

KIATNAKIN PHATRA SECURITIES PLC

No. 63/2021
23 April 2021

FINANCIAL INSTITUTIONS

Company Rating: A
Outlook: Stable

Last Review Date: 17/04/20

Company Rating History:

Date	Rating	Outlook/Alert
26/04/19	A	Stable
26/04/18	A-	Positive
13/06/13	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Kiatnakin Phatra Securities PLC (KKPS) at “A” with a “stable” outlook. The rating primarily reflects the company’s status as a core subsidiary of the Kiatnakin Phatra Financial Group under Kiatnakin Phatra Bank PLC (KKP). The rating on KKPS is equivalent to the company rating on KKP (“A/Stable” rated by TRIS Rating).

KEY RATING CONSIDERATIONS

A core subsidiary of KKP

TRIS Rating assesses KKPS as a core member of the KKP Group. The company has served as an important capital market arm for the KKP Group that helps fulfill the Group’s universal banking strategy and is likely to remain so in the long term. KKPS and KKP have also demonstrated signs of group synergy. Cross-selling among the company and other entities in the Group has been on an improving trend. The company continues to expand by leveraging KKP’s client base, especially among high-net-worth clients.

In terms of financial performance, the company consistently delivers satisfactory operating results and continues to generate a meaningful revenue contribution for the group. In 2020, the company’s total revenue accounted for 18% of KKP’s total revenue. As a wholly owned subsidiary of KKP, the company also receives funding supports from its parent company that provides a long-term credit facility that serves as an additional source of funds. The group’s recent brand alignment for all subsidiaries as “Kiatnakin Phatra”, has also strengthened KKPS’s (formerly Phatra Securities PLC) link to the group.

Strong franchise in capital market business

KKPS continues to maintain its solid franchise in the securities business. For the first six months of 2020 (1H2020), the company ranked fourth among peers in terms of securities brokerage revenue share with 5.8% share. The company also ranked sixth for derivatives brokerage revenue share with 5.8% for 1H2020.

The increased collaboration between KKP and KKPS via shared financial targets and customer base as well as product cross selling has helped support the growth of KKPS’s wealth management business. Asset under advisement (AUA) rose by 4% to THB598 billion at the end of 2020. For the investment banking (IB) business, the company remained in the top three in terms of revenue share despite the unfavorable market condition for the business. This is also a result of collaboration between KKP’s corporate banking business and KKPS’s IB unit.

We expect the company to maintain its solid business position in the securities brokerage business, supported by improved sales productivity, advisory capabilities as well as product breadth and research capabilities.

Significant earnings contribution to group

The company’s strong earning capability has been an important factor in supporting KKPS’s status as a core member of the KKP Group. KKPS’s revenue has represented about 20% of the Group’s consolidated revenue under KKP over the past few years, which we view as a significant revenue contribution. In terms of profit, it represents about 24% of KKP’s consolidated net profit in

2020. We expect KKPS's earnings to remain strong thanks to its business expansion, well-controlled operating costs, and synergies among subsidiaries under KKP. For the year 2020, the company's ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) was 4.7%, an improvement from 3.5% in 2019.

Risk management aligned to group

The company's risk management policies are aligned with those of KKP, which is regulated by the Bank of Thailand (BOT). The policies and management of credit risk and market risk are monitored by the group risk management committee. In terms of market risk, the company follows the group policies of pursuing low-risk trading strategies (such as the arbitrage trading strategy that does not closely track market directions) to control its exposure in investment and trading activities.

Consistent funding support from KKP

The company's adequate funding and liquidity profile is mainly supported by ongoing financial supports from KKP, in the form of credit lines. In addition, the company also has credit facilities from other financial institutions. At the end of January 2021, the company had credit facilities totaling THB3.1 billion, in addition to the credit line provided by KKP. The total amount of available credit facilities should be sufficient to fund the company's operations and cover any liquidity shortfalls should they occur.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that KKPS will remain a core subsidiary of KKP.

RATING OUTLOOK

The "stable" outlook reflects our expectation that KKPS will maintain its status as a core subsidiary of KKP and continue to receive strong supports from its parent bank.

RATING SENSITIVITIES

The rating and/or outlook of KKPS could be revised upward or downward should there be any changes in KKP's credit profile or if TRIS Rating perceives any significant changes in the degree of support KKPS receives from KKP, or if there are any changes in KKPS's status relative to other subsidiaries or affiliates of KKP.

COMPANY OVERVIEW

PHATRA was spun off from Phatra Thanakit in 1997, becoming a 99.99% owned subsidiary of Phatra Thanakit. Prior to the spin-off, its securities business had been conducted as a department within Phatra Thanakit since 1975. In 1998, PHATRA changed its name to Merrill Lynch Phatra Securities Co. after Merrill Lynch & Co. (ML) and Kasikorn Bank (KBANK) acquired 51% and 49% stakes in PHATRA, respectively. The company changed its name back to Phatra Securities when ML and KBANK sold their combined stakes in Merrill Lynch Phatra Securities to the current management team, employees, and selected investors in 2003. PHATRA became a public company and its shares were listed on the Stock Exchange of Thailand (SET) in 2005.

PHATRA has collaborated with ML since 2003. The alliance covers research, securities brokerage, and investment banking. In 2010, the company restructured. Phatra Capital was set up as a holding company and the Direct Investment (DI) portfolio was transferred from Phatra Securities to the newly set-up Phatra Capital. Phatra Capital was listed on the SET in place of Phatra Securities. The restructuring had three goals: to separate the risks of the agency business and the principal investment business, to give PHATRA more flexibility for future expansion efforts and strategic partnership opportunities, and to minimize conflicts of interest between the agency and principal investment businesses.

As of May 2015, Phatra Capital held a 99.9% stake in Phatra Securities. Before the merger with KKP, PHATRA's expansion efforts were constrained by limitations on capital, size, and business scope inherent in PHATRA's securities business license. The development of, and competition in, the country's and the region's financial markets threatened PHATRA's long-term competitive position. As a result, in April 2012, PHATRA's shareholders approved the merger with KKP at the annual general meeting. In September 2012, the merger was successfully completed. KKP now holds 99.9% of Phatra Capital.

In August 2020, the company’s name was changed to Kiatnakin Phatra Securities Public Company Limited (KKPS), following the name change of its parent company to Kiatnakin Phatra Bank PLC (KKP), to reflect seamless integration within the financial group.

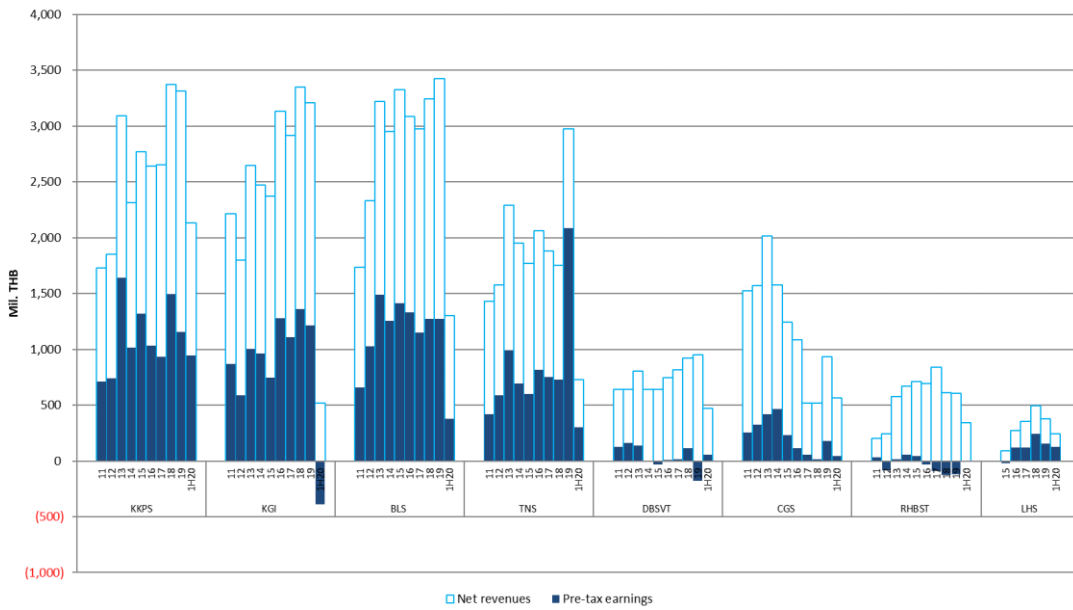
Chart 1: KKP Group’s Structure as of 31 Dec 2020



Source: KKPS

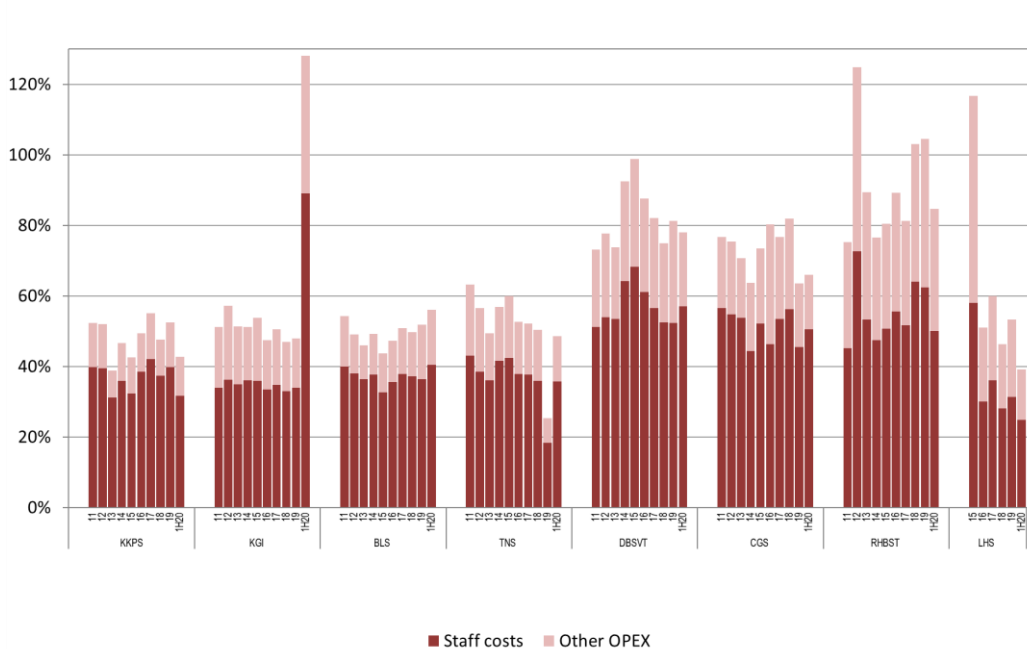
KEY OPERATING PERFORMANCE

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

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total assets	14,814	20,672	15,957	20,750	21,506
Net Investment in securities	4,666	9,361	5,271	10,727	11,574
Total securities business receivables and accrued interest receivables	6,838	4,620	4,213	4,741	7,593
Allowance for doubtful accounts*	-	-	-	-	-
Total debts	1,853	8,949	3,058	8,154	6,978
Shareholders' equity	5,467	5,312	6,100	5,653	5,799
Net securities business income	3,145	2,744	2,971	2,312	2,256
Total income	3,954	3,390	3,549	2,803	2,748
Operating expenses	1,832	1,756	1,604	1,459	1,306
Interest expenses	52	77	177	151	108
Net income	1,217	926	1,197	738	828

Unit: %

	-----Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Profitability					
Brokerage fees/total revenues	41.9	40.7	36.3	45.7	49.3
Fees and services income/total revenues	25.4	32.0	31.1	31.5	18.2
Gain (loss) from trading/total revenues	19.3	9.7	10.7	5.6	18.9
Operating expenses/net revenues	46.9	53.0	47.6	55.0	49.5
Pre-tax margin	39.1	34.8	44.4	35.1	39.1
Return on average assets	6.9	5.1	6.5	3.5	3.9
Earning before tax/risk-weighted assets	4.7	3.5	4.1	1.9	2.2
Asset Quality					
Classified receivables/gross securities business receivables	0.0	0.0	0.0	0.0	0.0
Allowance for doubtful accounts*/gross securities business receivables	0.0	0.0	0.0	0.0	0.0
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
Capitalization					
Leverage ratio	30.2	21.2	30.8	23.7	27.0
Risk-adjusted capital	15.3	12.1	16.6	11.3	11.0
Funding and Liquidity					
Gross stable funding ratio	195.1	152.6	213.4	141.9	130.5
Liquidity coverage metric	2.1	1.0	1.7	0.9	1.2

* Allowance for impairment losses under TFRS 9

RELATED CRITERIA

- Group Rating Methodology, 13 January 2021

Kiatnakin Phatra Securities PLC (KKPS)

Company Rating:	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

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