

COUNTRY GROUP HOLDINGS PLC

No. 180/2022
17 October 2022

FINANCIAL INSTITUTIONS

Company Rating: BBB-
Outlook: Stable

Last Review Date: 18/10/21

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 primarily reflects the improved business position of its core operating subsidiary, Pi Securities PLC (Pi). However, this positive development was offset by the weakening earnings capability of the group. The rating also reflects CGH’s ability to maintain strong capital as well as an adequate funding and liquidity position.

KEY RATING CONSIDERATIONS

Improved market position

CGH’s business position is supported by the increased business stability of Pi, its core operating entity which contributed 98% of CGH’s consolidated revenue in the first six months of 2022. Pi’s revenue share in the securities brokerage business has continued to improve over the past years, rising to 2.7% in 2021 and the first half of 2022 (1H22) from 0.9% in 2017. Pi’s derivatives brokerage revenue share also improved significantly, ranking first in the industry with a share of 14.5% in 2021 and 15.0% in 1H22 from 0.4% in 2017. The improvements were driven by an expanded customer base, enlarged marketing team, and active marketing via events and training programs.

Pi is in the process of launching a new investment application that encompasses multi-asset classes, including traditional financial instruments and digital assets to cater to a larger retail client base. We believe Pi’s increased market presence and service channels in the securities brokerage business will support CGH’s business position.

Securities brokerage remains core revenue contributor

On a consolidated basis, CGH relies predominantly on Pi’s brokerage fees as its primary revenue source. Despite the steady improvement in brokerage revenue over the past few years, we view that reliance on brokerage revenue subjects both CGH and Pi to fluctuations in capital market turnover. That said, there is room to increase revenue diversification for CGH. For Pi itself, in 1H22 brokerage fees contributed 82% of its total revenue, higher than the industry average of 60%. Fees and service income currently remains moderate, at 9% of total revenue, compared with the industry average of 16%.

CGH’s two associated companies recorded a combined loss of THB39 million in the first six months of 2022. This was mainly the result of a loss of THB74 million after Bound and Beyond (BEYOND) changed its business to hospitality in the fourth quarter of 2021. The contribution from BEYOND is likely to improve once tourism fully recovers in the next few years. At the same time, MFC Asset Management PLC’s (MFC) contribution has also been lower due to a change in market sentiment.

In 2021 CGH invested in new businesses involving digital assets management and brokerage. We expect the revenue contributions from these new investments to remain insignificant in the near term. More concrete evidence of revenue and earnings stability from the companies within the group will be needed to improve the group’s business diversification.

Strong capital but weaker earnings

We assess CGH’s capital and leverage position as strong as measured by a risk-adjusted capital ratio (RAC) of approximately 17% on a 5-year average. Gradual

improvement in profitability and CGH's conservative dividend policy are likely to maintain the company's capital strength over the medium term. However, should future investments lead to significantly higher financial leverage, capital assessment and the rating could come under pressure.

CGH's earnings capability measured by earnings before taxes to risk-weighted assets (EBT/RWAs) declined to -0.02% due to weaker market condition and higher personnel expenses of Pi as well as losses from BEYOND's hotel operation. This compares with 0.6% in 2021 and 0.4% in 2019-2020. The 2021 figure excludes a one-time gain from the disposal of solar power plants in Thailand and Japan at BEYOND and gains from the purchase of a hotel. Over the next few years, CGH's EBT/RWA is likely to remain low as we expect Pi's operating costs to remain high, while hotel operations are likely to turn profitable in 2024.

A mixed risk profile

We believe that credit risk is acceptable as seen in Pi's prudent credit underwriting criteria and strict margin maintenance for both equity margin lending and derivatives trading. This was evident from its credit costs of -2.2% for the first six months of 2022, compared with the industry average of -0.04%.

CGH's market risk, which derives from principal trading and investment activities of fixed income instruments and equity at Pi, has also been declining. Its investment portfolio, particularly in fixed income instruments, has decreased over the last two years to about THB2 billion at the end of 2021 from THB4 billion at the end of 2019.

In our view, CGH's risk mainly derives from its sizable investments in diverse types of companies with uncertain cash flow, which have put pressure on its earnings capability. Recently, CGH invested in cryptocurrency projects and digital technology companies through its newly established subsidiary, Pi Ventures set up in Jan 2022 with a total investment of THB500 million.

Sufficient funding and liquidity

CGH's funding and liquidity position is adequate, in our view. Although CGH currently does not have credit facilities from financial institutions, its investment portfolios can partially serve as liquidity sources in times of need. At the end of June 2022, the company had investments totaling THB2.4 billion. The company also has access to both equity and debt capital markets, which helps support its financial flexibility. At the end of June 2022, the company had outstanding debentures totaling THB1.2 billion on a consolidated basis.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for CGH's operations in 2022-2024 are as follows:

- Market share by securities trading value to be around 2.5%-3.0%
- Average commission rate to be approximately 7 basis points (bps).
- Ratio of operating expenses to net revenue to hover around 80%.
- Investment in associated companies to be around THB2.5 billion.

RATING OUTLOOK

The "stable" outlook reflects our expectation that Pi, as the core operating entity of CGH, will at least maintain its market position in the securities business as well as its financial performance. Additionally, the outlook is 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 position of Pi across broad business lines improves materially for an extended 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 Pi's earnings or in CGH's own financial performance or a surge in CGH's leverage level that leads to a 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 Country Group Securities or CGS (recently rebranded as Pi Securities). CGH made an offer to purchase all the securities of CGS at an 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 was then listed on the Stock Exchange of Thailand (SET) in place of CGS 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). Investments in CGH’s affiliated companies totaled THB1.68 billion in 2017, of which 31.5% was in MFC and 68.5% in PDI.

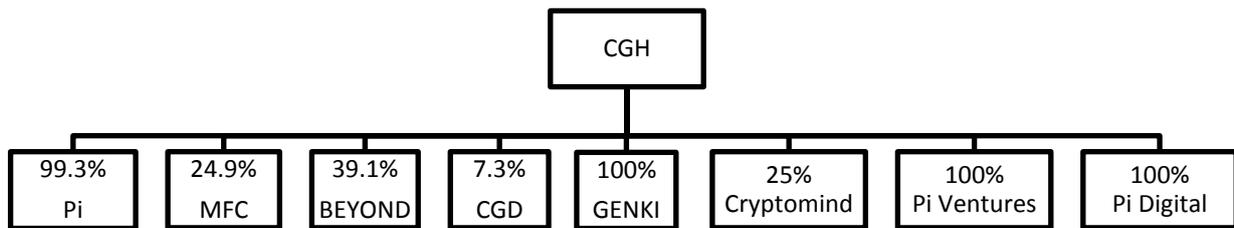
In 2015, CGH increased its paid-up capital to THB4.34 billion from THB2.57 billion at an allocation ratio of one existing ordinary share per one ordinary share at THB1.30 per share. During the same year, the company acquired additional stakes in PDI for a total stake of 20.70%, resulting in PDI becoming 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-up 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. In October of the same year, PDI was rebranded as Bound and Beyond (trading symbol: BEYOND).

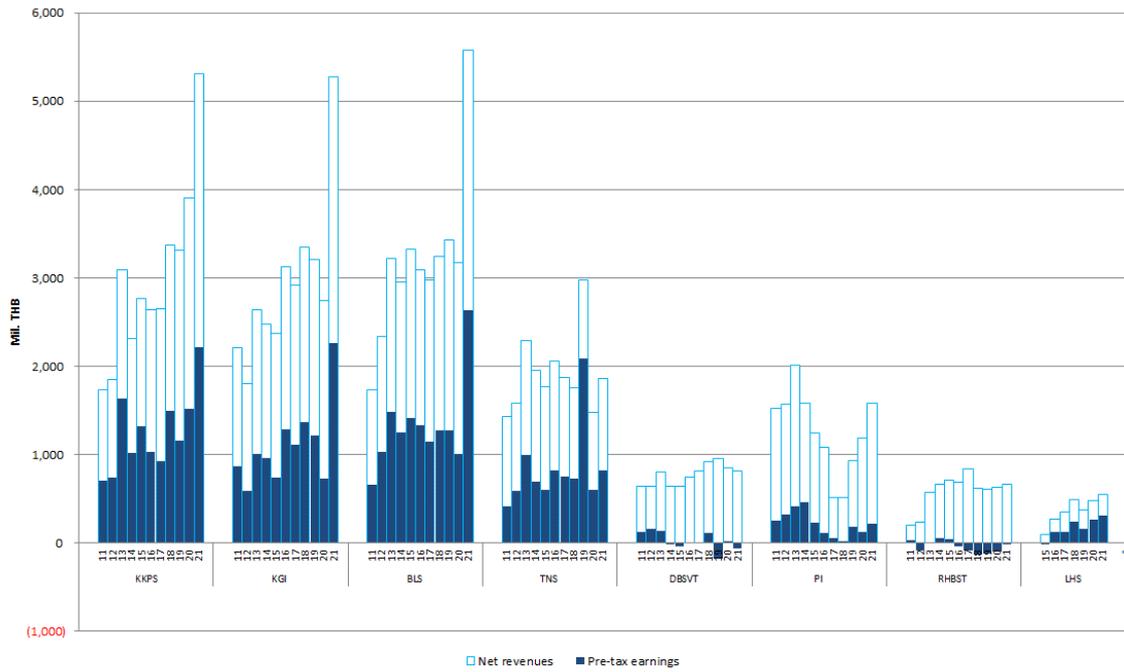
In February 2022, CGS was rebranded as Pi Securities. Later in the year, CGH established Pi Ventures Co., Ltd with registered capital of THB5 million. This later increased to THB129 million with a plan to further increase registered capital to THB500 million for investment in cryptocurrency projects and digital technology, or other businesses with strong potential. CGH also invested an additional THB15 million in Cryptomind Group Holdings which resulted in an increase in the shareholding from 12.5% to 25.0%. In addition, CGH founded Pi Digital Co.,Ltd with registered capital of THB 5million with a plan to increase registered capital to THB100million to operate as a digital asset brokerage for the trading or exchange of digital assets.

Chart 1: CGH Group Structure as of September 2022



KEY OPERATING PERFORMANCE

Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2021



Sources: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	9,742	9,155	9,349	8,825	9,160
Net Investment in securities	2,389	2,244	3,724	4,217	4,612
Total securities business receivables and accrued interest receivables	2,407	2,175	2,459	2,258	1,682
Allowance for doubtful accounts	384	409	409	369	360
Total debts	1,603	1,171	1,101	1,305	1,248
Shareholders' equity	5,929	6,014	5,300	5,761	5,887
Net securities business income	553	1,318	962	773	392
Total income	744	2,414	1,418	1,076	617
Operating expenses	576	1,167	867	683	512
Interest expenses	59	119	131	91	82
Net income	(20)	766	143	84	(35)

Unit: %

	Jan-Jun 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Profitability					
Brokerage fees/total revenues	82.1	53.7	68.8	49.5	47.0
Fees and services income/total revenues	8.7	6.5	6.8	12.8	13.9
Gain (loss) from trading/total revenues	1.0	4.5	3.1	16.7	9.1
Operating expenses/net revenues	84.0	50.8	67.4	69.3	95.8
Pre-tax margin	(0.6)	36.4	11.1	13.8	(11.3)
Return on average assets	(0.4) *	8.3	1.6	0.9	(0.4)
Earning before tax/risk-weighted assets	(0.0) *	2.5	0.4	0.4	(0.2)
Asset Quality					
Classified receivables/gross securities business receivables	17.2	19.8	17.5	17.2	23.1
Allowance for doubtful accounts/gross securities business receivables	16.0	18.8	16.6	16.3	21.4
Credit costs (reversal)	(2.2) *	0.4	2.2	0.5	(0.7)
Capitalization					
Leverage ratio	65.7	66.1	61.3	68.0	65.4
Risk-adjusted capital	17.3	16.6	18.2	17.8	20.9
Funding and Liquidity					
Gross stable funding ratio	118.6	115.4	125.5	121.3	149.4
Liquidity coverage metric	1.7	1.6	1.6	1.2	10.9

** 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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