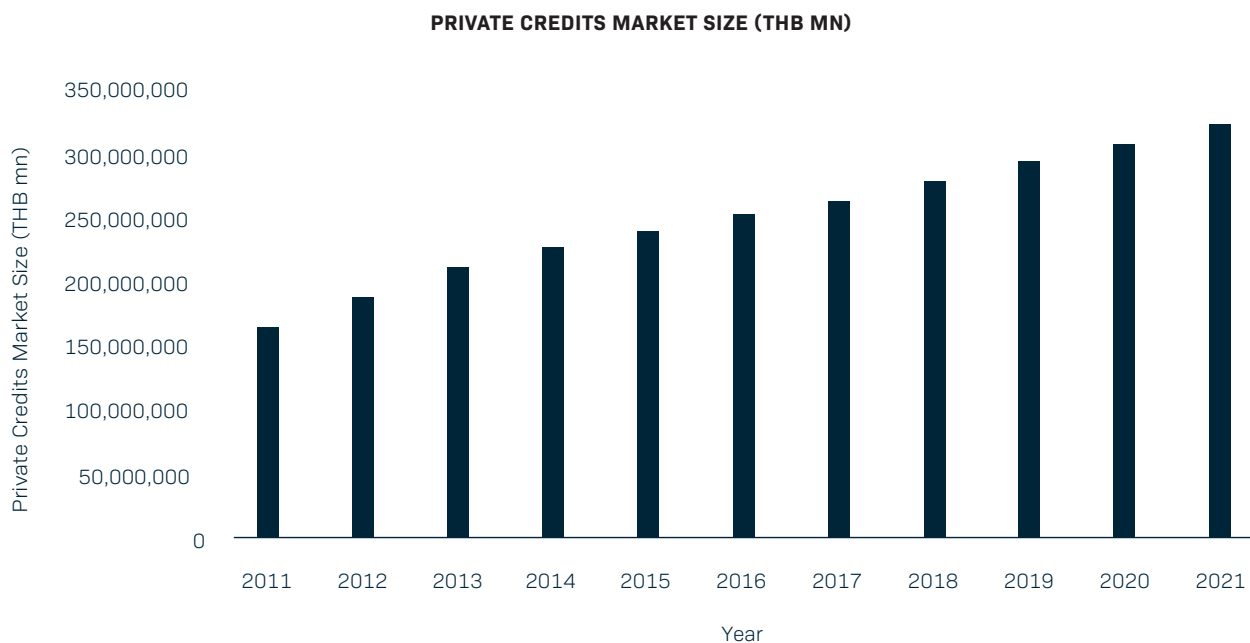
SMEs ARE COMPETING FOR CAPITAL IN THE LOAN MARKET

Small and medium-sized enterprises (SMEs) in Thailand bear the brunt of the stricter funding rules. As the risk of SMEs loan is higher, banks are more willing to lend money to large companies. The ratio of SMEs loan to gross loan in Thailand halved from 45% in 1Q07 to less than 20% in 2Q21. The fierce competition in the bank loan crowded out the SMEs. These companies will need to pay higher interest rates with lower LTV to secure a loan from banks.



STEADY GROWTH IN THE PRIVATE CREDIT SECTOR

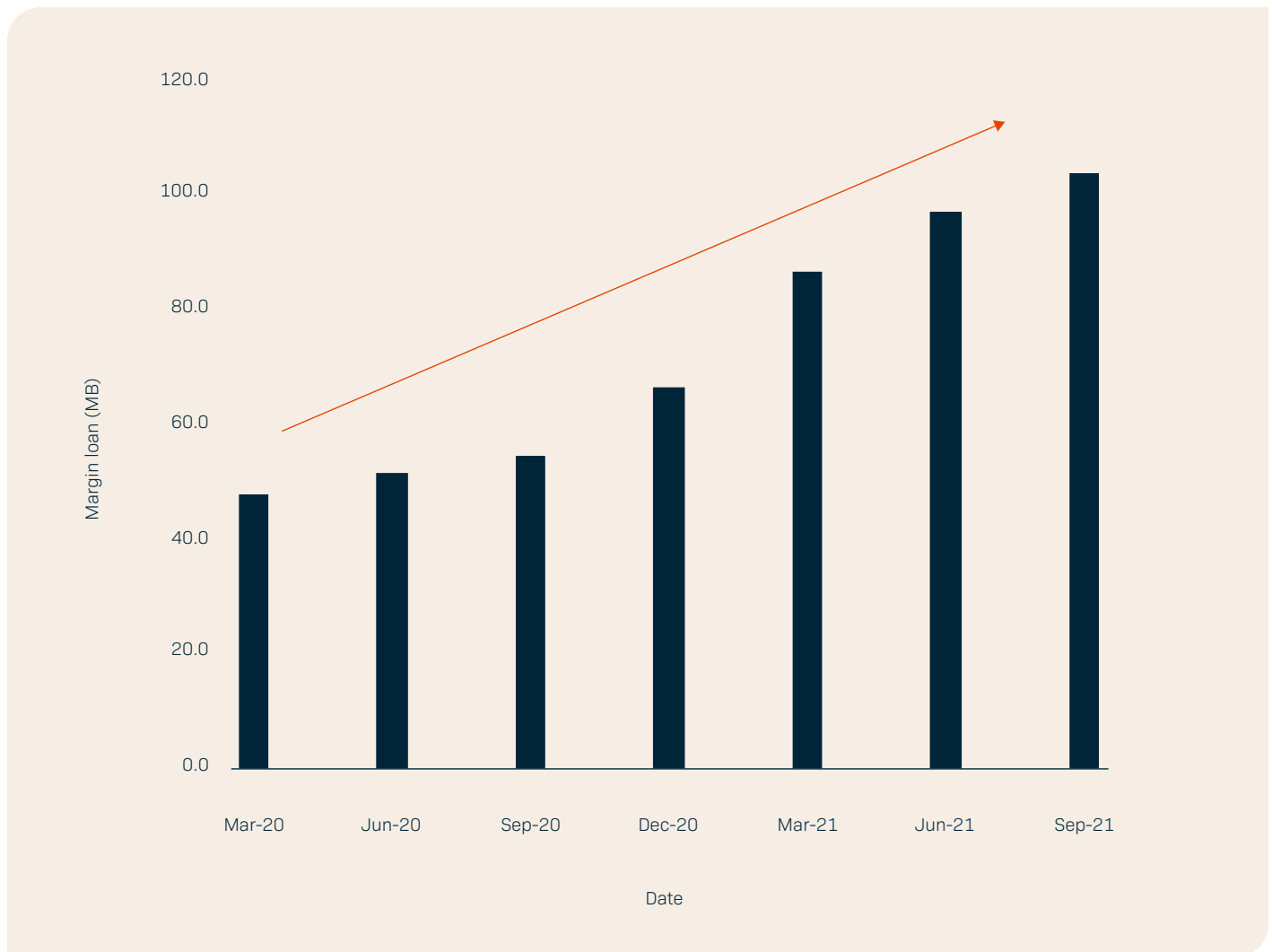
The strict loan condition in banks and the higher capital demand due to the economic growth shift the borrowers from seeking loans from banks to private creditors. The market size of private credits market size in Thailand doubled during the past decade from THB 163.8 trillion to THB 321.8 trillion. We expect it to grow further in the future, due to the potential tightening up of the rules based on the growing NPL and more foreign private creditors joining Thailand market.



RIISING OPPORTUNITY IN MARGIN LOAN

Among the fast-growing private credit market in Thailand, margin loan in Thailand outpaced the growth of the private credit market, which doubled within a year from THB 51.25 billion in 3Q20 to THB 100.96 billion in 3Q21. Due to increased cost of borrowing, the alternative channel of raising capital becomes more attractive. Share pledge financing can be a funding alternative in raising capital at the shareholder level, offering more competitive pricing than bonds and a higher LTV than typical margin loan.

MARGIN LOAN IN THAILAND



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