

KGI SECURITIES (THAILAND) PLC

No. 117/2023
26 June 2023

FINANCIAL INSTITUTIONS

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

Last Review Date: 24/06/22

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) and the rating on its senior unsecured debentures at “A” with a “stable” outlook. The company rating is enhanced by one notch from the stand-alone credit profile (SACP) assessed at “a-” due to our assessment of KGI Thailand’s group status as a “strategic” affiliate of KGI Securities Co., Ltd. in Taiwan (KGI Taiwan, rated “BBB+/stable” by S&P Global Ratings).

The SACP mirrors KGI Thailand’s very strong market position in the derivative warrant businesses, adequate capitalization, healthy profitability, and diverse funding sources. However, the SACP is partially constrained by its dependence on gains on financial instruments as the primary source of earnings.

KEY RATING CONSIDERATIONS

Strategic affiliate of KGI Group

Although there is no explicit financial support from KGI Taiwan and its subsidiaries, we continue to assess KGI Thailand as a “strategic” affiliate of KGI Taiwan. This is based mainly on ownership, board and management representation, and business support.

For ownership, KGI Taiwan holds a 34.97% stake in KGI Thailand via its wholly-owned subsidiary, KGI Asia (Holdings) Pte. Ltd. KGI Taiwan’s representation in KGI Thailand includes three out of nine total board members. Top management is also proposed by KGI Taiwan.

KGI Taiwan has also provided business support and technical knowhow to KGI Thailand as needed. The support has helped strengthen KGI Thailand’s position as one of the market leaders in the equity derivative business. We anticipate this collaboration to continue in the foreseeable future. Additionally, KGI Thailand is a steady dividend contributor to the group, which reinforces its important role for the KGI Group.

Maintaining dominant market position in derivative business

Apart from being one of Thailand’s major issuers of derivative warrants (DW), KGI Thailand has also ranked first in terms of market share in DW trading volume among all issuers for many years. Its market share increased to 47.75% in 2022 from 42.98% in 2020. This success can be partly attributed to the knowledge transfer, international experience, and technological advancements facilitated by its parent company and affiliated companies within the KGI Group.

Improved market position in high-frequency trade services

In 2021-2022, KGI Thailand ranked second in terms of revenue market share for the securities brokerage business in the foreign client segment. The company’s revenue market share experienced remarkable improvement, surging to 4.0% in 2022 from 0.6% in 2019. This has been driven by its continuously strengthened market position in high-frequency trade (HFT) services for prime broker clients since 2019. The company plans to increase the number of HFT clients, which could further improve its market position in the foreign client segment.

For derivative brokerage business, KGI Thailand also secured the third position in terms of revenue market share. KGI Thailand’s revenue market share was 10% in 2022, increasing from 6% in 2020. The company had the largest trading

volume in Thailand Futures Exchange (TFEX) in 2022, with a market share of 13.8%, increasing from 9.4% in 2020. This was mainly supported by its HFT services.

Adequate capital position to continue

We expect KGI Thailand's capital position to remain adequate over the next three years. The company's capitalization, as measured by the risk-adjusted capital ratio (RAC), improved to 18.8% at the end of March 2023 from 17% at the end of 2022. This was primarily driven by the company's continuous earnings accumulation. The net capital ratio (NCR) remained healthy at 80% by the end of March 2023, well above the minimum requirement of 7%. We expect the company's RAC ratio to hover in the 17%-18% range over the next three years, thanks to its strong earnings capacity.

Profitability to remain strong despite fluctuation

We expect KGI Thailand's profitability, as measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), to remain strong in 2023-2025. This is despite some expected fluctuation due to lower gains on financial instruments in 2023. We project KGI Thailand's EBT/ARWA to remain in the 2%-3% range over the next three years, which further supports the current rating. This is premised on our expectation of stable brokerage fees along with improving fee income as well as interest and dividends. We also expect total expenses to decline moderately from 2022, when the company was impacted by one-time provisioning for credit losses from a trade settlement.

Gains on financial instruments continue as primary profit contributor

We view KGI Thailand's dependence on gains from financial instruments as a source of earnings to be a negative credit factor, given the volatility of the item. In 2022, gains from financial instruments fell to THB1.2 billion from THB2 billion in 2021, marking a year-over-year decrease of 39%. The decrease was mainly due to lower profits from DW business as a result of lighter market activities and volatility compared with 2021.

The gains from financial instruments accounted for a hefty portion of the company's total revenue, a 30%-40% range in normal times, higher than the industry average of less than 10%. This explains the fluctuations in earnings over the past few years. We estimate the gains from financial instruments to be around THB1 billion per annum in 2023-2025, which should help support EBT/ARWA. This is based on our anticipation of market recovery starting from the fourth quarter of 2023, with the expectation that this positive trend will continue throughout 2024-2025.

Adequate risk management

We assess KGI Thailand's risk position as adequate despite, in our view, having a moderately high-risk appetite. The company benefits from ongoing support and guidance from the KGI Group across various aspects such as product knowledge, automated trading platform, trading strategies, and risk management. Under the guidance from the group, the company develops and implements its own risk management policies and procedures that are tailored to local operating environment. These policies encompass specific risk limits and real-time monitoring of market exposure. In response to credit losses from trade settlement in the fourth quarter of 2022, the company has proactively revamped its credit policy by tightening credit limits for both new and existing clients.

Strong funding profile and adequate liquidity profile

We expect KGI Thailand to maintain its strong funding profile over the next two years. The company's gross stable funding ratio (GSFR), which compares available stable funding with stable funding needs, was at 161% at the end of March 2023. We expect the ratio to stay above 150% over the next two years. At the same time, we consider KGI Thailand's liquidity profile to be adequate given the ample credit facilities it receives from various financial institutions. These credit facilities serve to enhance the company's financial flexibility and should adequately support its existing operations as well as its expansion plans.

As of March 2023, KGI Thailand had THB580 million priority debt out of its total interest-bearing debt of THB4.1 billion. This translated into a priority debt to total debt ratio of 14%. A ratio of over 50% subjects rated companies to a one-notch downgrade of issue rating due to the structural subordination of the issuers' senior unsecured debt obligations.

BASE-CASE ASSUMPTIONS

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

- Average commission rates to be approximately 3 basis points (bps).
- Operating expenses to net revenue to be around 43%-46%.
- EBT/ARWA to range between 2%-3%.

RATING OUTLOOK

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 adequate capitalization, supported by strong profitability and the appropriate level of dividend payments, and adequate risk management.

RATING SENSITIVITIES

Credit upsides could develop from sustained improvement in business position. Downward pressure on the ratings could occur if KGI Thailand’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.

Also, 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

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.

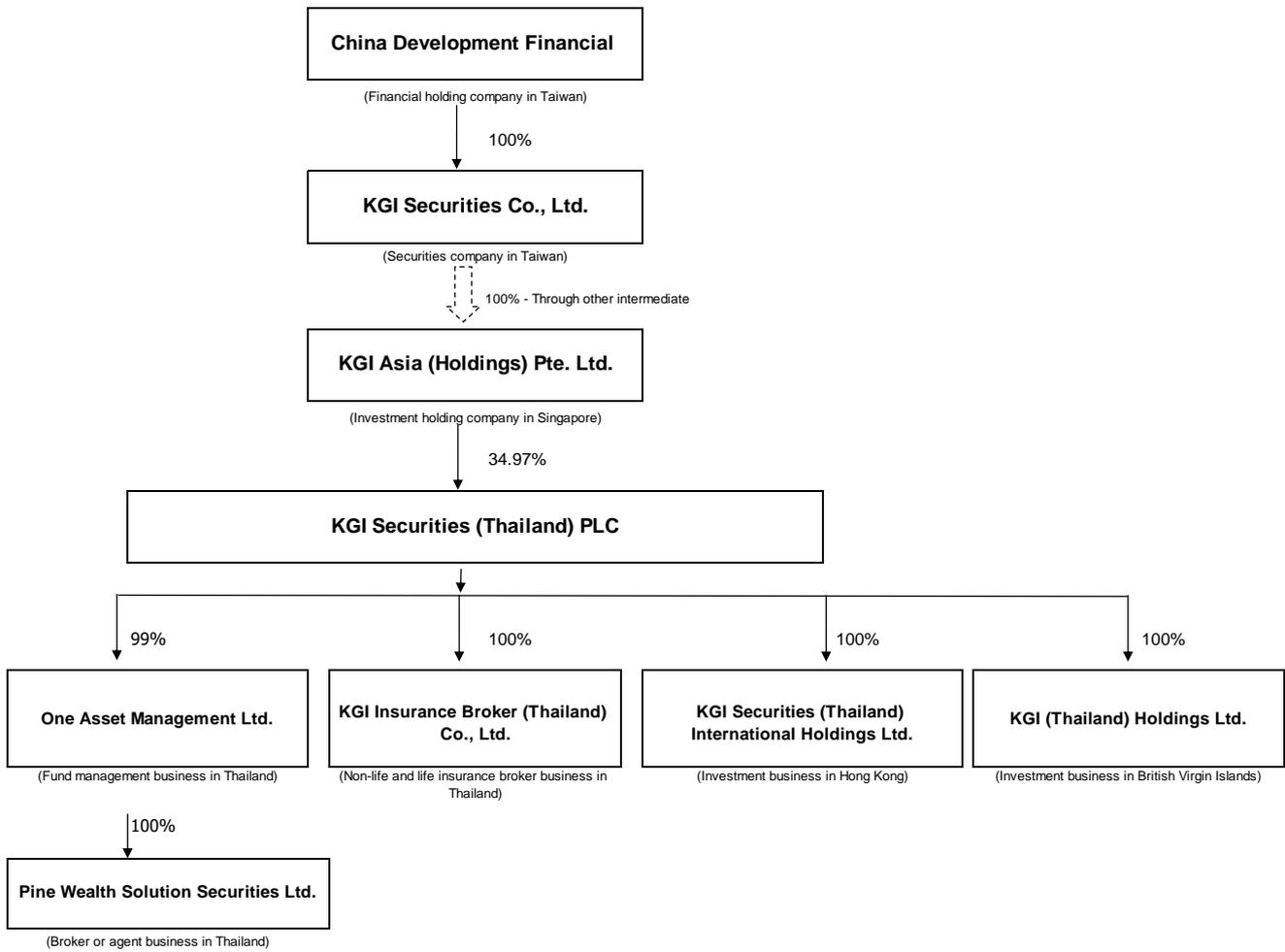
At the end of 2002, KGI Thailand retained a loss of THB7.52 billion. In 2003, the company reduced its capital to THB12.99 billion from THB17.33 billion, returning THB4.33 billion to shareholders. KGI Thailand sold the overseas debentures held by HOLDCO and used the proceeds to pay shareholders and repay 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 One Asset Management Ltd. (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 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	17,477	17,832	27,697	25,272	12,439
Net investment in securities	6,267	6,740	8,182	7,589	5,894
Total securities business receivables and accrued interest receivables	7,902	6,710	16,172	15,507	5,829
Allowance for doubtful accounts	496	474	247	308	357
Total debts	3,978	4,756	5,829	4,463	1,464
Shareholders' equity	7,653	7,473	7,540	6,139	6,239
Net securities business income	673	3,110	4,152	2,138	2,736
Total income	952	4,146	5,356	2,829	3,350
Operating expenses	416	1,657	1,934	1,441	1,537
Interest expense	28	76	78	79	141
Net income	184	1,006	1,861	569	972

Unit: %

	Jan-Mar 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Profitability					
Brokerage fees/total revenues	29.0	26.9	23.9	32.3	20.8
Fees and services income/total revenues	39.1	32.1	29.6	32.6	23.6
Gain (loss) from trading/total revenues	17.3	30.0	38.2	24.9	42.7
Operating expenses/net revenues	45.0	40.7	36.6	52.4	47.9
Pre-tax margin	25.7	30.6	42.9	26.4	37.8
Return on average assets*	4.2	4.4	7.0	3.0	7.0
Earning before tax/risk-weighted assets*	2.4	2.6	4.4	1.8	3.9
Asset Quality					
Classified receivables/gross securities business receivables	6.8	7.8	1.5	1.9	5.4
Allowance for doubtful accounts/gross securities business receivables	6.3	7.1	1.5	2.0	6.1
Credit costs (reversal)	0.3	1.9	(0.1)	(0.1)	0.1
Capitalization					
Leverage ratio	43.0	37.2	22.3	21.5	43.6
Risk-adjusted capital	18.8	17.0	10.8	11.6	16.5
Funding and Liquidity					
Gross stable funding ratio	161.3	149.5	121.3	120.8	197.0
Liquidity coverage metric	138.9	89.6	90.8	94.9	249.1

** Annualized*
RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 7 September 2022
- Securities Company Rating Methodology, 9 April 2020

KGI Securities (Thailand) PLC (KGI)

Company Rating:	A
Issue Rating:	
KGI23NA: THB535 million senior unsecured debentures due 2023	A
Rating Outlook:	Stable

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