

# THANACHART SECURITIES PLC

No. 174/2021  
15 October 2021

## FINANCIAL INSTITUTIONS

**Company Rating:** A-  
**Outlook:** Stable

**Last Review Date:** 25/03/21

### Company Rating History:

Date	Rating	Outlook/Alert
10/04/20	A-	Stable
14/03/19	A+	Alert Negative
28/04/15	A+	Stable
03/04/12	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Thanachart Securities PLC (TNS) at “A-”, with a “stable” outlook. The rating takes into account TNS’s status as a strategically important subsidiary of Thanachart Capital PLC (TCAP, rated “A/Stable” by TRIS Rating). The stand-alone credit profile (SACP) on TNS is at “a-”, reflecting its strong market position in the securities brokerage business, solid capitalization, decent earnings capacity, and prudent risk management policies. The SACP is constrained by the company’s relatively moderate revenue diversification, compared with its peers.

## KEY RATING CONSIDERATIONS

### A strategically important subsidiary of TCAP

We assess TNS as a strategically important subsidiary of TCAP. TCAP currently holds a 50.96% stake in TNS, with Scotia Netherlands B.V. (Scotia) owning the remainder. TCAP and Scotia each has one representative on the board of directors of TNS as non-independent directors out of a total of four non-independent directors. TNS operates under TCAP Group’s integrated governance framework like other subsidiaries of TCAP.

We also believe TNS is important to the group’s long-term strategy as the company plays an important role in fulfilling TCAP’s diversified financial business strategy. Other major financial businesses under TCAP include leasing, insurance, and distressed asset management. TNS also makes a significant revenue contribution to TCAP, representing 17% of TCAP’s consolidated revenue in 2020.

### Decent market position maintained

TNS’s revenue market share in securities brokerage has been on a declining trend but still indicates a reasonably strong market position in the business compared with other securities brokerage firms rated by TRIS Rating. Although its revenue market share continued to fall to 4% in 2020 from over the 4%-5% range in the past, we started to see some stabilization during the first half of 2021. TNS’s revenue market share in the first half of 2021 was at 3.7% compared with 3.8% in the second half of 2020. This has been a result of the lower portion of price-sensitive customers. With TNS’s prioritizing profitability over market share, we are of the view that the company is likely to maintain its business position based on revenue market share in the longer term.

### Local institutional segment remains TNS’s strength

In our view, TNS’s strength in securities brokerage is still in the local institutional investor segment. This is despite a declining in revenue market share since the change in Thanachart Group’s structure. The company’s competitive edge continues to be anchored by its quality research team and experienced sales capability. Although its volume market share in this segment dropped to the 6%-7% range in 2020 and the first half of 2021 due to lower volume from one of its key client, compared with a 10%-12% before the group restructuring, the figure still represents a top-three position among peers rated by TRIS Rating.

TNS’s focus over the past few years has been on enhancing its service capability provided to institutional clients to secure stronger trading volume. This has so far resulted in a gradual market share stabilization in local

institution segment. In the longer term, we expect this strategy will help preserve its strength in the institutional investor segment.

### **Improving revenue diversification**

We expect TNS's revenue diversification to gradually improve over the next few years which should help mitigate impact on revenue due to intense competition in the securities brokerage business. Currently, securities brokerage revenue accounted for 68% of its total revenue during the first half of 2021. Although this is lower than 74% during the first half of 2020, revenue concentration remains higher than peers, whose average revenue contribution from securities brokerage was 53.5% during the first half of 2021. TNS has been pursuing a revenue diversification strategy over the past few years by expanding towards non-cash equity businesses. These include investment advisory service, derivatives warrants (DW), margin lending, and mutual fund sales. The progress has been encouraging so far. For example, TNS's investment advisory, via its private fund management service, has tended to grow with a steady increase in asset under management, supported by TNS's research and investment management capability. At the end of June 2021, TNS's outstanding margin loans increased to THB4.4 billion from THB3 billion at the end of 2020, thanks to the increase in products on shelves.

### **Strong earnings capacity will continue to support robust capitalization**

We assess TNS's earnings capacity as strong given its solid risk-adjusted profitability, with 5-year average earnings before taxes to risk-weighted assets (EBT/RWA) estimated at over 4.35% (2019-2023). In our view, incremental revenues from the expansion into new businesses will likely support the strength and stability of TNS's earnings over the next few years despite stiff competition in the securities brokerage business. TNS also excels at cost controlling as the company focuses on high profitability businesses (e.g. institutional brokerage and investment advisory services) and cost rationalization. TNS's ratio of operating expenses to net revenue during the first half of 2021 was 44.1%, lower than the industry average of 50.7% during the same period.

In our opinion, TNS's strong earnings capacity will continue to support the company's robust capitalization, as measured by the risk-adjusted capital ratio (RAC ratio). We expect TNS's RAC ratio is likely to hover around 20.1% for the 5-year period (2019-2023), compared with 20.7% at the end of June 2021. We view the company's solid capitalization as a strong buffer to cope with unexpected operating losses that may develop as a result of market volatility. The company also posted a net capital ratio (NCR) of 77% at the end of June 2021, well above the regulatory requirement of 7%.

### **Prudent risk management policies**

We expect TNS to maintain its prudent risk management policies. In our view, the company's prudent risk management policies make the company less vulnerable to large losses given the heightened volatility of financial markets relative to peers. We believe TNS is appropriately managing both market and credit risks. TNS has minimal exposure to market risk as its proprietary trading activities are mainly for hedging its positions in the financial products it offers. Credit risk is also modest, with outstanding margin loans of THB4.4 billion, representing only a 5% share of industry-wide margin lending, or 1.2 times its equity. The company still has a stringent credit risk management framework as shown in the zero credit loss on its margin loans during the past two years.

### **Strong funding and adequate liquidity profiles**

We expect TNS to maintain its strong funding position over the coming years. The company's gross stable funding ratio (GSFR) was 113.6% at the end of June 2021, down from 166.1% at the end of 2020. The decrease was due to a significant increase in margin loan portfolio. We expect GSFR will average around 131.4% for the 5-year period (2019-2023), taking into account on our view that the company's margin loan portfolio will stay at the current level over the next two years.

We view TNS's liquidity profile as adequate. The company's liquidity coverage measure (LCM) dropped to 0.6 times at the end of June 2021, from 1.7 times at the end of 2020. The decline was mainly due to a significant increase in margin loan portfolio. We expect LCM will average around 0.78 times for the 5-year period (2019-2023). Additionally, TCAP provides ongoing funding and liquidity support to the company with a THB3 billion credit line, around 90% of which was undrawn as of the end of August 2021.

### **Performance of securities brokerage firms buoyed by stronger trading volume in the first half of 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 2020 and the first half of 2021. As a result, securities brokerage firms in our database reported an aggregate 50.3% revenue growth during the first half of 2021, compared with the same period in 2020. The impact from the new waves of the Coronavirus Disease 2019 (COVID-19) on market sentiment and trading volume thus far has been limited, with daily average trading value remaining strong at THB96.5 billion as of September 2021 compared with THB64.5 billion

during the same period in 2020. The SET Index has remained relatively resilient, buoyed by anticipation of economic recovery supported by continuous vaccination rollout in Thailand.

#### BASE-CASE ASSUMPTIONS

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TRIS Rating's base-case assumptions for TNS's operation during 2021-2023 are as follows:

- Securities brokerage revenue market share to stay around 3.5%.
- Average commission rate at approximately 12-13 basis points (bps).
- Ratio of operating expenses to net revenue to be around 44%-50%.

#### RATING OUTLOOK

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The "stable" outlook reflects our expectation that TNS will maintain its market position, i.e., its revenue share in securities brokerage and strong profitability will be sustained. The outlook also reflects our expectation that the company will keep its RAC ratio, a measure of capital strength, above 15% over the medium term.

#### RATING SENSITIVITIES

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An upgrade of SACP is possible if the RAC ratio rises above 25% for a sustained period, while the company maintains its strong revenue share in securities brokerage and increases revenue diversification. An upgrade of TNS's Issuer Credit Rating (ICR) is unlikely unless TCAP's rating is upgraded. Conversely, the company's SACP could come under pressure if the RAC ratio falls below 15% for a sustained period or the share of securities business revenue erodes steadily or earnings capability, as measured by EBT/RWA, weakens for a prolonged period. Also, a downgrade of TNS's ICR is possible if the rating on TCAP is downgraded.

#### COMPANY OVERVIEW

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TNS entered the securities industry in 1980 under the name National Finance and Securities Co., Ltd. (NFS). In 1997, the securities brokerage, proprietary trading, and underwriting operations, together with the related assets and receivables were transferred to a newly established company, National Securities Co., Ltd. (NS). The transfer was in accordance with government policy to split finance and securities companies into separate finance and securities entities. The company was converted into a public company in 2004 and later became Thanachart Securities PLC (TNS) in 2005.

Prior to 2007, before the Bank of Nova Scotia Asia Ltd. became a strategic partner of Thanachart Bank PLC (TBANK), TNS was fully owned by TCAP, formerly known as National Finance PLC (NF). As a part of TCAP's reorganization, in July 2007, TBANK bought TNS from TCAP, along with seven other subsidiaries. TNS has been a wholly-owned subsidiary of TBANK ever since.

In 2010, TBANK acquired a 99.95% ownership stake in Siam City Bank PLC (SCIB). At the end of that year, TNS acquired the operations of Siam City Securities Co., Ltd. (SCIBS), which was a wholly-owned subsidiary of SCIB. Around 100 staff from SCIBS transferred to TNS.

As a wholly-owned subsidiary of TBANK, TNS enjoys the use and recognition of the "Thanachart" brand. TNS shares some network infrastructure with TBANK. It also outsources information technology services and the human resource function to TBANK.

TNS was granted a license to provide a full range of services in the securities business, including securities brokerage, securities trading, financial advisory and underwriting, investment advisory, derivatives brokerage, securities borrowing and lending (SBL), and acting as a selling agent for unit trusts. The company positions itself as a full-service premium broker, offering high-quality research, investment banking, offshore brokerage, and SBL services.

In 2019, the company increased its registered and paid-up capital to THB3 billion. In December 2019, the company's shareholding structure changed as a result of the business restructuring of TCAP and the merger of TMB Bank PLC (TMB) and TBANK. As a part of the restructuring, TBANK sold its shares in TNS to its shareholders proportionately, which were TCAP (50.96%), Scotia Netherlands Holdings B.V. (49%), and TBANK's individual retail investors (0.04%).

In 2020, TNS introduced its portfolio advisory business or "Zeal" to provide portfolio advisory services to its clients with an objective to generate absolute returns for its clients. The company officially began offering the service on 2 January 2020.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total assets	8,174	6,852	6,684	8,898	11,764
Net Investment in securities	1,540	1,025	1,237	2,978	3,755
Total securities business receivables and accrued interest receivables	5,773	4,267	5,012	5,473	7,242
Allowance for doubtful accounts	6	6	6	13	14
Total debts	2,267	560	717	2,907	3,812
Shareholders' equity	3,651	3,743	3,501	3,072	3,675
Net securities business income	870	1,327	2,834	1,602	1,725
Total income	979	1,517	3,076	1,880	2,004
Operating expenses	425	739	754	882	981
Interest expenses	17	35	102	128	126
Net income	359	479	1,674	593	609

Unit: %

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
<b>Profitability</b>					
Brokerage fees/total revenues	71.6	72.7	65.9 *	66.6	66.0
Fees and services income/total revenues	9.6	12.0	4.5 *	4.0	8.0
Gain (loss) from trading/total revenues	6.5	0.9	3.8 *	4.7	5.7
Operating expenses/net revenues	44.1	49.8	54.2 *	50.3	52.2
Pre-tax margin	46.6	40.3	36.1 *	41.6	40.0
Return on average assets	9.6	7.1	5.2 *	5.7	5.7
Earning before taxes/risk-weighted assets	6.5	4.6	3.5 *	4.8	3.8
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	0.1	0.1	0.7	0.8	0.2
Allowance for doubtful accounts/gross securities business receivables	0.1	0.1	0.1	0.2	0.2
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	40.3	47.6	46.4	13.3	15.5
Risk-adjusted capital	20.7	25.3	21.4	7.7	9.2
<b>Funding and Liquidity</b>					
Gross stable funding ratio	113.6	166.1	151.4	87.7	93.0
Liquidity coverage metric	0.6	1.7	1.3	0.7	0.7

\* Excluding gains from sales of investment

\*\* Annualized

**RELATED CRITERIA**

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

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**Thanachart Securities PLC (TNS)**

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**Company Rating:**

A-

**Rating Outlook:**

Stable

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**TRIS Rating Co., Ltd.**

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