

# RHB SECURITIES (THAILAND) PLC

No. 24/2018  
14 March 2018

## FINANCIAL INSTITUTIONS

Company Rating:	AA-
Issue Rating:	AA-
Senior unsecured	AA-
Outlook:	Stable

## RATIONALE

TRIS Rating assigns the company rating of RHB Securities (Thailand) PLC (RHBS) at “AA-“. At the same time, TRIS Rating assigns the rating of “AA-“ to RHBS’ proposed issue of up to Bt1,500 million in senior unsecured debentures. The ratings reflect RHBS’ stand-alone credit profile enhanced from its status as a highly strategic subsidiary of the RHB Group, a major financial group headquartered in Malaysia. RHBS’ stand-alone credit profile is supported by an adequate capital position, its integration with the RHB Group’s operating platform, and on-going funding support it receives from the RHB Group.

## KEY RATING CONSIDERATIONS

### A highly strategic subsidiary of the RHB Group

In our view, RHBS is a highly strategic subsidiary of the RHB Group. RHBS continues to receive strong supports from the group. The company has received credit facilities from the group and operated under integrated risk-management and operating platforms. In addition, there is a commitment from the RHB Group to ensure RHBS’ ability to meet its obligations.

### A brokerage-based business

RHBS’ business risk profile principally hinges on its securities brokerage, derivatives, margin loan, and investment banking businesses. In 2016, brokerage business contributed 52% of its total revenue. Revenue from derivatives business in the forms of net gains from securities hedging contributed 20%. Interest income from margin loans contributed 15%.

For its investment banking business, RHBS has focused on merger & acquisition advisory which it aims to leverage on the RHB Group’s regional client coverage. Revenue contribution from securities underwriting has, however, been marginal over the past three years.

### Base-building focusing on retail clientele

RHBS is still in an early stage of rebuilding securities brokerage business, focusing on retail clientele. Local retail clients dominate RHBS’s client base, of which more than half trade online. Based on our database, RHBS had 2.1% market share in brokerage volume in 2017, ranked 24<sup>th</sup> out of 37 securities firms in Thailand. RHBS’s market share in brokerage revenue was 1.5%, ranked 25<sup>th</sup>, in the first half of 2017 (H1/2017).

RHBS has set sight to rebuild its brokerage business, aiming to significantly raise its market share over the next few years. In TRIS Rating’s view, this is a very challenging task given the highly competitive local securities brokerage industry characterised by continued compression in brokerage commission in recent years. RHBS’s average brokerage commission rate has been on a decline over the past few years, consistent with the industry norm, dropping from 0.15% in 2012 to 0.10% in 2016, and 0.08% in H1/2017.

Notwithstanding its relatively small market share in brokerage business, RHBS has made significant progress in developing its derivatives business for which it had a 3.5% market share by volume in 2017. It also has sizable margin loan business based on the size of its margin loan portfolio which accounted for 3.5% of industry total in 2016, and 3.4% as of June 2017.

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## Adequate capital level

TRIS Rating assesses RHBS to have an adequate level of capital based on its ratio of equity to adjusted assets of 45% at the end of June 2017. Its weak profitability reflects low-margin businesses and high operating cost. Operational integration with the RHB Group and capacity build-ups in brokerage business explain large increases in overhead expenses over the past few years. Between 2014 and 2016, its return on average assets (ROAA) and cost-to-income ratio averaged 0.5% and 95.2%, respectively. We expect improved profitability as RHBS completes its transition and grows its businesses. However, RHBS's earnings will likely remain susceptible to equity market volatility, given its core retail brokerage businesses, whilst gradually increasing investment banking fee income.

## Integrated risk management and operational platforms with the RHB Group

As a subsidiary to a commercial bank group, RHBS benefits from integrated risk management and operational platforms with the RHB Group. RHBS adopts consolidated risk and credit control models in assessing exposures from clients' positions and derivative hedges. RHBS has tightened its risk control given its recent margin loan loss experience in H1/2017.

## On-going funding support from the RHB Group

RHBS has received on-going funding support from the RHB Group, in addition to credit facilities from some banking institutions to fund its operation. The facilities are sufficient to meet RHBS' funding needs on an on-going basis. However, RHBS intends to raise fund in the local debt capital market to diversify its funding sources and become less dependent on parent funding. Liquid assets as a percentage to total assets were 35.9% at the end of H1/2017, which was comparable to its peers'.

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## RATING OUTLOOK

The "stable" rating outlook reflects the expectation that RHBS will remain a highly strategic subsidiary of the RHB Group and continue to operate as an integral part of the RHB Group.

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## RATING SENSITIVITIES

The ratings of RHBS could be affected by a change in the credit profile of the RHB Group, or any material development that changes our view on the degree of support RHBS would likely receive from the RHB Group or its strategic importance to the RHB Group.

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## COMPANY OVERVIEW

RHBS is 99.9% owned by RHB Investment Bank Berhad (RHBIB), a wholly-owned investment banking arm of RHB Bank Berhad (RHB). RHBIB is the largest investment bank in Malaysia by asset size, ranked at the end of 2016. RHB is the fourth largest commercial bank by asset size among the total eight local banks in Malaysia. Apart from commercial banking and investment banking businesses, RHB also has significant operations in insurance and asset management businesses through its subsidiaries, which altogether referred to as the RHB Group. RHB is rated "AA" with "stable" outlook by TRIS Rating, and is rated "BBB+" with "stable" outlook by S&P Global Ratings. RHBIB receives the same rating and outlook from S&P Global Ratings, reflecting its status as a "core" subsidiary of the RHB Group. RHB is rated "A3" with "stable" outlook by Moody's Investors Service (Moody's).

RHBS was established in 2000 as BFIT Securities PLC, and was listed on the Stock Exchange of Thailand (SET) in 2004. In 2011, the company was renamed OSK Securities (Thailand) PLC, after OSK Investment Bank Berhad, Malaysia, acquired a 49.8% equity stake in the company. In 2013, the company was delisted from the SET after RHB Capital Berhad became its major shareholder. In 2015, following an internal restructuring at the RHB Group level, the company was renamed RHB Securities (Thailand) PLC. With the operational integration which started in 2014, RHBS now operates as part of RHBIB's operating platform with common risk management and control.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS<sup>1</sup>**

Unit: Bt million

	Jan-Jun 2017 <sup>2</sup>	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Total assets	6,253	6,081	4,693	4,438	2,846
Net investment in securities	1,305	1,821	649	1,188	359
Total securities business receivables and accrued interest receivables	3,187	2,721	2,296	2,141	1,755
Allowance for doubtful accounts	127	0	0	0	0
Total debts	3,017	2,584	1,366	1,636	150
Shareholders' equity	2,001	2,105	2,135	2,085	2,043
Net securities business income	203	576	595	572	487
Total income	447	750	774	735	594
Operating expenses	334	617	571	514	516
Finance costs	53	58	64	64	17
Net income	(104)	(30)	41	42	0

1 Consolidated financial statements

2 Non-annualised

n.a. Not available

Unit: %

	Jan-Jun 2017 <sup>2</sup>	----- Year Ended 31 December -----			
		2016	2015	2014	2013
<b>Profitability</b>					
Brokerage fees/total revenues	50.3	52.1	43.1	49.1	69.0
Fees and services income/total revenues	3.7	4.2	6.7	6.2	2.4
Gain (loss) from trading/ total revenues	17.6	20.0	16.6	18.2	1.7
Operating expenses/net revenues	84.7	89.1	80.4	76.6	89.3
Pre-tax margin	(32.0)	(4.9)	6.3	8.6	2.2
Cost-to-income	99.6	105.8	93.0	86.6	97.3
Return on average assets	(1.7)	(0.6)	0.9	1.1	0.0
Return on average equity	(5.1)	(1.4)	2.0	2.0	0.0
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	4.0	0.0	0.0	0.1	0.1
Allowance for doubtful accounts/gross securities business receivables	4.0	0.0	0.0	0.0	0.0
Credit costs	4.3	0.0	(0.1)	0.0	0.1
<b>Capitalisation</b>					
Equity/adjusted assets	45.1	47.5	66.4	58.3	91.5
<b>Liquidity</b>					
Liquid assets/total assets	35.9	35.7	29.5	39.1	22.0
Liquid assets/adjusted assets	43.5	40.1	34.6	44.6	24.8
Less liquid assets/long-term capital	105.1	102.2	79.0	80.6	76.0

1 Consolidated financial statements

2 Non-annualised

n.a. Not available

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**RHB Securities (Thailand) PLC (RHBS)**

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<b>Company Rating:</b>	AA-
<b>Issue Rating:</b> Up to Bt1,500 million senior unsecured debentures due within 3 years	AA-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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