

THANACHART BANK PLC

No. 21/2019

14 March 2019

FINANCIAL INSTITUTIONS

Company Rating:	AA-
Issue Ratings:	
Basel III tier-II	A
Outlook:	Stable

Last Review Date: 11/10/18

Company Rating History:

Date	Rating	Outlook/Alert
16/01/12	AA-	Stable
12/03/10	A+	Positive
04/04/08	A+	Stable
14/07/05	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Thanachart Bank PLC (TBANK) at "AA-" with "stable" outlook and affirms the ratings on TBANK's Basel 3-compliant Tier-2 debentures at "A". The rating action follows the signing of non-binding memorandum of understanding (MOU) by five parties including: TMB Bank PLC (TMB), TBANK, Thanachart Capital PLC (TCAP), ING Groep N.V. (ING), and Bank of Nova Scotia (BNS) on 26 February 2019 to proceed with a merger between TMB and TBANK.

Details of transaction

TMB estimates the total consideration at about Bt130-Bt140 billion. The transaction will be 70% equity-funded and 30% debt-funded (part of this may come from TMB's excess liquidity). The equity financing will derive from new share offering, comprising: 1) a rights offering to TMB's existing shareholders (Bt40-Bt45 billion); and 2) share offering to TCAP and BNS at 1.1 times TMB's book value post-recapitalization (Bt50-Bt55 billion).

According to the announced plan, the merger focuses on TBANK's banking business. TBANK is therefore required to divest its holding in most of its subsidiaries and other investments to TBANK's shareholders. According to the agreement, the divestments will be based on respective shareholding of TCAP and BNS (TCAP 51%; BNS 49%). The subsidiaries to be divested include mainly Thanachart Securities PLC (TNS; 100% owned), Ratchathani Leasing PLC (THANI; 65%), Thanachart Insurance Co., Ltd. (TNI; 100%), and TS Asset Management Co., Ltd. (TS AMC; 100%). TBANK is also required to downsize its business to be more comparable to that of TMB before the merger.

If the merger is successful, ING and TCAP are expected to hold more than 20% stake each in the combined bank. The Ministry of Finance (MOF) is expected to hold less than 20%, while BNS is likely to hold a minimal stake.

The due diligence will span over the next few months, and the share subscription is expected to complete by end-2019. The transaction remains to be approved by relevant regulators, including the MOF, the Bank of Thailand (BOT), and the Securities and Exchange Commission (SEC), as well as the shareholders of both banks.

RATING OUTLOOK

The "stable" outlook reflects our view that TBANK will maintain its strong competitive position in its core line of business in hire-purchase lending and continue to maintain its strong capital position, earnings capability, and asset quality.

RATING SENSITIVITIES

Any positive rating action will depend on TBANK's ability to substantially raise its competitive position through market share expansion, loan diversification, and funding capability. TBANK's credit profile could be negatively impacted if the bank's asset quality deteriorates or if its CET-1 weakens.

COMPANY OVERVIEW

TBANK was established in January 2002, through the merger of Ekachart Finance PLC and other financial institutions, after receiving a restricted commercial bank license from the MOF. In April 2002, the bank commenced operations, with paid-up capital of Bt8.1 billion. TBANK was subsequently upgraded to become a universal bank under a full banking license in March 2004.

As part of the Financial Sector Master Plan promulgated by the BOT, financial service conglomerates are required to reorganize in order to eliminate duplicate deposit-taking functions under the “one presence policy”. TCAP, rated “A+” with “negative” CreditAlert by TRIS Rating, formerly named National Finance PLC, together with TBANK, submitted to the MOF a reorganization plan for the Thanachart Group in mid-2004. After receiving the MOF’s approval in April 2005, all of TCAP’s financial service businesses were transferred to TBANK. TCAP became a non-operating holding company which owns TBANK. TBANK has served as a commercial bank, and has maintained its status as the core business of the Thanachart Group.

RELATED CRITERIA

- Commercial Banks, 30 March 2017
- Group Rating Methodology, 10 July 2015

Thanachart Bank PLC (TBANK)

Company Rating:	AA-
Issue Ratings:	
TBANK24DA: Bt13,000 million Basel III tier-II capital securities due 2024	A
TBANK25NA: Bt7,000 million Basel III tier-II capital securities due 2025	A
Rating Outlook:	Stable

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