

# TSFC SECURITIES PLC

No. 194/2018  
17 December 2018

## FINANCIAL INSTITUTIONS

**Company Rating:** BBB-  
**Outlook:** Stable

**Last Review Date:** 22/12/17

### Company Rating History:

Date	Rating	Outlook/Alert
25/11/15	BBB-	Stable
04/12/14	BB+	Positive
26/10/12	BB+	Stable
15/08/12	BB+	Alert Developing
04/02/11	BB+	Positive
28/07/09	BB	Stable
17/12/08	D	
16/12/08	C	Alert Negative
28/11/08	BB-	Alert Negative
07/11/08	BBB-	Alert Negative
04/04/05	A	Stable
12/07/04	A-	Positive
09/05/02	A-	-

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## RATIONALE

TRIS Rating affirms the company rating on TSFC Securities PLC (TSFC) at “BBB-” with “stable” outlook. The rating reflects TSFC’s improving market share and its efforts to expand to more diverse business lines. The rating also takes into account the company’s improving profitability, adequate asset quality, and its low leverage and adequate liquidity. The rating is, however, constrained by its exposure to market volatility and limited profitability due to an increasing trend of interest rates and intense competition.

## KEY RATING CONSIDERATIONS

### Improving market share and more diverse business lines

TRIS Rating expects that TSFC’s market share in credit balance financing will maintain at the current level during the next few years. The company’s total credit balance financing has gradually increased to Bt3,565 million or a 5.3% market share at the end of August 2018, from Bt2,320 million or a 4.3% market share at the end of December 2015. This is in line with the increasing outstanding balance of the industry. However, TSFC’s partial reliance on brokerage firms to supply its business could potentially limit the company’s business expansion and remains a credit constraint.

In an effort to diversify its business from retail margin lending, TSFC has started to offer various kinds of brokers’ loans such as loans to brokers for margin transaction (LBMT), securities repurchase, and block trade financing to act as a liquidity provider for brokerage firms, which is its main corporate mission. However, outstanding balances of these brokers’ loans have yet to substantiate.

### Improving profitability

TSFC’s profitability has gradually improved over the years. The company’s net income increased to Bt74 million in 2017 from Bt57 million in 2015, thanks to lower funding costs and well-controlled operating expenses. The capital injection in 2014 together with management’s efforts in managing the company’s funding costs has allowed TSFC’s annualized cost of funds to decrease to 2.5% in 3Q18 from 4.5% in 2015. Its ratio of operating expenses to total income has also declined to 36.0% in 3Q18 from 50.4% in 2015. This is due to increasing revenues and lower overhead expenses. As a result, the company’s annualized return on average assets (ROAA) has improved to 2.2% in 3Q18 from 2.0% in 2015. Its annualized return on average equity (ROAE) was 5.6% in 3Q18.

### Acceptable level of asset quality

TRIS Rating expects TSFC to continue to control the credit risk of its margin loans by strictly enforcing margin calls and forced sales and by maintaining its stringent criteria on marginable stock grading. As a result of the company’s ongoing improvement in its risk management system, TSFC’s non-performing loan (NPL) ratio has declined over the years to 6.9% in 3Q18, from 13.1% in 2015, indicating adequate asset quality. Its provisions for loan losses also remained sufficient with an NPL coverage ratio of 101% at the end of September 2018.

### Low leverage and adequate liquidity

TSFC’s leverage remained low even though its borrowings have increased over the past few years to support its growing margin lending balances. Its

debt to equity ratio was 1.5 times at the end of September 2018 with a sufficient equity base of Bt1,727 million. Nonetheless, TSFC's reliance on short-term borrowings as a major source of funds poses another credit constraint as it exposes the company to some degree of both refinancing risk and market risk.

TSFC has adequate liquidity. Its ratio of liquid assets, comprising cash and investment in securities, to total assets was 4.0% at the end of September 2018. In addition, the company also has credit facilities available from various financial institutions. The amount of total credit should be enough to fund the company's operations and cover any liquidity shortfalls.

### Exposure to revenue volatility

TSFC heavily relies on interest income as its major source of revenue. The interest on margin loans alone made up 91.8% of the company's total revenue in 3Q18. This makes TSFC's performance vulnerable to revenue volatility, as margin lending balances tend to fluctuate with stock market performance. Although the company has shown an effort to expand its product universe and start offering more types of brokers' loans to capture a wholesale client base, the revenue earned from this particular business line is still tied to the inherently volatile nature of the securities industry and are not yet substantiated. For 3Q18, interest on brokers' loans contributed 5.3% of the company's total revenue. TSFC's fee income, a more stable source of revenue, remained low and accounted for 0.1% of total revenue for 3Q18.

### RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's expectation that TSFC will maintain its current financial performance, its market share in margin lending as well as its funding and liquidity positions. In addition, the outlook is based on our expectation that TSFC will continue to diversify its revenue mix and maintain its underwriting standard.

### RATING SENSITIVITIES

TSFC's rating upside would materialize if the company shows significant improvement in its business position, profitability, and funding profile. On the contrary, the rating and/or outlook could be revised downward if TSFC's operating performance and/or financial position deteriorate significantly, which could occur from worsened asset quality.

### COMPANY OVERVIEW

TSFC was founded in September 1996. The Ministry of Finance (MOF) recognized the need to set up specialized firms to conduct securities-related financing as part of its efforts to develop the Thai capital market. TSFC was founded with initial paid-up capital of Bt1,000 million. Its mission was to serve as a reliable source of funds for securities firms. Securities firms needed a reliable source of funds because a regulatory change forced finance companies to separate their finance business from their securities business.

TSFC commenced operations in 1996 by lending its excess funds through the money market. TSFC is the sole company licensed by the MOF to provide securities financing, including margin loan refinancing, loans against pledged securities, and securities repurchase agreements.

TSFC's original shareholders were public and private sector organizations, including the MOF, Government Savings Bank (GSB), Krung Thai Bank (KTB), the Stock Exchange of Thailand (SET), other commercial banks, finance companies, and securities companies. As of June 2007, government-related entities held 26.9% of TSFC's shares, while commercial banks, finance companies, and securities companies held 44.4%. The remaining 28.7% was held by finance and securities companies that were permanently closed as a result of the 1997 financial crisis. This portion came under the management of the Financial Institutions Development Fund (FIDF) after these finance and securities companies were closed by the regulatory authorities. TSFC's board of directors, made up of shareholders' representatives, has contributed the expertise that TSFC needed to develop its policies and business.

In 1997, TSFC introduced other types of loans for securities companies, including margin loan refinancing, loans against pledged securities, and loans made under repurchase agreements. Moreover, the MOF ordered TSFC to launch a special project loan program designed to help cash-strapped securities firms in the early days of the Asian financial crisis.

TSFC's scope of services has expanded. For example, in 2002, TSFC began providing secured securities underwriting for securities companies by issuing a Contingent Agreement to Purchase Letter (CAPL) to underwriters. In 2003, TSFC launched credit balance financing by transferring brokers' margin accounts to its own account. This service provides financial flexibility to securities companies by lowering their net capital reserve (NCR) requirements.

The Thai stock market experienced a remarkable recovery in 2003. As a result, TSFC built up a substantial portfolio of margin loans, launched Employee Stock Option Program (ESOP) financing, as well as loans to investors for private placements (PP), initial public offerings (IPO), and public offerings (PO). IPO and ESOP financings are TSFC's exclusive

purview; other securities firms are prohibited from offering these services. TSFC has launched other new products and services, including mutual fund guarantees and securities borrowing and lending (SBL). TSFC is permitted to conduct SBL services, provide securities underwriters with contingent agreements to purchase the unsold portions of securities offerings, and provide guarantees to mutual fund investors.

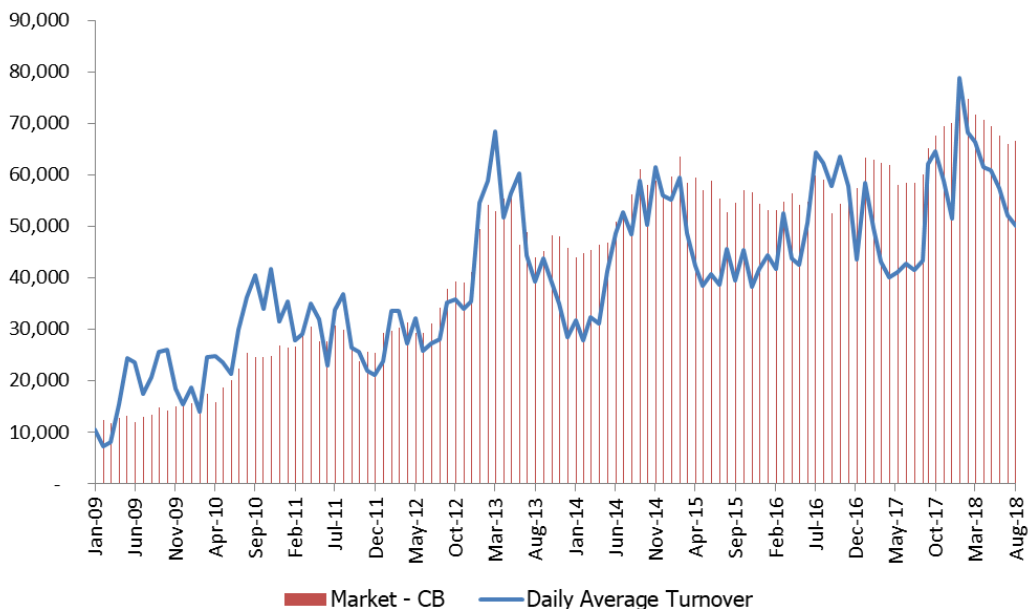
TSFC was greatly impacted after the Thai stock market plummeted in October 2008. TSFC signed a debt restructuring agreement (DRA) with its major creditors on 20 March 2009. On 22 July 2009, the company was able to fulfil a key condition in the DRA: raising at least Bt1 billion of new equity capital from its existing shareholders, new investors, and through a debt-equity conversion. TSFC obtained Bt1,016.7 million in new equity capital at a par value of Bt10 per share. TSFC registered the new share issues at the Ministry of Commerce on 24 July 2009. The Securities and Exchange Commission (SEC) allowed TSFC to restart its margin loan business on 28 July 2009. After the recapitalization, the SET became TSFC’s largest shareholder, holding a 24.66% stake, followed by the MOF (10.56%), KTB (6.02%), and GSB (4.92%).

TSFC raised new equity capital in July 2014. After the capital increase, TSFC’s equity base was strengthened. On 22 July 2014, TSFC raised Bt532 million through a private placement with its major shareholders, the SET, the MOF, and GSB, resulting in an increase in TSFC’s shareholders’ equity to Bt1,549 million from Bt1,016 million and making the SET its largest shareholder, owning 40.65%, followed by the MOF (10.56%) and GSB (9.5%). Other shareholders are commercial banks (11.89%), securities companies (10.9%), asset management funds (9.7%), insurance companies (2.82%), and others (0.03%).

In the second half of 2014, TSFC started offering loans to securities companies, a product it used to offer. In 2017, TSFC started offering LBMT and block trade financing as additional product programs to further serve the company’s mission to act as a liquidity provider for securities companies. In September 2018, TSFC has received Certificate of Registration Information Security Management System – ISO/IEC 27001:2013 from The British Standards Institution (BSI), which certifies that the company’s management of information security applied to the electronic fund transfer operation using BAHNET complies with the requirements of ISO/IEC 27001:2013.

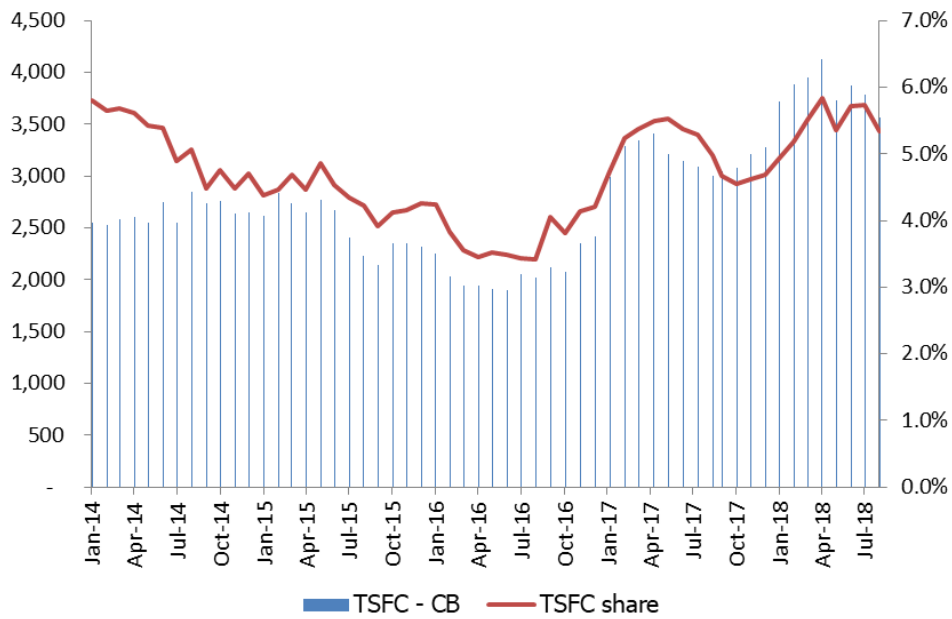
**KEY OPERATING PERFORMANCE**

**Chart 1: Total Margin Loans and Daily Average Turnover**



Sources: 1) Stock Exchange of Thailand (SET)  
2) TSFC  
3) TRIS Rating’s database

**Chart 2: TSFC's Margin Loans and Market Share after Recapitalization in 2014**



Sources: 1) Stock Exchange of Thailand (SET)  
 2) TSFC  
 3) TRIS Rating's database

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**
*Unit: Bt million*

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total assets	4,281	4,354	3,186	2,919	2,855
Net Investment in securities	170	254	118	113	3
Loans and receivables	4,387	4,023	3,355	3,145	3,213
Allowance for doubtful accounts	304	320	351	416	415
Total borrowings	2,446	2,446	1,258	1,143	1,158
Shareholders' equity	1,727	1,686	1,634	1,666	1,633
Net interest and dividend income	164	196	150	172	152
Bad debts and doubtful accounts	(3)	8	(1)	3	(1)
Non-interest income	0	1	1	1	1
Operating expenses	77	98	94	113	114
Net income	72	74	46	57	41

*Unit: %*

	Jan-Sep 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
<b>Profitability</b>					
Net interest income/average assets	5.03 *	5.21	4.90	5.95	5.21
Non-interest income/average assets	0.01 *	0.03	0.04	0.02	0.04
Operating expenses/total income	35.97	39.81	51.28	50.38	47.80
Operating profit/average assets	2.79 *	2.44	1.89	1.96	1.40
Return on average assets	2.23 *	1.95	1.51	1.98	1.40
Return on average equity	5.65	4.43	2.79	3.46	2.92
<b>Asset Quality</b>					
Non-performing loans/total loans	6.9	7.7	10.3	13.1	12.9
Bad debts and doubtful accounts/average loans	(0.07)	0.22	(0.02)	0.08	(0.02)
Allowance for doubtful accounts/total loans	6.93	7.96	10.45	13.23	12.93
<b>Capitalization</b>					
Shareholders' equity/total assets	40.33	38.72	51.30	57.06	57.21
Shareholders' equity/total loans	39.36	41.91	48.71	52.96	50.85
<b>Liquidity</b>					
Total loans/total assets	102.46	92.40	105.31	107.72	112.52
Liquid assets/total assets	4.01	5.96	3.72	3.98	0.17

*\*Annualized*
**RELATED CRITERIA**

- Nonbank Lending Company, 7 May 2018

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**TSFC Securities PLC (TSFC)**

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

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**TRIS Rating Co., Ltd.**

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