

BUALUANG SECURITIES PLC

No. 172/2017

21 December 2017

Company Rating: AA**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
19/09/12	AA-	Stable
18/11/11	A-	Positive
27/05/10	A-	Stable

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raithiwa@trisrating.com**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating upgrades the company rating of Bualuang Securities PLC (BLS) to "AA" from "AA-". The upgrade reflects TRIS Rating's reassessment of the credit strength of Bangkok Bank PLC (BBL), BLS's parent company, and BLS's status as a highly strategic subsidiary of BBL. The stand-alone rating is based on BLS's solid franchise in the securities industry, the strength and diversity of its lines of business and revenue base, conservative style of management, and the financial flexibility it has as a subsidiary of BBL. The rating also takes into consideration the potential benefits BLS may be able to realize by further leveraging nationwide network and business relationships of BBL. The rating is, however, constrained by the cyclical and volatile nature of the securities industry and the downward pressure on commission rates, a result of intensifying competition.

BBL is one of the leading commercial banks in Thailand, with the largest customer base, wide range of services offered, and a nationwide network of branches. BBL received an international scale rating of "Baa1" from Moody's Investors Service and "BBB+" from S&P Global Ratings. Both rating agencies have issued a "stable" outlook for BBL.

BBL and its affiliates and subsidiaries have a strategy to create and strengthen a universal banking platform. To this end, BBL raised its shareholding in BLS from 56.34% to 99.75% in 2012. BBL aims to fully utilize the capital market expertise BLS has. With BLS's expertise, BBL can get end-to-end financial services for all their funding and investment needs. In addition, with the larger stake in BLS, BBL can more efficiently manage the capital employed among its affiliates and subsidiaries and provide BLS with a larger amount of funding when needed.

BLS can benefit in several ways as a subsidiary of BBL. BLS uses BBL branches as one of the main channels by which to expand its base of retail clients. For example, over 50% of new brokerage accounts opened at BLS in 2016 and the first half of 2017 came through referrals from BBL, up from one-fourth in 2012. BBL has long-standing relationships with many large business groups. Because of these relationships, BLS has an edge in servicing institutional brokerage clients through privileged corporate access and has an edge in securing investment banking transactions. These relationships give BLS an advantage over other securities firms which are not affiliated with a commercial bank. Moreover, BLS has received financial support from BBL in the form of credit facilities. BLS has been granted a large line of credit from BBL. The total amount of credit available should be enough to fund BLS's operations and cover any liquidity shortfall.

BLS has a strong market position in securities brokerage. Its market share has hovered around 4%-5% in terms of trading value over the last five years. BLS's average commission rate has stayed above the industry average. Its share of securities brokerage fees, as a percentage of the total to the industry, has grown steadily, rising from 3.5% in 2007 to 6.7% in the first half of 2017. BLS also has a leading market position in investment banking. Revenues from investment banking, which include underwriting fees and financial advisory fees, have averaged over Bt300 million per year for the last three years. BLS's revenues from investment banking are among the highest in the industry, ranking it among the top five brokers during the last five years.

BLS has limited exposure to market risk. BLS engages in proprietary trading only for arbitrage purposes and only to hedge positions in the derivative warrant

(DW) segment. BLS launched its first DW products in 2010 and is currently the market leader in this segment. BLS employs a dynamic delta hedging strategy to mitigate the price risk of the underlying assets for the DWs. TRIS Rating expects BLS will maintain an effective hedging and risk management system as the system will prevent BLS from experiencing major losses from the DW products it offers. As for credit risk exposure, BLS's margin loan portfolio stood at Bt2,257 million at the end of June 2017, representing 28% of its equity and 4% of industry-wide margin lending. TRIS Rating expects BLS to control the credit risk of the margin loans it has made by strictly enforcing margin calls and forced sales, and by maintaining its stringent criteria on collateral and underwriting.

Profitability has been stronger than peers. For example, return on average assets (ROAA) was 2.67% for the first six months of 2017, compared with an industry average of 1.67% for the same period. Net profit was Bt1,072 million in 2016, 6% less than in 2015. The small drop was due to a decrease in underwriting fee income. Despite the drop, BLS's performance was better than its peers. Net profit for the first half of 2017 decreased by 21% to Bt377 million, compared with net profit for the first half of 2016. The drop was due to a decrease in gains from trading. Operating expenses are lower than peers. The cost-to-income ratio was 49% for the first half of 2017, lower than the industry average of 60%.

BLS's equity base has been growing fast since it became a fully-owned subsidiary of BBL. The equity base is currently the largest in the industry. The ratio of equity to adjusted assets was 84% as of the first half of 2017. BLS raised Bt1,600 million in new equity capital in November 2013. The company intends to use the new capital to expand underwriting capacity, the margin loan portfolio, and the DW segment. BLS paid no dividend to its shareholders based on its performance in 2011 through 2013, but paid Bt432 million in dividends in 2014. As of June 2017, shareholders' equity stood at Bt8,100 million, compared with Bt1,900 million as of December 2011. BLS is one of the five brokers with the biggest equity base. The net capital ratio or NCR at the end of December 2016 was at 129%, well above the regulatory requirement of 7%.

Rating Outlook

The "stable" outlook reflects the expectation that BLS will maintain its status as a highly strategic subsidiary of BBL and continue to receive strong support from its parent bank.

The rating and/or outlook of BLS could be revised upward or downward, should there be any changes in BBL's credit profile or if TRIS Rating perceives any significant changes in the degree of support BLS receives from BBL or if there are any changes in BLS's status relative to other subsidiaries or affiliates of BBL.

Bualuang Securities PLC (BLS)

Company Rating:

AA

Rating Outlook:

Stable

Financial Statistics

Unit: Bt million

	Jan-Jun 2017	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Total assets	14,042	14,192	10,408	10,986	9,425
Net Investment in securities	6,313	3,194	3,202	3,941	2,122
Total securities business receivables and accrued interest receivables	6,281	5,965	3,200	3,829	3,329
Allowance for doubtful accounts	127	128	127	129	129
Total debts	214	191	59	21	0
Shareholders' equity	8,102	8,257	7,068	6,467	5,472
Net securities business income	1,137	2,769	2,841	2,685	2,988
Total income	1,368	3,219	3,454	3,057	3,313
Operating expenses	672	1,459	1,453	1,450	1,477
Interest expenses	74	130	131	108	94
Net income	377	1,072	1,136	1,004	1,188

Key Financial Ratios

Unit: %

	Jan-Jun 2017 *	----- Year Ended 31 December -----			
		2016	2015	2014	2013
Profitability					
Brokerage fees/total revenues	64.4	60.3	52.7	59.7	56.7
Fees and services income/total revenues	5.3	6.1	21.7	9.6	12.1
Gain (loss) from trading/total revenues	12.8	18.7	12.2	17.3	22.0
Operating expenses/net revenues	51.9	47.2	43.7	49.2	45.9
Pre-tax margin	36.4	43.2	42.5	42.6	46.2
Return on average assets	2.7	8.7	10.6	9.8	13.9
Return on average equity	4.6	14.0	16.8	16.8	29.2
Cost-to-income	49.1	45.3	42.1	47.4	44.6
Asset Quality					
Classified receivables/gross securities business receivables	1.5	1.7	3.0	2.6	2.9
Allowance for doubtful accounts/gross securities business receivables	2.0	2.1	4.0	3.4	3.9
Credit costs	0.0	0.0	0.0	0.0	0.9
Capitalization					
Equity/Adjusted assets	83.8	87.4	83.0	77.8	78.4
Liquidity					
Liquid assets/total assets	48.0	48.6	65.4	60.6	60.1
Liquid assets/adjusted assets	65.6	66.0	78.5	77.9	78.4
Less liquid assets/long-term capital	30.6	28.3	21.6	21.7	21.2

* Non-annualized

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