

# KGI SECURITIES (THAILAND) PLC

No. 97/2022  
24 June 2022

## FINANCIAL INSTITUTIONS

Company Rating:	A
Issue Rating:	
Senior unsecured	A
Outlook:	Stable

Last Review Date: 31/03/22

### Company Rating History:

Date	Rating	Outlook/Alert
18/06/19	A	Stable
27/07/16	A-	Stable
18/06/08	BBB+	Stable
12/07/04	BBB	Stable
23/01/04	BBB	-
26/11/01	BBB-	-

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## RATIONALE

TRIS Rating affirms the company rating on KGI Securities (Thailand) PLC (KGI Thailand) at “A” and the rating on KGI Thailand’s senior unsecured debentures at “A” with a “stable” outlook. The ratings incorporate a one-notch group rating enhancement from KGI Thailand’s stand-alone credit profile (SACP) assessed at “a-”. The rating enhancement reflects our assessment of KGI Thailand’s status as a “strategic” affiliate of KGI Securities Co., Ltd. in Taiwan (KGI Taiwan, together with its affiliates in the KGI Group, rated “BBB/Positive” by S&P Global Ratings).

KGI Thailand’s SACP reflects its strong market position in the derivatives businesses, robust earnings capacity, and strong funding profile. However, the SACP is partially weighed down by the company’s reliance on gains on financial instruments as a major source of earnings.

## KEY RATING CONSIDERATIONS

### Strategic affiliate of the KGI Group

We consider KGI Thailand as a “strategic” affiliate of KGI Taiwan. The ratings incorporate a one-notch enhancement from KGI Thailand’s SACP. KGI Asia (Holdings) Pte. Ltd., a wholly-owned subsidiary of KGI Taiwan, owns 34.97% shares in KGI Thailand. Three of the nine members of KGI Thailand’s board of directors were appointed by KGI Taiwan.

KGI Taiwan has been providing business and technical support to KGI Thailand, and we expect this to continue in the foreseeable future. The support from KGI Taiwan has bolstered the company’s leading market position in its equity derivatives businesses. KGI Thailand’s strong domestic franchise in the securities business and stable dividend contributions to the group substantiate our view that KGI Group is strongly committed to KGI Thailand. While we view there to be a certain degree of strategic alignment and business cooperation between KGI Thailand and KGI Taiwan and its subsidiaries, there is no evidence of explicit financial support from the group.

### High reliance on gains on financial instruments

Gains on financial instruments have accounted for around 35% of its total revenue during the past three years. This was significantly higher than the industry average of around 7.5% in 2019-2021. The major source of gains on financial instruments derives mainly from its derivative warrants (DWs) business, of which KGI Thailand has retained the top market position in Thailand.

While maintaining its leading position in DW, the company has made sound progress in diversifying its revenue as evidenced by its increased fee income from fund management, operated by its subsidiary, One Asset Management Ltd. (ONEAM). Fee income to total revenue rose to 29.6% in 2021 from an average of about 25% in 2018-2020, compared with the industry average of 17% during 2019-2021. However, it will likely take time for the revenue diversification to positively impact its ratings, given the high portion of gains on financial instruments.

### Strong market position

We expect KGI Thailand to maintain its leading market position in the derivatives business over the next few years. This is underpinned by

knowledge transfer, international experience, and technology from its parent and affiliates within the KGI Group. In 2021, KGI Thailand was the largest issuer of DWs in Thailand. The company also ranked the first in terms of DW trading volume by issuers, with a market share of 50.26% in 2021, up from 42.98% in 2020.

For the derivatives brokerage business, the company's revenue market shares also rose to 9.04% in 2021 from 5.98% in 2020, buoyed by the strong trading volume of SET50 Index Futures. KGI Thailand had the largest trading volume in Thailand Futures Exchange (TFEX) in 2021, with a market share of 13.38%, up from 9.35% in 2020.

KGI Thailand's revenue market share in the securities brokerage business has improved strongly over the past two years, helping to expand its securities brokerage fee by 32.7% in 2020 and 40.4% in 2021. While securities brokerage fees from retail clients remained the largest portion at 72.2% of its total securities brokerage revenue in 2021, brokerage fees from foreign clients were more than double in the same year. This was driven by Direct Market Access (DMA) service and high-frequency trades from foreign institutional clients. If they continue, the stronger fees from foreign clients should help sustain overall expansion of its securities brokerage fee.

Apart from brokerage businesses, ONEAM, a 99%-owned fund management subsidiary of KGI Thailand, has shown strong growth in asset under management (AUM) of 16.7% in 2021. ONEAM's market share in the mutual fund segment improved to 1.54% at the end of 2021 from 1.21% at the end of 2020. Foreign investment funds (FIFs) have continued to drive ONEAM's growth during the past two years.

#### **Adequate capital position**

We assess KGI Thailand's capitalization as adequate. We project the company's capitalization, as measured by the risk-adjusted capital ratio (RAC), to be between 15%-16% over the next three years. Its RAC stood at 16.4% at the end of March 2022. We are of the view that its current capital level is sufficient to support normal operations. Net capital ratio (NCR) remained healthy at 82.50% at end-March 2022, well above the 7% minimum requirement.

#### **Strong earnings capacity with high volatility**

We expect KGI Thailand's earnings capacity, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), to remain strong over the next few years. The company's EBT/ARWA ratio recovered to 4.36% in 2021 after dipping to 1.82% in 2020 due to stressed market conditions that led to lower gains on trading. We hold the view that a relatively large exposure to gains on financial instruments could render KGI Thailand's performance vulnerable to periods of heightened volatility. Nonetheless, an increase in recurring fee income from the fund management business should help KGI Thailand lessen its earnings volatility over coming years. We estimate KGI Thailand's EBT/ARWA to stay 3.5% over the next three years, assuming stable gains on financial instruments to be at similar levels at an average level during the past three years.

#### **Adequate risk management**

KGI Thailand continues to receive support and guidance from the KGI Group in areas of product expertise, automated trading platform, trading strategies, and risk management. Under the guidance from the group, KGI Thailand develops and implements its own risk management policies and procedures that cater to its operating environment with specific risk limits and real-time monitoring of market exposure. We consider the company to have an adequate risk management system despite its moderately high risk appetite.

KGI Thailand's risk management has strengthened following its losses on hedging of DW underlying assets in 2020. The company also adjusted its product features and pricing of DWs to incorporate a higher risk spectrum. The company's proprietary trading activities comprise both directional trading and non-directional trading. Its proprietary trading activities have also been managed through an automated trading system that keeps trading exposure within specific boundaries.

#### **Strong funding profile and adequate liquidity profile**

We assess KGI Thailand's funding profile as strong, with five-year average (2020-2024) gross stable funding ratio (GSFR) of around 140%. At the same time, we consider KGI Thailand's liquidity profile to be adequate as the company has ample credit facilities from various financial institutions to enhance its financial flexibility. This should be sufficient for its current level of operation and expansion plans.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for KGI Thailand's operations during 2022-2024 are as follows:

- Average commission rates to be approximately 3-4 basis points (bps).
- Operating expenses to net revenue to be around 42%-43% in 2022-2024.
- EBT/ARWA to be around 3.5% in 2022-2024.

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## RATING OUTLOOK

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The “stable” outlook reflects our expectation that the company will continue to diversify its revenue mix, by improving fee-based businesses and maintaining healthy profitability. We also expect KGI Thailand to preserve its strong capitalization, supported by stable profit and the appropriate level of dividend payments, and adequate risk management.

## RATING SENSITIVITIES

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Credit upsides could develop from sustained improvement in business position. Downward pressure on the ratings could occur if KGI’s capitalization, as measured by the RAC ratio, weakens significantly on a prolonged basis, either from losses in equity capital or by a rapidly enlarged balance sheet from aggressive business expansion.

In addition, any change in the credit profile of the KGI Group or a change in TRIS Rating’s view on the status of KGI Thailand to the KGI Group may affect the ratings and/or outlook.

## COMPANY OVERVIEW

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KGI Thailand was established as Goldhill Securities Co., Ltd. in 1975. In 1987, KASIKORNBANK PLC (known as Thai Farmers Bank PLC at the time) and the Finance One Group took over the company and renamed it Securities One Co., Ltd. (S-ONE). The company was listed on the Stock Exchange of Thailand (SET) in 1989. Following the Asian financial crisis in 1997, the company suffered huge losses on its investments when a subsidiary, Thai Thamrong Finance PLC, and an affiliated company, Nithipat Finance PLC, were shut down in 1998. The Koos Group, a large Taiwanese conglomerate, assisted KGI Thailand with a debt restructuring program and became the major shareholder in 1998. The company was renamed KGI Securities (Thailand) PLC in 2001.

After the shareholding structure changed in 1998, KGI Thailand invested overseas through a wholly-owned subsidiary, KGI Securities (Thailand) International Holdings Ltd. (HOLDCO), which owned a 46.6% stake in KGI International Holdings Ltd. (KGII). KGII invested in securities firms in Hong Kong, South Korea, and the Philippines. In September 2000, KGII distributed its assets, including its stakes in its subsidiaries, to its shareholders, including HOLDCO. In early 2001, HOLDCO sold its equity stakes in the overseas subsidiaries back to KGII. To pay for the stakes, KGII issued USD35 million in secured convertible debentures and THB1.58 billion in secured debentures.

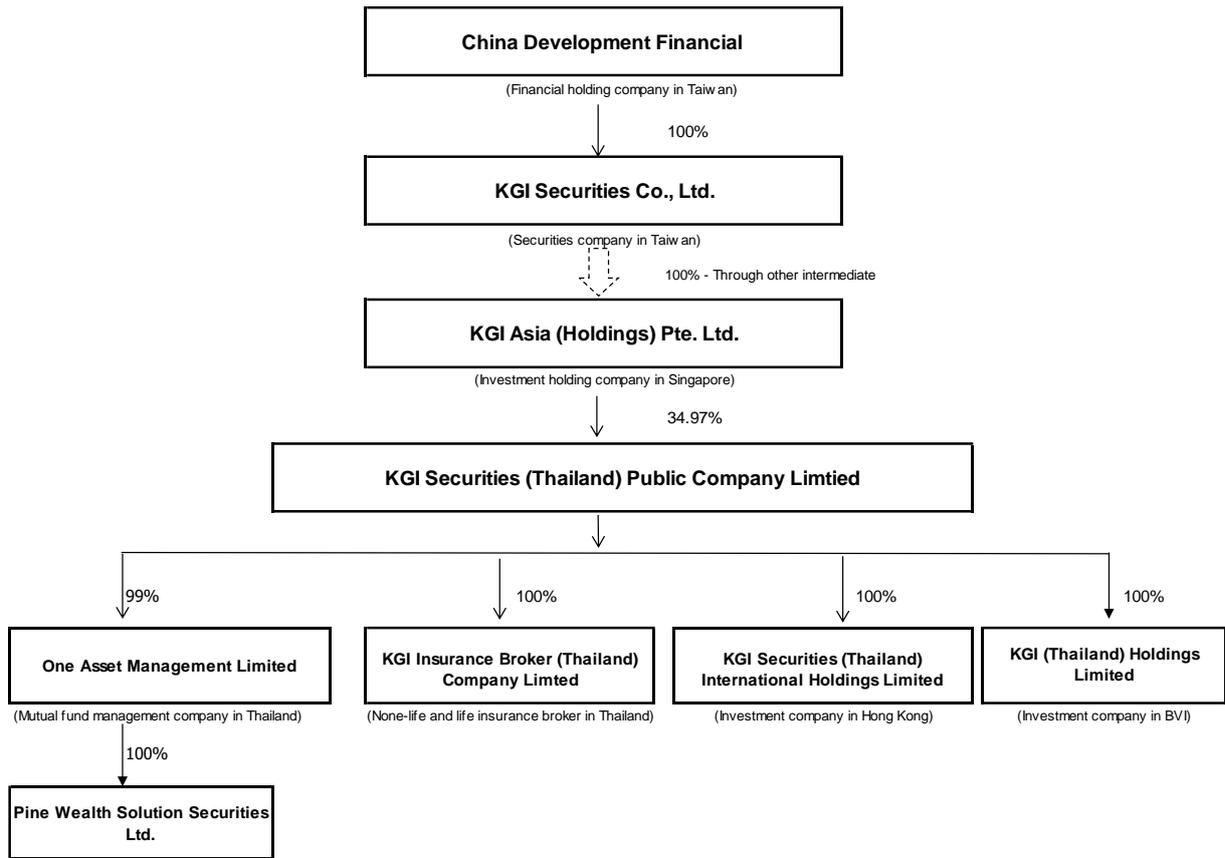
At the end of 2002, KGI Thailand retained a loss of THB7.52 billion. In 2003, the company reduced its capital to THB12.99 billion from THB17.33 billion, returning THB4.33 billion to shareholders. KGI Thailand sold the overseas debentures held by HOLDCO and used the proceeds to pay shareholders and repay all of its borrowings. KGI Thailand wiped out the accumulated loss by offsetting it with general reserves, legal reserves, and the share premium incurred from the reduction in par value.

KGI Thailand reduced its paid-up capital twice, in 2005 and 2006, to THB1.99 billion from THB14.94 billion, by reducing the par value to THB1 from THB7.5 per share. KGI Thailand received a license from the Securities and Exchange Commission (SEC) authorizing it to act as an agent and dealer for futures trading once the TFEX opened in 2006.

KGI Thailand operates a full range of securities businesses: securities brokerage, securities dealing, investment banking, fixed income business, private repos, sales agent of unit trusts, futures brokerage, securities borrowing and lending, over-the-counter (OTC) derivatives, and DWs. It also owns a 99% stake in ONEAM, an asset management company that offers a full range of fund management services. As of March 2015, Richpoint Co., Ltd. was the company’s major shareholder, owning a 34.97% stake.

On 30 October 2015, Richpoint transferred its entire shareholding in the company to KGI Asia (Holdings) Pte. Ltd., a company incorporated under the laws of Singapore in which KGI Taiwan indirectly owns its entire equity interest as part of the KGI Group’s shareholding restructuring.

**Chart 1: KGI Group Structure**



Source: KGI

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

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	20,355	27,697	25,272	12,439	15,519
Net investment in securities	8,126	8,182	7,589	5,894	5,493
Total securities business receivables and accrued interest receivables	7,957	16,172	15,507	5,829	6,495
Allowance for doubtful accounts	247	247	308	357	350
Total debts	6,014	5,829	4,463	1,464	4,048
Shareholders' equity	7,853	7,540	6,139	6,239	6,047
Net securities business income	831	4,152	2,138	2,736	2,918
Total income	1,100	5,356	2,829	3,350	3,509
Operating expenses	434	1,934	1,441	1,537	1,570
Interest expense	20	78	79	141	159
Net income	317	1,861	569	972	1,084

*Unit: %*

	Jan-Mar 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
<b>Profitability</b>					
Brokerage fees/total revenues	29.7	23.9	32.3	20.8	25.9
Fees and services income/total revenues	28.6	29.6	32.6	23.6	19.6
Gain (loss) from trading/total revenues	28.7	38.2	24.9	42.7	41.3
Operating expenses/net revenues	40.2	36.6	52.4	47.9	46.9
Pre-tax margin	37.1	42.9	26.4	37.8	40.7
Return on average assets*	5.3	7.0	3.0	7.0	6.7
Earning before tax/risk-weighted assets*	3.2	4.4	1.8	3.9	n.a.
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	3.1	1.5	1.9	5.4	4.9
Allowance for doubtful accounts/gross securities business receivables	3.1	1.5	2.0	6.1	5.4
Credit costs (reversal)*	0.0	(0.1)	(0.1)	0.1	(0.1)
<b>Capitalization</b>					
Leverage ratio	35.7	22.3	21.5	43.6	34.6
Risk-adjusted capital	16.4	10.8	11.6	16.5	18.6
<b>Funding and Liquidity</b>					
Gross stable funding ratio	149.3	121.3	120.8	197.0	179.6
Liquidity coverage metric	85.8	90.8	94.9	249.1	113.3

*\* Annualized*
*n.a. Not available*
**RELATED CRITERIA**

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Securities Company Rating Methodology, 9 April 2020

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**KGI Securities (Thailand) PLC (KGI)**

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<b>Company Rating:</b>	A
<b>Issue Rating:</b>	
KGI23NA: THB535 million senior unsecured debentures due 2023	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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