

# THANACHART SECURITIES PLC

No. 157/2024  
16 September 2024

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 14/09/23

### 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 incorporates a one-notch enhancement from TNS’s stand-alone credit profile (SACP) assessed at “bbb+” to reflect our view of TNS’s status as a “strategically important” subsidiary of Thanachart Capital PLC (TCAP, rated “A/Stable”). The enhancement reflects TNS’s sizeable equity, net profit and asset contributions to TCAP. TNS also receives ongoing financial support from TCAP.

The SACP factors TNS’s healthy capital position, mid-tier market position in the securities brokerage business with strong franchise in the domestic institution segment. The rating also considers its relatively prudent risk management practice, as well as sound funding and liquidity position. However, the strengths are offsetted by weakened earnings capacity.

## KEY RATING CONSIDERATIONS

### Strategically important subsidiary of TCAP

TRIS Rating maintains an assessment of TNS group status as a ‘strategically important’ subsidiary of TCAP. The company rating on TNS therefore incorporates a rating enhancement from its SACP at “bbb+”. We typically incorporate a three-notch enhancement to the SACP of a “strategically important” entity (SACP+3). However, the rating enhancement for TNS is limited to one notch such that TNS’s rating is capped at one notch below the group credit profile (GCP) of Thanachart Group, assessed at ‘a’.

TCAP currently holds a 90% majority stake in TNS, with the remaining 10% held by TMB Thanachart Bank (TTB). TCAP intends to maintain this current shareholding in TNS in the foreseeable future.

TNS plays a role in Thanachart Group’s strategy by offering capital market products and services to the group’s customers. TCAP also exerts control over TNS through board representation, overseeing its business strategies, risk management, and financial policies.

Additionally, TCAP extends financial support to TNS through credit facilities. These enhance TNS’s financial flexibility during challenging periods and underscore TCAP’s commitment to its subsidiary. The shared brand further reinforces their close association, creating a reputational linkage between TNS and TCAP.

### Strengthened capital position from lower business activities

We maintain our assessment of TNS’s capital position as ‘adequate’, despite a strengthened risk-adjusted capital ratio (RAC). The company’s RAC increased to 19.7% at the end of June 2024 from 14.7% at the end of 2022. The improvement was due to the lower volume of securities brokerage, margin lending, and block trade.

We project the company’s RAC to gradually decline to the 16%-17% range in 2025-2026, based on our assumption of increased securities brokerage volume, margin loan volume and 100% dividend payout policy.

### Expect revenue market share to stabilize

TNS has demonstrated resilience in the securities brokerage business by maintaining a mid-tier ranking in terms of revenue market share over the years. Its revenue share started trending upward marginally to 3.6% in 2023 after a steady decline from 4.7% in 2019 following restructuring of Thanachart Group. The improvement was attributed to increase market share in both retail and domestic institutional brokerage.

TNS continues to excel in the domestic institutional brokerage sector, with revenue share increasing notably to 6.7% in 2023 from 5.7% in 2022. This is underpinned by strong research and sales teams. Furthermore, TNS has successfully stabilized its revenue share in the retail segment at 3.8% in 2023, suggesting an overall positive trajectory in its brokerage business.

### Maintaining prudent risk management

We expect TNS to maintain its prudent management of market and credit risks. The company's exposure to market volatility remains limited, as its proprietary trading activities were mainly for hedging purposes. In terms of credit risk, the company has no history of credit losses in its margin lending operations, even while experiencing rapid expansion in 2022. Its margin loan portfolio has high credit concentration risk, with its top-20 customers accounting for around 86% of the total margin loan portfolio as of June 2024. However, the risk is offset by TNS's low loan-to-value ratio, which averaged about 45%.

### Funding and liquidity support from Thanachart Group

We expect TNS to maintain adequate funding and liquidity position over the next three years, supported by various sources of funding. The company continues to benefit from its parent TCAP's financial support with a THB1.5 billion credit line. Further strengthening its position, Thanachart Insurance PLC (TNI), a TCAP subsidiary, has received regulatory approval to invest up to THB1.2 billion in TNS's debt instruments. Also, TNS had THB6 billion in available credit facilities from various financial institutions as of June 2024. In our view, these funding sources provide TNS with adequate financial flexibility to address potential financial challenges, thereby supporting the company's financial stability.

### Challenging market conditions continue to weigh on earnings capacity

TNS experienced a gradual decline in its financial performance, similar to most securities firms due to lower trading volumes. The company's earnings capability, as measured by earnings before taxes to risk-weighted assets (EBT/RWA), dropped to 2.0% in 2023 from 2.9% in 2022. The ratio dropped to 1.4% in the first half of 2024.

Total revenues dropped by 18.2% year-on-year (y-o-y), surpassing the industry average decline of 11%. Its brokerage fees from retail and domestic institutional segments were down by 30% y-o-y. However, non-brokerage revenues were more resilient, declining by 4% y-o-y. With market sentiment and trading volume likely to improve, we project TNS's weighted average EBT/RWA for the five-year period from 2022 to 2026 to rebound to about 2%.

### BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for TNS's operations during 2024-2026 are as follows:

- Securities brokerage revenue market share to remain at 3.5%.
- Average commission rate to be in the 12-14 basis points (bps) range.
- Ratio of operating expenses to net revenue to be 57%-65%.

### RATING OUTLOOK

The "stable" outlook reflects our expectation that TNS will be able to stabilize its market position, as measured by revenue share in securities brokerage and improved profitability. The outlook also reflects our expectation that the company's capital position will be maintained.

### RATING SENSITIVITIES

An upward revision of SACP is possible if the RAC ratio rises well above 20% for a sustained period, while earnings capacity improves progressively. The company should also continue to diversify revenue sources towards the non-brokerage business. However, the upward revision of SACP is unlikely to result in an upgrade of the rating on TNS. The rating can only be upgraded if the rating on TCAP is upgraded.

Conversely, the SACP could come under pressure if the RAC ratio falls below 12% for a prolonged period or earnings capability weakens further, with EBT/RWA falling well below 1%. A downgrade of the rating on TNS is possible if the SACP is revised down by multiple notches or the rating on TCAP is downgraded.

## COMPANY OVERVIEW

TNS entered the securities industry in 1980 under the name National Finance and Securities Co., Ltd. (NFS). In 1997, NFS's 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 the government's policy to split finance and securities businesses 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 were 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. (BNS) (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.

In 2021, TMB Thanachart Bank PLC (TTB) purchased 10% of the total issued and outstanding shares in TNS from BNS, a member of The Bank of Nova Scotia Group. The transaction value was at THB503 million.

In October 2022, TCAP purchased additional investments in TNI and TNS from BNS. As a result, TCAP's equity stake in the two subsidiaries increased to 89.96 % from 50.96%.

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2024	-----Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	8,470	8,519	10,265	8,679	6,852
Net Investment in securities	781	942	1,562	1,794	1,025
Total securities business receivables and accrued interest receivables	6,378	6,366	7,794	5,597	4,267
Allowance for doubtful accounts	0	0	0	0	6
Total debts	3,115	3,375	4,482	3,147	560
Shareholders' equity	3,473	3,527	3,514	3,634	3,743
Net securities business income	433	1,052	1,297	1,700	1,329
Total income	536	1,261	1,510	1,904	1,517
Operating expenses	319	674	745	881	739
Interest expenses	57	109	78	42	35
Net income	95	307	448	661	479

Unit: %

	Jan-Jun 2024	2023	2022	2021	2020
-----Year Ended 31 December -----					
<b>Profitability</b>					
Brokerage fees/total revenues	47.0	50.4	61.8	66.6	72.7
Fees and services income/total revenues	10.9	10.5	9.2	12.9	12.0
Gain (loss) from trading/total revenues	3.8	4.7	4.2	7.1	0.9
Operating expenses/net revenues	66.5	58.5	52.0	47.3	49.8
Pre-tax margin	24.7	33.2	38.8	44.4	40.3
Return on average assets	2.2	2.2	4.7	8.5	7.1
Earnings before taxes/risk-weighted assets	1.3	2.0	2.9	5.3	4.6
<b>Asset Quality</b>					
Classified receivables/gross securities business receivables	0.0	0.0	0.0	0.0	0.1
Allowance for doubtful accounts/gross securities business receivables	0.0	0.0	0.0	0.0	0.1
Credit costs (reversal)	0.0	0.0	0.0	0.0	0.0
<b>Capitalization</b>					
Leverage ratio	39.9	37.8	29.9	34.3	47.6
Risk-adjusted capital	19.7	18.5	14.7	16.5	25.3
<b>Funding and Liquidity</b>					
Gross stable funding ratio	98.6	97.8	88.5	104.7	161.4
Liquidity coverage metric	0.3	0.3	0.3	0.6	1.7

\* Excluding gains from sales of investment

## RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Financial Institution Rating Methodology, 24 November 2023

## Thanachart Securities PLC (TNS)

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

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