

DBS VICKERS SECURITIES (THAILAND) CO., LTD.

No. 94/2020
30 June 2020

FINANCIAL INSTITUTIONS

Company Rating: AAA
Outlook: Stable

Last Review Date: 13/06/19

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, CFA, FRM

sithakarn@trisrating.com

Narumol Charchanavivat

narumol@trisrating.com



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RATIONALE

TRIS Rating affirms the company rating on DBS Vickers Securities (Thailand) Co., Ltd. (DBSVT) at “AAA” with a “stable” outlook. The rating mainly reflects the company’s status as a highly strategic subsidiary of the DBS Group. The rating also takes into consideration the company’s moderate business position in Thailand’s securities brokerage industry, adequate capital, leverage, and earning assessment, strong risk profile, and adequate funding and liquidity profile.

KEY RATING CONSIDERATIONS

A highly strategic subsidiary of the DBS Group

TRIS Rating assesses DBSVT as a highly strategic subsidiary of DBS Group. As a wholly-owned subsidiary of DBS Vickers Securities Holding Pte (DBSVH), the Singapore-based securities arm of the DBS Group, the company strictly complies with the Group’s operations and risk management policies. Moreover, the company continues to operate as an integral part of the Group, adopting the Group’s strategies and financial targets and collaborating with members of the Group. DBSVT leverages DBS Bank’s strength in private banking to ramp up its own wealth management business. The company also maintains its role of providing brokerage services in Thailand to clients of the DBS Group and affiliated companies. In 2019, securities brokerage trading volume originating from affiliated companies accounted for 87% of the company’s securities brokerage trading volume. The company also received credit facilities from the Group as an ongoing financial support, which helped enhance its financial flexibilities.

Moderate business position

The company has a modest market position in the securities brokerage business and limited market presence in other business lines within the securities business. At the end of March 2020, the company’s securities brokerage revenue share was 2.8% or 15th among 37 brokers in the industry, while its revenue share in derivatives brokerage and investment banking also remained limited at 0.9% in 2019 and 1.0% on a 3-year average (2017-2019) respectively.

The company’s reliance on brokerage fees as its main revenue source with a high concentration in foreign investors remained a constraint on its business position assessment. Such reliance subjects the company’s revenue to the volatility of foreign investors trading volume. At the end of March 2020, brokerage fees accounted for 58% of total revenue, compared with the industry average of 51%, while brokerage fees from foreign investors contributed 47% of the company’s total brokerage revenue in 2019.

On a positive note, the company’s fee based income has been on an increasing trend as a result of its ongoing efforts to expand its wealth management business. The company has continued to strengthen its wealth management business focusing on a mass-affluent client base using “Wealth Box”, an application for mutual fund portfolio management. It has also started a private banking collaboration with DBS Bank to broaden product offerings to attract more high-net-worth clients. We expect its fee-based income contribution to total revenue to become more robust over the next few years. The higher fee contribution should be positive for business diversity assessment as well. In 2019, the company’s fee-based income

contributed 26% of total revenue, an increase from a 14% contribution in 2018.

Strong capital but modest profitability

We expect the company's capital and leverage assessment to remain strong with a risk-adjusted capital (RAC) ratio of around 15%-17% over the next few years as we believe the company will continue to focus on less capital-intensive businesses to maintain strong capital despite modest profitability over the medium term. At the end of December 2019, the company's RAC ratio was 14.0%. The company also ended March 2020 with a net capital ratio (NCR) of 36.9%, well above the regulatory requirement of 7%. However, we expect the company's earnings to remain weak, with a ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) of around 0%-1% over the next few years, following substantial net losses in 2019.

The company reported net losses of Bt141 million in 2019, compared with a net profit of Bt95 million in 2018. The losses were mainly caused by a Bt83 million loss in net foreign exchange. This was the result of a one-time issue related to the settlement of very large trading transactions. The incident resulted in DBSVT having to provide funding support to complete the transactions. DBSVT, in turns, received funding support from DBSV Singapore in the form of short-term foreign-currency loans, which led to the foreign currency losses. Subsequently, DBSVT has been more cautious in handling certain clients, which in part resulted in a 28% drop in brokerage fees in 2019. The company has also enhanced its operational risk policies and information technology (IT) system to prevent future trading and settlement issues.

In terms of cost, we expect operating expenses to remain relatively high compared with peers due to its larger staff cost, given its focus on wealth management that requires high-touch services. IT system enhancement is also expected to push operating costs higher. At the end of December 2019, the company's ratio of operating expenses to net revenue was 81.3%, compared with the industry average of 65.1%. Longer term, we anticipate profitability to remain modest as DBSVT's priority is to represent DBS Group's presence in Thailand in order to provide services to the Group's clients and help fulfill the Group's regional operation and strategy.

Strong risk profile to be supported by group policies

We expect the company to maintain its strong risk profile. We believe that the company's compliance with risk control policies of the DBS Group will help limit credit risk and market risk as the Group adopts prudent policies on margin lending and proprietary trading. The company's strong risk profile is also supported by its relatively low risk appetite as the company focuses on strengthening recurring fee-based income through expansion of wealth management. Meanwhile, the losses incurred in 2019 have led the company to strengthen policies on trading transactions and also improve back-office operations and the detection of irregular trading activities. This should help prevent potential losses from operational risk in the future.

Adequate funding and liquidity profile

The company's funding and liquidity profile is adequate, despite a moderate level gross stable funding ratio (GSFR) of around 79.2% and a weak liquidity coverage metric of around 0.4 times on a 5-year average (2018-2022), according to our benchmark. Its funding and liquidity profile is enhanced as the company received credit lines from its parent company, which helped strengthen its financial flexibilities. In addition, the company also had available credit facilities from various local financial institutions as additional sources for liquidity. As of March 2020, the company had available credit facilities totaling SG\$35 million from DBSVH and Bt3.6 billion from local financial institutions.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for DBSVT's operations during 2020-2022 include:

- Market share by securities trading value to be around 3%-4%.
- Average commission rate to be approximately 4-5 basis points (bps).
- Ratio of operating expenses to net revenue to hover around 80%.

RATING OUTLOOK

The "stable" rating outlook reflects our expectation that DBSVT will remain a highly strategic subsidiary of the 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 by multiple notches. Any change 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 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.

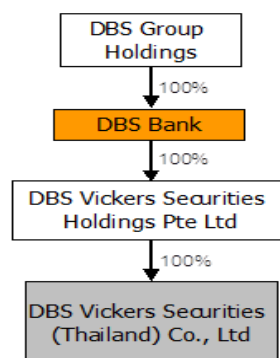
In 1998, Vickers Ballas Holdings Ltd. (VBHL), a Singaporean firm, acquired a 49% stake (57.502 million shares) in Nava Securities. Nava Securities was renamed Nava Vickers Ballas Securities Co., Ltd. in May 1998. In January 2000, VBHL acquired an additional 59.849 million shares (51% of the total registered 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 DBSVT's overseas trading services for smart phone users, Online KYC, eStatement, and its Point Redemption System via www.dbsvitrade.com. DBSVT also launched BrainBox, a new investing tool for clients. BrainBox provides both fundamental and technical analyses to investors.

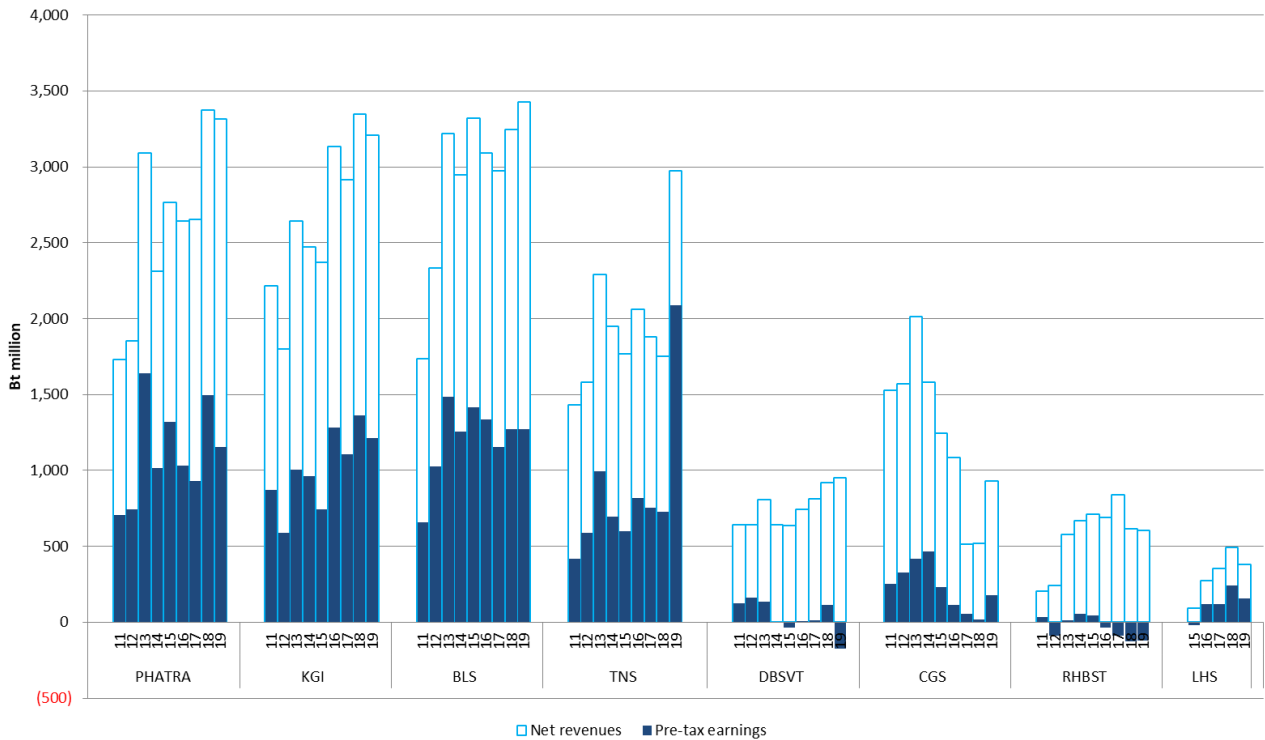
DBSVT Group Structure



Source: DBSVT

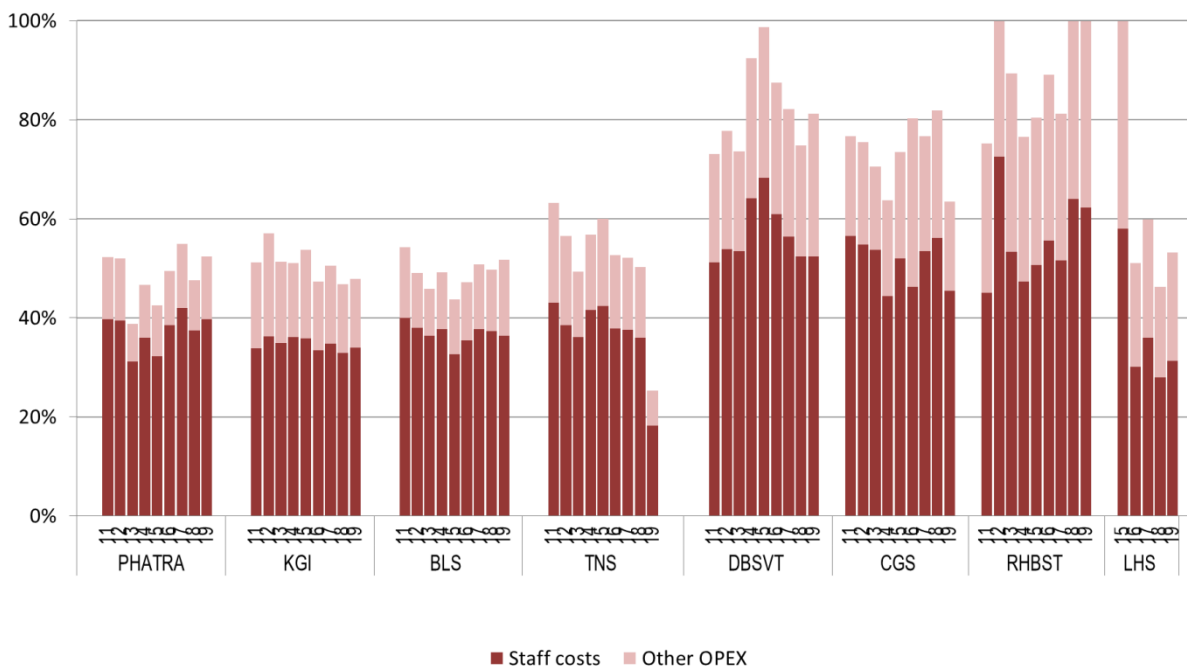
KEY OPERATING PERFORMANCE

Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-2019



Source: Financial statements of each company

Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-2019 (% of Net Revenues)



Source: Financial statements of each company

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Bt million

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Total assets	4,335	2,875	4,064	4,621	2,984
Net Investment in securities	105	125	54	67	21
Total securities business receivables and accrued interest receivables	3,089	2,331	3,028	4,391	2,476
Allowance for doubtful accounts	116	129	137	411	415
Total debts	943	668	959	1,123	1,147
Shareholders' equity	1,013	1,141	1,046	1,048	1,040
Net securities business income	737	761	666	646	567
Total income	989	949	846	781	696
Operating expenses	773	690	669	653	631
Interest expenses	37	27	32	35	57
Net income	(141)	95	9	8	(28)

Unit: %

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
Profitability					
Brokerage fees/total revenues	48.4	70.4	72.7	73.9	67.7
Fees and services income/total revenues	15.1	12.4	9.7	8.1	8.3
Gain (loss) from trading/total revenues	17.1	3.4	2.8	1.5	0.2
Operating expenses/net revenues	81.3	74.9	82.1	87.6	98.8
Pre-tax margin	(18.6)	12.3	1.5	1.2	(5.3)
Return on average assets	(3.9)	2.7	0.2	0.2	(1.0)
Earning before tax/risk-weighted assets	(2.8)	1.9	0.2	0.1	(0.6)
Asset Quality					
Classified receivables/gross securities business receivables	4.7	6.2	4.8	9.8	17.4
Allowance for doubtful accounts/gross securities business receivables	3.8	5.6	4.5	9.4	16.8
Credit costs (reversal)	(0.5)	(0.3)	0.3	(0.1)	(0.5)
Capitalization					
Leverage ratio	23.3	40.0	26.0	22.7	34.9
Risk-adjusted capital	14.0	20.5	17.2	13.1	17.9
Funding and Liquidity					
Gross stable funding ratio	72.3	102.2	92.9	74.4	83.6
Liquidity coverage metric	0.4	0.5	0.6	0.3	0.3

RELATED CRITERIA

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

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

Company Rating:	AAA
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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

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