

THAILAND PRIVATE CREDIT - INNOVATION IN CORPORATE FINANCING III

We published our fourth volume in April 2021 to highlight the trends in Thailand's private credit market and updated key datapoints in our fifteenth volume released in February 2022. In this report, we will revisit those key datapoints and summarize recent developments in the market.

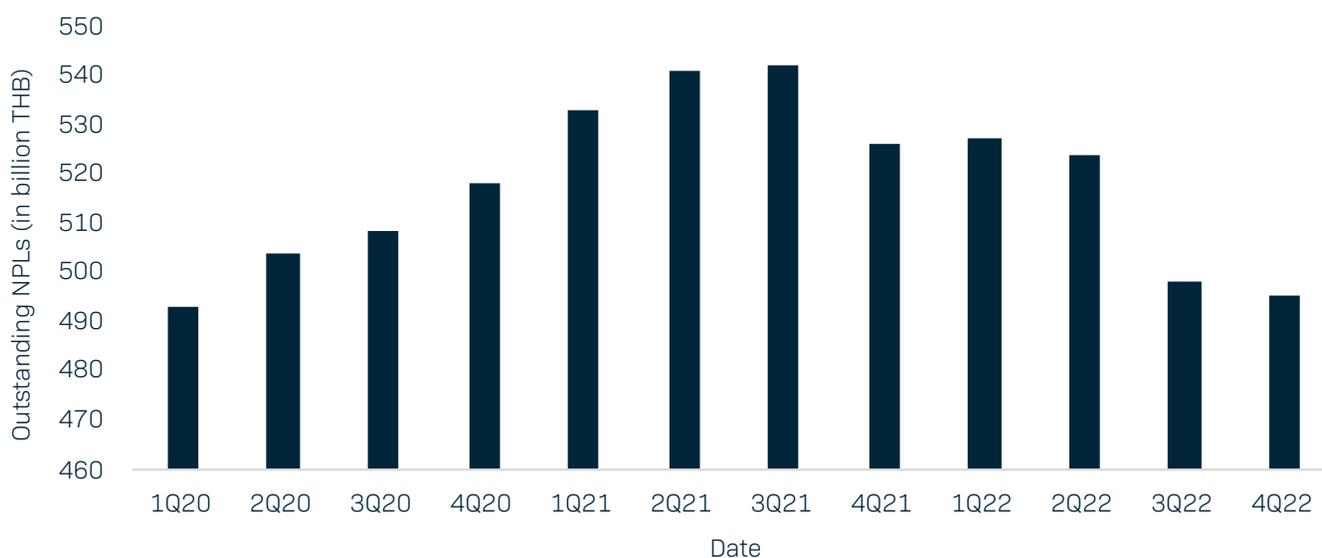
BACKDROP:

- Margin finance continues to be a major financing channel for Thailand's capital market. However, given the prevailing high interest rate and uncertainty about an economic recession, the market size has remained relatively stable since March 2022
 - The demand for share-backed financing constantly increased from 1Q20 to 1Q22 (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, 327 (36.1%) are eligible for EquitiesFirst's financing, as of 20 June 2023 according to Bloomberg
- The financing disparity between large and small cap companies in Thailand is still notable

DECREASE IN OUTSTANDING NON-PERFORMING LOAN

As the tourism industry rebounds and the economy recovers from the pandemic, Thailand has experienced a decline in NPLs from THB 540 billion in 3Q21 to THB 490 billion in 4Q22. However, with the interest rate rising from 0.5% in June 2022 to 2% in May 2023, small and medium-sized enterprises (SMEs) may still find it costly to raise funds through traditional financial institutions.

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



INCREASE IN PRIVATE DEBT SECURITIES ISSUANCE

With growing concerns over a potential recession in the US and geopolitical tensions between China and the US, an increasing number of investors are opting to reallocate their portfolios with the view that Southeast Asian countries will benefit from the relocation of supply chains. The Commerce Ministry has forecast a minimum of THB 100 billion in investment inflows to Thailand in 2023, as of the end of February 2023. This positive sentiment is also reflected in the new issuance of private debt in Thailand. The value of newly issued private debt has consistently exceeded THB 200 billion for several months since May 2022.

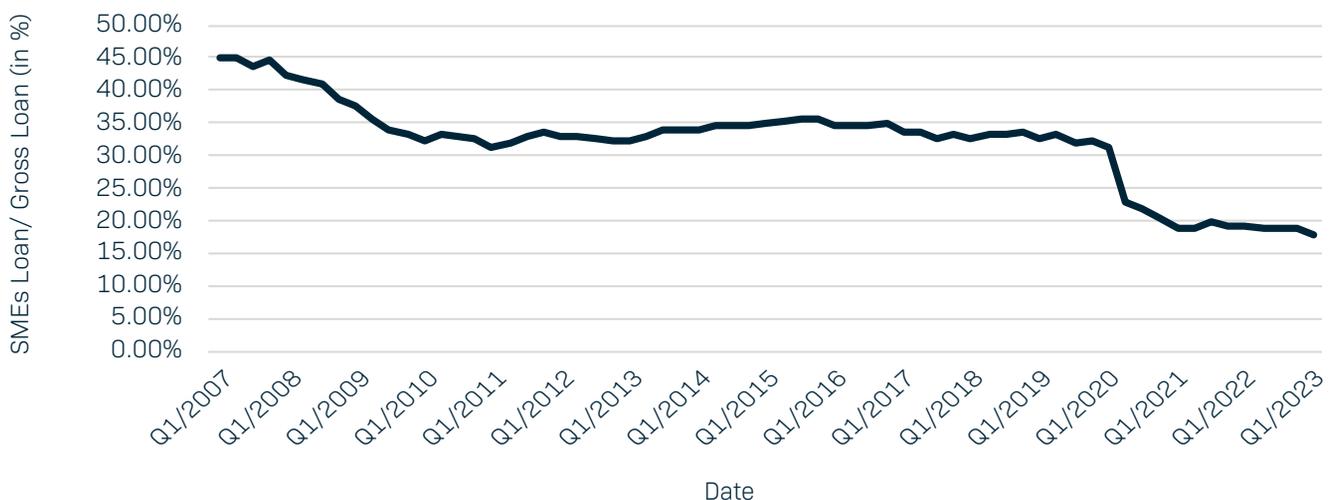
NEW ISSUANCE OF PRIVATE DEBT SECURITIES IN THB



SMES ARE COMPETING FOR CAPITAL IN THE LOAN MARKET

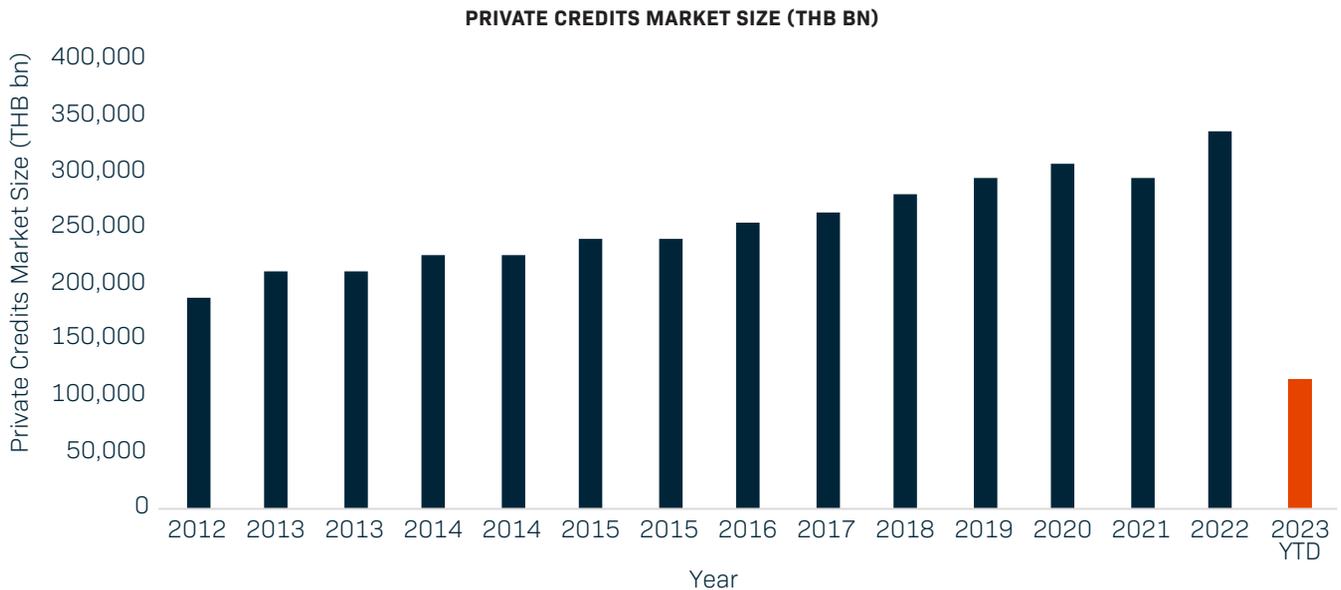
SMEs in Thailand bear the brunt of the stricter funding rules. With the higher risk associated with SMEs loans, banks have been more willing to lend money to large companies. This shift is evident in the ratio of SMEs loan to gross loan in Thailand, which has declined by half from 45% in 1Q07 to less than 20% in 1Q23. The fierce competition for bank loans has crowded out SMEs, and as a result, they must contend with higher interest rates and lower LTV ratios to secure a loan from banks. This disparity has been observed previously and continues to widen.

SMES LOAN/ GROSS LOAN IN PERCENTAGE



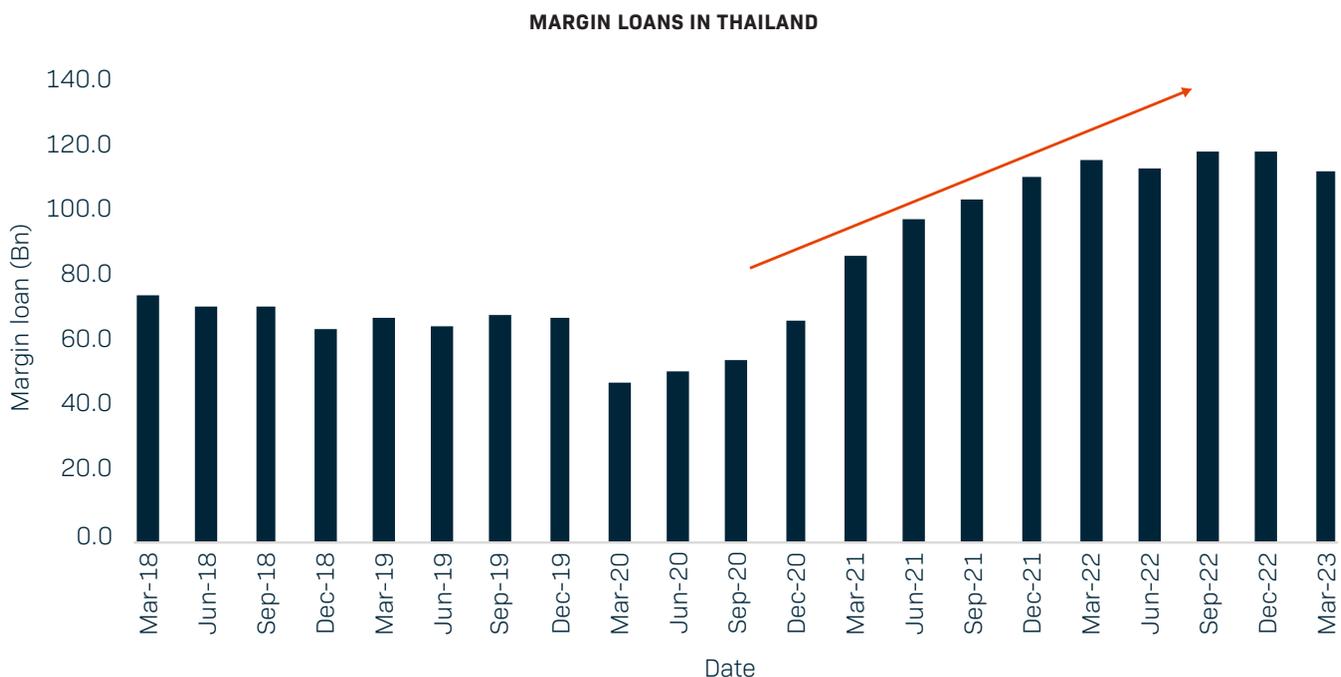
STEADY GROWTH IN THE PRIVATE CREDIT SECTOR

The strict loan conditions imposed by banks and increased capital demand resulting from economic growth have led to borrowers seeking loans from private creditors instead of banks. Consequently, the market size of private credit in Thailand has continued to soar from THB 188.3 trillion in 2012 to THB 336.5 trillion in 2022. As of April 2023, the accumulated size of the private credit market has shown a growth rate of around 4% compared to April 2022. We expect it to grow further in the future, in anticipation of more investors and foreign private creditors entering the Thailand market.



STABILITY IN MARGIN LOANS

The margin loan market in Thailand experienced rapid growth in 2021 and even outpaced the growth of the private credit market. It doubled in size within a year from THB 51.25 billion in 3Q20 to THB 100.96 billion in 3Q21. However, the growth rate has since slowed down and has been stable since 3Q21. As margin loans provide greater flexibility compared to bonds with potentially higher LTV ratios and lower interest rates, it has been used as a primary financing channel in Thailand.



HOW EQUITIESFIRST CAN HELP

As an international financing institution specializing in asset-backed loans, EquitiesFirst provides industry-leading terms for more than 300 Thailand stocks. Advantages of partnering with EquitiesFirst include:

- 1. Industry-Leading Loan-to-Value (LTV) Ratio: Typically 65%**, which means the borrowers can receive around THB 65 for every THB 100 worth of shares
- 2. Low Interest Rate:** EquitiesFirst usually charges approximately **3%** interest rate per year
- 3. Non-Recourse:** Borrowers will have **protection against downside** risk, as they have the option to walk away from the loan with no further liabilities, while retaining the loan proceeds
- 4. Upside Retention:** Borrowers **retain the full upside** price appreciation of the collateral shares
- 5. Margin Call Advantage:** Our margin call threshold is **80% of the LTV**. If the LTV is 65%, the margin call threshold would be $80\% \times 65\% = 52\%$, which is more favorable compared to the typical margin loan (around 70% threshold)

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