



1st Edition
Thailand Distressed Landscape:
A BDO in Thailand publication

BDO

The background features a collage of financial data visualizations. A prominent magnifying glass is positioned over a bar chart labeled 'FIG. 8', which shows a series of blue bars with a line graph overlaid. Other visible charts include a pie chart with segments labeled '26%' and '65%', and various line and bar graphs in shades of blue and grey. The overall theme is financial analysis and data review.

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Welcome to the first edition of Thailand Distressed Landscape: a BDO in Thailand publication, where we will provide our views and comments on Thailand's distressed debt environment.

In this edition, we will provide a brief overview on Non Performing Loan (“NPL”) transactions, and why Thailand is likely to remain the Asian hot spot for NPL sales **in the foreseeable future**.

Later editions will cover other relevant distressed debt topics such as accounting for NPL acquisitions, the success (or otherwise) of NPL acquisition joint venture agreements between buyer and seller, secondary trades, valuations, debt recovery and enforcement options (including rehabilitation vs. restructuring vs. rescheduling vs. debt/asset swaps).

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BDO in Thailand

Thailand: All Aboard the Thailand NPL Sale Express

Thailand's first NPL transaction of substance can be traced back to the Tom Yum financial crisis. In 1998, the Financial Sector Restructuring Authority ("FRA") sold significant amounts of NPLs on the back of the closure of some 56 financial institutions. It was also at this time that the Emergency Decree on Asset Management Companies ("AMC Act") came into being, which has shaped Thailand's NPL transaction landscape as we know it today. Since that time Thailand has become one of, if not the most, prolific market for NPL portfolio transactions in Asia.

This trend is set to continue with nearly THB 50 billion of NPLs having already been offered to market this calendar year, and with a number other sellers expected to announce soon, total 2023 NPL sales may exceed THB 80 billion.

This is on the back of approximately THB 55 billion of sales in 2022 and THB 45 billion in 2021¹.

¹Based on author's own market research as NPL sales data is not typically published

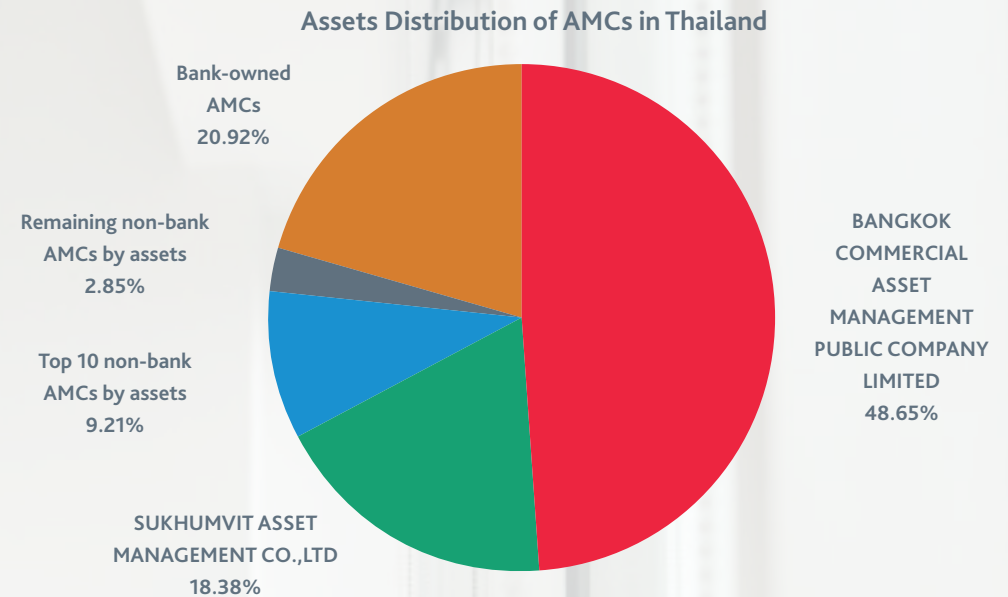
80+ AMCs and growing : It's a Seller's market

Whilst there is no legal requirement to do so, Thailand Sellers prefer to sell to an AMC (as opposed to a "non-AMC") due primarily to the tax benefits contained in the AMC Act.

As of March 2023, there were 82 AMCs registered in Thailand and with [at present] no cap on AMC licenses, that number is expected to grow. Of these, approximately 15% are owned by local financial institutions ("FIs"), primarily commercial banks, which leaves nearly 70 non-bank owned AMCs; all of whom are seeking to buy NPLs from FIs or each other.

Of these there are approximately 20 to 25 AMCs that tend to dominate the market, led by BAM and SAM, the two largest AMCs by assets (as of 2022, see below). Given the volume of transactions in recent years, a number of AMCs are now focusing on specific loan types, broadly split between secured and unsecured. Interest in unsecured loans in particular has spiked in recent years and there are now several AMCs focused solely on unsecured NPL loan purchases.

Based on available data for the year ended 2022, Thailand's AMC landscape can be summarized as follows (based on reported balance sheet assets as of December 2022.)



The significant increase in the number of AMCs has in turn led to increased competition for NPL portfolios. This is great news for sellers as competition has led to a general increase in bid prices. A further factor influencing the market is the growing number of AMCs pursuing public listings. Led by BAM in 2019, a number of other AMCs have/are following suit and it is expected by the end of 2024 that at least 6 AMCs will or will shortly be listed.

Any potential new entrants to Thailand will need to bear this in mind as, at least for the short to medium term, bid competition pressures will impact on targeted returns.

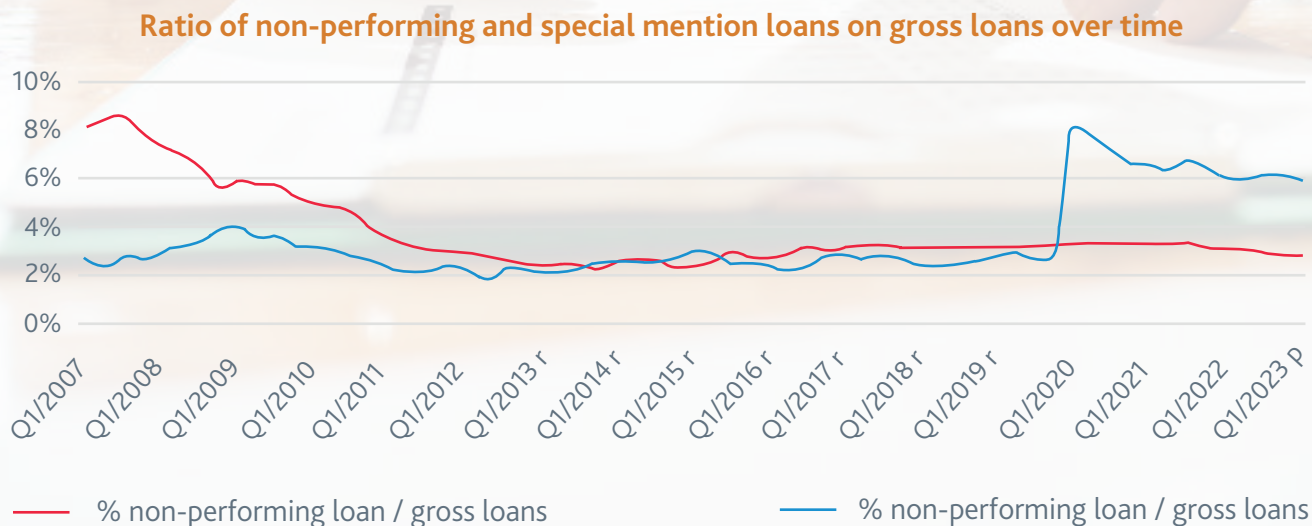
What is being Sold

All loan types. Secured loans tend to represent the majority, in particular secured residential and SME loans, however in recent years there has been a significant up-tick in unsecured sales (including credit cards) as well lease and hire purchase portfolios (primarily cars and motorcycles). So far this year approximately 20% (by OPB) of portfolio sales have been unsecured.

Thailand Stats

According to recent Bank of Thailand (“BoT”) statistics, and as can be seen from the below graph, as a % of gross loans, NPLs have been relatively steady at around 3% for the last 5 years (2.82% or THB 494 billion as of Q1 2023). What is however is worth noting is the spike in Special Mention loans in Q1 2020 (tripled based on the Q4 2019 number) as a result of the impact of the Co-Vid 19 pandemic. With a small number of exceptions, BoT statistics³ going back to 2012 show that loans classified as NPL have typically been greater than loans classified as Special Mention. Since Q1 2020 however, Special Mention loans have been double NPLs at every reporting quarter.

The various relief measures implemented by the BoT to support businesses in trouble, including more lenient loan classification measures, has been a primary reason for the sudden spike in Special Mention loans. However as these measures taper off, and coupled with the current higher interest rate environment, it is likely that at least a portion of these loans will be downgraded to NPL as borrowers continue to struggle to meet repayment obligations.



³Sourced from the Bank of Thailand website

Thailand NPL Sale Outlook

Based on the likelihood that NPL numbers will likely increase in the next 12 to 24 months, that commercial banks in Thailand are not shy about selling NPLs as means of managing their overall loan books, coupled with the large – and growing – buyer community, it is likely that Thailand will maintain its position as the most active NPL trading market in Asia. Recent headlines in the press also lend credence to this view.





For more information,
please contact
E: Frank.janik@bdo.th
M: +66 (0) 8 1869 6522
W: +66 (0) 2 636 0354

About the author

Frank, based in Thailand since 1999, is BDO's regional NPL transaction leader and subject matter expert. With 25 years experience in Asia, Frank has regularly provided loan/portfolio management and lead sell side advice to numerous financial institutions across Asia as well as lead buy side services to acquirers of debt. He has deep expertise of the NPL landscape, including buyers, sellers, loan assessment, loan workout and overall market sentiment. He has led successful sales of over USD 150 billion of NPLs and advised on the successful acquisition of over USD 200 billion of NPLs.

Country Experience includes Thailand, Malaysia, Indonesia, Philippines, India, Hong Kong, Singapore, Taiwan, China, Vietnam, Australia, Cambodia, Japan, Pakistan, and Korea.

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(NPL and NPA)

Financial Institution
Investment Advisory

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(NPL and NPA)

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Regulator Advisory

Virtual Data Room
("VDR") management

Market Assessments

FOR MORE INFORMATION:

BDO IN THAILAND - BANGKOK OFFICE

42nd Floor, Exchange Tower,
388 Sukhumvit Road, Klongtoey District,
Bangkok 1011, Thailand
T: +66 2 636 0354
E: Info@bdo.th

BDO IN THAILAND - PHUKET OFFICE

39/30 Moo2 (Boat Lagoon)
Thepkrasattri Road, Kohkaew, Muang,
Phuket, 83000
T: +66 2 076 273 518
E: Info@bdo.th

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