

## Press Release

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### **TRIS Rating Affirms Company Rating and Outlook of "PHATRA" at "A-/Stable"**

TRIS Rating has affirmed the company rating of Phatra Securities PLC (PHATRA) at "A-" with "stable" outlook. The rating reflects PHATRA's status as a core subsidiary of the ultimate parent company, Kiatnakin Bank PLC (KK, rated "A-/Stable" by TRIS Rating), with a strong profit contribution and close linkage to the Kiatnakin Phatra Financial Group. The rating also reflects PHATRA's well-established brokerage franchise among institutional investors and high-net-worth clients, its leading market position in investment banking, and its strong brand equity. The rating is, however, constrained by the cyclical and volatile nature of the securities industry and the downward pressure on commission rates from intensifying competition. The market risk associated with the company's principal investment activities also affects the risk profile of the company.

The "stable" outlook reflects the expectation that PHATRA will be able to maintain its leading positions in the investment banking and brokerage businesses amid strong competition. In addition, TRIS Rating expects PHATRA to be able to control the embedded risks arising from its principal investment activities and issuances of new financial products. The credit upside and downside scenarios depend on the rating of the parent company, KK.

KK became the ultimate parent company of PHATRA in September 2012, when it acquired a 99.9% stake in Phatra Capital PLC, which owned a 99.9% stake in PHATRA. PHATRA receives both business and financial support from KK and has been expanding its client base by using KK's client base, especially among high-net-worth clients. KK granted PHATRA a large credit line because it is a subsidiary. This new source of funds has enhanced PHATRA's financial flexibility. In addition, PHATRA generated around one-fourth of KK's average net profit during the past four years, a significant contribution to the overall performance of the Kiatnakin Phatra Financial Group. We consider PHATRA to be a core member of the Group.

PHATRA has a well-established institutional brokerage client base and business platform. Its strategic alliance with Bank of America Merrill Lynch (ML) has allowed PHATRA to access ML's global network, expertise, and resources. PHATRA's research has been recognized as one of the best in Thailand. Its brokerage market shares for local institutions and foreign investors in 2016 remained strong at 9.6% and 9.1%, respectively.

The other strength of PHATRA lies in its wealth management services. PHATRA provides asset allocation advisory services to high-net-worth clients, offering a wide range of financial products across multiple asset classes from its open-architecture platform. By providing value-added services, PHATRA avoids competing directly with other brokers based on commission rates alone.

PHATRA has a lengthy investment banking track record in Thailand. It has longstanding relationships with many large corporations and has strong distribution channels covering both the local and international markets. Revenues from investment banking over the past five years have averaged Bt277 million a year (roughly a 14% market share). After merging with KK, PHATRA can now offer its clients a broader scope of financial solutions to serve their funding needs. The synergy with KK will enhance PHATRA's strength in the investment banking business in the long run.

PHATRA has been expanding its principal investment activities. Even though PHATRA is pursuing supposedly low-risk trading strategies and has no positions that closely track the market direction, its risk profile is affected by the expansion of these inherently risky activities. TRIS Rating expects PHATRA to maintain an adequate risk management system to cover its principal investment activities.

PHATRA's profitability has been strong. PHATRA reported a net profit of Bt828 million in 2016, down 21% from Bt1,052 million in 2015. Meanwhile, the industry average showed an increase in profit in 2016 at around 19%. Although PHATRA saw a decrease in net profit growth compared with peers, the ratio of pre-tax margin at 39% was actually higher than peers (30%). In addition, PHATRA's operating expenses are low, relative to its peers. The ratio of operating expenses to net revenues was 49% for PHATRA in 2016, compared with the industry average of 60%.

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As of December 2016, shareholders' equity stood at Bt5,799 million, ranking PHATRA among the top three brokers in terms of its equity base. Despite the large capital base, PHATRA is one of the most highly-leveraged securities firms. The rise in PHATRA's degree of financial leverage in the last few years was due to the expansion of its proprietary investments portfolio and the hedging activities taken to offset the risk in the financial products it issued for clients. PHATRA ended 2016 with a net capital ratio (NCR) of 32%, compared with the minimum regulatory requirement of 7%.

**Phatra Securities PLC (PHATRA)**

**Company Rating:**

A-

**Rating Outlook:**

Stable

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