

TSFC SECURITIES PLC

No. 245/2023
18 December 2023

FINANCIAL INSTITUTIONS

Company Rating: BBB
Outlook: Stable

Last Review Date: 20/12/22

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

Thailand’s sole securities finance corporation

TSFC is the only securities finance corporation (SFC) in Thailand, aiming to provide securities financing for both securities companies and retail investors. TSFC’s core businesses include credit balance financing (margin loans), accounting for 84% of total loans and loans to brokers accounting for 15%. Loans to brokers take the form of money market loans and loans for margin transaction (LBMT).

The company’s strong market position in margin loans, ranking among the top-10 providers in Thailand, underpins its business position. At the end of June 2023, the company ranked 7th in terms of outstanding credit balance with market share of 3.7% or margin loans totaling THB3.6 billion.

At the end of September 2023, the company provided loans to brokers amounting to THB570 million, a decrease of 49% from THB1.12 billion at the end of September 2022 due to the weakened market condition.

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 89% of total revenue in the first nine months of 2023 (9M23). This exposes the company to the volatility of the stock market and demands for margin loans. Interest income on brokers’ loans represented 9% of total revenue, while fee-based income remained marginal. The company has a plan to expand its fee-based income by expanding into new businesses which include partnering with banks to provide Lombard loans and providing information technology (IT) outsourcing services to small to medium-sized securities companies. These initiatives are expected to be implemented in 2024. New products and services that results in meaningfully diversified revenue sources could result in improved business position and credit profile.

Strong capital position

We assess TSFC’s capital and leverage position as strong, as measured by a risk-adjusted capital ratio (RAC) of around 24% on a 5-year average. TSFC’s RAC improved from 19.7% at the end of September 2022 to 25.4% at the end of September 2023 due to the contraction of margin loans and loans to brokers. We expect its capital to remain at a similar level over the medium term given our expectation of moderate portfolio expansion, conservative investment policies, and modest dividend payout. At the end of September 2023, the company’s net capital ratio (NCR) stood at 89.9%, well above the minimum regulatory requirement of 7%.

Modest profitability

Based on its key role to facilitate the development of the capital market rather than competing with securities brokerage firms, maximizing profit is not its main priority. We expect TSFC’s profitability will remain weak unless the

revenue structure is materially enhanced. We estimate 5-year average (2021-2025) earnings before taxes to risk-weighted assets (EBT/RWAs) for TSFC at 1.0%, compared with the 0.9%-1.1% range in the past few years.

Nonetheless, well-controlled operating expenses and improved yield should help the company retain profitability over the medium term. For 9M23, the company's operating expenses to total income ratio was 39.6%, which is significantly lower than other securities companies. Yield on loans improved to 6.2% in 9M23, which improved significantly from 4.9% in 9M22.

Strong risk position

We consider TSFC's risk position to be strong as seen in its prudent risk management policies. The company's risk management policies are closely overseen by the Stock Exchange of Thailand (SET), through board representatives.

The company has prudent risk control policies on credit underwritings, marginable securities grading which includes both quantitative and qualitative analysis, regular monitoring of marginable list, close margin maintenance monitoring, and strict margin call enforcement.

TSFC's asset quality has remained sound with modest credit losses incurred during the past few years. TSFC also has limited risk exposure to market risk as its investment portfolio remains small and comprises mainly of low-risk government bonds for liquidity purposes. This aligns with its prudent investment policies. As of the end of September 2023, investments accounted for 3% of total assets.

Moderate funding and liquidity profile

We assess the company's funding and liquidity profile to be moderate. The company relies mainly on revolving short-term borrowings through promissory notes, which helps minimize its funding cost, to fund its retail margin loans. This exposes the company to some asset-liability mismatch risks as most of its retail margin loans clients are long-term investors. Nevertheless, as we believe asset-liability maturity mismatches remain manageable.

The company has diversified its funding sources by raising fund through crowdfunding platform totaling THB95million as of September 2023. In the future, the company also plans to increase the proportion of long-term borrowings in an effort to address the maturity mismatch issue. In our view, a more diversified funding structure that includes more long-term funding could be positive to its ratings. At the end of September 2023, the company had available credit facilities from various financial institutions totaling THB7.0 billion.

BASE-CASE ASSUMPTIONS

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

- Total loan portfolio around THB3-THB3.5 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 Ministry of Finance (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%).

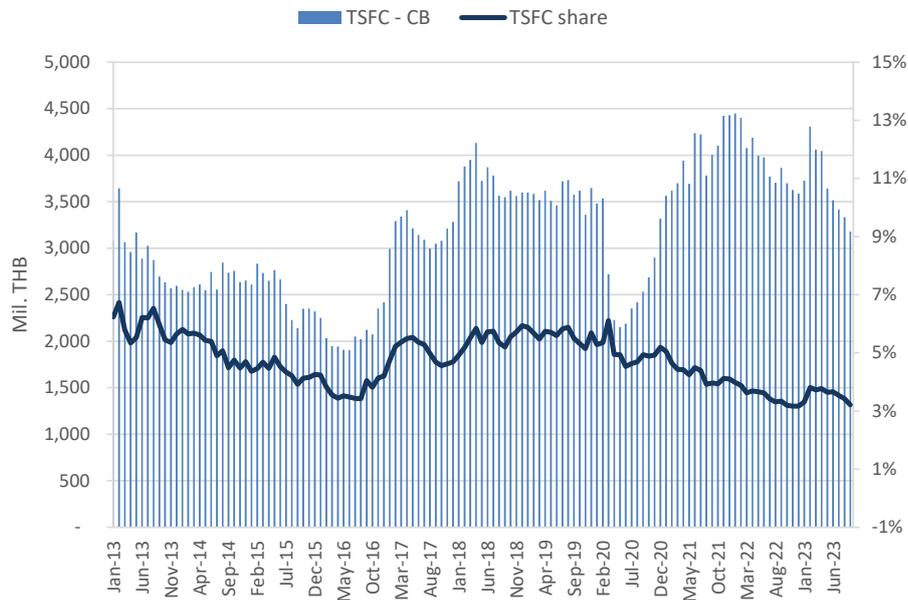
TSFC raised new equity capital in July 2014. After the capital increase, TSFC's equity base was further strengthened. On 22 July 2014, TSFC raised THB532 million through a private placement with its major shareholders, the SET, the MOF, and GSB, resulting in an increase in TSFC's shareholders' equity 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%.

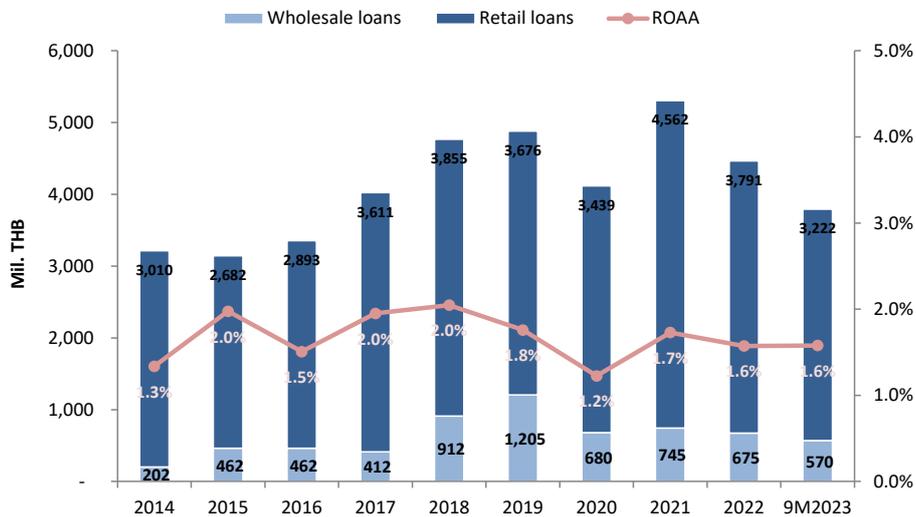
KEY OPERATING PERFORMANCE

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 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	3,992	4,677	5,572	4,500	5,030
Total loans (ending gross receivables)	3,792	4,466	5,307	4,119	4,881
Allowance for doubtful accounts***	8	8	8	8	7
Short-term borrowings	1,989	2,495	3,533	2,355	3,152
Long-term borrowings	0	0	0	0	0
Shareholders' equity	1,891	1,887	1,857	1,805	1,794
Net interest income	141	195	201	165	207
Provision for bad debt and doubtful accounts**	0	0	0	0	(5)
Non-interest income	1	1	2	1	1
Operating expenses	78	96	93	93	106
Earnings before taxes	64	101	109	73	107
Net income	51	81	87	58	85

Unit: %

	Jan-Sep 2023	----- Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Net interest and dividend income/average assets	4.34*	3.81	3.98	3.45	4.26
Fees and services income/average assets	0.00	0.01	0.01	0.01	0.02
Operating expenses/total income	39.61	37.26	37.11	47.14	38.47
Operating profit/average assets	1.98*	1.97	2.16	1.54	2.20
Earnings before taxes/average risk-weighted assets	1.07*	1.06	1.19	0.86	1.22
Return on average assets	1.58*	1.57	1.73	1.23	1.76
Return on average equity	3.62*	4.31	4.76	3.25	4.82
Asset Quality					
Non-performing loans/total loans	0.18	0.16	0.13	0.17	0.15
Provision for bad debts and doubtful accounts**/average loans	0.00*	0.00	0.00	0.00	(0.10)
Allowance for doubtful accounts***/total loans	0.20	0.17	0.14	0.18	0.15
Capitalization					
Risk-adjusted capital ratio	25.41	21.24	17.52	22.01	19.57
Debt/equity (times)	1.11	1.48	2.00	1.49	1.80
Funding and Liquidity					
Stable funding ratio	116.47	98.79	80.60	103.24	96.81
Liquidity coverage measure (times)	0.07	0.05	0.06	0.07	0.04
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

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023

TSFC Securities PLC (TSFC)

Company Rating:	BBB
Rating Outlook:	Stable

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