

# COUNTRY GROUP HOLDINGS PLC

No. 172/2019  
16 October 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 22/10/18

### Company Rating History:

Date	Rating	Outlook/Alert
22/10/18	BBB-	Stable

### Contacts:

Preeyaporn Kosakarn  
preeyaporn@trisrating.com

Sithakarn Tongphiphat, FRM  
sithakarn@trisrating.com

Narumol Charnchanavivat  
narumol@trisrating.com



WWW.TRISRATING.COM

## RATIONALE

TRIS Rating affirms the company rating on Country Group Holdings PLC (CGH) at “BBB-” with “stable” rating outlook. The rating reflects the company’s sufficient liquidity and strong capital base on a consolidated basis. The rating is also underpinned by CGH’s improving profitability, supported mainly by on-going business expansion of its core operating entity, Country Group Securities PLC (CGS). However, the rating is constrained by the modest franchise of CGS and revenue contributions from other investments that remain insignificant.

## KEY RATING CONSIDERATIONS

### Adequate liquidity

CGH’s liquidity on a consolidated basis is considered sufficient to support its investment plans, with Bt1.9 billion in cash-on-hand at the end of June 2019. In addition, the company has maintained investment portfolios comprising mainly marketable securities with total value of Bt2.8 billion, of which 68% are held at CGS. CGH’s ratio of liquid assets to total assets on a consolidated basis was 55.3% at the end of June 2019. On a stand-alone basis, CGH’s funding is sourced via bond issuance with outstanding obligation of Bt1.1 billion as of June 2019. Management believes it has no need to source other funding alternatives for the time being, given that future investment plans remain uncertain. However, the company’s significantly less diversified funding profile compared to peers is considered a negative rating factor.

### Strong capital base

With a consolidated equity base of Bt5.8 billion, CGH has sufficient capital to pursue prospective investment opportunities and absorb potential losses incurred from running its business. The company’s ratio of equity to adjusted assets, a measure of financial leverage, was 76.0% on a consolidated basis at the end of June 2019, increasing from 68.5% in 2018. Management’s conservative dividend policy to conserve capital is viewed positively, as seen in CGH’s decision to not distribute a dividend payment during the period of weak financial performance in 2018.

### Improving profitability

The company’s consolidated net profit rose to Bt51 million for the first six months of 2019, from a net loss of Bt35 million in 2018, thanks to CGS’s stronger financial performance and an increase in the company’s trading gains on a consolidated basis. CGH’s return on average assets was 1.2% for the first six months of 2019, an increase from -0.4% in 2018. Among the companies related to CGH, CGS currently is the largest revenue contributor, accounting for 87% of CGH’s total consolidated revenue in 2018. The contribution was 83% in the first half of 2019.

We expect that CGH’s financial performance will continue to improve as CGS’s revenue and profit keeps expanding. The downside risk to this view, however, is that CGS’s performance still depends largely on trading gains, which tend to be volatile in nature. CGH itself also relies on trading gains from its own principal investment operations. Trading gains contributed 24% of CGH’s total revenue for the first six months of 2019 on a consolidated basis.

Meanwhile, CGH’s affiliated companies, Padaeng Industry PLC (PDI) (rated “BBB-” with “stable” rating outlook by TRIS Rating) and MFC Asset

Management PLC (MFC), have also been providing a stable share of profits to CGH. However, the share of profits remains too insignificant to have a positive impact on CGH's financial profile.

### Low financial leverage

CGH's debt to equity (D/E) level remains low at 0.2 times at the end of June 2019. The company's outstanding financial obligation includes Bt1.1 billion of debentures outstanding due in June 2020. The debt has been raised to fund its prospective investment opportunities. Over the next few years, CGH's D/E may increase from the current level based on board approval, CGH is allowed to issue debts up to Bt2 billion. We have not factored additional debt into our forecasts. Even if CGH's debts were to rise to the maximum level, its D/E should still be in a range that supports its current rating.

We expect that the company will continue to maintain its cautious investment strategy, as CGH tends to pursue prudent investment policies, in our view. The company aims to invest in projects that can generate stable cash flows instantly and also to diversify investments in various sectors where it sees opportunities. However, uncertainty remains as CGH's future investments could lead to deterioration in overall financial performance.

### BASE-CASE ASSUMPTIONS

TRIS Rating has made base-case assumptions for CGH's operations in 2019-2022 as follows:

- Investment in associated companies to maintain at approximately Bt1.5-1.6 billion.
- Total revenue to grow by a range of 4%-8%.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that CGS, as the core operating subsidiary of CGH, will maintain its financial performance and continue to improve its competitive position in the securities business. The outlook is also based on our assumption that CGH will continue to maintain its moderate leverage level and continue to strengthen its own financial performance with sound investment decisions.

### RATING SENSITIVITIES

A rating upgrade is unlikely in the near term. However, a rating upside may occur if CGH's financial performance improves significantly on a sustainable basis, particularly from strong earnings by its core subsidiary, CGS, with a decreasing reliance on trading income. Conversely, CGH's rating could be downgraded if there is significant deterioration in CGS's core earnings or in CGH's own financial performance due to investment activities or a surge in CGH's financial leverage, measured by its D/E ratio to support CGH's investments.

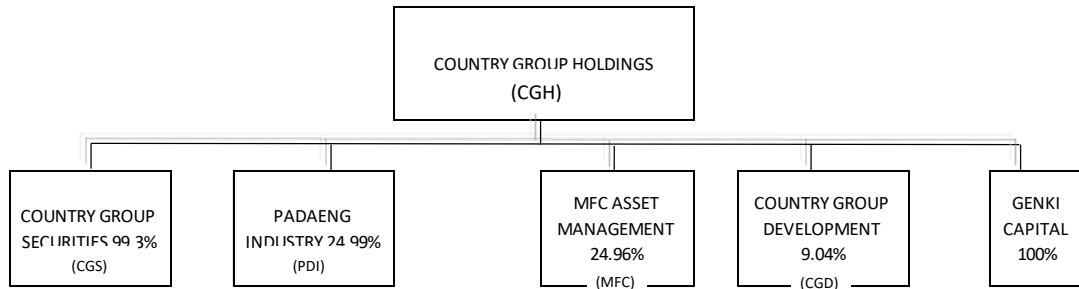
### COMPANY OVERVIEW

CGH is an investment holding company that makes long-term investments in various business sectors. The company was established on 15 May 2014 as a part of a restructuring plan of Country Group Securities PLC (CGS). CGH made an offer to purchase all securities of CGS at the 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 then replaced CGS to become listed on the Stock Exchange of Thailand (SET) 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). Investment in CGH's affiliated companies totalled Bt1.68 billion in 2017, of which 31.5% was in MFC and 68.5% was in PDI.

In 2015, CGH increased its paid-up capital to Bt4.34 billion from Bt2.57 billion at the allocation ratio of one existing ordinary share per one ordinary share at Bt1.30 per share. During the same year, the company acquired additional stakes in PDI to a total stake of 20.70%, resulting in PDI becoming an associated company of CGH. CGH then established Genki Power Co., Ltd. with a capital of Bt100 million on 1 February 2016.

In 2016, CGH increased shareholding in PDI to 24.9% of PDI's paid registered capital. In 2017, CGH had a total registered capital of Bt6,075,927,916 and a total paid-up capital of Bt4,336,768,278. On 17 May 2017, the company changed the registered company name of Genki Power Co., Ltd. to Genki Capital Co., Ltd.

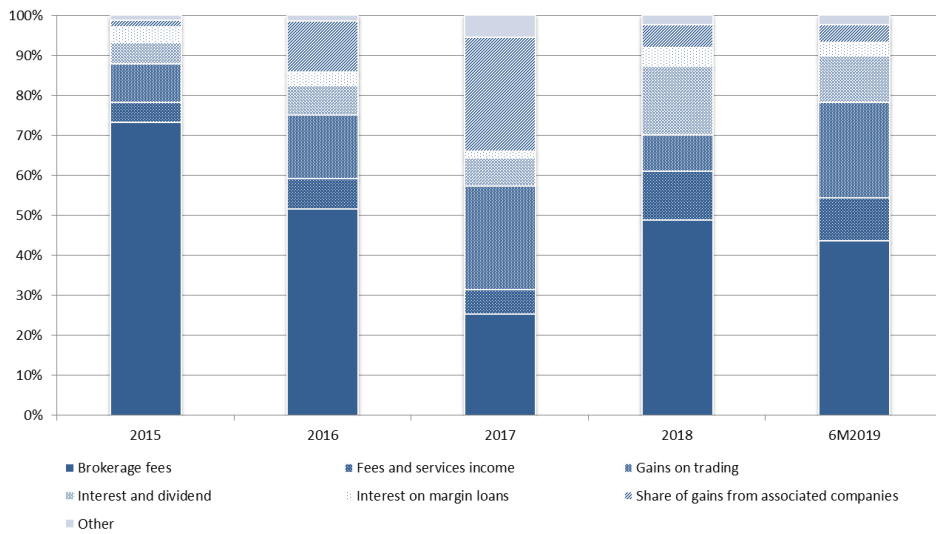
**Chart 1: CGH Group Structure as of Dec 2018**



Source: CGH

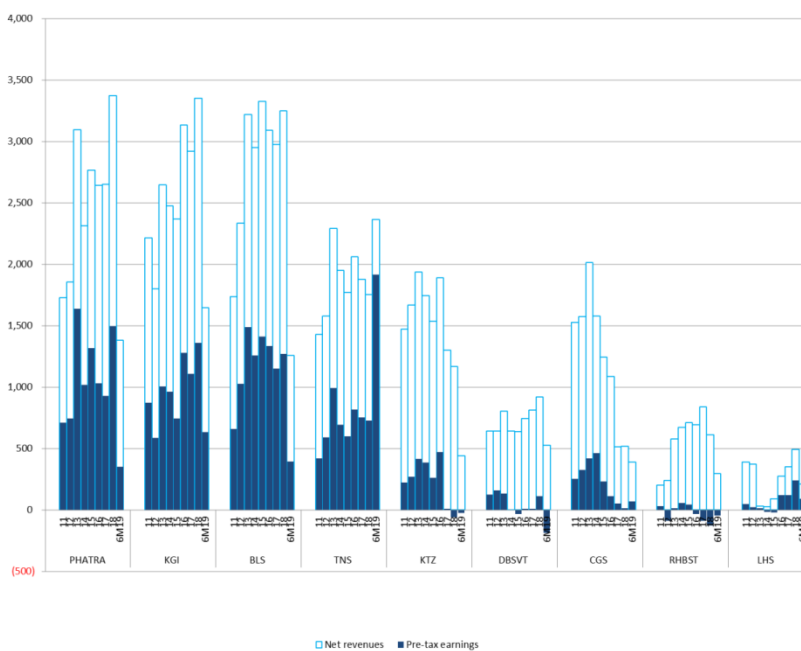
**KEY OPERATING PERFORMANCE**

**Chart 2: CGH's Revenue Mix during 2015-1H2019**



Source: CGH's financial statement

**Chart 3: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2019**



Sources: Financial statements of each company

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
Total assets	8,473	9,160	8,804	7,925	6,929
Net Investment in securities	2,797	4,612	4,262	2,237	1,536
Total securities business receivables and accrued interest receivables	1,781	1,682	1,098	817	1,594
Allowance for doubtful accounts	361	360	376	365	352
Total debts	1,096	1,248	1,224	-	-
Shareholders' equity	5,842	5,887	6,190	6,021	5,839
Net securities business income	341	392	482	780	1,030
Total income	483	617	851	1,357	1,186
Operating expenses	307	512	538	798	951
Interest expenses	44	82	12	11	20
Net income	51	(35)	235	392	61

*Unit: %*

	Jan-Jun 2019	----- Year Ended 31 December -----			
		2018	2017	2016	2015
<b>Profitability</b>					
Brokerage fees/total revenues	43.6	48.7	25.2	39.9	73.1
Fees and services income/total revenues	10.9	12.3	6.1	5.8	5.1
Gain (loss) from trading/total revenues	23.7	9.1	26.0	12.3	9.6
Operating expenses/net revenues	70.0	95.8	64.1	59.3	81.6
Pre-tax margin	14.6	(11.3)	26.6	31.6	10.0
Return on average assets	1.2 *	(0.4)	2.8	5.3	1.0
Return on average equity	1.8 *	(0.6)	3.8	6.6	1.3
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	21.8	23.1	36.2	48.6	24.9
Allowance for doubtful accounts/gross securities business receivables	20.3	21.4	34.2	44.7	22.1
Credit costs (reversal)	0.1	(0.7)	1.1	1.0	(0.2)
<b>Capitalization</b>					
Equity/Adjusted assets	76.0	68.5	76.4	88.5	94.6
<b>Liquidity</b>					
Liquid assets/total assets	55.3	58.6	62.4	46.8	43.1
Liquid assets/adjusted assets	61.0	62.5	67.8	54.5	48.4
Less liquid assets/long-term capital	17.9	17.0	11.4	11.1	17.4

*\* Annualized*
**RELATED CRITERIA**

- Securities Company in Thailand, 21 December 2017
- Group Rating Methodology, 10 July 2015

---

**Country Group Holdings PLC (CGH)**

---

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

---

**TRIS Rating Co., Ltd.**

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

© Copyright 2019, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at [www.trisrating.com/rating-information/rating-criteria](http://www.trisrating.com/rating-information/rating-criteria)