

# TSFC SECURITIES PLC

No. 233/2024  
19 December 2024

## FINANCIAL INSTITUTIONS

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

**Last Review Date:** 18/12/23

### Company Rating History:

Date	Rating	Outlook/Alert
27/12/19	BBB	Stable
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 a “stable” rating outlook. The rating is supported by the company’s strong capital base and robust risk management. However, we assess its business position, earnings, and liquidity as “moderate”. A continuous weakening of earnings could put pressure on the rating.

## KEY RATING CONSIDERATIONS

### Thailand’s sole securities finance corporation

TSFC is Thailand's sole securities finance corporation (SFC), established to provide securities funding for securities companies and retail investors. Its mission aligns with government policies to develop the country’s securities and capital markets.

The company supports securities companies in the form of money market loans, loans to brokers for margin transactions (LBMT), and credit balance financing (margin loans) for retail investors. As of September 2024, margin loans accounted for 83% of total loans, while loans to brokers accounted for 16%. The remainder comprised other receivables.

### Potential business diversification

In October 2024, the Securities and Exchange Commission of Thailand (SEC) held public hearings on draft regulations proposing amendments to the SEC’s regulations regarding other securities-related businesses. The new regulations are expected to take effect in the first quarter of 2025. With a potentially expanded business scope, TSFC plans to initially focus on crowdfunding portal operations. While the amendments may help diversify the company’s revenues in the future, their impact is yet to be observed.

### Moderate business position

TSFC’s business position is assessed as moderate. The company has consistently ranked among the top 10 providers of margin loans in Thailand. As of the end of June 2024, TSFC ranked ninth in terms of outstanding credit balance, with a market share of 3.6% and margin loans totaling THB3.0 billion. This represents a marginal decline from a market share of 3.7% (ranked seventh) at the end of June 2023. At the end of September 2024, TSFC’s loans to brokers amounted to THB595 million, marking a 4% increase from a year earlier.

### Revenue diversification remains a challenge

TSFC’s interest income from margin loans constituted 84% of total revenue in the first nine months of 2024 (9M24). This exposes the company to stock market volatility and fluctuations in demand for margin loans. Interest income from loans to brokers accounted for 13% of total revenue, while fee-based income remained marginal.

The company plans to expand its fee-based income by diversifying into new business areas, including establishing a crowdfunding portal and partnering with banks to offer Lombard loans to small-to-medium-sized securities companies. These initiatives are scheduled to be implemented in 2025. Successful diversification of revenue sources and earnings enhancement through new products and services could enhance TSFC’s business position and credit profile. Conversely, should these new ventures negatively impact

revenues and earnings or result in heightened credit risk for an extended period, the company's business position assessment could come under pressure.

### **Strong capital position**

We assess TSFC's capital and leverage position as "strong". We anticipate that its capital, as measured by the risk-adjusted capital ratio (RAC), will remain at around 24% on a five-year average over the medium term. This projection is based on our expectation of an improvement in system margin loans by 2025 and a sustained market share of around 4%. Our projection also takes into account the company's conservative investment strategies and modest dividend payouts.

At the end of September 2024, TSFC's RAC improved to 26.7% from 25.4% at the end of September 2023 due to a contraction of margin loans in which we believe is temporary. The company's net capital ratio (NCR) stood at 95.9%, well above the minimum regulatory requirement of 7%.

### **Weaker profitability**

TSFC's primary objective is to facilitate the development of the capital market, rather than competing directly with securities brokerage firms; hence, profit maximization is not its main priority. We anticipate that TSFC's profitability will remain subdued unless the company diversifies into other ventures that significantly bolster its revenue base.

We expect TSFC's 5-year average ratio of earnings before taxes to risk-weighted assets (EBT/RWAs) to fall to 0.5%-0.6% for 2024-2026, down from 0.9%-1.1% in recent years due to declining spreads, stagnant loan growth, and higher operating expenses. The company's operating expenses to total income ratio increased to 55.1% in the first nine months of 2024, up from 39.6% in the same period of 2023, driven by lower margin loans and higher funding and operating costs, including one-time restructuring and relocation expenses. Additionally, the loan yield dropped to 5.8% from 6.2%.

### **Strong risk position**

We assess TSFC's risk position as "strong". TSFC's prudent risk management policies are closely overseen by the Stock Exchange of Thailand (SET), through board representatives. The company has prudent risk control policies on credit underwritings, marginable securities grading which includes both quantitative and qualitative analysis, regular monitoring of the marginable list, close monitoring of margin maintenance, and strict margin call enforcement.

TSFC's asset quality has thus remained sound, with modest credit losses incurred over the past few years. As of September 2024, TSFC recorded a credit cost of 0.2%, maintaining a similar level compared to 2023 and remaining below the industry average of 2.0%.

TSFC's market risk is considered minimal due to its small investment portfolio that primarily includes low-risk government bonds and bank deposits for liquidity. This aligns with its prudent investment policies. As of September 2024, investments made up 4% of total assets.

### **Moderate funding and liquidity profile**

The company's funding and liquidity position is still assessed as "moderate". It primarily uses short-term borrowings through promissory notes for its retail margin loans. This creates some asset-liability mismatch risks since its margin loan clients tend to be long-term investors. However, we believe these mismatches remain manageable. Diversifying the funding structure with more long-term funding could be positive for its credit profile. The company's liquidity assessment is pressured by its sole reliance on short-term bank credit facilities. There is no liquidity support from SET, its major shareholder. As of September 2024, the company had credit lines totaling THB6.9 billion from various financial institutions.

### **BASE-CASE ASSUMPTIONS**

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

- Total loan portfolio around THB3.5-THB4.5 billion
- Interest spread to hover around 3%
- Ratio of operating expenses to total income at approximately 50%

### **RATING OUTLOOK**

The "stable" outlook reflects our expectation that the company will maintain its capital position and its funding and liquidity profile as well as gradually improve its earnings capability.

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**RATING SENSITIVITIES**

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TSFC's credit upside would materialize if the company were able to meaningfully diversify its revenue mix or exhibit stronger capital and earnings capability for a sustained period. On the contrary, the rating and/or outlook could be revised downward if asset quality weakened significantly or capital, leverage, or earnings deteriorated materially for an extended period. Engaging in higher-risk business ventures that lead to sustained negative earnings could also adversely affect its credit profile.

**COMPANY OVERVIEW**

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TSFC was founded in September 1996, with initial paid-up capital of THB1 billion, to develop the Thai capital market by providing securities-related financing. It commenced operations by lending excess funds through the money market and is the sole company licensed by the MOF to offer margin loan refinancing, loans against pledged securities, and securities repurchase agreements.

TSFC's original shareholders consisted of both public and private sector entities, including the MOF, GSB, KTB, SET, other commercial banks, finance companies, and securities companies. By June 2007, government-related entities held 26.9% of shares, commercial banks, finance companies, and securities companies held 44.4%, and the remaining 28.7% was managed by the Financial Institutions Development Fund (FIDF) after the 1997 financial crisis. TSFC's board, comprising shareholders' representatives, has provided expertise for policy and business development.

In 1997, TSFC introduced various loans for securities companies, including margin loan refinancing and loans under repurchase agreements, as part of a special project loan program during the Asian financial crisis.

By 2002, TSFC expanded its services to include secured securities underwriting with a Contingent Agreement to Purchase Letter (CAPL) for underwriters. In 2003, it launched credit balance financing, transferring brokers' margin accounts to its own to lower net capital reserve requirements.

The Thai stock market's recovery in 2003 led TSFC to build a substantial margin loan portfolio and introduce Employee Stock Option Program (ESOP) financing and loans for private placements (PP), initial public offerings (IPO), and public offerings (PO). TSFC also launched mutual fund guarantees and securities borrowing and lending (SBL) services. It provides securities underwriters with contingent agreements to purchase unsold securities portions and guarantees to mutual fund investors.

TSFC was greatly impacted by the Thai stock market crash in October 2008. On 20 March 2009, TSFC signed a debt restructuring agreement (DRA) with its major creditors. By 22 July 2009, TSFC raised THB1,016.7 million in new equity capital, fulfilling a key DRA condition. The SEC allowed TSFC to restart its margin loan business on 28 July 2009. After recapitalization, the SET became TSFC's largest shareholder with a 24.66% stake, followed by the MOF (10.56%), KTB (6.02%), and GSB (4.92%).

In July 2014, TSFC further strengthened its equity base by raising THB532 million through a private placement with the SET, the MOF, and GSB, increasing shareholders' equity to THB1,549 million. The SET's stake rose to 40.65%, with the MOF (10.56%) and GSB (9.5%) as other major shareholders. Additional shareholders included commercial banks (11.89%), securities companies (10.9%), asset management funds (9.7%), insurance companies (2.82%), and others (0.03%).

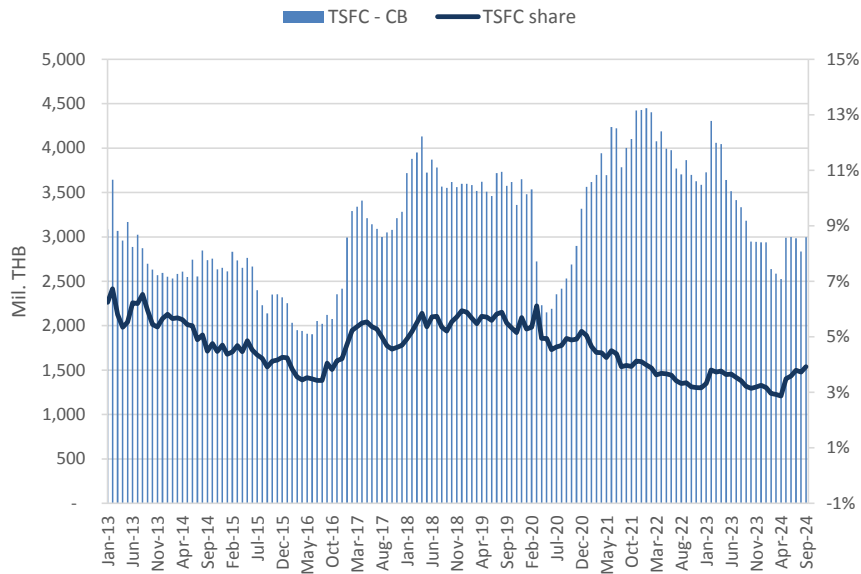
In the second half of 2014, TSFC resumed offering loans to securities companies. In 2017, it introduced LBMT and block trade financing to enhance liquidity for securities companies.

In December 2019, GSB increased its stake in TSFC to 19.25% from 9.50% by purchasing additional shares, totalling 29,812,018 shares.

As of September 2024, TSFC's major shareholders comprised the Stock Exchange of Thailand (40.7% of total shares), GSB (19.2%), MOF (10.6%), etc. Overall, 74.5% of the company's total equity was held by government-related entities, while the remaining 25.5% was held by private-sector organizations.

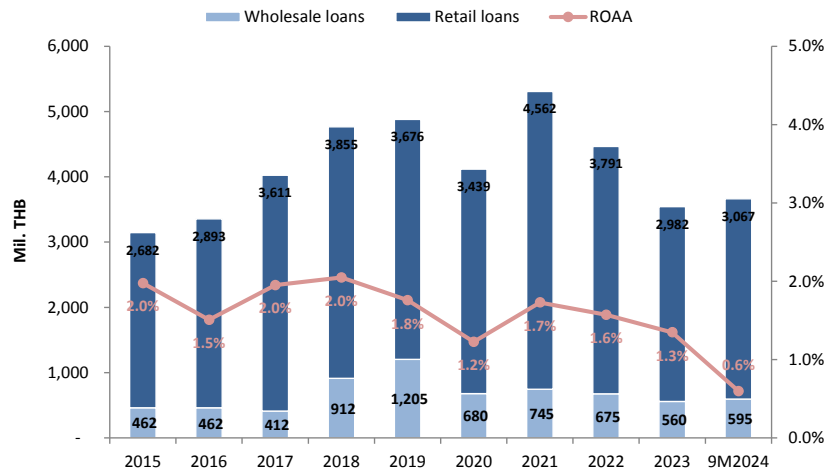
**KEY OPERATING PERFORMANCE**

**Chart 1: 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

**Chart 2: TSFC's Loan Mix and Returns on Average Assets (ROAA)**



Source: TSFC

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

Unit: Mil. THB

	Jan-Sep 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
Total assets	3,827	3,750	4,677	5,572	4,500
Total loans (ending gross receivables)	3,662	3,542	4,466	5,307	4,119
Allowance for doubtful accounts***	21	15	8	8	8
Short-term borrowings	1,840	1,779	2,495	3,533	2,355
Long-term borrowings	0	0	0	0	0
Shareholders' equity	1,884	1,899	1,887	1,857	1,805
Net interest income	116	183	195	201	165
Provision for bad debt and doubtful accounts**	6	7	0	0	0
Non-interest income	0	1	1	2	1
Operating expenses	89	105	96	93	93
Earnings before taxes	21	71	101	109	73
Net income	17	57	81	87	58

Unit: %

	Jan-Sep 2024	----- Year Ended 31 December -----			
		2023	2022	2021	2020
<b>Profitability</b>					
Net interest and dividend income/average assets	4.08 *	4.33	3.81	3.98	3.45
Fees and services income/average assets	0.00	0.00	0.01	0.01	0.01
Operating expenses/total income	55.13	41.37	37.26	37.11	47.14
Operating profit/average assets	0.75 *	1.69	1.97	2.16	1.54
Earnings before taxes/average risk-weighted assets	0.41 *	0.92	1.06	1.19	0.86
Return on average assets	0.60 *	1.35	1.57	1.73	1.23
Return on average equity	1.20 *	3.00	4.31	4.76	3.25
<b>Asset Quality</b>					
Non-performing loans/total loans	0.56	0.40	0.16	0.13	0.17
Provision for bad debts and doubtful accounts**/average loans	0.22 *	0.18	0.00	0.00	0.00
Allowance for doubtful accounts***/total loans	0.57	0.42	0.17	0.14	0.18
<b>Capitalization</b>					
Risk-adjusted capital ratio	26.74	27.00	21.24	17.52	22.01
Debt/equity (times)	1.03	0.97	1.48	2.00	1.49
<b>Funding and Liquidity</b>					
Stable funding ratio	121.34	127.35	98.79	80.60	103.24
Liquidity coverage measure (times)	0.08	0.10	0.05	0.06	0.07
Short-term borrowings/total borrowings	100.00	100.00	100.00	100.00	100.00

\* Annualized

\*\* Expected credit losses under TFRS 9

\*\*\* Allowance for impairment losses under TFRS 9

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**RELATED CRITERIA**

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- Financial Institution Rating Methodology, 25 September 2024

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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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