

# KIATNAKIN PHATRA SECURITIES PLC

No. 62/2022  
22 April 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** A  
**Outlook:** Stable

**Last Review Date:** 23/04/21

### Company Rating History:

Date	Rating	Outlook/Alert
26/04/19	A	Stable
26/04/18	A-	Positive
13/06/13	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Kiatnakin Phatra Securities PLC (KKPS) at “A” with a “stable” outlook. The rating primarily reflects the company’s status as a core subsidiary of Kiatnakin Phatra Capital PLC (KKP Capital), which in turn is a core entity under Kiatnakin Phatra Bank PLC (KKP). The rating on KKPS is equivalent to the company rating on KKP (“A/Stable” rated by TRIS Rating).

## KEY RATING CONSIDERATIONS

### Core subsidiary of KKP

KKPS’s increased integration with entities in the group through its effective client referral strategy has promoted greater synergies and stronger revenue contribution. In 2021, its total revenue and net profit accounted for 22% and 28% of KKP’s total revenue, respectively.

To enhance synergies, the company continuously expands investment product offerings to clients of KKP and KKP Asset Management Co., Ltd. (KKPAM). Also, KKPS has helped KKP expand its deposit base by offering deposit accounts with KKP to KKPS’s wealth management clients for settlement of investment transactions.

As a wholly owned subsidiary of KKP, the company also receives funding support from KKP through a long-term credit facility to support liquidity needs. The shared brand name with KKP further reflects the company’s close association with the group.

### Strong franchise in capital market business

KKPS’s well established market presence in various business lines demonstrates its role as an important capital market arm, effectively meeting the group’s long-term strategic objective.

For the first six months of 2021 (1H2021), the company ranked sixth among peers in terms of securities brokerage revenue with a 5% share. Revenue from investment banking (IB) also remained solid. Based on our database, KKPS ranked top in the industry in 1H2021 in terms of revenue share, thanks to its collaboration with KKP’s corporate banking and strong IB franchise.

Its wealth management business also continues to strengthen with more client referrals from KKP. At the end of December 2021, the company’s asset under advisement (AUA) increased by 23% to THB734 billion from THB598 billion at end-2020.

### Robust financial performance driven by fee income

Steady improvement in KKPS’s financial performance reiterates its importance to the group as a major earnings contributor. In 2021, the company’s net profit increased by 46% from 2020 thanks to the healthy growth of brokerage fees and fees and service income, and well-controlled operating costs.

The enlarged recurring fee and services income, which rose to 39% of total revenue in 2021 from 25% in 2020, has also improved its business diversity. We expect its strong fee income generation to continue, supported by product cross-sales and client referrals within the group.

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### Risk management aligned to group

The company continues to adhere to the risk management policies of KKP, which is regulated by the Bank of Thailand (BOT). Its policies and management of credit risk and market risk are also under supervision of the group's risk management committee, reinforcing the high level of integration with the group. In terms of market risk, the company adheres to the group policies of pursuing low-risk trading strategies (such as the non-directional arbitrage trading strategy) to control its market risk from investment and trading activities.

### Ongoing financial support from KKP

We believe KKP has the propensity to provide financial support to KKPS on a timely basis, if needed. Ongoing provision of sizeable credit lines from KKP also provides financial flexibility for KKPS's operations. In addition to credit lines from KKP, the company also has credit facilities from other financial institutions. At the end of January 2022, the company had credit facilities totaling THB4.0 billion, which should sufficiently fund the company's operations and cover any liquidity shortfalls.

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### BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that KKPS will remain a core subsidiary of KKP.

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### RATING OUTLOOK

The "stable" outlook reflects our expectation that KKPS will maintain its status as a core subsidiary of KKP and continue to receive strong support from its parent bank.

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### RATING SENSITIVITIES

The rating and/or outlook of KKPS is equivalent to and moves in tandem with those of KKP. The weakening of KKPS's group status in TRIS Rating's view may result in a rating downgrade for KKPS.

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### COMPANY OVERVIEW

PHATRA was spun off from Phatra Thanakit PLC in 1997, becoming a 99.99% owned subsidiary of Phatra Thanakit. Prior to the spin-off, its securities business had been conducted as a department within Phatra Thanakit since 1975. In 1998, PHATRA changed its name to Merrill Lynch Phatra Securities Co. Ltd. after Merrill Lynch & Co., Inc. (ML) and Kasikorn Bank PLC (KBANK) acquired 51% and 49% stakes in PHATRA, respectively. The company changed its name back to Phatra Securities PLC when ML and KBANK sold their combined stakes in Merrill Lynch Phatra Securities PLC to the current management team, employees, and selected investors in 2003. PHATRA became a public company and its shares were listed on the Stock Exchange of Thailand (SET) in 2005.

PHATRA has collaborated with ML since 2003. The alliance covers research, securities brokerage, and investment banking. In 2010, the company restructured. Phatra Capital was set up as a holding company and the Direct Investment (DI) portfolio was transferred from Phatra Securities to the newly set-up Phatra Capital. Phatra Capital was listed on the SET in place of Phatra Securities. The restructuring had three goals: to separate the risks of the agency business and the principal investment business, to give PHATRA more flexibility for future expansion efforts and strategic partnership opportunities, and to minimize conflicts of interest between the agency and principal investment businesses.

As of May 2015, Phatra Capital held a 99.9% stake in Phatra Securities. Before the merger with KKP, PHATRA's expansion efforts were constrained by limitations on capital, size, and business scope inherent in PHATRA's securities business license. The development of, and competition in, the country's and the region's financial markets threatened PHATRA's long-term competitive position. As a result, in April 2012, PHATRA's shareholders approved the merger with KKP at the annual general meeting. In September 2012, the merger was successfully completed. KKP now holds 99.9% of Phatra Capital.

In August 2020, the company's name was changed to Kiatnakin Phatra Securities PLC (KKPS), following the name change of its parent company to Kiatnakin Phatra Bank PLC (KKP), to reflect seamless integration within the financial group.

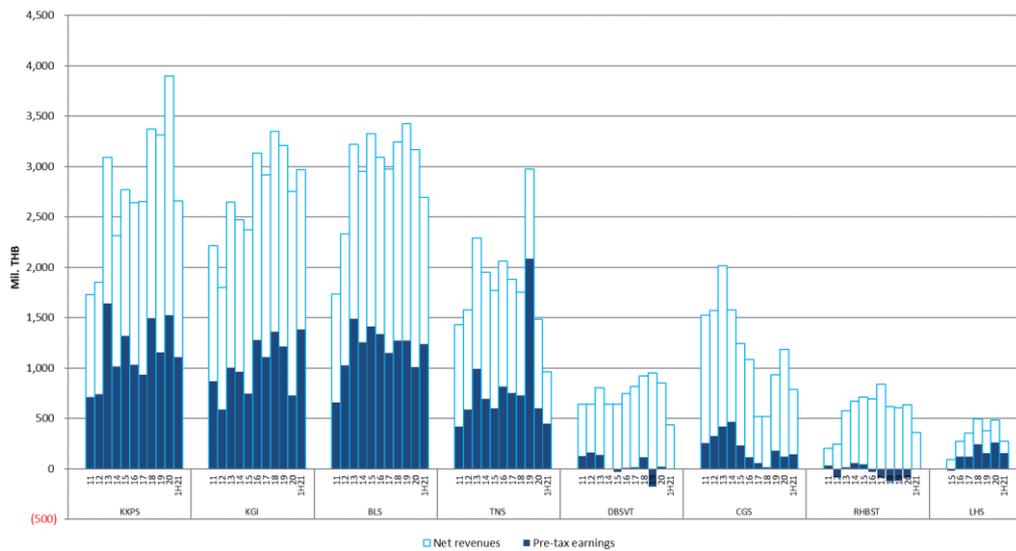
Chart 1: KKP Group's Structure as of 31 Dec 2021



Source: KKPS

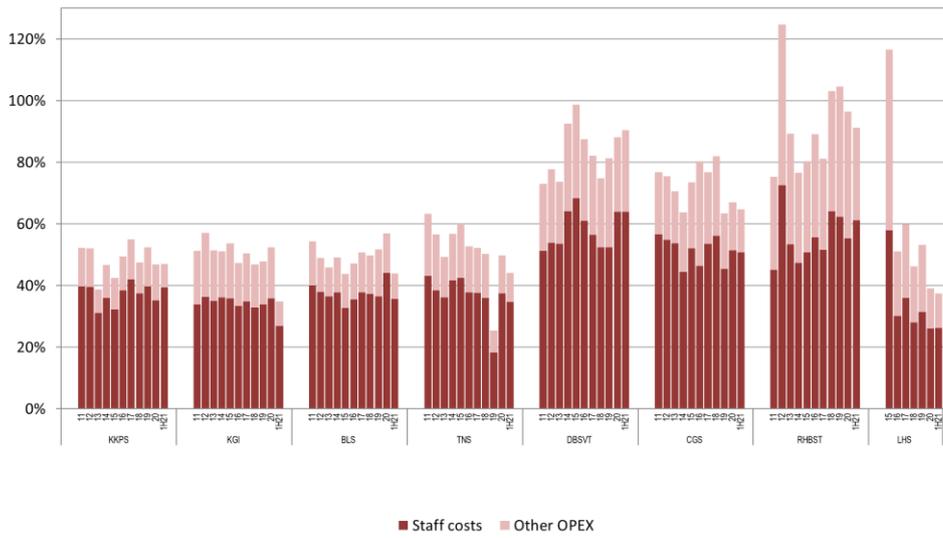
**KEY OPERATING PERFORMANCE**

Chart 2: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2021



Source: Financial statements of each company

**Chart 3: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H2021 (% of Net Revenues)**



Source: Financial statements of each company

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	29,625	14,814	20,672	15,957	20,750
Net Investment in securities	15,318	4,666	9,361	5,271	10,727
Total securities business receivables and accrued interest receivables	10,996	6,838	4,620	4,213	4,741
Allowance for doubtful accounts	-	-	-	-	-
Total debts	10,224	1,853	8,949	3,058	8,154
Shareholders' equity	6,190	5,467	5,312	6,100	5,653
Net securities business income	4,184	3,145	2,744	2,971	2,312
Total income	5,367	3,954	3,390	3,549	2,803
Operating expenses	2,429	1,832	1,756	1,604	1,459
Interest expenses	57	52	77	177	151
Net income	1,772	1,217	926	1,197	738

*Unit: %*

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
<b>Profitability</b>					
Brokerage fees/total revenues	36.2	41.9	40.7	36.3	45.7
Fees and services income/total revenues	39.4	25.4	32.0	31.1	31.5
Gain (loss) from trading/total revenues	8.6	19.3	9.7	10.7	5.6
Operating expenses/net revenues	45.8	46.9	53.0	47.6	55.0
Pre-tax margin	41.8	39.1	34.8	44.4	35.1
Return on average assets	8.0	6.9	5.1	6.5	3.5
Earning before tax/risk-weighted assets	4.8	4.7	3.5	4.1	1.9
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	0.0	0.0	0.0	0.0	0.0
Allowance for doubtful accounts/gross securities business receivables	0.0	0.0	0.0	0.0	0.0
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	14.9	28.6	21.2	30.8	23.7
Risk-adjusted capital	6.9	14.5	12.1	16.6	11.3
<b>Funding and Liquidity</b>					
Gross stable funding ratio	104.6	195.1	152.6	213.4	141.9
Liquidity coverage metric	1.1	2.1	1.0	1.7	0.9

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021

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**Kiatnakin Phatra Securities PLC (KKPS)**

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<b>Company Rating:</b>	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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