

RHB SECURITIES (THAILAND) PLC

No. 124/2022
27 July 2022

FINANCIAL INSTITUTIONS

Company Rating: AA-
Outlook: Stable

Last Review Date: 30/06/21

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 mainly reflects the company’s status as a highly strategic subsidiary of the RHB Group, whose main operating entity is RHB Bank Berhad (rated “AA/Stable” by TRIS Rating). Based on its “highly strategic” subsidiary status, the rating on RHBS is one notch below the rating assigned to RHB Bank Berhad according to TRIS Rating’s “Group Rating Methodology”.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of RHB Group

We consider RHBS to be a highly strategic subsidiary of the RHB Group (comprising RHB Bank Berhad and all subsidiaries). RHBS is 99.9% owned by RHB Investment Bank Berhad (RHBIB), which in turn is wholly owned by RHB Bank Berhad. RHBS serves as part of the Group’s investment banking franchise and regional platform providing access to the Thai capital market and offering various financial products including equities, derivatives, investment banking (IB), and fixed income.

The company also operates under the Group’s integrated risk policies and operating platforms. The new Chief Executive Officer (CEO), Mr. Lee Yuan Tat, was directly appointed by the head office. In addition, RHBS’s financial targets comprise a part of the Group’s aggregate regional performance while its strategies and policies are aligned with those of the Group and are monitored by the head office.

Modest market position with positive developments

RHBS’s market position in the securities brokerage business in Thailand remains modest. It had a revenue share of 1.3% and ranked 27th in 2021, a similar level to that of 2018-2020. Its derivatives brokerage revenue market share was relatively stable at 2.4% in 2021 (ranked 19th).

On a more positive note, its average commission rates improved to 10 basis points (bps) in 2021 from 8bps in 2020, above the industry average of 8 bps. This was due to the company’s strategy to reposition itself by gearing toward a full-service broker rather than a discount broker. Margin loan portfolio also increased to THB1.7 billion in 2021 from THB1.1 billion in 2020, in line with the company’s target to increase its margin loans to around THB5 billion in the next few years.

With a new management team appointed in 2021, RHBS has now set its sights on rebuilding its brand in Thailand and reestablishing its business in many areas, including agent business for fixed income products as well as derivative warrants, which has been paused since 2020. The company plans to improve and expand its product offerings while recruiting experienced teams. The plans, if successfully carried out, should help diversify RHBS’s revenue mix and improve its revenue base over the next few years.

Strong financial support from the Group

RHBS has continued to receive both business and financial supports from the RHB Bank Group which demonstrates the Group’s commitment to provide timely supports to RHBS if needed. This is expected to continue in the foreseeable future. At the end of March 2022, the company had access to

THB489 million in credit facilities from RHB Bank Berhad Thailand and USD20 million of credit lines from RHB Bank Berhad (Labuan), which accounted for around 35% of its total credit line of THB3.4 billion. The credit lines have helped provide financial flexibility for RHBS's operations.

BASE-CASE ASSUMPTIONS

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

RATING OUTLOOK

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 Berhad in Malaysia, and will continue to operate as an integral part of and receive strong support from the Group.

RATING SENSITIVITIES

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

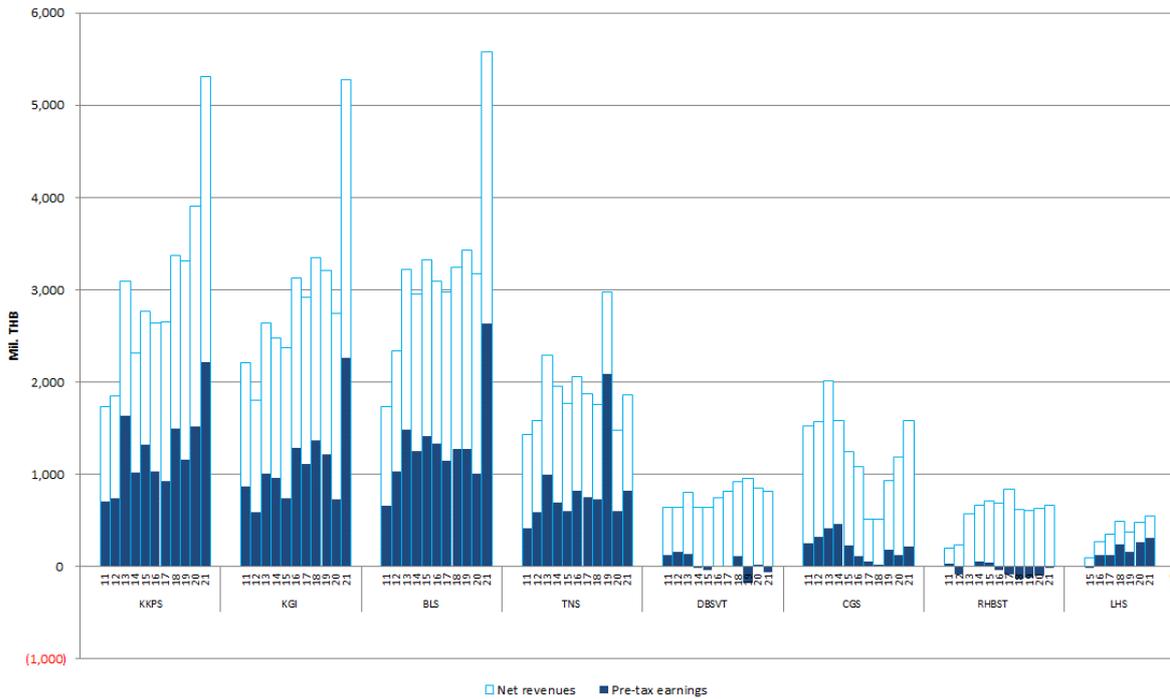
COMPANY OVERVIEW

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

RHBS was established in 2000 as BFIT Securities PLC and 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). Following an integration which started in 2014, RHBS is now a part of RHBIB's operating platform with integrated risk management and control.

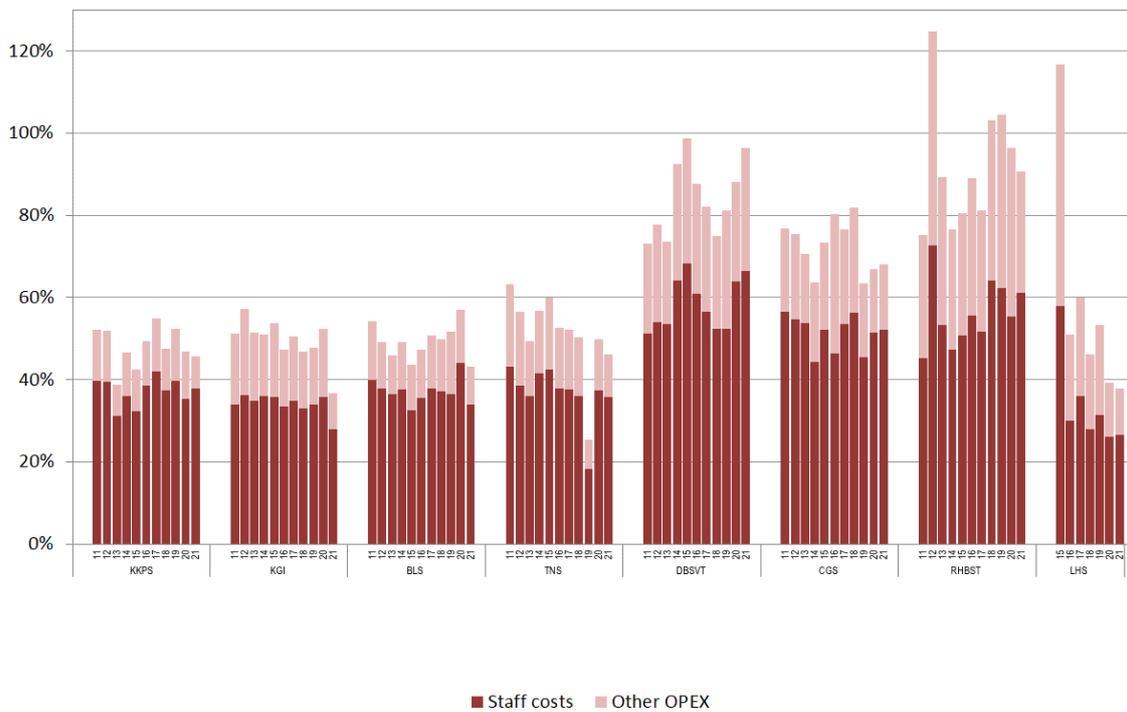
KEY OPERATING PERFORMANCE

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



Sources: Financial statements of each company

Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2021 (% of Net Revenues)



Sources: 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	3,402	4,254	4,746	4,449	5,266
Net investment in securities	709	1,489	1,801	521	863
Total securities business receivables and accrued interest receivables	2,192	2,142	2,046	2,249	3,467
Allowance for doubtful accounts*	132	138	127	127	127
Total debts	810	1,300	2,171	1,750	1,790
Shareholders' equity	1,697	1,684	1,770	1,907	2,025
Net securities business income	585	525	502	497	708
Total income	686	664	676	684	926
Operating expenses	602	612	630	633	680
Interest expenses	21	30	73	69	88
Net income	(2)	(86)	(137)	(128)	(80)

Unit: %

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Profitability					
Brokerage fees/total revenues	72.4	71.6	53.7	61.1	50.8
Fees and services income/total revenues	8.3	10.9	8.5	5.4	10.2
Gain (loss) from trading/total revenues	1.2	2.3	13.5	9.0	16.8
Operating expenses/net revenues	90.6	96.5	104.6	103.1	81.2
Pre-tax margin	(0.9)	(14.1)	(19.6)	(20.4)	(10.7)
Return on average assets	(0.1)	(1.9)	(3.0)	(2.6)	(1.4)
Earning before tax/risk-weighted assets	(0.1)	(1.0)	(1.5)	(1.6)	(0.9)
Asset Quality					
Classified receivables/gross securities business receivables	6.0	6.4	6.2	5.7	3.7
Allowance for doubtful accounts*/gross securities business receivables	6.0	6.4	6.2	5.7	3.7
Credit costs (reversal)	(0.3)	0.5	0.0	0.0	4.2
Capitalization					
Leverage ratio	49.9	39.6	37.3	42.9	38.5
Risk-adjusted capital	24.0	20.0	18.7	28.8	21.2
Funding and Liquidity					
Gross stable funding ratio	131.3	138.1	135.9	174.2	126.0
Liquidity coverage metric	0.7	1.1	0.8	1.0	0.7

* Allowance for impairment losses under TFRS 9

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

RHB Securities (Thailand) PLC (RHBS)

Company Rating:	AA-
Rating Outlook:	Stable

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