

# TSFC SECURITIES PLC

No. 233/2022  
20 December 2022

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB  
**Outlook:** Stable

**Last Review Date:** 30/12/21

### Company Rating History:

Date	Rating	Outlook/Alert
27/12/19	BBB	Stable
25/11/15	BBB-	Stable
04/12/14	BB+	Positive
26/10/12	BB+	Stable
15/08/12	BB+	Alert Developing
04/02/11	BB+	Positive
28/07/09	BB	Stable
17/12/08	D	
16/12/08	C	Alert Negative
28/11/08	BB-	Alert Negative
07/11/08	BBB-	Alert Negative
04/04/05	A	Stable
12/07/04	A-	Positive
09/05/02	A-	-

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## RATIONALE

TRIS Rating affirms the company rating on TSFC Securities PLC (TSFC) at “BBB” with a “stable” rating outlook. The rating reflects the company’s moderate business position, strong capital, strong risk position, and manageable funding and liquidity profile.

## KEY RATING CONSIDERATIONS

### Strong market position in margin lending

TSFC’s core businesses include credit balance financing (margin loans) and loans to brokers in the form of money market loans and loans for margin transaction (LBMT). For margin loans, TSFC is a key player, ranking among the top-10 providers in Thailand.

The company’s strong market position has underpinned its business, despite a gradual decline in market share over the past few years. At the end of June 2022, its market share was 3.7% compared with about 5%-6% in the past. The company ranked 7<sup>th</sup> in terms of outstanding credit balance with margin loans totaling THB4.0 billion.

At the end of September 2022, the company provided loans to brokers amounting to THB1.12 billion, an increase of 33% from THB840 million at the end of September 2021.

### Moderate business position due to revenue concentration

TSFC’s business position is assessed as moderate due to its heavy reliance on interest income from margin loans, which accounted for 87% of total revenue in the first nine months of 2022 (9M22). This exposes the company to the risk of stock market volatility and demands for margin loans. Interest income on brokers’ loans represented another 11%, while fee-based income remained marginal. New products and services that results in meaningfully diversified revenue could result in an improvement in TSFC’s business position and credit profile.

### Strong capital base

TSFC’s capital and leverage, measured by the risk-adjusted capital ratio (RAC), is forecasted to remain strong at around 20% on a 5-year average (2020-2024). Its capital is likely to stay at a similar level over the medium term given our expectation of gradual portfolio expansion, conservative investment policies, and moderate dividend payout. At the end of September 2022, the company’s net capital ratio (NCR) stood at 54.2%, well above the minimum regulatory requirement of 7%.

### Modest profitability

In our view, improving profitability remains a challenge for TSFC. This is due to TSFC’s role, which prevents it from competing with securities brokerage firms and expanding its business more aggressively. Unless the revenue structure can be materially enhanced, it is likely that its profitability will remain weak, in our view. We estimate 5-year average (2020-2024) earnings before taxes to risk-weighted assets (EBT/RWAs) for TSFC at 1.1%, compared with the 0.9%-1.2% range in the past few years.

Nonetheless, well-controlled funding costs and operating expenses should help the company maintain profitability over the medium term. For 9M22, the

company's ratio of operating expenses to total income was 36.0%, relatively stable compared to 9M21 and significantly lower than other regional securities finance companies.

### Strong risk position

The company's strong risk position is supported by its prudent risk management policies, which are closely monitored by the Stock Exchange of Thailand (SET), through board representatives.

These include prudent risk control policies on credit underwritings, marginable securities grading which includes both quantitative and qualitative analysis, close margin maintenance monitoring, and strict margin call enforcement.

Asset quality remains sound with modest credit losses incurred during 9M22. The company also had limited exposure to market risk as its investment portfolio remains small, comprising mainly low-risk government bonds for liquidity purposes that aligns with its prudent investment policies. Investments accounted for 2% of total assets at the end of September 2022.

### Moderate funding and liquidity profile

We assess the company's funding and liquidity profile to be adequate as we believe asset-liability maturity mismatches remain manageable. However, a more diversified funding structure that includes more long-term funding could be positive to its ratings. TSFC's main sources of funds are revolving short-term borrowings through promissory notes from various financial institutions that help minimize funding costs. At the end of September 2022, the company had available credit facilities totaling THB5.6 billion.

### BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TSFC's operations in 2022-2025 are as follows:

- Total loan portfolio around THB4-THB5 billion
- Interest spread to hover around 3%
- Ratio of operating expenses to total income at approximately 40%

### RATING OUTLOOK

The "stable" outlook reflects our expectation that the company will maintain its capital position and earnings capability as well as its funding and liquidity profile.

### RATING SENSITIVITIES

TSFC's credit upside would materialize if the company were able to meaningfully diversify its revenue mix or exhibit stronger capital and earnings capability for a sustained period. On the contrary, the rating and/or outlook could be revised downward if asset quality weakened significantly or capital, leverage, and earnings deteriorated materially with RAC falling below 15% for an extended period.

### COMPANY OVERVIEW

TSFC was founded in September 1996. The MOF recognized the need to set up specialized firms to conduct securities-related financing as part of its efforts to develop the Thai capital market. TSFC was founded with initial paid-up capital of THB1 billion. Its mission was to serve as a reliable source of funds for securities firms. Securities firms needed a reliable source of funding because a regulatory change obliged finance companies to separate their finance business from their securities business.

TSFC commenced operations in 1996 by lending excess funds through the money market. TSFC is the sole company licensed by the MOF to provide securities financing, including margin loan refinancing, loans against pledged securities, and securities repurchase agreements.

TSFC's original shareholders were public and private sector organizations, including the MOF, Government Savings Bank (GSB), Krung Thai Bank (KTB), the Stock Exchange of Thailand (SET), other commercial banks, finance companies, and securities companies. As of June 2007, government-related entities held 26.9% of TSFC's shares, while commercial banks, finance companies, and securities companies held 44.4%. The remaining 28.7% was held by finance and securities companies that were permanently closed as a result of the 1997 financial crisis. This portion came under the management of the Financial Institutions Development Fund (FIDF) after these finance and securities companies were closed by the regulatory authorities. TSFC's board of directors, made up of shareholders' representatives, has contributed the expertise needed for TSFC to develop its policies and business.

In 1997, TSFC introduced other types of loans for securities companies, including margin loan refinancing, loans against pledged securities, and loans made under repurchase agreements. Moreover, the MOF ordered TSFC to launch a special project loan program designed to help cash-strapped securities firms in the early days of the Asian financial crisis.

TSFC's scope of services has expanded. For example, in 2002, TSFC began providing secured securities underwriting for securities companies by issuing a Contingent Agreement to Purchase Letter (CAPL) to underwriters. In 2003, TSFC launched credit balance financing by transferring brokers' margin accounts to its own account. This service provides financial flexibility to securities companies by lowering their net capital reserve (NCR) requirements.

The Thai stock market experienced a remarkable recovery in 2003. As a result, TSFC built up a substantial portfolio of margin loans, launched Employee Stock Option Program (ESOP) financing, as well as loans to investors for private placements (PP), initial public offerings (IPO), and public offerings (PO). IPO and ESOP financings are TSFC's exclusive purview; other securities firms are prohibited from offering these services. TSFC has launched other new products and services, including mutual fund guarantees and securities borrowing and lending (SBL). TSFC is permitted to conduct SBL services, provide securities underwriters with contingent agreements to purchase the unsold portions of securities offerings, and provide guarantees to mutual fund investors.

TSFC was greatly impacted after the Thai stock market plummeted in October 2008. TSFC signed a debt restructuring agreement (DRA) with its major creditors on 20 March 2009. On 22 July 2009, the company was able to fulfil a key condition in the DRA: raising at least THB1 billion of new equity capital from its existing shareholders, new investors, and through a debt-equity conversion. TSFC obtained THB1,016.7 million in new equity capital at a par value of THB10 per share. TSFC registered the new share issues at the Ministry of Commerce on 24 July 2009. The Securities and Exchange Commission (SEC) allowed TSFC to restart its margin loan business on 28 July 2009. After the recapitalization, the SET became TSFC's largest shareholder, holding a 24.66% stake, followed by the MOF (10.56%), KTB (6.02%), and GSB (4.92%).

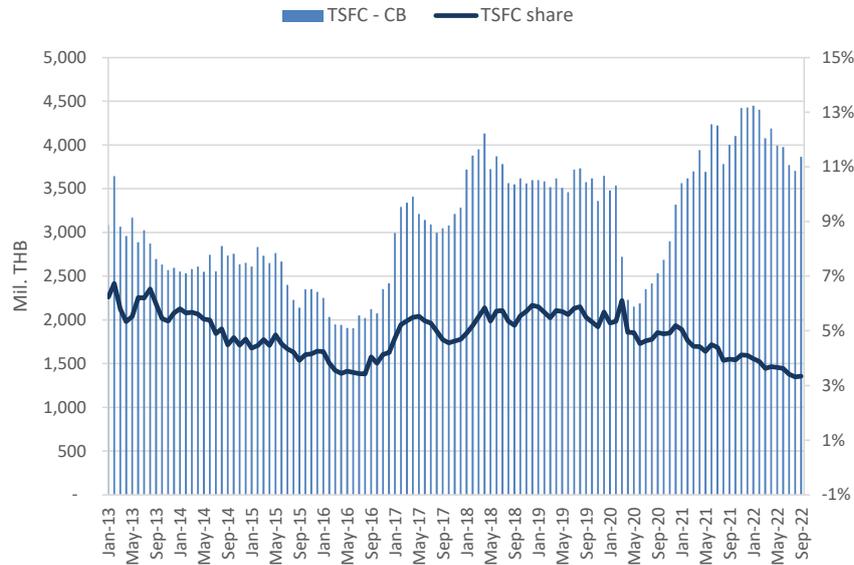
TSFC raised new equity capital in July 2014. After the capital increase, TSFC's equity base was further strengthened. On 22 July 2014, TSFC raised THB532 million through a private placement with its major shareholders, the SET, the MOF, and GSB, resulting in an increase in TSFC's shareholders' equity to THB1,549 million from THB1,016 million and making the SET its largest shareholder, owning 40.65%, followed by the MOF (10.56%) and GSB (9.5%). Other shareholders are commercial banks (11.89%), securities companies (10.9%), asset management funds (9.7%), insurance companies (2.82%), and others (0.03%).

In the second half of 2014, TSFC started offering loans to securities companies, a product it used to offer. In 2017, TSFC started offering LBMT and block trade financing as additional product programs to further serve the company's mission to act as a liquidity provider for securities companies. In September 2018, TSFC received the Certificate of Registration Information Security Management System – ISO/IEC 27001:2013 from The British Standards Institution (BSI), which certifies that the company's management of information security applied to the electronic fund transfer operation using BAHTNET complies with the requirements of ISO/IEC 27001:2013.

In December 2019, GSB acquired additional stakes in TSFC by purchasing 15,095,418 shares from TSFC's existing shareholders. Together with previously owned shares in the company, GSB now holds 29,812,018 shares in TSFC, increasing its stake to 19.25% from 9.50%.

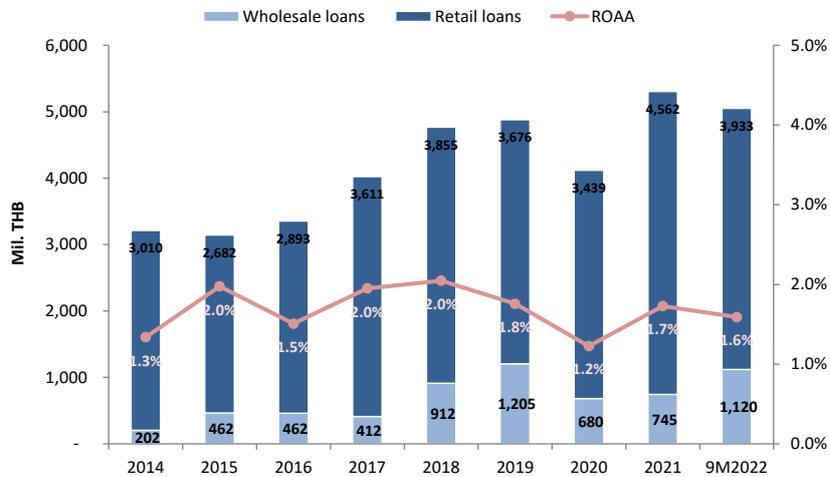
**KEY OPERATING PERFORMANCE**

**Chart 1: TSFC's Margin Loans and Market Share after Recapitalization in 2014**



Sources: 1) Stock Exchange of Thailand (SET)  
2) TSFC  
3) TRIS Rating's database

**Chart 2: TSFC's Loan Mix and Returns on Average Assets (ROAA)**



Source: TSFC

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

	Jan-Sep 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	5,223	5,572	4,500	5,030	4,682
Total loans (ending gross receivables)	5,053	5,307	4,119	4,881	4,767
Allowance for doubtful accounts***	8	8	8	7	304
Short-term borrowings	3,254	3,533	2,355	3,152	2,800
Long-term borrowings	0	0	0	0	0
Shareholders' equity	1,870	1,857	1,805	1,794	1,747
Net interest income	150	201	165	207	216
Provision for bad debt and doubtful accounts**	0	0	0	(5)	(3)
Non-interest income	1	2	1	1	0
Operating expenses	70	93	93	106	103
Earnings before taxes	81	109	73	107	116
Net income	64	87	58	85	93

*Unit: %*

	Jan-Sep 2022	----- Year Ended 31 December -----			
		2021	2020	2019	2018
<b>Profitability</b>					
Net interest and dividend income/average assets	3.70 *	3.98	3.45	4.26	4.77
Fees and services income/average assets	0.01	0.01	0.01	0.02	0.01
Operating expenses/total income	35.97	37.11	47.14	38.47	37.15
Operating profit/average assets	1.99 *	2.16	1.54	2.20	2.56
Earnings before taxes/average risk-weighted assets	1.10 *	1.19	0.86	1.22	1.45
Return on average assets	1.59 *	1.73	1.23	1.76	2.05
Return on average equity	4.60 *	4.76	3.25	4.82	5.39
<b>Asset Quality</b>					
Non-performing loans/total loans	0.14	0.13	0.17	0.15	6.31
Provision for bad debts and doubtful accounts**/average loans	0.01 *	0.00	0.00	(0.10)	(0.07)
Allowance for doubtful accounts***/total loans	0.15	0.14	0.18	0.15	6.38
<b>Capitalization</b>					
Risk-adjusted capital ratio	19.74	17.52	22.01	19.57	20.23
Debt/equity (times)	1.79	2.00	1.49	1.80	1.68
<b>Funding and Liquidity</b>					
Stable funding ratio	94.28	80.60	103.24	96.81	99.13
Liquidity coverage measure (times)	0.04	0.06	0.07	0.04	0.06
Short-term borrowings/total borrowings	100.00	100.00	100.00	100.00	100.00

*\* Annualized*
*\*\* Expected credit losses under TFRS 9*
*\*\*\* Allowance for impairment losses under TFRS 9*

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**RELATED CRITERIA**

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- Nonbank Financial Institution Methodology, 17 February 2020

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**TSFC Securities PLC (TSFC)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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