

# THANACHART SECURITIES PLC

No. 177/2023  
14 September 2023

## FINANCIAL INSTITUTIONS

**Company Rating:** A-  
**Outlook:** Stable

**Last Review Date:** 12/10/22

### 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

### Contacts:

Pawin Thachasongtham  
pawin@trisrating.com

Jantana Taveeratanasilp  
jantana@trisrating.com

Jittrapan Pantaleard  
jittrapan@trisrating.com

Narumol Charnchanavivat  
narumol@trisrating.com



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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) at “bbb+”.

The enhancement reflects TNS’s status as a strategically important subsidiary of Thanachart Capital PLC (TCAP, rated “A/stable”) as well as TNS’s continuous revenue and cashflow contributions to TCAP. TNS also receives ongoing business and financial support from TCAP.

TNS’s SACP factors in its mid-tier market position in the securities brokerage business, with strength in the domestic institution segment. The rating also considers the strong risk management, adequate capital position, as well as sound funding and liquidity position. However, the strengths are pressured by weakened earnings capacity.

## KEY RATING CONSIDERATIONS

### Maintaining status as a strategically important subsidiary of TCAP

We continue to assess TNS as a strategically important subsidiary of TCAP, despite TCAP’s increased stake in TNS to 90% in October 2022 from 51% previously. We view there to be no significant change in terms of business and financial support.

Our assessment of TNS’s group status considers its important role in fulfilling the group’s diversified financial business strategy. TNS serves as a capital market arm of the Thanachart Group by offering various capital market services and products. TNS’s profit contribution to TCAP was 7.0% in 2022 and 4.4% in the first half of 2023 (1H23).

TNS operates under TCAP Group’s integrated financial policy and risk management like other subsidiaries of TCAP. The company’s business and risk management policies are determined and closely monitored by TCAP via board representatives. TCAP also provides financial support in the form of credit facilities. This, in our view, helps ensure financial flexibility in times of need and further evidence TCAP’s commitment. Also, TNS’s reputation is closely associated with TCAP given the shared brand name.

### Profits expected to bottom out

We revised down our assessment of TNS’s earnings capacity to an “adequate” from a “strong” level, reflecting its weakened earnings capability. TNS’s earnings capability, as measured by earnings before taxes to risk-weighted assets (EBT/RWA), decreased to 2.1% in 1H23 from 2.9% in 2022 given the lower total revenues.

TNS’s total revenues dropped by 22% year-on-year (y-o-y) in 1H23, exceeding the industry average of 13.2%. Brokerage revenues were down by 32% y-o-y, in line with thinner market trading volume, particularly in the retail segment. Non-brokerage revenues fell moderately by 6% y-o-y.

We forecast TNS’s weighted average EBT/RWA over the five-year period from 2021 to 2025 to be at 2.6%. We expect its EBT/RWA to bottom out at 2.0% this year and recover gradually to 2.2%-2.3% in 2024-2025. However, this is likely to be substantially lower than 4%-5% in 2020-2021 given our expectation of light trading volume. We assume TNS’s average daily market trading volume

of THB60 billion in 2023-2025, compared with THB77-THB94 billion in 2021-2022. In our view, the incremental revenues from margin loans and investment advisory services may not sufficiently offset the decrease in securities brokerage fees in times of weak trading volume.

### **Stabilizing market position**

Our assessment of TNS's business position incorporates the company's sound market position in the securities brokerage business. Its revenue market share in securities brokerage, despite a continuous decline over the past few years, remained in the mid-tier position at 3.5% in 2022 among 37 securities brokers. We expect TNS to maintain similar revenue market share over the next two years.

In terms of the brokerage business, TNS's strength remains in the domestic institutional segment. Although the group restructuring in 2019 resulted in lower revenue share for the segment, TNS began regaining market share for the first time in 1H23. Its revenue share increased to 6.7% in 1H23 from 5.7% in 2022. This was supported by quality research and sales teams. In the retail segment, its revenue share was also stabilizing at 3.7%.

### **Maintaining adequate capital position**

TNS's capital position is likely to remain adequate over the next three years. The company's capital position, as measured by risk-adjusted capital ratio (RAC), increased to 17.8% at the end of June 2023 from 14.7% at the end of 2022. The improvement was mainly due to the contraction of margin loan portfolio and cash account receivables. Margin loan portfolio declined to THB5.6 billion by the end of June 2023 from the peak of about THB8 billion during 1H22. Cash account receivables also dropped by 56%, although we note that this item tends to fluctuate and be unpredictable depending on trading activities.

We project the company's RAC to range between 16%-17% in 2023-2025, based on an assumption of margin loan portfolio of THB6 billion and dividend payout policy of 100% over the next three years.

### **Prudent risk management remains key rating strength**

We expect TNS to maintain its prudent risk management framework, in terms of both market risks and credit risks. In our view, TNS is exposed to limited market risks given that the company only participates in low-risk trading activities for hedging purpose. In terms of credit risks, TNS has consistently maintained a track record of zero credit loss on its margin lending business despite rapid expansions over the past two years.

However, we view TNS's margin lending is subject to portfolio concentration risk as the outstanding loans of its top-20 customers comprised around 86% of the total margin loan portfolio at the end of June 2023. This is mitigated by the company's relatively low loan-to-value, which averaged 50.2%.

### **Funding and liquidity likely to remain sufficient**

We expect TNS to maintain its adequate funding and liquidity profile over the next three years. Our assessment of adequate funding is underpinned by the ongoing financial support from its parent, TCAP, with THB1.5 billion available credit line. Additionally, Thanachart Insurance PLC (TNI), an insurance entity under TCAP, was approved by the Office of Insurance Commission (OIC) to hold up to THB1.2 billion in TNS's debt instruments. Also, the company also had available credit facilities of THB4.7 billion from various financial institutions at the end of June 2023. In our view, these funding supports provide liquidity in times of need.

That said, an abrupt increase in TNS's short-term borrowings via bills of exchange and notes payables to fund margin lending continues to be a rating constraint. While using short-term borrowings to fund margin loans is a market practice, we view the sharp rise in this confidence-sensitive funding as negative. The company's total borrowings fell to THB3.7 billion at the end of June 2023 from THB4.5 billion at the end of 2022, in line with the decline in margin loans.

### **BASE-CASE ASSUMPTIONS**

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

- Securities brokerage revenue market share to stay around 3%.
- Average commission rate in 13-15 basis points (bps) range.
- Ratio of operating expenses to net revenue to be around 55%-57%.

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that TNS will be able to stabilize its market position, as measured by revenue share in securities brokerage and improved profitability. The outlook also reflects our expectation that the company's capital position will be maintained.

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## RATING SENSITIVITIES

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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. However, the upward revision of SACP is unlikely to result in an upgrade of the rating on TNS. The rating can only be upgraded if the rating on TCAP is upgraded.

Conversely, the 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. A downgrade of the rating on TNS is possible if the SACP is revised down multiple notches or the rating on TCAP is downgraded.

## COMPANY OVERVIEW

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TNS entered the securities industry in 1980 under the name National Finance and Securities Co., Ltd. (NFS). In 1997, NFS's 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 the government's policy to split finance and securities businesses 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.

In 2021, TMB Thanachart Bank PLC (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.

In October 2022, TCAP purchased additional investments in TNI and TNS from BNS. As a result, TCAP's equity stake in the two subsidiaries increased to 89.96 % from 50.96%.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	9,211	10,625	8,679	6,852	6,684
Net Investment in securities	1,039	1,562	1,794	1,025	1,237
Total securities business receivables and accrued interest receivables	6,515	7,794	5,597	4,267	5,012
Allowance for doubtful accounts	0	0	0	6	6
Total debts	3,734	4,482	3,147	560	717
Shareholders' equity	3,527	3,514	3,634	3,743	3,501
Net securities business income	553	1,297	1,700	1,329	2,834
Total income	655	1,510	1,904	1,517	3,076
Operating expenses	350	745	881	739	754
Interest expenses	50	78	42	35	102
Net income	164	448	661	479	1,674

Unit: %

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
<b>Profitability</b>					
Brokerage fees/total revenues	54.6	61.8	66.6	72.7	65.9*
Fees and services income/total revenues	9.2	9.2	12.9	12.0	4.5*
Gain (loss) from trading/total revenues	4.3	4.2	7.1	0.9	3.8*
Operating expenses/net revenues	57.7	52.0	47.3	49.8	54.2*
Pre-tax margin	33.9	38.8	44.4	40.3	36.1*
Return on average assets	3.3	4.7	8.5	7.1	5.2*
Earnings before taxes/risk-weighted assets	2.0	2.9	5.3	4.6	3.5*
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	0.0	0.0	0.0	0.1	0.7
Allowance for doubtful accounts/gross securities business receivables	0.0	0.0	0.0	0.1	0.1
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	36.5	29.9	34.3	47.6	46.4
Risk-adjusted capital	17.8	14.7	16.5	25.3	21.4
<b>Funding and Liquidity</b>					
Gross stable funding ratio	93.2	88.5	104.7	161.4	151.4
Liquidity coverage metric	0.4	0.3	0.6	1.7	1.3

\* Excluding gains from sales of investment

**RELATED CRITERIA**

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

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**Thanachart Securities PLC (TNS)**

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**Company Rating:**

A-

**Rating Outlook:**

Stable

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**TRIS Rating Co., Ltd.**

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

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