

# COUNTRY GROUP HOLDINGS PLC

No. 167/2020  
16 October 2020

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 16/10/19

### Company Rating History:

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

## RATIONALE

TRIS Rating affirms the company rating on Country Group Holdings PLC (CGH) at “BBB-” with a “stable” rating outlook. The rating largely reflects the business position of its core operating entity, Country Group Securities PLC (CGS), the company’s strong capital, leverage, and earnings assessment, moderate risk profile, and sufficient funding and liquidity.

## KEY RATING CONSIDERATIONS

### Business position reflected by CGS

CGH’s business position on a consolidated basis is mainly reflected by that of CGS as CGS contributed 88% of CGH’s consolidated revenue and 61% of its net profit for the first six months of 2020. CGS’s business risk profile is underpinned by its improved business stability, thanks to a stronger market position particularly in the derivatives brokerage business. Apart from CGS, CGH also holds 25% each in MFC Asset Management PLC (MFC) and Padaeng Industry PLC (PDI). However, the revenue contributions from these affiliates remained modest. We therefore do not consider the diversification factor in our assessment of CGH’s business position.

### Strong capital, leverage, and earnings assessment

The company is assessed as having strong capital and leverage as measured by a risk-adjusted capital ratio (RAC) of approximately 20% on a 5-year average (2018-2022). We expect the company’s capitalization to remain strong over the next few years supported by capital accretion from improving profitability and a conservative dividend policy. However, future investments by CGH that lead to rising financial leverage, could put pressure on its capital and company rating.

The company’s capital, leverage, and earnings assessment also take into consideration its moderate earning capabilities. We expect the company to maintain its earnings capacity over the medium term with a ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) of around 0.5% on a 5-year average as we anticipate stronger revenue generation from its core operating subsidiary, CGS, to continue to strengthen the company’s profitability over the next few years.

### Moderate risk profile

We view the company to have moderate risk profile as partly reflected by acceptable risk control policies of CGS, its core operating entity. In addition, we also expect the company to maintain a cautious investment strategy as it 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 help to diversify its revenues sources.

### Adequate funding and liquidity profile

We view the company to have an adequate funding and liquidity profile as assessed by a 5-year average (2018-2022) gross stable funding ratio (GSFR) of around 113% and a liquidity coverage metric (LCM) of around 3 times on a consolidated basis. Although the company did not have any credit facilities from financial institutions to enhance its financial flexibility, the company’s investment portfolios can partly serve as liquidity sources in times of needs. At the end of June 2020, the company had investments totaling THB3.9

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billion, 80% of which was held by CGS. The company also sourced funding via bond issuance with an outstanding obligation of THB766.5 million as of September 2020.

### BASE-CASE ASSUMPTIONS

TRIS Rating’s base-case assumptions for CGH in 2020-2022 are as follows:

- Market share by securities trading value to be around 2%.
- Average commission rate to be approximately 8 basis points (bps).
- Investment in associated companies to be maintained at approximately THB1.5-THB1.6 billion.

### RATING OUTLOOK

The “stable” outlook reflects an expectation that CGS, as the core operating subsidiary of CGH, will maintain its market position in securities business as well as its financial performance. The outlook is also based on an expectation that CGH will maintain its capital and leverage level while also maintaining prudent investment policies.

### RATING SENSITIVITIES

Rating upside may occur if the market positions across the broad business lines of CGS, the company’s core subsidiary, improve from the current level for a sustained period while its earnings capabilities are sustained. Rating upside may also materialize if CGH’s future investments bring about concrete diversification of its revenue sources. Conversely, the rating may be revised downward if there is significant deterioration in CGS’s core earnings or in CGH’s own financial performance or a surge in CGH’s leverage level that leads to weaker capital, leverage, and earnings position.

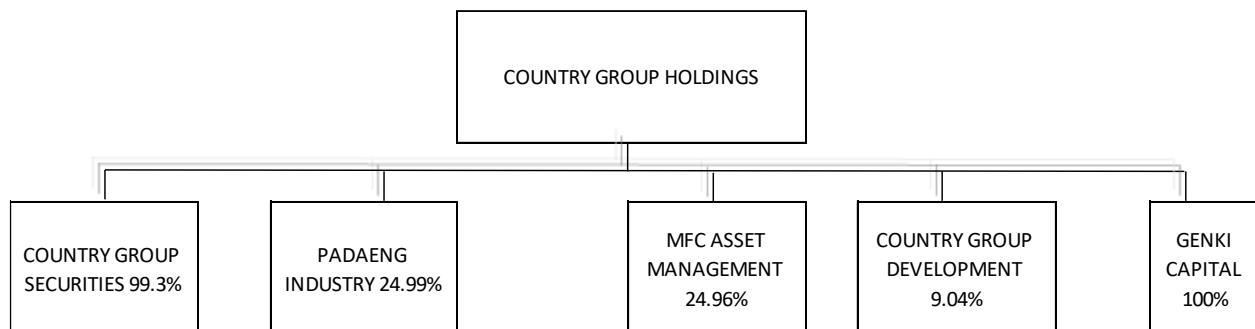
### COMPANY OVERVIEW

CGH is an investment holding company that makes long-term investments in various business sectors. The company was established on 15 May 2014 as 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 THB4.34 billion from THB2.57 billion at the 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 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 THB100 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 THB6,075,927,916 and a total paid-up capital of THB4,336,768,278. On 17 May 2017, the company changed the registered company name of Genki Power Co., Ltd. to Genki Capital Co., Ltd.

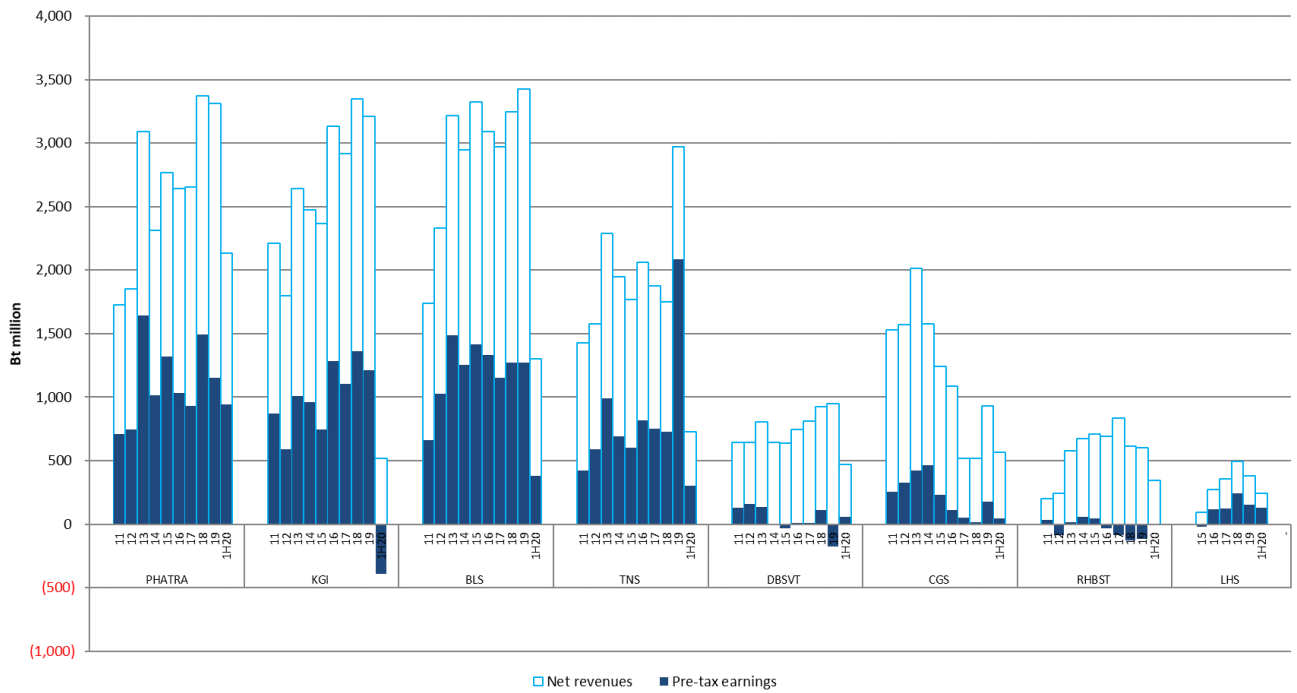
**Chart 1: CGH Group Structure as of Dec 2019**



Source: CGS

**KEY OPERATING PERFORMANCE**

**Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2020**



Sources: Financial statements of each company

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total assets	10,061	8,825	9,160	8,804	7,925
Net Investment in securities	3,879	4,217	4,612	4,262	2,237
Total securities business receivables and accrued interest receivables	2,957	2,258	1,682	1,098	817
Allowance for doubtful accounts	411	369	360	376	365
Total debts	1,120	1,305	1,248	1,224	-
Shareholders' equity	5,201	5,761	5,887	6,190	6,021
Net securities business income	464	773	392	482	780
Total income	689	1,076	617	851	1,357
Operating expenses	412	683	512	538	798
Interest expenses	53	91	82	12	11
Net income	76	84	(35)	235	392

*Unit: %*

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
<b>Profitability</b>					
Brokerage fees/total revenues	70.9	52.0	48.7	25.2	39.9
Fees and services income/total revenues	4.8	11.9	12.3	6.1	5.8
Gain (loss) from trading/total revenues	3.4	18.2	9.1	26.0	12.3
Operating expenses/net revenues	64.9	69.3	95.8	64.1	59.3
Pre-tax margin	11.0	13.8	(11.3)	26.6	31.6
Return on average assets	1.6 *	0.9	(0.4)	2.8	5.3
Earning before tax/risk-weighted assets	0.4 *	0.4	(0.2)	0.9	1.7
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	14.5	17.2	23.1	36.2	48.6
Allowance for doubtful accounts/gross securities business receivables	13.9	16.3	21.4	34.2	44.7
Credit costs (reversal)	3.4 *	0.5	(0.7)	1.1	1.0
<b>Capitalization</b>					
Leverage ratio	57.3	68.0	65.4	68.6	73.8
Risk-adjusted capital	18.5	17.8	20.9	23.1	23.7
<b>Funding and Liquidity</b>					
Gross stable funding ratio	99.6	121.3	126.6	148.2	150.6
Liquidity coverage metric	2.9	2.0	10.9	18.0	31.2

*\* Annualized*
**RELATED CRITERIA**

- Securities Company Rating Methodology, 9 April 2020
- Group Rating Methodology, 10 July 2015

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**Country Group Holdings PLC (CGH)**

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

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**TRIS Rating Co., Ltd.**

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