

LAND AND HOUSES SECURITIES PLC

No. 39/2023
21 March 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 17/03/22

Company Rating History:		
Date	Rating	Outlook/Alert
09/03/21	BBB	Stable

Contacts:

Jantana Taveeratanasilp
jantana@trisrating.com

Pawin Thachasongtham
pawin@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Land and Houses Securities PLC (LHS) at “BBB” with a “stable” outlook. The rating reflects our assessment of the company’s status as a strategically important subsidiary of LH Financial Group PLC (LHFG). The rating incorporates a three-notch group rating enhancement from LHS’s stand-alone credit profile (SACP) assessed at “bb”.

The company’s SACP incorporates its modest market position in the securities business, heavy reliance on investment income, as well as moderate capitalization and earnings. The rating also reflects the company’s adequate risk position as well as funding and liquidity.

KEY RATING CONSIDERATIONS

Strategically important subsidiary of LHFG

We assess LHS’s group status as a strategically important subsidiary of LHFG, which holds a 99.8% stake in LHS. LHFG has control over LHS’s business, investment and risk management policies, and closely monitors LHS’s performance.

LHFG has a long-term commitment to support LHS as determined by past capital injection and ongoing credit facilities. LHS serves as a securities arm of the LHFG Group to provide capital market services for the group’s customers and fulfill Land and Houses Bank PLC’s (LHBANK) universal banking aspiration. LHS’s reputation is also closely related with the group’s reputation given the shared brand name.

LHS further collaborates with LHBANK and LH Fund Management Co., Ltd. (LHFUND) to cross sell products and services to clients. In 2022, there has been positive momentum in the business collaboration between LHBANK and LHS through client referrals. 40% of LHS’s new accounts were referred from LHBANK in 2022, compared with 16% in 2021.

The group also plans to strengthen the synergy within the group through comprehensive product offering and integration through digital platform linkage. More synergy and collaboration with the group that translates into materially stronger financial performance at LHS could be positive for its credit profile.

Modest market share in securities business

LHS’s market presence is moderate. Its revenue share in the securities brokerage business was 0.7% for the first six months of 2022 (6M22). Revenue share in the derivatives brokerage business also remained modest, albeit having improved to 0.8% in 6M22 from 0.4% in 6M21.

We are of the view that LHS’s limited product offerings and services could somewhat constrain its competitive position and ability to attract new clients onto its platform.

Nevertheless, we expect the company’s market position in the securities brokerage business to gradually expand over the medium term from more robust collaborations within the group. The company plans to integrate digital platforms between LHS and LHBANK’s mobile application (LHB You) to offer customers a single sign-on and holistic view of total assets with the LHFG Group. This is due to be completed in September 2023 and should result in an expanded client base and revenue from more referrals from LHBANK.

Reliance on investment income remains

The company's revenue still hinges on dividend income from investment portfolios as a major revenue source. The high concentration weighs down on its business stability assessment. In 2022, interest and dividend income contributed 50% of the company's total revenue compared with the industry's three-year average of 6%. 17% of revenue came from the credit balance (margin loans) business, which grew at a 3-year compounded annual growth rate (CAGR) of 48% to THB2.2 billion in 2022.

Conversely, revenue from its core securities brokerage business fell to 30% in 2022 from 37% in 2021. This was due mainly to a decline in overall market volume and a slight drop in LHS's brokerage trading volume market shares to 0.49% in 2022 from 0.57% in 2021. More diversified revenue source and higher contributions from the securities brokerage business would be positive for the company's business position.

Capital position to recover

LHS's capital and leverage position, as measured by the risk-adjusted capital (RAC) ratio, dropped to 6.1% in 2022 from 6.8% in 2021. This was largely due to the losses on revaluation of investments (most of which are unit trusts) and partially from the expansion of the margin loan business. We expect the decline in market price of the unit trusts to be temporary and thus the drop in RAC ratio to reverse. In the medium term, we project the company's RAC ratio to gradually improve and hover around 6.5% thanks to profit accretion, conservative dividend policy, and restraint of investment portfolio.

Gradual improvement of earnings capacity

We expect the company's earnings capacity to remain modest but to follow an improvement trend. We estimate a ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs) of 0.6% over the next few years. Its EBT/ARWAs declined to 0.4% in 2022 from 0.8% in 2021 due to one-time provisions. Excluding these one-time expenses, EBT/ARWAs would have declined marginally to 0.7% in 2022. Nevertheless, the company's operating costs remained well managed, with operating expenses to net revenue of 36.8% in 6M22, lower than the industry average of 58.6%. Effective cost management, ongoing business expansion, and group collaborations should help support earnings capacity for LHS in the longer term.

Adequate risk profile

LHS has an acceptable risk profile, in our view, as it complies with the risk control policies of LHFG, a financial group regulated by the Bank of Thailand (BOT). We view the company as having low credit risk in general, given its cautious business expansion strategy, prudent credit underwriting standards, and strict margin maintenance policy.

However, LHS is exposed to market risk given its relatively sizable investments in unit trusts. Although its investment strategies overall are relatively conservative, in our view, as its portfolio covers the long-term and typically generates stable dividend income, the company was inevitably impacted during extreme market volatility. At the end of December 2022, the company's total investments were THB3.5 billion, compared with its equity of THB1.5 billion. The company has no intention to expand its investment portfolio.

Sufficient funding and liquidity position from parent support

We assess LHS's funding and liquidity profile as adequate. As a subsidiary of LHFG, we believe the company is likely to receive timely financial supports from the group. The company receives ongoing credit facilities from LHBANK. At the end of December 2022, the company had credit facilities totaling THB7.0 billion, 93% of which were provided by LHBANK. Also, the company issued bills of exchange (B/E) totaling THB3.5 billion to LHBANK's corporate clients.

Securities brokers faced multiple risk factors

The slowdown in the average daily turnover in 2022 negatively impacted the performance of securities companies. Securities firms' earnings fell 67% year-on-year (y-o-y) in 2022 on poor market sentiments. This resulted in high market volatility and average daily turnover slowing down to THB77 billion, compared with THB94 billion in 2021. In 2023, political uncertainty resulting from the general election could pose a new threat to the stock market participants. In addition, concerns over recession caused by the US Federal Reserve's continued rate hikes or the prolonged Russia-Ukraine war may continue to adversely affect securities trading conditions and volumes globally.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for LHS's operations in 2023-2025 are as follows:

- Market share in securities trading value to be around 0.6%.
- Average commission rate to be maintained at approximately 10 basis points (bps).
- Ratio of operating expenses to net revenue to hover around 40%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that LHS will remain a strategically important subsidiary of LHFG and will continue to receive financial and/or business support from LHFG. The outlook is also based on our expectation that LHS will gradually improve its revenue contribution from the securities business while maintaining sound financial performance and capitalization.

RATING SENSITIVITIES

An upside on LHS’s SACP could materialize if recurring revenue from its core securities business improves significantly and its RAC ratio increases above 6% for a sustained period. Conversely, the rating and/or outlook could be revised downward if the company’s financial performance deteriorates significantly, and its RAC falls below 3% for two consecutive years.

The rating and/or outlook may also be revised should there be any changes in TRIS Rating’s view of the group status of LHS to LHFG. A rating upgrade due to support is also possible if there were evidence of support from LHFG’s parent, CTBC Bank Co., Ltd., that flows to LHS directly or there were strategic and operational integration between CTBC Bank and LHS.

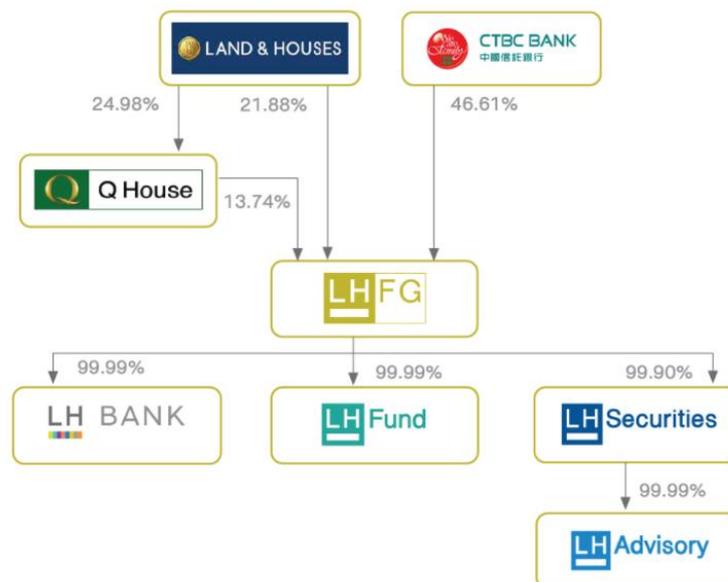
COMPANY OVERVIEW

LHS was formerly CIMB Securities International Ptd., Ltd. (CSI). After acquiring SICCO Securities PLC, which was established on 28 October 1998, CSI changed its name to CIMB Securities International (Thailand) PLC (CIMBI) in September 2011. All CIMBI’s businesses were then transferred to CIMB Securities (Thailand) Co., Ltd. (CIMBS) to integrate all resources, including brokerage accounts, and expand its business.

LHFG then purchased 99.8% paid-up capital of CIMBI and 99.9% paid-up capital of CIMB Advisory (Thailand) Co., Ltd. via CIMBI on 22 January 2014. On 17 April 2014, the company’s name was changed to Land and Houses Securities PLC (LHS), and the BOT allowed the company to be included in the financial business group on 15 January 2014. LHS started operating under the new name on 29 September 2014.

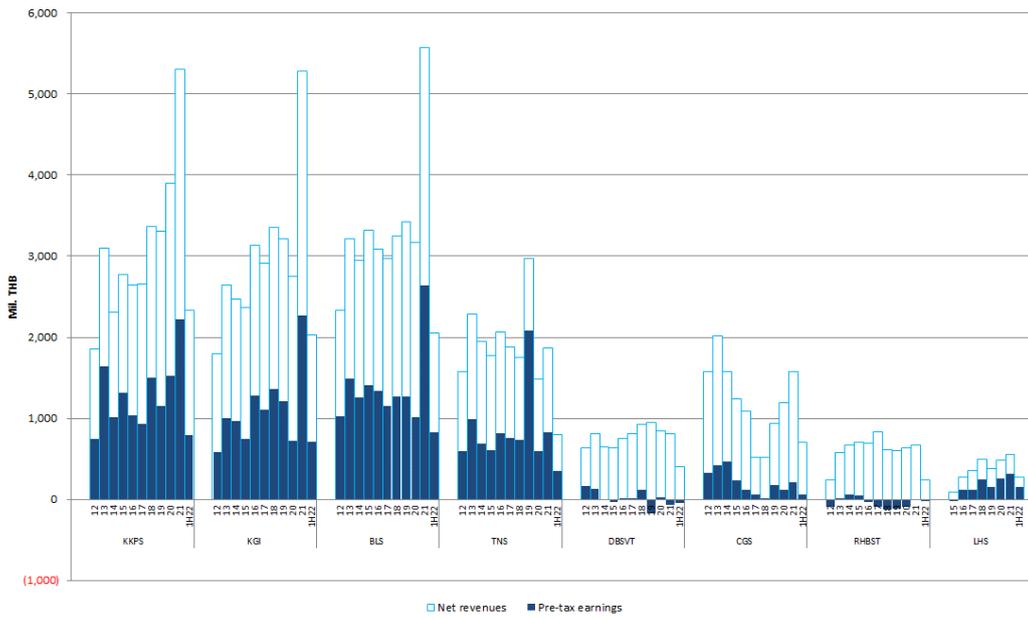
In March 2020, LHS increased its registered shares by 637,215,030 shares, increasing its total registered shares to 1,274,430,030 shares at par value of THB1 per share. The company then sold additional shares to its existing shareholders at THB1.5 per share, raising its registered capital to THB1,274,430,030.

Chart 1: LHFG Group Structure as of Dec 2022



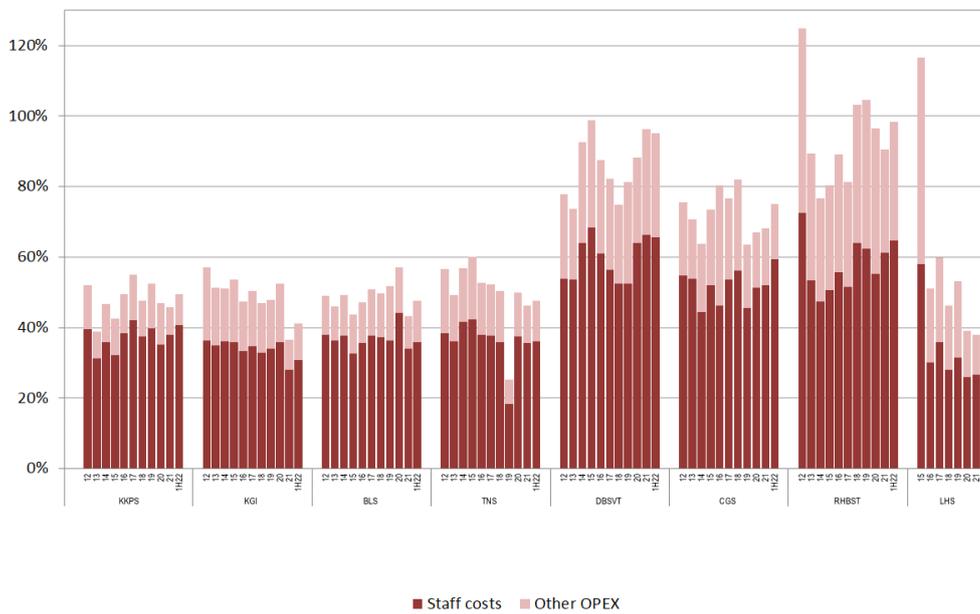
Source: LHS

Chart 2: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H22



Source: Financial statements of each company

Chart 3: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H22 (% of Net Revenues)



Source: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total assets	7,127	6,648	5,680	6,735	4,103
Net Investment in securities	3,885	4,286	4,053	5,769	2,883
Total securities business receivables and accrued interest receivables	2,496	2,035	1,291	735	1,040
Allowance for doubtful accounts*	153	-	8	3	-
Total debts	6,419	7,139	3,840	5,412	2,600
Shareholders' equity	1,477	1,985	1,511	1,220	1,264
Net securities business income	494	508	451	359	470
Total income	619	628	570	505	565
Operating expenses	205	210	188	202	228
Interest expenses	87	74	90	125	73
Net income	134	274	220	142	209

* Allowance for impairment losses under TFRS 9

Unit: %

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Brokerage fees/total revenues	30.0	37.3	32.8	26.3	29.2
Fees and services income/total revenues	1.8	1.0	0.3	0.5	0.2
Gain (loss) from trading/total revenues	0.6	0.3	0.0	1.8	27.4
Operating expenses/net revenues	38.6	37.9	39.1	53.3	46.3
Pre-tax margin	26.3	56.7	54.1	40.9	49.4
Return on average assets	2.0	4.4	3.6	2.6	5.4
Earning before taxes/risk-weighted assets	0.4	0.8	0.7	0.5	1.4
Asset Quality					
Classified receivables/gross securities business receivables	7.7	1.1	1.8	3.5	0.0
Allowance for doubtful accounts*/gross securities business receivables	6.1	0.0	0.6	0.4	0.0
Credit costs (reversal)	6.8	(0.5)	0.5	0.3	0.0
Capitalization					
Leverage ratio	36.5	37.8	38.2	21.6	32.8
Risk-adjusted capital	6.1	6.8	5.8	3.4	6.2
Funding and Liquidity					
Gross stable funding ratio	46.4	62.7	55.3	35.7	63.4
Liquidity coverage metric (times)	0.4	0.5	0.5	0.6	0.6

* Allowance for impairment losses under TFRS 9

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Securities Company Rating Methodology, 9 April 2020

Land and Houses Securities PLC (LHS)

Company Rating:	BBB
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

© Copyright 2023, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria