

KGI SECURITIES (THAILAND) PLC

No. 102/2024
20 June 2024

FINANCIAL INSTITUTIONS

Company Rating: A
Outlook: Stable

Last Review Date: 26/06/23

Company Rating History:

Date	Rating	Outlook/Alert
18/06/19	A	Stable
27/07/16	A-	Stable
18/06/08	BBB+	Stable
12/07/04	BBB	Stable
23/01/04	BBB	-
26/11/01	BBB-	-

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RATIONALE

TRIS Rating affirms the company rating on KGI Securities (Thailand) PLC (KGI Thailand) at “A” with a “stable” outlook. The company rating incorporates a one-notch uplift from KGI Thailand’s stand-alone credit profile (SACP) assessed at “a-”. The enhancement is based on our assessment of KGI Thailand’s group status as a “strategic” affiliate of KGI Securities Co., Ltd. in Taiwan (KGI Taiwan, rated “BBB+/Stable” by S&P Global Ratings).

The SACP reflects KGI Thailand’s expanding market position in various businesses, strengthened capitalization, and healthy profitability. However, the SACP is partially constrained by the company’s dependence on gains on financial instruments, which we view as a less stable source of earnings.

KEY RATING CONSIDERATIONS

Strategic affiliate of KGI Group

We view KGI Thailand as a strategic affiliate of KGI Taiwan, despite a lack of explicit financial support from KGI Group. Our assessment of KGI Thailand’s group status takes into account ownership, board and management representation, as well as business support.

In terms of ownership, KGI Taiwan holds a 34.97% stake in KGI Thailand through its wholly-owned subsidiary, KGI Asia (Holdings) Pte. Ltd. Representation from KGI Taiwan in KGI Thailand comprises three out of nine board members. Additionally, the company’s top management appointments are proposed by KGI Taiwan.

KGI Taiwan has continuously provided business support and technical knowhow to KGI Thailand, which we expect to continue in the foreseeable future. The support has helped strengthen KGI Thailand’s position as a market leader in the equity derivatives business. KGI Thailand’s strong performance and stable dividend contributions to the group further substantiate our view that KGI Thailand is an important member of the KGI Group.

Position in derivative warrants remains strong

KGI Thailand’s market position in derivative warrants (DW), its flagship business, remains strong, despite a declining market share in recent years. This strength has been supported by the technical knowhow provided by its parent company and affiliated companies within the KGI Group. We expect the company to remain well-positioned in Thai stock and index-linked DWs. In the first quarter of 2024, the company ranked first in terms of trading volume in Thai stock and index-linked DW segment with a market share of 48%. At the same time, the company held a market share of 13% in overall market (including foreign stock and index-linked DW segment).

TFEX brokerage supports overall brokerage business

Like other securities brokerage firms, KGI Thailand has been impacted by the eroding trading volume of the Thai stock market. Nonetheless, in 2023 its total revenue from the brokerage business, comprising securities and derivatives, declined to a lesser extent (-21% year-on-year (y-o-y)) than the industry average (-30% y-o-y). This was due to its strong position in the brokerage business of Thailand Futures Exchange (TFEX), which has helped support the overall brokerage business. KGI Thailand now ranks third in terms of revenue market share in derivatives brokerage. The company had the largest trading

volume in Thailand Futures Exchange (TFEX) in 2023, with a market share of 15.3%, increasing from 9.4% in 2020. This was mainly supported by its HFT services.

In the securities brokerage business, there has also been some improvement in revenue market share, particularly in the foreign investor segment. In 2023, the company held a revenue market share of about 4% in the foreign investor segment, ranking second among its peers in TRIS Rating's database. We expect this improvement to be sustained, given the robust direct market access (DMA) service infrastructure being put in place.

Increased contribution of fees and services income

KGI Thailand's revenue contribution from fee-based businesses, encompassing fund management, wealth management, and investment banking (IB), increased to 35% of total revenue in 2023 from 32% in 2022. We expect the revenue contribution from fee-based businesses will gradually expand to over 40% in the next two years, driven by fund management services operated by its subsidiary, One Asset Management Ltd. (ONEAM), as well as wealth management and IB.

For IB, fee revenue from underwriting and financial advisory services has expanded notably, reaching THB190 million in 2023, from around THB60 million in 2019-2020. This was supported by an enlarged IB team that brought in more transactions in both the equity capital and debt capital markets in recent years. The company plans to continue expanding the team, which should help further strengthen fee-based income from the IB business.

Gains from financial instruments are major revenue contributors

Although gains from financial instruments have supported KGI Thailand's revenue and earnings over the years, we are of the view that this source of income remains vulnerable to market volatility and therefore do not view it positively. Any adverse changes in market conditions could significantly affect the company's financial performance.

We expect gains from financial instruments will continue to represent more than 30% of KGI Thailand's total revenue over the next three years. In 2023, these gains constituted 31% of the company's total revenue, higher than the industry average of less than 10%.

Maintaining a strong capital position

We expect KGI Thailand to maintain its strong capital position. The company's capital position, as measured by the risk-adjusted capital ratio (RAC), improved slightly to 19.9% at the end of the first quarter of 2024 from 17.9% at end-2023 due to lower margin loans and a smaller investment portfolio. We expect the company's RAC ratio to remain in the 18%-19% range in 2024-2026, thanks to its strong profitability. The net capital ratio (NCR) also remained healthy at 108% at the end of the first quarter of 2024, well above the minimum requirement of 7% and internal minimum level of 28%.

We estimate KGI Thailand's profitability, measured by earnings before taxes to average risk-weighted assets (EBT/ARWA), to be in 2%-3% range in 2024-2026, compared with 2.7% in 2023. We project its EBT in 2024-2026 to be slightly higher than the THB1.1 billion level reported in 2023. We believe this will be supported by gains on financial instruments and fee income from the fund management and IB businesses.

Robust risk management framework

In our view, KGI Thailand possesses a prudent risk management framework, despite its moderately high-risk appetite. The company benefits from ongoing support and guidance from the KGI Group in areas such as product development, automated trading platforms, trading strategies, and risk management. Under the guidance of the group, the company has developed and applies its own risk management policies and procedures, which are tailored to the local operating environment.

Adequate funding profile and liquidity position

We expect KGI Thailand to maintain its adequate funding profile over the next two years. The company's gross stable funding ratio (GSFR), which compares available stable funding with stable funding needs, stood at 130% as of March 2024. We expect the ratio to stay above 110% over the next two years.

We also consider KGI Thailand's liquidity profile to be sufficient due to the ample credit facilities provided by various financial institutions. These credit facilities enhance the company's financial flexibility and should adequately support its existing operations as well as its expansion plans.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for KGI Thailand's operations during 2024-2026 are as follows:

- Average commission rates to be approximately 3 basis points (bps).
- Operating expenses to net revenue to be around 45%-46%.
- EBT/ARWA to range from 2%-3%.

RATING OUTLOOK

The “stable” outlook reflects our expectation that the company will continue to diversify its revenue mix, by improving fee-based businesses and maintaining healthy profitability. We also expect KGI Thailand to preserve its adequate capitalization, supported by strong profitability and appropriate dividend payments, and adequate risk management.

RATING SENSITIVITIES

Credit upsides could develop from a sustained improvement in business position. Downward pressure on the ratings could occur if KGI Thailand’s capitalization, as measured by the RAC ratio, weakens significantly on a prolonged basis, either from losses in equity capital or by a rapidly enlarged balance sheet stemming from aggressive business expansion.

Also, any change in the credit profile of the KGI Group or a change in TRIS Rating’s view of the status of KGI Thailand to the KGI Group may affect the ratings and/or outlook.

COMPANY OVERVIEW

KGI Thailand was established as Goldhill Securities Co., Ltd. in 1975. In 1987, KASIKORNBANK PLC (known as Thai Farmers Bank PLC at the time) and the Finance One Group took over the company and renamed it Securities One Co., Ltd. (S-ONE). The company was listed on the Stock Exchange of Thailand (SET) in 1989. Following the Asian financial crisis in 1997, the company suffered huge losses on its investments when a subsidiary, Thai Thamrong Finance PLC, and an affiliated company, Nithipat Finance PLC, were shut down in 1998. The Koos Group, a large Taiwanese conglomerate, assisted KGI Thailand with a debt restructuring program and became the major shareholder in 1998. The company was renamed KGI Securities (Thailand) PLC in 2001.

After the shareholding structure changed in 1998, KGI Thailand invested overseas through a wholly-owned subsidiary, KGI Securities (Thailand) International Holdings Ltd. (HOLDCO), which owned a 46.6% stake in KGI International Holdings Ltd. (KGII). KGII invested in securities firms in Hong Kong, South Korea, and the Philippines. In September 2000, KGII distributed its assets, including its stakes in its subsidiaries, to its shareholders, including HOLDCO. In early 2001, HOLDCO sold its equity stakes in the overseas subsidiaries back to KGII. To pay for the stakes, KGII issued USD35 million in secured convertible debentures and THB1.58 billion in secured debentures.

At the end of 2002, KGI Thailand retained a loss of THB7.52 billion. In 2003, the company reduced its capital to THB12.99 billion from THB17.33 billion, returning THB4.33 billion to shareholders. KGI Thailand sold the overseas debentures held by HOLDCO and used the proceeds to pay shareholders and repay all of its borrowings. KGI Thailand wiped out the accumulated loss by offsetting it with general reserves, legal reserves, and the share premium incurred from the reduction in par value.

KGI Thailand reduced its paid-up capital twice, in 2005 and 2006, to THB1.99 billion from THB14.94 billion, by reducing the par value to THB1 from THB7.5 per share. KGI Thailand received a license from the Securities and Exchange Commission (SEC) authorizing it to act as an agent and dealer for futures trading once the TFEX opened in 2006.

KGI Thailand operates a full range of securities businesses: securities brokerage, securities dealing, investment banking, fixed income business, private repos, sales agent of unit trusts, futures brokerage, securities borrowing and lending, over-the-counter (OTC) derivatives, and DWs. It also owns a 99.54% stake in ONEAM, an asset management company that offers a full range of fund management services. As of March 2015, Richpoint Co., Ltd. was the company’s major shareholder, owning a 34.97% stake.

On 30 October 2015, Richpoint transferred its entire shareholding in the company to KGI Asia (Holdings) Pte. Ltd., a company incorporated under the laws of Singapore in which KGI Taiwan indirectly owns its entire equity interest as part of the KGI Group’s shareholding restructuring.

Chart 1: KGI Group Structure



Source: KGI

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	17,955	23,694	17,832	27,697	25,272
Net investment in securities	5,415	5,662	6,740	8,182	7,589
Total securities business receivables and accrued interest receivables	7,039	7,520	6,710	16,172	15,507
Allowance for doubtful accounts	521	521	474	247	308
Total debts	4,484	10,508	4,756	5,829	4,463
Shareholders' equity	7,916	7,634	7,473	7,540	6,139
Net securities business income	722	2,748	3,110	4,152	2,138
Total income	953	3,797	4,146	5,356	2,829
Operating expenses	425	1,625	1,657	1,934	1,441
Interest expense	43	144	76	78	79
Net income	267	870	1,006	1,861	569

Unit: %

	Jan-Mar 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Profitability					
Brokerage fees/total revenues	18.1	23.3	26.9	23.9	32.3
Fees and services income/total revenues	32.3	34.9	32.1	29.6	32.6
Gains from financial instruments/total revenues	37.7	31.5	34.6	41.7	28.0
Operating expenses/net revenues	46.6	44.5	40.7	36.6	52.4
Pre-tax margin	32.8	29.8	30.6	42.9	26.4
Return on average assets*	5.1	4.2	4.4	7.0	3.0
Earning before tax/risk-weighted assets*	3.1	2.7	2.5	4.2	1.7
Asset Quality					
Classified receivables/gross securities business receivables	7.3	6.9	7.7	1.5	1.8
Allowance for doubtful accounts/gross securities business receivables	7.3	6.8	6.9	1.5	1.6
Credit costs (reversal)	(0.0)	0.6	1.9	(0.1)	(0.1)
Capitalization					
Leverage ratio	42.8	29.2	37.2	21.6	22.6
Risk-adjusted capital	19.8	17.9	15.6	10.1	11.6
Funding and Liquidity					
Gross stable funding ratio	129.5	88.8	143.1	121.6	121.1
Liquidity coverage metric	1.16	0.85	1.20	1.06	1.16

* Annualized

RELATED CRITERIA

- Financial Institution Rating Methodology, 24 November 2023
- Group Rating Methodology, 7 September 2022

KGI Securities (Thailand) PLC (KGI)

Company Rating:	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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