

# DBS VICKERS SECURITIES (THAILAND) CO., LTD.

No. 85/2019  
13 June 2019

## FINANCIAL INSTITUTIONS

**Company Rating:** AAA  
**Outlook:** Stable

**Last Review Date:** 28/06/18

### Company Rating History:

Date	Rating	Outlook/Alert
28/06/18	AAA	Stable
15/07/16	AA-	Stable
22/03/11	A-	Stable
15/12/09	A-	Negative
17/10/06	A-	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 DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT) at “AAA” with a “stable” outlook. The rating reflects DBSVT’s status as a highly strategic subsidiary of Singapore-based DBS Group, strong operational integration of DBSVT into DBS Group, and a long proven track record of support by the Group. DBS Bank, the sole operating subsidiary of DBS Group, is rated “AA-” with a “stable” outlook on an international scale by Standard & Poor’s.

DBSVT’s stand-alone rating is underpinned by DBSVT’s sufficient liquidity and capital base as well as limited exposure to market and credit risk, thanks to DBS Group’s conservative business policy. However, the rating is constrained by the company’s relatively high operating costs and its reliance on brokerage fees as its major revenue source, which could potentially cause profitability to be volatile.

## KEY RATING CONSIDERATIONS

### A highly strategic subsidiary of DBS Group

TRIS Rating views DBSVT as a highly strategic subsidiary of DBS Group, as DBSVT is a wholly-owned subsidiary of DBS Vickers Securities Holding Pte (DBSVH), the securities arm of DBS Group based in Singapore. In addition to receiving credit facilities from DBS Group, DBSVT operates as an integral part of DBS Group, i.e., sharing the Group’s strategies and financial targets. The company’s operations and risk management policies also comply with policies of the Group.

DBSVT also serves clients of DBS Group and affiliated companies by providing research, brokerage, and other services. Over the past two years, approximately 90.0% of DBSVT’s securities brokerage trading volume has originated from the client base of affiliated securities companies within DBS Group.

### Sufficient liquidity and capital base

DBSVT’s liquidity and financial flexibility remain sufficient. The ratio of liquid assets to total assets was 14.6% at the end of December 2018. Although the ratio is lower than the peer average of 36.3%, it is viewed as sufficient. Also, it is DBS Group’s policy that DBSVT holds a minimum amount of investments in its portfolio, explaining its lower-than-average liquid assets to total assets ratio. Financial flexibility is assessed based on the credit line from its parent company and plenty of credit facilities from several local financial institutions. The credit facilities are adequate to fund its current operations and for liquidity protection.

DBSVT’s equity base of Bt1,141 million is also sufficient to cushion against the credit risk from the company’s margin loan portfolio. As of December 2018, equity to adjusted assets improved to 51.4%, compared with 41.0% a year earlier. The ratio is lower than the industry average of 61.7% but is justified by the contingent support from its parent company. DBSVT’s net capital ratio (NCR) rose to 49.2% at the end of 2018 from 37.0% at the end of 2017, both higher than the minimum regulatory requirement of 7.0%.

### Limited exposure to market risk and credit risk

TRIS Rating views that DBSVT has adequate risk management to control the market risk of its investment portfolio. In addition, the company does not

engage in speculative proprietary trading, in accordance with the Group's risk management policy. The company also has a policy to hedge its positions associated with structured products. As for its credit risk exposure, DBSVT's outstanding margin loans at the end of December 2018 were comparable to the previous year, at Bt1,300 million, and equivalent to 1.3 times of its equity. This represents a modest share of 2.4% of the industry-wide margin lending.

### Improved profit but operating costs remain high

DBSVT's profitability improved in 2018. The company's return on average assets (ROAA) was 2.7% in 2018, from 0.2% in 2017, due mainly to an increase in securities brokerage fees from institutional and foreign investors and an increase in fees and service income. Nonetheless, the company has relatively high operating costs, which makes its profitability more vulnerable to changes in market conditions and competition. DBSVT's ratio of operating expenses to net revenue was 74.9% in 2018, higher than the industry average of 64.2%.

### Reliance on brokerage fees

A major rating constraint on a stand-alone basis is DBSVT's high reliance on brokerage fees as its major source of revenue, particularly from foreign investors where the commission rate is tight and trading volume can be volatile. Brokerage fees constituted 70.4% of total revenue in 2018, compared with the industry average of 58.8%. Moreover, the company's trading volume is concentrated in foreign investors, accounting for 89.7% of total trading volume, and brokerage fees from foreign investors comprised 53.0% of the company's total securities brokerage fees in 2018. As a result, the company's revenue from brokerage fees may be vulnerable to a decrease in foreign investor's trading volume should the trend change in the future.

Meanwhile, contributions from fees and service income represented 12.4% of total revenue in 2018, compared with the industry average of 12.8%. Although fees and service income are currently not major contributors to the company's total revenue, DBSVT has plans to offer additional services, particularly in wealth management, that should gradually help improve its fee based income in the next few years, in addition to growing selling agent fees from mutual fund products. More business integration with DBS Group also helps enhance its ability to generate fee based income as evidenced from an increase in DBSVT's underwriting fee in 2018, which increased partly from the company's underwriting of initial public offerings (IPOs) originated by DBSV in Singapore.

### BASE-CASE ASSUMPTIONS

TRIS Rating has made the base-case assumptions for DBSVT's operations in 2019-2021 as follows:

- Average commission rate to maintain at approximately 3-4 basis points (bps)
- The ratio of operating expenses to net revenue to range between 79%-82%
- Return on average assets to range between 0.2%-1.0%

### RATING OUTLOOK

The "stable" rating outlook reflects the expectation of TRIS Rating that DBSVT will remain a highly strategic subsidiary of DBS Group and continue to operate as an integral part of DBS Group's securities business in Asia.

### RATING SENSITIVITIES

DBSVT's rating is at the highest level at "AAA" with a "stable" outlook. The rating and outlook could be revised downward if the rating of DBS Bank was revised downward. Any changes in the Group's structure and strategy such that DBSVT does not remain as a highly strategic subsidiary of the Group could also negatively impact the rating and/or the outlook.

### COMPANY OVERVIEW

DBSVT was established on 18 November 1996 under the name "Nava Securities Co., Ltd." with initial registered capital of Bt1,000 million. The company was granted business licenses covering securities brokerage, securities trading, securities underwriting, and investment advisory by the Ministry of Finance (MOF) in early November 1997.

On 17 November 1997, the company received an accounting balance (assets and liabilities) transfer, at the net asset value of Bt354 million, from Nava Finance and Securities PLC. The transfer was made to comply with a government regulation dictating the separation of securities companies and finance companies.

In 1998, Vickers Ballas Holdings Ltd. (VBHL), a Singaporean firm, acquired a 49% stake (57.502 million shares) in Nava Securities. Nava Securities was renamed Nava Vickers Ballas Securities Co., Ltd. in May 1998. In January 2000, VBHL acquired an additional 59.849 million shares (51% of the total registered shares) of the company from Bank Thai PLC, raising its stake to 99.99%. The company then changed its name to Vickers Ballas Securities (Thailand) Co., Ltd. (VBST) in

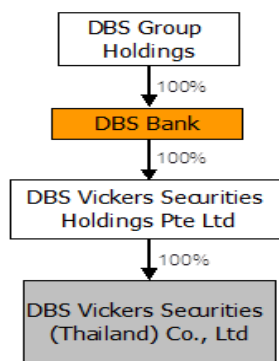
early February 2001.

On 13 February 2001, DBS Group Holdings Ltd. (DBSH) took over VBHL in Singapore. The deal was completed through a subsidiary of DBSH, The Development Bank of Singapore Ltd. After DBSH acquired a 100% stake in VBHL, VBST was renamed DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT) and began full operation in October 2001.

In August 2005, DBSVT received approval from the Securities and Exchange Commission (SEC) to act as a derivatives agent and to execute derivatives transactions on behalf of clients on the derivatives exchange. This business started on 28 April 2006 with the launch of the Thailand Futures Exchange (TFEX).

During 2012-2014, DBSVT launched several new products and services to facilitate its customers' online trading transactions and to provide them with research and market information. The new products and services included DBSV's overseas trading services for smart phone users, Online KYC, eStatement, and its Point Redemption System via [www.dbsvtrade.com](http://www.dbsvtrade.com). DBSVT also launched BrainBox, a new investing tool for clients. BrainBox provides both fundamental and technical analyses to investors.

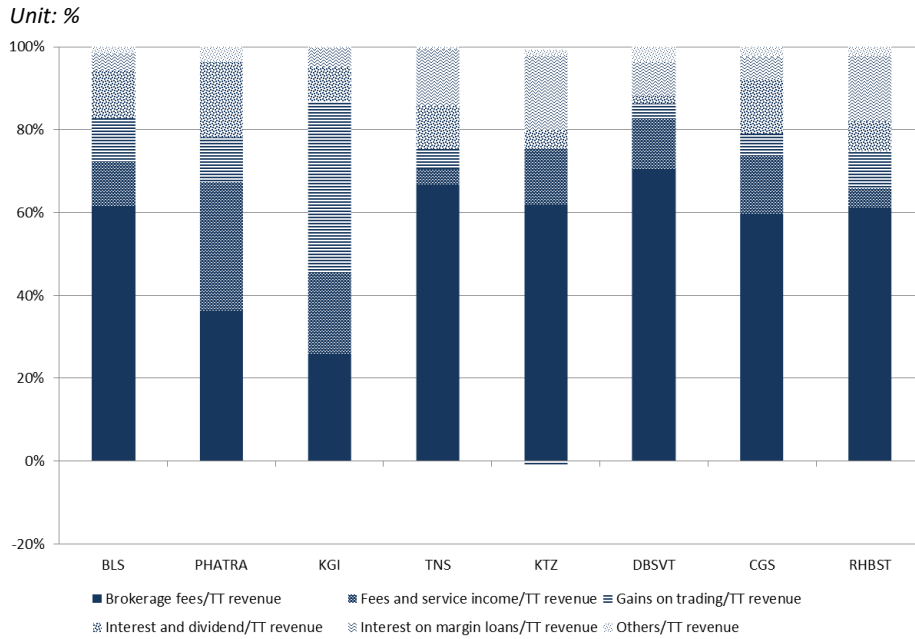
**DBSVT Group Structure**



Source: DBSVT

**KEY OPERATING PERFORMANCE**

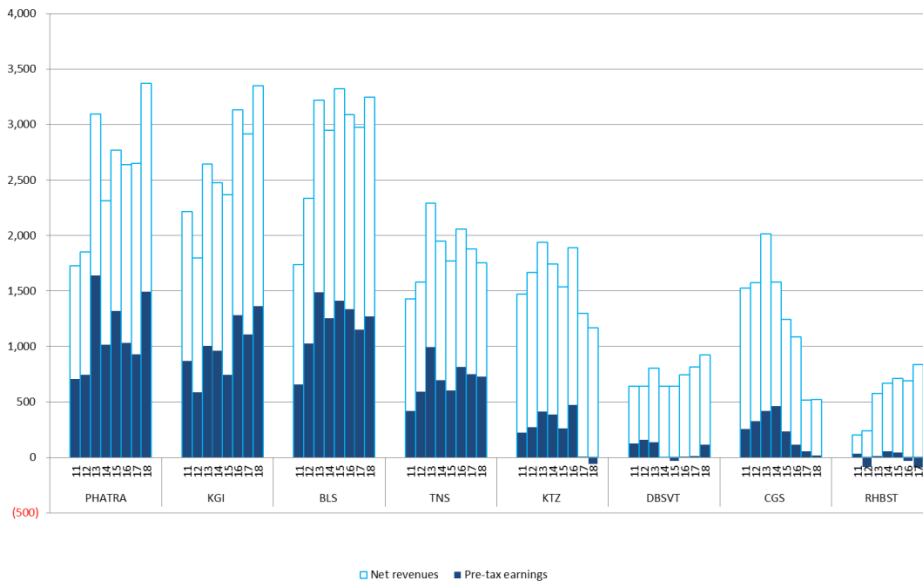
**Chart 1: Revenue Structures of Securities Companies in 2018**



Sources: Financial statements of each company

**Chart 2: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2018**

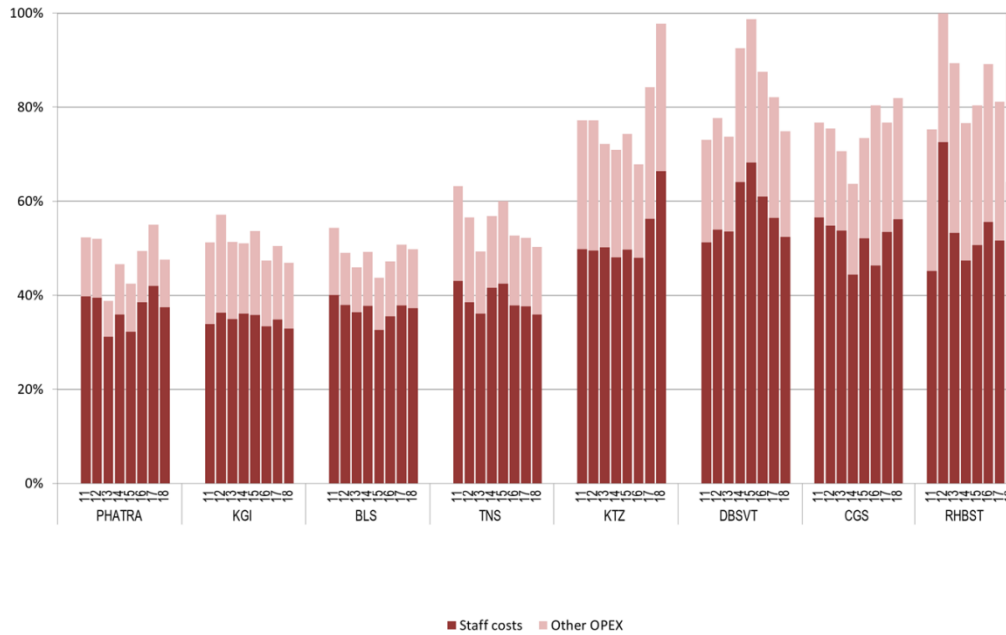
Unit: Bt million



Sources: Financial statements of each company

**Chart 3: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2018**

Unit: % of net revenues



Sources: Financial statements of each company

- Notes:
- PHATRA = Phatra Securities PLC
  - KGI = KGI Securities (Thailand) PLC
  - BLS = Bualuang Securities PLC
  - TNS = Thanachart Securities PLC
  - KTZ = KT ZMICO Securities Co., Ltd.
  - DBSVT = DBS Vickers Securities (Thailand) Co., Ltd.
  - CGS = Country Group Securities PLC
  - RHBST = RHB Securities (Thailand) PLC

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

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
Total assets	2,875	4,064	4,621	2,984	2,758
Net Investment in securities	125	54	67	21	8
Total securities business receivables and accrued interest receivables	2,331	3,028	4,391	2,476	2,573
Allowance for doubtful accounts	129	137	411	415	429
Total debts*	668	959	1,123	1,147	979
Shareholders' equity	1,141	1,046	1,048	1,040	1,067
Net securities business income	761	666	646	567	581
Total income	949	846	781	696	685
Operating expenses	690	669	653	631	593
Interest expenses	27	32	35	57	44
Net income	95	9	8	(28)	(3)

\* Including structured notes

*Unit: %*

	-----Year Ended 31 December -----				
	2018	2017	2016	2015	2014
<b>Profitability</b>					
Brokerage fees/total revenues	70.4	72.7	73.9	67.7	74.4
Fees and services income/total revenues	12.4	9.7	8.1	8.3	6.3
Gain (loss) from trading/total revenues	3.4	2.8	1.5	0.2	(0.7)
Operating expenses/net revenues	74.9	82.1	87.6	98.8	92.5
Pre-tax margin	12.3	1.5	1.2	(5.3)	(0.5)
Return on average assets	2.7	0.2	0.2	(1.0)	(0.1)
Return on average equity	8.7	0.8	0.8	(2.6)	(0.2)
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	6.2	4.8	9.8	17.4	16.7
Allowance for doubtful accounts/gross securities business receivables	5.6	4.5	9.4	16.8	16.7
Credit costs (reversal)	(0.3)	0.3	(0.1)	(0.5)	(0.1)
<b>Capitalization</b>					
Equity/Adjusted assets	51.4	41.0	42.8	43.8	46.8
<b>Liquidity</b>					
Liquid assets/total assets	14.6	15.7	8.9	10.1	12.2
Liquid assets/adjusted assets	19.0	22.5	16.7	10.9	14.3
Less liquid assets/long-term capital	134.8	136.8	178.3	182.9	169.8

**RELATED CRITERIA**

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

---

**DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT)**

---

<b>Company Rating:</b>	AAA
<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)