Fitch Thailand National Ratings 2011 Transition Study

Ratings Broadly Stabilised

Special Report

Rating Stability: Overall, 88% of Fitch Thailand corporate national ratings remained unchanged in 2011, with the remainder associated more with positive than negative rating movements. Fitch Ratings expects the ratings to broadly stabilise through 2012 as the agency forecasts an economic recovery with 5.5% GDP growth – driven by reconstruction spending, a rebound in manufacturing production, and government spending. Nonetheless, the eurozone debt crisis and domestic political situation remain the challenging factors for the Thai economy.

One Downgrade, Three Upgrades: A single downgrade was recorded alongside three upgrades, contracting from figures in 2010 of two and eight, respectively. The only downgrade was an issuer in the telecommunications sector. The three upgrades included one issuer in the corporate sector (driven by an improved financial profile), and two issuers in the bank and non-bank financial institution sectors – supported by strong operational integration with there respective major shareholders. All structured finance bond ratings were affirmed.

No Defaults: There were no defaults among the Fitch Thailand National Rating entities, due in part to the limited issuance of lower-rated bonds, the relatively brief rating history, and the limited size of the Thai bond market.

Outlooks Remain Predominately Stable: At end-2011, 85% of corporate finance issuers carried a stable outlook. There were two corporate finance issuers with a negative outlook, and another two on positive outlook. One electronics product manufacturer was placed on Rating Watch Negative (RWN) due to the major flooding in late 2011. All structured finance bonds were on stable outlook.

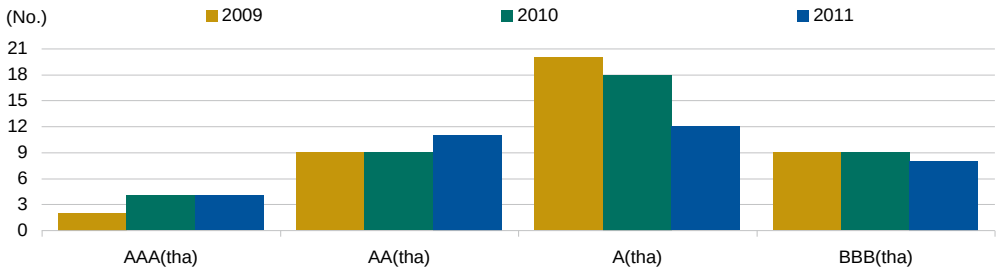
Fitch 2011 Thailand National Rating Activity – Corporate Finance

A Decade of Data: This transition study provides key data and analysis on the performance of Fitch Thailand National Ratings in 2011 and over the past 10 years, capturing the period 2002-2011. The study includes all publicly rated long-term corporate finance issuers (referring to issuers in the corporates, banks and non-bank financial institutions) since Fitch began assigning National Ratings in Thailand in 2001, and includes a total of 275 rating observations. The report also provides transition rates for structured finance.

Figure 1

Fitch Thailand National Ratings - Corporate Finance

Ratings distribution at category level



Source: Fitch Thailand

At end-2011, there were 35 National Ratings of corporate finance issuers included in the study, down from 40 issuers at end-2010. There were six rating withdrawals and two new rating assignments during the year. The year-end outstanding ratings distribution ranged from 'AAA(tha)' to 'BBB(tha)'. At end-2011, the median rating for banks was 'AA(tha)', and 'A−(tha)' for both non-bank financial institutions and corporates.

Related Research

Fitch Ratings Global Corporate Finance 2011 Transition and Default Study (March 2012)

Fitch Ratings Sovereign 2011 Transition and Default Study (March 2012)

Fitch Ratings Global Structured Finance 2011 Transition and Default Study (March 2012)

Fitch Ratings International Public Finance 2011 Transition and Default Study (March 2012)

Analysts

Thailand
Orawan Karoonkornsakul, CFA
+66 2655 4766
orawan.karoonkornsakul@fitchratings.com

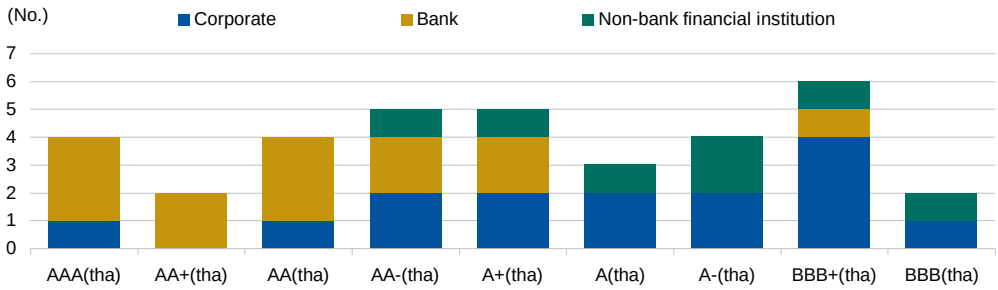
Ekapan Prompraphant
+66 2655 4753
ekapan.prompraphant@fitchratings.com

New York
Charlotte Needham
+1 212 908 0794
charlotte.needham@fitchratings.com

Figure 2

Fitch Thailand National Ratings - Corporate Finance

Ratings distribution at modifier level by sector - year end 2011



Source: Fitch Thailand

Rating activity is observed at the modifier level (i.e. covering each notch change +/-, eg to 'AA(tha)' from 'AA−(tha)'), and takes into consideration year-on-year rating movements. In 2011, there were three rating upgrades and one rating downgrade.

Figure 3

Fitch Thailand Corporate Finance National Rating Activity 2002-2011

Year	No. of upgrades	No. of downgrades	No. of unchanged	No. of new rating assignments
2002	1	0	3	7
2003	1	1	9	10
2004	5	0	14	11
2005	9	2	18	6
2006	5	1	27	4
2007	3	2	31	2
2008	6	0	29	1
2009	0	3	32	5
2010	8	2	29	1
2011	3	1	29	2

Source: Fitch Thailand

Fitch Thailand National Rating Transition Rates 2011 – Corporate Finance

In Figure 4, the 2011 one-year transition rates show the movement of ratings across the major rating categories (eg from 'A(tha)' to 'BBB(tha)'), as opposed to the modifier level which counts each notch change (eg from 'A(tha)' to 'A−(tha)'). The vertical left-hand column identifies ratings outstanding at the beginning of 2011, while the horizontal axis displays information on the migration pattern of those ratings by year-end. The diagonal, beginning with 'AAA(tha)' at 100.00% and followed by 'AA(tha)' at 88.89%, confirms the stability of each rating category in 2011.

Figure 4

Fitch Thailand Corporate Finance National Rating One-Year Transition Rates: 2011

(%)	AAA(tha)	AA(tha)	A(tha)	BBB(tha)	BB(tha)	B(tha)	CCC to C (tha)	D(tha)	Total
AAA(tha)	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA(tha)	0.00	88.89	11.11	0.00	0.00	0.00	0.00	0.00	100.00
A(tha)	0.00	16.67	83.33	0.00	0.00	0.00	0.00	0.00	100.00
BBB(tha)	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
BB(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CCC to C(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. – No rating observations
Source: Fitch Thailand

Related Criteria

Global Financial Institutions Rating Criteria (August 2012)

Corporate Rating Methodology (August 2012)

Global Structured Finance Rating Criteria (June 2012)

National Ratings Criteria (January 2011)

Figure 5

Fitch Thailand Corporate Finance National Rating Average Annual Transition Rates: 2002-2011

(%)	AAA(tha)	AA(tha)	A(tha)	BBB(tha)	BB(tha)	B(tha)	CCC to C (tha)	D(tha)	Total
AAA(tha)	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA(tha)	5.88	92.65	1.47	0.00	0.00	0.00	0.00	0.00	100.00
A(tha)	0.00	4.20	92.44	3.36	0.00	0.00	0.00	0.00	100.00
BBB(tha)	0.00	0.00	9.59	89.04	1.37	0.00	0.00	0.00	100.00
BB(tha)	0.00	0.00	0.00	33.33	66.67	0.00	0.00	0.00	100.00
B(tha)	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
CCC to C(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. – No rating observations
Source: Fitch Thailand

The findings from this study are notably subject to estimation errors – due to the small sample size and limited breadth of the Thai bond market. There has also been limited demand for lower-rated issuers – i.e. below 'BBB−(tha)' – and Fitch Thailand has therefore rated only two issuers below this level.

Fitch Thailand National Rating Activity and Rating Transition Rates 2011 – Structured Finance

Fitch Thailand has rated all 14 Thailand structured finance transactions. The securitised asset classes include credit card loans, auto loans, consumer loans, residential non-performing loans, residential loans and credit tenant leases.

Figure 6

Fitch Thailand Structured Finance National Rating One-Year Transition Rates: 2011

(%)	AAA(tha)	AA(tha)	A(tha)	BBB(tha)	BB(tha)	B(tha)	CCC (tha)	CC(tha) and Below	Total
AAA(tha)	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
A(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BBB(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BB(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CCC(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. – No rating observations
Source: Fitch Thailand

Figure 7

Fitch Thailand Structured Finance National Rating Average Annual Transition Rates: 2003-2011

(%)	AAA(tha)	AA(tha)	A(tha)	BBB(tha)	BB(tha)	B(tha)	CCC (tha)	CC(tha) and Below	Total
AAA(tha)	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA(tha)	28.57	71.43	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A(tha)	0.00	0.00	100.00	0.00	0.00	0.00	0.00	0.00	100.00
BBB(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
BB(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
B(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CCC(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. – No rating observations
Source: Fitch Thailand

The performance of Fitch-rated credit card transactions in Thailand were clearly disrupted during late-Q411 by the severe flooding, but the impact has been manageable and is expected to be temporary. The key performance parameters of the aforementioned transactions have been within the agency's base-case assumptions.

Fitch Thailand has recorded no downgrades since the agency assigned its first National Rating to a structured finance transaction in 2002. Over the nine-year rating history, there were three rating upgrades, due mainly to a satisfactory portfolio performance and strong credit enhancement levels.

Fitch Thailand National Ratings Record no Defaults in 2011

There have been no defaults nor structured finance impairments within the Fitch Thailand National Ratings universe since the first rating assignment in 2001. This has been due to the relatively small size of the Thai bond market, a limited number of lower-rated issuers, and the absence of a severely distressed domestic credit environment since 2001. More data is needed to establish long-term default statistics in the domestic market, such as a greater and more diverse number of market participants, broader market coverage, and a longer data history covering at least one full economic cycle.

National Ratings

National scale ratings are an opinion of creditworthiness relative to the universe of issuers and issues within a single country. They are most commonly used in emerging-market countries with sub- or low-investment-grade sovereign ratings on the global scale. As credit opinion can be expressed across the full range of the scale, a national scale can enable greater differentiation within a market than the global scale – where ratings tend to bunch up around the sovereign rating, which is often low.

As credit risk is measured by ratings on both the global and national scales, they generally reflect the same key rating factors and the same criteria regardless of which scale is used. For the same reason, the relative ranking of various issuers and issues should be broadly consistent across both national and global scales.

Each national scale is differentiated by a unique subscript, as each rating could reflect vastly different risks from national scale to national scale. Like the global scale, national scale ratings range from 'AAA' for the strongest credits to 'D' for credits in default. The critical difference is that national scale ratings are assigned on the basis that the "best credits" in the country are rated 'AAA', which is generally a much higher level than those same credits would be rated on the global scale. Therefore, the transition rates of the national and global scales may differ significantly.

The national scale rating of the country's sovereign, in local currency, is typically considered the "best credit" – and rated 'AAA' on the national scale. This is due to the sovereign's powers of taxation, currency issue and foreign-exchange control over other entities active within the country. However, such powers are not limitless, and Fitch has established criteria by which entities may be assigned ratings above those of the sovereign. Therefore, the sovereign cannot automatically be assumed to be 'AAA' on a national scale.

As the objective of a national rating scale is to increase the number of notches available compared with the global rating scale, a notch on the global scale will be equivalent to a range of notches on the national scale.

With little published default history in these markets, formal, ex-post, national default probability curves cannot be derived from National Ratings — although this will change over time as more defaults are experienced and larger rated universes for national markets create more statistically appropriate data sets.

Fitch Transition and Default Methodology

Fitch employs a static pool approach in calculating default and transition data. The static pools or, alternatively, cohorts, are created by grouping issuer ratings for corporate and issue ratings for structured finance transactions according to the year in which the ratings are active and outstanding at the beginning of the respective year.

Parameters of Fitch Thailand National Ratings

- Statistical data captured in this study are based on all public Thailand National Long-Term Ratings. For those corporate issuers not assigned an issuer-level rating, an analysis was used to derive a National Long-Term Rating proxy from the outstanding rated debt at year-end.
- The data includes Fitch Thailand's publicly rated National Ratings of structured finance bonds and corporate finance issuers; encompassing industrials, utilities, insurance, banks and other financial institutions.
- Short-term issuers were excluded from the study.

Corporate finance issuers with ratings outstanding at the beginning of 2003 constitute the 2003 static pool, or cohort, with the same being true for the subsequent 2004 and 2005 cohorts. Corporate finance issuers newly rated by Fitch Thailand in any given year are included in the following year's cohort. For example, the performance of ratings initiated in mid-2004 would be followed as part of the 2005 and future cohorts. Ratings withdrawn during the course of a year are excluded from subsequent cohorts because they are no longer active.

Structured finance cohorts are created by grouping tranche ratings instead of issuer ratings used for corporate finance, due to the non-applicability of issuer ratings for structured finance transactions. For structured finance, a tranche is defined as a class of securities or certificates within the same rating category. Similarly rated tranches from the same deal at issuance were treated as one observation. The tracking of rating performance of all structured finance tranches in each cohort is similar to that of corporate finance, with the inclusion of ratings outstanding at the beginning and end of each year.

Fitch's continuing data-enhancement efforts may result in slightly different statistics than in previously published studies. Therefore, this most recent study supersedes all previous versions. In addition, comparisons with earlier Fitch Thailand National Ratings transition and default studies should be viewed within the context of the differing methodologies, whether rating movements were analysed across the broad rating categories or at both modifier and flat levels.

Transition Rates

In order to calculate one-year transition rates, Fitch examines the performance of ratings outstanding at the beginning and end of a calendar year, i.e. the ratings must be outstanding over a full year or over the full period under observation. Withdrawn ratings are excluded from the transition table calculations, as they do not fit this criteria.

Issuer or tranche ratings may reside in multiple static pools, as long as their ratings are outstanding at the beginning and end of the year or multiple-year horizons under observation. For example, the annual performance of an issuer rating initiated in 2005, outstanding at the beginning of 2006 and withdrawn in 2009, would therefore be included in the 2006, 2007, and 2008 static pools. The rating's performance over multiple-year horizons would also be included in the two-year and three-year transition rates for each of the cohorts noted, but excluded from four-year transition rates as the rating was withdrawn in year four and was not outstanding for four full years as part of any cohort.

The occurrence and timing of both rating upgrades and downgrades for corporate issuers can be attributed to changes in qualitative and/or quantitative factors. Both qualitative and quantitative measures are used to assess the business and financial risks of corporate issuers. Qualitative analysis includes examining industry risk, operating environment, market position, management, and accounting policies. In contrast, the quantitative aspect of Fitch's corporate ratings focuses on a company's policies in relation to operating strategies, acquisitions and divestitures, leverage targets, dividend policy, and financial goals. An important component in the analysis is the company's ability to generate cash, which is reflected in the ratios that measure profitability and coverage by cash flow.

The rating transitions outlined in this study represent a distinct historical period, and may not represent future rating migration patterns. Transition rates are influenced by a number of factors, including macroeconomic variables, credit conditions and corporate strategy. It is useful to examine the performance of Fitch's ratings on a relative scale, within each rating category.

Fitch's Definition of Default

Fitch defines a default of corporate finance as one of the following:

- Failure of an obligor to make timely payment of principal and/or interest under contractual terms of any financial obligation.
- The bankruptcy filing, administration, receivership, liquidation or other winding-up or cessation of the business of an obligor.
- The distressed debt exchange (DDE) of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Default Rate

In the corporate finance arena, defaults are identified either through a missed payment, distressed debt exchange, or bankruptcy filing; furthermore, they are typically linked closely to unrecoverable losses. By comparison, defining defaults within structured finance is a more challenging task, since payments shortfalls can be both temporary or allowed under the terms of bond indentures.

Some structured bonds have features that allow notes to defer interest or pay-in-kind (PIK). Some can experience temporary interest shortfalls, which are inconsequential to a deal's performance and are cured relatively quickly. Lastly, structured bonds may also suffer write-downs to the original face value but continue to be active for an extended period of time. Therefore, for structured finance, Fitch tracks impairments, or defaults and near-defaults which include bonds rated 'CC' and below. This includes not only bonds in payment default but also where a default of some kind appears probable.

Fitch's default rates are calculated by issuer or tranche, rather than amount. First, defaults are examined by year for each cohort and individual rating category. For example, if 25 issuers defaulted in 2003, and the 2003 static pool contained 2,000 issuer ratings, the resulting annual default rate for all ratings in 2003 would be 1.25%. If 10 of these defaults consisted of defaults among issuers rated 'BB(tha)' at the beginning of the year, and the 'BB(tha)' cohort at the beginning of the year totalled 500, the 'BB(tha)' 2003 default rate would be 2% (10/500).

From these annual default rates, Fitch derives average annual default rates by weighing each cohort's default rates by the number of ratings outstanding in the given cohort relative to the number of total ratings outstanding for all cohorts. In other words, following the example above, the 2003 'BB(tha)' annual default rate of 2% might be followed by a 2004 'BB(tha)' annual default rate of 1%. A straight average of these two rates would ignore potential differences in the size of the two cohorts. Instead, weighing the results based on the relative number of 'BB(tha)' ratings outstanding in 2003 and 2004 gives greater emphasis to the results of the 'BB(tha)' cohort with the most observations.

The same technique is used to calculate average default rates over multiple-year horizons. For example, the two-year default rate for the 2003 'BB(tha)' rating pool would be averaged with the two-year default rate for the 2004 'BB(tha)' rating pool by weighting the default rates by the relative size of each pool.

Withdrawn Ratings

All public Fitch Thailand National Ratings are included in the static pool until the ratings are withdrawn. Subsequently, withdrawn ratings are excluded from future static pools.

Appendix 1

Figure 8

Fitch Thailand Corporate Finance National Rating Average Three-Year Transition Rates: 2002-2011

(%)	AAA(tha)	AA(tha)	A(tha)	BBB(tha)	BB(tha)	B(tha)	CCC to C (tha)	D(tha)	Total
AAA(tha)	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
AA(tha)	20.00	80.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00
A(tha)	0.00	6.49	84.42	9.09	0.00	0.00	0.00	0.00	100.00
BBB(tha)	0.00	0.00	21.28	76.60	2.13	0.00	0.00	0.00	100.00
BB(tha)	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00
B(tha)	0.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	100.00
CCC to C(tha)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. – No rating observations
Source: Fitch Thailand

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2012 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.