TRIS RATING

CreditNews ข่าวเครดิต

COUNTRY GROUP SECURITIES PLC

No. 168/2020
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

Contacts:

Preeyaporn Kosakarn

preeyaporn@trisrating.com

Pawin Thachasongtham

pawin@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on Country Group Securities PLC (CGS) at "BBB-" with a "stable" rating outlook. The rating mainly reflects CGS's status as a core subsidiary of Country Group Holdings PLC (CGH, rated "BBB-" with a "stable" rating outlook by TRIS Rating) as CGS is the only operating subsidiary wholly owned by CGH, representing the majority portions of CGH's capital and revenue.

KEY RATING CONSIDERATIONS

Core subsidiary of CGH

We view CGS as the core operating entity of CGH, as it is the sole operating subsidiary wholly owned by CGH. In addition, CGS's capital constitutes a significant proportion of approximately 36% of CGH's capital base, while CGS's total revenue represents an average of 88% of CGH's revenue over the past few years. CGS is also linked to CGH from a management perspective as its business directions and operations are influenced through the members of CGS's board of directors who represent CGH. Moreover, CGH also manages the group funding and investment strategy.

Moderate business position in securities business

The company's market position in the securities and derivatives brokerage business has generally improved over the past few years, especially in the derivatives brokerage business. This is because the company has continuously encouraged its investment consultants to capture the behavioral changes towards the derivatives products of its main client base while also developing trading programs to facilitate trading activities. As a result, its revenue share of derivatives brokerage increased to 11.8% in the first half of 2020, ranking first among peers, from a share of 2.6% in 2018. As the company has ongoing marketing strategies to increase business volume, we expect this upward momentum to continue over the next few years. The company strengthened its market presence in other business lines, though this still remained modest. For the first six months of 2020, the company's revenue share of securities brokerage stood at 2.1%, an increase from 1.0% in 2018. Its revenue share in investment banking also improved but remained modest, with a 2.6% share among brokerage peers on a 3-year average.

Although the company's revenue contribution from brokerage fees was on par with the industry average, its client base was considerably concentrated, in retail client, contributing 80% of securities trading value in the first half of 2020. In 2019, brokerage fees contributed 58% of the company's total revenue, compared with an industry average of 52%.

Revenue contribution from trading gains was in line with the industry average with the greater proportion of such gains coming from relatively low risk activities such as block trades over the past years. In 2019, trading gains accounted for 14% of the company's total revenue, compared with an industry average of 13%.

Adequate capital, leverage, and earnings assessment

We assess the company's capital and leverage as adequate as measured by a risk-adjusted capital ratio (RAC) of approximately 15% on a 4-year average (2019-2022). Although the company's RAC ratio decreased to 13.7% at the end of June 2020 from 28.7% in 2018 due to a capital reduction of THB1 billion in late 2019 and expanded business size, we expect the company to maintain an adequate level of capital and leverage to cushion against unexpected losses over the next few years. The company also ended June 2020 with a net capital ratio (NCR) of 25.0%, well above the regulatory requirement of 7%.

The company's adequate earning capabilities also supports its capital, leverage, and earnings assessment. As we anticipate growing brokerage fees to mainly drive revenue growth in the medium term, we estimate the company's ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) to be around 1% over the next few years despite losses from investment in fixed income during the first half of 2020. The company's profitability for the first six months of 2020 was pressured by a loss from a debenture held in its investment portfolio. Nonetheless, we believe that such loss was a one-time event as the company has tightened its risk control policies to prevent future losses from its investment portfolios.

We also expect the company to maintain its ratio of operating expenses to net revenue at approximately 60% over the next few years. This is despite its need to recruit more marketing officers or tendency to incur marketing spending to boost business volumes. We believe that the expected revenue generation capacity should keep pace with additional operating costs over the medium term. For the first six months of 2020, the company's ratio of operating expenses to net revenue was 66.0%, an improvement from 81.9% in 2018 and also in line with the industry average of 64.5%.

Manageable exposures to market risk and credit risk

The company is exposed to a certain degree of market risk due to its principal trading activities. The company engages mostly in fixed income trading and some speculative trading activities. Despite some evidence of losses on trading, the company appears to have adequate risk control policies in place to prevent major unexpected losses from its trading activities. This is evidenced by the tightening of the risk management policies of its fixed income portfolios following losses incurred during the second quarter of 2020.

CGS follows relatively prudent credit risk control policies, e.g. it has strict margin call enforcement for both equity margin lending and derivatives trading. However, the company is still being impacted during highly volatile market conditions. For the first six months of 2020, the company's annualized credit cost was 3.4%, higher than the industry average of 0.1% due to credit losses from block trading activities during an unexpected market downturn in March 2020.

Moderate funding and liquidity profile

The company's funding profile is assessed as moderate with a gross stable funding ratio (GSFR) of around 73% on a 4-year average (2019-2022). At the end of June 2020, the company's GSFR was 62.6%, a decrease from 148.3% in 2018 due to a capital reduction of approximately THB1 billion in late 2019 and the expanded size of the company's investment holding. Nonetheless, the company was provided funding support from its parent company, CGH, in the form of subordinated debts totaling THB940 million at the end of June 2020.

The company's liquidity profile is also assessed as adequate with a 4-year average liquidity coverage metric (LCM) of around 1.1 times. Its funding and liquidity assessment is also supported by the company's available credit facilities from financial institutions, which help enhance its financial flexibilities. At the end of June 2020, the company had credit lines totaling THB1.8 billion from various financial institutions.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for CGS 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).
- Ratio of operating expenses to net revenue to hover around 60%.

RATING OUTLOOK

The "stable" outlook reflects an expectation that CGS will maintain its status as the core subsidiary of CGH and continue to contribute a significant portion of its net profit and equity to the group.

RATING SENSITIVITIES

The rating and/or outlook of CGS could be revised upward or downward should there be any changes in CGH's group credit profile as CGS's rating moves in tandem with CGH's company rating or if there are any changes in CGS's status to CGH.

COMPANY OVERVIEW

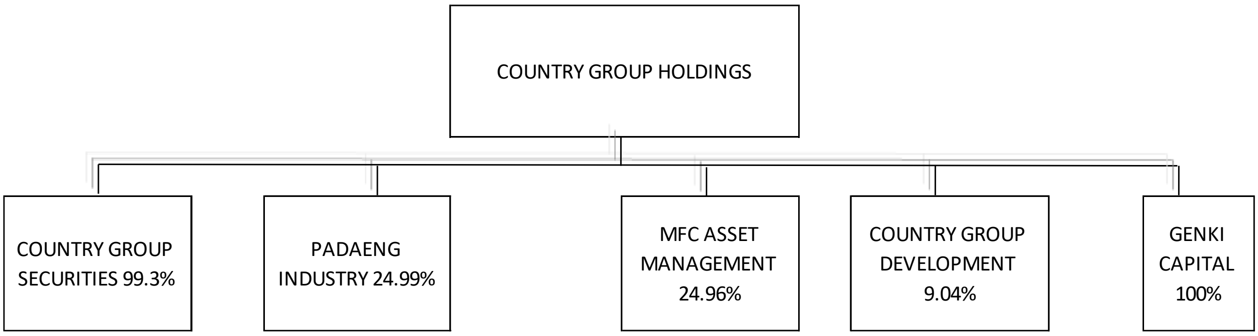
CGS has been granted licenses to offer a full range of services in the securities industry. As of June 2014, CGS employed 780 staff, across 46 branches throughout the country. The company was originally registered under the name "Adkinson Enterprise Co., Ltd." in 1966. The company changed its name to "Adkinson Securities Co., Ltd." in 1979, was converted to a public company in 1994, and became "Country Group Securities PLC" in 2009.

In 2006, there were significant changes in the shareholding structure of the company. The controlling shareholders changed from the Kewkacha family to the Taechaubol family. The Kewkacha family continues to hold some shares but has left management of the company to the Taechaubol family. As of May 2014, the Taechaubol family held 18.3% of the company's outstanding shares.

In 2014, Country Group Holdings PLC (CGH) was established as a holding company of CGS, and CGH made a tender offer for all shares of CGS effective on 8 January 2014.

In 2016, CGS sold some of its retail brokerage business to UOB Kay Hian Securities (Thailand) PLC. The company then received a permit from the Securities and Exchange Commission (SEC) to commence its private fund management business in June 2017.

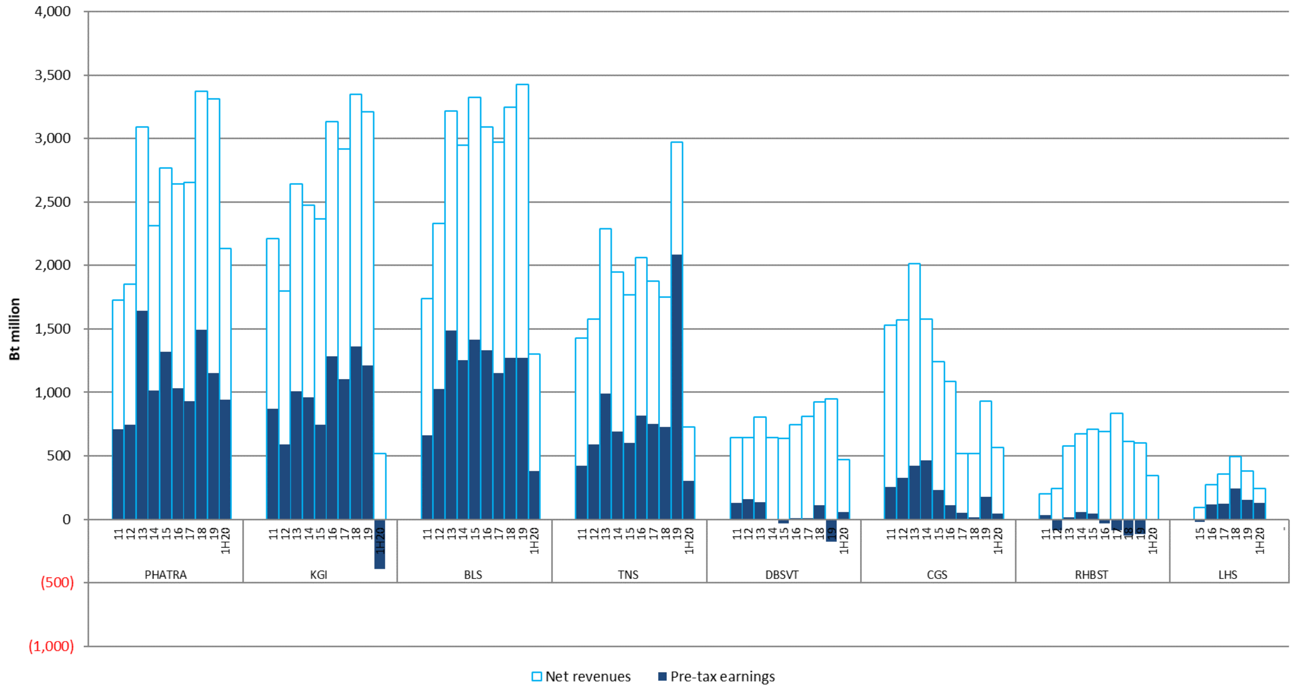
Chart 1: CGH Group Structure as of Dec 2019



Source: CGS

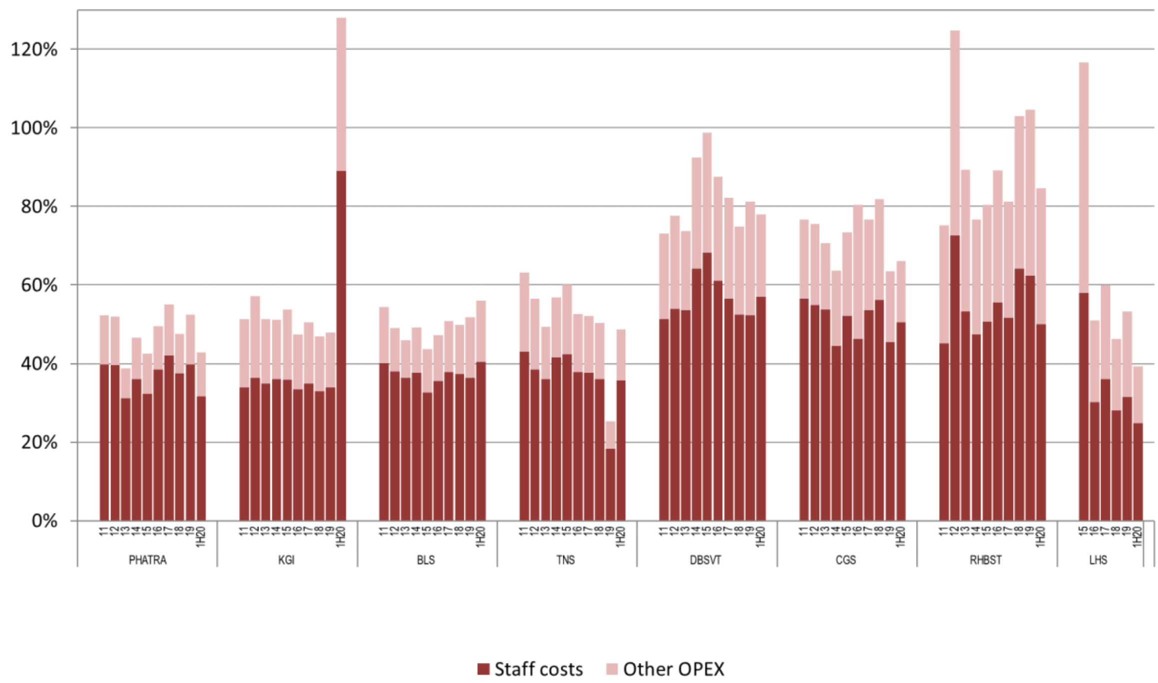
KEY OPERATING PERFORMANCE

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



Sources: Financial statements of each company

Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H2020 (% of Net Revenues)



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	7,077	4,540	5,084	4,524	4,923
Net Investment in securities	3,094	1,921	2,469	1,892	1,519
Total securities business receivables and accrued interest receivables	2,992	2,266	1,702	1,170	824
Allowance for doubtful accounts	411	369	360	376	365
Total debts	1,700	863	211	144	-
Shareholders' equity	1,867	1,946	2,869	2,870	2,923
Net securities business income	440	758	419	436	675
Total income	602	958	535	523	1,096
Operating expenses	375	591	426	396	871
Interest expenses	35	26	15	6	11
Net income	47	138	17	46	90

Unit: %

	Jan-Jun 2020	---------------Year Ended 31 December 2019	2018	2017	2016 ----------
Profitability					
Brokerage fees/total revenues	80.4	57.8	57.5	42.4	49.9
Fees and services income/total revenues	7.0	14.8	16.1	12.3	7.4
Gain (loss) from trading/total revenues	(1.8)	14.0	5.3	27.5	6.4
Operating expenses/net revenues	66.0	63.5	81.9	76.7	67.2
Pre-tax margin	7.5	19.2	3.1	10.5	10.4
Return on average assets	1.6 *	2.9	0.4	1.0	2.0
Earning before tax/risk-weighted assets	0.7 *	1.9	0.2	0.7	1.3
Asset Quality					
Classified receivables/gross securities business receivables	14.4	17.1	22.8	33.9	48.2
Allowance for doubtful accounts/gross securities business receivables	13.7	16.3	21.1	32.1	44.3
Credit costs (reversal)	3.4 *	0.5	(0.7)	1.1	1.0
Capitalization					
Leverage ratio	26.8	39.8	56.6	62.6	57.7
Risk-adjusted capital	13.7	20.5	28.7	32.2	39.4
Funding and Liquidity					
Gross stable funding ratio	62.6	98.6	148.3	207.9	170.5
Liquidity coverage metric	1.0	1.3	6.3	10.1	22.0

* *Annualized*

RELATED CRITERIA

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

Country Group Securities PLC (CGS)

Company Rating:	BBB-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000