

# LAND AND HOUSES SECURITIES PLC

No. 29/2022  
17 March 2022

## FINANCIAL INSTITUTIONS

Company Rating: BBB  
Outlook: Stable

Last Review Date: 09/03/21

### Company Rating History:

Date	Rating	Outlook/Alert
09/03/21	BBB	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Land and Houses Securities PLC (LHS) at “BBB” with a “stable” outlook. The rating incorporates a three-notch group rating enhancement from LHS’s stand-alone credit profile (SACP) assessed at “bb”. The enhancement reflects our assessment of LHS’s status as a strategically important subsidiary of LH Financial Group PLC (LHFG).

The company’s SACP also considers the company’s modest market position in the securities business, reliance on investment income, moderate capitalization and earnings, adequate risk profile, and sufficient funding and liquidity.

## KEY RATING CONSIDERATIONS

### A strategically important subsidiary of LHFG

Our view on LHS’s group status is supported by LHFG’s full ownership of the company. LHS’s business policies, investment policies as well as risk management policies are also determined and closely monitored by LHFG. LHS is also a part of the group strategy, serving as a securities arm to provide capital market services for the group’s client base and collaborating with the group’s subsidiaries, Land and Houses Bank PLC (LHBANK) and LH Fund Management Co., Ltd. (LHFUND), to cross sell products and services to clients.

Capital injections in 2020 and credit facilities from LHBANK demonstrate the group’s long-term commitment to providing financial support for the company. LHS’s reputation is also closely linked with the group’s reputation given the shared brand name. In our view, for LHS’s group status to attain a stronger assessment, the company needs to strengthen its role under LHFG’s plan as a provider of universal financial services. This may be achieved by exhibiting stronger market presence in its securities brokerage business with a significantly higher revenue contribution to the group, and more robust collaborations with the group.

### Market presence in securities brokerage remained modest

LHS’s market position in the securities brokerage business remained modest despite a 25% increase in brokerage revenue in 2021. Relative to its peers, the company’s securities brokerage revenue share was 0.7% for the first six months of 2021 (6M2021), ranked 32<sup>nd</sup> of 38 brokerage firms in the industry. Its derivatives brokerage revenue share also remained at 0.4% for 6M2021, ranked 32<sup>nd</sup> among its peers. Its less robust capabilities to provide brokerage services, compared with peers, remain a constraint to its competitive position and ability to attract new clients onto its platform.

Nonetheless, we expect the company’s market position in the securities brokerage business to gradually improve over the next few years due to expected ongoing developments in group collaborations. For example, the company showed improvement in underwriting fees in 2021, increasing to THB5 million from THB0.8 million in 2020, which was partly thanks to business referrals from LHBANK. With other prospective collaborations in the pipeline and ongoing efforts to offer products and services that align with the demands of the group’s client base, we expect the company’s business volumes and market presence in the securities brokerage business to gradually strengthen over the medium term.

## Reliance on investment income

The company's reliance on interest and dividend income from investment portfolios as a major revenue source remains a rating constraint. Revenue concentration could potentially lead to less stable and predictable revenues particularly in adverse market and economic conditions. Nonetheless, we expect its revenue diversification to gradually improve in the longer term due to planned business expansion and group collaborations. For 2021, revenue contribution from brokerage fees improved to 37% of total revenue from 33% in 2020 thanks to the revenue growth of the securities brokerage business. The revenue contribution from interest and dividend income also decreased to 48% in 2021 from 60% in 2020. Successful and meaningful revenue diversification, especially towards more contributions from the securities brokerage business would be positive for the company's business position.

## Moderate capital, leverage, and earnings

The company's capital and leverage position, as measured by the risk-adjusted capital (RAC) ratio, improved to 6.8% in 2021 from 5.8% in 2020 thanks to capital accretion and the limitation of the investment portfolio expansion. We expect the continuous profit accumulation, conservative dividend policy, and limitation of investment portfolio to help strengthen the company's RAC ratio gradually over the next few years.

The company's earnings capacity remains moderate with an expected ratio of earnings before taxes to average risk-adjusted assets (EBT/ARWAs) of around 0.8% over the next few years. For 2021, its EBT/ARWAs marginally increased to 0.8% from 0.7% in 2020 due to improvement in brokerage income. The company also keeps its operating costs well under control. For the first six months of 2021, operating expenses to net revenue was 37.5%, lower than the industry average of 51.2%. We expect earnings improvement from ongoing business expansion and group collaborations as well as effective cost control to underpin its earnings capacity over the medium term.

## Adequate risk profile

We assess the company's risk profile as adequate as it continues to comply with the risk control policies of LHFG, a financial group regulated by the Bank of Thailand (BOT). We also expect the company to maintain its prudent credit underwriting standards and strict margin maintenance policy. This should help preserve its asset quality over the next few years. For 2021, the company did not incur additional credit loss. We also expect market risk to remain under control as the company adheres to LHFG's policies to limit investment portfolio expansion. At the end of December 2021, the company's total investments were THB4.3 billion, similar to last year.

## Sufficient funding and liquidity profile

We assess the company's funding and liquidity profile as adequate as we believe the company is likely to receive ongoing financial supports from LHFG. The company has continued to receive credit facilities from LHBANK, which help enhance its financial flexibilities. At the end of December 2021, the company had credit lines totaling THB6.8 billion, 95% of which were provided by LHBANK. The company was also able to access alternative funding by issuing bill of exchange (B/E) to LHBANK's corporate clients, thanks to combined efforts within the group.

## Performance of securities brokerage firms buoyed by stronger trading volume in 2021

Thailand's stock market rapidly recovered from the second half of 2020 onwards, resulting in a sharp increase in average daily trading value in 2021. As a result, securities brokerage firms in our database reported an aggregate 106% revenue growth during 2021, compared with the same period in 2020. The impact from new waves of the COVID-19 outbreaks on market sentiment and trading volume thus far has been limited. Daily average trading value remained strong at THB93.8 billion in 2021 compared with THB68.6 billion during the same period in 2020. Market volatility increased in 2020-2021. This is likely to continue in 2022 due to the outbreak of Omicron and the geopolitical risk from the Russia-Ukraine war.

## BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for LHS's operations in 2022-2024 are as follows:

- Market share in securities trading value to be around 0.6%.
- Average commission rate to be maintained at approximately 10 bps.
- Ratio of operating expenses to net revenue to hover around 40%.

## RATING OUTLOOK

The "stable" outlook reflects our expectation that LHS will remain a strategically important subsidiary of LHFG and will continue to receive financial and/or business support from LHFG. The outlook is also based on our expectation that LHS will gradually improve its revenue contribution from the securities business while maintaining sound financial performance and capitalization.

**RATING SENSITIVITIES**

An upside on LHS’s standalone credit profile could materialize if recurring revenue from its core securities business improves significantly, and its RAC ratio rises above 6% for a sustained period. Conversely, the rating and/or outlook could be revised downward if the company’s financial performance deteriorates significantly, and its RAC falls below 3% for two consecutive years.

The rating and/or outlook may also be revised should there be any changes in TRIS Rating’s view of the group status of LHS to LHFG.

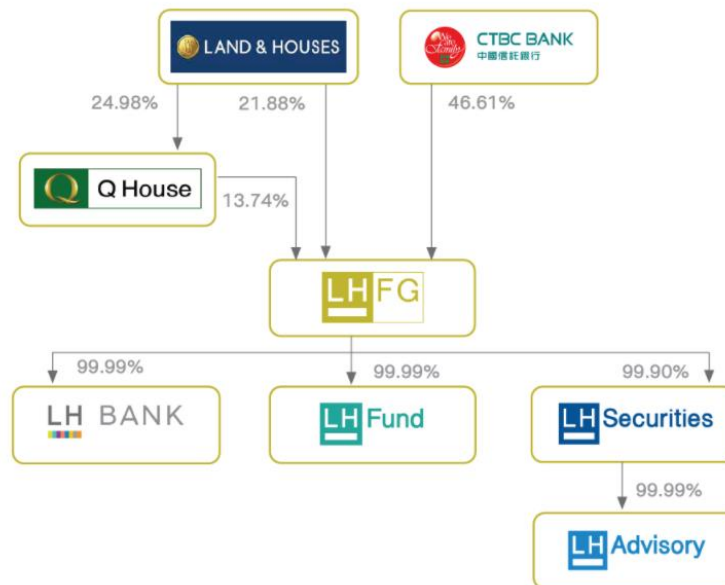
**COMPANY OVERVIEW**

LHS was formerly CIMB Securities International Ptd., Ltd. (CSI). After acquiring SICCO Securities PLC, which was established on 28 October 1998, CSI changed its name to CIMB Securities International (Thailand) PLC (CIMBI) in September 2011. All CIMBI’s businesses were then transferred to CIMB Securities (Thailand) Co., Ltd. (CIMBS) to integrate all resources, including brokerage accounts, and expand its business.

LHFG then purchased 99.8% paid-up capital of CIMBI and 99.9% paid-up capital of CIMB Advisory (Thailand) Co., Ltd. via CIMBI on 22 January 2014. On 17 April 2014, the company’s name was changed to Land and Houses Securities PLC (LHS), and the BOT allowed the company to be included in the financial business group on 15 January 2014. LHS started operating under the new name on 29 September 2014.

In March 2020, LHS increased its registered shares by 637,215,030 shares, increasing its total registered shares to 1,274,430,030 shares at par value of THB1 per share. The company then sold additional shares to its existing shareholders at THB1.5 per share, raising its registered capital to THB1,274,430,030.

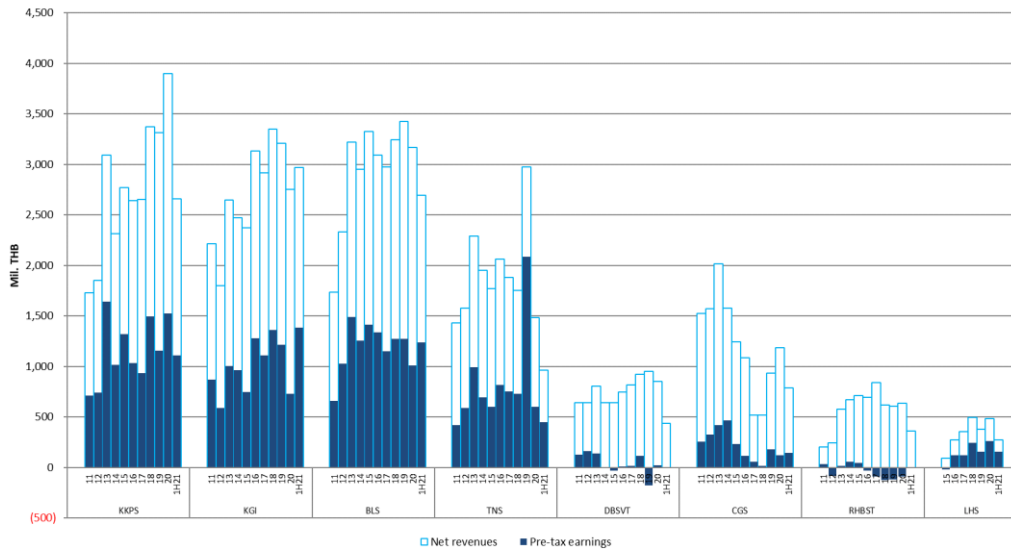
**Chart 1: LHFG Group Structure as of Dec 2021**



Source: LHS

**KEY OPERATING PERFORMANCE**

**Chart 2: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2021**



Source: Financial statements of each company

**Chart 3: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H2021 (% of Net Revenues)**



Source: Financial statements of each company

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Mil. THB*

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total assets	6,648	5,680	6,735	4,103	3,588
Net Investment in securities	4,286	4,053	5,769	2,883	2,031
Total securities business receivables and accrued interest receivables	2,035	1,291	735	1,040	1,347
Allowance for doubtful accounts*	-	8	3	-	-
Total debts	7,139	3,840	5,412	2,600	1,900
Shareholders' equity	1,985	1,511	1,220	1,264	1,240
Net securities business income	508	451	359	470	332
Total income	628	570	505	565	384
Operating expenses	210	188	202	228	212
Interest expenses	74	90	125	73	31
Net income	274	220	142	209	105

*Unit: %*

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
<b>Profitability</b>					
Brokerage fees/total revenues	37.3	32.8	26.3	29.2	37.3
Fees and services income/total revenues	1.0	0.3	0.5	0.2	0.4
Gain (loss) from trading/total revenues	0.3	0.0	1.8	27.4	28.1
Operating expenses/net revenues	37.9	39.1	53.3	46.3	59.9
Pre-tax margin	56.7	54.1	40.9	49.4	34.4
Return on average assets	4.4	3.6	2.6	5.4	3.7
Earning before taxes/risk-weighted assets	0.8	0.7	0.5	1.4	1.1
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	1.1	1.8	3.5	0.0	0.0
Allowance for doubtful accounts*/gross securities business receivables	0.0	0.6	0.4	0.0	0.0
Credit costs (reversal)	(0.5)	0.5	0.3	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	37.8	38.2	21.6	32.8	31.6
Risk-adjusted capital	6.8	5.8	3.4	6.2	8.1
<b>Funding and Liquidity</b>					
Gross stable funding ratio	62.7	55.3	35.7	63.4	73.1
Liquidity coverage metric (times)	0.5	0.5	0.6	0.6	0.6

\* Allowance for impairment losses under TFRS 9

**RELATED CRITERIA**

- Group Rating Methodology, 13 January 2021
- Securities Company Rating Methodology, 9 April 2020

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**Land and Houses Securities PLC (LHS)**

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<b>Company Rating:</b>	BBB
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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