

# DBS VICKERS SECURITIES (THAILAND) CO., LTD.

No. 71/2017

28 June 2017

**Company Rating:** AA-  
**Outlook:** Stable

## Company Rating History:

Date	Rating	Outlook/Alert
15/07/16	AA-	Stable
22/03/11	A-	Stable
15/12/09	A-	Negative
17/10/06	A-	Stable

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## Rating Rationale

TRIS Rating affirms the company rating of DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT) at “AA-”. The rating is enhanced from DBSVT’s stand-alone rating, which reflects the degree of support DBSVT receives as a highly strategically important subsidiary within the DBS Group based in Singapore.

DBSVT’s stand-alone rating is based on DBSVT’s business operations as part of the DBS Group’s securities business in Asia and DBSVT’s ability to leverage its access to the base client and the resources throughout Asia of the DBS Group. The strengths are, however, constrained by DBSVT’s high operating expenses, weak financial performance, and high credit risk exposure to margin loans compared with its peers in the local securities industry. In addition, the stand-alone rating is constrained by the inherently cyclical nature of the securities industry and intense competition, which have squeezed brokerage commission rates.

DBSVT is a wholly-owned subsidiary of DBS Vickers Securities Holding Pte. (DBSVH), the securities arm of the DBS Group. From the perspective of the DBS Group, DBSVT is a strategically important subsidiary in Thailand that provides research, brokerage, and other services to serve clients in the DBS Group’s network of affiliated companies. DBSVT’s business operations and its risk management framework are closely controlled by its parent company to ensure DBSVT complies with the Group’s objectives and standards. The DBS Group provides DBSVT with both financial and managerial supports. DBS Bank, one of the DBS Group’s subsidiary, is rated by Moody’s Investors Service (Moody’s) at “Aa1” with a “stable” outlook, and by Standard and Poor’s at “AA-” with a “stable” outlook.

DBSVT has derived over 50% of its annual securities brokerage trading volume from the DBS Group over the past few years. DBSVT’s market share in the foreign investor segment has remained strong. However, trading transactions in the foreign investor segment are mostly executed through the Direct Market Access (DMA) system at lower commission rates than the rates for traditional orders. As a result, the volume and value of orders put through the DMA system have been quite high since 2016 through today. For the first quarter of 2017, DBSVT’s securities brokerage market share in trading value was 6.7%, the second highest in the industry. However, the ability to maintain the company’s market position has yet to be monitored.

The competition in brokerage services is intense and commission rates are getting thinner. Revenues from securities and derivatives brokerage accounted for 79% of DBSVT’s total revenues in 2016, compared with the industry average of 68%. Fee and service income has been growing but remains small, contributing only 3% of DBSVT’s total revenues in 2016. DBSVT has tried to build its high net worth client base and plans to offer value added services to high net worth clients, such as the sale of private funds and other investment products. These services yield higher fee income.

DBSVT’s exposure to market risk is minimal. It does not engage in speculative proprietary trading. The company has a policy to hedge its positions arising from issuing structured products. As for its credit risk exposure, the value of DBSVT’s margin loan portfolio stood at Bt1.8 billion at

the end of December 2016, representing 168% of its own equity and 3.1% of industry-wide margin lending. TRIS Rating holds the view that DBSVT has a risk management system adequate to control the credit risk of its margin loan portfolio by strictly enforcing margin calls and forced sales, and by maintaining its stringent criteria on collateral and underwriting.

DBSVT reported an operating loss of Bt3 million in 2014 and a loss of Bt28 million in 2015, compared with a net profit of Bt108 million in 2013. High operating expenses have put pressure on profitability. Moreover, DBSVT's cost structure is relatively rigid, causing profits to fall sharply when revenues decline. Operating expenses had ranged from 73%-78% of net revenues from 2011 through 2013. The ratio rose to 93% and 99% of net revenues in 2014 and 2015, respectively, when net revenues rose by just 1.6% from 2014 to 2015. In contrast, the industry average ratio of operating expenses to net revenues ranged from 54%-64% annually for 2012-2015. In 2016, DBSVT's ratio dropped to 88%. As a result, DBSVT posted a net profit of Bt8 million.

DBSVT has plenty of credit facilities made available by several local financial institutions. The credit facilities are considered adequate to fund its operations and cover any liquidity shortfalls. The company also has a credit line from its parent company which further enhances its financial flexibility. As of December 2016, DBSVT had Bt1.05 billion in shareholders' equity. The degree of financial leverage, as measured by the ratio of adjusted assets to equity, was around 234% in 2016, worse than peers. DBSVT's net capital ratio (NCR) stood at 27% at the end of 2016, compared with the minimum regulatory requirement of 7%.

### Rating Outlook

The "stable" rating outlook reflects the expectation that DBSVT will remain a highly strategically important subsidiary of the DBS Group and continue to operate as an integral part of the DBS Group's securities business in Asia.

The credit profile of DBSVT could be affected by a negative change in the credit profile of the DBS Group or any change in group structure that changes our view on the degree of support DBSVT would be likely to receive from the DBS Group.

## DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT)

Company Rating:

AA-

Rating Outlook:

Stable

### Financial Statistics

Unit: Bt million

	Year Ended 31 December				
	2016	2015	2014	2013	2012
Total assets	4,621	2,984	2,758	3,857	2,793
Net investment in securities	67	21	8	13	11
Total securities business receivables and accrued interest receivables	4,391	2,476	2,573	3,737	2,651
Allowance for doubtful accounts	411	415	429	433	450
Total debts	1,123	1,147	979	1,229	403
Shareholders' equity	1,048	1,040	1,067	1,069	1,062
Net securities business income	646	567	581	736	583
Total income	781	696	685	857	665
Operating expenses	653	631	593	593	498
Finance costs	35	57	44	52	25
Net income	8	(28)	(3)	108	122

**Key Financial Ratios**

Unit: %

	----- Year Ended 31 December -----				
	2016	2015	2014	2013	2012
<b>Profitability</b>					
Brokerage fees/total revenues	79.1	73.3	76.2	82.5	84.5
Fees and services income/total revenues	2.9	2.7	4.5	2.5	2.4
Gain (loss) from trading/ total revenues	1.5	0.2	(0.7)	(1.0)	(1.5)
Operating expenses/net revenues	87.6	98.8	92.5	73.7	77.7
Pre-tax margin	1.2	(5.3)	(0.5)	16.8	24.9
Return on average assets	0.2	(1.0)	(0.1)	3.2	4.4
Return on average equity	0.8	(2.6)	(0.2)	10.1	12.2
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	9.8	17.4	16.7	11.6	17.4
Allowance for doubtful accounts/gross securities business receivables	9.4	16.8	16.7	11.6	17.0
<b>Capitalization</b>					
Assets/equity	440.9	286.9	258.6	360.7	263.1
Adjusted assets/equity	233.9	265.5	220.5	244.2	168.4
<b>Liquidity</b>					
Liquid assets/total assets	8.9	10.1	12.2	7.0	11.4
Liquid assets/adjusted assets	16.7	10.9	14.3	10.3	17.9
Less liquid assets/long-term capital	178.3	182.9	169.8	200.9	112.3

**TRIS Rating Co., Ltd.**

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