

Asia Capital Group PCL

ABOUT

In 2020, Asia Capital Group defaulted on some of its debt. The EDF metric and Early Warning Toolkit highlighted the company's rising default risk over 12 months ago.

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Thailand-based Asia Capital Group Defaults on Debt Payments

Asia Capital Group PCL, a Thailand-based company, provides a broad range of financial and corporate services to companies. It operates through two reportable segments: Lending and Call Center & Financial Services.

On February 7, 2020, the company defaulted on the principal payment of debentures worth THB 395.3 million due to financial hardships caused by the COVID-19 outbreak¹.

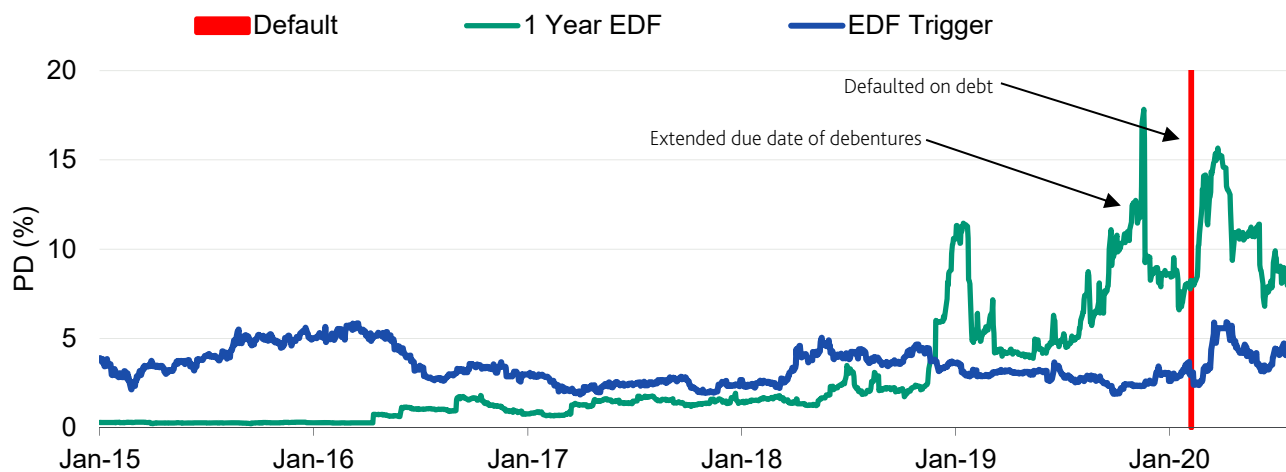
Could the EDF and Early Warning Toolkit Help Flag Rising Default Risk and Avoid Credit Losses?

Moody's Analytics produces a daily EDF™ (Expected Default Frequency) for all publicly traded firms, which measures the probability of default over the next 1 year. Our Early Warning Toolkit provides a framework for analyzing the EDF and additional insight for when a default event may be imminent. The toolkit examines default risk among five EDF-based metrics:

1. **EDF level:** This is the most important of the five measures and the starting point for credit assessment. To help guide decision-making, we produce trigger levels – calibrated by country and industry – above which firms show markedly higher default rates.

Asia Capital Group's EDF rose above its EDF trigger level at the end of 2019 and remained higher since the first quarter of 2020. EDF rose sharply during the last two years, indicating a high level of risk.

Figure 1: Asia Capital Group's EDF compared to its industry trigger level (South-East Asian Finance Group)



¹ [February 2020 Default, Press Release, March 3, 2020](#)

2. **EDF change:** Firms with an increasing EDF show a higher risk of default.

The EDF increased from 2% in November 2018 to 17% in November 2019 showing the risk of default. In February 2020, the company first defaulted on the repayment of interest payments, thus, the high EDF indicated the upcoming default. The EDF rose again in May 2020 when the firm defaulted again on repayment of debt payment².

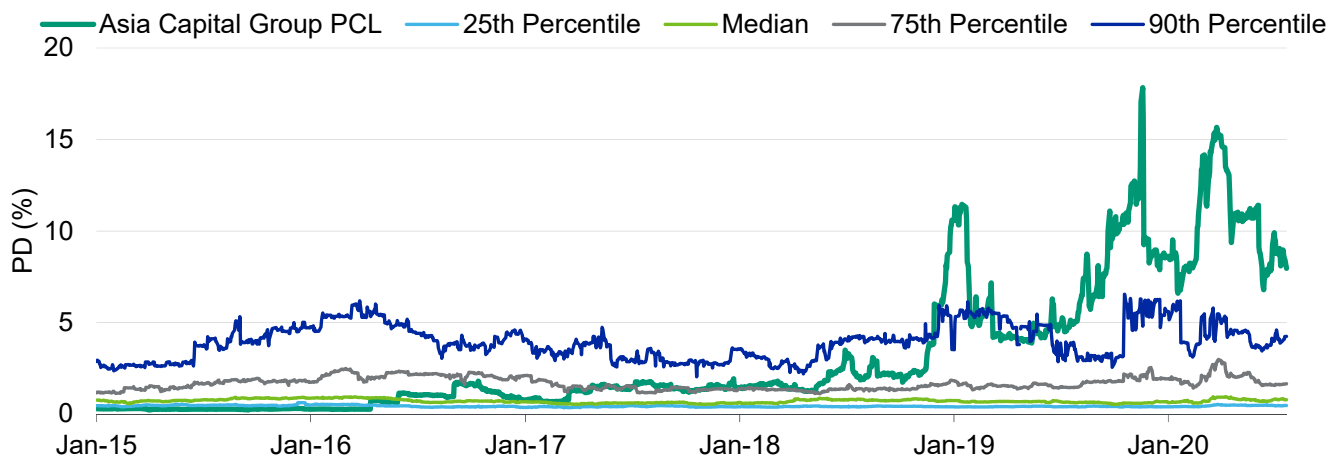
3. **Relative EDF level:** A firm with an EDF above its peer group's 75th percentile should be closely watched, and a firm above its peer group's 90th percentile may be at imminent risk of default.

Since 2018, Asia Capital Group EDF has been consistently above the 75th percentile of the peer group which includes 39 South-East Asian finance companies. It stayed above the 90th percentile of the group for most of the time since 2019.

4. **Relative EDF change:** Firms whose EDF is rising faster than its industry sector peers are at higher risk of default.

Figure 2 shows Asia Capital Group's PD relative to its peer group of 39 publicly-owned South-East Asian finance companies. Asia Capital Group's EDF moved above the 90th percentile of the group in 2019, showing company's EDF was deteriorating at a faster rate than its peers, thus indicating a very high probability of default.

Figure 2 Asia Capital Group's EDF compared to its peer group

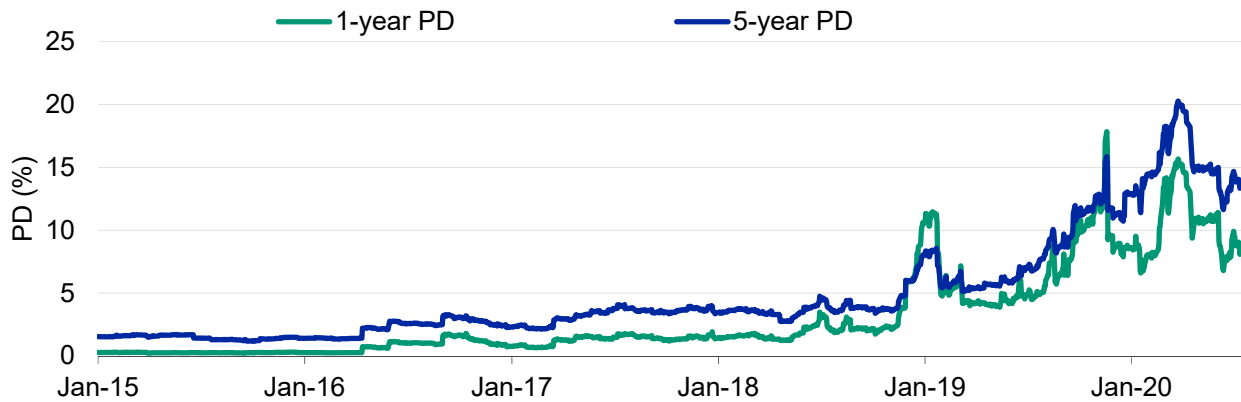


² [May 2020 Default, "Asia Capital Says Unable To Pay Interest For Bondholders Of ACAP20NA Due On 25 May", Reuters, May 25, 2020](#)

5. **EDF term structure:** When a firm's EDF term structure is inverted (i.e. the 5-year EDF sits below the 1-year EDF), our research suggests it is 13x more likely to default than a firm with a healthy, upward-sloping term structure.

The firm's 1-year EDF surpassed the 5-year EDF in January 2019 briefly, providing the signals of near-term default risk. Since 2019, the 1yr EDF has remained below the 5yr EDF thus yielding a normal upward sloping EDF term structure.

Figure 3 Asia Capital Group's 1 and 5-year EDF



Conclusion

Asia Capital Group PCL began showing signs of credit deterioration from 2018, with four out of five Early Warning Toolkit indicators confirming elevated risk from April 2017, with EDF reaching its highest level in November 2019. The firm reported a net loss in the first quarter of 2020, as a result of the non-payments by the customers, led by COVID-19. Due to these financial constraints, the company defaulted many times on repayment of debentures in 2020.

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