

# KGI SECURITIES (THAILAND) PLC

No. 31/2022  
31 March 2022

## FINANCIAL INSTITUTIONS

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

Last Review Date: 24/06/21

### 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) at “A” with a “stable” outlook. At the same time, we assign a rating of “A” to its proposed issue of up to THB1.5 billion in senior unsecured debentures due within one year and six months.

The ratings reflect KGI’s strength in the securities brokerage and derivative products businesses, diversified revenue mix, and strong profitability. The ratings incorporate a one-notch enhancement from KGI’s stand-alone credit profile (SACP) assessed at “a-” level. The enhancement reflects our assessment of KGI’s status as a “strategic” affiliate of KGI Securities Co., Ltd. of Taiwan (KGI Taiwan, together with its affiliates in the KGI Group, rated “BBB+/Stable” by S&P Global Ratings).

The rating enhancement, which is based on the assessed group support, is underpinned by the company’s long track record of reasonably successful business operations and stable dividend contributions to the group, that serves as incentives for the KGI Group to maintain its ownership in and support for KGI in the foreseeable future.

KGI is 34.975% owned by its major shareholder, KGI Asia (Holdings) Pte. Ltd., a wholly owned subsidiary of KGI Taiwan. The company also receives on-going business and technical support from KGI Taiwan that has enabled KGI to become a leader in Thailand’s equity derivatives market. While we view that there is a certain degree of strategic alignment and business cooperation between KGI and KGI Taiwan and its subsidiaries, there is no evidence of explicit financial support from the group.

The company’s business position in the securities brokerage business has remained strong underpinned by its position as the leading issuer of derivative warrants (DW) in Thailand. Its DW trading volume market share ranked first in the market with a share of 50.26% in 2021. The company’s revenue share in securities and derivatives brokerage also remained sound with a securities brokerage revenue share of 3.1% for the first six months of 2021 (6M2021), ranked 13<sup>th</sup> out of 38 brokers in the industry. Its derivatives brokerage business revenue share also increased to 9.2% in 6M2021 from 6.0% in 2020 thanks to an enlarged client base.

We expect the company to maintain its strong market position in securities brokerage over the medium term due to its solid franchise in Thailand’s DW market and ongoing efforts to expand its client base. We also expect the company’s strong fee-based income to continue to support its business position over the next few years. For the year 2021, the company’s fee-based income increased by 72% to around THB1.6 billion from 2020 thanks partly to the robust performance of its subsidiary, One Asset Management Ltd. (ONEAM). Fee-based income contributed 30% of total revenue in 2021.

KGI’s capitalization, as measured by the risk-adjusted capital ratio (RAC), has been on a declining trend due to the growth in securities trading receivables and investment portfolio. As of the end of 2021, RAC stood at 10.8%. Its net capital ratio (NCR) remained healthy at 59.59% at end-December 2021, well above the 7% minimum requirement.

**CreditUpdate**, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company’s current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been “upgraded,” “downgraded,” “affirmed” or “cancelled.” The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating’s monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

The company's earnings capacity is expected to remain solid over the next few years. The ratio of earnings before taxes to average risk-weighted assets (EBT/ARWA) improved to 4.4% for the year 2021 from 1.8% in 2020, thanks to a resumption in strong gains and return on financial instruments and continuous improvement in brokerage revenue and fee income.

In our view, KGI's risk management remains adequate. The company continues to receive support and guidelines from the KGI Group in areas of product expertise, automated trading platform, trading strategies, and risk management, which cater to the local environment. In 2020, KGI's earnings were negatively impacted by extreme market volatility that led to losses from the DW business. Nevertheless, management took corrective actions to adjust product features in a timely manner. The company also scaled down its proprietary trading activities to reduce exposure to market risk.

We assess the company's funding and liquidity profile as adequate as the company has ample credit facilities from various financial institutions to enhance its financial flexibility.

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## **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 generally healthy profitability. We also expect KGI Thailand to preserve its strong capitalization, supported by stable profit and appropriate dividend payments. In addition, we expect KGI to maintain strong discipline in risk management.

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## **RATING SENSITIVITIES**

The credit upsides are limited. Downward pressure on the ratings could develop if KGI's capitalization, as measured by the RAC ratio, weakens significantly on a sustained basis, either caused by loss 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 to the KGI Group may affect the ratings and/or outlook.

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## **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>	
Up to THB1,500 million senior unsecured debentures due within 1 year 6 months	A
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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