

MEGA INTERNATIONAL COMMERCIAL BANK PLC

No. 59/2017

9 June 2017

Company Rating: AA+

Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
10/07/15	AA+	Stable
31/01/07	A+	Stable

Contacts:

Annop Supachayanont, CFA
annop@trisrating.com

Saowanit Woradit
saowanit@trisrating.com

Sakda Pongcharoenyong
sakda@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Mega International Commercial Bank PLC (Mega ICBC) at “AA+”. The rating is based on Mega ICBC’s stand-alone credit profile and group support credit enhancement that reflect its status as a highly strategic subsidiary of Mega International Commercial Bank Co., Ltd. in Taiwan (Mega ICBC-Taiwan). Mega ICBC’s stand-alone credit profile is supported by a very strong capital position, an adequate risk management system, and a niche market position targeting Taiwanese small and medium enterprise (SME) and corporate customers. However, the bank’s stand-alone credit profile is weighed by its small market share in loans and deposits, business concentration risk in loans and deposits, and reliance on wholesale funding.

Mega ICBC is a wholly-owned subsidiary of Mega ICBC-Taiwan, a leading banking institution in Taiwan. Mega ICBC-Taiwan is rated “A/Stable” by Standard and Poor’s and “A1/Stable” by Moody’s Investors Service (Moody’s).

Mega ICBC started its operation as a foreign bank branch in Bangkok in 1947. It became a foreign bank subsidiary in 2005. Its parent bank, Mega ICBC-Taiwan, also has a presence in five other member countries in the Association of Southeast Asian Nations (ASEAN). In Thailand, Mega ICBC leverages its parent bank’s strong franchise and brand recognition to support its expansion efforts in the local commercial banking industry. The bank primarily serves a niche market of Taiwanese clientele operating in Thailand through its Bangkok head office and four branches in provincial areas. Many clients have a strong relationship with Mega ICBC’s parent bank in Taiwan. The majority of clients are in the manufacturing sector and operate in industrialised areas close to Bangkok.

Mega ICBC was among the smallest commercial banks operating in Thailand based on its end-of-2016 total asset size. The bank’s market shares in total loans and deposits were 0.14% and 0.1%, respectively. Credit business contributed a dominant portion of the bank’s earnings. Net interest and dividend income represented around 78% of total revenue in 2016, above peers’ average. A significant portion of the net fees and service income were also credit-related. The share of net fees and service income to total revenue was only 9%, below the Thai banking industry average. The bank offers treasury and foreign exchange products to meet the needs of its clients for offshore transactions. Foreign exchange gain, representing 11.4% of total revenue in 2016 and a part of non-interest income, has been a relatively stable and significant contributor to total revenue.

Mega ICBC has a very strong capital position, with its Basel-III compliant total capital ratio of 27.6% at the end of 2016, the highest of commercial banks operating in Thailand. The bank’s capital position is viewed as sufficient to support its business expansion in the next few years. Low margin businesses and low credit costs continue to characterise the bank’s earnings profile. Mega ICBC’s profitability, as indicated by its return on average assets (ROAA) of 1.15% in 2016, was comparable to peers, despite the below-average pre-provision ROAA of 1.61%. Cost-to-income ratio was at 43.9% in 2016, around peers’ average. As affected by the economic slow-down in recent years, its profitability has been on a downward trend, consistent with the rest of the industry. The bank’s earnings capacity is viewed sufficient to withstand potential volatility across a business cycle.

Despite the recent rise in credit cost reflecting deterioration in asset quality in a weak economy, Mega ICBC is still considered to have an asset quality in line with the industry norm. Mega ICBC's credit cost was 0.24% in 2016, rising from 0.06% in 2015, as the bank set aside additional provisions for rising special-mentioned and restructured loans. The special-mentioned (SM) loans rose from 3.7% to 4.9% of total loans between the end of 2015 and 2016, whilst non-performing loans (NPL) declined from 2.04% to 1.78% during the same period. Notwithstanding the rise of SM loans, the combined SM and NPL ratio was comparable to the industry average. Coverage ratios at the end of 2016 remained around the average level of peers, though the numbers were stronger in the previous year. The bank's recent loss experience based on its average credit costs over the past five years was the lowest among all commercial banks operating in Thailand.

The bank's limited business lines and its dedicated focus on Taiwanese clientele have resulted in a concentration in both its loan portfolio and funding. About 80% of its loan portfolio was in the manufacturing sector at the end of 2016, reflecting small- and medium-sized manufacturers as its core customer base. With about 71% of its total loans extended to SMEs, it has significant exposure concentration in a single customer segment when compared with other banks that have a more balanced portfolio comprising loans in retail, corporate, and SME segments. SMEs are generally more vulnerable to volatility in economic conditions due to their small size. Corporate borrowers made up 28% of the bank's total loans at the end of 2016. Because of the small size of its loan portfolio, the bank's exposure to some large corporate borrowers also made up a larger portion of the total loan portfolio when compared with other banks rated by TRIS Rating.

Like other foreign banks operating in Thailand, Mega ICBC does not have a strong base of retail deposit customers as a stable funding source. However, the bank has made good progress in attracting deposits from its SME and corporate customers, as reflected by strong deposit growth and less reliance on interbank borrowings in 2016. Deposits grew by 24.7%, whilst borrowings contracted by 45.2% year-on-year (y-o-y) at the end of 2016. Share of deposits to total funding including shareholders' equity rose to 58.2% at the end of 2016 from 46.3% in the previous year. Interbank borrowings, about a third from the parent bank, declined to 15% of the total funding including shareholders' equity at the end of 2016, from 27% a year earlier. Current account-savings account customer deposits (CASA) as a percentage of total deposits including bills of exchange (B/Es) was 63.2% at the end of 2016, around peers' average. The CASA ratio remained largely unchanged from the previous year. Concentration among large depositors, largely wholesale, to total deposits remained higher than other banks rated by TRIS Rating. What stood out in the bank's overall funding structure was the large contribution of shareholders' equity, reflecting its strong capital base. The bank's shareholders' equity as a percentage of total funding, at 26.9% at the end of 2016, remained the highest of all commercial banks in Thailand. The rise of deposit funding resulted in the loan-to-deposit ratio dropping to 134% at the end of 2016, a significant improvement from 161% a year earlier.

Mega ICBC's liquidity is adequate. Liquid assets to total deposits including B/Es were 41.1% at the end of 2016. Liquid assets to total assets were 23.7%. These values were comparable to the average of commercial banks in Thailand. The bank has sufficient liquid assets and back-up facilities to cover its funding needs. The liquidity coverage ratio was well above the regulatory requirement.

Rating Outlook

The "stable" outlook reflects the expectation that Mega ICBC will maintain its status as a highly strategic subsidiary of Mega ICBC-Taiwan and continue to receive strong support from its parent bank.

The credit rating and/or outlook of Mega ICBC could be affected if the credit profile of Mega ICBC-Taiwan changes or if our view changes concerning the strategic importance of Mega ICBC to Mega ICBC-Taiwan.

Mega International Commercial Bank PLC (Mega ICBC)

Company Rating:

AA+

Rating Outlook:

Stable

Financial Statistics¹

Unit: Bt million

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
Total assets	20,212	20,520	18,773	17,549	17,783
Average assets	20,366	19,647	18,161	17,666	17,743
Investment in securities	2,856	2,059	736	1,002	803
Loans and receivables	15,698	15,119	16,566	13,772	14,197
Allowance for doubtful accounts	388	348	340	334	323
Deposits	11,675	9,366	8,787	7,965	8,177
Borrowings ²	2,991	5,457	4,388	3,818	4,022
Shareholders' equities	5,386	5,412	5,354	5,356	5,357
Average equities	5,399	5,383	5,355	5,356	5,225
Total revenue	587	600	604	541	587
Net interest income	458	474	431	424	455
Allowance for impairment losses on loans	36	10	74	19	20
Net fee and service income	53	56	56	51	61
Gains on trading	67	63	81	57	61
Other operating income	7	7	36	9	10
Non-interest income	129	126	173	118	133
Operating expenses	257	242	234	207	218
Net income	234	278	236	252	269

1 Consolidated financial statements

2 Including interbank and money market

Key Financial Ratios¹

Unit: %

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Earnings					
Return on average assets	1.15	1.42	1.30	1.42	1.51
Return on average equities	4.33	5.17	4.42	4.70	5.14
Interest spread	1.98	2.09	1.93	1.87	2.05
Net interest margins	2.22	2.38	2.34	2.37	2.53
Net interest income/average assets	2.25	2.41	2.37	2.40	2.56
Non-interest income/average assets	0.63	0.64	0.95	0.67	0.75
Net fee and service income/total revenue	9.02	9.29	9.19	9.51	10.43
Gains on trading/total revenue	11.41	10.43	13.39	10.48	10.31
Operating expenses/total revenue	43.98	40.49	38.82	38.35	37.29
Cost-to-income	43.84	40.40	38.75	38.28	37.19
Capitalisation					
CET-1 ratio ²	26.66	25.60	27.40	30.22	30.42
Tier-1 ratio ²	26.66	25.60	27.40	30.22	30.42
BIS ratio ²	27.52	26.42	28.28	31.30	31.51
CET-1/BIS ratio ²	96.88	96.90	96.89	96.55	96.54
Asset Quality					
Credit costs	0.24	0.06	0.49	0.14	0.14
Non-performing loans/total loans	1.78	2.04	1.04	1.84	1.94
Allowance for loan losses/non-performing loans	138.68	112.91	196.62	130.51	117.15
Allowance for loan losses/required allowance ⁴	172.39	187.18	192.26	220.38	227.39
Funding & Liquidity					
CASA ratio ³	63.62	62.23	66.39	60.24	53.31
Loan-to-deposit ratio ³	134.46	161.43	188.53	172.91	170.63
Deposits/total liabilities ³	78.75	61.99	65.48	65.32	66.96
Liquid assets/total deposits ³ and interbank borrowing	32.69	38.08	18.75	34.16	31.34
Total loans/total assets	77.67	73.68	88.24	78.48	79.83

- 1 Consolidated financial statements
- 2 Group basis
- 3 Including bills of exchange
- 4 Based on Bank of Thailand's minimum requirement

TRIS Rating Co., Ltd.

Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com

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