

BUALUANG SECURITIES PLC

No. 225/2021
24 December 2021

FINANCIAL INSTITUTIONS

Company Rating: AA
Outlook: Stable

Last Review Date: 22/12/20

Company Rating History:

Date	Rating	Outlook/Alert
21/12/17	AA	Stable
19/09/12	AA-	Stable
18/11/11	A-	Positive
27/05/10	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bualuang Securities PLC (BLS) at “AA” with a “stable” outlook. The rating is one notch below the company rating on Bangkok Bank PLC (BBL, rated “AA+/Stable” by TRIS Rating*), reflecting the company’s status as a highly strategic subsidiary of BBL.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of BBL

TRIS Rating assesses BLS as a highly strategic subsidiary of BBL as the company continues to serve as a capital market arm of the parent bank, providing a comprehensive range of capital market solutions for the group’s client base. The company’s business also remained highly integrated with the parent bank as seen from business referrals and collaborations within the group. For example, BBL has recently forged strategic alliance with Pictet Group, a Geneva-based global wealth and asset management company. Through the partnership, Pictet Group acts as an investment advisor for BLS’s subsidiary, Bangkok Capital Asset Management Co., Ltd. (BCAP). This should help enhance BBL Group’s wealth management capability via BCAP’s launching of new funds with attractive investment themes.

As a wholly owned subsidiary of BBL, BLS’s business policies and risk management policies are also determined and closely monitored by the parent bank via board representatives. The company follows BBL’s risk framework by adopting prudent risk management approach in running its business. This is illustrated by BLS’s cautious strategy in expanding derivative warrants (DW) business following the negative impact on its profitability in 2020 and abstaining from speculative trading activities. We view it highly likely that the linkage between BBL and BLS will be maintained in the foreseeable future.

Business performance in line with group’s expectation

BLS’s solid performance and strong market position continued to support its group status as a highly strategic subsidiary. For the first six months of 2021 (6M21), the securities brokerage revenue share ranked first among peers with a share of 10.9%, an increase from 8.6% in 6M20. The company’s derivatives brokerage revenue share also remained sound, ranking third with a share of 7.7% in 6M21.

The strong operating results were achieved on the back of high trading volume in 2021. In 6M21, net income improved by 205% year-on-year (y-o-y) to THB989 million, compared with the industry’s average increase of 156%. This is thanks to the company’s solid franchise in the brokerage business, consistent capability in providing high quality and comprehensive services, and continuously expanding client base.

Ongoing financial support from BBL

The ongoing financial support the company receives from BBL demonstrates the parent bank’s strong and long-term commitment to the company. BBL has provided ample credit lines to the company to help enhance the company’s

* The rating assigned to BBL is based on public information which TRIS Rating believes provides a sufficient basis for the assessment of credit profile of BBL. The rating is assigned without participation from BBL.

financial flexibilities. At the end of September 2021, 95% of a total THB29 billion credit facilities were provided by BBL.

Performance of securities brokerage firms buoyed by stronger trading volume in 9M21

Thailand's stock market has rapidly recovered from the second half of 2020 onwards, resulting in a sharp increase in average daily trading value in 2020 and 9M21. As a result, securities brokerage firms in our database reported an aggregate 48.8% revenue growth during 9M21, compared with 9M20. The impact from the new waves of Coronavirus Disease 2019 (COVID-19) on Thai stock market sentiment and trading volume has thus far been limited. The daily average trading value remained exceptionally high at THB95.3 billion as of November 2021 compared with THB65.9 billion in November 2020. The SET Index has remained relatively resilient, buoyed by anticipation of economic recovery supported by progress in vaccination and ease of travel restrictions.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that BLS will remain a highly strategic subsidiary of the BBL Group.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating change is unlikely in the near term. Nonetheless, the rating and/or outlook of BLS could be revised upward or downward, should there be any changes in the BBL Group's credit profile that causes BBL's rating and/or outlook to change or if there are any changes to BLS's group status as a highly strategic subsidiary of BBL.

COMPANY OVERVIEW

BLS was established by Bualuang Finance Co., Ltd. after it acquired the securities brokerage license of BOA Securities Co., Ltd. from BOA Finance Co., Ltd. in 2001. BLS's initial paid-up capital was THB100 million.

In December 2001, BLS strengthened its competitive position in the securities business by acquiring the retail brokerage business of JP Morgan Securities (Thailand) Ltd., formerly known as JF Thanakom Securities Co., Ltd. At the time of the acquisition, JP Morgan was one of the top three securities firms in Thailand. BLS bought the related assets, and the staff of JP Morgan securities became employees of BLS. As a result of a capital injection by Bualuang Finance and JP Morgan, BLS's paid-up capital increased to THB200 million from THB160 million.

In 2002, BLS acquired JP Morgan's private fund management business. BLS was authorized by the Securities and Exchange Commission (SEC) to operate other securities-related businesses including private fund management, financial advisory services, and act as a selling agent. An additional private placement offering to existing shareholders (mainly BBL and JP Morgan) raised BLS's paid-up capital to THB250 million at the end of 2002. During the last quarter of the same year, BLS began offering internet trading services to its clients.

In 2004, BLS lowered its par value to THB2 per share from THB10 and offered seven million new shares to directors and employees. In November of the same year, the company issued THB300 million in convertible debentures to BBL. The debentures could be converted into 20.5 million shares when exercised. At the end of 2004, paid-up capital stood at THB264 million.

The company was listed on the Stock Exchange of Thailand (SET) in February 2005 by offering 40 million shares, comprising 27.5 million new shares and 12.5 million shares from existing shareholders, at THB12 per share. The proceeds from the initial public offering (IPO) and the conversion of BBL's convertible debentures raised paid-up capital to THB360 million at the end of 2005. BBL's shareholding in BLS was reduced to 56.34% from 61.29% after the IPO.

To improve the quality of research and staff capabilities as well as to expand the securities brokerage business to markets abroad, BLS signed a Research Support Agreement with a company in the Morgan Stanley Group in 2006. This contract was later converted to an Exclusive Partner Agreement in 2007. Overseas trading volume improved substantially as a result of this strategic partnership, leaping to as high as THB100 billion in 2007 (32% of BLS's total trading volume) from THB23 billion in 2005 (9% of total volume). Apart from the constant flow of brokerage business and the research collaboration, BLS benefits from the occasional opportunity to co-host overseas road shows with Morgan Stanley.

BLS established a business referral program with BBL and signed an Introducing Agent Agreement in 2007. The aims of the agreement are to expand BLS's retail customer base and utilize the network of its parent company more efficiently. This arrangement did not work well in the beginning, but after years of adaptation, it has started to pay off.

In 2011, BLS paid a stock dividend to its shareholders at a ratio of one new share for every two existing shares. The stock dividend allowed BLS to reclassify THB180 million in retained earnings as paid-up capital. As a result, BLS's paid-up capital increased to THB540 million at the end of 2011, rising from THB360 million a year earlier.

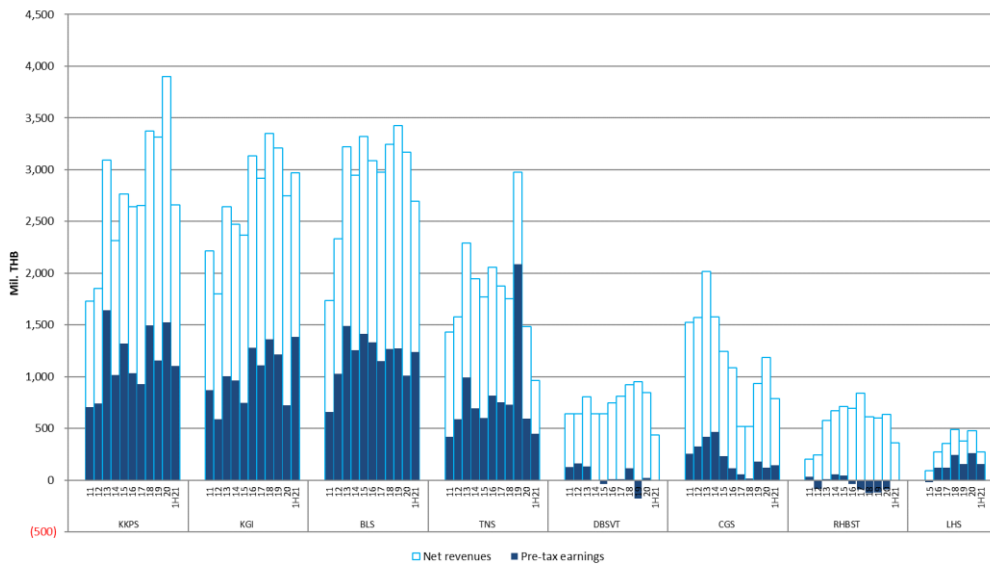
In November 2011, BLS received a letter of intent from BBL. BBL intended to make a tender offer to purchase all of BLS's shares, subject to certain conditions. After those conditions were fulfilled, the tender offer was announced by BBL on 17 January 2012. The tender offer period covered 45 business days, starting from 18 January 2012, at a tender offer price of THB22 per share. After the tender offer, BBL's shareholding in BLS reached 99.70%. BLS's shares were formally delisted from the SET on 7 April 2012.

BLS raised THB1.6 billion in new equity capital in November 2013. BLS intends to use the new capital to expand its underwriting capacity, margin loan portfolio, and DW business.

In mid 2014, BLS set up a new subsidiary, BCAP. BLS created BCAP in order to separate its asset management business from the securities business. BCAP started operations in January 2015. All the private funds and provident funds managed by BLS will be transferred to BCAP.

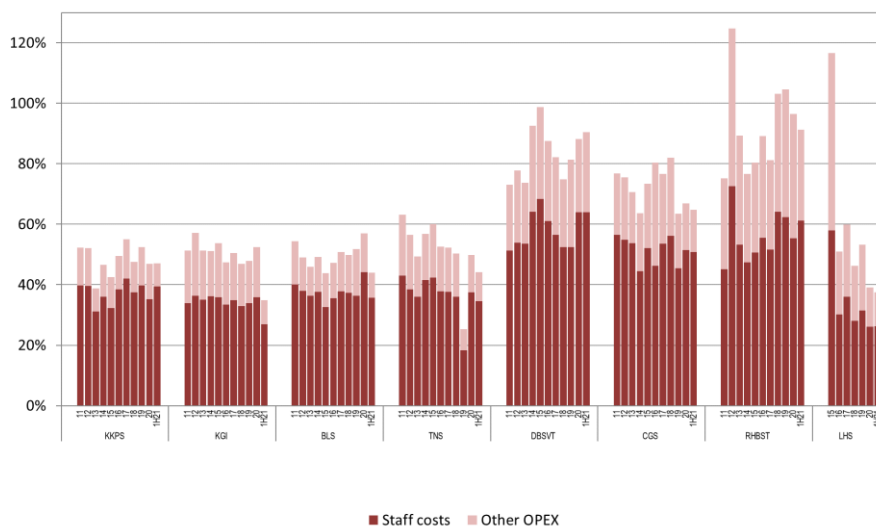
KEY OPERATING PERFORMANCE

Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2021



Source: Financial statements of each company

Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H2021 (% of Net Revenues)



Source: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	16,051	15,690	13,889	14,738	16,203
Net Investment in securities	6,216	6,452	7,613	7,181	7,089
Total securities business receivables and accrued interest receivables	7,433	6,150	5,329	5,765	8,159
Allowance for doubtful accounts	114	115	127	127	127
Total debts	229	99	366	127	226
Shareholders' equity	9,139	8,972	9,307	9,123	8,650
Net securities business income	2,386	2,738	2,993	2,826	2,638
Total income	2,748	3,315	3,608	3,418	3,125
Operating expenses	1,185	1,808	1,773	1,616	1,510
Interest expenses	52	145	182	172	151
Net income	989	825	1,010	1,017	929

Unit: %

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Profitability					
Brokerage fees/total revenues	73.4	76.9	48.2	61.6	59.2
Fees and services income/total revenues	7.9	22.3	23.5	10.6	14.6
Gain (loss) from trading/total revenues	10.3	(14.6)	10.7	10.5	11.1
Operating expenses/net revenues	44.0	57.0	51.7	49.8	50.8
Pre-tax margin	45.9	31.9	37.1	39.1	38.7
Return on average assets	12.5 *	5.6	7.1	6.6	6.1
Earning before tax/risk-weighted assets	6.0 *	2.9	5.1	4.8	4.4
Asset Quality					
Classified receivables/gross securities business receivables	1.1	1.4	1.8	1.6	1.2
Allowance for doubtful accounts/gross securities business receivables	1.5	1.9	2.4	2.2	1.6
Credit costs (reversal)	(0.0) *	(0.0)	(0.0)	0.0	(0.0)
Capitalization					
Leverage ratio	56.0	57.9	63.4	58.4	50.5
Risk-adjusted capital	22.4	21.8	31.1	39.4	25.9
Funding and Liquidity					
Gross stable funding ratio	205.7	223.4	263.2	357.1	245.8
Liquidity coverage metric (times)	6.3	12.1	7.9	10.9	7.1

* Annualized

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

Bualuang Securities PLC (BLS)

Company Rating:	AA
Rating Outlook:	Stable

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