

BUALUANG SECURITIES PLC

No. 242/2023
12 December 2023

FINANCIAL INSTITUTIONS

Company Rating: AA
Outlook: Stable

Last Review Date: 22/12/22

Company Rating History:

Date	Rating	Outlook/Alert
21/12/17	AA	Stable
19/09/12	AA-	Stable
18/11/11	A-	Positive
27/05/10	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bualuang Securities PLC (BLS) at “AA” with a “stable” outlook. The rating is one notch below the company rating assigned to Bangkok Bank PLC (BBL, rated “AA+/stable”) *, reflecting the company’s group status as a highly strategic subsidiary of BBL. BLS’s group status is underpinned by its strong business integration with and financial support from BBL.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of BBL

We consider BLS a highly strategic subsidiary of BBL. The company is wholly owned by BBL, the largest commercial bank in Thailand in terms of total assets size. Our assessment of BLS’s group status considers its important role as a capital market arm of BBL. The company offers a comprehensive range of investment products and services for the group’s clients.

The integration between BLS and BBL is evidenced in business referrals and collaborations. This helps BLS reach a broader range of customers and enhance brand recognition. Around 51% of the company’s newly added accounts for the first nine months of 2023 (9M23) were referred clients from BBL.

BLS’s business and risk management policies are determined and closely monitored by the parent bank via board representatives. BLS adopts the parent bank’s prudent risk management approach in operating its businesses. This is evidenced by BLS’s policy not to engage in proprietary trading as is the case with most other brokerage firms.

Maintaining leading market position

BLS holds a prominent market position in the securities brokerage industry, with a 9.6% revenue market share in the securities brokerage business in the first half of 2023 (1H23). The company has secured the top revenue market share for several consecutive years. Such dominance can be attributed to its strong presence in the retail segment. The company effectively caters retail investors by providing user-friendly investment tools and ongoing investment knowledge. The company’s revenue market share in the retail segment has gradually increased over the past five years to 10.6% in 1H23 from 8.5% in 2018.

Financial support from BBL

We expect BLS will continue to receive ongoing financial support from BBL in the form of credit facilities in the foreseeable future. At the end of September 2023, BLS had available credit facilities of THB29.1 billion from BBL and THB735 million from other financial institutions that help support its liquidity needs. The ongoing financial support the company receives from BBL demonstrates the parent bank’s strong and long-term commitment to the company.

Performance of securities companies declined, in-line with trading value

The average daily trading value of securities slowed down in the first 10M23. This resulted in a decline in performance of securities companies. According to TRIS Rating’s database, securities companies’ revenue declined by 62% in 10M23, compared with the same period of the previous year. Concerns about the recession in several countries and the central banks’ interest rate hikes to

* The company rating assigned to BBL is based on public information which TRIS Rating believes that it provides a sufficient basis for the assessment of credit profile of BBL. The rating is assigned without participation from BBL.

control inflation have resulted in volatility in the capital market. The average daily trading value of securities in 10M23 has dropped to THB55 billion, compared with THB77 billion in 2022. However, concerns about inflation may rise again due to the increasing geopolitical risk. This could impact investment sentiment globally and the volume of securities trading in the future.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that BLS will remain a highly strategic subsidiary of the BBL Group.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BLS will maintain its status as a highly strategic subsidiary of the BBL Group and continue to receive strong business and financial supports from its parent bank.

RATING SENSITIVITIES

A rating change is unlikely in the near term. Nonetheless, the rating and/or outlook on BLS could be revised upward or downward should there be material changes in BBL's credit profile that causes revisions of the rating and/or outlook on BBL or if there are changes in our assessment of BLS's group status as a highly strategic subsidiary of BBL.

COMPANY OVERVIEW

BLS was established by Bualuang Finance Co., Ltd. after it acquired the securities brokerage license of BOA Securities Co., Ltd. from BOA Finance Co., Ltd. in 2001. BLS's initial paid-up capital was THB100 million.

In December 2001, BLS strengthened its competitive position in the securities business by acquiring the retail brokerage business of JP Morgan Securities (Thailand) Ltd. (JP Morgan), formerly known as JF Thanakom Securities Co., Ltd. At the time of the acquisition, JP Morgan was one of the top three securities firms in Thailand. BLS bought the related assets, and the staff of JP Morgan became employees of BLS. As a result of a capital injection by Bualuang Finance and JP Morgan, BLS's paid-up capital increased to THB200 million from THB160 million.

In 2002, BLS acquired JP Morgan's private fund management business. BLS was authorized by the Securities and Exchange Commission (SEC) to operate other securities-related businesses including private fund management, financial advisory services, and act as a selling agent. An additional private placement offering to existing shareholders (mainly BBL and JP Morgan) raised BLS's paid-up capital to THB250 million at the end of 2002. During the last quarter of the same year, BLS began offering internet trading services to its clients.

In 2004, BLS lowered its par value to THB2 per share from THB10 and offered seven million new shares to directors and employees. In November of the same year, the company issued THB300 million in convertible debentures to BBL.

The debentures could be converted into 20.5 million shares when exercised. At the end of 2004, paid-up capital stood at THB264 million.

The company was listed on the Stock Exchange of Thailand (SET) in February 2005 by offering 40 million shares, comprising 27.5 million new shares and 12.5 million shares from existing shareholders, at THB12 per share. The proceeds from the initial public offering (IPO) and the conversion of BBL's convertible debentures raised paid-up capital to THB360 million at the end of 2005. BBL's shareholding in BLS was reduced to 56.34% from 61.29% after the IPO.

To improve the quality of research and staff capabilities as well as to expand the securities brokerage business to markets abroad, BLS signed a "Research Support Agreement" with a company in the Morgan Stanley Group in 2006. This contract was later converted to an "Exclusive Partner Agreement" in 2007. Overseas trading volume improved substantially as a result of this strategic partnership, leaping to as high as THB100 billion in 2007 (32% of BSL's total trading volume) from THB23 billion in 2005 (9% of total volume). Apart from the constant flow of brokerage business and the research collaboration, BLS benefits from the occasional opportunity to co-host overseas road shows with Morgan Stanley.

BLS established a business referral program with BBL and signed an "Introducing Agent Agreement" in 2007. The aims of the agreement are to expand BLS's retail customer base and utilize the network of its parent company more efficiently. This arrangement did not work well in the beginning, but after years of adaptation, it has started to pay off.

In 2011, BLS paid a stock dividend to its shareholders at a ratio of one new share for every two existing shares. The stock dividend allowed BLS to reclassify THB180 million in retained earnings as paid-up capital. As a result, BLS's paid-up capital increased to THB540 million at the end of 2011, rising from THB360 million a year earlier.

In November 2011, BLS received a letter of intent from BBL. BBL intended to make a tender offer to purchase all of BLS's shares, subject to certain conditions. After those conditions were fulfilled, the tender offer was announced by BBL on 17 January 2012. The tender offer period covered 45 business days, starting from 18 January 2012, at a tender offer price of

THB22 per share. After the tender offer, BBL's shareholding in BLS reached 99.70%. BLS's shares were formally delisted from the SET on 7 April 2012.

BLS raised THB1.6 billion in new equity capital in November 2013. The company intends to use the new capital to expand its underwriting capacity, margin loan portfolio, and derivative warrant (DW) business.

In mid-2014, BLS set up a new subsidiary, Bangkok Capital Asset Management Co., Ltd. (BCAP Asset). The company created BCAP Asset to separate its asset management business from the securities business. BCAP Asset started operations in January 2015. All the private funds and provident funds managed by BLS will be transferred to BCAP Asset.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	14,133	20,558	18,968	15,690	13,889
Net Investment in securities	6,378	10,473	10,855	6,452	7,613
Total securities business receivables and accrued interest receivables	4,778	5,678	5,110	6,150	5,329
Allowance for doubtful accounts	101	101	101	115	127
Total debts	516	834	344	99	366
Shareholders' equity	8,582	9,318	10,286	8,972	9,307
Net securities business income	1,441	3,298	4,956	2,738	2,993
Total income	1,807	3,934	5,681	3,315	3,608
Operating expenses	868	1,958	2,412	1,808	1,773
Interest expenses	75	116	103	145	182
Net income	494	1,138	2,112	825	1,010

Unit: %

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Brokerage fees/total revenues	56.4	65.4	67.2	76.9	48.2
Fee and service income/total revenues	16.1	14.4	15.2	22.3	23.5
Gain (loss) from trading/total revenues	5.1	6.5	9.4	(14.6)	10.7
Operating expenses/net revenues	50.1	51.3	43.2	57.0	51.7
Pre-tax margin	36.1	37.0	47.2	31.9	37.1
Return on average assets	5.7 *	5.8	12.2	5.6	7.1
Earnings before tax/risk-weighted assets	3.4 *	3.6	7.3	3.3	5.1
Asset Quality					
Classified receivables/gross securities business receivables	4.7	2.1	1.4	1.4	1.8
Allowance for doubtful accounts/gross securities business receivables	2.1	1.8	2.0	1.9	2.4
Credit costs (reversal)	(0.0) *	0.2	(0.0)	(0.0)	(0.0)
Capitalization					
Leverage ratio	60.0	41.3	44.8	55.2	59.7
Risk-adjusted capital ¹	24.7	21.5	22.3	24.6	29.5
Funding and Liquidity					
Gross stable funding ratio	185.1	182.0	253.8	223.9	263.2
Liquidity coverage metric (times)	7.3	7.0	13.4	12.1	7.9

* Annualized

¹ Adjusted

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022

Bualuang Securities PLC (BLS)

Company Rating:	AA
Rating Outlook:	Stable

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