

RHB SECURITIES (THAILAND) PLC

No. 139/2023
31 July 2023

FINANCIAL INSTITUTIONS

Company Rating: AA-
Outlook: Stable

Last Review Date: 27/07/22

Company Rating History:		
Date	Rating	Outlook/Alert
14/03/18	AA-	Stable

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. The rating on RHBS is one notch below the group credit profile of RHB Group, assessed at “aa”.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of RHB Group

We view RHBS as 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 is a wholly-owned investment banking arm of RHB Bank Berhad. RHBS complements the Group’s strategies in expanding overseas income and to focus on ASEAN countries including Malaysia, Indonesia, Singapore, Thailand, and Cambodia. RHBS provides the Group with access to the Thai capital market and offering various financial products and services including equity and derivative brokerage, investment banking (IB), and fixed income.

In our view, the following underlines the long-term commitment of the Group to RHBS. The company shares the Group’s brand name and reputation. The board of directors includes four representatives from RHBIB out of a total five board members, including the chairman. Key senior management, including Chief Executive Officer (CEO) and Chief Operating Officer (COO), are appointed directly by RHBIB. RHBS’s senior management have functional reporting lines to respective functional heads at RHBIB while reporting to the CEO under a matrix reporting system.

RHBS’ financial targets, strategies and policies, and risk management are aligned with those of the Group. RHBS also operates under the Group’s integrated operating platforms.

Market position remains modest

RHBS’s market position in Thailand’s securities brokerage business is likely to remain modest. RHBS’s revenue market share stood at 1.0% and ranked 29th out of 39 securities companies in 2022, a decline from 1.3% in 2021. Its derivatives brokerage revenue market share also dropped to 1.6% in 2022, from 2.4% in 2021 (ranked 21st).

On a positive note, its average commission rates have continued to improve since 2020 to 10 basis points (bps) in 2022, while the industry’s average commission decreased during the same period to 7 bps. The company will continue its strategy to position itself as a full-service broker rather than a discount broker. Also, its margin loan portfolio grew to THB3.0 billion in 2022 from THB1.7 billion in 2021, in line with the company’s target to increase its margin loans to above THB3 billion.

In 2022, RHBS undertook several initiatives to reestablish its business in many areas. The company appointed a new Deputy CEO to drive capital market activities and oversees institutional and research departments. RHBS resumed its derivatives warrants business at the beginning of 2023 after it had paused this service in mid-2020. The company also plans to launch Global Trading Platform by the end of 2023 to allow foreign market trading activities. The company has aggressive plans of recruiting an additional 100 investment

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consultants in 2023. The plans, if successfully carried out, should help diversify RHBS's revenue mix and improve its revenue base over the next few years.

Ongoing, committed financial support from the Group

RHB Group's commitment to provide timely support to RHBS when needed should continue in the foreseeable future. This includes ongoing financial support and credit lines to help provide financial flexibility for RHBS' operations.

At the end of March 2023, the company's credit lines from RHB Bank Berhad (Labuan) doubled from USD20 million in March 2022 to USD40 million in March 2023. The increase of credit line came in to fund the company's plan to expand the margin loan business and to compensate the lower credit lines from local financial institutions. Additionally, RHB Bank Berhad Thailand provides THB489 million in credit facilities to RHBS. As of March 2023, credit lines from the RHB Group accounted for 56% of its total credit line of THB3.4 billion.

The company also had available credit facilities of around THB1.5 billion from various local financial institutions at the end of March 2023. The total amount of available credit facilities is expected to be adequate to support the company's operations over the next 12 months.

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.

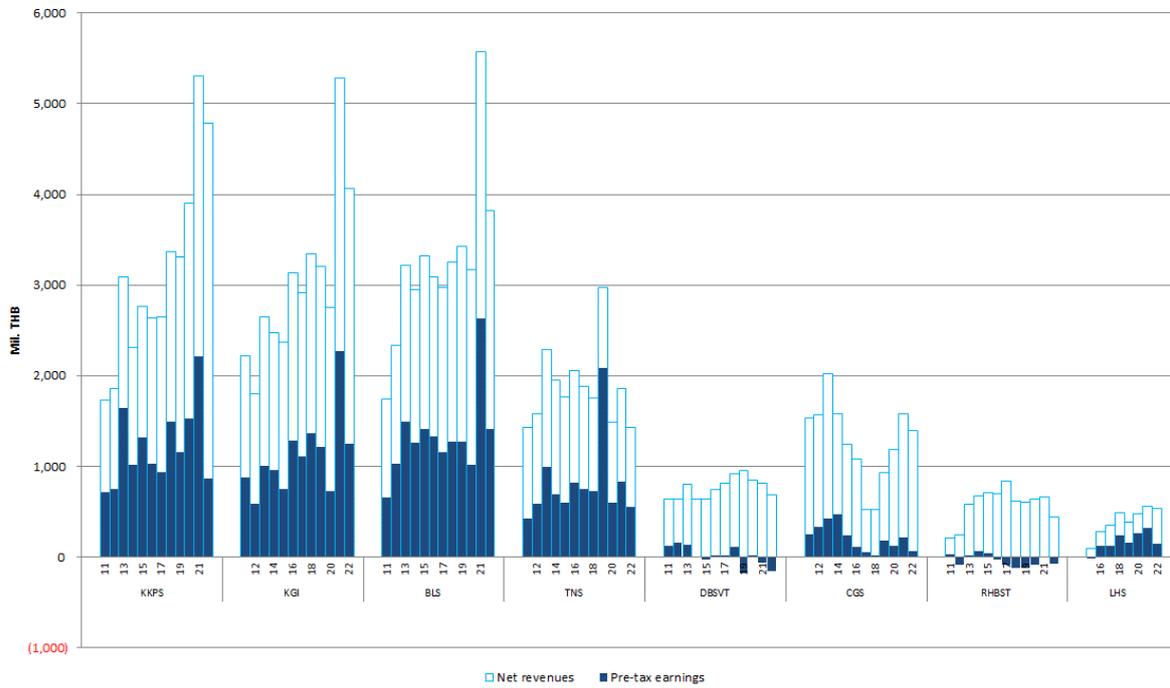
COMPANY OVERVIEW

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 internal restructuring at the RHB Group level, the company was renamed RHB Securities (Thailand) PLC (RHBS). Following integration which started in 2014, RHBS is now a part of RHBIB's operating platform with integrated risk management and control.

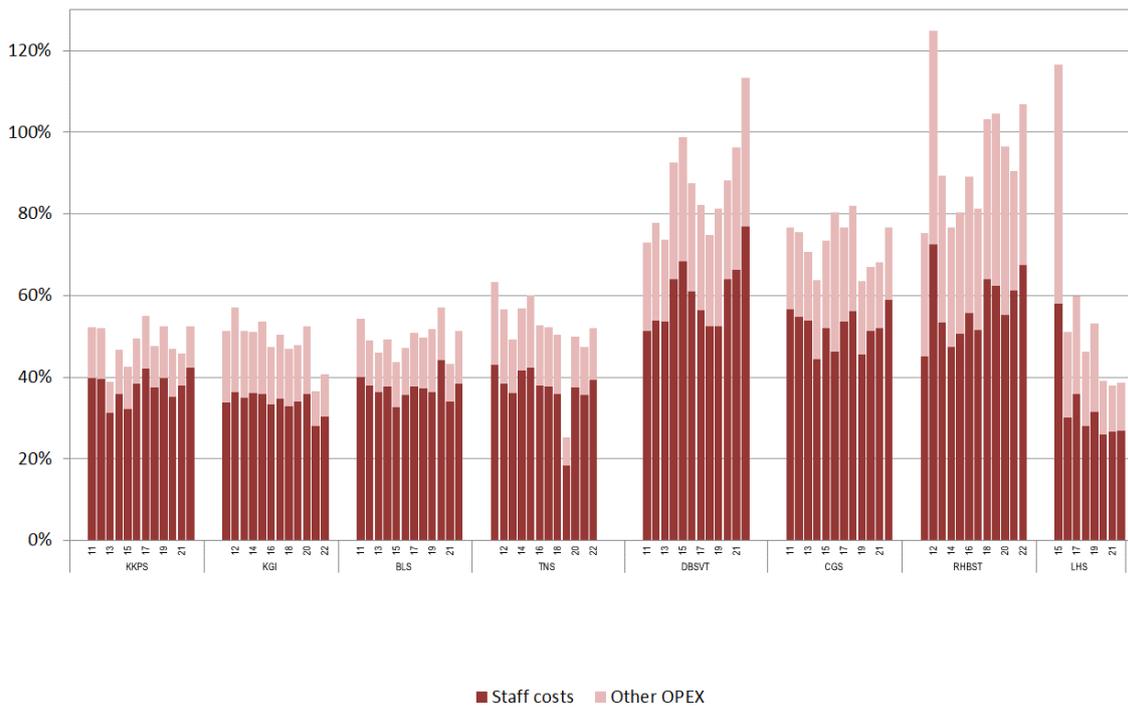
KEY OPERATING PERFORMANCE

Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2022



Sources: Financial statements of each company

Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2022 (% of Net Revenues)



Sources: 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	4,431	3,402	4,254	4,746	4,449
Net investment in securities	620	709	1,489	1,801	521
Total securities business receivables and accrued interest receivables	3,492	2,192	2,142	2,046	2,249
Allowance for doubtful accounts*	130	132	138	127	127
Total debts	2,218	810	1,300	2,171	1,750
Shareholders' equity	1,616	1,697	1,684	1,770	1,907
Net securities business income	356	585	525	502	497
Total income	476	686	664	676	684
Operating expenses	469	602	612	630	633
Interest expenses	37	21	30	73	69
Net income	(81)	(2)	(86)	(137)	(128)

Unit: %

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Profitability					
Brokerage fees/total revenues	64.3	72.4	71.6	53.7	61.1
Fees and services income/total revenues	2.3	8.3	10.9	8.5	5.4
Gain (loss) from trading/total revenues	(2.6)	1.2	2.3	13.5	9.0
Operating expenses/net revenues	106.9	90.6	96.5	104.6	103.1
Pre-tax margin	-18.4	(0.9)	(14.1)	(19.6)	(20.4)
Return on average assets	(2.1)	(0.1)	(1.9)	(3.0)	(2.6)
Earning before tax/risk-weighted assets	(1.1)	(0.1)	(1.0)	(1.5)	(1.6)
Asset Quality					
Classified receivables/gross securities business receivables	3.7	6.0	6.4	6.2	5.7
Allowance for doubtful accounts*/gross securities business receivables	3.7	6.0	6.4	6.2	5.7
Credit costs (reversal)	(0.1)	(0.3)	0.5	0.0	0.0
Capitalization					
Leverage ratio	36.5	49.9	39.6	37.3	42.9
Risk-adjusted capital	17.52	24.0	20.0	18.7	28.8
Funding and Liquidity					
Gross stable funding ratio	83.9	131.3	138.1	135.9	174.2
Liquidity coverage metric	0.3	0.7	1.1	0.8	1.0

* Allowance for impairment losses under TFRS 9

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022

RHB Securities (Thailand) PLC (RHBS)

Company Rating:	AA-
Rating Outlook:	Stable

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