

## Press Release

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### **TRIS Rating Affirms Company Rating and Outlook of "TNS" at "A+/Stable"**

TRIS Rating has affirmed the company rating of Thanachart Securities PLC (TNS) at "A+" with "stable" outlook. TNS's rating is enhanced from its stand-alone credit profile to reflect its status as a highly strategic subsidiary of the Thanachart Group. The stand-alone rating is based on TNS's experienced and prudent management team, the company's ability to maintain the market position of its core business, and its sufficient liquidity and capital position. The rating also takes into account the benefits TNS could realize from further utilizing Thanachart Bank PLC's (TBANK) nationwide branch network and corporate-client relationships to strengthen its market position. The rating is, however, constrained by the cyclical and volatile nature of the securities industry and the downward pressure on commission rates from intensifying competition.

The "stable" outlook reflects the expectation that TNS will maintain its status as a highly strategic subsidiary of the Thanachart Group and continue to receive strong support from TBANK.

The rating and/or outlook for TNS could be revised downward, should there be any changes in TBANK's credit profile or if our view on the degree of support changes. In contrast, a credit upside for TNS is limited, based on the current credit profile of TBANK.

As a fully-owned subsidiary of TBANK and a strategically important member of the Thanachart Group, TNS receives both TBANK's business and financial support and has been expanding its retail client base by using TBANK's branches. Over 30% of TNS's new brokerage accounts during the last few years were acquired through referrals from TBANK. TNS can also leverage TBANK's various financial services to provide total solutions to its clients. In addition to business support, TNS receives financial support from TBANK in the form of credit facilities. TNS has been granted a large credit line by TBANK. This business and financial support gives TNS an advantage over other securities firms that are not affiliated with a full-service commercial bank.

TNS has maintained its market share in the securities brokerage at 4%-5% over the past few years. The company's market share of 4.17% in 2016 ranked it seventh among 36 active brokers. In 2013, TNS entered into a business alliance with Daiwa Securities Group Inc. (Daiwa), Japan's second-largest securities firm. In 2015, TNS entered into a partnership with, Affin Hwang Investment Bank Berhad (Affin Hwang), Malaysia's biggest securities firm. Under the terms of the alliance, TNS and the partners will distribute co-branded research to foreign institutional clients, with an aim to expand services to the clients in key markets in Asia, Europe, and the United States (US). This move should help TNS rebuild its foreign client base.

TNS has been carrying on its books of sizable equity investments in a few listed companies. As of December 2016, these investments were worth Bt3 billion. While these investments provide dividend income, they also expose TNS to a certain level of market risks. Other than these investments, TNS has limited exposure to market risks. It mainly engages in proprietary trading for arbitrage purposes and for hedging its positions in derivative warrants (DWs), but does not engage in speculative day trading. TNS's credit risk exposure is considered sizable. The value of TNS's margin loan portfolio in 2016 represented 6.1% of industry-wide margin lending and 104% of its own equity. The value of the margin loan portfolio increased to Bt3.5 billion at the end of 2016, rising from Bt3.3 billion a year earlier. TRIS Rating expects TNS could control the credit risk from margin lending by strictly enforcing margin calls and forced sales, and by maintaining its stringent criteria for collateral and underwriting.

TNS's profitability has been strong and in line with its peers. The operating expenses remained under control, at 58% of net revenues in 2016, slightly lower than the industry average of 60%. However, TNS's average commission rate has been negatively affected by the intense competition. If the declining trend in TNS's commission rate persists, the management team may face some challenges on maintaining its profitability in the coming years. As of December 2016, the shareholders' equity stood at Bt3.4 billion. The company ended 2016 with a net capital ratio (NCR) of 48%, compared with the regulatory requirement of 7%.

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## **Thanachart Securities PLC (TNS)**

**Company Rating:**

A+

**Rating Outlook:**

Stable

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