

BUALUANG SECURITIES PLC

No. 236/2022
22 December 2022

FINANCIAL INSTITUTIONS

Company Rating: AA
Outlook: Stable

Last Review Date: 24/12/21

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

Contacts:

Pawin Thachasongtham
pawin@trisrating.com

Jantana Taveeratanasilp
jantana@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



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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 assigned to Bangkok Bank PLC (BBL, rated “AA+/Stable”)*, reflecting the company’s group status as a highly strategic subsidiary of BBL. BLS’s group status is underpinned by its strong business integration with and financial support from BBL.

KEY RATING CONSIDERATIONS

Highly strategic subsidiary of BBL

In our view, BBL has a strong and long-term commitment to support BLS. As a wholly-owned subsidiary and an integral part of BBL, BLS serves as a capital market arm of BBL by offering comprehensive capital market products for the group’s clients.

BLS also has reasonably strong integration with BBL as seen in business referrals and collaborations. BLS leverages the parent bank’s extensive branch network and mobile banking platform to expand its client base. Around 55% of the company’s newly added accounts for the first nine months of 2022 were referred clients from BBL.

BLS’s business and risk management policies are determined and closely monitored by the parent bank via board representatives. BLS adopts the parent bank’s prudent risk management approach in operating its businesses. This is evidenced by BLS’s policy not to engage in proprietary trading as is the case of most other brokerage firms.

Maintaining leading market position

BLS has been achieving the group’s strategic objectives by maintaining its leading market position in various areas despite revenue contribution to the group is relatively small. This, in our view, underpins its strategic importance to BBL.

Notably, BLS has retained its top market position in terms of revenue share in securities brokerage almost every year. For the first six months of 2022 (6M22), BLS ranked first with a revenue share of 9.7%. The company also ranked second among peers in terms of investment banking (IB) fee in 2021. The success was supported by BLS’s own strong investment banking franchise and IB deal referrals from BBL.

Financial support from BBL

On top of its very strong funding profile, BLS also receives ongoing financial support from BBL in the forms of credit facilities, which we expect to continue in the foreseeable future. At the end of September 2022, BLS had available credit facilities of THB16.9 billion from BBL and THB735 million from other financial institutions that help support its liquidity needs.

Lower trading volume expected

Thailand’s stock market has significantly outperformed the global stock market in 2022, supported by a strong economic recovery and revived inflows of foreign funds. However, Thailand’s stock market sentiment has also been partly pressured by the prospect of a global recession induced by tightening

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

monetary policies broadly adopted by major central banks. The daily average trading volume reported by the Stock Exchange of Thailand (SET) during 11M22 dropped to THB73 billion compared with THB90 billion during the same period in 2021. As a result, securities brokerage firms in our database reported a 15.6% decrease in revenue during 6M22, compared with 6M21. For 2023, we expect the trading volume to decline from the levels in 2021-2022 due to the newly introduced capital gain tax to be levied on stock transactions starting in 2023 and the potential tightening of regulations.

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 business and financial support from its parent bank.

RATING SENSITIVITIES

A rating change is unlikely in the near term. Nonetheless, the rating and/or outlook on BLS could be revised upward or downward should there be material changes in BBL's credit profile that causes revisions of the rating and/or outlook on BBL or if there are changes in our assessment of 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. (JP Morgan), 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 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 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 derivative warrant (DW) business.

In mid-2014, BLS set up a new subsidiary, Bangkok Capital Asset Management Co., Ltd. (BCAP Asset). BLS created BCAP Asset to separate its asset management business from the securities business. BCAP Asset started operations in January 2015. All the private funds and provident funds managed by BLS will be transferred to BCAP Asset.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total assets	14,398	18,968	15,690	13,889	14,738
Net Investment in securities	7,066	10,855	6,452	7,613	7,181
Total securities business receivables and accrued interest receivables	5,558	5,110	6,150	5,329	5,765
Allowance for doubtful accounts	101	101	115	127	127
Total debts	708	344	99	366	127
Shareholders' equity	8,798	10,286	8,972	9,307	9,123
Net securities business income	1,777	4,956	2,738	2,993	2,826
Total income	2,103	5,681	3,315	3,608	3,418
Operating expenses	975	2,412	1,808	1,773	1,616
Interest expenses	56	103	145	182	172
Net income	669	2,112	825	1,010	1,017

Unit: %

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Profitability					
Brokerage fees/total revenues	71.7	67.2	76.9	48.2	61.6
Fee and service income/total revenues	11.2	15.2	22.3	23.5	10.6
Gain (loss) from trading/total revenues	4.9	9.4	(14.6)	10.7	10.5
Operating expenses/net revenues	47.6	43.2	57.0	51.7	49.8
Pre-tax margin	40.2	47.2	31.9	37.1	39.1
Return on average assets	4.0 *	12.2	5.6	7.1	6.6
Earnings before tax/risk-weighted assets ¹	4.5 *	7.3	3.3	5.1	4.8
Asset Quality					
Classified receivables/gross securities business receivables	1.2	1.3	1.4	1.8	1.6
Allowance for doubtful accounts/gross securities business receivables	1.8	2.0	1.9	2.4	2.2
Credit costs (reversal)	0.2 *	(0.0)	(0.0)	(0.0)	0.0
Capitalization					
Leverage ratio	61.2	50.4	57.9	63.4	58.4
Risk-adjusted capital ¹	24.9	24.9	26.9	31.1	39.4
Funding and Liquidity					
Gross stable funding ratio	212.7	253.7	223.4	263.2	357.1
Liquidity coverage metric (times)	6.4	13.4	12.1	7.9	10.9

* Annualized

1 Adjusted

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022

Bualuang Securities PLC (BLS)

Company Rating:	AA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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