

COUNTRY GROUP HOLDINGS PLC

No. 176/2021
18 October 2021

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Last Review Date: 16/10/20

Company Rating History:

Date	Rating	Outlook/Alert
22/10/18	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Country Group Holdings PLC (CGH) at “BBB-” with a “stable” rating outlook. The rating mainly reflects the business position of its core operating entity, Country Group Securities PLC (CGS). The rating also takes into account CGH’s strong capital, leverage, and earnings assessment, together with adequate funding and liquidity position. However, the rating is constrained by the company’s risk profile from our concerns over its investments.

KEY RATING CONSIDERATIONS

Improved market position in securities brokerage business

CGH’s business position is supported by the increased business stability of CGS, its core operating subsidiary. CGS has shown continuous growth in revenue share in the brokerage business over the past few years, rising to 2.3% in 2020 from 1% in 2018. The share reached 2.4% in the first quarter of 2021 (1Q21). Its derivatives brokerage revenue share also improved significantly, ranking first in the industry in 2020 with a share of 12.6% from 2.6% in 2018. The share was 13.8% in 1Q21. The improvements were mainly owed to an expanded customer base, thanks to an enlarged marketing team and active event organizations.

CGS plans to keep expanding its marketing team and ramping up its marketing efforts to reach out to more clients. The company is also developing its own online trading platform to cater to a larger client base. We expect CGS’s increased market presence in the securities brokerage business to further strengthen CGH’s business position.

Reliance on brokerage fees

On a consolidated basis, the company relies mainly on CGS’s brokerage fees as its primary revenue source. While the brokerage revenue has been steadily increasing over the past few years, it subjects both CGH and CGS to the fluctuations in market turnover. That said, there is room to increase revenue diversification for CGS. For 1H21, CGS’s brokerage fees contributed 68% of its total revenue, slightly higher than the industry average of 59%. Fees and service income currently remains modest, at 8% of total revenue, compared with the industry average of 18%, despite gradual improvements in selling agent fees.

CGH has seen a positive development in notably stronger revenue contributions from associated companies, which rose to 7% in 1H21 from 4% in 2020, thanks mostly to MFC Asset Management PLC’s (MFC) improved performance. However, the contribution is still insignificant, in our view. CGH’s recent increased stake in Padaeng Industry PLC (PDI) to 39% from 25% and the change in PDI’s investment direction towards higher-risk assets has put pressure on its overall credit profile. More concrete evidence of revenue and earnings stability from the companies within the group will be needed to improve the group’s credit profile.

Capital, leverage, and earnings remained strong

CGH’s rating is supported by its strong capital and leverage assessment as measured by a risk-adjusted capital ratio (RAC) of approximately 17% on a 5-year average. We expect the company’s capitalization to remain strong over the medium term due to capital accretion from CGS’s improving

profitability and CGH's conservative dividend policy. However, rapid expansion of the company's investment portfolio that gives rise to high financial leverage could put pressure on its capital and leverage assessment and ultimately the company rating.

Our assessment of CGH's capital, leverage, and earnings is based principally on its moderate earnings capability. For 1H21, risk-weighted assets (EBT/RWA) rose to 1.3% from 0.4% in 2019-2020 due to stronger pre-tax earnings. We expect the company's earnings capacity to gradually improve compared with the past with EBT/RWAs of around 0.7% on a 5-year average. This could be driven mainly by stronger revenue and operating expense control at CGS.

Moderate risk profile

For CGH's securities business, we view that CGS has acceptable credit risk policies as seen in its prudent credit underwriting criteria and strict margin maintenance for both equity margin lending and derivatives trading. This was evident from its credit costs of 0.01% for the first 6 months of 2021, compared with the industry average of 0.04%.

CGH is exposed to a certain degree of market risk due to its principal trading activities, which involve fixed income trading as well as tactical trading and long-term, high-conviction equity investments. Nonetheless, we view that the company has adequate risk control policies in place to prevent major unexpected losses from trading activities, including stop loss criteria, loss limit per trader, and investment holding limits.

In our view, the pressure on CGH's risk profile is the concerns over its investments as sizable investments in companies with cash flow uncertainty may put pressure on the company's rating. For example, the company increased its shareholding stake in PDI (rated BB/Negative by TRIS Rating) to 39% from 25% via PDI's rights offering with a total investment of THB565 million. PDI is changing its business entirely from the power sector that is considered a stable cash flow generator, in our view, to the hospitality business that is hard hit by the COVID-19 pandemic. The recovery prospect of the industry remains uncertain. PDI's name has been changed to Bound and Beyond PLC (BEYOND) to reflect the business transformation.

Adequate funding and liquidity

We assess the company to have an adequate funding and liquidity profile as measured by a 5-year average gross stable funding ratio (GSFR) of around 117% and a liquidity coverage metric (LCM) of around 1.2 times on a consolidated basis, demonstrating that the company had sufficient stable funding source to fund its operations. Although CGH currently does not have credit facilities from financial institutions, its investment portfolios can partly serve as liquidity sources in times of needs. At the end of June 2021, CGH had a total investment portfolio of THB2.9 billion. The company also has accesses to both equity and debt capital markets, which help support its financial flexibility. At the end of June 2021, the company had outstanding debentures totaling THB880 million on a consolidated basis.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for CGH's operations in 2021-2023 are as follows:

- Market share by securities trading value to be around 2.5%-3%
- Average commission rate to be approximately 7 basis points (bps).
- Ratio of operating expenses to net revenue to hover around 60%.
- Investment in associated companies to be around THB2 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that CGS, as the core operating subsidiary of CGH, will at least maintain its market position in the securities business as well as its financial performance. The outlook is also based on an expectation that CGH will maintain its capital and leverage levels while also exercising prudent investment policies.

RATING SENSITIVITIES

CGH's credit upside would materialize if the market positions across broad business lines of CGS improve materially for a sustained period while its earnings capability is sustained. The rating upside may also materialize if CGH's future investments bring about concrete diversification of its revenue sources. On the contrary, the rating and/or outlook could be revised downward if there is significant deterioration in CGS's earnings or in CGH's own financial performance or a surge in CGH's leverage level that leads to weaker capital, leverage, and earnings position.

COMPANY OVERVIEW

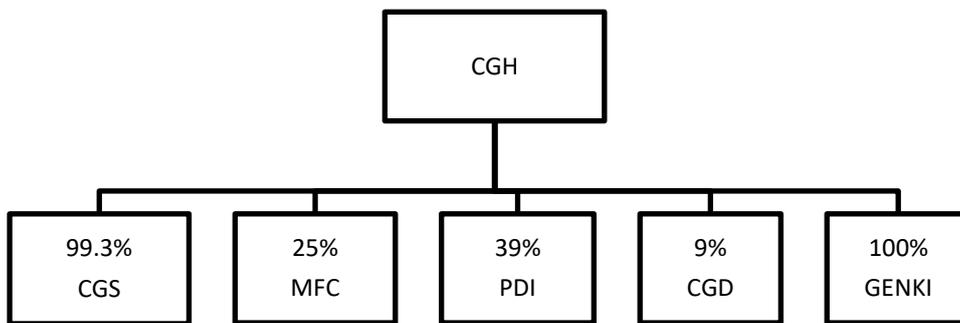
CGH is an investment holding company that makes long-term investments in various business sectors. The company was established on 15 May 2014 as part of a restructuring plan of CGS. CGH made an offer to purchase all the securities of CGS at the exchange rate of one common share of CGS for one common share of CGH. After successfully completing the offer, CGH became the major shareholder of CGS. CGH then replaced CGS to become listed on the Stock Exchange of Thailand (SET) on 8 January 2015, with CGS as a core subsidiary. CGH’s subsidiaries and affiliated companies currently include Genki Capital Co., Ltd., MFC, PDI, and Country Group Development PLC (CGD). Investment in CGH’s affiliated companies totalled THB1.68 billion in 2017, of which 31.5% was in MFC and 68.5% was in PDI.

In 2015, CGH increased its paid-up capital to THB4.34 billion from THB2.57 billion at the allocation ratio of one existing ordinary share per one ordinary share at THB1.30 per share. During the same year, the company acquired additional stakes in PDI for a total stake of 20.70%, resulting in PDI becoming an associated company of CGH. CGH then established Genki Power Co., Ltd. with capital of THB100 million on 1 February 2016.

In 2016, CGH increased its shareholding in PDI to 24.9% of PDI’s paid registered capital. In 2017, CGH had total registered capital of THB6,075,927,916 and total paid-up capital of THB4,336,768,278. On 17 May 2017, the company changed the registered company name of Genki Power to Genki Capital .

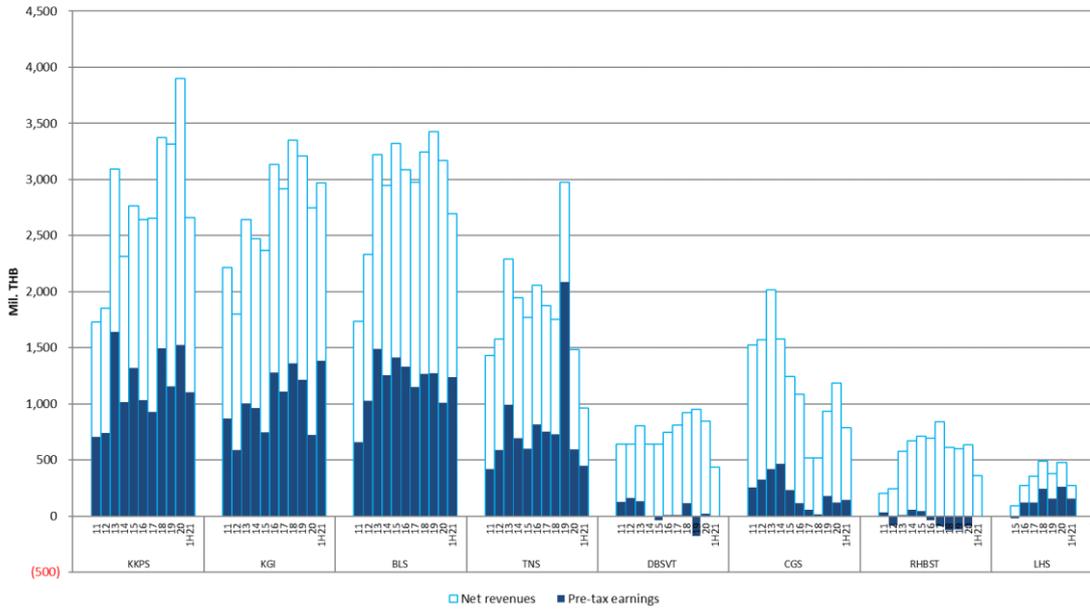
In July 2021, CGH increased its stake in PDI to 39% from 25% via a rights offering with an investment totaling THB565 million.

Chart 1: CGH Group Structure as of Sep 2021



KEY OPERATING PERFORMANCE

Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2021



Sources: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	9,020	9,349	8,825	9,160	8,804
Net Investment in securities	2,878	3,724	4,217	4,612	4,262
Total securities business receivables and accrued interest receivables	2,307	2,459	2,258	1,682	1,098
Allowance for doubtful accounts	409	409	369	360	376
Total debts	1,090	1,101	1,305	1,248	1,224
Shareholders' equity	5,449	5,300	5,761	5,887	6,190
Net securities business income	634	962	773	392	482
Total income	949	1,418	1,076	617	851
Operating expenses	548	867	683	512	538
Interest expenses	55	131	91	82	12
Net income	174	143	84	(35)	235

Unit: %

	Jan-Jun 2021	----- Year Ended 31 December -----			
		2020	2019	2018	2017
Profitability					
Brokerage fees/total revenues	68.4	68.8	50.7	48.7	25.2
Fees and services income/total revenues	7.8	6.8	11.6	12.3	6.1
Gain (loss) from trading/total revenues	2.6	3.1	16.7	9.1	26.0
Operating expenses/net revenues	61.4	67.4	69.3	95.8	64.1
Pre-tax margin	23.0	11.1	13.8	(11.3)	26.6
Return on average assets	3.8*	1.6	0.9	(0.4)	2.8
Earning before tax/risk-weighted assets	1.3*	0.4	0.4	(0.2)	0.9
Asset Quality					
Classified receivables/gross securities business receivables	18.6	17.5	17.2	23.1	36.2
Allowance for doubtful accounts/gross securities business receivables	17.7	16.6	16.3	21.4	34.2
Credit costs (reversal)	0.0 *	2.2	0.5	(0.7)	1.1
Capitalization					
Leverage ratio	64.6	61.3	68.0	65.4	68.6
Risk-adjusted capital	19.2	18.2	17.8	20.9	23.1
Funding and Liquidity					
Gross stable funding ratio	135.3	125.5	121.3	126.6	148.2
Liquidity coverage metric	2.0	1.6	1.2	10.9	18.0

** Annualized*
RELATED CRITERIA

- Securities Company Rating Methodology, 9 April 2020

Country Group Holdings PLC (CGH)

Company Rating:	BBB-
Rating Outlook:	Stable

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