

# RHB SECURITIES (THAILAND) PLC

No. 60/2020  
27 April 2020

## FINANCIAL INSTITUTIONS

Company Rating: AA-  
Outlook: Stable

Last Review Date: 26/04/19

### Company Rating History:

Date	Rating	Outlook/Alert
14/03/18	AA-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on RHB Securities (Thailand) PLC (RHBS) at “AA-” with a “stable” outlook. RHBS’s rating incorporates a rating enhancement to reflect its status as a highly strategic subsidiary of RHB Bank Berhad (RHB Bank) (rated “AA/Stable” by TRIS Rating), Malaysia’s fourth largest banking group. RHBS’s stand-alone credit profile is based on its modest market position in securities business and diversified revenue mix, adequate capital, leverage, and earning assessment, manageable exposure to market and credit risk, and sufficient funding and liquidity.

## KEY RATING CONSIDERATIONS

### A highly strategic subsidiary of RHB Bank Group

TRIS Rating views RHBS as a highly strategic subsidiary of the RHB Bank Group (comprising RHB Bank and its subsidiaries). The company is 99.9% owned by RHB Investment Bank Berhad (RHBIB), which in turn is a wholly-owned core subsidiary of RHB Bank. RHBS is part of RHB Bank Group’s regional investment banking franchise and has continued to receive both business and financial support from the RHB Bank Group. The company also operates under the Group’s integrated risk management systems and operating platforms. In terms of financial support, the company has accessed to Bt489 million credit facilities from RHB Bank (Bangkok branch) and US\$30 million of credit lines from RHB Bank (Labuan), which have helped enhance the company’s financial flexibility.

### Modest market position in securities business with diversified revenue mix

The company has small market presence in the securities business, and this is likely to remain so in the medium term as it is still in the early stage of building its client base. For the first six months of 2019, it ranked 26<sup>th</sup> in terms of securities brokerage revenue among 38 brokers with a share of 1.3%. Its derivatives brokerage revenue share also remained small ranking 17<sup>th</sup> with a share of 2.3%.

As for business diversity, the company’s revenue mix is considered diversified relative to peers. For the first six months of 2019, its brokerage fee revenue accounted for 51% of total revenue, in line with the industry average of 54%. Its fee and service income contributed 7% and trading gains contributed 17% of total revenue, compared with the industry average of 14% and 11%, respectively. In our view, the structure indicates that the company does not overly rely on brokerage fee as a revenue source compared with peers. We expect its revenue mix to remain relatively diversified as the company continues to expand products that cater to market preference, such as single stock futures (SSF), while maintaining its brokerage fee base.

### Adequate capital, leverage, and earnings assessment

We assess RHBS’s overall capital, leverage, and earnings (CLE) position at an adequate level. This is premised on a combination of strong capital and leverage as well as weak earnings capabilities.

We expect the company to maintain strong capitalization based on our projected risk-adjusted capital ratio (RAC) of around 14%-18% in 2020-2022. However, we expect earnings to remain constrained by its low average commission rate that tends to limit brokerage revenue growth despite expanding client base. At the same time, revenues from other business lines

are expected to improve only gradually given an intense price competition in the industry. Its relatively high operating cost is also expected to weigh on profitability. For the first six months of 2019, the ratio of operating expenses to net revenues increased to 100.6%, compared with 81.2% in 2017 and the industry average of 72.2%. As a result, we expect RHBS's earnings before tax to risk-weight assets (EBT/RWAs), one of our earnings capability metrics, to remain weak at around -1% to -2% over the next few years.

#### **Manageable exposure to market and credit risks**

The company's exposure to market risk is manageable, in our view, as its proprietary trading activities are only for hedging the derivative products offered by the company. The company's exposure to credit risk is also controllable, thanks to its improved risk control policies as well as its compliance to the risk management policies of the RHB Bank Group that should help prevent potential credit losses as seen in the past. In 2019, its margin loan outstanding remained moderate at Bt1.2 billion or equivalent to 0.7 times its shareholders' equity and 1.9% of industry. The company did not report any additional bad debt expense in 2019.

#### **Sufficient funding and liquidity**

The ongoing financial supports in the form of credit lines from RHB Bank (Bangkok branch) underpin its funding and liquidity profiles. In addition, the company is considered to have a well-matched funding mix relative to its funding needs as assessed by a gross stable funding ratio (GSFR) of around 122% on a 5-year average. The ratio compares equity base with stable funding needs.

The company is also considered to have sufficient liquidity to cover any temporary liquidity shortfall at the current scale of operations, as it has additional credit facilities from several financial institutions, which help enhance the company's liquidity in times of need. We expect the company's liquidity coverage ratio (LCM), which compares broad liquid assets to liquidity needs, to be around 0.8 times on a 5-year average, suggesting an adequate liquidity assessment according to our benchmark.

#### **BASE-CASE ASSUMPTIONS**

TRIS Rating's base-case assumptions for RHBS during 2020-2022 are as follows:

- Market share by securities trading value to stay around 1.6%-1.7%.
- Average commission rate to maintain at around 7 basis points (bps).
- Ratio of operating expenses to net revenues to be around 100%-110%.

#### **RATING OUTLOOK**

The "stable" outlook reflects our view that RHBS will maintain its status as a highly strategic subsidiary of the RHB Bank Group and continue to receive strong support from its parent bank.

#### **RATING SENSITIVITIES**

The rating and/or outlook could be revised upward or downward should there be any changes in the RHB Bank Group's credit profile or if we perceive any significant changes in the degree of support RHBS receives from the Group or if there are any changes in RHBS's status relative to other subsidiaries or affiliates of the Group.

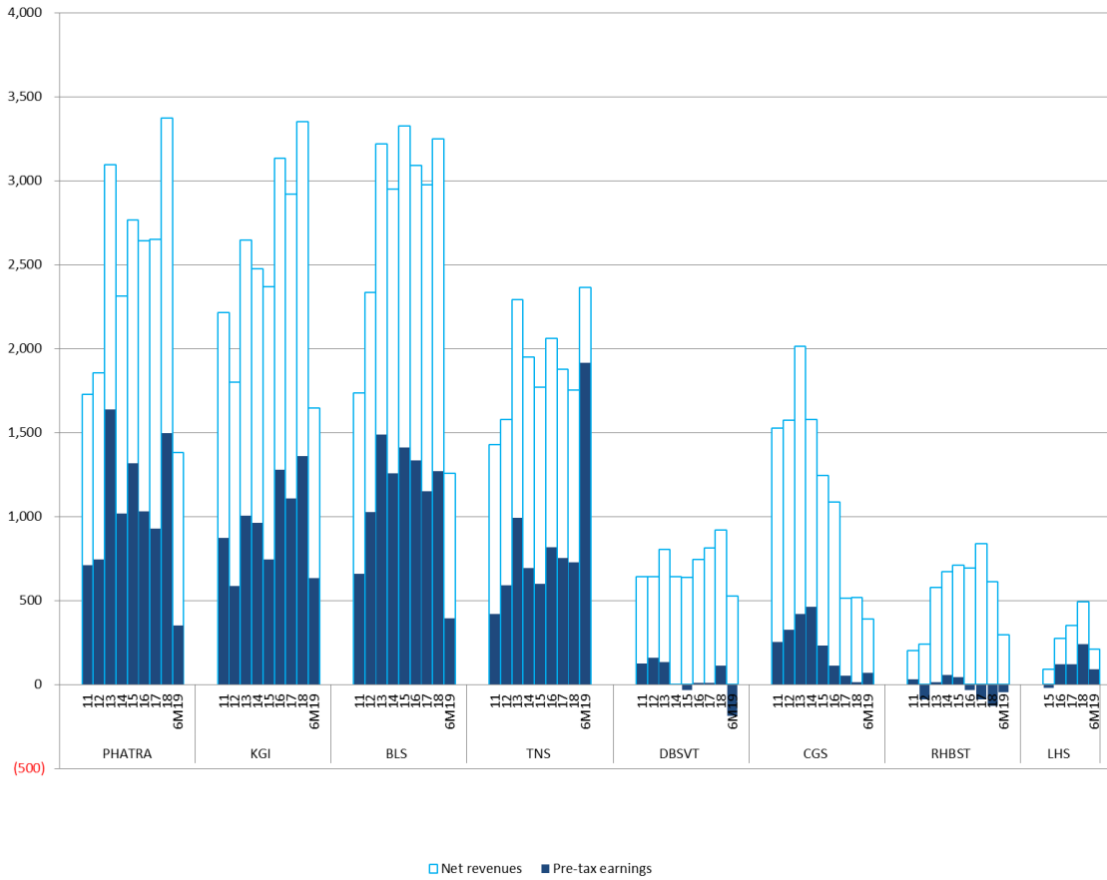
#### **COMPANY OVERVIEW**

RHBS is 99.9% owned by RHBIB, a wholly-owned investment banking arm of RHB Bank. RHB Bank is the fourth largest commercial bank by asset size among the total eight local banks in Malaysia. Apart from commercial banking and investment banking businesses, the RHB Bank Group also has significant operations in insurance and asset management businesses through its subsidiaries, which altogether referred to as the RHB Bank Group. RHB Bank is rated "AA" with a "stable" outlook by TRIS Rating, and is rated "BBB+" with a "stable" outlook by S&P Global Ratings. RHBIB receives the same rating and outlook from S&P Global Ratings, reflecting its status as a "core" subsidiary of the RHB Bank.

RHBS was established in 2000 as BFIT Securities PLC, and was listed on the Stock Exchange of Thailand (SET) in 2004. In 2011, the company was renamed OSK Securities (Thailand) PLC, after OSK Investment Bank Berhad, Malaysia, acquired a 49.8% equity stake in the company. In 2013, the company was delisted from the SET after RHB Capital Berhad became its major shareholder. In 2015, following an internal restructuring at the RHB Group level, the company was renamed RHB Securities (Thailand) PLC. With the operational integration which started in 2014, RHBS now operates as part of RHBIB's operating platform with integrated risk management and control.

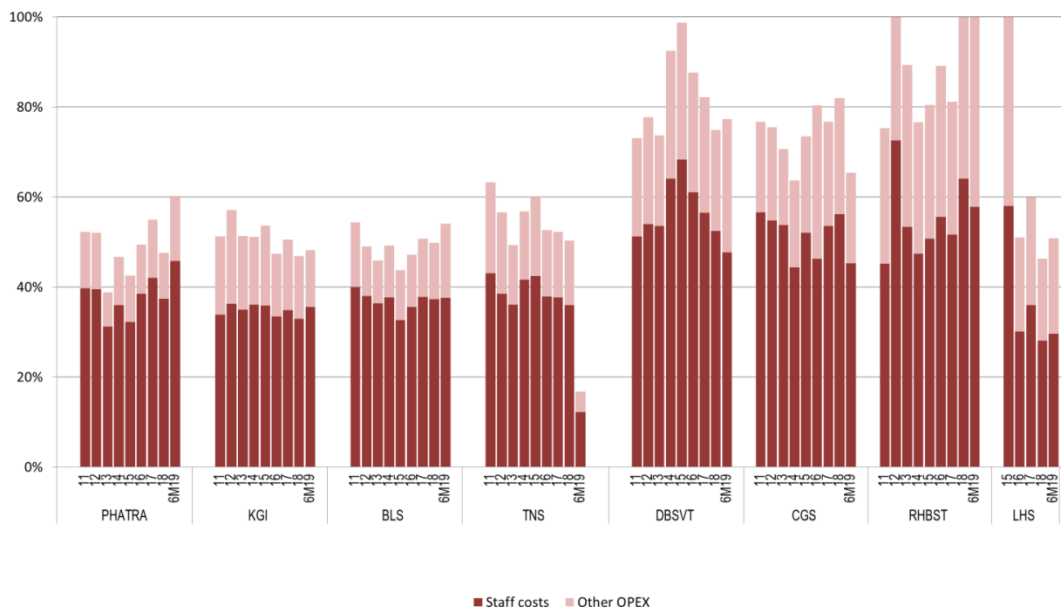
**KEY OPERATING PERFORMANCE**

**Chart 1: Net Revenues and Pre-tax Earnings of Selected Brokers in 2011-1H2019**



Sources: Financial statements of each company

**Chart 2: Staff Cost and Other Operating Expenses of Selected Brokers in 2011-1H2019 (% of Net Revenues)**



Sources: 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	4,746	4,449	5,266	6,081	4,693
Net Investment in securities	1,801	521	863	1,821	649
Total securities business receivables and accrued interest receivables	2,046	2,249	3,467	2,721	2,296
Allowance for doubtful accounts	127	127	127	0	0
Total debts	2,171	1,750	1,790	2,584	1,366
Shareholders' equity	1,770	1,907	2,025	2,105	2,135
Net securities business income	497	492	708	571	595
Total income	676	684	926	750	774
Operating expenses	630	633	680	612	571
Interest expenses	73	69	88	58	64
Net income	(137)	(128)	(80)	(30)	41

Unit: %

	-----Year Ended 31 December -----				
	2019	2018	2017	2016	2015
<b>Profitability</b>					
Brokerage fees/total revenues	53.7	61.1	50.8	52.1	43.1
Fees and services income/total revenues	7.7	4.7	10.2	4.2	6.7
Gain (loss) from trading/total revenues	13.5	9.0	16.8	20.0	16.6
Operating expenses/net revenues	104.6	103.1	81.2	88.4	80.4
Pre-tax margin	(19.6)	(20.4)	(10.7)	(4.9)	6.3
Return on average assets	(3.0)	(2.6)	(1.4)	(0.6)	0.9
Earning before tax/risk-weighted assets	(1.2)	(1.9)	(0.9)	(0.3)	0.6
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	6.2	5.7	3.7	0.0	0.0
Allowance for doubtful accounts/gross securities business receivables	6.2	5.7	3.7	0.0	0.0
Credit costs (reversal)	0.0	0.0	4.2	0.0	(0.1)
<b>Capitalization</b>					
Leverage ratio	37.3	42.9	38.5	34.6	45.5
Risk-adjusted capital	18.7	28.9	21.2	19.2	30.3
<b>Funding and Liquidity</b>					
Gross stable funding ratio	135.9	174.2	126.0	120.7	167.8
Liquidity coverage metric (times)	0.8	1.0	0.7	0.7	0.9

**RELATED CRITERIA**

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

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**RHB Securities (Thailand) PLC (RHBS)**

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<b>Company Rating:</b>	AA-
<b>Rating Outlook:</b>	Stable

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**TRIS Rating Co., Ltd.**

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