

# RHB SECURITIES (THAILAND) PLC

No. 105/2021  
30 June 2021

## FINANCIAL INSTITUTIONS

Company Rating: AA-  
Outlook: Stable

Last Review Date: 27/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
14/03/18	AA-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on RHB Securities (Thailand) PLC (RHBS) at “AA-” with a “stable” outlook. The rating primarily reflects the company’s status as a highly strategic subsidiary of the RHB Group, whose main operating entity is RHB Bank Berhad (RHB Bank) (rated “AA/Stable” by TRIS Rating). Based on the “highly strategic” subsidiary status, the rating on RHBS is notched down by one notch from the rating assigned to RHB Bank according to TRIS Rating’s “Group Rating Methodology”.

## KEY RATING CONSIDERATIONS

### An integral part of RHB Group’s regional operations

TRIS Rating assesses RHBS as a highly strategic subsidiary of the RHB Group. RHBS is a wholly owned subsidiary of RHB Investment Bank Berhad (RHBIB), which in turns is wholly owned by RHB Bank. As such, RHBS serves as part of the group’s regional platform providing access to the Thai capital market. RHBS is part of RHBIB’s matrix management structure, where each of the local functional units reports directly to the respective head at the head office and the country business head. RHBS’s financial targets constitute a part of the group’s aggregate regional performance.

Although RHBS has its own local business strategy and policies, these are aligned with those of the group and are monitored and controlled by the head office. The company is also subject to the group’s risk management policies. In terms of strategic importance to the RHB Group, the company serves as part of RHB Group’s regional investment banking platforms that center around core businesses including equities, derivatives, investment banking (IB) and fixed income.

### Modest but improving market position

A notable positive development for RHBS is the IB business, with revenue share steadily strengthening in recent years to 1.9% in 2020 from 0.2% in 2018. This is largely a result of a stronger franchise in the local market. Meanwhile, RHBS’s market position in securities brokerage business in Thailand remains modest. In 2020, its revenue share ranked 26<sup>th</sup> among peers with a share of 1.4%, a marginal improvement from 2018-2019. This was driven by a stronger brokerage volume in the retail segment. Its derivatives brokerage revenue share was relatively stable at 2.4% in 2020 (ranked 17<sup>th</sup>). Margin loan portfolio remains relatively small compared with local peers, partly due to tighter credit risk control following a sizeable credit loss in 2017. At the end of 2020, outstanding margin loans stood at THB1.1 billion.

### Ongoing and strong financial support

Various financial supports demonstrate the group’s commitment to provide timely supports to RHBS if needed. RHB Bank has provided credit lines to RHBS since its inception. This is expected to continue in the foreseeable future. At the end of January 2021, 40% of total THB3.5 billion credit lines were provided by RHB Bank, Thailand branch, and RHB Bank (Labuan). Also, RHBIB has provided an undertaking to ensure that RHBS will meet all obligations.

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**BASE-CASE ASSUMPTIONS**

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

**RATING OUTLOOK**

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The "stable" outlook reflects our view that RHBS will maintain its status as a highly strategic subsidiary of the RHB Group, whose main operating entity is RHB Bank, and continue to receive strong support from the group.

**RATING SENSITIVITIES**

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The rating and/or outlook could be revised upward or downward should there be any changes in RHB Bank's rating profile or if there are any changes in our view on RHBS's status to the RHB Group.

**COMPANY OVERVIEW**

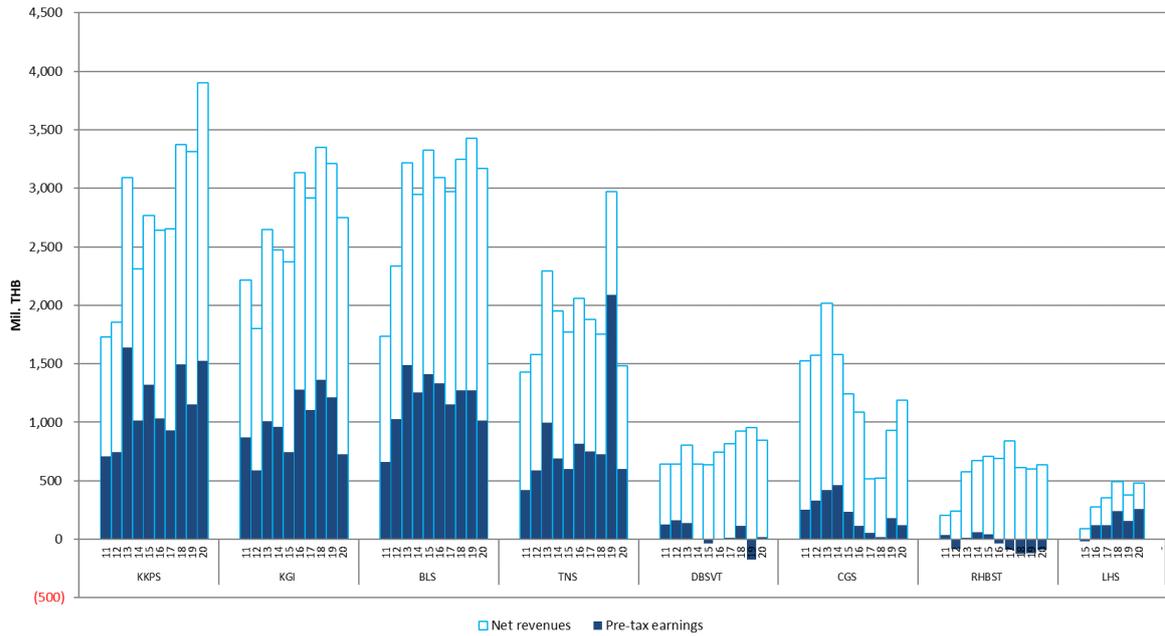
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RHBS is 99.9% owned by RHBIB, a wholly owned investment banking arm of RHB Bank. RHB Bank is the fourth largest commercial bank by asset size among the total eight local banks in Malaysia. Apart from commercial banking and investment banking businesses, the RHB Group also has significant operations in insurance and asset management businesses through its subsidiaries, which all fall under the RHB Group. RHB Bank is rated "AA" with a "stable" outlook by TRIS Rating and is rated "BBB+" with a "stable" outlook by S&P Global Ratings. RHBIB receives the same rating and outlook from S&P Global Ratings, reflecting its status as a "core" subsidiary of the RHB Bank.

RHBS was established in 2000 as BFIT Securities PLC and was listed on the Stock Exchange of Thailand (SET) in 2004. In 2011, the company was renamed OSK Securities (Thailand) PLC, after OSK Investment Bank Berhad, Malaysia, acquired a 49.8% equity stake in the company. In 2013, the company was delisted from the SET after RHB Capital Berhad became its major shareholder. In 2015, following an internal restructuring at the RHB Group level, the company was renamed RHB Securities (Thailand) PLC (RHBS). With the operational integration which started in 2014, RHBS now operates as part of RHBIB's operating platform with integrated risk management and control.

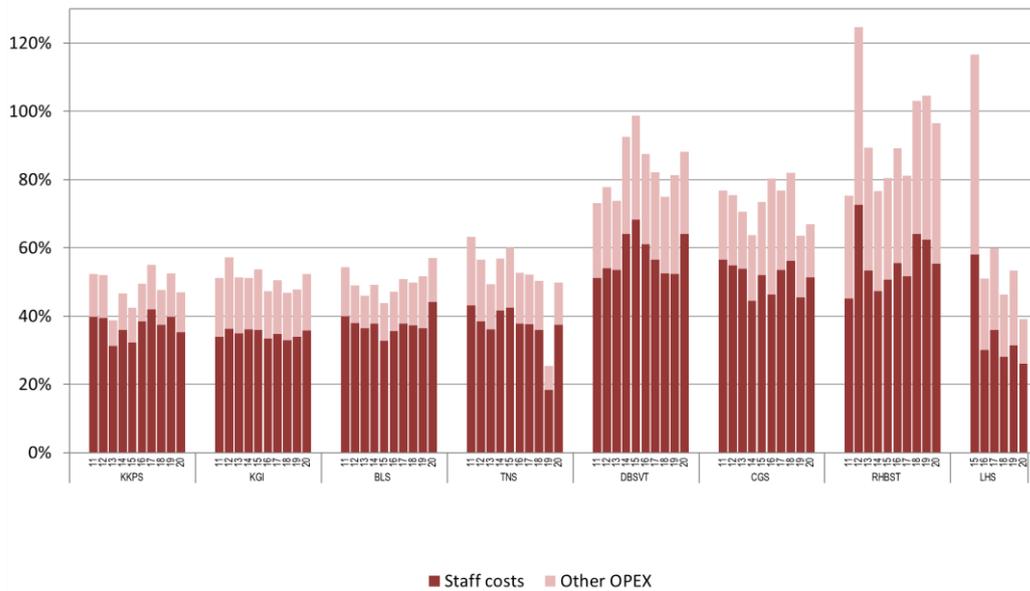
**KEY OPERATING PERFORMANCE**

**Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2020**



Sources: Financial statements of each company

**Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2020 (% of Net Revenues)**



Sources: Financial statements of each company

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

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	4,254	4,746	4,449	5,266	6,081
Net Investment in securities	1,489	1,801	521	863	1,821
Total securities business receivables and accrued interest receivables	2,142	2,046	2,249	3,467	2,721
Allowance for doubtful accounts*	138	127	127	127	0
Total debts	1,300	2,171	1,750	1,790	2,584
Shareholders' equity	1,684	1,770	1,907	2,025	2,105
Net securities business income	525	502	497	708	571
Total income	664	676	684	926	750
Operating expenses	612	630	633	680	612
Interest expenses	30	73	69	88	58
Net income	(86)	(137)	(128)	(80)	(30)

*Unit: %*

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
<b>Profitability</b>					
Brokerage fees/total revenues	71.6	53.7	61.1	50.8	52.1
Fees and services income/total revenues	10.9	8.5	5.4	10.2	4.2
Gain (loss) from trading/total revenues	2.3	13.5	9.0	16.8	20.0
Operating expenses/net revenues	96.5	104.6	103.1	81.2	88.4
Pre-tax margin	(14.1)	(19.6)	(20.4)	(10.7)	(4.9)
Return on average assets	(1.9)	(3.0)	(2.6)	(1.4)	(0.6)
Earning before tax/risk-weighted assets	(1.0)	(1.5)	(1.6)	(0.9)	(0.4)
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	6.4	6.2	5.7	3.7	0.0
Allowance for doubtful accounts*/gross securities business receivables	6.4	6.2	5.7	3.7	0.0
Credit costs (reversal)	0.5	0.0	0.0	4.2	0.0
<b>Capitalization</b>					
Leverage ratio	39.6	37.3	42.9	38.5	34.6
Risk-adjusted capital	20.0	18.7	28.8	21.2	19.2
<b>Funding and Liquidity</b>					
Gross stable funding ratio	138.1	135.9	174.2	126.0	120.7
Liquidity coverage metric	1.1	0.8	1.0	0.7	0.7

\* Allowance for impairment losses under TFRS 9

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021

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**RHB Securities (Thailand) PLC (RHBS)**

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<b>Company Rating:</b>	AA-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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