

RHB SECURITIES (THAILAND) PLC

No. 131/2024
31 July 2024

FINANCIAL INSTITUTIONS

Company Rating: AA-
Outlook: Stable

Last Review Date: 31/07/23

Company Rating History:		
Date	Rating	Outlook/Alert
14/03/18	AA-	Stable

Contacts:

Pawin Thachasongtham
pawin@trisrating.com

Jantana Taveeratanasilp
jantana@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Narumol Chamchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating on RHB Securities (Thailand) PLC (RHBS) at “AA-” with a “stable” outlook. The rating mainly reflects the company’s status as a ‘highly strategic’ subsidiary of the RHB Group, whose main operating entity is RHB Bank Berhad. The rating on RHBS is one notch below the group credit profile (GCP) of RHB Group, assessed at “aa”.

KEY RATING CONSIDERATIONS

Rating underpinned by group status

We assess RHBS as a “highly strategic” subsidiary within the RHB Group. The company is 99.9% owned by RHB Investment Bank Berhad (RHBIB), the wholly-owned investment banking (IB) arm of RHB Bank Berhad. The company also benefits from sharing the group’s brand name and reputation.

RHBS plays a key role in the group’s strategy for expansion in Southeast Asia. The RHB Group has established a regional presence across Malaysia, Singapore, Indonesia, Thailand, Brunei, Cambodia, and Laos. In Thailand specifically, RHB Bank Berhad Thailand (rated “AA/Stable”) operates as a local branch, offering loans to Thai corporates and SMEs, as well as Malaysian businesses with operations in Thailand.

RHBS serves as the group’s gateway to the Thai capital market, offering a diverse range of financial products and services. These include equity and derivative brokerage, IB services, and fixed income products.

RHBS functions within the framework of the group’s integrated risk policies, utilizing matrix reporting lines. The composition of RHBS’s board of directors reflects the strong group oversight, with four out of the five board members, including the chairman, being representatives from RHBIB.

Modest share in brokerage with sizeable margin loans

In 2023, RHBS held a 1.0% revenue market share in securities brokerage and 1.8% in derivatives brokerage in Thailand. Given the highly competitive landscape, we anticipate these shares will remain modest. This situation mirrors that of most securities brokerage firms, whose revenue market shares typically fall below 2%. The nature of fragmented market contributes to this, with the top 10 brokers collectively commanding over 60% of the market share.

Despite its modest market share, RHBS’s margin loan portfolio reached THB 2.1 billion by the end of 2023. The company was in the mid-tier among its domestic competitors in margin loan business.

Ongoing financial support from RHB Group

We expect RHB Group will continue to provide timely support to RHBS when needed in the foreseeable future. This includes ongoing financial support and credit facilities to ensure financial flexibility for RHBS’s operations.

At the end of March 2024, the company’s credit lines from RHB Bank Berhad (Labuan) was USD40 million. Additionally, RHB Bank Berhad Thailand provides credit facilities of THB460 million to RHBS.

RHBS also had available credit facilities of around THB1.65 billion from various financial institutions. In our view, this should be sufficient to fund the company’s operations and cover liquidity needs over the next 12 months.

Weak financial performance

RHBS's financial performance has declined for several years, a trend observed across many securities brokerage firms in Thailand. This downturn has largely resulted from a significant reduced trading volume in the Thai market, particularly pronounced in 2023 and year-to-date. The company reported a net loss of THB107 million in 2023, an increase from the THB81 million net loss in 2022. Despite efforts to reduce overall expenses in recent years, the rate of revenue decline has outpaced these cost-cutting measures.

We maintain our view that RHBS remains an important subsidiary of RHBIB and RHB Group, notwithstanding its recent weak financial performance. The company remains one of the major revenue contributors outside of Malaysia. However, we acknowledge that if this downward trend persists or intensifies, it could potentially impair RHBS's ability to contribute meaningfully to the group's overall financial and strategic goals. Such a scenario might result in a diminished role for RHBS within the larger group structure.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumption is that RHBS will remain a highly strategic subsidiary of the RHB Group.

RATING OUTLOOK

The "stable" outlook reflects our view that RHBS will maintain its status as a highly strategic subsidiary of the RHB Group, whose main operating entity is RHB Bank Berhad in Malaysia and will continue to operate as an integral part of and receive strong support from the group.

RATING SENSITIVITIES

The rating and/or outlook could be revised upward or downward should there be any changes in RHB Bank Berhad's credit profile or if there is any change in our view on RHBS's importance and role to the RHB Group.

COMPANY OVERVIEW

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

RHBS was established in 2000 as BFIT Securities PLC and 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 internal restructuring at the RHB Group level, the company was renamed RHB Securities (Thailand) PLC (RHBS). Following integration which started in 2014, RHBS is now a part of RHBIB's operating platform with integrated risk management and control.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Total assets	3,103	4,431	3,402	4,254	4,746
Net investment in securities	323	620	709	1,489	1,801
Total securities business receivables and accrued interest receivables	2,327	3,492	2,192	2,142	2,046
Allowance for doubtful accounts*	1	130	132	138	127
Total debts	1,250	2,218	810	1,300	2,171
Shareholders' equity	1,515	1,616	1,697	1,684	1,770
Net securities business income	302	356	585	525	502
Total income	436	476	686	664	676
Operating expenses	425	469	602	612	630
Interest expenses	74	37	21	30	73
Net income	(107)	(81)	(2)	(86)	(137)

Unit: %

	-----Year Ended 31 December -----				
	2023	2022	2021	2020	2019
Profitability					
Brokerage fees/total revenues	48.0	64.3	72.4	71.6	53.7
Fees and services income/total revenues	2.1	2.3	8.3	10.9	8.5
Gain (loss) from trading/total revenues	7.2	(2.6)	1.2	2.3	13.5
Operating expenses/net revenues	117.4	106.9	90.6	96.5	104.6
Pre-tax margin	(29.8)	(18.4)	(0.9)	(14.1)	(19.6)
Return on average assets	(2.8)	(2.1)	(0.1)	(1.9)	(3.0)
Earning before tax/risk-weighted assets	(1.4)	(1.0)	(0.1)	(1.0)	(1.5)
Asset Quality					
Classified receivables/gross securities business receivables	0.1	3.7	6.0	6.4	6.2
Allowance for doubtful accounts*/gross securities business receivables	0.1	3.7	6.0	6.4	6.2
Credit costs (reversal)	(0.0)	(0.1)	(0.3)	0.5	0.0
Capitalization					
Leverage ratio	48.8	36.5	49.9	39.6	37.3
Risk-adjusted capital	23.85	17.53	24.0	20.0	18.7
Funding and Liquidity					
Gross stable funding ratio	107.1	83.9	131.3	138.1	135.9
Liquidity coverage metric	0.3	0.3	0.7	1.1	0.8

* Allowance for impairment losses under TFRS 9

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022

RHB Securities (Thailand) PLC (RHBS)

Company Rating:	AA-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: +66 2 098 3000

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