

# COUNTRY GROUP HOLDINGS PLC

No. 199/2023  
17 October 2023

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Negative

**Last Review Date:** 17/10/22

Company Rating History:		
Date	Rating	Outlook/Alert
22/10/18	BBB-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Country Group Holdings PLC (CGH) at “BBB-”. The rating outlook is revised to “negative” from “stable”, reflecting the company’s weaker-than-expected operating performance which has pressured its capital and earnings position.

The rating continues to be supported by the decent business position of CGH’s core operating subsidiary, Pi Securities PLC (Pi). The rating also reflects the company’s ability to maintain a strong capital base as well as an adequate funding and liquidity position. However, this is offset by the weakening earnings capacity of the group as a result of a significant increase in operating expenses, which we expect to remain high over the next few years.

## KEY RATING CONSIDERATIONS

### Satisfactory market position

CGH’s business position is supported by the business stability of Pi, its core operating entity. Pi demonstrated continuous growth in revenue share in the brokerage business during 2017-2021. The decline in Pi’s revenue in retail brokerage in 2022 to the first half of 2023 (1H23), which contributed 95% of its total brokerage volume was in line with the industry. As a result, its brokerage revenue market share remained relatively stable at 2.5% in 1H23 compared with 2.6% in 2022.

As for derivatives brokerage, Pi’s revenue share has also strengthened steadily, ranking first in the industry since 2019. Its derivatives revenue share improved to 16.0% in 2022 and 18.4% in 1H23, from 2.6% in 2018. The improvements were driven by an expanded customer base, enlarged marketing team, and active marketing via events and training programs.

Pi is in the process of launching a new all-in-one investment application that incorporates multi-asset classes, including traditional financial instruments and other financial assets to serve a larger retail client base at a lower cost. We believe Pi’s enhanced market presence and service channels in the securities brokerage business will continue to support CGH’s business position.

### Securities brokerage remains core revenue contributor

On a consolidated basis, CGH relies on Pi’s brokerage fees as its primary revenue source. However, the reliance on brokerage revenue subjects both CGH and Pi to capital market volatility, in our view.

That said, there is still room to improve revenue diversification of both CGH and Pi. For Pi itself, brokerage fees contributed 65% of its total revenue in 1H23, higher than the industry average of 47%. Fees and service income currently remains moderate, at 7% of total revenue, compared with the industry average of 18%.

As for CGH, the company recorded a share of gains of THB71 million in the first six months of 2023 from its two associated companies, Bound and Beyond (BEYOND, rated “BB/stable”) and MFC Asset Management PLC (MFC). This was mainly the result of one-time gains from the sale of assets of THB318 million at BEYOND in the second quarter of 2023 (2Q23). Excluding this one-time item, BEYOND’s contribution would have been a loss of THB35 million in 1H23. However, the contribution from BEYOND is expected to improve once tourism

fully recovers in the next 1-2 years. MFC's contribution has also been lower in line with the weak market conditions.

CGH also expanded its businesses in 2023. The company transformed its subsidiary, Genki Powerone Co., Ltd. (100%-owned), into Pi Pinnacle Assets Co., Ltd. to operate as a real estate agent. The company commenced operations in 3Q23. CGH also transformed Genki Capital Co., Ltd. into Pi Capital Solutions Co., Ltd. to operate in the lending business. This company is expected to commence operations in 4Q23.

We expect the revenue contributions from these new investments to remain insignificant in the near term. More concrete evidence of revenue and earnings stability from the companies within the group will be required to improve the group's business diversification.

#### **Strong capital but weaker earnings performance**

We assess CGH's capital and leverage position to be strong, as measured by a risk-adjusted capital ratio (RAC) of approximately 17% on a 5-year average. We expect a gradual turnaround of profitability while CGH's conservative dividend policy should support the company's capital strength over the next few years. However, the sharp increase in investments that lead to significantly higher financial leverage could pressure our capital assessment and the rating.

In terms of earnings capacity, CGH's earnings before taxes to risk-weighted assets (EBT/RWAs) weakened markedly declining to -0.2% in 2022 and -0.3% in 1H23. Excluding BEYOND's one-time gains from the disposal of assets in 2022 and in 1H23, EBT/RWAs would have been -0.4% in 2022 and -0.7% in 1H23. The weaker earnings capacity was due to lower trading volume and higher operating expenses, particularly personnel expenses, which were mainly attributed to development of the new Pi Financial application.

We project CGH's EBT/RWAs to remain weak in 2023-2025, at -0.2% in 2023 and -0.05% in 2024 as we expect Pi's operating costs to remain high during the initial launch phase of the new Pi Financial App. Nonetheless, we anticipate its earnings to gradually improve, with EBT/RWAs turning positive from 2025 onwards.

#### **Weak risk position due to risky investments**

We consider Pi's credit risk to be acceptable as seen in its prudent credit underwriting criteria and strict margin maintenance for both equity margin lending and derivatives trading. This was evident from its credit cost of -0.2% for the first six months of 2023, compared with the industry average of 0.7%.

However, CGH is exposed to a certain degree of market risk due to its principal trading activities, which involve fixed income trading as well as tactical trading and long-term, high-conviction equity investments. In our view, CGH is also exposed to risk from its sizable investments in diverse company types and across asset classes, with uncertain cash flows and returns, which have put pressure on the company's earnings capability.

CGH's risk exposure also derives from investments in digital assets and digital technology companies through Pi Ventures, which was set up in January 2022. Although the total size of the investment may not be material at THB443 million, which is less than 10% of equity, there is downside risk from the uncertain development of digital assets. At the end of June 2023, CGH's investment portfolio was worth THB2.3billion, relatively stable compared to the end of 2022 but slightly increased from THB2.2 billion in 2021. CGH's credit cost stood at 1.5% of receivables in 1H23 as there were allowances for digital assets at Pi Venture.

#### **Adequate funding and liquidity profile**

We assess CGH's funding and liquidity position as adequate. Although CGH itself has no credit facilities from financial institutions, Pi has credit facilities from various banks totaling THB1.6billion, of which 69% remained available at the end of June 2023. The company also has access to both equity and debt capital markets, which helps support its financial flexibility. At the end of June 2023, the company had outstanding debentures totaling THB1.0 billion on a consolidated basis. In addition, CGH's investment portfolio can serve as a source of liquidity if needed.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for CGH's operations in 2023-2024 are as follows:

- Pi's market share by securities trading value to be around 2.0%-2.5%
- Pi's average commission rate to be approximately 7-8 basis points (bps).
- CGH's ratio of operating expenses to net revenue to hover around 80%.
- CGH's investment in associated companies to be around THB2.5 billion.

**RATING OUTLOOK**

The “negative” outlook reflects the CGH’s weakened earnings capability, which if continued, could impact the capital and earnings position and the rating of the company.

**RATING SENSITIVITIES**

CGH’s credit upside would materialize if the market position of Pi across broad business lines strengthens materially for an extended period while its earnings capacity improves steadily. The rating upside may also materialize if CGH's future investments bring about concrete diversification of its revenue sources without adding incremental risks. On the contrary, the rating and/or outlook could be revised downward if there is a prolonged deterioration in CGH’s earnings with EBT/RWAs falling significantly below our baseline projections. The rating could also be pressured if there is a surge in CGH’s leverage level leading to a weaker capital and earnings position.

**COMPANY OVERVIEW**

CGH is an investment holding company that makes long-term investments in various business sectors. The company was established on 15 May 2014 as part of a restructuring plan of Country Group Securities or CGS (recently rebranded as Pi Securities). CGH made an offer to purchase all the securities of CGS at an exchange rate of one common share of CGS for one common share of CGH. After successfully completing the offer, CGH became the major shareholder of CGS. CGH was then listed on the Stock Exchange of Thailand (SET) in place of CGS on 8 January 2015, with CGS as a core subsidiary. CGH’s subsidiaries and affiliated companies currently include Genki Capital Co., Ltd., MFC, PDI, and Country Group Development PLC (CGD). Investments in CGH’s affiliated companies totaled THB1.68 billion in 2017, of which 31.5% was in MFC and 68.5% in PDI.

In 2015, CGH increased its paid-up capital to THB4.34 billion from THB2.57 billion at an allocation ratio of one existing ordinary share per one ordinary share at THB1.30 per share. During the same year, the company acquired additional stakes in PDI for a total stake of 20.70%, resulting in PDI becoming an associated company of CGH. CGH then established Genki Power Co., Ltd. with capital of THB100 million on 1 February 2016.

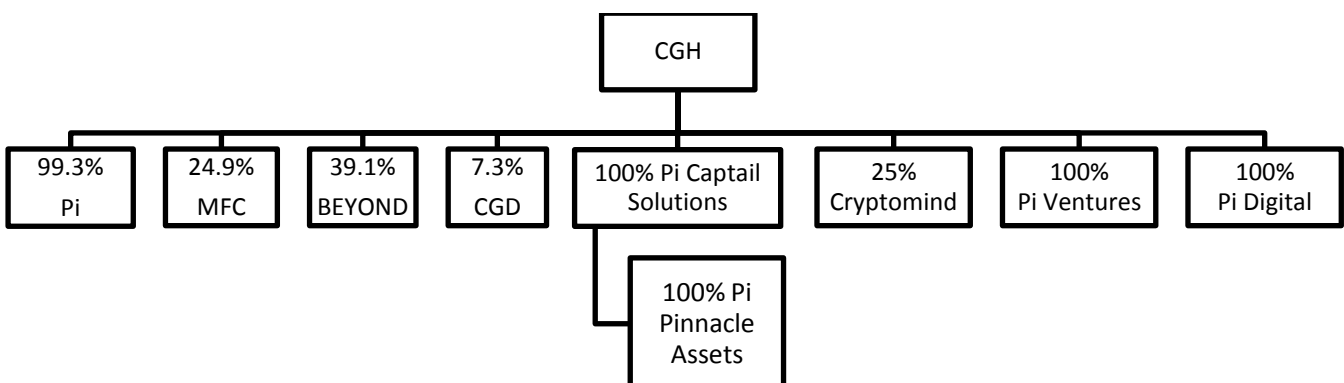
In 2016, CGH increased its shareholding in PDI to 24.9% of PDI’s paid-up registered capital. In 2017, CGH had total registered capital of THB6,075,927,916 and total paid-up capital of THB4,336,768,278. On 17 May 2017, the company changed the registered company name of Genki Power to Genki Capital.

In July 2021, CGH increased its stake in PDI to 39% from 25% via a rights offering with an investment totaling THB565 million. In October of the same year, PDI was rebranded as Bound and Beyond (trading symbol: BEYOND).

In February 2022, CGS was rebranded as Pi Securities. Later in the year, CGH established Pi Ventures Co., Ltd with registered capital of THB5 million. This later increased to THB129 million with a plan to further increase registered capital to THB500 million for investment in cryptocurrency projects and digital technology, or other businesses with strong potential. CGH also invested an additional THB15 million in Cryptomind Group Holdings which resulted in an increase in the shareholding from 12.5% to 25.0%. In addition, CGH founded Pi Digital Co.,Ltd with registered capital of THB 5million with a plan to increase registered capital to THB100million to operate as a digital asset brokerage for the trading or exchange of digital assets.

In 1H23, Genki Power One Co., Ltd. was renamed Pi Pinnacle Assets Co., Ltd. and its business transformed as a real estate agent offering diverse range of financial products, including residential and investment property transactions. CGH also transformed Genki Capital Co., Ltd. to Pi Capital Solutions Co., Ltd. to operate in the lending business.

**Chart 1: CGH Group Structure as of June 2023**



**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total assets	9,440	9,007	9,155	9,349	8,825
Net Investment in securities	2,263	2,257	2,244	3,724	4,217
Total securities business receivables and accrued interest receivables	1,884	1,884	2,175	2,459	2,258
Allowance for doubtful accounts	368	384	409	409	369
Total debts	1,411	1,303	1,171	1,101	1,305
Shareholders' equity	5,711	5,769	6,014	5,300	5,761
Net securities business income	520	1,090	1,318	962	773
Total income	814	1,485	2,414	1,418	1,102
Operating expenses	653	1,163	1,167	867	683
Interest expenses	61	124	119	131	91
Net income**	(115)	(186)	195	143	84

\*\* Excluding one-time items

Unit: %

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
<b>Profitability</b>					
Brokerage fees/total revenues	65.0	77.8	53.7	68.8	49.5
Fees and services income/total revenues	6.9	8.0	6.5	6.8	12.8
Gain (loss) from trading/total revenues	4.7	4.0	4.5	3.1	16.7
Operating expenses/net revenues	86.7	85.4	50.8	67.4	69.3
Pre-tax margin	(7.0)	(4.9)	36.4	11.1	13.8
Return on average assets	(1.3) */**	(2.0)	2.1	1.6	0.9
Earning before tax/risk-weighted assets	(0.7) */**	(0.4)	0.8	0.4	0.4
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	20.7	21.6	19.8	17.5	17.2
Allowance for doubtful accounts/gross securities business receivables	19.6	20.4	18.8	16.6	16.3
Credit costs (reversal)	1.5 *	(0.2)	0.4	2.2	0.5
<b>Capitalization</b>					
Leverage ratio	66.2	70.2	66.1	61.3	68.0
Risk-adjusted capital	17.1	17.7	16.6	18.2	17.8
<b>Funding and Liquidity</b>					
Gross stable funding ratio	109.0	120.0	115.4	124.2	121.3
Liquidity coverage metric	1.1	1.8	1.6	1.6	1.2

\* Annualized

\*\* Excluding one-time items

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**RELATED CRITERIA**

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- Securities Company Rating Methodology, 9 April 2020

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**Country Group Holdings PLC (CGH)**

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<b>Company Rating:</b>	BBB-
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

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