

THANACHART SECURITIES PLC

No. 178/2022
12 October 2022

FINANCIAL INSTITUTIONS

Company Rating: A-
Outlook: Stable

Last Review Date: 15/10/21

Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A-	Stable
14/03/19	A+	Alert Negative
28/04/15	A+	Stable
03/04/12	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thanachart Securities PLC (TNS) at “A-”, with a “stable” outlook. The rating incorporates a one-notch rating enhancement from TNS’s stand-alone credit profile (SACP), to reflect TNS’s status as a strategically important subsidiary of Thanachart Capital PLC (TCAP, rated “A/Stable” by TRIS Rating).

We have revised TNS’s SACP to “bbb+” from “a-”, reflecting its higher financial leverage which affected its capital position. This mainly resulted from the rapid business expansion in recent years. The SACP, however, continues to reflect its strong market position in the securities brokerage business, decent earnings capacity, and prudent risk management policies.

KEY RATING CONSIDERATIONS

Strategically important subsidiary of TCAP

We consider TNS as a strategically important subsidiary of TCAP. TCAP currently holds a 50.96% stake in TNS, with Scotia Netherlands B.V. (Scotia) and TMBThanachart Bank PLC (TTB) owning 39.94% and 10%, respectively. TCAP has control over TNS’s business strategies and financial policies via representation on the company’s board of directors. TCAP and Scotia each has one representative on the board of directors of TNS as non-independent director out of a total of four non-independent directors. TNS operates under TCAP Group’s integrated governance framework like other subsidiaries of TCAP.

TNS plays an important role in fulfilling the group’s diversified financial business strategy by providing comprehensive capital market services and products. TNS’s profit contribution to TCAP was 9.8% in 2021 and 8.1% in the first half of 2022. The company also receives financial support from TCAP in the form of credit facilities, which help provide financial flexibility in times of need. We also view TNS’s reputation as being closely associated with TCAP owing to the shared brand name.

Strong competitive edge in domestic institutional segment

Despite TNS’s revenue market share in securities brokerage declining over the past few years, we still regard it as representing a reasonably sound market position. The decrease mainly resulted from the lower trading volume delivered by price-sensitive customers and lower big lot transaction. Nonetheless, we view TNS as still having a competitive edge in the domestic institutional segment as seen by the gradual rise in trading volumes from other domestic institutional investors that help sustain its solid position in the segment.

Increasing business diversification

TNS has shown good progress in pursuing business diversification strategy by expanding towards non-cash equity businesses during the past two years. We anticipate this trend to continue in the medium term. In the first half of 2022 (1H22), the profit contribution from non-cash equity business rose steadily to 58% from 50% in 2021 and 33% in 2020. Its non-cash equity businesses include investment advisory service (dubbed as “Zeal”), derivatives warrants (DW), margin lending, and mutual fund sales.

Weaker capital position

Our downward revision of TNS's SACP mainly reflects the revision of capital assessment to an 'adequate' from 'strong' level due to the company's significantly weaker capital position, as measured by risk-adjusted capital ratio (RAC). TNS's RAC ratio declined to 15.1% at the end of June 2022 from 25.3% at the end of 2020. The large drop resulted from rapid expansion of margin loans, which more than doubled to THB7 billion at the end of June 2022 from THB3 billion and at the end of 2020. Given TNS's plan to maintain its margin loans at around THB7 billion over the next three years, we expect its capital position to remain at the 'adequate' level with a projected RAC in the 13%-14% range.

Strong earnings capabilities maintained

We assess TNS's earnings capacity as 'strong' given its solid risk-adjusted profitability, with 5-year average earnings before taxes to risk-weighted assets (EBT/RWA) estimated at over 3.55% (2020-2024). In our view, incremental revenues from the expansion into new businesses will likely support the strength and stability of TNS's earnings over the next few years despite stiff competition in the securities brokerage business. TNS also excels at cost controlling and focuses on high-profit businesses (e.g., institutional brokerage and investment advisory services). Its operating expenses to net revenue in 2021 was 46.1%, lower than the industry average of 53.9% during the same period.

Prudent risk management framework

In our view, TNS has a prudent risk management framework, in terms of both market risks and credit risks. We consider TNS to have limited market risks since the company only engages in low-risk trading activities for the purpose of hedging with the financial products it offers. As for credit risks, TNS still maintained zero credit loss on its margin lending business despite rapid expansion in 2021 and 1H22. Its single lending limit for margin loans is limited to 25% of its equity. At the end of June 2022, outstanding margin loans to collateral value stood at 33%, far below the company's internal threshold of 75%.

Sufficient funding and liquidity

We are of the view that TNS's funding and liquidity position should remain sufficient to support its business growth over the medium term. The company has short-term credit lines of THB5.1 billion from various financial institutions as of the end of June 2022. Additionally, TCAP provides ongoing funding and liquidity support via a THB3 billion credit line, around 90% of which was undrawn. We note, however, that TNS's short-term borrowings through issuances of bills of exchange and note payable have increased substantially to THB3.3 billion, all of which were used to fund its margin lending. Although the use of short-term credit for margin lending is normal practice in the industry, a material expansion of the margin loan portfolio that gives rise to higher financial leverage is negative for the credit profile.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TNS's operation during 2022-2024 are as follows:

- Securities brokerage revenue market share to stay around 3%.
- Average commission rate at approximately 12-13 basis points (bps).
- Ratio of operating expenses to net revenue to be around 48%-50%.

RATING OUTLOOK

The "stable" outlook reflects our expectation that TNS will maintain its market position, as measured by revenue share in securities brokerage, and strong profitability. The outlook also reflects our expectation that the company's capital position will not deteriorate further.

RATING SENSITIVITIES

An upward revision of SACP is possible if the RAC ratio rises above 20% for a sustained period, while the company maintains its strong revenue share in securities brokerage and continues to diversify revenue sources. An upgrade of TNS's company rating is unlikely unless the rating on TCAP is upgraded. Conversely, the company's SACP could come under pressure if the RAC ratio falls below 12% for a prolonged period or the market position erodes steadily or earnings capability, as measured by EBT/RWA, weakens materially. Also, a downgrade of TNS's company rating is possible if the rating on TCAP is downgraded.

COMPANY OVERVIEW

TNS entered the securities industry in 1980 under the name National Finance and Securities Co., Ltd. (NFS). In 1997, the securities brokerage, proprietary trading, and underwriting operations, together with the related assets and receivables were transferred to a newly established company, National Securities Co., Ltd. (NS). The transfer was in accordance with government policy to split finance and securities companies into separate finance and securities entities. The company was converted into a public company in 2004 and later became Thanachart Securities PLC (TNS) in 2005.

Prior to 2007, before the Bank of Nova Scotia Asia Ltd. became a strategic partner of Thanachart Bank PLC (TBANK), TNS was fully owned by TCAP, formerly known as National Finance PLC (NF). As a part of TCAP's reorganization, in July 2007, TBANK bought TNS from TCAP, along with seven other subsidiaries. TNS has been a wholly-owned subsidiary of TBANK ever since.

In 2010, TBANK acquired a 99.95% ownership stake in Siam City Bank PLC (SCIB). At the end of that year, TNS acquired the operations of Siam City Securities Co., Ltd. (SCIBS), which was a wholly-owned subsidiary of SCIB. Around 100 staff from SCIBS were transferred to TNS.

As a wholly-owned subsidiary of TBANK, TNS enjoys the use and recognition of the "Thanachart" brand. TNS shares some network infrastructure with TBANK. It also outsources information technology services and the human resource function to TBANK.

TNS was granted a license to provide a full range of services in the securities business, including securities brokerage, securities trading, financial advisory and underwriting, investment advisory, derivatives brokerage, securities borrowing and lending (SBL), and acting as a selling agent for unit trusts. The company positions itself as a full-service premium broker, offering high-quality research, investment banking, offshore brokerage, and SBL services.

In 2019, the company increased its registered and paid-up capital to THB3 billion. In December 2019, the company's shareholding structure changed as a result of the business restructuring of TCAP and the merger of TMB Bank PLC (TMB) and TBANK. As a part of the restructuring, TBANK sold its shares in TNS to its shareholders proportionately, which were TCAP (50.96%), Scotia Netherlands Holdings B.V. (BNS) (49%), and TBANK's individual retail investors (0.04%).

In 2020, TNS introduced its portfolio advisory business or "Zeal" to provide portfolio advisory services to its clients with an objective to generate absolute returns for its clients. The company officially began offering the service on 2 January 2020.

TTB purchased 10% of the total issued and outstanding shares in TNS from (BNS, a member of The Bank of Nova Scotia Group. The transaction value was at THB503 million.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	10,460	8,679	6,852	6,684	8,898
Net Investment in securities	1,448	1,794	1,025	1,237	2,978
Total securities business receivables and accrued interest receivables	8,186	5,597	4,267	5,012	5,473
Allowance for doubtful accounts	0	0	6	6	13
Total debts	5,108	3,147	560	717	2,907
Shareholders' equity	3,617	3,634	3,743	3,501	3,072
Net securities business income	732	1,679	1,327	2,834	1,602
Total income	842	1,904	1,517	3,076	1,880
Operating expenses	383	859	739	754	882
Interest expenses	38	42	35	102	128
Net income	283	661	479	1,674	593

Unit: %

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Profitability					
Brokerage fees/total revenues	62.5	66.6	72.7	65.9*	66.6
Fees and services income/total revenues	7.7	12.9	12.0	4.5*	4.0
Gain (loss) from trading/total revenues	6.6	7.1	0.9	3.8*	4.7
Operating expenses/net revenues	47.7	46.1	49.8	54.2*	50.3
Pre-tax margin	43.6	44.4	40.3	36.1*	41.6
Return on average assets	5.9	8.5	7.1	5.2*	5.7
Earnings before taxes/risk-weighted assets	3.6	5.3	4.6	3.5*	4.8
Asset Quality					
Classified receivables/gross securities business receivables	0.0	0.0	0.1	0.7	0.8
Allowance for doubtful accounts/gross securities business receivables	0.0	0.0	0.1	0.1	0.2
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
Capitalization					
Leverage ratio	31.9	34.3	47.6	46.4	13.3
Risk-adjusted capital	15.1	16.5	25.3	21.4	7.7
Funding and Liquidity					
Gross stable funding ratio	80.7	105.8	166.1	151.4	87.7
Liquidity coverage metric	0.3	0.6	1.7	1.3	0.7

* Excluding gains from sales of investment

RELATED CRITERIA

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

Thanachart Securities PLC (TNS)

Company Rating:	A-
Rating Outlook:	Stable

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